

CMP: ₹1333

Target: ₹ 1550 (16%)

Target Period: 12 months

April 22, 2022

BUY

Sustained market share recovery remains key...

About the stock: ICICI Lombard is among the leading multi-line players in the general insurance space with ~8.1% market share on an overall basis.

- The motor segment is a key contributor and forms 46% 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

Q4FY22 Results: ICICI Lombard reported a mixed performance.

- Gross direct premium growth was 4.5% QoQ to ₹ 5000 crore
- Commissions declined 21% QoQ to ₹ 160 crore while claims increased 4% sequentially to ₹ 2389 crore
- Combined ratio fell 130 bps QoQ to 103.2%; underwriting loss at ₹ 309 crore
- Overall PAT came in at ₹ 312 crore, down 9.6% YoY and 1.6% QoQ

What should investors do? Since our initiation in March 2022, the stock has moved up by just over 10%. We believe long term sustainable growth opportunity and market leadership along with focus on digital adoption provides 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:

- Indian non-life insurance is highly under penetrated
- Shift in focus towards market share; open to lower RoE
- Combined ratio to take precedence on loss ratio in business selection
- Investment in digital and agency channel to aid distribution strength and 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 ₹ 800



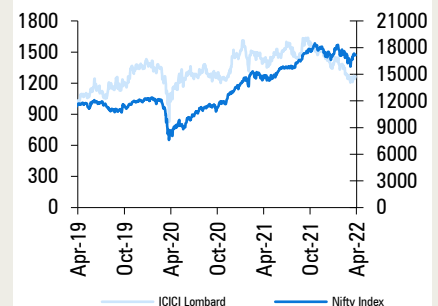
Particulars

Particulars	Values
Market Capitalisation	₹ 65433 crore
Networth	₹ 9109 crore
52 week H/L (₹)	1674 / 1192
Face Value (₹)	10.0

Shareholding Pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	51.9	48.1	48.1	48.0
FII	29.8	27.4	28.1	26.9
DII	11.7	10.9	13.5	13.7
Others	6.7	13.7	10.4	11.4

Price performance



Key Highlights

Leadership in motor insurance; among the best in profitability

Key risk: i) Increasing competition could limit pricing power, ii) pandemic may impact profitability

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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	18525.5	8.5	20591.5	23979.2	13.8
Adjusted net profit	1049.3	1193.7	1473.1	1273.2	6.7	1591.1	1940.0	23.4
Networth	5320.5	6134.2	7435.5	9111.3	19.6	10589.9	12219.5	15.8
BVPS (Rs)	117.1	135.0	163.6	185.6		215.9	249.1	
EPS (Rs)	23.1	26.3	32.4	25.9		32.4	39.6	
P/BV (x)	11.4	9.9	8.1	7.1		6.2	5.4	
P/E (x)	57.7	50.8	41.1	50.5		41.1	33.7	
RoE (%)	19.2	21.0	21.3	14.5		14.8	15.7	
P/Float	2.7	2.3	2.0	1.7		1.4	1.2	
P/GWP	4.1	4.5	4.2	3.5		3.1	2.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Mixed overall performance

- ICICI Lombard posted a mixed set of Q4FY22 numbers with gross direct premium growth of 4.5% QoQ to ₹ 5000 crore while net written premium came in at ₹ 3973 crore, up 8.7% YoY. However, net earned premium was flattish on a sequential basis at 0.2% QoQ to ₹ 3317 crore, indicating mostly premiums were written during the end of the quarter. Income from investment was largely in-line with our estimates at ~ ₹ 540 crore
- Expenses were kept under control as commissions declined 21% QoQ to ₹ 160 crore but claims increased 4% sequentially to ₹ 2389 crore. The company, thus, posted underwriting loss of ₹ 309 crore vs. loss of ₹ 269 crore QoQ. Combined ratio fell 130 bps QoQ to 103.2%. The management believes this ratio will decline further but be 100+ in the next two years
- Motor segment continues to comprise a major part of premium collection and forms 45% of the same compared to 44% in the previous quarter at ₹ 2250 crore (calculated) while health segment now comprises 22% of total premium compared to similar levels sequentially and was up 7% QoQ. The contribution of motor third party (TP) growth from CV segment is slightly higher this year. Within health segment retail was up 1% QoQ while in the corporate segment premium growth was up 10% QoQ. The company expects market share in private car segment to catch up soon
- On an aggregate basis, due to higher claims ratio at 72% vs. 69.5% in the previous quarter and lower earned premiums due to writing at the fag end of the quarter, overall profit for the quarter came in at ₹ 312 crore against an expectation of ₹ 440 crore and was below our estimates. Solvency ratio for the company was steady on an overall basis at 2.5x

