

ICICI Prudential Life Insurance

BUY

CMP Rs499

Target Rs 562

Upside 13%

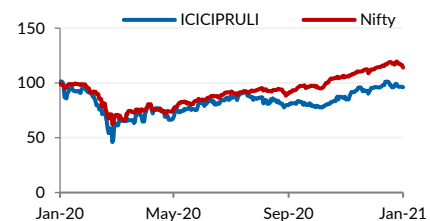
Subdued Performance in margins

- ✓ **NBP** – NBP was at Rs34bn growing by 14% on YoY basis which was in line with our expectation. The performance was mainly supported by a sharp jump of 81% in single premium while First year premium registered a de-growth of 27%.
- ✓ **APE** – APE at Rs16.6bn slightly lower than our estimate of Rs16.9bn. APE de-grew by 18% yoy and grew by 13.7% qoq. The de-growth was led mainly on back of 39% decline in ULIP.
- ✓ **APE Mix** – Share of Protection surged 233bps and Non-linked savings business increased by 1477bps which was offset by decline of 1709bps in share of ULIPs.
- ✓ **VNB & VNB Margin** – Q3FY21 VNB at Rs4.2bn was lower than our forecasts of Rs4.6bn, while VNB margin at 25.7% was lower than our estimates of 27.5%. On a yoy basis VNB margins expanded by 479bps, however saw a contraction of 168bps on sequential basis.
- ✓ **Persistency improvement** – Sequentially, persistency saw a decline across all time periods expect 37th Month (where it remained flat). On a yoy basis only 25th month and 49th month persistency saw a marginal decline.
- ✓ **Opex and commission ratios** – Cost ratios have improved with commission ratios falling 96bps yoy whereas opex ratio improved by 161bps yoy to 7.8%
- ✓ **Profits** - PAT came at Rs3.04bn, remaining stable on YoY and QoQ basis.
- ✓ **Channel Mix** – Mix of other channel increased by 852bps on YoY basi, however saw a sharp decline of 1167bps in share of banca channel. On QoQ basis too, share of banca saw a decline.
- ✓ **Change in forecasts** – 9MFY21 APE is 67% of our FY21 estimates and 66% VNB share of our forecasts.
- ✓ **Valuations** - The stock currently trades at FY23E P/EV of 2.2x.
- ✓ **Our view:** : ICICI Pru Life Q3 FY21 results were weaker than our forecasts primarily on the back of higher share of ULIPs and a declining share of protection. We have cut our VNB margin assumption for future years by 50bps each but have raised our APE growth estimates given that ULIPs are making a strong comeback and the company is increasing its focus on the non-par segment. Valuations at FY23E P/EV are attractive when compared with HDFC Life's valuations of 4x. Furthermore, we expect ICICI Pru Life to return to premium growth from Q4 FY21. We expect the company to report a 20% and 14% VNB and EV CAGR during FY21E-23E. Retain BUY with a target price of Rs562.

Stock data (as on Jan 27, 2021)

Nifty	13,968
52 Week h/l (Rs)	538 / 226
Market cap (Rs/USD mn)	716605 / 9827
Outstanding Shares (mn)	1,436
6m Avg t/o (Rs mn):	932
Div yield (%):	N/A
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

Stock performance



	1M	3M	1Y
Absolute return	0.6%	21.1%	-5.2%

Shareholding pattern (As of Sept'20 end)

Promoter	73.48%
FII+DII	20.41%
Others	6.09%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	562	563

Financial Summary

	FY20	FY21	FY22
Net premium	328,790	326,091	345,484
% yoy	7.5%	-0.8%	5.9%
VNB	16,050	15,258	18,338
VNB Margin	21.7%	26.0%	27.0%
PAT	10,688	11,309	17,451
% yoy	-6.3%	5.8%	54.3%
EPS (Rs)	7.4	7.9	12.2
EV/Share (Rs)	160.4	179.1	202.0
P/EV (x)	3.1	2.8	2.5
P/VNB (x)	44.6	46.9	39.0
RoEV (%)	15.2%	13.4%	15.1%
BVPS (Rs)	52.5	57.1	64.2

