ICICI Lombard

Successfully weathering the storm

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Unless otherwise mentioned, all the figures in the report from FY22 onwards are for the merged entity

ICICI Lombard

BSE Sensex	S&P CNX
54,178	16,133

CMP: INR1,277 TP: INR1,500 (+17%) Buy

Stock info

Bloomberg	ICICIGI IN
Equity Shares (m)	490.9
M.Cap.(INRb)/(USDb)	627.2 / 7.9
52-Week Range (INR)	1674 / 1071
1, 6, 12 Rel. Per (%)	13/-2/-22
12M Avg Val (INR M)	1168
Free float (%)	52.0

Financial Snapshot (INR b)

Y/E March	2022	2023E	2024E
NEP	130.3	156.9	189.0
U/W Profit	-13.0	-5.6	-4.9
PBT	16.8	22.6	28.0
PAT	12.7	17.0	21.0
EPS (INR/share)	25.9	34.6	42.8
EPS Growth (%)	-13.7	33.6	23.6
BVPS (INR/share)	185.6	209.1	238.0
Ratios (%)			
Claims	75.1	68.5	67.8
Commission	4.7	5.2	5.7
Expense	29.1	28.7	27.9
Combined	108.8	102.4	101.4
RoE	15.4	17.5	19.1
Valuations			
P/E (x)	49.3	36.9	29.9
P/BV (x)	6.9	6.1	5.4

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	48.0	48.1	51.9
DII	13.7	13.5	12.0
FII	26.9	28.1	29.1
Others	11.3	10.4	7.1

Successfully weathering the storm

Investing in growth amid favorable industry dynamics

The general insurance industry is all set to deliver a healthy 12% CAGR in premium over the next decade led by 1) healthy trend in auto sales, 2) sustained strong momentum in health insurance demand and 3) commercial insurance lines growing in line with a robust economic growth. Amidst this, ICICIGI has emerged to be India's largest private sector general insurance company post its merger with Bharti Axa (BAXA). Stronger correlation with new auto sales, investments into health distribution channel, synergies from BAXA merger and expected results of past investments in technology are the key earnings triggers for ICICIGI. During FY22-24, we see the company delivering a premium/PAT CAGR of 19%/28% and a RoE of 19.1% in FY24. The stock is trading closer to its trough P/E multiples post 31% correction in the past 18 months. We recommend BUY with a 1-year price target of INR1,500.

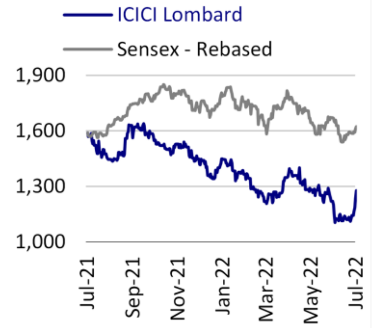
ICICIGI well-placed to capture the ensuing revival in Auto sales

- Following a muted growth in auto sales over the past couple of years, we expect a revival led by: 1) the easing of supply-side issues as the global economy opens up, 2) relatively stronger economic growth and Infrastructure investments driving demand for CVs, and 3) the opening up of offices and colleges, which will drive 2W demand.
- ICICIGI auto segment has a relatively stronger correlation with new Auto sales when compared to that of the industry (60% v/s 40%). Additionally, the mix is skewed towards passenger cars and 2Ws, where the revival is likely to be stronger. Post the decline of 200bps in market share over the past two years, we expect an improvement going ahead.
- Technology initiatives, leadership in EV segments, commercialization of sandbox products, and incremental OEM partners through its merger with Bharti AXA will be additional tailwinds for ICICIGI.
- In terms of claims, we expect steady trends as the impact of adverse pricing is offset by benefits from the implementation of the Motor Vehicles Act.
- Overall, we expect ICICIGI to report 21% CAGR in the Motor segment, led by a 19%/23% CAGR in Motor OD/TP business.

Investing in the Health business to gain market share

- India is highly underpenetrated in terms of the Health business with only 4% of the population covered under Retail Health Insurance plans. This provides huge growth opportunities for players in the industry.
- To capture a higher share of growth opportunities emerging in the segment, ICICIGI has invested in building its individual agency channel, wherein it is hiring 1,000 agency representatives. The benefits of the same will be reaped in the near future. Its investments in technology (such as the IL TakeCare app) will aid growth going forward.

Stock's performance (one-year)



- In the Group Health segment, the management aims to grow the profitable SME segment as compared to the loss-making Large Corporate segment.
- We expect the claims ratio to normalize to pre-COVID levels in FY23 and improve going forward as aggressive growth will lead to a much younger customer base. However, the expense ratio is likely to remain higher, restricting the improvement in the combined ratio for this segment.

Synergies from Bharti AXA merger will drive improvement in combined ratio

- ICICIGI merged with Bharti AXA in FY22 following the receipt of all requisite approvals. The merged entity is now the largest private General Insurance Company in India.
- Key synergies out of the merger include: 1) consolidation of branches (already implemented), 2) technology integration (in process), 3) optimization of the organizational structure, 4) new OEM partners for the Motor segment and 5) new banca partners in distribution.
- So far, the company has reaped INR0.7b in benefits in FY22 and expects further benefits of INR1.3b in the near term. These should translate into strong improvement in combined ratio for the merged entity from 109% in FY22 to 101.4% by FY24.

Focus on growth v/s profitability – A change in strategy

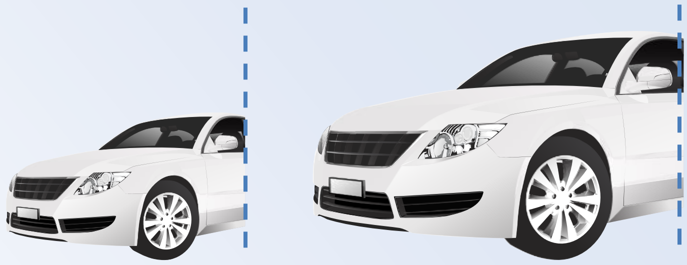
- Empirically, ICICIGI has been reporting an earnings growth and a RoE of over 20% each. During FY22, the company reported a decline in earnings and 15% RoE.
- Going forward, the management's focus will be on growth than profitability. We expect the company to deliver a gross premium/PAT CAGR of 19%/28% over FY22-24.
- In terms of expenses, we see the expense ratio falling to 27.9% in FY24 from 29.1% in FY22. However, the fall would have been sharper had it not been for the incremental investments in growth. The combined ratio/RoE is likely to improve to 101.4%/19.1% in FY24E from 108.8%/15.4% in FY22.

Recommend Buy, trading near all-time low one year forward valuation, ICICIBC stake sale a key overhang

- The stock has corrected by 31% over the past 18 months, even as the Nifty remained flat. The steep correction has been on account of: 1) shift in the management's focus to growth from profitability earlier, and 2) expected reduction in ICICIBC's stake to sub-30% levels by Sep'23 as per RBI regulations from 48% at present.
- After the correction, the stock is trading near at all-time low one year forward valuation. The stock should re-rate towards its historic valuation as it delivers profitable growth and clarity emerges on the stake sale.
- We initiate coverage on ICICIGI with a Buy rating and a one-year TP of INR1,500 (35x FY24E P/E).

STORY IN CHARTS

Regaining market share (12%) in Motor business

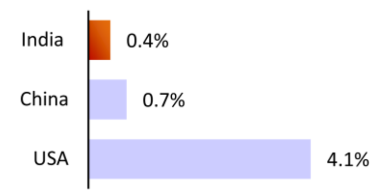


Indian General Insurance Industry at INR 2.2t expected to grow at 12-15% CAGR

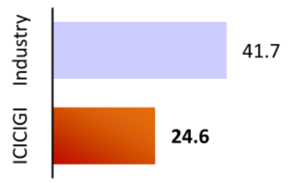
- Revival in auto sales
- Sustained growth in health insurance
- Healthy growth in commercial insurance

- Higher share of PV v/s industry
- Stronger correlation with new Auto sales
- Revival in auto sales

Capturing the growth of Health business



Indian Health insurance industry remains deeply underpenetrated



Share of retail health at 25% for ICICIGI v/s 42% for Industry

ICICIGI building individual agency channel with adding 1000+ agency representatives

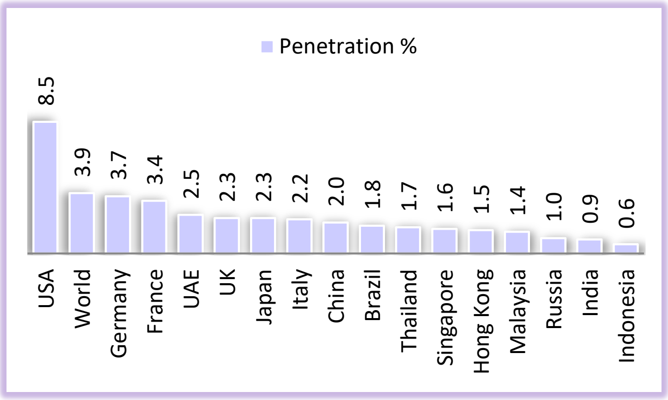
Benefitting from merger synergies

ICICI Lombard GENERAL INSURANCE + bharti AXA =

Market Share (FY21)	Bharti AXA	ICICIGI	Combined Entity
Fire	1.6%	10.7%	12.3%
Marine	2.2%	13.7%	15.9%
Motor OD	2.8%	12.6%	15.4%
Motor TP	1.3%	8.0%	9.3%
Health	0.7%	4.6%	5.3%
Overall	1.6%	7.0%	8.6%

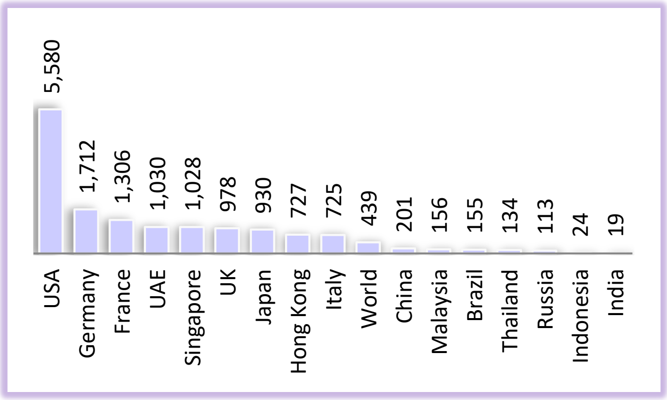
Story in charts

Penetration for the General Insurance industry in India remains as low as 0.9%



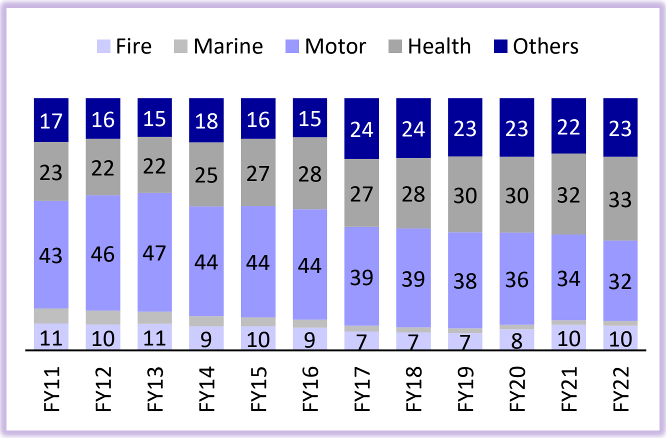
Source: Swiss Re, MOFSL

Density in the General Insurance industry remains below the global average (USD)



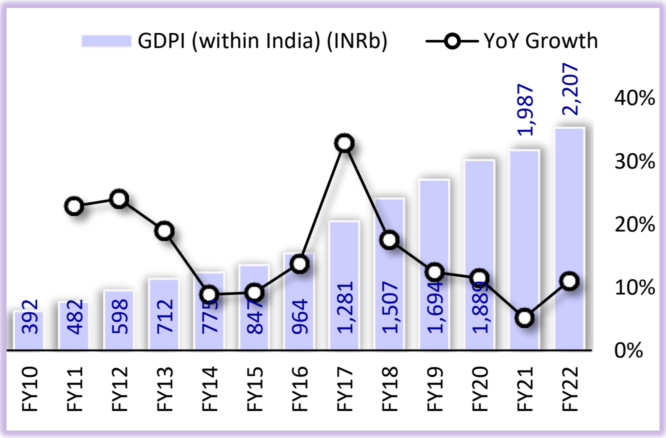
Source: Swiss Re, MOFSL

Changing industry mix, with Health gaining traction



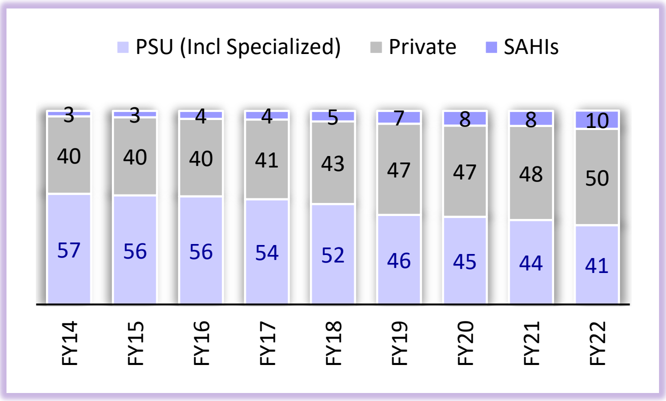
Source: MOFSL, GIC

Growth momentum in GWP back after declining for the past few years



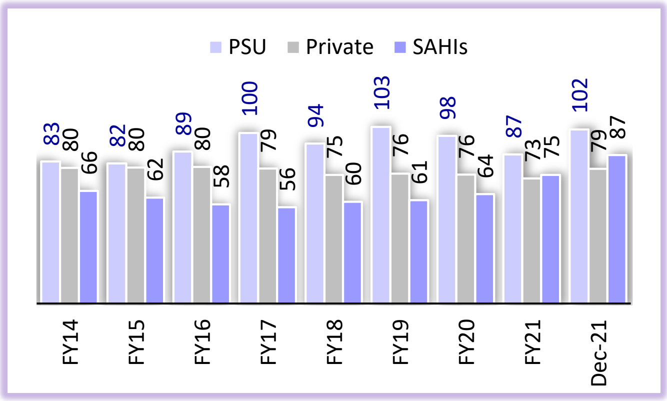
Source: MOFSL, GIC

Private players and SAHI continue to gain market share



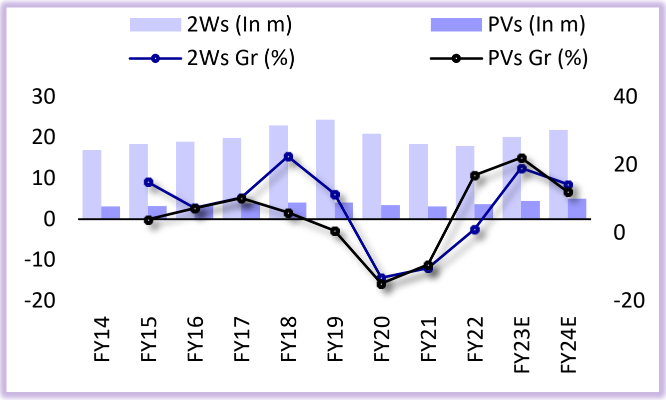
Source: MOFSL, GIC

The COVID-19 pandemic led to elevated claims ratio for SAHIs over the past two years



