

CMP: ₹1110

Target: ₹ 1250 (13%)

Target Period: 12 months

HOLD

April 19, 2023

## Guidance reaffirmed; sustained growth to drive valuation

**About the stock:** ICICI Lombard is among the leading multi-line players in the general insurance space with ~8.2% market share on an overall basis.

- Motor segment contributes over ~40% of total premium
- The general insurer is among the most profitable and consistent in terms of return ratios with RoE of ~14% for a sustainable period

**Q4FY23 Results:** ICICI Lombard beat earnings estimates led by lower opex.

- Gross premium growth was at 6.8% YoY to ₹ 5339 crore
- Claims ratio up 393 bps QoQ at 74.2%; expenses ratio steady at ~31%
- Combined ratio at 104.2% vs. 104.4% QoQ; underwriting loss at ₹ 250 crore
- PAT at ₹ 437 crore, up ~40% YoY. Market share steady at 8.2%

**What should investors do?** The ICICI Lombard stock has remained range bound in the last 12 months. Leadership in a market with long term growth potential remains positive. Steady market share coupled with a gradual improvement in combined ratio bodes well but sustainable delivery is awaited to gain confidence.

- Thus, we maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value ICICI Lombard at ~2.1x FY25E premium (50% weight), ~1.1x FY25E float (50% weight) and revise our target price from ₹ 1300 to ₹ 1250/share.

### Key triggers for future price performance:

- Building of agency channel and recent hike in premium to aid premium growth as well as aid improvement in combined ratio in the health segment
- Rationalisation of pricing in the motor segment and recovery in loss ratio to aid recovery in market share
- Reaffirmation of combined ratio target at 102% in FY25E despite hardening of re-insurance rates provides confidence
- Sustained recovery of market share and reduction in combined ratio to drive valuation. Regulatory changes could lead to near term volatility

**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 December 2022
- BUY with a target price of ₹ 650

### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20 - FY23)	FY24E	FY25E	2 year CAGR (FY23 - FY25E)
Gross direct premium income	13312.8	14003.1	17976.9	21025.1	16.5	25294.8	29553.3	18.6
Adjusted net profit	1193.7	1473.1	1271.0	1729.0	13.1	1885.7	2308.7	15.6
Networth	6134.2	7435.5	9109.7	10392.2	19.2	12046.2	13985.6	16.0
EPS (Rs)	26.3	32.4	25.9	32.4		38.4	47.0	
P/E (x)	42.3	34.3	42.9	34.3		28.9	23.6	
RoE (%)	21.0	21.3	14.5	15.3		15.5	16.4	
P/Float	1.9	1.6	1.4	1.2		1.1	0.9	
P/GWP	3.7	3.5	2.9	2.4		2.1	1.8	

Source: Company, ICICI Direct Research



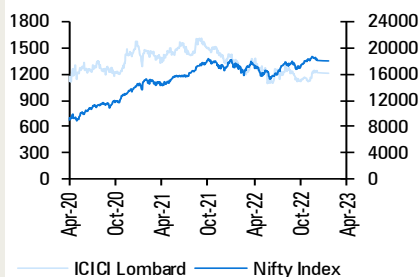
### Particulars

Particulars	Values
Market Capitalisation	₹ 55524 crore
Networth	₹ 10392 crore
52 week H/L (₹)	1410 / 1049
Face Value (₹)	10.0

### Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	48.1	48.0	48.0	48.0	48.0
FII	28.1	26.9	25.0	24.1	23.4
DII	13.5	13.7	15.4	15.9	16.7
Others	10.4	11.4	11.6	12.0	11.9

### Price performance



### Key Highlights

Market share steady at 8.2%

**Key risk:** i) Regulatory changes may increase competitive intensity, ii) Faster pick-up in health business

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## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Market share maintained with continued improvement in combined ratio...

