ICICI Prudential Life Insurance Company Ltd (IPRU IN)

ANANDRATHI

14 August 2020

CMP: ₹459

Target: ₹514

Q1-FY21 Result Update

- ICICI Prudential Life Insurance Company Ltd. (IPRU) recorded 9.2% year-over-year (y/y) decline in gross premium to ₹57.47 billion in Q1FY21, primarily due to fall in new business premium which registered a degrowth of 32.6% y/y. However, renewal premium increased 2.4% y/y. Net premium income (net of reinsurance) declined 10.6% y/y ₹55.51 billion in the quarter.
- The quarter recorded higher income from investment, reduced commission expenses and lower claims and benefit payouts. PAT inched up 0.8% y/y to ₹2.87 billion. As of Jun 30, 2020, the company's Assets under Management (AUM) stood at ₹1,700.06 billion, up 3.6% y/y, led by recovery in equity markets. The AUM had debt-equity mix of 57%:43% as at Jun 30, 2020.
- During the quarter, overall annualized premium equivalent (APE) reflected degrowth of 44% y/y to ₹8.23 billion, mainly due to decline in unit linked business. The protection and annuity segments remained stable y/y. Within protection, credit life segment declined 72% y/y due to lower retail loan disbursements by financial institutions.
- Retail protection continues to dominate the mix of protection business. Protection APE now accounts for 26% of the company's overall APE, up from 15% at the end of FY20. ULIP segment constitutes 43.6%, reducing from 64.7% in FY20. With increase in reinsurance rates, the company filed revised product in protection business while maintaining margins at the same level. The revised product with price increases in the range 10%-25% over the previous prices, was launched in the first week of July. For Q1FY21, the company operated with the old product, resulting in lower margins for the segment. Management expects normal margins to return for protection business going forward.
- Value of New Business (VNB) declined 35.0% y/y to ₹2.01 billion in Q1FY21. However, driven by decent performance in non-linked savings and protection business, VNB margin improved to 24.4% in the quarter from 21.0% in the previous year quarter. Despite the current challenging market scenario, management reiterated its guidance of doubling FY19 VNB in three to four years.
- 13th month and 49th month persistency rates stood at 81.1% and 63.3%, respectively, compared to 82.2% and 63.0%, respectively in Q1FY20. Management noted that while there has been concerns on the persistency amid the uncertain economic environment and the company witnessed some deferral of renewal payments, the persistency ratio movement is range bound. Management expects the persistency ratios to revert to normal levels gradually throughout the year.
- Solvency ratio came in at 205.1% as of Jun 30, 2020, compared to 216.7% as of Jun 30, 2019 and exceeding the minimum level of 150% required by regulation. Also, management reiterated that the company is permitted to raise Tier 2 capital of upto ₹12.00 billion, which remains fully unutilized.

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- The cost to total weighted received premium (TWRP) for savings business improved to 8.8% as against 11.3% in the previous year quarter. Also, the overall cost to TWRP ratio improved to 14.8% in the quarter from 17.0% in Q1FY20. The reduction in cost ratios was mainly due to higher share of renewal premium within the total premium as maintenance cost of insurance contract is lower than the acquisition costs. Amid the current uncertain environment, the company remains focused on expense management while continuing with investments in the areas including IT and digitization. Notably, the company has cut down the discretionary expenses such as sales and advertising costs, renegotiating office rentals and on the manpower side, it has frozen salary increments. Going forward, management seeks to structure overall costs towards more variable in nature.

- Regarding distribution, management noted that distributors has been facing challenges in terms of face to face meeting with customers amid the pandemic. Addressing the issue, the company has leveraged its existing digital capabilities and integrated all on-boarding digital enablers on a single collaboration platform to facilitate smooth on-boarding journey. Expanding distribution network, the company has announced partnership with IDFC First Bank to offer savings and protection products to the bank's customers.

- In view of volatility in capital markets, management noted non par guaranteed return products comprise only 0.4% of total liabilities and these are invested with minimal ALM mismatches. The company also remains cautious in assessment of investment opportunities with currently 94.3% of total fixed income portfolio invested in either government bonds or AAA rated bonds. About 0.9% of the fixed income portfolio is invested in bonds rated below AA. Additionally, the company has no exposure to any of the recent corporate defaults.

- Ahead, growth in ULIP business remains challenged, however, management remains optimistic about growth in protection segment. Notably, amid the pandemic, the company has seen a surge in product inquiries as well as significant growth in direct purchases on the website. The company remains focused on diversifying within the product mix and expanding its distribution network with continued investments across channels such as agency, bancassurance partnerships, proprietary sales force, corporate agents and brokers. In effort to drive premium growth, the company is looking to increase penetration in under-served customer segments, enhance capability in health and protection and increase focus in pension and annuity.

- We have incorporated 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 underpenetration in domestic life insurance industry. We continue to remain positive on the company and maintain our **BUY** rating with a revised target price of **₹514 per share**.

