RESULT REVIEW

BUY

TP: Rs 645 | ⮝ 26%

ICICI PRUDENTIAL LIFE | Insurance | 15 October 2022

# Some hits, some misses – maintain BUY

- **H1FY23 VNB grew 25% YoY to Rs 10.9bn with margin profile strong at 31%; on course to double VNB by end-FY23 vs. FY19**
- **Q2 gross premium increased 3.8% YoY to Rs 99bn (10% below est.), with renewal premium up 1% and NBP up 7%**
- **Retain BUY on robust VNB growth and compelling valuations; TP unchanged at Rs 645**

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**Strong VNB growth and margins:** IPRU's VNB grew 21% YoY to Rs 6.2bn in Q2FY23 (+25% in H1FY23), putting the company on course to achieve its target of doubling VNB (from the FY19 base) by end-FY23. The H1 VNB margin at 31% (vs. 28% in FY22) stems from a focus on higher margin products. We forecast VNB margins for FY23/FY24/FY25 at 30%/28%/28% vs. 29%/28%/28% earlier, with VNB now expected to log a 15% CAGR (to Rs 33bn) over FY22-FY25 vs. 16% earlier owing to cut in our APE estimates. At end-Q2, gross premium grew 3.8% YoY to Rs 99bn (vs. Rs 109bn est.). NBP increased 7.3% YoY and renewal premium 1.3%.

**Protection APE up 35%:** APE grew 1% YoY to Rs 20bn in Q2 (10% YoY to Rs 35bn in H1FY23), wherein protection APE (19% share) rose 36% (29% YoY to Rs 7.1bn in H1). Savings declined 5% YoY to Rs 16.2bn (but grew 6% YoY in H1) due to deceleration in linked and group products. Annuity remained a silver line, rising 69% YoY to Rs 1.4bn (69% YoY in H1 as well to Rs 2.3bn).

**Banks (ex-ICICI Bank) expand in distribution mix:** The share of the bancassurance channel in APE dipped from 39% in FY22 to 32% in H1FY23 as ICICI Bank showed a 29% YoY decline, whereas other banks witnessed a 32% increase. The group channel posted robust growth with its share rising to 20% from 15%. Direct channel share declined from 12.9% to 11.8%.

**Cost ratios and persistency improve:** The opex ratio of 11.5% in H1FY23 (9.4% in H1FY22) looks elevated but has moderated in Q2 vs. Q1FY23. Commission ratio remained stable at 4.2%. We factor in an opex ratio of 9.8% across FY23-FY25 and a commission ratio of 4.5-4.6%. Persistency has improved across cohorts with 13$^{th}$ month ratios improving from 85.1% at end-5MFY22 to 85.9% at end-5MFY23 and 49$^{th}$ month levels rising from 64.6% to 65.4%.

**Maintain BUY:** The stock trades at 1.8x FY24E P/EV. Given high persistency and strong VNB growth, partly offset by a decline in market share (NBP), we continue to value the company at 2.2x FY24E P/EV – a 10% discount to the long-term mean. This leads to an unchanged TP of Rs 645, which offers 26% upside.

## Key changes

| Target | Rating |
|---|---|
| ◀ ▶ | ◀ ▶ |

| | |
|---|---|
| Ticker/Price | IPRU IN/Rs 513 |
| Market cap | US$ 9.0bn |
| Free float | 27% |
| 3M ADV | US$ 7.5mn |
| 52wk high/low | Rs 682/Rs 430 |
| Promoter/FPI/DII | 73%/16%/9% |

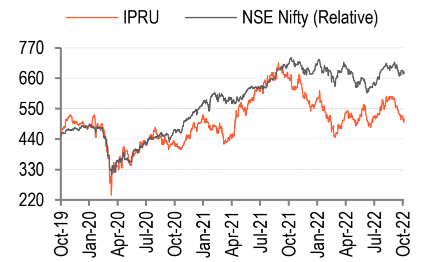
Source: NSE | Price as of 14 Oct 2022

## Key financials

| Y/E 31 Mar | FY22A | FY23E | FY24E |
|---|---|---|---|
| NBP (Rs mn) | 1,55,022 | 1,76,726 | 2,05,002 |
| APE (Rs mn) | 77,330 | 86,483 | 1,00,287 |
| VNB (Rs mn) | 21,652 | 25,945 | 28,080 |
| Embedded Value (Rs mn) | 3,16,250 | 3,65,028 | 4,19,600 |
| VNB margin (%) | 28.0 | 30.0 | 28.0 |
| EVPS (Rs) | 220.2 | 254.1 | 292.1 |
| EPS (Rs) | 5.3 | 5.9 | 8.3 |
| Consensus EPS (Rs) | 5.3 | 7.6 | 9.5 |
| P/EV (x) | 2.3 | 2.0 | 1.8 |

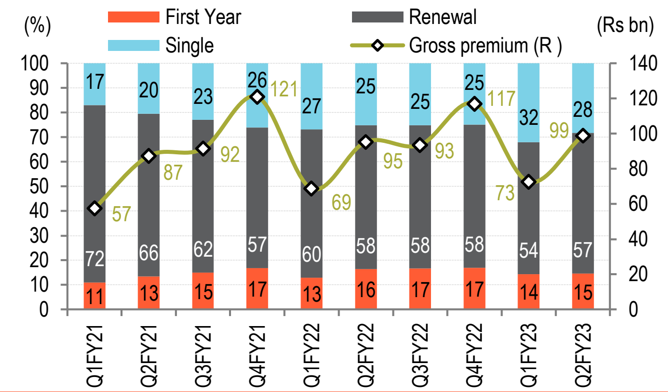
Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