- ICICI Lombard posted 6.8% YoY (de-grew 4.6% QoQ) growth in gross premium to ₹ 5339 crore. Market share remained steady at 8.2% for FY23, with some improvement in the motor segment. Net premium growth was modest at ~2% YoY to ₹ 4047 crore, led by base effect. Investment income was healthy at ₹ 615 crore, up 14.4% YoY
- Among products, motor segment registered 9% YoY growth while within health segment, retail and group grew 12% and 28% YoY, respectively
- Total expenses grew 9.7% YoY and -2.7% QoQ (opex up 3.9% YoY, down 10.1% QoQ aided by lower sales promotion expenses and staff cost). Commission declined 42.9% YoY to ₹ 91.4 crore. Claims grew 15.8% YoY to ₹ 2766. Claims ratio jumped sequentially by 393 bps to 74.2% and by 222 bps on a YoY basis. Combined ratio has declined 20 bps QoQ at 104.2% and posted an underwriting loss of ₹ 250 crore. However, with addition of other income the company had operating profit of ₹ 1278 crore
- Motor segment continues to be one of the major contributors to total premium at 41% (down from 46% a year ago) while health segment saw a rise in total contribution at 27% compared to 22% YoY
- On an aggregate basis, topline growth remained healthy while gradual improvement in combined ratio is driving earnings
- Solvency ratio for the company was largely steady (QoQ, YoY) on an overall basis at 2.5x

### Q4FY23 Earnings Conference Call highlights

- Elevated inflation in advanced economies, tightening financial conditions and ongoing geopolitical tensions may impact domestic growth. Momentum of auto sales remains strong; especially in PV category. However, pent up demand seems to have settled. The 2-W segment, in terms of volume, is still below pre pandemic levels
- At the industry level, combined ratio for motor segment was at 115%, which was slightly higher than FY22 levels
- Premium grew 6.7% YoY; excluding crop and one off transaction in motor segment, it grew 12.6% vs. 17.9% (industry – ex crop). One off transaction happened in Q4FY23
- Growth in key segments continues to remain strong. The impact of global hardening on reinsurance was experienced, which may create short term disruption but in the long run it will be positive
- Motor segment de-grew 11.5%; excluding one off transaction the growth was muted at 0.6% vs. 14.1% (industry)
- The health segment continued to be fastest growing with 31.1% vs. 29.7% (industry)
- In February 2023, it took a price increase in retail health product of ~19%
- IL take care app – Incremental downloads was ~1 mn in Q4. On a QoQ basis, premium sourced through the app registered growth of 58.4%
- PAT includes reversal of tax provision of ₹ 128 crore in Q2FY23
- Management reiterated that in next two years combined ratio to be at 102%
- The company will continue to invest in tech, agency channel, etc
- Health GDPI – ₹ 4782 crore in FY23 vs. ₹ 3487 crore in FY22. Health agency GDPI was ₹ 560 crore
- An increase in interest rate regime augurs well as portfolio gets rebalanced
- Retail indemnity loss ratio during the quarter was ~61% vs. 64% in Q3FY23. The loss ratio will be in the range of 65-70%
- Duration of investment book was 4.99 and YTM of the portfolio was 7.2%

ICICI Lombard - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	4.1	19.2	23.7
Social	35.1	37.9	37.9
Governance	76.1	76.1	76.1
<b>Overall ESG Score</b>	<b>38.5</b>	<b>44.4</b>	<b>45.9</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

## Peer comparison

### Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	₹	TP(₹)	Rating	₹ bn	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	
HDFC Life	529	540	Hold	1138	5.7	6.4	7.9	9.8	92.5	82.3	67.3	54.0	3.7	2.9	2.5	2.1	18.0	18.1	18.2	18.2	
Star Health	594	650	Buy	346	-20.5	12.3	14.3	17.6	-28.9	48.4	41.6	33.7	8.1	4.8	3.4	3.0	-27.8	9.9	8.1	8.9	
ICICI Lombard	1110	1250	Hold	532	38.4	38.4	38.4	47.0	28.9	28.9	28.9	23.6	4.5	4.5	4.5	3.9	15.5	15.5	15.5	16.4	

