

BUY

TP: Rs 770 | ▲ 20%

LIC

| Insurance

| 11 August 2023

Mixed quarter; maintain BUY

- Q1FY24 individual APE declined 8% YoY but non-par business grew 22% (constituting 10.2% of individual APE vs. 7.8% in Q1FY23)
- VNB margin remained flat at 13.7%, leading us to trim estimates by 100bps each to 16%/17% for FY24/FY25
- We marginally revise EV estimates and move to a new TP of Rs 770 (vs. Rs 775); maintain BUY

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Subdued growth: LIC’s Q1FY24 APE declined 7% YoY to Rs 95.3bn with both individual/group segments falling 8%/6%. Within the individual segment, par business decreased 10% YoY, but non-par grew 22% and increased its share to 10.2% of individual APE from 7.8% in Q1FY23. Management reiterated its focus on group products despite a soft Q1 and expects high growth ahead. NBP slipped 7% YoY though net premium was flat at end-Q1. In a positive, total expense ratio fell 170bps YoY to 12.9%. Baking in the Q1 results, we trim our FY24/FY25 APE estimates by 9%/10%.

Focus on profitable products: The company introduced two non-par and one ROP term product in Q1, besides indicating a strong launch pipeline. Persistency improved across 13th and 61st month cohorts.

VNB margin flat: VNB margin was flat YoY at 13.7% as the positive impact of a stronger product mix (0.6%) and favourable change in assumptions (2.0%) was offset by a 2.5% negative economic variance impact. We trim our FY24/FY25 margin estimates by 100bps each to 16%/17%.

Agents continue to dominate distribution: LIC’s moat is its strong agency network (1.34mn) which commands 51% market share and contributed 96% of the company’s individual NBP at end-Q1FY24. The bancassurance and alternate channels grew 16% YoY in Q1 to Rs 3.4bn. The company continues to beef up its distribution channels, adding tie-ups with two banks, nine brokers and one corporate agent during the quarter.

Maintain BUY: The stock is currently trading at 0.6x FY25E EV, a ~70% discount to private listed peers which appears unwarranted. We value LIC at an unchanged 0.7x FY25E EV, a narrower ~65% discount to peers. Based on our revised estimates, we have a new TP of Rs 770 (vs. Rs 775), which offers 20% upside – maintain BUY given the company’s entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement ratio.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	LICI IN/Rs 642
Market cap	US\$ 49.4bn
Free float	4%
3M ADV	US\$ 8.9mn
52wk high/low	Rs 754/Rs 530
Promoter/FPI/DII	97%/0%/1%

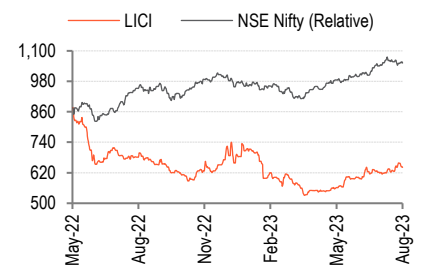
Source: NSE | Price as of 10 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	23,20,506	24,24,804	27,60,615
APE (Rs mn)	5,83,860	6,01,326	6,63,615
VNB (Rs mn)	91,560	96,212	1,12,815
Embedded Value (Rs)	58,22,440	63,65,474	69,43,153
VNB margin (%)	16.2	16.0	17.0
EVPS (Rs)	920.5	1,006.5	1,097.8
EPS (Rs)	57.6	54.3	65.8
Consensus EPS (Rs)	57.6	44.3	50.5
P/EV (x)	0.7	0.6	0.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

