

ICICI Prudential Life Insurance Company Limited

IPO Note-SUBSCRIBE

Analyst:

Rohit Rai

Nilesh Gandhi

19 September 2016

IPO details

Key Data	
Issue Opens	19-Sep-16
Issue Closes	22-Sep-16
Equity Shares Offered (in mn.)	181.34
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	300-334
Max. Issue Size (₹ mn)	60,568
Lot Size (Eq. Shares)	44 and multiple thereof

Valuation	@ ₹300 per share	@ ₹334 per share
Market Cap (₹ mn)	430,597	479,398
Embedded Value (EV)^	139,390	139,390
Mkt cap/ EV	3.08	3.43
ROE	31%	31%
P/B	8.1	8.3
P/E	26.05	29.01

Source: Red Herring Prospectus ,Destimoney Research

^NOTE: Valuation Parameters considered are fully subscribed issue for FY16 financials and EV is sourced from Milliman report in RHP

	Pre Issue		Post Issue^	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	1,435.3	100.0%	1,254.0	87.4%
Offer For Sale			181.3	12.6%
Total	1,435.3	100.00%	1,435.3	100.0%

Promoters

- ICICI Bank
- Prudential Corporation Holdings Limited

ObjectofIssue

- To achieve the benefits of listing the Equity Shares of the Company on the Stock Exchanges

ICICI Prudential Life Insurance Company is the India's largest private sector life insurer

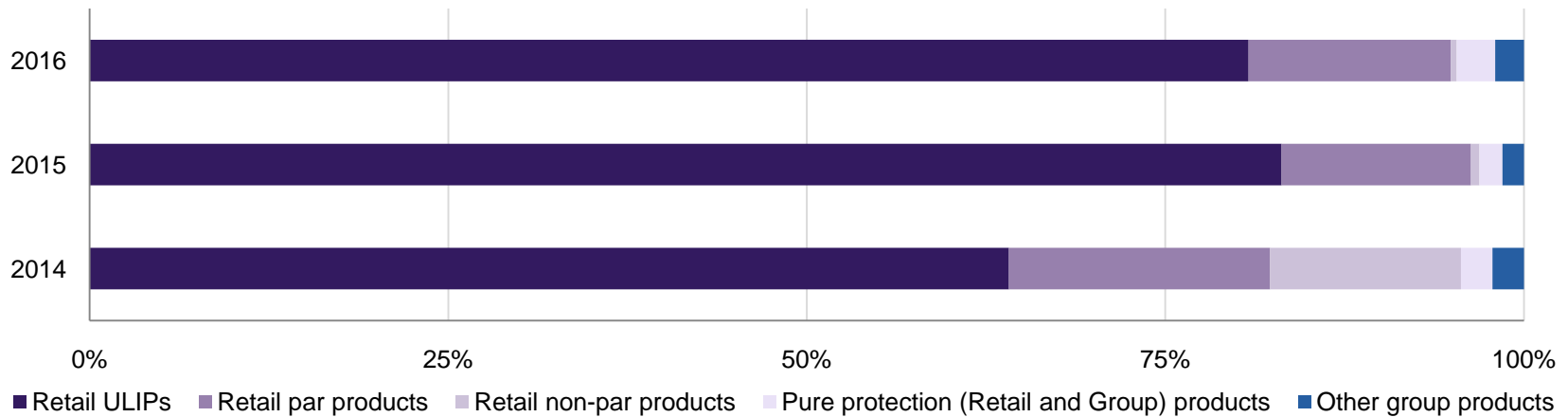
- ❑ **ICICI Prudential life Insurance Company Limited (ICICI Pru)** is the largest private sector life insurer in India by total premium in FY16 and assets under management at March31, 2016. Started as a joint venture between ICICI Bank Limited and Prudential Corporation Holdings Limited in 2001, ICICI Pru is one of the first private sector life insurance companies in India. It offers its customers a range of life insurance, health insurance and pension products and services. As of March 31, 2016, ICICI Pru had 121,016 individual agents. As of July 12, 2016, it had over 4,500 branches. In FY16, its market share, on a retail weighted received premium basis, among all insurance companies in India (public and private sector) was 11.3%, as compared with a market share of 9.7% for nearest private sector competitor. Among the 23 private sector life insurance companies in India, it had a market share, on a retail weighted received premium basis, of 21.9% in FY16.
- ❑ **Superior solvency and persistency ratio:** ICICI Prudential has a strong capital position with a solvency ratio of 320% at March 31, 2016 compared to the IRDAI- prescribed control level of 150%. Its Persistency ratio of 82.4% is highest among peers in private sector.
- ❑ **Consistent Leadership across Cycles:** The company generated the most new business premiums on a retail weighted received premium basis among all private sector life insurers in India for every year since FY02.
- ❑ **Strong bancassurance network:** ICICI Prudential's largest shareholder, ICICI Bank, is a key partner that currently exclusively distributes its life insurance products. It has also entered into a bancassurance relationship with Standard Chartered Bank pursuant to which Standard Chartered Bank currently exclusively distributes its products. Its annualised premium equivalent through bancassurance was ₹29.64 billion in FY16, which constituted 58.6% of its retail annualised premium equivalent.
- ❑ **Consistent and robust fund performance:** As on March31, 2016, ICICI Pru had ₹1.04 trillion of assets under management, making it one of the largest fund managers in India. Of these, 72.4% were in linked assets. Funds representing 92.9% of its linked assets with identified benchmarks as at March31, 2016 had performed better than the irrespective benchmarks since inception.
- ❑ Recently HDFC life and Max Life entered into a merger deal. The deal was valued at ₹665 bn for a combined embedded value of ₹158.5bn i.e. 4.2 times embedded value. When compared to this transaction, ICICI Pru is offering its shares between 3.08 -3.43 times its FY16 embedded value. Given the strong bancassurance network of parent bank, we believe the company is poised to capture the meaningful pie of largely underpenetrated insurance market in India. We recommend investors to **SUBSCRIBE** to the IPO at “**CUT-OFF**”.

