

ICICI Prudential Life Insurance

BSE SENSEX
37,848

S&P CNX
11,271

CMP: INR382

TP: INR475 (+24%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2019 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	IPRU IN
Equity Shares (m)	1,435
M.Cap.(INRb)/(USD\$)	548.8 / 8
52-Week Range (INR)	428 / 278
1, 6, 12 Rel. Per (%)	5/23/-4
12M Avg Val (INR M)	702
Free float (%)	25.0

Financials & Valuations (INR b)

Y/E MARCH	FY19	FY20E	FY21E
Net Premiums	305.8	349.5	402.2
Surplus / Deficit	12.3	14.6	14.4
Sh. holder's PAT	11.4	12.2	13.5
New bus.gr-unwtd (%)	12.5	15.0	17.0
New bus gr- APE (%)	-3.0	15.1	19.2
Total prem gr-unwtd (%)	14.3	14.2	15.1
NBP margin (%)	17.0	20.8	22.0
RoE (%)	16.4	16.6	16.6
RoEV (%)	15.1	17.3	17.6
Total AUMs (INRb)	1604	2010	2401
VNB(INRb)	13.3	17.5	22.1
EV per share	151	177	208
Valuations			
P/EV (x)	2.5	2.2	1.8
P/EPS (x)	48.2	44.8	40.8

Robust performance; VNB margins a positive surprise

- 1QFY20 PAT at INR2.8b came in marginally higher than our estimate of INR2.7b. Gross premium was up 14.7% YoY, mainly led by robust growth in single premiums. Group premiums grew 105% YoY to INR8.2b.
- Total APE** grew 5.3% YoY to INR14.7b led by robust 88% YoY growth in Protection APE to INR2.1b, even as Savings APE declined 2.1% YoY to INR12.5b. Share of Protection in total APE improved further to 14.6% (8.2% in 1QFY19) while share of ULIPs in total APE declined ~860bp YoY to 71.2%.
- VNB margins** increased ~350bp YoY to 21% due to improvement in product mix, which resulted in 26.6% YoY growth in the VNB to INR3.1b. Growth in the VNB was mainly led by Retail and the Group Protection business (Management expects to double the VNB over the next 3-4 years). Thirteenth month persistency declined 140bp YoY to 84.4% (330bp YoY improvement in 61st month persistency). According to the sensitivity analysis disclosures, a 100bp change in the interest rate could impact the VNB/EV by ~4.4%/~2.0%.
- Total operating expenses** (incl. commissions) grew marginally by 4.1% YoY, even as commission expense declined 5.2% YoY aiding new business margins. Cost to weighted received premium, thus, declined to 17.0% in 1QFY20 from 17.5% in 1QFY19 while cost ratio in savings declined from 13.7% in 1QFY19 to 11.3% in 1QFY20. The share of agency/direct channel in the distribution mix stood at 21.2%/12.8%.
- Other highlights:** (a) The share of Banca in the distribution mix declined 320bp to 52.4%, (ii) Total AUM grew 15% YoY to INR1.6t with debt equity mix of 52%:48%, (c) Solvency ratio stood at 217% (235% as at 1QFY19).
- Valuations and view:** We estimate ~29% CAGR in the VNB over FY19-21E led by 17% CAGR in new business APE while operating RoEV is expected to sustain at ~20%. Thus, we estimate VNB margins to recover to ~22% by FY21E while operating metrics improve further. Despite the stock's outperformance over recent months, it is still trading at attractive levels of 1.8x FY21E P/EV (LTA of 2.5x), and thus, offers 24% upside to our fair value of INR475/share (2.3x FY21E EV). **Maintain Buy.**

Quarterly performance (INR m)

