A STUDY ON MEASURING FINANCIAL PERFORMANCE ON LIC & ICICI PRUDENTIAL INSURANCE

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ABSTRACT

This report is for Comparative Study of Financial Performance on LIC & ICICI Prudential insurance. This report provides financial performance of two main insurance companies in insurance sector. The main objective of study is to compare the financial performance of top two life insurance Company on the basis of market capitalization during time period taken under the study. In this project descriptive research methodology is used and secondary data of LIC& ICICI are collected. Later on the project carried with Data collection, in which the data is collected through the secondary source. Finally, the finding and conclusion part helps reader to know the financial performance of the LIC & ICICI

***KEYWORDS** :- LIC, ICICI Prudential Insurance, Ratios, Assets, Financial.*

INTRODUCTION TO FINANCIAL PERFORMANCE

The word Performance is derived from the word performer, which means to do, to carry out or to render. It refers the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed.

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit & loss account. It also helps in short term and long term forecasting. Growth of the company can also be identified with the help of financial performance analysis.

RatioAnalysis

Ratio analysis is an important and age-old technique. It is a powerful tool of financial Analysis. It is defined as "The indicated quotient of two mathematical expressions" and as "the relationship between two or more things" .Systematic use of ratio is to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance.

LITERATURE REVIEW

Joseph Oscar Akotey (2013) has attempted to study on "The Financial Performance of Life Insurance Companies in Ghana". The aim of the research was to assess the financial performance of the life insurance industry of an emerging economy and to examine the relationship among the three measures of insurers' profitability, which are investment income, underwriting profit and the overall (total) net profit. The researcher has used annual financial statements of ten life insurance companies covering a period of 11 years (2000-2010) were sampled and analyzed through panel regression. The findings indicate that premiums have a positive relationship with insurers' sales profitability, its relationship with investment income is a negative one and life insurers have been incurring large underwriting losses due to overtrading and price undercutting.

Dr. Sumninder Kaur Bawa, Samiya Chattha (2013) has attempted to study on "Financial Performance of Life Insurers in Indian Insurance Industry". The main aim of the study was to measure the financial performance of selected life insurers during time period taken under the study and to determine the impact of liquidity, solvency, leverage, and size and equity capital on the profitability of life insurers. The study was based upon secondary data which has been collected from annual reports of IRDA. The study was covered the time period of 5 financial years i.e. 2007-08 to 2011-12. Researcher has used the financial ratios like current ratio, solvency ratio, return on asset ratio and leverage ratio was calculated for each life insurers. The major finding of the study was that public sector player LIC has sound liquidity position as compare to other life insurers.

Mr. Sumit Bodla, Dr. Deepak Tandon (2017) has attempted to study on "Profitability Performance of Life Insurance Companies – A Study in Indian Context". The main aim of the study was to analyze and compare the profitability performance life insurance companies in India both Public and Private. The researcher has taken a sample of 13 private sector life insurance and one public sector firm (LICI) out of a population of 24 life insurance companies. The period undertaken for the study was of 10 years which ranged from 2007 to 2016. The researcher has taken Net Premium, Income from Investments, Underwriting Income, return on assets, Combined Ratio, solvency ratio and Profit after tax to analyze the financial performance.

Dr. Artta Bandhu Jena (2014) has attempted to study on "Financial Performance of Selected Indian Life Insurance Companies: An Analysis". The objective of the research was to study Financial Performance of Selected Indian Life Insurance Companies: The secondary data were used by the researcher and collected from internet, journals, business magazines, and daily business papers, annual reports of sample insurance companies and IRDA and information on the topic concerned. The trend analysis and ratio analysis were used to analyze the data. The researcher found that the investment into assets of the LIC, ICICI Prudential, HDFC Standard Life Insurance Companies has been decreased for the year 2010 as compared to the financial year 2009.

RESEARCH METHODOLOGY

This is analytical study based on the secondary data and is collected from the official websiteof LIC and ICICI Prudential insurance company Ltd based on market capitalization. The research design followed is descriptive in nature. For Ratio Analysis, company's yearly data from 1-4-2013 to 31-3-2018 was taken through secondary source. The companies are:

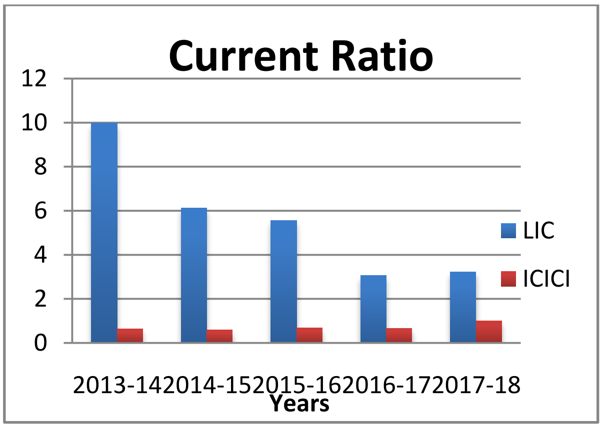
1. LIC
2. ICICI Prudential Insurance Ltd.

