Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

ICICI Lombard General Insurance Company

Higher investment income and tax reversals lift earnings

Insurance	Sharekhan code: ICICIGI
Reco/View: Buy ↔	CMP: **Rs. 1,164**
Price Target: **Rs. 1,400** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING	21.86
Updated Oct 08, 2022	

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

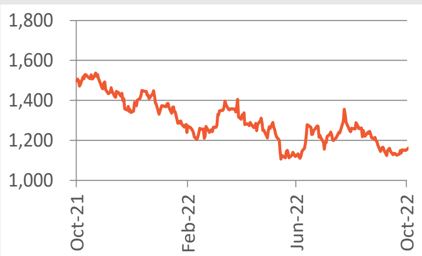
Company details

Market cap:	Rs. 57,163 cr
52-week high/low:	Rs. 1,547/1,071
NSE volume: (No of shares)	8.3 lakh
BSE code:	540716
NSE code:	ICICIGI
Free float: (No of shares)	25.5 cr

Shareholding (%)

Promoters	48.0
FII	25.7
DII	16.0
Others	10.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.0	-2.1	-13.0	-20.9
Relative to Sensex	-1.4	-11.6	-19.2	-18.1

Sharekhan Research, Bloomberg

Summary

- ICICI Lombard reported PAT of Rs. 591 crore (up 32% y-o-y) led by higher investment income (due to higher yields) and large tax reversals although PBT was up by only 3% y-o-y. Underwriting loss stood at Rs. 152 crore in Q2FY23 versus a loss of Rs.101 crore in Q2FY22 and loss of Rs. 193 crore in Q1FY23.
- Gross direct premium grew by a healthy 18% y-o-y, led by rapid growth in commercial lines and group health, however, motor business was a drag with 4% y-o-y growth due to a 4% y-o-y decline in Motor OD. Retail health premium grew by 16% y-o-y & Group Health grew by 47% y-o-y.
- Company reported higher combined ratio at 105% in Q2FY23 versus 104% in Q1FY23. Claims ratio increased by 300 bps y-o-y to 72.8% due to increase in claims ratio for the Motor OD (1,150 bps) and Health (1,040 bps) segments. Expense ratio reported at 28.8% was down by 190 bps y-o-y and commission ratio was down by 125 bps y-o-y reported at 3.5%.
- Stock currently trades at 30.2x/27.7x its FY2023E/FY2024E EPS. We maintain a Buy with a revised PT of Rs. 1400.

ICICI Lombard reported ~18% y-o-y growth in gross direct premium income however, it was down by 4% q-o-q reported at Rs.5,303 crore. Commercial lines and group health saw healthy growth, however, motor business was a drag with 4% y-o-y growth due to a 4% y-o-y decline in the Motor OD segment. Retail health premium grew by 16% y-o-y & group health grew by 47% y-o-y. Net earned premium grew by 18% y-o-y/ 11% q-o-q to Rs. 3,837 crore. Net incurred claims were higher by 23% y-o-y/ 12% q-o-q. Claim ratio increased by 300 bps y-o-y to 72.8% due to increase in claims ratio for the Motor OD (1,150 bps) and Health (1,040 bps) segments. Expense ratio reported at 28.8% was down by 190 bps y-o-y and commission ratio was down by 125 bps y-o-y reported at 3.5%. Combined ratio reported was at 105% in Q2FY23 versus 104% in Q1FY23. The underwriting loss stood at Rs. 152 crore in Q2FY23 vs loss of Rs.101 crore in Q2FY22 and loss of Rs.193 crore in Q1FY23. PAT came in at Rs. 591 crore (up 32% y-o-y) led by higher investment income (due to higher yields, up 15%y-o-y, 26% q-o-q) and large tax reversals although PBT was up by only 3% y-o-y. The solvency ratio stood at 247% versus 261% sequentially.

Key positives

- Healthy growth in GDPI (18% y-o-y) driven by commercial lines & group health segment.

Key negatives

- Claim ratio higher (300 bps y-o-y, 70 bps q-o-q).
- Company lost market share in motor segment (10.1% from 10.9% in Q2FY22)

Management Commentary

- Loss ratio in the Motor OD was higher than Motor third-party due to pricing pressures. However, the management expects pricing to improve over the next few quarters. Particularly in CV segment of motors, competition has started to ease from large players.
- Investments in retail health segment continues to remain high. Management expects expense ratio to remain in higher trajectory , as investments to build the network remains high.

