

# Retail Equity Research

## ICICI Prudential Life Insurance Co. Ltd.

**BUY**

Life Insurance

BSE CODE: 540133

NSE CODE: ICICIPRULI

Bloomberg CODE: IPRU:IN

SENSEX: 40,165

12M Investment Period

Rating as per Large Cap

CMP Rs 509 TARGET Rs 572 RETURN 12% ↑  
(Closing: 01-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Value intact amidst macro challenges

ICICI Prudential Life Insurance Co. Ltd. is a joint venture between ICICI Bank and Prudential Corp. Holdings. The issuer offers protection for life and health along with pension products and services.

- In Q2FY20, gross premium income rose 6.6% YoY, driven by the increase in group level premium by 80.4% YoY.
- Value of New business (VNB), a measure of profitability of new business underwritten in a period, increased 20.2% YoY to Rs. 709cr in H1FY20.
- VNB margin, which is the ratio of VNB to the amount of new business underwritten in the period expanded to 21.0% from 17.5% in H1FY19.
- Profit after tax rose marginally by 0.5% YoY to Rs. 302cr in Q2FY20.
- We revise our target price to Rs. 572 based on 2.6x FY21E embedded value (EV) and maintain our BUY recommendation. EV is the sum of the company's current net worth and the present value of future profits

### Modest increase in gross premium

In Q2FY20, gross premium income rose 6.6% YoY to Rs. 8,191cr driven mainly by group premium (+80.4% YoY; contributed 11.8%), retail renewal premium (+2.3% YoY; 62.9% of total), partially offset by de-growth in the retail new business premium (-1.9% YoY; contributed 25.3%). For H1FY20, APE declined by 0.4% YoY to Rs. 3,369cr owing to weak macroeconomic conditions. Asset under management continued to grow at a healthy pace of 13.3% YoY and reached Rs. 165,512cr at the end of Q2FY20.

### Robust growth in new business

In H1FY20, value of new business grew 20.2% YoY to Rs. 709cr, and margin improved 350bps YoY to 21.0%. Expense ratio (excluding commission) increased by 80bps to 11.3%. For the quarter, profit after tax rose 0.5% YoY to Rs. 302cr, while solvency ratio declined further to 211% in H1FY20 (vs. 234% in H1FY19). For H1FY20, 13<sup>th</sup> month persistency ratio by premium declined to 83.6% (vs 84.6% in FY19) mainly impacted by linked business, while 49<sup>th</sup> month ratio remained stable at 63.7% (vs. 63.8% in FY19). Indian embedded value witnessed solid growth of 17.8% YoY to Rs 22,680cr, with value of inforce growing 18.6% YoY and contributing 34.1% to EV.

### Key highlights

- Introduction of one day claim settlement initiative has reduced average claim settlement time to 1.2 days for Q2FY20 (vs. 2.3 days in FY19)
- The company has better diversification with contribution of protection business increasing to 14.8% of overall APE in H1FY20 (vs. contribution of 9.3% in FY19), whereas ULIP declined 16.4% YoY for the same period owing to higher ticket size and volatile markets
- The company will continue to focus on annuity and protection business
- Interim dividend reduced to Rs. 0.8 for H1FY20 (vs. Rs. 1.6 for H1FY19), as the company plans to invest in protection business

### Outlook & Valuation

The company has registered strong results with robust growth in new business despite the market volatility. The company's focus on premium growth, while maintaining its solvency levels should be the key for the upcoming few quarters. We value the stock at 2.6x FY21E embedded value (EV) and maintain our BUY recommendation with a revised target price of Rs. 572.

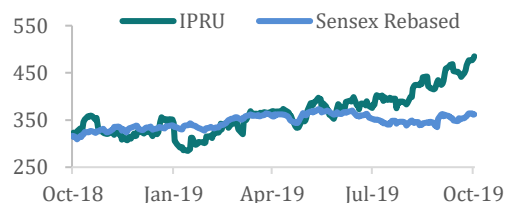
### Company Data

Market Cap (cr)	Rs. 73,246
Outstanding Shares (cr)	143.6
Free Float	25.0%
Dividend Yield	0.6%
52 week high	Rs. 523
52 week low	Rs. 278
6m average volume (cr)	0.2
Beta	0.7
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	75.0	75.0	75.0
FIIIs	10.1	11.5	12.1
MFs/Insti	3.4	6.3	6.7
Public	3.1	2.8	2.6
Others	5.3	4.4	3.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	27.2%	38.9%	55.5%
Absolute Sensex	7.1%	2.8%	16.5%
Relative Return*	20.1%	36.1%	39.0%

