

ADD **ICICI Lombard**

Your success is our success

Well on track for FY25 combined ratio guidance

General Insurance ▶ Result Update ▶ January 17, 2024

TARGET PRICE (Rs): 1,600

ICICIGI reported better-than-expected operating performance in Q3FY24 with the combined ratio (CoR) of 103.6% coming better than our estimates of 104.3%. PAT at Rs4.3bn was ~11% below our estimates, largely led by i) Lower realized investment gains in the quarter and ii) Higher upfronting of acquisition cost due to strong growth in Motor OD. Overall, the Q3FY24 performance gives much needed comfort around the achievability of 102% combined ratio guidance for FY25. To reflect Q3FY24 performance, we have adjusted our FY24-26 estimates with FY24 PAT reducing by ~6% (on account of lower realized investment gains), while FY25-26 estimates remain broadly unchanged. We reiterate our ADD rating on the stock with our unchanged Dec-24 TP of Rs1,600 (implying FY25 P/E: 30x).

ICICI Lombard: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross written premium	185,624	217,718	255,012	293,627	338,045
Net earned premium	130,321	148,229	167,755	199,862	232,774
Adj. PAT	12,710	17,291	20,111	25,845	29,972
Adj. EPS (Rs)	25.9	35.2	40.9	52.6	61.0
BVPS (Rs)	185.6	211.6	240.5	278.2	319.2
Adj. EPS growth (%)	(20.0)	35.9	16.3	28.5	16.0
BVPS growth (%)	13.4	14.0	13.7	15.6	14.7
NEP growth (%)	30.1	13.7	13.2	19.1	16.5
Combined ratio (%)	108.8	104.5	103.4	102.0	100.9
RoE (%)	14.5	17.2	17.0	18.5	18.7
P/Float (x)	1.7	1.6	1.4	1.2	1.0
P/E (x)	53.1	39.0	33.6	26.1	22.5
P/B (x)	7.4	6.5	5.7	4.9	4.3

Source: Company, Emkay Research

Good performance for Q3FY24

Q3FY24 performance of ICICIGI came as operationally strong with the claims ratio of 70% (-0.3ppt YoY) and a CoR of 103.6% (-0.9ppt YoY) coming better than our estimates of 71.3% and 104.3%, respectively. PAT grew 21.9% YoY to Rs4.3bn and was ~11% below our estimates on account of lower realized investment gains and higher upfronting of acquisition cost owing to good growth in Motor OD. The lower realized investment gains were a conscious management call and the unrealized investment gains increased to ~Rs12bn in Q3FY24 from Rs9bn in Q2FY24.

Profitable growth strategy reiterated

The new MD and CEO, Sanjeev Mantri, reaffirmed the company's long-stated strategy of driving profitable growth. With some early signs of improvement in competitive intensity in Motor OD and claims experience in health and commercial lines emerging as per expectations, management is very confident of achieving 102% CoR by FY25. However, management is also very clear about continuing to invest in distribution and technology to achieve growth in its focus area and, hence, is not looking to revise the FY25 CoR guidance downwards. The company maintains its focus on retail health; however, in the quarter gone by, growth has been a bit suboptimal due to deliberate recalibration of the portfolio to react to certain claims development.

Reiterate ADD with broadly unchanged FY25-26 estimates

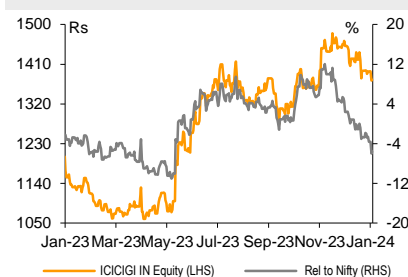
We have adjusted our estimates to reflect Q3FY24 performance. The lower realized investment gains have led to a ~6% cut in our FY24E PAT/EPS, while the CoR remains unchanged. For FY25-26E, our key estimates including the CoR and PAT remain unchanged. With the key segments of motor, commercial lines, and health delivering profitable growth giving increased confidence about 102% CoR achievability by FY25, we reiterate our ADD rating with our unchanged Dec-24E TP of Rs1,600.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	16.4
CMP (16-Jan-24) (Rs)	1,374.2

