

13 May 2020

Q4-FY20 Result Update

- ICICI Prudential Life Insurance Company Ltd. (IPRU) recorded 4.8% year-over-year (y/y) increase in gross premium to ₹106.47 billion in Q4FY20, primarily due to growth in new business premium which registered a growth of 21.9% y/y. Renewal premium decreased 4.1% y/y. Net premium income (net of reinsurance) increased 4.2% y/y to ₹104.75 billion in the quarter.
- The quarter witnessed negative income from investment of ₹188.13 billion as against income of ₹58.39 billion in Q4FY19. Profit after tax declined 31.5% y/y to ₹1.78 billion. As of Mar 31, 2020, the Assets under Management (AUM) stood at ₹1,529.68 billion, down 4.6% y/y.
- For FY20, gross premium increased 8.1% to ₹334.31 billion while PAT decreased 6.3% y/y to ₹10.67 billion. During the year, the new business premium continued with strong growth with 20.4% y/y increase to ₹123.48 billion. However, overall annualized premium equivalent (APE) reflected a degrowth of 5.4% y/y at ₹73.81 billion, mainly due to decline in unit linked business. Nevertheless, the year witnessed solid growth in protection and annuity segments. Protection and Annuity contributed over 1/3rd of new business premium in FY20.
- Protection APE which grew by 55% y/y FY20 driven by growth in both retail as well as group protection businesses, now accounts for 15.1% of the company's overall APE, up from 9.3% at the end of FY19. ULIP segment constitutes 64.7%, reducing from almost 80% in FY19. With increase in reinsurance rates, management expects an increase in protection pricing. In this regard, the company has filed revised product in protection business while maintaining margins at the same level.
- Value of New Business (VNB) grew by 21% y/y to ₹16.05 billion in FY20. Driven by strong performance in non-linked savings and protection segments along with reduced expenses, VNB margin was 21% in FY20, up from 17% in FY19. Despite the current challenging market scenario, management reiterated its guidance of doubling FY19 VNB in three to four years. Embedded value increased 6.5% y/y to ₹230.30 billion. VNB and EV included the impact of the removal of the dividend distribution tax (dividends taxable in the hands of the recipient).
- In FY20, 13th month and 49th month persistency rates stood at 83.2% and 64.6%, respectively, compared to 84.6% and 63.8%, respectively in FY19. Management noted, while protection persistency improved, the year witnessed decline in the linked persistency and flat non-linked savings persistency. Also, the persistency rates continue to be better than the assumptions used in the VNB and Embedded Value (EV).
- Solvency ratio came in at 194.19% as of Mar 31, 2020, compared to 214.9% as of Mar 31, 2019. Management stated that it has conducted stress testing of the balance sheet and concluded that even with further stresses from an already stressed environment, the company's solvency is expected to stay above the minimum level of 150% required by regulation. Also, it noted that the company is permitted to raise Tier 2 capital of upto ₹12.00 billion, which remains fully unutilized currently and could be raised if needed to boost the solvency position.

..contd..

