

ICICI Pru Life

Refer to important disclosures at the end of this report

In-line performance; no surprises

ICICI Prudential's H1FY22 results were broadly on the expected lines. Since IPRU's monthly new business numbers were already known, the key monitorables in the results were VNB margin, EV growth, Covid-19 claims development and future guidance.

- VNB and VNB margin growth on estimated lines:** The value of new business (VNB) grew 45% YoY to Rs 8.7bn in H1FY22, led by ~40% yoy APE growth (from low base of H1FY21) and 1ppt VNB margin expansion to 27.3%. The margin contracted from 29% seen in Q1, but it was on expected lines as with the increasing share of savings in the product mix slightly softened the VNB margin over the year. For FY22, we estimate a VNB margin of 26.7% (up 1.5ppts YoY).
- EV growth softer on Covid-19 second wave claims and dividend payout:** The EV for H1FY22 stood at Rs302bn - modest ~4% growth from FY21 EV of Rs291bn. The VIF grew at a healthy rate by ~17bn (or 8.5%) from FY21, but ANW came down by ~Rs6bn or 6% to Rs89bn, due to Rs2.8bn dividend payouts in H1 and ~Rs5bn adverse claim experience on account of the Covid-19 second wave.
- Operating parameters broadly stable:** Operating parameters, including persistency, product mix and distribution mix, were broadly stable. Management said that given the changes in the product mix and investment in distribution, the cost ratio will remain slightly elevated but it still remains one of the best in the industry. On lapses and surrenders, the surrenders remain higher but that is not very different from the management's estimation.
- Renewal premium growth anemic; growing retail policy count to be key focus:** Driven by negative growth in retail new business in the last 3 financial years, renewal premium growth for H1FY22 was -2% and it is likely to stay weak for the near term. Despite forging a new partnership, focusing on retail protection products and increasing digital outreach, IPRU has struggled to increase its retail policy count. With Covid-19 disruptions behind, the company expects that it will be able to deliver sustainable growth in new business policy.
- Management aims to double FY19 VNB by FY23; we keep our estimates unchanged:** Management sounded confident of delivering 2x FY19 VNB by FY23. We have built in 2.1x by FY23E. Based on H1 progress, we have kept our estimates unchanged.
- Hold; TP of Rs760 based on appraisal value method, implies a FY23E P/EV of 2.9x:** We value IPRU based on the appraisal value method, using FY23E EV and then adding discounted VNB of future years. We assume: 1) 12% cost of equity; 2) 5% terminal growth rate of VNB in FY38; 3) FY23-38e APE CAGR of ~10.5% and FY23-38e VNB CAGR of ~10.6%; and 4) VNB margin (effective tax rate) of 27.6% flat from FY24. Considering its volatile track record of growth, slightly poorer EV returns and a relatively tough road ahead, we believe that the implied multiples for IPRU need to be at a discount to peers.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 7\)](#)

Financial Snapshot (Standalone)

Y/E March (Rs bn)	FY20	FY21	FY22e	FY23e	FY24e
Annualised Premium Equivalent (APE)	73.8	64.6	87.7	103.7	120.0
New Business Value (NBV)	16.1	16.2	23.4	28.3	33.2
NBV Margin (% of APE)	21.7	25.1	26.7	27.3	27.6
Embedded Value	230.3	291.1	331.7	385.1	445.5
Embedded Value Operating Profit	33	35	41	54	62
Operating RoEV (%)	15.2	15.2	14.2	16.1	16.1
EVPS (Rs)	160	203	231	268	310
EPS (Rs)	7.43	6.66	5.42	9.08	11.70
BVPS (Rs)	50.2	50.2	63.4	66.7	72.1
P/EV (x)	4.1	3.3	2.9	2.5	2.1

Source: Company, Emkay Research

CMP	Target Price
Rs 660 as of (October 19, 2021)	Rs 760 (■) 12 months
Rating	Upside
HOLD (■)	15.2 %

