

13 August 2021

Q1-FY22 Result Update

- ❑ ICICI Prudential Life Insurance Company Ltd. (IPRU) posted 19.5% year-over-year (y/y) growth in gross premium to ₹ 68.7 billion in Q1FY22, primarily due to increase in first year premium which registered a growth of 40.3% y/y and single premium increased 89.1% y/y. Net premium income (net of reinsurance) up by 18.9% y/y ₹ 66.0 billion in the quarter.
- ❑ The quarter recorded lower income from investment of ₹ 92.1 billion decline by 29.5% vs previous year same quarter. Net commission rose 30.9% YoY. As a result of the COVID-19 claims and provisions, the company incurred a loss for the quarter of ₹ 1.86 billion, as compared to a profit of ₹ 2.88 billion for 1QFY2021.
- ❑ During the quarter, overall annualized premium equivalent (APE), grew by 48% to ₹ 12.19 billion in the 1QFY2022. Based on the total new business premium, the growth was actually higher at 71% for the quarter to ₹ 25.59 billion. IPRU market share based on retail weighted received premium increased to 7.7% for 1QFY2022, from 6.2% in 1QFY2021.
- ❑ The Company saw improvements in the 13th month and 49th month persistency ratio. The 13th month persistency ratio for retail business, excluding single premium, has increased by 60 basis points to 85.4% at the end of June 2021, as compared to March 2021. Similarly, our 49th month persistency ratio has further improved to 63.1% at the end of June 2021.
- ❑ Solvency ratio came in at 193.7% as of June 30, 2022, compared to 205.1% as of June 30, 2021 and exceeding the minimum level of 150% required by regulation. The gross claims on account of COVID-19 stood at ₹ 11.19 billion, and net of reinsurance, the claim amount was ₹ 5 billion. The net of COVID-19 mortality experience in line with provisions
- ❑ The total assets under management of the Company was ₹ 2,231.7 billion at June 30, 2021 which makes it one of the largest fund managers in India. The Company had a debt-equity mix of 53:47 at June 30, 2021. 97% of the debt investments are in AAA rated and government bonds. Company's net worth was ₹. 84.87 billion on June 30, 2021.
- ❑ The Value of New Business (VNB) for 1QFY2022 was ₹ 3.58 billion, a significant growth of 78% during the corresponding quarter last year. Given the APE of ₹ 12.19 billion, the resulting VNB margins was 29.4% for this quarter, as compared to 24.4% for the corresponding quarter last year. While this increase in VNB margin is primarily on account of shift in underlying product mix and continues to focus on absolute VNB growth, which is the company stated objective. With a VNB growth of 78% for the first quarter, management reiterated its guidance to double absolute VNB by FY23 on FY19 base which is 28% average growth for next two years.

- ❑ IPRU continues to maintain a very well diversified product mix, with the contribution from linked savings products at 44%, non-linked savings at 29%, protection at 22%, and the balance 5% coming from group savings products. In our 1QFY2022 APE as bancassurance channel share was 39%, agency share was 23%, direct business share was 13%, the share of other partnerships was 8%, and the balance was contributed by the group business.
- ❑ During the quarter, the protection APE grew by 26% to ₹ 2.7 billion in 1QFY2022. The total new business sum assured, company market share has increased to 14.7% for 1QFY2022 from 12.5% in FY2021. With this, they have not only increased their market share lead within the private sector, but also they have achieved overall market leadership as well. Their efforts in encouraging customers to complement their life insurance coverage with critical illness cover have also contributed to the increase in sum assured.
- ❑ The cost to total weighted received premium (TWRP) ratio stood at 20.1% in 1QFY22 compared to 14.8% in 1QFY2021. The cost to TWRP for the savings business stood at 11.9% in 1QFY2022 compared to 9.6% in 1QFY2021. The absolute expenses are higher as compared to the same period last year, the cost increase is in line with the new business growth. The Cost ratios are one of the best in the industry and we continue to leverage technology to improve further.
- ❑ We have incorporated the latest quarterly numbers for IPRU and have revised our estimates for the company. While short term growth might get impacted given the current uncertain environment stemming from COVID-19, we believe IPRU is well positioned for medium to long term growth, given its continued focus on diversifying product mix with increasing share of margin accretive protection business, improving VNB margin, ongoing investments in its multi-channel distribution platform with greater thrust on digitization, cost management efforts, healthy capital position and significant under penetration in domestic life insurance industry. At current price levels however, IPRU looks expensive, hence we upgrade our rating to **HOLD** with a revised target price of ₹ 729 based on 3.0x FY23E EV per share.

