

ICICI Pru Life

Refer to important disclosures at the end of this report

Steady quarter; fairly valued

CMP: Rs 443

as of (July 21, 2020)

TP: Rs 455 (▲)

12 months

Rating: HOLD (■)

Upside: 2.7 %



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- IPRU saw VNB margins surge by 342bps yoy (+60bps qoq) to 24.4% during Q1FY20 amid a change in product mix (rising share of protection plans to 26%). However, the same is attributable to a steep decline in APE by ~44% yoy (against ~30% for HDFCSL). The share of ULIP declined, yet elevated at ~43.6% (~64.7% for FY20).
- 13M persistency for IPRU dipped significantly to ~81.1% against ~89.2% and 49M stood at ~63.3% against ~68.1% last quarter. This is in spite of relaxation provided by the government over premium payments. Hence, we would await further clarity over the same. The solvency ratio improved on a qoq basis to ~217%.
- Though we remain appreciative of IPRU management's consistent focus on increasing the share of protection plans, we still remain skeptical of the elevated ULIP portfolio and expect the ULIP share to rise with stability in equity markets as well as due to elevated share of bancassurance (which can comfortably sell ULIPs).
- We expect VNB to grow at a CAGR of ~7.7% to Rs20bn over FY20-23E, with a 12% CAGR in EV to Rs3.2bn by FY23E. We introduce FY23E estimates and roll forward to Sept'22E with a revised TP of Rs455 (Rs374 earlier), corresponding to 2.1x P/EV. We maintain our Hold rating and UW stance in Insurance EAP.

VNB margins to improve gradually: We believe that the overall insurance penetration in India is likely to rise post-Covid-19 scenario as individual as well as corporate customers would be more cautious toward such crisis. IPRU management intends to improve the margin trajectory further, with an increasing focus on protection plans and a consistent dip in the share of ULIPs. However, we remain skeptical of the same as the current lockdown and social distancing would increase the share of bancassurance, which would be more tilted toward ULIPs. We expect VNB margins to improve to ~25.5% for FY23E from 21.7% in FY20.

Sharp decline in premium receipts: IPRU reported an APE decline of ~44% yoy during Q1FY21, which was steepest compared to other listed players on a received premium basis. Retail APE fall is sharper, indicating that the group APE business has performed relatively better.

Outlook and valuation: Maintain Hold; UW in EAP: We expect VNB to grow at a CAGR of ~7.7% to Rs20bn over FY20-23E, with a 12% CAGR in EV to Rs3.2bn by FY23E. We introduce FY23E estimates and roll forward to Sept'22E with a revised TP of Rs455 (Rs374 earlier), corresponding to 2.1x P/EV. We maintain our Hold rating and UW stance in Insurance EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Profit	11,406	10,687	16,232	19,296	25,524
EPS (Rs)	7.9	7.4	11.3	13.4	17.8
VNB	13,280	16,050	15,123	17,738	20,034
VNB margin %	17.0	21.7	23.7	25.1	25.5
EV	2,16,240	2,30,320	2,55,055	2,86,302	3,23,687
ROEV %	20.2	15.2	15.9	16.0	15.7
P/EV (x)	2.9	2.8	2.5	2.2	2.0

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	7/64
Target Price change (%)	21.7
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	11.3	13.4
Consensus	8.5	10.8
Mean Consensus TP (12M)	Rs 451	

Stock Details

Bloomberg Code	IPRU IN
Face Value (Rs)	10
Shares outstanding (mn)	1,436
52 Week H/L	538 / 222
M Cap (Rs bn/USD bn)	636 / 8.51
Daily Avg Volume (nos.)	34,58,569
Daily Avg Turnover (US\$ mn)	18.2

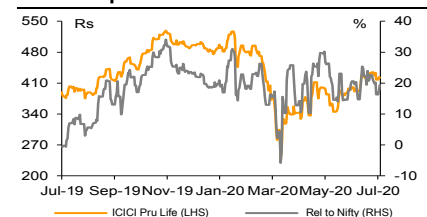
Shareholding Pattern Jun '20

Promoters	73.5%
FIIIs	15.1%
DIIIs	5.2%
Public and Others	6.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	20	(9)	17
Rel. to Nifty	4	(4)	(1)	19