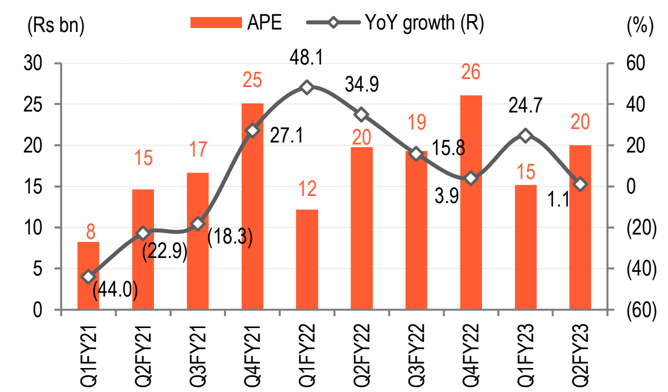

Source: NSE

### Fig 1 – Gross premium grew 4% YoY



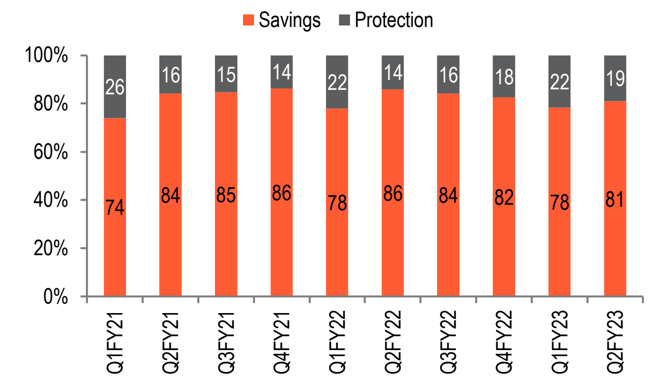

Source: Company, BOBCAPS Research

### Fig 2 – APE grew 1% YoY



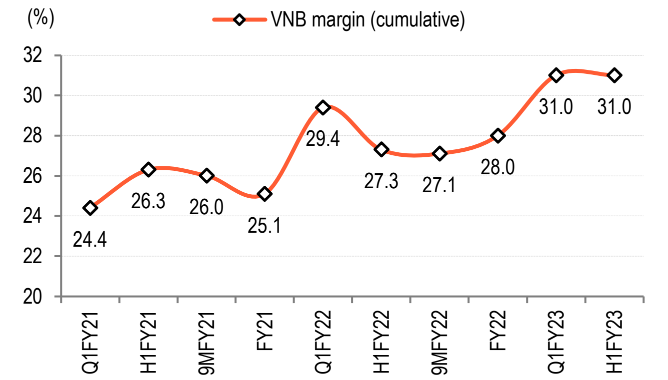

Source: Company, BOBCAPS Research

### Fig 3 – Product mix – Protection continues to gain traction



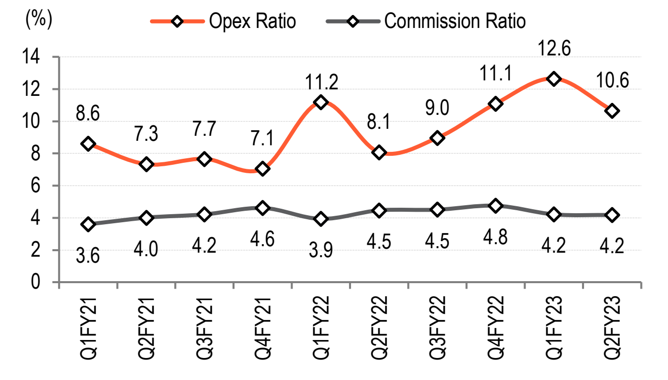

Source: Company, BOBCAPS Research | Note: The data is based on APE

### Fig 4 – VNB margin expanding



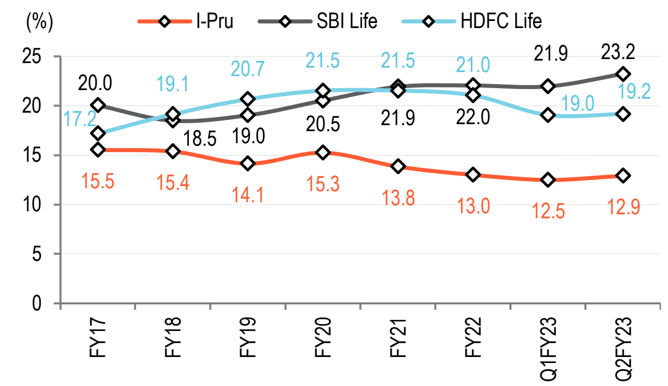

Source: Company, BOBCAPS Research

### Fig 5 – Opex ratio moderates this quarter




Source: Company, BOBCAPS Research

### Fig 6 – Market share (NBP basis) improving but yet to recover to FY20 levels




Source: Company, BOBCAPS Research

### Fig 7 – Distribution mix APE – Group gaining traction; banks (ex-ICICI Bank) doing well

| Channel | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Mix (Rs bn)** | | | | | | | | | | | | | | |
| Bancassurance | 7.7 | 10.1 | 10.9 | 8.8 | 3.3 | 6.4 | 7.0 | 10.7 | 4.7 | 7.9 | 7.6 | 9.9 | 5.3 | 6.0 |
| Agency | 3.1 | 3.8 | 4.5 | 4.3 | 2.0 | 3.3 | 4.2 | 5.9 | 2.7 | 4.8 | 5.0 | 5.8 | 3.4 | 5.2 |
| Direct | 1.9 | 2.5 | 2.4 | 2.6 | 1.0 | 1.8 | 2.2 | 3.1 | 1.6 | 2.6 | 2.6 | 3.3 | 1.7 | 2.5 |
| Partnership distribution | 1.0 | 1.4 | 1.5 | 1.6 | 0.7 | 1.3 | 1.3 | 2.6 | 1.0 | 1.7 | 1.6 | 2.8 | 1.7 | 2.4 |
| Group | 1.0 | 1.3 | 1.1 | 2.5 | 1.2 | 1.9 | 2.0 | 2.8 | 2.1 | 2.8 | 2.5 | 4.4 | 3.2 | 4.0 |
| **Total** | **14.7** | **19.0** | **20.4** | **19.7** | **8.2** | **14.6** | **16.7** | **25.1** | **12.2** | **19.8** | **19.3** | **26.1** | **15.2** | **20.0** |
| **Mix (%)** | | | | | | | | | | | | | | |
| Bancassurance | 52.4 | 53.2 | 53.6 | 44.3 | 39.6 | 43.9 | 41.9 | 42.5 | 38.6 | 39.9 | 39.5 | 38.0 | 34.7 | 29.8 |
| Agency | 21.2 | 19.8 | 21.9 | 21.7 | 24.6 | 22.7 | 25.1 | 23.3 | 22.5 | 24.3 | 25.8 | 22.0 | 22.4 | 26.0 |
| Direct | 12.8 | 13.0 | 11.7 | 13.0 | 12.3 | 12.2 | 13.3 | 12.4 | 13.1 | 12.9 | 13.2 | 12.5 | 10.8 | 12.5 |
| Partnership distribution | 6.8 | 7.3 | 7.2 | 8.2 | 8.6 | 8.6 | 7.7 | 10.4 | 8.4 | 8.7 | 8.5 | 10.7 | 11.1 | 11.8 |
| Group | 6.8 | 6.7 | 5.6 | 12.8 | 14.9 | 12.7 | 12.1 | 11.3 | 17.4 | 14.2 | 13.0 | 16.8 | 20.9 | 19.9 |

Source: Company, BOBCAPS Research

### Fig 8 – Persistency improving across cohorts

| (%) | 5MFY23 | 5MFY22 | FY22 |
|---|---|---|---|
| 13th month | 85.9 | 85.1 | 84.6 |
| 25th month | 77.2 | 74.6 | 77.3 |
| 37th month | 68.7 | 66.3 | 66.9 |
| 49th month | 65.4 | 64.6 | 63.4 |
| 61st month | 61.2 | 51.6 | 54.7 |

Source: Company, BOBCAPS Research | Note: Regular and Limited pay premium

## Earnings call highlights

### Robust growth

- APE grew 10% YoY to Rs 35.2bn in H1FY23, with savings share at 80% and protection at 20%. Savings APE increased 6% YoY whereas protection grew 29% YoY. The protection product with return of premium (ROP) that was launched last year continues to contribute 15-20% of the retail protection portfolio.
- Embedded value grew 8% YoY to Rs 326bn at end-H1FY23.
- In APE, bancassurance share declined from 39% in FY22 to 32% in H1FY23, whereas the share of agency, partnership and group channels increased. The direct channel declined from 12.9% to 11.8%. During H1, the company added over 15,000 new agents, 3 new banks, and 44 non-bank partnerships.
- The solvency ratio remains strong at 200.7% as of Sep'22. AUM stood at Rs 2.44tn at end-H1FY23 as compared to Rs 2.40tn in FY22.
- The company recently launched ICICI Pru Sukh Samruddhi, a participating savings product, to enhance its offering in the category.

