

As good as it gets; downgrade to REDUCEGeneral Insurance ▶ Company Update ▶ **February 28, 2024****TARGET PRICE (Rs): 1,650**

ICICIGI is well on track to achieve 102% CoR by FY25E; its shares have run up ~25% (vs NIFTY50 up ~0%) post good Q3FY24 results. Recent outperformance of ICICI shares appears to be fully pricing-in improved operational performance and optimism of: i) no near-term headwind for GI on the Regulatory front; ii) minimum ~0.8% stake purchase by ICICI Bank before 9-Sep-24; iii) material improvement in CoR and EPS on Ind-AS implementation starting Apr-25. But we also see challenges: 1) likelihood of no hike in Motor TP tariffs causing lower industry growth and worsening of combined ratio in the TP segment; 2) prospect of greater intensity in Motor OD and Retail Health to drive higher distribution payouts and pressure on pricing, in pursuit of growth by smaller players; 3) price revision-led growth moderating in the Health segment. Against this backdrop, we marginally revise our FY24-26 estimates, leading to ~1-2% cut in GWP, ~0.4ppt increase in CoR and ~3-4% cut in EPS for FY25-26E. We downgrade the stock to REDUCE from Add, with Mar-25E TP of Rs1,650 (vs. Dec-24E TP of Rs1,600 earlier), implying 28x FY26E P/E and 5.2x FY26E P/B.

ICICI Lombard: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross written premium	185,624	217,718	253,350	290,061	332,356
Net earned premium	130,321	148,229	166,357	196,655	227,675
Adj. PAT	12,710	17,291	19,866	25,012	28,805
Adj. EPS (Rs)	25.9	35.2	40.5	50.9	58.7
BVPS (INR)	185.6	211.6	240.0	276.0	314.6
Adj. EPS growth (%)	(20.0)	35.9	14.9	25.9	15.2
BVPS growth (%)	13.4	14.0	13.4	15.0	14.0
NEP growth (%)	30.1	13.7	12.2	18.2	15.8
Combined ratio (%)	108.8	104.5	103.5	102.4	101.3
RoE (%)	14.5	17.2	16.8	18.0	18.1
P/Float (x)	2.2	2.0	1.7	1.5	1.3
P/E (x)	66.6	49.0	42.6	33.9	29.4
P/B (x)	9.3	8.1	7.2	6.2	5.5

Source: Company, Emkay Research

On track to achieve 102% CoR by FY25E, but not without challenges

ICICIGI's robust performance in Q3FY24 reaffirms our belief that company will achieve 102% combined ratio (CoR) by FY25E. However, this target is still contingent on external regulatory developments and competitive dynamics. And it is against such a backdrop that we see a few challenges that are likely to pose some threat to achieve this target; these include: i) likelihood of no hike in Motor TP tariffs in FY25 leading to slower growth in the segment, and worsening profitability in the segment; ii) continued pursuit for growth and market share, especially by smaller players, to keep competitive intensity high in Motor OD from both perspectives—distributor payout and pricing; iii) growth in the overall Health segment to see some moderation in the backdrop of stabilizing prices. Additionally, the sustained investment in tech and distribution is also likely to keep Expense Ratio under pressure.

Ind-AS to increase reported earnings, but Economic Value remains unchanged

Starting April 2025, listed insurers need transition to Ind-AS accounting. The transition is likely to have 3 key impacts for general insurers: 1) deferred acquisition cost being allowed should lead to improvement in commission and OpEx ratios, driving up the underwriting profit; 2) discounting of reserves should cause a substantial reduction in Motor TP claims ratio; however, the corresponding investment returns in future years will directly go towards unwinding of discount on reserves; 3) equity MTM (or gains on Investments under FVPTL) to pass through income statement. The aforesaid first two will drive a meaningful change in CoR and a visible uptick in PAT and RoE. However, this does not change the economic value of the business or life-time profitability of a policy.

