

May 4, 2018 06:34 PM GMT

## ICICI Prudential Life Insurance

## Correction: 10 Focus Charts – An Underappreciated Franchise

📈 Stock Rating	👁 Industry View	🎯 Price Target
Overweight	Attractive	Rs585.00

We present 10 charts, showcasing IPRU's strong franchise. We stay bullish, helped by strong persistency and higher protection mix, and raise our VNB estimates by 13-15% post a strong F2018. Valuation is attractive at 19x F2020e VNB. Revised PT implies 37% upside. Top 3 insurance pick in Asia.

WHAT'S CHANGED?	ICICI Prudential Life Insurance (ICIR.NS)	From:	To:
	Price Target	Rs540.00	<b>Rs585.00</b>
	F2019E/F2020E VNB		<b>+15%/+13%</b>

**ICICI Pru stock is up only ~7% over the past one year (vs. 14% for Bankex):** This in the context of a ~30% beat to our F18 VNB estimate during the same period leads us to believe that the market is likely under appreciating the strong franchise and/or does not have high visibility that the strong earnings trend will sustain - we remain convinced and see margins ~20% by F2020e.

**The key driver will be strong focus/execution on protection:** The past four years has seen a 40% CAGR in new sum assured ([Exhibit 1](#)) with ~70% of protection business being individual retail business (as of F18). In fact, it is the India's market leader in individual retail protection ([Exhibit 2](#)) with growth of 49% YoY in F2018 vs. 63% for HDFC Life and a decline of 32% at SBI Life. More importantly, the retail protection distribution mix is well balanced and not driven by high dependence on web aggregators ([Exhibit 3](#)).

**Further, potential impact of weaker equity markets on VNB growth will be lower than what market fears, we believe:** As seen in [Exhibit 4](#), even if we were to moderate ULIP growth from 13% CAGR (base case) to 7.5% over next two years, VNB growth will remain healthy at 22% CAGR (vs. 25% earlier). Key, in our view, would be persistency trend and we believe it will remain strong. IPRU has the highest persistency amongst large players ([Exhibit 5](#)), which is also less volatile among various distribution channels/products segments ([Exhibit 6](#)), unlike peers. Moreover, current assumptions in VNB margins on ULIP persistency are conservative and offer room to improve margins ([Exhibit 7](#) and [Exhibit 8](#)).

**Raising VNB estimates by 15% for F2019 and 13% for F2020; Revised PT of Rs585 implies 37% upside.** Valuation at 19x F2020e VNB, 2.5x F2020e EV is attractive. We see relatively lower regulatory risk for IPRU from: a) potential lowering of surrender charges given lower share of traditional products ([Exhibit 9](#); see our [report](#)); and b) potential change in corporate income tax rates ([Exhibit](#)

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## ICICI Prudential Life Insurance (ICIR.NS, IPRU IN)

## India Financials / India

Stock Rating	Overweight
Industry View	Attractive
Price target	Rs585.00
Up/downside to price target (%)	35
Shr price, close (May 4, 2018)	Rs434.05
52-Week Range	Rs506.76-363.20
Mkt cap, curr (bn)	US\$9.3
Avg daily trading value (mn)	US\$8

Fiscal Year Ending	03/18	03/19e	03/20e	03/21e
ModelWare EPS (Rs)	11.28	9.83	10.94	12.62
Prior ModelWare EPS (Rs)	-	-	-	-
Life Emb Val (Rs bn)	187.9	211.2	240.5	276.9
NB profit (Rs mn)	12,860	16,368	20,046	24,090
Common divs (Rs mn)	11,880	11,286	10,722	10,186
Life ROEV (%)	18.0	18.4	19.0	19.4
Price to embedded value, basic, life	2.9	3.0	2.6	2.2

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework  
e = Morgan Stanley Research estimates

## Relevant Research:

[Asia Insurance: China and India: Most preferred markets among Asian insurers](#)

[ICICI Prudential Life Insurance: Big Margin Beat despite no change in Persistency Assumptions](#)

[ICICI Prudential Life Insurance: Why We Remain OW Despite High Valuation](#)

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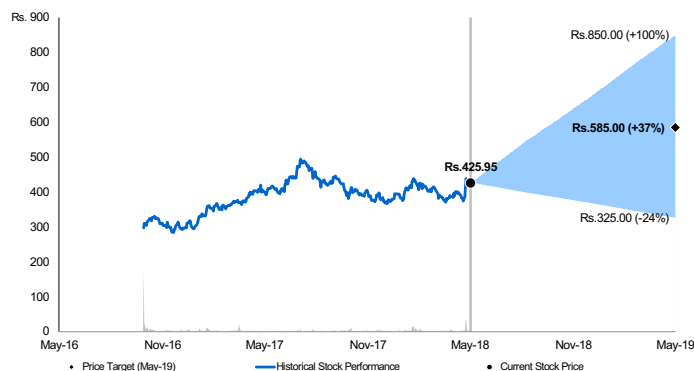
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10).

*We have made corrections/additions to Exhibit 2 in the 10 Focus Charts – Why IPRU Is an Underappreciated Franchise section of this article. This article was originally published on May 4, 2018, 10:15 AM GMT, and is being republished on May 5, 2018. Pricing data and disclosures reflect original publication date. To receive an electronic copy of the original version of this publication, please send an e-mail to [Equity\\_Research\\_Publishing@morganstanley.com](mailto:Equity_Research_Publishing@morganstanley.com) with the publication title and date.*

**Risk-Reward: ICICI Prudential Life Insurance (ICIR.NS, Rs425.95, OW, PT Rs585.00)**

We expect strong VNB CAGR amid accelerating premium growth and a multiyear improvement in profitability; OW



Source: Thomson Reuters, Morgan Stanley Research

**Price Target Rs585**

Base case appraisal value methodology.

**Bull Rs850**

43.5x Mar-20 VNB; 5.0x Mar-20 EV

**Strong equity market performance and faster improvement in margins:** 1) Sharp improvement in protection premiums, persistency, and cost ratios; 2) pickup in share of non-par traditional products; 3) regulatory risks recede, e.g., an easing of higher tax rates, and 4) the macro environment improves sharply, driving strong growth. Valuation re-rates against this backdrop.

**Base Rs585**

31.4x Mar-20 VNB; 3.5x Mar-20 EV

**Gradual macro recovery; no further regulatory changes:** We estimate 25% VNB CAGR for F2018-20, driven by increasing share of protection business, higher persistency and better underlying cost ratios. We estimate ~15% premium CAGR over the same period. We expect no regulatory changes and a gradual improvement in the macro outlook.

**Bear Rs325**

21.1x Mar-20 EV; 2.2x Mar-20 EV

**Slow premium growth, rising cost ratios:** 1) Weak macro climate; 2) higher corporate income tax rates, and 3) a sharp increase in competitive intensity in protection insurance markets.

**Why Overweight**

- A balanced distribution mix, rising protection mix, and improving persistency/costs will lead to multiyear improvement in profitability, even as higher focus on ULIP could keep growth volatile.
- We expect IPru to continue to command a premium multiple because of its superior operational metrics, fast-growing protection premiums, low balance-sheet risk, and high capital.
- Relative to our India Financials industry coverage, the 37% implied upside potential to our new price target for IPru remains attractive.

