

Estimate change



TP change



Rating change



Bloomberg	ICICIGI IN
Equity Shares (m)	491
M.Cap.(INRb)/(USDb)	564.6 / 6.9
52-Week Range (INR)	1547 / 1071
1, 6, 12 Rel. Per (%)	-6/-19/-20
12M Avg Val (INR M)	953

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
NEP	159.8	188.5	222.8
U/W Profit	-9.7	-7.6	-6.5
PBT	21.7	27.9	34.1
PAT	17.6	20.9	25.6
EPS (INR/share)	35.8	42.6	52.1
EPS Growth (%)	38.3	19.1	22.2
BVPS (INR/share)	210.4	239.1	274.9

Ratios (%)

Claims	72.2	70.8	70.2
Commission	3.4	3.9	4.6
Expense	29.1	27.9	26.8
Combined	104.7	102.7	101.5
RoE	18.1	19.0	20.3

Valuations

P/E (x)	32.1	27.0	22.1
P/BV (x)	5.5	4.8	4.2

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	48.0	48.0	51.9
DII	15.4	13.7	11.7
FII	25.0	26.9	29.8
Others	11.6	11.3	6.7

FII Includes depository receipts

CMP: INR1,150

TP: INR1450 (+26%)

Buy

Weak underwriting offset by a strong investment performance

- The underwriting loss for ICICIGI stood at INR1.5b in 2Q as against INR1.9b in 1QFY23, as OPEX grew at 9% as compared to a 11% growth in NEP.
- Claims ratio grew to 72.8% in 2Q v/s 72.1% in 1QFY23 as the benefits of a lower loss ratio in Motor TP and Fire were offset by higher claims in Motor OD and the Health segment. Claims ratio grew 300bp YoY.
- Investment income, at INR8.7b, was higher than our expectation of INR7.4b owing to better yields.
- The combined ratio stood at 105.1% v/s 105.3%/104.1% in 2QFY22/1QFY23. The solvency ratio stood at 2.5x v/s 2.6x in 1QFY23.
- Adjusted for a tax reversal of INR1.3b, PAT stood at INR4.6b (est. INR3.8b). Reported PAT stood at INR5.9b.

Healthy premium growth of 18%, strong growth in investment income

- Total GWP grew 18% YoY, but fell 4% QoQ to INR53b.
- However, NEP grew 18% YoY and 11% QoQ to INR38.4b, with NEP-to-GWP ratio at 72% v/s 63% in 1QFY23.
- NEP grew 18% YoY and 11% QoQ to INR38.4b, but was 3% lower than our estimate. NEP for the Health/Motor/Crop/Fire business grew 32%/6%/4x/8% YoY.
- Total investment income (shareholders + policyholders) grew 27% QoQ and 19% YoY to INR8.7b (est. INR7.4b). The jump was primarily driven by higher interest accrual income on the back of rising interest rates in the economy.

Loss ratio rises QoQ, lower OPEX ratio restricts rise in the combined ratio

- ICICIGI reported a loss ratio of 72.8% in 2Q v/s 72.1% in 1QFY23. The benefit of a lower loss ratio in Motor TP/Fire (down 730bp/17.3%) was offset by higher claims in Motor OD/Health (up 70bp/8.1%). Claims ratio increased by 300bp YoY.
- Commission ratios increased by 130bp QoQ to 3.5% owing to a higher share of the Retail business, where commission ratios are higher.
- Expense ratio fell to 28.8% from 29.9% QoQ, led by a flattish employee cost and a 5% QoQ fall in sales promotion expenses.

