General Insurance Corporation of India

Play on reinsurance

General Insurance Corp of India (GIC Re) was formed in 1972. The general insurance business in India was nationalised, 107 general insurance companies were merged and GIC Re was formed as the holding company for the four subsidiaries. With the General Insurance Business (Nationalisation) Amendment Act 2002 (40 of 2002) coming into force from March 21, 2003, GIC Re was ceased to be a holding company of its subsidiaries. Thereafter, the ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India. According to a credit rating report by AM Best in November 2023, GIC Re is the 16th largest reinsurance company globally based on gross premium written.

Investment Rationale

- **First preference in reinsurance contracts**: The company continues to have close relationships with direct insurers in India, and local regulations provide GIC Re with an advantage in obtaining domestic reinsurance placements. In all contracts, now GIC Re is given the first right of refusal in reinsurance contracts. If it declines to accept the risk, only then it would be given to foreign reinsurer's branches. This will provide the company a sizeable opportunity.
- **Stable Growth and Market Share:** The company's gross premium registered a growth of ~39% YoY in Q1FY25, driven by strong performance across most domestic lines of business. The company has a balanced product mix both on the domestic as well as international book. The company is leading reinsurer in India, with a domestic market share averaging between 60-70% in the recent years. In addition, solvency pressures on Indian insurance market players could lead to higher reinsurance cessions, growing the reinsurance market size which would provide GIC Re an opportunity to sustain its market share.
- **New RBC Framework to support reinsurer:** The IRDAI's intention towards moving to risk-based capital regime will potentially put a pressure on the insurance companies on their solvency ratios. Therefore, they may look to free up the capital by transferring the risk of insurance to the reinsurance companies.
- **Risks:** Key risks involve lower-than-expected underwriting performance, potential large losses in overseas/crop insurance and local reinsurance pricing softening.

Offer for Sale Details

The Government plans to sell nearly 119.02 mn shares or 6.78% stake in GIC Re through the offer for sale route on Wednesday and Thursday. The government would divest 3.39% equity with an additional 3.39% stake as the green shoe option.

The OFS opens today (September 4) for non-retail investors. Retail investors and GIC Re employees can bid on September 5.

The floor price for the OFS would be Rs 395 per equity share (6.2% discount to CMP). Additionally, about 50,000 equity shares (0.04% of the offer shares) may be offered to eligible employees of the company.

GIC Re was listed on the Indian stock exchanges on October 2017, wherein the government had sold 14.22% stake in the company. This the first time since then the government will be diluting its stake in the state-owned company.

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Valuation: At CMP, the stock is trading at P/BV of 1.97x based on FY24 BV, compared to 2.09x for New India Assurance and 9.09x for ICICI Lombard General Insurance.

Exhibit 1: Financial Performance (QoQ)

Particulars (In Rs. Mn)	Q1FY25	Q4FY24	Q1FY24	*YoY (%)*	*QoQ (%)*
Gross Premium	1,24,056.8	87,236.5	89,177.1	*39.1*	*42.2*
Net Premium	1,15,385.1	79,044.6	82,311.7	*40.2*	*46.0*
Earned Premium	**1,00,635.7**	**72,271.1**	**86,325.6**	***16.6***	***39.2***
Incurred Claims	90,342.8	49,819.1	82,053.9	*10.1*	*81.3*
% of Earned Premium	*89.8*	*68.9*	*95.1*	*-530 bps*	*2090 bps*
Net Commission	21,968.2	14,907.1	18,409.4	*19.3*	*47.4*
% of Net Premium	19.0	18.9	22.4	*-340 bps*	*10 bps*
Expenses of Management	**913.7**	**1,160.9**	**862.8**	***5.9***	***-21.3***
% of Net Premium	0.8	1.5	1.0	*-20 bps*	*-70 bps*
Profit/(Loss) on Exchange	-183.9	-182.0	-591.3	*NA*	*NA*
Underwriting Profit/(Loss)	**-12,885.3**	**5,700.6**	**-15,574.4**	***-17.3***	***-326.0***
Investment Income	27,589.9	29,714.8	25,593.1	*7.8*	*-7.2*
Other Income less Outgo	-773.0	2,173.0	-666.9	*NA*	*NA*
Profit Before Tax	**13,931.6**	**31,713.4**	**9,351.8**	***49.0***	***-56.1***
Provision for Taxation	3,567.9	5,288.6	2,034.0	*75.4*	*-32.5*
Profit After Tax	**10,363.6**	**26,424.8**	**7,317.9**	***41.6***	***-60.8***
Combined Ratio %	109.6	89.3	118.5	*-887 bps*	*2034 bps*

Source: Company; IDBI Capital Research

Exhibit 2: Financial Performance (YoY)

