

BUY

TP: Rs 1,260 | ▲ 24%

LIC

| Insurance

| 28 May 2024

Decent quarter; upgrade to BUY

- APE and net premium grew 11% and 16% YoY respectively in Q4; EV grew 25% YoY in FY24
- VNB margin improved 60bps YoY to 16.8% at end-FY24, estimates for FY25E/FY26E remain unchanged at 17.5%/18.0%
- TP raised to Rs 1,260 (vs. Rs 1,140) on a 9%/8% increase from our previous FY25E/FY26E EV forecasts; upgraded to BUY

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Better Q4: Although FY24 APE remained flat YoY at Rs 570bn, Q4 showed 11% YoY growth. Group APE, constituting 30% of total, grew 61% YoY, whereas individual declined 2% YoY at end Q4. NBP grew 34% YoY at end-Q4, whereas net premium grew 16% YoY. EV increased 25% YoY to Rs 7.3tn at end FY24, primarily due to higher MTM gains and unwind. We increase our EV estimates by 9%/8% to Rs 7.9tn/ Rs 8.7tn at end FY25/FY26. The company intends to enter the health insurance space through an inorganic route.

VNB margin improves: LIC's net VNB margin expanded 60bps YoY to 16.8% as of FY24 because of the positive impact from a better product mix (4.7%) and favourable change in assumptions (0.3%), partly offset by a negative impact (4.4%) from product benefits. We keep our VNB margin estimates for FY25E/FY26E unchanged at 17.5%/18.0%.

Focus on profitable products: The company introduced six non-par products (ex ULIP) in FY24, indicating a sustained focus on the segment. The share of non-par business in individual APE improved from 8.89% in FY23 to 18.32% in FY24. Apart from this, the co. will introduce more variety in the protection products that should lead to better numbers. Persistency ratios were broadly stable.

Agency channel continues to dominate: LIC's agency channel continues to contribute a higher share of individual NBP (96%) at end-FY24. The bancassurance and alternate channels grew 3% YoY for the period to Rs 20.8bn with more bank partnerships on the anvil. The company intends to make further inroads in Tier-2 and -3 cities by having an LIC agent in every panchayat.

Upgrade to BUY: The stock is currently trading at 0.7x FY26E EV and we value LIC at an unchanged 0.9x multiple, representing ~60% discount to peers. We raise our EV estimates by 9%/8% for FY25/FY26 to Rs 7.9tn/ Rs 8.7tn. Based on our revised estimates, our TP rises to Rs 1,260 (vs. Rs 1,140), and we upgrade from HOLD to BUY due to 24% upside. We continue to remain positive on LIC given its entrenched brand equity and market leadership.

Key changes

	Target	Rating
	▲	▲

Ticker/Price	LICI IN/Rs 1,016
Market cap	US\$ 78.2bn
Free float	4%
3M ADV	US\$ 39.0mn
52wk high/low	Rs 1,175/Rs 593
Promoter/FPI/DII	97%/0%/1%

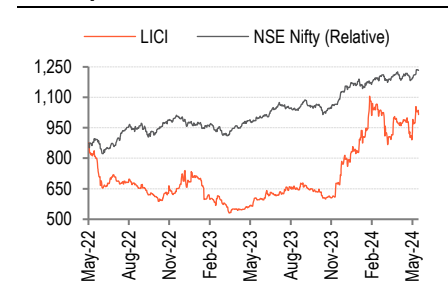
Source: NSE | Price as of 28 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NBP (Rs mn)	22,26,714	24,66,593	27,42,089
APE (Rs mn)	5,74,013	6,15,568	6,68,941
VNB (Rs mn)	95,830	1,07,724	1,20,409
Embedded Value (Rs mn)	72,73,450	79,35,105	86,69,285
VNB margin (%)	16.8	17.5	18.0
EVPS (Rs)	1,150.0	1,254.6	1,370.6
EPS (Rs)	64.3	71.9	84.8
Consensus EPS (Rs)	64.3	70.0	78.0
P/EV (x)	0.9	0.8	0.7

