

ICICI Prudential Life Insurance Company

02 September 2021

Reuters: ICIR.NS; Bloomberg: IPRU IN

Renewed product mix makes growth resilient; valuation is supportive

ICICI Prudential Life Insurance's (IPru Life) 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 come down to 44%. A more prudent product mix, coupled with new distribution tie-ups should aid 19% APE CAGR over FY21-24E. Retail protection, where growth rate has been impacted, will be a key growth enabler as underwriting constraints ease and term penetration deepens. Notwithstanding the transient challenges posed by covid-19, the retail term opportunity remains large. Higher rider attachment rates should enhance protection profitability. We are building in ~22% CAGR in protection APE over FY21-24E. Overall, we expect 20% CAGR in VNB over FY21-24E, led by cumulative margin expansion of 272bps over the FY21 base of 25.1% and 19% APE CAGR. We have raised our EV multiple to reflect (1) the superior product profile translating into higher growth and margin (2) strong market positioning and brand equity. We roll forward our valuation basis to 1HFY24E and raise our target price (TP) by 15% to Rs818 (Rs710 earlier), valuing it at 3x 1HFY24E (2.8x before). We retain BUY on the stock. On FY23E EV, IPru Life remains the cheapest in the life insurance space, trading at 2.7x compared to 2.8x for SBI Life, 2.8x for Max Financial (Max Life) and 4.2x for HDFC Life.

Higher non-linked orientation will support VNB growth: We expect margin to expand by 272bps cumulatively over FY21-24E to 27.8%, led by higher growth in the non-linked segment. We are factoring in ~22% CAGR each in protection and non-linked savings APE. While protection growth will be driven by easing underwriting constraints posed by the current covid situation, non-linked savings segment is expected to see higher traction (than in the past) on the back of demand for fixed-income products. By FY24E, VNB contribution from non-linked products is expected to increase to 85% vs 78% in FY21. Higher rider attachment rates on term plans should support VNB growth as critical illness riders are known to improve protection margins significantly. We expect FY23E VNB of Rs22.1bn (management target: Rs26.5bn).

Diversified product mix lends stability amid market volatility: Historically, the company's business mix was dominated by linked products. Up to FY19, linked products used to account for 80% or more of the total sales. Taking cognizance of the sales growth impact due to high correlation with equity market performance, the company brought down the share of linked products to 49% in FY21 (1QFY22: 44%). At the same time, the share of non-linked savings products has increased significantly from 10% in FY19 to 34% in FY21. Earlier, the company had been averse to taking long-dated balance sheet risks embedded in guaranteed products due to lack of hedging options. Recently, we have seen that the company has been more comfortable in underwriting guaranteed products in FY21 due to better availability of hedging instruments (primarily FRAs). In line with its renewed product strategy, the company launched a new guaranteed return savings product (GIFT) in Feb'21 and expanded the tenor to ~20 years (compared to maximum of 15 years earlier). Our estimates imply non-linked (savings + protection) APE contribution of 59% to the total business by FY24E, an increase of 783bps over FY21. With a more diverse product mix, growth is expected to be less vulnerable to equity market performance and margin accretive. In FY21, annuity premium grew by 120%.

Total net claims due to covid-19 were Rs5bn in 1QFY22. The company held provisions of Rs4.98bn for future covid claims, including IBNR. Total additional provisions created in 1QFY22 stood at Rs6.7bn. The management is of the opinion that its reserving policy has been conservative.

Retail protection growth to pick up pace: We expect protection growth to pick up to 25% (p.a.) level from FY23E onwards as underwriting constraints related to physical-medical ease. However, severe subsequent covid waves would be a risk to our protection growth assumption. Taking a long-term view, we are sanguine about the category's growth prospects given the low penetration and potential for top-ups as aggregate income levels increase. It is estimated that the current retail protection penetration, among the addressable population, is only 10%. India's sum assured to GDP ratio stands at 19% compared to 113-273% for peer countries. India's protection gap is estimated at 83% compared to 55-61% for peer countries. What makes us positive on retail protection growth trajectory? (1) As current headwinds subside, IPru Life, with an estimated retail protection market share of 25-30%, would stand to gain naturally (2) ICICI Bank is one of the largest distributors of retail protection in the country.

