

ICICI Lombard

COR continues to improve

While FY21E is expected to be a muted year in topline growth, ICICIGI is expected to deliver lower CORs. Lower COVID-19 cases and vaccination make us incrementally positive on the health segment. Additionally, changing motor regulations are expected to drive down both claims and tariffs, creating supernormal profitability in the short term. We believe that this period (of supernormal profitability) will be shortlived, as we expect IRDAI to restrict TP pricing growth, thereby limiting profitability. We believe the market is not factoring in this risk; accordingly, we rate ICICIGI a REDUCE with a revised target price of Rs 1,230 (DDM derived Sep-22E P/E of 27.9x and a P/ABV of 5.4x).

- 3QFY21 highlights:** NEP was 2.3% below estimates at Rs 26.1bn (6.3/6.0% YoY/QoQ) as 3Q saw strong growth in new business, which yet needs to be earned. Overall loss ratios improved to 65.9% (-579/-127bps bps YoY/QoQ) as the company saw reserve releases in motor TP (9MFY21: 65.7%, -10bps vs. 1HFY21) and health segments (9MFY21: 77.3%, -150bps vs. 1HFY21). Management stated that non-COVID claims were below pre-COVID levels. Loss ratios were also down for P&C segments, e.g. Property (9MFY21: 73.9%, -1,060bps vs. 1HFY21). Overall, 3QFY21 CoR (calculated) was at 98.6% (-92/-210bps YoY/QoQ), as lower claims ratio was offset by higher commission ratio (7.0%, +409/37bps YoY/QoQ) and expense ratios (25.7%, +78/-119bps YoY/QoQ). Commission and expense ratios were higher on account of 20.7/28.8% YoY/QoQ growth seen in NWP. The company has grown motor OD business selectively. Within health, credit-linked business declined 34.4% YoY due to ICICI Bank's reduced focus. Investment yield (including unrealised MTM) was 13.1% (+393/102bps YoY/QoQ). ICICIGI posted an APAT of Rs 3.17bn +7.9/-27.7% YoY/QoQ.
- Outlook:** We expect FY21E to be a muted year in terms of NEP growth; however, lower loss ratios should result in higher margins.

Quarterly financial summary

(Rs bn)	3QFY21	3QFY20	YoY(%)	2QFY21	QoQ(%)	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	26.11	24.56	6.3	24.63	6.0	83.8	94.0	100.2	133.7	152.7
Operating profit	4.23	3.75	13.0	5.85	(27.7)	16.2	16.5	21.1	27.0	32.5
OP margin (%)	16.2	15.3	95bps	23.8	-757bps	19.4	17.5	21.0	20.2	21.3
APAT	3.17	2.94	7.9	4.39	(27.7)	10.5	12.3	15.5	19.8	23.9
AEPS	6.5	6.0	7.9	8.9	(27.7)	23.1	27.1	34.0	40.3	48.6
P/E (x)						65.4	55.6	44.3	37.4	31.0
P/B (x)						12.3	11.8	8.8	7.2	6.1
ROE (%)						19.2	21.7	22.7	19.5	17.9

Note: FY22E onwards, numbers include Bharti AXA GI's merger.

Source: Company, HSIE Research

Estimate Change

Rs bn	FY21E			FY22E			FY23E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps	Revised	Old	Change %/bps
Premium (NWP)	107	103	4.0	137	137	0.2	157	157	0.2
Premium (NEP)	100	100	0.3	134	133	0.2	153	152	0.2
COR (%)	98.6	98.5	4bps	99.0	99.1	-7bps	99.6	99.7	-6bps
COR (%) IRDAI	94.4	95.7	-129bps	92.2	92.3	-12bps	92.6	92.7	-10bps
APAT	15	16	(2.0)	20	19	1.7	24	23	2.2

Source: Company, HSIE Research

REDUCE

CMP (as on 19 Jan 2021)	Rs 1,510
Target Price	Rs 1,230
NIFTY	14,521

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,210	Rs 1,230
	FY21E	FY22E
EPS %	-2.0	+1.7

KEY STOCK DATA

Bloomberg code	ICICIGI IN
No. of Shares (mn)	455
MCap (Rs bn) / (\$ mn)	686/9,378
6m avg traded value (Rs mn)	832
52 Week high / low	Rs 1,626/805

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.4	17.2	6.9
Relative (%)	(1.8)	(16.3)	(10.9)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	51.9	51.9
FIs & Local MFs	13.6	12.5
FPIs	27.1	28.4
Public & Others	7.4	7.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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