

April 25, 2019

Q4FY19 Result Update

Key Financials

Y/e March	FY18	FY19E	FY20E	FY21E
Net Premiums (Rs m)	268,107	318,651	365,755	422,732
- Growth (%)	21.0	18.9	14.8	15.6
Surplus / Deficit (Rs m)	14,832	15,060	16,311	17,129
PAT (Rs m)	16,198	17,283	19,182	24,318
- Growth (%)	(3.7)	6.7	11.0	26.8
EPS (Rs)	11.3	12.0	13.4	16.9
Emb. Value (Rs bn)	187.9	216.2	251.2	290.3
NBP Margin (%) post overrun	16.5	17.0	17.7	18.6
RoE (%)	24.4	23.1	21.9	23.5
Operating RoEV (%)	22.7	20.2	18.7	18.0
RoEV (%)	16.1	15.1	16.2	15.6
Dividend yield (%)	1.9	0.9	0.9	1.1
Price/EV (x)	2.0	1.7	1.5	1.3
Ap. Value/EV (x)	3.9	3.4	2.9	2.5

Key Data

ICIR.BO | IPRULIFE IN

52-W High / Low	Rs.461 / Rs.277
Sensex / Nifty	39,05 / 11,726
Market Cap	Rs.521.40bn/ \$ 7.44m
Shares Outstanding	1,435.8m
3M Avg. Daily Value	Rs.1,069.8m

Shareholding Pattern (%)

Promoter's	74.98
Foreign	10.08
Domestic Institution	6.54
Public & Others	8.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.6	14.4	(11.2)
Relative	10.6	1.2	(20.2)

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Much encouraging trends

Quick Pointers

- Margins remain flattish but strong gains on EV which grew by 15% YoY on back of better experience in persistency & mortality
- Higher business strain and expenses from higher growth hits profitability

ICICI Pru Life's business improved in Q4FY19 with APE growing by 11% YoY ending the fiscal 2019 with flattish growth. Growth continued to be led protection segment in the credit life and retail, while savings saw improvement as well on back of immediate annuity segment. Within mix of products ULIP mix continued to consolidate as company is focusing on widening the base. VNB margins remained at flattish levels of 17% but new disclosure on VNB indicated protection contribution incrementally is much higher with overall being at 60% of VNB. As we had expected growth impact from the structural changes to be higher and should take some quarters to stabilize and then followed by improved growth, however margin improvement, in our view, will be slower given the cost strain. We retain BUY with revised TP of Rs511 (from Rs471) post roll over based on 2.6x Mar-21EV.

- **Business growth improves led by protection:** Overall APE grew by 11% YoY in Q4FY19 leading to flattish growth in FY19. Growth was led by protection which grew by 21% YoY (62% YoY for FY19) and mainly from retail protection (61% in FY19) and credit life business. ULIP growth also saw some pick up in Q4FY19 but overall mix continued to move lower as base gets widened through lower ticket sizes. Also the annuity business continues to grow well (doubled from last FY) which is mainly the immediate annuity business. Company expects growth to improve as channels & products are aligned to customer preferences and as base of customer widens.
- **EV grows 15% YoY while VNB margins steady:** IPru Life's EV grew by 15% YoY (lower than growth of 16% YoY in FY18) which was mainly on better unwind rate (v/s our estimate), small benefit from VNB and higher benefit from operating assumption changes in persistency (lower surrenders) and mortality experience. Although, overall VNB margin was steady at 17% v/s 16.5% in FY18 on back of slower growth, higher cost strain from fast growing protection business and despite lower surrenders. Company targets to double VNB in next 3-4 years which should be led from protection business which incrementally is contributing 85-90% of NB with overall share at 60% in FY19 and hence should see steady margin improvement going ahead.
- **Opex leads to strain in profitability:** IPru Life saw higher opex growth especially in end of FY19 as higher business growth led to higher negative strain impacting profitability. Company expects as growth picks up cost efficiency is likely to lower strain of such cost on business. While on persistency, 9MFY19 has seen dip mainly on 13th month which has seen improvement based on FY19. We are higher on APE CAGR assumptions of 14% in next two years with margins improving to 18.6% by FY21.