Operational improvements already priced-in; downgrade to REDUCE

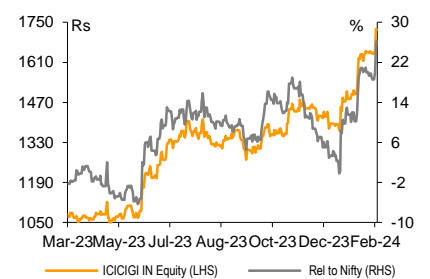
ICICIGI shares have run up 25% (vs NIFTY50 up ~0%) post good Q3FY24 performance. After this recent outperformance, ICICIGI shares seem to be moving ahead of reality, in terms of valuation (FY26E P/E: 29.4x). To reflect our slightly conservative view on growth in a likely scenario of no price hike in Motor TP in FY25E and minor changes in expense ratios, we adjust our FY24-26 estimates that leads to ~1-2% cut in GWP, ~0.4ppt increase in CoR, and ~3-4% cut in EPS over FY25-26E. We downgrade the stock to REDUCE from Add with our Mar-25E TP of Rs1,650/share (vs. Dec-24E TP of Rs 1,600 earlier), implying FY26E P/E of 28x and FY26E P/B of 5.2x.

Target Price – 12M	Mar-25
Change in TP (%)	3.1
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(4.3)
CMP (28-Feb-24) (Rs)	1,724.5

Stock Data	Ticker
52-week High (Rs)	1,740
52-week Low (Rs)	1,049
Shares outstanding (mn)	492.6
Market-cap (Rs bn)	849
Market-cap (USD mn)	10,242
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,240.7
ADTV-3M (USD mn)	15.0
Free float (%)	-
Nifty-50	21,951
INR/USD	82.9
Shareholding, Dec-23	
Promoters (%)	47.9
FPIs/MFs (%)	23.0/18.0

Price Performance

(%)	1M	3M	12M
Absolute	16.3	18.9	56.5
Rel. to Nifty	13.2	7.8	23.4

1-Year share price trend (Rs)**Avinash Singh**

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Exhibit 1: ICICIGI – Economic Value-Added Method Valuation

Parameter	Value
Cost of Equity	12.0%
FY24-FY29 Earnings CAGR	20%
FY29-FY39 Earnings CAGR	14%
Terminal growth	7%
FY25 Net worth (Rs mn)	135,541
FY26-FY39 discounted residual earnings (Rs mn)	229,999
Terminal Value (Rs mn)	435,060
FY24 Fair value gains (Rs mn) - post tax	9,000
Fair Value (Rs mn)	815,493
No. of Shares (mn)	491
Mar-25 Fair value per share (Rs)	1,660
Mar-25 Target price (Rs/share)	1,650

Source: Company, Emkay Research

Exhibit 2: ICICIGI – Implied Valuation Multiples

Valuation multiple at current price	1,724
FY26E P/E	29.4x
FY26E P/B	5.4x
FY26E RoE	19.9%
Valuation multiple at target price	1,650
FY26E P/E	28.1x
FY26E P/B	5.2x
FY26E RoE	19.9%

