

BUY
 TP: Rs 1,071 | ▲ 31%

LIC

| Insurance

| 08 February 2025

VNB margins continue to expand sequentially

- APE and net premium income declined 24% YoY and 11% YoY; renewal premium rose 4% YoY in Q3FY25
- VNB margin improved 60bps YoY to 17.1% in 9MFY25, expect VNB margins to be in the range of 18-19% in FY25E-FY27E
- Assume coverage on LIC with a BUY and revise our TP to Rs 1,071 (from Rs 1,260), assigning a multiple of 0.8x its Dec'26 EV

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Non-par continues to decline: LIC continued its strategy to focus on the non-par business which resulted in the increase in non-par share to 27.7% vs. 14% in 9MFY25 vs. 26.3% in H1FY25. This was primarily on account of the company introducing non-par products only. However, management indicated that it will also add more par products going forward. The company has relaunched its entire suite of products – 38 products, comprising 24 individual products, eight group, five individual riders and one group rider post the implementation of new surrender regulations in Oct'24.

APE growth: APE de-grew 24% YoY in Q3FY25 and increased 6% YoY in 9MFY25. Non-par grew 18% YoY in Q3FY25 and 107% in 9MFY25 with share in the product mix increasing to 20.5% in Q3FY25. While par de-grew by 38% YoY and 12% YoY in 9MFY25, its share stood at 44.4% in the product mix. ULIP continued to gain momentum too and the mix increased to 8.1% vs. 6.3% in Q2FY25 vs. 2% in Q3FY24.

VNB margin: VNB declined 27% YoY to Rs 19.3bn in Q3FY25 and was up 9% YoY in 9MFY25 to Rs 64.8bn. Net VNB margin increased to 17.1% in 9MFY25 vs. 16.6% in 9MFY24. For Q3FY25, the VNB margin was at 19.4% vs. 17.9% in Q2FY25 vs. 20% in Q3FY24. This was primarily on account of favourable product mix change towards high yielding non-par products, revision in the premium rates and change in commission structures. Non-par net VNB margin stood at 45.5% vs. 45.8% in Q2FY25. For participating and group business net margin was in the range of 12-13% in Q3FY25. We expect VNB margins to be in the range of 18-19% in FY25E-FY27E.

Assume coverage on LIC with a BUY: The stock is currently trading at 0.6x Dec'26 EV and we value LIC at 0.8x multiple with a BUY, arriving at a TP of Rs 1,071 (earlier Rs 1,260). The company's focus on the higher yielding non-par products is expected to aid the VNB margin going forward. We continue to remain positive on LIC given its entrenched brand equity and market leadership.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	LICI IN/Rs 816
Market cap	US\$ 59.0bn
Free float	0%
3M ADV	US\$ 13.5mn
52wk high/low	Rs 1,222/Rs 805
Promoter/FPI/DII	97%/0%/1%

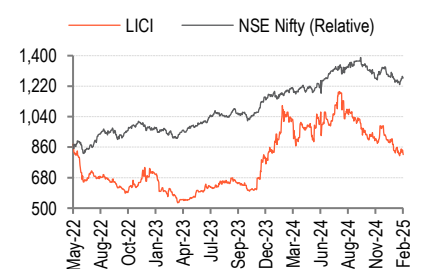
Source: NSE | Price as of 7 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NBP (Rs mn)	22,26,714	24,69,029	27,15,932
APE (Rs mn)	5,69,700	6,51,187	7,19,384
VNB (Rs mn)	95,710	1,18,516	1,33,086
Embedded Value (Rs mn)	72,73,440	80,19,094	88,18,601
VNB margin (%)	16.8	18.2	18.5
EVPS (Rs)	105.9	123.9	132.4
EPS (Rs)	64.3	79.5	101.5
Consensus EPS (Rs)	0.0	0.0	0.0
P/EV (x)	7.7	6.6	6.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

Business performance

- Gross premium income fell 9% YoY to Rs 1,070.2bn in Q3FY25. First year premium was Rs 72.8bn (down 14% YoY), renewal and single premium Rs 645.9bn (up 4% YoY) and Rs 351.4bn (down 25% YoY).