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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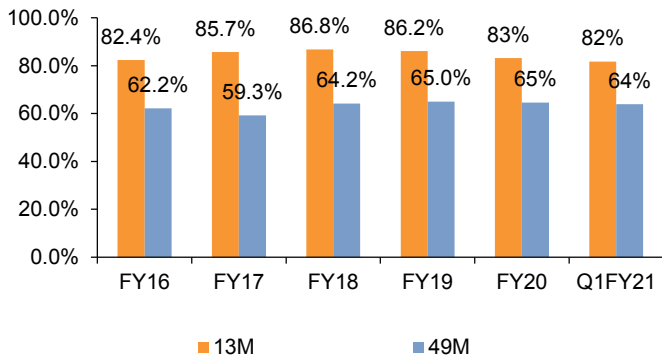
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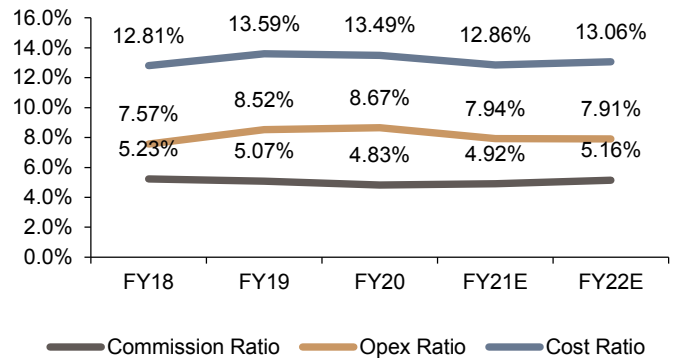
Story in charts

Exhibit 1: Persistency marginally weak



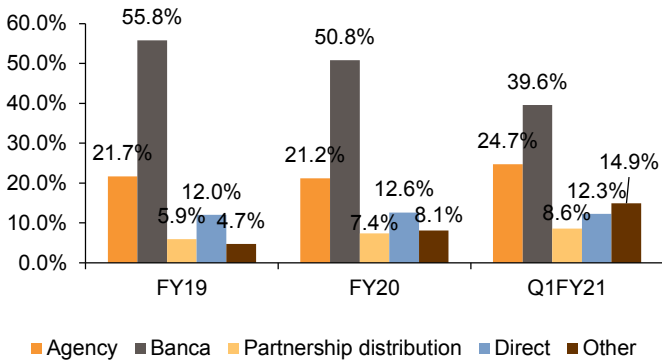
Source: Company, Emkay Research

Exhibit 2: Stable cost matrix



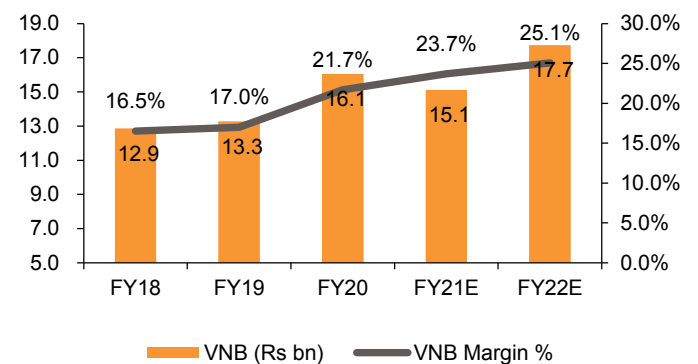
Source: Company, Emkay Research

Exhibit 3: Distribution channel more diversified



Source: Company, Emkay Research

Exhibit 4: VNB margins to remain stable



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

	FY21E			FY22E		
	Old	New	% change	Old	New	% change
NBP	1,48,613	1,16,164	-22%	1,60,733	1,35,583	-16%
APE	90,654	63,845	-30%	88,585	70,785	-20%
PAT	15,198	16,232	7%	11,781	19,296	64%
EV	2,91,479	2,55,055	-12%	2,95,092	2,86,302	-3%
VNB margin %	18.3%	23.7%	29%	20.4%	25.1%	23%
ROE %	19.3%	20.4%	6%	16.5%	20.1%	22%
ROEV %	17.3%	15.9%	-8%	16.3%	16.0%	-2%

