

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	ICICIGI IN
Equity Shares (m)	491
M.Cap.(INRb)/(USD\$b)	613.9 / 7.5
52-Week Range (INR)	1466 / 1071
1, 6, 12 Rel. Per (%)	2/-13/-11
12M Avg Val (INR M)	936

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
NEP	147.7	174.4	206.4
U/W Profit	-10.7	-8.5	-6.8
PBT	19.6	25.5	31.7
PAT	15.9	19.1	23.8
EPS (INR/share)	32.4	38.9	48.5
EPS Growth (%)	25.2	20.1	24.5
BVPS (INR/share)	207.0	232.0	264.2

Ratios (%)

Claims	72.0	70.6	70.0
Commission	3.6	3.8	4.0
Expense	29.4	28.2	27.0
Combined	104.9	102.6	101.0
RoE	16.5	17.7	19.5

Valuations

P/E (x)	38.6	32.1	25.8
P/BV (x)	6.0	5.4	4.7

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	48.0	48.0	48.1
DII	16.0	15.4	10.5
FII	24.1	25.0	27.7
Others	11.9	11.6	13.7

FII Includes depository receipts

CMP: INR1,250 TP: INR1500 (+20%) Buy

Weak premium growth and low investment income drag profit growth

- Underwriting loss was at INR2.9b in 3QFY23 compared to a loss of INR1.5b in 2QFY23 vs our estimates of INR2.4b, owing to low premium and investment income.
- Claims ratio declined to 70.3% from 72.8% in 2QFY23 as loss ratio in Motor OD, Motor TP, and Health segment was lower. Claims ratio increased 70bp on a YoY basis.
- Policyholders' investment income stood at INR5.8b, lower than our expectation of INR6.5b, owing to weaker-than-expected yields.
- The Combined ratio stood at 104.4% v/s 104.5%/105.1% in 3QFY22/2QFY23. The solvency ratio stood was flat at 2.5x.
- PAT for the quarter stood at INR3.5b vs our estimate of INR4.5b, a growth of 11% YoY.
- For 9MFY23, NEP grew 14%, while the Combined ratio stood at 104.6% vs. 111%. PAT growth over the period was 3% YoY.
- We cut estimates by 14%/11%/10% for FY23/FY24/FY25 but retain our BUY rating and target price as we roll forward valuations from 35x FY24 to 32x FY25.

Moderation in NEP growth, weak investment income

- Total GWP grew 17%YoY to INR56b in 3QFY23. However, NEP grew 14% YoY, to INR38b, with NEP-to-GWP ratio at 68% v/s 91% YoY. NEP was 9% lower than our estimates.
- NEP for the Health/Motor business grew 32%/10% while that of Crop/Fire declined 32%/9% YoY.
- Total investment income (shareholders + policyholders) declined 10% QoQ primarily owing to lower yields; however, it grew 10% YoY to INR7.7b (estimated INR8.7b).

Loss ratio declines QoQ; higher OPEX ratio adversely impacts combined ratio

- ICICIGI reported a loss ratio of 70.3% in 3QFY23 v/s 72.8% in 2QFY23. The benefit of a lower loss ratio in Motor OD/Motor TP/Health (down 130bp/470bp/360bp) was partially offset by higher claims in Crop/Fire (up 26.6%/9.4%). Claims ratio increased 70bp YoY.
- Commission ratios increased 70bp QoQ to 4.2%, owing to a higher share of the Retail business, where commission ratios are higher.
- Expense ratio increased to 29.9% in the quarter from 28.8% in 2QFY23. While employee costs were flattish QoQ, sales promotion and ad spends increased significantly. This was weaker than our expectations.

Highlights from the management commentary

- Competitive intensity remains high in the Motor OD segment, especially within the passenger car category.

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- Investments in retail health have started yielding results and the management expects the growth to sustain in the medium term.
- Combined ratio is likely to improve from FY24, driving RoEs to high teens in a couple of years.

