

October 18, 2022

**RESULT REPORT Q2 FY23** | Sector: Insurance (General)

# ICICI Lombard General Insurance

## Loss ratio evolves somewhat negatively on sequential basis

### Result Highlights

- ✓ **Net premiums earned:** Net premiums earned grew by 10.6% QoQ, driven by Fire, Miscellaneous and Crop segments
- ✓ **Loss ratios:** Overall loss ratio has deteriorated by 70 bps QoQ to 72.8%, where Motor OD and Health, Travel, PA have evolved negatively on sequential basis
- ✓ **Expense control:** Expense ratio rose 10bps QoQ at 27.9% where opex fell -1.5% QoQ but commissions rose by 64% QoQ

### Our view – Loss ratio evolves somewhat negatively on sequential basis

While Motor OD loss ratio worsened somewhat, Motor TP loss ratio improved materially but management remained cautious with commentary: The Motor OD loss ratio rose 70 bps QoQ to 74.3%. The competitive intensity is high in the OD segment but the management remains optimistic about the pricing environment improving. The combined ratio of TP is better than that of OD since the competition in the Motor segment gets played out in the OD segment as TP prices are regulated. The loss ratio in TP for 1HFY23 is 70.1% compared with 74% in FY22 but it is better to look at the full year number to help arrive at a sustainable number. While the Motor Vehicle Act is in place, it is too early to say that it is going benefit on a national level. For the quarter, the Motor TP loss ratio declined 730 bps to 66.6%.

The Health, Travel and PA loss ratio jumped 810 bps to 81.8% but management alluded to improvement going forward: The corporate health loss ratio for 99.1% for the quarter but management stated that it would revert to the mid 90s for the full year. The retail indemnity loss ratio was 64.4%. The sequential rise in health loss ratio was partly explained by seasonality aspects pertaining to the monsoon (mosquito-related) and the number is not going to be as high for the full year, as per management.

We maintain 'Buy' rating on ICICIGI with a revised price target of Rs 1500: We value ICICIGI at 30x FY24 P/E.

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

### Exhibit 1: Result table

Rs Mn	Q2 FY23	Q2 FY22	% yoy	Q1 FY23	% qoq
Gross Premiums written	53,026	45,085	17.6	55,298	(4.1)
Net Premium Written	37,059	30,528	21.4	36,233	2.3
Net Premium Earned	38,366	32,503	18.0	34,682	10.6
Income from Investments	6,353	5,518	15.1	4,900	29.6
<b>Total Income</b>	<b>44,990</b>	<b>38,082</b>	<b>18.1</b>	<b>39,783</b>	<b>13.1</b>
Commission & Brokerage	1,282	1,435	(10.7)	782	64.0
Operating Expenses	10,673	9,375	13.8	10,834	(1.5)
Total claims	27,933	22,699	23.1	24,999	11.7
<b>Underwriting Profit/(Loss)</b>	<b>(1,523)</b>	<b>(1,007)</b>	<b>51.2</b>	<b>(1,933)</b>	<b>(21.2)</b>
Operating Profit	5,102	4,571	11.6	3,168	61.1
<b>PAT</b>	<b>5,905</b>	<b>4,467</b>	<b>32.2</b>	<b>3,490</b>	<b>69.2</b>
<b>Key Ratios</b>					
Solvency Ratio	247.0%	249.0%	-200bps	261.0%	-1400bps
Expense Ratio	27.9%	29.0%	-110bps	27.8%	10bps
Incurred Claim Ratio	72.8%	69.8%	300bps	72.1%	70bps
Net Retention Ratio	69.9%	67.7%	220bps	65.5%	440bps
Combined Ratio	105.1%	105.3%	-20bps	104.1%	100bps

Source: Company, YES Sec-Research

Recommendation	: BUY
Current Price	: Rs 1,149
Target Price	: Rs 1,500
Potential Return	: 31%

### Stock data (as on October 18, 2022)

Nifty	17,487
52 Week h/l (Rs)	1548 / 1071
Market cap (Rs/USD mn)	564465 / 6854
Outstanding Shares (mn)	491
6m Avg t/o (Rs mn):	923
Div yield (%):	0.8
Bloomberg code:	ICICIGI IN
NSE code:	ICICIGI

### Stock performance



	1M	3M	1Y
Absolute return	-5.4%	-9.2%	-23.8%

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

Promoter	48.0%
FII+DII	40.4%
Others	11.6%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1500	1520

### Financial Summary

Rs mn	FY23E	FY24E	FY25E
NEP	151,723	177,816	205,926
% yoy	16.4%	17.2%	15.8%
Op profit	29,157	33,854	39,703
% yoy	62.5%	16.1%	17.3%
PAT	20,697	24,580	29,414
% yoy	62.8%	18.8%	19.7%
EPS (Rs)	42.2	50.1	59.9
P/E (x)	27.3	23.0	19.2
P/B (x)	5.3	4.5	3.8
RoE (%)	19.3%	19.5%	19.7%