Highlights from the management commentary

- Loss ratio in the Motor OD is higher than Motor TP due to pricing pressures. However, the management expects pricing to improve over the next few quarters.
- ICICIBC has also restarted to distribute indemnity-based products. The profitability of this product is lesser than the erstwhile credit linked benefit based product.
- Around 70-75% of investment income is accrual and the balance is capital gains. A higher interest environment is favorable. Going forward, carrying yield should increase and capital gains will reduce.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Marginally raise our FY23/FY24 earnings estimate; maintain our Buy rating

We expect strong premium growth for ICICIGI, led by strength in new Auto sales, investments in the Health distribution channel, and expected results from past investments in technology. Earnings growth will accrue from synergies from its merger with BAXA and improvement in the loss ratios for the Health segment. We raise our FY23/FY24 earnings estimate by 11%/4%, led by higher investment income, offset by a higher underwriting loss. During FY22-25, we see the company delivering a premium/PAT CAGR of 18%/26% and a RoE of 19% in FY24. **We maintain our Buy rating with a one-year TP of INR1,450 (35x FY24E P/E).**

Quarterly Performance**(INR m)**

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross premium	42,671	45,085	47,861	50,007	55,298	53,026	53,604	55,942	1,85,624	2,17,870
Net written premium	28,083	30,528	36,551	39,734	36,233	37,059	42,883	50,020	1,34,896	1,66,196
Net earned premium	31,521	32,503	33,119	33,178	34,682	38,366	39,881	46,888	1,30,321	1,59,817
Investment Income	6,791	5,579	5,423	13,186	5,101	6,625	6,475	6,879	30,978	25,107
Total Income	38,312	38,082	38,541	46,363	39,783	44,990	46,356	53,767	1,61,299	1,84,924
Change YoY (%)	40.4	32.1	26.0	32.9	3.8	18.1	20.3	16.0	32.6	14.6
Incurred claims	28,192	22,699	23,035	23,893	24,999	27,933	28,715	33,743	97,819	1,15,389
Net commission	1,276	1,435	2,027	1,601	782	1,282	1,630	1,988	6,339	5,682
Opex	8,303	9,375	10,749	10,774	10,834	10,673	12,350	14,556	39,201	48,413
Total Operating Expenses	37,771	33,510	35,811	36,268	36,615	39,888	42,695	50,287	1,43,359	1,69,484
Change YoY (%)	65.2	35.9	30.4	34.0	-3.1	19.0	19.2	38.7	40.5	18.2
Underwriting profit	-6,249	-1,007	-2,692	-3,090	-1,933	-1,523	-2,813	-3,399	-13,038	-9,667
Operating profit	542	4,571	2,731	10,096	3,168	5,102	3,662	3,481	17,940	15,440
Shareholder's P/L										
Transfer from Policyholder's	542	4,571	2,731	10,096	3,168	5,102	3,662	3,481	17,940	15,440
Investment income	2,021	1,741	1,650	1,650	1,711	2,055	1,986	2,376	7,061	8,042
Total Income	2,562	6,312	4,381	11,745	4,879	7,157	5,648	5,856	25,001	23,482
Provisions other than taxation	-396	52	-1	-107	30	890	70	70	-475	-375
Other expenses	376	322	173	7,748	198	171	170	187	8,641	2,160
Total Expenses	-20	374	171	7,641	228	1,060	240	257	8,166	1,785
PBT	2,583	5,939	4,209	4,104	4,651	6,097	5,408	5,599	16,835	21,697
Change YoY (%)	-51.4	7.1	0.6	-8.8	80.1	2.7	28.5	36.4	-13.8	28.9
Tax Provisions	640	1,472	1,034	979	1,161	1,471	1,352	1,418	4,125	5,402
Adj Net Profit	1,943	4,467	3,175	3,125	3,490	4,625	4,056	4,181	12,710	16,295
Change YoY (%)	-51.2	7.4	1.3	-9.6	79.6	3.6	27.7	33.8	-13.7	28.2
Rep Net Profit	1,943	4,467	3,175	3,125	3,490	5,905	4,056	4,181	12,710	17,575
Key Parameters (%)										
Claims ratio	89.4	69.8	69.6	72.0	72.1	72.8	72.0	72.0	75.1	72.2
Commission ratio	4.5	4.7	5.5	4.0	2.2	3.5	3.8	4.0	4.7	3.4
Expense ratio	29.6	30.7	29.4	27.1	29.9	28.8	28.8	29.1	29.1	29.1
Combined ratio	123.5	105.3	104.5	103.2	104.1	105.1	104.6	105.0	108.8	104.7
Solvency	2.6	2.5	2.5	2.5	2.6	2.5	0.0	0.0	2.8	2.7



