Stock Update

ICICI Prudential Life Insurance Company Ltd.

January 10, 2022

RETAILRESEARCH

ICICI Prudential Life Insurance Company Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Life Insurance	Rs.583.8	Buy in the Rs.580-587 band and & add more on dips of Rs.532	Rs.652	Rs.686	2 quarters

HDFC Scrip Code	ICIPRUEQNR
BSE Code	540133
NSE Code	ICICIPRULI
Bloomberg	IPRU IN
CMP Jan 07, 2022	583.8
Equity Capital (Rs mn)	14.4
Face Value (Rs)	10
Equity Share O/S (mn)	1.4
Market Cap (Rs bn)	83.9
Book Value (Rs)	58.8
Avg. 52 Wk Volumes	690527
52 Week High	724.5
52 Week Low	411.0

Share holding Pattern % (Dec, 2021)	
Promoters	73.4
Institutions	21.2
Non Institutions	5.4
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Indian life insurance space provides a multi decadal growth story. Despite healthy growth in past 20 years, it is still at a nascent stage. It is still under penetrated (Premium as % of GDP for 2020 stood at 3.2%) as compared to even other emerging countries; protection gap at 83% is also highest amongst peers. India's favourable demographics like high share of working population, rapid urbanization, rising affluence and focus on financial inclusion provide huge growth opportunities.

ICICI Prudential Life Insurance Company Ltd. (IRPU) is the third largest private life insurance company. The company offers wide range of products in the Protection and Savings category. It has diversified distribution mix, the company does not have dependence on any single channel. The revised focus on agency channel would bring in quality customers and help the company improve persistency. In H1FY22, the company has added more than 12,000 new agents and 53 new partnerships. Along with this, the company's digital initiatives will help them in reducing turnaround time (TAT), rapid on-boarding of new partners and ultimately improve margins.

COVID third wave and higher claims could hurt the profitability. We remain watchful on the growth trend of protection business especially in retail category, which is high margin. The recent waves of pandemic will accelerate adoption of Life Insurance by a wider set of people.

We had issued Initiating Report on IPRU on 19 October, 2020 and recommended Buy on dips to Rs.406-410 band and add more on dips to Rs.365-369 band, for base case target of Rs.448 and bull case target of Rs.479 over the next two quarters. The stock entered the buying range on 21 October, 2020 and our bull case target was achieved on 4th December, 2020. Below is the link for the report:

https://www.hdfcsec.com/hsl.research.pdf/ICICI%20Pru%20Life%20Insurance%20Company%20Ltd%20-%20Initiating%20Coverage.pdf

Valuation & Recommendation:

The company has reported decent Q2FY22 numbers, however the VNB margins declined QoQ due to weak growth in retail protection business. The company still had high claims paid due to delayed intimations of second wave; IPRU has sufficient provisions. Management has reiterated that they are well on track of the objective of achieving double VNB by FY23 from FY19. Both October and November month business growth was encouraging. We have estimated IPRU to deliver CAGR of 23% for Value of New Business (VNB), 26% New Business Premium (NBP) and 12% for Embedded Value (EV) over FY21 to FY24E. The company is trading at 2.0x FY24 Embedded Value. Given the high growth environment we believe that Indian life insurance companies will keep on getting higher multiples than in other economies.

We believe that investors can BUY the stock in the Rs.580-587 band and add on dips to Rs.532 (1.8xFY24E P/EV) for Base case fair value of Rs.652 (2.3xFY24E P/EV) and the Bull case fair value of Rs.686 (2.4xFY24E P/EV) over next 6 months.

Financial Summary

Particulars (Rs Bn)	Q2 FY22	Q2 FY21	YoY (%)	Q1FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
NBP	37.3	28.5	30.9	27.3	36.4	124.9	132.3	186.8	224.2	263.1
APE	19.8	14.7	34.9	12.2	62.2	73.8	64.6	82.6	99.2	113.0
VNB	5.15	4.01	28.4	3.58	43.9	16.1	16.2	21.7	26.3	30.2
VNB Margin (%)	26.0	27.4	-130bps	29.4	-330bps	21.7	25.1	26.3	26.5	26.7
EV						230.3	291.1	318.6	363.4	414.4
P/EV (x)						3.6	2.9	2.6	2.3	2.0
P/VNB (x)						39.1	37.9	25.5	20.0	15.9

(Source: Company, HDFC sec)

Recent Developments

Q2FY22 Result Update

Net premium income during the quarter grew by only 8.3% YoY as renewal premium declined by 4% YoY. Both Regular and Single premium had healthy growth of plus 30%. Shareholder's profit was up by 47% YoY on the back of slightly lower claim payments.

