

Operating environment remains challenging; reiterate REDUCEGeneral Insurance ▶ Result Update ▶ **October 20, 2024****TARGET PRICE (Rs): 1,900**

ICICIGI reported a mixed Q2FY25 result, where the operating performance at 10.8% YoY GWP growth and the combined ratio at 104.5% came in lower than our estimates; however, buoyant equity market-led capital gains at Rs2.37bn drove PAT to Rs6.9bn, which is 8.5% above our estimates. The management remains committed to its profitable growth strategy by targeting selected business and customer segments. The growth outlook looks challenging for the General Insurance sector due to factors such as no hike in Motor TP, muted new PV sales growth, and competitive pricing environment in Group Health and Commercial Lines. The profitability environment is also likely to remain tough as the competitive intensity in distributor's payout stays high. To reflect the Q2 and external developments, we have adjusted our FY25-27 estimates leading to a slight increase in CoR, minor reduction in GWP, and ~3% cut in FY26-27E EPS (FY25E EPS increases by ~4% on higher capital gains). We reiterate our REDUCE rating on the stock with an unchanged Sep-25E TP of Rs1,900.

ICICI Lombard: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross written premium	217,718	255,942	296,286	341,390	391,103
Net earned premium	148,229	168,665	202,303	235,538	271,111
Adj. PAT	17,291	19,186	25,914	28,772	31,988
Adj. EPS (Rs)	35.2	39.0	52.6	58.4	64.9
BVPS (Rs)	211.6	242.8	280.3	318.7	343.7
Adj. EPS growth (%)	35.9	10.8	34.8	11.0	11.2
BVPS growth (%)	14.0	14.7	15.5	13.7	7.8
NEP growth (%)	13.7	13.8	19.9	16.4	15.1
Combined ratio (%)	104.5	103.3	102.3	101.5	100.9
RoE (%)	17.2	16.3	18.6	18.1	18.2
P/Float (x)	2.3	2.0	1.8	1.6	1.4
P/E (x)	57.4	51.9	38.4	34.6	31.1
P/B (x)	9.6	8.3	7.2	6.3	5.9

Source: Company, Emkay Research

Results are a mixed bag

ICICIGI reported a mixed Q2FY25 result with the combined ratio (CoR) of 104.5% (driven by higher NATCAT losses and higher commission and OpEx) coming lower than our estimate of 103.2%; helped by stronger capital gains (Rs2.37bn), the PAT at Rs6.9bn came ~9% above our estimates of Rs6.4bn. The premium growth in Q2 slowed materially with new Motor PV sales slowing and the pricing environment in Commercial Lines and Group Health turning adverse. The elevated CoR in Q2 had many sides to it including: i) Higher net commission and Opex Ratio at 17.5% and 15.6% in Q2FY25 vs our expectation of 17% and 15.2%, respectively; ii) Higher NATCAT losses at Rs0.94bn vs Rs0.48bn in Q2FY24; however, the claims ratio in Fire remained much lower; iii) Motor TP claims ratio of ~60% in Q2FY25 (~65% in H1FY25) appears to be supported by some favorable prior year reserve movements, as the sustained claims inflation and no tariff hike for 2 years do not support these numbers.

Growth and profitability outlook remains challenging

The management reaffirmed its strategy of chasing profitable growth opportunity by focusing on its preferred business and customer segments. The strategy seems to be an appropriate one seeking to capitalize on brand, distribution, tech and data capabilities, and balance sheet strength. However, a likely no tariff hike in Motor TP in FY26 (more so for PVs or even a risk of tariff cut), slowing new PV sales, and sustained muted pricing environment in Group Health and Commercial Lines mean that the growth for General Insurance is likely going to be led by volumes rather than pricing. Amid this muted pricing environment, the heightened competitive intensity in distributor's payout is likely going to add pressure on profitability, in addition to a probable increase in claims ratio. Unlike other private peers, ICICIGI had not taken any reserve releases from its FY21, FY22, and FY23 Motor TP Ultimate Loss Reserves, and that reserve buffer can put ICICIGI in a relatively better shape.

