

# ICICI Lombard General Insurance (ICICIGI IN)

Target Price **Rs1,000.0**  
 Current Price **Rs774.1**  
 % Upside **29%**

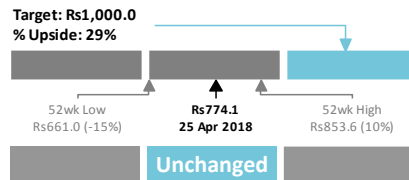
## The Scoop: Excellent Results Beyond Weak Optics

### General Insurance

#### India

26 Apr 2018

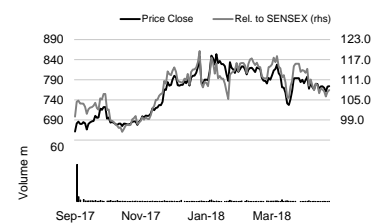
## BUY



#### Basic Share Information

Market cap	Rs351.4b / US\$5.25b
Daily traded value (3mth)	US\$3.51m
Shares outstanding	453.9m
Free float	31%
Foreign Shareholding	35%
1 yr high	Rs853.6
1 yr low	Rs661.0
Share price date	25 Apr 18

#### Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	4.4%	-6.6%	%
Absolute USD	1.5%	-11.3%	%
Relative to SENSEX	-1.4%	-2.3%	%



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### What event has happened?

ICICI Lombard reported its full year results on 25 April 2018. On the face of it, it seems like the operating performance of the company has deteriorated with the combined ratio (according to IRDA) increasing to 97.1% from 99.5% on a reported basis. However, digging deeper, we can see that the majority of the deterioration has come due to two reasons: a) significant increase in loss ratio for crop insurance (creating around 4% negative delta YoY on overall combined ratio) which we have consistently highlighted to be a zero-sum game in medium term (and the company has highlighted that it would be conservative in this segment) and b) the almost Rs2.4bn of reserve strengthening on Indian Motor Third Party Insurance Pool (IMTPIP) book pre-FY3/13 (creating negative 3.6% impact on combined ratio), which despite significant reserve strengthening in the post FY3/13 book, resulted in almost Rs0.72bn of reserve strengthening (almost 1% impact to combined ratio); the pre-FY3/13 book is a legacy book and we do not expect a repeat of this in future. Barring these two factors, the combined ratios for the year would have been significantly lower than 100%. Also, the company booked lower capital gains in the quarter leading to a decline of 9% QoQ in investment income despite the investable asset base growing at 5% QoQ.

### Why is it significant?

The results highlight significant improvement in underwriting in most of the segments and also expense ratio reduction of 80bps. We do not expect any improvement in expense ratio in FY3/19. However, we expect the combined ratio to fall by 200bps in FY3/19 as we do not expect significant strengthening on IMTPIP book after pricing in the claims deterioration due to lower pricing improvement in third party (TP) portfolio.

### Implications for our earnings forecast?

We do not change our estimates and target price.

### How do valuations look now?

ICICI Lombard currently trades at FY3/19 PE multiple of 29.6x. We value general insurance companies using a DCF. Based on our analysis, we arrive at a valuation of Rs454bn for ICICI Lombard, implying a FY3/20 PER multiple of 31x and a target price of Rs1,000. The main risk is catastrophic events that could materially increase ICICI Lombard's liabilities for claims by policyholders, and have a material adverse effect on its business, thereby impacting our fair value assessment of its business.

### What is distinctive about our stock view?

We see ICICI Lombard as a long-term investment given its leadership position in a) the high growth general insurance industry where profitability is improving given pricing increases, b) company's significant exposure to the retail segment, which places it well for market share gain in profitable segments and c) the company has robust reserves for claims (in our opinion, it is carrying buffer reserves).

