ICICI Lombard General Insurance (ICILOM)

ICICI direct Research

CMP: ₹1267 | Target: ₹ 1550 (22%) | Target Period: 12 months | BUY

March 29, 2022

Market leadership with long term growth opportunity

About the stock: ICICI Lombard is among the leading multi-line players in the general insurance space with ~8.3% market share on an overall basis.

- The motor segment is a key contributor and forms 44% of total premium
- The general insurer is among the most profitable and consistent in terms of return ratios with RoE of ~16-20% for a sustainable period

Key triggers for future price performance:

- Indian non-life insurance is highly under penetrated with non-life penetration (premium as percentage of GDP) at just 1% as on FY21 compared to world average of 4.1% and advance EMEA average of 3.3%. India has a large proportion of young population with ~65% population below the age of 35 years, which should induce huge demand potential
- ICICI Lombard is the largest motor insurer in the private space with 11.7% market share as on January 2022 while it is second largest on an overall basis. Muted auto volume and Covid led to moderation in premium growth. However, with a pick-up in volumes and increase in TP rates, premium trajectory is expected to pick up ahead
- ICICI Lombard has seen over 23% growth in individual agents in the past five years till FY21. Total agent including PoS has increased from 59545 in March 2021 to 81969 in December 2021. The insurer has been expanding its distribution network to increase penetration in tier 3 and tier 4 cities on account of increased opportunity in individual health indemnity segment
- ICICI Lombard has shown consistency on the profitability front even though premium growth in the past few years was impacted due to various reasons. We expect gross premiums to show better growth of ~18% in FY22E-24E due to various positive levers in the motor and health segments

What should investors do? Muted business growth in the past two years and higher claims led by Covid, resulted in the recent underperformance. However, long term sustainable growth opportunity and market leadership along with focus on digital adoption provides a good opportunity to invest.

- We initiate coverage on the stock with a **BUY** rating

Target Price and Valuation: We value ICICI Lombard at 3x FY24E premium (50% weight) and 1.5x FY24E float (50% weight) to arrive at a TP of ₹ 1550 per share.

Alternate Stock Idea: Apart from ICICI Lombard, we like Star Health Insurance.

- Market leader in the retail health insurance segment with 32%+ market share, as of December 2021
- BUY with target price of ₹ 800

ICICI Lombard Nibhaye Vaade

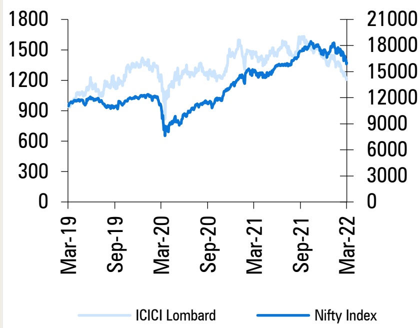
Particulars

Particulars	Values
Market Capitalisation	₹ 62183 crore
Networth	₹ 8791 crore
52 week H/L (₹)	1674 / 1192
Face Value (₹)	10.0

Shareholding Pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	51.9	51.9	48.1	48.1
FII	29.1	29.8	27.4	28.1
DII	12.0	11.7	10.9	13.5
Others	7.1	6.7	13.7	10.4

Price performance



Key Highlights

Leadership in motor insurance; among the best in profitability

Key risk: i) Increasing competition could limit pricing power, ii) pandemic may impact profitability

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Key Financial Summary

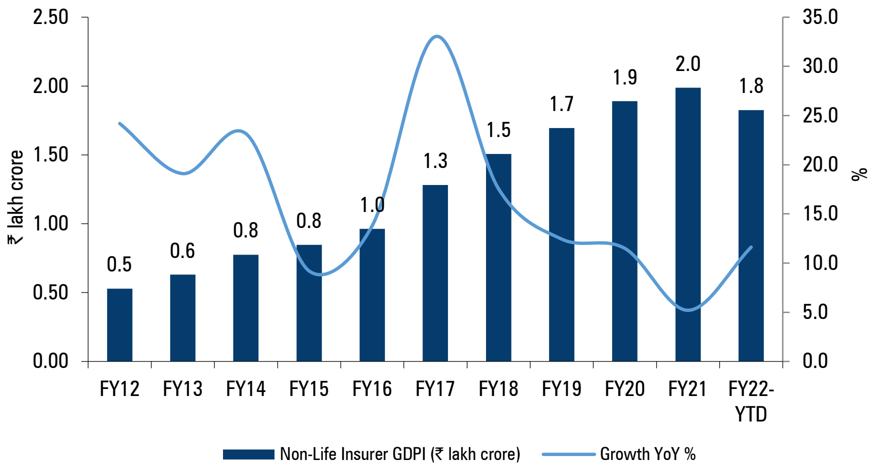
₹ crore	FY19	FY20	FY21	3 Year CAGR (FY18 - FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21 - FY24E)
Gross direct premium income	14488.2	13312.8	14003.1	4.3	18063.9	20604.5	23960.0	19.6
Adjusted net profit	1049.3	1193.7	1473.1	19.6	1292.0	1723.8	2110.6	12.7
Networth	5320.5	6134.2	7435.5	17.9	9235.7	10700.9	12473.8	18.8
BVPS (Rs)	117.1	135.0	163.6		188.3	218.2	254.3	
EPS (Rs)	23.1	26.3	32.4		26.3	35.1	43.0	
P/BV (x)	10.8	9.4	7.7		6.7	5.8	5.0	
P/E (x)	54.9	48.2	39.1		48.1	36.1	29.4	
RoE (%)	19.2	21.0	21.3		14.3	15.9	16.8	
P/Float	2.6	2.2	1.9		1.6	1.3	1.1	
P/GWP	3.9	4.2	4.0		3.4	2.9	2.5	

Source: Company, ICICI Direct Research

General insurance industry overview

The size of the non-life insurance industry in India is ₹ 1.98 lakh crore as on March 2021 (₹ 1.82 lakh crore for FY22-YTD) on the basis of gross direct premium income (GDPI) and has been growing at 16% CAGR in the past 10 years. Non-life insurance covers a wide range of categories viz. motor, health, marine, fire, engineering, crop and others. The motor insurance segment is the largest among these with a GDPI share of 34.1% followed by health segment with 29.5% contribution in FY21. Categorisation based on type of player shows private players [including standalone health insurers (SAHI)] dominate the industry with 57.2% market share while their PSU counterparts have a market share of 42.8%.

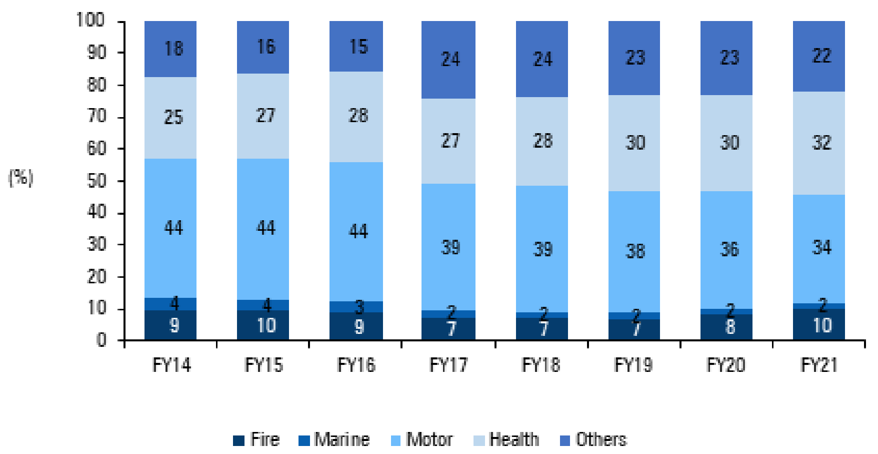
Exhibit 1: Non-life insurance premium growth trends



Source: IRDAI, ICICI Direct Research

Motor and health insurance are the two largest segments in the Indian non-life insurance space with 31% and 33% market share, respectively, as on January 2022. This is followed by crop, fire and marine insurance, respectively.

Exhibit 2: Motor, health dominates premium mix in industry

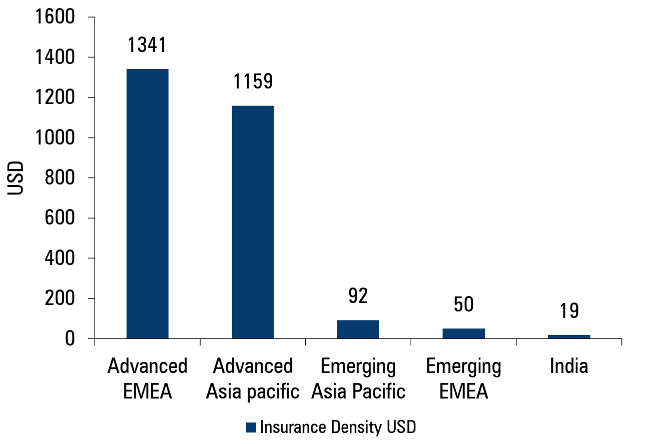


Source: IRDAI, ICICI Direct Research

India remains under insured; opportunity ahead

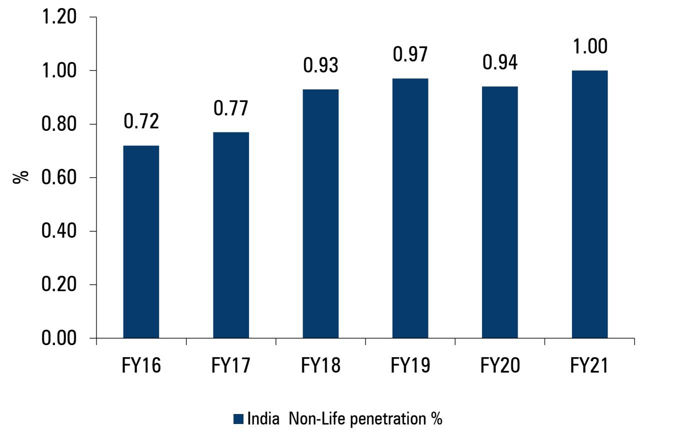
The Indian insurance market, be it life or non-life, is highly under penetrated with non-life penetration (premium as percentage of GDP) at just 1% as on FY21 compared to world average of 4.1% and advance EMEA average of 3.3%. Also, in terms of insurance density (premium to total population) India lags significantly at $19 (per capita premium) vs. EMEA at $50 and Advance EMEA at $1341.