Minor changes to our estimates; reiterate REDUCE

To reflect the Q2FY25 developments (higher CoR, slower premium growth, and higher capital gains) and the external developments, we have tweaked our FY25-27 estimates leading to: i) Slight reduction in FY25-27E GDPI/GWP; ii) Minor increase in CoR for FY25-27E; and iii) ~4% increase in FY25E EPS (led by higher capital gains) and ~3% cut in FY26-27E EPS. We reiterate our REDUCE rating on the stock with an unchanged Sep-25E TP of Rs1,900 reflecting FY26E P/E of 32.5x and P/B of 5.9x. While we appreciate the franchise strength of ICICIGI, the difficult operating environment clouds its growth and profitability outlook, leading to our lower fair value TP reflecting downside in ICICIGI shares from the current level.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(6.0)
CMP (18-Oct-24) (Rs)	2,021.0

Stock Data	Ticker
52-week High (Rs)	2,302
52-week Low (Rs)	1,332
Shares outstanding (mn)	494.7
Market-cap (Rs bn)	1,000
Market-cap (USD mn)	11,892
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,819.4
ADTV-3M (USD mn)	21.6
Free float (%)	-
Nifty-50	24,854
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	51.8
FPIs/MFs (%)	23.9/17.3

Price Performance

(%)	1M	3M	12M
Absolute	(5.6)	5.8	48.8
Rel. to Nifty	(3.6)	5.6	17.7

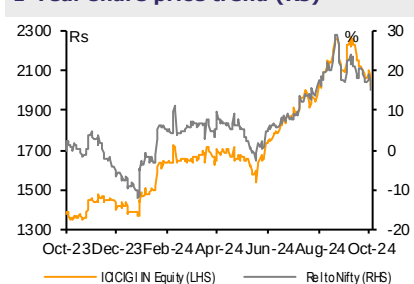
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Exhibit 1: ICICIGI Q2FY25 Financial Summary

Income Statement (Rs mn)	2QFY25	2QFY24	% YoY	2QFY25E	% Var	1QFY25	% QoQ
Gross direct premium	67,212	60,850	10.5	72,538	-7.3	76,876	-12.6
Gross written premium	69,483	62,723	10.8	74,829	-7.1	79,311	-12.4
Net written premium	48,355	42,401	14.0	51,258	-5.7	53,605	-9.8
Net Earned premium	50,256	43,061	16.7	48,753	3.1	45,039	11.6
Underwriting result	-1,609	-1,460	10.2	-2,367	-32.0	-3,466	-53.6
Investment & other income- PH account	8,251	7,431	11.0	8,613	-4.2	8,481	-2.7
Operating profit	6,642	5,972	11.2	6,246	6.3	5,015	32.4
Profit before tax	9,190	7,637	20.3	8,762	4.9	7,740	18.7
Profit after Tax	6,940	5,773	20.2	6,396	8.5	5,804	19.6
Key ratios (%)	2QFY25	2QFY24	YoY	2QFY25E	Var	1QFY25	QoQ
Claims ratio	71.4	70.7	0.7ppts	71.0	0.4ppts	74.0	-2.7ppts
Commission ratio	17.5	17.4	0.1ppts	17.0	0.5ppts	15.0	2.5ppts
OpEx ratio	15.6	15.8	-0.2ppts	15.2	0.4ppts	13.3	2.3ppts
Combined ratio	104.5	103.9	0.6ppts	103.2	1.3ppts	102.3	2.1ppts
RoE	21.8	21.1	0.7ppts	20.3	1.5ppts	19.1	2.6ppts
Retention ratio	69.6	67.6	2.0ppts	68.5	1.1ppts	67.6	2.0ppts
Solvency ratio	265.0	259.0	6.0ppts	0.0	265.0ppts	256.0	9.0ppts
Investment leverage (x)	3.91	4.07	-0.2ppts	4.11	-0.2ppts	4.14	-0.2ppts
Balance Sheet (Rs mn)	2QFY25	2QFY24	% YoY	2QFY25E	% Var	1QFY25	% QoQ
Net worth	131,929	111,133	18.7	129,513	1.9	123,117	7.2
Fair value account	16,644	7,997	108.1	15,001	11.0	14,286	17
Investments	515,570	453,122	13.8	532,098	-3.1	510,044	1.1
Claims Ratio (%)	2QFY25	2QFY24	% YoY	2QFY25E		1QFY25	QoQ
Motor- OD	65.9	64.1	1.8			64.3	1.6ppts
Motor - TP	66.1	60.0	6.1			69.3	-3.2ppts
Health	80.6	82.3	-1.7			83.6	-3.0ppts
Crop	95.8	89.1	6.7			109.0	-13.2ppts
Fire	39.2	61.1	-21.9			78.5	-39.3ppts
Marine	91.1	76.3	14.8			78.4	12.7ppts
Engineering	38.0	84.1	-46.1			53.3	-15.3ppts
Other	67.6	63.6	4.0			76.2	-8.6ppts
Total	71.4	70.7	0.7			74.0	-2.6ppts

