

Optimising product mix, volume to drive earnings

Pace of premium accretion witnessed a revival sequentially though YoY it remained moderate. Recovery in equities and increase in yields led to robust investment gains partially offset by change in actuarial liability, led to higher than expected surplus and earnings.

Premium growth witnessed a revival at ~14% YoY to ₹ 7588 crore, led by higher traction in renewal and single premium. Accretion in new business premium came a tad lower YoY at ₹ 3059 crore but was still better given the current scenario. Growth in renewal premium continued to remain healthy at ~30% YoY to ₹ 4584 crore, conservation ratio at 88%. Within NBP, traction in individual business remained moderate at ₹ 1260 crore in Q1FY21 vs. ₹ 1760 crore in Q1FY20, primarily led by a decline in unit linked products. Traction in protection business tapered at ₹ 290 crore vs. ₹ 440 crore in Q1FY20, with proportion of NBP mix declining to 10% vs. 12.5% in FY20.

Moderation in accretion of new business kept commission and overall opex was lower at ~3% YoY to ₹ 771 crore (opex ratio at 7.2%). Healthy renewals and strong investment income provided a boost to the topline. Post adjusting decline in interest rates, policyholder surplus was higher than our estimate at ₹ 610 crore. Such high surplus led to better-than-expected earnings at ₹ 391 crore. Revival in equities led to improvement in solvency ratio at 2.4x. AUM saw a revival in Q1FY21 at 19.3% YoY to ₹ 175350 crore.

Volume to offset VNB margin pressure amid competitive pricing

In the wake of rising reinsurance rates, the management seeks to keep premium rates competitive, which could pressurise VNB margins. However, anticipated growth in business volume is expected to offset margin pressure and drive earnings. Premium accretion is seen at ~16% CAGR in FY21-22E, to ₹ 54848 crore. In the current scenario, lower margin business including annuity and guaranteed products are expected to witness traction ahead. With expected rise in customer appetite, individual protection business (high margin business) is expected to play a crucial role as credit protect business is expected to stay under pressure, given decline in loan disbursement. Consequently, VNB margins are expected at ~18% in FY21-22E.

Valuation & Outlook

Increase in customer appetite towards protection products amid Covid provides potential for long term business growth. Competitive pricing, focus on protection business, excellent operating efficiency remain key drivers. Steady persistency, strong banca partnership and focus on improving digital footprint is seen supporting growth and earnings. We expect business growth at ~16% CAGR and VNB margins at ~18% in FY21-22E. We continue to prefer businesses having lower balance sheet (unlike banks) and healthy fundamentals. We remain structurally positive on the stock. Hence, we maintain **BUY** on the stock with a revised target price of ₹ 1000/share (earlier ₹ 850) valuing the stock at 2.9x FY22E EV (~₹ 34500 crore in FY22E).



Particulars

Particulars	Amount
Market Capitalisation	₹88828.5 crore
EV (FY20)	₹ 26471.2 crore
AUM (Q1FY21)	₹175350 crore
VNB margin (FY20)	17.3%
52 week H/L	1030/520
Net worth	₹8442 crore
Face value	₹10
D II holding (%)	7.0
F II holding (%)	26.2

Key Highlights

- Premium accretion witness gradual improvement; though remain moderate YoY
- Higher business volume to offset pressure on VNB margin amid competitive pricing
- Maintain BUY recommendation with revised target price of ₹ 1000

