



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

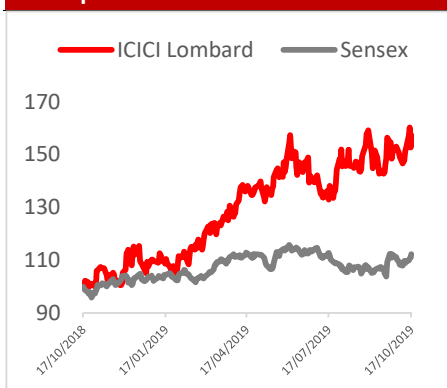
### BUY

Current Price	1244
52 Week Range	1285/759
Target Price	1400
Upside (%)	13

### Key Share Data

Market Cap (Rs.bn)	565.24
Market Cap (US\$ Mn)	7961.12
No of o/s shares (Mn)	454.42
Face Value	10
BSE Code	540716
NSE Code	ICICIGI
Bloomberg	ICICIGI:IN

### Price performance



% Shareholding	Sep-19	June-19
Promoter	55.86	55.86
Public	44.14	44.14
Others	0.00	0.00
Total	100	100

ICICI Lombard General Insurance Company (ICICIGI) has registered a net profit of Rs 3.08 Bn in Q2FY20, up by 5% YoY. PAT for Q2 FY19 had the benefit of one-off reinsurance recovery of Rs 0.58 Bn, while net loss due to catastrophic event (widespread floods in many States) in Q2FY20 was Rs 0.42 Bn vs Rs 0.25 Bn (Kerala Floods) in Q2FY19. Excluding these two events, PBT growth for the quarter stood at 23%. Company continued its focus on enhancing its distribution network by strengthening agency channels (41,113 agents vs 28,718 in Q2FY19) and increasing penetration in tier 3 and tier 4 cities, which will drive stable GWP growth in the coming years.

We expect the business to remain in a sweet spot in the near-term supported by industry tailwinds, viz. better pricing in health segment and implementation of motor vehicles (Amendment) Act, 2019. According to management, motor vehicles act is positive for both insurers and the insured. The imposition of heftier penalties is expected to bring discipline among the motor vehicle owners, thereby leading to lower accident incidences. Besides, the introduction of the time limit for claim intimation may reduce claims incidence.

**Healthy gross premium growth in Q2FY20 at 14.5% YoY ex-crop:** ICICIGI reported 14.5% YoY growth in gross direct premium Income (ex-crop) in Q2FY20 supported by fire (75% YoY), motor TP (19% YoY) and health (18% YoY) lines. Overall, gross direct premium declined by 16.4% YoY on account of no kharif crop tenders being underwritten in H1FY20 vs 28% of gross premium coming from crop insurance in Q2FY19. We expect ICICIGI to record GDPI CAGR of 12% over FY19-22E.

In Q2FY20, GDPI growth (ex-crop) was primarily driven by the focus on preferred segments. In the motor segment, gross premium growth of 19% YoY was driven by private cars (21% YoY) and two-wheeler (26% YoY), while the share of commercial vehicles has declined in the overall mix of motor to 14.2% in Q2FY20 vs 22.5% in Q2FY19. Consequent to the increase in minimum prescribed rates for certain occupancies under fire segments, the share of fire insurance in gross premium has increased to 8.6% in Q2FY20 vs 4.1% in Q2FY19. Besides, higher retention and good traction in SME business also supported the growth in fire segment. Company has delivered 18% growth in Health segment, by maintaining its focus on SME and mid-corporate due to better pricing.

**Combined ratio stood at 100.6% (ex- catastrophes), with improvement in loss ratio somewhat offset the higher total expense ratio:** Loss ratio improved for most product lines except motor OD and Marine segments. The overall loss ratio was down 580 bps YoY/90 bps QoQ to 74.6% driven by significant improvements in Health, Travel & PA (71% vs. 76.4% YoY), fire (75.6% vs 84.6% YoY) and marine (65.6% vs. 117.8% YoY) where the Motor OD were impacted by catastrophic event (widespread floods in many States) and an increase in contribution of renewals. Combined ratio stood at 102.6%, impacted to the tune of ~200 bps by widespread floods in many States. On the expense ratio side, commission ratio increased from 1.2% in Q2FY19 to 2.9% in Q2FY20, while opex ratio increased from 20% in Q2FY19 to 25% in Q2FY20. Higher expense ratio was driven by negative operative leverage as the insurer did not secure any crop insurance tender for Kharif-2019, higher acquisition costs related to retail business and brand campaign costs.

