

ICICI Prudential Life Insurance

BSE SENSEX
52,266S&P CNX
15,557

CMP: INR497 TP: INR630 (+27%)

Buy

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Bloomberg	IPRU IN
Equity Shares (m)	1,435
M.Cap.(INRb)/(USD\$b)	714 / 9.1
52-Week Range (INR)	725 / 430
1, 6, 12 Rel. Per (%)	1/-3/-18
12M Avg Val (INR M)	958
Free float (%)	26.6

Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Net Premiums	363.2	408.9	472.0
Surplus / Deficit	21.9	24.1	26.7
Sh. holder's PAT	7.5	8.4	10.8
NBP growth unwt'd (%)	17.2	20.0	20.0
APE growth - (%)	19.7	20.8	22.1
Tot. Premium growth (%)	4.8	11.8	15.5
VNB margin (%)	28.0	28.5	28.7
RoE (%)	8.2	8.9	10.7
RoEV (%)	8.7	14.3	16.7
Total AUMs (INRt)	2.4	2.7	3.2
VNB (INRb)	21.7	26.6	32.8
EV per share	220.3	251.9	294.1

Valuations

P/EV (x)	2.2	1.9	1.7
P/EVOP (x)	22.0	13.5	11.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	73.4	73.4	73.5
DII	4.7	4.3	4.3
FII	16.4	16.9	16.5
Others	5.5	5.4	5.7

FII Includes depository receipts

Successful transformation to a more balanced player

Protection & non-par savings remain focus segments; reiterates VNB doubling guidance

- ICICI Prudential Life's (IPRU) Annual Report reaffirms the company's focus on steadily diversifying its product mix, especially, the non-par savings & protection segment.
- The addition of new-age partners and a wider presence across traditional channels will boost its business growth. The share of banca channel (excluding ICICI Bank) has increased to 14% in FY22 from 5% in FY18. These initiatives will provide the company with diversification benefits and drive an optimal business mix, thereby supporting margins.
- IPRU reiterated its guidance to double FY19 Value of New Business (VNB) by FY23 led by its 4P strategy.
- IPRU has reported 34% YoY growth in individual WRP in FY23 YTD and we estimate ~21% CAGR in new business APE and 23% CAGR in VNB over FY22-24E. We reiterate our Buy rating with a revised PT of INR630 (2.1x FY24E EV).

On track to achieve guidance of doubling FY19 VNB by FY23E

IPRU remains on-course to double FY19 VNB by FY23. It continues to execute its 4P strategy of Protection focus, Premium growth, Persistency improvement, and Productivity enhancement. Wider product offerings, newer channels of distribution and superior customer service are key enablers of this strategy. VNB margins have improved sharply over the years and are likely to remain resilient, aided by further improvement in the company's product mix. We estimate VNB growth to be mainly driven by premium growth rather than margin enhancement, going forward.

Premium mix more balanced; ULIP share declines to 48% from 80% in FY19

IPRU has successfully transformed and diversified its product mix over the last few years. Having shed its singular focus on ULIPs, its balanced product mix is now evident from the decline in the share of ULIPs to 48% in FY22 from 80% of APE in FY19. The share of traditional savings and protection has increased from 9% each in FY19 to 27% and 17% in FY22, respectively. With improving life expectancy and increasing awareness about retirement products, the management is trying to explore the highly underpenetrated annuity segment, which is fast gaining traction.

Protection and Annuity remain key growth opportunities

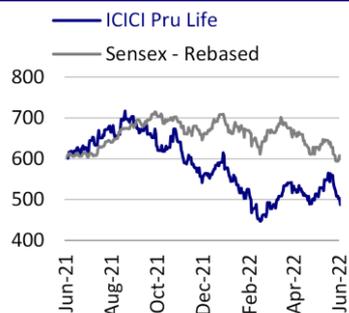
Protection and Annuity segments remain the key focus areas and offer a long growth runway. Demand for retail protection is holding well despite reinsurers-led price hike. As supply side challenges abate, we expect retail protection growth to improve. During FY22, IPRU opportunistically focussed on group-term segment and overall the segment contributed 43% of VNB in FY22. IPRU is now focussed on expanding the contribution from its annuity business. At present, annuity contributes 4% of APE, while its share in NBP has improved to 19% in FY22 from 7% in FY19.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock Performance (1-year)**Mix of non-ICICI Bank banca partners has increased to 14% from 4% in FY19**

With the intention to reduce focus on ICICI Bank as a distribution partner, IPRU formed a slew of partnerships over the last few years. It is gradually moving toward a digitally-enabled, omni-channel distribution model with presence across all platforms and customer touchpoints. Recent banca partnerships with IDFC First Bank, IndusInd Bank, RBL Bank, and AU Small Finance Bank have started to yield results. The share of non-ICICI Bank has increased from 4% of APE in FY19 to 14% in FY22. During the year, it added ~24K individual agents and formed 112 new partnerships. Overall, it is expanding its distribution network across all channels and strengthening its reach by closely mapping its distribution segments with customer segments and products.

Persistency trends steady; cost-ratios rise on increased business investments

IPRU's persistency ratios improved across most cohorts during FY22. While 13M persistency ratio dipped marginally by 30bps to 84.6%, 25M and 61M persistency ratio improved 440bps and 580bps to 77.3% and 54.7%, respectively. IPRU continues to expand its innovative capabilities by leveraging new age technologies across the customer lifecycle. In FY22, IPRU increased spends on enhancing distribution channels and building a stronger brand. As a result, Cost/TWRP increased to 18.6% in FY22 from 14.8% in FY21.

Worst of COVID impact absorbed in FY22

Owing to the impact of COVID-19, the last few years have been extremely challenging for life insurers with increased distributions, resulting from spikes in mortality. A surge in the number of claims during the second wave of the pandemic had a significant impact on the statutory profits in FY22. The frequency of claims has tapered down in Q3 and Q4, consistent with global trends. During FY22, the company received COVID claim intimation of INR10.2b (net of reinsurance) and now it carries INR0.24b as reserves for delayed claims. Heightened mortality charges dragged Operating RoEV to 11% in F22, which otherwise would have been 15% for FY22.

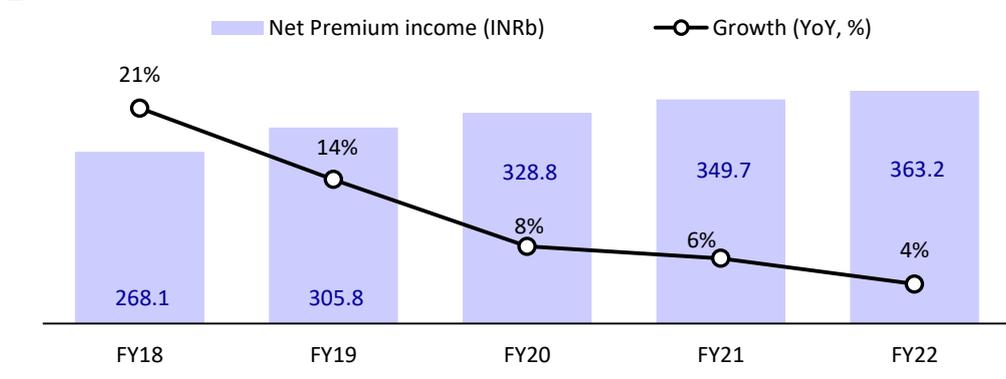
Valuation and view

IPRU has maintained a steady traction in VNB growth, led by a healthy product mix and APE growth, aided by a more balanced distribution mix. The share of higher margin products such as protection and annuity/non-par savings has increased in recent years, thus reducing dependence on ULIPs. On the distribution side, the share of banks (excluding ICICI Bank) has increased over the years (off a low base), supporting the diversification in its distribution mix. The increase in agent recruitment and the forming of new partnerships will continue to support premium growth. We expect VNB margins to improve slightly and project IPRU to deliver 21% and 23% CAGR in new business APE and VNB over FY22-24E, respectively, thus enabling an operating RoEV of 16.9% in FY24E. **We reiterate our Buy rating with a revised TP of INR630 (premised on 2.1x FY24E EV).**

