

CMP: Rs 422

Rating: Not rated

Stock Info

NSE	ICICIPRULI
Bloomberg	IPRU IN
Sector	Life Insurance
Face Value (Rs)	10
Equity Capital (Rs Cr)	1,436
Market Cap (Rs Cr)	63,292
52w H/L (Rs)	444 /228

Shareholding Pattern

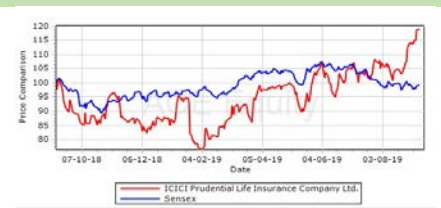
	%
(As on June, 2019)	
Promoters	75.0
FII	11.5
DII	7.2
Public & Others	7.2

Source: NSE, Arihant Research

Stock Performance (%)

	3m	6m	12m
IPRU	16.3	28.9	18.0
BSE 200	-8.3	-2.5	-7.9

IPRU v/s SENSEX



Source: ACE Equity, Arihant Research

Particulars (in Cr)

	FY18	FY19
Gross premium	27,069	30,930
Net premiums	26,811	30,578
Total income	38,217	41,400
Operating surplus	34,212	36,609
Post-tax surplus / (deficit)	1,363	1,233
Embedded Value	18,788	21,623
Commission ratio (%)	5.2	5.0
Opex ratio (%)	7.5	8.4
RoA (%)	1.2	0.8
RoE (%)	24.4	16.4
VNB margin (%)	16.5	17.0
EPS (Rs)	11.3	7.9
BVPS (Rs)	48.0	49.1
EVPS (Rs)	130.9	150.6

ICICI Prudential Life Insurance (IPru) is a private sector life insurer, promoted by ICICI Bank with 52.87% shareholding and Prudential Corporation Holdings Limited with 22.11%. It is the top private insurer on RWRP (Retail Weighted Received Premium) basis. It has bancassurance relationship with parent ICICI Bank, which is its key distribution channel.

Key Extracts from Annual Report:

- Indian insurance market is underpenetrated with a life insurance penetration (premium as % of GDP) of 2.8% as compared to global average of 3.3%.
- According to United Nations estimates, the working population is expected to increase by 26% by the year 2030. India has very young population compared to other countries. In addition to this, increased urbanisation can lead to improvement in standard of living. These factors are likely to increase demand for life insurance products.
- Company is continued to leverage the digital platform for improving the customer experience and efficiency of service operations. The cost to total weighted received premium (TWRP) ratio stood at 15.0% in FY2019 compared to 13.7% in FY2018.
- As on FY19 Company's solvency ratio stood at 214.9%, compared to the regulatory requirement of 150%.
- Ipru's persistency ratio is best amongst the industry. Its 49th month persistency ratio as on FY19 stood at 87.4% vs 86.8% in FY18 while 13th month persistency ratio stood at 65.2% vs 64.2% YoY. Company is continued focusing on customer retention, which results an increase in premium. Initiatives to improve persistency among lower/retail customers can help expand profitability.
- Company operates in three lines of business (LOB); (a) Participating (Par) (b) Non participating non linked (Non par) (c) Non participating linked

Management Outlook

Management expects favorable demographics, rise in the working population, improving per capita income, increasing urbanization and shift towards household financial savings to provide strong potential for growth in premium income. Through various customer awareness initiatives, company expects to drive continued improvement in persistency and quality parameters.

Risk and Concerns

Changing customer behavior poses an opportunity as well as risk to the industry as inability to meet the consumer demand. Some of the macroeconomic factors like Slowdown in the GDP, change in tax rate and weakness in financial market also would be a risk for the industry. Tightening regulations and fall in appetite for investment in capital market that affects its unit linked insurance products would also be a risk.

Performance Brief of the company

Company's primary focus continues to be to grow the absolute Value of New Business (VNB) through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity improvement targeted at improving cost ratios. This 4P strategy is appropriate in the context of the large insurance opportunity in the country, coupled with objective to grow the VNB.

(A) Premium growth: Company would endeavour to grow premium through customer centric product portfolio and simplified on-boarding process. From a distribution perspective, company is focused on expanding the network and strengthen reach through a closer mapping of distribution segments with customer segments and products.

