

## General Insurance Corporation of India

**General Insurance Corporation of India (GIC Re) is the largest reinsurer company in terms of gross premium (GP) accepted, having a market share of 60% in India. GIC Re provides reinsurance across key business lines including fire (property), marine, motor, engineering, agriculture, aviation, health, liability & credit, etc.**

**Leader in Indian reinsurance industry:** GIC Re is the largest reinsurer company in India with 60% market share in terms of GP accepted (12<sup>th</sup> largest global and 3<sup>rd</sup> largest Asian reinsurer). Over the last 15 years, industry GP has grown at 15% and expected to grow at 20% for the next 5-10 years on the back of government initiatives, growth in distribution network and increased awareness.

**Diversified portfolio leading to better yield:** As on 1QFY2018, GIC Re had an investment book worth ₹41,930cr carrying value (₹73,903cr Market value) on which company has been able to generate yield of 12.3% for FY2017. For FY2013/FY2014/FY2015/FY2016 it has managed to generate yield of 11.9%/12.1%/14.1%/12.9% respectively. As on Q1FY18, the company's fixed income debt securities, equities and money market instruments accounted for 61.49%, 20.21% and 17.12% respectively.

**Strong financials with improved combined ratio:** GP over last 4/3 years has grown at healthy CAGR of 22%/32% respectively. On the bottom-line front, the company has reported CAGR of ~12% over FY2013-16. Return on equity (ROE) for FY2017 was 16% and last 4 years average ROE was 17%. The combined ratio has declined from 106.5% in FY2013 to 99.7% in FY2017 due to an increase in Agriculture GP.

**Outlook & Valuation:** At the upper end of the IPO price band it is offered at 25x its FY2017 EPS and 4x its FY2017 book value (Pre-IPO). The agriculture GP has grown aggressively over the last 3 years largely due to the initiatives taken by the Government and it contributed 29% of GP in FY2017 (4% in FY2014). However, the financials of the company may get affected adversely if India witnesses bad monsoon or successive poor monsoon seasons, drought, flooding or other catastrophic events impacting the Indian agriculture industry. Nonetheless, positives such as leadership position, well managed investment book, robust balance sheet and reasonable valuations provide comfort, hence, **we recommend SUBSCRIBE on this Issue.**

### Key Financials

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
Premium earned (net)	13,616	13,595	15,338	26,375
% chg		(0.2)	13	72
Net Profit	2,433	2,891	2,823	3,141
% chg		18.8	(2)	11
EPS	28	34	33	37
Book Value	159	186	214	232
P/E	32	27	28	25
P/BV	6	5	4	4
Combined Ratio (%)	108.9	108.9	107.0	100.2
ROE (%)	18	18	15	16

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: Oct 11, 2017  
 Issue Close: Oct 13, 2017

### Issue Details

Face Value: ₹5

Present Eq. Paid up Capital: ₹430cr

Offer for Sale: \*\*10.75cr Shares

Fresh issue: ₹1569cr

Post Eq. Paid up Capital: ₹439cr

Issue size (amount): \*₹10,662cr - \*\*11,372cr

Price Band: ₹855-912

Lot Size: 16 shares and in multiple thereafter

Post-issue implied mkt. cap: \*₹75,001cr - \*\*₹80,001cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 0%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	86%
Others	14%

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## Company Background

GIC Re is the largest reinsurance company in India (owned by Government of India) in terms of Gross Premium accepted in FY2017; this is for approximately 60% of the premiums ceded by Indian insurers to reinsurers during Fiscal 2017. It is also an international reinsurer and underwrote business from 161 countries as on June 30, 2017. According to CRISIL Research, GIC Re was ranked 12th largest global reinsurer in 2016 and the 3rd largest Asian reinsurer in 2015, in terms of gross premiums accepted.

GIC Re provides reinsurance across key business lines including fire (property), marine, motor, engineering, agriculture, aviation/space, health, liability, credit & finance and life insurance. Through their more than 44 years of experience in, and commitment to, providing reinsurance products and services, the company has become a trusted brand for insurance and reinsurance customers in India and overseas.

