



Life Insurance Corporation Limited

A force to reckon with...

**ज़िन्दगी के साथ भी
ज़िन्दगी के बाद भी**



Summary	3
Valuation and Peer Comparison	4
Industry Parameters	5
LIC Key financial parameters	6
LIC organization structure	8
Key growth drivers	8
Risks & Concerns	11
Management	12
Issue Structure and Offer Details	14
Financial Statement Analysis	15
Terminologies	16
Disclaimer	18

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A force to reckon with...

Life Insurance Corporation of India (LIC) is the largest insurance player in India and has a market share of >66% in new business premium. The company is promoted by government of India & offers participating insurance products and non-participating products like unit-linked insurance products, saving insurance products, term insurance products, health insurance, and annuity & pension products.

As of 30 Sep 2021, it has a total AUM of ~INR. 39 lakh crore which is greater than entire domestic mutual fund industry of India. LIC operates through 2048 branches, 113 divisional offices, and 1,554 Satellite Offices. LIC also operates globally in Fiji, Mauritius, Bangladesh, Nepal, Singapore, Sri Lanka, UAE, Bahrain, Qatar, Kuwait, and the United Kingdom.

Key highlights of the company

- LIC is a part insurance and part investment products company. Their plans are a combination of insurance and investment with a guaranteed return.
- The GWP for life insurers in India is forecasted to grow at 14-15% CAGR from FY21 to FY26 to reach INR 12,400 billion. At this level of premium, life insurance as a proportion of GDP is projected to reach 3.8% by FY26, up from 3.2% in FY21.
- It has over 13.5 lakh agents. LIC plans offer 'fixed returns' along with life insurance coverage. This makes it easy to sell by agents and brings peace of mind to the insurers.
- LIC has high brand recall for both life insurance as well as investment done with them. LIC is synonymous with insurance in India.

However, LIC is continuously losing market share in favour of private players which has been a cause of concern recently.

Key Financial Data (INR Cr, unless specified)

	Total income	PBT	PAT	PAT (%)	Adj EPS (INR)	Networth	Policyholder funds	RoE (%)
FY19	2,645.0	2,642.4	2,627.4	99.3	4.2	897.4	33,65,423.9	322.3
FY20	2,731.0	2,718.5	2,710.5	99.3	4.3	1,098.1	(1,050.0)	317.1
FY21	2,985.6	2,980.3	2,974.1	99.6	4.7	6,983.2	58.3	45.7
1HFY22	1,519.7	1,519.5	1,504.0	99.0	2.4	8,854.2	50.7	18.8

Industry	Insurance
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Issue Details

Listing	BSE & NSE
Open Date	4, May 2022
Close Date	9, May 2022
Price Band	INR 902-949
Face Value	INR 10
Market Lot	15 shares
Minimum Lot	1 Lot

Issue Structure

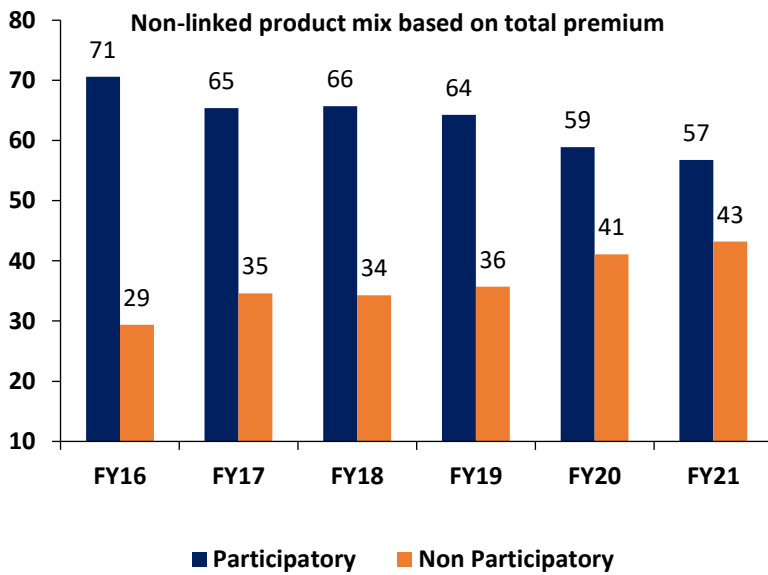
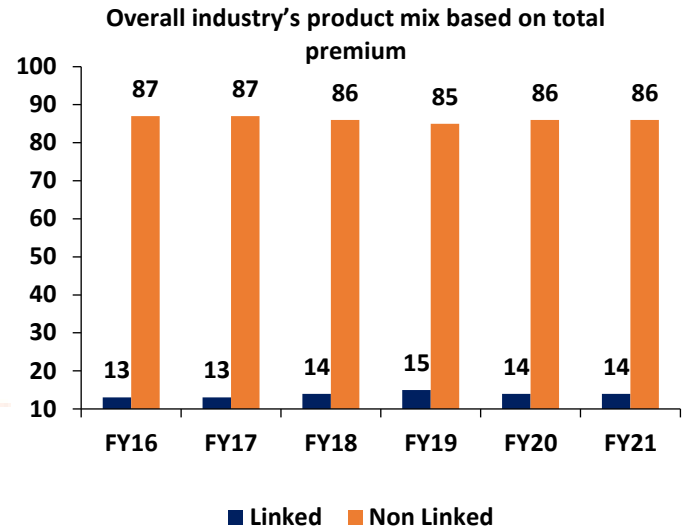
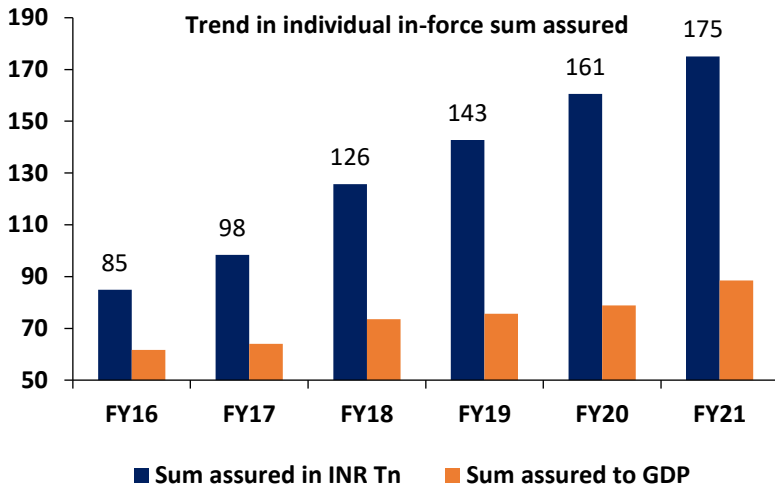
Offer for Sale	100%
Fresh Issue	0%
Issue Size (Amt)	INR 21,008
Issue Size (Shares)	22.1 cr
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 35%
Retail Share (%)	≥ 15%

