

ICICI Securities Limited
is the author and
distributor of this report

Q3FY21 result review
and reco change

Insurance

Target Price: Rs1,584

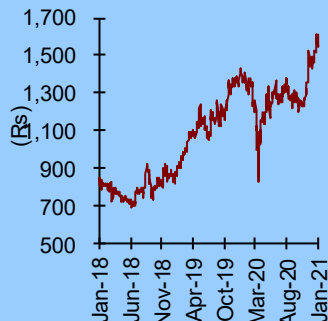
Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	55.9	51.9	51.9
Institutional investors	31.7	40.6	40.7
MFs and others	10.2	10.5	10.5
FIs/Banks	0.7	-	1.5
FPI	20.8	30.1	28.7
Others	12.4	7.5	7.4

Target price revision

Rs1,584 from Rs1,505

Price chart



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ICICI Lombard General Insurance Company

ADD

Downgrade from Buy

Health segment faces short-term challenges; long-term fundamentals remain intact

Rs1,510

Health segment of ICICI Lombard (ICICIGI) will have to reorient its product and channel mix as the principal bancassurance partner (ICICI Bank) is focusing less on sale of credit-linked attachment products. This can pose near-term challenge in growth of health segment (ICICIGI health segment witnessed a decline of 3.9%YoY in 9MFY21 vs industry growth of 13.7% YoY). However, with focus on retail sales, new partnerships, new products and favourable base, we expect ICICIGI to recover health segment growth in FY22E/FY23E. With recovery of premium growth in motor and expected price hikes in motor TP along with the market share gain already achieved in motor/P&C, ICICIGI is expected to be able to maintain business constructs of 15-18% premium growth with 100% combined ratio. This should lead to Rs20bn PAT in FY23E (19% CAGR between FY20-FY23E) with RoE of ~20%. Post the 23% rally in price in past 3 months, we downgrade the stock from *Buy* to *ADD* with a target price of Rs1,584, implying 36x FY22E EPS of ~Rs43.8.

- **Expectation remains around ~Rs15bn PAT in FY21E and Rs20bn in FY23E.** We estimate Rs14.8bn PAT in FY21E on the back of: 1) the 13% NEP growth in Q4FY21 vs 4% in 9MFY21; 2) 69.7% loss ratio in Q4FY21 (67.5% in 9MFY21); 3) 28.6% opex ratio (commission plus expense) (32% opex ratio in 9MFY21 {average opex ratio in FY17-FY20 was 24%}); and 4) Rs6.1bn investment income in Q4FY21 (Rs16.5bn / Rs5.8bn in 9MFY21 / Q3FY21).
- **Market share gain in motor and P&C is a typical countercyclical business strength of ICICIGI.** ICICIGI gained 1.1% YoY market share in motor segment. Within P&C segment, ICICIGI gained 1%/1.2%/1% in Fire / Engineering / Marine Cargo respectively.
- **Prudent reserving the highlight of 9MFY21.** Despite the significant fluctuations in business activity and in turn claims, motor TP loss ratios have remained between 62-70%, motor OD loss ratios between 59-63% and health between 75-82% over the first three quarters of FY21. This has obviously been driven by prudent reserving (change in 'claims reserve to total claims' ratio) decreasing gradually from 33% in Q1FY21 to 27% in Q2FY21 and 8% in Q3FY21.
- **Strong execution and robust balance sheet will benefit ICICIGI.** ICICIGI has managed strong organic expansion with agents increasing from 35,729 in FY19 to 55,615 in Q3FY21 and virtual offices increasing from 135 in FY18 to 840 in Q3FY21. Company has also embarked on inorganic growth with the acquisition of Bharti Axa, which had 1.7% GDPI market share in FY20. It also acquired AutoNinja (CRM software for auto dealers) in Nov'19, which has helped renewal rate in motor insurance). This superior execution track record will be further aided by strong balance sheet with solvency of 2.76x as of 9MFY21 and an AUM including fair value change amount of Rs299bn (equity exposure remains ~10.9%). 47% of non-life insurers (based on GDPI) had less than 1.8x solvency ratio as of Q4FY20.
- **Downgrade from Buy to ADD.** The shift in sales strategy of ICICI Bank to reduced sale of credit-linked attachment products is a negative surprise for ICICIGI. ICICIGI is expected to address the same through new tie-ups, new products (better pricing with wider coverage) and increased focus on retail sales. However, this one-time reset in distribution mix will have a near-term impact on growth.

Market Cap	Rs686bn/US\$9.4bn
Reuters/Bloomberg	ICIL.BO / ICICIGI IN
Shares Outstanding (mn)	454.5
52-week Range (Rs)	1432 / 826
Free Float (%)	48.1
FII (%)	28.7
Daily Volume (US\$/'000)	11,375
Absolute Return 3m (%)	20.4
Absolute Return 12m (%)	6.9
Sensex Return 3m (%)	22.4
Sensex Return 12m (%)	19.2

Year to March	FY20	FY21E	FY22E	FY23E
NEP (Rs mn)	94,035	96,789	1,15,163	1,25,609
PAT (Rs mn)	11,940	14,836	17,802	19,925
EPS (Rs)	26.3	32.6	39.2	43.8
% Chg YoY	13.8	24.2	20.0	11.9
P/E (x) (fully diluted)	57.7	46.4	38.7	34.6
P/BV (x)	11.2	9.2	7.6	6.2
Combined Ratio (%)	100.4	98.9	100.3	99.2
Dividend Yield (%)	0.2	0.2	0.3	0.3
Return on Inv(%)	8.8	7.3	7.0	6.9
RoE (%)	20.8	21.8	21.5	19.8

