

Dominant leader in Indian life insurance industry...

About the Company: Life Insurance Corporation (LIC) is the largest life insurer in India, with ~61.6% market share in terms of premiums (or GWP), and 71.8% market share in terms of number of individual policies issued as of December 31, 2021.

- LIC is the largest asset manager in India as at December 31, 2021, with AUM of ₹ 40.1 lakh crore. (annual premium of ~₹ 4.0 lakh crore for FY21)
- LIC's individual products comprise (i) par (ii) non-par products, which includes savings, term, health, Ulip and annuity & pension products

Key triggers/Highlights:

- The favourable demographic tailwinds supporting India's growth story, combined with under penetration in life insurance. GWP for life insurers is forecasted to grow at 14-15% CAGR in FY21-26 to reach ₹ 12.4 lakh crore
- Market leadership (~61.6% share) with cross-cyclical product mix dominated by participating products. Focus to further diversify product mix by increasing contribution of non-participating products
- Presence across India through an omni-channel distribution network with an unparalleled agency force sourcing ~96% of new premium as of December 31, 2021
- Strong geographical presence across India with 2,048 branch offices and 1,559 satellite offices covering 91% of districts in India
- Largest asset manager in India with an established track record of financial performance and profitable growth

What should investors do? LIC is a market leader in the Indian life insurance industry with strong distribution network and diversified product suite. Embedded value for LIC as of September 30, 2021 was at ₹ 5.396 lakh crore. At the upper end of the price band, the company is valued at ~1.1x EV as on September 30, 2021.

- We assign **UNRATED** rating to the IPO

Key risk & concerns

- Adverse variation in persistency metrics could have a material adverse effect on financial condition
- Interest rate fluctuations and volatility in capital markets may adversely affect profitability
- There is significant technical complexity involved in embedded value calculations and the estimates used in the embedded value reports could vary materially if key assumptions are changed



Particulars

Issue Details

Issue Opens	4th May 2022
Issue Closes	9th May 2022
Issue Size (net)	₹ 19,517- 20,557 Cr
Fresh Issue	-
Offer for Sale	₹ 20557 crore
Price Band	₹ 902 - 949
No. of shares on offer (in crore)	22.10
QIB (%)	50%
Retail (%)	35%
NIB (%)	15%
Minimum lot size (no of shares)	15

10% is proposed to be reserved for Policyholders
Note: OFS, No of shares on offer based on upper price band

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter	100.0%	96.5%
Public	0.0%	3.5%
Total	100.0%	100%

Objects of issue

Objects of the Issue

To achieve the benefits of listing the Equity Shares on the Stock Exchanges and carry out the Offer for Sale

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Key Financial Summary

₹ crore	FY19	FY20	FY21	H1FY22	9MFY22	2 year CAGR (FY19-21)
Gross written premium	337130	379014	402888	186097	283753	9.3%
Net earned premium	339972	382476	405398	187290	285342	9.2%
AUM (investments)	3271033	3338108	3692967	3974208	4032170	6.3%
Expense ratio %	0.14	0.15	0.14	0.15	0.15	
PAT	2627	2710	2974	1504	1715	
VNB Margin	NA	NA	9.9%	9.3%	-	
Solvency (x)	1.6	1.6	1.8	1.8	1.8	
Embedded Value			95605	539686	NA	

Company Background

Life Insurance Corporation of India (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 premium (GWP), 61.4% market share in terms of new business premium (NBP), 71.8% market share in terms of number of individual policies issued, 88.8% market share in terms of number of group policies issued as of 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. LIC is ranked fifth globally by life insurance GWP and tenth globally in terms of total assets. LIC 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.

LIC is the largest asset manager in India as at December 31, 2021, with AUM of ₹ 40.1 lakh crore on a standalone basis, which was (i) more than 3.2x total AUM of all private life insurers in India, (ii) ~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 annualised GDP for FY22.

LIC was formed by merging and nationalising 245 private life insurance companies in India on September 1, 1956, with an initial capital of ₹ 5 crore. Until 2000, LIC was the only life insurer in India. LIC was 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.

LIC's individual products comprise (i) participating insurance products and (ii) non-participating products, which include (a) savings; (b) term; (c) health; (d) annuity & pension products; and (e) unit linked insurance products. Individual products include specially designed products for specific segments, such as special products for women and children and micro insurance products. The company's individual product portfolio in India comprised 32 individual products (16 participating products and 16 non-participating products) and seven individual riders. LIC's group products comprise (i) group term insurance, (ii) group savings insurance; (iii) group savings pension; and (iv) group annuity products. Group product portfolio comprised 11 group products.

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, (v) micro insurance agents and (vi) point of sales persons-life Insurance scheme. LIC's individual policies are primarily distributed by their individual agents. In FY19, FY20, FY21 and 9MFY22, individual agents were responsible for sourcing 96.69%, 95.73%, 94.78% and 96.20% of LIC's NBP for their individual products, respectively. LIC has the largest individual agent network among life insurance entities in India, comprising ~13.3 lakh individual agents as at December 31, 2021, which was 6.8x the number of individual agents of the second largest life insurer. As at December 31, 2021, LIC had 2,048 branch offices and 1,559 satellite offices covering 91% of districts in India.

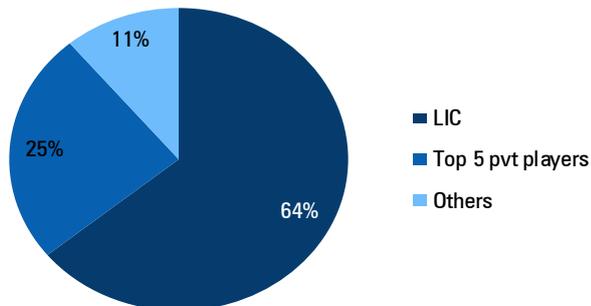
Exhibit 1: Key operating and financial performance parameters

Particulars (₹ crore)	FY19	FY20	FY21	9MFY22
Premium (consolidated)	340294.6	382811.5	405850.8	285730.0
Premium (in India)	337130.0	379013.6	402888.1	283753.3
(i) First year premiums	31676.6	58446.5	34341.0	22215.3
(ii) Single premiums and consideration for annuities granted	112361.4	121827.7	151182.2	104562.4
(iii) NBP ((i)+(ii))	144038.0	180274.2	185523.2	126777.7
(iv) Renewable premiums	196256.7	202537.2	220327.6	158952.3
Total annualised premium equivalent (APE) (in India)	40565.6	47972.3	45587.9	29923.3
Individual APE (in India)	31447.7	35297.4	32270.6	20904.4
Value of New Business (VNB) (consol)*	NA	NA	4167.0	1583.0
VNB margin (consol)*	NA	NA	9.9%	9.3%
Indian Embedded Value (consol)*	NA	46497.0	95605.0	539686.0
Operating expenses related to insurance business to premium ratio (as a % of premium) (consol)	8.3%	9.0%	8.7%	9.5%
Conservation Ratio	92.2%	88.8%	84.5%	93.7%

Source: RHP, ICICI Direct Research * Data at the end of 30 September 2021

Exhibit 2: Market share of LIC (based on total premium)

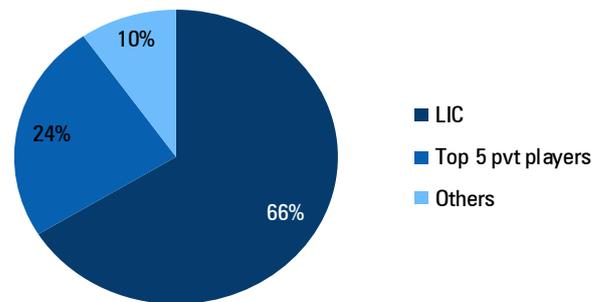
Total Premium (FY21): ₹ 6.28 lakh crore



Source: RHP, ICICI Direct Research

Exhibit 3: Market share of LIC (based on NBP)

NBP (FY21): ₹ 2.78 lakh crore



Source: RHP, ICICI Direct Research

Sneak peek into Indian life insurance players

Exhibit 4: Key financial comparison (FY21)

