

### Improving product mix led to margin expansion

**ICICI Prudential Life Insurance Company (IPRU) is a structural story, which benefits a lot from its 4P strategy of premium, protection, persistency and productivity, reflecting in a VNB CAGR over 32% over FY16-21 despite an APE CAGR of 5%, aided largely by an improving VNB margin to 25% by FY21 from 8% in FY16. Besides, we also like the IPRU franchise given strengths such as strong distribution network, retail focussed portfolio, no asset quality/ investment risks and comfortable solvency.**

#### Strong year with solid margin expansion

- IPRU closed FY21 on a positive note (4QFY21 APE growth 14%), with full year margin increased from 21.7% in FY20 to 25.1% in FY21 mainly due to favorable business mix change (higher share of protection, non-linked savings).
- Over 11M FY21, retail persistency (ex-single premiums) in the 13th month improved by 160 bps YoY to 85%, while 61st month bucket saw an improvement of 230bps YoY to 58%.
- IPRU has posted an EV of Rs 291 Bn, up 26% YoY supported by a solid reversal in investment variances (Rs 26 Bn) offset by Rs 2.4 Bn negative mortality variance owing to COVID19.

#### Distribution channels expanding

- IPRU has diversified its distribution channel throughout FY21, added +20k agents and entered into banca tie-ups with IIB, RBL Bank and IDFC First Bank. It now has 23 bank partnerships with access to 162 mn customers and bank branch network of 12k branches.
- On partnership distribution, the company has added 110 partnerships during the year and has about 600 partnerships across traditional and non-traditional distributors such as web aggregators, payment banks, small finance banks and insurance marketing firms.
- Because of this, distribution mix has diversified with lesser dependence on ICICI Bank channel – mix reduced to 31% in FY21 compared to 47% in FY18.
- The scaling up of new partnerships including banks is expected to contribute to topline growth in medium term.

#### Financial Summary

Y/E Mar (Rs Bn)	FY18	FY19	FY20	FY21
APE	78	78	74	65
VNB	13	13	16	16
PAT	16	11	11	10
Embedded Value	188	216	230	291
EPS (Rs)	11	8	7	7
EV (Rs)	131	151	160	203
Growth (%)	-4	-30	-6	-10
P/E (x)	48	68	73	81
P/EV (x)	4.1	3.6	3.4	2.7
RoE (%)	24	16	15	12

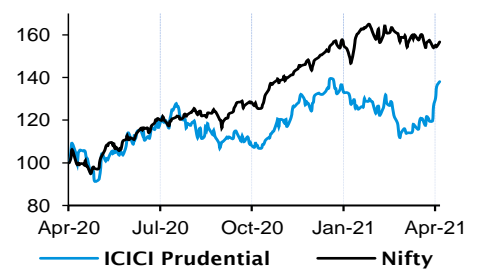
Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>568</b>	<b>4</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>544</b>
Market Cap (Rs.Bn)	(Rs Bn)	781
Market Cap (US\$ Mn)	(US\$ Mn)	10434
Face Value	Rs	10
52 Weeks High/Low	Rs	547/330
Average Daily Volume	('000)	14277
BSE Code		540133
Bloomberg		IPRU:IN
Source: Bloomberg		

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	73.48	73.48
FII	16.51	16.28
DII	4.29	4.71
Others	5.72	5.53
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

**Avinash Tanawade**  
(022) 67141449  
avinash.tanawade@dalal-broacha.com

### Product mix diversification progressing well

- The company has reengineered its business model, which is focused on more diversified products such as non-linked saving products (contribution 31% vs 11% in FY18) & protection (16% vs 6% in FY18). Besides, the contribution of ULIP declining to 48% v/s 82% in FY18.
- Sustained diversification towards a non-ULIP heavy product portfolio should make growth more resilient and less vulnerable to market correction.

**Sustained diversification towards a non-ULIP heavy product portfolio should make growth more resilient and less vulnerable to market correction.**

### Under-penetration continues to reflect huge opportunity

- India’s life Insurance penetration is at 2.8% and density at \$58, which is way below the global statistics. This gives immense opportunity for insurance players to increase their business and profits.
- When it comes to life, people often need someone whom they can trust. As a result, the survivability, and brand equity of the Life Insurance Company plays a key role when buying a policy. IPRU is the large beneficiary of the brand equity and reputation of ICICI group.

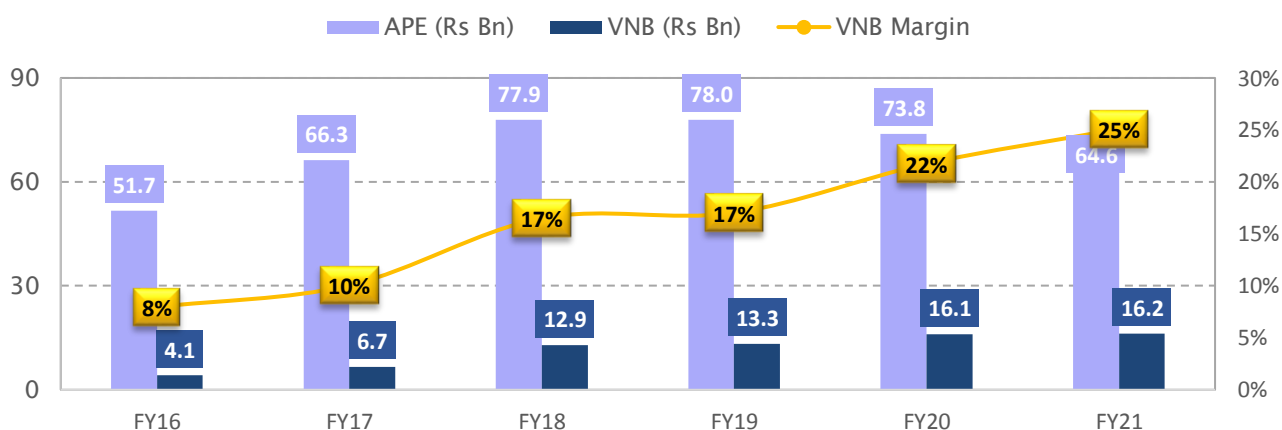
**IPRU is the large beneficiary of the brand equity and reputation of ICICI group.**

## Valuation and outlook

We believe IPRU’s continued focus on high margin products and push from new partnerships should help it deliver strong growth with steady margin in next few years. While ULIP business will likely to revive gradually owing to a benign base and addition of new banca partners, Annuity/Non-Linked Savings segments will also be expected to grow at healthy pace, keeping balanced mix. With FY21, IPRU is keeping close watch of all its near term concerns including making Rs 3.32bn of additional COVID19 claims provisions. AT CMP of Rs. 542 the stock is trading at TTM P/EV of 2.7x, which is discount to immediate peers. We value the company at P/EV of 2.8x on FY21 basis to arrive at our TP of Rs. 568 and assign a “Hold” rating.

**We believe IPRU’s continued focus on high margin products and push from new partnerships should help it deliver strong growth with steady margin in next few years.**

### VNB margin movement



Source: Dalal & Broacha Research, Company

### Disclaimer

**Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B** (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.dalal-broacha.com](http://www.dalal-broacha.com)

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

#### **Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-**

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

#### **Disclosures in respect of Research Analyst:**

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co- managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto   Auto Ancillary   FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma   Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT   Telecom   Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG   Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT   Telecom   Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)