

**BUY**

TP: Rs 800 | ▲ 45%

LIC

| Insurance

| 06 April 2023

## Behemoth at a bargain; initiate with BUY

- Extensive presence, brand equity and leadership in group life business serve as strong moats, supporting NBP market share of over 60%
- Thrust on profitable non-par products forecast to lift VNB margin to 19% in FY25 from 15% in FY22
- Trades at 70% discount to private peers despite solid positioning; initiate with BUY for a TP of Rs 800, set at 0.7x FY25E P/EV

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**Dominant force:** Industry titan LIC has consistently posted NBP market share of 60%+ overall and ~80% in group business despite stiff competition from private peers. Individual APE market share has moderated from 46% in FY17 to 35% in FY23 YTD but remains healthy. More pertinent, is the growth in balance sheet from Rs 25tn in FY17 to Rs 42tn at end-FY22, an average rise of Rs 3.3tn p.a. LIC is also the largest asset manager in India with AUM of Rs 44tn as of 9MFY23 vs. Rs 40tn for MF industry. Its APE logged an 8% CAGR over FY17-FY22 to Rs 532bn, and we forecast a 13% CAGR over FY22-FY25 to Rs 763bn with NBP likely to rise at 18%.

**Product mix change to bolster VNB margin:** The company has traditionally maintained a par-heavy product mix (~60% of overall APE and 90%+ of individual APE) but is now intent on growing its non-par business. It introduced six non-par products in FY23 YTD and was able to raise the share of this business from 7.1% of APE at end-FY22 to 9.5% at end-9MFY23. We believe a gradual shift in mix will aid VNB margin expansion by 400bps to 19% in FY25 from 15.1% in FY22.

**High agent productivity:** LIC employs 50%+ industry's agency force. As of 9MFY23, 96% of individual NBP was sourced through the agency, a trend consistent with the 4Y average since FY19. With sales of 15.6 individual policies per agent at end-FY22, LIC's productivity is well ahead of listed private peers (0.9-4.6 policies).

**Key concerns addressed:** High sensitivity to capital markets and balance sheet volatility from equity markdowns do remain concerns, but we derive comfort from LIC's seasoned management team. Withdrawal of tax exemption on big-ticket life insurance policies from FY24 will have a minimal impact, per our analysis.

**Initiate with BUY:** The stock is currently trading at 0.5x FY25E EV, a 70% discount to peers which we expect will narrow. We value LIC at 0.7x FY25E EV (60% discount) for a TP of Rs 800 and initiate with BUY given the company's entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement (95%+). Positive stock triggers include a more profitable product mix, structural rise in VNB margins and a sustained reputation for settling claims.

Ticker/Price	LICI IN/Rs 550
Market cap	US\$ 42.4bn
Free float	4%
3M ADV	US\$ 10.8mn
52wk high/low	Rs 919/Rs 530
Promoter/FPI/DII	97%/0%/1%

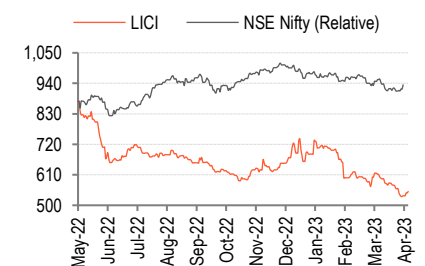
Source: NSE | Price as of 5 Apr 2023

### Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	19,96,918	23,91,986	28,25,760
APE (Rs mn)	5,31,599	6,04,296	6,80,532
VNB (Rs mn)	76,190	1,02,730	1,22,496
Embedded Value (Rs mn)	54,14,930	59,50,855	65,49,419
VNB margin (%)	15.1	17.0	18.0
EVPS (Rs)	856.1	940.8	1,035.5
EPS (Rs)	6.5	27.5	32.8
Consensus EPS	6.5	30.7	33.9
P/EV (x)	0.6	0.6	0.5

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE

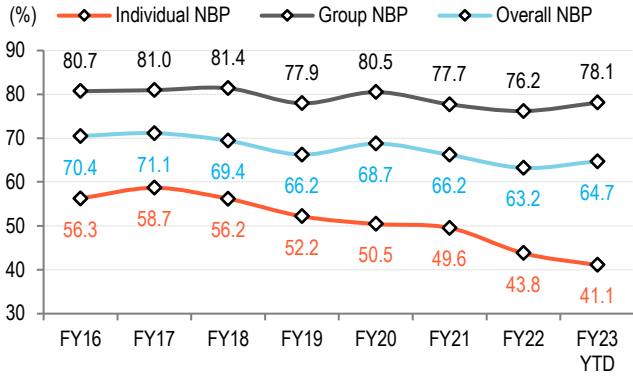


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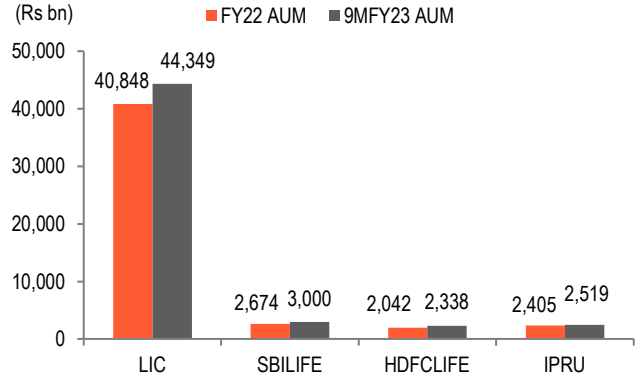
## Focus charts

**Fig 1 – LIC’s NBP market share remains above 60% despite stiff competition**



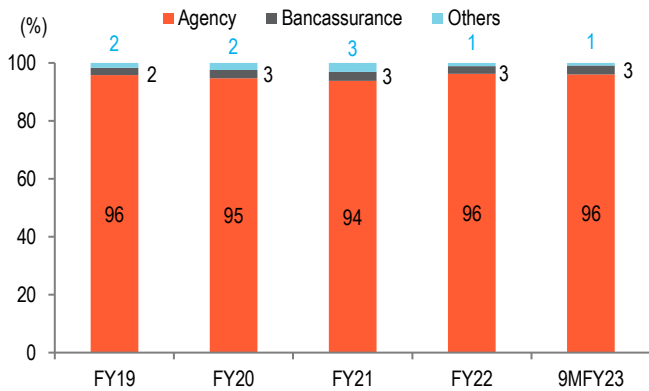
Source: Company, BOBCAPS Research

**Fig 2 – LIC the largest asset manager in India’s life insurance space by a distance**



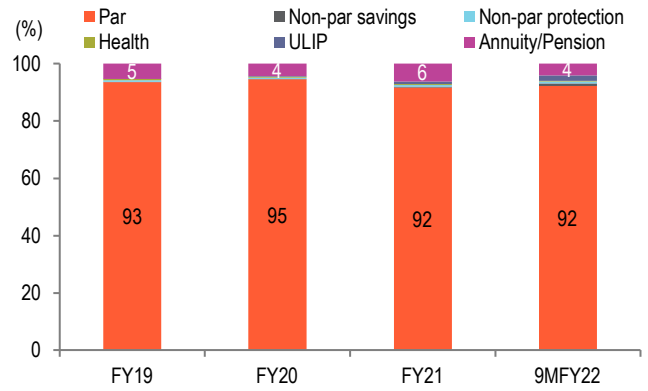
Source: Company, BOBCAPS Research

**Fig 3 – Extensive agency force a competitive edge in generating individual NBP**



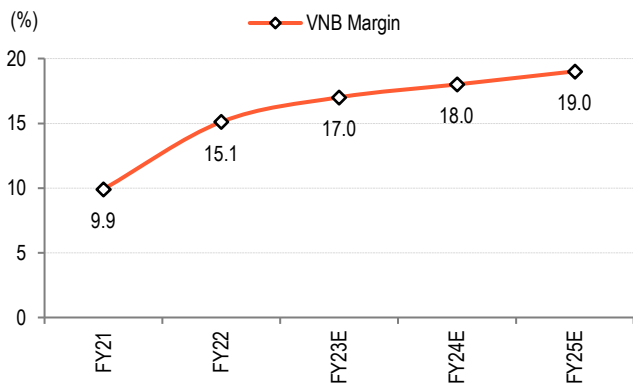
Source: Company, BOBCAPS Research

**Fig 4 – Par plans dominate the product mix (by individual APE) but focus shifting to more profitable non-par business**



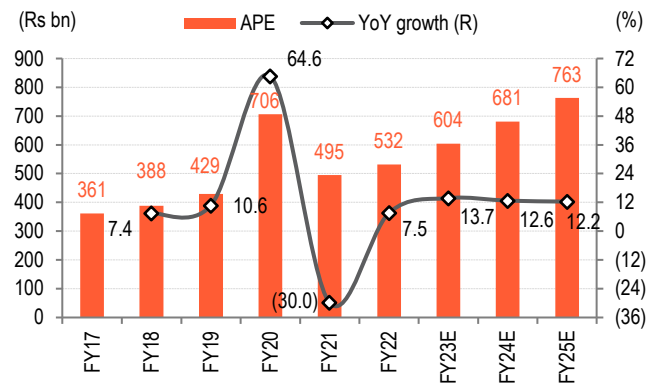
Source: Company, BOBCAPS Research

**Fig 5 – VNB margin to benefit from changing product mix**



Source: Company, BOBCAPS Research

**Fig 6 – APE expected to log a 13% CAGR, FY22-FY25E**



Source: Company, BOBCAPS Research

## Investment rationale

### Market leader by a distance

LIC's AUM of Rs 44tn is higher than India's entire MF industry (Rs 40tn) as of 9MFY23

Established over six decades ago, state-owned Life Insurance Corporation (LIC) is a dominant force in India's life insurance industry, commanding a market share of 65% in NBP, 46% in overall APE (calculated) and ~35% in individual APE as of FY23 YTD (Apr'22-Jan'23). LIC is also India's largest asset manager with AUM of Rs 44.3tn as of 9MFY23, dwarfing the combined Rs 7.9tn in assets handled by the top 3 listed private life insurers (SBI Life, HDFC Life, IPRU). The company recruits 50%+ of the industry's agents and manages 70%+ of the total policies issued by volume, underscoring its sweeping domestic footprint.

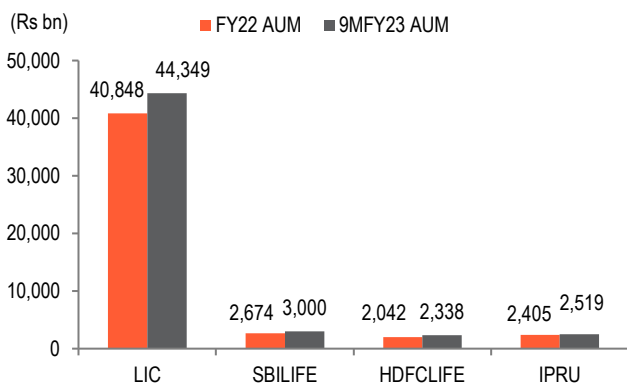
### Dominance backed by swift balance sheet growth

LIC's NBP market share has remained above 60% over the past decade despite stiff competition from private peers. Though individual APE market share has climbed down from 46% in FY17 to 35% as of FY23 YTD (Apr'22-Jan'23), its group APE share has held above 80%. Individual and group NBP have shown similar mixed trends. In our view, shifts in market share for a few businesses are par for the course as the tug of war with the private sector continues.

More pertinent, is the swift growth in LIC's balance sheet from Rs 25tn at end-FY17 to Rs 42tn at end-FY22, an average annual increase of Rs 3.3tn. As of 9MFY23, the company's AUM stood at Rs 44tn, higher than that of the entire Indian mutual fund industry (Rs 40.3tn). Crisil estimates its AUM to be 3x that of all private life insurers combined (9MFY22).

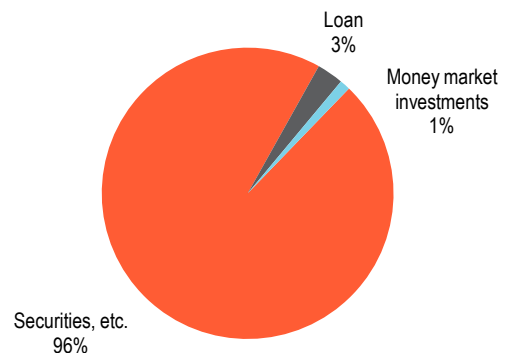
A global comparison shows that the company ranks fifth globally in terms of life insurance GWP (comparing premium for FY21 to global peers' life insurance premium for CY20), and tenth globally in terms of total assets (comparing assets as at FY21 with those of peers as at end-CY20). We believe LIC's expansive footprint, trusted brand image and leadership in group business will continue to serve as strong moats amidst rising competitive headwinds.

