

## ICICI Prudential Life Q1FY21

### Financial Results & Highlights

#### Brief Company Introduction

ICICI Prudential Life Insurance Co. carries on business of providing life insurance, pensions and health insurance products to individuals and groups. Riders providing additional benefits are offered under some of these products. The business is conducted in participating, non-participating and unit linked lines of businesses. These products are distributed through individual agents, corporate agents, banks, brokers, the Company's proprietary sales force and the Company website.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	19057	8432	126.01%	-7648	-349.18%
PBT	311	287	8.36%	172	80.81%
PAT	288	285	1.05%	179	60.89%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	19057	8432	126.01%	-7648	-349.18%
PBT	310	287	8.01%	171	81.29%
PAT	287	285	0.70%	179	60.34%

#### Detailed Results:

1. There was a 35% YoY fall in the Value of New Business (VNB).
2. APE (Annualized Premium Equivalent) fell 44% YoY in Q1FY21. The savings portion fell 51.5% YoY to Rs 6.09 billion while the protection segment was flat at Rs 2.14 billion.
3. The new business premium declined by 32.6% YoY. The new business margin was at 24.4%. the rise in the margin is due to the shift in product mix towards protection to 26% vs 14.6% a year ago.
4. Total AUM was almost flat YoY in the Q1FY21 at Rs 1700 billion and had a 57:44 debt to equity mix. 94.3% of debt investments were in AAA-rated bonds.
5. The company maintained a solvency ratio of 205%.
6. The cost to the TWRP ratio declined by 220 bps to 14.8% in Q1FY21.
7. The company reported slight drops of 0.5-5% in persistency across all time periods.

### **Investor Conference Call Highlights**

1. The company has announced a partnership with the IDFC First Bank where the entire suite of protection and savings products will be made available to customers of IDFC First Bank.
2. The company saw encouraging growth in June where activity was double that of April.
3. Within the protection business, retail protection continues to dominate the mix.
4. The company has launched the revised product incorporating the reinsurance rate changes in the first week of July.
5. 13-month and 49-month persistency were at 81.8% and 63.9% respectively.
6. The development of VNB in Q1 was due to:
  1. a shift in product mix towards higher-margin products, resulting in an improvement in margins;
  2. transition in the protection product portfolio, resulting in the segment profitability being temporarily suboptimal;
  3. a decline in the new business APE for the unit-linked business, resulting in a lower absolute VNB for that business.
7. During the quarter, 97% of policies were logged on the online platform and 95% of the documents were submitted on the online platform.
8. Online payment options were availed by the customers to pay around 78% of the new business premium.
9. ICICI Bank contributed about 65% of Q1FY21 APE.
10. There was indeed a surge in protection inquiries but demand was kept down due to challenges to conduct medical tests. This demand is expected to come back once normalcy comes back.
11. The cost to the TWRP ratio for savings business was lower at 8.8% compared to 11.3% for the same period last year.
12. The management has stated that they expect protection prices for new products to rise by 10% to 25% from the old pricing before the 31st of March.
13. The management states that short-term product mix will lead to margin expansion. Once the economy comes back to normal in the medium term, top-line growth shall resume.
14. The management remains confident of doubling its FY19 VNB in 3-4 years as guided before.
15. The management maintains that the company remains a more retail protection-oriented company.
16. The negative surplus in the par life category is expected to get adjusted by the end of the year.
17. The focus in this product grouping of nonpar guaranteed return products would be on annuities.
18. The management does not expect any further price hikes from reinsurance for the near future.
19. The new product launched in July is an all-in-one product, which includes the critical illness cover and a proposition to add a term and health together.
20. The major sources for cost reduction are discretionary expenses related to sales, marketing, and travel. Another major source is the freezing of wage hikes.
21. The nonlinked business overall grew at about 13% and it contributes to almost 75% of the VNB.
22. Even in areas with higher cases of COVID-19, the demand for the protection product remains intact.
23. The protection opportunity is very large for India with only an estimated 8% being covered at present.
24. Total costs are down 21% YoY. The management believes that as the momentum for nonlinked savings products continues it will become more affordable for the company.

25. The variations in channel persistency are mainly due to the different product mixes in those specific channels.
26. 95%+ of the protection APE from the Banca channel is from ICICI bank.
27. The company's penetration in bank partners' customer base is so small that there aren't many multi-product sell opportunities. The first priority is still to get the bank customers to buy their first term life product.
28. Less than 10-15% of retail protection APE comes from Five Pay in Q1.
29. ULIP has actually been affected because of a combination of factors like:
  1. Overall sentiment remains subdued
  2. Customers which typically pay large premiums, do not want to commit significantly long-term on a fresh contract in current uncertain times
30. ULIP declined 66% in Q1.
31. On a long term basis, ULIP margins should normalize as all in increases will be passed on in prices from July.
32. Overall for the protection business, the company retains 50% and reinsures the rest 50% at an aggregate portfolio level.
33. The management does not foresee any need to move out of our target market as such at current levels.
34. Persistency is expected to get better as the reported figures only contain data from April and May when the damage was most significant.
35. The company is encouraging its entire distribution to focus more on a goal-based approach as opposed to an investment return-oriented approach.
36. Margins in the savings business were at the same level as last year.

#### **Analyst's View:**

ICICI Prudential Life is one of the front runners in the life insurance industry in India. The company has established itself as one of the mainstays of the private insurance industry since its start more than 40 years ago. The company has done well to shore its reserves and maintain balance sheet resilience in the face of the ongoing crisis. The performance of the company's protection business is particularly encouraging. The core demand for new protection products remains intact. But the company could still face major hurdles in its path from the uncertainty in equity markets and the reliance on ULIPs which have declined by a sharp 66% in Q1. It remains to be seen how the COVID-19 situation unravels and how the company will be able to fulfill its guidance for doubling FY19 VNB. Nonetheless, given the company's market position, track record, and reach in the market, ICICI Prudential is a pivotal insurance stock to watch out for.

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