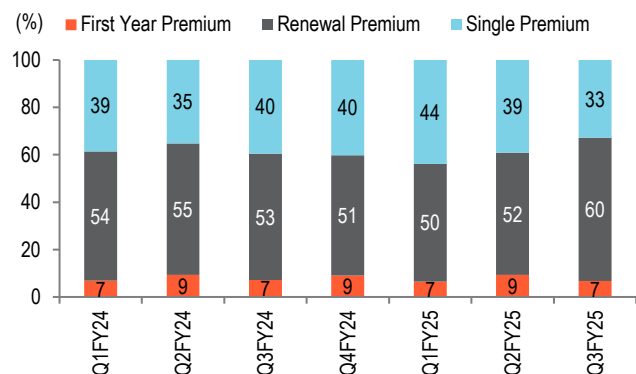
Focus on profitable products: Management indicated that it has relaunched all its products ranges in accordance with the new surrender guidelines which became effective in Oct'24. Apart from its continued focus on non-par products, the company has made changes to the commission structures and repriced its premium on certain products to improve the persistency.

Others

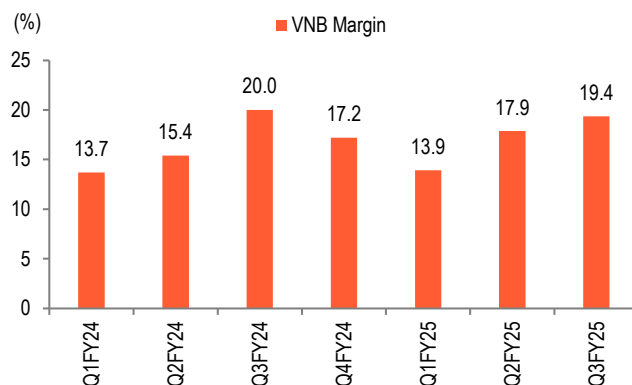
- Net commissions were down 9% YoY which aided PAT during the quarter.
- PAT increased by 17% YoY to Rs 110.6bn.
- Individual and group APE declined 27% YoY and 19% YoY in Q3FY25 respectively, resulting in the overall APE declining 24% YoY.
- LICl's total expense ratio remained stable at 13.5% vs. 13.6% in Q2FY25 and vs. 15.5% in Q3FY24.
- Persistency was marginally up for the 13th month at 68.61% vs. 68.17% in Q2FY25 and vs. 70.89% in Q3FY24.

Distribution mix

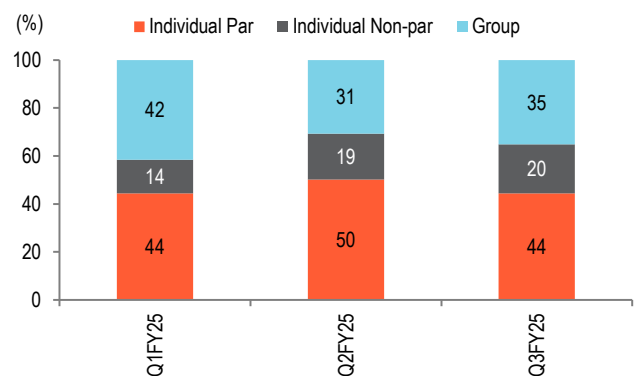
- The agency channel continues to dominate LICl's distribution mix, accounting for 94.68% share of individual NBP in 9MFY25 vs. 95.87% in 9MFY24.
- Individual NBPs sourced through bancassurance and alternate channels grew 31% YoY to Rs 20bn.

Fig 1 – Gross premium down 9% YoY, renewal premium share increased to 60% vs. 52% in Q2FY25


