

INVESTING

LIC IPO valuation: Should the real-estate portfolio be included? Analysts are divided.



LIC Building at Nariman Point, Mumbai

Synopsis

India's largest life insurer, LIC, has filed for the biggest-ever IPO. But, how to reach the valuation? A rough estimate indicates valuation of around INR16 lakh crore. However, it may go up if the market value of the properties owned by LIC is considered. Will the issue be attractive enough for investors?

Raj Kumar, managing director, Life Insurance Corporation (**LIC**), works out of Yogakshema, a prime building located at Mumbai's Nariman Point. The property is a part of LIC's overall real-estate portfolio, which has become a topic of discussion ahead of the insurance behemoth's forthcoming initial public offering (IPO).

Will LIC's real estate be also considered in the IPO valuation? The question has left analysts divided.

LIC, the country's largest life insurer with a market share of 64.1% in terms of premium, has filed for the **biggest-ever IPO**. The issue with a face value of INR10 per equity share will be a comprehensive offer-for-sale (OFS) of up to 316,249,885 equity shares by the government. The offer also includes not more than 5% reservation for its eligible employees and not more than 10% for its policyholders. The OFS is for the sale of a 5% stake of the government for an estimated INR63,000 crore.

“The listing of LIC of India is a momentous event in the Indian corporate as well as insurance-industry history. It is not only because of the size of the public issue, but also because of its huge connect with the people of the country,” says G Srinivasan, director, National Insurance Academy. He was the chairman and managing director of New India Assurance when it got listed.

The listing will contribute to the increasing insurance penetration and reduction of the protection gap in the life-insurance space. It will also help unlock value for the government and assist people of the country, including policyholders, to participate in the prosperity of the organisation. It is necessary for all Indian insurers to get listed so that there is more transparency and accountability.

While some worry about the timing of the IPO during high market volatility, there are others debating over its real-estate valuation.

The valuation question

Some analysts feel LIC's real-estate value will also be considered at a market value. A rough estimate of its realty assets comes at onwards of INR10 lakh crore. However, in case the market value of the properties owned by it are considered, the valuation may go much beyond that. Incidentally, LIC is the largest owner of land after the Indian Railways.

The EV (embedded value) computed as on September 30, 2021, stands at INR539,686 crore and the market value of LIC may go beyond INR16 lakh crore.

As per the actuarial standard practice, the market value of the company's real estate should be included in the EV. This may spike the valuation further.

LIC: Embedded value as of September 30

Free surplus	8,203
Required capital	NA
Adjusted net worth	8,203
Present value of future profits	5,46,992
Time value of financial options and guarantee	1,596

Financial cost of required capital	149
Cost of residual non-hedgeable risks ¹	3,782
Value of in-force business	89,245
Indian embedded value	95,605

Figures in INR crore

Source: ET Prime research

ETPrime

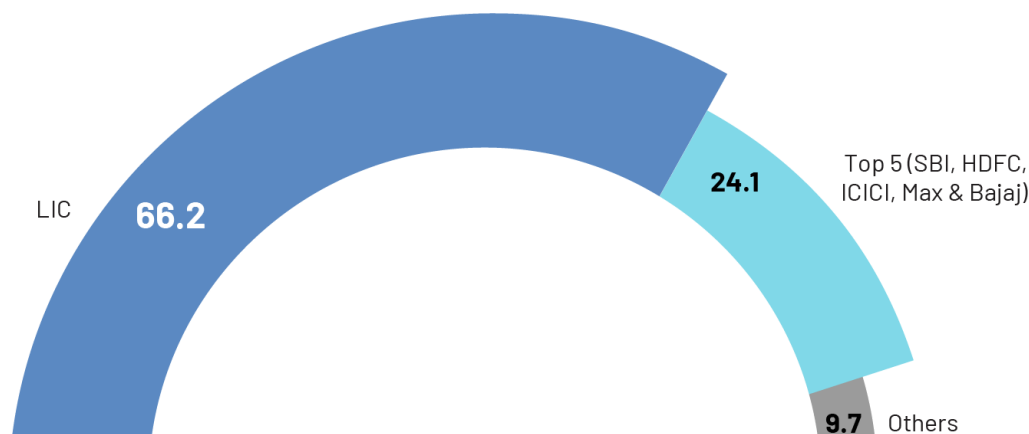
“In case the ministry insists on rushing through with the sale of the LIC equity as a prelude to its further disinvestment, I am sure there will be serious public concerns about how the ministry has determined the embedded value of LIC and why it is ignoring the policyholders' stake in it, with the narrow intention of handing it over to a few profit-driven investors,” says EAS Sarma, a former bureaucrat who is currently associated with Peoples' Commission on Public Sector and Public Service.

