

Insurance

LIC: Understanding the Behemoth - Takeaways from DRHP

14 February 2022

Key Takeaway

We highlight key takeaways from LIC's DRHP. LIC has highest new premiums and widest agent network (1.34mn+) although it has ceded mkt share to pvt players over years. Sep'21 EV is pegged at INR5.4trn (US\$72bn), ~15x of next listed peer. Its FY21 VNB margin stood at 9.9% (listed peers at 25%+), but expands to 12.3% in certain scenarios. Its early persistencies are somewhat lower while cost ratios are on the higher side. Listing should improve sector salience.

India's largest life insurer looking to IPO. LIC accounts for 60%+ of life insurance new premiums and 40%+ of retail APE, driven primarily by its industry leading agency force of 1.34mn and it also has 72 banca partnerships. However, over FY15-till date its new premium mkt share has declined from 69% to 61% while retail APE market share has dipped from 51% to 38%. It is the biggest asset manager amongst life insurers with ~INR40trn (~US\$527bn) in AuM. Govt of India, current 100% owner of LIC, proposes to divest 5% of LIC's equity through an offer for sale.

EV at 15x of the next listed peer. LIC's Embedded Value stood at INR5.4trn (US \$72bn) for Sep-21 which is up from INR956bn in Mar-21- as it is now allocating 100% profits of non-par products to shareholders. Sep-21 EV of top 3 listed players was in the range of INR290bn- 350bn. Peers like HDFC Life, SBI Life, IPRU Life trade at 2.4x-3.9x Sep'21EV and have steady state RoEVs between ~16%-19% with higher VNB margins.

Margin at 9.3-9.9% vs. 25-26% of listed competitors. LIC's VNB margin for FY21 and 1HFY22 stood at 9.9% and 9.3% respectively- broadly reflecting the Par-heavy product mix. As per DRHP, in a scenario of 10% surplus sharing in Par products, LIC's FY21 VNB margin could expand to 12.3%, ceteris paribus. This compares to 25%-26% comparable margin for listed industry peers.

Higher costs, lower persistencies. As per the DRHP, LIC's total cost ratios stood at 33% in 1HFY22 and is higher than top 5 private sector peers which have a median of 19% total cost ratio. Its persistency rates are lower in early buckets with 13th month persistency at 79% vs. a range of 81%-86% for the peer set.

Sector readthrough and implications of the listing. We believe, LIC's listing will broaden investible universe and further raise sector's relevance in investor's portfolio. It will also help investors to better track sector dynamics as LIC disclosures become frequent. LIC has recalibrated its par and non par products ahead of the listing.

Risks as per DRHP. (i) lower attractiveness of recalibrated par products, (ii) higher surrenders and lower persistencies, (iii) an unanticipated intensity in mortality claims from ongoing pandemic, (iv) sharp fluctuations in interest rate, (v) an inability to retain, recruit individual agents, (viii) any union unrest, slowdown, increased wage cost etc.

Exhibit 1 - LIC Key Performance Metrics

In Rs mn	FY19	FY20	FY21	H1FY22
New Business Premium	316,766	584,465	343,410	133,997
Total premium	3,402,946	3,828,115	4,058,508	1,875,353
APE	405,656	479,723	455,879	184,488
PAT	26,274	27,105	29,741	15,045
VNB	NC	NC	41,670	15,830
VNB Margin (%)	NC	NC	9.90%	9.30%
Net worth	8974	10981	69832	88542
AuM	32,710,327	33,381,079	36,929,673	39,742,077
EV	NC	464970	956,050	5,396,860
# of shares (ln mn)	NA	NA	NA	6324.98

Source: Company Data, Jefferies

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^Prior trading day closing price unless otherwise noted.

Please see analyst certifications, important disclosure information, and information regarding the status of non-US analysts on pages 11 to 16 of this report.

* Jefferies India Private Limited

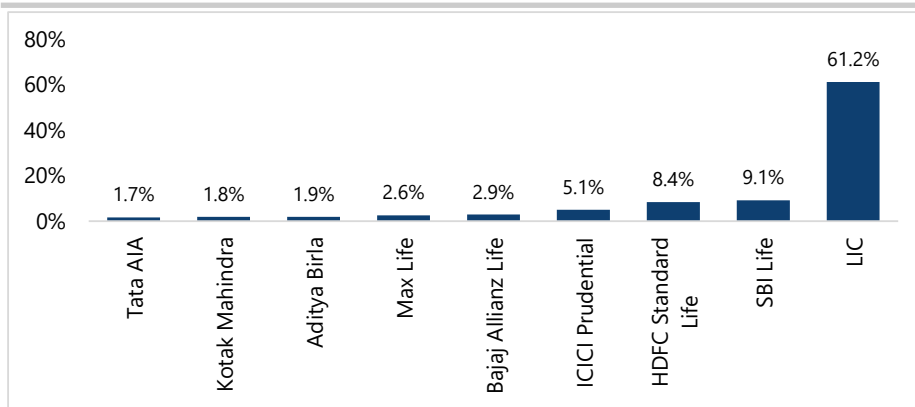
Exhibit 2 - LIC Key performance metrics

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EV	NC	464970	956,050	5,396,860
# of shares (In mn)	NA	NA	NA	6324.98
EV/Share (Rs)	NA	NA	NA	853.26

