

## ICICI Lombard General Insurance Co Ltd

ICICI Lombard is the largest non-life private sector insurer in India. It is a JV between ICICI Bank and Fairfax Financial Holdings Ltd of Canada. Backed by strong parentage, and under penetration of non-life insurance business in India, the company has been on a strong growth path with its Gross Direct Premium Income growing by 26.7% over FY2015-17.

**Leadership position among private general insurers:** ICICI Lombard has retained its leadership position among the private non-life insurance players since 2004 and has been gaining market share. In FY2017, it had a market share of 8.4% among all non-life insurance companies and 18% among the private sector non-life insurance companies. The leadership position of the company can be attributed to the fact that it is one of the most efficient in terms of claim settlement ratios.

**Higher share of business from the low loss ratio segments should improve profitability:** Motor Insurance forms the largest part of the business (42.3%) for the company followed by health and personal accident segments (18.8%). However, over the last two years the share of other segments like crop/ weather insurance has gone up, which has a relatively lower loss ratio. Increasing share of business from the low loss ratio segments will be a positive trigger for the company.

**Growth driven by strong parentage & wide distribution network:** ICICI Lombard operates through 51 corporate agents, including ICICI Bank (its promoter), which gives the company an access to their 4,850 branches. Moreover, it has a network of 20,775 individual agents. With large distribution network in place, we believe the company would continue to gain market share in the years to come.

**High solvency ratio leads to better bottom-line with strong RoE:** The Company has a strong capital base with a solvency ratio of 2.1x (FY2017) as compared to IRDA prescribed minimum of 1.5x. The company's net premium income has grown at a CAGR of 11.3% over FY2013-17, while its PAT has grown by 16.1% over the same period, which is a testimony to its improving efficiency and as a result its RoE has also improved to 17.2% by FY17 from 15.6% in FY2015.

**Outlook & Valuation:** At the upper price band of ₹661 the issue is offered at 8x its FY2017 BV. While on the reported numbers it might appear to be fairly valued, we believe with strong potential to deliver high double digit growth for next multiple years, the issue looks decently priced, and hence we have a **SUBSCRIBE** rating on the issue.

### Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Premium Earned	4,012	4,352	4,234	4,826	6,158
% chg		8	(3)	14	28
Net profit	353	520	585	505	642
% chg		47	13	-14	27
EPS	8	11	13	11	14
Book Value	43	53	64	71	82
P/E	86	58	52	60	47
P/BV (x)	15	13	10	9	8
RoE (%)	18	22	20	16	17

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: Sept 15, 2017

Issue Close: Sept 19, 2017

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital:  
₹453.95cr

Offer for Sale: \*\*8.62cr Shares

Fresh issue: ₹ 0cr

Post Eq. Paid up Capital: ₹453.95 cr

Issue size (amount): \*₹5,615cr -  
\*\*5,700cr

Price Band: ₹651-661

Lot Size: 22 shares and in multiple thereafter

Post-issue implied mkt. cap:  
\*₹29,538cr - \*\*₹29,992cr

Promoters holding Pre-Issue: 84.83%

Promoters holding Post-Issue: 65.83%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	66%
Others	34%

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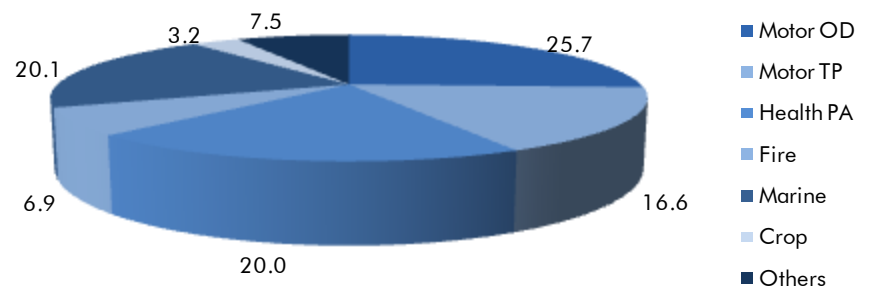
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## Company background

ICICI Lombard General Insurance is the largest private non-life insurer in India based on gross direct premium income for FY2017. The company has maintained its leadership stance since 2004. The company offers a comprehensive and well diversified range of products including motor, health, crop/ weather, fire, personal accident, marine and engineering insurance, etc.

