

Challenges to 'growth with profitability' persist; reiterate SELL

General Insurance ➤ Company Update ➤ February 18, 2025

TARGET PRICE (Rs): 250

Go Digit hosted an Analyst/Investor Day on 17-Feb-25 in Bangalore, for select analysts and investors where the management provided a detailed update on its business strategy and outlook. We were not part of this invite. Based on the presentation, the KTAs are: 1) Motor remains a focus area for the company, with strong focus on the profitable renewal pool. 2) The management's selective approach toward Retail and Group Health, as the market environment remains unfavorable due to heightened competition and medical inflation. 3) Rate hardening to aid commercial lines (Fire and Engineering). 4) Technology and data science capabilities remain a key differentiator for driving customer experience, quality underwriting, and partnerships. While we appreciate Go Digit's selective and agile approach toward growth, we continue to see challenges to 'growth with profitability', amid a difficult industry environment owing to weak motor vehicle sales, stagnant Motor TP tariff, and sustained competition in the Group Health segment. Against this backdrop, we reiterate SELL with unchanged Dec-25E TP of Rs250 (implying FY26E P/E of 40.5x and FY26E P/B of 4.9x).

Go Digit: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross written premium	72,430	90,156	102,822	119,201	137,339
Net earned premium	51,637	70,964	78,639	92,468	107,353
Adj. PAT	356	1,817	4,172	5,688	6,558
Adj. EPS (Rs)	0.4	2.1	4.6	6.2	7.1
BVPS (Rs)	26.9	29.1	44.4	50.6	57.7
Adj. EPS growth (%)	(111.5)	407.3	119.2	35.3	15.3
BVPS growth (%)	22.1	8.1	52.6	13.9	14.1
NEP growth (%)	51.7	37.4	10.8	17.6	16.1
Combined ratio (%)	107.4	108.7	108.0	106.8	105.6
RoE (%)	1.7	7.4	12.6	13.0	13.1
P/Float (x)	2.1	1.7	1.5	1.3	1.1
P/E (x)	736.1	145.1	66.2	48.9	42.4
P/B (x)	11.2	10.4	6.8	6.0	5.2

Source: Company, Emkay Research

Renewals to drive profitable Motor segment growth

Go Digit has plans to grow faster than the industry in the Motor OD segment, on the back of higher renewals with focus on profitable pools (Green Renewals). To improve growth in the OEM broker channel, the company has introduced 'Pay as you drive' plans and direct premium fetching, to improve efficiency. Categorization of dealers into Red/Green based on claims experience and pick & drop facilities to preferred network workshops are likely to drive better loss ratios for the company, with better risk selection. While the company has tracked slow growth in the Motor TP segment due to nil price hikes in FY25, the GWP market share has largely remained steady at 6.4% as of Dec-24. Further, we maintain our view of nil Motor TP price hikes in FY26E as well.

Increased competitive intensity in Group Health; rate hardening to benefit fire segment

The Group Employer-Employee segment has witnessed increased competitive intensity driving price aggression, especially after rate hardening in the Fire segment, thus leading to slow growth for the company. Several Group Employer-Employee Health contracts across the industry are being renewed at below-the-claims cost prices. While the management sees challenges in the Retail Health market, the company is focusing on the senior citizens segment while targeting NRI segments in the future. Leveraging large data banks and with focus on SME segments in GMC plans, the company remains focused on improving profitability in the Group Health segment. While Go Digit has tracked better-than-industry growth in the Fire and Engineering segments, rate hardening in the Fire segment after Jan-25 will support growth momentum, with focus on underwriting SME risks. Underwriting with the help of AI tools is likely to enhance the underwriting quality, leading to better loss ratios for the commercial lines of business.

We see growth and profitability challenges persisting; reiterate SELL

Go Digit has positioned itself as a digital-first player, with technological and data science capabilities being one of its key differentiators. The management plans driving growth across selected segments while focusing on profitability led by increased efficiency, lower claims cost, and prudent underwriting. While we appreciate the company's selective and agile approach to growth, we still see challenges persisting toward achieving profitable growth amid a strained industry landscape. Factors such as weak motor vehicle sales, stagnant Motor TP tariff, and sustained competition in Group Health segment continue to pose headwinds. Against this backdrop, we reiterate SELL on the stock with unchanged Dec-25E TP of Rs250 (implying FY26E P/E of 40.5x and FY26E P/B of 4.9x).