ICICI Pru's business is heavily driven by Retail ULIPs

Annualised Premium Equivalent (APE)

(in `billions, except percentages)	FY14	%	FY15	%	FY16	%
Retail Life Insurance Products	33.6	97.5%	46.7	98.4%	50.6	97.9%
Group Life Insurance Products	0.86	2.5%	0.78	1.6%	1.11	2.1%
Total	34.45	100%	47.44	100%	51.7	100%

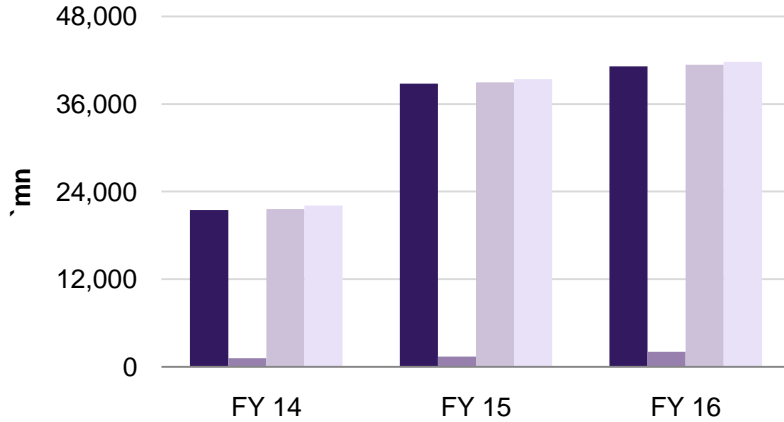
Product Mix



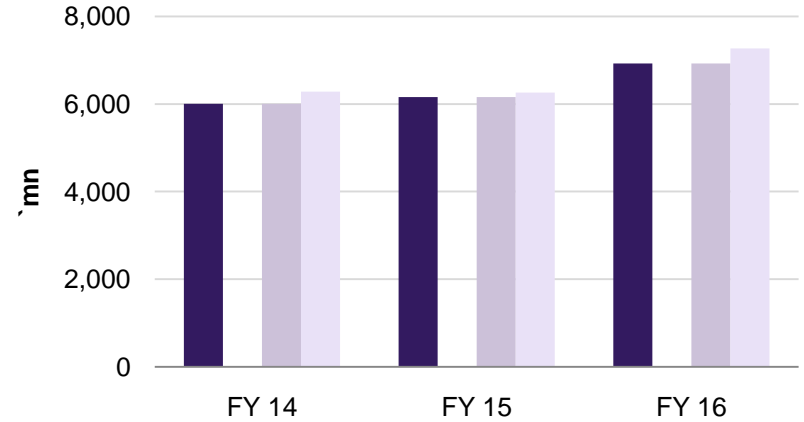
Source: RedHerringProspectus

Principal retail product categories

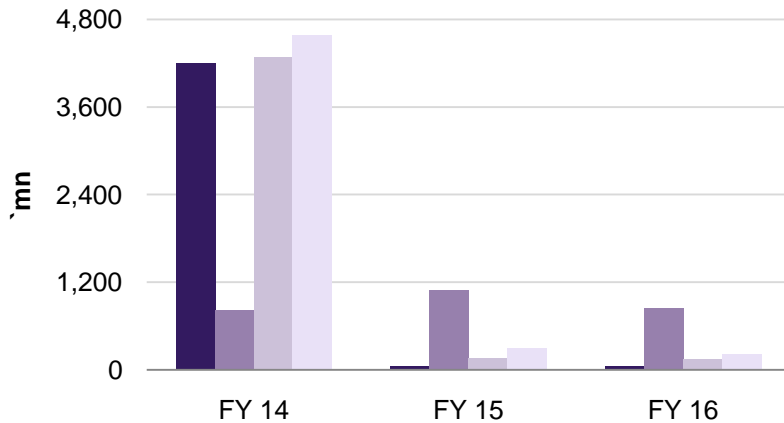
ULIPs



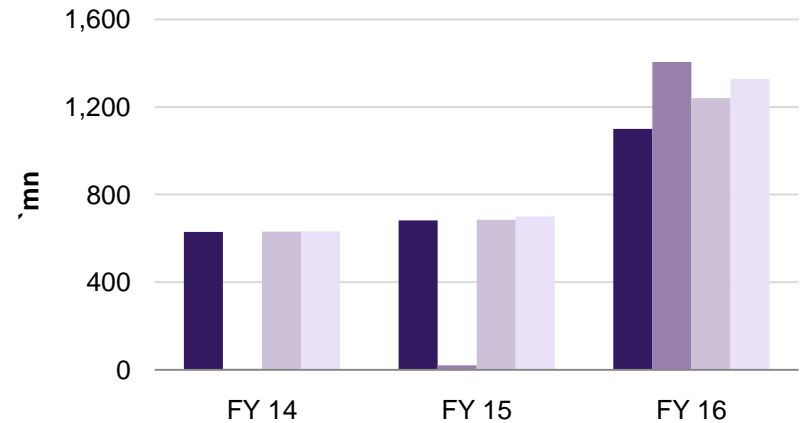
Par products



Non-par products



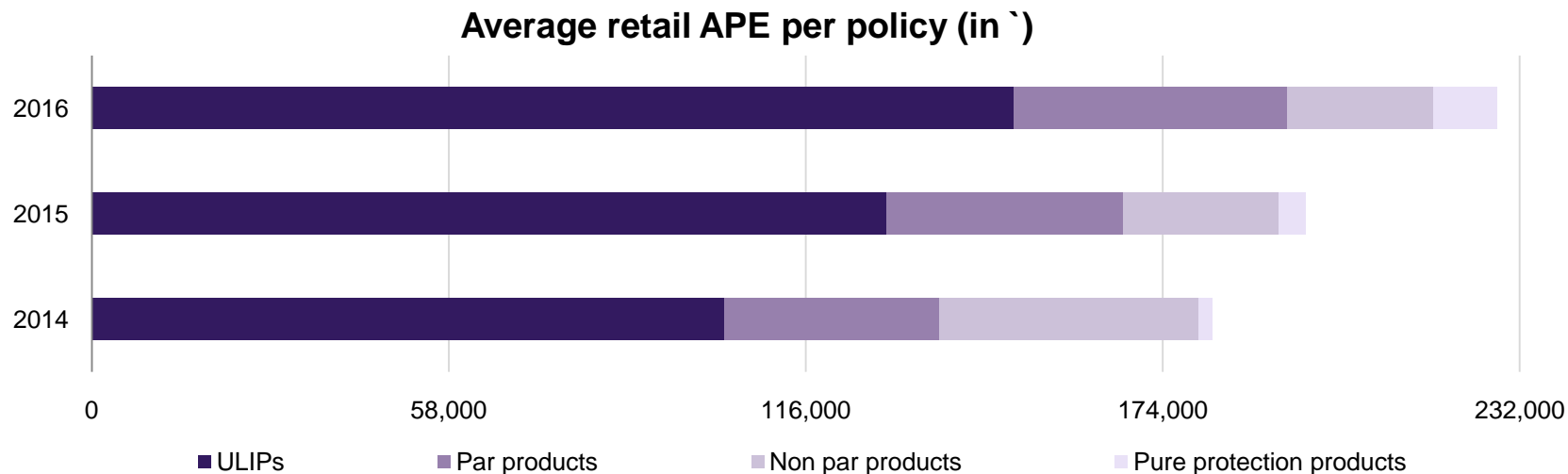
Pure protection products



New business regular received premium
 New business single premium
 Retail weighted received premium
 Annualised premium equivalent

Source: RedHerringProspectus

Average APE of retail segment is increasing YOY



- ❑ The average retail APE per policy increased from `43,143 in FY14 to `87,194 in FY16.
- ❑ APE from ULIPs increased from `22.10 billion in FY14, or 65.8% of retail APE, to `41.79 billion in FY16, or 82.6% of retail APE, a CAGR of 37.5%, reflecting its ability to sell more transparent products in line with customer needs.
- ❑ APE from par products increased from `6.28 billion in FY14 to `7.27 billion in FY16, at a CAGR of 7.6%.
- ❑ APE from pure protection products increased from `0.63 billion in FY14 to `1.33 billion in FY16, at a CAGR of 45.4%.

Source: RedHerringProspectus

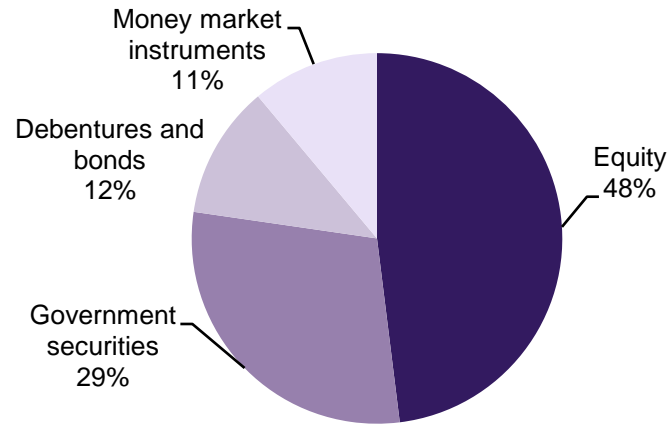
