April 19 2021

RESULT REPORT Q4 FY21 | Sector: Insurance

ICICI Prudential Life Insurance

BUY	CMP Rs 452	Target Rs 574	Upside 27%

Result Highlights

- ✓ NBP – NBP was at Rs 51bn growing by 23% on YoY basis which was better than our expectation. The performance was mainly supported by a jump of 23% in single premium while First year premium registered a growth of 23%.
- ✓ APE – APE at Rs 25bn was higher than our estimate of Rs 21.9bn. APE grew by 27% yoy and by 50.6% qoq. The growth was led by strong performance in saving products.
- ✓ APE Mix – Share of Non-linked savings business increased by 1103bps which was offset by decline of 687bps in share of ULIPs and 412bps in Protection.
- ✓ VNB & VNB Margin – Q4FY21 VNB at Rs 5.9bn was higher than our forecasts of Rs 5.8bn, while VNB margin at 23.6% was lower than our estimates of 26.5%. On a yoy basis VNB margins contracted by 25bps and by 214bps on sequential basis.
- ✓ Persistency improvement – Sequentially, persistency saw an improvement across all time period, however on a yoy persistency across all time period saw a decline.
- ✓ Opex and commission ratios – Cost ratios have improved with commission ratios falling 46bps yoy whereas opex ratio improved by 16bps yoy.
- ✓ Profits - PAT came at Rs 625mn, reduction on both YoY and QoQ basis.
- ✓ EV - Embedded Value grew 26.4% to Rs. 291.06 bn during the year
- ✓ Channel Mix – Mix of Agency channel increased by 167bps on YoY basis, however, saw a sharp decline of 173bps on qoq basis. On yoy basis, share of banca saw a decline.

Our view: ICICI Pru is embarking on an aggressive target of a 28% CAGR in VNB Margins during FY21-23E. The drivers for this growth include 1) Strong growth in business from non-ICICI bank partners (IndusInd Bank, AU Bank, RBL Bank, IDFC and Standard Chartered) as most of these relationships were created in fag end of the past fiscal, 2) in terms of products there is a strong focus on non-par products, which would be margin accretive, 3) no price hike in protection will enable market share gains and 4) impact of ICICI Bank change in stance is now in the base. Factoring these in, we are raising our VNB estimates for FY22E and FY23E by 8% and 11% respectively. A delivery on their aspirational target of 28% CAGR can call for a re-rating, which we have not built in our target price yet. We retain our BUY rating with a 1-year revised price target of Rs574 (from Rs562 earlier).

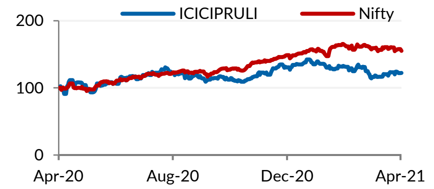
Exhibit 1: Result Table

	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Gross premium	121,006	106,470	13.7%	91,520	32.2%
Net premium	118,793	104,751	13.4%	89,708	32.4%
NBP	51,330	41,750	22.9%	34,430	49.1%
Renewal premium	69,126	64,352	7.4%	56,801	21.7%
APE	25,090	19,740	27.1%	16,660	50.6%
Commission ratio	4.7%	4.2%	46bps	4.3%	39bps
Opex ratio	7.2%	7.0%	16bps	7.8%	-62bps
Surplus	5,305	9,011	-41.1%	4,046	31.1%
PAT	625	1,787	-65.0%	3,043	-79.5%
VNB	5,910	4,700	25.7%	4,280	38.1%
VNB Margin	23.6%	23.8%	-25bps	25.7%	-214bps

Stock data (as on April 19, 2021)

Sensex:	14,359
52 Week h/l (Rs)	538 / 329
Market cap (Rs/USD mn)	649132 / 8669
Outstanding Shares	1,436
6m Avg t/o (Rs mn):	1,158
Div yield (%):	N/A
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

Stock performance



	1M	3M	1Y
Absolute return	5.1%	-12.3%	22.2%

Shareholding pattern (As of Dec'20 end)

