

CMP: ₹1240

Target: ₹ 1550 (25%)

Target Period: 12 months

July 20, 2022

BUY

Market share sustains; growth to trigger valuation...

About the stock: ICICI Lombard is among the leading multi-line players in the general insurance space with ~9.9% market share on an overall basis.

- Motor segment generally contributes over 40% of total premium
- The general insurer is among the most profitable and consistent in terms of return ratios with RoE of ~16-20% for a sustainable period

Q1FY23 Results: Healthy performance on business growth.

- Gross premium growth healthy at 29.6% YoY, 10.6% QoQ to ₹ 5529 crore
- Claims ratio steady QoQ at 72%, expense ratio down 370 bps QoQ to 27.8%
- Combined ratio at 104.1% vs. 103.2% QoQ & 123.5% YoY, underwriting loss at ₹ 193 crore
- PAT at ₹ 349 crore, up 79.6% YoY, 11.7% QoQ, led by investment income

What should investors do? Since our initiation in March 2022, the stock has remained flat post some run up. We believe long term sustainable growth opportunity, market leadership with diversified product mix and digital adoption provide a good opportunity to invest.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We continue to value ICICI Lombard at 3x FY24E premium (50% weight), 1.5x FY24E float (50% weight) and maintain our target price of ₹ 1550 per share.

Key triggers for future price performance:

- Leadership in motor segment (especially in TP) to aid profitability
- Investment in agency channel to aid growth in health segment
- Gradual decline in combined ratio in medium term to aid returns
- Investment in digital and distribution to strengthen business growth

Alternate Stock Idea: Apart from ICICI Lombard, we like Star Health Insurance.

- Market leader in the retail health insurance segment with 33%+ market share, as of March 2022
- BUY with a target price of ₹ 825



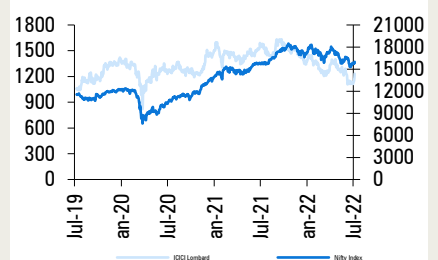
Particulars

Particulars	Values
Market Capitalisation	₹ 62303 crore
Networth	₹ 9575 crore
52 week H/L (₹)	1674 / 1071
Face Value (₹)	10.0

Shareholding Pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	48.1	48.1	48.0	48.0
FII	27.4	28.1	26.9	26.9
DII	10.9	13.5	13.7	13.7
Others	13.7	10.4	11.4	11.4

Price performance



Key Highlights

Strong growth in key segments like health and motor is a positive

Key risk: i) Loss of market share amid elevated competition, ii) slower pick-up in focused health insurance

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Kajal Gandhi
Kajal.Gandhi@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Pravin Mule
Pravin.mule@icicisecurities.com

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19 - FY22)	FY23E	FY24E	2 year CAGR (FY22 - FY24E)
Gross direct premium income	14488.2	13312.8	14003.1	17976.9	7.5	21021.3	24670.3	17.1
Adjusted net profit	1049.3	1193.7	1473.1	1271.0	6.6	1541.9	1839.2	20.3
Networth	5320.5	6134.2	7435.5	9109.7	19.6	10420.3	11965.2	14.6
BVPS (Rs)	117.1	135.0	163.6	185.6		212.3	243.7	
EPS (Rs)	23.1	26.3	32.4	25.9		31.4	37.5	
P/BV (x)	10.6	9.2	7.6	6.7		5.8	5.1	
P/E (x)	53.7	47.2	38.3	47.9		39.5	33.1	
RoE (%)	19.2	21.0	21.3	14.5		14.8	15.1	
P/Float	2.5	2.1	1.8	1.6		1.3	1.2	
P/GWP	3.8	4.1	3.9	3.3		2.8	2.4	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Healthy topline growth; expense control aids bottomline

- ICICI Lombard posted a good set of numbers on the business growth front as gross premium increased 29.6% YoY and 10.6% QoQ to ₹ 5529 crore, net premium also increased 29% YoY to ₹ 3623 crore and was slightly lower than our estimates due to higher re-insurance done (first quarter phenomenon). Investment and other income (policyholder) was at ₹ 510 crore, down 25% YoY
- Expenses were kept under tight control and were down 3.1% YoY and marginally up by 1% QoQ. Commission, claims declined 38.7%, 11.3% YoY to ₹ 78.2 crore, ₹ 2499 crore, respectively. Claims ratio was largely stable on a sequential basis at 72.1% but on a yearly basis declined 1736 bps as previous year same quarter had higher Covid claims. Combined ratio was at 104.1% with underwriting loss of ₹ 193 crore. However, with addition of other income, operating profit was reported at ₹ 316.8 crore
- Motor segment continues to be one of the major contributors to total premium at 33% (sequentially down from 45% due to seasonality) while health segment saw a rise in total contribution at 28% compared to 26% YoY and 22% QoQ. The contribution of motor TP growth from CV segment is slightly higher this year at 24.6% vs. 16.6% YoY and 19.6% QoQ. Within health segment, retail was up 11.7% YoY while in corporate segment premium growth was up 34% YoY. Retail health agency channel premium grew 18.3% for Q1FY23
- On an aggregate basis, due to a fall in claims ratio on a yearly basis, control over management expenses at 27.8% and decent earned premium growth, the company was able to post a net profit of ₹349 crore (up 79.6% YoY, 11.7% QoQ). Solvency ratio was steady on an overall basis at 2.6x