Source: Company Data, Jefferies

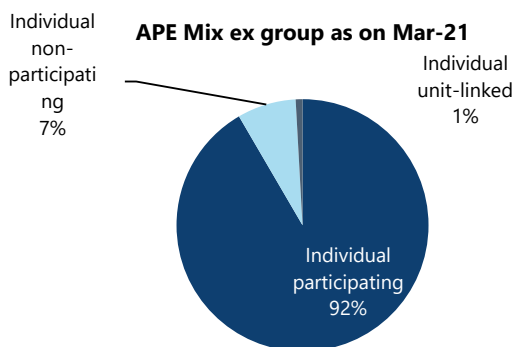
Key Charts

Exhibit 3 - Market Share- NBP-10mFY22



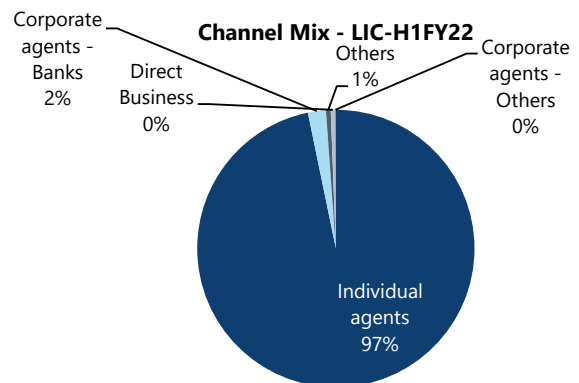
Source: IRDA, Company Data, Jefferies

Exhibit 4 - Retail APE Mix for LIC - FY21



Source: Company Data, Jefferies

Exhibit 5 - Retail NBP Channel Mix of LIC - 1HFY22



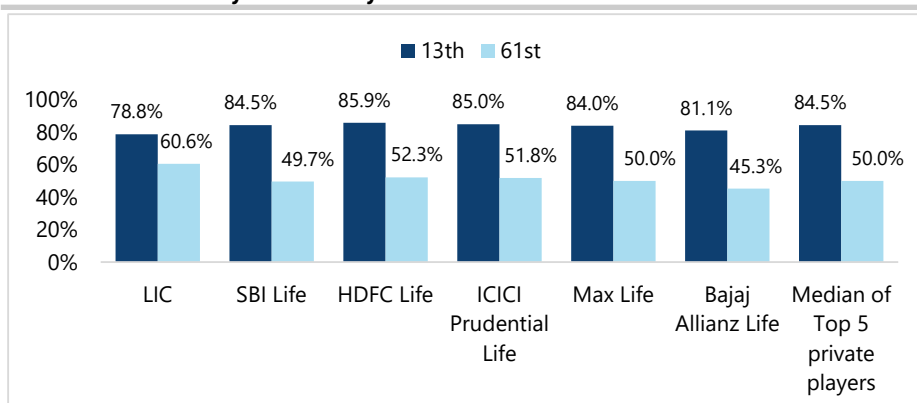
Source: Company Data, Jefferies

Exhibit 6 - Valuation and other key metrics of key life insurers

Co.	EV (INRbn)	VNB Margin-FY21	VNB Margin-H1FY22	PEV	MkT Cap-INRbn	Market Cap-US\$bn
	Sep-21			Sep-21		
HDFC Life	287	26.10%	26.40%	3.9	1,251	17
ICICI Pru Life	302	25.10%	27.30%	2.4	740	10
Max Fin. Serv	130	25.30%	26.30%	2.7	296	4
SBI Life	353	20.30%	21.80%	3.1	1,128	15
LIC	5397	9.90%	9.30%	TBD	TBD	TBD

