ICICI Pru Life Insurance

BUY	CMP Rs413	Target Rs537	Upside 30%

Key highlights of Q2 FY21 performance

- **NBP –** NBP was at Rs29bn and remained flat on YoY basis which was better than our forecast of de-growth of 16%. The performance was mainly supported by a sharp jump of 45% in single premium while First year premium registered a de-growth of 32%.
- **APE –** APE at Rs14.6bn was higher than our estimates of Rs13bn. APE de-grew by 23% yoy and grew by 78% qoq. The de-growth was led mainly on back of 45% decline in ULIP.
- **APE Mix –** Share of Protection surged 93bps and Non-linked savings business increased by 1829bps which was offset by decline of 1934bps in share of ULIPs.
- **VNB & VNB Margin –** Q2 FY21 VNB at Rs4bn was higher than our forecasts of Rs3.5bn, while VNB margin at 27.4% was above our estimates of 26.8%. On a yoy basis VNB margins expanded by 631bps.
- **Persistency improvement –** Sequentially, persistency improved across all time periods expect 13th Month. On a yoy basis only 37th month persistency saw a marginal decline.
- **Opex and commission ratios –** Cost ratios have improved with commission ratios falling 81bps yoy whereas opex ratio improved by 189bps yoy to 7.5%
- **EV –** EV improved by 12% to Rs257bn from March 2020. Significant positive economic variance on back of recovery in Equity Market.
- **Profits** - PAT came at Rs3bn was higher than our expectation of Rs2.8bn.
- **Channel Mix –** Mix of other channel increased by 657bps on YoY basis. On QoQ basis, share of banca improved by 414bps.

Q2 FY21 result, strong performance on VNB margins, attractively priced at FY22E P/EV of 2x, Retain BUY

We remain positive on ICICI Pru Life, given its strong delivery in terms of VNB margins (highest amongst listed peers). With benefits of base effect (ICICI Bank focusing only on protection, annuities and ULIPs from Jan 2020), APE growth should come back from Q4 FY21. Valuations are attractive at FY22E P/EV of 2x. Reiterate as top pick.

Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY19	FY20E	FY21E	FY22E
Net premium income	305,783	328,790	310,506	325,373
% yoy	14.1%	7.5%	-5.6%	4.8%
VNB	13,280	16,050	16,183	19,583
VNB Margin	17.0%	21.7%	26.5%	27.5%
Reported PAT	11,407	10,688	12,015	15,189
% yoy	-29.6%	-6.3%	12.4%	26.4%
EPS (Rs)	7.9	7.4	8.4	10.6
Emb Val/Share (Rs)	150.6	160.4	179.7	203.5
P/EV (x)	2.7	2.6	2.3	2.0
P/VNB (x)	44.7	36.9	36.6	30.3
RoEV (%)	20.2%	15.2%	13.8%	15.6%
BVPS (Rs)	47.9	52.5	57.4	63.6

Source: Company, YES Sec – Research

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MANAGEMENT COMMENTARY

- **Product**
  - **Protection**
  - Strong recovery in Credit Life and almost at Pre-covid levels.
  - Have passed on the complete price hike in Protection and still continues to remain the market leader in the same.
  - Individual Protection APE decline was 15-20%. This quarter had seen increased competition with increased focus on Protection by all industry players. ROP are included by many players in protection business, however the company wants to focus on pure retail protection as ROP and pure protection has significant margin gap. Strong performance of other players also needs to be evaluated with respect to their base effect as base is huge for IPru.
  - ROP is included in savings product.
  - Limited pay has reduced compared to regular pay. Limited pay has lower margin.
  - Absolute VNB will be similar for equal sum assured of Limited Pay and Pure protection.
  - Strong brands always had higher pricing. Pricing is a function of risk written and shall not compromise on the same for lower pricing or if it pose any adverse impact on VNB.
  - YoY growth of protection shall come back.
  - Video underwriting efficiency has picked up quiet fast.
  - Medical testing is improving but still not completely normalized. Therefore, larger sum assured shall take more time to recover.
  - Sharp growth in Group protection and existing clients have enhanced the live covers.
  - **Non-Linked Savings**
  - Strongest performance from Non-linked business is backed by Par as well as Non-Par business. This is due to risk averse attitude of consumers. Not sure if the trend will continue.
  - Do sell guarantee products and it contributes to 10% of product mix of H1FY21 but doesn't want to give long term guarantee returns which can't be hedged.
  - Guaranteed products are hedged through Partly paid Bonds. Going ahead shall enter into FRAs as well. Risk management shall not only be interest risk management but also to match the cashflow duration.
  - Returns offered on Non-Par is in line or better than competitors on back of cost advantage.
  - **ULIP**
  - ULIP is more associated with Equity Market and ability of consumer to pay large premium for long term. Greater reluctant from people due to pandemic situation. Any improvement in market sentiment impacts the ULIP demand with a lag of around 6 month.
  - The base effect shall moderate from Q4FY21 from growth perspective.
  - ULIP is a distinct growth opportunity once the base is recalibrated.
- **Distribution**
  - **Banca**
  - Focused on diversifying the distribution channel especially in Bank tie-ups.

