

ICICI Prudential Life Insurance Company Ltd.



ICICI Prudential Life Insurance Company Ltd.

Continues strong & profitable growth

CMP INR 388	Target INR 564	Potential Upside 45%	Market Cap (INR Mn) 558,110	Recommendation BUY	Sector BFSI
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Result highlights

- GWP has grown by 21% yoy and 35% qoq to Rs. 65,993.9 mn while net premium earned has grown at 20.6% yoy and 35.7% qoq. Overall, APE growth was strong at 16.8% yoy with savings growing 37% yoy (during H1FY18) and protection growing at 31.6% yoy.
- Commission expense came in at Rs. 3623mn, registering growth of 98.6% yoy and 68% qoq. With a 9.4% decline in operating expense of 9.4%, total expense ratio increased to 13% against 12.9% for Q1FY18 but low than 13.3% for Q2FY17. High growth in commission expense has been on account of change in product mix while decrease in opex is on account of lower sales and marketing expense during the period.
- Surplus for the quarter was Rs. 3554 mn, up 12.5% yoy but down 10.4% qoq. Surplus growth on yoy basis has been aided by strong growth and cost efficiency. VNB margin stands improved at 11.7% versus 9.4% for H1FY17 and 10.1% for FY17.
- PAT for the quarter was Rs. 4212 mn, flat yoy and up 3.8% qoq.
- Owing to its customer retention efforts, 13th month persistency improved to 84.70% against 78.60% for Q2FY17.
- Solvency position continues to be strong at 275.7%.

MARKET DATA

Shares outs (Mn)	1435
EquityCap (INR Mn)	14355
Mkt Cap (INR Mn)	558110
52 Wk H/L (INR)	508/274
Volume Avg (3m K)	1262.6
Face Value (INR)	10
Bloomberg Code	IPRU IN

Continued strong growth with improved margins

ICICIPRU has continued to maintain its strong growth momentum on back of favorable growth drivers such as low life insurance penetration and a well-established distribution network. Total APE grew by 36.8% during H1FY18, while for the quarter APE growth was 16.8% (68% in Q1FY18). On segmental basis, savings grew by 37%/16.3% during H1FY18/Q2FY18 and protection grew by 31.6%/30.4% over the same period. As a result, currently (as of H1FY18) share of protection in the total product mix stands at 4.2% against 3.9% for FY17 which is partly the reason for increased profitability and improvement in VNB margins (of ~160 bps since FY17; VNB at Rs. 4.2 bn up 71% yoy).

VNB margins stood at 11.7% against 9.4% for H1FY17 and 10.1% for FY17. The improvement in margin has come on account of increase in share of protection in the total product mix as well as due to improvement in margin of savings products. Although the current VNB margins are only interim period numbers and as assumptions evolve during the rest of FY18, we expect VNB margins to change accordingly. Over the longer-term, we expect VNB margins to improve considerably on account of improvement in cost ratios, persistency and increased share of protection in the total product mix.

Along with protection share increasing, the company also witnessed changes in its savings mix wherein share of ULIPs reduced to 81.8% from 84.1% as of FY17, while that of Par, Non-par and Group stood at 12.3%, 0.4% and 1.3% against 9.6%, 1.1% and 1.3% as of FY17, respectively. We believe reduction in share of non-par is on account of the management not being too comfortable with carrying interest-rate risk. Over the long term, we expect the protection business to start contributing meaningfully to the overall business and profitability.

On the cost front, the company witnessed uptick in commission ratio which stood at 5.4% for H1FY18 (vs. 3.6% for FY17) whereas opex ratio improved to 8.7% over 11.4% for FY17. Overall, the company witnessed total expense ratio of 14.1% during H1FY18 against 15.1% for FY17. We believe various measures such as digitization and improved productivity have helped the company attain such cost improvements which have contributed to improvement in profitability.

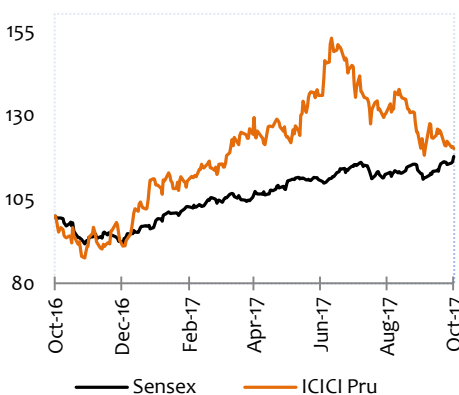
In terms of persistency, 13m has improved to 87% along with nodes upto 49m showing improvement as well. Since persistency has a direct bearing on VNB margins, we believe improved persistency partially explains the ~160 bps improvement in VNB margins.

