Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

ICICI Lombard General Insurance

Strong fundamentals, attractive for the long term

Banks & Finance	Sharekhan code: ICICIGI	Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,485**	
Price Target: **Rs. 1,710**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

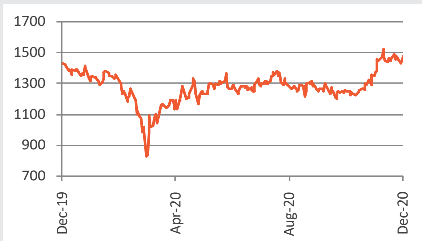
Company details

Market cap:	Rs. 67,585 cr
52-week high/low:	Rs. 1,440/805
NSE volume: (No of shares)	7.4 lakh
BSE code:	540716
NSE code:	ICICIGI
Free float: (No of shares)	20.1 cr

Shareholding (%)

Promoters	51.9
FII	27.1
DII	13.6
Others	7.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	18.6	14.9	3.7
Relative to Sensex	2.7	-9.9	-19.8	-9.6

Sharekhan Research, Bloomberg

Summary

- We had management interaction with ICICI Lombard General Insurance (ILGI) to get a business update. Higher collections in the health insurance vertical and momentum on the overall business are positive.
- Recovery (and rebound) in auto sales and strong pickup in the health segment have helped post GDPI collections in YTD basis, which are encouraging. Company expects gradual normalisation of claims; however, we believe strong revenue growth traction will help offset the same.
- We have fine-tuned our estimates and target multiples for the stock. ILGI trades at 40x/32.7x its FY2022E/FY2023E EPS; long-term business fundamentals have remained steady even during times of crisis.
- We continue to have a Buy rating on ILGI with a revised PT of Rs. 1,710.

We had management interaction with ICICI Lombard General Insurance (ILGI) to get a business update. Higher collections in the health insurance vertical and momentum on overall business are positive. Recovery (and rebound) in auto sales augur well for the motor business. Strong pickup in the health segment has also helped post GDPI collections, which are encouraging. Premium income had already normalised for H1FY2021 (GDPI growth of 0.8% y-o-y for H1FY2021) and traction for October and November was healthy (YTD GDPI growth of 3%), which indicates positive momentum in GDPI recovery is continuing. The company had reported lower claim ratios and combined ratios, which are expected to normalise in the medium term. The company expects gradual normalisation of claims frequency as Covid-related restrictions ease. We believe strong revenue growth will help offset the low base of H1FY2021 costs (Combined ratio at 99.7% versus 100.4% in FY2020). ILGI has healthy solvency ratio (has improved further to 2.74x in Q2FY2020 as against 2.17x in March) and management indicated that capital position is adequate for foreseeable future. Management indicated that low claim ratios were more of an exception, rather than a norm, and are gradually reverting to normalised run-rate in H2. Despite challenges, the insurance industry and players have responded with agility and speed with greater adoption of digital tools and operational tweaks, which is encouraging. We find the general insurance space attractive with strong growth potential. While long-term structural growth drivers continue to exist, we believe the pandemic has ushered in better awareness and appetite for protection (especially in the health) segment among customers. Pickup of retail banking is also positive for credit-linked policies. Positive regulatory environment, focus on higher-margin business, scale-driven operating cost benefit potential, and increasing retail focus (better pricing) make ILGI an attractive franchise for the long term. We have fine-tuned our estimates and target multiples for the stock. We continue to have a Buy rating on ILGI with a revised PT of Rs. 1,710.

Our Call

Valuations: ILGI trades at 40x/32.7x its FY2022E/FY2023E EPS and its long-term business fundamentals have remained steady even during times of crisis. ILGI's strong execution capabilities, conservative underwriting, and healthy solvency should help sustain valuations. We believe the general insurance industry is an attractive space, which has a long runway for long-term growth. ILGI has demonstrated its strong underwriting, healthy solvency, and improving loss ratios, which should help it ride over medium-term challenges due to COVID-19 disruptions. We recommend Buy on ILGI with a PT of Rs. 1,710.