Successful execution to a well-balanced product/distribution mix

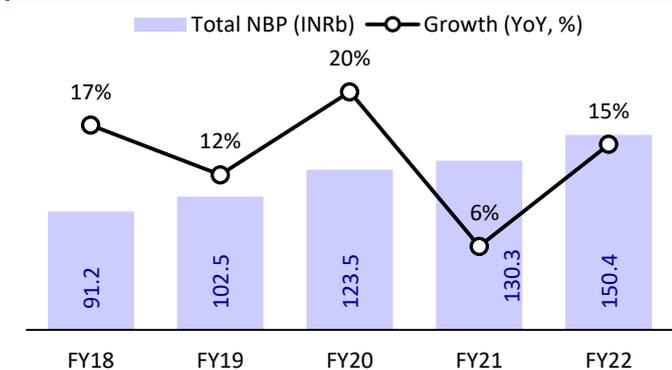
- IPRU aspires for deeper penetration in under-served customer segments, larger distribution network with the help of new partners and improved productivity from the existing ones. Among savings products, the company has increased its focus on under-penetrated retirement products such as pension and annuity.
- Despite the impact of the pandemic in FY22, IPRU posted an overall growth of 20% in APE, with all the product segments contributing adequately. On the distribution side, growth in banca at 10% YoY was soft, compared to other channels
- Based on RWRP, IPRU maintained its market share at 7.2% of the total industry in FY22

Exhibit 1: Net premium income grew at 4% YoY; slower than NBP/APE growth due to pressure on renewal premiums



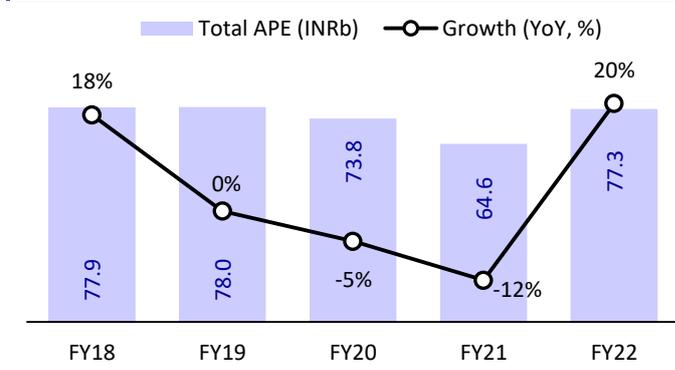
Sources: MOFSL, Company

Exhibit 2: NBP grew 15% YoY in FY22 as growth was higher in regular premium products compared to single premium



Sources: MOFSL, Company

Exhibit 3: Total APE saw a bounce of 20% YoY after a dull FY20/21



Sources: MOFSL, Company

Exhibit 4: Successfully diversified from singular focus on ULIPs to a balanced product mix with increasing share of annuity and protection (%)

Product Mix – On the basis of APE	FY18	FY19	FY20	FY21	FY22
Savings	94.3	90.7	84.9	83.8	83.0
-Linked	81.9	79.6	64.7	47.8	48.3
-Non-Linked	10.9	9.0	15.5	27.5	27.4
-Annuity	0.4	0.9	1.4	3.5	3.9
-Group	1.1	1.3	3.3	4.9	3.4
Protection	5.7	9.3	15.1	16.2	17.0

Sources: MOFSL, Company

Exhibit 5: Distribution mix getting broad based with the addition of banca partners and new age tie-ups; ICICI Bank contributes only 25% now

Product Mix (%)	FY18	FY19	FY20	FY21	FY22
Bancassurance	52.3	55.8	50.8	42.3	38.9
-ICICI Bank	n.a.	n.a.	45.6	31.3	24.9
-Non-ICICI Bank	n.a.	n.a.	5.1	11.0	14.0
Agency	25.4	21.7	21.2	23.8	23.6
Direct	13.5	12.0	12.6	12.5	12.9
Partnership Distribution	6.0	5.9	7.4	9.1	9.3
Group	2.7	4.7	8.0	12.3	15.3

Sources: MOFSL, Company

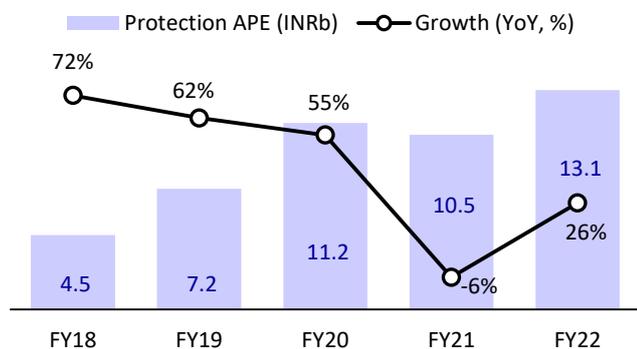
Exhibit 6: IPRU Product plan description

Business segments	Products	Details
Non-Linked	ICICI Pru Guaranteed Income for tomorrow	❖ This is a guaranteed savings plan and provides customers benefits of guarantee, life insurance cover and tax-saving
	ICICI Pru Guaranteed Income for tomorrow (Long-Term)	❖ This is a savings and protection oriented life insurance plan which helps customers to provide a financial safety-net to the family, along with guaranteed benefits
	ICICI Pru Future Perfect	❖ This is a participating insurance plan which provides attractive returns through equity participation with the comfort of a guarantee
	ICICI Pru Lakshya	❖ This is a specially designed participating product to cater to diverse financial needs of the customer
	ICICI Pru Cash Advantage	❖ This is a participating insurance plan which offers a guaranteed amount every month or year for ten years
	ICICI Pru Anmol Bachat	❖ This is a micro-insurance plan that offers dual benefits of savings and protection at affordable premiums starting as low as INR200/month.
	ICICI Pru Savings Suraksha	❖ This is a participating savings insurance plan and offers the benefits of guaranteed additions and regular bonuses
Protection	ICICI Pru iProtect Smart	❖ This is an innovative term insurance plan which provides customers and their families a complete financial safety
	ICICI Pru Heart Cancer Protect	❖ This health plan provides coverage against minor and major conditions related to heart and cancer at affordable premiums
	ICICI Pru Precious Life	❖ This is a unique term plan specifically designed to provide a life cover for individuals with existing health concerns
	ICICI Pru iProtect Return of Premium	❖ This is a comprehensive term plan with return of premium. It provides protection at every life stage and ensures return of premium as lump-sum or income on survival
	ICICI Pru Saral Jeevan Bima	❖ This is a simple term plan designed to meet protection needs of customers by providing a life cover at affordable rates
ULIP	ICICI Pru Signature	❖ This one-of-its-kind unit-linked plan returns all premium allocation charges to the customers not just once, but multiple times. It offers flexibility to design a financial plan to meet specific needs
	ICICI Pru Life Time Classic	❖ This product offers four portfolio strategies to its customers: Target Asset Allocation, Trigger Portfolio, Lifecycle-based Portfolio, and Fixed Portfolio
	ICICI Pru Smart Life	❖ This savings plan fulfils the customers' goals even in their absence as all future premiums are paid by the Company.
	ICICI Pru Guaranteed Wealth Protector	❖ This is a unique plan that offers the potential for high returns by investing a portion of the customer's money into equity. It also provides the dual assurance of capital guarantee and life cover.
	ICICI Pru1 Wealth	❖ This is a single premium, cost-efficient plan which enables customers to achieve financial goals with a one-time premium payment.
Group Term	ICICI Pru Group Term Plus	❖ This is a one-year renewable term plan which offers protection to members of employer-employee and non-employer-employee groups at affordable premiums
	ICICI Pru Super Protect Credit	❖ This is a product offering comprehensive financial protection to customers availing loans from financial institutions
	ICICI Pru Super Protect Life	❖ This plan offers life cover to members belonging to a specific group in a cost effective manner. It also offers flexibility to customise payout options, as per convenience of customer.
	ICICI Pru Shubh Raksha Credit	❖ This credit-linked group micro-insurance plan offers financial protection to individuals availing small-ticket loans from financial institutions.
Pension	ICICI Pru Easy Retirement	❖ This unit-linked pension product helps customers plan to receive a regular income after retirement
Annuity Plans	ICICI Pru Guaranteed Pension Plan	❖ This is designed as a one-stop solution to meet customers' income needs during retirement. It not only provides a guaranteed lifelong income, but also provides the flexibility to receive income either immediately or defer it to a later date
	ICICI Pru Saral Pension Plan	❖ This is designed as a single premium annuity plan to offer a simple solution in the form of lifelong guaranteed income. In addition, it provides liquidity on diagnosis of specified critical illness.
	ICICI Pru Guaranteed Pension Plan Flexi	❖ This is designed as a regular pay, deferred annuity plan. The objective is to systematically contribute and build retirement savings and receive guaranteed lifelong income.

