

Retail Equity Research

ICICI Prudential Life Insurance Co. Ltd.

Life Insurance

BSE CODE: 540133

NSE CODE: ICICIPRULI

Bloomberg CODE: IPRU:IN

SENSEX: 38,071

12M Investment period

Rating as per Large Cap

CMP Rs. 449

TARGET Rs. 512

RETURN 14% ↑

(Closing: 29-07-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Quarter dented by weak ULIPs; Outlook intact

ICICI Prudential Life Insurance Co. Ltd. is a joint venture between ICICI Bank and Prudential Corp. Holdings. The issuer offers protection for life and health along with pension products and services.

- Gross premium income down 9.2% YoY owing to drop in retail new business (-40.5% YoY) and group premium (-11.2% YoY).
- Value of New business (VNB) fell 35.0% YoY as new business APE for unit-linked (ULIP) business declined. However, VNB margin improved 340bps YoY driven primarily by an increase in protection mix.
- Profit after tax inched up 1.1% YoY to Rs. 288cr due to decline in operating expenses and claims payout.
- Given attractive valuation and upside potential, we reiterate our BUY rating on the stock with a revised TP of Rs. 512 at 2.5x FY22E EVPS.

Investment income growth offset gross premium income

Gross premium income came in at Rs. 5,747cr (-9.2% YoY). Net premium income fell 10.6% YoY to Rs. 5,551cr with retail new business premium reduced by 40.5% YoY (due to reduction in ULIP business) along with decline in group premium by 11.2% YoY. This was partially offset by retail renewal premium growth of 3.3% YoY to Rs. 4,107cr. Total investment income rose significantly to Rs. 13,146cr (vs. Rs. 2,094cr in Q1FY20), majorly driven by growth in unit-linked portfolio (contribution of Rs. 12,163cr). APE declined 44.0% YoY to Rs. 823cr having been hit by a 51.5% YoY decline in savings business. New business premium stood at Rs. 1,499cr (-32.6% YoY).

Margins aided by lower expenses

Value of new business declined to Rs. 201cr, a fall of 35.0%YoY due to drop in new business APE for the unit-linked business. However, VNB margin expanded 340bps YoY to 24.4% driven by increase in protection and non-linked savings mix. Expense ratio for savings business fell 250bps YoY to 8.8%, while it went down 220bps YoY to 14.8% on an overall basis, as the costs contracted with the improvement in share of renewal premiums. Simultaneously, claims and benefit payouts went down 28.8% YoY due to decrease in surrender claims by 37.0% YoY. Resultantly, PAT grew 1.1% YoY to Rs. 288cr. The 13th and 49th month persistency declined to 81.8% (vs 84.4% in FY20) and 63.9% (vs 64.2% in FY20), respectively. AUM rose to Rs. 1,700bn (+11.1% QoQ, +3.6% YoY) on account of improvement in performance of its equity portfolio.

Key concall highlights

- As of Jun 30, solvency ratio stood at 205.1% as against the mandated regulatory requirement of 150%. The credit life business fell 72.0%YoY.
- During the quarter, IPRU entered into a partnership with IDFC First Bank and will provide its' protection and savings products to 0.9cr customers of bank.
- Cost to total weighted received premium (TWRP) ratio stood at 14.8% (vs. 17.0% in Q1FY20).
- The company has an option to raise Tier 2 capital of Rs. 1,200cr, if required.

Valuation

The company's core elements, premium and protection business growth, persistency and productivity improvement, has derived the growth for the company amidst COVID-19 lockdown and will continue to provide growth opportunities in the near-term. The emphasis on non-linked and protection businesses will improve the financials going forward. We reiterate our BUY rating and value the stock at 2.5x embedded value (EV) with a revised target price of Rs. 512.