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

Stock performance



Source: NSE



Earnings call highlights

Business performance

- LIC's net premium grew 16% YoY to Rs 1.5tn in Q4FY24 but remained flat YoY to Rs 4.7tn in FY24.
- APE gained 11% YoY to Rs 212bn for Q4, but remained unchanged YoY at Rs 570bn at the end of FY24. At end FY24, the individual APE (which accounted for 67% of the total) was flat YoY, while the group business increased by 3%.
- Individual par APE fell 11% YoY to Rs 314bn at end FY24, whereas non-par more than doubled (105% YoY) to Rs 70bn. Non-par protection fell 16% YoY to Rs 236bn and management intends to bring more product variants to boost growth in this category. They already have a ROP (Return of Premium) which is doing well.
- Management reiterated a focus on selling more profitable products and accordingly introduced six non-par plans (excluding ULIP) in FY24. Of these, management indicated that one of them alone – Jeevan Utsav launched in Nov'23 – had a robust performance.
- The share of non-par business in individual APE improved from 8.89% in FY23 to 18.32% in FY24. The company will continue to focus on maintaining a balanced product mix.
- LIC's total expense ratio remained stable at 15.6% in FY24. For Q4, it was 16.2%.
- AUM grew 16.5% YoY to Rs 51.2tn at end FY24.
- Persistency has remained stable with 13th month cohort at 77.7% at end FY24, whereas 61st month cohort was 60.9%.
- Of the 20.4mn policies sold by LIC in FY24, women bought 7.3mn. This apart, LIC accounts for ~43% of women agents recruited by the life insurance industry.

Distribution mix

- The agency channel continues to dominate LIC's distribution mix, accounting for 96% share of individual NBP at end FY24. Its market share by number of agents stood at 48.9%. More than 65% of the agents have tenure of above 5 years. Of the company's 1.4mn agents, 35% are above 50 years of age. Management said that these agents are highly experienced and provide high productivity (45% premium). However, the company intends to maintain a balanced approach while recruiting new agents with 50% of the new recruits below 35 years of age.
- Individual NBP sourced through bancassurance and alternate channels grew 3% YoY to Rs 20.8bn. IDBI has been an important partner in the banca channel and contributed to Rs 9bn premium with a solid expectation of FY25. Apart from this, the company intends to enter partnerships with other banks. Management intends to have the share of banca increase to 5-6% from the current 3.6%.
- The company has robust distribution capabilities by way of 85 bancassurance partnerships, 1.4mn agents, 168 corporate agents, 301 brokers, 19,000+ micro

insurance agents and 3,600+ branches. The company has taken an agency transformation project (Jeevan Samarth) to boost agent productivity.

- To further increase penetration in Tier-2 and -3 cities, the target is to have an LIC agent in every panchayat.
- LIC issued 1.15mn policies digitally through its proprietary Ananda app in FY24 compared to 0.81mn in FY23.

VNB and VNB margin

- VNB margin (net) grew 60bps YoY to 16.8% at end FY24 with the positive impact of a better business mix (4.7%) and favourable change in assumptions (0.3%), offset by a 4.4% negative impact from product benefits. The benefits are being enhanced in annuity products putting downward pressure on margins.
- Management intends not only to further augment margins but also to deliver higher absolute VNB growth.
- Individual net VNB margin increased from 15.5% in FY23 to 18.8% in FY24, whereas that in the group business decreased from 17.6% to 12.6%. Within the individual business, the par business declined from 11% to 9.4% whereas the non-par business declined from 61.4% to 60.7%.
- Net VNB was Rs 96bn at end FY24 as compared to Rs 92bn in the year-ago period.