Source: MOFSL, Company

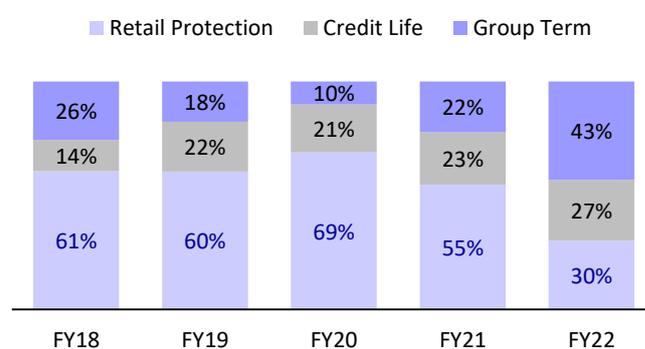
Continues to focus on protection and annuity

Exhibit 7: Protection APE grew 26% YoY led by opportunistic growth in Group Term compensating for Retail Protection



Source: Company, MOFSL

Exhibit 8: Share of retail protection was low in FY22 due to supply side challenges – price hike and a cautious outlook



Source: Company, MOFSL

- Protection segment remains a focus area for IPRU as it is significantly underpenetrated. It is also committed to bridge the protection gap in India.
- It plans to increase the growth by offering protection products across channels, penetrating online term insurance market and partnering with loan providers to offer coverage against loans.
- During the year, reinsurers increased prices for protection due to COVID led mortality spike. However, IPRU has not passed the same completely to its customers. It made changes in its approach towards risk selection to underwrite better quality customers along with higher retention of risk to maintain profitability. This should keep margins intact.
- The Company is consciously trying to underwrite lower risk customers with lighter mortality. In this context, it is retaining a higher share of risk to maintain profitability of the business.
- Retail protection has suffered in the last 2 years due to pandemic led supply side constraints such as resistance to visit medical centres and revised underwriting guidelines.
- To make up for the softness in retail, IPRU has stepped up its efforts in the group segment, specifically on group term products.
- IPRU maintains its private sector market leadership in new business sum assured with a market share of 13.4% in FY22 from 12.5% in FY21.

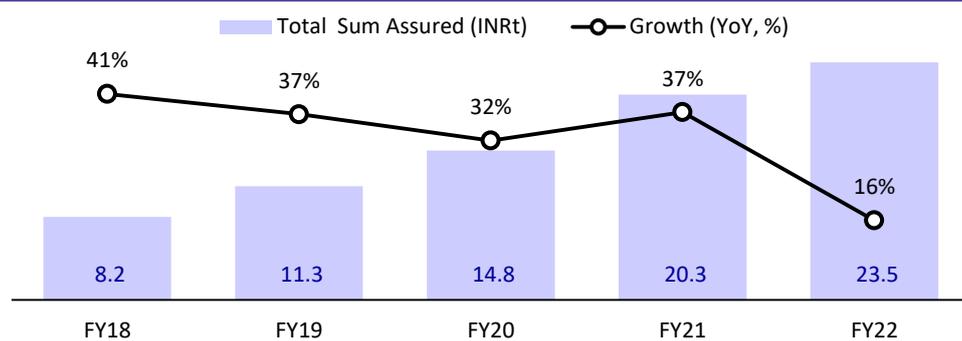
Opportunistic scale up of Group Term with a focus on corporates having high rate of vaccination among employees; Demand for Group term was also strong

Exhibit 9: Protection has grown at 31% CAGR between FY18-22

Protection APE (INRb)	FY18	FY19	FY20	FY21	FY22
Retail Protection	2.7	4.4	7.7	5.7	3.9
Credit Life	0.6	1.6	2.4	2.4	3.5
Group Term	1.2	1.3	1.1	2.3	5.7
Total Protection business	4.5	7.2	11.2	10.5	13.1
New Business Sum Assured	n.a.	4,428	5,712	6,167	7,731

Source: MOFSL, Company

Exhibit 10: Total Sum Assured grew at 30% CAGR between FY18-22, in line with protection premium



Source: MOFSL, Company

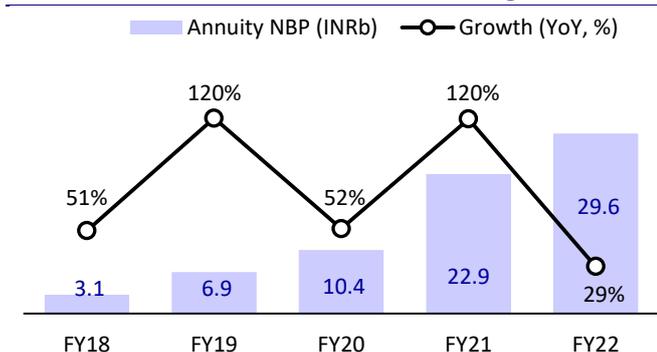
Exhibit 11: Percentage of risk retained in Individual business remains steady at 38% in FY22; risk retained in Group business inches up marginally to 70%

Particulars	FY18	FY19	FY20	FY21	FY22
Individual business					
Risk retained	43%	41%	38%	38%	38%
Risk reinsured	57%	59%	62%	62%	62%
Group business					
Risk retained	70%	76%	73%	69%	70%
Risk reinsured	30%	24%	27%	31%	30%

Source: Company

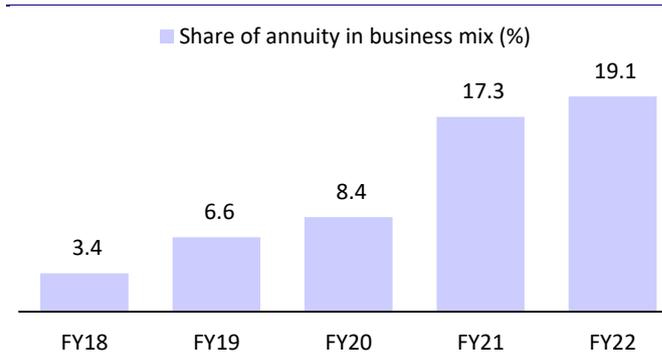
- India has one of the lowest pension assets to GDP ratio, estimated at 5.8% in 2021, as compared to various other countries. Also, India has one of the largest working population in the world, but only about 10% of the work force is covered under various pension schemes.
- With increase in life expectancy for males and females, the post retirement period (after 60 years) has increased. Thus, there is more reception for retirement products like annuities.
- Annuities provide for a series of guaranteed payout to the annuitant at regular intervals in return for a certain sum paid upfront or an option to pay premium for certain period. Therefore, they are well suited and are becoming increasingly popular as an effective tool for post-retirement life.
- Like peers, IPRU is focussed on expanding the contribution of annuity business and scaling it up further as it is significantly underpenetrated in the country.
- It is also cognisant of the interest risk involved in the contract and therefore monitors and manages the investment risk appropriately.

