VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

ICICI Lombard General Insurance

SUBSCRIBE

IPO Price band ₹ 651-661

Index Details	
Sensex	32,226.7
Nifty	10,085.8
Industry	Insurance

Scrip Details	
BVPS (`)	82.5
O/s Shares (Cr)	45.3
Price Band	Rs 651- 661
Div Yield (%)	0.5
FVPS (`)	10.0

Shareholding Pattern	
Shareholders	(Post) %
Promoters	55.9
Public	44.1
Total	100.0

ICICI Lombard General Insurance Company Ltd is the largest private sector non-life insurer in India based on the gross direct premium income in fiscal 2017, a position it has maintained since fiscal 2004 after being one of the first few private-sector companies to commence operations in the sector in fiscal 2002. It offers customers a comprehensive and well-diversified range of products, including motor, health, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. The company was founded as a joint venture between ICICI Bank Limited, India's largest private-sector bank in terms of consolidated total assets with an asset base of Rs.9.9 trillion at March 31, 2017, and Fairfax Financial Holdings Limited, a Canadian based holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management with US$ 43.38 billion of total assets at December 31, 2016.

The company takes a holistic approach to risk management, which includes data driven risk selection framework, conservative reserving and quality reinsurance. It works with it's customers to proactively analyze and mitigate risks, which benefits both the customers and business by reducing loses and amount of claims. Leveraging technology in the non life insurance industry has enabled them to provide a seamless experience to the customers and distribution partners across all the stages of the insurance policy and achieve efficiencies in the internal operations. At the higher band price of Rs. 661 per share, the company is valued at a PE multiple of 46.2 times its FY17. Considering the likely increase in earnings and eventually the net worth, the pricing appears to be attractive.

Key Financials (Rs in Cr)

Year	Premium Earned	Op Profit	PAT	EPS	P/E	RONW (%)	Combined Ratio	Loss Ratio
2014	4352.2	412.8	520.7	11.7	56.5	NA	105.3	83.4
2015	4234.0	558.4	585.3	13.4	49.3	22.2	104.9	81.4
2016	4826.3	481.9	505.3	11.3	58.5	16.5	107.1	81.6
2017	6157.8	667.0	641.8	14.3	46.2	18.4	104.1	80.6

