

Retail Research	IPO Note
Sector: Non-Life Insurance	Price Band (Rs): 258 - 272
14th May 2024	Recommendation: Subscribe for Long Term Investment Horizon

Go Digital General Insurance Limited

Company Overview:

Go Digit offers motor insurance, health insurance, travel insurance, property insurance, marine insurance, liability insurance and other insurance products which the customers can customize to meet his or her needs. The company's digital full-stack insurance combines insurance and technology to simplify enrolment, claims processing, underwriting, policy administration, data insights and fraud detection. The company's Gross Written Premium (GWP) grew by 37.5% from FY22 to FY23, making it the fastest-growing insurer among private non-life insurers. Private non-life insurers (excluding standalone health insurers) grew by 20.1% overall during the same period. The company is the largest digital full-stack insurance player in India catering for 82.5% of the GWPs in 9MFY24 at Rs 66.8 bn and 82.1% in FY23 at Rs 72.4 bn respectively. The company's goal is to make purchasing non-life insurance products easy and straightforward for customers.

Key Highlights:

1. Focus on accuracy of assessment and pricing of risk: The company's automated underwriting models use rule engines and granular-level risk segmentation with more variables and a higher level of granularity. This sets them apart from other models since they take into account the extent of claims and the no-claim bonus (NCB) while pricing private car portfolios rather than just using two NCB levels. Predictive underwriting models help to identify low-risk customers and set appropriate pricing using variables such as fuel, vehicle make, model, odometer reading, vehicle location, coverages, sourcing channel, past claim history, and usage. This lowers the loss ratio and generates favorable economics, subject to the facts and assumptions assumed to work in tandem with the market environment.

2. Efficient, scalable operating platform: The company's distribution strategy focuses on generating premium revenue while leveraging technology to create a cost-efficient and scalable business model. By using technology to support partners, the company can onboard and work more efficiently, reducing the need for extensive operations to support the distribution network. This approach has allowed to scale rapidly and achieve a commission ratio of 35.4%, 38.7%, 40.2%, 38.9% and 39.1% for and FY21, FY22, FY23, 9MFY22 and 9MFY23 respectively.

3. Strong, stable portfolio returns generated by a conservative investment approach: The company invests profits from insurance operations in securities issued in the Indian market. As of Dec'23, over 97.3% of the assets were invested in Indian government securities or corporate bonds. According to the IRDAI Investment Regulations, the company must invest at least 30% of its assets in Indian government securities and not more than 70% of its assets in corporate bonds, with 15% in the housing and infrastructure sector.

Valuation: The company is valued at a P/B multiple of 4.1x/4.3x of its lower/ upper price band based on 9MFY24 earnings on post-issue capital while on P/E, the company is valued at 138x/145x of its lower/ upper price band base. The company is a market leader (6% market share) in incremental growth in motor insurance. The company has been slowly gaining strength in the other insurance product & the overall market share of the company is at 3%. Going ahead, we expect the company to do well as the scope of general insurance is huge due to low penetration in India. We recommend Subscribe for long term.

Issue Details	
Date of Opening	15 th May 2024
Date of Closing	17 th May 2024
Price Band (Rs)	258 - 272
Offer for sale (Equity shares)	5,47,66,392
Fresh Issue (Rs cr)	1,125
Issue Size (Rs cr)	2,615 @ Upper band
No. of shares	9,61,26,686-9,83,71,043
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	23,721 – 24,948
BRLMs	ICICI Securities Limited, Morgan Stanley India Company Pvt Ltd, Axis Capital Limited, Hdfc Bank Limited, IIFL Securities Ltd & Nuvama Wealth Management Limited
Registrar	Link Intime India Private Ltd
Bid Lot	55 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Maintenance of the solvency ratio	1,125.0
(Less) Offer related expenses in relation to the Fresh Issue	
Total proceeds from fresh issue	1,125.0

* To be determined upon finalisation of the Offer Price and updated in the Prospectus prior to filing with the RoC.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	72,96,58,886	83.3
Public & Others	14,61,83,160	16.7
Total	87,58,42,046.0	100.0

Post Issue @ Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	67,49,03,272	73.4
Public & Others	24,45,43,425	26.6
Total	91,94,46,697	100.0

