

Life Insurance Corporation of India

The Life Insurance Corporation of India (LIC) is the country's largest insurance provider with a market share of 66.2%/61.4% in terms of new business premium for FY2021/9MFY2022. LIC is the largest asset manager in India with AUM of ₹40.1 trillion, as on 31st December, 2021, on a standalone basis. LIC offers a wide variety of participating and non participating products to its customers including ULIP's, saving insurance products, term insurance products, health insurance, and annuity & pension products. LIC has the largest individual agent network among life insurance entities in India, comprising approximately 1.33 million individual agents as on 31st Dec'21, which was 6.8 times the number of individual agents of the 2nd largest life insurer.

Positives: (a) The largest player in the fast growing and underpenetrated Indian life insurance sector, 5th largest life insurer globally by GWP. (b) Cross-cyclical product mix that caters to diverse consumer needs. (c) Presence across India through an omni-channel distribution network with an unparalleled agency force. (d) Trusted brand and a customer-centric business model. (e) Robust risk management framework.

Investment concerns: (a) Continued market share loss to private players (b) Adverse persistency metrics (e.g, volatility in market, regulatory change, losing faith etc) could have a material adverse effect on company's financial condition. (c) Adverse impact due to COVID-19 type pandemic. (d) Difficult to value the company given complex methodology involved in calculating embedded value.

Outlook & Valuation: At the upper end of the price band the LIC IPO is offered at P/EV (embedded value) of 1.1x as compared to other large listed private life insurance companies which are trading at multiples of 2.5-4.3x Sep'21 EV. Though there are concerns over LIC regarding market share loss in individual insurance business and historically lower margins, we believe that valuations factor in most of the negatives. Expected improvements in product mix and greater transfer of surplus to shareholders account over the coming years are expected to drive profits from current low levels, which along with cheap valuations provide comfort. Moreover, discount of ₹45 and ₹60 for retail investors & LIC policyholders makes the issue more attractive for them. Hence, we are assigning a "SUBSCRIBE" recommendation to the issue.

Key Financials

Y/E March (₹ cr)	FY'19	FY'20	FY'21	9M FY'22
New business premium	144,038	180,274	185,523	126,778
Growth (%)		25.2%	2.9%	-
APE	40,566	47,972	45,588	29,923
Growth (%)		18.3%	-5.0%	-
VNB margin (%)	-	-	9.9%	9.3%
IEV*	NA	46,497	95,605	539,686
PAT	2,627	2,710	2,974	1,715
P/IEV	NA	12.9	6.3	1.1
EPS	4.2	4.3	4.7	2.7
P/E	228.7	221.2	201.9	-
ROE	293%	247%	43%	19%

Source: Company RHP, Angel Research

SUBSCRIBE

Issue Open: May 04, 2022

Issue Close: May 09, 2022

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹ 6,325 cr

Offer for Sale: ₹ 19,517 cr - ₹20,557 cr

Fresh issue: ₹0 cr

Post Eq. Paid up Capital: ₹ 6,325 cr

Issue size (amount): ₹ 19,517 cr - ₹ 20,557

Price Band: ₹902 - ₹949

Lot Size: 15 shares and in multiple thereafter

Post-issue mkt. cap: * ₹5,70,515 cr - ** ₹6,00,242 cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 96.5%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	45% of issue
Non-Institutional	13% of issue
Retail	35% of issue
Policyholders	10% of issue

Post Issue Shareholding Pattern

Promoters	96.5%
Others	3.5%

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Company background

LIC is India's only government-owned insurance provider company. Life Insurance Corporation of India ("LIC") was established on September 1, 1956, under the LIC Act by merging and nationalizing 245 private life insurance companies in India. It is providing life insurance in India for more than 65 years and is the largest life insurer in India. It is a part insurance and part investment products company. Their plans are a combination of insurance and investment with a guaranteed return. LIC has over 13.5 lakh agents who help bring most of the new business.

Largest Insurance Company in India with significant market share

LIC is the largest life insurer in India, with a 61.6% market share in terms of total/gross written premiums (GWP) and a 61.4% market share in terms of New Business Premium ("NBP") for 9MFY2022. Moreover LIC has a 71.8% market share in terms of number of individual policies issued and 88.8% market share in terms of number of group policies issued for the 9 months ended December 31, 2021.

