

ICICI Pru Life

Refer to important disclosures at the end of this report

Delivering consistent growth with superior margins; upgrade to Buy

- We upgrade ICICI Prudential Life Insurance (IPRU) to Buy from Hold, factoring in superior VNB growth (~29.4% yoy) and an improving product mix (protection share at ~22%). Our concerns about margins have subsided as there was a shift in product mix, aided by a diversified distribution mix, which should support the margin profile in the coming quarters.
- IPRU's VNB grew ~78% yoy to Rs3.6bn in Q1FY22 while APE grew ~48% yoy to Rs12.2bn. Though the low base from last year has played a role, considering the lockdowns in Q1, this is indeed a robust performance. VNB margins surged to ~29.4% in the quarter from ~23.6% in Q4FY21 and ~24.4% in Q1FY21.
- Like its peers, IPRU has witnessed a surge in claims and maintains Rs5bn as provisions. ICICI Bank holds a distribution share of 28% and has seen solid demand for single-premium policies and annuity plans. We remain curious about the difference in approach between two large private insurers [IPRU and HDFC Life] toward group protection, which we believe will unfold in due course.
- We are increasing our APE growth estimates by ~31% each for FY23 and FY24 amid the surge in demand for single-premium plans. We expect FY23/24E VNB margins at 26.6%/26.1% vs. ~24.7% earlier. We roll forward to Sep'22E with a revised TP of Rs750 (Rs506 earlier), corresponding to 2.7x P/Sep'23E EV (~2x earlier). Upgrade to Buy.

- **VNB margins witness improvement:** We believe that overall insurance penetration in India is likely to rise after Covid-19 as both individual and corporate customers will be more cautious about these kinds of catastrophic events. IPRU's VNB grew ~78% yoy to Rs3.6bn, with a surge in VNB margins to ~29.4% from ~23.6% in last quarter and ~24.4% in the year-ago comparable period.
- **Increasing traction in single-premium products supports strong APE growth:** APE grew ~48% yoy to Rs12.2bn, with ICICI Bank continuing to distribute single-premium and annuity plans heavily. Management is focused on improving the growth profile in the coming years by entering into more bancassurance tie-ups and rolling out new products consistently. By FY23, the company intends to achieve VNB which is two times that of its FY19 VNB. We are assuming ~25.6% VNB CAGR in FY21-24E, with steady margins of ~26.3%.
- **Outlook and valuation:** We are increasing our APE growth estimates by ~31% each for FY23 and FY24 amid the surge in demand for single-premium plans. We expect FY23/24E VNB margins at 26.6%/26.1% vs. ~24.7% earlier. We roll forward to Sep'22E, and accordingly revise our TP to Rs750, corresponding to 2.7x P/Sep'23E EV. Upgrade to Buy with an OW stance in Insurance EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Profit	11,406	10,687	9,601	14,488	17,314
EPS (Rs)	7.9	7.4	6.7	10.1	12.1
VNB	13,280	16,050	16,210	22,880	26,805
VNB margin %	17.0	21.7	25.1	27.6	26.6
EV	2,16,240	2,30,310	2,91,070	3,30,686	3,75,642
ROEV %	20.2	15.2	15.2	15.5	15.7
P/EV (x)	4.0	3.8	3.0	2.6	2.3

Source: Company, Emkay Research

CMP	Target Price
Rs 605 as of (July 21, 2021)	Rs 750 (▲) 12 months
Rating	Upside
BUY (▲)	24.0 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	48.2
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	10.1	12.1
Consensus	8.6	11.1
Mean Consensus TP (12M)	Rs 615	

Stock Details

Bloomberg Code	IPRU IN
Face Value (Rs)	10
Shares outstanding (mn)	1,437
52 Week H/L	635 / 398
M Cap (Rs bn/USD bn)	869 / 11.64
Daily Avg Volume (nos.)	29,80,768
Daily Avg Turnover (US\$ mn)	21.9

