

October 23, 2018

Q2FY19 Result Update

Key Financials

Y/e March	FY18	FY19E	FY20E	FY21E
Net Premiums (Rs m)	268,107	323,787	386,977	463,457
- Growth (%)	21.0	20.8	19.5	19.8
Surplus / Deficit (Rs m)	14,832	14,964	16,895	18,419
PAT (Rs m)	16,198	17,226	19,288	24,802
- Growth (%)	(3.7)	6.3	12.0	28.6
EPS (Rs)	11.3	12.0	13.4	17.3
Emb. Value (Rs bn)	187.9	211.2	243.7	283.2
NBP Margin (%) post overrun	16.5	17.3	18.3	19.0
RoE (%)	24.4	23.5	23.3	56.2
Operating RoEV (%)	22.7	18.6	19.4	19.6
RoEV (%)	16.1	12.4	15.4	16.2
Dividend yield (%)	2.1	1.5	1.6	1.7
Price/EV (x)	2.9	2.6	2.3	2.0
Ap. Value/EV (x)	3.9	3.4	3.0	2.6

Key Data

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52-W High / Low	Rs.461 / Rs.310
Sensex / Nifty	33,847 / 10,147
Market Cap	Rs.463.97bn/ \$ 6315.95m
Shares Outstanding	1,435.6m
3M Avg. Daily Value	Rs.851.1m

Shareholding Pattern (%)

Promoter's	78.71
Foreign	8.86
Domestic Institution	4.37
Public & Others	8.07
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.6)	(18.3)	(18.4)
Relative	1.4	(15.1)	(19.0)

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Protection helps business but not margins

Quick Pointers

- Protection mix slightly down sequentially on higher growth in non-par products
- Persistency on longer buckets improved while on shorter end were stable

ICICI Prulife's APE de-grew by 5.4% YoY but saw improvement in Q2FY19 as protection business (1x growth) saw robust traction while savings saw catch up mainly from non-par and steady ULIP growth. Retail NB saw good recovery of 6% YoY in Q2FY18, while group has been growing strong. Slightly lower share of protection and retail NB being slow VNB margins were flattish sequentially at 17.5% but focus remains to improve the same as company continues on protection and retail. We expect margins to remain flattish as opex benefit to payout next year and protection mix being steady as other segments may likely pick-up. We fine tune our business growth numbers slightly downwards with margins unchanged, and slightly cut EV to factor in negative economic variances. Retain BUY with revised TP of Rs507 (from Rs520) based on 2.8x (from 3.0x) Sep-20 EV (rolled from Mar-20) as persistency, lower surrenders yet to play out.

- Business growth improves led by protection:** APE for H1FY19 de-grew 5.4% but saw good recovery in Q2FY19 led by strong growth in protection business. Savings continues to still grow slower as PAR segment de-growth was offset by good Non-PAR and ULIP segment growth. Protection mix slightly came off sequentially as Non-PAR mix improved and now stands at 7.7% of total APE mix while contributes little lower than 50% in incremental individual business. Management expects growth to pick up in H2FY19 with protection continuing to outgrow savings but savings mix should also improve keeping protection share mix stable.
- Long end persistency improves; opex ratios see improvement as well:** Persistency improved on 37th month - 61st month as surrender declined by 27% YoY in the linked products and was stable at 13th & 25th month on both overall and excluding group & single premium. Company expects the 13th month to pick as new business growth improves. **On opex**, expenses still remain high as company continues to promote protection segment but has come off sequentially leading to slightly better opex ratios.
- Margins steady; EV growth lower on dividend payout & variance:** VNB margins were steady at 17.5% and VNB grew by 47% YoY. Margin improvement has been slower on new business strain being higher and slightly higher opex. VNB margins have some room to improve but opex and slightly slower APE could keep margins only steady. EV came in at Rs192.5bn v/s Rs188.0bn in FY18, slightly slower, attributing to dividend payout and negative economic variance from the debt MTM. Company has cut the interim dividend payout as indicated from earlier calls keeping the overall solvency ratio stable sequentially at 2.3x but has been coming off from higher levels.

