

January 19, 2022

RESULT REPORT Q3 FY22 | Sector: Insurance (General)

ICICI Lombard General Insurance

Commercial lines delivering on both growth and loss ratio augurs well

Result Highlights

- ✓ **Net premiums earned:** Net premiums earned rose 1.9% QoQ, driven by the group health segment and commercial lines
- ✓ **Loss ratios:** Overall loss ratio improved 20 bps QoQ to 69.6%, with motor TP and fire segment evolving positively on sequential basis
- ✓ **Expense control:** Expense ratio rose 250 bps QoQ to 31.5% as opex and commissions rose 14.6% and 41.2% QoQ, respectively

Our view – Commercial lines delivering on both growth and loss ratio augurs well

The growth in the health plus segment, fire segment and marine segment was 5.4%, 16.3% and 10.6% QoQ, respectively while motor de-grew -2.8% QoQ. After the second wave, ICICI had gone back to group health corporate clients and had effected price increases of 15-20% and higher in some cases. 90% of these corporate customers have been retained at the higher price as they are willing to pay a higher price for better service. The competitive intensity in Motor OD is very high and chip shortage also continues to be an issue for OEM sales. There has been price aggression in the Motor OD segment from 1QFY22 itself. ICICIGI does not expect this to correct this financial year but from the next financial year. ICICIGI expects to outgrow the motor segment market from 4QFY22 onwards.

Loss ratio for Motor TP and Fire segments declined 390 bps and 2490 bps QoQ, to 71% and 40%, respectively: Loss ratio for Motor OD, however, jumped 900 bps QoQ to 72%. There is a rise in claims frequency compared with 1HFY22, when it was lower due to the lockdown. Management remained hopeful that a price hike for Motor TP from the regulator will transpire in the next financial year. Health plus loss ratio rose 370 bps QoQ to 75%. There has been an elevated frequency in Non-Covid cases, particularly due to Dengue and Malaria and also a rise in elective surgeries but all these are seeing a decline in 4QFY22.

We maintain 'Buy' rating on ICICIGI with a revised price target of Rs 1825: We value ICICIGI at 36x FY23 P/E for an FY21-24E EPS CAGR of 24%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Rs Mn	Q3 FY22	Q3 FY21*	% yoy	Q2 FY22	% qoq
Gross Premiums written	47,861	41,117	16.4	45,085	6.2
Net Premium Written	36,551	32,089	13.9	30,528	19.7
Net Premium Earned	33,119	26,114	26.8	32,503	1.9
Income from Investments	5,322	4,419	20.4	5,518	(3.5)
Total Income	38,541	30,589	26.0	38,082	1.2
Commission & Brokerage	2,027	2,244	(9.7)	1,435	41.2
Operating Expenses	10,749	8,020	34.0	9,375	14.6
Total claims	23,035	17,205	33.9	22,699	1.5
Underwriting Profit/(Loss)	(2,692)	(1,354)	98.8	(1,007)	167.2
Operating Profit	2,731	3,121	(12.5)	4,571	(40.3)
PAT	3,175	3,135	1.3	4,467	(28.9)
Key Ratios					
Solvency Ratio	245.0%	276.0%	-3100bps	249.0%	-400bps
Expense Ratio^	31.5%	29.4%	210bps	29.0%	250bps
Incurred Claim Ratio	69.6%	65.9%	370bps	69.8%	-20bps
Net Retention Ratio	76.4%	78.0%	-160bps	67.7%	870bps
Combined Ratio	104.5%	97.9%	660bps	105.3%	-80bps

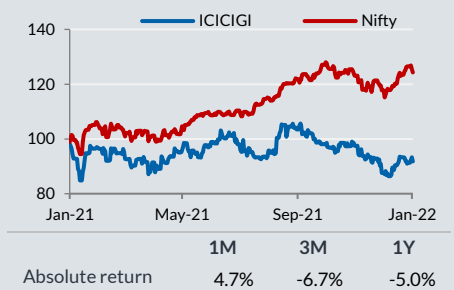
Source: Company, YES Sec-Research; *N.B. Only Q3FY21 figures are for the unmerged entity. ^ based on GDPI