Particulars (₹ crore)	LIC	HDFC Life	SBI Life	ICICI Prudential
AUM	3676180.0	173839.0	229870.0	214218.0
Total premium	403290.0	38580.0	50250.0	35730.0
NBP/Employee	1.6	1.0	1.2	0.9
Net Profit	2974.1	1360.0	1460.0	960.2
EV	95605.0	26617.0	33390.0	29106.0
VNB	4167.0	2185.0	2330.0	1621.0
VNB Margin (%)	9.9	26.1	23.2	25.1
Opex Ratio (%)	8.7	11.9	4.8	7.5
Commission Ratio (%)	5.5	4.4	3.5	4.2
Total Cost Ratio (%)	14.2	16.3	8.3	11.7
13th Month Persistency (%)	79.0	91.7	87.9	87.1
61st Month Persistency (%)	59.0	54.4	61.6	59.8
Solvency Ratio	1.8	2.0	2.2	2.2
Claims Settlement Ratio (%)	98.3	99.4	96.4	98.0
Conservation Ratio (%)	84.5	85.9	87.5	82.0
ROE (%)	81.7	17.6	15.2	11.7

Source: RHP, ICICI Direct Research

Exhibit 5: Product mix comparison across players

Product Mix - Total Premium (FY21)	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.30%	99.70%	60.90%	39.10%
SBI Life	56.60%	43.40%	34.90%	65.10%
HDFC Life	29.10%	70.90%	28.00%	72.00%
ICICI Prudential Life	63.40%	36.60%	35.20%	64.80%
Max Life	30.90%	69.10%	59.80%	40.20%
Bajaj Allianz Life	36.40%	63.60%	36.60%	63.40%
Median of the top 5 private players	36.40%	63.60%	35.20%	64.80%

Source: RHP, ICICI Direct Research

Exhibit 6: Premium comparison across players

Particulars (₹ crore)	Total Premium				New Business Premium				Renewal Premium			
	Individual	Group	Total	Market Share	Individual	Group	Total	Market Share	Individual	Group	Total	Market Share
LIC	268188	135102	403290	64.1%	56356	127814	184170	66.2%	211416	7441	218857	62.5%
SBI Life	41054	9196	50250	8.0%	12502	8128	20630	7.4%	28563	1067	29630	8.5%
HDFC Life	28433	10147	38580	6.1%	10120	10120	20240	7.2%	18388	92	18480	5.2%
ICICI Prudential	30442	5288	35730	5.7%	7844	5186	13030	4.7%	22507	0	22507	6.5%
Max Life	18411	609	19020	3.0%	6229	601	6830	2.4%	12192	0	12192	3.5%
Bajaj Allianz Life	8210	3810	12020	1.9%	2530	3780	6310	2.3%	5691	29	5720	1.6%
Others	60263	9567	69830	11.2%	18184	8876	27060	9.8%	41533	1109	42642	12.2%
Private players total	189136	36294	225430	35.9%	57401	36699	94100	33.8%	128944	2230	131174	37.5%
Total	456458	172272	628730		113988	164712	278700		340579	9451	350030	

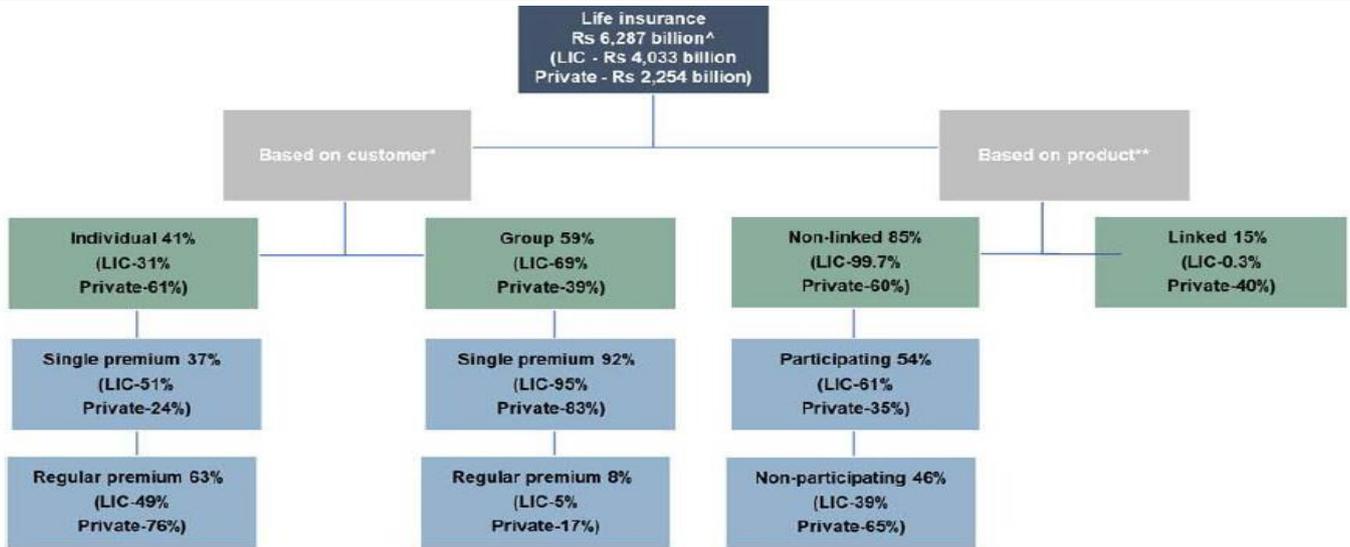
Source: RHP, ICICI Direct Research

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. The size of the Indian life insurance industry was ₹ 6.2 lakh crore based on total premium in FY21, up from ₹ 5.7 lakh crore in FY20. The industry’s total premium has grown at 11% CAGR in the last five years ending in FY21. New business premiums (NBP) grew at 15% CAGR in FY16-21 to ~₹ 2.78 lakh crore. In FY21 – a year impacted by the Covid- 19 pandemic, the NBP of the industry rose 7.5%. Within NBP, group business premium grew at ~15.4% CAGR in FY16-21, whereas individual premium rose ~14% CAGR during the same period.

Life insurers can be classified on the basis of products & customer segments

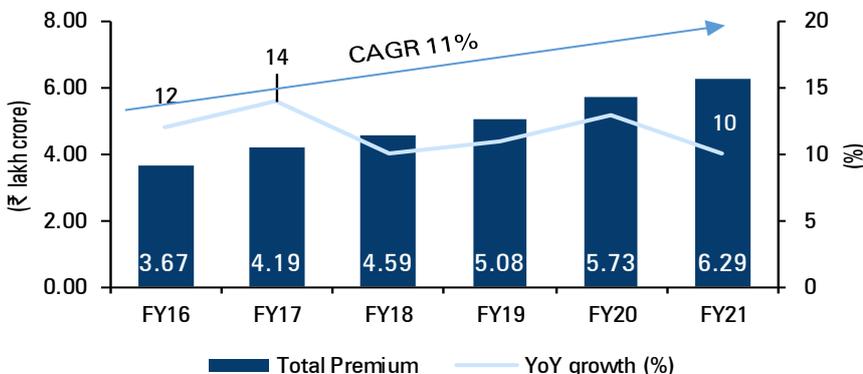
Exhibit 7: Types of life insurance products



Source: RHP, ICICI Direct Research

Life insurance premium has grown at 11% CAGR in FY16-21. The double-digit growth in premium can be attributed to expansion in the distribution network, introduction of different government schemes and financial inclusion drive. These factors have increased awareness about the need for insurance and propelled industry growth. LIC holds a 64% share by total life insurance premium and grew at 9% CAGR in FY16-21. Private insurers grew at 18% CAGR during the same period.

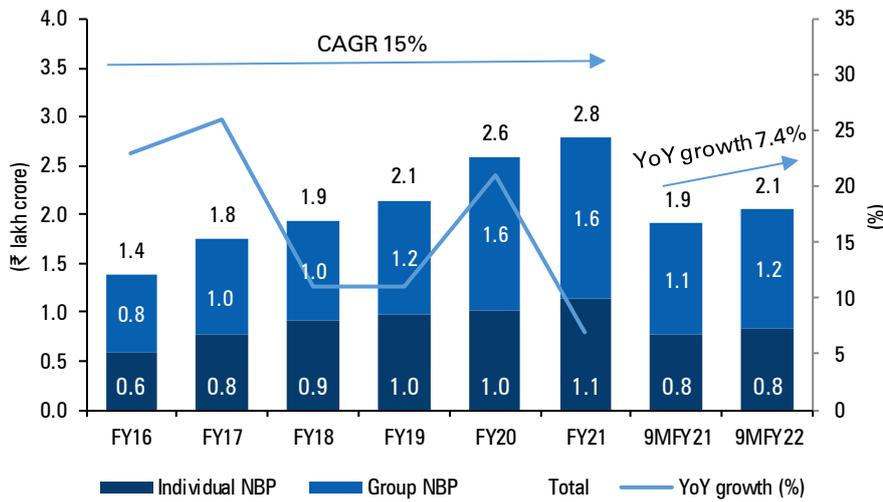
Exhibit 8: Strong growth in total premium for life insurance industry



Source: RHP, ICICI Direct Research

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 ~7% YoY reflecting the impact of the economic slowdown. During 9MFY22, NBP growth remained low for the industry at 7.4%.

