

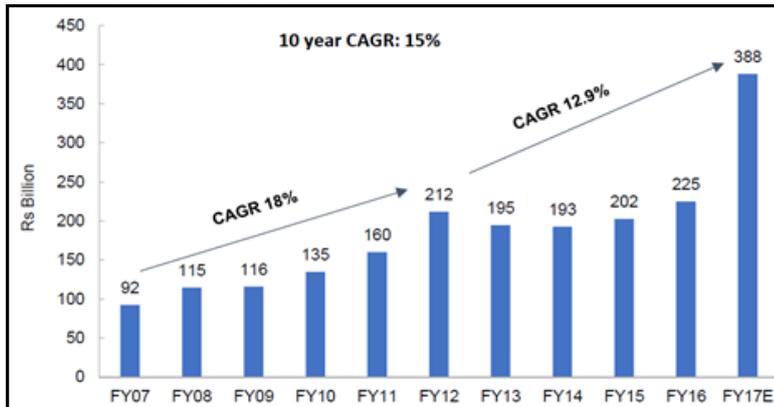
## IPO UPDATE

### General Insurance Corporation of India

#### About the company:

- GIC is the largest reinsurance company (in terms of gross premiums accepted in FY17) in India. In simple words, one may describe reinsurance as insurance to the insurance company. This is a part of risk management strategy and mostly all insurance companies have reinsurance operations.
- The company provides reinsurance across fire (property), marine, motor, engineering, agriculture, aviation/space, health, liability, credit and financial and life insurance.
- During FY17, GIC accounted for approximately 60% of the premiums ceded by Indian insurers to reinsurers.
- GIC is also an international reinsurer that underwrote business from nearly 161 countries. In 2016, the company was 12th largest global reinsurer (gross premiums accepted) and was third largest in Asia. The company plans to increase its presence in global markets like China, Brazil and Bangladesh while converting the office in Russia into a subsidiary.
- The IPO of GIC will enter the Indian bourses with nearly 124.7mn shares which includes a fresh issue of up to 17.2mn shares and an offer for sale (OFS) of up to 107.5mn shares by the Government of India (GOI) in the price band of Rs855- Rs912 per share, with retail discount of Rs45 per share. Estimated at Rs1,13,700mn, the same will be the third largest IPO after Coal India and Rcom in the past.

Exhibit 1: Indian Market Size Growth



Source: Red Herring Prospectus

#### Some of the key strengths:

- GIC is a trusted brand name
- GIC is a leader in Indian reinsurance industry
- The company has an experienced operational background
- The company has an experienced Management Team
- The company offers diversified product portfolio and revenue streams
- Strong financial track record- strong balance sheet
- The company has been increasing its international presence

#### Risks associated:

- There are risks associated to businesses the company re-insures; the company operates in a highly-regulated industry which is subject to changes or enforcements.
- Difficult to identify and mitigate credit risks
- Nature of business can lead to volatility in the earnings
- Ratings (if downgraded) from the rating agencies is one of the parameters which can affect the business.
- Cyclical nature of the (re-insurance) business

#### SNAPSHOT

Issue Opens	Wednesday, October 11, 2017
Issue Closes	Friday, October 13, 2017
Price Band	Rs855 to Rs912 (Rs45 per share retail investors discount)
Bid Lot	16 shares and multiples thereafter
Face Value	Rs5
Listing	BSE & NSE
Type of Issue	Offer for Sale (OFS) & Fresh Issue
Offer Size	OFS- Rs98,040mn Fresh Issue- Rs15,690mn
Implied Market Cap	Rs8,00,010mn
PE (based on FY17 earning)	26.6

#### Details of Selling Shareholder & No of Shares

GOI	Upto 107.5mn
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#### Issue allocation

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

#### Objects of the issue

- Offer for Sale (OFS) - the company will not receive any proceeds from the same. This is more or less an OFS where the Government will be selling its stake (107.5mn shares which also equals to 12.2% of the equity).
- Fresh Issue-The company intends to utilize the net proceeds for augmenting the capital base in order to support the growth of the business, maintain the solvency levels and for other general corporate purposes.

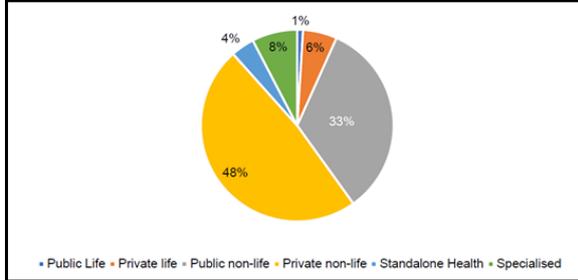
#### Last 3 year Summarized Financials

Rs(mn)	FY15	FY16	FY17
Revenue	30,981	32,692	37,987
Expenses	2,676	2,477	3,822
PBT	28,305	30,214	34,165
Tax	294	3,318	3,884
PAT	28,011	26,896	30,281

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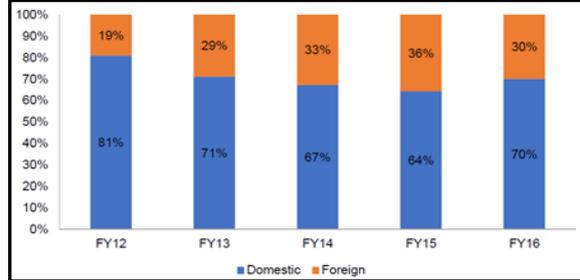
# General Insurance Corporation of India

**Exhibit 2: Composition of premium ceded to reinsurers (FY16)**



Source: Red Herring Prospectus

**Exhibit 3: Domestic vs Foreign reinsurance mix in India**

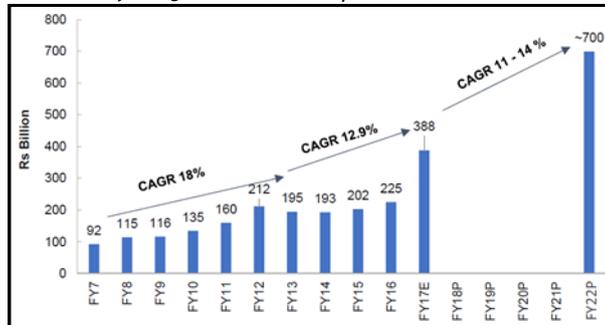


Source: Red Herring Prospectus

## Financials

Consolidated Rs (mn)	Quarter ending June 17	Year ending March 17	Year ending March 16	Year ending March 15	Year ending March 14
Revenue	6,729	37,987	32,692	30,981	26,961
Expenses	1,152	3,822	2,477	2,676	3,936
PBT	5,577	34,165	30,214	28,305	23,024
Tax	35	3,884	3,318	294	(170)
PAT	5,542	30,281	26,896	28,011	23,194

**Exhibit 4: Projected growth in reinsurance premiums in India**



Source: Red Herring Prospectus

## Outlook and Recommendations:

GIC is the largest reinsurance company in India and one of the strong brands known in the insurance space. The company has been posting strong gross premium growth over the last 3-4 years. Over FY13-17, the company has reported return ratio of around 16% and a PAT CAGR of 5.7%. There is no listed entity in reinsurance business to compare the company with to gauge if the issue price is undervalued or overvalued. The company has the first movers advantage, hence will have some excitement in the market, however, one may have to wait and watch the performance of the company for 2-3 quarters to develop further conviction to justify the price. At the upper price band of Rs912, the company trades at 26.6x its March 2017 EPS, which seems to be fairly priced. One can subscribe to the IPO from a long term perspective.

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