### Exhibit 1: Segmental Business

Business Segment	FY15			FY16			FY17		
	India	Outside India	Total	India	Outside India	Total	India	Outside India	Total
Fire (Property)	11.0%	20.1%	31.1%	11.4%	23.7%	35.1%	8.0%	16.3%	24.3%
Marine	2.7%	4.6%	7.3%	2.0%	3.5%	5.5%	1.3%	2.1%	3.4%
Miscellaneous									
Motor	19.8%	5.5%	25.2%	17.8%	6.4%	24.2%	15.2%	4.4%	19.6%
Engineering	2.9%	2.3%	5.2%	2.6%	2.2%	4.8%	1.3%	1.3%	2.6%
Agriculture	4.0%	0.2%	4.2%	6.8%	0.2%	7.0%	28.4%	0.5%	28.9%
Aviation	1.0%	3.5%	4.5%	0.1%	2.4%	2.5%	0.3%	1.7%	2.0%
Health	8.6%	5.2%	13.8%	8.9%	4.6%	13.5%	9.5%	2.9%	12.4%
Liability	0.6%	0.2%	0.8%	0.5%	0.3%	0.8%	0.5%	0.2%	0.7%
Credit	0.9%	0.1%	1.0%	0.9%	0.1%	1.0%	0.6%	0.1%	0.6%
Others (1)	4.4%	1.5%	5.9%	3.0%	1.4%	4.4%	3.5%	1.0%	4.5%
Life	0.9%	0.3%	1.1%	1.0%	0.3%	1.3%	1.1%	0.0%	1.1%
<b>Total</b>	<b>56.7%</b>	<b>43.3%</b>	<b>100.0%</b>	<b>55.0%</b>	<b>45.0%</b>	<b>100.0%</b>	<b>69.5%</b>	<b>30.5%</b>	<b>100.0%</b>

Source: RHP

## Issue details

State owned GIC Re is a mix of Offer for sale and fresh issue. The issue would constitute fresh issue worth of ₹1,569cr and Offer for sale worth of ₹9,804cr. The national reinsurer will dilute 14.22% of its post-offer paid-up equity share capital. Of this, the government will dilute 12.26% stake and the balance 1.96% by the Corporation itself.

**Note: A discount of ₹45 per equity share would be offered to employees and retail individual bidders.**

### Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	86,00,00,000	100	75,25,00,000	86
Investor/Public			12,47,00,000	14
<b>Total</b>	<b>86,00,00,000</b>	<b>100</b>	<b>87,72,00,000</b>	<b>100</b>

Source: RHP, Note: Calculated on upper price band

## Objects of the offer

- Augmenting the capital base of the Corporation to support the growth of business and to maintain current solvency levels
- General corporate purposes, subject to applicable law

## Key Management Personnel

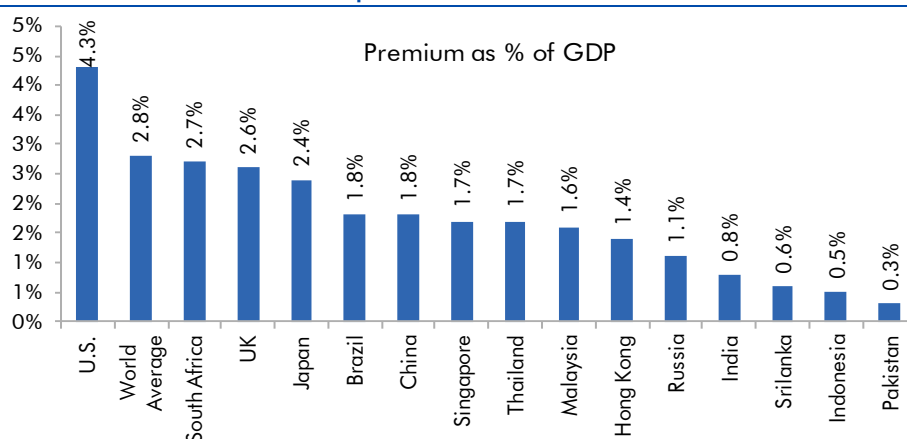
**Alice G Vaidyan is the Chairman-cum-Managing Director.** She holds a post graduate degree in English language and literature from University of Kerala. She has trained in “Strategy: Building and Sustaining Competitive Advantage” at Harvard Business School, Boston, USA and is a fellow of the Insurance Institute of India. She has over 30 years of experience in the Indian insurance and reinsurance industry.