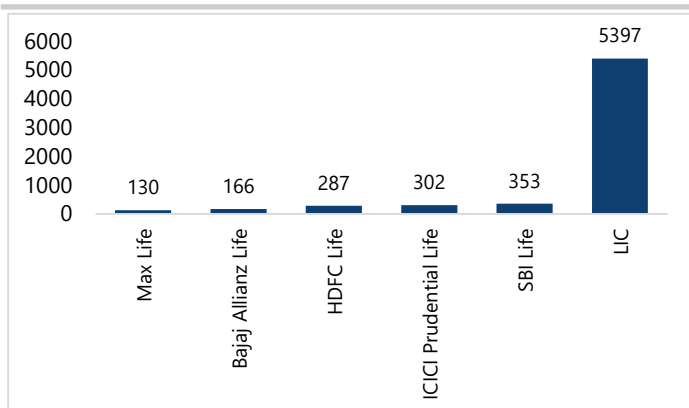
Source: Company data, Jefferies

Exhibit 7 - Persistency Ratio of key life insurers- H1FY22



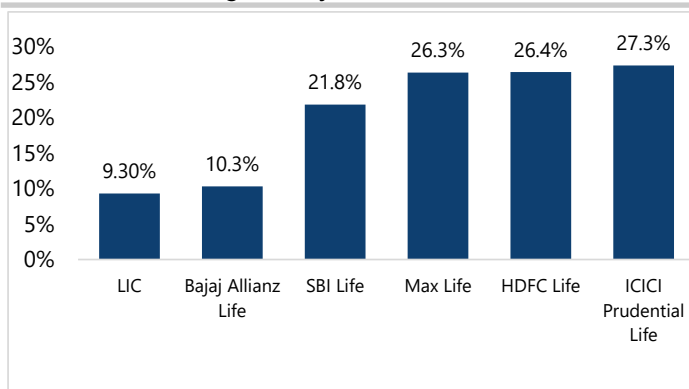
Source: Company Data, Jefferies

Exhibit 8 - Embedded value - In Rs bn - H1FY22



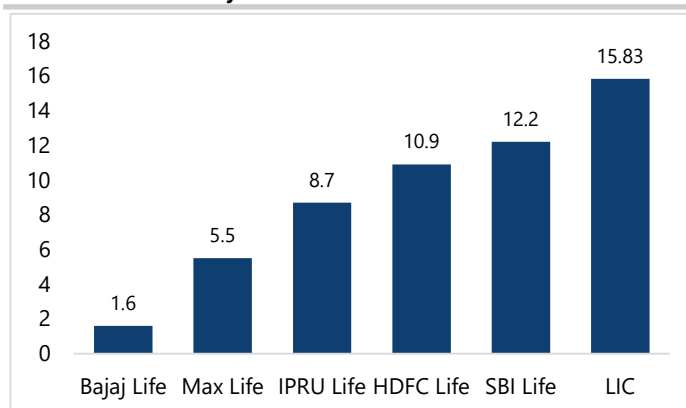
Source: Company Data, Jefferies

Exhibit 10 - VNB margin of key life insurers-H1FY22



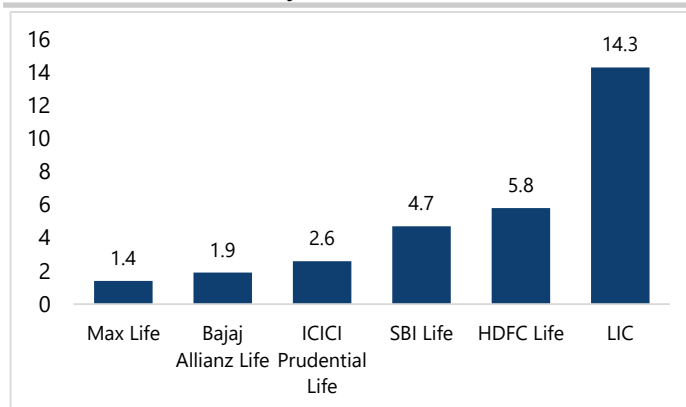
Source: Company Data, Jefferies

Exhibit 9 - VNB of key life insurers- H1FY22-Rs bn



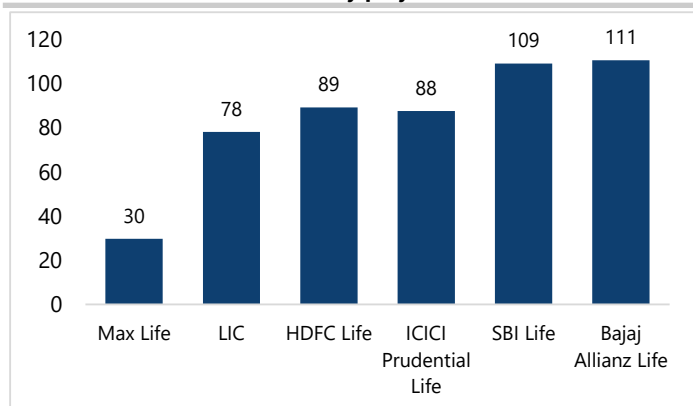
Source: Company Data, Jefferies

Exhibit 11 - PAT across key life insurers- H1FY22- Rs bn



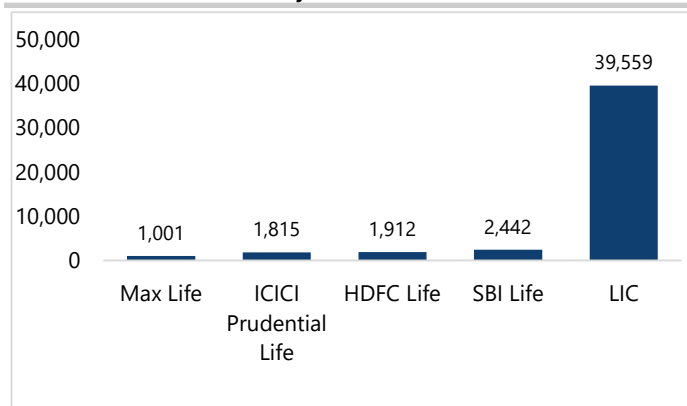
Source: Company Data, Jefferies

Exhibit 12 - Net worth across key players - H1FY22- Rs bn



Source: Company Data, Jefferies

Exhibit 13 - AUM across key life insurers-H1FY22- Rs bn



Source: Company Data, Jefferies

Embedded Value and VNB trends

Exhibit 14 - LIC's Embedded Value trend

Indian embedded value (In Rs mn)	Mar-20	Mar-21	Sep-21
Free surplus (FS) (A)	7,460	63,610	82,030
Required capital (RC) (B)	-	-	-
Adjusted net worth (ANW) (C=A+B)	7,460	63,610	82,030
Present value of future profits (PVFP) (D)	596,820	1,047,720	5,469,920
Time value of financial options and guarantees (TVFOG) (E)	(15,330)	(15,960)	(12,080)
Frictional cost of required capital (FC) (F)	-	(1,490)	(6,560)
Cost of residual non-hedgeable risks (CRNHR) (G)	(123,980)	(137,820)	(1,364,560)
Value of in-force business (VIF) (H=D+E+F+G)	457,510	892,450	5,314,830
Indian Embedded Value (C+H)	464,970	956,050	5,396,860

Source: Company data, Jefferies

Exhibit 15 - LIC's Movement of IEV

Analysis of movement of IEV	Amount (In Rs mn)
Opening IEV as at 31 March 2020 (A)	464,970
VNB added during the year (B)	41,670
Expected return on existing business	
At reference rate (C)	38,010