Segmental highlights

- **Pricing competition resurfacing in motor OD:** Motor OD GDPI was Rs12.8bn in Q3FY21, up 12% YoY. The motor OD loss ratio increased from 59% in Q2FY21 to 63% in Q3FY21, still lower than the ~69% seen in FY20. This was driven by restoration of traffic movement post the drop due to Covid. However, the management hinted resurfacing of competitive intensity in motor OD pricing (which was a dominant overhang prior to Covid) and the company has been pushing for an industry-level price hike. One expects better pricing discipline post Covid due to capital constraints. We factor-in ~68% loss ratio in motor OD for Q4FY21E.
- **Motor TP price hike is expected in FY22.** Motor OD GDPI was Rs11.3bn in Q3FY21, up 18% YoY. Segmental loss ratio increased from 61.6% in Q2FY21 to 65.5% in Q3FY21, still lower than the 84% in FY20. This is despite no price hike in motor TP in FY21-TD. We factor-in ~70% loss ratio in motor OD for Q4FY21E.
- **Mix adjustment in motor portfolio as stated in Q2FY21.** There has been 80/150bps improvement in the CV/private car mix and 230bps decline in 2-wheeler mix in 9MFY21. 9MFY21 motor mix stood at 15.3% CV, 27.3% 2-wheeler and 57.4% 4-wheeler. Renewals have been good for ICICGI (acquisition of AutoNinja in Q3FY20 has helped) and digital initiatives have further aided the business.
- **Advance premium** stood at Rs31.97bn in Dec'20 vs Rs31.6bn at Sep'20.
- **Health loss ratio is healthy but growth concerns come from bancassurance channel.** Health GDPI declined 2% / 8% in Q3/9MFY21 largely impacted by lower benefit sales. Retail health indemnity has grown by 25.7% from Rs5.3bn in 9MFY20 to Rs6.4bn in 9MFY21 with loss ratio increasing from 70% in 9MFY20 to 77% in 9MFY21. However, retail benefit has declined from Rs6.4bn in 9MFY20 to Rs2.9bn in 9MFY21 with a typical loss ratio of 35-50%. Retail health indemnity growth for ICICGI has been 25%, 35%, 17% in Q1/Q2/Q3FY21 compared to industry growth of 24%/43%/21% respectively. Company hopes to exceed industry growth in health premiums on the back of new products launched in Nov'20 with wider coverage and higher pricing, which should also apply for renewals from Jan'21. **Management indicated that ICICI Bank is focusing less on selling credit-linked health products, which is an overhang in near term on ICICGI (ICICI Bank contributes 75% of credit-linked portfolio of ICICGI).** Health loss ratio has been better than expected driven by overall positive effect of lower non-Covid claims offset by Covid claims. Loss ratio stood at 75% in Q3FY21 vs 76%/82% in Q1/Q2FY21. We factor-in 75% loss ratio in Q4FY21E on improving outlook on Covid claims.
- **Market share growth in P&C segment in 9MFY21 across fire, engineering and marine cargo.** P&C segment growth has largely been driven by fire segment with 9MFY21 GDPI growth of 48% and loss ratio of 73.9%. However, going ahead, growth will normalise from Q4FY21 as the fire price hikes will anniversary in Jan'21.
- **Equity mix of investment portfolio has increased from 9.8% in Q1FY21 to 10.2% in H1FY21 and 10.9% in 9MFY21. Unrealised gain on investment portfolio stood at Rs19.1bn in 9MFY21 vs Rs10.7bn in Q1FY21 and Rs11.4bn in H1FY21.**
- **Employees can work from anywhere under new HR policy.**

Table 1: Q3FY21 result review – P&L*(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)
Gross Direct Premium Income	40,340	36,928	31,893	9.2	26.5
Add: Reinsurance Accepted	777	767	652	1.4	19.2
Gross Written Premium (GWP)	41,117	37,695	32,545	9.1	26.3
Less: Reinsurance ceded	9,029	11,119	7,623	(18.8)	18.4
Net Written Premium (NWP)	32,089	26,576	24,922	20.7	28.8
Adjustment for URR	-5,975	-2,014	-297		
Net Earned Premium (NEP)	26,114	24,562	24,625	6.3	6.0
Incurred Claims (Net)	17,205	17,604	16,538	(2.3)	4.0
Commission expense	2,244	771	1,651	191.2	35.9
Expenses related to Insurance	8,020	6,407	6,470	25.2	23.9
Underwriting profit/losses	-1,354	-220	-34		
Policy holder Investment Income	4,475	3,427	4,209	30.6	6.3
Operating Profit/Loss	3,121	3,207	4,175	(2.7)	(25.2)
Shareholder Investment Income	1,400	1,160	1,237	20.7	13.1
Other expenses	338	468	-134		
PBT	4,182	3,899	5,546	7.3	(24.6)
Tax	1,047	958	1,388	9.3	(24.6)
PAT	3,135	2,941	4,157	6.6	(24.6)
EPS (Rs)	6.9	6.5	9.1	6.6	(24.6)

Source: Company data, I-Sec research

Table 2: Q3FY21 – Balance sheet*(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)
Share Capital	4,545	4,544	4,545	0.0	0.0
Reserves & Surplus	68,117	53,968	64,955	26.2	4.9
Shareholders' Funds	72,663	58,513	69,499	24.2	4.6
Share Application Money	2	2	3		
Fair Value Change Account	6,074	1,934	2,192		
Borrowings	4,850	4,850	4,850		
Total Sources of Funds	83,588	65,299	76,545	28.0	9.2
Investments	2,98,920	2,48,453	2,91,620	20.3	2.5
Fixed Assets	6,382	6,946	6,540	(8.1)	(2.4)
Deferred tax Assets	4,637	3,726	4,147	24.5	11.8
Current Assets (Incl. Cash)	82,334	1,06,355	81,142	(22.6)	1.5
Claims Outstanding	1,85,223	1,76,631	1,86,195	4.9	(0.5)
Provision for URR	63,606	57,522	57,631	10.6	10.4
Other Liabilities	59,855	66,027	63,077	(9.3)	(5.1)
Net Current Assets	-2,26,351	-1,93,825	-2,25,761	16.8	0.3
Total Application of Funds	83,588	65,299	76,545	28.0	9.2