Exhibit 9: Trends in new business premium growth



Source: RHP, ICICI Direct Research

LIC accounts for approximately two-third market share in terms of both GWP and NBP in the life insurance industry for FY21, driven by its individual agent network, especially in rural areas, wide range of products and a sense of trust created by brand LIC among individuals. Private sector players, however, have been gaining market share, supported by their diversified product mix and strong distribution through bancassurance partners. Private players have increased their focus towards individual NBP and increased their market share from 44% in FY16 to 50% in FY21.

In group NBP, LIC continues to dominate the market, accounting for more than 75% of the market share in FY21.

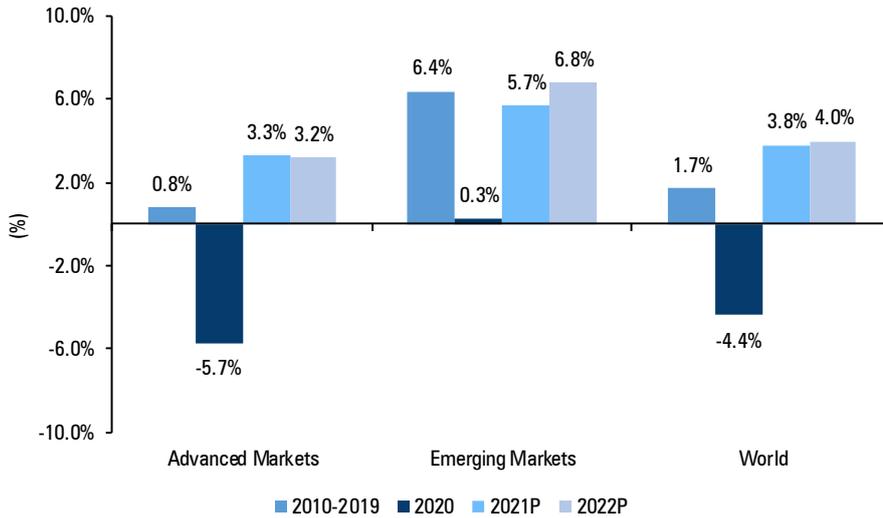
Global life insurance - Emerging markets driving growth

In CY20, the global life insurance market contracted by 3.1% to \$2.79 trillion from \$2.88 trillion in CY19 (in nominal terms) due to the impact of Covid-19 and 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 ~0.3% for emerging markets.

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 CY21 and 4.0% in CY22 (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's income.

Emerging markets are expected to continue to be the key driving force globally with a 5.7% and 6.8% growth rate in CY21 and CY22, respectively, according to Swiss Re. This growth will be driven by improved economic prospects, fast rollouts of vaccines, rising risk awareness, adoption of digital channels and further liberalisation of the life insurance sector.

Exhibit 10: Life insurance real premium growth (%)



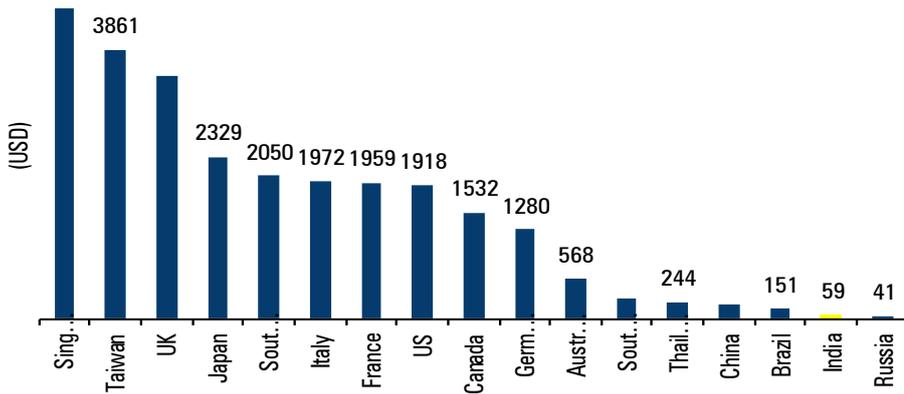
Source: RHP, ICICI Direct Research

Indian market remains relatively under-insured

India’s life insurance penetration was at 3.2% in CY20 compared to 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 US and Australia, where mandatory pension contributions are not included in the insurance pie.

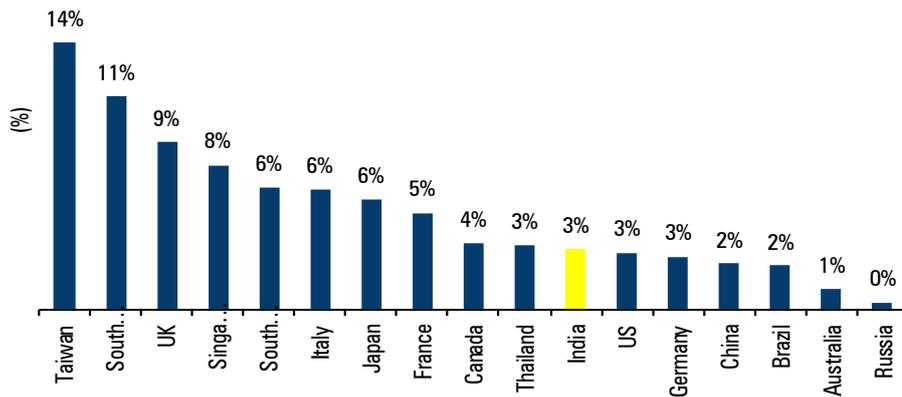
Furthermore, due to the higher share of savings than protection in life insurance premiums, Crisil Research believes the actual protection provided by insurance in India would be much lower compared to even other developing markets. At \$59 in CY20, insurance density in India remains very low compared with other developed and emerging market economies.

Exhibit 11: Life insurance industry density (premium per capita in US\$)



Source: RHP, ICICI Direct Research

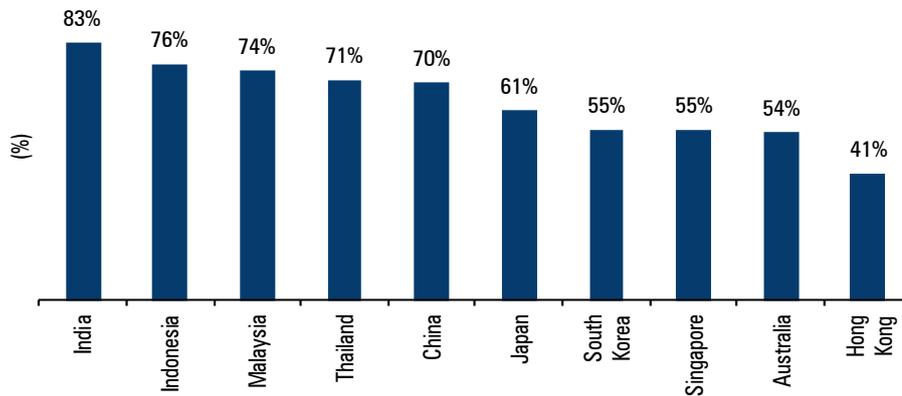
Exhibit 12: Life insurance industry penetration (as of CY20)



Source: RHP, ICICI Direct Research

India’s protection gap was \$16.5 trillion as of CY19, which was much higher compared to its Asian counterparts. The protection gap for India was 83% as of CY19, the highest among all countries in Asia-Pacific, as per Swiss Re.