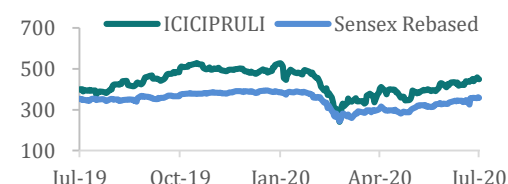
Company Data

Market Cap (cr)	Rs. 64,518
Outstanding Shares (cr)	143.6
Free Float	25.0%
Dividend Yield	0.2%
52 week high	Rs. 538
52 week low	Rs. 222
6m average volume (lac)	1.4
Beta	0.6
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	75.0	75.0	73.5
FII's	13.3	13.3	15.1
MFs/Insti	5.5	5.5	5.2
Public	2.7	2.8	2.7
Others	3.5	3.3	3.5
Total	100.0	100.0	100.0
Promotor pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.6%	-14.7%	12.8%
Absolute Sensex	16.4%	-7.6%	1.0%
Relative Return*	-4.8%	-7.2%	11.7%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Net Premium	32,879	34,597	37,389
Growth (%)	7.5	5.2	8.1
New Business (%)	21.7	24.0	26.4
Net Profit	1,067	1,230	1,431
Growth (%)	(6.3)	15.3	16.3
EPS (Rs.)	7.4	8.6	10.0
Growth (%)	(6.3)	15.3	16.3
BVPS (Rs.)	52.3	61.1	67.6
EVPS (Rs.)	160.4	182.1	204.9
RoE	14.5	14.3	15.0
RoEV	15.2	14.0	13.0
P/E	47.9	52.4	45.1
P/EV	2.2	2.5	2.2
Solvency (%)	194.1	193.6	198.6

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Premium Earned (Net)	5,551	6,208	<i>(10.6)</i>	10,475	<i>(47.0)</i>
Income from investments (net)	13,067	1,992	556.1	(18,940)	n.m.
Other income	439	232	89.0	817	(46.2)
Total Income	19,057	8,432	<i>126.0</i>	(7,648)	<i>n.m.</i>
Incurred Claims	2,596	3,645	(28.8)	6,204	(58.2)
Others expenses	15,807	4,336	264.5	(14,811)	n.m.
Total Expenses	18,404	7,981	<i>130.6</i>	(8,607)	<i>n.m.</i>
Tax (policyholders' A/c)	23	29	(22.1)	57	(60.3)
Surplus (Post tax)	631	422	<i>49.5</i>	901	<i>(30.0)</i>
Transfer to shareholder account	646	369	75.2	861	(24.9)
Interest and other income	128	144	(11.0)	127	1.0
Other expenses	464	226	105.0	817	(43.2)
PBT	310	287	<i>8.3</i>	171	<i>81.7</i>
Tax (shareholders' A/c)	24	2	1,050.7	(8)	n.m.
Reported PAT	287	285	<i>0.8</i>	179	<i>60.5</i>
Adj EPS (Rs.)	2.0	2.0	<i>0.8</i>	1.2	<i>60.5</i>

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Premium Earned (Net)	37,586	44,542	34,597	37,389	<i>(8.0)</i>	<i>(16.1)</i>
Profit before tax	1,362	1,674	1,268	1,475	(6.9)	(11.9)
Net Profit	1,321	1,624	1,230	1,431	(6.9)	(11.9)
Adj EPS (Rs.)	9.2	11.3	8.6	10.0	<i>(6.9)</i>	<i>(11.9)</i>

Policyholders' Profit & Loss Account

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net Premium	26,811	30,578	32,879	34,597	37,389
% change	21.0	14.1	7.5	5.2	8.1
Income from Inv.	11,261	10,214	-12,517	15,672	17,254
Transfer of funds from shareholders' account	75	527	1,497	1,348	1,381
Other income	70	80	80	95	110
Total Income	38,217	41,400	21,940	51,713	56,134
Commission	1,403	1,551	1,586	1,913	2,090
Operating Expenses	2,025	2,605	2,847	3,361	3,591
Other Expenses	577	635	869	783	861
Operating Profit	34,212	36,609	16,638	45,655	49,592
% change	1.7	7.0	(54.6)	174.4	8.6
Benefits Paid (Net)	17,226	14,189	19,303	20,685	22,454
Change in Reserves	15,447	21,003	(5,057)	22,521	24,446
Tax	120	113	131	167	184
<i>Tax Rate (%)</i>	8.1	8.4	5.7	7.0	7.0
Surplus/Deficit	1,363	1,233	2,187	2,204	2,424
% change	26.9	(9.5)	77.3	0.8	10.0