Exhibit 3: Insurance density among various global markets



Source: IRDA, Star Health RHP, ICICI Direct Research

Exhibit 4: Low non-life insurance penetration

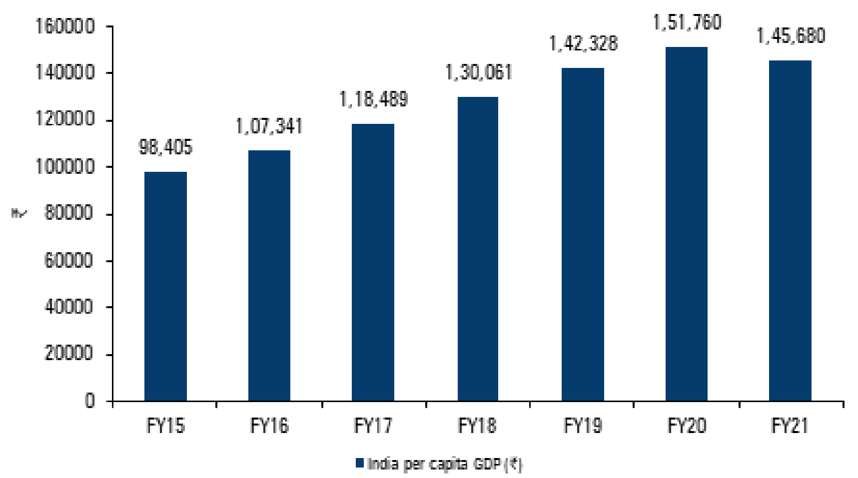


Source: IRDA, Star Health RHP, ICICI Direct Research

Over the past 10 years, despite increased digitisation, economic growth along with awareness, general insurance penetration has moved up only by 30 bps. This was mainly as overall GDPI growth has been at the ~16% mark, just tipping nominal GDP growth of 14-15%. Further, we believe the FY21 number could be slightly deflated as penetration has increased 6 bps despite a contraction in GDP.

Favourable demographics, rising income level: India has a large proportion of young population with over 50% population below the age of 25 years and 65% below the age of 35%. While the median age of the population is ~28 years in India, it is 48 years in Japan, 38 years in the US, 41 years in the UK and 38 years in China. This indicates huge potential demand and opportunity in the insurance space for long-term growth as income levels have also been rising in India.

Exhibit 5: Rising income level, awareness to create demand for insurance



Source: RHP, ICICI Direct Research

We believe that meaningful under penetration, favourable demographics and rising growth potential offer an immense opportunity in the non-life insurance segment, especially in the health and motor segment with increased awareness and improving lifestyle leading to more demand for vehicles.

Key business segments in general insurance

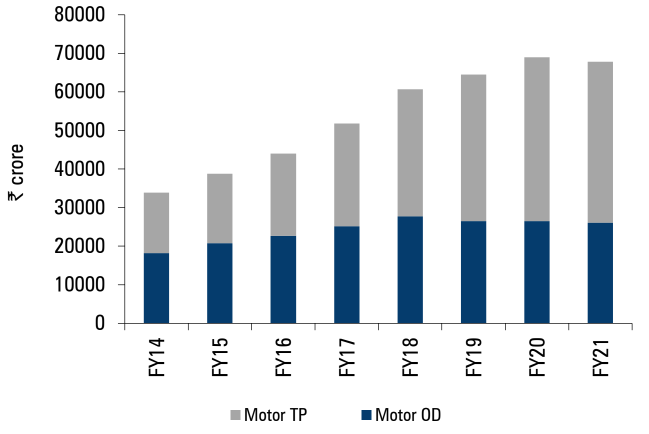
Motor insurance: Motor Insurance is the largest product category accounting for 31% of the overall GDPW during FY21. The motor insurance product is designed to protect a vehicle owner against damages to their own vehicle [own damage (OD) category) and to pay for any third-party liability arising out of damage to someone else's vehicle (third party category) in multiple scenarios like accidents, theft and natural calamities. The Motor Vehicles Act, 1988 statutorily mandates every vehicle owner have a third party (TP) insurance and holds the vehicle owners legally liable for any damage or injury/death to life or property arising out of the use of their vehicle in a public space.

Owing to the statutory requirements, motor insurance products in India are broadly offered in two types:

- Liability only policy (statutorily mandated third party insurance) – The policy only covers financial losses arising out of injury/death of a third party or damage to third party owned property. Third party also includes co-passengers travelling with the insured

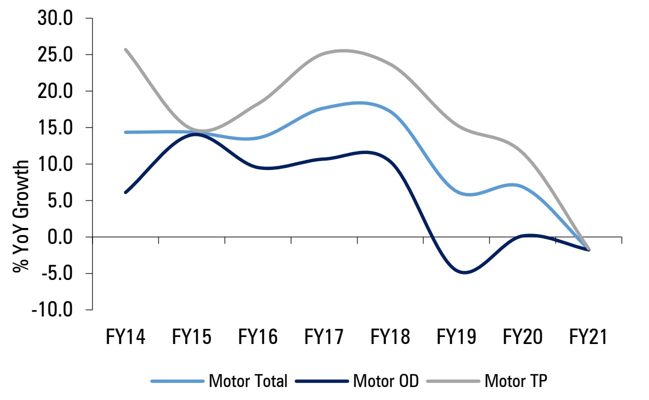
- Comprehensive package policy (liability only + own damage to owner's vehicle) – Since the liability only product does not cover the damage to the insured or their vehicle, the comprehensive package policy is designed to cover own damage (OD) to the insured or their property arising out of unforeseen circumstances

Exhibit 6: Motor insurance segmental trend



Source: IRDA, Star Health RHP, ICICI Direct Research

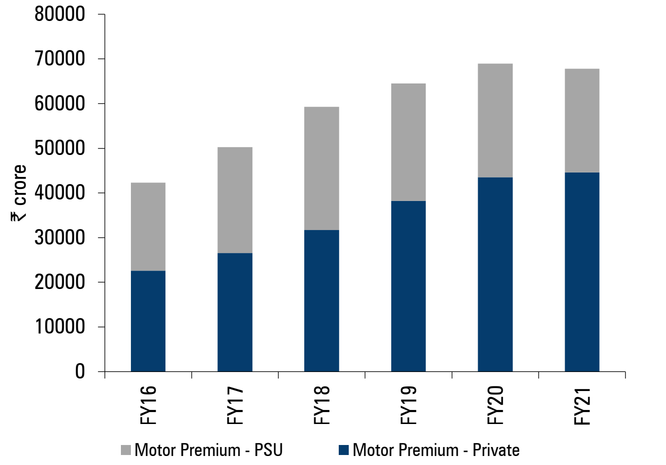
Exhibit 7: Growth trend in motor segment



Source: IRDA, Star Health RHP, ICICI Direct Research

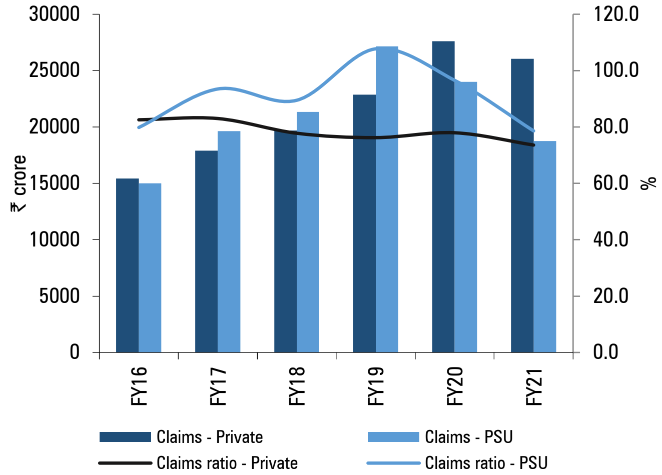
On the growth front, motor insurance has seen declining growth, especially from FY19 onwards with the pandemic impacting auto sales. However, we believe that growth in this segment should bounce back as the impact of pandemic wanes.

Exhibit 8: Private players dominate motor segment



Source: IRDA, Star Health RHP, ICICI Direct Research

Exhibit 9: Overall motor claims ratio ~75%



Source: IRDA, Star Health RHP, ICICI Direct Research

Motor TP typically has a higher claims ratio than motor OD. This is mainly on account of higher claims in the CV segment, which usually has higher accidental incidences along with third-party insurance.

