

We recently met Kamesh Goyal (Founder and Chairman), Jasleen Kohli (CEO), and Ravi Khetan (CFO) of Go Digit for an update on the company's strategy and recent developments in the general insurance sector. KTAs: 1) Profitable growth remains central to the company's strategy. 2) The company has adopted an agile and opportunity-based approach to growth, focusing on the not-so-overly competitive segments. 3) The company maintains a channel-agnostic stance, with clear aim of not becoming too contingent on, or to have excessive concentration in, any single distributor. 4) Technology and Data Analytics continue to be the key differentiators and enablers of the execution of its agile and opportunity-based strategy, which includes acceleration or deceleration in any product or channel. While we appreciate the company's strategy and management's capabilities, we remain skeptical about its strategy being able to parallelly deliver both growth and profitability. Also, our muted tariff outlook on Motor TP, the persistent competitive intensity in Motor OD, and Go Digit's premium valuation press us to reiterate our SELL rating on the stock and Jun-25E TP of Rs230/share.

**Go Digit: Financial Snapshot (Standalone)**

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross written premium	72,430	90,156	112,729	137,517	165,552
Net earned premium	51,637	70,964	86,122	107,469	130,631
Adj. PAT	356	1,817	4,511	6,031	7,254
Adj. EPS (Rs)	0.4	2.1	5.0	6.6	7.9
BVPS (INR)	26.9	29.1	45.0	51.5	59.4
Adj. EPS growth (%)	(111.5)	407.3	138.1	32.8	20.3
BVPS growth (%)	22.1	8.1	54.5	14.6	15.3
NEP growth (%)	51.7	37.4	21.4	24.8	21.6
Combined ratio (%)	107.4	108.7	106.1	105.5	104.7
RoE (%)	1.7	7.4	13.5	13.6	14.3
P/Float (x)	2.4	2.0	1.5	1.3	1.1
P/E (x)	843.2	166.2	69.8	52.6	43.7
P/B (x)	12.8	11.9	7.7	6.7	5.8

Source: Company, Emkay Research

**Agile and opportunity-based strategy to drive profitable growth**

Profitable growth has been and is still core to Go Digit's business strategy. Since inception, the company has smartly executed its agile and opportunity-based strategy by entering into newer products, channels and geographies, and accelerating growth or decelerating, and even exiting such products/channels/geographies, depending on the competitive dynamics. This approach has been demonstrated by the company's journey across segments such as inward reinsurance, Motor TP, Commercial Lines, Group Health, and Motor OD, in the last few years. At present, Go Digit is focusing on growing Health via banca and increasing its dominance in Motor-OD by its superior tech API integration with OEM dealers, allowing them increased flexibility in product offering and pricing. The company will continue to seek opportunities in terms of growth, while focusing on profitability. Growth in any line of business is completely driven by market dynamics and its ability to underwrite risk without fixation on any particular product segment.

**Aims to keep distribution diversified; Technology to remain key differentiator**

Since inception, the company has consistently invested in expanding its distribution network by leveraging technology (boasts of the highest number of APIs integrated with its partners), to allow higher flexibility to distributors in product offerings and pricing. This technology-driven, frictionless experience for distributors drives the company's continuously expanding distribution network. Management remains committed to keep the distribution channel widely diversified, avoiding material reliance on any particular distributor, and keeping its concentration in any specific distributor (OEM, OEM dealer point, banks, etc) below a reasonable threshold. Technology and Data Analytics will remain differentiators for the company, and allow it to maintain its edge in fostering strong partnerships as well as profitably selecting and pricing the risks.

