ICICI Lombard General Insurance Company

**Mixed bag Q1**

**Insurance**

Reco/View: Buy

<table>
<thead>
<tr>
<th>CMP: Rs. 1,366</th>
<th>Price Target: Rs. 1,540</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upgrade</strong></td>
<td><strong>Maintain</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Downgrade</strong></td>
</tr>
</tbody>
</table>

**Summary**

- ICICI Lombard reported a PAT of Rs. 390 crore (up 12% y-o-y/ down 11% q-o-q) mainly driven by higher investment income (up 22% y-o-y/ 2% q-o-q).
- Though net written premium grew strongly by 23% y-o-y, net earned premium grew by just 12% y-o-y due to higher unexpired risk reserves.
- Combined ratio was higher at 103.8% versus expectation of 102.5% as it included the impact of Cyclone which increased the loss ratio by 90 bps which led to higher underwriting loss at Rs. 320 crore versus Rs. 251 crore q-o-q and Rs. 193 crore y-o-y.
- Stock currently trades at 32.6x/28.7x its FY2024E/FY2025 EPS. We maintain a Buy rating with a revised PT of Rs. 1540.

ICICI Lombard reported ~20% growth in gross written premium in Q1FY24 which translated into 23% growth in net written premium. However, net earned premium grew by just 12% y-o-y due to higher unexpired risk reserve. Retail/group health segment (23% y-o-y/ 44% y-o-y) supported the overall premium growth. The Motor business segment grew by 5% y-o-y after decline in last quarter led by Motor OD business which grew by 9% y-o-y while Motor TP (2% y-o-y) was weak. The claim ratio was at 74.2% q-o-q and 72.1% in Q1FY23. The claim ratio for the Motor segment declined, whereas it increased for all other segments. The removal of commission caps has likely led to rebalancing of expenses management between commissions and operating expenses.

**Key Risks**

- Retail/group health segment (23% y-o-y/ 44% y-o-y) supported overall premium growth.
- Company highlighted that pricing in commercial lines declined 5-7% after removal of standardised tariffs and higher reinsurance rates. The decline was moderate and better than expectations.

**Key positives**

- Company lost market share in motor business segment (9.8% versus 11.3% in Q1FY23).
- Claims ratio in the commercial lines shot up due to higher investment income.

**Management Commentary**

- Management highlighted that the overall competitive intensity in Motor OD segment has stabilized a bit. Trends in the last month were encouraging and management expects it to grow in line with the industry. With no price hikes in Motor TP, some part of the Motor TP portfolio has become unviable.
- The management clarified that the floods in north India have not been accounted for as the event has occurred after the reporting period. The profitability in the commercial lines will remain under pressure and thus do not expect the competitive intensity to increase.
- Investments in scaling up the health business are paying off and further investments have been made to accelerate growth in health distribution. Pricing accretion is seen in Group Health.

**Our Call**

We maintain a Buy rating with a revised PT of Rs. 1,540: 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 makes it a compelling investment. We expect healthy premium growth, led by investments in the health distribution channel and benefits accruing from past investments in technology.

**Result Update**

**Stock Update**

- **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)
  - 15.4
  - 17.7
  - 18.2
  - 18.0
  - P/E (x)
  - 25.9
  - 35.2
  - 42.0
  - 47.7
  - P/BV (x)
  - 52.8
  - 38.8
  - 32.6
  - 28.7
  - ROE (%)
  - 7.4
  - 6.4
  - 5.6
  - 4.8

- **Price chart**

- **Price performance (%)**
  - **1m**
  - **3m**
  - **6m**
  - **12m**
  - Absolute
  - 10.8
  - 20.8
  - 13.8
  - 7.4
  - Relative to Sensex
  - 3.0
  - 8.8
  - 3.2
  - (-)17.4

- **Sharekhan Research, Bloomberg**

- **Source: Morningstar**

**Esg Disclosure Score**

- **NEW**
  - **ESG RISK RATING**
  - **20.64**
  - **Updated July 08, 2023**

**Medium Risk**

- **Source: Morningstar**

**Company details**

- **Market cap:** Rs. 67,088 cr
- **52-week high/low:** Rs. 1,386/1,049
- **NSE volume:** 6.9 lakh
- **BSE code:** 540716
- **NSE code:** ICICIGI
- **Free float:** 25.5 cr

**Shareholding (%)**

- **Promoters:** 48.0
- **FIIs:** 22.0
- **DII:** 18.3
- **Others:** 11.7

**What has changed in 3R MATRIX**

<table>
<thead>
<tr>
<th>RS</th>
<th>Old</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RV</td>
<td></td>
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</tr>
</tbody>
</table>

**Management Commentary**

- The management clarified that the floods in north India have not been accounted for as the event has occurred after the reporting period. The profitability in the commercial lines will remain under pressure and thus do not expect the competitive intensity to increase.

- Investments in scaling up the health business are paying off and further investments have been made to accelerate growth in health distribution. Pricing accretion is seen in Group Health.

- We maintain a Buy rating with a revised PT of Rs. 1,540: 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 makes it a compelling investment. We expect healthy premium growth, led by investments in the health distribution channel and benefits accruing from past investments in technology.

- Gradual improvement in motor and health businesses should boost profitability although commercial lines will likely face headwinds in the near term. We expect the company to deliver medium-term RoE of 18%. At the current price, the stock trades at 32.6x/28.7x its FY2024E/FY2025 EPS.

**Key Risks**

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

- **Accelerated investments to yield results:** Market share on GDPI basis stood at 9.9% in Q1FY24. 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 also reported strong performance. The company has hired about 1,000 agency managers who in turn recruited 10,000 agents as productivity of these newly recruited agents picks up, the retail health channel should deliver strong growth.

