



Life Insurance Corporation of India Limited

Issue Opens	Wednesday, 04 May, 2022
Issue Closes	Monday, 09 May, 2022
Price Band (in Rs)	902 - 949
Bid Lot	15 shares and multiples thereafter

Industry Overview: Indian Insurance

Based on life insurance premium, India is the tenth largest life insurance market in the world and the fifth largest in Asia, as per Swiss Re's sigma report for July, 2021. The size of the Indian life insurance industry was Rs6.2trn based on total premium in FY21, up from Rs5.7trn in FY20. The industry's total premium has grown at 11% CAGR in the last 5 years ending in FY21. On the other hand, New Business Premiums (NBP) grew at 15% CAGR during FY16-21, to approx. Rs2.78trn. Despite the pandemic hurdles, NBP rose by 7.5% in FY21. Within the NBP, group business premium grew at approx. by 15.4% CAGR from FY16-21, whereas individual premium rose ~14% CAGR during the same period.

Type of Insurance Products:

(a) Participating: For participating products, an insurer invests the premiums received in a pooled participating fund to pay for certain fixed benefits as well as to share the surplus in the form of bonus as a discretionary benefit. The distribution of regular bonus can be in the form of a reversionary bonus. The reversionary bonus is changeable from year to year for future years during the tenure of the policy as experience emerges from the life cycle of the policy.

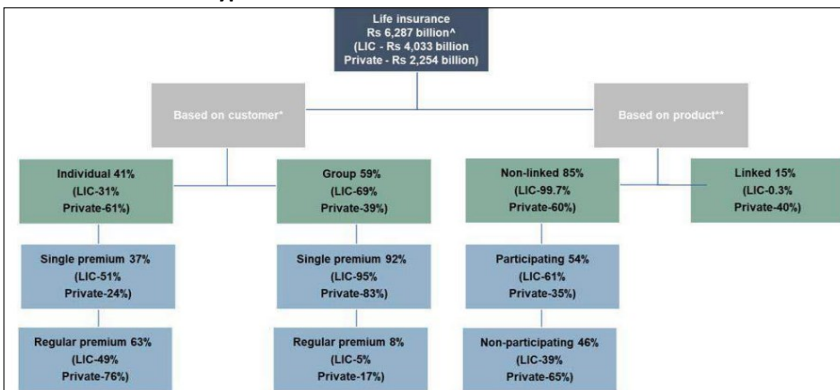
(b) Non-participating: Non-participating products provide a fixed amount of benefits on contingent event(s) covered under the product. The policyholders do not participate in profits or losses of the underlying business and therefore the product is also known as without profit product. This category includes pure term products (covering death benefit only), savings product (providing survival benefits in addition to death cover), and immediate or deferred annuity (providing series of payments).

(c) Unit-linked insurance products (ULIP): The returns under ULIP are directly linked to changes in the underlying investment, so the investment risk and reward is directly attributable to the policyholder. Therefore, unlike non-linked products holders, a ULIP holder can monitor the performance of the policy through the NAV released by the companies regularly.

(d) Health insurance: Health insurance products may cover a specific disease such as cancer or a combination of diseases and the benefits are payable in case of hospitalization or undergoing surgeries.

(e) Group protection: Group term plans provide benefits of life insurance coverage to a group of individuals and the sum assured is paid to the member's nominee upon the death of the member. The policies are offered to a group such as employer-employee, non-employer-employee, banks, professional and microfinance institutions. Typically, group products have a one-year term and need to be renewed upon expiry.

Exhibit 01: Product Types



Source: Company RHP

Life insurance premium has grown at an 11% CAGR from 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 drives. 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 from FY16-21;** whereas private insurers grew at 18% CAGR growth during the same period.

SNAPSHOT		
Issue Opens	Wednesday, May 04, 2022	
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Price Band (Rs)	902/949	
Bid Lot	15 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	OFS	
Offer Size (Rs Mn)	Fresh Issue	-
	OFS	210,085
	Total	210,085
*Implied Market Cap (Rs Mn)	6,002,423	
P/E (based on FY21 Earnings)*	201.9	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs949

