

ICICI Securities Limited is the author and distributor of this report

Q4FY21 result review and reco change

Insurance

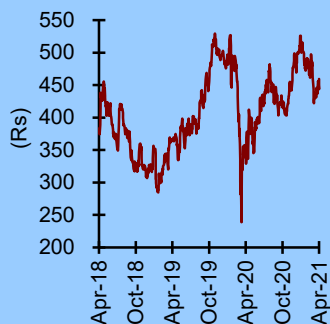
Target price: Rs530

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	73.5	73.5	73.5
Institutional investors	20.3	20.4	21.0
MFs and others	4.1	3.9	3.9
FIs/Banks	1.0	0.7	0.8
FII	15.2	15.8	16.3
Others	6.2	6.1	5.5

Source: BSE India

Price chart



INDIA



ICICI Prudential Life Insurance

BUY

Upgrade from ADD

Business momentum upwards; valuations remain attractive

Rs452

The big strategic achievement from FY21 for ICICI Prudential Life Insurance (IPRU) is the establishment of an ex-ICICI Bank product as well as distribution capability. Key effects of this strategy include: (1) Growth in non-linked savings portfolio by healthy 56% YoY in FY21, (2) introduction of guaranteed savings as well as deferred annuity products and (3) spurt in new distribution channels with ~600 partnerships including 23 banks and > 185,000 advisors. As such, despite ICICI Bank's contribution declining to 31% of the overall APE which in turn declined 13% YoY, total FY21 VNB was flat at Rs16bn. Management aims to increase annual VNB by Rs10bn over FY22-23 (implied CAGR of 27%). Considering the turnaround in business momentum and attractive valuations (1.8x based on FY23E EV of Rs366bn), we upgrade the stock from Add to BUY.

- **Becoming more diversified than peers?** The question is absolutely pertinent for IPRU considering its current mix of distribution and products and VNB contribution. The company appears better prepared for more bottom-up approach to follow a demand-based business strategy as it offers the entire bouquet of retail protection, group term, credit life, annuities, linked as well as traditional segments. The distribution mix (APE terms) of FY21 stood at banca (ICICI Bank): 31%, banca (others): 11%, agency:24%, direct: 13%, partnership distribution: 9% and group: 12% while product mix of APE stood at linked: 48%; non-linked: 31%, protection: 16%, group: 5%. VNB contribution in FY21 stood at protection: 53.4%, non-linked savings: 24.2% and linked savings at 22.3%.
- **Protection pricing to remain unchanged as volume becomes a more important VNB driver in FY22/23.** IPRU aims to reach Rs26.5bn VNB in FY23 which would imply an APE of Rs106bn in FY23 at 25% VNB margin. This would necessitate APE CAGR of 31% for IPRU Life between FY21-23E. Maintaining pricing (as indicated by IPRU in protection) can be beneficial to attain volume growth which should also benefit from better traction of new products and distribution channels harnessed in FY21. Total claims on account of Covid for FY21 were Rs4.59bn, while claims net of reinsurance were Rs2.64bn. Additional provision remains at Rs3.32bn towards Covid, not utilised so far but accounted in the EV walk.
- **Operating performance has been incrementally positive** with (1) positive persistency variation (Rs1.1bn) in FY21 which has also been driven by higher non-par mix which has 13th month persistency of 94%, (2) lower cost ratios (100/80 bps YoY for total /savings business) in FY21 and (3) recovery in APE growth (27% growth in Q4FY21) with health trends witnessed till date in Q1FY22.
- **Trading less than 2x FY23E P/EV irrespective of whether VNB falls short of the FY23E target of Rs26.5bn, upgrade from Add to BUY.** Based on, 15% APE growth and flattish VNB margins, EV estimate for FY23 turns out to be Rs365.7bn after factoring a negative economic variance possible with increase in interest rates. Meeting the FY23 VNB target is a positive optionality.

Market Cap	Rs649bn/US\$8.7bn
Reuters/Bloomberg	IPRU.BO/ IPRU IN
Shares Outstanding (mn)	1,435.9
52-week Range (Rs)	527/239
Free Float (%)	26.5
FII (%)	16.3
Daily Volume (US\$/'000)	16,554
Absolute Return 3m (%)	(12.3)
Absolute Return 12m (%)	22.2
Sensex Return 3m (%)	(2.8)
Sensex Return 12m (%)	53.4

