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A Comparative Study of Financial Performance on LIC & ICICI Prudential Insurance

Nidhi Patel
B.V Patel Institute of Management, UTU

Abstract: Life insurance is an important from of social security. This study has been undertaken to comparison between top private and public life insurance companies in India. Insurance is been a vital part of the Indian financial system. This study use descriptive research methodology by secondary data and data collected from the annual report of LIC and ICICI from their official websites. This article refers to the profitability on the basis of market capitalization. The present report highlights the financial performance of LIC and ICICI Prudential life insurance companies in India.
Keywords: ICICI Prudential insurance, LIC, Financial Performance, ratios

I. INTRODUCTION

Financial performance is an important part of running a growing business. Life insurance is to provide financial protection to surviving dependent after the death of an insured. Growth of the company can also be identified with the help of financial performance analysis. The insurance providers offer diversity of products to business to business, providing protection from risk thereby ensuring financial security.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. A financial statement presents the short term and long term obligation s of the business.

Ratios measure the relationship between two or more components of financial statements. Ratio analysis formulas to interpret the data presented in financial statements like, balance sheet, profit and loss in a better manner.

II. LITERATURE REVIEW

A. Krishna Kant Mishra (2015) had attempted to study on “A COMPARATIVE STUDY OF PUBLIC AND PRIVATELIFE INSURANCE COMPANIES IN INDIA’’. The aim of the research was to assess. It was no wonder that the re-entry of private insurance has marked a second coming for the sector. In just ten years, the sector has undergone a makeover, offering more choice, better services, quicker settlement, tighter regulation and greater awareness. The environment become more and more competitive and services and products become alike, creating a differentiation was becoming extremely tough. The researcher use exploratory research method. Secondary sources of data collection have been adopted for the study. The relevant and required data are collected from the text books, nationals and internationals articles, as well as annual reports of LIC, Statistical Handbook of Insurance and IRDA.

B. Rajesh Deb Barman had attempted to study on ‘’PERFORMANCE OF LIFE INSURANCE COMPANIES: A COMPARATIVE STUDY BETWEEN PUBLIC AND PRIVATE SECTOR ‘’ the main objective was comparison the profitability of public and private life Insurance Companies. The researcher has evaluated the performance of public and private sector insurance companies engaged in life insurance business in India in terms of profitability, market share, and premium collection by the insurer. The researcher has applied judgment sampling method in selecting sample of private companies. In this study use both data: Primary data and Secondary data; Primary data has been selected the policy holders on basis of judgment sampling method. Secondary data has been collected from Annual Reports of IRDA, LICI, select Private Insurers and other websites. Percentage, average, ratio, diagram, pie charts, tables this was tools are used in this study.

C. 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 analysed 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.

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D. 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.

E. B. Lalitha Subhanam and Lt.Cdr.Dr. I. Nagarajan (July 2019) had attempt to study on ‘’ PERFORMANCE EVALUATION OF LIFE INSURANCE SECTOR- A COMPARATIVE STUDY OF PUBLIC & PRIVATE LIFE INSURANCE COMPANIES IN INDIA ‘’ The objective of the study was the public life insurance and private life insurance companies in India and compare the perception of customers in terms of service quality and analyse the performance. The study was based upon secondary data and that data collected from text book, national and international article, annual report of LIC. In this study researches use various ratios for comparison between public insurance and private insurance companies.

III. RESEARCH METHODOLOGY

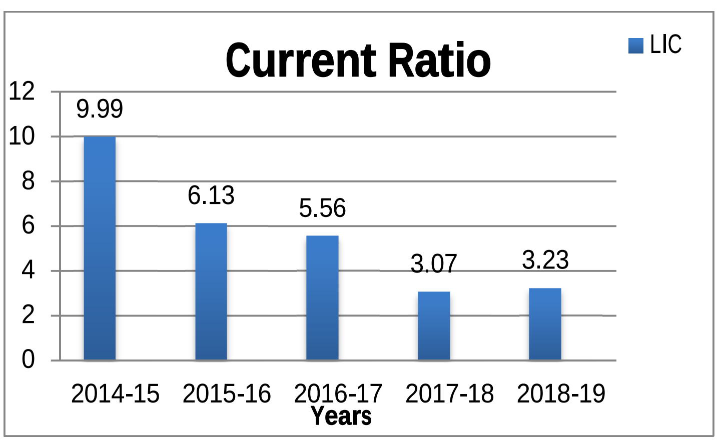
The study has taken top private and public life insurance companies. In this research study based on secondary data all the data collected from annual report and official websites of LIC and ICICI Prudential life insurance.
The study covers the time period of five year i.e. 2014-15 to 2018-19, for determining the financial performance with the help various ratios.