### Protection products

- The ROP product is mass-oriented and the distribution channels are looking to convert this into a popular offering. IPRU does not see any supply-side issues for the product and believes it is priced with an appropriate level of mortality. Moreover, the company is focussed on expanding its retail protection business and will be satisfied even if the ROP product remains at 15-20% share of this portfolio.
- Although the protection split in the retail and group segments is being published towards the year end, the year-on-year declines have been coming down on retail protection. On a sequential basis, the growth has been stable. Per the company, the underwriting processes and pricing have both stabilised.
- Group protection pricing on renewal is now at pre-pandemic levels. So, for every scheme that is renewed, the company expects lower pricing than pre-pandemic rates for at least the next three months, assuming no further pandemic shocks.

### Distribution channels

- As a practice, ICICI Bank does not sell any non-linked products on the savings side. Hence, the company has tied up with other banks and is seeing good traction, with 17% of retail APE coming from its non-primary bank partnership. Moreover, in a positive move, IRDA proposes to permit corporate agents to tie-up with nine life insurance companies instead of three. As per management, every bank will have to decide on the number of partnerships they are comfortable with.
- The agency channel, which until four years ago was skewed towards ULIPs, is becoming more focussed on annuity, protection and other products. Typically, both the December and March quarters tend to be fairly peak times for agents. Thus, IPRU has no concerns about the trajectory for growth in this channel for the next two quarters.

### Covid claims

- IPRU received Covid-19 claims (net of reinsurance) of Rs 271.9mn for H1FY23. Of this, Rs 26.1mn pertain to deaths in H1. The company has released the Covid provisions that it carried in the last quarter.

### VNB growth

- Protection and annuity plans remain significant engines to grow VNB. Retail protection may be struggling but IPRU's overall protection business is growing. Moreover, a wider product suite ensures the company can reach more customers and broaden the market opportunity.
- The company continues to focus on absolute VNB growth. Although margins are important, it believes this is best reviewed towards the end of the year.

### Others

- The strain profile of the annuity portfolio is a function of the mix between single-pay and regular-pay and also a function of the tenure of the deferral period for annuity. IPRU recently launched a regular-pay deferred annuity, which is much longer tenured. So, the strain profile for the annuity business this year will be very different from the past year.
- Mark to market (MTM) on forward rate agreements (FRA) has had no impact on solvency, because MTM is net positive for the equity plus FRA portfolios.
- Given the company's balance sheet capacity, current solvency, the expected increase in sub-debt limits and expected shift to risk-based capital, management would like to retain even more capital on the balance sheet if there is inadequate capacity from a reinsurance point of view. The more important question is at what price reinsurance is being offered.
- With respect to the contentious industry-wide issue of GST input credit on select expenses, management indicated that typically some proportion of the disputed amount is being deposited upfront and then the matter continues under litigation, with a refund due should the outcome favour the respective company.
- The group funds business is lumpy and any conclusion on trends and patterns in group APE cannot be arrived at based on monthly numbers.