The company has multiple distribution channels and operates through 51 corporate agents including its promoter ICICI Bank, which gives it an access to 4,850 branches. It caters to 80% of the motor vehicle manufactures in India by vehicle sales. Further, the company has 20,775 individual agents.

### Exhibit 1: Business Contribution Across Segments (FY17)



Source: RHP, Angel Research

## Issue details

Issuance of 8.62cr Equity Shares, 3.17 cr shares by ICICI Bank Ltd and 5.44 cr equity shares by Fairfax Financial Holdings Ltd via an offer for sale.

## Objects of the offer

- To list the equity share of the company the on the exchanges
- Enhance the “ICICI Lombard” brand name and provide liquidity to the existing shareholders
- Being an offer for sale, the company will not receive any proceeds from the offer

## Exhibit 2: Top 10 Share Holders Pre-issues

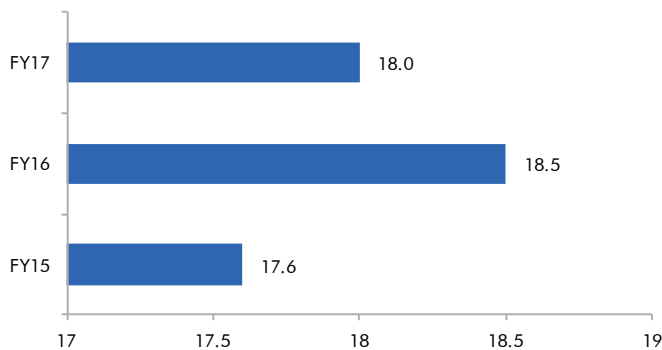
	Shareholders	No Of Equity Shares	%
1	ICICI Bank	28,56,05,284	62.92
2	FAL	9,94,64,479	21.91
3	Red Bloom Investment Ltd	4,08,89,791	9.01
4	Tamarind Capital Pte Ltd	72,11,596	1.59
5	IIFL Special Opportunities Fund	40,76,135	0.90
6	IIFL Special Opportunities Fund-Series 2	27,17,424	0.60
7	IVF Trustee Company Pvt Ltd	14,02,200	0.31
8	IIFL Special Opportunities Fund-Series 3	9,70,509	0.21
9	Sandeep Bakshi	9,41,250	0.21
10	Alok Kumar Agrawal	4,55,000	0.10
	<b>Total</b>	<b>44,37,33,668</b>	<b>97.76</b>

Source: RHP, Angel Research

## Investment rationale

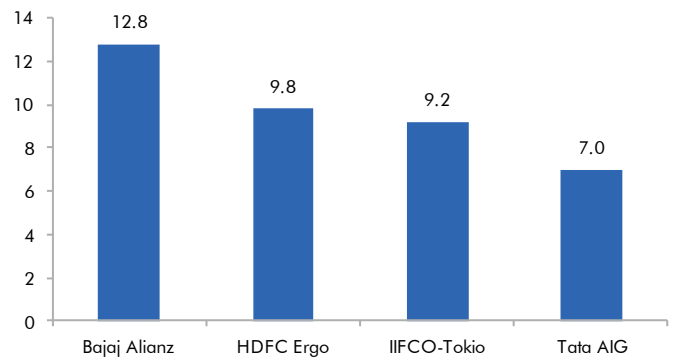
**Leadership position among private General Insurers:** ICICI Lombard has retained its leadership position among the private non-life insurance players since 2004 and has been gaining market share. In FY2017, ICICI Lombard issued ~17.7 mn policies and had a market share of 8.4% among all non-life insurance companies and 18% among the private sector non-life insurance companies, while its competitor, Bajaj Allianz has a market share of 12.8%.

