

# ICICI Lombard

Refer to important disclosures at the end of this report

## Managing a fine balance between growth and profitability

<b>CMP</b>	<b>Target Price</b>
<b>Rs 1,249</b> as of (January 17, 2023)	<b>Rs 1,490 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>19.3 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	-7.0 / -3.4
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	34.65	42.7
Consensus	35.4	43.7
Mean Consensus TP (12M)	Rs 1,447	

### Stock Details

Bloomberg Code	ICICIGI IN
Face Value (Rs)	10
Shares outstanding (mn)	491
52 Week H/L	1,466 / 1,071
M Cap (Rs bn/USD bn)	614 / 7.50
Daily Avg Volume (nos.)	701,003
Daily Avg Turnover (USD mn)	10.2

### Shareholding Pattern Sep '22

Promoters	48.0%
FIIIs	24.1%
DIIIs	16.0%
Public and Others	11.9%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	1	10	-	(13)
<b>Rel. to Nifty</b>	2	6	(11)	(12)

ICICI Lombard (ICICIGI) reported a decent set of numbers in Q3FY23, when GWP of Rs56bn and combined ratio of 104.4% came broadly in line with our estimates, while PAT at Rs3.52bn was ~11% below our estimates, largely on account of lower-than-estimated investment income. Q3 performance is a broad reflection of Management's journey on the path to managing a fine balance between growth and profitability amid prevailing market conditions. The company's initiatives to deliver growth in certain segments by building distribution and digital capabilities have started delivering results on the growth front, but have also inflated the expense ratios. Management commentary on the growth outlook was fairly upbeat and signaled confidence on the profitability front, with some early signs of competitive intensity in certain segments peaking-out. Overall, Q3 results and Management commentary bode well for ICICIGI's performance ahead. We adjust our estimates to reflect the Q3FY23 performance, leading to a ~7% cut in FY23 EPS and a minor ~2-3% downward revision in our FY24-25E earnings. We reiterate our BUY rating on ICICIGI, with unchanged Dec-23E TP of Rs1,490/share.

**Satisfactory operating performance, lower investment income drive a PAT miss:** On the operating front, ICICIGI broadly maintained the H1 trend in Q3 too, and delivered GWP growth of ~17% YoY to Rs 56bn. Q3 combined ratio at 104.4% and underwriting results of -Rs2.93bn were in line with our estimates of 104.2% and -Rs2.91bn. Policyholders Account Investment income at Rs5.7bn was materially below our estimates of Rs6.45bn and the key driver of the PAT miss. The lower investment income was largely on account of lower realized gains in the quarter. **(Exhibit 1)**

**Robust growth in health and strong profitability in commercial lines offset the Motor OD drag:** With a prolonged, ongoing intense price competition, ICICIGI's growth was muted in Motor OD; yet, the claims ratio was poor (higher than that of Motor TP), reflecting the competitive intensity on the price front. In the health segment, growth was considerably resilient, driven by strong banca-led growth on the back of ICICI Bank selling health indemnity attachment and good price development in employer-employee group health. Retail Agency efforts have started delivering results, with the Retail Health agency premium growing 40% YoY. On profitability, Q3 claims ratio of 70.3% was better than the H1 claims ratio of 72.5%, and combined ratio of 104.4% was broadly in sync with H1 combined ratio of 104.6%. Solvency ratio at 245% and investment leverage at 4.17x were largely stable QoQ. **(Exhibit 1)**

**Broad-based growth opportunity; some green shoots on competitive intensity to make profitability outlook better:** Management sounded confident about maintaining the growth momentum, with most segments contributing to growth. The focus on health has started providing outcomes, with retail health seeing growth (albeit on a relatively-smaller base), banca Group health showing strong growth, with ICICI Bank selling health indemnity attachment (+30% YoY growth) and Employer-Employee group health seeing a reasonable price increase. The non-ICICI Bank channel continues to deliver stronger growth (+44% YoY) in the health business. On the profitability front, the experience and outlook are satisfactory across business lines; even Motor seems to be seeing some signs of competitive intensity reducing in come pockets. Corporate group health pricing remains better than that in earlier years, as some large insurers are facing capital issues leading to reduced aggression in pricing by them.