Q4-FY20 Result Update

- ❑ The cost to total weighted received premium (TWRP) for savings business improved to 10.4% as against 11.5% for FY19. However, the overall cost to TWRP ratio increased to 15.9% in FY20 from 15% in FY2019, mainly due to costs tied with new business premium in protection business as cost ratio in protection segment is higher. Reflecting the current uncertain environment, management will remain focused on keeping low fixed costs, translating costs to more variable in nature and improving the manpower efficiency through a greater digital adoption. Notably, as part of scaling down costs, the company has already cut its capex plan, sales rewards and recognition program and put recruitment on hold.
- ❑ The company has amended the dividend distribution policy, reducing the maximum limit of dividend ratio to 30% of PAT as compared to 40% of PAT previously. The revision comes in line with the company's objective to conserve capital, mainly to support the strong growth in the protection business. Given the uncertain environment, the company would not recommend any final dividend to the shareholders for FY20.
- ❑ In view of the sharp fall in equity markets, management noted that of the total liabilities in the balance sheet, unit linked business constitutes 68% and participating business constitutes 13% and these product categories largely pass on the market performance to customers. Non par guaranteed return products comprise only 0.4% of total liabilities and these are invested with minimal ALM mismatches. The company also remains cautious in assessment of investment opportunities with currently 94% of total fixed income portfolio invested in either government bonds or AAA rated bonds. About 1.0% of the fixed income portfolio is invested in bonds rated below AA. Additionally, the company has no exposure to any of the recent corporate defaults.
- ❑ Growth in ULIP business remains challenged in the short term, however, management remains optimistic about growth in protection segment. The company remains focused on diversifying within the product mix and expanding its distribution network with continued investments across channels such as agency, bancassurance partnerships, proprietary sales force, corporate agents and brokers. Particularly on agency, the company is looking to increase penetration in under-served customer segments. During FY20, more than 23,000 agents were added to the distribution network.
- ❑ We have incorporated latest quarterly numbers for IPRU and have revised our estimates for the company. While short term growth might get impacted given the current uncertain environment stemming from COVID-19, we believe IPRU is well positioned for medium to long term growth, given its continued focus on diversifying product mix with increasing share of margin accretive protection business, improving VNB, ongoing investments in its multi-channel distribution platform with greater thrust on digitization, cost management efforts and significant underpenetration in domestic life insurance industry. We continue to remain positive on the company and maintain our **BUY** rating with a revised target price of **₹450 per share**.

Consolidated Financial Results:

(In ₹ mn)	Q4FY20	Q4FY19	Chg	FY20	FY19	Chg
Gross Premium Earned	106,470	101,636	4.8%	334,307	309,298	8.1%
Net Premium Earned	104,751	100,563	4.2%	328,790	305,783	7.5%
Income from investment	-188,134	58,397	-	-118,540	108,587	-
Other Income	8,170	3,880	110.6%	15,784	6,168	155.9%
Commission Expense	4,433	5,126	-13.5%	15,860	15,513	2.2%
Expenses and Tax	10,369	9,675	7.2%	38,468	33,536	14.7%
Claims/Benefits Paid & Change in Actuarial liability	-100,296	141,671	-	143,197	352,621	-
Other Expenses	8,572	3,590	138.8%	17,838	7,257	145.8%
Profit Before Tax	1,709	2,779	-38.5%	10,670	11,612	-8.1%
Tax credit/(charge)	-78	168	-	-	223	-
Profit After Tax	1,787	2,610	-31.5%	10,670	11,389	-6.3%

Product Mix (APE ₹ bn)	FY20	FY19	Chg
Linked	47.72	62.1	-23.2%
Non-Linked	12.46	7.7	62.2%
Group	2.47	1.0	149.5%
Savings	62.7	70.8	-11.5%
Protection	11.2	7.2	54.6%
Total APE	73.8	78.0	-5.4%
Value of New Business (VNB in ₹ bn)	16.05	13.28	20.9%
VNB Margin (VNB/APE)	21.7%	17.0%	
Embedded Value (₹ bn)	230.3	216.2	6.5%
Persistency (13th Month/49th month)	83.2%/64.6%	84.6%/63.8%	

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Gross Premium Earned	309,298	334,307	358,889	392,917
Net Premium Earned	305,783	328,790	352,966	386,432
Income from investment	108,587	(118,540)	87,694	110,065
Other Income	6,168	15,784	6,943	8,745
Commission Expense	15,513	15,860	18,662	21,610
Expenses and Tax	33,536	38,468	36,557	42,434
Claims/Benefits Paid & Change in Actuarial liability	352,621	143,197	376,655	422,386
Other Expenses	7,257	17,838	5,132	6,326
Profit Before Tax	11,612	10,670	10,598	12,486
Tax	223	-	615	724
Profit After Tax	11,389	10,670	9,983	11,762