Key Risks

Business disruptions and impact on GDPI growth due to the pandemic, adverse regulatory policies/guidelines, and aggressive risk pricing by peers may impact ILGI's profitability and growth.

Valuation Rs cr

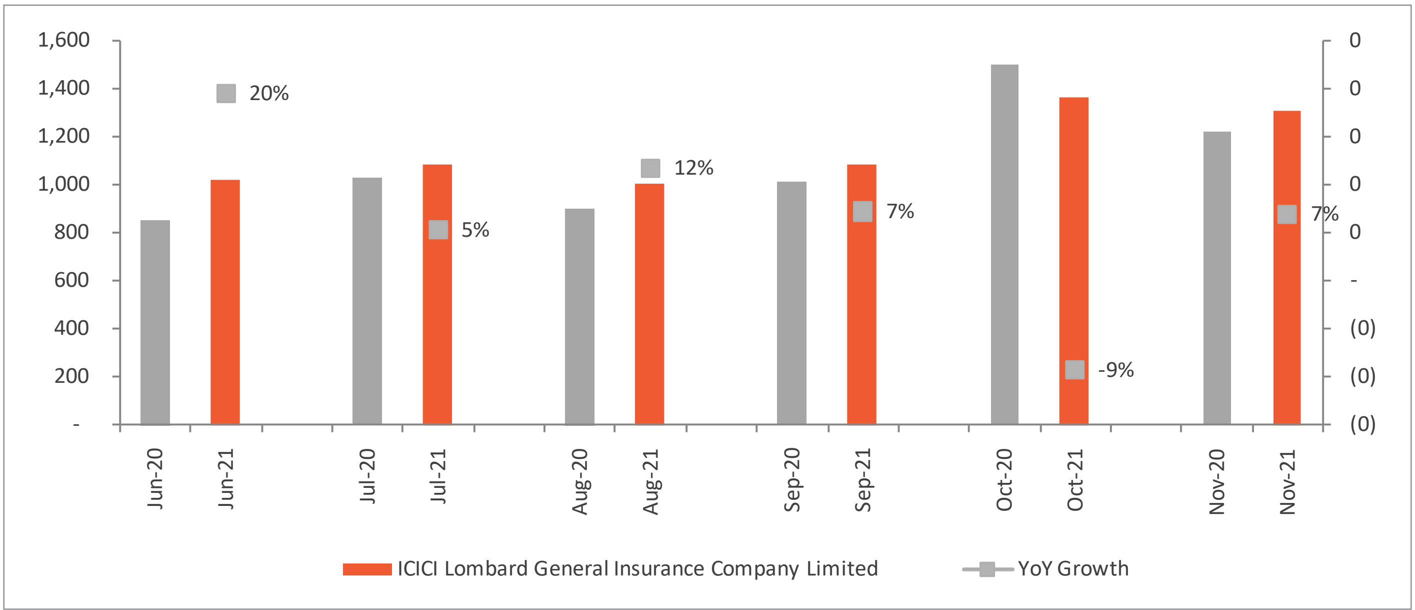
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Gross Direct Premium Income (GDPI)	14,488	13,313	13,846	15,922	17,674
Profit After tax	1049	1194	1510	1676	2059
ROE (%)	21.3	19.5	20.8	19.7	20.5
EPS (Rs.)	23.1	26.3	33.2	36.9	45.3
BVPS (Rs.)	117.1	135.0	159.9	187.4	221.3
P/E (x)	64.3	56.5	44.7	40.2	32.7
P/BV (x)	12.7	11.0	9.3	7.9	6.7

Source: Company; Sharekhan estimates

Healthy traction seen in premium collections post opening up of the lockdown

The general insurance industry registered GDPI collections for YTD FY2021 equalling the same for 8MFY2020 (down by 0.7% only), with the industry's GDPI moving to Rs. 1,09,758 crore from Rs. 7,09,831 crore in 8MFY2020.