Exhibit 3: Market Share (%)



Source: RHP, Angel Research

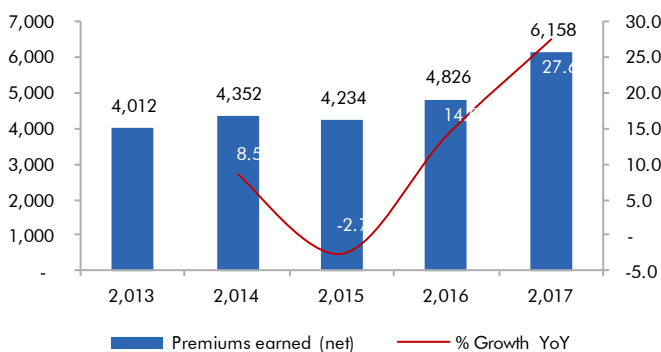
Exhibit 4: Market Share (%)



Source: RHP, Angel Research

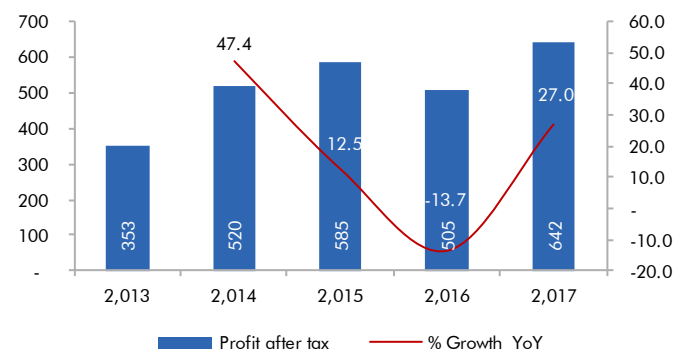
**High solvency ratio leading to accelerated bottom-line growth with strong RoE:** The Company has a strong capital base with a solvency ratio of 2.1x (FY2017) as compared to IRDA prescribed minimum of 1.5x. The company's net premium income has grown at a CAGR of 11.3% over FY2013-17, while its PAT has grown by 16.1% over the same period, which is a testimony to its improving efficiency and as a result its RoE has also improved to 17.2% from 15.6% in FY2015.

Exhibit 5: Premium Earned Net (₹ Cr)



Source: Company, Angel Research

Exhibit 6: PAT (₹ Cr)



Source: Company, Angel Research

**Increasing share of business from the low loss ratio segments:** As shown in the table below, Motor Insurance forms the largest part of the business for the company followed by health and personal accident segments. However, over the last two years the share of other segments like crop/ weather insurance has gone up, which has a relatively lower loss ratio.

**Exhibit 7: Gross Direct Premium Income (GDPI)**

₹ Cr	FY15		FY16		FY17	
	₹ Cr	%	₹ Cr	%	₹ Cr	%
Motor						
Own Damage	2,132	31.9	2,523	31.2	2,760	25.7
Third Party	1,284	19.2	1,627	20.1	1,782	16.6
<b>Total Motor</b>	<b>3,416</b>	<b>51.1</b>	<b>4,150</b>	<b>51.3</b>	<b>4,542</b>	<b>42.3</b>
Health & Personal Accident						
Health	1,318	19.7	1,384	17.1	1,668	15.5
Personal Accident	233	3.5	279	3.4	358	3.3
<b>Total Health &amp; Personal Accident</b>	<b>1,551</b>	<b>23.2</b>	<b>1,663</b>	<b>20.5</b>	<b>2,026</b>	<b>18.8</b>
Crop/ Weather	276	4.1	593	7.3	2,151	20.1
Fire	545	8.2	633	7.8	745	6.9
Marine	246	3.7	300	3.7	341	3.2
Engineering	171	2.6	198	2.5	225	2.1
Other	474	7.1	555	6.9	697	6.5
<b>Total</b>	<b>1,712</b>	<b>25.7</b>	<b>2,279</b>	<b>28</b>	<b>4,159</b>	<b>38.8</b>
<b>Gross Total</b>	<b>6,679</b>	<b>100</b>	<b>8,092</b>	<b>100</b>	<b>10,727</b>	<b>100</b>

Source: RHP, Angel Research

**Strong parentage coupled with wide distribution network would continue to drive the growth:** ICICI Lombard operates through 51 corporate agents, including ICICI Bank (its promoter), which gives it an access to their 4,850 branches. In addition to this, it has a network of 20,775 individual agents. With large distribution network in hand, we believe the company would continue to gain market share in the years to come. Incrementally the company has been focusing a lot on electronic platform for its sales and approximately 1.6 mn policies were sold via electronic mode in FY17.

**Improving loss ratios across segments:** The overall loss ratio of the company has been improving over the last few years and it has come down to 80.6% during FY2017 from a level of 83.5% in FY2013. Over FY2016-17 there has been a 100 bps improvement in the loss ratios. Similarly, the expenses ratio has also been coming down gradually with a 350 bps improvement in the last one year. Reducing loss and expenses ratios have been one of the primary drivers for reducing the overall combined ratio, which has seen 80 bps improvement over FY2016-17.

