

India Market Strategy

LIC IPO – what it could mean for the market

Equity Strategy

India

Sunil Tirumalai

Strategist

sunil.tirumalai@ubs.com

+91-22-6155 6000

Neeraj Toshniwal

Analyst

neeraj.toshniwal@ubs.com

+91-22-6155 6058

Akshay Gattani

Strategist

akshay-kumar.gattani@ubs.com

+91-22-6155 6044

Abhilash Chowdary Bobbur, PhD

Strategist

abhilash-chowdary.bobbur@ubs.com

+91-22-6155 6000

A behemoth comes to the market

LIC has filed [draft prospectus](#) for an IPO. Based on [media reports](#), the government could raise Rs650bn (US\$8.6bn) by selling a 5% stake (all via an offer for sale), at a listing valuation of US\$172bn. At this scale, LIC would be the third-largest stock in India by market cap, and the 32nd-largest by free float, ensuring an entry into mainstream indices, eg, Nifty-50. Read about LIC in an Indian insurance context in our [previous note](#).

Issue size = 25% of total capital raise in 2021

The issue's sheer scale means the market's appetite will be tested. 2021 saw record total capital-raising of US\$34bn (of which IPOs accounted for US\$16bn)—the government's target for LIC is 25% of last year's capital-raising total. Figure 4 shows in 2021, retail investors accounted for 32% of IPO subscription, and domestic institutional investors 21% (a common source of both would be household savings). Media reports suggest around half the issue will be reserved for non-institutional investors and retail. Successful completion of this IPO could have some impact on the market in general, and on the future IPO pipeline, in our view. As per [SEBI listing guidelines](#), the government will have to mandatorily dilute its LIC stake to allow public shareholding of 10% within 2 years and 25% within 5 years, ensuring constant supply.

The largest fund manager in Indian equities

With US\$520bn total AUM, LIC is the largest institutional investor in Indian markets. Equity AUM of US\$130bn gives LIC a 29% share of domestic institutional equity AUM—a shade more than half of all equity mutual funds in India. With this, LIC has about a 4% stake in Indian equities, making it the single-largest stakeholder after the government (promoter stake)—albeit Figure 8 shows this number peaked in 2017 and has been falling gradually. Importantly, LIC has a disproportionately higher share in SOE stocks (8-9%; Figure 14). Figure 17 shows its largest holdings over time (a reasonably stable set).

Importance of LIC for the government

Besides SOE stock ownership, LIC is an important entity for the government in many ways. LIC owns over 19% of all government bonds (centre + states; Figure 7), making it bigger than the RBI, and surpassed only by the commercial banking system (who need to hold government bonds per regulations). Post listing, LIC would be the largest investment in the government's portfolio of listed equities—43% of US\$377bn in AUM. This is important from the point of view of government budget financing through divestments. At its valuation, proceeds from LIC would help meet the budgeted divestment target for FY22 (Rs780bn). There would be further dilution in the coming years (totalling US\$8.6bn in two years and US\$34bn in five years, at the current media-reported valuation). Assuming sufficient demand for this supply (not an easy assumption given the scale of these numbers), a decent chunk of the government's divestment cash flows could be sustained by repeated dilutions in LIC.

Importance of LIC for the household

LIC's Sanskrit tagline, taken from the holy Gita, translates to "I carry the responsibility of your well-being". In our analysis, nearly Rs10 out of every Rs100 saved by the Indian household each year goes to LIC, making it larger than even the perceived staple of household savings—a deposit with SBI (we notice the gap is narrowing). [Media reports](#) suggest the government is looking to tap into LIC's large customer base (280m policies, about one per family in India) to generate buying interest in the IPO.

Figure 1: Based on media-suggested valuation, LIC would be 3rd-largest company by market cap...

