

Refer to important disclosures at the end of this report

Margin decline on expected lines

- VNB margins sharply declined to ~25.7% in Q3FY21 from ~27.4% in Q2FY21 amid rising demand for ULIP products and consolidation in the protection portfolio. This is the same concern we have been highlighting for the past couple of quarters when the company has been reporting a sharp surge in margins.
- 13M persistency dropped to ~82.4% from ~83.7% last quarter and 49M corrected to ~61.3% from ~63.9% last quarter. The solvency ratio remained healthy at 226% in Q3, backed by subordinate debt issuances of Rs12bn during the quarter.
- Although we appreciate management's consistent focus on increasing the share of protection plans, we remain skeptical of the elevated ULIP portfolio and expect ULIP share to rise with stability in equity markets. ULIP share is back to pre-Covid levels and stands at ~84.6% against ~74% during Q1FY21.
- We expect VNB margins for FY21 to correct further to ~25.6% from ~26% in 9MFY21 and expect VNB to grow at a CAGR of ~6.9% to Rs19.6bn during FY20-23E. We increase the TP to Rs492 (Rs456 previously), corresponding to 1.9x P/FY23 EV. We maintain our Hold rating and UW stance in Insurance EAP.

VNB margins to improve gradually: We believe that the overall insurance penetration in India is likely to rise post-Covid-19 as individual as well as corporate customers would be more cautious toward such crisis. IPRU management intends to improve the margin trajectory further with an increasing focus on protection plans and a consistent dip in the share of ULIPs. However, we remain skeptical of the same as the current social distancing scenario would increase the share of bancassurance, which would be more tilted toward ULIPs. We expect VNB margins for FY21 to correct further to ~25.6% from ~26% in 9MFY21 and then consolidate at similar levels for FY22-23E.

Sharp decline in premium receipts: IPRU reported flat absolute APE on a yoy basis during Q3FY21, with a gradual revival in demand for insurance products. Retail APE decline is sharper, indicating that the group APE business for the company has performed relatively better.

Outlook and valuation: Maintain Hold/UW in EAP: We expect VNB margins for FY21 to correct further to ~25.6% from ~26% in 9MFY21 and expect VNB to grow at a CAGR of ~6.9% to Rs19.6bn over FY20-23E. We increase our TP to Rs492 (Rs456 previously), corresponding to 1.9x P/FY23 EV. We maintain our Hold rating and UW stance in Insurance EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Profit	11,406	10,687	19,088	21,433	27,940
EPS (Rs)	7.9	7.4	13.3	14.9	19.5
VNB	13,280	16,050	11,578	15,906	19,606
VNB margin %	17.0	21.7	25.6	25.2	25.5
EV	216,240	230,320	276,296	319,955	371,497
ROEV %	20.2	15.2	14.2	14.9	15.3
P/EV (x)	3.5	3.3	2.7	2.4	2.0

Source: Company, Emkay Research

CMP Rs 499 as of (January 27, 2021)	Target Price Rs 492 (▲) 12 months
Rating HOLD (■)	Upside (1.4) %

Change in Estimates

EPS Chg FY21E/FY22E (%)	5/8
Target Price change (%)	8.1
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	13.3	14.9
Consensus	9.4	11.2
Mean Consensus TP (12M)	Rs 551	

Stock Details

Bloomberg Code	IPRU IN
Face Value (Rs)	10
Shares outstanding (mn)	1,436
52 Week H/L	538 / 222
M Cap (Rs bn/USD bn)	717 / 9.83
Daily Avg Volume (nos.)	2,355,677
Daily Avg Turnover (US\$ mn)	15.2

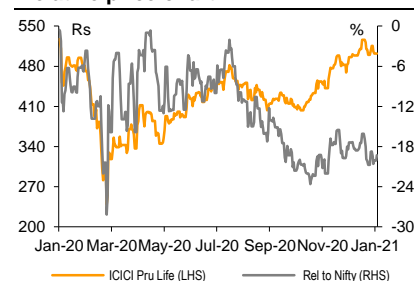
Shareholding Pattern Dec '20

Promoters	73.5%
FIIIs	16.3%
DIIIs	4.7%
Public and Others	5.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	21	9	(5)
Rel. to Nifty	(1)	2	(13)	(17)

