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ICICI Prudential Life Insurance

Encouraging Q2; multiple growth levers

Banks & Finance	Sharekhan code: ICICIPRULI	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 412**	
Price Target: **532**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

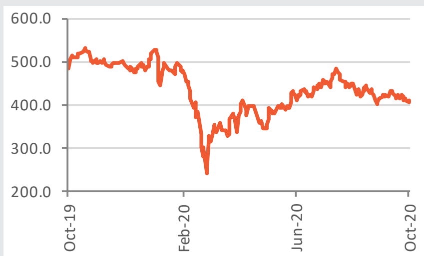
Company details

Market cap:	Rs. 59,375 cr
52-week high/low:	Rs. 537 / 222
NSE volume: (No of shares)	26.1 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.1 cr

Shareholding (%)

Promoters	73.5
FII	18.0
DII	4.6
Others	3.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.9	-8.8	7.5	-18.2
Relative to Sensex	-8.6	-14.0	-18.7	-20.0

Sharekhan Research, Bloomberg

Summary

- ICICI Prudential Life Insurance (IPRU) posted strong results, indicating an encouraging recovery in topline, while VNB margins and APE growth improved q-o-q.
- Annualized premium equivalent (APE), at Rs. 1,465 crore grew by 78% q-o-q; VNB margins improved to 27.4% (from 24.4% for Q1FY2021), hinting at an improving outlook
- We find the insurance space attractive, given a long runway for growth and believe that players with strong balance sheets and business metrics would be able to tide over the crisis.
- We recommend a Buy rating on the stock with a price target of Rs. 532.

ICICI Prudential Life Insurance (IPRU) posted strong results indicating an encouraging recovery on the topline, while VNB margins and APE growth improved q-o-q. Though annualised premium equivalent (APE) declined by 22.9% y-o-y, to Rs. 1,465 crore on a sequential basis it grew by 78% y-o-y, indicating a revert to normalcy, buoyed by strong growth in non-linked savings products (up 45.2% y-o-y). Performance was also impacted by the shift in customer preferences, away from market-linked products, which was down 41.5% y-o-y for Q1 FY21. Also, VNB margin improved to 27.4% (from 24.4% for Q1FY2021 and 21.7% for FY2020. The increase in VNB margin was primarily on account of increase in share of protection products in the mix. Notably, the company has near-zero exposure to troubled investments; and hence, it had no non-performing assets (NPAs). Efforts at product diversification were visible and the share of ULIPs stood at ~46% of APE in H1FY2021, in trend with the stated strategy and trajectory. The share of high-margin protection and non-linked savings and their share in APE increased to ~49% (from 32% in FY2020). IPRU has a strong distribution network and Bancassurance channel (courtesy strong partnerships, including with the promoter bank), which is a strong positive for insurance growth in India. Bancassurance already helps contribute to over 50% of APE income and with the opening up and pick up in banking business, we expect it to be a long-term growth driver. Management has maintained its guidance for VNB margins as its cost management and business mix improves. We believe m-o-m premium recovery trend for IPRU indicates its agility and ability to deploy digital channel and measures to ensure business continuity. Going forward, we expect protection and annuity products to continue to see higher growth. We find the insurance space attractive, given a long runway for growth and believe that players with a strong balance sheet and business metrics would be able to tide over the crisis. IPRU's strong balance sheet, comfortable solvency, and structural growth potential are long-term positives. We recommend a Buy rating on the stock with a price target of Rs. 532.

Key positives

- Embedded value grew by 13% y-o-y to Rs. 25,711 crore, led by AUM growth and economic assumption changes.
- Cost management (Cost/TWRP) improved to 14.3% (from 14.8% for Q1FY2021), which helped PAT performance.
- Value of New Business (VNB) for Q2FY2021 doubled to Rs 401 crore q-o-q (from Rs. 201 crore in Q1FY2021).

Key negatives

- Persistency (13th month and 25th month declined to 84% and 76% (from 85% and 77.4% levels for the eleven months ended FY2020).