Exhibit 13: Protection gap for different countries as of CY19

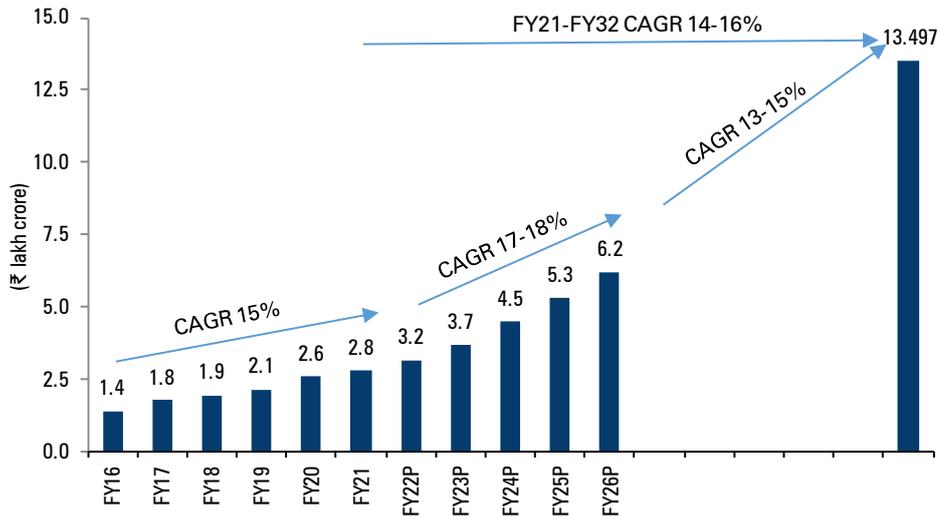


Source: RHP, ICICI Direct Research

Industry total premium projected to cross ₹ 12 lakh crore by FY26E

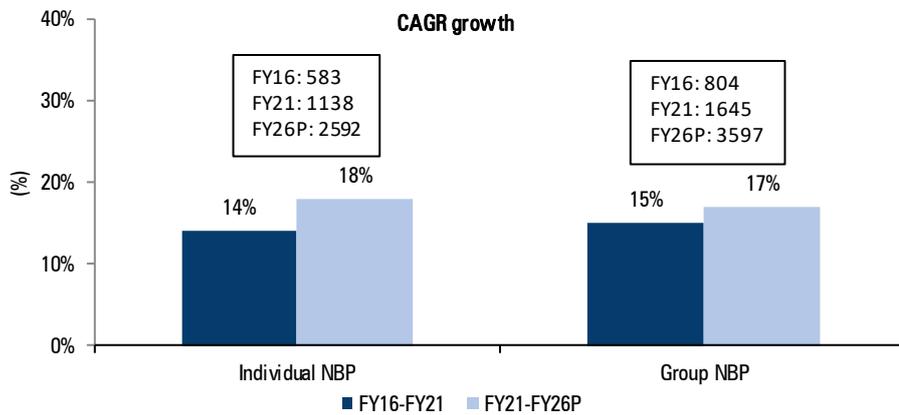
Crisil Research forecasts total premium for life insurers will grow at 14-15% CAGR over the next five years. At this level of premium, life insurance as a proportion of GDP is projected to reach 3.8% by FY26E, up from 3.2% in FY21. NBP is expected to grow at a CAGR of 17-18% during the same period ending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

Exhibit 14: Projected growth in new business premium (₹ billion)



Source: RHP, ICICI Direct Research

Exhibit 15: Growth in individual and group new business premium



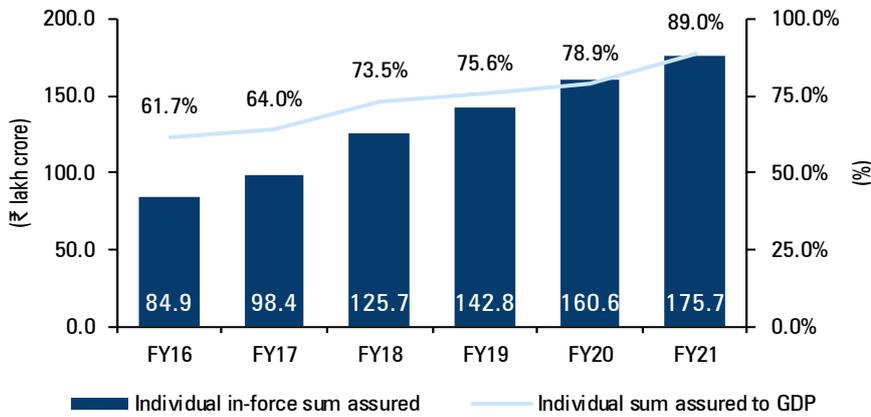
Source: RHP, ICICI Direct Research

Trends in Indian life insurance industry

Life insurance coverage has increased appreciably

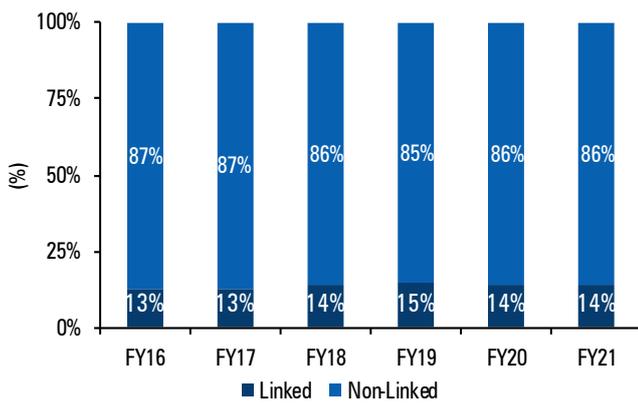
The total sum assured under the individual life insurance business was ₹ 170.5 lakh crore for FY21 in India, which is ~89% of India’s GDP. The sum assured for individual insurance has increased at 15.7% CAGR in FY16-20. The total number of individual policies in force was 33.2 crore in FY21 of which the number of individual new policies issued was ~2.8 crore in FY21.

Exhibit 16: Trend in individual in-force sum assured



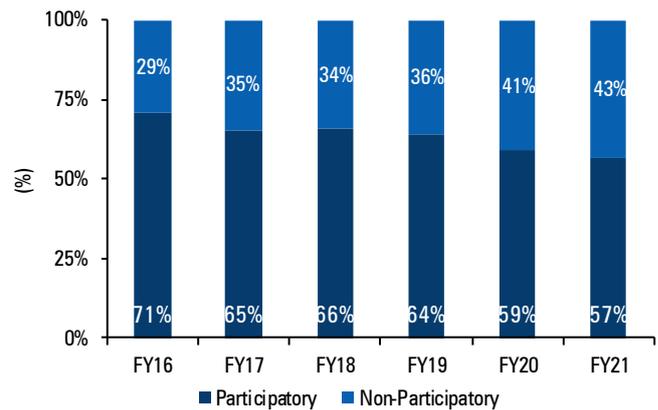
Source: RHP, ICICI Direct Research

Exhibit 17: Industry’s product mix based on premium



Source: RHP, ICICI Direct Research

Exhibit 18: Non-linked product mix based on total premium



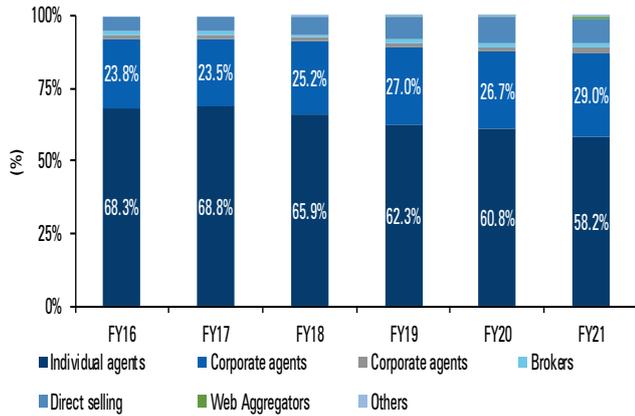
Source: RHP, ICICI Direct Research

Banca channel gaining traction; agency still remains dominant

Life insurance players have significantly leveraged banking channels to market their products from FY18 onwards. This gradually led to an increase in share of bancassurance channel and a decline in the share of individual agents in distribution of individual life insurance products. Share of bancassurance channel rose from 23.8% of NBP in FY16 to 29% of NBP in FY21, in the individual business, driven mostly by private players, which either have major holdings from the banks or have empanelled banks as their corporate agents.