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Opening Embedded value (EV)	1,39,390	1,61,840	1,87,880	2,16,240	2,30,320	2,55,055	2,86,302
Expected return on existing business (A+B+C)	16,290	23,950	24,730	16,840	21,420	22,955	24,908
Expected return on existing business (unwind) (A)	12,210	13,730	15,840	17,250	17,965	19,129	20,614
Operating assumption changes (B)	1,000	7,640	4,200	(2,250)	-	-	-
VNB added during the period	6,660	12,860	13,280	16,050	15,123	17,738	20,034
Operating experience variance (C)	3,080	2,580	4,690	1,840	3,455	3,826	4,295
IEV operating earnings (EVOP)	22,950	36,810	38,010	32,890	36,543	40,693	44,942
Economic assumption changes and investment variance	5,820	1,130	(1,220)	(14,760)	(11,808)	(9,446)	(7,557)
IEV total earnings	28,770	37,940	36,790	18,130	24,735	31,247	37,385
Capital contributions/ (dividends paid out)	(6,320)	(11,880)	(8,430)	(4,050)	-	-	-
Closing IEV	1,61,840	1,87,900	2,16,240	2,30,320	2,55,055	2,86,302	3,23,687
Expected return as % of opening (PAT/opening EV)	12.1%	10.0%	6.1%	4.9%	7.0%	7.6%	8.9%
VIF transfer as % of opening (unwinding/opening EV)	8.8%	8.5%	8.4%	8.0%	7.8%	7.5%	7.2%
ROEV %	16.5%	22.7%	20.2%	15.2%	15.9%	16.0%	15.7%
Operating ROEV %	13.5%	16.4%	15.5%	15.4%	14.4%	14.5%	14.2%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premium	3,05,783	3,28,540	3,04,075	3,23,551	3,56,878
Income from investments	1,02,144	(1,25,169)	87,618	96,380	1,06,018
Contribution from the shareholders fund	5,272	14,970	7,500	6,000	6,000
Miscellaneous income	803	804	884	973	1,070
Total income	4,14,003	2,19,145	4,00,078	4,26,904	4,69,966
Commissions	16,038	15,860	14,953	16,681	18,554
Operating expenses	25,528	28,469	24,137	25,586	28,903
Provisions	6,351	8,685	7,960	8,398	9,225
Total expenses	47,917	53,014	47,051	50,665	56,683
Benefits paid (net)	1,42,591	1,93,766	1,40,765	1,57,509	1,51,179
Change in liabilities (net)	2,10,030	(50,569)	1,99,391	2,24,123	2,65,589
Total	3,52,621	1,43,197	3,40,156	3,81,632	4,16,768
Surplus	13,465	22,934	12,871	(5,394)	(3,485)
Tax	1,132	1,314	1,651	1,894	2,163
Net surplus	12,333	21,620	11,220	(7,288)	(5,649)
Transfer to shareholders account	10,770	19,887	18,937	20,541	26,813

Shareholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Transfer from policyholders account	10,770	19,887	18,937	20,541	26,813
Income from investments	6,418	6,594	5,195	5,195	5,195
Other income	90	5	0	0	0
Total income	17,279	26,487	24,132	25,736	32,008
Expenses	377	364	400	440	484
Provisions	0	466	0	0	0
Contribution to policyholders account	5,272	14,970	7,500	6,000	6,000
Profit before tax	11,630	10,687	16,232	19,296	25,524
Tax	223	0	0	0	0
Net profit	11,406	10,687	16,232	19,296	25,524