Post Issue @ Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	67,49,03,272	73.6
Public & Others	24,22,99,068	26.4
Total	91,72,02,340	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	9MFY23	9MFY24
GWP (Rs cr)	3,243.3	5,267.6	7,242.9	5,288.3	6,679.6
NWP (Rs cr)	2,632.3	4,180.0	5,909.3	4,183.9	5,631.4
Total Income (Rs cr)	-118.5	-293.6	39.2	12.4	130.8
PAT (Rs cr)	-122.7	-295.8	35.6	10.0	129.0
Market Cap (Rs cr)	22,429.1	23,364.8	23,773.1	23,767.4	23,791.8
EPS (Rs)	12.3	8.2	7.3	7.3	7.3
PE (x)	-182.8	-79.0	668.1	2,369.4	184.4
P/BV (x)	12.3	8.2	7.3	7.3	7.3
RoA (%)	-6.5	-12.3	1.1	0.3	3.7
RoE (%)	-6.7	-12.7	1.2	0.3	4.0

** Not Annualized*

Source: RHP, SSL Research

Risk Factors

- **Maintaining profitability:** The company has a track record of reporting losses and it may not be able to maintain profitability in the future.
- **Solvency margin:** The company must maintain a certain solvency margin level as required by the Insurance Act. Failure to do so may result in regulatory actions, including the prohibition of new business transactions or the need to change the business strategy, which could slow the growth.
- **Catastrophic events:** Catastrophic events, such as natural disasters, terrorist attacks, or nuclear disasters may increase liabilities for claims, cause losses in investments, and negatively affect business operations.
- **Non-compliance:** The company has received cautions, warnings and show-cause notices from the IRDAI due to alleged non-compliance with various regulatory prescriptions in the past, and IRDAI has imposed penalties in certain cases, and the company may be subject to such regulatory action in the future.

Growth Strategy

- **Simple and Tailored Customer Experience:** The company promotes a simple and tailored customer experience by providing relevant, transparent, customizable coverage, simple & understandable documentation and straightforward & paperless processes.
- **Focus on Empowering Distribution Partners:** The company understands the differences between partners and extends technology & expertise to distribution partners to develop customized solutions that provide them with the tools, products, information and support to effectively target and service customers.
- **Predictive Underwriting Models:** The company has expertise in the motor insurance market with a data bank to build extensive underwriting models that are used to accurately assess risk and predict losses for motor insurance products at a granular level.
- **Advanced Technology Platform:** The company has built technology-enabled solutions and employs a hybrid model of AI-enabled analytics and human assessment to streamline the value chain, aid customers, partners, employees and drive efficiency

Performance Parameters

Particulars	Units	FY21	FY22	FY23	9MFY22	9MFY23
No. of Customers ⁽¹⁾	cr	1.4	2.6	3.9	3.5	4.3
No. of Policies Issued	cr	0.6	0.8	1.1	0.8	0.8
GWP	Rs cr	3,243.4	5,267.6	7,243.0	5,288.4	6,679.7
Retention Ratio	%	81.2	79.4	81.6	79.1	84.3
Total investment income	Rs cr	308.3	436.7	721.8	516.5	776.5
AUM	Rs cr	5,590.1	9,393.9	12,668.4	11,826.2	14,909.0
GDPI	Rs cr	2,417.6	4,673.9	6,160.1	4,534.5	5,970.5
Net Earned Premium	Rs cr	1,943.7	3,404.2	5,163.7	3,767.3	5,114.6
Net Written Premium	Rs cr	2,632.3	4,180.1	5,909.3	4,184.0	5,631.5
Available Solvency Margin	Rs cr	1,150.0	1,867.6	2,310.3	2,269.3	2,628.1
Required Solvency Margin	Rs cr	572.9	928.3	1,297.9	1,197.5	1,644.6
Yield on total investments ⁽²⁾	%	6.9	6.2	6.3	6.2	7.4
Loss ratio	%	74.0	74.0	67.2	70.2	69.6
Expense Ratio	%	32.8	34.8	37.8	36.6	14.4
Net Expense Ratio	%	35.4	38.7	40.2	38.9	39.1
Combined ratio	%	109.4	112.7	107.4	109.1	108.7
Solvency ratio	times	2.0	2.0	1.8	1.9	1.6
Commission Ratio	%	2.6	3.8	2.4	2.3	24.7
IBNR (Gross)	Rs cr	1,896.6	3,229.8	4,582.5	4,415.0	5,505.7
IBNR (Net)	Rs cr	1,712.1	2,931.0	4,113.6	3,954.8	5,041.2