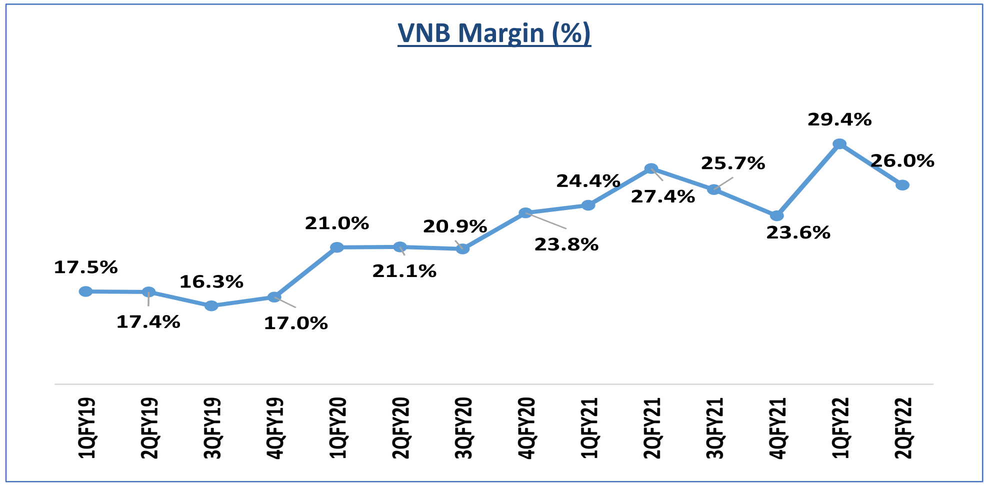
New business premium (NBP) grew by 45% YoY and Annualized Premium Equivalent (APE) grew by 47.8% in H1FY22. Value of New Business (VNB) for H1FY22 was Rs.8.73 bn, a growth of 45.0% YoY, with VNB margin was 27.3% for H1FY22 as compared to 25.1% for FY21. For Q2FY22 VNB margins was down by 330 bps QoQ due to weak retail protection business growth.

Total AUM grew by 31% YoY. The Company had a debt-equity mix of 52%:48% at September 30, 2021. 97% of the debt investments are in AAA rated and government bonds. Persistency for 13th month was at 85.1%, up 300 bps YoY and down 30bps QoQ, while for 61st month it was at 51.6% down 10bps YoY and 620 bps QoQ. The Company's solvency ratio stood at 199.9% on September 30, 2021, well above the regulatory requirement of 150%.

Margins under pressure

Although VNB clocked in at a healthy Rs.5.2bn (+28% YoY), VNBM for the quarter declined by 330bps sequentially at 26%, largely due to rising share of ULIPs and the business mix moving away from protection. ULIP sales growth was on the back of buoyancy in capital market. Now with the rising interest rate outlook, we feel that the demand for participating products may rise.

Overall protection growth was at 21% YoY during the quarter, which was mostly supported by group term and Credit Life business. Retail protection de-grew 29% YoY due to supply side constraints including revised underwriting guidelines and general reluctance to visit medical centers. Against this back drop the company has focused on opportunity in the group term business. Despite an increase in prices on account of revised mortality assumptions, the group term business has registered a very strong growth on the back of a pick-up in disbursements and new group-term arrangements. Management has informed that they will continue to grow both retail and group lines of business in protection segment. They are witnessing higher inquiries in retail protection business which is a good early growth indicator.