Exhibit 12: Annuity NBP grew at a robust CAGR of 76% YoY between FY18-FY22; Focus remains on scaling it further



Source: MOFSL, Company

Exhibit 13: As a result, share of annuity in NBP mix has risen from 3% in FY18 to 19% in FY22

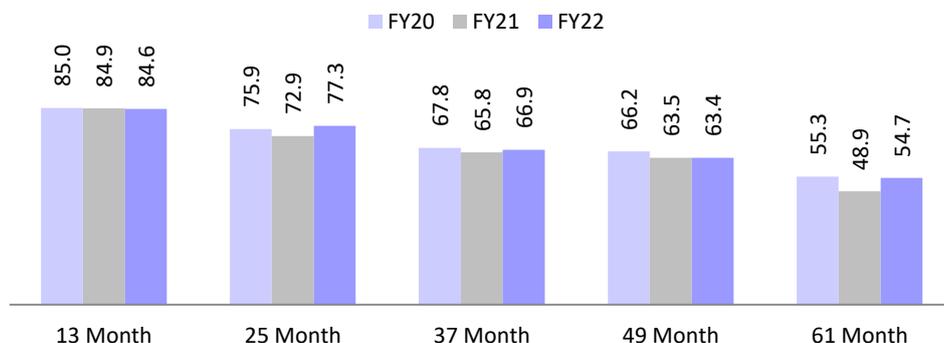


Source: MOFSL, Company

Improving operating metrics to help achieve VNB guidance

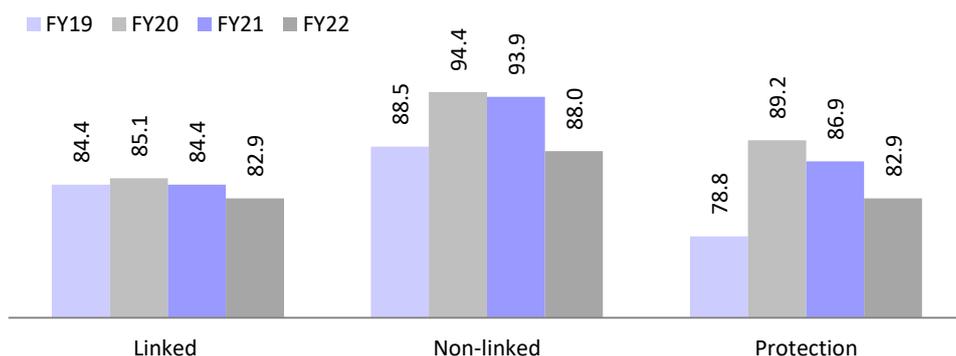
- IPRU attaches a high importance to persistency ratio as one of the most effective indicators of quality of sale and barometer of customer experience
- Therefore, it endeavors to maintain a high level of persistency ratio as it drives value for insurers as well as customers.

Exhibit 14: Persistency ratio in a narrow range over the last few years



Source: MOFSL, Company

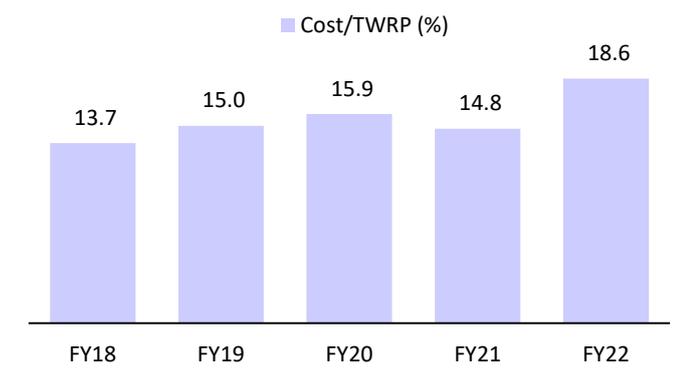
Exhibit 15: Persistency ratio for key product categories



Source: MOFSL, Company

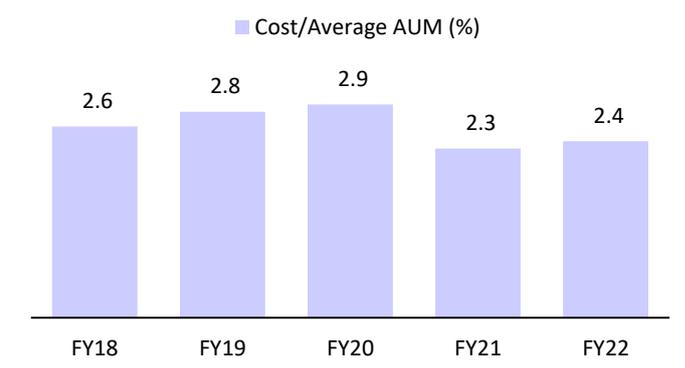
- IPRU is making continuous investments in digital technologies with an aim to become future-ready, achieve higher productivity and drive cost efficiencies.
- It is combining in-depth customer understanding and data analytics to position itself for growth and productivity gains. Productivity gains are targeted at improving cost ratios.
- Due to improved economic momentum in FY22, IPRU has increased its focus on expanding distribution presence and strengthening the brand. Therefore, discretionary spends were back in FY22 after some curtailment in FY21, led by the pandemic.

Exhibit 16: Pressure on opex ratio in FY22 due to high discretionary spends to augment distribution capacity



Source: MOFSL, Company

Exhibit 17: Cost to Average AUM also saw a minor uptick due to increased investments in brand building



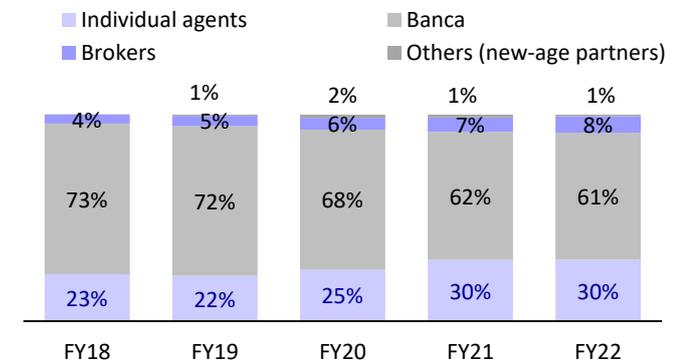
Source: MOFSL, Company

Exhibit 18: Overall Commission ratio increased to 4.2% in FY22 led by higher commissions on single premium products like annuity

Commission (INR b)	FY20				FY21				FY22			
	First	Single	Renewal	Total	First	Single	Renewal	Total	First	Single	Renewal	Total
Premium	65.1	59.8	209.4	334.3	51.9	80.4	225.1	357.3	59.7	95.4	219.6	374.6
Commission	10.8	0.6	3.8	15.2	9.3	1.0	4.0	14.3	10.3	1.4	4.1	15.9
Commission (%)	16.5%	1.1%	1.8%	4.6%	17.9%	1.3%	1.8%	4.0%	17.3%	1.5%	1.9%	4.2%

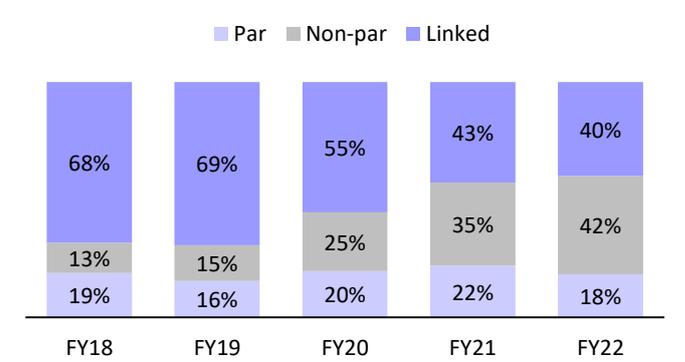
Source: Company, MOFSL

Exhibit 19: Banca continues to garner maximum commission share while agency stable at 30%