Source: Company data, I-Sec research

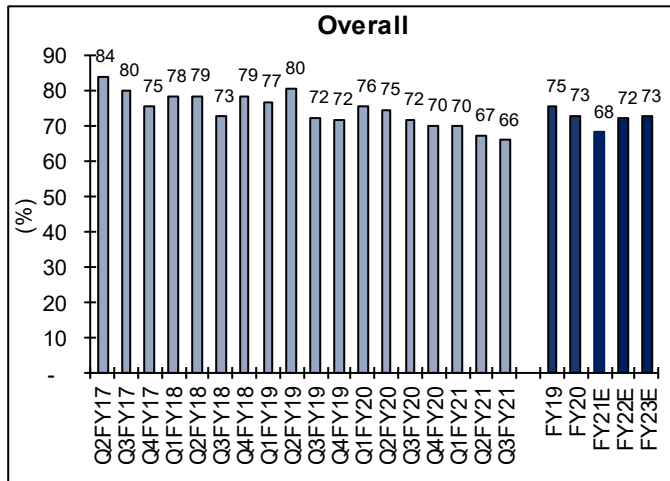
Table 3: Q3FY21 – Key ratios*(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)
Loss ratio (%)	65.9	71.7	67.2	-579 bps	-127 bps
Expense Ratio (%)	32.0	27.0	32.6	498 bps	-60 bps
Combined Ratio (%)	97.9	98.7	99.7	-81 bps	-188 bps
Loss Segment					
Fire	56.5	50.1	77.2	640 bps	-2070 bps
Motor OD	63.2	68.8	58.9	-560 bps	430 bps
Motor TP	65.5	81.8	61.6	-1630 bps	390 bps
Health	74.6	69.6	81.9	500 bps	-730 bps
Crop	112.5	110.4	111.3	210 bps	120 bps
Total	65.9	71.7	67.2	-580 bps	-130 bps
BVPS (Rs)	159.9	128.8	152.9	(4.3)	18.8
RoE (%)	17.6	20.3	24.7	702 bps	438 bps
Investment Leverage (net of borrowings)	4.05	4.16	4.13		
Investment Return - annualised (%)	7.96	7.51	7.61	-35 bps	9 bps
RoI - policyholder - annualised (%)	7.95	7.31	7.64	-31 bps	33 bps
RoI - shareholder - annualised (%)	7.97	8.19	7.49	-48 bps	-69 bps
Solvency ratio (%)	276.0	218.0	274.0	-2 pps	56 pps

Source: Company data, I-Sec research

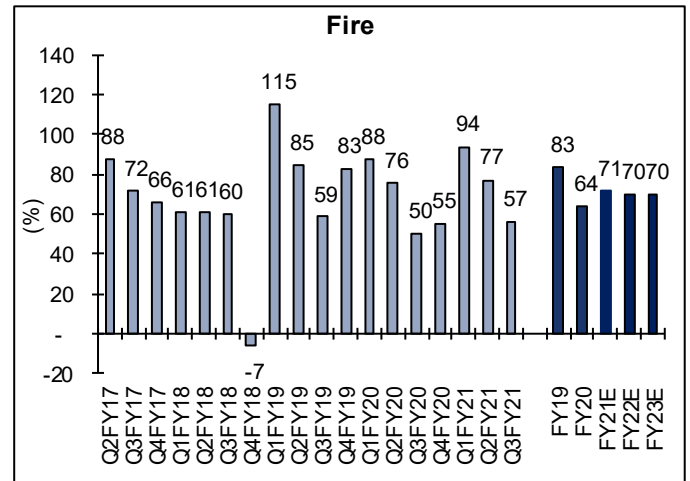
Loss ratio trend

Chart 1: Loss ratio – Overall



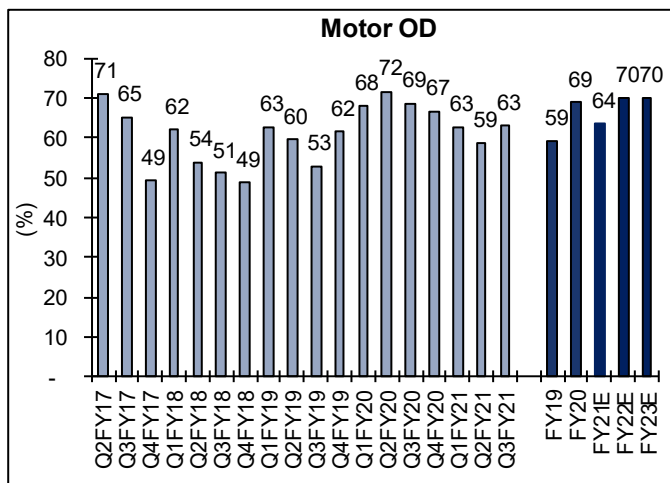
Source: Company, I-Sec research

Chart 2: Loss ratio – Fire segment will continue to benefit from price hikes in FY21



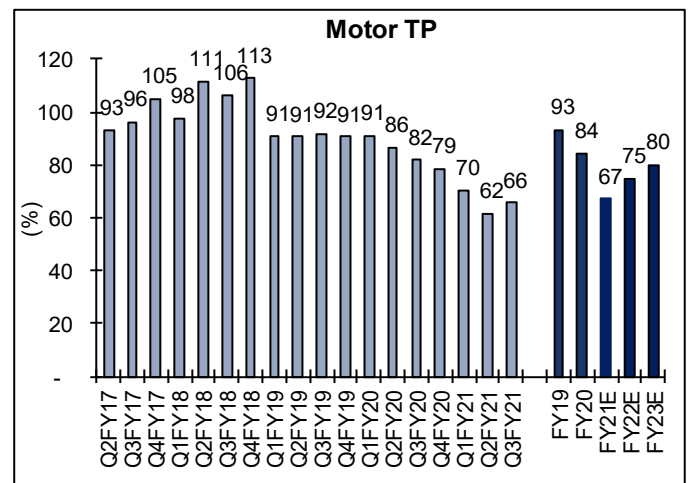
Source: Company, I-Sec research

Chart 3: Loss ratio – Motor OD rises in Q3FY21...