Shareholding Pattern Jun '21

Promoters	73.5%
FIIIs	17.2%
DIIIs	4.1%
Public and Others	5.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	27	17	39
Rel. to Nifty	5	16	10	(2)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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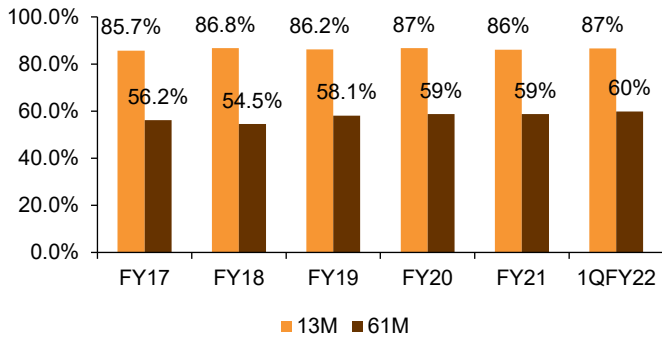
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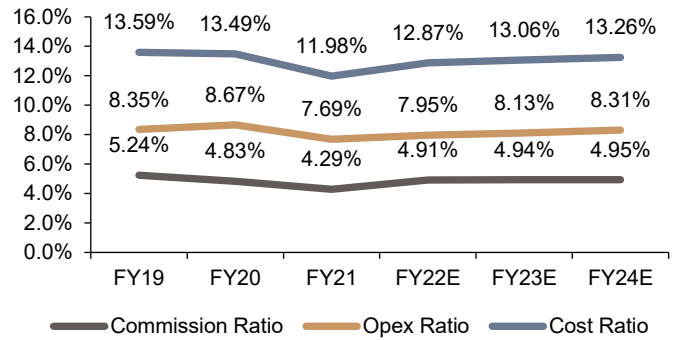
Story in Charts

Exhibit 1: Persistency sees improvement across cohorts



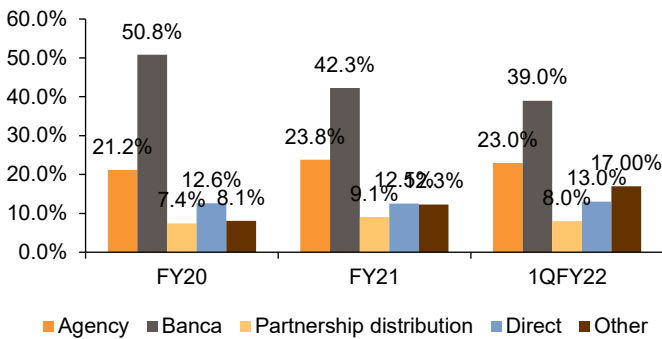
Source: Company, Emkay Research

Exhibit 2: Focus on productivity to improve cost structure



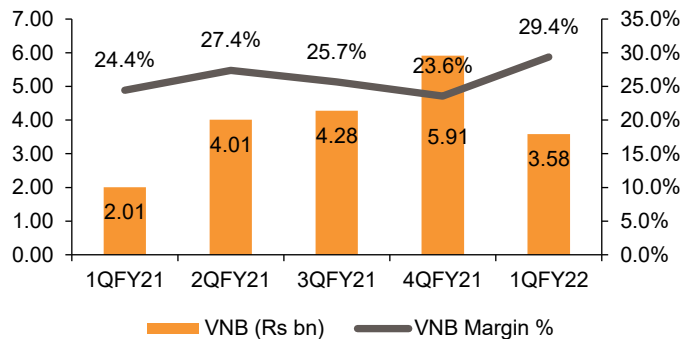
Source: Company, Emkay Research

Exhibit 3: Reliance on the Banca channel diminishes as other channels see growth



Source: Company, Emkay Research

Exhibit 4: VNB margins witness a sharp improvement



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

(Rs mn)	FY22E			FY23E			FY24E		
	Old	New	% change	Old	New	% change	Old	New	% change
NBP	1,55,451	1,74,612	12%	1,95,375	2,15,561	10%	2,45,834	2,66,207	8%
APE	71,082	82,900	17%	76,890	1,00,921	31%	93,752	1,22,907	31%
PAT	15,425	14,488	-6%	16,414	17,314	5%	10,879	12,475	15%
EV	3,28,251	3,30,686	1%	3,69,498	3,75,642	2%	4,17,724	4,29,121	3%
VNB Margin %	25.1%	27.6%	251bps	24.7%	26.6%	182bps	24.7%	26.1%	145bps
ROE %	15.8%	14.7%	-108bps	14.7%	15.2%	53bps	8.8%	9.8%	104bps
ROEV%	13.6%	15.5%	182bps	13.3%	15.7%	233bps	13.7%	16.0%	232bps