Thursday, 14th September, 2017

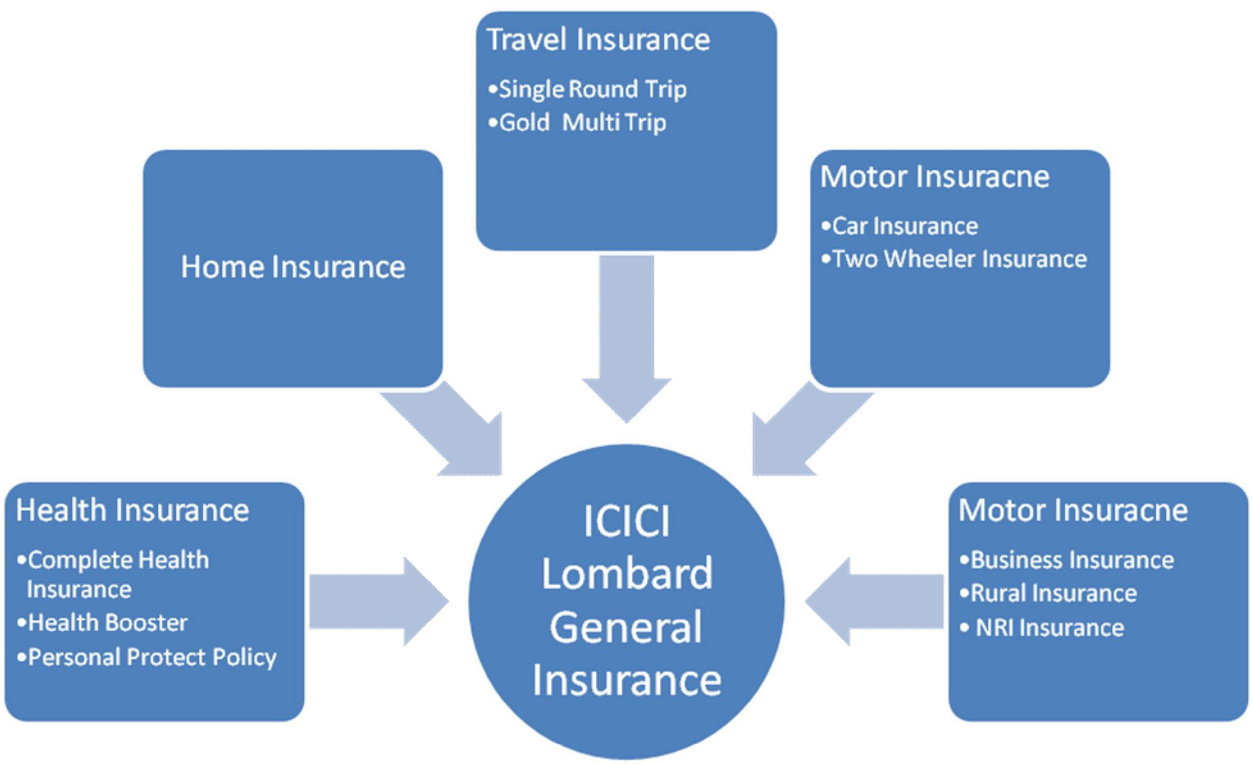
STOCK POINTER

❖ Company Background

Established in 2001, ICICI Lombard General Insurance Company is a joint venture between ICICI Bank- India's second largest bank in India and Fairfax Financial Holdings Limited- a financial services company based in Toronto. ICICI bank had a 64% stake in the venture while Fairfax had 35% in the joint venture. ICICI Lombard General Insurance is the largest private sector general insurance company in India and the first company to be listed on the stock exchange from that space.

Further, being the market leaders, the company has been able to build a strong heterogeneous product profile as displayed in the diagram below.

Product offerings of ICICI Lombard



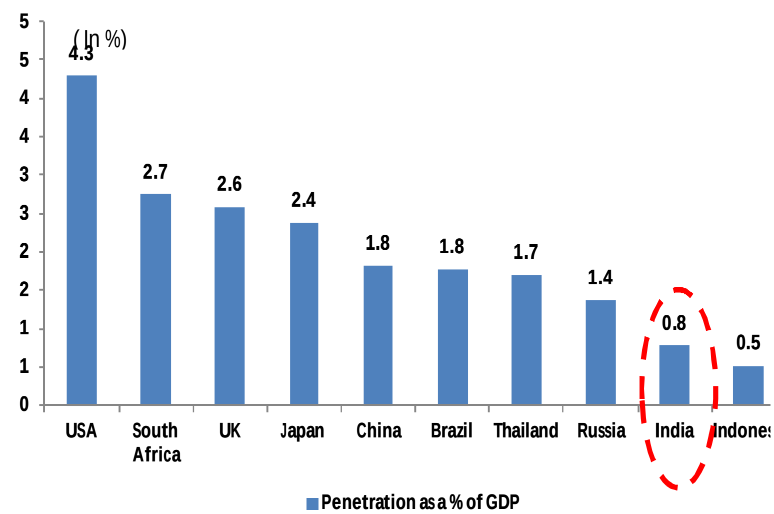
Source: Company, Ventura Research

❖ Key investment highlights

- **Under penetrated market**

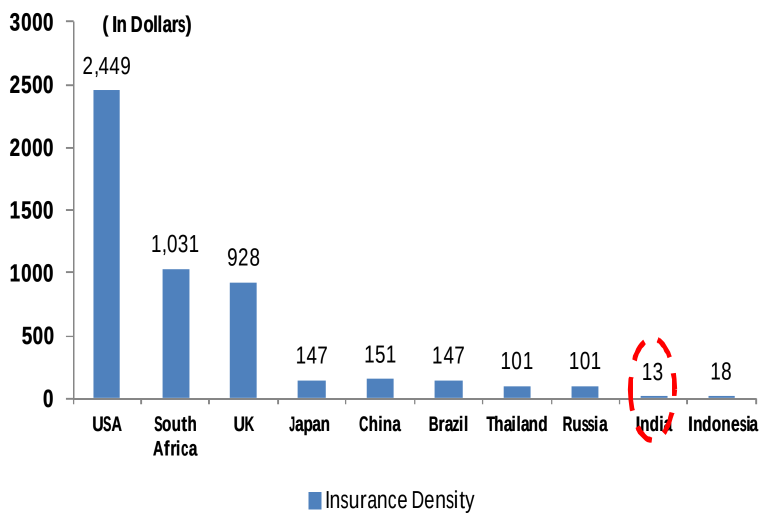
The size of the Indian non life insurance sector was Rs 1.28 trillion on a GDPI basis as of 31st March, 2017. Indian non life insurance sector GDPI grew at a CAGR of 17.4% between fiscal 2001 and fiscal 2017. India was the fifteenth largest market in the world and fourth largest market in Asia in 2016, behind China, Japan and South Korea. India was also among the fastest growing non life insurace markets over 2011-2016, growing at 14.5%. Despite its size and growth profile, India continues to be an under-penetrated market with non life insurance penetration of 0.77% in 2016 compared to a global average of 2.81%. At US $ 13.2 in 2016, Insurance density also remians significantly lower as compared to other developed and emerging market economies.

