

ICICI Lombard

Estimate change

TP change

Rating change



Bloomberg	ICICIGI IN
Equity Shares (m)	491
M.Cap.(INRb)/(USD\$)	676.5 / 8.1
52-Week Range (INR)	1492 / 1049
1, 6, 12 Rel. Per (%)	-8/-13/-13
12M Avg Val (INR M)	797

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
NEP	166.2	191.2	220.8
U/W Profit	-9.6	-9.0	-9.8
PBT	26.0	31.8	36.3
PAT	19.5	23.8	27.2
EPS (INR/share)	39.7	48.6	55.4
EPS Growth (%)	12.7	22.4	14.1
BVPS (INR/share)	237.4	269.7	308.9

Ratios (%)

Claims	71.7	71.0	70.9
Commission	15.3	15.5	15.6
Expense	16.1	15.5	15.1
Combined	103.1	102.0	101.6
RoE	17.7	19.2	19.2

Valuations

P/E (x)	34.6	28.3	24.8
P/BV (x)	5.8	5.1	4.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	48.0	48.0	48.0
DII	18.6	18.3	16.0
FII	22.4	22.0	24.1
Others	11.7	11.7	11.9

FII Includes depository receipts

CMP: INR1,374

TP: INR1,650 (+20%)

Buy

Combined ratio misses estimate on higher opex

- ICICI Lombard's (ICICIGI) NEP came in line with our estimate at INR43b (up 14% YoY). Investment income from policyholders and shareholders' accounts came in lower than our estimates, which led to a miss in PAT in 3QFY24.
- The claims ratio came in at 70.0% vs. 70.7% in 2QFY24. It was broadly in line with our estimate of 70.5%. The combined ratio stood at 103.6% vs. 103.9% in 2QFY24.
- PAT grew 22% YoY but declined 25% QoQ to INR4.3b. PAT came in 27% lower than our estimate.
- For 9MFY24, NEP/PAT grew by 13%/20% to INR125b/INR14b.
- The company has maintained its guidance of a combined ratio of 102% by FY25. We have cut our estimates to factor in lower-than-estimated performance in 3Q, leading to an EPS cut of 4.5%/4.6% for FY24/FY25. **Reiterate BUY with a TP of INR1,650 (premised on 30x FY26E).**

Low capital gains dent investment income

- **Gross domestic premium** income grew 15% YoY in 3QFY24 to INR64b. It was 4.5% above our estimate.
- ICICIGI's NEP was broadly in line with our estimate at INR43b, up 14% YoY. NEP for Health business grew by 38% YoY, led by group health growth of 42% and retail health growth of 21%. Motor segment was flat YoY and Marine segment grew 21% YoY. NEP in Crop was higher by 52% YoY, while it was down 14% YoY in Fire.
- **Underwriting loss** stood at INR2.8b vs. a loss of INR1.5b in 2QFY24 and higher than our estimate of a loss of INR1.7b.
- **Investment income** was lower than our expectation (on policyholders account 10% miss and on shareholders account 13% miss), due to low capital gains in 3Q at INR 1.08b vs. INR1.64b in 2QFY24.

Claims ratio broadly in line

- **Claims ratio** came in at 70.0% vs. 70.7% in 2QFY24. It was broadly in line with our estimate of 70.5%. On YoY basis, the loss ratio for the Motor OD segment declined to 64.9% from 73%, whereas the loss ratio for the Motor TP was flat YoY at 61.6% in 3QFY24.
- **Combined ratio** came in at 103.6% vs. 103.9% in 2QFY24 and 104.4% in 3QFY23. (vs. our estimate of 102.2%). Excluding the impact of CAT losses of INR 1.37b, the combined ratio was 102.6% in 9MFY24.
- On a sequential basis, the **commission ratio** increased to 18% in 3QFY24 from 17.4% in 2QFY24 (our expectation of 14.7%).
- **Expense ratio** declined to 15.5% from 15.8% in 2QFY24 (vs. our expectation of 17.0%).
- **Total expense ratio** came in at 33.5% vs. 33.2% in 2QFY24 (vs. our expectation of 31.7%).
- **Solvency ratio** was at 2.57 vs. 2.59 in 2QFY24.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- A new philosophy is being implemented 'One IL one team', which would benefit revenue and profitability over the medium term.
- If period of limitation on motor TP claim is implemented, the frequency of claims can reduce at the industry level. ICICIGI works with 12-13% claim inflation assumption in reserve creation, which is higher than the industry, and hence the benefit will be higher compared to the industry.
- Some semblance has been seen with respect to competition in the motor segment, which is reflected in loss ratio declining from 93% to 87% on YoY basis. ICICIGI expects motor OD loss ratios to be in 60-65% range, while for Motor TP segment, 65-70% is the comfortable zone.

