Emkay
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ICICI Lombard

Re-rating to follow growth acceleration

CMP	Target Price
Rs 1,214	Rs 1,470
as of (August 9, 2022)	12 months
Rating	Upside
BUY	21.1%

We initiate coverage on ICICI Lombard General Insurance (ICICIGI) with a Buy rating and a September 2023 TP of Rs1,470 (+21.1% upside). Our TP implies September 2024 PE multiple of ~30x, a minor discount to its historical average multiple. After being driven by profitability-first strategy for many years, the company is currently pursuing the growth-first strategy and, rightly so, now by protecting its market share in its turf of motor and commercial lines, while charting plans to grow retail health. With Covid-19 turbulences behind and auto market outlook (PV, CV, and 2Ws) looking much brighter (post muted and declining past three years), the private sector market leader is well poised to grow. The new growth-first strategy would mean that profitability in the near run would be suboptimal than pre-Covid trend, but this is the right strategy to protect its market position and make the business future ready.

- **Growth-first strategy to protect turf and grow in newer segments:** After treading on the path of profit above market share and growth, ICICIGI has changed its strategy to growth first and protect its market share in core turf (motor and commercial lines). Further, the company plans to grow in the structural growth segment of retail health. The changed strategy will result in: 1) FY22-25 premium CAGR of 15% (vs. 2% in FY19-22); 2) Motor premium growth of 12% in FY22-25 (vs. 4% in FY19-22), supported by improved outlook for auto sales and the company making inroads in CV; and 3) Health GDPI to grow at 23% over FY22-25, driven by initiatives in retail health – which would lead to an increase of 5 ppts in health share in the company's GDPI mix.
- **The return to sub-100% combined ratio and ~20% RoE will be a gradual journey:** The company's profitability-focus strategy led to it delivering >20% RoE and a ~100% CoR every year post its listing until the Covid-19 delta wave jolted the industry in FY22. In this profitability quest, the company vacated crop and government health segments and was careful in motor CV segments. With its feet firmly placed on the accelerator by competing with aggressive players in the motor segment and widening its distribution to grow the so-far underwhelming retail health segment, the company will be operating at a slightly suboptimal (versus its own past) profitability ratio. Further, return to a ~100% CoR and 20%+ RoE will be a multiyear journey, depending upon digital and other distribution-related investment delivering efficiencies, and improving competitive environment that would lead to better pricing. Additionally, higher capitalization (Solvency at ~260% vs. 180-200% optimal) artificially suppresses the RoE figure.
- **External environment looks favorable now:** Auto sales (PV, CV, and 2W) growth outlook is looking brighter after a multiyear slowdown and decline, interest rate moving up (helping investment income), motor TP seeing a hike after the pause of two years, and the likely hope of pricing discipline in motor OD mean that the external environment is looking far more comfortable for ICICI Lombard than it has been in recent years.
- **Initiate with Buy and a TP of Rs1,470:** Muted growth, deteriorating industry dynamics, and some specific non-operating concerns led to ICICIGI's shares de-rating to the recent ~25x 2Y-forward EPS versus average of ~32x in the preceding three years. Now, with growth returning for the company and industry dynamics likely improving, we expect performance delivery to drive the gradual re-rating back to earlier levels. We Initiate Coverage on ICICIGI with a Buy rating and a TP of Rs1,470 (implying ~30x Sep'24 EPS). **Key risks: Downside**: Sustained intense competition; Slower economic growth; Widespread pandemic; **Upside risks:** Faster consolidation in the industry; and Sustained strong economic growth.

Please see our sector model portfolio (Emkay Alpha Portfolio): BFSI-Insurance (Page 31)

Change in Estimates	
EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NA

Emkay vs Consensus		
EPS Estimates		
	FY23E	FY24E
Emkay	34.4	43.4
Consensus	34.0	42.3
Mean Consensus TP (12M)		Rs 1,467

Stock Details	
Bloomberg Code	ICICIGI IN
Face Value (Rs)	10
Shares outstanding (mn)	491
52 Week H/L	1,703 / 1,071
M Cap (Rs bn/USD bn)	596 / 7.48
Daily Avg Volume (nos.)	795,350
Daily Avg Turnover (US$ mn)	11.9

Shareholding Pattern Jun '22	
Promoters	48.0%
FIIs	25.0%
DIIs	15.4%
Public and Others	11.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(5)	(11)	(16)
Rel. to Nifty	(12)	(11)	(12)	(22)

Financial Snapshot

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross direct premium	1,33,128	1,40,031	1,79,769	2,07,693	2,39,802	2,74,583
Operating result	14,689	15,197	10,243	15,961	21,050	25,467
Profit after tax	11,937	14,731	12,710	16,903	21,328	25,437
Combined ratio (%)	100.4	99.8	108.8	103.5	101.8	101.0
RoE (%)	20.8	21.7	15.4	17.3	18.9	19.6
EPS (Rs)	26.3	32.4	25.9	34.4	43.4	51.8
BVPS (Rs) - ex FV gain	135.0	163.7	185.6	213.0	246.5	283.3
P/E (x)	46.2	37.5	46.9	35.3	27.9	23.4
Adj. P/B (x)	9.1	7.3	6.5	5.7	4.9	4.3

Source: Company, Emkay Research

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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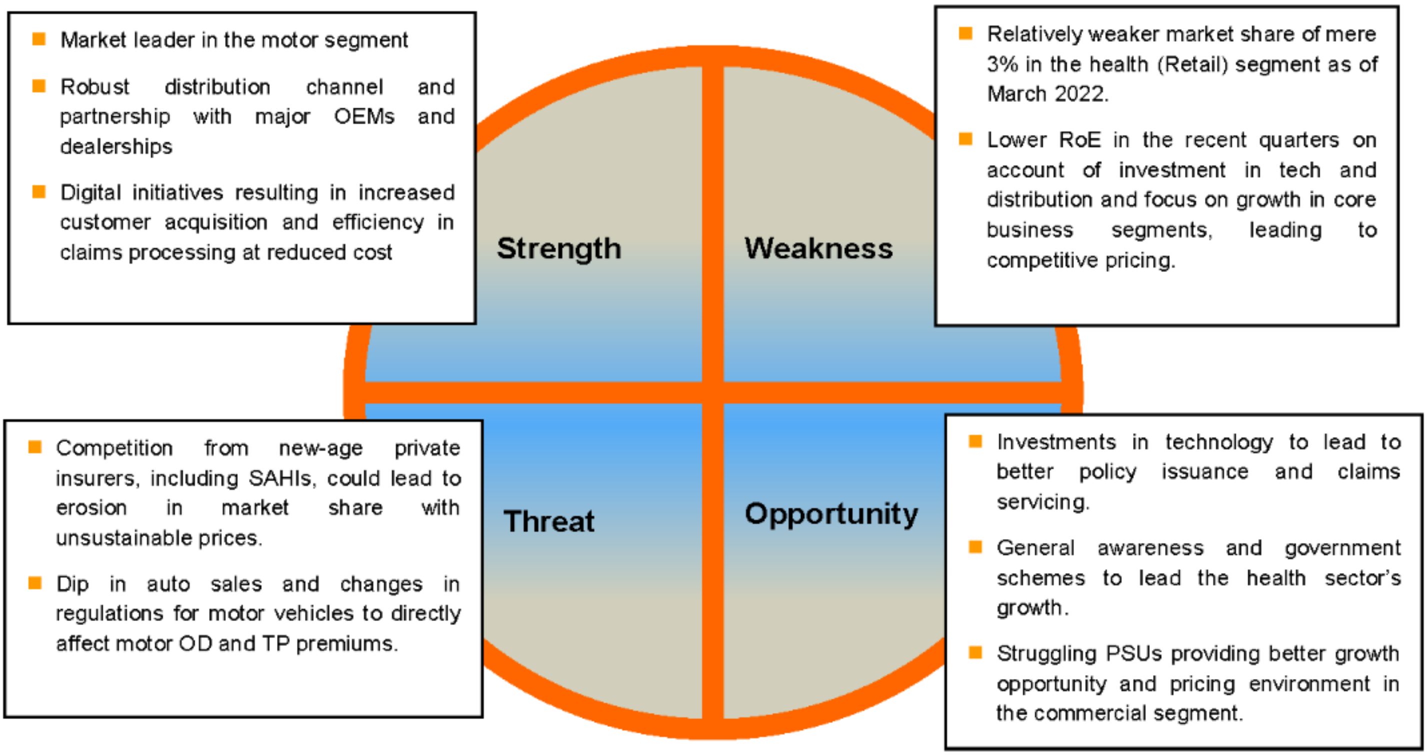
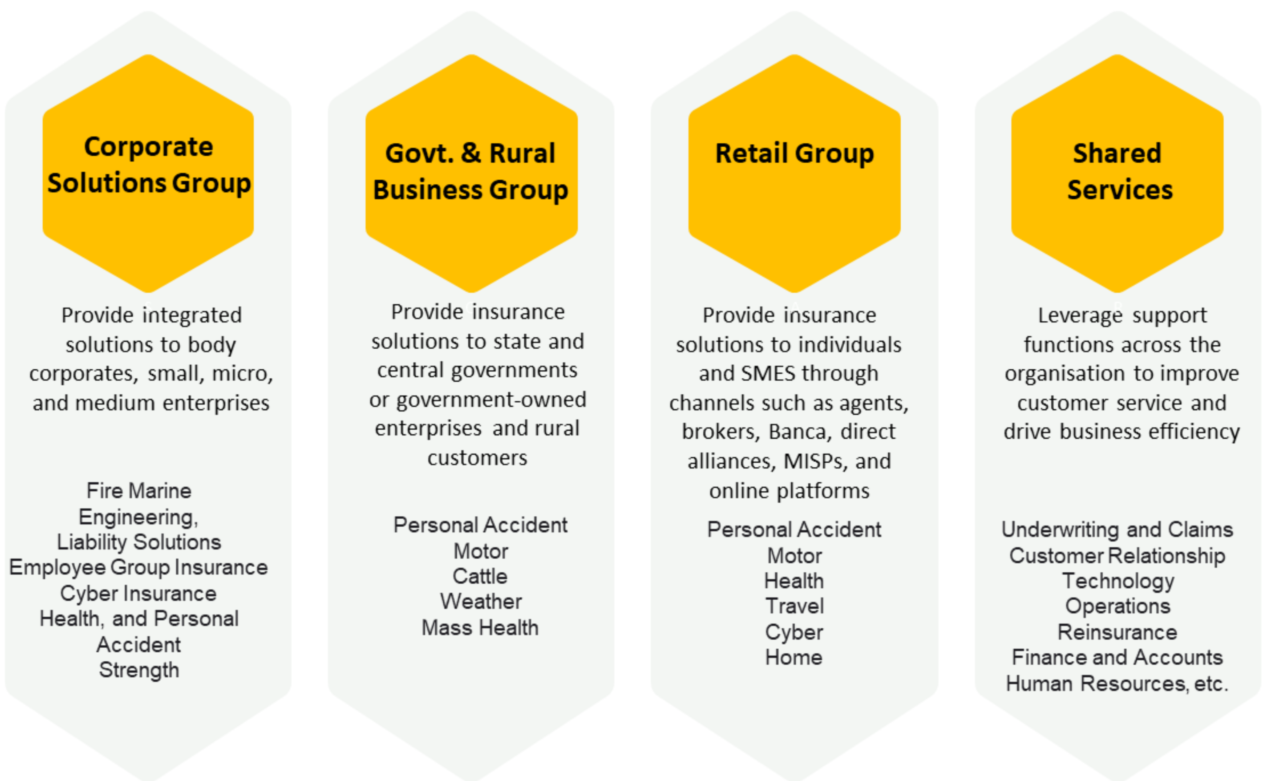
Exhibit 1: SWOT Analysis



Source: Company, Emkay Research

Exhibit 2: Business Cluster



Source: Company, Emkay Research

The general insurance business model in India

The general insurance business in India has two sources of profitability: Underwriting results (premium income netted against claims cost, commission cost, and opex); and Investment income from float money in the business and shareholder's capital.

Due to the nature of the business, in Motor Third-Party (TP) Liability insurance, where the timeline from premium received to claim payment is very long (on an average 4-5 years), the policyholder's float money is significantly higher; hence, investment income is the key part of the profit pool. While in business lines such as Motor Own Damage (OD) and Health, the premium received to claims settlement has a shorter time window. Hence, underwriting profit is the key to the profitability of these businesses. Exhibit 3 depicts the approximate profitability for these key business lines.

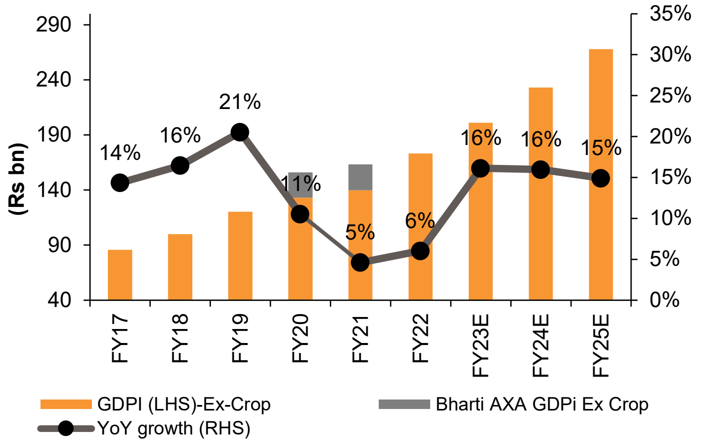
Exhibit 3: Business Model

S. No.	Key financials	Motor - OD	Motor - TP	Health	Health - lower growth
A	Gross written premium	100.0	100.0	100.0	100.0
B	Premium ceded	10.0	10.0	5.0	5.0
C = A - B	Net written premium	90.0	90.0	95.0	95.0
D = R/2	Changes in unexpired risk reserve	5.0	5.0	10.0	5.0
E = C - D	Net Earned premium	85.0	85.0	85.0	90.0
F	Net incurred claims	59.5	72.3	57.0	60.3
G	Net commission cost	9.9	0.0	11.4	11.4
H	Operating expense	13.5	18.0	15.2	15.2
I = F + G + H	Total expense	82.9	90.3	83.6	86.9
J = E - I	Underwriting result	2.1	-5.3	1.4	3.1
K	PH Investment income	3.4	12.8	3.6	3.6
L - J + K	Operating result	5.5	7.6	5.0	6.7
M	Shareholders' Account result	1.8	2.2	1.9	1.9
N = L - M	Profit before tax	7.3	9.8	6.9	8.6
O	Tax	1.8	2.4	1.7	2.1
P = N - O	Profit after tax	5.5	7.3	5.2	6.4
Q = P/(W-0.5*P)	**Return on Average Equity (%)**	**18.5**	**20.7**	**16.5**	**20.8**
R	Premium growth (%)	10.0	10.0	20.0	10.0
S = F/E	Claims ratio (%)	70.0	85.0	67.0	67.0
T = G/C	Net commission ratio (%)	11.0	0.0	12.0	12.0
U = H/C	Opex ratio (%)	15.0	20.0	16.0	16.0
V = R + S + T	**Combined ratio (%)**	**96.0**	**105.0**	**95.0**	**95.0**
W	PH Investments	45.0	171.0	47.5	47.5
X	Shareholder capital (at 180% Solvency)	32.4	39.0	34.2	34.2
Y	Investment yield (%)	7.5	7.5	7.5	7.5
Z	Tax rate (%)	25.0	25.0	25.0	25.0
Z1 = (W+X)/X	Investment leverage (x)	2.4	5.4	2.4	2.4