S.No	BBG	Company	US\$ Bn
1	RIL IN	Reliance Industries Ltd	214
2	TCS IN	Tata Consultancy Services Ltd	182
3	NA	Life Insurance Corporation of India	172
4	HDFCB IN	HDFC Bank Ltd	112
5	INFO IN	Infosys Ltd	96
6	ICICIB IN	ICICI Bank Ltd	73
7	HUVR IN	Hindustan Unilever Ltd	71
8	SBIN IN	State Bank of India	63
9	HDFC IN	Housing Development Finance Corporation Ltd	59
10	BAF IN	Bajaj Finance Ltd	56
11	BHARTI IN	Bharti Airtel Ltd	55
12	KMB IN	Kotak Mahindra Bank Ltd	48
13	HCLT IN	HCL Technologies Ltd	42
14	APNT IN	Asian Paints Ltd	41
15	WPRO IN	Wipro Ltd	41
16	ADANIGR IN	Adani Green Energy Ltd	40
17	ITC IN	ITC Ltd	38
18	DMART IN	Avenue Supermarts Ltd	36
19	MSIL IN	Maruti Suzuki India Ltd	35
20	LT IN	Larsen & Toubro Ltd	35
21	BJFIN IN	Bajaj Finserv Ltd	34
22	AXSB IN	Axis Bank Ltd	33
23	ADANIT IN	Adani Transmission Ltd	30
24	TTAN IN	Titan Company Ltd	29
25	UTCEM IN	UltraTech Cement Ltd	28
26	SUNP IN	Sun Pharmaceutical Industries Ltd	28
27	ONGC IN	Oil and Natural Gas Corporation Ltd	28
28	ATGL IN	Adani Total Gas Ltd	26
29	ADE IN	Adani Enterprises Ltd	26
30	TTMT IN	Tata Motors Ltd	24
31	NEST IN	Nestle India Ltd	23
32	JSTL IN	JSW Steel Ltd	22
33	TATA IN	Tata Steel Ltd	20
34	ADSEZ IN	Adani Ports and Special Economic Zone Ltd	20
35	PWGR IN	Power Grid Corporation of India Ltd	19
36	VEDL IN	Vedanta Ltd	19
37	TECHM IN	Tech Mahindra Ltd	18
38	HZ IN	Hindustan Zinc Ltd	18
39	NTPC IN	NTPC Ltd	18
40	HDFCLIFE IN	HDFC Life Insurance Company Ltd	17

Source: Datastream, Capitaline, UBS. Note: Market cap data as on 11 February 2022.

Figure 2: ...and would be 32nd-largest based on free float market cap (this could further go up with more dilution from the government, as proposed)

S.No	BBG	Company Name	Free float Mcap (US\$bn)
1	RIL IN	Reliance Industries Ltd.	108.7
2	HDFCB IN	HDFC Bank Ltd.	88.2
3	INFO IN	Infosys Ltd.	84.7
4	ICICIB IN	ICICI Bank Ltd.	72.8
5	HDFC IN	Housing Development Finance	58.2
6	TCS IN	Tata Consultancy Services Ltd.	50.8
7	KMB IN	Kotak Mahindra Bank Ltd.	35.6
8	LT IN	Larsen & Toubro Ltd.	30.0
9	AXSB IN	Axis Bank Ltd.	27.5
10	ITC IN	ITC Ltd.	27.0
11	SBIN IN	State Bank of India	27.0
12	HUVR IN	Hindustan Unilever Ltd.	26.7
13	BAF IN	Bajaj Finance Ltd.	24.7
14	BHARTI IN	Bharti Airtel Ltd.	22.4
15	APNT IN	Asian Paints Ltd.	19.2
16	HCLT IN	HCL Technologies Ltd.	16.8
17	MSIL IN	Maruti Suzuki India Ltd.	15.4
18	TTAN IN	Titan Company Ltd.	13.5
19	TATA IN	Tata Steel Ltd.	13.2
20	BJFIN IN	Bajaj Finserv Ltd.	12.9
21	SUNP IN	Sun Pharmaceutical Industries Ltd.	12.6
22	TTMT IN	Tata Motors Ltd.	11.9
23	TECHM IN	Tech Mahindra Ltd.	11.7
24	UTCEM IN	UltraTech Cement Ltd.	11.2
25	WPRO IN	Wipro Ltd.	11.0
26	MM IN	Mahindra & Mahindra Ltd.	10.8
27	HNDL IN	Hindalco Industries Ltd.	10.5
28	PWGR IN	Power Grid Corporation of India Ltd.	9.4
29	ADANIGR IN	Adani Green Energy Ltd.	9.1
30	JSTL IN	JSW Steel Ltd.	8.8
31	NTPC IN	NTPC Ltd.	8.6
32	NA	Life Insurance Corporation of India	8.6
33	GRASIM IN	Grasim Industries Ltd.	8.5
34	IIB IN	IndusInd Bank Ltd.	8.5
35	NEST IN	Nestle India Ltd.	8.4
36	DMART IN	Avenue Supermarts Ltd.	8.2
37	ONGC IN	Oil & Natural Gas Corporation Ltd.	8.1
38	HDFCLIFE IN	HDFC Life Insurance Company Ltd.	7.4
39	ADANIT IN	Adani Transmission Ltd.	7.4
40	SBILIFE IN	SBI Life Insurance Company Ltd.	6.6

Source: Datastream, Capitaline, UBS. Note: Market cap data as on 11 February 2022.