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Exhibit 1: Result Table

	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq	Q3 FY21E
Gross premium	91,520	82,637	10.8%	87,335	4.8%	
Net premium	89,708	81,310	10.3%	85,722	4.7%	
NBP	34,430	30,210	14.0%	29,570	16.4%	34,426
Renewal premium	56,801	52,255	8.7%	57,742	-1.6%	
APE	16,660	20,380	-18.3%	14,650	13.7%	16,939
Commission ratio	4.3%	5.3%	-96bps	4.1%	22bps	
Opex ratio	7.8%	9.4%	-161bps	7.5%	34bps	
Surplus	4,046	3,870	4.5%	5,391	-25.0%	
PAT	3,043	3,025	0.6%	3,025	0.6%	
VNB	4,280	4,260	0.5%	4,010	6.7%	4,661
VNB Margin	25.7%	20.9%	479bps	27.4%	-168bps	27.5%
APE Mix						
Savings	14,090	17,710	-20.4%	12,320	14.4%	
ULIP	8,450	13,820	-38.9%	7,010	20.5%	
Others	5,640	3,880	45.4%	5,310	6.2%	
Protection	2,570	2,670	-3.7%	2,320	10.8%	
Total APE	16,660	20,380	-18.3%	14,650	13.7%	
APE Mix						
Savings	84.6%	86.9%	-233bps	84.1%	48bps	
ULIP	50.7%	67.8%	-1709bps	47.8%	287bps	
Others	33.9%	19.1%	1477bps	36.2%	-239bps	
Protection	15.4%	13.1%	233bps	15.8%	-41bps	
Total APE	100.0%	100.0%	0bps	100.0%	0bps	
Distribution mix						
Banca	6,990	10,930	-36.0%	6,410	9.0%	
Agency	4,180	4,470	-6.5%	3,320	25.9%	
Others	5,490	4,980	10.2%	4,920	11.6%	
Distribution mix						
Banca	42.0%	53.6%	-1167bps	43.8%	-180bps	
Agency	25.1%	21.9%	316bps	22.7%	243bps	
Others	33.0%	24.4%	852bps	33.6%	-63bps	
Persistency						
13 month	82.4%	82.2%	20bps	89.2%	-680bps	
61 month	58.8%	58.4%	40bps	60.2%	-140bps	
Income from investments	192,783	45,587	322.9%	79,494	142.5%	

CONCALL TAKEWAYS

Product

✓ Protection

- Some decline in retail protection. There are concerns on supply side due to requirement to visit medical centers. Expect the supply chain friction to reduce as the situation normalizes. Also, need to include the reinsurance constraints. Want to be conscious on this business till it normalizes but long term thesis on protection remains in-tact.
- The capacity for large sum assured has seen concerns. Risk management has become priority over top-line business.
- Saw good opportunity in group business.
- Credit life has seen strong bounce back.
- Everybody has started taking the price hike in protection product and the price difference is contracting. Companies with lower pricing are compromising on margin as all other aspects remain consistent.
- Share of Protection business expected to reach 20% during next 2-3 years from current levels of 15%.
- Pricing change reflects the change in the target audience and this looks like a sustainable pricing.
- Launched innovative retirement plan and critical illness products, capitalizing the opportunity.
- Continue to reprise products in line with interest rate.
- Interest risk hedged through a combination of cash market instruments and derivatives. No interest rate risk expected due to change in product mix.
- Capacity for FRA has been growing and yield curves are conducive for hedging.
- No change in business philosophy in deferred annuity and guaranteed product, however better investment risk hedge has become more systematic and want to seize the opportunity on the same.
- Currently finding capacity in FRA only upto 10 years as of now. Expect the same to expand with time.
- Enabling standardized product shall not impact the existing business. It's a welcome move as will open opportunity. Not easy to bring standardization for products other than Term and annuity product.
- Cross sell rates start picking up once the market is saturated, the focus continues to remain on new customer.