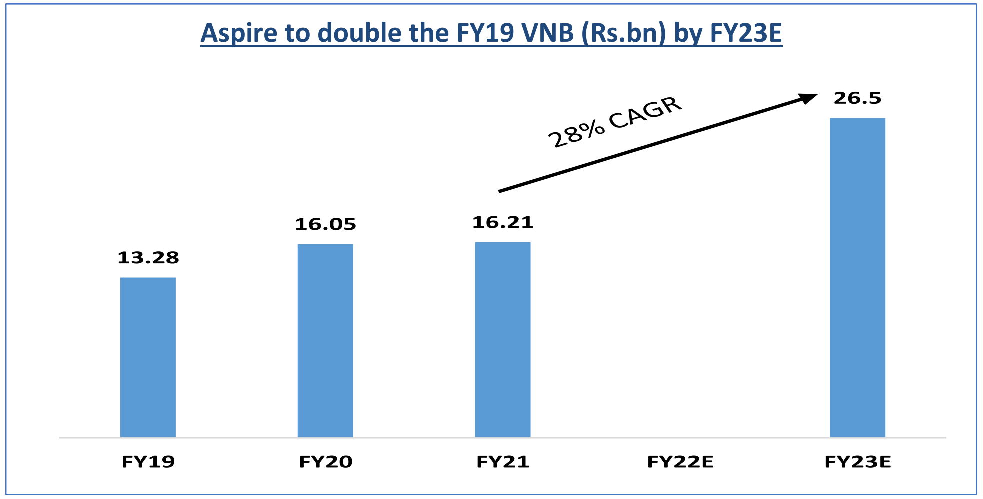
COVID claims and provisioning update

From the month of June-21, there was a significant reduction in the new COVID-19 infections in the country; however, IPRU continued to receive claims in Q2FY22. Most of these claims were pertaining to Q1FY22 i.e. delayed intimations. The company was observing significant declining in numbers of these intimations across the months of the quarter. Whole country is witnessing a sharp declining in number of COVID cases and deaths as well. Majority of the population now is fully vaccinated, which negates the future risk of hospitalization and deaths.

There was ~3.4 mn new COVID-19 infections recorded in Q2FY22 (18.2mn in Q1FY22) with 48,880 reported death cases (2,36,532 in Q1FY22). For the company, total claims on account of COVID-19 for H1FY22 was Rs.18.79 bn vs Rs.3.54 bn in FY21. As of Q2FY22, the company hold provisions worth Rs.4.12 bn for future COVID-19 claims. Management has informed that unless the COVID-19 in this year exceeds Rs.12.74 bn, they do not expect any negative impact on the company.

Guidance

The company aspires to double the FY19 absolute Value of New Business (VNB) by FY23E with 4P strategy of: Premium growth, Protection business growth, Persistency improvement and Productivity enhancement while ensuring customer-centricity continues to remain the bedrock of everything. During Q2FY22 concall, the management has reiterated that they are well on track of that objective, which requires a compounded annual growth rate of 28% over the current and the next financial years. With the VNB growth currently at 45% H1FY22, the management believes that they are on track to achieve this aspiration.



