Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,258**	
Price Target: **Rs. 1,510**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

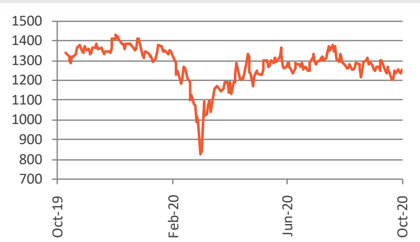
Company details

Market cap:	Rs. 57,152 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	0.2	-3.2	5.4	-4.3
Relative to Sensex	-11.1	-10.0	-22.3	-8.5

Sharekhan Research, Bloomberg

ICICI Lombard General Insurance

Strong quarter performance

Banks & Finance | Sharekhan code: ICICIGI | Result Update

Summary

- ICICI Lombard General Insurance (ILGI) reported strong Q2FY2021 results, better-than -expected operational performance, along with lower claim ratios and combined ratios further sweetening the performance.
- Performance was strong on the cost aspect, with combined ratio (lower is better) at 99.7% (same as Q1FY2021, was 100.4% in FY2020). Solvency ratio has improved further to 2.74x in Q2 FY2020 as against 2.17x in March, which is positive.
- ILGI trades at 32.9x/26.8x its FY2022E/FY2023E EPS and its long-term business fundamentals have remained steady even during times of crisis.
- We recommend Buy on ILGI with a price target of Rs. 1,510.

ICICI Lombard General Insurance (ILGI) reported strong Q2FY2021 results. The company reported better-than-expected operational performance, along with lower claim ratios and combined ratios further sweetening the performance. The pandemic had impacted premium incomes, which have almost normalized in H1FY2021 (GDPI growth of 0.8% y-o-y for H1FY2021). However, due to the lockdown and pandemic impact, the insurer saw a decline in claims ratios. Performance was strong on the cost aspect, with combined ratio (lower is better) at 99.7% (same as Q1FY2021, was 100.4% in FY2020). Combined ratio was 98.4% in Q1FY2021 (excluding the impact of cyclones - Amphan and Nisarga) and due to strong cost control and better profitability. Solvency ratio has improved further to 2.74x in Q2FY2020 as against 2.17x in March, which is positive. Overall loss ratios continued to decline on a y-o-y basis, which is a positive indicator. During the quarter, motor TP (partly due to the lockdown) and fire segment (better pricing) saw y-o-y improvement in loss ratios, and the overall loss ratio stood at 68.4% from 75% for H1FY2020; and for FY2020, it stood at 72.9% (against 75.3% in FY2019). Management indicated that low claim ratios were more an exception, rather than a norm, and may revert to normalised levels 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. 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 recommend Buy on ILGI with a price target (PT) of Rs. 1,510.

Key positives

- Healthy solvency ratio at 2.74x as of Q2FY2021 was comfortably higher than the minimum regulatory requirement of 1.50x.
- As a testimony of strong underwriting and well-developing business streams, ROAE was at 24.9% (was 22.3% in H1FY2020) and continues to stay at healthy 20% and above range.

Key negatives

- GDPI excluding the crop business continued to feel the impact of the pandemic, and GDPI for H1FY2021 was flat y-o-y, which was impacted across the industry due to the pandemic.

Our Call

Valuations: ILGI trades at 34.4x/28x 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. 1,510.

Key Risks

Business disruptions and impact on GDPI growth due to COVID-19 outbreak, 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	1445	1662	2045
ROE (%)	21.3	19.5	20.0	19.7	20.5
EPS (Rs)	23.1	26.3	31.8	36.6	45.0
BVPS (Rs)	117.1	135.0	158.8	186.1	219.8
P/E (x)	54.5	47.9	39.6	34.4	28.0
P/BV (x)	10.7	9.3	7.9	6.8	5.7

Source: Company; Sharekhan estimates

Note: We now convert ICICI Lombard General Insurance into a stock update; It was earlier a 'Viewpoint' under our coverage

Key Concall Highlights

Business Update: Regulator has made several measures. Insurers can offer discounted services and wellness value-added offerings to customers. Motor OD claims have reached almost pre-COVID levels, health claims are still not at pre-COVID levels. Around 63% claims were settled in motor OD via app and digital technology. The company had a new tie-up with Yes Bank during the quarter.