Exhibit 10: Claims ratio compared to other segments

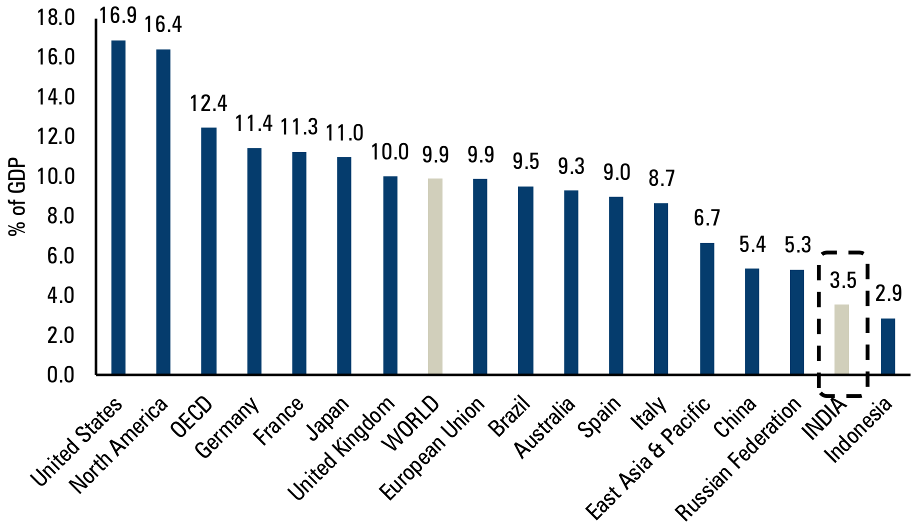
Gross Incurred Claims ratio	FY17	FY18	FY19	FY20
Motor TP	103.6	98	104.2	90.6
Motor OD	72.5	67	72.9	78
Health & PA	100.3	92	89.1	85.7
Property (Fire + engineering)	80.1	74.4	83.4	78.3
Marine - Cargo	76.9	58.4	79.6	63.7
Marine - Hull	125.3	144.5	152.3	96.5
Crop	120	105.4	90.5	94.2

Source: RHP, ICICI Direct Research

Health Insurance: India remains a severely under penetrated market for health insurance, with ~5.1 crore persons covered under some form of health insurance out of India's total population of ~140 crore, which comprises only 3.8% of total population. Low penetration, improving affordability, increasing urbanisation and better medical facilities have led to growth in industry premium.

India's current expenditure on healthcare is 3.5% of GDP, far behind the world's average of 9.8%. In addition, the country is much behind in terms of health insurance density compared to other developing and developed nations. Out of pocket expenditure on healthcare is higher than that of most countries at ~63%, indicating that most households and individuals either do not have health insurance or do not possess an adequate cover.

Exhibit 11: Health expenditure as % of GDP



Source: World Bank, Star Health RHP, ICICI Direct Research

We believe health insurance will give a long term opportunity to players with penetration doubling ~2x in nine years from 3.8% in FY21 to 8.2% in FY30E. Further, average ticket size is expected to increase led by medical inflation, higher sum assured and ageing of existing client base.

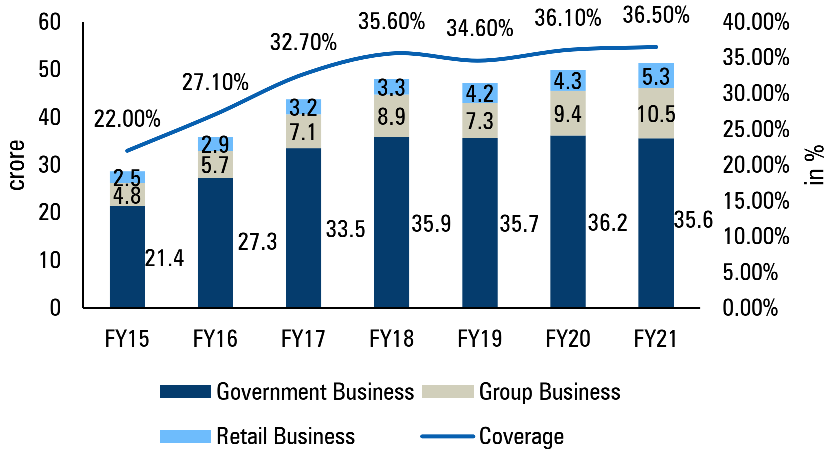
Exhibit 12: Health premium to grow at 17% CAGR in FY21-31E

	FY15	FY19	FY20	FY21	FY24E	FY30E	FY15-21 CAGR	FY21-24 CAGR	FY21-31 CAGR
India's Population (in cr.)	131	137	138	141	147	161	1.2%	1.5%	1.5%
Penetration of Coverage (%)	1.9%	3.1%	3.1%	3.8%	5.0%	8.2%			
No. of policies (in cr.)	1.0	2.0	1.7	2.3	3.0	5.2			
Person per policy	2.4	2.1	2.5	2.3	2.4	2.5			
Lives Covered (in cr.)	2.5	4.2	4.3	5.3	7.4	13.2			
Ticket Size (₹)	3448	4172	4641	4875	5972	8963	5.9%	7.0%	7.0%
Premium in retail (in ₹ cr.)	**8621**	**17524**	**19956**	**25839**	**44029**	**118490**	**20.1%**	**19.4%**	**18.4%**
Proportion of retail business (%)	43.5	39.1	39.3	44.4	45.9	48.9			
Total health premium (in ₹ cr.)	**19838**	**44873**	**50758**	**58238**	**95990**	**242469**	**19.7%**	**18.1%**	**17.2%**

Source: Media Sources, IRDAI, ICICI Direct Research

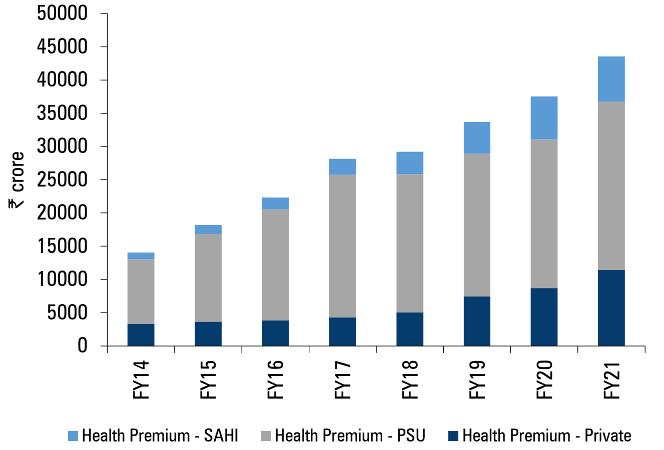
The number of lives covered under the health insurance sector is ~51 crore (i.e. 37% of India's population), of which 70% accounts are from government business (~36 crore) while group business accounts for 20% (~10 crore) and retail accounts for 10% (~5 crore).

Exhibit 13: Health industry break-up



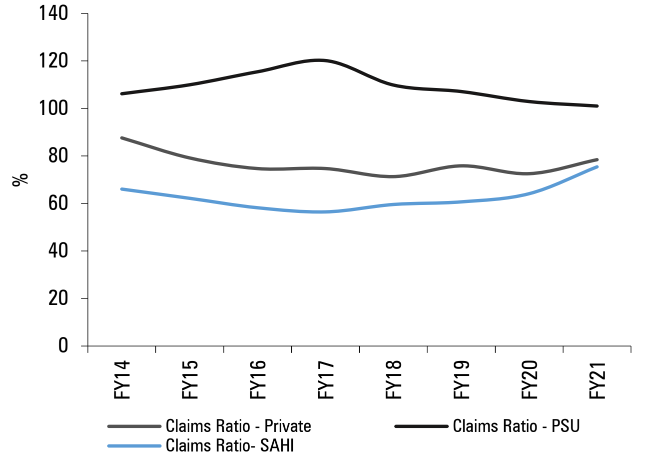
Source: RHP, ICICI Direct Research

Exhibit 14: PSU players contribute major pie in premium



Source: IRDA, Star Health RHP, ICICI Direct Research

Exhibit 15: SAHI players have best claims ratio in health

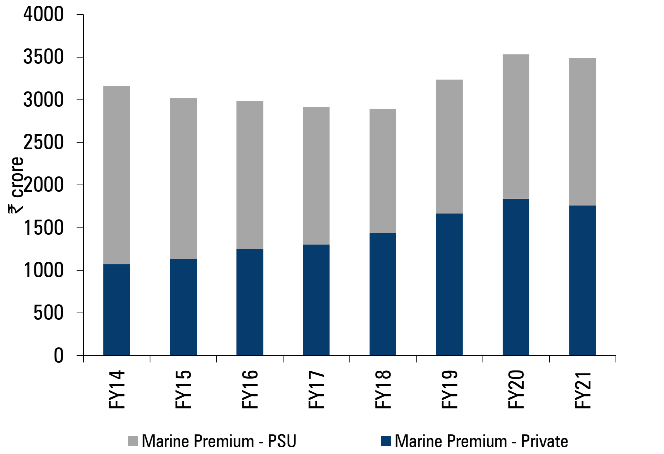


Source: IRDA, Star Health RHP, ICICI Direct Research

Fire and engineering insurance: While the fire insurance product covers factories, buildings, offices, warehouses and other structures against losses arising out of fire, the engineering insurance product is designed to protect against losses arising due to various plant, machinery and engineering equipment breakdown including mechanical, electrical and electronic equipment. The fire and engineering insurance products together accounted for 11.6% of overall GDPI during FY21.

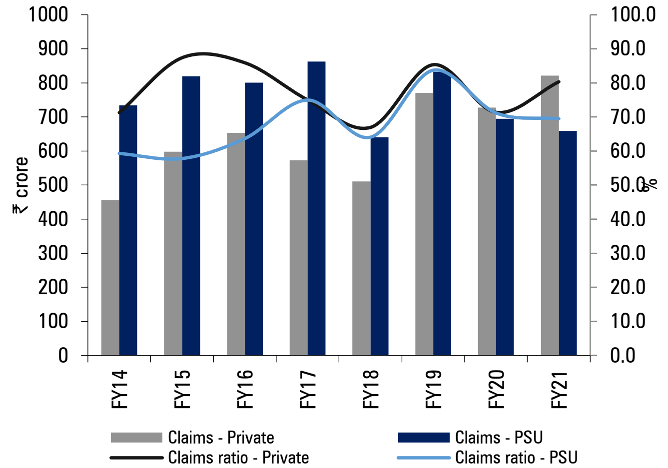
Marine insurance: Marine insurance largely refers to insurance of ships, boats, etc, and goods carried by them. Marine hull means insurance covering the body of the vessel while marine cargo refers to insurance of goods carried by the vessel. Marine insurance overall forms 1.8% of total GDPI for FY21. New India is the largest player in this segment with 24% market share followed by ICICI Lombard at 13.7%.