GDPI growth of ICICI Lombard vis a vis Industry (Private Insurance Cos)



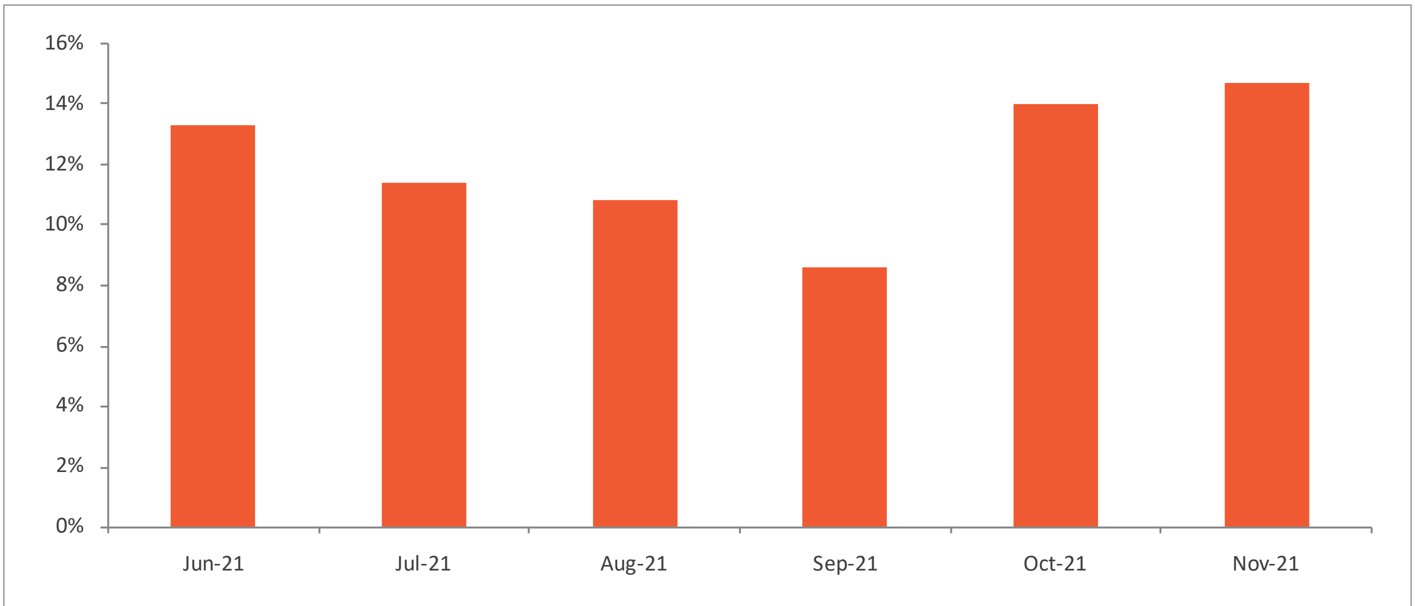
Source: Company, Sharekhan Research

In this backdrop, ILGI witnessed better-than-industry growth rate of 3% y-o-y growth in GDPI for 8MFY2021 versus same period last year. The private insurance space also saw some traction by growing 1% for 8MFY2021 to Rs. 72,703 crore.

Consistent market share gain seen

For ILGI, not only for the month of November, but for the last few months as well, we have witnessed stable to improving market share (range of 13% -15%) for the last six months. We anticipate improving market share trajectory is positive.

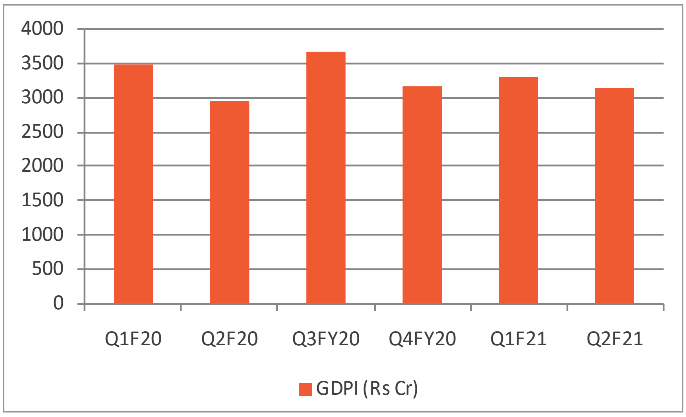
ILGI market share in Private Insurance space



