

Accumulate

Top-line challenges remain, downgrade to accumulate

- IPRU reported a sequential growth of 13.7% in overall APE to Rs. 16.7bn in Q3FY21 led by the pick-up in the savings business, up 14.3% YoY to Rs. 14.1bn. On an annual basis, however, APE growth is still negative. We expect APE to be in the positive for Q4 on the back of rebasing arising from COVID-19 impact in March sales as well as strategic shift of ICICI bank in Feb 2020 towards protection and annuity as against traditional products.
- ULIPs continued to show sequential recovery, up 20.7% QoQ to Rs. 8.5bn in Q3FY21. Recovery in equity markets has aided the sequential recovery in this segment. We estimate a 35-40% decline in this segment in FY21, followed by a 30-35% growth in FY22 on the back of new partner additions and lower base from FY21.
- Non-linked savings remains the silver lining up both QoQ and YoY 10.2% / 36.2 % respectively. ICICI banks push for annuity products has helped drive the annuity segment. IPRU has also forayed into the deferred annuity segment with the launch of a product. We expect single premium growth to be therefore ~30% for FY21. Conducive FRA environment and current yield curve structure has allowed IPRU to manufacture these products. We expect growth in this segment to moderate in FY22.
- Retail protection continues to see an annual decline while credit protect has picked up. The fall in protection is largely due to supply side constraints as there are still challenges in conducting medical tests. We expect protection segment to form ~15-17% of the mix in FY22.
- VNB was flat YoY at Rs 4.3bn in Q3FY21 despite topline decline largely due to changing business mix. Margins were healthy at 25.7% for Q3FY21. We expect margins in the range of 24-25% for FY22.
- We believe IPRU will continue to lag behind peers in top-line growth and on the back of the recent run up in the stock, we downgrade our recommendation from BUY to ACCUMULATE on IPRU. Our TP is revised to Rs. 556 implying a FY22 P/EV of 2.4x.**

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Premium					
Gross written premium (GWP)	91,520	82,637	10.8	87,335	4.8
New business premium (NBP)	34,719	30,381	14.3	29,592	17.3
Annual premium equivalent	16,660	20,380	(18.3)	14,650	13.7
-Savings	14,090	17,710	(20.4)	12,330	14.3
-Protection	2,570	2,670	(3.7)	2,320	10.8
Expenses					
Management Expenses	11.9	14.4	(17.8)	11.3	4.8
Cost ratio (Cost/TWRP)	15.2	16.7	(8.8)	13.9	9.3
Commission ratio (%)	4.2	5.2	(18.5)	4.0	5.3
Operating expense ratio (%)	7.7	9.3	(17.4)	7.3	4.5
Profitability					
Value of new business (VNB)	4,280	4,260	0.5	4,010	6.7
VNB margin (%)	25.7	20.9	22.9	27.4	(6.1)

CMP	Rs 499
Target / Upside	Rs 556 / 11%
NIFTY	13,968

Scrip Details

Equity / FV	Rs mn / Rs 10		
Market Cap	Rs 717bn		
	USD 10bn		
52-week High/Low	Rs 538/ 226		
Avg. Volume (no)	2,162,220		
Bloom Code	IPRU IN		
Price Performance			
	1M	3M	12M
Absolute (%)	0	22	(5)
Rel to NIFTY (%)	0	22	1

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	73.5	73.5	73.5
MF/Banks/FIs	5.2	4.6	4.7
FIs	15.1	15.8	16.3
Public / Others	6.2	6.1	5.5

Valuation (x)

	FY21E	FY22E	FY23E
P/EV	2.5	2.2	1.9
VNB Margin	26.8	24.4	25.1
ROEV (%)	16.7	16.5	16.7
NBP multiple	28.1x	25.3x	23.0x

Estimates (Rs mn)

	FY21E	FY22E	FY23E
APE	57,103	75,808	87,645
VNB	15,328	18,481	22,023
EV	283,440	330,265	385,315
EVOP	16.7	16.5	16.7

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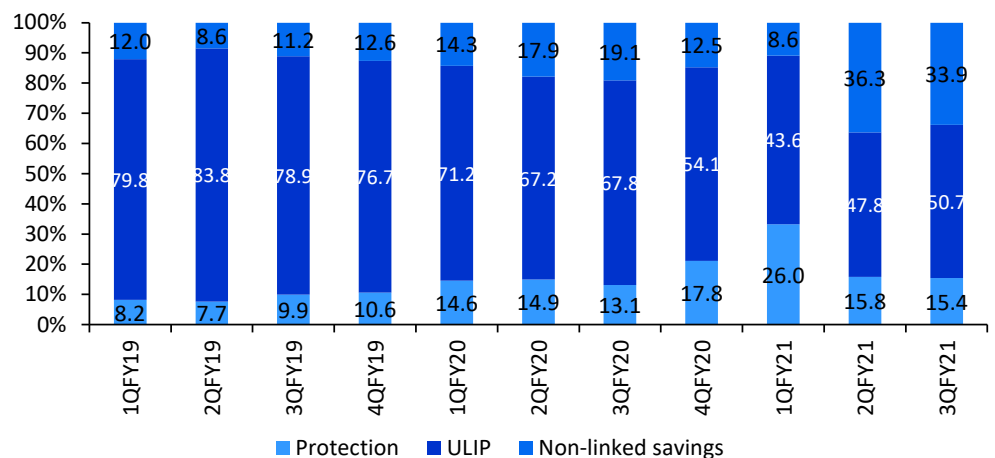
Product mix more balanced; non-linked savings pick-up

