



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

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## Result update@ Dalal & Broacha

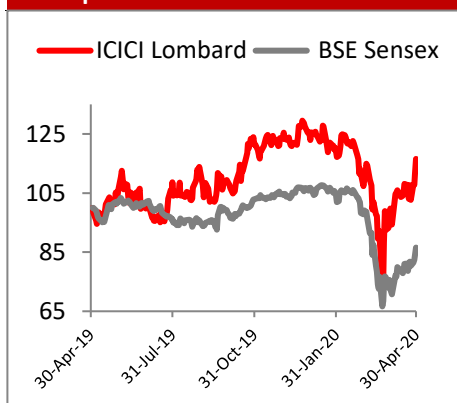
### Buy on Dips

Current Price	1288
52 Week Range	806/1440
Target Price	1420
Upside (%)	10

### Key Share Data

Market Cap (Rs.bn)	585.53
Market Cap (US\$ Mn)	7764.62
No of o/s shares (Mn)	454.47
Face Value	10
BSE Code	540716
NSE Code	ICICIGI
Bloomberg	ICICIGI:IN

### Price performance



% Shareholding	Mar-20	Dec-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 2.82 Bn in Q4FY20, up by 24% YoY, supported by lower claims ratio, though adversely impacted by losses in equity portfolio. The company took an impairment hit of Rs 1.2 Bn, while its MTM losses in the equity book stood at Rs 5.50 Bn. Since the company invests more on debt instruments, on MTM basis it is still on the green (unrealized gain of Rs 1.52 Bn). In near term, we believe investment incomes will get impacted by lower interest rates. Meanwhile, the company's return ratios remained steady, with ROEs of 18.8% in Q4FY20. Underwriting performance improved YoY (Rs 294mn) during the quarter, mainly due to its conscious call to not write crop business and also due to price hike in segments like fire insurance. ICICIGI made underwriting profits in segments like fire, marine, and group health, while it booked underwriting losses in the motor segment and retail health.

### HIGHLIGHTS OF THE QUARTER

- ICICIGI reported 2.9% YoY growth in gross direct premium Income (ex-crop) in Q4FY20 supported by fire (58.3% YoY), Marine (15.1% YoY) and Group health (26% YoY) lines. **Growth in fire segment was healthy 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.** However, the motor segment witnessed 4% YoY decline in Q4FY20, mainly due to lower new vehicle sales and renewals owing to lockdown-related disruptions.
- Overall, ICICI Lombard's GDPI declined by 8.7% YoY on account of no kharif crop tenders being underwritten in FY20 vs 17% of gross premium coming from crop insurance in FY19. While its industry market share has dropped to 6.7% in Q4FY20 vs 7.5% last year, ex-crop basis, market share is stable YoY at 7.8% vs 7.9 last year.
- IRDAI announced relaxation for payment of premium on motor TP & health insurance policies till May 15, 2020.** The regulator has also asked Insurance companies to continue to charge prevailing rates for motor TP liability cover until further order. **It will have short term impact on premium growth as customers may choose to renew at a later date.**
- The overall loss ratio came down by 180 bps YoY to 69.9% driven by significant improvements in motor TP (78.5% vs. 90.5% YoY). Besides, fire (55.4% vs 83.1% YoY) and marine (67.7% vs. 74.1% YoY) also shown significant improvement.
- Given that the TP hikes for FY21 have been put on hold by the regulator, the loss ratios in the segment may increase in near future. Also, with social distancing being the new norm, the use of private vehicles may see rise and could result in a higher number of claims for insurers.
- ICICIGI has maintained a healthy solvency ratio at 2.17x as of March 31, 2020 as against 2.18x in Q3FY20 and higher than the minimum regulatory requirement of 1.50x. Its investment leverage was stable sequentially at 4.21x in Q4FY20 vs 4.16x in Q3FY20. The insurer is currently holding advance premium of Rs 30.25bn (+11% QoQ) from long-term motor policies.

### 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. The risk of non-renewal of motor TP policies during the lock-down period remains; though we believe most policies to be renewed as lockdown is ended. Despite the current challenge, 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. We believe that ICICIGI continues to grow in tandem with the industry and demonstrate prudent underwriting, by focusing in profitable segments/subsegments. 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. 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 1420/ share and assign an ACCUMULATE rating (and recommend a buy on dips strategy) on the stock.

