

October 28, 2020

Q2FY21 Result Update

Key Financials

Y/e March	FY20	FY21E	FY22E	FY23E
Net Premiums (Rs m)	3,28,790	3,33,996	3,37,791	3,52,963
- Growth (%)	7.5	1.6	1.1	4.5
Surplus / Deficit (Rs m)	23,184	19,393	18,171	20,078
PAT (Rs m)	10,687	18,414	20,195	21,177
- Growth (%)	(6.3)	72.3	9.7	4.9
EPS (Rs)	7.4	12.8	14.1	14.7
Emb. Value (Rs bn)	230.3	267.2	307.3	352.1
NBP Margin (%) post overrun	21.7	25.8	25.9	25.7
RoE (%)	15.0	21.8	19.4	17.6
Operating RoEV (%)	15.2	15.2	15.1	14.7
RoEV (%)	6.5	16.0	15.0	14.6
Dividend (%)	8.0	-	17.0	17.0
Price/EV (x)	1.9	1.7	1.4	1.3
Ap. Value/EV (x)	2.1	2.0	1.9	1.9

Key Data

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52-W High / Low	Rs.538 / Rs.222
Sensex / Nifty	40,522 / 11,889
Market Cap	Rs.591.9bn/ \$ 8,029.2m
Shares Outstanding	1,435.9m
3M Avg. Daily Value	Rs.886.5m

Shareholding Pattern (%)

Promoter's	73.48
Foreign	15.78
Domestic Institution	4.63
Public & Others	6.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.4)	7.2	(16.6)
Relative	(8.9)	(19.6)	(17.8)

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Continued margin tailwinds

Quick Pointers:

- Margins continues to show uptick and stood at 27.3% in Q2FY21 and 26.3% for H1FY21, a strong 630bps & 188bps improvement for Q2FY21 & H1FY21
- Growth was driven by Non-par savings, while protection also saw strong improvement in growth

ICICI Pru Life's delivered a strong uptick in margins to 27.4% in Q2FY21 & 26.3% on H1FY21 basis which was up 295bps QoQ improvement and is up 188bps up from Q1FY21 to H1FY21 basis. Tailwinds on margins have been on healthy mix change towards non-par savings & protection, while re-pricing benefit & opex control also help deliver margins. Protection share is now 19% in APE mix, although it is still lagging to peers with de-growth of 18% YoY in Q2FY21 & 10% YoY in H1FY21. Though margins have been strong, we believe margins will not sustain due to recovery in ULIP post Q4FY21, retraction of some repricing on protection due to competition & non-par savings growth will slow and hence see margins at 25-26% but are higher than 24% estimated earlier. We upgrade to HOLD from Reduce revised TP of Rs438 (from Rs425) based on 1.9x Sep-22 EV & 15x NBP.

- **VNB turns flat in Q2FY21 on strong margin uptick:** VNB stood at Rs4.0bn flat YoY/1x QoQ growth in Q2FY21, while still stood 15% lower in H1FY21 at Rs6.0bn. VNB improvement was on back of strong margins improvement to 27.3% in Q2FY21 & 26.3% in H1FY21 which has been continuing to move up from 21% seen last year. Improvement has been on mix change with ULIP out of flavor and Non par savings (guaranteed/annuities) & protection seeing relatively better growth. Margins have been on good uptrend despite growth being lower, although in our view margins should retract lower as ULIP sees growth, slower non-par savings growth and protection growth has lagged peers due to heavy competition and hence we believe 25% margins will be more sustainable.
- **Optical mix changes but strong recovery sequentially:** GWP grew by 7% YoY/52% QoQ led by single & renewal premium, while regular premium still struggling. Slower regular premium is also reflection of slower retail premium growth. Overall APE growth is still down 34% YoY in H1FY21 and will require strong growth in H2FY21 to see material improvement and should have base effect recovery in ULIP which is at 46% in APE mix. Protection mix stood at 19.5% but growth has remained laggard as compared to peers with de-growth of 10% YoY in H1FY21, we believe protection should continue to slowly improve but growth landscape remains extremely competitive.
- **Steady earnings; persistency shows improvement:** Earnings came in at steady Rs3.0bn led from steady underwriting & investment profits and recovery in premium sequentially. Persistency ratios remains improved as renewal growth was good. 13th month retail persistency on 5M basis was up 30bps to 82.1%, while 61st month was up 70bps QoQ to 57.5%. 13th month persistency is still lower than assumptions and hence we closely look at any assumption changes especially for ULIP.

