

**BUY**

TP: Rs 775 | ▲ 28%

LIC

| Insurance

| 29 May 2023

### Focused on profitable products

- APE grew 12.5% YoY in FY23 led by strong 36% growth in non-par products; non-par constituted 8.9% of APE vs. 7.1% in FY22
- VNB margin expanded 110bps to 16.2% in FY23 (17% est.); we expect 17%/18% margins for FY24/FY25
- We pare FY24/FY25 EV estimates 3% each and move to a new TP of Rs 775 (vs. Rs 800); maintain BUY

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**Reasonable growth, focus on profitable products:** FY23 APE grew 12.5% YoY to Rs 567bn (Rs 604bn est.), with the individual/group segments growing 9%/22%. Within the individual segment, par business grew 7% YoY and non-par 36%, with the latter rising to 8.9% of APE from 7.1% in FY22. Growth in the non-par segment was backed by LIC's focus on profitable products (guaranteed, protection and annuity), as visible from eight launches in these categories in FY23. Persistency for the 61<sup>st</sup> month cohort stood at an industry-high. We trim our FY24/FY25 APE estimates by ~3% each to bake in the below-expected FY23 print.

**VNB margin expands:** With the share of non-par business improving in the product mix, the VNB margin also expanded from 15.1% in FY22 to 16.2% in FY23 driven by a positive economic variance (1.8%) and change in assumptions (0.2%). There was a 0.9% negative impact because of benefit revision in annuity products, causing the VNB margin to come in below our 17% estimate. We thus trim our FY24/FY25 margin estimates by 100bps each to 17%/18%.

**Agents dominate the distribution channel:** LIC's moat is its strong agency network (1.35mn) which commands 51% market share and contributed 96% of individual NBP at end-FY23. Given a focus on non-par and annuity products, the company is specially training agents to sell these types of products. The bancassurance and alternate channels grew 26% YoY in FY23 to Rs 20bn. LIC intends to add new banking partners but reiterated that it intends to leverage the existing partnerships to grow premiums.

**Maintain BUY:** The stock is currently trading at 0.5x FY25E EV, a 70% discount to private listed peers which appears unwarranted. We remain positive and value LIC at an unchanged 0.7x FY25E EV, a narrower 65% discount to peers. Following estimate revision, we have a revised TP of Rs 775 (vs. Rs 800), which offers 28% upside – maintain BUY given the company's entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement ratio (see our [initiation report](#) of 6 Apr 2023 for details).

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	LICI IN/Rs 604
Market cap	US\$ 46.5bn
Free float	4%
3M ADV	US\$ 9.0mn
52wk high/low	Rs 841/Rs 530
Promoter/FPI/DII	97%/0%/1%

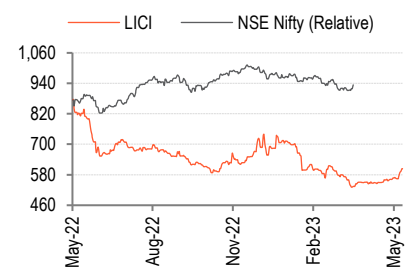
Source: NSE | Price as of 26 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	23,20,506	27,41,608	31,96,750
APE (Rs mn)	5,83,860	6,57,633	7,37,660
VNB (Rs mn)	91,560	1,11,798	1,32,779
Embedded Value (Rs)	58,22,440	63,81,059	69,95,863
VNB margin (%)	16.2	17.0	18.0
EVPS (Rs)	920.5	1,008.9	1,106.2
EPS (Rs)	57.6	68.0	75.8
Consensus EPS (Rs)	57.6	65.0	75.0
P/EV (x)	0.7	0.6	0.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



