

CMP: ₹1200

Target: ₹ 1300 (8%)

Target Period: 12 months

HOLD

January 18, 2023

## Mixed Q3FY23; sustained growth trigger for re-rating

**About the stock:** ICICI Lombard is among the leading multi-line players in the general insurance space with ~8.6% market share on an overall basis.

- Motor segment contributes over 40% of total premium
- General insurer is among the most profitable and consistent in terms of return ratios with RoE of ~14% for a sustainable period

**Q3FY23 Results:** ICICI Lombard reported a mixed performance.

- Gross premium growth was healthy at 17% YoY to ₹ 5493 crore
- Claims ratio down QoQ 250 bps at 70.3%; opex ratio largely steady at ~30%
- Combined ratio at 104.4% vs. 105.1% QoQ; underwriting loss at ₹ 293 crore
- PAT at ₹ 352 crore, up 11% YoY. ~20 bps gain in market share

**What should investors do?** Since our initiation in March 2022, the stock has largely remained flat post some rally. Leadership in a market with long term growth potential remains positive but sustained market share along with gradual improvement in combined ratio is awaited for gaining confidence.

- Thus, we maintain our **HOLD** rating on the stock

**Target Price and Valuation:** Rolling to FY25E, we value ICICI Lombard at 2.1x FY25E premium (50% weight), 1.1x FY25E float (50% weight) and maintain our target price at ₹ 1300/share.

**Key triggers for future price performance:**

- Aggressive agency hiring to aid growth in health business while rationalisation of pricing in motor segment to lead to healthy premium uptick
- Investment in strengthening distribution & digital capabilities to keep opex at current run rate. Thus, combined ratio to witness gradual improvement, especially from FY24E onwards as investments start yielding growth
- Competitive intensity remains high. Regulatory changes could lead to near term volatility

**Alternate Stock Idea:** Apart from ICICI Lombard, we like Star Health Insurance.

- Market leader in the retail health insurance segment with ~33% market share, as of September 2022
- BUY with a target price of ₹ 850



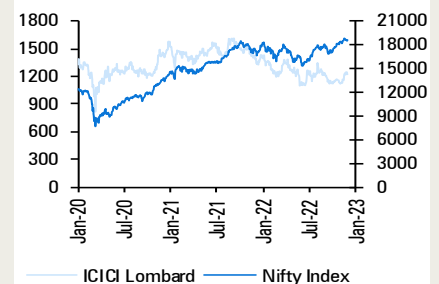
### Particulars

Particulars	Values
Market Capitalisation	₹ 61394 crore
Networth	₹ 9953 crore
52 week H/L (₹)	1466 / 1071
Face Value (₹)	10.0

### Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	48.1	48.0	48.0	48.0
FII	28.1	26.9	25.0	24.1
DII	13.5	13.7	15.4	15.9
Others	10.4	11.3	11.6	11.9

### Price performance



### Key Highlights

A ~20 bps improvement in market share at 8.6%

**Key risk:** i) Regulatory changes may increase competitive intensity, ii) faster pick-up in health business

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 Year CAGR (FY19 - FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22 - FY25E)
Gross direct premium income	13312.8	14003.1	17976.9	7.5	21809.2	25589.3	30123.1	18.8
Adjusted net profit	1193.7	1473.1	1271.0	6.6	1591.0	1888.1	2280.9	21.5
Networth	6134.2	7435.5	9109.7	19.6	10462.2	12048.2	13964.2	15.3
EPS (Rs)	26.3	32.4	25.9		32.4	38.4	46.4	
P/E (x)	45.7	37.0	46.3		37.0	31.2	25.8	
RoE (%)	21.0	21.3	14.5		15.3	15.5	16.2	
P/Float	2.1	1.8	1.5		1.3	1.2	1.0	
P/GWP	4.0	3.8	3.2		2.6	2.2	1.9	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Steady performance with ~20bps market share gain