Valuation and view: Cut in estimates; retain BUY

Going ahead, growth in the Motor segment is likely to be back-ended, with the company waiting for the rationalization of pricing in the OD segment. In the Health segment, the benefits of price hikes and improving the efficiency of the agency channel should translate into better profitability. Scale benefits, a favorable product mix (higher share of retail health), and improvements in efficiencies across channels should help ICICIGI improve the combined ratio and RoE over the next couple of years. The management has maintained its guidance of high-teen growth in premium and combined ratio (of 102%) by FY25. We have cut our estimates to factor in lower-than-estimated performance in 3Q, leading to an EPS cut of 4.5%/4.6% for FY24/FY25. Reiterate BUY with a TP of INR1,650 (premised on 30x FY26E).

Quarterly Performance

Y/E March

(INR m)

	FY23				FY24				FY23	FY24E	3QFY24E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross premium	55,298	53,026	55,997	53,397	66,221	62,723	64,366	63,378	2,10,251	2,46,225	61,613	4.5
Net written premium	36,233	37,059	41,630	40,473	44,676	42,401	46,907	46,187	1,55,395	1,80,172	46,210	1.5
Net earned premium	34,682	38,366	37,921	37,260	38,873	43,061	43,048	41,173	1,48,229	1,66,155	43,899	-1.9
Investment Income + Trf from SH A/C	5,101	6,625	5,700	15,296	6,507	7,431	6,983	7,680	32,721	28,601	7,789	-10.3
Total Income	39,783	44,990	43,620	52,556	45,380	50,492	50,031	48,853	1,80,949	1,94,757	51,688	-3.2
Change YoY (%)	3.8	18.1	13.2	13.4	14.1	12.2	14.7	-7.0	12.2	7.6	18.5	
Incurred claims	24,999	27,933	26,663	27,662	28,815	30,451	30,141	29,663	1,07,256	1,19,070	30,949	-2.6
Net commission	782	1,282	1,744	914	5,564	7,371	8,457	6,251	4,722	27,643	6,793	24.5
Opex	10,834	10,673	12,448	11,193	7,689	6,698	7,274	7,406	45,148	29,068	7,856	-7.4
Total Operating Expenses	36,615	39,888	40,855	39,768	42,068	44,521	45,871	43,321	1,57,126	1,75,781	45,597	0.6
Change YoY (%)	-3.1	19.0	14.1	9.7	14.9	11.6	12.3	8.9	9.6	11.9	11.6	
Underwriting profit	-1,933	-1,523	-2,935	-2,508	-3,195	-1,460	-2,823	-2,147	-8,898	-9,625	-1,698	N.A
Operating profit	3,168	5,102	2,765	12,788	3,312	5,972	4,160	5,533	23,823	18,976	6,091	-31.7
Shareholder's P/L												
Transfer from Policyholder's	3,168	5,102	2,765	12,788	3,312	5,972	4,160	5,533	23,823	18,976	6,091	-31.7
Investment income	1,711	2,055	2,081	1,910	1,856	2,219	2,088	3,274	7,757	9,390	2,400	-13.0
Total Income	4,879	7,157	4,846	14,698	5,168	8,190	6,248	8,807	31,579	28,366	8,491	-26.4
Provisions other than taxation	30	890	9	-89	-182	410	371	381	838	938	400	-7.2
Other expenses	198	171	185	9,062	150	144	140	200	9,616	1,442	200	-30.3
Total Expenses	228	1,060	193	8,973	-32	554	511	581	10,454	2,381	600	-14.9
PBT	4,651	6,097	4,653	5,725	5,200	7,637	5,737	8,226	21,125	25,986	7,891	
Change YoY (%)	80.1	2.7	10.5	39.5	11.8	25.3	23.3	43.7	25.5	23.0	69.6	
Tax Provisions	1,161	1,471	1,127	1,356	1,297	1,864	1,423	1,913	5,115	7,776	1,973	-27.9
Adj Net Profit	3,490	4,625	3,525	4,370	3,904	5,773	4,315	6,312	16,011	18,209	5,918	-27.1
Change YoY (%)	79.6	3.6	11.0	39.8	11.8	24.8	22.4	44.5	26.0	13.7	67.9	
Rep Net Profit	3,490	5,905	3,525	4,370	3,904	5,773	4,315	5,545	17,291	19,489	5,918	-27.1
Key Parameters (%)												
NEP Mix (%)												
Fire	4.3	4.5	4.4	4.4	3.4	3.8	3.4		4.4	4.0		
Marine	3.0	2.8	2.9	3.2	3.0	2.9	3.1		3.0	2.9		
Health including (PA)	28.8	27.8	29.6	30.4	33.9	32.1	35.9		28.0	30.6		
Motor	58.7	55.1	56.5	56.4	54.1	50.4	50.8		56.6	53.8		
Others	5.1	9.9	6.6	5.6	5.7	10.8	6.8		8.0	8.8		
Claims ratio	72.1	72.8	70.3	74.2	74.1	70.7	70.0	72.0	72.4	71.7	70.5	-0.5
Commission ratio	2.2	3.5	4.2	2.3	12.5	17.4	18.0	13.5	3.0	15.3	14.7	3.3
Expense ratio	29.9	28.8	29.9	27.7	17.2	15.8	15.5	16.0	29.1	16.1	17.0	-1.5
Combined ratio	104.1	105.1	104.4	104.2	103.8	103.9	103.6	101.6	104.5	103.1	102.2	1.4