Source: IRDAI, Sharekhan Research

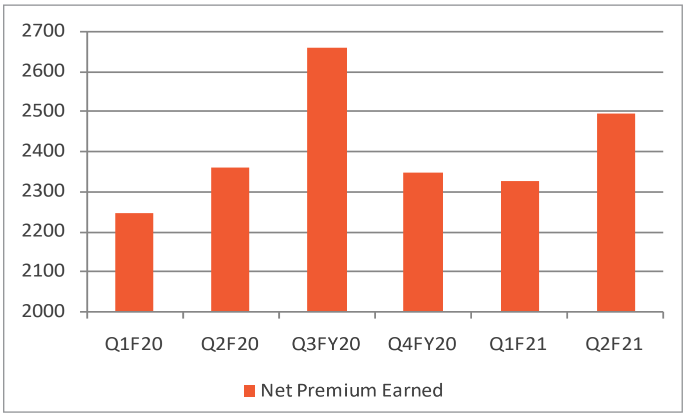
Financials in charts

Quarterly GDPI performance



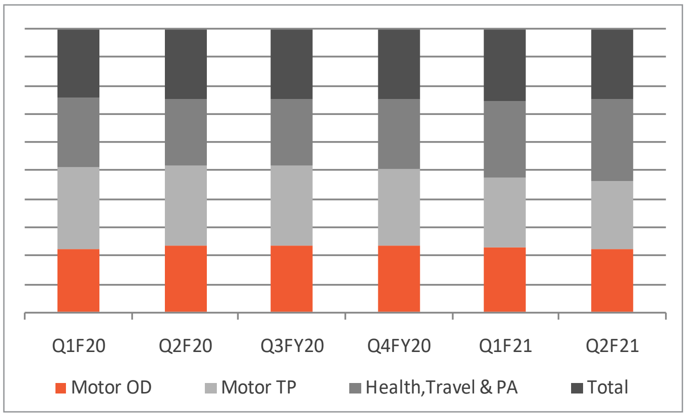
Source: Company, Sharekhan Research

Net Earned Premium



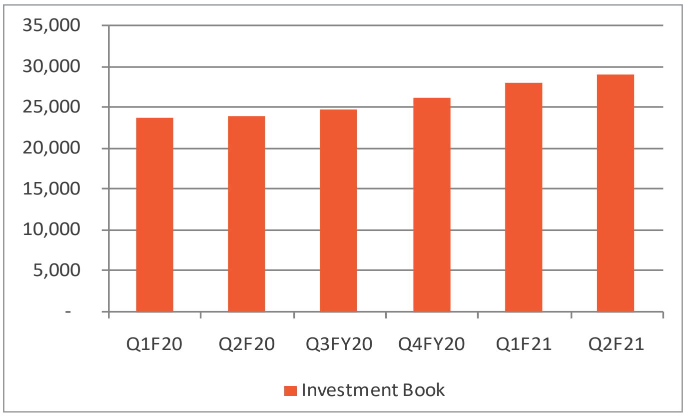
Source: Company, Sharekhan Research

Loss Ratio



Source: Company, Sharekhan Research

Investment Book

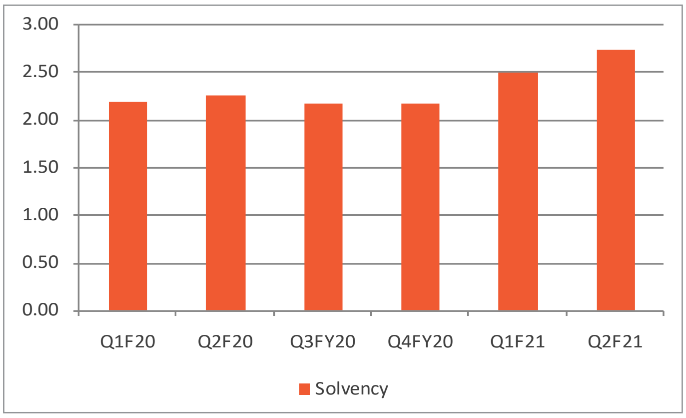


Source: Company, Sharekhan Research

Combined ratio

Source: Company, Sharekhan Research

Solvency Ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Long runway for growth, opportunity for strong players to gain**