Source: Company, Emkay Research

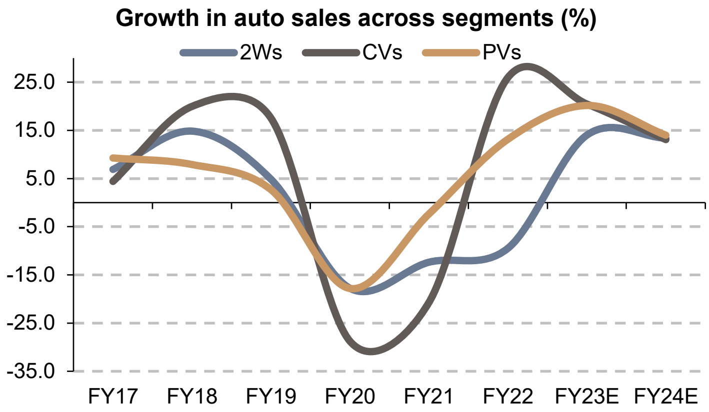
Story in Charts

Exhibit 4: Premium growth to come back enabled by robust new vehicle sales outlook and growth in health



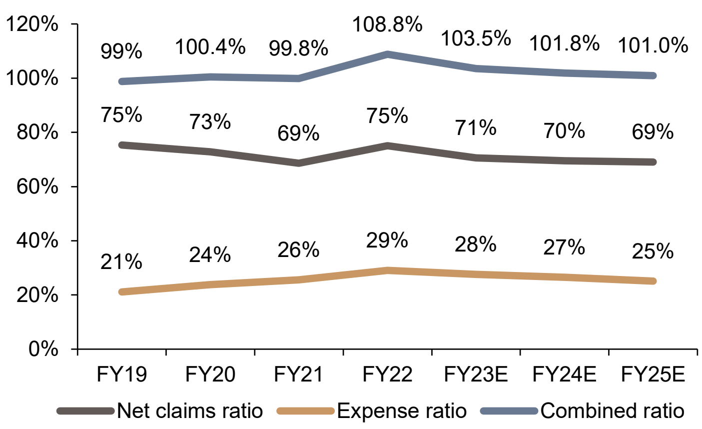
Source: Company, Emkay Research

Exhibit 5: New vehicle sales outlook positive after few years of muted sales



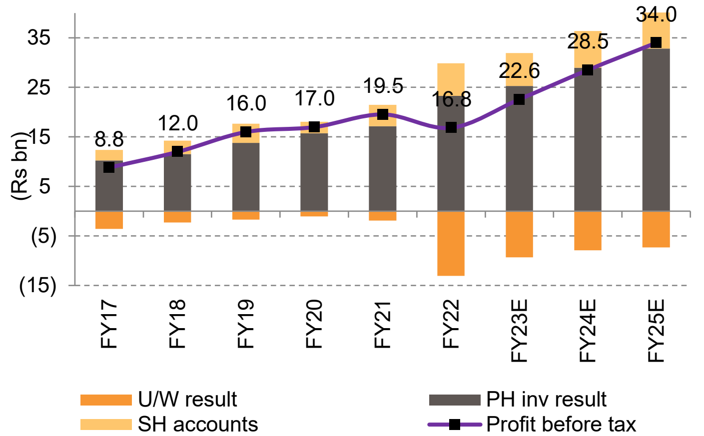
Source: Company, Emkay Research

Exhibit 6: Protecting its turf in motor and investment in new initiatives mean >100% CoR in the near term



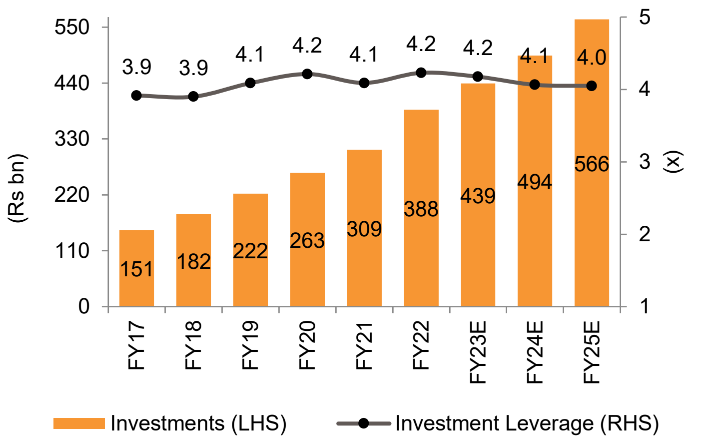
Source: Company, Emkay Research

Exhibit 7: PBT breakup: Narrowing underwriting coupled with rising investment return to drive PBT growth



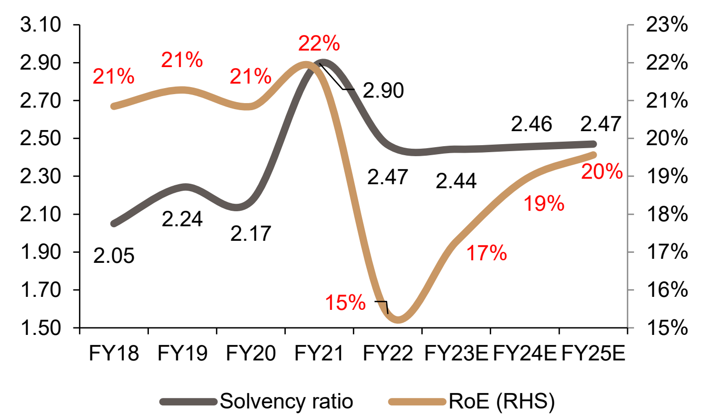
Source: Company, Emkay Research

Exhibit 8: Investment leverage to remain broadly stable at ~4x



Source: Company, Emkay Research

Exhibit 9: ROEs to gradually improve to ~20%; Solvency levels remain very strong



Source: Company, Emkay Research

Investment thesis

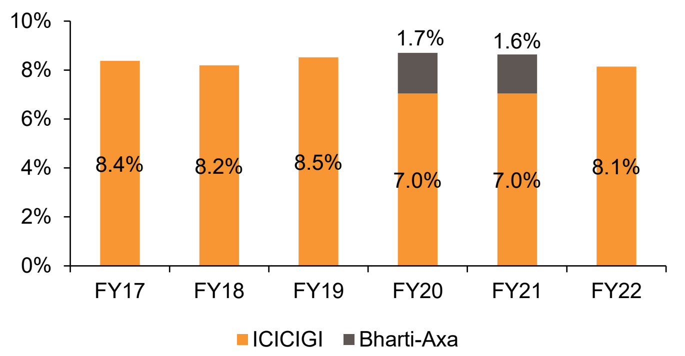
We Initiate Coverage on ICICIGI with a Buy rating and a September 2023 TP of Rs1,470 (+21.1% upside). Our TP implies September 2024 PE multiple of ~30x, minor discount to its historical average multiple. Our positive stance on ICICIGI is underpinned by four factors: 1) With Bharti Axa merger completed, the company is on track to deliver higher than the sector's growth and focus on NPV approach on incremental business than RoE/CoR fixation; 2) The CoR/RoE will improve gradually once recent growth initiatives start to deliver on growth and opex starts to settle down with business growth; 3) The external environment looks favorable than it has been in recent years; and 4) The current valuation multiple being at ~25% discount to its long-term average multiple seems to be already pricing in the non-operating uncertainties associated. After being driven by profitability-first strategy for many years, the company is currently pursuing the growth-first strategy and, rightly so, now by protecting its market share in its turf of motor and commercial lines, while charting plans to grow retail health. With Covid-19 turbulences behind and auto market outlook (PV, CV, and 2Ws) looking much brighter (post muted and declining in the past three years), the private sector market leader is well poised to grow. The new strategy of growth first would mean that profitability in the near run is suboptimal than pre-Covid trend, but this is the right strategy to protect its market position and making the business future ready.

Growth takes center stage

For long, ICICIGI treaded on the path of profit above market share and growth. It appears that the company has changed its strategy to growth-first and protecting its market share in core turf (motor and commercial lines) and plans to grow in a structural growth segment of retail health. This pursuit of growth makes complete sense, considering that the company is overcapitalized (FY22 Solvency Ratio: 246%) meaning the incremental business should be looked more from operating profit accretion point of view than CoR/RoE. The shift to growth strategy makes even more sense, considering that the Bharti-Axa merger exercise is complete and the company lost its market share in the last one year and has already largely vacated its not preferred lines such as crop and mass health. The changed strategy will result in: 1) FY22-25 premium growth CAGR of 15% (vs. 7.5% in FY19-22); 2) Motor premium growth of 12% in FY22-25 (vs. 8.8% in FY19-22) supported by improved outlook for auto sales and the company making inroads in CV; and 3) Growth in health at 23.3% over FY22-25, driving the increase of 6.7 ppts in health in the company's product mix.

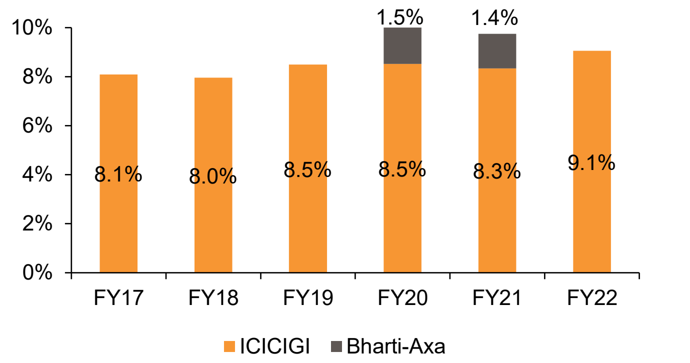
Market environment, own strategy, and Bharti-Axa merger process led to market share loss: ICICIGI's profitability-focused approach meant that it lost meaningful market share in the Indian general insurance sector. After participating for three years in crop insurance (PMFBY), it chose to withdraw completely, starting FY20, from the segment as pricing and competition was making it far from being viable. Additionally, sustained competitive pricing environment in motor OD, two years of pause in TP tariff hike, and Bharti-Axa General Insurance merger-related minor frictions resulted in it further losing market share in the past two years.

Exhibit 10: GDPI market share of ICICI Lombard: Overall premium share was declining in the past two years…



Source: Company, Emkay Research

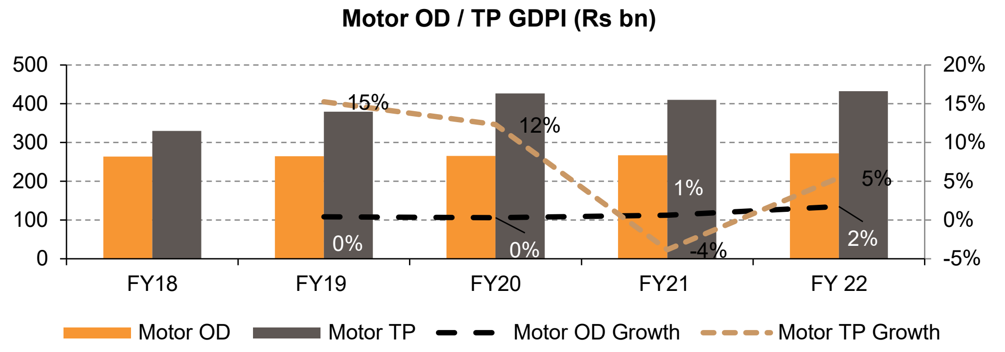
Exhibit 11: …ex-crop GDPI market share:ex-crop was no different



Source: Company, Emkay Research

Market share loss in the past 2-3 years, primarily in the motor segment, was not totally undesirable and had some underlying market dynamics to it. ICICIGI traditionally has been very strong in the 0-3 year vintage passenger vehicle (PV) and two-wheeler (2W) segments, where insurance sales are driven by OEM dealership (traditional stronghold of ICICIGI). In the past three years, starting from FY20, new vehicle sales in India have struggled on account of a host of issues, including Covid-19 disruption, chip supply-led supply-side issues, and demand slowdown. This slowdown in new vehicle sales hurt ICICIGI more, that generates ~65% of motor OD premium from 0-3 years' vintage. The situation was further aggravated by increased competition in the motor OD renewal market, where PSU general insurers continue to chase market share and private capital-backed new general insurers tried hard to grab market share.

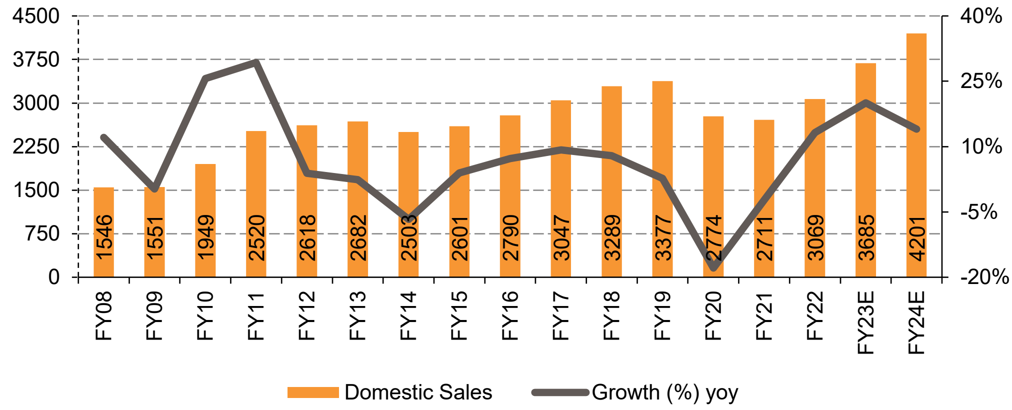
Exhibit 12: Motor OD/TP GDPI (Rs bn): Motor OD and TP premiums have been stagnant for the past few years



Source: Company, Emkay Research

Domestic new vehicle sales have been on weak footing starting FY20, even before the real Covid-19 impact came. This weakness was across vehicle categories. For motor OD, new PV sales are important as ~60% of total OD premiums come from 0-4 year vintage vehicles. In this backdrop, declining PV sales were hurting the industry's OD premium growth, especially ICICIGI that had a higher PV share in its premium mix.

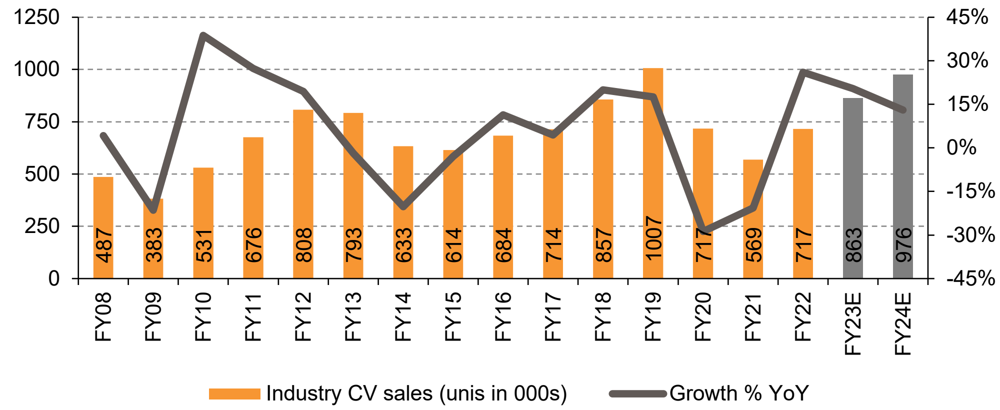
Exhibit 13: Domestic PV sales (Units in 000s): Declining PV sales for the past four years were one of the key reasons behind muted motor OD premium growth



Source: Company, Emkay Research

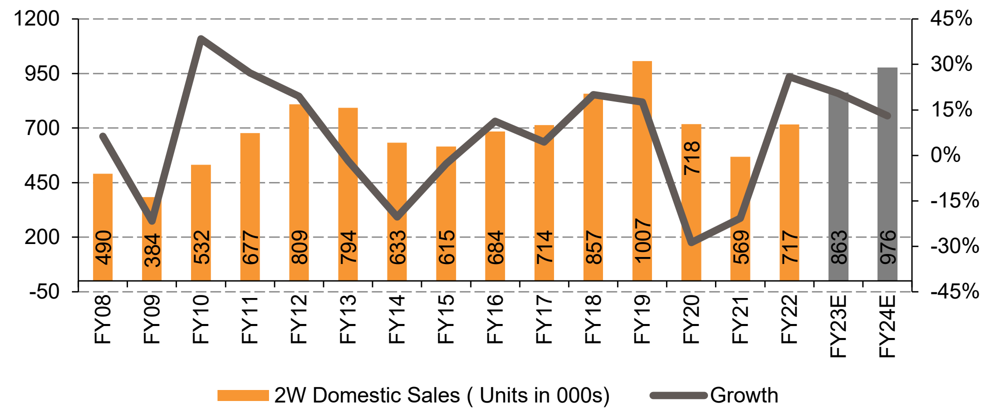
Motor TP premium growth is an outcome of new vehicle sales, especially CV, and compliance in the existing stock of PV and 2W. In this backdrop, falling CV sales were hurting TP premium growth a lot. ICICIGI relatively had lower exposure to the CV segment, but moderating TP growth in CV was increasing competition in the motor OD segment, which was impacting ICICIGI. With supply and demand-side challenges largely behind, improved outlook for new vehicle sales should drive motor OD and TP premium growth for the industry, and especially for ICICIGI that's more exposed to the motor segment and even more to new vehicles.