**Vimal Chand Jain, is the Chief Financial Officer.** He holds a bachelor’s degree of commerce from University of Rajasthan, certificate of membership from the Institute of Chartered Accountants of India, and is a fellow of the Insurance Institute of India. He has been associated with GIC Re since October 2012. Previously, he worked with New India Assurance Company Limited.

## Investment Rationale

**Leader in Indian reinsurance industry:** GIC Re is the largest reinsurance company in India with 60% market share in terms of GP accepted. It is also the 12th largest global and 3rd largest Asian reinsurer. Over last 15 years industry GP has grown at 15% and is expected to grow at 20% for the next 5-10 years on the back of government initiatives, growth in distribution network and increased awareness. Penetration level in India (Premiums as % of GDP) is very low (0.77%) compared to 2.8% world average. We expect that an increase in awareness of general insurance would continue to support reinsurance business at a healthy rate.

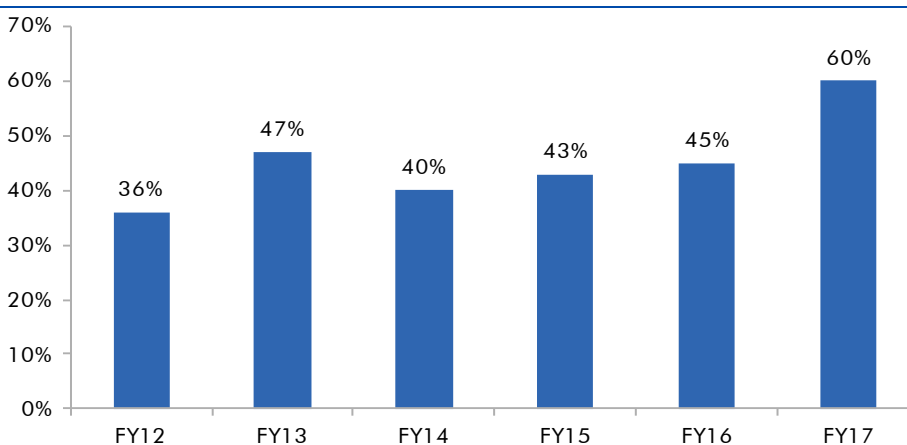
### Exhibit 3: Non-Life insurance penetration as of 2016



Source: RHP

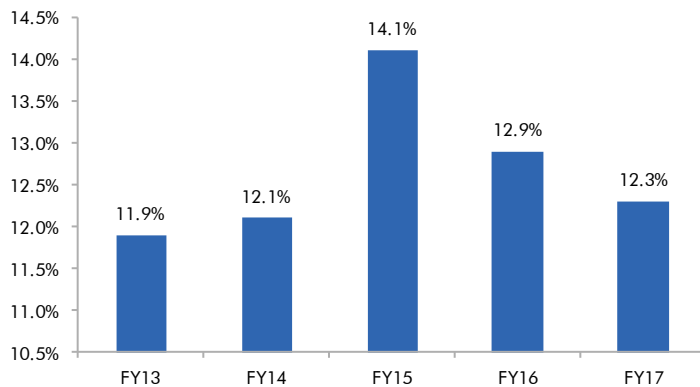
According to CRISIL Research, size of the Indian reinsurance market was estimated to be approximately ₹388 billion in Fiscal 2017. The reinsurance market in India grew at a healthy 15% CAGR in the ten fiscal years ending FY2017. In Fiscal 2017, premiums ceded to reinsurers increased by 73%, as non-life insurance premiums grew by 32% on-year and retention ratios declined close to 9%. The sharp jump in non-life premiums in Fiscal 2017 was driven by a four-fold increase in crop insurance premiums. Even after excluding crop insurance, premium growth in Fiscal 2017 remained healthy at 18%.