Our Call

View: We maintain Buy on the stock with a revised PT of Rs. 1,400 – The company`s leading premium market share in an industry with secular growth potential, its profit focus with a profit share that is almost ~5x its premium market share, and its leading ROE profile, make it a compelling investment for long-term financial services portfolios. We expect healthy premium growth, led by investments in the Health distribution channel, benefits accruing from past investments in technology and its flagship motor segment. During FY22-24E, we expect company to deliver premium/PAT CAGR of 16%/27% and a RoE of 18% in FY24E. We have fine-tuned our estimates and target multiple. At the current price, the stock trades at 30.2x/27.7xits FY2023E/FY2024E EPS.

Key Risks

Weaker-than-expected economy impacts growth especially in motor segment, increased pricing pressure, lower investment income.

Valuation Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Gross direct premium	18,562	21,500	24,800	28,600
PAT	1,271	1,890	2,060	2,340
EPS (Rs)	25.9	38.5	42.0	47.7
ROE (%)	15.4	19.3	18.2	18.0
P/E (x)	45.0	30.2	27.7	24.4
P/BV (x)	6.3	5.4	4.7	4.1

Source: Company; Sharekhan estimates

Key result highlights

- **Accelerated investments for future growth:** Market share as at H1FY23 on GDPI basis stood at 8.4%. The company is further focusing on expanding distribution network to increase penetration in Tier-3 and Tier-4 cities. Investments in retail health segment continues to remain high. Management expects expense ratio to remain in higher trajectory, as investments to build the network remains high.
- **Higher Investment Income: I**nvestment yields expanded to 7.2% from 6.4% in Q1FY23 and 6.2% in Q2FY22, reflecting the benefit of higher rates. The company booked large equity capital gains and overall investment return (including capital gains) was 8.3% as compared with 8.4% in Q2FY22 and 6.7% in Q1FY23. A higher interest environment is generally favorable. Going forward, investment yield should further increase, and capital gains will reduce.
- **Segmental Commentary:** In Motor OD segment, growth was slow as competitive intensity remains high especially passenger vehicles. Pricing remains a concern, with industry loss ratio for the motor segment, according to management, inching up to 124.5% in 1QFY23 from 107.1% in Q1FY22. The share of CVs in overall Motor GDPI mix grew to 23.4% in 1HFY23 vs 17% in H1FY22 as underwriting dynamics are much better. The share of private cars is 49.6% vs 56.5% in H1FY22 & share of two-wheeler is at 27% vs 26.5% in H1FY22. With premium hikes in Motor third-party, the loss ratios are better than the OD segment. Motor TP premium grew 20% y-o-y in Q2FY23 compared to a 1% y-o-y decline in Motor OD premium. Health Insurance segment remains the growth driver and past investments in retail health distribution are likely to accrue. The pricing scenario in group insurance has improved from past. Some price increases are coming through in the Group book. It has hired about 1,000 agency managers to drive the agency channel. Amid pressure on growth in most retail segments, the commercial business lines have supported the overall premium growth.
- **Others:** PAT includes reversal of a tax provision of Rs. 130 crore. The board has declared an interim dividend of Rs. 4.50/- per equity share.

Results Rs cr

Particulars	Q2FY23	Q2FY22	Q1FY23	y-o-y (%)	q-o-q (%)
Gross written premium	**5,303**	**4,509**	**5,530**	**17.6**	**(4.1)**
Premium ceded	1,597	1,456	1,906	9.7	(16.2)
Net Premium	**3,706**	**3,053**	**3,623**	**21.4**	**2.3**
Change in unexpired risk reserve	(131)	(198)	155	NM	NM
Net earned premium	**3,837**	**3,250**	**3,468**	**18.0**	**10.6**
Net incurred claims	2,793	2,270	2,500	23.1	11.7
Net commission paid	128	144	78	(10.7)	63.9
Operating expenses related to insurance	1,067	938	1,083	13.8	(1.5)
Underwriting Profit/ (Loss	**(152)**	**(101)**	**(193)**	**NM**	**NM**
Investment income	832	726	661	14.6	25.9
Other income	36	6	20	485.2	77.6
Provisions	89	5	3	1,607.7	2,860.0
Other expenses	17	32	20	(46.9)	(13.6)
Profit before tax	**610**	**594**	**465**	**2.6**	**31.1**
Tax	19	147	116	(87.0)	(83.5)
Profit after tax	**591**	**447**	**349**	**32.2**	**69.2**
Key Ratios (%)					
Retention ratio	69.9	67.7	65.5		
Net incurred claims ratio	72.8	69.8	72.1		
Net commission ratio	3.5	4.7	2.2		
Operating expense ratio	28.8	30.7	29.9		
Combined ratio	105.1	105.3	104.1		
Solvency ratio	2.47	2.49	2.6		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View - Strong growth outlook