#### Exhibit 8: Motor Insurance

Own Damage Motor Insurance	FY15	FY16	FY17
GDPI (₹ Cr )	2,132	2,523	2,760
Pvt Market Share (%)	18.2	19.4	18.9
Industry Market Share (%)	11.0	11.8	11.6
Loss Ratio (%)	61.8	65.6	64.2
Combined Ratio (%)	84.6	97.3	97.2

Source: Company, Angel Research

#### Exhibit 9: Motor Insurance

Third Party Motor Insurance	FY15	FY16	FY17
GDPI (₹ Cr )	1,284	1,627	1,782
Pvt Market Share (%)	15.9	17.0	15.0
Industry Market Share (%)	7.2	7.7	6.7
Loss Ratio (%)	105.8	97.7	97.4
Combined Ratio (%)	138.8	131.2	130.4

Source: Company, Angel Research

Private cars, 2 wheelers and Commercial Vehicles contribute 49.6%, 32.3% and 18.1% respectively of Motor GDPI in FY2017. On an incremental basis, the company is focusing more on the relatively higher profitable segment, which is visible from the fact that proportion of 2 wheelers and private cars have increased to 81.9% in FY2017 from 77% in FY2015. Further, the company is underwriting select segments of commercial vehicles.

In the health and personal accident segment, the company has been focusing more on the retail segment and retail, corporate and mass health contributed 54.2%, 32.6% and 13.2% respectively of health GDPI in FY2017. In the crop insurance sector, it has issued more than 2 mn policies in each of Kharif and Rabi seasons across 10 states and 83 districts under PMFBY. The company does a geographic specific risk assessment while selecting regions. In the fire insurance segment, the company takes underwriting of small risks for diversification of portfolio and for attractive pricing. In the engineering segment the focus is on long term policies, including coverage for infrastructure and industrial erection projects.

#### Exhibit 10: Health & Personal Accident Insurance

Health & Personal Accident Insurance	FY15	FY16	FY17
GDPI (₹ Cr )	1,640	1,760	2,150
Pvt Market Share (%)	18.0	15.9	15.4
Industry Market Share (%)	7.3	6.4	6.3
Loss Ratio (%)	87.4	82.1	90.2
Combined Ratio (%)	103.1	91.4	99.1

Source: Company, Angel Research

#### Exhibit 11: Fire Insurance

Fire Insurance	FY15	FY16	FY17
GDPI (₹ Cr )	545	633	745
Pvt Market Share (%)	16.6	16.4	16.6
Industry Market Share (%)	6.8	7.2	7.8
Loss Ratio (%)	94	63.6	68.4
Combined Ratio (%)	104.8	38.3	58.4

Source: Company, Angel Research

#### Exhibit 12: Marine Insurance

Marine Insurance	FY15	FY16	FY17
GDPI (₹ Cr )	246	300	341
Pvt Market Share (%)	21.8	24.0	26.3
Industry Market Share (%)	8.2	10.0	11.8
Loss Ratio (%)	98.7	97.5	83.9
Combined Ratio (%)	134.2	129.6	118.2

Source: Company, Angel Research

#### Exhibit 13: Crop Insurance

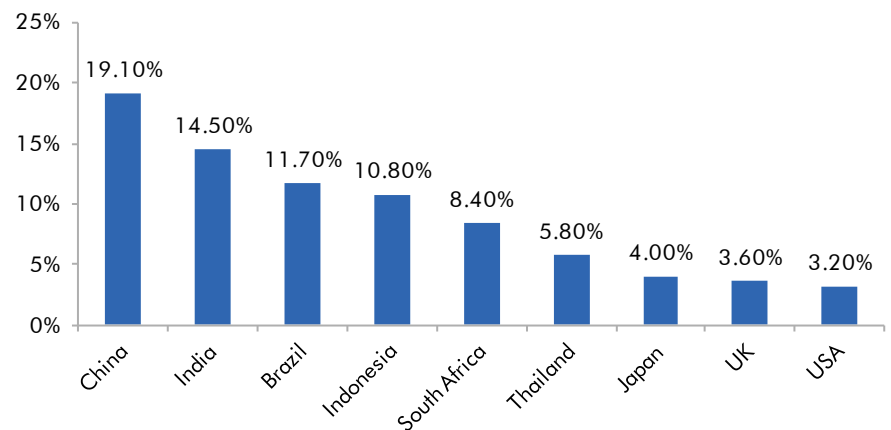
Crop Insurance	FY16	FY17
GDPI (₹ Cr )	593	1,070
Pvt Market Share (%)	29.9	22.2
Industry Market Share (%)	10.7	10.4
Loss Ratio (%)	140	84.2
Combined Ratio (%)	120.2	72.1