Source: Company, Emkay Research

Exhibit 6: Movement in EV

(Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Opening Embedded value (EV)	1,61,840	1,87,880	2,16,230	2,30,300	2,91,070	3,30,686	3,75,642
Expected return on existing business (A+B+C)	23,950	24,730	16,840	18,850	22,107	24,959	28,196
Expected return on existing business (unwind) (A)	13,730	15,840	17,250	16,610	20,957	23,809	27,046
Operating assumption changes (B)	7,640	4,200	(2,250)	3,090	2,000	2,000	2,000
VNB added during the period	12,860	13,280	16,050	16,210	22,880	26,805	32,091
Operating experience variance (C)	2,580	4,690	1,840	(850)	(850)	(850)	(850)
IEV operating earnings (EVOP)	36,810	38,010	32,890	35,060	44,987	51,764	60,287
Economic assumption changes and investment variance	1,130	(1,220)	(14,760)	25,670	(2,500)	(2,500)	(2,500)
IEV total earnings	37,940	36,790	18,130	60,730	42,487	49,264	57,787
Capital contributions/ (dividends paid out)	(11,880)	(8,430)	(4,050)	40	(2,872)	(4,308)	(4,308)
Closing IEV	1,87,900	2,16,240	2,30,310	2,91,070	3,30,686	3,75,642	4,29,121
<i>Expected return as % of opening (PAT/opening EV)</i>	<i>10.0%</i>	<i>6.1%</i>	<i>4.9%</i>	<i>4.2%</i>	<i>5.0%</i>	<i>5.2%</i>	<i>3.3%</i>
<i>VIF transfer as % of opening (unwinding/opening EV)</i>	<i>8.5%</i>	<i>8.4%</i>	<i>8.0%</i>	<i>7.2%</i>	<i>7.2%</i>	<i>7.2%</i>	<i>7.2%</i>
<i>ROEV %</i>	<i>22.7%</i>	<i>20.2%</i>	<i>15.2%</i>	<i>15.2%</i>	<i>15.5%</i>	<i>15.7%</i>	<i>16.0%</i>
<i>Operating ROEV %</i>	<i>16.4%</i>	<i>15.5%</i>	<i>15.4%</i>	<i>14.3%</i>	<i>15.1%</i>	<i>15.3%</i>	<i>15.7%</i>

Source: Company, Emkay Research

Con-call highlights

- Management remained focused on developing innovative products for customers. Its recently launched retirement planning product 'ICICI Pru Guaranteed Pension Plan' has been voted as the 'Product of the Year 2021' in a consumer survey conducted by NielsenIQ.
- The company launched two riders, Corona Protect and Corona Protect Plus, taking into consideration customer requirements during pandemic times.
- IPru's continued focus on increasing premiums and expanding the protection business, along with an improvement in persistency and productivity, resulted in new business premium growth of 71% and an increase in its market share to 7.7% in Q1FY22 from 6.2% in Q1FY21.
- Management is focusing on entering into tie-ups with new partners and is investing in creating new distribution channels with the aim of maintaining a diversified distribution mix. This, along with a strong focus on quality of business and customer retention, has helped the company improve its persistency ratios. 13M & 49M persistency ratios stood at 85.4% and 63.1%, respectively, in Jun'21.
- Management indicated an increase in absolute expenses that is in line with the growth of the business. The increase in cost ratios vs. last year was due to 1) the deferral of certain expenses (annual increment of employees, etc.) from Q1FY21 to the subsequent quarters, 2) increase in advertising costs with the normalization of business activities, and 3) acquisition/maintenance contracts due to growing new business premiums.
- Employee expenses will continue to increase as the company plans to expand its workforce.
- The company has taken up technological initiatives to enable end-to-end process automation rather than an activity-based approach, in order to reduce TAT and provide a robust risk management methodology.
- According to management, while Retail protection has gone down, Group and Credit life products have remained as the primary growth drivers in protection.
- The company has recognized all claims notified at any of its touch points. Gross claims in Q1FY22 stood at Rs20bn, including Covid-19 claims of Rs11.2bn, while net claims (net of reinsurance) stood at 9.5bn, including Covid-related claims of Rs5bn.
- Management indicated that the claims were higher as the age group it caters to was the most affected by the second wave of Covid-19.
- The company holds a provision of Rs4.98bn toward future Covid-19 claims. Net of the Covid-19 impact, the mortality experience is in line with provisions.
- Management said, adjusting for Covid-19-related claims, the mortality experience remains in line with pre-Covid times.
- The company indicated that VNB growth is primarily attributable to the shift in product mix and the focus on growing new businesses.