Exhibit 16: Marine insurance sees modest growth



Source: IRDA, Star Health RHP, ICICI Direct Research

Exhibit 17: Claims remain range bound for marine

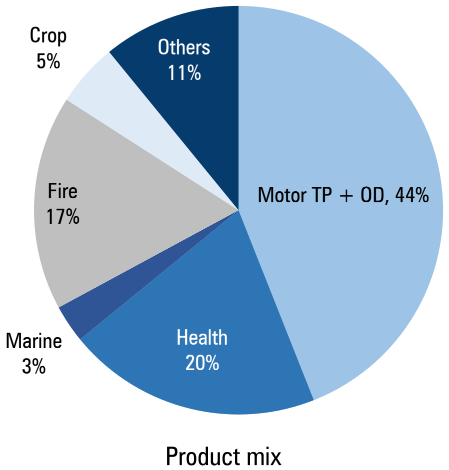


Source: IRDA, Star Health RHP, ICICI Direct Research

Company Background

ICICI Lombard General Insurance Company (ICICI Lombard) is India's second largest non-life insurance player and one of the largest within the private sector with 8.3% market share on an overall basis and 12.9% in the private general insurance space. The company is present in various insurance segments in the non-life space with motor insurance being the largest contributor to its premium at 44% as on January 2022. Its key distribution channels are direct sales, individual agents, corporate agents - banks, other corporate agents, brokers, MISPs and digital, through which it serves customers ranging from individual, corporate and government. The insurer issued 97.2% of its policies electronically in FY21. ICICI Lombard has maintained a leadership position among private sector non-life insurers in India across motor (own damage and third-party liability), health and personal accident, crop, fire, engineering and marine segments.

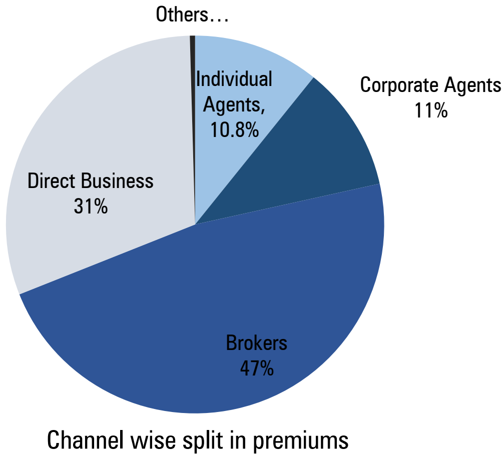
Exhibit 18: Product mix as on January 2022



Source: RHP, ICICI Direct Research

The company currently has a diversified and strong distribution network with 81,969 agents including PoS and 285 offices as on December 2021.

Exhibit 19: Diversified channel mix



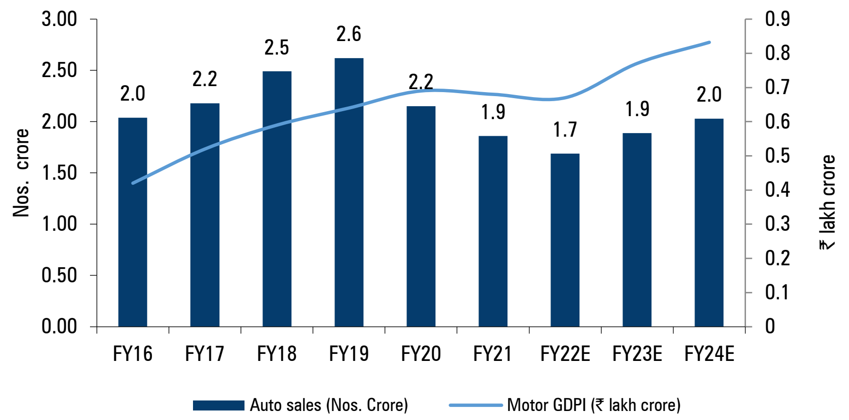
Source: RHP, ICICI Direct Research

Key Investment Rationale

Leader in motor insurance space with selective portfolio

ICICI Lombard is the largest motor insurer in the private space with 11.7% market share as on January 2022 while it is second largest with PSU insurers added to the mix. New India Assurance is the largest player with a tad higher market share than ICICI Lombard at 11.8%. Going into further segmentation, ICICI Lombard is also second largest in the motor third party (TP) insurance space with 9.6% market share followed by United India (9.5%), National Insurance (7.6%) and Bajaj Allianz General insurance (6.6%). Motor insurance (OD + TP) forms 44% of the total gross premium of the insurer compared to industry average of 31%. Thus, we believe recent developments pertaining to third party insurance premium hike as well as expected growth in auto sales would pedal growth in the medium term ultimately benefitting ICICI Lombard.

Exhibit 20: Pick up in auto sales to drive premium growth in motor segment

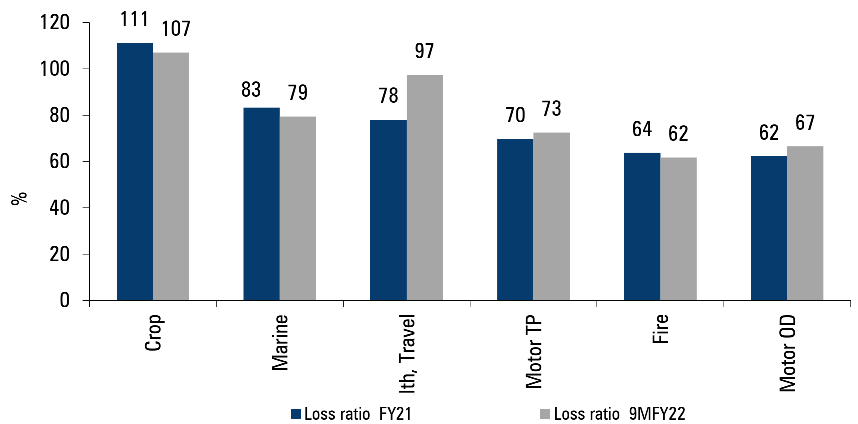


Source: IRDAI handbook, ICICI Direct Research

Within the auto space, ICICI Lombard has meticulously chosen to be dominant in loss cost driven micro-segmentation, meaning focus on products with less loss ratios and, thus, being profitable. This can be seen from its mix within the motor segment as 55.4% contribution comes from the private car segment and another 27.3% comes from the two-wheeler segment. Historically, these two segments have lower claims as the probability of these two running on the highway at a given point of time is lower than a usual commercial vehicle.

Segmental information from ICICI Lombard also suggests that typically loss ratios have been lower in motor segments. This was especially due to targeted focus on low cost driven micro-segmentation.

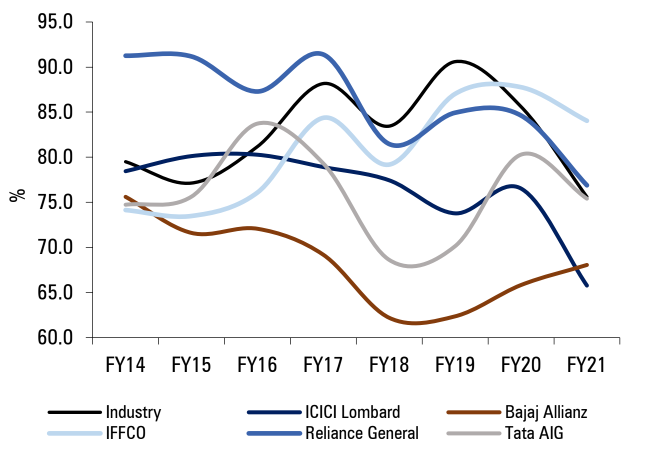
Exhibit 21: Product wise loss ratios for ICICI Lombard



Source: IRDAI handbook, ICICI Direct Research

Historically, commercial vehicles have had higher loss ratios resulting in underwriting losses. ICICI Lombard has benefited as it is less exposed to such risk and also has higher TP insurance, which gives better float as claim settlement takes longer.

Exhibit 22: ICICI Lombard has among lowest loss ratios



Source: IRDA, Star Health RHP, ICICI Direct Research

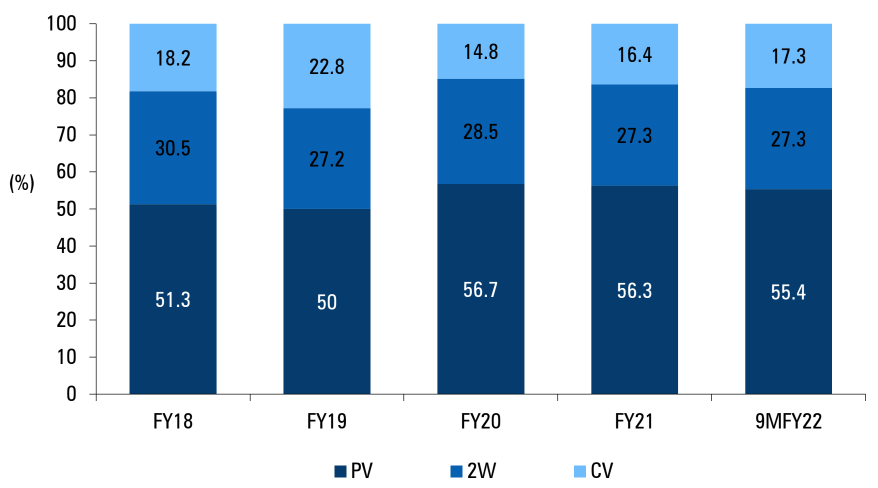
Exhibit 23: Loss ratio insurance and vehicle type wise

Industry	Combined ratios % in motor segment FY20	
Type of Vehicle	Motor-OD	Motor-TP
2Wheeler	50	63
4W private	83	65
CV Goods	57	97
CV Passenger	53	87
Industry	78	91

Source: IRDA, Star Health RHP, ICICI Direct Research

Above data clearly indicates that combined ratios (loss ratio + opex + commission) is much higher in the CV segment, especially when it comes to third party insurance. ICICI Lombard has only 17% of its exposure towards high-risk CV segment, which, in turn, helps it to generate minimal losses and, thus, yields better returns.