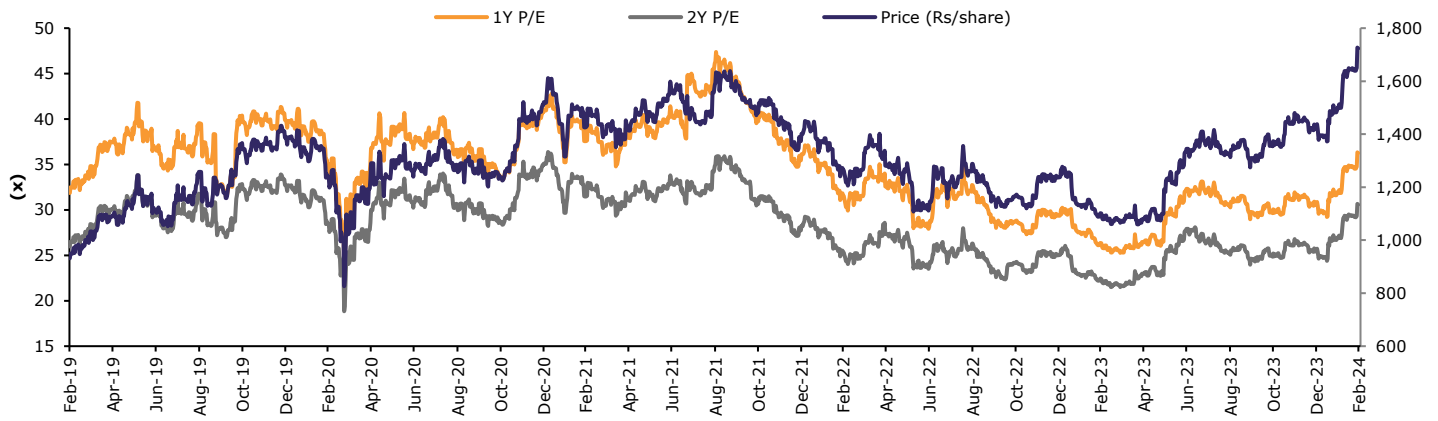
Source: Company, Emkay Research

Exhibit 3: Changes in estimate

(Rs mn)	FY24E			FY25E			FY26E		
	Old	Revised	% change	Old	Revised	% change	Old	Revised	% change
GWP	255,012	253,350	-0.7	293,627	290,061	-1.2	338,045	332,356	-1.7
U/W Result	-9,865	-9,854	NM	-7,835	-8,590	NM	-6,354	-7,282	NM
Op. Profit	18,909	18,606	-1.6	25,558	24,526	-4.0	29,958	28,544	-4.7
PAT	20,111	19,866	-1.2	25,845	25,012	-3.2	29,972	28,805	-3.9
Combined Ratio (%)	103.4	103.5	0.0ppt	102.0	102.4	0.4ppt	100.9	101.3	0.4ppt
RoE (%)	18.1	17.9	-0.2ppt	20.3	19.7	-0.6ppt	20.4	19.9	-0.6ppt

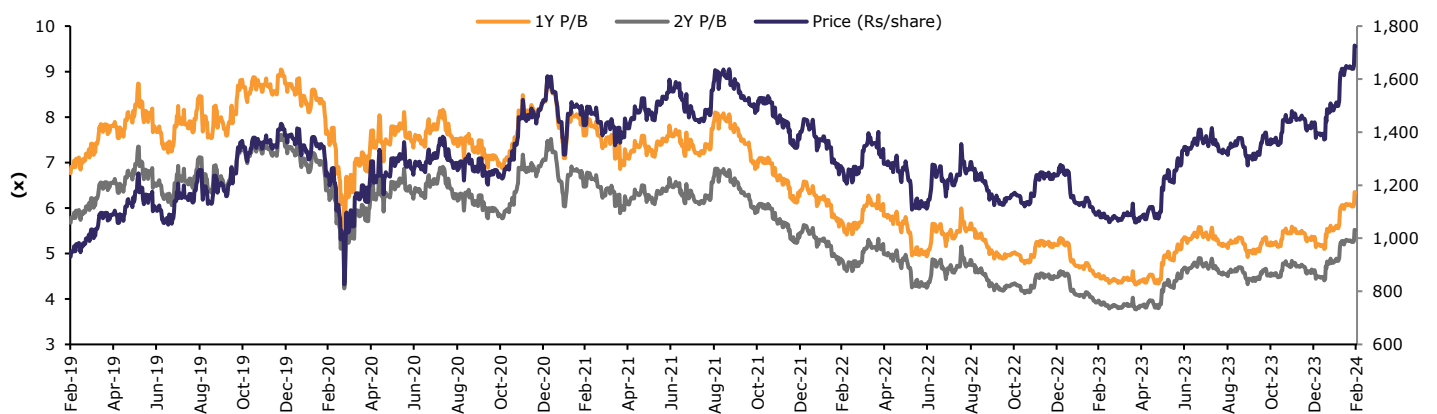
Source: Company, Emkay Research

Exhibit 4: Historical Price-to-Earnings



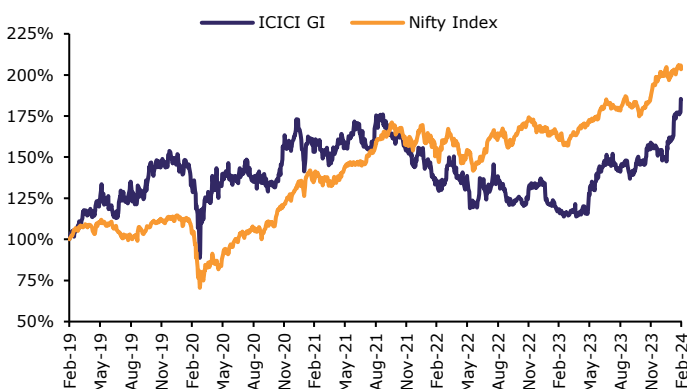
Source: Bloomberg, Emkay Research; Note: 1P/E refers to Price-to-12M blended forward consensus earnings; 2P/E refers to Price-to-24M blended forward consensus earnings