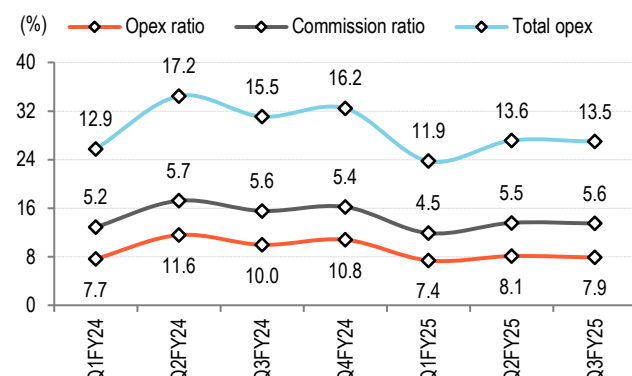
Source: Company, BOBCAPS Research

Fig 2 – VNB margin expands 60bps YoY at end FY24


Source: Company, BOBCAPS Research

Fig 3 – Individual non-par business growing within LIC's APE mix


Source: Company, BOBCAPS Research

Fig 4 – Total expense ratio increased sequentially owing to higher opex ratio


Source: Company, BOBCAPS Research

Fig 5 – Policyholders' account

(Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Net premium income	10,73,968	11,70,169	15,22,931	11,37,701	11,99,010	10,68,915	(8.7)	(10.9)
Income from investments (Net)	9,39,422	9,52,669	8,44,255	9,61,826	10,89,724	9,43,357	(1.0)	(13.4)
Other income	2,481	1,638	1,41,609	1,455	1,448	1,499	(8.5)	3.5
Total Income	20,15,874	21,24,470	25,09,232	21,09,098	22,96,197	20,19,937	(4.9)	(12.0)
Net Commission	60,774	65,198	82,457	50,901	65,416	59,657	(8.5)	(8.8)
Operating expenses	1,24,372	1,16,741	1,64,633	84,312	97,502	84,501	(27.6)	(13.3)
Benefits Paid (Net)	8,33,639	9,54,977	13,51,032	8,18,643	9,75,623	9,46,829	(0.9)	(3.0)
Change in actuarial liability	9,13,400	8,89,937	7,64,011	10,31,515	10,82,463	7,99,136	(10.2)	(26.2)
Surplus/Deficit	72,522	84,737	1,28,324	1,08,874	72,532	1,09,519	29.2	51.0

Source: Company, BOBCAPS Research

Fig 6 – Shareholders' account

(Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Amounts transferred from Policyholders'	72,170	84,375	1,27,937	1,07,799	72,423	1,08,985	29.2	50.5
Income From Investments	8,817	10,610	11,240	11,767	14,579	15,962	50.5	9.5
PAT	79,250	94,444	1,37,626	1,04,611	76,212	1,10,565	17.1	45.1

Source: Company, BOBCAPS Research

Valuation methodology

The stock is currently trading at 0.6x Dec'26 EV and we value LIC at 0.8x multiple with a BUY, arriving at a TP of Rs 1,071 (from Rs 1,260). The company's focus on the higher yielding non-par products is expected to aid VNB margin going forward. We remain positive on LIC given its entrenched brand equity and market leadership.

Key risks

Key downside risks to our estimates are:

- **Fierce 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.
- **Strong linkage with capital markets:** LIC's embedded value is highly sensitive to capital market movements.
- **Regulatory challenges.**

Glossary

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

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Gross premium income	47,46,681	47,57,519	52,53,253	57,78,578	62,98,650
First year premium	3,90,899	3,90,380	4,20,260	4,62,286	5,03,892
Renewal premium	24,26,175	25,30,805	27,84,224	30,62,646	33,38,285
Single premium	19,29,607	18,36,335	20,48,769	22,53,645	24,56,474
Net written premium	47,40,046	47,50,696	52,45,898	57,70,488	62,86,053
Income from investments	30,63,901	36,39,439	42,21,749	47,70,577	51,76,076
Other Income	77,786	1,46,933	1,53,808	1,66,881	1,83,570
Total income	78,81,734	85,37,068	96,21,456	1,07,07,946	1,16,45,698
Commissions	2,55,804	2,59,591	2,75,257	2,96,975	3,11,106
Operating expenses	4,81,456	4,81,217	4,98,215	5,22,220	5,51,671
Benefits and bonuses paid	34,25,768	38,88,093	39,34,750	45,24,963	50,00,084
Change in liabilities (net)	34,33,828	35,30,361	43,07,040	46,08,533	49,31,130
Others	(1,47,371)	(27,851)	86,719	87,759	92,737
Total expenses	74,49,484	81,31,411	91,01,981	1,00,40,451	1,08,86,729
Surplus before tax	4,32,250	4,05,656	5,19,474	6,67,495	7,58,970
Provision for tax	52,429	58,252	77,921	1,00,124	1,13,845
Surplus after tax	3,79,822	3,47,405	4,41,553	5,67,371	6,45,124
Trf to shareholders' a/c	3,59,077	3,74,554	4,31,047	5,55,814	6,26,228
Balance being FFA	20,745	(27,150)	10,507	11,557	18,896

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Trf from policyholders' a/c	3,59,077	3,74,554	4,31,047	5,55,814	6,26,228
Income from investments	11,478	36,946	77,587	93,105	1,12,191
Contr. to policyholders' fund	1,301	449	494	543	598
Others	(4)	(2,463)	(2,709)	(2,980)	(3,278)
PBT	3,69,251	4,08,589	5,05,431	6,45,395	7,34,544
Provision for taxation	594	1,114	2,527	3,227	4,407
PAT	3,68,657	4,07,475	5,02,904	6,42,168	7,30,136
Dividend+Interim div.+DDT	0	0	0	0	0