Exhibit 1: Profitability pressure on lower investment income and new business strain

(Rs m)	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	76,819	65,994	16.4	55,179	39.2
Net Premium Income	76,012	65,395	16.2	54,378	39.8
Income from Investments (Net)	12,278	28,130	(56.4)	23,212	(47.1)
Total (A)	88,269	93,693	(5.8)	78,712	12.1
Net Commission	3,951	3,632	8.8	2,796	41.3
Opex related to Insurance	6,585	4,921	33.8	5,952	10.6
Benefits Paid (Net)	35,014	40,711	(14.0)	29,395	19.1
Change in actuarial liability	38,833	39,172	(0.9)	35,801	8.5
Total (B)	86,265	90,139	(4.3)	75,703	14.0
Surplus / (Deficit)	2,004	3,554	(43.6)	3,009	(33.4)
Shareholders' Account					
Trf from Policyholders A/c	1,479	2,850	(48.1)	2,464	(40.0)
Investment Income	1,426	1,725	(17.3)	1,396	2.2
Total	2,910	4,578	-36.4	3,864	-24.7
Expenses other than related to insurance	85	88	(3.9)	99	(14.5)
Trf to Policyholders A/c	(208)	(2)	12,875.0	925	(122.4)
Profit/(Loss) before Tax	3,032	4,491	(32.5)	2,840	6.8
Provision for Taxation	24	279	(91.5)	24	0.9
Profit/(Loss) after Tax	3,009	4,212	(28.6)	2,816	6.8
Ratios					
Expense Ratio	9.4	8.0	139	12.0	(261)
Commission Ratio	5.6	5.9	(27)	5.5	10
Cost / TWRP	15.0	13.9	112	17.5	(251)

Source: Company, PL

Exhibit 2: APE growth pick up in Q2FY19 helps recovery in H2FY19 APE led by strong protection growth

	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
APE	19,850	18,700	6.1	13,960	42.2	33,810	35,740	(5.4)
Savings	18,320	17,960	2.0	12,820	42.9	31,140	34,230	(9.0)
Protection	1,530	740	106.8	1,140	34.2	2,670	1,510	76.8
%								
Savings	92.3	96.0	(375)	91.8	46	92.1	95.8	(367)
Protection	7.7	4.0	375	8.2	(46)	7.9	4.2	367
Retail APE	18,130	17,630	2.8	13,350	35.8	31,480	34,420	(8.5)
Group APE	1,720	1,070	60.7	610	182.0	2,330	(1,070)	(317.8)
VNB	3,460	2,350	47.2	2,440	41.8	5,900	4,170	41.5
VNB Margin (%)	17.4	12.6	486.4	17.5	(4.8)	17.5	11.7	580.0

Source: Company, PL

Exhibit 3: Retail new business premium has been slow but caught up in Q2FY19; renewals see steady growth

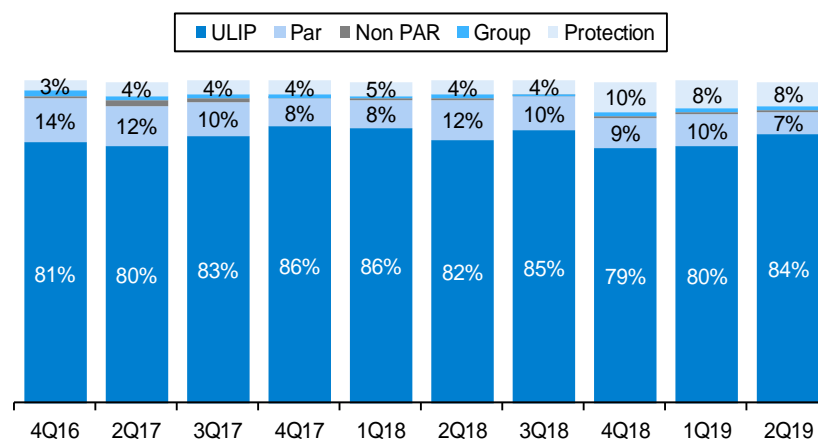
	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
Retail renewal premium	50,320	42,240	19.1	36,250	38.8	86,570	70,320	23.1
Retail new business premium	21,110	19,940	5.9	14,920	41.5	36,030	38,160	(5.6)
Group Premium	5,370	3,810	40.9	4,010	33.9	9,380	6,360	47.5
Total	76,800	65,990	16.4	55,180	39.2	131,980	114,840	14.9