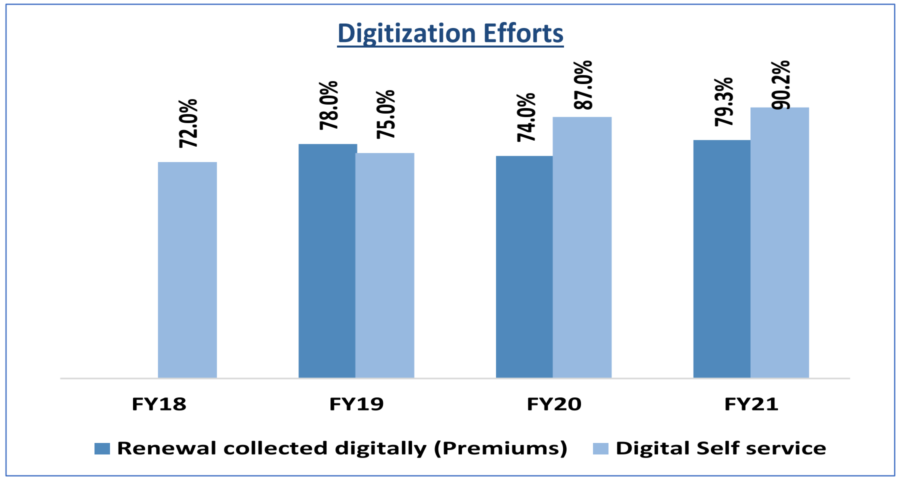
Long term Positives

Digital initiatives

IPRU has been always been ahead of the curve in terms of technology initiatives. It had started investing in digitisation in 2012 and it was the first insurance company to introduce tele-medical in 2013. After that over the years it has invested in end-to-end integration framework for majority of the internal processes. This helps the company reduce TAT, improves margins, rapid on-boarding of new partners etc. And now it has started focusing on creating AI based frameworks (bots, etc.) and building scale for bulk issuance, and mass renewal calling.

The digital platform of the Company provides a paperless on-boarding experience to customers, empowers them to conduct an assortment of self-service transactions, provides a convenient route to make digital payments for purchasing and making renewal premium payments, and facilitates a hassle-free claims settlement process. Further, the company has also done some technology initiatives during the quarter which includes: 1) ability to pre-fill forms by uploading an image of a KYC document, thereby improving policy issuance turnaround time, 2) enabling video verification and KYC authentication services at the distribution partner end to have a unified experience for a customer and 3) building an end-to-end digital as well as modular journey for on-boarding members in the group business.

Due to changes in the product mix and investment in distribution, the cost ratio for the company in H1FY22 remained elevated. Overall cost to total weighted received premium ratio stood higher at 17.8% for H1FY22 as against 14.3% for the same period last year. Still the cost ratio of the company is industry best, due to higher focus on digitization.



Diversified business mix is what we like the most about IPRU

IPRU, over the past few year, has changed the strategy and has removed the dependence on the any one product or any particular banks. Earlier the company was largely dependent on ULIPs and parent bank in banca channel. New bank partners - IDFC First, Indusind, RBL and AU – are delivering strong growth (although on a low base). Now, with the conscious efforts by management, the business has become diversified both in terms of product sale and distribution method. This makes the company more resilient to change according to consumer demand and reduces risk of overdependence.

Product mix in terms of total APE, savings mix has been reduced to 82.8% in H1FY22 compared to 85% in FY21. Same way, protection mix, which is high margin business has increased to 17.2% as of H1FY22 as compared to 15% in FY20. In the distribution Mix also, the company does not have dependence on any single channel (refer to table- Distribution mix APE). Share of Bancassurance (especially ICICI Bank) has been reducing and agency channel (which helps fetching new business and higher productivity) share has been rising. The focus of the company remains on acquisition of new partners and investment in creation of new sourcing channels. As a result, the company has added more than 12,000 new agents in H1FY22 and in partnership distribution, it has added 53 partnerships during half year. Now it has about 700 partnerships across traditional and non-traditional distributors such as web aggregators, payment banks, small finance banks and insurance marketing firms. IPRU has now total of 23 banks partners.