Embedded Value

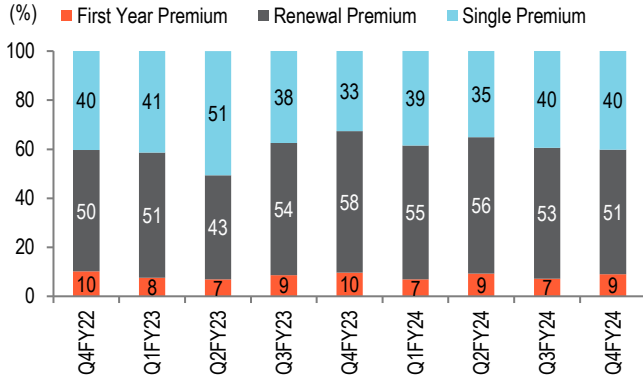
- EV increased 25% YoY to Rs 7.3tn at end FY24. Of the Rs 1.5tn increase, Rs 954bn was due to economic assumption change and variance (largely due to MTM on equities), Rs 522bn was due to unwinding (9% rate) and Rs 48bn was change in operating assumptions partially offset by Rs 44bn of dividend payout and Rs 129bn of future charge to shareholder fund.
- Management asserted that the higher unwind rate is due to the better equity market performance and the future rate would be dependent on the market performance.
- The Rs 129bn of future charge to shareholder fund at end FY24 comprises both years FY23 and FY24. Moreover, this includes wage revision. The wage revision comprises three components, arrears, gratuity, and pension liability. The pension liability is futuristic in nature and amortised over the next three years as it is futuristic in nature and based on the regulatory approvals.

Others

- The company intends to enter the health insurance space through the inorganic route. Though the company is already in the health space, it is in the fixed benefits space and not indemnity products.
- At end-FY24, maturity claims grew 12.5% YoY to Rs 2.1tn while death claims declined 3% YoY to Rs 226bn. The company processed 20.9mn individual claims during FY24, including 0.8mn death claims. Its claim settlement ratio (death) was 98.2% as against 98.5% in the year-ago period.

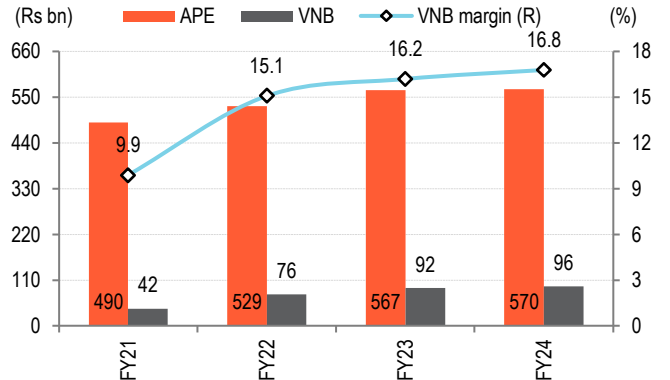
- The number of policyholder complaints per 10,000 policies sold stood at 39.75 and the repudiated claim ratio for FY24 was 1.76%.
- LIC's solvency ratio remains comfortable at 198% in FY24 compared to 187% in FY23.
- Management has announced a total dividend of Rs 10 per share including a dividend of Rs 6 per share and an interim dividend of Rs 4/sh.