Milliman (formerly Milliman and Robertson), a US-based actuarial and consulting firm, has been assigned with the task of estimating LIC's 'enterprise value', which is the first step in estimating the price at which shares would be offered in the IPO. Deloitte and SBI Capital Markets have been appointed as pre-IPO transaction advisors.

Last month, LIC reported a profit after tax of INR1,437 crore for the first half (H1) of FY22 from INR6.14 crore in the year-ago period. Its new business premium growth rate rose to 554.1% in H1 FY22, from 394.76% a year ago.

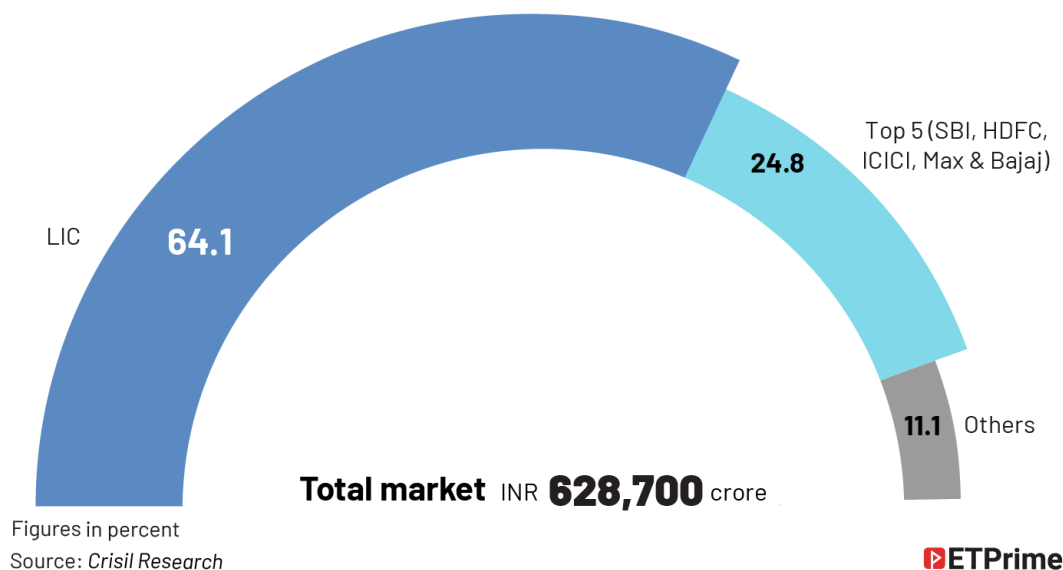
There are currently 24 life-insurance companies in India. The size of the Indian life-insurance industry was INR6.2 lakh crore on a total-premium basis in FY21, up from INR5.7 lakh crore in FY20.

Market share of domestic life insurance firms in terms of new business premium





Market share of domestic life insurance firms in terms of total premium



Sui generis

The government plans to progressively dilute its equity stake in favour of private investors, including foreign investors, over the next decade. Although the government has stated that it will continue to hold a controlling stake of at least 51% in perpetuity, the stake dilution is bound to allow private interests to have a significant say in how this premier financial institution is run.

LIC has significantly increased the reach of life insurance in India, a task it accomplished single-handedly. Indeed, the Corporation is sui generis in the world of finance. Nothing like this exists elsewhere.

Since its inception, LIC has paid dividends amounting to INR28,695 crore to the government. Besides its large investments in government securities, it has significant investments in public- and private-sector companies, in infrastructure projects like those of the Indian Railways, and in social-sector projects. It holds 9.25% stake in SBI, the largest bank in India; 51% in IDBI Bank; and 10.37% in ICICI Bank. Its income from the large and diverse investment portfolio last year was INR2.15 lakh crore.

Over the decades, LIC has made significant contributions to the infrastructure and social-sector schemes in various states. In 2020-21 alone, such contributions amounted to INR26,322 crore, covering housing, irrigation, water supply, sewerage facilities, roads, and bridges.

Pranav Haldea, managing director, **Prime Database**, says, “In my view, it is unfair to judge IPOs on their issue price into perpetuity. After a company gets listed, it becomes like any other listed company whose share price moves in accordance with the performance of the company, the sector in which it operates and the broader economy on a whole. At what point does it become fair to do this analysis of stock price versus issue price? one month, three months, six months, one year, two years, five years?”

