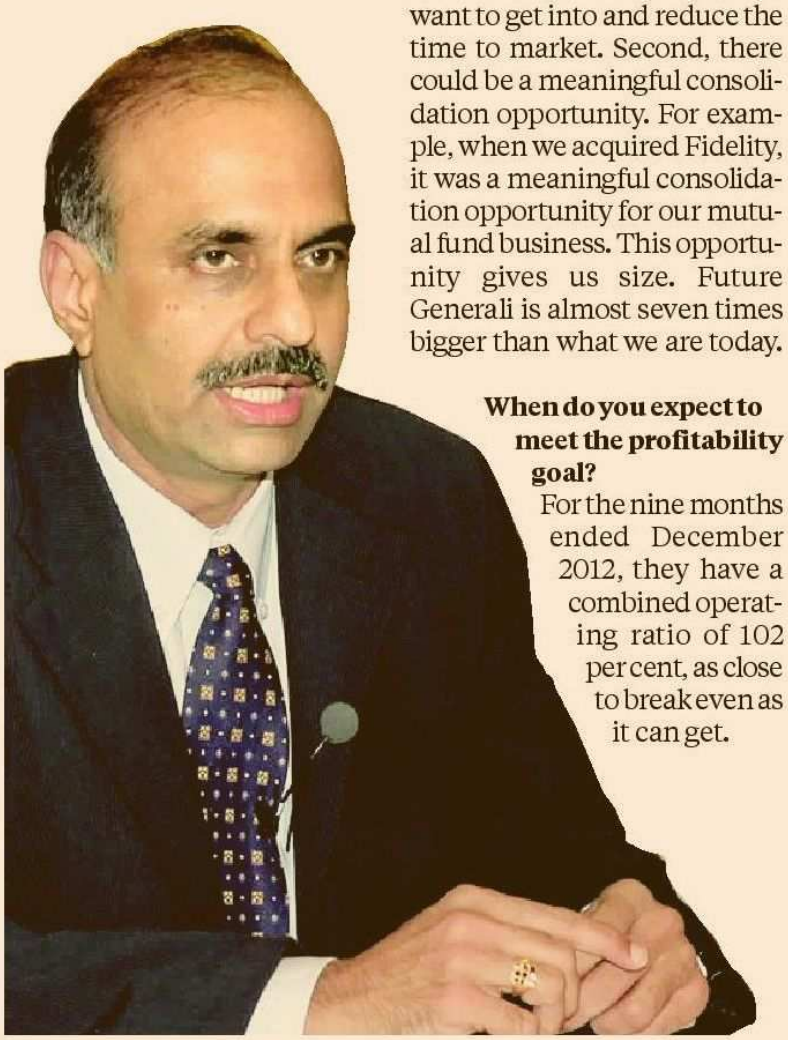
'Inorganic growth to help achieve scale and profitability'

Against L&T's general insurance business' current market share of 0.2 per cent, the acquisition of Future Generali India Insurance would lead to a 1.8 per cent market share for the combined entity, **N SIVARAMAN**, president and whole-time director, L&T Finance Holdings, tells **Manojit Saha**. Edited excerpts:

What prompted L&T to go for the deal?

This deal gave us an opportunity to gain scale on an accelerated basis. For example, for the year ended March 31, 2012, the gross written premium of our general insurance was ₹143 crore, while Future Generali's was about ₹1,100 crore. Clearly, the size is there. At one shot, we can achieve a fairly significant size. The second important point is this also advances the achievement of profitability because the current business of Future Generali is healthy and pretty close to breakeven. We felt the inorganic route could achieve the objectives of gaining size and scale and, at the same time, profitability growth could be achieved faster compared to growing organically.



Would you continue to grow inorganically?

Growing inorganically or not is based on two considerations. First, it has to be a business we want to get into and reduce the time to market. Second, there could be a meaningful consolidation opportunity. For example, when we acquired Fidelity, it was a meaningful consolidation opportunity for our mutual fund business. This opportunity gives us size. Future Generali is almost seven times bigger than what we are today.

When do you expect to meet the profitability goal?

For the nine months ended December 2012, they have a combined operating ratio of 102 per cent, as close to break even as it can get.

How much market share would you gain after this acquisition?

Against the current 0.2 per cent, the combined entity would have a market share of 1.8 per cent.

Would L&T increase its stake in the venture?

Regulations for foreign direct investment (FDI) in insurance are seeing a change — discussions between policymakers to increase this to 49 per cent are underway. L&T took a view at this point; it was appropriate for us to own 51 per cent in the combined entity, rather than moving up to 74 per cent and then diluting the stake when regulations changed.

Q&A

N SIVARAMAN

President and whole-time director, L&T Finance Holdings

This is going to be the first merger transaction under the new guidelines

Have L&T and the foreign partner agreed when 49 per cent FDI is allowed in insurance, Generali would increase its stake?

This is something the foreign partner should decide. They would have the legal ability to raise it, once regulations change. When we reach close to the definitive agreement, there may be such an agreement. As far as intent and desire are concerned, all partners would like to own as much as possible.

Have you already applied for the insurance regulator's approval? When do you expect the clearance?

The draft term sheet has just been signed. Now, we would start the regulatory process. I think this is going to be the first merger transaction under the new guidelines. It would be unfair for me to lay down a timeframe on approval.

Please give some details on the structure of the deal.

We would have 51 per cent in the combined entity. When we get this 51 per cent, it would comprise two portions — the value of the existing general insurance business and the additional stake we need to buy to take our overall stake to 51 per cent. So, we are not buying 51 per cent from the Future group.

As of today, we have an approach to valuation; our overall capital commitment to this business would not be significantly different from our capital commitment to the general insurance business.

Do you think the merged entity would opt for rationalisation of manpower?

We will have to look at the future growth potential and, accordingly, build the organisation. Even as the business is growing at 25 per cent, given the relatively small size of the company, I think it is possible to absorb all the employees in the new organisation.

Who would be the chief executive of the merged entity?

It is premature to comment on that.

Would the re-branding exercise include the two other partners?

Of course! That is the way companies are branded today.