Exhibit 1: Premium recovery, underwriting profits help retain steady earnings

(Rs m)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	87,335	81,908	6.6	57,467	52.0
Net Premium Income	85,722	80,647	6.3	55,511	54.4
Inc. from Investments (Net)	79,494	(1,269)	NA	130,672	(39.2)
Total (A)	168,354	82,091	105.1	190,574	(11.7)
Net Commission	3,499	3,945	(11.3)	2,067	69.2
Opex related to Insurance	6,400	7,542	(15.1)	4,939	29.6
Benefits Paid (Net)	49,097	41,373	18.7	25,961	89.1
Change in actuarial liability	101,978	21,583	372.5	149,428	(31.8)
Total (B)	162,962	77,323	110.8	184,263	(11.6)
Surplus / (Deficit)	5,391	4,768	13.1	6,311	(14.6)
Shareholders' Account					
Trf from Policyholders A/c	4,531	3,966	14.3	6,461	(29.9)
Investment Income	1,691	2,047	(17.4)	1,274	32.7
Total	6,226	6,015	3.5	7,737	-19.5
Expenses other than related to insurance	22	73	(69.9)	176	(87.5)
Trf to Policyholders A/c	2,895	2,521	14.8	4,163	(30.5)
Profit/(Loss) before Tax	3,299	3,063	7.7	3,112	6.0
Provision for Taxation	267	45	496.4	236	13.2
Profit/(Loss) after Tax	3,032	3,019	0.5	2,876	5.4
Ratios					
Expense Ratio	9.0	10.6	(167)	10.2	(117)
Commission Ratio	4.9	5.6	(66)	4.2	66
Cost / TWRP	13.9	16.2	(232)	14.4	(50)

Source: Company, PL

Exhibit 2: Overall APE still de-growing but recovers sequentially due to savings

	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
APE	14,650	18,990	(22.9)	8,230	78.0	22,880	33,690	(32.1)
Savings	12,330	16,170	(23.7)	6,090	102.5	18,420	28,720	(35.9)
Protection	2,320	2,820	(17.7)	2,140	8.4	4,460	4,970	(10.3)
%								
Savings	84.2	85.2	(99)	74.0	1,017	80.5	85.2	(474)
Protection	15.8	14.8	99	26.0	(1,017)	19.5	14.8	474
VNB	4,010	4,000	0.2	2,010	99.5	6,020	7,090	(15.1)
VNB Margin (%)	27.4	21.1	630.8	24.4	294.9	26.3	21.0	530.0

Source: Company, PL

Exhibit 3: Renewal & group premium grows well, while retail is still de-growing

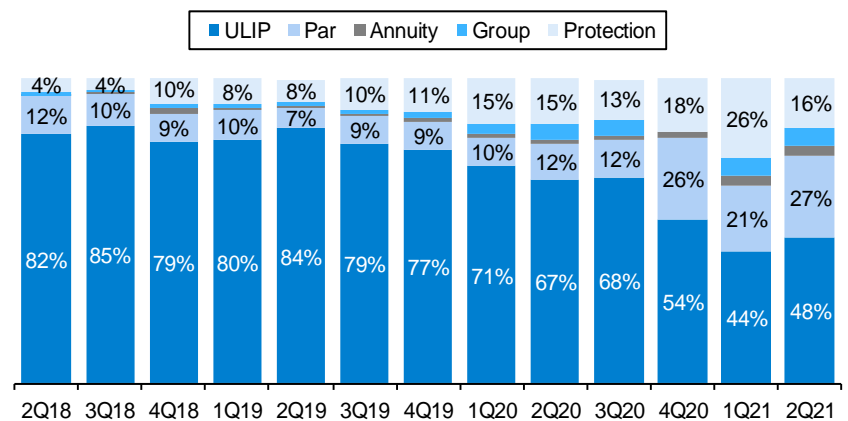
	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Retail renewal premium	54,730	51,500	6.3	41,070	33.3	95,800	91,260	5.0
Retail new business premium	17,490	20,710	(15.5)	9,120	91.8	26,610	36,040	(26.2)
Group Premium	10,610	9,690	9.5	7,280	45.7	17,890	17,890	-
Total	82,830	81,900	1.1	57,470	44.1	140,300	145,190	(3.4)