Stock Data	Ticker
52-week High (Rs)	1,492
52-week Low (Rs)	1,049
Shares outstanding (mn)	492.3
Market-cap (Rs bn)	676
Market-cap (USD mn)	8,143
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	753.5
ADTV-3M (USD mn)	9.1
Free float (%)	-
Nifty-50	22,032
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	48.0
FPIs/MFs (%)	22.4/18.6

Price Performance

(%)	1M	3M	12M
Absolute	(5.3)	2.7	10.0
Rel. to Nifty	(7.8)	(8.0)	(10.7)

1-Year share price trend (Rs)**Avinash Singh**

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Exhibit 1: Q3FY24 Financial Performance

Income Statement (Rs mn)	3QFY24	3QFY23	YoY (%)	3QFY24E	Var. (%)	2QFY24	QoQ (%)
Gross direct premium	62,300	54,930	13.4	61,655	1.0	60,850	2.4
Gross written premium	64,366	55,997	14.9	63,165	1.9	62,723	2.6
Net written premium	46,907	41,630	12.7	45,479	3.1	42,401	10.6
Net Earned premium	43,048	37,921	13.5	42,776	0.6	43,061	-0.0
Underwriting result	-2,824	-2,935	-3.8	-2,731	3.4	-1,460	93.4
Investment & other income – PH account	6,983	5,700	22.5	7,423	-5.9	7,431	-6.0
Operating profit	4,160	2,765	50.5	4,692	-11.3	5,972	-30.3
Net results from shareholders' account	1,577	1,888	-16.4	1,951	-19.1	1,665	-5.3
Profit before tax	5,737	4,653	23.3	6,643	-13.6	7,637	-24.9
Profit after Tax	4,315	3,540	21.9	4,849	-11.0	5,773	-25.3

Key ratios (%)	3QFY24	3QFY23	YoY (ppts)	3QFY24E	Var (ppts)	2QFY24	QoQ (ppts)
Claims ratio	70.0	70.3	-0.3ppts	71.3	-1.3ppts	70.7	-0.7ppts
Commission ratio	18.0	4.2	13.8ppts	14.2	3.8ppts	17.4	0.6ppts
OpEx ratio	15.5	29.9	-14.4ppts	18.8	-3.3ppts	15.8	-0.3ppts
Combined ratio	103.6	104.4	-0.9ppts	104.3	-0.7ppts	103.9	-0.3ppts
RoE	15.3	14.3	1.0ppts	17.1	-1.7ppts	21.1	-5.8ppts
Retention ratio	72.0	74.3	-2.3ppts			67.6	4.4ppts
Solvency ratio	257.0	245.0	12.0ppts			259.0	-2.0ppts
Investment leverage (x)	4.09	4.14	-0.1ppts			4.05	0.0ppts

Balance Sheet (Rs mn)	3QFY24	3QFY23	YoY (ppts)	2QFY24	QoQ (%)
Net worth	114,007	99,533	14.5	111,133	2.6
Fair value account	11,975	5,503	117.6	7,997	50
Investments	468,675	414,510	13.1	453,122	3.4

Claims Ratio (%)	3QFY24	3QFY23	ppts YoY	2QFY24	ppts QoQ
Motor – OD	64.9	73.0	-8.1	64.1	0.8ppts
Motor – TP	61.6	61.9	-0.3	60.0	1.6ppts
Health	79.2	78.2	1.0	82.3	-3.1ppts
Crop	99.0	111.8	-12.8	89.1	9.9ppts
Fire	68.2	49.8	18.4	61.1	7.1ppts
Marine	74.7	86.1	-11.4	76.3	-1.6ppts
Engineering	60.6	64.6	-4.0	84.1	-23.5ppts
Other	63.6	57.6	6.0	63.6	0.0ppts
Total	70.0	70.3	-0.3	70.7	-0.7ppts

