

Life Insurance Corporation of India



LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Issue Opens On
May 04, 2022

Issue Closes On
May 09, 2022

Price Band (INR)
902-949

Issue Size (INR Mn)
2,10,085

Rating
SUBSCRIBE

LIC is India's only government-owned insurance provider company. It is the largest company in the Indian insurance space with a market share of above 61.6% in terms of premiums and 61.4% in New Business Premium as on 31st December, 2021. The company offers participating insurance products and non-participating products, i.e., unit-linked insurance products, saving insurance products, term insurance products, health insurance, and annuity & pension products. As of December 31, 2021, it has a total AUM of INR 40.1 tn on standalone basis. The company has 8 Zonal offices in Delhi, Mumbai, Kolkata, Chennai, Kanpur, Patna, Bhopal, and Hyderabad. As of December 31, 2021, the firm operates through 2048 branches, 113 divisional offices, and 1,559 Satellite Offices. It operates globally in Fiji, Mauritius, Bangladesh, Nepal, Singapore, Sri Lanka, UAE, Bahrain, Qatar, Kuwait, and the United Kingdom. As of March 31, 2021, it has 1.35 Mn life insurance agents with the largest agent network.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	221,374,920
Net offer (# shares)	197,656,179
Price band (INR)	902-949
Post issue MCAP (INR Mn.)	57,05,148-60,02,423

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	May 09, 2022
Finalization of Basis of Allotment with Stock Exchange	On or about, May 12, 2022
Initiation of Refunds	On or about, May 13, 2022
Credit of Equity Shares to Demat accounts	On or about, May 16, 2022
Commencement of Trading of Eq.shares on NSE	On or about, May 17, 2022

Source: IPO Prospectus

Issue	# Shares	INR in Mn	%
QIB	11,06,87,460	1,05,042	50%
NIB	3,32,06,238	31,513	15%
Retail	7,74,81,222	73,530	35%
Net Offer	22,13,74,920	2,10,085	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose		
(i) to achieve the benefits of listing the Equity Shares on the Stock Exchanges		
(ii) Carry out the Offer for Sale of up to 221,374,920 Equity Shares by the Selling Shareholder.		
(iii) The listing of the Equity Shares will enhance its visibility and brand name among existing and potential customers.		
Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	100.0	96.5%
Others	0.0%	3.5%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY19	FY20	FY21	9MFY22
Net Premium	33,99,716	38,24,755	40,53,985	28,53,419
Total Income	57,08,096	64,56,055	70,37,094	51,22,792
Expense Ratio	14.4%	14.7%	14.2%	15.3%
PAT	26,274	27,105	29,741	17,153
EPS (INR per share)	4.15	4.29	4.70	2.71
Net Worth	8,153	8,547	65,146	82,305
Solvency Ratio (x)	1.60	1.55	1.76	1.77

Source: IPO Prospectus, * Restated Statement

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Company Overview

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 (or GWP), a 66.2% market share in terms of New Business Premium, a 74.6% market share in terms of several individual policies issued, an 81.1% market share in terms of a number of group policies issued for FY21, as well as by the number of respective agents, which comprised 55% of all individual agents in India as of March 31, 2021. It had the highest gap in market share by life insurance GWP relative to the second-largest life insurer in India compared to the market leaders in the top seven markets globally. This is due to its vast agent network, strong track record, immense trust in the brand ‘LIC’, and 65 years of lineage.

Particulars	Market Share FY19	Market Share FY20	Market share FY21	Market share 9MFY22
Gross Premium Written	66.4%	66.2%	64.1%	61.6%
New Business Premium	66.2%	68.7%	66.2%	61.4%
Number of individual policies	74.7%	75.9%	74.6%	71.8%
Number of group policies	80.2%	78.4%	81.1%	88.8%

Source: IPO Prospectus

Channel Mix 9MFY22	LIC	Private Players
Individual Agents	96.5%	26.2%
Bancassurance	2.3%	51.1%
Corporate Agents	0.1%	2.8%
Direct	0.4%	14.3%
Web Aggregators	NIL	0.9%
Others	0.7%	4.7%

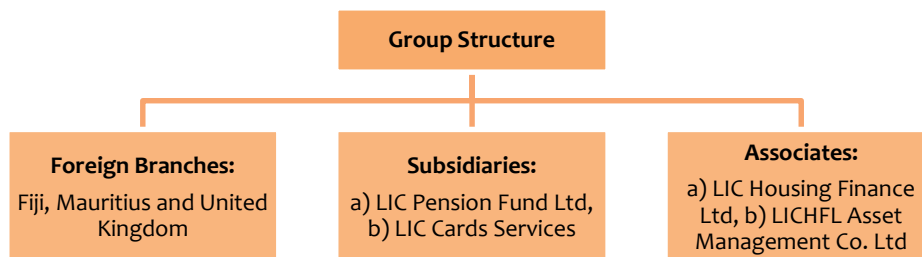
LIC is the largest asset manager in India as of December 31, 2021, with an AUM (comprising policyholders’ investment, shareholders’ investment and assets held to cover linked liabilities) of INR 40.1 tn on a standalone basis, which was (i) more than 3.2x the total AUM of all private life insurers in India, (ii) approximately 15.6x more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, (iii) more than 1.1x the entire Indian mutual fund industry’s AUM and (iv) 17.0% of India’s estimated GDP for FY22. As per RHP, as of December 31, 2021, LIC’s investments in listed equity represented around 4% of the total market capitalization of NSE as of that date.

LIC has a broad, diversified product portfolio covering various segments across individual and group products. Its products comprise (i) participating insurance products and (ii) non-participating products, which include (a) savings insurance products; (b) term insurance products; (c) health insurance products; (d) annuity and pension products; and (e) unit-linked insurance products. LIC’s products include specially designed products for specific segments, such as unique products for women and children and Micro Insurance products.