Exhibit 24: ICICI Lombard has low exposure to CV segment

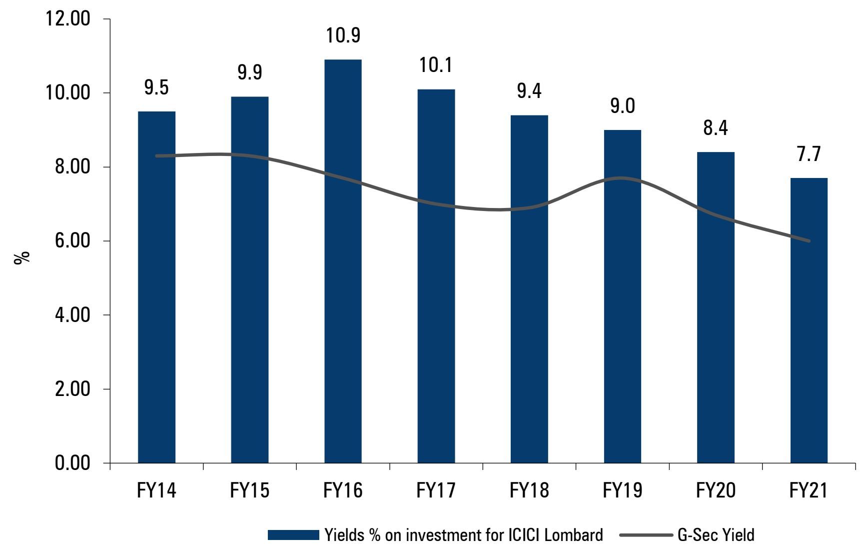


Source: IRDAI handbook, ICICI Direct Research

Leveraging investment book to support earnings

ICICI Lombard, being one of the leading general insurers in the industry, has a large investment book at ₹ 37454 crore as on December 2022. This investment book has grown at a CAGR of 21.7% in FY16-21 while there was a slight bump up in FY22 due to addition of Bharti AXA. Leverage in the investment book (investment assets/net worth) has also increased from 3.87x to 4.23x over the last five years. This, in turn, aids earnings amid volatility in underwriting profitability, especially during catastrophic events and pandemic. Realised returns have fallen from 10.3% in December 2018 to 6.46% in 9MFY22. However, this was mainly due to a sharp decline experienced in the interest rate environment. With debt portfolio being 98.5% of overall investments, the impact was seen on overall yields. However, we believe with the interest rate cycle bottoming out, the scope of better realised returns would increase.

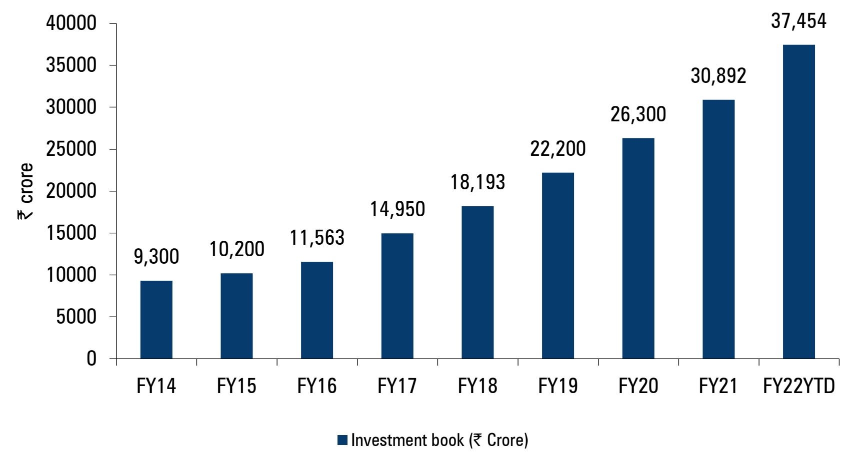
Exhibit 25: Investment yields, income key to profitability



Source: IRDAI handbook, ICICI Direct Research

We also believe that Indian general insurers work on "cash before cover model", according to which underwriting losses are assumed after receiving the premiums and claims are to be paid at later stage. Hence, there is a significant time gap when the money is idle, especially in the motor TP segment where claims can take over five years to settle. Thus, this can be used for investment purposes. Hence, larger the premiums, larger is the investable amount and, thus, larger is investment income.

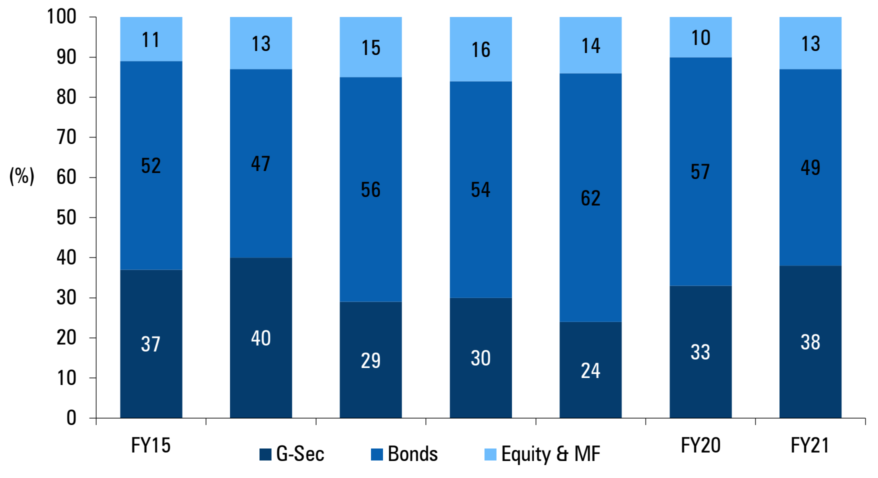
Exhibit 26: Historical trend in investment book for ICICI Lombard



Source: IRDAI handbook, ICICI Direct Research

Growth in the investment book has been healthy at ~20% CAGR over FY14-9MFY22. The insurer currently has unrealised gains of ₹ 637 crore in equity and ₹ 679 crore in other than equity segment of its investment portfolio.

Exhibit 27: Category wise investment book break-up

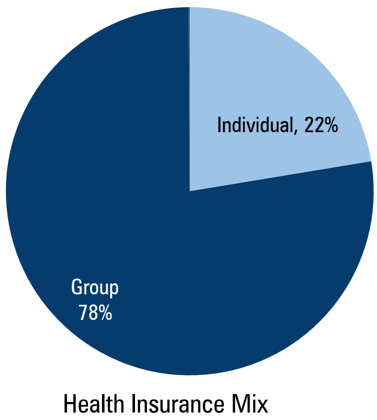


Source: IRDAI handbook, ICICI Direct Research

Focus on retail health to aid profitability

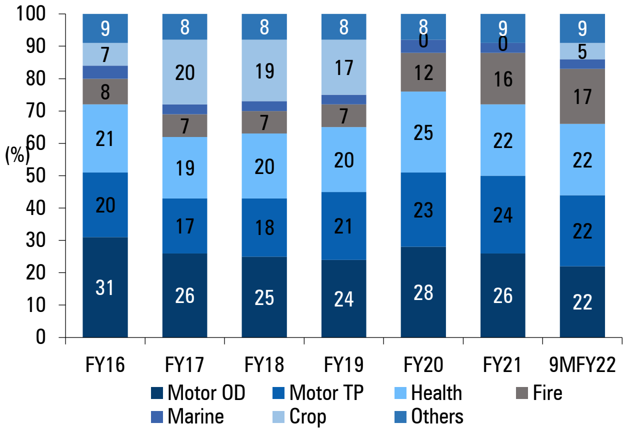
ICICI Lombard has seen lagging growth in the health insurance segment compared to the industry and has been losing market share in the past few years from ~6.3% (including Bharti AXA) in FY16 to 5.0% by January 2022. Key reasons for slower growth in the health insurance segment include discontinuance of attachment of health policies by ICICI Bank to retail credit products, exit from government sponsored schemes due to profitability issues and a calibrated approach in group business in large corporates due to intense competition. Health insurance is the second largest segment for ICICI Lombard post motor with a GDPI contribution of 20.1% (January 2022). Within health, the individual segment comprises 22.4% vs. 24.9% a year ago while market share is only 2.9%.

Exhibit 28: Group health forms major portion of ICICI Lombard's health segment



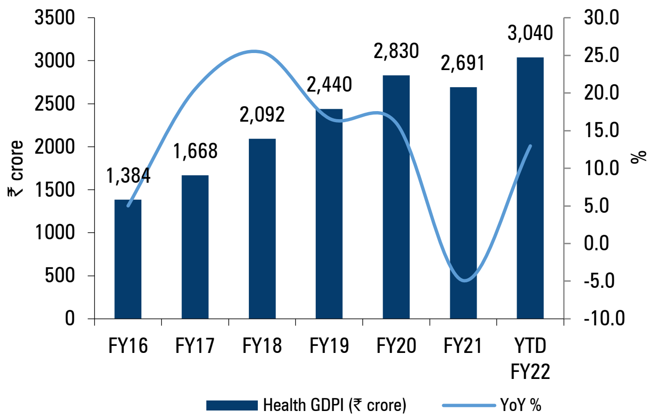
Source: IRDAI handbook, ICICI Direct Research

Exhibit 29: Exiting loss making business like crop



Source: IRDA, Star Health RHP, ICICI Direct Research

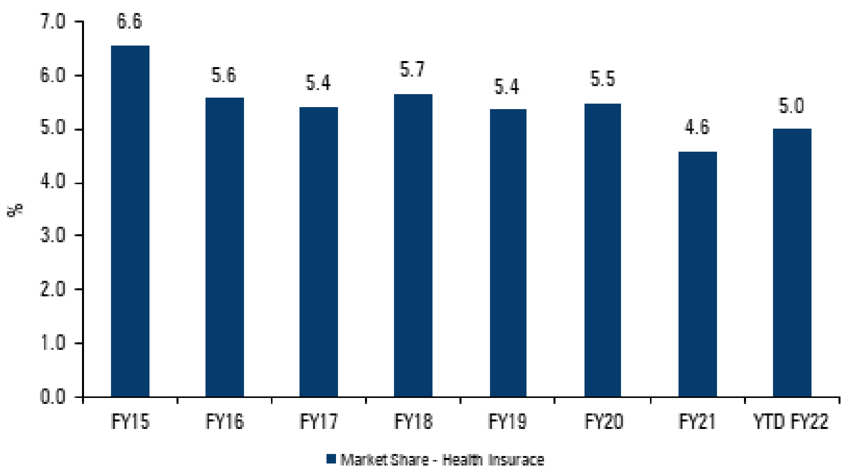
Exhibit 30: Subdued growth due to slow retail health