Source: Company, Emkay Research

Exhibit 2: ICICIGI – Economic Value-Added Method Valuation

Parameter (Rs mn, except %)	Value
Cost of Equity	12.0%
FY24-FY29 Earnings CAGR	20%
FY29-FY39 Earnings CAGR	14%
Terminal growth	7%
FY25 Net worth (Rs mn)	136,618
FY26-FY39 discounted residual earnings (Rs mn)	237,411
Terminal Value (Rs mn)	418,198
FY24 Fair value gains (Rs mn) - post tax	9,000
Fair Value (Rs mn)	807,121
No. of Shares (mn)	491
Mar-25 Fair value per share (Rs)	1,643
Dec-24 Target Price (Rs)	1,600

Source: Company, Emkay Research

Exhibit 3: ICICIGI – Implied Valuation Multiples

Valuation multiple at the current price	1,374
FY25E P/E	26.1x
FY25E P/B	4.9x
FY25E RoE	20.3%
Valuation multiple at the target price	1,600
FY25E P/E	30.4x
FY25E P/B	5.7x
FY25E RoE	20.3%

Source: Company, Emkay Research

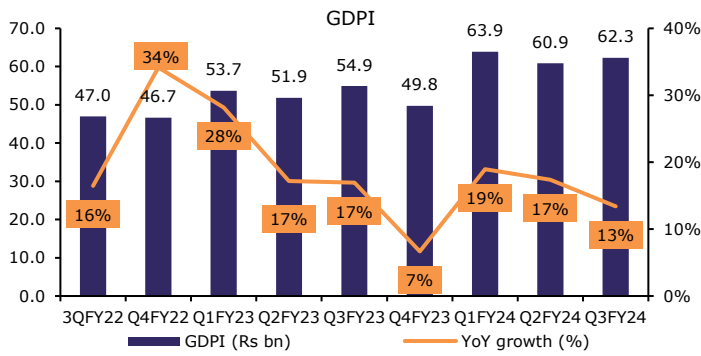
Exhibit 4: Change in Estimates

Rs mn	FY24E			FY25E			FY26E		
	Old	Revised	Change (%)	Old	Revised	Change (%)	Old	Revised	Change (%)
GWP	257,530	255,012	-1.0	295,902	293,627	-0.8	340,723	338,045	-0.8
U/W Result	-9,270	-9,865	NM	-7,780	-7,835	NM	-7,925	-6,354	NM
Op. Profit	20,774	18,909	-9.0	25,928	25,558	-1.4	30,096	29,958	-0.5
PAT	21,412	20,111	-6.1	26,139	25,845	-1.1	30,303	29,972	-1.1
Combined Ratio (%)	103.4	103.4	0.0ppts	102.0	102.0	0.0ppts	100.8	100.9	0.1ppts
RoE (%)	19.2	18.1	-1.1ppts	20.3	20.3	0.0ppts	20.4	20.4	0.0ppts