Cut estimates by 10% but retain BUY as we roll forward to FY25

ICICIGI delivered weaker-than-expected performance in 3QFY23 on all counts - weaker premium, lower investment income, and higher expense ratio. Going ahead, growth in the motor segment is likely to be back ended with the company waiting for the rationalization of pricing in the OD segment. On the health segment, the investments in the hiring of agency managers will continue to keep expense ratio elevated. However, synergy benefits from Bharti AXA merger (technology related), scale benefits and improvement in mix on health business (higher share of retail health) should aid in improving the combined ratio and RoE over the next couple of years. We have cut our earnings estimate by 14%/11%/10% for FY23/FY24/FY25. However, we retain our BUY rating and one-year target price of INR1,500 as we roll forward our valuations from 35x FY24 to 32x FY25.

Quarterly Performance

Y/E March	FY22				FY23				FY22	3QFY23E	Actual vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Gross premium	42,671	45,085	47,861	50,007	55,298	53,026	55,997	55,433	1,85,624	57,433	-2%
Net written premium	28,083	30,528	36,551	39,734	36,233	37,059	41,630	42,985	1,34,896	45,946	-9%
Net earned premium	31,521	32,503	33,119	33,178	34,682	38,366	37,921	36,702	1,30,321	41,811	-9%
Investment Income	6,791	5,579	5,423	13,186	5,101	6,625	5,700	6,292	30,978	6,714	-15%
Total Income	38,312	38,082	38,541	46,363	39,783	44,990	43,620	42,994	1,61,299	48,525	-10%
Change YoY (%)	40.4	32.1	26.0	32.9	3.8	18.1	13.2	-7.3	32.6	25.9	
Incurring claims	28,192	22,699	23,035	23,893	24,999	27,933	26,663	26,681	97,819	30,104	-11%
Net commission	1,276	1,435	2,027	1,601	782	1,282	1,744	1,841	6,339	1,746	0%
Opex	8,303	9,375	10,749	10,774	10,834	10,673	12,448	12,446	39,201	12,405	0%
Total Operating Expenses	37,771	33,510	35,811	36,268	36,615	39,888	40,855	40,968	1,43,359	44,255	-8%
Change YoY (%)	65.2	35.9	30.4	34.0	-3.1	19.0	14.1	13.0	40.5	23.6	-40%
Underwriting profit	-6,249	-1,007	-2,692	-3,090	-1,933	-1,523	-2,935	-4,266	-13,038	-2,444	20%
Operating profit	542	4,571	2,731	10,096	3,168	5,102	2,765	2,027	17,940	4,270	-35%
Shareholder's P/L											
Transfer from Policyholder's	542	4,571	2,731	10,096	3,168	5,102	2,765	2,027	17,940	4,270	-35%
Investment income	2,021	1,741	1,650	1,650	1,711	2,055	2,081	2,494	7,061	1,986	5%
Total Income	2,562	6,312	4,381	11,745	4,879	7,157	4,846	4,521	25,001	6,256	-23%
Provisions other than taxation	-396	52	-1	-107	30	890	9	70	-475	70	-88%
Other expenses	376	322	173	7,748	198	171	185	233	8,641	170	9%
Total Expenses	-20	374	171	7,641	228	1,060	193	303	8,166	240	-19%
PBT	2,583	5,939	4,209	4,104	4,651	6,097	4,653	4,217	16,835	6,016	-23%
Change YoY (%)	-51.4	7.1	0.6	-8.8	80.1	2.7	10.5	2.8	-13.8	42.9	-75%
Tax Provisions	640	1,472	1,034	979	1,161	1,471	1,127	1,254	4,125	1,504	-25%
Adj Net Profit	1,943	4,467	3,175	3,125	3,490	4,625	3,525	2,964	12,710	4,512	-22%
Change YoY (%)	-51.2	7.4	1.3	-9.6	79.6	3.6	11.0	-5.2	-13.7	42.1	-74%
Rep Net Profit	1,943	4,467	3,175	3,125	3,490	5,905	3,525	2,964	12,710	4,512	-22%
Key Parameters (%)											
Claims ratio	89.4	69.8	69.6	72.0	72.1	72.8	70.3	72.7	75.1	72.0	
Commission ratio	4.5	4.7	5.5	4.0	2.2	3.5	4.2	4.3	4.7	3.8	
Expense ratio	29.6	30.7	29.4	27.1	29.9	28.8	29.9	29.0	29.1	27.0	
Combined ratio	123.5	105.3	104.5	103.2	104.1	105.1	104.4	105.9	108.8	102.8	
Solvency	2.6	2.5	2.5	2.5	2.6	2.5	2.5	0.0	2.8	0.0	