Reco	: BUY
CMP	: Rs 1,423
Target Price	: Rs 1,825
Potential Return	: 28%

Stock data (as on January 19, 2022)

Nifty	17,938
52 Week h/l (Rs)	1675 / 1295
Market cap (Rs/USD mn)	698432 / 9384
Outstanding Shares (mn)	491
6m Avg t/o (Rs mn):	1,081
Div yield (%):	0.6
Bloomberg code:	ICICIGI IN
NSE code:	ICICIGI

Stock performance



Shareholding pattern (As of Dec'21 end)

Promoter	48.1%
FII+DII	41.6%
Others	10.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1825	1843

Financial Summary

Rs mn	FY22E	FY23E	FY24E
NEP	131,914	154,389	180,560
% yoy	31.7%	17.0%	17.0%
Op profit	16,209	31,388	38,093
% yoy	-17.1%	93.6%	21.4%
PAT	12,939	24,864	30,580
% yoy	-12.2%	92.2%	23.0%
EPS (Rs)	28.5	50.7	62.3
P/E (x)	50.0	28.1	22.8
P/B (x)	5.5	5.4	4.8
RoE (%)	11.0%	19.4%	21.1%

Δ in earnings estimates

Rs.	FY22E	FY23E	FY24E
EPS (New)	28.5	50.7	62.3
EPS (Old)	34.6	51.0	61.8
% change	-17.6%	-0.6%	0.9%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Motor segment

- ✓ **Motor segment growth**
 - **Motor OD**
 - The competitive intensity in Motor OD is very high and therefore, a headwind for this segment's growth.
 - **Motor OD pricing**
 - There has been price aggression in the Motor OD segment from 1QFY22 itself.
 - ICICIGI does not expect this to correct this financial year itself but from the next financial year.
 - **OEM sales**
 - Chip shortage continues to be an issue for OEM sales.
 - **Motor business mix aspects**
 - ICICIGI has a higher share of passenger vehicles in motor business and within that, the share of new vehicles is also higher. Hence, new PV sales being muted impacts ICICIGI more.
 - Share of 2W is also higher than industry share of 15% while underlying demand for 2W has been low.
 - Share of CV is lower than industry average of 40% but the CV segment has done well.
 - **Growth outlook**
 - ICICIGI expects motor segment growth to improve from 4QFY22 onwards.
 - ICICIGI expects to outgrow the motor segment market from 4QFY22 onwards.
- ✓ **Motor loss ratio**
 - There is a rise in claims frequency compared with 1HFY22, when it was lower due to the lockdown.
- ✓ **Motor TP pricing**
 - There has also been an increase in average claim payout over the last 2 years in Motor TP due to court judgements.
 - A price hike from the regulator will hopefully transpire next financial year.
 - ICICIGI expects some kind of draft guidelines to be put out for price increase.

Health segment

- ✓ **Group health**
 - Health segment displayed good growth driven by the group health segment.
 - After the second wave, ICICI had gone back to corporate clients and had effected price increases of 15-20% and higher in some cases.
 - 90% of corporate / group health customers have been retained at a higher price as they are willing to pay a higher price for better service.
- ✓ **Retail health**
 - Growth in retail health was slow on account of high base.
 - The growth from bancassurance is coming back in the retail indemnity health segment.
 - The growth from bancassurance was slow due to high base but in December 2021, this growth has improved to 15%.