**We adjust our estimates to factor-in the Q3 performance and reiterate BUY, with unchanged TP of Rs1,490/share:** To account for the lower investment income and PAT miss, we tweak our estimates leading to a ~7% cut in FY23 EPS, while FY24/25 EPS come down by ~2-3%. We reiterate our BUY rating on the stock, with unchanged Dec-23E TP of Rs1,490/share (implied FY24E PER of 35x). **(Exhibits 3-4)**

### Financial Snapshot

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross direct premium	1,33,128	1,40,031	1,79,769	2,13,186	2,45,053	2,80,756
Operating result	14,689	15,197	10,243	14,000	19,787	24,501
Profit after tax	11,937	14,731	12,710	17,007	20,956	25,410
Combined ratio (%)	100.4	99.8	108.8	104.5	103.1	101.9
RoE (%)	20.8	21.7	15.4	17.4	18.6	19.8
EPS (Rs)	26.3	32.4	25.9	34.6	42.7	51.8
DPS (Rs)	7.0	4.0	4.0	7.0	10.0	20.0
BVPS (Rs) - ex FV gain	135.0	163.7	185.6	213.2	245.9	277.7
P/E (x)	47.5	38.6	48.2	36.1	29.3	24.1
Adj. P/B (x)	9.3	7.5	6.7	5.8	5.0	4.5

Source: Company, Emkay Research

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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**Exhibit 1: Quarterly Financials**

Income Statement (Rs mn)	3QFY23	3QFY22	% YoY	3QFY23E	% Var	2QFY23	% QoQ
<b>Gross direct premium</b>	<b>54,930</b>	<b>46,980</b>	<b>16.9</b>	<b>55,816</b>	<b>-1.6</b>	<b>51,850</b>	<b>5.94</b>
Gross written premium	55,997	47,861	17.0	56,715	-1.3	53,026	6
Net written premium	41,630	36,551	13.9	42,536	-2.1	37,059	12
Net Earned premium	37,921	33,119	14.5	38,443	-1.4	38,366	-1
Total expense	40,855	35,811	14.1	41,355	-1.2	39,888	2
<b>Underwriting result</b>	<b>-2,935</b>	<b>-2,692</b>	<b>9.0</b>	<b>-2,912</b>	<b>0.8</b>	<b>-1,523</b>	<b>93</b>
Investment & other income- PH account	5,700	5,423	5.1	6,450	-11.6	6,625	-14
<b>Operating profit</b>	<b>2,765</b>	<b>2,731</b>	<b>1.3</b>	<b>3,538</b>	<b>-21.8</b>	<b>5,102</b>	<b>-46</b>
Net results from shareholders' account	1,888	1,479	27.7	1,923	-1.8	995	90
Profit before tax	4,653	4,209	10.5	5,460	-14.8	6,097	-24
<b>Profit after Tax</b>	<b>3,525</b>	<b>3,175</b>	<b>11.0</b>	<b>4,095</b>	<b>-13.9</b>	<b>5,905</b>	<b>-40</b>
Key ratios (%)	3QFY23	3QFY22	YoY (ppts)	3QFY23E	Var (ppts)	2QFY23	QoQ (ppts)
Claims ratio	70.3	69.6	0.8ppts	72.5	-2.2ppts	72.8	-2.5ppts
Commission ratio	4.2	5.5	-1.4ppts	3.8	0.4ppts	3.5	0.7ppts
OpEx ratio	29.9	29.4	0.5ppts	27.9	2.0ppts	28.8	1.1ppts
<b>Combined ratio</b>	<b>104.4</b>	<b>104.5</b>	<b>-0.1ppts</b>	<b>104.2</b>	<b>0.2ppts</b>	<b>105.1</b>	<b>-0.7ppts</b>
RoE (%)	14.3	14.6	-0.3ppts	-	-	24.5	-10.2ppts
Retention ratio	74.3	76.4	-2.0ppts	75.0	-0.7ppts	69.9	4.5ppts
Solvency ratio	245.0	245.0	0.0ppts	-	-	247.0	-2.0ppts
Investment leverage (x)	4.14	4.23	-0.1ppts	-	-	4.06	0.1ppts
Balance Sheet (Rs mn)	3QFY23	3QFY22	% YoY			2QFY23	% QoQ
Net worth	99,533	87,914	13.2			98,216	1.3
Fair value account	5,503	6,373	-13.7			5,111	7.7
Investments	4,14,510	3,74,535	10.7			4,00,962	3.4