Fig 7 – Largest asset manager in India



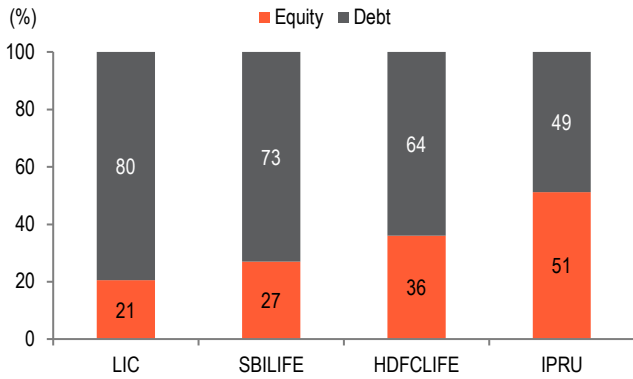
Source: Company, BOBCAPS Research

Fig 8 – Securities a major component of LIC's AUM



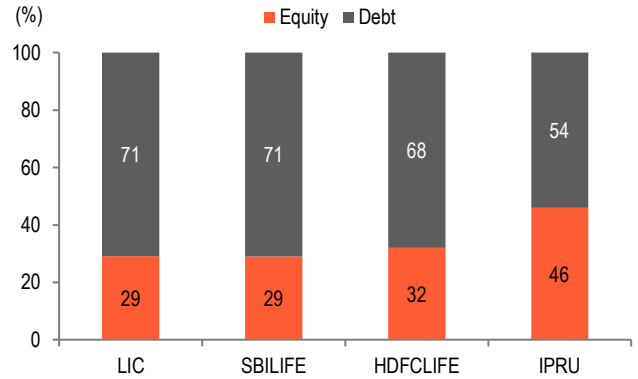
Source: Company, BOBCAPS Research | Note: Loans include Policy Loans & Mortgage Loans

**Fig 9 – Equity share in AUM was low for LIC in FY21...**



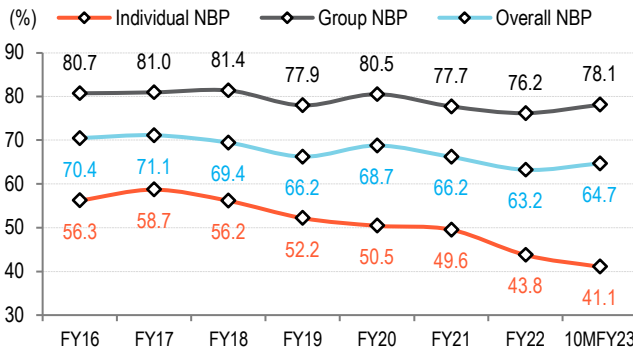
Source: Company, BOBCAPS Research | Note: For LIC, the ratio is calculated from L-29 public disclosures

**Fig 10 – ...but has increased in 9MFY23**



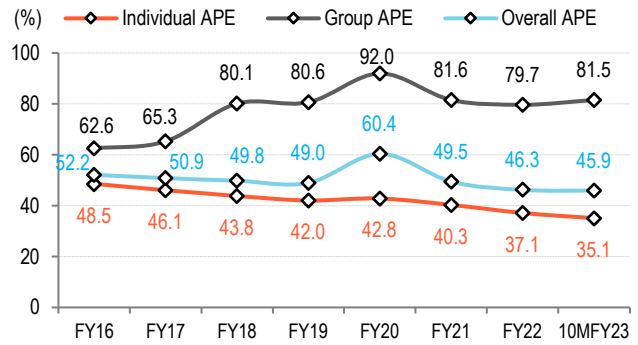
Source: Company, BOBCAPS Research | Note: For LIC, the ratio is calculated from L-29 public disclosures

**Fig 11 – LIC has maintained NBP market share of 60%+ amid competitive pressures**



Source: Company, BOBCAPS Research

**Fig 12 – Resilience in group APE market share has offset the decline in individual APE**

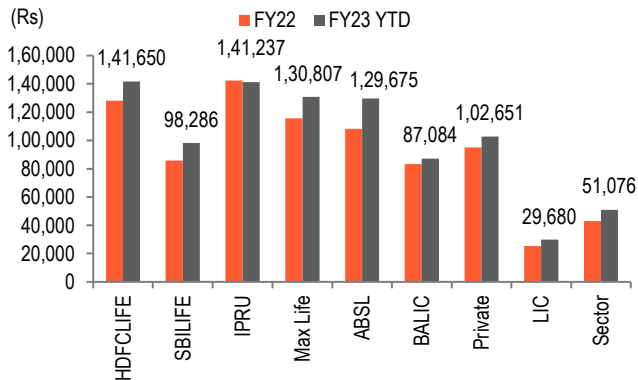


Source: Company, BOBCAPS Research

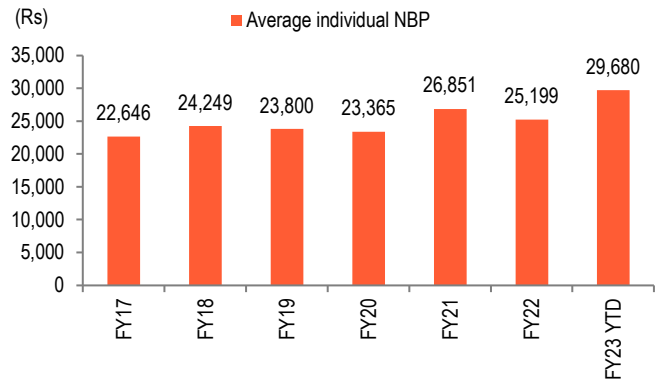
**Lower ticket size offset by sheer volumes**

Unlike most private players, LIC focuses on both rural and urban markets. About 21% of its individual policies comprising 13% of individual NBP came from rural markets in FY22 (see Annexure B: [Rural focus](#)).

At end-FY22, individual NBP for the sector averaged ~Rs 43,000 which has risen to ~Rs 51,000 in FY23 YTD. For LIC, average individual NBP has increased from Rs 22,646 in FY17 to Rs 29,680, but remains well below the sector because of its rural sales and lower share of unit-linked insurance products (ULIP) that are typically big-ticket in nature. In our view, this does not represent a drawback for the company given its scale and dominance in policy volumes.

**Fig 13 – Ticket size (by individual NBP) has increased across the board**


Source: Company, BOBCAPS Research

**Fig 14 – LIC's average individual NBP has risen 18% from FY22 levels**


Source: Company, BOBCAPS Research

**Focusing on profitable non-par business but not at the expense of workhorse par segment**

## Traditional business steadfast; eyeing non-par build-up

LIC has a comprehensive product portfolio with 16 participating, 19 non-participating (including 3 annuity), and 10 group plans plus 8 riders at end-9MFY23. Traditionally, the company has run a par-heavy product mix (~60% of overall APE and 90%+ of individual APE) but is now intent on deepening the more profitable non-par business – also a target area for private peers. We forecast a 12.8% CAGR in APE over FY22-FY25 to Rs 763bn, with the expected rise in non-par business projected to aid 400bps expansion in VNB margin to 19% in FY25 from 15.1% in FY22.

### Deeper focus on non-par business

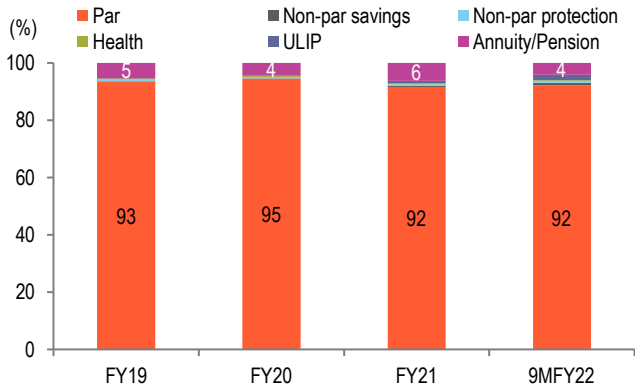
LIC introduced six non-par products in FY23 YTD (as of Jan'23) and has been able to raise the share of this business from 7.1% of APE at end-FY22 to 9.5% at end-9MFY23. Group business has also gained prominence for LIC, accounting for 38% of APE at end-9MFY23 from 22% in FY19, and for ~70% of NBP from 64%. Annuity/pension plans are a major constituent of group business whereas the share of ULIPs remains low at ~2% of APE.

**Fig 15 – APE breakup – Group business scores high in FY23YTD**

APE (Rs bn)	Q1FY23	H1FY23	9MFY23	FY22	FY21	YoY (%)
Individual Par	60	133	212	330	291	13.4
Individual Non-Par	5	13	22	25	24	6.0
Total Individual	65	146	234	356	315	12.8
Group	38	106	141	148	106	39.2
<b>Total APE</b>	<b>103</b>	<b>252</b>	<b>375</b>	<b>504</b>	<b>422</b>	<b>19.5</b>
<b>Constituents (%)</b>						
Individual Par	58	53	56	66	69	-
Individual Non-Par	5	5	6	5	6	-
<b>Total Individual APE</b>	<b>63</b>	<b>58</b>	<b>62</b>	<b>71</b>	<b>75</b>	-
<b>Group APE</b>	<b>37</b>	<b>42</b>	<b>38</b>	<b>29</b>	<b>25</b>	-

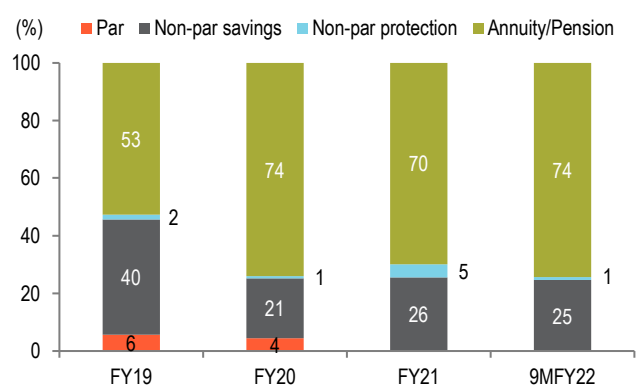
Source: Company, BOBCAPS Research | Note: YTD data is as of 9MFY23

**Fig 16 – Par plans an important part of individual APE...**



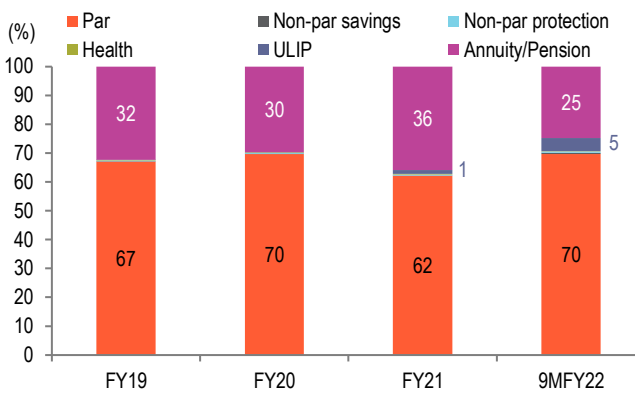
Source: Company, BOBCAPS Research

**Fig 17 – ...annuity/pension plans dominate group APE**



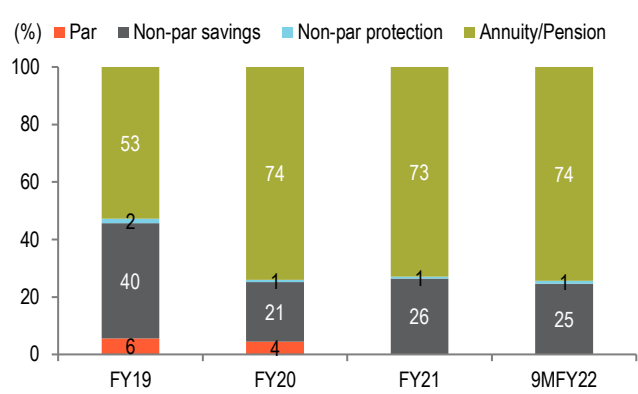
Source: Company, BOBCAPS Research

**Fig 18 – Par an important part of individual NBP as well...**



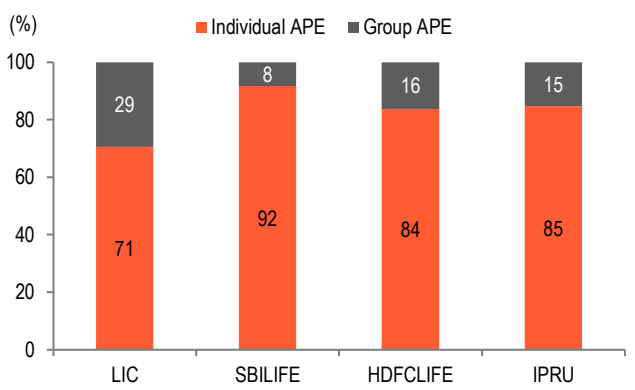
Source: Company, BOBCAPS Research

**Fig 19 – ...and annuity/pension form a bulk of group NBP**



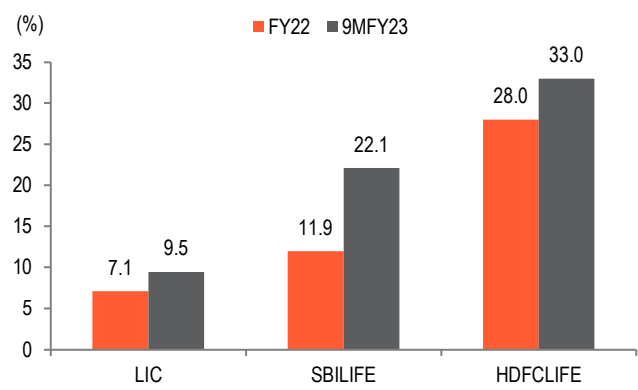
Source: Company, BOBCAPS Research

**Fig 20 – Group APE contribution higher for LIC than major listed private peers**



Source: Company, BOBCAPS Research

**Fig 21 – Non-par APE contribution lower for LIC than top private peers**



Source: Company, BOBCAPS Research | Note: The above data excludes annuity

Apart from the traditional business, we believe there is immense scope for LIC (i) to grow the protection business which forms just 1.7% of its total APE in FY22 as compared to 11-17% for the top 3 private sector players, and (ii) to further enhance its annuity portfolio.

### Protection business has substantial scope for growth

India's life insurance penetration stood at 3.2% in CY20 compared to the global average of 3.3%. Among Asian countries, Thailand, South Korea and Singapore were at 3.4%, 6.4% and 7.6% respectively. India's protection gap was 83% and stood at US\$ 16.5tn as of CY19 – the highest amongst all countries in the Asia-Pacific, as per the Jul'20 Swiss Re report "Closing Asia's Mortality Protection Gap".

Protection plans contributed just 1.7% of LIC's total APE in FY22 (retail <0.5%) as compared to 11-17% for the top 3 private sector players. With the yawning gap in India's insurance coverage and increased awareness of protection needs following the Covid-19 pandemic, we expect the share of protection plans to increase.

