LIC exhibits distribution strength to investors

Insurer already sourced 97% of FY22 new business premium till September

SUBRATA PANDA
Mumbai, 2 January

IN A NUTSHELL

- LIC has over **1.3 million** individual agents as of Nov, 2021
- It has bancassurance partnership with 8 public sector banks, **6** private sector banks, **13** regional rural banks, **42** cooperative banks, **1** foreign bank as of Sep, 2021
- It has **175** alternative channel partners and **3,463** micro insurance agents
- LIC has approximately **₹36.7 trillion** in assets under management as on March 2021
- Its investment in equities constitutes **7.62%** of the outstanding non-promoter market cap in India as of September 30, 2021
- Its market share in new business premium terms was **66.2%** as of FY21

Initial public offering (IPO)-bound Life Insurance Corporation (LIC) is showcasing financial investors its dominant position in India's life insurance market.

As of November 2021, state-owned LIC has over 1.3 million individual agents, or over 55 per cent of the 2.39 million individual agents in India's life insurance market, data from Life Insurance Council shows.

LIC's individual agents have sourced almost 97 per cent of its new business premium (NBP) in the first six months of FY22 from its products on a standalone basis.

Further, in FY21, these individual agents of LIC had sourced 94 per cent of its NBP from individual products.

In FY20, this number stood at 95 per cent, and in FY19, it was 96 per cent.

Private life insurers cumulatively have 1.07 million individual agents as of November 2021, with ICICI Prudential having the most number of individual agents (197,949). It is followed by Kotak Mahindra Life with 122,274 agents, and HDFC Life with 111,819 agents.

The life insurance business in India has traditionally been an agency-driven business and almost all insurers heavily invest in their agency distribution network to drive sales. Lately, bancassurance and direct sales channels have started contributing significantly in sourcing business for life insurers. However, agency still remains the key driver of business.

Apart from a robust agency distribution network, the state-owned insurance company also has 72 bancassurance partners, comprising eight public sector banks, 42 co-operative banks, six private sector banks, 13 regional rural banks, and one foreign bank

Apart from a robust agency distribution network, the state-owned insurance company also has 72 bancassurance partners, comprising eight public sector banks, 42 co-operative banks, six private banks, 13 regional rural banks, and one foreign bank. It also has 175 alternative channel partners, of which there are 44 insurance marketing firms, 59 brokers, and 72 corporate agents.

Further, the insurance giant also boasts of 3,463 micro insurance agents.

Meanwhile, the fact that LIC is the largest asset manager in the country with ₹36.7 trillion in assets under management (AUM) as of March 2021, is also being impressed upon the financial investors. This makes it one of the 10th largest insurers globally in terms of total assets.

Also, LIC is, perhaps, the largest institutional investor in the country, with government securities accounting for 37.8 per cent of its portfolio. State development loans (SDLs) account for 26.2 per cent and equity securities 21.7 per cent as of September 30, 2021.

Further, the insurer's investment in equities is approximately over 7.6 per cent of the outstanding non-promoter market cap in India as of September 30, 2021.

In FY21, LIC booked a profit of around ₹37,000 crore from its equity investments. In FY20, it had earned over ₹25,500 crore. According to sources, LIC's return on equity, on a standalone basis, stood at 81.7 per cent in FY21.

LIC has managed to bring down its net non-performing assets (NPAs), as well as gross NPAs, in 2020-21 (FY21) in its debt portfolio. LIC's net NPAs stood at 0.05 per cent in FY21, compared with 0.79 per cent in FY20. Gross NPAs were 7.78 per cent in FY21 compared with 8.17 per cent in FY20. As of March 31, NPAs stood at ₹35,129.89 crore, of a total portfolio of ₹4.51 trillion, according to LIC's annual report.

LIC's profit after tax (PAT) went up 6.9 per cent to ₹2,906.77 crore in FY21, its annual report showed. In FY20, LIC had reported a PAT of ₹2,712.7 crore. LIC's premium income grew to ₹4.03 trillion in FY21 from ₹3.79 trillion a year ago. Income from investments went up to around ₹2.79 trillion in the last financial year (FY21) from ₹2.35 trillion in FY20.