Our Call

Valuation: IPRU is available at 2.0x/1.7x its FY2022E / FY2023E EVPS, which we believe is reasonable given the quality of the franchise and business metrics. Although headwinds (both pandemic-related and regulatory) have emerged, premium recovery for IPRU indicates its agility and ability to deploy digital channel and measures to ensure business continuity, m-o-m pace of recovery indicate encouraging trends of normalisation for the industry. We believe that the structural story for the insurance sector continues to be attractive with a long runway for growth and strong players are likely to be well-placed in terms of pricing and growth. We introduce FY23E estimates with this note. IPRU's strong balance sheet, comfortable solvency and structural growth potential are long-term positives. We recommend a Buy rating on the stock with a price target of Rs. 532.

Key risk

A prolonged lockdown and adverse regulatory policies/guidelines may impact IPRU's profitability and growth.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
EV (Rs Cr)	21,623	23,030	26,139	30,191	34,870
VNB Margins (%)	17.0	21.7	22.2	22.6	23.1
Networth (Rs Cr)	6,884	7,047	7,944	8,931	10,016
PAT (Rs Cr)	1,141	1,069	1,196	1,316	1,447
Operating RoEV (%)	20.2	15.5	16.0	16.5	16.5
P/EV	2.7	2.6	2.3	2.0	1.7

Source: Company; Sharekhan estimates

Note: We now convert ICICI Prudential Life Insurance into a Stock update; it was earlier a 'Viewpoint' under our coverage

Key Concall Highlights

- **New tie ups:** Added 18 new partners, including a tie-up with IDFC First Bank and with IndusInd Bank. It also has a digital tie-up with NSDL Payments Bank which is a payment bank, having ~3.5 million customers. ICICI Prudential bank tie-ups with three out of the six payments banks now.
- **ULIPs:** Strong q-o-q improvement, Q2 ULIP grew by 95% over Q1 FY21; the company intends to carry this momentum forward.
- **Protection:** Protection products now form 20% of total APE, we believe it also achieved leadership in credit life and group term business. Credit Life showed strong recovery, in Q2. Based on total new business SA, ICICI Prudential has a market share leadership of 12% (was 11.4% last year). This will help VNB growth going forward, despite credit life products being weak for H1 FY21.
- **Persistency:** This parameter declined, excluding single premium for 13th month. However, 61st month persistency improved, persistency ratio continues to be one of the best in the industry.
- **Costs to TWRP** stood at 14.3% as compared to 16.6% for last year same period. Cost ratios are one of the best in the industry, and continue to leverage efficiencies.
- **New business value:** VNB for H1FY21, arrested its fall in Q2 y-o-y. This is despite new business APE declining. VNB margins stood at 26.3% (was 21% for H1FY20).
- **EV growth:** Embedded value grew by 12% y-o-y. AUM growth 19% from March 2020 numbers. Strong improvement in EV mainly due to economic changes. Don't share the EV walk middle of the year, since seasonal factors may impact.
- **Guidance on VNB maintained:** On track of guidance of doubling VNB of FY20 in the next four years.
- AUM grew 41% from Rs. 40 billion for pension fund manager (PFM). IPRU received PFM licence recently and is scaling it up well.
- **Distribution:** All channels show strong sequential growth. Agents addition run-rate is close to last year's run-rate.
- **Pricing:** The company passed on price hikes in protection products already; we expect competitors will also have to do the same. ICICI Prudential indicated that a delay in price hike may result in higher risks, down the line for players.
- **Business from ICICI Bank:** New business doubled in Q2 over Q1.
- **Business Update:** Encouraging customers to augment life cover with health coverage, which will have positive implications. Total Protection APE down for H1 FY21. Individual APE declined by ~15%; Overall APE was down due to slow performance of credit life segment, etc. Focus on Retail protection (not on return of premium or ROP) led to slower volume growth as compared to peers.
- **Guaranteed products:** These products form ~10% of the product mix in H1, as long they are in line with risk management requirements. ICICI Bank doesn't want to be distributing traditional products but is fine with ULIPs, etc. Hence ICICI Bank is more of a VNB channel. With new bank tie-ups, by January, the base effect will start kicking in guaranteed products.
- **Non-linked business:** Non-linked business helped in growth in Q2. While one segment may outdo another in the short term, on the whole, ICICI Prudential is relying on multiple levers and business segments to drive the VNB going forward. Strongest APE performance growth came from the non-linked business. Also, there is demand at times despite a general risk aversion in products space. ULIP is associated with more affluent customers, higher ticket size etc, which are impacted due to COVID-led uncertainties. Thus, clients are not favouring long-term commitments at present, so any improvement in sentiment in equity markets will result in inflows with a 6-8 month lag.
- **Outlook for H2: ICICI Prudential** will still focus on VNB, effort in H2 will be recovery to normal topline levels. Credit life business is looking up, as ICICI Bank has of late restarted the disbursements.
- **Mix change and assumption change impact on the margins:** No assumption changes during the quarter, margins solely influenced by change in business mix (higher share of non-linked products, replacing lower margin ULIP) and better cost controls.
- **Margins:** Non-PAR savings segment and protection business helped improved margins. About 10%

