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Issue Offer

Offer For Sale of 221,374,920 equity shares taking the total issue size at INR 21,008 cr (on the basis of upper price band).

Issue Summary

Price Band (INR)	902-949
Face Value (INR)	10
Implied Market Cap (INR cr)	600,242
Market Lot	15
Issue Opens on	4 th May 2022
Issue Close on	9 th May 2022
No. of share pre-issue	6,324,997,701
No. of share post issue	6,324,997,701
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Kotak Mahindra Capital Company
Axis Capital
BOFA Securities Ltd
Citigroup Global Markets India
Goldman Sachs, JM Financial
ICICI Securities Ltd, JP Morgan
JM Financial, Nomura, SBI Capital Markets

Registrar

KFin Technologies Pvt. Ltd.

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	100%	96.5%
Public	0%	3.5%

Objects of the issue

- General Corporate purpose

Life Insurance Corporation of India (LIC) is coming out with an IPO, where the Government will raise upto INR 210 bn by selling its 3.5% stake (all via an offer for sale). LIC is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued, and number of group policies issued. LIC has a market share of 61.4% in NBP (individual and group) as compared to next largest competitor who had a market share of 9.16% basis NBP (individual and group). The product offering is comprehensive and contains all kinds of insurance products: unit-linked insurance products (ULIP), saving insurance products, term insurance products, health insurance, and annuity & pension products. LIC is ranked fifth globally by life insurance GWP and 10th globally in terms of total assets. As at December 31, 2021, LIC had 2,048 branch offices and 1,559 satellite offices in India, covering 91% of all districts in India.

India is an underpenetrated market in life insurance sector: India has highly underpenetrated insurance market compared to the other parts of the world with a life insurance penetration at ~3.2%. This presents immense opportunities to expand the life insurance business given the favorable demographics, rising prosperity, growing household income and the increasing awareness for the need of financial protection.

LIC is the market leader in the life insurance space: LIC is India's largest life insurer with a 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, an 88.8% market share in terms of number of group policies issued for the nine months ended December 31, 2021, as well as by the number of individual agents, which comprised 55% of all individual agents in India as at December 31, 2021.

Expansive multi-channel distribution with pan-India bancassurance channel: LIC continues to benefit from the strong omni-channel distribution network for its individual products comprises of (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers and insurance marketing firms), (iv) digital sales (v) Micro Insurance agents and (vi) Point of Sales Persons. LIC has 70 bancassurance partners, 1.33 mn individual agents, 2,128 active Micro Insurance agents, and 4,769 Point of Sales Persons. As of December 31, 2021, individual agents were responsible for sourcing 96.2% of company's NBP for individual products.

Strong financial performance supported by high operating efficiencies: LIC's GWP on a consolidated basis increased at a CAGR of 9.21% from FY19 to FY21. NBP on a consolidated basis increased at a CAGR of 13.49% from FY19 to FY21. Company's expense ratios on a standalone basis are lower than that of the top five private players in India as a whole. As of Dec'21, LIC's operating expenses as a percentage of total premium was 9.6%, compared to the median of the top five private players' OPEX ratio which stood at 12.1%. Company's PAT on a consolidated basis increased from INR 2,627 cr for FY19 to INR 2,974 cr in FY21, representing a CAGR of 6.39%.

Valuation and Outlook

LIC's embedded value (EV) stood at INR 539,686 cr as on September 2021. Based on its Sep'21 EV, IPO has been attractively valued at 1.1x to its H1FY22 EV and it is lower as compared to other large private life insurer players. The company's long-term performance seems promising and it enjoys leadership position with high industry growth prospects. The economic factors- like growing urbanization and potential for penetration in the economy, coupled with the 65-year-old legacy LIC has entail its potential to grow as they are well placed to grab the opportunity. LIC's potential IPO would be structurally positive for the sector in the long run as given its reach and size, it will lead to higher awareness (benefitting private insurers as well) along with transparency in the sector, and the company. **We recommend investors 'Subscribe' for this issue.**

Diversified product portfolio: As of FY21, participating products contributed 62.8% and 37.2% contribution by non-participating products (within non-linked). While participating products will continue to be a strong focus, company intend to continue diversifying the product mix by addressing customer needs and increasing sales of existing non-participating products as well as launching new non-participating products, in particular term insurance, health insurance, pension/annuity products and ULIP products. Company have been putting more focus on selling ULIPs, which resulted in a 729.34% increase in NBP from ULIPs in India from INR 91 cr in FY20 to INR 756 cr in FY21. For the nine months ended December 31, 2021, on a standalone basis, simple average yield on investments for participating products was 9.33%, simple average yield on investments for non-participating products was 7.45% and simple average yield on investments for linked products was 11.02%.

Key Risks:

- Under the IRDAI Investment Regulations, LIC is required to invest its assets in certain categories, subject to thresholds for investment. Given this restriction, LIC may be unable to mitigate market risks in the same manner as non-insurance companies.
- Termination or adverse change in bancassurance arrangements, individual agents or other distribution intermediaries, or a decline in performance standards of bancassurance partners, agents or other distribution network may have an adverse impact on the business.
- Events such as changes in regulatory policies, volatility in capital markets, loss of customer confidence in the insurance industry or the company, sharp declines in its customers' financial positions due to deterioration in economic conditions like the COVID-19 pandemic, etc. may cause discontinuations of insurance policies.

Peer Group Comparison:

Company	Total Premium (in bn)	Net Profit (in mn)	EPS	Indian Embedded Value (in bn)	Mcap (in bn)	P/EV
Life Insurance Corporation of India	4,059	29,741	4.7	5,397 [^]	6,002 [@]	1.1
SBI Life Insurance Company	503	14,558	14.6	302 ^{^#}	1,109	3.7
HDFC Life Insurance Company	386	13,609	6.7	295 ^{\$#}	1,211	4.1
ICICI Prudential Life Insurance Company	357	9,562	6.7	302 ^{^#}	766	2.5

Source: RHP document

#Source: CRISIL Research;

[^] As at September 30, 2021;

^{\$} As at December 31, 2021.

[@] At upper price band. Mcap taken as on 28th April 2022.

Key Financial Information:

INR Cr	FY19	FY20	FY21	9MFY22
APE of individual business in India	31,448	35,297	32,271	20,904
APE of group business in India	9,118	12,675	13,317	9,019
Individual new business sum assured	575,132	645,399	586,084	390,346
OPEX to premium income (as a % of premium)	8.33%	8.99%	8.66%	9.54%
Net premium	339,972	382,476	405,398	285,342
AUM (consolidated)	3,271,033	3,338,108	3,692,967	4,032,170
Solvency Ratio (within India Business)	1.6	1.55	1.76	1.77
VNB (consolidated)	-	-	4167	1583
VNB margin (consolidated)	-	-	9.90%	9.30%
Net worth	815	855	6,515	8,230
Profit after tax	2,627	2,710	2,974	1,715
Indian Embedded Value (consolidated)	-	46,497	95,605	539,686

Source: RHP document

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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