Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

ICICI Lombard General Insurance Company

Mixed Bag Q3

Insurance	Sharekhan code: ICICIGI
Reco/View: Buy ↔	CMP: Rs. 1,143
	Price Target: Rs. 1,400 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- ICICI Lombard reported PAT of Rs. 346 crore (up 9% y-o-y/ down 41% q-o-q) which missed our estimates mainly due to lower investment income and lower premium income. Underwriting loss stood at Rs. 293 crore in Q3FY23 versus a loss of Rs.269 crore in Q3FY22 and loss of Rs. 152 crore in Q2FY23.
- Gross written premium grew by 17% y-o-y/5.6% q-o-q led by faster growth in commercial lines and Retail/group health segment; while motor business was a laggard with 5% y-o-y growth due to 1% y-o-y growth in Motor OD. Motor TP premium grew by 10% y-o-y. Retail health premium picked up, grew by 24% y-o-y & Group Health grew by 57% y-o-y.
- The combined ratio was at 104.4% vs 104.5% in Q3FY22 and 105.1% in Q2FY23. Claims ratio decreased by 250 bps q-o-q to 70.3%; the key retail segments of motor OD/motor TP/health also reported a decline in the claims ratio of 170/470/360 bps q-o-q. However, claims ratio increased 70bp y-o-y. Expense ratio reported at 29.9% was up by 50 bps y-o-y/ 110 bps q-o-q and commission ratio was reported at 4.2% (higher by 73 bps q-o-q).
- Stock currently trades at 29.7x/27.2x/ 24.0x its FY2023E/FY2024E/ FY2025 EPS. We maintain a Buy with an unchanged PT of Rs. 1400.

ICICI Lombard reported ~17% y-o-y /5.6% q-o-q growth in gross written premium. Commercial lines and Retail/group health segment saw healthy growth. However, the motor business was a laggard with 5% y-o-y growth due to a 1% y-o-y growth in the Motor OD segment. Motor TP premium grew by 10% y-o-y. Retail health premium growth picked up, grew by 24% y-o-y & Group health also grew strongly by 57% y-o-y. Net earned premium grew by 14% y-o-y/ 12% q-o-q. Net incurred claims were higher by 16% y-o-y/down by 5% q-o-q. Claims ratio decreased by 250 bps q-o-q to 70.3%; the key retail segments of motor OD/motor TP/health also reported a decline in the claims ratio of 170/470/360 bps q-o-q. However, claims ratio increased 70bp y-o-y. Expense ratio reported at 29.9% was up by 50 bps y-o-y/ 110 bps q-o-q and commission ratio was reported at 4.2% (higher by 73 bps q-o-q). Combined ratio was at 104.4% vs 104.5% in Q3FY22 and 105.1% in Q2FY23. Underwriting loss stood at Rs. 293 crore in Q3FY23 versus a loss of Rs.269 crore in Q3FY22 and loss of Rs. 152 crore in Q2FY23. PAT came in at Rs. 346 crore (up 9% y-o-y/ down 41% q-o-q). The solvency ratio stood at 245% versus 247% sequentially.

Key positives

- Retail health premium picked up, and grew by 24% y-o-y, aided by new retail force and bank partnership.

Key negatives

- Claim ratio in Motor OD segment was higher at 73% (up 120 bps y-o-y) despite slow down.
- Company lost market share in motor OD segment (13.7% from 15.7% in Q3FY22).
- Investment yield muted.

Management Commentary

- Loss ratio in the Motor OD was higher than Motor third-party. The management highlighted that some of the benefits may be due to the release of provisions from previous periods. The company expects competition in the Motor OD segment to remain elevated.
- Investments in retail health have started yielding results and the management expects the growth to sustain in the medium term.

Our Call

Valuation – We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,400. The company`s leading premium market share in the 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 and benefits accruing from past investments in technology. 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. The overhang of the large stake sale by ICICI Bank till September 2023 remains. Gradual improvement in the combined ratio is expected and the higher bond yields should boost investment yields and profitability. We expect the company to deliver medium-term RoE of 18%. At the current price, the stock trades at 29.7x/27.2x/24.0x its FY2023E/FY2024E/FY2025E EPS.

Key Risks

Increased pricing pressure in the operating segment, higher claims ratio and 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
P/E (x)	44.1	29.7	27.2	24.0
P/BV (x)	6.2	5.3	4.6	4.1
ROE (%)	15.4	19.3	18.2	18.0

Source: Company; Sharekhan estimates

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 20.64

Updated Dec 08, 2022

Medium Risk

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

Source: Morningstar

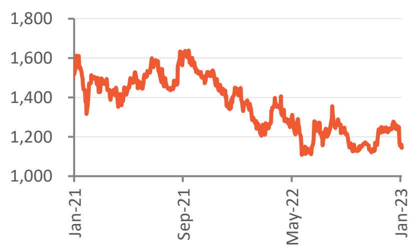
Company details

Market cap:	Rs. 56,150 cr
52-week high/low:	Rs. 1,415 / 1,071
NSE volume: (No of shares)	7.7 lakh
BSE code:	540716
NSE code:	ICICIGI
Free float: (No of shares)	25.5 cr

Shareholding (%)

Promoters	48.0
FII	23.4
DII	16.8
Others	11.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.6	-0.6	-5.9	-14.1
Relative to Sensex	-6.5	-3.4	-15.4	-17.4