	Mar-16A	Mar-17A	Mar-18A	Mar-19E	Mar-20E	Trend
Gross premiums written (Rsm)	80,907	107,252	126,001	154,443	185,331	▬ ▬ ▬ ▬ ▬
Total turnover (Rsm)	60,191	75,187	83,110	110,343	132,894	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rsm)	7,077	9,101	11,962	16,474	20,252	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rsm)	5,074	7,019	8,618	11,862	14,582	▬ ▬ ▬ ▬ ▬
Net profit growth	(5.3%)	38.3%	22.8%	37.6%	22.9%	▬ ▬ ▬ ▬ ▬
P/EV (x)	na	na	na	na	na	
P/B (x)	9.94	7.93	6.66	5.61	4.70	▬ ▬ ▬ ▬ ▬
P/E (x)	68.19	49.56	40.65	29.62	24.10	▬ ▬ ▬ ▬ ▬
ROE	15.2%	17.8%	17.8%	20.6%	21.2%	▬ ▬ ▬ ▬ ▬
Dividend yield	0.5%	0.5%	0.5%	0.7%	0.9%	▬ ▬ ▬ ▬ ▬
EPS HTI New (Rs)	11.35	15.62	19.04	26.13	32.12	▬ ▬ ▬ ▬ ▬
Consensus EPS (Rs)		15.56	18.78	22.70	27.07	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	na	0.4%	1.4%	15.1%	18.7%	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

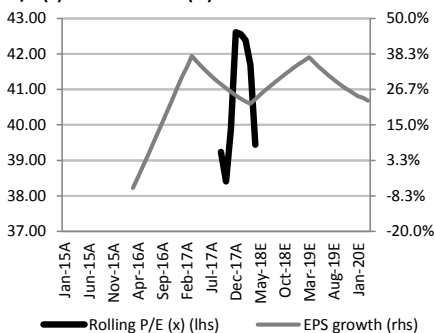
Click [here](#) to download the working model

**Loss Ratio and Underwriting Profit / (Loss) Across Segments**

<i>(in Rs mn)</i>	Loss Ratio		Combined Ratio (on NEP)		Underwriting Profit / (Loss)	
	FY3/17	FY3/18	FY3/17	FY3/18	FY3/17	FY3/18
Particulars						
Motor			114.0%	111.9%	(4,954)	(4,935)
<i>Motor OD</i>	64.2%	53.7%				
<i>Motor TP</i>	97.4%	107.1%				
Health and PA			89.9%	78.0%	1,467	3,329
<i>Health</i>	97.9%	77.6%				
<i>PA</i>	41.3%	23.9%				
Crop	84.2%	135.0%	72.1%	123.4%	1,412	(1,274)
Fire	68.4%	43.1%	57.0%	41.3%	532	846
Marine	83.9%	54.2%	117.0%	86.4%	(326)	267
Miscellaneous			143.5%	114.4%	(1,516)	(541)
<i>Engineering</i>	53.3%	24.0%				
<i>Other</i>	62.1%	57.3%				
<b>Total</b>	<b>80.4%</b>	<b>76.9%</b>	<b>105.5%</b>	<b>103.3%</b>	<b>(3,386)</b>	<b>(2,309)</b>

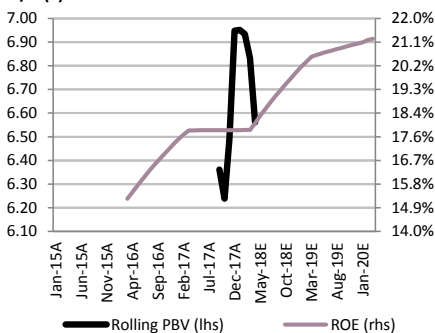
Source: Company data

P/E (x) vs EPS Growth (%)



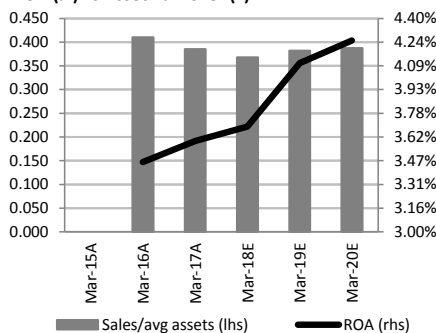
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



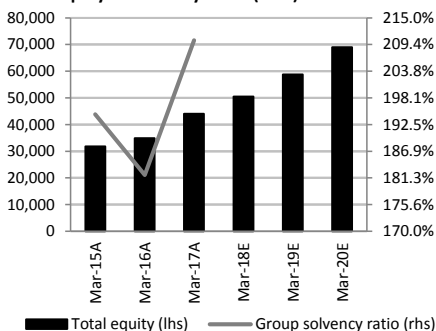
Source: Company data, Bloomberg, HTI estimates

