Sharekhan by BNP PARIBAS

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ICICI Lombard General Insurance

Set to maintain market dominance

Banks & Finance | Sharekhan code: ICICIGI | Company Update

Stock 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. 1,436**	
Price Target: **Rs. 1,750**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

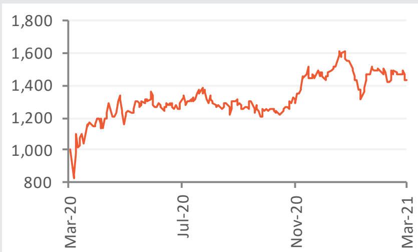
Company details

Market cap:	Rs. 65,299 cr
52-week high/low:	Rs. 1,625/805
NSE volume: (No of shares)	5.7 lakh
BSE code:	540716
NSE code:	ICICIGI
Free float: (No of shares)	20.1 cr

Shareholding (%)

Promoters	51.9
FII	27.4
DII	13.6
Others	7.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	-1.9	10.5	40.7
Relative to Sensex	-1.9	-8.0	-17.8	-35.5

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on ICICI Lombard General Insurance (ILGI) with a unchanged price target (PT) of Rs. 1,750.
- ILGI reported steady numbers for Feb2021 where it saw steady Gross Direct Premium Underwritten (GDPI) for the month, but 3.7% growth on a YTD FY2021 basis.
- Tailwinds like increase in FDI in insurance, lower combined ratio and claims ratio would provide a further boost to the Industry as a whole. ICICI Lombard being the largest private player is well placed to gain.
- With reasonable valuations at 39x/31.5x its FY2022E/FY2023E EPS; the stock has corrected by ~12% from its highs and given the strong business strength, high capitalisation, market leadership we find risk reward favourable.

ICICI Lombard General Insurance (ILGI) reported steady numbers for the month of Feb 2021 where it saw steady Gross Direct Premium Underwritten (GDPI) for the month, but 3.7% growth on a y-t-d FY2021 basis. However, the benefits of lower combined ratios and continued decline in claims ratios (during Q3 FY201) are likely to provide support to earnings and profitability. The solvency ratio has improved further to 2.76x (from 2.74x in Q2FY2021). During the quarter, motor TP and Moor OD and the other segment saw y-o-y improvement in loss ratios. Overall loss ratios continued to decline to 67.5% (from 73.8% for 9MFY2020) for ICICI Lombard, which is a positive indicator. While for the medium term, growth in ILGI is subdued, as ICICI Bank has chosen to focus on banking business, the ILGI management were hopeful to regain traction from that segment. Going forward, we believe that as ICICI Bank's focus shift reverts back to retail loan disbursements, it will benefit ICICI Lombard as well. Also, the merger with Bharti AXA is also likely to add Bancassurance business partners, which will aid business traction. 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. The increase in FDI in insurance (Upper house approves the bill for 74% limit from 49% earlier) is a positive development and would provide a further boost to the Industry as a whole. ICICI Lombard being the largest private player (in terms of market share), we believe is well placed to gain from the tailwinds. We find the general insurance space attractive with strong growth potential. A 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 maintain a Buy on ILGI with a unchanged price target (PT) of Rs. 1,750.

Our Call

Valuations - ILGI trades at 39x/31.5x its FY2022E/FY2023E EPS and valuations are reasonable, and are supported by its long-term business resilience even during challenging times. ILGI's strong execution capabilities, conservative underwriting, and healthy solvency should help the company emerge a stronger player with its merger with Bharti Axa. The stock has corrected by ~12% from its highs and given the strong business strength, high capitalisation, market leadership and positive tailwinds of economic recovery and supportive regulations, we find the risk reward ratio favorable. 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 the medium-term challenges due to COVID-19 disruptions. We maintain a Buy on ILGI with an unchanged PT of Rs. 1,750.

Key risk

Business disruptions and impact on GDPI growth due to COVID-19, 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	1477	1669	2071
ROE (%)	21.3	19.5	20.4	19.7	20.6
EPS(Rs)	23.1	26.3	32.5	36.7	45.6
BVPS (Rs)	117.1	135.0	159.3	186.8	220.9
P/E (x)	62.2	54.7	44.2	39.1	31.5
P/BV (x)	12.3	10.6	9.0	7.7	6.5

Source: Company; Sharekhan estimates

ICICI Lombard YTD growth in-line with industry trend

In Feb'21, the industry collected Gross written premium (GWP) of Rs 15765.6 crores (up 14.2 % y-o-y) which was driven by robust traction in health (standalone health players grew 21% y-o-y) and crop insurance.

