ANANDRATHI

Life Insurance Corporation Ltd

29- April-22

Subscribe

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Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	210,085
Fresh Issue (No. of Shares in Lakhs)	Nil
Offer for Sale (No. of Shares in Lakhs)	2,213.8
Bid/Issue opens on	04-May-22
Bid/Issue closes on	09-May-22
Face Value	Rs. 10
Price Band	902-945
Minimum Lot	15

Objects of the Issue

Fresh Issue: NIL

Offer for Sale: ₹ 210,085 Million

- The company will not receive any proceeds from the Offer for Sale.
- The company wants to accrue the benefits of listing Equity shares on stock exchanges.

Book Running Lead Managers
BofA Securities India Limited
Citigroup Global Markets India Private Limited
Goldman Sachs (India) Securities Private
J.P. Morgan India Private Limited
Nomura Financial Advisory and Securities (India) Private Limited
Axis Capital Limited
Kotak Mahindra Capital Company
ICICI Securities Limited
JM Financial Limited
SBI Capital Markets Limited
Registrar to the Offer
KFin Technologies Limited

Capital Structure (` Million)	Aggregate Value
Authorised share Capital	250,000
Subscribed paid up Capital (Pre-Offer)	63,250
Paid up capital (Post - Offer)	63,250

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	100.0	96.5
Public	0.0	3.5
Total	**100.0**	**100.0**

Financials

Particulars (Rs. In Mn)	9MFY22	FY21	FY20	FY19
Net Premium Earned	2,853,419	4,053,985	3,824,755	3,399,716
Income from investment	2,263,733	2,855,434	2,428,718	2,250,891
Other Income	6,835	127,905	202,936	57,944
Commission Expense	155,381	223,582	215,483	204,826
Operating Expenses	272,673	351,622	344,259	283,316
Others Expenses and Tax	(2,121)	(309,367)	422,739	(210,871)
Claims/Benefits Paid	4,739,773	6,096,231	5,521,079	5,059,663
Other Expenses	(59,288)	(26,720)	74,335	76,549
Profit Before Tax (PBT)	17,570	29,803	27,185	26,424
Tax	417	62	80	150
Profit After Tax (PAT)	17,153	29,741	27,105	26,274
Diluted EPS	2.71	4.70	4.29	4.15
Net worth	82,305	65,146	8,546	8.153
Indian Embedded Value	5,396860	956,050	464,970	N/A

Company Description

LIC 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.

The Corporation was formed by merging and nationalizing 245 private life insurance companies in India on September 1, 1956, with an initial capital of ₹50.00 million. From their incorporation until 2000, they were the only life insurer in India. They were 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.

Their market share in the Indian life insurance industry for Fiscal 2021 was 64.1% in terms of GWP, 66.2% in terms of NBP, 74.6% in terms of number of individual policies issued, and 81.1% in terms of number of group policies issued.

They 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. This is owing to their enormous agent network, strong track record, immense trust in the brand 'LIC' and their 65 years of lineage.

They are ranked 5th globally by life insurance GWP and 10th globally in terms of total assets. They were recognised as the third strongest and 10th most valuable global insurance brand as per the "Insurance 100 2021 report" released by Brand Finance.They were 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.

Valuation

Based on life insurance premiums, India is the tenth largest life insurance market in the world and the fifth largest in Asia. The size of the Indian life insurance industry was Rs. 6.2 trillion based on total premium in Fiscal 2021, up from Rs. 5.7 trillion in Fiscal 2020. The industry's total premium has grown at 11% CAGR in the last five years ending in Fiscal 2021.

LIC is the trusted brand and a customer-centric business model. It's a largest player in the fast growing and underpenetrated Indian life insurance sector. Cross-cyclical product mix that caters to diverse consumer needs and an individual product portfolio that is dominated by participating life insurance policies. LIC is present across India through an omni-channel distribution network with an unparalleled agency force. LIC has Highest RoNW amongst other listed players in India in the same industry.

At the upper price levels, the LIC has valued the IPO at 1.11 times its embedded value with a market cap of Rs.6,002 billion which we believe is quite lower when we compared with the three listed peer like HDFC Life Insurance Co, SBI Life Insurance Co. and ICICI Prudential Life Insurance Co. where the average embedded value stood at Rs 3,105 billion and the average market capitalisation-to-embedded value ratio arrived at 3.4 times. Hence, the issue looks quite attractive for investors. Considering the largest size of the IPO Company's well diversified product portfolio, and financial track records and bright prospects ahead, we recommend a **"Subscribe"** rating to this IPO.

LIC has a broad, diversified product portfolio covering various segments across individual products and group products. Their individual products comprise participating insurance products and non-participating products, which include savings insurance products, term insurance products, health insurance products, annuity and pension products, unit linked insurance products.

Their individual products include specially designed products for specific segments, such as special products for women and children and Micro Insurance products. In addition, they offer 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. Their individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and seven individual riders.

Their 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, (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. Their individual policies are primarily distributed by their individual agents. In Fiscal 2019, Fiscal 2020, Fiscal 2021 and the nine months ended December 31, 2021, their individual agents were responsible for sourcing 96.69%, 95.73%, 94.78% and 96.20% of their NBP for their individual products in India, respectively.

They have 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. They also have 70 bancassurance partners and 215 alternate channels of distribution. Customers can also approach their branch offices and satellite offices and purchase products through their intermediaries. As at December 31, 2021, they had 2,048 branch offices and 1,559 satellite offices in India, covering 91% of all districts in India. Their multichannel distribution platform for group products comprises (i) their employees in the sales team for group products, (ii) individual agents, (iii) bancassurance partners and (iv) alternate channel partners (other corporate agents and brokers).