Source: Company, PL

Exhibit 4: Growth was slow in participating while was strong in protection and steady in ULIPs

Product Mix	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
Rs Mn								
Savings	18,320	17,915	2	12,820	43	31,140	34,203	(9)
ULIP	16,630	15,297	9	11,140	49	27,770	29,235	(5)
Par	1,350	2,300	(41)	1,360	(1)	2,710	4,380	(38)
Non PAR	130	75	74	130	-	260	143	82
Group	210	243	(14)	190	11	400	445	(10)
Protection	1,520	785	94	1,140	33	2,660	1,501	77
(%)								
Savings	92.3	95.8	(351)	91.8	46	92.1	95.8	(370)
ULIP	83.8	81.8	198	79.8	398	82.1	81.8	34
Par	6.8	12.3	(550)	9.7	(294)	8.0	12.3	(428)
Non PAR	0.7	0.4	25	0.9	(28)	0.8	0.4	37
Group	1.1	1.3	(24)	1.4	(30)	1.2	1.3	(12)
Protection	7.7	4.2	346	8.2	(51)	7.9	4.2	367

Source: Company, PL

Exhibit 5: ULIPs mix improve and remain dominant part of mix


Source: Company, PL

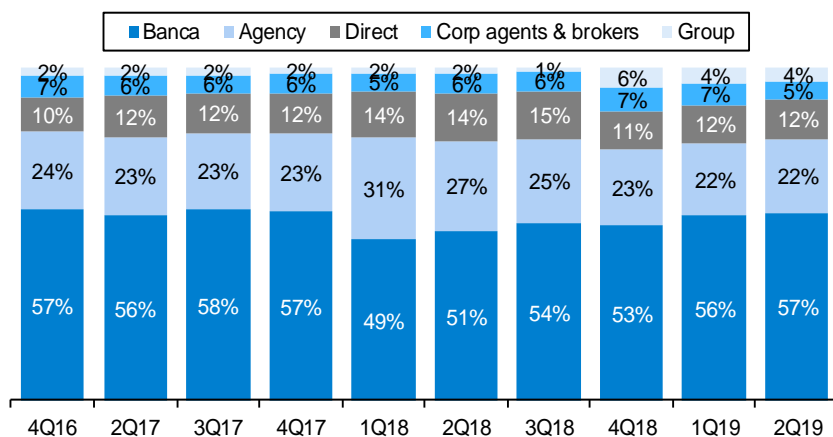


Exhibit 6: Alternate & proprietary channels sourcing has been de-growing but group picks up

Sourcing Mix	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
Rs Mn								
Banca	11,250	10,055	12	7,760	45	19,010	18,335	4
Agency	4,420	4,486	(1)	3,040	45	7,460	9,686	(23)
Direct	2,360	2,727	(13)	1,640	44	4,000	5,147	(22)
Corp Agent & Brokers	1,010	1,086	(7)	910	11	1,920	1,966	(2)
Group	810	388	109	610	33	1,420	643	121
(%)								
Banca	56.7	51.3	538	55.6	109	56.2	51.3	493
Agency	22.3	27.1	(483)	21.8	49	22.1	27.1	(504)
Direct	11.9	14.4	(251)	11.7	14	11.8	14.4	(257)
Corp Agent & Brokers	5.1	5.5	(41)	6.5	(143)	5.7	5.5	18
Group	4.1	1.8	228	4.4	(29)	4.2	1.8	240

