

India: IPOs in the insurance industry

There is nothing more seasonal in financial markets than initial public offerings. Stock trading happens almost every day, but new listings happen for a few months every four to five years depending on the 'investor mood'. After years of drought in the primary market, now it seems to be the IPO season in India. MSI's India Chennai based accounting member DVS Advisors provides further insight.

Bids like the ones for HUDCO or CDSL and a sharp surge in D-Mart franchisee owner Avenue Supermart Limited, reflect optimism or overconfidence, depending on how you look at it. The flavour of the season is Insurance industry. Various estimates put India's insurance market size at \$100 billion. Analysts say it can become a dominant theme on Dalal Street in the years to come.

ICICI Prudential Life Insurance Company was the first life insurance company to be listed and it was listed during September 2016. Recently, shares of SBI Life Insurance Company were listed. ICICI Lombard General Insurance Company, the first company from the general insurance sector shall go for listing in few days. Few other companies like HDFC Life Insurance Company and General Insurance Corporation have filed their draft red herring prospectus with SEBI and are in line to be listed in the near future.

Insurance is a very expensive business to set up and once you see penetration, you just cannot displace a company. An entry into the sector requires new players to spend a few thousand crores and thus, the new entrants have faced great discomfort. The point worth noting is that insurance companies are sustaining growth by adding new policies than mere ticket size increase. Low penetration and increase in market share all makes forthcoming IPOs potential money-spinners. The trust factor has always been a major factor in insurance and it has been the forte of Life Insurance Corporation, commonly known as "LIC" all along. The public listing will surely bring in more trust from a policyholder point of view and may augur well to broaden the penetration of life insurance which currently stands at meagre 3.86 per cent of GDP.

There is substantial potential for growth in the insurance industry due to (a) favourable demographics profile (b) expanding coverage of crop insurance (c) expected revival of the capex cycle and (d) increasing penetration of auto and health insurance. Insurance industry is still under-

penetrated in India with total sum assured as a percentage of country's GDP remaining at 70 per cent compared to 270 per cent in case of United States, 260 per cent in Japan and 226 per cent in Singapore. Countries like Thailand and Malaysia have also better penetration ratio than India. However, low insurance penetration in India can show higher potential for growth of insurance companies in India.

This also provides a huge opportunity for various categories of investors to invest in quality companies for getting long term capital appreciation. In case of recently concluded IPO of SBI Life Insurance Company, it had raised Rs 2,226 crores from 69 major anchor investors. Some of the anchor investors were Blackrock, Canada Pension Authority, Government of Singapore, Aranda, Abu Dhabi Investment Authority, HSBC, Wells Fargo, Kuwait Investment Authority and Rochdale. This long list of foreign anchor investors reflects their interest in insurance, as a product and in the upcoming days, we may see more absorption from the foreigners towards Indian insurance companies.