Name	Life Insurance Corporation of India

Business	LIC is the largest & oldest life insurer in India, and the only public limited player in the life insurance industry. As of 2021, it has a market share of 64.1% & 66.2% in Gross Written Premium (GWP) & New Business Premium (NBP) respectively. LIC is the fifth largest life insurer in the world in terms of GWP & the largest asset manager in India with AUM of Rs 39.56 trillion as of Sep-21 (1.1x of entire mutual fund industry).
Multi-Act's Observations	**Underwriting**: Split between renewal and new business premiums is 60:40. NBP and total premiums have grown at 13.6% and 8.8% during the 2016-21. The combined ratio of the company has deteriorated from 69.6% in 2005 to 85.4% in 2021, primarily due to rise in loss ratios (benefit paid). For FY21, investment income constituted 80% of total income, followed by underwriting income (16%) and other income (4%). **Investments**: The AUM of the company has grown at a CAGR of ~12% since 2011, and at ~12.5% during the last five years. AUM mix in terms of debt-equity is 80:20. ~96% of company's debt portfolio is sovereign and AAA-rated debt. Top 5 equity holdings (Value) of LIC are Reliance, TCS, ITC, Infosys and SBI. Investment yields on policyholders' funds have been 8-10% - similar to peers but more consistent due to higher share of debt. **Returns**: Being 100% government owned, LIC has never needed traditional capital. All profits have been distributed either as dividends to the government or payout to policyholders. As a result, the RONW of the company was unusually high (Average of ~300%) though it reduced to 42% in 2021 after retention of profits. **True Profits**: LIC has historically distributed only 5% of its profits to shareholders from the combined fund, while private insurers distribute 10% of profits from participating fund to shareholders, and 100% of profits from non-participating fund to shareholders. While LIC's distribution pattern is gradually converging to that of private players, if we adjust for historical profits considering the distribution of private players, the true profits of LIC are ~6-7x of its reported profits. **Industry**: Excluding LIC, there are 23 other private players in the life insurance industry, the major ones being SBI Life, ICICI Prudential, HDFC Life, Bajaj Allianz and Max life. The industry's total premium has grown at 11% CAGR during 2007-21 & 2016-21, with a forecast to reach ₹12.4 trillion by FY26 at 15% CAGR. Industry's New Business premium has grown at 9.8% during 2007-21 & 14.9% during 2016-21. **Peer Comparison**: LIC has lagged its peers in terms of NBP & GWP growth, persistency ratio, combined ratio, VNB Margins, AUM Growth and has lost market share. LIC has performed relatively better in terms of operating expense ratio & claim settlement ratio. **Covid Impact**: Death claims increased by 35% from ₹175 Bn in FY20 to ₹239 Bn in FY21. Further due to the second wave, death claims for just 6MFY22 were just 217 Bn. Death Claims as a % of total benefits paid increased from 6.9% in 2020 to 8.3% in 2021 to 14.5% in 6MFY21.

Advisory Summary	**<u>Pros:</u>** ▪ LIC has a well-established brand (Trust Factor), large base of policies and policyholders, high returns and large agent network. ▪ Even after 22 years since privatisation, LIC has been able to retain a market share of ~65%. Second largest player is SBI with 8% market share. Nowhere across the globe, is the difference between market share of first and second largest player this large. ▪ Despite its extraordinary large base (AUM of 16x vs SBI), LIC has managed to grow its NBP and total premiums at 13.6% and 8.8% respectively in the last five years. ▪ Though the combined ratio is lower than peers, it could improve due to lower bonuses paid to participating policies, after the recent change in profit sharing ratio between shareholders and policyholders. ▪ The IPO price of Rs 902-949 per share looks attractive, implying P/Embedded Value (P/EV) of 1.06x-1.11x. At P/EV of 1.11x, LIC trades at significant discount to multiples of SBI Life, ICICI Prudential and HDFC Life, which we think factors in the negatives mentioned below. Since embedded value considers PV of cashflows only from current underwritten policies, at 1.11x P/EV, there is essentially no growth factored in. We have valued the company at 1x-2x P/Embedded Value (853-1,707 per share), similar to China Life (Public Sector Life Insurer) Multiples. ▪ IPO has, and might further improve transparency about its business, financials etc. and possibly some better accountability and disclosures as well, which can help in improving its governance/management. **<u>Cons:</u>** ▪ LIC is growing at a slower pace than the life insurance industry peers in the sector and thus has been losing market share. ▪ The combined ratio of the company has deteriorated from 69.6% in 2005 to 85.4% in 2021, primarily due to rise in loss ratios (benefit paid). ▪ Peers have caught up in terms of lower operating costs leverage which LIC earlier had. Its new business margins are also lower than peers. ▪ Private players are increasingly focusing on bancassurance channels, while LIC is highly dependent on its individual agents. ▪ LIC is prone to government interruption particularly in its investment decisions. ▪ The change in profit sharing between shareholders and policyholders would make the participating policies of LIC less attractive than earlier. ▪ Overhang of subsequent and larger follow-on issues (to meet the float requirement) will remain. ▪ Considering large investment book, and within that sizeable equity book, sensitivity of its Embedded Value to equity market volatility remains as another overhang. **<u>Advisory View:</u>** **While there might be some apprehensions regarding it being a long-term candidate for the growth-oriented portfolio(s), <u>valuation arbitrage offered at the IPO price seems interesting/attractive enough</u>, both on absolute basis (essentially no growth priced in) and also on relative basis (significant discount to listed peers' multiples).** *As of 29-04-2022, unlisted shares of LIC were reportedly trading in the grey markets at a premium of Rs 60 per share on the issue price. The IPO seems to have got reasonably healthy commitments from anchor investors as well.*

1. Business:

LIC is the largest & oldest life insurer in India, and the only public limited player in the life insurance industry. As of 2021, it has a market share of 64.1% & 66.2% in Gross Written Premium (GWP) & New Business Premium (NBP) respectively. LIC is the fifth largest life insurer in the world in terms of GWP & the largest asset manager in India with AUM of Rs 39.56 trillion as of Sep-21, which is 1.1x of entire mutual fund industry.

LIC was formed in 1956 under the LIC Act by merging and nationalizing 245 private life insurers. Accordingly, it is not registered as a company under registrar of companies, MCA.

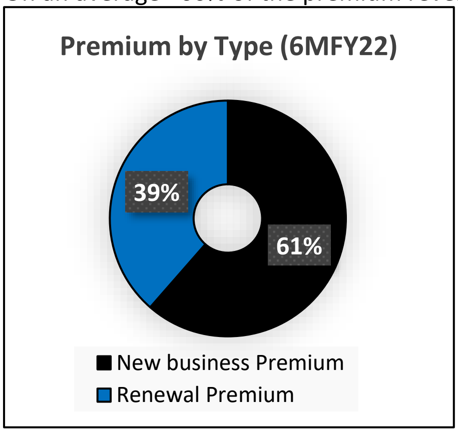
Products:

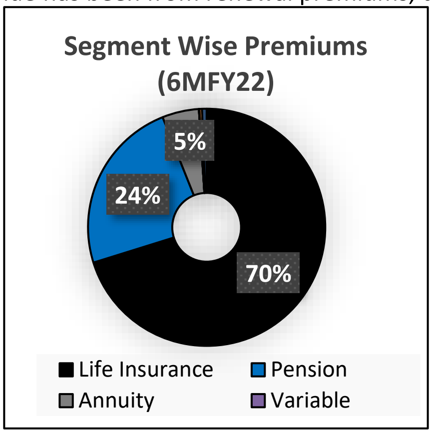
Following is the broad list of products that LIC offers as of Sep-21:

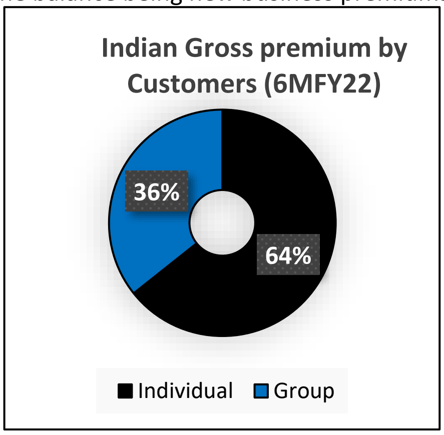
Type	Category	Count	Type of Products
Individual	Participating	17	Endowment plans, Whole life plans, Money back plans
	Non-Participating	15	Endowment plans, Pure Risk premium plans, Pension Plans, Annuity Plans, ULIPs, Health Plans, Term plans with return of premiums.
Group		10	Group term insurance products, Group savings insurance products, Group savings pension products, Group annuity products
Total		**42**	

Premiums:

On an average ~60% of the premium revenue has been from renewal premiums, the balance being new business premiums.



