



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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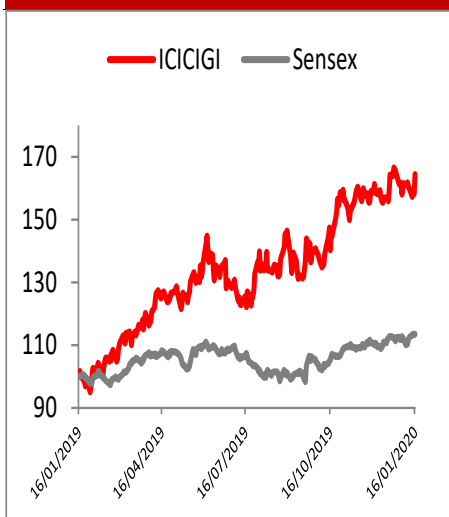
HOLD

Current Price	1411
52 Week Range	809/1439
Target Price	1520
Upside (%)	8%

Key Share Data

Market Cap (Rs.bn)	641.36
Market Cap (US\$ Mn)	9023
No of o/s shares (Cr)	45.44
Face Value	10
BSE Code	540716
NSE Code	ICICIGI
Bloomberg	ICICIGI:IN

Price performance



% Shareholding	Dec-19	Sep-19
Promoters	56%	56%
FII	24%	21%
DII	13%	11%
Others	7%	12%
Total	100	100

ICICI Lombard General Insurance Company (ICICIGI) has registered a decent set of numbers for the quarter ended December 2019, with combined ratio of 98.7% and RoE of ~ 20.3%. PAT for the quarter stood at Rs 2,941 Mn, up by 23% YoY. The company has continued to focus on prudent underwriting practices, while improving its competitive position and sustained profitability. Underwriting performance improved YoY to (Rs 220 mn) vs (Rs 286 mn) in Q3FY19 on account of better loss ratios (71.7% vs 72.4% last year) albeit offset by higher expense ratios (26.9% vs 22.4%).

GDPI growth driven by the focus on preferred segments: GDPI stood at Rs 36.9 Bn in Q3FY20, as compared to Rs 37.0 Bn in Q3FY19, registering flat YoY growth. While motor OD (+14% YoY), health (+30% YoY) and personal accident (12% YoY) supported the growth rate, weakness in motor TP (-3.4% YoY), decline in fire insurance (-2.9% YoY), and run down of the crop business lower the growth rate. Excluding the crop segment, its GDPI growth for Q3FY20 was 8.3% over Q3FY19 as compared to industry growth of 10.9% for the same period. Within motor, GDPI growth stood at 12% YoY in Q3FY20 led by 2Ws (15.4% YoY) and cars (23.3% YoY) while lack of satisfactory tariff hike within CVs have meant a return to caution with premiums down 39% YoY. Within health, GDPI growth stood at 10% YoY in Q3FY20, which was driven by retail segment (39% YoY). However, group gross premium growth slowed to 12% YoY due to high base of last year on account of healthy price hikes in the group/corporate health segment. Overall, ICICIGI's industry market share has dropped to 7.1% in 2QFY20 vs 8.9% last year however on an ex-crop basis, market share is stable YoY at 8.7%. We expect this trend to continue as ICICIGI remains focused on retail, granular corporate & SME businesses.

Combined ratio was stable YoY at 98.7% as the improvement in loss ratio offset the higher total expense ratio: The overall loss ratio was down 70 bps YoY/290 bps QoQ to 71.7% driven by significant improvements in Health, Travel & PA (69.6% vs. 74.3% YoY), fire (50.1% vs 58.5% YoY) and Motor TP (81.8% vs. 91.7% YoY) where the Motor OD (68.8% vs. 53.0% YoY) were impacted by pricing pressure following the implementation of multi-year insurance regulation. On the expense ratio side, commission ratio decreased from 3.2% in Q3FY19 to 2.9% in Q3FY20, while opex ratio increased from 20% in Q3FY19 to 24% in Q3FY20. 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. Furthermore, Company continued its focus on enhancing its distribution network by strengthening agency channels (44,539 agents vs 32,254 in Q3FY19) and increasing penetration in tier 3 & tier 4 cities, which will drive stable GWP growth in coming years.