Exhibit 5: Historical Price-to-book



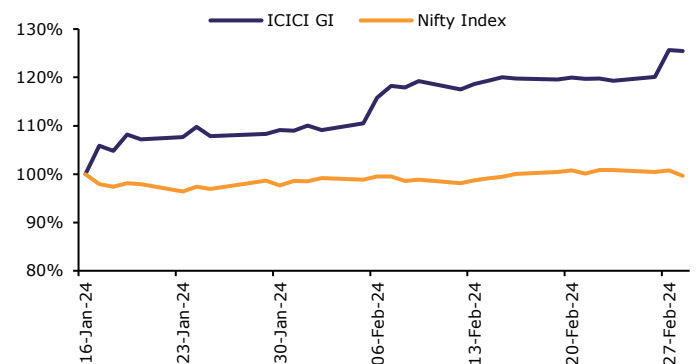
Source: Bloomberg, Emkay Research; Note: 1P/B refers to Price-to-12M blended forward consensus book value; 2P/B refers to Price-to-24M blended forward consensus book value

Exhibit 6: Historical Stock Price of ICICIGI vs. Nifty Index



Source: Bloomberg, Emkay Research

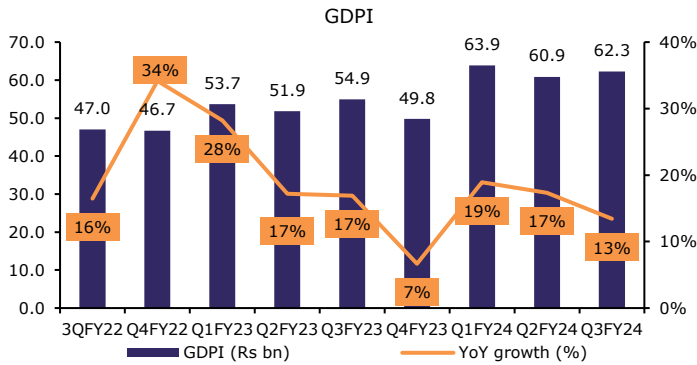
Exhibit 7: Post Q3FY24 results, ICICIGI has delivered significant outperformance vs. the Nifty Index