Source: Company, Emkay Research

Exhibit 2: Changes in Estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
GWP	299,902	296,286	-1.2	345,708	341,390	-1.2	396,214	391,103	-1.3
U/W Result	-7,500	-8,537	13.8	-7,124	-7,848	10.2	-8,130	-9,041	11.2
Op. Profit	24,936	25,671	2.9	30,014	29,024	-3.3	33,401	32,128	-3.8
PAT	24,829	25,914	4.4	29,573	28,772	-2.7	33,022	31,989	-3.1
Combined Ratio (%)	101.8	102.3	0.5ppts	101.1	101.5	0.3ppts	100.5	100.9	0.4ppts
RoE (%)	19.3	20.1	0.8ppts	20.1	19.5	-0.6ppts	20.2	19.6	-0.6ppts

Source: Company, Emkay Research

Exhibit 3: ICICIGI – Economic Value-Added Method Valuation

Parameter (Rs mn except %age)	Value
Cost of Equity	12%
FY24-FY29E Earnings CAGR	17%
FY29E-FY39E Earnings CAGR	16%
Terminal growth	7.5%
FY25E Net worth	138,121
FY26-FY39E discounted residual earnings	238,733
Terminal Value	488,006
FY24 Fair value gains - post tax	7,422
Fair Value	877,140
No. of Shares (mn)	493
Mar-25E Fair value per share (Rs)	1,780
Sep-25E Target price (Rs)	1,900

Source: Company, Emkay Research

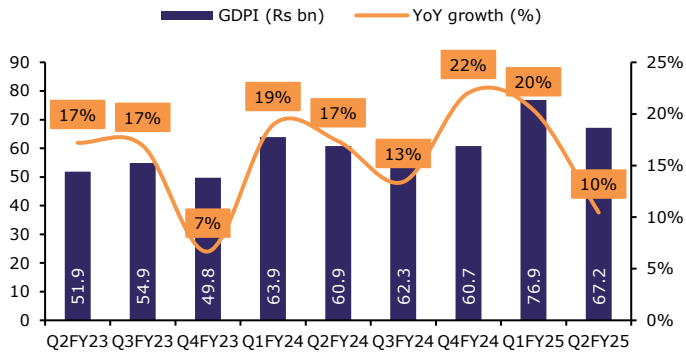
Exhibit 4: ICICIGI – Implied Valuation Multiples

Valuation multiple at current price	2,021
FY26E P/E	34.6x
FY26E P/B	6.3x
FY26E RoE	19.5%
Valuation multiple at target price	1,900
FY26E P/E	32.5x
FY26E P/B	5.9x
FY26E RoE	19.5%