Promoter	73.48%
FII+DII	20.41%
Others	6.09%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	574	562

Financial Summary

	FY21	FY22E	FY23E
Net premium	349,734	384,300	421,620
% yoy	6.4%	9.9%	9.7%
VNB	16,210	19,367	22,546
VNB Margin	25.1%	24.6%	24.5%
Reported PAT	9,602	10,698	15,138
% yoy	-10.2%	11.4%	41.5%
EPS (Rs)	6.7	7.4	10.5
EV/Share (Rs)	202.7	228.7	258.8
P/EV (x)	2.2	2.0	1.7
P/VNB (x)	40.0	33.5	28.8

Δ in earnings estimates

Rs mn	FY22e	FY23e
VNB (New)	19.4	22.5
VNB (Old)	18.0	20.3
% change	7.6%	11.1%

PRAYESH JAIN
Lead Analyst

prayesh.jain@ysil.in

+91 98218 04046

URMILA BOHRA, Associate

urmila.bohra@ysil.in

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Exhibit 2: Other Business Parameters

	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
APE Mix					
Savings	21,660	16,220	33.5%	14,090	53.7%
ULIP	11,850	10,680	11.0%	8,450	40.2%
Others	9,800	5,540	76.9%	5,640	73.8%
Protection	3,440	3,520	-2.3%	2,570	33.9%
Total APE	25,090	19,740	27.1%	16,660	50.6%
APE Mix					
Savings	86.3%	82.2%	416bps	84.6%	176bps
ULIP	47.2%	54.1%	-687bps	50.7%	-349bps
Others	39.1%	28.1%	1103bps	33.9%	525bps
Protection	13.7%	17.8%	-412bps	15.4%	-172bps
Total APE	100.0%	100.0%	0bps	100.0%	0bps
Distribution mix					
Banca	10,680	8,750	22.1%	6,990	52.8%
Agency	5,860	4,280	36.9%	4,180	40.2%
Others	8,550	6,710	27.4%	5,490	55.7%
Distribution mix					
Banca	42.6%	44.3%	-176bps	42.0%	61bps
Agency	23.4%	21.7%	167bps	25.1%	-173bps
Others	34.1%	34.0%	9bps	33.0%	112bps
Persistency					
13 month	86.1%	82.2%	390bps	89.2%	-310bps
61 month	58.8%	58.4%	40bps	60.2%	-140bps
Income from investments	71,428	(189,402)	-137.7%	192,783	-62.9%

CON-CALL HIGHLIGHTS

Product & Margin

- ✓ No further price hike on the cards for protection business. There may be requirement for price revision in next 2-3yrs due to change in mortality experience as the profile of target customer change.
- ✓ During live pandemic, the concern to visit medical centers will remain, but the long term protection opportunity remains strong.
- ✓ May introduce ROP as per customer requirement but will be reported separately as the profit margin is very different than pure protection.
- ✓ Expect the current margin to be maintained driven by improving margin through savings products, riders & critical attachment and group term policies.
- ✓ Required VNB CAGR of 28% shall be driven by top-line growth. New product introduction shall gain traction in FY22. Full operational year provides for a good runway for growth. Typically, year 2 of new tie-ups starts showing improving efficiencies and gain scale, this shall make positive contribution in FY22.
- ✓ Improved margin on ULIP driven by expense efficiencies and increased attachment. No much scope for margin improvement unless some positive effect from increased persistency.
- ✓ No change in strategy on Non-par business, however, continue to remain conscious on certain tenure policies.