LIC’s omnichannel 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 its website), (v) Micro Insurance agents and (vi) Point of Salesperson-Life Insurance scheme.

In addition to the company’s life insurance operations in India, LIC has 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 FY19, FY20, FY21 and 9MFY22, on a consolidated basis, its premium from outside India represented 0.93%, 0.99%, 0.73% and 0.69%, respectively, of its total premium.

LIC’s other subsidiaries include LIC Pension Fund Limited, which is one of the three companies appointed as a pension fund sponsor under the Indian Government’s New Pension System, and LIC Cards Services Limited, which operates a credit card business.



Source: IPO Prospectus, KRChoksey Research

LIC’s profit after tax (Shareholders’ Account) on a consolidated basis for FY19, FY20, FY21 and 9MFY22 was INR 26,274 Mn, INR 27,105 Mn, INR 29,741 Mn and INR 17,153 Mn, respectively.

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Products Portfolio

LIC has a broad, diversified product portfolio covering various segments across individual products and group products as of December 31, 2021:

a) LIC’s Individual products comprise of:

1. **Participating Products:** Participating products are contracts of insurance where the policyholders have a contractual right to receive a guaranteed sum insured, and a discretionary benefit in the form of bonuses or loyalty additions. The participating products can be of (i) endowment or money back types, providing survival benefit(s), along with risk cover; or (ii) whole life types, which provide lifetime risk coverage.
2. **Non-Participating Products:**
 - Term Insurance Products: Individual non-participating term insurance products offer a guaranteed lump sum benefit on the occurrence of death of an individual during the period of coverage.
 - Health Insurance Products: Health insurance products cover a specific or a combination of diseases, such as cancer, and fixed benefits are payable in case of staying in hospital or upon undergoing various surgeries.
 - Non-Participating Saving Products: Non-participating savings products offer benefits that are guaranteed in absolute terms at the beginning of the policy.
 - Annuity and Pension Products: Annuity and pension products provide for annuity payments to start from the beginning of the policy or after completion of the chosen accumulation period.
 - Unit-Linked Insurance Plans: Unit-linked insurance products are products providing insurance coverage for death where investment decisions and the risks and rewards associated with such investments are directly attributable to the policyholders and non-investment risks, such as expenses, mortality and morbidity are borne by LIC.
3. **Riders for Individual Products:** Riders are add-on covers to the base policy at an additional cost to facilitate additional benefits linked to accident, critical illness, death and premium waiver benefit.

LIC’s top five selling individual products in India in terms of the number of new business policies sold for 9MFY22 were: (1) LIC’s Jeevan Labh (22.15% of the total new business policies sold); (2) LIC’s New Endowment Plan (18.36% of the total new business policies sold); (3) LIC’s New Jeevan Anand Plan (8.70% of the total new business policies sold); (4) LIC’s Aadhaar Stambh (8.70% of the total new business policies sold); and (5) LIC’s Aadhaar Shila (6.98% of the total new business policies sold).

b) Group Products: LIC had an 81.1% market share of group policies issued in India in FY21. the company’s group insurance products provide term cover products to both employer-employee groups and non-employee-employee groups. It also offers fund management and pension payment services to employer-employee groups wherein retirement benefits – gratuity, superannuation and leave encashment liabilities – are managed by LIC under respective funded schemes. The company provides fund management services for group pension products under employer-employee pension schemes. Post-employment, beneficiaries are provided pensions as per the specific scheme rules of the master policy holder.

The following table sets forth the breakdown of the business in India in terms of GWP, NBP and APE by customer category for the periods indicated:

Particulars	FY19		FY20		FY21		9MFY22	
	INR in Mn	% of Total	INR in Mn	% of Total	INR in Mn	% of Total	INR in Mn	% of Total
GWP								
Individual	2,389,311	70.9	2,453,773	64.7	2,677,967	66.5	1,891,198	66.7
Group	981,989	29.1	1,336,363	35.3	1,350,914	33.5	946,335	33.3
Total	3,371,300	100.0	3,790,136	100.0	4,028,881	100.0	2,837,533	100.0
NBP								
Individual	510,261	35.9	514,026	28.9	565,267	30.7	358,258	28.4
Group	911,791	64.1	1,267,493	71.1	1,277,694	69.3	901,892	71.6
Total	1,422,052	100.0	1,781,519	100.0	1,842,961	100.0	1,260,150	100.0
APE								
Individual	314,477	77.5	352,974	73.6	322,706	70.8	209,044	69.9
Group	911,79	22.5	126,749	26.4	133,173	29.2	90,189	30.1
Total	405,656	100.0	479,723	100.0	455,879	100.0	299,233	100.0

Source: IPO Prospectus

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

INVESTMENT RATIONALE

One of the largest life insurer globally by GWP and faster growing insurer in India:

LIC is ranked fifth in terms of life insurance GWP and 10th globally in total assets. It is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued, and number of group policies issued for FY21. LIC’s market share in the Indian life insurance industry was 66.2% based on NBP. The company’s NBP was 1.96x the total private life insurance sector and 8.9x the NBP for the second-largest player in the Indian life insurance industry.

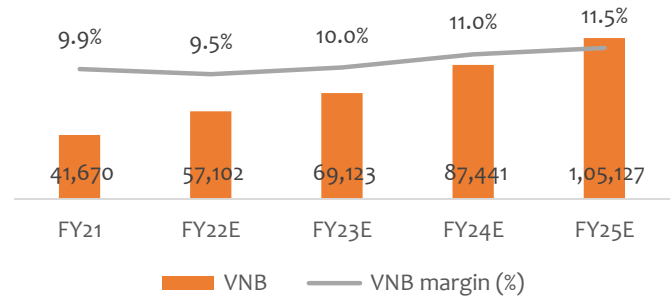
Recent amendments in LIC Act: The Board of the Corporation has approved bifurcation of the Single fund into separate Par and Non-Par funds and the surplus distribution policy as mandated under amended section 24 and 28 of LIC Act, 1956. This resulting in reduced bonus payouts to LIC policyholders (from 95% to 90%) for par policies, and from 95% to 0% for non-par policies, bringing the payouts in line with private insurers. The move is positive for LIC shareholders as it will result in increased focus on profitable business.