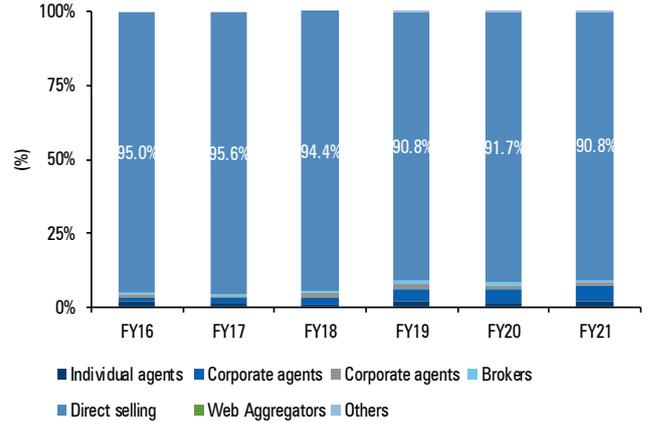
Individual agents, however, continue to account for as much as 58% of the individual life insurance premium for FY21 due to the personal connect they can establish with customers. They can provide hand holding to these customers, make them understand the various advantages of the policies and differences among various products as well as provide advice on suitability of the product basis the customer’s needs, premium reminders and help with cheque collection, etc.

Exhibit 19: NBP by distribution channels for industry (individual life)



Source: RHP, ICICI Direct Research

Exhibit 20: NBP by distribution channels for industry (group life)

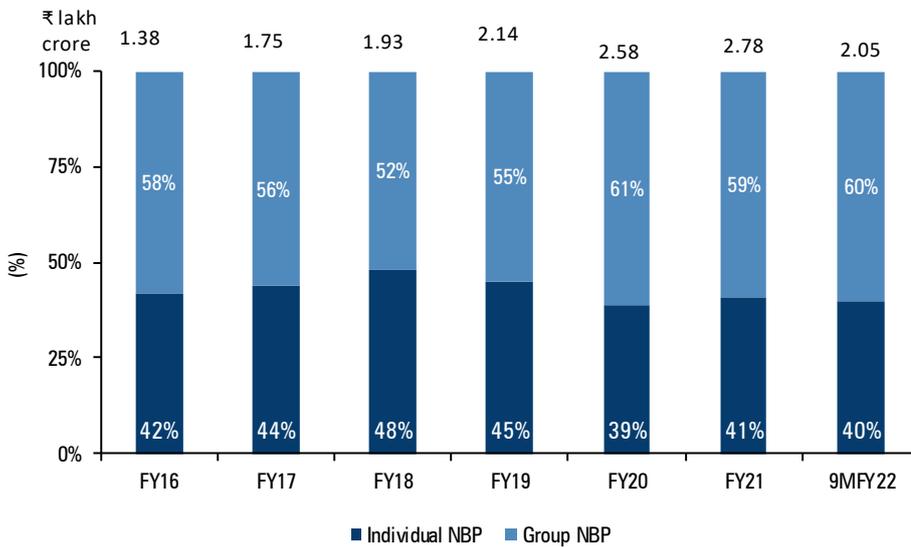


Source: RHP, ICICI Direct Research

LIC dominant in group insurance with ~80% market share

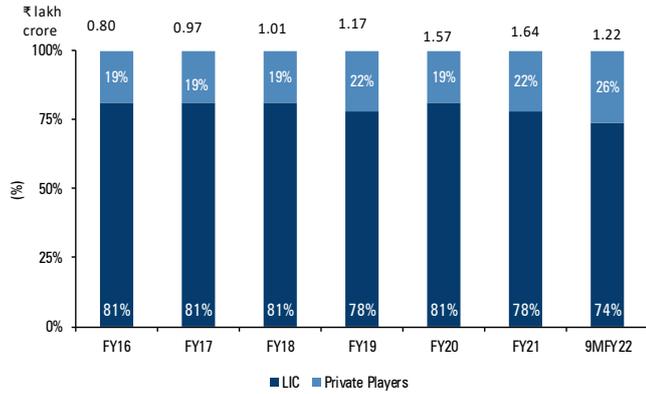
In terms of segments, the share of group NBP in total NBP has increased from 58% in FY16 to 60% in December 31, 2021. LIC continues to dominate the group NBP segment with 78% market share in FY21. On the other hand, private players have increased their market share in individual NBP from 44% in FY16 to 50% in FY21 and further to 57% in December 31, 2021.

Exhibit 21: Group NBP accounts for ~60% share for FY21



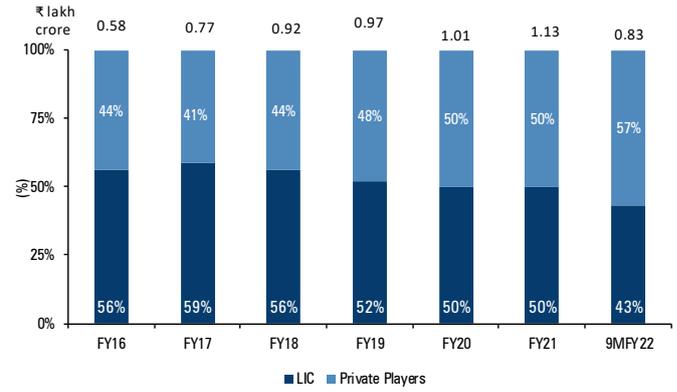
Source: RHP, ICICI Direct Research

Exhibit 22: Market share of private players vs. LIC (Group - NBP)



Source: RHP, ICICI Direct Research

Exhibit 23: Market share of private players vs. LIC (Individual - NBP)

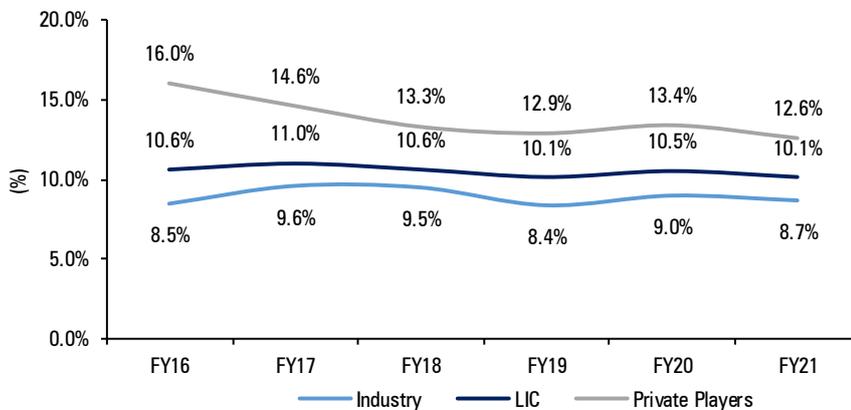


Source: RHP, ICICI Direct Research

Operating expense declining for industry; LIC has lowest cost ratios

LIC’s expense ratio is considerably lower than that of private players on account of it being a mature business. For private players in the industry as well, the operating costs are coming down on account of higher dependence on technology and fintech tie-ups for multiple operations.

Exhibit 24: Operating expense ratio (as % of total premium)

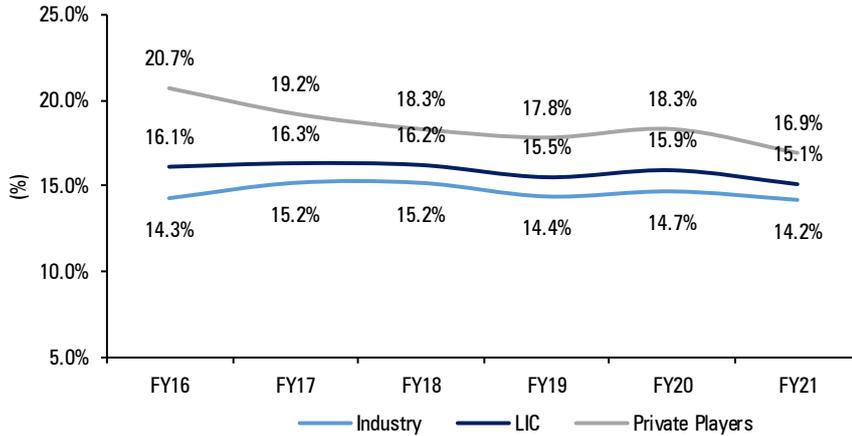


Source: RHP, ICICI Direct Research

Sharp decline in total cost ratio as percentage to new business premium

On account of consolidation, with respect to branch expansion and other cost rationalisation, overall cost is gradually declining across the industry. However, owing to high expense and commission cost in relation to business, total cost ratio of private players has remained high compared to LIC.