Exhibit 14: Domestic CV Sales (Units in 000s): Covid-19 impact on new CV sales was even more pronounced and so was its impact on motor TP premiums



Source: Emkay Research, Company

Exhibit 15: Domestic 2W sales (Units in 000s): Sharp decline in new 2W sales hurt ICICIGI more as it had higher 2W in its mix

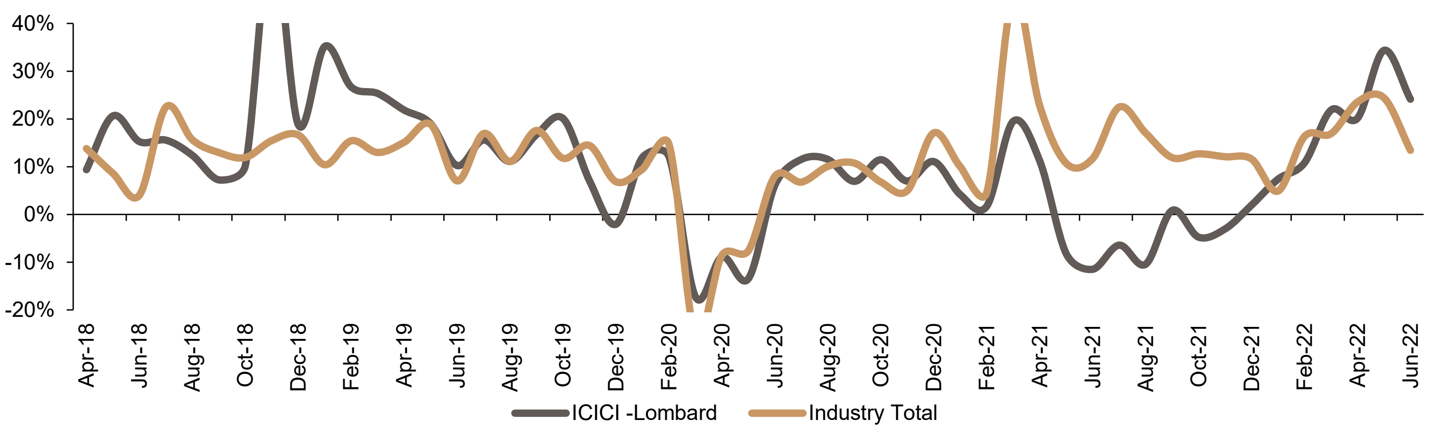


Source: Emkay Research, Company

Changes in strategy and market conditions have started delivering growth

With the merger process of Bharti-Axa completed, ICICIGI witnessed improved growth from H2FY22. Starting CY2022, the company has been outgrowing the sector and lately the gap has widened. This strong growth is quite in line with the company's stated strategy of bringing back the growth instinct by making its pricing competitive in motor OD and investing in distribution and digital initiatives to grow in retail health.

Exhibit 16: YoY Growth in GDPI-ex-Crop: Recent data suggests ICICIGI has put its feet on the accelerator



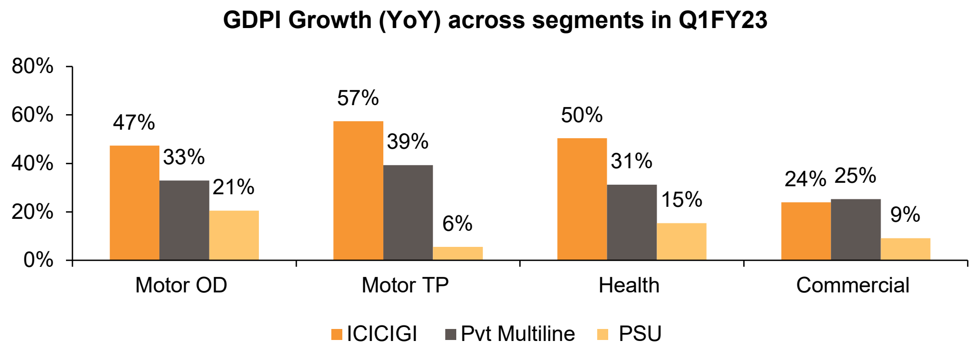
Source: Company, Emkay Research

In motor, the company has expanded its target horizon by writing certain CV segments, which it was avoiding earlier. The company has also made its pricing competitive in certain OEMs, which is helping it gain market share. OEM dealer point has been ICICIGI's core strength in terms of motor segment distribution. The company is increasingly tapping the market share with its competitive price offering now.

In health, current YTD growth is driven by increased pricing in the group segment. Going forward, the recent investment by the company in retail health distribution will start delivering results and overall health growth should accelerate even when group health growth starts to moderate in the near term. Additionally, with the effect of ICICI Bank stopping health benefit product sales coming into the base, growth should improve on a YoY basis.

In commercial lines (such as fire and marine, ICICIGI has gained material market share over the last few years). In this business, expertise, balance sheet strength, B2B relationships, and brand matters a lot. In this backdrop, this business is done by large players, via direct or broker distribution. With large price changes done 2-3 years ago, the overall growth in this segment will be driven by economic activities picking up. ICICIGI, powered by its balance sheet strength and better reinsurance relationships, should continue to take up market share.

Exhibit 17: ICICIGI has grown faster in Motor and Health while maintaining its leadership in commercial lines



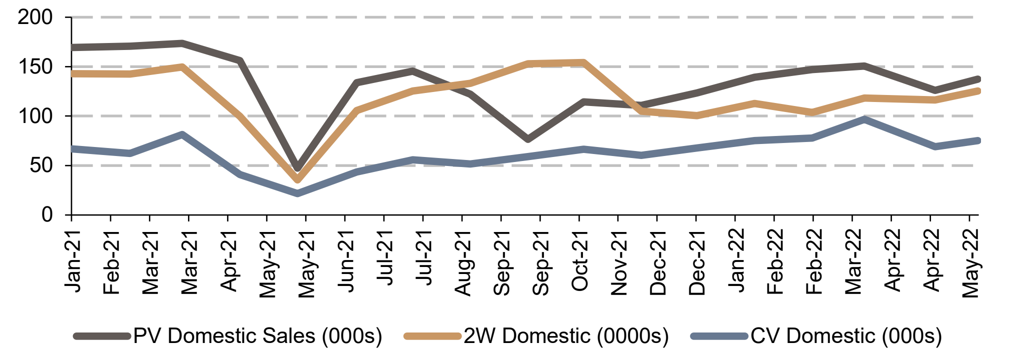
Source: Company, Emkay Research

Brighter auto sales outlook and focus on health to drive growth in the near to medium term

Motor (TP + OD) constitutes ~45% of ICICIGI's premium mix vs. ~32% for the industry. Hence, muted auto sales have been more troubling for ICICIGI. After three years of challenging times, the outlook for new auto sales looks brighter across categories. Improved new auto sales coupled with price increases in motor TP (starting June 2022) have started to reflect in ICICIGI's motor premium growth. Going ahead, the volume growth outlook coupled with price increases will help grow the motor OD premium. On the motor TP front, tariff hike approved by the regulator (although muted) will aid growth in addition to volume-led growth.

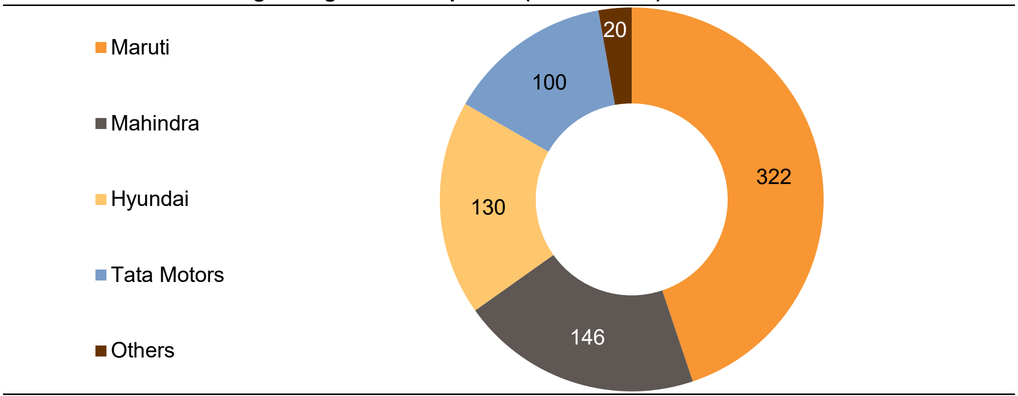
New vehicle sales in India have started to struggle, starting FY20 on account of rising cost of ownership, led by rising vehicle prices and compliances such as insurance being tightened, even before Covid-19 shock came. With the arrival of Covid-19 and further supply-side issues led by chip shortages, new vehicle sales further dwindled – facing issues both on the supply and demand side. Finally, the outlook for new vehicle sales is looking brighter with the shadow of Covid-19 being an event of the past and improving chip supply. And this is becoming evident from the recent month's sales. Additionally, with new model launches, order book looks strong for most OEMs across categories.

Exhibit 18: Auto sales in recent months (units)



Source: Company, Emkay Research

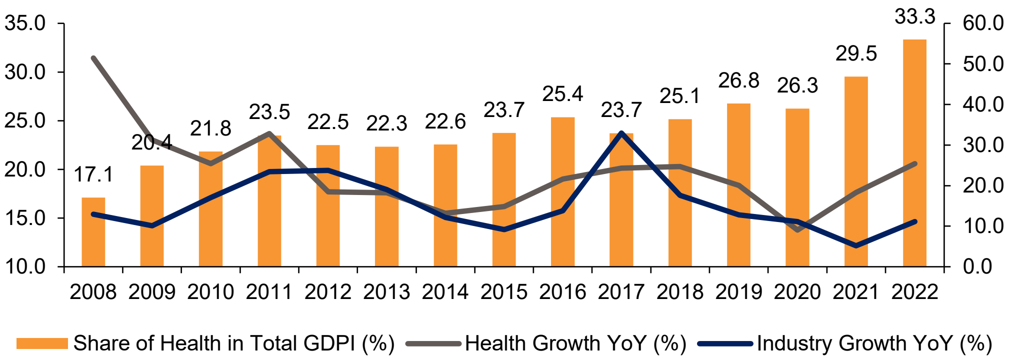
Exhibit 19: Order backlog of large auto companies (Units in '000)



Source: Company, Emkay Research

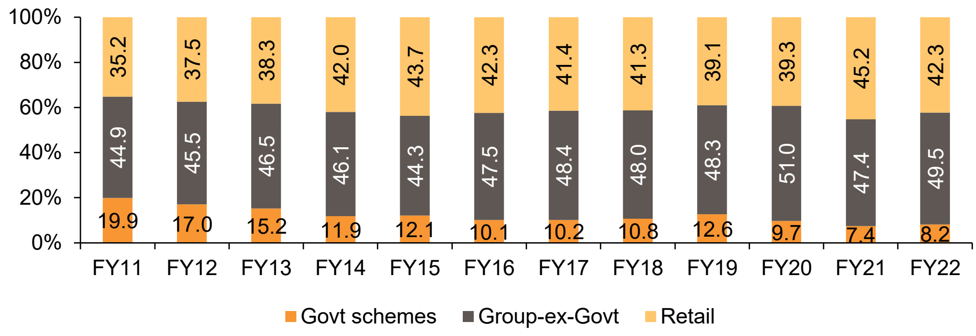
Health has emerged as the bright spot for the entire insurance sector and every player in the insurance ecosystem is banking on structural growth of health. So far, for multiline private general insurers, health has been limited to the corporate health segment. However, it is incrementally becoming evident that it is the retail health that has the potential of providing long-term structural growth, and hence the multiline private general insurers have started to get active. ICICIGI has started to augment its agency workforce to target retail health. To manage this agency workforce, it has hired ~1,000 agency managers. The focus and investment in expanding retail health will drive growth over the coming years.

Exhibit 20: Health GDPI grows much faster than the industry's GDPI on a YoY basis



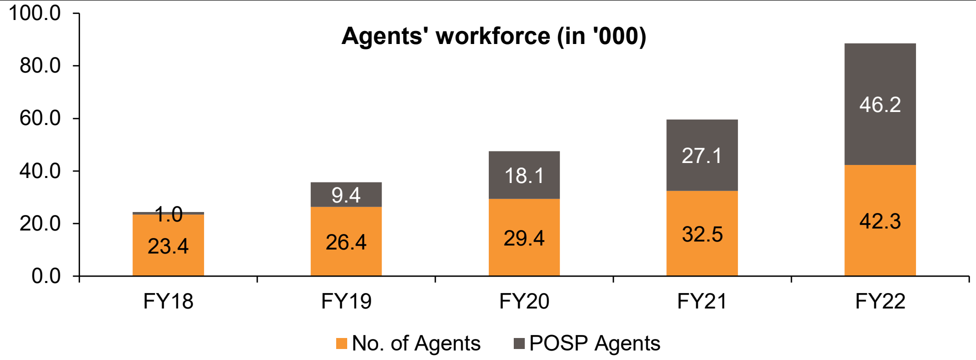
Source: Company, Emkay Research

Exhibit 21: GDPI mix of the health segment for the industry



Source: Company, Emkay Research

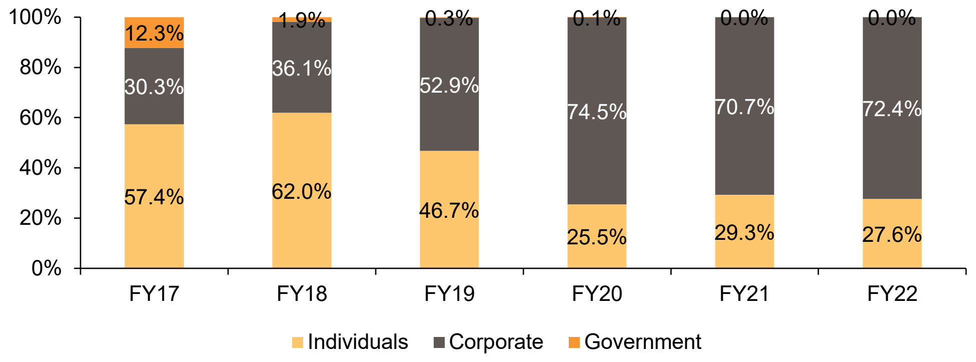
Exhibit 22: Agents' workforce increases to 88,545 agents including POSP for FY22



Source: Company, Emkay Research

ICICIGI's product mix changes within the health segment were more of a reflection of its distributor's focus and classification changes. These changes at times led bank distributed retail product being classified as group. Going ahead, the retail health indemnity product will be the company's focus. With focused agency-led distribution to target retail health indemnity and ICICI Bank and some other larger partners starting to sell ICICIGI's health indemnity product, growth in health should accelerate.

