

New India Assurance

COR improves

NIACL is India's largest insurer but continues to make high underwriting losses. We note that the company's competitive positioning is weakening and remain concerned about its ability to write profitable business. We estimate an FY22E adj. ROE of just 5.9% and can, at best, assign a valuation of just 0.7x FY22E ABV (less 10% discount for an additional 10.4% supply). We rate NIACL a SELL with a target price of Rs 100.

- **1QFY21 highlights:** (1) NWP at Rs 68.3bn (+7.2/8.1% YoY/QoQ) was slightly ahead of estimates (+2.1% vs. estimates) as fire/health posted healthy growth of +20.8/22.6% YoY. NWP (ex. crop) grew 6.7% YoY to Rs 67.9bn. NEP grew 11.3/-1.4% YoY/QoQ to Rs 60.6bn. Share of Fire/Health in GWP improved 618/1250bps YoY to 23.0/40.9%, while motor OD and TP shed 230/767bps YoY to 11.0/13.8% as the lockdown hit new motor vehicle sales and old policy renewals.
- Led by lower claims ratios in Motor and health, 1QFY21 ICR/COR improved meaningfully to 65.9/101.6% (-2,640/-1,390bps YoY). Investment income (net of provisions) was at Rs 8.6bn (-42.0/-37.7% YoY/QoQ). Yield incl. FV change was at 28.6% as equity markets bounced back.
- The company reported CAT losses of Rs 1.5bn on account of cyclones Nisarga and Amphan. NIACL also provided an additional Rs 5.39bn in respect of increased pension liabilities resulting from lower interest rates. It reported an APAT to Rs 4.2bn (+12.9/30.4% YoY/QoQ).
- **Outlook:** We expect FY21E to be a muted year in terms of NEP growth (FY21E: 4.6% YoY); however, given the lockdown and partial re-open conditions and lower economic activity, loss ratios in most lines (except health) are expected to improve. Health loss ratios may get impacted adversely if the COVID-19 pandemic is not arrested.

Quarterly financial summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	60.62	54.48	11.3	61.48	(1.4)	216.1	236.6	247.4	272.3	296.5
Operating profit	4.87	4.20	16.0	3.12	56.1	6.3	27.5	19.4	19.0	25.7
OP margin (%)	8.0	7.7	30bps	5.1	300bps	2.9	11.6	7.8	7.0	8.7
APAT	4.21	3.73	12.9	3.23	30.4	6.0	24.1	14.8	14.5	19.5
AEPS	2.6	2.3	12.9	2.0	30.4	3.7	14.7	8.9	8.8	11.8
P/E (x)						32.4	8.1	13.3	13.5	10.1
P/ABV (x)						0.6	0.8	0.8	0.8	0.7
AROE (%)						0.5	-21.0	6.7	5.9	7.6

Source: Company, HSIE Research

#We include management expenses in operating expenses to calculate underwriting profits.

SELL

CMP (as on 17 Aug 2020)	Rs 119
Target Price	Rs 100
NIFTY	11,247

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 100	Rs 100
EPS %	FY21E	FY22E
	NIL	NIL

KEY STOCK DATA

Bloomberg code	NIACL IN
No. of Shares (mn)	1,648
MCap (Rs bn) / (\$ mn)	196/2,616
6m avg traded value (Rs mn)	67
52 Week high / low	Rs 179/74

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.7)	(10.5)	4.2
Relative (%)	(24.0)	(3.2)	2.3

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	85.4	85.4
FIs & Local MFs	13.4	13.3
FPIs	0.1	0.1
Public & Others	1.0	1.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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