Insurance Penetration-2016



Source: Company, Ventura Research

Insurance Density - 2016

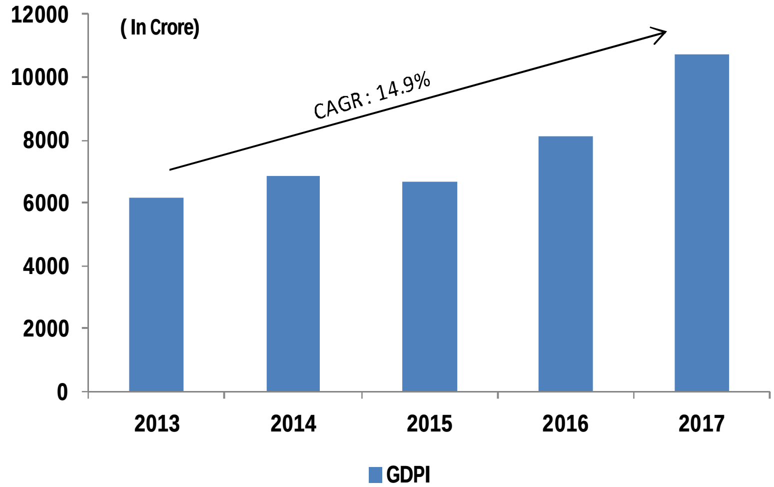


Source: Company, Ventura Research

- **Consistent market leadership and demonstrated growth**

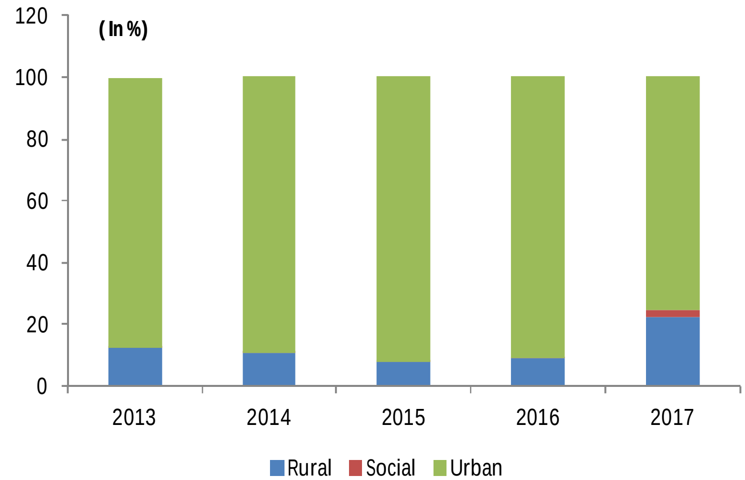
ICICI Lombard General Insurance was the largest private sector non life insurer in India, by GDPI in 2017, a position that it has maintained through different cycles of industry evolution since 2004.The company became the first private sector non life insurer in India to reach Rs 100 billion in GDPI in 2017. It continues to grow at a faster rate than the industry evolution with its GDPI growing at a CAGR of 26.7% from 2015 to 2017 as compared to industry CAGR of 22.8%. As a result, its market share, by GDPI has increased from 7.9% in 2015 to 8.4% in 2017.