Exhibit 23: Health Product Mix for ICICI Lombard: Corporate health being the largest contributor



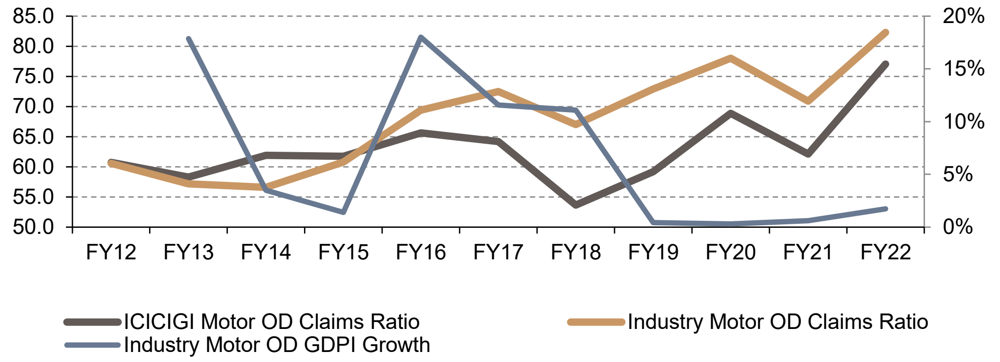
Source: Company, Emkay Research

Gradual improvement in profitability post FY23

The company's profitability-focus strategy led to it delivering >20% RoE and a ~100% CoR every year post its listing until Covid-19 delta wave jolted the industry in FY22. In this profitability quest, the company vacated crop and government health segments and was careful in motor CV segments. With its feet firmly placed on accelerator by competing with aggressive players in the motor segment and widening its distribution to grow the so-far underwhelming retail health, the company will be operating at a slightly suboptimal (versus its own past) profitability ratio and return to a ~100% CoR and 20%+ RoE will be a multiyear journey depending upon digital and other distribution-related investments; delivering efficiencies and improving competitive environment, driving better pricing. Additionally, the overcapitalization (current solvency ratio at ~260% versus 180-200% comfort range for multiline general insurers) suppresses the RoE.

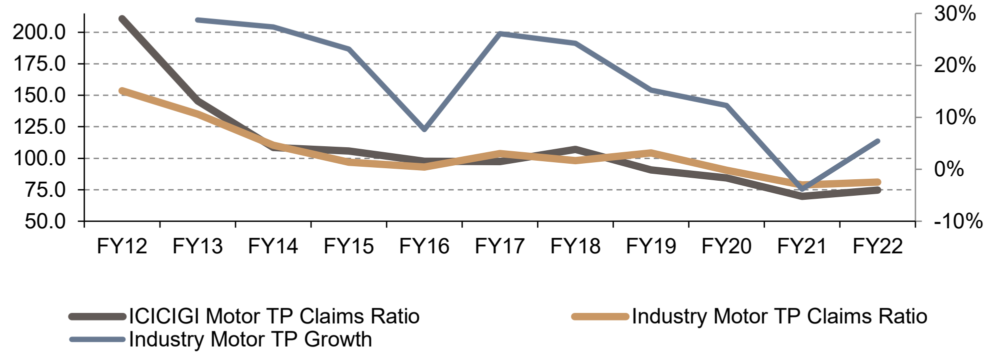
Competing for market share in motor to put pressure in the claims ratio in the near term: The last two years were abnormal in terms of claims experiences as FY21 saw the benefit in claims in motor lines on account of stringent lockdowns and FY22 saw the abnormal level of losses in the health segment led by Delta wave of Covid-19. With normalcy returning, the old profitability-focused ICICIGI would have delivered sub-70% claims ratio. However, the current industry dynamics are different and ICICIGI is reacting to the contemporary dynamics of the industry. The move to protect its market share in the motor segment by expanding the geography and vehicle segments will have some bearing in the claims ratio. This coupled with a muted motor TP price hike would mean that claims ratio will come below 70% not before FY24.

Exhibit 24: Muted volume growth in motor OD drives price war, resulting in mispricing-driven muted premium growth and higher claims ratio



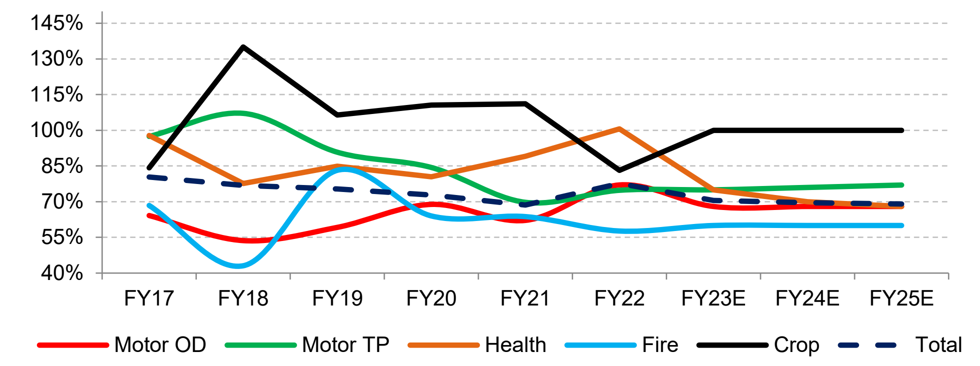
Source: Company, Emkay Research

Exhibit 25: Falling claims ratio in motor TP led to muted tariff increase and as a result weaker premium growth as new vehicle sale struggled in recent years



Source: Company, Emkay Research

Exhibit 26: Segmental Claims Ratio (ICICIGI): Claims Ratios to moderate to 70% levels by FY25E

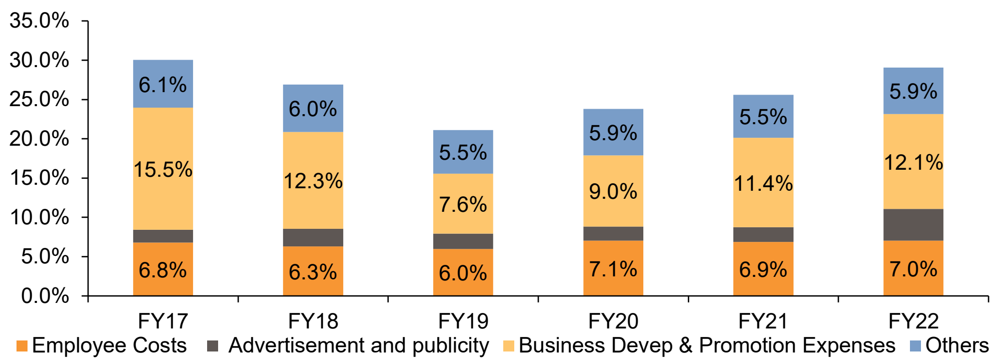


Source: Company, Emkay Research

Investments in new initiatives to inflate opex ratios

Over the past many years, opex of ICICIGI has been driven by a combination of factors. Employee expenses have stayed in 6-7% of NWP, but there has been volatility in business development and sales promotion expenses part (owing to some regulatory changes as well) and in advertisement and publicity part. Moreover, last year, there has also been the impact of Bharti-Axa merger. Going forward, opex ratio will stay elevated as investments focused on retail health, increased business development expenses on account of competing in the motor segment, and increased ad and publicity spends will more than offset the synergy benefits from Bharti Axa merger.

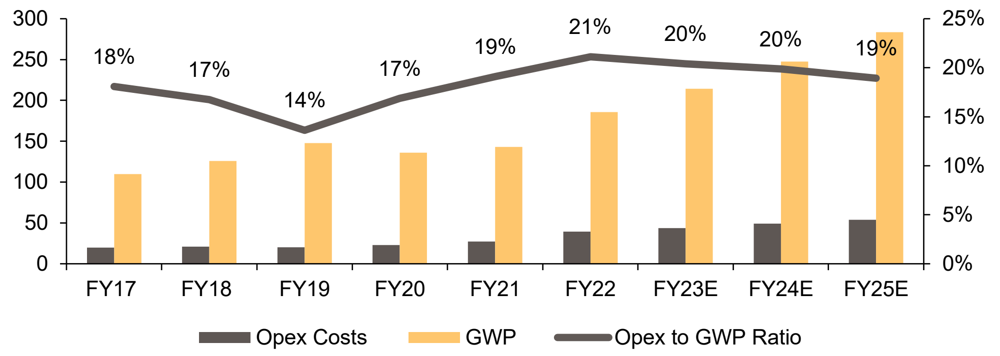
Exhibit 27: Composition of operating expenses as a percentage of NWP: Business development and promotion expense escalate due to investment in new initiatives



Source: Company, Emkay Research

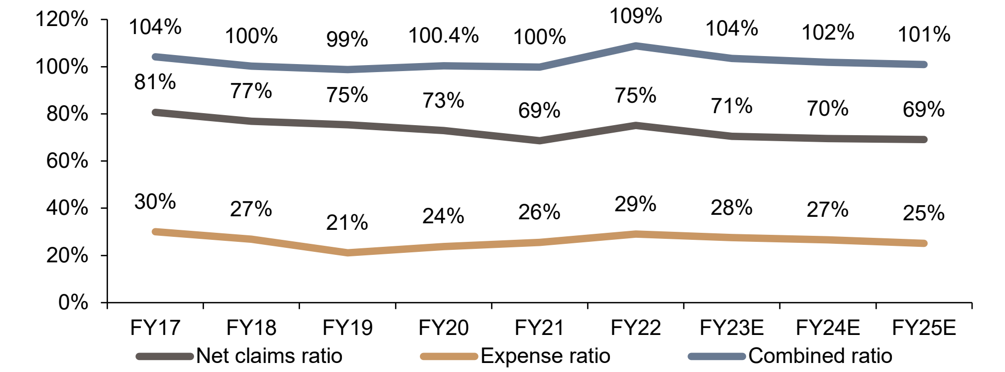
Eventually with growth in place, operating leverage to play and CoR to improve gradually: The company's focus on growth is taking the claims ratio and opex ratio to higher levels in the near term. Eventually, with increased scale and opex normalization, the combined ratio will start moving closer to 100% levels post FY24. Given the excess capital sitting in ICICIGI's balance sheet, it is the correct strategy to chase growth even at an optically suboptimal combined ratio.

Exhibit 28: Operating leverage to continue as ICICIGI places its feet on growth accelerator



Source: Company, Emkay Research

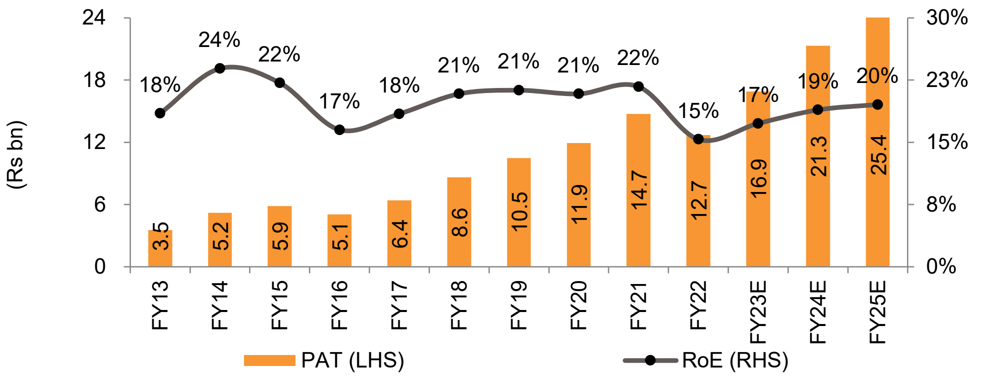
Exhibit 29: Combined Ratio Trajectory: CoR to reach ~100% levels by FY25E



Source: Company, Emkay Research

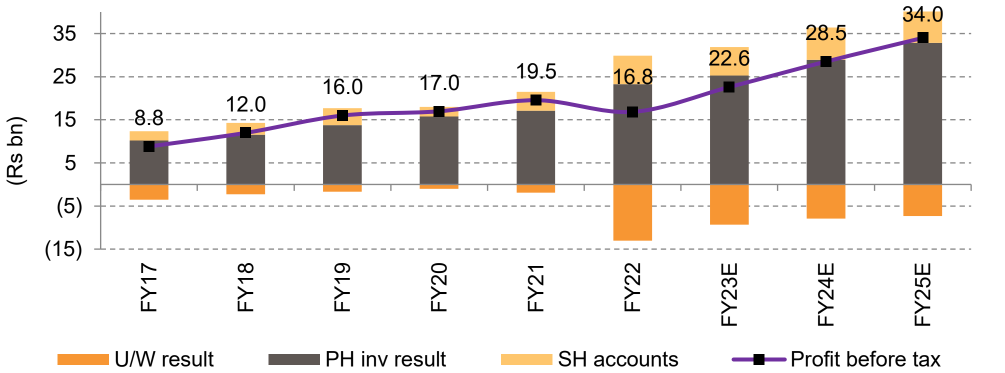
Gradual recovery in RoE: Focus of growth leading to slightly higher combined ratio in the near term will likely result in weaker underwriting performance than its pre-Covid trend. Rising yield should provide support on the investment income side, but more normalized gains on investments (vs. higher gains in recent years) will keep overall investment yield in check. This coupled with higher capitalization levels would mean that, in the near term, RoE will likely stay at 17-18% and eventually move towards 20% over the medium term once the combined ratio starts to move closer to 100%.

Exhibit 30: ROE Trajectory: Going forward, ROE to gradually recover to 20% levels by FY25



Source: Company, Emkay Research

Exhibit 31: Rising investment income and reducing underwriting loss to drive PBT growth in FY22-25E



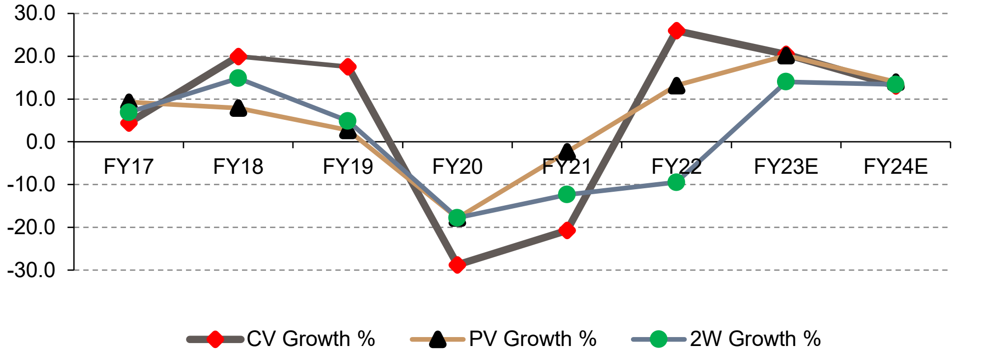
Source: Company, Emkay Research

External environment favorable than in the past

Auto sales (PV, CV, and 2W) growth outlook is looking brighter after a multiyear slowdown and decline, interest rate moving up (helping investment income), motor TP seeing a hike after the pause of two years, and a likely hope of pricing discipline in motor OD – all of which mean that the external environment is looking far more comfortable for ICICIGI than it has been in recent years.

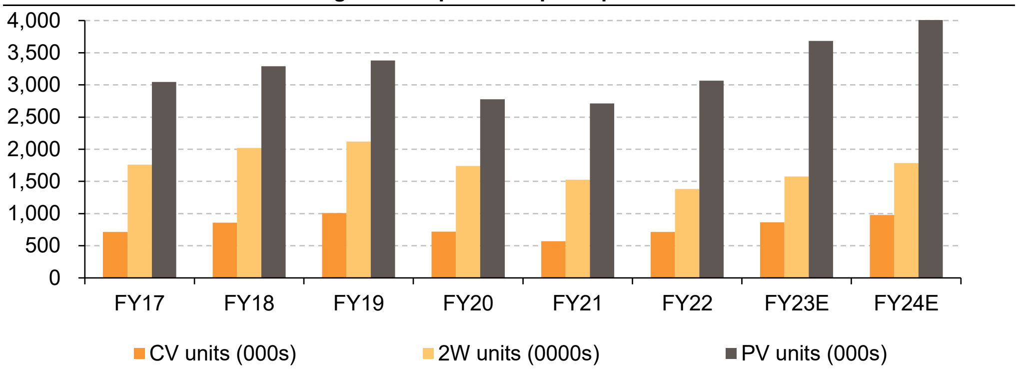
New vehicle sales reviving after multiyear slowdown: New vehicle sales in India have been declining over the past many years on account a host of factors, starting with aggregator platforms (Ola/Uber) impacting PV sales in pre-Covid year to Covid-19-led demand shock to post-Covid supply-side issues, driven by chip unavailability. With Covid-19 disruptions behind, cab aggregators' impact normalizing, and supply-side issues resolving, the outlook for new vehicle sales is impressive, sales are rising, and order book is looking robust.