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net earned premium	3,05,783	3,28,540	3,49,734	4,13,168	5,03,492
Income from investments	1,02,144	(1,25,169)	4,74,376	1,94,494	2,13,943
Contribution from the shareholders fund	5,272	14,970	15,748	6,000	6,000
Miscellaneous income	803	804	934	1,027	1,130
Total income	4,14,003	2,19,145	8,40,791	6,14,690	7,24,566
Commissions	16,038	15,860	15,002	20,306	24,861
Operating expenses	25,528	28,469	26,883	32,865	40,917
Provisions	6,351	8,685	6,784	7,742	9,233
Total expenses	47,917	53,014	48,669	60,914	75,011
Benefits paid (net)	1,42,591	1,93,766	2,26,409	2,39,505	3,13,070
Change in liabilities (net)	2,10,030	(50,569)	5,43,241	2,67,173	2,78,849
Total	3,52,621	1,43,197	7,69,650	5,06,678	5,91,920
Surplus	13,465	22,934	22,472	47,098	57,635
Tax	1,132	1,314	1,418	1,609	2,311
Net surplus	12,333	21,620	21,054	45,490	55,324
Transfer to shareholders account	10,770	19,887	19,849	9,927	16,177

Shareholders Account-Y/E (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Transfer from policyholders account	10,770	19,887	19,849	9,927	16,177
Income from investments	6,418	6,594	7,687	7,063	7,063
Other income	90	5	3	0	0
Total income	17,279	26,487	27,538	16,990	23,241
Expenses	377	364	612	673	740
Provisions	0	466	365	0	0
Contribution to policyholders account	5,272	14,970	15,748	0	3,000
Profit before tax	11,630	10,687	10,814	16,317	19,501
Tax	223	0	1,213	1,830	2,186
Net profit	11,406	10,687	9,601	14,488	17,314

Balance Sheet

Y/E Year End	FY19	FY20	FY21	FY22E	FY23E
Sources of funds					
Share capital	14,358	14,359	14,360	14,360	14,360
Reserve and surplus	54,397	61,056	70,671	85,173	1,01,065
Fair value change account credit/(debit)	1,712	(3,228)	6,158	6,158	6,158
Net worth (including fair value change)	70,467	72,186	91,194	1,05,696	1,21,588
Policyholders funds	15,13,451	14,42,536	20,18,269	23,68,000	27,45,021
Funds for future appropriations	10,344	12,327	13,532	14,154	17,388
Total liabilities	15,94,262	15,27,049	21,34,995	24,87,850	28,83,997
Application of funds					
Shareholders investments	79,916	74,209	1,00,902	1,00,902	1,00,902
Policyholders investments	4,00,712	4,67,503	6,35,726	7,05,410	7,83,165
Assets to cover linked liabilities	11,09,458	9,70,850	13,85,491	16,62,590	19,61,856
Loans	2,702	4,631	6,628	6,628	6,628
Fixed assets	4,756	4,776	4,572	4,572	4,572
Net current assets (A-B)	(3,282)	5,080	1,676	7,748	26,874
Total assets	15,94,262	15,27,049	21,34,995	24,87,850	28,83,997

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21	FY22E	FY23E
Conservation ratio %	81.6	76.0	82.0	89.7	93.6
Commissions ratio %	5.2	4.8	4.3	4.9	4.9
Opex ratio %	8.3	8.7	7.7	8.0	8.1
ROA %	0.8	0.7	0.5	0.6	0.6
ROE %	16.4	15.0	11.8	14.7	15.2
Dividend payout ratio %	39.7	21.5	29.9	35.2	24.9

EV Data	FY19	FY20	FY21	FY22E	FY23E
Embedded value (Rs mn)	2,16,240	2,30,310	2,91,070	3,30,686	3,75,642
Value of new business (Rs mn)	13,280	16,050	16,210	22,880	26,805
EVOP (Rs mn)	38,010	32,890	35,060	44,987	51,764
ROEV %	20.2	15.2	15.2	15.5	15.7
VNB margin %	17.0	21.7	25.1	27.6	26.6

Source: Company, Emkay Research

Per Share Data (Rs)	FY19	FY20	FY21	FY22E	FY23E
EPS	7.9	7.4	6.7	10.1	12.1
DPS	3.2	1.6	2.0	3.5	3.0
BVPS	49.1	50.3	63.5	73.6	84.7

Valuation (x)	FY19	FY20	FY21	FY22E	FY23E
P/E	76.1	81.3	90.5	59.9	50.2
P/B	12.3	12.0	9.5	8.2	7.1
P/EV	4.0	3.8	3.0	2.6	2.3
P/VNB	65.4	54.1	53.6	38.0	32.4
Dividend yield (%)	0.5	0.3	0.3	0.6	0.5

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21	FY22E	FY23E
GWP	14.3	8.0	7.0	18.3	22.0
New business premium (NBP)	12.5	20.2	6.1	32.0	23.5
Annualized premium equivalent (APE)	3.4	(5.4)	(12.5)	28.3	21.7
Retail APE	1.5	(7.3)	(15.8)	30.5	23.0
Commissions	14.3	(1.1)	(5.4)	35.4	22.4
Operating expenses	25.8	11.5	(5.6)	22.3	24.5
Net income	(29.6)	(6.3)	(10.2)	50.9	19.5