GDPI



Source: Company, Ventura Research

GDPI Composition



Source: Company, Ventura Research

- ## Geographic distribution of GDPI

GDPI distribution (Rs in billion)

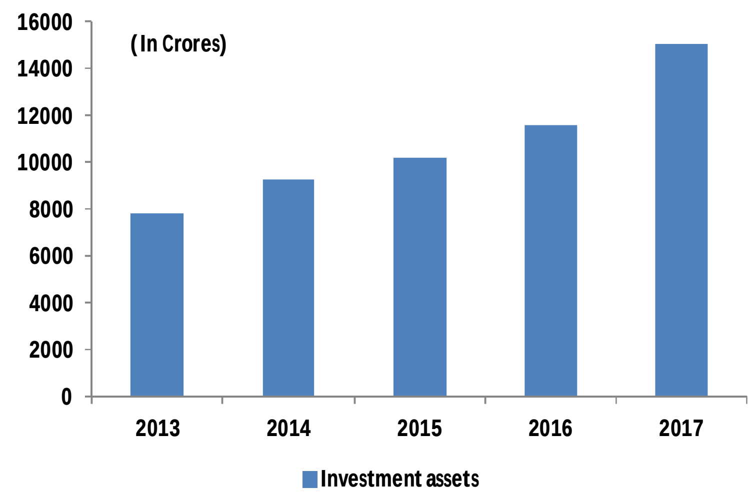
Location	2017	2016	2015
Maharashtra	28.0	23.9	19.5
Madhya Pradesh	14.1	1.8	1.3
Delhi	8.9	8.3	8.3
Gujarat	8.1	7.1	5.8
Uttar Pradesh	6.4	6.5	4.5
West Bengal	6.0	2.9	2.6
Tamil Nadu	5.9	4.6	4.2
Karnataka	5.8	5.2	5.2
Telangana	5.7	2.6	0.6
Kerala	2.7	1.3	1.2
Odisha	2.5	1.1	0.8
Haryana	2.1	2.0	1.7
Andhra Pradesh	1.9	1.8	3.2
Bihar	1.5	1.3	1.0
Rajasthan	1.4	5.1	1.4
Punjab	1.4	1.3	1.1
Chandigarh	0.7	0.9	0.6
Chhattisgarh	0.6	0.5	1.5
Others	3.5	3.0	2.2
Total	107.3	80.9	66.8

Source: Company, Ventura Research

- **Strong investment returns on a diversified portfolio**

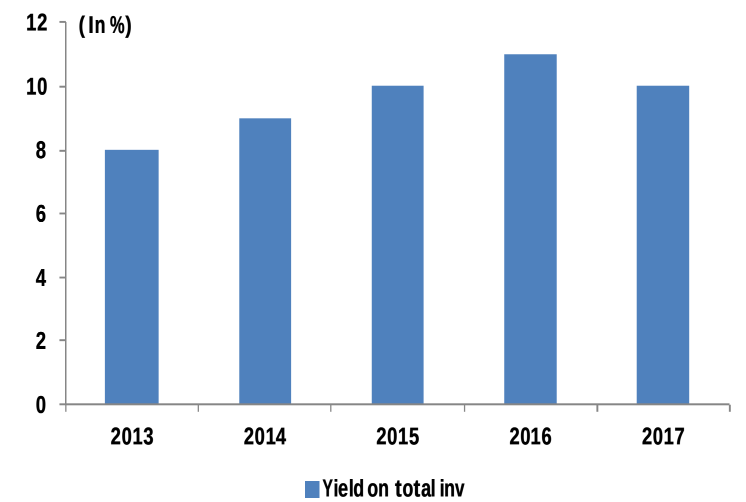
The company has the largest basket of investment assets among the private sector non life insurers in India. The total investment assets increased from Rs 102 billion as of March 31st, 2015 to Rs 150 billion as of March 31st, 2017. The investment leverage (Investment/ New worth) has increased from 3.54x in 2015 to 4.04x in 2017 while their net worth increased by 35.8% over the same period.

Investment assets



Source: Company, Ventura Research

Yield on total investment assets



Source: Company, Ventura Research

Composition of investments

	2017		2016		2015	
Particulars	Rs (bn)	%	Rs (bn)	%	Rs (bn)	%
Fixed Income						
Government Securities	44.8	29.7	46.1	39.9	38.2	37.4
Corporate Bonds	63.1	41.8	42.4	36.6	41.0	40.2
Certificates of Deposits and Commercial paper	6.7	4.5	5.7	4.9	7.2	7.1
Fixed Deposits	1.4	0.9	1.5	1.2	2.0	1.9
Reverse Repo	0.0	0.0	0.0	0.0	0.4	0.5
Mutual Funds	7.4	4.9	2.7	2.4	1.0	0.9
Equity	25.7	17.0	15.7	13.8	10.6	10.4
RealEstate	1.5	1.0	1.4	1.2	1.4	1.6
Alternative Investments						
Venture Capital Fund and securitize receipts	0.3	0.2	0.3	0.2	0.2	0.0
Total	150.8	100.0	115.6	100.0	102.0	100.0