**We see risk to the current strategy being able to drive 'Growth and Profitability'; reiterate SELL**

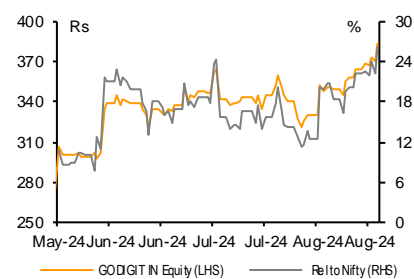
While we appreciate the company's strategy and the management's execution ability, we are not convinced about its opportunity-based approach delivering sustained growth along with improving profitability, as the company's size and market share have become meaningful. Additionally, the Motor TP line of business remains reasonably profitable for the industry, from the point of view of 'discounted ultimate loss ratios', and the Motor TP tariff hike in FY26 should stay muted even after FY25 seeing nil tariff hike, in our view. GODIGIT shares are currently trading at FY26 P/E of 58x and FY26E P/B of 7.4x versus listed peers' average at 34x and 6.4x, respectively. We reiterate SELL on Go Digit as we see the current premium valuation ignoring the industry and company-specific risks.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(40.1)
CMP (30-Aug-24) (Rs)	383.7

Stock Data	Ticker
52-week High (Rs)	391
52-week Low (Rs)	278
Shares outstanding (mn)	920.6
Market-cap (Rs bn)	353
Market-cap (USD mn)	4,212
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	457.3
ADTV-3M (USD mn)	5.5
Free float (%)	-
Nifty-50	25,236
INR/USD	83.9
<b>Shareholding, Jun-24</b>	
Promoters (%)	73.6
FPIs/MFs (%)	5.1/16.2

**Price Performance**

(%)	1M	3M	12M
Absolute	6.6	28.6	-
Rel. to Nifty	5.0	14.6	-

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


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## Key Takeaways

### Company strategy to grow profitably and based on opportunity is unchanged

The company's strategy continues to prioritize profitable growth. Over the past seven years, the company has strategically seized opportunities to expand its premium base. Initially focusing on the Travel business and Motor TP insurance, the company was among the few to introduce a Covid-specific health product during the pandemic. Due to concerns around profitability in the Motor TP segment, the management has begun exploring alternative opportunities, resulting in a decline in this segment. Moreover, competitive pricing in the Group Health (Employer-Employee) segment has led to slower growth. Meanwhile, the management has focused on expanding the Group Health (Banca) and Personal Accident businesses. Despite the competitive landscape in the Motor OD market, the company plans to leverage its distinctive technology, strong OEM dealer relationships, and product innovation to drive growth in this area. Overall, the management advocates a counter-cyclical approach to business expansion, remaining adaptable and opportunistic while maintaining a focus on profitability. The company's growth strategy is driven entirely by market conditions and its capacity to underwrite risk, without committing to any specific line of business.

### Company philosophy is to remain channel agnostic; technology a key differentiator

Since inception, the company has consistently invested in expanding its distribution network and fostering strong partnerships with distributors. Rather than pursuing a D2C model, the management has focused on reinforcing these distribution partnerships. Leveraging best-in-class technology, the company boasts of the highest number of integrated APIs with its partners, ensuring real-time data processing. Investments in developing robust technology platforms and APIs have resulted in a user-friendly interface for distributors, enabling them to independently make certain decisions and adjustments, without requiring company approval. This straightforward technology infrastructure has led to higher distributor retention rates. The company's strategy remains channel-agnostic, with an emphasis on growing all channels while allowing customers the freedom to choose their preferred purchasing method. Maintaining a diverse channel mix, the management is mindful not to rely too heavily on any single distributor, and equally ensures that distributors do not become overly dependent on the company.

### Higher retention to support AUM growth and investment income

Management emphasized that the company's strategy remains focused on retaining a higher proportion of its business, resulting in one of the highest retention ratios in the industry. Its understanding of risk, its balance sheet strength, and prudent underwriting grants confidence to the management to retain a higher share of business. With this approach, the management believes that an increased AUM will enable the company to maintain higher investment leverage leading to higher investment income, thereby boosting overall profitability. While high retention is a core strategy, the company's state-of-the-art technology, the experience of senior management, and the expertise of sector-specific professionals have allowed it to underwrite quality business not only in traditional segments, but also in newer, higher-risk areas.