## Earnings call highlights – Q1FY23

### Protection products

- The protection segment constituted 22% of IPRU's APE and grew 22% YoY in Q1FY23 to Rs 3.3bn.
- **Individual/Retail protection** continues to face supply-side challenges – an industrywide phenomenon owing to the pandemic. IPRU continues to improve processes and customer experience but remains watchful of this space. Sequentially, the segment has stabilised. Last year, the company started on a strong note and thus the annual decline, but the base effect should turn favourable in Q3FY23. Management emphasised on recalibrating the strategy and decongesting the process for clients/partners. Margins in retail protection, generally preferred by younger people, will be determined by the average term of the product going forward.

  One of the other reasons for the decline in retail protection is that a lot of people are now being covered under group protection programmes (employer plans). Also, the number of online visits for individual protection premium quotes have come down despite the conversion being largely similar.
- The **ROP (return of premium) product** category serves mass and mass-affluent customers rather than the affluent, and should create a new category over a period of time. ROP contribution to the business is 15-18% in the industry (differs company-wise), but management expects further upsides. Retention in ROP is low as compared to a normal term policy.
- Overall protection has shown decent numbers as the group segment has performed well. **Group term business** has been a core offering for IPRU for a number of years backed by a strong sales team. The company follows a recalibrated pricing methodology for this segment and retains only Rs 2mn with the rest reinsured. The risk pertains to only one year and thus is not a long-tail experience.
- Protection plans carry vast scope to grow as only 12-13% of the addressable market is served in the country.

### Guaranteed products

- A customer who has taken a non-par guaranteed product will not exit a particular policy and re-enter a new one (for higher interest) because he loses on the premiums paid. Such a move would only make sense if there is a drastic change in interest rates, which looks unlikely. This could be a risk for a single paid policy where the surrender risk is high.
- IPRU is not yet seeing any impact from the rising interest rate cycle and believes par products can gain traction over time in such a scenario.

### Annuity products

- Annuity constitutes 6% of IPRU's APE and grew 69% YoY to Rs 1bn in Q1FY23.
- The National Pension Scheme (NPS) conversion opportunity from pension products to annuities will take another 5-10 years to materialise.
- Currently, there are opportunities in terms of NPS maturity for central government employees. The company targets customers at 55-58 years of age who would like to have an annual income.

### VNB and margin

- Cost/TWRP (total weighted received premium) ratio is a challenging metric as it includes renewal premium which declined on an annual basis. The absolute increase in cost has been lower than the new business. The ratios are computed with cost taken as actuals for one period and projected for the rest of year, and thus the company has not taken any aggressive assumptions. As the costs rationalise over the course of the year, the ratios will improve.
- IPRU expects VNB to double over FY19-FY23 and believes future growth would be in line with the industry despite any changes to the topline.

### Investment income

- Investment income was negative at Rs 87bn in Q1FY23 due to heavy losses in the ULIP segment amid volatile capital markets. Unit-linked investment income is directly offset by the change in valuation of policyholder liabilities, and thus P&L-neutral. Investment income is not a major determinant of profit unless it comes from a guaranteed product where the investment income rises far above that guaranteed.
- From an accounting perspective, MTM gains/losses would be impacted by market movement. However, from a P&L perspective the impact is expected to be limited.

### Agency

- In Q1FY23, the company added 6,821 new agents and 13 partnerships. New agents' productivity remains high if looked at on an annual basis.
- The agency channel grew 25% YoY (APE-basis) driven by innovative and new products. For instance, agents have successfully sold large annuity products. Non-par guaranteed products have also helped the agents to sell as an asset diversification tool (from ULIPs to affluent customers).

### Yield curve

- The steep yield curve is not affecting margins but does impact prospective pricing offered to customers.

### Distribution channels

- ICICI Bank's contribution to APE declined 11% YoY in Q1FY23. The bank's focus is predominantly on retail protection and annuity; ULIPs are also available for sale on the platform. ULIPs are impacted by market volatility whereas retail protection has ground challenges. ICICI Bank doesn't sell traditional products and thus the declining share would be reversed only when ULIPs and retail protection do well.
- Other banks contributed 15% to APE vs. 4% about three years ago. Growth here has been robust (71% YoY growth in APE in Q1), and the company has a targeted focus to gain incremental business.
- Partnership distribution grew 66% YoY to Rs 1.7bn in Q1FY23 (APE basis).

### Solvency

- In terms of economic-based solvency, the company has a 400% solvency ratio. The excess capital would be used for other lines of business and also removes any need to raise capital.

### Regulations

- There is no proposal from the IRDA to use commissions to improve the reach of life insurance in India. Rather, the regulator has focused on giving growth targets and on ease of doing business to improve the penetration.
- The proposal to allow life insurers to sell health insurance policies would be welcomed as the company is well equipped to sell these types of products, as done historically till FY15. However, ecosystems will need to be developed, such as hospital and third-party networks, once further clarity emerges.

### Covid claims

- IPRU has incurred Covid-related claims of Rs 0.16bn and has made a closing provision of Rs 0.24bn at the end of the quarter.
- At end-Q4FY22, the company had Rs 0.24bn of provisions and incurred Rs 0.16bn in claims, leaving it with Rs 0.08bn, which means it made an additional Rs 0.16bn of reserves, totalling Rs 0.24bn in Q1FY23.