Highlights from the management commentary

Industry

- High frequency indicators reflect strong economic activity in India. However, global geopolitical developments pose a risk.
- Health Insurance remains the growth driver for the industry.
- Sales of two-wheelers remains slow compared to other segments.
- Several reforms have been announced recently by IRDAI to improve Insurance penetration in India.

Motor segment

- In the Motor OD segment, growth remains tepid as competitive intensity remains high. At this point, some players have started to rationalize their aggression, while some are still fairly aggressive.
- Loss ratio in the Motor OD is higher than Motor TP due to pricing pressures. However, the management expects pricing to improve over the next few quarters.
- It is optimistic about consolidating leadership, led by innovation and distribution.
- Implementation of the Vehicles Act: Some benefits of a stricter implementation of the act have started accruing but it is too early to take a call whether there is a nationwide impact.
- The share of CVs in overall Motor premium grew to 23.4% in 1HFY23 v/s 17% in FY22 as underwriting dynamics are much better now as compared to the past. The share of CVs will continue to be in the mid-20s for the company.
- The share of private cars in 2QFY22 was 57% v/s 51% in 2QFY23 in spite of the early onset of the festive season in CY22.
- Sandbox products: Data driven products have a negligible share in the mix at present, but enable better pricing.

Health segment

- Health Insurance remains the growth driver for the industry and ICICIGI.
- Past investments in augmenting its Retail Health distribution have begun to bear fruit.
- The bank business has seen a strong growth, with ICICIBC growing 33.9% and non-ICICIBC growing 37.6%.
- ICICIBC has also restarted to distribute indemnity-based products. Though the product construct is different, profitability will not be the same as compared to a product two years back.
- The pricing scenario in Group Insurance has considerably improved, with better price discipline across all players.
- The loss ratio in the Corporate book stood at 99.1%, with the same for Retail indemnity at 64.4%. The impact of monsoons and reserve releases in 1QFY23 led to a QoQ increase in claim ratios. Some price increases are coming through in the Group book.
- About 75-80% customers renew their Health Insurance with the company.
- The management is confident it will continue to outperform in this segment.

Crop segment

- The share of Crop Insurance in the mix is close to 5%. In 2QFY23, it was relatively higher at 8% due to the book inherited from BAXA, which has a three-year commitment.
- Incremental Crop Insurance underwritten remains under the maximum loss arrangement (80:110 products).

Distribution and other key areas

- ICICIGI's agent count has crossed 0.1m for the first in 2QFY23.
- Downloads of the IL TakeCare app continues to gain momentum, with incremental downloads of more than 1m in 2QFY23. The app generated a revenue of INR274m in 1HFY23, with a generation of INR100m in Sep'22.
- Initially, this app was rolled out for an increase in customer engagement. Since FY33, the management has started to sell policies through this app. Also, user interaction has increased by 4x from FY22 levels.

Financial

- PAT includes reversal of a tax provision of INR1.3b.
- Solvency declined given the higher solvency requirement for the Retail business and the impact of the payment of dividend in 2QFY23.
- Around 70-75% of investment income is accrual and the balance is capital gains. A higher interest environment is favorable. Going forward, carrying yield should increase and capital gains will reduce. Duration of the book has increased to 4.8 years from the last two quarters.