Source: Company, Ventura Research

- **Superior operating and financial performance**

  - **Solvency**

The company had a strong solvency ratio of 2.10x as in March 31st, 2017 compared to IRDAI's prescribe level of 1.50x, and an Indian non life private sector average of 1.95x. The solvency ratio is a measure of the risk an insurer faces of claims that it cannot absorb. The company has an internal solvency framework wherein risk in excess of a defined threshold impacting solvency is underwritten only with the approval of the risk committee of the board.

  - **Operating metrics**

The combined ratio for the company has been generally stable, improving from 104.9% in 2015 to 104% in 2017. The combined ratio is a measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. The combined ratio is calculated by taking the sum of incurred losses and expenses and then dividing it by earned premium. A ratio below 100% indicates that the company is making underwriting profit while a ratio above 100% means that it is paying out more money in claims that it is receiving from premiums. Even if the combined ratio is above 100%, a company can potentially still make a profit, because the ratio does not include the income received from investments. Over the same period, the loss ratio improved from 81.4% to 80.6%. The loss ratio is the difference between the ratios of premiums paid to an insurance company and the claims settled by the company. The loss ratio is the total losses paid by an insurance company in the form of claims. The cpmpany's disciplined operations, coupled with its technology platform allows it to operate at a lower cost then many of its competitors.

  - **Profitability and return**

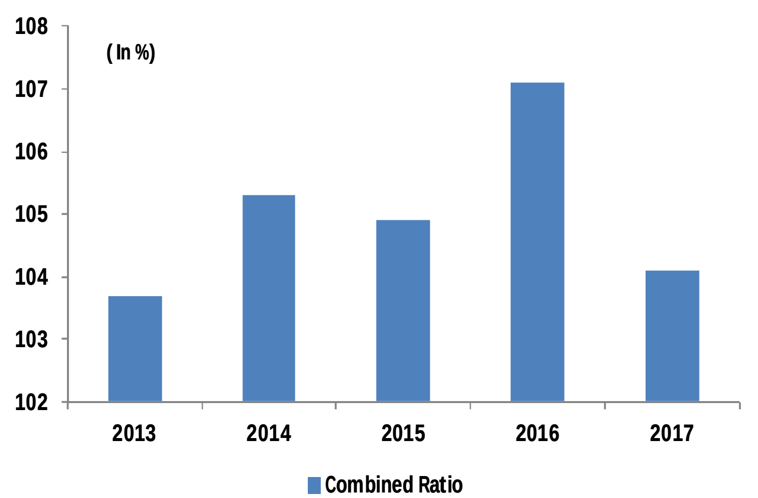
The company has a track record of delivering stable returns and its return on equity has exceeded 15.6% for each fiscal year since 2015. The profit after tax and return on equity were Rs 6.42 billion and 17.2% in 2017. The company has paid out 18.0%, 32.0% and 30.4% of profit after taxes in the form of dividends (including dividend distribution tax) in fiscal 2015, 2016 and 2017, respectively.

Loss Ratio

Particulars (In %)	2015	2016	2017
Motor:			
Own Damage	61.6	65.5	64.8
Third-party	105.8	97.7	97.4
Overall Motor	80.0	80.2	79.2
Health and Personal Accident	0.0	0.0	0.0
Health	88.8	86.0	97.9
Personal Accident	79.7	64.3	41.3
Overall health and personal accident	87.9	83.2	90.2
Crop/Weather	80.0	140.0	84.2
Fire	96.0	64.3	68.4
Marine	98.7	94.8	86.3
Engineering	74.4	71.4	53.4
Other	55.2	69.1	62.2
Ratio	81.4	81.6	80.6

