

ICICI Prudential Life

Protection aids margins

We like IPRU's re-engineered business model, which is focused on a more diversified product mix (increasing PAR + NPAR) along with an increased protection share. We, however, remain wary of the current COVID-19 situation and believe that outlook for FY21E remains challenged and build in a 16.3% decline in FY21E VNB; post which we expect VNB to grow at FY21E-23E CAGR of 18.5%. In our opinion, a difficult FY21E is most likely to delay achieving the goal of doubling VNB by FY23E. We downgrade our rating on IPRU to REDUCE with a DCF-derived target price of Rs 445 (Mar-21E EV + 23.6x Mar-22E VNB). The stock is currently trading at FY21/22E P/EV of 2.5/2.2x and P/VNB of 30.2/23.3x. Key risks are lower-than-expected growth, protection share or higher mortality as a result of the pandemic.

- 1QFY21 highlights:** The lockdown and partial working conditions resulted in total APE declining 44.0/58.3% YoY/QoQ to Rs 8.2bn. Protection share increased to 26.0% (+1,140/820bps YoY/QoQ) as the individual savings business saw a steep decline of 54.5% YoY. Both retail and group protection held steady on a YoY basis while, within savings, the linked business was down to 43.6% (-2,750bps YoY). Persistency deteriorated 50 to 440bps across cohorts as a result of lockdown and partial working conditions. Renewal premiums growth was weak at just 2.4% YoY. AUM growth was weak at just 3.6% YoY to Rs 1.7tn, while solvency improved to 205% (+1100bps YoY).
- Increased protection and non-linked savings share of 50.4% drove VNBM to 24.4% and VNB to Rs 2.0bn (-35.0/57.2% YoY/QoQ). The company stated that increased reinsurance costs hit protection margins in 1QFY21, and would improve 2QFY21 onwards as the company had repriced the product. Management kept strong vigil on costs as costs/TWRP was contained at 8.8% (-250bps YoY). 1QFY21 PAT was at Rs 2.9bn (+0.7/60.3% YoY/QoQ).
- Outlook:** We expect FY21E to be a muted year as APE is expected to decline 18.7% YoY. Increased protection and non-linked business in the mix are expected to drive VNBM to 22.4% (VNB of Rs 13.4bn, -16.3% YoY).

Quarterly financial summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	16.1	22.9	-29.7	42.1	-61.8	103.6	124.9	107.9	125.1	146.4
APE	8.2	14.7	-44.0	19.7	-58.3	78.0	73.8	60.0	68.6	78.6
VNB	2.0	3.1	-51.5	4.7	-62.5	13.3	16.1	13.4	16.2	18.9
VNB Margin (%)	24.4	21.0	340bps	23.8	60bps	17.0	21.7	22.4	23.6	24.0
EV						216.2	230.3	258.9	293.1	330.1
P/EV (x)						2.9	2.8	2.5	2.2	1.9
P/VNB (x)						33.7	26.1	30.2	23.3	18.2
ROEV (%)						19.6	8.4	12.7	14.4	14.4

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E Revised	FY21E Old	Change % / bps	FY22E Revised	FY22E Old	Change % / bps
APE	60.0	60.1	-0.2	68.6	68.5	0.1
VNB	13.4	14.5	-7.6	16.2	17.0	-4.7
VNB Margin (%)	22.4%	24.2%	-180	23.6%	24.8%	-120
EV	258.9	260.0	-0.4	293.1	295.1	-0.7

Source: Company, HSIE Research

REDUCE

CMP (as on 21 Jul 2020)	Rs 443
Target Price	Rs 445
NIFTY	11,162

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	Rs 460	Rs 445
VNB %	FY21E	FY22E
	-7.6	-4.7

KEY STOCK DATA

Bloomberg code	IPRU IN
No. of Shares (mn)	1,436
MCap (Rs bn) / (\$ mn)	636/8,521
6m avg traded value (Rs mn)	1,347
52 Week high / low	Rs 538/222

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.6	(9.4)	16.7
Relative (%)	(4.2)	(1.2)	17.7

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	75.0	73.5
FIs & Local MFs	5.5	5.2
FPIs	13.3	15.1
Public & Others	6.1	6.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

Madhukar Ladha, CFA

madhukar.ladha@hdfcsec.com

+91-22-6171-7323

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com