Private players' GWP expanded by 11.7% y-o-y. However, ICICIGI had a subdued growth (1.6% y-o-y) but more encouraging growth on a YTD basis of 3.7% (against the Private Industry growth of 3.1%. For the insurer, the slower traction may be ascribed partly to the absence of ICICI Bank channel from Q3FY21.

ICICI Lombard Feb'2021 GWP performance

Source: GI Council, Sharekhan Research

ICICI Bank had indicated that it intended to go slow on the credit-linked health insurance business (health insurance benefit product attached to retail loans) in the near-term, and instead will focus on its core lending business. As a result, even during 9M FY2021, the total credit-linked business of ICICI Lombard has declined to 3% of gross premium in 9MFY21 (from 7% in FY2020) since ~75% of this business was driven by ICICI Bank. However, going forward, we believe that ICICI Bank's focus shift is likely to revert back to retail loan disbursements (which will benefit ICICI Lombard as well).

Market share wise, standalone health insurers gained 150bps y-o-y in GWP share to 7% as of Feb'21.

Private insurers' GWP share was broadly flat y-o-y at 48% and among that backdrop, ICICI Lombard's share was also stable y-o-y at 6.8%.

We believe that the competitive intensity in motor OD, motor TP tariffs would be key for performance in coming months. The traction in health business is encouraging (helped by pandemic scare) and going forward how the demand performs will be important.

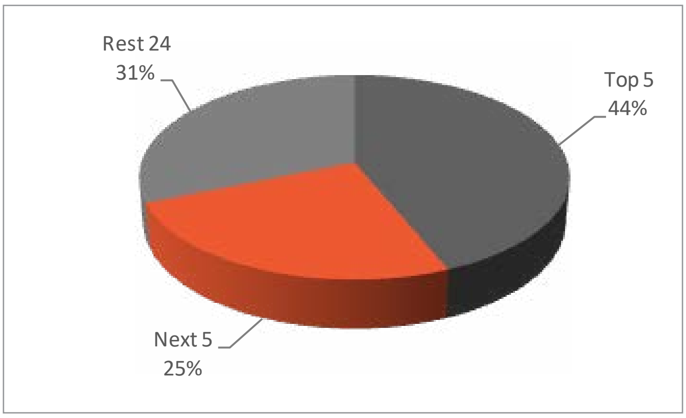
FDI in Insurance is a long term positive

The Rajya Sabha has passed the Bill to hike the foreign direct investment (FDI) limit in the insurance sector to 74% which we believe is long term positive for the industry, and would open doors for faster growth and deeper penetration.

While there are safeguards being built-in so that control, ownership, and money collected from policyholders stays within the country, the new structure allows at least 50 % of directors to be independent directors, and specified percentage of profits to be retained as a general reserve.

However, given the current fragmented nature of the industry, with 34 players, but the market share dominated by Top 5 players (having ~44% market share in terms of GWP till YTD FY2021) we believe that the larger players enjoy a significant market advantage.

Market share (GWP as on YTD FY21) dominated by few top players

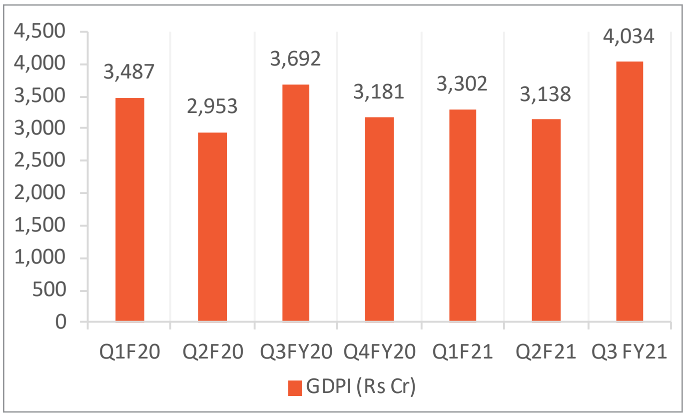


Source: GI Council, Sharekhan Research

ICICI Lombard being the largest private sector owned player, is well placed with ~7% market share. We believe that while the FDI opening is positive for the sector, and strong players like ICICI Lombard, will be viewed as attractive given their market dominance.