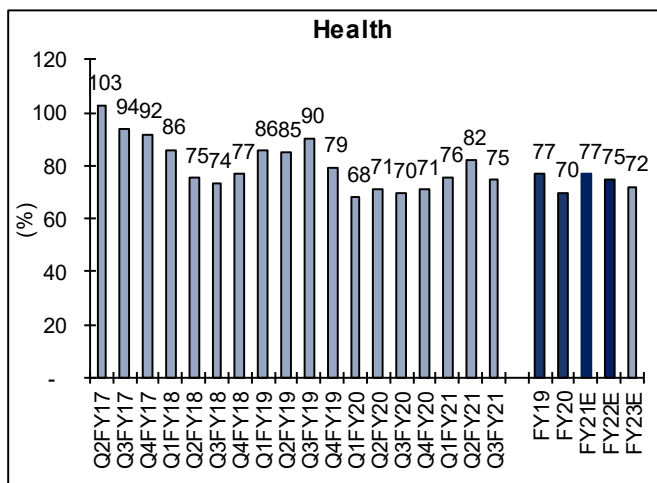
Source: Company, I-Sec research

Chart 4: ...so does loss ratio for motor TP



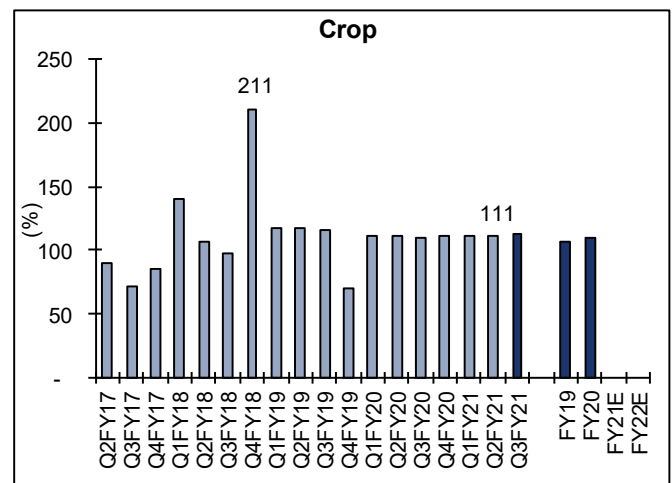
Source: Company, I-Sec research

Chart 5: Loss ratio – Health ratio improved in Q3FY21



Source: Company, I-Sec research

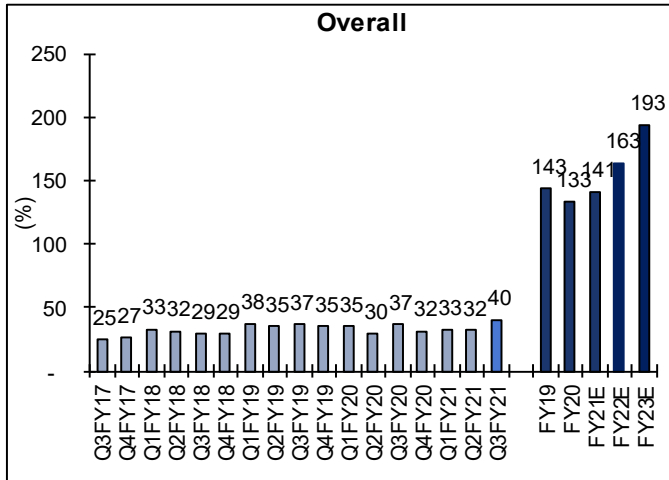
Chart 6: Loss ratio – Crop: expect continued abstinence from ICICIGI