Focus on non-par products is margin accretive: LIC has plans to launch new non-par products (term protection, pension/annuity, health insurance and ULIPs) and increasing sales of existing non-par products which will result in margin improvement. Private players enjoys healthy VNB margins compared to LIC. If LIC succeeds, a 10% shift in mix from par to non-par will result in double digit VNB margin for the company. The contribution from par products is close to 61% in FY21 while it is ~35% for private players.

LIC: Shareholder's Surplus Share according to new mandate		
Year	Participating	Non-Participating
FY21	5.0%	5.0%
FY22E	5.0%	100.0%
FY23E	7.5%	100.0%
FY24E	7.5%	100.0%
FY25E	10.0%	100.0%

Source: IPO Prospectus

Projected VNB and Margin



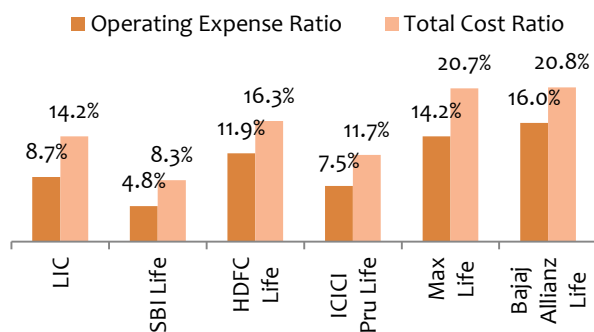
Source: KRChoksey Research

Healthy operating metrics: LIC’s operating metrics are largely comparable to private players. LIC’s operating expense ratio in FY21 was 8.7% while for private players it is 12.6%. Total cost ratio for LIC in FY21 was 14.2% while it is 16.9% for private players. LIC’s persistency ratio is in-line with private players.

Focus on technology to aid growth and drive operating efficiencies: LIC will continue implementing various technological and digital initiatives and continue to make greater use of analytics to further drive the productivity of its agency channel, deliver enhanced service levels, support customer connection with services and drive operating efficiencies. LIC will continue to promote digital modes of payment to increase the share of premiums collected through digital methods.

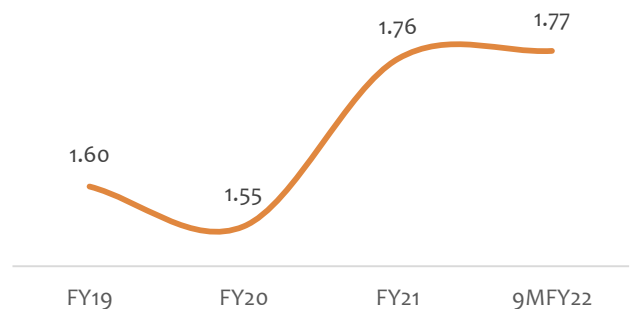
LIC lost some of its market share to technically savvy large private players during covid-19. The company increased its spending on technology in last couple of years and it is further committed to make investments in technology to drive growth and improve its operating efficiencies. Further, LIC also announced a tie-up with insurance aggregator Policybazaar.com to widen the reach of its products.

Expense Ratio (FY21)



Source: IPO Prospectus

LIC’s Solvency Ratio (x)



LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

INVESTMENT RATIONALE

Strong brand with customer-centric business model:

LIC 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. **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 USD 8,655 Mn, with a Brand Strength Index (BSI) score of 84.1 out of 100, corresponding to AAA- brand strength rating. LIC’s strong brand name and early-mover advantage are key drivers in maintaining its leading position in the Indian life insurance industry.

Cross-cyclical product mix responding to varied customer needs and an individual product portfolio dominated by participating life insurance policies:

LIC 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 and group products. **As of December 31, 2021, LIC’s individual product portfolio in India comprised 32 individual products (16 participating products and 16 non-participating products) and seven individual optional rider benefits.** As of December 31, 2021, its group product portfolio in India comprised 11 group products. In addition, LIC is well placed to serve customers across age brackets with a comprehensive product portfolio while maintaining a strong connection across age groups. Its cross-cyclical business mix is dominated by participating life insurance policies.

Presence across India through an omni-channel distribution network with an 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 company’s website), (v) Micro Insurance agents and (vi) Point of Salesperson-Life Insurance scheme. **As of December 31, 2021, LIC had 1.33 million individual agents, 70 bancassurance partners, 215 alternate channel, A portal on the company’s website for digital sales, 2,128 active Micro Insurance agents and 4,769 Point of Salesperson-Life Insurance scheme.**

In India, LIC has the largest agent network of 1.35 million individual agents (6x of private life insurer) as of March 31, 2021, which accounted for 55% of the total agent network in the country and the company’s agents have highest productivity (3x of private life insurer).

LIC’s extensive agency network also enables it to cater to larger sections of society in urban and rural regions and not only the well-banked population in India. For FY21, the company had approximately 71% market share of new individual policies in rural India. LIC has a wide presence across India and distributes its policies in all 36 states and union territories. As of March 31, 2021, the company has offices in 91% of districts in India as compared to 81% for the entire private sector combined.