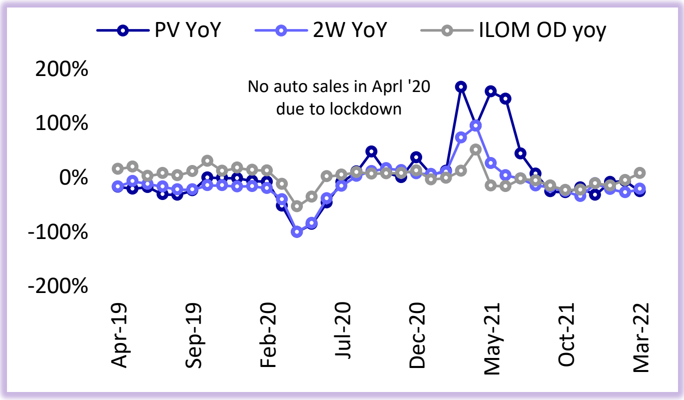
Source: MOFSL, GIC

Recovery in Auto sales to drive growth in the Motor insurance segment…



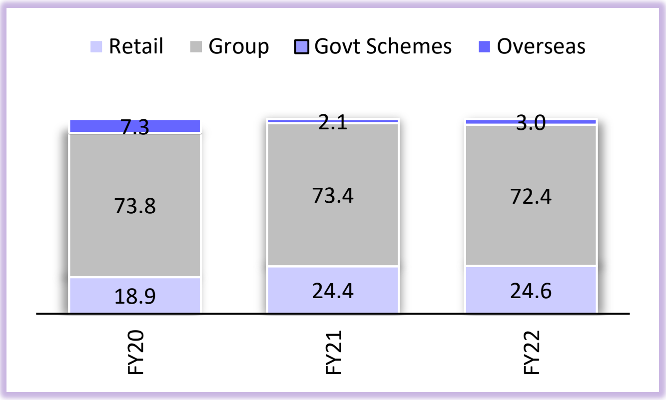
Source: MOFSL, SIAM

…with ICICIGI being a key beneficiary given its higher co-relation with new vehicle sales



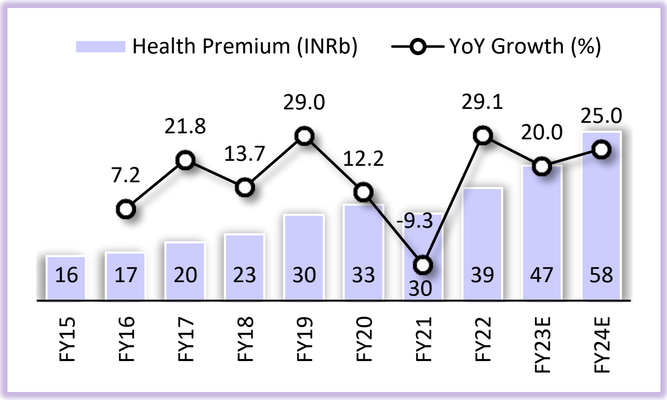
Source: MOFSL, SIAM, GIC

ICICIGI's Health business dominated by the Group segment



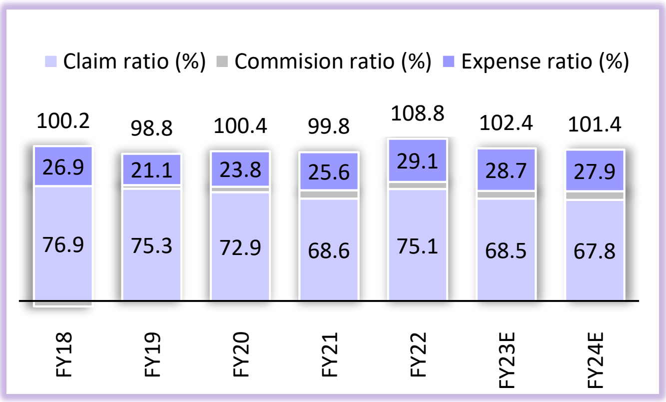
Source: MOFSL, Company

However, higher focus on the Retail business to drive growth in Health segment going forward



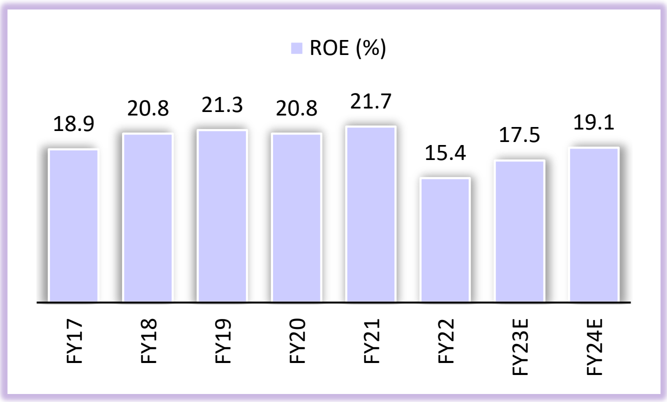
Source: MOFSL, Company

Higher investment cost partially offsets benefit from a lower claims ratio



Source: MOFSL, Company

Return ratios to recover back to the high teens



Source: MOFSL, Company

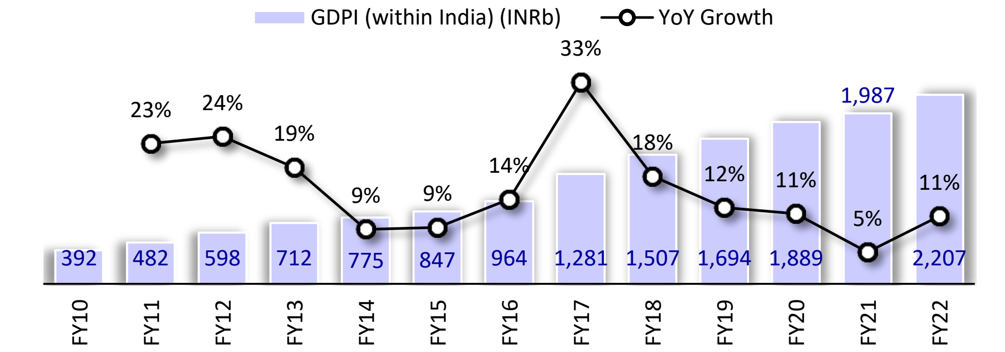
Strong growth ahead for the General Insurance industry

Revival in Motor sales, strong demand for Health Insurance

General Insurance penetration at 0.9% v/s 8.5%/2% for the US/China

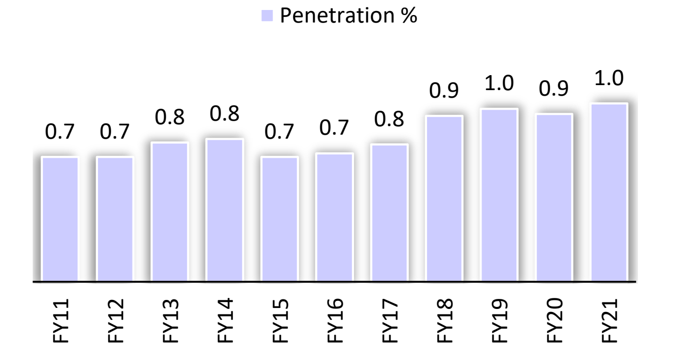
- **The Indian General Insurance industry demonstrated 15% CAGR to INR2.2t over FY12-22.**
- **The COVID-19 pandemic changed the landscape of the Indian Non-Life Insurance industry. It raised awareness on Health Insurance and led to Health Insurance being a pull product rather than a push product. This is reflected in the 25% growth in Health premium in FY22 v/s an 11% growth for the overall General insurance industry.**
- **Despite such strong growth, penetration measured, as a percentage of GDP, stands at 0.9% (v/s 0.7% in FY11) and density at USD19 (v/s USD8.7 in FY11).**
- **We expect the industry to continue on its growth trajectory, with 12-14% CAGR over FY22-24, on the back of: 1) strong demand for Commercial lines, 2) continued demand for Health products, 3) recovery in Motor sales, and 4) a price hike in Motor TP.**

Exhibit 1: Recovery in growth in FY22 after the muted performance of the past few years



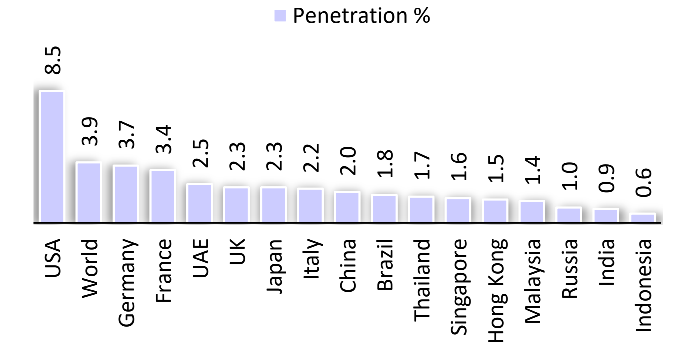
Source: MOFSL, GIC

Exhibit 2: Increasing penetration…



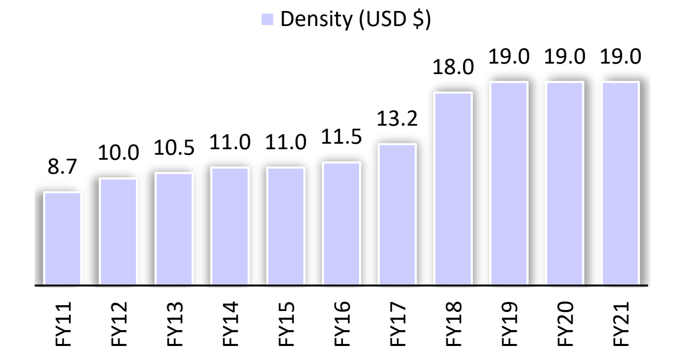
Source: IRDAI, MOFSL

Exhibit 3: …but significantly lower in global terms



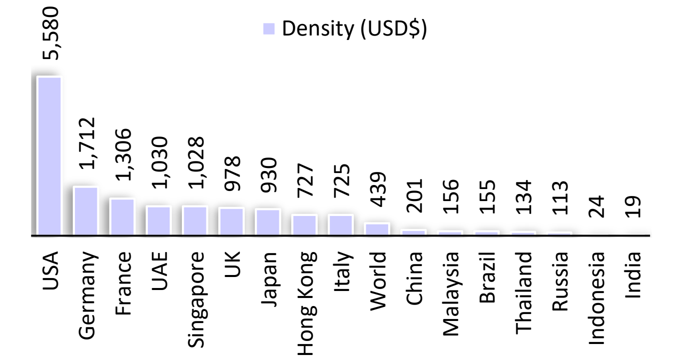
Source: Swiss Re, MOFSL

Exhibit 4: Density on the rise…



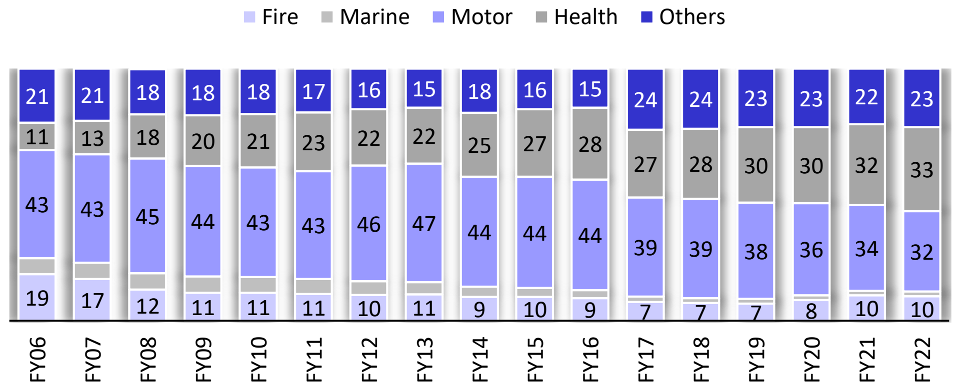
Source: IRDAI, MOFSL

Exhibit 5: …but still below the global average



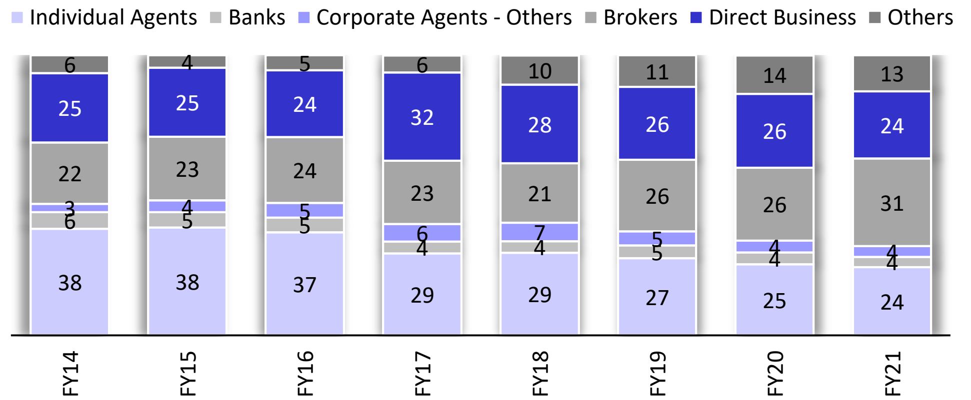
Source: Swiss Re, MOFSL

Exhibit 6: Share of the Health business rose 11% in the last decade



Source: MOFSL, IRDAI

Exhibit 7: Reducing the share of Individual agents in the overall industry distribution mix



