

### Soft Quarter; Pace Will Pick Up



**ICICI Lombard General Insurance Company (ICICIGI) Q1FY22's performance was below our estimates on the profitability front mainly on account of elevated Covid-19 health claims (Rs 6.02 Bn vs Rs 0.20 Bn in Q1FY21), no revision in prevailing Motor TP tariff rates and catastrophic event (cyclone losses of Rs 0.38 Bn vs 0.35 Bn in Q1FY21).**

- **GWP came in at INR 38076 Mn** Vs +7% QoQ / 12.2% YoY
- **Premium Earned came in at INR 27058 Mn** Vs 3.4% QoQ /16% YoY
- **PAT came in at INR 1516 Mn**, -56.1% QoQ / -61.9% YoY
- **Loss Ratio stood at 91.2%** Vs +1950 bps QoQ /+2140 bps YoY
- **Combined ratio stood at 121.3%** +1950 QoQ /+2160 bps YoY
- **EPS stood at INR 3.34** vs INR 7.6 YoY / INR 8.8 QoQ

#### Highlights of the Quarter

- ICICIGI reported 13% YoY growth in GDPI in Q1FY22 vs industry growth of 13.8% YoY. While health (+22.6% YoY), Marine (+28.7% YoY) and Engineering (60.3% YoY) segments supported the growth rate, weakness in motor TP (7.7% YoY) and decline in motor OD (-3.5% YoY) segments lower the growth rate. Health insurance continued to show robust growth driven by enhanced awareness due to the pandemic, while Motor insurance was adversely impacted by postponement of motor insurance due to restricted mobility owing to Covid-19.
- With higher emphasis on retail sales, new partnerships and better products mix, we expect ICICIGI's GDPI growth to be higher than industry average in FY22E/FY23E. The company showed a strong organic expansion with the number of agents increasing from 35,729 in FY19 to 61,385 in Q1FY22. Company also embarked on inorganic growth with the acquisition of Bharti Axa, which had 1.6% GDPI market share in FY21. In near term, strong revival of premium growth in motor OD segment and possible price hike in motor TP will be positive triggers.
- The overall loss ratio increased by 240 bps YoY to 91.2% driven by significant deterioration in Health, Travel & PA segment (153.2% vs. 75.5% YoY). Significant surge in Covid-19 cases intimated from ~1,300 cases in Q1FY21 and ~50,000 cases for FY21 to ~46,000 cases for Q1FY22. Besides, non-Covid health claim count also saw a sharp rise of 111.8% YoY in Q1FY22. However, fire (80.3% vs 94% YoY) and Marine (76.8% vs. 83.2% YoY) shown some improvement

#### Financial Summary

Y/E Mar (Rs Bn)	FY19	FY20	FY21	FY22E	FY23E
Gross direct premium income	145	133	140	160	189
Adjusted net profit	10	12	15	12	19
Net worth	53	61	74	84	99
BVPS (Rs)	117	135	164	185	219
EPS (Rs)	23	26	32	27	43
P/BV (x)	13	11	9	8	7
P/E (x)	67	59	48	57	36
Combined Ratio	98.8	100.4	99.8	104.8	100.8
RoE (%)	21	21	22	16	21

Source: Dalal & Broacha Research, Company

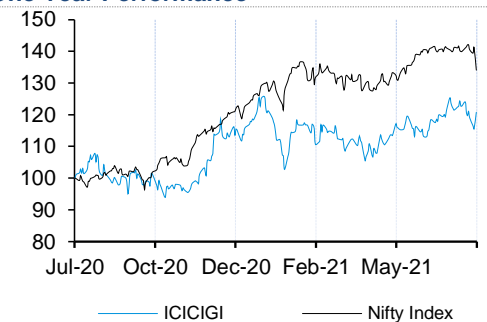
Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>1580</b>	<b>2</b>

#### Market data

Current price	Rs	1544
Market Cap (Rs.Bn)	(Rs Bn)	702
Market Cap (US\$ Mn)	(US\$ Mn)	9427
Face Value	Rs	10
52 Weeks High/Low	Rs	1625/1201
Average Daily Volume	('000)	589
BSE Code		540716
Bloomberg		ICICIGI:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	51.9	51.9
FII	29.8	29.1
DII	11.7	12.0
Others	6.7	7.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: BSE

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- Given the adverse experience on loss ratios, the company has started increasing the average premium per life for a given exposure in the Group Employer- employee health segment. The company has increased in average premium per life in range of 15%-20% mostly for large companies.
- ICICIGI's investment income increased by 44.9% YoY to Rs 7.23 Bn in Q1 FY22, while Capital gains stood at Rs 2.44 Bn vs Rs 0.61 Bn in Q1 FY2021. Its investment leverage was stable sequentially at 4.16x in Q1FY22 vs 4.09x in Q4FY21. The company's mark to market gains on the investment portfolio stood at Rs 15.26 Bn (vs Rs 14.13 Bn QoQ and Rs 10.66 Bn YoY). The company has also maintained a healthy solvency ratio at 2.76x as of June 30, 2021 as against 2.90x in Q4FY21 and higher than the minimum regulatory requirement of 1.50x.
- ICICIGI has reported an underwriting loss of Rs 5.08 Bn (vs loss of Rs 0.91 Bn QoQ), which was largely come from Health segment (loss of Rs -5.96 Bn vs loss of Rs 0.32 Bn QoQ).

