

April 21, 2022

**RESULT REPORT Q4 FY22** | Sector: Insurance (General)

# ICICI Lombard General Insurance

## Delivery and near-term guidance relatively sombre

### Result Highlights

- ✓ **Net premiums earned:** Net premiums earned remained broadly flat QoQ, where Crop and Motor segments have acted as a drag
- ✓ **Loss ratios:** Overall loss ratio has deteriorated by 240 bps QoQ to 72%, with all segments except Fire and Engineering evolving negatively on sequential basis
- ✓ **Expense control:** Expense ratio was flat QoQ at 31.5% where opex rose just 0.2% QoQ but commissions fell by -21% QoQ

### Our view - Delivery and near-term guidance relatively sombre

Net premium growth was dragged lower by de-growing Crop and Motor segments, while Health (including Travel & PA) and Marine segments displayed robust growth: Crop segment de-grew -91.4% QoQ as ICICIGI continued to de-focus this segment, including the business acquired from Bharti. Motor segment de-grew -0.7% QoQ but there has been improvement in the Motor TP growth (within the quarter). ICICIGI has been re-calibrating its approach and increasing focus on the CV segment. Management expects that market share in CV segment would continue to improve till share of CV within the portfolio reaches mid-20s from teens, currently. Health (including PA) growth was 7.3% QoQ and whereas Marine segment grew 8.0% QoQ.

**Loss ratio rose on the back of rise in loss ratio for key segments, including Health (including Travel & PA), Motor OD and Motor TP:** The Motor TP loss ratio deteriorated 760 bps QoQ to 78% but the regulator has approved Motor TP price amounting to ~3% on an aggregate basis, which will be effected in May. Motor OD loss ratio has also deteriorated 110 bps to 73% but for Motor OD, too, ICICIGI has effected price hikes in the private car segment. For Health (including Travel & PA), loss ratio worsened 150 bps QoQ to 77%. Management stated that it expected Retail Indemnity loss ratio to remain high as the company was adding distribution in this area.

**We maintain 'Buy' rating on ICICIGI with a revised price target of Rs 1612:** We value ICICIGI at 36x FY23 P/E for an FY21-24E EPS CAGR of 17%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

### Exhibit 1: Result table

Rs Mn	Q4 FY22	Q4 FY21*	% yoy	Q3 FY22	% qoq
Gross Premiums written	50,007	35,599	40.5	47,861	4.5
Net Premium Written	39,734	27,647	43.7	36,551	8.7
Net Premium Earned	33,178	26,162	26.8	33,119	0.2
Income from Investments	5,384	4,198	28.2	5,322	1.2
<b>Total Income</b>	<b>46,363</b>	<b>34,894</b>	<b>32.9</b>	<b>38,541</b>	<b>20.3</b>
Commission & Brokerage	1,601	1,098	45.8	2,027	(21.0)
Operating Expenses	10,774	7,228	49.1	10,749	0.2
Total claims	23,893	18,749	27.4	23,035	3.7
<b>Underwriting Profit/(Loss)</b>	<b>(3,090)</b>	<b>(912)</b>	<b>238.7</b>	<b>(2,692)</b>	<b>14.8</b>
Operating Profit	10,096	7,819	29.1	2,731	269.7
<b>PAT</b>	<b>3,125</b>	<b>3,457</b>	<b>(9.6)</b>	<b>3,175</b>	<b>(1.6)</b>
<b>Key Ratios</b>					
Solvency Ratio	246.0%	290.0%	-4400bps	245.0%	100bps
Expense Ratio^	31.5%	29.8%	170bps	31.5%	0bps
Incurred Claim Ratio	72.0%	71.7%	30bps	69.6%	240bps
Net Retention Ratio	79.5%	77.7%	180bps	76.4%	310bps
Combined Ratio	103.2%	101.8%	140bps	104.5%	-130bps