Source: Company, PL

Exhibit 4: Protection biz. continues robust share gain; Savings dragged down due to ULIP

Product Mix	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Rs Mn								
Savings	12,330	16,170	(23.7)	6,090	102.5	18,420	28,730	(35.9)
ULIP	7,010	12,760	(45.1)	3,590	95.3	10,600	23,220	(54.3)
Par	4,658	2,190	112.7	1,762	164.4	6,420	3,610	77.8
Non PAR	(248)	280	(188.6)	248	(200.0)	-	480	(100.0)
Group	910	940	(3.2)	490	85.7	1,400	1,420	(1.4)
Protection	2,320	2,830	(18.0)	2,140	8.4	4,460	4,970	(10.3)
(%)								
Savings	84.2	85.2	(99)	74.0	1,017	80.5	85.3	(477)
ULIP	47.8	67.2	(1,934)	43.6	423	46.3	68.9	(2,259)
Par	31.8	11.5	2,026	21.4	1,039	28.1	10.7	1,734
Non PAR	(1.7)	1.5	(317)	3.0	(471)	-	1.4	(142)
Group	6.2	4.9	126	6.0	26	6.1	4.2	190
Protection	15.8	14.9	93	26.0	(1,017)	19.5	14.8	474

Source: Company, PL

Exhibit 5: Mix continuously shifting to protection


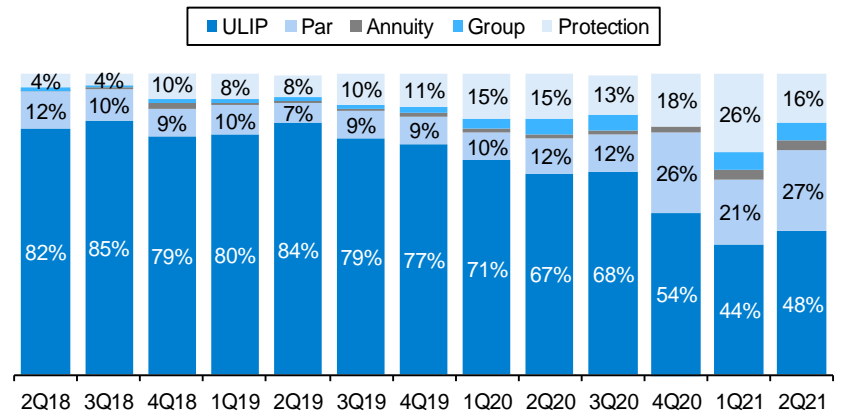
Source: Company, PL

Exhibit 6: Banca channel has remained slow

Sourcing Mix	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Rs Mn								
Banca	6,410	10,100	(37)	3,260	97	9,670	17,800	(46)
Agency	3,320	3,760	(12)	2,030	64	5,350	6,870	(22)
Direct	1,780	2,470	(28)	1,010	76	2,790	4,350	(36)
Corp Agent & Brokers	1,260	1,390	(9)	710	77	1,970	2,390	(18)
Group	1,870	1,270	47	1,230	52	3,100	2,270	37
(% Mix)								
Banca	43.8	53.2	(943)	39.6	414	42.3	52.8	(1,057)
Agency	22.7	19.8	286	24.7	(200)	23.4	20.4	299
Direct	12.2	13.0	(86)	12.3	(12)	12.2	12.9	(72)
Corp Agent & Brokers	8.6	7.3	128	8.6	(3)	8.6	7.1	152
Group	12.8	6.7	608	14.9	(218)	13.5	6.7	681

