

# Nippon Life Buys 26% in Reliance Life

Stake sale for ₹3,062 crore is India's largest FDI deal in financial services and values the local insurer at ₹11,500 crore

## OUR BUREAU

MUMBAI

Nippon Life, Japan's biggest life insurance company, on Monday acquired a 26% stake in Reliance Life for a sum of ₹3,062 crore, surprising analysts with a valuation that was higher than expected. The deal, that values Reliance Life at ₹11,500 crore, or around \$2.6 billion, is the largest foreign direct investment in the financial services industry.

Shares of Reliance Capital, the financial services arm of the Anil Dhirubhai Ambani Group, or ADAG, and the owner of Reliance Life, went up by 10% to ₹562 on the Bombay Stock Exchange as it will receive most of the money.

"Some part of the money will be raised by way of primary issuance, but a large part will be through a secondary sale," said Reliance Capital MD and CEO Sam Ghosh. The company will infuse another ₹30-40 crore into the business.

Through this secondary sale, which will be combined with a small issue of

new shares, Reliance Capital's stake will come down to 74% from 100%. Reliance Life, a subsidiary of Reliance Capital, is the only life insurance company 100% owned by an Indian promoter.

**The deal valuations would impact Kotak and SBI positively as both banks have insurance joint ventures**

them a presence here," said Suresh Ganapathy, an analyst with Macquarie.

Manish Karwa of Kotak Securities said the valuation is 40% higher than expectations. "Inorganic way is the easiest entry for Nippon Life," said an analyst with KPMG.

Analysts said the valuation is significantly higher than expectations. "We estimated the valuation to be \$1.6-1.7 billion against \$2.6 billion. But since the Japanese company wanted to enter the market, they were ready to pay a premium. India is a growing market and this gives

Of the 22 companies that have entered the insurance market since the industry was thrown open, foreign and private investment in 2000, twenty have foreign partners, according to data on the website of insurance regulator Irda. The stake sale in Reliance Life is the first instance of induction of FDI by way of a secondary sale.

The company did not require any capital during the third quarter, Mr Ghosh said, adding that it plans to break-even this quarter. The nature of the business is such that it requires regular capital infusion, said analysts. For every policy sold, the company has to put aside extra capital as solvency margin, which is the excess of reserve over liability.

One of the key yardsticks to measure the performance of a life insurance company is capital efficiency. This is assessed as the ratio of the gross written premium (GWP) with the capital deployed. GWP is the total premium income including renewal and new business. Reliance Life's GWP stood at ₹1,447

crore at the end of December 2010 while its total capital stood at ₹3,094 crore.

According to a report by JP Morgan, the deal valuations would impact Kotak and SBI positively as both banks have insurance joint ventures. "Aditya Birla Nuvo and Max India would also be big beneficiaries as insurance is the largest contributor to their valuation," the report said.

Reliance Life has been searching for a partner for a couple of years. The deal with Nippon Life has taken place at a time when the insurance regulator is working on IPO guidelines by private insurance companies. An amendment to the Insurance Act that, if approved by Parliament, would raise the FDI limit to 49% from 26%, is also pending. Mr Ghosh said the company would wait for this to happen before listing.

On Monday, the company said its renewal premium grew by 25% to ₹857 crore at the end of December 2010 against ₹686 crore for the corresponding period last year. Due to the change in



policy regulations, its new business premium declined by 35.6% to ₹593.7 crore. The number of agents stood at 215,952 at the end of December 2010, a rise of 33% compared with 162,370 a year ago. Its assets under management stood at ₹11,700 crore at the end of December 2010.

The increase in distribution force helped Reliance Life clock the highest number of policies in the private sector life insurance industry to 308,923.