In terms of distribution, bancassurance still dominates the channel mix. As of H1FY18, contribution of bancassurance (on retail APE basis) was Rs. 18.32 bn while that of agency and direct channel was Rs. 9.69 bn and Rs. 5.14 bn respectively. On APE basis, share of bancassurance stood at 51.3% (vs. 56.9% as of FY17), agency share was 27.1% (vs. 23.3% as for FY17) and direct channel contributed 14.4% (vs. 12% as of FY17).

Overall, the company managed to improve its market share as well (on RWRP basis) to 13.7% (against 12% as of FY17) within the total industry and 24.6% (against 22.3% as for FY17) within the private sector only. We attribute such market share gains to continued strong premium growth. For H1FY17, RWRP, at Rs. 34.42 bn, was up 38.8% yoy.

As of H1FY18, the total AUM of the company stands at Rs. 1,305.9 bn, up 16% while embedded value (EV) stands at Rs. 172.10 bn which is up 16% yoy. The company continues to maintain strong solvency position of 275.7%.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	33043
NIFTY	10295

SHARE HOLDING PATTERN (%)

Particulars	Sep-17	Jun-17	Mar-17
Promoters	80.71	80.72	80.72
FII's	5.76	6.25	5.98
DII's	3.54	3.45	3.3
Others	9.99	9.59	10
Total	100	100	100

ANALYST

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POLICYHOLDERS' A/C	Q2FY18	Q2FY17	Q1FY18	Y-o-Y	Q-o-Q
Gross premium income	65,994	54,686	48,849	20.7%	35.1%
Net premium income	65,395	54,225	48,202	20.6%	35.7%
Income from investment	28,130	37,094	35,177	-24.2%	-20.0%
Other income	170	153	164	10.8%	3.8%
T/f of funds from SH's a/c	-2	-32	2	-95.0%	-200.0%
TOTAL	93,693	91,441	83,545	2.5%	12.1%
Net commission	3,632	1,829	2,162	98.6%	68.0%
Operating expenses	4,921	5,433	4,120	-9.4%	19.4%
Expenses of management	8,553	7,262	6,282	17.8%	36.2%
Provision for doubtful debts	9	16	10	-45.2%	-14.9%
Provisions for dimunition in value of investments	24	0	27	-	-12.9%
Service tax charge on linked charges	1,444	1,052	1,089	37.2%	32.6%
Provision for taxes	228	356	262	-36.0%	-13.0%
Benefits paid (net)	40,711	41,701	39,690	-2.4%	2.6%
Change in actuarial liability	39,172	37,896	32,220	3.4%	21.6%
TOTAL	90,139	88,283	79,580	2.1%	13.3%
Surplus/(deficit)	3,554	3,158	3,965	12.5%	-10.4%
Appropriations:					
T/f'ed to shareholders	2,850	3,139	3,334	-9.2%	-14.5%
Funds for future appropriations	704	19	632	-	11.5%

Source: Company Data, KRChoksey Research

SHAREHOLDERS' A/C	Q2FY18	Q2FY17	Q1FY18	Y-o-Y	Q-o-Q
T/f from policyholders' a/c	2,850	3,139	3,334	-9.2%	-14.5%
Investment income	1,725	1,278	1,038	35.0%	66.2%
Other income	3	2	2	58.8%	50.0%
Total income	4,578	4,418	4,373	3.6%	4.7%
Expenses not related to insurance business	88	96	91	-8.4%	-3.3%
T/f of funds from Policyholders' a/c	-2	-32	2	-95.0%	-200.0%
Provision for doubtful debts	0	0	0	-	-
Provisions for dimunition in value of investments	0	0	0	-	-
Profit before tax (PBT)	4,491	4,354	4,281	3.1%	4.9%
Provision for tax	279	166	221	67.8%	26.0%
Profit after tax (PAT)	4,212	4,188	4,059	0.6%	3.8%

Source: Company Data, KRChoksey Research

Key Financials

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net earned premium	151,604	189,987	221,552	270,575	333,217	409,811
Surplus/(deficit)	11,621	13,421	10,738	10,178	12,437	14,349
NBP-APE	46,491	51,085	64,965	81,206	99,478	119,373
EPS (Rs.)	11.4	11.5	11.7	10.8	12.7	14.3
Closing EV	137,210	139,380	161,840	192,363	228,822	272,964
RoEV (%)	15.4%	15.3%	16.5%	16.5%	17.4%	18.3%