We expect overall protection APE CAGR of 22% over FY21-24E with its share in total business increasing to 19% by FY24E compared to 17% in FY21. The management stated that the share of protection could increase to 20% or more in the next 3-5 years.

Higher contribution from new distribution channels: FY22E will have the benefit of higher full-year contribution from new partnerships established in 2HFY21. These partnerships, which include IndusInd Bank, RBL Bank, AU Small Finance Bank, among others, are expected to drive banca-sales growth. The new tie-ups have increased the addressable customer base by 40% to 162mn compared to 116mn earlier. The share of non-ICICI Bank banca partners was 11% in 1QFY22. We (subjectively) assess that the company enjoys some sort of a competitive advantage in 10 of the 23 banca partnerships it has. In the rest of the banca channels, we remain cognizant of rising competition from other large players.

Why we think IPru Life deserves a higher multiple? (1) Superior current margin profile, nearly as good as HDFC Life, with further scope for improvement on the back of higher growth in non-linked (2) a more resilient growth profile, not as much vulnerable to market volatility as in the past (3) large market share in retail term protection (large market opportunity) complemented by higher rider attachment rates.

BUY

Sector: Insurance

CMP: Rs678

Target Price: Rs818

Upside: 21%

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

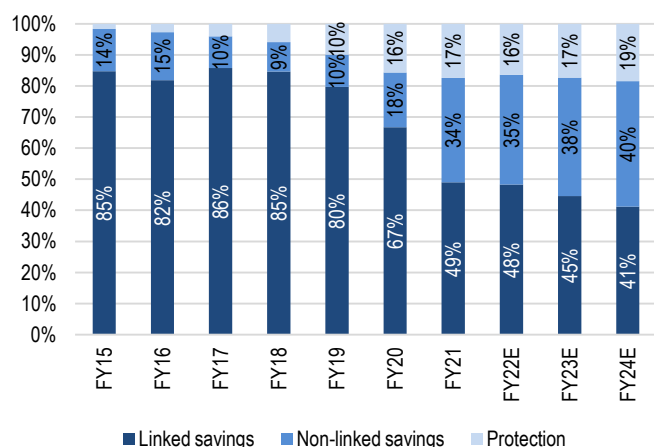
Current Shares O/S (mn)	1,436.5
Mkt Cap (Rsbn/US\$bn)	956.9/13.1
52 Wk H / L (Rs)	695/398
Daily Vol. (3M NSE Avg.)	1,897,552

Price Performance (%)