Valuation and Comparable Metric of Domestic players

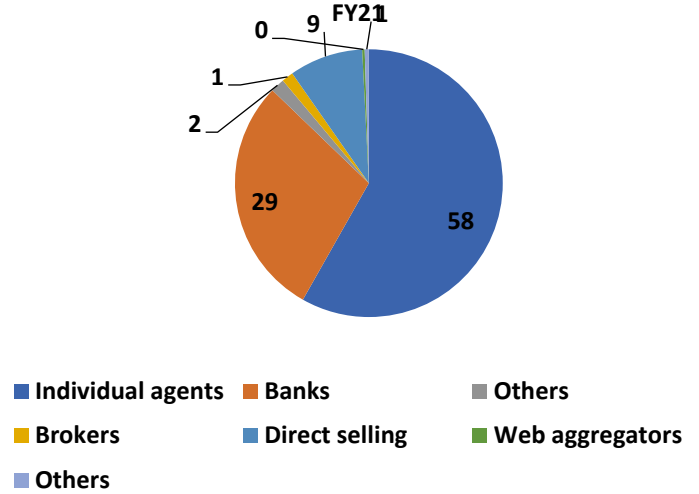
All figures in Bn INR except specified unless

Company Name	Mkt Cap	Price	FY19-21			FY21										
			Total premium	NBP	RP	Total premium	NBP	RP	Risk retention ratio %	Mkt share- Total premium	Mkt share- NBP premium	Mkt share- renewal premium	APE	Conservati on ratio %	Total No of products	Share of annuity products
Domestic Peers																
LIC	NA	NA	1,863	851	1,012	433	1,842	2,189	100	64	851	1,012	NA	89	45	21
SBI Life	1,122	1,121	231	103	128	503	206	296	100	8	103	128	115	85	39	6
HDFC Life	1,185	561	193	104	89	386	202	185	99	6	104	89	84	80	48	20
ICICI Life	701	488	164	65	99	357	130	225	99	6	65	99	65	76	39	4
Max Life	295	853	88	31	57	190	68	122	99	3	31	57	50	80	27	8
Bajaj Allianz Life	2,556	16,061	63	35	28	120	63	57	99	2	35	28	NA	81	40	6

