



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Q2 FY21 Result Update@ Dalal & Broacha

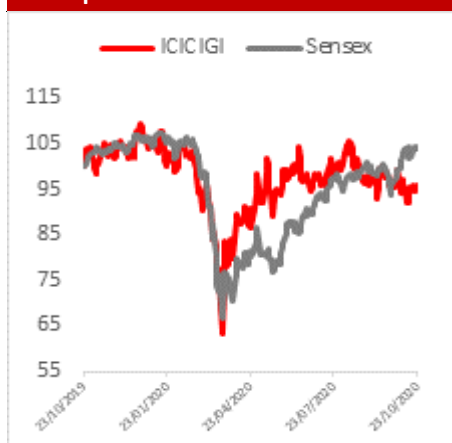
ACCUMULATE

Current Price (Rs)	1258
52 Week Range	806/1440
Target Price (Rs)	1440
Upside (%)	15

Key Share Data

Market Cap (Rs.bn)	572
Market Cap (US\$ mn)	7741
No of o/s shares (Cr)	454
Face Value	10
BSE Code	540716
NSE Code	ICICIGI
Bloomberg	ICICIGI:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	51.89	51.89
FII	27.10	26.61
DII	13.59	14.03
Others	7.42	7.47
Total	100	100

ICICI Lombard General Insurance Company (ICICIGI) has reported a solid set of numbers for the quarter ended September 2020.

- GWP came in at INR 32545 Mn Vs -4.1% QoQ / +7.4% YoY
- NEP came in at INR 24625 Mn Vs +6.0% QoQ / +4.5% YoY
- Operating profit came in at INR 4175 Mn Vs -6% QoQ / +11.8% YoY
- PBT came in at INR 5546 Mn, +4.4% QoQ / +20.3% YoY
- PAT came in at INR 4157 Mn, 4.4% QoQ / 35% YoY
- Loss Ratio stood at 67.2% Vs -260 bps QoQ / -740 bps YoY
- Combined ratio stood at 99.7% Vs flat QoQ / -290 bps YoY
- EPS stood at INR 9.2 vs INR 6.8 YoY / INR 8.8 QoQ

OTHER HIGHLIGHTS OF THE QUARTER

- Excluding the impact of cyclone & flood losses of Rs 0.46 Bn, ICICIGI's combined ratio stood at 97.9% in Q2FY21 as against 100.7% in Q2FY20 excluding the impact of Rs 0.45 Bn.
- ICICIGI's GDPI stood at Rs 31893 Cr in Q2FY21, registering YoY growth of 8.0%, which was better than industry growth of 5.6% YoY. While motor (9.4% YoY) and Health (8.3% YoY), reported slower growth, fire segment (61.1% YoY) registered strong growth due to increased property reinsurance rates by GIC for all 291 occupancies from Jan 2020. However, Marine (-20.1% YoY), and Personal Accident (30.9% YoY) reported de-growth in Q2FY21. Overall, the industry has shown signs of recovery, driven by improving rural sentiment, social awareness and growing need for personal mobility amid safety concerns. We believe the company will grow faster than industry average in their focus segment.
- Loss ratio shown sharp improvement at 67.2% vs 74.6% YoY, driven by significant improvements in Motor OD (58.9% vs. 71.8% YoY) and Motor TP (61.6% vs 86.4% YoY) segments where the Health, Travel & PA were impacted by Covid related Claims. Fire (77.2% vs. 75.6% YoY), Marine (76.6% vs. 65.5% YoY) and Engineering (83.2% vs. 26.0% YoY) also saw sharp deterioration of their Loss ratio. This was largely due to conservative reserving by company and impact of cyclone & flood losses.
- Covid claims reported as on Sep 30, 2020 were ~3.24 lakh of which ~ 17 thousand Covid claims were reported with ICICIGI. According to management, the elevated levels in Covid cases remain a cause of concern particularly if the upcoming festive season gatherings lead to a second wave of Covid cases.
- Despite a rise in Covid claims and non-Covid claims picking up pace, the company's solvency ratio improved to 2.74 in Q2FY21, compared to 2.26 in the same period last year.
- Investment income increased by 21% YoY to Rs 5.9 bn, largely due to higher capital gains, which was up by 79.7% YoY at Rs 1.24 bn in Q2 FY21.

Valuation & Outlook

Overall, the second quarter was much better than the first quarter not just for ICICI Lombard but also for whole industry, which grown slightly over the last year. We believe FY21 could be a challenging year with uncertainty in several segments in the wake of COVID-19 situation including key segments Motor & health 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. 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. At CMP the stock trades at 42x its FY21E EPS & 35x 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 on the stock.