Q1FY23 Earnings Conference Call highlights

- Maintained market share in the motor segment at 11.3%; 64% market share in private cars
- Expect growth from agency channel for health segment to accelerate
- Digital revenues at ₹ 210 crore (3.9% of Q1FY23 GDP)
- Seeing higher claims frequency in motor-OD segment
- Retail health growth slightly slower due to base effect and one large bank undertaking health business through group product instead of individual indemnity earlier
- Taken two new clusters in Maharashtra under new 80-110 model in crop segment wherein claims are capped
- Investment yield declined sequentially due to lower capital gains
- Expect to increase market share in commercial lines of business
- Total 40% of business is new and 60% is renewal in the motor segment
- Expect combined ratio to remain above 100% this year but should come down gradually
- Loss ratio in corporate segment is at 91% while for retail indemnity it is at 78%. Management aims to keep combined health claims at 65-70%

Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
SBI Life Insurance	1170	1400	Buy	1170	14.6	15.1	16.6	18.9	80.4	77.7	70.5	62.0	3.5	3.0	2.6	2.3	15.2	8.5	11.1	12.0
Star Health	682	825	Buy	393	-14.1	-20.5	10.7	15.1	-48.4	-33.2	63.5	45.2	11.6	9.3	7.8	6.3	-23.6	-27.8	12.2	13.9
ICICI Lombard	1240	1550	Buy	609	32.4	25.9	21.3	19.3	38.3	47.9	58.2	64.3	7.6	6.7	5.8	5.1	21.3	14.5	14.8	15.1

Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

Results Summary (₹ cr)	Q1FY23	Q1FY23E	Q1FY22	YoY %	Q4FY22	QoQ %	Comments
Policyholders' Account							
Gross premium written	5529.8	5500.8	4267.1	29.6	5000.7	10.6	Growth driven by motor and health
Net premium written	3623.3	4074.7	2808.3	29.0	3973.4	-8.8	Sequential decline due to seasonality
Premium Earned (Net)	3468.2	3880.6	3152.1	10.0	3317.8	4.5	
Income from investments (net)	490.0	584.2	668.5	-26.7	538.4	-9.0	
Other income	20.0	10.0	10.6	88.3	780.2	-97.4	
Total income	3978.3	4474.8	3831.2	3.8	4636.3	-14.2	
Commission	78.2	203.7	127.6	-38.7	160.1	-51.1	Lower commissions due to higher direct business
Opex relating to insurance business	1083.4	1222.4	830.3	30.5	1077.4	0.6	
Incurred claims	2499.9	2648.5	2819.2	-11.3	2389.3	4.6	Claims decline on yearly basis as prior year was impacted by Covid
Total expenses	3661.5	4074.7	3777.1	-3.1	3626.8	1.0	
Underwriting profit/ (loss)	-193.3	-194.0	-624.9	-69.1	-309.0	-37.4	Underwriting loss due to combined ratio of 104%
Operating profit/ (loss)	316.8	400.2	54.2	484.7	1009.6	-68.6	
Shareholders' Account							
Income in shareholder's account	487.9	575.2	256.2	90.4	1174.6	-58.5	
Total Expenses	22.8	45.1	-2.0	-	764.1	-97.0	
Profit before taxes	465.1	530.1	258.3	80.1	410.5	13.3	
Provision for taxes	116.1	135.2	64.0	81.5	97.9	18.5	
Profit after tax	349.0	394.9	194.3	79.6	312.5	11.7	Profit driven by control over expenses
Analytical ratios (reported)							
Solvency ratio	2.61		2.6	0 bps	2.46	15 bps	Among best in industry
Claim ratio	72.08	68.3	89.4	-1736 bps	72.01	6 bps	
Expense ratio	27.80		27.8	0 bps	31.50	-370 bps	
Net retention ratio	65.50		65.8	-30 bps	79.50	-1400 bps	Lower sequential retention due to higher commercial business
Combined ratio	104.10		123.5	-1940 bps	103.20	90 bps	