### Key Financials (Rs Mn)

Year	GDPI	PAT	ROE	Combined Ratio	BVPS	EPS	P/E	P/BV
FY19	1,44,882	10,493	19.2	98.5	117	23	56	11
FY20	1,33,129	11,938	21.0	100.7	142	26	49	9.1
FY21E	1,48,305	13,514	21.8	99.9	165	30	43	7.9
FY22E	1,70,857	16,107	2.2	99.8	189	35	36	6.8



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Results Summary (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	% YoY	% QoQ	4QFY20
<b>Policyholders' Account</b>									
Gross premium written	36366	37690	35279	35607	30307	37695	-8	-14	32316
New premium written	22130	25969	24610	23850	21666	26576	-1	-9	24315
<b>Premium Earned (Net)</b>	<b>22220</b>	<b>21110</b>	<b>21975</b>	<b>22449</b>	<b>23569</b>	<b>24562</b>	<b>-8</b>	<b>-14</b>	<b>23456</b>
Income from investments (net)	3369	3019	3130	4098	3779	3364	34	24	4184
Other income	128	35	335	94	41	64	160	1262	869
<b>Total income</b>	<b>25717</b>	<b>24164</b>	<b>25439</b>	<b>26642</b>	<b>27389</b>	<b>27989</b>	<b>12</b>	<b>2</b>	<b>28508</b>
Commission	264	921	632	547	619	771	170	121	1704
Operating expenses relating to insurance business	4316	5186	6094	5410	5467	6407	-7	-12	5647
Incurred claims	17855	15289	15747	16941	17571	17604	4	-7	16399
<b>Total expenses</b>	<b>22435</b>	<b>21396</b>	<b>22472</b>	<b>22898</b>	<b>23657</b>	<b>24782</b>	<b>6</b>	<b>-4</b>	<b>23750</b>
Underwriting profit/ (loss)	-215	-286	-497	-449	-88	-220	-41	34	-294
<b>Operating profit/ (loss)</b>	<b>3282</b>	<b>2768</b>	<b>2967</b>	<b>3743</b>	<b>3733</b>	<b>3207</b>	<b>60</b>	<b>48</b>	<b>4758</b>
<b>Shareholders' Account</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>4QFY20</b>
Income in shareholder's account	4489	3830	4106	5013	4926	4367	45	36	5936
<b>Total Expenses</b>	<b>-2</b>	<b>224</b>	<b>651</b>	<b>260</b>	<b>315</b>	<b>468</b>	<b>243</b>	<b>377</b>	<b>2229</b>
<b>Profit before taxes</b>	<b>4490</b>	<b>3607</b>	<b>3455</b>	<b>4753</b>	<b>4611</b>	<b>3900</b>	<b>7</b>	<b>-5</b>	<b>3706</b>
Provision for taxes	1559	1215	1178	1655	1532	958	-25	-7	887
<b>Profit after tax (Before extraordinary)</b>	<b>2931</b>	<b>2391</b>	<b>2277</b>	<b>3098</b>	<b>3079</b>	<b>2942</b>	<b>24</b>	<b>-4</b>	<b>2819</b>
<b>Balance sheet</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>4QFY20</b>
<b>Shareholders' funds</b>									
Share capital	4541	4541	4543	4544	4544	4544	0	0	4545
Reserves and surplus	45337	46360	48662	49852	52940	53969	17	5	56796
Fair value change account	3858	3087	3384	2303	1012	1934	-227	-322	-4286
Borrowings	4850	4850	4850	4850	4850	4850	0	0	4850
<b>Total equity</b>	<b>58586</b>	<b>58837</b>	<b>61439</b>	<b>61550</b>	<b>63348</b>	<b>65299</b>	<b>1</b>	<b>-5</b>	<b>61906</b>
<b>Application of funds</b>									
Shareholders' investments	50313	50980	53431	54717	56204	57156	10	3	58596
Policyholders' investments	142406	153475	168878	182390	183789	191297	21	7	204672
Fixed assets - net block	4248	4286	4652	4650	4756	6946	45	-3	6766
Deferred tax assets	2381	2950	3013	3772	3248	3726	2	-18	3063
Cash and bank balances	2638	2800	4016	1901	2555	999	-92	-67	326
Advances and other assets	107740	107080	100037	100715	103078	105356	-3	-8	96998
<b>Net current assets</b>	<b>-140762</b>	<b>-152853</b>	<b>-168534</b>	<b>-183979</b>	<b>-184649</b>	<b>-193825</b>	<b>25</b>	<b>9</b>	<b>-211190</b>
<b>Total assets</b>	<b>58585</b>	<b>58837</b>	<b>61439</b>	<b>61550</b>	<b>63348</b>	<b>65299</b>	<b>1</b>	<b>-5</b>	<b>61906</b>
<b>Analytical ratios (reported)</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>4QFY20</b>
Solvency ratio	2.1	2.1	2.2	2.2	2.3	2.2	-10 bps	0 bps	2.2
Expense management ratio	19.2	22.4	25.3	24.2	27.4	26.9	280 bps	120 bps	28.1
Incurred claim ratio	80.4	72.4	71.7	75.5	74.6	71.7	-180 bps	-180 bps	69.9
Net retention ratio	60.9	68.9	69.8	67.0	71.5	70.5	540 bps	470 bps	75.2
Combined ratio	101.1	95.9	98.0	100.4	102.6	98.7	210 bps	140 bps	100.1