Key Financials (Rs Mn)

Year	GDPI	PAT	ROE	BVPS	EPS	P/E
FY20	133,128	11,937	21	135	26	48
FY21	139,809	13,457	22	156	30	42
FY22	165,597	16,415	23	182	36	35



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Highlights of the Conference Call

- Health segment saw growth of 8.3% YoY; out of which, new retail health indemnity business grew by 48.1% YoY
 - ICICIGI has already paid ~ 14K Covid claims (settled Rs 1.15 Bn) out of ~17K claims received as of Sep 2020. Out of total claims settled, 1000 were from COVID-19 patients who had home-care.
 - Claims intimated in Sep are close to 50% of the total claims intimated since the start of the coronavirus (Covid-19) pandemic. However, from Oct, there is some tapering, which is a positive sign.
 - Home Healthcare policy was introduced to help customers as they prefer to avail treatment in their homes rather than getting hospitalised amid a global pandemic.
 - Claim ratio for Health, Travel & PA saw worsening and stood at 81.9% (vs 71.0% YoY).
 - We believe that the pandemic may increase penetration in this segment in the near future.
- Motor segment saw growth of 9.4% YoY; out of which, motor OD grew by 11.4% & motor TP grew by 7.1% in Q2FY21.
 - To harness the potential of these segments, ICICIGI is expanding its distribution network to increase penetration in tier 3 & tier 4 cities. Total agents (including Point of sale or POS) increased to 52,785 as of Sep 2020, from 49,802 as of Jun 2020.
 - Motor segment registered better claim ratio, with motor OD claim ratio stood at 58.9% (vs 71.8% YoY) and motor TP claim ratio stood at 61.6% (vs 86.4% YoY)
 - The motor OD claim frequency has been gradually increasing since the lifting of the lockdown and now has reached pre-Covid levels.
 - The advance premium was Rs 31.60 Bn as at Sep 2020, from Rs 30.31 Bn as of Jun 2020.
- As far as commercial lines are concerned, the fire segment showed robust growth of 61.9% YoY, supported by the rate hike that came into force in Jan 2020, while Marine lines witnessed de-growth of 20.1% YoY.
 - Claim ratio for fire & Marine saw worsening and stood at 77.2% & 76.6% (vs 75.6% YoY & 65.5% YoY) respectively.
 - The company saw higher retention on account of increase in rates
- Rapid adoption of digital solutions
 - Over 97.5% policies issued by us in the half year ended Sep 2020 are in paperless form.
 - Under SME segment close to 90% of business sourcing were through these digital solutions.
 - With regards to claim settlement, 63.1% of its Motor OD claims were serviced through live video streaming app 'InstaSpect', in Sep 2020, up from 24.5% in Mar 2020.
 - Under group health policies, 60.9% fresh Cashless requests were authorised by an Artificial Intelligence (AI) / Machine Learning (ML) enabled engine as compared to 31.0% in March 2020.
 - According to management, ICICIGI will continue to invest in new technologies, on the digital front, including AI and ML, which will help in policy issuance, claims, fraud control and servicing.