Change in Estimates

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

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	-	-
Consensus	6.4	10.1
Mean Consensus TP (12M)	Rs 713	

Stock Details

Bloomberg Code	IPRU IN
Face Value (Rs)	10
Shares outstanding (mn)	1,437
52 Week H/L	725 / 398
M Cap (Rs bn/USD bn)	948 / 12.58
Daily Avg Volume (nos.)	1,907,411
Daily Avg Turnover (US\$ mn)	16.9

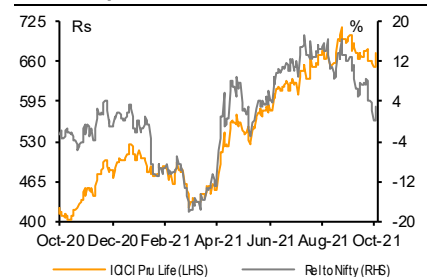
Shareholding Pattern Jun '21

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

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	5	46	56
Rel. to Nifty (11)	(11)	13	1	

Relative price chart



Source: Bloomberg

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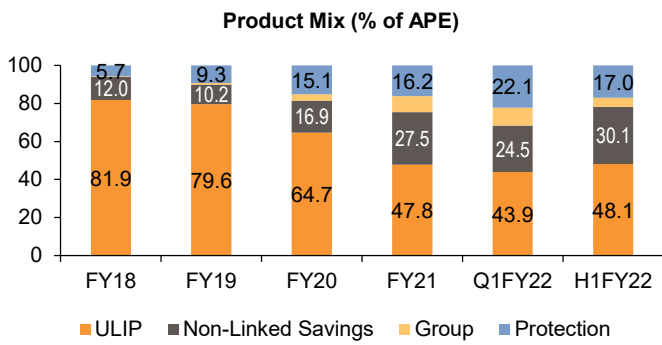
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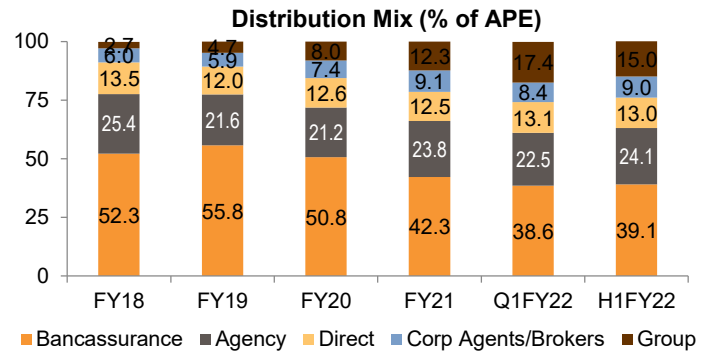
Story in Charts