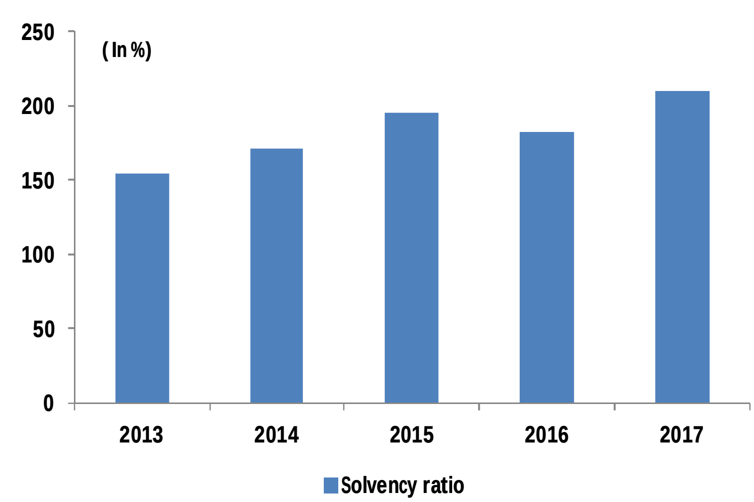
Source: Company, Ventura Research

Combined Ratio



Source: Company, Ventura Research

Solvency Ratio



Source: Company, Ventura Research

- **Emphasis on investments in technology and innovation**

The company's excellence in products and services is backed by a robust technology infrastructure, and user-friendly web and mobile applications for the customers, employees and distributors from sales to claims settlement. It has created a plug-and-play architecture which enables integration of systems with distributors quickly. Its ability to integrate multiple distribution partners seamlessly with systems and processes has helped increase efficiency in the business. The company directly integrated point of sale systems of certain bus companies, railways and airlines with the policy booking and issuance systems to provide low-coverage travel insurance for its customers. The company has partnered with Indian Railway Catering and Tourism Corporation (IRCTC), covering over 300,000 trips per day as of March 31, 2017. In fiscal 2017, 87.5% of the total 17.7 million policies were initiated on the digital platform, either by distributors or the customers. This helped improve employee productivity, measured in terms of GDPI per employee, from Rs 11.4 million in fiscal 2015 to Rs 16.6 million in fiscal 2017, representing a CAGR of 20.7%.

- **Delivering excellence in customer value**

The customer-centric approach to delivering value focuses on providing convenience and superior claims settlement. For the corporate customers, focus is on direct engagement and customized solutions, which include working with customers to proactively analyze and mitigate risks. Based on the approach of being fair, fast and friendly, the company has in-housed the claims management process for most segments including motor, health and personal accident segments. By adopting technology-enabled solutions, the claims management process empowers customer-facing employees and helps eliminate redundant internal processes.

ICICI Lombard has also moved its call centre in-house in fiscal 2015, and created a proprietary customer relationship team (“CRT”). The CRT serves as a crucial point of contact for customers to experience brand and service and helps create long-lasting relationships. As a result of these measures, first call resolution rates have increased from 67.8% in fiscal 2015 to 85.3% in fiscal 2017. The company has paid 92.2% of motor own damage insurance claims in fiscal 2017 within 30 days, as compared to an Indian non-life private-sector average of 81.9%. It also paid 99.3% of health insurance claims in fiscal 2017 within 30 days, as compared to an Indian non-life private-sector average of 85.2%.The number of grievances received, reduced from 5,704 in fiscal 2015 to 3,515 in fiscal 2017, despite the increase in number of policies written from 1.4 crore to 1.8 crore in the same time period.

❖ Strategies for the future

- **Leverage and enhance market leadership**

The company's objective is to achieve a market leadership position among both public and private-sector non-life insurers in India through profitable growth. In order to achieve these goals, they plan to pursue the following strategies:

- Leverage its competitive advantage of scale and proprietary data sets
- Expand the customer base while maintaining profitability through prudent risk selection
- Expand the offerings of value added services to customers by having a deeper understanding of the risks faced by the customer
- Leverage strong brand to reach broader customer segments in different geographical regions
- Capitalize on the broad network of distribution partners, including ICICI Bank

- **Enhance product offerings and distribution channels**

ICICI Lombard plan to enhance its distribution architecture by expanding its multi-channel distribution, while strengthening existing channels and relationships. It will continue to innovate to design new products and value added services and solutions to cater to the varying needs of existing and potential customers by -

- Growing the GDPI from insurance policies sold through individual agents as such channels offers significant opportunities for GDPI growth with better combined ratios
- continue to invest in the retail health segment
- capturing increasing opportunities created by the growth in the SME insurance market by enhancing its distribution footprint and providing convenience through increased automation
- investing in data enrichment and analytics to better cross-sell to individual customers

- **Further improve operating and financial operations**

The company will focus on improving the operating and financial performance. The key focus is to reduce combined ratio, while maintaining robust reserves:

- Enhance the use of a predictive ultimate loss ratio model to enable the sales force to improve the quality of risk that they select;

- Further increase the use of data analytics to improve their pricing, risk selection and claims management processes;
- Reduce the net expense ratio by continuing to eliminate, standardize and automate internal processes.

