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IPO note: The New India Assurance Company Ltd. (NIA) - "Consider post listing": Market leadership in Indian general insurance industry, but expensive..

The New India Assurance Company Limited ("NIA") 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 Govt. The company is registered with IRDAI for carrying out the business of General Insurance.

NIA 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 (Source: CRISIL Report). The company has been in operation for almost a century. Company's insurance products can be broadly categorized into the various product verticals viz. Fire Insurance, Marine Insurance, Motor Insurance, Crop Insurance, Health Insurance and Other Insurance Products. NIA commands 15 percent share of India's general insurance market with gross direct premium income of Rs. 19,115 crore in FY17.

As of June 30, 2017, the distribution network in India included 68,389 individual agents and 16 corporate agents, Bancassurance arrangements with 25 banks in India, and a large number of OEM and Automotive Dealer arrangements through their agent and broker network.

As of March 31, 2017, they had issued 2.71 crore policies across all their product segments, the highest among all General Insurance companies in India. As of June 30, 2017, their operations were spread across 29 States and 7 Union Territories in India and across 28 other countries globally through a number of International Branches, Agency Offices and Subsidiaries including a desk at Lloyd's, London. The company has supported various Govt and State government social welfare initiatives, including the Pradhan Mantri Fasal Bima Yojana, the Unified Farmer's Package Insurance, the Pradhan Mantri Suraksha Bima Yojana, the Rashtriya Swashtya Bima Yojana, as well as various State government health insurance schemes. As of March 31 2017, NIA had provided insurance cover to over 1.5 crore customers under the Pradhan Mantri Suraksha Bima Yojana.

In last five years, despite increasing competition from private players, NIA has maintained market leadership in the general insurance industry in India and were the leader in all segments except crop insurance (CRISIL Report).

The Company has lower operating expense ratio of 20.4 percent compared with 30.1 percent for ICICI Lombard in FY17. If net worth is considered, including fair value change account, NIA's business is five times larger than ICICI Lombard. According to the company's red herring prospectus filed with the markets regulator, NIA's return on equity (RoE) stood at 6.8% for the fiscal year 2016-17, compared to private peers ICICI Lombard General Insurance Co. Ltd and Bajaj Allianz General Insurance's 18.4% and 23.1%, respectively.

NIA has not resorted to price hikes across all products. Group health insurance and a few categories of motor insurance are laggards, where it is expected to do this in the coming quarters. Any delay in this could defer profitable business growth by another financial year.

IPO note date 31ST October, 2010

Issue date Nov.1 – Nov. 3, 2017

Type of issue Fresh issue: 24 mn equity shares
Offer for sale: 96 mn equity shares

Face Value Rs. 5

Price Band Rs. 770 – Rs. 800

Retail & Employee discount Rs. 30

Issue allocation QIB: 50%
HNI: 15%
Retail: 35%

Lot size 18 equity shares and in multiple thereof

Equity shares post issue 824 mn

Post issue market cap Rs. 659 bn

Book Running Lead Managers Kotak Mahindra Capital, Axis Capital, IDFC Bank, Nomura, Yes Securities

Registrar to the issue Link Intime

Y/e 31 Mar (Rs. cr)	Q1FY18	FY17	FY16
Net Premium	4,768	17,674	15,215
Investment income	348	1,210	879
PAT	513	840	930
Combined ratio	110.6%	119.7%	117.9%
Solvency ratio	2.2	2.2	2.4
Share Capital	200	200	200
Networth	13,124	12,596	12,059
Fair Value Change	25,160	23,702	19,093
Investments	55,028	51,931	44,972
ROE (%)	-	6.80	7.8
Book value (Rs.)	164	157	151
Post IPO EPS (Rs.)#	6.22^	10.19	11.28

Source: RHP, # EPS/NAV adjusted for Sub-division & bonus shares approved in Aug'2017. ^ not annualized.

Investment recommendation and rationale

At the upper end of the price band of Rs. 800, the IPO is valued at a P/E of 79x and P/BV 5x (excluding fair value change account) on post IPO basis as against P/E of 45x and P/BV of 8x for ICICI Lombard which is very expensive considering single digit ROE as compared to ICICI Lombard ROE of 18.4 percent. In terms of operating metrics and investment yield too, ICICI Lombard is better placed than The New India Assurance. We recommend investors to stay away from this IPO but consider it post listing as it may be available at a discount.



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