Principal group insurance product

Annualised Premium Equivalent (in ` bn)	FY14	FY15	FY16
Group term products	0.11	0.06	0.06
Other group products	0.75	0.72	1.04
Total	0.86	0.78	1.11

- ❑ ICICI Prudential offers group insurance products to employers to cover their employees, to banks, non-banking finance companies and micro-finance institutions to cover their customers, and to other professional and informal groups to cover their members.
- ❑ In FY16, the Government of India launched a financial inclusion initiative to offer life insurance coverage of `200,000 for an annual premium of `330. ICICI Prudential participated in this initiative and covered over 367,000 lives, receiving an annual premium of ` 106.3 million.
- ❑ Other group products include unit-linked and variable insurance products . Like Group gratuity products, Group leave encashment products, Group super annuation products.

Source:RedHerringProspectus

Composition of funds as on FY 2016

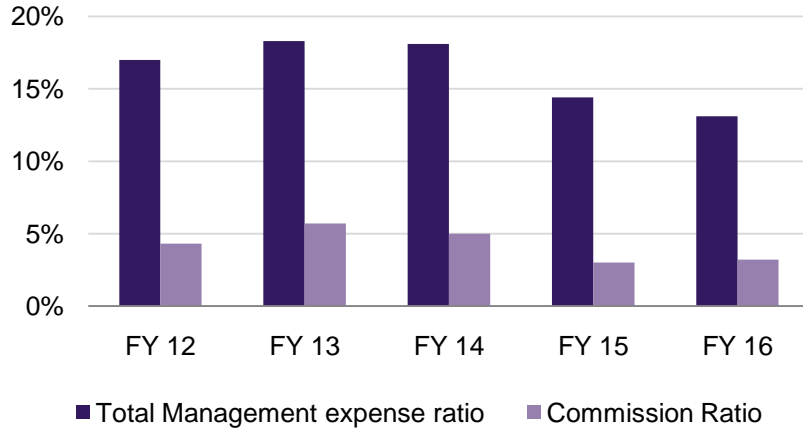


- ❑ ICICI Prudential maintains a diversified investment portfolio to generate investment returns to support its liabilities to its policy holders.
- ❑ At March 31, 2016, its AUM amounted to `1,039.39 billion, of which equities constituted 45.6%, government securities constituted 27.8% and corporate bonds constituted 11.0%.
- ❑ More than 90% of its equity investments are in linked funds where the asset allocation is selected by its customers who bear the investment risk.

