

All you need to know about LIFE INSURANCE CORPORATION OF INDIA LIMITED



Face Value: **INR 10**
Issue Size: **INR 20,557.23 Cr.**
Bid Lot & Size: **15 Equity Shares**
Issue Type: **100% Book Building**

Post money market cap of ₹ 6,00,242.3 crores-at upper price band.

Price Band:
INR 902 – 949



Issue Opens: 4th May 2022; Issue Closes: 9th May 2022

| Shareholding (%) | Pre IPO | Post |
|------------------------------------|---------|-------|
| Promoter and Promoter Group | 100% | 96.5% |
| Public | | 3.5% |

*Source: RHP

| Share Reservation | Net issue (%) |
|-------------------|---------------|
| QIB | 50% |
| NII | 15% |
| Retail | 35% |

| Discounts | |
|------------------------------|-----|
| For Retail Investors | ₹45 |
| For LIC Employees | ₹45 |
| For LIC Policyholders | ₹60 |

| Issue Managers | |
|------------------|---|
| BRLMs | Kotak Mahindra Capital, Axis Capital, BofA Securities India, Citigroup Global markets India, Nomura Financial Advisory and Securities, Goldman Sachs (india) Securities, ICICI Securities, JM Financial, J.P. Morgan India, SBI Capital Markets |
| Registrar | KFin Technologies Pvt Ltd |

This document summarizes a few key points related to the issue and should not be treated as a comprehensive summary. Investors are requested to refer the Red Herring Prospectus for further details regarding the issue, the issuer company and the risk factors before taking any investment decision. Please note that investment in securities is subject to risks including loss of principal amount and past performance is not indicative of future performance. Nothing herein constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. This document is not intended to be an advertisement and does not constitute an invitation or form any part of any issue for sale or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever.

Company Overview:

Life Insurance Corporation Of India 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. (Source: the CRISIL Report). The Corporation 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 (in 2020 for the other players and in Fiscal 2021 for the Corporation). Life Insurance Corporation of India is ranked fifth globally by life insurance GWP (comparing the Corporation's life insurance premium for Fiscal 2021 to the global peers' life insurance premium for 2020) and 10th globally in terms of total assets (comparing the Corporation's assets as at March 31, 2021 with other life insurers' assets as at December 31, 2020). The Corporation's brand, 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.

Objects of the Offer

The Issue comprises of an offer for sale of up to 221,374,920 Equity Shares. The objects of the Offer are to (i) achieve the benefits of listing the Equity Shares on the Stock Exchanges; and (ii) carry out the Offer for Sale by the Selling Shareholder (President of India, acting through the Ministry of Finance, Government of India). Further, the Corporation expects that the proposed listing of its Equity Shares will enhance its visibility and brand image as well as provide a public market for the Equity Shares in India.