### Exhibit 4: Market share of GIC Re in India

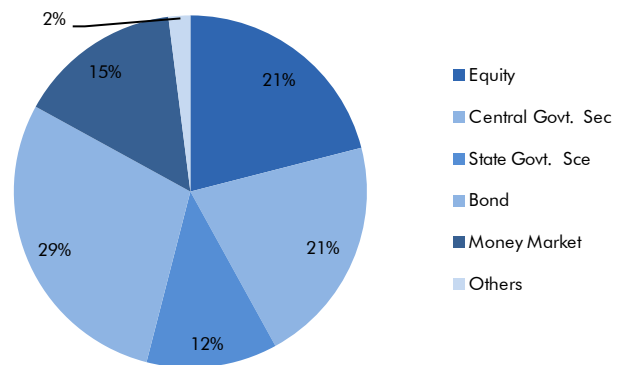


Source: RHP

**Diversified portfolio leading to better yields:** As on 1QFY2018, GIC Re had an investment book worth ₹41,930cr carrying value (₹73,903cr Market value) on which company has been able to generate yield of 12.3% for FY2017. For FY2013/FY2014/FY2015/FY2016 it has managed to generate yield of 11.9%/12.1%/14.1%/12.9% respectively. As on Q1FY18, the company's fixed income debt securities, equities and money market instruments accounted for 61.49%, 20.21% and 17.12% respectively.

**Exhibit 5: Investment Performance**


Source: RHP

**Exhibit 6: Composition of the Indian Investment Assets**


Source: RHP

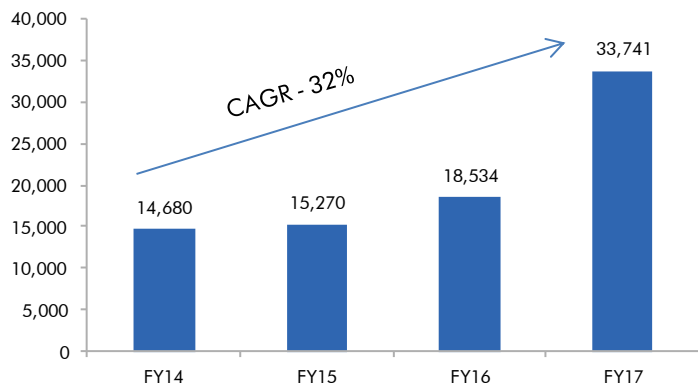
**Exhibit 7: Investment Income and Yield Without Unrealized Gains**

(₹ in Cr)	2013		2014		2015		2016		2017	
	Investment Income	Yield	Investment Income	Yield	Investment Income	Yield	Investment Income	Yield	Investment Income	Yield
Equity	1,344	21%	1,508	22%	2,202	31%	2,046	27%	2,202	28%
Fixed Income Securities										
... Central Govt Securities	412	8%	495	8%	548	8%	611	8%	661	8%
...State Govt Securities	210	8%	244	8%	292	9%	341	8%	391	9%
...Other Approved Securities	42	8%	37	8%	35	8%	31	7%	28	8%
...Debentures and Bonds	558	9%	696	9%	784	9%	867	9%	965	9%
...Money Market Instruments	268	10%	288	9%	268	9%	239	8%	223	5%
Loans	45	9%	49	11%	39	10%	39	10%	35	10%
Venture Capital Funds	4	3%	5	3%	8	5%	0	0%	10	6%
Preference Shares	5	5%	0	2%	-0	-5%	1	8%	0	6%
<b>Total Investments</b>	<b>2,889</b>	<b>12%</b>	<b>3,321</b>	<b>12%</b>	<b>4,176</b>	<b>14%</b>	<b>4,175</b>	<b>13%</b>	<b>4,516</b>	<b>12%</b>