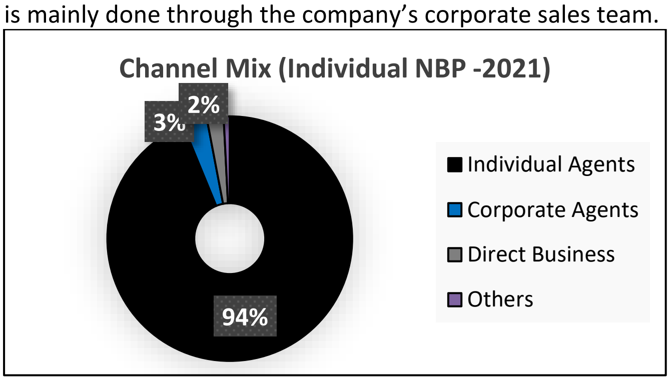


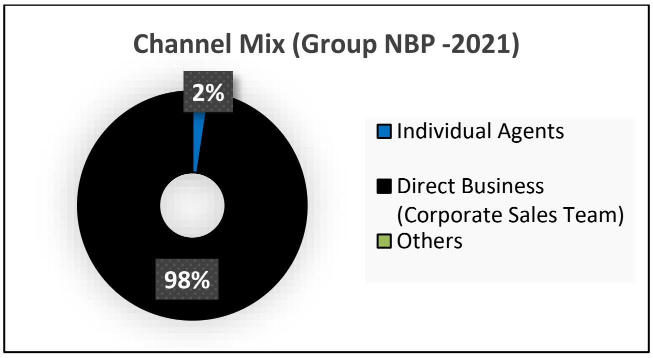


Despite Life Insurance contributing to 70% of revenues, pension and annuity products contribute 70% to non-linked underwriting income, while linked products generate underwriting losses. Company's top 5 individual products accounted for 66% of total new business policies sold during 6MFY22. These include Jeevan Labh (22.3%), New Endowment Plan (18.7%), New Jeevan Anand Plan (9.1%), Aadhaar Stambh (8.8%), Aadhaar Shila (6.9%).

Distribution:

Distribution of Individual policies is done primarily through individual agents (94%). Only 11 out of 32 individual products of the company are available for online purchase. Also, until Feb-22, none of the products were available for purchase on third party websites. In Feb-22, LIC announced a tie-up with policybazaar to offer its products. Distribution of the group products is mainly done through the company's corporate sales team.





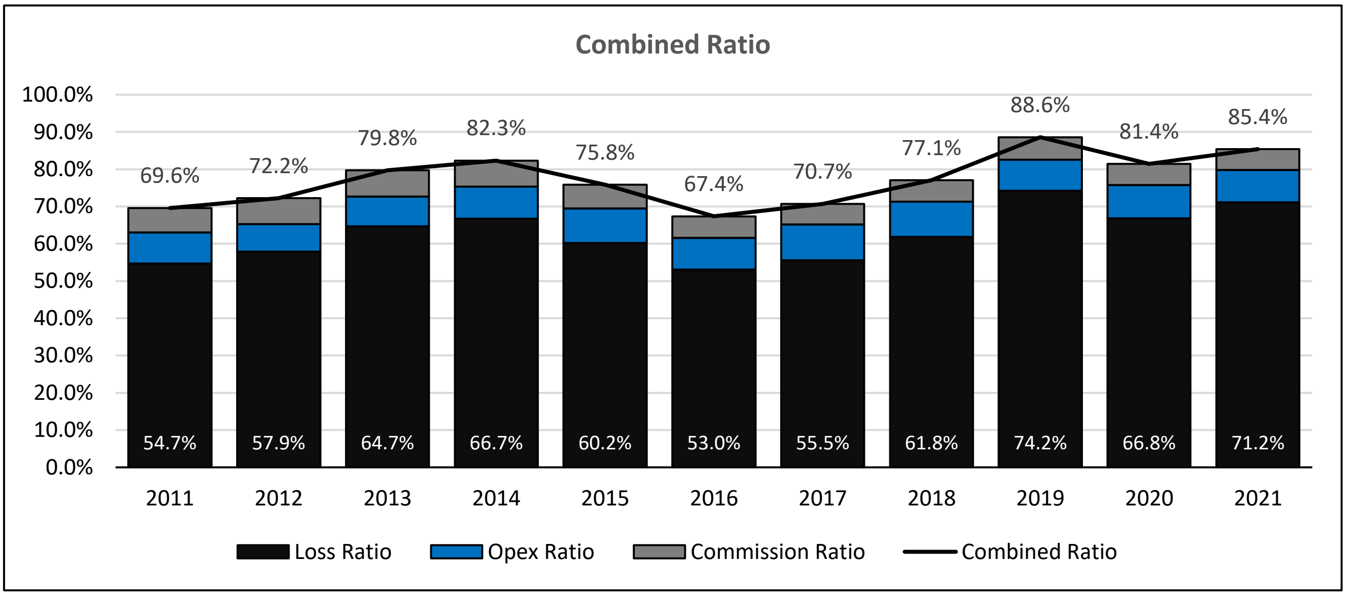
2. Underwriting operations:

Despite its higher base, LIC has managed to grow its new business premiums at 13.6% and Total Net Premiums at 8.8% during the last five years. However, underwriting margins have declined in the last three years primarily due to the rise in combined ratio as explained below.

INR Billions	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR/Average	
												2005-21	2016-21
New Business Premium	870	819	766	908	785	979	1,246	1,347	1,440	1,803	1,855	14.7%	13.6%
Total Net Premiums	2,034	2,028	2,086	2,368	2,395	2,662	3,002	3,179	3,400	3,825	4,054	11.1%	8.8%
Underwriting income	607	551	408	403	560	846	870	714	371	693	572	3.3%	-7.5%
Underwriting Margin	29.9%	27.2%	19.6%	17.0%	23.4%	31.8%	29.0%	22.5%	10.9%	18.1%	14.1%	31.1%	18.9%

The combined ratio of the company has deteriorated from 69.6% in 2011 to 85.4% in 2021, primarily due to rise in loss ratios (benefit paid). The rise in loss ratio indicates that the company is not underwriting policies efficiently. Operating expense ratio & Commission ratio has been consistent during the last 10 years. Combined ratio increased in 2019 (underwriting income/margin declined) due to higher maturity related payouts during the year.

LIC's combined ratio is the highest in the industry despite lower commission and operating ratio, which means the company is not underwriting efficiently. *(Refer Annexure for peer-comparison)*



Note that the change in profit sharing ratio between policyholders and shareholders (Covered extensively in Point 5) would reduce the bonuses paid to the participating shareholders, and in turn, could improve the combined ratio.

Persistency ratio (No of policies remaining in force) & Claim Settlement Ratio (Ratios of claims settled to claims received) for the company has remained constant.

Solvency Ratio (Size of capital relative to risk taken) has remained just above minimum requirement of 1.5 by IRDA. The solvency ratio increased in 2021 due to no dividend payout. *(Refer Annexure for peer-comparison)*

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Persistency Ratio- 13 month	N/A	N/A	70%	59%	66%	63%	64%	66%	66%	61%	67%
Persistency Ratio- 61 month	N/A	N/A	43%	44%	44%	44%	44%	43%	51%	44%	48%
Claim Settlement Ratio	N/A	97.4%	97.7%	98.1%	98.2%	98.3%	98.3%	99.8%	99.7%	96.7%	98.6%
Solvency Ratio	N/A	1.54	1.54	1.54	1.55	1.55	1.58	1.58	1.60	1.55	1.76

3. Investment Operations:

Total investment portfolio of the company has grown at a CAGR of 11.9% during 2011-21. Company has earned decent returns of ~9.4% (including unrealized gains) & 7.8% (excluding unrealized gains). The investment yields are quite consistent since ~80% of the investment are in debt securities. Also, since shareholders investments are insignificant, policyholders yield on investments is similar to total yield on investments.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		CAGR/Avg
Total Investments (In Trillion)	11.5	12.2	13.1	14.9	17.7	19.6	23.4	26.0	29.1	29.9	35.3		11.9%
Reported Investment Yield (Excl Unrealised Gains)													
Policyholders	7.4%	7.7%	8.0%	8.1%	8.2%	8.1%	7.8%	7.7%	7.6%	7.5%	7.4%		7.8%
Shareholders	9.0%	7.1%	6.6%	6.8%	6.2%	5.9%	6.3%	5.9%	6.0%	5.3%	5.1%		6.4%
Total	**7.4%**	**7.7%**	**8.0%**	**8.1%**	**8.2%**	**8.1%**	**7.8%**	**7.7%**	**7.6%**	**7.5%**	**7.4%**		**7.8%**
Calculated Investment Yield (Incl Unrealised gains)													
Policyholders	10.6%	8.3%	10.4%	11.1%	10.9%	8.8%	9.3%	8.6%	8.3%	8.3%	8.8%		9.4%
Shareholders	9.3%	9.0%	13.6%	7.0%	6.4%	6.2%	8.9%	6.6%	9.5%	9.2%	5.6%		8.3%
Total	**10.6%**	**8.3%**	**10.4%**	**11.1%**	**10.9%**	**8.8%**	**9.3%**	**8.6%**	**8.3%**	**8.3%**	**8.8%**		**9.4%**