P/H (Technical) A/c	FY19				FY20E				FY19	FY20E	1Q20E A v/s E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net premium income	54,378	76,012	74,830	100,563	62,081	86,562	86,562	116,897	305,783	349,547	62,553	-1%
Growth (%)	12.8%	16.2%	10.1%	16.2%	14.2%	13.9%	15.7%	16.2%	14.1%	14.3%	15.0%	
Commission paid	2,795	3,951	3,671	5,095	2,648	4,481	4,685	8,555	15,513	20,370	4,056	-35%
Operating expense	5,952	6,585	5,785	7,732	6,458	6,929	7,244	10,864	26,053	31,495	6,244	3%
Surplus/(Deficit)	3,009	2,003	3,254	4,067	4,221	2,907	3,874	3,644	12,333	14,646	3,348	26%
S/H (Non-Technical) A/c	FY19				FY20E				FY19	FY20E	1Q20E A v/s E	
Total income	3,864	2,910	4,046	6,459	5,122	4,619	4,434	4,301				17,307
PBT	2,840	3,032	2,975	2,782	2,870	3,381	3,246	3,527	11,612	13,025	2,733	5%
PAT	2,816	3,009	2,968	2,614	2,849	3,323	3,190	2,881	11,389	12,243	2,687	6%
Growth (%)	-30.6%	-28.6%	-34.4%	-23.3%	1.2%	10.4%	7.5%	10.2%	-29.7%			