IV. DATA ANALYSIS AND INTERPRETATION

A. Current Ratio

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

Years	LIC	ICICI Prudential
2014-15	4.30	0.02
2015-16	3.88	0.02
2016-17	3.90	0.02
2017-18	3.76	0.02
2018-19	2.76	0.02

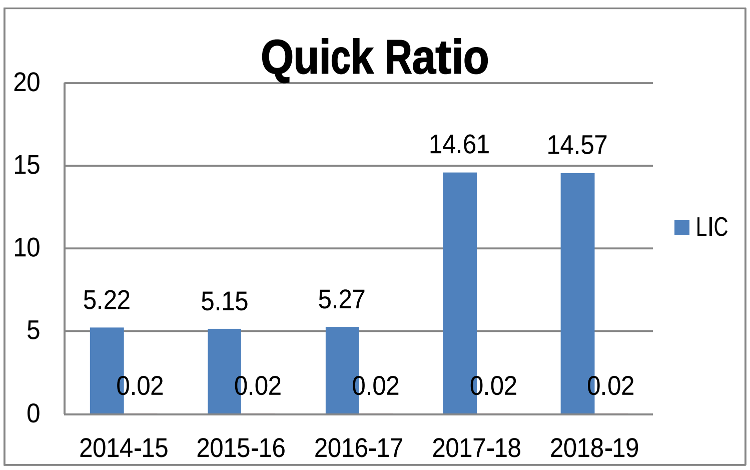


Changes in a company's current ratio over a period of years can point out problems and successes. A declining current ratio could be pointing to financial problems. An improving ratio could be the result of a brighter financial picture.

B. Quick/ 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
2014-15	5.22	0.02
2015-16	5.15	0.02
2016-17	5.27	0.02
2017-18	14.61	0.02
2018-19	14.57	0.02

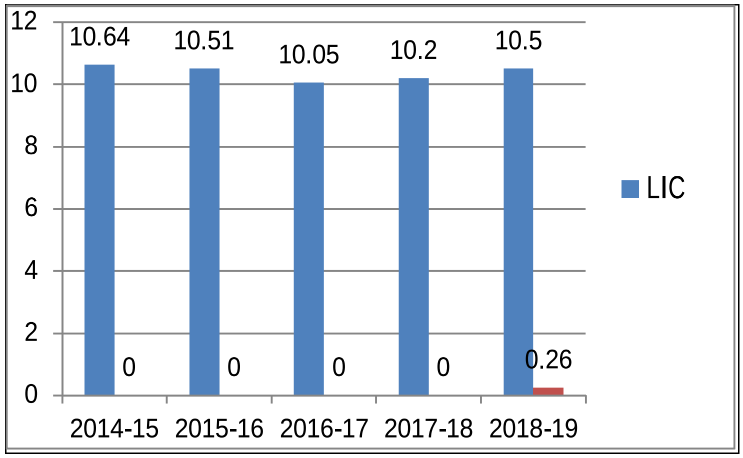


If the quick ratio value is lower than normative, the firm should take some actions to increase the amount of highly liquid assets and decrease the amount of current assets.

C. 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. Closely related to leveraging, the ratio is also known as risk, gearing or leverage.

Years	LIC	ICICI Prudential
2014-15	10.64	-
2015-16	10.51	-
2016-17	10.05	-
2017-18	10.20	-
2018-19	10.50	0.26

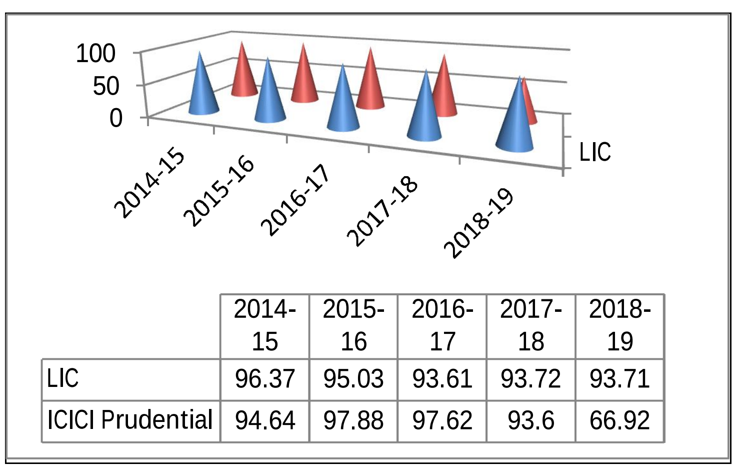


Capital-intensive industrial tend to have higher debt-to-equity ratios than low capital industrial because capital-intensive industrial must purchase more property, plants and equipment to operate. This is why comparison of debt-to-equity ratios is generally most meaningful among companies within the same industry.

