

April 17, 2022

RESULT REPORT Q4 FY22 | Sector: Insurance (Life)

ICICI Prudential Life

IPRU poised to see renewed interest in retail protection

Result Highlights

- ✓ **VNB margin:** Calculated VNB margin increased as much as 302bps QoQ to 29.7% largely due to rise in share of overall protection and non-linked products
- ✓ **VNB growth:** VNB growth was 31.1% YoY and 50.5% QoQ, aided by strong sequential growth in APE and improvement in VNB margin
- ✓ **APE growth:** New business APE growth was 4% YoY and 35.2% QoQ, with all businesses displaying healthy sequential growth
- ✓ **Expense control:** Expense ratio rose 246/445 bps QoQ/YoY as opex ratio rose 220/425 bps QoQ/YoY
- ✓ **Persistency:** 13th month, 37th month and 61st month persistency ratio improved sequentially by 370bps, 230bps and 280bps respectively

Our view - IPRU poised to see renewed interest in retail protection

Group term continues to pick up the slack for now, even as management guides for a bounce-back in retail protection in FY23: Overall protection APE rose 32.8% YoY in 4QFY22 to Rs 4.57bn and occupied a share of 17.5% in total APE. Protection APE growth was driven by group term business. In 4QFY22, share of the newly launched ROP product was 17% in retail protection APE. Management expects a revival in retail protection business as under-writing norms have now been calibrated and some of the supply-side issues (reluctance of customers to get medically tested) would also get addressed.

The target of doubling FY19 VNB by FY23 stays intact, implying a required VNB growth of 22.5% in FY23: In FY23, management expects retail protection to play a key role in both topline as well as margin enhancement. Management does not view 28% VNB margin as a level that cannot be crossed. At the product level, there has been no dilution of VNB margin for any sub-segment within Protection in FY22.

Overall Embedded Value has grown at 8.7% YoY in FY22 to Rs 316.25bn, the growth being held back by de-growth in Adjusted Networth: Value of In-Force rose 18.8% YoY to Rs 232.66bn. Mortality and morbidity variance contributed to a decline of Rs 11.87bn. RoEV amounted to 11.0% for FY22. Excluding mortality and morbidity variance, it would have amounted to 15.0%.

We maintain 'Buy' rating on IPRU with a revised price target of Rs 787: We value IPRU at 3.1x FY23 P/EV for an FY23E/24E RoEV profile of 17.3/17.8%.

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

Exhibit 1: Result table

Rs mn	Q4 FY22	Q4 FY21	% yoy	Q3 FY22	% qoq
NBP	47,880	51,330	-6.7%	37,870	26.4%
Renewal premium	68,031	69,126	-1.6%	54,449	24.9%
Income from investment	14,765	71,428	-79.3%	7,370	100.3%
Surplus/(Deficit)	11,441	5,305	115.6%	4,089	179.8%
PAT	1,847	625	195.4%	3,106	-40.5%
Expense ratio	16.3%	11.9%	445bps	13.9%	246bps
37th mo. Persistency*	65.9%	63.8%	210bps	63.6%	230bps
APE	26,080	25,080	4.0%	19,290	35.2%
VNB	7,750	5,910	31.1%	5,150	50.5%
VNB Margin	29.7%	23.6%	615bps	26.7%	302bps

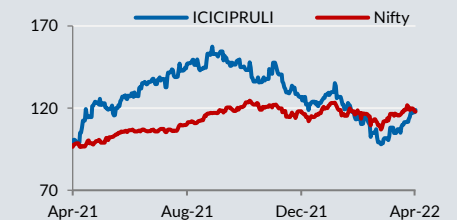
Source: Company, YES Sec-Research; *N.B. Regular and Limited Pay

Reco	: BUY
CMP	: Rs 541
Target Price	: Rs 787
Potential Return	: 46%

Stock data (as on April 13, 2022)

Nifty	17,476
52 Week h/l (Rs)	724 / 430
Market cap (Rs/USD mn)	777583 / 10207
Outstanding Shares (mn)	1,437
6m Avg t/o (Rs mn):	799
Div yield (%):	0.4
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

