

Good show despite moderation in the industry

About the stock: ICICI Lombard is among the leading multi-line players in the general insurance space with ~10.6% market share on an overall basis.

- Motor segment contributes over ~33% of total premium, health insurance contributes 30%

Q2FY25 performance: ICICI Lombard delivered healthy business growth with gain in market share despite slower growth in the industry. Gross premium increased 10.4% YoY at ₹ 6721 crore (industry growth at 2%), excluding crop and mass health, premium grew 9.4% YoY, higher than industry growth of 6.9%. Despite challenge pertaining to muted volume in auto industry, ICICI Lombard delivered healthy growth, gaining market share, amid healthy renewal business. Retail health business witnessed healthy growth owing to strong traction in recently launched product – Elevate. Combined ratio increased at 104.5% in Q2FY25 vs 102.3% in Q1FY25 & 103.9% in Q2FY24; impacted by catastrophic events (with impact of 190 bps). Healthy investment gains offset impact of higher claims and led to 20.2% YoY growth in earnings at ₹ 693.9 crore.

Investment Rationale

- Market share gain aids premium accretion: Heightened competition in motor segment impacted business growth in the past, however, with signs of easing competitive intensity and focus on distribution and renewals especially in car segment, ICICI Lombard is well placed to sustain premium growth thereby witnessing gradual uptick in market share (higher than industry growth at 10.4% seen in Q2FY25 vs industry growth at 2%). Retail health business gained momentum with healthy response from recently launched product – Elevate. Selective approach with renewals in focus is expected to aid continued growth in premium accretion and gradual gain in market share. Expect 13-16% CAGR in premium accretion in FY25-27E.
- Guidance on combined ratio maintained: Balancing business growth with focus on PV segment (GDPI mix at 52.9%) has led to improvement in loss ratio at 64.9% in H1FY25 vs 65.8% in H1FY24. While pricing scenario has seen some improvement, absence of revision in TP rates remains a challenge. Management continued to maintain loss ratio expectation at 65-70% for motor TP and 60-65% for motor OD. In health segment, management is maintaining loss ratio at 95-98% for group business and ~70% in retail health segment. Thus, management maintains its target to achieve combined ratio of 101.5% on the exit of FY25E.

Rating and Target Price

- Despite challenges pertaining to slower growth in auto volumes, absence of revision in TP rates & increase in loss ratio, continued focus on renewals in motor segment and product launch in health segment has aided healthy growth and gain in market share. Strategy to balance growth & profitability along with steady guidance on combined ratio remains levers for aiding earnings. Overall, the insurer remains a good bet to play Indian general insurance industry with consistent profitability. While we remain positive on the outlook, given recent uptick in valuation, we maintain our **Hold** rating with revised target price of ₹2100, valuing the stock at ~1.7x FY27E float.

Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 Year CAGR (FY21 - FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24 - FY27E)
Gross direct premium incor	14003.1	17976.9	21025.1	24776.1	20.9	28513.9	32926.4	38160.9	15.5
Adjusted net profit	1473.1	1271.0	1756.9	1918.6	9.2	2256.1	2530.0	2790.4	13.3
Networth	7435.5	9109.7	10392.2	11959.8	17.2	13854.9	15980.1	18324.0	15.3
EPS (Rs)	32.4	25.9	35.2	38.9		45.8	51.4	56.6	
P/E (x)	58.6	73.4	54.0	48.8		41.5	37.0	33.5	
RoE (%)	21.3	14.5	17.5	16.3		16.1	15.6	15.1	
P/Float	2.8	2.4	2.2	1.9		1.7	1.6	1.4	
P/GWP	6.0	5.0	4.3	3.7		3.2	2.8	2.4	

Source: Company, ICICI Direct Research



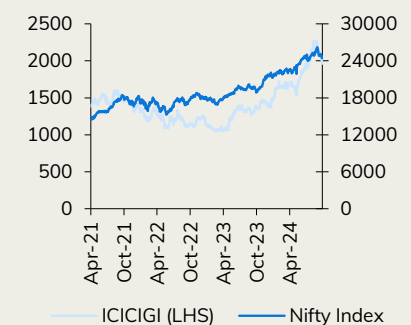
Particulars

Particulars	
Market Capitalisation	₹ 98,271
Networth	₹ 13,607
52 week H/L (₹)	2302/1332
Face Value (₹)	10.0