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

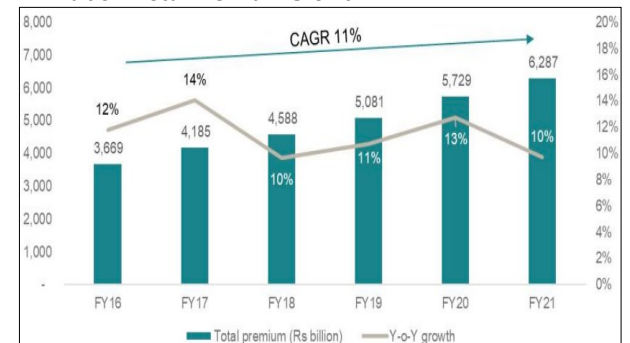
Reservations: LIC Employee: 1,581,249 shares and Policyholders: 22,137,492 shares

Discount: Retail & LIC Employees: Rs45/- per share

LIC Policyholders: Rs60/- per share

Object of the Offer	
•	Achieve benefit of listing on stock exchanges
•	OFS of upto 221,374,920 equity shares by the selling shareholders (President of India)
•	General corporate purposes

Exhibit 02: Total Premium Growth

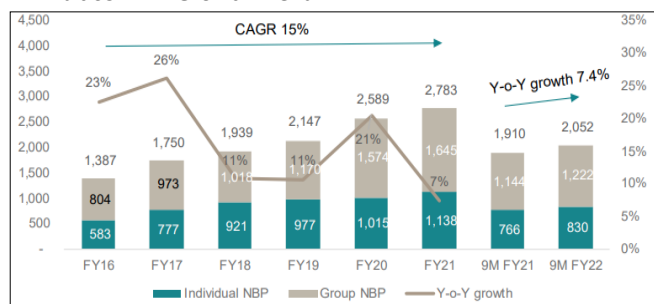


Source: Company RHP

Industry Overview: Indian Insurance (contd.):

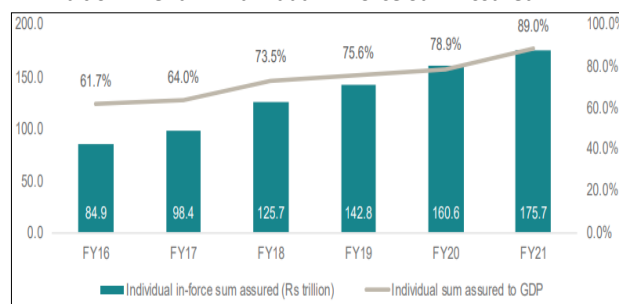
The NBP has grown at 15% CAGR in the past five years with LIC and private insurers growing at 14% and 18% CAGR, respectively. In FY21, amid the Covid-19 pandemic, NBP grew approximately 7% reflecting the impact of the economic slowdown. During 9MFY22, NBP growth remained low for the industry with y-o-y growth of 7.4%. The total sum assured under the individual life insurance business was Rs170.5tn for FY21 in India which is ~89% of India's GDP. The sum assured for individual insurance has increased at 15.7% CAGR from FY16-20. The total number of individual policies in force was 332 million for FY21 of which number of individual new policies issued was approximately 28 million in FY21.

Exhibit 03: NBP Growth Trend



Source: Company RHP

Exhibit 04: Trend in Individual In-force Sum Assured



Source: Company RHP

Global Insurance Overview:

Growth in the global life insurance industry was almost stagnant for a few years after the financial crisis in 2008. During CYs 2003-2007, the total premium of the global life insurance industry grew at 4% CAGR (in nominal dollar terms). However, there was a revival in growth from CY14. During CYs 2014-2019, global life insurance premiums grew at a CAGR of 1.7%. Growth in this period was primarily driven by emerging markets which grew at 8% CAGR compared to a CAGR of 0.3% for advanced markets during the same period. 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 incomes.

Shift Towards Hybrid and ULIP:

Insurers are realizing the need to develop more flexible product solutions and modify existing products to be more customer focused and personalised as consumers continue to seek the right combination of protection and savings relevant to their personal context. In some markets, life insurers have already begun transforming their portfolio towards a wide variety of hybrids and unit-linked products that are more capital efficient and perform well in a low rate environment. For example, in the US, annuity products are growing at a faster pace as compared to traditional life insurance products given the aging US population. In Japan, customer needs are shifting away from death protection and towards life protection products (medical, cancer and income products etc.). Thus, life insurers are seeking to develop and launch newer products with value added services to boost revenues.