Stock performance



	1M	3M	1Y
Absolute return	16.8%	-8.4%	18.3%

Shareholding pattern (As of Mar'22 end)

Promoter	73.4%
FII+DII	21.1%
Others	5.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	787	775

Financial Summary

Rs mn	FY22	FY23E	FY24E
APE	77,330	94,663	112,361
% yoy	19.7%	22.4%	18.7%
VNB	21,630	28,636	34,857
VNB Margin	28.0%	30.3%	31.0%
Reported PAT	7,541	7,044	7,527
% yoy	-21.5%	-6.6%	6.9%
EPS (Rs)	5.2	4.9	5.2
EV/Share (Rs)	220.0	253.9	294.9
P/EV (x)	2.5	2.1	1.8
P/VNB (x)	35.9	27.2	22.3

Δ in earnings estimates

Rs bn	FY22E	FY23E	FY24E
VNB (New)	NA	28.6	34.9
VNB (Old)	NA	28.2	34.2
% change	NA	1.7%	2.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Product growth and mix

- ✓ Overall growth
 - The rate of infection was high during the Omicron wave, which led to a loss of productivity in January and February 2022.
 - Total APE growth in 4QFY22 was 3.9% YoY and for FY22, it was 19.7% YoY.
- ✓ Product growth and mix
 - The journey of diversification has been executed with the share of linked products in APE having declined from 80% in FY19 to 48% in FY22.
 - **Protection**
 - **Retail protection**
 - In 4QFY22, share of the newly launched ROP product was 17% in retail protection APE.
 - Management expects a revival in retail protection business as underwriting norms have now been calibrated and some of the supply-side issues (reluctance of customers to get medically tested) would also get addressed.
 - **Overall protection**
 - Overall protection APE rose 32.8% YoY in 4QFY22 to Rs 4.57bn and occupied a share of 17.5% in total APE.
 - Protection APE growth was driven by group term business.
 - **Credit life**
 - Credit protect business from ICICI Bank channel has been relatively subdued.
 - This is because there have been some changes to the approach to attachment.
 - The life insurer is now working on improving attachment to long-term loan products.
 - **Annuities**
 - Annuities APE has grown 31% YoY in FY22 contributing 3.9% to total APE.
 - **Pension fund business**
 - Pension fund AUM has grown 53.6% YoY in FY22.
 - Pension fund business acts as a feeder to the Annuities business.

Channel mix

- ✓ The share of ICICI Bank in APE has declined from 51% in FY19 to 25% in FY22.
- ✓ The share of non-ICICI banca partners in APE has risen from 4% in FY19 to 14% in FY22.

Operating expenses

- ✓ The organisation had curtailed discretionary spends in FY21, which can be regarded as an aberration in terms of how expenses were managed.
- ✓ Even so, expense ratio can be expected to improve over the long-term from FY22 levels.

Claims and reserving

- ✓ Covid-19 claims net of reinsurance for FY22 amounted to Rs 10.17bn.
- ✓ The reserves that remain on the balance sheet after reversals amount to Rs 0.24bn, which are entirely IBNR reserves.

(Con call takeaways continue on the next page)

VNB and margin

- ✓ **Margin improvement**
 - VNB margin for FY22 amounted to 28% compared with 25.1% for FY21.
 - **Factors behind change in margin**
 - There was a positive impact of 4.3% due to product mix changes i.e. higher share of non-linked savings and protection.
 - There was a negative impact of 2.0% due to operating assumption changes, which consisted of current cost assumptions and assumptions with regard to credit life partnerships.
 - There was also a positive impact of 0.6% due to economic assumption changes.
- ✓ **VNB target**
 - The target of doubling FY19 VNB by FY23 stays intact, implying a required VNB growth of 22.5% in FY23.
 - In FY23, management expects retail protection to play a key role in both topline as well as margin enhancement.
 - Management does not view 28% VNB margin as a level that cannot be crossed.
- ✓ **Protection margin**
 - At the product level, there has been no dilution of VNB margin for any sub-segment within Protection in FY22.