- **Continue to invest in technology and innovation**

  Investment in technology has always been a key area of differentiation for ICICI Lombard and it plans to continue to invest in this area to further enhance the customer experience by:

  - Migrating the entire individual agency network to an end-to-end digital platform;
  - Increasing the share of policies sold without any human intervention by further investing in digital channels, including by extending the use of chatbots;
  - Providing personalized experiences for the customers in every aspect of its service, particularly digital platforms, by utilizing existing data collected over the years and by partnering with large data providers in digital eco-systems;
  - Continuing to work with technology start-ups in areas such as healthcare, agriculture, and logistics to create a risk management ecosystem and generate new business opportunities. These start-ups are focused on prediction and forecasting solutions, detection and monitoring systems, internet of things, and intervention models; and
  - Increasing the utilization of artificial intelligence and machine learning techniques to improve risk management and increase operational efficiency.

❖ Management

- **Bhargav Dasgupta,** aged 51, is the Managing Director and Chief Executive Officer of the company. He holds a bachelor's degree in mechanical engineering from Jadavpur University and a post graduate diploma in business administration from the Indian Institute of Management, Bengaluru. He has been associated with the company since May 1, 2009 as the Managing Director and Chief Executive Officer. He has experience in project finance and corporate banking, e-commerce and technology management, international banking and life insurance. Previously, he worked with ICICI Limited from May 18, 1992 and with ICICI Prudential Life Insurance Company Limited as executive director from October 2006 till April 30, 2009.

- **Alok Kumar Agarwal,** aged 50, is an Executive Director and Chief Marketing Officer, Wholesale of the company. He holds a bachelor's degree in chemical engineering from Jadavpur University and a post graduate diploma in management from the Indian Institute of Management, Calcutta. He has been associated as an Executive Director with the Company since January19, 2011. He has experience in the banking and insurance sector. Previously, he worked with Reliance Petrochemicals Limited as an engineer from July, 1989 to April, 1991. Subsequently, he worked with ICICI Limited from April 1993 to October 2004 and was deputy general manager of ICICI Bank at the time of his transfer to the company.

- **Sanjeev Radheyshyam Mantri,** aged 46, is an Executive Director and Chief Marketing Officer, Retail of the company. He holds a bachelor's degree in commerce from Sydenham College of Commerce and Economics and is a member of the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. He has been associated with the company since May 2, 2015. He has experience in strategy, products, analytics, pricing, marketing and corporate communication. Previously, he worked with ICICI Bank from October 2003 to May 2015.

- **Gopal Balachandran,** aged 41, is the Chief Financial Officer and Chief Risk Officer of the company. He holds a bachelor's degree in commerce from University of Mumbai and is an associate member of the Institute of Chartered Accountants of India. He has been associated with the Company since March 6, 2002. He has work experience in the field of finance and taxation, secretarial compliance and enterprise risk. Previously, he worked with ICICI Bank, prior to which he has worked with N. A. Shah Associates LLP, Chartered Accountants as the assistant manager - direct tax from July 1998 to December 1999.

❖ Swot Analysis

STRENGTH	WEAKNESS
• Consistent market leadership and demonstrated growth • Diverse product line with multi-channel distribution network • Robust risk selection and management framework • Superior operating and financial performance	• Loss of reserves are based on the occurrence of future event • Provisions for additional reserves could adversely affect the financial condition and operating activity • A significant portion of business comes from working with the government which could result in litigation, penalties and sanctions including early termination, suspension and removal from the approved panel of insurers
OPPORTUNITY	**THREAT**
• Capture new markets • To invest in new technology and innovation	• Due to inherent uncertainity there is no guarantee that the ultimate liability will not increase reserve amount • Loss reserves may not be adequate to meet future claims • Any catastrophic event could lead heavy losses in investment portfolios and have material adverse impact on operations • Not meeting solvency ratio requirements could bring strict regulatory actions

Issue offer and Valuation

Issue Offer

Category	Allocation	No of Shares	Issue Size (Rs in Cr) Lower Band (Rs 651)	Higher band (Rs 661)
Shareholders		4312359	280.7	285
QIB	50%	40967413	2666.9	2707.9
NIB	15%	12290225	800.0	812.4
Retail	35%	28677190	1866.8	1895.5

Source: Company, Ventura Research

At the higher band price of Rs. 661 per share, the company is valued at a PE multiple of 46.2 times its FY17 earnings. Considering the likely increase in earnings and eventually the net worth, the pricing appears to be attractive. The huge opportunity and penetration in general insurance provides ample scope for ICICI Lombard to grow its portfolio at a rapid pace. We believe ICICI Lombard has the potential to post robust numbers in the years to come.

