




LIC IPO – Buy the Family Silver	<ul style="list-style-type: none"> • 03rd May 2022 • Sector – Life Insurance
<ul style="list-style-type: none"> • IPO Opens 4-9th May • Price range ₹902-949 /share; discount for policyholders is ₹60, and for employees is ₹45 • Large Cap: ₹ 6,00,000 crore Mkt cap 	
<ul style="list-style-type: none"> • Positives: 1) High life insurance market share 2) massive Assets Under Management and equity market ownership 3) LIC is a solid brand 4) low operating cost 5) good all India sales presence 6) the IPO can be transformative to make LIC more flexible, competitive and profitable. • Risks: 1) govt. initiatives and directives that are unprofitable 2) capital and profit ratio restructuring makes financials unpredictable 3) competition from private players and falling market share 4) High NPA ratio 5) attrition in sales agents team 6) Periodic FPOs can subdue the share price. • Opinion: Conservative Investors can SUBSCRIBE to this IPO with a 2 year perspective. 	

Here is a note on LIC IPO.

IPO highlights

- LIC IPO will have a price band of ₹ 902-949 and will open from May 2 for anchor investors and May 4-9 '22 for others.
- The firm will raise ₹ 21,000 cr. by selling 3.5% stake sale through Offer for Sale (OFS) by promoter. LIC market cap at this pricing is ₹ 6 lakh cr.
- Promoters of LIC are the President of India, acting through the Ministry of Finance, Government of India. Currently Gol holds 100% stake and post-IPO this will come down to 96.5%.
- The IPO quotas are: Policy Holders 10%, employees 0.7%, QIB 44.6%, Non Institutional 13.4% and retail 31.25%. The total number of shares in IPO are 22.14 crore shares. This discount for policyholders is ₹60, and for employees is ₹45.
- Objects of the issue: Gol unloads stake to list LIC. Since it is an OFS, it will not receive any funds in IPO
- The grey market premium (GMP) of LIC is ₹85 as of today.
- One lot is 15 shares and Face Value is ₹10. Retail investors can bid for 1 to 14 lots i.e. 210 shares.
- The anchor investor portion of Life Insurance Corporation of India's (LIC) initial public offering (IPO) was oversubscribed on Monday, raising around ₹5,620 crore from anchor investors.

Introduction to LIC

- LIC is the largest public life insurance companies in India, and took its current form in 1956.
- It has a 64.1% market share in Gross Written Premium (GWP) in FY21 (CRISIL). It is the #5 largest life insurer globally by GWP, see Fig 1b. LIC has a distribution network of 5,004 offices spread across 36 states and UTs, with 28 cr. policies served as on FY22. It has a workforce of 1,05,207 employees.
- The proposed IPO will make it the biggest Indian IPO ever.

- In India, LIC has the largest agent network of 13.5 lakh individuals in 2021, which is 55% of the total agent network in the country and was 7.2 times the number of agents of the second largest life insurer.
- LIC is the largest asset manager in India (Dec'21) with AUM (includes policyholders' investment, shareholders' investment and assets held to cover linked liabilities) of ₹ 41 lakh crores, which was (i) 3.2 times the AUM of all private life insurers in India, (ii) 15.6 times the AUM of the #2 player in Indian life insurance industry in terms of AUM, (iii) 1.1 times the entire Indian MF industry AUM and (iv) 17% of India's GDP for FY22. (CRISIL). LIC's investments in listed equity represented 4% of the total market capitalisation of NSE as at that date. (CRISIL). See Fig 1a. Close to 25% of this is equity oriented, and they own more government bonds than the RBI. Thus it is a mega player that can dominate and profit from the growing Indian capital markets. **Thus it is India's Family Silver, which is made available in the IPO.**
- LIC is thus both a Life Insurance and an Asset Management firm.

