

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

- **GWP came in at INR 41.1 Bn** Vs +26.3% QoQ / +9.1% YoY
- **NEP came in at INR 26.1 Bn** Vs +6.0% QoQ / +6.3% YoY
- **Operating profit came in at INR 3.1 Mn** Vs -25% QoQ / +2.7% YoY
- **PBT came in at INR 4.2 Bn**, +24.6% QoQ / +7.3% YoY
- **PAT came in at INR 3.13 Bn**, +24.6% QoQ / +6.6% YoY
- **Loss Ratio stood at 65.9%** Vs -130 bps QoQ / -580 bps YoY
- **Combined ratio stood at 97.9%** Vs -180 QoQ / -80 bps YoY
- **EPS stood at INR 6.9** vs INR 6.5 YoY / INR 9.2 QoQ

Highlights of the Quarter

- ICICIGI's GDPI stood at Rs 40.34 Bn in Q3FY21, registering YoY growth of 9.2%, which was better than industry growth of 4.9% YoY. Fire segment (38% YoY) continued to register strong growth due to increased property reinsurance rates by GIC.
- As economic activity resumes, Motor (14.3% YoY) and Engineering (30% YoY) segments also reported a strong YoY growth in premiums. This was partly offset by decline in premiums in segments like health (-13% YoY) and marine (-10% YoY).
- Under health segment, Individual health indemnity business grew by 17%, while health-benefit business continue to decline in Q3FY21. 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.
- Investment income increased by 33% YoY to Rs 5.7 bn on higher capital gain of Rs 1.08 bn vs Rs 0.17 bn in Q3FY20. As of Dec 2020, company had total unrealized gain of Rs 19.1 bn (vs Rs 11.4 bn QoQ) including Rs 6.07 bn (Rs 2.19bn QoQ) unrealized gain on equity portfolio. Investment asset grew 3% QoQ to Rs 298.9 bn with investment leverage at 4.05x vs (4.13x QoQ).

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
Gross direct premium income	133.1	142.4	165.1	194.0
Adjusted net profit	11.9	13.7	15.7	18.3
Networth	61.3	73.4	84.4	97.2
BVPS (Rs)	135	161	186	214
EPS (Rs)	26	30	35	40
growth (%)	13.7	14.6	14.8	16.5
P/BV (x)	11.2	9.3	8.1	7.1
P/E (x)	57.5	50.2	43.7	37.5
Combined Ratio	100.4	98.5	99.1	99.6
RoE (%)	20.8	20.3	19.9	20.1

Source: Dalal & Broacha Research

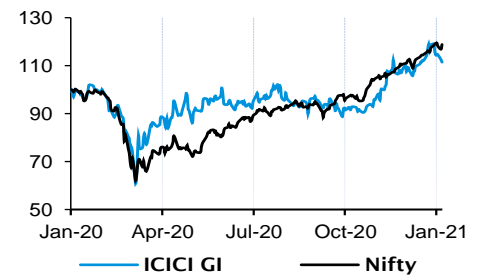
Rating	TP (Rs)	Up/Dn (%)
HOLD	1610	7

Market data

Current price	Rs	1,509
Market Cap (Rs.Bn)	(Rs Bn)	686
Market Cap (US \$ Mn)	(US \$ Mn)	9384
Face Value	Rs	10
52 Weeks High/Low	Rs	1625/806
Average Daily Volume	('000)	361.427
BSE Code		540716
Bloomberg		ICICIGI:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	51.89	51.89
Public	48.11	48.11
Others	0.00	0.00
Total	100	100

Source: BSE

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- Loss ratio shown sharp improvement at 65.9% vs 71.7% YoY, driven by significant improvements in Motor OD (63.2% vs. 68.8% YoY) and Motor TP (65.5% vs 81.8% YoY) segments where the Health, Travel & PA (74.6% vs. 69.6% YoY) were impacted by Covid related Claims.
- For the industry (as on Dec 31, 2020), Covid claims stood at ~7.68 lacs of which ICICIGI reported ~ 39 thousand Covid claims.
- With the economic activity normalizing, motor OD and normal health claim frequency has almost reached previous levels. Fire (56.5% vs. 50.1% YoY), Marine (79.7% vs. 68.2% YoY) and Engineering (37.6% vs. 34.5% YoY) also saw sharp deterioration of their Loss ratio.

