

Life Insurance Corporation Of India

1 May 2022

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Sector: Life insurance

Raghav Garg, CFA
 Research Analyst
 raghav.garg@nirmalbang.com
 +91-22-6273 8192

Offer details and issue structure	
Issue size	OFS of 221,374,920 equity shares
Issue dates	May 4 - May 9, 2022
Price band (Rs)	902 - 949/equity share
Employee discount (Rs)	45/equity share
Employee reservation	1,581,249 equity shares
Policyholder discount (Rs)	60/equity share
Policyholder reservation	22,137,492 equity shares
Retail discount (Rs)	45/equity share
Selling shareholder	President of India
Product portfolio	
Par products	16
Non-par products (incl annuity)	16
Group products	11
Riders	7
Distribution footprint	
Exclusive agents (000)	1354
Jpru Life - agents (000)	188
SBI Life - agents (000)	170
HDFC Life - agents (000)	112
Max Life - agents (000)	55
Brokers	83
Banca partners	70
Corp agents	69
Insurance marketing firms	63
Premium points (00)	44
Branches/SO (00)	36
Micro agents (00)	21

Undemanding valuation for sector leader

LIC is the largest life insurance company in India and the sole public sector player. The company enjoys a market share of 64% (in terms of premium) and has AUM of Rs396tn, >3.3x of all private players combined. Till now, the company has focused largely on par products which accounts for >92% of the total business. However, the company has been increasing its share of ULIPs and non-par business. Going forward, the company has stated it would be focusing strongly on the non-par segment, particularly on term life protection. Currently, the share of individual non-par products is low at ~5.1%. As the share of non-par products increase, we believe there is good room for margin expansion. 1HFY22 VNB margin stands at 9.3%, much lower than private sector peers. Distribution strategy is agency-led which accounts for more than 96% of the total business. The company's latest reported EV (Sep '21) stands at Rs5.4tn, increasing by 4.6x since Mar '21, driven by change in the company's surplus distribution policy which entails paying 10% of Par surplus and 100% of non-par surplus to shareholders. The protection gap in India is 83% (2019), highest amongst APAC countries. Given the opportunity, India life insurance NBP is expected to grow at 14-16% CAGR over the next decade. In light of LIC's market positioning and expected product launches, the company is poised to benefit. At the upper priced band of Rs949, the issue is valued at 1.1x EV (Sep '21) which is at a significant discount to private sector valuations. The GoI will be diluting 3.5% stake. We recommend subscribing to the issue.

LIC is the largest player: LIC is the largest life insurance company in India. The company has been providing life insurance for more than 65 years and has a market share of 64.1% (in GWP terms) as of FY21. During FY21, the company issued 21mn new individual policies, representing 75% market share. There are currently 24 life insurance companies in India but LIC is the sole public sector player. Indicators such as insurance penetration, insurance density and protection gap point to the fact that the Indian life insurance market is still underinsured, thereby presenting a huge potential for growth. The protection gap in India is 83% (2019), highest amongst APAC countries. Given the opportunity, India life insurance NBP is expected to grow at 14-16% CAGR over the next decade. Despite the huge industry growth runway, we notice that LIC's individual market share has been declining since last few years. This is likely due to private players offering more innovative and customer centric products (such as term life insurance). For LIC, share of non-par protection has been miniscule but is expected to increase given the strong focus. The company is also absent in high-ticket size ULIP segment.

