

October 19, 2021

**RESULT REPORT Q2 FY22** | Sector: Insurance (Life)

# ICICI Prudential Life

## Sluggishness in retail protection business is a temporary phenomenon

### Result Highlights

- ✓ **VNB margin:** Calculated VNB margin shrunk as much as 332bps QoQ to 26% primarily due to sluggishness in retail protection
- ✓ **VNB growth:** VNB growth was healthy at 43.9%/28.4% QoQ/YoY as IPRU remained acutely focused on overall VNB growth as opposed VNB margin
- ✓ **APE growth:** New business APE growth was strong at 62.2%/34.9% QoQ/YoY driven by linked business, non-linked savings and annuities
- ✓ **Expense control:** Expense ratio declined 288 bps QoQ but rose 131 bps YoY to 12.5% as opex ratio declined 336 bps QoQ but rose 81 bps YoY
- ✓ **Persistency:** 37<sup>th</sup> month ratio improved 100 bps/450 bps QoQ/YoY to 65.7% whereas 61<sup>st</sup> month ratio declined 260 bps QoQ but rose 740 bps YoY to 52.0%

### Our view - Sluggishness in retail protection business is a temporary phenomenon

The sluggishness in retail protection continued on account of changes in guidelines and continued reluctance of potential customers to carry out medical testing: The company is already seeing signs of improvement in protection business on sequential basis. Within the protection basket, the company is focusing on group term life and credit life products.

The share of annuity products in new business received premium has risen to 20.1% in 1HFY22 compared with 15.2% in 1HFY21 due to a 95% YoY rise: IPRU has become one of the largest pension and annuity providers with pension fund AUM having risen 74% YoY to Rs 97.5bn. The market share for IPRU in private sector pension fund AUM stands at 15.7%.

IPRU continues to invest in all channels and is seeing good growth in agency, direct channel including proprietary sales and online channel: It is difficult to say when IPRU will get the next big banca partner but the company continues to add smaller corporate agents. 50 corporate agents have been added in the first 6 months of the year.

We maintain 'Buy' rating on IPRU with a revised price target of Rs 836: We value IPRU at 3.2x FY23 P/EV for an FY22E/23E/24E RoEV profile of 14.3/16.8/17.2%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

### Exhibit 1: Result table

Rs mn	Q2 FY22	Q2 FY21	% yoy	Q1 FY22	% qoq
NBP	39,020	29,570	32.0%	25,590	52.5%
Renewal premium	55,704	57,742	-3.5%	41,375	34.6%
Income from investment	135,458	79,494	70.4%	92,103	47.1%
Surplus/(Deficit)	4,823	5,391	-10.5%	1,550	211.1%
PAT	4,446	3,025	47.0%	(1,858)	na
Expense ratio	12.9%	11.5%	131bps	15.7%	-288bps
37th mo. Persistency*	65.7%	61.2%	450bps	64.7%	100bps
APE	19,770	14,650	34.9%	12,190	62.2%
VNB	5,150	4,010	28.4%	3,580	43.9%
VNB Margin	26.0%	27.4%	-132bps	29.4%	-332bps

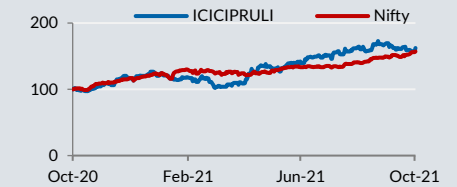
Source: Company, YES Sec-Research; \*N.B. Regular and Limited Pay

Reco	: BUY
CMP	: Rs 660
Target Price	: Rs 836
Potential Return	: 27%

### Stock data (as on Oct 19, 2021)

Nifty	18,419
52 Week h/l (Rs)	724 / 398
Market cap (Rs/USD mn)	947664 / 12577
Outstanding Shares (mn)	1,437
6m Avg t/o (Rs mn):	1,400
Div yield (%):	0.3
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

### Stock performance



	1M	3M	1Y
Absolute return	-6.2%	5.3%	56.4%

### Shareholding pattern (As of Jun'21 end)

Promoter	73.45%
FII+DII	21.28%
Others	5.26%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	836	810

### Financial Summary

	FY22E	FY23E	FY24E
APE	85,429	100,506	118,297
% yoy	32.2%	17.6%	17.7%
VNB	23,025	27,932	33,892
VNB Margin	27.0%	27.8%	28.7%
Reported PAT	6,312	13,646	18,509
% yoy	-34.3%	116.2%	35.6%
EPS (Rs)	4.4	9.5	12.9
EV/Share (Rs)	227.4	261.4	302.2
P/EV (x)	2.9	2.5	2.2
P/VNB (x)	41.1	33.9	28.0

