

Underwriting loss compensated by higher investment yield



ICICI Lombard General Insurance Company (ICICIGI) Q4FY21's performance was below our estimates on the profitability front mainly on account of higher loss ratio in Motor TP & Marine segment. The company's profitability was supported by higher investment income, which grew by 32% YoY to Rs 5.37 bn in Q4FY21. As of Mar 2021, the company had total unrealized gain of Rs 14.13 bn (vs Rs 19.06 bn QoQ) including Rs 6.80 bn (Rs 6.07 bn QoQ) unrealized gain on equity portfolio. Higher Advertisement exp (Rs 805 Mn vs Rs 254 mn YoY) was compensated by lower Commissions exp (Rs 1098 Mn vs Rs 1704 mn YoY).

- GWP came in at INR 35.6 Bn Vs -13% QoQ / 10% YoY
- NEP came in at INR 26.2 Bn Vs 0.2% QoQ / 12% YoY
- PAT came in at INR 3.5 Bn, +10% QoQ / 23% YoY
- Loss Ratio stood at 71.7% Vs 580 bps QoQ / 180 bps YoY
- Combined ratio stood at 101.8% Vs 390 QoQ / 170bps YoY
- EPS stood at INR 7.6 vs INR 6.2 YoY / INR 6.9 QoQ

Outlook & Valuation

ICICIGI's profitability could be impacted in near term due to motor TP rate revision being put on hold and higher COVID related claims. The daily surge in COVID-19 cases continues in the country, with India crossing the 2-lakh mark on April 15, 2021. Besides, ICICI Bank is focusing less on selling credit-linked health products, which is also an overhang in near term (ICICI Bank contributes 75% of credit-linked portfolio of ICICIGI). However, with focus on retail sales, new partnerships and new products, we expect ICICIGI to recover health segment growth in H2FY22E/FY23E.

Overall, we continue to like ICICIGI's leadership position and conservative investment/ reserving approach and unrelenting focus on profitable product lines. Besides, 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. Given the recent correction in stock over past three months, we revise rating to "Accumulate" from "Hold" earlier. At CMP the stock trades at 39x its FY22E EPS & 33x its FY23E EPS. We value ICICIGI at FY23E P/EPS multiple of 37x to arrive at target price of Rs 1590/ share.

Financial Summary

Y/E Mar (Rs Bn)	FY19	FY20	FY21	FY22E	FY23E
Gross direct premium income	145	133	140	163	193
Adjusted net profit	10	12	15	16	20
Networth	53	61	74	87	103
BVPS (Rs)	117	135	164	192	226
EPS (Rs)	23	26	32	36	43
growth (%)	22	14	23	11	20
P/BV (x)	12	10	9	7	6
P/E (x)	61	54	44	39	33
Combined Ratio	99	100	100	101	100
RoE (%)	21	21	22	20	21

Source: Dalal & Broacha Research

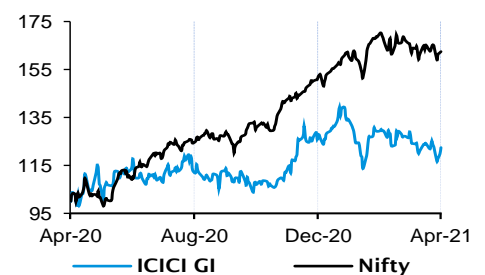
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	1590	12

Market data

Current price	Rs	1,417
Market Cap (Rs.Bn)	(Rs Bn)	620
Market Cap (US\$ Mn)	(US\$ Mn)	8283
Face Value	Rs	10
52 Weeks High/Low	Rs	1625/1125
Average Daily Volume	('000)	614
BSE Code		540716
Bloomberg		ICICIGI:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	51.89	51.89
FII	28.41	27.1
DII	12.52	13.59
Others	7.18	7.42
Total	100	100

Source: BSE

Please note: Shareholding Pattern for Q4FY21 was not updated on the exchanged during the result update.

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Other Highlights of the Quarter

Motor segment:

- During Q4FY21, the motor insurance saw steady sales from new motor vehicle due to need for personal mobility, however the recent lockdown in some parts of the country has adversely impacted new motor vehicles sales.
- ICICIGI has reported an underwriting loss of Rs 0.91 Bn (vs loss of Rs 0.29 Bn YoY), which was largely come from motor segment (loss of Rs 2.08 Bn vs loss of Rs 0.95 Bn YoY). The company has taken a conservative approach and strengthened its auto reserves to factor in higher compensation awarded by courts in settlement of Motor TP claims in the recent judgments.
- The motor OD loss ratio remained flat QoQ to 63% in Q4FY21, lower than the ~69% seen in FY20. Management hinted resurfacing of competitive intensity in motor OD pricing (which was a major overhang prior to Covid-19) and the company has been pushing for an industry-level price hike.
- Within motor, share of CV (16.4% in FY21) improved 160 bps YoY, while share of 2Ws & Car dropped due to high base & discontinuance of long term OD w.e.f from Aug'20 (marginal impact).