LIC's market share in the Indian life insurance industry for Fiscal 2021 was 64.1% in terms of GWP, 66.2% in terms of NBP, 74.6% in terms of number of individual policies issued, and 81.1% in terms of number of group policies issued.

Wide product basket catering to all segments

LIC has a broad, diversified product portfolio covering various segments across individual products and group products. Their individual products comprise (i) participating insurance products and (ii) non-participating products, which include (a) savings insurance products; (b) term insurance products; (c) health insurance products; (d) annuity and pension products; and (e) unit linked insurance products. LIC's individual product portfolio in India comprised 33 individual products (17 participating products and 16 non-participating products) and 7 individual riders.

LIC's group products comprise (i) group term insurance products, (ii) group savings insurance products; (iii) group savings pension products; and (iv) group annuity products. LIC's group product portfolio in India comprised 11 group products

Robust pan India distribution network driven by individual agents

LIC has a robust pan India omni-channel distribution platform for individual products which comprises of (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (iv) digital sales (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme.

LIC has the largest individual agent network among life insurance entities in India, comprising approximately 1.33 million individual agents as on 31st Dec'21, which was 6.8 times the number of individual agents of the 2nd largest life insurer. As on 31st Dec'21, LIC had 2,048 branch offices and 1,559 satellite offices in India, covering 91% of all districts in India.

LIC's individual policies are primarily distributed by their individual agents who were responsible for sourcing 94.8%/96.2% of LIC's NBP for their individual products in India, for FY2021/9MFY2022 respectively.

Continued dominant position in group insurance driving NBP growth

In terms of business parameters LIC's new business premium (NBP) has grown at a CAGR of 13.5% between FY2019-FY2021 while total premium has grown at a CAGR of 9.2% during the same period. Total premium in India has grown at a CAGR of 9.3% while annualized premium equivalent (APE) has grown at a CAGR of 6.0% CAGR during the same period.

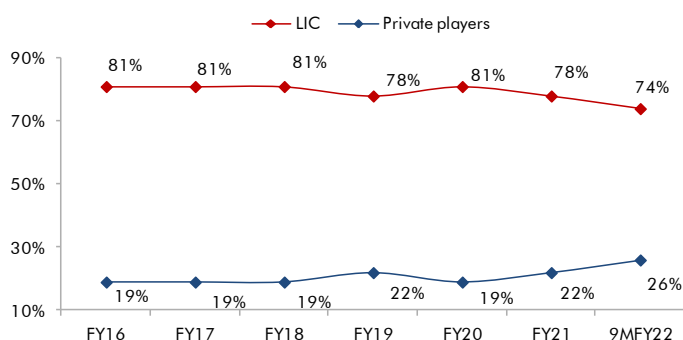
Exhibit 1: Key Operating & financial parameters

Particulars (₹ cr)	FY2019	FY2020	FY2021	9MFY22
Premium (consolidated)	340,295	382,811	405,851	285,730
Of which:				
(i) First year premiums	31,677	58,446	34,341	22,215
(ii) Single premiums & consideration for annuities granted	112,361	121,828	151,182	104,562
(iii) NBP ((i)+(ii))	144,038	180,274	185,523	126,778
(iv) Renewable premiums	196,257	202,537	220,328	158,952
Premium (in India)	337,130	379,014	402,888	283,753
Individual APE (in India)	31,448	35,297	32,271	20,904
Group APE	9,118	12,675	13,317	9,019
Total annualized premium equivalent ("APE") (in India)	40,566	47,972	45,588	29,923
AUM (Consolidated)	3,271,033	3,338,108	3,692,967	4,032,170
IEV	-	46,497	95,605	539,686 *
VNB Margin (%)	-	-	9.9%	9.3%
Operating expenses related to insurance business to premium ratio (as a % of premium)	8.3%	9.0%	8.7%	9.5%
Conservation Ratio	92.2%	88.8%	84.5%	93.7%

