23 October 2018
2QFY19 Results Update | Sector: Insurance

ICICI Prudential Life Insurance

BSE SENSEX	S&P CNX
33,847	10,147

Bloomberg	IPRU IN
Equity Shares (m)	1,435
M.Cap.(INRb)/(USDb)	464 / 6.3
52-Week Range (INR)	461 / 302
1, 6, 12 Rel. Per (%)	4/-24/-21
12M Avg Val (INR M)	640
Free float (%)	21.3

Financials & Valuations (INR b)

Y/E MARCH	FY18	FY19E	FY20E
Net Premiums	268.1	310.0	366.1
Surplus / Deficit	13.6	12.9	14.1
Sh.holder's PAT	16.2	14.0	16.6
New bus. gr-unwtd (%)	16.2	13.0	18.0
New bus gr- APE (%)	16.0	12.5	16.2
Total prem gr - unwtd (%)	20.3	16.9	18.2
Solvency ratio (%)	252	215	192
NBP margin (%)	16.5	18.0	18.7
RoEV (%)	16.1	16.8	16.0
Total AUMs (INRb)	1395	1604	1825
VNB(INRb)	12.9	15.3	18.4
EV (INRb)	188	219	254
Valuations			
P/EV (x)	2.5	2.1	1.8
P/EPS (x)	28.7	33.2	28.0

CMP: INR323 TP: INR450 (+39%) Buy

Operationally on track; higher opex remains a drag

- IPRU's PAT fell 29% YoY to INR3b (our estimate: INR3.3b) in 2QFY19. Despite renewal/single premium increasing 18%/50% YoY, gross premium growth was restricted to 16% YoY due to tepid 3% YoY growth in first year premium.
- **NBM improved to 17.5%** in 1HFY19 from 16.5% in FY18, enabling 41.5% VNB growth for the first half of the fiscal. Trend in persistency improved across cohorts, while 13th month persistency held largely stable at 85.2%. This enabled healthy 18% YoY growth in renewal premium in 2QFY19.
- **Commission expenses increased ~9% YoY**, led by sustained growth in the protection business. Opex increased 34% YoY on account of higher advertisement cost and investments made in the protection business. Cost to weighted received premium, thus, increased to 16.1% in 1HFY19 from 13.7% in FY18. The share of agency/direct channel in the distribution mix dropped to 22.1%/11.8% from 27.1%/14.4% in 1HFY18.
- **Total APE declined 5.4% YoY in 1HFY19** (+6% YoY in 2QFY19). Savings APE declined 9% YoY to INR31.1b, while protection APE grew strongly by 77% YoY to INR2.7b. Share of ULIPs in total new business APE stood at 82.2%, while that of the protection business improved further to 7.9% (5.7% for 12MFY18, 8.2% in 1QFY18). IPRU continues witnessing strong growth opportunity in the protection business – we estimate this business to account for ~10% of total premiums by FY20.
- **Valuations and view:** We expect 14.4% CAGR in new business APE over FY18-20. Margins are expected to improve to 18.7% by FY20, led by the rising share of the protection business and better cost efficiencies. We, thus, estimate 20% VNB CAGR over FY18-20, while RoEV is expected to sustain at ~16.5%. We revise our PAT estimates to reflect higher opex, and value IPRU at INR450 per share (2.5x FY20E EV). Maintain **Buy**.

Quarterly performance (INRm)