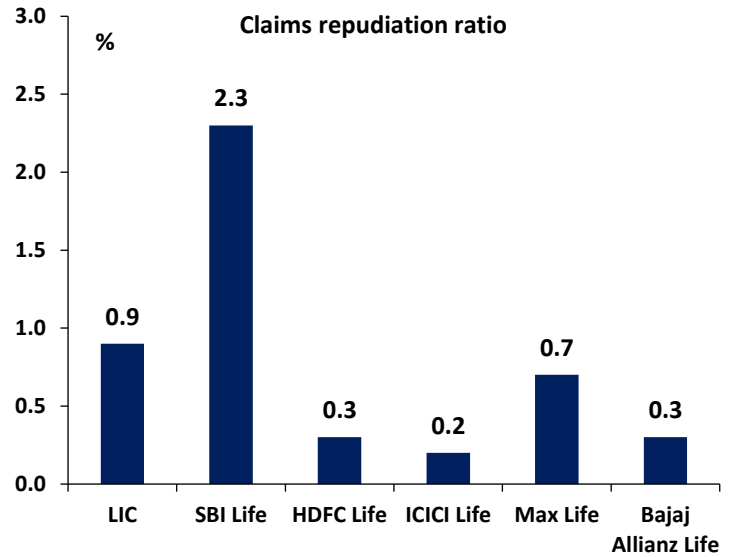
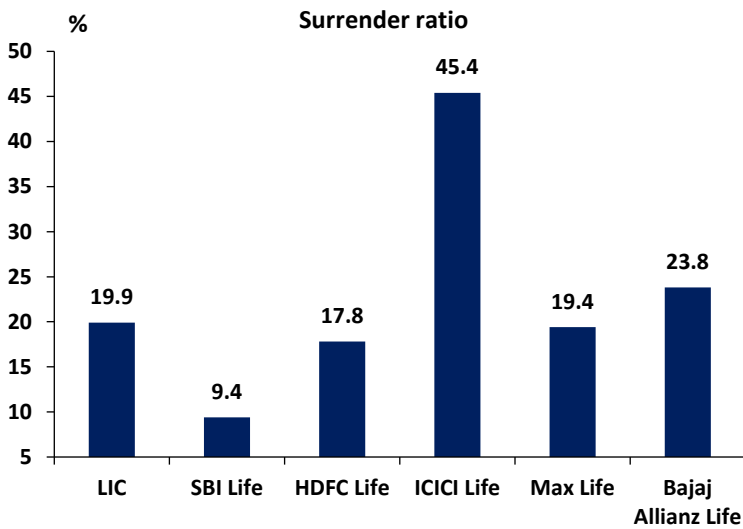
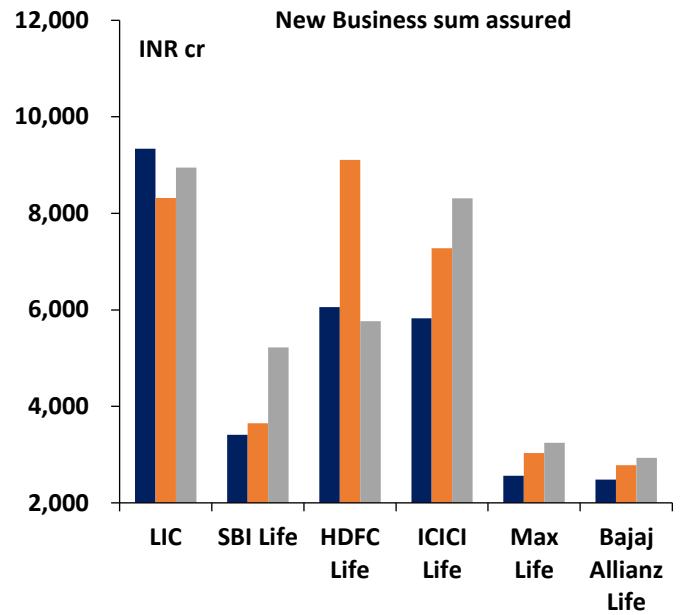
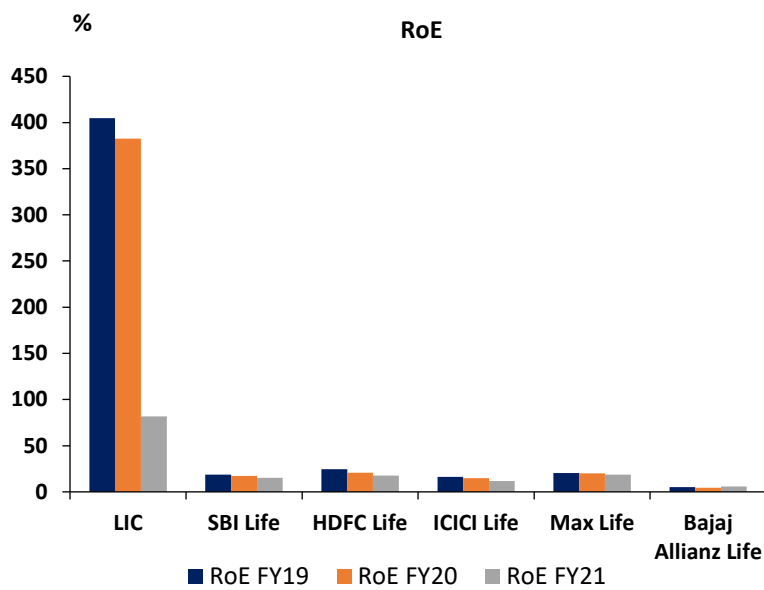
Source: Ventura Research & Bloomberg