Financial Summary

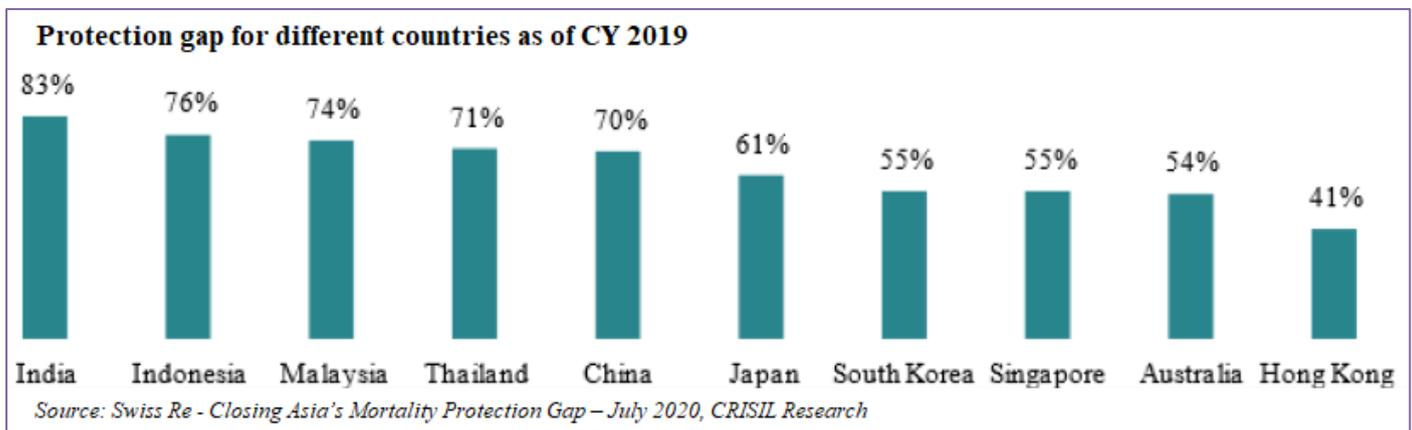
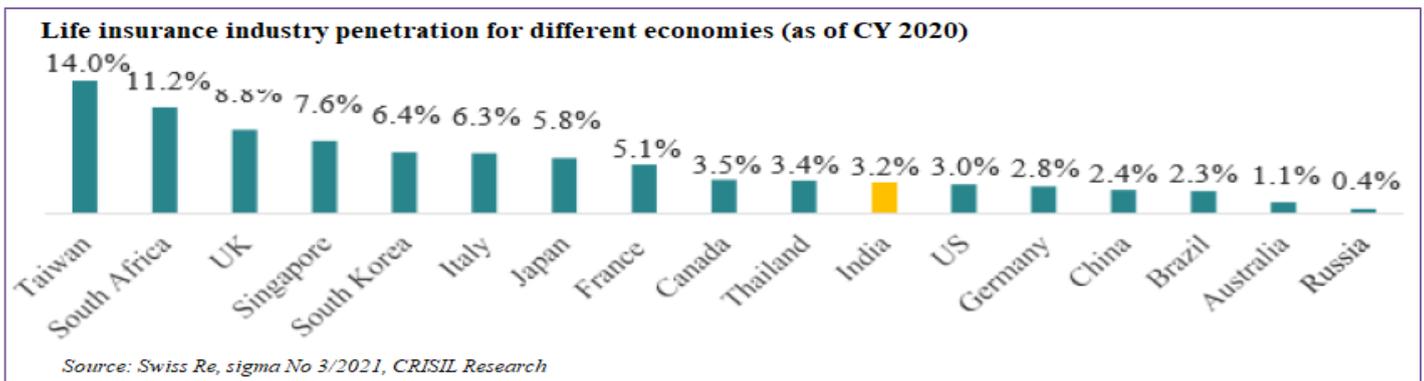
The company has seen growth in its premiums earned in FY21, increasing from ₹3,399,716.34 million in FY19 to ₹4,053,984.98 million in FY21, at a CAGR of 9.2%. The company's EBITDA increased from ₹26,423.65 million in FY19 to ₹29,803.47 million in FY21. The company's profit increased from ₹26,273.78 million in FY19 to ₹29,741.39 million in FY21. The corporation has seen the 49th month Persistency Ratio in India for individual products (%) increasing from 73% to 79%.

| (₹ in million) | FY19 | FY20 | FY21 |
|--|--------------|--------------|--------------|
| Premiums earned | 3,399,716.34 | 3,824,755.18 | 4,053,984.98 |
| Income from Interest, Dividend and Rent | 2,000,210.33 | 2,220,501.02 | 2,395,650.18 |
| EBITDA | 26,423.65 | 27,185.16 | 29,803.47 |
| PAT | 26,273.78 | 27,104.78 | 29,741.39 |
| RoNW (%) | 322.25% | 317.14% | 45.65% |
| Solvency Ratio | 1.60 | 1.55 | 1.76 |
| Persistency Ratio (49th month) | 73% | 72% | 79% |
| EPS | 4.15 | 4.29 | 4.70 |

Competitive Strengths

Fifth largest life insurer globally by GWP and the largest player in underpenetrated Indian life insurance sector

