



## IPO Report

02<sup>nd</sup> May' 22

### Snapshot

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 (or NBP), a 74.6% market share in terms of number of individual policies issued, a 81.1% market share in terms of number of group policies issued for Fiscal 2021, as well as by the number of individual agents, which comprised 55% of all individual agents in India as at March 31, 2021

### VALUATION

Company is bringing the issue at price band of Rs 902-949 per share at p/ev multiple of 1.1x. LIC being Fifth largest life insurer globally by GWP and the largest player in the fast growing and underpenetrated Indian life insurance sector is trusted brand and a customer-centric business model. has presence across India through an omni-channel distribution network with an unparalleled agency force. Company being largest asset manager in India with an established track record of financial performance and profitable growth looks decent investment avenue. Hence we recommend "Subscribe" on issue .

Price Band (Rs./Share)	<b>902-949</b>
Opening date of the issue	<b>04<sup>th</sup> May 2022</b>
Closing Date of the issue	<b>09<sup>th</sup> May 2022</b>
No of shares pre issue	221,374,920 Eq Shares
Issue size	Rs 21000.48 Cr
Face Value (Rs/ share)	10
Bid Lot	15
Retail Discount	Rs 45/share
Employees Discount	Rs 45/share
Policyholders Discount	Rs 60/share
QIBs (Including Anchor)	50% of the offer (Approx 98828089 Eq Shares)
Non-Institutional	15% of the offer ( Approx 29648427 Eq Shares)
Retail	35 % of the offer ( Approx 69179663 Eq Shares)
Employee	1581249 Eq Shares
LIC Policyholder	22137492 Eq Shares
Lead managers	Kotak Mahindra, BofA Securities, Citigroup Global, Goldman Sachs, ICICI Securities, JM Financial, Axis Capital ,JP Morgan, Nomura, SBI Capital
Registrar to the issue	KFin Technologies Ltd.

## WHAT WE LIKE

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

The brand 'LIC' was 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. Corporation's strong brand name and early-mover advantage is the key driver in maintaining leading position in the Indian life insurance industry. The trust in the brand 'LIC' is evidenced by the 282.58 million in force policies under individual business being serviced in India as at September 30, 2021

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

Corporation is the largest asset manager in India as at September 30, 2021, with AUM (comprising policyholders' investment, shareholders' investment and assets held to cover linked liabilities) of ₹39,558,929.24 million on a standalone basis, which was (i) more than 3.3 times the total AUM of all private life insurers in India, (ii) approximately 16.2 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, (iii) more than 1.1 times the entire Indian mutual fund industry's AUM and (iv) 18.5% of India's annualised GDP for Fiscal 2022

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

Corporation'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 Corporation's website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. As at September 30, 2021, Corporation had the strong distribution network for individual products in India with 1.34 million individual agents; 72 bancassurance partners; 174 alternate channel; 3,463 active Micro Insurance agents; and 4,400 Point of Sales Persons-Life Insurance scheme.



## COMPANY BACKGROUND

LIC's individual 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. Corporation's individual products include specially designed products for specific segments, such as special products for women and children and Micro Insurance products. In addition, it 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. As at September 30, 2021, Corporation's individual product portfolio in India comprised 32 individual products (17 participating products and 15 non-participating products) and seven individual riders. Its group products comprise (i) group term insurance products, (ii) group savings insurance products; (iii) group savings pension products; and (iv) group annuity products. As at September 30, 2021, Corporation's group product portfolio in India comprised 10 group products.

Corporation'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 Corporation's website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. Corporation's individual policies are primarily distributed by its individual agents

Corporation'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 Corporation's website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. Corporation's individual policies are primarily distributed by individual agents. In Fiscal 2019, Fiscal 2020, Fiscal 2021 and the six months ended September 30, 2021, individual agents were responsible for sourcing 96.69%, 95.73%, 94.78% and 96.42% of Corporation's NBP for individual products in India, respectively. Corporation has the largest individual agent network among life insurance entities in India, comprising approximately 1.35 million individual agents as at March 31, 2021, which was 7.2 times the number of individual agents of the second largest life insurer. Customers can also approach branch offices and satellite offices and purchase products through its intermediaries. As at September 30, 2021, Corporation's multichannel distribution platform for group products comprises (i) 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, Corporation'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:RHP



## INVESTMENT RATIONALE

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

Corporation is ranked fifth globally in terms of life insurance GWP (comparing Corporation's life insurance premium for Fiscal 2021 to company's global peers' life insurance premium for 2020), and 10th globally in terms of total assets (comparing Corporation's assets as at March 31, 2021 with assets of other life insurers as at December 31, 2020). Corporation is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued and number of group policies issued for Fiscal 2021.

***Strong growth outlook for Insurance Sector***

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 means that for \$100 of insurance protection requirement, insurance was only taken for \$17 in 2019. This indicates the absence of protection coverage for a large part of the Indian population. India's protection gap was US\$16.5 trillion in 2019.

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

Corporation's policies address consumers' needs through the four principal stages of life, namely, beginning of savings, career and marriage, family needs and retirement planning and retirement and asset drawdown. Corporation has a broad, diversified product portfolio covering various segments across individual products and group products. Corporation's individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and seven individual optional rider benefits. Corporation's group product portfolio in India comprises 11 group products. Corporation is 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.