Source: IRDA, Star Health RHP, ICICI Direct Research

In the group business, the company focuses on the SME and medium size business as there it strikes a balance between premium pricing and opex where decent profitability could be achieved. We also believe that due to pandemic, awareness among the general population has increased while the health segment is likely to be ahead of industry growth in coming years. Hospitalisation in the delta wave (second wave) was ~10-11% while in the third wave it came down to 1-2% indicating lower claims. ICICI Lombard has seen over 23% growth in individual agents in the past five years till FY21 while addition of ~6700 agents due to acquisition of Bharti AXA and further impetus to the agency has given a further boost to the network. Total agent, including PoS, has increased from 59545 in March 2021 to 81969 in December 2021. Thus, we believe strong expansion in the agent network should give a boost to the retail health segment of the company.

Exhibit 31: Market share in health segment to revive ahead



Source: IRDAI handbook, ICICI Direct Research

Recent regulatory developments aid long-term prospects

Long- term third- party insurance was made compulsory for all new four-wheelers (4-W) and two-wheelers (2-W) from September 2018. This would ensure higher compliance, as only 45- 50% of vehicles are insured. In case of 2-W, a five-year long term TP insurance was made compulsory while in case of cars it was kept to three years. Material advantage was expected to be seen about two years later since it was applicable post September 2019. However, by then, the Covid-19 pandemic started, which masked such positive reflections.

Exhibit 32: Exiting high loss segments has been key to profitability

Long-term TP rates (₹)	FY19	FY20	FY21	FY22	Revised for FY23E	Change %
Private Cars (<1000 cc)	1850	2072	2072	2072	2094	1.1
Private Cars (1000-1500 cc)	2863	3221	3221	3221	3416	6.1
Private Cars (>1500 cc)	7890	7890	7890	7890	7897	0.1
2Wheeler						
<75 cc	427	482	482	482	538	11.6
75-150 cc	720	752	752	752	714	-5.1
150-300 cc	985	1193	1193	1193	1366	14.5
>300 cc	2323	2323	2323	2323	2804	20.7
CV- Goods Carrying						
<7500 Kg	14390	15746	15746	15746	16049	1.9
>4000 kg	38308	41561	41561	41561	44242	6.5

Source: IRDAI handbook, ICICI Direct Research

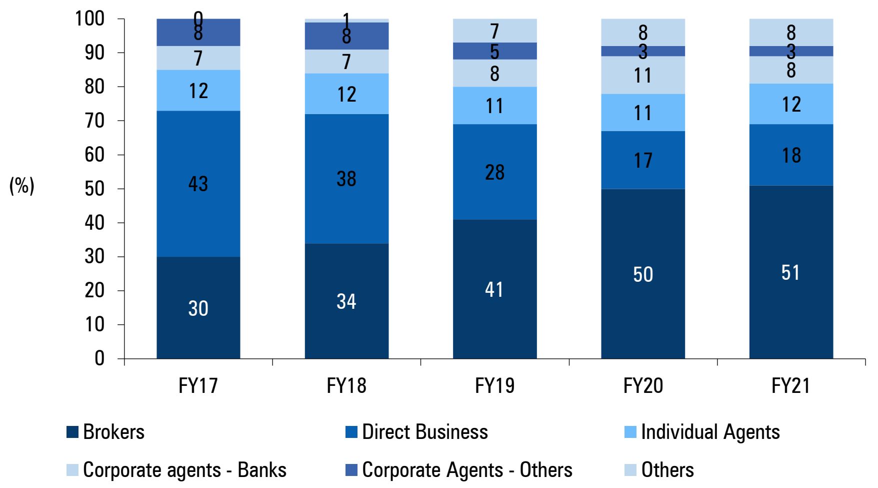
IRDAI has not changed tariffs in the last two fiscal years, mainly to avoid a hike in vehicle prices due to this lever, especially in a pandemic environment where sales had already taken a hit. However, recently, IRDAI has issued a draft notification on the third-party motor insurance premium rates for cars, two-wheelers, electric vehicles and other transport vehicles for FY23.

Hike in private car and CV segment is ~1-6% while the two-wheeler segment has seen a sharp rise in premiums up to 20.7%. ICICI Lombard has 27.3% mix in premiums from the two-wheeler segment. We believe this rate hike would propel growth in premiums by ~8-10%.

Diversified distribution channel serves well

ICICI Lombard has got a strong distribution network while in recent quarters the insurer has been adding agents to its kitty. ICICI Lombard has seen over 23% growth in individual agents in the past five years till FY21 while addition of ~6700 due to acquisition of Bharti AXA and further impetus on agency has given additional boost to the network. Total agents, including PoS, has increased from 59545 in March 2021 to 81969 in December 2021. Thus, we believe strong expansion in agent network should give a boost to the retail health segment of the company. In recent years, ICICI Lombard has been expanding its distribution network to increase penetration in tier 3 and tier 4 cities on account of increased opportunity in the individual health indemnity segment. Recent tie-ups with large banks (HDFC Bank, Axis Bank), by virtue of the Bharti AXA acquisition, should also help. Over the years, the insurer has lost some market share. More recently, this was also due to the fact that ICICI Bank stopped selling indemnity policies.

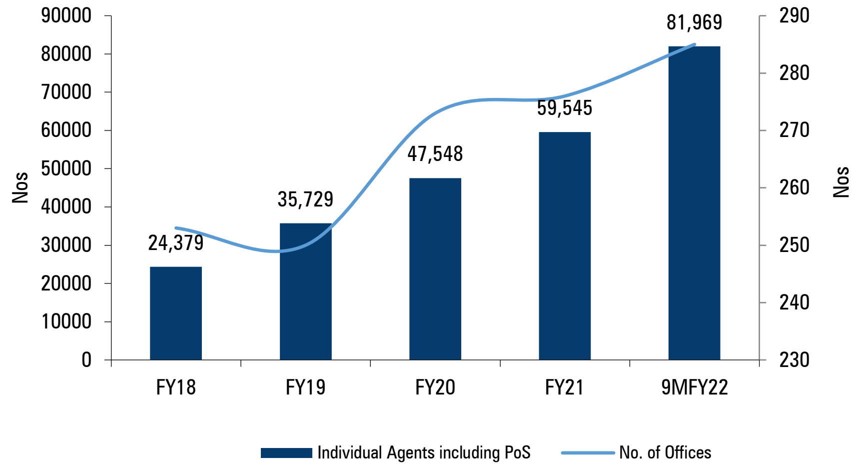
Exhibit 33: Brokers, agents dominate channel mix



Source: IRDAI handbook, ICICI Direct Research

A sharp rise in number of agents and offices can be seen partly due to the Bharti AXA acquisition while partly it was due to the insurer's own strategy to focus on strengthening its network, especially to push growth in the retail health segment.

Exhibit 34: Sharp rise in agents to propel growth in retail health

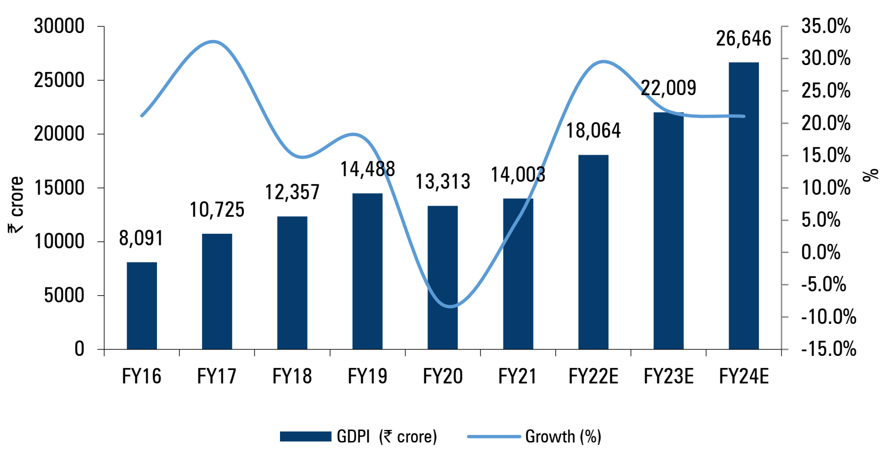


Source: IRDAI handbook, ICICI Direct Research

Healthy financials, consistent return ratios

ICICI Lombard has shown consistency on the profitability front even though premium growth in the past few years was impacted due to various reasons. On the business growth front, we expect gross premiums to show better growth of ~18% in FY22E-24E due to various positive levers in the motor, health and crop insurance space.