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Results Summary (Rs mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	% YoY	% QoQ	2QFY21
Policyholders' Account									
Gross premium written	35279	35607	30307	37695	32316	33942	7.4	-4.1	32545
New premium written	24610	23850	21666	26576	24315	22191	15.0	12.3	24922
Premium Earned (Net)	21975	22449	23569	24562	23456	23238	4.5	6.0	24625
Income from investments (net)	3130	4098	3779	3364	4184	3940	8.1	3.7	4086
Other income	335	94	41	64	869	118	203	4	123
Total income	25439	26642	27389	27989	28508	27297	5.3	5.6	28834
Commission	632	547	619	771	1704	1016	167	63	1651
Operating expenses relating to insurance business	6094	5410	5467	6407	5647	5624	18.3	15.0	6470
Incurred claims	15747	16941	17571	17604	16399	16217	-5.9	2.0	16538
Total expenses	22472	22898	23657	24782	23750	22857	4.2	7.9	24659
Underwriting profit/ (loss)	-497	-449	-88	-220	-294	382	-61.1	-108.9	-34
Operating profit/ (loss)	2967	3743	3733	3207	4758	4440	11.8	-6.0	4175
Shareholders' Account									
Income in shareholder's account	4106	5013	4926	4367	5936	5585	9.9	-3.1	5412
Total Expenses	651	260	315	468	2229	275	-142.5	-148.7	-134
Profit before taxes	3455	4753	4611	3900	3706	5310	20.3	4.4	5546
Provision for taxes	1178	1655	1532	958	887	1329	-9.4	4.4	1388
Profit after tax	2277	3098	3079	2942	2819	3981	35.0	4.4	4157
Balance sheet									
Shareholders' funds									
Share capital	4543	4544	4544	4544	4545	4545	0	0	4545
Reserves and surplus	48662	49852	52940	53969	56796	60781	30	14	64955
Fair value change account	3384	2303	1012	1934	-4286	-364	-5	-151	2192
Borrowings	4850	4850	4850	4850	4850	4850	0	0	4850
Total equity	61439	61550	63348	65299	61906	69811	24	24	76545
Application of funds									
Shareholders' investments	53431	54717	56204	57156	58596	63800	25	17	68266
Policyholders' investments	168878	182390	183789	191297	204672	217380	22	9	223353
Fixed assets - net block	4652	4650	4756	6946	6766	6595	41	-3	6540
Deferred tax assets	3013	3772	3248	3726	3063	3643	10	35	4147
Cash and bank balances	4016	1901	2555	999	326	501	-86	-18	269
Advances and other assets	100037	100715	103078	105356	96998	77402	-20	-17	80874
Net current assets	-168534	-183979	-184649	-193825	-211190	-221607	23	7	-225761
Total assets	61439	61550	63348	65299	61906	69811	24	24	76545
Analytical ratios (reported)									
Solvency ratio	2.2	2.2	2.3	2.2	2.2	2.5	50 bps	60 bps	2.7
Expense management ratio	25.3	24.2	27.4	26.9	28.1	25.2	280 bps	500 bps	30.2
Incurred claim ratio	71.7	75.5	74.6	71.7	69.9	69.8	-740 bps	-260 bps	67.2
Net retention ratio	69.8	67.0	71.5	70.5	75.2	65.4	510 bps	1120 bps	76.6
Combined ratio	98.0	100.4	102.6	98.7	100.1	99.7	-290 bps	0 bps	99.7



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Financial Summary (Rs mn)

(Year-end March)	FY19	FY20	FY21E	FY22E
Gross direct premium income	144,882	133,128	139,809	165,597
Net Earned Premium	83,753	94,035	95,889	112,733
Operating profit/(loss)	12,314	15,440	17,153	20,536
Profit before tax	15,984	16,968	17,991	21,945
Profit after tax	10,493	11,937	13,457	16,415
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	10.7	9.3	8.1	6.9
P/E	54	48	42	35

(Year-end March)	FY19	FY20	FY21E	FY22E
Shareholders' Funds				
Share capital	4,543	4,545	4,545	4,545
Reserve and surplus	48,662	56,798	66,433	78,186
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	71,542	83,295
Application of funds				
Investments				
Shareholders'	53,431	58,596	63,869	71,534
Policyholders'	168,877	204,672	241,512	287,400
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	1,552	4,723
Advances and other assets	100,037	96,998	102,005	121,880
Sub-Total (A)	104,053	97,325	103,557	126,602
Current liabilities	216,228	249,798	284,189	338,266
Provisions	56,359	58,717	63,511	74,784
Sub-Total (B)	272,587	308,515	347,700	413,050
Total	61,439	61,906	71,542	83,295

(Year-end March)	FY19	FY20	FY21E	FY22E
Operating profit/(Loss)	12,314	15,440	17,153	20,536
- Fire Insurance business	578	951	1,066	1,567
- Marine Insurance business	(356)	355	304	417
- Misc. Insurance business	12,093	14,134	15,783	18,553
Income from Investments	4,600	4,644	4,601	5,962
Other income - misc income	143	156	0	0
Total Income	17,057	20,240	21,754	26,498
Total Expenses	1,073	3,272	3,763	4,553
Profit Before Tax	15,984	16,968	17,991	21,945
Tax	5,492	5,031	4,534	5,530
Profit After Tax	10,493	11,937	13,457	16,415

(Year-end March)	FY19	FY20	FY21E	FY22E
Growth Ratios (%)				
Gross Direct Premium Income	17	-8	5	18
Net Premium Income	21	12	2	18
Operating Expenses	20	11	0	18
PAT	22	14	13	22
EPS	22	14	13	22
Profitability Ratios (%)				
Commission To NEP	3	4	3	3
Opex to NEP	24	24	23	23
Combined Ratio	98.8	100.4	98.5	98.5
Balance Sheet Ratios (%)				
ROE	19.2	21.0	21.7	22.6
Investment Leverage	4.1	4.2	4.2	4.3



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