

LIFE INSURANCE CORPORATION OF INDIA

LKP

Largest Life Insurer in India and 5th Largest Globally: Life Insurance Corporation of India Ltd. has been providing life insurance in India for more than 65 years and is the largest life insurer in India, with a 61.6% market share in terms of premiums (or GWP), a 61.4% market share in terms of New Business Premium (or NBP), a 71.8% market share in terms of number of individual policies issued, a 88.8% market share in terms of number of group policies issued for the nine months ended December 31, 2021, as well as by the number of individual agents, which comprised 55% of all individual agents in India as at December 31, 2021. LIC had the highest gap in market share by life insurance GWP relative to the second-largest life insurer in India as compared to the market leaders in the top seven markets globally. According to RHP, this is due to the enormous agent network, strong track record, immense trust in the brand 'LIC' and its 65 years of lineage. LIC is ranked 5th globally by life insurance GWP and 10th globally in terms of total assets.

Largest Asset Manager in India: LIC is the largest asset manager in India as at December 31, 2021, with AUM (comprising policyholders' investment, shareholders' investment and assets held to cover linked liabilities) of ₹40 trillion on a standalone basis, which was more than 3.2 times the total AUM of all private life insurers in India, approximately 15.6 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, and more than 1.1 times the entire Indian mutual fund industry's AUM. LIC's investments in listed equity represent around 4% of the total market capitalisation of NSE as at December 31, 2021.

Company Background: LIC was formed by merging and nationalizing 245 private life insurance companies in India on September 1, 1956, with an initial capital of ₹50 mn. From the company's incorporation until 2000, LIC was the only life insurer in India. LIC was identified by IRDAI as a Domestic Systemically Important Insurer ("D-SII") on the basis of size, market importance and domestic and global inter-connectedness in September 2020.

Brand Value and Product Width: LIC was recognised as the third strongest and 10th most valuable global insurance brand as per the "Insurance 100 2021 report" released by Brand Finance. The strength of a brand means the efficacy of a brand's performance on intangible measures relative to its competitors and is determined by looking at the brand's marketing investment, stakeholder equity and impact of those on business performance. The brand 'LIC' was also recognised by WPP Kantar as the second most valuable brand in India in the report "BrandZ" Top 75 Most Valuable Indian Brands" for 2018, 2019 and 2020. The company has a broad, diversified product portfolio covering various segments across individual products and group products. The company's individual products comprise 1) participating insurance products and 2) 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. Individual products include specially designed products for specific segments, such as special products for women and children and Micro Insurance products. In addition, the company offers riders that provide additional benefits along with the base product to cover for additional risks, such as accidental disability, death, critical illness and premium waiver on the death of the proposer.

Issue Details

Offer for sale of 221,374,920 Equity shares

Issue size (Net):	₹19,517- 20,557 Cr
No. of shares:	221,374,920 Shares
Face value:	₹10
Price band :	₹902 - 949
Bid Lot:	15 Shares and in multiple thereof
Listing:	BSE & NSE
Post Issue Implied Mcap :	₹570,515 – 600,242 Cr
Issue opens on:	Wednesday, 4th May 2022
Issue closes on:	Monday, 9th May 2022
Registrar:	KFin Technologies Ltd

BRLMs:

Axis Capital, Kotak Mahindra Capital
BofA Securities, Citigroup Global, Goldman Sachs
ICICI Securities, JM Financial, J.P.Morgan,
Nomura Financial, SBI Capital Markets

Reservation for:

LIC Employees	1,581,249 Shares
LIC Policyholders	22,137,492 Shares

Discount for:

Retail Category	₹45/- per share
LIC Employees	₹45/- per share
LIC Policyholders	₹60/- per share

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	12-May-2022
Refunds/Unblocking ASBA Fund	13-May-2022
Credit of equity shares to DP A/c	16-May-2022
Trading commences	17-May-2022

Issue break-up

	No. of Shares	Net Amount ₹ In Cr		% of Issue
		@Lower	@upper	
QIB	9,88,28,089	8,914	9,379	50%
NIB	2,96,48,427	2,674	2,814	15%
RET	6,91,79,663	5,929	6,254	35%
EMP	15,81,249	136	143	-
LIC P/h	2,21,37,492	1,864	1,968	-
Total	22,13,74,920	19,517	20,557	100%

Shareholding (No. of Shares)

Pre-Offer and Post-Offer Equity Share:	6,324,997,701	
Shareholding (%)	Pre-Issue	Post-Issue
Promoters	100%	96.50%
Public	-	3.50%
Total	100%	100%