**ICICIGI's investment income increased by 44.9% YoY to Rs 7.23 Bn in Q1 FY22, while Capital gains stood at Rs 2.44 Bn vs Rs 0.61 Bn in Q1 FY2021**

**The company maintained a healthy solvency ratio at 2.76x in Q1FY22 vs 2.90x in Q4FY21 and higher than the minimum regulatory requirement of 1.50x**

## Valuation & Outlook

ICICIGI's profitability could be impacted in near term due to delay in motor TP price hike and higher COVID related claims. Given the rapid pace of vaccination, we expect loss ratios in the company's health segment to improve in second half of FY22. We continue to like ICICIGI's leadership position, conservative investment/ reserving approach and unrelenting focus on profitable product lines. Besides, high float levels, strong execution capabilities, and investment in distribution and technology are key moats. Meanwhile, we remain confident that the long-term prospects for the industry remains robust as India is significantly underpenetrated and has a low insurance density, as compared with other economies. **At CMP the stock trades at 57x its FY22E EPS & 36x its FY23E EPS. We value ICICIGI at FY23E P/EPS multiple of 37x to arrive at target price of Rs 1580/ share and assign a Hold rating on the stock.**

## Financials

Results Summary (Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	% YoY	% QoQ
<b>Policyholders' Account</b>								
Gross premium written	32316	33942	32545	41117	35599	38076	12.2	7.0
New premium written	24315	22191	24922	32089	27648	24781	11.7	-10.4
<b>Premium Earned (Net)</b>	<b>23456</b>	<b>23238</b>	<b>24625</b>	<b>26114</b>	<b>26162</b>	<b>27058</b>	<b>16.4</b>	<b>3.4</b>
Income from investments (net)	4184	3940	4086	4419	4198	5312	34.8	26.5
Other income	869	118	123	56	4534	99	-16.2	-97.8
<b>Total income</b>	<b>28508</b>	<b>27297</b>	<b>28834</b>	<b>30589</b>	<b>34894</b>	<b>32469</b>	<b>18.9</b>	<b>-6.9</b>
Commission	1704	1016	1651	2244	1098	1038	2.1	-5.5
Operating expenses relating to insurance business	5647	5624	6470	8020	7228	6419	14.1	-11.2
Incurred claims	16399	16217	16538	17205	18749	24683	52.2	31.6
<b>Total expenses</b>	<b>23750</b>	<b>22857</b>	<b>24659</b>	<b>27468</b>	<b>27075</b>	<b>32139</b>	<b>40.6</b>	<b>18.7</b>
Underwriting profit/ (loss)	-294	382	-34	-1354	-913	-5081	-1431	457
<b>Operating profit/ (loss)</b>	<b>4758</b>	<b>4440</b>	<b>4175</b>	<b>3121</b>	<b>7819</b>	<b>330</b>	<b>-92.6</b>	<b>-95.8</b>
<b>Shareholders' Account</b>								
<b>Income in shareholder's account</b>	<b>5936</b>	<b>5585</b>	<b>5412</b>	<b>4521</b>	<b>9207</b>	<b>2002</b>	<b>-64.2</b>	<b>-78.3</b>
<b>Total Expenses</b>	<b>2229</b>	<b>275</b>	<b>-134</b>	<b>338</b>	<b>4706</b>	<b>-13</b>	<b>-104.9</b>	<b>-100.3</b>
<b>Profit before taxes</b>	<b>3706</b>	<b>5310</b>	<b>5546</b>	<b>4182</b>	<b>4501</b>	<b>2015</b>	<b>-62.1</b>	<b>-55.2</b>
Provision for taxes	887	1329	1388	1047	1044	499	-62.5	-52.2
<b>Profit after tax</b>	<b>2819</b>	<b>3981</b>	<b>4157</b>	<b>3135</b>	<b>3457</b>	<b>1516</b>	<b>-61.9</b>	<b>-56.1</b>
<b>Balance sheet</b>								
<b>Shareholders' funds</b>								
Share capital	4545	4545	4545	4545	4546	4547	0.0	0.0
Reserves and surplus	56796	60781	64955	68117	69806	71374	17.4	2.2
Fair value change account	-4286	-364	2192	6074	6805	7717	-2218	13
Borrowings	4850	4850	4850	4850	4850	4850	0.0	0.0
<b>Total equity</b>	<b>61906</b>	<b>69811</b>	<b>76545</b>	<b>83588</b>	<b>86010</b>	<b>88488</b>	<b>26.8</b>	<b>2.9</b>
<b>Application of funds</b>								
Shareholders' investments	58596	63800	68266	72205	74357	76306	19.6	2.6
Policyholders' investments	204672	217380	223353	226716	234565	244441	12.4	4.2
Fixed assets - net block	6766	6595	6540	6382	6268	6104	-7.4	-2.6
Deferred tax assets	3063	3643	4147	4637	3499	3545	-2.7	1.3
Cash and bank balances	326	501	269	1134	2276	657	31.1	-71.2
Advances and other assets	96998	77402	80874	81200	72013	76496	-1.2	6.2
<b>Net current assets</b>	<b>-211190</b>	<b>-221607</b>	<b>-225761</b>	<b>-226351</b>	<b>-232679</b>	<b>-241909</b>	<b>9.2</b>	<b>4.0</b>
<b>Total assets</b>	<b>61906</b>	<b>69811</b>	<b>76545</b>	<b>83588</b>	<b>86010</b>	<b>88488</b>	<b>26.8</b>	<b>2.9</b>
<b>Analytical ratios (reported)</b>								
Solvency ratio	2.2	2.5	2.7	2.8	2.9	2.8	26 bps	-14 bps
Expense ratio	28.1	25.2	30.2	29.4	29.8	25.0	-20 bps	-480 bps
Incurred claim ratio	69.9	69.8	67.2	65.9	71.7	91.2	2140 bps	1950 bps
Net retention ratio	75.2	65.4	76.6	78.0	77.7	65.1	-30 bps	-1260 bps
Combined ratio	100.1	99.7	99.7	97.9	101.8	121.3	2160 bps	1950 bps