Highlights from the management commentary

Vision statement from Sanjeev Mantri

- The industry is in the midst of exciting times and sees a multi-decadal growth story supported by regulatory push for 'Insurance for All' by 2047.
- A new philosophy is being implemented 'One IL one team'. Examples of this include value-added services and data analytics, which were earlier done take-on-project basis but are now embedded into the related lines of businesses. This would benefit revenue and profitability over the medium term.
- The customer-centric approach and balancing profitability with growth will continue.

Business

- Healthy growth in auto sales continued in 9MFY24 driven by improvement in rural demand and robust investments in infrastructure driving CV sales.

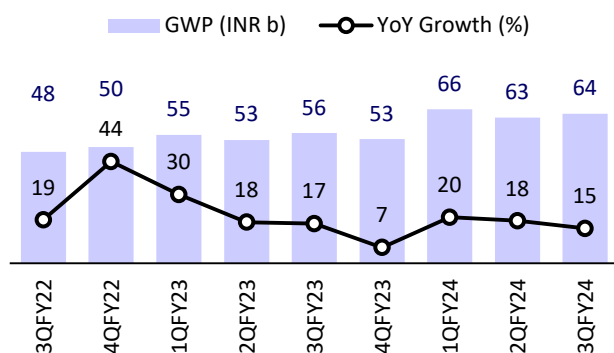
- The Motor segment's loss ratio for the industry in 1HFY24 was at 119.4% vs. 123.5% in 1HFY23.
- In the Health segment, ILOM is focusing on higher tickets. New product launches are expected in 4QFY24.
- Bancassurance and key relationships grew 13%. ICICI group saw 16% growth.
- The loss ratio in group health was 93.1% in 3QFY24 vs. 98.9% in 3QFY23 and 95.8% in 9MFY24 vs. 95.8% in 9MFY23. In retail indemnity, the loss ratio was 66% in 3QFY24 vs. 68% in 3QFY23 and 65.6% in 9MFY24 vs. 65.2% in 9MFY23. The company has seen no major impact of Covid claims yet.
- Some semblance has been seen with respect to competition in the motor segment, which is reflected in loss ratio declining from 93% to 87% on YoY basis.
- ICICIGI expects motor OD loss ratios to be in 60-65% range, while for Motor TP segment 65-70% is the comfortable zone. Resultantly, aggregate motor segment loss ratio will be in the range of 65-67%.
- The period of limitation on motor TP claim will be introduced, wherein no claim can be entertained beyond the period of six months from the date of the accident. This is pending before the Supreme Court. However, most of the states are in favor of implementing the limit. If it is implemented, a reduction in frequency can be expected at the industry level. ILOM works with 12-13% claim inflation assumption in reserve creation, which is higher than industry, and hence the benefit will be higher compared to the industry. The positive impact of this might keep the regulator from taking motor TP price hike.
- The share of EVs is 4.2% for ILOM vs. 3.5% for the industry in 9MFY24. ILOM has an 18% market share in passenger car EVs and a 28% market share in 2W EVs.
- Commercial lines loss ratio increased because of flood events.
- Market share in new private cars is 12%, while in new two wheelers it is at 22%. The management expects the motor business to grow in line with the industry.
- Agency count increased to 125k vs. 122k QoQ.