- **Higher investment income:** The improvement in investment income was driven by a shift toward higher yielding assets in the portfolio. Investment yields reported at 7.3% versus 6.7% in Q1FY23. Investment income grew by 22% y-o-y/ 2% q-o-q.

- **Segmental commentary:** The motor OD segment was hit by high competition, especially in the PV segment, which led to company losing market share to new age players over the past few quarters. Trends in the last month were encouraging and management expects it to grow in line with the industry. Motor TP is showing some signs of weakness. Tariffs in this segment have been quite stable and is hurting the profitability. Retail health segment premium growth picked up 23% in Q1FY24, with the agency channel growing at 26% yoy. Growth in the group health segment was also strong at 44% y-o-y in 1QFY24. In commercial lines due to the removal of standardised tariffs and higher reinsurance rates, there were fears of massive competition in the business. However, tariff cuts were just about 5-7%.

<table>
<thead>
<tr>
<th>Results</th>
<th>Rs cr</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Particulars</strong></td>
<td><strong>Q1FY24</strong></td>
</tr>
<tr>
<td>Gross written premium</td>
<td>6,622</td>
</tr>
<tr>
<td>Premium ceded</td>
<td>2,154</td>
</tr>
<tr>
<td>Net Premium</td>
<td>4,468</td>
</tr>
<tr>
<td>Change in unexpired risk reserve</td>
<td>580</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>3,887</td>
</tr>
<tr>
<td>Net incurred claims</td>
<td>2,882</td>
</tr>
<tr>
<td>Net commission paid</td>
<td>556</td>
</tr>
<tr>
<td>Operating expenses related to insurance</td>
<td>769</td>
</tr>
<tr>
<td>Underwriting Profit/ (Loss)</td>
<td>(320)</td>
</tr>
<tr>
<td>Investment income</td>
<td>807</td>
</tr>
<tr>
<td>Other income</td>
<td>29</td>
</tr>
<tr>
<td>Provisions</td>
<td>(18)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>15</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>520</td>
</tr>
<tr>
<td>Tax</td>
<td>130</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>390</td>
</tr>
</tbody>
</table>

**Key Ratios (%)**

- Retention ratio | 67.5 | 65.5 | 75.8 |
- Net incurred claims ratio | 74.1 | 72.1 | 74.2 |
- Net commission ratio | 12.5 | 2.2 | 2.3 |
- Operating expense ratio | 17.2 | 29.9 | 27.7 |
- Combined ratio | 103.8 | 104.1 | 104.4 |
- Solvency ratio | 2.53 | 2.6 | 2.51 |

*Source: Company, Sharekhan Research*
Outlook and Valuation

■ Sector view - Large growth potential
The general 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 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 ICICIGI, 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
The company 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. The company has also been able to fare better on loss ratio front compared to its peers, which indicates its strong fundamentals. The company’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. It has been taking steps such as investing in distribution, innovation (wellness approach) and technology (ILTtakecare app).

■ Valuation - Maintain Buy rating with a revised PT of Rs. 1,540
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 makes it a compelling investment. We expect healthy premium growth, led by investments in the health distribution channel and benefits accruing from past investments in technology. Gradual improvement in motor and health businesses should boost profitability although commercial lines will likely face headwinds in the near term. We expect the company to deliver medium-term RoE of 18%. At the current price, the stock trades at 32.6x/28.7x its 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 individual, corporate, MSMEs and government customers.

Investment theme
The company continues to maintain its market share based on GDPI. It has also been able to fare better on loss ratio front compared to its peers, which indicates its strong fundamentals. It'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

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms. Bhargav Dasgupta</td>
<td>MD &amp; CEO</td>
</tr>
<tr>
<td>Mr. Gopal Balachandran</td>
<td>CFO &amp; CRO</td>
</tr>
<tr>
<td>Mr. Sanjeev Mantri</td>
<td>ED</td>
</tr>
<tr>
<td>Mr. Alok Agarwal</td>
<td>ED</td>
</tr>
</tbody>
</table>

Source: Company

Top 10 shareholders

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Holder Name</th>
<th>Holding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICICI BANK LTD</td>
<td>48.01</td>
</tr>
<tr>
<td>2</td>
<td>SBI FUNDS MANAGEMENT LTD</td>
<td>4.74</td>
</tr>
<tr>
<td>3</td>
<td>ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD</td>
<td>4.60</td>
</tr>
<tr>
<td>4</td>
<td>BHARTI GENERAL VENTURES</td>
<td>3.71</td>
</tr>
<tr>
<td>5</td>
<td>GOVERNMENT PENSION FUND - Global</td>
<td>2.29</td>
</tr>
<tr>
<td>6</td>
<td>NORGES BANK</td>
<td>2.15</td>
</tr>
<tr>
<td>7</td>
<td>VANGUARD GROUP INC</td>
<td>1.65</td>
</tr>
<tr>
<td>8</td>
<td>BLACKROCK INC</td>
<td>1.47</td>
</tr>
<tr>
<td>9</td>
<td>UTI ASSET MANAGEMENT CO LTD</td>
<td>1.33</td>
</tr>
<tr>
<td>10</td>
<td>Republic of Singapore</td>
<td>1.04</td>
</tr>
</tbody>
</table>

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.
### 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 external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating 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*
For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

Tel: 022-6115000.

U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA.


Compliance Officer: Ms. Binkle Oza; Tel: 022-61666962; email id: complianceofficer@sharekhan.com

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