At expected excess 'real-world' return over reference rate (D)	56,730
Expected transfers from VIF and RC to FS (E)	
Variations in operating experience	
Persistence (F)	2,880
Mortality (G)	320
Expenses (H)	870
Others (I)	1,751
Change in operating assumptions (J)	13,530
IEV operating earnings (K = B + C + D + E + F + G)	171,510
Economic variances (L)	251,860
Change in economic assumptions (M)	40,690
IEV total earnings (N = K + L + M)	464,060
Capital contributions) / (dividends paid out) (O)	27,020
Closing IEV as at 31 March 2021 (P = A + N + O)	956,050

Source: Company Data, Jefferies

Exhibit 16 - LIC VNB -H1FY22

Calculation of VNB (In Rs mn)	For new business sold during the six months ending Sep-21
VNB before TVFOG, FC and CRNHR (A)	30,640
Value of new business (VNB) (= A + B + C + D)	15,830
New business annualised premium equivalent (APE)	170,740
VNB Margin (VNB/APE)	9.3%

Source: Company Data, Jefferies

Exhibit 17 - VNB under various scenarios- FY21

VNB under different scenarios (In Rs mn)	Base	Alternative 1	Alternative 2
VNB before TVFOG, FC and CRNHR (A)	64,400	74,720	19,380
Value of new business (VNB) (= A + B + C + D)	41,670	519,900	11,840
New business annualised premium equivalent	421,700	421,700	421,700
VNB Margin (= VNB / APE)	9.9%	12.3%	2.8%

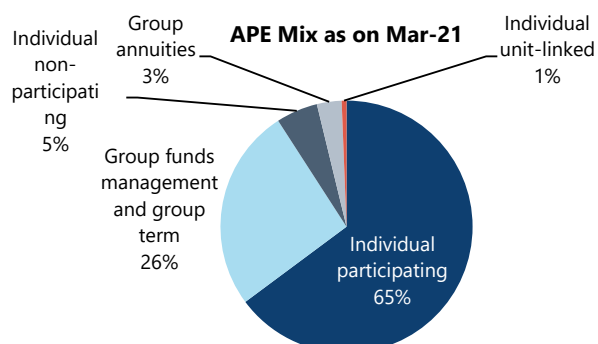
Source: Company Data, Jefferies

Exhibit 18 - Assumed proportion of future surplus from new business sold during the year ending 31 March 2021 to be distributed to shareholders

Scenario	Product type	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25 onwards
Base	Participating business	5%	5%	7.5%	7.5%	10%
	Other business	5%	100%	100%	100%	100%
Alternative 1	Participating business	10%	10%	10%	10%	10%
	Other business	100%	100%	100%	100%	100%
Alternative 2	Participating business	5%	5%	5%	5%	5%
	Other business	5%	5%	5%	5%	5%