## Earnings call highlights

### Business performance

- Q4FY23 APE grew 55% QoQ to Rs 191.4bn. FY23 APE grew 12.5% YoY to Rs 567bn led by group business (+22% YoY) which constituted 32% of the total. Growth in the individual business was comparatively lower at 9% YoY because of a weak participating business (+7%); however, growth in non-par business remained strong at 36% YoY.
- Management reiterated that the focus is on selling more profitable products such as non-participating plans, specifically guaranteed, protection and annuity plans. The company introduced eight non-par products in FY23. The share of non-par improved from 7.1% in FY22 to 8.9% in FY23, and management is looking to increase it further.
- LIC had taken two rate changes in annuities in FY23.
- AUM grew 7.6% YoY to Rs 44tn at end-FY23.
- The cost of bonus pertaining to par segment policyholders could be considered as a tax deduction and, hence, the tax liability had been reduced, resulting in a reversal of tax provision amounting to Rs 72bn.
- In FY23, the company transferred PAT of Rs 272bn from non-par funds to the shareholders' account pertaining to the acquisition on the available solvency margin.
- LIC asserted that its 61<sup>st</sup> month persistency is at an industry-high. Further, it has modified certain products where persistency was lower.
- About 20.4mn new policies were sold in FY23 vs. 21.7mn in FY22 (-5.9% YoY). The decline was expected as management has altered the structure of some products where volumes may have been high but persistency low.

### Distribution mix

- The agency channel continues to dominate the distribution mix with 96.2% share in individual NBP at end-FY23 (96.3% in FY22). Given a focus on non-par and annuity products, the company is specially training agents to sell these types of products.
- Market share by number of agents stood at 51.3% in FY23 vs. 54.3% in FY22.
- Individual NBP sourced through the bancassurance and alternate channels grew 26% YoY in FY23 to Rs 20bn. LIC intends to add new banking partners but reiterated that it intends to leverage existing relationships to grow premiums.
- The company's 'Ananda' app saw 196% growth in policies sold to 0.8mn at end-FY23.

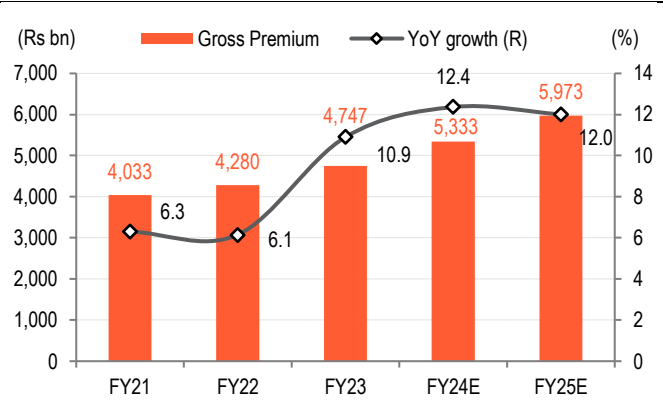
### EV and VNB margin

- VNB margin (net) improved from 15.1% in FY22 to 16.2% in FY23 driven by a positive economic variance (1.8%) and change in assumptions (0.2%). There was a 0.9% negative impact on margins because of benefit revision in annuity products.
- Gross VNB stood at Rs 43.7bn in Q4FY23 and Rs 116bn (+16% YoY) in FY23. Gross individual business VNB margin witnessed a marginal decline to 19.6% in FY23 from 19.9% in FY22, whereas group business margin improved to 22.1% from 19%.
- Embedded value grew 7.5% YoY to Rs 5.8tn at end-FY23 led by (i) a high unwinding rate at 7.7% in FY23 (4.8% in FY22) due to a higher change in the risk-free rate on the yield curve, and (ii) positive operating variance. This was partly offset by a change in economic assumptions because of equity movement and MTM losses in the debt segments (due to interest rate movement).

### Others

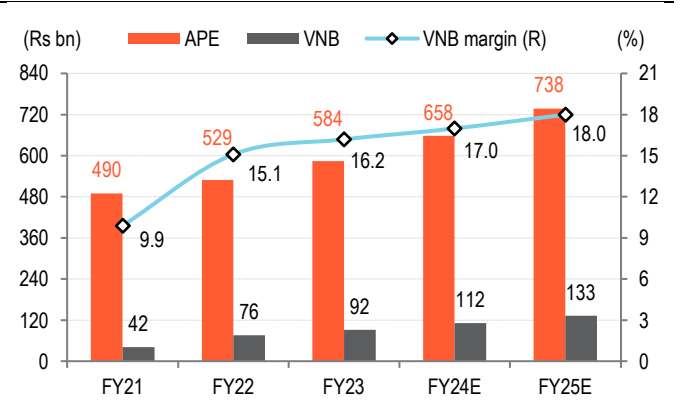
- At end-FY23, maturity claims totalled Rs 1.9tn and death claims Rs 234bn as compared to Rs 2.1tn and Rs 357bn in FY22 respectively, showing declines of 10% and 34% YoY.
- Management said that wage revision takes place every five years and the entire amount of future provisioning has been expensed. The company does not expect a significant impact on EV as only 10% of cost is apportioned in the par business.
- Per LIC, the impact of the new budget announcements on big-ticket non-par policies is ~3.5% on premium basis and 0.04% on policy basis.
- LIC's solvency ratio remains comfortable at 187% for FY23 vs. 185% for FY22.
- The company declared dividend of Rs 3/sh for FY23 as compared to Rs 1.5/sh for FY22