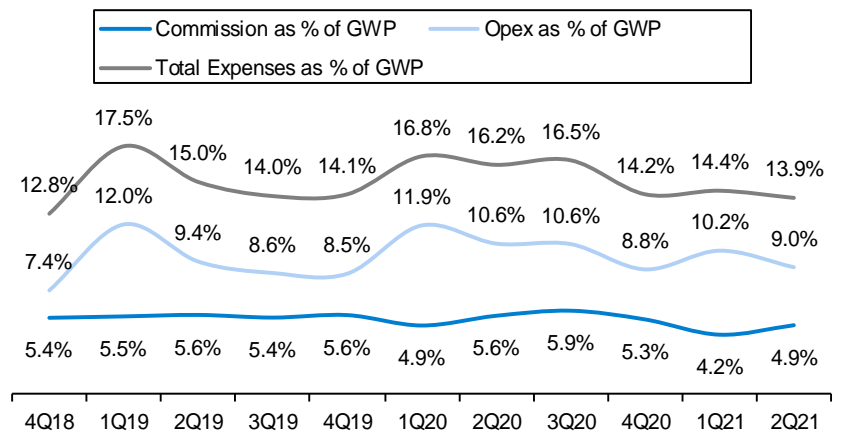
Source: Company, PL

Exhibit 7: Banca share has been coming off while Group inches ahead



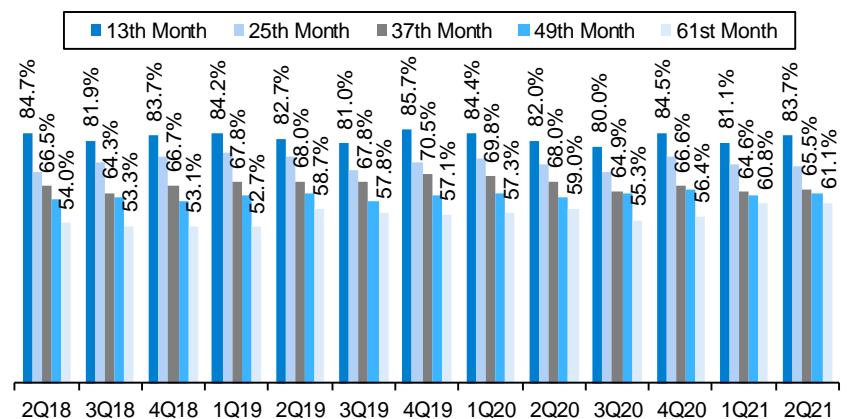
Source: Company, PL

Exhibit 8: Lower sales help improve Commission Ratios

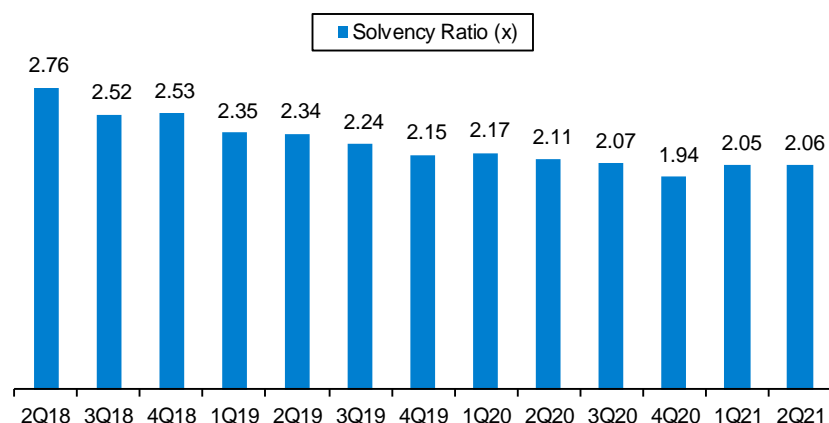


Source: Company, PL

Exhibit 9: Persistency improves in Q2FY21



Source: Company, PL

Exhibit 10: Solvency ratio improves on recovery in equity markets


Source: Company, PL

Exhibit 11: Key Metrics and EV movement

Rs bn	FY18	FY19	FY20	FY21E	FY22E	FY23E
APE	77.9	78.0	73.8	63.3	73.1	81.5
YoY growth (%)	17.6	0.1	(5.4)	(14.2)	15.6	11.4
NBV	12.9	13.3	16.1	16.3	19.0	20.9
YoY growth (%)	93.1	3.3	20.9	1.6	16.3	10.5
EV Movement						
Opening IEV	161.8	187.9	216.3	230.3	267.2	307.3
New Business Value	36.8	13.3	16.1	16.3	19.0	20.9
EVOP	12.9	38.0	32.9	34.9	40.4	45.1
Dividend pay-out	11.9	8.4	4.1	-	5.3	5.3
Closing EV	187.9	216.3	230.3	267.2	307.3	352.1
Adjusted Net worth	70.2	73.5	78.4	96.7	112.0	128.2
Value in force (VIF)	117.6	142.7	151.9	170.5	195.3	223.9
Ratios (%)						
NBAP margins	16.5	17.0	21.7	25.8	25.9	25.7
RoEV	16.1	15.1	6.5	16.0	15.0	14.6
Operating RoEV	22.7	20.2	15.2	15.2	15.1	14.7

Source: Company, PL

Exhibit 12: Change in Estimates – We increase margins & improve growth

(Rs bn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
APE	62.9	70.5	77.8	63.3	73.1	81.5	0.6	3.8	4.8
VNB	15.4	17.3	19.2	16.3	19.0	20.9	5.7	9.8	9.3
VNB Margin (%)	24.5	24.5	24.6	25.8	25.9	25.7	1.3	1.4	1.1
EV	261.9	299.6	341.8	267.2	307.3	352.1	2.0	2.6	3.0
Price target (Rs)	425			438			3.1		
Recommendation	REDUCE			HOLD					

Source: Company, PL

**Exhibit 13: We revise our TP to Rs438 (from Rs425) based on 1.9x Sep FY22E**

PT calculation and upside	
Op RoEV	14.7%
CoE	14.6%
Terminal Growth	5.0%
