



# **Financial Management**

## **Task 1**

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## SBI Life Insurance Company Limited

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SBI Life Insurance Company Limited – Initial Public Offer to  
open on Wednesday, September 20, 2017, and to close on  
Friday, September 22, 2017

Price Band fixed from Rs. 685 per Equity Share (defined below)  
to Rs. 700 per Equity Share (defined below)

SBI Life is one of the leading Life Insurance companies in India and is a joint venture between the State Bank of India and the insurance company BNP Paribas. SBI is an Indian Multinational that also features in the Fortune Global 500 list of the world's biggest corporations. BNP Paribas is one of the world leaders in creditor insurance, and its life and non-life insurance units have received an A-rating from Standard and Poor's. SBI owns 70.1% of the total capital and BNP Paribas owns 26% of the total capital in SBI Life. The IPO is an offer for sale with SBI selling 8% stake and its joint venture partner BNP Paribas divesting 4%. SBI's holding will come down from 70.1% to 62.1%, while BNP Paribas' stake will fall from 26% to 22%.

SBI Life Insurance will launch its initial public offer on 20th September 2017 to raise up to Rs 8,400 crore. The initial share sale offer will close on September 22nd 2017. In the three-day offer, the company will issue up to 12 crore equity shares at a price band of Rs. 685-700 apiece. The IPO by size is expected to be the largest in the life insurance space in India after ICICI Prudential Life Insurance.

The book running lead managers to the IPO are JM Financial Institutional Securities Ltd., Axis Capital Ltd., BNP Paribas, Citigroup Global Markets India Pvt., Deutsche Equities India Pvt., ICICI Securities Ltd., Kotak Mahindra Capital Company Ltd. and SBI Capital Markets Ltd. SBI Life has reserved a little over 10 percent of the shares for its employees and shareholders i.e 1.4 crores. Eligible employees are offered a discount of Rs. 68 per share.

SBI Life does not intend to raise any fresh capital through this offer, but instead provides liquidity to the existing shareholders. This IPO is purely an offer for sale by both the promoters. SBI Life turned profitable within the first five years of its operations, and has declared dividends every year since 2012.

To an investor, SBI Life would be a good option for long term investment. At Rs 700 per share, the P/E ratio of SBI Life works out to be 73.3 whereas the listed peer ICICI Prudential Life Insurance Company trades at a P/E ratio of 37. This suggests that the growth potential of SBI Life is much higher. Looking at this from a different angle, the P/E ratio makes SBI Life's IPO valuation expensive. But both companies look closely priced based on long term profitability, which is reflected in the embedded value. SBI Life has solvency ratio of 2.04 times compared to the 1.5 times mandated by IRDA, implying low risk. The company has one of the lowest operating expense ratio of 7.8% and total commission ratio of 3.7%, making it the most efficient among peers.