Policyholder's account (INRm)	FY18				FY19E				FY18	FY19E	2Q19E	A v/s E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net premium income	48,202	65,395	67,951	86,558	54,378	76,012	79,987	99,649	268,107	310,025	77,506	-2%
Growth (%)	*37.4%*	*20.6%*	*19.3%*	*15.0%*	*12.8%*	*16.2%*	*17.7%*	*15.1%*	*21.0%*	*15.6%*	*0*	
Commission paid	2,162	3,632	3,773	4,466	2,795	3,951	4,103	4,932	14,033	15,781	3,835	3%
Operating exp	4,120	4,921	5,211	6,048	5,952	6,585	6,803	6,825	20,299	26,165	6,358	4%
Surplus/(Deficit)	**3,965**	**3,554**	**3,372**	**2,740**	**3,009**	**2,003**	**2,831**	**4,916**	**13,630**	**12,853**	**2,633**	**-24%**
Growth (%)	74.7%	12.5%	15.2%	15.0%	-24.1%	-43.6%	-16.1%	79.4%	*27.0%*	*-5.7%*	**(0)**	
Shareholders' Account												
Total income	**4,373**	**4,578**	**4,904**	**4,482**	**3,864**	**2,910**	**4,243**	**5,570**	**18,362**	**16,587**	**3,925**	**-26%**
PBT	**4,281**	**4,491**	**4,810**	**3,614**	**2,840**	**3,032**	**3,887**	**5,446**	**17,189**	**15,205**	**3,580**	**-15%**
Tax	221	279	289	208	24	24	314	855	997	1,216	304	-92%
PAT	**4,059**	**4,212**	**4,521**	**3,406**	**2,816**	**3,009**	**3,573**	**4,591**	**16,192**	**13,989**	**3,275**	**-8%**
Growth (%)	0%	1%	0%	-17%	-31%	-29%	-21%	35%	*-3.7%*	*-13.6%*	-0.2	
Key metrics (INRb)												
AUM	1,265.9	1,305.9	1,383.0	1,395.3	1,426.6	1,461.3	1,532.5	1,603.7	1,395.3	1,603.7	1,485.7	
EV	NA	172.1	0.0	187.9	NA	192.5	205.9	219.3	187.8	219.3	73.1	

Source: Company, MOSL

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Exhibit 1: Quarterly snapshot