Source: Company, MOFSL

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Quarterly Snapshot

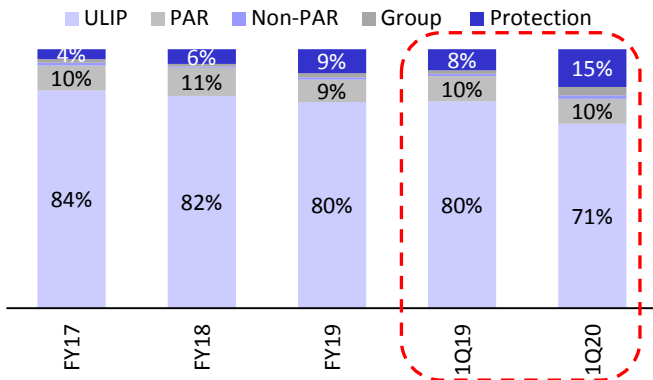
P/H A/c - Technical	FY18				FY19				FY20	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Net premium income	48,202	65,395	67,951	86,558	54,378	76,012	48,202	100,563	62,081	14	-38
First year premium	16,148	17,862	19,339	20,213	12,587	18,394	16,148	22,366	12,698	1	-43
Renewal premium	25,810	43,194	45,390	61,476	37,476	51,027	25,810	67,080	40,427	8	-40
Single premium	4,191	4,939	3,827	5,600	5,116	7,399	4,191	12,190	10,168	99	-17
Investment income	35,177	28,130	65,442	-16,134	23,212	12,278	35,177	56,176	19,916	-14	-65
Total income	83,545	93,693	133,568	71,369	78,712	88,269	83,545	160,539	84,321	7	-47
Commission paid	2,162	3,632	3,773	4,466	2,795	3,951	2,162	5,095	2,648	-5	-48
First year premium	1,507	2,733	2,828	3,178	1,996	2,851	1,507	3,675	1,782	-11	-52
Renewal premium	612	823	845	1,161	713	995	612	1,244	737	3	-41
Single premium	43	77	100	127	86	105	43	176	129	50	-26
Operating expenses	4,120	4,921	5,211	6,048	5,952	6,585	4,120	7,732	6,458	9	-16
Total commission & opex	6,282	8,553	8,984	10,513	8,747	10,536	6,282	12,827	9,107	4	-29
Benefits paid	39,690	40,711	46,852	45,555	29,395	35,014	39,690	44,937	36,446	24	-19
Total expenses	78,192	88,435	128,438	66,550	73,943	84,382	78,192	154,497	77,866	5	-50
PBT	4,227	3,782	3,609	3,215	3,315	2,287	4,227	4,318	4,512	36	4
Tax	262	228	237	475	306	284	262	252	291	-5	16
Surplus/(Deficit)	3,965	3,554	3,372	2,740	3,009	2,003	3,965	4,067	4,221	40	4
Sh. a/c - Non- Technical											
Trf from P/H A/c	3,334	2,850	2,742	1,967	2,464	1,479	2,662	4,166	3,689	50	-11
Investment Income	1,038	1,725	2,160	2,473	1,396	1,426	1,382	2,214	1,433	3	-35
Other Income	2	3	2	42	4	5	2	80	1	-82	-99
Total income	4,373	4,578	4,904	4,482	3,864	2,910	4,046	6,459	5,122	33	-21
Other expenses	91	88	93	115	99	85	90	104	93	-6	-10
Amounts trf to P/H acc	2	-2	0	753	925	-208	981	3,574	2,159	133	-40
PBT	4,281	4,491	4,810	3,614	2,840	3,032	2,975	2,782	2,870	1	3
Tax	221	279	289	208	24	24	8	168	21	-13	-88
PAT	4,059	4,212	4,521	3,406	2,816	3,009	2,968	2,614	2,849	1	9
APE data (Reported)											Change (bp)
Savings APE (%)											
ULIP	85.7	78.3	84.8	79.4	79.8	83.8	78.9	76.7	71.2	-864	-556
Participating	8.3	15.8	10.2	9.2	9.7	6.8	8.8	9.3	9.7	-8	34
Other Savings	1.5	2.0	0.9	1.7	2.3	1.7	2.4	3.3	4.6	233	129
- Non-Participating	0.5	0.0	0.0	0.0	0.9	0.7	0.8	1.1	1.4	43	22
- Group	0.9	0.0	0.0	0.0	1.4	1.1	1.7	2.2	3.3	190	107
Protection	4.5	3.9	4.0	9.8	8.2	7.7	9.9	10.6	14.6	639	394
Total (INRm)	17,050	18,690	20,050	22,120	13,960	19,840	19,630	24,570	14,700	5%	-40%
Ratios (%)											
Commission exp (unwtd)	4.8	5.4	5.6	5.5	5.5	5.6	5.5	5.6	4.9	-60	-70
Opex ratio (unwtd)	8.9	8.1	7.9	7.5	10.8	9.5	8.8	8.4	10.2	-58	178
VNB margins	10.7	11.7	13.7	16.5	17.5	17.5	17.0	17.0	21.0	350	400
Solvency Ratio	288.6	275.7	251.5	252.0	234.6	234.3	224.3	214.9	216.7	-1,790	180
Persistency ratios											
13th Month	85.8	85.7	86.7	85.8	85.8	85.2	84.1	84.6	84.4	-140	-20
25th Month	73.9	73.6	75.8	77.0	77.8	77.8	76.7	75.6	75.7	-210	10
37th Month	67.0	66.3	67.8	67.6	68.2	68.3	68.7	69.3	69.8	160	50
49th Month	59.2	59.8	61.8	62.8	63.7	63.7	63.2	63.8	64.2	50	40
61st Month	54.3	54.4	55.0	53.7	54.0	54.8	55.6	56.8	57.3	330	50
Key Metrics (INRb)											
VNB	1.8	4.2	7.7	12.9	2.4	5.9	9.1	13.3	3.1	27	-77
EV	0	172	0	188	0	192	0	216	NA	NA	NA
AUM	1,266	1,306	1,383	1,395	1,427	1,461	1,500	1,604	1,640	15	2

Source: Company, MOFSL

Total APE grew 5.3% YoY to INR14.7b; Protection mix improves to 14.6%

- Total APE grew 5.3% YoY in 1QFY20 led by ~54%/153%/88% YoY growth in Non-PAR savings / Group / and protection APE business. Mix of protection improved to 14.6% of the total APE driving 400bp QoQ improvement in the margins
- Value of new business grew ~26.6% YoY to INR3.1b.