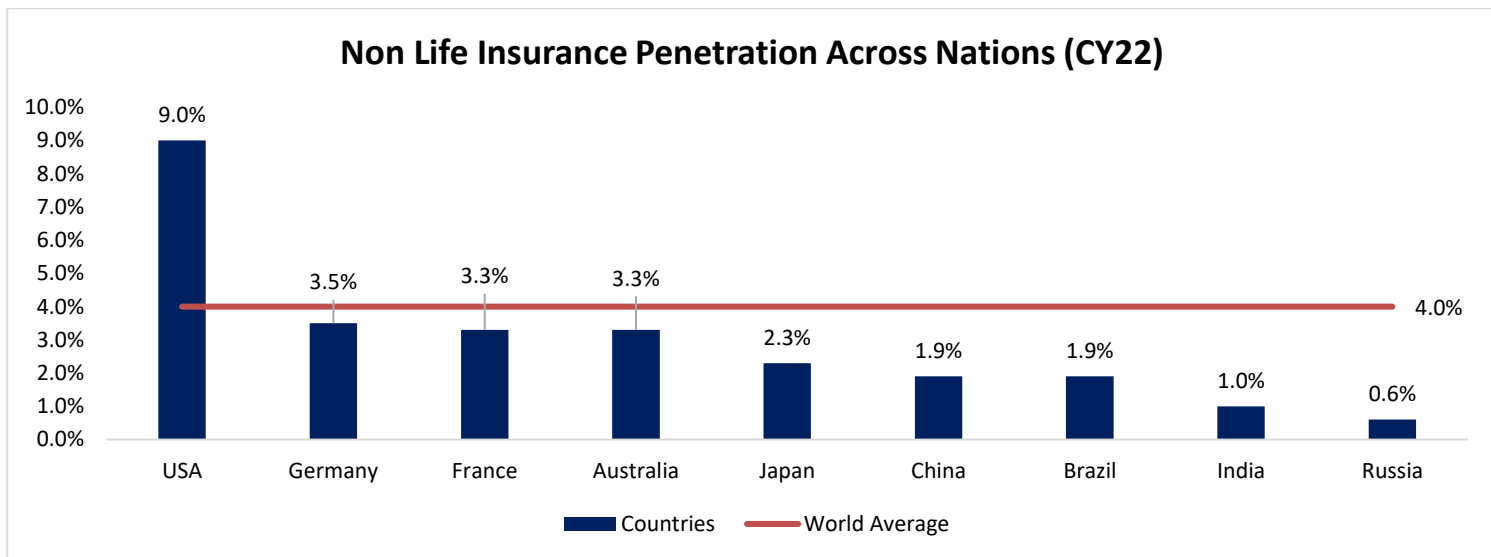
Source: RHP, SSL Research

(1): Customers referred to above is a cumulative count of people since inception who were covered by at least one policy the company underwrote during the respective period

(2): For the nine months ended December 31, 2023, and the nine months ended December 31, 2022, the yield on total investments is annualized by multiplying by 12 and dividing by 9.