Target Price - 12M	Dec-25
Change in TP (%)	-
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(17.2)
CMP (18-Feb-25) (Rs)	301.8

Stock Data	Ticker
52-week High (Rs)	408
52-week Low (Rs)	277
Shares outstanding (mn)	922.9
Market-cap (Rs bn)	279
Market-cap (USD mn)	3
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,049.4
ADTV-3M (USD mn)	12.1
Free float (%)	-
Nifty-50	22,945
INR/USD	86.9
Shareholding, Dec-24	
Promoters (%)	73.2
FPIs/MFs (%)	6.5/15.2

Price Performance			
(%)	1M	3M	12M
Absolute	3.8	(4.6)	-
Rel. to Nifty	5.0	(2.4)	-

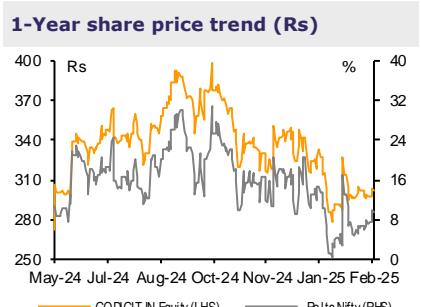
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Exhibit 1: Industry Updates**Commercial Lines**

- Rate hardening for property risk wef Jan-25; expected to see a similar trend.
- Any cession to Cross Border Reinsurance (CBR) is subject to collateral requirement of premium withheld @50% or Letter of Credit equivalent to the expected liability.

Retail Health

- High medical inflation is causing frequent premium adjustments, severely affecting insurance for senior citizens.
- Restrictions on premium increase in case of senior citizens.
- Market focused on offsetting the worse experience of vintage portfolio with new business.

Source: Company, Emkay Research

Exhibit 2: Go Digit's strategy across business lines**Motor**

- Focus on renewal business across segments. Introduction of 'Green Renewals' for profitable customer segments.
- Using Pay As You Drive (PAYD; live with one OEM broker) underwriting for high-risk customers.
- Direct premium fetching via OEM brokers (live with one OEM broker) and a differentiated pricing for non-OEM brokers based on additional factors.
- Facilitating pick-up-and-drop facilities to preferred workshops for controlling the claims cost.

Group Health

- High competition in the Employer-Employee segment with low renewal ratios due to aggressive pricing in the market.
- Focus on in-house TPA, voluntary top-ups, and fraud detection engines.
- Converting hospitals into cost-efficient GIPSA or STAR packages.

Retail Health

- Focus on Senior Citizen segment with expansion into Tier 3-4 cities.
- Plans to target NRI segments in the future.
- GI partners prioritized for health insurance expansion.

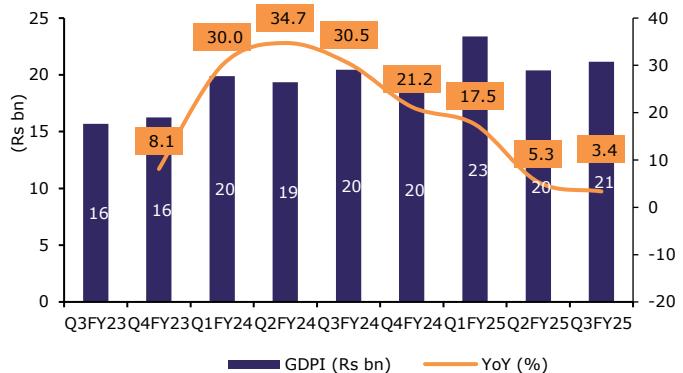
Commercial Lines

- Participation in mega risks with CBR capacity optimization in the Fire segment.
- Rate hardening to boost growth in the SME segment and use of AI tools for risk selection.
- Taping into new opportunities with economic growth in the Marine segment with focus on portal and technology.
- Increased Treaty Capacity to drive growth in the liability segment across large corporates.