Financials

- During 9MFY24, three major catastrophic events were seen. Excluding cat losses, the combined ratio was 102.6% in 9MFY24 (vs. reported 103.7%) and 102.3% in 3QFY24 (vs. reported 103.6%).
- ICICIGI has maintained its guidance of a combined ratio of 102% for FY25 and will consider revising the guidance in the ensuing quarter.
- For FY25, the reinsurance negotiations are in the process and the company does not expect the cost increase to be as high as it was in the previous year.

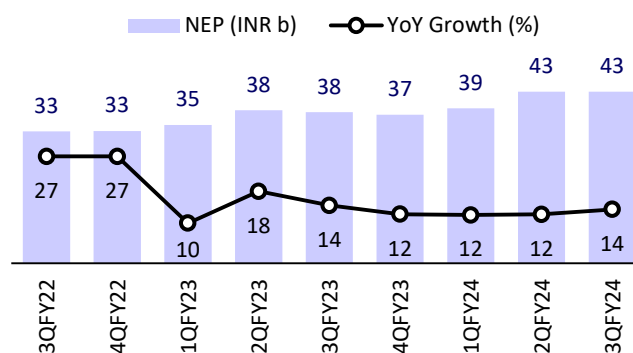
Key exhibits

Exhibit 1: GWP up 15% YoY at INR64b



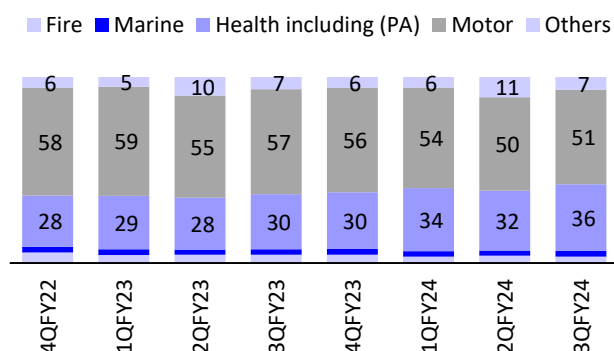
Source: MOFSL, Company