Product mix APE

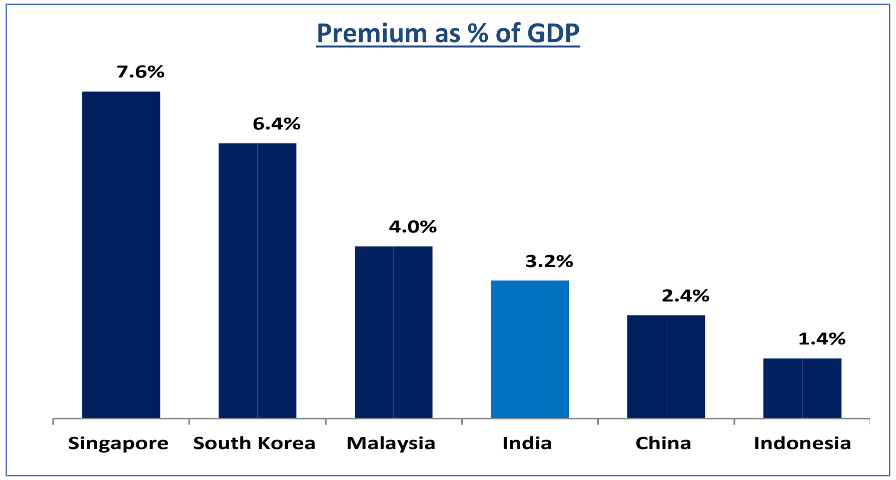
	Q1FY20	H1FY20	M9FY20	FY20	Q1FY21	H1FY21	M9FY21	FY21	Q1FY22	H1FY22
Savings	85.4	85.3	85.9	84.9	74.0	80.5	82.2	83.9	77.9	82.8
-ULIP	71.2	68.9	68.5	64.7	43.6	46.3	48.2	48.0	43.9	48.2
-PAR	9.7	10.7	11.3	12.7	24.4	28.0	28.5	31.0	29.3	29.7
-Non-PAR	3.0	3.5	3.7	4.2	0.0	0.0	0.0	0.0	0.0	0.0
-Group	1.6	2.1	2.4	3.3	6.0	6.1	5.5	4.9	4.8	4.8
Protection	14.6	14.7	14.1	15.1	26.0	19.5	17.8	16.2	22.1	17.2

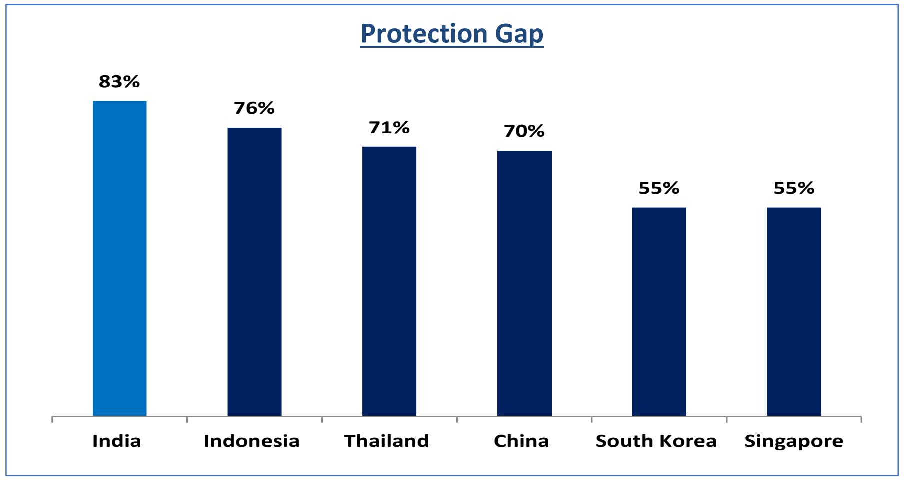
Distribution mix APE

	Q1FY20	H1FY20	M9FY20	FY20	Q1FY21	H1FY21	M9FY21	FY21	Q1FY22	H1FY22
Bancassurance	52.4	56.2	53.1	50.8	39.6	42.3	42.1	42.3	38.6	39.0
Agency	21.2	22.1	21.0	21.2	24.6	23.4	24.1	23.8	22.5	24.0
Direct	12.8	11.8	12.5	12.6	12.3	12.2	12.6	12.5	13.1	13.0
Corporate Agents	6.8	5.7	7.1	7.4	8.6	8.6	8.2	9.1	8.4	9.0
Group	6.8	4.2	6.3	8.0	14.9	13.5	12.9	12.3	17.4	15.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Uniquely positioned to tap the vast potential in India's life insurance sector

India is a 10th largest life insurance market worldwide and 5th largest in Asia with Rs.4.6 trn in total premium business. The total premium grew at CAGR of 17% in last 20 years. Still India continues to be under penetrated as compared to countries like China, Thailand and Korea. Premium as % of GDP for 2020 stood at 3.2% for India; protection gap at 83% is also highest amongst peers. In terms of life insurance density, India has recently shown improvement but still hovers near the per capita premium levels seen a decade ago. Increase in disposable income coupled with pandemic-induced awareness of protection products will increase penetration level. Swiss Re estimates protection gap to rise from US$16.5 trn in 2019 to US$35.6 trn in 2030. Combination of a high share of working population (One of the highest young population nations with median age of 28 years), rapid urbanization (Growth in urban population at 2.4% CAGR between FY15-FY20), rising affluence and focus on financial inclusion to propel the growth of Indian life insurance sector. Protection is the most profitable part of business; and this market could double in 5 years as penetration of protection is low at 10% of addressable population.