In addition to their life insurance operations in India, they have one branch in each of Fiji, Mauritius and the United Kingdom and subsidiaries in Bahrain (with operations in Qatar, Kuwait, Oman and the United Arab Emirates), Bangladesh, Nepal, Singapore and Sri Lanka in the life insurance industry. For Fiscal 2019, Fiscal 2020, Fiscal 2021 and the nine months ended December 31, 2021, on a consolidated basis, their premium from outside India represented 0.93%, 0.99%, 0.73% and 0.69%, respectively, of their total premium.

Their AUM (comprising policyholders' investment, shareholders' investment and assets held to cover linked liabilities) is ₹40.1 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.

Summary of Financial Information

A summary of the financial information of Corporation as per the Restated Consolidated Financial Statements is as follows:

(₹ in million)

Particulars	As at and for the nine months period ended December 31, 2021	As at and for the year ended		
		March 31, 2021	March 31, 2020	March 31, 2019
Equity Share Capital	63, 249.98	1,000.00	1,000.00	1,000.00
Net Worth	82,304.99	65,146.44	8546.53	8,153.27
Total Income				
- Policyholders'(Revenue account)	5,122,792.05	7,037,094.45	6,456,054.72	5,708,095.70
- Shareholder's account (Profit and Loss account)	1,195.88	229.89	354.43	455.19
Profit After Tax	17,153.12	29,741.39	27,104.78	26,273.78
Earnings Per Share (Rs./Share)				
- Basic	2.71	4.70	4.29	4.15
- Diluted	2.71	4.70	4.29	4.15
Net Asset Value per Equity Share (Rs.)	13.01	10.30	1.35	1.29
Total borrowings (as per restated consolidated balance sheet)	36.66	36.65	2,543,135.99	2,694,005.95
(Rs. in millions, except ratios and percentages)				
Indian Embedded Value (consolidated)	5,396,860	956,050	464,970	N/A
Indian Embedded Value Operating Earnings (consolidated) ("IEVOE")	N/A	171,510	N/A	N/A
Operating return on Indian Embedded Value (consolidated) ("ORIEV")	N/A	36.89%	N/A	N/A

Strengths:

- **Fifth largest life insurer globally by GWP and the largest player in the fast growing and underpenetrated Indian life insurance sector**

  The Indian life insurance market is the 10th largest life insurance market in the world and the fifth largest in Asia in terms of life insurance premium. 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 indicates the absence of protection coverage for a large part of the Indian population. India's protection gap was US$16.5 trillion in 2019. The combination of the following are the key factors to propel the growth of Indian life insurance sector:

  - High GDP growth (expected to grow by 9.2% in Fiscal 2022 and 7.8% for Fiscal 2023);
  - India being the third largest economy in the world in terms of purchasing power parity;
  - An estimated increase of households in India in middle income category from 41 million in Fiscal 2012 to 181 million in Fiscal 2030, translating into a CAGR of 9% over this time period;
  - Rapid urbanization, in which the urban population is expected to increase from 34.9% of the total population in 2020 to 37.4% by 2025; and
  - The focus on financial inclusion and increasing preference towards financial savings with increasing financial literacy, are all key factors to propel the growth of Indian life insurance sector.

- **Trusted brand and a customer-centric business model**

  The corporation was incorporated in 1956 and up to 2000, they were the only life insurance provider in India, which made LIC, as a brand, synonymous with life insurance in India. They were recognised 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. It was also recognised by WPP Kantar as the second most valuable brand in the report "BrandZ™ Top 75 Most Valuable Indian Brands" for 2018, 2019 and 2020. It has won the Reader's Digest Trusted Brand Award numerous times and the prestigious Outlook Money Award Gold Award in Editor's Choice Category as the "Most Trusted Brand in Insurance" twice. Their Corporation's strong brand name and early-mover advantage is the key driver in maintaining their leading position in the Indian life insurance industry. The trust in the them is evidenced by the 279.11 million in force policies under individual business being serviced in India as at December 31, 2021 and by the fact that approximately 75% of individual policies sold by them in India in the nine months ended December 31, 2021 were to sold to customers who had not purchased any life insurance policies from them prior to April 1, 2021.

- **Cross-cyclical product mix that caters to diverse consumer needs and an individual product portfolio that is dominated by participating life insurance policies**

  Their 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. They have a broad, diversified product portfolio covering various segments across individual products and group products. Their individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and 7 individual optional rider benefits. Their group product portfolio in India comprises 11 group products. They are well placed to serve customers across age brackets with a comprehensive product portfolio, while maintaining a strong connect across age groups. Customers in the age bracket 27 to 40 years old accounted for approximately 42% and 42% of individual policies sold in Fiscal 2021 and the nine months ended December 31, 2021, respectively. Their cross-cyclical business mix is dominated by participating life insurance policies.

  Although their participating products dominate the portfolio, they also have a large market share in health insurance and annuity products. In health insurance provided by life insurance players, they had a market share in India of 46.9%. 53.6% and 54.4% in terms of GWP for Fiscal 2020, Fiscal 2021 and for the nine months ended December 31, 2021, respectively. In annuity products, they had a market share in India of 84.7%, 76.9%, and 68.7% in terms of GWP for Fiscal 2020, Fiscal 2021 and December 31, 2021, respectively.

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

  Key metrics for their agent network in India include:

  - Largest agent network among life insurance entities in India. As at December 31, 2021, their 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.
  - Industry leading agent network growth in India, with the number of their 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 players agency force CAGR of 4% during the same period.
  - Most productive agent network in the Indian life insurance sector, as evidenced by the fact that for the nine months ended December 31, 2021 and Fiscal 2021, their agents had an average NBP of ₹260,069 and ₹412,934 per agent, respectively, compared to the average NBP of ₹108,888 and ₹124,892 per agent for the median of the top five private players, respectively.
  - They have the highest Million Dollar Round Table ("MDRT") members among all the Indian corporates operating in financial services industry, with a total of 721 MDRT members for 2021.
  - High longevity of agents - 59.38% of their individual agents in India have acted for more than five years as at December 31, 2021.
  - 81% of their agents in India recruited in Fiscal 2021 were within the 18 to 40 years old group.