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	48.0	47.9	51.3	51.8	51.7
FII	22.4	23.0	23.1	23.9	24.8
DII	18.4	17.9	16.0	17.2	15.6
Others	11.2	11.2	9.7	7.1	7.0

Price Chart



Key risks

- Slower than expected improvement in combined ratio
- Increase in competitive intensity to impact business momentum

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Concall highlights and outlook

The company performed well in both the Motor and Health segment compared to industry. Motor segment witnessed growth at 16.1% YoY, however company to be cautious in the commercial segment on account of the change in net commission ratios. Health segment has seen double-digit growth led by the retail segment. Response to newly launched product in retail health insurance segment – Elevate remains encouraging.

- Management maintains guidance of combined ratio at 101.5% at the exit of FY25E.

Health segment

- There is a significant uptick in the retail health business which has seen higher retention. Management said there is no change in the approach on reinsurance.
- Health loss ratio for Group Employer Employee segment stood at 98% for Q2FY25 vs 102% for Q2FY24. Management expects that the Group Health portfolio will end with maintaining loss ratios at 95-98% range and retail will end in the range of ~70%.

Motor segment

- In Q2FY25, new motor business has been flattish, whereas renewal book has seen continued strong traction at 26%. Retention across channels remain good with website and agency being better as compared to OEM. Strength in the agency channel has been reflected in the growth in motor renewals.
- In the private vehicle segment, there has been a very high base in the volumes. Management expects the growth in CVs to pick-up in Q3 or Q4 as it is going to be fuelled by the festive season and there should be some pickup on the PV sales.
- The combined ratio for the industry has worsened in the motor segment from 121% in Q1FY24 to 125.6% in Q1FY25. Strategy to focus on risk selection and customer service for growth in motor segment is to continue ahead.
- In the fire segment, intense competition which led to pricing pressure and risk selection resulted in muted growth.
- Management maintains guidance on loss ratio at 60-65% on OD and 65-70% on TP business.
- Bank business grew by 2.6% due to lower credit disbursement growth. ICICI Group's disbursement distribution grew by 19.6% for Q2FY25.
- The company focus on retaining existing customers has seen positive impact. The company has seen a 2-4% increase in customer retention.

Exhibit 1: Variance Analysis

Results Summary (₹ cr)	Q2FY25	Q2FY24	YoY %	Q1FY25	QoQ %	Comments
Policyholders' Account						
Gross premium written	6948.3	6272.3	10.8	7931.1	-12.4	Due to muted volume in auto industry
Net premium written	4835.5	4240.1	14.0	5360.5	-9.8	
Premium Earned (Net)	5025.6	4306.1	16.7	4503.9	11.6	
Income from investments (net)	846.2	723.0	17.0	844.6	0.2	Stable gains from equity as well as debt portfolio
Other income	-21.2	19.2	-210.3	3.5	-704.9	
Total income	5850.6	5048.3	15.9	5352.0	9.3	
Commission	844.7	737.1	14.6	804.5	5.0	Commission slightly elevated when compare with Q1FY25
Opex relating to insurance business	754.8	669.8	12.7	711.6	6.1	Opex lower due to traction in old business
Incurred claims	3587.0	3045.1	17.8	3334.4	7.6	Loss ratio at 74% vs 74.3%
Total expenses	5186.5	4452.1	16.5	4850.5	6.9	
Underwriting profit/ (loss)	-160.9	-146.0	10.2	-346.6	-53.6	Combined ratio at 104.5%
Operating profit/ (loss)	664.1	596.3	11.4	501.5	32.4	
Shareholders' Account						
Income in shareholder's account	939.7	818.1	14.9	754.4	24.6	
Total Expenses	20.7	55.4	-62.6	-19.6	-205.7	
Profit before taxes	919.0	762.8	20.5	774.0	18.7	
Provision for taxes	225.1	186.4	20.8	193.6	16.2	
Profit after tax	693.9	576.4	20.4	580.4	19.6	Healthy traction in premium and investment income aid profitability
Analytical ratios (reported)						
Solvency ratio	2.65	2.08	57 bps	2.56	9 bps	
Claim ratio	71.38	0.00	7138 bps	74.03	-266 bps	
Expense ratio	29.80	28.60	120 bps	26.80	300 bps	
Net retention ratio	69.40	67.60	180 bps	67.60	180 bps	
Combined ratio	104.50	103.90	60 bps	102.30	220 bps	