Source: Company, Emkay Research

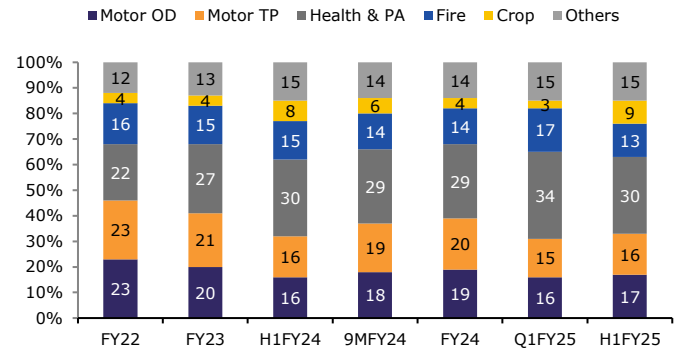
Story in Charts

Exhibit 5: ICICIGI reported a slow 10% growth in GDPI during Q2FY25



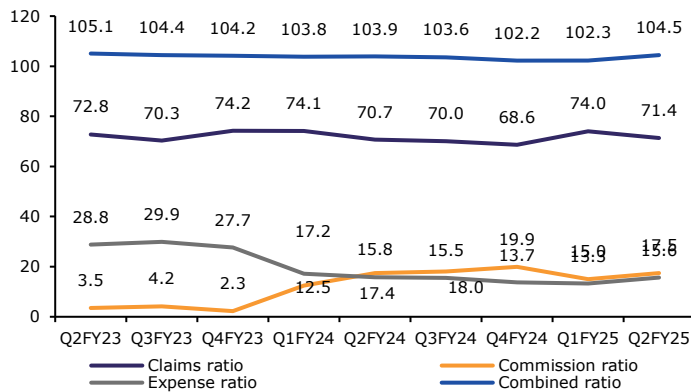
Source: Company, Emkay Research

Exhibit 6: Share of the Health segment in the GDPI mix remains stable YoY



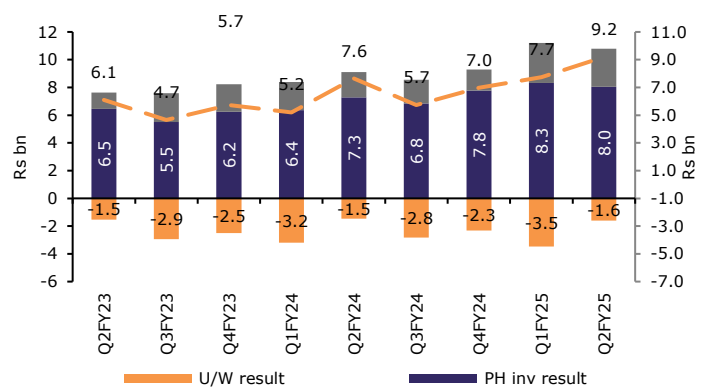
Source: Company, Emkay Research

Exhibit 7: Combined Ratio worsens to 104.5% during Q2FY25



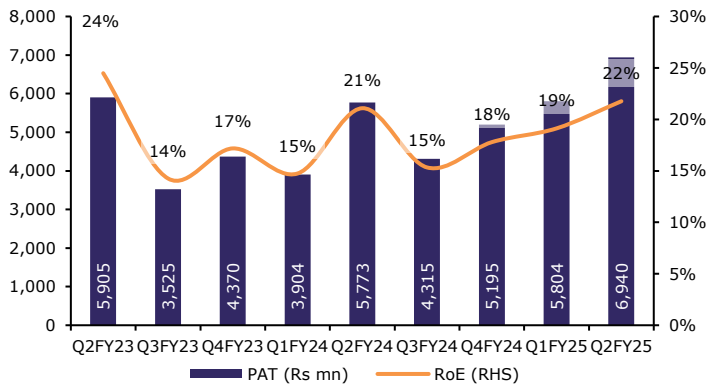
Source: Company, Emkay Research

Exhibit 8: ICICIGI reports PBT of Rs9.2bn during Q2FY25



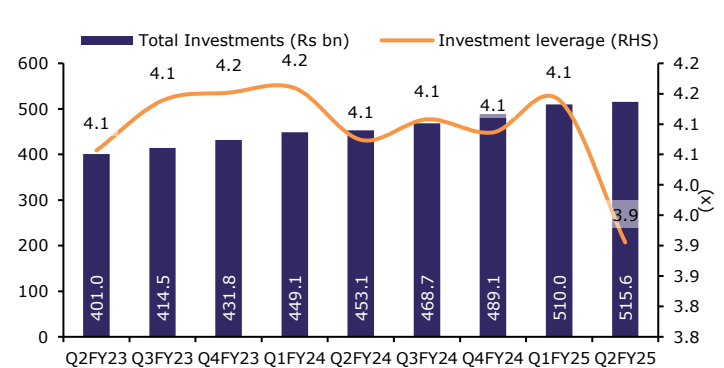
Source: Company, Emkay Research

Exhibit 9: PAT grows to Rs6.9bn during Q2FY25, driven by strong investment income