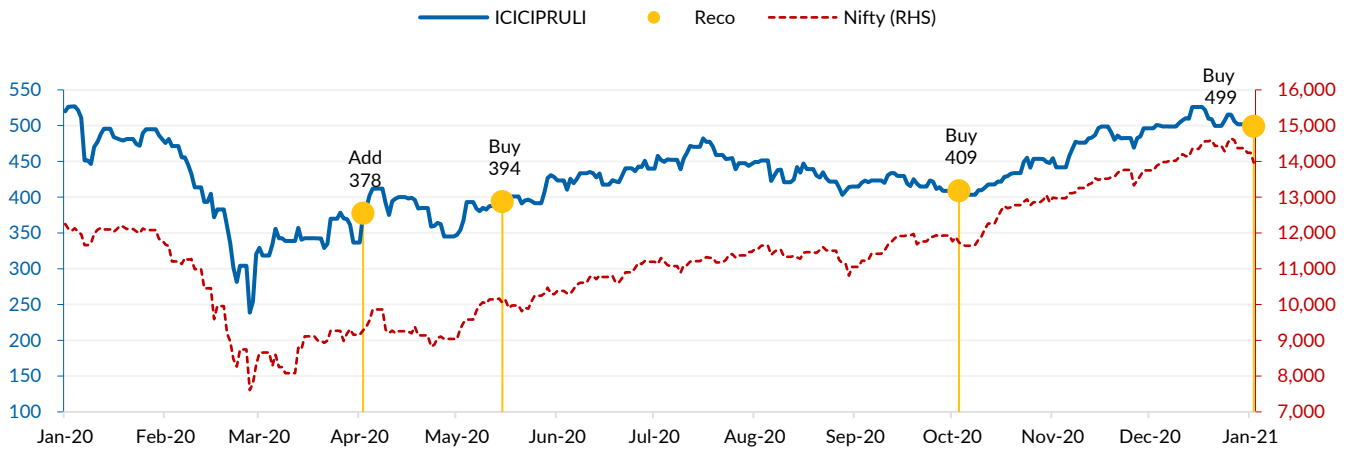
✓ VNB and Margin

- Focus on absolute VNB and VNB margin. Quarterly margin can be fluctuating.
- Will like to improve VNB led by growth in Savings and relatively faster growth in Protection.
- Addition of rider to the basic product to further aid margin trajectory. Have been able to increase attachment compared to start of the year.
- The margin on protection portfolio has remained at the same level as last year in 9MFY21.
- ROP margin are similar to Non-Par products. No view of pure v/s ROP as both of them have different customer segments.

ICICI Prudential Life Insurance

- Attachment significantly improves the margin of protection business.
- ✓ Persistency
 - 13th month persistency for Non-Linked remained stable and saw an improvement for Protection business.
 - Persistency in ULIP also expected to improve from Q4FY21. Improving market segment and fund performance to aid bring persistency at last year's level.
 - Don't expect persistency variance to be negative.
- ✓ Distribution
 - Tie up with IDFC Bank and Indusind Bank have started yielding result.
 - 83 new partners added during 9MFY21. Partnered with RBL bank, AU Small finance bank, PhonePay and BSE Ebix during Q3FY21
 - APE for channels other than ICICI Bank grew by 9%.
 - Share of ICICI bank in total APE at 34% for 9MFY21, share for all other banks at around 9%.
 - ICICI Bank continues to focus on annuity and protection business. 400% growth in Annuity business from ICICI bank in 9MFY21 on Y/Y basis (though a small base yet)
 - Introduction of Guaranteed pension product to bring higher traction in business from ICICI bank.
 - Focus for ICICI bank is not the topline but improving VNB
 - Agency channel focus was to increase digital onboarding.
 - ULIP has seen positive trend sequentially from bank.
- ✓ Cost
 - Reduction in discretionary expenses, infrastructure and employee cost.
 - Headcount has reduced compared to last year, by re-deploying people to new areas.
- ✓ Others
 - Issued Debt at 6.5% coupon rate to the tune of Rs.12bn
 - Claims arising from mortality including Covid 19 has been well within the estimates.
 - Total claims of Rs.3.44bn on account of Covid, Net claims on retained business amounted to Rs1.54bn
 - Rs. 1bn additional provisioning for Covid 19 not yet utilized.

Recommendation Tracker



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BUY: Potential return >15% over 12 months

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