Source: Company, I-Sec research

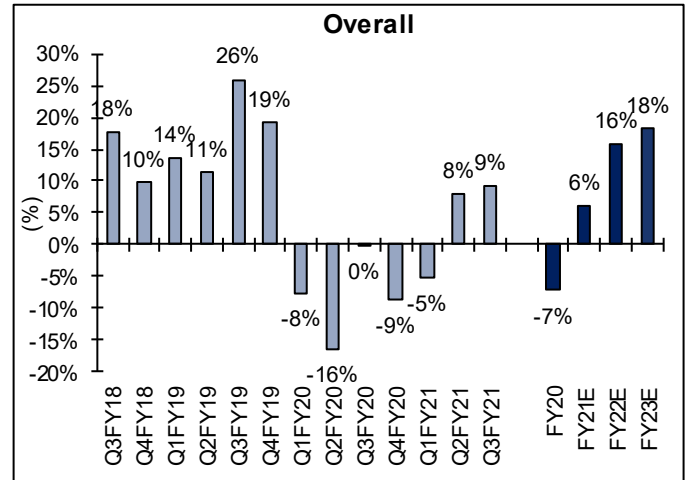
GDPI trend

Chart 7: GDPI – Overall



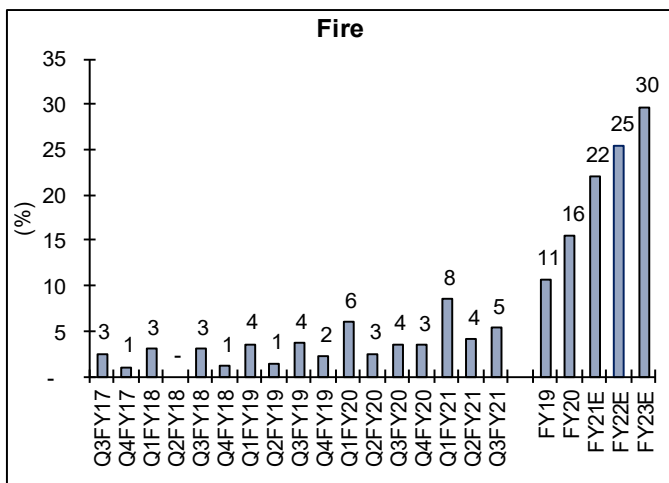
Source: Company, I-Sec research

Chart 8: GDPI growth – Overall



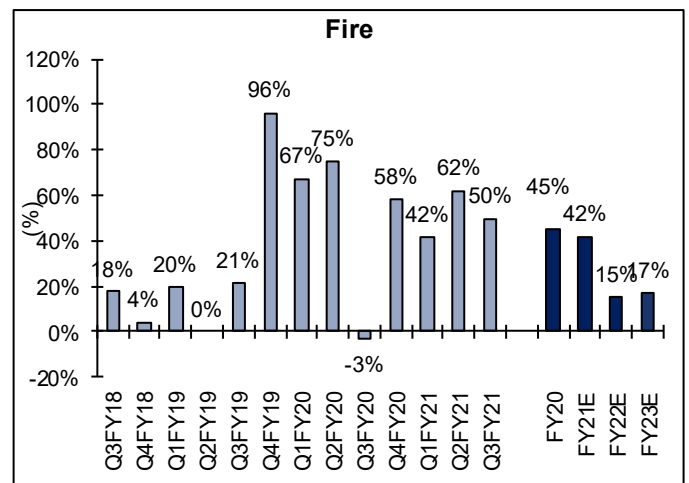
Source: Company, I-Sec research

Chart 9: GDPI – Fire



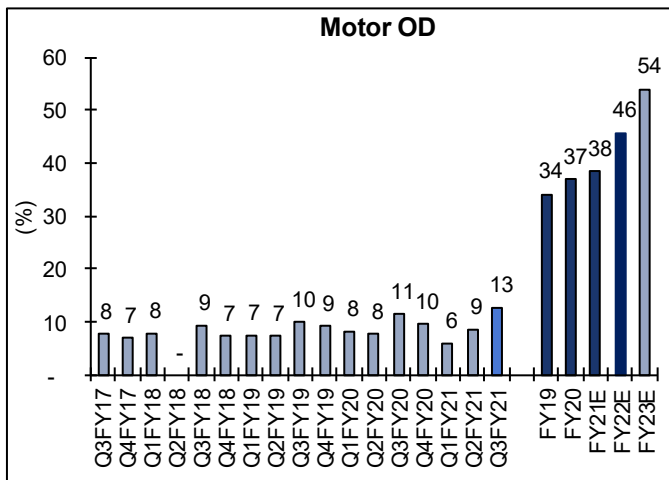
Source: Company, I-Sec research

Chart 10: GDPI growth – Fire



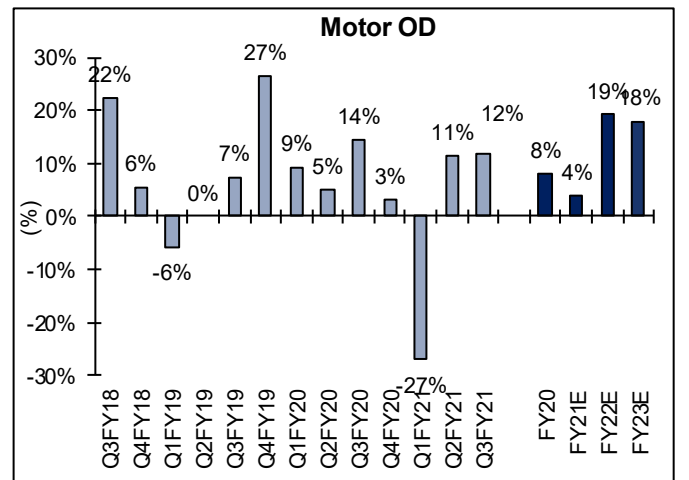