Exhibit 2: NEP growth maintained at 14% YoY



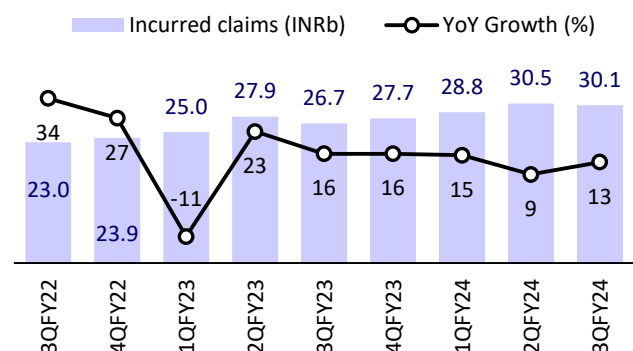
Source: MOFSL, Company

Exhibit 3: Share of Health segment increases in product mix



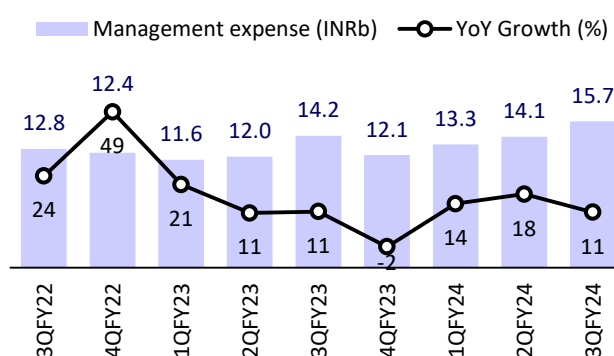
Source: MOFSL, Company

Exhibit 4: Incurred claims were flat QoQ



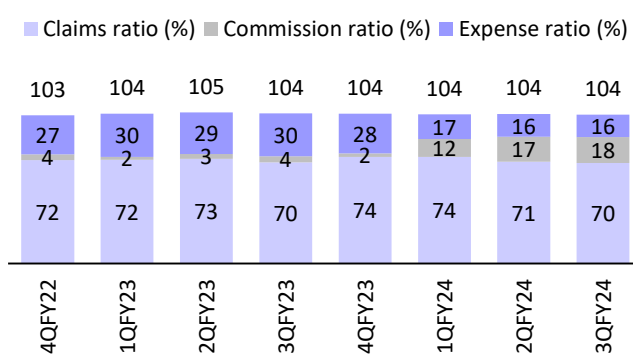
Source: MOFSL, Company

Exhibit 5: Total expense rose sequentially to INR15.7b



Source: MOFSL, Company

Exhibit 6: Claims ratio declined QoQ; whereas commission ratio increased QoQ



Source: MOFSL, Company

Exhibit 7: Trend in underwriting profit (INR b)

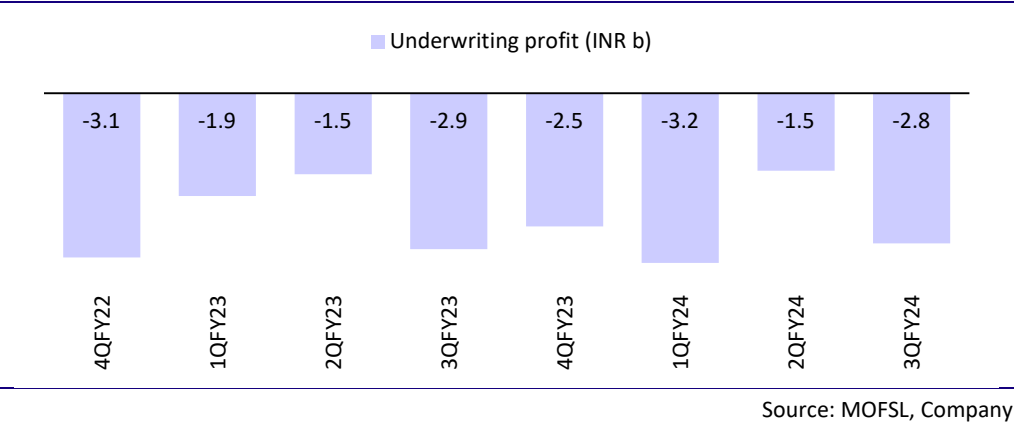


Exhibit 8: Trend in PAT (INR b)