Their large agency network also enables them to cater to larger sections of society in urban and rural regions and not only the well-banked population in India. For Fiscal 2021, they had approximately 71% market share of new individual policies in rural India. They also have a wide presence across India and distribute their policies in all 36 states and union territories. As at March 31, 2021, they had offices in 91% of districts in India as compared to 81% for the entire private sector combined.

- **Harnessing technology capabilities to support customer connect and drive operating efficiencies**

  The corporation has developed technological capabilities that help them provide a great customer experience and drive operating efficiencies. They have added technological capabilities across the customer journey from purchase to payments to claims processing. As at December 31, 2021, their portal had 18.60 million registered users and their mobile app for policyholders, available on both Android and iOS platforms, had 5.13 million registered users. They have two apps namely, "Sales App" and "LIC Quick Quotes App" for intermediaries to use at the pre-purchase stage. They also have three online on-boarding digital platforms namely, "e2e", "i-proposals" and "AtmaNirbhar Agents New Business Digital App ("ANANDA")". Through these platforms, their intermediaries can register new proposals for insurance and issue new policies.

  Their customers' use of digital channels for payments to them has been increasing. For Fiscal 2019, Fiscal 2020, Fiscal 2021 and the nine months ended December 31, 2021, payments made via digital channels represented 25.50%, 31.53%, 42.54% and 46.95% of payments to the corporation by the number of individual policies with renewal premiums paid in India, respectively, and 17.24%, 22.20%, 32.11% and 36.44% of their individual renewal premiums in India, respectively. The year over year growth in individual policyholders' paying renewal premium by digital channels was 94.71% in terms of number of policies and 87.75% in terms of premium in Fiscal 2021.

- **Largest asset manager in India with an established track record of financial performance and profitable growth**

  They are 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 ₹40.1 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,
  - More than 1.1 times the entire Indian mutual fund industry's AUM and
  - 17.0% of India's estimated GDP for Fiscal 2022.

  As at December 31, 2021, their investments in listed equity represented around 4% of the total market capitalisation of NSE as at that date. Their policyholders' funds have a well-diversified investment portfolio. As at December 31, 2021, on a standalone basis, their policyholders' investment portfolio included 38.09% central government securities, 24.56% equity securities, 24.25% state government securities and 8.35% corporate bonds. As at December 31, 2021, 95.90% of their corporation's debt AUM on a standalone basis was invested in sovereign and AAA-rated securities. Over 90% of their Corporation's policyholders' equity investments on a standalone basis are held in stocks that are a part of the Nifty 200 and BSE 200 indices as at December 31, 2021.

- **Robust risk management framework**

  They have a risk management framework where risk identification, risk measurement and risk mitigation are undertaken through structured procedures and various Board-approved policies and controls. They have an enterprise risk management ("ERM") cell with the Chief Risk Officer heading the cell and a team of officers supporting him at different levels. Their ERM cell provides a framework for evaluating and managing risks inherent in their Corporation through risk and control self-assessment, incident management and top risk-key risk indicator analysis. They proactively manage their financial risks through, among other things:

  - Diversification of investment portfolio across asset classes, with significant exposure to sovereign and stateowned entities;
  - Regular monitoring of interest rates to address market volatility;
  - 95.90% of their debt portfolio in India is invested in sovereign and AAA-rated debt as at December 31, 2021;
  - Stress and resilience testing of the investment portfolio;
  - Matching of assets and liabilities on a quarterly basis at the line of business level where line of business liabilities account for over 5% of total liabilities;
  - Conservative management of reserves;
  - Price products using prudent assumptions; and
  - Proactively review the business mix to maintain alignment with customer needs and preferences.

Key Strategies:

- **Capitalize on the growth opportunities in the Indian life insurance sector**

  With the kind of scale, size, reach and scalability the Corporation has achieved over the years, they are well-positioned to capitalize on the expected growth of the Indian life insurance sector. Their Corporation's plans include:

  - Increasing 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 their products.
  - Increasing direct sales of their individual products on their website by increasing the marketing of website and adding more products that are available for purchase.
  - Improving the share of non-participating products by increasing the focus on sales of ULIP, protection products, pension/annuity products and health insurance.
  - Recruiting more millennial agents in light of the changing demographic dynamics.

- ❖ Increasing upselling and cross-selling to individual customers and beneficiaries of group products to cover their varied financial needs.
- ❖ Increasing the average ticket size of products.
- ❖ Increasing the productivity of intermediaries by furthering competency-building initiatives.
- ❖ Increasing focus on group protection plans.

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

While their participating products will continue to be a strong focus, they intend to continue diversifying the product mix by addressing customer needs at every stage of life and increasing sales of their existing non-participating products as well as launching new non-participating products, in particular term insurance, health insurance, pension/annuity products and ULIP products. They also plan 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. They will also instruct their product managers to focus more on non-participating products. Further, they plan to increase the marketing of their non-participating products.

There is already significant demand for annuity/pension products in India, with 82.7% of the country's employed population working in the unorganised sector. Their NBP from pension/annuity products in India increased 33.17% from ₹152,368.80 million for Fiscal 2020 to ₹202,913.18 million for Fiscal 2021.They have been putting more focus on selling ULIPs, which resulted in a 729.34% increase in their NBP from ULIPs in India from ₹911.38 million for Fiscal 2020 to ₹7,558.50 million for Fiscal 2021. Despite this large increase, they have plenty of scope to increase sales of ULIPs.