Product mix dominated by PAR products: As of Dec '21, individual business accounted for 70% of the total APE compared to 70.8% as of FY21 and 73.6% as of FY20. Over this period, the share of group business has been increasing. Within the individual business (on APE basis), par products accounted for 92% of the total business (as of Dec '21) compared to 91.6% as of FY21 and 94.5% as of FY20. While the share of par products has reduced over the last couple of years, the share of non-par and ULIPs has increased noticeably. The company said it would be increasing its focus on the non-par segment going ahead and that it would be launching new products especially in the non-par segment and in particular, term insurance, health insurance, annuity and ULIP products. Given the high share of par products in the individual segment, the company carries significantly high product concentration when compared to private players who have a far more diversified/balanced individual product mix. Overall share of non-par products is low (~5.1%) when compared to private sector peers. As of Sep '21, the company was offering 17 par and 15 non-par products. Besides these 32 individual products, the company also offers 7 individual riders. Group products comprise of group term insurance products, group savings insurance products, group savings pension products and group annuity products. Although LIC's product portfolio is dominated by par products, the company has a large market share in health insurance and annuity products also. In annuity products, LIC has a GWP market share of 77.2% as of FY21.

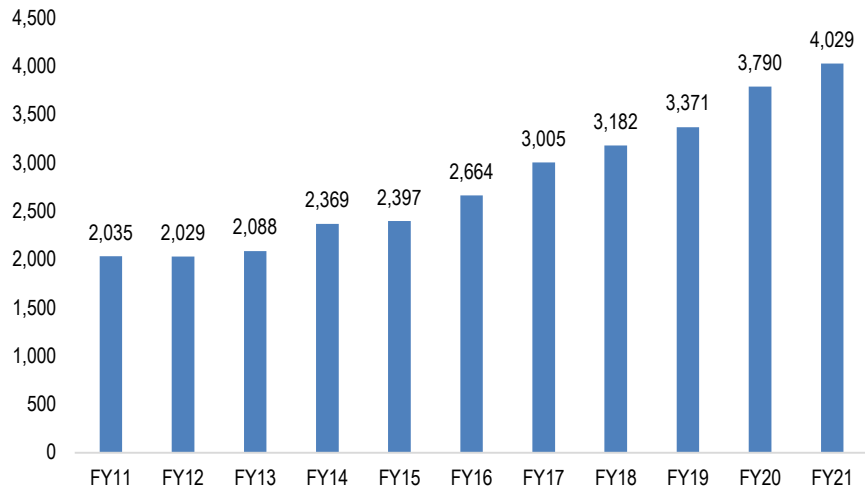
Distribution is mainly agency-led: Primary distribution channel for individual business is agency, which accounted for 96.2% of NBP for individual products as of Dec '21. LIC has 1.34mn individual agents, 72 banca partners and 174 alternate channels. As of FY21, LIC's agent workforce accounted for 55% of the total industry agent count. Data indicates that LIC's agent productivity is top notch. In FY21, an LIC's agent averaged NBP of Rs412,934 compared to average NBP of Rs124,892 per agent for the median of the top five private players.

VNB margins have potential to improve: For 1HFY22, LIC reported a VNB margin of 9.3% compared to FY21 VNB margin of 9.9%. Absolute value of VNB stood at Rs41.67bn for FY21 (Rs15.83bn for 1HFY22). LIC's VNB margin is on the lower side when compared to private sector peers. The VNB margin also reflects the par dominated product mix. However, a meaningful scale up in the non-par products can improve margins going ahead substantially. The company highlighted that it will be focusing strongly on non-par products going ahead and on the term insurance particularly. As of Sep '21, LIC reported EV of Rs5.4tn, a huge jump from Rs956bn as of FY21. The increase in EV is driven by change in the company's surplus distribution policy which entails paying 10% of Par surplus and 100% of non-par surplus to shareholders. This shall come into effect in a phased manner by FY25. Note that upto Mar '21, LIC had one fund and the valuation surplus from both the par and non-par businesses were distributed between policyholders and shareholders in the proportion of 95/5%.

Largest asset manager: LIC is the largest asset manager in India with an AUM of Rs40.1tn as of Dec '21 which is more than 3.2x the AUM of the all the private sector players and ~15.6x more than the AUM of the second largest player. Out of the total debt AUM of the company, 95.89% was invested in sovereign and AAA-rated securities.