We believe the insurance sector has a huge growth potential in India. Significant under penetration, formalisation of the economy, rising awareness for financial protection (accelerated by the pandemic), large protection gap, and expanding per capita income, among others, are key long-term growth drivers for the sector. In this backdrop, we believe strong players such as ILGI, armed with the right mix of products, services, and distribution network, are likely to gain disproportionally from the opportunity.

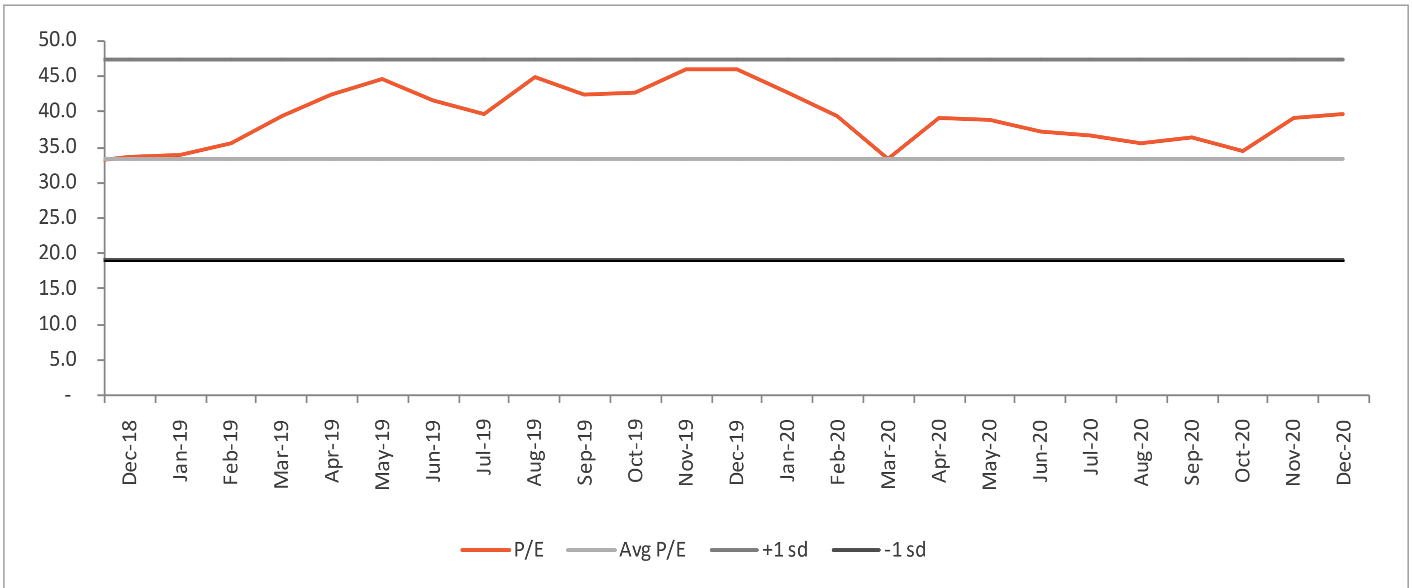
■ **Company outlook - Strong fundamentals, attractive for the long term**