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net earned premium	55,511	85,722	89,708	1,18,793	66,019
Total income	1,87,693	1,67,154	2,84,857	1,93,038	1,62,356
Total expenses	1,84,589	1,65,007	2,81,770	1,92,832	6,74,950
Net income	2,869	3,032	3,057	638	(1,857)
EPS (Rs)	2.00	2.11	2.13	0.44	(1.29)

Source: Capitaline

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	73.5	73.5	73.5	73.5	73.5
FIIIs	15.1	15.8	16.3	16.5	17.2
DIIIs	5.2	4.6	4.7	4.3	4.1
Public and Others	6.2	6.1	5.5	5.7	5.3

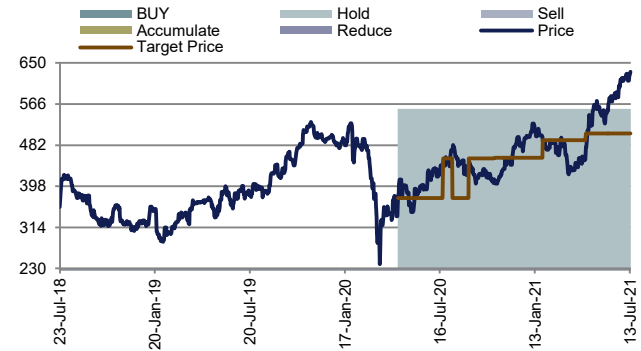
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Apr-21	478	506	12m	Hold	Jignesh Shial
09-Mar-21	486	492	12m	Hold	Jignesh Shial
09-Feb-21	477	492	12m	Hold	Jignesh Shial
28-Jan-21	491	492	12m	Hold	Jignesh Shial
09-Jan-21	526	456	12m	Hold	Jignesh Shial
09-Dec-20	487	456	12m	Hold	Jignesh Shial
28-Oct-20	409	456	12m	Hold	Jignesh Shial
09-Sep-20	434	455	12m	Hold	Jignesh Shial
09-Aug-20	470	374	12m	Hold	Jignesh Shial
22-Jul-20	442	455	12m	Hold	Jignesh Shial
01-Jul-20	420	374	12m	Hold	Jignesh Shial
11-Jun-20	395	374	12m	Hold	Jignesh Shial
27-Apr-20	378	374	12m	Hold	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 13 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Insurance	1.57	1.57	0%	0	100.00
HDFC Life	0.59	0.59	0%	0	37.74
ICICI Pru Life	0.27	0.27	0%	0	17.02
Max Financial	0.26	0.26	0%	0	16.78
SBI Life	0.45	0.45	0%	0	28.46
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Jul-20	18-Jan-21	19-Apr-21	18-Jun-21	19-Jul-21
EAP - BFSI-Insurance	100.0	138.1	154.7	154.1	171.2	175.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	138.7	155.6	154.6	172.1	176.2

*Performance measurement base date 1st April 2019

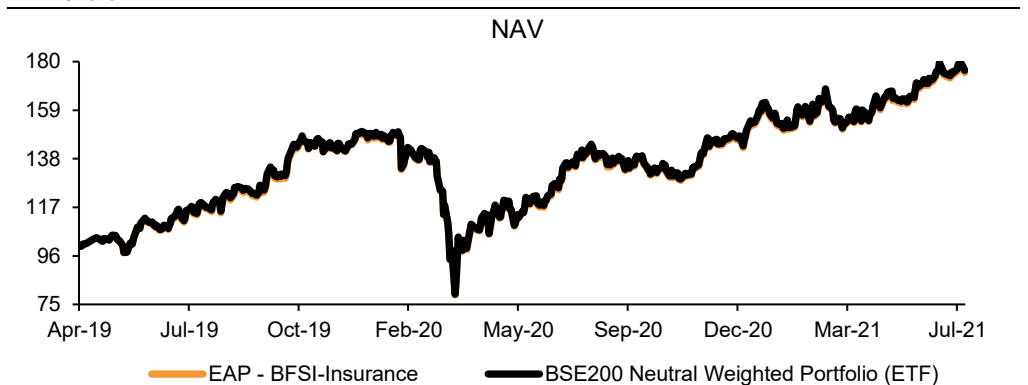
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	2.4%	13.7%	13.3%	26.9%
BSE200 Neutral Weighted Portfolio (ETF)	2.4%	14.0%	13.2%	27.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 21 Jul 2021 20:31:31 (SGT)

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