### Δ in earnings estimates

Rs bn	FY22E	FY23E
VNB (New)	23.0	27.9
VNB (Old)	21.6	25.1
% change	6.5%	11.2%

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## COMPREHENSIVE CON-CALL HIGHLIGHTS

### Product growth and mix

#### ✓ Protection

##### • Retail protection

- The sluggishness in retail protection continued on account of changes in guidelines and continued reluctance of potential customers to carry out medical testing.
- Management stated that it did not see any point in chasing retail protection in face of supply side constraints and a live pandemic.
- The company is seeing signs of improvement on sequential basis.

##### • Group protection

- The company is focusing on group term life and credit life products.
- **Group term life**
  - IPRU has been able to grow GTI healthily despite price hikes in the past and subsequent loss of customers.
  - The extent of vaccination is higher in group individuals and, to that extent, it is a sound business.

##### • Sum assured

- Market share in sum assured has improved to 13.2% in 1HFY22 from 12.5% in 1HFY21.
- This rise in Sum Assured at 35% YoY has outpaced the rise in Protection APE of 23% in 1HFY22.
- Among other factors, addition of critical illness cover has helped in this regard.

#### ✓ Pension and Annuities

- The share of annuity products in new business received premium has risen to 20.1% in 1HFY22 compared with 15.2% in 1HFY21 due to a 95% YoY rise.
- IPRU has become one of the largest pension and annuity providers with pension fund AUM having risen 74% YoY to Rs 97.5bn.
- The market share for IPRU in private sector pension fund AUM stands at 15.7%.
- The pension fund business is synergistic for the annuity business with subscribers coming in for NPS and then requiring annuities later.
- IPRU has opened up a new customer segment for annuities in the age range of 48-50.
- Agency channel has also doubled annuity business.

#### ✓ ULIP strategy

- The introduction of Balanced Advantage Fund has helped ULIP business.
- The ESG-focused Sustainable Equity Fund is also expected to attract a new class of investors.
- While IPRU started to incrementally focus on mass and mass affluent customers about 2 years ago, there was no abandonment of affluent customers.
- Affluent customers were provided with more options including guaranteed products.

#### ✓ Number of policies

##### • Sluggishness in policy count addition

- Number of policies have been subdued due to activity shifting online.
- Engagement with distributors has also been affected.
- 42-45 % of the policy count (presumably incremental) comes from protection business, which has been affected.

(Con call takeaways continue on the next page)

- **Mitigating steps**
  - IPRU has run internal campaigns for mass and mass affluent customers.
  - New customer sub-segments such as new age groups for deferred annuity products.
  - Management believes that customer engagement would revert to normal levels.

## VNB margin

- ✓ **Product pricing**
  - **Retail protection**
    - IPRU's reinsurer has intimated a price hike.
    - Currently, a discussion is on regarding this with the reinsurer and the likely path that IPRU would adopt would be a mix of price increase and change in underwriting norms.
    - Based on past experience, management believes it would be able to pass on the price hike to nullify the impact on profitability.
  - **Group protection**
    - IPRU had already effected price increases for group term life and credit life earlier.
    - The price hikes for GTI were taken in May-July 2021.
  - **Last year's price hike**
    - The last retail protection price hike was taken in July 2020.
    - The price hikes were in the range of 10-25%.
    - The reinsurance rate hikes were in the range of 30-40%.
- ✓ **Margin expansion YoY**
  - Margin expansion has been driven primarily by product mix change.
  - Apart from Protection, traction for Annuity and Non-linked Savings has also helped since their margin is better than that of linked business, although not as healthy as Protection.
- ✓ **Margin decline QoQ**
  - Margin has declined sequentially due to product mix change only and not due to cost aspects.
  - For the quarter, the share of Protection has declined to 14%.
- ✓ **VNB growth**
  - IPRU remains focused on absolute VNB growth as opposed to the VNB margin.
  - The company sticks to its earlier guidance of doubling FY19 VNB in 4 years (from FY19).

## Expenses

- ✓ **Cost to TWRP**
  - Cost to TWRP metric has risen but new business growth has been higher than expenses growth.
  - The Cost to TWRP has risen since the denominator consists of both new business and renewal premium.
  - Renewal business is subdued since new business was weak in FY19 and FY20.
  - Surrenders have also had a part to play due to profit booking in an equity bull market but this is a minor factor.