Source:RHP

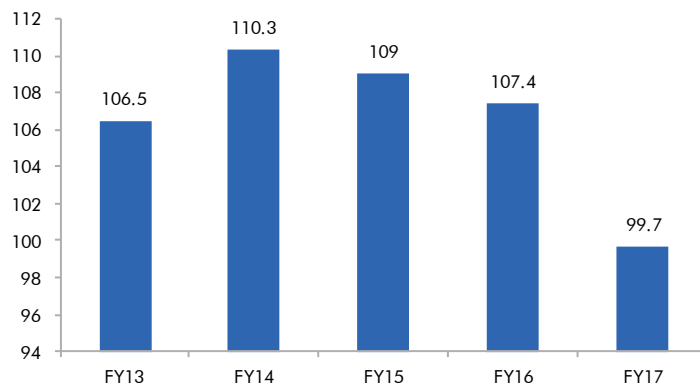
**Strong financials with improved combined ratio:** GP over last 4/3 years has grown at healthy CAGR of 22%/32% respectively. On the bottom-line front, the company has reported CAGR of ~12% over FY2013-16. Return on equity (ROE) for FY2017 was 16% and last 4 years average ROE is 17%. The combined ratio has declined from 106.5% in FY2013 to 99.7% in FY2017 due to an increase in Agriculture GP.

**Exhibit 8: Gross Premium growth trend (₹ in cr)**



Source: RHP

**Exhibit 9: Combined Ratio Trend (%)**



Source: RHP

### Company's future strategy

- Expand and leverage leadership position in domestic reinsurance industry
- Expand the presence internationally and grow overseas business
- Focus on improving profitability through reduction in combined ratio
- Grow the life reinsurance and other business lines in India and overseas markets

### Outlook & Valuation:

At the upper end of the IPO price band it is offered at 25x its FY2017 EPS and 4x its FY2017 book value (Pre-IPO). The agriculture GP has grown aggressively over the last 3 years largely due to the initiatives taken by the Government and it contributed 29% of GP in FY2017 (4% in FY2014). However, the financials of the company may get affected adversely if India witnesses bad monsoon or successive poor monsoon seasons, drought, flooding or other catastrophic events impacting the Indian agriculture industry. Nonetheless, positives such as leadership position, well managed investment book, robust balance sheet and reasonable valuations provide comfort, hence, **we recommend SUBSCRIBE on this issue.**

### Key Risks

#### Underwriting risk

The success of GIC Re depends upon the ability to accurately assess the risks associated with the businesses that it reinsures. If actual losses exceed estimated loss reserves, then net income and capital position will be reduced.

#### Hampered agricultural industry

The financials of GIC Re may get adversely affected, if India witnesses a bad monsoon or successive poor monsoon seasons, drought, flooding or other disastrous events which could hamper the Indian agricultural industry.

#### Catastrophic losses

Events such as windstorms, hurricanes, tsunamis, earthquakes, floods, hailstorms, tornadoes, severe winter, fire, drought, explosions and other natural and man-made disasters, are some incidents whose severity is highly unpredictable. These catastrophic events pose a risk for GIC Re.

**Income Statement**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
<b>Operating Profit/(Loss)</b>				
(a) Fire Insurance	14	1,318	732	637
(b) Marine Insurance	451	(122)	407	210
(c) Miscellaneous Insurance	1,131	326	381	1,404
(d) Life Insurance	7	39	70	(110)
<b>Operating Profit from Insurance</b>	<b>1,603</b>	<b>1,561</b>	<b>1,590</b>	<b>2,142</b>
% chg		(3)	2	35
<b>Income from Investments</b>				
(a) Interest, Dividend & Rent - Gross	673	747	893	1,020
(b) Profit on sale of Investments	310	555	544	619
Less: Loss of sale of Investment	-	-	-	-
<b>Other Income:</b>	<b>110</b>	<b>235</b>	<b>243</b>	<b>18</b>
Profit on Exchange	101	-	83	0
Profit on sale of Assets (Net)	-	(0)	-	-
Sundry Balances Written Back (Net)	-	-	-	-
Interest on Income-tax Refund	5	233	-	17
Motor Pool Service changes	3	-	-	-
(Provision) / Doubtful Debts written back	-	-	157	-
Miscellaneous Receipts	0	2	2	1
<b>Total Income</b>	<b>2,696</b>	<b>3,098</b>	<b>3,269</b>	<b>3,799</b>
% chg		15	6	16
Provision for Doubtful Loans & Investment	125	3	42	29
Provision for Doubtful Debts	-	108	-	231
Amortisation of premium on Investments	20	18	19	19
Diminution in the value of investments written off	111	59	136	56
Other Expenses :	-	-	-	-
Expenses relating to Investments	1	1	1	2
Loss on Exchange	-	29	-	24
(Profit)/Loss on sale of Assets (Net)	(0)	-	(0)	0
Sundry Balances Written off (Net)	-	-	-	-
Interest Motor Pool & Others	137	32	1	6
IPO Expenses	-	-	-	-
<b>Total (B)</b>	<b>394</b>	<b>268</b>	<b>248</b>	<b>382</b>
<b>Profit Before Tax</b>	<b>2,302</b>	<b>2,831</b>	<b>3,021</b>	<b>3,417</b>
Provisions for Taxation	(17)	29	332	412
as a % of PBT	-	1	11	12
<b>Profit After Tax</b>	<b>2,319</b>	<b>2,801</b>	<b>2,690</b>	<b>3,004</b>
Share of Profit in Associate Companies	114	90	134	136
<b>Profit for the year</b>	<b>2,433</b>	<b>2,891</b>	<b>2,823</b>	<b>3,141</b>
% chg		19	(2)	11
<b>EPS</b>	<b>28</b>	<b>34</b>	<b>33</b>	<b>37</b>