**Fig 22 – Scope for growth in LIC's protection segment**

(Rs bn)	FY20	FY21	FY22	9MFY23
<b>Total Protection APE</b>				
LIC	2.5	7.6	8.4	NA
HDFCLIFE	12.6	10.9	13.7	12.3
SBILIFE	9.6	12.0	15.4	12.3
IPRU	11.2	10.5	13.1	10.5
<b>Individual Protection APE</b>				
LIC	1.5	1.6	1.8	NA
HDFCLIFE	4.9	5.0	4.9	2.7
SBILIFE	5.1	7.3	9.2	6.8
IPRU	7.7	5.7	3.9	2.2

Source: Company, BOBCAPS Research

**Fig 23 – Protection APE can be improved**

Protection APE as a % of total APE	FY20	FY21	FY22	9MFY23
LIC	0.5	1.7	1.7	NA
HDFC Life	17.0	13.0	14.0	15.0
SBI Life	8.9	10.5	10.8	10.0
IPRU Life	15.1	16.2	17.0	19.7

Source: Company, BOBCAPS Research

### Leader in annuity segment; a significant opportunity

We note significant demand for annuity/pension products in India given that ~83% of the country's employed population works in the unorganised sector that is not covered by formal pension or provident fund schemes. According to Crisil, India's elderly population (aged 60 and above) will increase from 116.8mn in 2015 to 316.8mn by 2050, nearly doubling in share from 9% in 2015 to 17% by 2050. This too is likely to push up demand for pension/annuity products commonly used for retirement planning.

LIC is a key player in the annuity/pension business, led by its strong presence in the group segment. The company commanded ~70% market share as of 9MFY22 but has seen a decline from 85% levels in FY20 as private players chip away at its dominance. Nevertheless, it continues to have an unrivalled advantage owing to its vast size and deep reach.



**Fig 24 – LIC leads in the annuity segment**

Company	FY20		FY21		9MFY22	
	Premium (Rs bn)	Market share (%)	Premium (Rs bn)	Market share (%)	Premium (Rs bn)	Market share (%)
LIC	385.3	84.7	395.9	76.9	237.4	68.7
SBILIFE	11.3	2.5	30.2	5.9	26.4	7.6
HDFCLIFE	27	5.9	39.3	7.6	36.4	10.5
IPRU	10.4	2.3	23.0	4.5	21.2	6.1
Max Life	4	0.9	6.8	1.3	6.1	1.8
Bajaj Allianz Life	0.9	0.02	0.7	0.1	4.2	1.2
Others	16.7	3.7	19.0	3.7	13.7	4.0
<b>Private Players Total</b>	<b>69.4</b>	<b>15.3</b>	<b>119.0</b>	<b>23.1</b>	<b>108.0</b>	<b>31.3</b>
<b>Total</b>	<b>454.7</b>	<b>-</b>	<b>514.7</b>	<b>-</b>	<b>345.5</b>	<b>-</b>

Source: LIC RHP, BOBCAPS Research

**Expect 13% APE CAGR; higher VNB margin**

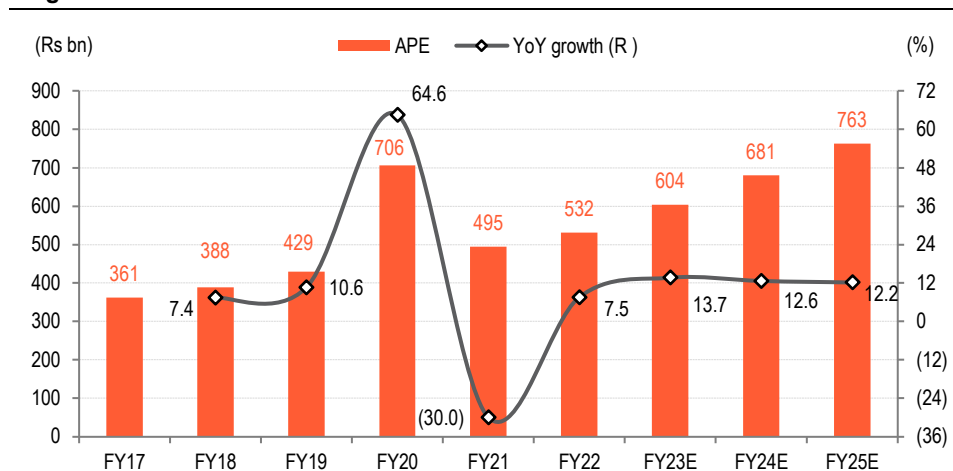
LIC logged an 8% CAGR in APE over FY17-FY22 to Rs 532bn. We forecast a 12.8% CAGR over FY22-FY25 to Rs 763bn. NBP is projected to clock a faster 18.2% CAGR, denoting our higher growth expectations for single premium (20% CAGR) over first-year premium (9.3% CAGR). We believe the company's focus on non-par products will help lift its VNB margin by 400bps to 19% in FY25 from 15.1% in FY22 and aid a 24% CAGR in VNB to Rs 145bn.

**Fig 25 – Margin expansion should drive VNB growth**

Particulars	FY21	FY22	FY23E	FY24E	FY25E
VNB (Rs bn)	42	76	103	122	145
VNB Margin (%)	9.9	15.1	17.0	18.0	19.0
APE (Rs bn)	495	532	604	681	763

Source: Company, BOBCAPS Research

Our APE as well as premium growth estimates are conservative. Following the Finance Act Amendment in Mar'21, profits from non-par policies belong entirely to shareholders along with 10% of profits in par policies (vs. 5% earlier), implying higher growth from the shareholders' point of view (see Annexure A: [Bifurcation of funds](#)).

**Fig 26 – APE forecast to clock 13% CAGR over FY22-FY25E**

Source: Company, BOBCAPS Research

**Fig 27 – Surplus transferred to shareholder funds**

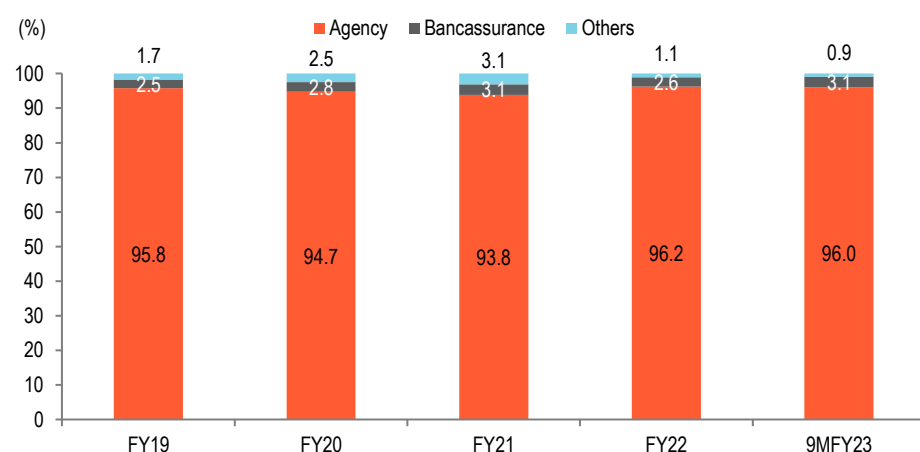
(% of surplus)	FY21	FY22	FY23E	FY24E	FY25E
Par	5.0	5.0	7.5	7.5	10.0
Non-par	5.0	100.0	100.0	100.0	100.0

Source: Company, BOBCAPS Research

## Agency channel a strong moat

Large, productive agency channel; scope to grow bancassurance

LIC's agency channel is one of its biggest strengths, totalling 1.3mn agents and forming over 50% of the entire industry's force. As of 9MFY23, 96% of the company's individual NBP was sourced through the agency channel, consistent with the four-year average since FY19. Bancassurance came in second at 3.1%. With sales of 15.6 individual policies per agent during FY22, LIC's agent productivity is well ahead of the 0.9-4.6 range for listed private peers.

**Fig 28 – NBP sourcing: Agency forms the backbone of LIC's distribution network**

Source: Company, BOBCAPS Research

**Fig 29 – LIC outclasses peers by a wide margin**

Company	Individual agents (nos)					Policies per agent (nos)					Premium per agent (Rs)				
	FY19	FY20	FY21	FY22	9MFY23	FY19	FY20	FY21	FY22	9MFY23	FY19	FY20	FY21	FY22	9MFY23
HDFCLIFE	91,172	1,07,662	1,12,012	1,15,442	1,58,312	1.6	1.3	1.3	1.4	0.8	1,15,387	1,04,530	1,10,526	1,33,270	79,571
SBILIFE	1,23,613	1,30,418	1,70,096	1,46,057	1,93,635	4.6	4.4	3.4	4.6	2.5	2,31,125	2,48,432	2,03,305	3,00,796	1,76,367
IPRU	1,70,572	1,90,924	1,87,560	1,98,924	2,01,948	1.1	0.9	0.9	0.9	0.6	1,03,939	90,324	1,03,276	1,28,976	90,106
Max Life	50,854	45,979	55,217	61,143	70,230	3.1	3.2	2.3	1.7	1.0	2,16,494	2,47,865	2,84,362	2,66,799	1,74,501
<b>LIC</b>	<b>11,79,229</b>	<b>12,08,826</b>	<b>13,53,808</b>	<b>13,26,432</b>	<b>13,22,586</b>	<b>17.4</b>	<b>17.1</b>	<b>14.5</b>	<b>15.6</b>	<b>9.4</b>	<b>4,14,565</b>	<b>4,02,871</b>	<b>3,90,823</b>	<b>3,97,981</b>	<b>2,81,397</b>

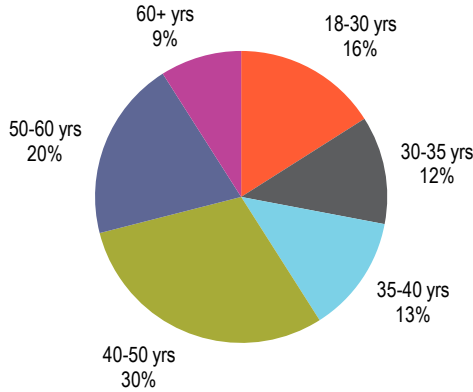
Source: IRDA, Life Insurance Council, BOBCAPS Research |

## Broad base of agents

LIC has historically employed over half of the life insurance industry's agency force. At the end of 9MFY23, 48% of the company's individual agents belonged to rural areas, indicating a balanced rural-urban spread; 43% had been associated with it for more than five years, indicating stickiness; and 71% were below the age of 50 (40% below the age of 40), belying the perception of an ageing salesforce.

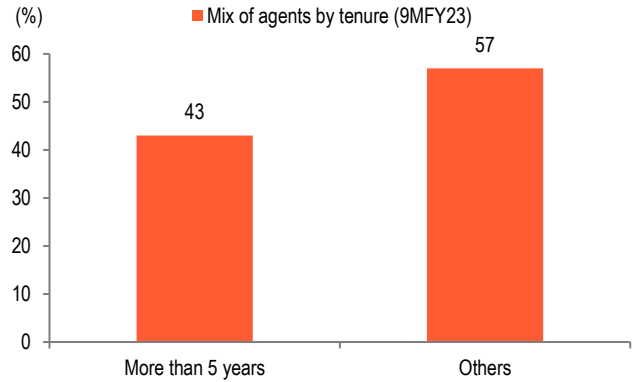
The company makes a concerted effort to enhance the marketing skills and productivity levels of its agency force. Training is imparted by senior officers through 35 sales, 113 divisional and 8 zonal training centres, supported by 576 agent training centres. This has aided sales productivity well ahead of peers.

**Fig 30 – Age-wise agent mix healthy**



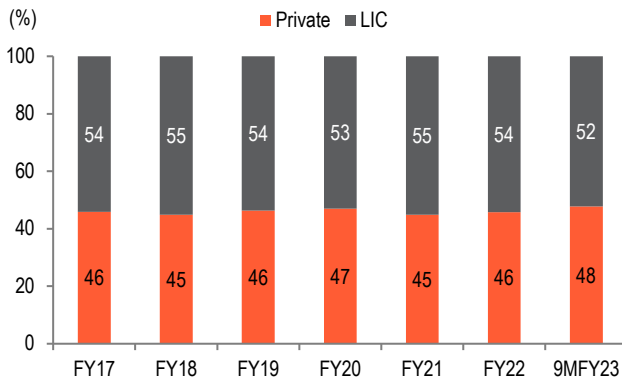
Source: Company, BOBCAPS Research

**Fig 31 – High stickiness in agency force**



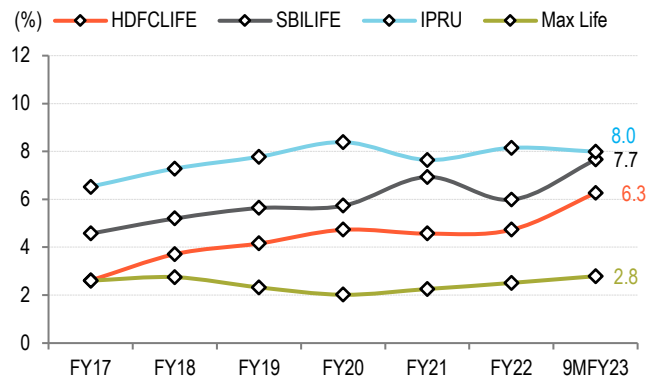
Source: Company, BOBCAPS Research

**Fig 32 – LIC has consistently maintained 50%+ market share in agent count**



Source: IRDA, Life Insurance Council, BOBCAPS Research

**Fig 33 – Among listed players, HDFC Life and SBI Life have gained market share in agent count**



Source: IRDA, Life Insurance Council, BOBCAPS Research

**Fig 34 – Key agent roles**

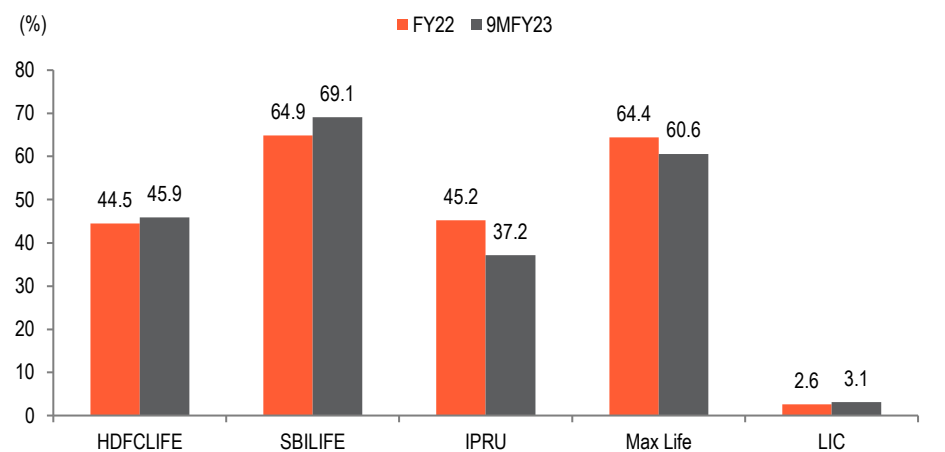
Development Officers (21,032)	Senior Business Associates (4,305)	Chief Life Insurance Advisors (31,708 CLIA's supervising 233,527 individual agents)
Class-II officers that sponsor suitable persons to be appointed as life insurance agents, train them, help them to sell products, and provide aftersales services to policyholders	High performing development officers that collect renewal premium and proposal deposits, process new proposals, and provide basic servicing functions	High performing club member agents or retired employees that appoint new agents, monitor existing agents, procure new business, and collect renewal premium

Source: Company, BOBCAPS Research | Note: As of 31 Dec 2021

### Bancassurance a potential growth lever

Private players have leveraged bank partnerships over the last few years, with bancassurance forming 69%, 45% and 37% of the individual NBP mix for SBI Life, HDFC Life and IPRU respectively. In contrast, LIC's banking channel originated just 3.1% of individual NBP at end-9MFY23, implying significant room for growth. The company has 78 banking partners. In a bid to diversify distribution, it launched a non-par policy (Bima Ratna) in May'22 exclusively for sale by the banking channel.