**Fig 1 – Gross premium grew 11% YoY in FY23**



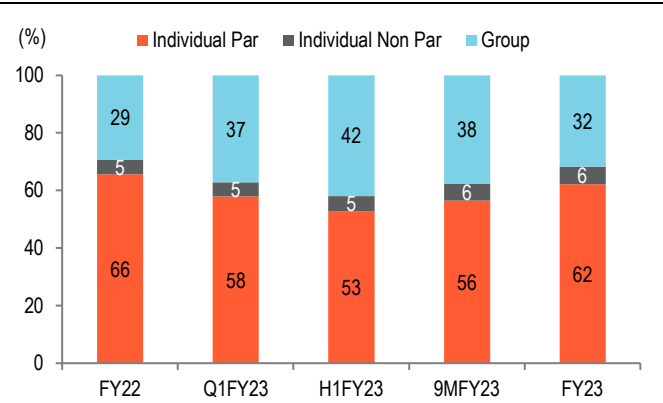
Source: Company, BOBCAPS Research

**Fig 2 – VNB margin expansion expected to continue**



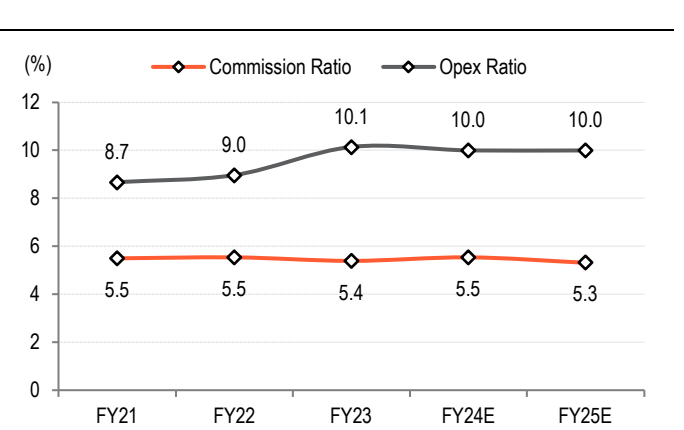
Source: Company, BOBCAPS Research | Note: APE is calculated