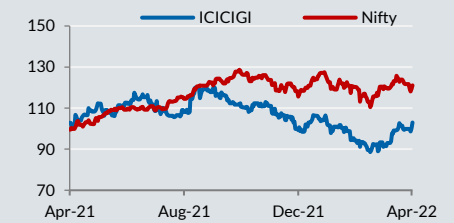
Source: Company, YES Sec-Research; \*N.B. Only Q4FY21 figures are for the unmerged entity. ^ based on GDPI

Reco	: BUY
CMP	: Rs 1,401
Target Price	: Rs 1,612
Potential Return	: 15%

### Stock data (as on April 21, 2022)

Nifty	17,393
52 Week h/l (Rs)	1675 / 1192
Market cap (Rs/USD mn)	687739 / 9030
Outstanding Shares (mn)	491
6m Avg t/o (Rs mn):	896
Div yield (%):	0.6
Bloomberg code:	ICICIGI IN
NSE code:	ICICIGI

### Stock performance



	1M	3M	1Y
Absolute return	12.9%	1.4%	0.7%

### Shareholding pattern (As of Mar'22 end)

Promoter	48.0%
FII+DII	40.6%
Others	11.3%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1612	1825

### Financial Summary

Rs mn	FY22	FY23E	FY24E
NEP	130,321	136,986	160,570
% yoy	30.1%	5.1%	17.2%
Op profit	17,940	30,785	34,671
% yoy	-8.3%	71.6%	12.6%
PAT	12,710	21,987	25,299
% yoy	-13.7%	73.0%	15.1%
EPS (Rs)	25.9	44.8	51.5
P/E (x)	54.1	31.3	27.2
P/B (x)	7.5	6.3	5.4
RoE (%)	14.0%	20.3%	19.8%

### Δ in earnings estimates

Rs.	FY22E	FY23E	FY24E
EPS (New)	NA	44.8	51.5
EPS (Old)	NA	50.7	62.3
% change	NA	-11.6%	-17.3%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Premium growth

- ✓ The company has grown broadly in-line with market growth of 12.7%, excluding crop and mass health.
- ✓ Within the quarter, momentum has increased each month and the company has significantly outgrown the market in the month of March.

### Channel growth and mix

- ✓ **Agency channel**
  - Agency channel growth for the quarter was 29.5%.
  - Of the 1000 retail health agency managers to be added to the employee base, the company has onboarded 750 of them and the balance 250 offers have been made.
  - 8000 agents overall were added during the quarter.
- ✓ **Digital channel**
  - Premium income from the company's website has grown 20%.
  - Digital revenues have been Rs 7.74bn, accounting for 4.3% of GDPI.
- ✓ **Bancassurance**
  - **ICICI Bank**
    - ICICI Bank has grown 24.9%.
    - ICICI Bank does not sell benefit policies but sell indemnity.
  - **HDFC Bank and Axis Bank**
    - HDFC Bank and Axis Bank are on board due to the Bharti Axa buyout.
    - These 2 banks are developing well and, while they are currently focusing on SME and Motor, they will also have the opportunity to sell Health.

### Motor segment

- ✓ **Motor Third-Party**
  - **Third-party price hike**
    - On an aggregate basis, the third-party (TP) motor price hike has been 3% plus or minus.
    - The long-term TP rate hike has been higher.
    - The company would have liked to see slightly higher price hikes in certain categories.
    - The price hike will be officially effected in May.
  - **Share of private cars in TP**
    - Third-party private car GDPI would be Rs 13.49bn of the total TP GDPI worth Rs 42.12bn.
  - **Third-party premium growth**
    - Motor TP premium growth trend has been strong.
    - The company has taken a calibrated call on re-adjusting the portfolio on the private car side and increasing on the CV side.
    - The share of CV for the market is 45% whereas it was in the teens for the company.
    - The company aims to take this share to the mid-20s and management believes the improvement in market share in CV will continue.
    - In CV, the company has been identifying segments that are more viable today than in the past.