### Fig 9 – Policyholders' account

| (Rs mn) | Q2FY23 | Q2FY22 | YoY (%) | Q1FY23 | QoQ (%) | FY22 | FY21 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| **Gross premium income** | **98,956** | **95,332** | **3.8** | **72,647** | **36.2** | **3,74,580** | **3,57,328** | **4.8** |
| First Year Premium | 14,444 | 15,572 | (7.2) | 10,385 | 39.1 | 59,655 | 51,872 | 15.0 |
| Renewal Premium | 56,426 | 55,704 | 1.3 | 38,941 | 44.9 | 2,19,557 | 2,25,068 | (2.4) |
| Single Premium | 28,086 | 24,056 | 16.8 | 23,322 | 20.4 | 95,367 | 80,389 | 18.6 |
| Reinsurance | 3,139 | 2,467 | 27.2 | 3,805 | (17.5) | 11,367 | 7,595 | 49.7 |
| **Net premium income** | **95,817** | **92,865** | **3.2** | **68,842** | **39.2** | **3,63,213** | **3,49,734** | **3.9** |
| **Income from investments (Net)** | **1,28,189** | **1,35,458** | **(5.4)** | **(86,708)** | **NA** | **2,49,695** | **4,74,376** | **(47.4)** |
| Other income | 380 | 264 | 44.1 | 333 | 14.1 | 1,126 | 934 | 20.5 |
| Contribution of funds from Shareholders' A/c | 4,657 | 2,706 | 72.1 | 2,921 | 59.4 | 21,611 | 15,748 | 37.2 |
| **Total** | **2,29,044** | **2,31,294** | **(1.0)** | **(14,612)** | **NA** | **6,35,645** | **8,40,791** | **(24.4)** |
| **Commission on** | | | | | | | | |
| First Year Premium | 2,357 | 2,649 | (11.0) | 1,801 | 30.9 | 10,346 | 9,306 | 11.2 |
| Renewal Premium | 1,075 | 1,011 | 6.4 | 714 | 50.5 | 4,119 | 3,983 | 3.4 |
| Single Premium | 385 | 358 | 7.6 | 368 | 4.6 | 1,448 | 1,011 | 43.3 |
| Rewards | 314 | 234 | 34.3 | 176 | 78.2 | 816 | 702 | 16.1 |
| **Net Commission** | **4,131** | **4,251** | **(2.8)** | **3,059** | **35.0** | **16,729** | **15,002** | **11.5** |
| Operating Expenses related to insurance business | 10,535 | 7,686 | 37.1 | 9,184 | 14.7 | 37,011 | 27,121 | 36.5 |
| Benefits Paid (Net) | 80,219 | 80,229 | (0.0) | 55,125 | 45.5 | 2,93,588 | 2,26,409 | 29.7 |
| Change in actuarial liability | 1,26,860 | 1,32,284 | (4.1) | (87,999) | NA | 2,57,837 | 5,43,241 | (52.5) |
| **Surplus/Deficit** | **5,234** | **4,823** | **8.5** | **3,950** | **32.5** | **21,904** | **21,054** | **4.0** |

Source: Company, BOBCAPS Research

### Fig 10 – Shareholders' account

| (Rs mn) | Q2FY23 | Q2FY22 | YoY (%) | Q1FY23 | QoQ (%) | FY22 | FY21 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| Transfer from Policyholders' Account | 4,861 | 4,402 | 10.4 | 2,960 | 64.2 | 21,602 | 19,849 | 8.8 |
| **Total income under Shareholders' Account** | | | | | | | | |
| Investment Income | 2,033 | 3,284 | (38.1) | 1,748 | 16.3 | 10,114 | 7,687 | 31.6 |
| Other income | 3 | 13 | (77.7) | 2 | 20.8 | 22 | 3 | 686.1 |
| Expenses other than those related to insurance business | 245 | 246 | (0.3) | 233 | 5.3 | 1,024 | 612 | 67.5 |
| Transfer of funds to Policyholders' Account | 4,657 | 2,706 | 72.1 | 2,921 | 59.4 | 21,611 | 15,748 | 37.2 |
| Provisions for doubtful debts (including write off) | 0 | 0 | NA | 0 | NA | 1,197 | 365 | 228.2 |
| **Profit before tax** | **1,995** | **4,747** | **(58.0)** | **1,557** | **28.1** | **7,906** | **10,814** | **(26.9)** |
| Provisions for tax | 0 | 301 | (100.0) | 0 | NA | (364) | (1,213) | (70.0) |
| **Profit after tax and before extraordinary items** | **1,995** | **4,446** | **(55.1)** | **1,557** | **28.1** | **7,541** | **9,601** | **(21.5)** |