Distribution Channel

- ✓ New banca tie-up has strong momentum, bank other than ICICI contributed to 16% APE.
- ✓ New Banca tie up shall continue to maintain the traction and Ipru change in strategy factored in the base nos.
- ✓ Being part of essential services will aid banca to do business despite Covid wave two. Last year saw significant movement in banca for all the product lines. There will stress with limited employees working but they have learnt from last lockdown so the impact should not be very material.
- ✓ IDFC provides access to affluent clients whereas AU small finance provides access to mass customers. Therefore, the product mix across all the banca tie-ups is different. Banks decide their own product mix as per their strategy and their customer profiles.
- ✓ Focus is on building capacity across all channels.
- ✓ Virtual hiring and examination of agents shall reduce the negative impact suffered in last year due to lockdown. Recently added agents expected to start contribution to the business.
- ✓ ICICI Bank showing sequential improvement. Aggressive on annuity product as suits well for its affluent customer base.
- ✓ Online contribution to overall Protection is in single digit (during the year website business grew whereas web aggregator business saw a decline) and partnership distributions contributed to 14% of protection business done in last year. Protection is mainly driven by intermittent channels.

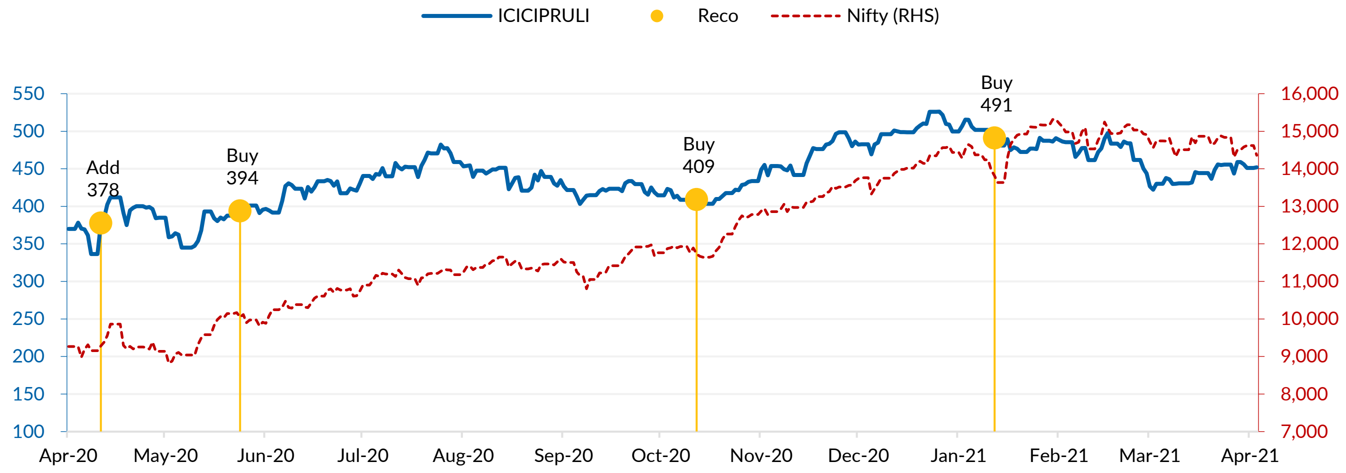
Variance and Sensitivity

- ✓ Lower unwind due to lower reference rate
- ✓ Positive variance of Rs. 3.1bn was driven by (1) Increase in scale leading to reduction in unit cost (2) change in future ULIP surrender rates. This was partially netted off by incremental Covid provision.
- ✓ Mortality variance was negative due Covid claims, no further negative variance expected.
- ✓ Sensitivity direction of VNB to reference has changed due to change in product mix with higher share of Non-Linked savings and protection.

Others

- ✓ Increased provision to Rs 3.32bn from Rs. 1bn in Dec 2020 for covid 19 claims
- ✓ Preparedness is higher this April compared to last year, therefore, are able to take this wave two situation very smoothly. April 2021 momentum has been much better than April 2020.
- ✓ Still not able to provide protection to NRI clients as insurers and reinsurers are not comfortable taking the risk during the ongoing pandemic.
- ✓ ROEV remained stable due to adverse tax effect in FY20 and pandemic effect in FY21.

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of 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 YSL and associates 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.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Prayesh Jain, Urmila Bohra

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India.

Email: research@ysil.in | Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 |INVESTMENT ADVISER: INA000007331| Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.