Key Success Factors:

- (a) Track record in servicing customers and honoring claims:** Among different success factors, trust in the company, good a track record of servicing customers and proactive claim settlements are key to increasing customer stickiness and renewal premiums for the insurer.
- (b) Offering differentiated products and competitive pricing:** With the industry becoming highly competitive, creating innovative and customized products has become critical for insurers. Instilling a customer-first culture will enable insurers to engage with customers to better understand the emerging needs of customers in the market. Offering differentiated products along with competitive premiums is critical to maintaining market share and position in the industry.
- (c) Strong distribution network:** For life insurance companies, creating and maintaining a well-entrenched distribution network is paramount to marketing their products effectively and generating new business. The pandemic induced shift to remote connectivity has forced insurers to think differently about how technology can provide new avenues to prospect, engage with and service customers. It is essential to re-skill profiles of employees and agents manning the distribution channels in order to ensure that they can fulfill the requirements of the customer.
- (d) Taking new approaches to customer engagement:** Insurers are increasingly exploring new customer engagement approaches to tap into growth opportunities. For example, with rising demand of health and well-being products, players such as Ping An (in China) and AIA (in Hong Kong) have created health ecosystems that connect customers to partners in order to facilitate access of health information and related services. Additionally, engagement opportunities through reward and well-being programs incentivize customers to interact with insurers and allow them to capture data and learn more about customer preference and insurance needs.

About the Company:

Life Insurance Corporation of India (LIC) is the largest insurance provider company in India for more than 65 years and is the largest life insurer in India, with a 61.6% market share in terms of premiums (or Gross Written Premium-GWP), a 61.4% market share in terms of NBP, a 71.8% market share in terms of number of individual policies issued, a 88.8% market share in terms of number of group policies issued for 9MFY22, as well as by the number of individual agents, which comprised 55% of all individual agents in India as at December 31, 2021. (Source: the CRISIL Report). LIC's market share in the Indian life insurance industry for FY21 stood at 64.1% in terms of GWP, 66.2% in terms of NBP, 74.6% in terms of number of individual policies issued, and 81.1% in terms of number of group policies issued. (Source the CRISIL Report). LIC had the highest gap in market share by life insurance GWP relative to the second-largest life insurer in India as compared to the market leaders in the top seven markets globally (in 2020 for the other players and in FY21 for LIC). LIC is the largest asset manager in India as at December 31, 2021, with AUM (comprising policyholders' investment, shareholders' investment and assets held to cover linked liabilities) of Rs40.1trn on a standalone basis, which was (i) more than 3.2x the total AUM of all private life insurers in India, (ii) approximately 15.6x more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, (iii) more than 1.1x the entire Indian mutual fund industry's AUM and (iv) 17.0% of India's estimated GDP for FY22. LIC operates through 2048 branches, 113 divisional offices, and 1,554 Satellite Offices. It operates globally in Fiji, Mauritius, Bangladesh, Nepal, Singapore, Sri Lanka, UAE, Bahrain, Qatar, Kuwait, and the United Kingdom.

Products:

LIC's individual products include specially designed products for specific segments, such as special products for women and children and micro insurance products. The individual products comprise of (i) participating insurance products and (ii) non-participating products, which include (a) savings insurance products; (b) term insurance products; (c) health insurance products; (d) annuity and pension products; and (e) ULIPs. In addition, LIC also offers riders that provide additional benefits along with the base product to cover for additional risks, such as accidental disability, death, critical illness and premium waiver on the death of the proposer. The individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and 7 individual riders. Additionally, the group products (portfolio in India stands at 11) comprise (i) group term insurance products, (ii) group savings insurance products; (iii) group savings pension products; and (iv) group annuity products.

Channel Presence:

LIC's omni-channel distribution platform for individual products currently comprises (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers and insurance marketing firms), (iv) digital sales (through a portal on the corporation's website), (v) micro insurance agents and (vi) Point of Sales (POS) Persons-Life Insurance scheme. The corporation's individual policies are primarily distributed by their individual agents. In FY19, FY20, FY21 and 9MFY22, the individual agents were responsible for sourcing 96.69%, 95.73%, 94.78% and 96.20% of the corporation's NBP for the individual products in India, respectively. The corporation has the largest individual agent network among life insurance entities in India, comprising approximately 1.33 million individual agents as at December 31, 2021, which was 6.8 times the number of individual agents of the second largest life insurer. (Source: the CRISIL Report). Customers can also approach the branch offices and satellite offices and purchase products through its intermediaries. As at December 31, 2021, the corporation had 2,048 branch offices and 1,559 satellite offices in India, covering 91% of all districts in India. LIC's multichannel distribution platform for group products comprises (i) its employees in the sales team for group products, (ii) individual agents, (iii) bancassurance partners and (iv) alternate channel partners (other corporate agents and brokers).

