

January 21, 2018

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Rating	Accumulate
Price	Rs429
Target Price	Rs464
Implied Upside	8.0%
Sensex	35,512
Nifty	10,895

(Prices as on January 19, 2018)

Trading data

Market Cap. (Rs bn)	615.7
Shares o/s (m)	1,435.3
3M Avg. Daily value (Rs m)	478.7

Major shareholders

Promoters	80.71%
Foreign	5.76%
Domestic Inst.	3.54%
Public & Other	9.99%

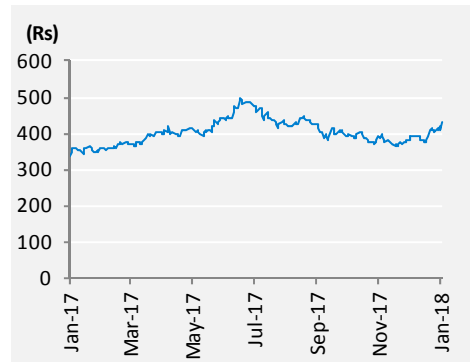
Stock Performance

(%)	1M	6M	12M
Absolute	4.1	(13.0)	18.3
Relative	0.7	(22.3)	(9.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	12.2	13.5	(9.6)
2020	13.5	14.5	(6.9)

Price Performance (RIC: ICIR.BO, BB: IPRU IN)



Source: Bloomberg

ICICI PruLife's margins were a beat to our expectations at 13.7% for 9MFY18 (Pl: 11% for FY18E) on better growth coming from newly launched high margin product and improvement in operational front. However, APE growth was lower than our expectations on high base effect on account of demonetisation. Management expects margins to be maintained and APE growth to slightly moderate going forward. We have tweaked slightly on APE growth front but improved our new business margins assumptions. We retain Accumulate with TP of Rs464 (revised from Rs450) and value it at Rs666 bn (from Rs646 bn) which translates to 2.7x FY20E EV.

■ **APE growth was comparatively slow:** ICICI PruLife's individual APE growth for 9MFY18 has slowed down to 25% YoY growth due to high base effect due to demonetisation seen in Dec-16. Growth was contributed mainly by participating products (41.4% YoY for 9MFY18) in the savings segment whereas ULIPs continue to do well at ~25% YoY for 9MFY18. Protection segment grew better at 32.2% for 9MFY18 on a smaller base, however the growth was lower than our expectations.

■ **Operating metrics continue to improve and increase profitability:** 13th month persistency continues to improve and is the best amongst the industry and the persistency has improved across the buckets. This has inherently improved the renewal premium growing at 24% YoY for 9MFY18. Total cost ratio remains in the same range for past couple of quarters between 12.5-13.5% in spite of better growth in the premium.

■ **Margins were huge positive surprise:** VNB Margins improved significantly in 9 months to 13.7% from 10.1% in FY17 and was at 17.5% for Q3FY18 reflected in VNB to growing by 82.2% YoY for 9MFY18. The reason for same is due to i) higher margin of newly launched savings product in June, 2017, ii) increase in premium paying term and iii) improvement in operational efficiency mainly costs. We expect margins to be sustainable at these levels going forward.

Key financials (Y/e March)

	2017	2018E	2019E	2020E
Net Premiums (Rs m)	221,552	269,454	331,399	413,217
Growth (%)	16.6	21.6	23.0	24.7
Total Income (Rs m)	371,930	408,754	487,445	600,980
Surplus / Deficit (Rs m)	11,526	12,585	12,994	14,430
PAT (Rs m)	16,817	16,787	17,503	19,407
Growth (%)	1.9	(0.2)	4.3	10.9
EPS (Rs)	11.7	11.7	12.2	13.5
Embedded Value (Rs bn)	161.8	187.8	215.8	247.5

Profitability & Valuation

	2017	2018E	2019E	2020E
NBP Margin Post overrun (%)	10.1	13.9	14.7	15.2
RoE (%)	28.7	24.3	22.0	21.4
Operating RoEV (%)	16.5	18.5	18.4	18.2
RoEV (%)	16.1	16.1	14.9	14.7
Dividend Yield (%)	0.9	0.9	1.0	1.0
Price / EV (x)	3.8	3.3	2.9	2.5