Exhibit 1: Product mix shifted from Protection to ULIPs



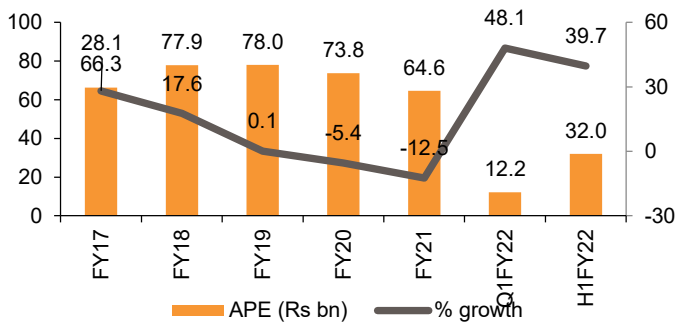
Source: Company, Emkay Research

Exhibit 2: Focus on maintaining balanced distribution mix



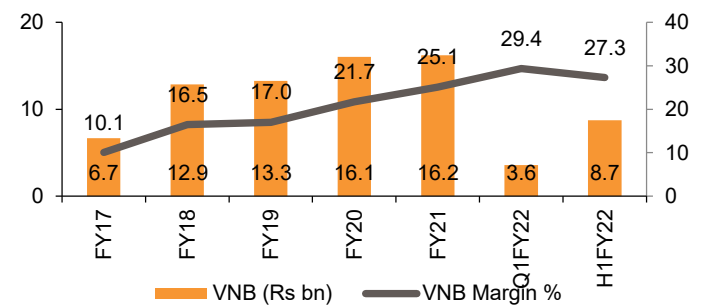
Source: Company, Emkay Research

Exhibit 3: APE grew by ~40% in 1HFY22 from low base of last year



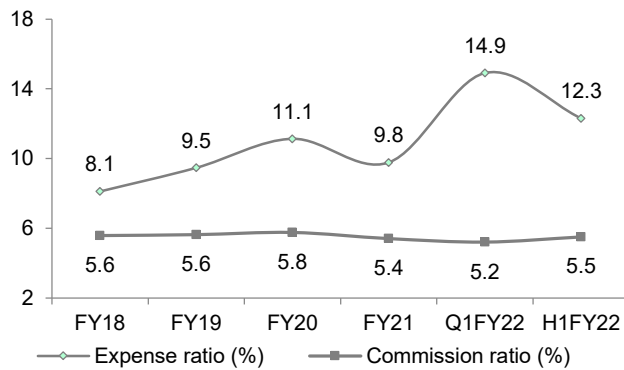
Source: Company, Emkay Research

Exhibit 4: Margins soften on account of shift in product mix



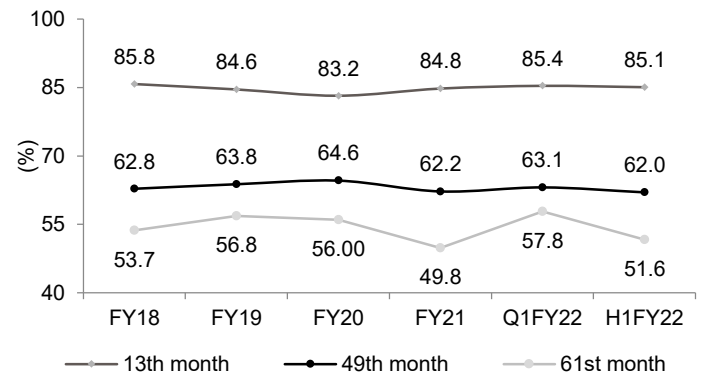
Source: Company, Emkay Research

Exhibit 5: Elevated expense ratio due to higher advertising spends and employee cost



Source: Company, Emkay Research

Exhibit 6: 13M persistency stabilizes at ~85%



Source: Company, Emkay Research

Exhibit 7: Quarterly financials

in Rs bn except %	H1FY22	H1FY21	%yoy	2QFY22	2QFY21	%yoy	FY21	FY20	%yoy
Annualised Premium Equivalent (APE)	32.0	22.9	39.7	19.8	14.7	34.9	64.6	73.8	-12.5
--o/w Savings	26.5	18.4	43.6	17.0	12.3	37.6	54.2	62.7	-13.6
--o/w Protection	5.5	4.5	23.3	2.8	2.3	20.7	10.5	11.2	-6.3
Protection APE (% of total APE)	17.2	19.5	-2.3ppts	14.2	15.8	-1.7ppts	16.2	15.1	1.1ppts
Value of New Business	8.7	6.0	45.0	5.2	4.0	28.4	16.2	16.1	1.0
New Business Margin (%)	27.3	26.3	1.0ppts	26.0	27.4	-1.3ppts	25.1	21.7	3.3ppts
Embedded Value	302.0	257.1	17.5	302.0	257.1	17.5	291.1	230.3	26.4
Individual New Business WRP	25.9	18.8	37.3	16.5	12.3	33.9	54.5	66.4	-17.9
Total New Business Premium	67.0	40.5	65.5	39.6	24.4	62.4	132.3	124.9	5.9
Renewal premium	97.1	99.1	-2.1	55.7	57.7	-3.5	225.1	209.4	7.5
Gross written premium	164.0	139.6	17.5	95.3	82.1	16.1	357.3	334.3	6.9
PAT	2.6	5.9	-56.2	4.4	3.0	46.6	9.9	10.7	-7.5
AUM	2,371	1,815	30.6	2,371	1,815	30.6	2,142	1,530	40.0
SH Equity	87.6	82.1	6.6	87.6	82.1	6.6	91.2	72.2	26.3
13th month persistency (%)	85.1	82.1	3.0ppts				84.8	83.2	1.6ppts
49th month persistency (%)	62.0	62.3	-0.3ppts				62.2	64.6	-2.4ppts
61st month persistency (%)	51.6	51.7	-0.1ppts				49.8	56.0	-6.2ppts
Solvency ratio (%)	199.9	205.0	-5ppts	199.9	205.0	-5ppts	216.8	194.1	23ppts