### Δ in earnings estimates

Rs.	FY23E	FY24E	FY25E
EPS (New)	42.2	50.1	59.9
EPS (Old)	42.2	50.7	61.4
% change	0.0%	-1.2%	-2.3%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Motor segment

- ✓ The growth in the Motor segment remained tepid (sequential growth in NEP being 3.8%).
- ✓ **OD segment**
  - The competitive intensity is high in the OD segment but the management remains optimistic about the pricing environment improving.
- ✓ **Category mix**
  - While share of Private Car has moved up sequentially, it is due to a strong festive season and not something structural.
  - The company remains cautious on the Private Car segment and focused on CV in a selective manner.
  - The share of CV has moved from 17.0% in 1HFY22 to 23.4% in 1HFY23 and its share is expected to inch up to the mid 20s.
- ✓ **TP segment**
  - The combined ratio of TP is better than that of OD since the competition in the Motor segment gets played out in the OD segment as TP prices are regulated.
  - The loss ratio in TP for 1HFY23 is 70.1% compared with 74% in FY22 but it is better to look at the full year number to help arrive at a sustainable number.
  - While the Motor Vehicle Act is in place, it is too early to say that it is going benefit on a national level.
  - One would have to observe for a longer period of time before one can start assuming lower numbers.

### Health segment

- ✓ **Corporate health**
  - **Loss ratio**
    - The corporate health loss ratio for 99.1% for the quarter.
    - The corporate health loss ratio would revert to the mid 90s for the full year.
    - **Pricing**
      - There have been continued hikes in pricing in this segment.
      - Competitors are becoming more disciplined in terms of pricing.
- ✓ **Retail indemnity**
  - **Loss ratio**
    - The retail indemnity loss ratio was 64.4%.
    - The sequential rise in health loss ratio was partly explained by seasonality aspects pertaining to the monsoon (mosquito-related) and the number is not going to be as high for the full year.
    - The loss ratio for the new portfolio is 45-50% and 75-80% for the old portfolio as the health indemnity loss ratio rises with time.
  - **Growth**
    - Retail health is picking up.
    - ICICI Bank has started to distribute retail indemnity on the home side.
    - Non-ICICI banca is also doing well and the acquisitions from the Bharti Axa deal are performing.
    - Attachment rate has also picked up.
  - **Renewal rate**
    - The renewal rate of the older book is about 75-80%.

(Con call takeaways continue on the next page)

## Crop segment

- ✓ The Crop portfolio is seasonal in nature, which explains the relative strength in the first half and the second half would be significantly lower.
- ✓ As such, the Crop portfolio would remain at about 5% of the overall portfolio.
- ✓ ICICIGI had a 3-year commitment towards the Crop portfolio acquired from Bharti Axa.
- ✓ The new business has been sold only on the "80-110 model", which most of the states have shifted to, where the loss ratio is lower.

## Retention

- ✓ Retention has optically moved up on sequential basis.
- ✓ This is because in 1Q, there are significant commercial policy renewals and commercial business has lower retention.
- ✓ In 2Q, more retail business has been sold, which is higher retention.

## Overall premium growth

- ✓ GDPI in 2QFY23 grew 17.2% YoY to Rs 51.85bn compared with the industry at 10.0% YoY.

## Combined ratio

- ✓ Combined ratio in 2QFY23 was 105.1% compared with 105.3% in 2QFY22.
- ✓ Excluding the impact of cyclone and flood losses, the combined ratio in 2QFY23 was 104.3% compared with 103.7% in 2QFY22.

## Return on equity

- ✓ Excluding reversal of tax provision, the RoAE was 19.3% for 2QFY23.

## Solvency ratio

- ✓ The solvency ratio was 2.47x as of 2QFY23 compared with 2.61x as of 1QFY23.
- ✓ The sequential decline in solvency ratio was due to growth and business mix.
- ✓ In 2Q, there was more retail business sold sequentially, which requires more capital.

## Investment income

- ✓ The yield on investment has improved due to rising interest rate regime and there is no one-off in the accrual yield.
- ✓ Generally, about 70-75% of the investment income is accruals, with the remaining being capital gains.
- ✓ Capital gains net of impairment in equity assets was Rs 1.11bn in 2QFY23 compared with Rs 1.44bn in 2QFY22.
- ✓ While the carried yield may see an improving trend, the opposite trend may play out on capital gains.