Source: Company Data; PL Research

Exhibit 1: Shareholders' Profit broadly remains the same

(Rs m)	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	68,556	57,460	19.3	65,994	3.9
Net Premium Income	67,951	56,975	19.3	65,395	3.9
Income from Investments (Net)	65,442	(6,652)	-1083.8	28,130	132.6
Total (A)	1,33,568	50,474	164.6	93,693	42.6
Net Commission	3,773	1,995	89.1	3,632	3.9
Opex related to Insurance	5,211	5,551	-6.1	4,921	5.9
Benefits Paid (Net)	46,852	29,977	56.3	40,711	15.1
Change in actuarial liability	72,602	8,711	733.5	39,172	85.3
Total (B)	1,30,196	47,548	173.8	90,139	44.4
Surplus / (Deficit)	3,372	2,926	15.2	3,554	-5.1
Shareholders' Account					
Trf from Policyholders A/c	2,742	3,288	-16.6	2,850	-3.8
Investment Income	2,160	1,667	29.6	1,725	25.3
Total	4,904	4,958	-1.1	4,578	7.1
Expenses other than related to insurance	93	89	4.3	88	5.8
Profit/(Loss) before Tax	4,810	4,871	-1.2	4,491	7.1
Provision for Taxation	289	370	-21.8	279	3.8
Profit/(Loss) after Tax	4,521	4,500	0.5	4,212	7.3
Ratios					
Expense Ratio	8.0	10.2	(216)	8.0	1
Commission Ratio	5.8	3.7	214	5.9	(11)
Total Cost / TWRP	13.8	13.8	(2)	13.9	(10)

Source: Company Data, PL Research

Exhibit 2: APE growth was lower than expectations whereas VNB grew strong

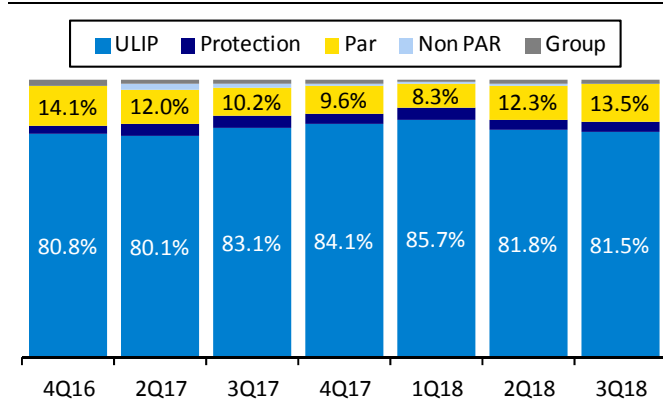
	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	QoQ gr. (%)	9MFY18	9MFY17	YoY gr. (%)
APE	20,050	18,450	8.7	18,700	7.2	55,790	44,580	25.1
Savings	19,260	17,850	7.9	17,960	7.2	53,490	42,840	24.9
Protection	790	600	31.7	740	6.8	2,300	1,740	32.2
%								
Savings	96.1	96.7	(69)	96.0	2	95.9	96.1	(22)
Protection	3.9	3.3	69	4.0	(2)	4.1	3.9	22
VNB	3,500	1,770	97.7	2,350	48.9	7,670	4,210	82.2
VNB Margin	17.5	9.6	786.3	12.6	489.0	13.7	9.4	430.0

Source: Company Data, PL Research

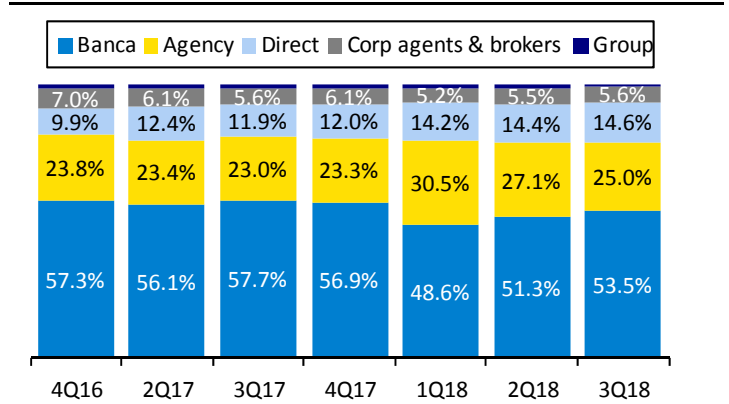
Exhibit 3: Renewal Premium has been started picking up pace and growing better

(Rs m)	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	QoQ gr. (%)	9MFY18	9MFY17	YoY gr. (%)
Retail renewal premium	44,570	35,700	24.8	42,240	5.5	1,14,890	92,690	24.0
Retail new business premium	21,810	19,570	11.4	19,940	9.4	59,970	47,410	26.5
Group Premium	2,180	2,180	(0.0)	3,810	(42.8)	8,540	7,640	11.8
Total	68,560	57,450	19.3	65,990	3.9	1,83,400	1,47,740	24.1