### Valuation & Outlook

With strong capitalization, sound investment quality and prudent risk management practices, we expect that I-Lom to deliver strong performance, including solid underwriting, higher profitability & better solvency in foreseeable future. This will support a valuation premium. We maintain BUY rating on the stock with a target price of Rs 1400/share valuing at 29x FY22E EPS.

### Key Financials (Rs Mn)

Year	GDPI	Growth (%)	PAT	Growth (%)	ROE	EPS	P/E
FY19	1,44,882	17	10,493	22	19	23	54
FY20E	1,48,635	3	13,070	25	21	29	43
FY21E	1,75,439	18	17,252	32	24	38	33
FY22E	2,05,244	17	22,007	28	25	48	26



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Results Summary (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	% YoY	% QoQ	2QFY20
<b>Policyholders' Account</b>							
Gross premium written	36366	37690	35279	35607	-17	-15	30307
New premium written	22130	25969	24610	23850	-2	-9	21666
<b>Premium Earned (Net)</b>	<b>22220</b>	<b>21110</b>	<b>21975</b>	<b>22449</b>	<b>6</b>	<b>5</b>	<b>23569</b>
Income from investments (net)	3369	3019	3130	4098	12	-8	3779
Other income	128	35	93	94	-68	-57	41
<b>Total income</b>	<b>25717</b>	<b>24164</b>	<b>25197</b>	<b>26642</b>	<b>7</b>	<b>3</b>	<b>27389</b>
Commission	264	921	632	547	134	13	619
Operating expenses relating to insurance business	4316	5186	5852	5410	27	1	5467
Incurred claims	17855	15289	15747	16941	-2	4	17571
<b>Total expenses</b>	<b>22435</b>	<b>21396</b>	<b>22230</b>	<b>22898</b>	<b>5</b>	<b>3</b>	<b>23657</b>
Underwriting profit/ (loss)	-215	-251	-162	-355	-78	-87	-47
<b>Operating profit/ (loss)</b>	<b>3282</b>	<b>2768</b>	<b>2967</b>	<b>3743</b>	<b>14</b>	<b>0</b>	<b>3733</b>
<b>Shareholders' Account</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>2QFY20</b>
Income in shareholder's account	4489	3830	4106	5013	10	-2	4926
<b>Total Expenses</b>	<b>-2</b>	<b>224</b>	<b>651</b>	<b>260</b>	<b>-</b>	<b>21</b>	<b>315</b>
<b>Profit before taxes</b>	<b>4490</b>	<b>3607</b>	<b>3455</b>	<b>4753</b>	<b>3</b>	<b>-3</b>	<b>4611</b>
Provision for taxes	1559	1215	1178	1655	-2	-7	1532
<b>Profit after tax (Before extraordinary)</b>	<b>2931</b>	<b>2391</b>	<b>2277</b>	<b>3098</b>	<b>5</b>	<b>-1</b>	<b>3079</b>
<b>Balance sheet</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>2QFY20</b>
<b>Shareholders' funds</b>							
Share capital	4541	4541	4543	4544	0	0	4544
Reserves and surplus	45337	46360	48662	49852	17	6	52940
Fair value change account	3858	3087	3384	2303	-74	-56	1012
Borrowings	4850	4850	4850	4850	0	0	4850
<b>Total equity</b>	<b>58586</b>	<b>58837</b>	<b>61439</b>	<b>61550</b>	<b>8</b>	<b>3</b>	<b>63348</b>
<b>Application of funds</b>							
Shareholders' investments	50313	50980	53431	54717	12	3	56204
Policyholders' investments	142406	153475	168878	182390	29	1	183767
Fixed assets - net block	4248	4286	4652	4650	12	2	4756
Deferred tax assets	2381	2950	3013	3772	36	-14	3248
Cash and bank balances	2638	2800	4016	1901	-3	34	2555
Advances and other assets	107740	107080	100037	100715	-4	2	103078
<b>Net current assets</b>	<b>-140762</b>	<b>-152853</b>	<b>-168534</b>	<b>-183979</b>	<b>31</b>	<b>0</b>	<b>-184649</b>
<b>Total assets</b>	<b>58585</b>	<b>58837</b>	<b>61439</b>	<b>61550</b>	<b>8</b>	<b>3</b>	<b>63348</b>
<b>Analytical ratios (reported)</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>2QFY20</b>
Solvency ratio	2.1	2.1	2.2	2.2	20 bps	10 bps	2.3
Expense management ratio	19.2	22.4	25.3	24.2	820 bps	320 bps	27.4
Incurred claim ratio	80.4	72.4	71.7	75.5	-580 bps	-90 bps	74.6
Net retention ratio	60.9	68.9	69.8	67.0	1060 bps	450 bps	71.5
Combined ratio	101.1	95.9	98.0	100.4	150 bps	220 bps	102.6