of business for H1 came from Non PAR savings, but it is more due to consumer preference and hence company sees PAR and non-PAR products together.

- **Protection persistency:** Protection persistency has gone up sharply, non-linked savings is same as last year, but ULIP persistency has declined y-o-y. However, ULIPs showed improvement in persistency m-o-m.
- **VNB:** In contribution to VNB, protection is the highest segment. This is mostly the norm in global markets where most of the VNB comes from protection products. ICICI Prudential has come a long way from being ULIP focused to protection increasing share.
- **Direct business:** Direct business consists of two parts. One is online customers, and second of sales to own existing customers (upsales, etc).
- **Exposure to web aggregators:** ICICI Prudential has a lower exposure to web aggregators as compared to peers.
- **Bancassurance tie-up:** ICICI Bank has been focusing on annuity and protection products rather than traditional products. A y-o-y decline is expected from ICICI Bank, till January when base effect occurs. ICICI Bank continues to have a ~45% contribution to topline.
- **Margin preference:** Company is indifferent whether Non-linked business comes from PAR or non-PAR segment. However, margins can be different for them. Even though PAR is long term, it has lower margins compared to non-PAR margins. Costs have been well managed, despite topline being slow. So chances of gaining operating leverage exist as topline normalizes.
- **Product mix strategy:** ULIP base is getting reset from Q4 and will start looking better going ahead. Growth depends on Non-linked savings trajectory as well.
- **Credit Life:** Credit Life has posted a 30% y-o-y decline so far. Group term policies have shown strong traction due to pandemic and will remain strong. However, due to flat growth in credit life policies, overall group business may be diluted.

Results Rs cr

Particulars	Q2 FY21	Q2 FY20	% Ch QoQ	Q1 FY21	% Ch QoQ
Gross Premium Income	**8,733**	**8,191**	**6.6**	**5,747**	**52.0**
First Year Premium	1,170	1,719	-31.9	628	86.4
Renewal Premium	5,774	5,240	10.2	4,140	39.5
Single Premium	1,789	1,232	45.2	979	82.7
Net premium earned	8,572	8,065	6.3	5,551	54.4
Investment Income	**7,949**	**-127**	**NA**	**13,067**	**-39.2**
Other Income	24	19	26.8	23	6.7
Total Income	16,835	8,209	105.1	19,057	-11.7
Commission paid	**350**	**422**	**-17.2**	**207**	**69.2**
Expenses	990	1,149	-13.8	494	100.4
Change in actuarial liability	10,198	2,158	372.5	14,943	-31.8
Profit Before Tax	330	306	7.7	311	6.0
Tax Charge	27	4	496.4	24	13.2
PAT	**303**	**302**	**0.5**	**288**	**5.4**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Long runway for growth for Insurance in India, opportunity for strong players to gain

We believe that the Indian insurance sector has a huge growth potential with facilitating factors like a large gap in protection products (under-insured), expanding per capita income, etc (savings products), increasing life expectancy (retirement products) being key structural long-term growth drivers. India has high under-insurance in life insurance premiums at about ~2.8% of GDP in 2020, as compared to the world average of over 3%. India has only ~92% of the protection gap (addressable population, which doesn't have insurance coverage), which is estimated to be at $8.56 trillion.

