

Equity Research

January 3, 2022

BSE Sensex: 59183

ICICI Securities Limited is the author and distributor of this report

Company update and reco change

Insurance

Target price: Rs1,675

Earnings revision

(%)	FY22E	FY23E
GDPI	↓ 6	↓ 7
NEP	↓ 6	↑ 0
PAT	↑ 8	↑ 6

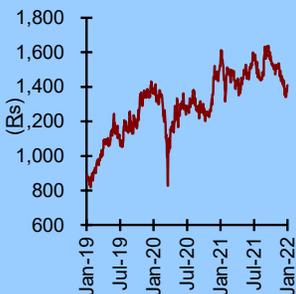
Target price change

Rs1,675 from Rs1,575

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	51.9	48.1	48.1
Institutional investors	41.0	38.3	38.3
MFs and others	9.9	8.8	8.5
FIs/Banks	0.3	0.2	0.2
FPI	30.9	29.3	29.6
Others	7.1	13.6	13.6

Price chart



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INDIA

ICICI Lombard General Insurance Company

BUY

Upgrade from HOLD

Long-term story very much intact, growth levers available in short term and valuations attractive

Rs1,410

The strong growth potential of Indian non-life insurance remains the key investment argument of ICICI Lombard (ICICIGI). The company's RoE and market share remains stable and there are several available levers which could potentially result in positive earnings cycle over next two years. We upgrade the stock to BUY with a revised target price of Rs1,675 (earlier: Rs1,575) based on 40x FY23E EPS of Rs41.9 (earlier: Rs39.3) as ICICIGI will be one of the key beneficiaries of the positive cycle in non-life insurance.

- ▶ **The company's stable business model and exemplary track record remain strong investment theses in our view.** ICICIGI's earnings have clocked a CAGR of 24%/22% over the last 5 years/ 8 years till FY21. The stability of the business is illustrated by the fact that RoE has been below 18% only two times between FY12-21 despite the inherent cyclicity in the underwriting business. Investment profit has lent structural support as it has moved from Rs4bn in FY12 to Rs10bn in FY16 and Rs21.5bn in FY21. Additionally, there are certain advantages of multiline insurers like cross-selling possibilities among different sets of agencies of SME, health and motor. On the P&C side, the company has already been able to establish multiple risk management and product offerings which help in better client traction. The scale also enables better cost management and better rates from reinsurers.
- ▶ **Concerns on competition are overdone.** We say this on account of two reasons (1) The opportunity in non-life insurance is huge as seen by the under penetration (refer Chart 4&5) which is bound to bring competition and (2) ICICIGI has been able to maintain market share in key segments. The recalibration of distribution leading to loss in health market share will get addressed over near term (refer Table 2).
- ▶ **We see significant growth levers ahead,** including (1) recovery in motor new car registrations, (2) increase in motor TP rates (3) fruition of organic initiatives in health and (4) achieving synergies from the acquisition of Bharti Axa. Additionally, there is a low base of FY22 for ICICIGI. We factor in 13% GDPI CAGR between FY22-24E. ICICIGI GDPI CAGR has been 12% over both last 5/10 years.
- ▶ **Recovery in motor sales:** New car sales numbers as seen in FY22 include impact of many adverse factors (higher commodity prices, rural slowdown, supply chain issues) which could reverse gradually over next two years. Major OEMs expect resolution of semiconductor shortage issue gradually (refer table 1).
- ▶ **Motor TP rate hikes** have not happened since June 2019 and can be expected to happen over next two months to counter cost inflation.
- ▶ **Merger benefits yet to accrue:** We believe cost synergies with Bharti AXA would likely be achieved over next 12 months, while revenue synergies will take 24months. As such, a combined ratio of 100 can be expected to be achieved by FY24 if other parameters remain supportive.