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### Financial Summary (Rs mn)

(Year-end March)	FY19	FY20E	FY21E	FY22E
Gross direct premium income	1,44,882	1,48,635	1,75,439	2,05,244
Net Earned Premium	83,753	95,954	1,11,665	1,29,403
Operating profit/(loss)	12,314	14,194	18,138	23,369
Profit before tax	15,984	18,409	23,064	29,421
Profit after tax	10,493	13,070	17,252	22,007
Pre-exceptional EPS (Rs)	23	29	38	48
<b>Growth (%)</b>	22	25	32	28
BVPS (Rs)	117	132	160	196
Dividend payout (%)	31	28	27	26
Solvency ratio	2	2	2	3
ROE	19	21	24	25
ROE (w/o Fair value change)	21	23	25	26
P/B	10.6	9.4	7.8	6.3
P/E	54	43	33	26

### Income Statement (Rs mn)

(Year-end March)	FY19	FY20E	FY21E	FY22E
Operating profit/(Loss)	12,314	14,194	18,138	23,369
- Fire Insurance business	567	1,086	1,343	1,647
- Marine Insurance business	-363	-248	-205	-187
- Misc. Insurance business	12,110	13,356	17,001	21,908
Income from Investments	4,600	5,503	6,459	7,876
Other income - misc income	143	0	0	0
<b>Total Income</b>	17,057	19,696	24,597	31,245
Total Expenses	1,073	1,288	1,532	1,824
<b>Profit Before Tax</b>	15,984	18,409	23,064	29,421
Tax	5,492	5,339	5,812	7,414
<b>Profit After Tax</b>	10,493	13,070	17,252	22,007

### Balance sheet (Rs Mn)

(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Shareholders' Funds</b>				
Share capital	4,543	4,544	4,544	4,544
Reserve and surplus	48,662	58,137	70,818	87,103
Fair Value change	3,384	3,384	3,384	3,384
Borrowings	4,850	4,850	4,850	4,850
<b>Total</b>	<b>61,439</b>	<b>70,916</b>	<b>83,596</b>	<b>99,881</b>
<b>Application of funds</b>				
<b>Investments</b>				
Shareholders'	53,431	61,125	70,905	82,250
Policyholders'	1,68,877	2,15,234	2,66,030	3,19,236
<b>Fixed assets</b>	4,652	4,931	5,277	5,646
Deferred tax asset	3,013	3,013	3,013	3,013
<b>Current assets</b>				
Cash and bank balances	4,016	4,532	5,879	7,391
Advances and other assets	1,00,037	1,00,923	1,19,035	1,38,950
<b>Sub-Total (A)</b>	<b>1,04,053</b>	<b>1,05,455</b>	<b>1,24,915</b>	<b>1,46,341</b>
Current liabilities	2,16,228	2,45,692	2,96,641	3,48,586
Provisions	56,359	73,151	89,901	1,08,017
<b>Sub-Total (B)</b>	<b>2,72,587</b>	<b>3,18,843</b>	<b>3,86,542</b>	<b>4,56,603</b>
<b>Total</b>	<b>61,439</b>	<b>70,916</b>	<b>83,596</b>	<b>99,881</b>

### Ratio analysis (%)

(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Growth Ratios (%)</b>				
Gross Direct Premium Income	17	3	18	17
Net Premium Income	21	15	16	16
Operating Expenses	19	16	17	15
NPAT	22	25	32	28
EPS	22	25	32	28
<b>Profitability Ratios (%)</b>				
Retention Rate	64	72	72	71
Commission To NEP	3	4	4	3
Opex to NEP	24	25	25	25
Combined Ratio	98.5	99.8	99.7	99.1
<b>Balance Sheet Ratios (%)</b>				
ROE	19.2	21.3	23.8	25.3
Solvency Ratio	2.2	2.4	2.4	2.5
Investment Leverage	4.1	4.3	4.4	4.3



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