Year to March	FY20	FY21	FY22E	FY23E
Weighted APE (Rs mn)	71,033	61,872	71,153	81,826
Embedded Value (Rs bn)	230.3	291.1	322.5	365.7
New value business (Rs bn)	16.1	16.2	18.3	20.0
VNB margin (%)	21.7	25.1	25.1	24.1
PAT (Rs mn)	10,670	9,562	21,354	23,484
P/EV (x)	2.8	2.2	2.0	1.8
EVOP as % of IEV	15.2	15.2	13.8	13.7
RoE (%)	15.0	11.7	21.6	19.9
RoEV (%)	6.5	26.4	10.8	13.4
Dividend per share (Rs)	0.8	0.5	1.0	1.0

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Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review

(Rs mn, year ending March)

Rs mn	FY20				FY21				Change	
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Net premium income	62,081	80,647	81,310	1,04,751	55,511	85,722	89,708	1,18,793	13.4	32.4
First year premium	12,698	17,185	18,742	16,453	6,275	11,698	13,605	20,293	23.3	49.2
Renewal premium	40,427	52,398	52,255	64,352	41,398	57,742	56,801	69,126	7.4	21.7
Single premium	10,168	12,325	11,639	25,666	9,794	17,894	21,114	31,587	23.1	49.6
Income from investments	19,916	(1,269)	45,587	(1,89,402)	1,30,672	79,494	1,92,783	71,428	(137.7)	(62.9)
Other income	165	192	228	220	228	244	234	228	3.8	(2.7)
Transfer from S/H A/C	2,159	2,521	2,342	7,949	4,163	2,895	2,753	5,937	(25.3)	115.7
Total income	84,321	82,091	1,29,466	(76,483)	1,90,574	1,68,354	2,85,478	1,96,385	(356.8)	(31.2)
Commission paid	2,648	3,945	4,277	4,344	2,002	3,354	3,617	5,328	22.7	47.3
Operating expenses	6,458	7,542	7,662	7,454	5,005	6,544	7,250	8,786	17.9	21.2
Total commission & opex	9,107	11,487	11,938	11,797	7,006	9,898	10,867	14,113	19.6	29.9
Benefits paid	36,446	41,373	53,908	62,039	25,961	49,097	68,174	83,176	34.1	22.0
Change in actuarial liability	32,314	21,583	57,869	(1,62,335)	1,49,428	1,01,978	2,00,470	91,366	(156.3)	(54.4)
Total expenses	77,866	74,443	1,23,715	(88,498)	1,82,395	1,60,973	2,79,511	1,88,656	(313.2)	(32.5)
Provisions	414	994	6	737	208	10	9	11	(98.5)	18.1
Service Tax on linked A/C	1,528	1,629	1,681	1,696	1,433	1,626	1,671	1,817	7.1	8.7
PBT	4,512	5,024	4,064	9,583	6,538	5,745	4,287	5,902	(38.4)	37.7
Tax	291	257	194	572	227	353	241	597	4.3	147.2
Surplus/(Deficit)	4,221	4,768	3,870	9,011	6,311	5,392	4,045	5,305	(41.1)	31.1
Shareholders' Account	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	4QFY20	YoY (%)	QoQ (%)
Transfer from P/H A/C	3,689	3,966	3,626	8,607	6,461	4,531	4,100	4,756	(44.7)	16.0
Income from Investments	1,433	2,047	1,855	1,260	1,274	1,691	2,130	2,598	106.2	21.7
Other Income	1	2	1	1	2	4	0	(0)		
Total	5,122	6,015	5,482	9,868	7,737	6,226	6,230	7,353	(25.5)	17.9
Other expenses	93	73	103	95	176	22	168	266	180.7	58.4
Amounts transf to P/H acc	2,159	2,521	2,342	7,949	4,163	2,895	2,753	5,937	(25.3)	115.7
Provisions (other than taxation)		358	-	108	286	10	43	26	(75.9)	(39.5)
PBT	2,870	3,063	3,038	1,717	3,112	3,299	3,266	1,124	(34.5)	(65.7)
Tax	21	45	13	(78)	236	267	211	499		137.0
PAT	2,849	3,019	3,025	1,795	2,876	3,032	3,056	625	(65.2)	(79.6)
Ratios (%)	Q1FY20	H1FY20	9MFY20	12MFY20	Q1FY21	H1FY21	9MFY21	12FY21	YoY	QoQ
Commission expense	4.9	5.3	5.5	5.7	4.1	4.6	4.7	5.3	(40)	
Opex ratio	12.1	11.3	11.1	10.3	10.7	9.7	9.9	9.5	(80)	
Cost Ratio-Savings	11.3	11.0	11.1	10.4	8.8	8.8	9.3	9.6	(80)	
APE (Rs mn)	14,700	33,690	54,070	73,810	8,230	22,870	39,540	64,620		
ULIP Mix (%)	71.2	68.9	68.5	64.7	43.6	46.3	48.2	47.8	(1,683)	
Participating Mix (%)	9.7	10.7	11.3	16.9	24.4	28.1	28.5	31.1	1,419	
Other savings Mix (%)	4.6	5.6	6.1	3.3	6.0	6.1	5.5	4.9	157	
Protection Mix (%)	14.6	14.8	14.1	15.1	26.0	19.5	17.8	16.2	107	
Other ratios (%)	Q1FY20	H1FY20	9MFY20	12MFY20	Q1FY21	H1FY21	9MFY21	12FY21	YoY (bps)	QoQ (bps)
Solvency Ratio	217.0	211.0	207.2	194.1	205.1	205.0	226.0	216.8	2,270	
VNB margins	21.0	21.0	21.0	21.7	24.4	26.3	26.0	25.1	340	
*Persistency ratios (%) : retail	Q1FY20	H1FY20	9MFY20	12MFY20	Q1FY21	H1FY21	9MFY21	12FY21	YoY	QoQ
13th Month	84.4	83.6	83.1	83.2	81.8	83.2	82.7	84.8	1,160	
25th Month	75.7	75.0	74.4	75.1	73.4	75.1	72.7	73.6	(150)	
37th Month	69.8	69.1	68.3	66.7	65.4	66.7	65.1	66.3	(40)	
49th Month	64.2	63.7	64.3	64.6	63.9	64.6	63.3	63.0	(160)	
61st Month	57.3	56.8	56.3	56.0	58.8	56.0	58.0	58.2	220	
Key metrics (Rsbn)	Q1FY20	H1FY20	9MFY20	12MFY20	Q1FY21	H1FY21	9MFY21	12FY21	YoY (%)	QoQ (%)
VNB	3.1	7.1	11.4	16.1	2.0	6.0	10.3	16.2	1.0	57.4
EV	-	227	-	230	-	257	-	291	26.4	
AUM	1,640	1,655	1,720	1,530	1,700	1,815	2,049	2,142	40.0	4.6