Omni – Channel Distribution Platform: LIC’s Omni-channel distribution platform for individual products currently comprises 1) Individual Agents, 2) Banc Assurance partners, 3) alternate channels (corporate agents, brokers and insurance marketing firms), 4) digital sales (through a portal on the Corporation’s website), 5) Micro Insurance agents and 6) Point of Sales Persons-Life Insurance scheme. The company’s individual policies are primarily distributed by the individual agents. In FY19, FY20, FY21 and 9MFY22, the individual agents were responsible for sourcing 96.69%, 95.73%, 94.78% and 96.20% of company’s NBP for individual products in India, respectively. The company has the largest individual agent network among life insurance entities in India, comprising approximately 1.33 million individual agents as at December 31, 2021, which was 6.8 times the number of individual agents of the second largest life insurer. Customers can also approach the branch offices and satellite offices and purchase products through intermediaries. As at December 31, 2021, the Company had 2048 branch offices and 1559 satellite offices in India, covering 91% of all districts in India.

Overseas Business: In addition to the company’s life insurance operations in India, LIC has one branch in Fiji, Mauritius, United Kingdom and subsidiaries in Bahrain (with operations in Qatar, Kuwait, Oman and UAE), Bangladesh, Nepal, Singapore and Sri Lanka in the life insurance industry. For FY19, FY20, FY21 and the 9MFY22, on a consolidated basis, the premium from outside India represented 0.93%, 0.99%, 0.73% and 0.69%, respectively, of the total premium.

Outlook and Valuation:

India’s life insurance industry is expected to grow rapidly, owing to a relatively underpenetrated market and expanding awareness, which presents a multi-year growth opportunity. LIC has been providing life insurance in India for over 65 years and is the country’s biggest life insurer, with a significant brand value advantage. There are concerns about losing market share to private players and having lower profitability and revenue growth when compared to private players. However, we believe that LIC’s distribution advantage, increasing sales mix of direct and corporate channels, and a gradual shift to high margin Non-participating products could be possible drivers for LIC’s future growth, negating lower than industry growth rates. At the upper price band, the stock is priced at 1.1x of its 2QFY22 Indian Embedded value (Market capitalization/Embedded value: ₹6 trillion/₹5.39 trillion), which is at a significant discount to its listed peers. Currently listed insurance companies trade at Market capitalization/EV multiple of ~2.8x. LIC has a marquee anchor list of investors and we recommend SUBSCRIBE to the LIC IPO.

Embedded Value (IEV, ₹ mn)

Period end	FY20	FY21	9MFY22
Value of New Business	NC	41,672	15,831
VNB Margin (%)	NC	9.9	9.3
Indian Embedded value	4,64,971	9,56,504	53,96,862
Indian Embedded value operating earnings	NC	1,71,510	NC
Operating return on IEV (%)	NC	36.9	NC

