



IPO note: General Insurance Corporation of India (GIC Re): Monopoly in the Indian re-insurance market - "SUBSCRIBE"

General Insurance Corporation of India ("GIC") was incorporated on November 22, 1972. GIC is the Largest Reinsurance Company in India in terms of gross premiums accepted in Fiscal 2017, and they accounted for approximately 60% of the premiums ceded by Indian insurers to reinsurers during Fiscal 2017, according to CRISIL Research. GIC is also an International Reinsurer that underwrote business from 161 countries as at June 30, 2017. According to CRISIL Research, GIC ranked as the 12th Largest Global Reinsurer in 2016 and the 3rd Largest Asian Reinsurer in 2015, in terms of gross premiums accepted. Having more than 44 years of experience in, and commitment to, providing reinsurance products and services, GIC has become a trusted brand to their insurance and reinsurance customers in India and overseas.

Today, GIC provides reinsurance across many key business lines including Fire (Property), Marine, Motor, Engineering, Agriculture, Aviation/Space, Health, Liability, Credit and Financial and Life Insurance. GIC is also an International Reinsurer that underwrote business from 161 countries as at June 30, 2017. According to CRISIL Research, GIC ranked as the 12th Largest Global Reinsurer in 2016 and the 3rd Largest Asian Reinsurer in 2015, in terms of gross premiums accepted. GIC provide reinsurance across many key business lines including Fire (Property), Marine, Motor, Engineering, Agriculture, Aviation/Space, Health, Liability, Credit and Financial and Life Insurance. Through their more than 44 years of experience in, and commitment to, providing reinsurance products and services, GIC has become a trusted brand to their insurance and reinsurance customers in India and overseas. The company has diversified their business geographically to grow their underwriting business and profitability as well as to maintain a balanced portfolio of risks. GIC developed their overseas business through their home office in Mumbai, branch offices in London, Dubai and Kuala Lumpur, a representative office in Moscow, a subsidiary in the United Kingdom that is a member of Lloyd's of London and a subsidiary in South Africa. In addition, GIC has paid successive annual dividends in the past 5 fiscal years and their dividends during last 5 fiscal years were aggregate of Rs.3,320.05 crore. 29 per cent of GIC's revenue came from agriculture segment, 24 percent from fire, 20 per cent from motor, 12 per cent health and 1 per cent from life reinsurance segments. Its net premium on a restated consolidated basis has grown at a CAGR of ~39% between FY15 to FY17 and PAT during the same period grew at a CAGR of ~4%.

Investment Rationale and Recommendation

At the upper end of the price band of Rs. 912, the IPO is valued at Price/Book Value of 1.5x on (dropped from 3.6x (post issue) due to inclusion of Fair Value Change Account) as against global peers trading at P/BV of 1-1.4x, which we believe is reasonable considering the following factors like: a) 12th Largest Global Reinsurer in 2016 and the 3rd Largest Asian Reinsurer in 2015, in terms of gross premiums accepted, b) GIC is the Largest Reinsurance Company in India in terms of gross premiums accepted in Fiscal 2017, and they accounted for approximately 60% of the premiums ceded by Indian insurers to reinsurers during Fiscal 2017, c) Indian reinsurer leader with a 44 years of experience, d) 98 percent of re - insurance business of GIC is General Insurance and general insurance penetration is 0.7% in India vs. Asian peers average of 2.7% and global 3.7%, e) right of

IPO note date	Oct. 10, 2017
Issue date	Oct. 11 – 13, 2017
Type of issue	Fresh issue: Rs. 15.6 bn OFS: Rs. 98.04 bn
Face Value	Rs. 5
Price Band	Rs. 855 - Rs. 912 per share
Retail & Employee discount	Rs. 45 per equity share
Issue allocation	QIB – 50% Retail – 35% NIB – 15%
Lot size	16 equity Shares & multiple of 16 equity shares thereafter
Post issue market cap	Rs. 800bn at upper price band
Book Running Lead Managers	Citigroup, Axis Capital, Deutsche Bank, HSBC, Kotak
Registrar to the issue	Karvy Computershare

Y/e 31 Mar (Rs. mn)	Q1FY18	FY17	FY16
Gross premium	173,250	337,410	185,340
Net earned prem.	129,230	263,750	153,380
PAT	6,286	31,410	28,230
P/E (pre issue)	-	25	28
Share Capital	4,300	4,300	4,300
Book Value (Rs.)	234	227	202
P/BV (x) (pre issue)	3.8	3.9	4.3
Solvency ratio	1.83	2.41	3.80
Combined ratio (%)	98.43	100.16	107.03
ROE (%)	-	16.09	16.21