Average claim settlement amount in recent judgment has increased by ~20% for small value death claims. No change in rates coupled with recent court judgment may have adverse impact on loss ratios going forward.

Health Insurance

- Individual health indemnity business grew by 22.0% YoY for FY2021. To harness the potential of these segments, the company is expanding its distribution network in tier 3 and tier 4 cities. Its agents (including Point of sale or POS) increased to 59,545 in Q4FY21 vs 55,615 in Q3FY21.
- The company's credit-linked business continue to decline YoY due to ICICI Bank's reduced focus.
- During FY21, the company saw ~50,000 Covid related claims (in value term Rs 3.76 Bn)

Given the second wave of coronavirus, Health, Travel & PA segment saw higher loss ratio of 79.9% in Q4FY21 (vs 70.8% YoY) as the company is creating a conservative reserving.

Enhance Digital Adoption

- The company saw enhance digital adoption in recent times with over 97% policies issued in FY21 are in paperless form.
- Under SME segment ~90% of business sourcing were through these digital solutions.
- Automated AI solution, auto approved ~61.6% motor break-in self-inspections in March 2021 up from 40.6% in March 2020
- On the health insurance front, under group health policies 60.1% fresh Cashless requests were authorised by an AI/ML enabled engine in March 2021 as compared to 31.0% in March 2020

With regard to claims settlement, 60.8% of motor OD claims were serviced through live video streaming app, InstaSpect, in March 2021, up from 24.5% in March, 2020.

Bharti AXA Deal

- The company await for final approval from NCLT & IRDAI
- The expenses of ~Rs 0.41 Bn have been incurred for the same.

Other highlights

- While the overall impact of the Govt's decision to increase in FDI limit will be positive in the long term, it may provide capital to smaller players and thus marginally increase competitive intensity in the short term.

Invest high proportion of Debt portfolio 86.1% in sovereign or AAA rated securities.

Financials

Results Summary (Rs mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	% YoY	% QoQ	4QFY21
Policyholders' Account										
Gross premium written	35607	30307	37695	32316	33942	32545	41117	10.2	-13.4	35599
New premium written	23850	21666	26576	24315	22191	24922	32089	13.7	-13.8	27648
Premium Earned (Net)	22449	23569	24562	23456	23238	24625	26114	11.5	0.2	26162
Income from investments (net)	4098	3779	3364	4184	3940	4086	4419	0.3	-5.0	4198
Other income	94	41	64	869	118	123	56	422	7967	4534
Total income	26642	27389	27989	28508	27297	28834	30589	22.4	14.1	34894
Commission	547	619	771	1704	1016	1651	2244	-35.6	-51.1	1098
Operating expenses relating to insurance business	5410	5467	6407	5647	5624	6470	8020	28.0	-9.9	7228
Incurred claims	16941	17571	17604	16399	16217	16538	17205	14.3	9.0	18749
Total expenses	22898	23657	24782	23750	22857	24659	27468	14.0	-1.4	27075
Underwriting profit/ (loss)	-449	-88	-220	-294	382	-34	-1354	210.3	-32.6	-913
Operating profit/ (loss)	3743	3733	3207	4758	4440	4175	3121	64.3	150.5	7819
Shareholders' Account	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	% YoY	% QoQ	4QFY21
Income in shareholder's account	5013	4926	4367	5936	5585	5412	4521	55	104	9207
Total Expenses	260	315	468	2229	275	-134	338	111	1292	4706
Profit before taxes	4753	4611	3899	3706	5310	5546	4182	21	8	4501
Provision for taxes	1655	1532	958	887	1329	1388	1047	18	0	1044
Profit after tax	3098	3079	2941	2819	3981	4157	3135	23	10	3457
Balance sheet	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	% YoY	% QoQ	4QFY21
Shareholders' funds										
Share capital	4544	4544	4544	4545	4545	4545	4545	0	0	4546
Reserves and surplus	49852	52940	53969	56796	60781	64955	68117	23	2	69806
Fair value change account	2303	1012	1934	-4286	-364	2192	6074	-259	12	6805
Borrowings	4850	4850	4850	4850	4850	4850	4850	0	0	4850
Total equity	61550	63348	65299	61906	69811	76545	83588	39	3	86010
Application of funds										
Shareholders' investments	54717	56204	57156	58596	63800	68266	72205	27	3	74357
Policyholders' investments	182390	183789	191297	204672	217380	223353	226716	15	3	234565
Fixed assets - net block	4650	4756	6946	6766	6595	6540	6382	-7	-2	6268
Deferred tax assets	3772	3248	3726	3063	3643	4147	4637	14	-25	3499
Cash and bank balances	1901	2555	999	326	501	269	1134	598	101	2276
Advances and other assets	100715	103078	105356	96998	77402	80874	81200	-26	-11	72013
Net current assets	-183979	-184649	-193825	-211190	-221607	-225761	-226351	10	3	-232679
Total assets	61550	63348	65299	61906	69811	76545	83588	39	3	86010
Analytical ratios (reported)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	% YoY	% QoQ	4QFY21
Solvency ratio	2.2	2.3	2.2	2.2	2.5	2.7	2.8	73bps	14bps	2.9
Expense ratio	24.2	27.4	26.9	28.1	25.2	30.2	29.4	170bps	40bps	29.8
Incurred claim ratio	75.5	74.6	71.7	69.9	69.8	67.2	65.9	180bps	580bps	71.7
Net retention ratio	67.0	71.5	70.5	75.2	65.4	76.6	78.0	250bps	-30bps	77.7
Combined ratio	100.4	102.6	98.7	100.1	99.7	99.7	97.9	170bps	390bps	101.8