Market Cap	Rs692bn/US\$9.3bn
Reuters/Bloomberg	ICIL.BO / ICICIGI IN
Shares Outstanding (mn)	490.8
52-week Range (Rs)	1638/1316
Free Float (%)	51.9
FII (%)	29.6
Daily Volume (US\$/'000)	18,187
Absolute Return 3m (%)	(10.7)
Absolute Return 12m (%)	(6.4)
Sensex Return 3m (%)	0.9
Sensex Return 12m (%)	24.9

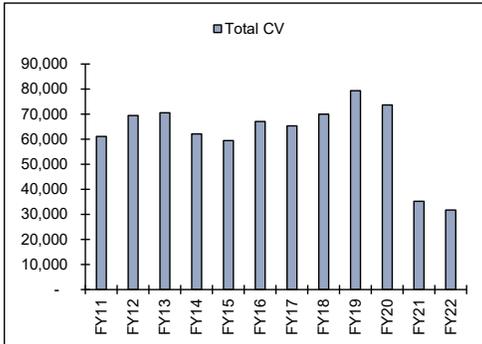
Year to March	FY21	FY22E	FY23E	FY24E
NEP (Rs mn)	1,00,140	1,22,949	1,40,823	1,59,935
PAT (Rs mn)	14,731	17,166	20,552	23,467
EPS (Rs)	32.4	35.0	41.9	47.8
% Chg YoY	23.3	8.0	19.7	14.2
P/E (x) (fully diluted)	43.2	40.0	33.4	29.3
P/BV (x)	8.6	7.1	5.9	5.1
Combined Ratio (%)	99.8	105.2	102.1	100.6
Dividend Yield (%)	-	-	0.3	0.6
Return on Inv(%)	9.3	10.1	8.7	8.0
RoE (%)	21.7	20.0	19.3	18.8

Please refer to important disclosures at the end of this report

- ▶ **Road to recovery in health segment expected over FY23-24E:** At a strategic level, the company is doing two things (1) investing in health distribution with hiring of 1,000 agents in H1FY22 and (2) trying to establish a sticky connect with IL Take Care App. The company expects success with the POD (Prevention, Outpatient, and Digital) strategy for health. The ability to provide health suggestions to consumers and help on outpatient needs digitally is a developing trend targeted through the IL Take Care app. In our view, these should start leading to higher growth from Q4FY22. To illustrate, the growth number YoY in health of ICICI Lombard will have to be 28% in Q4FY22 to be flat QoQ (company will likely grow on a QoQ basis in Q4FY22E).
- ▶ **Expect a 17% earnings CAGR over FY22-24E.** This can split into underwriting loss of Rs8bn/Rs6bn/Rs5bn and investment profit of Rs37bn/Rs40bn/Rs43bn in FY22E/23E/24E. We maintain our estimate of investment leverage below 4.3x in FY22/23 despite the fact that it can go up with a positive cycle as seen in past (refer charts 6-9). Additionally, we do not factor in any revenue synergies in our estimates.
- ▶ **Risk:** The only risk to earnings is if there is a change in the strategy to accommodate higher growth through lower margins. This strategy is possible but depends on competitive intensity. Liquidity driven cash burn strategy of competition has changed the landscape as of now. However, profitability has been ultimately the prime determinant in past cycles of high competitive intensity. Yet, if this time there is continued competitive intensity irrespective of cash burn, ICICIGI might consider shedding some margin for higher growth which might lead to a transient impact on earnings, in our view.

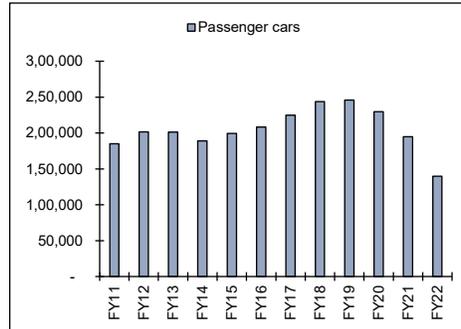
FY21/22 auto sales numbers is at multi-year low. ICICIGI stands to benefit from recovery