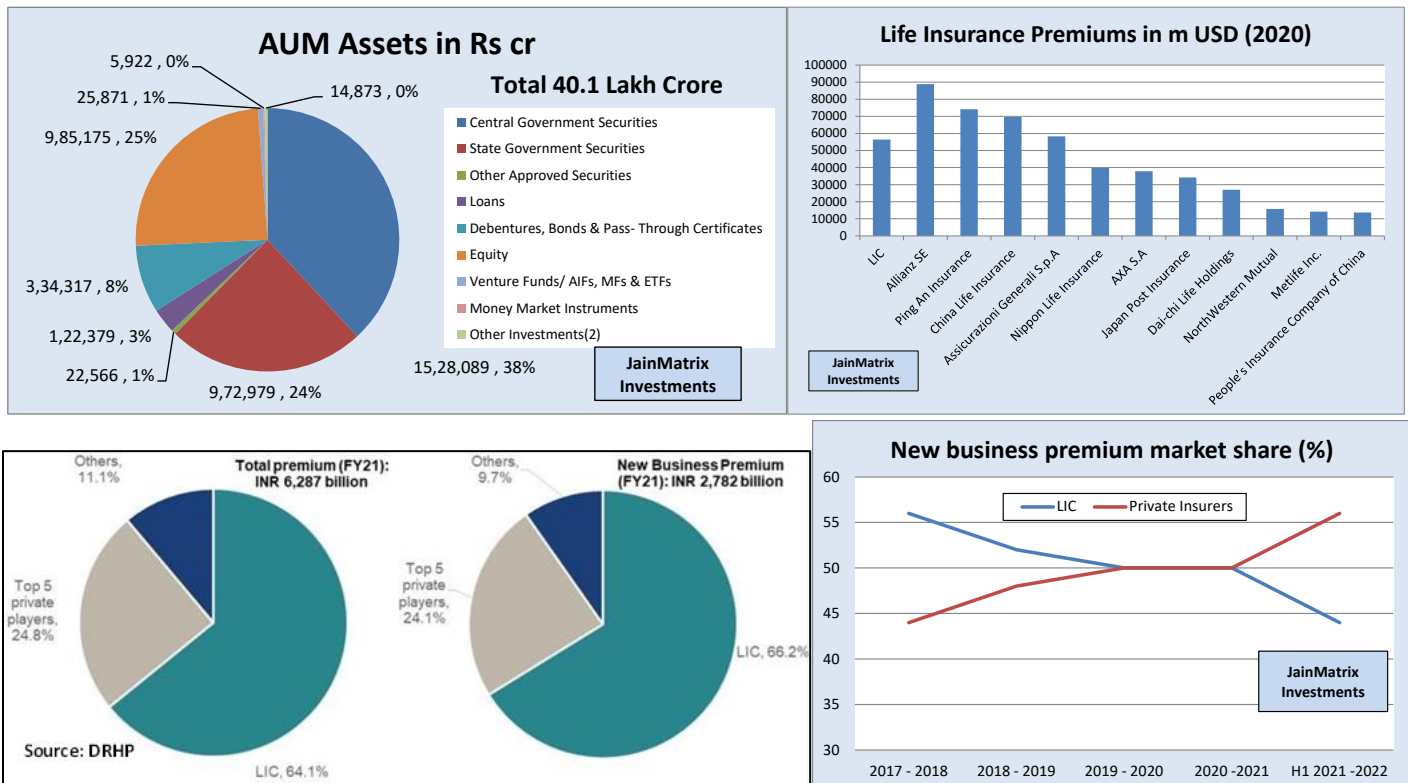
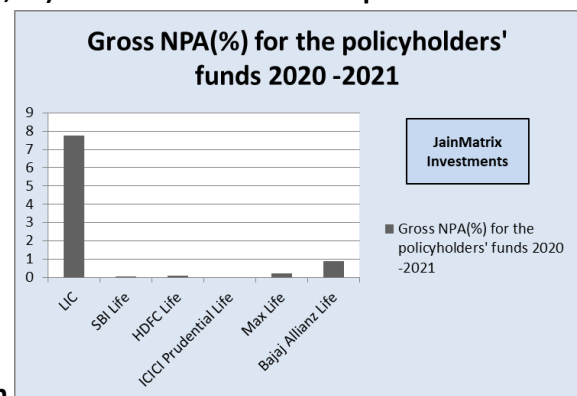


Fig 1a) AUM of LIC assets; 1b) Indian Industry Market Shares; 1c) Domestic Premiums comparison

Fig 1d – New business premium market share; Fig 1e NPA comparison

- The private sector has grown faster on new business premium market share, see Fig 1d.