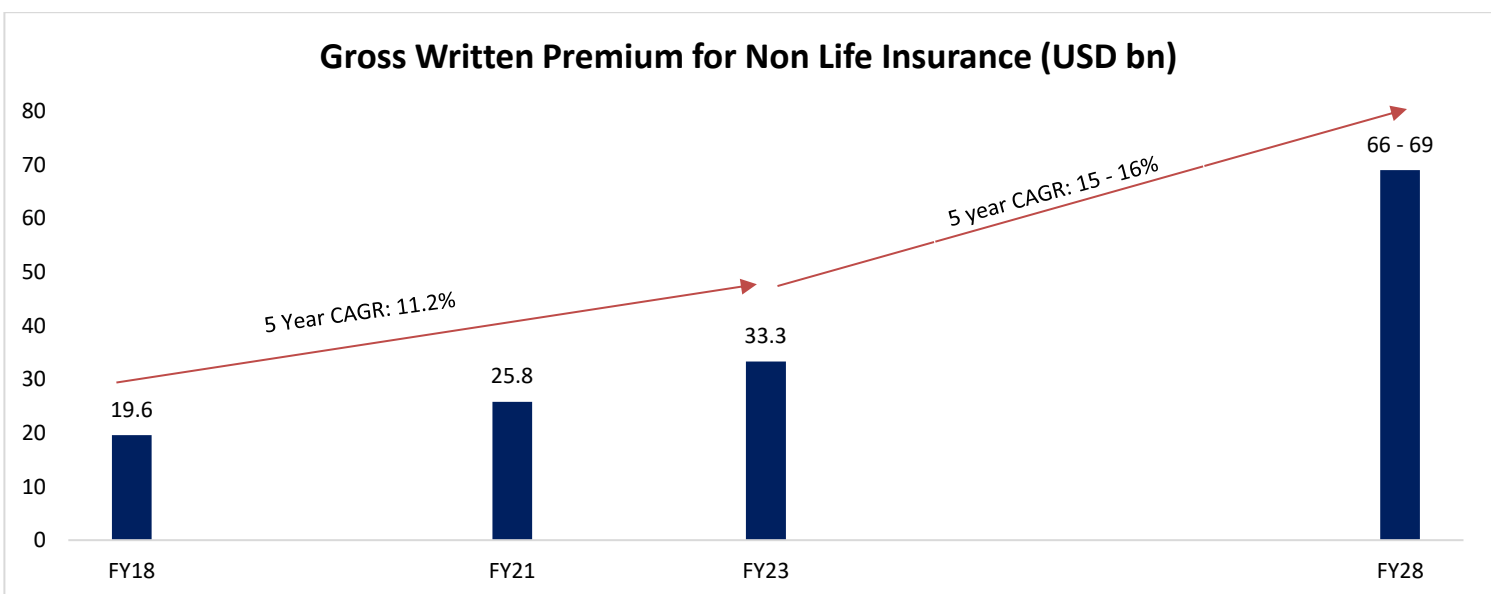
Industry Overview

Indian non-life insurance market is highly under-penetrated: As of FY23, the GDP of India is approximately USD 3.73 tn and the non-life insurance market was USD 33.3 bn measured by GWP as per the General Insurance Council. This indicates a non-life insurance penetration rate of 1.0% (as measured by GWP) with significant room for improvement. The global average insurance penetration amounted to 4.0% among leading global economies with the FY22 penetration rate of China and the United States at 1.9% and 9.0%, respectively. The non-life insurance density in India stood at USD 23.0 as of FY23 measured by premium per capita which is the lowest across some of the largest markets in the world with a global average of USD 499.0 as of CY22.



Source: RHP, SSL Research

India’s non-life insurance is one of the fastest growing markets in emerging countries: According to the IRDAI and Redseer analysis, the non-life insurance sector contributed around USD 33.30 billion in Gross Written Premiums (GWP) in FY23, showing a CAGR of 11.2% from FY18 to FY23 and a CAGR of 13.6% from FY21 to FY23. The overall market is estimated to grow at a CAGR of 15-16% from FY23 to FY28, reaching a value of USD 66-69 bn by FY28. It is estimated that as of 9MFY24, the non-life insurance sector contributed around USD 27.5 bn in GWP, from USD 24.60 bn in GWP for 9MFY23, indicating a robust growth rate of 11.5%. The non-life insurance sector is dominated by the motor and health insurance segments. In the non-life insurance business, according to IRDAI, India was ranked 14th worldwide with a share of 0.8% in the global non-life insurance market in FY22. The Indian non-life insurance market was among the top five in the Asia-Pacific measured by GWP.



Source: RHP, SSL Research

Financial Snapshot

Particulars (Rs cr)	FY21	FY22	FY23	9MFY23	9MFY24
Operating Profit / (Loss)					
(a) Fire Insurance	-42.5	-41.7	22.1	6.2	-4.9
(b) Marine Insurance	-0.5	0.1	-6.8	-3.1	0.6
(c) Miscellaneous Insurance	-142.4	-333.4	-81.5	-60.1	-5.8
Total	-185.4	-375.0	-66.2	-57.0	-10.1
Income From Investments					
(a) Interest, Dividend & Rent – Gross	55.8	74.9	99.2	63.2	97.8
(b) Profit on sale of investments	11.1	8.4	6.1	6.1	43.2
Less: Loss on sale of investments		-1.9	-0.1	-0.1	-0.1
Total	66.9	81.4	105.2	69.2	140.9
Other Income					
(a) Interest on income tax refund	-		0.2	0.2	
(b) Profit on sale / discard of fixed assets	-				
(c) Others	-				0.0
Total	-	-	0.2	0.2	0.0
Other Expenses					
(a) Expenses other than those related to Insurance Business	4.2	2.0	3.6	2.4	1.0
(b) Bad debts written off	-				
(c) Loss on sale / discard of fixed assets	-	0.2	0.0	0.0	0.0
(d) Interest on Non-convertible Debentures	-				0.8
(e) Others	-				
Total	4.2	2.2	3.6	2.4	1.8
Profit/(Loss) Before Tax	-122.7	-295.8	35.6	10.0	129.0
Profit/(Loss) After Tax	-122.7	-295.8	35.6	10.0	129.0