Source: Company, Emkay Research

Exhibit 8: Appraisal value method valuation of IPRU Life

Parameter (Rs bn)	Value
FY23-38e APE CAGR	10.5%
FY23-38e VNB CAGR	10.6%
Terminal growth rate	5%
Cost of Equity	12.0%
FY23 EV	385
Present value of future new business	733
Appraisal value - Mar- 23	1,122
Share count (mn)	1,436
Appraisal value per share (Rs.) - Mar-23	782
Price target (Rs.) - Dec-22	760

Source: Emkay Research

Exhibit 9: Implied valuation multiples

Target multiple on FY23 numbers	760
P/EV	2.9x
RoEV (%)	16.1
P/Op. EV Profit	21.0x
Implied FY24e VNB multiple	22.1x
Current price multiple on FY23 estimates	660
P/EV	2.5x
RoEV (%)	16.1
P/EVOP	18.2x
Implied FY24e VNB multiple	16.9x

Source: Emkay Research

Con-call highlights

- Management said that supply-side constraints, including revised underwriting guidelines and general reluctance to visit medical centers, continued to affect the protection business.
- Management focused on the Group term business. Despite the price increase on account of a change in mortality assumptions, the group term business registered strong growth. Pick-up in demand and disbursements was seen in the credit life segment as well. As a result, protection APE grew by 23% in H1FY22.
- The company maintained market leadership based on sum assured as the market share increased to 13.2% in H1FY22 from 12.5% in FY21.
- It revised persistency definition in accordance with IRDAI guidelines dated 30 September 2021. 13M and 61M persistency ratios improved by 30bps and 180bps, respectively.
- IPRU continues to leverage technology for process reengineering and to drive productivity. Management indicated that the cost ratios remained the best in the industry. Further, management stated that new business growth is ahead of growth in expenses.
- The company maintains a solvency ratio of 199.9% as of Sep'21.
- It maintains high-quality assets; 97% of fixed income in sovereign or AAA and 0.3% of fixed income below AA.
- Management indicated that Protection and annuity products constitute 45% of NBP.
- The company continued to receive Covid-19 claims, most of them were delayed intimations of Q1FY22. Covid-19 claims net of reinsurance stood at Rs8.62bn for H1FY22, including settled, notified and processing claims. IPRU holds provisions of Rs4.12bn for future Covid-19 claims, including IBNR provision. The company expects no further negative impact from Covid-19 claims beyond Rs12.72bn (Rs8.62bn + Rs4.12bn).
- Management stated that the Protection business witnessed short-term headwinds in retail, and expects to maintain the sequential momentum by increasing attachment of riders.
- ULIP growth was 45% in H1FY22 yoy. The introduction of a balance advantage fund has turned fruitful, along with the ESG fund launched last year.
- IPRU has 23 bank partnerships in the Banca channel and 700 partnerships across digital and non-digital distributors. It witnessed strong growth across distribution channels, with high contribution from new bank partnerships in the banca channel.
- Of the total 39% Banca contribution (Distribution Mix APE), 28% comes from ICICI Bank (high focus on annuity, protection and some on savings line of business) and 12% from other banks.
- The company reported VNB of Rs8.73bn for H1FY22, 42% yoy growth; VNB margin at 27.3% in H1FY22.
- Growth in adjusted net worth was muted due to Covid-19 claims and dividend payouts.
- GTI – enhanced opportunity in the last 12 months; focus on client engagement and not on pricing; all policies sold before the second wave; had claims higher than what were priced in; focus on renewing schemes on profitable basis.
- On low policy sales, management indicated that 40-45% of policies were contributed through the protection business and were low in H1, impacting the policy sales in H1FY22. The company further took various initiatives for mass affluent to build engagement on digital platforms to increase policy sales, which translated to 35% growth in the later part of Q2. The company opened a new product segment for customers older than 58 years to increase the sale of policies.
- AI distribution channels grew by ~40% yoy. The company added 50+ partners on corporate agency and broker sides, which are expected to become significant contributors to the business in the next 6 months.
- The company aims to double FY19 VNB by FY23 with 28% growth in FY22 and FY23, driven by the topline.