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



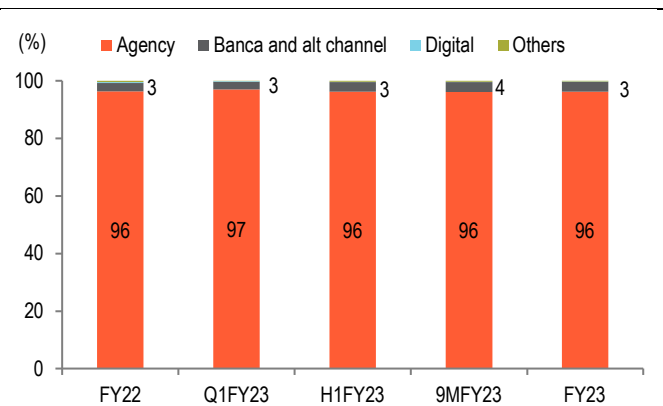
Source: Company, BOBCAPS Research

**Fig 4 – Expense ratios forecast to remain stable**



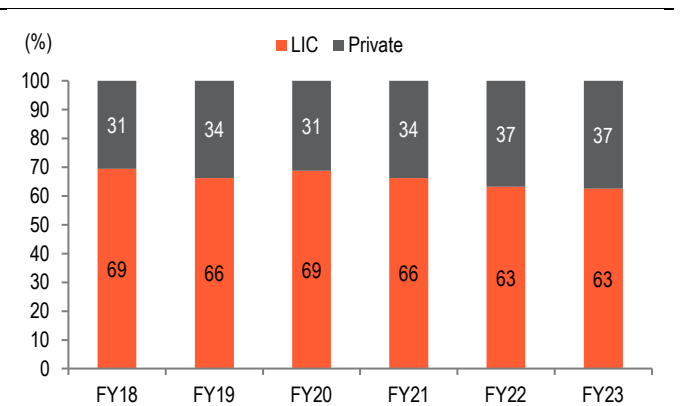
Source: Company, BOBCAPS Research

**Fig 5 – Agents contribute a bulk of individual NBP**



Source: Company, BOBCAPS Research

**Fig 6 – LIC has maintained >60% NBP market share**

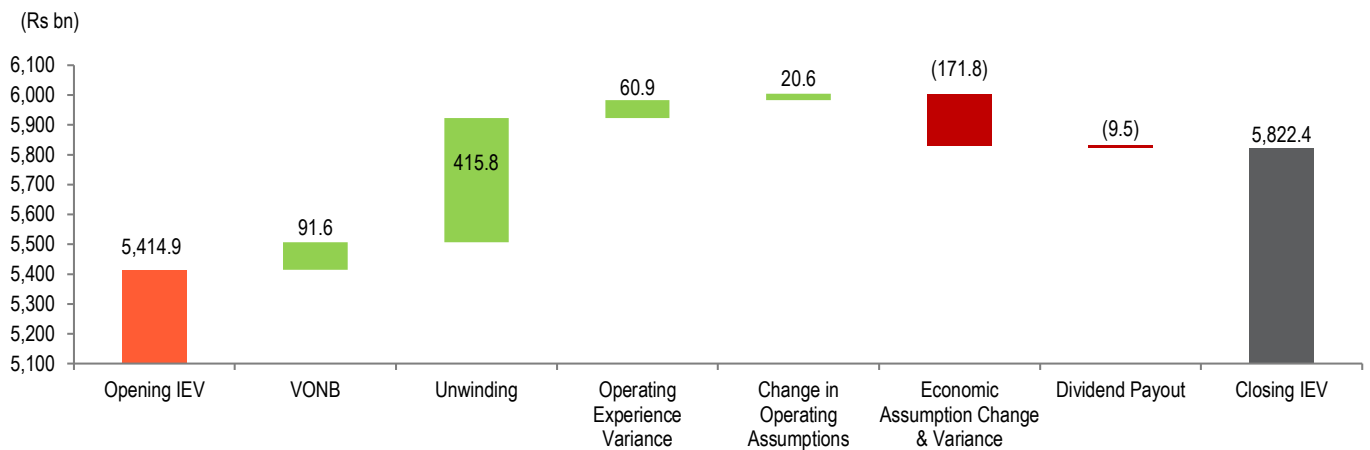


Source: Company, BOBCAPS Research

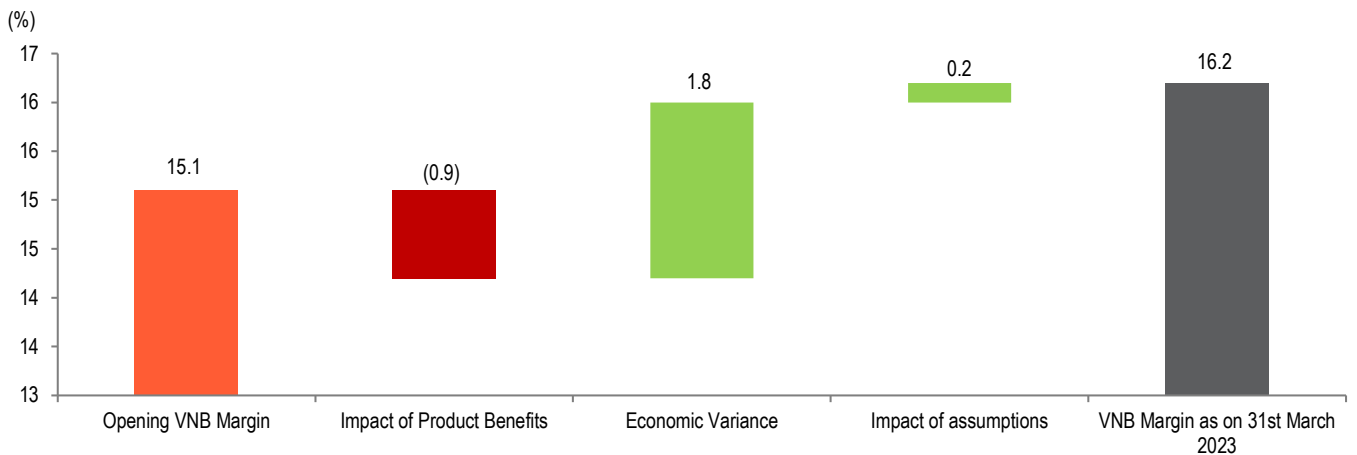
**Fig 7 – Persistency ratio stable across cohorts**