Source: Company, ICICI Direct Research

## Exhibit 2: Variance Analysis

Results Summary (₹ cr)	Q4FY23	Q4FY23E	Q4FY22	YoY %	Q3FY23	QoQ %	Comments
<b>Policyholders' Account</b>							
Gross premium written	5339.7	5925.9	5000.7	6.8	5599.7	-4.6	Growth driven by motor and health
Net premium written	4047.3	4558.4	3973.4	1.9	4163.0	-2.8	
Premium Earned (Net)	3726.0	4144.0	3317.8	12.3	3792.1	-1.7	Business retention remains steady
Income from investments (net)	615.8	605.6	538.4	14.4	580.1	6.1	
Other income	913.8	935.5	780.2	17.1	-10.2	-9076.1	
<b>Total income</b>	<b>5255.6</b>	<b>5685.1</b>	<b>4636.3</b>	<b>13.4</b>	<b>4362.0</b>	<b>20.5</b>	
Commission	91.4	182.3	160.1	-42.9	174.4	-47.6	Commission ratio eases QoQ
Opex relating to insurance business	1119.3	1276.3	1077.4	3.9	1244.8	-10.1	Higher opex led by sales promotion expenses
Incurred claims	2766.2	2962.9	2389.3	15.8	2666.3	3.7	Claim ratio declined QoQ
<b>Total expenses</b>	<b>3976.8</b>	<b>4421.6</b>	<b>3626.8</b>	<b>9.7</b>	<b>4085.5</b>	<b>-2.7</b>	Combined ratio at 104.6% in 9MFY23
Underwriting profit/ (loss)	-250.8	-277.6	-309.0	-18.8	-293.5	-14.5	
<b>Operating profit/ (loss)</b>	<b>1278.8</b>	<b>1263.5</b>	<b>1009.6</b>	<b>26.7</b>	<b>276.5</b>	<b>362.5</b>	
<b>Shareholders' Account</b>							
Income in shareholder's account	1469.8	1451.9	1174.6	25.1	484.6	203.3	
Total Expenses	897.3	968.5	764.1	17.4	19.3	4539.3	
<b>Profit before taxes</b>	<b>572.5</b>	<b>483.3</b>	<b>410.5</b>	<b>39.5</b>	<b>465.3</b>	<b>23.1</b>	
Provision for taxes	135.6	123.3	97.9	38.4	112.7	20.2	
<b>Profit after tax</b>	<b>437.0</b>	<b>360.1</b>	<b>312.5</b>	<b>39.8</b>	<b>352.5</b>	<b>23.9</b>	Steady earnings supported by premium growth
<b>Analytical ratios (reported)</b>							
	Q4FY23	Q4FY23E	Q4FY22	YoY %	Q3FY23	QoQ %	
Solvency ratio	2.51		2.46	5 bps	2.45	6 bps	
Claim ratio	74.24		72.01	222 bps	70.31	393 bps	
Expense ratio	31.40		31.50	-10 bps	31.20	20 bps	
Net retention ratio	75.80		79.50	-370 bps	74.30	150 bps	
Combined ratio	104.20		103.20	100 bps	104.40	-20 bps	

Source: Company, ICICI Direct Research

## Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
GDP	25,589	25,295	-1.1	30,123	29,553	-1.9
Claims	12,392	12,301	-0.7	14,675	14,462	-1.5
Operating P/L	1,849	1,845	-0.2	2,273	2,311	1.7
PAT	1,888	1,886	-0.1	2,280	2,309	1.3
Combined ratio %	102.2	102.2	1 bps	101.3	101.1	-18 bps

Source: Company, ICICI Direct Research

## Exhibit 4: Assumption

(₹ Crore)	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
GDP growth %	20.3	16.8	17.3	17.7
Claims ratio %	58.5	58.5	58.5	58.5
Combined ratio %	102.2	101.1	102.2	101.3
Yield on Investment %	7.7	7.7	7.7	7.7
Solvency (x)	2.8	2.8	2.8	2.8