Source: Company Data, KRChoksey Research

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BALANCE SHEET	Q2FY18	Q2FY17	Q1FY18	Y-o-Y	Q-o-Q
Sources of funds					
Shareholders' funds					
Share capital	14,355	14,353	14,354	0.0%	0.0%
Share application money	0	0	0	-	-
Reserve & surplus	49,253	41,324	51,057	19.2%	-3.5%
Credit/(debit) fair value change a/c	4,691	2,689	3,131	74.5%	49.9%
Sub-total	68,299	58,366	68,541	17.0%	-0.4%
Borrowings					
Policyholders' funds:					
Credit/(debit) fair value change a/c	20,242	14,731	20,013	37.4%	1.1%
Revaluation reserve - investment property	604	577	604	4.6%	0.0%
Policy liabilities	12,01,862	10,42,961	11,62,691	15.2%	3.4%
Non-unit liabilities (mathematical reserves)	2,78,451	2,23,523	2,61,778	24.6%	6.4%
Provision for linked liabilities (fund reserves)	8,75,101	7,80,259	8,54,799	12.2%	2.4%
Funds for discontinued policies	48,311	39,179	46,114	23.3%	4.8%
Sub-total	12,22,707	10,58,269	11,83,307	15.5%	3.3%
Funds for future appropriations					
Linked	8	8	8	-1.2%	1.2%
Non-linked	7,369	6,402	6,665	15.1%	10.6%
Sub-total	7,377	6,411	6,673	15.1%	10.5%
TOTAL	12,98,383	11,23,045	12,58,521	15.6%	3.2%
Applications of funds					
Investments					
Shareholders'	69,653	57,375	69,146	21.4%	0.7%
Policyholders'	3,05,376	2,42,955	2,87,095	25.7%	6.4%
Assets held to cover linked liabilities	9,23,420	8,19,446	9,00,921	12.7%	2.5%
Loans	1,101	589	966	86.9%	14.0%
Fixed assets - net block	2,035	2,101	2,090	-3.2%	-2.7%
Deferred tax assets	1	1	1	0.0%	0.0%
Current assets	0	0	0	-	-
Cash & bank balances	777	767	804	1.2%	-3.4%
Advances and other assets	24,337	17,933	19,320	35.7%	26.0%
Sub-total	25,113	18,700	20,124	34.3%	24.8%
Current liabilities	28,124	17,935	21,563	56.8%	30.4%
Provisions	191	186	258	2.6%	-25.9%
Sub-total	28,315	18,121	21,821	56.3%	29.8%
Net current assets	-3,202	579	-1,696	-653.6%	88.8%
TOTAL	12,98,383	11,23,045	12,58,521	15.6%	3.2%

Source: Company Data, KRChoksey Research

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Analytical ratios & key performance metrics	Q2FY18	Q2FY17	Q1FY18	Y-o-Y	Q-o-Q
Solvency (%)	275.7%	305.9%	288.6%	-30.2%	-12.9%
Management expense ratio (%)	13.0%	13.3%	12.9%	-0.3%	0.1%
Yield on investments (policyholders' fund)					
Without unrealised gains					
Par - non-linked	16.5%	9.5%	9.4%	7.0%	7.1%
Non-par - non-linked	9.3%	8.6%	6.6%	0.7%	2.7%
Non-par – linked	12.3%	14.9%	11.7%	-2.6%	0.6%
With unrealised gains					
Par - non-linked	7.8%	28.5%	17.7%	-20.7%	-9.9%
Non-par - non-linked	6.6%	26.0%	15.9%	-19.4%	-9.3%
Non-par – linked	7.2%	15.1%	12.7%	-7.9%	-5.5%
Yield on investments (shareholders' fund)					
Without unrealised gains	10.9%	9.4%	6.6%	1.5%	4.3%
With unrealised gains	19.3%	17.8%	10.9%	1.5%	8.4%
Persistency ratio (%)					
13th month	84.7%	78.6%	86.4%	6.1%	-1.7%
25th month	71.6%	70.8%	71.9%	0.8%	-0.3%
37th month	66.5%	64.1%	65.7%	2.4%	0.8%
49th month	62.3%	58.3%	56.0%	4.0%	6.3%
61st month	54.0%	54.9%	52.5%	-0.9%	1.5%
Total APE	18,690	16,000	17,040	16.8%	9.7%
Savings APE	17,960	15,440	16,270	16.3%	10.4%
Protection APE	730	560	770	30.4%	-5.2%
RWRP	18,060	15,440	16,360	17.0%	10.4%
Market Share Based on RWRP	13.7%	12.4%	15.3%	1.3%	-1.6%
Cost/TWRP	14.0%	14.4%	14.1%	-0.4%	-0.1%
Value of New Business	2,350	2,440	1,820	-3.7%	29.1%
VNB Margin (%)	11.7%	9.4%	10.7%	2.3%	1.0%
Assets Under Management	13,05,910	11,28,270	12,65,910	15.7%	3.2%
of which Equity	46.0%	55.0%	46.0%	-9.0%	0.0%
of which Debt	54.0%	45.0%	54.0%	9.0%	0.0%
Embedded value	1,72,100	1,48,380		16.0%	-