Exhibit 1: Profitability declines on higher acquisition cost of business

(Rs m)	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	1,01,636	87,289	16.4	75,664	34.3
Net Premium Income	1,00,563	86,558	16.2	74,830	34.4
Inc. from Investments (Net)	56,176	(16,134)	(448.2)	10,478	436.2
Total (A)	1,60,539	71,369	124.9	86,483	85.6
Net Commission	5,095	4,466	14.1	3,671	38.8
Opex related to Insurance	7,732	6,048	27.8	5,785	33.7
Benefits Paid (Net)	44,937	45,555	(1.4)	33,245	35.2
Change in actuarial liability	96,734	10,481	822.9	38,663	150.2
Total (B)	1,56,472	68,628	128.0	83,228	88.0
Surplus / (Deficit)	4,067	2,741	48.4	3,254	25.0
Shareholders' Account					
Trf from Policyholders A/c	4,166	1,967	111.8	2,662	56.5
Investment Income	2,214	2,473	(10.5)	1,382	60.1
Total	6,459	4,482	44.1	4,046	59.6
Expenses other than related to insurance	104	115	(10.2)	90	15.1
Trf to Policyholders A/c	3,574	753	374.7	981	264.3
Profit/(Loss) before Tax	2,782	3,614	(23.0)	2,975	(6.5)
Provision for Taxation	168	208	(18.9)	8	2,145.3
Profit/(Loss) after Tax	2,614	3,406	(23.3)	2,968	(11.9)
Ratios					
Expense Ratio	8.5	7.4	118	8.6	(5)
Commission Ratio	5.6	5.4	19	5.4	17
Cost / TWRP	14.1	12.8	136	14.0	12

Source: Company, PL

Exhibit 2: Protection growth continued to be robust

	Q4FY19	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	FY19	FY18	YoY Chg.
APE	24,560	22,130	11.0	19,620	25.2	77,990	77,920	0.1
Savings	21,950	19,960	10.0	17,680	24.2	70,770	73,450	(3.6)
Protection	2,610	2,170	20.3	1,940	34.5	7,220	4,470	61.5
%								
Savings	89.4	90.2	(82)	90.1	(74)	90.7	94.3	(352)
Protection	10.6	9.8	82	9.9	74	9.3	5.7	352
VNB	4,190	5,190	(19.3)	3,200	30.9	13,290	12,860	3.3
VNB Margin (%)	17.1	23.5	(639.2)	16.3	75.0	17.0	16.5	49.6

Source: Company, PL

Exhibit 3: Retail strongly driven by new business

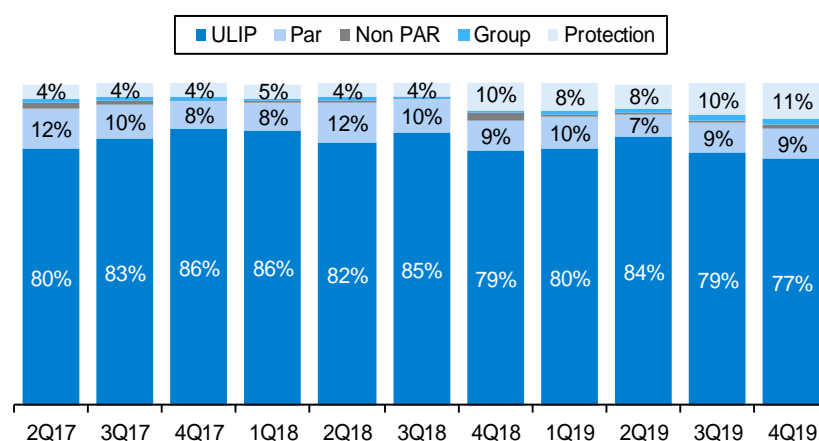
	Q4FY19	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	FY19	FY18	YoY Chg.
Retail renewal premium	66,160	60,080	10.1	49,520	33.6	2,02,250	1,74,970	15.6
Retail new business premium	26,630	24,050	10.7	18,740	42.1	81,400	84,020	(3.1)
Group Premium	8,850	3,160	180.1	7,420	19.3	25,650	11,700	119.2
Total	1,01,640	87,290	16.4	75,680	34.3	3,09,300	2,70,690	14.3