Sharekhan Research, Bloomberg

Key result highlights

- **Accelerated investments yielding results:** Market share as at 9MFY23 on GDPI basis stood at 8.6% vs 8.4% in H1FY23. The company is further focusing on expanding its distribution network to increase penetration in Tier-3 and Tier-4 cities. The company is outperforming in the retail health segment, driven by agency channel. Investments in retail health have started yielding results and the management expects the growth to sustain. Group health is also gaining pace, driven by the bancassurance channel. The company has onboarded 1,000 agency managers and is continuing to add more. 10,000 agents have been hired so far.
- **Lower Investment Income:** Investment yields were 6% vs 7.2% in Q2FY23 and 6% in Q3FY22, despite repo rate hike. The company booked large equity capital gains, which augmented earnings; overall investment return (including capital gains) was 7.5% compared with 8.3% in Q2FY23 and 7.4% in Q3FY22. A higher interest environment is generally favourable. Going forward, investment yield should inch up, and capital gains will reduce.
- **Segmental Commentary:** The motor OD segment continues to witness high competition, especially in the passenger vehicle side. Pricing remains a concern with the industry loss ratio for the motor segment, according to management, inching up to 123.5% in 1HFY23 from 102% in 1HFY22. Thus, volumes were lower. Competitive intensity is likely to remain high; thus, the company will continue to go slow in this segment. With premium hikes in Motor third-party, the loss ratios are better than the OD segment. Retail health premium growth picked up 24%, with the agency channel growing 40% y-o-y. Growth in the group health segment was also strong at 57% y-o-y, driven by disbursal-linked fixed-benefit business done through the bancassurance channel (up 39% y-o-y).

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	Y-o-Y %	Q-o-Q %
Gross written premium	**5,600**	**4,786**	**5,303**	**17.0**	**5.6**
Premium ceded	1,437	1,131	1,597	27.0	(10.0)
Net Premium	**4,163**	**3,655**	**3,706**	**13.9**	**12.3**
Change in unexpired risk reserve	371	343	(131)	8.1	NM
Net earned premium	**3,792**	**3,312**	**3,837**	**14.5**	**(1.2)**
Net incurred claims	2,666	2,304	2,793	15.7	(4.5)
Net commission paid	174	203	128	(14.0)	36.0
Operating expenses related to insurance	1,245	1,075	1,067	15.8	16.6
Underwriting Profit/ (Loss	**(293)**	**(269)**	**(152)**	**NM**	**NM**
Investment income	767	695	832	10.3	(7.8)
Other income	11	12	36	(9.0)	(68.9)
Provisions	1	(0)	89	NM	NM
Other expenses	19	17	17	6.9	8.2
Profit before tax	**465**	**421**	**610**	**10.5**	**(23.7)**
Tax	119	103	19	15.2	523.6
Profit after tax	**346**	**318**	**591**	**9.0**	**(41.4)**
Key Ratios (%)					
Retention ratio	74.3	76.4	69.9		
Net incurred claims ratio	70.3	69.6	72.8		
Net commission ratio	4.2	5.5	3.5		
Operating expense ratio	29.9	29.4	28.8		
Combined ratio	104.4	104.5	105.1		
Solvency ratio	2.45	2.45	2.47		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook

The global insurance industry is undergoing radical transformations. Tighter regulatory norms , pricing competition and rapidly changing customer expectations are some of the biggest challenges that the market is sailing through. However, despite these challenges, the industry is poised for robust growth riding on tech-driven disruptions. While on the one hand, the pandemic acted as a huge setback for the industry, with unanticipated claims in huge amounts rallying in; on the other it became a herald of accelerated digital transformation. We believe the overall sector has a huge growth potential in India. In this backdrop, we believe strong players such as ILGI, armed with the right mix of products, services, distribution network, tech-led capabilities are likely to gain disproportionally from the opportunity.

■ Company Outlook – Striking a balance between profitability and growth

ILGI remains an attractive franchise, striking a good balance between profitability and growth. It has a strong management team focusing on ROE and a strong execution track record (20% or higher ROE in seven out of the past eight years). We expect healthy demand for health products going forward. ILGI has also been able to fare better on loss ratio front 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 banks) 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 realised 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 – We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,400.** The company`s leading premium market share in the 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 and benefits accruing from past investments in technology. 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. The overhang of the large stake sale by ICICI Bank till September 2023 remains. Gradual improvement in the combined ratio is expected, and the higher bond yields should boost investment yields and profitability. We expect the company to deliver medium-term RoE of 18%. At the current price, the stock trades at 29.7x/27.2x/24.0x exits FY2023E/FY2024E/FY2025E EPS.

About company

ICICI Lombard General Insurance is one of India's leading private sector general insurance companies. The Company provides an array of comprehensive and well-diversified non-life insurance products and risk management solutions to secure customers and their family against unexpected and untoward events. It has a strong, diversified, and seamless distribution channel both online and offline to serve the needs of its individual, corporate, MSMEs and government customers.

Investment theme

ILGI continues to maintain its market share based on GDPI. The company is continuously building reach via both physical and virtual channels. Integration of non-life insurance business of erstwhile Bharti AXA General Insurance has started. The insurance business's profitability and returns are strongly dependent on underwriting 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

Increased pricing pressure in the operating segment, higher claims ratio and 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	48.02
2	SBI FUNDS MANAGEMENT LTD	4.40
3	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	4.29
4	BHARTI GENERAL VENTURES PR	3.71
5	GOVERNMENT PENSI	1.67
6	VANGUARD GROUP INC	1.63
7	NORGES BANK	1.59
8	BLACKROCK INC	1.45
9	UTI ASSET MANAGEMENT CO LTD	1.23
10	ADITYA BIRLA SUN LIFE ASSET MANAGEMENT CO LTD	0.92

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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