Source: RHP, Ajcon Research

first refusal granted by the regulations - i.e every re insurance proposal is first looked by GIC and if rejected, is sent to other reinsurance players, e) solvency ratio of 1.83 vs 1.5 (statutory requirement), f) 3-year CAGR of Non-Life Gross Reinsurance Premium (i.e. FY14-FY17): 31.7%, g) combined ratio (underwriting profitability) was 100.16% for FY17 and 98.43% (i.e below 100) for Q1FY18, g) robust retrocession levels - net liability of only 10% of gross, h) robust investment book of US\$ 10.7 bn across fixed income and equity with Net Investment Yield (without unrealized gains) (FY17): 12.34% i) consistently generating ROE of 16 percent, k) higher per employee productivity as compared to global peers (GIC \$0.78 mn, Swiss Re: \$0.04 mn and Munich Re \$0.06 mn), l) one of the highest dividend payers to Government of India (FY17 dividend greater than Rs. 1000 crores), we recommend "SUBSCRIBE" to the issue.



Company and Promoters

General Insurance Corporation of India (“GIC”) was incorporated at Mumbai on November 22, 1972. On June 1, 1973 the general insurance business in India was nationalized, 107 General Insurance Companies were merged and GIC was formed as the holding company with four subsidiaries namely, New India Assurance Company Limited, National Insurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company Limited. In 2002 GIC was notified as “Indian Reinsurer”. On March 21, 2003, pursuant to amendments to GIPSA, GIC ceased to be the holding company for the four subsidiaries.

Alice G Vaidyan is the Chairman cum Managing Director of the Corporation. She is the first lady officer to assume the post of Chairman cum Managing Director of the Corporation and the first lady chairman cum managing director in the public sector insurance industry (non-life) under Ministry of Finance in India. She has over 30 years of experience in the Indian insurance and reinsurance industry.

Ravi Mital, Usha Sangwan and G. Srinivasan are the Non-Executive Director of the Corporation.

Atanu Kumar Das, G. B. Pande, Amarendra Pratap Singh and V. Ramasamy are the Independent Director of the Corporation and Y Ramulu is the whole time Director of the Corporation.

Vimal Chand Jain is the Chief Financial Officer of the Corporation.

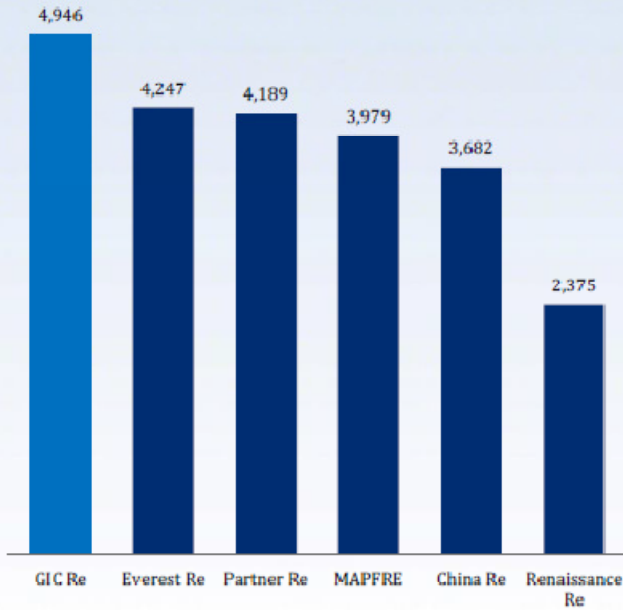
Satyajit Tripathy is the Deputy General Manager and manages Investment Operations of the Corporation.

Dinesh R Waghela is the General Manager of the Corporation. He manages Investment Operations and Investment Accounts.

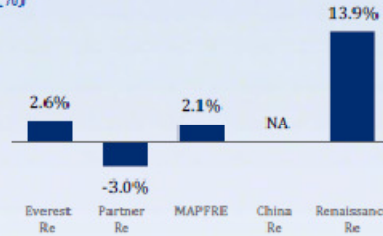


Comparison of GIC Re with Other Reinsurers Globally

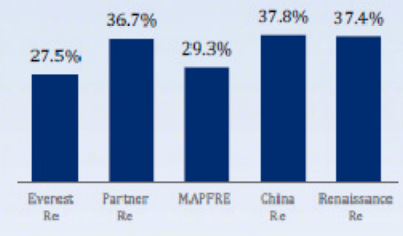
Non-Life Gross Reinsurance Premium Earned⁽¹⁾
(US\$mm)



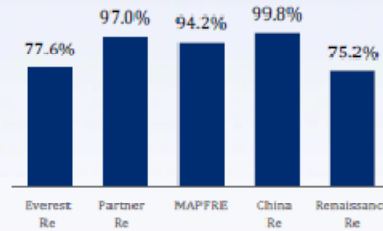
3-year Time Period CAGR – Non-Life
Gross Reinsurance Premium (US\$)
(%)