Source: Dalal & Broacha Research, Company

Exhibit 1:

Financial Summary (Rs mn)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Gross direct premium income	1,33,128	1,40,031	1,63,278	1,92,601
Net Earned Premium	94,035	1,00,140	1,14,765	1,34,413
Operating profit/(loss)	15,440	19,554	21,291	25,928
Profit before tax	16,968	19,540	21,811	26,142
Profit after tax	11,937	14,731	16,314	19,554
Pre-exceptional EPS (Rs)	26	32	36	43
Growth (%)				
BVPS (Rs)	135	164	192	226
Dividend payout (%)	16	15	20	22
ROE	21	21	19	19
ROE (w/o Fair value change)	21	22	20	21
P/B	10.5	8.7	7.4	6.3
P/E	54	44	39	33

Source: Dalal & Broacha Research, Company

Exhibit 2:

Balance Sheet (Rs mn)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Shareholders' Funds				
Share capital	4,545	4,546	4,546	4,546
Reserve and surplus	56,798	69,809	82,860	98,112
Fair Value change	-4,286	6,805	6,805	6,805
Borrowings	4,850	4,850	4,850	4,850
Total	61,906	86,010	99,061	1,14,314
Application of funds				
Investments				
Shareholders'	58,596	74,357	91,459	1,13,409
Policyholders'	2,04,672	2,34,565	2,72,095	3,19,503
Fixed assets	6,766	6,268	6,707	7,177
Deferred tax asset	3,063	3,499	3,499	3,499
Current assets				
Cash and bank balances	326	2,276	-315	1,316
Advances and other assets	96,998	72,013	87,087	1,04,846
Sub-Total (A)	97,325	74,290	86,771	1,06,162
Current liabilities	2,49,798	2,40,995	2,84,020	3,43,199
Provisions	58,717	65,974	77,450	92,236
Sub-Total (B)	3,08,515	3,06,968	3,61,470	4,35,435
Total	61,906	86,010	99,061	1,14,314

Source: Dalal & Broacha Research, Company

Exhibit 3:

Profit & Loss (Rs mn)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Operating profit/(Loss)	15,440	19,554	21,291	25,928
- Fire Insurance business	951	2,376	1,653	1,708
- Marine Insurance business	355	-99	180	459
- Misc. Insurance business	14,134	17,278	19,459	23,761
Income from Investments	4,644	5,046	6,669	7,745
Other income - misc income	156	124	124	124
Total Income	20,240	24,725	28,084	33,796
Total Expenses	3,272	5,185	6,274	7,654
Profit Before Tax	16,968	19,540	21,811	26,142
Tax	5,031	4,809	5,496	6,588
Profit After Tax	11,937	14,731	16,314	19,554

Source: Dalal & Broacha Research, Company

Exhibit 4:

Important Ratios (%)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Growth Ratios (%)				
Gross Direct Premium Income	-8	5	17	18
Net Premium Income	12	6	15	17
Operating Expenses	11	7	14	16
PAT	14	23	11	20
EPS	14	23	11	20
Profitability Ratios (%)				
Commission To NEP	3.9	6.0	5	4
Opex to NEP	24.4	27.3	26	25
Combined Ratio	100.4	99.8	100.6	100.2
Balance Sheet Ratios (%)				
ROE	21	22	20	21
Investment Leverage	4.2	4.1	4.1	4.2

Source: Dalal & Broacha Research, Company

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