Source: Company Data, PL Research

Exhibit 4: Product Mix is largely dominated by ULIPs; however PAR mix sees slight increase


Source: Company Data, PL Research

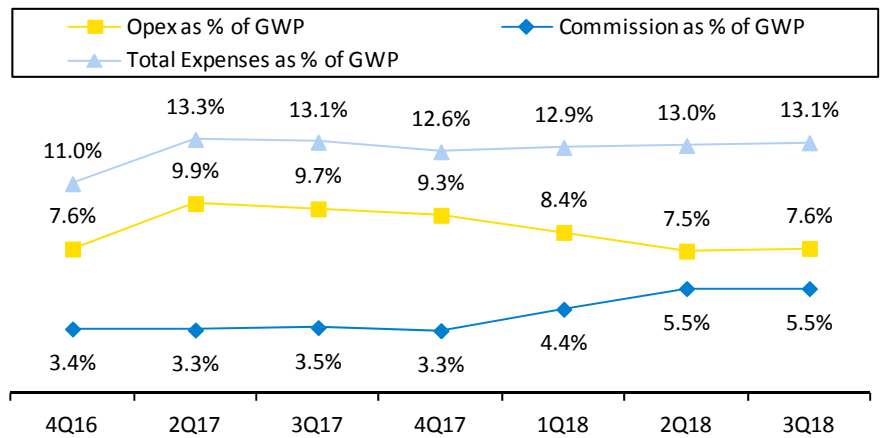
Exhibit 5: Indv. premium sourcing mix remains similar


Source: Company Data, PL Research

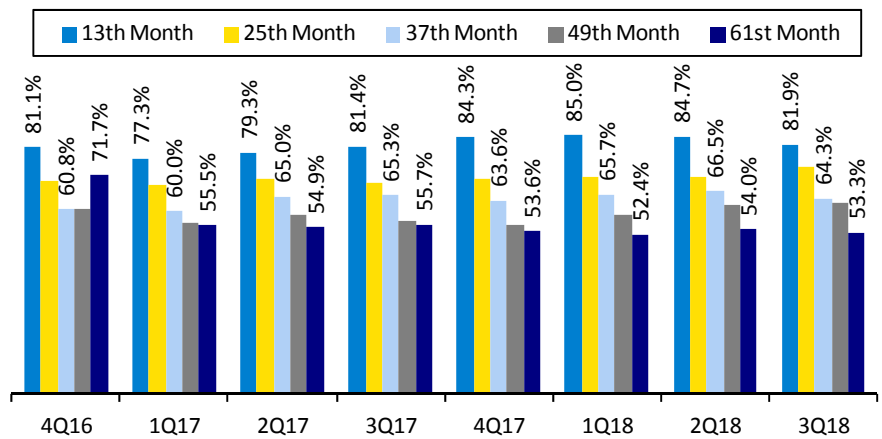
Exhibit 6: Premium growth on product and sourcing basis: PAR product sees better growth on product front and Direct channel sees good traction on sourcing front

(Rs m)	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	QoQ gr. (%)	9MFY18	9MFY17	YoY gr. (%)
Product Mix Breakup								
Savings								
ULIP	16,350	15,332	6.6	15,297	6.9	46,250	37,046	24.8
Par	2,716	1,882	44.3	2,300	18.1	6,430	4,547	41.4
Non PAR	50	258	(80.6)	75	(33.2)	210	624	(66.4)
Group	204	258	(21.2)	243	(16.3)	600	624	(3.9)
Protection	748	720	3.9	785	(4.8)	2,300	1,739	32.3
Sourcing Mix Breakup								
Banca	10,735	10,646	0.8	10,055	6.8	29,070	25,723	13.0
Agency	5,014	4,244	18.2	4,486	11.8	14,700	10,253	43.4
Direct	2,933	2,196	33.6	2,727	7.6	8,080	5,305	52.3
Corp Agent & Brokers	1,124	1,033	8.8	1,086	3.6	3,090	2,496	23.8
Group	207	351	(41.0)	388	(46.7)	850	847	0.4