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
New business premium	12673.7	14855.4	18071.4	19775.9	22283.2	11%
APE	8540.0	9530.7	10505.2	12926.6	14574.9	18%
Total premium	26861.8	32745.5	40334.4	47503.3	54848.0	17%
PAT	2852.7	1335.8	1423.0	1620.3	1983.7	18%
EV	18726.1	22077.6	26290.0	30120.0	34504.6	15%
P/E (x)	20.0	42.7	40.1	35.2	28.7	
P/BV (x)	7.2	6.5	5.8	5.1	4.5	
P/IEV (x)	3.0	2.6	2.2	1.9	1.7	
RoEV (%)	17.8	17.8	17.5	15.5	15.6	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
First Year Premium	1,085.8	1,198.9	1,644.4	-34.0	2,522.2	-57.0	Business growth moderation amid lockdown in the peak period
Renewal Premium	4,584.4	4,354.8	3,540.0	29.5	8,131.9	-43.6	Conservation ratio increased to 88%
Single Premium	1,972.8	1,798.0	1,510.1	30.6	1,283.2	53.7	Traction in protection product continued at healthy pace primarily from group business
Net Premium income	7,588	7,052	6,655	14.0	11,863	-36.0	
Income from Investments	8,582.8	3,086.1	2,977.3	188.3	-6,677.2	-228.5	Recovery in equities & decline in yield led to strong investment income
Total revenue	16,178.1	10,158	9,643.5	67.8	5,674.9	185.1	
Commission	225.4	253.9	249.4	-9.6	453.4	-50.3	
Operating expenses	545.7	479.5	498.0	9.6	726.5	-24.9	
Management Expenses	771.1	733.4	747.4	3.2	1,179.9	-34.6	Continued focus kept efficiency ratio steady at 10%
Benefits paid	2,852.8	2,820.8	2,860.5	-0.3	3,960.1	-28.0	
Change in Actuarial Liability	11,692.1	6,103.9	5,449.7	114.5	-405.3	-2,984.7	Actuarial liability adjusted for reduction in interest rate
Total Expenses	15,568.3	9,929.7	9,365.9	66.2	5,015.7	210.4	
Surplus/ (deficit)	609.8	228.5	277.6	119.6	659.2	-7.5	Investment income offset by adjustment in actuarial liability, surplus came in healthy
Transfer to SH's A/c	282.2	168.5	215.5	31.0	920.9	-69.4	
Transfer to SH's A/c	282.2	168.5	215.5	31.0	920.9	-69.4	
Investment income	94.9	150.9	171.3	-44.6	-11.5	-926.5	
Profit/ (loss) before tax	387.7	305.3	377.9	2.6	521.6	-25.7	
PAT	390.9	290.1	371.9	5.1	530.7	-26.3	Healthy renewals and strong investment income led to earnings ahead of estimate
Key Metrics							
NBP	3,058.6	2,997.0	3,154.5	-3.0	3,805.4	-19.6	AUM revived with recovery in markets
AUM	1,75,350	1,64,591	1,46,950	19.3	1,60,360	9.3	
IEV*	NA	NA	16,540	NA	26,290.0	NA	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
(₹Crore)						
Premiums earned - Net	45,683	47,503	4.0	53,282	54,848	2.9
Total	52,275	52,547	0.5	64,871	60,704	-6.4
Transfer to Shareholders' account	1,082	1,283	18.7	1,210	1,607	32.8
PAT	1,353	1,620	19.8	1,597	1,984	24.3
EV	301	301	0.1	344	345	0.2

Source: Company, ICICI Direct Research

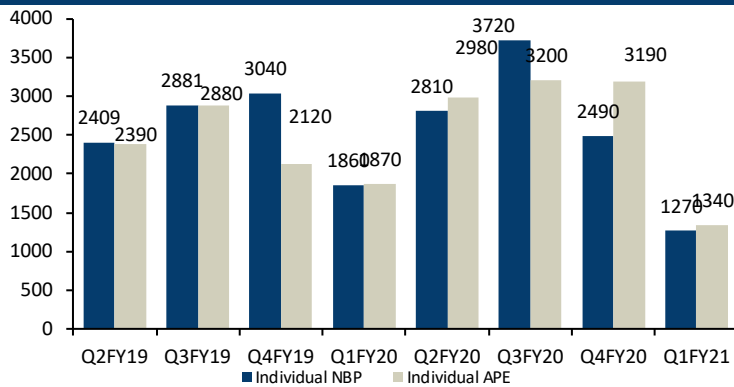
Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
NBP growth	8.8	20.3	19.2	12.7	7.5	14.1
AUM growth	20.4	14.2	16.2	16.0	17.0	18.5
EV Growth	15.8	19.1	14.6	14.6	14.5	14.4
Commission ratio	4.1	3.6	3.6	3.6	3.8	3.9
VNB Margin	17.7	20.7	18.0	18.0	17.2	17.2
Conservation ratio	85.2	85.1	82.9	81.9	83.3	81.3
Operating RoEV	17.8	17.5	15.5	15.6	15.2	15.2

