Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Lombard General Insurance

Mixed performance, outlook positive

Insurance	Sharekhan code: ICICIGI
Reco/View: Buy ↔	CMP: Rs. 1,318 / Price Target: Rs. 1,620 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 21.86
Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

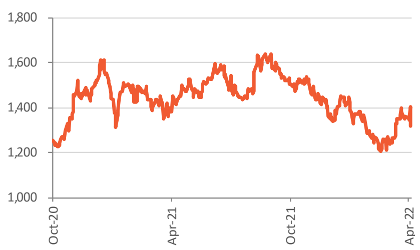
Company details

Market cap:	Rs. 64,680 cr
52-week high/low:	Rs. 1,674 / 1,192
NSE volume: (No of shares)	23.7 lakh
BSE code:	540716
NSE code:	ICICIGI
Free float: (No of shares)	25.5 cr

Shareholding (%)

Promoters	48.0
FII	26.9
DII	13.7
Others	11.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.2	-1.0	-12.0	-4.5
Relative to Sensex	6.1	-0.5	-5.8	-23.5

Sharekhan Research, Bloomberg

Summary

- ICICI Lombard General Insurance Company's PAT missed expectations despite strong growth in net premium earned. In Q4FY2022, PAT stood at Rs. 313 crore versus street estimates of Rs. 344 crore, down 10% y-o-y. This was primarily due to higher combined ratio and lower income from investments.
- GDPI grew strong by 32% y-o-y in Q4FY2022 but was offset by increased expense ratio (~32.5%), aided by integration with Bharti Axa and rise in investments in distribution and technology.
- Management plans to further invest in technology and agency channels for the health segment to accelerate growth going ahead. This may result in its RoE to recover to high teens in the medium term and combined ratio may take longer to reach at ~100%.
- At the current price, the stock trades at 36.4x/28x its FY2023E/FY2024E EPS. We maintain our Buy rating on ICICI Lombard General Insurance Company with a revised PT of Rs. 1,620.

ICICI Lombard General Insurance Company (ILGI) reported gross direct premium income (GDPI) of Rs. 4,666 crore, up 32% y-o-y in Q4FY2022. However, the company is still facing headwinds such as weak auto sales cycle where ILGI has higher market share and no TP tariff hikes in the motor segment. However, the company's focus on the health segment and investments coupled with hike in motor TP rates are likely to accelerate growth going ahead. Net premium earned grew by 27% y-o-y (flat sequentially) to Rs. 3,318 crore. In Q4FY2022, PAT came stood at Rs. 313 crore versus street estimates of Rs. 344 crore, down 10% y-o-y. This was primarily due to higher combined ratio and lower income from investments. For FY2022, PAT was Rs. 1,473 crore, down 14% y-o-y. Underwriting losses continued to be higher at Rs. 309 crore in Q4FY2022 versus Rs. 91 crore in Q4FY2021 versus Rs. 269 crore in Q3FY2022. However, the company's market share leadership in the motor segment stood at 11.8% in March 2022, aided by increased focus on the CV portfolio (~20% of motor premium mix). The mix of retail health has come down to 23.5% in health, travel and PA GDPI mix from 26.7% in FY2021. Benefits of digital health offerings and growth in the agency may not get reflected in the medium term. The motor segment witnessed operating profit growth of 33% y-o-y. While the retail health segment saw operating profit of Rs. 86 crore in Q4FYY2022 versus Rs. 57 crore in Q4FY2021 versus operating loss of Rs. 20 crore in Q3FY2022.

Key positives

- Overall gross premium grew by 11% y-o-y (on consolidated basis). And excluding crop, gross premium was up 12.7%, which was marginally higher than the industry's growth of 11.9% in FY2022.
- The company retained its market share (on GDPI basis) of 8.1% in FY2022, aided by health and motor TP business.
- Combined ratio was down by ~130 bps q-o-q to 103.2% in Q4FY2022, primarily due to cost rationalisation measures and lower commission payouts.

