

## ICICI Prudential Life Insurance Company

24 November, 2021

Reuters: ICIR.NS; Bloomberg: IPRU IN

### Sticking to VNB guidance; protection to recover in FY23

ICICI Prudential Life Insurance (IPru Life) remains committed to achieving 28% VNB CAGR over FY21-FY23, driven by topline growth (in FY22) and VNB margin improvement (in FY23). Renewed product strategy gives the company a more stable and a high-margin product mix. From 80%+ concentration in FY19, the share of linked savings has fallen to 48% (in 1HFY22). We expect that over time, the share of linked savings would settle even lower at 40-45% as non-linked savings grows at a faster rate. Retail protection, where growth rate has been affected due to supply-side constraints, will be a key growth enabler post FY22 as underwriting constraints ease and term penetration deepens. As a mitigating measure over the short term, focus has been sharper on the group term business. The company had hiked protection rates 18 months back and would pass on another rate hike in the next three months (highlighted during 2QFY22 earnings call). The management believes that over time, price recalibration will become an essential piece of the overall retail protection market in India as the segment penetration increases. This would not alter the long-term growth prospects of the retail protection segment and it should continue to grow at higher rates going forward as well. We maintain BUY on the stock with a target price (TP) of Rs817 based on 3x 1HFY24E EV. Following are the key takeaways from our recent interaction with the company:

#### On track to deliver on VNB guidance

- The company is on track to achieve 28% VNB CAGR between FY21-FY23. In FY22, VNB growth would be supported by topline growth while in FY23, VNB margin is expected to improve on the back of pick-up in retail protection. Cost ratios are holding up well.
- Going forward, the company will look at a more diversified VNB pool contribution vs FY21.
- The company stated that it is more focused on generating VNB and eventually, accounting profits will also turn around in non-linked segment. At individual product level, all companies incur accounting losses initially. For the company, the subdued accounting profitability in non-linked is due to higher capital strain, which in turn is a function of conservative assumptions. Fundamentally, the company is confident about product-level profitability.

#### Retail protection to contribute from FY23 onwards

- Retail protection growth is facing challenges right now given the pandemic-induced environment, which has made underwriting strict.
- In retail protection, brand value matters a lot. The company stated that it doesn't require significant pricing advantage to compete effectively and capture the market opportunity.
- The company is not too concerned about the lumpiness of the group term protection business (employee-employer).
- As the company targets mass and mass affluent customers, growth may be higher in non-linked savings. As a result, the share of ULIPs may come down. However, the company does not have a specific target product mix for any segment, except protection, which it wants to increase.

#### On reinsurance price hike

- The company feels that it is inevitable as the protection penetration increases beyond the urban centres. Urban centres tend to have low mortality risk expectation but as the industry goes beyond these areas, the cost of mortality risk increases, which has to be factored into the pricing.
- The company took one price increase 18 months ago and is expected to see another round of increase in three months. It believes that price calibration will become an essential part of the overall protection growth strategy for the industry. However, price elasticity should not be a concern. Thin pricing in protection will restrict market growth and not justify the large opportunity.

#### Distribution

- In the new banca partnerships established recently, the company has 25-40% share at the shop level. The company is positive about growth in the newly established channels as insurance penetration increases (currently low).

#### Persistency

- The company is witnessing positive trends across product segments.

### BUY

Sector: Insurance

CMP: Rs605

Target Price: Rs817

Upside: 35%

**Raghav Garg, CFA**

 Research Analyst  
 raghav.garg@nirmalbang.com  
 +91-22-6273 8192

**Arjun Bagga**

 Research Associate  
 arjun.bagga@nirmalbang.com  
 +91-22-6273 8111

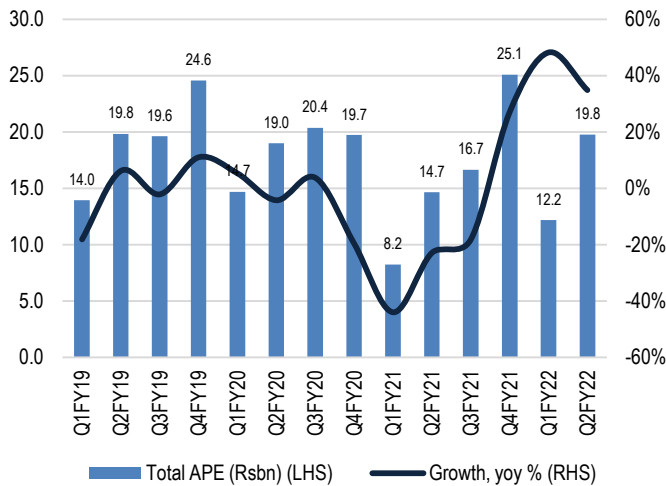
#### Key Data

Current Shares O/S (mn)	1,437.2
Mkt Cap (Rsbn/US\$bn)	883.1/11.9
52 Wk H / L (Rs)	725/411
Daily Vol. (3M NSE Avg.)	1,730,783