Figure 3: US\$34bn capital raised in Indian equities in 2021; LIC targeting 25% of that number in a single deal

US\$ Bn	IPO	Rights	QIP	Total
CY21	16.2	3.9	13.6	33.7
31-Mar-22	0.6	0.0	0.2	0.7

Source: Bloomberg, UBS

Figure 4: More than 50% of IPO flows in 2021 came from domestic sources (DIIs & retail)

US\$ Bn	FII	DII	Retail
IPO	7.4	3.4	5.0
Total	0.9	18.2	22.5

Source: Capitaline, Bloomberg, UBS

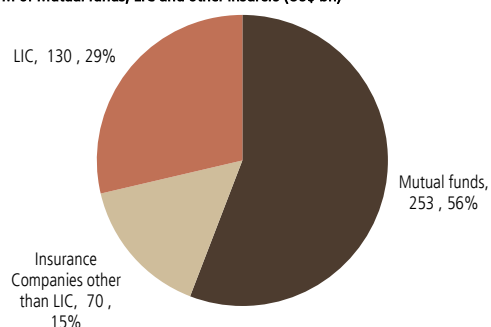
Figure 5: Allocation quota for LIC: some portion of retail investor quota could be reserved for LIC's policyholders and employees

	Maximum allocation
Qualified Institutional investors	50%
Non-institutional investors	15%
Retail Individual bidders	35%

Source: LIC DRHP, UBS

Figure 6: LIC is the largest domestic institutional investor (DII) in equities, accounting for nearly 30% of all DII AUM in the Indian market

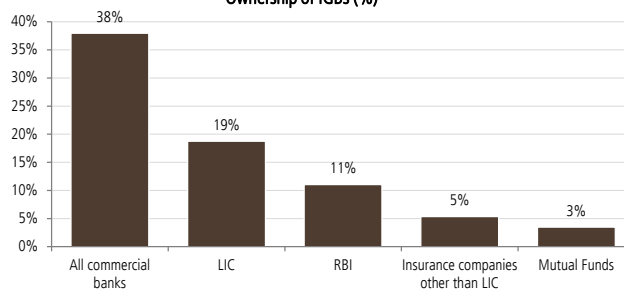
Equity AUM of Mutual funds, LIC and other insurers (US\$ bn)



Source: NSDL, LIC DRHP, UBS. Note - data as of Sep-2021

Figure 7: LIC is also the single-largest owner of Indian govt bonds (centre+state) (IGBs) - at 19% of outstanding bonds

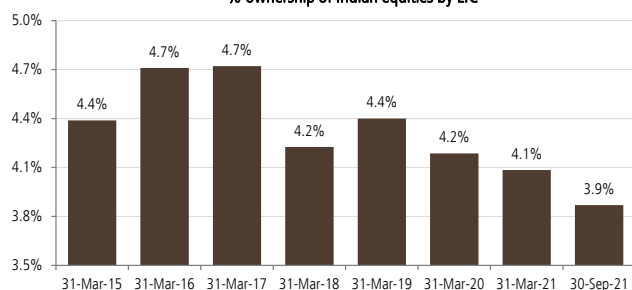
Ownership of IGBs (%)



Source: RBI, LIC DRHP, UBS. Note data as of Sep-2021

Figure 8: LIC's stake in Indian market at 4% - peaked in 2017...

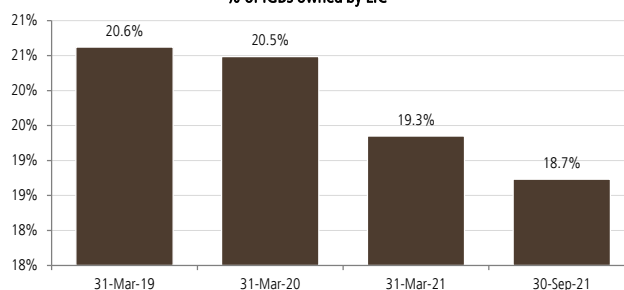
% ownership of Indian equities by LIC



Source: LIC DRHP and annual report, Bloomberg

Figure 9: ...similar trend seen in LIC's ownership of G-secs

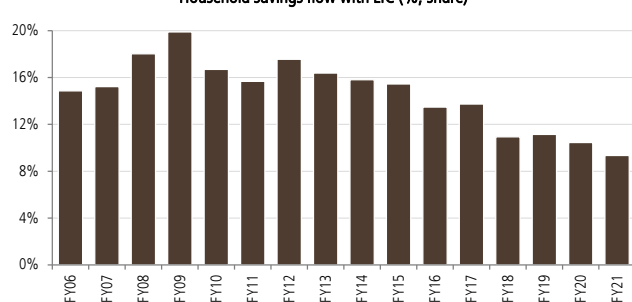
% of IGBs owned by LIC



Source: LIC DRHP, Bloomberg

Figure 10: LIC garners the lion's share of household savings (flow) - at about 10% each year; the number has come off over the years

