

Retail Research	IPO Note
Sector: Insurance	Price Band (Rs): 902-949
27 <sup>th</sup> April 2022	Recommendation: Not Rated

## Life Insurance Corporation of India (LIC)

### Company Overview:

LIC is the largest life insurer in India with 61.4% market share in terms of New Business Premium (NBP) for 9MFY22. The company was formed by merging and nationalizing 245 private life insurance companies in India on September 1, 1956 with an initial capital of Rs 5 cr. Its brand 'LIC' is recognized as the third strongest and 10th most valuable global insurance brand as per Brand Finance's 'Insurance 100 2021' report. LIC has a diversified product portfolio covering various segments across individual products and group products comprising of participating as well as non-participating products such as savings insurance, term insurance, health insurance, annuity & pension, and unit linked insurance products.

### Key Highlights:

- Largest life insurer in Indian insurance industry:** It is the largest life insurer in India and fifth largest in the world in terms of life insurance gross written premium; LIC's market share in the Indian life insurance industry was 66% based on new business premium (NBP) in FY21 and stood at 61.4% for 9MFY22.
- Biggest agent network in the Indian life insurance entities:** LIC has about 13.3 lakh individual agents as of Dec'21 which accounted for 55% of the total agent network in India. LIC's number of agents in India grew at a CAGR of 7% between FY19-21 which is an industry leading agent network growth.
- Largest asset manager in India:** LIC is the largest asset manager in India having a total AUM of Rs 40.1 trillion as of Dec'21 which is >3.2x of the total AUM of all private life insurers in India
- Established track record of strong financial performance:** LIC's gross written premium (GWP) grew at a CAGR of 9.2% between FY19-21 while NBP grew at a CAGR of 13.5% during the same period. LIC's expense ratios are also lower than the top five private players in India put together. For 9MFY22 LIC's operating expense ratio stood at 9.6% vs. the top five private player's median operating expense ratio of 12.1%.

### Valuation:

At the upper and lower price band of Rs 949 and Rs 902, the stock is valued at a P/EV of 1.1x of its embedded value as of Sep'21 vs. its peers SBI Life/HDFC Life/ICICI Prudential Life which are currently trading at a P/EV of 3.6x/3.9x/2.5x respectively.

Issue Details	
Date of Opening	04 <sup>th</sup> May 22
Date of Closing	09 <sup>th</sup> May 22
Price Band (Rs)	902 - 949
Issue Size - Net (Rs cr)	19,517 – 20,557
No. of shares	22,13,74,920
Face Value (Rs)	10
BRLMs	SBI Capital Markets, JM Financial, BoFA Securities, Kotak Mahindra Capital, Axis Capital, Citigroup Global Markets India, Nomura Financial Advisory and Securities (India), Goldman Sachs (India), ICICI Securities, J.P. Morgan India
Registrar	KFin Technologies Ltd
Bid Lot	15 shares and in multiples thereof
QIB shares	50%
Retail shares	45%
NIB (HNI) shares	15%
Employee Reservation	15,81,249 shares
Policyholder Reservation	2,21,37,492 shares
Employee Discount	Rs 45/share
Policyholder Discount	Rs 60/share
Retail Investor Discount	Rs.45/share

Objects of Issue	
	(Rs Cr.)
100% OFS; Hence, company won't receive any fund flow from the proposed IPO	[●]

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	6,32,49,97,701	100.0
Public & Others	-	-
<b>Total</b>	<b>6,32,49,97,701</b>	<b>100.0</b>

Post Issue	No. of Shares	%
Promoter & Promoter Group	6,10,36,22,781	96.5
Public & Others	22,13,74,920	3.5
<b>Total</b>	<b>6,32,49,97,701</b>	<b>100.0</b>

Source: RHP, SSL Research

## Risk factors

- Any fresh wave of Covid-19 could adversely affect LIC's business operations including affecting the agents' ability to sell products.
- Changes in regulatory policies or volatility in capital markets may pose challenges on the financial performance of LIC impacting persistency ratio in extreme cases.
- Heavy dependence on individual agents for procuring individual new business premiums. The number of active agents declined 3.6% from Mar'21 to Dec'21 primarily due to Covid-19.
- Interest rate fluctuations may adversely affect LIC's profitability depending on the company's nature of asset and liability portfolio.