Source: Company, Emkay Research

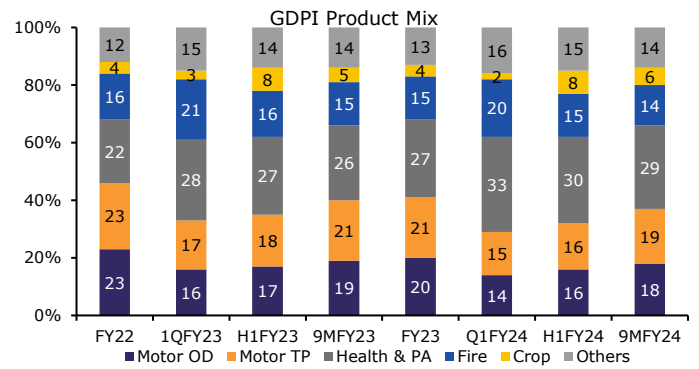
Story in Charts

Exhibit 5: GDPI grows by 13% YoY during Q3FY24



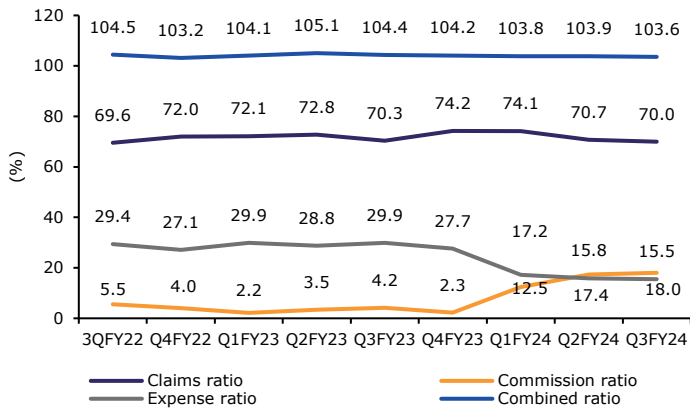
Source: Company, Emkay Research

Exhibit 6: Share of the motor segment increases sequentially



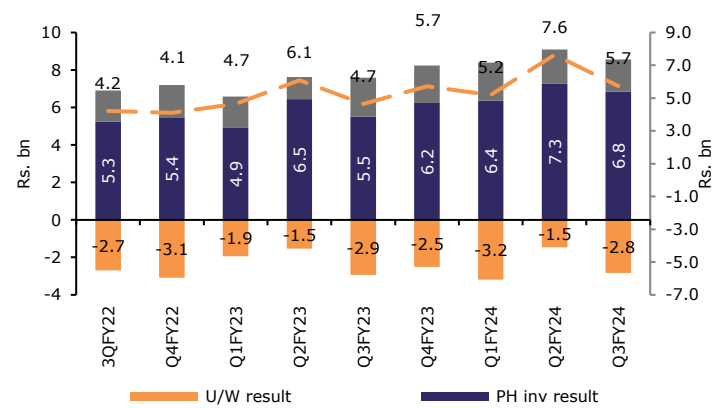
Source: Company, Emkay Research

Exhibit 7: CoR improves to 103.6% during Q3FY24



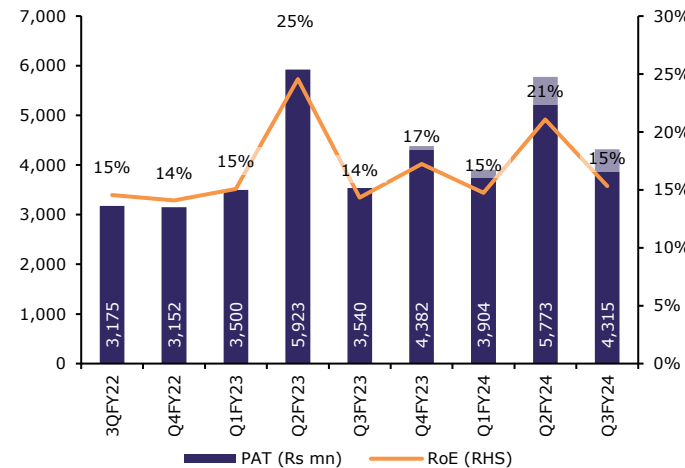
Source: Company, Emkay Research

Exhibit 8: ICICI reports PBT of Rs5.7bn during Q3FY24



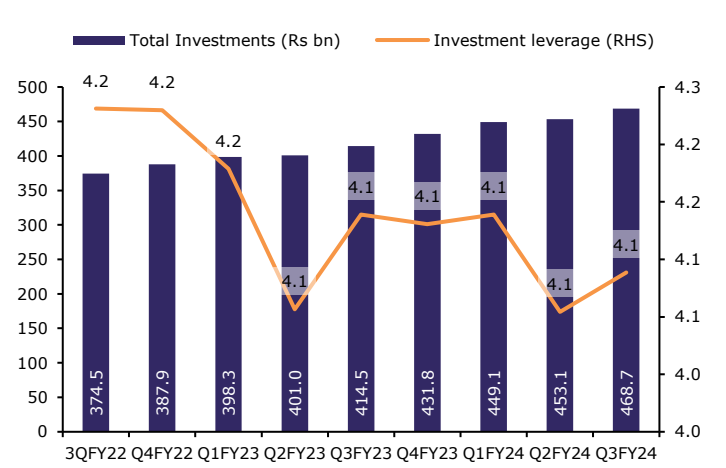
Source: Company, Emkay Research

Exhibit 9: ICICI registers PAT of Rs4.3bn during Q3FY24



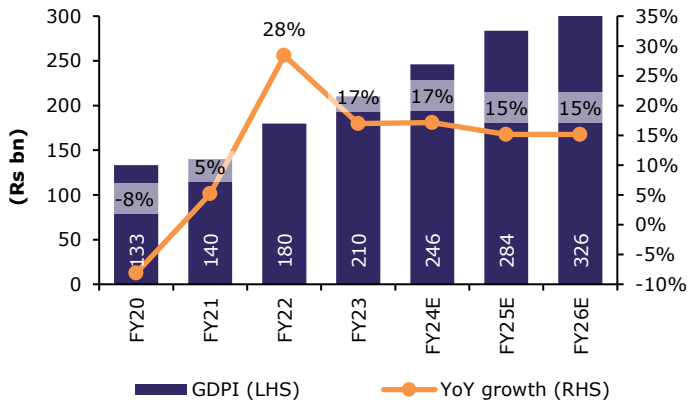
Source: Company, Emkay Research

Exhibit 10: Total investments increased to Rs468.7bn, as of Dec-23



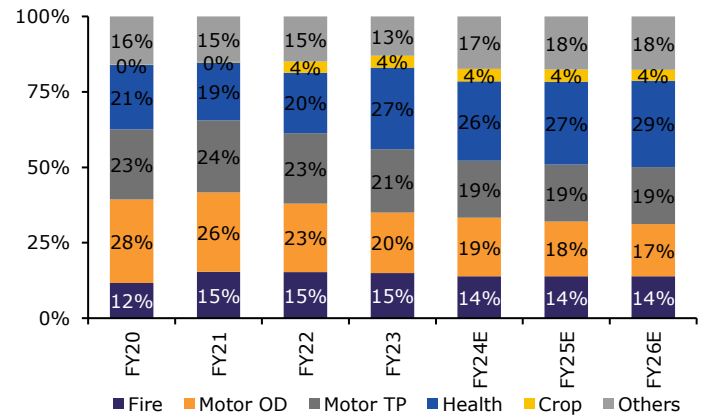
Source: Company, Emkay Research

Exhibit 11: We expect ICICIGI to report 17% GDP growth during FY24E



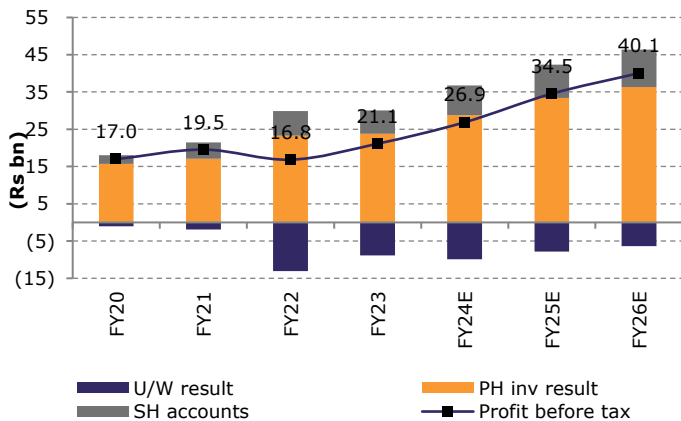
Source: Company, Emkay Research

Exhibit 12: Motor segment's share in the GDP mix to remain at 38% in FY24E



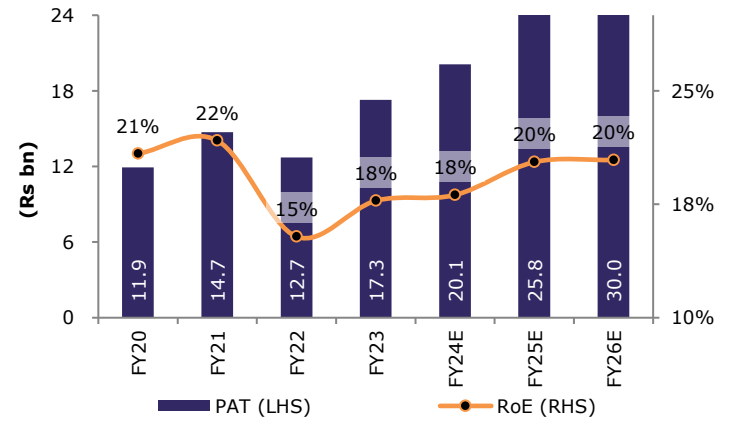
Source: Company, Emkay Research

Exhibit 13: We expect ICICIGI to report PBT of Rs26.9bn during FY24E



Source: Company, Emkay Research

Exhibit 14: ICICIGI is expected to report 16% YoY growth in PAT during FY24E



Source: Company, Emkay Research

Earnings Conference Call Highlights