Source: Company data, I-Sec research *persistency in 12M column is 11MFY21 ratio (excluding single premium)

Table 2: APE and VNB projection

Rs bn	FY20	FY21	FY22E	FY23E
Weighted APE	71.1	61.9	71.2	81.8
% growth (YoY)	-2.9%	-12.9%	15.0%	15.0%
VNB	16.05	16.21	18.3	20.0
New Business Margin calculated- (%)	21.7	25.1	25.1	24.1
VNB margin on weighted APE (%)	22.6	26.2	25.7	24.5

Source: I-Sec research

Table 3: Embedded value projection

Embedded Value (Rs bn)	FY20	FY21	FY22E	FY23E
Opening IEV	216.3	230.3	291.1	322.5
Unwind	17.3	16.6	21.8	24.2
- Unwind rate (%)	8.0%	7.2%	7.5%	7.5%
VNB	16.1	16.2	18.3	20.0
Operating assumption changes	(2.3)	3.1		
Persistency Variance	0.9	1.1		-
Mortality and Morbidity variance	0.4	(2.4)		-
Expense variance	0.0	0.0		-
Other Variance	0.6	0.4		-
EVOP	32.9	35.1	40.1	44.2
Economic assumption change & Invt variance	(14.8)	25.7	(8.0)	1.0
Net capital injection	(4.1)	0.0	(0.7)	(2.0)
Closing IEV	230.3	291.1	322.5	365.7

Source: I-Sec research

Table 4: Valuation

Embedded Value - FY23E, Rs bn	365.7
New Business Profit - FY23E, Rs bn	20.0
New Business Multiple	20
Total appraisal value	766.7
Number of shares, mn	1,435.8
Valuation per share (Rs)	530
Price / Embedded value	2.1
CMP / Embedded value	1.8

Source: I-Sec research

Table 5: Scenario analysis

Scenario	% change in VNB		% change in EV	
	FY20	FY21	FY20	FY21
Increase in 100 bps in the reference rates	(2.4)	0.7	(2.5)	(2.8)
Decrease in 100 bps in the reference rates	2.2	(1.7)	2.6	3.0
10% increase in the discontinuance rates	(5.0)	(3.1)	(1.1)	(0.9)
10% decrease in the discontinuance rates	5.1	3.2	1.1	1.0
10% increase in mortality/morbidity rates	(9.5)	(10.2)	(1.6)	(1.6)
10% decrease in mortality/morbidity rates	9.6	10.4	1.7	1.6
10% increase in acquisition expenses	11.6	(10.5)	Nil	Nil
10% decrease in acquisition expenses	11.6	10.4	Nil	Nil
10% increase in maintenance expenses	(3.0)	(2.5)	(0.8)	(0.6)
10% decrease in maintenance expenses	3.0	2.5	0.9	0.6
Tax rates increased to 25%	11.4	(11.1)	(5.8)	(6.2)
10% increase in equity values	0.7	1.3	1.8	2.9
10% decrease in equity values	(0.7)	(1.6)	(1.8)	(2.9)