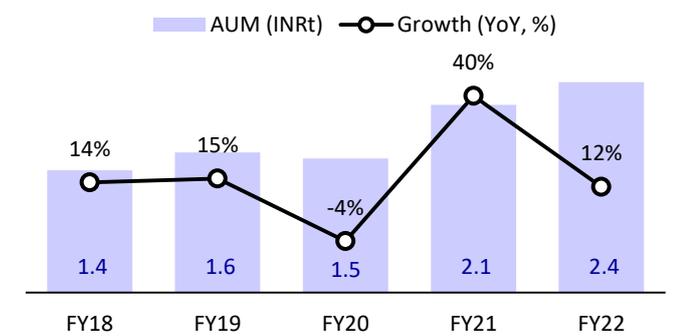
Source: Company, MOFSL

Exhibit 20: As mix of non-par savings rises, proportion of commission paid follows similar trajectory



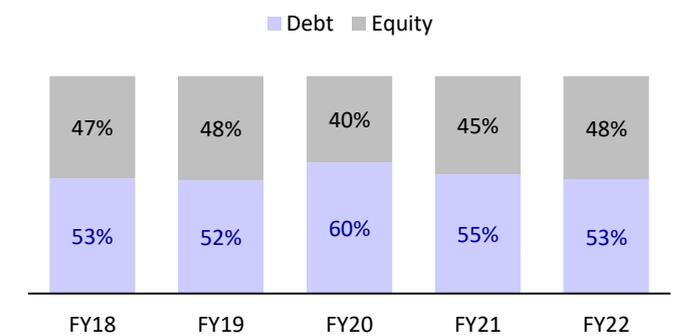
Source: Company, MOFSL

Exhibit 21: AUM grew at 15% CAGR between FY18-22



Source: MOFSL, Company

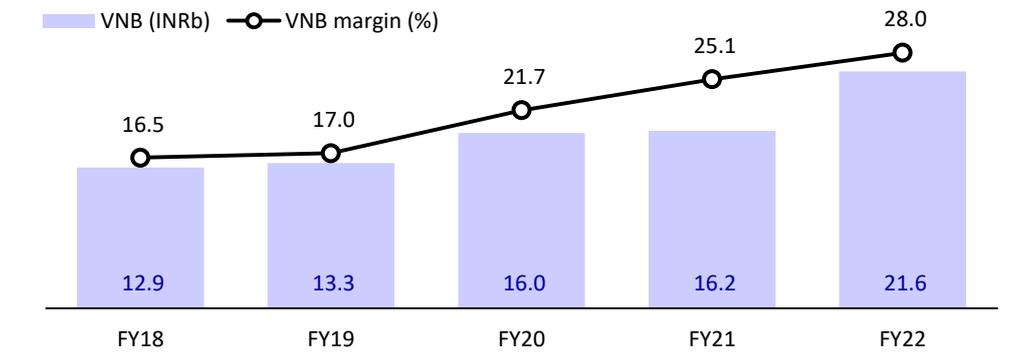
Exhibit 22: Share of Debt in AUM marginally up in FY22



Source: MOFSL, Company

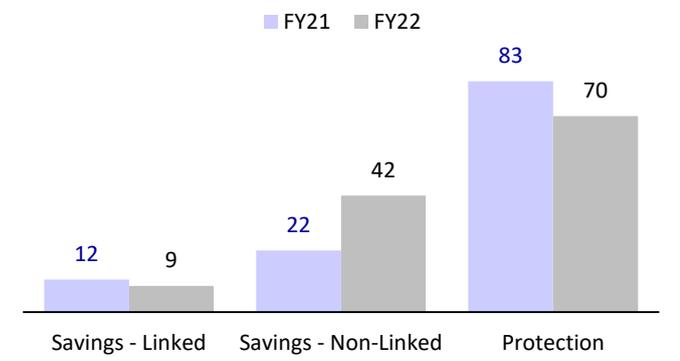
- IPRU has a stated aspiration of doubling the absolute level of FY19 VNB by FY23 through 4P strategy - Protection focus, Premium growth, Persistency improvement and Productivity enhancement
- Despite challenges, management is confident of meeting the same with innovative products, distribution reach and superior customer service.
- Further, diversification in sources of VNB from a high focus on ULIPs a couple of years back to a more equitable mix is encouraging and prepares the company to withstand different economic cycles.
- Protection contributes 43% of total VNB for FY22 (v/s 60% in FY20) while the share of non-linked business in total VNB has increased to 41% v/s 14% in FY20.

Exhibit 23: VNB has grown at a CAGR of 14% between FY18-22; Significant improvement in VNB margin led by a more optimal product mix



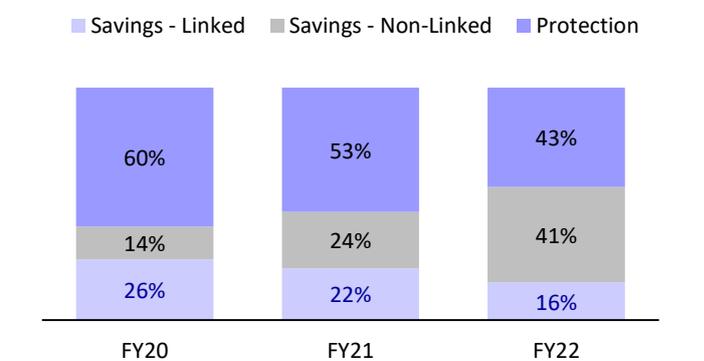
Source: MOFSL, Company

Exhibit 24: Protection has the highest margin among different product categories



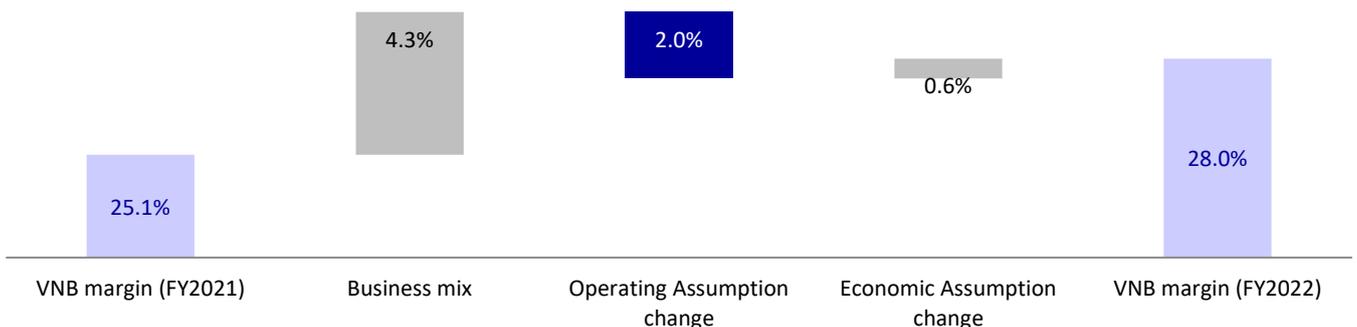
Source: Company, MOFSL

Exhibit 25: With rising focus on annuity/non-par savings, contribution of same in VNB has risen significantly



Source: Company, MOFSL

Exhibit 26: Improvement in VNB margin led primarily by a better business mix, partially offset by stronger operating assumptions



Source: MOFSL, Company

- **IPRU has grown** its embedded value at 14% CAGR between FY18-22 to reach INR316b. During FY22, accretion to EV was lower than usual, primarily due to mortality variance.
- Mortality variance included an impact of INR10.1b from COVID-19 claims on the non-micro insurance portfolio. Further, a spike in non-COVID-19 claims was observed during second wave of COVID-19 in 1QFY22. This spike was a meaningful proportion of the aggregate non-COVID-19 claims, especially in the Group Protection portfolio.
- The true underlying mortality patterns are expected to emerge over FY23, provided there is no further spike in COVID-19 cases. In the absence of any COVID waves, we do expect a normalization to mean.
- Excluding mortality variance, the Return on Embedded Value (ROEV) was 15.0% for FY2022.