Strengths:

(i) Fifth largest life insurer globally by GWP and the largest player in the fast growing and underpenetrated Indian life insurance sector: LIC is ranked fifth globally in terms of life insurance GWP (on comparison of the corporation's life insurance premium for FY21 to the global peers' life insurance premium for 2020), and 10th globally in terms of total assets (on comparison with the corporations' assets as at March 31, 2021 with assets of other life insurers as at December 31, 2020). The corporation is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued and number of group policies issued for FY21 and 9MFY22. For FY21, LIC issued approximately 21 million individual policies in India, representing approximately 75% market share in new individual policy issuances. The second largest player in the industry issued 1.66 million individual policies and had a 5.9% market share for FY21. For FY21, LIC's market share in the Indian life insurance industry stood at 66.2% (9MFY22 at 61.4%) based on NBP, and its NBP was 1.96x the total private life insurance sector and 8.9x the NBP for the second-largest player in the Indian life insurance industry.

(ii) Trusted brand and a customer-centric business model: The brand 'LIC' was recognised as the third strongest and 10th most valuable global insurance brand in 2021, as per the Insurance-100 2021 report released by Brand Finance. As per the report, the brand value of LIC in 2021 was USD8655mn, with a Brand Strength Index (BSI) score of 84.1 out of 100, corresponding to AAA- brand strength rating. The trust is evidenced by the 279.11 million in force policies under individual business being serviced in India as at December 31, 2021. The brand trust is further evidenced by the fact that approximately 75% of individual policies sold by the corporation in India for 9MFY22 were to sold to customers who had not purchased any life insurance policies from the corporation prior to April 1, 2021.

(iii) Cross-cyclical Product Mix: LIC has a broad, diversified product portfolio covering various segments across individual products and group products. The corporation's individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and seven individual optional rider benefits. The group product portfolio in India comprises 11 group products. The corporation is well placed to serve customers across age brackets with a comprehensive product portfolio, while maintaining a strong connect across age groups. Customers in the age bracket 27 to 40 years old accounted for approximately 42% and 42% of individual policies sold in FY21 and 9MFY22, respectively.

Strengths: (contd.):

Exhibit 05: Product Mix

Products	Year Ended March 31,						Nine Months Ended December 31, 2021	
	2019		2020		2021		% of our total GWP	% of median of the top five Indian private player's total GWP
	% of our total GWP	% of median of the top five Indian private player's total GWP	% of our total GWP	% of median of the top five Indian private player's total GWP	% of our total GWP	% of median of the top five Indian private player's total GWP		
Non-Linked	99.8	61.2	99.8	60.7	99.7	63.6	99.2	69.0
Of which:								
Participating	67.0	42.5	60.3	42.4	60.9	35.2	62.8	29.2
Non-participating	33.0	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	31.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company RHP

(iv) Presence across India through an omni-channel distribution network: The corporation's omni-channel distribution platform for individual products currently comprises (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers and insurance marketing firms), (iv) digital sales (through a portal on the website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. As at December 31, 2021, the corporation had the following distribution network for individual products in India: 1.33 million individual agents; 70 bancassurance partners; 215 alternate channel; a portal on the website for digital sales; 2,128 active Micro Insurance agents and 4,769 Point of Sales Persons-Life Insurance scheme.

Exhibit 06: Distribution Channels

Particulars	Year Ended March 31,						Nine months ended December 31, 2021	
	2019		2020		2021		NBP (₹ in million)	% of total
	NBP (₹ in million)	% of total	NBP (₹ in million)	% of total	NBP (₹ in million)	% of total		
Individual agents	493,380.11	96.69	492,100.48	95.73	535,746.48	94.78	344,636.26	96.20
Bancassurance & alternate channels ⁽¹⁾	13,456.70	2.64	15,077.84	2.93	19,007.60	3.36	9,169.99	2.56
Digital marketing	2,748.91	0.54	3,921.17	0.76	6,116.67	1.08	1,454.44	0.41
Micro Insurance agents	209.14	0.04	2,220.90	0.43	3,529.32	0.62	1,853.55	0.52
Direct sales	466.24	0.09	705.84	0.14	866.78	0.15	1,112.27	0.31
Point of Sales Persons – Life Insurance	–	–	–	–	–	–	31.99	0.01
Total	510,261.10	100.00	514,026.23	100.00	565,266.85	100.00	358,258.50	100.00