Key negatives

- Net incurred claims ratio was higher at 72% in Q4FY2022, led by higher claims in the motor and health segments.

Management Commentary

- Management continues to focus on retail health segment and intends to grow the segment through building up network and technology.
- It indicated that price hikes have been taken in motor OD and in corporate health segments and it believes that this will not result in market share loss. Further, it added that the company was able to retain >90% of its corporate clients despite >15% price increase in the corporate health portfolio.
- With the merger of Bharti Axa, management intends to see synergy benefits of Rs. 70 crore going ahead.
- Management has toned down its RoE and combined ratio guidance to sub 20% near term ROE and >100% combined ratio due to investments in technology and plans to grow the book at a faster rate. It had earlier guided for RoE of 20% and combined ratio of ~100%, post the merger of Bharti Axa.

Our Call

Valuation – We expect ILGI to deliver on profitability going ahead as the company is in a leadership position in gross written premium through focus on profitable product lines (retail health and motor insurance). Although the combined ratio is likely to stay high due to higher motor claims on account of increased mobility and higher expenses. Further, a shortage of semiconductor chips and lower demand for two-wheelers is expected to impact the motor insurance segment's growth. However, the health segment is likely to report higher growth aided by awareness due to the pandemic and the base effect. We believe synergy benefits from Bharti Axa's product profile would flow in terms of operating efficiencies coupled with the industry's volumes picking up. We expect its gross written premium and EPS to witness CAGR of ~15% and 35% during FY2022-FY2024E. At the current price, the stock trades at 36.4x/28x its FY2023E/FY2024E EPS. We maintain our Buy rating on ILGI with a revised price target (PT) of Rs. 1,620.

Key Risks

Business disruptions and adverse regulatory policies/guidelines and aggressive risk pricing by peers may impact ILGI's profitability and growth.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Gross premium	14,320	18,562	21,124	24,462
PAT	1,473	1,271	1,779	2,313
ROE (%)	21.7	15.0	17.4	19.5
EPS (Rs)	30.0	25.9	36.2	47.1
BVPS (Rs)	151.5	192.9	222.7	261.8
P/E (x)	44.0	51.0	36.4	28.0
P/BV (x)	8.7	6.8	5.9	5.0

*Source: Company; Sharekhan Research; note: * merged numbers*

Key Concall highlights

- **Industry performance:** The industry registered GDPI growth of 11.1% in FY2022. The combined ratio was 119.2% for 9MFY22 versus 104% in 9MFY2021 and reported loss of Rs. 4.05 billion versus profit of Rs. 6.55 billion in 9MFY2021. Solvency ratio worsened to 1.7x versus 2.07x in 9MFY2021. With respect to auto sales, the industry witnessed mixed performance with new car sales witnessing tepid growth due to supply-side challenges, the 2W segment remained muted, while CVs have shown growth supported by underline demand. Health insurance, on the other hand, contributed significantly to the overall industry's growth, in line with the expectation and is now the largest contributor to the industry's GDPI. Commercial lines saw robust growth, in line with the current market environment.
- **Mixed segment growth:** Motor saw faster growth than the industry and the company has attained market leadership during the year with a market share of 11.8% in March 2022. In the retail health segment, the company has started witnessing results with investments in the segment and its agency channel's premium grew by 29.5% in Q4FY2022. With the company's aim to add 1,000 health agency managers, it has now on boarded 750 health agents and the balance 200 is expected to be on boarded going ahead. The company expects to see growth acceleration going forward. Corporate including bancassurance saw GDPI growth of 19.4%, with ICICI distribution growing by 24.9%, primarily driven by the health, SME, and motor business. Other distribution channel acquired through integration rose by 19%. Commercial lines business also witnessed strong growth, aided by healthy growth in the SME segment.
- **Integration synergy with Bharti Axa:** Management opined that it was able to strengthen its market leadership in terms of GDPI through the integration and aims to further strengthen its distribution channels. The plans for revenue and operating synergies are on track. Synergy benefits, thus, accrued are worth Rs. 2 billion, of which Rs. 0.7 billion has been already realised.
- **Investments in technology and distribution agencies:** The company plans to spend Rs. 100 crore to Rs. 150 crore going ahead towards investment in distribution channels and technology. Management reiterated its plans to expand its distribution network to increase penetration in tier 3 and 4 cities.