- LIC does have high NPA, for the policyholder funds, see Fig 1e.
- As on FY22, LIC’s portal had 1.76 crore registered users and their app ‘LIC Customer’ had 51 lakh users. Apps for intermediaries are ‘LIC Quick Quotes App’ and ‘Sales App’.
- Key leaders: M R Kumar, CMD, and MDs Vipin Anand, T. C. Suseel Kumar, Mukesh Gupta and Raj Kumar.

Insurance 101, and Life Insurance Industry in India

- Insurance is a very useful product. There are several types – Life, Health, Automobile, Property, Farm/crop, and all kinds of asset insurance products. Products are for retail or business consumers.
- Life insurance is a long term product. As life is unpredictable, life insurance is bought so that in case of the event, the surviving family receives the Sum Assured to handle financial responsibilities.
- In FY21, India's life insurance penetration stood at only around 3% according to Statista compared to the global average of 3.3%. And in the world life insurance business, India is ranked #10 as per IRDA. Countries like Taiwan 14%, South Africa 11.2%, UK 8.8%, and Singapore 7.6% have higher penetration level resp. In some emerging economies in Asia, i.e., Malaysia, Thailand and China during the same year it is 4.72, 4.99 and 4.30% resp. The insurance density (Total premiums by population number) in India which was US\$ 11.5 in 2001, reached \$ 78. The comparative figures for Malaysia, Thailand and China during the same period were \$ 536, \$ 389 and \$ 430 resp. Globally insurance penetration and density were 3.35% and \$ 379 for the life segment as per IRDA.
- The players are regulated by IRDAI (Insurance Regulatory and Development Authority of India) and are subject to regulatory control and compliance requirements.

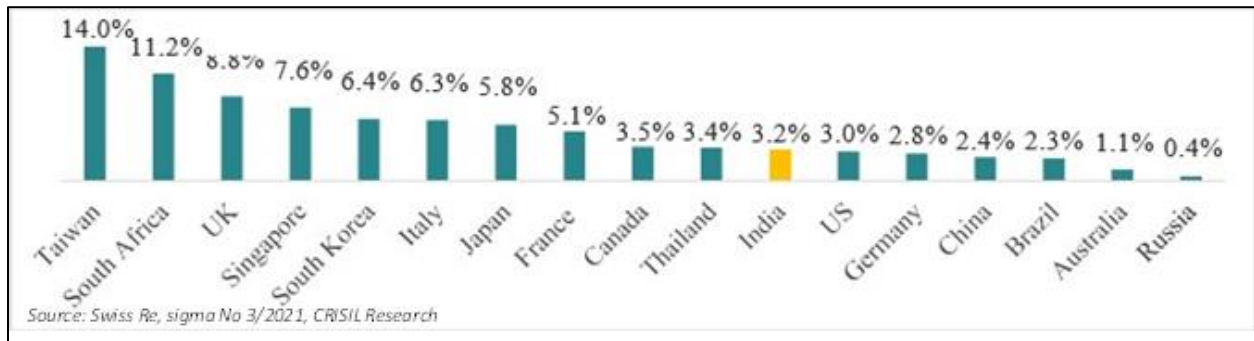
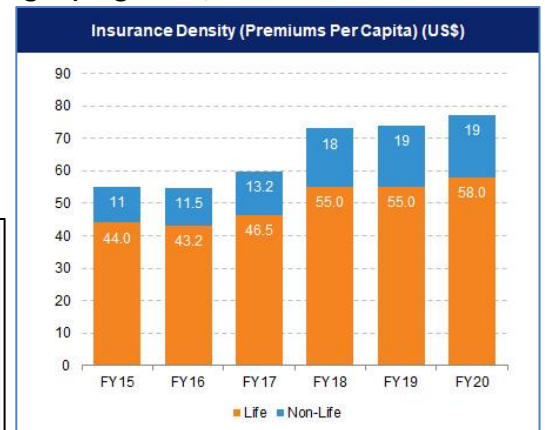
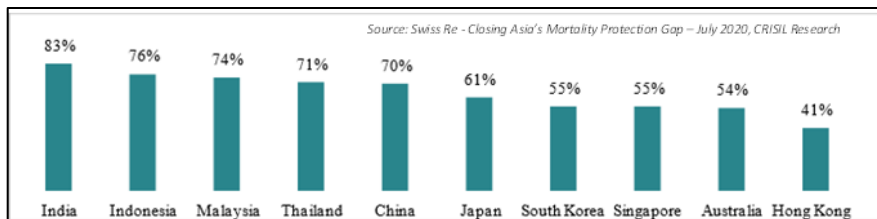