Source: Company Data, KRChoksey Research

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VALUATION

ICICIPru has a demonstrated track-record of achieving profitable growth with RoEs of 30%+ and RoEV in the range of 15-16%. Further, the company has consistently communicated on how it plans to be more efficient in terms of operations and has delivered on it, while simultaneously working towards improving customer retention and improving sales processes (one of best persistency in the industry – 13th month being 85.7%/67.0% for FY17/13 and 61st month being 56.2%/10.0% for FY17/13). We expect the company to maintain its stance on digitisation of various processes which should lead to favorable cost ratios over the longer-term. We also like the fact that the company's business is more customer-centric than being product-centric. This is the reason why, despite the industry shifting away from ULIPs in light of tight regulations around it, the company has continued to maintain it as a significant product segment.

We estimate the company to deliver RoEV of 18.3% for FY20E on the back of VNB margin improving to 16%. We thus value ICICIPru at ~Rs. 8,10,059 million which is Rs. 564/share, offering an upside of 45% at CMP of Rs. 388/share. The company is currently valued at 2.0x FY20E EV (3.4x FY17 EV).

EV Calculation

Particulars (INR Million)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
First year premiums	45,732	49,244	63,446	79,308	97,152	1,16,583
Single premiums	7,590	18,414	15,187	18,983	23,255	27,906
New business premium (NBP)	53,321	67,658	78,633	98,291	1,20,407	1,44,488
NBP growth (%)	42%	27%	16%	25%	23%	20%
Renewal premiums	99,745	1,23,986	1,44,907	1,75,017	2,16,176	2,69,462
Renewal premiums growth (%)	15%	24%	17%	21%	24%	25%
Total premiums	1,53,066	1,91,644	2,23,540	2,73,308	3,36,583	4,13,950
Total premium growth (%)	23%	25%	17%	22%	23%	23%
NBP - APE	46,491	51,085	64,965	81,206	99,478	1,19,373
NBP - APE growth (%)	40%	10%	27%	25%	23%	20%

Source: Company Data, KRChoksey Research

EV Calculation	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Opening EV	1,17,750	1,38,220	1,39,390	1,61,840	1,92,363	2,28,822
Unwind	11,700	12,590	12,210	14,177	16,850	20,044
VNB (or NBAP)	2,700	4,120	6,660	9,745	13,927	19,100
Operating variance	3,720	4,500	4,080	2,751	2,632	2,670
EV Operating Profit (EVOP)	18,120	21,210	22,950	26,672	33,409	41,813
Non-operating variance	11,110	-5,640	5,820	8,500	8,500	8,500
EV Profit	29,230	15,570	28,770	35,172	41,909	50,313
Net capital injection	-9,770	-14,410	-6,320	-4,649	-5,451	-6,171
Closing EV	1,37,210	1,39,380	1,61,840	1,92,363	2,28,822	2,72,964