(Con call takeaways continue on the next page)

✓ **Motor OD**

- **Motor OD price hike**
  - There have been price increases in private cars across the board.
  - There have been single digit price hikes in this regard.

## Property and Casualty segment

✓ **Share of losses**

- The share of losses was high for Cyclone Tauktae for the company since 2 corporate exposures got hit.
- Otherwise, the company's share of losses has generally been lower than market share.

## General comments

✓ **Strategy**

- Management stated that high loss ratio but low expense ratio businesses are better.

✓ **Profitability**

- The company will continue to make investments in the areas of digital and health agency channel.
- This will lead to CoR being higher than 100% for some time and RoE in the high teens for this time.

## Health segment

✓ **Health Loss Ratio**

- **Corporate health**
  - The corporate health loss ratio has moved from 93.1% in 3QFY22 to 95.3% in 4QFY22.
  - Generally, mid-corporate health loss ratio is 90-95% whereas, large corporate health loss ratio is 95-100%.
  - The expense ratio is, however, very low, especially for large corporate, as the acquisition cost is very low.
  - Even after effecting price hikes of more than 15-20%, the company has managed renewals of 90% in this area.
  - Corporate health combined ratio has ranged between 100-105%.
- **Retail indemnity**
  - The retail indemnity loss ratio has been 65.7% in 3QFY22, which has moved to 57.6% in 4QFY22.
  - On a steady state basis, this loss ratio would be in the 60-70% range as the company is building distribution in this area.
  - The combined ratio is going to be on the higher side and it will take a couple of years to fall in line.

## Exhibit 2: Other Business Parameters

Rs mn	Q4 FY22	Q4 FY21*	% yoy	Q3 FY22	% qoq
<b>Net Premium Earned</b>					
Fire	1,855	1,260	47.2%	1,846	0.5%
Marine	1,037	729	42.2%	960	8.0%
Health including Personal Accident	9,141	6,543	39.7%	8,519	7.3%
Miscellaneous	1,797	1,418	26.7%	1,714	4.8%
Crop Insurance	57	1	6962.5%	659	-91.4%
Motor	19,292	16,212	19.0%	19,422	-0.7%
<b>Total</b>	<b>33,178</b>	<b>26,162</b>	<b>26.8%</b>	<b>33,119</b>	<b>0.2%</b>
<b>Segment Underwriting Profit / (Loss)</b>					
Fire	1,444	1,221	18.2%	910	58.7%
Marine	31	(102)	-130.2%	27	15.4%
Health including Personal Accident	(886)	(319)	177.9%	(208)	325.0%
Miscellaneous	367	363	1.2%	379	-3.1%
Crop Insurance	142	2	6091.3%	82	74.3%
Motor	(4,188)	(2,079)	101.5%	(3,881)	7.9%
<b>Total</b>	<b>(3,090)</b>	<b>(913)</b>	<b>238.4%</b>	<b>(2,692)</b>	<b>14.8%</b>
<b>Loss Ratio</b>					
Motor OD	73%	64%	940bps	72%	110bps
Motor TP	78%	81%	-300bps	71%	760bps
Health, Travel, PA	77%	80%	-330bps	75%	150bps
Crop	126%	111%	1410bps	94%	3120bps
Fire	30%	35%	-480bps	40%	-950bps
Marine	73%	92%	-1930bps	66%	690bps
Engineering	67%	35%	3250bps	80%	-1250bps
Other	47%	58%	-1070bps	37%	960bps
<b>Total</b>	<b>72.0%</b>	<b>72%</b>	<b>30bps</b>	<b>69.6%</b>	<b>240bps</b>

Source: Company, YES Sec – Research, \*N.B. Only Q4FY21 figures are for the unmerged entity.