Fig 2a) Penetration Fig 2b) Insurance Gap across countries Fig 2c) segments, Source: IBEF



- LIC has 61.6% market share in terms of premiums (or GWP), a 61.4% market share in terms of New Business Premium (or 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 in 9 months ended Dec 31, 2021.

- The average premium paid per person in India a cost of just ₹12 per day or ₹4,380 per year.
- Health Insurance products have a Portability facility in India, however this has not been introduced in Life Insurance. If introduced, this may impact LIC as it may lose customers. Under the current IRDA rules, only health insurance plans may be ported from one provider to another. A transfer of life insurance policy is not allowed. Hence, if an individual wishes to discontinue the current life insurance policy before it reaches maturity, a surrender charge needs to be paid. This charge can be as high as 70% of the premiums paid during the entire policy term. If life insurance portability from one insurer to another is permitted, it will save policyholders the cost of surrender while switching their policies.
- Past large PSU IPOs such as IRCTC, UTI AMC and Coal India have met with good to average success.

News & Updates, and Financials of LIC

- LIC’s Embedded Value (EV), which is the sum of present value of all future profits from existing business plus the net worth, is ₹5,39,686 crore as of Sept’21. It was ₹95,605 cr. in Mar’21, but after a detailed study by Actuary Milliman Advisors, it has been formally and officially calculated and updated. LIC has driven a large part of the EV increase of ₹4.1 lakh crore through this equity allocation to non-participating and subsequently marking to the market. As per the Finance Act, the maximum share of distributed surplus that is payable to shareholders is 10% for participating business and 100% for non-participating (including unit-linked) business, as per the prospectus.
- The IPO is priced at 1.1 times the EV as of Sept’21, which is more than 50% discount compared with the average valuation of listed private peers. See Benchmarking chart Fig 4.
- The anchor investor portion of LIC IPO was oversubscribed on Monday, raising ₹5,620 cr. from investors.
- Another concern is that LIC doesn’t have a strong digital presence and 90% of its policies are sold by agents. Just 36% of individual renewal premiums were collected digitally, compared to 90% for private players. If this trend continues, then total cost is likely to increase for LIC. So persistently weak digital presence could keep costs high as agents typically receive high commissions.
- To facilitate the listing of LIC, the GOI had in 2021 made 27 amendments to the LIC Act, 1956. As per one amendment, the central government will hold at least 75% in LIC for the first five years post the IPO, and subsequently at least 51% at all times after five years of the listing.