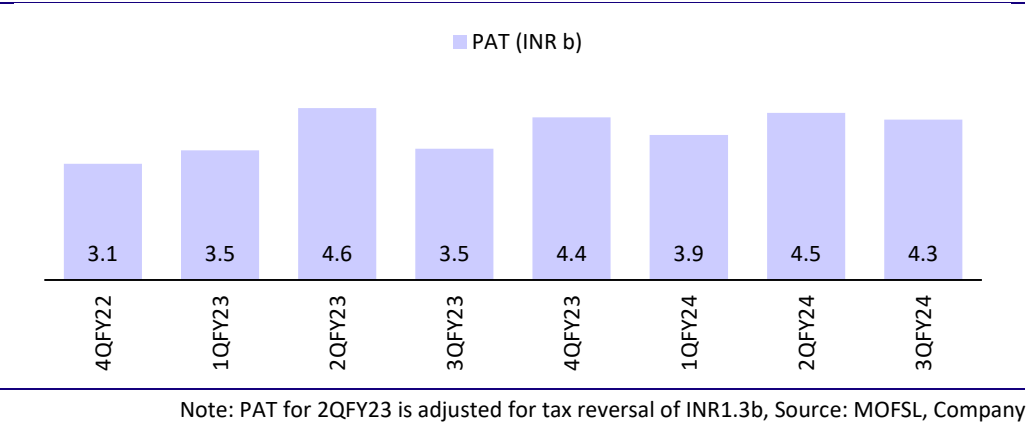
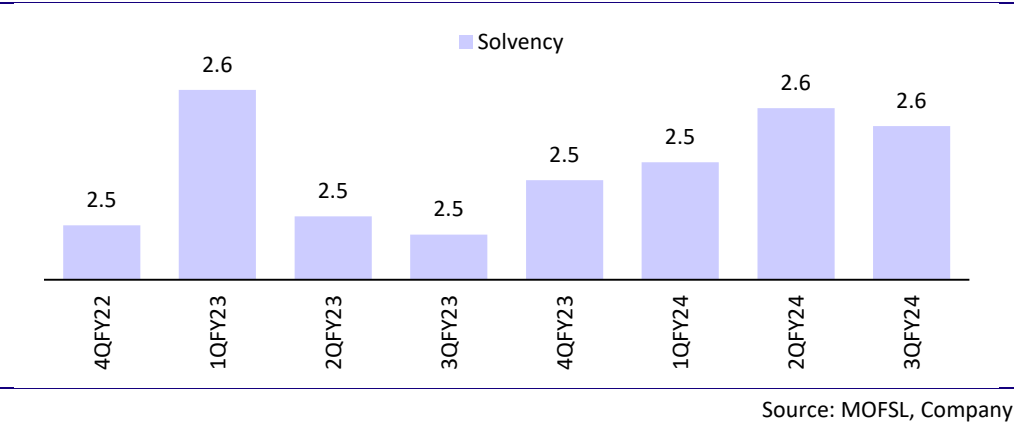


Exhibit 9: Solvency remained healthy



Financials and valuations

Income Statement								(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
GDP	1,23,568	1,44,882	1,33,128	1,40,031	1,79,769	2,10,251	2,46,225	2,83,713	3,27,948
Change (%)	15.2	17.2	-8.1	5.2	28.4	17.0	17.1	15.2	15.6
NWP	78,447	95,385	96,407	1,06,850	1,34,896	1,55,395	1,80,172	2,08,018	2,41,060
NEP	69,117	83,753	94,036	1,00,140	1,30,321	1,48,229	1,66,155	1,91,202	2,20,817
Change (%)	12.1	21.2	12.3	6.5	30.1	13.7	12.1	15.1	15.5
Net claims	53,147	63,081	68,515	68,708	97,819	1,07,256	1,19,070	1,35,778	1,56,483
Net commission	-2,839	2,229	3,639	6,009	6,339	4,722	27,643	32,208	37,637
Expenses	21,118	20,139	22,931	27,342	39,201	45,148	29,068	32,249	36,513
Underwriting Profit/(Loss)	-2,309	-1,696	-1,049	-1,919	-13,038	-8,898	-9,625	-9,033	-9,816
Investment income (PH)	11,546	14,011	16,492	21,474	30,978	32,721	28,601	32,798	36,785
Operating profit	9,237	12,315	15,443	19,555	17,940	23,823	18,976	23,765	26,969
Investment income (SH)	4,140	4,743	4,800	5,170	7,061	7,757	9,390	10,687	12,264
Expenses	1,415	1,073	3,272	5,185	8,166	10,454	2,381	2,654	2,948
PBT	11,962	15,985	16,971	19,540	16,835	21,125	25,986	31,798	36,285
Tax	3,345	5,492	5,031	4,809	4,125	3,835	6,496	7,950	9,071
Tax rate (%)	28.0	34.4	29.6	24.6	24.5	18.2	25.0	25.0	25.0
PAT	8,618	10,493	11,940	14,731	12,710	17,291	19,489	23,849	27,214
Change (%)	30.8	21.8	13.8	23.4	-13.7	36.0	12.7	22.4	14.1