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### Financial Summary (Rs mn)

(Year-end March)	FY19	FY20	FY21E	FY22E
Gross direct premium income	1,44,882	1,33,129	1,48,305	1,70,857
Net Earned Premium	83,753	94,035	1,04,897	1,21,174
Operating profit/(loss)	12,314	15,441	16,713	19,852
Profit before tax	15,984	16,969	18,066	21,534
Profit after tax	10,493	11,938	13,514	16,107
Pre-exceptional EPS (Rs)	23	26	30	35
<b>Growth (%)</b>				
BVPS (Rs)	117	142	164	189
Dividend payout (%)	31	16	28	28
ROE	19	21	22	22
ROE (w/o Fair value change)	21	21	20	21
P/B	11.0	9.1	7.9	6.8
P/E	56	49	43	36

### Income Statement (Rs mn)

(Year-end March)	FY19	FY20	FY21E	FY22E
Operating profit/(Loss)	12,314	15,441	16,713	19,852
- Fire Insurance business	567	951	1,105	1,158
- Marine Insurance business	-363	355	181	188
- Misc. Insurance business	12,110	14,135	15,428	18,507
Income from Investments	4,600	4,800	5,214	6,392
Other income - misc income	143	0	0	0
<b>Total Income</b>	<b>17,057</b>	<b>20,241</b>	<b>21,927</b>	<b>26,244</b>
Total Expenses	1,073	3,272	3,861	4,711
<b>Profit Before Tax</b>	<b>15,984</b>	<b>16,969</b>	<b>18,066</b>	<b>21,534</b>
Tax	5,492	5,031	4,553	5,426
<b>Profit After Tax</b>	<b>10,493</b>	<b>11,938</b>	<b>13,514</b>	<b>16,107</b>

### Balance sheet (Rs Mn)

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Shareholders' Funds</b>				
Share capital	4,543	4,545	4,545	4,545
Reserve and surplus	48,662	56,798	66,474	78,006
Fair Value change	3,384	-4,286	-4,286	-4,286
Borrowings	4,850	4,850	4,850	4,850
<b>Total</b>	<b>61,439</b>	<b>61,906</b>	<b>71,582</b>	<b>83,115</b>
<b>Application of funds</b>				
<b>Investments</b>				
Shareholders'	53,431	58,596	63,283	73,409
Policyholders'	1,68,877	2,04,672	2,35,372	2,82,447
<b>Fixed assets</b>	<b>4,652</b>	<b>6,766</b>	<b>7,239</b>	<b>7,746</b>
Deferred tax asset	3,013	3,063	3,063	3,063
<b>Current assets</b>				
Cash and bank balances	4,016	326	567	750
Advances and other assets	1,00,037	96,998	1,00,625	1,15,670
<b>Sub-Total (A)</b>	<b>1,04,053</b>	<b>97,325</b>	<b>1,01,192</b>	<b>1,16,420</b>
Current liabilities	2,16,228	2,49,798	2,64,117	3,08,555
Provisions	56,359	58,717	74,451	91,416
<b>Sub-Total (B)</b>	<b>2,72,587</b>	<b>3,08,515</b>	<b>3,38,568</b>	<b>3,99,970</b>
<b>Total</b>	<b>61,439</b>	<b>61,906</b>	<b>71,582</b>	<b>83,115</b>

### Ratio analysis (%)

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Growth Ratios (%)</b>				
Gross Direct Premium Income	17	-8	11	15
Net Premium Income	21	12	12	16
Operating Expenses	19	12	11	15
PAT	22	14	13	19
EPS	22	14	13	19
<b>Profitability Ratios (%)</b>				
Commission To NEP	3	4	4	4
Opex to NEP	24	24	24	24
Combined Ratio	98.5	100.7	99.9	99.8
<b>Balance Sheet Ratios (%)</b>				
ROE	19.2	21.0	21.8	22.2
Investment Leverage	4.1	4.2	4.1	4.3



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