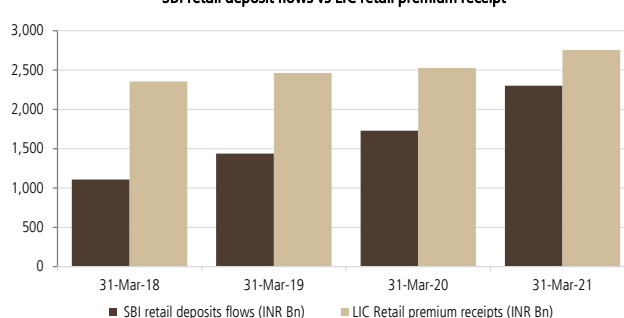
Household savings flow with LIC (% share)



Source: CMIE, RBI, AMFI, NABARD, CGA, SEBI, NHB, company data, Capitaline, Bloomberg, UBS

Figure 11: Maintains lead over SBI's deposits - the next largest destination for household savings in India

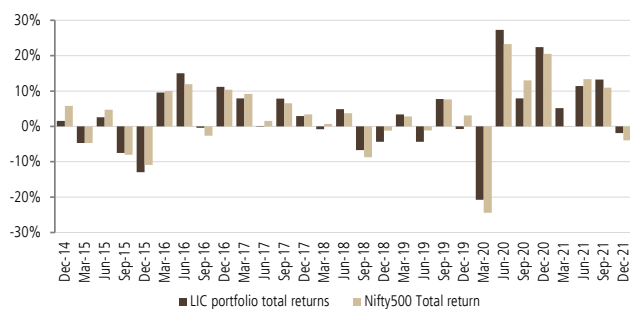
SBI retail deposit flows vs LIC retail premium receipt



Source: SBI, IRDA, UBS

Figure 12: LIC's equity portfolio has outperformed in 14 out of past 29 quarters

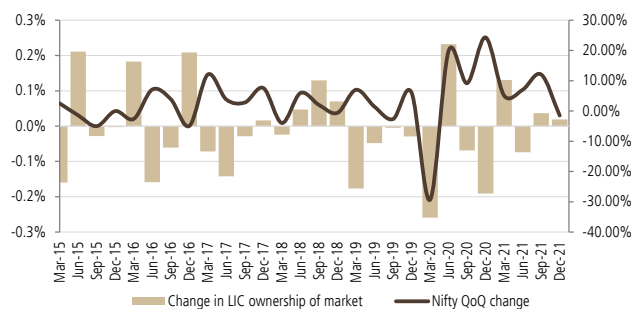
LIC vs Nifty500 total return (%)



Source: Capitaline, Datastream, UBS

Figure 13: Data does not support the popular belief that LIC is countercyclical in equity investments

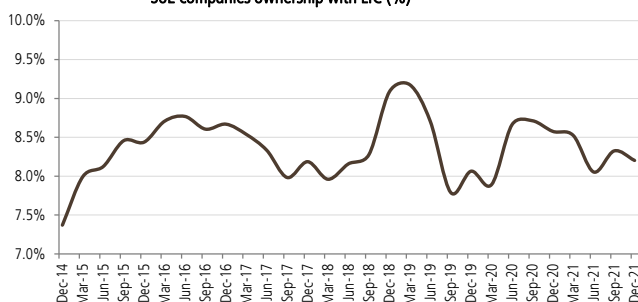
Change in LIC's ownership of India equities vs Nifty movement



Source: Capitaline, Datastream, UBS

Figure 14: LIC's stake in SOE stocks has fluctuated, but generally in the 8-9% range...

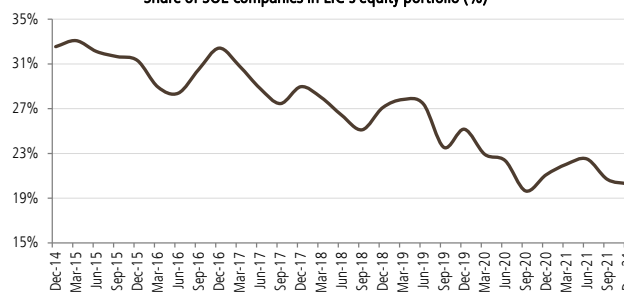
SoE companies ownership with LIC (%)



Source: Capitaline, Datastream, UBS

Figure 15: ...but the share of SOE companies in LIC's equity portfolio has fallen consistently