Source: I-Sec research

Table 6: Economic assumptions

Tenor (years)	Reference rates		
	FY19	FY20	FY21
1	6.66%	4.83%	3.91%
5	7.83%	7.43%	7.38%
10	8.35%	7.32%	7.93%
15	8.35%	7.17%	7.48%
20	8.22%	7.14%	7.02%
25	8.11%	7.14%	6.72%
30	8.05%	7.14%	6.55%

Source: I-Sec research

There is a sensitivity direction change for VNB with reference rates

There has been a decline in reference rates

Financial summary

Table 7: Policyholders' A/C

(Rs mn, year ending March)

	FY19	FY20	FY21	FY22E	FY23E
Gross Premiums	3,09,298	3,34,307	3,22,277	3,59,117	4,03,208
Reinsurance Ceded	(3,515)	(5,518)	27,457	(6,750)	(6,750)
Net Premiums	3,05,783	3,28,790	3,49,734	3,52,367	3,96,458
Income from Investments	1,02,144	(1,25,169)	4,74,376	56,319	63,473
Other Income	6,075	15,774	16,682	2,130	2,130
Total income	4,14,003	2,19,395	8,40,791	4,10,816	4,62,062
Commission	15,513	15,860	15,002	17,440	19,611
Operating expenses	26,053	28,469	26,883	32,538	36,614
Total commission and opex	41,566	44,328	41,885	49,977	56,225
Benefits Paid (Net)	1,42,591	1,93,766	2,26,409	1,60,566	1,80,114
Chg in reserves	2,10,030	(50,569)	5,43,241	1,66,109	1,86,348
Total expenses	3,94,187	1,87,525	8,11,535	3,76,652	4,22,688
Provisions for doubtful debts	6,351	8,712	6,784	6,159	6,891
Surplus / deficit before tax	13,465	23,158	22,472	28,004	32,483
Prov for Tax	1,132	1,314	1,314	1,419	2,207
Surplus / Deficit	12,239	21,737	21,158	26,586	30,276

Source: Company data, I-Sec Research

Table 8: Shareholders' A/C

(Rs mn, year ending March)

	FY19	FY20	FY21	FY22E	FY23E
Transfer from P/H A/C	10,770	19,887	19,849	19,902	23,201
Income From Investments	6,443	6,629	7,709	5,241	4,184
Total Income	17,306	26,525	27,569	25,258	27,499
Other expenses	422	885	1,047	769	769
Contribution to technical a/c	5,272	14,970	15,748	2,011	2,011
Total Expenses	5,694	15,855	16,795	2,780	2,780
PBT	11,612	10,670	10,774	22,478	24,720
Prov for Tax	223	-	1,213	1,124	1,236
PAT	11,389	10,670	9,562	21,354	23,484

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March)

	FY19	FY20	FY21	FY22E	FY23E
Share Capital	14,358	14,359	14,360	14,358	14,358
Reserves And Surplus	54,354	60,994	70,570	90,488	1,12,536
Shareholders' Fund	70,423	72,125	91,093	1,06,946	1,28,994
Policy Liabilities	3,85,524	4,73,556	6,02,156	11,26,144	12,84,413
Linked Liabilities Provision	10,36,999	8,80,368	12,77,704	7,68,633	7,76,319
Funds For Future App.	10,344	12,327	13,532	14,000	14,000
Current liabilities & prov.	36,644	33,321	37,306	50,350	50,350
Total	16,30,862	15,60,308	21,72,199	22,06,585	24,04,588
Shareholders' inv	79,862	74,152	1,00,807	48,943	70,600
Policyholders' inv	4,00,712	4,67,503	6,35,726	12,78,417	14,46,429
Assets to cover linked liab.	11,09,458	9,70,850	13,85,491	8,33,475	8,41,809
Loans	2,702	4,631	6,628	3,000	3,000
Fixed Assets	4,757	4,778	4,573	5,250	5,250
Current assets	33,371	38,395	38,973	37,500	37,500
Total	16,30,862	15,60,308	21,72,199	22,06,585	24,04,588