Source: Company RHP, Angel Research; * IEV as of 30th Sep'21

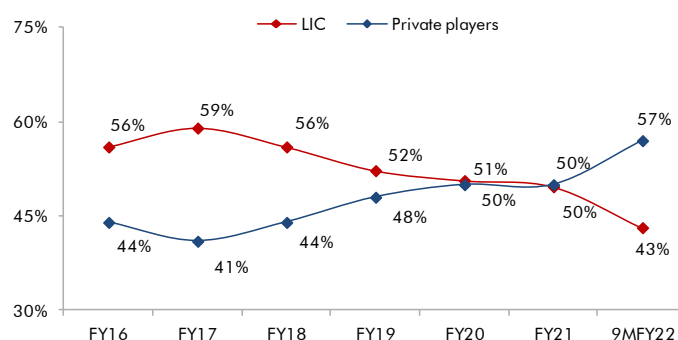
LIC continues to be an overall market leader in the insurance space with a 66.2%/61.4% market share in new business premium for FY2021/9MFY2022. LIC's dominant position in the life insurance business is largely driven by its 75%+ market share in the group insurance business. However over the past few years LIC has lost significant market share in the high margin individual insurance business.

Exhibit 2: Market share (NBP) – Group insurance



Source: Company RHP, Angel Research

Exhibit 3: Market share (NBP) – Individual insurance



Source: Company RHP, Angel Research

High proportion of Group & Participating businesses have been a drag on margins

In terms of annual premium equivalent (APE) LIC derives a significant portion of their business from group and participating businesses which are by nature low margin business as compared to individual and non-participating and protection business. Higher contribution from group insurance and participating business has been a drag on LIC's NBP margins at 9.3% for 9MFY2022 which is significantly lower than the listed life insurance players despite its size and scale.

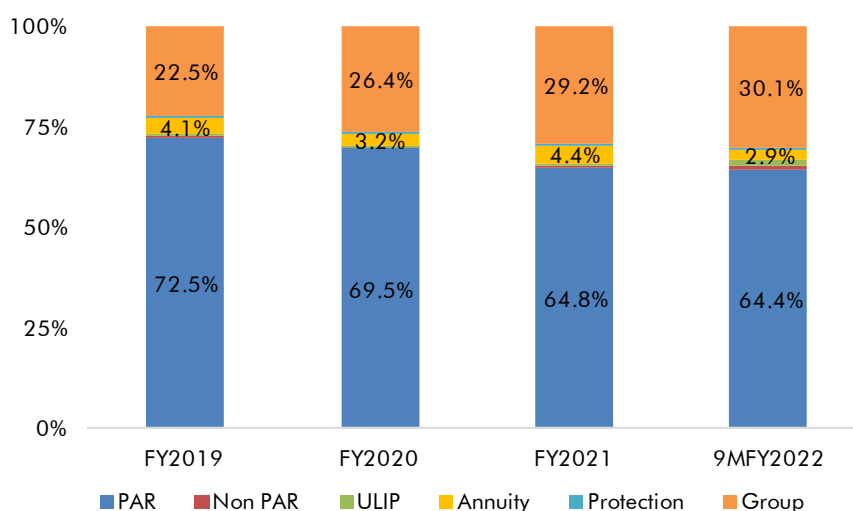
Exhibit 4: The IPO is priced at a significant discount to listed life insurance companies

Company Name	CMP (Rs.)**	Market cap (Rs. Cr)**	Total premium (Rs Cr)#	NBP (Rs. Cr)#	PAT (Rs. Cr)#	VNB Margin (%)#	P/EV (X)*
LIC	949	600,242	284,050	126,020	1,715	9.3%	1.1
HDFC Life	583	123,060	31,540	17,190	821	26.5%	4.3
ICICI Pru Life	526	75,646	25,750	10,250	572	27.1%	2.5
SBI Life	1,108	110,831	41,250	18,790	834	25.5%	3.1

Source: Company, BSE, Angel Research; * EV/IEV as of 30th Sep'21; ** CMP, M Cap. as of closing 29th Apr'22 for listed companies; # 9MFY22 figures

Over the last few years there has been a shift from participating to non participating policies in the product mix. However participating policies still accounted for 64.4% of LIC's total APE in 9MFY2022 which is significantly higher than private life insurance companies like HDFC Life, ICICI Prudential and SBI Life where participating business account for less than 30% of total APE.