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

LIC is the largest asset manager in India as of December 31, 2021, with an AUM of INR 40.1 tn on a standalone basis, which was (i) more than 3.2x the total AUM of all private life insurers in India, (ii) approximately 15.6x more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, (iii) more than 1.1x the entire Indian mutual fund industry’s AUM and (iv) 17.0% of India’s estimated GDP for FY22. **As per the CRISIL Report, as of December 31, 2021, LICs investments in listed equity represented around 4% of the total market capitalization of NSE as of that date.**

LIC policyholders’ funds have a well-diversified investment portfolio. **As of December 31, 2021, on a standalone basis, its policyholders’ investment portfolio included 38.09% central government securities, 24.56% equity securities, 24.25% state government securities and 8.35% corporate bonds.** As of December 31, 2021, 95.9% of the company’s debt, AUM was invested in sovereign and AAA-rated securities on a standalone basis. Over 90% of the policyholders’ equity investments on a standalone basis are held in stocks that are a part of the Nifty 200 and BSE 200 indices as of December 31, 2021.

Robust risk management framework:

LIC has a risk management framework where risk identification, measurement, and mitigation are undertaken through structured procedures and various Board-approved policies and controls. It 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. **LIC proactively manages its financial risks through diversification of investment portfolio across asset classes, regular monitoring of interest rates to address market volatility, stress and resilience testing of the investment portfolio, matching of assets and liabilities on a quarterly basis at the line of the business level where line of business liabilities account for over 5% of total liabilities, conservative management of reserves, and proactively reviewing the business mix to maintain alignment with customer needs and preferences.** LIC’s large, geographically diversified customer base and a participating product dominated portfolio serve as a natural hedge. The company’s lower policy ticket sizes reduces volatility.

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Future Growth Strategies

Capitalize on the growth opportunities in the Indian life insurance sector:

The favorable demographic tailwinds supporting India’s growth story, combined with the under penetration of life insurance in India, are key factors for the multi-decadal growth in the life insurance industry in India. **The GWP for life insurers in India is forecasted to grow at 14-15% CAGR from FY21 to FY26E to reach INR 12,400 Bn. At this level of premium, life insurance as a proportion of GDP is projected to reach 3.8% by FY26E, up from 3.2% in FY21.**

The NBP of the Indian life insurance industry is expected to grow at a CAGR of approximately 18% from FY21 to FY26E for individual business as compared to a CAGR of 17% for group business over the same period. Further in the long term, life insurance NBP is expected to grow at CAGR of 14-16% between FY21 to FY32E.

With the kind of scale, size, reach and scalability LIC has achieved over the years, the company is well-positioned to capitalize on the expected growth of the Indian life insurance sector. LIC has plans that includes:

- Increasing its market share of the bancassurance channel by tying up with more bank partners and improving its productivity by providing with digital solutions for on-boarding customers for its products.
- Increasing direct sales of its individual products on its website by increasing the marketing of the company’s website and adding more products that are available for purchase on its website.
- 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 the varied financial needs.
- Increasing the average ticket size of its products.
- Increasing the productivity of its intermediaries by furthering competency-building initiatives.
- Increasing its focus on group protection plans.

Diversifying its product mix by increasing the contribution of the non-participating portfolio:

While LIC’s participating products will continue to be a strong focus, it will 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.

LIC plans to increase the training given to intermediaries on non-participating products and incentivize the sale of non-participating products by offering more accessible access to the higher-level agent club membership for sales of these products. LIC’s NBP from term insurance in India increased by 15% from INR 1,644 Mn for FY20 to INR 1,890 Mn for FY21. NBP from term insurance in India was INR 1,497 Mn for 9MFY22. LIC’s NBP from health insurance in India decreased by 2.5% at INR 1,021 Mn for FY21. Despite the slight decrease in the company’s NBP from health insurance in India in FY21, LIC’s market share in India in health insurance in NBP increased from 43.4% for FY20 to 63.1% for FY21. **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. LIC’s NBP from pension/annuity products in India increased 33.17% YoY in FY21.**

LIC has been focusing on selling ULIPs, which resulted in a 729.3% increase in the company’s NBP from ULIPs in India from INR 911.4 Mn for FY20 to INR 7,558.5 Mn for FY21. Despite this significant increase, LIC has plenty of scopes to increase sales of ULIPs. With effect from April 1, 2021, income earned on contributions beyond INR 0.25 Mn per annum in ULIPs became taxable. This change in tax laws has led to a shift in demand towards protection and other savings/ annuities products. However, there is still a healthy demand for ULIPs with investments of up to INR 0.25 Mn per annum

Reinforce its omni-channel distribution network and increase its productivity:

LIC continues strengthening its omnichannel distribution network for individual products and increasing its productivity. LIC plans to strategically expand its individual agency network, improve its agents’ productivity, and focus on improving the quality of agents it recruits and their longevity.

LIC intends to hire more millennial and post-millennial agents by running social and digital media campaigns and 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. LIC will continue to train its agents to help increase their productivity and the average ticket size of the products it sells.

In October 2021, LIC introduced its PRAGATI mobile app for use by its development officers for monitoring its agents, which will help reduce agents’ attrition. LIC to increase the number of Point of Salesperson-Life Insurance schemes to better meet potential customers’ needs. LIC aims to find additional partners in the bancassurance (bank) channel and alternate channel and improve their productivity by providing them with digital solutions for on-boarding customers for its policies. **LIC plans to increase direct sales of its individual products on the company’s website by increasing the marketing of its Corporation’s website, leveraging social media platforms to reach the millennial segment, and adding more products available for purchase on the website.**

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Future Growth Strategies

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

LIC will continue implementing various technological and digital initiatives to increase productivity, train its agents and employees, improve cost efficiencies, provide a better customer experience, provide a seamless customer onboarding process and enhance its digital channels for payments. **The company to make greater use of analytics to further drive the productivity of its agency channel, deliver enhanced service levels, support customer connection with services and drive operating efficiencies.**

LIC will continue to promote digital modes of payment to increase the share of premiums collected through digital methods. For FY19, FY20, FY21 and 9MFY22, LIC collected INR 317,213 Mn, INR 417,414 Mn, INR 691,794 Mn and INR 547,906 Mn of individual renewal premiums in India via digital modes of payment, respectively, which represented 17.24%, 22.20%, 32.11% and 36.44% of individual renewal premiums total premiums paid in India, respectively.