We believe the overall insurance sector has a huge growth potential in India. Significant under penetration, rising savings, formalization of the economy, rising awareness for financial protection (accelerated by the pandemic), large protection gap, and expanding per capita income, among others, are key long-term growth drivers for the sector. In this backdrop, we believe strong players such as ILGI, armed with the right mix of products, services, and distribution network, are likely to gain disproportionally from the opportunity.

■ Company Outlook – Striking a balance between profitability and growth

ILGI's remains an attractive franchise, striking a good balance between profitability and growth. It has a strong management team with a focus on ROE and a strong execution track record (20% or higher ROE in seven out of the past eight years). We expect higher demand for health products going forward. ILGI has also been able to better loss ratio compared to its peers, which indicates its strong fundamentals. ILGI's business reach (by virtue of a multi-channel distribution network, including branches of promoter bank) adds to its competitive advantage. Moreover, the company's conservative underwriting is a key differentiator in the insurance business. In our view, choosing to get aggressive and chase top-line growth is a relatively easier task than maintaining consistent high profitability. We believe management has realized investor perception with respect to its loss of share in the retail health business. It has been taking steps such as investing in distribution, innovation (wellness approach) and technology (ILTakeCare app).

■ Valuation – Maintain Buy with a revised PT of Rs. 1400

The company`s leading premium market share in an industry with secular growth potential, its profit focus with a profit share that is almost ~5x its premium market share, and its leading RoE profile, make it a compelling investment for long-term financial services portfolios. We expect healthy premium growth, led by investments in the health distribution channel, benefits accruing from past investments in technology and its flagship motor segment. During FY22-24E, we expect company to deliver premium/PAT CAGR of 16%/27% and a RoE of 18% in FY24E. At the current price, the stock trades at 30.2x/27.7xits FY2023E/FY2024E EPS.

About the company

ILGI is the fourth largest non-life insurer and the largest private-sector non-life insurer in India. The company offers customers a comprehensive and well-diversified range of products, including motor, crop, health, fire, personal accident, marine, engineering, and liability insurance. ILGI has 250+ offices and 35,000+ individual agents (including POS) and ~840 virtual offices. The company's key distribution channels are direct sales, individual agents, corporate agents –banks, other corporate agents, brokers, MISPs, and digital, through which it serves individual, corporate, and government customers.

Investment theme

ILGI continues to maintain its market share based on GDPI. The company has been able to maintain a strong growth trajectory, but it has also been successful in keeping costs under control, along with building reach via both physical and virtual channels. The insurance business's profitability and returns are strongly dependent on underwriting skills of the insurer, which is, hence, the key. ILGI's long term business fundamentals remained unchanged even in times of crisis. We believe the general insurance industry is an attractive space, which has a long runway for long-term growth. ILGI has demonstrated its strong underwriting, healthy solvency, and improving loss ratios, which should help it tide over medium-term challenges.

Key Risks

Weaker-than-expected economy impacts growth especially in motor segment, increased pricing pressure, lower investment income.

Additional Data

Key management personnel

Ms. Bhargav Dasgupta	MD & CEO
Mr. Gopal Balachandran	CFO & CRO
Mr. Sanjeev Mantri	ED
Mr. Alok Agarwal	ED

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Bank Ltd	48.0
2	SBI Funds Management Ltd	4.5
3	Bharti General Ventures Pr	3.7
4	ICICI Prudential Asset Management Co Ltd	2.9
5	Vanguard Group Inc	1.9
6	Norges Bank	1.6
7	Government Pensi	1.6
8	Blackrock Inc	1.4
9	Aditya Birla Sun Life Asset Management Co Ltd	1.1
10	St James Place Plc	1.0

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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