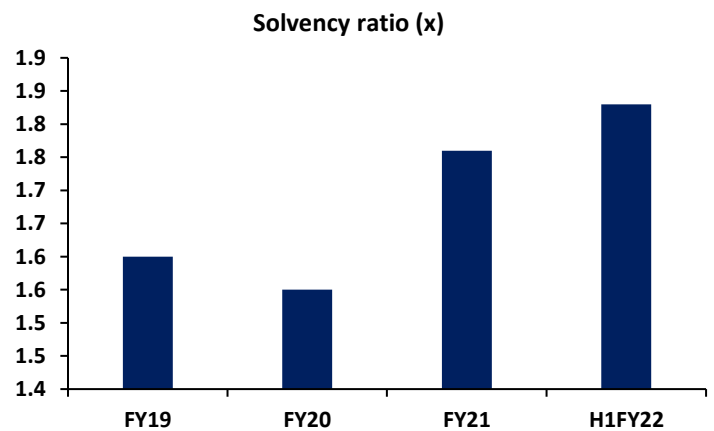
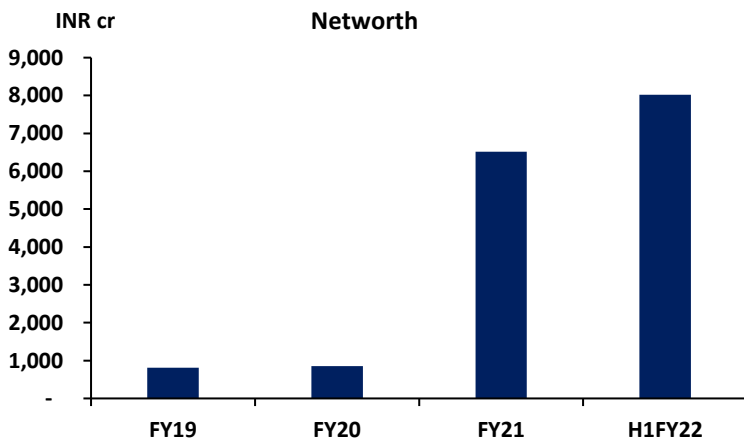
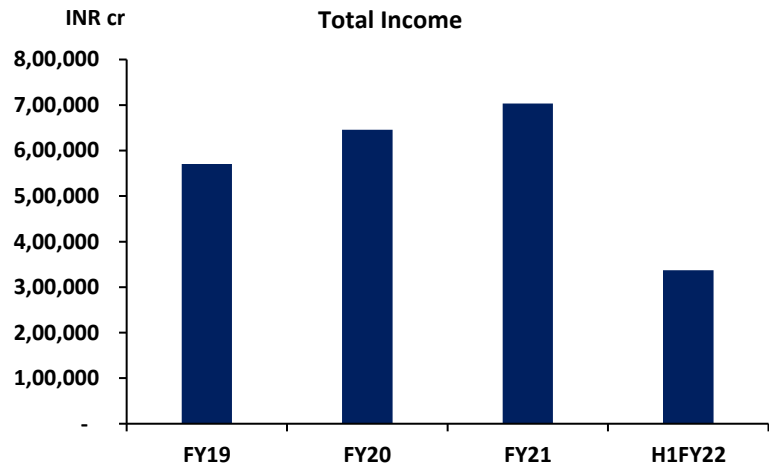
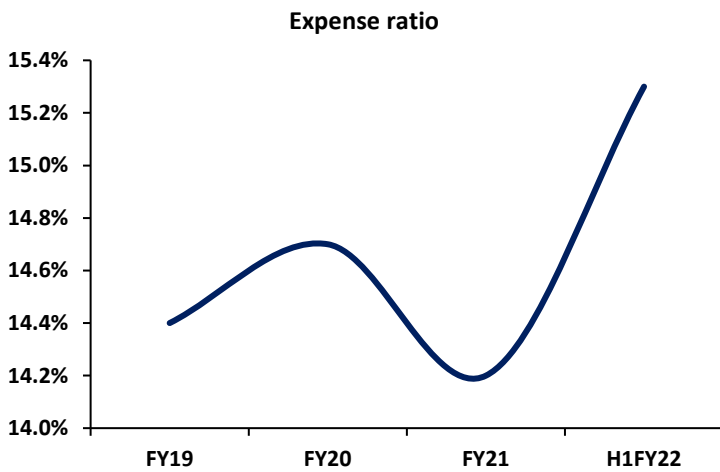
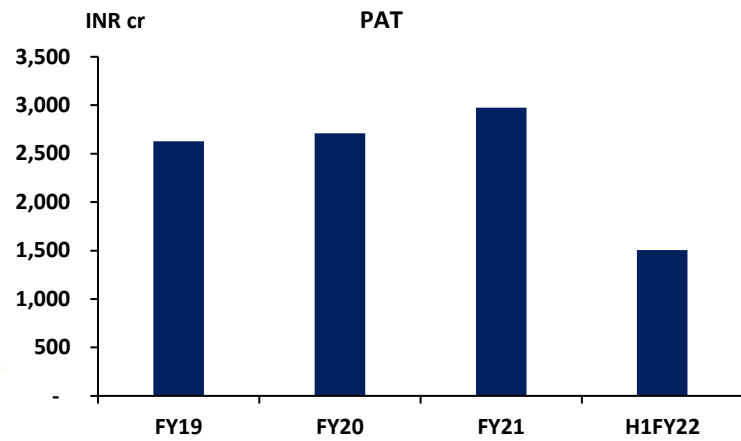
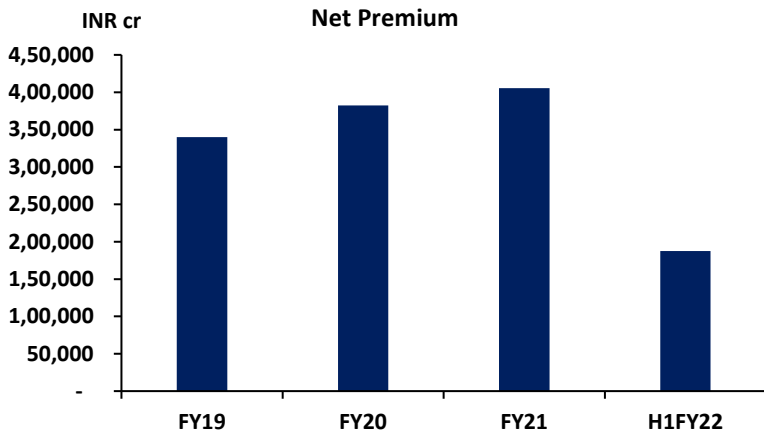
New business premium by distribution channels for the industry (individual life insurance product)