Relative price chart



Source: Bloomberg

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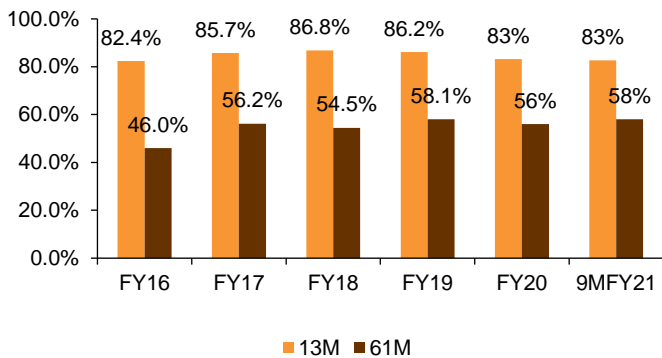
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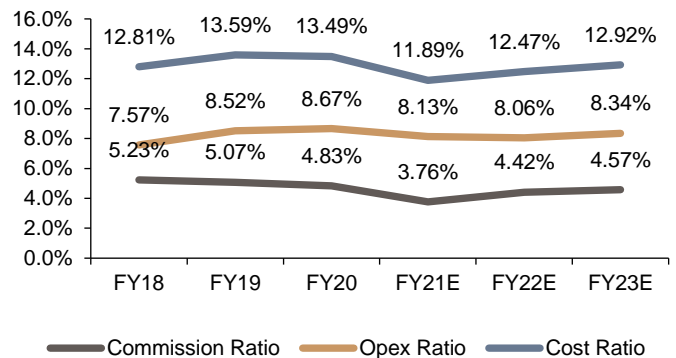
Story in Charts

Exhibit 1: 61M persistency improves



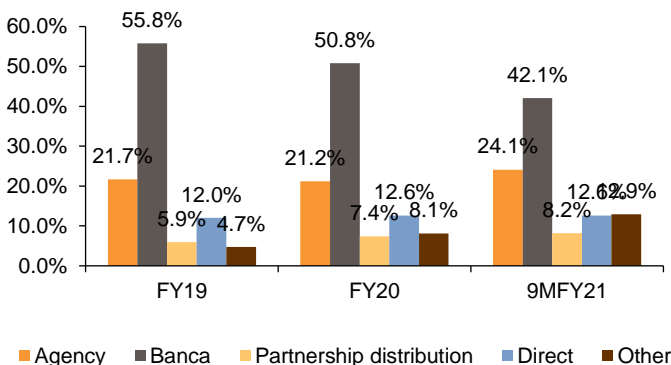
Source: Company, Emkay Research

Exhibit 2: Enhanced focus on productivity to improve cost structures



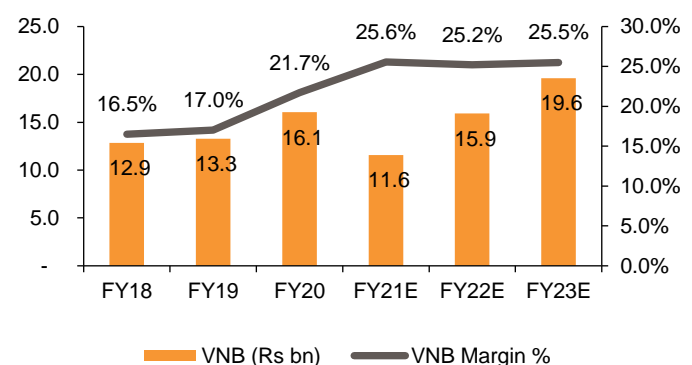
Source: Company, Emkay Research

Exhibit 3: Distribution channel more diversified



Source: Company, Emkay Research

Exhibit 4: VNB margins to stabilize going forward



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
NBP	116,164	116,337	0%	138,583	155,451	12%	173,506	195,375	13%
APE	43,845	45,305	3%	56,685	63,109	11%	73,484	76,890	5%
PAT	18,232	19,088	5%	19,796	21,433	8%	26,524	27,940	5%
EV	271,101	276,296	2%	310,273	319,955	3%	355,969	371,497	4%
VNB margin %	24.6%	25.6%	4%	25.4%	25.2%	-1%	25.8%	25.5%	-1%
ROE %	20.4%	23.5%	16%	20.1%	21.4%	7%	21.8%	22.6%	4%
ROEV %	13.2%	14.2%	8%	13.9%	14.9%	7%	14.2%	15.3%	8%