Source: Company Data, KRChoksey Research

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FINANCIALS

Revenue Account / Policyholders' Account (INR Million)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Gross premiums	1,53,066	1,91,644	2,23,540	2,73,308	3,36,583	4,13,950
Reinsurance ceded	1,462	1,657	1,988	2,733	3,366	4,140
Net premiums	1,51,604	1,89,987	2,21,552	2,70,575	3,33,217	4,09,811
Income from investments	1,87,244	12,084	1,49,769	1,39,707	1,61,175	1,85,538
Other income	594	209	608	500	500	500
Total income	3,39,443	2,02,279	3,71,930	4,10,782	4,94,892	5,95,849
Commission expenses	5,532	6,200	7,589	9,137	11,099	13,477
Operating expenses	16,520	18,883	23,572	28,784	35,460	43,681
Provision for doubtful debts	3,132	3,643	4,288	6,007	7,297	8,852
Operating profit	3,14,259	1,73,553	3,36,481	3,66,855	4,41,035	5,29,838
Benefits paid (net)	1,22,574	1,24,274	1,49,979	1,93,915	2,38,873	2,93,861
Change in reserves	1,79,561	35,155	1,74,976	1,61,995	1,88,788	2,20,549
Provisions for tax	504	704	788	766	936	1,080
Surplus / (Deficit)	11,621	13,421	10,738	10,178	12,437	14,349

Source: Company Data, KRChoksey Research

Profit & Loss Account / Shareholders' Account (INR Million)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Transfer from Technical account	11,386	12,076	11,316	10,178	12,437	14,349
Income from investments	5,364	6,019	6,956	6,976	7,664	8,420
Total income	16,750	18,096	18,272	17,154	20,101	22,769
Total expenses	896	382	427	491	565	650
PBT	15,854	17,714	17,844	16,663	19,536	22,119
Provision for tax	-490	1,212	1,028	1,166	1,368	1,548
PAT	16,344	16,501	16,817	15,497	18,168	20,571

Source: Company Data, KRChoksey Research

Balance Sheet (INR Million)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Sources of funds						
Share capital	14,317	14,323	14,354	14,354	14,354	14,354
Reserves and surplus	34,309	36,401	46,976	57,824	70,541	84,941
Shareholders' fund	52,667	53,233	64,060	75,347	88,547	1,03,478
Fair value change account - net	11,755	9,712	17,867	26,784	37,072	48,915
Revaluation reserve - Investment property	562	577	604	500	500	500
Policy liabilities	9,20,340	9,55,495	11,30,471	12,92,466	14,81,254	17,01,803
Funds for future appropriations	5,275	6,619	6,042	6,042	6,042	6,042
Total	9,90,599	10,25,638	12,19,043	14,01,139	16,13,415	18,60,738
Application of Funds						
Investments						
- Shareholders'	58,552	62,124	66,349	72,984	80,283	88,311
- Policyholders'	1,88,580	2,15,156	2,70,674	3,12,628	3,60,304	4,14,349
Asset held to cover linked liabilities	7,47,775	7,52,958	8,78,784	10,14,995	11,69,782	13,45,249
Loans	201	443	806	1,774	3,903	8,587
Fixed assets - net block	2,151	2,196	2,138	2,245	2,357	2,475
Deferred tax asset	1	1	1	1	1	1
Net current assets	-6,661	-7,240	292	-3,488	-3,213	1,767
Total	9,90,599	10,25,638	12,19,043	14,01,139	16,13,415	18,60,738

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Key ratios	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Premium mix (%)						
Participating	11.1%	11.5%	11.7%	13.0%	14.5%	16.0%
Non-participating	15.7%	13.2%	13.5%	13.0%	12.5%	12.0%
ULIP	73.2%	75.3%	74.7%	74.0%	73.0%	72.0%
Operating ratios						
Investment income yield (%)	23.1%	1.1%	14.9%	12.0%	12.0%	12.0%
Commission ratio (%)	3.8%	3.5%	3.6%	3.6%	3.5%	3.5%
Operating expense ratio (%)	11.3%	10.8%	11.2%	11.2%	11.2%	11.2%
Total expense ratio (%)	15.1%	14.3%	14.8%	14.8%	14.8%	14.7%
Claims ratio (%) (Benefits paid/NWP)	80.8%	65.3%	67.5%	71.5%	71.5%	71.5%
Conservation ratio (%)	83.4%	85.2%	83.6%	84.0%	85.0%	86.0%
Dividend payout (%)	61.0%	87.7%	39.5%	30.0%	30.0%	30.0%
Profitability ratios						
VNB margin (%) (based on IEV)	5.7%	8.0%	10.1%	12.0%	14.0%	16.0%
RoE (%)	31.9%	31.2%	28.7%	22.2%	22.2%	21.4%
RoEV (%)	15.4%	15.3%	16.5%	16.5%	17.4%	18.3%

Source: Company Data, KRChoksey Research

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ICICI Prudential Life Insurance Company Ltd.

ICICI Prudential Life Insurance Company Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
26-Oct-17	388	564	BUY	Buy	More than 15%
23-Aug-17	419	564	BUY	Accumulate	5% - 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than -5%

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