**Fig 35 – Individual NBP sourcing: LIC's banking channel has significant headroom to grow**



Source: Company, BOBCAPS Research

### Group products largely sourced internally

LIC's omnichannel distribution platform for group products comprises (i) its internal sales team, (ii) individual agents, (iii) bancassurance partners, and (iv) alternate channels (other corporate agents and brokers). Of these, group products are primarily distributed by the internal sales team (200+ full-time employees) which sources over 90% of group NBP.

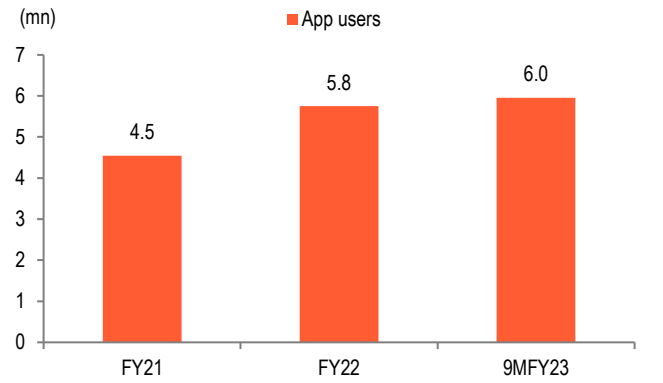
### Digital initiatives aiding growth

Like peers, LIC has embraced online channels, with the proportion of digital payments for individual renewal premiums more than doubling from 17% to 36% of total payments in India over FY19 to 9MFY22. In Nov'20, the company launched Ananda – a paperless digital platform for insurance sales – followed by the Ananda mobile app in Aug'21. The platform can issue e-policy bonds and e-first premium receipts, besides automatically archiving digitally signed documents for servicing customers in the future.

The company has executed over 530,000 policies via the app in 9MFY23 as compared to ~210,000 in 9MFY22, an increase of 150% (see Annexure B: [Digital initiatives](#)).

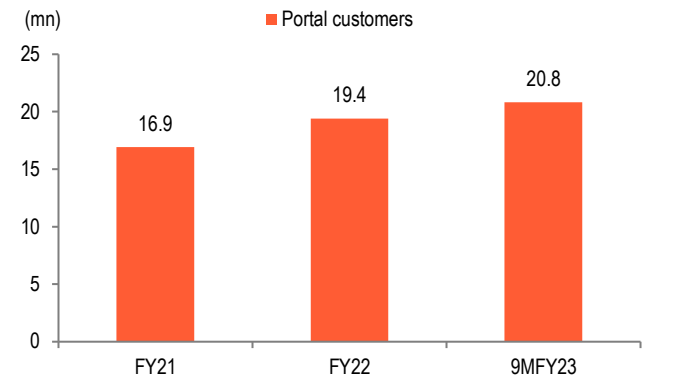
Ananda app and Print-to-Post solutions remain hallmarks of LIC's digital adoption

**Fig 36 – LIC’s app users on the rise**



Source: Company, BOBCAPS Research

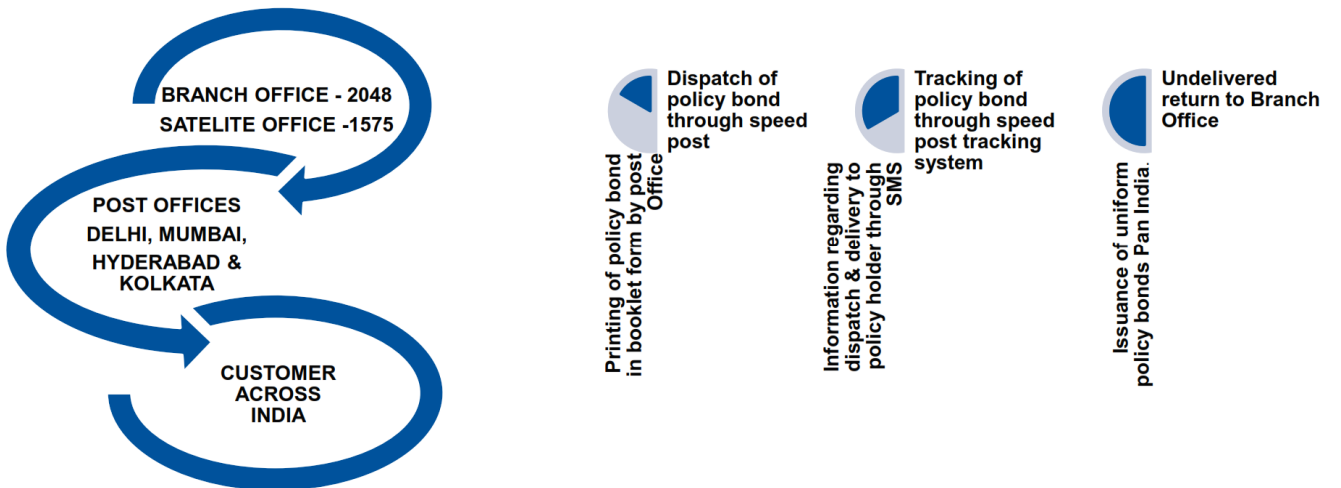
**Fig 37 – Portal customers have crossed 20mn in FY23**



Source: Company, BOBCAPS Research

In Sep'21, the company implemented Print-to-Post solutions wherein it outsourced policy bond printing and delivery to the Post Office. The company has dispatched 16.6mn policies over Jan'22-Dec'22 using this initiative. Starting December last year, several services have also been rolled out via WhatsApp to an encouraging response.

**Fig 38 – Efficient Print-to-Post delivery solutions**



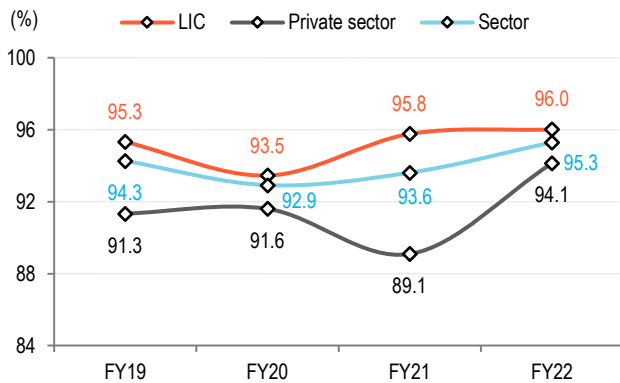
Source: Company, BOBCAPS Research

## Robust claim settlement ratio

**Claim settlement ratio of 95%+ evokes customer confidence**

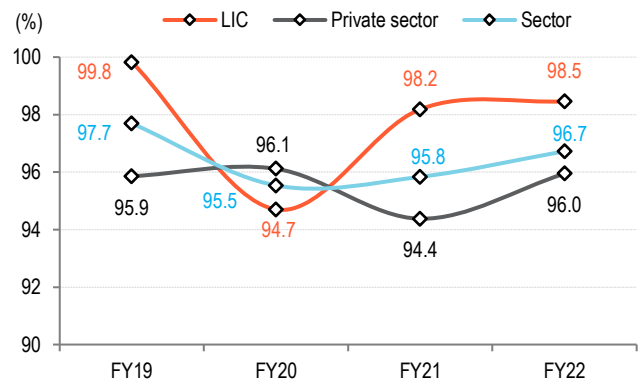
In an indicator of its vast operational scale, LIC indicated that it received 1 claim every 1.18 second in FY22. Even so, the company has maintained a strong death claim settlement ratio of 95% for individuals and 98% for groups on average over FY19-FY22. This instils a sense of confidence among customers that claims will not only be processed smoothly but also settled in a timely manner.

**Fig 39 – LIC has a clear edge in individual death claims...**



Source: IRDA, BOBCAPS Research

**Fig 40 – ...and in group death claims as well**



Source: IRDA, BOBCAPS Research

**Fig 41 – Percentage of UFBP complaints-to-new policies sold remains far lower than that of private insurers**

Particulars	FY19		FY20		FY21		FY22	
	LIC	Private	LIC	Private	LIC	Private	LIC	Private
No. of complaints against Life Insurers	1,02,127	61,137	1,12,005	53,212	1,09,631	41,415	1,14,202	40,624
No. of UFBP complaints	4,276	45,294	3,994	39,450	3,928	26,746	3,509	22,207
Share of UFBP in Total complaints (%)	4.19	74.09	3.57	74.14	3.58	64.58	3.07	54.66
Share of UFBP in New policies sold (%)	0.02	0.63	0.02	0.57	0.02	0.37	0.02	0.30

Source: IRDA, BOBCAPS Research | UFBP: Unfair Business Practice

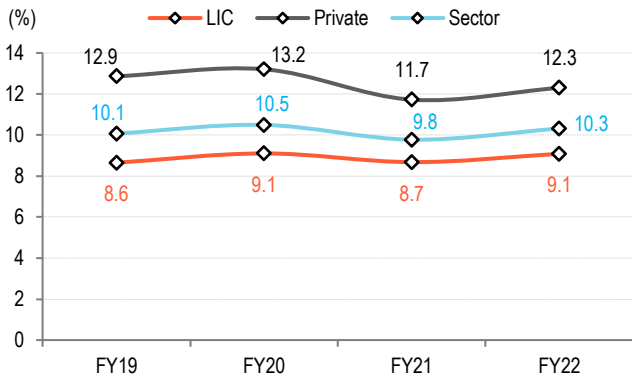
## Expense ratio lower than private sector average

**Expense ratios comfortable and forecast to come down further**

At 14.5%, LIC's total expense ratio (operating expense plus commission) in FY22 was lower than the private sector's 17.1% and the industry's 15.5%. The company's opex ratio has been consistently lower than the private sector average. Its commission ratio remains higher but has dipped 30bps over FY19-FY22 as compared to a 10bps reduction for the private sector.

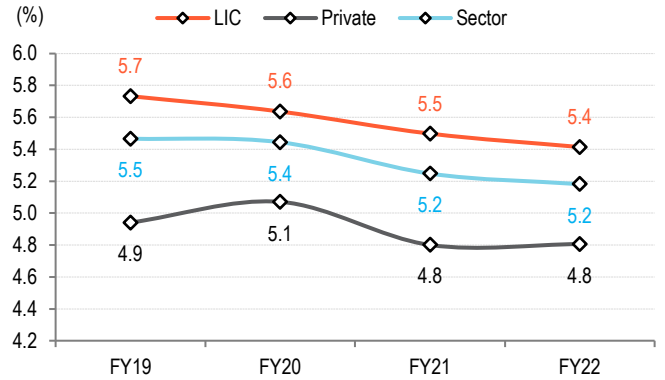
A comparison with the top 3 listed private peers shows that LIC has a higher total expense ratio than both SBI Life and IPRU. We forecast a 100bps decline to 13.4% in FY25, still above peers but comfortable nonetheless.