Chart 1: Average monthly CV sales



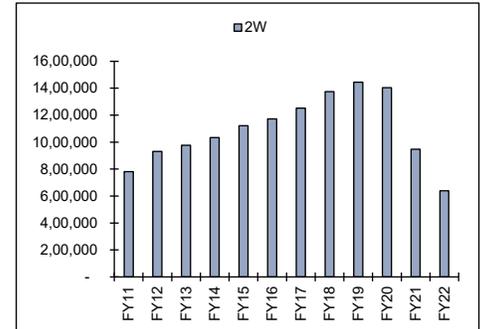
Source: Wahan

Chart 2: Average monthly PV sales



Source: Wahan

Chart 3: Average monthly 2W sales



Source: Wahan

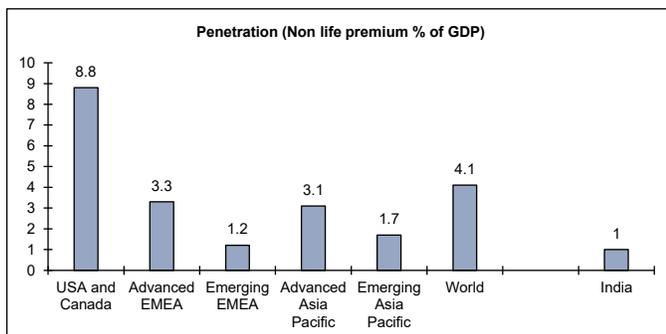
Table 1: Comments from major OEMs suggest resolution of semiconductor issue in short term

OEM	Remarks
Maruti	"If you look at the availability of electronic components, this is affecting the production since August and onwards. Situation is getting a little better -- September was 40 per cent of the planned production, October was 60 per cent, November was about 83-84 per cent and December, as we have stated it will be about 80 to 85 per cent" - Senior Executive Director (Marketing & Sales) Shashank Srivastava (Link)
Toyota	"Toyota expects production to bounce back gradually starting in December and into next year as the global semiconductor shortage eases. But there are still lingering uncertainties about supply, it was too soon to rule out further interruptions. The risk is becoming significantly smaller. However, we're not in a place to say the risk is zero." -Kenta Kon operating officer (Toyota) (Link)
Hyundai India	"Semiconductor and input cost issues are global in nature but things are getting better. However, it is very difficult to give an exact timeline as to when we will overcome these issues." "Under the guidance of our parent company HMC, we are collaborating across the board with our vendors, our dealers and within the cross divisions of the company to get out of this situation as fast as possible" -Tarun Garg - Hyundai Motor India's Director Sales and Marketing (Link)

Source: Media reports

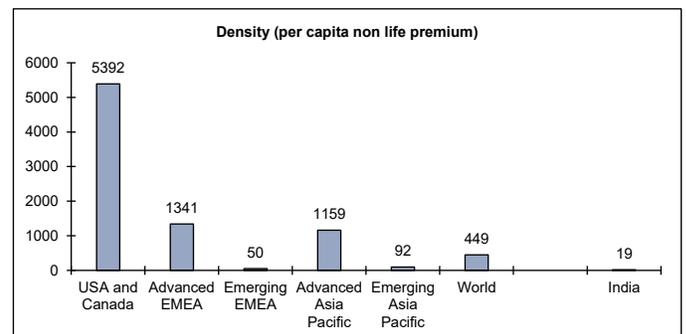
Under penetration remains a strong investment thesis in Indian life insurance

Chart 4: Non-Life premiums penetrations (Premium % of GDP) is very low compared to global standards...



Source: IRDAI

Chart 5: ...so it is in terms of density



Source: IRDAI

Market share movement of non-life insurers

ICICIGI has been able to maintain market share in key segments. Additionally, only select players have been able to expand the market share.