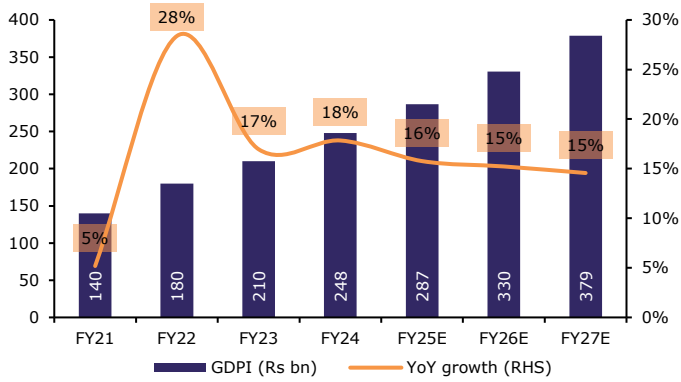
Source: Company, Emkay Research

Exhibit 10: Total investments increase to Rs516bn as of Q2FY25



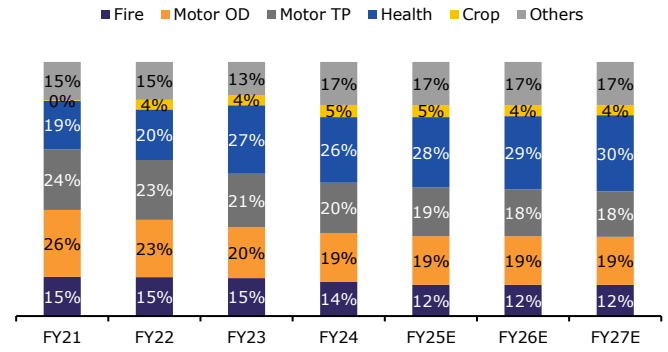
Source: Company, Emkay Research

Exhibit 11: We expect ICICIGI to deliver 16% GDPI growth during FY25E



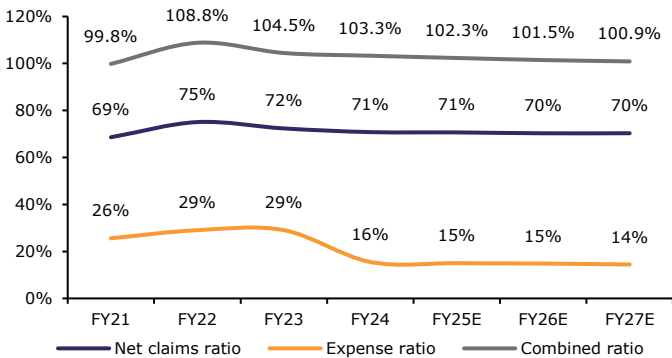
Source: Company, Emkay Research

Exhibit 12: Health to remain a major contributor to the GDPI mix



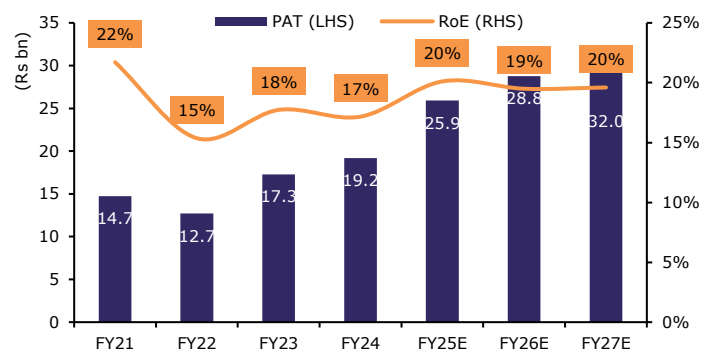
Source: Company, Emkay Research

Exhibit 13: We expect ICICIGI to report 102.3% Combined Ratio in FY25E



Source: Company, Emkay Research

Exhibit 14: ICICIGI's PAT is expected to grow to Rs32bn by FY27E



Source: Company, Emkay Research

Earnings Conference Call Highlights

- Health segment has seen double-digit growth led by the Retail segment. Robust growth in the retail segment was driven by strong traction in the newly launched product. The company took a cautious call in the Group Employer and Employee segment owing to pricing pressure which resulted in a slowdown in the segment. Group Banca business saw slowdown on account of slow disbursements among the channel partners.
- In the fire segment, the company remains vigilant in terms of risk selection which resulted in muted growth.
- The industry witnessed multiple NATCAT events resulting in impact on the claims ratio. Excluding impact of CAT losses, CoR stood at 102.6% for Q2FY25 for the company.
- The company has been able to drive profitable businesses in the Motor and Health segment. Commercial Lines have seen some impact on growth. Additionally, the company has also remained cautious in the commercial segment. Hence, on account of the changes in business mix there has been some change in the Net Commission ratios.
- Management reiterated the FY25 Combined Ratio guidance at 102%. Management mentioned that at the current stage there is no reason to deviate from the guidance.