Source: Company, Emkay Research

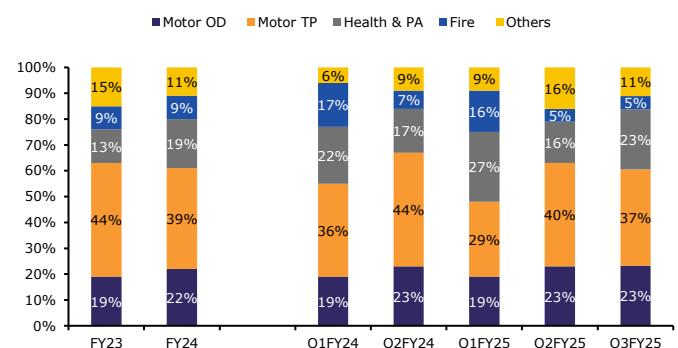
Story in Charts

Exhibit 3: Go Digit's GDPI growth was a muted 3.4% during Q3FY25



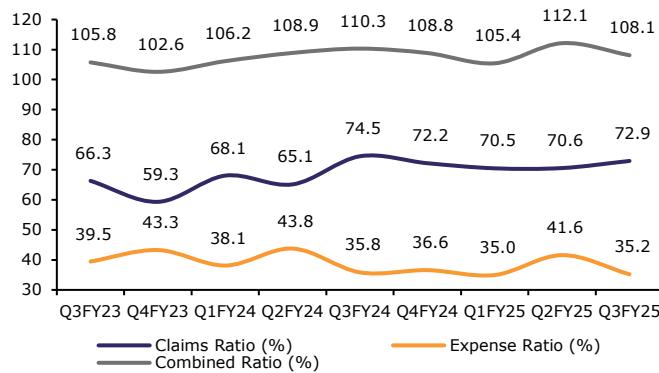
Source: Company, Emkay Research

Exhibit 4: The share of Motor TP segment in the GWP mix declines



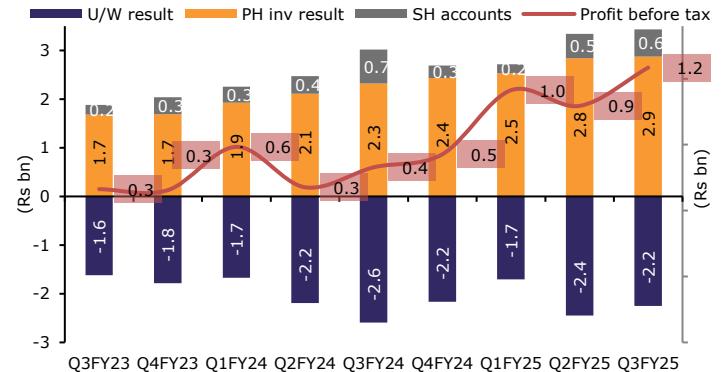
Source: Company, Emkay Research

Exhibit 5: CoR improves YoY to 108.1% during Q3FY25



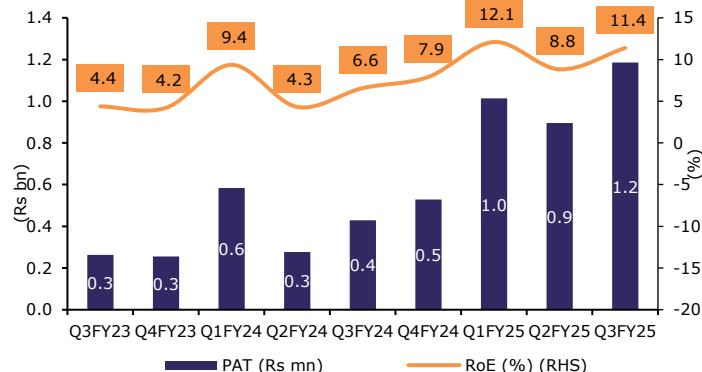
Source: Company, Emkay Research

Exhibit 6: Go Digit reports PBT of Rs1.2bn during Q3FY25



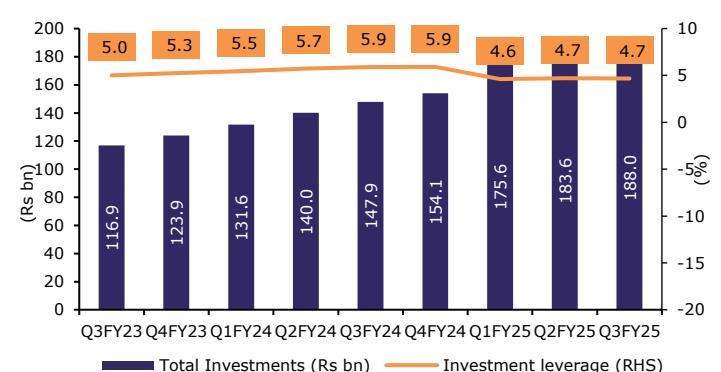
Source: Company, Emkay Research

Exhibit 7: Go Digit's PAT for Q3FY25 stands at Rs1.2bn

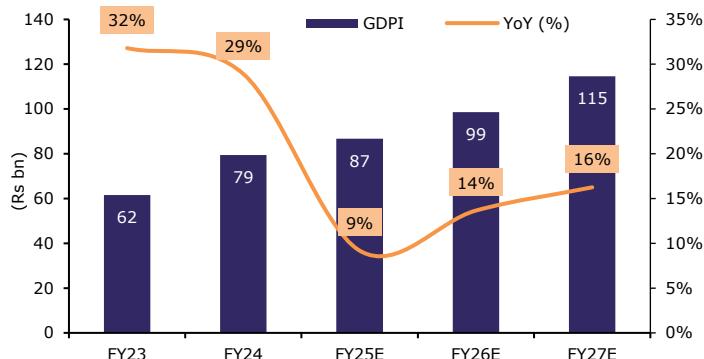


Source: Company, Emkay Research

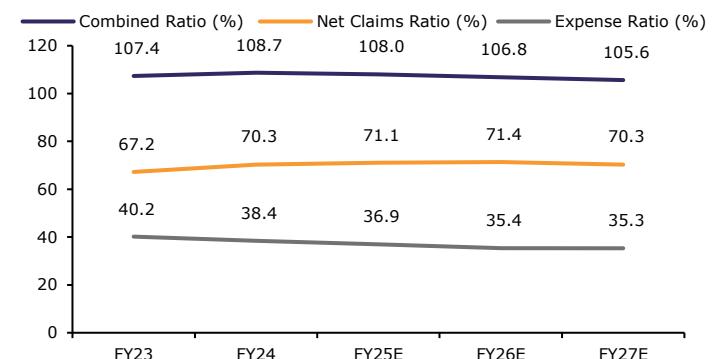
Exhibit 8: Investment leverage reported at 4.7x during Q3FY25