Source: Company Reports & Ventura Research



Source: Company Reports & Ventura Research



Source: Company Reports & Ventura Research

LIC's group structure*



*Figures in brackets represent ??
Source: Company Reports

Key investment highlight

Life insurance market in India is poised to grow due to numerous tailwinds

The GWP for life insurers in India is forecasted to grow at 14-15% CAGR from FY21 to FY26 to reach INR 12,400 billion. At this level of premium, life insurance as a proportion of GDP is projected to reach 3.8% by Fiscal 2026, up from 3.2% in Fiscal 2021.

The life insurance industry in India is expected to grow due to the following factors:

- High GDP growth (expected at 9.5% in 2022 and more than 6% until 2025).

- India as a country is the third largest economy in the world in terms of purchasing power parity.
- 9% CAGR of households in India are in the middle-income category from 41 mn in FY12 to 181 mn in FY30.
- Rapid urbanization.
- The focus on financial inclusion and increasing preference towards financial savings.

As per CRISIL, the Indian life insurance market is the 10th largest life insurance market in the world and the 5th largest in Asia in terms of life insurance premium. Also, 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 for India was 83% in 2019, the highest amongst all countries in Asia-Pacific. This means that for \$100 of insurance protection requirement, insurance was only taken for \$17 in 2019 and hence there is an absence of protection coverage for a large part of the Indian population.

Largest life insurer in India & fifth largest life insurer globally by GWP

LIC has been providing life insurance in India for more than 65 years and is the largest life insurer in India, with a 64.1% market share in terms of premiums, a 66.2% market share in terms of New Business Premium, a 74.6% market share in terms of number of individual policies issued, a 81.1% market share in terms of number of group policies issued for FY21.

Globally, LIC is ranked fifth in terms of life insurance GWP and 10th in terms of total assets.

LIC has the highest number of individual agents, which comprised 55% of all individual agents in India, as of FY21.

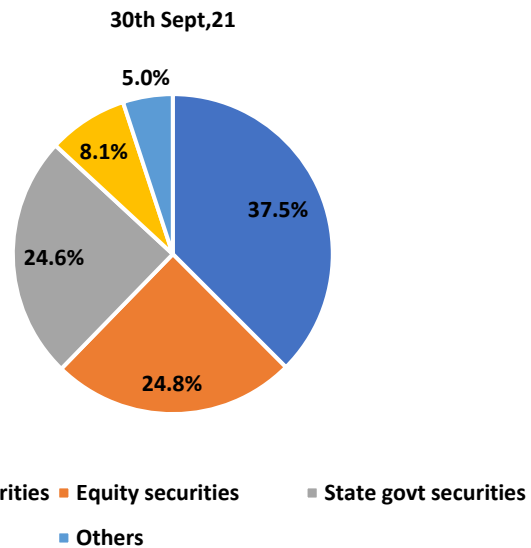
Biggest institutional asset manager in India

LIC is the largest asset manager in India as at 30th Sept 2021, with an AUM of INR 39,55,892.9 cr on a standalone basis, which is:

- 3.3x more than the total AUM of all private life insurers in India
- ~16.2x the AUM of the second-largest player in the Indian life insurance industry in terms of AUM
- 1.1x the entire Indian mutual fund industry's AUM

As per a CRISIL Report, as at September 30, 2021, LIC's investments in listed equity represents around 4% of the total market cap of NSE as at that date.

Policyholder’s funds have a well-diversified investment portfolio



Source: Company, Ventura Research

Also, the investments of LIC are mostly into top graded equity/debt instruments which can be seen from the fact that as of Sept 30, 2021:

- 95.9% of LIC’s debt AUM on a standalone basis was invested in sovereign and AAA rated securities.
- Over 90% of policyholders’ equity investments on a standalone basis are held in stocks that are a part of the Nifty 200 and BSE 200 indices.