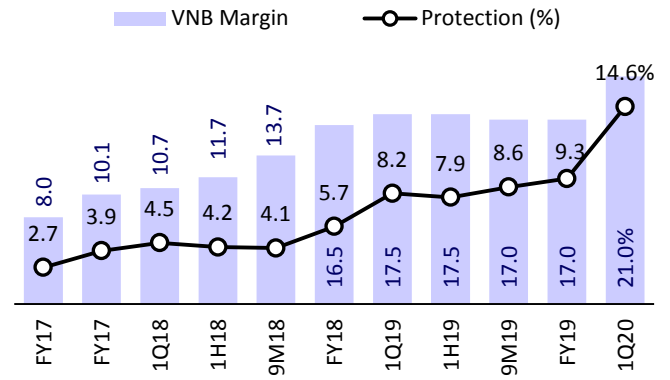
Exhibit 2: Protection mix improves to ~15% of the total APE



Note: Based on Total APE

Source: Company, MOFSL

Exhibit 3: Margins expanded 400bp QoQ to 21%

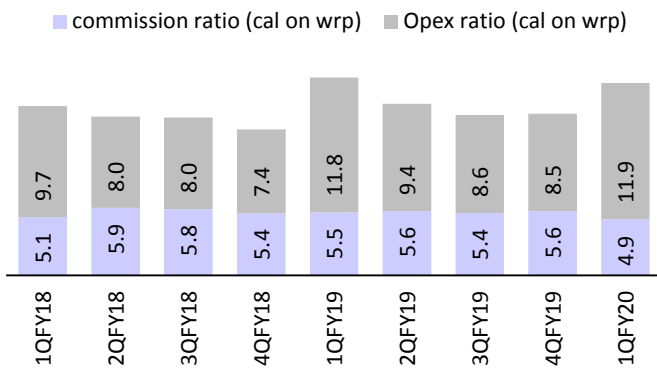


Source: Company, MOFSL

Continue to leverage technology; Improvement in cost ratios visible

- Company reported 50bp YoY improvement in the total cost ratios driven by pick up in the savings business growth. Cost / TWRP for savings LOB improved by 240bp YoY to 11.3%. IPRU Life’s management has taken initiatives to develop a ‘Digital Ecosystem’ wherein the entire process right from pre-sales, on-boarding to claims & servicing has been smoothed by the company using digital capabilities.
- The entire digital ecosystem is built on the three pillars of (a) scale with simplicity (b) seamless integration with the partner ecosystem and (c) innovation.

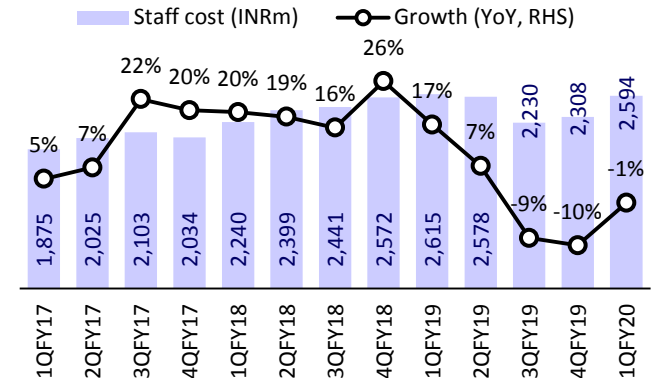
Exhibit 4: Total expense ratio stood at 16.8% (-48bp YoY)