\*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Net Premium	30,578	35,126	40,295
Growth (%)	14.1	14.9	14.7
New Business (%)	17.0	17.8	18.0
Net Profit	1,139	1,314	1,486
Growth (%)	(29.7)	15.3	13.1
EPS (Rs.)	7.9	9.1	10.3
Growth (%)	(29.7)	15.3	13.1
BV (Rs.)	49.1	55.0	61.8
EV (Rs)	150.6	181.6	219.9
RoE	16.6	17.0	17.2
RoEV	20.2	22.6	22.7
P/E	44.2	55.8	49.3
P/EV	2.3	2.8	2.3
Solvency (%)	214.9	213.9	212.9

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
<b>Premium Earned (Net)</b>	8,065	7,601	6.1	6,208	29.9	14,273	13,039	9.5
Transfer from Technical A/c	397	148	168.2	369	7.5	765	394	94.1
Investment Inc.	206	144	43.5	144	43.0	350	284	23.3
<b>Total Income</b>	<b>603</b>	<b>292</b>	<b>106.8</b>	<b>513</b>	<b>17.5</b>	<b>1,116</b>	<b>679</b>	<b>64.5</b>
Other Expenses	44	10	355.9	10	325.7	55	1,972	(97.2)
Contribution to Technical A/c	252	(21)	n.m.	216	16.7	468	72	552.3
<b>Total Expenses</b>	<b>296</b>	<b>(11)</b>	<b>n.m.</b>	<b>226</b>	<b>31.0</b>	<b>523</b>	<b>92</b>	<b>466.4</b>
<b>PBT</b>	<b>306</b>	<b>303</b>	<b>1.2</b>	<b>287</b>	<b>6.8</b>	<b>593</b>	<b>586</b>	<b>1.2</b>
Tax	4	2	89.8	2	118.5	7	5	38.3
<b>Reported PAT</b>	<b>302</b>	<b>300</b>	<b>0.5</b>	<b>285</b>	<b>6.0</b>	<b>586</b>	<b>581</b>	<b>0.9</b>
<b>EPS (Rs.)</b>	<b>2.1</b>	<b>2.1</b>	<b>0.5</b>	<b>2.0</b>	<b>6.0</b>	<b>4.1</b>	<b>4.1</b>	<b>0.9</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>Premium Earned (Net)</b>	<b>35,126</b>	<b>40,295</b>	<b>35,126</b>	<b>40,295</b>	<b>0.0</b>	<b>0.0</b>
Profit before tax	1,328	1,352	1,354	1,532	1.9	13.3
Net Profit	1,269	1,291	1,314	1,486	3.5	15.1
<b>EPS (Rs)</b>	<b>8.8</b>	<b>9.0</b>	<b>9.1</b>	<b>10.3</b>	<b>3.5</b>	<b>15.1</b>



## Shareholders' Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Transfer from Technical A/c	1,132	1,089	1,077	1,300	1,516
Investment Inc.	667	742	644	664	685
<b>Total Income</b>	<b>1,827</b>	<b>1,836</b>	<b>1,731</b>	<b>1,973</b>	<b>2,211</b>
% change	1.0	0.5	(5.7)	14.0	12.0
Other Expenses	41	42	42	44	50
Contri to Technical A/c	2	75	527	575	630
<b>Total Expenses</b>	<b>43</b>	<b>117</b>	<b>569</b>	<b>619</b>	<b>679</b>
<b>PBT</b>	<b>1,784</b>	<b>1,719</b>	<b>1,161</b>	<b>1,354</b>	<b>1,532</b>
% change	0.7	(3.7)	(32.4)	16.6	13.1
Tax	103	100	22	41	46
<i>Tax Rate (%)</i>	5.8	5.8	1.9	3.0	3.0
<b>Reported PAT</b>	<b>1,682</b>	<b>1,619</b>	<b>1,139</b>	<b>1,314</b>	<b>1,486</b>
Adj*					
<b>Adj PAT</b>	<b>1,682</b>	<b>1,619</b>	<b>1,139</b>	<b>1,314</b>	<b>1,486</b>
% change	1.9	(3.7)	(29.7)	15.3	13.1
No. of shares (cr)	143	144	144	144	144
<b>Adj EPS (Rs)</b>	<b>11.7</b>	<b>11.3</b>	<b>7.9</b>	<b>9.1</b>	<b>10.3</b>
% change	1.8	(3.7)	(29.7)	15.3	13.1
DPS (Rs)	7.4	6.7	3.2	2.7	3.1

## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Source of Funds</b>					
Share Capital	1,435	1,435	1,436	1,436	1,436
Reserves & Surplus	4,700	5,138	5,435	6,276	7,227
Fair Value Change	273	308	171	188	207
<b>Shareholders' Fund</b>	<b>6,408</b>	<b>6,882</b>	<b>7,042</b>	<b>7,900</b>	<b>8,870</b>
Policy Liabilities	113,047	128,495	149,498	175,078	205,760
Others	1,847	2,117	1,848	2,032	2,236
<b>Policyholder's Fund</b>	<b>114,894</b>	<b>130,611</b>	<b>151,345</b>	<b>177,110</b>	<b>207,996</b>
Funds for Future appropriations	604	878	1,034	1,220	1,437
<b>Total</b>	<b>121,906</b>	<b>138,371</b>	<b>159,422</b>	<b>186,231</b>	<b>218,302</b>
<b>Application of Funds</b>					
Shareholders'	6,640	7,747	7,986	8,504	9,070
Policyholders'	27,067	33,289	40,071	48,758	59,647
Assets held to cover linked liabilities	87,878	97,502	110,946	128,692	149,402
Loans	81	145	270	498	912
Fixed assets	214	422	476	486	496
Net Current assets	26	(734)	(327)	(707)	(1,225)
<b>Total</b>	<b>121,906</b>	<b>138,371</b>	<b>159,422</b>	<b>186,231</b>	<b>218,302</b>
<b>BVPS (Rs)</b>	<b>44.7</b>	<b>47.9</b>	<b>49.1</b>	<b>55.0</b>	<b>61.8</b>
% change	2.0	0.7	0.2	1.2	1.2

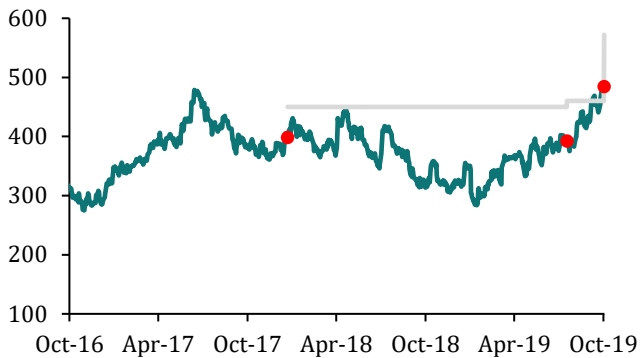
## Policyholders' Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net Premium</b>	<b>22,155</b>	<b>26,811</b>	<b>30,578</b>	<b>35,126</b>	<b>40,295</b>
% change	16.6	21.0	14.1	14.9	14.7
Income from Inv.	14,977	11,261	10,214	10,137	10,480
Transfer of funds from shareholders' account	2	75	527	575	630
Other income	59	70	80	92	107
<b>Total Income</b>	<b>37,193</b>	<b>38,217</b>	<b>41,400</b>	<b>45,930</b>	<b>51,512</b>
Commission	759	1,403	1,551	1,721	1,803
Operating Expenses	2,357	2,025	2,605	3,077	3,348
Other Expenses	429	577	635	705	780
<b>Operating Profit</b>	<b>33,648</b>	<b>34,212</b>	<b>36,609</b>	<b>40,426</b>	<b>45,580</b>
% change	93.9	1.7	7.0	10.4	12.7
Benefits Paid (Net)	14,964	17,226	14,189	17,453	19,574
Change in Reserves	17,498	15,447	21,003	21,312	24,068
Tax	79	120	113	134	157
<i>Tax Rate (%)</i>	6.8	8.1	8.4	8.3	8.3
<b>Surplus/Deficit</b>	<b>1,074</b>	<b>1,363</b>	<b>1,233</b>	<b>1,485</b>	<b>1,733</b>
% change	(20.0)	26.9	(9.5)	20.4	16.7

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Per Share (Rs)</b>					
EPS	11.7	11.3	7.9	9.1	10.3
DPS	7.4	6.7	3.2	2.7	3.1
EV	112.8	130.9	150.6	181.6	219.9
<b>Earnings (%)</b>					
RoE	27.4	24.6	16.6	17.0	17.2
RoEV	16.5	22.7	20.2	22.6	22.7
<b>Valuation (x)</b>					
P/E (x)	31.7	34.1	44.2	55.8	49.3
P/EV (x)	3.3	2.9	2.3	2.8	2.3
Div. Yield (%)	2.0	1.7	0.9	0.5	0.6
<b>Exps. (% of premium)</b>					
Commission	3.4	5.2	5.1	4.9	4.5
Operating Expenses	10.6	7.6	8.5	8.8	8.3
Total Expenses	16.0	14.9	15.7	15.7	14.7
<b>Margin (%)</b>					
New Business	10.1	16.5	17.0	17.8	18.0
<b>Solvency (%)</b>					
Solvency	280.7	252.5	214.9	213.9	212.9

## Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
12-Jan-18	BUY	450
08-Aug-19	BUY	460
04-Nov-19	BUY	572

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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