Life Insurance Corporation of India is ranked fifth globally in terms of life insurance GWP (comparing the Corporation's life insurance premium for Fiscal 2021 to its global peers' life insurance premium for 2020), and 10th globally in terms of total assets (comparing the Corporation's assets as of March 31, 2021, with assets of other life insurers as at December 31, 2020). (Source: the CRISIL Report). The Corporation is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued, and number of group policies issued for Fiscal 2021. For Fiscal 2021, the Corporation issued approximately 21 million individual policies in India, representing approximately 75% market share in new individual policy issuances. (Source: the CRISIL Report). The second largest player in the industry issued 1.66 million individual policies and had a 5.9% market share for Fiscal 2021. (Source: the CRISIL Report). For Fiscal 2021, the Corporation's market share in the Indian life insurance industry was 66.2% based on NBP, and its NBP was 1.96 times the total private life insurance sector and 8.9 times the NBP for the second-largest player in the Indian life insurance industry). The protection gap for India was 83% in 2019, the highest amongst all countries in Asia-Pacific, as per the Swiss Re report "Closing Asia's Mortality Protection Gap – July 2020". So, this means that for \$100 of insurance protection requirement, insurance was only taken for \$17 in 2019. This indicates the absence of protection coverage for a large part of the Indian population.



Trusted brand and a customer-centric business model

Life Insurance Corporation of India was incorporated in 1956 and up to 2000 it was the only life insurance provider in India, which made LIC, as a brand, synonymous with life insurance in India. (Source: the CRISIL Report). The brand 'LIC' was recognized as the third strongest and 10th most valuable global insurance brand in 2021, as per the "Insurance 100 2021" report released by Brand Finance. As per the report, the brand value of LIC in 2021 was US\$8,655 million, with a Brand Strength Index (BSI) score of 84.1 out of 100, corresponding to AAA- brand strength rating. The trust in the brand 'LIC' is evidenced by the 279.11 million in force policies under individual business being serviced in India as at December 31, 2021. The trust in the brand 'LIC' is further evidenced by the fact that approximately 75% of individual policies sold by the Corporation in India in the six months ended December 31, 2021, were sold to customers who had not purchased any life insurance policies from it prior to April 1, 2021.

Cross-cyclical product mix that caters to diverse consumer needs

Life Insurance Corporation of India's policies address consumers' needs through the four principal stages of life, namely, beginning of savings, career and marriage, family needs and retirement planning and retirement and asset drawdown. The company has a broad, diversified product portfolio covering various segments across individual products and group products. The Corporation's individual product portfolio in India comprised 32 individual products (16 participating products and 16 non-participating products) and seven individual optional rider benefits. The Corporation's group product portfolio in India comprised 11 group products. It is well placed to serve customers across age brackets with a comprehensive product portfolio, while maintaining a strong connect across age groups.

Presence across India through an omni-channel distribution network with unparalleled agency force

LIC's omni-channel distribution platform for individual products currently comprises (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers, and insurance marketing firms), (iv) digital sales (through a portal on the Corporation's website), (v) Micro Insurance agents and (vi) Point of Salespersons-Life Insurance scheme. As of December 31, 2021, the Corporation had the following distribution network for individual products in India:

- 1.33 million individual agents.
- 70 bancassurance partners.
- 215 alternate channels.
- A portal on the Corporation's website for digital sales.
- 2128 active Micro Insurance agents; and
- 4,769 Point of Salespersons-Life Insurance scheme.