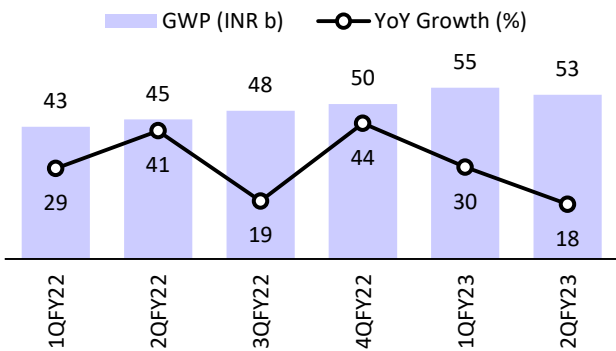
Exhibit 1: Upgrading our FY23/FY24 EPS estimate by ~11%/4% to factor in higher investment income and tax reversal

INR b	Old estimate		New estimate		Change (%)	
	FY23	FY24	FY23	FY24	FY23E	FY24E
Total GDPI	215.2	257.3	217.9	255.9	1.2	-0.6
NEP	157.6	190.3	159.8	188.5	1.4	-0.9
Net claims	111.9	133.9	115.4	133.5	3.1	-0.3
Net commission	5.7	8.1	5.7	7.7	-0.2	-4.8
Expenses	47.7	55.3	48.4	54.9	1.6	-0.8
Investment income (PH)	22.5	26.8	25.1	28.5	11.4	6.5
U/W Profit	-7.7	-7.0	-9.7	-7.6	25.7	8.4
Operating profit	14.8	19.8	15.4	20.9	4.1	5.8
Investment income (SH)	8.0	9.1	8.0	9.1	0.0	0.3
Expenses (SH)	1.8	2.1	1.8	2.1	0.0	0.0
Tax	5.3	6.7	4.1	7.0	-21.8	4.4
PAT	15.8	20.0	17.6	20.9	11.1	4.4
Claim ratio	71.0	70.4	72.2	70.8	1.2	0.5
Commission ratio	3.5	4.1	3.4	3.9	-0.1	-0.2
Expense ratio	29.1	27.9	29.1	27.9	0.0	0.0
Combined ratio	103.6	102.4	104.7	102.7	1.1	0.3

