

CMP: ₹1153

Target: ₹ 1300 (12%)

Target Period: 12 months

HOLD

October 19, 2022

Robust growth; awaiting uptick in combined ratio...

About the stock: ICICI Lombard is among the leading multi-line players in the general insurance space with ~8.4% market share on an overall basis.

- Motor segment contributes over 35% of total premium
- General insurer is among the most profitable and consistent in terms of return ratios with RoE of ~16-20% for a sustainable period

Q2FY23 Results: ICICI Lombard posted a healthy performance on business growth.

- Gross premium growth was healthy at 17.6% YoY to ₹ 5302 crore
- Claims ratio up QoQ by 73 bps at 72.8%; opex ratio largely steady at ~28%
- Combined ratio at 105.1% vs. 105.3% YoY; underwriting loss at ₹ 152 crore
- PAT at ₹ 590 crore, up 32.2% YoY, including tax reversal of ₹ 128 crore

What should investors do? Since our initiation in March 2022, the stock has remained flat post some run up. We believe long term growth opportunity, market leadership with diversified product mix are positives, sustainable earnings momentum needs to be watched.

- We downgrade the stock from BUY to **HOLD** rating

Target Price and Valuation: We value ICICI Lombard at 2.6x FY24E premium (50% weight), 1.25x FY24E float (50% weight) and revise our target price of ₹ 1300/share.

Key triggers for future price performance:

- Continued leadership and selective acceptance in motor segment (especially in TP) to aid profitability
- Investment in agency channel has started to churn; awaits sustainability
- Combined ratio remains high; gradual decline to aid earnings and valuation
- 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 ~31.6% market share, as of June 2022
- BUY with a target price of ₹ 860



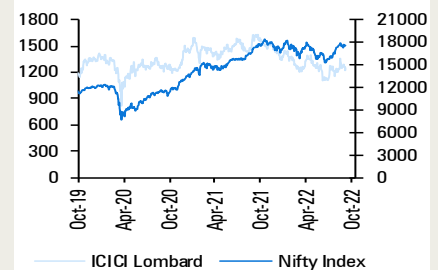
Particulars

Particulars	Values
Market Capitalisation	₹ 56262 crore
Networth	₹ 9821 crore
52 week H/L (₹)	1574 / 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

Healthy pick up in health segment is a positive

Key risk: i) Loss of market share amid elevated competition, ii) delay in reduction in combined ratio

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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	21421.1	25140.5	18.3
Adjusted net profit	1049.3	1193.7	1473.1	1271.0	6.6	1509.4	1764.8	17.8
Networth	5320.5	6134.2	7435.5	9109.7	19.6	10392.6	11875.1	14.2
BVPS (Rs)	117.1	135.0	163.6	185.6		211.7	241.9	
EPS (Rs)	23.1	26.3	32.4	25.9		30.7	36.0	
P/BV (x)	9.8	8.5	7.0	6.2		5.4	4.8	
P/E (x)	49.9	43.9	35.6	44.5		37.5	32.1	
RoE (%)	19.2	21.0	21.3	14.5		14.5	14.6	
P/Float	2.4	2.0	1.7	1.5		1.3	1.1	
P/GWP	3.5	3.9	3.7	3.0		2.6	2.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Healthy business growth; earnings muted

- ICICI Lombard posted a healthy set of numbers on the business growth front as gross premium increased 17.6% YoY (de-grew 4.1% QoQ) to ₹ 5302 crore. Net premium also increased 21.4% YoY to ₹ 3705 crore. Investment income was at ₹ 635 crore, up 15.1% YoY
- Total expenses grew 19.0% YoY, 8.9% QoQ. Commission declined 10.7% YoY to ₹ 128 crore and claims grew 23.1% YoY to ₹ 2793. Claims ratio increased sequentially by 73 bps to 72.81% while on a yearly basis it increased ~300 bps. Combined ratio for the quarter was at 105.1% and the insurer posted an underwriting loss of ₹ 152 crore. However, with addition of other income the company had operating profit of ₹ 510.2 crore
- Motor segment continues to be one of the major contributor to total premium at 35% (down from 37% a year ago) while Health segment saw rise in total contribution at 27% as compared to 23% YoY
- On an aggregate basis, led by healthy growth in premium earned, the company posted a net profit of ₹ 590.5 crore (up 32.2% YoY, 69.2% QoQ). Excluding income tax reversal of ₹ 128 crore, net profit growth was ~3.4% YoY, attributable to ₹ 89 crore diminution in value of investments
- Solvency ratio for the company was down 14 bps while it was down 2 bps on an overall basis at 2.47x