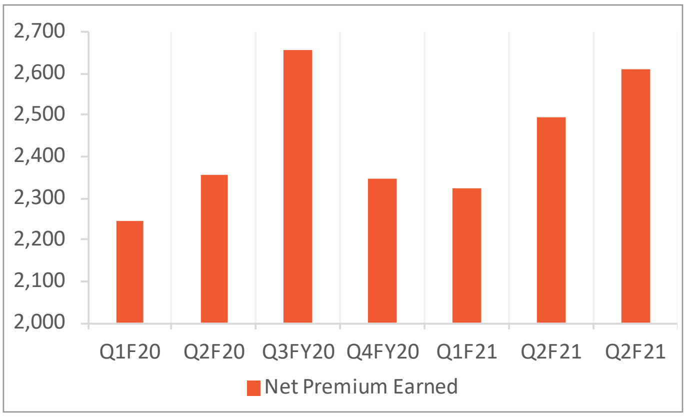
Financials in charts

Quarterly growth in GDPI



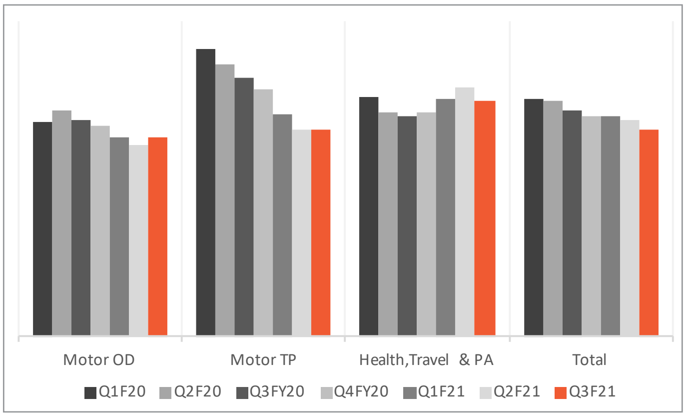
Source: Company, Sharekhan Research

Net Earned Premium (Rs Cr)



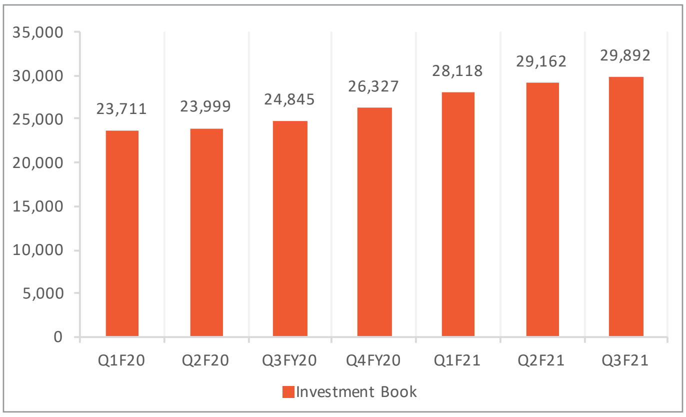
Source: Company, Sharekhan Research

Loss Ratio (%)



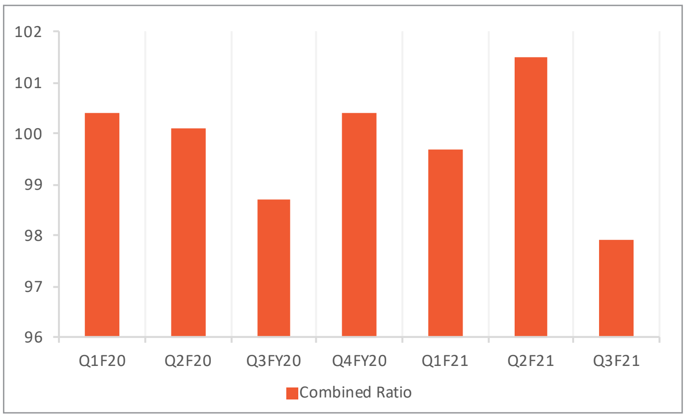
Source: Company, Sharekhan Research

Investment Book (Rs Cr)



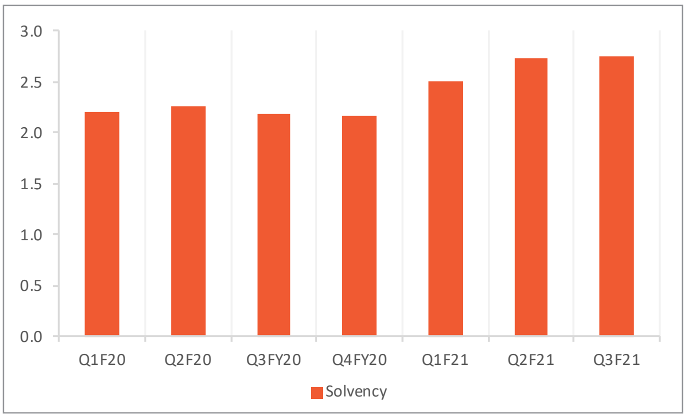
Source: Company, Sharekhan Research

Combined ratio (%)



Source: Company, Sharekhan Research

Solvency Ratio (x)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Long runway for growth, opportunity for strong players to gain

We believe that the insurance sector has 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. The Rajya Sabha has passed the Bill to hike the foreign direct investment (FDI) limit in the insurance sector to 74% which we believe is long term positive for the industry, and would open doors for faster growth and deeper penetration.

