

LIC falls on Day One, but market hopeful

Stock debuts at ₹867.20, an 8.62% discount to the IPO allotment price

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Shares of state-run Life Insurance Corp. of India (LIC) fell 8.62% on market debut on Tuesday despite investors bidding for nearly three times the shares on offer in India's largest initial public offering that saw the government netting ₹21,000 crore.

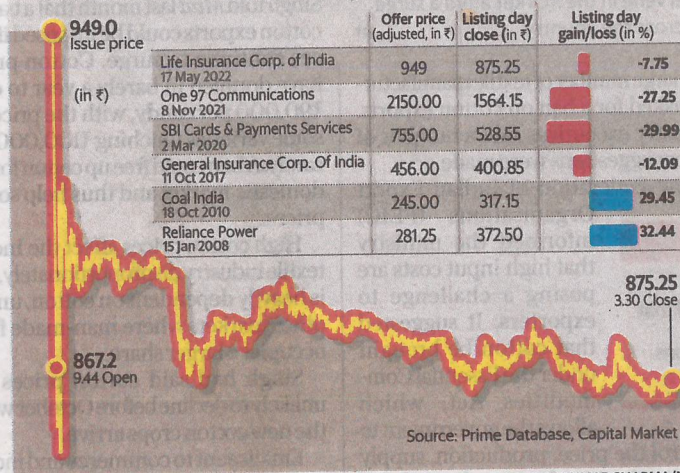
The stock debuted on exchanges at ₹867.20, a discount to its IPO allotment price of ₹949, as weak investor sentiment and market volatility in recent days took a toll on the listing of the insurance behemoth. The nation's biggest insurer ended trading at ₹875.25 and is valued at around ₹5.54 trillion, making it India's fifth-most valuable company.

"The subdued listing of LIC is in line with expectations in context to the drop in market dynamics from the opening of the IPO to the listing date," said Vinod Nair, head of research at Geojit Financial Services. The listing price, according to Nair, has fallen in tandem with the fall of insurance sector valuations.

LIC's tepid debut came in even as the broader stock market surged 2.54%, led by a rally in metal stocks. The IPO was subscribed nearly three times as policyholders and retail investors bid for the shares,

TEPID INTEREST

LIC ended trading at ₹875.25 and is valued at ₹5.54 tn, making it India's fifth-most valuable firm. A look at the listing day performance of top IPOs in India:



Source: Prime Database, Capital Market

SARVESH KUMAR SHARMA/MINT

attracted by a ₹45-60 discount offered by the government.

While the listing has been tepid, analysts maintained a positive view of the company's prospects.

"Though LIC listing has been below the issue price of ₹949, given the attractive valuations and stability in the markets, we expect some buying interest in the stock both from retail and institutional investors," said Hemang Jani, head of equity strategy, broking and distribution at Motilal Oswal Financial Services Ltd.

The stock touched a high of ₹920 in intraday trading but 7.77% below its issue price.

B. Gopkumar, managing director and CEO of Axis Securities, said, "While LIC debuted at a slight discount to its issue price, investors should not look to exit at current levels and hold the stock from a medium- to long-term perspective."

Experts said LIC continues to be a good bet in the long term as it is a play

TURN TO PAGE 6

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FROM PAGE 1

on the growth story of the under-penetrated life insurance industry.

"Its sustained market leadership position, robust pan-India distribution network, and shifting focus towards profitable products, thus supporting margins and improving persistency ratios, will collectively make LIC an attractive pick," Gopkumar said.

Geojit's Nair said that LIC could perform well when there is a bounce in the market and positive performance in the insurance sector. While fundamentals remain strong and LIC is expected to continue benefiting in the under-penetrated insurance market through its strong brand and distribution network, the company may need to work on some areas too.

LIC traditionally has largely sold just one product—participating (PAR) policies that give policyholders a share of the profits of the insurance firm. The company is set to increase its share of non-participating pure protection products, which currently form just 5-6% of its product portfolio, analysts said.

"However, the ability to sell high-margin non-par products—as opposed to par products that provide policyholders a significant share of policyholder's surplus—will require a change in the mindset of the organization and its agency force, which could be LIC's biggest challenge in our view," said analysts at Macquarie Research in a report dated 17 May. Inherent volatility in embedded value is another big challenge, given a substantial portion of it constitutes marked-to-market unrealized equity gain, they added.