The company has taken a few initiatives like Implementing a new unique customer identification and deduplication system, increasing the use of ANANDA, increasing the online recruitment of agents, increasing the use of online training of agents and increasing the use of digital marketing.

Maximize value creation through various commercial and financial levers as well as changes to the company’s surplus distribution policy:

LIC is expected to increase its Persistency Ratios through the following:

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

LIC will 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.

Key Strengths

- LIC is the leading insurance provider company in India and fifth largest global insurer by GWP.
- LIC is a part insurance and part investment products company which includes a combination of insurance and investment with a guaranteed return.
- Multiple range of life insurance products to meet varied insurance needs of individuals.
- It has a strong omni-channel distribution network; 1.33 million agents, 2,128 active Micro insurance agents and 215 alternate channel.
- LIC is the largest asset manager in India with established financial performance track record.
- The company has a highly experienced and qualified management team.

Key Risk

- Under the IRDAI Investment Regulations, LIC is required to invest its investment assets forming part of its controlled fund in certain specified categories of assets and instruments, subject to thresholds prescribed for each category of investment. Given the prescribed limits on the way the company’s assets are held and in which its investments can be made, LIC may be unable to mitigate market risks, while making investments, in the same manner as non-insurance companies.
- There is a risk of losses if LIC is forced to sell assets at unfavorable prices to meet the cash flow requirements as and when they arise if it holds insufficient liquid assets to support the liabilities. The company faces limited liquidity risk due to the nature of its liabilities and business structure.
- Events such as changes in regulatory policies, volatility in capital markets, loss of customer confidence in the insurance industry or in the company, or sharp declines in its customers’ financial positions due to a severe deterioration in economic conditions, such as the economic deterioration caused by the COVID-19 pandemic, may cause discontinuations of its customers’ insurance policies.
- The strength of the brand ‘LIC’ could be adversely affected by changes in customers’ and market perceptions about the company, particularly in the insurance sector, where integrity, trust and customer confidence are paramount. LIC is exposed to the risk that litigation, misconduct by its employees, agents or other distribution partners, operational failure and negative publicity could harm its brand, reputation, customer trust and business.

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Industry Overview

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 INR 6.2 Tn based on total premium in FY21, up from INR 5.7 Tn in FY20. The industry’s total premium has grown at 11% CAGR in the last 5 years ending in FY21. New business premiums (NBP) grew at 15% CAGR during FY 2016 to 2021, to approximately INR 2.78 tn. In fact, in FY21 – 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.

Total premium to cross INR 12 Tn by FY26E:

It is forecasted that the total premium for life insurers to grow at 14-15% CAGR over the next five years. At this level of premium, life insurance as a proportion of GDP is projected to reach 3.8% by FY26E, up from 3.2% in FY21. NBP is expected to grow at a CAGR of 17-18% during the same period ending FY26E. Further in the long term, life insurance NBP is expected to grow at robust growth of 14-16% CAGR between FY21 to FY32E.

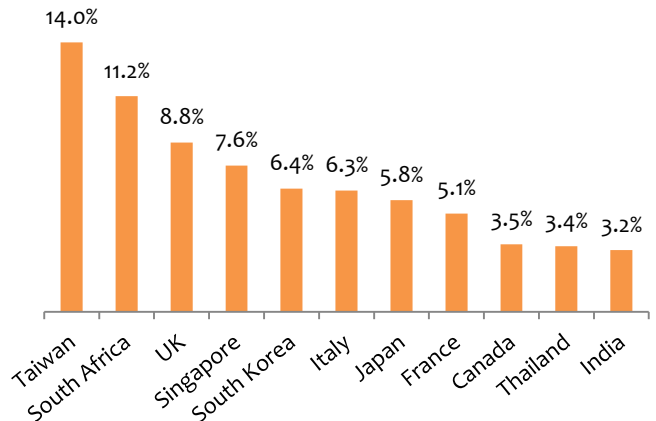
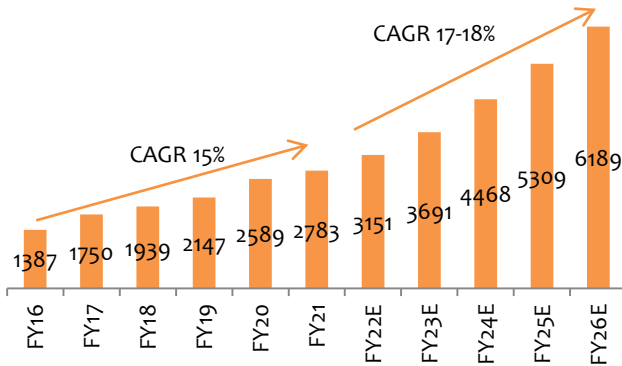
Indian market is still underinsured compared to major economies

India’s life insurance penetration stood at 3.2% in CY20 compared to the global average of 3.3%. Among Asian countries, life insurance penetration in Thailand, South Korea and Singapore were at 3.4%, 6.4%, and 7.6%, respectively, in CY20. The penetration of the Indian industry is not comparable to developed markets, such as the United States and Australia, where mandatory pension contributions are not included in the insurance pie.

India’s protection gap was USD 16.5 tn as of CY19, which was much higher compared to its Asian counterparts. The protection gap for India was 83% as of CY19, the highest amongst all countries in Asia-Pacific, as per the Swiss Re report “Closing Asia’s Mortality Protection Gap – July 2020”.

New Business Premium Growth (INR Bn)

Life Insurance Industry Penetration



Source: IPO Prospectus

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 FY21, 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 FY21. 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 FY21.