Even though the share of life insurance funds in household financial savings has increased from 20.3% in FY2017 to 23.3% in FY2018, we believe it has long way to go when compared to International peers. We believe that the Indian life insurance industry to have strong growth potential due to above-mentioned factors. In this backdrop, we believe strong players such as ICICI Prudential, armed with the right mix of products, services, and distribution mix, backed by strong and stable bancassurance partnerships are likely to gain disproportionally from the opportunity.

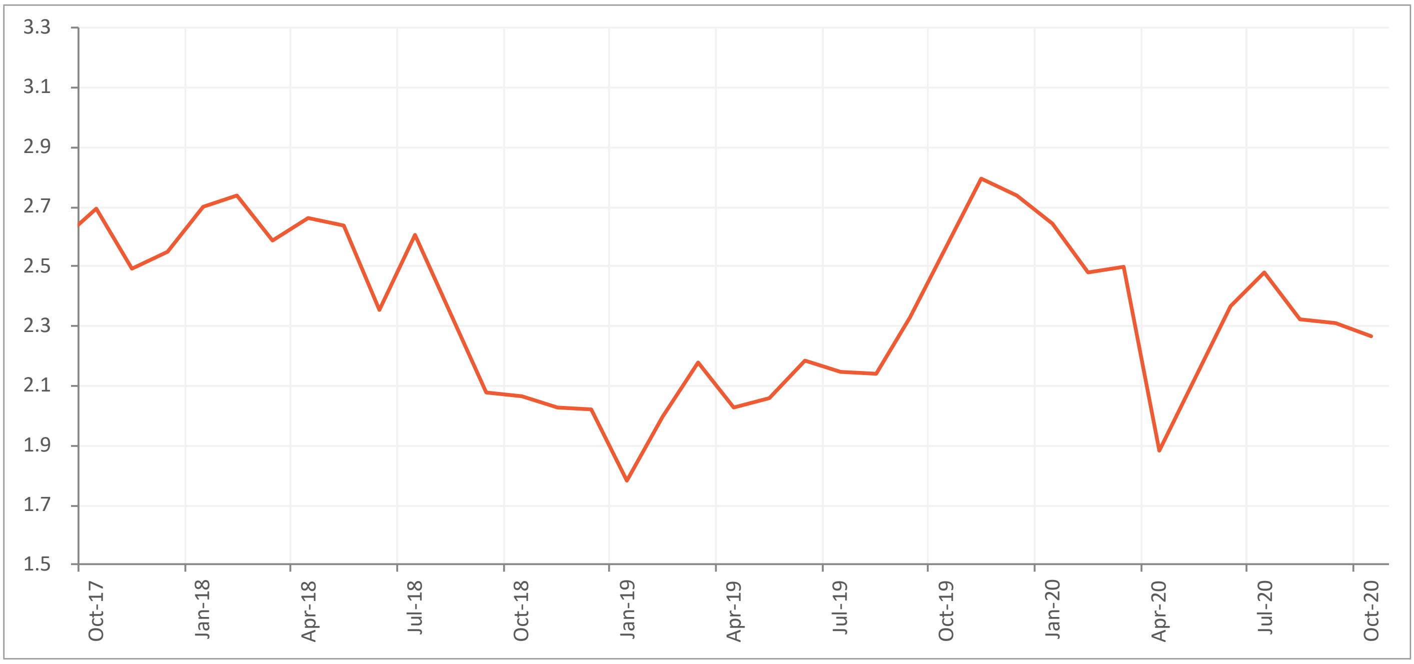
■ Company Outlook - Strong metrics; sustainable growth business