### Challenges persist in the Motor TP business

Management noted that profitability in the Motor TP segment has been challenged by rising claims and increasing commission rates. Aligning with its core strategy of profitable growth, the company has decided to decelerate growth in the Motor TP business. Additionally, the company has been selective in underwriting business in specific geographies. As a strategic measure, the management has slowed down underwriting in states with significant increases in minimum wages, to manage claims costs. Further, the management supports the de-tariffing of Motor TP rates which would allow for competitive pricing among insurers and potentially benefit customers.

### 'Pay as You Drive' gains traction in the direct channel

Go Digit introduced a unique offering in the Motor OD segment for its direct customers. Customers are given the option to upload a video of their car and the odometer in exchange for a 10-15% discount on premiums. Recognizing that price-sensitive customers are likely to visit the company's website for insurance, this strategy has been effective. The car video reveals any existing dents or damages, reducing the likelihood of fraud, while the odometer reading allows the company to estimate the vehicle's future usage. This information helps determine the appropriate premium discount. Additionally, some OEMs have permitted the company to offer 'Pay As You Drive' products. Further negotiations with OEMs have enabled

differentiated pricing, based on vehicle make, model, and geography, thus enhancing the company's profitability.

#### **Investing significantly in underwriting new risks**

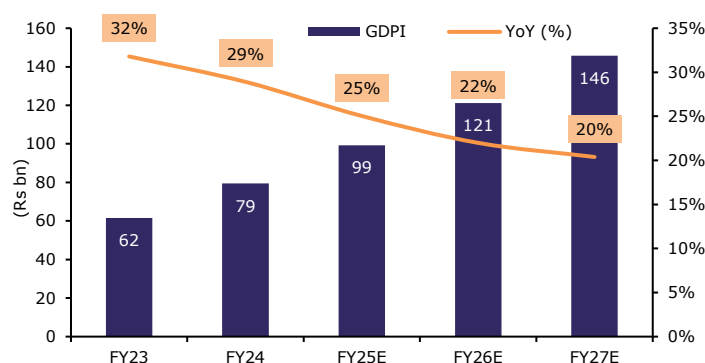
To capitalize on emerging market opportunities, the company has made substantial investments in building a skilled team while continually upgrading its technology platforms. Recently, the company has increased focused on underwriting large solar power and other renewable energy projects. Investing in a specialized team has allowed the management to gain a deeper understanding of the technical aspects of such projects, resulting in better underwriting quality and improved price negotiations. Additionally, the company has been at the forefront of underwriting electric vehicles (EVs), achieving a leading market share with EV OEMs. Ongoing research on EVs has helped the company expand its presence in this segment.

#### **Data Analytics drives targeting of profitable customers**

Data Analytics and Technology have been central to the company's growth strategy. Since inception, the company has invested in Data Analytics, building a 150-member team to track granular details across each line of business. Leveraging Data Analytics, the company has been able to target high-quality customers at the OEM level, based on criteria like CIBIL scores and age. Further, by importing a vast amount of data from the Insurance Information Bureau (IIB), the company has effectively identified specific profit pools and gained deeper insights into competitive and market dynamics. In line with the company's opportunistic growth strategy, Data Analytics has facilitated the precise selection of customers and the pursuit of new business opportunities.