COVID Claims: Total numbers include indemnity and benefit policy. ILGI believes that the September number was the peak. If that trend continues, then the aggregate will be in line. Concerns remain that if there is a second spike, then there may be problems. Confident claims cost will not cross last year's claims. For the overall basis, total 17,000 cases of COVID related claims were reported with ILGI for H1FY2021 and the amount was Rs. 115 crore. ILGI believes that given the strength of its underwriting, the company is well placed on overall claims for FY2021E. Were creating buffers to prepare for the same. Early trends for October indicate reduction in number of cases. However, the festive season can be a risk.

Release of reserves: ILGI on a prudent and conservative approach, releases reserves only when data comes to back the decisicion. There were some release of reserves this quarter from the CV book.

Reserving and release policy: Management has believed in creating conservative reserving, continues to follow that so did not take benefit of reserving of health/TP because of the risk. Total premium for health and travel was Rs. 16.88 million (health was Rs. 13.44 million in Q2FY2020, Rs. 14.26 million in Q2FY2021, rest was travel). In retail indemnity segment, ILGI saw 13.5% y-o-y growth during the quarter.

Gearing: IRDAI has mandated that no insurers should enter into capital gearing arrangement with the reinsurer.

Medical Indemnity: Posted 40% plus growth due to pandemic and seeing overall demand tailwind.

Strong growth in SME lines: A large part of growth is market share gain, driven by earlier investment on digital and automated channels. Fire, marine etc. are gaining market share across. Moreover, for agency, level of hand-holding is important.

Cost control: Keep a check on all elements of cost, where already seen 10% lower costs due to cost-control measures. Moreover, making investment on technologies etc., which has offset the gains somewhat.

COVID-19 claims size: If one compares from prior period, the average claims size for Covid has come down. This has come down because of reasons like most Hospitals have brought rates down, and the mix too has also changed, because of larger size of small ticket claims.

Solvency increase: Solvency ratio is a function of the type of business the company one writes. Moreover, due to operating expenses control, due to which combined ratio also came down, which also has helped improve the solvency numbers. Some crop business premium collection / receivables too have resulted in Solvency increase.

Loss Rates: Loss rates have come down in H1. Were conservative in H1 and hence rise in claims in H2 then would be cushioned.

CV Motor portfolio: Historically ICICI Lombard has been not very active in this segment. Industry mix is 45% PVT cars, 40% CV and rest 2whellers. Believe Cars and Two wheelers are more profitable side. Due to New motor vehicle act, looking to slowly increase their CV exposure.

Price rise: Around 7-8% price rise is expected on Health Insurance segment from November.

Outlook: Indemnity segment will continue to be strong, it is seasonally strong in H2 of the year. For the Health Benefits segment ILGI expects that there will be improved recovery in sales. On overall Gross Written premium (GWP) the online portion is still miniscule proportion, and the traditional channels still continue to dominate.

Motor TP: Co believes it is better to look over a longer term period for pricing and claims, and prefers to see the full year nos. ILGI is reasonably confident of the TP book recovery and growth. The new motors vehicle act is also long term positive for the segment, but company continue to be cautious.

Results Rs cr

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Gross Direct Premium Income (GDPI)	3189.0	2953.0	8.0	3302.0	-3.4
Gross premium written	3254.5	3030.7	7.4	3394.0	-4.1
Premium earned (Net)	2462.5	2356.9	4.5	2456.2	0.3
Income in shareholders account	541.2	492.5	9.9	558.5	-3.1
Total Expenses	-13.4	31.5	NA	27.5	NA
PBT	554.6	461.1	20.3	531.0	4.4
Taxes	138.8	153.2	-9.4	133.0	4.4
PAT	415.7	307.9	35.0	398.0	4.5
Solvency ratio (x)	2.74	2.26	0.48	2.50	0.24
Combined ratio (%)	99.7	102.6	-2.90	99.7	-

Source: Company

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.