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Opening Embedded value (EV)	139,390	161,840	187,880	216,240	230,320	276,296	319,955
Expected return on existing business (A+B+C)	16,290	23,950	24,730	16,840	21,114	25,253	29,436
Expected return on existing business (unwind) (A)	12,210	13,730	15,840	17,250	17,274	21,413	25,596
Operating assumption changes (B)	1,000	7,640	4,200	(2,250)	2,000	2,000	2,000
VNB added during the period	6,660	12,860	13,280	16,050	11,578	15,906	19,606
Operating experience variance (C)	3,080	2,580	4,690	1,840	1,840	1,840	1,840
IEV operating earnings (EVOP)	22,950	36,810	38,010	32,890	32,692	41,159	49,042
Economic assumption changes and investment variance	5,820	1,130	(1,220)	(14,760)	13,284	2,500	2,500
IEV total earnings	28,770	37,940	36,790	18,130	45,976	43,659	51,542
Capital contributions/ (dividends paid out)	(6,320)	(11,880)	(8,430)	(4,050)	-	-	-
Closing IEV	161,840	187,900	216,240	230,320	276,296	319,955	371,497
Expected return as % of opening (PAT/opening EV)	12.1%	10.0%	6.1%	4.9%	8.3%	7.8%	8.7%
VIF transfer as % of opening (unwinding/opening EV)	8.8%	8.5%	8.4%	8.0%	7.5%	7.8%	8.0%
ROEV %	16.5%	22.7%	20.2%	15.2%	14.2%	14.9%	15.3%
Operating ROEV %	13.5%	16.4%	15.5%	15.4%	12.5%	13.5%	14.1%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premium	305,783	328,540	308,141	330,995	379,725
Income from investments	102,144	(125,169)	312,922	344,214	378,635
Contribution from the shareholders fund	5,272	14,970	7,500	6,000	6,000
Miscellaneous income	803	804	884	973	1,070
Total income	414,003	219,145	629,447	682,182	765,430
Commissions	16,038	15,860	11,600	14,614	17,366
Operating expenses	25,528	28,469	25,043	26,668	31,688
Provisions	6,351	8,685	8,038	8,559	9,769
Total expenses	47,917	53,014	44,681	49,841	58,823
Benefits paid (net)	142,591	193,766	140,771	157,752	151,723
Change in liabilities (net)	210,030	(50,569)	202,653	229,757	282,980
Total	352,621	143,197	343,424	387,509	434,703
Surplus	13,465	22,934	241,341	244,832	271,904
Tax	1,132	1,314	1,696	1,939	2,233
Net surplus	12,333	21,620	239,645	242,893	269,671
Transfer to shareholders account	10,770	19,887	21,794	22,679	29,229

Shareholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Transfer from policyholders account	10,770	19,887	21,794	22,679	29,229
Income from investments	6,418	6,594	5,195	5,195	5,195
Total income	17,279	26,487	26,988	27,873	34,424
Expenses	377	364	400	440	484
Provisions	0	466	0	0	0
Contribution to policyholders account	5,272	14,970	7,500	6,000	6,000
Net profit	11,406	10,687	19,088	21,433	27,940

Balance Sheet

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Sources of funds					
Share capital	14,358	14,359	14,358	14,358	14,358
Reserve and surplus	54,397	61,056	78,880	99,049	125,724
Fair value change account credit/(debit)	1,712	(3,228)	(3,228)	(3,228)	(3,228)
Net worth (including fair value change)	70,467	72,186	90,010	110,178	136,854
Policyholders funds	1,513,451	1,442,536	1,620,305	1,803,724	2,012,752
Funds for future appropriations	10,344	12,327	15,823	19,687	24,056
Total liabilities	1,594,262	1,527,049	1,726,138	1,933,590	2,173,661
Application of funds					
Shareholders investments	79,916	74,209	74,209	74,209	74,209
Policyholders investments	400,712	467,503	532,953	607,637	673,134
Assets to cover linked liabilities	1,109,458	970,850	1,087,352	1,196,087	1,339,617
Loans	2,702	4,631	4,631	4,631	4,631
Fixed assets	4,756	4,776	4,776	4,776	4,776
Net current assets (A-B)	(3,282)	5,080	22,217	46,250	77,293
Total assets	1,594,261	1,527,049	1,726,138	1,933,590	2,173,661