Annualised Premium Equivalent (APE) of the company grew from Rs 7791 cr in FY2018 to Rs 7800 cr in FY2019.

APE (Rs in cr)	FY18	FY19
Savings	7345	7078
- ULIP	6381	6210
- PAR	846	672
- Annuity	31	69
- Others	87	127
Protection	446	722
Total	7791	7800

(B) Protection Business growth: Company is focused on expanding the health & protection business across both retail and group lines of business. This would be done by offering protection as an add-on to savings products across channels, penetrating the online term insurance market and collaborating with loan providers.

Protection Business APE Break-up

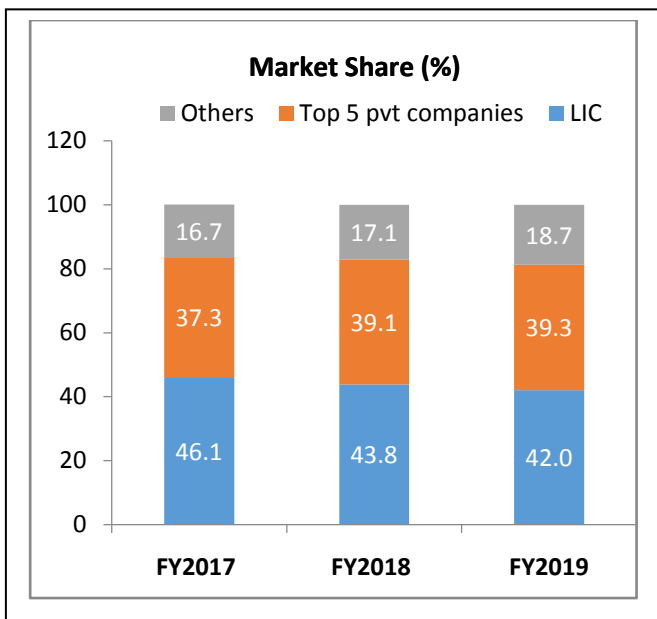
APE (Rs in cr)	FY18	FY19
Retail Protection	271	436
Credit Life	61	157
Group Term	115	128
Total	447	721

(C) Persistency Improvement: Maintaining a high level of persistency is critical to drive value for both customers as well as shareholders. Its 13th month persistency improved to 87.4% for FY19 as compared to 86.8% in FY18. The 49th month persistency improved to 65.2% in FY19 as compared to 64.2% in FY18.

(D) Productivity improvement targeted at improving cost ratios: Technology and process re-engineering have been at the centre of efforts to improve the cost ratios. The cost to total weighted received premium (TWRP) ratio stood at 15.0% in FY2019 as compared to 13.7% in FY2018.

Value of New Business (VNB): Company's VNB increased from Rs 1286 cr in FY18 to Rs 1328 cr in FY19, thereby registering a growth of 3.3% and VNB margin improved from 16.5% in FY18 to 17.0% in FY19. VNB for protection and savings was Rs 789 cr and Rs 540 cr respectively in FY19.

Embedded Value: Embedded Value is sum of the Company's net worth and the present value of all future profits to shareholders from the existing book of the Company (including new business written in the year). Company's embedded value increased from Rs 18,788 cr at March 31, 2018 to Rs 21,623 cr at March 31, 2019, registering a growth of 15.1%.