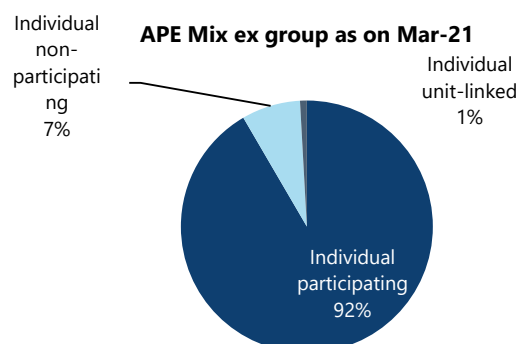
Source: Company Data, Jefferies

Exhibit 19 - LIC APE mix -Mar 21



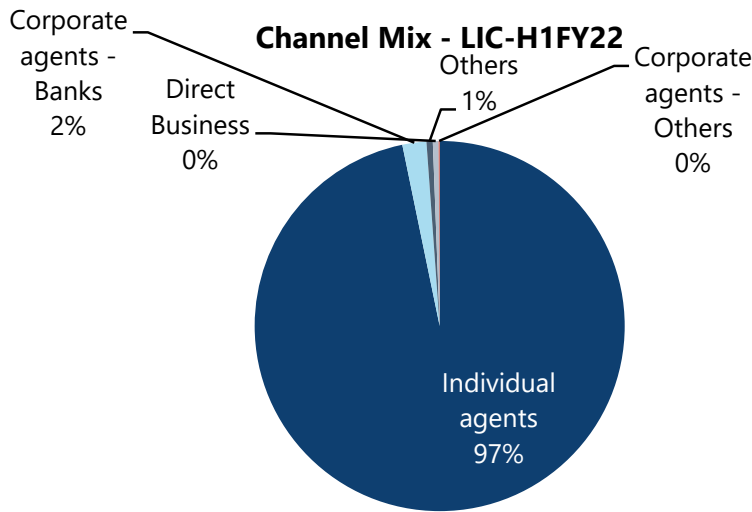
Source: Company Data, Jefferies

Exhibit 20 - LIC APE ex group - Mar-21



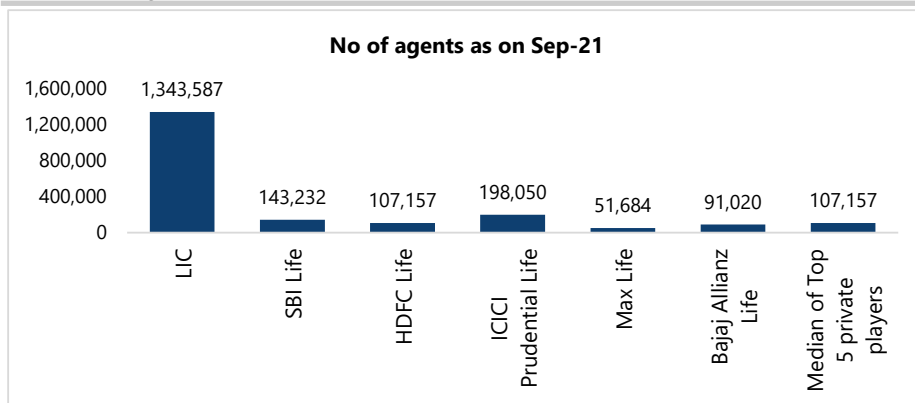
Source: Company Data, Jefferies

Exhibit 21 - LIC's Channel Mix - H1FY22



Source: Company Data, Jefferies

Exhibit 22 - Agent Count -H1FY22



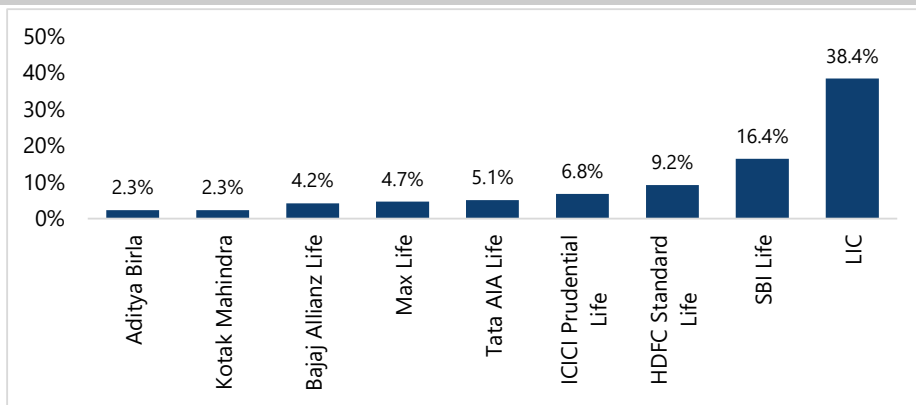
Source: Company Data, Jefferies

Exhibit 23 - Market Share -H1FY22

Market Share – H1 FY22	Total Premium	New Business Premium	Renewal Premium	No. of Policies Individual	No. of Policies - Group
LIC	63.6%	64.5%	62.9%	70.9%	84.3%
SBI Life	7.9%	7.8%	8.0%	7.4%	0.7%
HDFC Life	6.6%	7.9%	5.5%	3.9%	0.5%
ICICI Prudential Life	5.6%	4.9%	6.2%	2.8%	5.6%
Max Life	3.0%	2.4%	3.5%	2.5%	0.2%
Bajaj Allianz Life	2.2%	2.7%	1.7%	1.8%	0.6%
Others	11.2%	9.9%	12.2%	10.7%	8.2%
Private players total	36.4%	35.5%	37.1%	29.1%	15.7%