Source: Company, BOBCAPS Research

### Fig 11 – Balance sheet

| (Rs mn) | Q2FY23 | Q2FY22 | YoY (%) | Q1FY23 | QoQ (%) | FY22 | FY21 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| **Sources of funds** | | | | | | | | |
| Share Capital | 14,386 | 14,371 | 0.1 | 14,375 | 0.1 | 14,373 | 14,360 | 0.1 |
| Share application money received pending allotment of shares | 0 | 1 | (100.0) | 2 | (100.0) | 0 | 6 | (100.0) |
| Reserves and Surplus | 79,141 | 70,812 | 11.8 | 76,748 | 3.1 | 75,915 | 70,671 | 7.4 |
| Credit / (Debit) Fair Value Change Account | 2,769 | 2,368 | 16.9 | (594) | (566.5) | 1,342 | 1,342 | - |
| **Total Equity** | **96,295** | **87,551** | **10.0** | **90,532** | **6.4** | **91,631** | **86,379** | **6.1** |
| **Policyholders' Funds:** | **22,16,208** | **21,41,556** | **3.5** | **20,72,029** | **7.0** | **21,71,190** | **19,10,481** | **13.6** |
| Borrowing | 12,000 | 12,000 | - | 12,000 | - | 12,000 | 12,000 | - |
| Policy Liabilities | 21,87,634 | 21,04,796 | 3.9 | 20,56,086 | 6.4 | 21,42,236 | 18,79,860 | 14.0 |
| - Insurance Reserves | 8,07,849 | 6,66,469 | 21.2 | 7,68,976 | 5.1 | 7,36,821 | 6,02,156 | 22.4 |
| - Provision for Linked Liabilities | 13,79,785 | 14,38,327 | (4.1) | 12,87,110 | 7.2 | 14,05,414 | 12,77,704 | 10.0 |
| Add: Fair value change | 28,574 | 36,759 | (22.3) | 15,943 | 79.2 | 28,954 | 30,622 | (5.4) |
| FFA | 15,194 | 12,611 | 20.5 | 14,823 | 2.5 | 13,833 | 13,532 | 2.2 |
| FFA - provision of lapsed policies | 96,712 | 1,12,166 | (13.8) | 1,01,400 | (4.6) | 1,03,249 | 1,07,787 | (4.2) |
| **Total Sources of funds** | **24,36,408** | **23,65,884** | **3.0** | **22,90,784** | **6.4** | **23,91,903** | **21,34,995** | **12.0** |
| **Application Of Funds** | | | | | | | | |
| **Investments** | **9,37,587** | **7,96,173** | **17.8** | **8,88,912** | **5.5** | **8,72,415** | **7,36,627** | **18.4** |
| - Shareholders' | 95,865 | 85,683 | 11.9 | 90,000 | 6.5 | 98,535 | 1,00,902 | (2.3) |
| - Policyholders' | 8,41,721 | 7,10,490 | 18.5 | 7,98,913 | 5.4 | 7,73,880 | 6,35,726 | 21.7 |
| Assets held to cover Linked Liabilities | 14,76,497 | 15,50,493 | (4.8) | 13,88,510 | 6.3 | 15,08,663 | 15,08,663 | - |
| Loans | 10,945 | 7,857 | 39.3 | 10,063 | 8.8 | 9,401 | 6,628 | 41.8 |
| Fixed Assets | 5,238 | 4,564 | 14.8 | 5,096 | 2.8 | 4,872 | 4,572 | 6.6 |
| **Net Current Assets** | **6,142** | **6,796** | **(9.6)** | **(1,798)** | **NA** | **(3,449)** | **1,676** | **(305.8)** |
| **Total application of funds** | **24,36,408** | **23,65,884** | **3.0** | **22,90,784** | **6.4** | **23,91,903** | **21,34,995** | **12.0** |

Source: Company, BOBCAPS Research

### Fig 12 – Key ratios and growth metrics

| (Rs mn) | Q2FY23 | Q2FY22 | YoY (%) | Q1FY23 | QoQ (%) | FY22 | FY21 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| NBP | 42,530 | 39,629 | 7.3 | 33,707 | 26.2 | 1,55,022 | 1,32,261 | 17.2 |
| APE | 19,990 | 19,770 | 1.1 | 15,200 | 31.5 | 77,330 | 64,620 | 19.7 |
| VNB | 6,210 | 5,150 | 20.6 | 4,710 | 31.8 | 21,652 | 16,220 | 33.5 |
| Opex ratio (%) | 10.6 | 8.1 | 258bps | 12.6 | (200bps) | 9.8 | 7.5 | 228bps |
| Commission ratio (%) | 4.2 | 4.5 | (28bps) | 4.2 | (4bps) | 4.5 | 4.2 | 27bps |
| Expense ratio (%) | 14.8 | 12.5 | 230bps | 16.9 | (203bps) | **14.3** | **11.7** | 255bps |
| VNB margin (%) | NA | NA | NA | NA | NA | **28.0** | **25.1** | 290bps |
| Solvency ratio (%) | 199.9 | 199.9 | 0bps | 203.6 | (370bps) | 204 | 217 | (1230bps) |
| **Persistency ratio (Regular Premium / Limited Premium Payment under Individual category)** | | | | | | | | |
| 13th month (%) | 85.9 | 85.1 | 80bps | NA | NA | 84.6 | NA | NA |
| 61st month (%) | 61.2 | 51.6 | 960bps | NA | NA | 54.7 | NA | NA |

Source: Company, BOBCAPS Research note: Persistency ratio has to be read as 5MFY23, 5MFY22 and 2MFY23 in the Q2FY23, Q2FY22 and Q1FY23 columns respectively.

## Valuation methodology

IPRU is trading at a P/EV of 1.8x FY24E (below -1SD) and is undervalued, in our view. We continue to value the stock at 2.2x FY24E P/EV (10% below the mean), leading to an unchanged TP of Rs 645, offering 26% upside potential – retain BUY.

While the company has lost NBP market share (from 15.3% in FY20 to 12.5% in Q1FY23 with a slightly recovery to 12.9% in Q2FY23), we see key positives in terms of (i) robust VNB growth at 25% YoY to Rs 10.9bn in H1FY23 (31% margin), with IPRU on course to end the year at ~Rs 26bn, doubling its FY19 print; (ii) higher persistency which should support profitability, especially as the worst of Covid-19 is behind us; and (iii) a balanced product mix.