	ICICI Lombard - Market share (%)			
	Total GDPI	Total Motor	Total Health	Total Fire
FY19	9.9	11.7	6.0	10.3
FY20	8.7	12.0	6.2	11.2
FY21	8.6	12.4	5.3	12.3
FY22-TD	8.3	11.7	4.9	13.3

Source: IRDAI

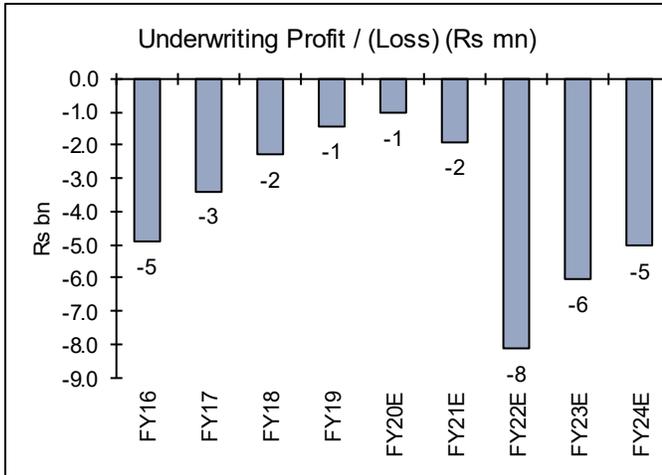
Table 2: Market share movement for Non-life insurers

Market share of key Insurers (%)	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Nov'21
New India	14.7	14.6	15.0	15.8	15.8	14.9	15.1	14.1	14.1	14.3	15.4
ICICI -Lombard	10.4	10.7	10.7	9.7	9.8	9.4	9.4	9.9	8.7	8.6	8.3
United India	14.1	13.4	12.6	12.7	12.8	12.5	11.6	9.7	9.2	8.4	7.0
Bajaj Allianz	5.7	5.8	5.9	6.2	6.1	6.0	6.3	6.5	6.8	6.3	6.5
Oriental	10.4	9.5	9.2	8.8	8.7	8.4	7.6	7.8	7.2	6.3	6.4
National	13.4	13.3	13.2	13.4	12.5	11.1	10.7	8.9	8.0	7.1	6.3
AIC (Crop)	4.4	4.7	4.4	3.3	3.7	5.5	5.2	4.2	5.0	6.1	6.2
HDFC ERGO	4.0	4.5	4.7	4.7	4.6	5.8	6.0	6.4	6.2	6.2	6.0
Star Health	1.9	1.2	1.4	1.8	2.1	2.3	2.8	3.2	3.6	4.7	4.9
Reliance General	3.0	2.9	3.1	3.2	2.9	3.1	3.4	3.6	3.9	4.2	4.6
Tata-AIG	2.8	3.1	3.1	3.2	3.1	3.3	3.6	4.6	3.9	4.0	4.3
IFFCO -Tokio	3.4	3.7	3.8	4.0	3.8	4.3	3.7	4.1	4.2	4.2	4.0
SBI General	0.4	1.1	1.5	1.9	2.1	2.0	2.4	2.8	3.6	4.2	3.8
Cholamandalam MS	2.3	2.4	2.4	2.2	2.6	2.4	2.7	2.6	2.3	2.2	2.1
Go Digit							0.1	0.6	1.2	1.2	1.9
Future Generali	1.6	1.6	1.6	1.7	1.6	1.4	1.3	1.5	1.8	1.9	1.9
Care Insurance		0.1	0.2	0.3	0.5	0.6	0.7	1.1	1.3	1.3	1.6
Universal Sampo	0.7	0.8	0.7	0.8	0.9	1.0	1.5	1.7	1.5	1.5	1.5
Royal Sundaram	2.6	2.3	1.9	1.9	1.8	1.7	1.7	1.9	1.9	1.4	1.3
Max Bupa	0.2	0.3	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.9	1.2
Shriram General	2.2	2.2	2.0	1.8	1.8	1.6	1.4	1.4	1.3	1.1	0.8
Aditya Birla						0.0	0.2	0.3	0.5	0.7	0.7
Magma HDI		0.1	0.6	0.6	0.4	0.3	0.3	0.6	0.6	0.6	0.7
Liberty General					0.4	0.5	0.5	0.7	0.8	0.7	0.7
ECGC (Export & Credit)	1.7	1.7	1.7	1.6	1.4	1.0	0.8	0.7	0.6	0.5	0.4
ManipalCigna					0.1	0.2	0.2	0.3	0.3	0.4	0.4
Acko General							0.0	0.1	0.2	0.2	0.4
Kotak Mahindra					0.0	0.1	0.1	0.2	0.2	0.3	0.3
Raheja QBE	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2
Edelweiss**							0.0	0.1	0.1	0.1	0.2
Navi General*							0.1	0.1	0.1	0.1	0.0