Source: Company, I-Sec research

Chart 11: GDPI – Motor OD



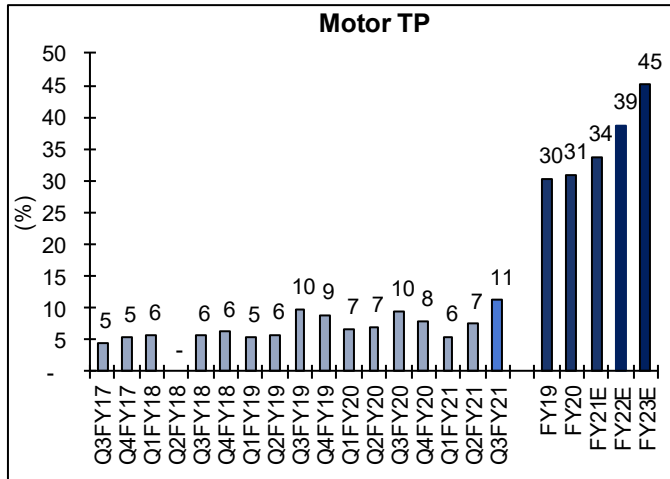
Source: Company, I-Sec research

Chart 12: GDPI growth – Motor OD



Source: Company, I-Sec research

Chart 13: GDPI – Motor TP



Source: Company, I-Sec research

Chart 14: GDPI growth – Motor TP

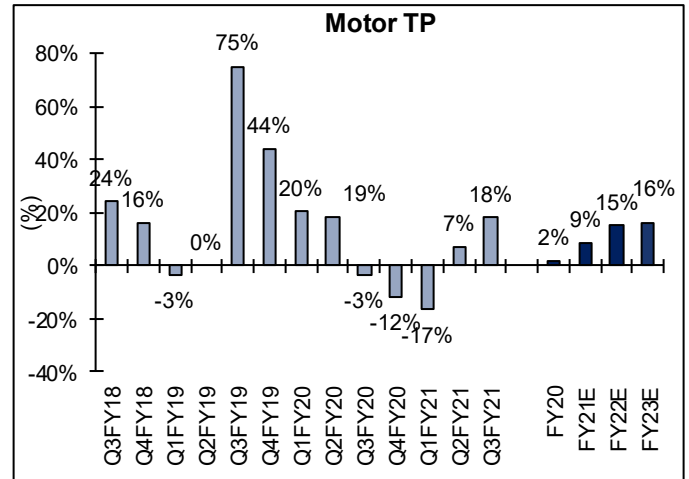
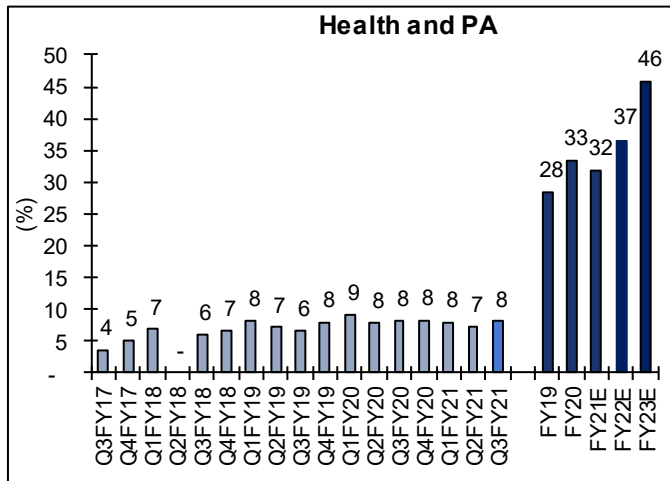
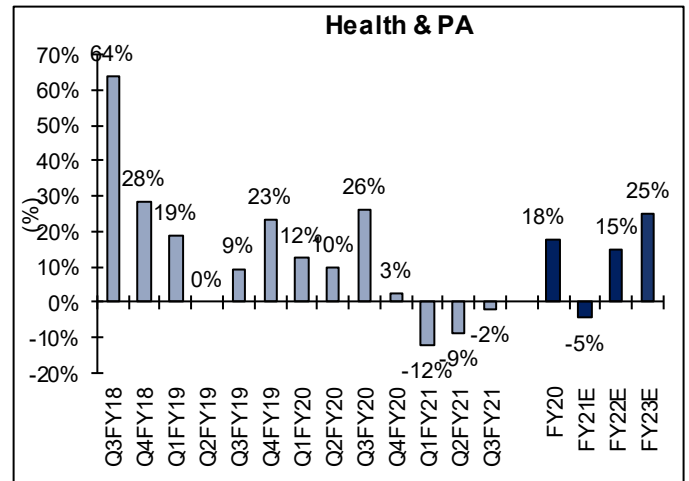