Source: Bloomberg, Emkay Research

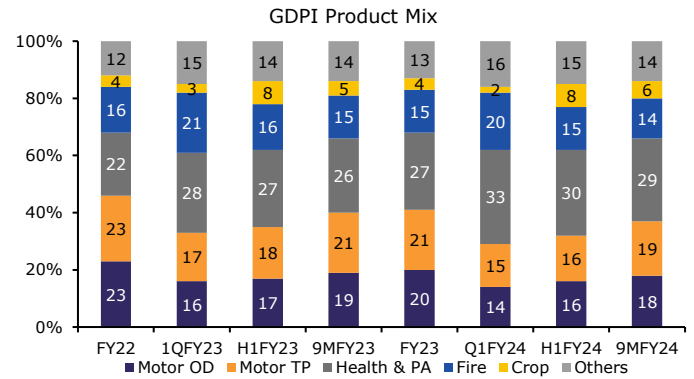
Story in Charts

Exhibit 8: GDPI grows 13% YoY during Q3FY24



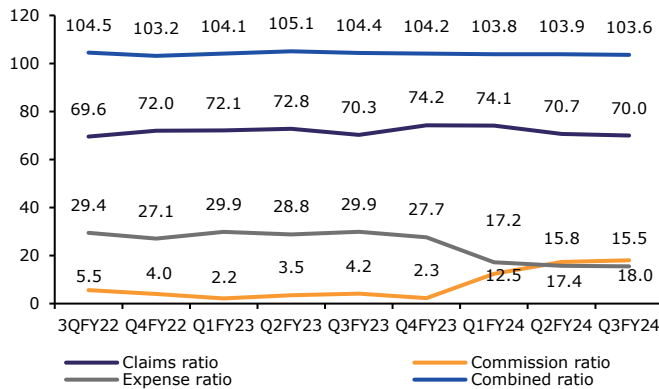
Source: Company, Emkay Research

Exhibit 9: Share of Motor Segment increases sequentially



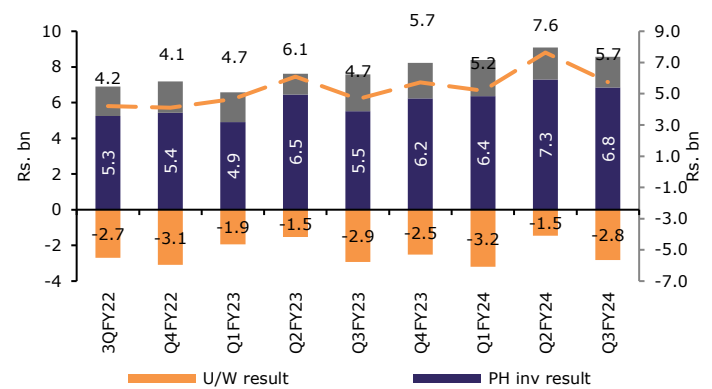
Source: Company, Emkay Research

Exhibit 10: Combined Ratio improves to 103.6% during Q3FY24



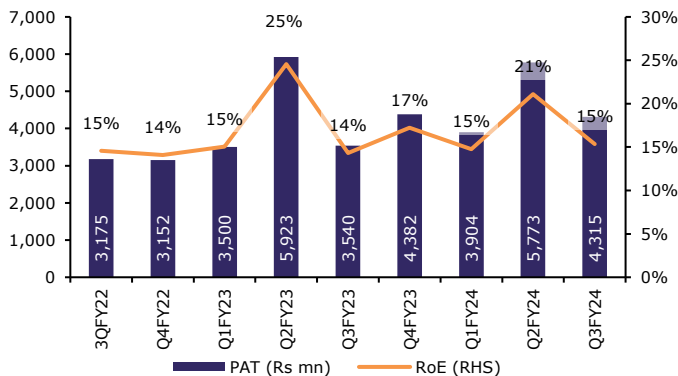
Source: Company, Emkay Research

Exhibit 11: ICICIGI reports PBT of Rs5.7bn during Q3FY24



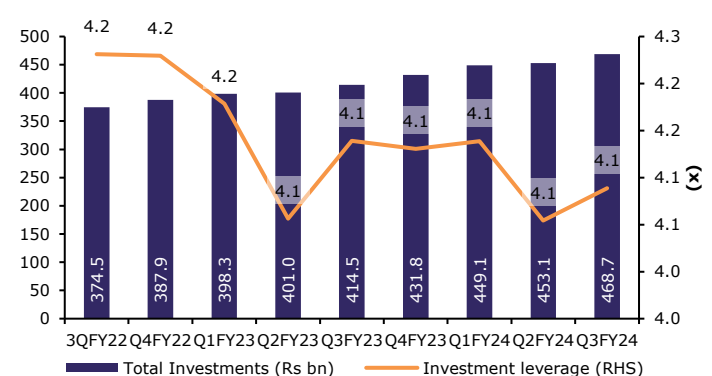
Source: Company, Emkay Research

Exhibit 12: ICICI clocks PAT of Rs4.3bn during Q3FY24



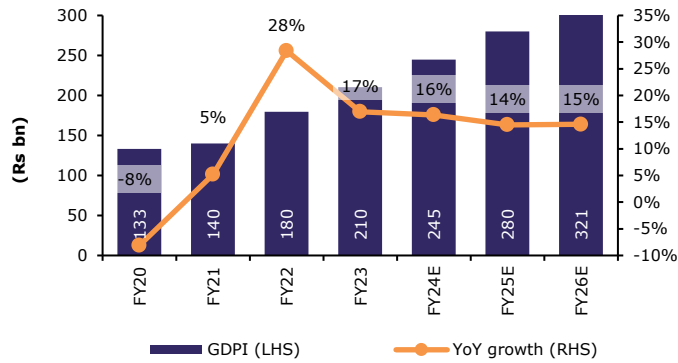
Source: Company, Emkay Research

Exhibit 13: Total investments increase to Rs468.7bn, as of Dec-23



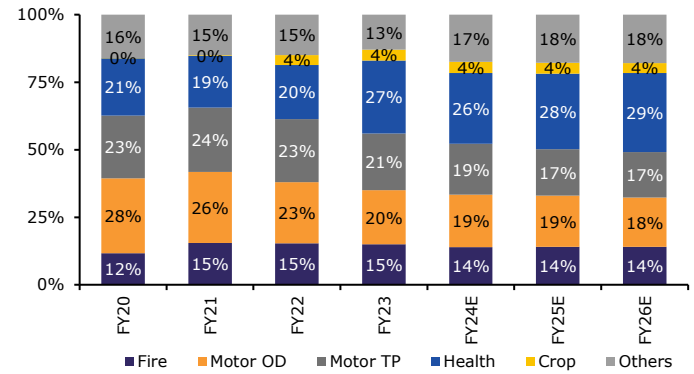
Source: Company, Emkay Research

Exhibit 14: We expect ICICIGI to deliver 16% GDP growth during FY24E



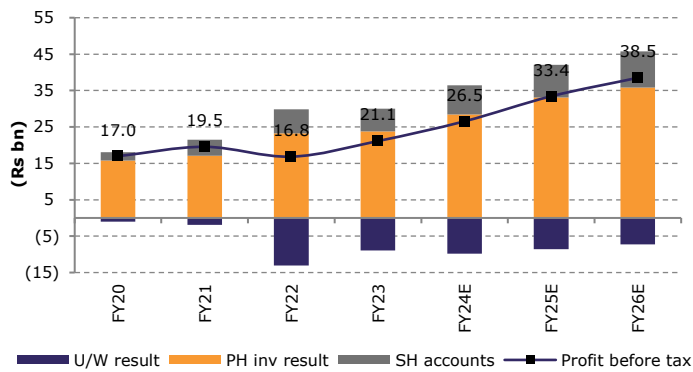
Source: Company, Emkay Research

Exhibit 15: Motor segment to remain a major contributor to the GDP mix



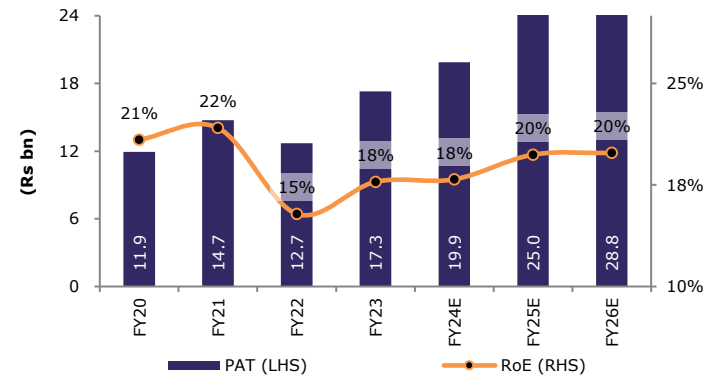
Source: Company, Emkay Research

Exhibit 16: We expect ICICIGI to report PBT of Rs26.5bn by FY24E



Source: Company, Emkay Research

Exhibit 17: ICICIGI's PAT is expected to grow to Rs19.9bn in FY24E



Source: Company, Emkay Research

ICICI Lombard: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GDPI	179,769	210,251	244,660	280,112	320,957
Gross written premium	185,624	217,718	253,350	290,061	332,356
Net written premium	134,896	155,395	178,793	208,804	241,765