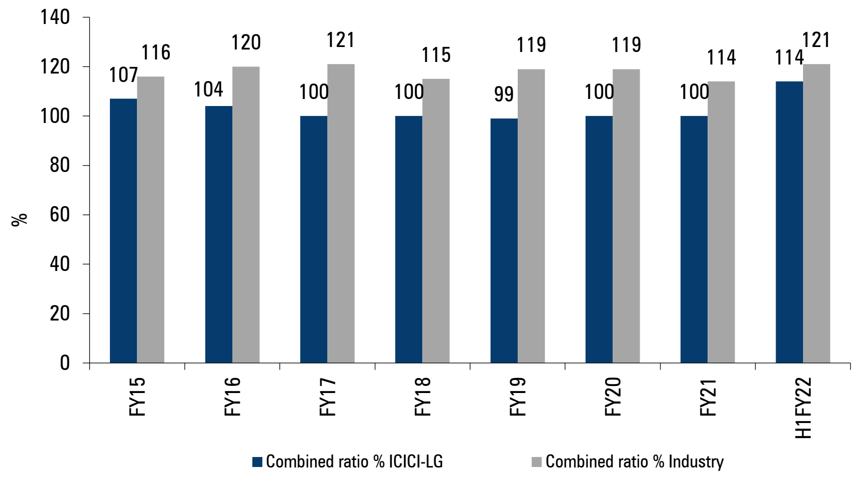
Exhibit 35: Gradual growth in premium anticipated ahead



Source: IRDAI handbook, ICICI Direct Research

Historically, the industry, as a whole, has been making underwriting losses and combined ratios have remained above 115% mostly. However, ICICI Lombard has avoided entering high loss-making segments in both health and motor insurance. Thus, the company has been able to maintain a much better combined ratio than industry overall, with five-year average at 103%.

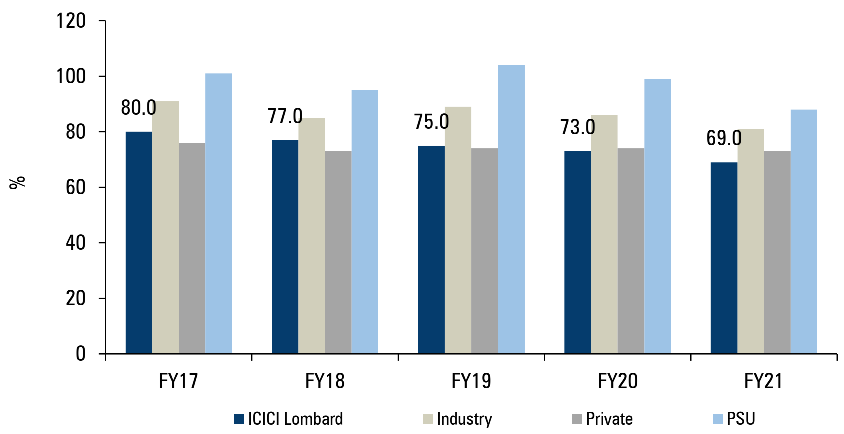
Exhibit 36: ICICI Lombard well ahead of industry in making underwriting profits



Source: IRDAI handbook, ICICI Direct Research

Claims ratio for ICICI Lombard has been relatively lower in the general insurance space. This was also mainly due to the fact that it exited high loss making business like crop insurance and group corporate health.

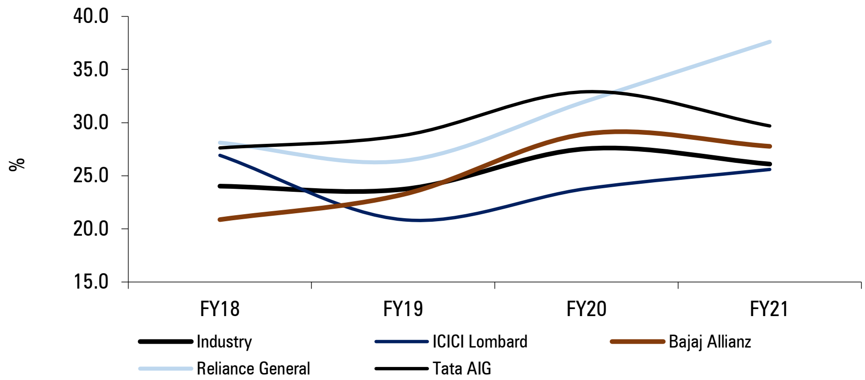
Exhibit 37: Lower claim ratio for ICICI Lombard reflects meticulous segment choice



Source: IRDAI handbook, ICICI Direct Research

Profitability has been the key focus and the insurer's strategy to keep combined ratios near 100% levels and earn through its large investment book has yielded good results. Average RoE in FY15-21 has been 20%+ while we expect it to reach similar levels in coming years. FY22 PAT could be impacted due to higher claims in the third Covid wave and also merger of Bharti AXA that had a higher combined ratio.

Exhibit 38: Opex ratio also among best in industry



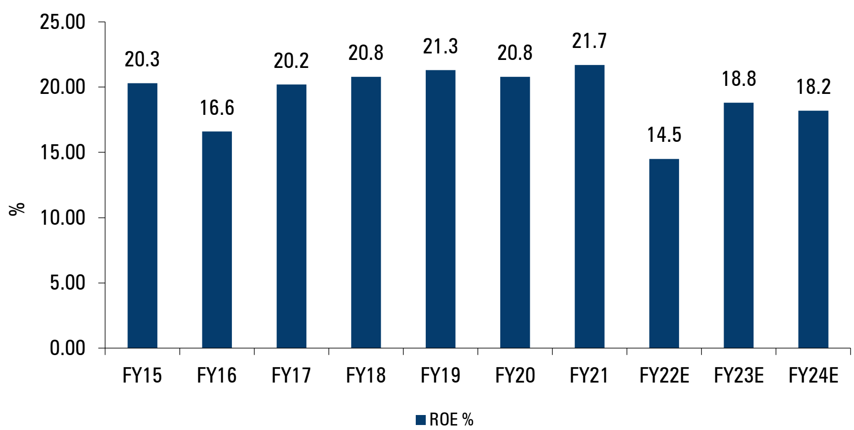
Source: IRDAI handbook, ICICI Direct Research

Lower opex ratio along with lower claims ratio vs. comparable peers as well as overall industry helps ICICI Lombard to improve underwriting results.

Performance on Profitability front consistent

ICICI Lombard on virtue of its meticulous choice of business segments and sub-segments and cost control has been able to deliver a consistent ROE at ~18-20% mark over past many years

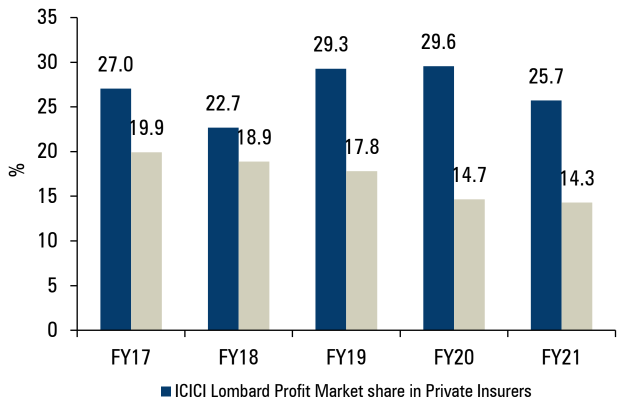
Exhibit 39: Consistency in return ratio maintained



Source: IRDAI handbook, ICICI Direct Research

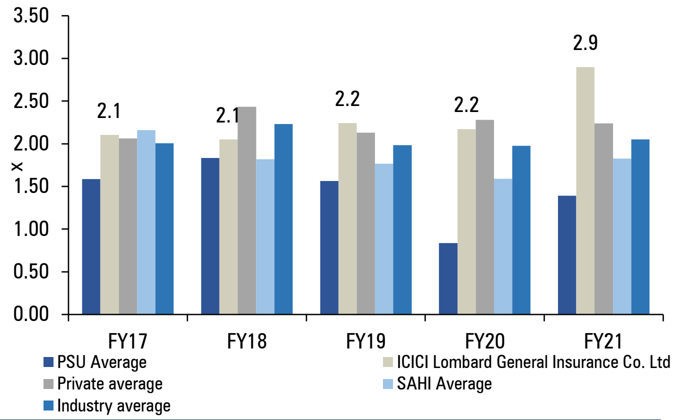
The profit market share has been largely consistent despite a fall in overall premium market share owing to better underwriting profits and focus on profitable segments. ICICI Lombard has always maintained healthy solvency and has been mostly over the 2.1% mark, above industry average. For March 2021, solvency for ICICI Lombard was comfortably higher than peers at 2.9x vs. industry average of 2.1x and private average of 2.2x.

Exhibit 40: Profit market share largely intact



Source: IRDA, Star Health RHP, ICICI Direct Research

Exhibit 41: ICICI Lombard among best in solvency



Source: IRDA, Star Health RHP, ICICI Direct Research

Comfortable valuations provide opportunity to enter

ICICI Lombard has been historically trading in the valuation range of 35-40x PE or 2x of float/investment book. Given recent price correction of ~25% from August 2021 and slight time correction as well, we believe the insurer is comfortably placed on the valuation front. We believe the impact of successive Covid-19 waves has been getting milder, due to vaccinations, which is expected to lead to lower hospitalisations. Also, the motor segment has been getting a fillip due to recent developments. Hence, the overall outlook has been improving. Thus, considering the revival in business prospects, diversified product basket and long-term structural opportunities, we value the insurer using price to premium (50% weightage) and price to float (50% weightage), arriving at a target price of ₹ 1550 per share. On a peer-to-peer basis, we opine that valuation would not be meaningful as in the listed space we have only one standalone health and one PSU general insurer.

Global insurance valuation

Global insurance companies have generated strong return ratios. Chinese and US companies have generated good return ratios and traded at a good valuation.

