

**Issue Details**

**Offer for sale of 221,374,920 Equity shares**

**Issue summary**

**Issue size(Net): ₹ 19,517- 20,557 Cr**

**No. of shares: 221,374,920 Shares**

**Face value: ₹ 10/-**

**Reservation for:**

LIC Employees 1,581,249 Shares

LIC Policyholders 22,137,492 Shares

**Price band : ₹ 902 - 949**

**Bid Lot: 15 Shares** and in multiple thereof

**Discount for:**

Retail Category ₹ 45/ per share

LIC Employees ₹ 45/- per share

LIC Policyholders ₹ 60/- per share

**Post Issue Implied Market Cap =**

**₹ 570,515 – 600,242 Cr**

**Issue opens on: Wednesday, 4<sup>th</sup> May 2022**

**Issue closes on: Monday, 9<sup>th</sup> May 2022**

**Indicative Timetable**

Activity	On or about
Finalisation of Basis of Allotment	12-05-2022
Refunds/Unblocking ASBA Fund	13-05-2022
Credit of equity shares to DP A/c	16-05-2022
Trading commences	17-05-2022

**Issue break-up**

	No. of Shares	Net Amount ₹ In Cr		% of Issue
		@Lower	@upper	
QIB	98,828,089	8,914	9,379	50%
NIB	29,648,427	2,674	2,814	15%
RET	69,179,663	5,929	6,254	35%
EMP	1,581,249	136	143	-
LIC P/h	22,137,492	1,864	1,968	-
<b>Total</b>	<b>221,374,920</b>	<b>19,517</b>	<b>20,557</b>	<b>100%</b>

**Listing: BSE & NSE**

**Shareholding (No. of Shares)**

	Pre-Offer and Post-Offer Equity Shares
<b>No of shares</b>	6,324,997,701

**Shareholding (%)**

	Pre-Issue	Post-Issue
Promoters	100.00%	96.50%
Public	0.56%	3.50%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**LIC – India’s Biggest IPO**

The government owned behemoth- Life Insurance Corporation of India is all set for India’s biggest IPO by a mile. We would recommend ‘**BUY for Listing Gains Only, Not to Keep for Long Term**’.

In this report, we take a deeper look at the Insurance sector and the business of LIC as compared to its peers.

**Insurance Sector Opportunity is Huge**

The total premiums in the insurance industry has grown at a CAGR of 11.3% over the last 5 years and we expect this double-digit industry growth to continue as insurance awareness and penetration increases in India. Covid has boosted this growth impetus bringing home the importance of insurance for families. We hold an insurance name in our client portfolios as the industry is poised for stupendous growth.

Within the industry, LIC’s dominance is still unmatched. LIC sells 66% or two-out-of-every-three life insurance policies sold in India. Their dominance comes from selling group policies via corporate tie ups which account for many policies being purchased by one large employer for all its employees. The company’s asset under management (AUM) are nearly 16x of the second largest insurer and more than the entire AUM of the Mutual Fund Industry!

**Company- Strong Network but declining share**

LIC has a strong agent network of 1.34 million insurance agents who are the main force behind the behemoth. In terms of market share, however, we are seeing a gradual shift away from LIC to private insurance companies -- similar to what we have seen in the Banking space in the early 2000s.

**LIC has been losing market share especially in the individual insurance business** which has

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further accelerated post covid. LIC has now tied up with Policybazaar to increase its individual market share. How it pans out is yet to be seen.

<b>Share in New Business Premiums for Individuals</b>		
<b>Year</b>	<b>LIC</b>	<b>Private Insurers</b>
FY2018	56%	44%
FY2020	50%	50%
H1 FY2022	44%	56%

**Poor Profitability, Despite Low Cost of Operations**

**Despite enjoying economies of scale and low cost of operations** owing to its size of agent network. LIC is not as profitable as its peers on an aggregate basis.

<b>Total Expense ratio as % of Total Premium</b>		
<b>Year</b>	<b>LIC</b>	<b>Private Insurers</b>
FY2018	15.2%	18.3%
FY2019	14.4%	17.8%
FY2020	14.7%	18.3%
FY2021	14.2%	16.9%

This is where LIC falls short of its private peers. Below table shows the Value of New Business Margin (VNB margin) profile of some of the insurance companies. Simply put, VNB margin means that if LIC underwrites a new policy where premium is Rs. 100 for the year, the expected profit over the policy life is Rs. 9.3 only. This metric for most private companies is around Rs. 20-25.

<b>VNB Margin% FY21</b>	
<b>Company</b>	<b>VNB Margin</b>
HDFC Life	26.1%
ICICI Prudential Life	25.0%
SBI Life	20.4%
Bajaj Allianz	12.3%
LIC	9.3%

**Management and Capital Allocation Decisions Have Not Been Shareholder Friendly**

One of the biggest concerns with LIC is that government control directs large cash piles to be utilized for recapitalization of public sector banks or get public issues over the line which may not be the best use of the cash reserves. A prime example of this, was when LIC infused Rs 4,793 crore in IDBI Bank using policyholder funds in October 2019. This was after having already infused Rs 21,600 crore for a 51 percent stake buy out from Government of India in October 2018. Government of India will continue to own 95% post IPO. This will remain a



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key risk for price upside since government will have to continuously sell its stake over the coming years to comply and bring down holding to the max limit of 75%.

The management team is very experienced and some of them have been associated with LIC since decades. MR Kumar- LIC Chairman has been with LIC since 1983.

### Valuations

Insurance companies are usually valued as a multiple of Embedded Value. Embedded Value of any Life Insurance Company is the present value of future profits plus value of net assets. In simple terms, it represents the current value of the company if the insurance company stops selling insurance today.

Given the lower growth prospects, lower profitability metrics, we expect LIC to trade at lower multiples of Embedded Value as compared to private companies. The issue price has been pegged at 1.1 times Embedded Value, and 202 times EPS. Both these metrics give opposing views if viewed separately. Multiple of EV indicates undervaluation as per Indian private peers, and Multiple of Earnings (PE multiple) indicates that the share is overpriced.

In our view, the listing could be higher as the Multiple of EV method may find favour as the valuation metric investors consider. If so, the LIC share price may run up post listing.

### Peer Comparison on Valuation Metrics:

Company Name	Embedded Value (INR Billion)	Multiple of EV	Price Valuation	Market Cap (INR crore)	PE Multiple	EPS FY 2021*
LIC	5,396	1.1	949	600,242	202	4.7*
HDFC Life	295	4.05	587	120,715	87	6.7*
SBI Life	302	3.10	1122	111,696	77	14.5*
ICICI Pru Life	302	2.5	530	76,782	80	6.6*

**We would not be surprised if LIC trades at a 2.0x multiple of EV in the short term if market sentiment is good at listing. The company, however, does not fit our long-term investment framework of choosing ‘winning companies with high quality management and a clear strategy to improve profitability over coming decades’. Thus we would recommend LIC IPO investment only for a short period and if one gets a good price to exit, one can consider an exit in 12-24 months from listing.**

Please keep all points in consideration as you take your final decision to invest.

Warm Regards,

Suruchi Jain (Principal Investment Adviser)

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