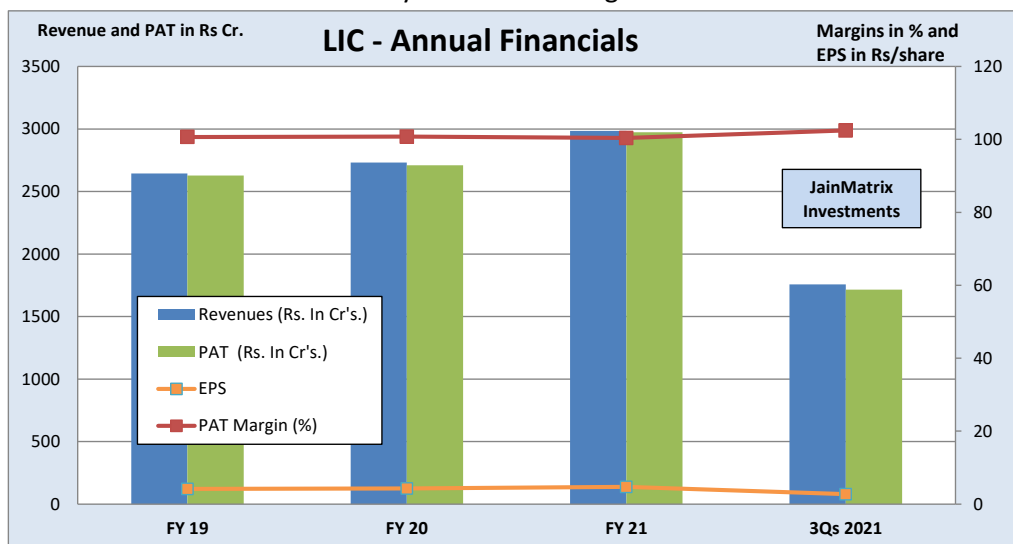


Fig 3a) Financials

- Revenues have grown steadily, and PAT has grown along with it. See Fig 3a.

- The cash flow for LIC is shown in Fig 3b. It's clear that FCF has risen sharply in FY21.
- LIC has admitted that at times its actions at the behest of the government could be contrary to shareholders' interest. Previously, LIC has bailed out the IPOs of Bharat Dynamics and Hindustan Aeronautics in 2018. The firm also bought IDBI Bank, which was reporting losses due to a surge in bad loans. LIC infused ₹21,600 crore for 51 % stake in IDBI Bank. In 2019, another ₹4,743 crore was infused.
- **Personal Experience:** As a customer of LIC over 20+ years, I have got reasonable returns for my investments. However support and customer service from LIC has been weak, as support is not global but only done by the 'home branch', which may be far away from current location. Policies also suffer from inflation, so Sum Assured and premiums should be inflation adjusted to be relevant.

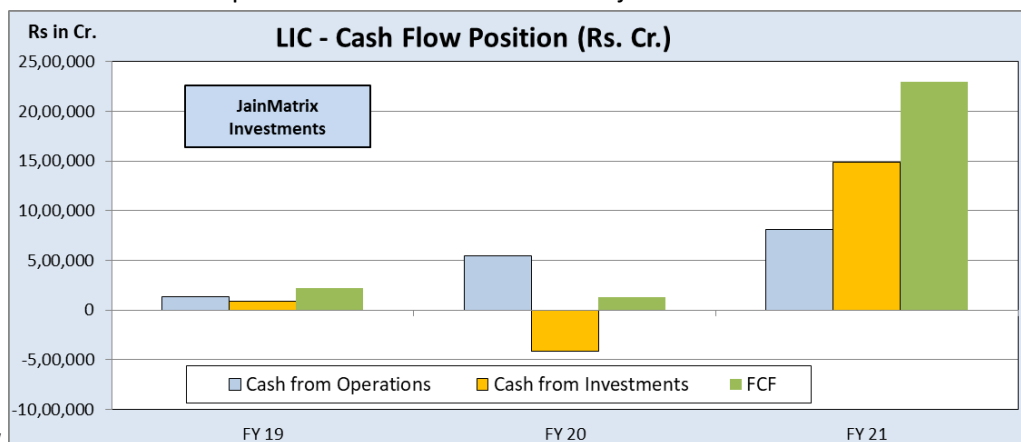


Fig 3b) Free Cash Flow

Benchmarking

We benchmark LIC against listed insurance firms in India (see Fig 4). **Fig 4 – Benchmarking**