LIC intends to diversify its product mix by increasing the contribution of the non-participating portfolio

There is already significant demand for annuity/pension products in India, with 82.7% of the country’s employed population working in the unorganized sector. As per CRISIL, the elderly population (aged 60 and above) in India will increase from 11.7 cr in 2015 to 31.7 cr by 2050, with the share of the elderly in India’s population almost doubling to 17% by 2050 from 9% in 2015. This increase in the share of the elderly population will result in an increase in demand for LIC’s pension/annuity products.

LIC is also putting more focus on selling ULIPs, which resulted in a 729.3% growth in the corporation’s new business premium from ULIPs in India, from INR 91.1 cr for FY20 to INR 755.8 cr for FY21. However, a change in the tax laws from 1st April, 2021, which will tax income earned on contributions beyond INR 2,50,000 per annum in ULIPs, has led to a shift in demand towards protection and other savings/ annuities products although a healthy demand for ULIPs with investments upto non-taxable limits still persists.

Changes to the Corporation's surplus distribution policy is expected to benefit shareholders

Prior to 30th Sept, 2021, the Corporation had one fund – a participating fund. However due to an amendment to the LIC Act notified on June 30, 2021, the Corporation can now have a participating fund and non-participating fund.

Previously LIC transferred only 5% of the valuation surplus to the shareholders account while the remaining 95% was distributed in the form of bonus to the participating policyholders. However, the government, vide letter dated November 13, 2013, allowed the Corporation to continue with the existing surplus distribution pattern of 95:5 between policyholders and the shareholders, while retaining the flexibility to reduce it to 90:10 between policyholders and the shareholders in the future.

This amendment brought LIC in line with the private players in India who are already permitted to allocate the surplus in participating funds between policyholders and shareholders in the ratio of 90:10.

LIC has therefore made a change in its corporation's participating fund distribution policy and hence the surplus in respect of the participating fund will be allocated between policyholders and shareholders in the ratio of 95:5 for FY22, 92.5:7.5 for FY23 and FY24 and then 90:10 for FY25 onwards. The shareholders will have a 100% allocation in the non-participating fund.

Both this changes- allowance of non-participating fund and change in distribution corpus of the participating fund will result in a higher allocation of the surplus to shareholders.

Key risk and concern areas

Competition with private players- LIC is the sole public sector life insurer in India's market. However, as on FY21 there are 23 other private insurance companies. LIC's main competitors are SBI Life Insurance Company Limited, HDFC Standard Life Insurance Company Limited and ICICI Prudential Life Insurance Company Limited. However, given LIC's scale, there is no other life insurer in India that is directly comparable to LIC.

Adverse persistency metrics can have a material adverse effect on LIC- The probability of higher surrenders at the end of the lock-in period for ULIPs has been included in the actuarial assumptions used for the calculation of future projected profits. However, LIC may encounter higher than expected surrenders or experience concentrated surrenders at times other than at the end of such a lock-in period, which can lead to pay-outs exceeding cash flows. This can result in disposal of investment assets, possibly at unfavorable prices, in order to make the significant amount of surrender payments.

Variance with actuarial assumptions- If actual claims experienced and other parameters are different from the assumptions used in pricing LIC's products and setting reserves for

products, it could have a material adverse effect on LIC's business, financial condition and results of operations.

Changes in interest rates- Interest rate fluctuations may materially and adversely affect LIC's profitability. In addition, the limited amounts and types of long-term fixed income products in the Indian capital markets and the legal and regulatory requirements on the types of investment and amount of investment assets that insurance entities are permitted to make can limit LIC's ability to closely match the duration of assets and liabilities.

Management Team

Key Person	Designation	Details
Mangalam Ramasubramanian Kumar	Chairperson	He holds a bachelor's degree of science & has also passed the licentiate examination conducted by the Insurance Institute of India in Sept, 2015. He joined LIC in 1983 as an apprentice officer and has experience in the insurance sector.
Pankaj Jain	Director	He is a Government Nominee Director of LIC and is an officer at the Indian Administrative Service from the 1990 batch.
Raj Kumar	MD	He joined LIC in the year 1984 as an apprentice officer and has experience in the insurance sector. He has also served as the CEO of LIC Mutual Fund Asset Management Limited.
Siddhartha Mohanty	MD	He holds a bachelor's degree in law and a master's degree of arts (political science) from Odisha. He previously served as COO and CEO of LIC Housing Finance Limited.
Ipe Mini	MD	She holds a master's degree of commerce from the Faculty of Commerce and Management Studies. She joined LIC in the year 1986 as an apprentice officer and has experience in the insurance sector. Previously, she was also the CEO of LICFL Financial Services Limited and has led the international operations of LIC.
Bishnu Charan Patnaik	MD	He was the secretary general of the Governing Body of the Insurance Council. He joined LIC in the year 1985 as an apprentice officer and has experience in the insurance sector and has handled several positions in LIC.
Ranjan Sharma	Independent Director	He holds a bachelor's and master's degree of arts from University of Allahabad. He has also pursued his doctorate in philosophy (geography) from Dr. Ram Manohar Lohia Avadh University in 2011.

