Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Lombard General Insurance Company

Mixed bag Q4

Insurance		Sharekhan code: ICICIGI	
Reco/View: Buy	↔	CMP: Rs. 1,131	Price Target: Rs. 1,400 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- ICICI Lombard reported a PAT of Rs. 437 crore (up 40% y-o-y/ 24% q-o-q), above the consensus and our estimates driven by higher investment income and a likely rise in inward commissions.
- However, GDPI growth moderated to 7% y-o-y. Excluding one off transaction during the quarter, the GDPI growth was at 12.5% y-o-y. Premium growth was still slower than industry growth (~16.9%). Net earned premium grew by 12% y-o-y.
- Despite higher claims ratio at 74.2% vs 70.3% q-o-q led by higher claims ratio in Motor third-party segment, Combined ratio at 104.2% remained stable q-o-q due to higher inward commission and lower expenses. Underwriting loss stood at Rs. 251 crore vs Rs. 293 crore q-o-q and Rs. 309 crore y-o-y.
- Stock currently trades at 27.0x/ 23.7x its FY2024E/ FY2025 EPS. We maintain a Buy with an unchanged PT of Rs. 1400.

ICICI Lombard reported ~17% growth in GDPI in FY23. During Q4FY23, Premium growth moderated to 7% y-o-y. Commercial lines and Retail/group health segment saw healthy growth. However, the motor business segment continued to remain laggard with 8% y-o-y decline led by a 13% y-o-y decline in Motor TP segment due to a one-off transaction, adjusting for that premium remained flat y-o-y. The retail health premium growth was 19% y-o-y & Group health also grew strongly by 49% y-o-y. Net earned premium grew by 12% y-o-y. Claims ratio was higher at 74.2% vs 70.3% q-o-q but was offset by a decline in the commission ratio and opex ratio. An increase in the claim's ratio was driven by the motor TP segment (86.5% vs 61.9% q-o-q), while motor OD (at 69.4% vs 73.0% q-o-q) and health segments (at 75.5% vs 78.2% q-o-q) reported decline in claim ratio. The expense ratio moderated to 27.7% vs 29.9% q-o-q as the investments in digital business and retail health agency channel have taper down. The increase in the share of commercial and group business and one-off sale transaction resulted in the commission ratio declining to 2.3% vs 4.2% q-o-q and 4.0% y-o-y. Solvency ratio stood at 251% versus 245% sequentially.

Key positives

- Retail health premium grew by 19% y-o-y.
- Marginal improvement in the claim's ratio in the motor OD segment to 69.4% from 73% q-o-q.

Key negatives

- Company lost market share in motor OD segment (13.1% vs 15.1% in FY22).
- Claims ratio in the motor TP business increased to 87% from 62% q-o-q.
- Commercial lines business will likely face headwinds in the near term owing to removal of standardised tariffs and higher reinsurance rates.

Management Commentary

- The management highlighted that the overall competitive intensity in Motor OD segment has stabilized a bit. Higher share of the fleet CV business has resulted in a higher claims ratio in Motor TP segment.
- The company sold a large pool of motor loans (~Rs2.8 bn) during the quarter. Company guided that the transaction had a marginal contribution to its underlying profitability. Company also took 19% price hike in Retail Health Indemnity renewal book during the quarter.
- Company maintained its guidance of 102% combined ratio by FY25E.

Our Call

Valuation – We maintain a Buy rating 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. Gradual improvement in the motor business and health business should boost profitability although commercial lines will likely face headwinds in the near term due to the removal of standardized tariffs and higher reinsurance rates. We expect the company to deliver medium-term RoE of 18%. At the current price, the stock trades at 27.0x/23.7x its FY2024E/FY2025E EPS.

Key Risks

Increased pricing pressure in the operating segment, higher claims ratio and lower investment income.

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Gross direct premium	17,977	21,772	24,800	28,600
PAT	1,271	1,729	2,060	2,340
EPS (Rs)	25.9	35.2	42.0	47.7
P/E (x)	43.7	32.1	27.0	23.7
P/BV (x)	6.1	5.3	4.6	4.0
ROE (%)	15.4	17.7	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 March 08, 2023

Medium Risk

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

Source: Morningstar

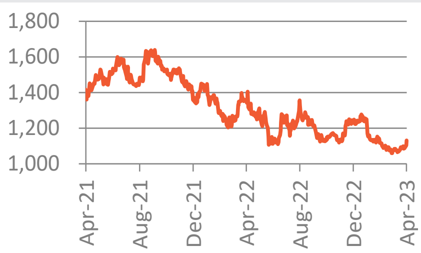
Company details

Market cap:	Rs. 55,525 cr
52-week high/low:	Rs. 1,411 / 1,049
NSE volume: (No of shares)	6.3 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	5.6	-5.8	-1.6	-16.7
Relative to Sensex	2.6	-3.6	-2.9	-21.1