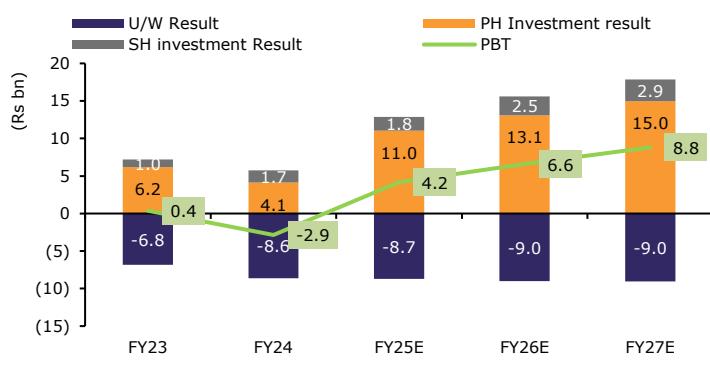
Source: Company, Emkay Research

Exhibit 9: We expect Go Digit's GDPI to grow 9% in FY25E

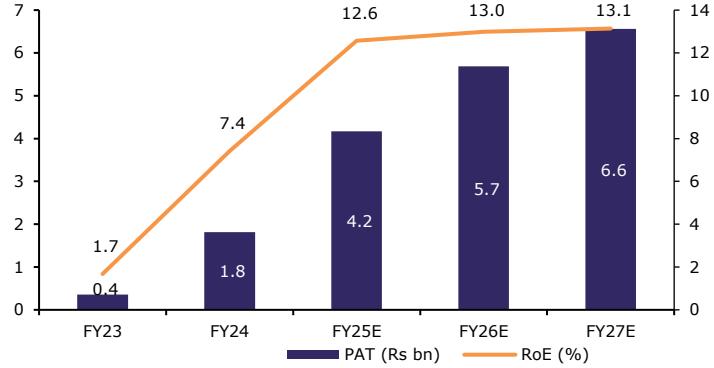
Source: Company, Emkay Research

Exhibit 10: CoR is expected to improve to 105.6% in FY27E

Source: Company, Emkay Research

Exhibit 11: We expect Go Digit's PBT to improve to Rs4.2bn in FY25E

Source: Company, Emkay Research

Exhibit 12: We expect Go Digit's PAT to grow to Rs6.6bn by FY27E

Source: Company, Emkay Research

Go Digit: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
GDPI	61,601	79,411	86,706	98,550	114,565
Gross written premium	72,430	90,156	102,822	119,201	137,339
Net written premium	59,093	77,309	85,187	100,196	115,820
Net earned premium	51,637	70,964	78,639	92,468	107,353
Net incurred claims	34,714	49,902	55,883	65,995	75,485
Net commission	1,437	18,885	22,094	24,466	27,474
Operating expense	22,314	10,799	9,371	11,022	13,435
Total expense	58,465	79,585	87,347	101,483	116,394
Underwriting profit	(6,828)	(8,621)	(8,707)	(9,014)	(9,041)
Investment income	6,166	8,788	11,031	13,092	14,950
Other income	0	0	0	0	0
Operating profit	(663)	166	2,323	4,077	5,909
Shareholder results	1,018	(3,025)	1,849	2,518	2,918
PBT	356	1,817	4,172	6,596	8,827
Extraordinary items	0	0	0	0	0
Tax expense	0	0	0	907	2,269
Reported PAT	356	1,817	4,172	5,688	6,558
PAT growth (%)	(112.0)	411.1	129.6	36.3	15.3
Adjusted PAT	356	1,817	4,172	5,688	6,558
Diluted EPS (Rs)	0.4	2.1	4.5	6.1	7.0
Diluted EPS growth (%)	(111.3)	412.5	119.2	35.3	15.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	0	0	0	14	26
Shares outstanding (mn)	874.0	875.2	922.2	922.2	922.2

Source: Company, Emkay Research

Miscellaneous Metrics

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating metrics (%)					
Retention ratio	81.6	85.8	82.8	84.1	84.3
Incurred claims ratio	67.2	70.3	71.1	71.4	70.3
Net commission ratio	2.4	24.4	25.9	24.4	23.7
