

BUY

TP: Rs 767 | ▲ 26%

LIC

| Insurance

| 11 November 2023

Weak quarter; focus on recouping market share

- H1FY24 APE declined 10% YoY due to flat individual APE (up 20% ex-non-par) and a 25% drop in group business
- VNB margin stayed flat at 14.6%, leading us to trim estimates by 50bps each to 15.5%/16.5% for FY24/FY25
- We marginally revise EV estimates and move to a new TP of Rs 767 (vs. Rs 770); maintain BUY

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Weak growth: LIC's H1FY24 APE declined 10.3% YoY to Rs 226bn with the group segment falling 25%. Individual APE was flat YoY as par business dipped 2% whereas non-participating business grew 20% and increased its share to 10.8% of individual APE from 9% in H1FY23. Management reiterated its focus on group products despite a soft H1. NBP slipped 25% YoY though net premium declined by a lower 11% at end-H1. In a positive, ticket size has risen across policies YoY. Embedded value (EV) increased 22% YoY to Rs 6.6tn at end-H1. Baking in the results, we trim our FY24/FY25 APE estimates by 6% each.

Focus on profitable products: The company has introduced three non-par products during H1, indicating a sustained focus on the segment. On the non-par side, LIC continues to push annuity plans as ~25% of its non-par business comes from annuities, with a similar trend last year. Persistency ratios were largely stable with improvement across the 13th month cohort but a marginal decline in the 61st month cohort.

VNB margin flat: Net VNB margin was flat YoY at 14.6% as of H1 because the positive impact of a better product mix (2.3%) and favourable change in assumptions (1.9%) was offset by a negative impact (4.2%) from product benefits. We trim our FY24/FY25 margin estimates by 50bps each to 15.5%/16.5%.

Agency channel continues to dominate: LIC's moat is its strong agency network (1.35mn) which commands 49% market share and contributed 96% of the company's individual NBP at end-H1FY24. The bancassurance and alternate channels grew 4% YoY in H1 to Rs 8.6bn. Apart from these, the company has 153 corporate agents, 296 brokers, 19,000+micro insurance agents and 3,600+ branches.

Maintain BUY: The stock is currently trading at 0.6x FY25E EV, a ~75% discount to private listed peers which appears unwarranted. We value LIC at an unchanged 0.7x FY25E EV, a narrower ~70% discount to peers. Based on our revised estimates, our TP changes slightly to Rs 767 (vs. Rs 770), which offers 26% upside – maintain BUY given the company's entrenched brand equity, market leadership, superior agency force, focus on high-margin products and robust claim settlement ratio.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	LICI IN/Rs 610
Market cap	US\$ 47.0bn
Free float	4%
3M ADV	US\$ 8.1mn
52wk high/low	Rs 754/Rs 530
Promoter/FPI/DII	97%/0%/1%

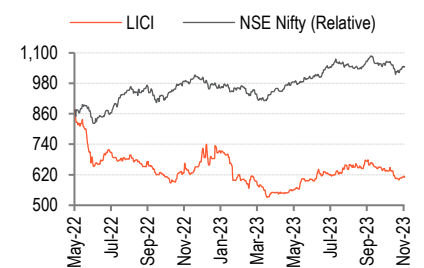
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	23,20,506	21,31,454	24,23,536
APE (Rs mn)	5,83,860	5,68,473	6,26,107
VNB (Rs mn)	91,560	88,113	1,03,308
Embedded Value (Rs mn)	58,22,440	63,57,375	69,24,919
VNB margin (%)	16.2	15.5	16.5
EVPS (Rs)	920.5	1,005.2	1,094.9
EPS (Rs)	57.6	45.8	61.3
Consensus EPS (Rs)	57.6	48.4	55.3
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 Q2/H1FY24 net premium declined 19%/11% YoY to Rs 1.1tn/Rs 2tn.
- Q2/H1FY24 APE declined 12.5%/10.3% YoY to Rs 131bn/Rs 226bn. Within this, individual APE (constituting 65% share) was flat YoY at end-H1, whereas group business fell 25% YoY. The group business is cyclical in nature and certain flows are bulky, thereby causing variations in market share, but the company is confident of regaining the ground lost in H1 through various initiatives.
- 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 three non-par products during H1FY24. The share of non-par business in individual APE has improved from 9% in H1FY23 to 10.8% in H1FY24, and management is looking to increase it further. About 25% of LIC's non-par business continues to be derived from annuities. The company has also added some savings products in the current year which are available in both single and non-single payment modes.
- The company's total expense ratio improved to 15.1% in H1FY24 from 16.7% in H1FY23. In Q2 as well, the total expense ratio declined 100bps YoY to 17.2%. Employee expenses for the quarter totalled Rs 106bn, of which ~Rs 26bn was provided towards additional pension liability.
- AUM grew 10.5% YoY to Rs 47.4tn at end-H1FY24.
- Persistency has improved in the 13th month cohort from 77.6% at end-H1FY23 to 78.5% at end-H1FY24, whereas there was a marginal decline in the 61st month cohort from 62.8% to 62.5%.
- Of the 8.1mn policies sold by LIC in H1, women bought 2.7mn. 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 sees high growth potential.
- Per management, the ticket size of plans sold thus far in FY24 is larger than those of the previous year.