➢ **Reinforce their omni-channel distribution network and increase its productivity**

They intend to continue strengthening their omni-channel distribution network for individual products and increase its productivity. They plan to strategically expand their individual agency network, improve agents' productivity and maintain focus on improving the quality of agents they recruit and their longevity. They also plan 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. They have an agents' pre-recruitment mobile application that facilitates the registration process for candidates aspiring to become one of their agents. They will continue to train their agents to help increase their productivity and the average ticket size of the products they sell. They will continue to create programs to motivate and recognize high and consistent performers amongst the agency force, including using campaigns and awarding membership in one of their seven different agents' clubs.

➢ **Continue leveraging technology to aid growth, drive operating efficiencies and provide digital support**

They plan to continue to implement various technological and digital initiatives to increase productivity, train their agents and employees, improve cost efficiencies, provide better customer experience, provide a seamless customer on-boarding process and enhance their digital channels for payments. Their commitment is to harness technological and digital capabilities for customer convenience. They plan to make greater use of analytics to further drive productivity of their agency channel, deliver enhanced service levels, support customer connection with services and drive operating efficiencies. They also plan 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 their Corporation's surplus distribution policy**

❖ **Commercial levers to increase revenue and profit**

They plan to increase their Persistency Ratios through the following:

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

❖ **Financial levers to optimize yield on investment**

They 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**

Prior to September 30, 2021, they had one fund – a participating fund. An amendment to the Life Insurance Corporation Act in the Finance Act, 2021, which was notified on June 30, 2021, resulted in their corporation having a participating fund and non-participating fund since September 30, 2021. Section 28 of the Life Insurance Corporation Act, which was amended by Parliament and given effect to by the Government vide its Gazette notification dated March 29, 2012, provides that 90% or more of the valuation surplus, as the Government may approve, shall be allocated to or reserved for the policyholders.

Industry Snapshot:

- ***Global Life Insurance Industry***

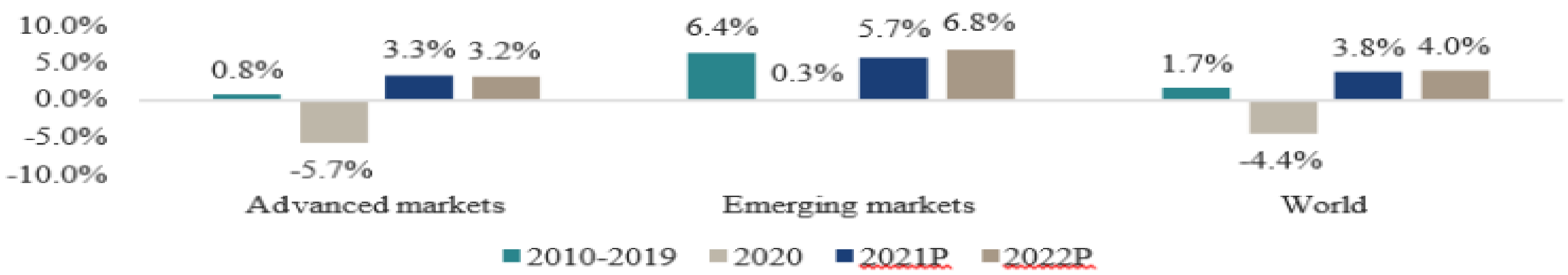
Growth in the global life insurance industry was almost stagnant for a few years after the financial crisis in 2008. During CYs 2003-2007, the total premium of the global life insurance industry grew at 4% CAGR (in nominal dollar terms). However, there was a revival in growth from CY 2014. During CYs 2014-2019, global life insurance premiums grew at a CAGR of 1.7%. Growth in this period was primarily driven by emerging markets which grew at 8% CAGR compared to a CAGR of 0.3% for advanced markets during the same period.

In CY 2020, the global life insurance market contracted by 3.1% to $2.79 trillion from $2.88 trillion in CY 2019 (in nominal terms) due to the impact of COVID-19 and the consequent weakness in the life savings business, which represents 81% of the global life portfolio. Advanced markets were hit harder, contracting 3.9% as compared to approximately 0.3% for emerging markets. The reason for the resilience of emerging markets was China, where premiums rose by 5.5% due to its strong economic recovery, solid demand for risk protection, quicker adoption of digital channels and insurers' active approach to engage with customers.

According to Swiss Re, the global life premium is expected to rebound strongly from the COVID-19 shock, with annual growth of 3.8% in CY 2021 and 4.0% in CY 2022 (in real terms). The recovery is expected to come from rising demand for risk protection owing to COVID-19's effect on consumer risk awareness. Life savings business is also expected to benefit from stronger financial markets and steady recovery in consumer incomes.

Emerging markets are expected to continue to be the key driving force globally with a 5.7% and 6.8% growth rate in CYs 2021 and 2022, respectively, according to Swiss Re. This growth will be driven by improved economic prospects, fast roll outs of vaccines, rising risk awareness, adoption of digital channels and further liberalisation of the life insurance sector.

Life insurance real premium growth (%)



- ***Global players shift towards hybrid and unit linked products***

Insurers are realizing the need to develop more flexible product solutions, and modify existing products to be more customer focused and personalised as consumers continue to seek the right combination of protection and savings relevant to their personal context. In some markets, life insurers have already began transforming their portfolio towards a wide variety of hybrids and unit-linked products that are more capital efficient and perform well in a low rate environment. For example, in the US, annuity products are growing at a faster pace as compared to traditional life insurance products given the aging US population.