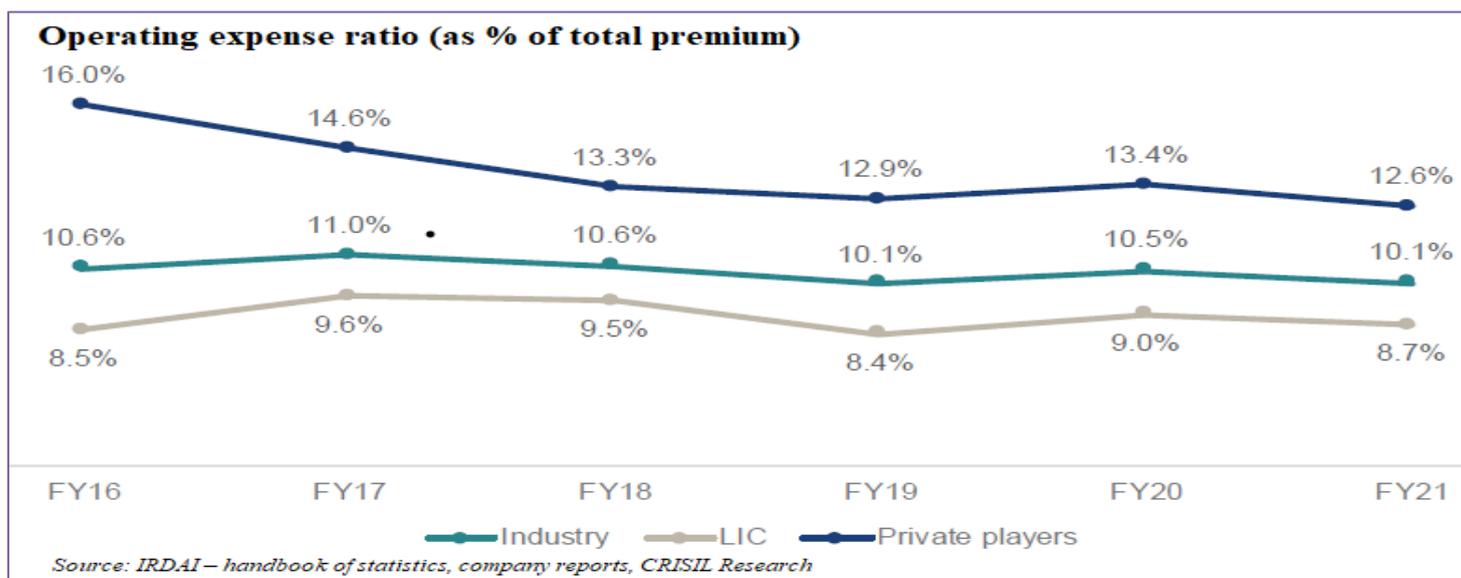
Key metrics for its agent network in India include: (i) Largest agent network among life insurance entities in India. As at December 31, 2021, the Corporation's individual agency force accounted for 55% of the total agent network in India and was 6.8 times the number of individual agents of the second largest life insurer in terms of agent network. (Source: the CRISIL Report). (ii) Industry leading agent network growth in India, with the number of the Corporation's agents in India increasing at a CAGR of 7% between March 31, 2019, and March 31, 2021 compared to the next best player's agency force CAGR of 5% and the average of the private player's agency force CAGR of 4% during the same period. (Source: the CRISIL Report). (iii) High longevity –59.38% of the individual agents in India have acted for the Corporation for more than five years as at December 31, 2021.

Harnessing technology capabilities to support customer connect and drive operating efficiencies

LIC has developed technological capabilities that helps to provide a great customer experience and drive operating efficiencies. The corporation has added technological capabilities across the customer journey from purchase to payments to claims processing. As on December 31, 2021, the Corporation's portal had 18.60 million registered users and the Corporation's mobile app for policyholders, available on both Android and iOS platforms, had 5.13 million registered users. Given its focus on and investments in information technology, the corporation is well-positioned to capitalize on the increasing digitization of the Indian economy. It has two apps for intermediaries to use at the pre-purchase stage:

- Sales App – this application provides intermediaries lead management, financial need analysis, quotes and illustrations, e-proposal, and content management.
- LIC Quick Quotes App – this application provides intermediaries with premium quotation and benefit illustration, with a facility to compare quotes and view variations.

The Corporation's website provides, among other things, insurance product information, plan brochures, a premium calculator, and an office locator. Using the portal on the Corporation's website, customers can purchase policies, make online premium payments, loan repayments, loan interest payments, online loan requests, online address changes, PAN and NEFT registrations, ULIP fund switches, mode alterations, advance premium payments, grievance registrations and online service requests.