Exhibit 10: Key Financials

Y/E March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Policyholders' account						
Gross written premium	3,09,298	3,34,307	3,57,328	4,14,778	4,71,387	5,39,405
Net earned premium	3,05,783	3,28,790	3,49,733	4,04,925	4,59,011	5,25,243
Total revenue	4,14,003	2,19,395	8,40,791	7,57,685	7,10,619	7,17,807
Commission expense	15,513	15,860	15,002	17,370	19,690	22,531
Operating expenses	26,053	28,469	26,883	30,315	33,905	38,798
Surplus/Deficit	12,333	21,967	21,177	15,198	15,392	14,987
Shareholders' account						
Transfer from policyholders' account	10,770	19,887	19,849	13,698	13,892	13,987
Profit after tax	11,389	10,670	9,562	7,790	13,045	16,800
Balance Sheet						
Sources of Funds						
Shareholders' Funds	70,423	72,125	91,087	95,761	1,03,588	1,13,668
Policyholders' Funds: Insurance reserves and provisions	15,13,451	14,42,536	20,30,269	23,98,973	26,55,723	28,70,757
Total	15,94,218	15,26,987	21,34,887	25,09,619	27,75,684	30,02,436
Application of Funds						
Shareholders' Investments	79,862	74,152	1,00,807	1,19,114	1,31,862	1,42,539
Policyholders' Investments	4,00,712	4,67,503	6,35,726	7,51,176	8,31,570	8,98,903
Assets Held to Cover Linked Liabilities	11,09,458	9,70,850	13,85,491	16,37,102	18,12,312	19,59,056
Total	15,94,218	15,26,987	21,34,887	25,09,619	27,75,684	30,02,436
Embedded Value Account						
Embedded Value	2,16,230	2,30,300	2,91,060	3,31,748	3,85,076	4,45,531
--o/w Adjusted Net Worth	73,540	78,430	95,220	1,00,761	1,08,588	1,18,668
--o/w Value-in-Force	1,42,690	1,51,870	1,95,840	2,30,987	2,76,487	3,26,862
Annualized Premium Equivalent (APE)	77,990	73,810	64,620	87,669	1,03,692	1,19,972
New Business value	13,280	16,050	16,210	23,394	28,282	33,172
New Business Margin (%)	17.0	21.7	25.1	26.7	27.3	27.6
EV Operating Profit	38,010	32,890	35,060	41,304	53,546	62,175
Operating RoEV (%)	20.2	15.2	15.2	14.2	16.1	16.1
Per share data, in Rs						
EPS	7.93	7.43	6.66	5.42	9.08	11.70
DPS	4.9	2.3	0.0	2.2	3.6	4.7
EVPS	150.6	160.4	202.7	231.1	268.2	310.3
BVPS	49.0	50.2	63.4	66.7	72.1	79.2
EV Op. Profit per share	26.5	22.9	24.4	28.8	37.3	43.3
Key Ratio						
Return on Equity (%)	16.4	15.0	11.7	8.3	13.1	15.5
Commission expense/TWRP (%)	5.6	5.8	5.4	5.5	5.6	5.7
Operating expenses/TWRP (%)	9.5	11.1	9.8	9.7	9.7	9.8
Total expense (% of TWRP)	15.1	16.9	15.2	15.2	15.3	15.6
Total expense (% of Avg AUM)	2.77	2.83	2.29	2.05	2.02	2.11
Conservation ratio (%)	81.6	76.0	82.0	84.0	84.0	84.0