Source: Company data, I-Sec research

Table 10: Premium details*(Rs mn, year ending March)*

	FY19	FY20	FY21	FY22E	FY23E
New business premium	1,03,644	1,24,875	1,30,120	1,49,638	1,72,084
Total APE	77,990	71,058	61,872	71,153	81,826
Renewal premium	2,05,654	2,09,432	1,92,157	2,09,479	2,31,125
Total premium	3,09,297	3,34,307	3,22,277	3,59,117	4,03,208
NBP growth (%)	12.5	20.5	4.2	15.0	15.0
APE growth (%)	0.1	(8.9)	(12.9)	15.0	15.0
Renewal premium growth (%)	15.2	1.8	(8.2)	9.0	10.3
Total premium growth (%)	14.3	8.1	(3.6)	11.4	12.3
Premium split	FY19	FY20	FY21	FY22E	FY23E
Weighted APE	73,171	71,033	61,872	71,153	81,826
Participating	6,554	8,861	14,313	16,460	18,929
Non-participating	6,637	13,173	10,615	12,207	14,039
ULIP	59,980	48,999	36,944	42,485	48,858
NBP	1,03,644	1,24,625	1,30,120	1,49,638	1,72,084
Participating	6,554	8,861	14,313	16,460	18,929
Non-participating	29,351	46,778	52,048	59,855	68,833
ULIP	67,739	68,987	63,759	73,323	84,321
Renewal Premium	2,05,654	2,09,432	1,92,157	2,09,479	2,31,125
Participating	28,353	31,348	28,824	31,422	34,669
Non-participating	17,858	13,565	28,824	31,422	34,669
ULIP	1,59,443	1,64,519	1,34,510	1,46,635	1,61,787
NBP	1,03,644	1,24,625	-	-	-
Individual	81,401				
Group	22,243				

Source: Company data, I-Sec research

Table 11: Total premium channel mix

(%)	FY17	FY18	FY19	FY20
Individual agents	20.9	23.3	17.4	13.9
Corporate agents-Banks plus others	54.7	52.0	50.1	42.0
Direct business	21.9	21.9	29.2	40.5
Others	2.5	2.7	3.3	3.6

Source: Company data, I-Sec research

Table 12: Key ratios*(Year ending March)*

	FY19	FY20	FY21	FY22E	FY23E
Operating ratios (%)					
Investment yield (%)	7.3	(7.6)	26.5	2.9	3.0
Commissions/GWP	5.0	4.7	4.7	4.9	4.9
Operating expenses/GWP	8.4	8.5	8.3	9.1	9.1
Total expense/GWP	13.4	13.3	13.0	13.9	13.9
Benefits Paid/total Liability	9.5	13.4	11.4	8.0	8.2
Solvency margin (%)	214.9	194.1			
Total AUMs (Rs bn)	1,604	1,513	2,122	2,161	2,359
- Equity (%)	48.3	40.0			
Profitability ratios (%)					
VNB margin (%)	17.0	21.6	23.8	23.1	23.1
RoE (%)	16.4	15.0	11.7	21.6	19.9
Core EVOP(unwind +VNB)	15.5	15.4	14.2	13.8	13.7
EVOP as % of IEV	20.2	15.2	15.2	13.8	13.7
RoEV (%)	15.1	6.5	26.4	10.8	13.4
Valuation ratios					
Dividend per share	3.2	0.8	0.5	1.0	1.0
Dividend pay-out ratio (%)	39.7	10.8	7.5	6.7	6.1
EPS, Rs	7.9	7.4	6.7	14.9	16.4
VNB (Rs bn)	13.3	16.1	16.2	18.3	20.0
EV (Rs bn)	216	230	291	323	366
EV/Per share	151	160	203	225	255
VIF (Rs bn)	143	152	196	211	233
ANW (Rs bn)	74	75	95	111	133
VIF as % of EV	66%	66%	67%	66%	64%
P/EV (x)	3.0	2.8	2.2	2.0	1.8
P/EPS (x)	57.0	60.8	67.9	30.4	27.6

Source: Company data, I-Sec research

Table 13: Persistency ratios*(%)*

	FY16	FY17	FY18	FY19	FY20	FY21
13th Month	82.4	85.7	86.6	87.4	81.9	80.8
25th Month	71.2	73.9	78.3	78.0	71.7	72.7
37th Month	61.6	66.8	68.8	71.3	66.0	64.3
49th Month	62.2	59.3	64.2	65.2	63.0	62.1
61st Month	46.0	56.2	54.5	57.6	56.5	56.9

Source: Company data, I-Sec research

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