Chart 15: GDPI – Health



Source: Company, I-Sec research

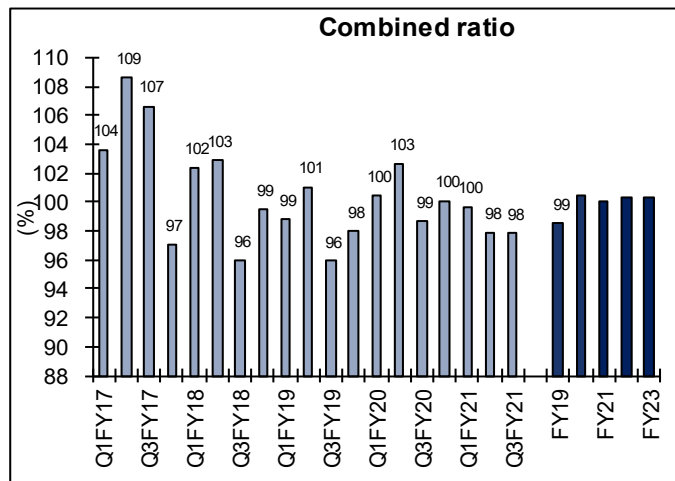
Chart 16: GDPI growth – Health



Source: Company, I-Sec research

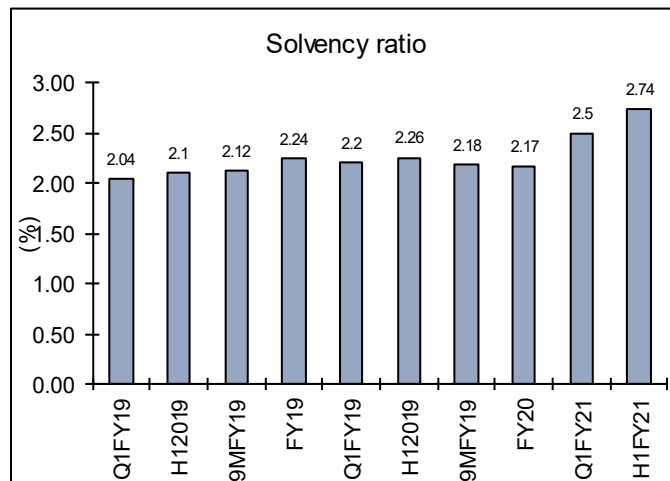
Key metrics

Chart 17: Combined ratio



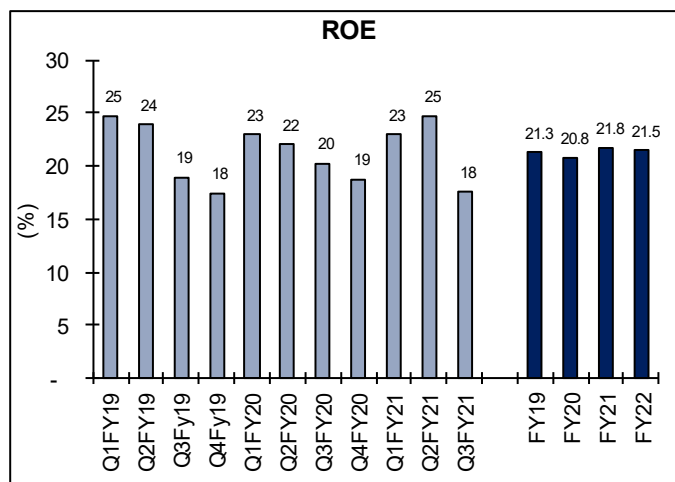
Source: Company, I-Sec research

Chart 18: Solvency ratio



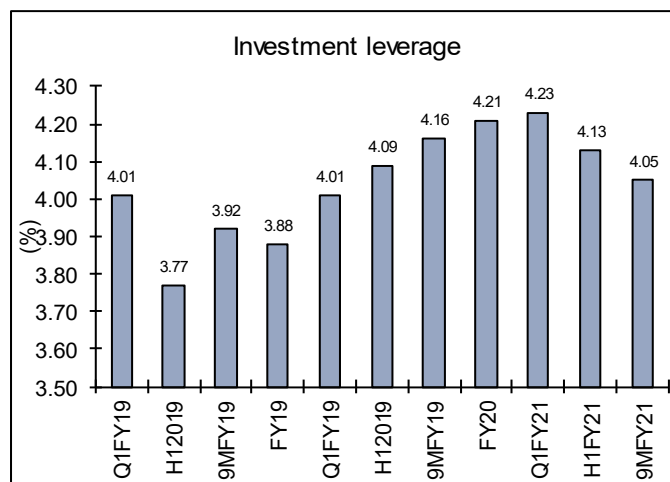
Source: Company, I-Sec research

Chart 19: RoE remains healthy



Source: Company, I-Sec research

Chart 20: Investment leverage will follow growth/profitability cycle



Source: Company, I-Sec research

Comprehensive product portfolios

Table 4: Contribution from private car in overall motor GDPI has improved and that of commercial vehicle segment has declined

(%)	Q1FY19	H12019	9MFY19	FY19	Q1FY21	H12020	9MFY20	FY20	Q1FY21	H1FY21	9MFY21
Private Car	50.00	50.00	50.10	50.00	55.40	55.00	55.90	56.7	59.2	57.9	57.4
Two-Wheeler	32.70	30.10	28.90	27.20	27.30	29.30	29.50	28.5	26	26.4	29.6
CV	17.30	19.90	21.00	22.80	17.30	15.70	14.60	14.8	14.8	15.7	14.5

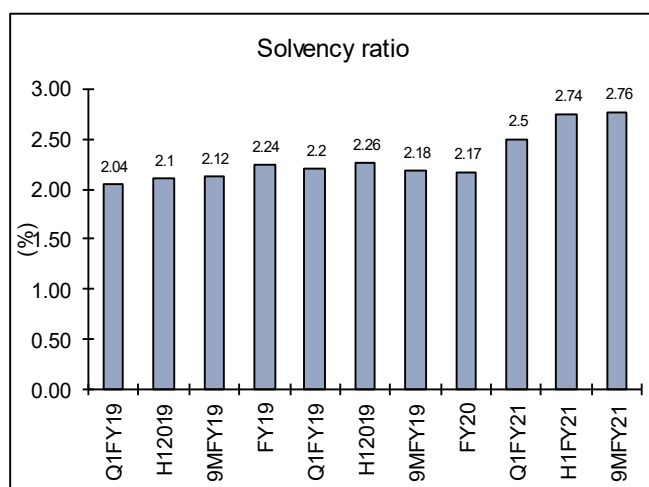
Source: Company, I-Sec research

Table 5: Retail mix in overall health premium has been stable

(%)	Q1FY19	H12019	9MFY19	FY19	Q1FY21	H12020	9MFY20	FY20	Q1FY21	H1FY21	9MFY21
Individual	20.70	22.30	27.60	27.2	19.50	22.00	24.10	24.9	20.1	23.4	24.9
Group – Employer-Employee	49.10	41.60	39.20	34.3	47.70	40.90	37.60	37.7	69.1	57	51.9
Group – others	28.50	34.50	32.10	38.0	32.60	37.00	38.10	37.3	10.8	19.6	23.2
Mass	1.70	1.60	1.10	0.50	0.20	0.10	0.20	0.1	0.0	0.0	0.0

Source: Company, I-Sec research

Chart 21: SME growth remained robust



Source: Company, I-Sec research

Chart 22: Individual indemnity showed strong growth in 9MFY21

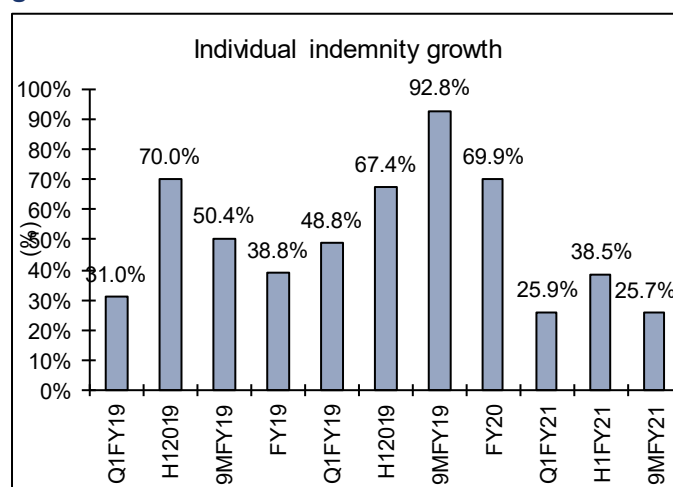


Table 6: Investment portfolio mix

Investment portfolio	Corp bonds	GSec	Equity
Q2FY20	51.7	32.1	11.2
Q3FY20	50.3	31.1	11
Q4FY20	50.3	32.9	12.3
Q1FY21	48.7	33.7	9.8
Q2FY21	45.5	36.8	10.2
Q3FY21	43.4	38.4	10.9

Source: Company, I-Sec research

Table 7: Number of agents, virtual offices and headcount for ICICIGI

	Number of Agents	Virtual offices	Headcount
Q3FY21	55615	840	na
Q2FY21	52785	840	na
Q1FY21	49802	840	na
FY20	47548	840	10682
FY19	35729	910	10197
FY18	na	135	8284

Source: Company, I-Sec research

Table 8: Impact of catastrophic events: Historical snapshot

	Year	Economic losses (Rs bn)	Insured losses (Rs bn)	ICICIGI share of insured losses
Cyclone Amphan***	2020	1,000	15	4.9%
Maharashtra, Gujarat, Karnataka, Kerala & other states Floods	2019	709.70**	20	3.5%
Cyclone Fani	2019	120	12	2.4%
Kerala floods	2018	300	30	2.7%
Chennai floods	2015	150	49	7.5%
Cyclone Hudhud	2014	715	42	2.4%
J&K floods	2014	388	16	2.6%
North-east floods	2014	393	16	***

Source: Company, I-Sec research

**AON Global Catastrophe Report;

***There was no separate reporting of losses resulting from these floods since this did not rise to the level of a catastrophic event for ICICIGI.