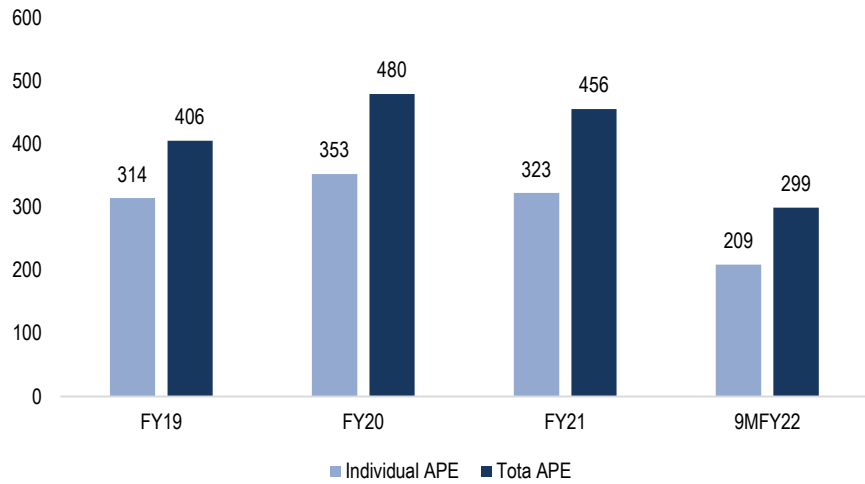
Offer details: (1) GoI is offering 3.5% shares for sale (221.37mn shares) (2) the issue is price between Rs902-949, valuing the entity at Rs6tn (implying P/EV of 1.1x).

Exhibit 1: GWP (Rsbn)



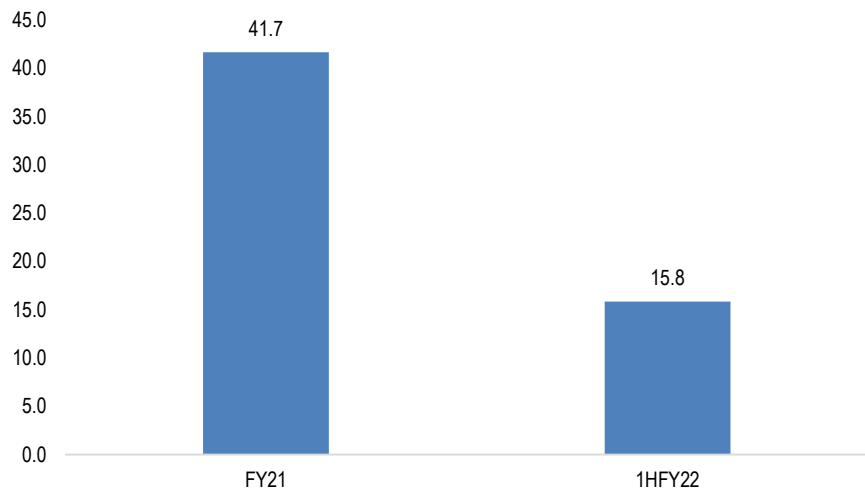
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: APE performance



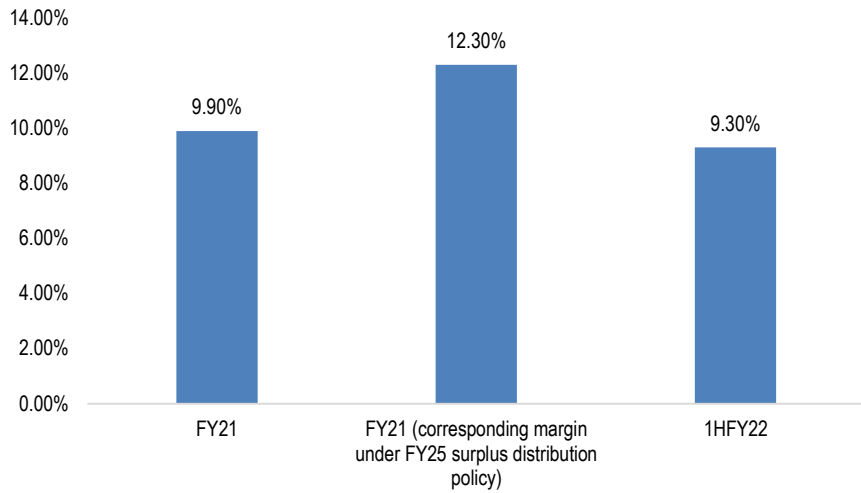
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: VNB (Rsbn)