Source: Company, Emkay Research

**Exhibit 2: Economic value added Method Valuation of ICICIGI**

Parameter (Rs mn)	Value
Cost of Equity	11.5%
FY23-FY28 Earnings CAGR	18%
FY28-FY38 Earnings CAGR	13%
Terminal growth	8.0%
FY24 Net worth (Rs mn)	120,714
FY25-FY39 discounted residual earnings (Rs mn)	200,675
Terminal Value (Rs mn)	428,265
FY24 Fair value gains (Rs mn) - post tax	3,261
Fair Value (Rs mn)	752,915
No. of Shares (mn)	491
Mar-24 Fair value per share (Rs)	1,534
<b>Dec-23 Target price (Rs/share)</b>	<b>1,490</b>

Source: Company, Emkay Research

**Exhibit 3: Implied Valuation Multiples of ICICIGI**

Valuation multiple at current price (Rs/share)	1,249
FY24E P/E	29.3x
FY24E P/B	5.1x
FY24E RoE	18.6%
<b>Valuation multiple at target price (Rs/share)</b>	<b>1,490</b>
FY24E P/E	34.9x
FY24E P/B	6.0x
FY24E RoE	18.6%

Source: Company, Emkay Research

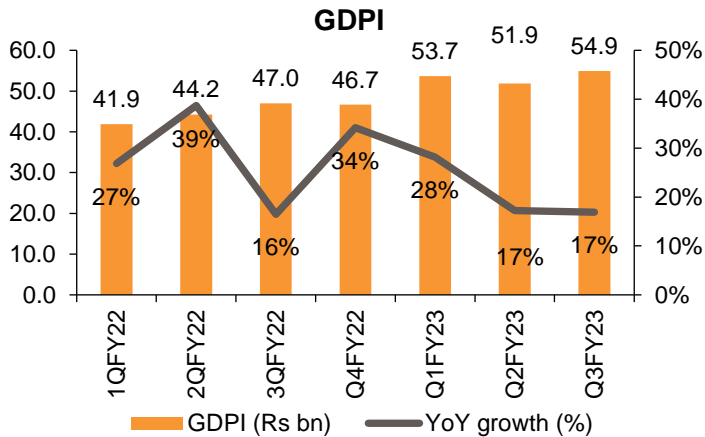
**Exhibit 4: Changes in Estimates – FY23 changes to reflect Q3 developments; FY24/25 estimates broadly stable**

(Rs mn)	Old			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
GWP	220,129	253,035	289,901	220,129	253,035	289,901	0.0	0.0	0.0
U/W Result	-10,062	-8,448	-7,462	-10,067	-9,076	-7,874	0.1	7.4	5.5
Op. Profit	15,974	20,733	25,022	14,000	19,787	24,501	-12.4	-4.6	-2.1
PAT	18,282	21,683	25,826	17,007	20,956	25,410	-7.0	-3.4	-1.6
Combined Ratio (%)	104.5	102.8	101.7	104.5	103.1	101.9	0.0ppt	0.3ppt	0.2ppt
RoE (%)	18.6	19.0	19.8	17.4	18.6	19.8	-1.2ppts	-0.4ppt	0.0ppt