D. 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
2014-15	96.37	94.64
2015-16	95.03	97.88
2016-17	93.61	97.62
2017-18	93.72	93.60
2018-19	93.71	66.92

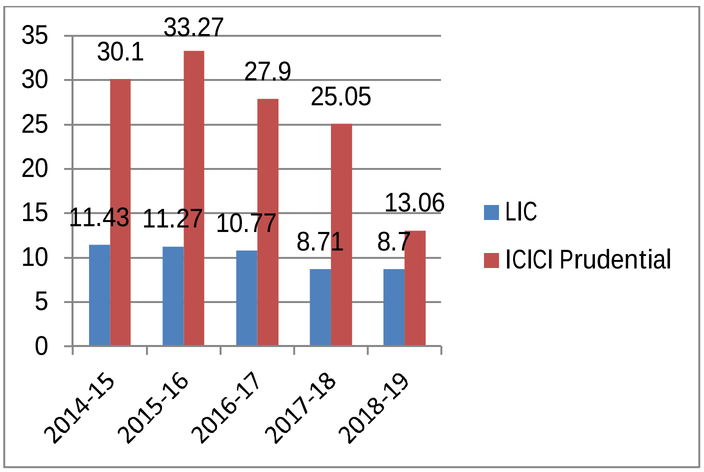


The decrease in the gross profit ratio may be due to Decrease in the selling price of goods, without any decrease in the cost of goods sold. Increase in the cost of goods sold without any increase in selling price.

E. Return on Capital Employed

ROCE is used to prove the value the business gains from its assets and liabilities. Companies create value whenever they are able to generate returns on capital above the weighted average cost of capital (WACC).

Years	LIC	ICICI Prudential
2014-15	11.43	30.10
2015-16	11.27	33.27
2016-17	10.77	27.90
2017-18	8.71	25.05
2018-19	8.70	13.06

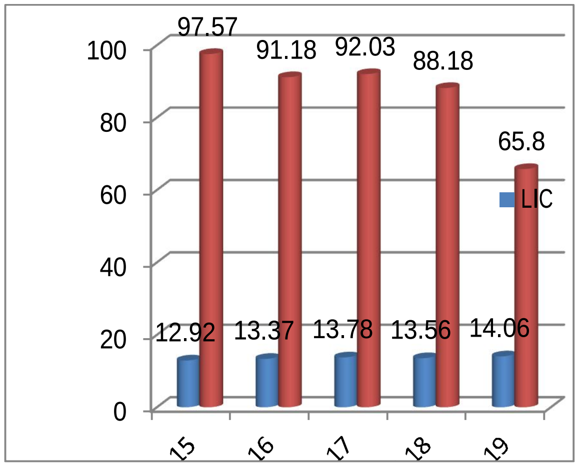


On the basis of an above analysis, return on capital employed ratio continuously increasing trend in LIC, so that we could said that management of LIC is able to manage their fund efficiently compare to ICICI Insurance.

F. 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. Like operating margin, it is a trusted metric of a company's profitability and efficiency, and its earnings quality.

Years	LIC	ICICI Prudential
2014-15	12.92	97.57
2015-16	13.37	91.18
2016-17	13.78	92.03
2017-18	13.56	88.18
2018-19	14.06	65.80

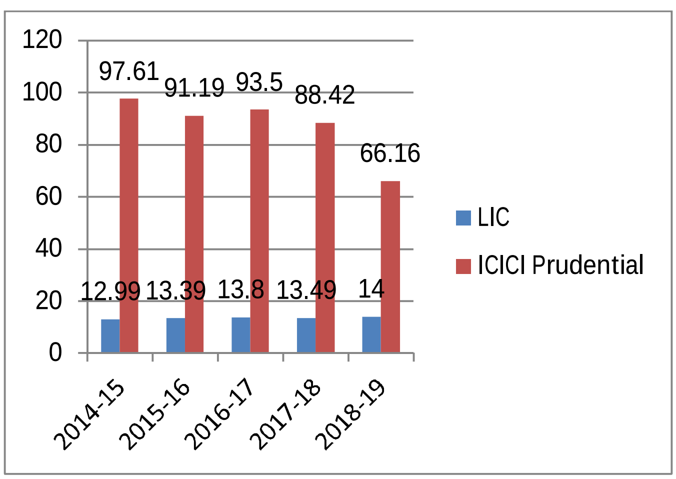


It is possible to increase your company's earnings while decreasing your profit margin, meaning that the company is becoming relatively less efficient. It is impossible to have a net profit margin if your company is losing money.