**Key Value Drivers**

- New business premium growth (distribution franchise) and margins (protection mix)
- Opex ratio
- Persistency ratio
- Equity market conditions

**Potential Catalysts**

- Strong equity market conditions driving high premium growth
- Continued rapid growth in protection premiums
- Additional bancassurance tie-ups

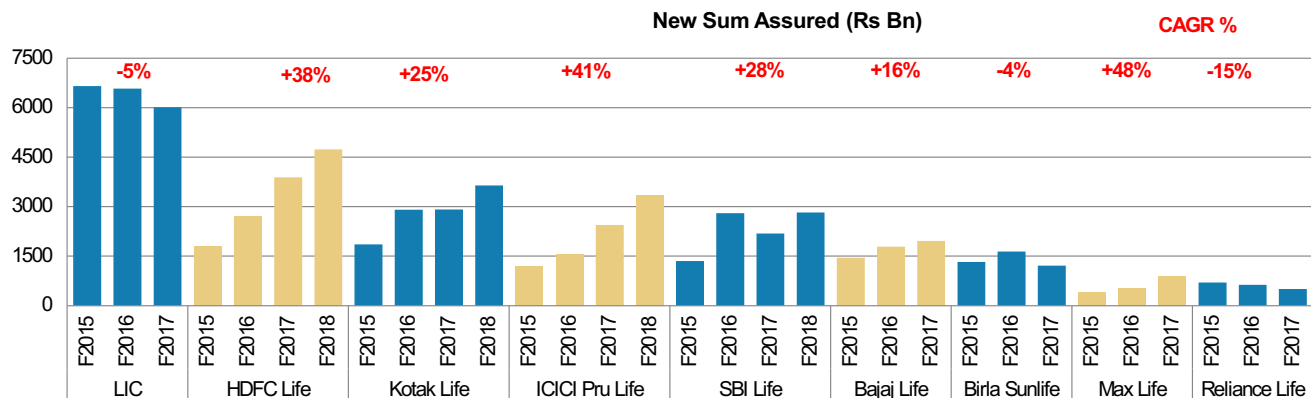
**Risks to Achieving Price Target**

- **Downside:**
  - Material deterioration in persistency ratios.
  - ICICI Bank's potential tie-up with other insurers leading to weaker-than-expected growth from the bancassurance channel.
  - Changes to corporate income tax rate for life insurers.
  - Greater-than-expected competition in protection, driving slower growth and margin contraction.

# 10 Focus Charts – Why IPRU Is an Underappreciated Franchise

Chart 1 – ICICI Prudential was a late entrant in protection, but it is now quickly gaining market share. Its sum assured has grown at 40% CAGR during F15-18 and it is the third-largest Indian Insurer on protection after HDFC Life and Kotak Life.

**Exhibit 1:** Indian Insurers: New Sum Assured



Source: Company Data, Morgan Stanley Research

Chart 2 – ICICI Prudential is a market leader in retail protection, which forms ~70% of its total protection business. Moreover, the reported protection mix at 5.7% vs. 11.3% for HDFC Life understates its protection market share. On absolute protection premiums, it is 70% of HDFC Life. SBI Life showed lower protection mix in F2018 vs. F2017 on an APE basis given the decline in the individual protection business.

**Exhibit 2:** iCICI Prudential: Market Leader in Individual Protection

Protection Premiums Mix (On APE Basis)		ICICI PRUDENTIAL LIFE				HDFC STANDARD LIFE				SBI LIFE			
Rs Bn		F15	F16	F17	F18	F15	F16	F17	F18	F15	F16	F17	F18
Individual Retail Protection		0.4	0.9	2.1	3.1	1.5	1.8	1.5	2.4	1.2	1.1	0.8	0.6
Group Credit Life		0.3	0.4	0.4	0.6	0.5	0.9	1.6	2.6	1.3	1.5	1.9	1.9
Group Term Protection		0.1	0.1	0.1	0.8			0.1	1.2	0.8	2.6	1.6	2.0
Total Protection		0.8	1.4	2.6	4.5	2.0	2.7	3.2	6.2	3.3	5.3	4.3	4.5
Overall APE		47	52	66	78	32	37	42	55	36	50	67	85
Protection Mix (%)		1.6%	2.7%	3.9%	5.7%	6.3%	7.4%	7.8%	11.3%	9.3%	10.5%	6.3%	5.3%
YoY %		F15	F16	F17	F18	F15	F16	F17	F18	F15	F16	F17	F18
Individual Retail Protection		NA	161%	122%	49%	NA	21%	-16%	63%	NA	-6%	-26%	-32%
Group Credit Life		NA	18%	-3%	50%	NA	NA	63%	63%	NA	18%	22%	3%
Group Term Protection		NA	0%	117%	500%	NA	81%	86%	720%	NA	209%	-40%	29%
Total Protection		NA	85%	87%	72%	NA	36%	19%	92%	NA	57%	-19%	6%
Overall APE		NA	9%	28%	18%	NA	16%	13%	32%	NA	40%	33%	27%
% of Total Protection		F15	F16	F17	F18	F15	F16	F17	F18	F15	F16	F17	F18
Individual Retail Protection		48%	68%	80%	70%	74%	66%	46%	39%	36%	21%	20%	13%
Group Credit Life		44%	28%	15%	13%	26%	34%	49%	42%	39%	29%	44%	43%
Group Term Protection		8%	4%	5%	17%			4%	19%	25%	50%	37%	45%
Total Protection		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company Data, Morgan Stanley Research. Note: SBI Life reports Group Credit Life premiums on Regular basis as compared to HDFC Life and IPRU Life, which report on a single-premium basis. Also, Group Credit Term is reported as Regular premium for F2018 for IPRU Life and HDFC Life vs. single-premium earlier. SBI Life reports Group Term on Regular Premium basis.

Chart 3 – Retail protection premium growth is well balanced across distribution channels and growth acceleration is not driven by aggressive reliance on web aggregators. This, in our view, indicates that the strong growth trend is sustainable.

**Exhibit 3:** Retail Protection Premium Growth Well Balanced across Distribution Channels

Individual Protection Distribution Mix Rs Bn	ICICI PRUDENTIAL LIFE				HDFC STANDARD LIFE				SBI LIFE			
	F15	F16	F17	F18	F15	F16	F17	F18	F15	F16	F17	F18
Agency	0.2	0.4	0.7	0.9	0.5	0.5	0.5	0.6	0.1	0.1	0.1	NA
Bancassurance	0.4	0.6	0.8	1.1	0.5	0.5	0.3	0.3	0.9	0.9	0.6	NA
Corporate Agency and Brokers	0.0	0.1	0.4	0.6	0.0	0.0	0.0		0.2	0.1	0.1	NA
Direct Sales	0.1	0.2	0.5	0.6	0.5	0.8	0.7	1.5				NA
<b>Total</b>	<b>0.7</b>	<b>1.3</b>	<b>2.4</b>	<b>3.1</b>	<b>1.5</b>	<b>1.8</b>	<b>1.5</b>	<b>2.4</b>	<b>1.2</b>	<b>1.1</b>	<b>0.8</b>	<b>NA</b>
YoY%	F15	F16	F17	F18	F15	F16	F17	F18	F15	F16	F17	F18
Agency	NA	162%	68%	28%	NA	9%	-9%	26%	NA	18%	-6%	NA
Bancassurance	NA	43%	40%	33%	NA	1%	-37%	15%	NA	-4%	-29%	NA
Corporate Agency and Brokers	NA	181%	227%	64%	NA	94%	-57%	103%	NA	-33%	-36%	NA
Direct Sales	NA	173%	134%	8%	NA	45%	-5%		NA			NA
<b>Total</b>	<b>NA</b>	<b>92%</b>	<b>80%</b>	<b>31%</b>	<b>NA</b>	<b>20%</b>	<b>-16%</b>	<b>61%</b>	<b>NA</b>	<b>-6%</b>	<b>-27%</b>	<b>NA</b>
% of Total	F15	F16	F17	F18	F15	F16	F17	F18	F15	F16	F17	F18
Agency	22%	30%	28%	27%	32%	29%	31%	24%	9%	11%	14%	NA
Bancassurance	60%	45%	35%	35%	32%	27%	20%	14%	78%	80%	78%	NA
Corporate Agency and Brokers	6%	8%	15%	19%	1%	2%	1%	61%	13%	10%	8%	NA
Direct Sales	12%	17%	22%	18%	35%	42%	48%					NA
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>NA</b>