DATA ANALYSIS AND INTERPRETATION

1. Current Ratio :

The current ratio of a unit measures firm's short-term solvency, that is, its ability to meet short-term obligation

Years	LIC	ICICI Prudential
2013-14	9.99	0.65
2014-15	6.13	0.59
2015-16	5.56	0.69
2016-17	3.07	0.67
2017-18	3.73	1.01

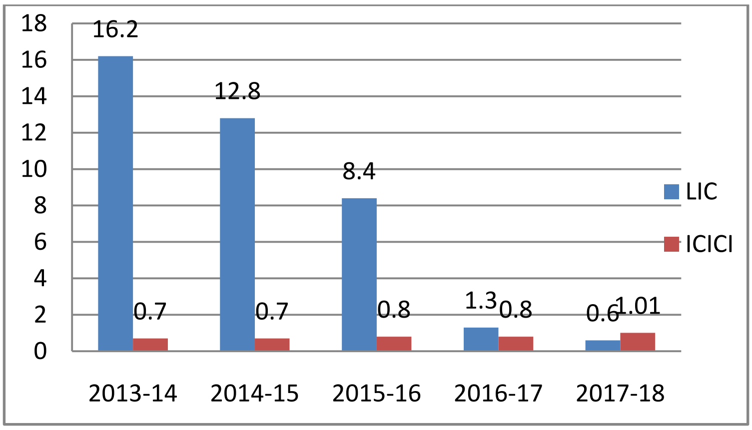


- A Current ratio of 2:1 is considered as an ideal ratio. But in actual practice 1:1 is found acceptable than 2:1. In LIC and ICIC Company, at the end of year 2013-14 it was 9.99 and 0.65 respectively, it means that LIC Company had more enough current assets to meet its Current liabilities, but ICICI as lower assets compare to its current liabilities in periods of 2013-17.

2. Quick Ratio / Liquidity Ratio :

This ratio is also termed as Acid-test ratio. A Quick ratio is concerned with, the relationship between quick assets and current liabilities.

Years	LIC	ICICI Prudential
2013-14	16.2	0.7
2014-15	12.8	0.7
2015-16	8.4	0.8
2016-17	1.3	0.8
2017-18	0.6	1.01

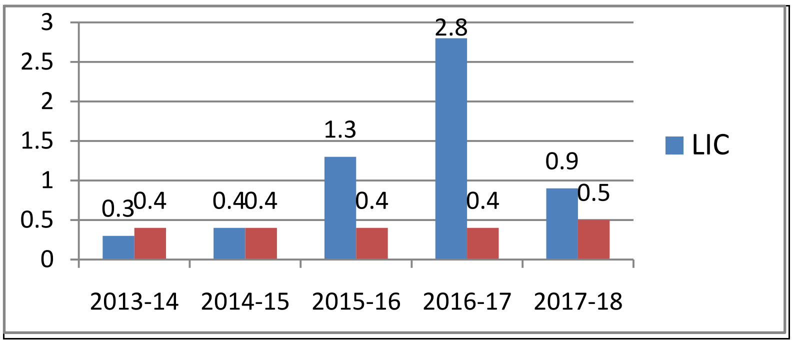


- It indicate that LIC company have strong liquidity position over ICICI in year 2013,2014,2015 but year after 2017-18 the ICICI as over the LIC and increase their liquid's assets.

3. Deb-to-Equity Ratio:

The debt-to-equity ratio is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets.