## Exhibit 3: Quarterly Actuals Vs Estimates

Q4FY22 (Rs. mn)	Actuals	Estimates	Diff, %
Net Premium Earned	33,178	33,876	(2.1)
Underwriting Profit/(Loss)	(3,090)	(2,371)	(30.3)
PAT	3,125	3,388	(7.8)

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Profit & Loss Statement

Rs mn	FY20	FY21	FY22E	FY23E	FY24E
Gross written premium	133,128	140,031	185,624	196,523	229,763
Net written premium	96,407	106,850	134,896	146,172	171,251
Net earned premium	94,036	100,140	130,321	136,986	160,570
Net claims	68,515	68,708	97,819	102,505	120,254
Net commission	3,639	6,009	6,339	7,397	8,510
Expense of Management	22,931	27,342	39,201	33,561	38,537
Underwriting profit/(Loss)	(1,049)	(1,919)	(13,038)	(6,478)	(6,731)
Investment income	16,492	21,474	30,978	37,263	41,402
<b>Operating profit</b>	<b>15,443</b>	<b>19,555</b>	<b>17,940</b>	<b>30,785</b>	<b>34,671</b>
<b>Shareholder's account</b>					
Operating profit	15,443	19,555	17,940	30,785	34,671
Investment income	4,800	5,170	7,061	8,519	10,547
Total income	20,244	24,725	25,001	39,304	45,218
Expenses	3,272	5,185	8,166	9,910	11,397
PBT	16,971	19,540	16,835	29,394	33,822
Tax	5,031	4,809	4,125	7,407	8,523
<b>PAT</b>	<b>11,940</b>	<b>14,731</b>	<b>12,710</b>	<b>21,987</b>	<b>25,299</b>

Source: Company, YES Sec – Research

### Exhibit 5: Balance sheet

Rs mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of funds</b>					
Share capital	4,543	4,546	4,909	4,909	4,909
Reserves and Surplus	56,797	69,809	86,188	103,511	122,919
Fair value change account	(4,286)	6,804	3,593	3,593	3,593
Borrowings	4,850	4,850	2,550	2,550	2,550
Claims Outstanding gross	180,074	182,846	251,308	278,572	310,397
Current liabilities	69,724	58,149	79,360	91,264	104,954
Provisions	58,716	65,974	80,575	92,661	106,561
<b>Total Liabilities</b>	<b>370,418</b>	<b>392,977</b>	<b>508,483</b>	<b>577,061</b>	<b>655,883</b>
<b>Application of funds</b>					
Investments - Shareholders	58,595	74,356	89,179	113,191	140,235
Investments - Policyholders	204,671	234,565	298,684	339,779	387,951
Fixed assets	6,765	6,268	5,775	5,975	6,175
Deferred tax asset	3,063	3,498	3,456	3,456	3,456
Cash and bank balances	326	2,277	2,926	773	(1,515)
Advances and other assets	96,998	72,013	108,463	113,886	119,581
<b>Total Assets</b>	<b>370,418</b>	<b>392,977</b>	<b>508,483</b>	<b>577,061</b>	<b>655,883</b>

