

IPO UPDATE

The New India Assurance Company Limited

Global General Insurance Industry:

The global general insurance industry was sized at around USD2.1tn in terms of premium (nominal terms) as of 2016. Asia is the third largest market for general insurance, accounting for 23% of gross direct premium whereas India has a share of only 0.83% in the world and 3.5% in Asia's general insurance market as of 2016.

Global general insurance industry premiums (in nominal US dollar terms) grew at a steady CAGR of 3.9% from 2010 to 2014. In 2015, premiums declined by 3.8% y-o-y, primarily reflecting the impact of widespread currency depreciation against the US dollar. However, the year 2016 observed an improvement in the premium growth and general insurance premium increased by 3.1%.

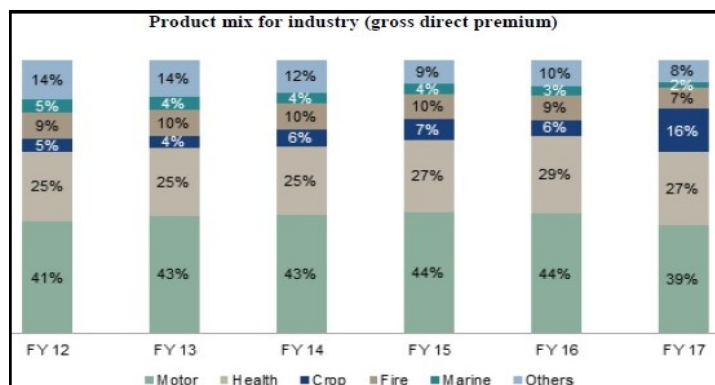
Indian General Insurance Industry:

With total gross premium of Rs1.3tn in FY17, India is amongst the top 15 general insurance markets in the world and one of the fastest growing markets.

India's general insurance penetration (i.e. gross insurance premiums as a percentage of GDP) stood at 0.8% in 2016, compared with 0.6% in 2007. In comparison, the global general insurance industry's penetration stood at 2.81% as of 2016. Among the comparable Asian counterparts also; India's general insurance penetration pales; the corresponding numbers for China, Thailand, Singapore and Malaysia were at 1.8%, 1.7%, 1.7%, and 1.6% respectively as of 2016. This suggests the enormous untapped potential of the Indian general insurance market.

In addition, regulatory developments in the recent past are also expected to lead to an increase in insurance penetration in India. Major developments that are likely to have a positive impact include increase in foreign investment limit to 49% from 26%. With the passage of the Insurance Law (Amendment) bill, 2015, the limit on aggregate shareholding of foreign investors, including foreign portfolio investors, in Indian insurance companies was increased from 26% to 49%.

The gross direct premium for general insurers is expected to grow at a CAGR of 15-20% over the next five years, compared with a CAGR of 17% between FY12 and FY17. Consequently, the total premium (within India) is expected to grow by more than 2.5 times from the current level of Rs.1.27tn (as of FY17) to touch the Rs.3tn mark by the end of FY22.



Source: Red Herring Prospectus

Segment mix for industry players (fiscal 2017)

Insurance	New India	United India	National	Oriental	ICICI Lombard	Bajaj Allianz	HDFC ERGO	IFFKO Tokio	TATA AIG	Reliance General
Motor	39.8%	38.2%	45.4%	34.7%	42.3%	46.7%	16.1%	53.4%	48.5%	49.9%
Health	33.0%	34.5%	35.3%	34.7%	20.0%	16.3%	21.2%	10.2%	10.8%	9.6%
Fire	9.6%	8.6%	6.5%	9.0%	6.9%	7.0%	8.8%	5.0%	12.5%	7.6%
Crop	5.5%	7.0%	4.2%	8.6%	20.1%	19.0%	34.6%	22.6%	10.7%	27.7%
Marine	3.2%	2.4%	1.7%	3.4%	3.2%	1.8%	2.1%	2.3%	6.3%	1.3%
Others	8.9%	9.3%	6.8%	9.5%	7.5%	9.2%	17.2%	6.5%	11.2%	3.9%

Source: Red Herring Prospectus

SNAPSHOT	
Issue Opens	Wednesday, November 01, 2017
Issue Closes	Friday, November 03, 2017
Price Band	Rs770 to Rs800 Retail & Employee discount of Rs30
Bid Lot	18 shares and multiples thereafter
Face Value	Rs5
Listing	BSE & NSE
Type of Issue	Fresh Issue & Offer for Sale (OFS)
Offer Size (in shares)	Fresh Issue Rs19,200mn OFS Rs76,800mn Total Rs96,000mn
Implied Market Cap	Rs6,59,200mn
PE (based on FY17 earning)	78.5

Details of Selling Shareholder & No of Shares	
The President of India acting through the MOF	9,60,00,000
Total	9,60,00,000

Issue allocation	
Reservations	% of Net Issue
QIB	50%
NIP	15%
Retail	35%
Total	100%

Object of the offer	
<ul style="list-style-type: none"> Meeting future capital requirements which are expected to arise from the growth and expansion of the business Improving solvency margin and consequently solvency ratio To achieve the benefits of listing the Equity Shares on the Stock Exchanges. To enhance visibility, brand image and provide liquidity to the shareholders. 	