**Fig 42 – LIC’s opex ratio is lower than the private sector average...**



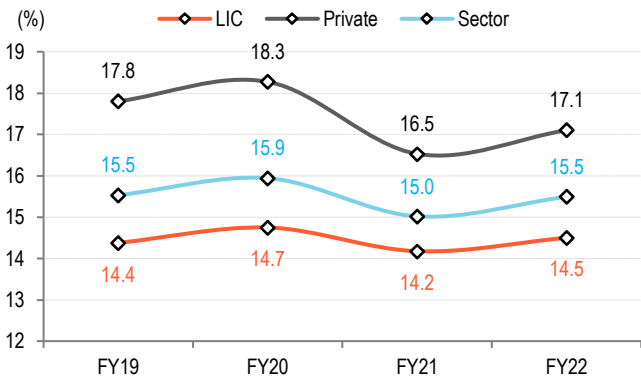
Source: IRDA, Company, BOBCAPS Research

**Fig 43 – ...while commission ratio is higher, albeit on a declining trajectory**



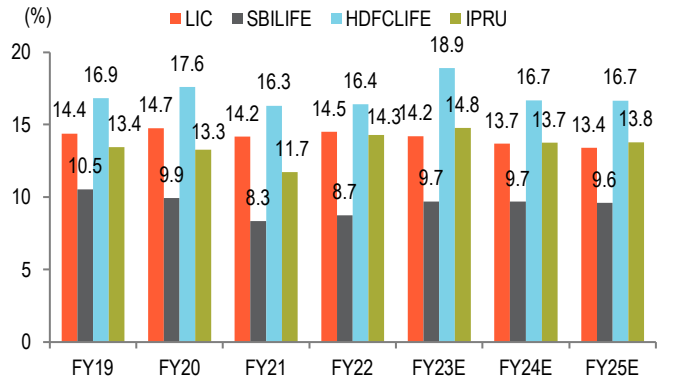
Source: IRDA, Company, BOBCAPS Research

**Fig 44 – LIC’s total expense ratio is lower than the private sector...**



Source: IRDA, Company, BOBCAPS Research

**Fig 45 – ...and will further reduce going forward**



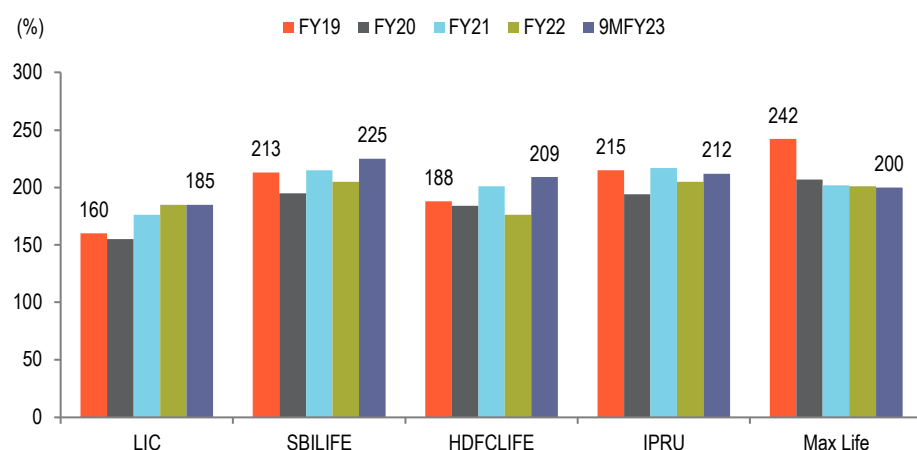
Source: Company, BOBCAPS Research

## Solvency ratio adequate

### No immediate solvency requirements

The company's solvency ratio has climbed from 160% in FY19 to 185% in FY22, much above the regulatory requirement of 150%. This ratio declined from 160% to 155% in FY20 due to a debit balance of Rs 43bn in the 'fair value change' account as at Mar'20. Following par and non-par account bifurcation, the company has transferred Rs 1tn to the non-par segment to support solvency for all businesses. The solvency ratio remains comfortable, albeit lower than that of private peers.

**Fig 46 – Solvency ratio meets regulatory requirements**



Source: Company, BOBCAPS Research

**Fig 47 – Solvency calculation for LIC**

(Rs bn)	FY19	FY20	FY21	FY22	9MFY23
Available Assets in Policyholders' Fund (A)	28,479	31,323	34,585	37,566	40,363
Less: Mathematical Reserves (B)	(27,061)	(29,817)	(32,774)	(35,590)	(38,356)
Other Liabilities (C)	(1)	(1)	(2)	(2)	(2)
Excess in Policyholders' Fund (D=A+B+C)	1,417	1,505	1,809	1,974	2,005
Available Assets in Shareholders' Fund (E)	1	1	57	82	311
Other Liabilities of Shareholders' Fund (F)	-	-	-	-	-
Excess in Shareholders' Fund (G= E-F)	1	1	57	82	311
Total Available Solvency Margin (H= D+G)	1,418	1,506	1,866	2,055	2,316
Required Solvency Margin (I)	886	974	1,059	1,114	1,250
<b>Solvency Ratio (%) =(H/I)</b>	<b>160</b>	<b>155</b>	<b>176</b>	<b>185</b>	<b>185</b>

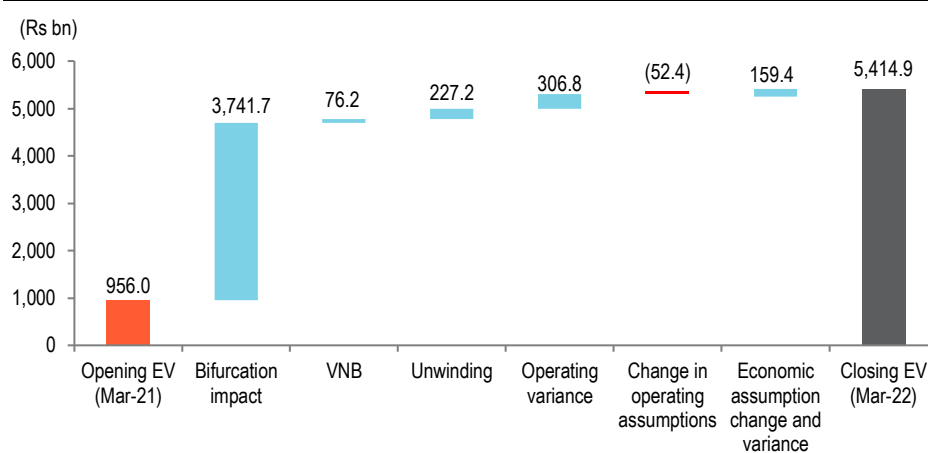
Source: Company, BOBCAPS Research



## Curious case of LIC's EV

LIC's Embedded Value (EV) jumped to Rs 5.4tn in H1FY22 from Rs 0.96tn in FY21 and Rs 0.47tn in FY20 – the upshot of the company's decision to separate non-participating and participating funds from 30 Sep 2021, which resulted in the shareholders' share of the surplus in non-par funds rising to 100% from 5% earlier. Consequently, large unrealised gains in the equity investment book were inherited by the non-par book. As seen in the chart below, the bifurcation had a whopping Rs 3.7tn impact on EV whereas other factors contributed just Rs 0.72tn. The company's EV remained at Rs 5.4tn as at end-H1FY23.

**Fig 48 – EV bifurcation led to the surge in value**



Source: Company, BOBCAPS Research

**Fig 49 – EV profile**

Particulars	(Rs bn)
Opening EV as at 31 Mar 2021 (A)	956
Bifurcation impact (B)	3,742
VNB added during the year (C)	76
Expected return on existing business	
At reference rate (D)	47
At expected excess 'real-world' return over reference rate (E)	180
Variance in operating experience	
Persistency (F)	1
Mortality (G)	(5)
Expenses (H)	2
Newly modelled plans (I)	143
Others (J)	166
Change in operating assumptions (K)	(52)
EV operating earnings (L = C + D + E + F + G + H + I + J + K)	558
Economic variances (M)	57
Change in economic assumptions (N)	102
EV total earnings (O = L + M + N)	717
Capital contributions / (dividends paid out) (P)	-
<b>Closing EV as at 31 Mar 2022 (Q = A + B + O + P)</b>	<b>5,415</b>

Source: Company, BOBCAPS Research

Notable features of the company's EV profile (FY22):

- The expected return on existing business (Rs 227bn) is split between real world returns of Rs 179.8bn and expected excess real-world returns of Rs 47.4bn.
- Negative operating variance of Rs 52bn would be a key monitorable going forward.
- Newly modelled plans contributed a positive Rs 143bn. LIC indicated that it could not model 5-6% of its product universe in the calculation of EV; hence this line item.
- Others worth Rs 166bn encompass items that have not been explicitly allocated to other sources, and include the impact of unmodelled sources of surplus in the group annuity business and the one-off positive impact of a reconciliation of unit-linked liabilities.

### EV to cross Rs 7tn by FY25E; ROEV stable at ~10%

We expect LIC's EV to grow to Rs 7tn by end-FY25, a 10% CAGR over FY22-FY25. We have assumed an unwind rate of 8% (on opening EV) and do not model for any operating or economic variance in the forecast. Operating ROEV is projected at 10% over the medium term.

We expect LIC to clock a 13% APE CAGR over FY22-FY25, a 24% VNB CAGR, and expansion in VNB margin to 19% at end-FY25 as compared to 15.1% in FY22 owing to a focus on maintaining a profitable product mix. The company does lag private peers on the VNB margin front and we believe it will take a while for it to reach comparable levels.

**Fig 50 – Operating ROEV to remain rangebound in the medium term**

(Rs bn)	FY22	FY23E	FY24E	FY25E
Opening EV	956	5,415	5,951	6,549
Bifurcation impact	3,742	0	0	0
VNB	76	103	122	145
Expected return in force	227	433	476	524
Operating variance	307	-	-	-
Change in operating assumption	(52)	-	-	-
Economic variance	57	-	-	-
Change in economic assumption	102	-	-	-
ESOPs and dividend payouts	0	-	-	-
<b>Closing EV</b>	<b>5,415</b>	<b>5,951</b>	<b>6,549</b>	<b>7,218</b>
<b>EVOP</b>	<b>558</b>	<b>536</b>	<b>599</b>	<b>669</b>
Unwinding rate (%)	4.8	8.0	8.0	8.0
EV increase	4,459	536	599	669
<b>Operating ROEV (%)</b>	<b>11.9</b>	<b>9.9</b>	<b>10.1</b>	<b>10.2</b>

Source: Company, BOBCAPS Research

## Why is the stock undervalued?

LIC is currently priced at Rs 550 with the stock failing to breach its IPO band of Rs 902-Rs 949 since the May'22 listing owing to a few operational concerns, which look overstated in our view: (i) VNB margin trails peers – we expect a bump up in margin as LIC targets growth in profitable non-par products, (ii) weak short-term persistency – while there is scope for improvement in the 13<sup>th</sup> and 25<sup>th</sup> month cohort, we note that the 61<sup>st</sup> month ratio is consistently ahead of peers, (iii) high sensitivity to capital markets and balance sheet volatility – risks we believe are mitigated by the leadership's rich experience in portfolio management.

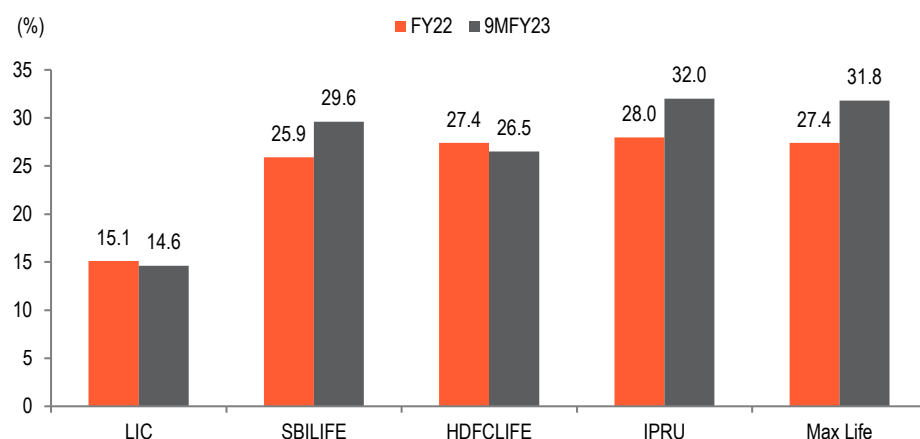
### #1 VNB margin lags private peers

VNB margin, though lower than private peers, has improved

LIC reported a VNB margin of 15.1% for FY22 vs. 9.9% for FY21 as a result of the earlier discussed bifurcation of par and non-par funds. However, this is still below the 26-28% range reported by private listed peers owing to LIC's preponderance of individual par products and the lack of higher-margin products in its mix.

At end-9MFY23, the company reported a VNB margin of 14.6% as compared to 26-32% for private listed peers. As mentioned, we believe management's efforts to raise non-par business in the product mix would help improve VNB margin to 19% by FY25, but it will be a while before the company is able to close in on private peers.

**Fig 51 – LIC's VNB margin lags that of private listed peers**



Source: Company, BOBCAPS Research

**Fig 52 – VNB margin in various products**

(%)	Q1FY23	H1FY23	9MFY23	FY22	FY21	Change (bps)
Gross VNB Margin						
Individual – Gross	19.8	20.3	20.0	20.0	16.5	342
Individual par – Gross	14.4	14.5	14.4	13.6	11.1	242
Individual non-par - Gross	84.2	79.5	73.5	103.6	82.6	2,106
Group – Gross	15.3	17.6	17.7	19.0	11.5	750
Net VNB Margin	13.6	14.6	14.6	15.1	9.9	520

Source: Company, BOBCAPS Research

## #2 Weak short-term persistency

One of the best 61<sup>st</sup> month persistency ratios but scope for improvement in shorter buckets

It is important for life insurers to maintain a high level of persistency as this not only aids growth in renewal premium but is also important from a profitability point of view given that a large part of the cost to acquire a customer is spent upfront. LIC is comparatively weaker in the 13<sup>th</sup> and 25<sup>th</sup> month persistency cohorts, where the gap with listed peers is as high as 1,000bps. However, the company pips most private peers in the long-term 61<sup>st</sup> month persistency cohort.

**Fig 53 – Persistency ratios comparison**

Particulars	13th month		25th month		37th month		49th month		61st month	
	FY22	9MFY23	FY22	9MFY23	FY22	9MFY23	FY22	9MFY23	FY22	9MFY23
LIC	75.6	77.6	73.5	71.3	66.6	68.3	63.9	64.7	61.0	62.7
HDFCLIFE	87.0	87.0	79.0	78.0	67.0	71.0	63.0	64.0	54.0	52.0
SBILIFE	85.2	84.6	78.1	76.3	72.2	73.2	69.9	70.1	49.5	53.6
IPRU	84.6	86.1	77.3	77.1	66.9	70.0	63.4	66.0	54.7	64.2
Max Life	84.0	83.0	67.0	67.0	60.0	61.0	55.0	57.0	49.0	51.0

Source: Company, BOBCAPS Research Note: The above data is based on premium (Regular Premium/Limited Premium Payment under Individual category)

We note that persistency trends are improving for LIC across cohorts. Over FY19-9MFY23, the 49<sup>th</sup> month bucket saw the biggest gain (470bps) with marginal improvement in the 13<sup>th</sup> and 25<sup>th</sup> buckets.