Note: Cost ratios are calculated on wrp

Source: Company, MOFSL

Exhibit 5: Staff cost declined 1% YoY to INR2.6b



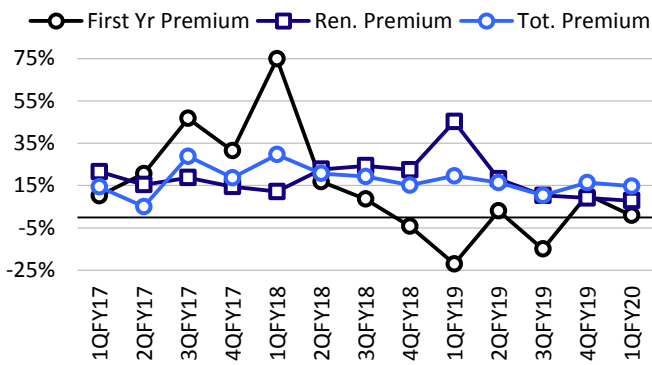
Source: Company, MOFSL

1QFY20 Concall highlights

- Growth in the VNB was primarily driven by retail and group protection business.
- Retail business constituted 95% of the overall APE in 1QFY20.
- Growth in the group APE was driven by the Protection business.
- Persistency ratios are better than the assumptions factored in.
- Management has guided for further investment in the Protection business.
- Management has also guided for doubling FY19's VNB over the next 3-4 years, implying the VNB will grow in the range of 19-25%.
- IPRU Life does not have any NPAs in the bond portfolios despite the mayhem in the debt markets.
- Management will do long tenure Non-PAR saving products only if it finds a suitable hedging product. Management is willing to take market risk but not willing to take balance sheet risk.
 - Depending on the prevailing market conditions, interest rates and available instruments, management will run the long-term annuity business.
- The new IRDA regulations had no material changes to the surrender penalty.
- Although cost ratios have improved, management is still not building the same into margins. Also, cost ratios will depend on the growth rate of the savings business.
- Pool of policies completing five years is increasing, so the absolute level of surrenders should increase, but it is not expected to worsen much.
- Margins were pulled back in FY19 due to the worsening expense ratio, which is not the case in 1QFY20.
- Bulk of the admin expenses were for Protection business.
- All the improvement in margins has been due to the product mix and any improvement in the operating leverage was not taken into account.
- Group business is coming from Credit Life and Group Fund Management business.
- ICICI Bank and Standard Chartered are the two banks contributing the bulk of the banca business to IPRU Life.
- According to the management, there won't be any need to raise equity capital for the next three to four years.