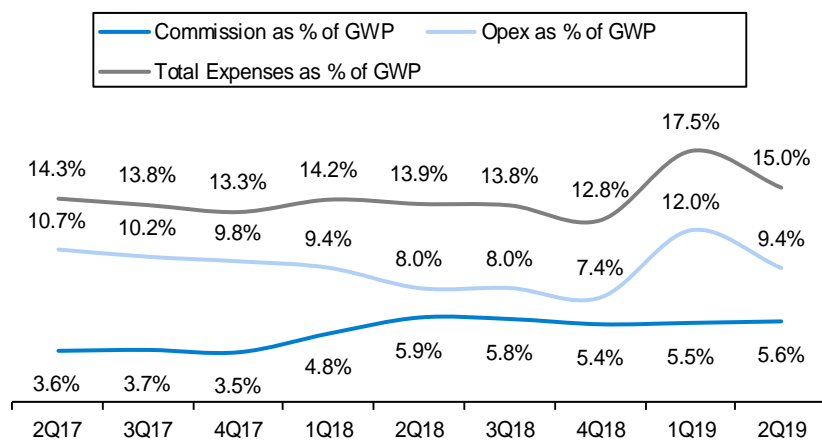
Source: Company, PL

Exhibit 7: Banca remains key channel of sourcing and growth



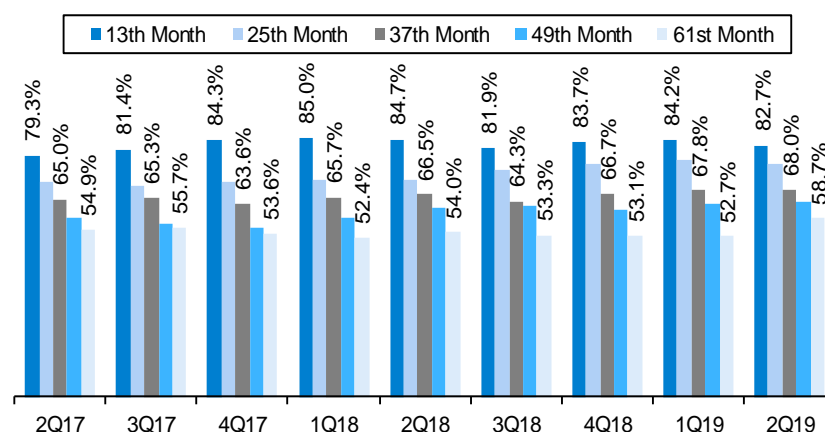
Source: Company, PL

Exhibit 8: Opex & commission ratios saw improvement on better APE growth



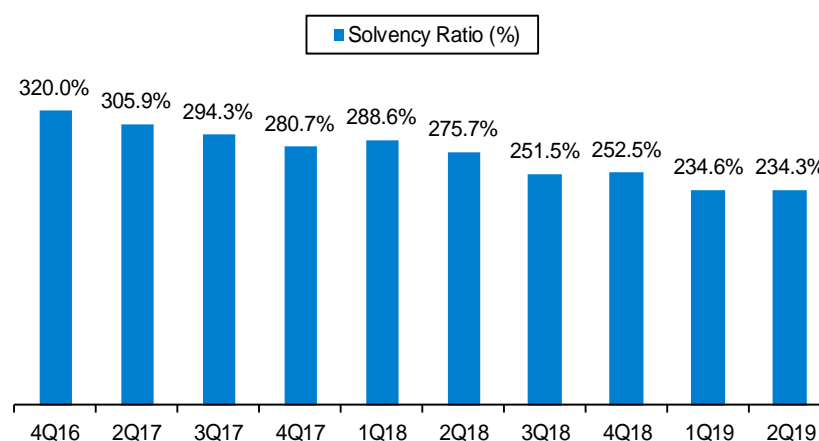
Source: Company, PL

Exhibit 9: Persistency Ratio continues to improve at higher end buckets



Source: Company, PL

Exhibit 10: Solvency ratio remained stable with dividend payout



Source: Company, PL

Exhibit 11: Key Metrics and EV movement

Rs bn	FY16	FY17	FY18	FY19E	FY20E	FY21E
APE	51.7	66.3	77.9	92.0	108.8	108.8
YoY growth (%)	9.0	28.1	17.6	18.1	18.3	18.3
NBV	4.1	6.7	12.9	15.9	19.8	19.8
YoY growth (%)	52.7	61.5	93.1	23.8	24.1	24.1
EV Movement						
Opening IEV	138.2	139.4	161.8	187.9	214.3	214.3
New Business Value	21.2	23.0	36.8	37.0	41.8	41.8
EVOP	4.1	6.7	12.9	15.9	19.8	19.8
Dividend payout	14.4	6.3	11.9	12.1	13.1	13.1
Closing EV	139.4	161.8	187.9	214.3	245.8	245.8
Adjusted Net worth	55.1	67.6	70.2	74.1	80.2	80.2
Value in force (VIF)	84.3	94.3	117.7	140.2	165.6	165.6
Ratios (%)						
NBAP margins	8.0	10.1	16.5	17.3	18.2	18.2
RoEV	0.9	16.1	16.1	14.1	14.7	14.7
Operating RoEV	15.4	16.5	22.7	19.7	19.5	19.5

Source: Company, PL

Exhibit 12: Change in estimates table

Rs Bn	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
APE	92.0	108.8	88.4	104.5	(3.9)	(4.0)
VNB	15.9	19.8	15.3	19.1	(3.7)	(3.5)
VNB Margin (%)	17.3	18.2	17.3	18.3	0.0	0.1