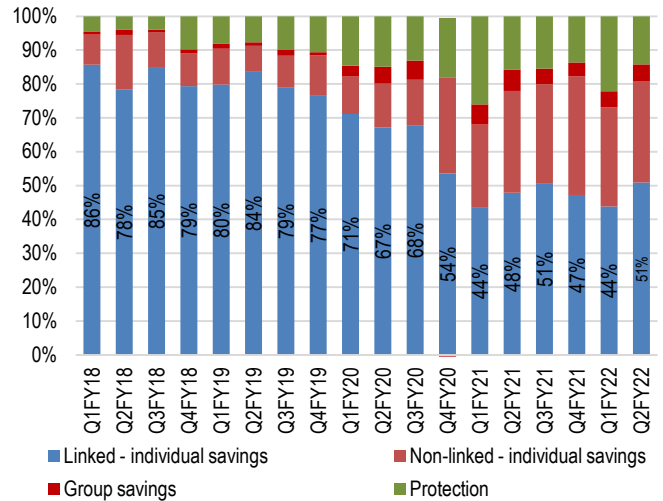
#### Price Performance (%)

	1 M	6 M	1 Yr
ICICI Pru Life	(1.0)	11.0	36.7
Nifty Index	(3.1)	15.5	34.4

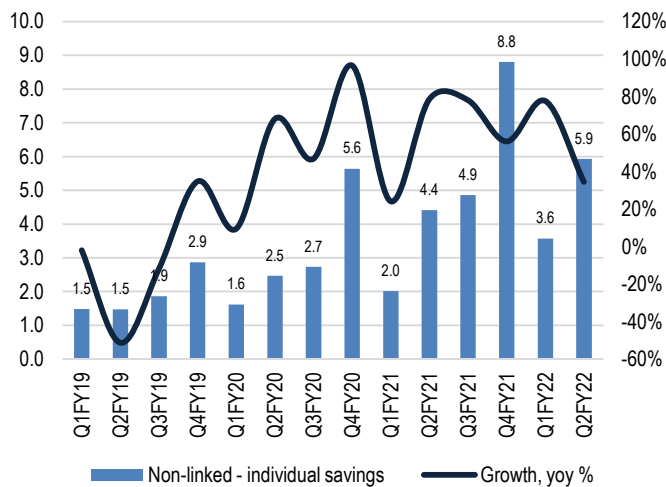
Source: Bloomberg

**Exhibit 1: Total APE**


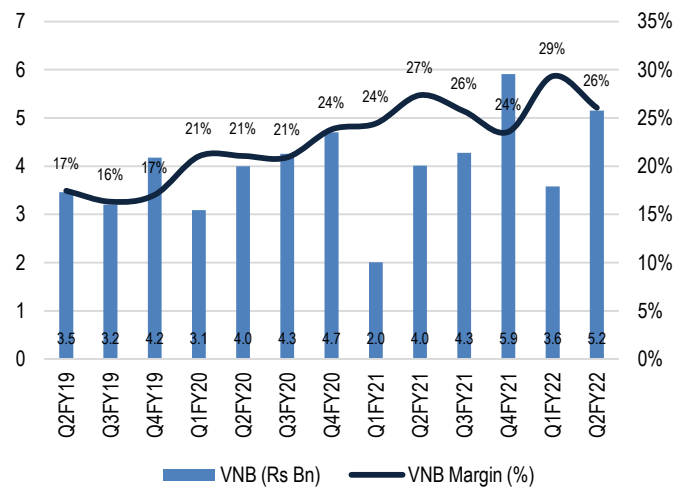
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Product mix (%) (APE)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Non-linked – savings business**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: VNB and VNB Margin**