- Management mentioned that the real impact of the NATCAT losses for the industry will be seen at the time of Reinsurance Renewals.
- During Q2FY25, the new Motor sales have been flattish, whereas the renewal book has seen strong 26% growth. The agency and other distribution channels have picked up well. Hence, the strength in the agency channel has been reflected in the growth in Motor renewals.
- In the PV segment, there has been a very high base in the volumes. Management said that even if the PV sales are flattish it will not be a cause of concern. Management expects the growth in CVs to pick-up in Q3 or Q4. Footfalls have been higher in the festive season and there should be some pickup in the PV sales.
- The CoR for the industry has worsened in the Motor segment from 121% in Q1FY24 to 125% in Q1FY25. CoR for PSUs have worsened to 141%. The company's risk selection and customer service remain key factors for growth in the Motor segment.
- The company is comfortable operating the Motor TP business in the 65-70% loss ratio range; overall Motor segment loss ratio should be in the range of 65-67%. Management said that the company will be mindful of risk selection in the Motor TP segment (considering the zero TP hike).
- There is a significant uptick in the retail business which has higher retention, and hence, there has been higher retention for the quarter. Management said there is no change in the approach on reinsurance.
- Management has seen some element of seasonality in the Health segment driven by increased claims frequency.
- Health Loss Ratio for Group Employer Employee segment stood at 98% for Q2FY25 vs 102% for Q2FY24. Management said that the Group Health portfolio should end the year with loss ratios in the 94-95% range and Retail should be in the range of 70%.
- There has been a significant thrust by the company on retaining the existing customers. The company has seen a 2-4% increase in customer retention.