Source: Company, ICICI Direct Research

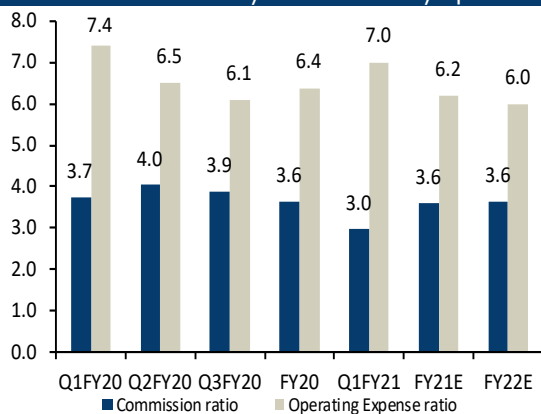
Story in Charts

Exhibit 4: Moderation in individual APE in Q1FY21



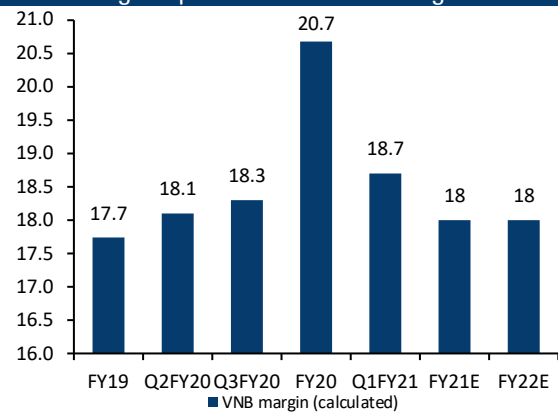
Source: Company, ICICI Direct Research

Exhibit 5: Focus on efficiency leads to steady opex ratio



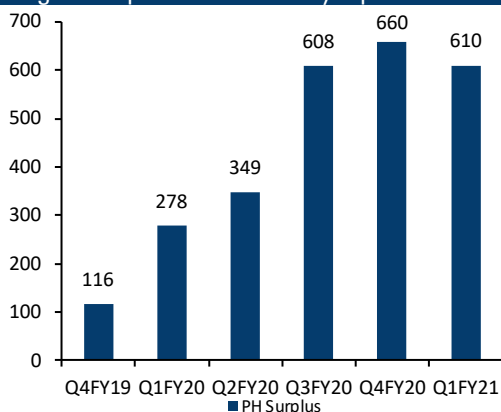
Source: Company, ICICI Direct Research

Exhibit 6: Change in product mix enables high VNB margins



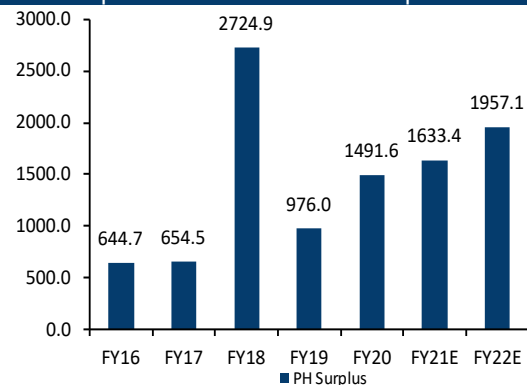
Source: Company, ICICI Direct Research

Exhibit 7: Higher surplus due to healthy topline & investments



Source: Company, ICICI Direct Research

Exhibit 8: ...expect ~14% CAGR in PH surplus in FY20-22E



Source: Company, ICICI Direct Research

Exhibit 9: Moderation in persistency ratio

Persistency ratio %	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
13th Month	80.01	84.48	84.46	83.13	82.46	84.29	81.55
37th Month	67.42	75.8	70.57	75.91	75.46	70.13	68.88
61th Month	56.24	69.24	56.27	59.55	61.06	59.44	63.14