- ICICI Lombard posted a steady set of numbers as gross premium grew 17.0% YoY, 5.6% QoQ to ₹ 5493 crore. Post erosion in market share earlier, the same has remained steady with 20 bps improvement in Q3FY23 to 8.6%. Net premium increased 13.9% YoY to ₹ 4163 crore. Investment income was at ₹ 580 crore, up ~9% YoY
- Among products, motor segment registered 10% YoY growth and within health segment, retail and group grew 12% and 38% YoY, respectively
- Total expenses grew 14.1% YoY, 2.4% QoQ (opex up 15.8% YoY, 16.6% QoQ due to higher sales promotion expenses). Commission declined 14% YoY to ₹ 174.4 crore while claims grew 15.7% YoY to ₹ 2666. Claims ratio declined sequentially by 250 bps to 70.3% while on a yearly basis it increased ~76 bps. Combined ratio has declined 70 bps QoQ at 104.4% and posted an underwriting loss of ₹ 293.5 crore. However, with addition of other income the company had operating profit of ₹ 276.5 crore
- Motor segment continues to be one of the major contributors to total premium at 40% (down from 44% a year ago) while health segment saw rise in total contribution at 26% compared to 22% YoY
- On an aggregate basis, led by decent growth in premium earned, market share gain of ~20 bps QoQ (8.6% market share in GDPI) and decline in combined ratio, the company posted a net profit of ₹ 352.5 crore (up 11% YoY), which is largely in line with our estimates of ₹ 367.6 crore
- Solvency ratio for the company was steady QoQ, YoY, on an overall basis, at 2.45x

ICICI Lombard - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	4.1	19.2	23.7
Social	35.1	37.9	37.9
Governance	76.1	76.1	76.1
<b>Overall ESG Score</b>	<b>38.5</b>	<b>44.4</b>	<b>45.9</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

### Q3FY23 Earnings Conference Call highlights

- Health segment continued to drive overall industry growth. The underwriting performance remains weak with combined ratio of industry at 116%. For the motor segment, combined ratio was at 123.5%
- Among products, motor OD, growth came in at 4.7% as the competitive intensity continued especially in PV segment. Health segment continue to remain fastest growing segment in the industry and grew 47% for the company. As a result of continued investment in retail health distribution, the company has outpaced industry growth during the quarter
- Banca and key relationship grew 39% in which one banca partner distribution saw growth 30.9% and other banca partnerships grew 44.2%
- Growth number of retail health agency channel will be sustained (at ~40%) going ahead. Group health is also growing strong compared to industry led by strong banca channels
- Retail health indemnity grew ~26% during the quarter. Within that, agency vertical grew ~40%
- Expense ratio is likely to be at ~29-30% due to higher investments. However, the management indicated that revenues will catch up gradually, which will keep opex steady. The tech migration is almost done and synergy benefit can be seen from Q4FY23 onwards
- Loss ratio break up: corporate health – 98.9%, retail indemnity – 68%. Overall loss ratio to come down in the near term
- Three-fourth of investment income is from accruals and balance is capital gains
- For FY23, combined ratio will be at ~104% levels while FY24 is expected to start seeing a decline
- The management guided for RoE to be in high teens

## Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
HDFC Life	600	635	Buy	1290	6.7	5.7	6.8	8.2	89.2	104.9	87.7	73.3	4.6	4.2	3.4	2.8	17.6	18.0	18.1	18.2
Star Health	536	850	Buy	312	-14.1	-20.5	8.7	14.4	-38.1	-26.1	61.4	37.2	9.0	7.3	4.5	3.1	-23.6	-27.8	7.3	8.3
ICICI Lombard	1200	1300	Hold	589	18.7	18.7	18.7	18.7	64.3	64.3	64.3	64.3	4.9	4.9	4.9	4.9	15.5	15.5	15.5	15.5