Source: IRDAI

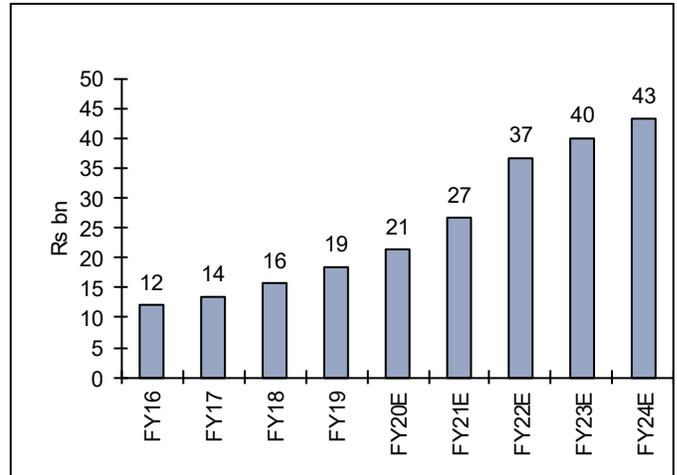
Multiline non-life insurance business model is very stable which should command higher multiples

Chart 6: Underwriting profits are expected to reduce between FY22 and FY24E



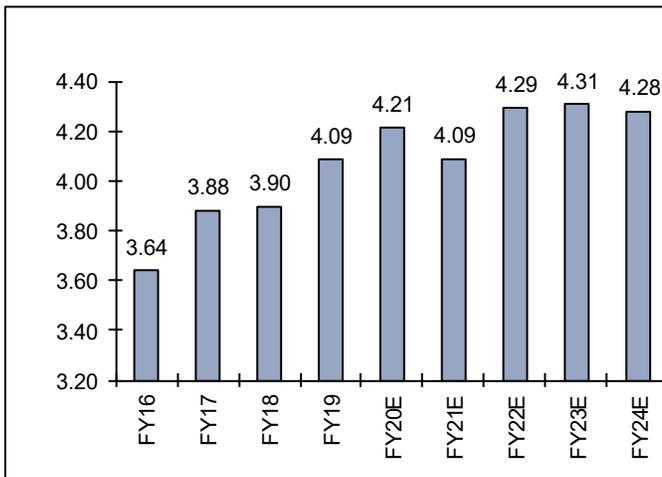
Source: Company, I-Sec Research

Chart 7: Investment income is expected to increase steadily between FY22-24E



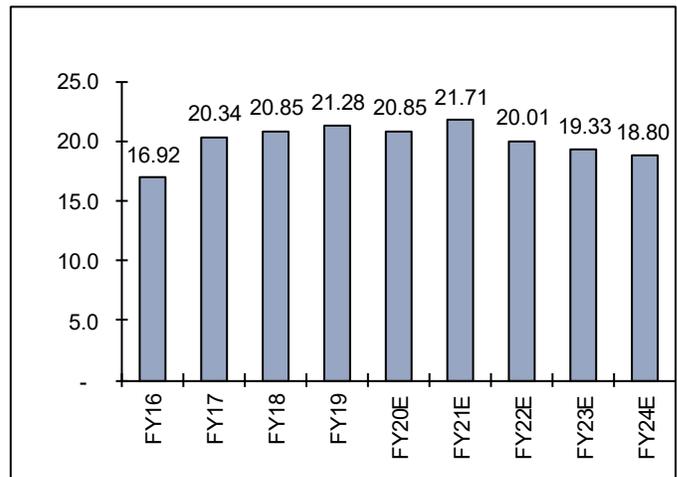
Source: Company, I-Sec Research

Chart 8: Investment leverage (x) is expected to remain at 4.3x between FY22-24



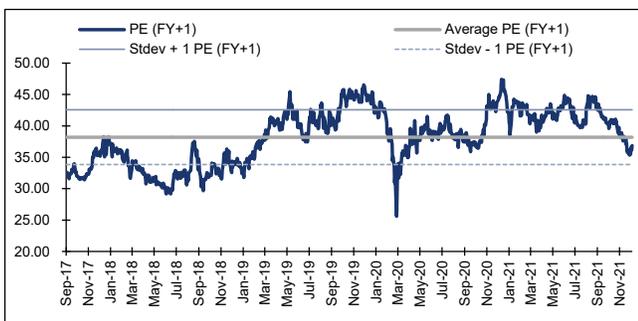
Source: Company, I-Sec Research

Chart 9: ROE (%) are expected to remain healthy



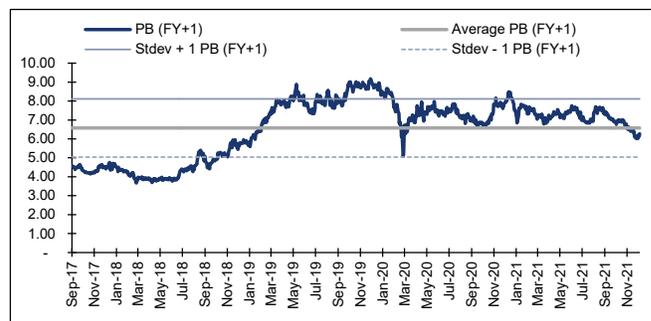
Source: Company, I-Sec Research

Chart 10: ICICIGI PE (FY+1): The average PE multiple has been 38x



Source: Company, I-Sec Research

Chart 11: ICICIGI PB (FY+1): The average PB multiple has been 6.6x



Source: Company, I-Sec Research

Summary Financials

Table 3: Profit & loss account

(Rs mn, year ending March)

	FY21	FY22E	FY23E	FY24E