Highlights from the management commentary

Regulations

- During the quarter, the regulator has mandated KYC requirements, increased the number of corporate agents to nine from three, increased the time limit for sandbox filing, and filed exposure draft for LT motor and insurance products. These changes can disrupt the industry in the short term but will have a positive impact over the long term.
- ILOM is already within the Expense of Management (EOM) limit of 30%, while competition having EOM above the threshold suggested by IRDAI will have to cut down on expenses.

Motor

- Competitive intensity remains high in the Motor OD segment, especially within the passenger car category.
- There has been no change in the strategy with respect to selection of business mix. ILOM continues to look for opportunities in the CV and 2W segment to diversify away from passenger car segment.
- Motor TP loss ratio could have benefitted from the release of reserves. The overall underwriting weakness in the motor segment was adversely impacted by lower than industry growth and fixed expense allocation to the motor segment.
- ILOM has not taken any benefits of shortening of the period for filing of claims. Recent Madras HC verdict has reaffirmed that claims have to be filed within six months. There has been some acceleration in some states with respect to the filing of claims.

Health

- ICICIGI is outperforming the industry in retail health, driven by agency channel, which grew 40%, and IL Takecare app, wherein downloads reached 3.7m.
- Investments in retail health have started yielding results and the management expects the growth to sustain. Group health is gaining pace, driven by bancassurance channel, led by strong credit growth. Employer-Employee schemes have seen strong growth because of improved pricing.
- The company has on-boarded 1,000 agency managers and is continuing to add more. 10,000 agents have been hired under these agents so far.
- In 3QFY23, loss ratio corporate health segment was at 98.9% and retail indemnity stood at 68%. With the share of new business increasing in the overall mix and re-pricing of renewal book in 4QFY23, loss ratio is expected to improve.

Crop

- During the quarter, reserving has been conservative in the crop segment, leading to higher loss ratio. Kharif season losses are well within comfort levels and we expect a good Rabi season, leading to reserve releases in the ensuing quarters.
- Crop business of Maharashtra came along with Bharti AXA merger and the same has now been renewed.

Distribution

- While Non ICICI Bank has witnessed 44% YoY growth, ICICI Bank has seen 30% YoY growth.
- Within the commercial lines, the SME segment has seen 25% YoY growth.
- Total Agent count has reached 106,119 from 100,636 in the previous quarter.

Finance

- Expense ratio will remain elevated as investments in retail health and digitalization continues. However, with technology migration of Bharti AXA business being completed, we can expect to reap synergy benefits.
- Combined ratio is likely to improve from FY24, leading to RoEs of high teens in a couple of years.

