

Market share gain amid healthy renewals aid overall growth

About the stock: ICICI Lombard is among the leading multi-line players in the general insurance space with ~10.6% market share on an overall basis.

- Motor segment contributes over ~31% of total premium, health insurance contributes 34%
- The general insurer is among the most profitable and consistent in terms of return ratios with RoE of ~14% for a sustainable period

Q1FY25 performance: ICICI Lombard reported 20.4% YoY growth in gross direct premium to ₹7688 crore, higher than the industry, driven by motor segment amid healthy renewals in auto segment. Motor segment witnessed growth at 26.3% YoY with private car segment gaining traction. Health segment witnessed growth at 24.7% in Q1FY25 with strong business in employer-employee segment. Combined ratio reported at 102.3% vs 103.8% in Q1FY24. Guidance on combined ratio maintained at 101.5% at exit of Q4FY25.

Investment Rationale

- Market share gain aids premium accretion: Heightened competition in motor segment impacted business growth and thus market share in the past, however, with signs of easing competitive intensity and strong distribution moat especially in car segment, ICICI Lombard is well placed to sustain premium growth thereby witnessing gradual uptick in market share (higher than industry growth at 26.3% seen in Q1FY25). Retail health business gained momentum with traction in group business amid easing of aggressive pricing in the industry. Launch of new product in retail segment is expected to aid traction in premium growth in individual segment. Expect 15-17% CAGR in premium accretion in FY25-26E.
- Guidance on combined ratio maintained: Balancing business growth along with profitability has led to improvement in loss ratio in motor segment at 66.8% in Q1FY25 vs 69.8% in Q1FY24. With improvement in competitive environment in motor segment easing, management continues to remain comfortable with loss ratio at 65-70% for motor TP and 60-65% for motor OD. In health segment, group health has witnessed marginal improvement in loss ratio. Thus, combined ratio improvement is on track and management maintains its target to achieve combined ratio of 101.5% on the exit of FY25E.

Rating and Target Price

- Historically, combined ratio has remained an important contributor to valuation. Sustained recovery in market share and reduction in combined ratio to drive valuation. Declining competitive intensity in motor segment aiding business growth and pick-up in individual health business amid product launch remains growth levers. Overall, the insurer remains a good bet to play Indian general insurance industry with consistent profitability. We assign a multiple of ~1.7x FY26E float to arrive at a target of ₹ 2050 with a Hold rating.

Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 Year CAGR (FY21 - FY24)	FY25E	FY26E	2 year CAGR (FY24 - FY26E)
Gross direct premium income	14003.1	17976.9	21025.1	24776.1	20.9	28513.9	32926.4	15.3
Adjusted net profit	1473.1	1271.0	1756.9	1918.6	9.2	2256.1	2530.0	14.8
Networth	7435.5	9109.7	10392.2	11959.8	17.2	13854.9	15980.1	15.6
EPS (₹s)	32.4	25.9	35.2	38.9		45.8	51.4	
P/E (x)	58.6	73.4	54.0	48.8		41.5	37.0	
RoE (%)	21.3	14.5	17.5	16.3		16.1	15.6	
P/Float	2.8	2.4	2.2	1.9		1.7	1.6	
P/GWP	6.0	5.0	4.3	3.7		3.2	2.8	

Source: Company, ICICI Direct Research



Particulars

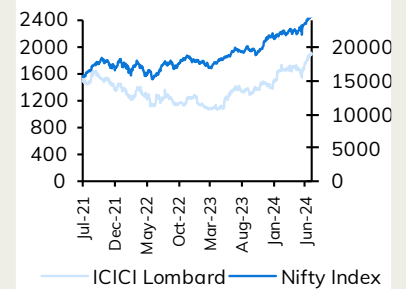
Particulars

Market Capitalisation	₹ 93,826 crore
Networth	₹ 11,960 crore
52 week H/L (₹)	1916 / 1266
Face Value (₹)	10.0

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	48.0	48.0	47.9	51.3	51.8
FII	22.0	22.4	23.0	23.1	23.9
DII	18.1	18.4	17.9	16.0	17.2
Others	11.9	11.2	11.2	9.7	7.1

Price Chart



Key risks

- Slower than expected improvement in combined ratio
- Increase in competitive intensity to impact business momentum

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Concall highlights and outlook

Motor segment

- Overall growth in the Motor segment was aided by strong growth in the old business. New book grew at ~16%-17%, whereas the old book grew at 33%.
- Motor segment witnessed higher than industry, thereby gaining market share. Industry is witnessing easing in pricing competitiveness
- Introduced long-term product offerings for private cars and two-wheelers. Advanced premium stands at ₹3456 crore
- Management remains comfortable with loss ratio in motor OD segment at 60-65% and for motor TP segment at 65-70%.