INRm	FY17				FY18				FY19		Change	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY (%)	QoQ (%)
Net premium income	35,088	54,225	56,975	75,264	48,202	65,395	67,951	86,558	54,378	76,012	16	40
Income from investments	53,564	37,094	(6,652)	65,763	35,177	28,130	65,442	(16,134)	23,212	12,278	(56)	(47)
Other income	139	153	153	144	164	170	175	192	197	186	10	(5)
Total income	88,844	91,441	50,474	1,41,171	83,545	93,693	1,33,568	71,369	78,712	88,269	(6)	12
Commission paid	1,257	1,829	1,995	2,508	2,162	3,632	3,773	4,466	2,795	3,951	9	41
Operating expenses	5,520	5,433	5,551	7,068	4,120	4,921	5,211	6,048	5,952	6,585	34	11
Total commission & opex	6,777	7,262	7,546	9,576	6,282	8,553	8,984	10,513	8,747	10,536	23	20
Total expenses	85,628	86,860	46,234	1,37,395	78,192	88,435	1,28,438	66,550	73,943	84,382	(5)	14
Tax	4	356	234	194	262	228	237	475	306	284	25	-7
Surplus/(Deficit)	2,270	3,158	2,926	2,384	3,965	3,554	3,372	2,740	3,009	2,003	(44)	(33)
Shareholders' Account	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY (%)	QoQ (%)
Amt trf from P/H acc	2,497	3,139	3,288	2,391	3,334	2,850	2,742	1,967	2,464	1,479	-48	-40
Inc from Investments	1,961	1,278	1,667	1,753	1,038	1,725	2,160	2,473	1,396	1,426	-17	2
Total	4,459	4,418	4,958	4,424	4,373	4,578	4,904	4,482	3,864	2,910	(36)	(25)
Other expenses	80	96	89	129	91	88	93	115	99	85	-4	-15
Amounts transf to P/H acc	53	(32)	(2)	(1)	2	(2)	-	753	925	(208)	NA	-122
PBT	4,326	4,354	4,871	4,296	4,281	4,491	4,810	3,614	2,840	3,032	(32)	7
Tax	278	166	370	214	221	279	289	208	24	24	-92	1
PAT	4,049	4,188	4,500	4,082	4,059	4,212	4,521	3,406	2,816	3,009	(29)	7
Reported Ratios (%) : (on un-weighted premium)	1QFY17	1HFY17	9MFY17	12MFY17	1QFY18	1HFY18	9MFY18	12MFY18	1QFY19	1HFY19	YoY (bps)	QoQ (bps)
Commission expense	3.5	3.7	3.7	3.6	4.8	5.4	5.6	5.5	5.5	5.6	20	10
Opex ratio	15.5	12.1	11.2	10.5	8.9	8.1	7.9	7.5	10.8	9.5	144	-129
Calculated Ratios (%) : (on WRP basis)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q		
Commission expense	3.9	3.6	3.7	3.5	5.1	5.9	5.8	5.4	5.5	5.6	-27	10
Opex ratio	16.9	10.7	10.2	9.8	9.7	8.0	8.0	7.4	11.8	9.4	139	-238
Reported APE data :	FY17				FY18				FY19			
Savings APE (%)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY (bps)	QoQ (bps)
Total (INRm)	-	-	-	21,670	17,050	18,690	20,050	22,120	13,960	19,840		
ULIP	-	-	-	86.1	85.7	78.3	84.8	79.4	79.8	83.8	554	402
Participating	-	-	-	8.4	8.3	15.8	10.2	9.2	9.7	6.8	-903	-294
Other savings	-	-	-	1.6	1.5	2.0	0.9	1.7	2.3	1.7	-27	-58
Protection	-	-	-	4.0	4.5	3.9	4.0	9.8	8.2	7.7	376	-50
Other ratios (%)	1QFY17	1HFY17	9MFY17	12MFY17	1QFY18	1HFY18	9MFY18	12MFY18	1QFY19	1HFY19	YoY (bps)	QoQ (bps)
Solvency Ratio	320.5	305.9	294.3	280.7	288.6	275.7	251.5	252.0	234.6	234.3	-4140	-30
VNB margins			9.4	10.1	10.7	11.7	13.7	16.5	17.5	17.5	580	0
Persistency ratios (%) : excluding single premium	1QFY17	1HFY17	9MFY17	12MFY17	1QFY18	1HFY18	9MFY18	12MFY18	1QFY19	1HFY19	YoY (%)	QoQ (%)
13th Month	77.3	82.1	83.4	84.7	86.7	87.0	86.7	86.9	86.9	86.3	-70	-60
25th Month	68.9	72.5	72.9	73.0	74.6	74.3	75.8	77.6	79.2	79.4	510	20
37th Month	60.0	62.9	64.3	65.5	68.1	68.2	67.8	67.7	69.3	69.3	110	0
49th Month	56.0	61.1	60.6	58.3	60.1	60.6	61.8	62.3	65.1	65.1	450	0
61st Month	55.5	65.6	65.1	53.8	55.9	55.6	55.0	54.0	54.8	55.7	10	90
Key metrics (INRb)	1QFY17	1HFY17	9MFY17	12MFY17	1QFY18	1HFY18	9MFY18	12MFY18	1QFY19	1HFY19	YoY (%)	QoQ (%)
VNB	-	-	4.2	6.7	1.8	4.2	7.7	12.9	2.4	5.9	41	142
EV	-	-	0.0	161.8	0.0	172.1	0.0	187.9	0.0	192.5	12	NA
AUM	-	-	1,136	1,229	1265.9	1,306	1,383	1,395	1426.6	1461.3	12	2

Source: Company, MOSL

(a) 72% of new business policies issued within two days in 1HFY19

Other highlights for the quarter

- Market share within the total industry stood at 11.4% as of 1HFY19 (v/s 13.7% in 1HFY18). Within the private sector, the market share was 20.2% (v/s 24.6% in 1HFY18).
- Retail renewal premium grew 19% YoY to INR50.3b.