Exhibit 27: EV has grown at 14% CAGR between FY18-22; Operating RoEV took a hit in FY22 due to COVID led mortality spike

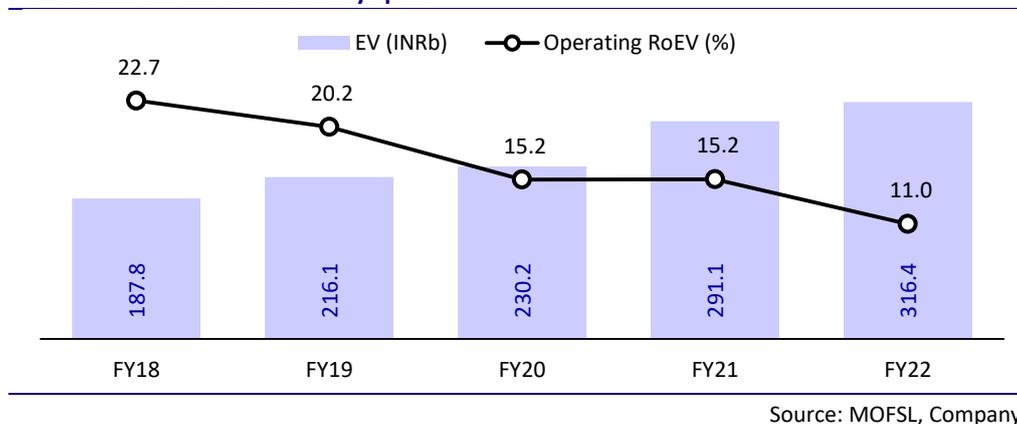
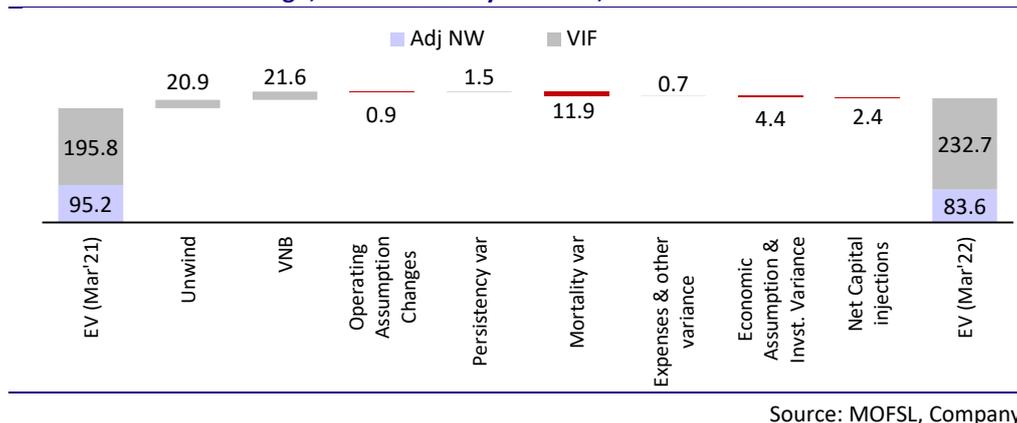
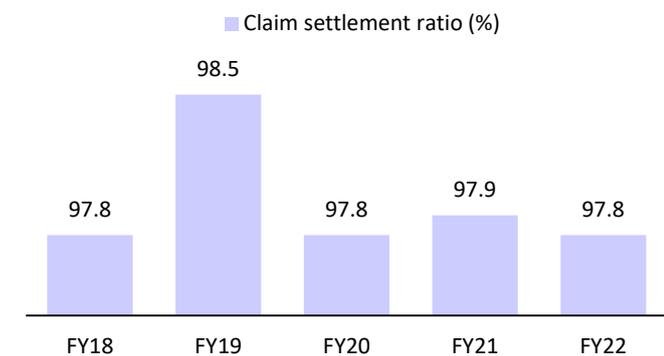


Exhibit 28: EV walkthrough; Ex. Of mortality variance, RoEV stood at 15% in FY22



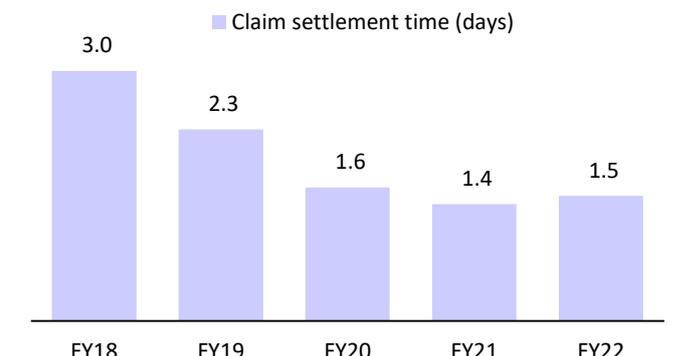
Walks the talk on customer service metrics

Exhibit 29: Claim settlement ratio remains steady



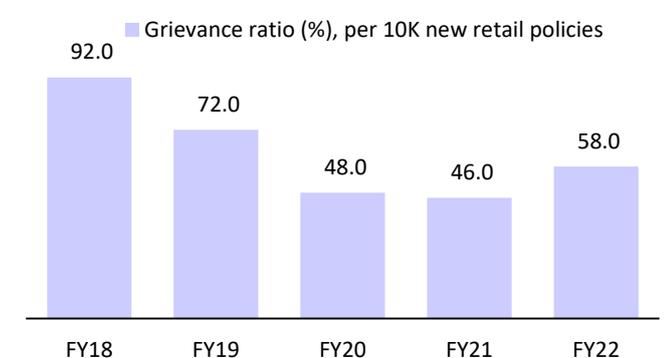
Source: Company, MOFSL

Exhibit 30: Avg. Claim Settlement time stable



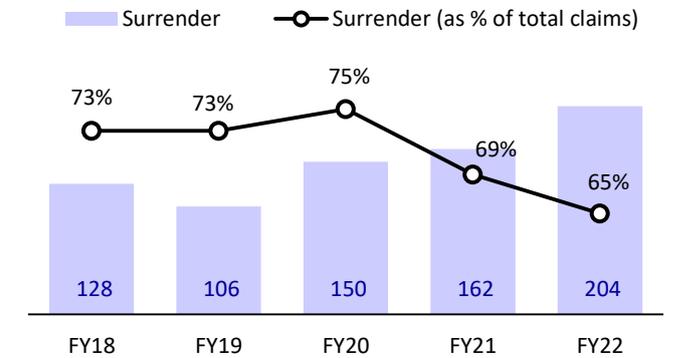
Source: Company, MOFSL

Exhibit 31: Grievance Ratio has inched up to 58



Source: Company, MOFSL

Exhibit 32: Surrenders as % of total claims declined further



Source: Company, MOFSL

- During FY22, IPRU received death claims due to COVID to the extent of INR21.0b (gross) and INR10.2b (net of reinsurance). However, this has been tapering off since October, 2022. With declining severity and frequency of cases, we expect the trend to normalize in FY23.
- As a conservative practice, it carries a provision of INR0.2b for delayed claims on account of COVID.
- IPRU is constantly adopting new digital tools and technology to innovate and enhance all possible customer needs during a policy life cycle – from onboarding to servicing to claims processing

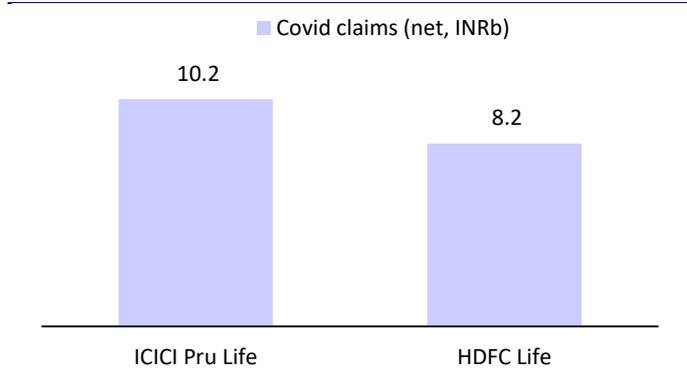
Exhibit 33: Claims paid by IPRU over the years...