Sharekhan Research, Bloomberg

Stock Update

Result Update

Key result highlights

- **Accelerated investments expected to yield results:** Market share as at FY23 on GDPI basis stood at 8.2%. The company is 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 hired about 1,000 agency managers who in turn recruited 10,000 agents as the productivity of these newly recruited agents picks up, the retail health channel should deliver strong growth.
- **Higher Investment Income:** The sequential improvement in investment income was driven by a shift toward higher yielding assets in the portfolio. Capital gains were at Rs. 1.59 billion in Q4FY2023 as against Rs. 1.36 billion in Q4FY2022. Investment yields reported at 7.5%.
- **Segmental Commentary:** The motor business is showing signs of improvement with the combined ratio at 118% in 3QFY23 v/s. 123.5% in 1HFY23. It has taken a price hike in the Motor OD segment. Benefits of nation-wide implementation of Motor Vehicles Act has not been factored into the company's target combined ratio of 102% by FY25E as no major development is seen on the ground. The company sold a large motor pool (~Rs. 2.8 billion) during the quarter . The transaction had a marginal contribution to its underlying profitability. Investment in the health business has led to stronger growth in retail health. Agency retail health grew by 30% y-o-y. The company has announced a 19% price hike in retail health segment for the renewal book only. This shall improve loss ratios (restricted by health inflation). Over the longer term, health indemnity loss ratio is likely to be at 65-70%. Commercial lines will see a challenging phase with reinsurance rates hardening by 45-60%. Also, the regulator is pushing toward free pricing (removing of floor). Overall profitability of commercial lines is expected to decrease due to the fire business. Banca channels saw strong growth with ICICI bank growing at 14% y-o-y and non ICICI bank channel growing by 32% y-o-y.
- **Dividend:** The company has proposed a final dividend of Rs 5.50 per equity share for FY2023.

Results Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	y-o-y (%)	q-o-q (%)
Gross written premium	**5,340**	**5,001**	**5,600**	**6.8**	**(4.6)**
Premium ceded	1,292	1,027	1,437	25.8	(10.0)
Net Premium	**4,047**	**3,973**	**4,163**	**1.9**	**(2.8)**
Change in unexpired risk reserve	321	656	371	(51.0)	(13.4)
Net earned premium	**3,726**	**3,318**	**3,792**	**12.3**	**(1.7)**
Net incurred claims	2,766	2,389	2,666	15.8	3.7
Net commission paid	91	160	174	(42.9)	(47.6)
Operating expenses related to insurance	1,119	1,077	1,245	3.9	(10.1)
Underwriting Profit/ (Loss	**(251)**	**(309)**	**(293)**	**NM**	**NM**
Investment income	793	703	767	12.8	3.4
Other income	37	11	11	229.7	234.8
Provisions	(9)	(11)	1	NM	NM
Other expenses	15	5	19	202.5	(16.3)
Profit before tax	**573**	**410**	**465**	**39.5**	**23.1**
Tax	136	98	113	38.4	20.2
Profit after tax	**437**	**313**	**352**	**39.8**	**24.0**
Key Ratios (%)					
Retention ratio	75.8	79.5	74.3		
Net incurred claims ratio	74.2	72.0	70.3		
Net commission ratio	2.3	4.0	4.2		
Operating expense ratio	27.7	27.1	29.9		
Combined ratio	104.2	103.2	104.4		
Solvency ratio	2.51	2.46	2.45		

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 – Progressing well

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. A gradual improvement in the motor business and health business should boost profitability although commercial lines will likely face headwinds in the near term due to the removal of standardised tariffs and higher reinsurance rates. We expect the company to deliver medium-term RoE of 18%. At the current price, the stock trades at 27.0x/23.7x its FY2024E/FY2025E EPS.

About the 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 individual, corporate, MSMEs and government customers.

Investment theme

ILGI continues to maintain its market share based on GDPI. 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.

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	48.0
2	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	4.7
3	SBI FUNDS MANAGEMENT LTD	4.6
4	BHARTI GENERAL VENTURES	3.7
5	NORGES BANK	2.2
6	GOVERNMENT PENSION FUND – GLOBAL	2.2
7	VANGUARD GROUP INC	1.9
8	BLACKROCK INC	1.5
9	UTI ASSET MANAGEMENT CO LTD	1.3
10	FIL Ltd	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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