Source: MOFSL, IRDAI

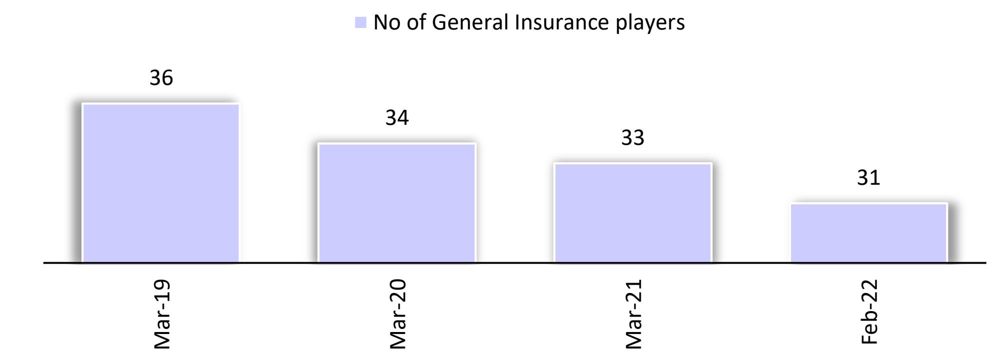
Stronger player benefiting from industry consolidation, market share shifting towards private players

Higher pricing pressures | Continuous under-writing losses | Industry consolidation

PSU players lost 13.4% market share in the past five years

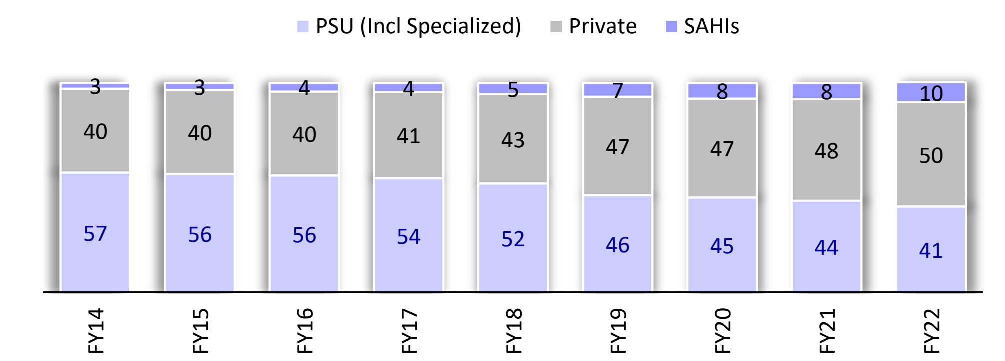
- **The Indian General Insurance industry now comprises of 31 players against 36 players in Mar'19.**
- **Consolidation in the industry is driven by smaller players increased need for capital and building of scale to move towards underwriting profit. In FY21, out of all the players, only three players clocked an underwriting profit.**
- **PSU players (including specialized players) have lost 13.4% of market share over FY17-22. The market share loss has been on the back of capital constraints and also aggressive pricing by the private players.**
- **SAHIs have been the biggest beneficiaries and gained 500bp of market share to 9.2% over the same period in overall GWP.**
- **Private players too have gained market share and now account for 50% of the industry v/s 41% in FY17.**

Exhibit 8: Reducing number of General Insurance players



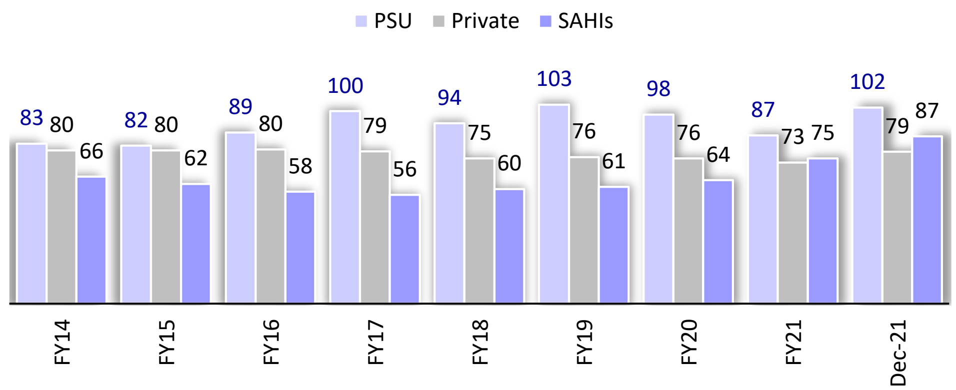
Source: MOFSL, IRDAI

Exhibit 9: Reducing market share for PSUs



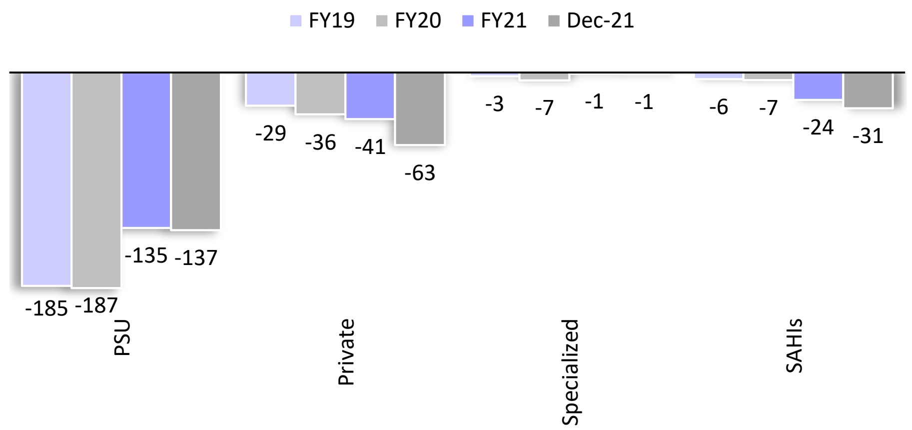
Source: MOFSL, IRDAI

Exhibit 10: PSUs continue to have a higher claims ratio on the back of aggressive pricing



Source: MOFSL, IRDAI

Exhibit 11: Most industry players continue to incur underwriting losses (INR b)



Source: MOFSL, IRDAI

Motor segment – Sharp demand recovery on the cards

Revival in motor demand | Price revision in Motor TP

- **The Motor segment is the second largest segment (after Health), with a 32% share in total General Insurance premium in India. ICICIGI derives 48% of its GWP from the Motor segment.**
- **During the COVID-induced lockdown, the industry witnessed a double whammy, with new motor vehicle sales slowing down and renewal rates dwindling.**
- **We expect a strong revival in Auto sales over the next couple of years, led by: 1) sorting of supply-side issues driving passenger car demand, 2) robust CV demand, led by strong economic growth, and 3) opening up of offices/colleges to drive 2W demand. Implementation of the Vehicles Act will drive renewal rates.**
- **Growth in ICICIGI's Motor segment premium has a stronger correlation with new vehicle sales v/s that for the industry, leading to market share gains. Technology initiatives such as sandbox products, a digital claim settlement process, and digital vehicle inspection will further drive volumes for ICICIGI.**
- **Pricing pressure, due to intense competition, will offset the decline in the claims ratio over the medium term on: 1) better safety features in premium cars, and 2) commercialization of tech driven sandbox products (3)time-limit for filing Motor TP claims ,if implemented.**

Domestic Auto sales to see a revival

- Domestic Auto sales have been under pressure for the past couple of years, given the weak economic backdrop in light of the COVID-19 pandemic and semiconductor shortage.
- We expect a strong revival in vehicle sales, led by: 1) an improvement in cash flows in the rural economy due to the harvesting of the Rabi crop; 2) corporates asking employees to return to office; 3) the positive effect of the recent reduction in excise duty on CV demand, 4) launches by OEMs, and 5) easing of geopolitical tensions and semi-conductor shortages, resulting in the mitigation of supply-side issues.
- Overall, 57% of the vehicles are uninsured in India, with ~66% of 2Ws remaining uninsured. Even if half of the uninsured 2Ws took only the compulsory Third Party Insurance, the premium potential will be over INR45b (number of uninsured 2Ws being nearly 111m and the average TP premium per vehicle being INR800).

Arrest in market share loss for ICICIGI with a recovery in Auto sales

- ICICIGI has created a strong franchise in the Motor segment, given its high penetration among OEM dealers and expanding agency channel in Tier III/IV cities and satellite towns of metros. It has always been a leader in this segment, with a pole position in Motor OD business. However, in the past three years, its market share fell 220bp to 15% in FY22 in the Motor OD business.
- The market share loss can be mainly attributed to:
  - **Adoption of calibrated growth given the intense competition in pricing:** New tech players like ACKO/Go Digit has seen a robust gain (30bp/180bp) in market share to 0.6%/3.2% over FY20-22. The gain in market share was driven by an aggressive pricing strategy, which can be reflected by loss

ratios of more than 100% for ACKO and ~79% for Go Digit. However, ICICIGI had a better claims ratio of ~72%, led by its calibrated underwriting approach. With such levels of industry pricing unlikely to sustain, a correction in prices is not far away.

- **The higher share of new vehicles for ICICIGI v/s that for the industry:** Motor premium for the company has a strong co-relation (60%) with new motor sales v/s that for the industry (at 48%), reflecting in its higher dependence on new vehicle sales. Weak vehicle sales led to market share loss for the company. With a revival in motor demand on the cards, ICICIGI is expected to be the key beneficiary of this trend.
- **Greater dependence on private cars:** For ICICIGI, 55%/~30%/15% will be contributed by private cars/2Ws/CVs. At the industry level, the share of CVs will be higher, whereas that of Passenger Cars will be lower. This was on the back of an unfavorable experience in the CV segment for the company and higher loss ratios in the CV segment. The mix worked in favor of ICICIGI, leading to better than industry loss ratios.

Innovative product pipeline and greater focus on newer business segments

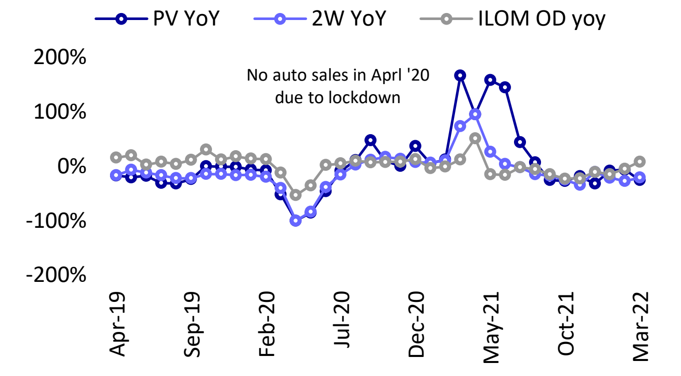
- Going forward, to capture growth in the CV segment, the management has adopted a calibrated approach to a few profitable sub-segments. It expects the share of CV segment to rise to 25% from 15% at present, without adversely impacting its profitability.
- ICICIGI has managed to gain the lion's share in the fast-growing EV segment, with 26%/14-15% market share in the 2W/PV segment.
- The success of sandbox products can be another game changer for the company. Based on a favorable product experience, ICICIGI has already applied for the commercial launch of its sandbox products. Some of its one-of-its kind products like 'pay how you drive' and 'motor floater' has the potential to be a material revenue contributor in the case of receipt of regulatory approvals.