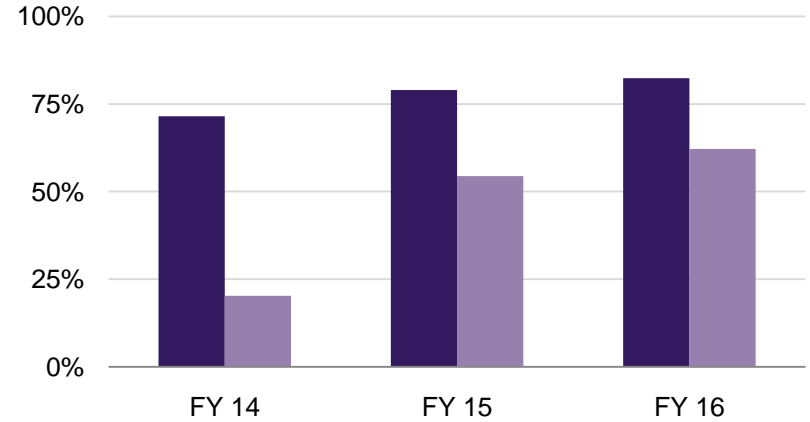
Source:RedHerringProspectus

ICICI Pru has shown improvement in operating matrix

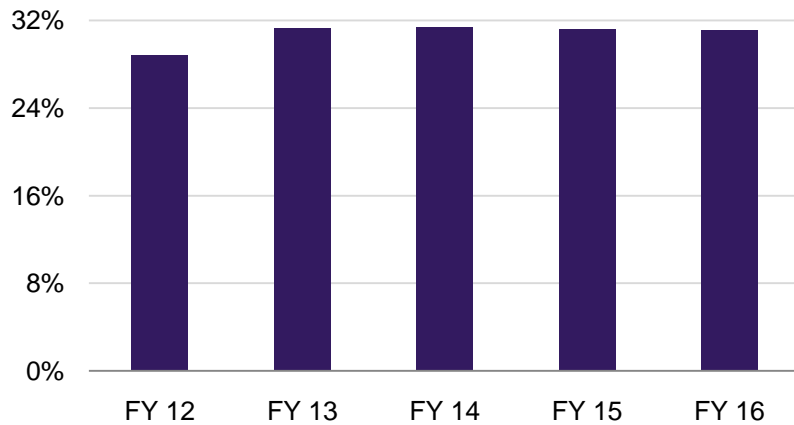
Constant fall in expense ratios



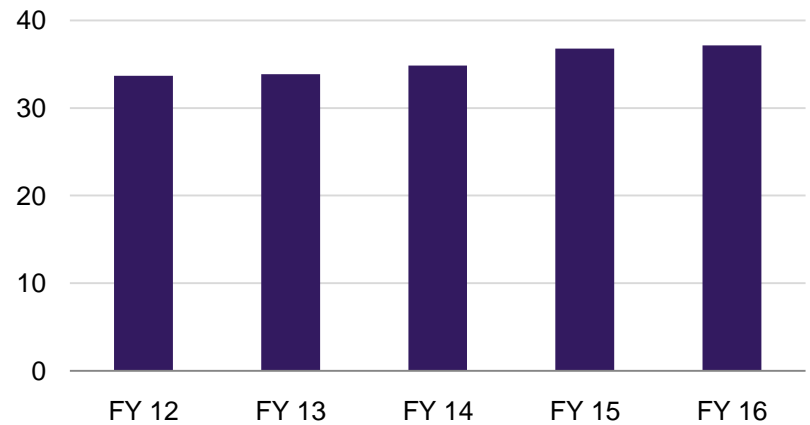
Improving persistency ratio



Consistent ROE



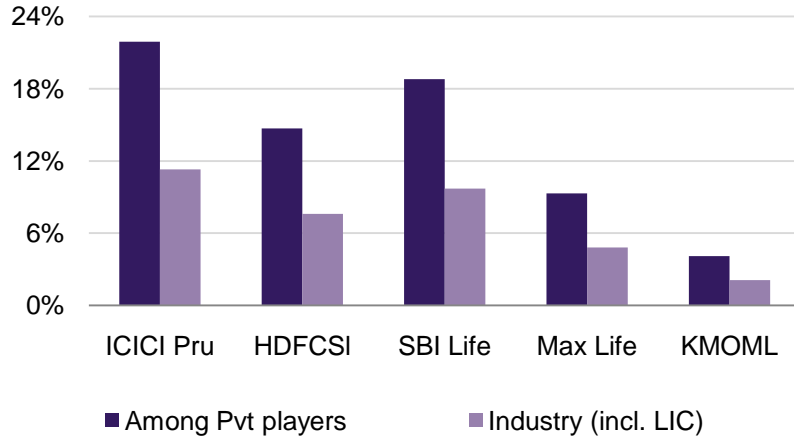
Increasing Book Value (₹ per share)