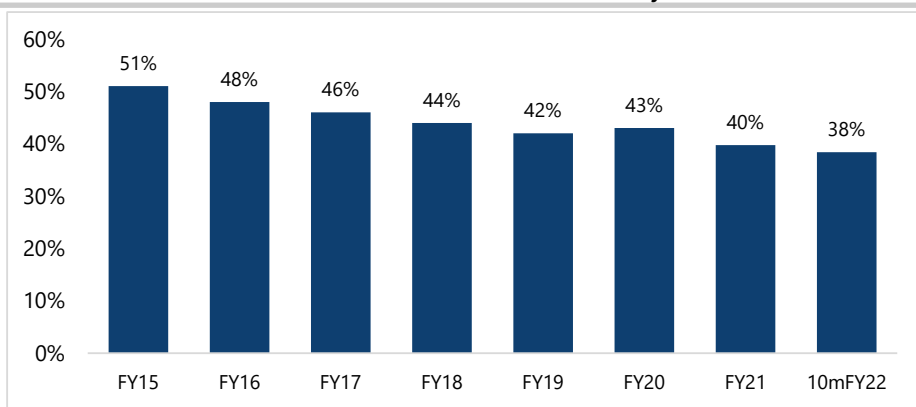
Source: Company Data, Jefferies

Exhibit 24 - Market Share-Retail APE- 10mFY22



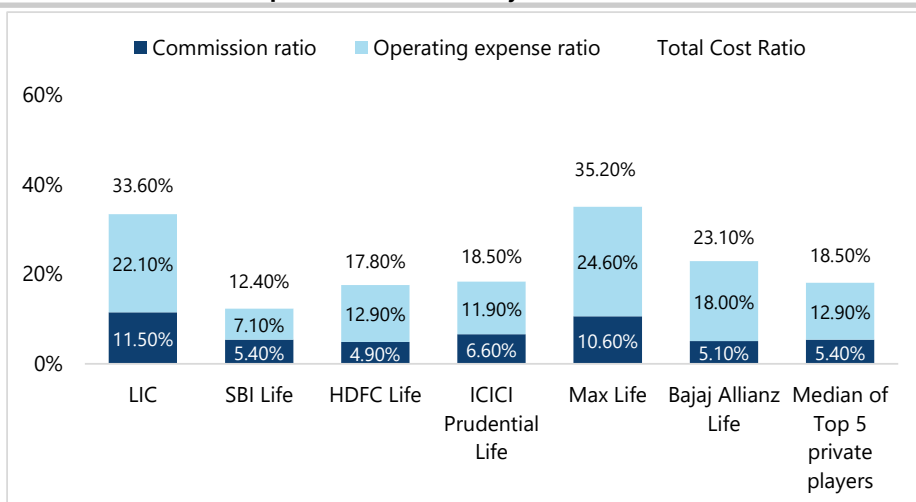
Source: Company Data, Jefferies

Exhibit 25 - LIC has lost market share of Retail APE over the years



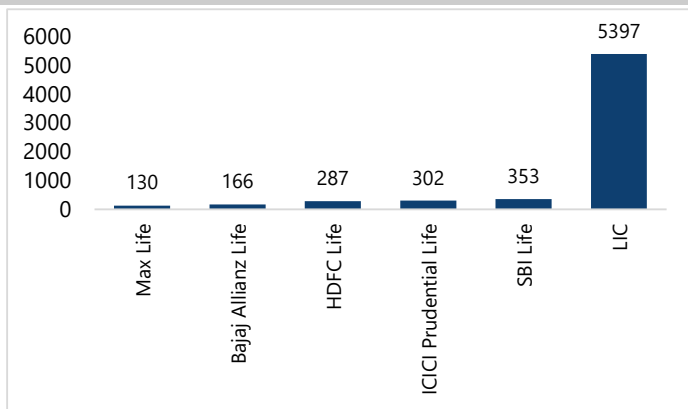
Source: Company Data, Jefferies

Exhibit 26 - Combined Expense Ratio across key life insurers-H1FY22



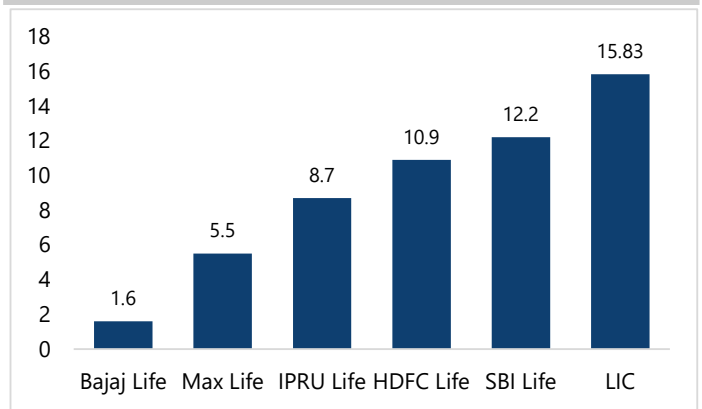
Source: Company Data, Jefferies

Exhibit 27 - Embedded Value -H1FY22- Rs bn



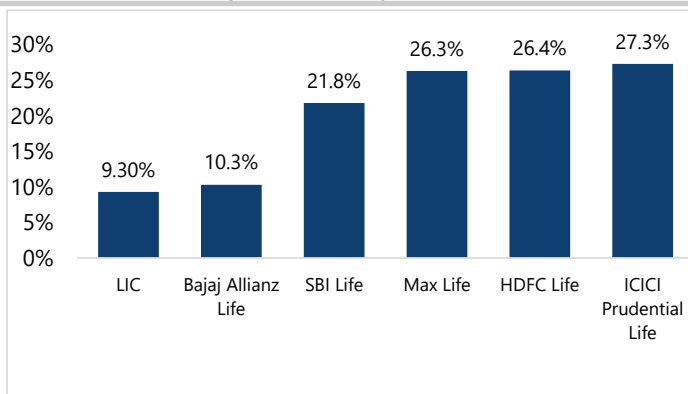
Source: Company Data, Jefferies

Exhibit 28 - Value of new business -H1FY22 - Rs bn



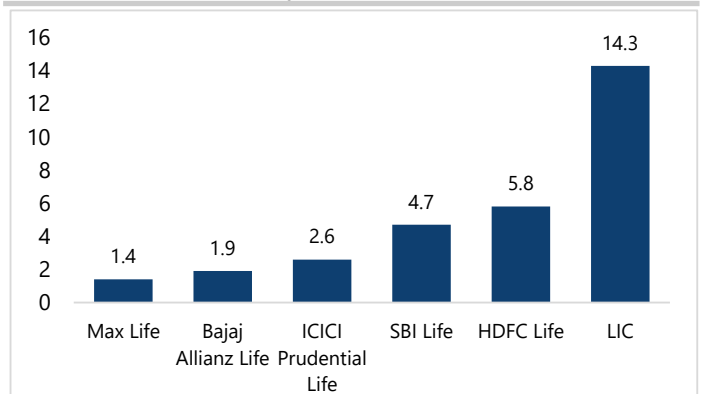
Source: Company Data, Jefferies

Exhibit 29 - VNB Margins across key life insurers -1HFY22



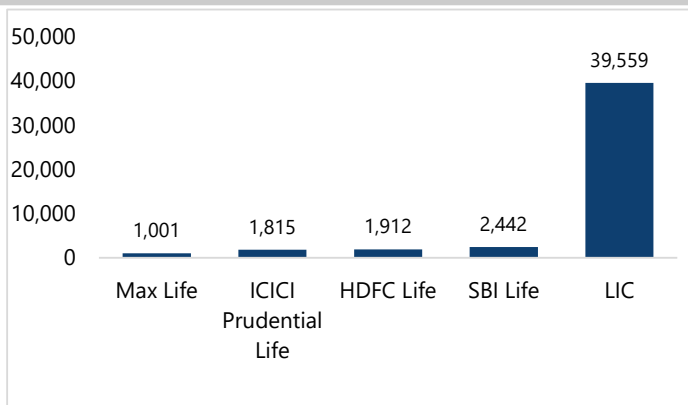
Source: Company Data, Jefferies

Exhibit 30 - PAT across key life insurers-H1FY22 - Rs bn



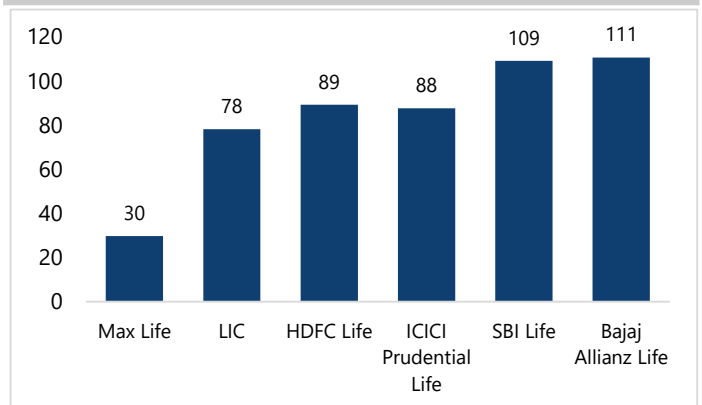
Source: Company Data, Jefferies

Exhibit 31 - AUM across key life insurers-H1FY22 -INR bn



Source: Company Data, Jefferies

Exhibit 32 - Net worth -H1FY22-Rs bn



Source: Company Data, Jefferies

Exhibit 33 - LIC Policyholder Account

Year to March (Rsmn)	FY19	FY20	FY21	1HFY22
