

The New India Assurance Company Ltd

The New India Assurance Company Ltd (NIA) is the leader in the non-life insurance in India, controlling hefty 15% market share in terms of gross direct premium (₹23,230cr). It issued 27.10 million policies across all product segments. NIA is also market leader in Fire, marine, Motor & health insurance with market share of 19.1%, 21.1%, 15.1% and 18.4%, respectively. As of June 30, 2017, NIA distribution network in India included 68,389 individual agents and bancassurance arrangements with 25 banks in India. The company has developed a pan-India branch network. As on 1QFY2018, NIA had an investment book worth ₹55,028cr on which company has been able to generate yield of 8.1% for FY2017.

Positives: a) Established brand and market leadership in Fire, Marine, Motor & Health insurance; b) Longstanding global footprint and successful international operations; c) Multi-channel distribution network; d) Capitalizing on lower penetration of non-life insurance in India.

Investment concerns: a) Though NIA is market leader in terms of gross direct premium but it reports loss in the insurance business (unprofitable underwriting). The combined ratio has consistently remained high for last 5 years at more than 115% and for FY2017 company reported combined ratio of 120%; b) it has been reporting subdued ROE, average ROE for last 5 years is 9% and for FY2017 – 7%; c) Declining interest rate would impact interest income on debt investment.

Outlook & Valuation: At the upper price band of ₹800 the issue is offered at 5x FY2017 book value and 76x FY2017 EPS. Its listed peer ICICI Lombard is trading at 8x FY2017 book value and 48 times FY2017 EPS. ICICI Lombard reported decent ROE of 17% and average ROE for last 5 years is 19%, while NIA reported subdued ROE of 7% for FY2017 and average ROE of 9%. NIA's combined ratio is consistently higher than 115%, which is impacting the profitability of the company. **Considering the subdued ROE, inconsistent PAT and higher combined ratio, we recommend NEUTRAL rating on the issue.**

Key Financials

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Premium Earned	9,599	10,994	13,354	15,215	17,675
% chg		15	21	14	16
Net Profit	914	805	1,377	930	840
% chg		(12)	71	(32)	(10)
EPS	11	10	17	12	10
Book Value	121	134	146	156	160
P/E (x)	70	80	46	69	76
P/BV (x)	7	6	5	5	5
ROE (%)	9	8	12	7	7
Combined Ratio	116	118	116	118	120

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

NEUTRAL

Issue Open: Nov 1, 2017
 Issue Close: Nov 3, 2017

Issue Details

Face Value: ₹5

Present Eq. Paid up Capital: ₹212cr

Offer for Sale: **9.6cr Shares

Fresh issue: ₹1,920cr

Post Eq. Paid up Capital: ₹212cr

Issue size (amount): *₹9,240cr - **₹9,600cr

Price Band: ₹770-800

Lot Size: 18 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹63,448cr - **₹65,920cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 85%

*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	85%
Others	15%

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Company background

The New India Assurance Company Limited was incorporated on July 23, 1919. Pursuant to the 1973 Scheme which came into force on January 1, 1974, the company was nationalized by the Government of India.

NIA is the largest general insurance company in India in terms of net worth, domestic gross direct premium, and number of branches as of and for the fiscal year ended March 31, 2017 (Source: CRISIL Report). The Company has been in operation for almost a century.

NIA's insurance products can be broadly categorized into the following product verticals i.e. fire insurance, marine insurance, motor insurance, crop insurance, health insurance and other insurance products.

In FY2017, gross direct premium from fire, engineering, aviation, liability, marine, motor and health insurance represented a market share of 19.1%, 21.9%, 29.6%, 18.2%, 21.0%, 15.1% and 18.4% respectively of total gross direct premium in these segments in India. Moreover, NIA is the market leader in each such product segment (Source: CRISIL Report).

As of 1QFY2018, NIA's distribution network in India included 68,389 individual agents and 16 corporate agents and bancassurance arrangements with 25 banks in India. The company has developed a pan-India branch network. As of June 30, 2017, NIA had 2,452 offices in India across 29 States and 7 Union Territories. As of June 30, 2017, it had international operations across 28 countries, through a number of international branches, agency offices, subsidiaries and associated companies.

Exhibit 1: NIA's Market Share (in terms of overall Gross Premium) & Market Position

Segment	FY15		FY16		FY17	
	Market Share	Market Position	Market Share	Market Position	Market Share	Market Position
General Insurance	15.0%	1.0	15.7%	1.0	15.6%	1.0
Product Segment						
Fire Insurance	19.1%	1.0	19.4%	1.0	20.4%	1.0
Marine Insurance	21.1%	1.0	20.7%	1.0	22.0%	1.0
Motor Insurance	15.1%	1.0	14.6%	1.0	14.4%	1.0
Health Insurance	18.4%	1.0	18.5%	1.0	18.2%	1.0

Source: RHP

Issue details

Government owned NIA, the largest general insurance company in the country and its IPO is a mix of Offer for Sale and fresh issue. The issue would constitute fresh issue worth of ₹1,920cr and Offer for Sale worth of ₹7,680cr. The national reinsurer will dilute 14.6% of its post-offer paid-up equity share capital. Of this, the government will dilute 11.7% stake and the balance 2.9% by the Corporation itself.