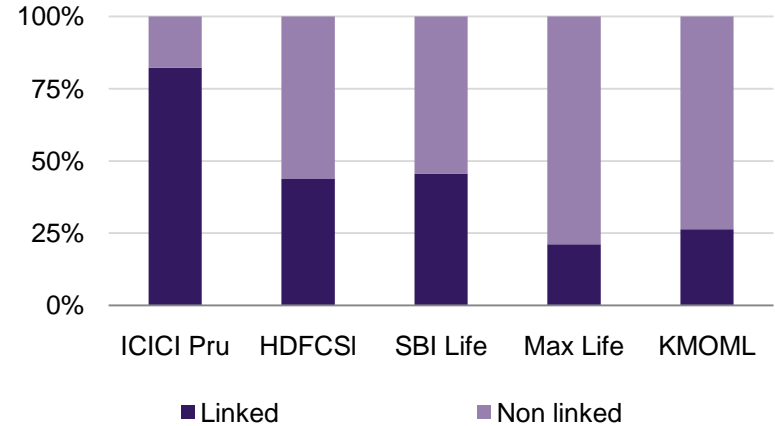
Source: RedHerringProspectus

Peer Comparison: Business Perspective

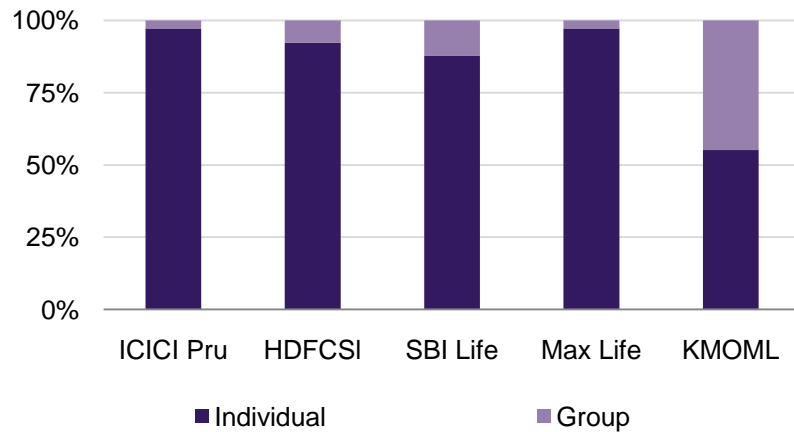
Market Share based on RWRP



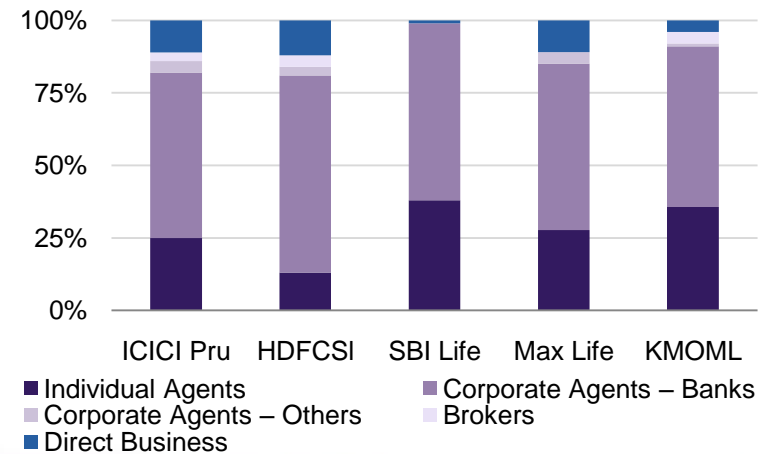
Product Mix



Customer Segment



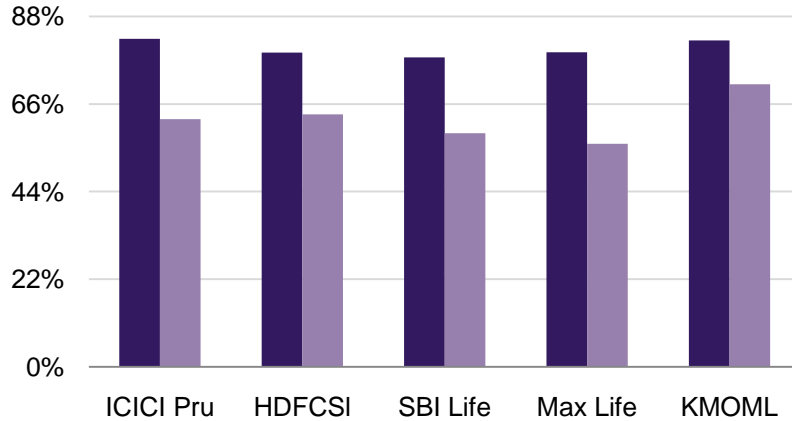
Channel Mix



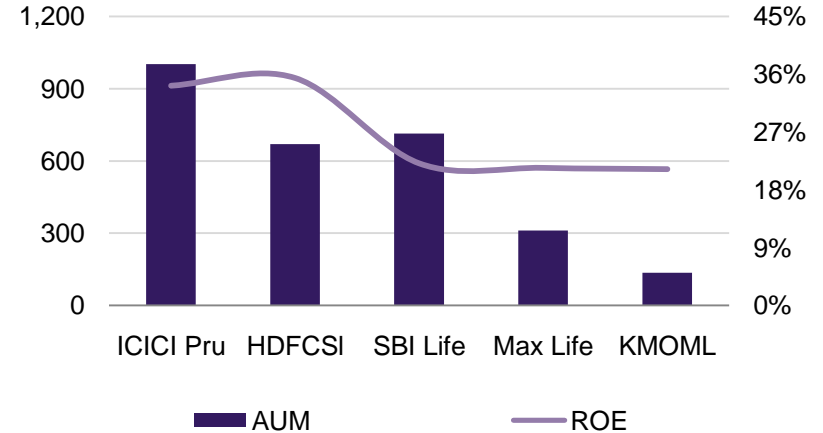
Source: RedHerringProspectus

Peer Comparison: Operations Perspective

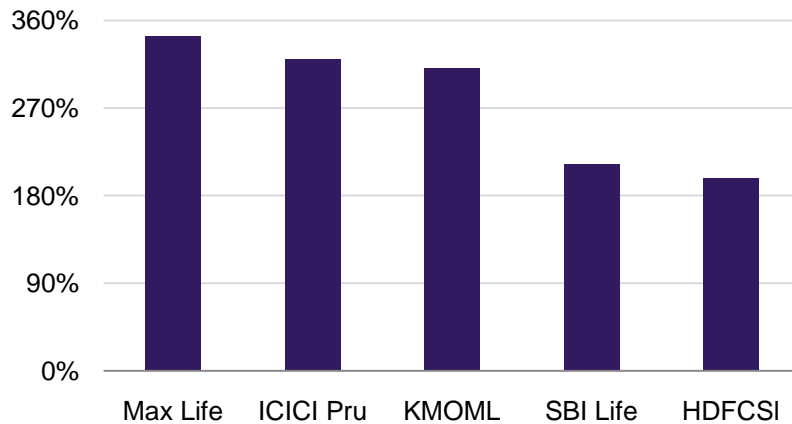
High Persistency Ratio



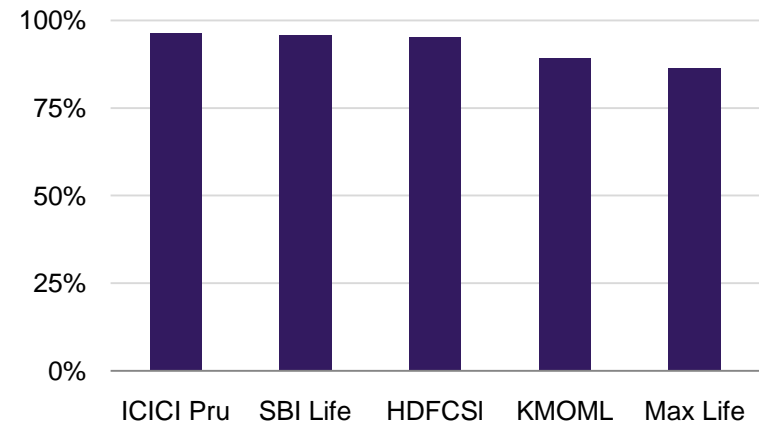
Highest AUM and ROE



Solvency Ratio FY16



Claims Settlement Ratio FY16



Source: RedHerringProspectus

Financials Summary

Policyholders Account

` mn	FY13	FY14	FY15	FY16	Q1 FY17
Premiums Earned Net	134,172	122,827	151,605	189,987	35,088
Income from Investment	61,867	92,126	187,385	12,084	53,564
Other Income	241	173	179	209	139
Contribution from the Shareholders' A/c	6,273	959	389	-	53
Total Income	202,553	216,084	339,558	202,279	88,844
Commission	7,654	6,275	5,532	6,200	1,257
Operating Expenses	17,131	16,162	16,543	18,883	5,520
Benefits Paid Net	132,928	120,833	122,600	124,248	29,281
Change in Valuation of Policy Liab	25,931	56,617	179,561	35,155	49,570
Others	3,350	3,196	3,132	3,643	942
Provision For Tax	350	481	512	704	4
Total B	187,344	203,564	327,879	188,832	86,574
Surplus/ (Deficit)	15,209	12,520	11,678	13,447	2,270
Transfer to shareholders Account	17,732	12,635	11,372	12,103	2,497

Shareholders Account

` mn	FY13	FY14	FY15	FY16	Q1 FY17
Transfer From Policy Holders A/C	17,732	12,635	11,372	12,103	2,497
Income From Investment	4,179	3,972	5,404	6,020	1,963
Total A	21,911	16,607	16,776	18,122	4,459
Expenses (other than Insurance)	77	151	481	339	80
Contribution to Policyholders	6,273	959	389	-	53
Others	-	263	-	44	-
Total B	6,350	1,372	870	383	133
Profit before Tax	15,561	15,235	15,906	17,739	4,327
Provision for Tax	407	(379)	(498)	1,212	278
Net profit	15,154	15,614	16,404	16,527	4,049

Source: RedHerringProspectus

Balance Sheet

` mn	FY13	FY14	FY15	FY16	Q1 FY17
Shareholders' Equity					
Share capital	14,289	14,293	14,317	14,323	14,329