Exhibit 25: Total cost ratio (as percentage of total premium)

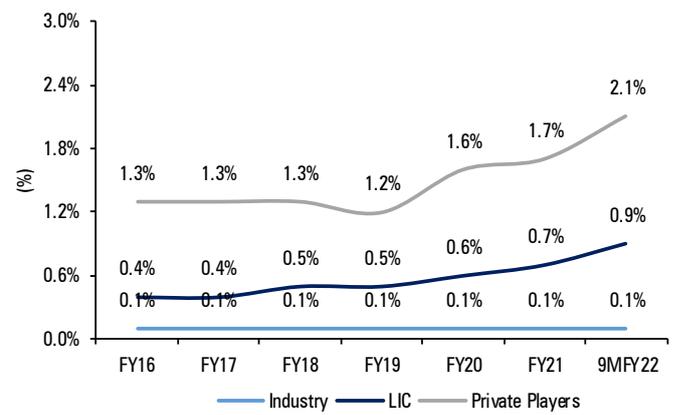
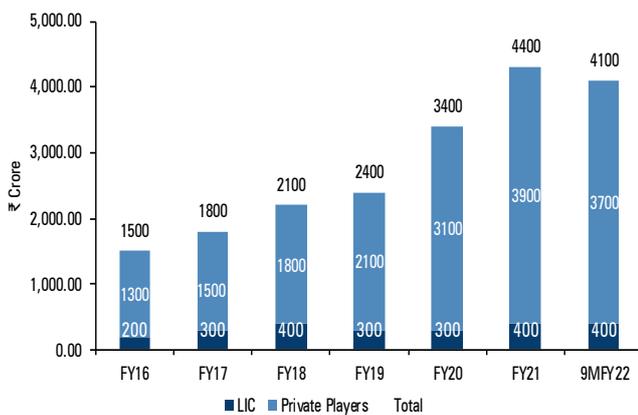


Source: RHP, ICICI Direct Research

Reinsurance in life insurance space

During FY21, LIC ceded ₹ 440 crore in reinsurance premium compared to ₹ 3910 crore ceded in reinsurance premium by private insurers. Total life reinsurance premiums in India grew 28% YoY in FY21, largely driven by 35% growth in LIC’s life reinsurance premiums. Re-insurance ceded share is, however, higher for private players on an aggregate basis compared to LIC. Over the years, the share of private players in total life reinsurance ceded has increased from 85% in FY16 to 90% for FY21. Re-insurance rates increased in FY21 and are further expected to rise in FY22 on account of the surge in Covid-19 claims especially after the second wave in March and April 2021.

Exhibit 26: Premiums ceded to reinsurers; reinsurance ceded as % of total premium



Source: RHP, ICICI Direct Research

Source: RHP, ICICI Direct Research

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 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 up 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.

In India, LIC has the largest network of 13.3 lakh individual agents as at December 31, 2021, which accounted for 55% of total agent network in the country and was 6.8x the number of agents of the second largest life insurer. For overall Indian market, the share of new business generated for individual life insurance through bancassurance channels increased from 24% in FY16 to 29% in FY21. Private players have relatively higher dependence on bancassurance for new business, with their share increasing

from 52% in FY16 to 55% in FY21. 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.

Digital Transformation in insurance

Collaboration with Insurtechs: The global insurance industry, like every other industry, is focused on leveraging the benefits of a digital environment which has led to development and adoption of Insurtech.

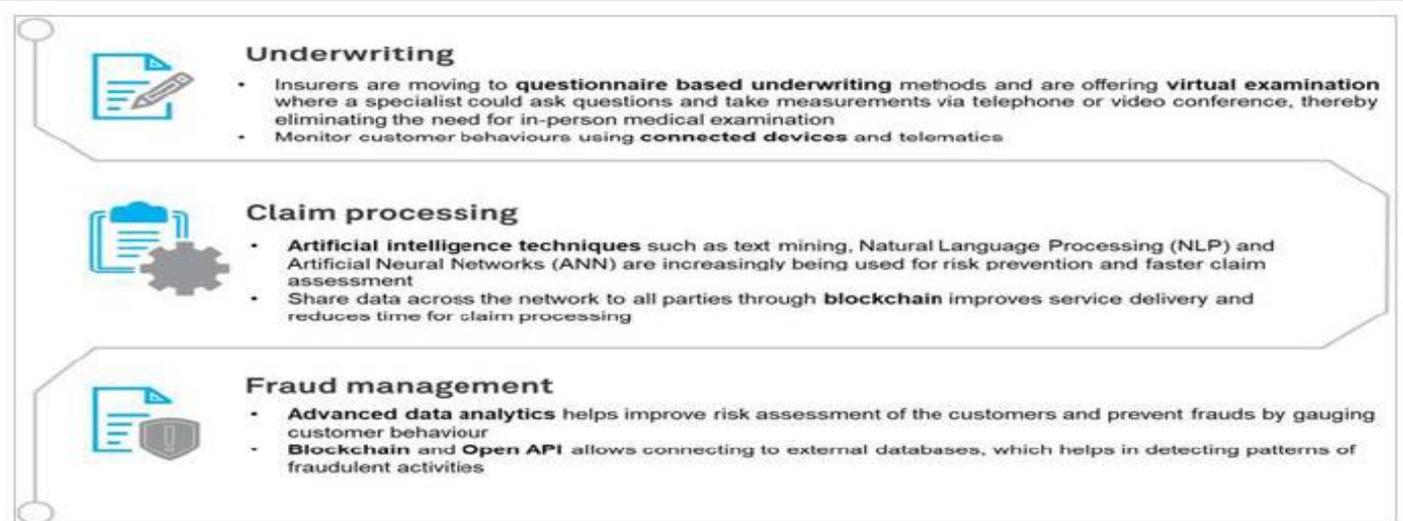
Exhibit 27: Key areas of digital transformation in life insurance



Source: RHP, ICICI Direct Research

Growth of web aggregators: The pandemic has presented opportunities for distribution through web aggregators in the insurance space. In addition to the standard price comparison of insurers, the aggregators also offer personal finance advice and education to customers enabling more complex products also to be sold through these channels. Web aggregators have also helped companies reach out to younger customers who tend to prefer digital platforms and the questionnaire style of underwriting.

Exhibit 28: Key areas of digital transformation in life insurance



Source: RHP, ICICI Direct Research

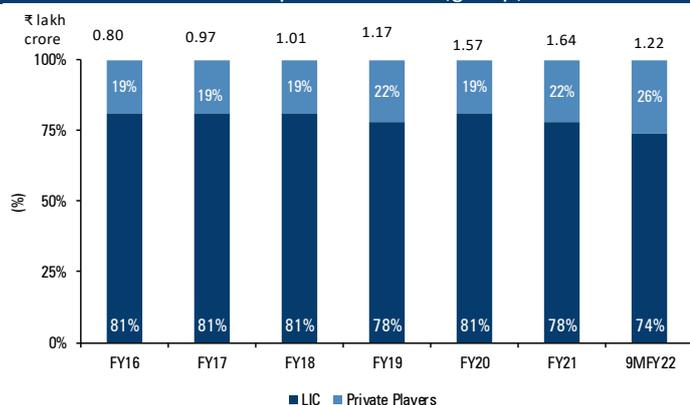
Investment Rationale

Capitalise on growth opportunities in Indian life insurance sector

The favourable demographic tailwinds supporting India’s growth story, combined with 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 FY26 to ₹ 12.4 lakh crore. 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 Indian life insurance industry is expected to grow at a CAGR of ~18% from FY21 to FY26 for individual business as compared to a CAGR of 17% for group business over the same period.

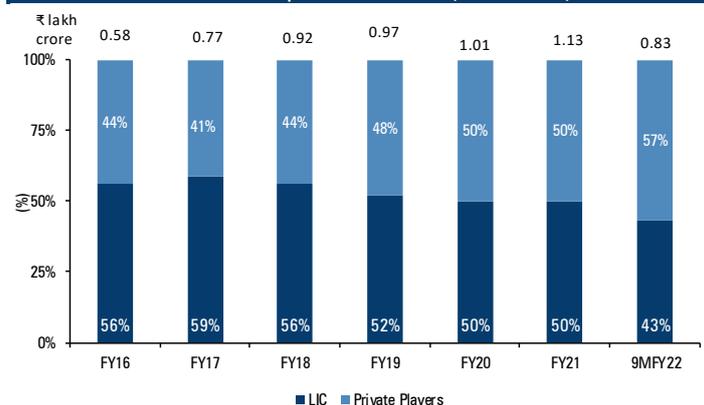
LIC accounts for approximately two-third market share in terms of both GWP and NBP in life insurance industry for FY21, driven by its individual agent network especially in rural areas, wide range of products and a sense of trust created by brand LIC among individuals. GWP on a consolidated basis increased at a CAGR of 9.21% from FY19 to FY21. LIC has a market share of 62.5% and 61.8% compared to 8.5% and 8.8% market share of the second-best player in the market by renewal premium for FY21 and 9MFY22, respectively. NBP on a consolidated basis increased at a CAGR of 13.49% from FY19 to FY21.