Note: A discount of ₹30 per equity share (3.7% on the upper price band) 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 (GOI)	80,00,00,000	100	70,40,00,000	85.4
Public/Institution			12,00,00,000	14.6
	80,00,00,000	100	82,40,00,000	100

Source: Source: RHP, Note: Calculated on upper price band

Objects of the offer

- The company proposes to utilize the proceeds towards meeting future capital requirements, which are expected to arise from the growth and expansion of the business, improving solvency margin and consequently the solvency ratio.
- To receive the benefits of listing of the Equity Shares on the Stock Exchanges, enhancement of the Company's brand name and creation of a public market for Equity Shares in India.

Key Management Personnel

G. Srinivasan is Chairman cum Managing Director. He holds a bachelor's degree in commerce from the University of Madras. He is an associate of The Institute of Cost Accountants of India and a fellow of the Federation of Insurance Institutes. He has over 37 years of experience in the insurance industry. He is the chairman of the General Insurance Council and chairman of General Insurance Public Sector Association. He is also a member of the Insurance Advisory Committee of the IRDAI and the chairman of Assocham's National Council for Insurance. He has been associated with NIA from 1979 till 2007. He was appointed as the Chairman-cum-Managing Director on October 18, 2012.

Ms. S. N. Rajeswari, is the General Manager and Chief Financial Officer. She holds a bachelor's degree in commerce from the Madurai Kamaraj University and a master's degree in business administration from the Bharathiar University. She is also an Associate of the Institute of Chartered Accountants of India and a Fellow of the Insurance Institute of India. She has over 33 years of experience in the insurance industry.

Investment Rationale

Leadership position in General Insurance industry: NIA has retained its leadership position in non-life insurance industry with market share of 15% of gross direct premium. Despite significant competition, they have maintained their pole position in the Indian General Insurance Market. They have increased their market share in terms of Gross Direct Premium from 14.7% in Fiscal 2012 to 15% in Fiscal 2017. In Fiscal 2017, they had issued 2.71cr policies across all their product segments, the highest among all general insurers in India.

Exhibit 3: Share of players in different segments (2016 - 2017) (%)

Top 10 Multi Product Players	Fire	Health	Marine Cargo	Marine Hull	Motor Third Party	Motor Own Damage	Crop	Others
New India Assurance	19	18	16	34	17	13	5	17
United India Insurance	14	16	11	18	15	8	5	15
National Insurance	9	14	8	10	14	11	3	10
Oriental Insurance	10	11	10	21	9	6	5	10
ICICI Lombard	8	6	13	9	7	12	10	8
Bajaj Allianz	6	4	6	2	6	9	7	7
HDFC Ergo	5	4	4	4	2	4	10	3
IFFCO Tokio	3	2	6	1	5	6	6	4
TATA AIG	5	1	12	-	3	5	2	5
Reliance General	3	2	2	1	4	4	5	2
Cumulative market Share of top 10 multi-product insurers	81.5	78.1	88.1	99.7	81.8	78.0	58.7	80.1

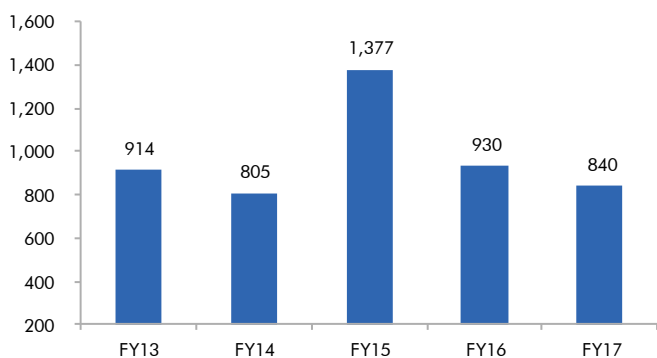
Source: RHP

Multi-channel distribution network: As of 1QFY2018, the distribution network included 68,389 individual agents and 16 corporate agents. NIA has over the years developed strong relationships with their agents and brokers by leveraging their established brand, financially strong operations and large product portfolio, coupled with providing significant sales and management training, and continuing infrastructure support.

The company has also established 7 large corporate and broker offices to support their large corporate clients, and brokers. They distribute motor policies through online portal at various dealer locations. They have developed a pan-India office network, and as of 1QFY2018, they had 2,452 offices in India across 29 States and 7 Union Territories.