Business performance

- LIC's Q1FY24 APE declined 7% YoY to Rs 95.3bn. Within this, individual APE (constituting 62% share) fell 8% YoY, whereas group business was down 6%. The individual segment saw weak participating business (-10% YoY), though growth in non-participating sales remained strong at 22%.
- Management reiterated a focus on selling more profitable products such as non-par plans, specifically protection and annuity plans. To this end, the company introduced two non-par products during the quarter. The share of non-par in APE has improved from 7.8% in Q1FY23 to 10.2% in Q1FY24, and management is looking to increase it further.
- The company continues to target group business which is also providing good margins. Q1 was soft, but management expects higher growth from Q2 onwards with better market share.
- In the protection business, LIC has launched a new ROP (return of premium) term plan christened 'Jeevan Kiran' that is gathering traction. Last year, the company repriced its term plans which had a negative impact on sales, but benefits therefrom are now expected to flow in. Management also highlighted that the company receives good support from reinsurers as it adopts high underwriting standards.
- LIC recently repriced its annuity products.
- AUM grew 12.4% YoY to Rs 46tn at end-Q1FY24.
- Persistency has improved in the 13th and 61st month cohorts due to improvement in both par and non-par segments. The company has taken a conscious decision to modify or withdraw a few products, the positive impact of which should be visible in the coming quarters.
- About 3.2mn new policies were sold in Q1FY24 vs. 3.7mn in Q1FY23 (-12.5% YoY).

Distribution mix

- The agency channel continues to dominate the distribution mix with 96.5% share in individual NBP at end-Q1FY24 (vs. 97% in Q1FY23). Market share by number of agents stood at 50.9% (vs. 54%).
- Individual NBP sourced through the bancassurance and alternate channels grew 16% YoY to Rs 3.4bn. The company continues to beef up its distribution channels, adding tie-ups with two banks, nine brokers and one corporate agent during the quarter.

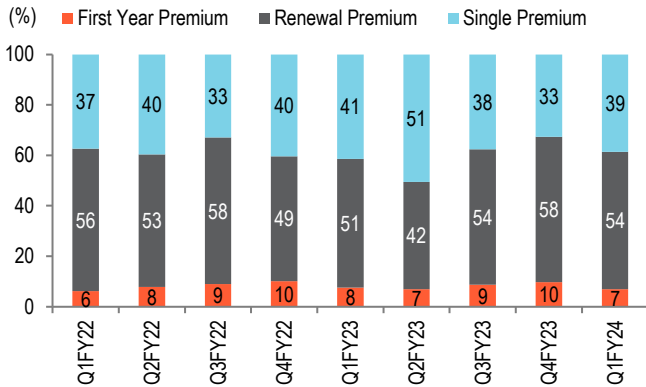
VNB and VNB margin

- VNB margin (net) was flattish at 13.7% as the positive impact of a better product mix (0.6%) and favourable change in assumptions (2.0%) was offset by a 2.5% negative impact from economic variance. The net positive change in assumptions was owing to better mortality experience.
- Individual VNB margin declined from 15.8% in Q1FY23 to 13.5% in Q1FY24, whereas that in the group business increased from 10% to 13.9%.
- VNB margin at end-FY24 is likely to be higher than the first quarter because of the seasonal difference in demand profile between the two periods. Moreover, management expects that recent changes in policy features will make its products more competitive and aid better sales and ultimately higher margins.
- Management expects margins to remain on an upward trajectory.