Distribution channel widens with the merger of Bharti AXA

- ICICIGI has been able to retain the key tie-ups of Bharti AXA after the merger. This will be advantageous to ICICIGI as the initial one-to-three year Motor book is highly driven by OEMs.
- The company has been continuously investing in technology to improve its customer experience. It has built a real-time video-based vehicle damage assessment tool: InstaSpect. Over 60% of its Motor Insurance claims were settled through this tool in FY21 v/s 24.5% in FY20. This facilitates faster claim settlement even in remote areas, along with savings from deploying a physical surveyor. It has enabled an AI-based break-in inspection service for instant renewal of Motor Insurance, which further boosts its customer experience.
- With the onset of the COVID-19 pandemic, the industry initially saw a sharp decline in the frequency of Motor claims. Many players passed-on this benefit to customers by way of a reduction in the premium. With the easing of COVID-related restrictions, claims have climbed back to pre-pandemic levels.

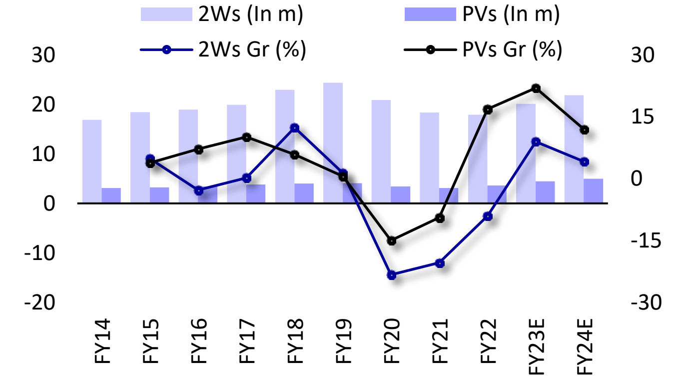
Going forward, we expect ICICIGI's Motor OD segment to clock 21% CAGR over FY22-24, led by a recovery in motor sales and an improvement in market share. We expect the claims ratio to remain at 70%.

Exhibit 12: Higher co-relation between the sale of new motor vehicles and growth in Motor premium for ICICIGI



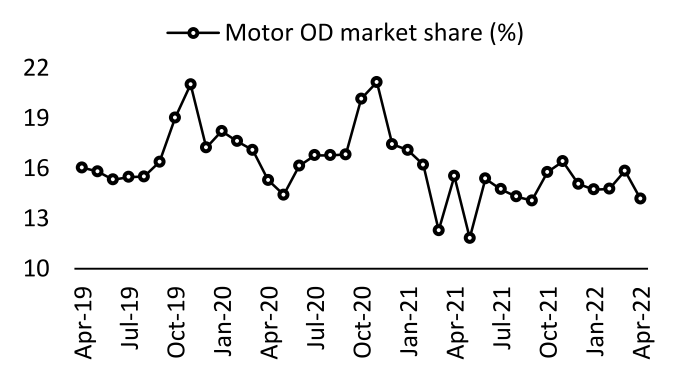
Source: MOFSL, SIAM, Company

Exhibit 13: Revival in Motor sales on the cards



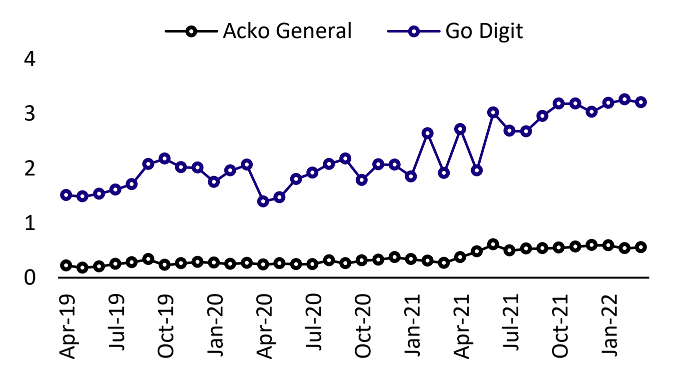
Source: MOFSL, SIAM

Exhibit 14: Market share in Motor OD remains under stress



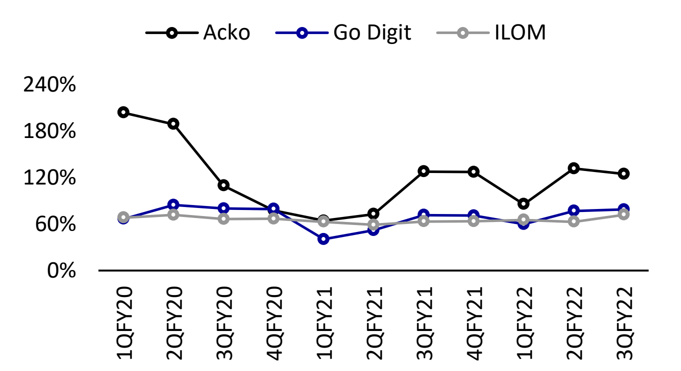
Source: MOFSL, GIC, Note – Historical reinstated for combined entity

Exhibit 15: New tech companies fast gaining market share (in %)



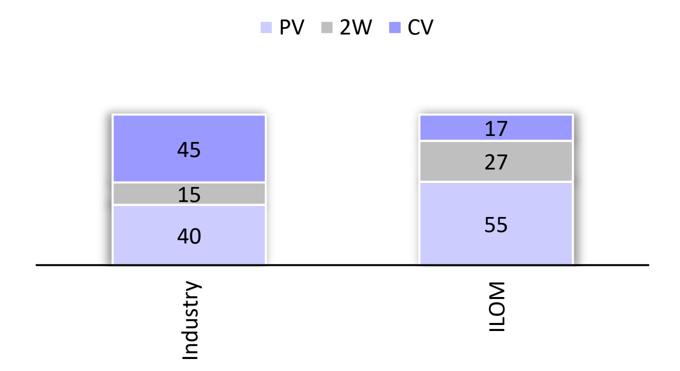
Source: MOFSL, GIC

Exhibit 16: Better underwriting by ICICIGI reflected in lower claims ratio



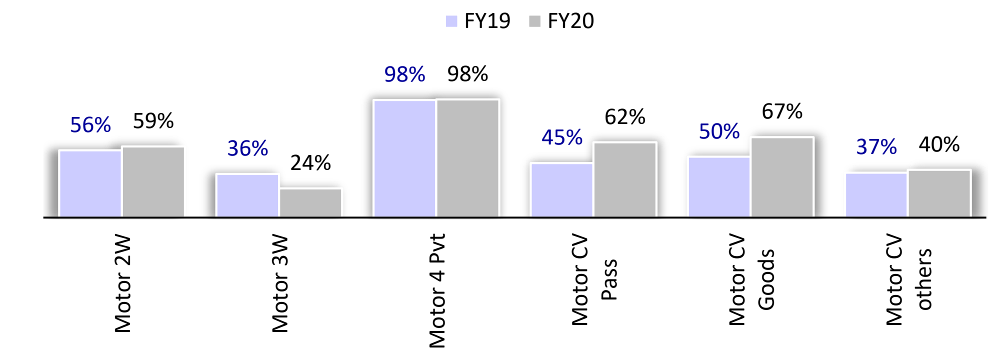
Source: MOFSL, GIC YearBook

Exhibit 17: Profitable product mix for ICICIGI's v/s that for the industry



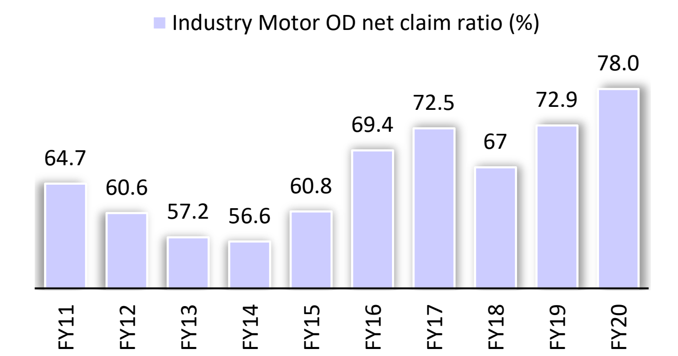
Source: MOFSL, Company

Exhibit 18: Claims ratio across vehicle segments



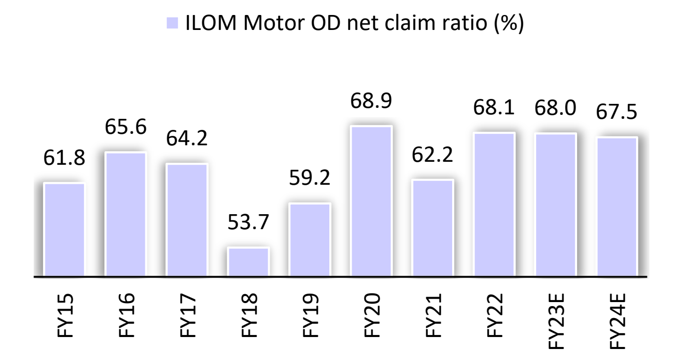
Source: MOFSL, GIC

Exhibit 19: Elevated Motor OD claims in the past few years for the industry



Source: MOFSL, GIC YearBook

Exhibit 20: Better ICICIGI's claims ratio v/s that for the industry, given its calibrated underwriting approach and product mix



Source: MOFSL, Company

Exhibit 21: Market share across the Motor segment (Mar'22)

Motor total			Motor OD			Motor TP		
Rank	**Company**	**Market share**	**Rank**	**Company**	**Market share**	**Rank**	**Company**	**Market share**
1	ICICI Lombard	11.76%	1	ICICI Lombard	14.97%	1	New India	13.01%
2	New India	11.70%	2	New India	9.60%	2	ICICI Lombard	9.74%
3	United India	7.78%	3	Tata AIG	8.53%	3	United India	9.40%
4	Tata AIG	7.29%	4	Bajaj Allianz	7.43%	4	National	7.40%
5	Bajaj Allianz	6.88%	5	IFFCO Tokio	6.07%	5	Bajaj Allianz	6.53%
6	National	6.61%	6	Reliance General	5.98%	6	Tata AIG	6.50%
7	Reliance General	5.46%	7	HDFC ERGO	5.66%	7	Oriental	5.85%
8	IFFCO Tokio	5.26%	8	National	5.35%	8	Reliance General	5.13%
9	HDFC ERGO	5.04%	9	United India	5.20%	9	Go Digit	5.09%
10	Cholamandalam MS	4.87%	10	Cholamandalam MS	4.53%	10	Cholamandalam MS	5.08%

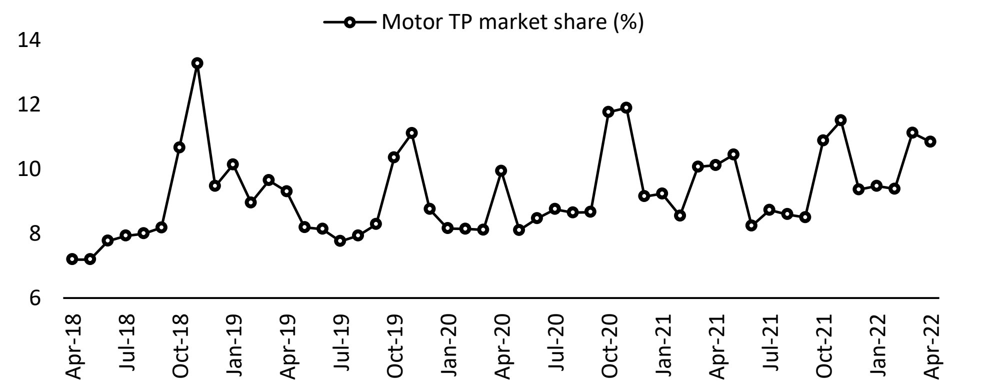
Source: MOFSL, Company

Price hike in Motor TP to provide some relief

- After two years of no price hikes in the Motor TP segment, the industry saw a revised pricing draft notification of ~3% on an average for FY23. The average price hike for ICICIGI's Motor portfolio was slightly at the higher end.
- ICICIGI has managed to sustain its market share (~9%) in the TP segment over the past three years.

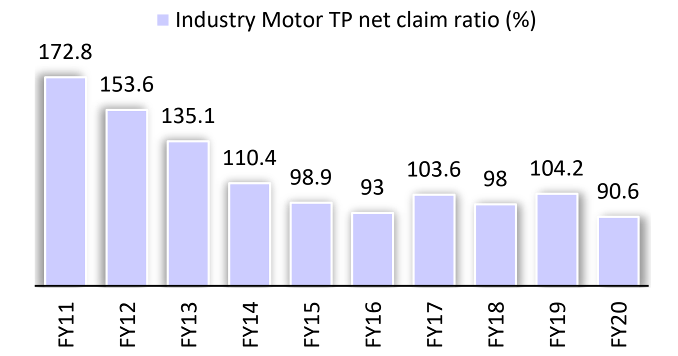
- Implementation of the time limit for filing Motor TP claims can benefit the company by way of: 1) reduced claims frequency, and 2) decline in the number of fraudulent claims. Although reduction in Motor TP reserving will be partially offset by a decline in float income, the management feels the net impact will be profit accretive.
- ICICIGI will also benefit from a recovery in 2W sales as it derives ~30% of its Motor TP premium from 2Ws.
- We expect the Motor TP premium to grow at 23% CAGR over FY22-24, with the claims ratio seeing a marginal improvement to 73% from 74% at present, factoring in a price hike and normalization in competition.