Balance sheet								(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Equity Share Capital	4,539	4,543	4,543	4,546	4,909	4,911	4,911	4,911	4,911
Reserves & Surplus	40,872	48,662	56,797	69,809	86,188	99,016	1,11,664	1,27,537	1,46,775
Net Worth	45,412	53,205	61,340	74,355	91,097	1,03,928	1,16,575	1,32,448	1,51,686
FV change - Shareholders	1,857	799	-948	1,630	831	512	537	564	592
FV change - Policyholders	5,481	2,585	-3,338	5,174	2,762	1,621	1,702	1,787	1,877
Borrowings	4,850	4,850	4,850	4,850	2,550	350	350	350	350
Claims Outstanding	1,59,160	1,64,256	1,80,074	1,82,845	2,49,752	2,69,166	3,10,840	3,58,363	4,13,131
Other liabilities	80,736	1,08,331	1,28,440	1,24,123	1,61,492	1,75,286	1,99,792	2,28,358	2,61,760
Total Liabilities	2,97,497	3,34,026	3,70,418	3,92,977	5,08,483	5,50,862	6,29,798	7,21,870	8,29,397
Investments (PH)	1,34,643	1,68,877	2,04,671	2,34,565	2,98,684	3,33,221	3,71,934	4,16,484	4,67,934
Investments (SH)	47,284	53,431	58,595	74,356	89,179	98,583	1,11,259	1,26,850	1,45,929
Net Fixed Assets	4,060	4,652	6,765	6,268	5,775	5,640	5,740	5,840	5,940
Def Tax Assets	2,114	3,013	3,063	3,498	3,456	2,653	2,388	2,149	1,934
Current Assets	1,03,478	1,00,037	96,998	72,013	1,08,463	1,08,734	1,19,607	1,31,568	1,44,724
Cash & Bank	5,918	4,016	326	2,277	2,926	2,031	18,870	38,979	62,935
Total Assets	2,97,497	3,34,026	3,70,418	3,92,977	5,08,483	5,50,862	6,29,798	7,21,870	8,29,397

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
GWP growth	15.2	17.2	-8.1	5.2	28.4	17.0	17.1	15.2	15.6
NWP growth	19.0	21.6	1.1	10.8	26.2	15.2	15.9	15.5	15.9
NEP growth	12.1	21.2	12.3	6.5	30.1	13.7	12.1	15.1	15.5
Claim ratio	76.9	75.3	72.9	68.6	75.1	72.4	71.7	71.0	70.9
Commission ratio	-3.6	2.3	3.8	5.6	4.7	3.0	15.3	15.5	15.6
Expense ratio	26.9	21.1	23.8	25.6	29.1	29.1	16.1	15.5	15.1
Combined ratio	100.2	98.8	100.4	99.8	108.8	104.5	103.1	102.0	101.6

Profitability Ratios (%)

RoE	20.8	21.3	20.8	21.7	15.4	17.7	17.7	19.2	19.2
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Valuations	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
BVPS (INR)	92.5	108.3	124.9	151.4	185.5	211.6	237.4	269.7	308.9
Change (%)	21.9	17.2	15.3	21.2	22.5	14.1	12.2	13.6	14.5
Price-BV (x)	14.9	12.7	11.0	9.1	7.4	6.5	5.8	5.1	4.4
EPS (INR)	17.5	21.4	24.3	30.0	25.9	35.2	39.7	48.6	55.4
Change (%)	30.8	21.8	13.8	23.4	-13.7	36.0	12.7	22.4	14.1
Price-Earnings (x)	78.3	64.3	56.5	45.8	53.1	39.0	34.6	28.3	24.8

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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