Q4FY22 Earnings Conference Call highlights

- The company has grown in line with the market growth of 12.7% (excluding crop and mass health) vs. lower growth witnessed till 9MFY22
- Out of 1000 retail health agency managers, the company has on-boarded 750 while for the balance 250, offers have been made
- The revenue and operational synergy plans are on track. Investments made during the year in distribution and technology are showing results. It is expected to continue to sustain the growth momentum
- Aims to continue its expansion across distribution, digital, technology and claims service for which it has planned additional investments of ₹ 100 crore to ₹ 150 crore
- Commercial lines experienced robust growth, driven by 17.8% uptick in SME segment
- The successful integration of the demerged business of Bharti Axa led to optimisation of organisation structure, rationalisation of offices, efficiencies in claim settlement practices and technology applications. This will result in annualised synergy benefits of ₹ 200 crore of which ₹ 70 crore has been realised in FY22
- Combined ratio declined 130 bps QoQ to 103.2%. The management believes this ratio will decline further but be 100% + in next two years
- The management expects market share in the private car segment to improve ahead
- New banca partners (from Bharati Axa merger) are focusing on SME and motor segment

Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating	₹ (Bn)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
SBI Life Insurance	1145	1400	Buy	1145	5.5	17.5	23.5	206.8	65.4	48.7	2.9	2.5	2.1	0.4	0.6	0.7	5.3	15.6	18.3	
Star Health	681	800	Buy	391	-21.0	10.2	16.5	-32.4	66.6	41.4	9.2	7.8	6.3	-17.2	8.3	13.1	-27.8	11.5	14.8	
ICICI Lombard	1333	1550	Buy	687	26.4	32.4	39.6	53.1	43.2	35.4	7.4	6.5	5.6	12.5	13.4	14.1	14.3	14.8	15.7	

Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

Results Summary (₹ cr)	Q4FY22	Q4FY22E	Q4FY21	YoY %	Q3FY21	QoQ %	Comments
Policyholders' Account							
Gross premium written	5000.7	4929.7	3559.9	40.5	4786.1	4.5	Growth largely driven by health segment
New premium written	3973.4	3792.0	2764.8	43.7	3655.1	8.7	
Premium Earned (Net)	3317.8	3611.5	2616.2	26.8	3311.9	0.2	Higher business written in March
Income from investments (net)	538.4	541.7	419.8	28.2	532.2	1.2	
Other income	780.2	10.0	453.4	72.1	10.0	7678.6	Due to contribution from shareholders fund
Total income	4636.3	4163.2	3489.4	32.9	3854.1	20.3	
Commission	160.1	208.6	109.8	45.8	202.7	-21.0	Lower commissions due to direct business
Opex relating to insurance business	1077.4	1137.6	722.8	49.1	1074.9	0.2	
Incurred claims	2389.3	2389.0	1874.9	27.4	2303.5	3.7	
Total expenses	3626.8	3735.2	2707.5	34.0	3581.1	1.3	
Underwriting profit/ (loss)	-309.0	-123.7	-91.3	238.5	-269.2	14.8	Underwriting loss as combined ratio at 103%
Operating profit/ (loss)	1009.6	428.0	781.9	29.1	273.1	269.7	
Shareholders' Account							
	Q4FY22	Q4FY22E	Q4FY21	YoY %	Q3FY21	QoQ %	
Income in shareholder's account	1174.6	605.6	920.7	27.6	438.1	168.1	
Total Expenses	764.1	19.0	470.6	62.4	17.1	4363.3	
Profit before taxes	410.5	586.6	450.1	-8.8	420.9	-2.5	
Provision for taxes	97.9	146.7	104.4	-6.2	103.4	-5.3	
Profit after tax	312.5	440.0	345.7	-9.6	317.5	-1.6	PAT below expectation due to elevated business at fag end of month
Analytical ratios (reported)							
	Q4FY22	Q4FY22E	Q4FY21	YoY %	Q3FY21	QoQ %	
Solvency ratio	2.46	0.0	2.9	-44 bps	2.45	1 bps	Among best in industry
Claim ratio	72.01	66.2	71.7	35 bps	69.55	246 bps	Increased claims in motor third party and crop
Expense ratio	31.50	0.0	29.8	170 bps	31.50	0 bps	
Net retention ratio	79.50	0.0	77.7	180 bps	76.40	310 bps	Better retention led to improved NWP growth
Combined ratio	103.20	0.0	101.8	140 bps	104.50	-130 bps	