Investment leverage remained above 4x; investment performance was impacted by softer yields: the company's reported investment leverage was stable sequentially at 4.16x in Q3FY20 vs 3.92x in Q3FY19. The insurer is currently holding advance premium of c.Rs 27.21 billion from long-term motor policies. Given the lower interest rate scenario, the company has refrained from taking any long-term position & holding some portfolio in cash and liquid assets. Because of which, the weighted average duration of the portfolio has declined to 3.7 yrs in Q3FY20, as compared to 4.8 Yrs in FY19. In terms of investment performance, calculated yields came off during the quarter, stood at 7.2% in Q3FY20.

Valuation & Outlook

In 9MFY20, the company's strategy to forego the crop business and instead focus on strong growth in preferred segments (Fire, Retail Health, Motor etc.) bode well for earning growth. 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. Ever though the stock has already achieved our target price (recommended at Rs 1170 with a TP of Rs 1400), our strong convictions on the fundamental of the company remains intact. At the current price, the stock trades at about 31 times its FY22 earnings per share estimates, which is lower than its two-year historical average of 33 times. We have assigned a multiple of 33 times to its FY22 EPS and revised our recommendation from BUY to HOLD with a upgraded target price of Rs 1520 for a PAT CAGR of 26% over FY19-22E.

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	61	12
FY20E	1,39,040	13,224	21.5	99.3	132	29	48	11
FY21E	1,61,096	16,753	23.2	99.0	160	37	38	9
FY22E	1,90,253	20,993	24.3	98.2	194	46	31	7



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Results Summary (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	% YoY	% QoQ	3QFY20
Policyholders' Account								
Gross premium written	36366	37690	35279	35607	30307	0	24	37695
New premium written	22130	25969	24610	23850	21666	2	23	26576
Premium Earned (Net)	22220	21110	21975	22449	23569	16	4	24562
Income from investments (net)	3369	3019	3130	4098	3779	11	-11	3364
Other income	128	35	93	94	41	83	57	64
Total income	25717	24164	25197	26642	27389	16	2	27989
Commission	264	921	632	547	619	-16	25	771
Operating expenses relating to insurance business	4316	5186	5852	5410	5467	24	17	6407
Incurred claims	17855	15289	15747	16941	17571	15	0	17604
Total expenses	22435	21396	22230	22898	23657	16	5	24782
Underwriting profit/ (loss)	-215	-286	-255	-449	-88	-23	151	-220
Operating profit/ (loss)	3282	2768	2967	3743	3733	16	-14	3207
Shareholders' Account	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	% YoY	% QoQ	2QFY20
Income in shareholder's account	4489	3830	4106	5013	4926	14	-11	4367
Total Expenses	-2	224	651	260	315	109	48	468
Profit before taxes	4490	3607	3455	4753	4611	8	-15	3900
Provision for taxes	1559	1215	1178	1655	1532	-21	-37	958
Profit after tax (Before extraordinary)	2931	2391	2277	3098	3079	23	-4	2942
Balance sheet	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	% YoY	% QoQ	2QFY20
Shareholders' funds								
Share capital	4541	4541	4543	4544	4544	0	0	4544
Reserves and surplus	45337	46360	48662	49852	52940	16	2	53969
Fair value change account	3858	3087	3384	2303	1012	-37	91	1934
Borrowings	4850	4850	4850	4850	4850	0	0	4850
Total equity	58586	58837	61439	61550	63348	11	3	65299
Application of funds								
Shareholders' investments	50313	50980	53431	54717	56204	12	2	57156
Policyholders' investments	142406	153475	168878	182390	183789	25	4	191297
Fixed assets - net block	4248	4286	4652	4650	4756	62	46	6946
Deferred tax assets	2381	2950	3013	3772	3248	26	15	3726
Cash and bank balances	2638	2800	4016	1901	2555	-64	-61	999
Advances and other assets	107740	107080	100037	100715	103078	-2	2	105356
Net current assets	-140762	-152853	-168534	-183979	-184649	27	5	-193825
Total assets	58585	58837	61439	61550	63348	11	3	65299
Analytical ratios (reported)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	% YoY	% QoQ	2QFY20
Solvency ratio	2.1	2.1	2.2	2.2	2.3	6 bps	-8 bps	2.2
Expense management ratio	19.2	22.4	25.3	24.2	27.4	450 bps	-50 bps	26.9
Incurred claim ratio	80.4	72.4	71.7	75.5	74.6	-70 bps	-290 bps	71.7
Net retention ratio	60.9	68.9	69.8	67.0	71.5	160 bps	-100 bps	70.5
Combined ratio	101.1	95.9	98.0	100.4	102.6	280 bps	-390 bps	98.7