Source: MOFSL, Company

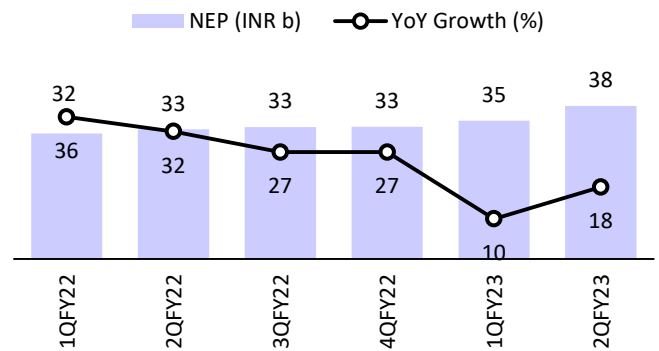
Key exhibits

Exhibit 1: Strong GWP growth (up 18% YoY) at INR53b



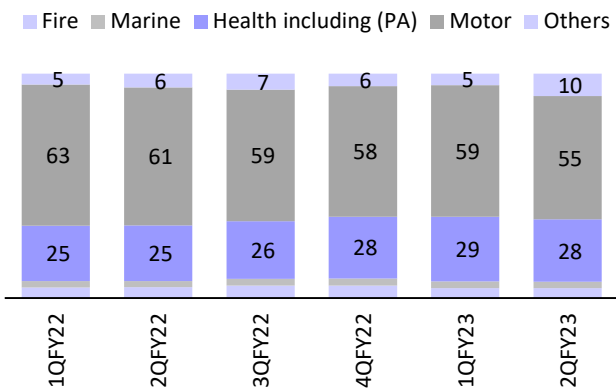
Source: MOFSL, Company

Exhibit 2: NEP growth recovers to 18%



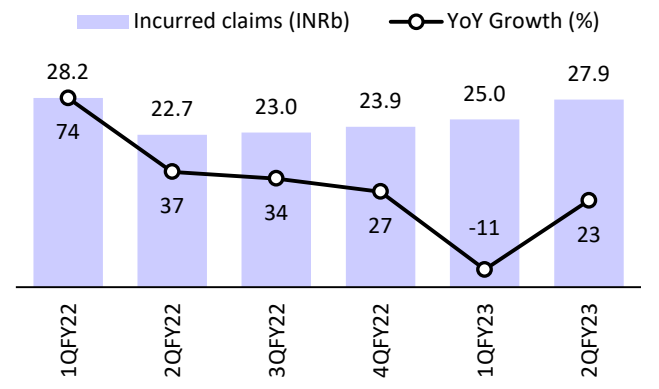
Source: MOFSL, Company

Exhibit 3: Higher share of the Crop business leads to lower share in other segments



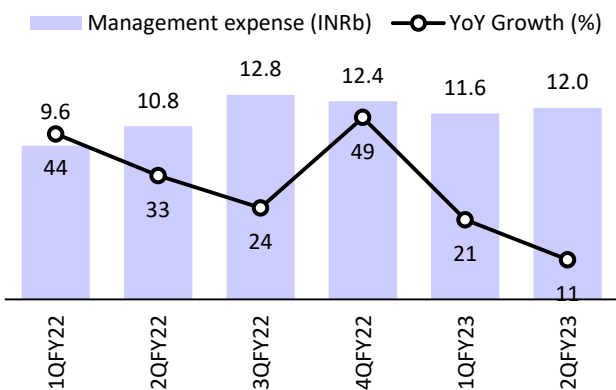
Source: MOFSL, Company

Exhibit 4: Incurred claims increase QoQ



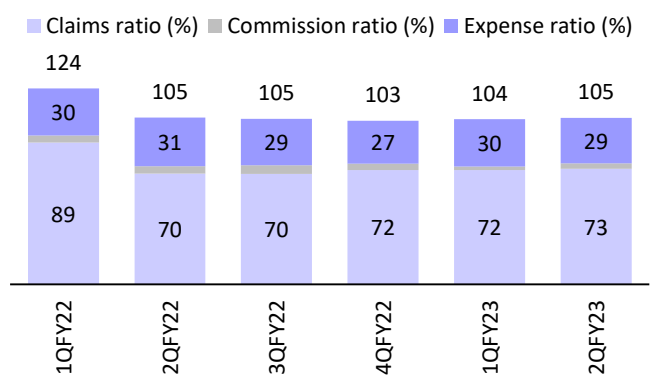
Source: MOFSL, Company

Exhibit 5: Decline in total OPEX on the back of a reduction in the sales promotion expense



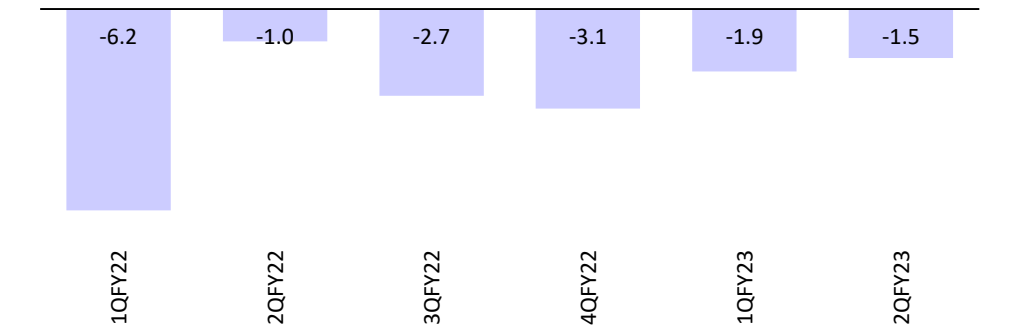
Source: MOFSL, Company

Exhibit 6: Combined ratio rises QoQ as the benefit of lower expense ratio is offset by the claims ratio