	1 M	6 M	1 Yr
ICICI PruLife	5.1	39.6	52.1
Nifty Index	8.4	15.4	49.2

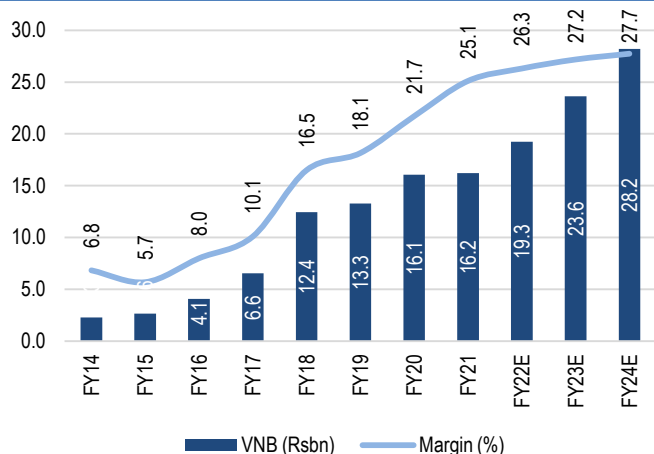
Source: Bloomberg

Exhibit 1: APE mix – to increase in favor of non-linked



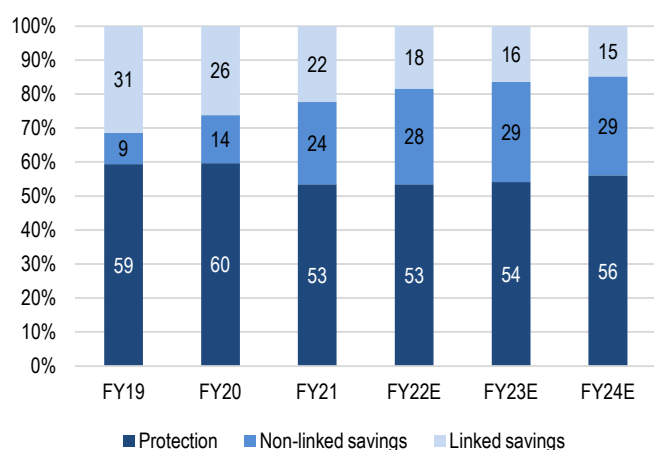
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: VNB - will be driven by margin expansion and APE growth



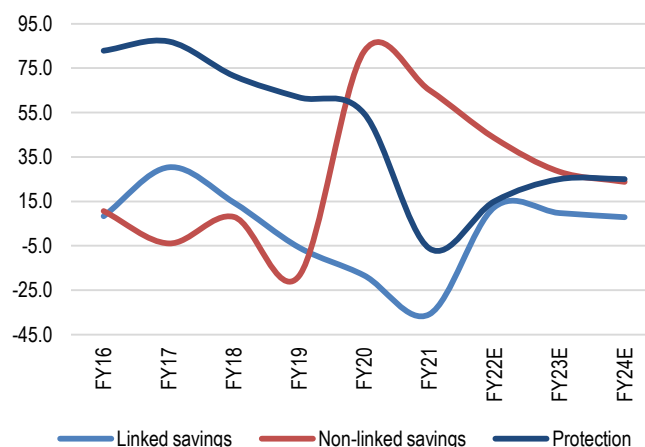
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: VNB mix (%)



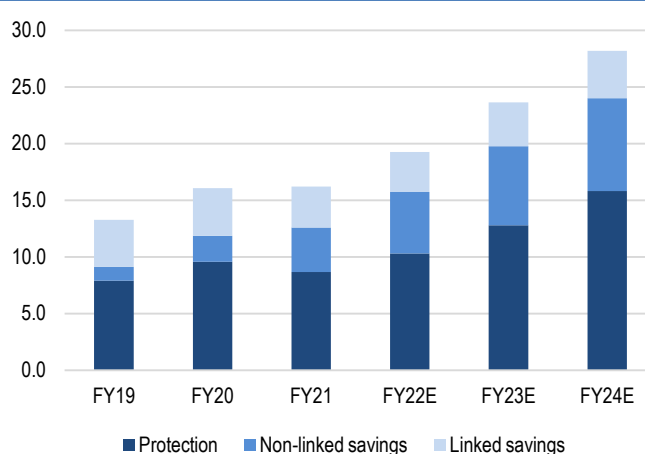
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment wise growth – non-linked to grow at a higher rate



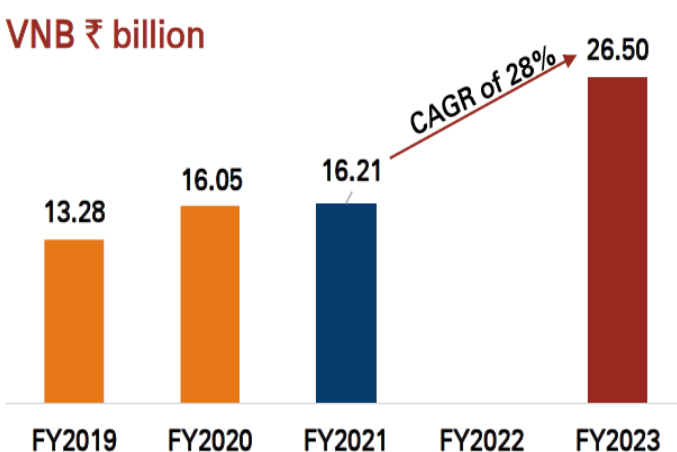
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: VNB mix (Rsbn) – higher contribution from non-linked savings and protection