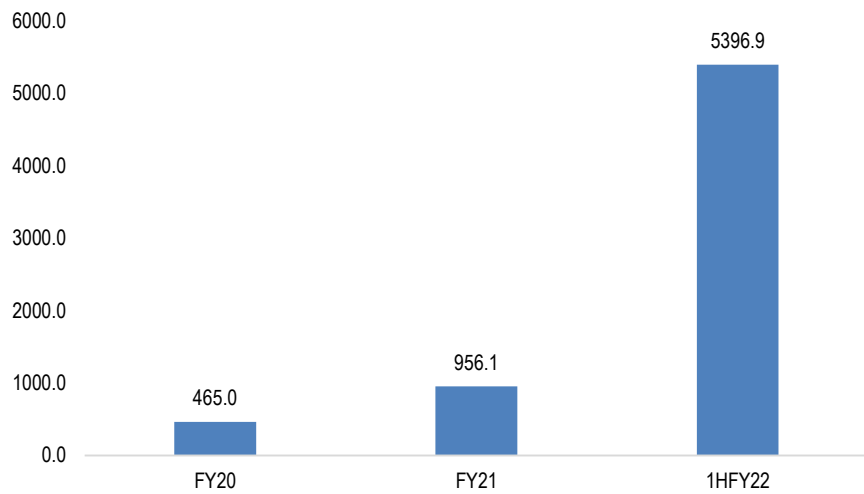
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: VNB margin (%)



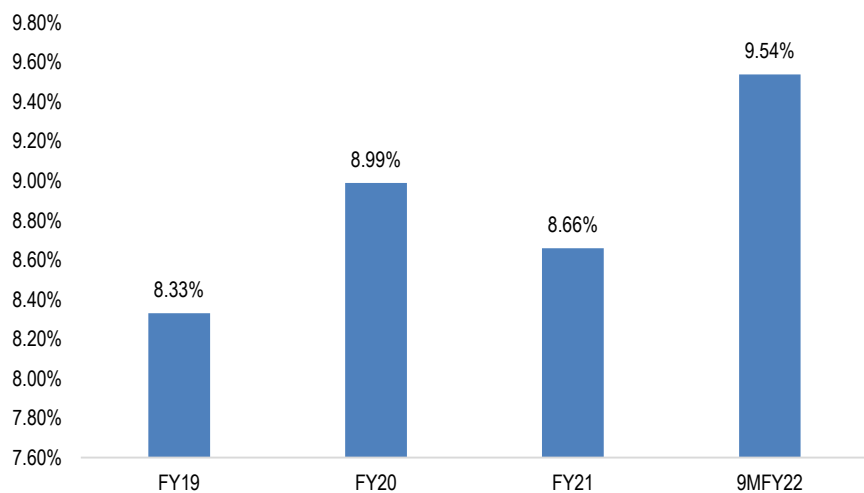
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Embedded value (Rsbn)



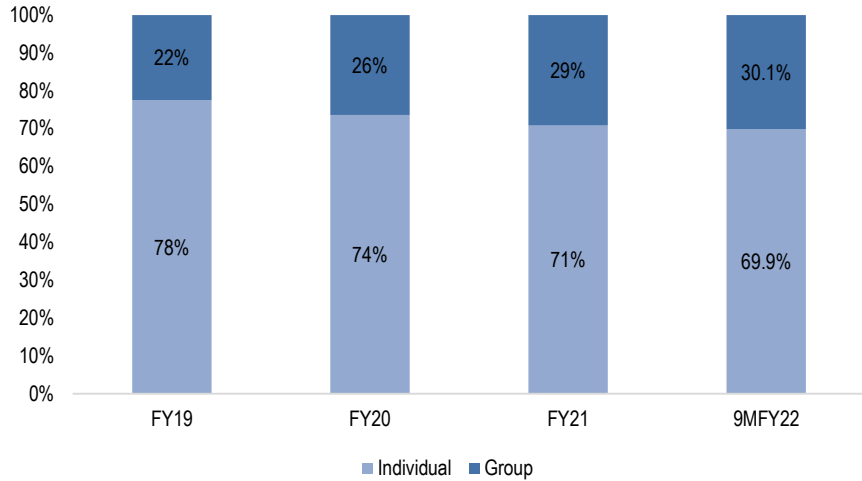
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Opex ratios