Source: Company, ICICI Direct Research

Exhibit 5: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
GDP	20,605	20,592	-0.1	23,960	23,979	0.1
Claims	10,261	10,245	-0.2	11,721	11,708	-0.1
Underwriting P/L	2,296.7	2,181.9	-5.0	2,792.6	2,673.2	-4.3
PAT	1,724	1,591	-7.7	2,111	1,940	-8.1
Combined ratio %	102.5	102.4	-10 bps	100.6	100.5	-11 bps

Source: Company, ICICI Direct Research

Exhibit 6: Assumption

(₹ Crore)	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
GDP growth %	14.2	16.5	14.1	16.3
Claims ratio %	59.5	58.5	59.5	58.5
Combined ratio %	102.4	100.5	102.5	100.6
Yield on Investment %	8.5	8.4	8.7	8.5
Solvency (x)	3.1	3.1	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	18525.5	20591.5	23979.2
Net Earned Premium	9403.5	10014.0	13456.7	14064.4	16296.2
Investment income	1649.2	2147.4	2290.8	2835.5	3155.7
Total income	11052.7	12161.4	16096.9	16900.0	19452.0
Claims	6851.6	6870.8	9761.8	10244.8	11707.9
Commission	364.0	600.9	628.1	792.5	905.0
Operating expense	2293.1	2734.2	3910.6	3680.7	4165.9
Total expense	9508.7	10205.9	14300.4	14718.0	16778.8
Operating profit/(loss)	1544.0	1955.4	1796.5	2181.9	2673.2

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	1796.8	2181.9	2673.2
Income from Investments	464.4	504.6	703.2	761.0	978.4
Other income - misc income	15.6	12.4	3.0	12.4	12.4
Total Income	2024.0	2472.5	2503.0	2955.3	3663.9
Total Expenses	327.2	518.5	816.6	828.2	1035.2
Profit Before Tax	1696.8	1954.0	1686.4	2127.2	2628.7
Tax	503.1	480.9	413.2	536.1	688.7
Profit After Tax	1193.7	1473.1	1273.2	1591.1	1940.0

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	490.5	490.5
Reserve and surplus	5679.8	6980.9	8620.4	10099.4	11729.0
Fair Value change	-428.6	680.5	359.3	907.1	1057.0
Borrowings	485.0	485.0	255.0	407.4	488.9
Total	6190.6	8601.0	9725.6	11904.4	13765.4
Application of funds					
Investments					
Shareholders'	5859.6	7435.7	8917.9	10774.3	12390.4
Policyholders'	20467.2	23456.5	29868.4	34579.6	40458.1
Fixed assets	676.6	626.8	577.5	645.8	665.1
Deferred tax asset	306.3	349.9	345.7	349.9	349.9
Current assets					
Cash and bank balances	32.6	227.6	246.4	1002.2	2291.0
Advances and other assets	9699.8	7201.3	10827.9	10295.8	11869.7
Current liabilities	24979.8	24099.5	33003.4	36755.9	43642.1
Provisions	5871.7	6597.4	8054.6	8987.2	10616.8
Total	6190.6	8601.0	9725.6	11904.4	13765.4

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	32.3	14.2	16.5
Net Premium Income	12.3	6.5	34.4	12.6	15.9
Operating Expenses	11.3	7.3	43.0	7.4	14.0
PAT	13.8	23.4	-13.6	22.9	21.9
BVPS	15.3	21.2	15.1	14.6	15.4
EPS	13.7	23.4	-20.0	22.9	21.9
Profitability Ratios (%)					
Yield on Investment	8.7	9.3	9.5	8.5	8.4
Claims ratio	54.5	65.8	61.0	59.5	58.5
Commission To NEP	3.9	6.0	5.5	5.6	5.6
Opex to NEP	24.4	27.3	30.0	26.2	25.6
Combined Ratio	100.4	99.8	108.8	102.4	100.5
Balance Sheet Ratios (%)					
ROE	21.0	21.3	14.5	14.8	15.7
Investment Leverage	4.2	4.1	4.2	4.2	4.3
Solvency Ratio (x)	2.2	2.9	2.5	3.1	3.1
Valuation Ratio					
P/B	9.9	8.1	7.1	6.2	5.4
P/E	50.8	41.1	50.5	41.1	33.7
P/float	2.3	2.0	1.7	1.4	1.2
P/GWP	4.5	4.2	3.5	3.1	2.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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