Exhibit 32: Growth in auto sales across segments to pick up after being subdued for two years



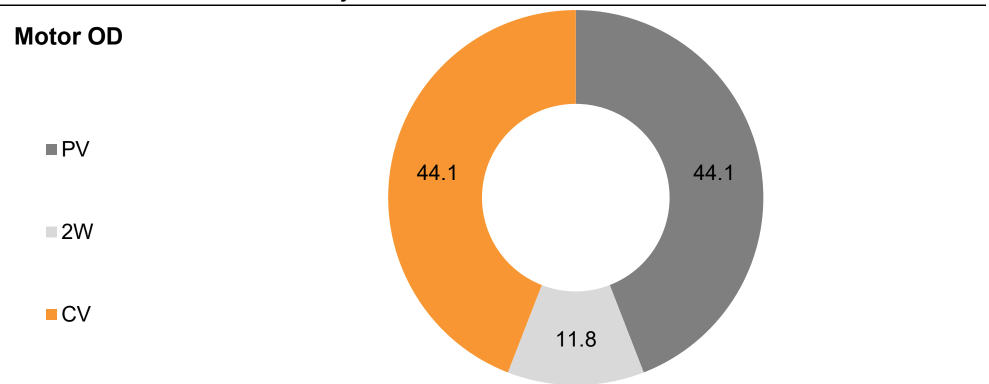
Source: Company, Emkay Research

Exhibit 33: Auto sales across segments expected to pick up in FY23



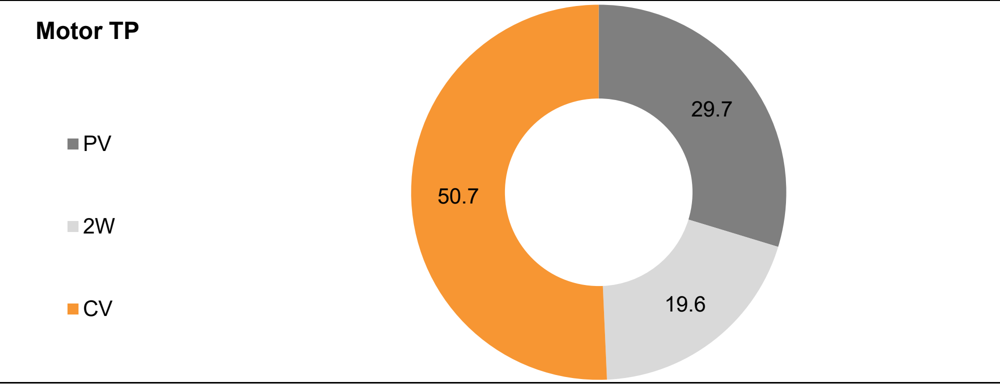
Source: Company, Emkay Research

Exhibit 34: PVs and CVs are the major contributors to motor OD GDPI



Source: Company, Emkay Research

Exhibit 35: CVs are the major contributors to motor TP GDPI

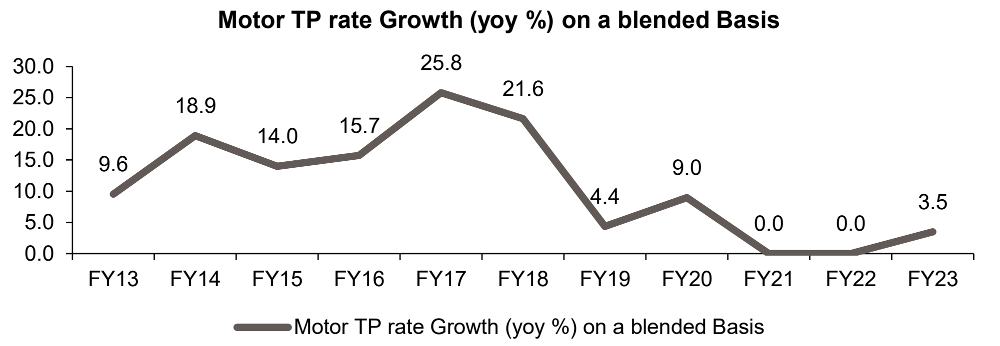


Source: Company, Emkay Research

Hike in motor TP tariffs has come, albeit a muted one

After being on pause for two years, motor TP tariffs rose in FY23, with effect from June 1, 2022. The tariff hike, as indicated by our blended index, at ~3.5% is muted, especially in the backdrop of sustained close to double-digit claims inflation rate. However, with low claims frequency of FY21 feeding into tariff determination formula for FY23, this muted hike comes on expected lines. Additionally, with industry participants indulging in irrational pricing on non-tariffed motor OD, the regulator will continue to take a more prudent and balanced view on hiking TP tariffs. Nonetheless, the hike in TP tariff after two years' pause is a favorable development for growth and profitability in motor TP.

Exhibit 36: Motor TP rate hike by ~3.5% in FY23 after a two-year pause



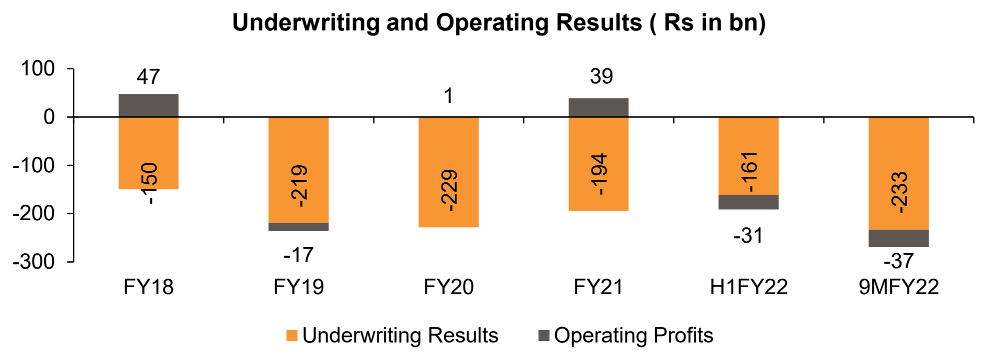
Source: Company, Emkay Research

Sustained poor profitability and losses to bring some sanity in industry pricing environment

The Indian General Insurance Industry has been going through the vicious cycle of intense competition and poor profitability over the past few years (Exhibit 37 demonstrates deteriorating underwriting results since FY18). Sustained poor profitability in the industry has been driven by a host of factors, including:

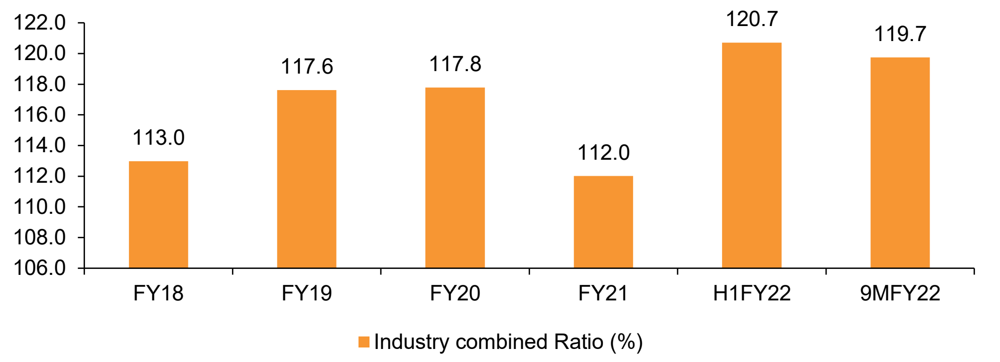
- Troubled by their high fixed cost, the topline chasing PSU multiline general insurers were driving prices low in group health, commercial, and motor OD. Capital infusion by the government and dispensation granted by the regulator prolonged this.
- Private capital-backed new-age general insurers chasing market share in motor OD and Retail health putting pressure on prices in these lines.
- Price discovery still continuing in government programs in health and crop segments.
- Covid-19 shock.

Exhibit 37: Underwriting results and operating results for the industry (Rs bn)



Source: Company, Emkay Research

Exhibit 38: Industry Combined Ratio



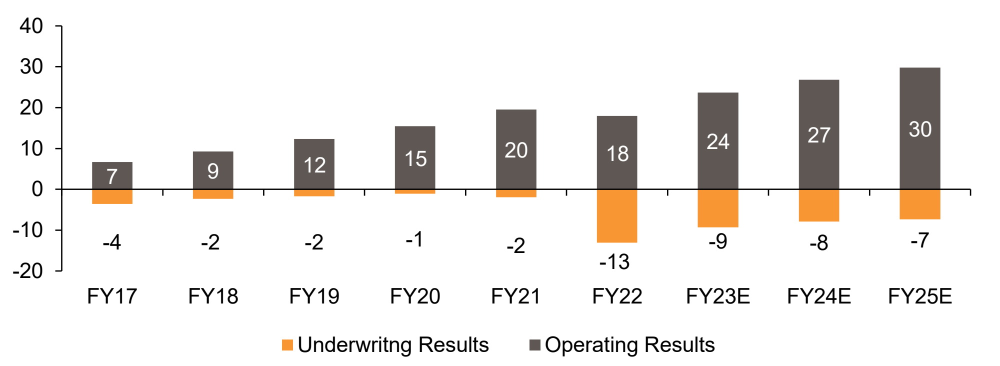
Source: Company, Emkay Research

Some of the above factors appear to be changing, albeit it is too early to draw a conclusion. The material changes are:

- In the aftermath of Covid-19 shock, there has been a material increase in pricing across group health line.
- The government's ability to infuse further capital in PSU general insurers being limited and tightening global liquidity making capital expensive for private capital-backed general insurers should drive some discipline in growth.
- With the regulator going slow on TP hike, the ability of players to cross subsidize OD with TP is becoming limited.

Putting all these together, hope for a more disciplined market looks increasingly realistic in the medium term.

Exhibit 39: Underwriting and Operating Results Trajectory for ICICIGI (Rs bn)



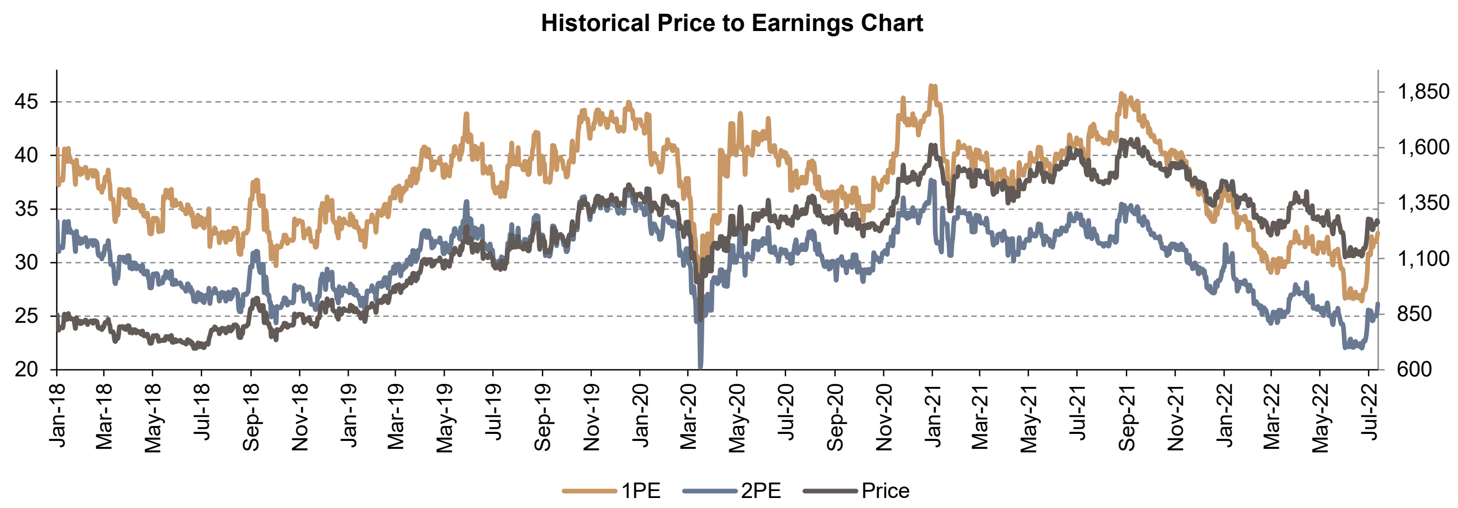
Source: Company, Emkay Research

Near-term challenges already in price, initiate with Buy

Muted growth, deteriorating industry dynamics, and some specific non-operating concerns led to ICICIGI's shares to de-rate to the recent ~25x two-year forward EPS versus average of ~32x in the preceding three years. With this de-rating, near-term challenges are already more than priced in. Now with growth returning for the company and improving industry dynamics, we expect performance delivery to drive the gradual re-rating back to earlier levels. We Initiate Coverage on ICICIGI with a Buy rating and a TP of Rs1,470 (~30x September 2024 EPS).

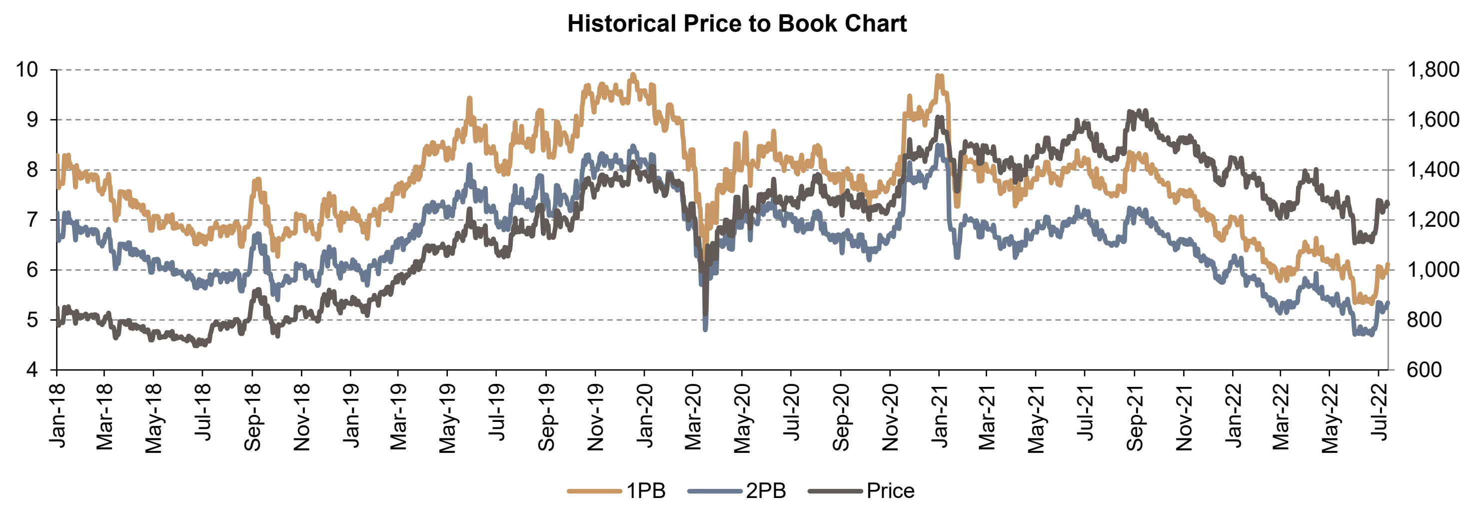
Valuation multiples have come off materially; Near-term challenges more than priced in: Starting CY2021, ICICIGI's shares have materially underperformed the broader market and have also seen meaningful correction in valuation multiples. This valuation de-rating and relative underperformance have been an outcome of a combination of host of factors, including exceptional losses in health on account of Delta wave, ICICIGI losing market share in a slowing industry, led by muted auto sales, and continued irrational behavior in pricing by some players and a few more. This de-rating has led to ICICIGI's shares trading closer to the bottom multiple range of the past four years and ~25% discount to the average two-year forward price-to-earnings and price-to-book multiples. With improving sector growth and profitability dynamics and ICICIGI accelerating its growth, the gradual valuation re-rating should follow performance delivery by ICICIGI.