ICICI Lombard: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
GDPI	210,251	247,761	286,816	330,478	378,602
Gross written premium	217,718	255,942	296,286	341,390	391,103
Net written premium	155,395	181,656	214,320	249,588	292,775
Net earned premium	148,229	168,665	202,303	235,538	271,111
Net incurred claims	107,257	119,395	142,952	165,549	190,633
Net commission	4,722	30,890	35,716	40,795	47,238
Operating expense	45,148	28,177	32,172	37,042	42,281
Total expense	157,126	178,462	210,840	243,386	280,152
Underwriting profit	(8,898)	(9,797)	(8,537)	(7,848)	(9,041)
Investment income	23,212	27,761	33,208	35,672	39,969
Other income	602	1,096	1,000	1,200	1,200
Operating profit	14,916	19,059	25,671	29,024	32,128
Shareholder results	6,210	6,493	8,959	9,426	10,621
PBT	21,125	25,552	34,630	38,450	42,747
Tax expense	3,835	6,366	8,716	9,678	10,760
Reported PAT	17,291	19,186	25,914	28,772	31,988
PAT growth (%)	36.0	11.0	35.1	11.0	11.2
Adjusted PAT	17,291	19,186	25,914	28,772	31,988
Diluted EPS (Rs)	35.2	38.8	52.3	58.1	64.6
Diluted EPS growth (%)	36.2	10.3	34.9	11.0	11.2
DPS (Rs)	9.5	9.9	15.0	20.0	40.0
Dividend payout (%)	27.0	25.3	28.5	34.2	61.6
Effective tax rate (%)	18	25	25	25	25
Shares outstanding (mn)	491.1	492.7	492.7	492.7	492.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	4,911	4,927	4,927	4,927	4,927
Reserves & surplus	99,016	114,678	133,194	152,112	164,393
Net worth	103,928	119,605	138,121	157,039	169,320
Fair value gains	2,133	9,896	10,885	11,974	13,171
Borrowings	350	350	350	350	350
Total liabilities & equity	106,411	129,850	149,356	169,363	182,841
Policyholder investments	333,221	373,204	429,820	484,628	539,990
Shareholder investments	98,583	115,869	133,446	150,463	167,651
Other assets	8,293	9,935	9,935	9,935	0
Cash & bank balances	2,031	3,346	3,346	3,346	3,346
Other current assets	108,734	130,730	186,133	216,376	245,613
Claims outstanding	269,166	303,878	370,357	419,909	473,234
Unearned premium	87,197	100,188	128,592	149,753	175,665
Other current liab.	87,421	98,474	120,017	136,075	153,355
Provisions	87,865	100,881	122,950	139,400	157,103
Net current assets	(333,687)	(369,157)	(423,845)	(475,663)	(534,734)
Total assets	106,411	129,850	149,356	169,363	182,841
BVPS (Rs)	211.6	242.8	280.3	318.7	343.7
Investment leverage (x)	4.2	4.1	4.1	4.0	4.2
Net investment yield (%)	7.4	7.9	8.2	7.7	7.7
PH investment yield (%)	7.3	7.9	8.3	7.8	7.8
SH investment yield (%)	7.8	7.9	8.1	7.5	7.5
NWP/Networth (x)	1.5	1.5	1.6	1.6	1.7
Required Solvency [RSM]	36,303	42,042	49,602	57,764	67,759
Available Solvency [ASM]	91,187	110,342	128,865	147,784	160,065

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating metrics (%)					
Retention ratio	71.4	71.0	72.3	73.1	74.9
Incurred claims ratio	72.4	70.8	70.7	70.3	70.3
Net commission ratio	3.0	17.0	16.7	16.3	16.1
Opex ratio	29.1	15.5	15.0	14.8	14.4
Combined ratio	104.5	103.3	102.3	101.5	100.9
RSM-to-NWP	23.4	23.1	23.1	23.1	23.1
Solvency ratio	251.0	262.0	259.8	255.8	236.2
Claims ratio (%)					
Motor TP	72.6	63.5	65.3	64.8	64.5
Motor OD	72.2	66.8	67.5	67.0	66.5
Health	81.5	81.4	81.2	79.8	79.4
Fire	49.3	62.2	60.0	62.0	61.0
Crop	80.1	88.4	100.0	100.0	100.0
Others	58.7	66.5	55.7	56.7	58.3
GWP mix (%)					
Motor TP	19.7	19.1	19.2	19.1	18.9
Motor OD	21.1	19.8	19.1	18.4	17.8
Health	23.8	25.8	27.7	28.8	29.9
Fire	14.5	13.6	12.3	12.3	12.4
Crop	4.2	4.7	4.7	4.3	3.9
Others	16.7	16.9	17.0	17.0	17.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, Emkay Research