- Management stated the company's vision of One IL One Team. In the present scenario, which is fast evolving and dynamic, the existing way of functioning inhibits the company from leveraging the combined strength of the organization. With the thought of One IL One Team, management aims to create multiple excellences through various departments delivering value at the overall company level.
- Despite a higher base, new private vehicle sales continued to report robust growth during 9MFY24, driven by a strong festive season. An uptick in rural demand for two-wheelers was also witnessed, which could result in two-wheeler sales crossing pre-Covid levels.
- The overall industry's CoR for H1FY24 stood at 111.9% (vs. 112.2% for H1FY23). The industry's CoR for the motor segment stood at 119.4% for H1FY24 vs. 123.5% for H1FY23. While the motor segment witnessed some improvement in the CoR, management stated that it remains at elevated levels.
- Management said that the company has gained a leadership position in the motor segment. Growth in the motor segment was aided by strong growth in the new private car segment, which grew at 30% for 9MFY24, whereas the two-wheeler segment grew at 14%. The company lost its market share during the last few months, while it gained market share during Dec-23 and management expects the trend to continue going forward.
- To maintain the sustainability of the health portfolio, management has taken a call to focus on preferred geographies and high sum insured. This led to slower growth in the health segment. Management expects robust growth in the retail growth segment during FY25, driven by new product launches.
- Management has reaffirmed its guidance to achieve a CoR of 102% by FY25. While the company stands out in terms of relative performance as against the industry, management would revisit its CoR guidance during Q4FY24.
- The company has not witnessed any specific instances of Covid claims or any spike in claims on account of Covid. Management stated that as of now there is no cause for concern for Covid claims.
- Management stated that the company targets to operate in the 65-67% loss ratio range for the motor business. In the motor OD business, the company aims to operate in the 60-65% loss ratio range; whereas, for the motor TP business, the same stands at 65-70%.
- Management said that the expected change in the six-month period law would lead to a positive development for the industry, hence the Motor TP rates are not expected to increase further.
- During the quarter, the company booked capital gains amounting to Rs1.08bn vs. Rs1.52bn during Q3FY23 and Rs1.64bn during Q2FY24.
- There has been a significant transformation concerning EV penetration. With the required infrastructure and a fair price point, management expects the EV segment to grow well, resulting in good growth for the company.
- Management remains optimistic for growth in the motor business, driven by increased sales for PVs and two-wheelers. Increased SUV sales having a higher ticket size have also aided in the motor segment's growth.