In Japan, customer needs are shifting away from death protection and towards life protection products (medical, cancer and income products etc.). Thus, life insurers are seeking to develop and launch newer products with value added services to boost revenues. Nippon Life Insurance, a leading Japanese life insurer, now offers coverage for death, medical and nursing care, savings and retirement, and children-focused plans to supply customers with a comprehensive and well balanced product suite. In January 2020, justInCase, Inc. launched Japan's first peer-to-peer cancer insurance product, Warikan Hoken, an innovative product wherein the monthly premium is determined based on the member count and the number of claims during the prior month. In this case, the monthly premiums could be as low as 0 if there are no claims paid in a particular month. In Hong Kong, the share of linked business has increased from 1% in CY 2016 to 4% in CY 2020 in terms of the number of policies in the individual life new business. The share of annuities and other market linked product in terms of policies in individual life and business also grew to reach 26% in CY 2020 from 14% in 2016. Other shifts in life insurance include tailoring solutions based on consumer's life stages, as well as adding value added services and non-monetary benefits.

In contrast, the share of linked products in India is estimated to have marginally reduced to 11% in Fiscal 2021 from 13% in Fiscal 2016.

- ***Insurers continue to rely on agency channel for generating business***

Life insurance companies globally have invested heavily to acquire customers, including for scaling up agency channels, entering into for bancassurance deals and digital partnerships. Over the years, while there have been technological advancements and modernisation efforts, the digital distribution of life insurance products has not yet scaled significantly. Agency and bancassurance distribution models continue to dominate the industry across most markets around the world owing to the need for human interaction to understand customer needs and to explain to customers the features of policies and enable them to select the right policies.

For example, in China, the top two players Ping An Insurance and China Life Insurance Company sourced 83% and 82% of their gross premiums, respectively, through their agency channel in CY 2020. They are able to serve their large client base through a network of 1.02 million and 1.48 million individual agents, respectively. In fact, the cumulative contribution of the agent channel for the top two Chinese life insurers has increased in the last four years to reach 83% in CY 2020, from around 74% in CY 2016. On the back of the strength of their agency channel, Ping An Insurance and China Life Insurance Company have witnessed consistent growth in premiums with Ping An Insurance growing at a 15% CAGR over CY 2016 to CY 2020 and China Life Insurance growing at a 7% CAGR during the same period.

In India, LIC has the largest agent network of 1.33 million individual agents as at December 31, 2021, which accounted for 55% of the total agent network in the country and was 6.8 times the number of agents of the second largest life insurer. Its 65 years of lineage and its extensive and well-entrenched agent network allows LIC to cater to larger sections of the society in urban and rural regions and not just the well-banked population in the country.

For the overall Indian market, the share of new business generated for individual life insurance through bancassurance channels increased from 24% in Fiscal 2016 to 29% in Fiscal 2021. Private players have relatively higher dependence on bancassurance for new business, with their share increasing from 52% in Fiscal 2016 to 55% in Fiscal 2021.

While the agency channel will remain the bedrock of distribution for most life insurers, with accelerated digital adoption and technological advancements, life insurers in the next few years will focus on improving productivity and efficiency by focusing on using an omni-channel strategy and leveraging both digital and physical sales methods.

- ***Overview of the Indian Insurance Industry***

The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate the life insurance business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers, including provident insurance societies. In 1938, with a view to protecting the interest of policyholders, the earlier legislations were consolidated and amended by the Insurance Act, 1938 with comprehensive provisions to regulate insurers.

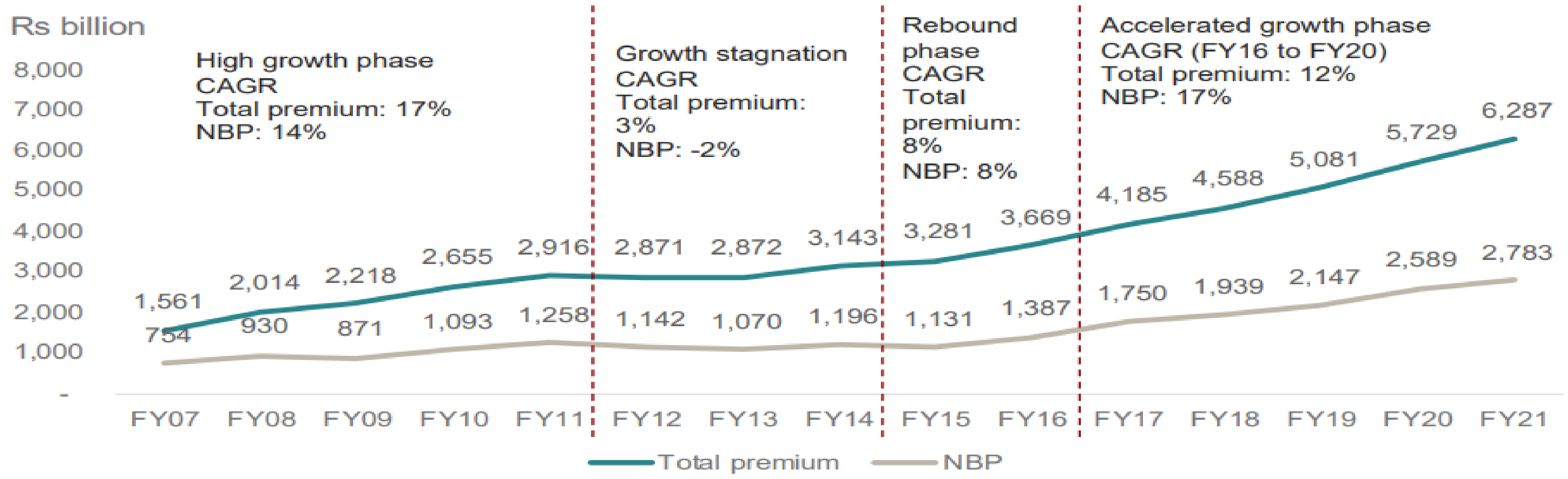
The Insurance Act, 1938 was the first legislation governing not only life insurance but also non-life insurance to regulate the insurance industry. The demand for the nationalization of the life insurance industry gathered momentum when a bill to amend the Life Insurance Act, 1938 was introduced in the Legislative Assembly in 1944. However, life insurance in India was nationalized much later on January 19, 1956. The Parliament of India passed the Life Insurance Corporation Act on June 19, 1956, and the Life Insurance Corporation of India (LIC) was created on September 1, 1956, with the objective of spreading life insurance, in particular to rural areas and to socially and economically disadvantaged classes with a view to reach all insurable persons in the country, providing them with adequate financial coverage against death at a reasonable cost.