**Fig 54 – Persistency trends are improving across cohorts**

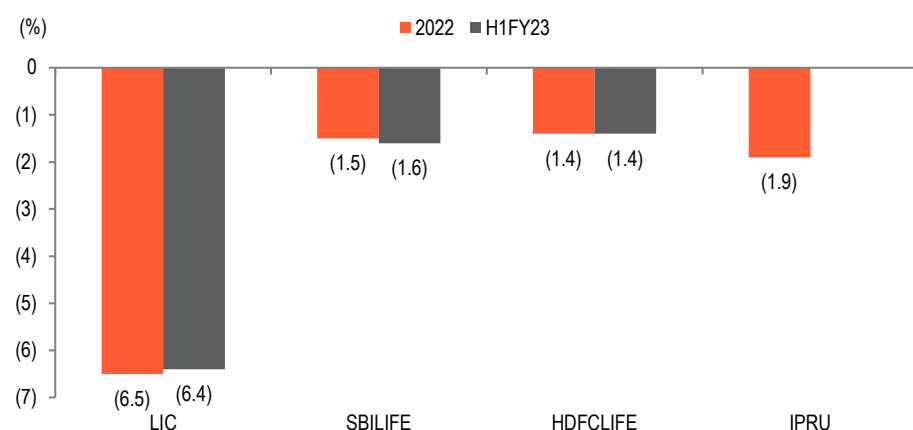
Particulars	FY19	FY20	FY21	FY22	9MFY23
13th month	77.0	72.0	78.8	75.6	77.6
25th month	71.0	67.0	70.0	73.5	71.3
37th month	65.0	63.0	66.9	66.6	68.3
49th month	60.0	58.0	63.1	63.9	64.7
61st month	63.0	54.0	58.8	61.0	62.7

Source: Company, BOBCAPS Research | Note: The above data is based on premium (Regular Premium/Limited Premium Payment under Individual category)

### #3 High sensitivity to capital markets and tax rates

LIC is more sensitive to equity movements as compared to listed peers. A 10% decline in its equity portfolio will lead to a 6.5% fall in EV (and a 2.7% fall in VNB) as compared to a dip of 1.5-2% (0.2-0.6%) for major listed peers. That said, we believe top management's robust track record of portfolio management will continue to keep volatility in check.

**Fig 55 – LIC will see the highest EV decline if its equity portfolio falls 10%**



Source: Company, BOBCAPS Research | Note: IPRU did not give data on sensitivity for H1FY23

A similar analysis on tax rates yields the same result, in that the impact on EV would be 3-5x higher for LIC as compared to listed peers.

**Fig 56 – Higher sensitivity to an increase in tax rate to 25%**

Tax rate increased to 25%	Change in EV	
	FY22	H1FY23
LIC	NA	(24.2)
SBILIFE	(4.7)	(5.0)
HDFCLIFE	(9.1)	(8.4)
IPRU	(6.3)	NA

Source: Company, BOBCAPS Research

While LIC's EV is highly sensitive to capital markets and tax rates, it is worth mentioning that in a rising interest rate environment the company has low sensitivity to the reference rate, which is primarily because of its higher exposure to par products. Conversely, LIC's VNB has high sensitivity to reference rates which is positive in a high interest rate environment.

**Fig 57 – Low sensitivity of EV to reference rates**

FY22 (%)	LIC	SBILIFE	HDFCLIFE	IPRU
<b>An increase of 100bps in reference rate</b>				
Change in EV	(0.4)	(1.8)	(2.0)	(4.2)
Change in VNB	12.2	(0.4)	NA	(3.5)
<b>A decrease of 100bps in reference rate</b>				
Change in EV	(0.3)	2.1	1.6	4.6
Change in VNB	(31.2)	0.1	NA	3.2

Source: Company, BOBCAPS Research

## #4 Significant balance sheet volatility

LIC has a larger mix of non-linked funds in its equity investment book vis-à-vis peers, thus adding volatility to the balance sheet as these must periodically be marked to market – in turn reflected through the ‘fair value change’ account in liabilities. LIC’s fair value change as a percentage of policy liabilities plus net worth remained high at 10.8% in FY22 vs. 2-4% for peers. However, the company maintains that its rich experience in managing equities will continue to mitigate this risk.

**Fig 58 – Increased volatility in the balance sheet**

(Rs bn)	FY19	FY20	FY21	FY22
<b>Total FV gains/losses on balance sheet</b>	<b>2,168.0</b>	<b>(43.2)</b>	<b>2,729.1</b>	<b>4,002.8</b>
Linked	35.9	12.6	40.4	1.0
Non-linked	2,131.8	(56.0)	2,687.7	4,000.9
Participating	-	-	-	929.8
Non-participating	-	-	-	3,071.1
Others	0.2	0.2	0.9	0.9

Source: Company, BOBCAPS Research

**Fig 59 – LIC has higher changes in fair value on the balance sheet vs. peers**

Particulars (Rs bn)	FY19	FY20	FY21	FY22
<b>LIC</b>				
Fair Value Change (A)	2,168.0	(43.2)	2,729.1	4,002.8
Policy Liabilities plus Net Worth (B)	27,873.9	30,827.4	34,101.1	37,204.5
FV change as % of Policy Liabilities + Net Worth	7.8	(0.1)	8.0	10.8
<b>SBILIFE</b>				
Fair Value Change (A)	11.7	(17.3)	30.3	34.1
Policy Liabilities plus Net Worth (B)	725.3	848.7	1,028.1	1,213.8
FV change as % of Policy Liabilities + Net Worth	1.6	(2.0)	3.0	2.8
<b>HDFCLIFE</b>				
Fair Value Change (A)	11.1	(1.4)	27.6	22.5
Policy Liabilities plus Net Worth (B)	604.0	721.2	967.2	1,220.0
FV change as % of Policy Liabilities + Net Worth	1.8	(0.2)	2.9	1.8
<b>IPRU</b>				
Fair Value Change (A)	19.5	(5.8)	36.1	29.6
Policy Liabilities plus Net Worth (B)	456.0	545.7	693.3	828.5
FV change as % of Policy Liabilities + Net Worth	4.3	(1.1)	5.2	3.6

Source: Company, BOBCAPS Research

## #5 Budget directionally negative for life insurers

To overcome India’s low insurance penetration, the government had provided tax exemptions on investment in life insurance products and permitted the amount on maturity to be tax-free in the hands of customers. This longstanding tax policy has aided the sale of life plans but also seen misuse as large taxpayers sought to evade tax, leading the government to recently withdraw some sops.

As per the FY24 budget proposal, the tax exemption on traditional life insurance policies with premium above Rs 500,000 (par and non-par, ex-ULIP) will be withdrawn. This is detrimental for the sector as it reduces the attractiveness of insurance products from a

tax perspective, especially for larger policies. Secondly, the government's emphasis on driving a shift to the new income tax regime, which offers no deduction on premium, could deter customers who take insurance purely for tax purposes.

Similarly, in FY22, the budget mentioned that gains made from ULIPs with premium over Rs 250,000 would be treated as capital gains, just like equity mutual funds, and taxed accordingly.

LIC has clarified that (1) the impact of FY24 budgetary proposals on the company's business will be minimal at 1.8% of APE as the average ticket size of its policies remains on the lower side, and (2) the regime shift is also unlikely to have much impact as the company has over 200mn policyholders, which is 2x+ the taxpaying population, implying that not all customers take policies solely to garner tax deductions. Moreover, people are becoming more financially literate and understand the importance of having a life insurance policy.

Our analysis of policy premiums shows that LIC's individual NBP per policy is just Rs 25,240, much lower than the private sector average of Rs 95,240 and the overall sector average of Rs 42,960 at end-FY22. Per our industry interactions, a high net worth individual (HNI) typically takes about three policies. Assuming such an individual takes one LIC and two private sector policies and calculating premium at three standard deviations, we find that NBP remains below the Rs 500,000 threshold and will hence continue to attract tax benefits for the insured.

**Fig 60 – LIC's individual NBP is lower than the private sector average**

FY22	Policies issued (mn)	Individual NBP (Rs mn)	Individual APE (Rs mn)	Individual APE as a % of total	Individual NBP per Policy (Rs)	Individual APE per Policy (Rs)	Individual taxpayers (FY21) (mn)	Individual taxpayers in 30%+ bracket
LIC	21.7	5,48,213	3,24,963	63	25,242	14,962		
Private Sector	7.4	7,04,372	5,50,775	92	95,240	74,472	69.4	7.6%
Insurance Sector	29.2	12,52,584	8,75,738	78	42,963	30,037		

Source: IRDA, BOBCAPS Research

**Fig 61 – Even at 3SD, the premium doesn't exceed Rs 500,000**

Some analysis	Individual NBP per Policy (Rs)	1SD	2SD	3SD
LIC	25,242	30,290	35,338	40,386
Private Sector	1,90,480	2,28,576	2,66,672	3,04,768
Total	2,15,721	2,58,866	3,02,010	3,45,154

Source: Company, BOBCAPS Research

## Valuation methodology

LIC remains the market leader in India's life insurance industry with NBP market share of 60%+ overall and ~80% in group business despite rising competition. The insurance behemoth has traditionally maintained a par-heavy product mix but is now intent on growing the more profitable non-par business. We believe this will lift the VNB margin to 19% in FY25 from 15.1% in FY22. Higher payout to shareholders (10% of distributed surplus for par business vs. 5% earlier and 100% for non-par business) is another key positive, as is the company's sizeable EV base. We expect a 10% CAGR in LIC's EV over FY22-FY25 to Rs 7.2tn.

### Initiate with BUY, TP Rs 800

The stock is currently trading at 0.5x FY25E EV, a 70% discount to private listed peers which appears unwarranted. We value LIC at 0.7x FY25E EV, a narrower 60% discount, translating to a TP of Rs 800 (45% upside) – initiate with BUY given the company's entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement ratio.

Positive stock triggers include a more profitable product mix in favour of non-par products, in turn supporting structurally higher VNB margins, a sustained reputation for high claim settlement, and improvement in short-term persistency ratios.

**Fig 62 – Valuation comparison**

Company	CMP (Rs)	Mcap (Rs bn)	EV (Rs bn)		P/EV (x)		Target Price (Rs)	Upside (%)	P/EV (Implied)	
			FY24E	FY25E	FY24E	FY25E			FY24E	FY25E
LIC	550	3,480	6,549	7,218	0.5	0.5	800	45	0.8	0.7
SBILIFE	1,105	1,106	562	664	2.0	1.7	1,459	32	2.6	2.2
HDFCLIFE	508	1,091	464	537	2.4	2.0	549	8	2.5	2.2
IPRU	438	630	413	468	1.5	1.3	487	11	1.7	1.5

Source: BOBCAPS Research



## Financial snapshot

**Fig 63 – Policyholders’ account**

(Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
<b>NBP</b>	<b>1,855</b>	<b>1,997</b>	<b>2,392</b>	<b>2,826</b>	<b>3,295</b>
YoY growth (%)	2.9	7.6	19.8	18.1	16.6
<b>Renewal</b>	<b>2,203</b>	<b>2,304</b>	<b>2,432</b>	<b>2,611</b>	<b>2,809</b>
YoY growth (%)	8.8	4.6	5.6	7.3	7.6
<b>Net Premium</b>	<b>4,054</b>	<b>4,295</b>	<b>4,817</b>	<b>5,428</b>	<b>6,094</b>
YoY growth (%)	6.0	5.9	12.1	12.7	12.3
Investment Income	2,855	2,941	3,238	3,903	4,211
YoY growth (%)	17.6	3.0	10.1	20.5	7.9
<b>Total Income</b>	<b>7,037</b>	<b>7,244</b>	<b>8,155</b>	<b>9,441</b>	<b>10,426</b>
YoY growth (%)	9.0	2.9	12.6	15.8	10.4
Total Commission	224	233	250	266	286
YoY growth (%)	3.8	4.2	7.2	6.3	7.7
Operating Expenses related to Insurance	352	303	434	478	531
YoY growth (%)	2.1	(13.7)	43.1	10.2	11.0
<b>Total Expenses (including provisions)</b>	<b>784</b>	<b>530</b>	<b>696</b>	<b>774</b>	<b>871</b>
YoY growth (%)	(21.8)	(32.3)	31.2	11.2	12.5
<b>Operating Profit</b>	<b>6,253</b>	<b>6,714</b>	<b>7,459</b>	<b>8,667</b>	<b>9,555</b>
YoY growth (%)	14.7	7.4	11.1	16.2	10.2
Benefits Paid (Net)	2,885	3,595	4,000	4,723	5,091
YoY growth (%)	12.9	24.6	11.3	18.1	7.8
Bonuses Paid	22	40	48	58	72
YoY growth (%)	33.2	80.7	20.0	20.0	25.0
Change in Reserves/ Valuation Liabilities	3,211	2,941	2,809	3,206	3,640
YoY growth (%)	8.3	(8.4)	(4.5)	14.1	13.6
<b>Surplus/Deficit</b>	<b>39</b>	<b>57</b>	<b>252</b>	<b>284</b>	<b>314</b>
YoY growth (%)	NA	48.1	339.9	13.0	10.3

Source: Company, BOBCAPS Research

**Fig 64 – Shareholders’ account**

(Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Amounts transferred from Policyholders’ Account (Technical Account)	30	39	171	193	213
YoY growth (%)	9.9	31.1	339.9	13.0	10.3
Income from Investments	0	2	5	17	23
YoY growth (%)	(35.1)	800.1	147.9	232.0	33.6
Total Income	30	42	176	210	236
YoY growth (%)	9.3	40.7	318.8	19.4	12.2
Total Expenses	0.1	0.4	0.4	0.5	0.6
YoY growth (%)	(58.0)	604.5	15.0	15.0	15.0
PAT	30	41	174	208	233
YoY growth (%)	9.7	38.7	321.5	19.4	12.2