Health segment

- Leveraging favourable industry pricing and superior customer service, the company grew its Group Health - Employer, Employee segment by 31.1% in Q1FY25. The corporate group segment is showing positive underwriting outcomes.
- Aims to moderate loss ratio in the health segment through the launch of new health insurance solution "Elevate" powered by AI.
- Changes in regulations for non-banking channels have impacted disbursements and reduced sourcing particularly through the NBFC partners and unsecured segment.
- The company is diversifying its customer base in the health insurance segment as a higher concentration of younger base could hamper persistency. Thus, the focus would be to source healthy lives.
- The company has launched a new health insurance solution Elevate, a new AI-powered solution. Elevate boasts industry-leading features like unlimited coverage (infinite sum insured) and treatment options (infinite care), along with a jumpstart benefit (power booster jumpstart). The AI engine tailors coverage to individual customer profiles for optimal protection. To ensure widespread availability, the company launched Elevate through more than 200 events across the country leveraging their agency distribution network.
- In health segment, loss ratio is targeted to remain at ~70%, while loss ratio ranging from 94%-95% on a full year basis targeted for corporate health group book.

Financials

- Company's GDPI grew at 20.4% vs industry's growth of 13.3% in Q1FY25, Motor segment grew 26.3% vs industry growth of 12%, New private car and CV business grew at 13.4%/20.3% vs 3%/7.8% of industry growth respectively.
- Combined ratio trajectory seems to be improving as it stood at 102.3% for Q1FY25 compared to 103.8% for Q1FY24. The co expects it to be around 101.5 by end of FY25
- Company continues to maintain leadership position in segments of Engineering, Liability and Marine Cargo.
- Focus continued to grow with commercial viability in conjunction. Faster growth in old motor business (renewals) has led to better opex ratio
- The company's investment income jumped to INR 11.28 billion in Q1 FY25, up from a revised INR 8.44 billion in Q1 FY24. This increase reflects an update to insurance regulations in May 2024. Duration of investment book is at 5.48 years
- Reported lower opex which was driven by cost efficiency and product mix. It has improved by 7%-8% due lower cost of acquisition aided by growth of old motor book and portfolio configuration. The sustainability of such opex reduction is being monitored closely by the management
- The company's digital business grew 20.7% in Q1 and accounted for 4.9% of total revenue. The IL TakeCare app, a one-stop shop for insurance and wellness needs, has further fuelled this growth by reaching a significant milestone of 10 million downloads.

Exhibit 1: Variance Analysis

Results Summary (₹ cr)	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %	Comments
Policyholders' Account						
Gross premium written	7931.1	6622.1	19.8	6263.1	26.6	Healthy traction in motor segment aid premium
Net premium written	5360.5	4467.6	20.0	4767.2	12.4	
Premium Earned (Net)	4503.9	3887.3	15.9	4368.3	3.1	
Income from investments (net)	844.6	621.6	35.9	789.7	7.0	Healthy gains from equity as well as debt portfolio. Yield at 8.8%
Other income	3.5	29.2	-88.0	7.5	-53.0	
Total income	5352.0	4538.0	17.9	5165.4	3.6	
Commission	804.5	556.4	44.6	949.9	-15.3	Commission ratio high at 15%
Opex relating to insurance business	711.6	768.9	-7.5	655.2	8.6	Opex lower due to traction in old business
Incurred claims	3334.4	2881.5	15.7	2998.7	11.2	Loss ratio at 74% vs 74.1%
Total expenses	4850.5	4206.8	15.3	4603.8	5.4	
Underwriting profit/ (loss)	-346.6	-319.5	8.5	-235.6	47.1	Combined ratio at 102.3%
Operating profit/ (loss)	501.5	331.2	51.4	561.5	-10.7	
Shareholders' Account						
Income in shareholder's account	754.4	516.8	46.0	795.3	-5.1	
Total Expenses	-19.6	-3.2	510.0	97.5	-120.1	
Profit before taxes	774.0	520.0	48.8	697.8	10.9	
Provision for taxes	193.6	129.7	49.3	178.3	8.6	
Profit after tax	580.4	390.4	48.7	519.5	11.7	Healthy traction in premium and investment income aid profitability
Analytical ratios (reported)						
Solvency ratio	2.56	2.53	3 bps	2.62	-6 bps	
Claim ratio	74.03	74.13	-9 bps	68.65	539 bps	
Expense ratio	26.80	26.60	20 bps	32.80	-600 bps	
Net retention ratio	67.60	67.50	10 bps	76.10	-850 bps	
Combined ratio	102.30	103.80	-150 bps	102.20	10 bps	

