



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Q1FY21 Result update@ Dalal & Broacha

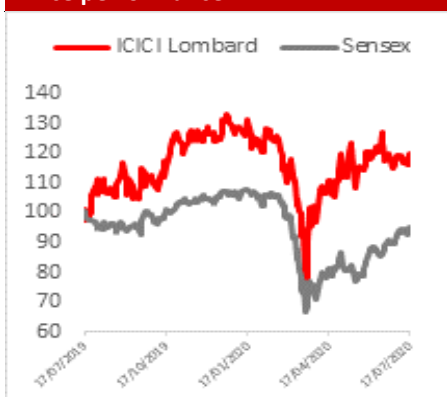
ACCUMULATE

Current Price	1289
52 Week Range	806/1440
Target Price	1440
Upside (%)	12

Key Share Data

Market Cap (Rs.bn)	585.73
Market Cap (US\$ Mn)	7815.99
No of o/s shares (Mn)	454.47
Face Value	10
BSE Code	540716
NSE Code	ICICIGI
Bloomberg	ICICIGI:IN

Price performance



% Shareholding

	Jun-20	Mar-20
Promoter	51.89	55.86
Public	48.11	44.14
Others	0.00	0.00
Total	100	100

ICICI Lombard General Insurance Company (ICICIGI) has reported a decent set of numbers for the quarter ended June 2020. While the net profit was 5% below our expectation, management has decided to strengthen its risk reserve, instead of taking the full benefit of lower claim volumes in the current quarter (Q1FY21). Keeping a cautious approach and focusing on risk-adjusted growth, we believe is a good strategy.

- GWP came in at INR 33942 Mn Vs +5.0% QoQ / -4.7% YoY
- NEP came in at INR 23238 Mn Vs -0.9% QoQ / +3.5% YoY
- Operating profit came in at INR 4440 Mn Vs +18.6% QoQ / -6.7% YoY
- PBT came in at INR 5310 Mn, 43.3% QoQ / +11.7% YoY
- PAT came in at INR 3981 Mn, 41.2% QoQ / 28.5% YoY
- Loss Ratio stood at 69.8% Vs -10 bps QoQ / -570 bps YoY
- Combined ratio stood at 99.7% Vs -40 bps QoQ / -70 bps YoY
- Solvency ratio stood at 2.50x vs 2.20x YoY / 2.17x QoQ
- EPS stood at INR 8.8 vs INR 6.8 YoY / INR 6.2 QoQ

HIGHLIGHTS OF THE QUARTER

- **ICICIGI's GDPI stood at Rs 3302 Cr in Q1FY21, registering YoY de-growth of 5.3% YoY.** While motor (-22.4% YoY), Marine (-28.7% YoY), & Personal Accident (53.8% YoY) reported highest de-growth, fire segment (+41.6% YoY) registered strong growth due to increased property reinsurance rates by GIC for all 291 occupancies from Jan 2020. We expect property NEP growth to trend higher in this segment along with improved profitability.
- **Motor insurance segment is showing signs of recovery (grew by 8.5% YoY in June Vs de-growth of 47.4% & 25.5% in the month of April & May respectively).** As far as motor insurance renewals are concerns, it was at the same level or slightly lower in the month of June. Overall motor insurance mix improved, with Commercial Vehicle share come down to 14.8% vs 17.3% YoY, while Private car & Two Wheeler stood at 59.2% (vs 55.4% YoY) & 26.0% (vs 27.3% YoY). According to management, withdrawal of the option of long-term package effective from Aug 1, 2020 is expected to have marginal impact on profitability.
- **Health insurance is benefiting from the heightened concern around the health hazard and measures taken by the government.** The demand for new policies is improving. While in Q1 new indemnity insurance grew by 26%, the same for the month of June grew by 77%. Management believes that the pandemic may increase penetration in this segment in the near future. The number of COVID related claims for the quarter was around 1200-1300 and amount involved was ~Rs 20 Cr (avg ~1.5 lakh -1.7 lakh per claim)
- **Combined ratio was 98.4% in Q1FY21 excluding the impact of cyclone Amphan & Nisarga of Rs 0.31 bn** vs to 99.7% in Q1 FY20 excluding the impact of cyclone Fani of Rs 0.16 bn.
- Investment income declined by 5.3% YoY to Rs 4.99 bn, largely due to lower capital gains, which was down by 56.1% YoY at Rs 0.60 bn in Q1 FY21
- ICICIGI has maintained a healthy solvency ratio at 2.5x as of June 30, 2020 as against 2.17x in Q4FY20 and higher than the minimum regulatory requirement of 1.50x.