Name of the entity	LIC	SBI Life Insurance	HDFC Life Insurance	ICICI Pru Life	Star Health	ICICI Lombard	New India Assurance	PB Fintech
EPS (₹)	4.70	14.56	6.74	6.66	-16.54	25.82	9.74	256.96
Net worth (₹ in cr's)	6,515	10,400	8,638	9,119	3,500	7,435	32,652	1,992
RoNW (%)	45.65	14.00	15.75	10.48				
NAV/Equity Share (₹)	10.30	103.99	42.75	63.51				
Sales (₹ in cr's.) (FY22)	29,626	2,367	1,679	2,755	9,349	2,460	2,696	123
Profits (₹ in cr's.) (FY22)	2,974	1,455	1,360	956	-826	1,473	1,627	19
Market Cap (₹ in cr's.)	6,00,000	1,13,655	1,38,398	84,403	51,796	70,379	24,184	55,279
Embedded Value (Rs. in Cr)	5,39,686	33,390	26,620	29,110	49,568	72,264	25,639	55,567
PE (x)	191.82	92.00	122.74	134.69	-	55.96	24.14	-
Price to book value	68.03	8.66	12.36	6.93	8.31	8.63	1.79	18.25
3 Yr CAGR Sales (%)	6.24	33.97	30.4	28.93	31.00	22.37	16.23	38.47
3 Yr CAGR Profit (%)	6.39	4.12	2.33	-23.42	-	35.97	70.41	NA
EBITDA Margin (%)	-	2.12	2.35	1.54	-18.36	16.45	6.96	-10.02
Return on Equity (%)	-	11.09	12.15	7.90	-	18.15	8.32	0.64
EV to Sales	18.22	3.89	1.62	0.91	5.30	29.38	9.51	451.76
EV/EBIDTA	-	183.34	68.83	59.37	-	34.68	11.86	1659.21
Mcap / GWP	-	48.02	82.43	30.64	5.54	28.61	8.97	449.43
EBITDA (Rs.in Cr.)	-	1739.41	1679.36	1279.11	-1000.22	404.67	187.64	-12.32
Mkt Cap/EV	1.11	3.40	5.20	2.90				

- We can observe that the PE and PB are the highest among the peers. This may be because of the recent restructuring of the Capital structure of LIC and Surplus / Profit sharing ratios.
- On sales growth we can see that LIC is low compared to peers, however it is high in profit growth.

- The return on Net worth, PE is the highest among its industry peers.
- The EV has been published this year for LIC based on a report, and is the highest among peers.
- On Market Cap to EV, LIC stands out as having low valuations and attractive relative pricing in IPO.

LIC appears to be a monopoly unlisted firm now undergoing a transition to a listed firm, with a restructured capital and profit sharing. As it settles into this new structure, the balance sheet will settle and improve slowly. Its large market share and legacy business leadership will hold up the financials as it becomes competitive.

Positives for LIC and the IPO

- LIC has a 64% market share in terms of Life Insurance premiums. Thus it is a dominant player.
- It has a large office network and over 13.5 lakh agents who bring in most of the new business. This is a strong sales force.
- The recent restructuring of the Share Capital, dividend and profit sharing of LIC has aligned it with the other insurance players in India. It has also now become shareholder friendly, and will generate good profits from operations.
- LIC is a massive asset manager that can dominate & profit from the growing Indian capital markets.
- This IPO will once successful will make LIC the #5 biggest firm in India in market capitalization.
- Has the lowest operating costs in the life insurance industry in India.
- Insurance companies like LIC have a long term investment and returns plan for funds, and are ideally placed to fund infrastructure, which is essential for the country.
- LIC plans offer 'safe returns' along with life insurance coverage. This makes it easy to sell by agents and brings peace of mind to the insurers. It has dominated 'endowment' policies since decades.
- LIC is a very trusted name for both life insurance as well as investments. The LIC brand is synonymous with insurance in India.
- LIC has the best claims statistics among peers.
- LIC has a good opportunity to use Technology to work better and faster, and improve productivity. Its large employee and sales agent workforce can look at digital training and work tools.
- Indian PSUs have shown the ability to become more efficient and profitable post IPO.
- The Govt. of India is listing its most prized asset, and expects this to generate funds over the next few years that will help it balance the books and reduce deficits and meet its disinvestment targets.