100X.VC set to invest in 100 early-stage start-ups this year

Combined valuation of first 5 batches of portfolio companies at $211 million

DEEPSEKHAR CHOUDHURY
Bengaluru, 2 January

BETTING EARLY

- **For the sixth cohort of start-ups in December,** 100X.VC had received 2,285 pitches. It shortlisted 356 , of which 10 received funding
- **Indian start-up incubator invests in small cheque sizes of ₹25 lakh** through a convertible instrument called iSAFE note
- **The early stage fund had announced its first batch in December 2019** with 20 early-stage start-ups
- **100X.VC founder Sanjay Mehta has four unicorns as an angel investor** — Oyo, crypto exchange CoinDCX, blockchain company Block.One and US space infra developer AXIOM

Start-up accelerator 100X.VC aims to invest in 100 start-ups in 2022 — more than double of the 41 it funded last year.

The venture capital (VC) firm came out with its sixth cohort of 10 early-stage start-up investments in December.

It estimated that in December 2021, the combined valuation of all its 60 portfolio companies from the first five cohorts was $211 million (₹1,583 crore).

The start-up incubator invested in two batches of 20 and nine young companies each in 2019 and 2020.

But the speed of investments rose in 2021 when it invested in four batches even as the number of start-up funding deals skyrocketed in the wider start-up ecosystem.

According to data from Preqin, 2021 saw a total of 396 seed investment deals worth $706 million being made in the country.

The Indian start-up incubator invests in small cheque sizes of ₹25 lakh via a convertible instrument called India Simple Agreement for Future Equity (iSAFE) note.

iSAFE allows investors to make a cash investment in return for a convertible instrument. These compulsorily convertible preference shares (CCPS) can be translated into equity when the start-up goes on to raise capital in subsequent rounds. This helps both the investor and the company avoid long-drawn negotiations on valuation at the early stage.

"The six-page document is open source and can be downloaded by anyone. Essentially, iSAFE notes allow early-stage start-ups to skip the tedious paperwork. They help avoid the pre or post-money valuation games, and also prevent large equity dilutions that are typically associated with traditional venture capital rounds," said Sanjay Mehta, founder and partner of 100X.VC.

Apart from 100X.VC, Mehta invests in start-ups through his family office Mehta Ventures and US-domiciled venture fund 2am VC. As an angel investor, he bet on four start-ups very early that later turned into unicorns.

"The most important objective is to find good companies early and give other investors a chance to partner with us in the investments. That's why we invite other angels and VCs to our pitch days that are free of cost," said Mehta.

India's cement sector poised for demand recovery in near term

ADITI DIVEKAR
Mumbai, 2 January

With the onset of a busy construction season, brokerage firms are optimistic of recovery in demand and price in the domestic cement sector in the coming months.

"Though input prices have seen some moderation recently, a sustainable improvement in demand/price is critical for the industry's profitability going ahead. We remain hopeful of demand/price recovery in the coming months with the onset of a busy construction season," Emkay Research said in its report.

In the September quarter of 2021-22 (Q2FY22), higher variable costs affected profitability of the domestic cement players, leading to an 11 per cent year-on-year (YoY) drop and a 17 per cent sequential (QoQ) fall in earnings before interest, taxes, depreciation and ammortisation (EBITDA) per tonne.

In the Q3FY22, cement volumes are likely to have declined to mid-single digits on a year-on-year basis during October-November of 2021 due to extended monsoon in many parts of the country and a sharp decline in volumes (on an elevated base and sand mining issues) in east India.

Amid a strong demand outlook, brokerage firms see the industry's capacities and the existing utilisation levels rising in the coming years.

Given a strong demand outlook of 9 per cent compound annual growth rate (CAGR) over FY22-24 and limited supply growth of about 13 per cent over the same period, JM Financial believes that utilisations will continue to rise going ahead.

Nearly 60 per cent of new 42 million tonne clinker and more than 80 million tonne cement capacities are planned to be added in the high-growth markets of east and central regions of the country over FY22-24, ICICI Securities said.

Around 30 per cent of these capacities are expected to get commissioned by the end of FY23, resulting in a ramp-up from FY24, and another 30 per cent of capacities are expected to get commissioned in FY24, it said.

Brokerage firms are also of the view that smaller cement companies will also play a strong role in raising volumes for the industry in the coming months.

FROM PAGE 1

Carmakers at starting line in race to corner SUV market

In a segment where there has been more than 50 new launches in the past three years, the Creta from the Hyundai stable has been a bestseller, with sales of 125,437 units.

"So many SUVs have been launched in the market, including in the sub-4 metre

and 4-metre-plus segments. Yet, the Creta has retained leadership position. We have also continuously padded up our portfolio by adding the Alcazar," says Garg, indicating that customers now clearly consider Hyundai as the first option in the SUV space.

Hyundai's sister unit Kia, which has broken into India's top five automaker club, relying on the popularity of the Seltos and the Sonet, said it would exclusively focus on the SUV segment and not look at entering the sedan and hatchback space.