Distribution mix

- The agency channel continues to dominate LIC's distribution mix with 96.2% share in individual NBP at end-H1FY24. Market share by number of agents stood at 49.4%. Of the total agents recruited by LIC, 76% are in the 18-40 age group and 57.5% have been associated with the company for more than five years.
- Individual NBP sourced through the bancassurance and alternate channels grew 4% YoY to Rs 8.6bn.
- The company has a robust distribution capability with 81 bancassurance partnerships, 1.35mn agents, 153 corporate agents, 296 brokers, 19,000+micro insurance agents and 3,600+ branches.

Embedded Value (EV)

- EV increased 22% YoY to Rs 6.6tn at end-H1FY24. Of the total EV, though MTM on equities is playing a large part, it is noteworthy that the performance of the core business has also made a significant contribution to growth.

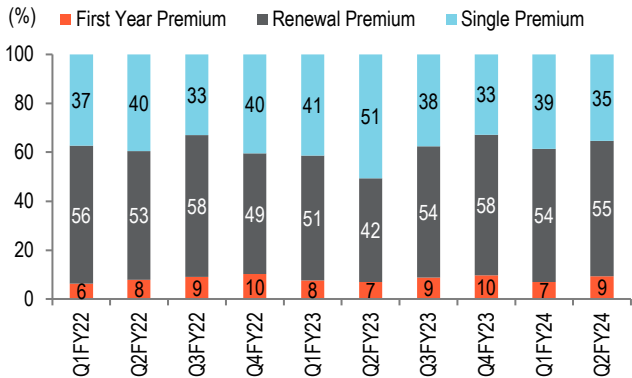
VNB and VNB margin

- VNB margin (net) was flattish at 14.6% at end-H1FY24 as the positive impact of a better product mix (2.3%) and favourable change in assumptions (1.9%) was offset by a 4.2% negative impact from product benefits. The benefits are being enhanced in some products, particularly annuity products, putting downward pressure on the margin.
- Individual net VNB margin declined from 15.8% in H1FY23 to 14.6% in H1FY24, whereas that in the group business increased from 12.9% to 14.6%.
- Within the individual business, net VNB margin of non-par business declined from 68.7% in H1FY23 to 50% in H1FY24 owing to product repricing.
- Net VNB was Rs 33bn at end-H1FY24 as compared to Rs 37bn at end-H1FY23.

Others

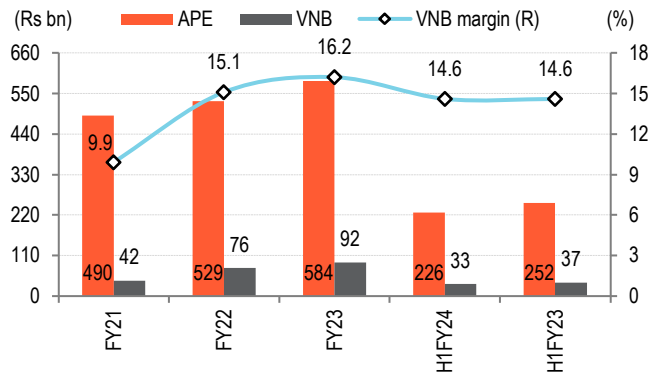
- At end-H1FY24, maturity claims grew 8% YoY to Rs 790bn whereas death claims declined 7% YoY to Rs 108bn. The company processed 8.2mn individual claims during H1, including 0.4mn death claims. Its claim settlement ratio (death) was at 96.1% as against 95.6% in the year-ago period.
- The number of policyholder complaints per 10,000 policies sold stood at 49.4 and the repudiated claim ratio for H1FY24 was 1.18%.
- LIC's solvency ratio remains comfortable at 190%, having improved consistently since listing from earlier levels of 165-170%.