Embedded Value

- ✓ **Change in EV**
 - Overall Embedded Value has grown at 8.7% YoY in FY22 to Rs 316.25bn.
 - Growth in Embedded Value was held back by de-growth in Adjusted Networkth.
 - Value of In-Force rose 18.8% YoY to Rs 232.66bn.
- ✓ **Factors behind change in EV**
 - Unwind contributed to a rise of Rs 20.85bn.
 - VNB contributed to a rise of Rs 21.63bn.
 - Mortality and morbidity variance contributed to a decline of Rs 11.87bn.
- ✓ **Return on Embedded Value**
 - RoEV amounted to 11.0% for FY22.
 - Excluding mortality and morbidity variance, it would have amounted to 15.0%.

ESG ratings

- ✓ The organisation has been integrating ESG aspects into its functioning.
- ✓ This has led to an improvement in ESG ratings for IPRU, which is now the highest-rated life insurer in India from an ESG rating perspective.

Hedging strategy

- ✓ The management stated that there were no constraints to hedging and have been able to add 2-3 counterparties in this regard.
- ✓ They further stated that the life insurer would remain fully hedged and they are not comfortable leaving open positions even in a rising interest rate environment.
- ✓ The rates for fresh stock of business would continue to be adjusted depending on prevailing interest rates.

Exhibit 2: Other Business Parameters

	Q4 FY22	Q4 FY21	% yoy	Q3 FY22	% qoq
APE Mix (Rs mn)					
Savings	21,520	21,660	-0.6%	16,220	32.7%
Linked	11,740	11,850	-0.9%	10,230	14.8%
Non-Linked	8,290	6,510	27.3%	4,800	72.7%
Others	1,490	3,300	-54.8%	1,190	25.2%
Protection	4,560	3,420	33.3%	3,070	48.5%
Total APE	26,080	25,080	4.0%	19,290	35.2%
APE Mix (% proportion)					
Savings	82.5%	86.4%	-385bps	84.1%	-157bps
Linked	45.0%	47.2%	-223bps	53.0%	-802bps
Non-Linked	31.8%	26.0%	583bps	24.9%	690bps
Others	5.7%	13.2%	-744bps	6.2%	-46bps
Protection	17.5%	13.6%	385bps	15.9%	157bps
Total APE	100.0%	100.0%	na	100.0%	na
Distribution mix (Rs mn)					
Bancassurance	9,900	10,680	-7.3%	7,620	29.9%
Agency	5,750	5,860	-1.9%	4,980	15.5%
Direct	3,270	3,110	5.1%	2,550	28.2%
Partnership distribution	2,780	2,620	6.1%	1,640	69.5%
Group	4,380	2,830	54.8%	2,500	75.2%
Distribution mix (% proportion)					
Bancassurance	38.0%	42.6%	-462bps	39.5%	-154bps
Agency	22.0%	23.4%	-132bps	25.8%	-377bps
Direct	12.5%	12.4%	14bps	13.2%	-68bps
Partnership distribution	10.7%	10.4%	21bps	8.5%	216bps
Group	16.8%	11.3%	551bps	13.0%	383bps
Persistency Ratios*					
13 th month	84.4%	82.6%	180bps	80.7%	370bps
61 st month	54.3%	47.9%	640bps	51.5%	280bps
Expense Metrics					
Commission ratio	4.9%	4.7%	20bps	4.6%	26bps
Opex ratio	11.4%	7.2%	425bps	9.2%	220bps
Solvency					
Solvency ratio	205%	217%	-1230bps	226%	-2160bps

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

Exhibit 3: Quarterly Actuals Vs Estimates

Q4FY22 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	47,880	42,544	12.5
Total APE	26,080	22,070	18.2
VNB	7,750	5,782	34.0

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net premium	328,790	349,734	363,213	410,686	460,255
Income from investments	-125,169	474,376	249,695	305,029	341,808
Other income	804	934	1,126	1,126	1,126
Contri from shareholders A/C	14,970	15,748	21,611	23,772	26,149
Total income	219,395	840,791	635,645	740,613	829,338
Commission	15,860	15,002	16,729	18,916	21,199
Employee expenses	10,307	9,925	11,970	13,535	15,168
Other opex	18,161	16,958	24,759	27,995	31,374
Benefits paid	193,766	226,409	293,588	290,040	330,322
Change in valuation of liability	-50,569	543,241	257,838	361,824	400,980
Others	8,685	6,784	7,195	7,818	8,762
Provision for Tax	1,314	1,419	1,662	1,643	1,841
Surplus/(Deficit)	21,870	21,054	21,904	18,843	19,692
Transfer to shareholders A/C	19,825	19,849	21,602	18,583	19,421