Following is the detailed breakup of company's investments:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Sep-21
G-Sec, Govt Guaranteed Bonds incl T-Bills	46%	50%	52%	55%	57%	61%	61%	63%	66%	72%	66%	64%
Equity Shares	15%	14%	15%	17%	19%	17%	17%	18%	16%	11%	17%	19%
Infrastructure & Social Investments	7%	8%	9%	9%	9%	9%	9%	9%	8%	9%	8%	8%
Other Approved Securities	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Preference Shares	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Mutual Funds	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	1%
Derivative Instruments	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Debentures/Bonds	9%	9%	9%	7%	6%	5%	4%	3%	3%	3%	2%	2%
Subsidiaries/Joint Venture/Associates	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%
Investment Properties - Real Estate	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%
Other than Approved Investments	3%	3%	3%	2%	2%	2%	3%	3%	4%	3%	4%	4%
Other Securities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Provision for Doubtful Investments	0%	0%	0%	0%	0%	0%	0%	0%	-1%	-1%	-1%	-1%
Total Policyholders Investments	**84%**	**87%**	**91%**	**93%**	**95%**	**96%**	**96%**	**97%**	**99%**	**99%**	**99%**	**99%**
Shareholders Investments	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Assets held to cover linked liabilities	**16%**	**13%**	**9%**	**7%**	**5%**	**4%**	**4%**	**3%**	**1%**	**1%**	**1%**	**1%**
TOTAL INVESTMENTS	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

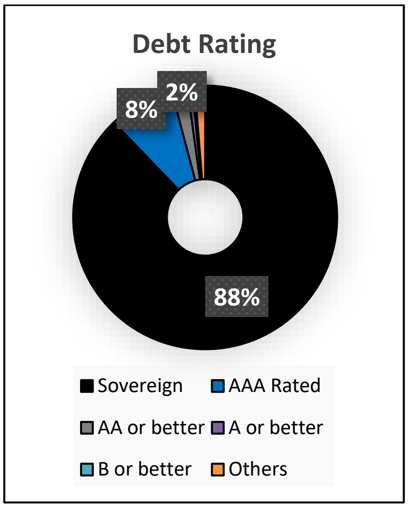
As of Sep-21, 61.7% of AUM was held in participating policyholders' investments, 37.0% in non-participating policyholders' investments & 1.1% in unit linked policyholder investments & 0.2% in shareholders investments.

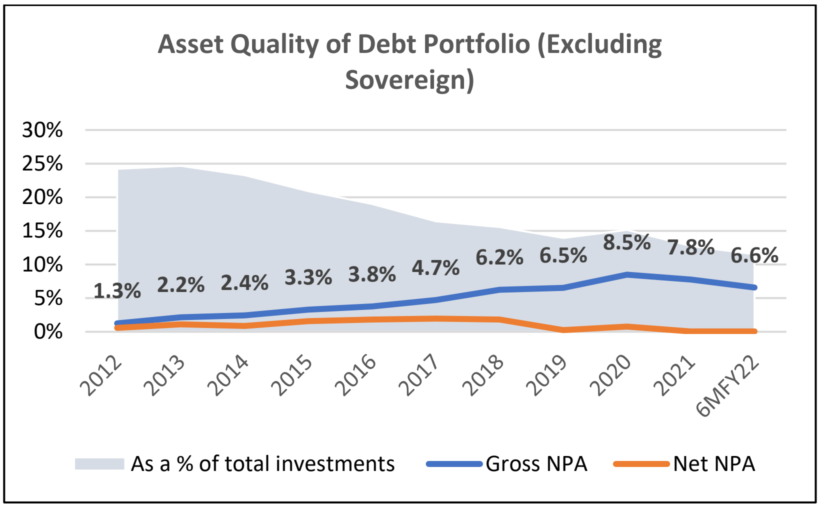
a. Details of Debt (~80% of Investments):

i. 95.9% of company's debt portfolio in India is invested in sovereign and AAA-rated debt as at Sep-21.

ii. LIC owned ~19% of total G-Secs in India.

iii. Asset quality of non-sovereign debt portfolio has been deteriorating. However, the share of such debt in overall investments has declined from 24% in 2012 to 12% in Sep-21. The deterioration in asset quality can be partly attributed to government's attempt to use LIC as a rescuer for its financial troubles (and in some cases, of other entities as well, in the economy). LIC's GNPA on policyholders' funds (7.8%) is significantly higher than its peers (<0.2%).





b. Details of Equity (~20% of Investments):

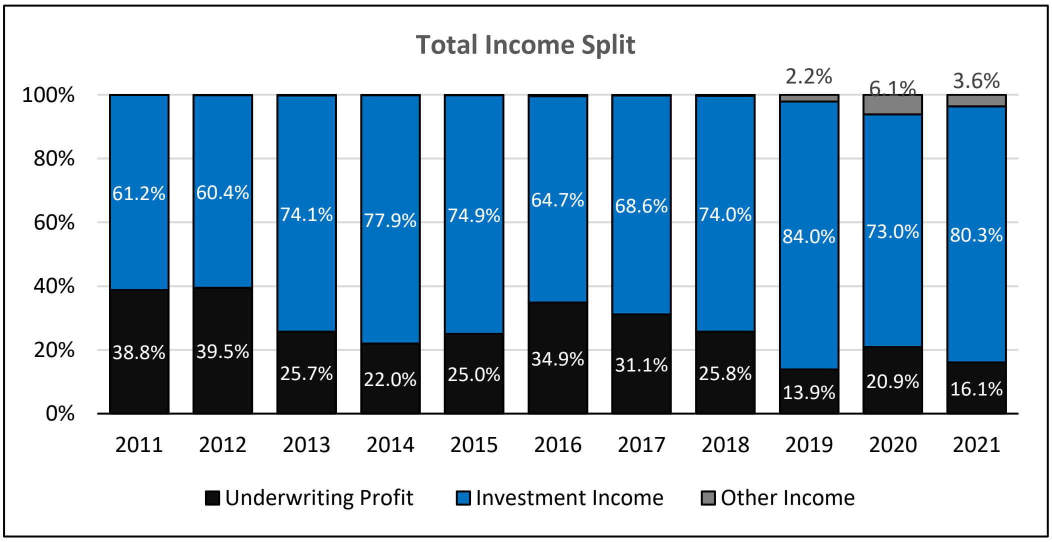
LIC's listed equity investments account for ~4% of market cap of NSE as of Sep-21. Company's equity investments span across the following sectors:

Sector	Sep-21
Financial service activities, except insurance activities	22%
Infrastructure related activities	11%
Manufacture of pharmaceuticals, medicinal, chemical and botanical products	8%
Computer programming, consultancy and related activities	6%
Manufacture of coke and refined petroleum products	6%
Others (equity investments in other sectors)	48%
Total	**100%**

Top 10 investments of the company by value as of Dec-21 are Reliance, TCS, ITC, Infosys, SBI, ICICI Bank, L&T, ONGC, IDBI Bank and HUL.

4. Overall financial Metrics:

As the company ages, the share of income from investments in total income should continue to rise as can be seen in the chart below. Other Income increased in 2019 due to interest income from consolidation of IDBI Bank. However, it declined in 2021, when IDBI bank was accounted as associate.



Surplus from Insurance business has remained quite constant over the years (except in 2019 and 2020), where it was impacted by consolidation of IDBI Bank. However, company transfers excess profits to reserves, which are then used in years where profits to be transferred to shareholders is not sufficient. This has an impact of normalization of profits. Hence, Net margin of the company is quite consistent.

Company has generated very high returns in the past, due to its 100% dividend payout. Returns declined in 2021 due to no declaration of dividend and retention of government's share of surplus. As a result, book value per share also increased significantly.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Surplus(deficit) / Total Income	0.7%	0.9%	0.9%	0.9%	0.8%	1.0%	0.8%	0.9%	0.3%	-1.0%	1.3%
Net Margin	0.7%	0.9%	0.9%	0.9%	0.8%	1.0%	0.8%	0.9%	1.0%	0.8%	0.8%
RONW	290%	248%	279%	308%	324%	432%	368%	376%	293%	247%	43%
Dividend Per Share		2.03	2.27	2.58	2.85	3.95	3.48	3.83	4.21	4.27	-
Dividend Payout Ratio		98%	100%	99%	99%	99%	99%	99%	101%	100%	0%
Book Value per share	0.6	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.4	1.7	11.0

5. Segregation of Life Fund into two separate funds and calculation of true profitability:

LIC earlier had only one single consolidated 'Life Fund' in respect of its life insurance business. However, after amendment to Sec-24 of LIC Act w.e.f. Sep-21, two separate funds are required: participating policyholders' fund and a non-participating policyholders' fund. Note that 60% of total premiums of LIC for FY21 were from participating policies.

Policyholders' life fund (In INR Billions)	2019	2020	2021	Sep-21	Share
Participating	Combined as one Life Fund			24,580	68%
Non-Participating				11,370	32%
Total	**28,283**	**31,145**	**34,367**	**35,950**	**100%**

Following are the changes in distribution post segregation of the life fund:

Until FY21	Post FY21
Distributed to **participating** policyholders & Shareholders in the ratio 95:5 out of **combined fund**.	Distributed to **participating** policyholders & Shareholders in the ratio 95:5 (FY22). 92.5:7.5 (FY23 & FY24), & 90:10 (FY25 onwards) **out of participating fund. 100% distribution to shareholders out of non-participating fund.**

As a result of this change, the Embedded value of LIC increased ~6x from ₹956 Bn in Mar-21 to ₹5,397 Bn in Sep-21, due to increase in value of in-force business. While the amount cannot be quantified, the above change would lead to reduction in attractiveness of company's participating products, as they would receive lesser distributions. Participating policies accounted for ~61% of total premiums & ~20% of NBP of the company in FY21.