Robust risk management framework

The Corporation has a risk management framework where risk identification, risk measurement and risk mitigation are undertaken through structured procedures and various Board-approved policies and controls. The Corporation has an enterprise risk management (“ERM”) cell with the Chief Risk Officer heading the cell and a team of officers supporting him at different levels. Its ERM cell provides a framework for evaluating and managing risks inherent in the Corporation through risk and control self-assessment, incident management and top risk-key risk indicator analysis. The ERM cell is working on the implementation of the IT solution package for monitoring various risks the Corporation encounters in its business processes. It's ERM policy, which includes risk management systems and tools, as well as a prudent investment approach with a tab on credit, interest, market and liquidity risk, a prudent valuation basis, a well-defined mechanism to apply collective wisdom, and a defined business continuity plan and disaster recovery plan is being implemented through an ERM application, thereby promoting a sound risk management culture.

Highly experienced and qualified management team

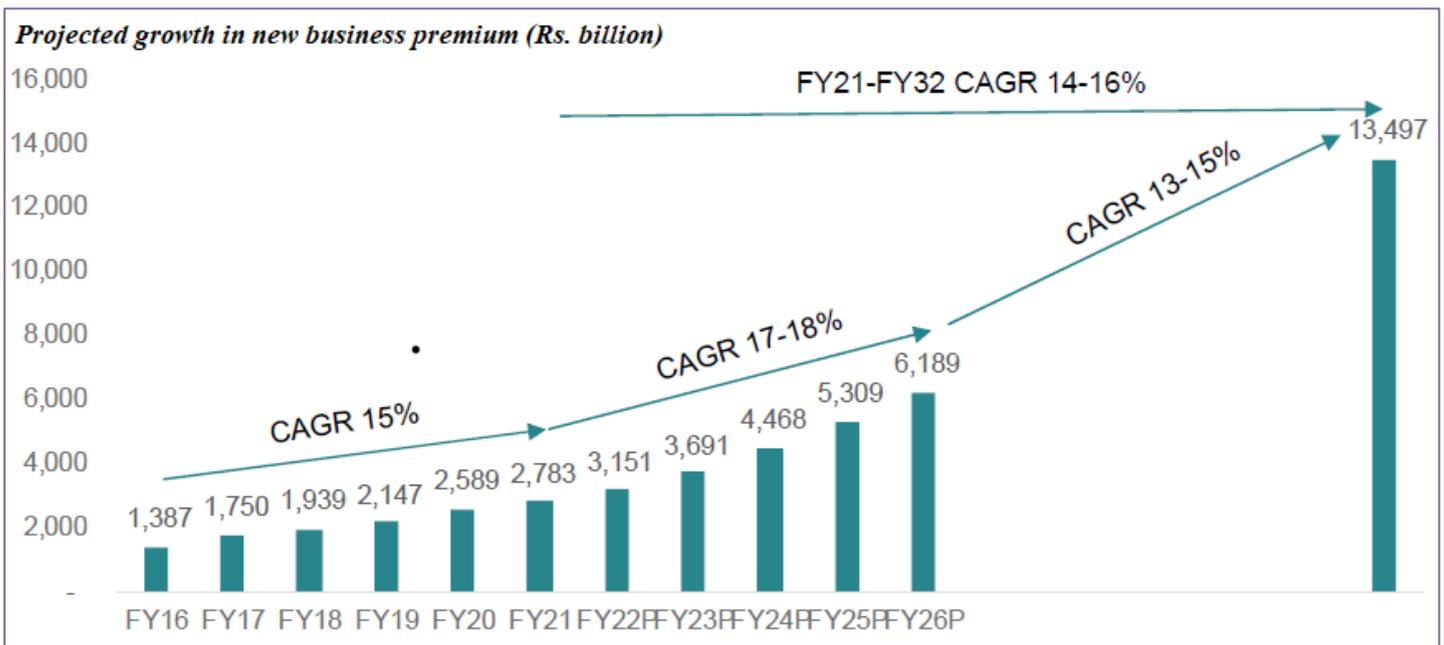
Life Insurance Corporation of India has an experienced and qualified management team. All of its Key Managerial Personnel have more than 20 years' experience in the insurance industry, with experience in different parts of India, in different capacities (both in administrative and marketing positions), and have headed branches, divisions and zones in India. A few of them have also worked overseas. The corporation believes that the experience of its Key Managerial Personnel is a key competitive advantage and will help it implement its business strategies and adapt to evolving consumer preferences and changes in its business and regulatory environment.