Financial Summary

Exhibit 2: Policyholder's Account ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Gross direct premium income	21025.1	24776.1	28513.9	32926.4	38160.9
Net Earned Premium	14822.8	16866.5	19552.8	22823.9	26645.2
Investment income	3272.1	2885.6	3174.2	3491.6	3840.8
Total income	18094.9	19752.1	22727.0	26315.5	30486.0
Claims	10725.7	11939.5	13755.8	16010.2	18708.6
Commission	472.2	3089.0	3359.1	3893.7	4506.5
Operating expense	4486.9	2817.7	3346.0	3900.9	4548.2
Total expense	15712.6	17846.2	20461.0	23804.8	27763.2

Source: Company, ICICI Direct Research

Exhibit 3: Shareholder's Account ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Operating profit/(Loss)	2410.2	1905.9	2389.2	2783.6	3021.1
Income from Investments	731.7	844.8	1016.6	1184.2	1379.6
Other income - misc income	43.9	5.2	5.2	5.2	5.2
Total Income	3185.8	2755.9	3411.1	3973.0	4405.8
Total Expenses	1045.4	200.7	230.9	265.5	305.3
Profit Before Tax	2140.4	2555.2	3180.2	3707.5	4100.5
Tax	383.5	636.6	833.2	971.4	1074.3
Profit After Tax	1756.9	1918.6	2347.0	2736.2	3026.2

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' Funds					
Share capital	491.1	492.7	492.7	492.7	492.7
Reserve and surplus	9901.1	11467.1	13362.2	15487.4	17831.3
Fair Value change	213.3	989.6	1188.7	1313.2	1450.9
Borrowings	35.6	35.0	35.0	35.0	35.0
Total	10641.1	12985.0	15079.3	17329.0	19810.7
Application of funds					
Investments					
Shareholders	9858.3	11586.9	12977.3	14534.6	16278.7
Policyholders	33322.1	37320.4	41052.4	45157.7	49673.4
Fixed assets	564.0	700.9	770.9	848.0	932.8
Deferred tax asset	265.3	292.6	292.6	292.6	292.6
Current assets	11076.5	13407.6	22588.6	29007.0	36859.6
Current liabilities	35658.7	40235.2	50754.8	58608.9	67926.4
Provisions	8786.5	10088.1	11847.8	13902.0	16300.0
Total	10641.1	12985.0	15079.3	17329.0	19810.7

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Gross Direct Premium Income	17.0	17.8	15.1	15.5	15.9
Net Premium Income	13.7	13.8	15.9	17.1	16.4
Operating Expenses	14.5	-37.2	18.7	16.9	16.3
PAT	38.2	9.2	22.3	16.6	10.6
BVPS	14.0	14.7	16.5	16.5	15.7
EPS	35.2	38.9	47.6	55.5	61.4
Profitability Ratios (%)					
Yield on Investment	9.8	8.1	8.4	8.5	8.5
Claims ratio	58.1	59.4	70.3	70.3	70.3
Commission To NEP	3.2	18.3	17.2	16.4	16.4
Opex to NEP	30.3	16.7	17.1	17.1	17.1
Combined Ratio	104.3	103.3	102.2	101.4	101.3
Balance Sheet Ratios (%)					
RoE	17.5	16.3	16.7	16.8	16.0
Investment Leverage	4.2	4.1	3.9	3.7	3.5
Solvency Ratio (x)	2.5	2.6	3.0	2.9	2.9
Valuation Ratio					
P/B	9.3	8.1	6.9	6.0	5.2
P/E	55.8	50.4	41.2	35.4	32.0
P/float	2.2	2.0	1.8	1.6	1.5
P/GWP	4.4	3.8	3.3	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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