Source: Company, PL

Exhibit 4: Protection continues to improve; Savings driven by ULIP & Group

Product Mix	Q4FY19	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	FY19	FY18	YoY Chg.
Rs Mn								
Savings	21,960	20,340	8.0	17,680	24.2	70,780	73,830	(4.1)
ULIP	18,850	17,560	7.3	15,480	21.8	62,100	63,810	(2.7)
Par	2,290	2,030	12.8	1,720	33.1	6,720	8,460	(20.6)
Non PAR	280	480	(41.7)	150	86.7	690	690	-
Group	540	270	100.0	330	63.6	1,270	870	46.0
Protection	2,610	2,160	20.8	1,950	33.8	7,220	4,460	61.9
(%)								
Savings	89.4	91.9	(249.8)	90.1	(69.8)	90.8	94.8	(399.6)
ULIP	76.8	79.3	(259.8)	78.9	(214.8)	79.6	81.9	(226.6)
Par	9.3	9.2	15.1	8.8	55.8	8.6	10.9	(224.1)
Non PAR	1.1	2.2	(102.9)	0.8	37.6	0.9	0.9	(0.1)
Group	2.2	1.2	97.9	1.7	51.7	1.6	1.1	51.2
Protection	10.6	9.8	86.7	9.9	68.8	9.3	5.7	353.4

Source: Company, PL

Exhibit 5: ULIP's share slipped while Protection continues to see improvement


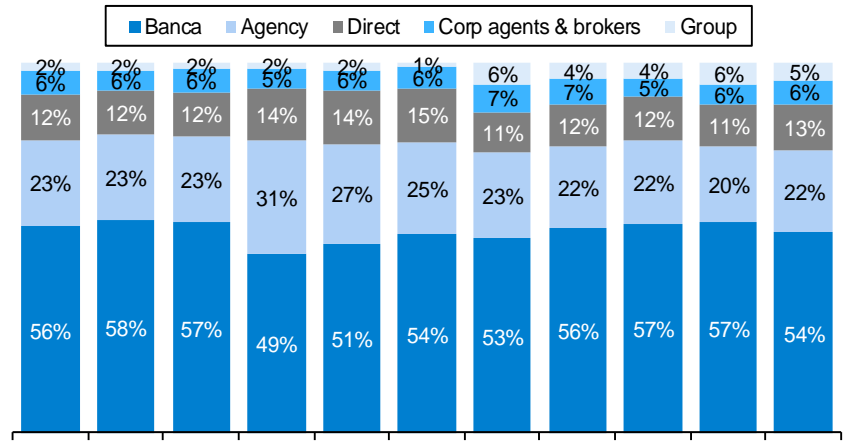
Source: Company, PL

Exhibit 6: Direct & Agency sourcing saw uptick in current quarter

Sourcing Mix	Q4FY19	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	FY19	FY18	YoY Chg.
Rs Mn								
Banca	13,330	11,680	14	11,190	19	43,530	40,750	7
Agency	5,410	5,090	6	4,020	35	16,890	19,790	(15)
Direct	3,140	2,460	28	2,200	43	9,340	10,540	(11)
Corp Agent & Brokers	1,580	1,610	(2)	1,090	45	4,590	4,700	(2)
Group	1,110	1,280	(13)	1,120	(1)	3,650	2,130	71
(%)								
Banca	54.3	52.8	150	57.0	(276)	55.8	52.3	352
Agency	22.0	23.0	(97)	20.5	154	21.7	25.4	(374)
Direct	12.8	11.1	167	11.2	157	12.0	13.5	(155)
Corp Agent & Brokers	6.4	7.3	(84)	5.6	88	5.9	6.0	(15)
Group	4.5	5.8	(126)	5.7	(119)	4.7	2.7	195