ROA (%) vs Asset Turnover (x)



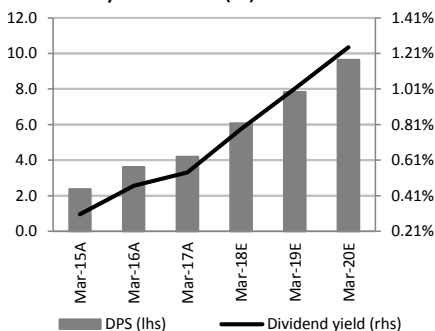
Source: Company data, Bloomberg, HTI estimates

Total Equity vs Solvency Ratio (Rsm)



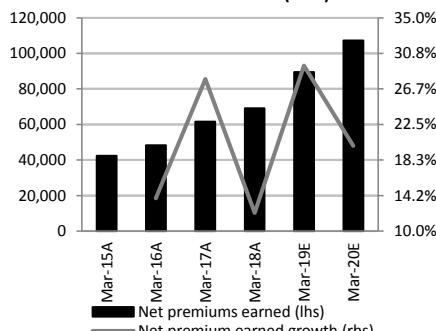
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rs)



Source: Company data, Bloomberg, HTI estimates

Net Premium Earned and Growth (Rsm)



Source: Company data, Bloomberg, HTI estimates

APPENDIX

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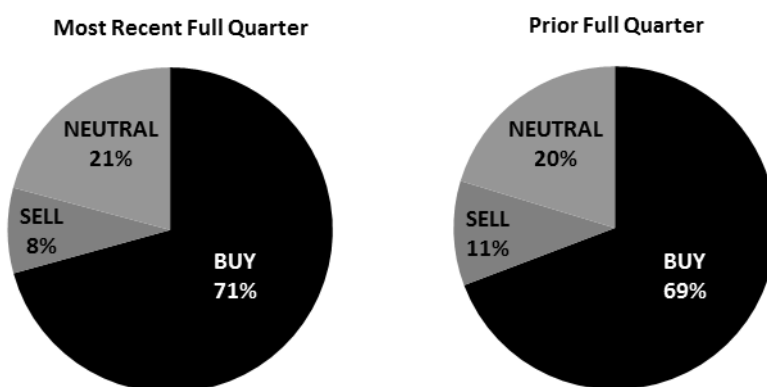
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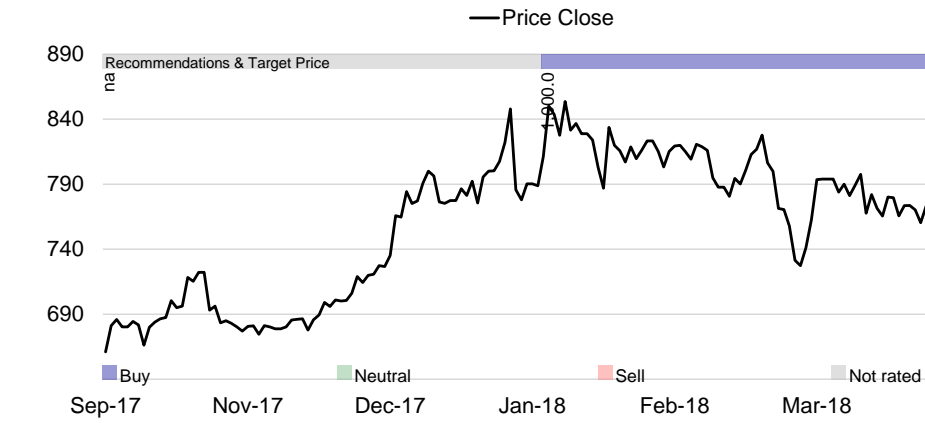
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Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2018-01-16	Buy	1,000	811

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

**Business Growth**

This is the metric which matches the top line in our report.

**Business profit**

This is the metric which best represents operating profit in our report

**Shareholder Returns**

Return on Equity

**Balance Sheet Risk**

Net Debt to Equity