LIC had five zonal offices, 33 divisional offices, 212 branch offices and a corporate office in the year 1956. Subsequent to its nationalisation, re-organization of LIC took place and large numbers of new branch offices were opened in order to expand the operations and place a branch office at each district headquarters. From about Rs. 2 billion of NBP in 1957, the corporation crossed Rs. 10 billion in NBP in the Fiscal Year 1969-70, and in another 10 years it crossed the Rs. 20 billion NBP mark.

Today, LIC continues to be the largest life insurer even in the liberalized scenario of Indian insurance being opened up to private players. LIC 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. LIC had 286 million in force policies under Individual Business (within India) as at March 31, 2021, which is greater than the 4th largest country population-wise as of CY 2020. As at December 31, 2021, LIC had a market share of 61.4% in NBP (individual and group) as compared to next largest competitor who had a market share of 9.16% basis NBP (individual and group). NBP for LIC in Fiscal 2021 was over Rs. 1.8 trillion, representing 66% of the aggregate industry NBP.

The Indian life insurance industry had only one player – LIC – during CY 1956 to CY 2000. However, post- privatisation in CY 2000, private players started entering the industry and by 2000-01, four private players had setup operations. HDFC Standard Life was the first private company to enter the industry in 2000-01, followed by ICICI Prudential Life, Max Life Insurance and Aditya Birla Sunlife Insurance in the same year. Only four new private players entered between 2002 to 2005, post which there was a surge again, with eight players setting up businesses till CY 2009. Edelweiss Tokio Life Insurance was the last entrant in the industry in 2011. Out of the 23 private players registered with IRDAI as on March 31, 2021, 20 players have joint ventures (JVs) with foreign partners. Also, in September 2021, HDFC Life announced that it will acquire Exide Life Insurance.

Trend in Total Premium for Overall Industry



- ***Industry Regulations***

IRDAI – Statutory Regulator for Life Insurance Business since CY 2000

The life insurance industry is regulated by the Insurance Regulatory and Development Authority of India (IRDAI). In 1993, the government set up a committee led by the former RBI governor, RN Malhotra, to propose recommendations for reforms in the insurance sector. Based on the recommendations of the Malhotra committee report in 1999, IRDAI was formed as an autonomous body to regulate the insurance industry in India. IRDAI received statutory status in April 2000.

Before 1999, the life insurance business was directly controlled by the government under the Insurance Act, 1938, with only one player operating in the sector – Life Insurance Corporation of India (LIC). LIC had absorbed all the 245 Indian and foreign insurers operating in India in 1956, as the government passed an ordinance to nationalise the sector.

Regulatory Changes with the Inception of the IRDAI

The key objectives of the IRDAI are to regulate and promote competition through the opening up of the insurance market, protect the interest of policyholders, and ensure the orderly growth of the insurance industry. The government opened the industry to private participation in August 2000, allowing 26% foreign ownership in insurance companies. The regulation immediately led to the launch of four private life insurance companies in Fiscal 2001, and 24 private life insurance companies were eventually set up by Fiscal 2012, including LIC.

Key Regulations in the Sector

1999-2005	2006-2011	2012-2016	2017-2021
2000: IRDAI set up as a statutory body to regulate the insurance industry 2000: Insurance industry privatised; 26% equity from foreign owners permitted 2002: Corporate agents allowed to sell insurance products 2002: Broker channel introduced 2005: IRDA passes micro-insurance regulations	2007: Amendment to Insurance Broker Regulation 2010: Major changes in regulations for linked products Product charges capped Cap on surrender charges Increase in lock-in period 2011: Licensing of Bancassurance Agents	2013: Corporate agents allowed to tie up with more than one insurer 2013: Linked and non-linked product regulations 2013: Reinsurance Regulations; Prescription on level of reinsurance 2015: Insurance Amendment Law, 2015 • Foreign Ownership increased from 26% to 49% • Agents Can be Appointed by Insurers 2016: Permission to set up insurance marketing firm	2017: Investment by Private Equity funds in Indian Insurance Companies 2017: Insurance Web Aggregators Regulations 2019: New and innovative campaign "Sabse Peheley Insurance" 2019: Linked and non-linked products regulations 2020: Issuance of Electronic Policies 2021: Foreign Ownership increased from 49% to 74% 2021: Saral Jeevan Bima & Saral Pension; Standard life insurance products
IMPACT	IMPACT	IMPACT	IMPACT
The number of companies increased to 15 by fiscal 2005 Insurance density improved from 9.1 in fiscal 2002 to 15.7 in fiscal 2005	Due to leniency in regulation, the amount of commission paid logged a CAGR of 21% during fiscal 2006 to fiscal 2010 Total premium clocked a CAGR of 26% during the period	Linked insurance premium saw a slowdown due to change in the commission structure Players with strong banking channels leverage their network to gain market share	Customer awareness and insurance penetration has increased due to innovative campaigns and digital initiatives Increased investment in life insurance companies through private equity/ FDI

Key Recent Initiatives Taken by Regulators

In 2020, the regulator undertook number of steps to make sure that the coverage of life insurance increases by offering simple and standardised policy options to customers in the wake of COVID-19.