Particulars (In Rs. Mn)	FY24	FY23	YoY (%)
Gross Premium	3,71,817.6	3,65,915.9	*1.6*
Net Premium	3,39,557.9	3,36,444.3	*0.9*
Earned Premium	**3,35,760.7**	**3,58,080.1**	***-6.2***
Incurred Claims	3,09,804.1	3,27,393.8	*-5.4*
% of Earned Premium	*92.3*	*91.4*	*90 bps*
Net Commission	62,467.5	56,105.1	*11.3*
% of Net Premium	18.4	16.7	*170 bps*
Expenses of Management	**3,929.7**	**4,044.4**	***-2.8***
% of Net Premium	1.2	1.2	*0 bps*
Profit/(Loss) on Exchange	967.7	5,964.0	*-83.8*
Underwriting Profit/(Loss)	**-40,065.6**	**-23,413.7**	***NA***
Investment Income	1,16,204.0	1,05,940.0	*9.7*
Other Income less Outgo	8,515.8	93.7	*NA*
Profit Before Tax	**78,779.3**	**77,494.4**	***1.7***
Provision for Taxation	13,806.2	14,369.4	*-3.9*
Profit After Tax	**64,973.0**	**63,125.0**	***2.9***
Combined Ratio %	111.8	109.3	*251 bps*

Source: Company; IDBI Capital Research

Exhibit 3: Breakup of Gross Premium

Particulars (In Rs. Mn)	Q1FY25	*% Mix*	Q1FY24	*YoY Growth (%)*
A) Fire	**38,246.6**	***31***	**33,512.1**	***14.1***
B) Miscellaneous - Total	**77,782.8**	***63***	**47,499.3**	***63.8***
Misc - Motor	**15,677.6**	***13***	**25,777.4**	***-39.2***
Misc - Health	28,768.0	*23*	4,522.2	*536.2*
Misc - Agriculture	19,798.0	*16*	6,184.5	*220.1*
Misc - Other LOBs	13,539.2	*11*	11,015.2	*22.9*
C) Marine	3,257.7	*3*	5,219.2	*-37.6*
Marine - Cargo	**1,262.4**	***1***	**4,501.1**	***-72.0***
Marine - Hull	1,995.3	*2*	718.1	*177.9*
D) Life	4,769.7	*4*	2,946.5	*61.9*
Total	**1,24,056.8**	***100***	**89,177.1**	***39.1***

Source: Company; IDBI Capital Research

Key Takeaways from Q1FY25 Conference Call:

- The company achieved a combined ratio of 109.6% as on Q1FY25.
- Gross premium income for Q1FY25 stood at Rs. 124.06 bn vs Rs. 89.18 bn in the same quarter of previous year.
- The share of domestic book in the overall premium stood at 84% and the rest from international portfolio.
- The company stopped writing overseas marine and motor reinsurance in 2021, and has not received any premiums from this segment in this quarter. The company has already made a provision on this contract, but there were some claims reported from this account.
- The company held a detailed discussion with the stakeholders in US on the marine reinsurance, and does not expect any further deterioration in the overseas marine segment.

- The company scaled down its agriculture premium portfolio in Q1FY24 due to the change in estimation policy prescribed by the IRDAI. Therefore, the YoY growth this quarter looks on the higher side.
- The company remains very cautious in agriculture segment, may end up writing almost the same or maybe slightly more premiums compared to last year.
- The management said that the company has been able to underwrite retail health reinsurance this quarter.
- The management said that the initial feedback suggests that there are not much losses on the company's books due to various catastrophic events outside India in the current quarter.
- The company has provided Rs. 736.8 mn for Taiwan EQ and Rs. 503.8 mn for UAE floods.
- The company met the rating agency AM Best on July 12 and submitted all the necessary data for the credit rating revision. The company hopes to get a rating push this year, after which it may underwrite new overseas premiums in the current year.
- In November 2023, AM Best had revised the outlook to positive from negative for the Financial Stability Rating and to positive from negative for the long-term issuer credit rating.
- The management said that the reinsurance pricing remained flat across all segments this year.
- The management said that the pricing has been a challenge from the insurance companies, and they are being competitive on this front. The company is in touch with its business partners to ensure that the viability of the market is maintained.
- The company does not have much appetite to write group medical business because of the pricing and competition in the segment.
- The management highlighted that insurance companies typically do not write retail health insurance with reinsurers due to the small ticket size. However, the company has been able to get some business from this line during the quarter.
- The company expects similar growth on retail health reinsurance business going ahead.

- The company maintains its growth guidance of 15-16% for the year, majorly coming from the domestic premiums.
- The company expects the combined ratio to remain at current levels this year, and hopes to bring them close to 105%-106% in 2-3 years.
- The management noted some of the insurance companies could be strapped for capital due to the implementation of Risk-Based Capital framework.
- The company said that commission expenses will be deferred under the IFRS accounting policy.

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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