Glossary

GDPI	Gross direct premium income	Motor TP	Motor third-party
GWP	Gross written premium	Motor OD	Motor own-damage
NWP	Net written premium	PA	Personal accident
NEP	Net earned premiums	CV	Commercial vehicles
COR	Combined ratio	Motor TP	Motor third-party

Annexure: Financials

Table 9: Profit & Loss account

(Rs mn, year ending March)

	FY20	FY21E	FY22E	FY23E
Gross Direct Premium Income (GDPI)	1,33,129	1,41,247	1,63,484	1,93,162
Add: Reinsurance Accepted	2,795	2,919	3,043	3,516
Gross Written Premium (GWP)	1,35,924	1,44,166	1,66,527	1,96,678
Less: Reinsurance ceded	39,517	38,246	48,730	57,330
Net Written Premium (NWP)	96,407	1,05,920	1,17,797	1,39,348
Less: Adjustment for unexpired risk reserve	2,372	9,131	2,634	13,739
Net Earned Premium (NEP)	94,035	96,789	1,15,163	1,25,609
Incurring Claims (Net)	68,516	65,862	83,031	91,273
Commission expense	3,640	6,051	4,409	4,180
Operating expenses related to Insurance	22,931	26,604	28,860	32,809
Underwriting profit/losses	-1,052	-1,728	-1,137	-2,654
Total Investment Income (Policyholder)	16,492	17,475	21,546	25,588
Operating Profit/Loss	15,441	15,747	20,409	22,934
Total Investment Income (Shareholder)	4,800	5,131	5,632	5,973
Other expenses (including provisions)	3,269	1,079	2,251	2,280
PBT	16,972	19,799	23,790	26,628
Tax	5,031	4,963	5,988	6,702
PAT	11,940	14,836	17,802	19,925

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March)

	FY20	FY21E	FY22E	FY23E
Share Capital	4,545	4,545	4,545	4,545
Reserves & Surplus	56,796	70,316	86,300	1,06,225
Shareholders' Funds	61,340	74,861	90,845	1,10,771
Share Application Money	2	0	0	0
Fair Value Change Account	-4,286	7,288	8,604	10,081
Other liability	4,850	4,850	4,850	4,850
Total Sources of Funds	61,906	86,999	1,04,299	1,25,702
Investments	2,63,267	3,58,585	4,23,291	4,95,921
Fixed Assets	6,766	6,573	7,398	8,327
Deferred tax Assets	3,063	4,730	5,119	5,541
Current Assets (Inc. Cash)	97,325	85,638	1,00,239	1,17,332
Claims Outstanding including IBNR & IBNER	1,80,074	2,12,376	2,56,928	3,03,093
Provision for unexpired risk reserve	58,382	67,513	70,147	83,886
Other Liabilities	70,059	88,638	1,04,674	1,14,439
Total Application of funds	61,906	86,999	1,04,299	1,25,702

Source: Company data, I-Sec research

Table 11: Key ratios*(Year ending March)*

	FY20	FY21E	FY22E	FY23E
Growth Ratios (%)				
GDPI Growth	(8.1)	6.1	15.7	18.2
GWP Growth	(8.1)	6.1	15.5	18.1
NWP Growth	1.1	9.9	11.2	18.3
NEP Growth	12.3	2.9	19.0	9.1
Shareholders' funds growth	15.3	22.0	21.4	21.9
Investment growth	18.4	36.2	18.0	17.2
PBT growth	6.2	16.7	20.2	11.9
PAT growth	13.8	24.2	20.0	11.9
Profitability Ratios (%)				
Loss ratio (%)	72.9	68.0	72.1	72.7
Operational expenses ratio (%)	23.8	25.1	24.5	23.5
Commission Ratio (%)	3.8	5.7	3.7	3.0
Combined Ratio	100.4	98.9	100.3	99.2
Underwriting Profit/Loss Ratio (%)	(1.1)	(1.8)	(1.0)	(2.1)
Investment Returns as a % of NEP	22.6	23.4	23.6	25.1
Other Opex as a % of NEP	3.5	1.1	2.0	1.8
PBT as a % of NEP	18.0	20.5	20.7	21.2
Taxes as a % of NEP	5.4	5.1	5.2	5.3
PAT as a % of NEP	12.7	15.3	15.5	15.9
NEP to Average Net Worth (x times)	1.6	1.4	1.4	1.2
Return on Equity (%)	20.8	21.8	21.5	19.8
Analytical Ratios				
Net Retention Ratio (%)	70.9	73.5	70.7	70.9
GDPI to Net Worth ratio (x)	2.2	1.9	1.8	1.7
Operating profit ratio (%)	16.4	16.3	17.7	18.3
Capital Structure				
Investment Leverage (net of borrowings)	4.21	4.73	4.61	4.43
Solvency Ratio (%)	268	337	337	358
Return ratios				
RoAE (%)	20.8	21.8	21.5	19.8
RoAE (%) - including fair value change	7.5	37.9	21.1	19.4
Payout Ratio (%)	13.3	9.2	10.2	0.0
Return on avg Investments (%)	8.8	7.3	7.0	6.9
Valuation Ratios				
No. Of Shares (mn)	454	455	455	455
Basic EPS	26.3	32.6	39.2	43.8
Diluted EPS	26.3	32.6	39.2	43.8
Price to Earnings	57.7	46.4	38.7	34.6
Price to Earnings (fully diluted)	57.7	46.4	38.7	34.6
Book Value/share (Rs)	135.0	164.7	199.9	243.7
Book Value/share (Rs) - including fair value change	125.5	180.7	218.8	265.9
Price to Book	11.2	9.2	7.6	6.2
Price to Book - including fair value change	12.1	8.4	6.9	5.7
DPS	3.5	3.0	4.0	4.0
Dividend yield (%)	0.2	0.2	0.3	0.3

Source: Company data, I-Sec research

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