- **Indian Life Insurance Industry**

India is the Fifth Largest Insurance Market in Asia and Has Exhibited Consistent Growth in Insurance Premiums

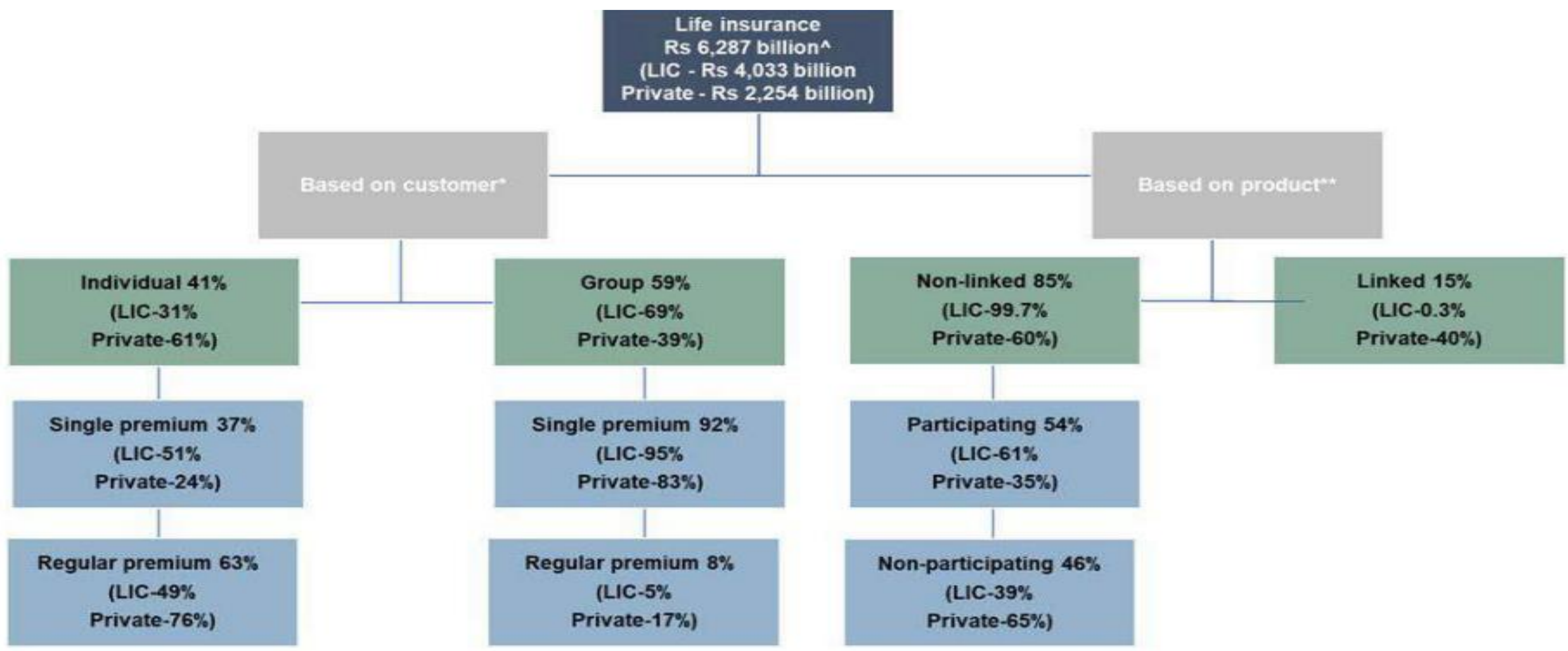
Based on life insurance premium, India is the tenth largest life insurance market in the world and the fifth largest in Asia, as per Swiss Re's sigma No 3/2021 report for July 2021. The size of the Indian life insurance industry was Rs. 6.2 trillion based on total premium in Fiscal 2021, up from Rs. 5.7 trillion in Fiscal 2020. The industry's total premium has grown at 11% CAGR in the last five years ending in Fiscal 2021. New business premiums (NBP) grew at 15% CAGR during Fiscals 2016 to 2021, to approximately Rs. 2.78 trillion. In fact, in Fiscal 2021 – a year impacted by the COVID- 19 pandemic, the NBP of the industry rose by 7.5%. Within the NBP, group business premium grew at approximately 15.4% CAGR from Fiscals 2016 to 2021, whereas individual premium rose approximately 14% CAGR during the same period.

Life insurance products can be classified on the basis of products and customer segments. Historically, life insurance products were savings oriented.

Non-linked products are traditional products with a protection and savings element built in or pure-protection products. Non-linked savings products can be further segregated into participating products and non-participating products. Participating products have variable returns, as these partake in the profits of the participating business of the company. Linked products' returns, on the other hand, are tied to the performance of debt and equity markets and are also savings-cum-protection products. For Fiscal 2021, non-linked products accounted for 86% of the total premiums. The share of non-linked products was lower for private players, constituting 57% of the total premium for Fiscal 2021.

Life insurance companies offer individual and group policies. Premium payments can be made in one go (called single premium) or on a regular basis. Individual business accounted 73% of total premium and 41% of total new business premium for Fiscal 2021.

Types of life insurance products, by product and customer types



Classification of Insurance Products

Life insurance products meet a range of insurance needs such as protection, savings, market linked savings, pension and health related benefits for individuals as well as groups. Insurance companies must design products to efficiently fulfill these requirements.

The following are the major categories of insurance products:

- ***Participating products***

For participating products, an insurer invests the premiums received in a pooled participating fund to pay for certain fixed benefits as well as to share the surplus in the form of bonus as a discretionary benefit. The distribution of regular bonus can be in the form of a reversionary bonus. The reversionary bonus is changeable from year to year for future years during the tenure of the policy as experience emerges from the life cycle of the policy. However, there are other forms of bonus such as terminal bonus and loyalty additions. Policies under participating products provide a minimum guaranteed return that is payable on death or maturity plus additional discretionary benefit in the form of bonuses. Bonuses, once declared, vest in a policy and become a guarantee.