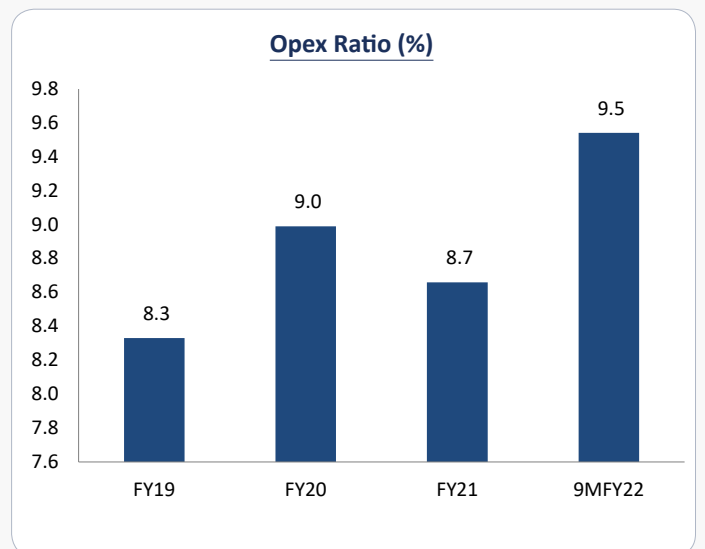
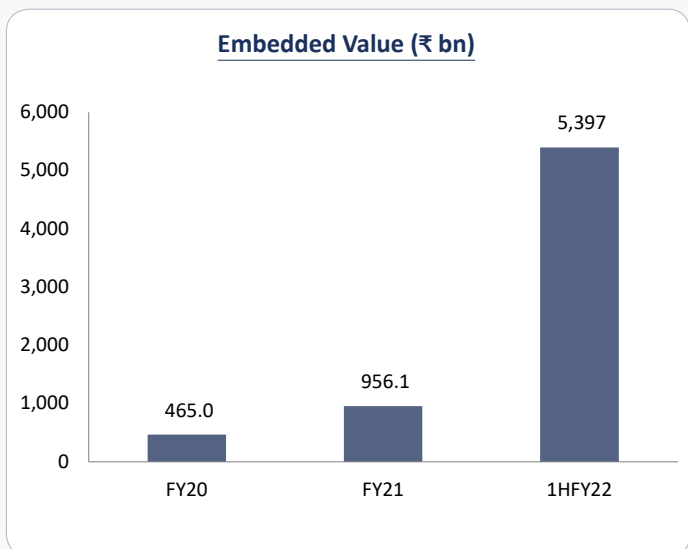
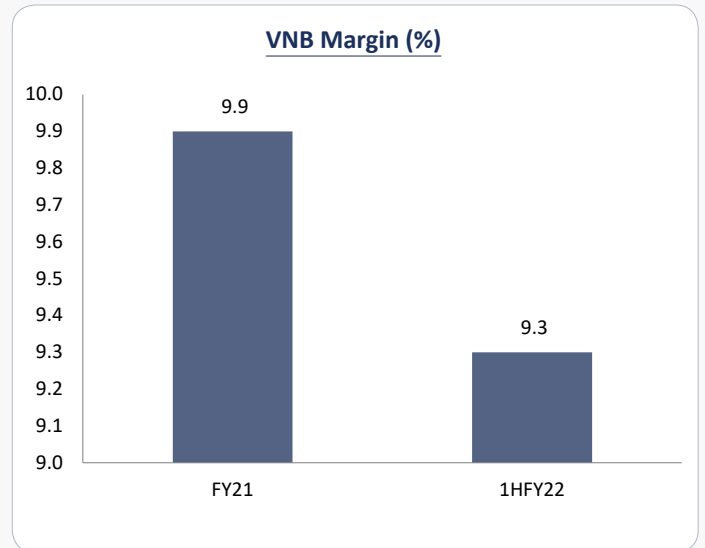
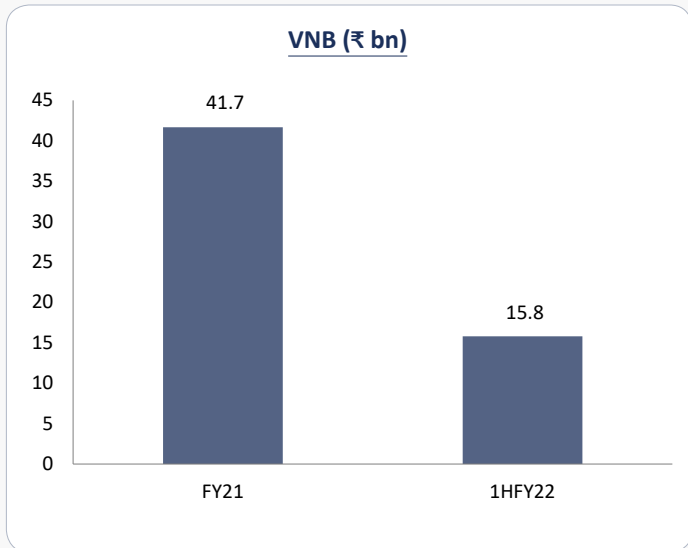
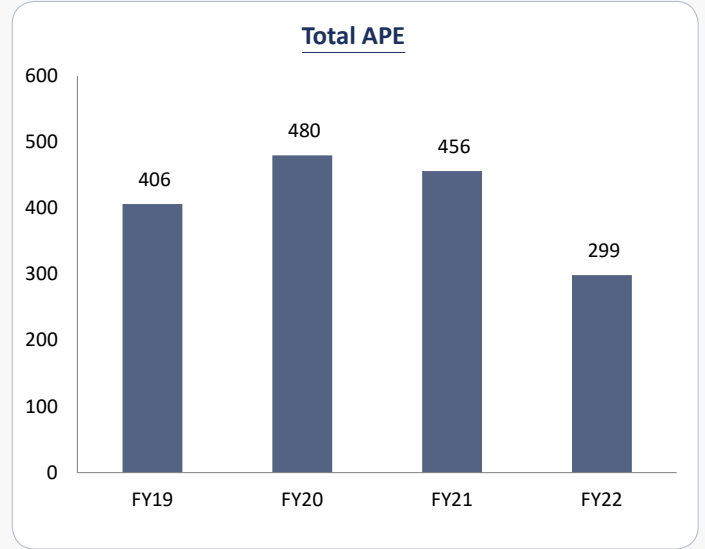
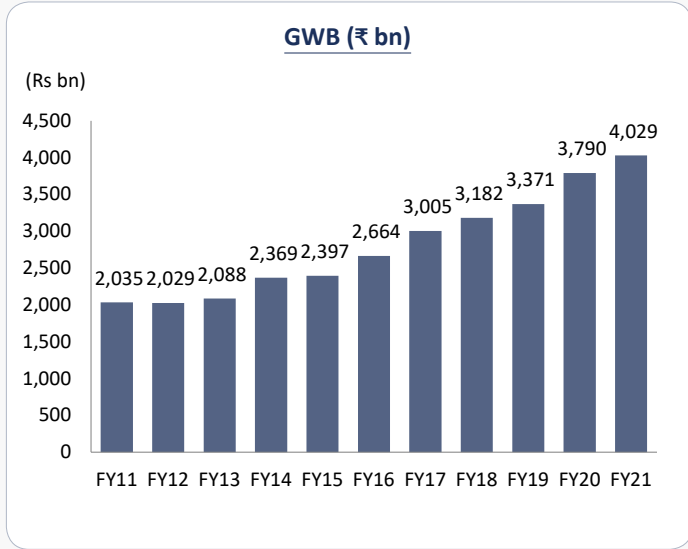
Source: RHP, LKP Research