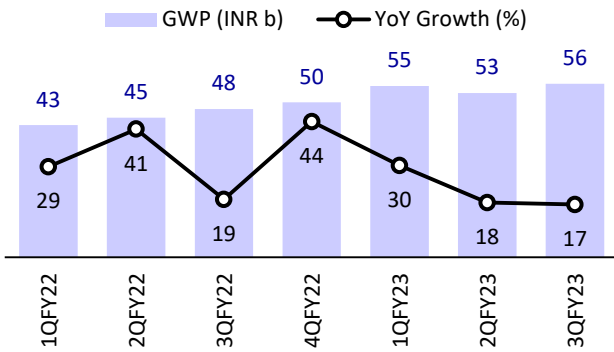
Exhibit 1: Cutting estimates to factor in weaker 3QFY23 performance

INR b	Old Est.			New Est.			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total GDPI	219.8	257.8	303.1	219.8	257.8	303.1	0.0	0.0	0.0
NWP	165.1	195.1	231.0	157.9	186.9	221.5	-4.3	-4.2	-4.1
NEP	158.7	187.2	221.2	147.7	174.4	206.4	-6.9	-6.8	-6.7
Net claims	114.4	132.4	155.2	106.3	123.1	144.4	-7.1	-7.0	-6.9
Net commission	5.6	7.6	10.4	5.6	7.1	8.9	1.7	-7.0	-14.3
Expenses	47.6	54.3	61.6	46.4	52.8	59.9	-2.5	-2.8	-2.9
Investment income (PH)	25.4	28.9	33.0	24.0	27.1	30.8	-5.4	-6.1	-6.7
U/W Profit	-8.9	-7.2	-6.0	-10.7	-8.5	-6.8	19.7	19.0	14.0
Operating profit	16.5	21.7	27.0	13.4	18.6	24.0	-18.9	-14.4	-11.3
Investment income (SH)	8.0	9.2	10.6	8.0	9.0	10.3	0.0	-1.6	-2.9
Expenses (SH)	1.8	2.1	2.5	1.8	2.1	2.5	0.0	0.0	0.0
Tax	4.3	7.2	8.8	3.7	6.4	7.9	-13.7	-11.4	-9.6
PAT	18.5	21.6	26.3	15.9	19.1	23.8	-13.7	-11.4	-9.6
Claim ratio	72.1	70.8	70.1	72.0	70.6	70.0	-0.2	-0.2	-0.2
Commission ratio	3.4	3.9	4.5	3.6	3.8	4.0	0.2	-0.1	-0.5
Expense ratio	28.8	27.8	26.7	29.4	28.2	27.0	0.6	0.4	0.3
Combined ratio	104.3	102.5	101.3	104.9	102.6	101.0	0.6	0.1	-0.3