True Profitability:

Note that top five players already transfer 10% of participating policyholders' surplus to shareholders' account. LIC's true Net profit could be substantially more than its reported profits, due to the above changes. Current allocation to policyholders and shareholders is as follows:

Allocation:	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
To Policyholders	2,16,147	2,43,434	2,72,913	3,10,509	3,42,574	4,74,423	4,18,063	4,60,146	5,05,513	5,12,571	5,48,912
To Shareholders	11,376	12,812	14,364	16,343	18,031	24,970	22,003	24,218	25,995	26,955	29,626
Total	**2,27,523**	**2,56,246**	**2,87,276**	**3,26,852**	**3,60,604**	**4,99,394**	**4,40,067**	**4,84,365**	**5,31,508**	**5,39,526**	**5,78,538**
To Policyholders	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.1%	95.0%	94.9%
To Shareholders	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.9%	5.0%	5.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Life fund is now split into two sections: Par & Non-Par. Assuming that Par fund was distributed in the ratio 90:10 like other private players, and non-par fund was distributed 100% to shareholders, we have calculated approximate adjusted net profits. Par & non-par mix is assumed to be 68:32 based on breakup of fund disclosed by the company as of Sep-21.

Adjusted Allocation:	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
To Shareholders											
Participating	15,472	17,425	19,535	22,226	24,521	33,959	29,925	32,937	36,143	36,688	39,341
Non-Participating	72,807	81,999	91,928	1,04,593	1,15,393	1,59,806	1,40,821	1,54,997	1,70,083	1,72,648	1,85,132
Total	**88,279**	**99,423**	**1,11,463**	**1,26,819**	**1,39,914**	**1,93,765**	**1,70,746**	**1,87,933**	**2,06,225**	**2,09,336**	**2,24,473**
Post Tax	75,037	84,510	94,744	1,07,796	1,18,927	1,64,700	1,45,134	1,59,743	1,75,291	1,77,936	1,90,802
Reported Profit	11,718	13,133	14,376	16,567	18,238	25,178	22,317	24,464	26,274	27,105	29,741
Multiple	**6.4**	**6.4**	**6.6**	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**	**6.7**	**6.6**	**6.4**

Accordingly, the true profits of LIC are about 6-7x than its reported profits, similar to the jump in Embedded Value after incorporating the change.

6. **Impact of Covid-19:**
    a. Distribution partners' ability to distribute LIC products was adversely affected due to lockdowns and social distancing measures limiting in-person interactions
    b. There was a deferral of exams by the IRDAI for individual agents and corporate agents, which prevented the company from adding as many new agents as it would have liked to.
    c. Average agent productivity declined from 18.11 policies/year to 15.49 policies/year.
    d. First-year premiums declined by 41% from ₹584,465 Mn in FY20 to ₹343,410 Mn in FY21.
    e. Death claims increased by 35% from ₹175 Bn in FY20 to ₹239 Bn in FY21. Further due to the second wave, death claims for just 6MFY22 were just 217 Bn. Death Claims as a % of total benefits paid increased from 6.9% in 2020 to 8.3% in 2021 to 14.5% in 6MFY21.

7. **Capital Allocation Issues: Government's Bailout Corporation**

LIC's massive pile of cash has often been used to recapitalize public sector banks, get public offers of PSUs over the line to meet disinvestment targets and more. LIC is often used as rescuer in government's financial troubles. Such directives would be detrimental to the shareholders. Some of these instances are:

a. LIC bailed out IDBI bank by buying 51% stake in Jan-19 for Rs 13,000 Cr (0.5% of Dec-18 AUM). It is on standby to infuse capital into IDBI Bank should its position deteriorate below the minimum capital requirements for at least five years. However, note that the value of this investment stood at ~Rs 23,170 Cr as of 31st March 2022.

b. LIC has been an investor in several companies which are in the list of applications admitted by NCLT under the Insolvency and Bankruptcy Code, 2016 (IBC). The list includes Alok Industries, ABG Shipyard, Amtek Auto, Mandhana Industries, Jaypee Infratech, Jyoti Structures, Rainbow Papers, and Orchid Pharma.

c. During FY18 and FY19, IPOs of five state-owned firms, all of which received lukewarm market response—Hindustan Aeronautics Ltd, New India Assurance Co. Ltd, Mishra Dhatu Nigam Ltd, Bharat Dynamics Ltd, and General Insurance Corporation of India—were bailed out by LIC. These five firms raised around ₹26,460 crore through IPOs. LIC alone bought shares worth ₹14,520 crore (0.56% of Dec-18 AUM) in these issues. So nearly 55% of the money raised by the government by selling stakes in these firms came from LIC.

d. In May of 2016, the government asked LIC to invest 10 percent in NIIF - a quasi-sovereign fund to help fund India's infrastructure requirements. It also purchased part of the UDAY bonds issued by state governments in 2016 as part of the bailout package designed by the central government for debt-ridden state power utilities. In FY16, PSU banks launched 26 bond issues, raising Rs 29,165 crore. LIC bought some of those bonds - worth approximately Rs 8,000 Cr (0.45% of Dec-15 AUM).

e. LIC also has 25% equity in the debt ridden ILFS, whose control was taken over by the government to resolve its debt.

8. **Key Growth Drivers:**

- **Increase in Insurance Penetration:** Increase in middle income category households, Rapid urbanization, focus on financial inclusion and increasing preference towards financial savings with increasing financial literacy would all lead to rise in Insurance Penetration in India, and benefit LIC and other players.

- **Protection, non-par savings and annuities products:** Over the years, customers and insurers have shifted their focus towards protection products from savings led products. Currently, the penetration of products like protection, non-par savings and annuities is modest, but the awareness of these products has increased manifold since the pandemic. Going forward, due to increasing push by insurance companies, growth of online platforms and increasing awareness, demand for these products will gain further traction. LIC has been instructing its product managers to focus more on non-participating products.

9. **Key Risks to the company:**

   a. **Reduction in attractiveness of Participating policies:** After amendment in LIC Act, which requires maintaining of two separate funds - participating and non-participating, the amount that is distributed to the participating policyholders will reduce and that to the shareholders will increase. Hence the attractiveness of participating policies, which accounted for ~61% of total premiums & ~20% of NBP in 2021 will reduce.

   b. **Interest Rates:** Profitability of company's investments are highly sensitive to Interest rate fluctuations, and changes in interest rates could affect investment returns, financial condition, and results of operations as 80% of investments are in debt securities.

   c. **Regulatory factors:** Any changes in the LIC Act or IRDAI provisions, would have a direct impact on the company. Additionally, since LIC is not a company registered under companies act, it is not required to follow companies act requirements, and hence may not be comparable to other companies to that extent.

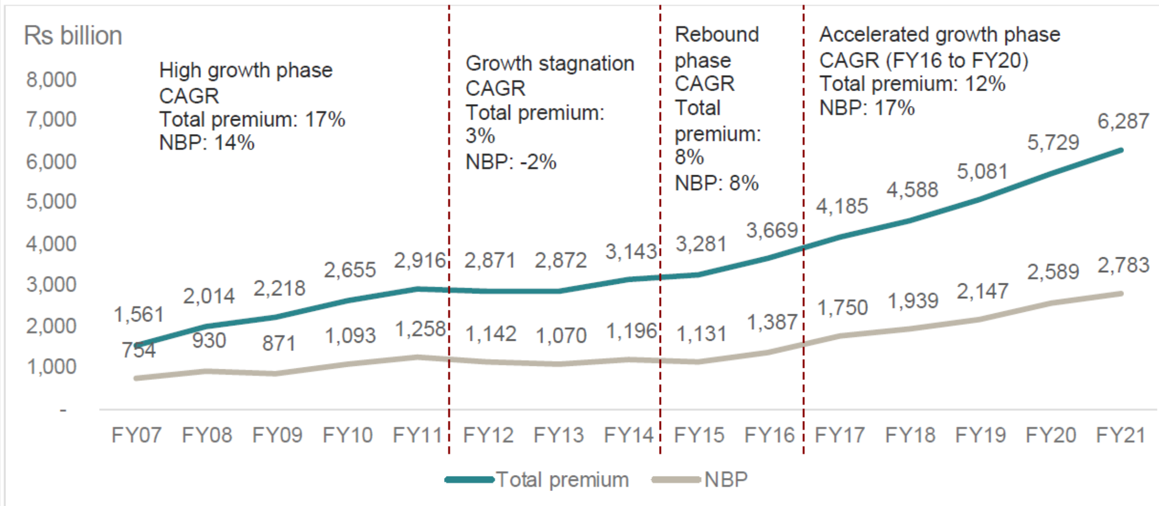
   d. **Government Intervention**: LIC has often been used to recapitalize public sector banks, get public offers of PSUs over the line to meet disinvestment targets and more. LIC is often used as rescuer in government's financial troubles. Such directives would be detrimental to the shareholders.

10. **Life Insurance Industry:**

There are currently 24 life insurance companies in India, with LIC being the sole public player. Until the year 2000, LIC was the only player, before the industry was opened for private players. Out of the 23 private players, 20 have joint ventures with foreign players.