(Con call takeaways continue on the next page)

## Claims and reserving

- ✓ Covid claims and reserve
  - **Claims**
    - Gross claims during 1HFY22 amounted to Rs 18.79bn.
    - Net claims amounted to Rs 8.62bn.
    - These claims include settled, notified and in-process claims.
    - Claims in 2QFY22 materially arose due to events in 1QFY22.
  - **Reserve**
    - An outstanding provision of Rs 4.12bn is being held as of September 2021 to meet Covid claims.
    - This provision also accounts for incurred but not reported claims (IBNR).
    - If claims remain within Rs 12.74bn for the financial year, there would be no further impact on the P&L.

## Channel growth and mix

- ✓ Agency force
  - The intention of IPRU is to ring fence productive agents.
  - 12,000 new agents have been added in 1HFY22.
- ✓ Bancassurance
  - Share of bancassurance channel in new business stood at 39%.
  - **ICICI Bank**
    - Of the 39%, the contribution from ICICI was 28% points.
    - ICICI continues to focus on annuities, protection and, to some extent, other savings.
  - **Non-ICICI**
    - The remaining 11-12% of the 39% was contributed to by non-ICICI banca partners.
    - IPRU is choosing appropriate products for the 4 new key banca partners and driving good growth.
- ✓ Strategy
  - IPRU continues to invest in all channels and is seeing good growth in agency, direct channel including proprietary sales and online channel.
  - It is difficult to say when IPRU will get the next big banca partner but the company continues to add smaller corporate agents.
  - 50 corporate agents have been added in the first 6 months of the year.

## Embedded Value

- ✓ VIF growth is more indicative of the long-term trend in Embedded Value.
- ✓ Factors impacting EV growth in the near term
  - Lower Covid provisions going forward.
  - Lack of dividend payout since it has already been carried out, amounting to Rs 2.7bn.

## Exhibit 2: Other Business Parameters

	Q2 FY22	Q2 FY21	% yoy	Q1 FY22	% qoq
<b>APE Mix (Rs mn)</b>					
Savings	16,960	12,320	37.7%	9,500	78.5%
Linked	10,060	7,020	43.3%	5,350	88.0%
Non-Linked	5,130	5,300	-3.2%	2,990	71.6%
Others	1,770	0	na	1,160	52.6%
Protection	2,810	2,330	20.6%	2,690	4.5%
Total APE	19,770	14,650	34.9%	12,190	62.2%
<b>APE Mix (% proportion)</b>					
Savings	85.8%	84.1%	169bps	77.9%	785bps
Linked	50.9%	47.9%	297bps	43.9%	700bps
Non-Linked	25.9%	36.2%	-1023bps	24.5%	142bps
Others	9.0%	0.0%	895bps	9.5%	-56bps
Protection	14.2%	15.9%	-169bps	22.1%	-785bps
Total APE	100.0%	100.0%	na	100.0%	na
<b>Distribution mix (Rs mn)</b>					
Bancassurance	7,890	6,410	23.1%	4,710	67.5%
Agency	4,810	3,320	44.9%	2,740	75.5%
Direct	2,550	1,780	43.3%	1,600	59.4%
Partnership distribution	1,720	1,260	36.5%	1,020	68.6%
Group	2,800	1,870	49.7%	2,120	32.1%
<b>Distribution mix (% proportion)</b>					
Bancassurance	39.9%	43.8%	-385bps	38.6%	127bps
Agency	24.3%	22.7%	167bps	22.5%	185bps
Direct	12.9%	12.2%	75bps	13.1%	-23bps
Partnership distribution	8.7%	8.6%	10bps	8.4%	33bps
Group	14.2%	12.8%	140bps	17.4%	-323bps
<b>Persistence Ratios*</b>					
13 <sup>th</sup> month	81.3%	80.5%	80bps	81.4%	-10bps
61 <sup>st</sup> month	52.0%	44.6%	740bps	54.6%	-260bps
<b>Expense Metrics</b>					
Commission ratio	4.6%	4.1%	50bps	4.1%	48bps
Opex ratio	8.3%	7.5%	81bps	11.6%	-336bps
<b>Solvency</b>					
Solvency ratio	200%	206%	-560bps	194%	620bps