Source: Company RHP

(v) Harnessing technology capabilities to support customer connect and drive operating efficiencies: LIC have developed technological capabilities that help them provide a great customer experience and drive operating efficiencies. It has added technological capabilities across the customer journey from purchase to payments to claims processing. As at December 31, 2021, the corporation's portal had 18.60 million registered users and its mobile app for policyholders, available on both Android and iOS platforms, had 5.13 million registered users. LIC spent Rs1,774mn, Rs4,244mn, Rs3,614mn and Rs1,373mn on information technology, on a consolidated basis in FY19, FY20, FY21 and 9MFY22 respectively. LIC has two apps for intermediaries to use at the pre-purchase stage: **Sales App:** this application provides intermediaries lead management, financial need analysis, quotes and illustrations, e-proposal and content management and **LIC Quick Quotes App:** this application provides intermediaries with premium quotation and benefit illustration, with a facility to compare quotes and view variations.

Strategies:

(i) Capitalize on the growth opportunities in the Indian life insurance sector: The favourable demographic tailwinds supporting India's growth story, combined with the under penetration of life insurance in India, are key factors for the multi-decadal growth in the life insurance industry in India. The GWP for life insurers in India is forecasted to grow at 14-15% CAGR from FY21-26 to reach Rs12,400bn. With the kind of scale, size, reach and scalability LIC has achieved over the years, they are well-positioned to capitalize on the expected growth of the Indian life insurance sector.

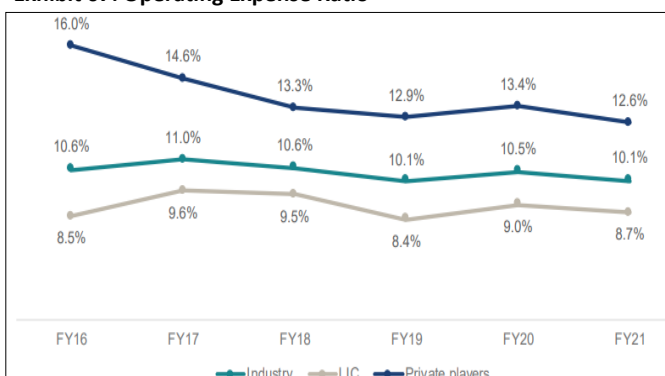
(ii) Further diversify the product mix by increasing the contribution of the non-participating portfolio: LIC intends to continue diversify the product mix by addressing customer needs at every stage of life and increasing sales of the existing non-participating products as well as launching new non-participating products, in particular term insurance, health insurance, pension/annuity products and ULIP products. Plans are also in place to increase the training given to intermediaries on non-participating products and incentivize the sale of non-participating products by offering easier access to higher-level agent club membership for sales of these products.

Strategies (contd.):

(iii) **Reinforce the omni-channel distribution network and increase its productivity:** LIC plans to strategically expand its individual agency network, improve the agents' productivity and maintain the focus on improving the quality of agents that are recruited alongwith their longevity. Additionally, the corporation intends to hire more millennial and post-millennial agents by running social and digital media campaigns as well as other advertising campaigns to increase awareness of career opportunities as an insurance agent in the millennial and post-millennial segments and conducting more online recruitment.

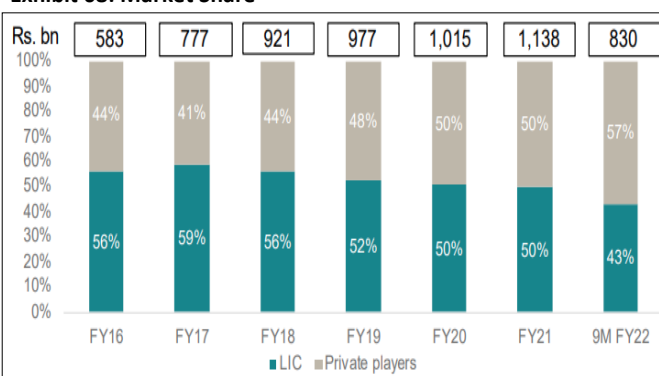
Financials in Charts:

Exhibit 07: Operating Expense Ratio



Source: Company RHP

Exhibit 08: Market Share



Source: Company RHP

Exhibit 09: Key Financial Indicators

Particulars	As at and for the year ended March 31,			As at and for the nine months ended December 31, 2021
	2019	2020	2021	
	(₹ in million, except percentages and ratios)			
Premium (consolidated)	3,402,946.15	3,828,114.50	4,058,508.02	2,857,299.55
Of which:				
Premium (in India)	3,371,300.19	3,790,135.63	4,028,881.36	2,837,532.82
Of which:				
(i) First year premiums	316,765.61	584,464.99	343,409.95	222,153.27
(ii) Single premiums and consideration for annuities granted	1,123,613.97	1,218,277.07	1,511,822.20	1,045,623.78
(iii) NBP ((i)+(ii))	1,440,379.58	1,802,742.06	1,855,232.15	1,267,777.05
(iv) Renewable premiums	1,962,566.57	2,025,372.44	2,203,275.87	1,589,522.50
Total annualised premium equivalent ("APE") (in India) ⁽¹⁾	405,655.75	479,723.36	455,879.19	299,233.16
Individual APE (in India) ⁽²⁾	314,476.64	352,974.11	322,705.91	209,044.00
Operating expenses related to insurance business to premium ratio (as a % of premium) (consolidated) ⁽³⁾	8.33%	8.99%	8.66%	9.54%
Conservation Ratio ⁽⁴⁾	92.19%	88.79%	84.48%	93.72%

Source: Company RHP

Exhibit 10: Key Financial Indicators

Particulars	As at and for the year ended March 31,			As at and for the six months ended September 30, 2021
	2019	2020	2021	
	(₹ in million, except percentages and ratios)			
Value of New Business ("VNB") (consolidated) ⁽¹⁾	N.C.	N.C.	41,670	15,830
VNB margin (consolidated) ⁽²⁾	N.C.	N.C.	9.9%	9.3%
Indian Embedded Value (consolidated) ⁽³⁾	N.C.	464,970	956,050	5,396,860
Indian Embedded Value operating earnings (consolidated) ("IEVOE") ⁽⁴⁾	N.C.	N.C.	171,510	N.C.
Operating return on Indian Embedded Value (consolidated) ("ORIEV") ⁽⁵⁾	N.C.	N.C.	36.89%	N.C.

Source: Company RHP

Risks and Concerns:

- Adverse persistency metrics or an adverse variation in persistency metrics could have a material adverse effect on the financial condition, results of operations and cash flows.
- The individual agents procure most of the individual new business premiums. If LIC is unable to retain and recruit individual agents on a timely basis and at reasonable cost, there could be a material adverse effect on the operations.
- A significant proportion of the corporation's total new business premiums are generated by participating products and single premium products, and any significant regulatory changes or market developments that adversely affect sales of such products could have a material adverse effect on the business, financial condition, results of operations and cash flows and may also require to make changes to the existing product designs.
- LIC faces significant competition; the business, financial condition, results of operations and cash flows could be materially harmed if they are unable to compete effectively.
- Customer preferences and market trends for life insurance, health insurance and pension products may change, and may be unable to respond appropriately or in time to sustain the business or the market share in the markets in which it operates.

Outlook and Recommendations:

The Government has cut the planned size of its initial public offering of LIC by a massive 60% due to market turbulence caused by Russia's war on Ukraine and economic slowdown worries. The IPO has now been announced to raise Rs210bn (offloading ~3.5%, reduced from the originally planned 5%), pegging the life insurer giant at 1.1x price-to-embedded value. Reduction in the IPO size is positive for the market because it would have otherwise put pressure on liquidity. LIC's massive scale of operations and operating leverage, cost efficiencies as well as the stellar track record it has established over the decades allows it to emerge as a market leader and sustain its position; and thereby LIC ought to command a premium to other players with low market shares. The business traction would maintain the market leader position for LIC as the structural story for life insurance industry remains intact amidst the pandemic uncertainties. There is an employee reservation of 15.81 lakh shares while 2.21 crore shares are reserved for policyholders. Retail and employees will get Rs45 discount, while policyholders will get Rs60 discount. The EPS stood at Rs4.70 per share in FY21. (The same was Rs4.29 per share and Rs4.15 per share in FY20 and FY19 respectively). Thus, at the upper limit of the price band of Rs949, the issue will command a valuation of 202x its earnings which is way higher than its peers but should not be a bother as the company is a leader in the industry with a dominant market share, and thus it commands a premium. At the upper hand of the price band Rs902-949, LIC is asking a valuation of 1.1x EV, which is less than the peers (HDFC Life Insurance's 4.05x, SBI Life Insurance's 3.10x and ICICI Prudential Life's 2.5x). While LIC valuations appear to be cheap as compared to listed private players, it must be kept in mind that LIC has a lower VNB margin of 9.9% in FY21 compared with private players, who have VNB margins of 22-27% due to higher share of participation & group product. Despite lower margins and inferior business mix, we believe that the IPO is priced reasonably and offers value to investors with a long-term view. **We recommend Subscribe on the IPO.**

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