Years	LIC	ICICI Prudential
2013-14	0.3	0.4
2014-15	0.4	0.4
2015-16	1.3	0.4
2016-17	2.8	0.4
2017-18	0.9	0.5

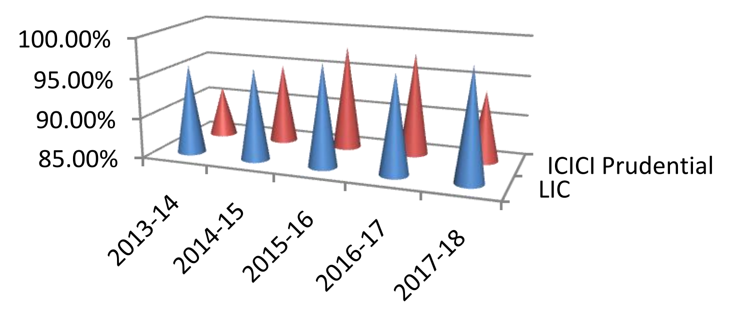


- At the end of 2016, LIC hadtotal liabilities is higher than its total shareholder equity, and a debt/equity ratio of 2.8, while ICICI as maintain its debt ratio throughout the period.

4. Gross Profit Margin :

Gross margin is the difference between revenue and cost of goods sold divided by revenue. Gross margin is expressed as a percentage.

Years	LIC	ICICI Prudential
2013-14	96.12%	91.34%
2014-15	96.34%	94.97%
2015-16	97.74%	98.02%
2016-17	97.25%	97.79%
2017-18	98.78%	93.77%



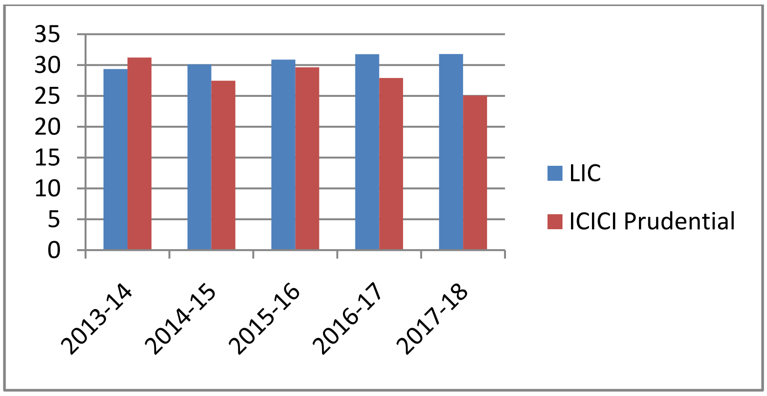
	2013-14	2014-15	2015-16	2016-17	2017-18
LIC	96.12%	96.34%	97.74%	97.25%	98.78%
ICICI Prudential	91.34%	94.97%	98.02%	97.79%	93.77%

- Gross margin ratio is a profitability ratio that compares the gross margin of a business to the net sales.Both the company as a good gross profit ratio in the 2015-16. ICICI as a lower ratio during the period 2013-14 as compare to LIC.

5. Return on capital Employed :

Return on capital employed is an accounting ratio used in finance, valuation, and accounting. It is a useful measure for comparing the relative profitability of companies after taking into account the amount of capital used.

Years	LIC	ICICI Prudential
2013-14	29.34	31.23
2014-15	30.11	27.45
2015-16	30.87	29.63
2016-17	31.77	27.90
2017-18	31.79	25.05

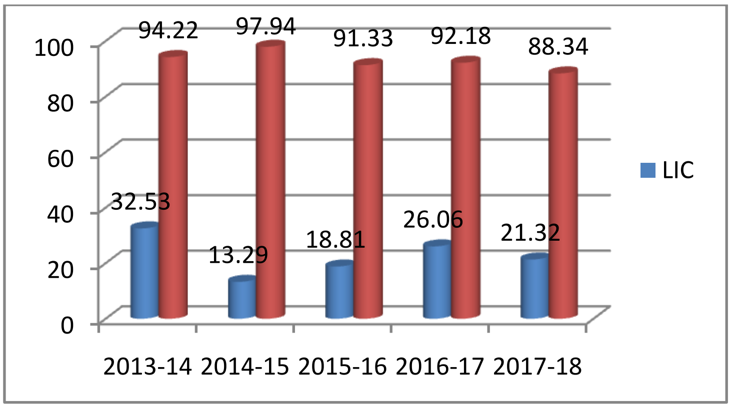


On the basis of an above analysis, return on capital employed ratio continuously increasing trend in LIC, so that we could said that management of LIC is able to manage their fund efficiently compare to ICICI Insurance.

6. Cash Profit Margin :

Operating cash flow margin is a cash flow ratio which measures cash from operating activities as a percentage of sales revenue in a given period.

