

# GIC Reinsurance

## Weak CoRs yet again

GICRE is India's largest reinsurer, but it continues to make significant underwriting losses (3QFY21 COR: 107.9%). A calibrated approach to underwriting is expected to change this over FY21-23E. While we are not entirely convinced about the pathway to underwriting profitability, we are enthused by the company's exit from weak portfolios; inexpensive valuations—FY22E P/ABV of 0.5x—result in our BUY recommendation with a target price of Rs 178. We estimate an FY22/23E adj. RoE of 9.4/11.5%, and value GICRE at 0.7x Sep-22E ABV less 10% discount for an additional 10.8% stake to be sold by GoI.

- **3QFY21 highlights:** NEP grew +14.9/-4.1% YoY/QoQ to Rs 91.7bn as crop segment delivered strong 32.1% YoY growth. COR (cal.) at 107.9% (-2,136/-1,421bps YoY/QoQ) was broadly in line with estimates as ICR came down 1,835/1,137bps YoY/QoQ to 88.7%. This was mainly due to lower losses in property and health segments. Commission ratio declined 252/210bps YoY/QoQ to 18.4%.
- **Crop (23.3% of 9MFY21 NWP)** declined 40.6% YoY (9MFY21) as management consciously reduced exposure to loss-making geographies such as MP and TN (for rabi season). CORs are high at 111.8% as the segment was seeing loss development of the business underwritten in FY19 resulting in higher CORs. Additionally, management stated that it had provided an ICR of 83% for the kharif season, for which it expected a final loss ratio of only 75%; potential reserve releases to the tune of Rs 5bn may materialise in 4Q if all goes well. Despite price hikes, the **Property segment (23.8% of 3Q NWP)** reported a COR of 114.8% in 9MFY21, mainly due to provisions related to CAT events in Japan and hurricanes in the U.S. **Motor (22.7% of 3Q NWP)** reported CoR of 101.3% due to better underwriting in the international book. Loss ratios remain high in domestic business at 108.2%. Management stated that provisioning is conservative and that there may be reserve releases in 4Q. **International:** Renewals in Jan-21 have been lower by 18%, despite price hikes of 8-15%. This should aid profits in FY22.
- Investment book grew 10.7% QoQ to Rs 881bn as equity markets posted strong gains. Realised investment yields (net of provisions) came in at 12.0% (annualized) as the corporation booked equity gains. GICRE provided Rs 0.9bn for bad investments in R Cap and Simplex Infra. Solvency deteriorated to 153%.
- **Outlook: GICRE claims that it is exiting weak portfolios and moving towards underwriting profitability; we await better performance.**

### Quarterly financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	91.72	79.82	14.9	95.60	-4.1	382.5	443.5	409.1	445.1	482.6
COR (%)	107.9	129.2	-2,136bps	122.1	-1,421bps	105.1	114.1	112.5	106.0	103.7
APAT	9.31	-10.36	NM	2.28	307.79	27.6	-2.7	16.1	17.8	28.7
AEPS	5.3	-5.9	NM	1.3	307.8	15.7	-1.6	9.2	10.1	16.4
P/E (x)						9.1	NM	15.6	14.1	8.7
P/ABV (x)						0.5	0.7	0.6	0.5	0.5
Adj. ROE (%)						6.9	-28.8	24.6	9.4	11.5

### Estimate Change

Rs bn	FY21E			FY22E			FY23E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps	Revised	Old	Change %/bps
Premium (NWP)	414	426	(2.9)	459	460	(0.3)	500	502	(0.3)
Premium (NEP)	409	407	0.5	445	442	0.7	483	484	(0.3)
COR (%)	112.5	112.0	43bps	106.0	106.2	-18bps	103.7	103.8	-5bps
COR (%) IRDAI	112.5	112.0	43bps	106.0	106.2	-18bps	103.7	103.8	-5bps
APAT	16	11	53.1	18	17	2.2	29	28	1.8

Source: Company, HSIE Research

BUY

CMP (as on 12 Feb 2021)	Rs 143
Target Price	Rs 178
NIFTY	15,163

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 165	Rs 178
EPS %	FY21E	FY22E
	53.1%	2.2%

### KEY STOCK DATA

Bloomberg code	GICRE IN
No. of Shares (mn)	1,754
MCap (Rs bn) / (\$ mn)	250/3,437
6m avg traded value (Rs mn)	75
52 Week high / low	Rs 243/82

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.3	(0.3)	(40.1)
Relative (%)	(4.6)	(34.6)	(64.1)

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	85.8	85.8
FIs & Local MFs	12.0	11.8
FPIs	0.3	0.2
Public & Others	2.0	2.2
Pledged Shares	Nil	Nil

Source : BSE

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