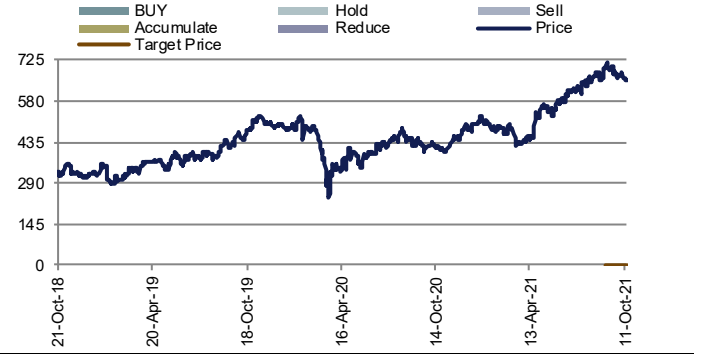
Source: Company data, Emkay Research

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
7-Sep-21	702	-	12m	UR	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



Analyst: Avinash Singh

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Sector

Insurance and Non-lending Financials

Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Insurance	1.55	1.55	0%	0	100.00
HDFC Life Insurance	0.61	0.61	0%	0	39.64
ICICI Pru Life	0.24	0.17	-29%	-7	11.22
Max Financial	0.20	0.23	15%	3	15.14
SBI Life	0.49	0.53	7%	4	34.00
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	19-Oct-20	20-Apr-21	19-Jul-21	17-Sep-21	18-Oct-21
EAP - BFSI-Insurance	100.0	131.3	156.6	175.3	193.9	185.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	132.0	157.1	176.2	195.0	186.8

*Performance measurement base date 1st April 2019

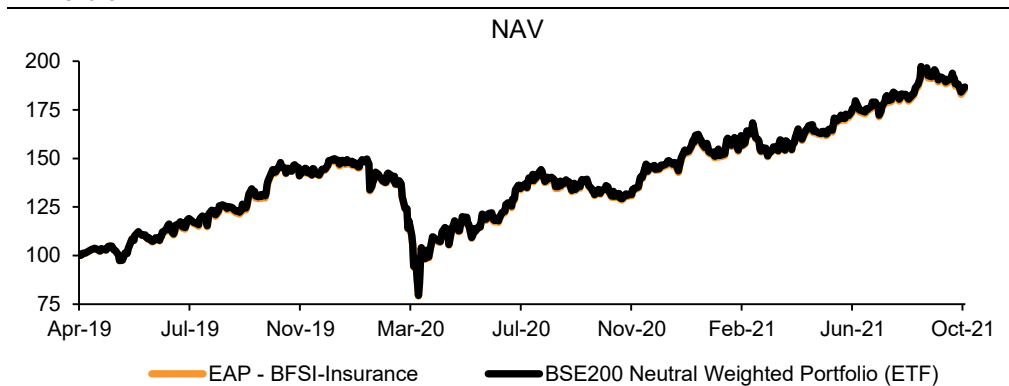
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	-4.3%	5.9%	18.5%	41.3%
BSE200 Neutral Weighted Portfolio (ETF)	-4.2%	6.0%	18.9%	41.6%

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: 20 Oct 2021 13:41:40 (SGT)

Dissemination Date: 20 Oct 2021 13:42:40 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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