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(Year-end March)	FY19	FY20E	FY21E	FY22E
Gross direct premium income	1,44,882	1,39,040	1,61,096	1,90,253
Net Earned Premium	83,753	92,782	1,05,940	1,22,090
Operating profit/(loss)	12,314	14,646	17,588	22,153
Profit before tax	15,984	18,625	22,398	28,065
Profit after tax	10,493	13,224	16,753	20,993
Pre-exceptional EPS (Rs)	23	29	37	46
Growth (%)	22	26	27	25
BVPS (Rs)	117	132	160	194
Dividend payout (%)	31	28	27	26
Solvency ratio	2	2	3	3
ROE	19	22	23	24
ROE (w/o Fair value change)	21	23	24	25
P/B	12.3	10.9	9.0	7.4
P/E	61	48	38	31

(Year-end March)	FY19	FY20E	FY21E	FY22E
Growth Ratios (%)				
Gross Direct Premium Income	17	-4	16	18
Net Premium Income	21	11	14	15
Operating Expenses	19	11	14	15
NPAT	22	26	27	25
EPS	22	26	27	25
Profitability Ratios (%)				
Commission To NEP	3	3	3	3
Opex to NEP	24	25	26	26
Combined Ratio	98.5	99.3	99.0	98.2
Balance Sheet Ratios (%)				
ROE	19.2	21.5	23.2	24.3
Solvency Ratio	2.2	2.4	2.7	2.7
Investment Leverage	4.1	4.1	4.2	4.2

(Year-end March)	FY19	FY20E	FY21E	FY22E
Shareholders' Funds				
Share capital	4,543	4,544	4,544	4,544
Reserve and surplus	48,662	58,249	70,563	86,097
Fair Value change	3,384	3,384	3,384	3,384
Borrowings	4,850	4,850	4,850	4,850
Total	61,439	71,027	83,341	98,875
Application of funds				
Investments				
Shareholders'	53,431	59,842	68,220	78,453
Policyholders'	1,68,877	2,02,653	2,51,290	3,09,086
Fixed assets	4,652	4,931	5,277	5,646
Deferred tax asset	3,013	3,013	3,013	3,013
Current assets				
Cash and bank balances	4,016	5,411	7,115	8,593
Advances and other assets	1,00,037	94,408	1,09,304	1,28,801
Sub-Total (A)	1,04,053	99,819	1,16,419	1,37,394
Current liabilities	2,16,228	2,26,636	2,72,391	3,29,138
Provisions	56,359	72,596	88,487	1,05,579
Sub-Total (B)	2,72,587	2,99,232	3,60,877	4,34,717
Total	61,439	71,027	83,341	98,875

(Year-end March)	FY19	FY20E	FY21E	FY22E
Operating profit/(Loss)	12,314	14,646	17,588	22,153
- Fire Insurance business	567	972	1,185	1,488
- Marine Insurance business	-363	-273	-253	-244
- Misc. Insurance business	12,110	13,947	16,656	20,909
Income from Investments	4,600	5,267	6,342	7,736
Other income - misc income	143	0	0	0
Total Income	17,057	19,913	23,930	29,889
Total Expenses	1,073	1,288	1,532	1,824
Profit Before Tax	15,984	18,625	22,398	28,065
Tax	5,492	5,401	5,644	7,072
Profit After Tax	10,493	13,224	16,753	20,993



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