Source: Company, Angel Research

### Industry Outlook:

**Significant growth opportunity in India:** The size of Indian non life insurance sector was ₹1.28 trillion on a GDP basis at end of FY2017. Indian non life insurance sector grew by 17.4% between FY2001-17. According to Swiss Re, India was the fifteenth largest market in the world and the fourth largest in Asia in 2016, behind China, Japan and South Korea. India was also amongst fastest growing non-life insurance markets over 2011-16, growing at 14.5% ( as per Swiss Re).

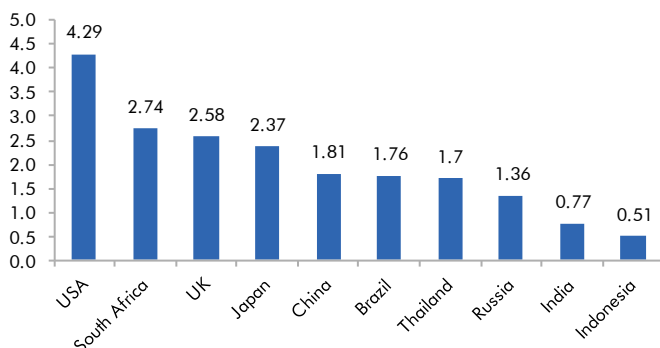
**Exhibit 14: Non Life Insurance CAGR**



Source: RHP, Angel Research

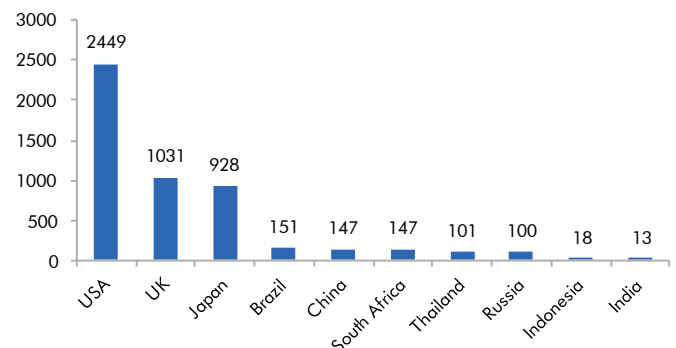
Despite its size and growth profile, India continues to be an underpenetrated market with a non-life insurance penetration of 0.77% in 2016 as compared to 1.81% in China, 1.70% in Thailand, 1.67% in Singapore and 1.62% in Malaysia and global average of 2.81% in 2016. At US \$ 13.2 in 2016, insurance density also remains significantly lower as compared to other developed and emerging market economies.

**Exhibit 15: Premium as a % of GDP (CY16)**



Source: RHP, Angel Research\* Data for 2016

**Exhibit 16: Non Life Insurance Density ( US \$ )**



Source: RHP, Angel Research



## Outlook & Valuation

The Indian Non-Life Insurance Industry has been one of the fastest growing markets across emerging markets with a 14.5% CAGR over CY2011-16. Despite the high growth the premium density as % of GDP is still at 0.77% which leaves scope for much scalability.

At the upper price band of ₹661 the issue is offered at 8x its FY2017 BV. While on the reported numbers it might appear to be fairly valued, we believe with strong potential to deliver high double digit growth for next multiple years, the issue looks decently priced, and hence we have a **SUBSCRIBE** rating on the issue.