**Fig 13 – Revised estimates**

| (Rs bn) | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Gross Premium | 400 | 443 | 496 | 416 | 468 | 530 | (3.8) | (5.4) | (6.5) |
| Net Premium | 388 | 429 | 480 | 404 | 454 | 514 | (3.8) | (5.4) | (6.6) |
| VNB | 26 | 28 | 33 | 26 | 29 | 34 | 0.6 | (2.8) | (2.8) |
| APE | 86 | 100 | 116 | 89 | 103 | 120 | (2.8) | (2.8) | (2.8) |
| Embedded Value (EV) | 365 | 420 | 483 | 365 | 420 | 484 | 0.0 | (0.2) | (0.3) |
| VNB Margin (%) | 30 | 28 | 28 | 29 | 28 | 28 | 100bps | 0bps | 0bps |

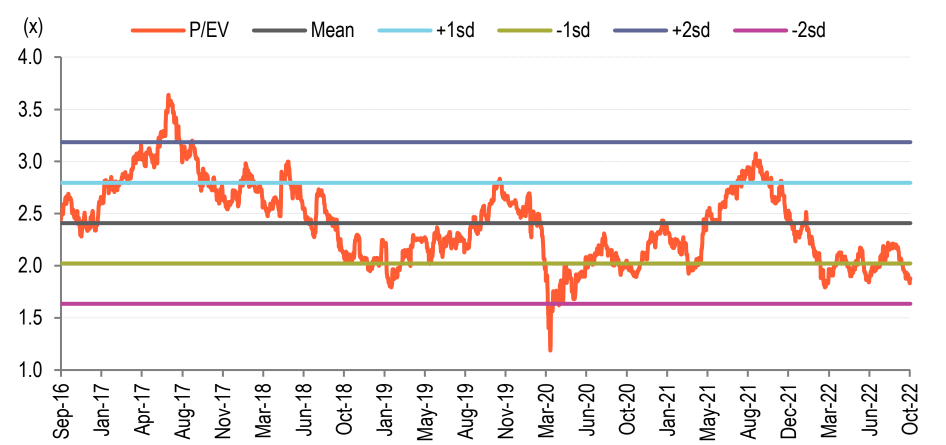
Source: Company, BOBCAPS Research

**Fig 14 – Valuation summary**

| Synopsis of valuation | |
|---|---|
| Embedded Value (FY24E) (Rs bn) | 420 |
| PV of Future business (Rs bn) | 511 |
| **Total value (Rs bn)** | 930 |
| Current P/ EV (FY24) | 1.8 |
| Implied P/ EV (FY24) | 2.2 |
| **Implied Target Price (Rs)** | 645 |
| Current Price (Rs) | 513 |
| Upside (%) | 25.6 |

Source: BOBCAPS Research

**Fig 15 – 1Y fwd P/EV – Trading below -1SD**




Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- **Changes in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, currently ULIP proceeds are taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in the income tax rate of insurance companies can adversely impact profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are aiming for a balanced product mix, many of them have sizeable business coming from ULIPs. For IPRU, the sensitivity of a decline in equity on EV is comparatively higher as compared to private peers.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. Shareholders' equity & earnings and policyholders' funds may be affected by fair value re-valuation of bonds held in the investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss, monetary requirements, etc., which lowers the persistency ratios.

## Sector recommendation snapshot

| Company | Ticker | Market Cap (US$ bn) | Price (Rs) | Target (Rs) | Rating |
|---|---|---|---|---|---|
| HDFC Life | HDFCLIFE IN | 13.4 | 523 | 701 | BUY |
| ICICI Prudential Life | IPRU IN | 9.0 | 513 | 645 | BUY |
| SBI Life | SBILIFE IN | 14.4 | 1,180 | 1,523 | BUY |

Source: BOBCAPS Research, NSE | Price as of 14 Oct 2022

## Glossary

| Glossary | | | |
|---|---|---|---|
| **APE** | Average Premium Equivalent | **NBP** | New Business Premium |
| **EV** | Embedded Value | **ULIP** | Unit Linked Insurance Plan |
| **IRDA** | Insurance Regulatory and Development Authority | **VNB** | Value of New Business |

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## Financials

**Revenue Account (Technical)**

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Gross premium income** | **3,57,328** | **3,74,580** | **4,00,096** | **4,42,567** | **4,95,684** |
| First year premium | 51,872 | 59,655 | 66,343 | 76,925 | 89,233 |
| Renewal premium | 2,25,068 | 2,19,557 | 2,23,370 | 2,37,565 | 2,57,882 |
| Single premium | 80,389 | 95,367 | 1,10,382 | 1,28,077 | 1,48,569 |
| **Net written premium** | **3,49,734** | **3,63,213** | **3,88,099** | **4,28,973** | **4,80,180** |
| Income from investments | 4,74,376 | 2,49,695 | 1,12,492 | 1,87,259 | 1,99,522 |
| Other Income | 16,682 | 22,737 | 24,371 | 26,772 | 29,412 |
| **Total income** | **8,40,791** | **6,35,645** | **5,24,962** | **6,43,004** | **7,09,113** |
| Commissions | 15,002 | 16,729 | 18,121 | 20,357 | 22,842 |
| Operating expenses | 27,121 | 37,011 | 39,463 | 43,537 | 48,755 |
| Benefits and bonuses paid | 2,26,409 | 2,93,588 | 2,40,811 | 3,16,938 | 3,39,795 |
| Change in liabilities (net) | 5,43,241 | 2,57,837 | 1,96,280 | 2,26,786 | 2,57,822 |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Total expenses** | **8,11,773** | **6,05,166** | **4,94,675** | **6,07,619** | **6,69,214** |
| **Surplus before tax** | **29,019** | **30,479** | **30,287** | **35,386** | **39,899** |
| Provision for tax | 7,965 | 8,576 | 4,513 | 5,665 | 6,167 |
| **Surplus after tax** | **21,054** | **21,904** | **25,774** | **29,720** | **33,732** |
| Trf to shareholders' a/c | 19,849 | 21,602 | 24,402 | 28,815 | 32,374 |
| Balance being FFA | 1,205 | 302 | 1,373 | 905 | 1,358 |