Shareholders' Profit & Loss Account

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Transfer from Technical A/c	1,089	1,077	1,989	1,995	2,194
Investment Inc.	742	644	663	679	713
Total Income	1,836	1,731	2,653	2,675	2,908
% change	0.5	(5.7)	53.3	0.9	8.7
Other Expenses	42	42	89	59	52
Contri to Technical A/c	75	527	1,497	1,348	1,381
Total Expenses	117	569	1,586	1,407	1,434
PBT	1,719	1,161	1,067	1,268	1,475
% change	(3.7)	(32.4)	(8.1)	18.9	16.3
Tax	100	22	0	38	44
<i>Tax Rate (%)</i>	5.8	1.9	0.0	3.0	3.0
Reported PAT	1,619	1,139	1,067	1,230	1,431
Adj*					
Adj PAT	1,619	1,139	1,067	1,230	1,431
% change	(3.7)	(29.7)	(6.3)	15.3	16.3
No. of shares (cr)	144	144	144	144	144
Adj EPS (Rs)	11.3	7.9	7.4	8.6	10.0
% change	(3.7)	(29.7)	(6.3)	15.3	16.3
DPS (Rs)	6.7	3.2	0.8	0.9	3.0

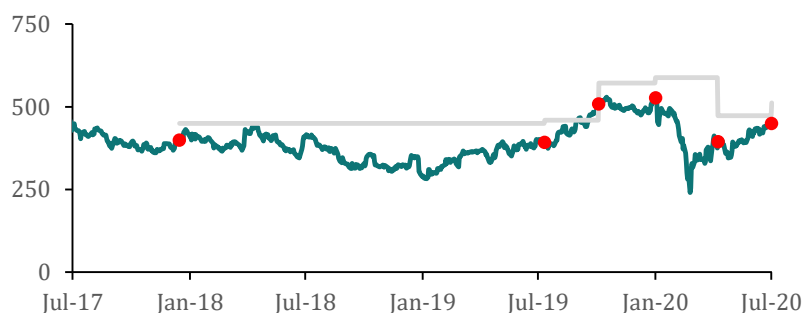
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Source of Funds					
Share Capital	1,435	1,436	1,436	1,436	1,436
Reserves & Surplus	5,138	5,435	5,918	7,156	8,072
Fair Value Change	308	171	159	175	192
Shareholders' Fund	6,882	7,042	7,513	8,767	9,700
Policy Liabilities	128,495	149,498	160,674	192,008	227,427
Others	2,117	1,848	1,990	2,189	2,408
Policyholder's Fund	130,611	151,345	162,664	194,198	229,836
Funds for Future appropriations	878	1,034	1,192	1,442	1,672
Total	138,371	159,422	171,369	204,407	241,208
Application of Fund:					
Shareholders'	7,747	7,986	7,856	8,379	8,787
Policyholders'	33,289	40,071	46,486	56,868	69,011
Assets held to cover linked liabilities	97,502	110,946	116,201	138,330	162,301
Loans	145	270	410	778	1,362
Fixed assets	422	476	467	477	538
Net Current assets	(734)	(327)	(51)	(426)	(791)
Total	138,371	159,422	171,369	204,407	241,208
BVPS (Rs)	47.9	49.1	52.3	61.1	67.6
% change	0.7	0.2	0.7	1.7	1.1

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Per Share (Rs)					
EPS	11.3	7.9	7.4	8.6	10.0
DPS	6.7	3.2	0.8	0.9	3.0
EVPS	130.9	150.6	160.4	182.1	204.9
Earnings (%)					
RoE	24.6	16.6	14.5	14.3	15.0
RoEV	22.7	20.2	15.2	14.0	13.0
Valuation (x)					
P/E (x)	34.1	44.2	47.9	52.4	45.1
P/EV (x)	2.9	2.3	2.2	2.5	2.2
Div. Yield (%)	1.7	0.9	0.2	0.2	0.7
Exps. (% of premium)					
Commission	5.2	5.1	4.8	5.5	5.6
Operating Expenses	7.6	8.5	8.7	9.7	9.6
Total Expenses	14.9	15.7	16.1	17.5	17.5
Margin (%)					
New Business	16.5	17.0	21.7	24.0	26.4
Solvency (%)					
Solvency	252.5	214.9	194.1	193.6	198.6

Recommendation Summary



Dates	Rating	Target
12-Jan-18	BUY	450
8-Aug-19	BUY	460
4-Nov-19	BUY	572
29-Jan-20	BUY	588
6-May-20	BUY	473
30-Jul-20	BUY	512

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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