Others

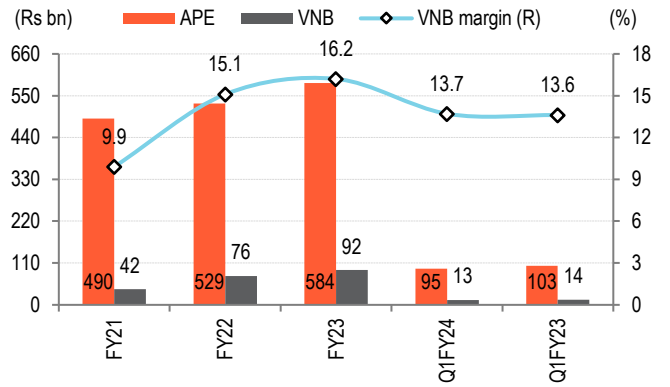
- At end-Q1FY24, maturity claims totalled Rs 346bn and death claims Rs 51bn as compared to Rs 313bn and Rs 57bn in Q1FY23 respectively. The company processed 3.9mn claims during the quarter, including 3.7mn maturity claims. Its claim settlement ratio (death) was at 93.77% by number as against 91.51% in the year-ago period.
- The number of policyholder complaints per 10,000 policies sold stood at 61.9.
- The company's opex ratio improved YoY in Q1 owing to lower employee expenses. Management asserted that wage revision takes place every five years and the entire amount of future provisioning has been expensed earlier, keeping a lid on costs during the quarter.
- LIC's solvency ratio remains comfortable at 189%, having improved consistently since listing from earlier levels of 165-170%. Thus, the company not only meets the regulatory requirement of 150%, but also has a strong dividend paying capacity. The board is yet to decide whether to distribute dividend or retain capital for business support.
- Of the 3.2mn policies sold by LIC in Q1, women bought 1.13mn. Moreover, the company has ~48% share in women agents recruited in the life insurance industry. The company believes that life insurance penetration in this category is low and thus sees high growth potential.

Fig 1 – Net premium remained flattish YoY in Q1FY24



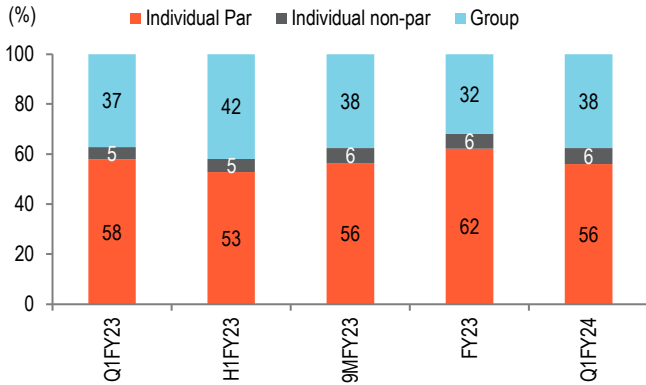
Source: Company, BOBCAPS Research

Fig 2 – VNB margin stable



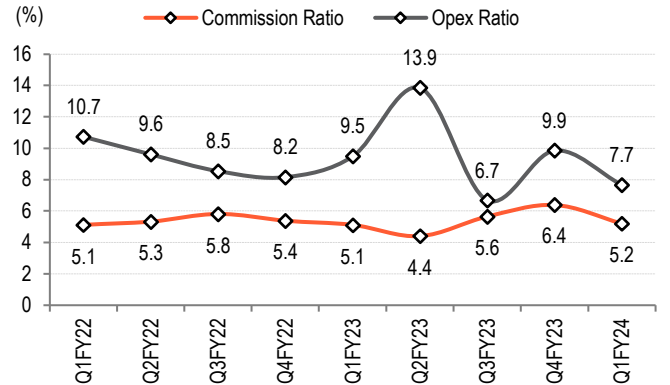
Source: Company, BOBCAPS Research | Note: APE is calculated