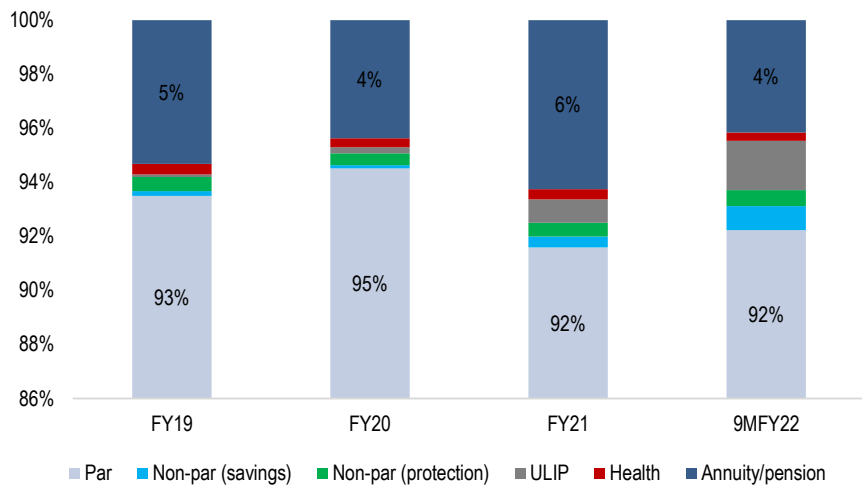
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: APE mix by customer type (%)



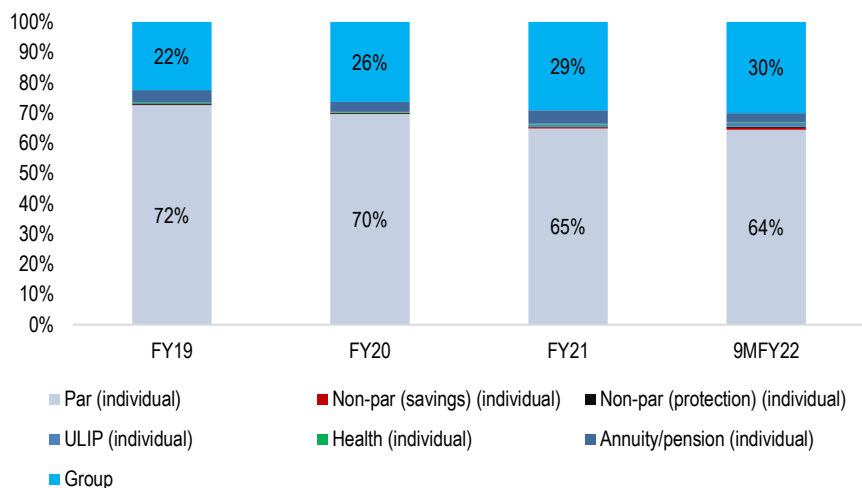
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Individual APE mix by product type (%)