Source: Company, YES Sec – Research; \*N.B. Regular and Limited Pay

## ANNUAL FINANCIALS

### Exhibit 3: Policyholder account

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net premium	328,790	349,734	397,947	443,267	501,175
Income from investments	-125,169	474,376	367,614	314,664	360,438
Other income	804	934	934	934	934
Contri from shareholders A/C	14,970	15,748	17,323	19,055	20,960
<b>Total income</b>	<b>219,395</b>	<b>840,791</b>	<b>783,818</b>	<b>777,920</b>	<b>883,508</b>
Commission	15,860	15,002	17,070	19,014	21,498
Employee expenses	10,307	9,925	11,938	13,298	15,035
Other opex	18,161	16,958	19,499	21,720	24,558
Benefits paid	193,766	226,409	277,029	293,522	334,300
Change in valuation of liability	-50,569	543,241	429,908	394,748	448,216
Others	8,685	6,784	7,449	8,297	9,381
Provision for Tax	1,314	1,419	1,592	1,773	2,005
<b>Surplus/(Deficit)</b>	<b>21,870</b>	<b>21,054</b>	<b>19,332</b>	<b>25,547</b>	<b>28,514</b>
Transfer to shareholders A/C	19,825	19,849	18,225	24,085	26,882

Source: Company, YES Sec – Research

### Exhibit 4: Shareholder account

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Transfer from Policyholders' account	19,825	19,849	18,225	24,085	26,882
Income from Investments	6,594	7,687	9,554	12,021	14,775
<b>Total A</b>	<b>26,419</b>	<b>27,535</b>	<b>27,779</b>	<b>36,106</b>	<b>41,657</b>
Expenses (apart from insurance)	364	612	673	740	814
Contribution to Policyholders' Acc	14,970	15,748	20,000	20,000	20,000
Others	471	368	3	3	3
Total B	15,805	16,727	20,675	20,743	20,817
Profit/(Loss) before tax	10,688	10,814	7,109	15,369	20,846
Provision for Taxation	0	1,213	797	1,723	2,337
<b>Profit/(Loss) after tax</b>	<b>10,688</b>	<b>9,602</b>	<b>6,312</b>	<b>13,646</b>	<b>18,509</b>

Source: Company, YES Sec – Research

## Exhibit 5: Balance sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' Funds:					
Share Capital	14,359	14,360	14,360	14,360	14,360
Reserve and surplus	61,056	70,671	74,362	82,340	93,162
Policyholders' Funds					
Policy Liabilities	473,556	602,156	767,962	964,382	1,197,155
Provision for Linked Liabilities	880,368	1,277,704	1,398,207	1,536,786	1,696,152
Fair Value change	(1,870)	30,622	30,622	30,622	30,622
Funds for future appropriation	12,327	13,532	16,238	19,486	23,383
<b>Sources of Funds</b>	<b>1,527,049</b>	<b>2,134,995</b>	<b>2,437,253</b>	<b>2,809,347</b>	<b>3,247,248</b>
Investments - Shareholders	74,209	100,902	125,411	157,800	193,952
Investments Policyholders	1,438,353	2,021,217	2,297,586	2,622,200	3,003,652
Fixed Assets	4,776	4,572	4,822	5,072	5,322
Net Current Assets	5,080	1,676	2,806	17,647	37,694
Misc. Expenditure	0	0	0	0	0
<b>Application of funds</b>	<b>1,527,049</b>	<b>2,134,995</b>	<b>2,437,253</b>	<b>2,809,347</b>	<b>3,247,248</b>

Source: Company, YES Sec – Research

## Exhibit 6: EV Walk

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Opening EV</b>	216,240	230,320	291,090	326,573	375,345
Unwind of Discount	17,250	16,610	20,958	23,840	27,775
Value of New Business	16,050	16,210	23,025	27,932	33,892
Operating Assumption Changes	(2,250)	3,090	2,000	2,000	2,000
Operating Experience Variance	1,840	(850)	(4,500)	1,000	1,000
<b>EV Operating Profit (EVOP)</b>	<b>32,890</b>	<b>35,060</b>	<b>41,483</b>	<b>54,771</b>	<b>64,668</b>
Economic Variance	(14,760)	25,670	0	0	0
<b>EV Profit</b>	<b>18,130</b>	<b>60,730</b>	<b>41,483</b>	<b>54,771</b>	<b>64,668</b>
Net Capital Inflow / Outflow	(4,050)	40	(6,000)	(6,000)	(6,000)
<b>Closing EV</b>	<b>230,320</b>	<b>291,090</b>	<b>326,573</b>	<b>375,345</b>	<b>434,012</b>