Exhibit 1: Protection APE growth plateauing, savings picking up

APE	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Savings	12820	18330	17670	21960	12560	16160	17710	16220	6090	12330	14090
-ULIP	11140	16630	15480	18850	10460	12760	13820	10680	3590	7010	8450
-Non-linked savings	1680	1700	2190	3100	2100	3400	3890	2464	2010	4410	4860
Protection	1140	1520	1950	2610	2140	2830	2670	3520	2140	2320	2570
APE	13960	19850	19620	24570	14700	18990	20380	19740	8230	14650	16660

Source: DART, Company

Exhibit 2: Recent pickup in non-linked savings driving up margins

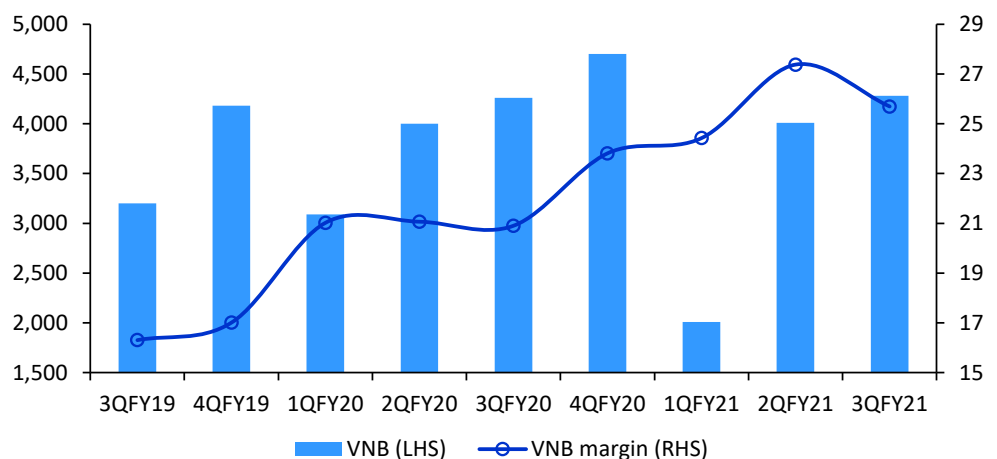


Source: DART, Company

Margin expansion positive, although absolute VNB trajectory flat

VNB margins were a positive again as the margin expanded YoY primarily due to an improvement in the product mix. The margin expansion was supported by a well-managed cost structure. IPRU's pricing on the term protection product also helped in maintaining the margin in this product segment as against peers who have absorbed some of the reinsurance price hike. We expect margins to normalize between 24-26% going forward.

Exhibit 3: VNB margin strong although absolute VNB growth weak

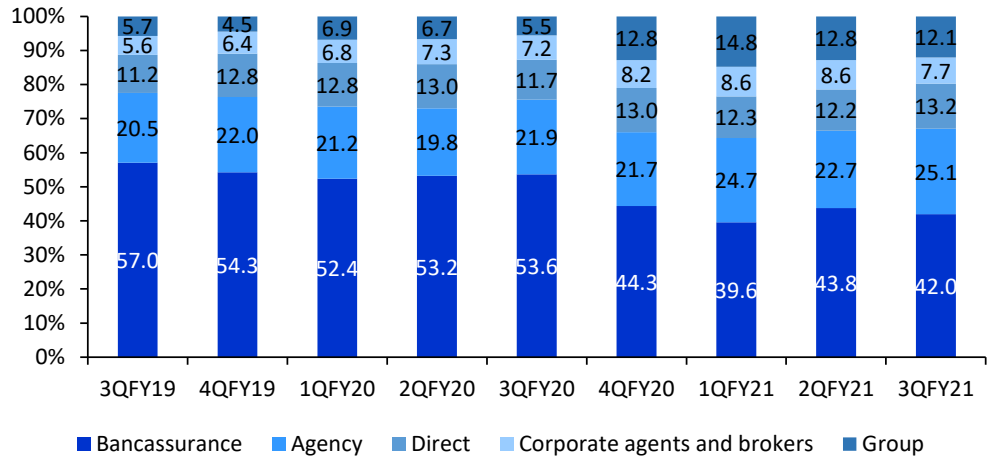


Source: DART, Company

Distribution mix getting more diversified

Share of APE from ICICI bank stood at ~35% for 9MFY21 as against 42% in FY20. This decline is due to the bank's strategic shift from traditional products (par and non-par) to protection and annuity for its customer base. This has led IPRU to be more aggressive in ramping up partnerships with other banks and distributors. The insurer has added RBL bank, AU small finance bank and Phone Pe in its distribution bucket during the quarter.