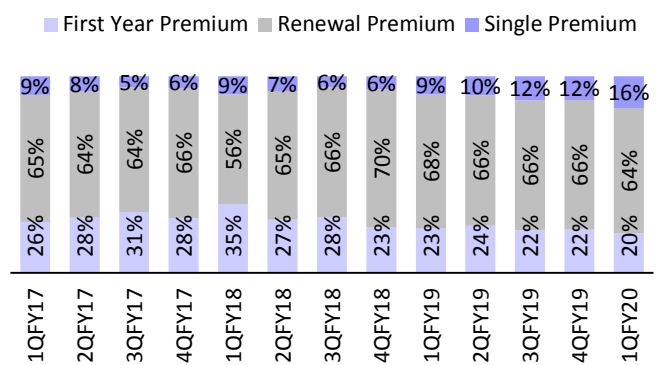
Story in charts

Exhibit 6: Total/renewal premium grew by ~15%/8% YoY



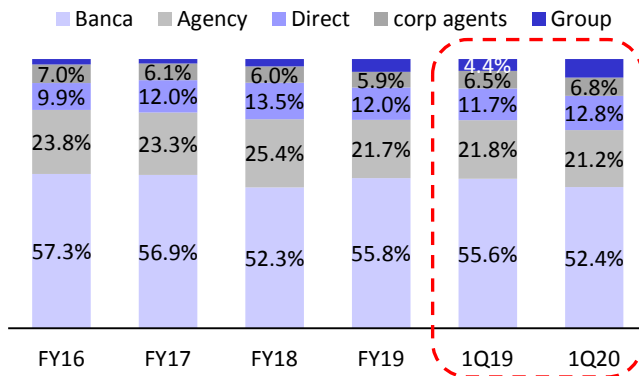
Source: Company, MOFSL

Exhibit 7: Share of single premium increased to 16% v/s 9% in 1QFY19



Source: Company, MOFSL

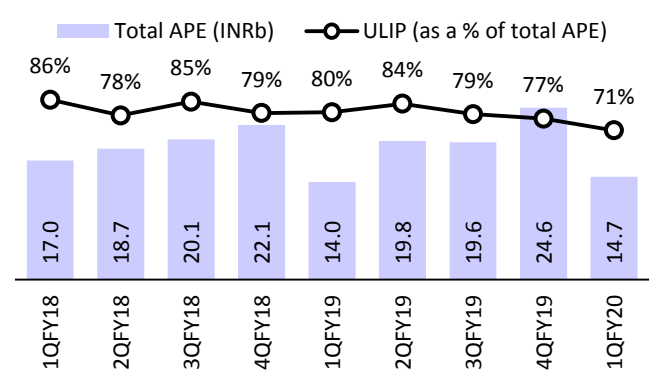
Exhibit 8: Well diversified distribution mix



Note: Based on Total APE

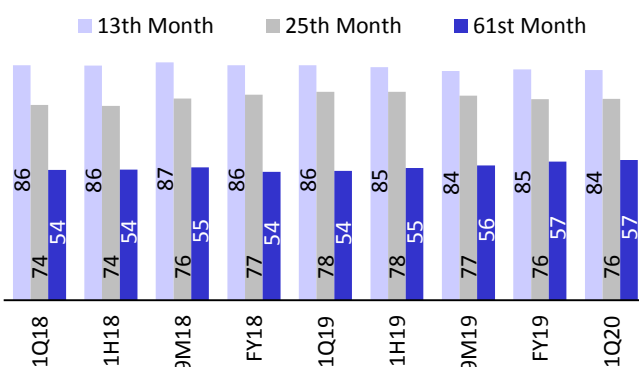
Source: Company, MOFSL

Exhibit 9: Share of ULIP in the total APE declined to 71%



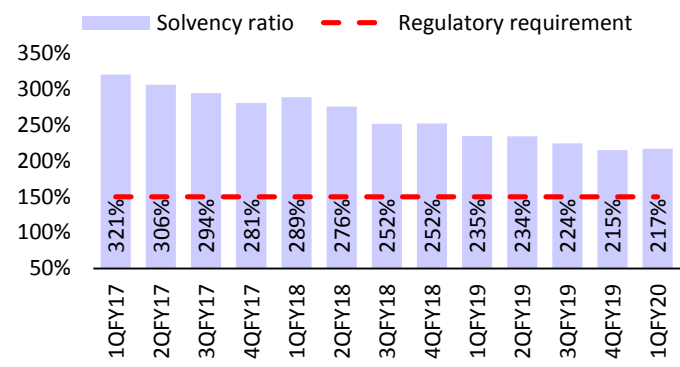
Source: Company, MOFSL

Exhibit 10: 61st month persistency improved by 330bp YoY to 57.3%



Source: Company, MOFSL

Exhibit 11: Solvency ratio stood at 217%, much above the regulatory requirement of 150%



Source: Company, MOFSL

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 51% market share in total new business APE, and IPRU is amongst the leading players. Favorable demographics,

increasing customer awareness about financial products, strong distribution network and superior brand image should help IPRU sustain WRP CAGR at 17% over FY19-21E.

- **Shift towards balanced product segments to reduce volatility:** IPRU Life has taken a strategic call to move towards balanced product categories and mass affluent customer segments, which should help reduce volatility in the business. Also, in our view, IPRU is well positioned to capture a greater pie of the Protection business, which should drive incremental profitability as it has access to a mass affluent customer base coupled with a wide presence in the banca channel.
- We estimate ~29% CAGR in VNB over FY19-21E led by 17% CAGR in new business APE while operating RoEV is expected to sustain at ~20%. We thus estimate VNB margins to recover to ~22% by FY21E while operating metrics improve further. Despite outperformance over the recent months the stock is still trading at attractive levels of 1.8x FY21E P/EV (LTA of 2.5x) and thus offers 24% upside to our fair value of INR475/sh (2.3x FY21E EV). Maintain Buy.