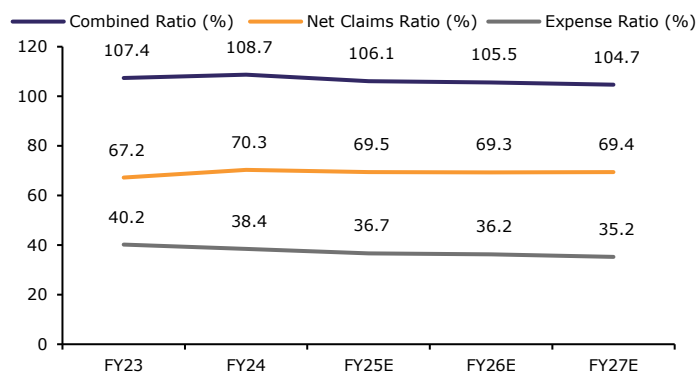
## Story in Charts

**Exhibit 1: We expect Go Digit's GDPI to grow 25% in FY25E**



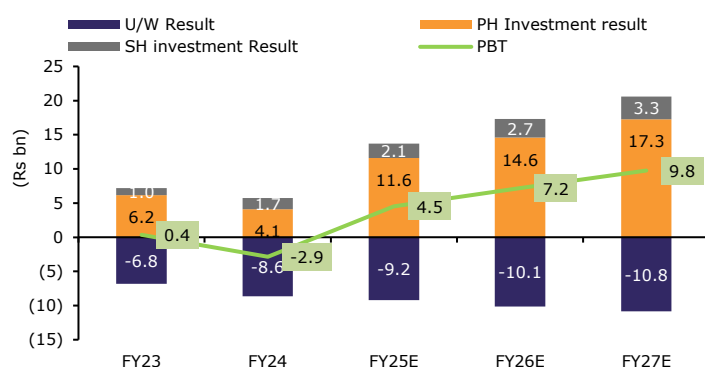
Source: Company, Emkay Research

**Exhibit 2: CoR is expected to improve to 104.7% in FY27E**



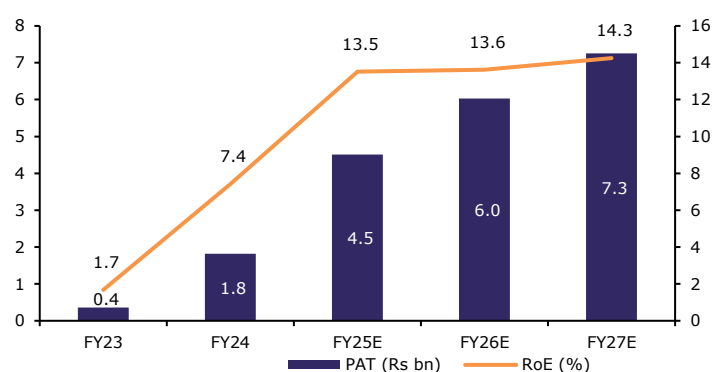
Source: Company, Emkay Research

**Exhibit 3: We expect Go Digit's PBT to improve to Rs4.5bn in FY25E**



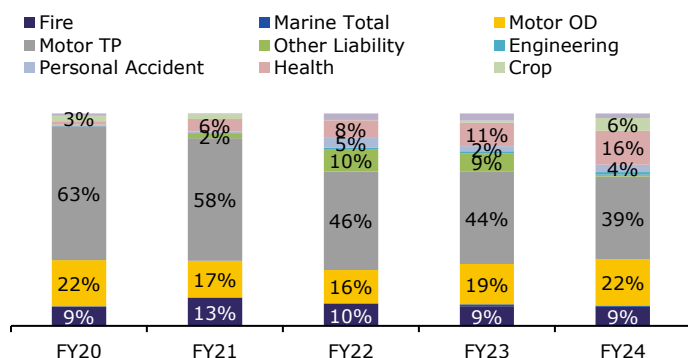
Source: Company, Emkay Research

**Exhibit 4: We expect Go Digit's PAT to grow to Rs7.3bn by FY27E**



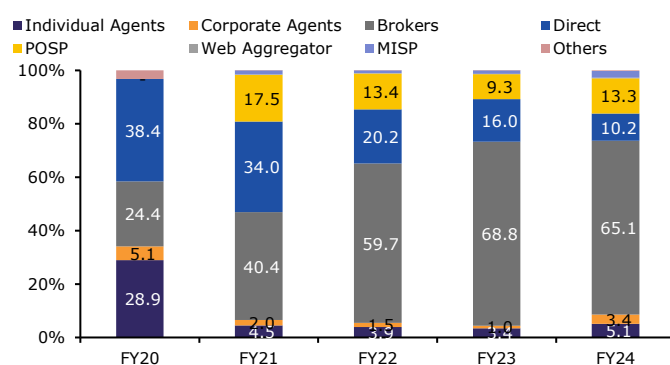
Source: Company, Emkay Research

**Exhibit 5: Motor TP remains a major contributor to the GWP mix**



Source: Company, Emkay Research

**Exhibit 6: Channel mix continues to be dominated by brokers**



Source: Company, Emkay Research

Go Digit: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
GDPI	61,601	79,411	99,294	121,127	145,822
Gross written premium	72,430	90,156	112,729	137,517	165,552
Net written premium	59,093	77,309	96,730	118,996	143,995
Net earned premium	51,637	70,964	86,122	107,469	130,631
Net incurred claims	34,714	49,902	59,825	74,484	90,717
Net commission	1,437	18,885	23,100	28,015	32,593
Operating expense	22,314	10,799	12,381	15,113	18,143
Total expense	58,465	79,585	95,306	117,611	141,454
Underwriting profit	(6,828)	(8,621)	(9,184)	(10,142)	(10,823)
Investment income	6,166	8,788	11,594	14,587	17,288
Other income	0	0	0	0	0
Operating profit	(663)	166	2,410	4,445	6,465
Shareholder results	1,018	(3,025)	2,101	2,730	3,298
PBT	356	1,817	4,511	7,174	9,763
Extraordinary items	0	0	0	0	0
Tax expense	0	0	0	1,143	2,509
Reported PAT	356	1,817	4,511	6,031	7,254
PAT growth (%)	(112.0)	411.1	148.3	33.7	20.3
Adjusted PAT	356	1,817	4,511	6,031	7,254
Diluted EPS (Rs)	0.4	2.1	4.9	6.5	7.8
Diluted EPS growth (%)	(111.3)	412.5	138.1	32.8	20.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	0	0	0	16	26
Shares outstanding (mn)	874.0	875.2	917.2	917.2	917.2

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating metrics (%)					