EV	214.3	245.8	211.2	243.7	(1.4)	(0.9)
Price target (Rs)	520		507		-	
Recommendation	BUY		BUY			

Source: Company, PL

Exhibit 13: We revise our TP to Rs507 (from Rs520) based on 2.8x (from 3.0x) P/EV Sep FY21E (rolled over from Mar-20E)

PT calculation and upside	
Op RoEV	19.5%
CoE	13.8%
Terminal Growth	5.0%
Embedded value	263
Price / Embedded value	2.8
Appraisal Value	727
Number of shares, mn	1,435
Valuation per share	507
CMP	327
<i>Upside (%)</i>	<i>55%</i>

Source: Company, PL



Appendix

Exhibit 14: Policyholders' Account (Technical Account)

Policyholders' Account	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net earned premium	134,172	122,827	151,604	189,987	221,552	268,107	323,787	386,977	463,457
Investment income	61,804	92,168	187,244	12,084	149,769	112,615	138,283	187,439	230,430
Other income	5,653	1,119	594	209	490	594	665	762	873
Total Revenue	201,630	216,113	339,443	202,279	371,812	381,315	462,736	575,179	694,760
Commission expense	7,655	6,275	5,532	6,200	7,589	14,033	16,914	20,141	24,361
Operating expense	20,386	16,169	16,520	18,883	23,572	20,299	23,630	26,700	32,276
Benefit Cost	158,784	177,443	302,132	159,425	324,954	327,283	400,077	502,515	608,557
Total expense	186,895	203,068	327,315	188,152	360,404	367,342	447,772	558,283	676,341
Surplus / Deficit	14,735	13,045	12,127	14,128	11,408	13,973	14,964	16,895	18,419

Source: Company, PL

Exhibit 15: Shareholders' Account (Revenue Account)