IPRU's business fundamentals remain strong despite the impact of the lockdown, regulatory changes, and market volatility. Strong VNB margins and growth in line with its guidance, diversifying business mix, and robust margins are positives. We believe the growth trajectory is indicating improvement and resilience. IPRU has built a large agency force (which will be key support for growth). IPRU stands out as a player with low-risk balance sheet and comfortable levels of capitalisation. While a ULIP-heavy topline is also prone to capital market linked volatility, we believe growing proportion of the pure-protection business and savings business are long-term positives. IPRU has a strong distribution network and bancassurance channel (courtesy its strong bancassurance partnerships, including with the owner), which is a strong growth lever for insurance growth in India. Bancassurance already helps contribute over 50% to its APE income and we expect it to be a long-term growth driver. Considering the company's strong balance sheet, comfortable solvency, and growth potential within the industry, we believe IPRU has significant and sustainable long-term positives.

■ Valuation - We recommend a Buy with a Price Target of Rs 532

IPRU is available at 2.0x/1.7x its FY2022E / FY2023E EVPS, which we believe is reasonable given the quality of the franchise and business metrics. Although headwinds (both pandemic-related and regulatory) have emerged, premium recovery for IPRU indicates its agility and ability to deploy digital channel and measures to ensure business continuity, m-o-m pace of recovery indicate encouraging trends of normalisation for the industry. We believe that the structural story for the insurance sector continues to be attractive with a long runway for growth and strong players are likely to be well-placed in terms of pricing and growth. We introduce FY23E estimates with this note. IPRU's strong balance sheet, comfortable solvency and structural growth potential are long-term positives. We recommend a Buy rating on the stock with a price target of Rs 532.

One-year forward P/EV chart



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
ICICI Pru Life	412	7.5	6.7	49.7	44.8	0.7	0.8	15.1	14.7
HDFC Life	627	14.9	12.8	80.3	67.0	1.1	1.1	17.6	18.4

Source: Company, Sharekhan research

About company

IPRU is promoted by ICICI Bank Limited and a foreign partner headquartered in United Kingdom. The company began its operations in fiscal 2001 and has consistently been amongst the top private sector life insurance companies in India on a Retail Weighted Received Premium (RWRP) basis. The company offers an array of products in the protection and savings category, which match the different life stage requirements of customers, enabling them to provide a financial safety net to their families as well as achieve their long-term financial goals. The company distributes its products through a large pan-India network of individual agents, corporate agents, banks and brokers, along with the company's proprietary sales force and its website. The company is the third largest private sector life insurance company in the country. The digital platform of the company provides a paperless on-boarding experience to customers, empowers them to conduct an assortment of self-service transactions, provides a convenient route to make digital payments for purchasing and making renewal premium payments, facilitates a hassle-free claims settlement process etc.

Investment theme

The company has embarked on a strategy to make the business model more resilient in the long term. As part of this, it would be focusing on mass market customer segment as well, while continuing to maintain its strong market position amongst the more affluent class. As part of this strategy, the company has introduced lower ticket-size products. The company has a strong balance sheet with solvency ratio of over 190% (minimum IRDAI-required levels of 150%). The company also has one of the best persistency ratios, which is indicative of its acceptability. We believe due to its strong brand image, pan-India bancassurance partnerships, and diversifying business mix (focusing on more protection and retail business), its growth is likely to be more sustainable for the long term. IPRU is well placed to capture and ride the strong growth potential that is present in the Indian life insurance industry.

Key Risks

A prolonged lockdown and adverse regulatory policies/guidelines may impact IPRU's profitability and growth.

Additional Data

Key management personnel

Mr. N. S. Kannan	Managing Director & Chief Executive Officer
Mr. Amit Patla	Chief Distribution officer
Mr. Manish Kumar	Chief Investment Officer
Mr. Satyan Jambunathan	Chief Financial Officer
Mr. Deepak Kinger	Chief Risk & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL HOLDINGS LTD	22.1
2	Compassvale Investments Pte Ltd	2.0
3	SBI Funds Management Pvt Ltd	2.0
4	Republic of Singapore	1.4
5	Baillie Gifford & Co	1.2
6	Amansa Holdings Pvt Ltd	1.0
7	Franklin Resources Inc	1.0
8	BlackRock Inc	0.8
9	Vanguard Group Inc/The	0.8
10	Norges Bank	0.7

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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