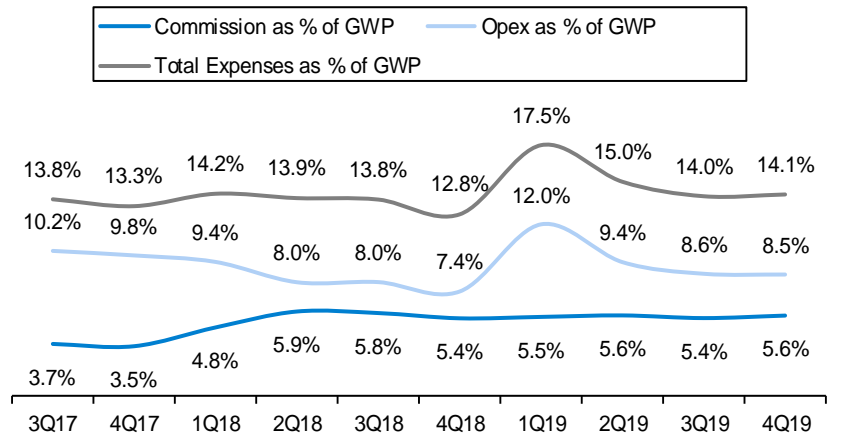
Source: Company, PL

Exhibit 7: Banca is key channel of sourcing and growth; Agency picking



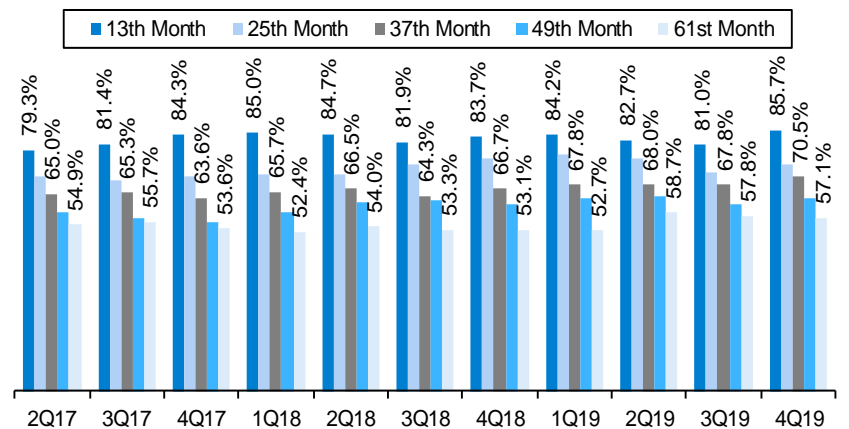
Source: Company, PL

Exhibit 8: Commission ratio steady, opex sees improvement on slow growth

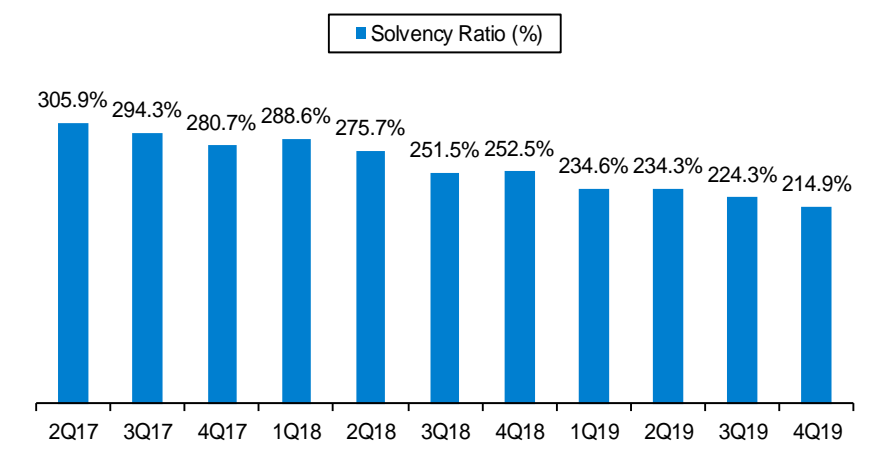


Source: Company, PL

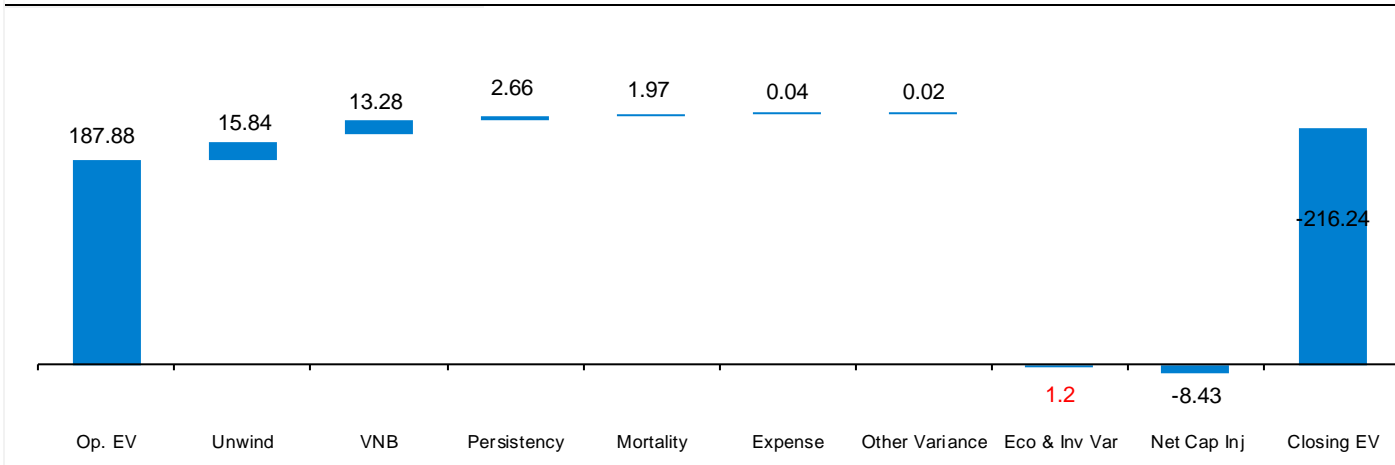
Exhibit 9: 13th Month bucket improved to 86%



Source: Company, PL

Exhibit 10: Continued decline in solvency lowered dividend payout


Source: Company, PL

Exhibit 11: Movement of Embedded Value


Source: Company, PL

Exhibit 12: Key Metrics and EV movement

Rs bn	FY16	FY17	FY18	FY19E	FY20E	FY21E
APE	51.7	66.3	77.9	78.0	88.9	103.2
YoY growth (%)	9.0	28.1	17.6	0.1	14.0	16.1
NBV	4.1	6.7	12.9	13.3	15.7	19.2
YoY growth (%)	52.7	61.5	93.1	3.3	18.2	22.1