Source: Company, YES Sec – Research

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Transfer from Policyholders' account	19,825	19,849	21,602	18,583	19,421
Income from Investments	6,594	7,687	10,114	9,905	9,686
Total A	26,419	27,535	31,716	28,488	29,108
Expenses (apart from insurance)	364	612	1,024	1,127	1,239
Contribution to Policyholders' Acc	14,970	15,748	21,611	20,000	20,000
Others	471	368	1,220	22	22
Total B	15,805	16,727	23,855	21,149	21,262
Profit/(Loss) before tax	10,688	10,814	7,906	7,384	7,891
Provision for Taxation	0	1,213	364	340	364
Profit/(Loss) after tax	10,688	9,602	7,541	7,044	7,527

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Shareholders' Funds:					
Share Capital	14,359	14,360	14,373	14,373	14,373
Reserve and surplus	61,056	70,671	75,915	80,034	84,435
Policyholders' Funds					
Policy Liabilities	473,556	602,156	736,822	902,197	1,100,388
Provision for Linked Liabilities	880,368	1,277,704	1,405,414	1,558,666	1,734,906
Fair Value change	(1,870)	30,622	28,954	28,954	28,954
Funds for future appropriation	12,327	13,532	13,833	16,600	19,920
Sources of Funds	1,527,049	2,134,995	2,391,903	2,726,065	3,132,997
Investments - Shareholders	74,209	100,902	98,535	96,499	94,371
Investments Policyholders	1,438,353	2,021,217	2,282,543	2,541,910	2,848,398
Fixed Assets	4,776	4,572	4,872	5,122	5,372
Net Current Assets	5,080	1,676	(3,449)	73,133	175,455
Misc. Expenditure	0	0	0	0	0
Application of funds	1,527,049	2,134,995	2,391,903	2,726,065	3,132,997

Source: Company, YES Sec – Research

Exhibit 7: EV Walk

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Opening EV	216,240	230,320	291,090	316,280	365,004
Unwind of Discount	17,250	16,610	20,850	23,088	27,010
Value of New Business	16,050	16,210	21,630	28,636	34,857
Operating Assumption Changes	(2,250)	3,090	(910)	2,000	2,000
Operating Experience Variance	1,840	(850)	(9,650)	1,000	1,000
EV Operating Profit (EVOP)	32,890	35,060	31,920	54,724	64,867
Economic Variance	(14,760)	25,670	(4,370)	0	0
EV Profit	18,130	60,730	27,550	54,724	64,867
Net Capital Inflow / Outflow	(4,050)	40	(2,360)	(6,000)	(6,000)
Closing EV	230,320	291,090	316,280	365,004	423,872

Source: Company, YES Sec – Research

Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Premium Income	NA	94,663	112,361	85,429	91,190	107,278	NA	3.8	4.7
Value of new business	NA	28,636	34,857	23,025	28,170	34,181	NA	1.7	2.0

