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New India Assurance IPO's price band set at Rs770-800 per share

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MUMBAI

State-owned general insurer New India Assurance Co. Ltd (NIA) on Wednesday said it will launch its Rs9,600 crore initial public offering (IPO) on 1 November. It is the second largest this year after General Insurance Corp. of India Ltd's Rs11,372 crore IPO.

The insurance company has set a price band of Rs770-800 per share for the IPO, which values it at Rs64,392-67,940 crore. The offer will close on 3 November.

Incorporated in 1919, NIA offers insurance products in key business verticals such as fire insurance, marine insurance, motor insurance, crop insurance and health insurance. The company's gross written premium increased at a compound annual growth rate of 15.18% from Rs13,200.18 crore in fiscal 2013 to Rs23,230.49 crore in fiscal 2017.

In 2016-17, the company reported a revenue of Rs20,471.39 crore, up 16% from the previous fiscal. The company reported a profit of Rs839.86 crore in 2016-17, down 9% from a year earlier.

According to G. Srinivasan, chairman and managing director of NIA, the company intends to focus on cost-effective expansion, capitalize on significant market potential and increase market share, and improve underwriting profitability by minimizing errors, developing accurate underwriting models and replacing loss-making schemes and channels with profitable options.

The IPO of NIA will see a total stake dilution of 14.13%.

The IPO includes a fresh issue of Rs1,920 crore. NIA plans to use the proceeds from the fresh issue for augmenting its capital base to support growth and expansion of business, improving solvency margin and solvency ratio.

The government, in an offer for sale, plans to sell a total of 96 million shares, which at the

upper end of the price band will fetch Rs7,680 crore.

NIA has hired Kotak Mahindra Capital Co. Ltd, Axis Capital Ltd, IDFC Bank Ltd, Nomura Financial Advisory and Securities (India) Pvt. Ltd and YES Securities (India) Ltd to manage the public offering.

NIA's initial share sale is part of the Union government's divestment plan, under which the department of investment and public asset management (DIPAM) plans to sell government stakes in several central public sector enterprises through various routes such as IPOs, offers for sale and strategic sales.

State-owned firms that have been cleared for IPOs include three defence ministry enterprises—Bharat Dynamics Ltd, Garden Reach Shipbuilders and Engineers Ltd and Mazagon Dock Shipbuilders Ltd—MSTC Ltd, Mishra Dhatu Nigam Ltd, controlled by the steel ministry, North Eastern Electric Power Corp. Ltd, which is under the power ministry, and Hindustan Aeronautics Ltd.

owned Coal India Ltd's Rs15,200 crore share sale in 2010.

"The issue was sold majorly to one large investor, instead of selling it to a wider set of institutional investors. This hurt the liquidity of the stock and listing suffered despite broader market doing well," said Deven Choksey, group managing director (MD), KR Choksey Investment Managers Pvt. Ltd.

"The implementation of initiatives taken by the government including divestment of PSUs (public sector undertakings) has to be proper and well-planned. The success factor has been eluding them due to lack of proper implementation," added Choksey.

Arun Kejriwal, director of Kejriwal Research and Financial Services Ltd said that after a weak start, there was short selling that added to the pressure on GIC Re stock, and the stock saw short covering after it reached the retail allotment price of Rs867.

"People have to understand the business of insurance and reinsurance. These are new concepts in the listed space for Indian investors and they are yet to be absorbed," said Kejriwal.

Also, the IPO did not excite non-institutional investors or high net worth individuals and retail investors, partly due to the large size of the issue.

The portions set apart for them were subscribed only 0.22 times and 0.63 times respectively.

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