Exhibit 22: ICICIGI's market share in the Motor TP segment remains range bound



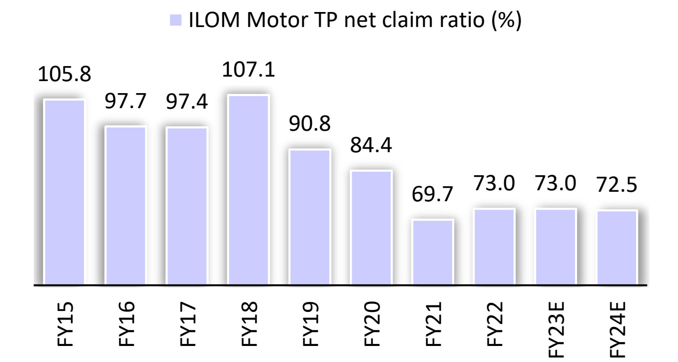
Source: MOFSL, GIC, Note – Historical reinstated for the combined entity

Exhibit 23: Motor TP claims for the industry trending downwards



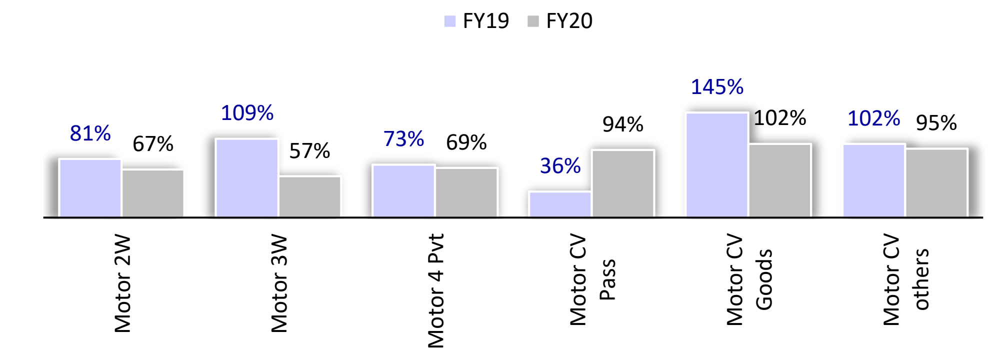
Source: MOFSL, GIC YearBook

Exhibit 24: ICICIGI has a much lower claims ratio, led by a better product mix



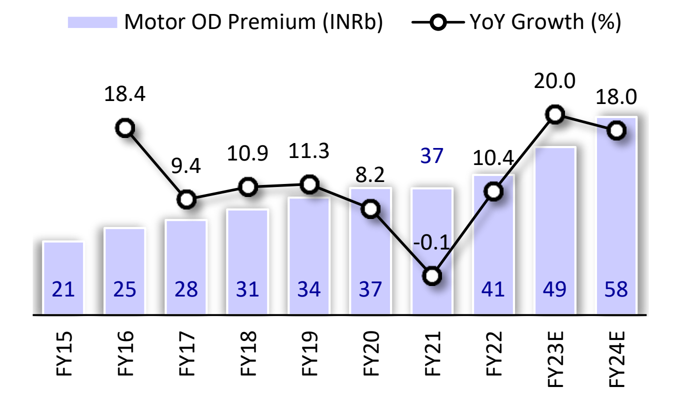
Source: MOFSL, Company

Exhibit 25: Claim ratios across segments



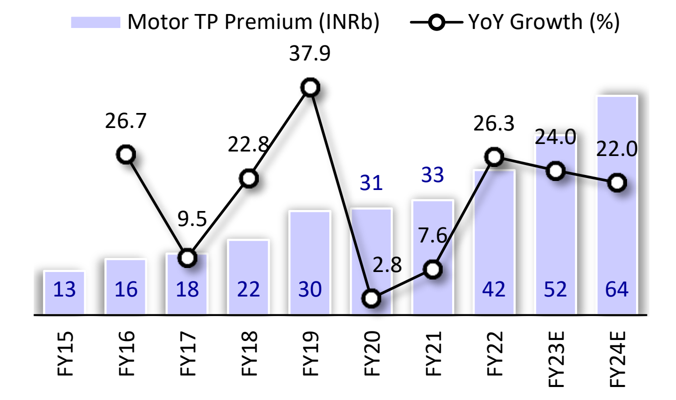
Source: MOFSL, GIC

Exhibit 26: Growth in Motor OD premium to recover



Source: MOFSL, GIC YearBook

Exhibit 27: Sustained growth in Motor TP premium



Source: MOFSL, Company

Expanding the Retail Health segment with a new vigor

Fastest growing business segment |A strong agency channel to aid market share gains

ICICIGI added 1,000 Retail Health agency managers to strengthen its position in the Retail Health segment

- **India's Health Insurance space is grossly underpenetrated, with penetration (premium as a percentage of GDP) and density (premium per person) at 0.4% and USD5, respectively. Relatively, China/the US has a penetration of 0.7%/4.1% and density of USD66/USD2,679.**
- **Only 3.5% of India's population is covered under the Retail Health Insurance plan, with out-of-pocket expenditure as high as 63% (v/s the world average of 18%). These statistics indicate a large opportunity for Health insurers going forward.**
- **In order to capture this fast growing business segment, ICICIGI aspires to gain market share by building a strong agent franchise.**
- **Adoption of IL TakeCare app, normalization of the claims ratio, with the fall in COVID-related claims, and addition of younger customers will help improve the claims ratio over the medium term.**

Health Insurance industry to see superior growth

- Health Insurance penetration (premium as a percentage of GDP) in India, at 0.36%, is significantly lower v/s the global average of 2%. India's Health Insurance density (measured as premium per person) stand at USD5, much lower v/s global peers. The same for China/the US stands at USD66/USD2,679.
- India spends ~3.5% of GDP on Healthcare vis-à-vis the world average of ~10%. Healthcare expenditure comprises goods and services consumed each year, paid either by the government, Insurance companies, or the concerned individual.
- We expect the Health Insurance industry to see strong growth momentum on: 1) Customers depending only on Corporate Insurance policies will start choosing Individual policies; 2) As per capita income improves, the affordability of buying Health Insurance will improve further; 3) Internet penetration, along with the usability of the same, will improve in lower tier towns; and 4) insurers, along with the regulator, will aim to simplify their products as much as possible. CRISIL expects 18% CAGR over FY21-25, within which Retail will be 23%, Group 15%, and Government 11%.

Building distribution strength to capitalize on growth in Retail Health

- The Health segment is significantly underpenetrated, with 0.43b of India's total population of 1.3b having some form of medical coverage, indicating a total penetration of just 36%. If we exclude the number of individuals covered under government schemes, penetration falls down to a mere 3.5%. This leaves significant scope for sustained growth in Health Insurance in the country.
- Health inflation further supports our thesis as health care expenses in India have been increasing at a rapid pace. This will continue to propel demand for Health Insurance via purchase of new policies or increase in the sum assured in existing policies.
- Traditionally, ICICIGI's Health business has always been driven by the banca channel, with ICICIBC being the most important partner.

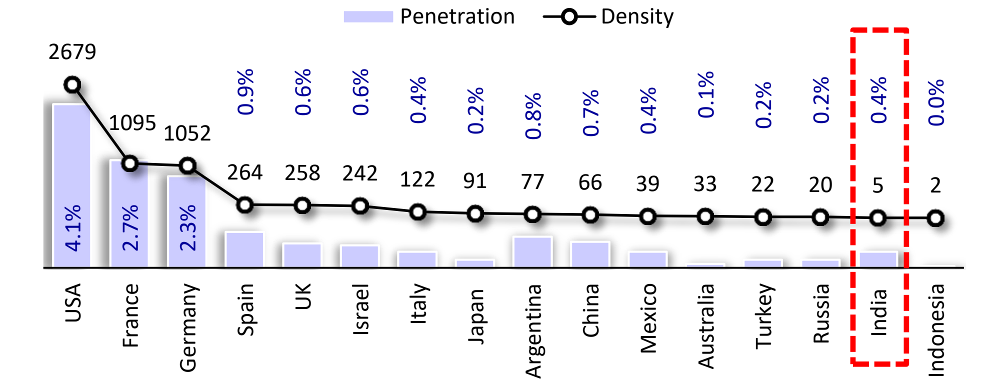
- However, it's worth noting that SAHIs have been able to capitalize on the growth story in Retail Health and create leadership with more than 50% market share, led by a focused product strategy and a robust agency channel.
- At present, ICICIGI has 3% market share and is trying to replicate this business model to strengthen its position.
- It has built a dedicated team for the Health segment and has hired 1,000 Retail Health agency managers in FY22.
- On the digital front, its innovative Health Insurance app (IL TakeCare) has increased its ability to cross-sell.

SME to be the key growth driver for the Group Health business

- The Group business constitutes ~49% of the total Health business for the industry. The same for ICICIGI stood ~72%.
- In the past two years, ICICIGI has lost market share in the Group Health business, led by: 1) cautious underwriting, and 2) ICICIBC discontinuing the sale of benefit products (which constitute 50% of the total Health business). Two-third of the Health benefit business was sourced through the ICICIBC channel.
- Going forward, with the base effect of benefit products factored in and ICICIBC starting to sell indemnity products for ICICIGI, the banca channel is expected to deliver strong growth.
- Within the employer-employee Group business, ICICIGI aims to grow its SME book as this segment is more profitable as compared to large corporates.
- Given the heightened competition within the SME segment, the management believes it will be a Herculean effort for most players to build their SME book in terms of distribution and technology.
- In FY22, ICICIGI managed to retain 90% of its renewal business in the employer-employee book, despite a price hike of 15-20%, clearly demonstrating its strength in the Group business.

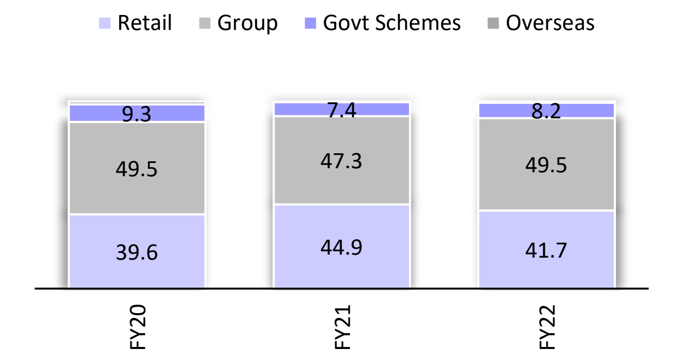
We expect the Health business to grow at 25% CAGR over FY22-24, led by: 1) investments in the Retail agency starting to bear fruits, 2) revival in growth momentum in the banca channel, and 3) increased contribution in the indemnity business from ICICIBC. Claims ratios are expected to normalize at 68% from 92% in FY22, with the headwind of COVID-related claims behind the industry.

Exhibit 28: Low Health penetration and density in India provide headroom for growth



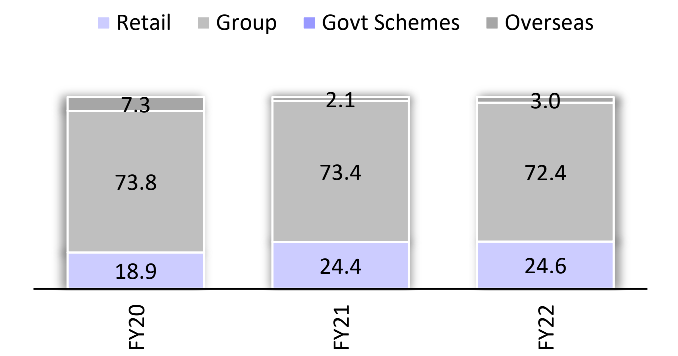
Source: MOFSL, Company

Exhibit 29: Fairly equal mix of Retail and Group Health for the industry



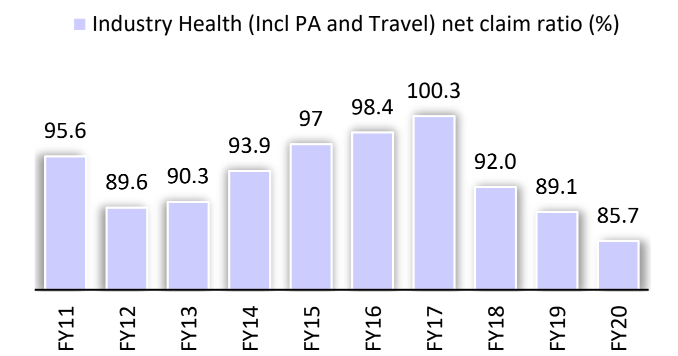
Source: MOFSL, GIC

Exhibit 30: Group dominates ICICIGI's Health business



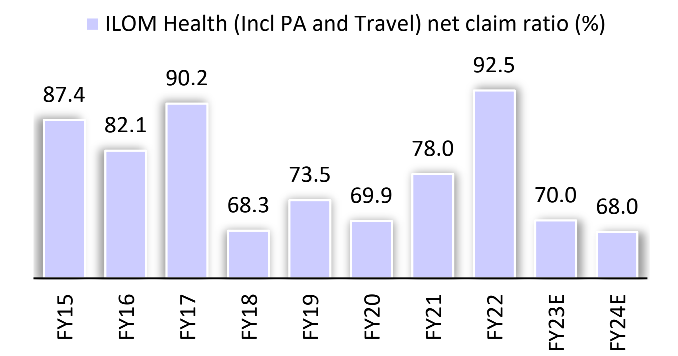
Source: MOFSL, Company

Exhibit 31: Health claims for the industry trending downwards



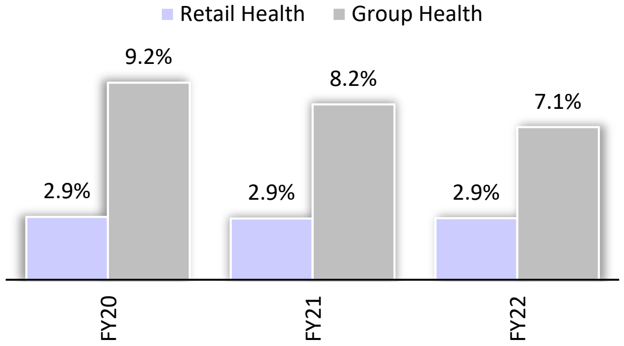
Source: MOFSL, GIC YearBook

Exhibit 32: Claims ratio for ICICIGI to taper off



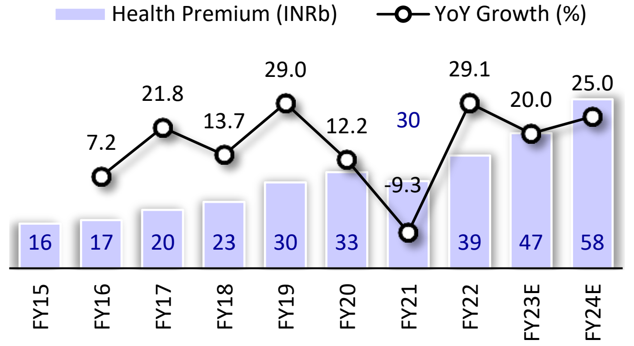
Source: MOFSL, Company

Exhibit 33: Retains market share in Retail Health, sees selective underwriting in the Group business