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Policyholder's Account				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Gross direct premium income	17976.9	21025.1	25294.8	29553.3
Net Earned Premium	13032.1	14822.8	17545.9	20683.5
Investment income	3097.8	3722.0	2717.2	3097.6
<b>Total income</b>	<b>16129.8</b>	<b>18545.0</b>	<b>20263.1</b>	<b>23781.1</b>
Claims	9781.9	10725.6	12300.6	14461.6
Commission	633.9	472.2	701.2	754.1
Operating expense	3920.1	4514.8	5415.9	6254.1
<b>Total expense</b>	<b>14335.9</b>	<b>15712.6</b>	<b>18417.7</b>	<b>21469.8</b>
Operating profit/(loss)	1793.9	2382.3	1845.4	2311.3

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Shareholders' Funds</b>				
Share capital	490.9	491.1	491.1	491.1
Reserve and surplus	8618.8	9901.1	11555.1	13494.5
Fair Value change	359.3	213.3	1012.2	1156.3
Borrowings	255.0	35.6	42.0	50.4
<b>Total</b>	<b>9724.0</b>	<b>10641.1</b>	<b>13100.4</b>	<b>15192.3</b>
<b>Application of funds</b>				
Investments				
Shareholders'	8917.9	9858.3	11793.9	13563.0
Policyholders'	29868.4	33322.1	38816.9	44251.3
Fixed assets	577.5	564.0	606.7	631.0
Deferred tax asset	345.6	265.3	368.8	368.8
Current assets				
Cash and bank balances	292.6	203.1	6198.5	8773.3
Advances and other assets	10846.3	10873.4	12520.9	14628.9
Current liabilities	33066.8	35658.7	46036.6	53786.9
Provisions	8057.5	8786.5	11168.7	13237.1
<b>Total</b>	<b>9724.0</b>	<b>10641.1</b>	<b>13100.4</b>	<b>15192.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Shareholder's Account				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Operating profit/(Loss)	1793.9	2382.3	1845.4	2311.3
Income from Investments	703.2	731.7	941.6	1084.2
Other income - misc income	3.0	43.0	3.0	3.0
<b>Total Income</b>	<b>2500.1</b>	<b>3157.9</b>	<b>2790.0</b>	<b>3398.4</b>
Total Expenses	816.6	1045.0	234.8	270.0
Profit Before Tax	1683.5	2112.0	2555.2	3128.4
Tax	412.5	383.0	669.5	819.6
Profit After Tax	1271.0	1729.0	1885.7	2308.7

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Growth Ratios (%)</b>				
Gross Direct Premium Income	28.4	17.0	20.3	16.8
Net Premium Income	30.1	13.7	18.4	17.9
Operating Expenses	40.5	15.2	20.0	15.5
PAT	-13.7	36.0	9.1	22.4
BVPS	13.5	14.8	15.1	16.1
EPS	25.9	35.2	38.4	47.0
<b>Profitability Ratios (%)</b>				
Yield on Investment	10.9	7.6	7.7	7.7
Claims ratio	58.5	59.5	58.5	58.5
Commission To NEP	4.9	3.2	4.0	3.6
Opex to NEP	30.1	30.5	30.9	30.2
Combined Ratio	108.8	104.5	102.2	101.1
<b>Balance Sheet Ratios (%)</b>				
ROE	14.5	15.3	15.5	16.4
Investment Leverage	4.2	4.2	4.2	4.1
Solvency Ratio (x)	2.5	2.8	2.8	2.8
<b>Valuation Ratio</b>				
P/B	6.0	5.2	4.5	3.9
P/E	42.9	34.3	28.9	23.6
P/float	1.4	1.2	1.1	0.9
P/GWP	2.9	2.4	2.1	1.8

Source: Company, ICICI Direct Research

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