Exhibit 40: Historical Price to Earnings



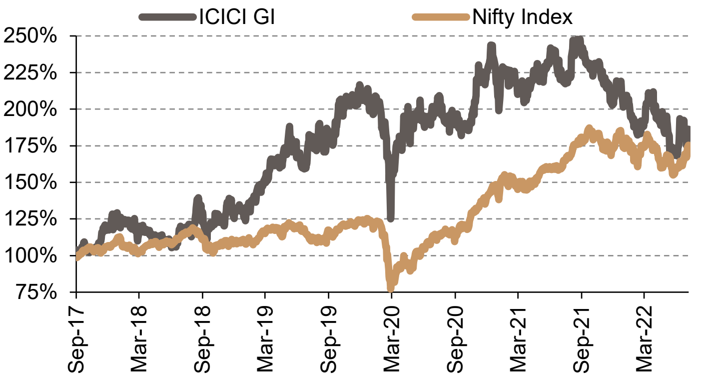
Source: Company, Emkay Research Note: 1 PE refers to Price to 12-month blended forward consensus earnings. 2 PE refers to Price to 24-month blended forward consensus earnings.

Exhibit 41: Historical Price to Book



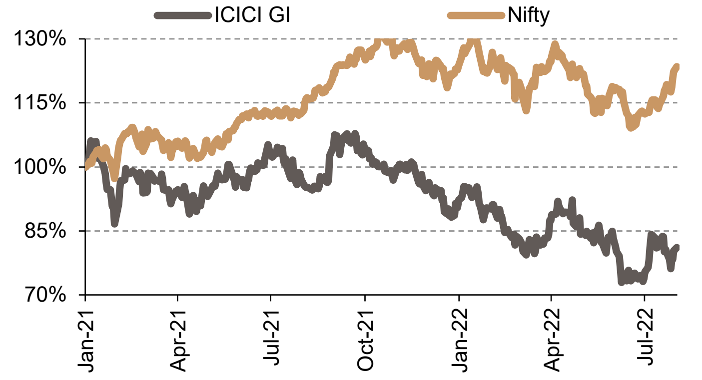
Source: Company, Emkay Research Note: 1 PB refers to Price to 12-month blended forward consensus book value. 2 PB refers to Price to 24-month blended forward consensus book value.

Exhibit 42: Historical Stock Price of ICICIGI vs. Nifty Index: ICICIGI outperformed the market from March 2020 to December 2021…



Source: Company, Emkay Research

Exhibit 43: … Post December 2021, ICICIGI underperformed materially



Source: Company, Emkay Research

The stock should re-rate gradually with growth returning and profitability improving over the medium term: The bigger concern behind ICICIGI's de-rating has been its market share loss in overall ex-crop general insurance premium, especially in the motor segment, since CY2021 beginning (ICICIGI + Bharti-Axa basis). With Bharti-Axa merger completed and the company well focused on growth, delivery of growth and market share gain should gradually lead to re-rating of multiples.

Our Economic Value Added (EVA) approach gives Rs1,470 as fair value target for ICICIGI's shares; Initiate with Buy

Our EVA valuation method gives Rs1,470 per share as fair value for ICICIGI's shares, translating to ~30x September 2024E EPS,with a minor discount to its average historical multiple. . We Initiate Coverage with a Buy rating. The private sector market leader has an established track record of growing profitably over the long term and is well positioned to become profitable in a structurally attractive sector.

Exhibit 44: Economic value added Method Valuation of ICICIGI

Parameter (Rs mn except percentage)	Value
Cost of Equity	11.5%
FY23-FY28 Earnings CAGR	19%
FY28-FY38 Earnings CAGR	13%
Terminal growth	8.0%
FY23 Net worth (Rs mn)	1,04,564
FY24-FY38 discounted residual earnings (Rs mn)	1,79,730
Terminal Value (Rs mn)	3,95,592
FY23 Fair value gains (Rs mn) - Post tax	2,964
Fair Value (Rs mn)	6,82,850
No. of Shares (mn)	491
Mar-23 Fair value per share (Rs)	1,391
Sep-23 Target price	**1,470**

Source: Company, Emkay Research

Exhibit 45: Implied Valuation Multiples of ICICIGI

Valuation multiple at current price	1,214
FY24E P/E	27.9x
FY24E P/B	4.9x
FY24E RoE	18.9%
Valuation multiple at target price	**1,470**
FY24E P/E	33.8x
FY24E P/B	5.9x
FY24E RoE	18.9%

Source: Company, Emkay Research

Exhibit 46: Key Financials

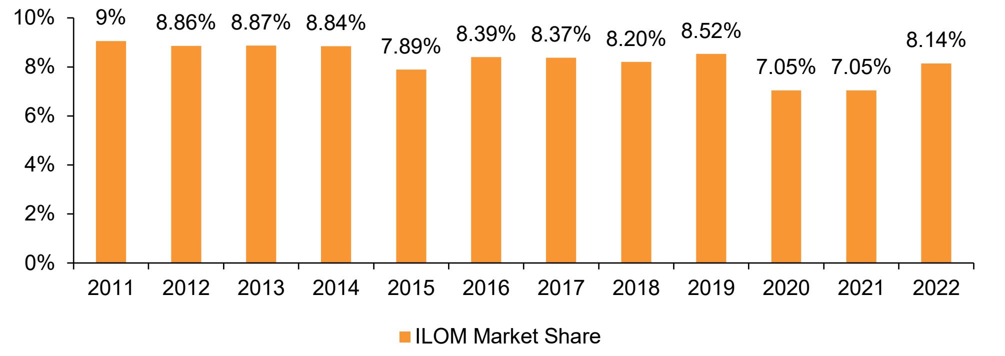
Policyholder Account (Y/E March, Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Direct Premium Income	1,44,882	1,33,128	1,40,031	1,79,769	2,07,693	2,39,802	2,74,583
Gross Written Premium (GWP)	1,47,892	1,35,924	1,43,203	1,85,624	2,14,458	2,47,612	2,83,527
Net Written Premium (NWP)	95,386	96,407	1,06,850	1,34,896	1,58,705	1,85,221	2,14,062
Net Earned Premium (NEP)	83,753	94,035	1,00,140	1,30,321	1,46,110	1,70,453	1,96,911
Net incurred claims	63,081	68,516	68,708	97,819	1,03,082	1,18,507	1,36,030
Net commission expense	2,229	3,640	6,009	6,339	8,597	10,637	14,576
Operating expense	20,140	22,932	27,342	39,201	43,740	49,195	53,645
Total Expense	85,450	95,087	1,02,059	1,43,359	1,55,418	1,78,339	2,04,251
Underwriting result	**-1,696**	**-1,052**	**-1,919**	**-13,038**	**-9,308**	**-7,885**	**-7,340**
Investment income	13,355	15,425	21,000	22,908	24,896	28,562	32,434
Insurance result	11,659	14,373	19,081	9,870	15,588	20,677	25,094
Other income	414	317	-3,883	373	373	373	373
Operating profit	**12,072**	**14,689**	**15,197**	**10,243**	**15,961**	**21,050**	**25,467**
Shareholder Account							
(Y/E March, Rs mn)	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Operating profit	**12,072**	**14,689**	**15,197**	**10,243**	**15,961**	**21,050**	**25,467**
Investment income	4,600	4,644	5,046	7,032	7,356	8,301	9,426
Other income	143	156	124	30	150	150	150
Expenses and provisions	1,073	3,272	5,185	8,166	8,574	6,773	5,379
Profit before tax	15,984	16,968	19,540	16,835	22,589	28,501	33,993
Tax expense	5,492	5,031	4,809	4,125	5,686	7,174	8,556
Profit after Tax	**10,493**	**11,937**	**14,731**	**12,710**	**16,903**	**21,328**	**25,437**
Balance Sheet							
(Y/E March, Rs mn)	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Source of Funds							
Net worth	53,205	61,342	74,355	91,097	1,04,564	1,20,982	1,39,056
Fair value gains	3,384	-4,286	6,805	3,593	3,952	4,348	4,782
Net worth including fair value gains	56,589	57,056	81,160	94,690	1,08,516	1,25,330	1,43,839
Borrowings	4,850	4,850	4,850	2,550	2,550	2,550	2,550
Total	**61,439**	**61,906**	**86,010**	**97,240**	**1,11,066**	**1,27,880**	**1,46,389**
Application of Funds							
Shareholder Investments	53,431	58,596	74,357	89,179	1,00,962	1,13,615	1,30,045
Policyholder Investments	1,68,877	2,04,672	2,34,565	2,98,684	3,38,150	3,80,526	4,35,557
Other Assets	7,665	9,829	9,767	9,231	9,231	9,231	9,231
Cash & Bank Balances	4,016	326	2,276	2,926	2,926	2,926	2,926
Other current assets	1,00,037	96,998	72,013	1,08,463	1,11,800	1,31,232	1,52,200
Current liabilities	2,16,228	2,49,798	2,40,995	3,30,668	3,63,442	4,09,794	4,69,232
Provisions	56,359	58,717	65,974	80,575	88,561	99,856	1,14,339
Net Current Assets	-1,68,534	-2,11,190	-2,32,679	-2,99,854	-3,37,277	-3,75,492	-4,28,445
Total	**61,439**	**61,907**	**86,010**	**97,240**	**1,11,066**	**1,27,880**	**1,46,389**
Key ratios							
(Y/E March, %)	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Retention ratio	64.5	70.9	74.6	72.7	74.0	74.8	75.5
Incurred claims ratio	75.3	72.9	68.6	75.1	70.6	69.5	69.1
Net commission ratio	2.3	3.8	5.6	4.7	5.4	5.7	6.8
Expense ratio	21.1	23.8	25.6	29.1	27.6	26.6	25.1
Combined ratio	98.8	100.4	99.8	108.8	103.5	101.8	101.0
Net investment yield	8.9	8.3	9.1	8.6	7.8	7.9	7.9
Return on equity	21.3	20.8	21.7	15.4	17.3	18.9	19.6
NWP/Net worth	179.3	157.2	143.7	148.1	151.8	153.1	153.9
Investment leverage	4.1	4.2	4.1	4.2	4.2	4.1	4.0
Solvency ratio	224.0	216.7	289.7	246.6	244.3	245.6	247.0

Source: Company, Emkay Research

About the Company

- ICICIGI is the largest private insurer in India with a market share of 16.4% in FY22 on the basis of Gross Direct Premium Income among private multiline players. With secular growth potential and focus on profit, ICICIGI stands out to be the second largest non-life insurance player with an overall market share of 8.15% in FY22. ICICIGI has managed to hold its market-leading position among private sector insurers since FY04, despite the number of players increasing from 8 to 31 during this period. The company has leveraged the group's strong brand in financial services as well as distribution partnerships to build scale with profitability.

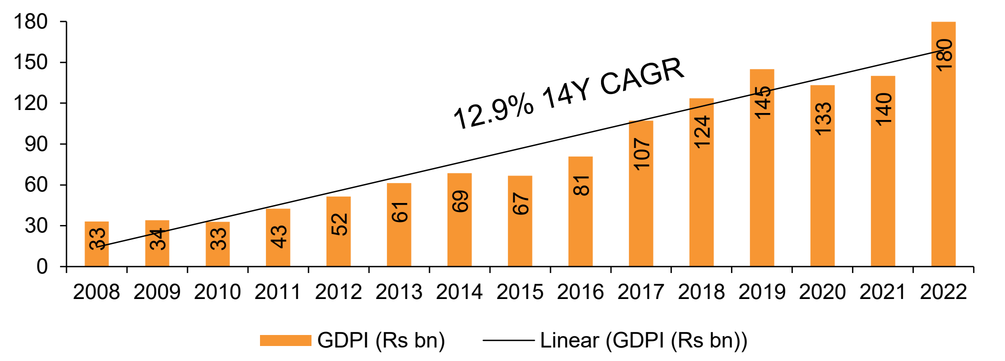
Exhibit 47: ICICIGI's Market Share in GDPI increases to 8.14% for FY22 after a decline for two years



Source: Company, Emkay Research

- Over the years, ICICGI has continued to stay focused on profitable growth through disciplined underwriting and sustainable value creation, while delivering excellence in customer service. Since its de-tariffication in 2008, the general insurance industry delivered a 14-year GDPI CAGR of 15.5%, whereas the company delivered a 12.9% GDPI CAGR during the same period. The company has been staying true to its philosophy of delivering profitable growth over the long-term period, while the general insurance industry's PAT CAGR stood at 2.4% (13-year from FY2008-FY2021). ICICIGI delivered a PAT CAGR of 22.7% during same period. Headcount productivity stood strong at a 14% CAGR (FY2008-FY2022).

Exhibit 48: ICICI Lombard delivered a 12.9% CAGR over 14 years



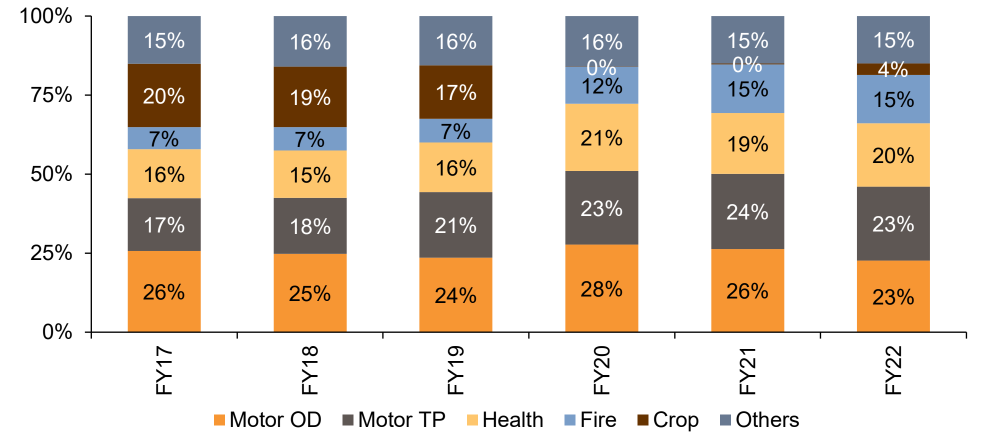
Source: Company, Emkay Research

- The company has strived its focus on maintaining profitability, delivering consistent RoE of 18-22% for the past five years except for FY22 where RoE stood at 15.4% majorly on account of Covid-19 claims. The company is cognizant of the gap in non-life insurance penetration in India, which is at a low 0.96% of GDP compared to the global average of 4.1%. With an enormous market opportunity in place, ICICIGI continues to focus on profitable segments with customer-centricity and robust technological infrastructure at its core.
- The company offers its customers a comprehensive and well-diversified range of products, including motor insurance, health insurance, personal accident insurance, crop insurance, fire insurance, marine insurance, engineering and liability insurance, and risk management solutions through multiple distribution channels, with a constant focus on value

enhancement. The key distribution channels of the company include direct sales, individual agents, bank partners, other corporate agents, brokers, and online – through which the company services its individual corporate and government customers.

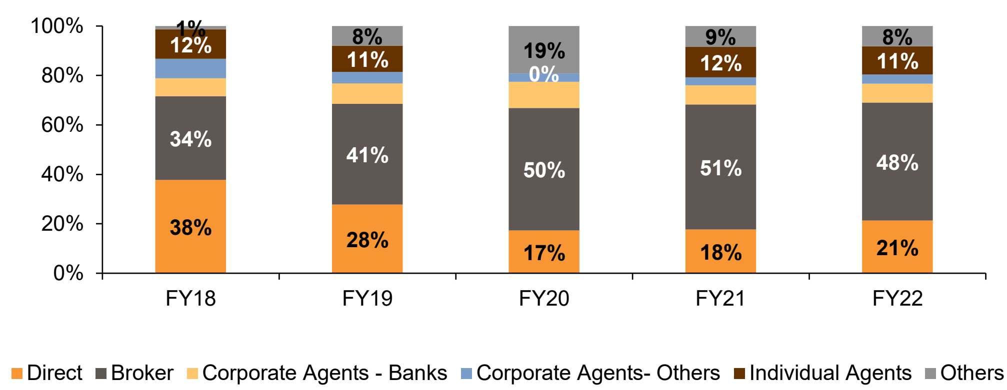
- ICICIGI has a comprehensive and diverse product portfolio with 88,539 individual agents, 908 virtual offices, and an expanding distribution channel to increase penetration in Tier-3 and Tier-4 cities.
- The company aims to improve claims servicing and policy issuing process through artificial intelligence and machine learning-driven solutions. ICICIGI is recognized as the first insurer to move all its core applications to the cloud, which has led to improved agility, reliability, and innovation. In FY22, 97.3% of policies issued were issued electronically. Moreover, on the claims servicing end, 2.3 million claims were honored with 84.5% motor OD claims through the Intraspect app.
- The merger of the company with Bharti Axa General Insurance Limited was completed in FY2022. The merger led to multiplication of strengths with increased annual premiums and market share. The successful integration led to optimization of organisation structure, rationalization of offices, efficiencies in claim-settlement practices, and technology applications. The merger is expected to result in annualised synergy of Rs. 2 bn, of which Rs0.70bn has been realized in FY2022.
- ICICIGI issued a total of 29.3 million policies across 37 states and union territories with 283 branches and a robust distribution network supported by 90,482 insurance agents and intermediaries including POS.