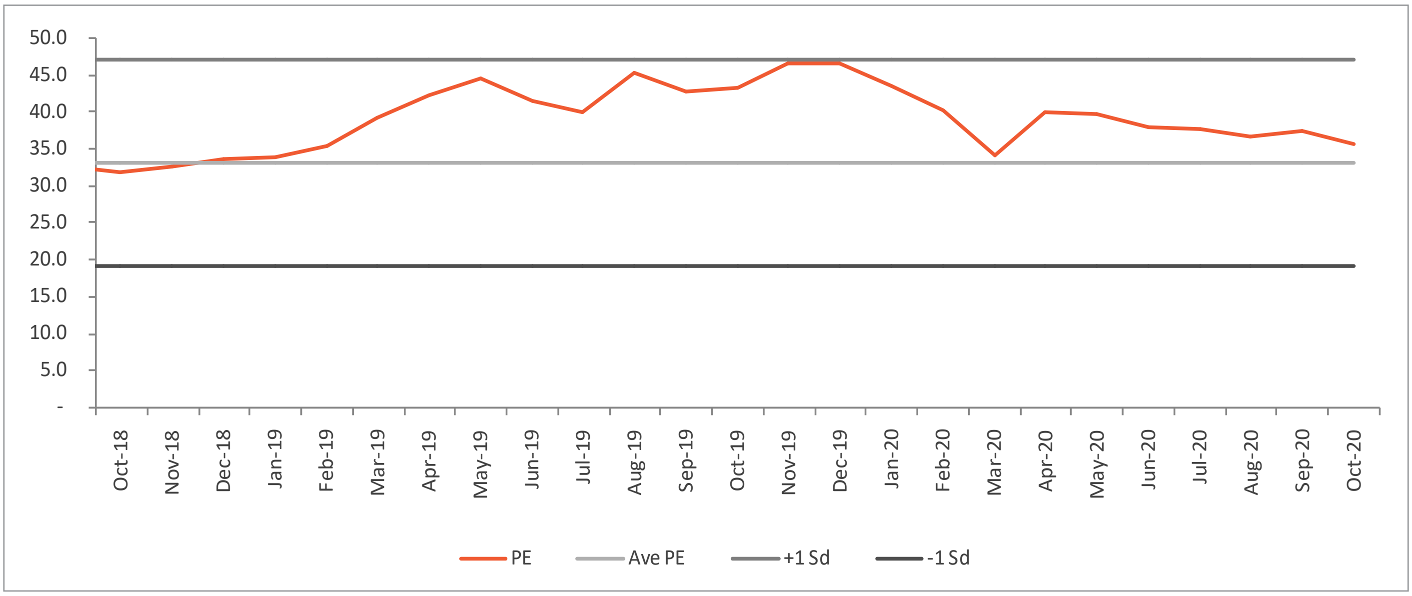
■ **Company outlook - Strong metrics provides support**

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 auto segment 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., indicate a strong medium-term outlook. 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 - Recommend Buy with a PT of Rs. 1,510**

ILGI trades at 34.4x/28x 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. 1,510.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP (Rs/Share)	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
		FY21	FY22E	FY21	FY22E	FY21	FY22E	FY21	FY22E
ICICI Lombard GI	1,258	7.9	6.8	39.6	34.4	3.5	3.6	20.0	19.7
The New India Assurance Company Ltd	103	0.6	0.6	12.7	9.8	1.5	2.2	6.4	8.7
General Insurance Corporation of India	122	0.6	0.6	10.0	8.3	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 has ~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 the time 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 COVID-19 outbreak, 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

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed 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, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

---

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;