Retention ratio	81.6	85.8	85.8	86.5	87.0
Incurred claims ratio	67.2	70.3	69.5	69.3	69.4
Net commission ratio	2.4	24.4	23.9	23.5	22.6
Opex ratio	37.8	14.0	12.8	12.7	12.6
Combined ratio	107.4	108.7	106.1	105.5	104.7
RSM-to-NWP	22.0	22.8	22.1	22.0	22.0
Solvency ratio	178.0	161.0	207.4	192.2	181.6
Claims ratio (%)					
Motor TP	68.6	60.5	63.0	63.0	63.0
Motor OD	69.3	66.1	65.0	65.0	64.0
Health	80.9	98.4	85.0	83.0	83.0
Fire	38.2	85.7	60.0	60.0	60.0
Crop	97.9	93.0	95.0	95.0	95.0
Others	47.2	50.4	48.2	47.2	43.3
GWP mix (%)					
Motor TP	43.5	39.0	32.7	29.5	27.0
Motor OD	19.0	21.7	22.6	23.5	23.4
Health	11.1	15.9	19.1	22.0	25.5
Fire	9.3	8.9	8.4	8.0	7.4
Crop	0.9	6.0	5.8	5.4	5.2
Others	16.2	8.4	11.4	11.6	11.5
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	8,740	8,752	9,172	9,172	9,172
Reserves & surplus	23,836	23,951	34,787	38,093	45,347
Net worth	32,576	32,703	43,959	47,265	54,519
Fair value gains	891	1,729	1,902	2,092	2,301
Borrowings	0	3,500	3,500	3,500	3,500
Total liabilities & equity	33,468	37,932	49,361	52,857	60,320
Policyholder investments	102,175	133,694	167,679	201,127	245,006
Shareholder investments	21,715	20,383	37,838	45,386	55,287
Other assets	1,620	1,628	1,709	1,794	1,884
Cash & bank balances	2,793	3,561	3,739	3,926	4,122
Other current assets	6,592	10,320	12,142	23,774	38,467
Claims outstanding	56,232	72,752	92,438	116,889	148,997
Unearned premium	30,528	36,873	46,850	59,243	75,516
Other current liab.	23,592	29,116	36,994	46,779	59,629
Provisions	30,657	37,022	47,039	59,481	75,820
Net current assets	(101,096)	(125,009)	(160,590)	(195,450)	(241,857)
Total assets	33,468	37,932	49,361	52,857	60,320
BVPS (Rs)	26.9	29.1	45.0	51.5	59.4
Investment leverage (x)	5.3	5.9	4.9	5.1	5.4
Net investment yield (%)	6.7	7.6	7.8	7.7	7.6
PH investment yield (%)	6.9	7.5	7.7	7.9	7.8
SH investment yield (%)	5.6	8.2	7.1	6.8	6.8
NWP/Networth (x)	2.4	2.8	2.2	2.4	2.5
Required Solvency [RSM]	12,979	17,663	21,362	26,200	31,714
Available Solvency [ASM]	23,103	28,546	44,314	50,345	57,599