Forget insurance companies, Haldea adds, most listed PSUs have had a lacklustre stock-market performance despite the near monopolies they enjoy. There has always been a big valuation gap between public and private-sector enterprises.

“In my view, the government should price the issue attractively and not look at maximising valuation. Retail investors and policyholders should be offered a healthy discount to invest. This issue can lead to tremendous deepening of the Indian capital market,” Haldea says.

Public vs. private players

A look at the history of listed insurance companies reveals that private ones have done better than their public counterparts.

New India's IPO was managed by five merchant bankers -- Axis Capital, Yes Securities, Nomura Financial Advisory and Securities (India) Pvt Ltd, IDFC Bank and, Kotak Mahindra Capital Company. They made their presentation before New India and the government's DIPAM in connection with valuation of shares at the time of getting listed. However, DIPAM went ahead and fixed it. The market felt it was quite high and would appeal less to investors. As a result, neither of the two listed insurer/reinsurer – New India Assurance and GIC Re – has been able to see its share price achieving the issue price so far. All institutional investors have already made provisions in their books for the losses.

In contrast, listed private-sector insurers have been doing well on the stock exchanges.

In the case of HDFC Life, while the IPO came in November 2017, the journey started three-four years earlier. Today, its embedded value is close to INR30,000 crore. At the time of listing, it was INR11,361 crore. The EV has grown at about 18% CAGR from the time of listing. The valuation is about INR1.3 lakh crore-INR1.4 lakh crore from INR58,161 crore at the time of filing the DRHP.

“The government should price the issue attractively and not look at maximising valuation. Retail investors and policyholders should be offered a healthy discount to invest.”

— *Pranav Haldea, managing director, Prime Database*

“HDFC Life had a successful IPO in November 2017, reflecting the trust the investors and customers have on the company’s values, vision and sustainability. As part of the Nifty 50, HDFC Life continues to deliver a consistent all-round performance with a smooth upward curve on key parameters,” says Niraj Shah, CFO, HDFC Life.

ICICI Prudential Life Insurance and SBI Life Insurance are the other two private listed life insurers in the country as of now.

Disinvestment vs. target: year-wise achievement

Financial Year	Target	Achievement
2021-22	175,000	78,000
2020-21	210,000	37,897
2019-20	65,000	50,298
2018-19	80,000	84,972
2017-18	80,000	84,972
2016-17	100,000	100,056

Figures in INR crore

Source: ET Prime Research

 ETPrime

The bottom line

“LIC IPO, which is likely to be the biggest initial public offering from a government undertaking, is a great move for the country’s economic growth and the Indian capital market. When in Edelweiss, I was involved in setting up a 100%-owned insurance business, but someday its value would be unlocked. Similarly, unlocking the value in a PSU too makes business sense,” says Shiva Kumar, former president, Edelweiss Group.

While the general opinion of publicly listed companies is not so great, investors and analysts look at LIC differently. They feel that both retail and institutional

investors will buy the IPO as a very long-term prospect.

“In my opinion, whether HNI, FII, FI, pension funds, endowment funds or small investors, they will be looking at this investment opportunity as very long term. There are thousands of global funds, institutions having phenomenal investible funds and looking for the opportunity of having shares of a company with prime leadership position in insurance sector,” opines Bharat Kotecha, capital markets expert, strategist, and an early investor in many prominent companies.

Further, with regards to former chief economic advisor’s comment of valuing 6%-7% of LIC at INR90,000 crore with an imputed valuation of INR16 lakh crore, experts say that it is difficult to comment on the same. However, the embedded value is pegged at INR5.4 lakh crore as per government-appointed actuary. The listed private life-insurance players are currently trading at multiples of 3x- 6x to EV and assigning a lower range (3 to 4) of the same, one can arrive at an imputed valuation of INR12 lakh crore to INR16 lakh crore.

Although directly it's not comparable, just for investors' sentiment purpose, one can say that if Policybazaar can get a valuation of USD6 billion, with INR4,700 crore premium, LIC's premium collection is 85x more, and keeping the multiple of, say, 50x (since Policybazaar may have other incomes, business lines, too), LIC's valuation comes at USD300 billion.

While the argument continues, one can only hope that the government meets its disinvestment target for the current fiscal, which has been revised to INR78,000 crore, through the IPO.

(Graphics by Manali Ghosh)

(Originally published on Feb 15, 2022, 05:24 AM IST)

The latest from ET Prime is now on Telegram. To subscribe to our Telegram newsletter [click here](#).