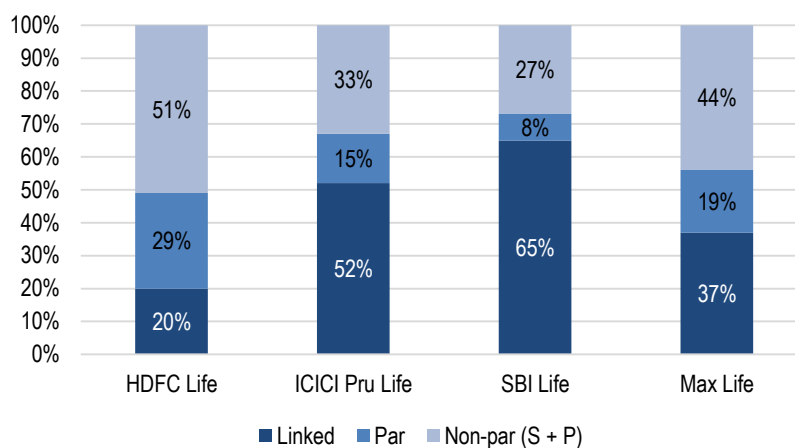
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Management targeting Rs26.5bn VNB in FY23



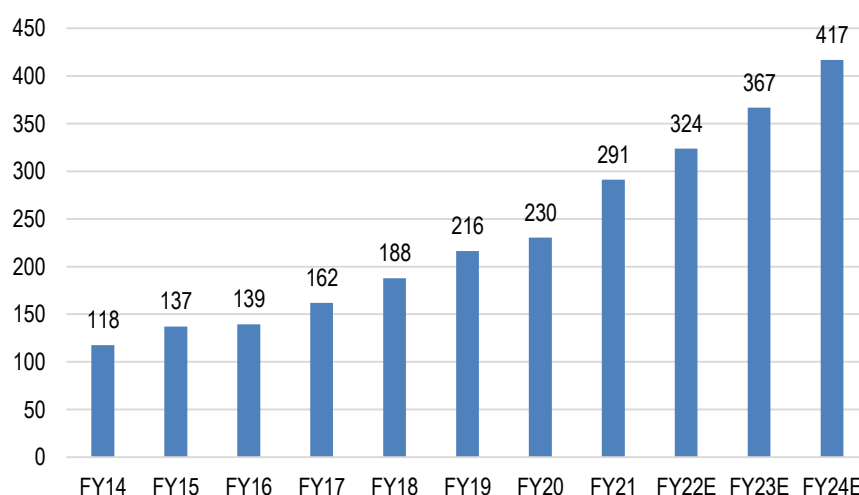
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Product mix comparison (FY21) – further scope to bring down share of linked business



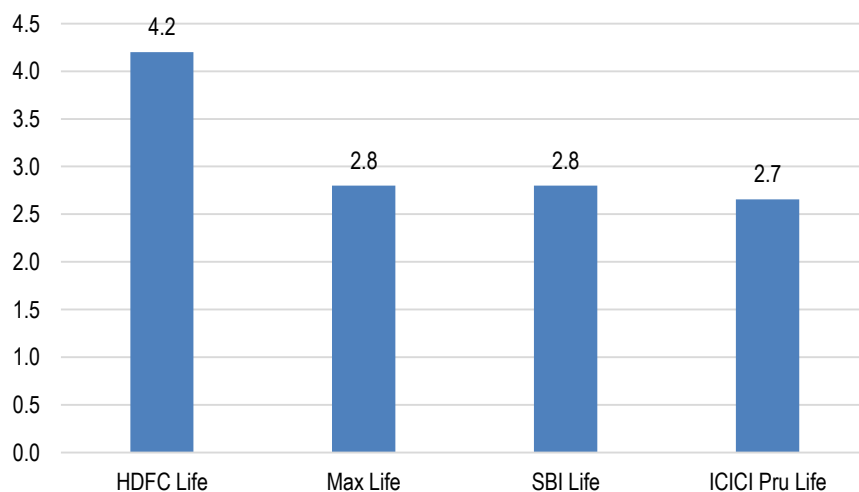
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Embedded value