Source: RHP, SSL Research

Particulars (Rs cr)	FY21	FY22	FY23	9MFY23	9MFY24
Sources of Funds					
Share Capital	824.6	859.0	874.0	873.8	874.7
Share application money pending allotment	23.8				0.4
Reserves and Surplus	973.1	1,975.1	2,383.6	2,382.3	2,391.9
Net worth	1,821.5	2,834.1	3,257.6	3,256.1	3,267.0
Fair Value Change Account					
Shareholders	50.1	84.4	86.9	93.5	147.9
Policyholders	2.9	0.5	2.3	-0.8	4.9
Borrowings					200.1
Deferred tax liability					
Total	1,874.5	2,919.0	3,346.8	3,348.8	3,619.9
Application of Funds					
Investments					
Shareholders	1,378.7	1,601.4	2,171.5	1,549.8	2,117.6
Policyholders	4,051.4	7,645.9	10,217.5	10,136.0	12,669.0
Loans					
Fixed Assets	102.2	148.5	162.0	151.8	161.0
Current Assets					
Cash and Bank Balances	159.8	146.5	279.3	140.3	122.3
Advances and Other Assets	311.6	505.3	659.2	776.7	947.1
Sub Total (A)	471.4	651.8	938.5	917.0	1,069.4
Current Liabilities	3,236.3	5,751.8	7,982.4	7,595.6	9,587.3
Provisions	1,537.9	2,317.7	3,065.6	2,741.1	3,586.2
Sub Total (B)	4,774.2	8,069.5	11,048.0	10,336.7	13,173.5
Net Current Assets (A)-(B)	-4,302.8	-7,417.7	-10,109.5	-9,419.7	-12,104.1
Debit Balance in Profit and Loss Account	645.0	940.9	905.3	930.8	776.3
Total	1,874.5	2,919.0	3,346.8	3,348.8	3,619.9

Source: RHP, SSL Research

(Rs. cr.)	Pre-Issue			Post Issue (Annualised)	
	FY21	FY22	FY23	9MFY24	
Particulars				Price Band	
				258	272
PAT	-122.7	-295.8	35.6	129.0	129.0
Net Worth	1,821.5	2,834.1	3,257.6	4,392.0	4,392.0
CMP	272.0	272.0	272.0	258.0	272.0
EPS	-1.5	-3.4	0.4	1.9	1.9
Market Cap	22,429.1	23,364.8	23,773.1	23,721.7	24,947.9
BV per share (Rs)	22.1	33.0	37.3	63.7	63.8
PE (x)	-182.8	-79.0	668.1	137.9	145.0
P/BV (x)	12.3	8.2	7.3	4.1	4.3
RoE (%)	-6.7	-12.7	1.2	5.3	5.3
RoA (%)	-6.5	-12.3	1.1	4.9	4.9

Peer Comparison

Particulars	Go Digit		ICI Lombard	New India
	Lower	Upper		
P/B (x)	4.1	4.3	6.9	1.8
P/E (x)	137.9	145.0	43.1	40.0
Gross Direct Premium growth rate (%)	31.8	31.8	17.0	5.5
Gross direct premium to Net worth ratio (x)	2.7	2.7	2.0	1.9
Net Retention Ratio (%)	81.6	81.6	71.0	80.2
Net Commission Ratio (%)	2.4	2.4	3.0	7.8
Expenses of Management to Gross Direct Premium Ratio (%)	42.0	42.0	30.0	19.3
Expenses of Management to Net Written Premium Ratio (%)	43.8	43.8	40.0	23.2
Net Incurred Claims to Net Earned Premium (%)	67.2	67.2	72.0	95.6
Combined Ratio (%)	107.4	107.4	104.0	117.2
Operating Profit Ratio (%)	-1.3	-1.3	16.0	6.9
Net Earnings Ratio (%)	0.7	0.7	12.0	3.4
Return on Net Worth ratio (%)	1.5	1.5	17.0	5.3
Available Solvency Margin to Required solvency margin (x)	1.78x	1.78x	2.51x	1.87x

The data is based on FY23 financial data.

For the Go digit, the P/E and P/BV (x) are calculated on post-issue equity share capital based on the lower/upper price band.

**CMP as on 14th May 2024.*

Source: RHP, SSL Research

SBICAP Securities Limited

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Registered & Corporate Office: Marathon Futurex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555**E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in****DISCLOSURES & DISCLAIMERS:**

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Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B-Tech, MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

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