Homegrown CARE Ratings Takes Pole Position
Ratings agencies’ make their money by telling us whether a certain corporate or a bond is worthy of our investments.

But in today’s chart of the day, we turn the tables on the rating agencies and look at how they have performed over the last couple of months.
As you can see on the chart, CARE Ratings – the underdog at the beginning of the year – has overtaken industry leader Crisil by gaining 31 percent. While Crisil is not far behind with a gain of 21.4 percent, ICRA continues to lag, rising only 9.2 percent.

CARE Ratings’ outperformance is in line with the analyst estimates which seem to favour the home-grown rating agency over its two foreign promoter-backed peers.

Between the three, CARE has the highest return potential of 14.7 percent, according to Bloomberg consensus estimate of analysts while Crisil and ICRA both have been given a negative return potential of 7.3 percent and 1.1 percent, respectively.
(Bloomberg) -- Year-end forecasts for India’s rupee are rising at the fastest pace in 11 months after the currency’s rally this quarter took strategists by surprise.

The median estimate in a Bloomberg survey puts the rupee at 68 per dollar by the end of 2016. While that signals a decline of 1.6 percent from Monday, it is far less pessimistic than a prediction of 68.5 on Aug. 31. At least five global banks have raised rupee forecasts in September. The currency last week wiped out what looked set to be a third straight monthly gain -- a feat not seen since 2011 -- as the government denied a media report saying authorities planned to discuss a devaluation.

India is aiming for its first current-account surplus since 2007, with the rupee’s 0.9 percent gain since the end of June putting the currency on course for its first advance in six quarters. Prime Minister Narendra Modi has lured investors to Asia’s third-largest economy by paving the way for a national sales tax that’s seen adding to government revenue and by ensuring a smooth transition at the central bank’s helm. Overseas funds have pumped the most money into stocks and bonds this quarter since March 2015.
“The rupee call was predicated on a sharper Federal Reserve tightening cycle and remained resilient as these two factors haven’t materialized,” said Viraj Patel, London-based foreign-exchange strategist at ING Groep NV, which has raised its end-2016 estimate to 68 per dollar from 69. “The outlook for India bodes well given the strong growth dynamics as well as the material reduction in external vulnerabilities. Certainly, calls for 70 by year-end seemed a bit excessive.”

The rupee is down 1.2 percent this year in Asia’s worst performance after the Philippine peso and Chinese yuan. HSBC Holdings Plc this month predicted it will end 2016 at 66 per dollar, stronger than its earlier estimate of 69. Barclays Plc raised its forecast to 68.50 from 73.50, Standard Chartered Plc changed its to 66.25 from 68, while Macquarie Bank Ltd. has revised its prediction to 68 from 70.

‘Attractive Carry’

Borrowing in dollars to purchase rupee assets earned 0.7 percent in the past month, the highest such returns in Asia, data compiled by Bloomberg show. Foreign investors have bought Indian stocks worth $3.3 billion and government debt are up by 99.4 billion rupees ($1.5 billion) since the end of June. Indian sovereign bonds offer the highest 10-year yields among major Asian markets after Indonesia.

“When you consider the rupee’s relatively low volatility, attractive yields and improving fundamentals, it appears to be one of the most attractive carry currencies on a risk-adjusted basis,” HSBC strategists wrote in a research note. “The recent passing of GST bill by parliament has ignited another round of optimism on reform.”

Rupee upgrades come after Indian lawmakers last month approved a goods-and-services tax, which Finance Minister Arun Jaitley has said will add as much as 2 percentage points to economic growth that is already the fastest among the world’s major countries. Dollar-based investors stand to gain 7.5 percent, including interest, on rupee purchases by the end of 2017, the highest total returns in Asia after Indonesia, Bloomberg data show.

Even so, an impending increase in U.S. interest rates, weak global demand that has seen India’s exports slide in all but one of the previous 21 months and the central bank’s dollar purchases to build foreign-exchange reserves this year.

‘Good Case’
GAM International Management Ltd.’s Caroline Gorman said a “slightly weaker” dollar environment and the removal of uncertainty surrounding the replacement of Raghuram Rajan -- who was succeeded by his deputy Urjit Patel as the new Reserve Bank of India Governor this month -- has supported recent gains in the rupee.

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ICICI Prudential Life Insurance Company Ltd. hits the market on Monday with the biggest initial public offering (IPO) in the last six years. The issue is also the first by an Indian insurer. The company is a joint venture between India’s largest private sector lender ICICI Bank Ltd. and Prudential Corporation Holdings Ltd.