**Income Statement (Non-technical)**

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Trf from policyholders' a/c | 19,849 | 21,602 | 24,402 | 28,815 | 32,374 |
| Income from investments | 7,687 | 10,114 | 9,312 | 11,110 | 11,950 |
| Contr. to policyholders' fund | 15,748 | 21,611 | 23,212 | 25,533 | 28,086 |
| Others | (609) | (1,002) | (592) | (604) | (617) |
| **PBT** | **11,179** | **9,103** | **9,909** | **13,788** | **15,620** |
| Provision for taxation | 1,213 | 364 | 943 | 1,331 | 1,514 |
| **PAT** | **9,966** | **8,739** | **8,966** | **12,457** | **14,106** |
| Dividend+Interim div.+DDT | 2,872 | 793 | 2,885 | 2,885 | 2,885 |

**Balance Sheet**

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Equity | 91,194 | 91,631 | 95,890 | 1,04,983 | 1,15,724 |
| Policyholders' funds | 19,10,481 | 21,71,190 | 23,38,515 | 25,65,301 | 28,23,123 |
| FFA | 13,532 | 13,833 | 17,292 | 20,750 | 21,787 |
| Others | 1,57,074 | 1,67,748 | 2,20,423 | 2,64,496 | 3,09,105 |
| **Total liabilities** | **21,72,281** | **24,44,402** | **26,72,120** | **29,55,530** | **32,69,740** |
| Shareholders' funds | 1,00,902 | 98,535 | 1,08,388 | 1,13,808 | 1,25,188 |
| Policyholders' funds | 6,35,726 | 7,73,880 | 8,58,948 | 9,44,096 | 10,20,633 |
| Assets to cover linked liab. | 13,85,491 | 15,08,663 | 15,84,096 | 16,63,301 | 17,46,466 |
| Others | 50,162 | 63,324 | 1,20,688 | 2,34,325 | 3,77,453 |
| **Total assets** | **21,72,281** | **24,44,402** | **26,72,120** | **29,55,530** | **32,69,740** |

**Key Metrics**

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| AUM (Rs mn) | 21,42,180 | 24,04,920 | 25,74,026 | 27,47,191 | 29,15,455 |
| NBP (Rs mn) | 1,32,261 | 1,55,022 | 1,76,726 | 2,05,002 | 2,37,802 |
| APE (Rs mn) | 64,620 | 77,330 | 86,483 | 1,00,287 | 1,16,332 |
| VNB (Rs mn) | 16,220 | 21,652 | 25,945 | 28,080 | 32,573 |
| VNB margin (%) | 25.1 | 28.0 | 30.0 | 28.0 | 28.0 |
| Embedded value (Rs mn) | 2,91,051 | 3,16,250 | 3,65,028 | 4,19,600 | 4,82,758 |
| ROEV (%) | 15.2 | 11.0 | 16.3 | 15.7 | 15.7 |
| ROE (%) | 11.8 | 8.2 | 9.1 | 11.9 | 12.3 |
| Opex ratio (%) | 7.5 | 9.8 | 9.8 | 9.8 | 9.8 |
| Cost ratio (%) | 11.7 | 14.3 | 14.3 | 14.4 | 14.4 |
| Solvency ratio (%) | 216.8 | 204.5 | 222.1 | 239.7 | 261.0 |
| EPS (Rs) | 6.7 | 5.3 | 5.9 | 8.3 | 9.4 |
| BVPS (Rs) | 63.5 | 63.8 | 66.8 | 73.1 | 80.6 |
| EVPS (Rs) | 202.7 | 220.2 | 254.1 | 292.1 | 336.1 |

Source: Company, BOBCAPS Research

# Disclaimer

**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

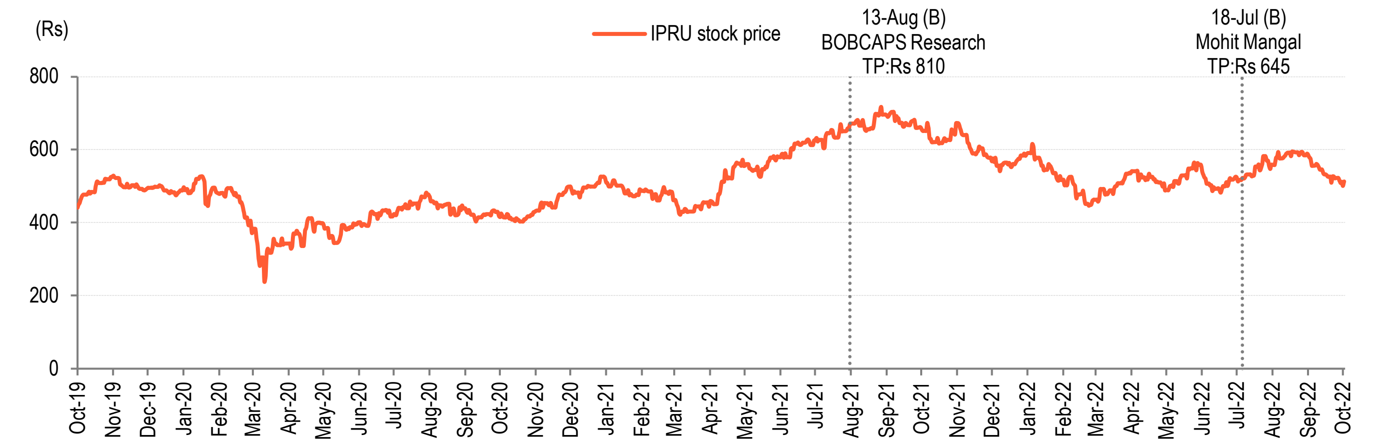
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

**Ratings and Target Price (3-year history): ICICI PRUDENTIAL LIFE (IPRU IN)**




B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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