Valuation & Outlook

FY21 could be a challenging year with uncertainty in several segments in the wake of COVID-19 situation including key segment Motor insurance. Profitability could be impacted due to motor TP rate revision being put on hold and lower investment yields. Despite the current challenge, we remain confident that the long-term prospects for the industry remain robust as India is significantly underpenetrated and has a low insurance density, as compared with other economies.

With strong capitalization, sound investment quality and prudent risk management practices, we expect that ICICIGI to deliver strong performance, including higher profitability & better solvency in foreseeable future. With the solvency of weaker players under pressure, we may witness price rationalization leading to better underwriting profitability. This will support a valuation premium. This will support a valuation premium. At CMP the stock trades at 43x its FY21E EPS & 36x its FY22E EPS. **We value ICICIGI at FY22E P/EPS multiple of 40x to arrive at target price of Rs 1440/ share and maintaining ACCUMULATE rating (and recommend a buy on dips strategy) on the stock.**

Key Financials (Rs Mn)

Year	GDPI	PAT	ROE	BVPS	EPS	P/E
FY20	133,128	11,937	21	135	26	49
FY21E	147,625	13,487	22	156	30	43
FY22E	174,766	16,374	23	182	36	36



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Results Summary (Rs mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	% YoY	% QoQ	1QFY21
Policyholders' Account								
Gross premium written	35279	35607	30307	37695	32316	-5	5	33942
New premium written	24610	23850	21666	26576	24315	-7	-9	22191
Premium Earned (Net)	21975	22449	23569	24562	23456	4	-1	23238
Income from investments (net)	3130	4098	3779	3364	4184	-4	-6	3940
Other income	335	94	41	64	869	26	-86	118
Total income	25439	26642	27389	27989	28508	2	-4	27297
Commission	632	547	619	771	1704	86	-40	1016
Operating expenses relating to insurance business	6094	5410	5467	6407	5647	4	0	5624
Incurred claims	15747	16941	17571	17604	16399	-4	-1	16217
Total expenses	22472	22898	23657	24782	23750	0	-4	22857
Underwriting profit/ (loss)	-497	-449	-88	-220	-294	-185	-230	382
Operating profit/ (loss)	2967	3743	3733	3207	4758	19	-7	4440
Shareholders' Account								
Income in shareholder's account	4106	5013	4926	4367	5936	11	-6	5585
Total Expenses	651	260	315	468	2229	6	-88	275
Profit before taxes	3455	4753	4611	3900	3706	12	43	5310
Provision for taxes	1178	1655	1532	958	887	-20	50	1329
Profit after tax	2277	3098	3079	2942	2819	28	41	3981
Balance sheet								
Shareholders' funds								
Share capital	4543	4544	4544	4544	4545	0	0	4545
Reserves and surplus	48662	49852	52940	53969	56796	22	7	60781
Fair value change account	3384	2303	1012	1934	-4286	-116	-92	-364
Borrowings	4850	4850	4850	4850	4850	0	0	4850
Total equity	61439	61550	63348	65299	61906	13	13	69811
Application of funds								
Shareholders' investments	53431	54717	56204	57156	58596	17	9	63800
Policyholders' investments	168878	182390	183789	191297	204672	19	6	217380
Fixed assets - net block	4652	4650	4756	6946	6766	42	-3	6595
Deferred tax assets	3013	3772	3248	3726	3063	-3	19	3643
Cash and bank balances	4016	1901	2555	999	326	-74	53	501
Advances and other assets	100037	100715	103078	105356	96998	-23	-20	77402
Net current assets	-168534	-183979	-184649	-193825	-211190	20	5	-221607
Total assets	61439	61550	63348	65299	61906	13	13	69811
Analytical ratios (reported)								
Solvency ratio	2.2	2.2	2.3	2.2	2.2	30 bps	33 bps	2.5
Expense management ratio	25.3	24.2	27.4	26.9	28.1	100 bps	-290 bps	25.2
Incurred claim ratio	71.7	75.5	74.6	71.7	69.9	-570 bps	-10 bps	69.8
Net retention ratio	69.8	67.0	71.5	70.5	75.2	-160 bps	-980 bps	65.4
Combined ratio	98.0	100.4	102.6	98.7	100.1	-70 bps	-40 bps	99.7