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

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

**Fig 8 – Embedded Value grew 7.5% YoY**

Source: Company, BOBCAPS Research

**Fig 9 – VNB margin positively impacted by economic variance**

Source: Company, BOBCAPS Research

## Key financials

**Fig 10 – Policyholders’ account**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Net premium income	13,17,611	14,37,459	(8.3)	11,17,876	17.9	47,40,046	42,74,192	10.9
Income from investments (Net)	6,78,466	6,74,982	0.5	8,48,690	(20.1)	30,63,901	29,28,945	4.6
Other income	4,836	1,982	143.9	2,098	130.5	76,485	7,795	881.2
<b>Total Income</b>	<b>20,01,854</b>	<b>21,47,081</b>	<b>(6.8)</b>	<b>19,68,907</b>	<b>1.7</b>	<b>78,81,734</b>	<b>72,94,206</b>	<b>8.1</b>
Net Commission	84,285	79,958	5.4	63,190	33.4	2,55,804	2,36,912	8.0
Operating expenses	1,30,068	1,17,356	10.8	74,804	73.9	4,81,456	3,88,907	23.8
Benefits Paid (Net)	11,11,906	12,19,490	(8.8)	7,84,604	41.7	34,25,768	35,74,649	(4.2)
Change in actuarial liability	7,17,567	6,81,130	5.3	9,78,746	(26.7)	3,43,38,276	29,72,776	1,055.1
<b>Surplus/Deficit</b>	<b>65,037</b>	<b>62,652</b>	<b>3.8</b>	<b>1,28,822</b>	<b>(49.5)</b>	<b>3,79,822</b>	<b>1,40,246</b>	<b>170.8</b>

Source: Company, BOBCAPS Research

**Fig 11 – Shareholders’ account**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Amounts transferred from Policyholders’	1,34,161	55,377	142.3	60,991	120.0	3,59,077	1,21,935	194.5
Income From Investments	5,711	816	599.5	2,813	103.0	11,478	2,012	470.4
<b>PAT</b>	<b>1,34,278</b>	<b>23,716</b>	<b>466.2</b>	<b>63,342</b>	<b>112.0</b>	<b>3,63,974</b>	<b>40,431</b>	<b>800.2</b>

Source: Company, BOBCAPS Research

**Fig 12 – Key growth metrics**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
NBP	5,59,549	7,28,124	(23.2)	5,18,418	7.9	23,20,506	19,89,322	16.6
APE (as provided)	1,91,370	NA	NA	1,23,170	55.4	5,66,820	5,03,900	12.5
Total Expense ratio (%)	16.2	13.5	271bps	12.3	393bps	15.5	14.5	103bps
VNB margin (%) - Cumulative	16.2	15.1	110bps	14.6	160bps	16.2	15.1	110bps
Solvency ratio (%)	186	187	(100bps)	185	100bps	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 ~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. 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 remain positive on the company but trim our FY24/FY25 VNB margin assumptions by 100bps each to 17%/18% baking in the Q4FY23 results. We now anticipate a 10% CAGR in LIC's EV over FY23-FY25 to Rs 7tn vs. Rs 7.2tn earlier.

The stock is currently trading at 0.5x 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, we have a revised TP of Rs 775 (vs. Rs 800), which offers 28% 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% (see our [initiation report](#) of 6 Apr 2023 for details).