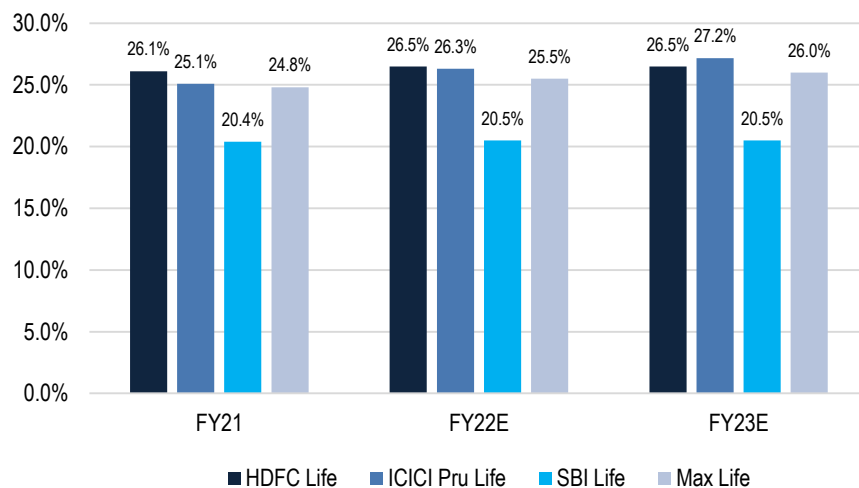
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Peer valuations - P/EV (x) (FY23E)



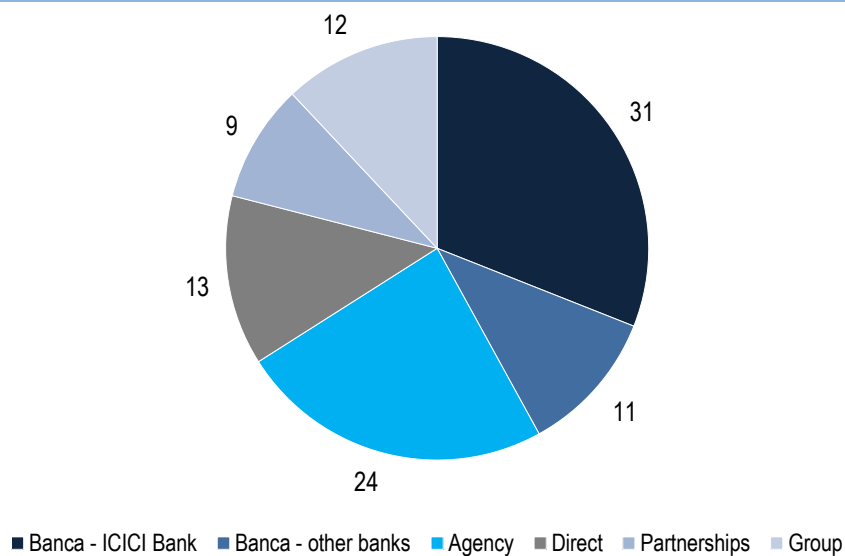
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: VNB margin comparison (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Channel mix (%) (FY21)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Banca partnerships – Competitive position is strong in 10 out of 23 banca tie-ups