Exhibit 49: Diversified Product Mix



Source: Company, Emkay Research

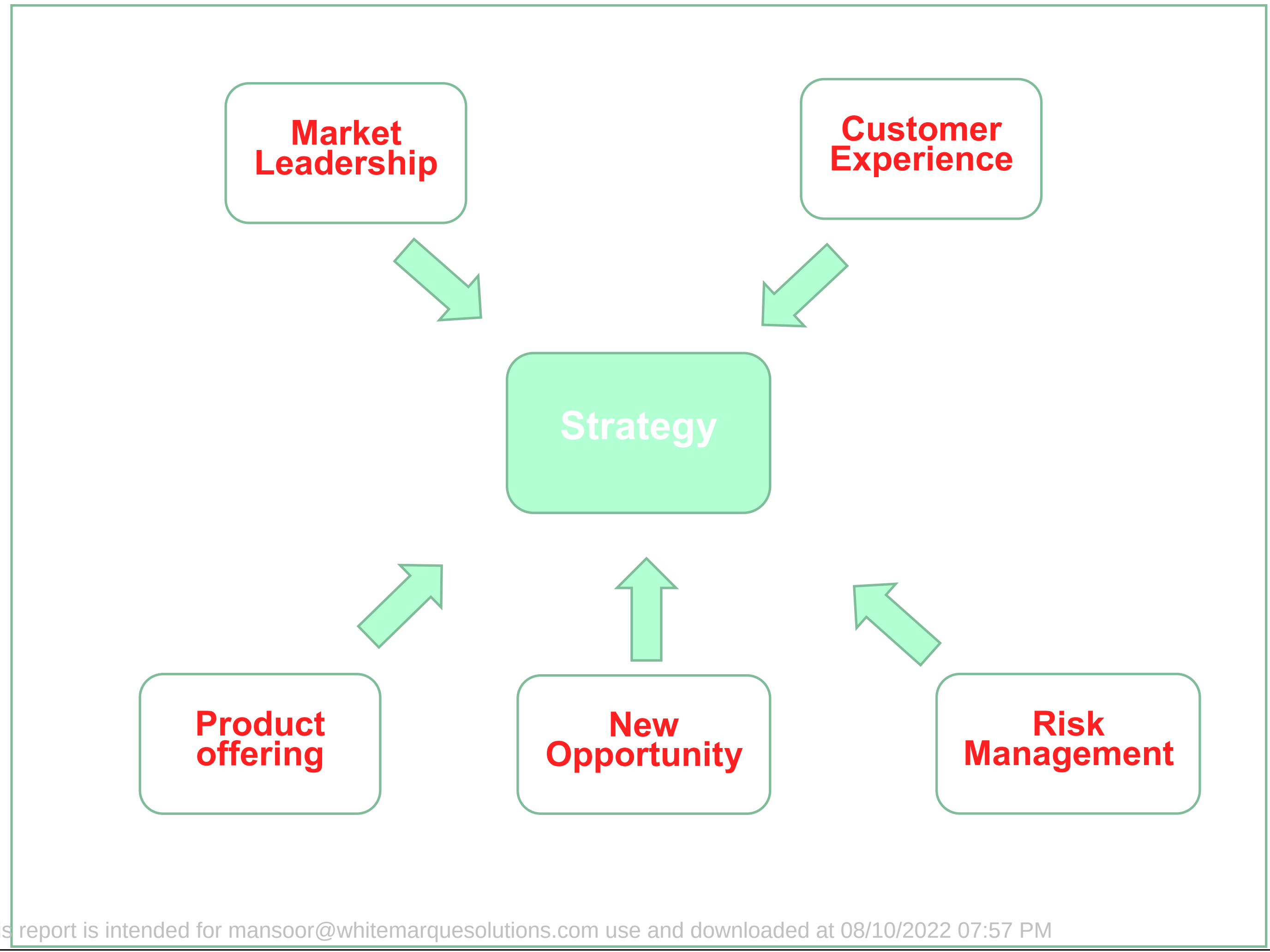
Exhibit 50: Expanding Distribution Network



Source: Company, Emkay Research

Strategy:

- **Leveraging and enhancing market leadership**: ICICIGI continues to stay focused on consolidating its market leadership by enhancing its product offering through diversification in the product mix and through various investments in the distribution channels with primary focus to accelerate growth in the health segment.
- **Providing rich customer experience**: The digital transformation of the company and its adaptation to the tech-first approach have led the company to deliver excellent results across the general insurance value chain. The company remains focused to leverage new-age technologies such as AI and ML throughout the life cycle of the customer with an aim to improve the delivery speed for its D2C business. To enhance customer experience, the company has promoted the use of platforms and apps such as the ILTakeCare App with a dual objective of wellness and insurance.
- **Augmentation in product offering:** Expanding its distribution network to increase penetration, the company plans to add new products and offerings to diversify its product mix. With its intention to foray into the health segment, the company has on-boarded 750 retail health agency managers. The company also undertook initiatives to further strengthen bancassurance and the key relationship group channel.
- **Capturing new market opportunities and reaching the undeserved:** As a market leader, the company is constantly pushing its efforts to increase market share and improve the insurance landscape throughout the country. After the integration with Bharti Axa and with the help of its distribution reach, ICICIGI plans to identify new market opportunities to reach the undeserved across small towns, rural towns, and Tier 3 and Tier 4 cities. The company's first tech approach and product innovations are aimed at improving the affordability and accessibility of insurance.
- **Robust Risk Management:** The organisation's best practices are aimed at ensuring profitable growth using risk selection and data analytics and maintaining robust reserves and following a prudent investment management strategy.



ESG:

ICICIGI's ESG approach is underpinned by strong focus on fulfilling promises responsibly and sustainably so as to benefit the society, its employees, shareholders, communities, and all other stakeholders.

- **Environmental:**
  - ICICIGI takes into account ESG factors in core operations and continually adopts sustainable practices to tackle environmental challenges and aims to progress towards a low-carbon economy.
  - Through digitalization, efficient use of resources, higher adaptation of renewal sources of energy, and offsetting mechanisms, the company aims to minimize the environmental impact of its operations.
  - ICICIGI has set forth mechanisms to facilitate its corporate customers to reduce the impact caused by them on the environment.
  - The company's environmental initiatives include influencing positive environmental practices among its stakeholders.
  - Given the public nature, scale, and social impact of its operations, the company is in the process of moving beyond the narrow focus of mitigating environmental risk and including it as a core business strategy that stimulates innovation and supports business transformation to reduce greenhouse gas emissions from the company's operations.

- **Socially:**
  - ICICIGI's social initiatives include formulating new methods of working, centered around being collaborative, innovative, agile, and flexible. These methods are designed to address significant challenges that the company would face, including climate change, digital disruption, global shortages, supply chain issues, and changing priorities of customers.
  - The company looks to empower the workforce and increase productivity via technology change, focusing on capabilities people and technology can offer, rather than just the jobs employees perform.
  - The company has devised various plans to focus on increasing productivity levels by constantly fostering a strong culture of inclusiveness, diversity, and equitability by co-creating a flexible and agile workplace. As part of the action plan, the company has a target to increase gender representation in the next three years.
  - The company continually strives to provide customers with best products and services and pioneering technologies while prioritizing their long-term interests. These sustained efforts have resulted in deep customer relationships, satisfaction and loyalty, and have improved outcomes for the organisation.

- **Governance:**
  - With adherence to high governance standards, ICICIGI remains committed to effective discharge of its duties and responsibilities. The company's robust governance structure with primary focus on integrity, ethics, and transparency ensures conduct of business with complete responsibility, while effectively managing social and environmental impacts.
  - ICICIGI's corporate governance structure harmonizes stakeholders' interests and expectations, committed to follow sound corporate governance practices and upholding the highest business standards in conducting business and building in trust with stakeholders based on good corporate governance, integrity, equity, transparency, fairness, sound disclosure practices, accountability, and commitment to values.
  - The company has an optimum mix of Executive and Non-executive Directors to maintain professionalism, knowledge, skill sets, integrity, expertise, independence, and effective decision-making.

Key Risks

Changes in regulatory environment:

The motor TP business constitutes ~23% of the product mix. The motor TP business is regulated by the government; hence, any unfavorable price hike on motor TP rates, as suggested by the government, would impact the company's business. Any regulation on the claims processing period would typically reduce investment leverage and, in turn, the company may report a decline in investment income. Moreover, any regulation for the multi-line private insurers to underwrite the government's businesses could significantly impact the company's profitability, as witnessed by underwriting done by PSUs.

Slowdown in the auto sector's sales:

With the start of FY2023, auto sales have shown some recovery especially in the demand for PV and CV after slowdown for a couple of years. Demand for motor OD and TP is also expected to increase with demand for PV and CV picking up. However, with chip shortage in the auto industry, the sale of motor insurance products could see a near-term headwind. Further, rise in inflation rates could impact the purchasing power of the population, leading to slowdown in auto sales and eventually lead to a decline in motor OD/TP sales.

Competition leading to unsustainable prices:

The entry of new-age general insurers, namely Acko General, Do Digit, and Navi, among others, has led to a price war among private multi-line players, especially in the motor OD/TP and the health segment. To sustain the price war, the company is forced to sell motor and health products at attractive discounts coupled with increased advertising and sale promotion spends. As a result, the combined ratio would increase to above 100% levels and, hence, dampen profitability.

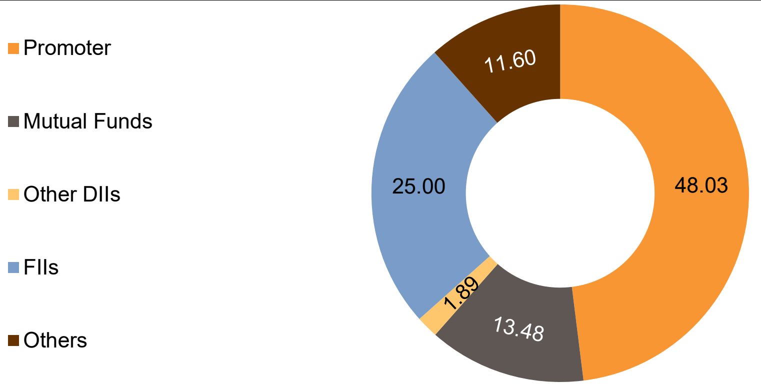
A fall in interest rates could impact investment yield over a long term:

AUM of the company largely comprises non-equity assets. Investment income plays a major role in generating the company's operating profit. Hence, a decline in interest rate would dampen investment yields generated on the non-equity fund, leading to major drag on the company's profitability. However, on a near-term basis, the outlook for interest rates and investment income looks fairly positive.

Uptick in claims ratios:

The motor OD/TP segment witnessed an uptick in combined ratios on account of normalization and relaxation of lockdowns. With increased vehicular movements, the claim ratio on motor OD/TP side is expected to increase. On the health side, with the pandemic almost towards an end, an increase in non-Covid related procedures could lead to an uptick in claims ratio.

Exhibit 51: Shareholding Pattern



Source: Company

Exhibit 52: Board of Directors

Name of the Director	Category	Educational Qualification	Field of specialisation/existing skills/expertise/competence
Lalita D. Gupte	Chairperson, Non-executive Independent Director	B.A. (Eco Hons), Master of Management Studies (MMS)	Banking, Finance, Economics, Corporate Strategic Planning and Risk Management
Ved Prakash Chaturvedi	Non-executive, Independent Director	B. E. (Electronics & Power), PGDM-IIM Bangalore	Strategy, Finance and Investment
Uday Chitale	Non-executive, Independent Director	B. Com, Fellow Chartered Accountant	Finance, Accounting & Auditing, Alternate Dispute Resolution (ADR) Business Advisor
Suresh Kumar	Non-executive, Independent Director	B.Com (Hons.), Post-Graduation-Investment Management Programme, Stanford University and London School of Business, Advanced Management Columbia Business School, Fellow of the Indian Institute of Bankers (FIIB)	Banking, Finance and Investment
Ashvin Parekh	Non-executive, Independent Director	B.Com (Hons.), Chartered Accountant, ICWA, Company Secretary, Exec. MBAINSEAD	Business Strategy, Corporate Planning, Technology and Finance
Murali Sivaraman	Non-executive, Independent Director	B.Com, Chartered Accountant, Cost and Works Accountant, PGDM- IIM Ahmedabad	Finance, Management, Strategy and Marketing
Vishakha Mulye	Non-executive, Non-independent Director	B.Com, Chartered Accountant	Banking, Investments & Finance
Sandeep Batra	Non-executive, Non-independent Director	B.Com, Chartered Accountant, Company Secretary	Finance, Banking, Insurance, Law & Governance and Risk Management
Bhargav Dasgupta	Managing Director & CEO	B.E. (Mechanical), PGDBA-IIM Bangalore	Banking, Corporate Planning, Strategy, Consumer Insights, and Insurance
Alok Kumar Agarwal	Executive Director – Wholesale	B.E. (Chemical), PGDM- IIM Calcutta	Banking, Insurance, Corporate Planning, Strategy, Consumer Insights and Marketing
Sanjeev Mantri	Executive Director – Retail	Chartered Accountant, Cost and Works Accountant	Banking, Finance, Corporate Planning, Strategy, Insurance, Consumer Insights and Marketing

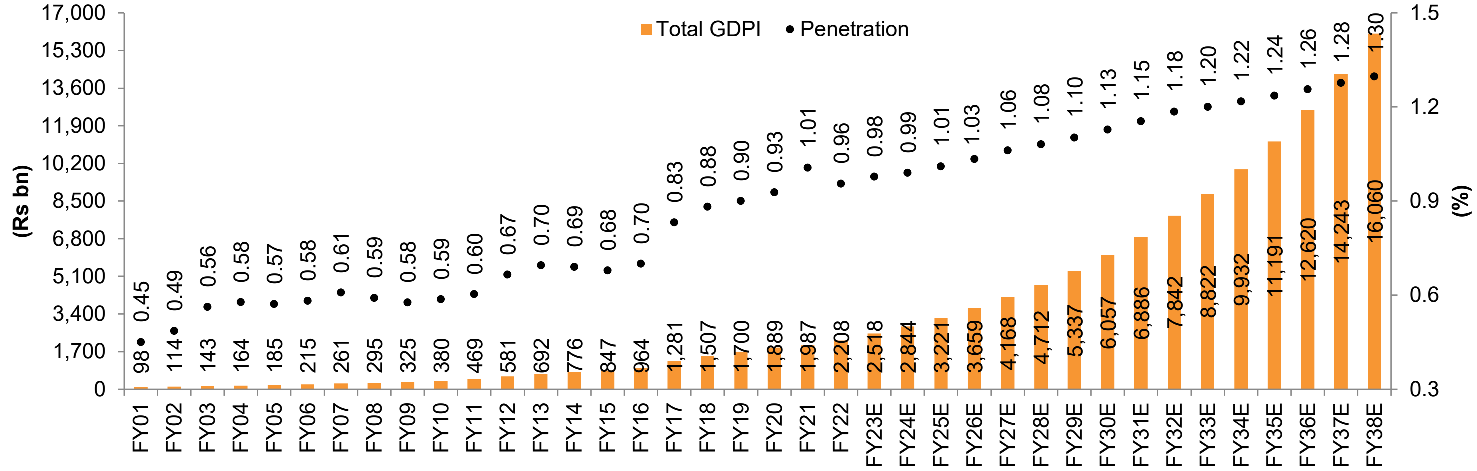
Source: Company, Emkay Research

India Non-Life Insurance Industry Overview

Growth

The size of the non-life insurance industry amounts to Rs2.2 trillion as of March 2022 (Rs1.98trn as of March 2021) on the basis of Gross Direct Premium Income and has been growing at a 14% CAGR in the past 10 years. Despite strong growth, non-life insurance penetration in India is low, with premium as a percentage of GDP at mere ~1% compared to world average of ~4%. The median age of Indian population at 28 years compared to Japan and China having median age of 48 and 38 years, respectively, indicates a huge potential demand with strong growth outlook for the non-life insurance industry. We expect GDPI to grow at a rate of 13% to 15% over the coming years on an overall industry basis. With the situation normalizing to pre-Covid periods and with the opening of economies, insurance companies anticipate healthy growth in premiums on account of stronger growth in motor vehicle sales and awareness for health insurance schemes.