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity	4,56,694	8,19,382	12,84,335	18,88,554	25,80,740
Policyholders' funds	4,44,13,661	5,13,84,775	5,53,30,524	5,97,12,511	6,44,49,188
FFA	39,187	12,147	22,654	34,211	53,107
Others	1,772	4,079	7,628	15,257	30,513
Total liabilities	4,49,11,314	5,22,20,383	5,65,83,580	6,14,84,317	6,68,14,959
Shareholders' funds	2,93,635	6,37,440	10,14,227	14,88,628	20,31,668
Policyholders' funds	4,18,91,778	4,87,65,124	5,25,56,485	5,66,89,068	6,11,93,584
Assets to cover linked liab.	2,63,095	3,52,578	3,44,945	4,12,545	4,49,674
Others	24,62,806	24,65,241	26,67,923	28,94,076	31,40,033
Total assets	4,49,11,314	5,22,20,383	5,65,83,580	6,14,84,317	6,68,14,959

Key Metrics

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
AUM (Rs mn)	4,39,72,050	4,94,78,270	5,44,50,331	6,01,92,371	6,68,13,532
NBP (Rs mn)	23,20,506	22,26,714	24,69,029	27,15,932	29,60,366
APE (Rs mn)	5,66,820	5,69,700	6,51,187	7,19,384	7,84,079
VNB (Rs mn)	91,560	95,710	1,18,516	1,33,086	1,48,975
VNB margin (%)	16.2	16.8	18.2	18.5	19.0
Embedded value (Rs mn)	58,22,430	72,73,440	80,19,094	88,18,601	96,86,556
ROEV (%)	7.7	27.9	10.8	10.4	10.3
ROE (%)	0.0	0.0	0.0	0.0	0.0
Opex ratio (%)	15.5	15.6	14.7	14.2	13.7
Cost ratio (%)	5.4	5.5	5.2	5.1	4.9
Solvency ratio (%)	187.0	198.0	0.0	0.0	0.0
EPS (Rs)	57.5	64.3	79.5	101.5	115.4
BVPS (Rs)	72.2	129.5	203.1	298.6	408.0
EVPS (Rs)	93.1	105.9	123.9	132.4	143.2

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

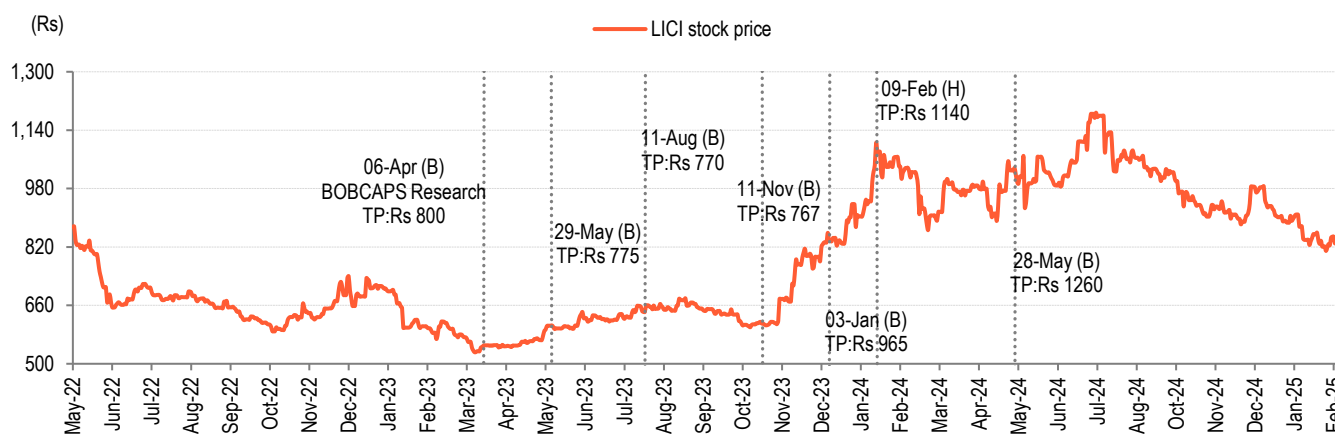
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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

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