Source: MOFSL, Company

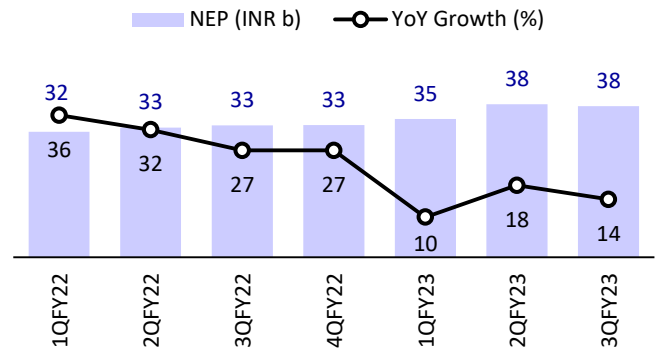
Key exhibits

Exhibit 2: Strong GWP growth (up 17% YoY) at INR56b



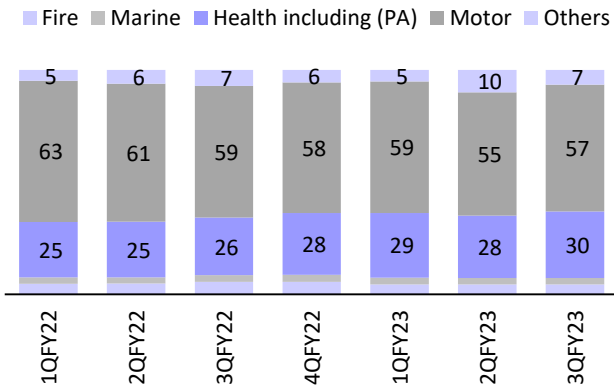
Source: MOFSL, Company

Exhibit 3: NEP growth moderates to 14%



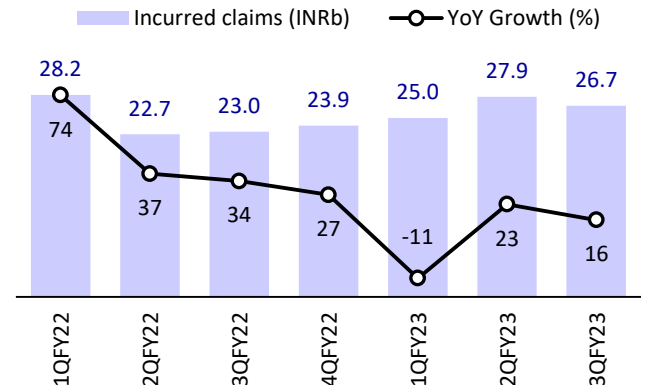
Source: MOFSL, Company

Exhibit 4: Share of Health (incl. PA) & Marine improves sequentially



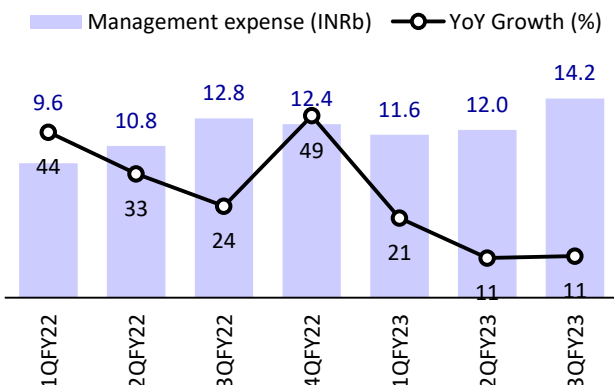
Source: MOFSL, Company

Exhibit 5: Incurred claims moderates QoQ



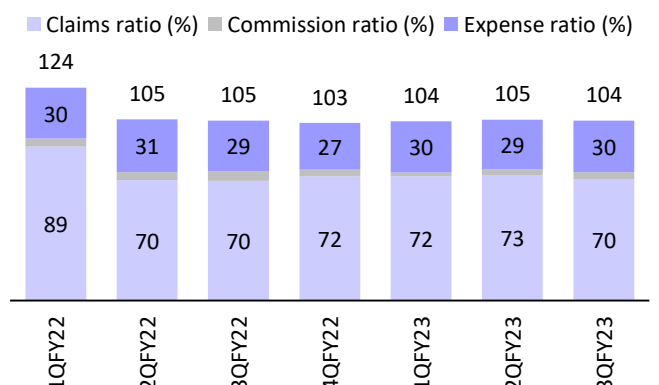
Source: MOFSL, Company

Exhibit 6: Overall OPEX increases on the back of increase in sales promotion & ad spends



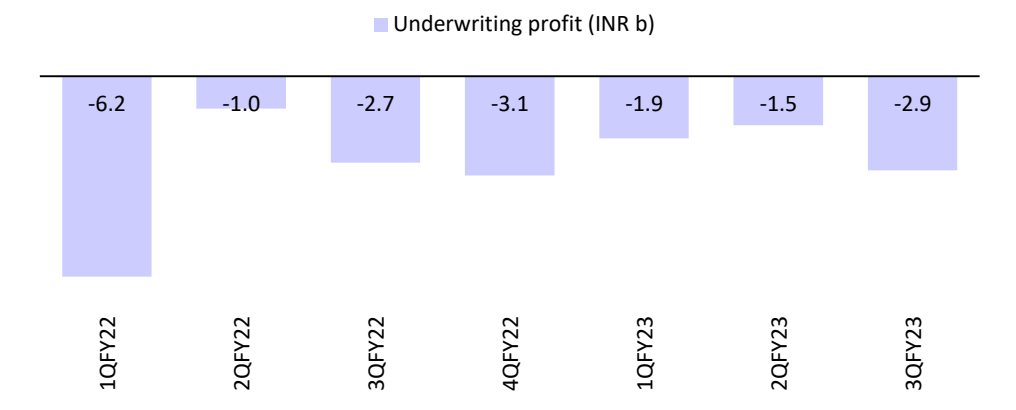
Source: MOFSL, Company

Exhibit 7: Claims ratio declined QoQ due to lower loss ratio in Motor OD, Motor TP, and Health segments