## Exhibit 2: Other Business Parameters

Rs mn	Q2 FY23	Q2 FY22	% yoy	Q1 FY23	% qoq
<b>Net Premium Earned</b>					
Fire	1,708	1,587	7.7%	1,507	13.4%
Marine	1,057	868	21.9%	1,056	0.1%
Health including Personal Accident	10,674	8,079	32.1%	10,000	6.7%
Miscellaneous	1,999	1,558	28.3%	1,685	18.7%
Crop Insurance	1,795	424	323.5%	80	2135.0%
Motor	21,133	19,989	5.7%	20,355	3.8%
<b>Total</b>	<b>38,366</b>	<b>32,503</b>	<b>18.0%</b>	<b>34,682</b>	<b>10.6%</b>

<b>Segment Underwriting Profit / (Loss)</b>					
Fire	1,042	304	243.1%	1,189	-12.4%
Marine	(7)	(173)	-95.8%	(108)	-93.3%
Health including Personal Accident	(1,304)	(422)	209.3%	(905)	44.1%
Miscellaneous	57	110	-48.0%	45	27.6%
Crop Insurance	16	(5)	-407.8%	52	-70.0%
Motor	(1,326)	(821)	61.5%	(2,206)	-39.9%
<b>Total</b>	<b>(1,523)</b>	<b>(1,007)</b>	<b>51.2%</b>	<b>(1,933)</b>	<b>-21.2%</b>

<b>Loss Ratio</b>					
Motor OD	74%	63%	1150bps	74%	70bps
Motor TP	67%	75%	-800bps	74%	-730bps
Health, Travel, PA	82%	71%	1040bps	74%	810bps
Crop	85%	127%	-4130bps	63%	2180bps
Fire	40%	65%	-2420bps	58%	-1730bps
Marine	72%	90%	-1800bps	67%	490bps
Engineering	84%	55%	2940bps	62%	2200bps
Other	64%	62%	180bps	57%	630bps
<b>Total</b>	<b>72.8%</b>	<b>70%</b>	<b>300bps</b>	<b>72.1%</b>	<b>70bps</b>

Source: Company, YES Sec – Research

## Exhibit 3: Quarterly Actuals Vs Estimates

Q2FY23 (Rs. mn)	Actuals	Estimates	Diff, %
Net Premium Earned	38,366	36,069	6.4
Underwriting Profit/(Loss)	(1,523)	(1,443)	(5.5)
PAT	5,905	3,968	48.8

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Profit & Loss Statement

Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Gross written premium	140,031	179,769	206,299	241,240	279,403
Net written premium	106,850	134,896	157,269	184,451	213,735
Net earned premium	100,140	130,321	151,723	177,816	205,926
Net claims	68,708	97,819	114,844	134,088	154,656
Net commission	6,009	6,339	8,193	9,424	10,708
Expense of Management	27,342	39,201	37,172	42,676	48,393
Underwriting profit/(Loss)	(1,919)	(13,038)	(8,486)	(8,372)	(7,831)
Investment income	21,474	30,978	37,643	42,227	47,534
<b>Operating profit</b>	<b>19,555</b>	<b>17,940</b>	<b>29,157</b>	<b>33,854</b>	<b>39,703</b>
Shareholder's account					
Operating profit	19,555	17,940	29,157	33,854	39,703
Investment income	5,170	7,061	8,424	10,404	12,727
Total income	24,725	25,001	37,581	44,258	52,430
Expenses	5,185	8,166	9,910	11,397	13,106
PBT	19,540	16,835	27,670	32,861	39,323
Tax	4,809	4,125	6,973	8,281	9,909
<b>PAT</b>	<b>14,731</b>	<b>12,710</b>	<b>20,697</b>	<b>24,580</b>	<b>29,414</b>

Source: Company, YES Sec – Research

### Exhibit 5: Balance sheet

Rs mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Sources of funds</b>					
Share capital	4,546	4,909	4,909	4,909	4,909
Reserves and Surplus	69,809	86,188	102,222	120,911	144,434
Fair value change account	6,804	3,593	3,593	3,593	3,593
Borrowings	4,850	2,550	2,550	2,550	2,550
Claims Outstanding gross	182,846	249,752	274,866	304,410	338,665
Current liabilities	58,149	80,916	93,054	107,012	123,064
Provisions	65,974	80,575	92,661	106,561	122,545
<b>Total Liabilities</b>	<b>392,977</b>	<b>508,483</b>	<b>573,855</b>	<b>649,946</b>	<b>739,759</b>
<b>Application of funds</b>					
Investments - Shareholders	74,356	89,179	111,921	138,327	169,296
Investments - Policyholders	234,565	298,684	344,201	397,545	459,323
Fixed assets	6,268	5,775	5,975	6,175	6,375
Deferred tax asset	3,498	3,456	3,456	3,456	3,456
Cash and bank balances	2,277	2,926	2,008	1,337	1,298
Advances and other assets	72,013	108,463	106,294	103,105	100,012
<b>Total Assets</b>	<b>392,977</b>	<b>508,483</b>	<b>573,855</b>	<b>649,946</b>	<b>739,759</b>