Risks and Negatives for LIC and the IPO

- LIC has poor new policy growth rate and they continue losing market share to private insurance players, especially in urban areas in the last decade. This is evident from the low persistency ratio.
- LIC policies are seen as conservative and not immediately attractive.
- LIC has to transition from a GoI department to a nimble and competitive, profitable listed insurance firm. This transition involves better organizational structure, empowered employees and a good incentive structure. If LIC does not transform over the next 2-3 years, the competition will grab market share and erode the valuations of the company further.
- It's very difficult to value LIC as the business model is unlike any other company. This has also become complex because of the recent capital restructuring and new Profit sharing ratio.
- If GoI approaches stock markets with a FPO (follow on Public Offer) periodically over next 5 years, the share price may remain depressed.

- In the past LIC has been generous to policyholders and declared low profits. Now with listing, it will have to declare dividends and be generous with shareholders. Will this erode its product returns?
- The large LIC agent force works on commissions. With profits pressure, will LIC be able to afford this army of sales agents? Will LIC need to reduce commissions in future? LIC is experiencing high attrition levels among individual agents. This can raise costs.
- The competition is strong with digital, but LIC has been performing poorly on this parameter. It will need to upgrade its workforce and invest in tech for the key processes.
- It has worked in the past to fund PSU listings and step in to meet GoI objectives. But these may be unprofitable and this can become a friction issue in future after listing. LIC also has to implement GoI insurance policies that are more Social initiatives. However these may not be profitable and so LIC will have to ensure GoI funds such activities in the future.
- NPA ratio, which stood at 6.32% for Dec'21 is the highest among its peers.
- The company has retained the Dividend for the last 2 years so that the profits seem high.
- If life insurance portability is permitted, it will save policyholders the cost of surrender while switching their policies, and be quite successful. It's also a big risk for LIC.
- It is common for companies to boost their valuations at the time of listing. LIC may have done the same by upping its Embedded Value through a report and not paying dividend for 2 years to boost its balance sheet. We will only know in the next 2 years if these moves were sustainable.
- Employees of LIC do not have an ESOP plan, so management incentive to grow profits may be weak.

Overall Opinion and Recommendation

- LIC is the largest offering by GoI in many years. It is a firm that dominates the wealth building, life insurance and pension annuities of Indians.
- **Positives:** 1) High life insurance market share 2) massive Assets Under Management and equity market ownership 3) LIC is a solid brand 4) low operating cost 5) good all India sales presence 6) the IPO can be transformative to make LIC more flexible, competitive and profitable.
- **Risks:** 1) govt. initiatives and directives that are unprofitable 2) capital and profit ratio restructuring makes financials unpredictable 3) competition from private players and falling market share 4) High NPA ratio 5) attrition in sales agents team 6) Periodic FPOs can subdue the share price.
- **Opinion:** Conservative Investors can SUBSCRIBE to this IPO with a 2 year perspective.

Disclaimer

This document has been prepared by JainMatrix Investments Bangalore (JM), and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of JM. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, JM has not independently verified the accuracy or completeness of the same. JM has no stake ownership or financial interests in LIC or any group company. Punit Jain has been a retail / insurance and Annuity customer of LIC for 20+ years. Punit Jain intends to apply for this IPO. Neither JM nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from a RIA - Registered Investment Advisor. Punit Jain is a registered Research Analyst under SEBI (Research Analysts) Regulations, 2014. JM has been publishing equity research reports since Nov 2012. Any questions should be directed to the director of JainMatrix Investments at punit.jain@jainmatrix.com.