Financials and valuations: ICICI Prudential Life Insurance Company

Technical account (INR m)	FY17	FY18	FY19	FY20E	FY21E
Gross Premiums	223,540	270,688	309,298	353,314	406,724
Reinsurance Ceded	(1,988)	(2,581)	(3,515)	(3,766)	(4,479)
Net Premiums	221,553	268,107	305,783	349,547	402,245
Income from Investments	149,769	112,615	102,144	189,077	213,847
Other Income	188	936	5,562	1,756	1,963
Total income	371,927	382,172	414,003	540,380	618,055
Commission	7,589	14,033	15,513	20,370	22,932
Operating expenses	23,572	20,299	26,053	31,495	36,170
Total commission and opex	31,161	34,332	41,566	51,865	59,101
Benefits Paid (Net)	149,979	172,808	142,591	154,027	174,890
Chg in reserves	174,976	154,475	210,030	313,392	363,138
Total expenses	356,115	361,615	394,187	519,284	597,129
Provisions for doubtful debts	4,288	5,727	6,351	4,617	5,233
Surplus / deficit before tax	11,523	14,830	13,465	16,479	15,693
Prov for Tax	788	1,201	1,132	1,833	1,294
Surplus / Deficit	10,735	13,630	12,333	14,646	14,399
					0
Shareholder's a/c (INR m)	FY17	FY18	FY19	FY20E	FY21E
Transfer from technical a/c	11,315	10,892	10,770	11,413	12,070
Income From Investments	6,669	7,419	6,443	6,960	8,025
Total Income	18,270	18,362	17,307	18,476	20,209
Other expenses	409	420	422	443	474
Contribution to technical a/c	18	753	5,272	5,008	5,109
Total Expenses	427	1,173	5,694	5,452	5,583
PBT	17,843	17,189	11,612	13,025	14,626
Prov for Tax	1,028	997	223	781	1,170
PAT	16,815	16,192	11,389	12,243	13,456
Growth	2%	-4%	-30%	7%	10%
Premium (INR m) & growth (%)	FY17	FY18	FY19	FY20E	FY21E
New business prem - unwtd	78,633	92,118	103,644	119,190	139,452
New business prem - wrp	64,965	75,417	73,171	84,201	100,383
Total premium - unwtd	223,540	270,688	309,298	353,314	406,724
New bus. growth - unwtd	16.2%	17.1%	12.5%	15.0%	17.0%
New business growth - wrp	27.2%	16.1%	-3.0%	15.1%	19.2%
Total prem growth - unwtd	16.6%	21.1%	14.3%	14.2%	15.1%
Premium mix (%)	FY17	FY18	FY19	FY20E	FY21E
New business - unwtd					
- Individual mix	88.7%	91.2%	78.5%	83.0%	85.0%
- Group mix	11.3%	8.8%	21.5%	17.0%	15.0%
New business mix - APE					
- Participating	9.5%	10.6%	9.0%	10.3%	10.3%
- Non-participating	4.8%	5.0%	9.0%	11.2%	13.7%
- ULIPs	85.7%	84.4%	82.0%	78.5%	76.0%
Total premium mix - unwtd					
- Participating	11.7%	12.0%	11.4%	12.3%	12.0%
- Non-participating	13.6%	12.8%	15.2%	22.3%	23.7%
- ULIPs	74.8%	75.2%	73.4%	65.3%	64.3%
Indi. Premium sourcing mix (%)	FY17	FY18	FY19	FY20E	FY21E
Individual agents	23.5%	25.6%	21.8%	22.8%	23.8%
Corporate agents-Banks	57.1%	52.6%	55.2%	55.0%	54.8%
Direct business	12.8%	16.0%	16.7%	17.7%	17.5%
Others	6.6%	5.8%	6.3%	4.6%	4.0%