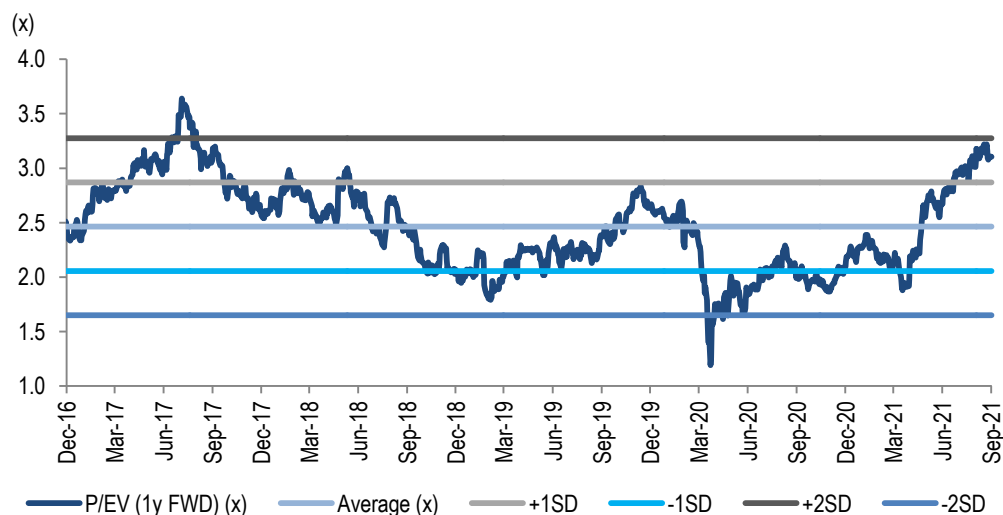
S. No.	Corporate agent	Life insurance tie-up 1	Life insurance tie-up 2	Life insurance tie-up 3	Competitive position
1	Icici Bank Limited	ICICI Pru Life Insurance			Strong - only player
2	Standard Chartered Bank	ICICI Pru Life Insurance			Strong - only player
3	Nsdl Payments Bank Limited	ICICI Pru Life Insurance			Strong - only player
4	Au Small Finance Bank Ltd	ICICI Pru Life Insurance	Future Generali Life Insurance		Strong - other tie up is weak
5	Fino Payments Bank Limited	ICICI Pru Life Insurance	Exide Life Insurance		Strong - other tie up is weak
6	Hero Fincorp Limited	ICICI Pru Life Insurance	Kotak Mahindra Life Insurance		Stronger of the two players
7	Phonepe Private Limited	ICICI Pru Life Insurance	Bajaj Allianz Life Insurance		Stronger of the two players
8	Home Credit India Finance Private Limited	ICICI Pru Life Insurance	Bajaj Allianz Life Insurance		Stronger of the two players
9	Indusind Bank Limited	ICICI Pru Life Insurance	Tata Aia Life Insurance		Strong in non-par savings, not as strong in protection as TATA's protection rates are lower
10	Airtel Payments Bank Limited	ICICI Pru Life Insurance	Bharti Axa Life Insurance	Kotak Mahindra Life Insurance	Strongest among the group
11	Idfc First Bank Ltd.	ICICI Pru Life Insurance	Hdfc Life Insurance	Bajaj Allianz Life Insurance	Can be weak due to high competition
12	Rbl Bank Ltd	ICICI Pru Life Insurance	Hdfc Life Insurance	Bajaj Allianz Life Insurance	Can be weak due to high competition
13	Equitas Small Finance Bank Limited	ICICI Pru Life Insurance	Hdfc Life Insurance	Reliance Nippon Life Insurance	Can be weak due to high competition
14	Aavas Financiers Limited	ICICI Pru Life Insurance	Bajaj Allianz Life Insurance	Bharti Axa Life Insurance	Can be weak due to high competition
15	Jana Small Finance Bank Ltd	ICICI Pru Life Insurance	Bajaj Allianz Life Insurance		Can be weak due to high competition
16	Csb Bank Limited	ICICI Pru Life Insurance	Edelweiss Tokio Life Insurance	Hdfc Life Insurance	Can be weak due to high competition
17	Icici Securities Limited	ICICI Pru Life Insurance	Hdfc Life Insurance		Can be weak due to high competition
18	Utkarsh Small Finance Bank Limited	ICICI Pru Life Insurance	Shriram Life Insurance	Hdfc Life Insurance	Can be weak due to high competition
19	Easy Home Finance Limited	ICICI Pru Life Insurance	Hdfc Life Insurance		Can be weak due to high competition
20	Capital Small Finance Bank Limited	ICICI Pru Life Insurance	Hdfc Life Insurance		Can be weak due to high competition
21	The Saraswat Cooperative Bank Ltd	ICICI Pru Life Insurance	Future Generali Life Insurance	Hdfc Life Insurance	Can be weak due to high competition
22	Creditaccess Grameen Limited	ICICI Pru Life Insurance	Kotak Mahindra Life Insurance	Hdfc Life Insurance	Can be weak due to high competition
23	Sundaram Finance Limited	ICICI Pru Life Insurance	Life Insurance Corporation Of India	Kotak Mahindra Life Insurance	More affluent CV customers - there can be an opportunity to sell protection and non-par savings