Last 3 year Summarized Financials (Rs in mn)			
Particulars	FY15	FY16	FY17
Revenue	1,33,538	1,52,150	1,76,747
PAT	13,773	9,304	8,399
PAT %	7.9	4.8	3.7
Cash flow Summary			
Cash flow from Operation	8475	(16,053)	(1,236)
Cash flow from Investing	(11,243)	5,524	17,929
Cash flow from financing	(2,084)	(3,656)	(3,055)

IPO UPDATE

The New India Assurance Company Limited

About the company :

New India Assurance Co Ltd, founded by Sir Dorabji Tata in 1919, a 100% Government owned Multinational General Insurance Company, today operates in 28 countries and headquartered at Mumbai, India. The Indian operations today span across all territories through 2,452 offices, including more than 1,339 micro offices and employs 17,702 employees and 68,389 tied agents as on 30th June 2017, providing insurance services to the customers.

New India Assurance is the largest general insurance company in India in terms of net worth, domestic gross direct premium, profit after tax and number of branches as of and for the fiscal year ended March 31, 2017.

As of March 31, 2017, the company had issued 27.10million policies across all our product segments, the highest among all general insurance companies in India.

The company's insurance products can be broadly categorized into the following product verticals:

- (a) Fire insurance
- (b) Marine insurance
- (c) Motor insurance,
- (d) Crop insurance
- (e) Health insurance
- (f) Other insurance products.

The segment wise revenue bifurcation is as under :

Product Segment	2015		2016		2017	
	Gross Written Premium (Rs mn)	% of Total	Gross Written Premium (Rs mn)	% of Total	Gross Written Premium (Rs mn)	% of Total
Fire Insurance	33,024	19.4%	34,637	18.0%	35,626	15.3%
Marine Insurance	8,772	5.5%	7,429	3.9%	7,141	3.0%
Motor Insurance	65,557	38.6%	76,525	39.8%	90,161	38.8%
Crop Insurance	667	0.4%	523	0.3%	12,504	5.4%
Health Insurance	40,177	23.7%	49,613	25.8%	60,850	26.2%
Other Insurance	21,668	12.8%	23,544	12.3%	26,024	11.2%
Total	1,69,865	100.0%	1,92,271	100.0%	2,32,305	100.0%

Source: Red Herring Prospectus

Competitive Strength:

(a) Market Leadership

Market Share in Overall Gross Premium

Company	FY12	FY13	FY14	FY15	FY16	FY17
New India Assurance	14.7%	14.5%	14.9%	15.6%	15.7%	15.0%
United India Insurance	14.1%	13.4%	12.5%	12.6%	12.7%	12.4%
National Insurance	13.4%	13.3%	13.2%	13.3%	12.4%	11.0%
Oriental Insurance	10.4%	9.5%	9.2%	8.7%	8.6%	8.5%
ICICI Lombard	8.9%	8.9%	8.8%	7.9%	8.4%	8.4%

Source: Red Herring Prospectus

(b) International Operation

The company commenced international operations soon after the incorporation, in 1919, and established the London branch office in 1920 and subsequently grew the international business to Manila, Port Louis and Japan.

The company has operations in 28 international jurisdictions through a number of international branches and agent offices including in the United Kingdom, Japan, Hong Kong, Philippines, Thailand, Australia, New Zealand, Mauritius, Fiji, Dubai, Abu Dhabi, Bahrain, Kuwait, Oman, Aruba and Curacao.

(c) Expansive multi-channel distribution network:

As of June 30, 2017, the company had 2,452 offices in India across 29 States and seven Union Territories, including seven large corporate and brokers offices, 31 regional offices, 459 divisional offices, 586 branch offices, 27 direct agent branches and 1,339 micro-offices, and 163 auto-hub focused on the motor insurance business.

IPO UPDATE

The New India Assurance Company Limited

Financials

Rs(cr)	FY13	FY14	FY15	FY16	FY17
Premium Earned	95,992	1,09,941	1,33,538	1,52,150	1,76,747
Profit on sale/redemption investments (Policy Holder)	6,152	6,807	9,002	8,793	12,099
Interest, Dividend & Rent Gross (Policy Holder)	11,428	12,681	14,570	15,784	16,690
Profit on Sale of Investment, Interest, dividend & other income (Shareholder)	10,610	12,858	14,879	15,272	16,561
Other Income	202	272	1750	778	2184
Total	1,24,383	1,42,559	1,73,740	1,92,777	2,24,281
Claimed Incurred	81,892	94625	112620	132343	162998
Commission (Net)	8961	11802	12879	14129	13320
Operating Expenses	23036	26740	31038	35552	38172
Other expenses	(334)	(46)	154	298	222
Total					
Taxes	1,698	1,362	3,276	1,151	1,169
Net profit After Tax	1,698	1,362	13,773	9,304	8,399
EPS *	45.8	41.5	70.8	48.1	42.9
Restated EPS *			17.7	12.0	10.7

* Note : based on the special resolution passed in the AGM dated August 2, 2017, the board had approved Sub-division of shares from Face value Rs10 to Face Value Rs5 and issue of bonus shares thereafter.

Source: Red Herring Prospectus

Outlook and Recommendations:

On the upper price band of Rs800, and FY17 EPS of Rs10.25, P/E ratio works out to be 78x. In comparison to the listed peers, the IPO is overpriced. Although the company has a leadership position and strong expertise, when compared to its peer ICICI Lombard General insurance company which has better return ratios and profits on comparison, New India Assurance IPO can be a skip with the long term investors getting into the stock post listing. We recommend avoid on the IPO.

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