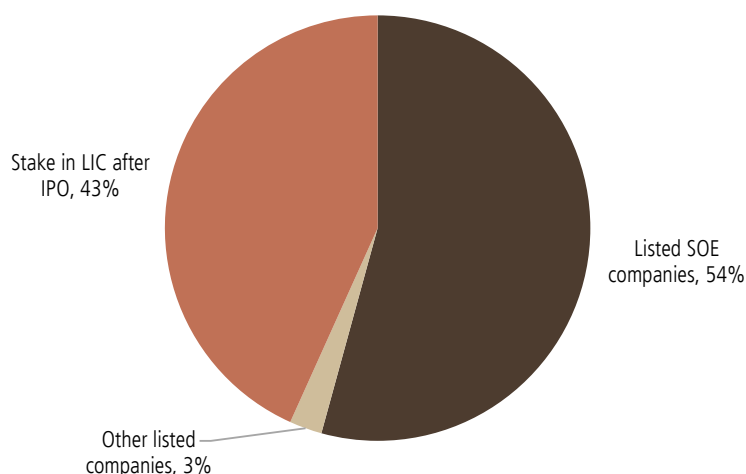
Share of SOE companies in LIC's equity portfolio (%)



Source: Capitaline, Datastream, UBS

Figure 16: At media-reported valuation, LIC would account for 43% of the government's listed equity portfolio

Government stake in Listed companies - US\$377



Source: Capitaline, UBS

Figure 17: LIC's 10 largest holdings each year

31-Dec-21		31-Dec-20		31-Dec-19		31-Dec-18	
Company	Weight	Company	Weight	Company	Weight	Company	Weight
Reliance Industr	10%	Reliance Industr	10%	Reliance Industr	10%	ITC	9%
TCS	5%	TCS	6%	ITC	8%	Reliance Industr	9%
Infosys	5%	ITC	6%	TCS	6%	Larsen & Toubro	6%
ITC	5%	Infosys	5%	ICICI Bank	5%	TCS	5%
ICICI Bank	4%	Larsen & Toubro	4%	St Bk of India	5%	St Bk of India	4%
St Bk of India	4%	ICICI Bank	4%	Larsen & Toubro	4%	ICICI Bank	4%
Larsen & Toubro	3%	St Bk of India	4%	IDBI Bank	3%	IDBI Bank	3%
Hind. Unilever	3%	H D F C	4%	Infosys	3%	O N G C	3%
IDBI Bank	3%	HDFC Bank	3%	H D F C	3%	Infosys	3%
HDFC Bank	2%	Hind. Unilever	3%	HDFC Bank	3%	Maruti Suzuki	3%

31-Dec-17		31-Dec-16		31-Dec-15		31-Dec-14	
Company	Weight	Company	Weight	Company	Weight	Company	Weight
ITC	9%	ITC	10%	ITC	10%	ITC	11%
Reliance Industr	8%	Reliance Industr	7%	Reliance Industr	8%	St Bk of India	7%
Larsen & Toubro	5%	O N G C	5%	St Bk of India	5%	Reliance Industr	6%
St Bk of India	5%	Larsen & Toubro	5%	Larsen & Toubro	5%	Larsen & Toubro	6%
O N G C	4%	St Bk of India	4%	O N G C	4%	O N G C	6%
TCS	4%	NTPC	4%	ICICI Bank	4%	ICICI Bank	4%
NTPC	3%	ICICI Bank	4%	Infosys	4%	TCS	3%
ICICI Bank	3%	TCS	4%	TCS	3%	NTPC	3%
Infosys	3%	Infosys	3%	Coal India	3%	Infosys	3%
Maruti Suzuki	2%	I O C L	3%	NTPC	3%	M & M	2%

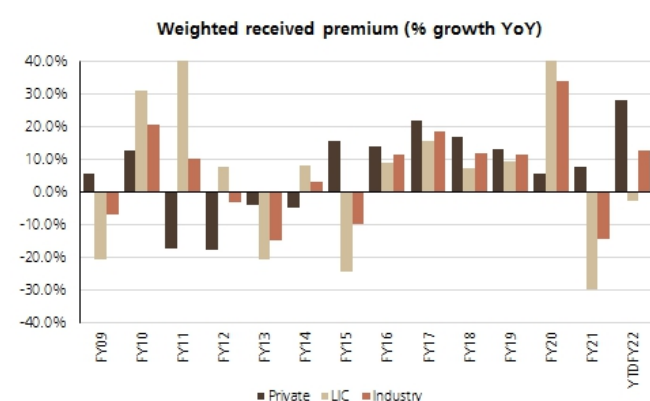
Source: Capitaline, Datastream, UBS

LIC IPO—would it induce transparency?