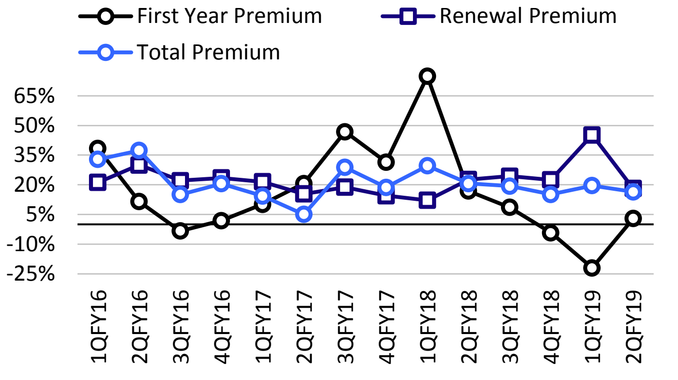
(b) 93% of new business applications initiated via digital platform

2QFY19 Concall highlights

- Focus remains on VNB growth and the same has increased 41.5% in 1HFY19.
- Focus on building participation with lenders as well to reach broader customer base.
- India is an underpenetrated market and the rise in population offers significant growth for saving and protection business. Protection business to grow well ahead of the current rate (~77% protection APE growth over 1HFY19); expects to gain larger market share.
- Retail comprises 96% of total APE as of 2HFY19.
- Non promoter channels contributed 49% of total APE.
- Cost increased on account of investments made in the protection business as the cost is higher in protection business.
- Going forward growth will help to reduce cost-ratios.
- Increase in interest rate led to negative economic variance; excluding the impact of economic variance and dividends paid, EV grew by 8% in 1HFY19.
- Reduction of surplus in non-par and annuity business resulting in a decline in profits. Small drop in new business premium on ULIP segment also adding to the decline in surplus.
- There were positive operating variances in 1HFY19, though economic variances stood negative due to rising interest rates.
- Consistent returns of ~7% on PAR products.
- ULIP is fairly distributed (40% debt). Thus, long-term growth should not be affected on account of volatility in the equity market.
- Breakeven period has been higher for the recent added products (FY10 onwards).
- Profitability growth will remain stagnant for the next three years.
- Not looking to raise capital for the next three years. Solvency ratio remains strong.
- Increase in protection business mix to help expand margins.
- EV and VNB are based on yield curve as on Sep’18. Profitability growth will remain stagnant for the next three years.