Exhibit 4: Bancassurance reviving share in overall business



Source: DART, Company

Profit and Loss Account

Particulars	FY20A	FY21E	FY22E	FY23E
Premium earned	334,307	347,480	380,904	424,181
Premium on reinsurance	(5,517)	(6,681)	(5,971)	(7,271)
Net premium earned	328,790	340,799	374,933	416,910
Investment income	(121,172)	458,441	217,932	249,821
Other income	809	952	980	1,090
Total income	208,427	800,192	593,845	667,821
Commission paid	15,303	14,249	17,164	17,076
Expenses	35,943	35,589	42,861	47,522
Tax on policyholders fund	1,314	717	302	319
Claims/benefits paid	193,766	211,233	195,241	256,108
Change in actuarial liability	(48,587)	526,576	324,853	331,474
Total Outgo	197,739	788,363	580,421	652,499
Profit before tax	10,687	11,829	13,424	15,322
Tax charge	0	886	1,074	766
Profit after tax	10,688	10,944	12,350	14,556

Balance Sheet

Particulars	FY20A	FY21E	FY22E	FY23E
Share capital	14,359	14,359	14,359	14,359
Reserve and surplus	61,056	72,012	84,362	98,918
Credit/[debit] fair value change account	(3,228)	0	0	0
Shareholders' funds	72,186	86,371	98,721	113,277
Borrowings	0	12,000	12,000	12,000
Credit/(debit) fair value change account	(2,525)	32,354	32,354	32,354
Revaluation reserve - Investment property	655	655	655	655
Total insurance reserves	1,444,406	1,970,386	2,294,332	2,625,034
Funds for future appropriations	12,327	12,922	13,830	14,601
Total	1,527,049	2,114,688	2,451,891	2,797,921
Application of funds				
Assets under management	1,512,562	2,100,661	2,428,510	2,760,031
Shareholders'	74,209	99,208	116,059	135,773
Policyholders'	467,503	600,539	712,711	837,722
Asset held to cover linked liabilities	970,850	1,400,914	1,599,740	1,786,537
Other assets	14,487	14,027	23,381	37,890
TOTAL	1,527,049	2,114,688	2,451,891	2,797,921

E – Estimates

Embedded Value

Particulars	FY20A	FY21E	FY22E	FY23E
Opening EV	216,240	230,320	283,440	330,265
Unwind	17,250	18,426	22,675	26,421
VNB	16,050	15,328	18,481	22,023
Operating variances	(410)	4,606	5,669	6,605
EV Operating Profit	32,890	38,360	46,825	55,050
Economic variances	(14,760)	14,760	0	0
Capital injections/outflow	(4,050)	0	0	0
Closing EV	230,320	283,440	330,265	385,315

Key ratios

Particulars	FY20A	FY21E	FY22E	FY23E
APE growth	(5.4)	(22.6)	32.8	15.6
Savings APE growth	(11.5)	(25.0)	34.7	14.2
Protection APE growth	54.6	(9.3)	23.8	22.6
Business mix (APE basis)				
ULIP	64.7	51.1	52.7	52.4
Par	11.3	5.7	18.2	18.9
Non-par	8.9	25.5	12.5	11.1
Protection	15.1	17.7	16.5	17.5
Commission ratio	4.6	4.1	4.5	4.0
First year commission	16.7	19.0	18.0	15.0
Renewal premium commission	1.8	1.8	1.8	1.8
Single premium commission	1.1	1.2	1.2	1.2
Operating expense ratio	8.7	8.1	9.1	9.1
Management expense ratio	13.3	12.2	13.6	13.1
Cost to TWRP	15.9	15.4	17.6	17.3
VNB	16,050	15,328	18,481	22,023
VNB growth	20.9	(4.5)	20.6	19.2
VNB margin	21.7	26.8	24.4	25.1
RoEV	15.2	16.7	16.5	16.7

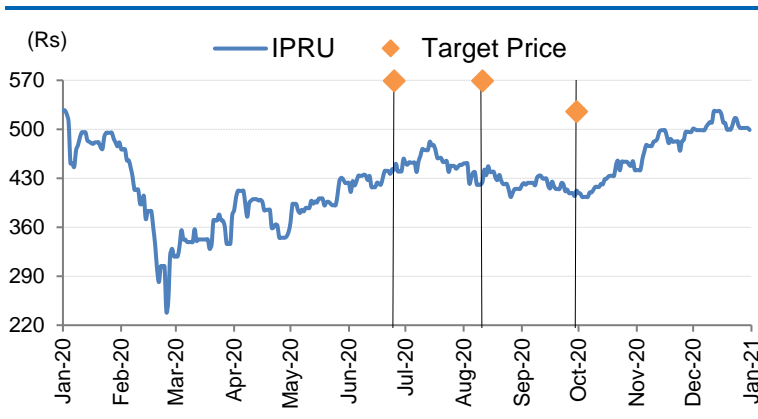
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Buy	569	442
Sep-20	Buy	569	425
Oct-20	Buy	525	412

*Price as on recommendation date

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