We believe life insurance in India is predominately bought as a savings and investment product (albeit with nominal protection cover), rather than primarily as a protection product, as India has one of the widest protection gaps globally. As the uptake of protection products rises (reflected in various insurers' business mix changes and a gradually rising sum assured to industry-level GDP ratios), with higher customer demand as well as insurers' focus on an increasing share of protection, we expect profitability of life insurance companies in general to further improve. However, we believe LIC's ethos—which is traditionally savings dominated (product mix) and agency-driven—is unlikely to change immediately (although granular steps in a different direction might start). That said, we believe LIC's potential IPO would be structurally positive for the sector in the long run as given its reach and size, it might lead to higher awareness (benefitting private insurers as well). We believe the potential issue could bring transparency to LIC's operations and increase rationality in its business decisions.

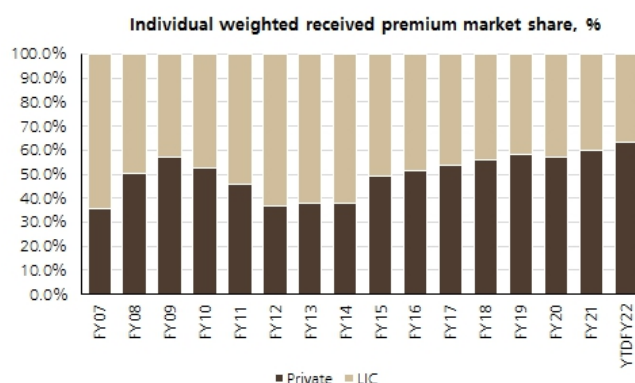
Government-owned LIC is the largest and oldest life insurer in India. Industry deregulation began in 2000, paving the way for private insurers' participation. While LIC still dominates (42.9% industry market share in FY22 YTD), its weighted received premium (WRP) growth has slowed and been lower than private peers' in recent years (except for FY20), due in part to strong growth in its non-par pension and annuity business.

Figure 18: Private firms growing faster than LIC



Source: IRDA, UBS

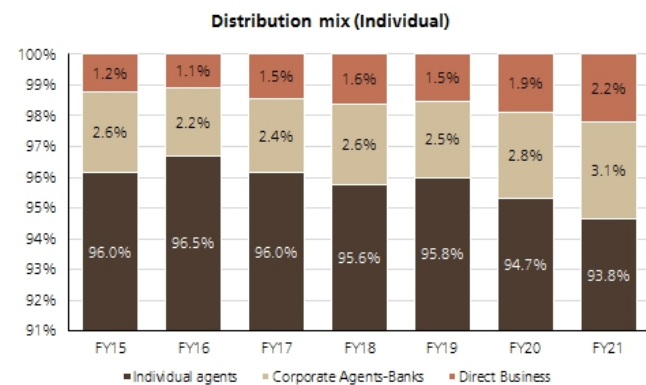
Figure 19: LIC continuously losing market share to private firms



Source: IRDA, UBS

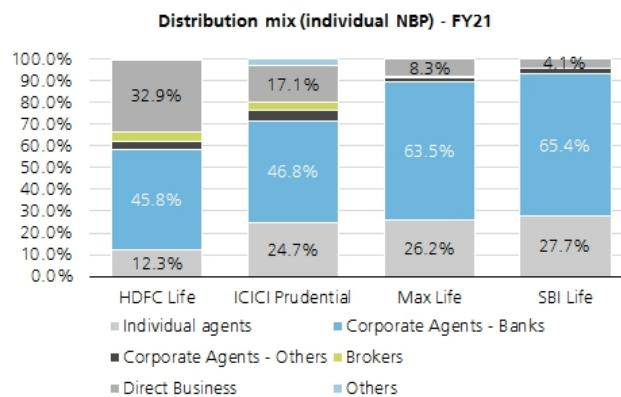
The reasons for this include less use of corporate agents/bancassurance distribution (which private insurers have used to their advantage to cross-sell to bank customers) as well as high dependency on individual agents, rising acceptance of private life insurers as they have become more established over time, and a low presence in unit-linked insurance plans (ULIPs), which formed about 20% of the insurance industry's new business in terms of WRP in FY21 and around 23% on average over FY15-21, and therefore LIC does not attract investors looking for investment-type products where returns can be tracked.

Figure 20: LIC depends more heavily on the agency channel



Source: IRDA

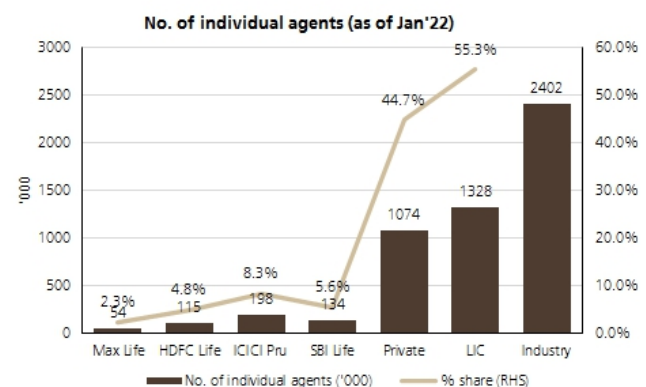
Figure 21: Private insurers are more bancassurance-driven