Life insurance premium has grown at an 11% CAGR from FY 2016 to 2021. The double-digit growth in premium can be attributed to expansion in the distribution network, introduction of different government schemes and financial inclusion drives. These factors have increased awareness about the need for insurance and propelled industry growth.

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Industry Overview

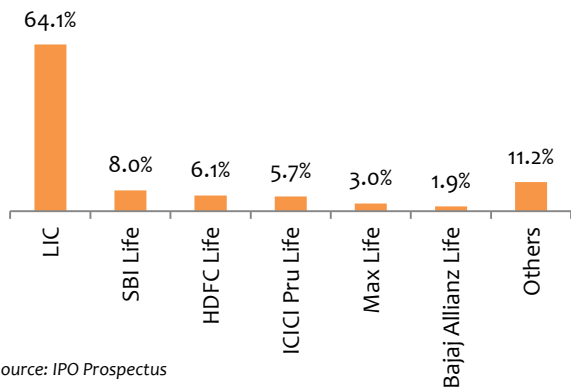
LIC holds a 64% share by total life insurance premium and grew at 9% CAGR from FY 2016 to 2021. Private insurers grew at a 18% CAGR growth during the same period. New business premium has grown at 15% CAGR in the past five years with LIC and private insurers growing at 14% and 18% CAGR, respectively. In FY21, amid the COVID-19 pandemic, NBP grew approximately 7% reflecting the impact of the economic slowdown. During the first six months of FY22, NBP growth remained low for the industry with YoY growth of 6%.

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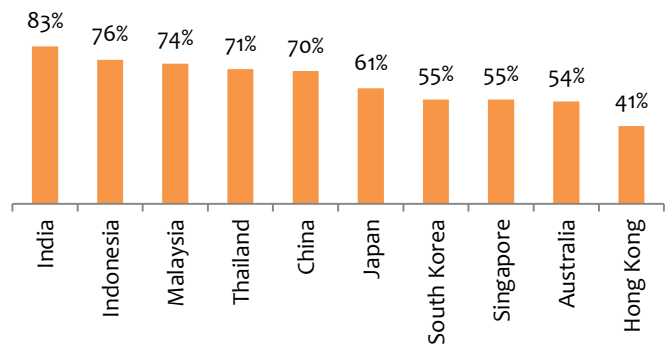
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Market Share Total Premium (FY21)



Source: IPO Prospectus

Protection Gap



Next growth drivers of the life insurance industry - protection, non-par savings and annuities products:

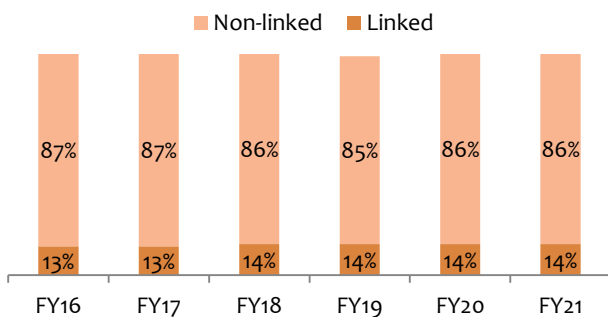
Basis the evolving market need, insurers have increased their focus on non-participating saving, protection and annuity products. Over the years, customers and insurers have shifted their focus towards protection products from savings led products.

Currently, the penetration of products like protection, non-par savings and annuities as a proportion of total addressable population is modest, but the awareness of these products has increased manifold since the onset of the COVID-19 pandemic. Going forward, due to increasing push by insurance companies, growth of online platforms and increasing awareness, it is expected that the demand for these products to gain further traction.

Emergence of digital distribution channel:

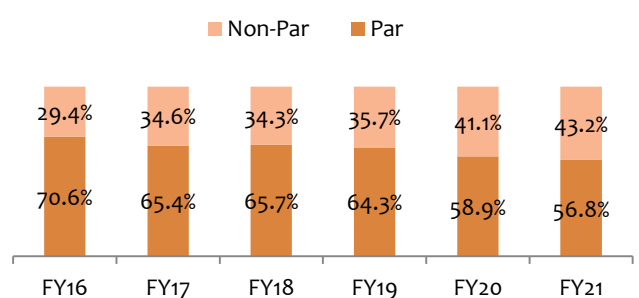
Given the increase in internet and mobile penetration, digital distribution of life insurance products will also play a key role going ahead. For FY21, around 9.2% of individual NBP came through the direct, web-aggregators and online modes, and is expected that this share to increase significantly in the coming years.

Industry product mix based on total premium



Source: IPO Prospectus

Non-linked product mix based on total premium



LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

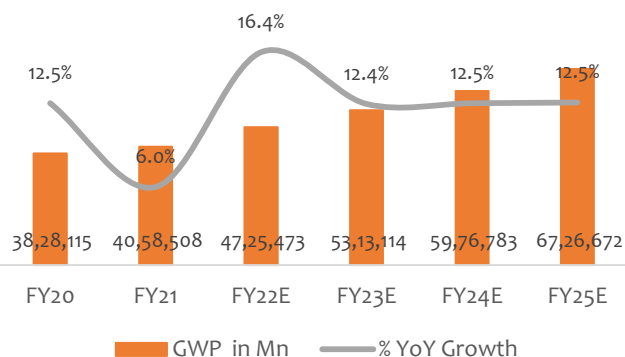
Financial Analysis:

LIC’s total asset has grown at a CAGR of 8% from FY17-FY21 to reach INR 36.8 Tn while its net premium earned grew at a CAGR of 6% from FY17-FY21 to reach INR 4.0 Tn. LIC’s PAT has grown at a CAGR of 5.1% from FY17-FY21 to reach INR 29.7 Bn.