Opex ratio	37.8	14.0	11.0	11.0	11.6
Combined ratio	107.4	108.7	108.0	106.8	105.6
RSM-to-NWP	22.0	22.8	22.3	22.7	22.5
Solvency ratio	178.0	161.2	231.6	219.0	215.8
Claims ratio (%)					
Motor TP	68.6	60.5	65.5	65.0	65.0
Motor OD	69.3	66.1	66.0	66.0	65.0
Health	80.9	98.4	86.0	86.0	84.0
Fire	38.2	85.7	65.0	63.0	60.0
Crop	97.9	93.0	90.0	95.0	95.0
Others	47.2	50.4	58.2	51.3	45.9
GWP mix (%)					
Motor TP	43.5	39.0	35.2	32.5	30.4
Motor OD	19.0	21.7	22.3	23.1	24.0
Health	11.1	15.9	17.5	18.8	19.6
Fire	9.3	8.9	8.1	8.0	7.8
Crop	0.9	6.0	6.8	6.8	6.8
Others	16.2	8.4	10.1	10.8	11.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	8,740	8,752	9,222	9,222	9,222
Reserves & surplus	23,836	23,951	34,787	37,411	43,969
Net worth	32,576	32,703	44,010	46,633	53,192
Fair value gains	891	1,729	1,902	2,092	2,301
Borrowings	0	3,500	3,500	3,500	3,500
Total liabilities & equity	33,468	37,932	49,412	52,225	58,993
Policyholder investments	102,175	133,694	155,315	178,977	210,194
Shareholder investments	21,715	20,383	35,953	41,430	48,656
Other assets	1,620	1,628	1,709	1,794	1,884
Cash & bank balances	2,793	3,561	3,739	3,926	4,122
Other current assets	6,592	10,320	10,593	19,528	30,108
Claims outstanding	56,232	72,752	84,314	101,321	123,605
Unearned premium	30,528	36,873	42,733	51,353	62,647
Other current liab.	23,592	29,116	33,743	40,549	49,467
Provisions	30,657	37,022	42,905	51,559	62,899
Net current assets	(101,096)	(125,009)	(146,629)	(169,976)	(201,742)
Total assets	33,468	37,932	49,412	52,225	58,993
BVPS (Rs)	26.9	29.1	44.4	50.6	57.7
Investment leverage (x)	5.3	5.9	4.6	4.7	4.8
Net investment yield (%)	6.7	7.6	7.7	7.7	7.5
PH investment yield (%)	6.9	7.5	7.6	7.8	7.7
SH investment yield (%)	5.6	8.2	6.9	7.0	6.9
NWP/Networth (x)	2.4	2.8	2.0	2.1	2.1
Required Solvency [RSM]	12,979	17,589	19,011	22,696	26,079
Available Solvency [ASM]	23,103	28,361	44,025	49,713	56,272