Premium earned	3,402,946	3,828,115	4,058,508	1,875,353
- First year	316,766	584,465	343,410	133,997
- Renewal	1,962,567	2,025,372	2,203,276	1,018,060
- Single	1,123,614	1,218,277	1,511,822	723,297
Less: reinsurance premium ceded	3,230	3,359	4,523	2,458
Net premium Income	3,399,716	3,824,755	4,053,985	1,872,895
New premium (APE)	405,656	479,723	455,879	184,488
Income from Investments	2,250,435	2,428,363	2,855,204	1,494,266
Other income	57,944	202,936	127,905	2,567
Total income	5,708,096	6,456,055	7,037,094	3,369,729
Costs	600,512	911,476	788,249	153,366
- Commission paid	204,826	215,482	223,582	98,152
- Operating Exp related to insurance	283,316	344,259	351,622	189,064
- Other Operating costs	112,370	351,735	213,046	(133,850)
Benefits	2,540,322	2,571,529	2,907,181	1,516,652
Change in valuation of liability	2,535,855	2,966,284	3,211,340	1,636,746
Provision for taxation	55,568	108,256	91,705	48,108
Surplus	(24,161)	(101,489)	38,618	14,857
Share of profit in associates	6,684	5,744	11,634	15,986
Minority Interest	25,162	63,727	(4,465)	(21)
Total surplus	7,685	(32,018)	45,786	30,822
- transferred to shareholders	25,995	26,955	29,626	14,752
- transferred to FFA	(18,323)	(59,110)	16,161	16,070
- proposed dividend paid	14	136	-	-