Source: Company Data, Morgan Stanley Research

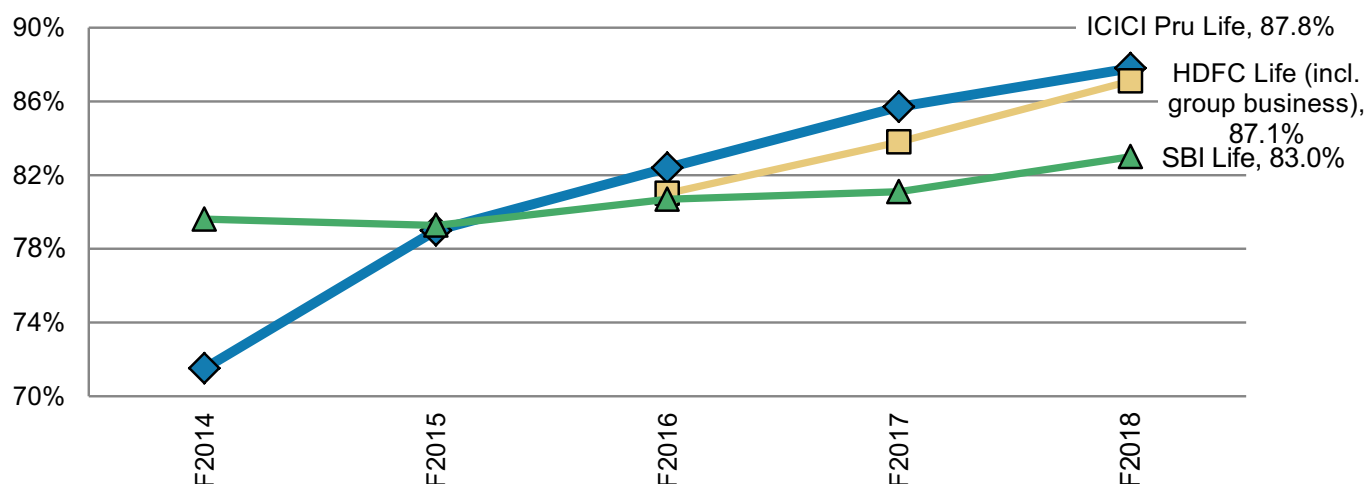
Chart 4 – ICICI Prudential's sensitivity of VNB to slower ULIP growth is not that high. We expect its VNB growth to moderate to 22% CAGR over F2018-20 vs. 25% over the same period if ULIP growth were to slow to 7.5% vs. 13% assumed in our base case. Indeed, the more important driver is persistency.

**Exhibit 4:** ICICI Prudential - Sensitivity of VNB to ULIP Growth

VNB (F18-20 CAGR), %		13th Month Persistency Decline (%pts), F2020E				
		0.0%	2.5%	5.0%	7.5%	10.0%
ULIPs (F18-20 CAGR), %	0.0%	18%	16%	15%	14%	12%
	7.5%	22%	20%	19%	18%	16%
	13.3% (Base Case)	25%	24%	22%	21%	19%
	20.0%	29%	27%	26%	24%	23%
	25.0%	32%	30%	29%	27%	26%

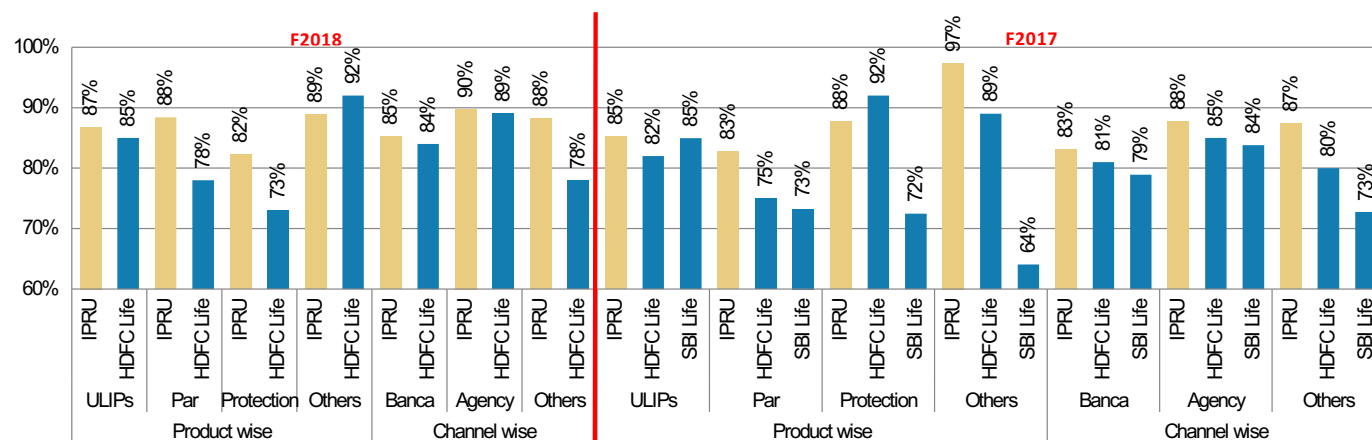
Source: Company data, Morgan Stanley Research estimates. Note: We have assumed persistency sensitivity impact on F2020 VNB similar to that in F2018

Chart 5 – ICICI Prudential has seen the strongest improvement in persistency, and its 13 month persistency level is now the highest as compared to large peers. More important, this persistency is based on an individual regular premium basis and does not include the group/single premium business.

**Exhibit 5: 13th-month Persistency Rates**


Source: Morgan Stanley Research. Note(\*): HDFC Life includes group premiums where persistency is measurable