Source: IRDA

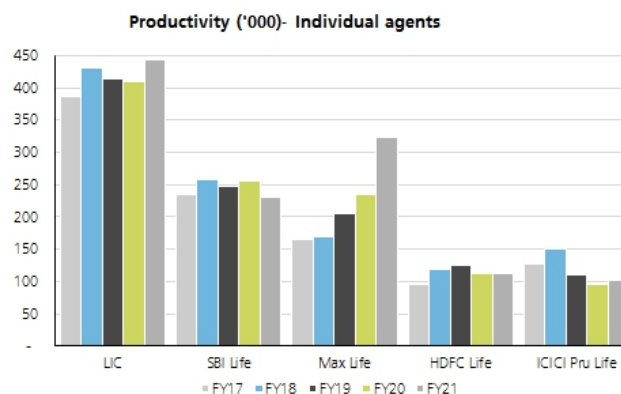
LIC depends heavily on the agency channel—unlike private insurers, which are bancassurance and agency-driven. However, the productivity of LIC's agents is significantly higher than those of listed private insurers.

Figure 22: LIC has over 50% share of the industry agent pool



Source: Life Insurance Council

Figure 23: LIC agents have highest productivity



Source: IRDA

The LIC Amendment Act substitutes Section 28 of the LIC Act, 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. This is positive for LIC shareholders (higher recoup from existing business and increased focus on profitable business). However, the flip side is that it creates a level playing field for private insurers. LIC, as per the base plan mentioned in its prospectus, plans to increase participatory business bonus in a staggered manner from 5% in FY21 and FY22 to 7.5% over FY23 and FY24, and 10% from FY25.

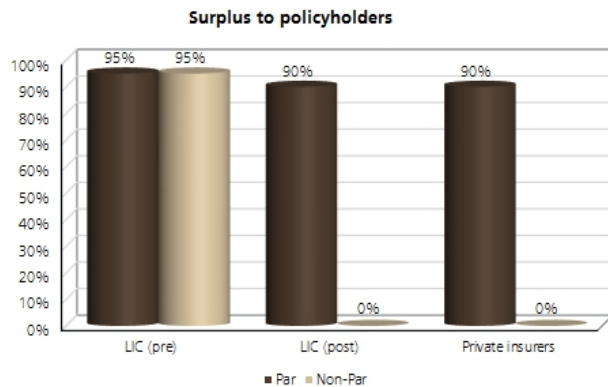
Embedded value (EV) calculated as at 30 September 2021 has moved sharply to Rs5.4trn on the back of a decrease in future profit distribution in line with private peers'. This is largely due to the shareholder's interest in non-par funds increasing to 100%. On a like-to-like basis without a change in distribution profits, EV would have been Rs1.25trn. The value of new business margin as of H1 FY22 was 9.3% (considering a staggered increase in par distribution profits to 10% and 100% retention in non-par savings). It would have been in the range of 12-12.5% (12.3% in FY21 under alternative 1; Figure 24) if retention of surplus moved to 10% from FY22 in par products. Value in force (VIF) constituted 98.4% of revised EV as of H1 FY22.

Figure 24: Revision in distribution profits leading to increased profitability

Scenario	Product type	FY20-21	FY21-22	FY22-23	FY23-24	FY23-24 onwards	VNB (Rs bn)*	VNB margin, %*
Base	Participating business	5.0%	5.0%	7.5%	7.5%	10.0%	41.7	9.9%
	Other business	5.0%	100.0%	100.0%	100.0%	100.0%		
Alternative 1	Participating business	10.0%	10.0%	10.0%	10.0%	10.0%	52.0	12.3%
	Other business	100.0%	100.0%	100.0%	100.0%	100.0%		
Alternative 2	Participating business	5.0%	5.0%	5.0%	5.0%	5.0%	11.8	2.8%
	Other business	5.0%	5.0%	5.0%	5.0%	5.0%		

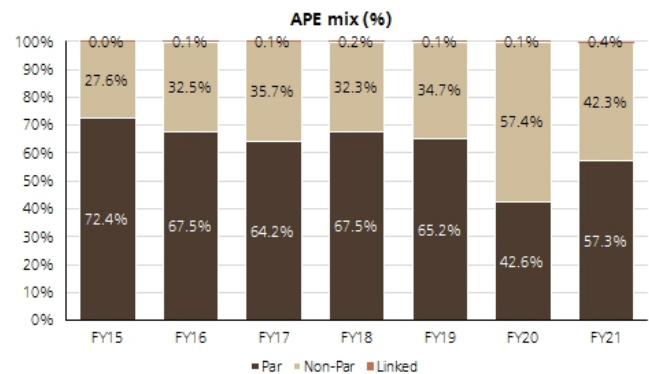
Source: LIC DRHP. Note: Value of new business derived under different scenarios on FY21 assuming revised distribution from FY22.