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

Corporation have developed technological capabilities that help provide a great customer experience and drive operating efficiencies. Corporation have added technological capabilities across the customer journey from purchase to payments to claims processing. As at December 31, 2021, Corporation's portal had 18.60 million registered users and Corporation's mobile app for policyholders, available on both Android and iOS platforms, had 5.13 million registered users. Corporation spent ₹1,774.39 million, ₹4,244.04 million, ₹3,614.20 million and ₹1,373.40 million on information technology, on a consolidated basis in Fiscal 2019, Fiscal 2020, Fiscal 2021 and the nine months ended December 31, 2021, respectively. Given focus on and investments in information technology, corporation is well-positioned to capitalise on the increasing digitisation of the Indian economy.



## OBJECTS OF ISSUE

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 316,249,885 Equity Shares by the Selling Shareholder

## RISKS

A significant proportion of Corporation's total new business premiums are generated by participating products and single premium products, and any regulatory changes or market developments that adversely affect sales of such products could have a material adverse effect on company's business, financial condition, results of operations and cash flows.

Source:RHP

## 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 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.

The life insurance industry is capital intensive with a long gestation period, which has resulted in only few players being active in the industry across most markets and the larger players within each market having significant market share. In China, for example, the life insurance market is dominated by Ping An Insurance and China Life Insurance Company, with market shares of 21% and 20% respectively. In Malaysia, AIA BHD and Great Eastern Life Insurance – the two largest life insurers – cumulatively accounted for approximately 37% of premium garnered by the industry in CY 2020. In Japan, the largest life insurer, Nippon Life Insurance Company, has a market share of 16.2% as of CY 2020. However, nowhere in the world is the difference in market share between the largest and the second largest life insurer as stark as in India, with the second largest player having only 8.0% market share of GWP compared to LIC's market share of 64.1% by GWP for Fiscal 2021. LIC's market share in India is unparalleled globally, with no other life insurance player in any other country enjoying such a large market share. The market share distribution in the United States is quite unlike other parts of the world, with the top 15 life insurers accounting approximately 60% of the total market in 2020. NorthWestern Mutual Life Insurance Company is the top life insurer in the US with a market share of 8.4% followed by Metlife Inc. with a 7.6% market share and New York Life Insurance Company with a 7.5% market share as of 2020.

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. Additionally, with effect from April 2021, income earned on contribution beyond Rs. 0.25 million per annum in ULIPs was made become taxable reducing the incentive for ULIPs and driving a shift towards protection and other savings/ annuities 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, CRISIL Research expects demand for these products to gain further traction.



## Financials

(Rs in Mn)

Financials	As at Dec 30,2021	FY21	FY20	FY19
Premium Earned	2853419.26	4053984.98	3824755.18	3399716.34
Income From Investment	2262537.42	2855204.18	2428363.14	2250435.40
Other Income	6835.37	127905.29	202936.40	57943.96
<b>Total Income</b>	<b>5122792.05</b>	<b>7037094.45</b>	<b>6456054.72</b>	<b>5708095.70</b>
Total Expenditure	425878.88	875525.79	1110800.00	749142.76
<b>Liabilities against Life Policies</b>	<b>4696913.17</b>	<b>6161568.66</b>	<b>5345254.72</b>	<b>4958952.94</b>
Benefits & Others	4680485.05	6122950.49	5446744.04	4983113.90
<b>Surplus/Deficit</b>	<b>16428.12</b>	<b>38618.17</b>	<b>-101489.32</b>	<b>-24160.96</b>
Add: Share of Profit in Associates	22281.16	11633.54	5744.42	6683.97
Less: Minority Interest	-29.96	-4465.24	63726.72	25162.06
Total Surplus	38679.32	45786.47	-32018.18	7685.07
Appropriation	22301.71	16160.64	-58973.31	-18309.70
<b>Shareholder Account</b>	<b>16377.61</b>	<b>29625.82</b>	<b>26955.13</b>	<b>25994.77</b>
Total Income	17573.49	29855.71	27309.56	26449.96
Operating Expenditure	3.82	52.24	124.40	26.31
PBT	17569.67	29803.47	27185.16	26426.65
Tax	416.55	62.08	80.38	149.87
PAT	17153.12	29741.39	27104.78	26273.78
Eq cap	63249.98	1000.00	1000.00	1000.00
Reserves & surplus	24986.17	67054.71	8916.58	7984.35
<b>credit/debit</b>	<b>1408.34</b>	<b>784.97</b>	<b>101.69</b>	<b>-887.61</b>
Minority int	1018.79	992.76	962.84	877.61
<b>Sub total</b>	<b>90663.28</b>	<b>69832.44</b>	<b>10981.11</b>	<b>8974.35</b>
Eps	2.71	4.70	4.29	4.15
Risk Retention ratio		99.89.	99.91	99.91
Reinsurance ceded as % of premium	0.13	0.11.	0.09	0.09
Expense ratio (as % of total premium)	15.0	14.2	14.7	14.4
Solvency Ratio	1.77	1.76	1.55	1.60
Claim Settlement Ratio(%)		98.3	95.4	98.3



## Peers Comparison

Parameters (FY21)	ROE % (3 year average ended FY21)	Dividend payout (%) (3-year average ended FY21)	Retention ratio (%) (3- year average ended FY21)	Solvency ratio
<b>LIC</b>	289.6%	33.0%	67.0%	1.76
<b>SBI Life</b>	17.2%	11.8%	88.2%	2.15
<b>HDFC Life</b>	21.0%	10.3%	89.7%	2.01
<b>ICICI Prudential Life</b>	14.4%	37.5%	62.5%	2.17
<b>Max Life</b>	19.8%	89.3%	10.7%	2.02
<b>Bajaj Allianz Life</b>	5.2%	27.4%	72.6%	6.66



## DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.