Fig 3 – Individual non-par business is growing within the APE mix



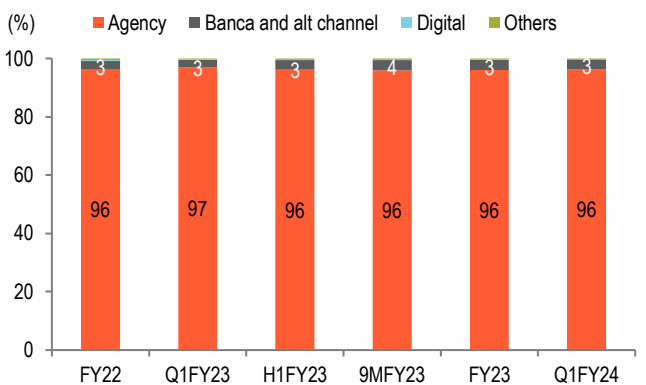
Source: Company, BOBCAPS Research

Fig 4 – Opex ratio declined in Q1



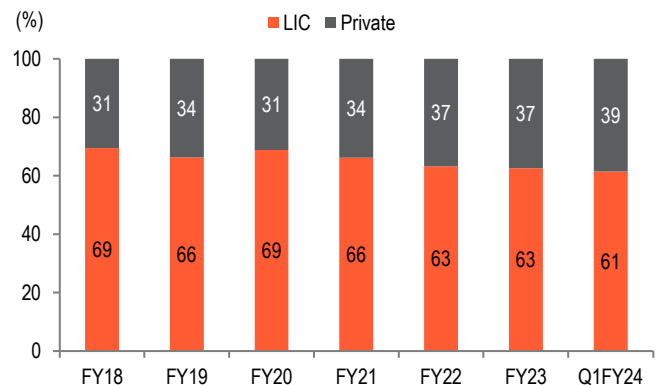
Source: Company, BOBCAPS Research

Fig 5 – Agents contribute a bulk of individual NBP



Source: Company, BOBCAPS Research

Fig 6 – LIC has maintained >60% NBP market share though the trend is declining



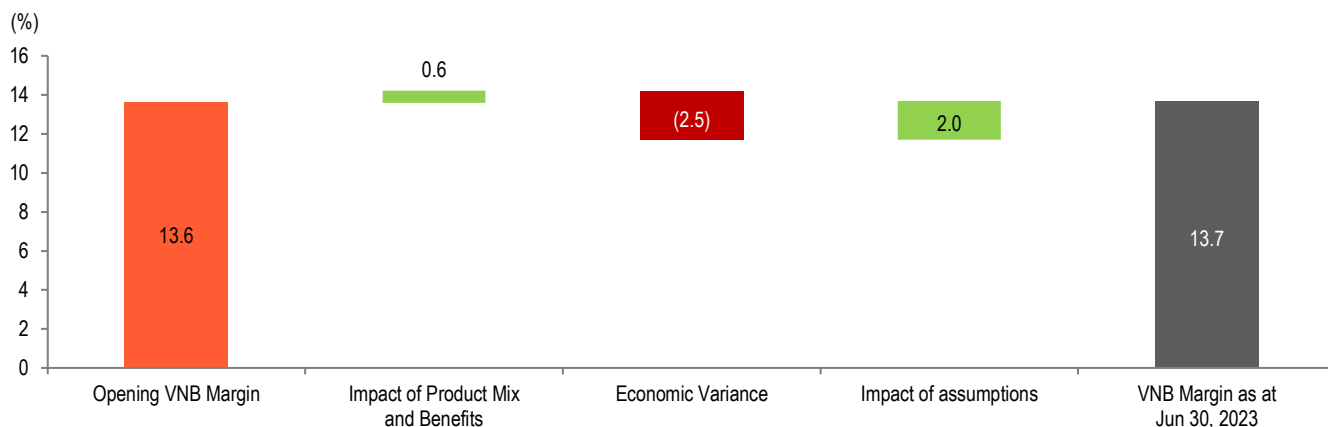
Source: Company, BOBCAPS Research

Fig 7 – Persistency ratio stable across cohorts

(%)	Q1FY22	H1FY22	9MFY22	FY22	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24
13th month	72.5	78.8	76.8	75.6	75.8	77.6	77.6	77.1	75.1
25th month	66.5	70.9	71.7	73.5	67.8	73.8	71.3	69.9	70.9
37th month	62.6	67.6	67.8	66.6	64.3	67.9	68.3	70.1	64.3
49th month	59.9	64.8	65.0	63.9	60.8	64.7	64.7	63.5	61.6
61st month	56.0	60.6	61.9	61.0	59.0	62.8	62.7	61.8	59.3