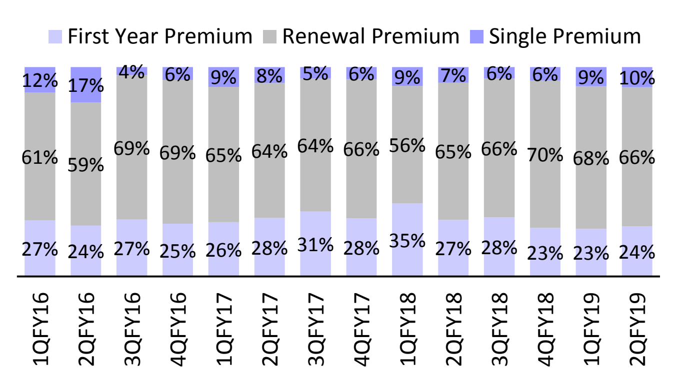
Story in charts

Exhibit 2: Total/renewal premium grew ~16%/18% YoY



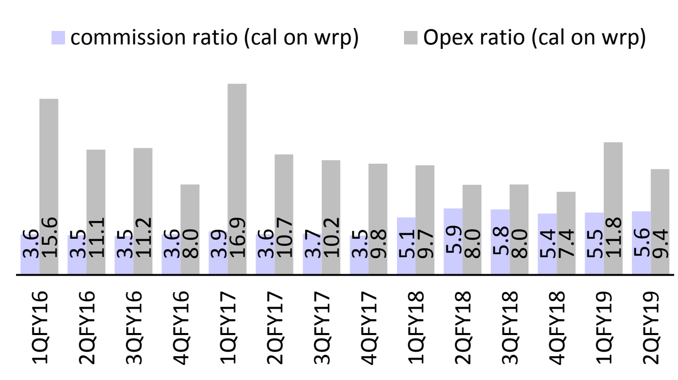
Source: Company, MOSL

Exhibit 3: Share of renewal premium increased to 66%



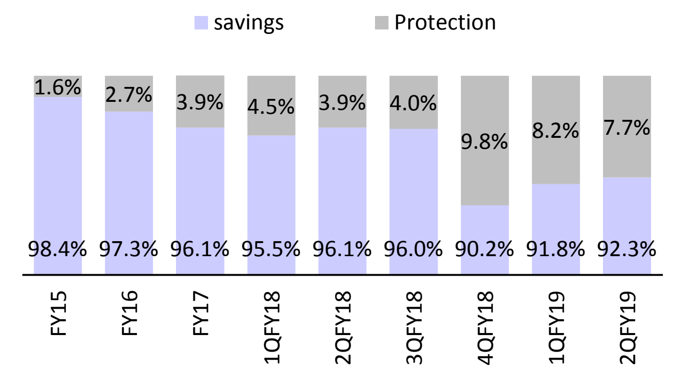
Source: Company, MOSL

Exhibit 4: Total expense ratio stood at 15.0% (v/s 13.9% in 2QFY18)



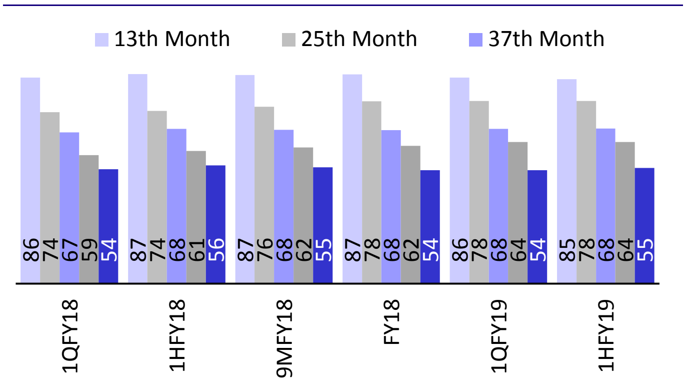
Source: Company, MOSL

Exhibit 5: Share of protection business stood at 7.7%



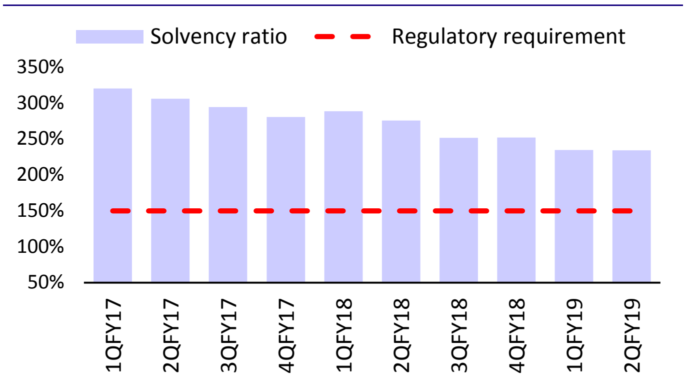
Source: Company, MOSL

Exhibit 6: Persistency ratio has improved across the curve



Source: Company, MOSL

Exhibit 7: Fall in the solvency ratio due to dividend payout and higher strain due to protection business



Source: Company, MOSL

Valuations and view

- We believe the life insurance sector in India is in a sweet spot, where strong structural potential is now overlapping with the rising share of financial savings and higher disposable income. We expect Indian insurers to trade at a premium to global insurers.
- Private sector life insurance companies have a 51% market share in total new business APE, and IPRU is amongst the market leader. Favorable demographics, increasing customer awareness about financial products, strong distribution network and superior brand image should help IPRU sustain WRP CAGR at 14% over FY18-20.
- We expect 14.4% CAGR in new business APE over FY18-20. Margins are expected to improve to 18.7% by FY20, led by the rising share of the protection business and better cost efficiencies. We, thus, estimate 20% VNB CAGR over FY18-20, while RoEV is expected to sustain at ~16.5%. We revise our PAT estimates to reflect higher opex, and value IPRU at INR450 per share (2.5x FY20E EV). Maintain **Buy**.