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Change in our estimates

	Revised estimate			Earlier estimate		% Revision	
	FY22E	FY23E	FY24E (new)	FY22E	FY23E	FY22E	FY23E
APE	73,208	86,985	1,01,686	73,091	87,710	0.2	(0.8)
VNB	19,251	23,631	28,284	19,465	24,052	(1.1)	(1.8)
VNB margin (%)	26.3	27.2	27.8	26.6	27.4	-30bps	-23bps
EV	3,23,542	3,66,599	4,16,886	3,22,592	3,64,084	0.3	0.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: One-year forward P/EV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 15: Revenue account

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
FYP (first year premium)	65,078	51,872	62,426	73,205	84,352
SP (single premium)	59,797	80,389	1,07,813	1,37,806	1,73,332
NBP (new business premium)	1,24,875	1,32,261	1,70,239	2,11,011	2,57,685
RP (renewal premium)	2,09,432	2,25,068	2,28,495	2,41,197	2,61,901
Gross premium	3,34,307	3,57,328	3,98,734	4,52,208	5,19,586
(-) Reinsurance ceded	5,518	7,595	9,508	12,164	15,365
Net premiums	3,28,790	3,49,734	3,89,226	4,40,044	5,04,220
Income from investments	-1,09,395	4,91,058	1,54,087	1,68,199	1,86,374
Total income	2,19,395	8,40,791	5,43,313	6,08,243	6,90,594
- Commission expenses	15,860	15,002	18,056	21,476	25,326
- Operating expenses	28,469	26,883	33,327	41,075	50,221
- Provision for doubtful debts and taxes	10,837	7,022	7,635	7,826	8,076
Operating surplus	1,66,381	7,92,122	4,84,534	5,38,104	6,07,208
- Benefits paid (net)	1,93,026	2,25,247	2,62,751	2,53,135	2,57,587
- Interim & terminal bonuses paid	740	1,162	1,766	2,204	2,775
- Change in reserves	-50,571	5,43,241	2,01,667	2,59,604	3,22,237
Pre-tax surplus / (deficit)	23,185	22,472	18,349	23,161	24,610
Provisions for tax	1,314	1,418	22	422	531
Post-tax surplus / (deficit)	21,871	21,054	18,328	22,739	24,079

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: P&L account

Y/E March (RsMn)	FY20	FY21	FY22E	FY23E	FY24E
Transfer from technical account	19,887	19,849	18,277	21,742	22,828
Income from investments	6,600	7,690	9,559	10,300	11,212
Total income	26,487	27,538	27,835	32,042	34,039
Total expenses	15,799	16,724	17,660	17,713	17,770
PBT	10,687	10,814	10,175	14,329	16,269
Provision for tax	0	1,213	1,017	1,433	1,627
PAT	10,687	9,601	9,157	12,896	14,642

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance Sheet

Y/E March (RsMn)	FY20	FY21	FY22E	FY23E	FY24E
Sources of funds					
Shareholders' fund	72,185	91,194	97,597	1,06,624	1,16,873
Policy liabilities	14,42,536	20,18,269	22,19,935	24,79,539	28,01,776
Funds for future appropriations	12,327	13,532	13,583	14,579	15,830
Total	15,27,048	21,34,995	23,43,115	26,12,743	29,46,481
Application of Funds					
Shareholders' investments	74,209	1,00,902	1,12,304	1,26,332	1,41,581
Policyholders' investments	4,67,503	6,35,726	7,85,065	9,88,231	12,43,936
Asset held to cover linked liabilities	9,70,850	13,85,491	14,34,184	14,90,621	15,57,154
Other assets	14,486	12,876	11,562	7,558	3,810
Total	15,27,048	21,34,995	23,43,115	26,12,743	29,46,481