ILGI's long-term business fundamentals have remained steady even during times of crisis. We believe the company is seeing benefits of improved traction with the auto segment's OEMs (improved volumes) as well as higher demand for health products (due to increased fear factor because of the pandemic), which resulted in better recovery traction for the company. Lower-than-normal claims in motor, with lower incidence of surgeries etc., are expected to normalise in the medium-term outlook, but operational improvements/business traction are positive for core profitability. ILGI has also been able to maintain an attractive loss ratio with attractive metrics, which indicates its strong fundamentals. ILGI's strategy to forego the crop business and instead focus on strong growth in preferred segments (fire, retail health, motor OD, etc.) indicate its emphasis on a profitable growth strategy (crop business had less visibility and low profitability). ILGI's business reach (by virtue of a multichannel distribution network, including branches of promoter bank) adds to its competitive advantage. Moreover, the company's conservative underwriting (key differentiator in the insurance business) is displayed from its referencing triangle, which has been showing lesser incurred losses consistently since the last several years and its loss ratio has been consistently trending downwards, which is also a significant positive. Positive regulatory environment, focus on higher-margin business, scale-driven operating cost benefit potential, and increasing retail focus (better pricing) make ILGI an attractive franchise for the long term.

■ **Valuation - Valuations to sustain; Recommend Buy with a PT of Rs. 1,710**

ILGI trades at 40x/32.7x its FY2022E/FY2023E EPS and its long-term business fundamentals have remained steady even during times of crisis. ILGI's strong execution capabilities, conservative underwriting, and healthy solvency should help sustain the valuations. We believe the general insurance industry is an attractive space, which has a long runway for long-term growth. ILGI has demonstrated its strong underwriting, healthy solvency, and improving loss ratios, which should help it ride over medium-term challenges due to COVID-19 disruptions. We recommend Buy on ILGI with a PT of Rs. 1,710.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21	FY22E	FY21	FY22E	FY21	FY22E	FY21	FY22E
ICICI Lombard GI	1,485	9.3	8.0	45.7	40.4	3.6	3.6	20.4	19.7
New India Assurance Company Ltd	130	0.8	0.8	16.0	12.4	1.5	2.2	6.4	8.7
General Insurance Corporation of India	141	0.7	0.6	11.6	9.5	1.5	2.0	10.5	10.0

Source: Company, Sharekhan Research

About company

ILGI is the fourth largest non-life insurer and the largest private-sector non-life insurer in India. The company offers customers a comprehensive and well-diversified range of products, including motor, crop, health, fire, personal accident, marine, engineering, and liability insurance. ILGI has 250+ offices and 35,000+ individual agents (including POS) and ~840 virtual offices. The company's key distribution channels are direct sales, individual agents, corporate agents - banks, other corporate agents, brokers, MISPs and digital, through which it serves individual, corporate, and government customers.

Investment theme

ILGI had ~7% market share based on GDPI in FY2020. The company has been able to maintain a strong growth trajectory, but it has also been successful in keeping its costs under control, along with building reach via both physical and virtual channels. Insurance business's profitability and returns are strongly dependent on underwriting skills of the insurer, which is, hence, the key. ILGI's long-term business fundamentals remained unchanged even in times of crisis. We believe the general insurance industry is an attractive space, which has a long runway for long-term growth. ILGI has demonstrated its strong underwriting, healthy solvency, and improving loss ratios, which should help it ride over medium-term challenges.

Key Risks

Business disruptions and impact on GDPI growth due to the pandemic, adverse regulatory policies/guidelines, and aggressive risk pricing by peers may impact ILGI's profitability and growth.

Additional Data

Key management personnel

Mr Bhargav Dasgupta	Managing Director & CEO
Mr Gopal Balachandran	Chief Financial Officer & Chief Risk Officer
Mr Lokanath Kar	Principal Compliance Officer
Mr Vinod Mahajan	Chief Investment Officer
Mr Alok Kumar Agarwal	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FAL CORPORATION	9.9
2	SBI Funds Management Pvt Ltd	2.7
3	RED BLOOM INVESTMENT LTD	2.1
4	FIL Ltd	2.1
5	Aditya Birla Sun Life Asset Manage	1.9
6	Aditya Birla Mutual Fund	1.7
7	Vanguard Group Inc/The	1.5
8	Kotak Mahindra Asset Management Co	1.4
9	BlackRock Inc	1.3
10	Nomura Holdings Inc	1.1

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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