Source: Company, YES Sec – Research

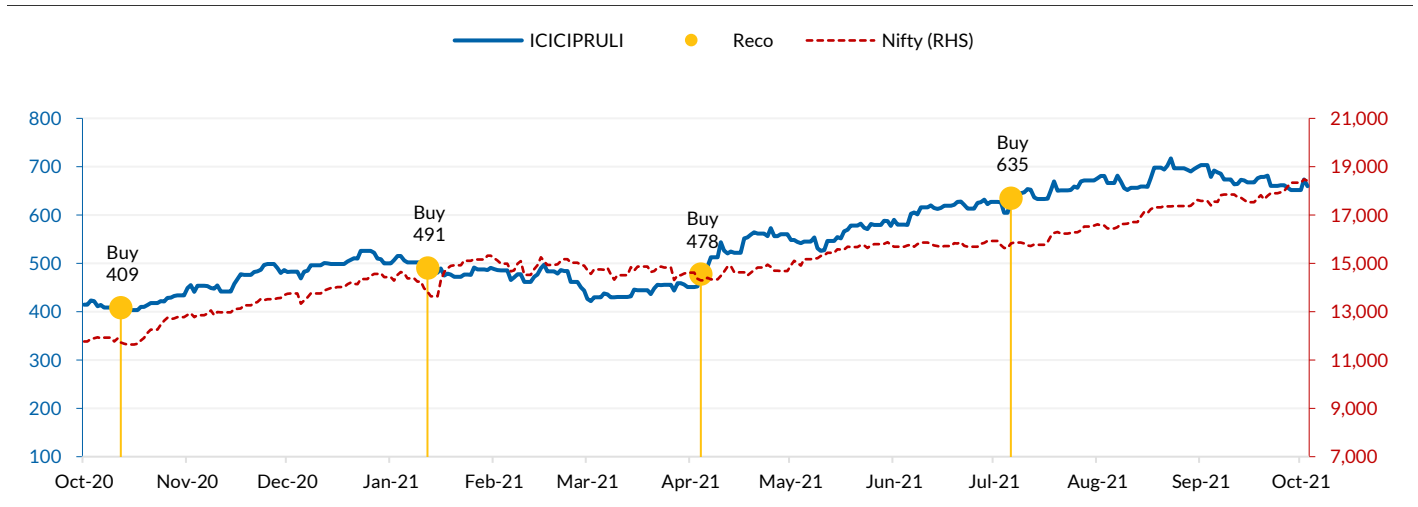
## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth (%) - P&amp;L</b>					
New business premium	20.5%	5.9%	29.2%	17.6%	17.7%
Renewal premium	1.8%	7.5%	0.9%	6.7%	9.2%
Net premium	7.5%	6.4%	13.8%	11.4%	13.1%
PAT	-6.3%	-10.2%	-34.3%	116.2%	35.6%
VNB	20.9%	1.0%	42.0%	21.3%	21.3%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	-4.9%	40.3%	14.2%	14.7%	15.0%
Total Assets	-4.2%	39.8%	14.2%	15.3%	15.6%
Embedded value	6.5%	26.4%	12.2%	14.9%	15.6%
<b>Profitability ratio (%)</b>					
VNB Margin	21.7%	25.1%	27.0%	27.8%	28.7%
<b>Expense metrics (%)</b>					
Commission ratio	4.8%	4.3%	4.3%	4.3%	4.3%
Opex ratio	8.7%	7.7%	7.9%	7.9%	7.9%
Expense ratio	13.5%	12.0%	12.2%	12.2%	12.2%
<b>Persistency (%)</b>					
Conservation Ratio	76.0%	76.0%	82.0%	82.0%	82.0%
<b>Return ratios (%)</b>					
RoEV	15.2%	15.2%	14.3%	16.8%	17.2%
ROE	14.2%	11.3%	7.1%	14.1%	17.2%
RoA	0.7%	0.5%	0.3%	0.5%	0.6%
<b>Investment Return (%)</b>					
Invest. Yield - Sh.	8.6%	8.8%	8.4%	8.5%	8.4%
Invest. Yield - Ph.	-8.5%	27.4%	17.0%	12.8%	12.8%
<b>Underwriting</b>					
Claims ratio	58.9%	64.7%	69.6%	66.2%	66.7%
Claims / AUM	12.8%	10.7%	11.4%	10.6%	10.5%
<b>Per share data (Rs)</b>					
EPS	7.4	6.7	4.4	9.5	12.9
VNBPS	11.18	11.29	16.03	19.45	23.60
BVPS	52.5	59.2	61.8	67.3	74.9
EVPS	160.4	202.7	227.4	261.4	302.2
<b>Valuation (x)</b>					
P/E	88.6	98.7	150.1	69.4	51.2
P/VNB	59.0	58.4	41.1	33.9	28.0
P/BV	12.6	11.1	10.7	9.8	8.8
P/EV	4.1	3.3	2.9	2.5	2.2

Source: Company, YES Sec – Research



## Recommendation Tracker



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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit

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2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

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