Value of New Business (₹ mn)

Period end	2QFY22
VNB before TVFOG, FC, CRNHR	30,640
Individual participating	14,060
Individual non-participating	8,850
Group	7,730
TVFOG in respect to new business	-1,011
FC in respect to new business	-6,430
CRNHR in respect on new business	-7,360
Value of new Business	15,839
VNB Margin (VNB/APE) (%)	9.3
PVNB Margin (VNB/PVNB) (%)	1.3

Source: RHP, LKP Research

Key Matrix



Source: RHP, LKP Research

Balance Sheet (₹ mn)

Y/E	FY19	FY20	FY21	9MFY22
Share capital	1,000	1,000	1,000	63,250
Reserves & Surplus	7,984	8,917	67,055	24,986
Credit/(Debit) fair value change	(888)	102	785	1,408
Minority Interest	878	963	993	1,019
Net worth	8,974	10,981	69,832	90,663
Policyholder's funds	3,36,54,239	3,41,30,478	3,73,94,179	4,08,06,135
Funds for future appropriations	133	287	33	11,070
Total Liabilities	3,36,63,346	3,41,41,746	3,74,64,045	4,09,07,868
Investments	3,15,54,386	3,22,18,572	3,62,91,315	3,97,19,277
Current assets	25,11,784	25,73,491	18,54,444	17,19,738
Current Liabilities	4,02,823	6,50,317	6,81,715	5,31,147
Net current assets	21,08,961	19,23,174	11,72,730	11,88,591
Total Assets	3,36,63,346	3,41,41,746	3,74,64,045	4,09,07,868

Source: RHP, LKP Research

Revenue Account (₹ mn)

Y/E	FY19	FY20	FY21	9MFY22
Premium earned	33,99,716	38,24,755	40,53,985	28,53,419
Investment income	20,00,210	22,20,501	23,95,650	18,90,850
Other income	3,08,169	4,10,799	5,87,459	3,78,523
Expenses	57,32,257	65,57,544	69,98,476	51,06,364
Surplus/(Deficit)	(24,161)	(1,01,489)	38,618	16,428

Source: RHP, LKP Research

Income Statement (₹ mn)

Y/E	FY19	FY20	FY21	9MFY22
Technical account (policyholder)	25,995	26,955	29,626	16,378
Income from investment (Net)	455	354	230	1,196
Total	26,450	27,310	29,856	17,573
Profit before tax	26,424	27,185	29,803	17,570
Tax	150	80	62	417
PAT	26,274	27,105	29,741	17,153
EPS (₹)	4.2	4.3	4.7	2.7
Nominal value of share	10.0	10.0	10.0	10.0

Source: RHP, LKP Research

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