Balance Sheet

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Sources of funds					
Share capital	14,358	14,359	14,358	14,358	14,358
Reserve and surplus	54,397	61,056	76,023	94,055	1,18,314
Fair value change account credit/(debit)	1,712	(3,228)	(3,228)	(3,228)	(3,228)
Net worth (including fair value change)	70,467	72,186	87,153	1,05,184	1,29,444
Policyholders funds	15,13,451	14,42,536	16,20,305	18,03,724	20,12,752
Funds for future appropriations	10,344	12,327	15,558	19,213	23,295
Total liabilities	15,94,262	15,27,049	17,23,016	19,28,122	21,65,490
Application of funds					
Shareholders investments	79,916	74,209	74,209	74,209	74,209
Policyholders investments	4,00,712	4,67,503	5,32,953	6,07,637	6,73,134
Assets to cover linked liabilities	11,09,458	9,70,850	10,87,352	11,96,087	13,39,617
Loans	2,702	4,631	4,631	4,631	4,631
Fixed assets	4,756	4,776	4,776	4,776	4,776
Net current assets (A-B)	(3,282)	5,080	19,095	40,782	69,123
Total assets	15,94,261	15,27,049	17,23,016	19,28,122	21,65,490

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Conservation ratio %	81.6	76.0	70.6	77.5	81.8
Commissions ratio %	5.2	4.8	4.9	5.2	5.2
Opex ratio %	8.3	8.7	7.9	7.9	8.1
ROA %	0.8	0.7	1.0	1.1	1.2
ROE %	16.4	15.0	20.4	20.1	21.8
Dividend payout ratio %	39.7	42.3	10.6	0.0	0.0

EV Data	FY19	FY20	FY21E	FY22E	FY23E
Embedded value (Rs mn)	2,16,240	2,30,320	2,55,055	2,86,302	3,23,687
Value of new business (Rs mn)	13,280	16,050	15,123	17,738	20,034
EVOP (Rs mn)	38,010	32,890	36,543	40,693	44,942
ROEV %	20.2	15.2	15.9	16.0	15.7
VNB margin %	17.0	21.7	23.7	25.1	25.5

Source: Company, Emkay Research

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.9	7.4	11.3	13.4	17.8
DPS	3.1	3.1	1.2	0.0	0.0
BVPS	49.1	50.3	60.7	73.3	90.2

Valuation (x)	FY19	FY20	FY21E	FY22E	FY23E
P/E	55.7	59.5	39.2	33.0	24.9
P/B	9.0	8.8	7.3	6.0	4.9
P/EV	2.9	2.8	2.5	2.2	2.0
P/VNB	47.9	39.6	42.0	35.8	31.7
Dividend yield (%)	0.7	0.7	0.3	0.0	0.0

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
GWP	14.3	0.0	(7.2)	6.7	0.0
New business premium (NBP)	12.5	0.0	(6.8)	16.7	0.0
Annualized premium equivalent (APE)	3.4	0.0	(13.5)	10.9	0.0
Retail APE	(4.9)	0.0	(23.5)	11.9	0.0
Commissions	14.3	0.0	(5.7)	11.6	0.0
Operating expenses	25.8	0.0	(15.2)	6.0	0.0
Net income	(29.6)	0.0	51.9	18.9	0.0

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net earned premium	62,081	80,647	81,310	1,04,751	55,511
Total income	83,595	81,620	1,28,981	(83,171)	1,87,693
Total expenses	80,725	78,556	1,25,944	(84,888)	1,84,589
Net income	2,849	3,019	3,025	1,795	2,869
EPS (Rs)	1.98	2.10	2.11	1.25	2.00

Source: Capitaline

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	75.0	75.0	75.0	75.0	73.5
FIIIs	11.5	12.1	13.3	13.3	15.1
DIIIs	6.3	6.7	5.5	5.5	5.2
Public and Others	7.2	6.2	6.2	6.1	6.2