Source: MOFSL, GIC

Exhibit 34: Health segment to grow at a faster pace



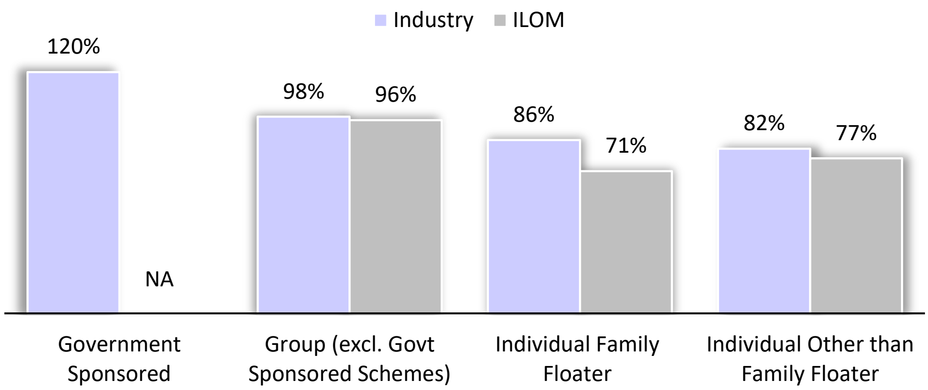
Source: MOFSL, GIC

Exhibit 35: Market share across Health segments

Health total			Health Retail			Health Group		
Rank	Company	Market share	Rank	Company	Market share	Rank	Company	Market share
1	SAHI	27.3%	1	SAHI	50.7%	1	New India	28.8%
2	New India	19.6%	2	HDFC Ergo	10.0%	2	SAHI	12.3%
3	Oriental	8.6%	3	New India	8.7%	3	Oriental	10.4%
4	United India	8.6%	4	National Insurance	7.3%	4	National Insurance	9.0%
5	National Insurance	7.9%	5	Oriental	5.6%	5	United India	7.8%
6	HDFC Ergo	5.9%	6	United India	4.5%	6	ICICI Lombard	7.1%
7	ICICI Lombard	4.9%	7	ICICI Lombard	2.9%	7	Bajaj Allianz	3.9%
8	Bajaj Allianz	4.3%	8	Bajaj Allianz	2.7%	8	SBI General	3.5%
9	SBI General	2.5%	9	Tata AIG	1.6%	9	HDFC Ergo	3.4%
10	IFFCO-Tokio	2.4%	10	SBI	1.4%	10	IFFCO-Tokio	3.4%

Source: MOFSL, GIC

Exhibit 36: Better than industry claims ratio across segments for ICICIGI (in FY21)

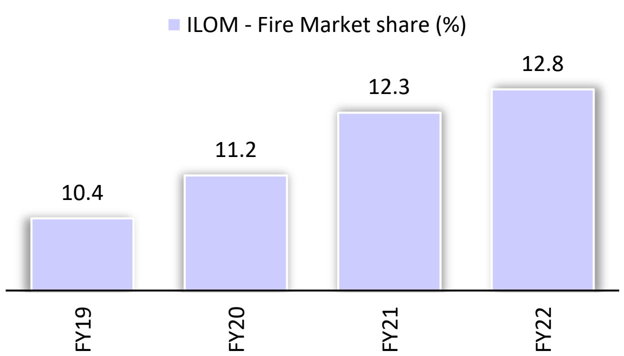


Source: MOFSL, IRDAI

Gains market share in the Fire segment

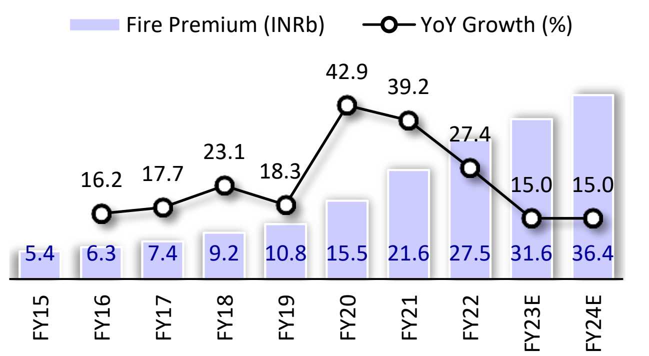
- Premium growth in FY22 saw normalized at 7% after an astronomical performance of 27%/36% in FY21/FY20.
- ICICIGI is the second largest player and the largest private insurer in the Fire segment with a market share of 12.8% in FY22 (v/s 18.4% for New India).
- It has been outpacing industry growth in the Fire segment over the past couple of years and has gained a market share of 240bp.
- This has been possible because of a robust SME and Corporate business and a strong distribution network. At the time of renewal, ICICIGI has been able to gain market share from other companies.
- The management is mindful of the industry trend, wherein the benefits from the price hike in the Fire segment are utilized to offer discounts in Marine and Group Health segments. This is being countered through a calibrated choice of customers.
- ICICIGI has also invested in technological advancements like drone-based technology for inspecting wind turbines and solar PV modules, which helps reduce the claim settlement period as well as improve the accuracy of the inspection.
- While premium growth is expected to remain strong, in line with overall economic growth, the claims ratio is likely to rise on the back of pricing pressures.

Exhibit 37: Gaining market share



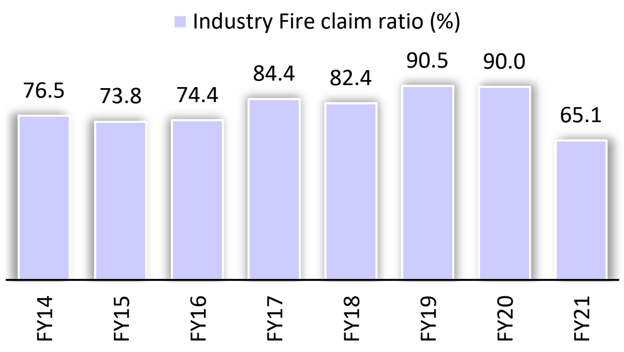
Source: MOFSL, GIC, Note – Historical reinstated for combined entity

Exhibit 38: Growth in Fire premium to sustain



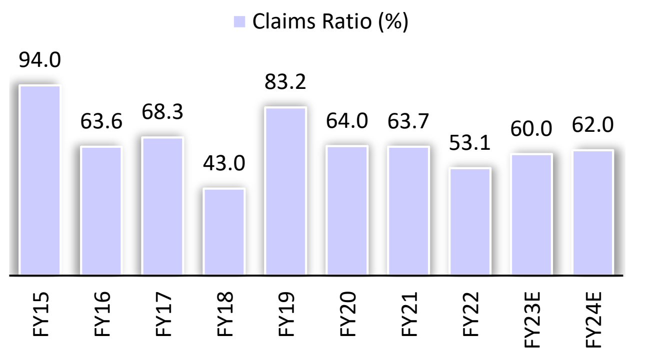
Source: MOFSL, Company

Exhibit 39: Price hike led to an improvement in the claims ratio



Source: MOFSL, IRDAI

Exhibit 40: Claims ratio to remain stable

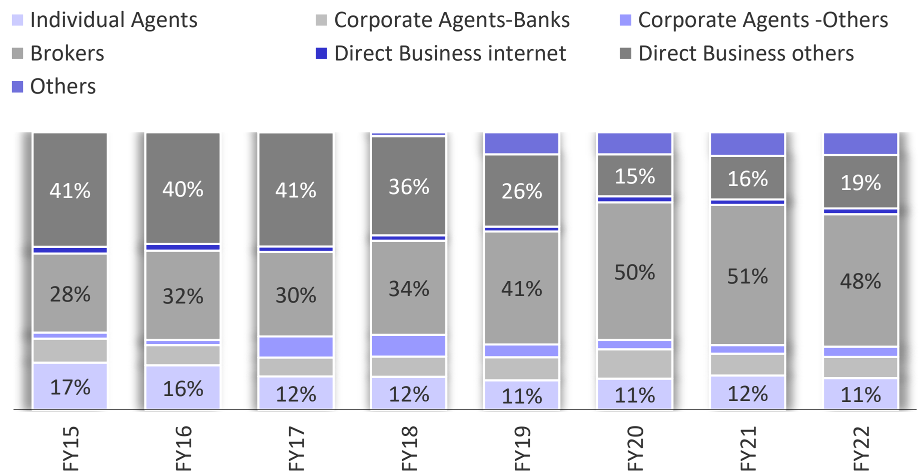


Source: MOFSL, Company

Multi-channel distribution strategy

- ICICIGI has a diversified distribution mix, with 48% of premium arising from brokers, 21% from the direct channel, 11% from corporate agents (including Banks), and 11% from individual agents.
- Share of brokers increased sharply to 48% in FY22 from 28% in FY15. The rise has been at the cost of declining share of the direct channel (excluding the internet) to 19% in FY22 from 41% in FY15.
- The share of internet has been steady over the years at 2%.
- In the past couple of years, the management has been investing in building its agency channel to deepen its presence in lower tier towns and cities. This has helped expand its renewals from the third year in the Motor segment and also strengthen its retail presence in the Health segment.
- The merger with Bharti AXA has deepened OEM tie-ups for ICICIGI as it has been able to retain most of the former's tie-ups.
- ICICIGI has also seen a visible increase in wallet share with HDFCB and AXSB, which will lead to strong premium growth momentum from these channels.
- It is looking to deepen its distribution channel in the Retail Health segment. It has built a team for the Health segment and hired 1,000 Retail Health agency managers in FY22.

Exhibit 41: Diversified distribution mix with brokers constituting the lion's share at 48%



Source: MOFSL, Company

See synergies from its merger with Bharti AXA

- In the General Insurance industry, as products can easily be replicated, the moat for a company lies in its scale and distribution reach. After its merger with Bharti AXA, ICICIGI is consolidating its leadership position among private players and is now the third largest player (fifth largest prior to the merger) overall.
- The management has been able to successfully integrate the demerged business of Bharti AXA into the company. This has resulted in the optimization of the organizational structure, efficiencies in the claims settlement practice, and technology applications. It has been able to reduce the number of branches to 282 as of Dec'21 from 431 as of Sept'21.
- Total annualized synergy benefits are pegged at ~INR2b, of which the company has already realized INR0.7b in FY22.
- In terms of distribution, Bharti AXA has brought along some of its strong OEM/dealership relationships as well as the recent banca partnerships with HDFCB and AXSB. At present, these partners are focusing on SME and Motor products. The management expects to extend its Health product offerings to these partners in due course.

Favorable regulatory changes to add a feather to its cap

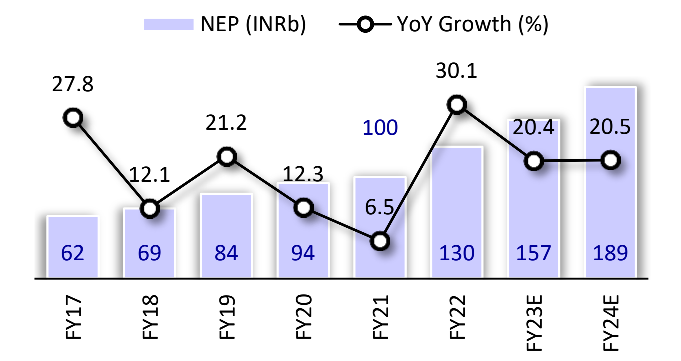
To increase Insurance penetration in India, IRDAI has eased the path for General Insurance players by way of various regulatory changes:

(1) Introduction of sandbox products.
(2) Launch of Health and most General Insurance products without prior approval.
(3) The formation of various committees in the areas of General, Reinsurance, and Life Insurance such as regulation, product, distribution, etc. in a bid to overhaul the Insurance sector.
(4) Reduction of solvency margin requirement for the Crop segment.
(5) It is in talks for relaxing the minimum entry capital requirement for setting up an Insurance venture, along with tax sops and lower solvency margin or extra capital requirements.
(6) Recommends relaxing investment norms for insurers.