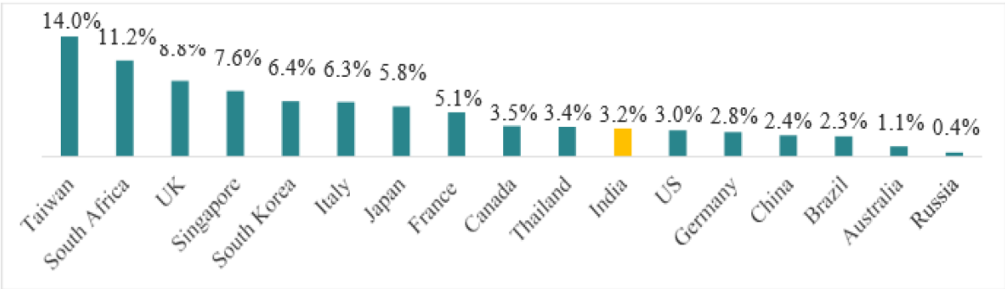
On a total premium basis, Indian life insurance industry size stood at ₹6.3 trillion for FY21. The industry's total premium has grown at 11% CAGR during 2007-21 & 2016-21, with a forecast to reach ₹12.4 trillion by FY26 at 15% CAGR.

Trend in Total Premium for Overall Industry



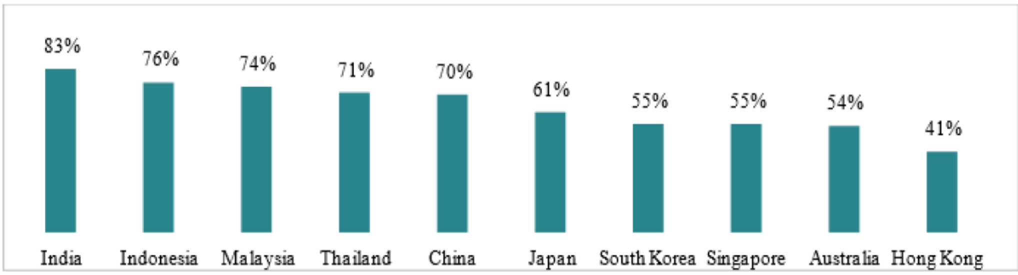
Life insurance penetration in India is still below the world average, but, it is not far off from the levels in emerging markets such as China, Thailand, Malaysia & Indonesia. However, India has the highest protection gap among major economies. Protection gap refers to the gap between the savings required to maintain the current lifestyle and the actual savings and life insurance sum assured.

Life insurance industry penetration for different economies (as of CY 2020)



Source: Swiss Re, sigma No 3/2021, CRISIL Research

Protection gap for different countries as of CY 2019



Source: Swiss Re - Closing Asia's Mortality Protection Gap – July 2020, CRISIL Research

Post privatization, LIC's market share in GWP & NBP declined from 100% to 64.1% to 66.2% respectively. Other Major players include SBI Life, ICICI Prudential and HDFC Standard, followed by Max Life and Bajaj Allianz.

Market Share - GWP	2001	2003	2005	2007	2009	2011	2013	2015	2017	2019	2021
LIC	100.0%	98.0%	90.7%	81.9%	70.9%	69.8%	73.8%	73.0%	71.8%	66.4%	64.1%
SBI Life	0.0%	0.1%	0.7%	1.9%	3.3%	4.4%	3.7%	3.9%	5.0%	6.5%	8.0%
ICICI Prudential	0.0%	0.7%	2.9%	5.1%	6.9%	6.1%	4.8%	4.7%	5.3%	6.1%	5.7%
HDFC Standard	0.0%	0.3%	0.8%	1.8%	2.5%	3.1%	4.0%	4.5%	4.6%	5.7%	6.1%
Max Life	0.0%	0.2%	0.5%	1.0%	1.7%	2.0%	2.3%	2.5%	2.6%	2.9%	3.0%
Bajaj Allianz	0.0%	0.1%	1.2%	3.4%	4.8%	3.3%	2.4%	1.8%	1.5%	1.7%	1.9%
Others	0.0%	0.6%	3.2%	4.9%	9.9%	11.3%	9.0%	9.5%	9.1%	10.6%	11.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Market Share - NBP	2001	2003	2005	2007	2009	2011	2013	2015	2017	2019	2021
LIC	99.9%	94.3%	78.8%	74.3%	60.9%	68.8%	72.4%	69.2%	71.2%	66.2%	66.2%
SBI Life	0.0%	0.4%	1.8%	3.4%	6.2%	6.0%	4.9%	4.9%	5.8%	6.4%	7.4%
ICICI Prudential	0.1%	2.1%	6.0%	6.8%	7.8%	6.2%	4.5%	4.7%	4.5%	4.8%	4.7%
HDFC Standard	0.0%	0.8%	1.9%	2.2%	3.0%	3.2%	4.2%	4.9%	5.0%	7.0%	7.2%
Max Life	0.0%	0.4%	0.9%	1.2%	2.1%	1.6%	1.8%	2.3%	2.1%	2.4%	2.4%
Bajaj Allianz	0.0%	0.4%	3.3%	5.7%	5.1%	2.7%	2.8%	2.4%	1.9%	2.3%	2.3%
Others	0.0%	1.6%	7.3%	6.4%	14.8%	11.4%	9.4%	11.7%	9.6%	10.9%	9.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

LIC has retained its market share in Group NBP at ~78-79% from 2011-2021. However, within Individual NBP market share declined from 63% in 2011 to 50% in 2021. LIC has a market share of 75% in non-linked premium, 1.6% in linked premium, 54% in health insurance premium (amongst life insurers), 63% in health insurance NBP & 77% in total annuity premiums.

11. **Moat Status: Advantage**

We have given LIC advantage status, due to its well-established brand (Trust Factor), large base, high returns, dominant market share & large agent network. We do not think company has a moat due to the following reasons:

Company is growing slowly than the industry and in the process is losing market share. (However, at such a high base too, LIC's new business premiums have grown at 13.6% in the last five years.

a. LIC earlier had an edge from lower operating cost ratio compared to peers. However, players like SBI Life and ICICI Prudential have performed better in recent years on operating cost front.
b. Private players are increasingly focusing on bancassurance channels, while LIC is highly dependent on its individual agents.
c. LIC has often been used by the government to recapitalize public sector banks, get public offers of PSUs over the line to meet disinvestment targets and more.
d. The attractiveness of company's non-participatory policies would reduce due to the change in distribution ratio in favor of shareholders.

12. Valuation:

We have valued LIC at 1x to 2x P/Embedded Value. Since players like SBI Life, HDFC Life, ICICI life have a lower trading history, we have valued LIC at long term average multiples of China Life multiples. In comparison, the IPO price band of Rs 902-949, implies a P/Embedded Value of 1.06-1.11x.

Valuation of LIC:	
Embedded Value as of Sep-21 (Mn)	53,96,860
Number of shares	6,325
Embedded Value per share	853

	Low	High
P/Embedded Value Multiple	1.00	2.00
EBV for Mar-22	**853**	**1,707**
IPO Price band	**902**	**949**
Implied P/Embedded Value	1.06	1.11

P/EV	EBV
1.00	853
1.50	1,280
2.00	1,707
2.50	2,133
3.00	2,560

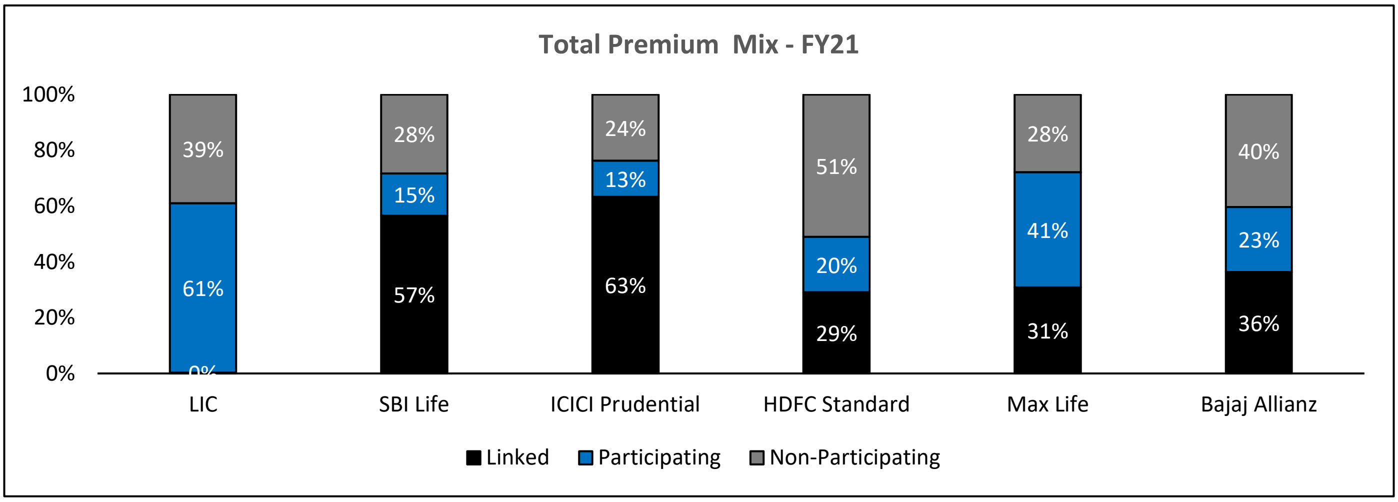
For comparison, following are the P/EV per share of major Indian listed players:

Embedded value per share:		2015	2016	2017	2018	2019	2020	2021	Average	CMP	Current P/EV
SBI Life	High				3.9	3.5	3.9	2.9	3.5	1,101	3.30
	Low				3.3	2.2	2.0	1.9	2.3		
ICICI Prudential	High			3.4	3.9	3.1	3.4	2.7	3.3	506	2.50
	Low			2.4	2.8	1.8	1.4	1.6	2.0		
HDFC Life	High				6.5	6.0	6.3	5.7	6.1	549	4.18
	Low				4.1	3.8	3.3	3.2	3.6		
Max Life:	High	2.7	3.0	2.8	2.2	1.6	1.9	3.3	2.5	771	2.25
	Low	1.7	1.4	2.1	1.2	1.1	0.8	1.9	1.5		

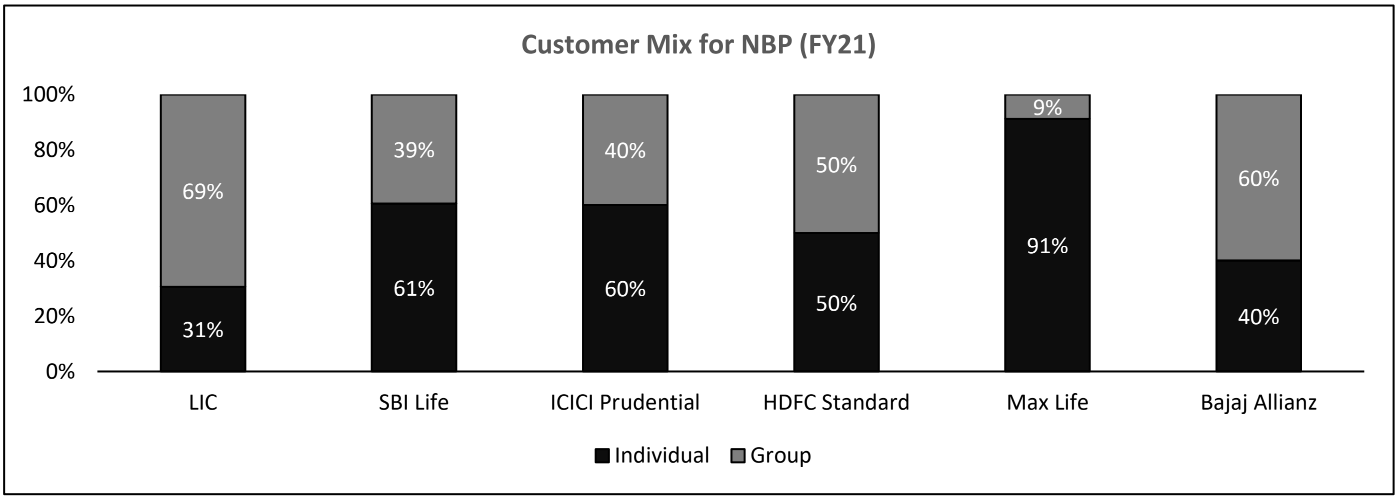
Based on IPO price band, LIC would possibly be trading at ~60-75% discount to SBI Life, ICICI Prudential and HDFC Life which could be an interesting valuation arbitrage opportunity.

Annexure: Comparison with Key players:

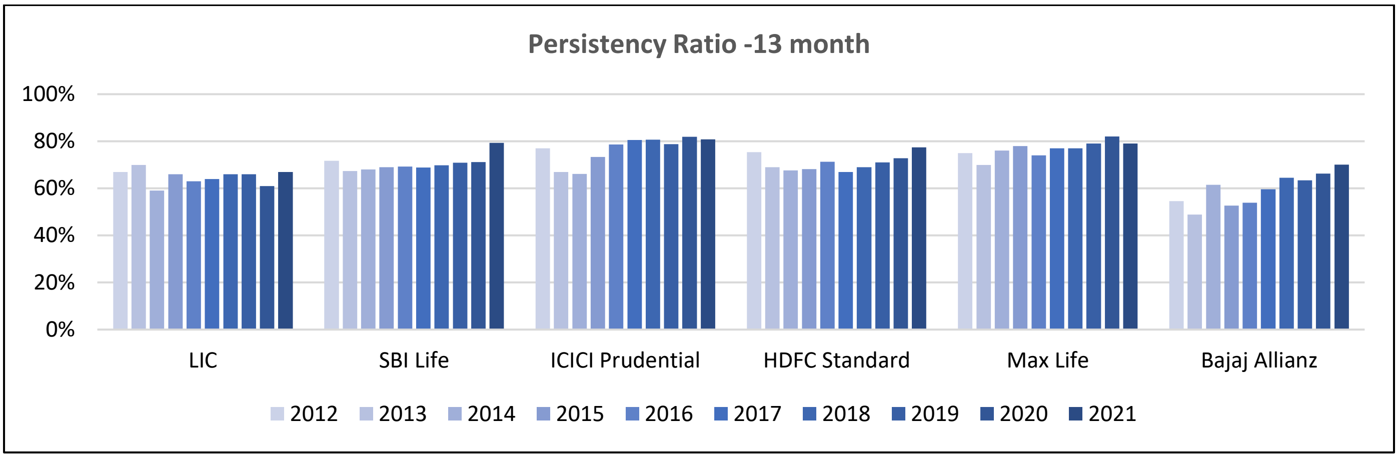
Unit Linked Policies (ULIPs) are almost negligible for LIC, while private players like SBI life and HDFC Standard receive majority of their premiums from ULIPs (though share of ULIPs is declining). HDFC Standard and LIC have higher share of non-participating products (which have higher margins)



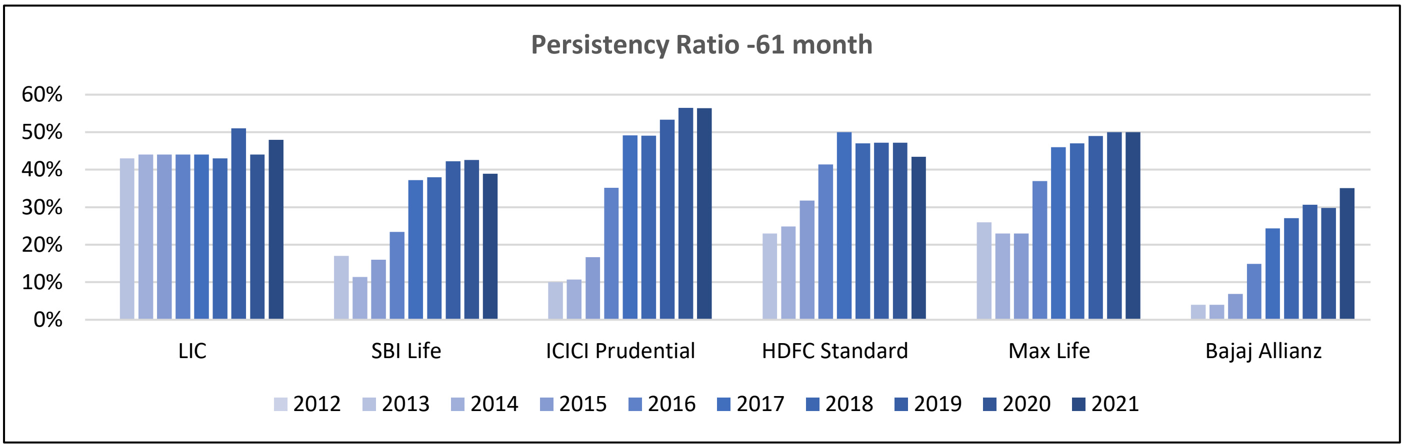
LIC has the highest share of new business premiums from Group policies, while Max life's 90% premium comes from Individual policies. Customer mix for other players is well balanced. Individua policies have better profitability.



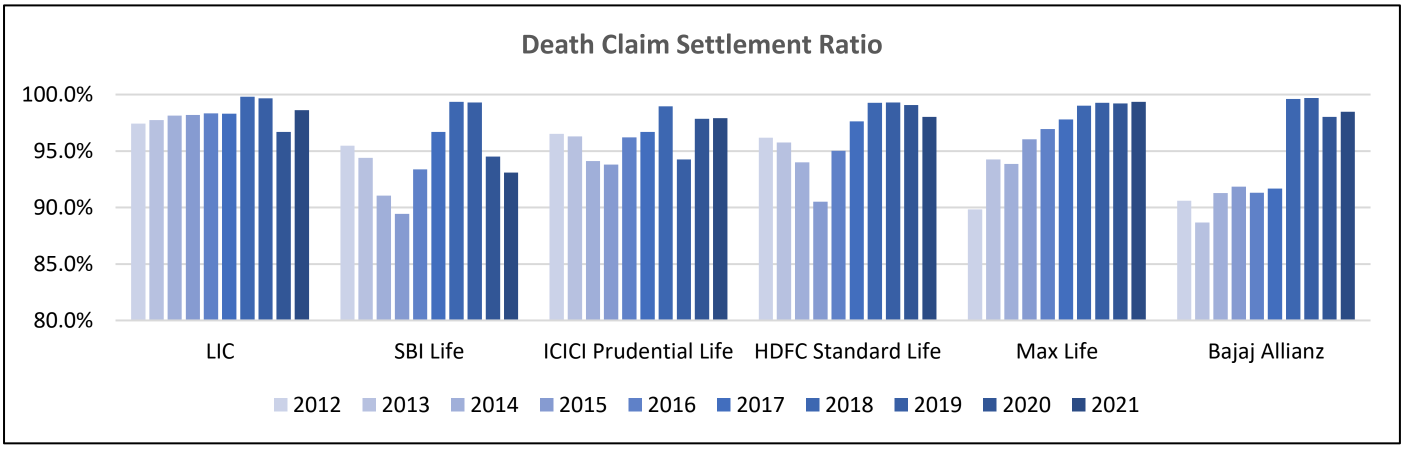
Persistency Ratios in general have improved for all players, while it has remained more or less similar for LIC. On an average LIC's persistency ratio for one year is one of the lowest.