ICICI Lombard: Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GDPI	179,769	210,251	246,265	283,556	326,451
Gross written premium	185,624	217,718	255,012	293,627	338,045
Net written premium	134,896	155,395	180,285	212,181	247,132
Net earned premium	130,321	148,229	167,755	199,862	232,774
Net incurred claims	97,819	107,257	118,942	142,649	165,196
Net commission	6,339	4,722	30,374	33,857	38,838
Operating expense	39,201	45,148	28,305	31,191	35,093
Total expense	143,359	157,126	177,620	207,697	239,128
Underwriting profit	(13,038)	(8,898)	(9,865)	(7,835)	(6,354)
Investment income	22,908	23,212	27,874	32,393	35,112
Other income	373	602	900	1,000	1,200
Operating profit	10,243	14,916	18,909	25,558	29,958
Shareholder results	6,592	6,210	7,967	8,980	10,096
PBT	16,835	21,125	26,876	34,538	40,054
Tax expense	4,125	3,835	6,765	8,693	10,082
Reported PAT	12,710	17,291	20,111	25,845	29,972
PAT growth (%)	(13.7)	36.0	16.3	28.5	19.0
Adjusted PAT	12,710	17,291	20,111	25,845	29,972
Diluted EPS (Rs)	25.8	35.2	40.9	52.5	60.9
Diluted EPS growth (%)	(20.1)	36.2	16.2	28.5	16.0
DPS (Rs)	8.0	9.5	12.0	15.0	20.0
Dividend payout (%)	30.9	27.0	29.3	28.5	32.8
Effective tax rate (%)	25	18	25	25	25
Shares outstanding (mn)	490.9	491.1	491.1	491.1	491.1

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating metrics (%)					
Retention ratio	72.7	71.4	70.7	72.3	73.1
Incurred claims ratio	75.1	72.4	70.9	71.4	71.0
Net commission ratio	4.7	3.0	16.8	16.0	15.7
Opex ratio	29.1	29.1	15.7	14.7	14.2
Combined ratio	108.8	104.5	103.4	102.0	100.9
RSM-to-NWP	24.5	23.4	23.5	23.5	23.5
Solvency ratio	246.6	251.0	250.7	250.1	249.4
Claims ratio (%)					
Motor TP	68.1	72.6	65.0	68.5	71.0
Motor OD	74.0	72.2	70.0	72.0	72.0
Health	100.5	81.5	81.5	79.5	76.0
Fire	53.1	49.3	65.0	60.0	60.0
Crop	107.9	80.1	100.0	100.0	100.0
Others	54.2	58.7	54.3	53.4	54.7
GWP mix (%)					
Motor TP	22.6	19.7	19.4	18.2	17.4
Motor OD	23.4	21.1	18.9	18.9	18.8
Health	20.0	23.8	26.4	27.5	28.6
Fire	15.3	14.5	13.9	13.9	13.8
Crop	3.7	4.2	4.1	4.0	3.6
Others	14.9	16.7	17.4	17.6	17.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4,909	4,911	4,911	4,911	4,911
Reserves & surplus	86,188	99,012	113,229	131,707	151,857
Net worth	91,097	103,923	118,141	136,618	156,768
Fair value gains	3,593	2,133	12,000	13,200	14,520
Borrowings	2,550	350	350	350	350
Total liabilities & equity	97,240	106,406	130,491	150,168	171,638
Policyholder investments	298,684	333,221	384,213	443,236	509,550
Shareholder investments	89,179	98,583	113,670	131,131	150,750
Other assets	9,231	8,289	8,293	8,293	8,293
Cash & bank balances	2,926	2,031	2,031	2,031	2,031
Other current assets	108,463	108,734	148,634	171,531	198,746
Claims outstanding	249,752	269,166	318,765	367,034	422,556
Unearned premium	80,030	87,197	117,186	137,918	160,636
Other current liab.	80,916	87,421	103,530	119,207	137,240
Provisions	80,575	87,865	104,055	119,812	137,936
Net current assets	(299,854)	(333,687)	(375,686)	(432,492)	(496,955)
Total assets	97,240	106,406	130,491	150,168	171,638
BVPS (Rs)	185.6	211.6	240.5	278.2	319.2
Investment leverage (x)	4.2	4.2	4.2	4.2	4.2
Net investment yield (%)	8.6	7.4	7.8	7.8	7.4
PH investment yield (%)	8.6	7.3	7.8	7.8	7.4
SH investment yield (%)	8.6	7.8	7.9	7.7	7.5
NWP/Networth (x)	1.5	1.5	1.5	1.6	1.6
Required Solvency [RSM]	32,992	36,303	42,367	49,862	58,076
Available Solvency [ASM]	81,361	91,187	106,205	124,683	144,833