Financials and valuations: ICICI Prudential Life Insurance Company

Balance sheet (INR m)	FY17	FY18	FY19	FY20E	FY21E
Sources of Fund					
Share Capital	14,354	14,355	14,358	14,358	14,358
Reserves And Surplus	46,976	51,382	54,353	60,713	68,632
Shareholders' Fund	64,060	68,818	70,423	76,955	85,062
Policy Liabilities	251,695	309,934	385,524	692,774	958,675
Prov. for Linked Liab.	839,365	923,124	1,036,999	1,209,309	1,318,147
Funds For Future App.	6,042	8,780	10,344	11,895	13,678
Current liabilities & prov.	28,365	34,479	36,641	43,957	52,733
Total	1,247,408	1,418,187	1,630,859	2,054,250	2,448,585
Application of Funds					
Shareholders' inv	66,349	77,466	79,861	87,848	96,632
Policyholders' inv	270,674	332,889	400,712	713,117	986,380
Assets to cover linked liab.	878,783	975,020	1,109,458	1,209,309	1,318,147
Fixed Assets	2,138	4,221	4,757	5,423	6,182
Current assets	28,657	27,142	33,368	35,500	37,793
Total	1,247,408	1,418,187	1,630,859	2,054,250	2,448,585
Operating ratios (%)					
Commissions / GWP	3.4%	5.2%	5.0%	5.8%	5.6%
- first year premiums	7.3%	13.9%	16.0%	19.6%	18.4%
- renewal premiums	2.0%	1.9%	1.9%	1.8%	1.8%
- single premiums	0.6%	1.9%	1.4%	1.1%	1.1%
Operating expenses / GWP	10.5%	7.5%	8.4%	8.9%	8.9%
Total expense ratio	13.9%	12.7%	13.4%	14.7%	14.5%
Claims / NWP	67.7%	64.5%	46.6%	44.1%	43.5%
Solvency margin	289%	252%	215%	197%	171%
Persistence ratios (%)					
FY17	FY18	FY19	FY20E	FY21E	
13th Month	85.7%	86.8%	86.2%	85.8%	85.6%
25th Month	73.9%	78.3%	77.4%	76.9%	76.6%
37th Month	66.8%	68.8%	71.0%	70.5%	70.2%
49th Month	59.3%	64.2%	65.0%	66.5%	66.2%
61st Month	56.2%	54.5%	58.1%	58.7%	60.0%
Profitability ratios (%)					
FY17	FY18	FY19	FY20E	FY21E	
VNB margin (%)	10.1%	16.5%	17.0%	20.8%	22.0%
RoE (%)	28.7%	24.4%	16.4%	16.6%	16.6%
RoIC (%)	34.8%	33.4%	23.5%	25.2%	27.7%
EVOP as % of IEV	16.4%	22.8%	20.2%	20.0%	19.6%
RoEV (%)	16.0%	16.1%	15.1%	17.3%	17.6%
Valuation ratios					
FY17	FY18	FY19	FY20E	FY21E	
Total AUMs (INRb)	1,229	1,395	1,604	2,010	2,401
- Of which equity AUMs (%)	47%	48%	48%	49%	50%
Dividend (%)	74%	68%	49%	34%	32%
Dividend payout ratio (%)	40%	74%	74%	48%	41%
EPS (INR)	11.7	11.3	8.0	8.5	9.4
VNB (INRb)	6.6	12.9	13.3	17.5	22.1
EV (INRb)	161.7	187.8	216.1	253.5	298.2
EV/Per share	112.7	130.8	150.6	176.6	207.8
VIF as % of EV	58%	63%	66%	68%	70%
P/VIF	5.8	4.7	3.8	3.2	2.6
P/AUM (%)	45%	39%	34%	27%	23%
P/EV (x)	3.4	2.9	2.5	2.2	1.8
P/EPS (x)	32.6	33.9	48.2	44.8	40.8

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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