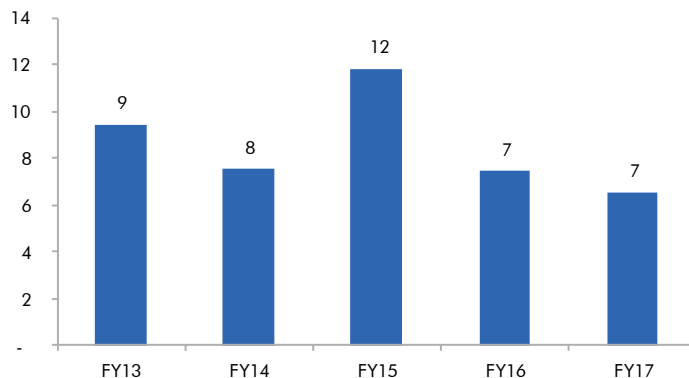
PAT inconsistent over a period of time: NIA has been able to grow its net premium by steady CAGR of 16% over FY2013-17. But on profitability front it has been reporting very inconsistent PAT, which has declined 2% CAGR over FY2013-17 (PAT for FY2013 – ₹914cr, FY2014 – ₹805cr, FY2015 – ₹1,377cr, FY2016 – ₹930cr and FY2017 – ₹840cr). On the contrary, other listed general insurance company ICICI Lombard has grown its net premium at CAGR of 15% over FY2013-17. However, PAT grew at healthy CAGR of 22% over FY2013-17.

Exhibit 4: Inconsistent PAT (₹ in Cr)



Source:

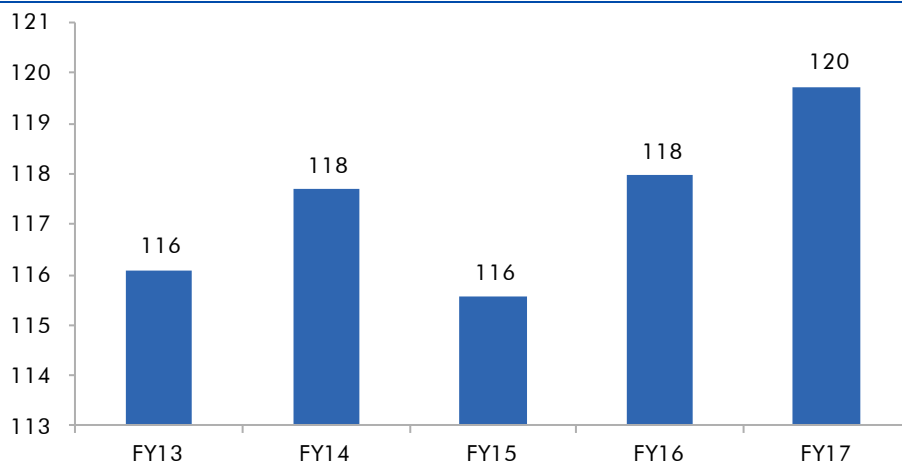
Exhibit 5: ROE trend (%)



Source:

High combined ratio a negative for profitability & return ratio: Combined ratio is the sum of loss ratio, expense ratio and commission ratio. The combined ratio is a measure of the profitability of an insurance company's underwriting business. A ratio below 100% usually indicates that the insurance company generates a margin in its insurance operations, while a ratio above 100% usually indicates that insurance company is paying out more money in claims and operating expenses than it is receiving from premiums. NIA's combined ratio consistently remained high for last 5 years at more than 115% and for FY2017 company reported combined ratio of 120%. ICICI Lombard reported combined ratio of 104%.

Exhibit 6: Combined Ratio (%)



Source: RHP

Outlook & Valuation: At the upper price band of ₹800 the issue is offered at 5x FY2017 book value and 76x FY2017 EPS. Its listed peer ICICI Lombard is trading at 8x FY2017 book value and 48 times FY2017 EPS. ICICI Lombard reported decent ROE of 17% and average ROE for last 5 years is 19%, while NIA reported subdued ROE of 7% for FY2017 and average ROE of 9%. NIA's combined ratio is consistently higher than 115% for last 5 years, which is impacting the profitability of the company. **Considering the subdued ROE, inconsistent PAT and higher combined ratio, we recommend NEUTRAL rating on the issue.**

Exhibit 7: Relative Comparison

	PAT 4 CAGR (%)	Net Premium 4 CAGR (%)	ROE		Combined Ratio		PE	PB
			FY16	FY17	FY16	FY17	FY17	FY17
New India Assurance Ltd	(3)	23	7	7	118	120	76	5
ICICI Lombard	22	15	16	17	107	104	48	8

Note- NIA Valuation ratios based on pre-issue outstanding shares and at upper end of the price band, ICICI Lombard valuation ratio as on 31/10/17

Key Risks

Improvement in underwriting profitability

Combined ratio is the sum of loss ratio, expense ratio and commission ratio. The combined ratio is a measure of the profitability of an insurance company's underwriting business. Combined ratio of 100% is breakeven. Any material improvement in combined ratio would positively impact profitability and return ratio of the company.