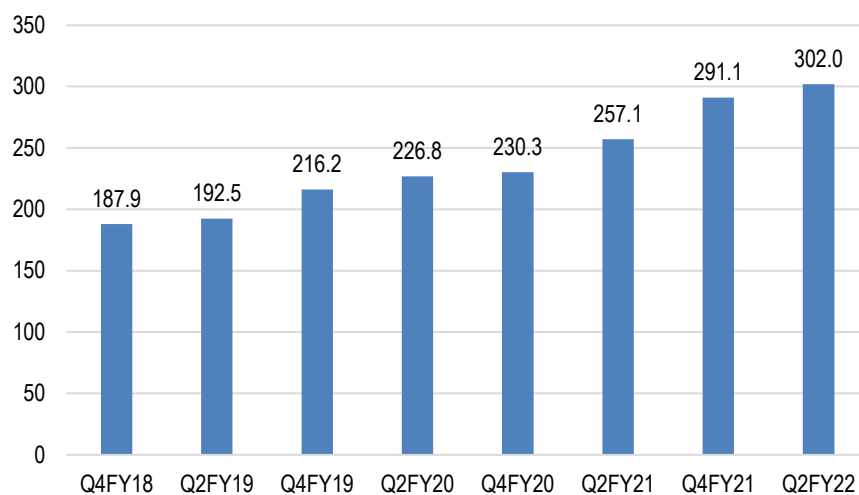
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Quarterly Distribution Channels breakup- APE (%)**

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Bancassurance	56.7%	57.0%	54.3%	52.4%	53.2%	53.6%	44.3%	39.6%	43.8%	41.9%	42.6%	38.6%	39.9%
Agency	22.3%	20.5%	22.0%	21.2%	19.8%	21.9%	21.7%	24.6%	22.7%	25.1%	23.4%	22.5%	24.3%
Direct	11.9%	11.2%	12.8%	12.8%	13.0%	11.7%	13.0%	12.3%	12.2%	13.3%	12.4%	13.1%	12.9%
Partnership Distribution	5.1%	5.6%	6.4%	6.8%	7.3%	7.2%	8.2%	8.6%	8.6%	7.7%	10.4%	8.4%	8.7%
Group	4.1%	5.7%	4.5%	6.8%	6.7%	5.6%	12.8%	14.9%	12.8%	12.1%	11.2%	17.4%	14.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>

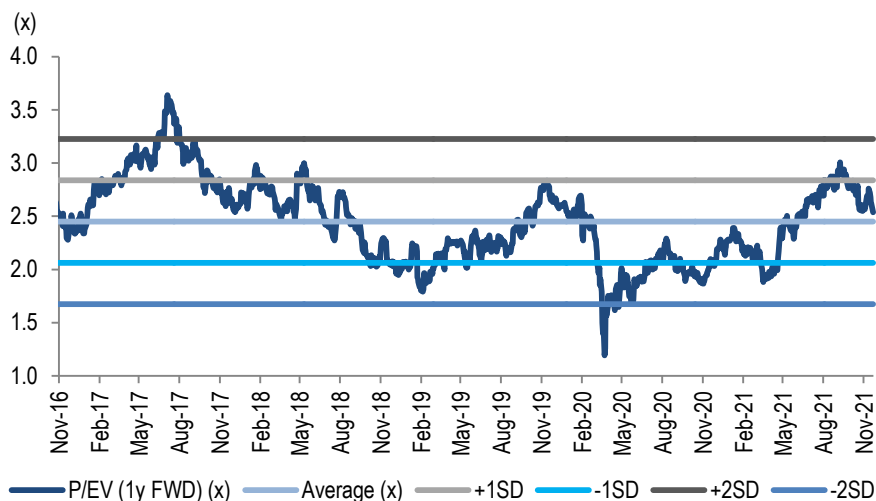
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Embedded Value**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: One-year forward P/EV**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 8: Revenue account**