Valuation & Outlook

Overall, the third quarter was much better than the first half of FY21 not just for ICICI Lombard but also for whole industry, which grown slightly over the last year. 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. 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. However, profitability could be impacted in near term due to motor TP rate revision being put on hold and lower investment yields. **Given the strong rally in stock over past two months, we revise rating to "Hold" from "Accumulate" earlier. At CMP the stock trades at 44x its FY22E EPS & 38x its FY23E EPS. We value ICICIGI at FY23E P/EPS multiple of 40x to arrive at target price of Rs 1610/ share.**

Highlights of the Conference Call

General insurance industry

- General insurance industry has been safe harbor even through the times of uncertainty, with the GDPI back in the black. General Insurance industry registered a growth of 2.5% in 9M FY2021.
- Segments such as the motor insurance saw encouraging performance during the quarter, driven by growing need for personal mobility and spill over demand from festive season.
- The pent up demand for health insurance seen in the first half have shown some signs of tapering.
- As far as commercial lines are concerned, fire segment continued to show robust growth, aided by the rate hike that came into force on Jan 1, 2020, while Marine & Engineering lines witnessed some pick up with the resumption of economic activity.
- Combined ratio of the Industry was 105.2% in H1 FY2021 vs to 115.7% in H1 FY2020, while combined ratio of the private insurers was 103.0% in H1 FY2021 vs to 107.2% in H1 FY2020

Health segment

- Overall claim frequency has almost reached pre-covid levels. For the industry, Covid claims reported as on Dec 31, stood at ~7.68 lakh of which ~39 K Covid claims were reported with ICICIGI.
- To harness the potential of these segments, the company has been expanding its distribution network to increase penetration in tier 3 and tier 4 cities. Its agents (including Point of sale or POS) increased to 55,615 as on Dec 31, 2020, from 52,785 as on Sep 30, 2020.
- According to management, withdrawal of existing long-term credit linked group insurance products under health insurance business could have negative impact on the business. However, it's just a draft and the policy hasn't been converted into a final regulation.
- For 9MFY21, Health indemnity business (loss ratios usually ~75-80%) grew by 21.3% YoY to Rs 644 Cr, while health benefit insurance (loss ratios usually ~40-50%) declined by 55% to Rs287 Cr.

Motor segment

- With the economic activity normalizing, motor claim frequency has reached previous levels.
- ICICIGI is looking to increase prices in Motor OD segment.
- IBNR reserves created in earlier quarters have been paid off during the quarter.
- The advance premium stood at 31.97 Bn as at Dec 31, 2020, from Rs 31.60 Bn as of Sep 30, 2020.
- In first six months, the company's focus was on gaining market share. From Dec onwards, the company turned cautious and focusing on growing selective segment (Eg, 2W, selective PV, CV).

SME segment

- During Q3, the company has launched a 'website' dedicated for its SME businesses. The new platform will serve as a one-stop-solution for SME owners to buy or renew insurance products, endorse their insurance policies, and register claims
- ~91% of SME business sourcing were through digital solution

Bharti AXA Deal

- The company has filed the application with NCLT and NCLT has directed to convene a meeting of shareholders to consider and approve the scheme of arrangement on February 23, 2021.
- The expenses incurred of ~Rs 0.36 billion have been absorbed in the P&L during 9M FY2021.

Financials

Results Summary (Rs mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	% YoY	% QoQ	3QFY21
Policyholders' Account									
Gross premium written	35607	30307	37695	32316	33942	32545	9.1	26.3	41117
New premium written	23850	21666	26576	24315	22191	24922	20.7	28.8	32089
Premium Earned (Net)	22449	23569	24562	23456	23238	24625	6.3	6.0	26114
Income from investments (net)	4098	3779	3364	4184	3940	4086	31.4	8.2	4419
Other income	94	41	64	869	118	123	-12	-54	56
Total income	26642	27389	27989	28508	27297	28834	9.3	6.1	30589
Commission	547	619	771	1704	1016	1651	191	36	2244
Operating expenses relating to insurance business	5410	5467	6407	5647	5624	6470	25.2	23.9	8020
Incurred claims	16941	17571	17604	16399	16217	16538	-2.3	4.0	17205
Total expenses	22898	23657	24782	23750	22857	24659	10.8	11.4	27468
Underwriting profit/ (loss)	-449	-88	-220	-294	382	-34	514.4	3882.6	-1354
Operating profit/ (loss)	3743	3733	3207	4758	4440	4175	-2.7	-25.2	3121
Shareholders' Account									
Income in shareholder's account	5013	4926	4367	5936	5585	5412	-8.2	-19.1	4521
Total Expenses	260	315	468	2229	275	-134	7.3	23.2	338
Profit before taxes	4753	4611	3899	3706	5310	5546	-9.3	-21.2	4182
Provision for taxes	1655	1532	958	887	1329	1388	-31.6	-21.2	1047
Profit after tax	3098	3079	2941	2819	3981	4157	1.8	-21.2	3135
Balance sheet									
Shareholders' funds									
Share capital	4544	4544	4544	4545	4545	4545	0	0	4545
Reserves and surplus	49852	52940	53969	56796	60781	64955	37	20	68117
Fair value change account	2303	1012	1934	-4286	-364	2192	164	-242	6074
Borrowings	4850	4850	4850	4850	4850	4850	0	0	4850
Total equity	61550	63348	65299	61906	69811	76545	36	35	83588
Application of funds									
Shareholders' investments	54717	56204	57156	58596	63800	68266	32	23	72205
Policyholders' investments	182390	183789	191297	204672	217380	223353	24	11	226716
Fixed assets - net block	4650	4756	6946	6766	6595	6540	37	-6	6382
Deferred tax assets	3772	3248	3726	3063	3643	4147	23	51	4637
Cash and bank balances	1901	2555	999	326	501	269	-40	247	1134
Advances and other assets	100715	103078	105356	96998	77402	80874	-19	-16	81200
Net current assets	-183979	-184649	-193825	-211190	-221607	-225761	23	7	-226351
Total assets	61550	63348	65299	61906	69811	76545	36	35	83588
Analytical ratios (reported)									
Solvency ratio	2.2	2.3	2.2	2.2	2.5	2.7	60 bps	2 bps	2.8
Expense ratio	24.2	27.4	26.9	28.1	25.2	30.2	250 bps	-80 bps	29.4
Incurred claim ratio	75.5	74.6	71.7	69.9	69.8	67.2	-580 bps	-130 bps	65.9
Net retention ratio	67.0	71.5	70.5	75.2	65.4	76.6	750 bps	140 bps	78.0
Combined ratio	100.4	102.6	98.7	100.1	99.7	99.7	-80 bps	-180 bps	97.9