Source: Company, BOBCAPS Research

**Fig 65 – Balance sheet**

(Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Shareholders' Equity	64	104	243	409	596
YoY growth (%)	760.1	63.6	133.6	68.3	45.5
Total Policyholders' Fund	37,225	41,471	44,280	47,485	51,126
YoY growth (%)	19.2	11.4	6.8	7.2	7.7
Total Liabilities & Equity	37,289	41,593	44,541	47,913	51,740
YoY growth (%)	19.4	11.5	7.1	7.6	8.0
<b>Application of Funds</b>					
<b>Investments</b>					
Shareholders	7	64	213	284	390
YoY growth (%)	5.0	798.6	232.0	33.6	37.0
Policyholders	34,877	38,957	41,765	44,971	48,612
YoY growth (%)	22.4	11.7	7.2	7.7	8.1
Asset held to Cover Linked Liabilities	329	239	-	-	-
Loans	1,078	1,099	1,209	1,329	1,462
YoY growth (%)	(0.0)	1.9	10.0	10.0	10.0
Net Current Assets	963	1,199	1,319	1,292	1,241
YoY growth (%)	3.1	24.4	10.0	-2.0	(4.0)
Total Assets	37,289	41,593	44,541	47,913	51,740
YoY growth (%)	19.4	11.5	7.1	7.6	8.0

Source: Company, BOBCAPS Research

**Peer comparison****Fig 66 – Key metrics**

Particulars	FY21	FY22	FY23E	FY24E	FY25E	CAGR (%) (FY22-FY25E)
<b>APE (Rs bn)</b>						
LIC	495	532	604	681	763	12.8
SBILIFE	114	142	172	197	229	17.3
HDFCLIFE	82	97	118	123	141	13.5
IPRU	62	69	71	74	81	5.4
<b>VNB (Rs bn)</b>						
LIC	42	76	103	122	145	23.9
SBILIFE	23	37	50	52	61	17.9
HDFCLIFE	22	27	32	34	39	13.8
IPRU	16	22	25	23	25	5.1
<b>VNB Margin (%)</b>						
LIC	9.9	15.1	17.0	18.0	19.0	NA
SBILIFE	20.4	25.9	29.0	26.2	26.3	NA
HDFCLIFE	26.1	27.4	26.9	27.3	27.6	NA
IPRU	25.1	28.0	31.0	27.9	27.7	NA
<b>EV (Rs bn)</b>						
LIC	956	5,415	5,951	6,549	7,218	10.1
SBILIFE	334	396	475	562	664	18.8
HDFCLIFE	266	300	403	464	537	21.3
IPRU	291	316	364	413	468	14.0
<b>Operating ROEV (%)</b>						
LIC	36.9	11.9	9.9	10.1	10.2	NA
SBILIFE	19.1	20.7	20.7	18.9	18.8	NA
HDFCLIFE	18.5	16.6	18.3	16.9	17.0	NA
IPRU	15.2	11.0	15.9	14.4	14.1	NA

Source: Company, BOBCAPS Research

## Key risks

- Competition:** LIC, though a market leader, faces tough competition from private peers who are chipping away at its market dominance by way of unique offerings and better services. The company generates most of its business from the agency channel whereas private players are focussed on the bancassurance channel for growth. Although the agency mode is comparatively more productive for LIC, this model proved a hindrance during Covid given fewer agent-customer interactions, even as deferred competency tests hampered new force additions.
- Strong linkage with capital markets:** LIC's EV is highly sensitive to capital market movements. We estimate that a 10% decline in its equity value will lead to 6.4% lower EV (as of Sep'22) and a 0.5% decline in VNB margin. Similarly, a 100bps increase in interest rates will cause EV to fall 0.6%.
- Scaling up non-par book could be a challenge:** The company has traditionally sold participating products but is now looking to focus on the non-par book. We believe this would entail a steep learning curve for agents besides being a more challenging product to sell.
- Regulatory challenges:** Life insurance regulator IRDA monitors the sector closely and brings out timely regulations to protect the interests of stakeholders. There were talks of a reduction in commission limits which could impact LIC as it has a large agency force. Moreover, the recent budgetary move to restrict tax exemption on large life insurance policies is negative for the sector. Additional new, unfavourable rules could have an adverse impact on the business.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	13.3	508	549	HOLD
ICICI Prudential Life	IPRU IN	7.7	438	487	BUY
LIC	LICI IN	42.4	550	800	BUY
SBI Life	SBILIFE IN	13.5	1,106	1,459	BUY

Source: BOBCAPS Research, NSE | Price as of 5 Apr 2023

## Glossary

Glossary			
<b>APE</b>	Average Premium Equivalent	<b>Non-par</b>	Non-participating
<b>EV</b>	Embedded Value	<b>Par</b>	Participating
<b>GWP</b>	Gross Written Premium	<b>ULIP</b>	Unit Linked Insurance Plan
<b>IRDA</b>	Insurance Regulatory and Development Authority	<b>VNB</b>	Value of New Business
<b>NBP</b>	New Business Premium	<b>ERM</b>	Enterprise Risk Management






























## Annexure A

### Company profile

Market leader LIC has been providing life insurance in India for the past six-and-a-half decades. The company was formed by merging and nationalising 245 private life insurance companies in 1956, and had initial capital of Rs 50mn. It was identified as a Domestic Systemically Important Insurer (D-SII) based on size, market importance and domestic and global inter-connectedness in Sep'20. LIC was also recognised as the third strongest and tenth most valuable global insurance brand as per the “Insurance 100, 2021 Report” released by Brand Finance.

The company has a wide pan-India distribution footprint. As of Dec'22, LIC operated through 8 zonal offices, 113 divisional offices and ~4,800 branch/satellite and mini-offices whereas it employs 1.33mn agents.

Fig 67 – Group structure

Foreign branches <sup>1</sup>		Subsidiaries			Associates		
Country	Entity	Country	Entity	Stake held (%)	Country	Entity	Stake held (%)
	<b>Fiji Branch</b>		 LIC Pension Fund Ltd.	100.00%		 LIC HFL LIC HOUSING FINANCE LTD	45.24% <sup>3</sup>
	<b>Mauritius Branch</b>		 LIC CARDS	100.00%		 LIC HFL Asset Management Company Limited	5.38% <sup>3</sup>
	<b>United Kingdom Branch</b>		 LIC INTERNATIONAL International Life Insurance Corporation (International) B.S.C. Bahrain	99.66% <sup>2</sup>		 IDBI BANK	49.24% <sup>4</sup>
			 LIC LIC Insurance Corporation (Singapore) Pte. Ltd.	100.00%		 IDBI trustee IDBI Trusteeship Services Ltd	29.84% <sup>4</sup>
			 LIC LIC Assurance Corporation (Malaysia) Ltd.	80.00%		 LIC MUTUAL FUND	45.00%
			 LIC LIC Assurance Corporation (Bahrain) Ltd.	55.00%		 LIC Mutual Fund Trustee Company Ltd	49.00%
			 LIC LIC Bangladesh Ltd.	83.33%			

X% - Shareholding purchased using shareholders' funds  
 Y% - Shareholding purchased using policyholders' funds

Source: Corporation data; Note: All data as of December 31, 2022; <sup>1</sup> Foreign branches were set up by the Corporation and are not separate legal entities; <sup>2</sup> The Corporation's 99.66% shareholding in Life Insurance Corporation (International) B.S.C. Bahrain was purchased using a combination of shareholders' (94.40%) and policyholders' funds (5.60%); <sup>3</sup> LIC Housing Finance holds a 94.62% stake in LIC HFL Asset Management Company; <sup>4</sup> IDBI Bank holds a 54.70% stake in IDBI Bank Trusteeship Services

Source: Company, BOBCAPS Research

### Key personnel

- Siddhartha Mohanty – Managing Director:** Siddhartha Mohanty has been appointed as Interim Chairman of LIC for three months with effect from 14 Mar 2023. He served as COO and CEO of LIC Housing Finance before joining LIC in 1985 as an apprentice officer. He went on to hold various other positions, such as Senior Divisional Manager of Raipur and Cuttack, Chief (Legal), Chief (Investment – Monitoring & Accounting), and Executive Director (Legal), amongst others. During his tenure as Chief (Legal), Mumbai, LIC won the “Best Insurance In-House Legal Team of the Year” at the Legal Era Awards 2013-14.

Siddhartha Mohanty holds a Bachelor's degree in Law and a Master's degree in Arts (Political Science) from Utkal University, Bhubaneswar, Odisha. He also holds a Post Graduate Certification in Business Management from the Xavier Institute of Management, Bhubaneswar, Odisha, and passed the licentiate examination conducted by the Insurance Institute of India in Nov'02.

- **M Jagannath – Managing Director:** M Jagannath, Zonal Manager (In-Charge), South Central Zone, Hyderabad, has been appointed as Managing Director in Mar'23. He joined LIC as a Direct Recruit Officer in 1988 and has rich experience in marketing, having held various important assignments and led large teams. He has worked as Senior Divisional Manager in-charge of Ernakulam, Dharwad and Bangalore I Divisions. He also served as Chief Executive Officer and Manager Director of LIC (Lanka) Ltd, Colombo, Sri Lanka, between 2009 and 2013.

A Commerce graduate, his academic qualifications include CA (Inter), PG Diploma in Marketing, International PG Diploma in Life Insurance, General Insurance & Risk Management from the Institute of Insurance and Risk Management (IIRM) – Hyderabad, and Associate Member of the Insurance Institute of India, Mumbai.

- **Raj Kumar – Managing Director:** Raj Kumar joined LIC in 1984 as an apprentice officer and has extensive experience in the insurance sector. He has served as the Chief Executive Officer of LIC Mutual Fund Asset Management and was the Zonal Manager, Bhopal, and Executive Director (Estate and Office Services), Mumbai, amongst others, of LIC. He was also the Senior Divisional Manager of Gorakhpur and Jaipur divisions. He holds a Bachelor's degree in Science from D.A.V College, Guru Nanak Dev University, Jalandhar, Punjab.
- **Ipe Mini – Managing Director:** Ipe Mini joined LIC in 1986 as an apprentice officer. She has previously served as CEO of LIC Housing Financial Services and has led the international operations of LIC. She was also the shareholder director of Central Bank of India. She holds a Master's degree in Commerce from the Faculty of Commerce and Management Studies, Andhra University, and has completed a certification programme in IT and Cyber Security for Board Members from the Institute for Development and Research in Banking Technology (established by the Reserve Bank of India).
- **Bishnu Charan Patnaik – Managing Director:** Bishnu Charan Patnaik joined LIC in 1985 as an apprentice officer and handled several positions, such as Senior Divisional Manager of Jamshedpur and Berhampur divisions, Regional Manager (Marketing Bancassurance and Alternate Channels), Regional Manager (Customer Relationship Management), and Director of Zonal Training Centre, Agra. He holds Bachelor's and Master's degrees in Arts (Political Science) from Utkal University, Bhubaneswar, Odisha. He is also a Fellow of the Insurance Institute of India and has served as Secretary General of the Governing Body of the Insurance Council.

## Bifurcation of funds

As per Section 28 of the LIC Act, 1956, LIC was required to distribute at least 95% of the surplus arising to its policyholders, before distributing dividends to its shareholders (i.e., the remaining 5%). LIC thus maintained a single consolidated policyholders' fund. In 2012, an amendment allowed for a reduced 90% distribution of surplus in the policyholders' fund. Thus, over 2012-21, shareholders were entitled to a maximum of 10% of the surplus arising from all business. However, LIC continued to distribute only 5% to them, with approval from the government of India.

The Finance Act Amendment in Mar'21 altered these provisions, with a requirement for LIC to establish separate funds for participating business and non-participating business, as well as a shareholders' fund. The amendment stipulated that the maximum share of distributed surplus payable to shareholders is 10% for participating business and 100% for non-participating (including unit-linked) business, which is a normal market practice in the life insurance industry.

## Annexure B

### Digital initiatives

LIC has two apps for intermediaries to use at the pre-purchase stage:

- **Sales App**, which provides intermediaries with lead management, financial need analysis, quotes and illustrations, e-proposals and content management
- **LIC Quick Quotes App**, which provides intermediaries with premium quotations and benefit illustrations, as well as a facility to compare quotes

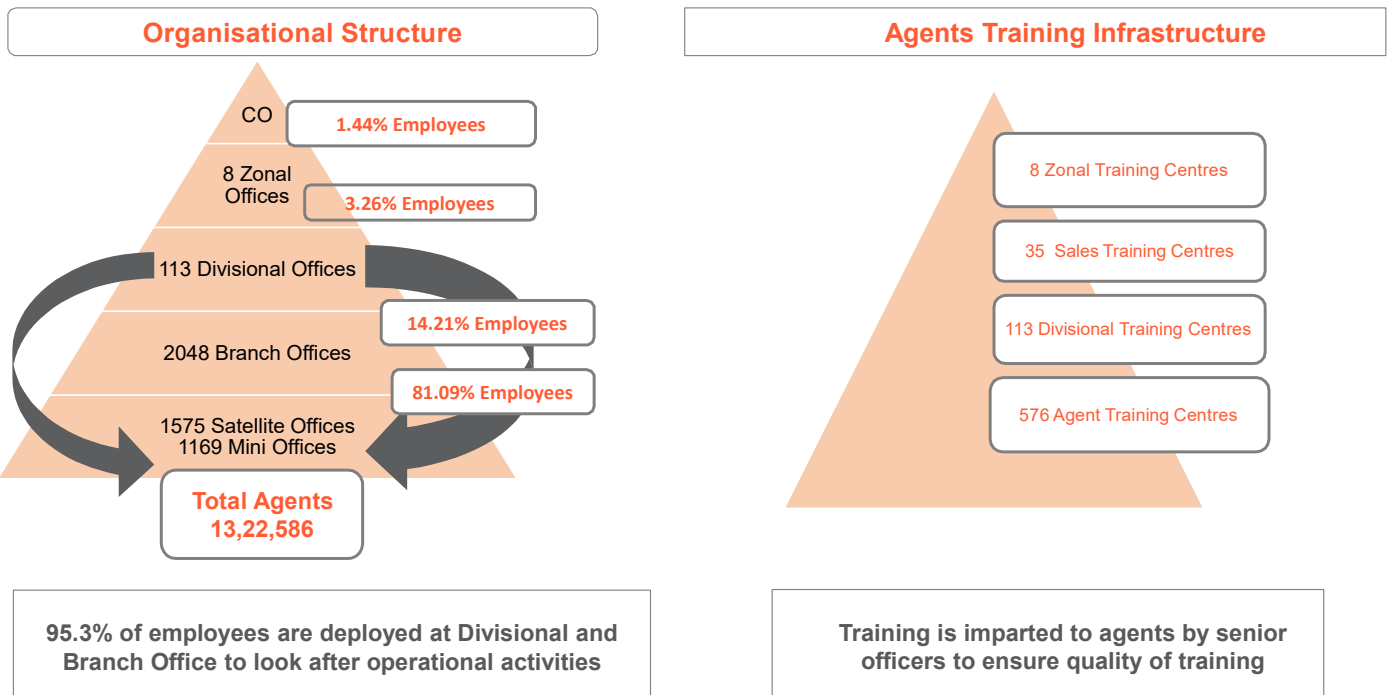
The company have three online on-boarding digital platforms through which intermediaries can register new proposals for insurance and issue new policies:

- **e2e**: This is an online customer on-boarding portal that enables senior business associates to register new proposals for insurance and complete the process of underwriting and acceptance of risk for customers instantly, with immediate issuance of the first premium receipt.
- **i-proposals**: This facilitates new proposal data capture and online submission to the servicing branch office for underwriting and completion of the acceptance process.
- **Ananda**: After launching its first digital application, Ananda, in Nov'20, LIC rolled out the Ananda mobile app in Aug'21. The app enables customers to get a life insurance policy through a paperless module built on customer Aadhaar-based e-authentication. Ananda is the first application of its kind in the Indian life insurance industry.