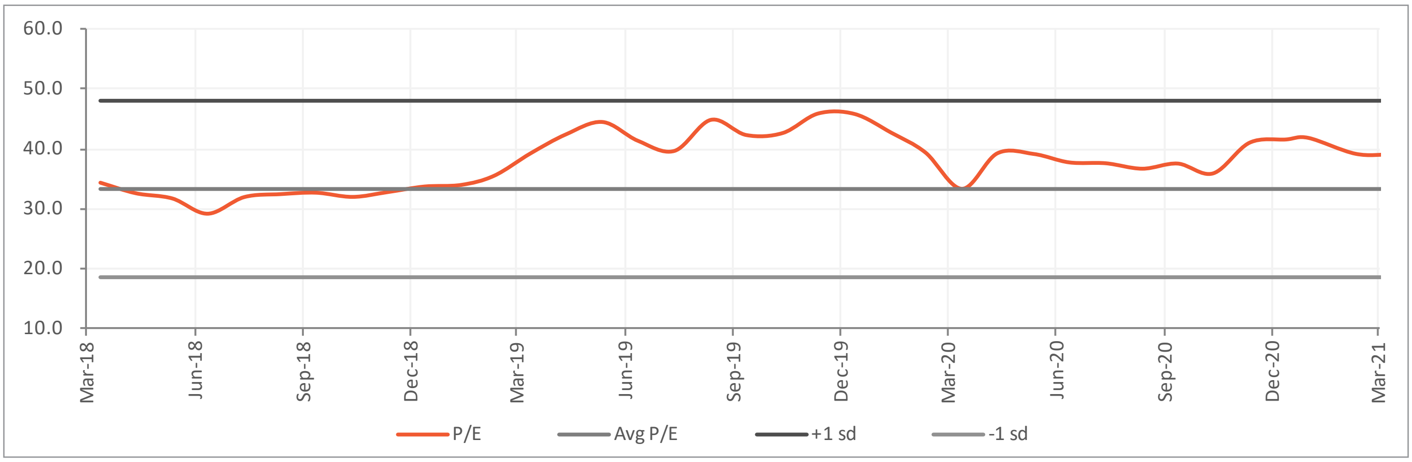
■ Company Outlook – Strong fundamentals, attractive for the long term

ILGI's long-term business fundamentals have remained steady even during times of a crisis. We believe the company is seeing the 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) 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 (a 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 – Maintain Buy with an unchanged PT of Rs. 1,750

ILGI trades at 39x/31.5x its FY2022E/FY2023E EPS and valuations are reasonable, and are supported by its long-term business resilience even during challenging times. ILGI's strong execution capabilities, conservative underwriting, and healthy solvency should help the company emerge a stronger player with its merger with Bharti Axa. The stock has corrected by ~12% from its highs and given the strong business strength, high capitaliation, market leadership and positive tailwinds of economic recovery and supportive regulations, we find the risk reward favorable. 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 maintain a Buy on ILGI with an unchanged PT of Rs. 1,750.

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	1,436	9.0	7.7	44.2	39.1	3.6	3.7	19.6	19.7
New India Assurance Company Ltd	134	1.2	1.1	18.2	11.0	1.5	2.2	6.7	10.4
General Insurance Corporation of India	140	0.9	0.8	22.5	12.1	0.9	1.8	6.5	9.5

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 maintained around 7% market share based on GDPI from FY2020 till now. The company has been able to maintain a strong growth trajectory, but it has also been successful in keeping costs under control, along with building reach via both physical and virtual channels. The 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 tide over medium-term challenges.

Key Risks

Business disruptions and impact on GDPI growth due to COVID-19, 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	SBI Funds Management Pvt Ltd	2.2
2	FIL Ltd	2.0
3	Aditya Birla Sun Life Asset Manage	1.6
4	Vanguard Group Inc/The	1.6
5	Kotak Mahindra Asset Management Co	1.4
6	Kotak	1.4
7	BlackRock Inc	1.3
8	Governmnet Pension Fund	1.1
9	Nomura Holdings Inc	1.1
10	St James Place PLC	0.7

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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