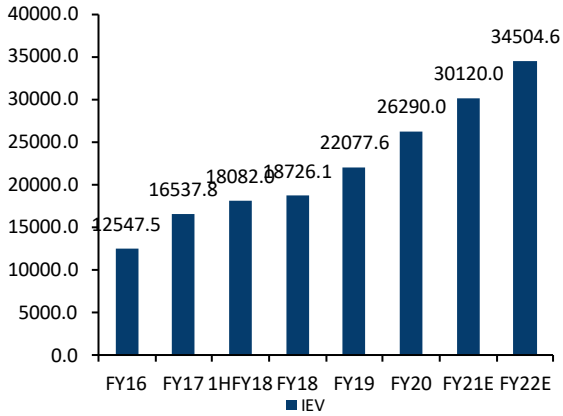
Source: Company, ICICI Direct Research

Exhibit 10: Investment growth expected at ~16% CAGR in FY20-22E

	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	FY21E	FY22E
Shareholders' investments	7031	6900	6909	6993	7924	8083	8940	9548
PH Fund Excl. Linked Assets	66496	66091	69190	73411	75159	77695	86690	100060
Assets held to cover linked liabilities	65821	72311	76932	82064	76072	87868	89374	104991
Total Investments	139348	145302	153031	162469	159155	173645	185004	214599

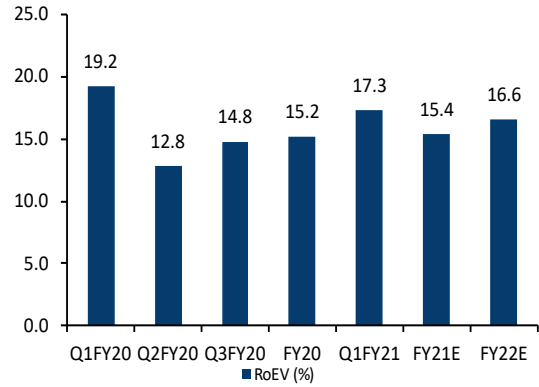
Source: Company, ICICI Direct Research

Exhibit 11: Incremental NBP to propel EV growth



Source: Company, ICICI Direct Research

Exhibit 12: Healthy premium growth to lead RoE at ~16%



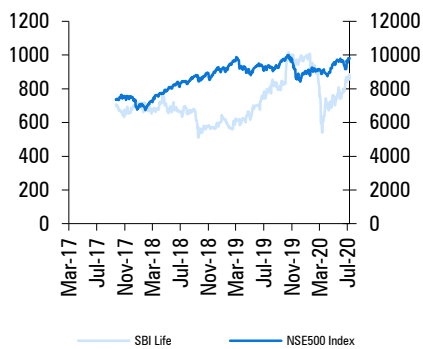
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding pattern

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	67.3	62.8	62.8	62.8	60.7
FII	19.4	23.7	27.5	25.9	26.2
DII	6.2	6.9	4.4	5.7	7.0
Others	7.1	6.6	5.3	5.59	6.13

Source: Company, ICICI Direct Research

Exhibit 14: Price chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Policyholders account					
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Premiums earned - Net	26861.8	32745.5	40334.4	47503.3	54848.0
Income from Investments	8456.3	11242.0	2997.0	4909.4	5716.7
Other income	68.6	63.8	70.2	91.3	100.4
Contribution from the Shareholders' account	75.6	98.9	47.6	42.8	38.6
Total	35462.2	44150.3	43449.2	52546.8	60703.7
Commission	1120.9	1346.4	1477.8	1722.5	2015.2
Operating expenses	1718.8	2123.5	2592.0	2967.1	3315.4
Benefits paid (Net)	11712.0	15293.8	16215.0	19401.2	22183.4
Change in valuation of policy liabilities	17595.0	23591.7	20605.0	25600.7	29868.9
Others	5.5	6.6	7.9	8.6	8.0
Provision for tax	585.2	812.3	1059.9	1213.3	1355.7
Surplus/(deficit) after tax	2724.9	976.0	1491.6	1633.4	1957.1
Transfer to Shareholders' account	2531.4	887.9	1059.6	1283.4	1607.1