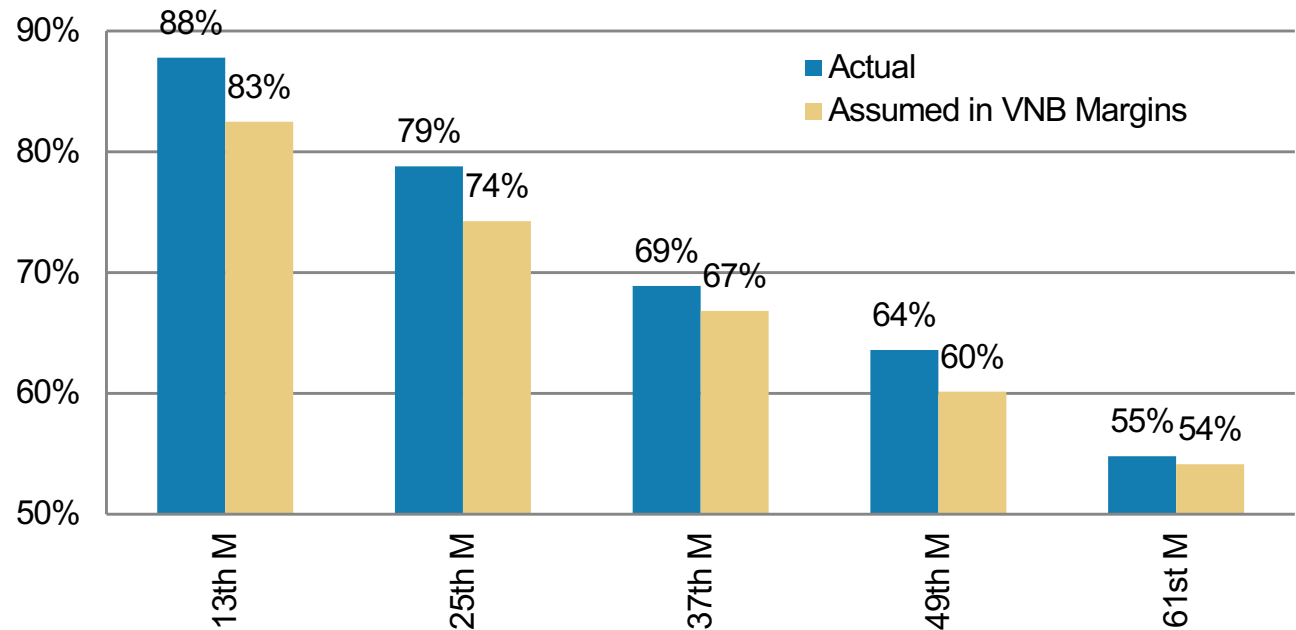
Chart 6 – 13th Month Persistency Comps: ICICI Prudential has much lower volatility in persistency among product segments and distribution channels, unlike its peers.

**Exhibit 6: 13th Month Persistency Comps**


Source: Company data, Morgan Stanley Research. Note: IPRU Life is excluding single premium and 'Others' is average of Direct and corporate agents/brokers

Chart 7 – IPru has not changed its persistency assumptions for F2018, and in our view is the most conservative on current trends amongst large players.

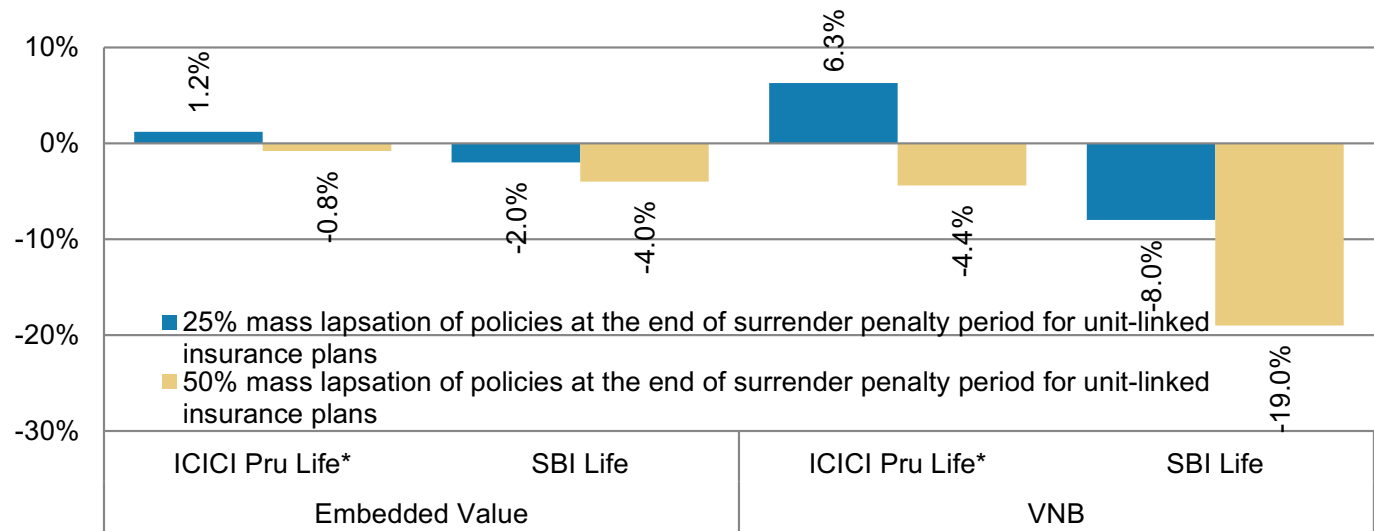
Exhibit 7: ICICI Prudential: Actual vs. Assumed VNB Margins



Source: Company data, Morgan Stanley Research

Chart 8 – As compared to SBI Life, we see a significantly lower impact from mass lapsation of ULIP policies. This again highlights the conservative starting point for assumptions at IPRU.

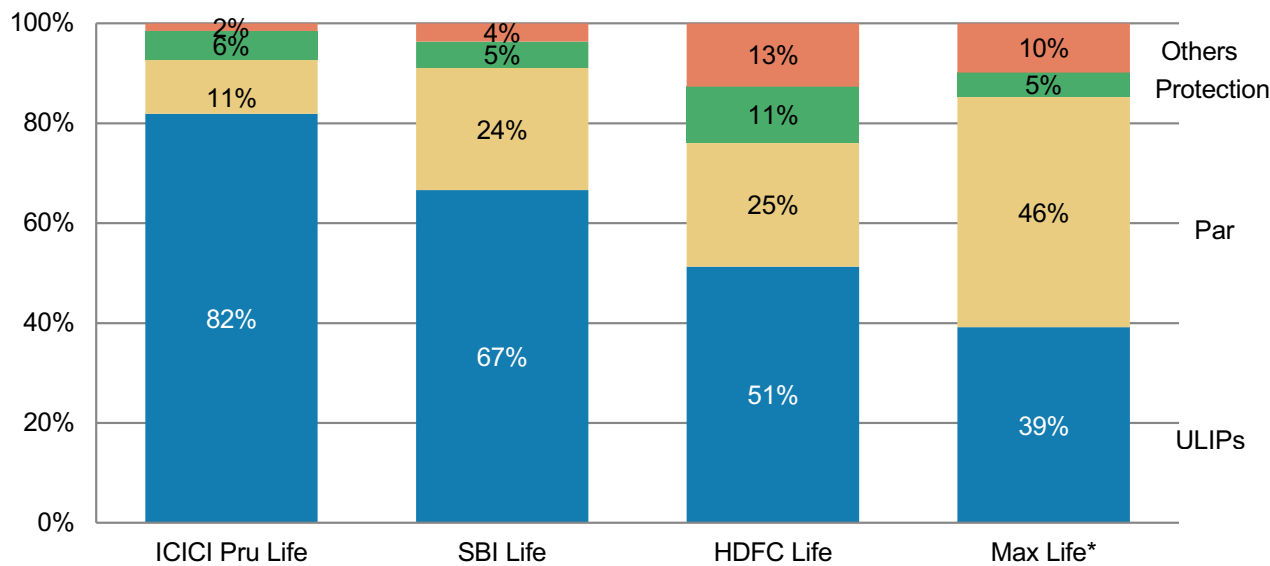
Exhibit 8: IPru vs. SBI Life: Mass Lapsation



Source: Company data, Morgan Stanley Research. Note: ICICI Pru Life data is as of F2016 and SBI Life data as of F2018.