- ***Non-participating products***

  Non-participating products provide a fixed amount of benefits on contingent event(s) covered under the product. The policyholders do not participate in profits or losses of the underlying business and therefore the product is also known as without profit product. This category includes pure term products (covering death benefit only), savings product (providing survival benefits in addition to death cover), and immediate or deferred annuity (providing series of payments).

- ***Unit-linked insurance products (ULIP)***

  ULIP is a long-term investment product. The returns under ULIP are directly linked to changes in the underlying investment, so the investment risk and reward is directly attributable to the policyholder. Therefore, unlike non-linked products holders, a ULIP holder can monitor the performance of the policy through the net asset value (NAV) released by the companies regularly. The policyholders have the flexibility to choose the proportion of equity and debt in their investment portfolio based on their risk profile, and switch between different asset classes available under the product, based on assessment of market conditions and risk appetite. Customers can also choose the level of life cover allowed within a product.

- ***Health insurance products***

  Life Insurers are allowed to sell defined benefit health insurance products to cover health related risks. Health insurance products may cover a specific disease such as cancer or a combination of diseases and the benefits are payable in case of hospitalization or undergoing surgeries.

- ***Group protection products***

  On the group platform, the product may be protection or savings under linked and non-linked category. Group term plans provide benefits of life insurance coverage to a group of individuals and the sum assured is paid to the member's nominee upon the death of the member. The policies are offered to a group such as employer-employee, non-employer- employee, banks, professional and microfinance institutions. Typically, group products have a one-year term and need to be renewed upon expiry. However, the product can be under regular premium and may be allowed to be accepted in lump sum. There can also be other variety of products such as coverage against loans, such as car loan, home loans, and education loans.

- ***Other group products***

  - Group gratuity plans help the employer reduce business cost and take care of employer's long-term gratuity expenses by earning a return on the employer's money.
  - Group leave encashment schemes help the employer manage future leave encashment liability in case of an employee's death, retirement or resignation/termination, in addition to providing security.
  - Group superannuation products help employees save for retirement and provide them with a corpus at the time of retirement.

- ***Riders***

  Riders are add-on covers to the base policy at an additional cost to facilitate additional benefits linked to accident, critical illness, premium waiver benefit etc. The rider benefits and eligibility criterion for a customer are subject to certain regulatory terms and conditions.

Key Risk:

- If actual claims experienced and other parameters are different from the assumptions used in pricing their products and setting reserves for their products, it could have a material adverse effect on their business, financial condition and results of operations.

- Customer preferences and market trends for life insurance, health insurance and pension products may change, and they may be unable to respond appropriately or in time to sustain their business or their market share in the markets in which they operate.

- Their investments are subject to (i) credit risks, (ii) concentration risks and (iii) liquidity risks, which could have a material adverse effect on their financial condition, results of operations and cash flows.

- A significant portion of their individual premium in India is concentrated in certain states. Any significant reduction in premiums from any of these states could have a material adverse effect on their business, financial condition, results of operations and cash flows.

- If their bancassurance partners prefer to promote other insurers' products or terminate their agreements with them, it could have an adverse effect on their results of operations.

- Their Corporation is subject to complex regulatory requirements and if they fail to comply with these regulatory requirements, their operations could be disrupted or they may become subject to significant penalties. In addition, any changes in regulatory requirements could have a material adverse effect on their business, financial condition, results of operations and cash flows.

- Insurance volumes in India typically increase significantly in the last quarter of each Fiscal Year due to customers capitalising on income tax advantages that life insurance products offer. As such, their results of operations and cash flows for any given period are not necessarily indicative of their annual results of operations and cash flows.

Valuation:

Based on life insurance premiums, India is the tenth largest life insurance market in the world and the fifth largest in Asia. The size of the Indian life insurance industry was Rs. 6.2 trillion based on total premium in Fiscal 2021, up from Rs. 5.7 trillion in Fiscal 2020. The industry's total premium has grown at 11% CAGR in the last five years ending in Fiscal 2021.

LIC is the trusted brand and a customer-centric business model. It's a largest player in the fast growing and underpenetrated Indian life insurance sector. Cross-cyclical product mix that caters to diverse consumer needs and an individual product portfolio that is dominated by participating life insurance policies. LIC is present across India through an omni-channel distribution network with an unparalleled agency force. LIC has Highest RoNW amongst other listed players in India in the same industry.

Peer Comparison:

Name of the entity	Total Premium (₹ in billions)	Net Profit (₹ in millions)	EPS (Diluted) (₹)	Net worth (₹ in millions)	RoNW (%)	NAV/ Equity Share (₹)	Indian Embedded Value (₹ in billions)	P/E
Life Insurance Corporation of India	4,058.5	29,741.39	4.70	65,146.44	45.65	10.30	5,396.86	
SBI Life Insurance Company Limited	502.5	14,558.49	14.55	104,004.36	14.00	103.99	302.0	78.16
HDFC Life Insurance Company Limited	385.8	13,608.72	6.73	86,377.22	15.75	42.75	295.4	82.33
ICICI Prudential Life Insurance Company Limited	357.3	9,561.55	6.65	91,194.20	10.48	63.51	302.0	78.81

At the upper price levels, the LIC has valued the IPO at 1.11 times its embedded value with a market cap of Rs.6,002 billion which we believe is quite lower when we compared with the three listed peer like HDFC Life Insurance Co, SBI Life Insurance Co. and ICICI Prudential Life Insurance Co. where the average embedded value stood at Rs 3,105 billion and the average market capitalisation-to-embedded value ratio arrived at 3.4 times. Hence, the issue looks quite attractive for investors. Considering the largest size of the IPO Company's well diversified product portfolio, and financial track records and bright prospects ahead, we recommend a **"Subscribe"** rating to this IPO.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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