Vinod Kumar Verma	Independent Director	He holds a bachelor's degree in arts from Bhimrao Ambedkar University, Indara, Mau. He is experienced in the electronics business.
Anil Kumar	Independent Director	He is currently working as a professor in the Department of Commerce of the Shri Ram College of Commerce.
Anjuly Chib Duggal	Independent Director	She holds a master's degree in arts from the Punjab University. She is a retired IAS officer from the Punjab cadre (batch of 1981). Previously, she has also worked as a Secretary with the Department of Financial Services (GOI).
Gurumoorthy Mahalingam	Independent Director	He has been the executive director of the RBI and has numerous years of experience in the financial sector.
Raj Kamal	Independent Director	He holds a bachelor's degree of technology in mechanical engineering from the IIT, Bombay and is a post graduate in management from ISB, Hyderabad.
Vankipuram Srinivasa Parthasarathy	Independent Director	Previously, he was the group CFO and group chief information officer of the Mahindra Group.
Vijay Kumar Muthu Raju Paravasa Raju	Independent Director	Currently, he is the CFO at Sify Technologies Limited, a listed company. He is an independent director on the boards of, amongst others, Thejo Engineering Limited.
Sanjeev Nautiyal	Independent Director	He has completed a bachelor's degree in arts and a master's degree in business administration from Lucknow University. Previously, he was, amongst others, the managing director and chief executive officer of SBI Life Insurance Company Limited.
Vijay Kumar Muthu Raju Paravasa Raju	Independent Director	Currently, he is the CFO at Sify Technologies Limited, a listed company. He is an independent director on the boards of, amongst others, Thejo Engineering Limited.

Source: Company Reports

Issue Structure and Offer Details

The proposed issue size of LIC's IPO is INR 21,008 cr which is fully an offer for sale. The price band for the issue is in the range of INR 902-949 and the bid lot is 15 shares and multiples thereof.

Issue structure	
Category	Allocation
QIB	Not more than 50% of public issue
Non institutional buyers	Not less than 35% of public issue
Retail	Not less than 15% of public issue

Source: Company Reports & Ventura Research



Financial Analysis

Figures in INR Crores	FY19	FY20	FY21	6M FY22	Figures in INR Crores	FY19	FY20	FY21	6M FY22
Policy Holder's Profit & Loss Account					Balance Sheet				
Net Premium	339,971.6	382,475.5	405,398.5	187,289.5	Sources of Funds				
% change		12.5	6.0		Share capital	100.0	100.0	100.0	6,325.0
Interest, Dividends & Rent	200,021.0	222,050.1	239,565.0	124,473.3	Reserve and surplus	798.4	891.7	6,705.5	2,284.8
Transfer/Gain on revaluation	1,125.3	1,398.7	6,145.8	1,706.8	Credit/[debit] fair value change a/c	(88.8)	10.2	78.5	143.3
Investment Income	23,897.2	19,387.5	39,809.6	23,246.5	Minority Interest -Shareholder	87.8	96.3	99.3	101.1
Other Income	5,794.4	20,293.6	12,790.5	256.7	Shareholders' Fund	897.4	1,098.1	6,983.2	8,854.2
Total Income	570,809.6	645,605.5	703,709.4	336,972.9	Borrowings	269,400.6	253,413.6	3.7	3.7
Commission	20,482.6	21,548.3	22,358.2	9,815.2	Fair value change account	216,695.3	(4,316.6)	272,945.0	407,863.8
Operating Expenses	28,331.6	34,425.9	35,162.2	18,906.4	Policy Liabilities	2,805,693.1	3,102,815.5	3,420,727.0	3,584,388.4
Other expenses	4,832.4	19,731.7	13,456.2	0.5	Minority Interest- Policyholder	18,836.4	17,133.2	20.9	4.5
GST on Fund Management charges	109.8	98.3	93.2	34.1	Others	54,798.6	44,002.0	45,721.3	37,938.6
Others Provisions	21,157.9	35,275.8	16,482.8	(3,639.0)	Policyholder's Fund	3,365,423.9	3,413,047.8	3,739,417.9	4,030,199.1
Total	74,914.3	111,080.0	87,552.6	25,117.2	Funds for Future appropriations	13.3	28.7	3.3	4,406.4
Benefits Paid (Net)	254,032.2	257,152.9	290,718.1	151,665.2	Total	3,366,334.6	3,414,174.6	3,746,404.5	4,043,459.7
Change in valuation of policy liabilities	253,585.5	296,628.4	321,134.0	163,674.6	Application of Funds				
Transfer to/(from) Funds	9,306.3	9,106.8	442.9	4,969.8	Shareholders	369.4	400.8	426.4	5,149.5
Surplus/(Deficit)	(2,416.1)	(10,148.9)	3,861.8	1,485.7	Policyholders'	2,877,686.7	2,957,907.8	3,498,440.7	3,784,903.2
Add: Share of Profit in Associates	668.4	574.4	1,163.4	1,598.6	Assets held to cover linked liability	33,566.9	32,169.9	32,975.0	23,599.4
(Less)/Add: Minority Interest	2,516.2	6,372.7	(446.5)	(2.1)	Loans	249,880.3	237,434.7	108,763.7	109,986.3
Total Surplus/(Deficit)	768.5	(3,201.8)	4,578.6	3,082.2	Fixed assets	14,567.6	14,571.8	3,474.0	3,453.3
% change		(516.6)	(243.0)		Net Current assets	190,263.8	171,689.6	102,324.7	116,368.0
Transfer to Shareholders' account	2,599.5	2,695.5	2,962.6	1,475.2	Total	3,366,334.6	3,414,174.6	3,746,404.5	4,043,459.7
ShareHolder's Profit & Loss Account					Cash Flow Statement				
Transfer from Policyholders A/c	2,599.5	2,695.5	2,962.6	1,475.2	Premium	341,614.5	379,928.9	406,774.6	186,632.2
Income from investments	45.5	35.5	23.0	44.5	Claims	(254,384.4)	(250,991.7)	(291,821.2)	(150,674.4)
Total Income	2,645.0	2,731.0	2,985.6	1,519.7	Others	(73,956.3)	(74,570.3)	(34,351.3)	(47,072.2)
% change		3.3	9.3		Cash Flow from Operations	13,273.8	54,366.9	80,602.0	(11,114.4)
other expenses	2.6	12.4	5.2	0.2	Net Capital Expenditure	(1,992.4)	(920.3)	6,162.9	(0.8)
Profit before Tax	2,642.4	2,718.5	2,980.3	1,519.5	Others	10,756.9	(40,888.8)	142,629.4	888.6
Provision for Taxation	15.0	8.0	6.2	15.5	Cash Flow from Investing	8,764.5	(41,809.1)	148,792.3	887.8
Profit after tax	2,627.4	2,710.5	2,974.1	1,504.0	Change in Borrowings	(14,262.9)	(15,987.0)	(253,409.9)	-
Per share data & Yield					Interest/dividend	563.3	(2,676.7)	(2,715.5)	-
Adjusted EPS (Rs)	4.2	4.3	4.7	2.4	Cash Flow from Financing	(13,699.6)	(18,663.7)	(256,125.5)	-
RoE %	322.3	317.1	45.7	18.8	Net Cash Flow	8,338.7	(6,105.9)	(26,731.1)	(10,226.5)
					Others	871.8	1,394.3	(345.5)	231.8
					Opening Balance of Cash	58,695.5	67,906.0	63,194.3	36,117.7
					Closing Balance of Cash	67,906.0	63,194.3	36,117.7	26,123.0