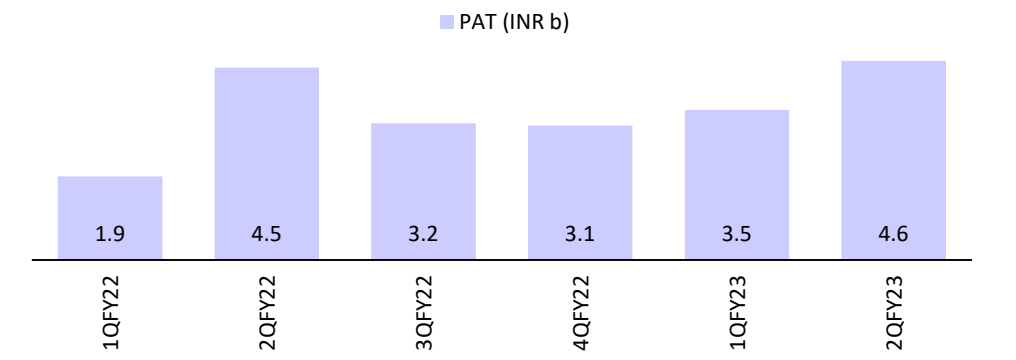
Source: MOFSL, Company

Exhibit 7: Trend in underwriting profit (INR b)



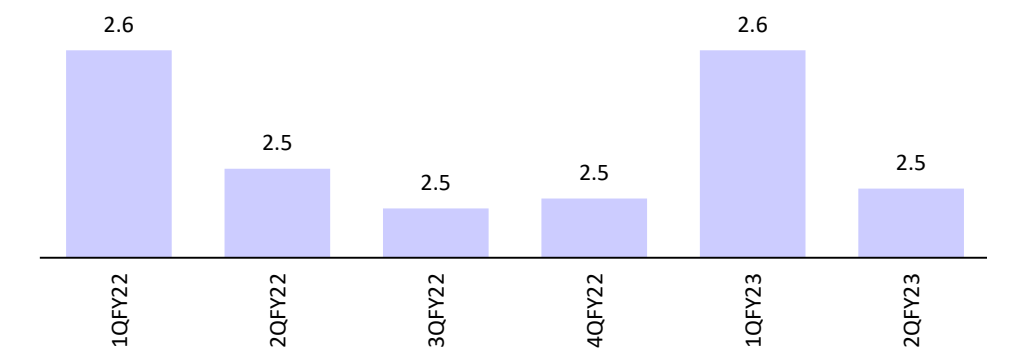
Source: MOFSL, Company

Exhibit 8: Trend in PAT (INR b)



Note: PAT for 2QFY23 is adjusted for tax reversal of INR1.3b, Source: MOFSL, Company

Exhibit 9: Solvency remains healthy



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
GDPI	1,23,568	1,44,882	1,33,128	1,40,031	1,85,624	2,17,870	2,55,894	3,01,154
Change (%)	15.2	17.2	-8.1	5.2	32.6	17.4	17.5	17.7
NWP	78,447	95,385	96,407	1,06,850	1,34,896	1,66,196	1,96,412	2,32,566
NEP	69,117	83,753	94,036	1,00,140	1,30,321	1,59,817	1,88,520	2,22,810
Change (%)	12.1	21.2	12.3	6.5	30.1	22.6	18.0	18.2
Net claims	53,147	63,081	68,515	68,708	97,819	1,15,389	1,33,540	1,56,473
Net commission	-2,839	2,229	3,639	6,009	6,339	5,682	7,742	10,586
Expenses	21,118	20,139	22,931	27,342	39,201	48,413	54,872	62,254
Underwriting Profit/(Loss)	-2,309	-1,696	-1,049	-1,919	-13,038	-9,667	-7,633	-6,503
Investment income (PH)	11,546	14,011	16,492	21,474	30,978	25,107	28,548	32,614
Operating profit	9,237	12,315	15,443	19,555	17,940	15,440	20,915	26,111
Investment income (SH)	4,140	4,743	4,800	5,170	7,061	8,042	9,134	10,523
Expenses	1,415	1,073	3,272	5,185	8,166	1,785	2,144	2,535
PBT	11,962	15,985	16,971	19,540	16,835	21,697	27,904	34,100
Tax	3,345	5,492	5,031	4,809	4,125	4,122	6,976	8,525
Tax rate (%)	28.0	34.4	29.6	24.6	24.5	19.0	25.0	25.0
PAT	8,618	10,493	11,940	14,731	12,710	17,575	20,928	25,575
Change (%)	30.8	21.8	13.8	23.4	-13.7	38.3	19.1	22.2