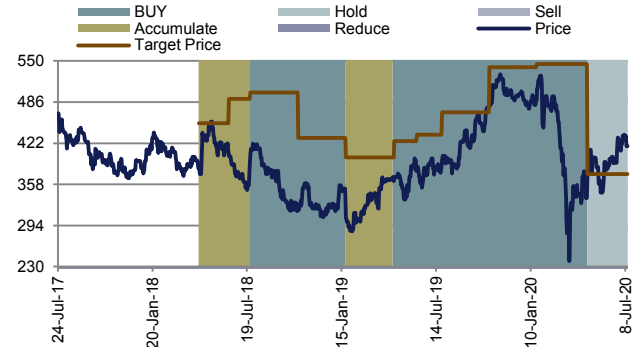
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Jul-20	420	374	12m	Hold	Jignesh Shial
11-Jun-20	395	374	12m	Hold	Jignesh Shial
27-Apr-20	378	374	12m	Hold	Jignesh Shial
7-Feb-20	496	545	12m	Buy	Neeraj Toshniwal
21-Jan-20	489	545	12m	Buy	Neeraj Toshniwal
9-Dec-19	490	540	12m	Buy	Neeraj Toshniwal
8-Nov-19	519	540	12m	Buy	Neeraj Toshniwal
23-Oct-19	485	540	12m	Buy	Neeraj Toshniwal
11-Oct-19	441	470	12m	Buy	Neeraj Toshniwal
3-Oct-19	469	470	12m	Buy	Neeraj Toshniwal
11-Sep-19	422	470	12m	Buy	Neeraj Toshniwal
13-Aug-19	375	470	12m	Buy	Neeraj Toshniwal
25-Jul-19	396	470	12m	Buy	Neeraj Toshniwal
28-Jun-19	389	435	12m	Buy	Neeraj Toshniwal
7-Jun-19	386	435	12m	Buy	Neeraj Toshniwal
13-May-19	337	425	12m	Buy	Neeraj Toshniwal
25-Apr-19	368	425	12m	Buy	Neeraj Toshniwal
22-Apr-19	369	400	12m	Buy	Neeraj Toshniwal
13-Mar-19	334	400	12m	Accumulate	Neeraj Toshniwal
23-Jan-19	305	400	12m	Accumulate	Neeraj Toshniwal
24-Oct-18	323	430	12m	Buy	Neeraj Toshniwal
25-Jul-18	404	501	12m	Buy	Neeraj Toshniwal
14-Jun-18	403	491	12m	Accumulate	Neeraj Toshniwal
18-Apr-18	382	453	12m	Accumulate	Neeraj Toshniwal

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Insurance	7.50	7.43	-1%	-6	100.00
HDFC Life	1.44	1.45	1%	1	19.35
ICICI Pru Life	0.14	0.14	-4%	-1	1.80
Max Financial	0.06	0.00	-100%	-6	0.00
SBI Life	5.25	5.35	2%	11	71.41
Cash	0.07	0.00	-100%	-7	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

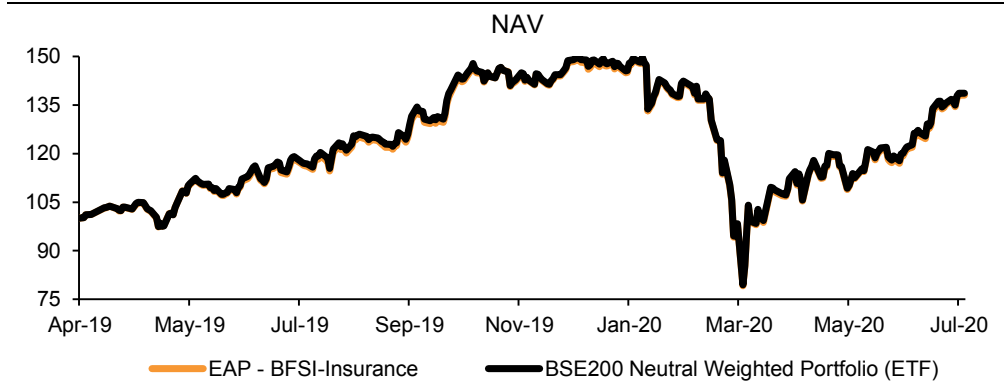
Sector portfolio NAV

	Base					Latest
	1-Apr-19	18-Oct-19	20-Jan-20	20-Apr-20	19-Jun-20	20-Jul-20
EAP - BFSI-Insurance	100.0	138.8	145.0	114.0	121.5	138.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	139.7	145.6	114.4	122.1	138.7

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 22 Jul 2020 09:07:37 (SGT)

Dissemination Date: 22 Jul 2020 09:08:37 (SGT)

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