Source: Company, Emkay Research

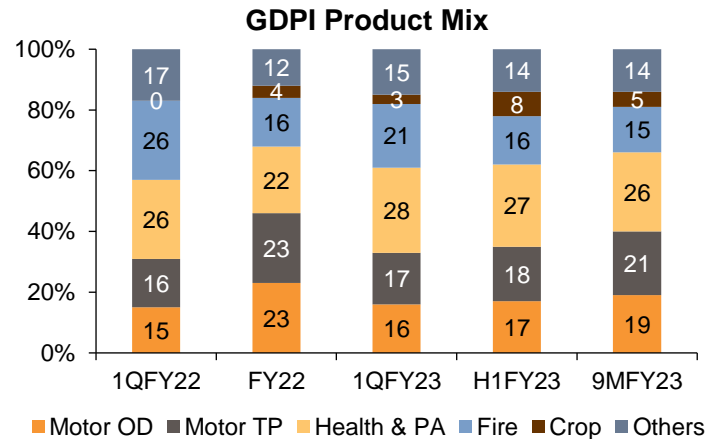
## Story in Charts

**Exhibit 5: GDP grows at 17% YoY in Q3FY23**



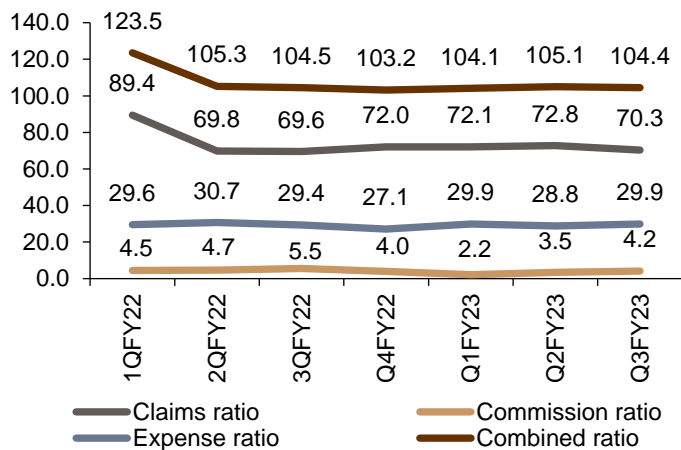
Source: Company, Emkay Research

**Exhibit 6: Share of Motor rises to 40% in overall GDP**



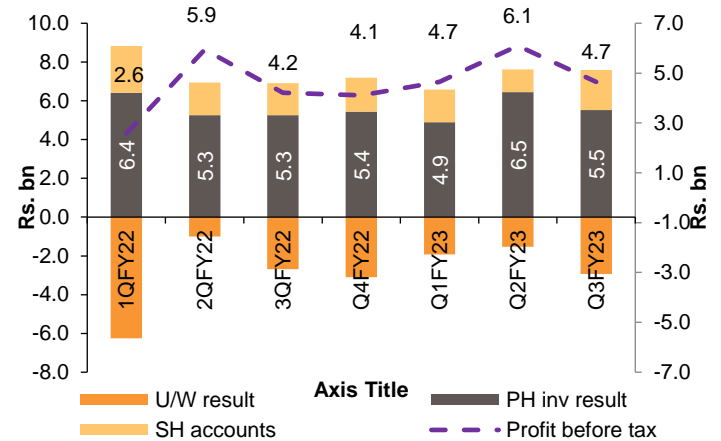
Source: Company, Emkay Research

**Exhibit 7: ICICIGI reports better combined ratio to 104.4% for Q3FY23**



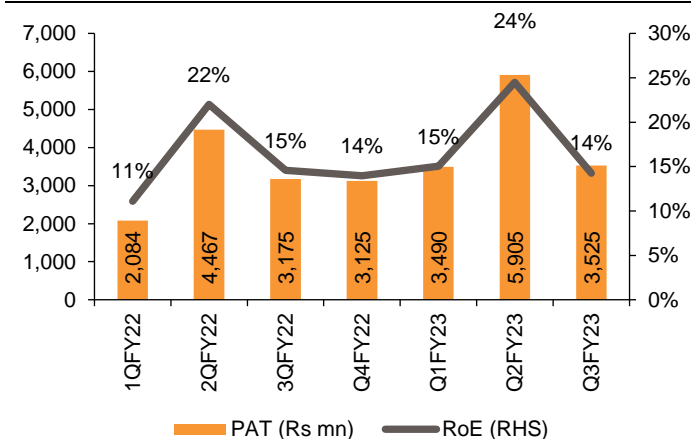
Source: Company, Emkay Research

**Exhibit 8: PBT grows at 11% YoY to Rs4.7bn**



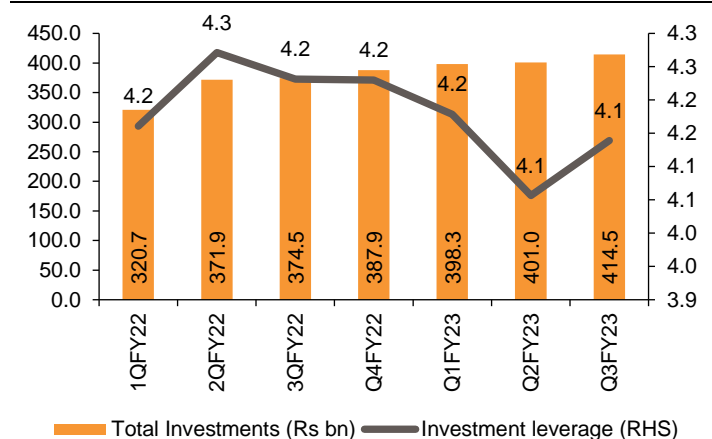
Source: Company, Emkay Research

**Exhibit 9: Lower investment income leads to lower profitability**



Source: Company, Emkay Research

**Exhibit 10: Investment leverage rises to 4.1 in Q3FY23**



Source: Company, Emkay Research

## Conference call Highlights

- Management said that new vehicle sales continued to deliver strong growth YoY for the private car segment with continued momentum in underlying insurance demand. Growth in the commercial vehicle segment was supported by robust growth in infrastructure and eCommerce, whereas the 2-wheeler segment grew on a smaller base, with volumes below pre-pandemic levels.
- Management said that the Health Segment continued to drive growth for the overall sector.
- ICICIGI outgrew the industry in the Health segment in Q3FY23 at 47.9% YoY vs. 24.9% YoY for the industry. Management said that the robust growth in the Health segment was driven by continuous investments in health and building the retail distribution franchise. Growth in the retail health segment was driven by 40% YoY growth in the agency channel for Q3FY23.
- The group health segment saw robust growth driven by the banca channel, led by strong credit growth. Improved pricing stability led to growth of the Employer-Employee based business.