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	4,539	4,543	4,543	4,546	4,909	4,909	4,909	4,909
Reserves and Surplus	40,872	48,662	56,797	69,809	86,188	98,353	1,12,448	1,30,051
Net Worth	45,412	53,205	61,340	74,355	91,097	1,03,262	1,17,357	1,34,960
FV change – Shareholders	1,857	799	-948	1,630	831	872	916	962
FV change – Policyholders	5,481	2,585	-3,338	5,174	2,762	2,901	3,046	3,198
Borrowings	4,850	4,850	4,850	4,850	2,550	2,550	2,550	2,550
Claims Outstanding	1,59,160	1,64,256	1,80,074	1,82,845	2,49,752	2,61,291	3,08,030	3,62,795
Other liabilities	80,736	1,08,331	1,28,440	1,24,123	1,61,492	1,77,580	1,96,347	2,18,283
Total Liabilities	2,97,497	3,34,026	3,70,418	3,92,977	5,08,483	5,48,456	6,28,245	7,22,748
Investments (PH)	1,34,643	1,68,877	2,04,671	2,34,565	2,98,684	3,38,638	3,85,768	4,41,471
Investments (SH)	47,284	53,431	58,595	74,356	89,179	99,280	1,12,298	1,29,041
Net Fixed Assets	4,060	4,652	6,765	6,268	5,775	5,925	6,025	6,125
Def. Tax Assets	2,114	3,013	3,063	3,498	3,456	3,110	2,799	2,519
Current Assets	1,03,478	1,00,037	96,998	72,013	1,08,463	86,771	95,448	1,04,992
Cash and Bank	5,918	4,016	326	2,277	2,926	14,732	25,907	38,600
Total Assets	2,97,497	3,34,026	3,70,418	3,92,977	5,08,483	5,48,456	6,28,245	7,22,748

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
GWP growth	15.2	17.2	-8.1	5.2	32.6	17.4	17.5	17.7
NWP growth	19.0	21.6	1.1	10.8	26.2	23.2	18.2	18.4
NEP growth	12.1	21.2	12.3	6.5	30.1	22.6	18.0	18.2
Claim ratio	76.9	75.3	72.9	68.6	75.1	72.2	70.8	70.2
Commission ratio	-3.6	2.3	3.8	5.6	4.7	3.4	3.9	4.6
Expense ratio	26.9	21.1	23.8	25.6	29.1	29.1	27.9	26.8
Combined ratio	100.2	98.8	100.4	99.8	108.8	104.7	102.7	101.5

Profitability Ratios (%)

RoE	20.8	21.3	20.8	21.7	15.4	18.1	19.0	20.3
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Valuations	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
BVPS (INR)	92.5	108.4	125.0	151.5	185.6	210.4	239.1	274.9
Change (%)	21.9	17.2	15.3	21.2	22.5	13.4	13.6	15.0
Price-to-BV (x)	12.4	10.6	9.2	7.6	6.2	5.5	4.8	4.2
EPS (INR)	17.6	21.4	24.3	30.0	25.9	35.8	42.6	52.1
Change (%)	30.8	21.8	13.8	23.4	-13.7	38.3	19.1	22.2
Price-to-Earnings (x)	65.6	53.8	47.3	38.4	44.5	32.1	27.0	22.1

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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