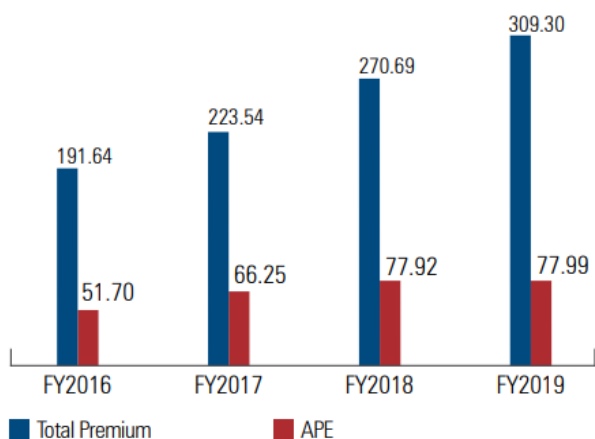


About the Industry

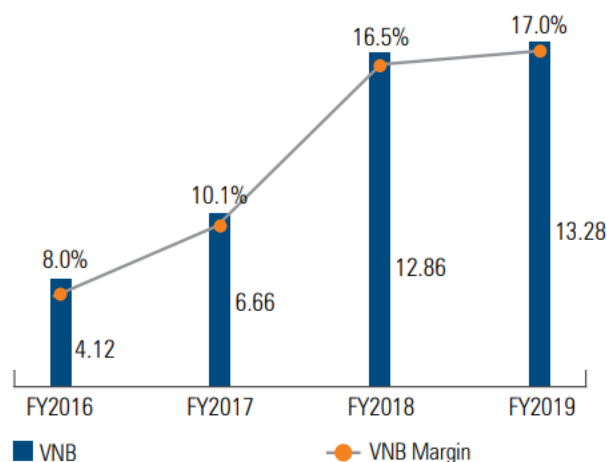
India is 10th largest life insurance market in the world and the fifth largest in Asia. The size of the Indian life insurance sector was Rs 4.6 tn on a total premium basis in FY2018. The total premium in the Indian life insurance sector grew at a CAGR of ~15% between FY2002 and FY2018. Based on retail weighted received premium (RWRP), new business premium of the industry.

The Indian Life Insurance industry has 24 companies including Life Insurance Corporation of India (LIC). The top 5 private sector companies contribute to around 39.3% of the market. The Agency *channel* continues to be the predominant channel for the industry, mainly driven by LIC. For private insurers, the share of agency channel has reduced from 28% in FY2018 to 25% in 9MFY2019.

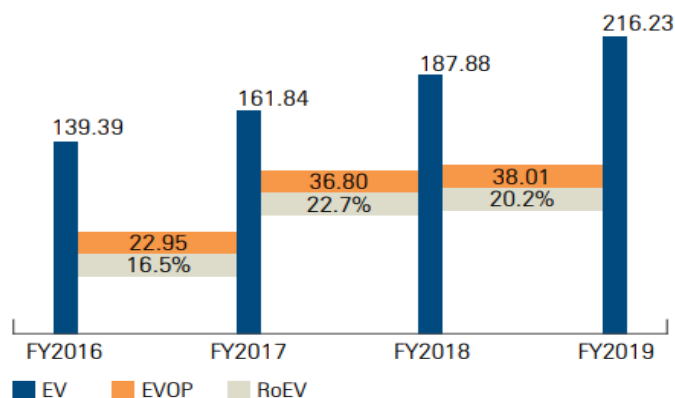
APE and Total Premium (in bn)



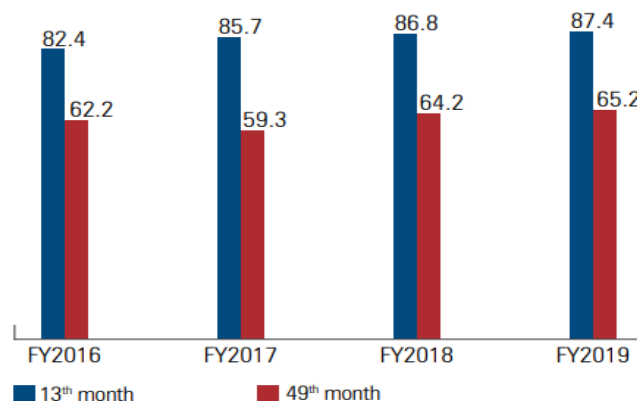
VNB (in bn) and VNB margin (%)



EV, EVOP (in bn), RoEV (%)



Persistency Ratio (%)



APE: Annual Premium Equivalent, VNB: Value of new business, EV : Embedded Value, EVOP : Embedded value operating profit, RoEV : Return on Embedded Value

Peer Group Comparison:

Company	HDFC Life	ICICI Prudential Life	SBI Life
CMP (Rs)	538	422	799
Mcap (in cr)	108,600	60,578	79,875
Profitability			
VNB Margin (%)	24.6	17.0	19.8
RoE (%)	24.5	16.4	18.8
Per Share data			
EPS	6.3	7.9	13.3
Book Value	28.0	49.1	75.8
EV	90.7	150.6	224.0
AUM (in Cr)	125,552	160,410	141,024
Valuation			
P/E	85.1	53.4	60.2
P/BV	19.2	8.6	10.5
P/EV	5.9	2.8	3.6
Growth (%)			
APE	13.1	0.08	13.60
VNB	19.9	3.26	24.00
Embedded Value	20.3	15.08	17.47
Net Profit	15.14	-29.6	15.4