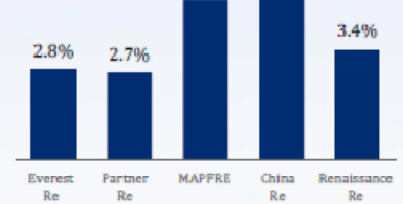
Net Expense Ratio⁽¹⁾⁽²⁾
(%)



Combined Ratio⁽¹⁾⁽³⁾
(%)



Net Investment Yield Based on
Book Value⁽¹⁾⁽⁴⁾
(%)



As per restated consolidated financials for GIC for FY17,

- 3-year CAGR of Non-Life Gross Reinsurance Premium (i.e. FY14-FY17): 31.7%
- Net Expense Ratio (FY17)⁽²⁾: 18.53%
- Combined Ratio (FY17): 100.16%
- Net Investment Yield (without unrealized gains) (FY17): 12.34%

Certain Key Financial Indicators

3 months ended 30th June

As at, or for the year ended

	2017	2017	2016	2015
Gross Premiums	17,325.35	33,740.79	18,534.25	15,270.16
Net Premiums	17,141.64	30,300.33	16,470.41	13,938.89
Earned Premiums	12,922.56	26,374.69	15,338.24	13,594.78
Incurred Claims	10,651.89	21,529.31	12,965.91	11,911.33
Net Commission	2,685.73	5,364.28	3,514.54	2,795.57
Underwriting profit/(Loss)	(496.05)	(806.59)	(1121.33)	(1392.60)
Expenses of Management	56.65	251.38	190.01	165.15
Combined Ratio	98.43%	100.16%	107.03%	108.86%
Incurred Claims Ratio	82.43%	81.63%	84.53%	87.62%
Net Commission Ratio	15.67%	17.70%	21.34%	20.06%
Profit after Tax	628.67	3,140.62	2,823.42	2,890.98
Net Worth	20,143.21	19,513.69	17,413.53	15,236.70
Solvency Ratio*	1.83	2.41	3.80	3.32
Return on Equity	3.12% [^]	16.09%	16.21%	18.97%

* Calculated on a standalone restated basis ^ not annualised

Top 10 Clients (Direct Insurers & Reinsurers) in terms of Gross Premium

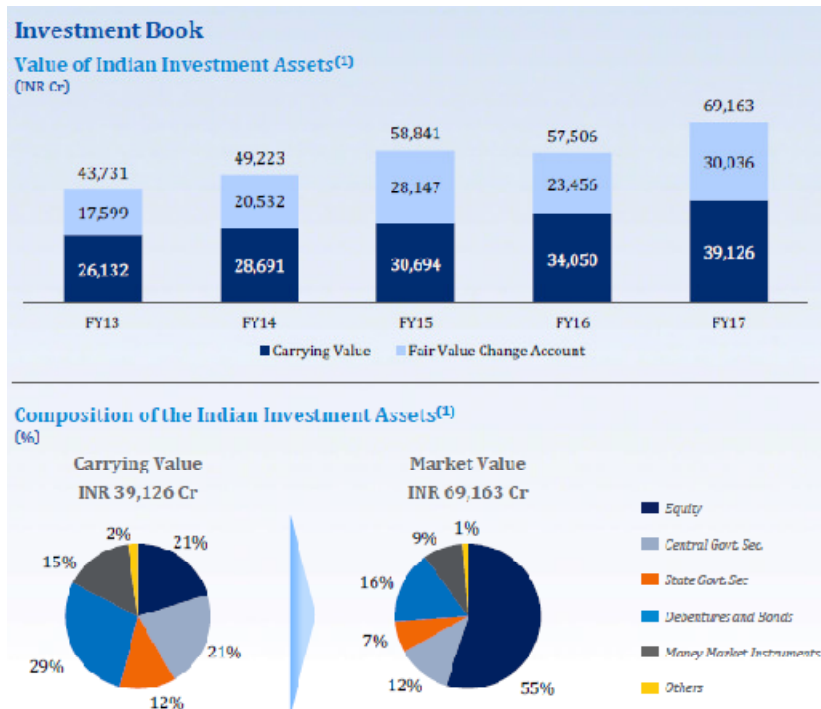
Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research



Equity ♦ Currency ♦ D.P. ♦ Advisory Services ♦ Investment Banking ♦ Insurance

Name of the Company	Gross Premium (Rs. In Cr)
Agriculture Insurance Company of India Limited*	4,145.48
National Insurance Company Limited	2,950.59
ICICI Lombard General Insurance Co. Limited	2,615.29
United India Insurance Company Limited	2,233.35
The New India Assurance Company Limited	1,778.03
HDFC ERGO General Insurance Company Limited	1,564.60
Reliance General Insurance Co Limited	1,208.06
The Oriental Insurance Company Limited	883.17
IFFCO-Tokio General Insurance Company Limited	835.84
Bajaj Allianz General Insurance Company Limited	790.66

Investment book





Equity ♦ Currency ♦ D.P. ♦ Advisory Services ♦ Investment Banking ♦ Insurance

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