Exhibit 53: Healthy growth to drive GDPI to Rs16,063bn by FY38



Source: Company, Emkay Research

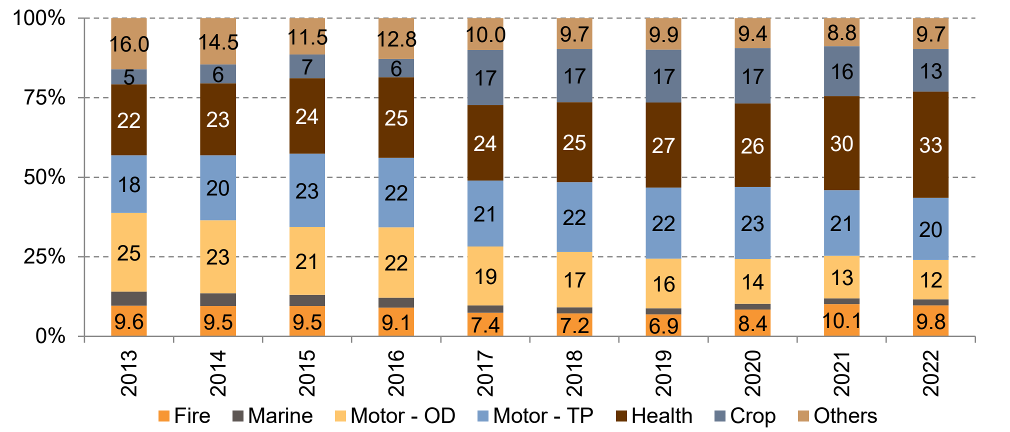
Products

Non-life insurance covers a wide range of categories viz. motor, health, marine, fire, engineering, crop, aviation, liability, personal accident, and others. The health insurance segment is the largest among these with a GDPI share of 33%, followed by the motor insurance segment with 32% contribution in FY22.

The launch of the crop scheme introduced by the government (PMFBY) in FY17 led to a shift of business from motor OD to crop. With auto sales starting to decline from FY17 levels and with the introduction of the new crop scheme, the share of motor OD has started to decline. However, with few states withdrawing the said crop scheme, the share of crop moderated to 13% by FY22.

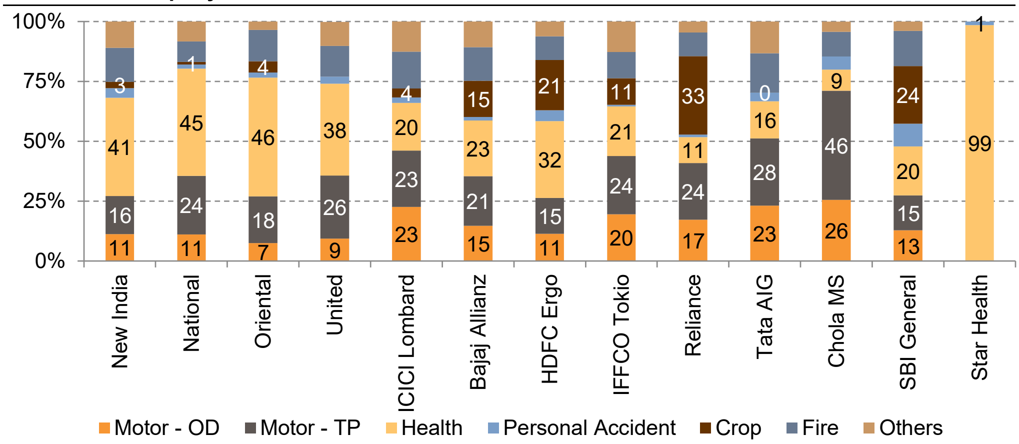
A gradual shift in the share of motor insurance to health is evidenced by increasing awareness for health insurance on account of Covid-19 pandemic along with declining sales in the motor vehicle segment.

Exhibit 54: GDPI Mix – Health segment is the largest contributor



Source: Company, Emkay Research

Exhibit 55: Company-wise GDPI mix for FY22

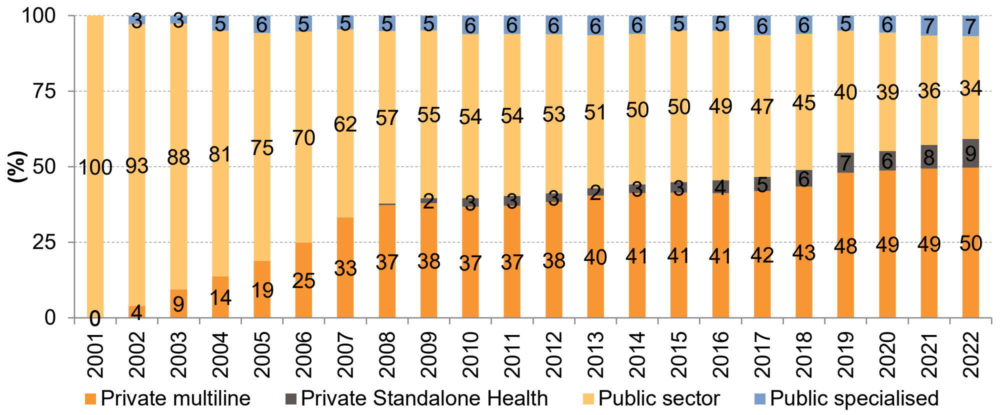


Source: Company, Emkay Research

Structure of the Industry :

The general insurance industry comprises Public Sector Undertakings, Private Multiline Players, Private Standalone Health Insurers, and Specialised Public Players. The market share of PSUs has been declining over the years, especially since 2007 with private multiline players consistently increasing their market share – ICICIGI being the market leader among private multiline players. The market share of PSUs in FY22 stands at 34% vs. 62% in FY07 in terms of GDPI. The GDPI contributed by PSUs has almost halved in the past 15 years, evidenced by declining market share since 2007. With their entry in 2007, the Standalone Health Insurers (SAHI) players have been consistently increasing their market share capturing a total of 9% in FY22 on the basis of GDPI, with Star Health on the lead.

Exhibit 56: Expanding Market Share of Private Multiline and SAHI players



Source: Emkay Research, Company

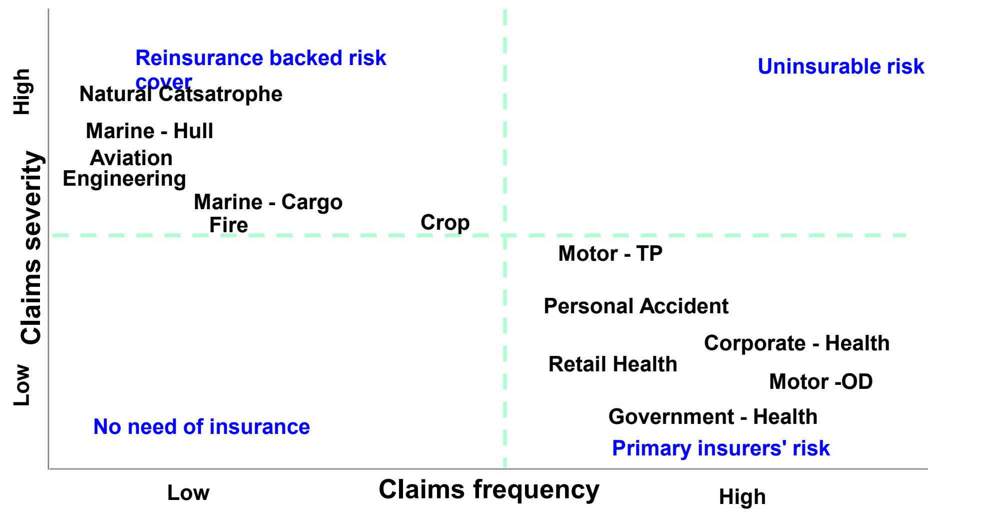
- **Business Model :**

  The non-life insurance industry in India operates on a 'cash before cover model' i.e., the premiums are collected in advance, which allow insurers to earn returns on the premiums invested; and in the case of indemnity, claims are paid out.

  General insurers operate on the business model of underwriting businesses based on the Severity of the Claim outcome and the frequency of the claim arising out of the risk underwritten pool. Based on the severity and frequency of the claims, the company decides whether to write the business in its own books or to cede the business through reinsurance.

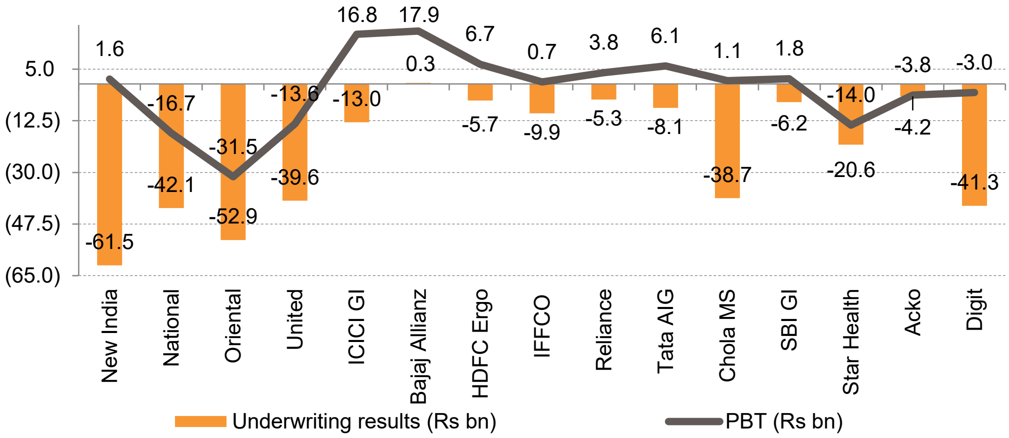
  The general insurance business in India has two sources of profitability: Underwriting results (premium income netted against claims cost, commission cost, and opex); and investment income from float money in the business and shareholder's capital. Due to the nature of the business, in Motor Third-Party (TP) Liability insurance, where the timeline from premium received to claim payment is very long (on an average 4-5 years), the policyholder's float money is significantly higher; hence, investment income is the key part of the profit pool. While in business lines such as motor OD and health, the premium received to claims settlement has a shorter time window. Hence, underwriting profit is the key to the profitability of these businesses. On an overall basis, with the combined ratio of most insurers hovering at more than 100% levels, the focus shifts on generating enough investment income to cover the underwriting losses and report profitability.

Exhibit 57: General Insurance - Underwriting Thesis



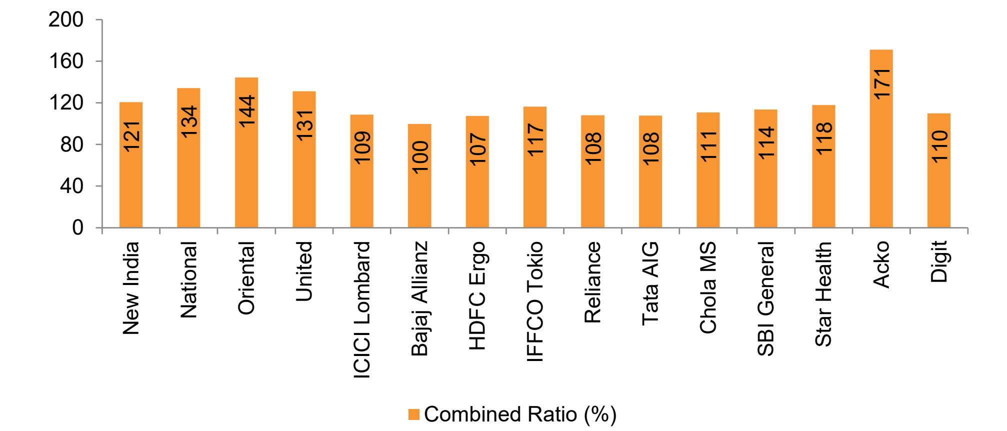
Source: Company, Emkay Research

Exhibit 58: Underwriting results and PBT of Large General Insurers: ICICIGI and Bajaj Allianz among the best performers



Source: Company, Emkay Research

Exhibit 59: Combined Ratio of Large General Insurers (FY22): New-Age Tech Company- Acko reports the highest combined ratio across the sector



Source: Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance

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Sector

Insurance and Non-lending Financials

Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Insurance	**1.59**	**1.51**	**-5%**	**-8**	**100.00**	
HDFC Life Insurance	0.51	0.50	-1%	-1	31.76	0
ICICI Pru Life	0.22	0.12	-46%	-10	7.42	0
LIC	0.11	0.08	-24%	-3	5.18	0
Max Financial	0.17	0.19	7%	1	11.70	0
SBI Life	0.54	0.62	14%	8	38.97	0
Star Health	0.03	0.08	144%	5	4.86	0
Cash	**0.00**	**0.08**	**NA**	**8**	**4.96**	**0**

Source: Emkay Research

High Conviction/Strong Over Weight   High Conviction/Strong Under Weight

Sector portfolio NAV

	Base 1-Apr-19	6-Aug-21	4-Feb-22	6-May-22	6-Jul-22	Latest 5-Aug-22
EAP - BFSI-Insurance	100.0	182.2	168.3	151.3	157.9	172.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	183.3	168.7	151.7	156.3	165.9

**Performance measurement base date 1st April 2019*

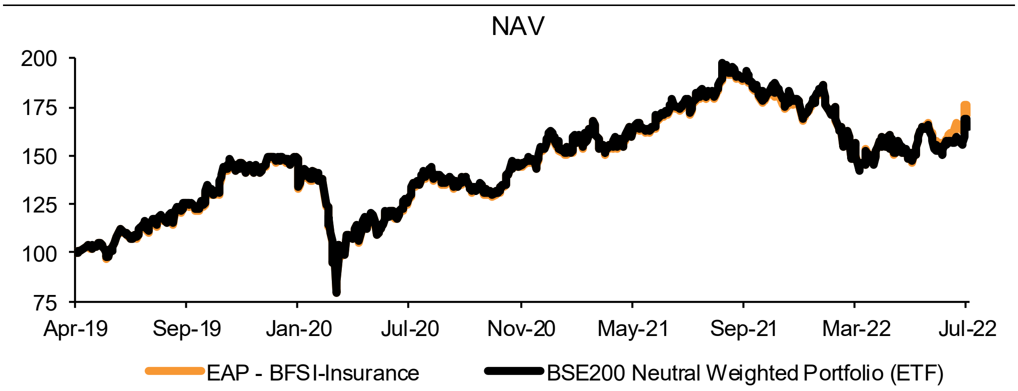
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	9.3%	14.0%	2.5%	-5.3%
BSE200 Neutral Weighted Portfolio (ETF)	6.2%	9.4%	-1.6%	-9.4%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): Nifty

Please see our model portfolio (Emkay Alpha Portfolio): SMID

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Aug 2022 01:40:45 (SGT)
Dissemination Date: 10 Aug 2022 01:41:45 (SGT)

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