

IPO Note- Life Insurance Corporation Of India Ltd

02 May 2022

Incorporated in 1956, LIC has been providing life insurance for 65+ years and was the sole provider for 40+ years, till the sector was opened for private sector. The IPO is an OFS of Rs 20,557 cr with govt selling 3.5% stake with the intention to get listed. Retail & employees to get Rs 45/ share discount while policyholders will get Rs 60/share discount.

Dominant market share but is now shifting to private players

LIC has been losing market share as new players have entered in this segment but even after 25+ years of competition, LIC has dominant market share of 61.6% in terms of Gross written premium (GWP), 61.4% in terms of New business premium, 71.8%: number of individual policies issued and 88.8%: group policies issued for FY21. LIC is 5th largest life insurer globally by GWP. However, LIC maintains robust lead over the 2nd largest player which has a share of mere 8%.

We believe, LIC is likely to keep losing market share over the years, esp. with term insurance awareness increasing wherein private players have much stronger presence. However, it is noteworthy that India's life insurance market is significantly underpenetrated & we believe, there still lies opportunity for LIC to grow, albeit at modest pace.

VNB margin to improve as product mix shifts gradually from PAR to Non-PAR products

In terms of APE, about 92.2% of premium is contributed by PAR segment. VNB margins are less in this segment compared to Non-PAR. Thus, LIC has lower VNB margin of just 9.3% vs 25%+ for most peers who have a diversified product mix. Going ahead, LIC has started focusing on Non-PAR products which are expected to grow at a brisk pace, though on a low base. This will improve VNB margins gradually over the years.

Key Risks – 1) Interest rate fluctuations and capital markets volatility, ii) Embedded value calculations are complex, and it can vary materially with change in assumptions, iii) Government likely to come out with OFS periodically which will remain an overhang.

Reasonably priced – SUBSCRIBE

At the upper band of issue price, LIC will trade at 1.1x H2FY22 P/Embedded value, which is at a significant discount to peers, which trade at 2.5-4x. The issue size has been slashed from the earlier expected ~Rs 75000 cr to Rs 20,557 cr now. Similarly, the issue price has been more than halved from earlier expected ~Rs 2000/share+ to Rs 949/share, keeping the global uncertainty in mind. We have a **SUBSCRIBE** rating with the government leaving some upside on the table for investors.

Particulars (₹ Cr)	FY19	FY20	FY21	9MFY22
Gross written Premium	337,130	379,014	402,888	283,753
Net Earned Premium	339,972	382,476	405,398	285,342
VNB Margin	NA	NA	9.9%	-
Expense ratio (%)	0.14	0.15	0.14	0.15
PAT	2627	2710	2974	1715
Solvency (x)	1.6	1.6	1.8	1.8
Embedded Value	NM	NM	NM	539,686

Rating	SUBSCRIBE
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Issue Details

Issue Opens	4-May-22
Issue Closes	9-May-22
Face Value (₹)	10
Price Band (₹)	902-949
Bid Lot	15
Fresh Issue Size (₹ Cr.)	20,557
Market cap @ upper price band (₹ Cr.)	6,00,242
Listing	NSE/BSE
BRLMs	Kotak, Axis, BofA, Citi, Goldman Sachs, among others
Registrar	KFin Tech.

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	100.0	96.5
Non-Promoter	0.0	3.5

Issue Structure (In Cr. no. of shares)

Issue size	22.1
OFS	22.1
Break-up of net issue to public (%):	
QIB's portion	50.0
Non-institutional portion	15.0
Retail Portion	35.0

Analyst Details

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