Exhibit 29: Market share private vs. LIC (group)



Source: RHP, ICICI Direct Research

Exhibit 30: Market share private vs. LIC (Individual)



Source: RHP, ICICI Direct Research

LIC’s plan includes:

- Increasing market share of 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 marketing of their corporation’s website and adding more products that are available for purchase on their 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 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 productivity of intermediaries by furthering competency-building initiatives
- Increasing their focus on group protection plans

Product mix dominated by participating policies; diversify mix by increasing contribution of non-participating segment

LIC has a broad, diversified product portfolio covering various segments across individual products and group products. As at September 30, 2021, their 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, their group product portfolio in India comprised 11 group products. LIC 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 ~ 42% of individual policies sold in FY21.

Exhibit 31: Product mix comparison

Products	FY19		FY20		FY21		9MFY22	
	% of our total GWP	% of median of the top Indian private player's	% of our total GWP	% of median of the top Indian private player's	% of our total GWP	% of median of the top Indian private player's	% of our total GWP	% of median of the top Indian private player's
Non-Linked	99.8	61.2	99.8	60.7	99.7	63.6	99.2	69
Of which:								
Participating	67	42.5	60.3	42.4	60.9	35.2	62.8	29.2
Non-participating	33	57.5	39.7	57.6	39.1	64.8	37.2	70.8
Linked	0.2	38.8	0.2	39.3	0.3	36.4	0.8	31
Total	100	100	100	100	100	100	100	100

Source: RHP, ICICI Direct Research

Although LIC's participating products dominate their 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 FY20, FY21 and 9MFY22, respectively. In annuity products, LIC had a market share in India of 84.7%, 76.9%, and 68.7% in terms of GWP for FY20, FY21 and December 31, 2021, respectively.

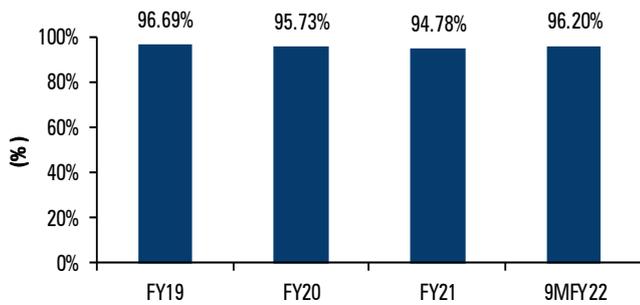
While participating products will continue to be a strong focus, LIC intends to continue diversifying the product mix by addressing customer needs at every stage of life and increasing sales of their existing non-participating products as well as launching new non-participating products, in particular term insurance, health insurance, pension/annuity products and Ulip products. The number of lives covered are projected to increase from 20.8 crore in FY21 to ~28.5 crore in FY26E, accounting for ~28% of total adult population.

Omni-channel network with unparalleled agency force

LIC's omni-channel distribution platform for individual products comprises (as at December 31, 2021), 1) 13.3 lakh individual agents; 2) 70 bancassurance partners; 3) 215 alternate channel; 4) a portal on LIC's website for digital sales; 5) 2128 active micro insurance agents; and 6) 4,769 point of sales persons-life insurance scheme.

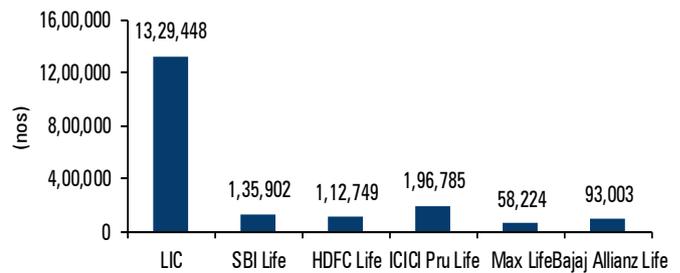
LIC's individual policies are primarily distributed by their individual agents. In FY19, FY20, FY21 and 9MFY22, individual agents were responsible for sourcing 96.69%, 95.73%, 94.78% and 96.20% of NBP for individual products in India, respectively. LIC's agent network helps drive customer connections, allowing them to remain cognizant of changes in customer needs, and proactively adjust their product portfolio. LIC believes large and productive agency force provides with a critical distribution moat in a largely assisted sale industry. LIC's 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 FY21, LIC had ~71% market share of new individual policies in rural India.

Exhibit 32: Agent contribution towards individual NBP



Source: RHP, ICICI Direct Research

Exhibit 33: Total agents across various players



Source: RHP, ICICI Direct Research

LIC have a wide presence across India and distribute their policies in all 36 states and union territories. As at March 31, 2021, it had offices in 91% of districts in India as compared to 81% for entire private sector combined. As at March 31, 2021, LIC had 2,390 offices in Tier III and Tier IV centres, while private players had 583 offices in aggregate in those centres. LIC had 177 offices in Tier V & VI centres, while private players had 55 offices in aggregate in those centres as at March 31, 2021.

Largest asset manager in India with established track record

LIC is the largest asset manager in India as at September 30, 2021, with AUM of ₹ 40.1 lakh crore on a standalone basis, which was (i) more than 3.2x the total AUM of all private life insurers in India, (ii) ~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% of India's annualised GDP for FY22. As per Crisil report, as at December 31, 2021, LIC's investments in listed equity represented around 4% of the total market capitalisation of NSE as at that date.

Net profit on sale/redemption of policyholders' investments was ₹ 23897.21 crore, ₹ 19387.48 crore, ₹ 39809.63 crore and ₹ 36462.77 crore in FY19, FY20, FY21 and 9MFY22 on a consolidated basis, respectively. PAT on a consolidated basis increased from ₹ 2627.38 crore for FY19 to ₹ 2974.14 crore for FY21, representing 6.39% CAGR.

Embedded value as of September 2021 at ₹ 5.4 lakh crore

Life insurance business is valued using Indian embedded value (IEV). Calculation of IEV is complex and consists of various actuarial assumptions. Embedded value for LIC as of September 30, 2021 was at ₹ 5.4 lakh crore.

LIC had surplus distribution to shareholder at 5% for all businesses. However, as per 2020-21 amendment in the LIC Act, for non-participating (other businesses) the surplus allocation was raised to 100%. Accordingly, EV surged in H1FY22 to ₹ 539686 crore.

Exhibit 34: Distribution of surplus – Amendment done in non-par business leads to EV surge

Financial year	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25 onwards
Participating business	5.0%	5.0%	7.5%	7.5%	10.0%
Other business	5.0%	100.0%	100.0%	100.0%	100.0%

Source: RHP, ICICI Direct Research

Exhibit 35: IEV calculation

₹ crore	As of 31 March 2020	As of 31 March 2021	As of 30 Sep 2021
Free surplus (FS) (A)	746	6361	8203
Required capital (RC) (B)			
Adjusted net worth (ANW) (C = A + B)	746	6361	8203
Present value of future profits (PVFP) (D)	59682	104772	546992
Time value of financial options and guarantees (TVFOG) (E)	-1533	-1596	-1208
Frictional cost of required capital (FC) (F)		-149	-656
Cost of residual non-hedgable risk (G)	-12398	-13782	-13645
Value of in-force business (H=D + E + F + G)	45751	89245	531483
Indian Embedded Value (C + H)	46497	95605	539686

Source: RHP, ICICI Direct Research

Key risks and concerns

Ongoing pandemic may adversely affect all aspects of business

The World Health Organization (WHO) declared the outbreak of Covid-19 a global pandemic on March 11, 2020. The government initiated a nationwide lockdown as a result of which business activity was muted. LIC's and its distribution partners' ability to distribute products was adversely affected due to lockdowns. In addition, LIC's insurance claims by death increased during pandemic. For FY19, FY20, FY21 and 9MFY22, insurance claims by death in benefits paid (net) were ₹ 16963.7 crore, ₹ 17341.8 crore, ₹ 23483.3 crore and ₹ 29310.7 crore, respectively. The extent to which the pandemic will continue to affect business, financial condition, results of operations in the future will depend on future developments, which are highly uncertain.