LIC reported a GWP growth of 7.4% CAGR over FY17-21. LIC saw a profit after tax of INR 16.7 Bn for 9MFY22. For the 9MFY22, NBP stood at INR 1,580.4 Bn. The persistency ratio for the 13th month was at 76.8%, which remains consistent since past 3 years while 61st month was reported at 61.9% as on December 31, 2021. This ensures a stability in the business quality for LIC.

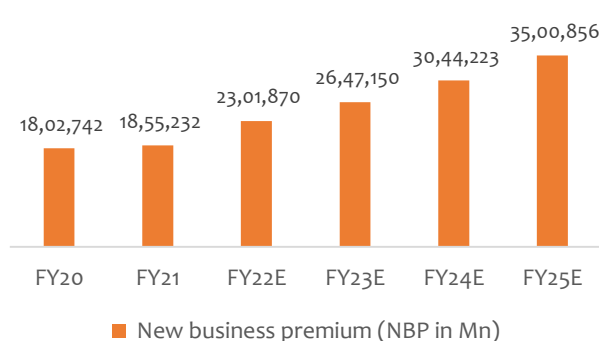
We expect the GWP for LIC to grow at 13% CAGR over FY21-25E, driven by 17% CAGR growth in NBP. The VNB margins are expected to reach around 11.5% by FY25E resulting from increased focus on the non-par segment and improving contribution from the Annuity/ Protection products. We believe post the IPO, LIC will focus more on the new innovative product pipeline to gain the market share from the private players. The company is expected to expand its distribution mix by increasing new partnerships and leveraging its technological capabilities. The persistency ratio for the company is expected to show a gradual improvement in the upcoming quarters across all cohorts. We expect PAT to grow at 19% CAGR over FY21-25E on improved business momentum and healthy operating leverage.

GWP to stay healthy with stability in growth



Source: IPO Prospectus, KRChoksey Research

New business premium (NBP in Mn)



Source: IPO Prospectus, KRChoksey Research

Outlook and Valuation:

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 of up to 221,374,920 Equity Shares by the Selling Shareholder (President of India, acting through the Ministry of Finance, Government of India). LIC expects that the proposed listing of its Equity Shares will enhance LIC’s visibility and brand image and provide a public market for Equity Shares in India.

The insurance industry is growing due to considerable government initiatives, democratic factors, a favorable regulatory system, expanded partnerships, product innovations, and a robust distribution mix. In addition, the current pandemic has increased healthcare awareness, and thus health insurance will contribute significantly to efforts to rebuild the health sector.

The Indian life insurance industry registered a growth of 7.5% for new business premiums in FY21. Private players grew by 16.3%, while Life Insurance Corporation (LIC) grew by 3.5%. The product mix for LIC has remained consistent for the past few years. LIC focuses more on traditional products, and its share in ULIPs is negligible, while private players have a well-balanced mix of traditional and ULIP products. For private players, the share of traditional products has increased from 58% in FY17 to ~65% in FY21, while the share of ULIPs has decreased from 42% in FY17 to ~35% in FY21.

The PAR segment has led the LIC product portfolio, contributing 67% to the Non-linked product portfolio. Private peers are more diverse and balanced when compared to LIC with concentration risk. With a stronger emphasis on the Non-Par segment, LIC will have a broader scope of expansion, which will trigger a healthier and more robust product offering than its peers, owing to LIC’s position as India’s most prominent player. Within the annuity segment, LIC holds a majority share of roughly 77% as of FY21, followed by HDFC Life at 7% and SBI Life at 5.9%. Peer companies are focusing on expanding the annuity business, which will improve margin. However, LIC is already in a strong position in terms of market share, and the gap between the next player is much broader.

Overall, LIC has been a consistent player with stable margins. With shift in the product portfolio strategy and diversification of distribution mix, the company will have a huge opportunity to growth from all the fronts. The protection segment is the next key trigger for growth for life insurers where LIC contribution is lower as compared to its peers. We expect with increased focus on this segment, LIC will well poised to capture the industry opportunity.

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Life insurance has grown as a most important part for securing long-term financial goals while safeguarding individual's household. In India, insurance remains a multi-decade opportunity, and the life insurers are well positioned to capitalise on the industry's long-term growth potential. We believe LIC is well placed to grab this opportunity. We expect the company to keep its strong growth momentum by increasing its market share and focusing more on underwriting quality. We expect LIC to build on the industry's growth opportunity aided by the size and its geographical reach. Given the growth prospects for the pension/ annuity segment and the company's position as the market leader in the insurance sector, the company's current valuation looks reasonable.

LIC IPO size is INR 2,10,085 Mn. The price band of the issue is INR 902-949 per share. On the upper price band of INR 949 and the EV per share of INR 853 for 9MFY21, the P/EV ratio works out to be 1.1x. While the industry P/EV is at ~2.5x. We believe valuation for LIC is reasonable keeping in mind the valuations at which the peers are trading and the average industry. The discount in the multiple for LIC could be considering its current dependence on the traditional product segment, lower VNB margins, higher employee expense, and agency distribution mix compared to its private peers. **We expect the company to focus on its strong growth momentum by gaining its market share and focusing more on underwriting quality & the high margin product mix. Given the growth prospects for the pension/ annuity segment and the company's position as the market leader in the insurance sector, the company's valuation will be at par with the private peers. As a result, we recommend to subscribe the IPO for listing as well as long term gains.**

Peer Comparison:

Global benchmarking: Amongst the peer set, LIC's dominance is unparalleled globally with no other life insurance player in any country enjoying such high market share in its geography.

LIC ranks fifth in terms of net premium earned, with premium of USD 56 Bn in FY21. Over a period of 12 months ending in CY20, AXA S.A. (USD 113 Bn), Ping An Insurance (USD 110 Bn), Allianz SE (USD 909 Bn), China Life Insurance Company (USD 88 Bn) are the only global peers having a net premium higher than LIC. In terms of growth, Ping An Insurance has grown at a CAGR of 15% over the last four years, followed by China Life Insurance Company (9%) and LIC (6%).