The issue consists of an offer for sale of more than 1.8 crore equity shares of face value of Rs 10 each. ICICI Bank is looking to sell 18.7 percent stake through the issue. The price band for the IPO, which closes on September 21, has been fixed at Rs 300-334 per share.

The insurance company aims to raise close to Rs 6,000 crore through the issue. At the upper end of the price band, the company will command a valuation of Rs 48,000 crore.
Insurance Business In India

ICICI Prudential Life Insurance is the largest private sector life insurer in India – the world’s 10th largest life insurance market, according to the company’s red herring prospectus (RHP).

ICICI Prudential Life’s Revenue Map

The insurer generates over 55 percent of its revenue from Maharashtra, Gujarat, Karnataka, Tamil Nadu and Delhi. It has ICICI Bank, Standard Chartered Bank and Capital Small Finance Bank as its bancassurance partners. From this channel, the company received 56 percent of its business. Four other channels, including agencies, corporate agencies, brokers and direct sales, contributed 44 percent.
A major chunk of revenue comes from unit linked insurance plans (ULIP).
The embedded value - the measure of the consolidated value of shareholders' interest in the life insurance business - stood at Rs 13,939 crore, the prospectus said. At the upper end and the lower end of the price band, the price-to-embedded value is around 3.4 times and 3.1 times respectively.

At the upper end of the price band, the earning per share (EPS) and price-to-earnings ratio (P/E) for financial year 2015-16 are Rs 11.53 and 29 times respectively, according to BloombergQuint’s calculations. At the lower end of the price band, the EPS works out to 10.75 and the P/E ratio to 26 times.

The company earned premium worth Rs 18,998.7 crore in 2015-16, which grew at a CAGR of 8 percent over the past 5 years. For the first quarter of financial year 2016-17, the premium earned stood at Rs 3,508.8 crore.

Net profit for financial year 2015-16 stood at Rs 1,652.7 crore which grew at a CAGR of 4.5 percent in the past 5 years. For the first quarter of financial year 2016-17 net profit was Rs 405 crore.

Peer Comparison

ICICI Prudential Life does not have any listed competitor in India. HDFC Standard Life Insurance Company Ltd., while not a listed entity, is the closest insurance company in terms of premiums earned.
The product mix of ICICI Prudential Life Insurance suggests that the insurer is overly dependent on unit linked insurance plans, while its competitors have a more balanced product profile.
ICICI Prudential has a good 13th month ratio of 82.4 percent when compared to HDFC Life, but marginally lower 61st month ratio of 55.6 percent.

Persistency is the ratio of continuing premium to the premium of all policies issued.
Post the merger of Max Life with HDFC Life, the scenario will change for ICICI Prudential Life and it will no longer be the largest private sector insurance company, data compiled by BloombergQuint shows.
Shareholding Pattern

Chanda Kochhar, the chairperson of ICICI Prudential Life, said at a press meeting recently that ICICI Bank and Prudential Corporation would further divest one percent and six percent stake respectively in the insurance company over the next three years.
Anchor Investor Allocations

The insurer allotted 4,89,62,085 equity shares to 38 anchor investors at Rs 334 per share. Morgan Stanley Mauritius Company was allotted 12.7 percent of the total anchor investor portion. The Government of Singapore and Monetary Authority of Singapore were allotted 8.9 percent and 3.4 percent respectively, while Goldman Sachs (Singapore) was allotted 5.7 percent and the Nomura Group was allotted over 7 percent of the anchor investor portion.

Eleven mutual funds were allotted 33.6 percent of the total anchor investor portion. Rival HDFC Standard Life was allotted 2 percent.
Brokerage Verdict

"The company has enough scope for business growth in the future. We believe the issue is fully priced in, and hence we have a 'neutral' rating on the issue.

Considering the likely increased earnings based on current financial year, as well as the expected increased book value, the pricing could become much more attractive. We are confident the Insurer will deliver consistent performance and provide an excellent investment opportunity for investors with a long term horizon. Hence, we recommend 'subscribe'."

"Considering healthy business momentum, rising penetration for insurance sector, as well as reasonable valuations for the company, we recommend 'subscribe'."

"The company has enough scope for business growth in the future. We believe the issue is fully priced in, and hence we have a 'neutral' rating on the issue."

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