Financials and valuations: ICICI Prudential Life Insurance Company

Profit and loss account

Technical account (INR m)	FY16	FY17	FY18	FY19E	FY20E
Gross Premiums	191,644	223,540	270,688	312,799	369,846
Reinsurance Ceded	(1,657)	(1,988)	(2,581)	(2,774)	(3,722)
Net Premiums	189,987	221,553	268,107	310,025	366,123
Income from Investments	12,084	149,769	112,615	164,444	186,089
Other Income	209	188	936	1,040	1,155
Total income	**202,279**	**371,927**	**382,172**	**475,509**	**553,368**
Commission	6,200	7,589	14,033	15,781	19,821
Operating expenses	18,883	23,572	20,299	26,165	31,030
Total commission and opex	**25,083**	**31,161**	**34,332**	**41,946**	**50,851**
Benefits Paid (Net)	124,274	149,979	172,808	235,152	286,915
Chg in reserves	35,155	174,976	154,475	184,625	200,491
Total expenses	**184,512**	**356,115**	**361,615**	**461,724**	**538,257**
Provisions for debt, tax, misc.	3,643	4,288	5,727	4,502	5,061
Surplus / deficit before tax	**14,124**	**11,523**	**14,830**	**13,785**	**15,111**
Prov for Tax	704	788	1,201	932	1,017
Surplus / Deficit	**13,421**	**10,735**	**13,630**	**12,853**	**14,094**
Shareholder's a/c (INR m)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Transfer from technical a/c	12,076	11,315	10,892	10,892	11,951
Income From Investments	5,996	6,669	7,419	5,640	7,850
Total Income	**18,073**	**18,270**	**18,362**	**16,587**	**19,863**
Other expenses	313	409	420	546	737
Contribution to technical a/c	-	18	753	836	929
Total Expenses	**356**	**427**	**1,173**	**1,382**	**1,666**
PBT	**17,717**	**17,843**	**17,189**	**15,205**	**18,197**
Prov for Tax	1,212	1,028	997	1,216	1,638
PAT	**16,505**	**16,815**	**16,192**	**13,989**	**16,559**
Growth	***1%***	***2%***	***-4%***	***-14%***	***18%***

Premium (INR m) & growth (%)	FY16	FY17	FY18	FY19E	FY20E
New business prem - unwtd	67,658	77,604	90,210	101,937	120,286
New business prem - wrp	51,085	64,862	75,227	84,658	98,377
Renewal premium	123,986	144,907	177,465	210,862	249,560
Total premium - unwtd	191,644	222,511	267,674	312,799	369,846
New bus. growth - unwtd	26.9%	14.7%	16.2%	13.0%	18.0%
New business growth - wrp	9.9%	27.0%	16.0%	12.5%	16.2%
Renewal premium growth	24.3%	16.9%	22.5%	18.8%	18.4%
Total prem growth - unwtd	25.2%	16.1%	20.3%	16.9%	18.2%
Premium mix (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
New business - unwtd					
- Individual mix	79.2%	89.9%	93.1%	93.0%	94.0%
- Group mix	20.8%	11.4%	9.8%	7.0%	6.0%
New business mix - APE					
- Participating	13.6%	9.5%	10.6%	10.9%	11.6%
- Non-participating	3.0%	4.8%	5.0%	8.5%	10.8%
- ULIPs	83.4%	85.7%	84.4%	80.6%	77.6%
Total premium mix - unwtd					
- Participating	11.4%	11.7%	12.0%	11.8%	13.0%
- Non-participating	13.6%	13.6%	12.8%	17.7%	20.0%
- ULIPs	75.1%	74.8%	75.2%	70.5%	67.0%
Individual prem sourcing mix (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Individual agents	24.7%	23.5%	25.6%	26.6%	27.6%
Corporate agents-Banks	57.2%	57.1%	52.6%	51.6%	51.4%
Direct business	11.2%	12.8%	16.0%	16.6%	16.4%
Others	6.9%	6.6%	5.8%	5.2%	4.6%