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
-- First year premium (FYP)	65,078	51,872	62,856	73,677	84,862
-- Single premium (SP)	59,797	80,389	108,521	138,568	174,147
<b>NBP (new business premium)</b>	<b>124,875</b>	<b>132,261</b>	<b>171,377</b>	<b>212,244</b>	<b>259,009</b>
-- Renewal premium (RP)	209,432	225,068	228,495	241,543	262,559
<b>Gross premium</b>	<b>334,307</b>	<b>357,328</b>	<b>399,872</b>	<b>453,787</b>	<b>521,568</b>
(-) Reinsurance ceded	5,518	7,595	9,512	12,170	15,372
<b>Net premiums</b>	<b>328,790</b>	<b>349,734</b>	<b>390,360</b>	<b>441,617</b>	<b>506,196</b>
Income from investments and other income	-109,395	491,058	154,087	168,231	186,446
<b>Total income</b>	<b>219,395</b>	<b>840,791</b>	<b>544,447</b>	<b>609,849</b>	<b>692,643</b>
- Commission expenses	15,860	15,002	18,119	21,550	25,409
- Operating expenses	28,469	26,883	33,327	41,075	50,221
- Provision for doubtful debts and taxes	10,837	7,022	7,648	7,847	8,107
<b>Operating surplus</b>	<b>166,381</b>	<b>792,122</b>	<b>485,591</b>	<b>539,614</b>	<b>609,143</b>
- Benefits paid (net)	193,026	225,247	262,751	253,283	257,900
- Interim & terminal bonuses paid	740	1,162	1,766	2,204	2,775
- Change in reserves	-50,571	543,241	202,689	260,907	323,774
<b>Pre-tax surplus / (deficit)</b>	<b>23,185</b>	<b>22,472</b>	<b>18,384</b>	<b>23,219</b>	<b>24,694</b>
Provisions for tax	1,314	1,418	22	422	531
<b>Post-tax surplus / (deficit)</b>	<b>21,871</b>	<b>21,054</b>	<b>18,362</b>	<b>22,797</b>	<b>24,164</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: P&L account**

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
Transfer from technical account	19,887	19,849	18,311	21,801	22,912
Income from investments & other income	6,600	7,690	9,559	10,301	11,215
<b>Total income</b>	<b>26,487</b>	<b>27,538</b>	<b>27,870</b>	<b>32,102</b>	<b>34,127</b>
<b>Total expenses</b>	<b>15,799</b>	<b>16,724</b>	<b>17,660</b>	<b>17,713</b>	<b>17,770</b>
PBT	10,687	10,814	10,209	14,389	16,357
Provision for tax	0	1,213	1,021	1,439	1,636
<b>PAT</b>	<b>10,687</b>	<b>9,601</b>	<b>9,188</b>	<b>12,950</b>	<b>14,721</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Balance Sheet**

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of funds</b>					
<b>Shareholders' fund</b>	<b>72,185</b>	<b>91,194</b>	<b>97,619</b>	<b>106,684</b>	<b>116,989</b>
Policy liabilities	1,442,536	2,018,269	2,220,958	2,481,865	2,805,639
Funds for future appropriations	12,327	13,532	13,583	14,579	15,830
<b>Total</b>	<b>1,527,048</b>	<b>2,134,995</b>	<b>2,344,159</b>	<b>2,615,128</b>	<b>2,950,458</b>
<b>Application of Funds</b>					
Shareholders' investments	74,209	100,902	112,326	126,391	141,696
Policyholders' investments	467,503	635,726	785,070	988,243	1,243,955
Asset held to cover linked liabilities	970,850	1,385,491	1,435,201	1,492,935	1,560,997
Other assets	14,486	12,876	11,562	7,558	3,810
<b>Total</b>	<b>1,527,048</b>	<b>2,134,995</b>	<b>2,344,159</b>	<b>2,615,128</b>	<b>2,950,458</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Embedded Value table**

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Opening EV</b>	<b>216,230</b>	<b>230,310</b>	<b>291,080</b>	<b>323,380</b>	<b>366,213</b>
Unwind	17,250	16,610	20,958	23,283	26,367
VNB	16,050	16,210	19,099	23,434	28,027
Operating variance	-410	2,240	-5,000	0	0
<b>EV Operating Profit (EVOP)</b>	<b>32,890</b>	<b>35,060</b>	<b>35,057</b>	<b>46,718</b>	<b>54,394</b>
Non-operating variance	-14,760	25,670	0	0	0
<b>EV Profit</b>	<b>18,130</b>	<b>60,730</b>	<b>35,057</b>	<b>46,718</b>	<b>54,394</b>
Net capital injection	-4,050	40	-2,757	-3,885	-4,416
<b>Closing EV</b>	<b>230,310</b>	<b>291,080</b>	<b>323,380</b>	<b>366,213</b>	<b>416,190</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Key ratios**