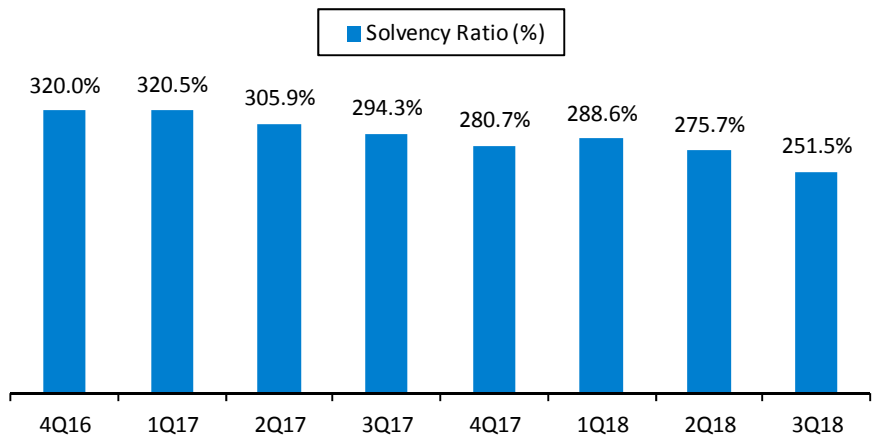
Source: Company Data, PL Research

Exhibit 7: Total Expense Ratios range in the same level


Source: Company Data, PL Research

Exhibit 8: Persistency Ratio continues to improve & trickles further down to other buckets


Source: Company Data, PL Research

Exhibit 9: Solvency Ratio decreases but yet at healthy level


Source: Company Data, PL Research

Exhibit 10: Estimates change table – We tweak our estimates on APE growth and increase the margins

(Rs bn)	Old			Revised			% Change		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
APE	87.3	111.2	139.5	85.7	108.3	134.8	(1.9)	(2.6)	(3.4)
VNB	9.6	13.0	17.5	11.9	15.9	20.5	24.4	22.4	17.0
VNB Margin (%)	11.0	11.7	12.6	13.9	14.7	15.2	2.9	3.0	2.7
EV	185.5	210.4	238.7	187.8	215.8	247.5	1.3	2.6	3.7
Price target (Rs)	450			464			3.2		
Recommendation	ACCUMULATE			ACCUMULATE					

Source: Company Data, PL Research

Exhibit 11: We increase our TP to Rs464 (from Rs430) on 2.7x FY20E P/EV

PT calculation and upside	
Op RoEV	18.2%
CoE	12.7%
g	5.0%
Embedded value	248
Price / Embedded value	2.7
Appraisal Value	666
Number of shares, mn	1,435
Valuation per share	464
CMP	430
<i>Upside (%)</i>	8%

Source: Company Data, PL Research

Exhibit 12: Key Metrics and EV Movement

Rs bn	FY15	FY16	FY17	FY18E	FY19E	FY20E
APE	47.4	51.7	66.3	85.7	108.3	134.8
YoY growth (%)		9.0%	28.1%	29.3%	26.4%	24.5%
NBV	2.7	4.1	6.7	11.9	15.9	20.5
YoY growth (%)		52.7%	61.5%	78.7%	33.4%	29.3%
EV Movement						
Opening IEV	117.8	138.2	139.4	161.8	187.8	215.8
EVOP	18.1	21.2	23.0	29.9	34.6	39.3
New Business Value	2.7	4.1	6.7	11.9	15.9	20.5
Dividend payout	9.8	14.4	6.3	6.9	7.3	7.6
Closing EV	137.2	139.4	161.8	187.8	215.8	247.5
<i>Adjusted Net worth</i>	<i>54.3</i>	<i>55.1</i>	<i>67.6</i>	<i>74.2</i>	<i>84.6</i>	<i>96.7</i>
<i>Value in force (VIF)</i>	<i>82.9</i>	<i>84.3</i>	<i>94.3</i>	<i>113.7</i>	<i>131.2</i>	<i>150.8</i>
Ratios (%)						
NBAP margins	5.7%	8.0%	10.1%	13.9%	14.7%	15.2%
RoEV	16.5%	0.9%	16.1%	16.1%	14.9%	14.7%
Operating RoEV	15.4%	15.4%	16.5%	18.5%	18.4%	18.2%

Source: Company Data, PL Research

Appendix

Exhibit 13: Policyholders' Account (Technical Account)

Technical account (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net earned premium	1,39,279	1,34,172	1,22,827	1,51,604	1,89,987	2,21,552	2,69,454	3,31,399	4,13,217
Investment income	(1,418)	61,804	92,168	1,87,244	12,084	1,49,769	1,39,217	1,55,953	1,87,659
Other income	3,637	5,653	1,119	594	209	76	83	93	104
Total Revenue	1,41,497	2,01,630	2,16,113	3,39,443	2,02,279	3,71,397	4,08,754	4,87,445	6,00,980
Commission expense	6,055	7,654	6,275	5,532	6,200	7,589	8,792	8,995	11,240
Operating expense	20,035	20,386	16,169	16,520	18,883	23,572	26,933	30,718	37,881
Benefit Cost	1,01,599	1,58,784	1,77,451	3,02,135	1,59,429	3,24,954	3,60,299	4,34,572	5,37,238
Total expense	1,27,742	1,86,895	2,03,076	3,27,318	1,88,155	3,60,404	3,96,169	4,74,452	5,86,550
Surplus / Deficit	13,755	14,735	13,037	12,124	14,124	10,994	12,585	12,994	14,430