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Embedded value table

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Opening EV	2,16,230	2,30,310	2,91,080	3,23,542	3,66,599
Unwind	17,250	16,610	20,958	23,295	26,395
VNB	16,050	16,210	19,251	23,631	28,284
Operating variance	-410	2,240	-5,000	0	0
EV Operating Profit (EVOP)	32,890	35,060	35,209	46,926	54,679
Non-operating variance	-14,760	25,670	0	0	0
EV Profit	18,130	60,730	35,209	46,926	54,679
Net capital injection	-4,050	40	-2,747	-3,869	-4,393
Closing EV	2,30,310	2,91,080	3,23,542	3,66,599	4,16,886

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Key ratios

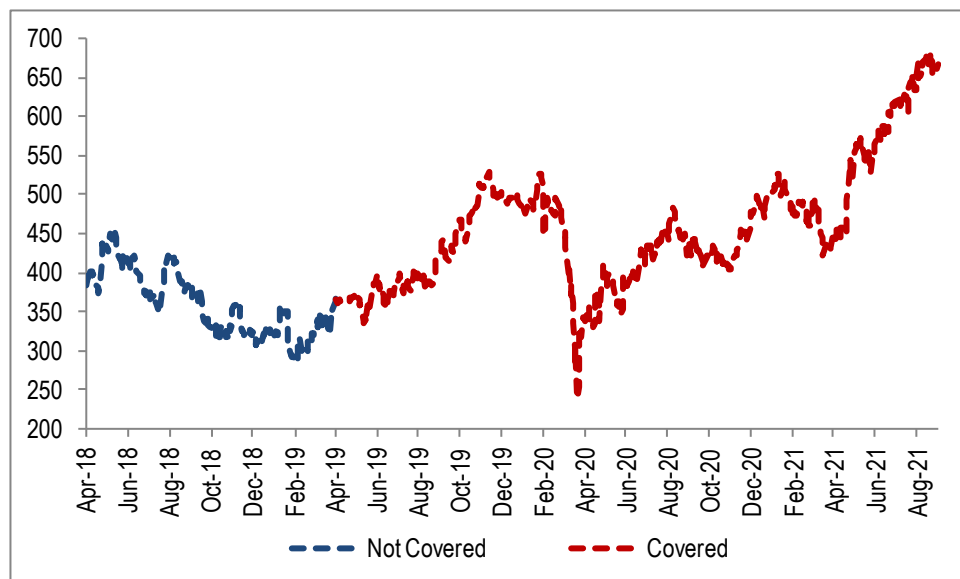
Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Growth (%)					
APE	-2.9	-15.7	22.2	18.8	16.9
Renewal premium	1.8	7.5	1.5	5.6	8.6
Net premium	7.5	6.4	11.3	13.1	14.6
PAT	-6.3	-10.2	-4.6	40.8	13.5
Total AUM	-4.9	40.3	9.9	11.7	13.0
Total Assets	-4.2	39.8	9.7	11.5	12.8
Expense analysis (%)					
Commission ratio	4.7	4.2	4.5	4.7	4.9
Opex ratio	8.5	7.5	8.4	9.1	9.7
Claims ratio	58.7	64.4	67.5	57.5	51.1
Profitability analysis (%)					
RoA	0.7	0.5	0.4	0.5	0.5
RoE	15.0	11.8	9.7	12.6	13.1
RoEV	15.2	15.2	12.1	14.5	14.9
VNB margin	21.7	25.1	26.3	27.2	27.8
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
Per share data (Rs)					
EPS	7	7	6	9	10
BVPS	50	64	68	74	81
EVPS	160	203	225	255	290
Valuation data (x)					
P/E	91.1	101.4	106.3	75.5	66.5
P/BV	13.5	10.7	10.0	9.1	8.3
P/EV	4.2	3.3	3.0	2.7	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

Rating track graph



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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	-
GirishPai	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