Source: Company, ICICI Direct Research

Exhibit 16: Shareholders account					
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Amounts transferred from Policyholders' acco	2531.4	887.9	1059.6	1283.4	1607.1
Income from investments	462.7	623.1	490.7	522.5	587.9
Total	2994.135	1510.971	1550.259	1805.932	2195.023
Expenses other than insurance	31.7	45.9	70.0	84.0	100.8
Contribution to Policyholders' account	75.6	98.9	47.6	42.8	38.6
Others	7.4	15.9	15.9	15.9	15.9
Profit before Tax	2886.8	1366.1	1432.7	1679.1	2055.7
Provision for tax	34.1	46.3	-9.0	58.8	71.9
PAT	2852.742	1319.832	1441.659	1620.324	1983.718

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet					
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	6722	7769	8885	10155	11710
Credit/(debit) fair value change account	153	20	20	20	20
Networth	7875	8789	9905	11175	12731
Policyholders' funds	111434	138095	157733	183334	213203
Total Liabilities	119503	147166	168352	195573	227347
Applications of Funds					
Shareholders' investments	6300	7031	7924	8940	9548
Policyholders' investments	54484	66496	75159	86690	100060
Asset held to cover linked liabilities	54936	65821	76072	89374	104991
Loans	171	188	212	240	271
Fixed assets - net block	581	663	755	861	982
Net current assets	3030	6967	8229	9468	11494
Total Assets	119503	147166	168352	195573	227347

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	28.5	13.4	14.2	16.2	19.8
DPS (₹)	5.0	2.4	2.6	2.9	3.6
BV (₹)	78.8	87.9	99.0	111.8	127.3
EV per share	191	221	263	301	345
P/E	20.0	42.7	40.1	35.2	28.7
P/BV	7.2	6.5	5.8	5.1	4.5
P/IEV	3.0	2.6	2.2	1.9	1.7
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.1	4.1	3.6	3.6	3.6
Management expenses incl commission :	10.5	10.5	10.0	9.8	9.6
Return Ratios and capital (%)					
Return on Net worth	42.5	16.0	15.2	15.4	16.6
Operating RoEV	17.8	17.8	17.5	15.5	15.6
Solvency Ratio	200	195	200	200	200
Key Ratios (%)					
Conservation Ratio	84.2	85.2	85.1	82.9	81.9
VNB Margin	16.2	17.7	20.7	18.0	18.0
Surrender Ratio	5.3	5.6	4.7	4.9	4.8
Benefits paid as a % of Opening Liability	12.5	13.7	11.7	12.2	12.0
NBP (proportion %)					
Traditional	47.6	48.8	55.1	52.5	53.8
Linked	52.4	51.2	44.9	47.5	46.2

Source: Company, ICICI Direct Research

Exhibit 19: Key parameters

(Year-end March)	FY18E	FY19	FY20	FY21E	FY22E
NBP	12673.717	13791.94	16592.5	19775.869	22283.158
Growth (%)	24.9	8.8	20.3	19.2	12.7
Linked	6639.9	8129.7	8927.4	9384.7	10305.7
Growth (%)	29.6	22.4	9.8	5.1	9.8
Non Linked	6033.8	6725.6	9144.0	10391.2	11977.5
Growth (%)	20.2	11.5	36.0	13.6	15.3
APE	8540.0	9530.7	10505.2	12926.6	14574.9
Growth (%)	29.4	11.6	10.2	23.0	12.8
VNB	1390.0	1720.0	2220.0	2326.8	2623.5
Growth (%)	34.1	23.7	29.1	4.8	12.8
EV	19070.0	22077.6	26290.0	30120.0	34504.6
Growth (%)	15.3	15.8	19.1	14.6	14.6
AUM	115720.7	139348.0	159154.6	185003.7	214599.2
Growth (%)	20.8	20.4	14.2	16.2	16.0
PH Funds	109420.4	132316.6	151230.7	176063.5	205051.4
Growth (%)	19.5	20.9	14.3	16.4	16.5
SH Funds	6300.3	7031.4	7923.9	8940.1	9547.8
Growth (%)	46.671054	11.604308	12.693207	12.825388	6.7970749

Source: Company, ICICI Direct Research

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Sell: <-15%



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