

ICICI Prudential Life Insurance Company Ltd. (IPLCL) - "SUBSCRIBE"

17th Sep, 2016

Incorporated in 2001, IPLCL is a JV between ICICI Bank (67.52%) and Prudential Corporation Holdings Limited (PCHL) (25.83%). PCHL is part of the Prudential Group that has GBP 509 bn of AUM. Other key investors include Azim Hasham Premji for M/s. Hasham Traders and Compassvale Investments Pte. Ltd. with a shareholding of 4.0% and 2.0% respectively. Today it is the largest private sector insurance player and the second largest overall, behind LIC, in terms of premium. Its market share in the industry is 11.3% and 21.9% amongst private players. In the last four fiscal's, its Retail Weighted Received Premium (RWRP) has witnessed a CAGR of 15.2 percent which is one of the highest in industry with assets under management ~Rs. 1 lakh crore in FY16. It has Multi-tiered investment management structure with clearly defined roles and responsibilities. 94.2% of linked funds have performed better than their respective benchmarks since inception. 95.1% of debt portfolio comprised domestic AAA-rated instruments as at June 30, 2016. Unit linked products (ULIPs) accounted for 82.3 percent of the new business premium (NBP) FY16. On the other hand, high margin protection cover segment accounted for about 2.5 percent of NBP which is likely to increase going forward.

Investment highlights

Significant Underpenetration of Insurance in India

- India continues to be an underpenetrated with penetration of 2.7% in FY15, as compared to global average of 3.5% in FY15
- At US\$43 in CY15, the insurance density in India remains very low as compared to other economies
- According to Swiss Re, the Protection Gap for India was ~US\$8.5tn as of December 31, 2014, which was much higher compared to its Asian counterparts

Largest Private Sector Life Insurer in India

- Largest private sector life insurer in India by total premium & AUM in FY16
- Recorded highest new business premium amongst private players since FY02; Primary focus on retail customers

Robust Distribution network

- Largest bancassurance channel in India in terms of first year retail received premium in FY16
- Largest direct sales channel in India on the basis of first year retail received premium in FY16; 3rd largest agency channel in India in terms of new business retail received premium in FY16

Robust & Sustainable Business Model

- Over 80% of RWRP contribution from highly regulated ULIP products in FY16
- One of the highest persistency ratios in FY16
- Maintain cost leadership - Cost / TWRP declined over FY14 to FY16
- Low market risk as high proportion of balance sheet is linked without guarantees
- Strong capital position with solvency ratio of 321% in Q1FY17

Delivering Consistent Returns to Shareholders

- Improving VNB margins -VNB increased by ~53% in FY16 to Rs. 4.12 bn for a VNB margin of 8.0%
- Indian Embedded Value (IEV) of Rs. 139.39 bn
- Consistently generated RoE of more than 30% for each year since FY12; no capital injection since FY09; consistent annual dividend track record since FY12

Issue date	19 - 21 September, 2016
Type of issue	Offer for sale - Rs. 60.57bn (181.3 mn equity shares) by ICICI Bank
Face Value	10
Price Band	Rs. 300 - 334
Market Lot	44 shares
Min. order quantity	44 shares
Post issue Market Cap.	Rs. 431 - 479 bn.
Issue structure	QIB - 50%, Non institutional - 15% Retail - 35%
BRLM	BoFA Merrill Lynch, ICICI Securities, Citic CLSA, Deutsche Equities, Edelweiss, HSBC, IIFL, JM Financial, SBI Cap, UBS
Registrar to the issue	Karvy Computershare

Y/e 31 Mar (Rs. mn)	FY16	FY15	FY14
Net premium income	189987	151604	122827
VNB	4,123	2,700	-
VNB (%)	8.0	5.7	-
Operating Expense ratio (%)	13.1	14.4	18.1
PAT	16,530	16,402	15,624
Solvency ratio (%)	320	337	369
Total AUM (Rs. bn)	1,030	995	801
Share Capital	14,323	14,317	14,293
Reserves	38,926	38,326	35,526

Investment Rationale and Recommendation

With due consideration to factors like a) significant under penetration of insurance, b) largest private sector life insurer in India, c) one of the highest persistency ratios in FY16 (13th month 82.4% & 49th month 62.2%) as against HDFC Life (13th month 78.9% & 49th month 63.4%), d) one of the best operating efficiency in the industry with its cost to total weighted received premium of 14.6% in FY16 from 19.2% in FY13, e) robust and sustainable business model, f) strong solvency ratio of more than 300 percent, g) track record of healthy dividend payments, h) delivering consistent returns to shareholders - strong three years average ROE of 34.2% against peers like SBI Life (22.1%), Max Life (21.4%) and HDFC (35.4%), we recommend to "SUBSCRIBE" the issue. The share swap agreement of the recent proposed merger of Max life with HDFC life has Price/Embedded value multiple of 4.2x for a market share of 7.6 percent as against ICICI Prudential Life Price/Embedded value multiple of 3.4x with market share of 11.3 percent in overall market. Considering the multiple for HDFC Life - Max Life merger, we believe there is a potential upside to the issue price of Rs.334 at the upper end of the price band.



Objects of the issue

- 1) Achieve the benefits of listing the Equity Shares on stock exchanges
- 2) To carry out the sale of Equity Shares by the Selling Shareholder, ICICI Bank Limited (Total offering of up to 181,341,058 through an offer for sale of equity shares - includes a reservation of up to 18,134,105 shares for purchase by ICICI Bank Shareholders)
- 3) Provide liquidity to the existing shareholders
- 4) Company will not receive any proceeds from the Offer



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