Financial Performance:

Element wise Revenue account (Policyholders account)

Particulars (in Cr)	FY18				FY19			
	Par	Non Par	Linked	Total	Par	Non Par	Linked	Total
Income								
Gross premium (net of Goods and service tax)	3208	3473	20388	27069	3491	4721	22718	30930
Reinsurance ceded	-2	-176	-80	-258	-3	-268	-80	-351
Net earned premium	3206	3297	20308	26811	3488	4453	22638	30579
Income from investments	1216	1213	8828	11257	1163	1707	7344	10214
Other income (including fees and charges)	7	11	51	69	14	15	51	80
Contribution from the shareholders' account	-	75	-	75	-	500	27	527
Total income (A)	4429	4596	29187	38212	4665	6675	30060	41400
Outgo								
Commission	265	183	955	1403	241	232	1078	1551
Operating expenses relating to insurance business	314	469	1250	2033	295	952	1358	2605
Goods and service tax charge on linked charges	-	-	565	565	-	-	635	635
Benefits paid (net) and interim bonus paid	812	488	15981	17281	903	603	12754	14260
Change in valuation of policy liabilities	2592	3229	9626	15447	2897	4656	13450	21003
Total outgo (B)	3983	4369	28377	36729	4336	6443	29275	40054
Provision for taxation (C)	120	-	-	120	113	-	-	113
Surplus after tax(D=A-B-C)	326	227	810	1363	216	232	785	1233
Transfer to shareholders' account	52	227	810	1089	60	232	785	1077
Balance being funds for future appropriations	274	-	-	274	156	-	-	156

Profit and Loss Account

Particulars (in Cr)	FY15	FY16	FY17	FY18	FY19
Policyholders' Account					
Gross premium income	15307	19164	22354	27069	30930
Net premium income	15160	18999	22155	26811	30578
Income from investments (net)	18718	1196	14970	11256	10214
other income	59	21	61	145	608
Contribution from the Shareholders a/c	41	-	2	75	527
Fees and Charges	18	21	19	20	30
Income on unclaimed amount of policyholders	-	-	40	50	51
Total income	33938	20215	37187	38212	41400
Commissions	553	620	759	1403	1551
Brokerage	-	-	-	-	-
Operating expenses related to insurance business	1958	2240	2780	2598	3240
Provisions for tax	50	70	79	120	113
Total expenses	2562	2930	3617	4121	4905
Payment to policy holders	12257	12427	14998	17281	14259
Increase in actuarial liability	3446	2996	4915	5824	7559
Provision for Linked Liabilities	14510	519	12583	9624	13444
surplus/(deficit) from operations	1162	1342	1074	1363	1233
shareholders' Account					
Total income under Shareholders Account	534	595	693	744	651
Total expenses under Shareholder's Account	45	31	38	39	38
Profit /(loss) before tax	1585	1772	1785	1720	1163
Provisions for tax	-49	121	103	100	22
Profit/ (loss) after tax	1634	1650	1682	1620	1141
Profit /(loss) carried to Balance sheet	48	251	1268	1696	1989
Miscellaneous					
(A) Policyholders account:					
Total funds	93266	96578	114894	130611	151345
Total Investments	93635	96811	114946	130791	151017
Yield on investments (%)	22.2%	1.3%	14.1%	9.2%	7.7%
(B) shareholders account :					
Total funds	5268	5325	6408	6884	7047
Total Investments	5857	6216	6640	7749	7992
Yield on investments (%)^	9.5%	9.9%	10.3%	10.3%	8.8%
Yield on total investments^	21.4%	1.8%	13.9%	9.2%	7.7%
Paid up equity capital	1432	1432	1435	1436	1436
Net worth	5268	5325	6408	6884	7047
Total Assets	99061	102565	121906	138374	159426
Basic earnings per share (Rs)	11.4	11.5	11.7	11.3	8.0
Diluted earnings per share (Rs)	11.4	11.5	11.7	11.3	7.9
Book value per share (Rs)	36.8	37.2	44.6	48.0	49.1

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 RatlamKothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research**Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880