Chart 9 – Product mix comparison: IPru's reliance on traditional par and non-par products is much lower than peers'. This implies relatively lower regulatory risk from potential lowering of surrender charge.

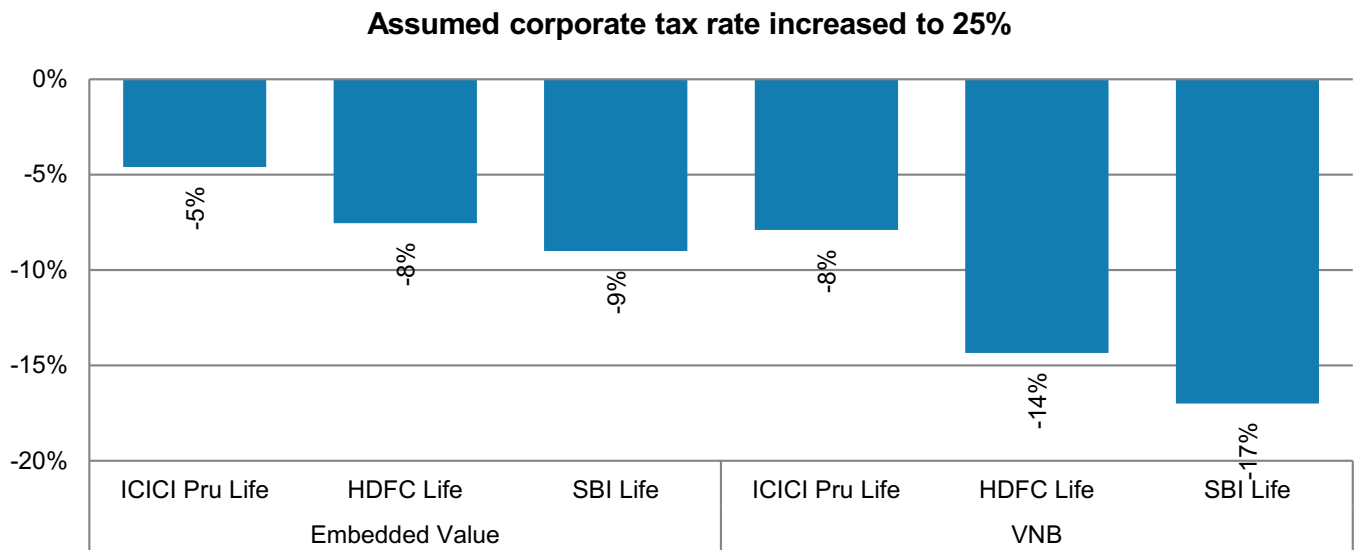
Exhibit 9: Product Mix Comparison



Source: Company data, Morgan Stanley Research; Note: Above data is as of F18 except for Max Life, which is as of F9M18 and based on individual product mix

Chart 10 – Potential impact of higher corporate income tax rate (to 25%) is lower than peers. We note that SBI Life's impact is over-stated given its sensitivity is still based on marginal tax rate and not effective tax rate.

Exhibit 10: Potential Impact of Higher Corporate Income Tax Rate (to 25%)



Source: Company data, Morgan Stanley Research. Note: Data as of F2018



# ICICI Prudential: Financial Summary

## Exhibit 11:

Income Statement					Ratio Analysis				
Rs Mln (Year end March)	F2018	F2019E	F2020E	F2021E	Year end March	F2018	F2019E	F2020E	F2021E
<b>Policyholders' Account</b>					<b>Premium Related</b>				
Gross Written Premiums	270,688	316,938	371,391	432,908	Annual Premium Equivalent Growth (APE, %)	17.1%	15.0%	15.0%	15.0%
–First Year Premium	74,326	85,475	98,297	113,041	New Business Premium Growth %	17.1%	15.0%	15.0%	15.0%
–Renewal Premium	178,570	211,003	249,566	292,809	Renewal Premium Growth %	23.2%	18.2%	18.3%	17.3%
–Single Premium	17,791	20,460	23,529	27,058	Conservation Ratio	85.7%	83.7%	84.2%	84.2%
Net Premiums Earned	268,107	313,917	367,850	428,780	<b>Product Mix</b>				
Investment Income	112,615	79,275	90,568	104,041	APE basis				
<b>Total Income</b>	<b>382,174</b>	<b>394,011</b>	<b>459,378</b>	<b>533,941</b>	Individual - ULIPs	82%	81%	79%	78%
Commission Expenses	14,033	16,827	20,030	23,789	Individual - Par	11%	11%	11%	11%
Operating Expenses	20,299	35,416	40,604	46,560	Individual - Non Par Protection	4%	5%	6%	7%
Claims Expenses	172,808	153,284	188,406	215,839	Individual - Non Par Savings	1%	1%	1%	1%
Change In Valuation Reserves	154,475	172,581	195,071	232,435	<b>% of Total Premium</b>				
<b>Total Expenses</b>	<b>367,342</b>	<b>383,835</b>	<b>449,837</b>	<b>524,349</b>	Single Premium	7%	6%	6%	6%
Surplus / (Deficit) After Tax	13,632	9,352	8,769	8,815	Regular Premium	27%	27%	26%	26%
<b>Shareholders' Account</b>					Renewal Premium	66%	67%	67%	68%
Amounts Transferred From Policyholders' Account	10,892	6,613	6,029	6,075	<b>Commission Expenses (% of Premium)</b>				
Income from Investments	7,419	8,668	10,974	13,551	First Year Premium	13.9%	14.6%	15.3%	16.0%
<b>Total Income</b>	<b>18,362</b>	<b>15,331</b>	<b>17,053</b>	<b>19,677</b>	Renewal Premium	1.9%	1.9%	1.9%	1.9%
<b>Total Expenses</b>	<b>1,173</b>	<b>351</b>	<b>390</b>	<b>450</b>	Single Premium	5.6%	5.6%	5.6%	5.6%
<b>Profit / (Loss) After Tax</b>	<b>16,192</b>	<b>14,112</b>	<b>15,696</b>	<b>18,111</b>	Total	5.2%	5.3%	5.4%	5.5%
<b>Balance Sheet Data</b>					<b>Operating Expenses</b>				
Rs Mln (Year end March)	F2018	F2019E	F2020E	F2021E	Total Operating Expenses	7.5%	11.2%	10.9%	10.8%
<b>Assets</b>					<b>Base Case Valuation</b>				
Total Investments	410,381	460,595	516,092	581,992	Embedded Value	187,880	211,151	240,451	276,896
–Shareholders' Investments	77,493	95,877	123,596	147,431	New Business Value (Post Cost)	12,860	16,368	20,046	24,090
–Policyholders' Investments	332,889	364,718	392,496	434,561	–NBP Margin (%; Computed)	16.5%	18.3%	19.5%	20.3%
Assets Held To Cover Linked Liabilities	975,020	1,125,354	1,289,785	1,484,632	RoEV (%)	22.7%	18.4%	19.0%	19.4%
Current Assets	27,140	25,117	27,801	31,092	Price / EV (x)	3.3x	2.9x	2.5x	2.2x
<b>Total Assets</b>	<b>1,418,213</b>	<b>1,616,739</b>	<b>1,839,349</b>	<b>2,103,388</b>	Price / VNB (x)	32.9x	24.5x	18.5x	13.9x
<b>Liabilities</b>					EPS (Rs.)	11.3	9.8	10.9	12.6
Policyholders' Funds	1,306,111	1,485,234	1,680,305	1,912,740	BPS (Rs.)	48.0	61.4	76.3	93.5
–Policy Liabilities	309,934	286,837	317,480	355,070	ROA (%)	1.2%	0.9%	0.9%	0.9%
–Provision For Linked Liabilities	923,124	1,125,343	1,289,772	1,484,616	ROE (%)	24.4%	18.0%	15.9%	14.9%
Current Liabilities and Provisions	34,476	31,907	35,315	39,497	Source: Company data, Morgan Stanley Research; E = Morgan Stanley Research estimates				
Funds For Future Appropriations	8,782	11,521	14,261	17,001					
<b>Total Liabilities</b>	<b>1,349,368</b>	<b>1,528,662</b>	<b>1,729,882</b>	<b>1,969,237</b>					
<b>Shareholders Equity</b>	<b>68,845</b>	<b>88,076</b>	<b>109,468</b>	<b>134,151</b>					
<b>Investments</b>									
Total Policy Holders Investments	1,307,908	1,490,072	1,682,281	1,919,193					
–Linked	975,020	1,125,354	1,289,785	1,484,632					
–Non-Linked	332,889	364,718	392,496	434,561					
AUM Growth %	13.8%	13.9%	12.9%	14.1%					