**Statement of Revenue**

Y/E March (₹ cr)	2,013	2,014	2,015	2,016	2,017
Premiums earned (net)	4,012	4,352	4,234	4,826	6,158
% chg		8	-3	14	28
Profit on sale/ redemption of investments	77	175	202	280	329
Less : Loss on sale/ redemption of investments	(20)	(53)	(27)	(9)	(32)
Others	15	22	32	48	27
Interest, Dividend & Rent- Gross	403	533	604	659	699
<b>Total (A)</b>	<b>4,487</b>	<b>5,028</b>	<b>5,045</b>	<b>5,804</b>	<b>7,180</b>
Claims incurred (net)	3,350	3,629	3,446	3,939	4,966
Loss Ratio	83	83	81	82	81
Commission (net)	(183)	(229)	(346)	(328)	(434)
Operating expenses related to insurance business	1,019	1,216	1,387	1,711	1,982
Premium deficiency	(2)	-	-	-	-
<b>Total (B)</b>	<b>4,185</b>	<b>4,616</b>	<b>4,486</b>	<b>5,322</b>	<b>6,513</b>
Statement of P&L					
<b>Operating Profit /(Loss) C=(A - B)</b>	<b>303</b>	<b>413</b>	<b>558</b>	<b>482</b>	<b>667</b>
Operating profit/(loss)	303	413	558	482	667
Income from investments	111	136	182	228	315
Other income	2	7	2	14	2
<b>Total (A)</b>	<b>416</b>	<b>556</b>	<b>742</b>	<b>724</b>	<b>984</b>
Provisions (Other than taxation)	56	13	22	1	5
Other expenses	-	-	-	-	-
(a) Expenses other than those business	3	5	13	18	96
(b) Bad debts written off	4	3	0	-	-
(c) Loss on sale/discard of	2	2	2	0	3
(d) Penalty	-	0	1	0	-
<b>Total (B)</b>	<b>65</b>	<b>23</b>	<b>38</b>	<b>19</b>	<b>104</b>
<b>Profit before tax (C) = (A-B)</b>	<b>351</b>	<b>533</b>	<b>705</b>	<b>705</b>	<b>880</b>
Provision for taxation	(1)	13	119	199	238
<b>Profit after tax</b>	<b>353</b>	<b>520</b>	<b>585</b>	<b>505</b>	<b>642</b>
EPS	8	11	13	11	14
% chg		47	13	(14)	27

### Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
<b>Sources of funds</b>					
Share capital	437	445	447	448	451
Reserves and surplus	1,422	1,948	2,439	2,788	3,274
Share application money-pending allotment	100	0	0	-	1
<b>Networth</b>	<b>1,959</b>	<b>2,394</b>	<b>2,885</b>	<b>3,235</b>	<b>3,726</b>
Share Holder Fund	-	18	69	61	175
Policy Holder Fund	-	95	287	249	503
<b>Fair value change account</b>	<b>70</b>	<b>113</b>	<b>356</b>	<b>309</b>	<b>677</b>
Borrowings					485
<b>Total</b>	<b>2,029</b>	<b>2,507</b>	<b>3,241</b>	<b>3,545</b>	<b>4,889</b>
<b>Application of funds</b>					
Investments	7,800	9,290	10,200	11,563	15,079
Fixed assets	400	389	390	383	383
Deferred tax asset	48	35	97	124	87
<b>Current assets (A)</b>	<b>4,388</b>	<b>5,029</b>	<b>3,959</b>	<b>5,045</b>	<b>7,802</b>
Cash and bank balances	270	162	142	195	194
Advances and other assets	4,118	4,867	3,818	4,850	7,608
Current liabilities and provisions (B)	10,697	12,237	11,404	13,570	18,462
<b>Net current assets (C) = (A - B)</b>	<b>(6,309)</b>	<b>(7,207)</b>	<b>(7,445)</b>	<b>(8,525)</b>	<b>(10,660)</b>
Debit balance in profit and loss account	89	-	-	-	-
<b>Total</b>	<b>2,029</b>	<b>2,507</b>	<b>3,241</b>	<b>3,545</b>	<b>4,889</b>

### Key Ratio

	FY13	FY14	FY15	FY16	FY17
ROE	18	22	20	16	17
BV	43	53	64	71	82
EPS	8	11	13	11	14
P/E	85	58	51	59	47
P/BV	15	13	10	9	8
Loss Ratio	83	83	81	82	81
Combined Ratio	104	105	105	107	104
Solvency Ratio	155	172	195	182	210
Investment Leverage Ratio	-	4	4	4	4

Ratio are calculated at Upper Band of IPO

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