Source: Company, YES Sec – Research

## Exhibit 6: Ratio analysis

Particulars	FY20	FY21	FY22E	FY23E	FY24E
<b>Key ratios</b>					
Claims ratio	73%	69%	75%	75%	75%
Opex ratio	24%	27%	30%	25%	24%
Commission ratio	4%	6%	5%	5%	5%
Combined ratio	101%	102%	110%	105%	104%
Underwriting P/L Ratio	-1.1%	-1.9%	-10.0%	-4.7%	-4.2%
RoA	3.2%	3.7%	2.5%	3.8%	3.9%
RoE	19.5%	19.8%	14.0%	20.3%	19.8%
Dividend payout	15.4%	24.7%	34.8%	21.2%	23.3%
Investments leverage	4.2	4.1	4.2	4.2	4.1
<b>Per share ratios (Rs)</b>					
EPS	26.3	32.4	25.9	44.8	51.5
BVPS	135.0	163.6	185.6	220.9	260.4
DPS	4.1	8.0	9.0	9.5	12.0
<b>Valuation ratios</b>					
P/E (x)	53.3	43.2	54.1	31.3	27.2
P/B (x)	10.4	8.6	7.5	6.3	5.4
<b>Growth (%)</b>					
Gross written premium	-8.1%	5.2%	32.6%	5.9%	16.9%
Net earned premium	12.3%	6.5%	30.1%	5.1%	17.2%
Claims	8.6%	0.3%	42.4%	4.8%	17.3%
Commissions	63.3%	65.1%	5.5%	16.7%	15.0%
Net income	13.8%	23.4%	-13.7%	73.0%	15.1%

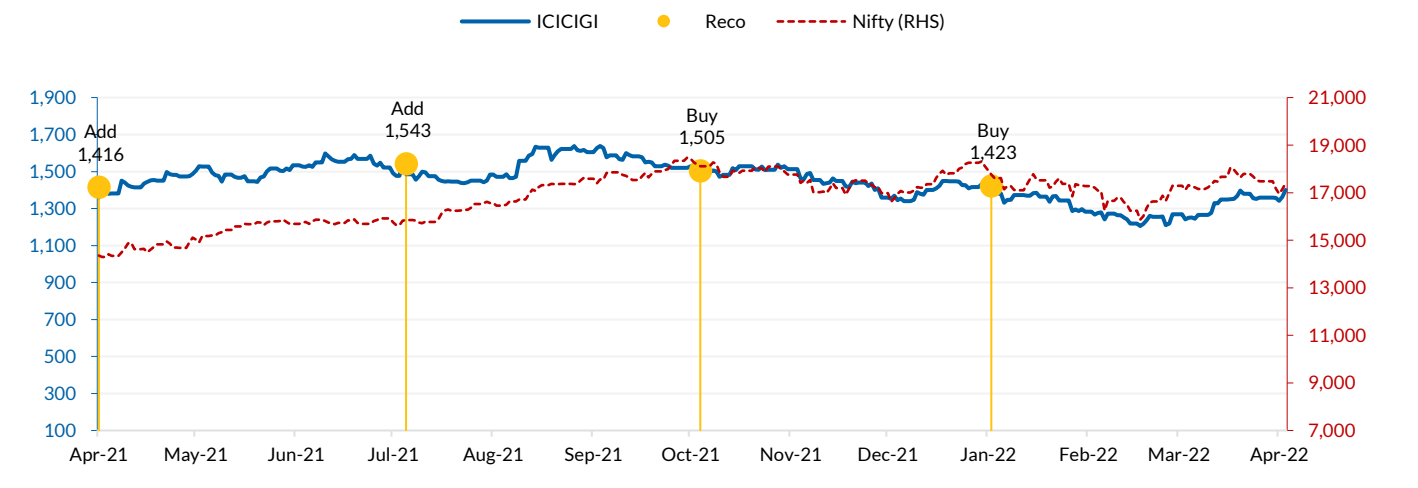
Source: Company, YES Sec – Research

## Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Premium Earned	NA	136,986	160,570	131,914	154,389	180,560	NA	(11.3)	(11.1)
Operating Profit	NA	30,785	34,671	16,209	31,388	38,093	NA	(1.9)	(9.0)
PAT	NA	21,987	25,299	12,939	24,864	30,580	NA	(11.6)	(17.3)

Source: Company, YES Sec – Research

## Recommendation Tracker



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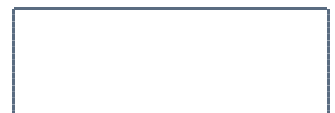
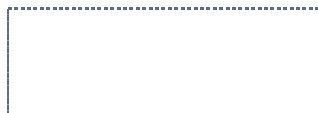
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