Financials and valuations: ICICI Prudential Life Insurance Company

Balance sheet

Balance sheet (INR m)	FY16	FY17	FY18	FY19E	FY20E
Sources of Fund					
Share Capital	14,323	14,354	14,355	14,355	14,355
Reserves And Surplus	36,401	46,976	51,382	59,324	68,974
Shareholders' Fund	53,233	64,060	68,818	76,976	86,955
Policy Liabilities	202,548	251,695	309,934	370,433	473,038
Prov. for Linked Liab.	719,903	839,365	923,124	1,117,943	1,218,557
Funds For Future App.	6,619	6,042	8,780	10,096	11,609
Current liabilities & prov.	22,013	28,365	34,479	41,363	49,623
Total	**1,047,650**	**1,247,408**	**1,418,187**	**1,638,791**	**1,862,826**
Application of Funds					
Shareholders' inv	62,124	66,349	77,466	83,663	90,775
Policyholders' inv	215,156	270,674	332,889	402,105	515,937
Assets to cover linked liab.	752,958	878,783	975,020	1,117,943	1,218,557
Loans	443	806	1,451	1,712	1,934
Fixed Assets	2,196	2,138	4,221	4,727	5,389
Current assets	14,773	28,657	27,142	28,642	30,234
Total	**1,047,650**	**1,247,408**	**1,418,187**	**1,638,791**	**1,862,826**
Operating ratios (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Investment yield (%)	1.2%	13.0%	8.6%	10.8%	10.7%
Commissions / GWP	**3.2%**	**3.4%**	**5.2%**	**5.0%**	**5.4%**
- first year premiums	7.6%	7.3%	13.9%	14.0%	15.7%
- renewal premiums	1.9%	2.0%	1.9%	1.9%	1.8%
- single premiums	0.3%	0.6%	1.9%	1.2%	1.1%
Operating expenses / GWP	9.9%	10.5%	7.5%	8.4%	8.4%
Total expense ratio	**13.1%**	**13.9%**	**12.7%**	**13.4%**	**13.7%**
Claims / NWP	65.4%	67.7%	64.5%	75.8%	78.4%
Solvency margin	320%	289%	252%	215%	192%
Persistency ratios (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
13th Month	82.4%	85.7%	87.8%	88.2%	88.3%
25th Month	71.2%	73.9%	78.8%	80.5%	80.8%
37th Month	61.6%	66.8%	68.9%	71.8%	72.8%
49th Month	62.2%	59.3%	63.6%	65.1%	67.1%
61st Month	46.0%	56.2%	54.8%	58.2%	59.4%
Profitability ratios (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
New business margin (%)	8.0%	10.1%	16.5%	18.0%	18.7%
RoE (%)	31.2%	28.7%	24.4%	19.2%	20.2%
RoIC (%)	34.3%	34.8%	33.4%	28.8%	34.1%
EVOP as % of IEV	15.3%	16.4%	22.8%	19.5%	18.8%
RoEV (%)	0.8%	16.0%	16.1%	16.8%	16.0%
Valuation ratios	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Total AUMs, Rs bn	1,039	1,229	1,395	1,604	1,825
- of which equity AUMs (%)	46%	47%	48%	48%	49%
Dividend (%)	84%	74%	66%	35%	40%
Dividend payout ratio (%)	88%	40%	74%	43%	42%
EPS, Rs	11.5	11.7	11.3	9.7	11.5
VNB (INRb)	4.1	6.6	12.9	15.3	18.4
EV (INRb)	139.3	161.7	187.8	219.3	254.4
EV/Per share	97.1	112.7	130.8	152.8	177.2
VIF as % of EV	60%	58%	63%	64%	65%
P/VIF	5.5	4.9	3.9	3.3	2.8
P/AUM (%)	45%	38%	33%	29%	25%
P/EV (x)	3.3	2.9	2.5	2.1	1.8
P/EPS (x)	28.1	27.6	28.7	33.2	28.0

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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