Fig 1 – Net premium declined 19% YoY in Q2FY24 owing to a steep decline in single premium



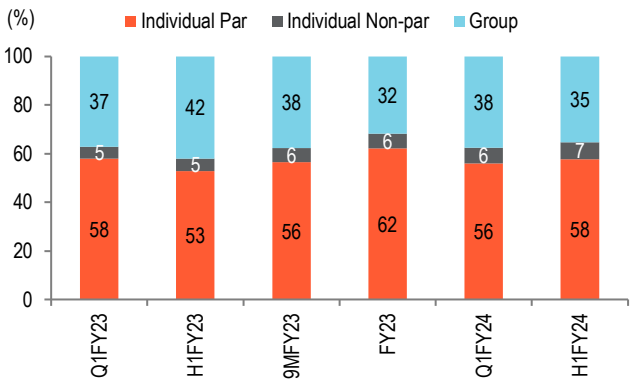
Source: Company, BOBCAPS Research

Fig 2 – VNB margin stable



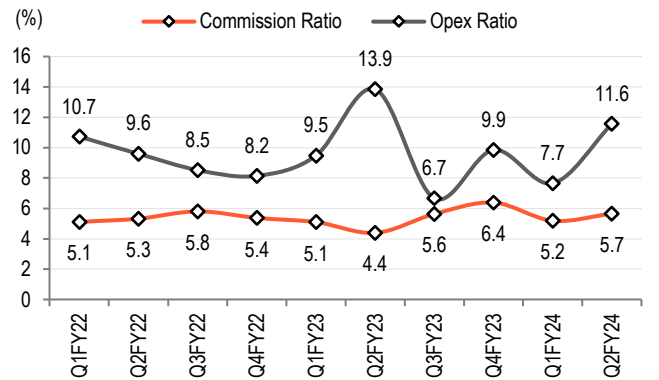
Source: Company, BOBCAPS Research | Note: APE is calculated