Q2FY23 Earnings Conference Call highlights

- Industry's GDPI grew 15.3% for H1FY23 vs. H1FY22. Excluding crop insurance, growth was at 18.0% for the same. The pricing aggression continued in certain segments like motor, while there was some improvement in the group health segment
- Growth remained tepid at 4.5% in the motor segment. The company is facing challenges like competitive intensity in motor OD. The management focused on growing its market share in certain profitable sub segments
- In the motor segment, the share increase was largely in CV, which increased from 17.1% to 23.4%. The 2-W was steady at 27.1%. The management was cautious on private car segment
- Overall new vehicle sales have been strong and demand also continues to be positive. With the improving pricing environment, the company will be able to maintain its leadership position
- Investments in retail health distribution resulted in growth of 15.8%. Health insurance run rate was at ₹ 400 crore per month
- ICICI Bank has started to distribute indemnity product with home loans, though modalities of the new product, profitability may be different from earlier scheme. Contribution of ICICI Bank was back to pre-Covid level at ~6.1%
- Renewals in retail health business at ~75-80%
- Excluding income tax reversal of ₹ 128 crore, PAT growth was ~3.4% YoY, attributable to ₹ 89 crore diminution in value of investments
- Crop business will remain +/- 5% of overall portfolio. In H2FY23, crop business will be significantly lower than H1FY23
- Nearly 70% of investment income is accrual while remaining 30% consists of capital gains
- Decline in solvency ratio is due to increase in retail business and dividend payment

Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)				
	₹	TP(₹)		Rating	(₹ bn)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
SBI Life Insurance	1224	1500	Buy	1225	14.6	15.1	17.6	21.5	84.1	81.3	69.6	56.9	3.7	3.1	2.7	2.3	15.2	8.5	12.0	14.0
Star Health	730	860	Buy	421	-14.1	-20.5	12.0	14.1	-51.8	-35.5	61.0	51.7	12.2	9.9	8.1	6.7	-23.6	-27.8	13.4	13.0
ICICI Lombard	1153	1300	Hold	562	23.4	-20.1	18.8	16.9	49.3	-57.4	61.5	68.1	7.0	6.2	5.4	4.8	21.3	14.5	14.5	14.6

Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

Results Summary (₹ cr)	Q2FY23	Q2FY23E	Q2FY22	YoY %	Q1FY23	QoQ %	Comments
Policyholders' Account							
Gross premium written	5302.6	6311.9	4508.5	17.6	5529.8	-4.1	Growth driven by motor and health
Net premium written	3705.9	4675.5	3052.8	21.4	3623.3	2.3	
Premium Earned (Net)	3836.6	4452.8	3250.3	18.0	3468.2	10.6	Higher proportion of business retained
Income from investments (net)	635.3	616.2	551.8	15.1	490.0	29.6	
Other income	27.2	10.0	6.1	344.8	20.0	35.9	
Total income	4499.0	5079.0	3808.2	18.1	3978.3	13.1	
Commission	128.2	187.0	143.5	-10.7	78.2	64.0	Comission ratio remains in a range
Opex relating to insurance business	1067.3	1309.1	937.5	13.8	1083.4	-1.5	
Incurred claims	2793.3	3226.1	2269.9	23.1	2499.9	11.7	Claim ratio continued to remain steady at 105%
Total expenses	3988.8	4722.2	3351.0	19.0	3661.5	8.9	
Underwriting profit/ (loss)	-152.3	-269.4	-100.7	51.2	-193.3	-21.2	
Operating profit/ (loss)	510.2	356.8	457.1	11.6	316.8	61.1	
Shareholders' Account							
Income in shareholder's account	715.7	557.3	631.3	13.4	487.9	46.7	
Total Expenses	106.0	38.6	37.4	183.6	22.8	365.2	
Profit before taxes	609.7	518.7	593.9	2.7	465.1	31.1	
Provision for taxes	19.1	132.3	147.2	-87.0	116.1	-83.5	
Profit after tax	590.5	386.5	446.7	32.2	349.0	69.2	PAT impacted by diminution of investment
Analytical ratios (reported)							
	Q2FY23	Q2FY23E	Q2FY22	YoY %	Q1FY23	QoQ %	
Solvency ratio	2.47		2.5	-2 bps	2.61	-14 bps	Sequential decline led by seasonality & higher retail business
Claim ratio	72.81	72.45	69.8	297 bps	72.08	73 bps	
Expense ratio	27.90	0.00	29.0	-110 bps	27.80	10 bps	
Net retention ratio	69.90		67.7	220 bps	65.50	440 bps	Higher retention led by increasing proportion of retail business
Combined ratio	105.10		105.3	-20 bps	104.10	100 bps	