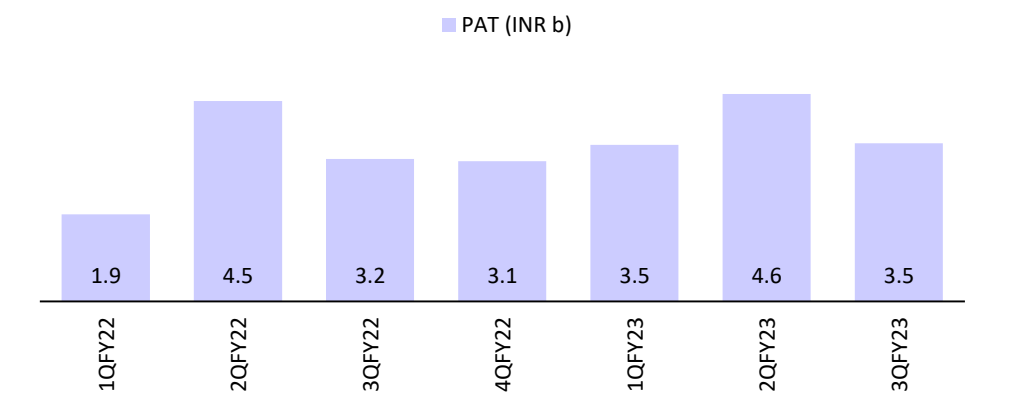
Source: MOFSL, Company

Exhibit 8: Trend in underwriting profit (INR b)



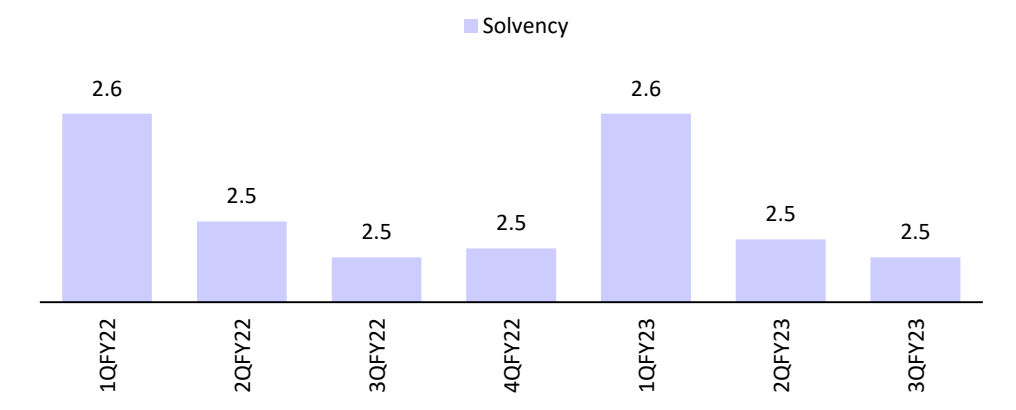
Source: MOFSL, Company

Exhibit 9: Trend in PAT (INR b)