Reserves and Surplus	34,123	35,526	38,326	38,912	43,097
Policyholder's Fund					
Policy Liabilities	110,276	138,125	172,588	202,548	211,375
Provision for linked Liabilities	573,886	602,654	747,753	752,947	793,690
Fair Value change	3,183	5,463	12,317	10,289	13,702
Funds for future appropriation	5,083	4,967	5,273	6,618	6,391
Sources of funds	740,839	801,028	990,573	1,025,637	1,082,583
Investments	49,178	53,483	58,552	62,124	55,429
Shareholders	112,770	144,426	188,580	215,156	229,720
Asset for linked Liabilities	575,208	603,104	747,775	752,958	793,698
Loans	88	119	201	443	501
Fixed Assets	1,724	2,017	2,151	2,196	2,133
Net Current Assets	(6,936)	(8,106)	(6,686)	(7,240)	1,101
Misc Expenditure	8,807	5,984	-	-	-
Application of Funds	740,839	801,028	990,573	1,025,637	1,082,583

Key Risks

- ❑ Any termination of, or any adverse change to, our relationships with or performance of its bancassurance partners, including with ICICI Bank and Standard Chartered Bank, may have a material adverse effect on its business, financial condition, results of operations and prospects.
- ❑ Any adverse effect on the equity markets in India could have a material adverse effect on its business, financial condition and results of operations.
- ❑ There are operational risks associated with the insurance industry which, when realised, may have a material adverse effect on its business, financial condition, results of operations and prospects.
- ❑ The embedded value and value of new business information presented in this Red Herring Prospectus is based on several assumptions and may vary significantly if those assumptions are changed or if experience is different from assumptions.

ANNEXURES

ICICI Pru – Operating Matrix

(in ` billions, except percentages)	FY14	FY15	FY16	Q1 FY17
RWRP	32.53	45.96	49.68	9.36
APE	34.45	47.44	51.70	10.12
13th month persistency	72%	79%	82%	83%
49th month persistency	20%	54%	62%	62%
Cost to TWRP	19%	15%	15%	21%
Solvency Ratio	369%	337%	320%	321%
VNB	-	2.70	4.12	-
VNB margin (%)	-	0.06	0.08	-
EV	-	137.21	139.39	-
EVOP	-	18.12	21.22	-
RoEV	-	0.15	0.15	-
RWRP	32.53	45.96	49.68	9.36