G. 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
2014-15	12.99	97.61
2015-16	13.39	91.19
2016-17	13.80	93.50
2017-18	13.49	88.42
2018-19	14.00	66.16



Changes in net profit margin are endlessly scrutinized. In general, when a company's net profit margin is declining over time, a myriad of problems could be to blame, ranging from decreasing sales to poor customer experience to inadequate expense management.

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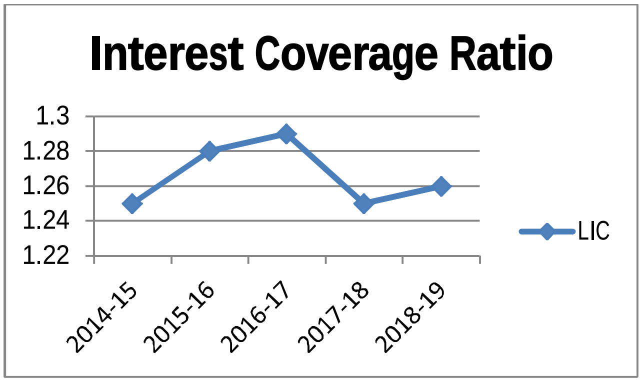
H. Interest Cover Ratio

The times interest earned ratio indicates the extent of which earnings are available to meet interest payments.

Years	LIC	ICICI Prudential
2014-15	1.25	-
2015-16	1.28	-
2016-17	1.29	18.492
2017-18	1.25	10.387
2018-19	1.26	-

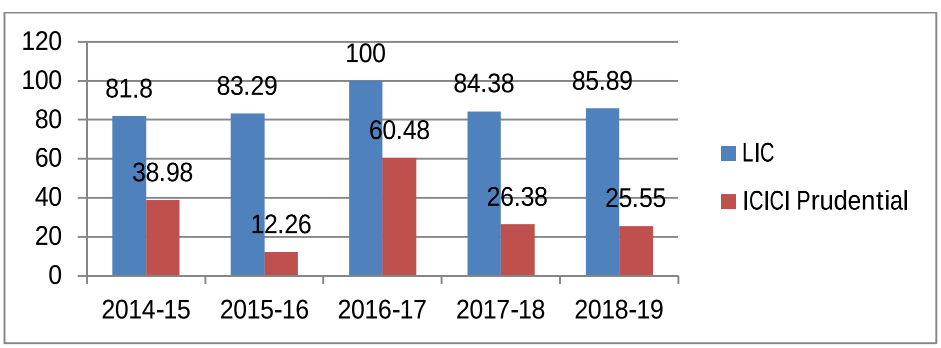


From the above diagram it clearly shows that LIC as an increase their ratio year on year to cover its debt. From the period 2014-15 LIC as enough income to cover its debt.

I. 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
2014-15	81.80	38.98
2015-16	83.29	12.26
2016-17	100	60.48
2017-18	84.38	26.38
2018-19	85.89	25.55



Retention ratio is a fundamental analysis ratio that indicates the amount of profit that is retained back into the business for future growth of the business. It increases the retained earnings of the company.

V. DATA ANALYSIS

	Ratio				
Types of Ratio	LIC		ICICI		Remark
	Increase	Decrease	Increase	Decrease	
Current Ratio	4.30	2.76	0.02	0.02	LIC have enough assets more than ICICI
Quick Ratio	14.61	5.15	0.02	0.02	LIC have good position where ICICI has not
Debt-to-Equity Ratio	10.64	10.05	0.26	0.26	LIC have good working condition more than ICICI
Gross Profit Margin	96.37	93.61	97.88	66.92	Less difference LIC and ICICI
Return on Capital Employed	11.43	8.70	33.27	13.06	ICICI have strong position over LIC
Cash Profit Margin	14.06	13.37	97.57	65.80	ICICI has enough cash compare to LIC
Net Profit Margin	14.00	12.99	97.61	66.16	ICICI have strong profit compare to LIC
Interest Cover Ratio	1.29	1.25	18.492	10.387	ICICI have high ratio but LIC have enough ratio
Earning Retention Ratio	100	81.80	60.48	12.26	ICICI have stable position compare to LIC

VI. CONCLUSION

In this study concluded that the LIC as increase sales of insurance policy compare to ICICI, but LIC is lake in gain much net profit and cash profit compare to ICICI insurance. In the gross profit margin have rare difference between LIC and ICICI Prudential life insurance companies. In the interest cover ratio have big difference between both companies, ICICI have high ratio more than LIC. Other ratios LIC have stronger and good position compare to the ICICI Prudential Life insurance company. 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. The study reveals that the LIC as good position in Liquidity and solvency compare to ICICI.