(Con call takeaways continue on the next page)

✓ Health loss ratio

- The pure health segment loss ratio has been 82.7% for 3QFY22, 77.7% in 2QFY22 and 88.1% in 3QFY21.
- There has been an elevated frequency in Non-Covid cases, particularly due to Dengue and Malaria but these have seen a decline in 4QFY22.
- The elective surgeries have also been quite high but are also seeing a decline to some extent. These continue to be monitored closely.
- There has also been a 9-10% increase in average claim size, regarded as medical inflation.

Commercial segment

- ✓ The commercial lines fire and marine have displayed strong growth.

Operating expenses

✓ Employee cost

- Offers have been made to 800 employees, of which 400 joined during 3QFY22.
- ICICIGI expects the productivity of newly recruited staff to rise over 6-12 months.
- The on-roll employees hired will go out and hire agents.

✓ Sales promotion cost

- This is dependent on the mix of business.
- In 3QFY22, the bulk of the business was retail in nature.
- Motor segment contributes to a larger proportion and this is reflected in the cost of sourcing.

Channel growth and mix

- ✓ Business sourced by ICICIGI's website grew 20% in 3QFY22.
- ✓ The growth from alliance partners was 70% in 3QFY22.

Bharti Axa merger

- ✓ ICICI remains on track to achieve expected synergies.
- ✓ Synergies are expected to be realized by 2HFY23.
- ✓ In the Motor segment, other than 3-4 dealerships, ICICIGI is seeing benefit coming in across the distribution network, whether agency or other channels.
- ✓ Expected synergies
 - There will be tax synergies on carry forward losses.
 - There will be rationalization of offices, with the latest number having been revised to 285.
 - There are areas of productivity improvement and efficiencies that will play out in 6-9 months.
 - There will also be synergy in technology spends, which will play out by 2HFY23.

Investment yield

- ✓ Investment yield has declined on sequential basis due to lower capital gains.

(Con call takeaways continue on the next page)

Retention

- ✓ There is no change to retention policy.
- ✓ Retention rate for given quarter is a function of business mix.
- ✓ In 1QFY22, there were a lot of corporate renewals and retention for corporate business is lower.
- ✓ In 3QFY22, significant retail business has been sold, which has higher retention.

Covid claims

- ✓ The intimated Covid claims as of September 2021 stood at Rs 5.61bn.
- ✓ This has been revised to Rs 5.29bn as of December 2021.
- ✓ **Third wave**
 - Initial trends indicate that claims are expected to far lower than during the second wave.
 - The cases are also milder due to which the claim sizes have been 10-15% lower.

Exhibit 2: Other Business Parameters

Rs mn	Q3 FY22	Q3 FY21*	% yoy	Q2 FY22	% qoq
Net Premium Earned					
Fire	1,846	1,341	37.6%	1,587	16.3%
Marine	960	745	28.8%	868	10.6%
Health including Personal Accident	8,519	6,799	25.3%	8,079	5.4%
Miscellaneous	1,714	1,343	27.6%	1,558	10.1%
Crop Insurance	659	0	NA	424	55.4%
Motor	19,422	15,886	22.3%	19,989	-2.8%
Total	33,119	26,114	26.8%	32,503	1.9%

Segment Underwriting Profit / (Loss)					
Fire	910	417	118.0%	304	199.6%
Marine	27	(2)	-1430.0%	(173)	-115.4%
Health including Personal Accident	(208)	370	-156.4%	(422)	-50.6%
Miscellaneous	379	353	7.4%	110	244.4%
Crop Insurance	82	7	1156.9%	(5)	-1702.0%
Motor	(3,881)	(2,499)	55.3%	(821)	372.5%
Total	(2,692)	(1,354)	98.8%	(1,007)	167.2%

Loss Ratio					
Motor OD	72%	63%	860bps	63%	900bps
Motor TP	71%	66%	520bps	75%	-390bps
Health, Travel, PA	75%	75%	50bps	71%	370bps
Crop	94%	113%	-1820bps	127%	-3220bps
Fire	40%	57%	-1680bps	65%	-2490bps
Marine	66%	80%	-1380bps	90%	-2400bps
Engineering	80%	38%	4230bps	55%	2510bps
Other	37%	43%	-600bps	62%	-2430bps
Total	70%	66%	370bps	70%	-20bps

Source: Company, YES Sec – Research, *N.B. Only Q3FY21 figures are for the unmerged entity.