Years	LIC	ICICI Prudential
2013-14	32.53	94.22
2014-15	13.29	97.94
2015-16	18.81	91.33
2016-17	26.06	92.18
2017-18	21.32	88.34

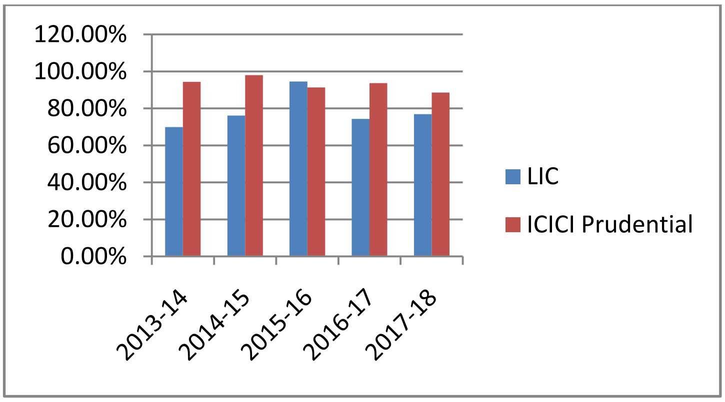


- A cash margin ratio of a company is higher than the standard, in every year that is from 2013 to 2018 is up and down in LIC where the ICICI as enough to pay all its current liabilities in immediate short term but it is decreasing by year to year so it will not good for a company.

7. Net Profit Margin :

Net profit margin, or net margin, is equal to net income or profits divided by total revenue, and represent how much profit each dollar of sales generates. Net profit margin is the ratio of net profits or net income to revenues for a company, business segment or product.

Years	LIC	ICICI Prudential
2013-14	69.92%	94.34%
2014-15	76.10%	97.97%
2015-16	94.50%	91.33%
2016-17	74.27%	93.65%
2017-18	76.88%	88.57%

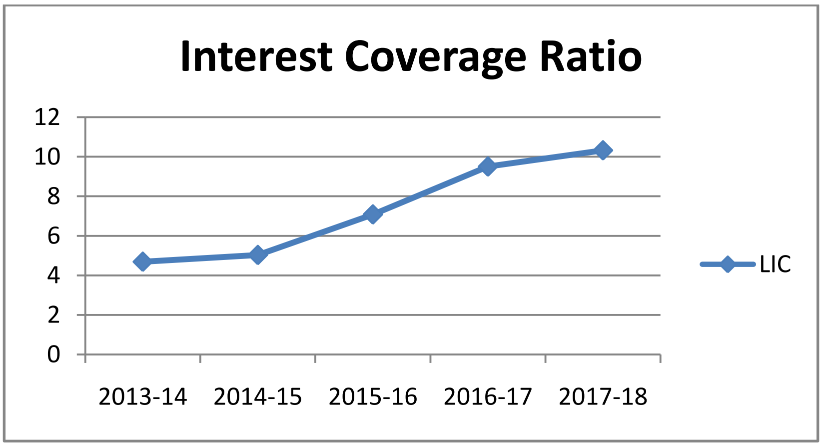


- In the year 2013 in LIC and ICIC companies the net profit ratio is 69.92% and 94.34% respective1y. As year passes at the end of year 2018 it was 76.88% and 88%. It means that the net profit of ICICI was at decreasing or decline mode and LIC is at growth mode with increasing in its net profit.

8. Interest Cover Ratio :

Times interest earned (TIE) or interest coverage ratio is a measure of a company's ability to honor its debt payments. It may be calculated as either EBIT or EBITDA divided by the total interest payable.

Years	LIC
2013-14	4.69
2014-15	5.03
2015-16	7.08
2016-17	9.50
2017-18	10.32

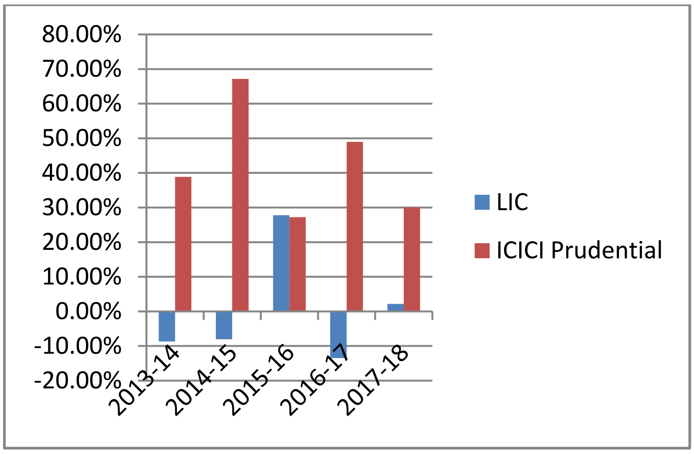


- The Company would then have to either use cash on hand to make up the difference or borrow funds. Typically, it is a warning sign when interest coverage falls below 2.5 times.