Gross Direct Premium Income (GDPI)	1,40,033	1,72,972	1,95,317	2,22,004
Add: Reinsurance Accepted	3,170	3,106	3,707	4,206
Gross Written Premium (GWP)	1,43,203	1,76,078	1,99,025	2,26,210
Less: Reinsurance ceded	36,354	47,493	46,694	50,953
Net Written Premium (NWP)	1,06,850	1,28,585	1,52,330	1,75,257
Less: Adjustment for unexpired risk reserve	6,710	5,636	11,507	15,322
Net Earned Premium (NEP)	1,00,140	1,22,949	1,40,823	1,59,935
Incurred Claims (Net)	68,708	92,908	1,05,755	1,19,182
Commission expense	6,009	5,617	4,570	5,258
Operating expenses related to Insurance	27,342	32,535	36,524	40,536
Underwriting profit/losses	-1,919	-8,111	-6,025	-5,041
Total Investment Income (Policyholder)	21,474	29,664	31,718	34,860
Operating Profit/Loss	19,554	21,552	25,693	29,819
Total Investment Income (Shareholder)	5,170	7,094	8,380	8,265
Other expenses (including provisions)	5,185	5,750	6,608	6,724
PBT	19,540	22,896	27,465	31,360
Tax	4,809	5,730	6,913	7,893
PAT	14,731	17,166	20,552	23,467

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March)