Source: Company, Emkay Research

Valuation & Key Metrics					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/B (x)	12.8	11.9	7.7	6.7	5.8
P/E (x)	843.2	166.2	69.8	52.6	43.7
P/Float (x)	2.4	2.0	1.5	1.3	1.1
P/GWP (x)	4.2	3.4	2.8	2.3	1.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dupont-RoE split (%)					
NEP/avg assets	47.7	51.1	47.9	47.5	47.8
Net incurred claims	32.1	35.9	33.3	33.0	33.2
Commission + Opex	22.0	21.4	19.7	19.1	18.6
Underwriting profit	(6.3)	(6.2)	(5.1)	(4.5)	(4.0)
PH investment income	5.7	6.3	6.4	6.5	6.3
Operating profit	(0.6)	0.1	1.3	2.0	2.4
Shareholder results	0.9	(2.2)	1.2	1.2	1.2
Tax expense	0.0	0.0	0.0	0.5	0.9
RoA	0.3	1.3	2.5	2.7	2.7
Leverage ratio (x)	5.3	5.9	4.9	5.1	5.4
RoE	1.7	7.4	13.5	13.6	14.3
Growth rates (%)					
GDPI	31.8	28.9	25.0	22.0	20.4
Gross written premium	0.0	0.0	0.0	0.0	0.0
Net written premium	41.4	30.8	25.1	23.0	21.0
Net earned premium	51.7	37.4	21.4	24.8	21.6
Claims incurred	37.8	43.8	19.9	24.5	21.8
Operating profit	(82.3)	(125.1)	1,348.1	84.5	45.4

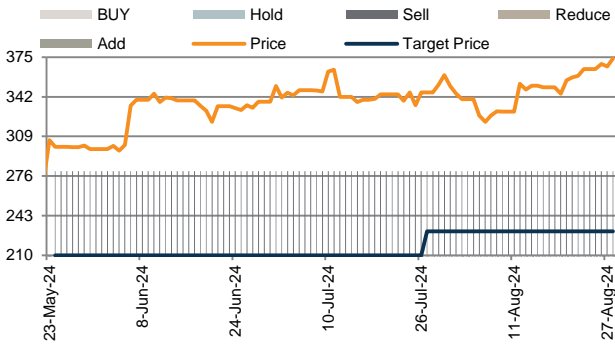
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Jul-24	346	230	Sell	Avinash Singh
23-Jul-24	339	210	Sell	Avinash Singh
18-Jun-24	334	210	Sell	Avinash Singh
24-May-24	300	210	Sell	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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