Exhibit 5: Product mix skewed towards PAR products



Source: Company RHP, Angel Research

Moreover, LIC's PAT margins are also significantly lower than listed private players due to 1. Greater share of participating product in the mix and 2. Transfer of 5% of surplus in participation policies from policyholder's a/c to shareholder's account as compared to 10% by private players.

Shift towards non PAR products and increased transfer to shareholders a/c to drive profit growth

There has been more than an 800bps shift in product mix away from PAR products as a % of APE between FY2019 to 9MFY2022, which is expected to continue over the next few years. LIC still has significant scope in terms of achieving a more balanced product mix relative to private players.

Against the current policy of transferring 5% of surplus in participating products to shareholders' account, the company will start transferring 7.5% and 10.0% of surplus to shareholders account from FY2023 and FY2025, which will bring LIC in line with other private players. For Non PAR products, LIC has already stated transferring 100% of surplus to shareholders account from FY2022 (as compared to 5% earlier), which is in line with other private players.

Exhibit 6: Surplus transfer to shareholders a/c for LIC

Product Type	FY2021	FY2022	FY2023	FY2024	Post FY2025
Participating	5.0%	5.0%	7.5%	7.5%	10.0%
Others	5.0%	100.0%	100.0%	100.0%	100.0%

Source: Company RHP, Angel Research

We believe that shift in product mix towards non PAR products will drive improvement in VNB margins from current low levels to mid teens figure over the next few years. Greater transfer of surplus from policyholders account along with improvement in VNB margins will drive profits from current low levels.

Discounted valuations to listed peers provide comfort

At the upper end of the price band the LIC IPO is offered at P/EV (embedded value) of 1.1x as compared to other listed players which are trading at multiples of 2.5-4.3x Sep'21 EV. Though there are concerns over LIC regarding market share loss in the individual product business and low margins, we believe that valuations factor in most of the negatives.

Expected improvements in product mix and greater transfer of surplus over the coming years are expected to drive profits from current low levels which along with cheap valuations provide comfort. Key risk to the thesis is continued market share loss in the high margin individual business and continued high contribution from low margin PAR and group insurance business.

Issue details

The IPO is entirely made up of offer for sale of 221,374,920 equity shares by the Government of India.

Pre & Post Shareholding

Particulars	(Pre-Issue)		(Post-Issue)	
	No of shares	%	No of shares	%
Promoter	6,324,997,701	100%	6,103,622,781	96.5%
Public	0	0%	221,374,920	3.5%
Total	6,324,997,701	100%	6,324,997,701	100%

Source: Company, Angel Research

Objectives of the Offer

- To achieve the benefits of listing the equity shares on the stock exchange.
- To carry out an offer for sale of 221,374,920 shares by selling shareholders.

Key Management Personnel

Mangalam Ramasubramanian Kumar is the Whole-time Chairperson of LIC. He joined LIC in the year 1983 and has experience in the insurance sector. Previously, he was the zonal manager of South, North-Central and North zones of LIC and has also headed the personnel and pension & group schemes department.

Pankaj Jain is a Government Nominee Director of the Corporation and is an officer at the Indian Administrative Service from the 1990 batch. He is presently serving as a secretary in the Ministry of Petroleum, Government of India. He is a qualified cost accountant from the Institute of Cost Accountants of India and a member of the International Financial Services Centres Authority.

Raj Kumar is the Managing Director of the Corporation. He joined the Corporation in the year 1984 as an apprentice officer and has experience in the insurance sector. He has also served as the chief executive officer of LIC Mutual Fund Asset Management Limited.

Siddhartha Mohanty is the Managing Director of the Corporation. He holds bachelor's degree in law and a master's degree of arts (political science) from Utkal University, Bhubaneswar, Odisha. He previously served as COO and CEO of LIC Housing Finance Limited and has held various other key positions.

Ipe Mini is the Managing Director of the Corporation. She holds master's degree of commerce from the Faculty of Commerce and Management Studies, Andhra University. Previously, she was also the shareholder director of Central Bank of India.

Bishnu Charan Patnaik is the Managing Director of LIC. He joined LIC in the year 1985 and has experience in the insurance sector and has handled several positions in LIC.

Dr Ranjan Sharma is the Independent Director of LIC. He is experienced in the field of academics.