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 13 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Gross Premium	5,333	5,973	5,437	6,104	(1.9)	(2.1)
Net Premium	5,325	5,963	5,428	6,094	(1.9)	(2.1)
VNB	112	133	122	145	(8.7)	(8.4)
APE	658	738	681	763	(3.4)	(3.4)
Embedded Value (EV)	6,381	6,996	6,549	7,218	(2.6)	(3.1)
VNB Margin (%)	17.0	18.0	18.0	19.0	(100bps)	(100bps)

Source: BOBCAPS Research

**Fig 14 – Valuation comparison**

Ticker	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	604	775	28	3,820	6,381	6,996	0.6	0.5	0.8	0.7
SBILIFE IN	1,196	1,520	27	1,197	553	661	2.2	1.8	2.8	2.3
HDFCLIFE IN	577	600	4	1,240	458	532	2.7	2.3	2.8	2.4
IPRU IN	445	494	11	641	411	473	1.6	1.4	1.7	1.5

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. 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	15.0	577	600	HOLD
ICICI Prudential Life	IPRU IN	7.8	446	494	HOLD
LIC	LICI IN	46.5	604	775	BUY
SBI Life	SBILIFE IN	14.6	1,196	1,520	BUY

Source: BOBCAPS Research, NSE | Price as of 26 May 2023

## Glossary

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



## Financials

### Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Gross premium income</b>	<b>40,32,866</b>	<b>42,80,250</b>	<b>47,46,681</b>	<b>53,33,317</b>	<b>59,73,117</b>
First year premium	3,39,309	3,66,493	3,90,899	4,26,080	4,64,428
Renewal premium	21,88,570	22,90,928	24,26,175	25,91,709	27,76,366
Single premium	15,04,987	16,22,828	19,29,607	23,15,528	27,32,323
<b>Net written premium</b>	<b>40,28,443</b>	<b>42,74,192</b>	<b>47,40,046</b>	<b>53,24,702</b>	<b>59,63,469</b>
Income from investments	27,87,611	29,28,945	30,63,901	35,08,973	38,06,155
Other Income	5,947	7,795	76,485	84,134	92,547
<b>Total income</b>	<b>68,22,050</b>	<b>72,94,206</b>	<b>78,81,734</b>	<b>89,17,809</b>	<b>98,62,171</b>
Commissions	2,21,699	2,36,912	2,55,804	2,95,039	3,17,914
Operating expenses	3,49,895	3,83,709	4,81,456	5,33,332	5,97,312
Benefits and bonuses paid	28,68,838	35,74,649	34,25,768	40,53,929	45,10,395
Change in liabilities (net)	32,21,957	29,72,776	34,33,828	36,77,671	40,14,987
Others	0	0	0	0	0
<b>Total expenses</b>	<b>66,62,389</b>	<b>71,68,046</b>	<b>75,96,855</b>	<b>85,59,970</b>	<b>94,40,607</b>
<b>Surplus before tax</b>	<b>1,08,717</b>	<b>2,19,032</b>	<b>4,32,250</b>	<b>4,98,882</b>	<b>5,55,554</b>
Provision for tax	79,878	78,786	52,429	60,510	67,384
<b>Surplus after tax</b>	<b>28,839</b>	<b>1,40,246</b>	<b>3,79,822</b>	<b>4,38,371</b>	<b>4,88,170</b>
Trf to shareholders' a/c	28,890	1,21,935	3,59,077	4,14,429	4,61,508
Balance being FFA	(51)	18,311	20,744	23,942	26,662

### Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Trf from policyholders' a/c	28,890	1,21,935	3,59,077	4,14,429	4,61,508
Income from investments	230	2,012	11,478	23,491	26,610
Contr. to policyholders' fund	48	83,275	1,301	0	0
Others	5	5	4,716	0	0
<b>PBT</b>	<b>29,077</b>	<b>40,677</b>	<b>3,73,971</b>	<b>4,37,920</b>	<b>4,88,119</b>
Provision for taxation	62	236	594	702	782
<b>PAT</b>	<b>29,015</b>	<b>40,441</b>	<b>3,73,377</b>	<b>4,37,218</b>	<b>4,87,337</b>
Dividend+Interim div.+DDT	0	9,487	18,973	28,460	31,622

