Sansad TV Perspective: LIC IPO

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the IAS exam, especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.

In this article, we feature the discussion on the topic: LIC IPO

Video link: https://www.youtube.com/watch?v=DJE3OewiLmc

Anchor: Teena Jha

Participants:

- Subhomoy Bhattacharjee, Consulting Editor, The Business Standard
- Saurabh Chandra, Former Secretary, DIPP, Ministry of Commerce and Industry
- Pankaj Mathpal, Founder & CEO, Optima Money Managers

Context:

- India's biggest public issue, the Life Insurance Company's initial public offering opened recently to the primary market.
  - The primary market is the part of the capital market that deals with the issuance and sale of equity-backed securities to investors directly by the issuer. It's in this market that firms sell (float) new stocks and bonds to the public for the first time.

Background:

- LIC holds close to 66% market share in the life insurance sector.
- LIC still accounts for around 60% of premium payments and around 70% of all life insurance policies.

Details:

- The government would sell 3.5% of its stakes in LIC. The total value of LIC IPO is set at Rs 21,000 crore, making it India's biggest public issue to date.
- The government has fixed the LIC IPO price band at Rs 902 to Rs 949 per equity share and has announced a discount to the policyholders and LIC employees applying for the public issue.
- The LIC IPO first opened to anchor investors and is also open for bidding to the general public.

- Anchor investors are high-profile institutional investors that are allotted shares before the subscription opens for retail and other investors. Hence, anchor investors are allotted shares before an IPO opens but they have to hold their shares for a certain period after listing.

Significance:

Market discipline:

- The public listing will lead to SEBI regulations on the functioning of LIC. This is likely to induce market discipline in the functioning of LIC and help bring about more transparency in its functioning.

Improve competitiveness:

- The public listing could also lead to improvement in the functioning of LIC. This would help improve its competitiveness vis-à-vis other life insurance companies.

Impetus to disinvestment policy:

- Given that this IPO involves one of the biggest public sector companies, the government's intention and support for disinvestment becomes evident through the LIC IPO. This will act as an incentive and signal to potential private sector investors.

Mobilize retail investors:

- Given the buzz around this IPO, this would definitely help bring in more retail investors from even the tier 2 and tier 3 cities into the capital market. This marks a watershed moment for the Indian equity market. This increased participation will not only help mobilize crucial financial resources in the economy by helping people diversify from investments into gold and real estate, but it will also help increase financial literacy among the masses. This will also provide an impetus to the financial saving behaviour in the Indian economy which could subsequently be mobilized into investments in the economy.

Concerns/challenges:

Valuation concerns:

- While the initial valuation of a 3.5% stake of the company was estimated at around 50k to 60K crores, the current valuation stands at 21k crore. Opposition is blaming the government for selling off the government stake at throwaway prices.

* However, some experts have noted that considering that the P/E value of LIC as compared to competitor private insurance companies is much higher, they state that the current valuation of LIC is too high, and the investors are having to pay up high value for the shares in LIC.
    * The price-earnings ratio, also known as the P/E ratio, is the ratio of a company's share price to the company's earnings per share. The ratio is used for valuing companies and to find out whether they are overvalued or undervalued. The P/E ratio helps investors determine the market value of a stock as compared to the company's earnings. In short, the P/E ratio shows what the market is willing to pay today for a stock based on its past or future earnings.

Performance of LIC:

* LIC has registered lower growth rates as compared to other competitor private insurance companies. LIC has been losing market share.
* Also, LIC has a very low digital presence as compared to its competitors. This would increase the cost of operations of LIC as compared to its competitors and place it at a disadvantage.

Reduced market liquidity:

* Given that the interest rates have been hardening and the RBI recently chose to increase repo rates, this would result in reduced market liquidity. This will remain a major cause of concern.