- Started gaining out of India First Bank and tied up 18 corporate partners including IndusInd Bank and NSDL payment bank.
- Improved walk-in to branches.
- ICICI bank acts more of VNB channel rather than Top-line business (Contributes to 35% of Top-line). Therefore, shall focus on selling Protection, Annuity and ULIP products with them.
- **Agency**
- Focus on adding more agents digitally. Added 6,000 agents in Q2FY21.
- Over the past 5 years reduced Agency employees by 50% but the agency channel has improved. The idea is to hire agents and not employee to manage agents.
- Cost structure earlier was such that agency had lower profitability but now it's profitability is in line with other channels.
- Increased hiring of agents is due to cleaning exercise of Non-active agents.
- **Direct –** Direct business consist of 1. Pure online business on website 2. Business to existing clients through employees.
- **Partnership**
- Share of web aggregator is miniscule.
- Have not been absent from web aggregators. The mortality experience has not been very different for Web aggregators compared to other channels. PolicyBazar is as an important partner as any other partner in the ecosystem.
- Web aggregators are as profitable as any other channel. Not allowed to promote any web aggregator.

✓ **Persistency**

- Persistency improvement is the actual improvement and change in persistency assumption shall be made at the end of the year.
- Overall persistency was driven by 1. Protection persistency gone up 2. Non-Linked at similar levels as last year. 3. ULIP saw some decline but shows an improving trend.

✓ **VNB and VNB Margin**

- Opportunity is large in protection segment and therefore does not see any concern of impact on VNB. Other levers like ULIP, Non-Linked savings and cost efficiencies.
- No dependence on any single factor for achieving the VNB aspiration.
- No assumption changes during the quarter. The margin improvement is based on product mix and full year cost assumption. (Shift from ULIP to Non-Linked)
- The concern is not the higher protection contribution to VNB but the granularity of the source of protection business is what that matters.
- Par and Non par margin will never be the same irrespective of the tenure of the product.

✓ **Cost**

- Discretionary cost has declined in higher proportion and these expenses shall come back.
- Some savings on infra cost and operational expenses along with improved productive shall be sustained.

✓ **EV** - EV growth of 12% was significantly aided by positive economic variance. (Reversal of last year decline)

✓ **Solvency -** Issue of Rs. 12bn subordinated debt to add 25-30% to Solvency ratio

✓ **Others**

- Not utilized any amount from the additional Covid Provision.
- Increase in transfer from shareholders is due to business written in Non-Par and Protection segment.

Exhibit 2: Result Table

	Q2 FY21	Q2 FY20	% yoy	Q1 FY21	% qoq	Q2FY21E
Gross premium	87,335	81,908	6.6%	57,467	52.0%	78,258
Net premium	85,722	80,647	6.3%	55,511	54.4%	75,593
NBP	29,570	29,256	1.1%	14,995	97.2%	24,446
Renewal premium	57,742	52,398	10.2%	41,398	39.5%	53,812
APE	14,650	18,990	-22.9%	8,230	78.0%	13,290
Commission ratio	4.1%	4.9%	-81bps	3.7%	36bps	3.7%
Opex ratio	7.5%	9.4%	-189bps	8.9%	-143bps	7.7%
Surplus	5,391	4,768	13.1%	6,311	-14.6%	6,561
PAT	3,025	3,019	0.2%	2,869	5.4%	2,866
VNB	4,010	4,000	0.2%	2,010	99.5%	3,556
VNB Margin	27.4%	21.1%	631bps	24.4%	295bps	26.8%
APE Mix						
Savings	12,320	16,170	-23.8%	6,090	102.3%	
ULIP	7,010	12,760	-45.1%	3,590	95.3%	
Others	5,310	4,022	32.0%	2,510	111.6%	
Protection	2,320	2,830	-18.0%	2,140	8.4%	
Total APE	14,650	18,990	-22.9%	8,230	78.0%	
APE Mix						
Savings	84.1%	85.2%	-105bps	74.0%	1010bps	
ULIP	47.8%	67.2%	-1934bps	43.6%	423bps	
Others	36.2%	18.0%	1829bps	30.4%	587bps	
Protection	15.8%	14.9%	93bps	26.0%	-1017bps	
Total APE	100.0%	100.0%	0bps	100.0%	0bps	
Distribution mix						
Banca	6,410	10,100	-36.5%	3,260	96.6%	
Agency	3,320	3,760	-11.7%	2,030	63.5%	
Others	4,920	5,130	-4.1%	2,940	67.3%	
Distribution mix						
Banca	43.8%	53.2%	-943bps	39.6%	414bps	
Agency	22.7%	19.8%	286bps	24.7%	-200bps	
Others	33.6%	27.0%	657bps	35.7%	-214bps	
Persistency						
13 month	83.7%	82.2%	150bps	89.2%	-550bps	
61 month	61.1%	58.4%	270bps	60.2%	90bps	
Income from investments	79,494	(1,269)	-6364.3%	130,672	-39.2%	54,000

Source: Company, YES Sec – Research

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