"We have no plans for a hatchback or a sedan right now. "We want to stick to the recreational category, where SUVs and multi-purpose vehicles are present. Customers identify Kia as an SUV maker. We want to make ourselves stronger in that segment, rather than spreading ourselves too thin," says Hardeep Singh Brar, the company's head of sales and marketing in India.

Tata Motors has raised the bar in this space, with a mix of SUVs in its portfolio increasing to 52 per cent in 2021, against 37 per cent in 2020. The company took pole position in the SUV market in October with the Nexon and the Punch collectively selling 18,549 units.

"The SUV space will see an epic fight. Because of the higher driving position, which gives a sense of more safety while driving, higher ground clearance, and aggressive design, they are definitely more appealing. Korean carmakers have done well in this segment since SUVs are their focus," says Ravi Bhatia, president of analytics firm JATO Dynamics.

The onslaught of competition in the SUV space has hurt the prospects of MSIL, which has struggled to push its market share past 43 per cent-lesser than the coveted 50 per cent. Moreover, the company's weak product mix in the profitable SUV segment has lagged behind rivals with lesser volumes as profitability in SUVs is higher.

Shashank Srivastava, senior executive director of sales at MSIL, is not fighting shy of this challenge and says MSIL's weakness has been pronounced in the mid-SUV level, where it is entirely absent.

MSIL has a very thin SUV portfolio. It only has the Vitara Brezza in the sub-4 metre segment and the S-Cross, which is perceived as a crossover by most buyers.

"While we have the Brezza, which has consistently been the top entry-level SUV model, we are concerned about the mid-SUV level segment, where there have been many new models by competition. To increase market share, we need to do well in all segments," says Srivastava.

"The company has lost 540-basis point market share in the PV segment due to strong consumer preference for compact SUVs and successful new launches by MSIL's competitors. We expect it to regain its market share through aggressively launching products from the next quarter onwards," said brokerage firm Sharekhan in a recent report, while retaining a 'Buy' rating on the stock.

Industry sources say MSIL has prepared an aggressive pipeline of SUV launches to bring back market share in the segment.

"Maruti will start its SUV plan with the launch of a face-lifted Brezza. This will be the first SUV from MSIL's new model offensive to be launched in India in 2022, followed by at least three other products, one of which will be a second compact SUV - a more premium alternative to the Brezza," says a source.

Srivastava refused to talk about future product launches, but confirmed that the SUV would be the company's focus segment in 2022.

Bhatia of JATO says MSIL, with its wide understanding of the Indian market and a joint venture with Toyota, has the moat to fight this SUV battle.

"Maruti now clearly knows that it needs more offerings in this segment. It has a large volume capability, which gives it the cost advantage with suppliers. The company has a war chest and the wherewithal to develop products, including the Toyota memorandum of understanding, which gives it the capability and access to new technologies," he adds.

Tata cos now more valuable than listed CPSUs

The Tata group companies were among the top performers on the bourses in CY21, thanks to a sharp rise in the market capitalisation of major group firms, such as Tata Motors (up 203 per cent), Tata Power (up 192 per cent), Tata Steel (up 83.3 per cent), Titan Company (up 61 per cent), and TCS (up 28.3 per cent).

But the biggest winners were the smaller members — Tata Teleservices (Maharashtra) (up 2,500 per cent), NELCO (up 270 per cent), Tata Elxsi (up 220 per cent).

Public sector firms also had a relatively good run on the bourses in 2021 but that was not enough to compensate for CPSUs poor financial performance in the previous 6-7 years. A poor financial performance by CPSUs has made them one of the biggest laggards on the bourses on a long-term basis.

The combined m-cap of CPSUs at the end of December 2021 is still lower than their all-time high m-cap of ₹23.26 trillion at the end of December 2017, despite the listing of nine new CPSUs over the past four years. Excluding the market capitalisation of these newly listed CPSUs, the m-cap CPSUs has declined by ₹1.46 trillion or 6.3 per cent in the past four years.

Public sector companies' share in total market capitalisation declined to 9.3 per cent at the end of 2021, less than a third of their share in a decade ago. Central PSUs accounted for nearly 28 per cent of the combined market capitalisation of all the listed companies in the BS sample at the end of December 2011 and 34.6 per cent at their peak in December 2008.

This is a sharp decline for the public sector that includes some of the country's biggest companies in terms of revenues and assets, such as Oil & Natural Gas Corp, Indian Oil, Bharat Petroleum, Coal India, State Bank of India, NTPC, Power Grid, Gail (India), Hindustan Aeronautics, General Insurance Corp, and National Mineral Development.

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