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Consolidated Financial Results:

(In ₹ mn)	Q1FY21	Q1FY20	Chg
Gross Premium Earned	57,467	63,293	-9.2%
Net Premium Earned	55,511	62,081	-10.6%
Income from investment	131,952	21,356	-
Other Income	4,545	2,326	95.4%
Commission Expense	2,067	2,769	-25.3%
Expenses and Tax	6,807	9,104	-25.2%
Claims/Benefits Paid & Change in Acturial liability	175,389	68,759	-
Other Expenses	4,640	2,264	-
Profit Before Tax	**3,105**	**2,867**	**8.3%**
Tax credit/(charge)	236	21	
Profit After Tax	**2,869**	**2,846**	**0.8%**

Product Mix (APE ₹ bn)	Q1FY21	Q1FY20	Chg
Linked	3.59	10.46	-65.7%
Non-Linked	2.01	1.76	14.2%
Group	0.49	0.34	44.1%
Savings	**6.09**	**12.56**	-51.5%
Protection	**2.14**	**2.14**	0.0%
Total APE	**8.23**	**14.70**	**-44.0%**
Value of New Business (VNB in ₹ bn)	2.01	3.09	-35.0%
VNB Margin (VNB/APE)	**24.4%**	**21.0%**	
Solvency Ratio	**205.10%**	**216.70%**	
Persistency (13th Month/49th month)	**81.1%/63.3%**	**82.2%/63.0%**	

Source: Company, Anand Rathi Research

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Consolidated Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Gross Premium Earned	309,298	334,307	343,731	359,675
Net Premium Earned	305,783	328,790	338,058	353,739
Income from investment	108,587	(118,540)	93,105	108,754
Other Income	6,168	15,784	10,318	12,003
Commission Expense	15,513	15,860	17,187	19,782
Expenses and Tax	33,536	38,468	35,695	38,692
Claims/Benefits Paid & Change in Acturial liability	352,621	143,197	360,917	399,240
Other Expenses	7,257	17,838	15,845	4,030
Profit Before Tax	**11,612**	**10,670**	**11,837**	**12,752**
Tax	223	-	687	740
Profit After Tax	**11,389**	**10,670**	**11,151**	**12,012**

Metrics	FY-19	FY-20	FY-21E	FY-22E
Gross Premium Growth %	14.3%	8.1%	2.8%	4.6%
PAT Growth%	-29.7%	-6.3%	4.5%	7.7%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Liabilities				
Equity Share Capital	14,358	14,358	14,358	14,358
Reserves & Surplus	54,353	60,994	72,145	84,157
Total Shareholder's Funds	**68,711**	**75,352**	**86,503**	**98,515**
Fair Value Change Account	1,712	(3,228)	339	339
Policy Liabilities	457,977	564,039	672,217	778,339
Policy Holders Funds	1,065,818	890,824	1,043,201	1,203,578
Short-term Liabilities	36,644	33,321	36,092	39,924
Total	**1,630,862**	**1,560,308**	**1,838,352**	**2,120,695**
Assets				
Net Fixed Assets	4,757	4,778	5,363	5,921
Investments - Shareholders	79,861	74,152	86,302	90,690
Investments - Policy Holders	400,712	467,503	568,920	675,042
Assets Held to cover Linked Liabilities	1,109,458	970,850	1,122,976	1,282,158
Current Asset	36,073	43,026	54,791	66,883
Total	**1,630,862**	**1,560,308**	**1,838,352**	**2,120,695**

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	7.9	7.4	7.8	8.4
P/E (x)	57.9	61.8	59.1	54.9
P/B (x)	9.6	8.7	7.6	6.7

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.

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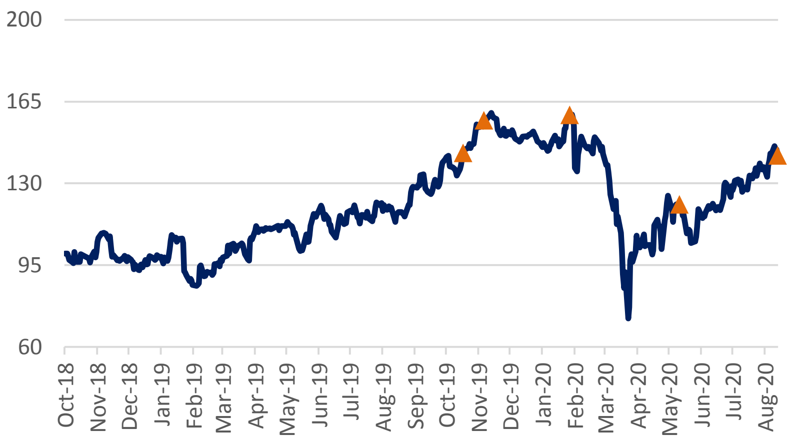
Rating and Target Price history:

IPRU rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on Aug 14, 2020 close.

IPRU rating details

Date	Rating	Target Price (₹)	Share Price (₹)
17-Oct-19	BUY	575	473
6-Nov-19	BUY	575	520
30-Jan-2020	BUY	575	522
13-May-2020	BUY	450	396
14-Aug-2020	BUY	514	459

Source: Bloomberg, Anand Rathi Research

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