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Conservation ratio %	81.6	76.0	72.2	77.8	82.2
Commissions ratio %	5.2	4.8	3.8	4.4	4.6
Opex ratio %	8.3	8.7	8.1	8.1	8.3
ROA %	0.8	0.7	1.2	1.2	1.4
ROE %	16.4	15.0	23.5	21.4	22.6
Dividend payout ratio %	39.7	42.3	9.0	0.0	0.0

EV Data	FY19	FY20	FY21E	FY22E	FY23E
Embedded value (Rs mn)	216,240	230,320	276,296	319,955	371,497
Value of new business (Rs mn)	13,280	16,050	11,578	15,906	19,606
EVOP (Rs mn)	38,010	32,890	32,692	41,159	49,042
ROEV %	20.2	15.2	14.2	14.9	15.3
VNB margin %	17.0	21.7	25.6	25.2	25.5

Source: Company, Emkay Research

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.9	7.4	13.3	14.9	19.5
DPS	3.1	3.1	1.2	0.0	0.0
BVPS	49.1	50.3	62.7	76.8	95.3

Valuation (x)	FY19	FY20	FY21E	FY22E	FY23E
P/E	66.2	70.7	39.6	35.2	27.0
P/B	10.7	10.5	8.4	6.9	5.5
P/EV	3.5	3.3	2.7	2.4	2.0
P/VNB	56.9	47.0	65.2	47.5	38.5
Dividend yield (%)	0.6	0.6	0.2	0.0	0.0

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
GWP	14.3	8.0	(5.8)	7.7	15.0
New business premium (NBP)	12.5	20.2	(6.7)	33.6	25.7
Annualized premium equivalent (APE)	3.4	(5.4)	(38.6)	39.3	21.8
Retail APE	(4.9)	0.0	(49.6)	48.5	25.0
Commissions	14.3	(1.1)	(26.9)	26.0	18.8
Operating expenses	25.8	11.5	(12.0)	6.5	18.8
Net income	(29.6)	(6.3)	78.6	12.3	30.4

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net earned premium	81,310	104,751	55,511	85,722	89,708
Total income	128,981	(83,171)	187,693	167,154	284,857
Total expenses	125,944	(84,888)	184,589	165,007	281,770
Net income	3,025	1,795	2,869	3,032	3,057
EPS (Rs)	2.11	1.25	2.00	2.11	2.13

Source: Capitaline

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	75.0	75.0	73.5	73.5	73.5
FIIIs	13.3	13.3	15.1	15.8	16.3
DIIIs	5.5	5.5	5.2	4.6	4.7
Public and Others	6.2	6.1	6.2	6.1	5.5