Source: Company, ICICI Direct Research

Exhibit 5: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
GDPI	20,592	21,021	2.1	23,979	24,670	2.9
Claims	10,245	10,505	2.5	11,708	12,142	3.7
Operating P/L	2,182	2,259	3.5	2,673	2,765	3.4
PAT	1,591	1,542	-3.1	1,940	1,839	-5.2
Combined ratio %	102.4	103.8	142 bps	100.5	101.0	47 bps

Source: Company, ICICI Direct Research

Exhibit 6: Assumption

(₹ Crore)	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
GDPI growth %	16.9	17.4	14.2	16.5
Claims ratio %	59.5	58.5	59.5	58.5
Combined ratio %	103.8	101.0	102.4	100.5
Yield on Investment %	9.4	8.9	8.5	8.4
Solvency (x)	2.9	2.9	3.1	3.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 44: Policy holder's Account					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Gross direct premium income	13312.8	14003.1	17976.9	21021.3	24670.3
Net Earned Premium	9403.5	10014.0	13032.1	14407.8	16889.3
Investment income	1649.2	2147.4	3097.8	3145.1	3352.7
Total income	11052.7	12161.4	16129.8	17552.9	20242.0
Claims	6851.6	6870.8	9781.9	10505.4	12142.1
Commission	364.0	600.9	633.9	748.7	868.3
Operating expense	2293.1	2734.2	3920.1	4039.5	4466.6
Total expense	9508.7	10205.9	14335.9	15293.6	17477.1
Operating profit/(loss)	1544.0	1955.4	1793.9	2259.4	2765.0

Source: Company, ICICI Direct Research

Exhibit 45: Shareholder's Account					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating profit/(Loss)	1544.0	1955.4	1793.9	2259.4	2765.0
Income from Investments	464.4	504.6	703.2	819.9	989.9
Other income - misc income	15.6	12.4	3.0	3.0	3.0
Total Income	2024.0	2472.5	2500.1	3082.2	3757.8
Total Expenses	327.2	518.5	816.6	1020.7	1265.7
Profit Before Tax	1696.8	1954.0	1683.5	2061.4	2492.1
Tax	503.1	480.9	412.5	519.5	652.9
Profit After Tax	1193.7	1473.1	1271.0	1541.9	1839.2

Source: Company, ICICI Direct Research

Exhibit 46: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Shareholders' Funds					
Share capital	454.5	454.6	490.9	490.9	490.9
Reserve and surplus	5679.8	6980.9	8618.8	9929.4	11474.3
Fair Value change	-428.6	680.5	359.3	904.0	1053.6
Borrowings	485.0	485.0	255.0	306.0	367.2
Total	6190.6	8601.0	9724.0	11630.3	13386.0
Application of funds					
Investments					
Shareholders'	5859.6	7435.7	8917.9	10255.6	11793.9
Policyholders'	20467.2	23456.5	29868.4	34946.0	40886.8
Fixed assets	676.6	626.8	577.5	537.8	506.2
Deferred tax asset	306.3	349.9	345.6	345.6	345.6
Current assets					
Cash and bank balances	32.6	227.6	292.6	1911.9	3584.8
Advances and other assets	9699.8	7201.3	10846.3	10510.6	12211.8
Current liabilities	24979.8	24099.5	33066.8	37523.0	44900.0
Provisions	5871.7	6597.4	8057.5	9354.2	11043.1
Total	6190.6	8601.0	9724.0	11630.3	13386.0

Source: Company, ICICI Direct Research

Exhibit 47: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios (%)					
Gross Direct Premium Income	-8.1	5.2	28.4	16.9	17.4
Net Premium Income	12.3	6.5	30.1	10.6	17.2
Operating Expenses	11.3	7.3	40.5	6.7	14.3
PAT	13.8	23.4	-13.7	21.3	19.3
BVPS	15.3	21.2	13.5	14.4	14.8
EPS	13.7	23.4	-20.1	21.3	19.3
Profitability Ratios (%)					
Yield on Investment	8.7	9.3	10.9	9.4	8.9
Claims ratio	54.5	65.8	58.5	59.5	58.5
Commission To NEP	3.9	6.0	4.9	5.2	5.1
Opex to NEP	24.4	27.3	30.1	28.0	26.4
Combined Ratio	100.4	99.8	108.8	103.8	101.0
Balance Sheet Ratios (%)					
ROE	21.0	21.3	14.5	14.8	15.1
Investment Leverage	4.2	4.1	4.2	4.3	4.4
Solvency Ratio (x)	2.2	2.9	2.5	2.9	2.9
Valuation Ratio					
P/B	9.2	7.6	6.7	5.8	5.1
P/E	47.2	38.3	47.9	39.5	33.1
P/float	2.1	1.8	1.6	1.3	1.2
P/GWP	4.1	3.9	3.3	2.8	2.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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