## Earnings Changes and Price Target Discussion

**We value ICICI Prudential Life Insurance based on an appraisal value methodology.** We have raised our price target, which is our base-case scenario value, to Rs585 (from Rs540 earlier). This is driven mainly by higher VNB estimates given changes in our long-term growth assumptions for both savings and protection premiums (see detailed changes in assumptions below). Also, note that part of the protection mix change in our estimates reflects the F2018 results reported by the insurer, which has led to higher protection growth and lower margins.

We have raised our cost of equity assumption to 13.3% (13.1% earlier) given the rise in 10-year government bond yields in the last few months (risk-free rate at 7.5% vs. 7.0% earlier) partially offset by lower beta assumptions of 1.05 vs. 1.1 earlier. Our new price target implies 37% upside from current levels.

Changes in scenario values:

- Base case – raised 8%, to Rs585 from Rs540
- Bull case – raised 13%, to Rs850 from Rs750
- Bear case – raised 20%, to Rs325 from Rs270

### Base Case

In the base-case scenario, we value the company using an appraisal methodology: 1x EV (F2019e) + 31.4x VNB (F2020e) vs. 32.1x earlier.

**1) Assumptions behind F2019e EV computations:** We use: a) an unwind rate of 8.75% (unchanged); b) VNB growth of 27% in F2019e based on 15% premium growth (vs. 17% earlier) and 18% margins (15% earlier) during the same period; and c) operating variance of Rs1.8bn (unchanged) in F2019.

**2) Assumptions behind new business multiple:** Our new business multiple is broadly unchanged at 31.4x (vs. 32.1x earlier; driven by higher cost of equity) and is based on three growth phases over the next 15 years – a five-year high-growth period, a 10-year maturity period, and a terminal period.

### Bear Case

In the bear case, we value the company using 1x EV (F2019e) + 21.1x VNB (F2020e) vs. 20.7x earlier.

**1) Assumptions behind F2019e EV computations:** We use: a) an unwind rate of 8.75% (unchanged); b) F2019e VNB growth of 19%, based on 10% premium growth (12% earlier) and ~18% margins (10% earlier); c) operating variance of Rs0.3bn in F2019 (broadly unchanged), and d) revised operating assumption on tax rate negatively affecting EV by Rs10bn (Rs24bn earlier).

**2) Assumptions behind new business multiple:** Our new business multiple is broadly unchanged at 21.1x vs. 20.7x earlier (driven by higher cost of equity) and is based on

three growth phases over the next 15 years – a five-year high-growth period, a 10-year maturity period, and a terminal period.

### Bull Case

In the bull case, we value the company using 1x EV (F19e) + 43.5x F20 VNB vs. 42.0x earlier.

**1) Assumptions behind F2019e EV computations:** We use: a) an unwind rate of 8.75% (unchanged); b) VNB growth of 38% during F2019e based on 20% premium growth (vs. 34% YoY VNB growth earlier) and 19% margin vs. 16% earlier; and c) operating variance of Rs2.3bn in F2019 (Rs2.5bn earlier).

**2) Assumptions behind new business multiple:** Our new business multiple of 43.5x vs. 42.0x earlier (driven by higher cost of equity) is based on three growth phases over the next 15 years – a five-year high-growth period, a 10-year maturity period, and a terminal period.

### Earnings Changes

Our near-term accounting earnings forecasts have moved lower due to higher new business strain in protection given faster growth. Our F2019 EPS forecasts is off 16.8% to Rs9.83 while our F2019 estimate drops 7.6% to Rs10.94. We also introduce our F2021 estimate of Rs12.62.

**Exhibit 12:** ICICI Pru Life: What's Changed?

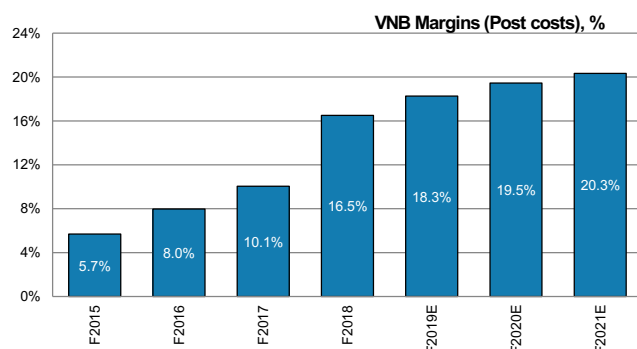
		NEW		OLD	
	FY18	FY19E	FY20E	FY19E	FY20E
Unwinding Rate %	8.48%	8.75%	8.75%	8.75%	8.75%
APE (Rs Bn)	77.9	89.6	103.0	93.8	108.8
–% Change		–4.5%	–5.3%		
APE Growth, YoY %	17.6%	15.0%	15.0%	17.0%	16.0%
VNB (Post Cost Overruns), Rs Bn	12.9	16.4	20.0	14.2	17.7
–% Change		15.2%	13.2%		
VNB Margins (Post Cost Overruns)	16.5%	18.3%	19.5%	15.2%	16.3%
EV Operating Profit (Rs. Bn)	36.8	34.6	40.0	32.0	36.8
–% Change		8.0%	8.7%		
Closing EV (Rs Bn)	187.9	211.2	240.5	204.0	230.0
–% Change		3.5%	4.5%		
ROEV (Post Cost Overruns)	22.7%	18.4%	19.0%	17.5%	18.0%
EPS (Rs)	11.3	9.8	10.9	11.8	11.8
–% Change		–16.8%	–7.6%		

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

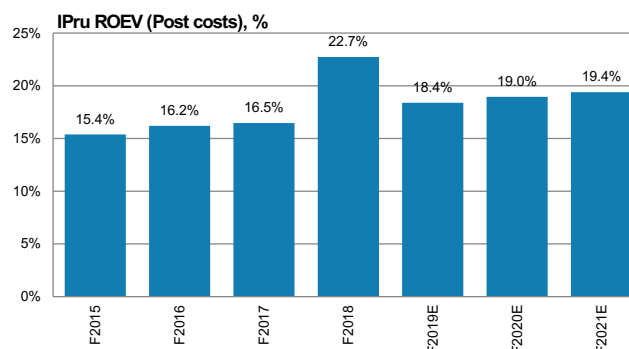
**Exhibit 13:** ICICI Pru Life Valuation Based on Appraisal Value, and Scenarios