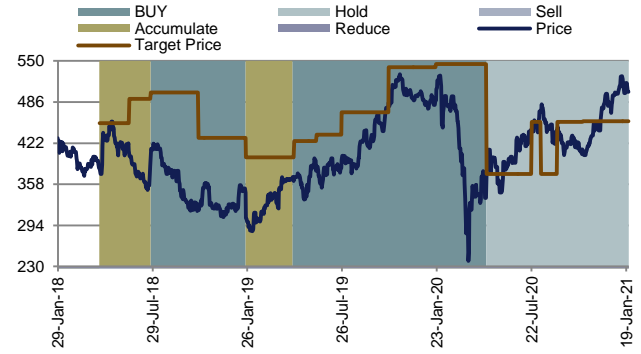
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Jan-21	526	456	12m	Hold	Jignesh Shial
09-Dec-20	487	456	12m	Hold	Jignesh Shial
28-Oct-20	409	456	12m	Hold	Jignesh Shial
09-Sep-20	434	455	12m	Hold	Jignesh Shial
09-Aug-20	470	374	12m	Hold	Jignesh Shial
22-Jul-20	442	455	12m	Hold	Jignesh Shial
01-Jul-20	420	374	12m	Hold	Jignesh Shial
11-Jun-20	395	374	12m	Hold	Jignesh Shial
27-Apr-20	378	374	12m	Hold	Jignesh Shial
07-Feb-20	496	545	12m	Buy	Neeraj Toshniwal
21-Jan-20	489	545	12m	Buy	Neeraj Toshniwal
09-Dec-19	490	540	12m	Buy	Neeraj Toshniwal
08-Nov-19	519	540	12m	Buy	Neeraj Toshniwal
23-Oct-19	485	540	12m	Buy	Neeraj Toshniwal
11-Oct-19	441	470	12m	Buy	Neeraj Toshniwal
03-Oct-19	469	470	12m	Buy	Neeraj Toshniwal
11-Sep-19	422	470	12m	Buy	Neeraj Toshniwal
13-Aug-19	375	470	12m	Buy	Neeraj Toshniwal
25-Jul-19	396	470	12m	Buy	Neeraj Toshniwal
28-Jun-19	389	435	12m	Buy	Neeraj Toshniwal
07-Jun-19	386	435	12m	Buy	Neeraj Toshniwal
13-May-19	337	425	12m	Buy	Neeraj Toshniwal
25-Apr-19	368	425	12m	Buy	Neeraj Toshniwal
22-Apr-19	369	400	12m	Buy	Neeraj Toshniwal
13-Mar-19	334	400	12m	Accumulate	Neeraj Toshniwal
23-Jan-19	305	400	12m	Accumulate	Neeraj Toshniwal
24-Oct-18	323	430	12m	Buy	Neeraj Toshniwal
25-Jul-18	404	501	12m	Buy	Neeraj Toshniwal
14-Jun-18	403	491	12m	Accumulate	Neeraj Toshniwal
18-Apr-18	382	453	12m	Accumulate	Neeraj Toshniwal

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Insurance	1.50	1.50	0%	0	100.00
HDFC Life	0.68	0.68	1%	1	45.49
ICICI Pru Life	0.25	0.23	-7%	-2	15.22
Max Financial	0.15	0.16	4%	1	10.64
SBI Life	0.42	0.43	1%	1	28.65
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	27-Jan-20	27-Jul-20	26-Oct-20	24-Dec-20	25-Jan-21
EAP - BFSI-Insurance	100.0	148.1	140.8	130.2	149.4	151.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	148.4	141.6	130.8	150.3	152.7

*Performance measurement base date 1st April 2019

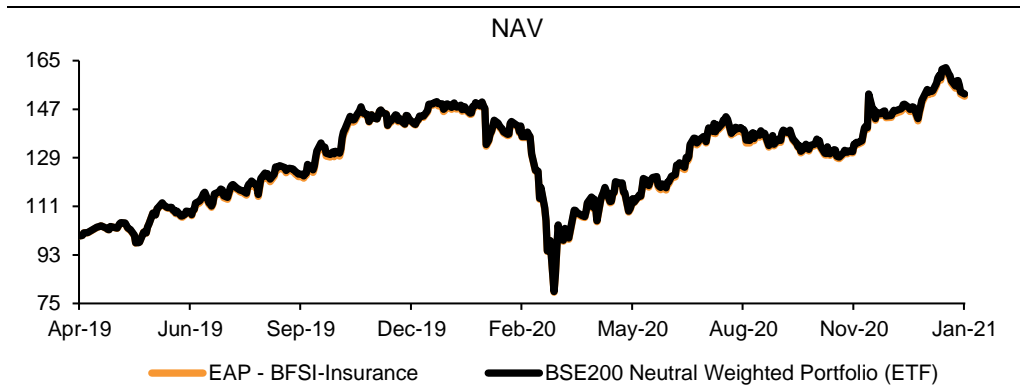
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	1.6%	16.5%	7.8%	2.5%
BSE200 Neutral Weighted Portfolio (ETF)	1.6%	16.7%	7.8%	2.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Jan 2021 02:41:55 (SGT)

Dissemination Date: 28 Jan 2021 02:42:55 (SGT)

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