Source: Dalal &amp; Broacha Research, Company

## Financial Summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Gross direct premium income	133128	140031	160177	188943
Net Earned Premium	94035	100140	115385	137605
Operating profit/(loss)	15440	19554	16644	26441
Profit before tax	16968	19540	16549	25976
Profit after tax	11937	14731	12379	19430
Pre-exceptional EPS (Rs)	26	32	27	43
BVPS (Rs)	135	164	185	219
Dividend payout (%)	16	15	20	22
ROE	21	21	14	20
ROE (w/o Fair value change)	21	22	16	21
P/B	11.4	9.4	8.3	7.1
P/E	59	48	57	36

Source: Dalal &amp; Broacha Research, Company

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Shareholders' Funds</b>				
Share capital	4545	4546	4546	4546
Reserve and surplus	56798	69809	79712	94867
Fair Value change	-4286	6805	6805	6805
Borrowings	4850	4850	4850	4850
<b>Total</b>	<b>61906</b>	<b>86010</b>	<b>95913</b>	<b>111068</b>
<b>Application of funds</b>				
<b>Investments</b>				
Shareholders'	58596	74357	90715	111580
Policyholders'	204672	234565	271626	318189
<b>Fixed assets</b>	<b>6766</b>	<b>6268</b>	<b>6610</b>	<b>7036</b>
Deferred tax asset	3063	3499	3499	3499
<b>Current assets</b>				
Cash and bank balances	326	2276	-1316	-1539
Advances and other assets	96998	72013	82519	99417
<b>Sub-Total (A)</b>	<b>97325</b>	<b>74290</b>	<b>81204</b>	<b>97878</b>
Current liabilities	249798	240995	280229	334465
Provisions	58717	65974	77512	92649
<b>Sub-Total (B)</b>	<b>308515</b>	<b>306968</b>	<b>357741</b>	<b>427114</b>
<b>Total</b>	<b>61906</b>	<b>86010</b>	<b>95913</b>	<b>111068</b>

Source: Dalal &amp; Broacha Research, Company

(Year-end March)	FY20	FY21	FY22E	FY23E
Operating profit/(Loss)	15,440	19,554	16,644	26,441
- Fire Insurance business	951	2,376	2,519	2,551
- Marine Insurance business	355	-99	36	158
- Misc. Insurance business	14,134	17,278	14,089	23,732
Income from Investments	4,644	5,046	6,055	7,066
Other income - misc income	156	124	124	124
<b>Total Income</b>	<b>20,240</b>	<b>24,725</b>	<b>22,823</b>	<b>33,630</b>
Total Expenses	3,272	5,185	6,274	7,654
<b>Profit Before Tax</b>	<b>16,968</b>	<b>19,540</b>	<b>16,549</b>	<b>25,976</b>
Tax	5,031	4,809	4,170	6,546
<b>Profit After Tax</b>	<b>11,937</b>	<b>14,731</b>	<b>12,379</b>	<b>19,430</b>

Source: Dalal &amp; Broacha Research, Company

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Growth Ratios (%)</b>				
Gross Direct Premium Income	-8	5	14	18
Net Premium Income	12	6	15	19
Operating Expenses	11	7	20	14
PAT	14	23	-16	57
EPS	14	23	-16	57
<b>Profitability Ratios (%)</b>				
Commission To NEP	3.9	6.0	5.4	5.0
Opex to NEP	24.4	27.3	26.4	25.4
Combined Ratio	100.4	99.8	104.8	100.8
<b>Balance Sheet Ratios (%)</b>				
ROE	20.8	21.7	15.6	21.2
Investment Leverage	4.2	4.1	4.2	4.3

Source: Dalal &amp; Broacha Research, Company

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