Exhibit 3: Quarterly Actuals Vs Estimates

Q3FY22 (Rs. mn)	Actuals	Estimates	Diff, %
Net Premium Earned	33,119	34,128	(3.0)
Underwriting Profit/(Loss)	(2,692)	(1,194)	(125.4)
PAT	3,175	4,437	(28.4)

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Profit & Loss Statement

Rs mn	FY20	FY21	FY22E	FY23E	FY24E
Gross written premium	133,128	140,031	196,043	227,062	263,882
Net written premium	96,407	106,850	140,769	164,696	192,563
Net earned premium	94,036	100,140	131,914	154,389	180,560
Net claims	68,515	68,708	100,932	105,785	122,314
Net commission	3,639	6,009	7,020	7,898	9,063
Expense of Management	22,931	27,342	36,678	41,911	47,865
Underwriting profit/(Loss)	(1,049)	(1,919)	(12,715)	(1,205)	1,319
Investment income	16,492	21,474	28,924	32,593	36,774
Operating profit	15,443	19,555	16,209	31,388	38,093
Shareholder's account					
Operating profit	15,443	19,555	16,209	31,388	38,093
Investment income	4,800	5,170	7,067	8,689	10,671
Total income	20,244	24,725	23,276	40,077	48,764
Expenses	3,272	5,185	7,385	8,448	9,667
PBT	16,971	19,540	15,891	31,629	39,097
Tax	5,031	4,809	2,952	6,765	8,517
PAT	11,940	14,731	12,939	24,864	30,580

Source: Company, YES Sec – Research

Exhibit 5: Balance sheet

Rs mn	FY20	FY21	FY22E	FY23E	FY24E
Sources of funds					
Share capital	4,543	4,546	4,546	4,905	4,905
Reserves and Surplus	56,797	69,809	112,652	123,176	139,693
Fair value change account	(4,286)	6,804	6,804	6,804	6,804
Borrowings	4,850	4,850	7,400	7,400	7,400
Claims Outstanding gross	180,074	182,846	234,972	264,565	299,117
Current liabilities	69,724	58,149	85,902	97,836	111,465
Provisions	58,716	65,974	88,324	100,950	115,407
Total Liabilities	370,418	392,977	540,600	605,635	684,792
Application of funds					
Investments - Shareholders	58,595	74,356	92,636	114,265	140,703
Investments - Policyholders	204,671	234,565	319,348	363,635	414,684
Fixed assets	6,765	6,268	6,655	6,865	7,075
Deferred tax asset	3,063	3,498	3,498	3,498	3,498
Cash and bank balances	326	2,277	4,997	(1,017)	(4,785)
Advances and other assets	96,998	72,013	87,043	91,966	97,193
Total Assets	370,418	392,977	540,600	605,635	684,792

Source: Company, YES Sec – Research

Exhibit 6: Ratio analysis

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Key ratios					
Claims ratio	73%	69%	77%	69%	68%
Opex ratio	24%	27%	28%	27%	27%
Commission ratio	4%	6%	5%	5%	5%
Combined ratio	101%	102%	110%	101%	99%
Underwriting P/L Ratio	-1.1%	-1.9%	-9.6%	-0.8%	0.7%
RoA	3.2%	3.7%	2.4%	4.1%	4.5%
RoE	19.5%	19.8%	11.0%	19.4%	21.1%
Dividend payout	15.4%	17.9%	26.3%	17.4%	17.8%
Investments leverage	4.2	4.1	3.5	3.7	3.8
Per share ratios (Rs)					
EPS	26.3	32.4	28.5	50.7	62.3
BVPS	135.0	163.6	257.8	261.1	294.8
DPS	4.1	5.8	7.5	8.8	11.1
Valuation ratios					
P/E (x)	54.1	43.9	50.0	28.1	22.8
P/B (x)	10.5	8.7	5.5	5.4	4.8
Growth (%)					
Gross written premium	-8.1%	5.2%	40.0%	15.8%	16.2%
Net earned premium	12.3%	6.5%	31.7%	17.0%	17.0%
Claims	8.6%	0.3%	46.9%	4.8%	15.6%
Commissions	63.3%	65.1%	16.8%	12.5%	14.7%
Net income	13.8%	23.4%	-12.2%	92.2%	23.0%