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity	63,607	1,04,091	4,56,694	8,58,458	13,06,137
Policyholders' funds	3,72,25,384	4,14,71,016	4,44,15,434	4,80,93,105	5,21,08,092
FFA	3,29,320	2,38,858	2,61,592	2,83,253	3,06,900
Others	33	18,344	39,187	39,187	39,187
<b>Total liabilities</b>	<b>3,72,89,024</b>	<b>4,15,93,452</b>	<b>4,49,11,314</b>	<b>4,89,90,750</b>	<b>5,34,53,416</b>
Shareholders' funds	7,136	64,121	2,93,635	3,32,631	3,72,393
Policyholders' funds	3,48,76,549	3,89,56,935	4,18,91,778	4,55,69,449	4,95,84,436
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
<b>Total assets</b>	<b>3,72,89,024</b>	<b>4,15,93,452</b>	<b>4,49,11,314</b>	<b>4,89,90,750</b>	<b>5,34,53,416</b>

### Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	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)	18,44,296	19,89,322	23,20,506	27,41,608	31,96,750
APE (Rs mn)	4,89,807	5,28,776	5,83,860	6,57,633	7,37,660
VNB (Rs mn)	41,670	76,190	91,560	1,11,798	1,32,779
VNB margin (%)	9.9	15.1	16.2	17.0	18.0
Embedded value (Rs mn)	9,56,060	54,14,930	58,22,440	63,81,059	69,95,863
ROEV (%)	36.9	11.9	10.9	9.9	10.1
ROE (%)	36.9	11.9	10.9	9.9	10.1
Opex ratio (%)	8.7	9.0	10.1	10.0	10.0
Cost ratio (%)	14.2	14.5	15.5	15.5	15.3
Solvency ratio (%)	176.2	184.5	187.3	194.7	193.3
EPS (Rs)	4.6	6.4	57.6	68.0	75.8
BVPS (Rs)	10.1	16.5	72.2	135.7	206.5
EVPS (Rs)	151.2	856.1	920.5	1,008.9	1,106.2

Source: Company, BOBCAPS Research

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## Disclaimer

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

**BUY** – Expected return >+15%

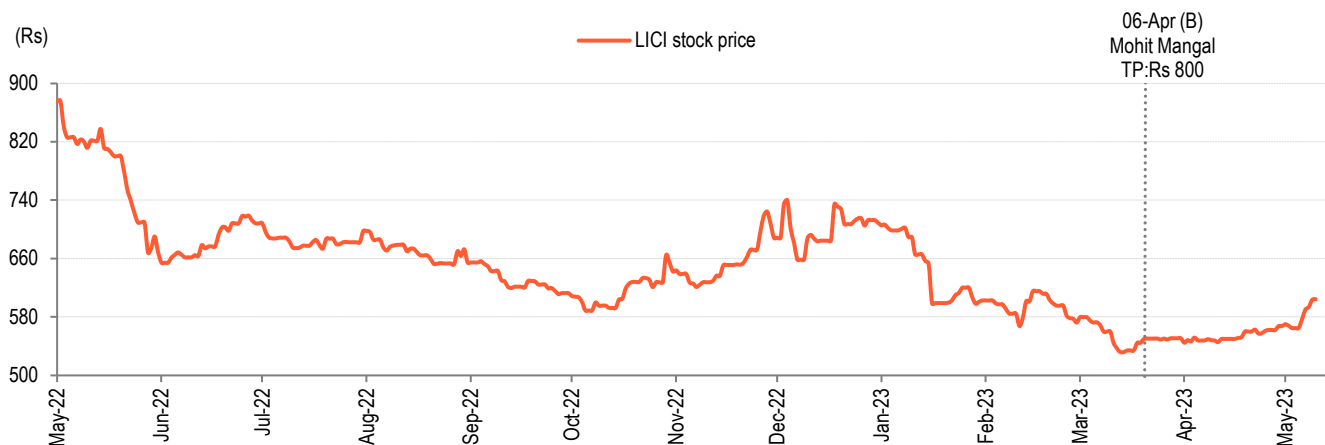
**HOLD** – Expected return from -6% to +15%

**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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