Source: Company, YES Sec – Research

## Exhibit 6: Ratio analysis

Particulars	FY21	FY22	FY23E	FY24E	FY25E
<b>Key ratios</b>					
Claims ratio	69%	75%	76%	75%	75%
Opex ratio	27%	30%	25%	24%	24%
Commission ratio	6%	5%	5%	5%	5%
Combined ratio	102%	110%	106%	105%	104%
Underwriting P/L Ratio	-1.9%	-10.0%	-5.6%	-4.7%	-3.8%
RoA	3.7%	2.5%	3.6%	3.8%	4.0%
RoE	19.8%	14.0%	19.3%	19.5%	19.7%
Dividend payout	24.7%	34.8%	22.5%	24.0%	20.0%
Investments leverage	4.1	4.2	4.2	4.2	4.2
<b>Per share ratios (Rs)</b>					
EPS	32.4	25.9	42.2	50.1	59.9
BVPS	163.6	185.6	218.2	256.3	304.2
DPS	8.0	9.0	9.5	12.0	12.0
<b>Valuation ratios</b>					
P/E (x)	35.5	44.4	27.3	23.0	19.2
P/B (x)	7.0	6.2	5.3	4.5	3.8
<b>Growth (%)</b>					
Gross written premium	5.2%	28.4%	14.8%	16.9%	15.8%
Net earned premium	6.5%	30.1%	16.4%	17.2%	15.8%
Claims	0.3%	42.4%	17.4%	16.8%	15.3%
Commissions	65.1%	5.5%	29.3%	15.0%	13.6%
Net income	23.4%	-13.7%	62.8%	18.8%	19.7%

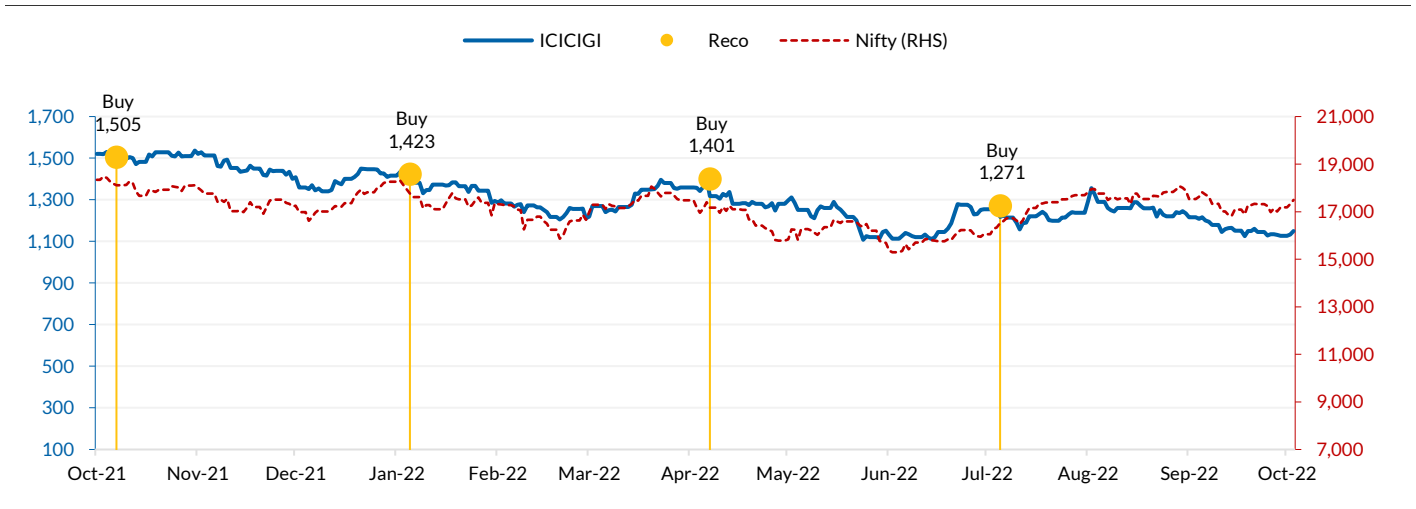
Source: Company, YES Sec – Research

## Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Premium Earned	151,723	177,816	205,926	151,723	177,816	205,926	0.0	0.0	0.0
Operating Profit	29,157	33,854	39,703	29,157	34,233	40,576	0.0	(1.1)	(2.2)
Profit After Tax	20,697	24,580	29,414	20,697	24,881	30,121	0.0	(1.2)	(2.3)

Source: Company, YES Sec – Research

## Recommendation Tracker



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