

Sector: Banks & Finance

Event Update

	Change
View: Positive	↔
CMP: Rs. 446	
Upside potential: 12-15%	↓
↑ Upgrade ↔ No change ↓ Downgrade	

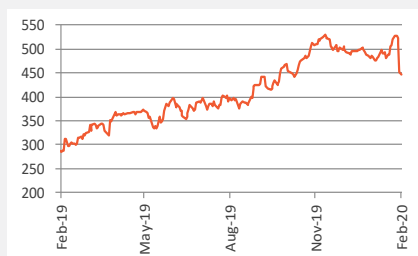
Company details

Market cap:	Rs. 64053 cr
52-week high/low:	Rs. 537/278
NSE volume: (No of shares)	26.4 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Sharekhan code:	ICICIPRULI
Free float: (No of shares)	35.9 cr

Shareholding (%)

Promoters	75.0
FII	6.0
DII	12.1
Others	6.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.9	0.1	27.4	79.8
Relative to Sensex	7.3	-1.4	16.9	58.3

Sharekhan Research, Bloomberg

The Union Budget brought in significant changes for life insurance players. Changes such as 1) option of new personal income tax regime by foregoing exemptions (such as HRA, interest on home loan, investments under 80C etc.) reduce tax-saving advantages that attract customer to insurance (PAR, ULIP schemes etc.); and 2) so far insurance companies enjoyed tax exemption on dividend income, which may see an increase in their effect tax rate (ETR) due to abolition of Dividend Distribution Tax (DDT). Policy changes would impact life insurance in two ways: 1) slowdown in business growth and premium collections; and 2) adverse impact on new business margins (NBP) and embedded value. Though it is not possible to accurately quantify the impact as it would depend on customer behaviour and the response of insurance companies to deal with the policy changes, valuation multiples are getting de-rated based on rough working of approximately 75-80 BPS impact on NBP for ICICI Prudential Life (IPRU), which has ~70% exposure to investment-linked products such as ULIP, is expected to be severely impacted by the new norms. However, a large part of this de-rating is already factored in the recent sharp correction. We have conservatively fine-tuned our FY2022E EV estimates and the valuation multiples for the stock under the changed scenario. We maintain our Positive view and expect 12-15% upsides from current levels.

DDT – its impact on effective tax rate: So far, insurance companies enjoyed tax exemption on dividend income. With the abolition of DDT, their effective tax rates may increase henceforth; however, the impact of the same is unclear at this stage. However, IPRU may explore provisions u/s 80M of Income Tax Act to cushion the overall impact on its ETR. Under the revised section 80M (of the Income Tax Act), a dividend paying company can avail deduction to the extent of dividend received or distributed, whichever is less.

Direct Tax Code (DTC) – Slower growth ahead: The proposed DTC gives no exemptions/deductions and, hence, removes compulsion (or incentive) for investments in ULIP schemes etc. to avail benefits u/s 80C of the Income Tax Act. This may result in subdued growth, especially in the high-margin investment-related product business of insurance players. The exact magnitude of the impact will depend on the quantum of shift to the new regime. Even though IPRU has a high dependence on such products (~70% of APE), it also has a significant affluent customer base (high average ticket size of ~Rs. 1.8 Lakh; more than required investment deduction) for ~70% of its ULIP customers. Moreover, while Q4 seasonally sees a brisk business (due to rush for tax-saving investments), over the past few years, the proportion of premium in Q4 to full-year premium is showing declining trends for most listed insurers. This indicates factors such as financial awareness, and consumers buying insurance for the right reasons (protection, life stage planning and retirement/emergencies) rather than just for tax-saving purposes. All this is gaining ground and will act as counter-balance.

Our Call

IPRU is available at 2.4x its FY2022E EV, which we believe is reasonable given the quality of the franchise and business metrics. Headwinds emerge with the removal of major exemptions/deductions under the new tax regime (will likely impact sales) and the removal of DDT will result in higher ETR for life insurers (will adversely impact EV, VNB margins especially those having higher ULIPs proportion). Pending clarity from the company's managements on these developments, we believe while the structural story for the insurance sector is intact, near-term stock performance may remain volatile. We maintain our Positive view on the stock with a revised upside potential of 12-15%.

Key Risks

Adverse change in regulatory policies/guidelines may impact IPRU's profitability and growth.

Valuation

Particulars	FY19	FY20E	FY21E	FY22E
EV (Rs Cr)	21,623	24,326	27,488	31,144
VNB Margins (%)	17.0	16.0	16.0	16.0
Networth (Rs Cr)	6,884	7,619	8,535	9,543
PAT (Rs Cr)	1,141	980	1,221	1,343
Operating RoEV (%)	20.2	15.5	16.0	16.3
P/EV	3.5	3.1	2.7	2.4

Source: Company; Sharekhan estimates

About company

ICICI Prudential Life Insurance Company is a joint venture (Incorporated in July 2000) and provides life insurance, pensions and health insurance to individuals and groups. These are distributed through individual agents, corporate agents, banks, brokers, the company's proprietary sales force and its website. It is the third largest private sector Life Insurance Company in the country and has a 4% market share in the industry. It distributes its products through a large pan-India network of individual agents, corporate agents, banks, brokers, along with the company's proprietary sales force and its website. It is the third largest private sector Life Insurance Company in the country and has ~9% market share in the industry.

Investment theme

The company reiterated its strategy to make the business model more resilient in the long term. As part of this, it would be focusing on less affluent or mass market customers too, while continuing to maintain its strong market positioning amongst the more affluent class. As part of this strategy, the company has introduced lower ticket size products. The Company has strong balance sheet with an excellent capital positioning, which leads solvency ratio to 217% compared to the IRDAI-prescribed control level of 150%. It also has one of the best persistency ratio (61st month) of 57.3% among the other players. The opex ratio for ICICI Pru is at 8.5% for FY19, this is one of the best in the industry. Like the rest of the ICICI Group, ICICI Pru has an effective digital strategy that feeds into low opex ratio. As a result, total expense ratio for ICICI Pru is one of the best compared to peers.

Key Risks

Adverse change in regulatory policies/guidelines may impact IPRU's profitability and growth

Additional Data

Key management personnel

Mr. N. S. Kannan	Managing Director & Chief Executive Officer
Mr. Puneet Nanda	Deputy Managing Director
Mr. Manish Kumar	Chief Investment Officer
Mr. Satyan Jambunathan	Chief Financial Officer
Mr. Deepak Kinger	Chief Risk & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL HOLDINGS LTD	22.11
2	SBI Funds Management Pvt Ltd	2.73
3	COMPASSVALE INVS PVT LTD	2
4	Valla Ltd	1.73
5	Amansa Holdings Pvt Ltd	1.08
6	Vanguard Group Inc/The	0.8
7	Baillie Gifford & Co	0.77
8	BlackRock Inc	0.71
9	Nomura Holdings Inc	0.49
10	Franklin Resources Inc	0.42

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.