Results Rs cr

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Gross written premium	**5,001**	**3,560**	**4,786**	**40.5**	**4.5**
Premium ceded	1,027	795	1,131	29.2	(9.2)
Net Premium	**3,973**	**2,765**	**3,655**	**43.7**	**8.7**
Change in unexpired risk reserve	656	149	343		
Net earned premium	**3,318**	**2,616**	**3,312**	**26.8**	**0.2**
Net incurred claims	2,389	1,875	2,304	27.4	3.7
Net commission paid	160	110	203	45.8	(21.0)
Operating expenses related to insurance	**1,077**	**723**	**1,075**	**49.1**	**0.2**
Employees' remuneration and welfare expenses	210	186	239	12.8	(12.2)
Advertisement and publicity	136	81	126	69.4	8.5
Sales promotion	511	291	512	75.7	(0.3)
Other expenses	220	165	197	33.1	11.4
Underwriting Profit/ (Loss	**(309)**	**(91)**	**(269)**		
Income from investments	**538**	**420**	**532**	**28.2**	**1.2**
Other income	**11**	**453**	**10**		
Other expenses	775	463	17	(36.1)	(46.3)
Profit before tax	**410**	**450**	**421**		
Tax	98	1,044	103		
Profit after tax	**313**	**346**	**318**	**(9.6)**	**(1.6)**
Key Ratios (%)					
Retention Ratio	79.5	77.7	76.4	180	310
Net incurred claims Ratio	72.0	71.7	69.6	30	240
Combined Ratio	103.2	101.8	104.5	140	-130
Solvency Ratio	2.5	2.9	2.5	-44	1
RoE	14.0	18.8	14.6	-480	-60

Source: Company; Sharekhan Research

Outlook and Valuation

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

We believe the Indian insurance sector has a huge growth potential. 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 over the long term**

ILGI's long-term business fundamentals have remained steady even during times of crisis. We believe the company is seeing higher demand for health products (due to increased fear factor because of the pandemic), which resulted in better recovery traction for the company. ILGI has also been able to maintain an attractive loss ratio with attractive metrics, which indicates its strong fundamentals. However, in the near term, ratios may not look attractive. 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 past 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 –** We expect ILGI to deliver on profitability going ahead as the company is in a leadership position in gross written premium through focus on profitable product lines (retail health and motor insurance). Although the combined ratio is likely to stay high due to higher motor claims on account of increased mobility. Further, a shortage of semiconductor chips and lower demand for two-wheelers is expected to impact the motor insurance segment's growth. However, the health segment is likely to report higher growth aided by awareness due to the pandemic and the base effect. We believe synergy benefits from Bharti Axa's product profile would flow in terms of operating efficiencies coupled with the industry's volumes picking up. We expect its gross written premium and EPS to witness CAGR of ~15% and 35% during FY2022-FY2024E. At the current price, the stock trades at 36.4x/28x its FY2023E/FY2024E EPS. We maintain our Buy rating on ILGI with a revised PT of Rs. 1,620.

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 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. Amit Kushwaha	Chief Compliance Officer
Mr. Vinod Mahajan	Chief Investment Officer
Mr. Girish Nayak	Chief Customer Service, Technology & Operations
Mr. Sanjay Datta	Chief Underwriting, Reinsurance & Claim

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	GIBA Holdings Pvt Ltd	3.7
2	SBI Funds Management Pvt Ltd	3.1
3	St James Place PLC	1.9
4	FIL Ltd	1.9
5	Norges Bank	1.6
6	Aditya Birla Sun Life Asset Manage	1.6
7	Governmnet Pension Fund	1.5
8	Vanguard Group Inc/The	1.4
9	BlackRock Inc	1.4
10	Baillie Gifford & Co.	1.2

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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