Source:RHP



**Balance Sheet**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
<b>SOURCES OF FUNDS</b>				
Share Capital	430	430	430	430
Reserves and Surplus	13,224	15,594	17,988	19,539
<b>Net Worth</b>	<b>13,654</b>	<b>16,024</b>	<b>18,418</b>	<b>19,969</b>
- Growth (%)		17	15	8
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Fair Value Change Account	20,532	28,148	23,457	30,037
<b>Total</b>	<b>34,186</b>	<b>44,172</b>	<b>41,875</b>	<b>50,006</b>
<b>APPLICATION OF FUNDS</b>				
<b>Investments</b>	<b>46,679</b>	<b>56,758</b>	<b>55,686</b>	<b>66,212</b>
- Growth (%)		22	(2)	19
<b>Loans</b>	424	394	366	322
Fixed Assets	118	143	176	169
Goodwill on Consolidation	-	38	38	38
Deferred Tax Asset	24	9	11	16
Current Assets:	-	-	-	-
Cash and Bank Balances	8,264	7,749	9,779	12,231
Advances and Other Assets	8,486	9,826	10,047	18,090
<b>Current Assets</b>	<b>16,750</b>	<b>17,575</b>	<b>19,827</b>	<b>30,322</b>
<b>Current Liabilities</b>	<b>22,433</b>	<b>22,774</b>	<b>25,072</b>	<b>33,809</b>
Provisions	7,376	7,971	9,156	13,264
Sub-Total (B)	29,809	30,745	34,228	47,074
<b>Net Current Assets</b>	<b>(13,059)</b>	<b>(13,169)</b>	<b>(14,402)</b>	<b>(16,752)</b>
<b>Miscellaneous Expenditure</b>	-	-	-	-
<b>Total</b>	<b>34,186</b>	<b>44,172</b>	<b>41,875</b>	<b>50,006</b>
- Growth (%)		29	(5)	19
Contingent Liabilities	3,036	3,086	2,766	3,317

Source: RHP

**Key Ratio**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
<b>Valuation Ratio</b>				
P/E	32	27	28	25
P/B	5.7	4.9	4.3	3.9
<b>Profitability ratios (%)</b>				
ROE	18	18	15	16
ROA	7.1	6.5	6.7	6.3
Yield in Investment	12.1	14.1	12.9	12.3
<b>Per Share Data (₹)</b>				
EPS	28	34	33	37
BV	159	186	214	232
<b>Operating Ratio (%)</b>				
Solvency Ratio	2.9	3.3	3.8	2.4
Claim Ratio	88.9	87.6	84.5	81.6
Commission Ratio		20.1	21.3	17.7
<b>Combined Ratio (CONSOL) (%)</b>				
- Fire	-	93.2	101.2	103.7
- Marine	-	129.5	91.2	101.6
- Motor	-	124.4	113.3	114.0
- Engineering	-	89.9	59.5	69.7
- Agriculture	-	112.9	169.5	92.2
- Aviation	-	102.8	90.9	109.2
- Health	-	132.7	113.8	110.3
- Liability	-	13.3	63.2	70.9
- Credit	-	118.0	184.7	31.3
- Life	-	81.9	77.7	148.4

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