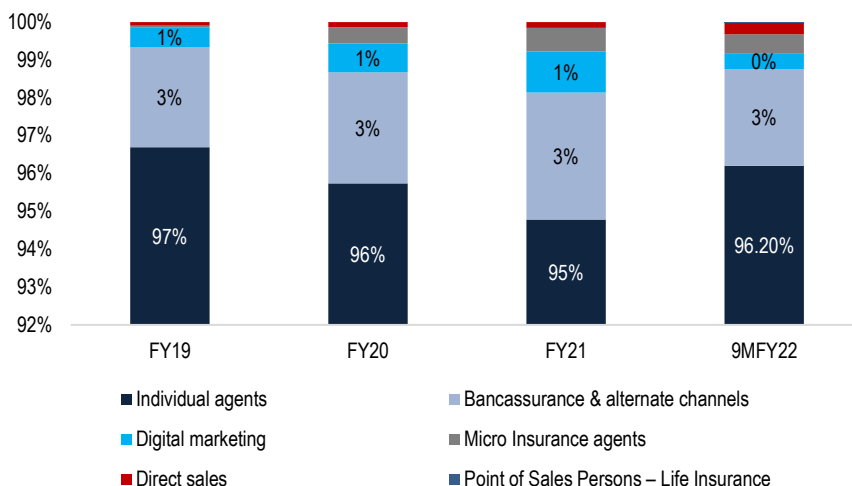
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Total APE mix by product type (%)



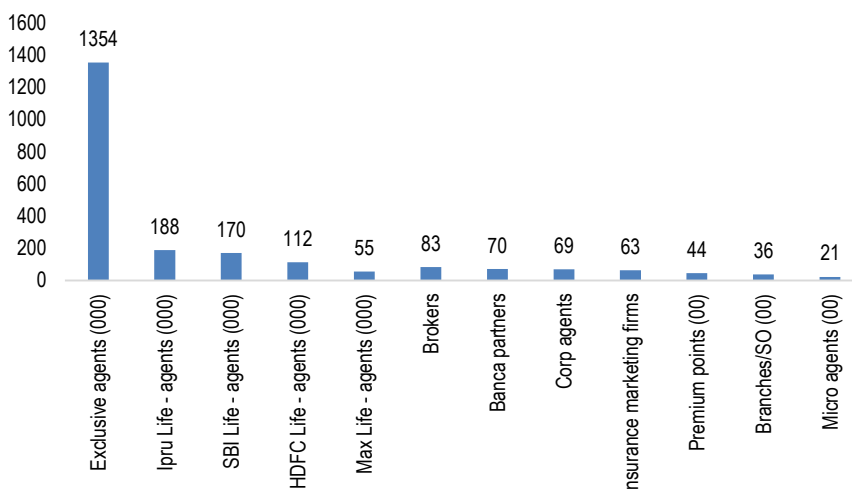
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: NBP distribution mix (%)



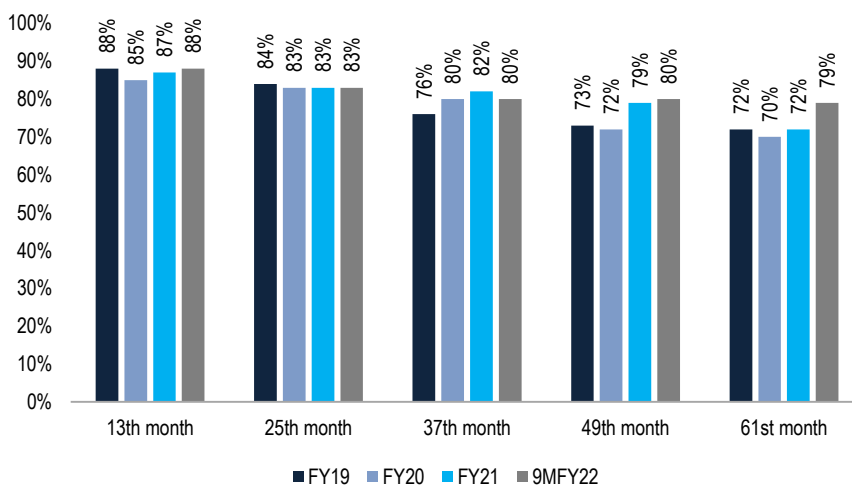
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Distribution footprint of LIC