Financials and Projections

Particulars	2014	2015	2016	2017
Revenue Account				
Premiums earned (net)	4,352.3	4,234.1	4,826.3	6,157.8
Profit on sale/ redemption of Inv	174.8	202.0	279.7	329.2
Loss on sale/ redemption of Inv	(53.0)	(26.6)	(9.3)	(32.2)
Others	21.5	31.5	48.3	26.9
Interest, Dividend & Rent- Gross	532.9	603.8	659.2	698.9
Total (A)	**5,028.4**	**5,044.8**	**5,804.3**	**7,180.5**
Claims incurred (net)	3,628.9	3,445.6	3,939.1	4,965.6
Commission (net)	(229.1)	(346.3)	(328.0)	(434.1)
Op ex related to insurance business	1,215.8	1,387.1	1,711.2	1,982.0
Premium deficiency	-	-	-	-
Total (B)	**4,615.6**	**4,486.4**	**5,322.3**	**6,513.5**
Operating Profit /(Loss) C=(A - B)	**412.8**	**558.4**	**482.0**	**667.0**
Profit & Loss Account				
Operating profit/(loss)	412.8	558.4	482.0	667.0
Income from investments	136.0	182.0	227.8	314.6
Other income	7.5	2.1	14.4	2.0
Total (A)	**556.3**	**742.4**	**724.2**	**983.7**
Provisions (Other than taxation)	12.5	22.0	1.0	5.1
Other expenses	0	0	0	0
(a) Expenses other than those related to insurance	5.2	12.6	18.2	95.9
(b) Bad debts written off	2.7	0.2	-	-
(c) Loss on sale/discard of fixed assets	2.4	2.5	0.2	2.5
(d) Penalty	0.1	0.5	0.1	-
Total (B)	**22.9**	**37.7**	**19.4**	**103.5**
Profit before tax (C) = (A-B)	**533.4**	**704.7**	**704.8**	**880.1**
Provision for taxation	13.4	119.4	199.5	238.3
Profit after tax	**520.1**	**585.3**	**505.3**	**641.8**

Particulars	2014	2015	2016	2017
Balance Sheet				
Sources of funds				
Share capital	445.1	446.6	447.5	451.2
Reserves and surplus	1,948.3	2,438.7	2,787.9	3,273.9
Share application money	0.3	0.2	-	1.3
Fair value change account	113.5	356.0	309.0	677.2
Borrowings	-	-	-	485.0
Total	**2,507.1**	**3,241.4**	**3,544.5**	**4,888.6**
Application of funds				
Investments	9,290.0	10,199.7	11,562.5	15,078.9
Fixed assets	389.5	389.7	383.2	382.7
Deferred tax asset	35.1	96.9	123.9	87.3
Current assets (A)	5,029.2	3,959.4	5,044.6	7,801.7
Cash and bank balances	162.0	141.7	194.8	194.0
Advances and other assets	4,867.2	3,817.7	4,849.8	7,607.7
Current liabilities and provisions (B)	12,236.6	11,404.3	13,569.7	18,462.1
Net current assets (C) = (A - B)	(7,207.5)	(7,444.9)	(8,525.1)	(10,660.3)
Debit balance in profit and loss account	-	-	-	-
Total	**2,507.1**	**3,241.4**	**3,544.5**	**4,888.6**
Cash Flow				
Net cash from operating activities	594.9	-97.8	511.5	1,627.8
Net cash from investing activities	(706.4)	171.0	(309.9)	(1,989.9)
Net cash from financing activities	3.9	-93.4	-148.5	361.3
Net increase/(decrease) in cash and cash equivalents	(107.7)	(20.3)	53.1	(0.8)
Cash and cash equivalents at the beginning of	269.6	161.9	141.7	194.8
Cash and cash equivalents at end of the year	162.0	141.6	194.8	194.0

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