Source: Company Data, PL Research

Exhibit 14: Shareholders' Account (Revenue Account)

Shareholder's a/c (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Transfer from policholders' account	15,450	17,006	12,642	11,386	12,076	11,315	10,489	11,014	11,994
Investment income	2,197	4,173	3,897	5,358	6,019	6,670	7,581	7,938	8,962
Expenses	3,515	5,489	1,360	896	382	427	531	687	923
Profit before tax	14,137	15,695	15,281	15,854	17,714	17,844	17,859	18,621	20,428
Tax expenses	295	737	(374)	(490)	1,212	1,028	1,072	1,117	1,021
Profit after tax	13,842	14,958	15,656	16,344	16,501	16,817	16,787	17,503	19,407

Source: Company Data, PL Research

Exhibit 15: Balance Sheet

Balance sheet (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sources of Fund									
Shareholders' Fund	49,520	51,292	49,817	52,655	53,233	64,060	74,156	84,610	96,732
Borrowings	-	-	-	-	-	-	-	-	-
Policyholders' Funds:									
Insurance reserves and provisions	6,61,139	6,87,344	7,46,243	9,32,657	9,65,784	11,48,941	13,24,967	15,23,926	17,39,172
Others	7,592	5,083	5,040	5,275	6,619	6,042	6,947	7,988	9,185
Total	7,18,251	7,43,719	8,01,101	9,90,587	10,25,636	12,19,043	14,06,070	16,16,524	18,45,088
Application of Funds									
Shareholders' inv	34,770	49,200	53,528	58,552	62,124	66,349	78,052	89,060	1,10,087
Policyholders' inv	91,108	1,12,870	1,44,567	1,88,580	2,15,156	2,70,674	3,13,917	3,51,390	3,63,681
Assets to cover linked liabilities	5,78,174	5,75,208	6,03,104	7,47,775	7,52,958	8,78,783	10,10,601	11,72,297	13,71,588
Net Current Assets	(8,219)	(7,090)	(8,140)	(6,661)	(7,240)	292	306	145	(4,399)
Other Assets	22,418	13,533	8,050	2,353	2,639	2,945	3,194	3,633	4,130
Total	7,18,251	7,43,720	8,01,109	9,90,599	10,25,637	12,19,043	14,06,070	16,16,524	18,45,088

Source: Company Data, PL Research

Exhibit 16: Embedded Value

Embedded Value (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Embedded Value			1,17,750	1,37,210	1,39,397	1,61,847	1,87,834	2,15,841	2,47,513
Annualised Premium Equivalent (APE)	31,180	35,320	34,440	47,440	51,700	66,250	85,659	1,08,289	1,34,813
New Business Value			2,280	2,700	4,123	6,660	11,902	15,876	20,533
New Business Margin (%)			6.62%	5.69%	7.97%	10.05%	13.9	14.7	15.2
EV Operating Profit				18,120	21,222	22,950	29,897	34,563	39,273
Operating RoEV (%)				15.39%	15.35%	16.46%	18.5	18.4	18.2

Source: Company Data, PL Research

Exhibit 17: Key Ratios

Key ratios	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Commission expense/GWP (%)	4.3	5.7	5.0	3.6	3.2	3.4	3.2	2.7	2.7
Operating expense/GWP (%)	14.3	15.1	13.0	10.8	9.9	10.5	9.9	9.2	9.1
Total expense/GWP (%)	18.6	20.7	18.1	14.4	13.1	13.9	13.1	11.9	11.8

Source: Company Data, PL Research

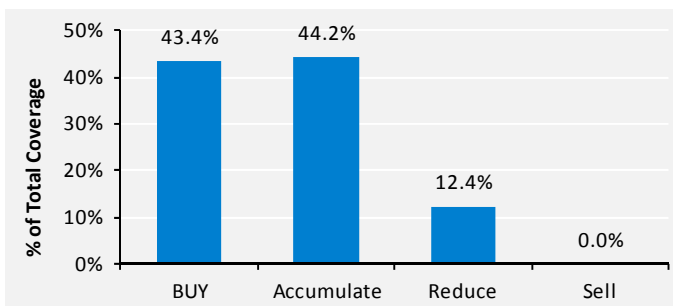


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