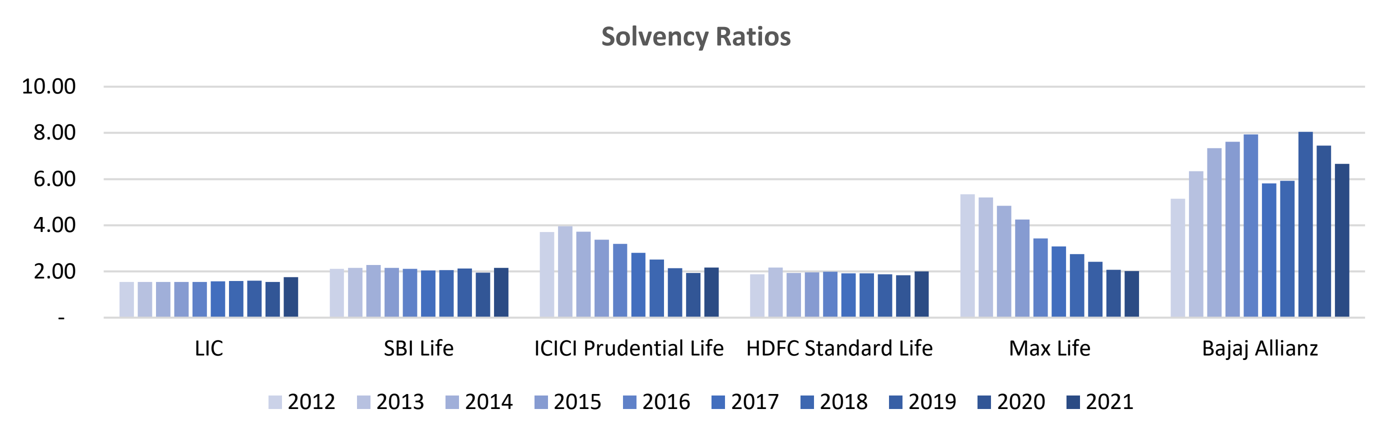
However, when a longer period of five years is considered, LIC has the best average persistency ratio amongst the peers. This implies that for LIC, the customers who stayed after the first year are more likely to stay till 5th year.



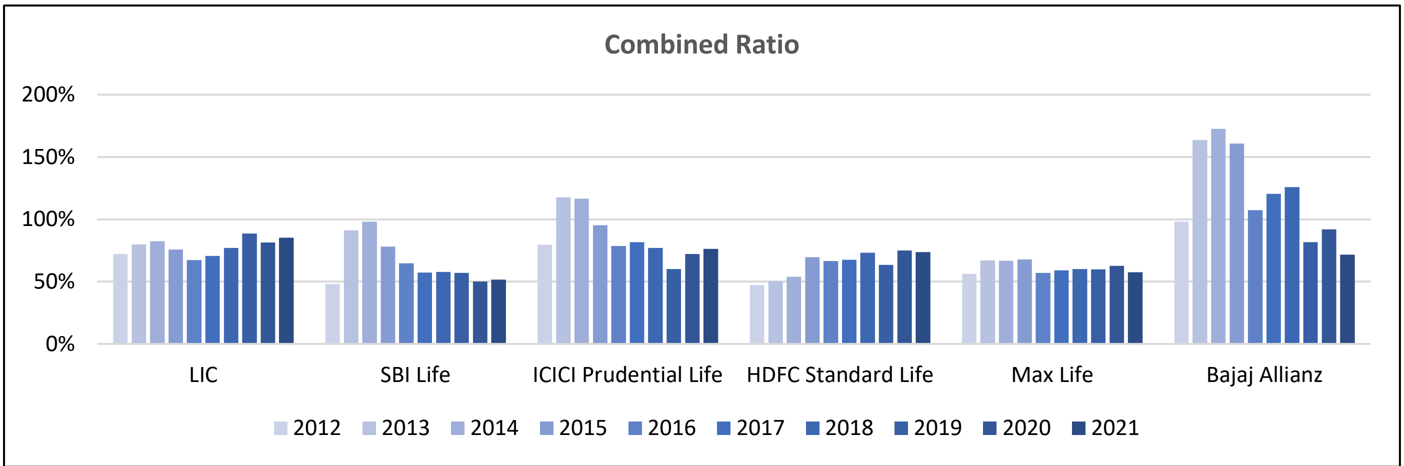
LIC's death settlement ratio has been consistently high compared to peers, thereby gaining more trust and loyalty for the company. However, the ratio has been improving for the peers in recent years especially for HDFC, ICICI and Max Life.



LIC has the least solvency margin amongst the peers, very close to the statutory requirement of 1.5 by IRDAI. Hence, in case of any underperformance of investments, company may have to raise funds or abstain from paying dividends. On the other hand, Bajaj Allianz looks overcapitalized.



Based on latest year ratios, SBI life and Max life have the most profitable underwriting operations, as suggested by the lower combined ratios. SBI life has seen a gradual decline in combined ratios due to reduction in benefits paid and operating expenses. On the other hand, Max life managed to have the second-best combined ratio, despite having one of the highest operating costs, due to very low loss ratio. LIC has the highest combined ratio due to higher loss ratio (despite one of the lowest operating costs), which means that the company is not underwriting efficiently.



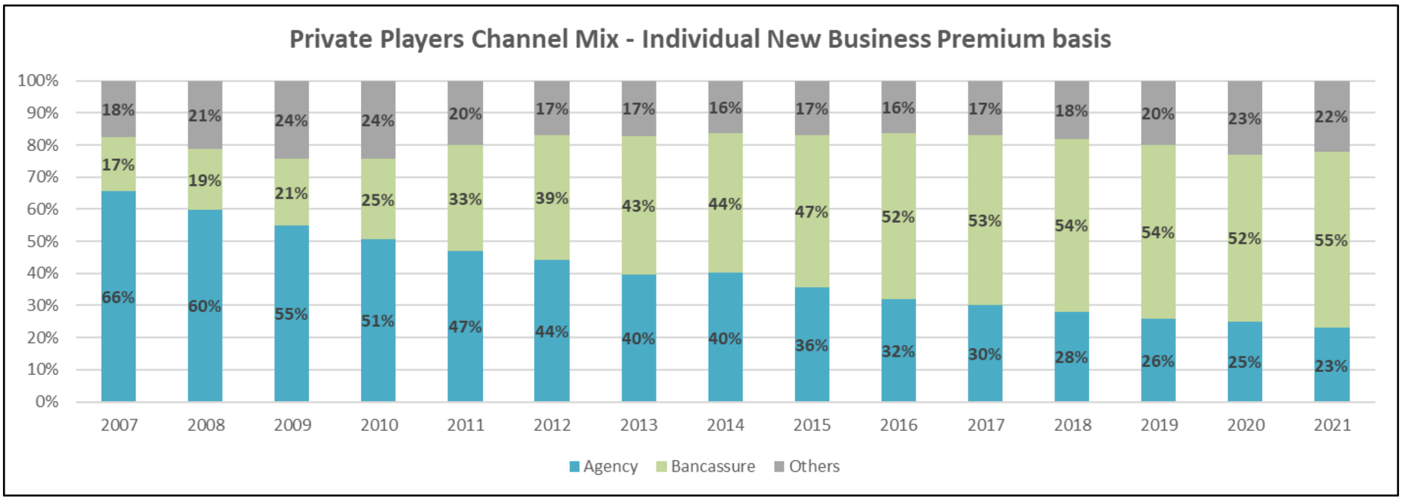
Agent Productivity:

LIC has the highest Agent Productivity in terms of Number of individual policies sold per agent and NBP per agent.