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Financial Summary (Rs mn)	FY19	FY20E	FY21E	FY22E
Gross direct premium income	144882	133128	147625	174766
Net Earned Premium	83,753	94,035	102325	120260
Operating profit/(loss)	12,314	15,440	16,887	20,479
Profit before tax	15,984	16,968	18,031	21,890
Profit after tax	10,493	11,937	13,487	16,374
Pre-exceptional EPS (Rs)	23	26	30	36
Growth (%)				
BVPS (Rs)	117	135	156	182
Dividend payout (%)	31	16	28	28
ROE	19	21	22	23
ROE (w/o Fair value change)	21	21	20	21
P/B	11.0	9.5	8.2	7.1
P/E	56	49	43	36

Income Statement (Rs mn)	FY19	FY20E	FY21E	FY22E
Operating profit/(Loss)	12,314	15,440	16,887	20,479
- Fire Insurance business	578	951	1,233	1,397
- Marine Insurance business	(356)	355	408	430
- Misc. Insurance business	12,093	14,134	15,245	18,652
Income from Investments	4,600	4,644	4,907	5,964
Other income - misc income	143	156	0	0
Total Income	17,057	20,240	21,794	26,443
Total Expenses	1,073	3,272	3,763	4,553
Profit Before Tax	15,984	16,968	18,031	21,890
Tax	5,492	5,031	4,544	5,516
Profit After Tax	10,493	11,937	13,487	16,374

Ratio analysis (%)	FY19	FY20E	FY21E	FY22E
Growth Ratios (%)				
Gross Direct Premium Income	17	-8	11	18
Net Premium Income	21	12	9	18
Operating Expenses	20	11	9	17
PAT	22	14	13	21
EPS	22	14	13	21
Profitability Ratios (%)				
Commission To NEP	3	4	3	3
Opex to NEP	24	24	23	23
Combined Ratio	98.8	100.4	100.2	99.2
Balance Sheet Ratios (%)				
ROE	19.2	21.0	21.8	22.6
Investment Leverage	4.1	4.2	4.2	4.3

Balance sheet (Rs Mn)	FY19	FY20E	FY21E	FY22E
Shareholders' Funds				
Share capital	4,543	4,545	4,545	4,545
Reserve and surplus	48,662	56,798	66,455	78,178
Fair Value change	3,384	-4,286	-4,286	-4,286
Borrowings	4,850	4,850	4,850	4,850
Total	61,439	61,906	71,563	83,287
Application of funds				
Investments				
Shareholders'	53,431	58,596	63,869	72,172
Policyholders'	168,877	204,672	241,512	292,230
Fixed assets	4,652	6,766	7,239	7,746
Deferred tax asset	3,013	3,063	3,063	3,063
Current assets				
Cash and bank balances	4,016	326	905	818
Advances and other assets	100,037	96,998	107,708	128,628
Sub-Total (A)	104,053	97,325	108,613	129,446
Current liabilities	216,228	249,798	288,901	345,512
Provisions	56,359	58,717	63,833	75,859
Sub-Total (B)	272,587	308,515	352,734	421,371
Total	61,439	61,906	71,563	83,287



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