Strategies Going Forward

Capitalize on the growth opportunities in the Indian life insurance sector

With the kind of scale, size, reach and scalability Life Insurance Corporation of India has achieved over the years, it is well-positioned to capitalize on the expected growth of the Indian life insurance sector. The Corporation's plans include

- Increasing its market share of the bancassurance channel by tying up with more bank partners and improving their productivity by providing them with digital solutions for on-boarding customers for its products.
- Increasing direct sales of its individual products on the Corporation's website by increasing the marketing of the Corporation's website and adding more products that are available for purchase on the Corporation's website.
- Improving the share of non-participating products by increasing the focus on sales of ULIP, protection products, pension/annuity products and health insurance.
- Increasing upselling and cross-selling to individual customers and beneficiaries of group products to cover their varied financial needs.
- Recruiting more millennial agents in light of the changing demographic dynamics.
- Increasing the average ticket size of its products.
- Increasing its focus on group protection plans.



Further diversify the product mix by increasing the contribution of the non-participating portfolio

Life Insurance Corporation of India intends to continue diversifying the product mix by addressing customer needs at every stage of life and increasing sales of its existing non-participating products as well as launching new non-participating products, in particular term insurance, health insurance, pension/annuity products and ULIP products. The Corporation also plans to increase the training given to intermediaries on non-participating products and incentivize the sale of non-participating products by offering easier access to higher-level agent club membership for sales of these products. Further, it plans to increase the marketing of its non-participating products.

Reinforce the omni-channel distribution network and increase its productivity

Life Insurance Corporation of India intends to continue strengthening its omni-channel distribution network for individual products and increase its productivity. The corporation plans to strategically expand its individual agency network, improve the agents' productivity, and maintain its focus on improving the quality of agents that its recruit and their longevity. The corporation plans to hire more millennial and post-millennial agents by running social and digital media campaigns as well as other advertising campaigns to increase awareness of career opportunities as an insurance agent in the millennial and post-millennial segments and conducting more online recruitment. The corporation will continue to train its agents to help increase their productivity and the average ticket size of the products they sell. It plans to increase the number of Point of Salespersons-Life Insurance scheme to better meet the needs of potential customers. The corporation intends to find additional partners in the bancassurance (bank) channel and alternate channel (brokers, insurance marketing firms and other corporate agents) and improve their productivity by providing all of them with digital solutions for on-boarding customers for its policies.

Continue leveraging technology to aid growth and drive operating efficiencies

Life Insurance Corporation of India plans to continue to implement various technological and digital initiatives to increase productivity, train its agents and employees, improve cost efficiencies, provide better customer experience, provide a seamless customer on-boarding process and enhance its digital channels for payments. The current key technology-related initiatives include:

- Implementing a new unique customer identification and deduplication system, which will allow for more efficient cross-selling of products, simplify the customer experience, allow for customization of services, increase the efficiency of claims management as well as provide for better customer profiling and retention.
- Increasing the use of ANANDA.
- Increasing the online recruitment of agents.
- Increasing the use of online training of agents.
- Increasing the use of digital marketing.

The corporation plans to continue to promote the use of digital modes of payment to increase the share of premiums collected through digital modes.

Maximize value creation through various commercial and financial levers as well as changes to the Corporation's surplus distribution policy

Commercial levers to increase revenue and profit:

The corporation plan to increase its Persistency Ratios through the following:

- Increasing the number of policies that are revived by the Corporation through launch of revival campaigns and encouraging convenient modes of payment, such as payment through Electronic National Automated Clearing House.
- The corporation plan to continue to engage with its policyholders, directly and through its intermediaries, to retain the policies that are being served

Financial levers to optimize yield on investment

Life Insurance Corporation of India plan to continue to strive for a dynamic and strategic asset allocation amongst the different asset classes allowed within the regulatory framework, depending upon the market cycles and conditions, with a view to improve the yield on investments.