Net earned premium	130,321	148,229	166,357	196,655	227,675
Net incurred claims	97,819	107,257	117,908	140,320	161,528
Net commission	6,339	4,722	30,054	33,813	38,615
Operating expense	39,201	45,148	28,249	31,112	34,814
Total expense	143,359	157,126	176,211	205,245	234,957
Underwriting profit	(13,038)	(8,898)	(9,854)	(8,590)	(7,282)
Investment income	22,908	23,212	27,560	32,117	34,626
Other income	373	602	900	1,000	1,200
Operating profit	10,243	14,916	18,606	24,526	28,544
Shareholder results	6,592	6,210	7,942	8,899	9,949
PBT	16,835	21,125	26,548	33,426	38,494
Extraordinary items	0	0	0	0	0
Tax expense	4,125	3,835	6,682	8,413	9,689
Reported PAT	12,710	17,291	19,866	25,012	28,805
PAT growth (%)	(13.7)	36.0	14.9	25.9	15.2
Adjusted PAT	12,710	17,291	19,866	25,012	28,805
Diluted EPS (Rs)	25.8	35.2	40.4	50.8	58.5
Diluted EPS growth (%)	(20.1)	36.2	14.8	25.9	15.2
DPS (Rs)	8.0	9.5	12.0	15.0	20.0
Dividend payout (%)	30.9	27.0	29.7	29.5	34.1
Effective tax rate (%)	25	18	25	25	25
Shares outstanding (mn)	490.9	491.1	491.1	491.1	491.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4,909	4,911	4,911	4,911	4,911
Reserves & surplus	86,188	99,012	112,984	130,630	149,612
Net worth	91,097	103,923	117,895	135,541	154,523
Fair value gains	3,593	2,133	12,000	13,200	14,520
Borrowings	2,550	350	350	350	350
Total liabilities & equity	97,240	106,406	130,245	149,091	169,393
Policyholder investments	298,684	333,221	382,104	438,284	501,323
Shareholder investments	89,179	98,583	113,046	129,666	148,316
Other assets	9,231	8,289	8,293	8,293	8,293
Cash & bank balances	2,926	2,031	2,031	2,031	2,031