Source: Company, Emkay Research

Valuation and Key Metrics					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/B (x)	7.4	6.5	5.7	4.9	4.3
P/E (x)	53.1	39.0	33.6	26.1	22.5
P/Float (x)	1.7	1.6	1.4	1.2	1.0
P/GWP (x)	3.6	3.1	2.6	2.3	2.0
Dividend yield (%)	0.6	0.7	0.9	1.1	1.5
Dupont-RoE split (%)					
NEP/avg assets	37.4	36.2	36.1	37.3	37.7
Net incurred claims	28.1	26.2	25.6	26.6	26.8
Commission + Opex	13.1	12.2	12.6	12.1	12.0
Underwriting profit	(3.7)	(2.2)	(2.1)	(1.5)	(1.0)
PH investment income	6.6	5.7	6.0	6.0	5.7
Operating profit	2.9	3.6	4.1	4.8	4.9
Shareholder results	1.9	1.5	1.7	1.7	1.6
Tax expense	1.2	0.9	1.5	1.6	1.6
RoA	3.6	4.2	4.3	4.8	4.9
Leverage ratio (x)	3.9	3.9	4.1	4.2	4.1
RoE	14.5	17.2	17.0	18.5	18.7
Growth rates (%)					
GDPI	28.4	17.0	17.1	15.1	15.1
Gross written premium	29.6	17.3	17.1	15.1	15.1
Net written premium	26.2	15.2	16.0	17.7	16.5
Net earned premium	30.1	13.7	13.2	19.1	16.5
Claims incurred	42.4	9.6	10.9	19.9	15.8
Operating profit	(32.6)	45.6	26.8	35.2	17.2

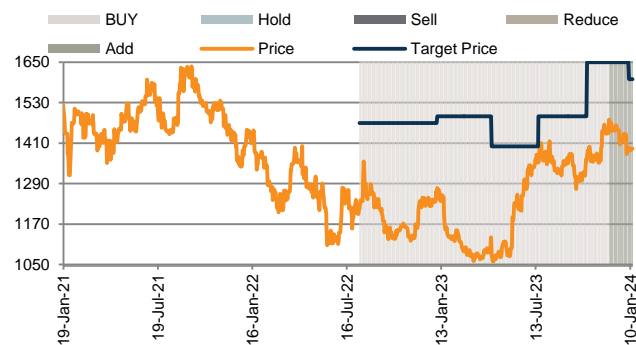
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	1,396	1,600	Add	Avinash Singh
12-Dec-23	1,455	1,650	Add	Avinash Singh
08-Dec-23	1,449	1,650	Add	Avinash Singh
30-Nov-23	1,480	1,650	Add	Avinash Singh
19-Oct-23	1,372	1,650	Buy	Avinash Singh
18-Oct-23	1,359	1,490	Buy	Avinash Singh
05-Oct-23	1,297	1,490	Buy	Avinash Singh
04-Oct-23	1,303	1,490	Buy	Avinash Singh
18-Jul-23	1,352	1,490	Buy	Avinash Singh
09-Jul-23	1,338	1,400	Buy	Avinash Singh
19-Apr-23	1,076	1,400	Buy	Avinash Singh
03-Apr-23	1,080	1,490	Buy	Avinash Singh
29-Mar-23	1,073	1,490	Buy	Avinash Singh
06-Feb-23	1,134	1,490	Buy	Avinash Singh
18-Jan-23	1,200	1,490	Buy	Avinash Singh
17-Jan-23	1,249	1,490	Buy	Avinash Singh
05-Jan-23	1,277	1,490	Buy	Avinash Singh
03-Jan-23	1,268	1,470	Buy	Avinash Singh
19-Oct-22	1,138	1,470	Buy	Avinash Singh
29-Sep-22	1,166	1,470	Buy	Avinash Singh
22-Sep-22	1,195	1,470	Buy	Avinash Singh
05-Sep-22	1,262	1,470	Buy	Avinash Singh
24-Aug-22	1,244	1,470	Buy	Avinash Singh
09-Aug-22	1,214	1,470	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
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