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

Exhibit 10: Solvency remains healthy



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR M)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
GDPI	1,23,568	1,44,882	1,33,128	1,40,031	1,85,624	2,19,754	2,57,835	3,03,147
Change (%)	15.2	17.2	-8.1	5.2	32.6	18.4	17.3	17.6
NWP	78,447	95,385	96,407	1,06,850	1,34,896	1,57,908	1,86,853	2,21,521
NEP	69,117	83,753	94,036	1,00,140	1,30,321	1,47,670	1,74,399	2,06,353
Change (%)	12.1	21.2	12.3	6.5	30.1	13.3	18.1	18.3
Net claims	53,147	63,081	68,515	68,708	97,819	1,06,276	1,23,098	1,44,391
Net commission	-2,839	2,229	3,639	6,009	6,339	5,649	7,058	8,918
Expenses	21,118	20,139	22,931	27,342	39,201	46,401	52,768	59,851
Underwriting Profit/(Loss)	-2,309	-1,696	-1,049	-1,919	-13,038	-10,656	-8,524	-6,807
Investment income (PH)	11,546	14,011	16,492	21,474	30,978	24,047	27,120	30,757
Operating profit	9,237	12,315	15,443	19,555	17,940	13,391	18,596	23,951
Investment income (SH)	4,140	4,743	4,800	5,170	7,061	8,042	9,036	10,309
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	19,648	25,487	31,725
Tax	3,345	5,492	5,031	4,809	4,125	3,733	6,372	7,931
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	15,915	19,115	23,794
Change (%)	30.8	21.8	13.8	23.4	-13.7	25.2	20.1	24.5

Balance sheet								(INR M)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Equity Share Capital	4,539	4,543	4,543	4,546	4,909	4,909	4,909	4,909
Reserves & Surplus	40,872	48,662	56,797	69,809	86,188	96,693	1,08,976	1,24,797
Net Worth	45,412	53,205	61,340	74,355	91,097	1,01,602	1,13,884	1,29,706
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	2,60,380	3,03,464	3,54,001
Other liabilities	80,736	1,08,331	1,28,440	1,24,123	1,61,492	1,81,439	2,04,768	2,32,116
Total Liabilities	2,97,497	3,34,026	3,70,418	3,92,977	5,08,483	5,49,743	6,28,628	7,22,533
Investments (PH)	1,34,643	1,68,877	2,04,671	2,34,565	2,98,684	3,35,601	3,79,201	4,30,789
Investments (SH)	47,284	53,431	58,595	74,356	89,179	99,280	1,11,069	1,26,361
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 & Bank	5,918	4,016	326	2,277	2,926	19,056	34,086	51,746
Total Assets	2,97,497	3,34,026	3,70,418	3,92,977	5,08,483	5,49,743	6,28,628	7,22,533

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
GWP growth	15.2	17.2	-8.1	5.2	32.6	18.4	17.3	17.6
NWP growth	19.0	21.6	1.1	10.8	26.2	17.1	18.3	18.6
NEP growth	12.1	21.2	12.3	6.5	30.1	13.3	18.1	18.3
Claim ratio	76.9	75.3	72.9	68.6	75.1	72.0	70.6	70.0
Commission ratio	-3.6	2.3	3.8	5.6	4.7	3.6	3.8	4.0
Expense ratio	26.9	21.1	23.8	25.6	29.1	29.4	28.2	27.0
Combined ratio	100.2	98.8	100.4	99.8	108.8	104.9	102.6	101.0
Profitability Ratios (%)								
RoE	20.8	21.3	20.8	21.7	15.4	16.5	17.7	19.5

Valuations	2018	2019	2020	2021	2022	2023E	2024E	2025E
BVPS (INR)	92.5	108.4	125.0	151.5	185.6	207.0	232.0	264.2
Change (%)	21.9	17.2	15.3	21.2	22.5	11.5	12.1	13.9
Price-BV (x)	13.5	11.5	10.0	8.3	6.7	6.0	5.4	4.7
EPS (INR)	17.6	21.4	24.3	30.0	25.9	32.4	38.9	48.5
Change (%)	30.8	21.8	13.8	23.4	-13.7	25.2	20.1	24.5
Price-Earnings (x)	71.2	58.5	51.4	41.7	48.3	38.6	32.1	25.8

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

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