Vinod Kumar Verma is the Independent Director of LIC. He is experienced in electronics business. He is an Independent Director of LIC from October 29, 2021

Financial Summary Policyholders Account (technical)

Y/E March (₹ cr)	FY'19	FY'20	FY'21	9M FY'22
Premiums earned - Net	339,972	382,476	405,398	285,342
Income from Investments	225,044	242,836	285,520	226,254
Other income	5,794	20,294	12,791	684
Total	570,810	645,605	703,709	512,279
Commission	20,483	21,548	22,358	15,538
Operating expenses	28,332	34,426	35,162	27,267
Other exp	4,832	19,732	13,456	0
GST & other charges	110	98	93	56
Provisions	21,158	35,276	16,483	-273
Benefits paid (Net)	252,381	255,479	288,489	234,620
Interim Bonuses Paid	1,651	1,673	2,229	2,470
Change in valuation of policy liabilities	253,585	296,628	321,134	239,357
Transfer to/ (from) Provision for Linked Liabilities	-9,312	-9,110	434	-9,528
Transfer (others)	6	4	9	1,129
Share of Profit (Associates/Minority Interest)	3,185	6,947	717	2,225
Surplus/(deficit) net	769	-3,202	4,579	3,868

Source: Company, Angel Research

Financial Summary Shareholders Account (Non-technical)

Y/E March (₹ cr)	FY'19	FY'20	FY'21	9M FY'22
Amounts transferred from Policyholders' account	2,599	2,696	2,963	1,638
Income from investments & others	46	35	23	120
Total	2,645	2,731	2,986	1,757
Expenses other than insurance	0	0	0	0
Contribution to Policyholders' account	2	6	5	0
Others	0	6	0	0
Profit before Tax	2,642	2,719	2,980	1,757
Provision for tax	15	8	6	42
PAT	2,627	2,710	2,974	1,715

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY'19	FY'20	FY'21	9M FY'22
Sources of Funds				
Share capital	100	100	100	6,325
Reserve and surplus	798	892	6,705	2,499
Credit/[debit] fair value change account	(89)	10	78	141
Minority Interest (Shareholders)	88	96	99	102
Borrowings	269,401	253,414	4	4
Policyholders' funds	3,096,023	3,159,634	3,739,414	4,080,610
Funds For Future Appropriations	13	29	3	1,107
Total Liabilities	3,366,335	3,414,175	3,746,404	4,090,787
Applications of Funds				
Shareholders' investments	369	401	426	5,187
Policyholders' investments	2,877,687	2,957,908	3,498,441	3,843,617
Asset held to cover linked liabilities	33,567	32,170	32,975	23,467
Loans	249,880	237,435	108,764	111,141
Fixed assets	14,568	14,572	3,474	3,463
Net current assets	190,264	171,690	102,325	103,912
Total Assets	3,366,335	3,414,175	3,746,404	4,090,787

Source: Company, Angel Research

Key Ratios

Y/E March (₹ cr)	FY'19	FY'20	FY'21	9M FY'22
Growth				
New Business Premium	144,038	180,274	185,523	126,778
Net Premium Earned	339,972	382,476	405,398	285,342
APE	40,566	47,972	45,588	29,923
AUM	3,271,033	3,338,108	3,692,967	4,032,170
PAT	2,627	2,710	2,974	1,715
Growth (%)				
New Business Premium	-	25%	3%	-
Net Premium Earned	-	13%	6%	-
APE	-	18%	-5%	-
AUM	-	2%	11%	-
PAT	-	3%	10%	-
Valuations				
EPS (Rs)	4.2	4.3	4.7	2.7
BV (Rs)	1.4	1.7	11.0	14.3
IEV (per share)	-	74	151	853*
P/IEV	-	12.9	6.3	1.1
P/E	228.7	221.2	201.9	-
Capital & Efficiency				
VNB Margin	-	-	9.9%	9.3%
ROE (%)	293%	247%	43%	19%
Commission ratio (%)	6.0%	5.6%	5.5%	5.4%
Insurance expense (%)	8.3%	9.0%	8.7%	9.6%
Expense ratio (%)	14.4%	14.6%	14.2%	15.0%

Source: Company, Angel Research; * As of 30th Sep'21

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