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



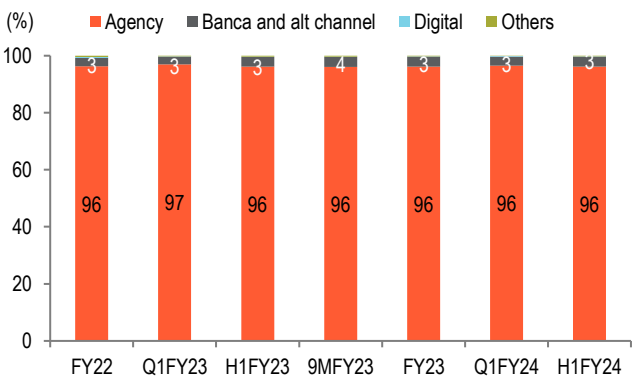
Source: Company, BOBCAPS Research

Fig 4 – Opex ratio moved up sequentially



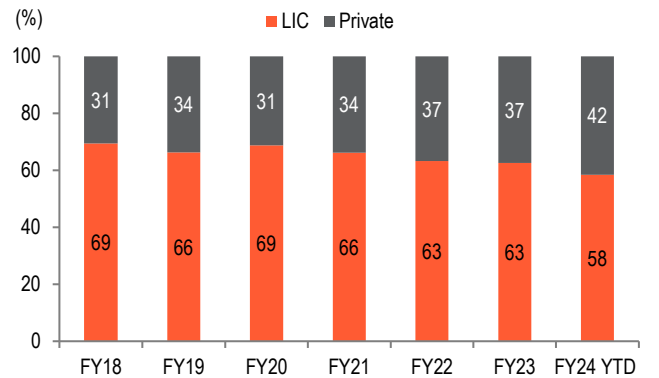
Source: Company, BOBCAPS Research

Fig 5 – Agents contribute a bulk of individual NBP



Source: Company, BOBCAPS Research

Fig 6 – LIC's NBP market has declined in FY24 YTD

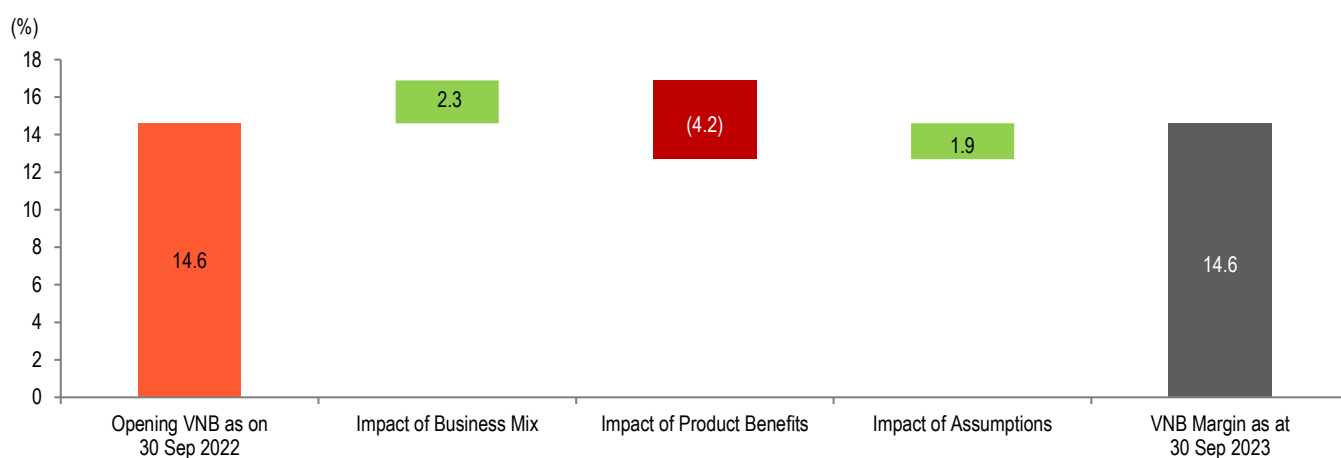


Source: Company, BOBCAPS Research

Fig 7 – Persistency ratio stable across cohorts

(%)	Q1FY22	H1FY22	9MFY22	FY22	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24	H1FY24
13th month	72.5	78.8	76.8	75.6	75.8	77.6	77.6	77.1	75.1	78.5
25th month	66.5	70.9	71.7	73.5	67.8	73.8	71.3	69.9	70.9	72.0
37th month	62.6	67.6	67.8	66.6	64.3	67.9	68.3	70.1	64.3	70.2
49th month	59.9	64.8	65.0	63.9	60.8	64.7	64.7	63.5	61.6	64.6
61st month	56.0	60.6	61.9	61.0	59.0	62.8	62.7	61.8	59.3	62.5

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

Fig 8 – VNB margin negatively impacted by product benefits

Source: Company, BOBCAPS Research

Fig 9 – Embedded Value grew 22% YoY in H1FY24

(Rs bn)	H1FY23	H1FY24
Adjusted Net Worth	263	612
Value of in-force (VIF) Business	5,180	6,014
Embedded Value	5,443	6,626

Source: Company, BOBCAPS Research

Fig 10 – Policyholders’ account

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	YoY (%)	H1FY24	H1FY23	YoY (%)
Net premium income	10,73,968	13,21,041	(18.7)	9,83,628	9.2	20,57,595	23,04,559	(10.7)
Income from investments (Net)	9,39,422	8,41,036	11.7	9,03,094	4.0	18,42,516	15,36,745	19.9
Other income	2,481	67,951	(96.3)	755	228.4	3,236	69,552	(95.3)
Total Income	20,15,874	22,22,154	(9.3)	18,87,492	6.8	39,03,365	39,10,973	(0.2)
Net Commission	60,774	58,075	4.6	51,162	18.8	1,11,936	1,08,329	3.3
Operating expenses	1,24,372	1,83,149	(32.1)	75,471	64.8	1,99,842	2,76,584	(27.7)
Benefits Paid (Net)	8,33,639	8,42,690	(1.1)	7,48,445	11.4	15,82,084	15,29,258	3.5
Change in actuarial liability	9,13,400	9,58,156	(4.7)	9,63,012	(5.2)	18,76,412	17,37,515	8.0
Surplus/Deficit	72,522	1,49,722	(51.6)	61,822	17.3	1,34,344	1,85,962	(27.8)

Source: Company, BOBCAPS Research

Fig 11 – Shareholders’ account

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	YoY (%)	H1FY24	H1FY23	YoY (%)
Amounts transferred from Policyholders’	72,170	1,50,368	(52.0)	90,072	(19.9)	1,62,242	1,63,925	(1.0)
Income From Investments	8,817	1,474	498.2	6,279	40.4	15,096	2,954	411.0
PAT	79,250	1,59,525	(50.3)	95,437	(17.0)	1,74,687	1,66,354	5.0