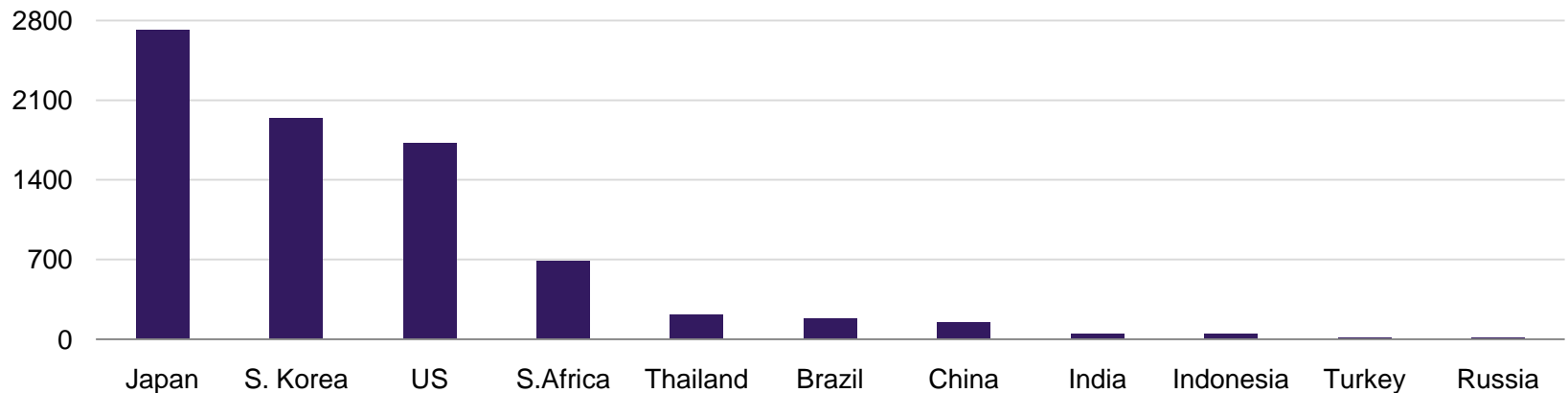
- ❑ **Total Weighted Received Premium (TWRP)** is measure of premiums received on both retail and group products and is the sum of first year and renewal premiums on regular premium policies and ten percent of single premiums received.
- ❑ **Retail Weighted Received Premium (RWRP)** is premiums actually received by the insurers under individual products (excluding accrued / due but not paid) and weighted at the rate of ten percent for single premiums.
- ❑ **Annualised Premium Equivalent (APE)** is the sum of annualised first year premiums on regular premium policies, and ten percent of single premiums, written by the Company during any period from both its individual and group customers.
- ❑ **Value of new business (VNB)** is the present value of expected future earnings from new policies written during any given period and it reflects the additional value to shareholders expected to be generated through the activity of writing new policies during any given period. VNB for any period reflects actual acquisition costs incurred during that period
- ❑ **Embedded Value (EV)** is the measure of the consolidated value of shareholders' interest in the life insurance business. It represents the present value of shareholders' interests in the earnings distributable from the assets allocated to the business after sufficient allowance for the aggregate risks in the business .
- ❑ **Embedded Value Operating Profit (EVOP)** is a measure of the increase in the EV during any given period due to matters that can be influenced by management. It excludes changes in the EV due to external factors like changes in economic variables and shareholder-related actions like capital injection or dividend pay-outs.
- ❑ **Return on Embedded Value (RoEV)** is the ratio of EVOP for any given period to the EV at the beginning of that period.

Source:RedHerringProspectus

India's Life Insurance Sector

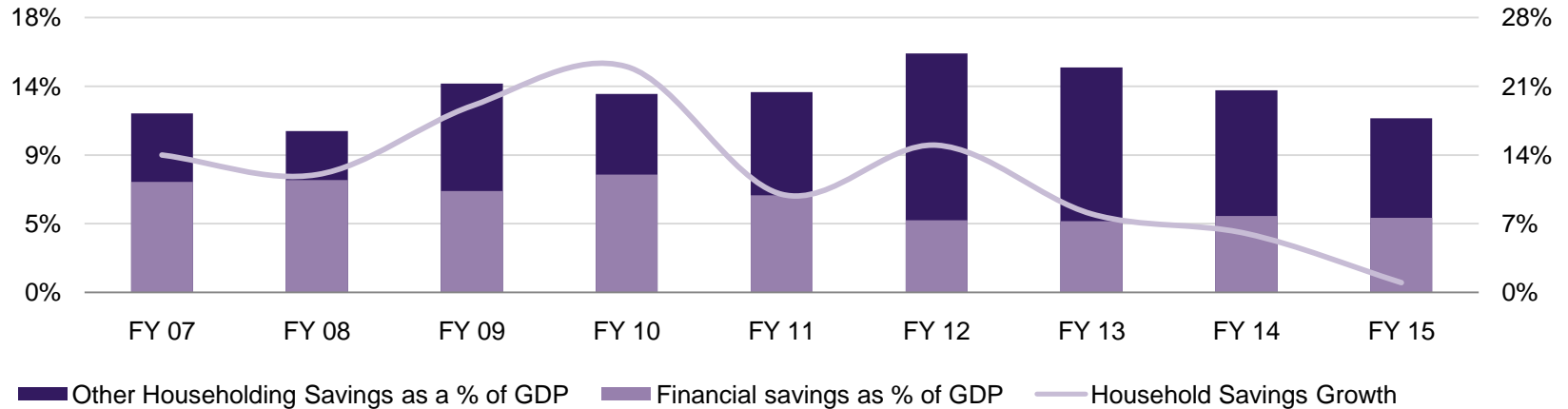
- ❑ The share of life insurance as a proportion of financial savings in India reached its highest level at 26.2% in FY10. However, with regulatory changes in the sector and a downturn in capital markets, the share of life insurance declined sharply to 16.0% of financial savings in FY14. In FY15, the share of life insurance increased to 19.0%, partly due to increase in the sale of linked products.
- ❑ The size of the Indian life insurance sector (excluding Sahara Life Insurance Company Limited) was `3.7 trillion on a total premium basis in FY16, making it the tenth largest life insurance market in the world and the fifth largest in Asia.
- ❑ The total premium in the Indian life insurance sector grew at a CAGR of approximately 17% between FY01 and FY16. Despite this, India continues to be an under penetrated insurance market with a life insurance penetration of 2.7% in FY15, as compared to 3.7% in Thailand, 7.3% in South Korea and a global average of 3.5% in 2015.
- ❑ At US \$43 in FY15, the insurance density in India also remains very low as compared to other developed and emerging market economies.