Source: Company, BOBCAPS Research Note: The above data is based on regular premium basis

Fig 8 – VNB margin negatively impacted by economic variance



Source: Company, BOBCAPS Research

Key financials

Fig 9 – Policyholders’ account

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Net premium income	9,83,628	9,83,518	0.0	13,17,611	(25.3)	47,40,046	42,74,192	10.9
Income from investments (Net)	9,03,094	6,95,708	29.8	6,78,466	33.1	30,63,901	29,28,945	4.6
Other income	755	1,601	(52.8)	4,836	(84.4)	76,485	7,795	881.2
Total Income	18,87,492	16,88,819	11.8	20,01,854	(5.7)	78,81,734	72,94,206	8.1
Net Commission	51,162	50,254	1.8	84,285	(39.3)	2,55,804	2,36,912	8.0
Operating expenses	75,471	93,434	(19.2)	1,30,068	(42.0)	4,81,456	3,88,907	23.8
Benefits Paid (Net)	7,48,445	6,86,567	9.0	11,11,906	(32.7)	34,25,768	35,74,649	(4.2)
Change in actuarial liability	9,63,012	7,79,358	23.6	7,17,567	34.2	3,43,38,276	29,72,776	1,055.1
Surplus/Deficit	61,822	36,240	70.6	65,037	(4.9)	3,79,822	1,40,246	170.8

Source: Company, BOBCAPS Research

Fig 10 – Shareholders’ account

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Amounts transferred from Policyholders'	90,072	13,558	564.4	1,34,161	(32.9)	3,59,077	1,21,935	194.5
Income From Investments	6,279	1,480	324.3	5,711	10.0	11,478	2,012	470.4
PAT	95,437	6,829	1,297.5	1,34,278	(28.9)	3,63,974	40,431	800.2

Source: Company, BOBCAPS Research

Fig 11 – Key growth metrics

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
NBP	4,48,712	4,82,281	(7.0)	5,59,549	(19.8)	23,20,506	19,89,322	16.6
APE (as provided)	95,320	1,02,700	(7.2)	1,91,370	(50.2)	5,66,820	5,03,900	12.5
Total Expense ratio (%)	12.9	14.6	(173bps)	16.2	(339bps)	15.5	14.5	103bps
VNB margin (%)	13.7	13.6	10bps	NA	NA	16.2	15.1	110bps
Solvency ratio (%)	189	188	100bps	186	300bps	186	187	(100bps)

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 70%+ 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. 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 embedded value (EV).

We remain bullish on the company but trim our FY24/FY25 VNB margin assumptions by 100bps each to 16%/17% baking in the Q1FY24 results. We now anticipate a 9.2% CAGR in LIC's EV over FY23-FY25 to Rs 6.9tn vs. Rs 7.0tn earlier.

The stock is currently trading at 0.6x FY25E EV, a ~70% discount to private listed peers which appears unwarranted. We value LIC at an unchanged 0.7x FY25E EV, a narrower ~65% discount to peers. Following estimate revision, our TP moves to Rs 770 (vs. Rs 775), which offers 20% upside – maintain BUY given the company's entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement ratio in excess of 95%.

Positive stock triggers include higher growth, 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 12 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Gross Premium	4,988	5,486	5,333	5,973	(6.5)	(8.2)
Net Premium	4,980	5,477	5,325	5,963	(6.5)	(8.2)
VNB	96	113	112	133	(13.9)	(15.0)
APE	601	664	658	738	(8.6)	(10.0)
Embedded Value (EV)	6,365	6,943	6,381	6,996	(0.2)	(0.8)
VNB Margin (%)	16.0	17.0	17.0	18.0	(100bps)	(100bps)

Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	CMP (Rs)	Target Price (Rs)	Upside (%)	Mcap (Rs bn)	EV (Rs bn)		P/EV (CMP)		P/EV (Implied)	
						FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
LICI IN	BUY	642	770	20	4,060	6,365	6,943	0.6	0.6	0.8	0.7
SBILIFE IN	BUY	1,334	1,500	12	1,340	548	654	2.4	2.0	2.7	2.3
HDFCLIFE IN	HOLD	640	700	9	1,380	460	536	3.0	2.6	3.2	2.8
IPRU IN	SELL	576	518	(10)	829	409	467	2.0	1.8	1.8	1.6

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 focused on the bancassurance channel for growth. Although the agency mode is comparatively more productive for LIC, this model did prove a hindrance during the Covid-19 pandemic given fewer agent-customer interactions and slower agent additions due to deferred competency tests.
- **Strong linkage with capital markets:** LIC's embedded value is highly sensitive to capital market movements. Per the company, a 10% decline in its equity value will lead to 7% lower EV (as of Mar'23) and a 0.1% decline in VNB margin.
- **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. 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	16.6	640	700	HOLD
ICICI Prudential Life	IPRU IN	10.1	576	518	SELL
LIC	LICI IN	49.4	642	770	BUY
SBI Life	SBILIFE IN	16.3	1,334	1,500	BUY

Source: BOBCAPS Research, NSE | Price as of 10 Aug 2023

Glossary

Glossary			
APE	Average Premium Equivalent	ULIP	Unit Linked Insurance Plan
EV	Embedded Value	VNB	Value of New Business
IRDA	Insurance Regulatory and Development Authority	WRP	Weighted Received Premium
NBP	New Business Premium		

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Gross premium income	40,32,866	42,80,250	47,46,681	49,88,342	54,85,890
First year premium	3,39,309	3,66,493	3,90,899	3,98,717	4,30,615
Renewal premium	21,88,570	22,90,928	24,26,175	25,63,538	27,25,275
Single premium	15,04,987	16,22,828	19,29,607	20,26,087	23,30,000
Net written premium	40,28,443	42,74,192	47,40,046	49,80,285	54,77,029
Income from investments	27,87,611	29,28,945	30,63,901	35,15,978	38,19,211
Other Income	5,947	7,795	76,485	80,310	88,341
Total income	68,22,050	72,94,206	78,81,734	85,76,573	93,84,581
Commissions	2,21,699	2,36,912	2,55,804	2,63,896	2,92,098
Operating expenses	3,49,895	3,83,709	4,81,456	4,11,538	4,38,871
Benefits and bonuses paid	28,68,838	35,74,649	34,25,768	38,00,817	43,12,023
Change in liabilities (net)	32,21,957	29,72,776	34,33,828	38,52,798	39,91,129
Others	0	0	0	0	0
Total expenses	66,62,389	71,68,046	75,96,855	83,29,049	90,34,122
Surplus before tax	1,08,717	2,19,032	4,32,250	3,88,566	4,84,450
Provision for tax	79,878	78,786	52,429	46,628	58,134
Surplus after tax	28,839	1,40,246	3,79,822	3,41,938	4,26,316
Trf to shareholders' a/c	28,890	1,21,935	3,59,077	3,23,263	4,03,032
Balance being FFA	(51)	18,311	20,744	18,675	23,284

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Trf from policyholders' a/c	28,890	1,21,935	3,59,077	3,23,263	4,03,032
Income from investments	230	2,012	11,478	27,895	21,526
Contr. to policyholders' fund	48	83,275	1,301	0	0
Others	5	5	4,716	0	0
PBT	29,077	40,677	3,73,971	3,51,158	4,24,558
Provision for taxation	62	236	594	561	679
PAT	29,015	40,441	3,73,377	3,50,598	4,23,879
Dividend+Interim div.+DDT	0	9,487	18,973	28,460	31,622