Benchmarking against top Indian Private Insurers: LIC's product portfolio more immunized to capital market cycles compared to peers. Non-linked products constituted 99.8% of LIC's portfolio in FY20. No other players amongst the peer set compared reported more than 70% of its premium through non-linked products. In the health insurance segment, LIC had a market share of 63.1% on NBP basis in FY21. Within the annuity segment, LIC continues to account for the majority share at approximately 77% as at FY21 followed by HDFC Life at 7.6% and SBI Life at 5.9% during the same period.

As of March 31, 2021, LIC had 1.35 Mn individuals in its agent network compared to 1.10 Mn individuals for the entire private life insurance industry. As of September 2021, LIC's AUM was INR 39.6 tn. LIC's AUM as of September 30, 2021, is more than 3.3x higher than total AUM of all private life insurers in India, it is approximately 16.2x more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM (SBI Life had the second largest AUM of approximately INR 2.4 Tn) and is also 1.1x the AUM of the entire mutual fund industry in India, which had AUM of approximately INR 36.7 Tn as of September 30, 2021.

Globally, Allianz S.E is the largest life insurer in the world in terms of the life insurance premium and is second in terms of total assets. LIC is ranked fifth globally in terms of life insurance premium and tenth in total assets. Overall financial performance-wise, China's Ping An Insurance leads the global position while LIC ranks 8th amongst the global players. Ping An Insurance and China Life Insurance Company dominate the life insurance market, with market shares of 21% and 20%, respectively. We expect LIC to improve its customer engagement further to explore the growth opportunities and gain market share globally.

Peer Comparison

Name of the company (FY21)	GWP (in Bn)	NBP (in Bn)	APE (in Mn)	Net Profit (INR in Bn)	AUM (INR in Bn)	Market Share (%) Total GWP	VNB (in Bn)	VNB Margins (%)	EV for (in Bn)	13th Month Persistency	61st Month Persistency	Solvency (x)
LIC	4032.9	1841.7	495	29	36,762	64.1	41.7	9.9	956	79.0	59.0	1.8
Peer Group												
SBI Life	502.5	206.3	115	14.6	2,209	8.0	23.3	20.4	334	87.9	61.6	2.2
HDFC Life	385.8	202.4	84	13.6	1,738	6.1	21.9	26.1	266	91.7	54.4	1.9
ICICI Prudential Life	357.8	130.3	65	9.6	2,142	5.7	16.2	25.1	291	87.1	59.8	2.0
Max Life	190.2	68.3	49.6	5.2	904	3.0	12.5	25.2	118	84.0	53.0	2.1
Bajaj Allianz Life	120.2	63.1	NA	5.8	738	1.9	3.6	12.3	155	79.8	42.3	6.3

Source: IPO Prospectus, KRChoksey Research

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

Financials:

Income Statement (INR Mn)	FY19	FY20	FY21	9MFY22
Net Premium Earned	33,99,716	38,24,755	40,53,985	28,53,419
Total income	57,08,096	64,56,055	70,37,094	51,22,792
Commission	2,04,826	2,15,483	2,23,582	1,55,381
Total expenses	7,49,143	11,10,800	8,75,526	4,25,879
Surplus/ (deficit)	-24,161	-1,01,489	38,618	16,428
PBT	26,424	27,185	26,424	17,570
PAT	26,274	27,105	29,741	17,153
EPS (INR)	4.15	4.29	4.70	2.71

Source: IPO Prospectus, KRChoksey Research

Balance Sheet (INR Mn)	FY19	FY20	FY21	9MFY22
Sources of Funds				
Share capital	1,000	1,000	1,000	63,250
Reserves and Surplus	7,984	8,917	67,055	24,986
Credit/ (Debit) Fair Value Change account	21,66,065	-43,064	27,30,235	38,23,006
Minority Interest	1,89,241	1,72,295	1,202	1,061
Borrowings	26,94,006	25,34,136	37	37
Policy Liabilities	2,80,56,931	3,10,28,155	3,42,07,270	3,66,00,694
Funds for discontinued policies	327	519	507	721
Insurance reserves	1,30,959	1,14,149	1,27,115	1,48,768
Provisions for linked liabilities	4,16,509	3,25,353	3,29,592	2,34,274
Funds for future appropriations	323	287	33	11,070
Total	3,36,63,346	3,41,41,746	3,74,64,045	4,09,07,868
Application of Funds				
Investments- Shareholder	3,694	4,008	4,264	51,867
Investments- Policyholders	2,87,76,867	2,95,79,078	3,49,84,407	3,84,36,173
Loans	24,98,803	23,74,347	10,87,637	11,11,411
Fixed Assets	1,45,676	1,45,718	34,740	34,631
Assets held to cover linked Liabilities	3,35,669	3,21,699	3,29,750	2,34,670
Cash & Bank Balances	6,78,995	6,31,526	3,60,783	2,18,273
Advances & Other Assets	18,32,788	19,41,965	14,93,661	15,01,465
Sub- Total	3,42,72,492	3,49,98,341	3,82,95,242	17,19,738
Current Liabilities	4,02,823	6,50,317	6,81,715	5,31,147
Provisions	2,06,323	2,06,278	1,49,483	1,49,476
Sub-Total	6,09,146	8,56,595	8,31,197	6,80,623
Net Current Assets	19,02,638	17,16,896	10,23,247	10,39,115
Debit Balance in P&L Account	0	0	0	0
Total	3,36,63,346	3,41,41,746	3,74,64,045	4,09,07,868

Source: IPO Prospectus, KRChoksey Research

LIFE INSURANCE CORPORATION OF INDIA (“LIC”)

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