Insurance Density (Prem. Per Capita(US\$)) as of fiscal2015

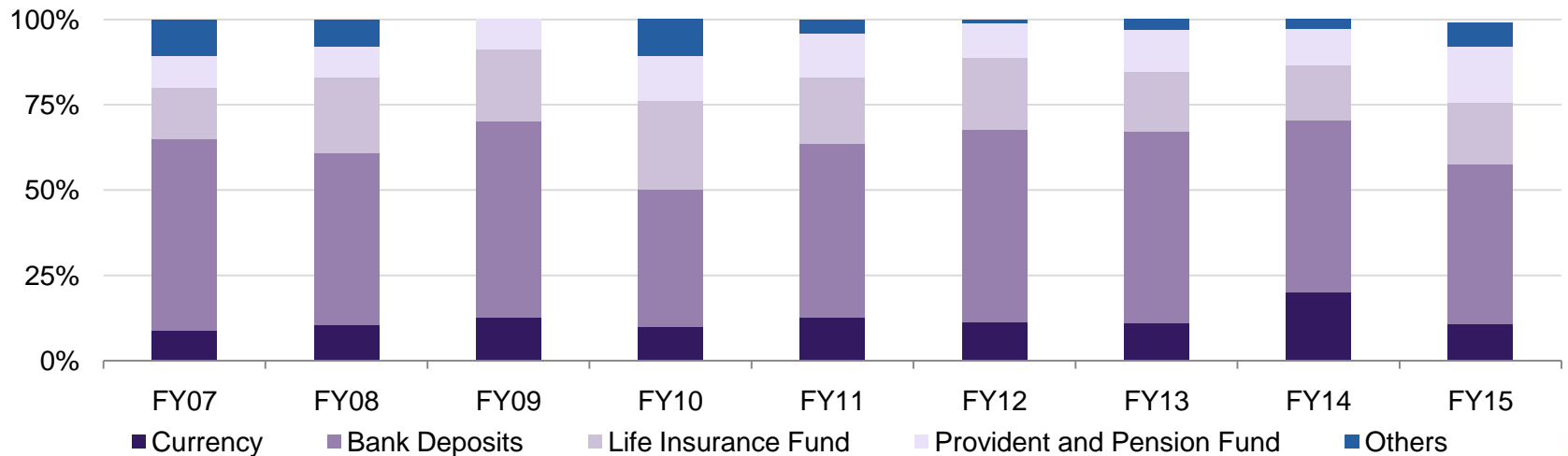


Source:RedHerringProspectus

Household Savings as a% of GDP

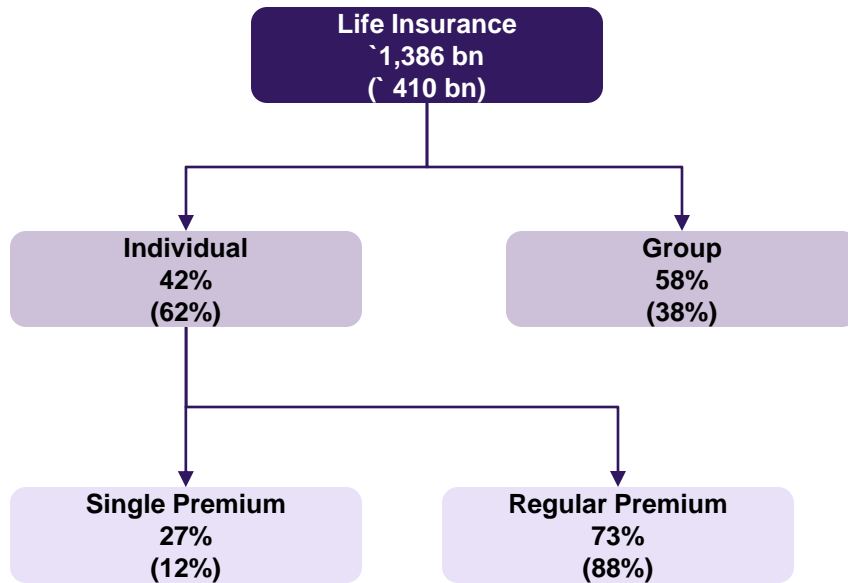


Financial Savings Mix

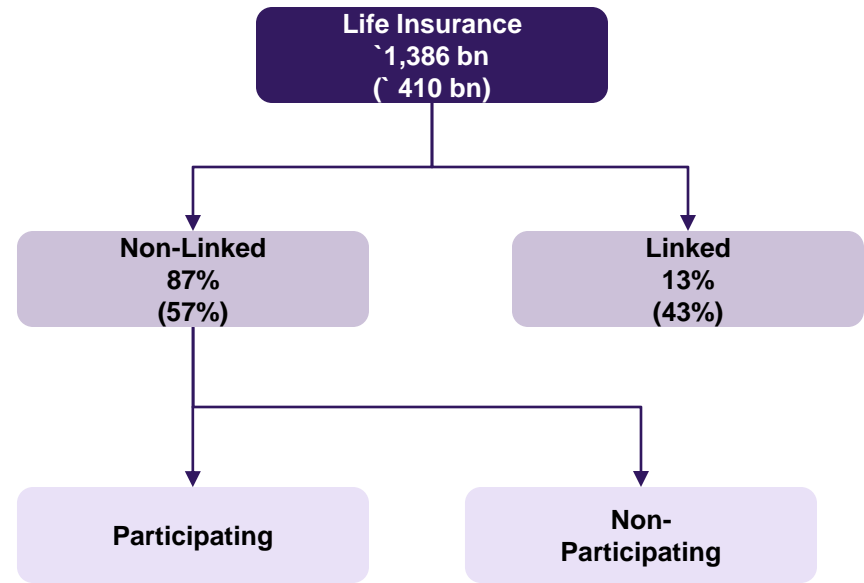


Source: RedHerringProspectus

Based on Customer



Based on Product



*Numbers in brackets are for private sector companies

Source: RedHerringProspectus

Growth Potential

- ❑ According to CRISIL Research, Life insurance industry report, July 2016, the new business premium for Indian life insurance companies is expected to grow at a CAGR of 11-13% over the next five years. Improving economic growth, low insurance penetration, increased financial savings, and a low sum assured to GDP ratio are expected to be the key catalysts for this growth.
- ❑ According to IRDAI, only 288 million people (or 17% of the total population) in India had health insurance coverage at March 31, 2015. In addition, only about 20% of this health insurance coverage was provided by insurance providers (both life and general), with the remaining covered under government-sponsored schemes such as the Central Government Health Scheme and the Employee State Insurance Scheme.
- ❑ Low penetration levels, rising health care costs, high out-of-pocket health expenses, constraints on the ability of governments to spend, limited coverage—presently covering only hospitalisation, a large informal sector which can be catered for by retail distribution and increased demand for quality health care with rising incomes provide opportunities for insurance providers.
- ❑ The number of people aged over 60 in India will triple from nearly 112 million in 2014 to 300 million by 2050. Most of them will not be financially secure in the absence of a social security net. As of 2014, only around 8% of retirees in the private sector receive a pension, indicating a significant opportunity in the pension sector.

Source: RedHerringProspectus

Destimoney Securities Private Limited

6th Floor, " A " Wing , Tech-Web Centre, New Link Road, Oshiwara , Near Behram Baug, Jogeshwari (West), Mumbai - 400102

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