Changes in surplus distribution policy and bifurcation of funds

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. In accordance with the Corporation's approved surplus distribution policy, the surplus in respect of the participating fund will be allocated between policyholders and shareholders in the ratio of 95:5 for Fiscal 2022, 92.5:7.5 for each of Fiscal 2023 and Fiscal 2024 and then 90:10 for Fiscal 2025 onwards. The shareholders have a 100% allocation in the non-participating fund. The increasing allocation of the surplus of the participating fund to the shareholders and the 100% allocation to shareholders of the non-participating business (previously at 5%, which was flowing through the declaration of bonuses for the participating business in lieu of a single fund as per Section 24 of the Life Insurance Corporation Act) results in a higher allocation of the surplus to shareholders.

Management

Mangalam Ramasubramanian Kumar (Whole-time Chairperson):

He holds bachelor's degree of science from the Faculty of Science, University of Madras. He has also passed the licentiate examination conducted by the Insurance Institute of India in September 2015. He joined the Corporation in the year 1983 as an apprentice officer and has experience in the insurance sector. Previously, he was the zonal manager of South, North-Central and North zones of the Corporation and has also headed the personnel and pension & group schemes department.

Raj Kumar (Managing Director):

He holds bachelor's degree in science from D.A.V College, Guru Nanak Dev University, Jalandhar, Punjab. 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 and was also the zonal manager, Bhopal, executive director (estate and office services), Mumbai, amongst others, of the Corporation.

Shubhangi Sanjay Soman (Executive Director (F&A) & Chief Financial Officer):

She holds a bachelor's degree in commerce from the University of Mumbai and is also a qualified chartered accountant. Previously, she has also handled the positions of secretary (finance & accounts), chief (finance & accounts), deputy secretary (pension & group schemes), regional manager (finance & accounts), chief (investment operations), amongst others, of the Corporation.



Recommendation & Valuation

At the upper price band of ₹949, Life Insurance Corporation of India is demanding a PE multiple of ~201.91X based on FY21 earning which is much higher than the industry average PE multiple of 79.77X of FY21. This might look expensive, but if we look at the company's Indian Embedded Value of ₹5,39,686 crores as on September 30, 2021, the Market Cap to Embedded Value (EV) Ratio comes in at just 1.11X. It's peers like HDFC Life Insurance and SBI Life Insurance are trading at an EV multiple of 4.05x and 3.10x, while ICICI Prudential Life trades at 2.5x EV multiple. Looking at the strong brand value, market leadership, extensive distribution networks, robust risk management and plans of diversifying the product mix we recommend subscribe to the issue with a long-term perspective.

RISKS

- Any unfavorable publicity concerning the corporation could have an adverse effect on the brand name and consequently adversely affect the business
- Adverse persistency metrics or an adverse variation in persistency metrics could have a material adverse effect on the financial condition.
- Segregation of the single consolidated 'Life Fund' of the Corporation into two separate funds, viz., a participating policyholders' fund and a non-participating policyholders' fund, effective September 30, 2021, may adversely affect its business
- If actual claims experienced and other parameters are different from the assumptions used in pricing its products and setting reserves for its products, it could have a material adverse effect on the business.
- Interest rate fluctuations may materially and adversely affect its profitability.
- A significant proportion of the Corporation's total new business premiums are generated by participating products and single premium products, and any regulatory changes or market developments that adversely affect sales of such products could have a material adverse effect on its business.
- The risk management policies and procedures and internal controls, as well as the risk management tools available to the corporation may not be adequate or effective.
- While the corporation believes that IDBI Bank, one of its Associates, does not need to raise further capital at the moment, it may be required to infuse additional funds into IDBI Bank in the future.

* For complete list of risk factors kindly refer to the Red Herring Prospectus.

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