Source: Company, BOBCAPS Research

Fig 12 – Key growth metrics

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	YoY (%)	H1FY24	H1FY23	YoY (%)
NBP	4,78,342	7,60,258	(37.1)	4,48,712	6.6	9,27,054	12,42,539	(25.4)
APE (as provided)	1,30,950	1,49,580	(12.5)	95,320	37.4	2,26,270	2,52,280	(10.3)
Total Expense ratio (%)	17.2	18.2	(102bps)	12.9	437bps	15.1	16.7	(155bps)
VNB margin – Cumulative (%)	14.6	14.6	0bps	13.7	90bps	14.6	14.6	0bps
Solvency ratio (%)	190	188	200bps	189	100bps	190	188	200bps

Source: Company, BOBCAPS Research

Valuation methodology

LIC had a weak September quarter with a decline in market share due to stiff competition from private peers. Management appears confident of halting the decline, especially in the group business, by working with new entities and existing clients to enhance premium collections. The company has also repriced products to make them more competitive and is training agents to push more profitable products. On the positive side, the ticket size of all its products has improved vis-à-vis the same period last year.

We remain bullish on the company but trim our FY24/FY25 APE estimates by 6% each and pare our VNB margin assumptions by 50bps each to 15.5%/16.5% baking in the Q2FY24 results. We also reduce EV projections slightly and now anticipate a 9.1% CAGR over FY23-FY25 to Rs 6.9tn.

The stock is currently trading at 0.6x FY25E EV, a ~75% discount to private listed peers which appears unwarranted. We value LIC at an unchanged 0.7x FY25E EV, a narrower ~70% discount to peers. Following estimate revision, our TP moves slightly to Rs 767 (vs. Rs 770), which offers 26% upside – we maintain BUY given the company's entrenched brand equity, clear market leadership, superior agency force, focus on high-margin products and robust claim settlement ratio of more than 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 persistency ratios.

Fig 13 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Gross Premium	4,695	5,145	4,988	5,486	(5.9)	(6.2)
Net Premium	4,688	5,137	4,980	5,477	(5.9)	(6.2)
VNB	88	103	96	113	(8.4)	(8.4)
APE	568	626	601	664	(5.5)	(5.7)
Embedded Value (EV)	6,357	6,925	6,365	6,943	(0.1)	(0.3)
VNB Margin (%)	15.5	16.5	16.0	17.0	(50bps)	(50bps)

Source: BOBCAPS Research

Fig 14 – 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	610	767	26	3,860	6,357	6,925	0.6	0.6	0.8	0.7
SBILIFE IN	BUY	1,355	1,650	22	1,360	552	660	2.5	2.1	3.0	2.5
HDFCLIFE IN	HOLD	627	700	12	1,350	460	536	2.9	2.5	3.2	2.8
IPRU IN	HOLD	530	518	(2)	760	409	468	1.9	1.6	1.8	1.6

Source: BOBCAPS Research

Key risks

- Competition:** Market leader LIC 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 equity investment value will lead to a 7% reduction in its EV (as of Sep'23) and a 0.5% dip in its 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	16.3	627	700	HOLD
ICICI Prudential Life	IPRU IN	9.3	530	518	HOLD
LIC	LICI IN	47.0	610	767	BUY
SBI Life	SBILIFE IN	16.5	1,355	1,650	BUY

Source: BOBCAPS Research, NSE | Price as of 10 Nov 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	46,94,992	51,45,215
First year premium	3,39,309	3,66,493	3,90,899	3,94,808	4,26,393
Renewal premium	21,88,570	22,90,928	24,26,175	25,63,538	27,21,679
Single premium	15,04,987	16,22,828	19,29,607	17,36,646	19,97,143
Net written premium	40,28,443	42,74,192	47,40,046	46,87,950	51,37,497
Income from investments	27,87,611	29,28,945	30,63,901	35,15,978	38,22,048
Other Income	5,947	7,795	76,485	45,891	50,480
Total income	68,22,050	72,94,206	78,81,734	82,49,819	90,10,025
Commissions	2,21,699	2,36,912	2,55,804	2,61,933	2,88,988
Operating expenses	3,49,895	3,83,709	4,81,456	3,87,337	4,11,617
Benefits and bonuses paid	28,68,838	35,74,649	34,25,768	35,87,960	39,92,386
Change in liabilities (net)	32,21,957	29,72,776	34,33,828	38,52,798	40,62,052
Others	0	0	0	0	0
Total expenses	66,62,389	71,68,046	75,96,855	80,90,028	87,55,042
Surplus before tax	1,08,717	2,19,032	4,32,250	3,00,834	3,88,974
Provision for tax	79,878	78,786	52,429	36,100	46,677
Surplus after tax	28,839	1,40,246	3,79,822	2,64,734	3,42,297
Trf to shareholders' a/c	28,890	1,21,935	3,59,077	2,64,734	3,42,297
Balance being FFA	(51)	18,311	20,744	0	0