Benefits Paid (net) (INRb)	FY19	FY20	FY21	FY22
Surrender claims	106	150	162	204
Maturity & Annuity claims	25	28	40	46
Mortality (death) claims	11	16	27	56
Survival benefits and other claims	5	5	6	9
Amount recovered from re-insurer	(4)	(6)	(10)	(21)
Total	143	194	226	294

Source: MOFSL, Company

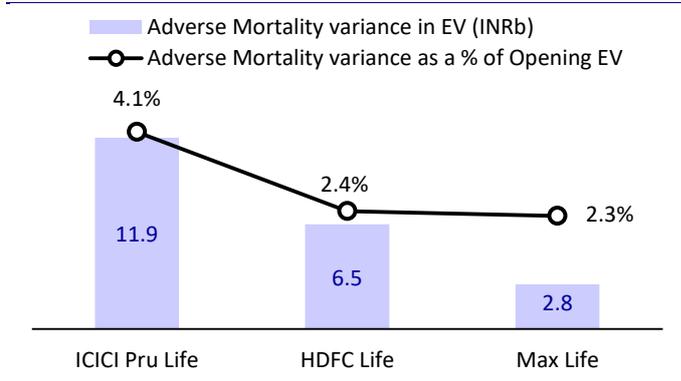
Analyzing the COVID impact

Exhibit 34: COVID claims, net of reinsurance impacted financial performance in FY22



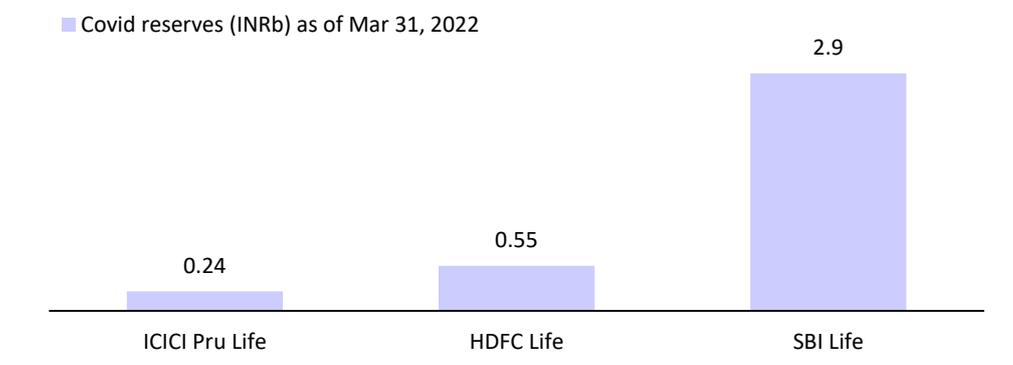
Source: Company, MOFSL

Exhibit 35: Higher mortality claims knocked EV by low single digit during FY22



Source: Company, MOFSL

Exhibit 36: SBI Life carries the highest COVID reserves, going into FY23



Source: MOFSL, Company

- As per Life Insurance Council figures, the industry settled approximately 250,000 COVID-19 claims during FY22. A large part of these claims were settled by the larger players, function of a higher market share in protection.
- As a result, COVID claims were heightened and impacted financial performance and Embedded Value in FY22. EV took a knock in the range of 2-4% due to excess mortality claims and reserves built by individual insurers.
- However, claims intimation started to drop since 3QFY22 and continues to show a declining trend. Given the uncertainty with respect to delayed reporting, most life insurers continue to carry provisions in books of accounts as at March 31, 2022 for such delayed claims.
- The true underlying mortality patterns are expected to emerge over FY23 provided there is no further spike in COVID-19 cases.

Other takeaways from the Annual Report

Parameters	Key highlights
Solvency ratio	❖ Solvency ratio of IPRU declined to 205% in FY22 from 217% in FY21 due to higher share of higher capital consumption/margin products like annuity and non-par savings. This is well above regulatory threshold of 150%. The company continuously monitors the same.
New business strain	❖ Contributions from Shareholder's account increased to INR21.6b v/s INR15.8b in FY21 primarily on account of higher new business strain arising from growth in non-PAR segment.
Network	❖ Company reaches its customers through 471 offices in 414 locations as of March 31, 2022 ❖ IPRU has 15,530 employees and 198,924 advisors as of March 31, 2022
Embedded Value impact in FY22	❖ Embedded Value Operating Profit (EVOP) for FY22 was INR31.9b as compared to INR35.1b in FY21 ❖ The operating assumption change impact of INR(0.9)b includes strengthening of mortality assumptions for certain segments ❖ Persistency variance increased from INR1.1b in FY20 to INR1.5b in FY22 as persistency improved across cohorts ❖ The most significant impact on EV during FY22 was on account of mortality variance. A negative impact of INR11.9b was registered due to higher number of death claims due to COVID-19. However, the spike in cases started to ebb since October, 2021 and therefore the true underlying mortality patterns are expected to emerge in FY23, in the absence of any subsequent waves. Ex. Of this variance, RoEV was 15% for FY22
Rural & Social Sector Update	❖ ~151k (v/s ~137k in FY21) policies were issued in FY22 in the rural areas constituting 23% of total policy issuances ❖ Besides, IPRU covered 1.9m lives as part of its social sector coverage. With this, coverage of social sector lives increased to 7.6% against the regulatory norm of 5%

Source: MOFSL, Company

Valuations and view

- Despite the pandemic, the life insurance industry in India is slated to enjoy a multi-decadal growth in the coming years. Continuous product innovations, based on evolving customer needs will be a key driver. With increased awareness led by COVID, transformation of life insurance from a 'push' to a 'pull' product has begun.
- A rising share of financial savings led by higher disposable incomes along with favourable demographics will enable healthy business growth for the insurers. Thus, we expect Indian insurers to trade at a premium to global insurers.
- Over the last few years, IPRU has been consciously trying to reduce its high product and distribution dependence on ULIPs and ICICI Bank. The share of ULIPs has reduced from 82% in FY18 to 48% in FY22. Similarly, the share of ICICI Bank in APE has gone down to 25% in FY22 from 46% in FY20.
- Protection, Annuity and Non-PAR savings will be the key growth drivers over the next decade as these remain highly underpenetrated and we note an increasing awareness with favorable demographics. These are higher margin products and we expect VNB margins to reach ~29% by FY24E.
- IPRU has forged a bunch of partnerships in the recent years to further enhance its distribution capability. New banca tie-ups has started to yield results and will be a key growth driver going forward. The company is also realizing the importance of being available on new-age platforms and touch points as preferred by the varied customer base.
- The management reiterated its guidance to double the FY19 VNB by FY23E, underpinned by: a) the opportunities in the long-term Savings/Protection businesses and b) improving persistency and cost ratios.
- **Buy, with Target Price of INR630:** With IPRU's healthy product mix with increased focus on non-linked segments, backed by strengthened distribution network is driving healthy premium growth. The share of banca (excluding ICICI Bank) has increased to 14% in FY22 from 4% in FY19, supporting the growth and diversification in its distribution mix. The increase in agent recruitment and forging of new partnerships will also support premium growth. We expect VNB margin to improve slightly and project IPRU to deliver 21% and 23% CAGR in new business APE and VNB over FY22-24E, respectively, thus enabling an operating RoEV of 16.9% in FY24. **We reiterate our BUY rating with a TP of INR630 (premised on 2.1x FY24E EV).**