Valuation & Key Metrics					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/B (x)	9.6	8.3	7.2	6.3	5.9
P/E (x)	57.4	51.9	38.4	34.6	31.1
P/Float (x)	2.3	2.0	1.8	1.6	1.4
P/GWP (x)	4.6	3.9	3.4	2.9	2.5
Dividend yield (%)	0.5	0.5	0.7	1.0	2.0
Dupont-RoE split (%)					
NEP/avg assets	36.2	36.6	38.4	39.3	40.4
Net incurred claims	26.2	25.9	27.2	27.6	28.4
Commission + Opex	12.2	12.8	12.9	13.0	13.3
Underwriting profit	(2.2)	(2.1)	(1.6)	(1.3)	(1.3)
PH investment income	5.7	6.0	6.3	6.0	6.0
Operating profit	3.6	4.1	4.9	4.8	4.8
Shareholder results	1.5	1.4	1.7	1.6	1.6
Tax expense	0.9	1.4	1.7	1.6	1.6
RoA	4.2	4.2	4.9	4.8	4.8
Leverage ratio (x)	3.9	4.1	4.2	4.1	4.2
RoE	17.2	16.3	18.6	18.1	18.2
Growth rates (%)					
GDPI	17.0	17.8	15.8	15.2	14.6
Gross written premium	17.3	17.6	15.8	15.2	14.6
Net written premium	15.2	16.9	18.0	16.5	17.3
Net earned premium	13.7	13.8	19.9	16.4	15.1
Claims incurred	9.6	11.3	19.7	15.8	15.2
Operating profit	45.6	27.8	34.7	13.1	10.7

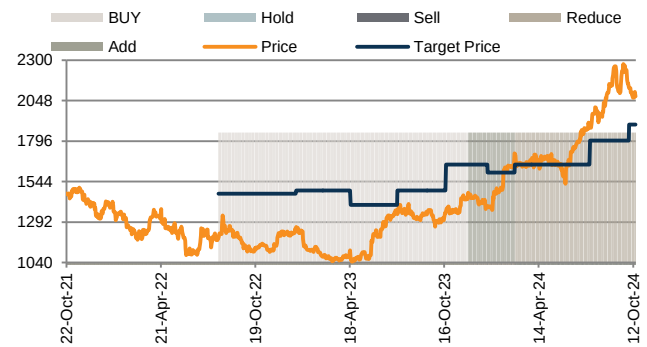
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
17-Oct-24	2,040	1,900	Reduce	Avinash Singh
04-Oct-24	2,127	1,900	Reduce	Avinash Singh
23-Jul-24	1,880	1,800	Reduce	Avinash Singh
21-Jul-24	1,881	1,800	Reduce	Avinash Singh
18-Apr-24	1,704	1,650	Reduce	Avinash Singh
03-Apr-24	1,687	1,650	Reduce	Avinash Singh
30-Mar-24	1,678	1,650	Reduce	Avinash Singh
06-Mar-24	1,650	1,650	Reduce	Avinash Singh
28-Feb-24	1,718	1,650	Reduce	Avinash Singh
17-Jan-24	1,449	1,600	Add	Avinash Singh
17-Jan-24	1,449	1,600	Add	Avinash Singh
07-Jan-24	1,391	1,600	Add	Avinash Singh
12-Dec-23	1,450	1,650	Add	Avinash Singh
08-Dec-23	1,444	1,650	Add	Avinash Singh
30-Nov-23	1,475	1,650	Add	Avinash Singh
19-Oct-23	1,362	1,650	Buy	Avinash Singh
18-Oct-23	1,349	1,490	Buy	Avinash Singh
05-Oct-23	1,287	1,490	Buy	Avinash Singh
04-Oct-23	1,294	1,490	Buy	Avinash Singh
18-Jul-23	1,342	1,490	Buy	Avinash Singh
09-Jul-23	1,328	1,400	Buy	Avinash Singh
19-Apr-23	1,063	1,400	Buy	Avinash Singh
03-Apr-23	1,067	1,490	Buy	Avinash Singh
29-Mar-23	1,061	1,490	Buy	Avinash Singh
06-Feb-23	1,121	1,490	Buy	Avinash Singh
18-Jan-23	1,186	1,490	Buy	Avinash Singh
17-Jan-23	1,235	1,490	Buy	Avinash Singh
05-Jan-23	1,262	1,490	Buy	Avinash Singh
03-Jan-23	1,253	1,470	Buy	Avinash Singh
19-Oct-22	1,120	1,470	Buy	Avinash Singh
29-Sep-22	1,148	1,470	Buy	Avinash Singh
22-Sep-22	1,176	1,470	Buy	Avinash Singh
05-Sep-22	1,242	1,470	Buy	Avinash Singh
24-Aug-22	1,224	1,470	Buy	Avinash Singh
09-Aug-22	1,195	1,470	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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