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ICICI Prudential prices IPO at top

India's largest life insurer completes the country's biggest flotation in six years.

By Jackie Horne

21 September 2016

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ICICI Prudential completed India's largest initial public offering in six years on Wednesday, securing a premium valuation at a time when the country's equity markets are riding a wave of positive momentum.

Sources close to the deal said the 181.4 million share offering has been priced at Rs334 per share, the very top of a Rs300 to Rs334 indicative range.

An official announcement is expected on Thursday morning, reporting deal proceeds of Rs60.6 billion ($912 million). This makes ICICI Prudential's IPO the largest since **Coal India's $3.46 billion listing in October 2010.**

Based on issuance of 12.63% of the company's share capital, the group will have a valuation of $7.22 billion, with all of the IPO proceeds going to parent company ICICI Bank.

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National Stock Exchange data reveals that the overall deal (excluding the anchor tranche) closed 10.47 times subscribed following a three-day subscription period.

Observers said that a 32.64 million share allocation to qualified institutional buyers (QIB) closed 11.83 times subscribed, while the 57.122 million share retail portion was 1.32 times covered and the 24.48 million share portion for non-institutional investors was 28.55 times covered.

Last Friday, the syndicate also placed 48.962 million shares with anchor investors, of which two thirds went to foreign investors and one third to domestic.

There is also an 18.13 million share tranche for ICICI Bank shareholders, which closed 12 times oversubscribed and will be taken from the other pots.

At Rs334 per share, ICICI Prudential has a consensus syndicate valuation of 3.44 times price to March 2016 embedded value (EV).

This means the company has been valued at a roughly 10% discount to the country's other listed life insurance company, Max Financial Services, which is trading around the 3.8 times level on a 2016 basis.

Syndicate bankers argued this was the right level given the need for an IPO discount and the M&A premium currently embedded in Max Financial's share price - at the beginning of August, the latter announced an agreement to merge with HDFC Life, creating India's largest life insurer.

Pre deal, Max had a 4% market share in the life sector and HDFC a 7% market share. Together, they will now nudge past ICICI Prudential, which has a 10% market share, according to Kotak Institutional Equities research.

ICICI Prudential's IPO valuation is a lot higher than last November when its parent sold a 6% stake to Temasek and the personal investment vehicle of Wipro founder, Azim Premji. According to S&P Capital IQ data, this deal was struck for Rs19.5 billion ($291 million) and closed in March this year.

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9.	MTR	+8%

It gave the company an overall valuation of $4.85 billion, which means the IPO has priced 48.8% higher.

However, as one banker commented: "Initially, the market only wanted to pay a valuation of about 3 to 3.2 times embedded value for the IPO, but there's a really strong bid for Indian equities at the moment and this enabled it to be pushed higher.

"This deal just ticks all the right boxes for global institutional investors," the banker added. "India is their favoured emerging market destination right now and this company also appeals because it's a good way to play the country's young demographics and rising savings rates."

Since the Temasek deal was completed, other Indian insurance sector deals have been fixed at loftier multiples too. In June, for example, Bank of India sold an 18% stake in Star Union Dai-Ichi Life Insurance Company to Dai-Ichi Life for Rs5.4 billion on a valuation of 3.8 times embedded value.

In March this year, the government also announced it would allow foreign investors to increase their holdings in the insurance sector from 28% to 49%.

The move has been a fill-up for stocks such as Max Financial, which is up 13% year-to-date and closed Wednesday at Rs567.1 on the National Stock Exchange. However, since its early March lows, it is up a far more impressive 87.7%.

By contrast, the Bombay Sensex Index is up 9.15% year-to-date.

Jon Thorn, founder of the India Capital Fund, believes ICICI Prudential deserves a premium valuation over other non-Japan Asian insurance comparables (which average about 0.8 times forward price to EV) because Indian interest rates are higher and the sector has to hold far less capital as a result.

"The Indian interest rate environment means it's much easier and more profitable to liability-match," he told *FinanceAsia*. "Because India has a young population, the insurance industry also benefits from the fact it has a much higher rate of writing policies relative to paying out on claims. That's not the case in much of the rest of the world."

He also commented that India is back on investors' radar screens because the government is following through with growth. "We're now roughly halfway through Prime Minister Modi's term in office and growth remains high," he said.

In the March to June period this came in at 7.1%, though down from 7.9% three months earlier.

However, in a credit outlook published this month, Standard & Poor's concluded that, "we're still forecasting GDP growth at about 8% over the next few years. Moreover, this is relatively high quality, "steroid-free" growth backed by a broadening consumption base."

ICICI Prudential is scheduled to list on the Bombay and National stock exchanges on September 29. Post listing, ICICI Bank will hold a 55.01% stake and Prudential Corporation a 25.83% stake.

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