	FY21	FY22E	FY23E	FY24E
Share Capital	4,546	4,905	4,905	4,905
Reserves & Surplus	69,806	92,336	1,10,534	1,29,291
Shareholders' Funds	74,351	97,241	1,15,439	1,34,196
Share Application Money	3	1	0	0
Fair Value Change Account	6,805	10,250	12,197	14,084
Other liability	4,850	2,550	2,550	2,550
Total Sources of Funds	86,010	1,10,042	1,30,186	1,50,830
Investments	3,08,922	4,19,892	4,99,702	5,77,031
Fixed Assets	6,268	6,464	7,276	8,189
Deferred tax Assets	3,499	4,098	4,436	4,802
Current Assets (Inc. Cash)	74,290	1,21,863	1,42,618	1,66,910
Claims Outstanding including IBNR & IBNER	1,82,845	2,88,215	3,50,077	4,14,052
Provision for unexpired risk reserve	65,091	81,090	92,598	1,01,578
Other Liabilities	59,032	72,970	81,170	90,470
Total Application of funds	86,010	1,10,042	1,30,186	1,50,830

Source: Company data, I-Sec research

Table 5: Key ratios*(Year ending March)*

	FY21	FY22E	FY23E	FY24E
Growth Ratios (%)				
GDPI Growth	5.2	23.5	12.9	13.7
GWP Growth	5.4	23.0	13.0	13.7
NWP Growth	10.8	20.3	18.5	15.1
NEP Growth	6.5	22.8	14.5	13.6
Shareholders' funds growth	21.2	30.8	18.7	16.2
Investment growth	17.3	35.9	19.0	15.5
PBT growth	15.1	17.2	20.0	14.2
PAT growth	23.4	16.5	19.7	14.2
Profitability Ratios (%)				
Loss ratio (%)	68.6	75.6	75.1	74.5
Operational expenses ratio (%)	25.6	25.3	24.0	23.1
Commission Ratio (%)	5.6	4.4	3.0	3.0
Combined Ratio	99.8	105.2	102.1	100.6
Underwriting Profit/Loss Ratio (%)	(1.9)	(6.6)	(4.3)	(3.2)
Investment Returns as a % of NEP	26.6	29.9	28.5	27.0
Other Opex as a % of NEP	5.2	4.7	4.7	4.2
PBT as a % of NEP	19.5	18.6	19.5	19.6
Taxes as a % of NEP	4.8	4.7	4.9	4.9
PAT as a % of NEP	14.7	14.0	14.6	14.7
NEP to Average Net Worth (x times)	1.5	1.4	1.3	1.3
Return on Equity (%)	21.7	20.0	19.3	18.8
Analytical Ratios				
Net Retention Ratio (%)	74.6	73.0	76.5	77.5
GDPI to Net Worth ratio (x)	1.9	1.8	1.7	1.7
Operating profit ratio (%)	19.5	17.5	18.24	18.6
Capital Structure				
Investment Leverage (net of borrowings)	4.09	4.29	4.31	4.28
Solvency Ratio (%)	301	231	295	328
Return ratios				
RoAE (%)	21.7	20.0	19.3	18.8
RoAE (%) - including fair value change	37.4	21.9	19.1	18.4
Payout Ratio (%)	0.0	0.0	9.5	16.7
Return on avg Investments (%)	9.3	10.1	8.7	8.0
Valuation Ratios				
No. Of Shares (mn)	454.6	491	491	491
Basic EPS	32.4	35.0	41.9	47.8
Diluted EPS	32.4	35.0	41.9	47.8
Price to Earnings	43.2	40.0	33.4	29.3
Price to Earnings (fully diluted)	43.2	40.0	33.4	29.3
Book Value/share (Rs)	163.6	198.2	235.3	273.6
Book Value/share (Rs) - including fair value change	178.5	219.1	260.2	302.3
Price to Book	8.6	7.1	5.9	5.1
Price to Book - including fair value change	7.8	6.4	5.4	4.6
DPS	0.0	0.0	4.0	8.0
Dividend yield (%)	0.0	0.0	0.3	0.6

Source: Company data, I-Sec research

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