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity	63,607	1,04,091	4,56,694	7,71,838	11,56,060
Policyholders' funds	3,72,25,384	4,14,71,016	4,44,15,434	4,82,68,232	5,22,59,361
FFA	3,29,320	2,38,858	2,61,592	2,84,284	3,07,791
Others	33	18,344	39,187	39,187	39,187
Total liabilities	3,72,89,024	4,15,93,452	4,49,11,314	4,90,79,257	5,34,54,608
Shareholders' funds	7,136	64,121	2,93,635	2,46,010	2,22,316
Policyholders' funds	3,48,76,549	3,89,56,935	4,18,91,778	4,57,44,576	4,97,35,705
Assets to cover linked liab.	3,29,495	2,39,386	2,63,095	0	0
Others	20,75,845	23,33,009	24,62,806	30,88,670	34,96,587
Total assets	3,72,89,024	4,15,93,452	4,49,11,314	4,90,79,257	5,34,54,608

Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
AUM (Rs mn)	3,67,61,788	4,08,48,327	4,39,72,046	4,74,89,810	5,12,88,994
NBP (Rs mn)	18,44,296	19,89,322	23,20,506	24,24,804	27,60,615
APE (Rs mn)	4,89,807	5,28,776	5,83,860	6,01,326	6,63,615
VNB (Rs mn)	41,670	76,190	91,560	96,212	1,12,815
VNB margin (%)	9.9	15.1	16.2	16.0	17.0
Embedded value (Rs mn)	9,56,060	54,14,930	58,22,440	63,65,474	69,43,153
ROEV (%)	36.9	11.9	10.9	9.7	9.5
ROE (%)	36.9	11.9	10.9	9.7	9.5
Opex ratio (%)	8.7	9.0	10.1	8.3	8.0
Cost ratio (%)	14.2	14.5	15.5	13.5	13.3
Solvency ratio (%)	176.2	184.5	187.2	181.3	176.2
EPS (Rs)	4.6	6.4	57.6	54.3	65.8
BVPS (Rs)	10.1	16.5	72.2	122.0	182.8
EVPS (Rs)	151.2	856.1	920.5	1,006.5	1,097.8

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

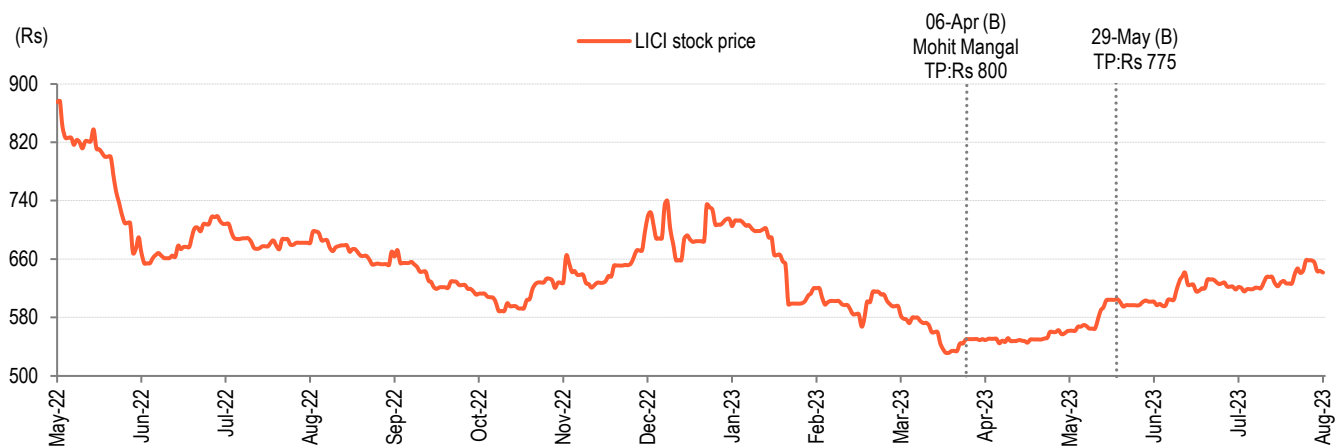
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): LIC (LICI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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