Source: Company, Emkay Research

Valuation & Key Metrics

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/B (x)	11.2	10.4	6.8	6.0	5.2
P/E (x)	736.1	145.1	66.2	48.9	42.4
P/Float (x)	2.1	1.7	1.5	1.3	1.1
P/GWP (x)	3.6	2.9	2.7	2.3	2.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split (%)					
NEP/avg assets	47.7	51.1	45.5	44.9	44.8
Net incurred claims	32.1	35.9	32.4	32.1	31.5
Commission + Opex	22.0	21.4	18.2	17.2	17.1
Underwriting profit	(6.3)	(6.2)	(5.0)	(4.4)	(3.8)
PH investment income	5.7	6.3	6.4	6.4	6.2
Operating profit	(0.6)	0.1	1.3	2.0	2.5
Shareholder results	0.9	(2.2)	1.1	1.2	1.2
Tax expense	0.0	0.0	0.0	0.4	0.9
RoA	0.3	1.3	2.4	2.8	2.7
Leverage ratio (x)	5.3	5.9	4.6	4.7	4.8
RoE	1.7	7.4	12.6	13.0	13.1
Growth rates (%)					
GDPI	31.8	28.9	9.2	13.7	16.3
Gross written premium	37.5	24.5	14.0	15.9	15.2
Net written premium	41.4	30.8	10.2	17.6	15.6
Net earned premium	51.7	37.4	10.8	17.6	16.1
Claims incurred	37.8	43.8	12.0	18.1	14.4
Operating profit	(82.3)	(125.1)	1,296.2	75.5	44.9

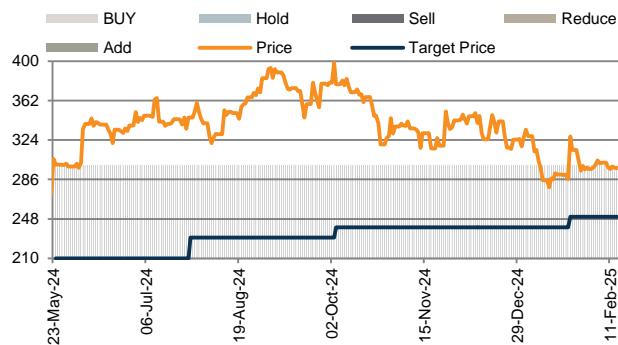
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jan-25	327	250	Sell	Avinash Singh
19-Jan-25	291	240	Sell	Avinash Singh
27-Oct-24	320	240	Sell	Avinash Singh
17-Oct-24	361	240	Sell	Avinash Singh
04-Oct-24	378	240	Sell	Avinash Singh
01-Sep-24	384	230	Sell	Avinash Singh
27-Jul-24	346	230	Sell	Avinash Singh
23-Jul-24	339	210	Sell	Avinash Singh
18-Jun-24	334	210	Sell	Avinash Singh
24-May-24	300	210	Sell	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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