- Commercial lines witnessed robust growth, driven by growth of 25% YoY in the SME segment.
- Management said that bancassurance and key relationships grew at 39.3% YoY for Q3FY23, with ICICI Bank distribution growing by 30.9% and non-ICICI Bank distribution growing by 44.2%.
- Management said that Q3FY23 was the first quarter when the company saw the real impact of the investments made in the health segment. However, Management stated that these are still early days and Management is confident that growth in the health segment would sustain going forward.
- Management said that the company has not yet taken benefits of the shortening of the period for filing claims. A recent Madras High Court judgment has reaffirmed that claims have to be filed within 6 months. Management stated that there has been some acceleration in a number of states with respect to filing of claims; however, it would still take some time to develop a nationwide view.
- For Q3FY23, the company has, conservatively, done some reserving in the crop segment, leading to a higher claims ratio. Management said that Kharif season losses are well within the comfort level, and that it expects the Rabi season to also do well. ICICIGI has a smaller proportion of the Rabi crop and would, hence, not create a material impact.
- Management stated that the crop businesses came along with the Bharti Axa book and have been renewed.
- Management said that expense ratios are likely to remain elevated on account of the investments in the retail health segment as well as the investments in digital infrastructure.
- Management stated that around 3/4ths of the investment income was from accruals and the balance 1/4th was on account of capital gains.
- Management stated that the company was operating within the EoM limits prescribed by the IRDAI, whereas some players in the industry are operating at higher levels.