Source: Company, ICICI Direct Research

## Exhibit 4: Variance Analysis

Results Summary (₹ cr)	Q3FY23	Q3FY23E	Q3FY22	YoY %	Q2FY23	QoQ %	Comments
<b>Policyholders' Account</b>							
Gross premium written	5599.7	5695.4	4786.1	17.0	5302.6	5.6	Growth driven by motor and health
Net premium written	4163.0	4218.8	3655.1	13.9	3705.9	12.3	
Premium Earned (Net)	3792.1	4017.9	3311.9	14.5	3836.6	-1.2	Business retention remains steady
Income from investments (net)	580.1	566.1	532.2	9.0	635.3	-8.7	
Other income	-10.2	10.0	10.0	-201.5	27.2	-137.4	
<b>Total income</b>	<b>4362.0</b>	<b>4594.1</b>	<b>3854.1</b>	<b>13.2</b>	<b>4499.0</b>	<b>-3.0</b>	
Commission	174.4	168.8	202.7	-14.0	128.2	36.0	Commission ratio eases QoQ
Opex relating to insurance business	1244.8	1181.3	1074.9	15.8	1067.3	16.6	Higher opex led by sales promotion expenses
Incurred claims	2666.3	2911.0	2303.5	15.7	2793.3	-4.5	Claim ratio declined QoQ
<b>Total expenses</b>	<b>4085.5</b>	<b>4261.0</b>	<b>3581.1</b>	<b>14.1</b>	<b>3988.8</b>	<b>2.4</b>	Combined ratio at 104.6% in 9MFY23
Underwriting profit/ (loss)	-293.5	-243.1	-269.2	9.0	-152.3	92.7	
<b>Operating profit/ (loss)</b>	<b>276.5</b>	<b>333.0</b>	<b>273.1</b>	<b>1.3</b>	<b>510.2</b>	<b>-45.8</b>	
<b>Shareholders' Account</b>							
Income in shareholder's account	484.6	514.2	438.1	10.6	715.7	-32.3	
Total Expenses	19.3	20.7	17.1	13.0	106.0	-81.8	
<b>Profit before taxes</b>	<b>465.3</b>	<b>493.4</b>	<b>420.9</b>	<b>10.5</b>	<b>609.7</b>	<b>-23.7</b>	
Provision for taxes	112.7	125.8	103.4	9.0	19.1	489.0	
<b>Profit after tax</b>	<b>352.5</b>	<b>367.6</b>	<b>317.5</b>	<b>11.0</b>	<b>590.5</b>	<b>-40.3</b>	Steady earnings supported by premium growth
<b>Analytical ratios (reported)</b>							
Solvency ratio	2.45		2.45	0 bps	2.47	-2 bps	
Claim ratio	70.31		69.55	76 bps	72.81	-250 bps	
Expense ratio	31.20		31.50	-30 bps	27.90	330 bps	
Net retention ratio	74.30		76.40	-210 bps	69.90	440 bps	
Combined ratio	104.40		104.50	-10 bps	105.10	-70 bps	

Source: Company, ICICI Direct Research

## Exhibit 5: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
GDPI	21,421	21,809	1.8	25,140	25,589	1.8	30,123.1
Claims	10,762	10,697	-0.6	12,439	12,392	-0.4	14,675.6
Operating P/L	2,100	1,384	-34.1	2,719	1,849	-32.0	2,273.4
PAT	1,509	1,591	5.4	1,765	1,888	7.0	2,280.9
Combined ratio %	103.1	104.2	103 bps	100.2	102.2	191 bps	101.3

Source: Company, ICICI Direct Research

## Exhibit 6: Assumption

(₹ Crore)	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
GDPI growth %	21.3	17.3	17.7	19.2	17.4
Claims ratio %	59.5	58.5	58.5	59.5	58.5
Combined ratio %	104.2	102.2	101.3	103.1	100.2
Yield on Investment %	7.6	7.7	7.7	8.8	8.7
Solvency (x)	2.8	2.8	2.8	2.9	2.8