Financials and valuations

Technical account (INR b)	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross Premiums	309.3	334.3	357.3	374.6	418.9	483.8
Reinsurance Ceded	(3.5)	(5.5)	(7.6)	(11.4)	(10.0)	(11.7)
Net Premiums	305.8	328.8	349.7	363.2	408.9	472.0
Income from Investments	102.1	(125.2)	474.4	249.7	133.1	301.1
Other Income	5.5	15.3	16.2	21.8	25.1	28.8
Total income (A)	414.0	219.4	840.8	635.6	567.1	802.0
Commission	15.5	15.9	15.0	16.7	24.4	28.0
Operating expenses	26.1	28.5	26.9	36.7	55.8	63.0
Total commission and opex	41.6	44.3	41.9	53.5	80.2	91.0
Benefits Paid (Net)	142.6	193.8	226.4	291.5	194.9	220.1
Chg in reserves	210.0	(50.6)	543.2	260.0	258.9	454.3
Provisions for doubtful debts	6.4	8.7	6.8	7.2	5.8	6.7
Total expenses (B)	400.5	196.2	818.3	612.1	539.9	772.0
(A) - (B)	13.4	23.2	22.5	23.6	27.2	29.9
Prov for Tax	1.1	1.3	1.4	1.7	3.1	3.2
Surplus / Deficit	12.3	21.9	21.1	21.9	24.1	26.7

Shareholder's a/c (INR b)	FY19	FY20	FY21	FY22	FY23E	FY24E
Transfer from technical a/c	10.8	19.9	19.8	21.6	21.7	23.5
Income From Investments	6.4	6.6	7.7	10.1	8.9	9.2
Total Income	17.3	26.5	27.5	31.7	30.6	32.7
Other expenses	0.4	0.4	0.6	1.0	1.1	1.2
Contribution to technical a/c	5.3	15.0	15.7	21.6	20.5	19.9
Total Expenses	5.6	15.8	16.7	23.8	21.6	21.0
PBT	11.6	10.7	10.8	7.9	9.0	11.7
Prov for Tax	0.2	-	1.2	0.4	0.6	0.8
PAT	11.4	10.7	9.6	7.5	8.4	10.8
Growth	-30%	-6%	-10%	-21%	11%	29%

Premium (INR b) & growth (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
NBP - unweighted	103.6	124.9	132.3	155.0	186	223
NBP - wrp	78.0	73.8	64.6	77.3	93	114
Renewal premium	205.7	209.4	225.1	219.6	233	261
Total premium - unweighted	309.3	334.3	357.3	374.6	419	484
NBP growth - unweighted	12.5%	20.5%	5.9%	17.2%	20.0%	20.0%
NBP growth - wrp	0.1%	-5.4%	-12.5%	19.7%	20.8%	22.1%
Renewal premium growth	15.2%	1.8%	7.5%	-2.4%	6.1%	11.9%
Tot. premium growth - unweighted	14.3%	8.1%	6.9%	4.8%	11.8%	15.5%

Premium mix (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
New business - un-wtd						
- Individual mix	78.5%	63.1%	61.1%	60.0%	64.0%	67.0%
- Group mix	21.5%	36.9%	40.7%	40.0%	36.0%	33.0%
New business mix - APE						
- Participating	9.0%	12.5%	14.9%	9.6%	17.0%	16.9%
- Non-participating	9.1%	18.6%	32.6%	36.8%	37.4%	37.1%
- ULIPs	82.0%	69.0%	52.5%	53.6%	45.6%	46.0%
Total premium mix - un-wtd						
- Participating	11.3%	12.0%	12.9%	12.7%	12.8%	12.3%
- Non-participating	15.3%	18.1%	23.7%	33.3%	34.6%	35.1%
- ULIPs	73.5%	69.8%	63.4%	54.0%	52.6%	52.5%

Indi. Premium sourcing mix (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
Individual agents	21.8%	21.9%	24.0%	27.6%	28.6%	29.6%
Corporate agents-Banks	55.2%	49.7%	45.5%	45.2%	45.0%	44.8%
Direct business	16.7%	20.1%	19.5%	16.3%	18.7%	18.5%
Others	6.3%	8.3%	11.0%	10.9%	7.7%	7.1%

Financials and valuations

Balance sheet (INR b)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Fund						
Share Capital	14.4	14.4	14.4	14.4	14.4	14.4
Reserves And Surplus	54.4	61.1	70.7	75.9	81.2	88.6
Shareholders' Fund	70.4	72.2	91.2	91.6	97.0	104.6
Policy Liabilities	385.5	473.6	602.2	736.8	876.8	1,188.0
Prov. for Linked Liab.	1,037.0	880.4	1,277.7	1,405.4	1,644.4	1,792.4
Funds For Future App.	10.3	12.3	13.5	13.8	15.9	18.3
Current liabilities & prov.	36.6	33.3	37.3	52.5	63.0	75.6
Total	1,630.9	1,560.4	2,172.3	2,444.4	2,727.5	3,210.8
Application of Funds					105.4	112.8
Shareholders' inv	79.9	74.2	100.9	98.5		
Policyholders' inv	400.7	467.5	635.7	773.9	909.5	1,232.1
Assets to cover linked liab.	1,109.5	970.8	1,385.5	1,508.7	1,644.4	1,792.4
Loans	2.7	4.6	6.6	9.4	10.6	12.0
Fixed Assets	4.8	4.8	4.6	4.9	5.6	6.3
Current assets	33.4	38.4	39.0	49.1	52.0	55.1
Total	1,630.9	1,560.4	2,172.3	2,444.4	2,727.5	3,210.8
Operating ratios (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
Investment yield (%)	6.8%	-8.7%	23.5%	10.9%	5.2%	10.0%
Commissions / GWP	5.0%	4.7%	4.2%	4.5%	5.8%	5.8%
- first year premiums	16.0%	16.5%	17.9%	17.3%	25.7%	24.1%
- renewal premiums	1.9%	1.8%	1.8%	1.9%	1.8%	1.8%
- single premiums	1.4%	1.1%	1.3%	1.5%	1.1%	1.1%
Operating expenses / GWP	8.4%	8.5%	7.5%	9.8%	13.3%	13.0%
Total expense ratio	13.4%	13.3%	11.7%	14.3%	19.1%	18.8%
Claims / NWP	46.6%	58.9%	64.7%	80.2%	47.7%	46.6%
Solvency margin	215%	194%	217%	205%	468%	448%
Persistency ratios (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
13th Month	86.2%	83.2%	84.9%	85.7%	86.2%	86.5%
25th Month	77.4%	75.1%	72.9%	77.2%	79.4%	80.4%
37th Month	71.0%	66.7%	65.8%	67.1%	68.9%	70.9%
49th Month	65.0%	64.6%	63.5%	63.7%	64.1%	64.7%
61st Month	58.1%	56.0%	48.9%	54.4%	56.1%	56.5%
Profitability ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
VNB margin (%)	17.0%	21.7%	25.1%	28.0%	28.5%	28.7%
RoE (%)	16.4%	15.0%	11.8%	8.2%	8.9%	10.7%
RoIC (%)	23.5%	22.0%	19.8%	15.5%	17.2%	22.3%
Operating ROEV (%)	20.2%	15.2%	15.2%	11.0%	16.4%	16.9%
RoEV (%)	15.1%	6.5%	26.5%	8.7%	14.3%	16.7%
Valuation ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
Total AUMs (INRb)	1,604.1	1,529.7	2,142.2	2,404.9	2,659.4	3,200.1
Dividend (%)	49%	24%	0%	20%	22%	24%
Dividend payout ratio (%)	74%	38%	0%	38%	37%	31%
EPS (INR)	8.0	7.4	6.7	5.3	5.8	7.5
VNB (INRb)	13.3	16.0	16.2	21.7	26.6	32.8
EV (INRb)	216.1	230.2	291.1	316.2	361.6	422.1
EV/Per share	150.6	160.4	202.8	220.3	251.9	294.1
VIF as % of EV	66%	66%	67%	74%	75%	77%
P/VIF	4.9	4.6	3.6	3.0	2.6	2.2
P/AUM (%)	44%	46%	33%	29%	26%	22%
P/EV (x)	3.3	3.1	2.4	2.2	1.9	1.7
P/EPS (x)	61.6	65.9	73.2	93.3	84.1	65.0
P/EVOP (x)	18.5	21.4	20.1	22.0	13.5	11.5

Explanation of Investment Rating	
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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