## Exhibit 11: Financial Summary

Policyholder Account (Y/E Mar, Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Direct Premium Income	1,44,882	1,33,128	1,40,031	1,79,769	2,13,186	2,45,053	2,80,756
Gross Written Premium (GWP)	1,47,892	1,35,924	1,43,203	1,85,624	2,20,129	2,53,035	2,89,901
Net Written Premium (NWP)	95,386	96,407	1,06,850	1,34,896	1,61,921	1,87,720	2,16,880
Net Earned Premium (NEP)	83,753	94,035	1,00,140	1,30,321	1,52,331	1,76,836	2,04,447
Net incurred claims	63,081	68,516	68,708	97,819	1,08,613	1,23,780	1,42,772
Net commission expense	2,229	3,640	6,009	6,339	5,920	8,049	10,318
Operating expense	20,140	22,932	27,342	39,201	47,864	54,083	59,231
Total Expense	85,450	95,087	1,02,059	1,43,359	1,62,398	1,85,912	2,12,321
<b>Underwriting result</b>	<b>-1,696</b>	<b>-1,052</b>	<b>-1,919</b>	<b>-13,038</b>	<b>-10,067</b>	<b>-9,076</b>	<b>-7,874</b>
Investment income	13,355	15,425	21,000	22,908	23,694	28,490	32,002
Insurance result	11,659	14,373	19,081	9,870	13,627	19,414	24,128
Other income	414	317	-3,883	373	373	373	373
<b>Operating profit</b>	<b>12,072</b>	<b>14,689</b>	<b>15,197</b>	<b>10,243</b>	<b>14,000</b>	<b>19,787</b>	<b>24,501</b>
Shareholder Account (Y/E Mar, Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating profit</b>	<b>12,072</b>	<b>14,689</b>	<b>15,197</b>	<b>10,243</b>	<b>14,000</b>	<b>19,787</b>	<b>24,501</b>
Investment income	4,600	4,644	5,046	7,032	7,691	9,067	10,355
Other income	143	156	124	30	150	150	150
Expenses and provisions	1,073	3,272	5,185	8,166	8,574	6,773	5,379
Profit before tax	15,984	16,968	19,540	16,835	20,963	28,004	33,956
Tax expense	5,492	5,031	4,809	4,125	3,956	7,049	8,547
<b>Profit after Tax</b>	<b>10,493</b>	<b>11,937</b>	<b>14,731</b>	<b>12,710</b>	<b>17,007</b>	<b>20,956</b>	<b>25,410</b>
Balance Sheet (Y/E Mar, Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Source of Funds</b>							
Net worth	53,205	61,342	74,355	91,097	1,04,668	1,20,714	1,36,306
Fair value gains	3,384	-4,286	6,805	3,593	3,952	4,348	4,782
Net worth including fair value gains	56,589	57,056	81,160	94,690	1,08,620	1,25,062	1,41,089
Borrowings	4,850	4,850	4,850	2,550	2,550	2,550	2,550
<b>Total</b>	<b>61,439</b>	<b>61,906</b>	<b>86,010</b>	<b>97,240</b>	<b>1,11,170</b>	<b>1,27,612</b>	<b>1,43,639</b>
<b>Application of Funds</b>							
Shareholder Investments	53,431	58,596	74,357	89,179	1,00,716	1,15,167	1,31,391
Policyholder Investments	1,68,877	2,04,672	2,34,565	2,98,684	3,37,325	3,85,725	4,40,063
Other Assets	7,665	9,829	9,767	9,231	9,231	9,231	9,231
Cash & Bank Balances	4,016	326	2,276	2,926	2,926	2,926	2,926
Other current assets	1,00,037	96,998	72,013	1,08,463	1,17,680	1,35,373	1,56,719
Current liabilities	2,16,228	2,49,798	2,40,995	3,30,668	3,67,225	4,18,768	4,79,781
Provisions	56,359	58,717	65,974	80,575	89,483	1,02,043	1,16,910
Net Current Assets	-1,68,534	-2,11,190	-2,32,679	-2,99,854	-3,36,102	-3,82,511	-4,37,046
<b>Total</b>	<b>61,439</b>	<b>61,907</b>	<b>86,010</b>	<b>97,240</b>	<b>1,11,170</b>	<b>1,27,612</b>	<b>1,43,639</b>
Key ratios (Y/E Mar, %)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Retention ratio	64.5	70.9	74.6	72.7	73.6	74.2	74.8
Incurred claims ratio	75.3	72.9	68.6	75.1	71.3	70.0	69.8
Net commission ratio	2.3	3.8	5.6	4.7	3.7	4.3	4.8
Expense ratio	21.1	23.8	25.6	29.1	29.6	28.8	27.3
Combined ratio	98.8	100.4	99.8	108.8	104.5	103.1	101.9
Net investment yield	8.9	8.3	9.1	8.6	7.6	8.0	7.9
Return on equity	21.3	20.8	21.7	15.4	17.4	18.6	19.8
NWP/Net worth	179.3	157.2	143.7	148.1	154.7	155.5	159.1
Investment leverage	4.1	4.2	4.1	4.2	4.2	4.1	4.2
Solvency ratio	224.0	216.7	289.7	246.6	239.7	241.7	238.6

Source: Company, Emkay Research

**RECOMMENDATION HISTORY (Rs/share)**

Date	Closing Price	TP	Period	Rating	Analyst
16-Jan-23	1,250	1,490	12	Buy	Avinash Singh
05-Jan-23	1,249	1,490	12	Buy	Avinash Singh
19-Oct-22	1,147	1,470	12	Buy	Avinash Singh
29-Sep-22	1,157	1,470	12	Buy	Avinash Singh
9-Aug-22	1,214	1,470	12	Buy	Avinash Singh

Source: Company, Emkay Research



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 18 Jan 2023 08:51:42 (SGT)

Dissemination Date: 18 Jan 2023 08:52:42 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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