Embedded value – Sep'22 (Rs bn)	300
Appraisal Value – Sep'22 (Rs bn)	629
Price / Embedded Value	1.9
New Business Premium Multiple	15.0
Valuation per share	438
CMP	412
<i>Upside (%)</i>	<i>6.4%</i>

Source: Company, PL



Technical account (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross Premiums	3,34,307	3,38,938	3,42,582	3,57,803
Reinsurance Ceded	(5,518)	(4,942)	(4,791)	(4,840)
Net Premiums	3,28,790	3,33,996	3,37,791	3,52,963
Other Income	608	695	793	906
Total income	2,19,395	4,59,284	4,96,626	5,36,620
Commission	15,860	16,195	16,744	17,525
Operating expenses	28,469	34,884	35,015	36,054
Prov for doubtful debts	2,151	2,437	2,760	3,126
Operating Profit	1,72,915	4,05,769	4,42,107	4,79,915
Prov for Tax	6,534	7,187	7,906	8,697
Benefits Paid (Net)	1,93,026	1,68,945	1,63,632	1,72,178
Chg in reserves	(50,569)	2,10,243	2,52,398	2,78,962
Surplus / Deficit	23,184	19,393	18,171	20,078

Shareholder's a/c (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	19,887	17,266	15,679	17,318
Income From Investments	6,594	11,093	15,851	16,735
Total Income	26,487	28,365	31,537	34,060
Other expenses	364	436	524	628
Contribution to technical a/c	14,971	8,545	9,756	11,140
Total Expenses	15,800	8,981	10,279	11,768
PBT	10,687	19,384	21,258	22,292
Prov for Tax	(0)	969	1,063	1,115
PAT	10,687	18,414	20,195	21,177

Premium (Rs m) & growth (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business prem - unwttd	1,24,875	1,27,373	1,33,741	1,43,103
New business prem - APE	71,283	63,299	73,148	81,518
Renewal premium	2,09,432	2,11,565	2,08,841	2,14,700
Total premium - unwttd	3,34,307	3,38,938	3,42,582	3,57,803
New bus. growth - unwttd	20.5	2.0	5.0	7.0
New business growth - APE	(2.6)	(11.2)	15.6	11.4
Renewal premium growth	1.8	1.0	(1.3)	2.8
Total prem growth - unwttd	8.1	1.4	1.1	4.4