Risks & Concerns:

Reinsurance Price hikes

The management has informed that the company has been intimated by reinsurer about raising reinsurance rates. Further, they have notified that the discussions with the reinsurer are underway and they expect the final outcome to be a combination of price increase and applicable underwriting norms in line with emerging experience. However, the management has given assurance that they are confident that the price hike will be passed on to customers and they don't see any material impact on the margins.

COVID Claims

Insurance was one of the hardest hit industry due to COVID-19. During second wave, when the death rates were high the company was under tremendous pressure. There were unprecedented high COVID claims. It had settled ~3.2 time claims in Q1FY22 compared to FY21; also it had to make increased provisions. Due to this, IPRU had reported loss of Rs. 1,857 mn. We still remains cautious on this front. Higher than expected claims paid due to COVID or otherwise could also hurt the profitability.

Competition

Insurance business is highly competitive business. There has been intense competition from other private life insurers and since last few quarters, LIC has also become aggressive and has been gaining market share. Rising competition especially via digital disruptors poses pricing risk.

Lower interest rates

Low interest rates are the biggest challenge for the growth of life insurers. Low interest rate attracts lower customers especially in the saving business. The company has 48% of product mix is coming from ULIP. Further, insurers derive majority of their profits from investment income. The erosion of investment returns from low interest rates, tightening spreads and inverted yield curves will not only undercut this critical source of profitability, but also potentially put ratings at risk.

Regulatory changes that have a negative impact on volume or margin growth could be another concern for the company.

Protracted weakness in capital markets can affect new ULIP sales and persistency in existing ULIP policies.

Company Background:

ICICI Prudential Life is promoted by ICICI Bank Limited (51.33% stake) and Prudential Corporation Holdings Limited (22.09% stake). The Company began operations in FY01 and has consistently been amongst the top private sector life insurance companies in India on a Retail Weighted Received Premium (RWRP) basis. The Company offers an array of products in the Protection and Savings category which match the different life stage requirements of customers, enabling them to provide a financial safety net to their families as well as achieve their long-term financial goals. As of Q2FY22, the Company has an AUM of Rs.2.37 trn and a Total Sum Assured of Rs.21.67 trn.

Peer comparisons

	CMP, Rs	Market Share as of Jun-21	VNB Margin %	ROE%	EV (Rs. bn)				P/EV (x)				P/E(x)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
IPRU	583.8	5.1	25.1	12	291.1	315.5	359.4	414	2.9	2.6	2.3	2.0	84.6	530.7	41.7	35.4
MAXF	1033	2.5	25.2	24	118	141	167	197	3.0	2.5	2.1	1.8	71.2	63.7	45.8	40.0
SBILIFE	1217	7	23.2	15.3	351	406	471	561	3.5	3.0	2.6	2.2	83.3	80.1	74.7	68.5
HDFCLIFE	660	7.2	26.2	17.6	266	305	360	430	5.0	4.4	3.7	3.1	98.6	91.6	77.7	75.9

Financials

Policyholder Account (Rs in mn)

	FY20	FY21	FY22E	FY23E	FY24E
Total premium earned	3,28,790	3,49,734	4,20,916	4,72,538	5,26,999
Income from investments and other income	(1,24,365)	4,75,310	1,57,815	1,78,216	2,03,929
Transfer from shareholders account	14,970	15,748	12,598	9,449	5,669
Total income	2,19,395	8,40,791	5,91,329	6,60,203	7,36,597
Commission	15,860	15,002	19,265	22,369	25,003
Operating expenses	28,469	26,883	38,656	43,308	48,299
Provisions	19	64	65	67	69
Total expenses	44,348	41,948	57,986	65,744	73,371
Benefits paid	1,93,766	2,26,409	2,98,460	2,32,219	2,66,249
Change in valuation of liabilities	(50,569)	5,43,241	2,17,810	3,23,489	3,59,162
Total	1,43,197	7,69,650	5,16,270	5,55,708	6,25,411
Surplus	31,850	29,193	17,073	38,751	37,814
Tax	1,314	1,419	819	2,568	2,460
Net surplus	30,536	27,774	16,254	36,184	35,354
Transfer to shareholders account	19,887	19,849	7,977	25,008	23,962