EV Movement						
Opening IEV	137.2	139.4	161.8	187.9	216.2	251.2
New Business Value	22.2	23.0	36.8	38.0	40.3	45.3
EVOP	4.1	6.7	12.9	13.3	15.7	19.2
Dividend payout	14.4	6.3	11.9	8.4	5.9	6.7
Closing EV	139.4	161.8	187.9	216.2	251.2	290.3
Adjusted Net worth	55.1	67.6	70.2	73.5	94.5	112.5
Value in force (VIF)	84.2	94.3	117.6	142.7	156.7	177.8
Ratios (%)						
NBAP margins	8.0	10.1	16.5	17.0	17.7	18.6
RoEV	1.6	16.1	16.1	15.1	16.2	15.6
Operating RoEV	16.2	16.5	22.7	20.2	18.7	18.0

Source: Company, PL



Exhibit 13: Change in Estimates

(Rs mn)	Old		Revised		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
APE	87.9	101.1	88.9	103.2	1.1	2.1
VNB	15.7	18.8	15.7	19.2	(0.0)	2.0
VNB Margin (%)	17.8	18.6	17.7	18.6	(0.2)	(0.0)
EV	238.4	272.7	251.2	290.3	5.4	6.5
Price target (Rs)	471		511		8.4	
Recommendation	BUY		BUY			