Shareholders' Account	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Transfer from policholders' account	17,006	12,642	11,386	12,076	11,315	10,892	11,910	13,379	14,411
Investment income	4,173	3,897	5,358	6,019	6,647	7,395	7,710	8,728	13,656
Expenses	5,489	1,360	896	382	398	1,140	1,347	1,646	2,025
Profit before tax	15,695	15,281	15,854	17,714	17,850	17,196	18,326	20,520	26,108
Tax expenses	737	(374)	(490)	(1,212)	(1,028)	(997)	(1,100)	1,231	1,305
Profit after tax	14,958	15,656	16,344	18,926	18,878	18,193	19,426	19,288	24,802

Source: Company, PL

Exhibit 16: Balance Sheet

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Sources of Fund									
Shareholders' Fund	51,292	49,817	52,655	53,233	64,080	68,845	77,648	88,216	104,116
Borrowings	-	-	-	-	-	-	-	-	-
Policyholders' Funds: Insurance reserves and provisions	687,344	746,243	932,657	965,784	1,148,941	1,306,111	1,541,301	1,842,701	2,228,369
Others	5,083	5,040	5,275	6,619	6,042	8,782	9,659	10,624	11,686
Total	743,719	801,101	990,587	1,025,636	1,219,063	1,383,737	1,628,608	1,941,541	2,344,171
Application of Funds									
Shareholders' inv	49,200	53,528	58,552	62,124	66,403	77,493	93,832	124,363	186,005
Policyholders' inv	112,870	144,567	188,580	215,156	270,674	332,889	405,252	495,947	606,380
Assets to cover linked liab.	575,208	603,104	747,775	752,958	878,783	975,020	1,131,023	1,323,297	1,548,257
Net Current Assets	(7,090)	(8,140)	(6,661)	(7,240)	259	(7,336)	(7,937)	(9,423)	(4,565)
Other Assets	13,440	8,050	2,353	2,639	2,945	5,672	6,439	7,357	8,093
Total	743,628	801,109	990,599	1,025,637	1,219,063	1,383,737	1,628,608	1,941,541	2,344,171

Source: Company, PL



Exhibit 17: Embedded Value

Embedded Value	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Embedded Value		117,750	137,210	139,383	161,833	187,883	211,218	243,703	283,208
Annualised Premium Equivalent (APE)	35,320	34,440	47,440	51,700	66,250	77,920	88,450	104,466	124,268
New Business Value		2,280	2,700	4,123	6,660	12,860	15,331	19,072	23,596
New Business Margin (%)		6.6	5.7	8.0	10.1	16.5	17.3	18.3	19.0
EV Operating Profit			18,120	22,223	22,950	36,800	34,973	40,969	47,835
Operating RoEV (%)			15.4	16.2	16.5	22.7	18.6	19.4	19.6

Source: Company, PL

Exhibit 18: Key Ratios

Key Ratio	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Commission expense/GWP (%)	5.7	5.0	3.6	3.2	3.4	5.2	5.2	5.2	5.2
Operating expense/GWP (%)	15.1	13.0	10.8	9.9	10.5	7.5	7.2	6.8	6.9
Total expense/GWP (%)	20.7	18.1	14.4	13.1	13.9	12.7	12.4	12.0	12.1

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	624	586
2	Bank of Baroda	Accumulate	165	103
3	Bank of India	Reduce	89	79
4	Federal Bank	BUY	102	82
5	HDFC Bank	BUY	2,310	1,968
6	HDFC Standard Life Insurance Company	Accumulate	500	372
7	ICICI Bank	Accumulate	329	317
8	ICICI Prudential Life Insurance Company	BUY	520	326
9	IDFC Bank	Accumulate	55	37
10	IndusInd Bank	BUY	2,000	1,627
11	Jammu & Kashmir Bank	BUY	94	40
12	Kotak Mahindra Bank	Hold	1,398	1,075
13	Max Financial Services	BUY	700	359
14	Punjab National Bank	Hold	79	65
15	SBI Life Insurance Company	BUY	779	564
16	South Indian Bank	BUY	22	15
17	State Bank of India	BUY	349	271
18	Union Bank of India	Reduce	79	68
19	YES Bank	BUY	250	215

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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