Other current assets	108,463	108,734	147,691	169,508	195,420
Claims outstanding	249,752	269,166	316,687	362,576	415,445
Unearned premium	80,030	87,197	116,216	135,723	157,148
Other current liab.	80,916	87,421	102,856	117,759	134,931
Provisions	80,575	87,865	103,377	118,357	135,615
Net current assets	(299,854)	(333,687)	(373,198)	(427,153)	(488,539)
Total assets	97,240	106,406	130,245	149,091	169,393
BVPS (Rs)	185.6	211.6	240.0	276.0	314.6
Investment leverage (x)	4.2	4.2	4.2	4.2	4.2
Net investment yield (%)	8.6	7.4	7.8	7.8	7.4
PH investment yield (%)	8.6	7.3	7.7	7.8	7.4
SH investment yield (%)	8.6	7.8	7.9	7.7	7.5
NWP/Networth (x)	1.5	1.5	1.5	1.5	1.6
Required Solvency [RSM]	32,992	36,303	42,016	49,069	56,815
Available Solvency [ASM]	81,361	91,187	105,960	123,606	142,588

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating metrics (%)					
Retention ratio	72.7	71.4	70.6	72.0	72.7
Incurred claims ratio	75.1	72.4	70.9	71.4	70.9
Net commission ratio	4.7	3.0	16.8	16.2	16.0
Opex ratio	29.1	29.1	15.8	14.9	14.4
Combined ratio	108.8	104.5	103.5	102.4	101.3
RSM-to-NWP	24.5	23.4	23.5	23.5	23.5
Solvency ratio	246.6	251.0	252.2	251.9	251.0
Claims ratio (%)					
Motor TP	68.1	72.6	65.0	68.5	71.0
Motor OD	74.0	72.2	70.0	72.0	72.0
Health	100.5	81.5	81.5	79.5	76.0
Fire	53.1	49.3	65.0	60.0	60.0
Crop	107.9	80.1	100.0	100.0	100.0
Others	54.2	58.7	54.3	53.4	54.7
GWP mix (%)					
Motor TP	22.6	19.7	19.3	18.9	18.2
Motor OD	23.4	21.1	18.8	17.3	16.9
Health	20.0	23.8	26.2	28.0	29.3
Fire	15.3	14.5	14.0	14.0	14.1
Crop	3.7	4.2	4.1	4.0	3.7
Others	14.9	16.7	17.5	17.8	17.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, Emkay Research