Source: Company

Exhibit 14: We revise our TP to Rs511 (from Rs471) based on 2.5x P/EV Mar FY21E (rolled forward from Sep-20)

PT calculation and upside	
Op RoEV	18.0%
CoE	13.5%
Terminal Growth	5.0%
Embedded value	290
Price / Embedded value	2.5
Appraisal Value	733
Number of shares, mn	1,435
Valuation per share	511
CMP	363
<i>Upside (%)</i>	<i>41%</i>

Source: Company, PL



Technical account (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross Premiums	270,688	321,726	369,183	426,692
Reinsurance Ceded	(2,581)	(3,076)	(3,428)	(3,960)
Net Premiums	268,107	318,651	365,755	422,732
Other Income	594	665	762	873
Total income	382,174	457,552	553,154	651,383
Commission	14,033	16,710	19,033	22,161
Operating expenses	20,299	23,712	25,459	29,586
Prov for doubtful debts	82	94	106	121
Operating Profit	347,760	417,036	508,556	599,515
Prov for Tax	5,645	7,056	8,821	11,026
Benefits Paid (Net)	172,259	174,526	189,901	203,715
Chg in reserves	154,475	220,393	293,524	367,646
Surplus / Deficit	14,832	15,060	16,311	17,129

Shareholder's a/c (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Transfer from technical a/c	10,892	11,827	12,894	13,383
Income From Investments	7,395	7,853	9,099	14,174
Total Income	18,336	19,733	22,053	27,623
Other expenses	388	504	680	918
Contribution to technical a/c	753	843	966	1,107
Total Expenses	1,140	1,347	1,646	2,025
PBT	17,196	18,386	20,407	25,597
Prov for Tax	(997)	(1,103)	1,224	1,280
PAT	16,198	17,283	19,182	24,318

Premium (Rs m) & growth (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
New business prem - unwtd	92,118	103,632	116,068	133,478
New business prem - APE	75,417	78,966	88,881	103,228
Renewal premium	178,570	218,094	253,115	293,214
Total premium - unwtd	270,688	321,726	369,183	426,692
New bus. growth - unwtd	17.1	12.5	12.0	15.0
New business growth - APE	16.1	4.7	12.6	16.1
Renewal premium growth	23.2	22.1	16.1	15.8
Total prem growth - unwtd	21.1	18.9	14.8	15.6

Premium mix (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
New business - unwtd				
- Individual mix	91.2	94.0	93.0	92.0
- Group mix	8.8	6.0	7.0	8.0
New business mix - APE				
- Participating	10.6	13.1	11.8	11.6
- Non-participating	5.1	6.5	7.0	7.9
- ULIPs	84.4	80.4	81.2	80.5
Total premium mix - unwtd				
- Participating	11.9	11.4	11.7	11.7
- Non-participating	12.8	16.6	15.9	15.9
- ULIPs	75.3	72.0	72.4	72.4

Individual prem sourcing mix (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Individual agents	25.6	18.0	19.0	19.0
Corporate agents-Banks	52.6	65.0	62.0	62.0
Direct business	16.0	10.0	11.0	11.0
Others	5.8	7.0	8.0	8.0

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Sources of Fund				
Share Capital	14,355	14,355	14,355	14,355
Reserves And Surplus	51,409	63,249	76,558	94,137
Policy Liabilities	309,934	392,117	493,366	636,052
Prov. for Linked Liab.	923,124	1,131,023	1,323,297	1,548,257
Funds For Future App.	8,782	9,659	10,624	11,686
Current liabilities & prov.	34,476	36,536	40,927	36,899
Total	1,418,213	1,669,339	1,982,709	2,366,361
Application of Funds				
Shareholders' inv	77,493	97,019	130,457	191,673
Policyholders' inv	332,889	406,259	490,094	586,002
Assets to cover linked liab.	975,020	1,131,023	1,323,297	1,548,257
Loans	1,451	1,712	1,968	2,165
Fixed Assets	4,221	4,727	5,389	5,928
Current assets	27,140	28,599	31,504	32,334
Total	1,418,213	1,669,339	1,982,709	2,366,361