Consolidated Financial Results:

(In ₹ mn)	Q1FY22	Q1FY21	Chg
Gross Premium Earned	68,700	57,467	19.5%
Net Premium Earned	66,019	55,511	18.9%
Income from investment	96,094	131,952	-27.2%
Other Income	9,145	4,395	108.1%
Commission Expense	2,706	2,067	30.9%
Expenses and Tax	9,278	6,807	36.3%
Claims/Benefits Paid & Change in Actuarial liability	153,707	175,389	-12.4%
Other Expenses	7,721	4,490	72.0%
Profit Before Tax	-2,154	3,105	-
Tax credit/(charge)	-301	236	-
Profit After Tax	-1,853	2,869	-
Product Mix (APE ₹ bn)	Q1FY22	Q1FY21	Chg
Linked	5.4	3.6	49.0%
Non-Linked	3.0	2.0	48.8%
Group	1.2	0.5	136.7%
Savings	9.5	6.1	56.0%
Protection	2.7	2.1	26.2%
Total APE	12.2	8.2	48.2%
Value of New Business (VNB in ₹ bn)	3.6	2.0	78.1%
VNB Margin (VNB/APE)	29.4%	24.4%	
Solvency Ratio	193.70%	205.10%	
Persistency (13th Month/49th month)	85.4%/63.1%	81.8%/63.9%	

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Gross Premium Earned	334,307	357,328	418,136	485,222
Net Premium Earned	328,790	349,734	408,937	474,547
Income from investment	(118,540)	482,085	144,153	166,376
Other Income	15,784	16,693	4,784	6,289
Commission Expense	15,860	15,002	20,907	24,261
Expenses and Tax	38,468	35,085	38,834	45,114
Claims/Benefits Paid & Change in Actuarial liability	143,197	769,651	459,949	533,744
Other Expenses	17,838	17,999	14,245	17,004
Profit Before Tax	10,670	10,774	23,939	27,090
Tax	0	1,213	2,694	3,049
Profit After Tax	10,670	9,562	21,245	24,041

Metrics	FY-20	FY-21	FY-22E	FY-23E
Gross Premium Growth %	8.1%	6.9%	17.0%	16.0%
PAT Growth%	-6.3%	21.2%	68.2%	13.1%
PAT Margin	3.2%	2.7%	5.2%	5.1%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	14,358	14,360	14,360	14,360
Reserves & Surplus	60,994	70,570	91,815	115,856
Total Shareholder's Funds	75,352	84,930	106,175	130,216
Fair Value Change Account	(3,228)	6,158	6,158	6,158
Policy Liabilities	564,039	709,943	832,624	965,497
Policy Holders Funds	890,824	1,321,857	1,447,673	1,602,246
Short-term Liabilities	33,321	49,306	53,395	60,037
Total	1,560,308	2,172,194	2,446,025	2,764,154
Assets				
Net Fixed Assets	4,778	4,573	5,373	6,173
Investments - Shareholders	74,152	100,807	107,361	115,148
Investments - Policy Holders	467,503	635,726	737,960	856,597
Assets Held to cover Linked Liabilities	970,850	1,385,491	1,528,619	1,694,711
Current Asset	43,026	45,596	66,468	91,025
Total	1,560,308	2,172,194	2,446,025	2,764,154

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	7.4	6.7	14.8	16.7
P/E (x)	90.2	100.6	45.3	40.0
P/B (x)	12.8	11.3	9.1	7.4

Key Risks:

- ❑ Profitability might get impacted owing to increasing competition.
- ❑ General slowdown in economy.
- ❑ Any unfavorable policies on insurance pricing and sales commission for customer protection might weigh on profitability.

Rating and Target Price history:

IPRU rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 13 August 2021 close.

IPRU rating details

Date	Rating	Target Price (₹)	Share Price (₹)
6-Nov-19	BUY	575	520
30-Jan-2020	BUY	575	522
13-May-2020	BUY	450	396
14-Aug-2020	BUY	514	459
23-Apr-2021	BUY	592	513
13-Aug-2021	HOLD	729	670

Source: Bloomberg, Anand Rathi Research

Disclaimer:

Analyst Certification

- ❑ The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter “SEBI”) and the analysts’ compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Ratings Methodology

- ❑ Analysts’ ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

Disclaimer:

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues.

General Disclaimer: - This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers.No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Continued...

Disclaimer:

Contd...

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i. e. www.rathi.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Copyright: - This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Contd...

Disclaimer:

Contd.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Sr. No.	Statement	Answers to the Best of the knowledge and belief of the ARSSBL/ its Associates/ Research Analyst who is preparing this report
1	ARSSBL/its Associates/ Research Analyst/ his Relative have any financial interest in the subject company? Nature of Interest (if applicable), is given against the company's name?.	NO
2	ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?.	NO
3	ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report or at the time of public appearance?.	NO
4	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months.	NO
5	ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months.	NO
6	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
7	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
8	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report.	NO
9	ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	NO
10	ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	NO