Source: Company Data, Jefferies

Exhibit 34 - LIC Shareholders Account

Year to March (Rsmn)	FY19	FY20	FY21	1HFY22
Income from PH a/c	25,995	26,955	29,626	14,752
Income from investment/ other	455	354	230	450
Total income	26,450	27,310	29,856	15,202
Expenses	26	124	52	2
Profit before tax	26,424	27,185	29,803	15,200
Tax	150	80	62	155
PAT	26,274	27,105	29,741	15,045

Source: Company Data, Jefferies

Exhibit 35 - LIC Balance Sheet as on March

As at March (Rsmn)	FY19	FY20	FY21	1HFY22
Share capital	1,000	1,000	1,000	63,250
Reserves and surplus	7,984	8,917	67,055	22,848
Fair Value change	(888)	102	785	1,433
Minority Interest	878	963	993	1,011
Shareholders' funds	8,974	10,981	69,832	88,542
Policy liabilities	28,056,931	31,028,155	34,207,307	35,843,921
Borrowings	2,694,006	2,534,136	37	37
Policyholders' funds	2,903,302	568,187	3,186,836	4,458,032
Funds for future appropriation	133	287	33	44,064
Current liabilities	609,146	856,595	831,197	663,585
Total Liabilities	34,272,492	34,998,341	38,295,242	41,098,182
Investments	28,780,561	29,583,086	34,988,671	37,900,527
- Shareholders'	3,694	4,008	4,264	51,495
- Policyholders'	28,776,867	29,579,078	34,984,407	37,849,032
Assets held to cover linked liabilities	335,669	321,699	329,750	235,994
Loans	2,498,803	2,374,347	1,087,637	1,099,863
Fixed assets	145,676	145,718	34,740	34,533
Current assets	2,511,784	2,573,491	1,854,444	1,827,265
Total assets	34,272,492	34,998,341	38,295,242	41,098,182

Source: Company Report, Jefferies

Exhibit 36 - LIC Key Ratios

Key ratios	FY19	FY20	FY21	1HFY22
NBP Income growth rate (%)				
-Non linked Life	3.98%	4.51%	-1.55%	11.62%
-Non linked Pension	-10.93%	-7.55%	32.92%	-98.67%
-Linked Life	-38.39%	148.11%	714.71%	554.10%
Net Retention Ratio	99.91%	99.91%	99.89%	99.88%
Expense of Management to Gross Direct Premium Ratio	14.38%	14.66%	14.17%	15.33%
Commission Ratio (Gross commission paid to Gross Premium)	6.02%	5.63%	5.50%	5.23%
Ratio of policy holder's liabilities to shareholder's funds	4501.19	4222.89	585.23	513.59
Growth rate of shareholders' fund	37.99%	22.36%	760.10%	938.67%
Ratio of surplus to policy holders' liability	0.10%	0.09%	1.60%	0.00%
Change in net worth (Rsmn)	2,471	2,007	56,211	70,655
Profit after tax/Total Income	1.01	1.01	0.00	1.02
(Total real estate + loans)/(Cash & invested assets)	4.09%	4.22%	3.52%	3.29
Total investments/(Capital + Surplus)	1727.58	-1406.24	572.57	503.84
Total affiliated investments/(Capital+ Surplus)	73.59	71.53	7.78	6.94
Investment Yield	7.59%	7.54%	7.42%	7.17%
NPA Ratio (of debt portfolio)				
-Gross NPA Ratio	6.15%	8.17%	7.78%	6.57%
-Net NPA Ratio	0.27%	0.79%	0.05%	0.05%

Source: Company Data, Jefferies

Company Valuation/Risks

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(Article 3(1)e and Article 7 of MAR)

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- ICICI Lombard General Insurance Company Limited (ICICIGI IN: INR1,287.20, BUY)
- ICICI Prudential Life Insurance Company (IPRU IN: INR502.25, BUY)
- LIC Housing Finance Limited (LICHF IN: INR359.00, BUY)
- Max Financial Services Limited (MAXF IN: INR825.50, BUY)
- SBI Life Insurance Company (SBILIFE IN: INR1,094.00, BUY)

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1990	63.88%	142	7.14%	26	1.31%
HOLD	1000	32.10%	24	2.40%	3	0.30%
UNDERPERFORM	125	4.01%	0	0.00%	0	0.00%

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