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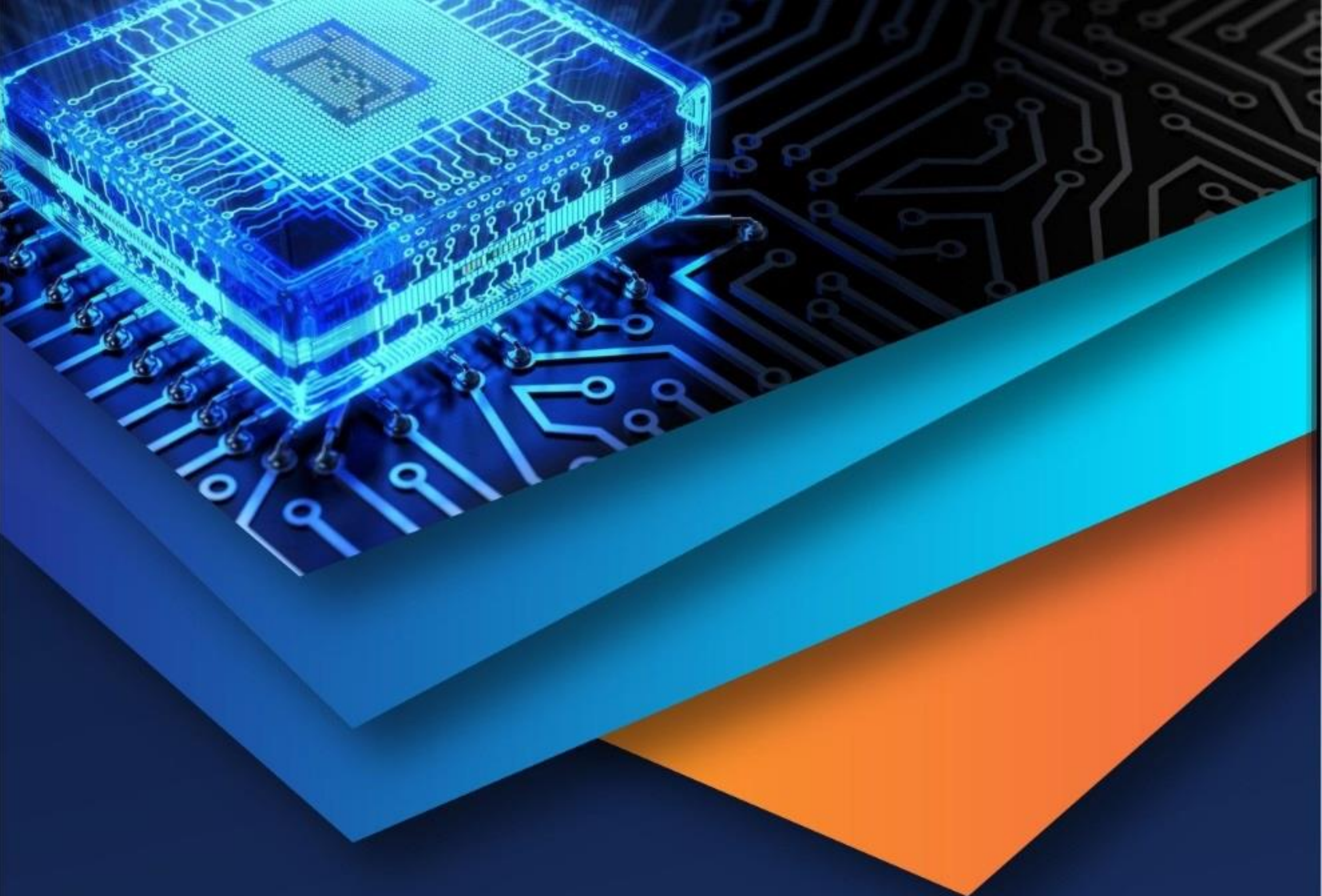

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