Figure 25: LIC surplus to policyholders, post amendment



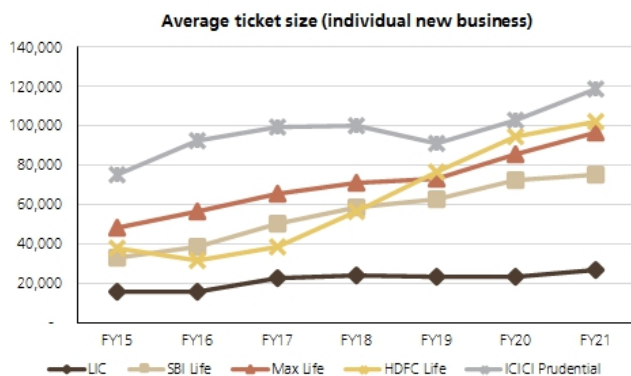
Source: Finance Bill, MOSPI

Figure 26: Traditionally heavy book—par dominates



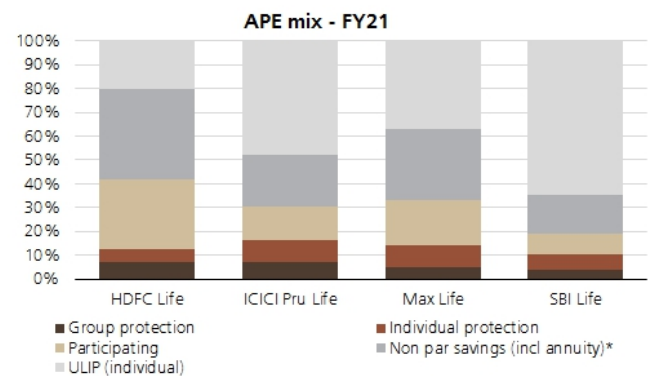
Source: Company data. Note: Includes group data.

Figure 27: LIC's average ticket size is the lowest due to focus on the par segment and on mass customers



Source: IRDA

Figure 28: APE mix of private firms (as of FY21)



Source: IRDA, UBS, *includes group ULIPs

The market seems to be pricing in increased competition from LIC ahead of its potential listing, in our view. However, we think the market could be assigning a valuation discount to LIC versus listed entities (which trade at 2.0-3.3x FY23E P/EV), owing to its traditionally savings-heavy business mix, lower operating leverage (higher employee cost), heavier dependence on the agency channel and status as an SOE.

Figure 29: Life insurers under our coverage—valuation comparison

	UBS	PT	SP	Mcap	P/EV - 12m trailing		P/EV - forward		Stock price performance			
	Rating	(Rs)	(Rs)	USD bn	1Y ago	Current	FY22E	FY23E	12m	3m	6m	
HDFC Life	Neutral	750	557	15.6	5.5	3.9	3.8	3.3	-22%	-22%	-17%	
ICICI Pru Life	Buy	780	502	9.5	2.5	2.3	2.3	2.0	3%	-23%	-25%	
Max Financial	Buy	1265	826	3.8	3.0	2.6	2.6	2.2	2%	-14%	-23%	
SBI Life	Buy	1495	1,094	14.5	2.5	2.6	2.6	2.2	22%	-5%	-4%	
	APE growth				VNB margin				Return on EV			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC Life	13%	25%	16%	15%	26.2%	26.7%	27.3%	27.5%	19%	17%	19%	19%
ICICI Pru Life	-12%	24%	18%	16%	25.1%	26.9%	27.6%	28.1%	15%	11%	16%	16%
Max Life	19%	21%	17%	15%	24.2%	24.1%	24.9%	25.6%	19%	21%	22%	22%
SBI Life	7%	31%	17%	15%	23.2%	25.6%	26.0%	26.2%	24%	17%	19%	19%

Source: Company data, UBS estimates. Note: Above data as of 14 Feb 2022.

Valuation Method and Risk Statement

We believe risks to our long-term estimates, for example, for corporate earnings and macroeconomic variables (such as GDP growth rates and inflation), include an economic slowdown, a weakening currency, global economic events and government policy changes.

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Buy	FSR is > 6% above the MRA.	55%	32%
Neutral	FSR is between -6% and 6% of the MRA.	35%	29%
Sell	FSR is > 6% below the MRA.	10%	26%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2021.

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