Financial outlook

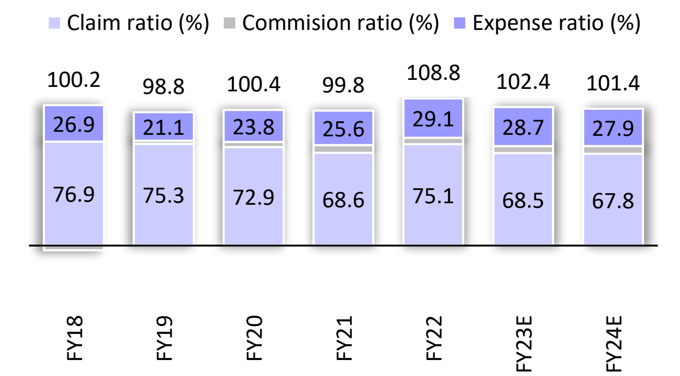
- We expect net earned premium (NEP) to grow at 20% CAGR over FY22-24, led by a strong recovery in the Motor business and sustained growth momentum in the Health business.
- We expect the claims ratio to decrease to 67.8% in FY24 from 75% in FY22, led by a sharp decline in Health claims to 68% from 92%.
- The merger benefit of INR1.5b is expected to be utilized by investments of INR1-1.5b in FY23 towards expansion of distribution, digital technology, and claim services. Even with a 720bp decline in the claims ratio, the combined ratio is expected to improve by 740bp to 101.4% by FY24.
- We expect 28% PAT CAGR over FY22-24, with a recovery in RoE back to 19.1% from 15.4%. This will be on account of merger synergies in the form of increased distribution reach and benefits from cost rationalization.
- Investment leverage will improve to 4.4x by FY24 from 4.2% in FY22, with solvency continuing to remain strong at 2.7x.

Exhibit 42: Healthy premium growth to continue



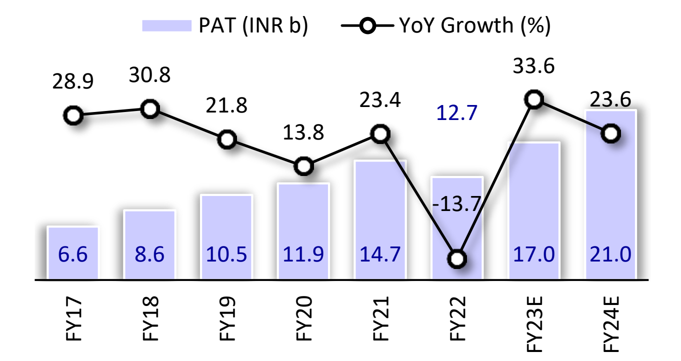
Source: MOFSL, Company

Exhibit 43: Higher expenses to partially offset the benefit of a decline in the claims ratio



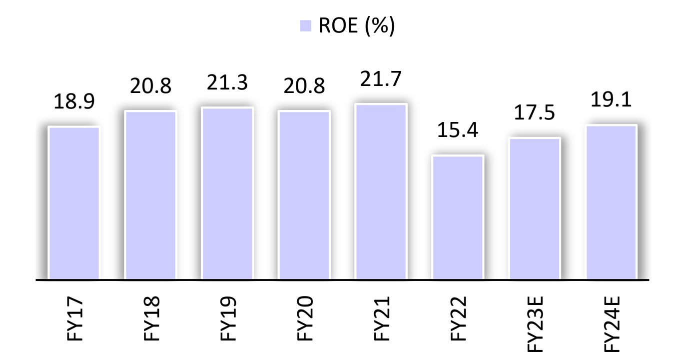
Source: MOFSL, Company

Exhibit 44: Healthy PAT growth to continue



Source: MOFSL, Company

Exhibit 45: RoE to improve from here on



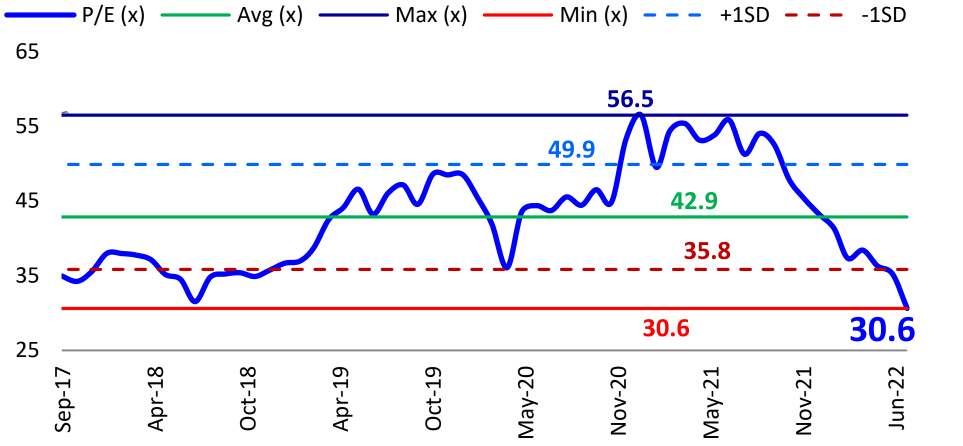
Source: MOFSL, Company

Valuation and view

Initiate coverage with a Buy rating

- **The stock has corrected by 31% over the past 18 months, even as the Nifty remained flat. The steep correction has been on account of: 1) shift in the management's focus to growth from profitability earlier, and 2) expected reduction in ICICIBC's stake to sub-30% levels by Sep'23 as per RBI regulations from 48% at present.**
- **After the correction, the stock is trading near at all-time low one year forward valuation. The stock should re-rate towards its historic valuation as it delivers profitable growth and clarity emerges on the stake sale.**
- **We initiate coverage on ICICIGI with a Buy rating and a one-year TP of INR1,500 (35x FY24E P/E).**

Exhibit 46: ICICIGI trading near its lowest one year forward P/E



Source: MOSL, Bloomberg

Key risk

Stake sale by ICICIBC remains an overhang

After the merger of Bharti AXA with ICICIGI, ICICIBC held 48% stake. As per RBI regulations, the bank's stake needs to fall below 30%. The bank has received an exemption of three-years, which ends in Sep'23. This creates a supply overhang in the secondary market, until there is clarity from RBI with regards to the dispensation or extended timeline.

Increasing competition in the Motor segment

Motor is one of the key business segments for the company. In the past few years, this segment has seen intense competition levels, especially from new age technology companies like ACKO, Go Digit, and Navi.

Any further COVID waves can be detrimental to the company's profitability

While the COVID-19 pandemic did boost demand for Health Insurance, it also brought along with it a higher claims ratio. Any further COVID waves could be detrimental to the company's earnings.

Bull and Bear case

Bull case

- In our Bull case, we expect a 25% CAGR in NEP over FY22-24, led by a recovery in the Motor business and Commercial segments, even as it gains momentum in the Retail Health business (v/s 20% CAGR in NEP in our Base case).
- We expect the claims ratio to be at 67%/66.3% over FY23/FY24.
- As a result, PAT is likely to grow at 41% CAGR to INR25.4b over FY22-24E (v/s INR20.9b in our Base case).
- Based on the above assumptions, we value the stock at INR2,071 (40x FY24E EPS), an upside of 62.2% from its CMP.

Bear case

- In our ear case, we expect a 15% CAGR in NEP over FY22-24, led by a slow recovery in vehicle sales and lower growth in the Health business (v/s 20% CAGR in NEP in our Base case).
- We expect the claims ratio to be at 70.0%/69.3% over FY23/FY24.
- As a result, PAT is likely to grow at 16% CAGR to INR17b over FY22-24E (v/s INR20.9b in our Base case).
- Based on the above assumptions, we value the stock at INR971 (28x FY24E EPS), a downside of 24.0% from its CMP.

Exhibit 47: Scenario analysis – Bull case

INR b	FY23E	FY24E
NEP	163.5	205.2
YoY growth (%)	25.4	25.5
Underwriting profit	-2.6	-1.2
Operating profit	28.7	35.1
PAT	20.7	25.4
YoY growth (%)	62.8	22.8
Claims ratio	67.0	66.3
Commission ratio	5.2	5.7
Expense ratio	28.2	27.4
Combined ratio	100.4	99.4
EPS (INR)	42.2	51.8
P/E (x)		40.0
FV (INR)		2,071.0
CMP (INR)		1,277.0
Upside (%)		62.2

Source: MOFSL, Company

Exhibit 48: Scenario analysis – Bear case

INR b	FY23E	FY24E
NEP	150.3	173.5
YoY growth (%)	15.3	15.4
Underwriting profit	-8.4	-8.0
Operating profit	19.9	24.8
PAT	13.5	17.0
YoY growth (%)	6.0	26.4
Claims ratio	70.0	69.3
Commission ratio	5.2	5.7
Expense ratio	29.2	28.4
Combined ratio	104.4	103.4
EPS (INR)	27.4	34.7
P/E (x)		28.0
FV (INR)		971.0
CMP (INR)		1,277.0
Upside (%)		-24.0

Source: MOFSL, Company

SWOT analysis

- The largest private General Insurance company in India
- Empirically shaped business mix, which yielded better profitability relative to the industry
- Maintained a high solvency ratio against the minimum regulatory requirement of 1.5x
- Zero instance of default on ICICIGI's debt portfolio since inception
- Past track record of delivering over 20% earnings growth, more than 20% RoE, and 100% combined ratio

- Relatively higher share of Motor premium as compared to the industry
- In the Health segment, the share of Group business is higher
- Investment in growth to restrict improvement in profitability in the near term

- Only 4% of the population is covered under Retail Health Insurance plans. ICICIGI has invested in hiring agents to tap this opportunity
- Around 57% of vehicles remain uninsured
- Commercialization of sandbox products to offer new business opportunities
- Investment in technology to improve cost efficiencies
- Synergies from the merger with Bharti AXA to be reaped in the due course

- Increasing competition from new age players impacting profitability in the Motor OD segment
- Many multi-line private General insurers aim to raise their presence in the Retail Health segment
- Regulator approving license for new players
- Fire segment can witness some pricing pressures

Embedding ESG with business strategy

The role of the Insurance industry in socio-economic and sustainable development is indispensable. As ICICIGI has been in this business for nearly two decades, it has embedded ESG in every aspect of the business and strategy to make it more practical, measurable, and scalable.

Environment

- ICICIGI's environmental actions are defined by its Policy on Environment and Management, which is discussed at the corporate and board level.
- It has a clear focus on reducing its carbon footprint and addressing climate change. It promoted a low-energy carbon economy by way of:
  - Thrust on products for promoting low carbon products like electric vehicles, solar panel insurance
  - Reduction in emissions through virtual inspection (drones and the InstaSpect app)
  - Shifted to renewable energy to power its head office operations in Mumbai and use of energy efficient lighting fixtures
  - Employing Digital solutions to completely make its operations paperless
  - Energy management through the use of LED lights, energy efficient machines, and moving systems and processes to the Cloud. A 59.4% reduction in electricity consumption across all offices to 6,052MWh.
- It promotes the use of the 3Rs – reduce, reuse, and recycle – by way of eliminating the use of plastic bottles, harvesting water (meeting 59.4% of its water requirement), encouraging service centers, and customers to repair parts wherever possible.

Social

- ICICIGI aspires to be an enterprise that proactively mitigates the risk of customers with multiple products and value-added services.
- Employee learning and development, fair compensation, health and safety, and overall well-being are important for the company.
- It has also taken meaningful development around preventive health care, road safety, and wellness for the community.

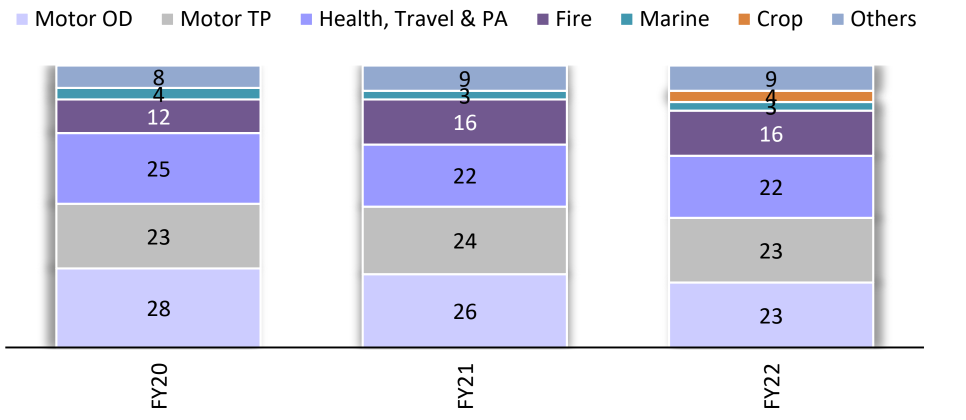
Governance

- It has adopted one of the best practices for conducting business responsibly. It continues to strengthen its practices supported by a robust and diverse board, which majorly comprises of independent directors.
- It has an optimum mix of Executive/Non-Executive Directors as per its Policy on Board diversity. About 70% of Directors are Non-Executive and 50% are Non-Executive Independent.
- Strong emphasis on investment quality, with 84.7% of portfolio invested in debt, of which 86.1% are AAA+ rated instruments.

Company overview

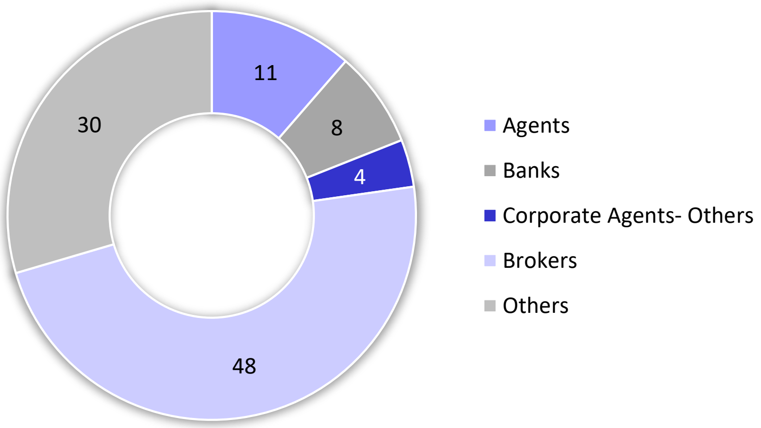
ICICIGI is the leading private Non-Life Insurance player with an 8.1% market share. It has a wide product offering, including Insurance coverage for Motor, Health, Travel, Home, Student Travel, etc. The company has a well-diversified distribution franchise with ~88,539 individual agents and 840 virtual offices.