Source: Dalal & Broacha Research, Company

Exhibit 1:

(Year-end March)	FY20	FY21E	FY22E	FY23E
Gross direct premium income	1,33,128	1,42,422	1,65,074	1,94,037
Net Earned Premium	94,035	97,729	1,13,011	1,33,835
Operating profit/(loss)	15,440	17,294	19,218	22,578
Profit before tax	16,968	18,287	20,985	24,439
Profit after tax	11,937	13,679	15,697	18,280
Pre-exceptional EPS (Rs)	26	30	35	40
Growth (%)				
BVPS (Rs)	135	161	186	214
Dividend payout (%)	16	12	30	30
ROE	21	20	18	19
ROE (w/o Fair value change)	21	20	20	20
P/B	11.2	9.3	8.1	7.1
P/E	57	50	44	38

Source: Dalal & Broacha Research, Company

Exhibit 2:

(Year-end March)	FY20	FY21E	FY22E	FY23E
Operating profit/(Loss)	15,440	17,294	19,218	22,578
- Fire Insurance business	951	1,063	1,293	1,493
- Marine Insurance business	355	195	359	494
- Misc. Insurance business	14,134	16,035	17,567	20,590
Income from Investments	4,644	4,601	6,164	7,260
Other income - misc income	156	156	156	156
Total Income	20,240	22,050	25,538	29,993
Total Expenses	3,272	3,763	4,553	5,555
Profit Before Tax	16,968	18,287	20,985	24,439
Tax	5,031	4,608	5,288	6,159
Profit After Tax	11,937	13,679	15,697	18,280

Source: Dalal & Broacha Research, Company

Exhibit 3:

(Year-end March)	FY20	FY21E	FY22E	FY23E
Shareholders' Funds				
Share capital	4,545	4,545	4,545	4,545
Reserve and surplus	56,798	68,835	79,823	92,619
Fair Value change	-4,286	6,074	6,074	6,074
Borrowings	4,850	4,850	4,850	4,850
Total	61,906	84,304	95,292	1,08,088
Application of funds				
Investments				
Shareholders'	58,596	73,391	83,666	94,542
Policyholders'	2,04,672	2,31,279	2,66,248	3,12,123
Fixed assets	6,766	7,239	7,746	8,288
Deferred tax asset	3,063	4,637	4,637	4,637
Current assets				
Cash and bank balances	326	321	173	626
Advances and other assets	96,998	97,652	1,08,380	1,29,530
Sub-Total (A)	97,325	97,974	1,08,553	1,30,156
Current liabilities	2,49,798	2,64,658	2,98,699	3,50,078
Provisions	58,717	65,558	76,859	91,581
Sub-Total (B)	3,08,515	3,30,216	3,75,558	4,41,658
Total	61,906	84,304	95,292	1,08,088

Source: Dalal & Broacha Research, Company

Exhibit 4:

(Year-end March)	FY20	FY21E	FY22E	FY23E
Growth Ratios (%)				
Gross Direct Premium Income	-8.1	7.0	15.9	17.5
Net Premium Income	12.3	3.9	15.6	18.4
Operating Expenses	11.3	2.6	16.1	18.6
PAT	13.8	14.6	14.8	16.5
EPS	13.7	14.6	14.8	16.5
Profitability Ratios (%)				
Commission To NEP	4	4	4	3
Opex to NEP	24	24	24	24
Combined Ratio	100.4	98.5	99.1	99.6
Balance Sheet Ratios (%)				
ROE	20.8	20.3	19.9	20.1
Investment Leverage	4.2	4.1	4.1	4.1

Source: Dalal & Broacha Research, Company

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