Premium mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business - unwttd				
- Individual mix	63.1	80.0	80.0	80.0
- Group mix	36.9	20.0	20.0	20.0
New business mix - APE				
- Participating	12.4	16.1	12.8	14.0
- Non-participating	18.8	33.4	27.0	24.0
- ULIPs	68.7	50.5	60.2	62.0
Total premium mix - unwttd				
- Participating	12.0	11.1	10.7	11.0
- Non-participating	18.1	30.5	28.8	27.6
- ULIPs	69.8	58.3	60.5	61.4

Individual prem sourcing mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Individual agents	21.9	19.0	19.0	19.0
Corporate agents-Banks	49.7	62.0	62.0	62.0
Direct business	20.1	11.0	11.0	11.0
Others	8.3	8.0	8.0	8.0

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sources of Fund				
Share Capital	14,359	14,359	14,359	14,359
Reserves And Surplus	61,056	79,470	94,353	1,10,217
Policy Liabilities	4,73,556	5,24,393	6,06,406	7,54,741
Prov. for Linked Liab.	8,80,368	11,35,894	13,06,278	14,36,906
Funds For Future App.	12,327	13,559	14,915	16,407
Current liabilities & prov.	33,304	30,042	27,117	24,496
Total	15,60,353	18,07,585	20,75,216	23,71,271
Application of Funds				
Shareholders' inv	74,209	1,77,902	1,82,358	1,97,985
Policyholders' inv	4,67,503	4,43,641	5,33,888	6,80,939
Assets to cover linked liab.	9,70,850	11,35,894	13,06,278	14,36,906
Loans	4,631	5,094	5,603	6,164
Fixed Assets	4,776	5,254	5,779	6,357
Current assets	38,384	39,800	41,309	42,920
Total	15,60,353	18,07,585	20,75,216	23,71,271

Operating ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Investment yield (%)	(8.7)	7.4	8.1	8.1
Commissions / GWP	4.7	4.8	4.9	4.9
- first year premiums	17.5	19.4	17.4	23.5
- renewal premiums	1.8	2.0	2.0	2.0
- single premiums	1.1	1.5	1.5	1.5
Operating expenses / GWP	8.5	10.3	10.2	10.1
Total expense ratio	13.3	15.1	15.1	15.0
Claims / NWP	58.7	50.6	48.4	48.8
Solvency margin	111.6	251.0	266.2	278.4

Persistence ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
13th Month	86.8	86.7	86.7	86.7
25th Month	78.3	77.8	77.7	77.7
37th Month	70.1	70.3	70.0	69.9
49th Month	67.3	66.8	66.9	66.8
61st Month	58.7	59.1	59.0	59.0

Profitability ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NBP margin (%) pre overrun	-	-	-	-
NBP margin (%) post overrun	21.7	25.8	25.9	25.7
RoE (%)	15.0	21.8	19.4	17.6
RoIC (%)	22.0	37.9	41.5	43.5

Valuation ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total AUMs, Rs bn	1,530	1,757	2,023	2,316
- of which equity AUMs (%)	39.9	46.0	46.0	46.0
EVOP as % of MCEV	15.2	15.2	15.1	14.7
RoEV (%)	6.5	16.0	15.0	14.6
Dividend %	8.0	-	17.0	17.0
Dividend payout ratio (%)	38.1	-	26.3	25.1
EPS, Rs	7.4	12.8	14.1	14.7
Embedded Value, Rs bn	230.3	267.2	307.3	352.1
Appraisal value/EV (x)	2.1	2.0	1.9	1.9
Appraisal value/Net profit (x)	44.82	29.11	29.53	31.28

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	468
2	Bank of Baroda	BUY	65	44
3	Federal Bank	BUY	69	52
4	HDFC Bank	BUY	1,385	1,203
5	HDFC Life Insurance Company	Reduce	533	571
6	ICICI Bank	BUY	462	402
7	ICICI Prudential Life Insurance Company	Hold	424	434
8	IDFC First Bank	Sell	21	32
9	IndusInd Bank	BUY	680	623
10	Kotak Mahindra Bank	Accumulate	1,503	1,417
11	Max Financial Services	Accumulate	651	610
12	Punjab National Bank	BUY	40	29
13	SBI Life Insurance Company	BUY	920	779
14	South Indian Bank	BUY	10	7
15	State Bank of India	BUY	276	198

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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