Parameters- FY21	Number of Individual Agents in India (as of September 30, 2021)	Number of Individual Agents in India (as of March 31, 2021)	Agent Productivity for FY 2021 by NBP(1) (in INR)	Agent Productivity for FY 2021 by policies sold(2)	Agent Productivity for H1 FY22 by NBP(1) (in INR)	Agent Productivity for H1 FY22 by policies sold(2)
LIC	1,343,587	1,353,808	412,934	15.3	161,201	5.3
SBI Life	143,232	170,096	230,140	3.9	124,416	1.7
HDFC Life	107,157	112,012	112,714	1.3	55,428	0.6
ICICI Prudential Life	198,050	187,560	102,356	0.9	57,261	0.4
Max Life	51,684	55,217	322,442	2.6	142,674	0.9
Bajaj Allianz Life	91,020	88,102	124,892	1.6	70,100	0.7

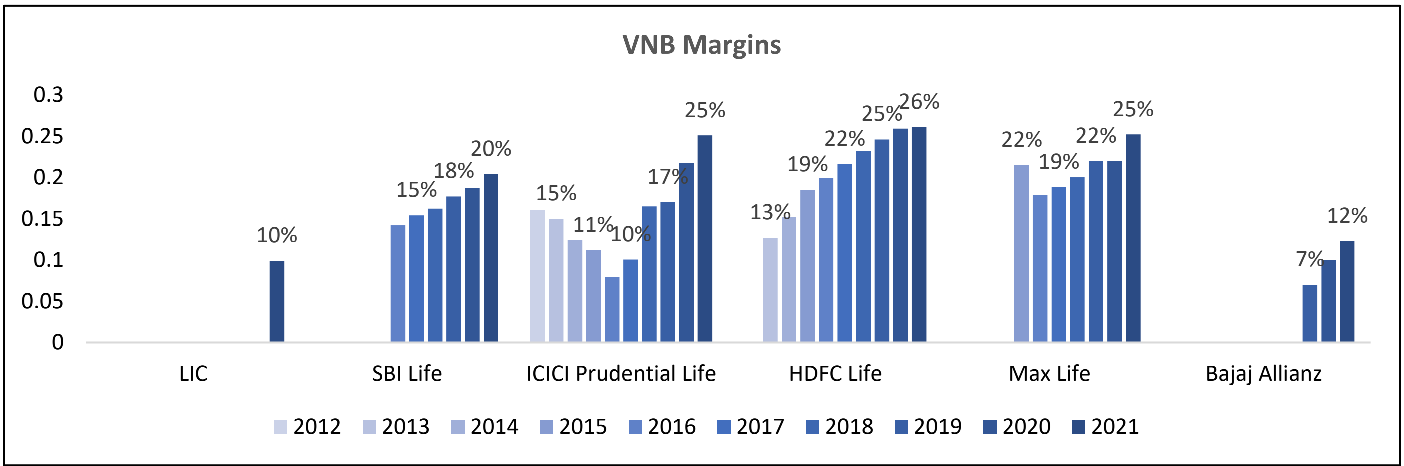
Distribution Channels:

LIC is still dependent on its agency model (95%) for distribution of its policies. Whereas leading private players are increasing utilizing banking network for cross selling insurance and other financial products.

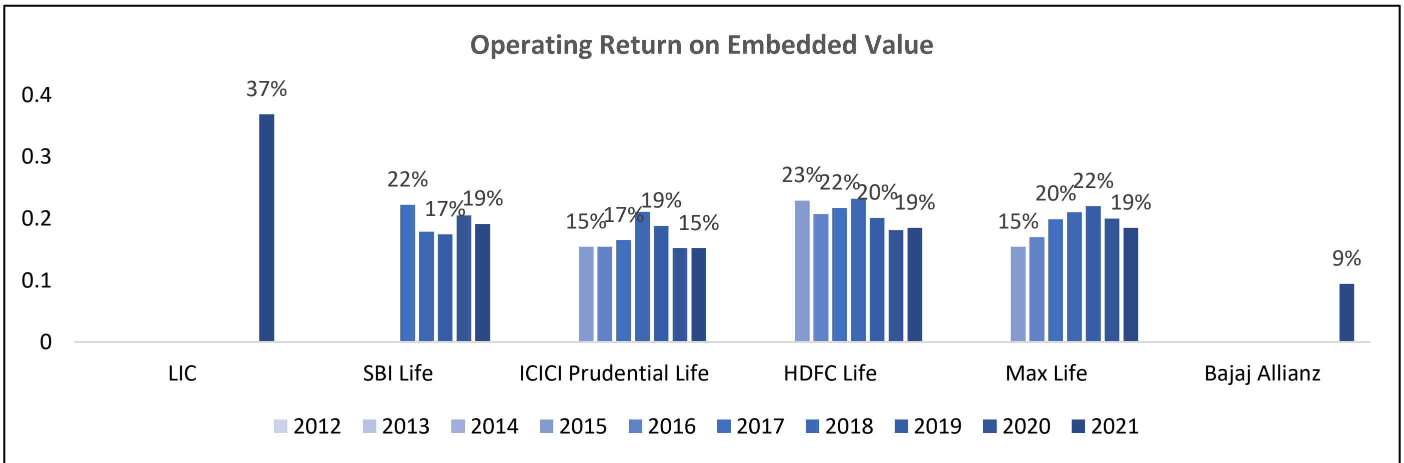


VNB is the present value of expected future earnings from new policies written and it reflects the additional value to shareholders expected to be generated through the activity of writing new policies during any given period. VNB margin is the ratio of VNB to Annualized Premium Equivalent for any given period and is a measure of the expected profitability of new business. Higher VNB margin implies higher expected profitability from each policies written and faster shareholder value generation.

LIC's new business margins are significantly lower than the private players indicating lower expected profitability. This could be because LIC is pricing its policies with thin margins or is not underwriting efficiently. Also, the product skew of LIC is towards lower margins products.



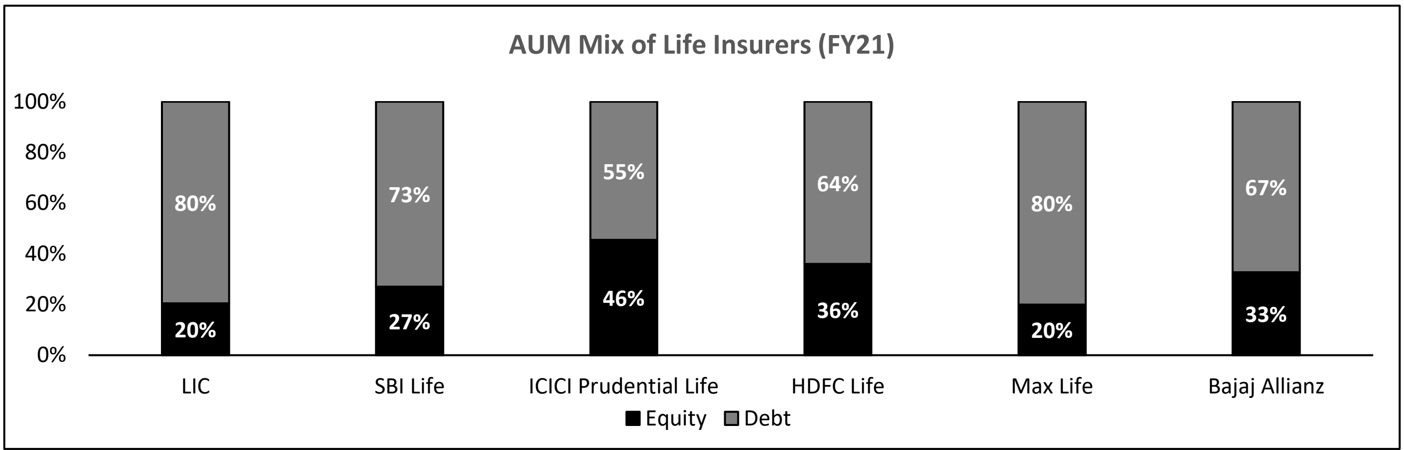
Operating Return on Embedded Value is analogous to Return on Equity (ROE) & measures operating return on embedded value. Higher return implies faster shareholder value generation.



AUM growth for LIC has been one of the lowest in the peer set. However, AUM of LIC is 16x of SBI life.

AUM (INR Trillion)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR	CAGR - 5 Yrs
LIC	12.2	13.1	14.9	17.7	19.6	23.4	26.0	29.1	29.9	35.3	12.5%	12.5%
SBI Life	0.5	0.5	0.6	0.7	0.8	1.0	1.2	1.4	1.6	2.2	18.9%	22.6%
ICICI Prudential Life	0.7	0.7	0.8	1.0	1.0	1.2	1.4	1.6	1.5	2.1	13.1%	15.6%
HDFC Life	0.3	0.4	0.5	0.7	0.7	0.9	1.1	1.3	1.3	1.7	20.6%	18.5%
Max Life	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.9	20.2%	20.3%
Bajaj Allianz	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7	7.2%	10.8%

ICICI Prudential and HDFC life have an aggressive allocation to equity (46% & 36% respectively) compared to other players. LIC and Max life are the most conservative with ~20% allocation to equity.



While the average returns on policyholders funds for the top four companies are similar, LIC's returns are more consistent due to almost negligible share of ULIPs, compared to private players.

Yield on Policyholders funds (Incl Unrealised)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
LIC	8.3%	10.4%	11.1%	10.9%	8.8%	9.3%	8.6%	8.3%	8.3%	8.8%	9.3%
SBI Life	1.0%	9.0%	11.0%	15.0%	4.0%	10.0%	7.4%	9.5%	2.5%	20.5%	9.0%
ICICI Prudential Life	0.1%	9.1%	12.4%	21.4%	1.8%	14.1%	9.2%	7.7%	-8.6%	27.4%	9.5%
HDFC Life	9.6%	6.5%	10.4%	19.0%	2.5%	12.8%	8.5%	7.6%	-2.8%	20.0%	9.4%

Statutory Details: -

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