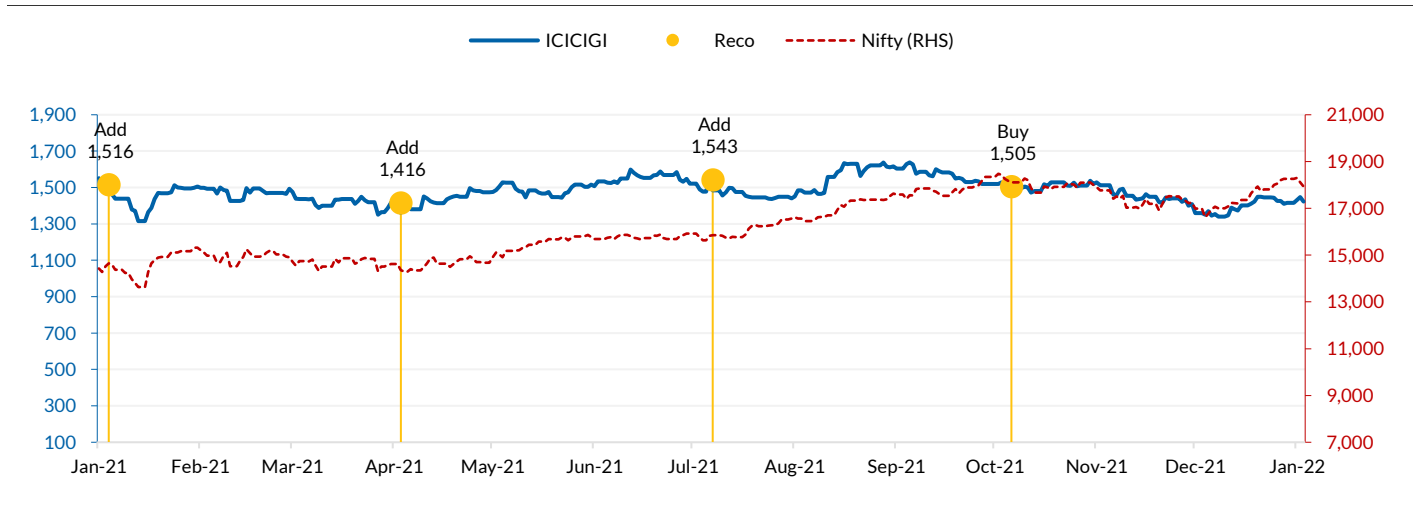
Source: Company, YES Sec – Research

Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Premium Earned	131,914	154,389	180,560	131,914	154,389	180,560	0.0	0.0	0.0
Operating Profit	16,209	31,388	38,093	19,729	31,388	37,572	(17.8)	0.0	1.4
PAT	12,939	24,864	30,580	15,711	25,002	30,307	(17.6)	(0.6)	0.9

Source: Company, YES Sec – Research

Recommendation Tracker



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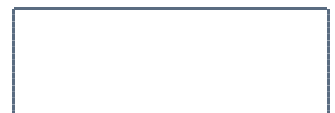
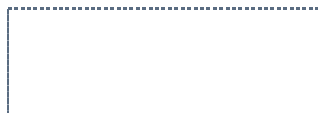
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