Exhibit 49: High dominance of Motor in the overall business



Source: MOFSL, Company

Exhibit 50: Diversified distribution mix



Source: MOFSL, Company

Key management personnel

Mr. Bhargav Dasgupta, MD & CEO

Mr. Bhargav Dasgupta is the Managing Director & CEO of ICICIGI since May'09. He began his career with the erstwhile ICICI in CY92, where he held key leadership positions in diverse business areas in ICICI. He holds a PGDBA from the Indian Institute of Management Bangalore and a Bachelor of Engineering in Mechanical from Jadavpur University.

Mr. Gopal Balachandran, CFO & CRO

Mr. Gopal Balachandran completed his Chartered Accountancy (CA)/Company Secretary (CS) course in CY98/CY99. After completing his CA course, he worked in the corporate accounts and taxation department of ICICIBC for two years. He joined ICICIGI in CY02 and has been handling the risk management function since the last one year.

Mr. Prasun Kumar Sarkar, Appointed Actuary

Mr. Prasun Kumar Sarkar is the Appointed Actuary and Head Actuarial at ICICIGI. He has over 13 years of experience as a specialized General Insurance actuary. Prior to joining ICICIGI, he worked with Navi General Insurance, National Insurance, Magma HDI General Insurance, and SBI General Insurance.

Mr. Alok Kumar Agarwal, Executive Director – Wholesale

Mr. Alok Kumar Agarwal is the Chief Marketing Officer – Wholesale at ICICIGI. He has completed his B.E. (Chemical) and PGDM from IIM Calcutta. He has a specialization in the areas of Banking, Insurance, Corporate Planning, Strategy, Consumer Insights, and Marketing.

Mr. Sanjeev Mantri, Executive Director – Retail

Sanjeev joined ICICI group in 2003 and has since left his indelible imprint across the Corporate Banking and the SME space. He holds credit for introducing various innovative products in the SME segment and the group's expansion in the rural markets. Prior to joining ICICI he has spent over 7 years with BNP Paribas, Mumbai handling diverse responsibilities in the Corporate Banking space.

Financials and valuation

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GDPI	1,23,568	1,44,882	1,33,128	1,40,031	1,79,769	2,14,004	2,55,397
Change (%)	15.2	17.2	-8.1	5.2	28.4	19.0	19.3
NWP	78,447	95,385	96,407	1,06,850	1,34,896	1,62,389	1,95,822
NEP	**69,117**	**83,753**	**94,036**	**1,00,140**	**1,30,321**	**1,56,864**	**1,88,989**
Change (%)	12.1	21.2	12.3	6.5	30.1	20.4	20.5
Net claims	53,147	63,081	68,515	68,708	97,819	1,07,493	1,28,211
Net commission	-2,839	2,229	3,639	6,009	6,339	8,386	11,131
Expenses	21,118	20,139	22,931	27,342	39,201	46,597	54,585
Underwriting Profit/(Loss)	**-2,309**	**-1,696**	**-1,049**	**-1,919**	**-13,038**	**-5,613**	**-4,937**
Investment income (PH)	11,546	14,011	16,492	21,474	30,978	29,775	34,594
Operating profit	9,237	12,315	15,443	19,555	17,940	24,162	29,657
Investment income (SH)	4,140	4,743	4,800	5,170	7,061	8,042	9,179
Expenses	1,415	1,073	3,272	5,185	8,166	9,562	10,855
PBT	**11,962**	**15,985**	**16,971**	**19,540**	**16,835**	**22,642**	**27,981**
Tax	3,345	5,492	5,031	4,809	4,125	5,661	6,995
Tax rate (%)	28.0	34.4	29.6	24.6	24.5	25.0	25.0
PAT	**8,618**	**10,493**	**11,940**	**14,731**	**12,710**	**16,982**	**20,986**
Change (%)	30.8	21.8	13.8	23.4	-13.7	33.6	23.6

Balance Sheet							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	4,539	4,543	4,543	4,546	4,909	4,909	4,909
Reserves and Surplus	40,872	48,662	56,797	69,809	86,188	97,760	1,11,913
Net Worth	**45,412**	**53,205**	**61,340**	**74,355**	**91,097**	**1,02,669**	**1,16,822**
FV change – Shareholders	1,857	799	-948	1,630	831	872	916
FV change – Policyholders	5,481	2,585	-3,338	5,174	2,762	2,901	3,046
Borrowings	4,850	4,850	4,850	4,850	2,550	2,550	2,550
Claims Outstanding	1,59,160	1,64,256	1,80,074	1,82,845	2,49,752	2,60,501	3,05,375
Other liabilities	80,736	1,08,331	1,28,440	1,24,123	1,61,492	1,76,726	1,94,434
Total Liabilities	**2,97,497**	**3,34,026**	**3,70,418**	**3,92,977**	**5,08,483**	**5,46,219**	**6,23,142**
Investments (PH)	47,284	53,431	58,595	74,356	89,179	99,280	1,12,865
Investments (SH)	1,34,643	1,68,877	2,04,671	2,34,565	2,98,684	3,45,743	4,02,440
Net Fixed Assets	4,060	4,652	6,765	6,268	5,775	5,925	6,025
Def. Tax Assets	2,114	3,013	3,063	3,498	3,456	3,110	2,799
Current Assets	1,03,478	1,00,037	96,998	72,013	1,08,463	86,771	95,448
Cash and Bank	5,918	4,016	326	2,277	2,926	5,391	3,565
Total Assets	**2,97,497**	**3,34,026**	**3,70,418**	**3,92,977**	**5,08,483**	**5,46,219**	**6,23,142**

Financials and valuation

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GWP growth	15.2	17.2	-8.1	5.2	28.4	19.0	19.3
NWP growth	19.0	21.6	1.1	10.8	26.2	20.4	20.6
NEP growth	**12.1**	**21.2**	**12.3**	**6.5**	**30.1**	**20.4**	**20.5**
Claim ratio	76.9	75.3	72.9	68.6	75.1	68.5	67.8
Commission ratio	-3.6	2.3	3.8	5.6	4.7	5.2	5.7
Expense ratio	26.9	21.1	23.8	25.6	29.1	28.7	27.9
Combined ratio	**100.2**	**98.8**	**100.4**	**99.8**	**108.8**	**102.4**	**101.4**

Profitability Ratios (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
RoE	20.8	21.3	20.8	21.7	15.4	17.5	19.1
Valuations	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
BVPS (INR)	92.5	108.4	125.0	151.5	185.6	209.1	238.0
Change (%)	21.9	17.2	15.3	21.2	22.5	12.7	13.8
Price-to-BV (x)	**13.8**	**11.8**	**10.2**	**8.4**	**6.9**	**6.1**	**5.4**
EPS (INR)	17.6	21.4	24.3	30.0	25.9	34.6	42.8
Change (%)	30.8	21.8	13.8	23.4	-13.7	33.6	23.6
Price-to-Earnings (x)	**72.7**	**59.7**	**52.5**	**42.6**	**49.3**	**36.9**	**29.9**

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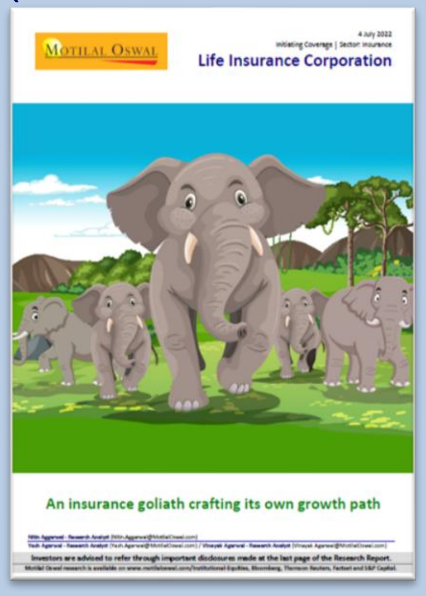

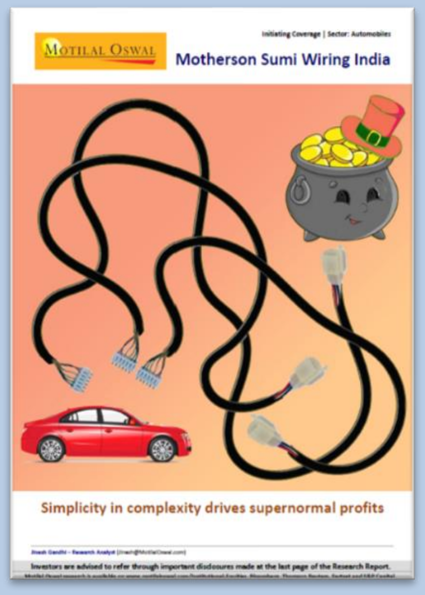

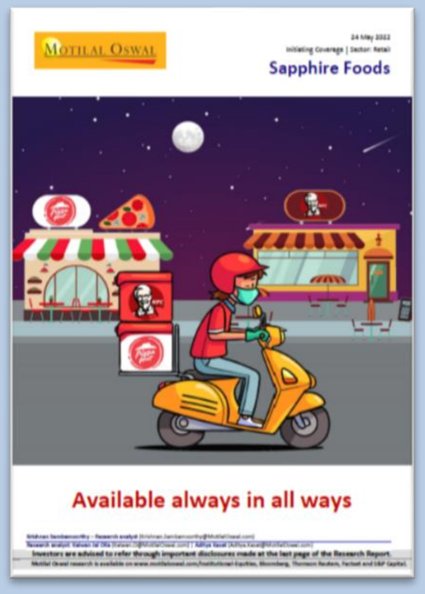

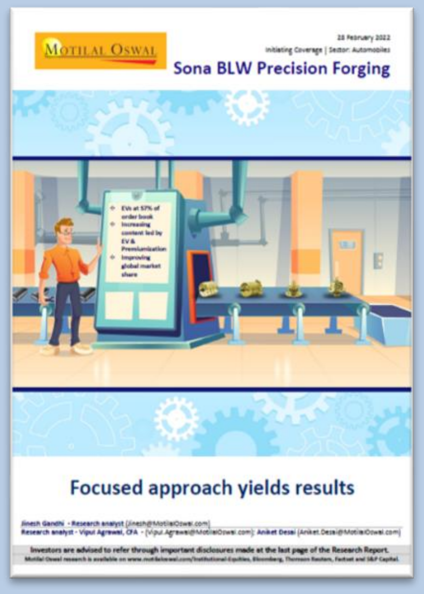

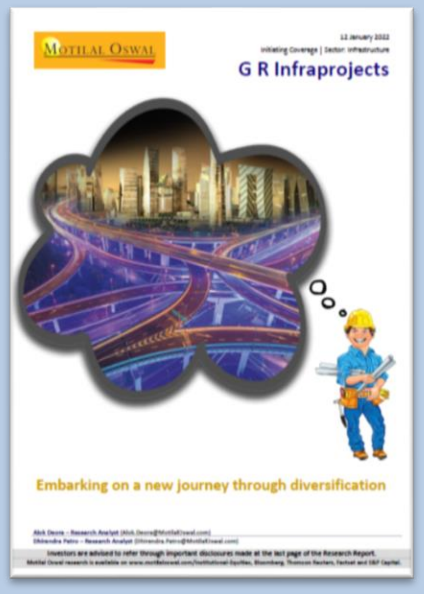

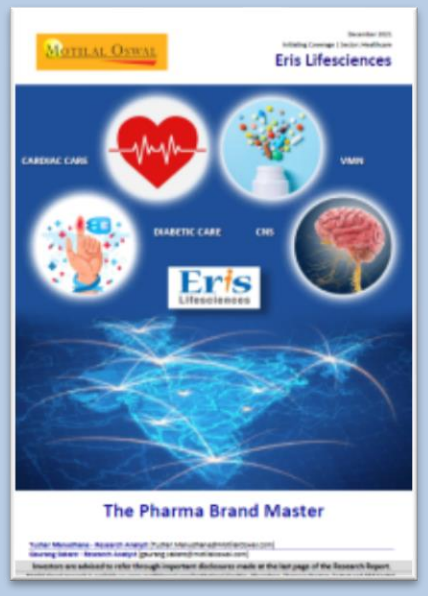

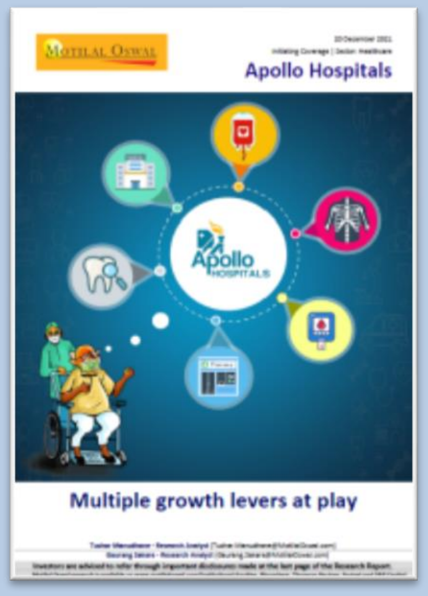

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