

PEOPLES' COMMISSION ON PUBLIC SECTOR AND PUBLIC SERVICES

People's Commission on Public sector and Public Services

Statement on LIC IPO

Stop the scandalous IPO

LIC IPO will result in loss of more than Rs. 50,000 crores

May 2, 2022

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The Commission notes with deep concern and outrage the headlong rush by the Union Government to go ahead with Initial Public Offer (IPO) of the Life Insurance Corporation of India (LIC), one of the biggest life insurance companies in the world. Details of the IPO, which is to be launched on May 4, the biggest in the history of Indian capital markets, reveal that the Union Finance Ministry, succumbing to the pressure by global "investors" is now offering the shares at a deep discount. This is nothing short of a scandal, perhaps the biggest in the annals of privatisation in India.

In an earlier statement, issued on January 21, the Commission had made a persuasive case against the privatisation of LIC, an institution that has remarkably stood the test of time in serving the greater common good, while being a commercially vibrant organisation. Of immediate concern is the fact that the IPO is not just going to result in losses running into thousands of crore rupees to the public exchequer, but is based on the expropriation of millions of policyholders of the LIC who have built this unique and peerless financial institution.

According to the Draft Red Herring Prospectus filed with the Securities and Exchange Board of India (SEBI) in February, the Embedded Value (EV) of the LIC was estimated at Rs. 5.40 lakh crores, implying that the base value of each of its 632.50 crore shares was worth at least Rs. 853. Since the EV is of limited value in estimating the true worth of a life insurance company, and in keeping with the practice of LIC's much smaller private peers in the industry, it was expected that a multiplication factor of at least those used by these peers would be adopted in the pricing of the LIC issue. At that time, just about two months ago, it was expected that a multiplication factor of between 2.5 and 4 would be used in pricing the shares of India's biggest life insurance company.

Shockingly, according to the Red Herring Prospectus (RHP), filed by LIC on April 26, the issue is now priced at Rs. 904-949 per share. This

implies that at the upper bound of the price range offered to prospective buyers, the multiplication factor works out to just 1.11, much lower than what is justifiable. Given that retail investors, employees and policyholders are being offered shares at a discount – retail investors and employees get to pay Rs. 904 per share and policy holders Rs. 889 per share – this implies a huge loss to the public exchequer.

At Rs. 949 per share, the total earnings from the offer of 22.1375 crore shares for the absolute maximum earnings for the Government from the IPO would be Rs. 21,008 crores. If a multiplication factor of 2.5 had been used, issue price in the IPO would have been Rs. 2132 per share, implying total earnings of Rs. 47,197 crores. As a result of the deep discount the government is losing Rs. 26,189 crores as a result of the 3.5 per cent stake that is being offered in the IPO. But even this is an under-estimate; since the LIC is far bigger than any of its private peers, a multiplication factor of higher than 2.5 is justified.

A perusal of the RHP issued on April 26 provides some justification for this. It reveals that the ratio of market capitalisation to EV of the LIC's three main private peers – ICICI Prudential, SBI Life and HDFC Life – ranges from 2.49 to 3.96 (page 105 of the RHP). Applying a multiplication factor of even 3.96 (HDFC Life) to the LIC case shows that the base price of each LIC share in the IPO ought to be at least Rs. 3,379. At this price the total earnings from the sale of 22.1375 crore shares would have been Rs. 74,803 crores. The resulting loss to the public exchequer is a whopping Rs. 53,795 crores.

It is evident that the Government has succumbed to intense pressure exerted by global investors who have cited the war in Ukraine and the consequent turmoil in global markets. Why could the Government not have waited for a more opportune moment, after markets had calmed? Why could it not have rebuffed the pressure from capricious investors whose interests are contrary to those of millions of policyholders who will be the ultimate losers? How is it possible for the valuation of India's biggest insurance company, *sui generis* in the world of finance, to vary so much within a matter of a couple of months? These are the obvious questions that stare us in the face as the Government proceeds recklessly towards the LIC IPO.

As has been pointed out in earlier statements of the Commission, the entire IPO is based on the expropriation of millions of policyholders who have been instrumental in making LIC what it is today. To reiterate, between 1956 and 2011, the government investment in equity was a paltry Rs. 5 crores, implying that it was the hard-earned savings of policyholders that was instrumental in the LIC blossoming into a mature insurance company. It was the policyholders' funds ensured that the LIC became a household name in India and, it is the contribution of policyholders that enabled LIC provide a safe avenue for millions of Indians. And, it is this financial backing that helped LIC nurture the culture of life insurance in a country utterly lacking any kind of social benefits for ordinary people.

We urge the Union Government to take urgent steps to halt the LIC IPO, not just because it is scandalous but also because it is based on the merciless expropriation of its policyholders. We urge all those who care for the country to challenge the move, especially because it marks the first step in the move to dismantle an institution that has been a household name for generations. The Commission also extends its support and solidarity to the employees' unions in the LIC, which have resisted the sinister designs of the Government.

About Peoples' Commission on Public Sector and Public Services (PCPSPS): Peoples' Commission on Public Sector and Services includes eminent academics, jurists, erstwhile administrators, trade unionists and social activists. PCPSPS intends to have in-depth consultations with all stakeholders and people concerned with the process of policy making and those against the government's decision to monetise, disinvest and privatise public assets/enterprises and produce several sectoral reports before coming out with a final report. Here is the first interim report of commission- Privatisation: An Affront to the Indian Constitution.

Members of the commission:

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Link to previous statements on LIC:

<https://reclaimtherepublic.co/2022/01/21/statement-on-lic-ipo/>

<https://reclaimtherepublic.co/2022/04/27/peoples-commission-on-public-sector-and-public-services-statement-on-lic-ipo/>

<https://reclaimtherepublic.co/2021/12/22/why-lic-ipo-should-be-stopped/>

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