Income Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Operating Profit/(Loss)					
a. Fire Insurance	98	(169)	72	122	(167)
b. Marine Insurance	144	169	57	126	48
c. Miscellaneous Insurance	(274)	(387)	(78)	(781)	(783)
2. Income from Investments	-	-	-	-	-
Income From Insurance	(32)	(388)	50	(533)	(901)
a. Interest Dividend and Rent (Gross) – (SH)	690	837	920	981	960
b. Profit on Sale of Investment – (SH)	371	449	568	546	696
Less: Loss on Sale of Investment – (SH)	-	-	-	-	-
3. Other Income	20	27	26	47	86
Interest on Refund of Income Tax	-	-	149	30	133
Total Income from Investment	1,081	1,313	1,663	1,605	1,875
Total Income	1,049	925	1,713	1,072	973
% Chg		(12)	85	(37)	(9)
4. Provisions (Other Than Taxation)	-	-	-	-	-
a. Others – Amortisation Provision	3	3	3	4	3
b. For Doubtful Debts – Investments(SH)	(6)	1	1	(2)	(1)
c. For Doubtful Debts – Operations	-	-	-	24	9
d. For Diminution In Value Of Investments (SH)	2	5	(1)	0	1
5. Other Expenses	-	-	-	-	-
a. Others – Interest On Income/Service Tax	(34)	(28)	3	1	1
b. (Profit)/Loss On Sale Of Assets	(1)	(0)	1	(1)	3
c. Penalty	0	0	-	0	0
Total Exp	(35)	(19)	8	26	16
% Chg		(47)	(145)	210	(37)
Profit Before Tax (A-B)	1,084	944	1,705	1,045	957
TAX as PBT	16	15	19	11	12
Provision For Taxation	170	139	328	115	117
Profit After Tax	914	805	1,377	930	840
% Chg		(12)	71	(32)	(10)
EPS					

Source: RHP, SH – Share Holder

Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Sources of Funds					
Share Capital	200	200	200	200	200
Reserves and Surplus	9,474	10,517	11,469	12,295	12,618
Net worth	9,674	10,717	11,669	12,495	12,818
- Growth (%)		11	9	7	3
Fair Value Change Account					
Fair Value Change Account –Policyholders	10,054	10,969	14,273	11,962	15,299
Fair Value Change Account -Shareholders	5,811	6,870	8,566	7,132	8,402
Total Fair Value	15,865	17,839	22,839	19,093	23,702
Borrowings	-	-	-	-	-
Minority Interest	52	29	33	46	47
Total	25,590	28,585	34,541	31,634	36,567
Application of Funds					
Investments	31,566	35,711	45,365	44,972	51,931
- Growth (%)		13	27	(1)	15
Loans	388	386	357	327	308
Fixed Assets	212	244	302	365	429
Deferred Tax Assets	136	165	166	217	220
Current Assets	14,274	17,839	16,770	18,090	17,161
a. Cash and Bank Balances	7,538	9,151	8,446	7,216	8,126
b Advances and Other Assets	6,736	8,687	8,325	10,874	9,036
c. Current Liabilities	15,053	18,462	20,004	23,949	23,835
d. Provisions	6,001	7,331	8,415	8,824	9,869
Net Current Assets	(6,780)	(7,955)	(11,649)	(14,683)	(16,542)
6. Miscellaneous Expenditure	69	34	-	436	221
Total	25,590	28,585	34,541	31,634	36,567
- Growth (%)		12	21	(8)	16

Source: RHP

Key Ratio

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Valuation Ratio (x)					
P/E	70	80	46	69	76
P/BV	6.6	6.0	5.5	5.1	5.0
Profitability Ratio (%)					
ROE	9	8	12	7	7
ROA	4	3	4	3	2
Yield on Investment			7.8	8.1	8.2
Per Share Data					
EPS	11	10	17	12	10
BV	121	134	146	156	160
Operating Ratio					
Solvency Ratio	2.7	2.8	2.5	2.5	2.2
Claim Ratio	85.3	86.1	84.3	87.0	92.2
Management Exp	22.2	21.9	22.1	22.2	20.4
Commission Ratio	8.6	9.7	9.2	8.8	7.1
Combined Ratio	116.1	117.7	115.6	118.0	119.7
Investment Leverage			4.6	4.3	4.8

Note- Valuation ratios based on pre-issue outstanding shares and at upper end of the price band, investment yield on market value of investment.

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