Operating ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
Investment yield (%)	8.6	8.9	10.0	10.1
Commissions / GWP	5.2	5.2	5.2	5.2
- first year premiums	13.9	15.7	15.7	15.8
- renewal premiums	1.9	2.0	2.0	2.0
- single premiums	1.9	1.5	1.5	1.5
Operating expenses / GWP	7.5	7.4	6.9	6.9
Total expense ratio	12.7	12.6	12.1	12.1
Claims / NWP	64.3	54.8	51.9	48.2
Solvency margin	252.5	-	-	-

Persistence ratios (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
13th Month	87.0	87.3	87.3	87.3
25th Month	76.5	77.6	77.8	77.8
37th Month	68.4	70.0	70.6	70.8
49th Month	61.4	62.0	62.7	62.9
61st Month	55.6	56.0	56.2	56.3

Profitability ratios (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NBP margin (%) pre overrun	-	-	-	-
NBP margin (%) post overrun	16.5	17.0	17.7	18.6
RoE (%)	24.4	23.1	21.9	23.5
RoIC (%)	33.4	35.6	39.5	50.0

Valuation ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
Total AUMs, Rs bn	1,385	1,634	1,944	2,326
- of which equity AUMs (%)	47.0	48.3	46.0	46.0
EVOP as % of MCEV	22.7	20.2	18.7	18.0
RoEV (%)	16.1	15.1	16.2	15.6
Dividend %	1.9	0.9	0.9	1.1
Dividend payout ratio (%)	73.6	31.5	30.6	27.7
EPS, Rs	11.3	12.0	13.4	16.9
Embedded Value, Rs bn	187.9	216.2	251.2	290.3
Appraisal value/EV (x)	3.9	3.4	2.9	2.5
Appraisal value/Net profit (x)	45.26	42.41	38.21	30.15

Source: Company Data, PL Research

**Exhibit 15: Embedded Value**

Embedded Value	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Embedded Value			117,750	137,210	139,383	161,833	187,883	216,243	251,207
Annualised Premium Equivalent (APE)	31,180	35,320	34,440	47,440	51,700	66,250	77,920	77,990	88,881
New Business Value			2,280	2,700	4,123	6,660	12,860	13,280	15,690
New Business Margin (%)			6.6	5.7	8.0	10.1	16.5	17.0	17.7
EV Operating Profit				18,120	22,223	22,950	36,800	38,010	40,339
Operating RoEV (%)				15.4	16.2	16.5	22.7	20.2	18.7

Source: Company, PL

Exhibit 16: Key Ratios

Key Ratio	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Commission expense/GWP (%)	4.3	5.7	5.0	3.6	3.2	3.4	5.2	5.2	5.2
Operating expense/GWP (%)	14.3	15.1	13.0	10.8	9.9	10.5	7.5	7.4	6.9
Total expense/GWP (%)	18.6	20.7	18.1	14.4	13.1	13.9	12.7	12.6	12.1

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	845	762
2	Bank of Baroda	BUY	161	114
3	Bank of India	Reduce	89	106
4	Federal Bank	BUY	102	99
5	HDFC Bank	BUY	2,700	2,293
6	HDFC Standard Life Insurance Company	BUY	438	386
7	ICICI Bank	BUY	427	391
8	ICICI Prudential Life Insurance Company	BUY	471	364
9	IDFC First Bank	BUY	57	43
10	IndusInd Bank	BUY	1,791	1,768
11	Jammu & Kashmir Bank	BUY	76	59
12	Kotak Mahindra Bank	Hold	1,291	1,336
13	Max Financial Services	BUY	629	439
14	Punjab National Bank	Hold	83	73
15	SBI Life Insurance Company	BUY	779	612
16	South Indian Bank	BUY	361	317
17	State Bank of India	BUY	361	284
18	Union Bank of India	Reduce	79	93
19	YES Bank	Accumulate	245	267

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

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