Adverse variation in persistency may impact financial condition

Maintaining high persistency ratios is important for results of operations, as a large block of in-force policies provides regular revenue in the form of renewal premiums. In extreme case scenario where a large number of customers surrender their policies, leading to payout exceeding cash flows, LIC may have to dispose of investment assets, possibly at unfavourable prices, in order to make the significant amount of surrender payments. Some investment assets, such as investments categorised as held-to-maturity debt securities and equity investments in private companies, have low liquidity and LIC may be forced to sell such investment assets at below market value to cover the surrendered payments, which could materially and adversely affect financial condition.

Interest rate fluctuations may adversely affect profitability

Depending on the nature of asset and liability portfolio, results of operations could be materially affected by change in interest. Matching the duration of assets to the corresponding liabilities reduces exposure to changes in interest rates as the effect of the changes could largely be offset against each other. Actual investment returns that are lower than those projected could lead to incurring losses on non-participating products and cause to increase the prices of non-participating products in the future, which could cause new business to decline.

Embedded value calculations, estimates may vary materially if key assumptions change

While LIC has obtained the report from Independent actuary, there is significant technical complexity involved in embedded value calculations and the estimates used in such embedded value reports could vary materially if key assumptions are changed or if LIC's experience differs from assumptions used to calculate their Indian embedded value. The calculation of the values necessarily includes numerous assumptions and estimates, many of which are beyond control. There may be a risk that the model used to calculate Indian embedded value itself may not be appropriate despite taking due care to ensure that models are appropriate.

Competition in business may be materially impacted

LIC is the only public sector life insurance company in India and primary competitors are private life insurance companies in India. Private sector insurance companies have been growing faster than LIC and gaining market share. For FY19, FY20, FY21 and nine months ended December 31, 2021, LIC had a market share of 66.4%, 66.2%, 64.1% and 61.6%, respectively, in terms of total premium in the Indian life insurance sector. Accordingly, there is no assurance that LIC will not lose further market share.

Financial Summary

Exhibit 36: Policyholder's Account				
(₹ crore)				
PARTICULARS (₹ Cr.)	FY19	FY20	FY21	9M FY22
Premiums earned - Net	339971.6	382475.5	405398.5	285341.9
Interest, Dividends & Rent	200021.0	222050.1	239565.0	189085.0
Profit/ (Loss) on sale/redemption of Investments	23897.2	19387.5	39809.6	36462.8
Transfer/Gain on revaluation/change in fair value	1125.3	1398.7	6145.8	705.9
Others income (incl. MTM)	5794.4	20293.6	12790.5	683.5
Total Revenue	570809.6	645605.5	703709.4	512279.2
Commission	20482.6	21548.3	22358.2	15538.1
Operating Expenses related to Insurance Business	28331.6	34425.9	35162.2	27267.3
Other Expenses	4832.4	19731.7	13456.2	0.3
GST on Fund Mgt. charges & other charges	109.8	98.3	93.2	55.7
Provisions	21157.9	35275.8	16482.8	-273.5
Total expenses	74914.3	111080.0	87552.6	42587.9
	495895.3	534525.5	616156.9	469691.3
Benefits paid (net)	252380.8	255479.5	288489.1	234619.9
Interim Bonuses Paid	1651.4	1673.4	2229.1	2470.0
Change in valuation of policy liabilities	253585.5	296628.4	321134.0	239357.4
Other Transfers	-9306.3	-9106.8	442.9	-8398.8
SURPLUS/(DEFICIT)	-2416.1	-10148.9	3861.8	1642.8
Add: Share of Profit in Associates	668.4	574.4	1163.4	2228.1
(Less)/Add: Minority Interest	2516.2	6372.7	-446.5	-3.0
TOTAL SURPLUS/(DEFICIT)	768.5	-3201.8	4578.6	3867.9
Transfer to Shareholders' Account	2599.5	2695.5	2962.6	1637.8
Transfer to Other Reserve	-1832.3	-5911.0	1616.1	2230.2
Proposed Dividend paid	1.4	13.6	0.0	0.0

Source: RHP, ICICI Direct Research

Exhibit 37: Shareholder's Account				
(₹ crore)				
PARTICULARS (₹ Cr.)	FY19	FY20	FY21	9M FY22
Amount Transferred from Policyholders account	2599.5	2695.5	2962.6	1637.8
Profit/ (Loss) on sale/redemption of Investments	8.1	0.2	5.2	22.1
Interest, Dividend & Rent	37.4	35.2	17.8	97.5
Total income	2645.0	2731.0	2985.6	1757.3
Others Expenses	2.6	12.4	5.2	0.4
Total expenses	2.6	12.4	5.2	0.4
PBT	2642.4	2718.5	2980.3	1757.0
Less : Provision for Tax	15.0	8.0	6.2	41.7
PAT	2627.4	2710.5	2974.1	1715.3
Appropriations	-2558.8	-2647.2	-2861.3	83.5
Adjusted Net Profit	68.6	63.3	112.8	1798.8
Earnings per equity share				
Basic earnings per share (₹)	4.2	4.3	4.7	2.7
Diluted earnings per share (₹)	4.2	4.3	4.7	2.7

Source: RHP, ICICI Direct Research

Exhibit 38: Balance Sheet

(₹ crore)

PARTICULARS (₹ Cr.)	FY19	FY20	FY21	9MFY22
Assets				
Cash, Cash equivalents and Bank	67899.5	63152.6	36078.3	21827.3
Investments - Shareholders	369.4	400.8	426.4	5186.7
Investments - Policyholders	2877686.7	2957907.8	3498440.7	3843617.3
Loans & Advances	433159.2	431631.2	258129.8	261287.7
Fixed Assets	14567.6	14571.8	3474.0	3463.1
Other Assets	33566.9	32169.9	32975.0	22363.7
Total Assets	3427249.2	3499834.1	3829524.2	4157745.7
Liabilities				
Share Capital	100.0	100.0	100.0	6325.0
Other equity	797.4	998.1	6883.2	2741.3
Total Equity	897.4	1098.1	6983.2	9066.3
Policyholders' Fund	3096036.6	3159662.9	3739417.6	4080613.5
Borrowings	269400.6	253413.6	3.7	3.7
Current liabilities	40282.3	65031.7	68171.5	53114.7
Provisions	20632.3	20627.8	14948.3	14947.6
Other liabilities				
Total Equity and Liabilities	3427249.2	3499834.1	3829524.2	4157745.7

Source: RHP, ICICI Direct Research

Exhibit 39: Key Ratios

PARTICULARS (₹ Cr.)	FY19	FY20	FY21	9MFY22
No. of Equity Shares	632.5	632.5	632.5	632.5
Net Worth	897.4	1098.1	6983.2	8230.5
Gross NPA	6.2%	8.2%	7.8%	6.3%
Net NPA	0.3%	0.8%	0.1%	0.0%
Solvency Ratio	160.0%	155.0%	176.0%	177.0%
Management Expense Ratio	14.4%	14.7%	14.2%	15.0%
Operating expenses (as a % of premium)	8.3%	9.0%	8.7%	9.5%
Return on net worth (%)	322.3%	317.1%	45.7%	20.8%
Net Retention Ratio	99.9%	99.9%	99.9%	99.9%
Expenses of Mgt to Gross Direct Premium Ratio	14.4%	14.7%	14.2%	15.0%
Commission Ratio	5.7%	5.6%	5.5%	5.4%
Ratio of policy holder's liabilities to shareholder's funds	4501.1	4222.9	585.2	504.6
Investment Yield	7.6%	7.5%	7.4%	7.3%
Conservation Ratio	92.2%	88.8%	84.5%	93.7%
No. of Policies	66.0%	61.0%	67.0%	65.5%
Premium Amount	77.0%	72.0%	79.0%	76.8%
APE of individual business in India	31447.6	35297.4	32270.6	20904.4
APE of group business in India	9117.9	12674.9	13317.3	9018.9
VNB	NA	NA	4167.0	-
VNB Margin	NA	NA	9.9%	-
AUM (consolidated)	3271032.7	3338107.9	3692967.3	4032170.0
Number of death claims reported	750950.0	758916.0	946976.0	1109158.0
Death Claims Settlement Ratio (%)	97.8	96.7	98.6	96.1

Source: RHP, ICICI Direct Research

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