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	2,64,734	3,42,297
Income from investments	230	2,012	11,478	32,300	53,825
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	2,97,034	3,96,122
Provision for taxation	62	236	594	473	632
PAT	29,015	40,441	3,73,377	2,96,561	3,95,489
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	7,19,412	10,75,390
Policyholders' funds	3,72,25,384	4,14,71,016	4,44,15,434	4,82,68,232	5,23,30,284
FFA	3,29,320	2,38,858	2,61,592	2,84,284	3,08,208
Others	33	18,344	39,187	39,187	39,187
Total liabilities	3,72,89,024	4,15,93,452	4,49,11,314	4,90,26,830	5,34,44,861
Shareholders' funds	7,136	64,121	2,93,635	5,98,053	7,66,839
Policyholders' funds	3,48,76,549	3,89,56,935	4,18,91,778	4,57,44,576	4,98,06,628
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	26,84,202	28,71,394
Total assets	3,72,89,024	4,15,93,452	4,49,11,314	4,90,26,830	5,34,44,861

Key Metrics

Y/E 31 Mar	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	21,31,454	24,23,536
APE (Rs mn)	4,89,807	5,28,776	5,83,860	5,68,473	6,26,107
VNB (Rs mn)	41,670	76,190	91,560	88,113	1,03,308
VNB margin (%)	9.9	15.1	16.2	15.5	16.5
Embedded value (Rs mn)	9,56,060	54,14,930	58,22,440	63,57,375	69,24,919
ROEV (%)	36.9	11.9	10.9	9.5	9.4
ROE (%)	36.9	11.9	10.9	9.5	9.4
Opex ratio (%)	8.7	9.0	10.1	8.3	8.0
Cost ratio (%)	14.2	14.5	15.5	13.8	13.6
Solvency ratio (%)	176.2	184.5	187.2	198.4	195.0
EPS (Rs)	4.6	6.4	57.6	45.8	61.3
BVPS (Rs)	10.1	16.5	72.2	113.8	170.0
EVPS (Rs)	151.2	856.1	920.5	1,005.2	1,094.9

Source: Company, BOBCAPS Research

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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

BUY – Expected return >+15%

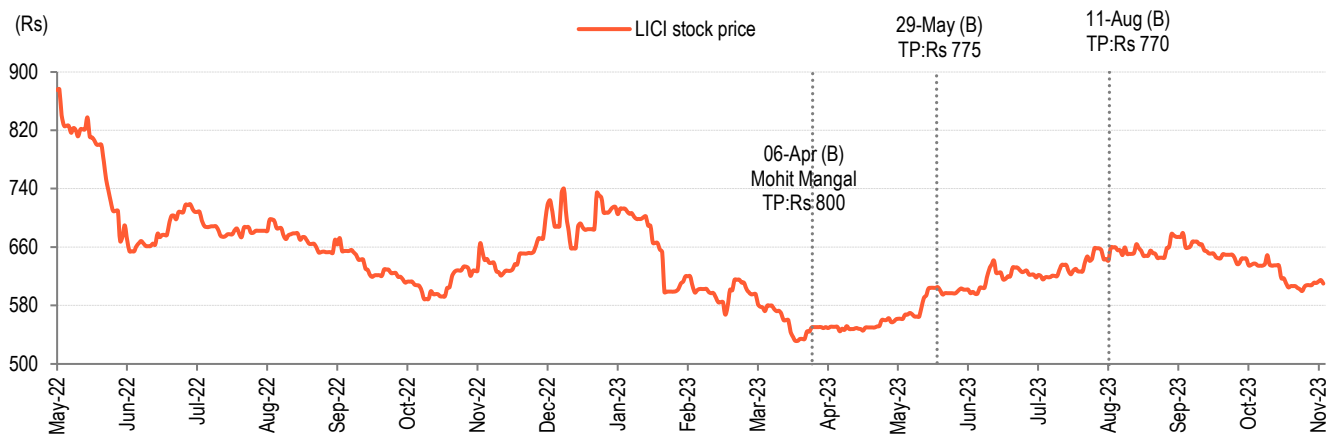
HOLD – Expected return from -6% to +15%

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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