The company also has a Pragati app that helps senior officers monitor the performance of agents.

## Distribution network

Fig 68 – Agent training infrastructure



Source: Company, BOBCAPS Research

Fig 69 – Highest number of Million Dollar Round Table (MDRTs) in the life insurance industry



Source: Company, BOBCAPS Research

## Risk management framework

- LIC has a decentralised risk management framework, with individual functional heads at corporate offices monitoring and managing the risks.
- LIC’s Chief Risk Officer heads the Enterprise Risk Management (ERM) cell and has a team of officers supporting him at different levels. The ERM cell provides a framework for evaluating and managing risks inherent through risk and control self-assessment, incident management and key risk indicator analysis.



- The company also has a Risk Management Committee of the Board (RMCB) that carries out several functions, including reviewing the risk management framework, risk appetite and mitigation plans for significant risks, identifying strategic threats emanating from changes in the business environment and regulations, ensuring compliance with regulatory requirements, and addressing all matters related to asset-liability management and IT security policy for investment functions on an annual basis.

## Rural focus

**Fig 70 – Geographical bifurcation (rural vs. urban) for individual NBP, FY22**

State	Individual NBP - Rural			Individual NBP - Total			Rural as a % of Total			Per policy	
	No. of policies	Premium (Rs mn)	Sum assured (Rs mn)	No. of policies	Premium (Rs mn)	Sum assured (Rs mn)	No. of policies	Premium	Sum assured	Individual NBP (Rs '000)	Sum assured (Rs '000)
Andhra Pradesh	3,14,683	5,333	81,233	10,12,116	23,642	3,21,986	31.1	22.6	25.2	23.4	318.1
Arunachal Pradesh	470	34	217	9,140	294	4,159	5.1	11.5	5.2	32.2	455.1
Assam	1,07,121	2,157	21,534	7,41,943	19,582	1,90,101	14.4	11.0	11.3	26.4	256.2
Assam	1,07,121	2,157	21,534	7,41,943	19,582	1,90,101	14.4	11.0	11.3	26.4	256.2
Bihar	1,22,125	1,404	22,558	13,58,465	22,687	3,60,886	9.0	6.2	6.3	16.7	265.7
Chhattisgarh	42,999	487	7,860	4,36,598	9,188	1,34,324	9.8	5.3	5.9	21.0	307.7
Goa	5,074	146	1,328	64,846	2,470	19,133	7.8	5.9	6.9	38.1	295.1
Gujarat	1,46,743	3,418	37,327	10,13,598	37,006	3,99,552	14.5	9.2	9.3	36.5	394.2
Haryana	80,023	980	16,489	4,47,059	10,015	1,54,510	17.9	9.8	10.7	22.4	345.6
Himachal Pradesh	1,65,954	3,844	44,719	2,03,891	4,166	48,082	81.4	92.3	93.0	20.4	235.8
Jharkhand	72,468	1,344	17,015	4,96,106	13,591	1,46,489	14.6	9.9	11.6	27.4	295.3
Karnataka	7,73,752	9,815	1,40,135	14,76,582	36,185	3,97,994	52.4	27.1	35.2	24.5	269.5
Kerala	1,56,795	4,987	50,159	5,30,169	23,389	2,06,382	29.6	21.3	24.3	44.1	389.3
Madhya Pradesh	1,20,845	1,530	25,613	10,03,547	20,098	3,10,821	12.0	7.6	8.2	20.0	309.7
Maharashtra	2,61,621	4,529	71,805	22,38,081	68,800	9,43,146	11.7	6.6	7.6	30.7	421.4
Manipur	383	10	137	15,238	536	4,877	2.5	1.9	2.8	35.2	320.1
Meghalaya	3	0	1	10,762	556	4,822	0.0	0.0	0.0	51.7	448.0
Mizoram	28	2	16	3,318	131	1,658	0.8	1.5	1.0	39.6	499.6
Nagaland	2	5	1	8,458	332	3,420	0.0	1.6	0.0	39.3	404.4
Odisha	3,47,987	5,258	66,114	10,56,113	20,210	2,40,806	32.9	26.0	27.5	19.1	228.0
Punjab	1,32,593	1,242	17,872	4,86,368	10,479	1,43,692	27.3	11.8	12.4	21.5	295.4
Rajasthan	3,60,210	3,790	62,843	13,63,600	23,252	3,86,638	26.4	16.3	16.3	17.1	283.5
Sikkim	8	0	2	7,213	240	3,125	0.1	0.0	0.1	33.3	433.2
Tamil Nadu	3,00,662	5,167	71,251	11,31,005	35,074	3,73,032	26.6	14.7	19.1	31.0	329.8
Telangana	1,34,914	2,113	34,312	6,42,394	16,754	2,34,965	21.0	12.6	14.6	26.1	365.8
Tripura	4,592	76	903	1,09,919	2,579	23,976	4.2	3.0	3.8	23.5	218.1
Uttarakhand	31,750	447	5,334	2,35,967	4,956	60,553	13.5	9.0	8.8	21.0	256.6
Uttar Pradesh	3,74,408	5,280	81,971	26,99,146	55,367	7,84,457	13.9	9.5	10.4	20.5	290.6
West Bengal	3,91,194	6,644	68,500	21,41,262	61,055	4,65,045	18.3	10.9	14.7	28.5	217.2
Andaman and Nicobar Islands	-	-	-	4,105	167	1,696	-	-	-	40.6	413.1
Chandigarh	7,583	2	104	42,308	972	12,461	17.9	0.2	0.8	23.0	294.5
Dadra and Nagar Haveli and Daman & Diu	1,095	29	456	12,740	421	4,990	8.6	6.8	9.1	33.1	391.7



State	Individual NBP - Rural			Individual NBP - Total			Rural as a % of Total			Per policy	
	No. of policies	Premium (Rs mn)	Sum assured (Rs mn)	No. of policies	Premium (Rs mn)	Sum assured (Rs mn)	No. of policies	Premium	Sum assured	Individual NBP (Rs '000)	Sum assured (Rs '000)
Govt. of NCT of Delhi	25,410	6	332	5,38,553	20,187	2,18,296	4.7	0.0	0.2	37.5	405.3
Jammu & Kashmir	15,459	2	343	1,50,520	3,147	40,584	10.3	0.1	0.8	20.9	269.6
Ladakh	1,090	21	462	1,090	21	462	100.0	100.0	100.0	19.0	423.6
Lakshadweep	-	-	-	69	3	41	-	-	-	44.4	589.5
Puducherry	2,241	62	669	26,406	920	10,374	8.5	6.8	6.5	34.9	392.9
<b>Grand Total</b>	<b>45,02,285</b>	<b>70,164</b>	<b>9,49,616</b>	<b>2,17,18,695</b>	<b>5,48,473</b>	<b>66,57,536</b>	<b>20.7</b>	<b>12.8</b>	<b>14.3</b>	<b>25.3</b>	<b>306.5</b>

Source: Company, BOBCAPS Research

## Financials

### Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Gross premium income</b>	<b>40,58,508</b>	<b>43,01,168</b>	<b>48,24,448</b>	<b>54,36,836</b>	<b>61,03,591</b>
First year premium	3,43,410	3,68,785	4,05,664	4,42,173	4,81,969
Renewal premium	22,03,276	23,04,250	24,32,462	26,11,076	28,08,989
Single premium	15,11,822	16,28,133	19,86,322	23,83,587	28,12,632
<b>Net written premium</b>	<b>40,53,985</b>	<b>42,95,008</b>	<b>48,16,573</b>	<b>54,27,961</b>	<b>60,93,628</b>
Income from investments	28,55,204	29,41,055	32,38,471	39,03,144	42,11,218
Other Income	1,27,858	8,097	1,00,000	1,10,000	1,21,000
<b>Total income</b>	<b>70,37,094</b>	<b>72,44,254</b>	<b>81,55,044</b>	<b>94,41,106</b>	<b>1,04,25,846</b>
Commissions	2,23,582	2,33,058	2,49,948	2,65,681	2,86,203
Operating expenses	3,51,622	3,03,467	4,34,200	4,78,442	5,31,012
Benefits and bonuses paid	29,07,181	36,35,410	40,47,986	47,80,554	51,63,745
Change in liabilities (net)	32,11,426	29,41,406	28,08,510	32,05,646	36,40,441
Others	0	0	0	0	0
<b>Total expenses</b>	<b>66,93,811</b>	<b>71,13,341</b>	<b>75,40,644</b>	<b>87,30,323</b>	<b>96,21,401</b>
<b>Surplus before tax</b>	<b>1,30,323</b>	<b>1,36,945</b>	<b>6,02,391</b>	<b>6,80,802</b>	<b>7,51,134</b>
Provision for tax	91,705	79,733	3,50,729	3,96,382	4,37,331
<b>Surplus after tax</b>	<b>38,618</b>	<b>57,212</b>	<b>2,51,662</b>	<b>2,84,420</b>	<b>3,13,803</b>
Trf to shareholders' a/c	29,626	38,838	1,70,841	1,93,079	2,13,026
Balance being FFA	8,992	18,373	80,821	91,341	1,00,777

### Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Trf from policyholders' a/c	29,626	38,838	1,70,841	1,93,079	2,13,026
Income from investments	230	2,069	5,130	17,030	22,760
Contr. to policyholders' fund	48	94	0	0	0
Others	5	274	0	0	0
<b>PBT</b>	<b>29,813</b>	<b>41,087</b>	<b>1,75,971</b>	<b>2,10,109</b>	<b>2,35,786</b>
Provision for taxation	62	399	1,681	2,007	2,252
<b>PAT</b>	<b>29,751</b>	<b>40,688</b>	<b>1,74,291</b>	<b>2,08,102</b>	<b>2,33,534</b>
Dividend+Interim div.+DDT	0	9,487	34,773	41,523	46,595

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity	63,607	1,04,091	2,43,206	4,09,320	5,95,721
Policyholders' funds	3,72,25,384	4,14,71,016	4,42,79,526	4,74,85,172	5,11,25,613
FFA	3,29,320	2,38,858	2,55,034	2,73,498	2,94,465
Others	33	18,344	18,344	18,344	18,344
<b>Total liabilities</b>	<b>3,72,89,024</b>	<b>4,15,93,452</b>	<b>4,45,41,076</b>	<b>4,79,12,836</b>	<b>5,17,39,679</b>
Shareholders' funds	7,136	64,121	2,12,873	2,84,496	3,89,638
Policyholders' funds	3,48,76,549	3,89,56,935	4,17,65,445	4,49,71,091	4,86,11,532
Assets to cover linked liab.	3,29,495	2,39,386	0	0	0
Others	20,75,845	23,33,009	25,62,758	26,57,249	27,38,509
<b>Total assets</b>	<b>3,72,89,024</b>	<b>4,15,93,452</b>	<b>4,45,41,076</b>	<b>4,79,12,836</b>	<b>5,17,39,679</b>

### Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
AUM (Rs mn)	3,67,61,788	4,08,48,327	4,53,41,643	5,03,29,224	5,58,65,438
NBP (Rs mn)	18,55,232	19,96,918	23,91,986	28,25,760	32,94,601
APE (Rs mn)	4,94,592	5,31,599	6,04,296	6,80,532	7,63,232
VNB (Rs mn)	41,670	76,190	1,02,730	1,22,496	1,45,014
VNB margin (%)	9.9	15.1	17.0	18.0	19.0
Embedded value (Rs mn)	9,56,060	54,14,930	59,50,855	65,49,419	72,18,387
ROEV (%)	36.9	11.9	9.9	10.1	10.2
ROE (%)	36.9	11.9	9.9	10.1	10.2
Opex ratio (%)	8.7	9.1	9.0	8.8	8.7
Cost ratio (%)	14.2	14.5	14.2	13.7	13.4
Solvency ratio (%)	176.2	184.5	190.1	190.1	192.4
EPS (Rs)	4.7	6.5	27.5	32.8	36.8
BVPS (Rs)	10.1	16.5	38.5	64.7	94.2
EVPS (Rs)	151.2	856.1	940.8	1,035.5	1,141.2

Source: Company, BOBCAPS Research

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**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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