## Financial Snapshot

Particulars (Rs cr)	FY19	FY20	FY21	9MFY22
Net Premium Earned	3,39,971.6	3,82,475.5	4,05,398.5	2,85,341.9
Income from Investment	2,25,043.5	2,42,836.3	2,85,520.4	2,26,253.7
Total Surplus / (Deficit)	768.5	-3,201.8	4,578.6	3,867.9
Net Profit	2,627.4	2,710.5	2,974.1	1,715.3
EPS (Rs)	4.2	4.3	4.7	2.7
RoNW (%)	322.3	317.1	45.7	20.8
AUM	29,87,920.0	30,74,350.0	36,92,967.3	40,12,170.0
Solvency Ratio	1.6	1.6	1.8	1.8
Persistency Ratio- 61 Months (%)	72.0	70.0	72.0	79.0
Persistency Ratio- 13 Months (%)	88.0	85.0	87.0	88.0
Embedded Value	-	46,497.0	95,605.0	5,39,686.0

## Peer Comparison (based on FY21 Financials)

Particulars (Rs cr)	LIC Ltd	SBI Life Insurance	HDFC Life Insurance	ICICI Prudential Life Insurance
Total Premium	4,05,850.0	50,250.0	38,580.0	35,730.0
Net Profit	2,974.1	1,455.8	1,360.9	956.2
EPS (Rs)	4.7	14.6	6.7	6.7
Net Worth	6,514.6	10,400.4	8,637.7	9,119.4
Embedded Value^	5,39,686.0	30,200.0	30,050.0	30,200.0
Market Cap#	6,00,242.3	1,09,525.6	1,16,162.4	75,243.2
P/EV (x)	1.1	3.6	3.9	2.5
RoE (%)	45.7	14.0	15.8	10.5