Source: Company, ICICI Direct Research

Exhibit 5: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
GDPI	21,021	21,421	1.9	24,670	25,140	1.9
Claims	10,505	10,762	2.4	12,142	12,439	2.4
Operating P/L	2,259	2,100	-7.0	2,765	2,719	-1.7
PAT	1,542	1,509	-2.1	1,839	1,765	-4.0
Combined ratio %	103.8	103.1	-68 bps	101.0	100.2	-75 bps

Source: Company, ICICI Direct Research

Exhibit 6: Assumption

(₹ Crore)	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
GDPI growth %	19.2	17.4	16.9	17.4
Claims ratio %	59.5	58.5	59.5	58.5
Combined ratio %	103.1	100.2	103.8	101.0
Yield on Investment %	8.8	8.7	9.4	8.9
Solvency (x)	2.9	2.8	2.9	2.9

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	21421.1	25140.5
Net Eamed Premium	9403.5	10014.0	13032.1	14747.3	17285.1
Investment income	1649.2	2147.4	3097.8	2894.2	3183.0
Total income	11052.7	12161.4	16129.8	17641.6	20468.1
Claims	6851.6	6870.8	9781.9	10762.1	12438.5
Commission	364.0	600.9	633.9	643.9	739.7
Operating expense	2293.1	2734.2	3920.1	4135.6	4571.1
Total expense	9508.7	10205.9	14335.9	15541.5	17749.3
Operating profit/(loss)	1544.0	1955.4	1793.9	2100.0	2718.8

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	2100.0	2718.8
Income from Investments	464.4	504.6	703.2	774.3	935.3
Other income - misc income	15.6	12.4	3.0	3.0	3.0
Total Income	2024.0	2472.5	2500.1	2877.3	3657.1
Total Expenses	327.2	518.5	816.6	1020.7	1265.7
Profit Before Tax	1696.8	1954.0	1683.5	1856.6	2391.4
Tax	503.1	480.9	412.5	347.2	626.5
Profit After Tax	1193.7	1473.1	1271.0	1509.4	1764.8

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	9901.7	11384.2
Fair Value change	-428.6	680.5	359.3	886.1	1012.2
Borrowings	485.0	485.0	255.0	35.0	42.0
Total	6190.6	8601.0	9724.0	11313.7	12929.3
Application of funds					
Investments					
Shareholders'	5859.6	7435.7	8917.9	10255.6	11793.9
Policyholders'	20467.2	23456.5	29868.4	34049.9	38816.9
Fixed assets	676.6	626.8	577.5	589.0	606.7
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	2984.5	5790.6
Advances and other assets	9699.8	7201.3	10846.3	10710.6	12444.5
Current liabilities	24979.8	24099.5	33066.8	38236.7	45755.7
Provisions	5871.7	6597.4	8057.5	9384.8	11113.3
Total	6190.6	8601.0	9724.0	11313.7	12929.3

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	19.2	17.4
Net Premium Income	12.3	6.5	30.1	13.2	17.2
Operating Expenses	11.3	7.3	40.5	8.4	14.2
PAT	13.8	23.4	-13.7	18.8	16.9
BVPS	15.3	21.2	13.5	14.1	14.3
EPS	13.7	23.4	-20.1	18.8	16.9
Profitability Ratios (%)					
Yield on Investment	8.7	9.3	10.9	8.8	8.7
Claims ratio	54.5	65.8	58.5	59.5	58.5
Commission To NEP	3.9	6.0	4.9	4.4	4.3
Opex to NEP	24.4	27.3	30.1	28.0	26.4
Combined Ratio	100.4	99.8	108.8	103.1	100.2
Balance Sheet Ratios (%)					
ROE	21.0	21.3	14.5	14.5	14.6
Investment Leverage	4.2	4.1	4.2	4.3	4.3
Solvency Ratio (x)	2.2	2.9	2.5	2.9	2.8
Valuation Ratio					
P/B	8.5	7.0	6.2	5.4	4.8
P/E	43.9	35.6	44.5	37.5	32.1
P/float	2.0	1.7	1.5	1.3	1.1
P/GWP	3.9	3.7	3.0	2.6	2.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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