Appraisal Value, Rs Bn	New			Old		
	Base Case	Bear Case	Bull Case	Base Case	Bear Case	Bull Case
<b>Embedded Value, F19E - (A)</b>	<b>211</b>	<b>212</b>	<b>213</b>	<b>204</b>	<b>163</b>	<b>207</b>
<b>Structural Value - (B)</b>	<b>629</b>	<b>253</b>	<b>1,009</b>	<b>569</b>	<b>222</b>	<b>867</b>
VNB, F20	20	12	23	18	11	21
VNB Multiple	31.4x	21.1x	43.5x	32.1x	20.7x	42.0x
<b>Appraisal Value- (A) + (B)</b>	<b>840</b>	<b>465</b>	<b>1,222</b>	<b>773</b>	<b>385</b>	<b>1,075</b>
—Implied P/EV, F20	3.5	2.2	5.0	3.4	2.2	4.5
<b>Price Target/Share</b>	<b>585</b>	<b>325</b>	<b>850</b>	<b>540</b>	<b>270</b>	<b>750</b>
Current Market Price	426	426	426			
—% Upside	37%	-24%	99%			

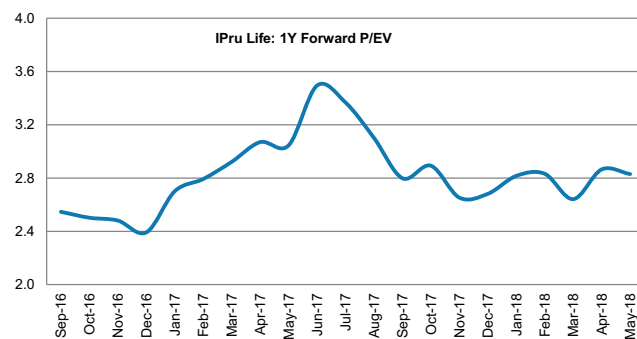
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates

**Exhibit 14:** We Expect IPru's VNB Margin to Stay Strong at Around 20%


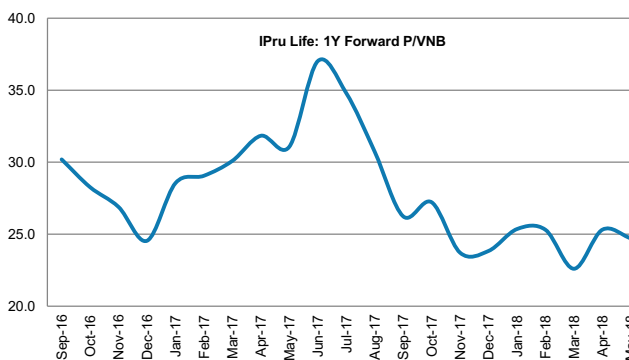
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

**Exhibit 15:** We Expect Higher Margins and Strong Premium Growth to Help Sustain Stable RoEV


Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

**Exhibit 16:** IPru: One-year forward P/EV


Source: Thomson Reuters, Company data, Morgan Stanley Research estimates

**Exhibit 17:** IPru: One-year forward P/VNB


Source: Thomson Reuters, Company data, Morgan Stanley Research estimates

**Exhibit 18: ICICI Pru Life: EV Movement and Our Forecasts**

<b>ICICI Pru Life - IEV Forecasts</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>Opening EV</b>	<b>117,750</b>	<b>137,210</b>	<b>139,395</b>	<b>161,845</b>	<b>187,880</b>	<b>211,151</b>	<b>240,451</b>
Operating assumption changes	1,600	1,040	1,000	7,640			
Expected Return on inforce	11,700	12,582	12,210	13,720	16,440	18,476	21,040
Unwinding Rate %	9.9%	9.2%	8.8%	8.5%	8.8%	8.8%	8.8%
New Business Profits (After Cost Overruns)	2,700	4,123	6,660	12,860	16,368	20,046	24,090
Operating Variances	2,120	4,489	3,080	2,580	1,750	1,500	1,500
<b>EV Operating profit</b>	<b>18,120</b>	<b>22,234</b>	<b>22,950</b>	<b>36,800</b>	<b>34,557</b>	<b>40,022</b>	<b>46,630</b>
Change in Economic Assumptions	-4,180	524			0	0	0
Economic Variances - Investment Return	15,290	-6,159	5,820	1,130	0	0	0
<b>EV Profit</b>	<b>29,230</b>	<b>16,599</b>	<b>28,770</b>	<b>37,930</b>	<b>34,557</b>	<b>40,022</b>	<b>46,630</b>
Capital Injection / Dividend Payouts	-9,770	-14,414	-6,320	-11,880	-11,286	-10,722	-10,186
Closing Adjustments							
<b>Closing EV</b>	<b>137,210</b>	<b>139,395</b>	<b>161,845</b>	<b>187,880</b>	<b>211,151</b>	<b>240,451</b>	<b>276,896</b>
Overall Premiums, APE Basis, Rs. Mn	47,440	51,702	66,250	77,920	89,608	103,049	118,507
Growth %	37.7%	9.0%	28.1%	17.6%	15.0%	15.0%	15.0%
VNB Margins (Post Cost Overruns)	5.7%	8.0%	10.1%	16.5%	18.3%	19.5%	20.3%
<b>ROEV (Post Cost Overruns)</b>	<b>15.4%</b>	<b>16.2%</b>	<b>16.5%</b>	<b>22.7%</b>	<b>18.4%</b>	<b>19.0%</b>	<b>19.4%</b>

Source: Company data, Morgan Stanley Research (E) estimates

# Sensitivity Analysis

**Exhibit 19: ICICI Pru Life: Sensitivity Analysis**

	F2016				F2017				F2018			
	EV		VNB		EV		VNB		EV		VNB	
	Rs Bn	% Change	Rs Bn	% Change	Rs Bn	% Change	Rs Bn	% Change	Rs Bn	% Change	Rs Bn	% Change
<b>Base case</b>	<b>139.4</b>		<b>4.1</b>		<b>161.8</b>		<b>6.7</b>		<b>187.9</b>		<b>12.9</b>	
Increase in 100bps in the reference rates	135.9	-2.5%	3.9	-5.7%	158.6	-2.0%	6.3	-5.2%	183.9	-2.1%	12.2	-4.9%
Decrease in 100bps in the reference rates	143.0	2.6%	4.4	5.7%	165.2	2.1%	7.0	5.5%	192.0	2.2%	13.5	5.2%
10% increase in the discontinuance rates	137.9	-1.1%	3.6	-12.3%	160.1	-1.1%	6.0	-10.6%	185.4	-1.3%	11.8	-8.6%
10% decrease in the discontinuance rates	141.1	1.2%	4.6	12.7%	163.8	1.2%	7.4	10.9%	190.5	1.4%	14.0	9.1%
10% increase in mortality/ morbidity rates	138.3	-0.8%	3.9	-6.4%	160.6	-0.8%	6.3	-6.1%	186.0	-1.0%	12.2	-5.4%
10% decrease in mortality/ morbidity rates	140.5	0.8%	4.4	6.4%	163.1	0.8%	7.1	6.1%	189.8	1.0%	13.6	5.5%
10% increase in acquisition expenses	139.4	Nil	3.1	-24.2%	161.8	Nil	5.3	-20.5%	187.9	Nil	11.7	-9.2%
10% decrease in acquisition expenses	135.9	Nil	5.1	24.2%	158.6	Nil	8.0	20.5%	183.9	Nil	14.0	9.2%
10% increase in maintenance expenses	137.9	-1.1%	3.9	-6.4%	160.1	-1.1%	6.3	-5.5%	186.0	-1.0%	12.4	-3.5%
10% decrease in maintenance expenses	140.9	1.1%	4.4	6.4%	163.6	1.1%	7.0	5.4%	189.8	1.0%	13.3	3.5%
Tax rates increased to 34.61%	118.6	-14.9%	2.7	-34.2%	NA	NA	NA	NA	NA	NA	NA	NA
Tax rates increased to 28.84%	NA	NA	NA	NA	144.0	-11.0%	5.2	-22.0%	NA	NA	NA	NA
Tax rates increased to 25%	NA	NA	NA	NA	NA	NA	NA	NA	179.2	-4.6%	11.8	-7.9%