Important terminologies

- **Embedded Value-** Embedded Value (EV) is a measure of the value of the Life Insurance company. This is an important metric, which reflects the expected profitability from the current underwritten policies plus current net worth. It is calculated and certified by the appointed actuary Market Consistent
- **Market Consistent Embedded Value (MCEV)-** MCEV has standardised the approach to calculate EV leading to less judgment in the approach. The key difference is that in the traditional EV approach, allowance for risk is made through an increase in the risk discount rate used to value the shareholder's future cash flows. In the MCEV framework, explicit separate allowances are made for the risk involved. The yearly discount rate used is generally taken from a zero-coupon bond yield. Also, investment return is assumed to be the reference rate.

$$\text{MCEV} = \text{Net worth} + \text{VIF}$$

- **Shareholders' adjusted net worth:** This refers to the market value of assets attributable to shareholders. The shareholder's fund is adjusted for any market-to-market gain or loss after adjusting for tax.
- **Value In-force-** represents the discounted value after tax of shareholders' attributable cash flows expected from the business underwritten on the valuation date. This is after adjusting for non-hedgeable risk, frictional costs of required capital and the time value of financial options and guarantees.
- **Present value of future profits (PVFP)-** It refers to the discounted projected future after-tax shareholders' attributable cash-flows, which are expected to arise from the in-force business.
- **Time Value of Financial Options and Guarantees (TVFOG):** Allowance is made for the asymmetric impact on shareholder value, owing to any financial options and guarantees provided in the underwritten policies above the intrinsic value already allowed for in the calculation of the PVFP.
- **Frictional costs of required capital (FCRC)** represent adjustment for the cost of capital required to be maintained to meet solvency requirements. Cost of capital is typically reflected as a deduction from the PVFP to reflect the fact that assets backing the required capital are held within an insurance company rather than directly and, therefore, cannot be distributed to shareholders immediately.
- **Cost of non-hedgeable risk (CNHR)** is designed to capture the allowance for risk (Financial and NonFinancial) that is not explicitly made in the PVFP or TVFOG and ensures that the MCEV is focused on the mean value of the shareholder interest in the distributable earnings.

- **Value of New Business (VNB) Margin-** The margin reflects the profitability to be generated over the expected policy period measured in terms of annual premium.
- **Persistency ratio** is the proportion of policyholders who continue to pay their renewal premium. It is a barometer for the quality of sale made by the insurer.



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