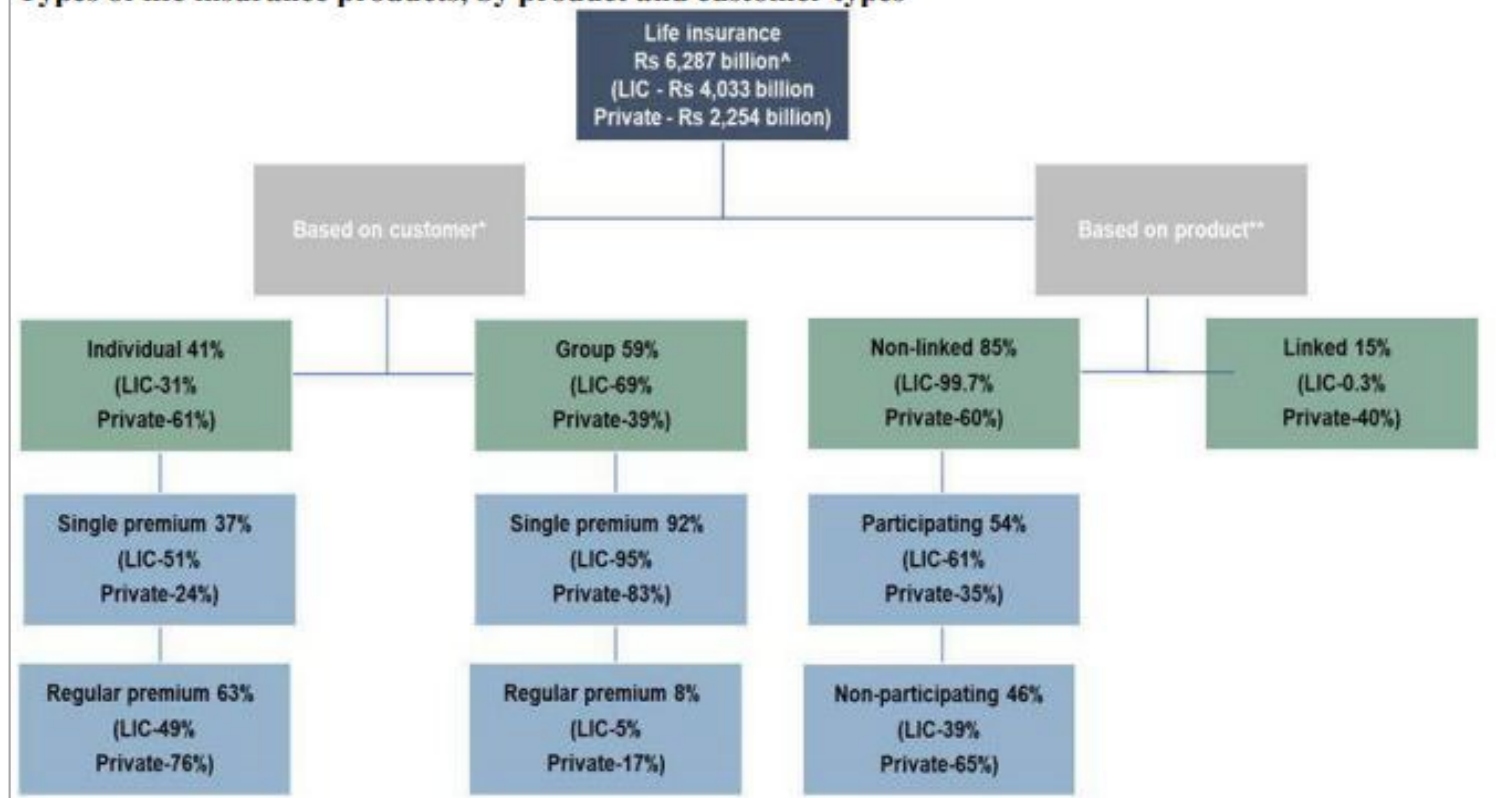
Source: RHP, SSL Research

^ Embedded Value of LIC and SBI Life is as of Sep'21 and HDFC Life & ICICI Pru as of Mar'22

# Based on closing price of 26th Apr; Market Cap for LIC is based on post issue upper price band

## Industry Overview

### Types of life insurance products, by product and customer types



Source: Insurance Regulatory and Development Authority of India (IRDAI), CRISIL Research, RHP of LIC Ltd

- India is the 10<sup>th</sup> largest life insurance market in the world:** Based on life insurance premium, India is the tenth largest life insurance market in the world and the fifth largest in Asia, as per Swiss Re's sigma No 3/2021 report for July 2021.
- Life Insurance industry growing at healthy 11% CAGR:** The size of the Indian life insurance industry was Rs. 6.2 trillion based on total premium in Fiscal 2021. The industry's total premium has grown at 11% CAGR in the last five years ending in FY21. New business premiums (NBP) grew at 15% CAGR during Fiscals 2016 to 2021, to ~Rs. 2.78 trillion. CRISIL Research forecasts the total premium for life insurers to grow at 14-15% CAGR over FY21-FY26 period to surpass Rs 12 trillion. NBP is expected to grow at a CAGR of 17-18% during the same period.
- LIC continue to dominate the industry:** LIC accounts for approximately 2/3rd market share in terms of both GWP and NBP in the life insurance industry for FY21.
- Private players gaining market share in individual NBP:** Private sector players have been gaining market share with increased focus towards individual NBP and have increased their market share from 44% in FY16 to 50% in FY21. In group NBP, LIC continues to dominate the market accounting for more than 75% of the market share for FY21.
- Low penetration rate offers long growth run-way for industry:** India's life insurance penetration stood at 3.2% in CY20 compared to the global average of 3.3%. Life insurance penetration in Taiwan, South Africa, UK and Singapore stands at 14.0%, 11.2%, 8.8% and 7.6% respectively.
- India's protection gap is highest in APAC region:** India's protection gap was \$16.5 trillion as of CY19, which was much higher compared to its Asian counterparts. The protection gap for India was 83% as of CY19, the highest amongst all countries in Asia-Pacific, as per the Swiss Re report "Closing Asia's Mortality Protection Gap – July 2020.
- In terms of products, next growth drivers of the life insurance industry - protection, non-par savings and annuities products.** This is led by shift in customer's focus towards protection products from savings led products

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