Financial Summary

Exhibit 2: Policyholder's Account ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Gross direct premium income	17976.9	21025.1	24776.1	28513.9	32926.4
Net Earned Premium	13032.1	14822.8	16866.5	19552.8	22823.9
Investment income	3097.8	3272.1	2885.6	3174.2	3491.6
Total income	16129.8	18094.9	19752.1	22727.0	26315.5
Claims	9781.9	10725.7	11939.5	13755.8	16010.2
Commission	633.9	472.2	3089.0	3359.1	3893.7
Operating expense	3920.1	4486.9	2817.7	3346.0	3900.9
Total expense	14335.9	15712.6	17846.2	20461.0	23804.8

Source: Company, ICICI Direct Research

Exhibit 3: Shareholder's Account ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Operating profit/(Loss)	1793.9	2410.2	1905.9	2266.1	2510.7
Income from Investments	703.2	731.7	844.8	1016.6	1177.7
Other income - misc income	3.0	43.9	5.2	5.2	5.2
Total Income	2500.1	3185.8	2755.9	3287.9	3693.6
Total Expenses	816.6	1045.4	200.7	230.9	265.5
Profit Before Tax	1683.5	2140.4	2555.2	3057.0	3428.1
Tax	412.5	383.5	636.6	800.9	898.2
Profit After Tax	1271.0	1756.9	1918.6	2256.1	2530.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Shareholders' Funds					
Share capital	490.9	491.1	492.7	492.7	492.7
Reserve and surplus	8618.8	9901.1	11467.1	13362.2	15487.4
Fair Value change	359.3	213.3	989.6	1188.7	1313.2
Borrowings	255.0	35.6	35.0	35.0	35.0
Total	9724.0	10641.1	12985.0	15079.3	17329.0
Application of funds					
Investments					
Shareholders	8917.9	9858.3	11586.9	12977.3	14534.6
Policyholders	29868.4	33322.1	37320.4	41052.4	45157.7
Fixed assets	577.5	564.0	700.9	770.9	848.0
Deferred tax asset	345.6	265.3	292.6	292.6	292.6
Current assets	11139.0	11076.5	13407.6	22588.6	29007.0
Current liabilities	33066.8	35658.7	40235.2	50754.8	58608.9
Provisions	8057.5	8786.5	10088.1	11847.8	13902.0
Total	9724.0	10641.1	12985.0	15079.3	17329.0

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Gross Direct Premium Income	28.4	17.0	17.8	15.1	15.5
Net Premium Income	30.1	13.7	13.8	15.9	16.7
Operating Expenses	40.5	14.5	-37.2	18.7	16.6
PAT	-13.7	38.2	9.2	17.6	12.1
BVPS	13.5	14.0	14.7	15.8	15.3
EPS	25.9	35.2	38.9	45.8	51.4
Profitability Ratios (%)					
Yield on Investment	10.9	9.8	8.1	8.1	8.2
Claims ratio	58.5	58.1	59.4	70.3	70.3
Commission To NEP	4.9	3.2	18.3	17.2	17.1
Opex to NEP	30.1	30.3	16.7	17.1	17.1
Combined Ratio	108.8	104.3	103.3	102.2	101.9
Balance Sheet Ratios (%)					
RoE	14.5	17.5	16.3	16.1	15.6
Investment Leverage	4.2	4.2	4.1	3.9	3.7
Solvency Ratio (x)	2.5	2.5	2.6	2.9	2.9
Valuation Ratio					
P/B	10.2	9.0	7.8	6.8	5.9
P/E	73.4	54.0	48.8	41.5	37.0
P/float	2.4	2.2	1.9	1.7	1.6
P/GWP	5.0	4.3	3.7	3.2	2.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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