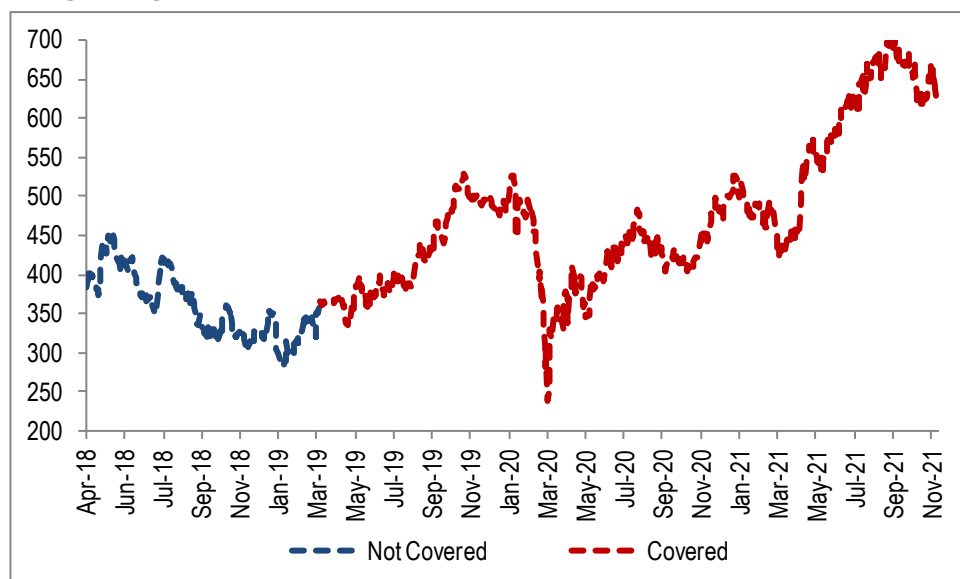
Y/E March	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth (%)</b>					
APE	-2.9	-15.7	23.0	18.8	16.8
Renewal premium	1.8	7.5	1.5	5.7	8.7
Net premium	7.5	6.4	11.6	13.1	14.6
PAT	-6.3	-10.2	-4.3	40.9	13.7
Total AUM	-4.9	40.3	9.9	11.8	13.0
Total Assets	-4.2	39.8	9.8	11.6	12.8
<b>Expense analysis (%)</b>					
Commission ratio	4.7	4.2	4.5	4.7	4.9
Opex ratio	8.5	7.5	8.3	9.1	9.6
Claims ratio	58.7	64.4	67.3	57.4	50.9
<b>Profitability analysis (%)</b>					
RoA	0.7	0.5	0.4	0.5	0.5
RoE	15.0	11.8	9.7	12.7	13.2
RoEV	15.2	15.2	12.0	14.4	14.9
VNB margin	21.7	25.1	25.9	26.8	27.4
S/hs' AUM yield	5.6	6.5	6.5	6.5	6.5
P/hs' AUM yield	-8.3	33.0	6.7	6.8	6.8
<b>Per share data (Rs)</b>					
EPS	7	7	6	9	10
BVPS	50	64	68	74	81
EVPS	160	203	225	255	290
<b>Valuation data (x)</b>					
P/E	88.7	98.7	103.1	73.2	64.4
P/BV	13.1	10.4	9.7	8.9	8.1
P/EV	4.1	3.3	2.9	2.6	2.3

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 April 2019	Buy	366	453
25 April 2019	Buy	363	462
8 July 2019	Buy	398	462
25 July 2019	Buy	383	455
7 October 2019	Buy	454	501
23 October 2019	Buy	485	565
8 January 2020	Buy	482	565
22 January 2020	Buy	490	569
27 March 2020	Buy	323	416
9 April 2020	Buy	341	416
27 April 2020	Buy	338	391
9 July 2020	Buy	428	499
22 July 2020	Buy	443	512
23 September 2020	Buy	403	534
7 October 2020	Buy	431	528
28 October 2020	Buy	413	534
26 November 2020	Buy	448	534
08 January 2021	Accumulate	510	577
28 January 2021	Accumulate	499	565
21 February 2021	Buy	485	565
20 April 2021	Buy	452	624
21 July 2021	Buy	604	710
2 September 2021	Buy	678	818
26 September 2021	Buy	674	818
20 October 2021	Buy	659	817
24 November 2021	Buy	605	817

## Rating track graph



## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010