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 44: Policy holder's Account				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Gross direct premium income	17976.9	21809.2	25589.3	30123.1
Net Earned Premium	13032.1	15073.6	17686.4	20932.4
Investment income	3097.8	2383.5	2717.2	3097.6
<b>Total income</b>	<b>16129.8</b>	<b>17457.1</b>	<b>20403.5</b>	<b>24030.0</b>
Claims	9781.9	10697.4	12391.6	14675.6
Commission	633.9	575.9	704.7	754.7
Operating expense	3920.1	4800.0	5458.6	6326.3
<b>Total expense</b>	<b>14335.9</b>	<b>16073.3</b>	<b>18554.9</b>	<b>21756.6</b>
Operating profit/(loss)	1793.9	1383.8	1848.7	2273.4

Source: Company, ICICI Direct Research

Exhibit 46: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Shareholders' Funds</b>				
Share capital	490.9	491.1	491.1	491.1
Reserve and surplus	8618.8	9971.1	11557.1	13473.1
Fair Value change	359.3	886.1	1012.2	1156.3
Borrowings	255.0	35.0	42.0	50.4
<b>Total</b>	<b>9724.0</b>	<b>11383.3</b>	<b>13102.4</b>	<b>15170.9</b>
<b>Application of funds</b>				
Investments				
Shareholders'	8917.9	10255.6	11793.9	13563.0
Policyholders'	29868.4	34049.9	38816.9	44251.3
Fixed assets	577.5	589.0	606.7	631.0
Deferred tax asset	345.6	368.8	368.8	368.8
Current assets				
Cash and bank balances	292.6	3558.9	6604.6	9545.9
Advances and other assets	10846.3	10904.6	12666.7	14910.9
Current liabilities	33066.8	38929.4	46572.4	54824.0
Provisions	8057.5	9414.1	11182.8	13276.0
<b>Total</b>	<b>9724.0</b>	<b>11383.3</b>	<b>13102.4</b>	<b>15170.9</b>

Source: Company, ICICI Direct Research

Exhibit 45: Shareholder's Account				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Operating profit/(Loss)	1793.9	1383.8	1848.7	2273.4
Income from Investments	703.2	774.3	941.6	1084.3
Other income - misc income	3.0	3.0	3.0	3.0
Total Income	2500.1	2161.1	2793.2	3360.7
Total Expenses	816.6	204.1	234.8	270.0
Profit Before Tax	1683.5	1956.9	2558.4	3090.7
Tax	412.5	365.9	670.3	809.8
Profit After Tax	1271.0	1591.0	1888.1	2280.9

Source: Company, ICICI Direct Research

Exhibit 47: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Growth Ratios (%)</b>				
Gross Direct Premium Income	28.4	21.3	17.3	17.7
Net Premium Income	30.1	15.7	17.3	18.4
Operating Expenses	40.5	12.1	15.4	17.3
PAT	-13.7	25.2	18.7	20.8
BVPS	13.5	14.8	15.2	15.9
EPS	-20.1	25.1	18.7	20.8
<b>Profitability Ratios (%)</b>				
Yield on Investment	10.9	7.6	7.7	7.7
Claims ratio	58.5	59.5	58.5	58.5
Commission To NEP	4.9	3.8	4.0	3.6
Opex to NEP	30.1	31.8	30.9	30.2
Combined Ratio	108.8	104.2	102.2	101.3
<b>Balance Sheet Ratios (%)</b>				
ROE	14.5	15.3	15.5	16.2
Investment Leverage	4.2	4.2	4.2	4.1
Solvency Ratio (x)	2.5	2.8	2.8	2.8
<b>Valuation Ratio</b>				
P/B	6.5	5.6	4.9	4.2
P/E	46.3	37.0	31.2	25.8
P/float	1.5	1.3	1.2	1.0
P/GWP	3.2	2.6	2.2	1.9

Source: Company, ICICI Direct Research

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