Exhibit 42: Valuation of global peers

Company	Bloomberg Code	Price (in ₹)	Market Cap (₹ crore)	P/E FY21	P/E FY22E	P/E FY23E	P/E FY24E	P/B FY21	P/B FY22E	P/B FY23E	P/B FY24E	ROE FY21	ROE FY22E	ROE FY23E	ROE FY24E
China															
New China Life	601336 CH Equity	443.9	114219.7	7.5	7.3	6.5	NA	1.1	0.9	0.8	NA	15.3	14.8	14.4	NA
China Life	2628 HK Equity	120.0	768822.7	5.4	4.9	4.4	3.0	0.6	0.6	0.5	NA	11.7	11.9	12.0	16.7
Ping AN	2318 HK Equity	530.5	1021232.6	6.1	6.7	5.3	3.8	1.0	0.9	0.8	0.7	22.9	19.8	16.8	20.6
France															
AXA	CS FP Equity	1858.4	450076.0	8.9	7.4	6.9	6.7	0.9	0.8	0.7	0.7	11.3	9.4	9.9	10.6
India															
Star Heatlth	STARHEAL IN Equit	625.4	35993.2	NA	NA	51.7	31.8	9.9	8.3	6.6	5.2	(32.1)	(17.2)	16.0	18.1
ICICI Lombard	ICICIGI IN Equity	1222.3	59999.0	37.7	42.8	29.7	23.7	7.5	6.9	5.4	4.6	21.7	13.7	19.5	20.5
New India Assurance	NIACL IN Equity	112.8	18589.4	11.6	13.7	8.1	NA	1.0	0.9	0.8	NA	8.8	8.3	10.7	NA
Netherlands															
NN Group	NN NA Equity	3075.3	97756.5	3.5	7.5	7.0	6.6	0.3	0.3	0.3	0.3	10.0	4.7	4.5	4.7
United Kingdom															
Prudential PLC	PRU LN Equity	1027.4	282166.0	12.1	13.5	11.5	9.1	2.2	1.9	1.5	1.3	23.6	18.6	18.0	13.7
Aviva PLC	AV/ LN Equity	377.6	139918.5	53.0	8.4	7.2	5.9	0.7	0.7	0.7	0.6	(1.4)	9.5	8.5	9.3
United States															
United Health Group	UNH US Equity	37443.4	3523043.7	26.9	22.5	19.7	17.4	6.4	5.6	4.8	4.4	25.2	24.3	26.8	28.0
CVS Health Corp	CVS US Equity	8041.3	1055432.0	14.5	12.6	11.7	10.7	1.8	1.7	1.6	1.4	13.3	13.2	12.8	13.4
Anthem INC	ANTM US Equity	34956.2	843508.9	18.3	16.0	14.1	12.3	3.0	2.7	2.3	2.0	17.7	17.9	18.1	19.2
Cigna Corp	CI US Equity	18292.2	587092.9	14.2	10.6	9.5	8.5	1.6	1.5	1.5	1.3	11.7	14.7	15.7	15.4

Data as on 8th March 2022, Source: Bloomberg, ICICI Direct Research

Exhibit 43: Key managerial personnel

Name	Designation	Qualification	Skills/ Specialization
Mr Bhargav Dasgupta	MD & CEO	B.E. (Mechanical),PGDBA-IIM Bangalore	Banking, Corporate Planning, Strategy, Consumer Insights and Insurance
Gopal Balachandran	CFO & CRO	CA, CS	Financial Reporting, Management Reporting, Taxation, Secretarial, Risk management
Alok Kumar Agarwal	Executive Director- Wholesale	B.E. (Chemical), PGDM- IIMCalcutta	Banking, Insurance, Corporate Planning, Strategy, Consumer Insights and Marketing
Sanjeev Mantri	Executive Director - Retail	CA, Cost and Work Accountant	Banking, Finance, Corporate Planning, Strategy, Insurance, Consumer Insights and Marketing

Data as on 8th March 2022, Source: Bloomberg, ICICI Direct Research

Key Risks

Reduction in stake of ICICI Bank may weigh on stock performance

ICICI Bank currently holds 48.05% stake in the general insurer, which was mainly on account of merger with Bharti AXA as prior to the mentioned event the bank's stake in the insurer was 52%. However, as per extant regulations, the bank's stake needs to be brought down below 30%. The bank has got exemption of three years starting September 2020 to achieve the same. Thus, we believe there is uncertainty on how and when the stake sale will take place and also whether it will take place in tranches or not. This could create selling pressure and, thus, impede healthy upside movement in the stock price.

Increasing competition

The general insurance market in India is very competitive with such competitors offering similar products and services. As a result, there is a high chance of players getting into a price war. This price war creates high loss ratios, resulting in underwriting losses for most players. Rising competition, especially via digital disruptors, poses pricing risk. Over the last few years, new age technology focused general insurance companies like Acko, Go Digit & Navi have been increasing their market share and combined market share has increased from 1.2% to ~5% in motor segment in the past three years. These are potential threats to existing players.

Limited pricing power

General insurance has limited pricing power amid intense competition and regulations. For example, third party insurance is tariffed while government crop and health business is tender based and lumpy. Individual health and motor OD face intense competition while pricing in the marine/fire/group health business is driven more by reinsurance rates. Thus, non-life insurers have to focus on a leaner cost structure in order to achieve underwriting profits and deliver superior return ratios.

Pandemic

Till now the world has witnessed three waves of the Covid-19 pandemic with each leading to rising claims in the health segment while due to reduced economic activity there was a slowdown in segments like motor insurance. Though the intensity of the pandemic has been weakening there can be no assurance that upcoming Covid variants and waves would follow a similar trend. Thus, in case of any severe outcomes due to pandemic, the general insurance industry, especially health and motor, can get impacted.

Market risk

ICICI Lombard being among the largest general insurers in the market, has a sizable investment book as well. Thus, it makes meaningful profits from investment income (including capital gains). Since ~80% of the book is towards debt investment and 20% in equity, earnings of ICICI Lombard are considerably linked to market risks, including changes in interest rates or adverse movements in equity markets. For a general understanding purpose, we believe that ~25 bps change in yield on investment book impacts earnings by ~3.5%.

Regulatory changes

The laws and regulations or the regulatory or enforcement environment is subject to change at any time, which can have an adverse effect on the products or services offered by general insurance companies. Substantial changes that have occurred in the past few years include the introduction of various regulations such as the Insurance Regulatory and Development Authority of India (Health Insurance) Regulations, 2016, and Insurance Regulatory and Development Authority of India (Appointment of Insurance Agents) Regulations, 2016, Motor Vehicles Act 2019. Any change in policies by the IRDAI may result in changed requirements and, thus, impact business.

Financial summary

Exhibit 44: Policy holder's Account (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Gross direct premium income	13312.8	14003.1	18063.9	20604.5	23960.0
Net Earned Premium	9403.5	10014.0	12521.9	14066.2	16291.3
Investment income	1649.2	2147.4	2660.0	2964.4	3292.2
Total income	**11052.7**	**12161.4**	**15181.9**	**17030.6**	**19583.5**
Claims	6851.6	6870.8	9417.0	10260.7	11721.1
Commission	364.0	600.9	695.9	791.9	905.1
Operating expense	2293.1	2734.2	3620.4	3681.3	4164.5
Total expense	**9508.7**	**10205.9**	**13733.4**	**14733.9**	**16790.8**
Operating profit/(loss)	1544.0	1955.4	1448.5	2296.7	2792.6

Source: Company, ICICI Direct Research

Exhibit 45: Shareholder's Account (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Operating profit/(Loss)	1544.0	1955.4	1673.1	2296.7	2792.6
Income from Investments	464.4	504.6	669.2	760.9	988.6
Other income - misc income	15.6	12.4	12.4	12.4	12.4
Total Income	2024.0	2472.5	2354.7	3069.9	3793.6
Total Expenses	327.2	518.5	627.4	765.4	933.8
Profit Before Tax	1696.8	1954.0	1727.3	2304.5	2859.8
Tax	503.1	480.9	435.3	580.7	749.3
Profit After Tax	1193.7	1473.1	1292.0	1723.8	2110.6

Source: Company, ICICI Direct Research

Exhibit 46: Balance sheet (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' Funds					
Share capital	454.5	454.6	490.5	490.5	490.
Reserve and surplus	5679.8	6980.9	8745.2	10210.4	11983.
Fair Value change	-428.6	680.5	778.5	924.6	1100.
Borrowings	485.0	485.0	339.5	407.4	488.
Total	**6190.6**	**8601.0**	**10353.7**	**12032.9**	**14063.**
Application of funds					
Investments					
Shareholders'	5859.6	7435.7	9369.0	11355.2	13876.
Policyholders'	20467.2	23456.5	29555.2	34875.1	41152.
Fixed assets	676.6	626.8	633.1	645.8	665.
Deferred tax asset	306.3	349.9	349.9	349.9	349.
Current assets					
Cash and bank balances	32.6	227.6	208.9	274.1	386.
Advances and other assets	9699.8	7201.3	9032.0	10302.3	11860.
Current liabilities	24979.8	24099.5	31070.0	36779.1	43607.
Provisions	5871.7	6597.4	7724.3	8990.3	10619.
Total	**6190.6**	**8601.0**	**10353.7**	**12032.9**	**14063.**

Source: Company, ICICI Direct Research

Exhibit 47: Key Ratios

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Growth Ratios (%)					
Gross Direct Premium Income	-8.1	5.2	29.0	14.1	16.3
Net Premium Income	12.3	6.5	25.0	12.3	15.8
Operating Expenses	11.3	7.3	34.6	7.3	14.0
PAT	13.8	23.4	-12.3	33.4	22.4
BVPS	135.0	163.6	188.3	218.2	254.3
EPS	13.7	23.4	-18.7	33.4	22.4
Profitability Ratios (%)					
Yield on Investment	8.7	9.3	9.5	8.7	8.5
Claims ratio	54.5	65.8	61.0	59.5	58.5
Commission To NEP	3.9	6.0	5.6	5.6	5.6
Opex to NEP	24.4	27.3	28.9	26.2	25.6
Combined Ratio	100.4	99.8	105.4	102.5	100.6
Balance Sheet Ratios (%)					
ROE	21.0	21.3	14.3	15.9	16.8
Investment Leverage	4.2	4.1	4.2	4.3	4.4
Solvency Ratio (x)	2.2	2.9	3.0	3.1	3.1
Valuation Ratio					
P/B	9.4	7.7	6.7	5.8	5.0
P/E	48.2	39.1	48.1	36.1	29.4
P/float	2.2	1.9	1.6	1.3	1.1
P/GWP	4.2	4.0	3.4	2.9	2.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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