Valuation & Key Metrics					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/B (x)	9.3	8.1	7.2	6.2	5.5
P/E (x)	66.6	49.0	42.6	33.9	29.4
P/Float (x)	2.2	2.0	1.7	1.5	1.3
P/GWP (x)	4.6	3.9	3.3	2.9	2.5
Dividend yield (%)	0.5	0.6	0.7	0.9	1.2
Dupont-RoE split (%)					
NEP/avg assets	37.4	36.2	35.9	37.0	37.4
Net incurred claims	28.1	26.2	25.4	26.4	26.5
Commission + Opex	13.1	12.2	12.6	12.2	12.1
Underwriting profit	(3.7)	(2.2)	(2.1)	(1.6)	(1.2)
PH investment income	6.6	5.7	5.9	6.0	5.7
Operating profit	2.9	3.6	4.0	4.6	4.7
Shareholder results	1.9	1.5	1.7	1.7	1.6
Tax expense	1.2	0.9	1.4	1.6	1.6
RoA	3.6	4.2	4.3	4.7	4.7
Leverage ratio (x)	3.9	3.9	4.1	4.2	4.1
RoE	14.5	17.2	16.8	18.0	18.1
Growth rates (%)					
GDPI	28.4	17.0	16.4	14.5	14.6
Gross written premium	29.6	17.3	16.4	14.5	14.6
Net written premium	26.2	15.2	15.1	16.8	15.8
Net earned premium	30.1	13.7	12.2	18.2	15.8
Claims incurred	42.4	9.6	9.9	19.0	15.1
Operating profit	(32.6)	45.6	24.7	31.8	16.4

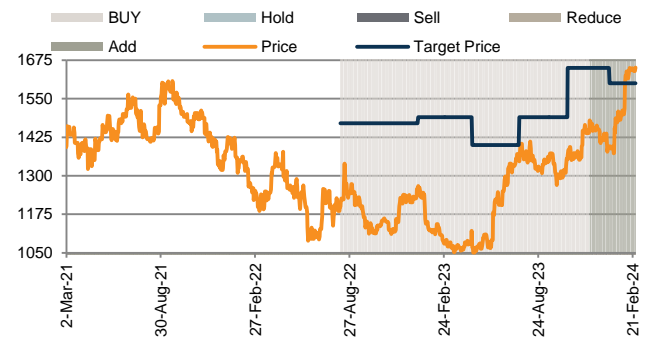
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
17-Jan-24	1,454	1,600	Add	Avinash Singh
17-Jan-24	1,454	1,600	Add	Avinash Singh
07-Jan-24	1,396	1,600	Add	Avinash Singh
12-Dec-23	1,455	1,650	Add	Avinash Singh
08-Dec-23	1,449	1,650	Add	Avinash Singh
30-Nov-23	1,480	1,650	Add	Avinash Singh
19-Oct-23	1,367	1,650	Buy	Avinash Singh
18-Oct-23	1,354	1,490	Buy	Avinash Singh
05-Oct-23	1,292	1,490	Buy	Avinash Singh
04-Oct-23	1,298	1,490	Buy	Avinash Singh
18-Jul-23	1,347	1,490	Buy	Avinash Singh
09-Jul-23	1,333	1,400	Buy	Avinash Singh
19-Apr-23	1,067	1,400	Buy	Avinash Singh
03-Apr-23	1,071	1,490	Buy	Avinash Singh
29-Mar-23	1,064	1,490	Buy	Avinash Singh
06-Feb-23	1,125	1,490	Buy	Avinash Singh
18-Jan-23	1,190	1,490	Buy	Avinash Singh
17-Jan-23	1,239	1,490	Buy	Avinash Singh
05-Jan-23	1,267	1,490	Buy	Avinash Singh
03-Jan-23	1,257	1,470	Buy	Avinash Singh
19-Oct-22	1,124	1,470	Buy	Avinash Singh
29-Sep-22	1,152	1,470	Buy	Avinash Singh
22-Sep-22	1,180	1,470	Buy	Avinash Singh
05-Sep-22	1,247	1,470	Buy	Avinash Singh
24-Aug-22	1,229	1,470	Buy	Avinash Singh
09-Aug-22	1,199	1,470	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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