9. Earning Retention Ratio :

Earning retention ratio that measures the amount of earnings retained after dividends have been paid out to the shareholders.

Years	LIC	ICICI Prudential
2013-14	-8.68 %	38.86%
2014-15	-8.06%	67.18%
2015-16	27.782%	27.23%
2016-17	-13.484%	48.99%
2017-18	2.151%	30.03%

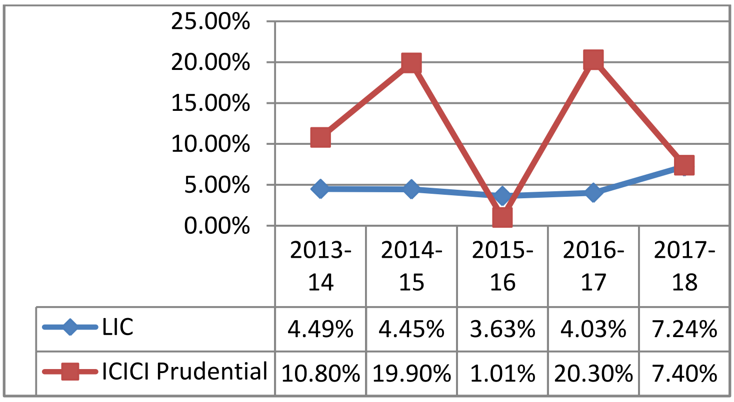


- From the above diagram we can clearly said that the Earning retention ratio of LIC company as very negative as in other side the retention ratio of ICICI as positive sign, means that ICICI as good earnings retention ratio.

10.Growth Rate on Shareholder's Fund :

The return on shareholders' equity ratio shows how much money is returned to the owners as a percentage of the money they have invested or retained in the company. It is one of five calculations used to measure profitability.

Year	LIC	ICICI Prudential
2013-14	4.49%	10.80%
2014-15	4.45%	19.90%
2015-16	3.63%	1.01%
2016-17	4.03%	20.30%
2017-18	7.24%	7.40%



- From the above chart we can easily find that the LIC as a stable growth for their shareholder's return where in the ICICI as up and Downfall, so shareholders can think first to invest in the ICICI prudential Insurance.

FINDINGS

Types of Ratios	Ratios				Remark
	LIC		ICICI Ltd.		
	Decrease	Increase	Decrease	Increase	
Current Ratio	3.07	9.99	0.59	1.01	LIC has enough assets where ICICI has not
Quick Ratio	0.6	16.2	0.7	1.01	LIC have good position over ICICI
Deb-to-Equity Ratio	0.3	2.8	0.4	0.5	ICICI has stable ratio where LIC has not
Gross Profit Margin	96.12%	98.78%	91.34%	98.02%	Both have stable ratio
Return on capital Employed	29.34	31.79	25.05	31.23	LIC have strong position over ICICI
Cash Profit Margin	13.29	32.53	88.34	97.94	ICICI has enough cash Compare to LIC
Net Profit Margin	69.92%	94.50%	88.57%	97.97%	ICICI has stable Profit compare to LIC
Interest Cover Ratio	4.69	10.32	Nil	Nil	LIC has good Interest ratio
Earning Retention Ratio	-8.06%	27.78%	27.23%	67.18%	ICICI has positive sign where LIC has negative
Growth Rate on Shareholder's Fund	3.63%	7.24%	1.01 %	20.30%	LIC has stable position Compare to ICICI

CONCLUSION

- ✓ From the above study, it can be conclude that the LIC as increase sales of insurance policy compare to ICICI, but LIC is lake in gain much net profit compare to ICICI insurance. ICICI has also at decreasing stage in the net profit margin, where LIC is at increasing stage.The investment of LIC is quite good than ICICI, because LIC invest mostly in Government treasury bills to earn positive return compare to ICICI insurance where company is invest in Private companies. From the current market condition the LIC as a good image compare to ICICI and its number of policy holder's is more than ICICI prudential insurance company. The study reveals that the LIC as good position in liquidity, solvency, and claim settlement compare to ICICI.

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