Metrics	FY-19	FY-20	FY-21E	FY-22E
Gross Premium Growth %	14.3%	8.1%	7.4%	9.5%
PAT Growth%	-29.7%	-6.3%	-6.4%	17.8%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Liabilities				
Equity Share Capital	14,358	14,358	14,358	14,358
Reserves & Surplus	54,353	60,994	70,977	82,739
Total Shareholder's Funds	68,711	75,352	85,335	97,097
Fair Value Change Account	1,712	(3,228)	(3,228)	(3,228)
Long-Term Liabilities	457,977	564,039	675,046	796,579
Policy Holders Funds	1,065,818	890,824	1,008,444	1,137,329
Short-term Liabilities	36,644	33,321	35,029	39,282
Total	1,630,862	1,560,308	1,800,627	2,067,059
Assets				
Net Fixed Assets	4,757	4,778	5,363	5,921
Investments - Shareholders	79,861	74,152	75,701	77,553
Investments - Policy Holders	400,712	467,503	539,206	617,707
Assets Held to cover Linked Liabilities	1,109,458	970,850	1,126,155	1,296,185
Current Asset	36,073	43,026	54,202	69,692
Total	1,630,862	1,560,308	1,800,627	2,067,059

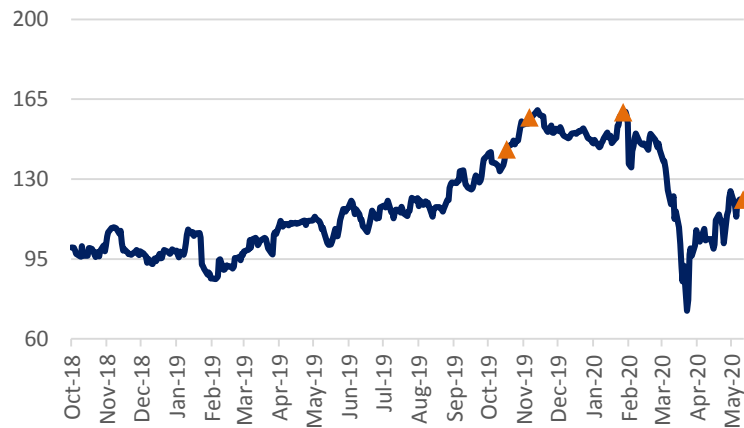
(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	7.9	7.4	7.0	8.2
P/E (x)	49.9	53.3	57.0	48.3
P/B (x)	8.3	7.5	6.7	5.9

Key Risks:

- ❑ Profitability might get impacted owing to increasing competition.
- ❑ General slowdown in economy.
- ❑ Any unfavorable policies on insurance pricing and sales commission for customer protection might weigh on profitability.

Rating and Target Price history:

IPRU rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on May 13, 2020 close.

IPRU rating details

Date	Rating	Target Price (₹)	Share Price (₹)
17-Oct-19	BUY	575	473
6-Nov-19	BUY	575	520
30-Jan-2020	BUY	575	522
13-May-2020	BUY	450	396

Source: Bloomberg, Anand Rathi Research

Disclaimer:

Analyst Certification

- ❑ The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter “SEBI”) and the analysts’ compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Ratings Methodology

- ❑ Analysts’ ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

Disclaimer:

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues.

General Disclaimer: - This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers.No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Continued...

Disclaimer:

Contd...

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i. e. www.rathi.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Copyright: - This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Contd...

Disclaimer:

Contd.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Sr. No.	Statement	Answers to the Best of the knowledge and belief of the ARSSBL/ its Associates/ Research Analyst who is preparing this report
1	ARSSBL/its Associates/ Research Analyst/ his Relative have any financial interest in the subject company? Nature of Interest (if applicable), is given against the company's name?.	NO
2	ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?.	NO
3	ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report or at the time of public appearance?.	NO
4	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months.	NO
5	ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months.	NO
6	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
7	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
8	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report.	NO
9	ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	NO
10	ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	NO