(Source: Company, HDFC sec)

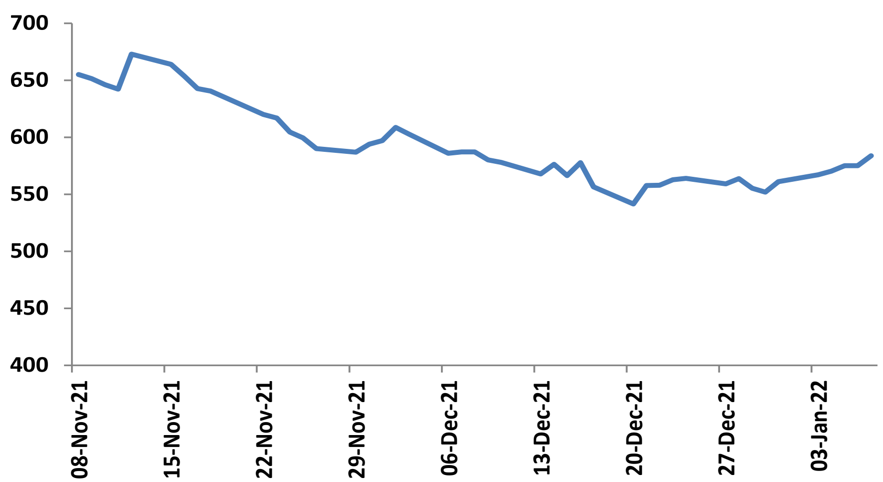
Shareholders account (Rs in mn)

As at March	FY20	FY21	FY22E	FY23E	FY24E
Transfer from policyholders' a/c	19,887	19,849	7,977	25,008	23,962
Investment income	6,638	7,721	7,008	6,759	7,871
Other income	10	12	12	12	12
Total income	26,535	27,581	14,997	31,778	31,845
Expenses	420	682	734	789	848
Contribution to policyholders' a/c	14,970	15,748	12,598	9,449	5,669
Profit before tax	11,145	11,151	1,665	21,541	25,328
Taxes	0	1,213	87	1,377	1,621
PAT	**11,145**	**9,938**	**1,578**	**20,164**	**23,707**

Balance Sheet (Rs in mn)

	FY20	FY21	FY22E	FY23E	FY24E
Source					
Share capital	14,359	14,359	14,359	14,359	14,359
Reserves and surplus	60,994	70,078	71,079	84,944	1,01,265
Net worth	75,353	84,436	85,438	99,302	1,15,623
Credit/debit balance in fair value a/c	(3,228)	(3,228)	(3,228)	(3,228)	(3,228)
Policyholders' a/c	14,42,536	19,85,777	22,03,587	25,27,076	28,86,238
Funds for future appropriation	12,327	12,635	12,951	13,274	13,606
Total Liabilities	**15,26,987**	**20,79,620**	**22,98,747**	**26,36,425**	**30,12,239**
Application					
Shareholders' investments	74,152	83,290	84,341	98,249	1,14,609
Policyholders' investments	4,67,503	-	-	-	-
Asset to cover linked liabilities	9,70,850	19,81,594	21,99,404	25,22,893	28,82,055
Loans	4,631	4,631	4,631	4,631	4,631
Fixed assets & DTA	4,778	4,778	4,778	4,778	4,778
Net current assets	5,074	5,327	5,594	5,873	6,167
Total Assets	**15,26,988**	**20,79,620**	**22,98,747**	**26,36,425**	**30,12,239**

One Year Price Chart



(Source: Company, HDFC sec)

Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Performance metrics (Rs mn)					
NBP	1,24,875	1,32,261	1,86,824	2,24,189	2,63,057
APE	73,810	64,620	82,641	99,169	1,13,033
VNB	16,050	16,210	21,734	26,280	30,180
EV	2,30,300	2,91,070	3,18,642	3,63,397	4,14,400
EVOP	32,890	35,060	36,823	50,697	57,998
Rs/share					
EPS	7.8	6.9	1.1	14.0	16.5
BV	52.5	58.8	59.5	69.2	80.5
DPS	0.7	0.3	0.1	3.4	4.1
Growth (%)					
Premium growth	7.5	6.4	20.4	12.3	11.5
Total income growth	(47.0)	283.2	(29.7)	11.6	11.6
Commissions growth	2.2	(5.4)	28.4	16.1	11.8
Opex growth	9.3	(5.6)	43.8	12.0	11.5
PAT growth	(2.9)	(10.8)	(84.1)	1,178.1	17.6
Performance metrics growth (%)					
NBP	20.5	5.9	41.3	20.0	17.3
APE	(5.4)	(12.5)	27.9	20.0	14.0
VNB	20.9	1.0	34.1	20.9	14.8
EV	6.5	26.4	9.5	14.0	14.0
EPS	(2.9)	(10.8)	(84.1)	1,178.1	17.6
BV	9.7	12.1	1.2	16.2	16.4
DPS	(50.0)	(58.4)	(47.6)	2,273.3	17.7
Expense ratios (%)					
Commissions/premium	4.8	4.3	4.6	4.7	4.7
Opex/premium	8.7	7.7	9.2	9.2	9.2
Total expenses/premium	13.5	12.0	13.8	13.9	13.9
Effeciency ratios (%)					
RoAA	0.7	0.6	0.1	0.8	0.8
RoE	15.5	12.4	1.9	21.8	22.1
Valuation					
P/E (x)	74.8	84.6	530.7	41.7	35.4
P/ABV (x)	11.1	9.9	9.8	8.4	7.3
P/EV (x)	3.6	2.9	2.6	2.3	2.0

Definitions, abbreviations and explanatory notes:

- **New Business Premium (NBP):** Insurance premium that is due in the first policy year of a life insurance contract or a single lump sum payment from the policyholder.
- **Annualized Premium Equivalent (APE):** The sum of annualized first year premiums on regular premium policies, and 10% of single premiums, written by the Company during the fiscal year from both retail and group customers.
- **Renewal Premium:** Life insurance premiums falling due in the years subsequent to the first year of the policy.
- **Embedded Value:** Insurance is a long-term business. You buy a policy today but continue to pay premiums for several years. It is from this future income that the insurers make profits. So the value of a life insurance company is assessed by future profits that the current business is able to generate. This is captured by the embedded value (EV) that represents the sum of present value of all future profits from the existing business and shareholders' net worth. Embedded value simply represents the value generated from the business sold by the company, if it were to stop writing anymore business.
- **Value of New Business (VoNB):** VoNB is the present value of expected future earnings from new policies written during a specified period and it reflects the additional value to shareholders expected to be generated through the activity of writing new policies during a specified period.
- **Value of New Business Margin / VoNB Margin:** VoNB Margin is the ratio of VoNB to New Business Annualized Premium Equivalent for a specified period and is a measure of the expected profitability of new business.
- **Solvency Ratio:** Solvency ratio means ratio of the amount of Available Solvency Margin to the amount of Required Solvency Margin as specified in form-KT-3 of IRDAI Actuarial Report and Abstracts for Life Insurance Business Regulations.
- **Persistency:** The proportion of business renewed from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten.
- **PAR:** With participating insurance, a portion of the risk is shared among the policyholders and the company. As part of this risk-sharing relationship, par policyholders may also share in certain rewards when their policies perform better than originally expected. This reward may come in the form of a policyholder dividend, which is a portion of the earnings from the par account where the investments, expenses and other items related to the company's par policies are tracked.
- **Non-PAR:** A non-participating life insurance plan is one where the policyholder does not receive any bonuses or add-ons in the form of dividends declared by the insurer from time to time. As the name suggests, the insurer does not "participate" in the insurance company's business.

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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