Source: Company data, Morgan Stanley Research

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
<b>Overweight/Buy</b>	<b>1168</b>	<b>38%</b>	<b>305</b>	<b>40%</b>	<b>26%</b>	<b>550</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1337</b>	<b>43%</b>	<b>371</b>	<b>49%</b>	<b>28%</b>	<b>641</b>	<b>46%</b>
<b>Not-Rated/Hold</b>	<b>53</b>	<b>2%</b>	<b>5</b>	<b>1%</b>	<b>9%</b>	<b>7</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>539</b>	<b>17%</b>	<b>83</b>	<b>11%</b>	<b>15%</b>	<b>207</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,097</b>		<b>764</b>			<b>1405</b>	

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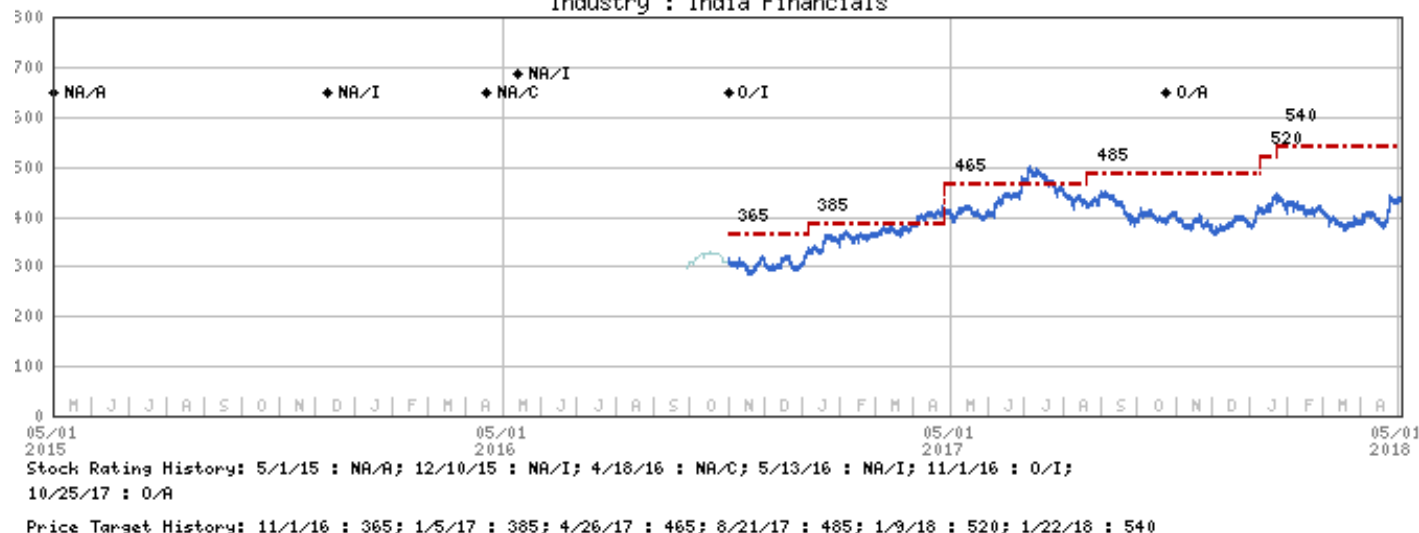
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### Stock Price, Price Target and Rating History (See Rating Definitions)



ICICI Prudential Life Insurance (ICIR.NS) - As of 5/3/18 in INR  
Industry : India Financials



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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#### INDUSTRY COVERAGE: India Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/03/2018)
<b>Anil Agarwal</b>		
Axis Bank (AXBK.NS)	O (10/25/2017)	Rs533.40
HDFC Bank (HDBK.NS)	O (07/25/2017)	Rs1,967.90
HDFC Bank (HDB.N)	O (07/25/2017)	US\$97.20
ICICI Bank (IBN.N)	O (01/13/2018)	US\$8.36
ICICI Bank (ICBK.NS)	O (10/25/2017)	Rs281.90
State Bank of India (SBI.NS)	O (10/25/2017)	Rs241.90
<b>Subramanian Iyer</b>		
Aditya Birla Capital Ltd (ADTB.NS)	U (03/06/2018)	Rs158.60
Bajaj Finance Limited (BJFN.NS)	O (07/29/2016)	Rs1,874.30
Bharat Financial Inclusion Ltd (BHA.F.NS)	++	Rs1,152.00
Edelweiss Financial Services Ltd. (EDEL.NS)	O (09/27/2017)	Rs296.45
HDFC (HDFC.NS)	O (01/10/2018)	Rs1,922.70
IDFC Bank (IDFB.NS)	U (03/21/2017)	Rs46.75
Indiabulls Housing Finance (INBF.NS)	U (03/06/2018)	Rs1,271.95
LIC Housing Finance Ltd. (LICH.NS)	O (04/26/2017)	Rs521.85
Mahindra and Mahindra Financial Services (MMFS.NS)	O (05/30/2017)	Rs510.80
Multi Commodity Exchange of India Ltd (MCEI.NS)	E (11/13/2017)	Rs749.80
PNB Housing Finance Ltd (PNBH.NS)	U (02/20/2017)	Rs1,410.55
Shriram City Union Finance Ltd (SHCU.NS)	E (11/13/2017)	Rs2,366.55
Shriram Transport Finance Co. Ltd. (SRTR.NS)	O (05/30/2017)	Rs1,574.15
<b>Sumeet Kariwala</b>		
AU Small Finance Bank Ltd (AUF.NS)	O (11/02/2017)	Rs697.85
Bank of Baroda (BOB.NS)	E (10/25/2017)	Rs143.05
Bank of India (BOI.NS)	U (06/08/2015)	Rs101.15
Canara Bank (CNBK.NS)	U (09/19/2014)	Rs257.40
Federal Bank (FED.NS)	E (03/21/2017)	Rs97.55
HDFC Standard Life Insurance Company Ltd (HDFS.NS)	E (04/19/2018)	Rs496.00
ICICI Prudential Life Insurance (ICIR.NS)	O (11/01/2016)	Rs425.95
IndusInd Bank (INBK.NS)	++	Rs1,878.15
Kotak Mahindra Bank (KTKM.NS)	O (05/18/2014)	Rs1,233.55
Punjab National Bank (PNBK.NS)	O (10/25/2017)	Rs92.05
RBL Bank Limited (RATB.NS)	E (10/03/2016)	Rs520.55
Yes Bank (YESB.NS)	O (03/10/2014)	Rs353.95

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\* Historical prices are not split adjusted.