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Overall persistency ratios (%)



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Revenue account

Y/E March (Rsmn)	FY19	FY20	FY21	9MFY22
FYP (first year premium)	3,16,766	5,84,465	3,43,410	222153.27
SP (single premium)	11,23,614	12,18,277	15,11,822	1045623.78
NBP (new business premium)	14,40,380	18,02,742	18,55,232	12,67,777
RP (renewal premium)	19,62,567	20,25,372	22,03,276	1589522.5
Gross premium	34,02,946	38,28,115	40,58,508	28,57,300
(-) Reinsurance ceded	3,230	3,359	4,523	3880.29
Net premiums	33,99,716	38,24,755	40,53,985	28,53,419
Investment and other income	23,08,379	26,31,300	29,83,109	22,69,373
Total income	57,08,096	64,56,055	70,37,094	51,22,792
- Commission expenses	2,04,826	2,15,483	2,23,582	155381.1
- Operating expenses	2,83,316	3,44,259	4,86,184	272673.41
- Provision for doubtful debts and taxes	1,57,109	2,45,486	74,055	-82,199.19
Total expenses	7,49,143	11,10,800	8,75,526	4,25,878.88
Operating surplus	49,58,953	53,45,255	61,61,569	46,96,913
- Benefits paid (net)	25,23,808	25,54,795	28,84,891	2346198.67
- Interim & terminal bonuses paid	16,514	16,734	22,291	24700.07
- Change in reserves	25,35,855	29,66,284	32,11,340	2393574.22
Provisions for tax	55,568	1,08,256	91,705	80021.02
Surplus / (deficit)	-24,161	-1,01,489	38,618	16,428
Adjusted surplus / (deficit)	7,685	-32,018	45,786	38,679

Source: Company, Nirmal Bang Institutional Equities Research

P&L account

Y/E March (Rsmn)	FY19	FY20	FY21	9MFY22
T/f from technical a/c	25,995	26,955	29,626	16,378
Investment and other income	455	354	230	1,196
Total income	26,450	27,310	29,856	17,573
Total expenses	26	124	52	4
PBT	26,424	27,185	29,803	17,570
Provision for tax	150	80	62	417
PAT	26,274	27,105	29,741	17,153

Source: Company, Nirmal Bang Institutional Equities Research

Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	9MFY22
Sources of Funds				
Shareholders' fund	8,974	10,981	69,832	90,663
Policy liabilities	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	3,36,63,346	3,41,41,746	3,74,64,045	4,09,07,868
Application of Funds				
Shareholders' investments	3,694	4,008	4,264	51,867
Policyholders' investments	2,87,76,867	2,95,79,078	3,49,84,407	3,84,36,173
Asset held to cover linked liabilities	3,35,669	3,21,699	3,29,750	2,34,670
Net other and current assets	45,47,117	42,36,961	21,45,624	21,85,158
Total	3,36,63,346	3,41,41,746	3,74,64,045	4,09,07,868

Source: Company, Nirmal Bang Institutional Equities Research

Key ratios

Y/E March	FY19	FY20	FY21	9MFY22
Key metrics				
NBP (Rsbn)	1,440	1,803	1,855	1,268
APE (Rsbn)	429.1	706.3	494.6	326.7
VNB (Rsbn)	n/a	n/a	41.7	15.8
VNB margin (%)	n/a	n/a	9.9	9.3
EV (Rsbn)	n/a	465	956	5,397
AUM (Rsbn)	29,116	29,905	35,318	38,723
Expense analysis (%)				
Commission ratio	6.0	5.6	5.5	5.4
Opex ratio	8.3	9.0	12.0	9.5
Claims ratio	74.2	66.8	71.2	82.2
Profitability analysis (%)				
RoA	0.1	0.1	0.1	0.1
RoE	292.8	271.7	73.6	28.5
Operating RoEV	n/a	n/a	36.9	n/a
VNB margin	n/a	n/a	9.9	9.3

Source: Company, Nirmal Bang Institutional Equities Research

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010