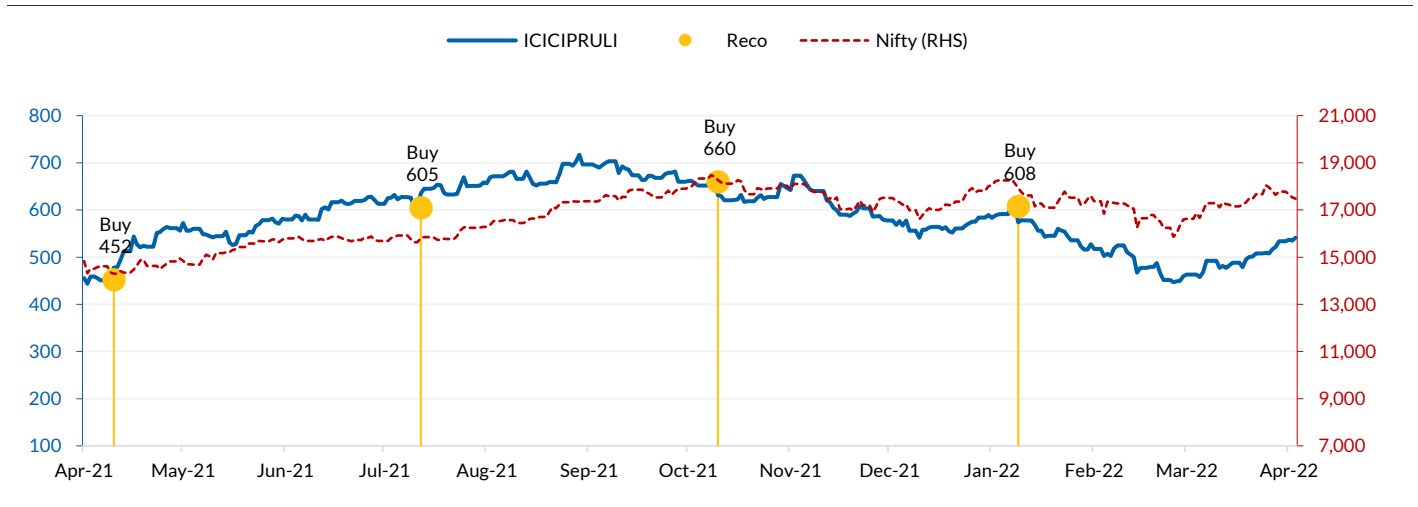
Source: Company, YES Sec – Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Growth (%) - P&L					
New business premium	20.5%	5.9%	17.2%	22.1%	18.7%
Renewal premium	1.8%	7.5%	-2.4%	0.8%	6.4%
Net premium	7.5%	6.4%	3.9%	13.1%	12.1%
PAT	-6.3%	-10.2%	-21.5%	-6.6%	6.9%
VNB	20.9%	1.0%	33.4%	32.4%	21.7%
Growth (%) - Balance Sheet					
Total AUM	-4.9%	40.3%	12.2%	10.8%	11.5%
Total Assets	-4.2%	39.8%	12.0%	14.0%	14.9%
Embedded value	6.5%	26.4%	8.7%	15.4%	16.1%
Profitability ratio (%)					
VNB Margin	21.7%	25.1%	28.0%	30.3%	31.0%
Expense metrics (%)					
Commission ratio	4.8%	4.3%	4.6%	4.6%	4.6%
Opex ratio	8.7%	7.7%	10.1%	10.1%	10.1%
Expense ratio	13.5%	12.0%	14.7%	14.7%	14.7%
Persistence (%)					
Conservation Ratio	76.0%	82.0%	79.3%	79.3%	79.3%
Return ratios (%)					
RoEV	15.2%	15.2%	11.0%	17.3%	17.8%
ROE	14.2%	11.3%	8.4%	7.5%	7.6%
RoA	0.7%	0.5%	0.3%	0.3%	0.3%
Investment Return (%)					
Invest. Yield - Sh.	8.6%	8.8%	10.2%	10.2%	10.2%
Invest. Yield - Ph.	-8.5%	27.4%	11.6%	12.6%	12.7%
Solvency					
Solvency Ratio	194%	217%			
Underwriting					
Claims ratio	58.9%	64.7%	80.8%	70.6%	71.8%
Claims / AUM	12.8%	10.7%	12.3%	11.0%	11.2%
Per share data (Rs)					
EPS	7.4	6.7	5.2	4.9	5.2
VNBPS	11.18	11.29	15.05	19.92	24.25
BVPS	52.5	59.2	62.8	65.7	68.7
EVPS	160.4	202.7	220.0	253.9	294.9
Valuation (x)					
P/E	72.7	80.9	103.1	110.4	103.3
P/VNB	48.4	47.9	35.9	27.2	22.3
P/BV	10.3	9.1	8.6	8.2	7.9
P/EV	3.4	2.7	2.5	2.1	1.8

Source: Company, YES Sec – Research

Recommendation Tracker



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