Fig 1 – Gross premium up 16% YoY in Q4FY24 owing to rise in single premium



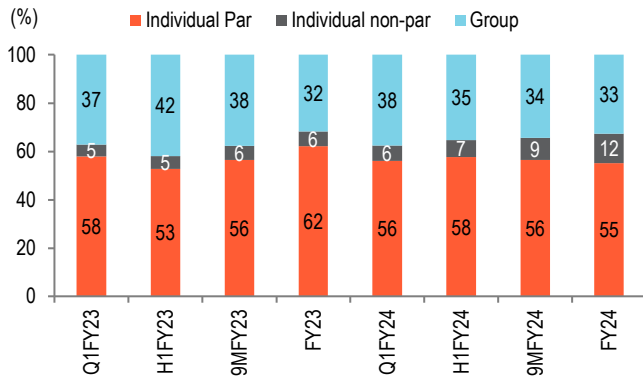
Source: Company, BOBCAPS Research

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



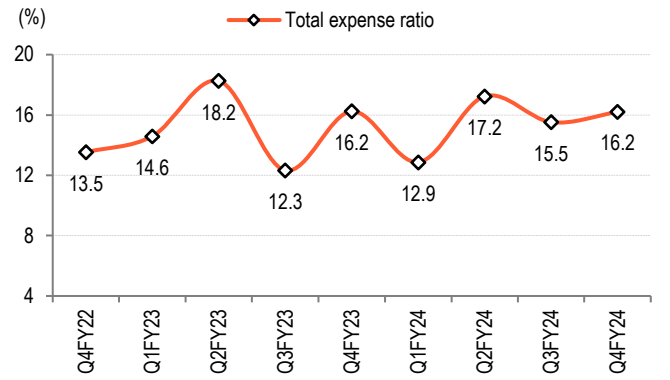
Source: Company, BOBCAPS Research

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



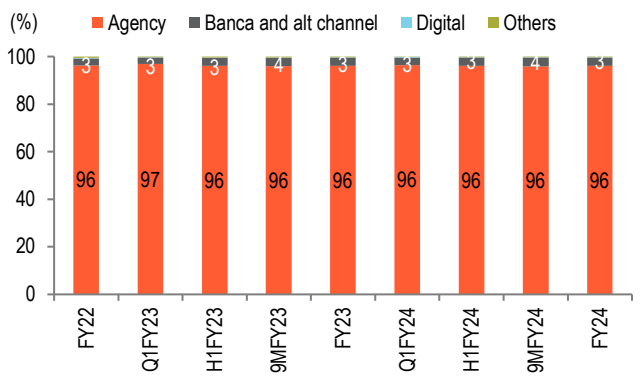
Source: Company, BOBCAPS Research

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



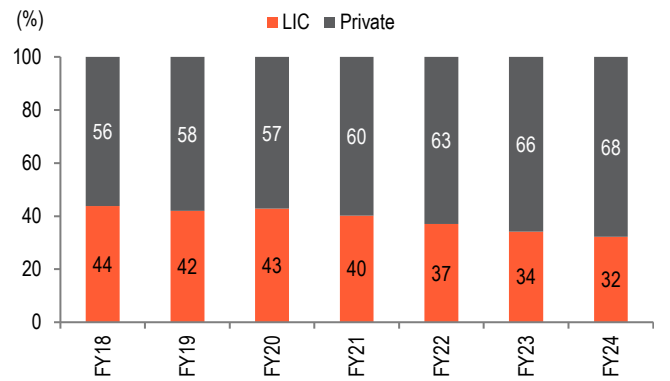
Source: Company, BOBCAPS Research

Fig 5 – Agents continue to contribute a bulk of individual NBP



Source: Company, BOBCAPS Research

Fig 6 – LIC's individual APE market share declined in FY24

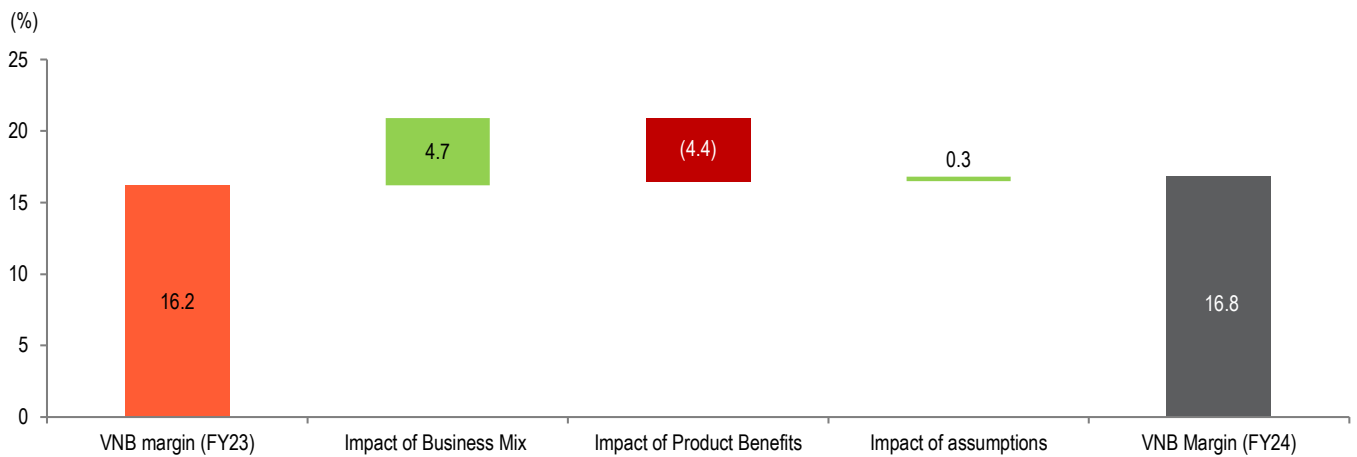


Source: Company, BOBCAPS Research

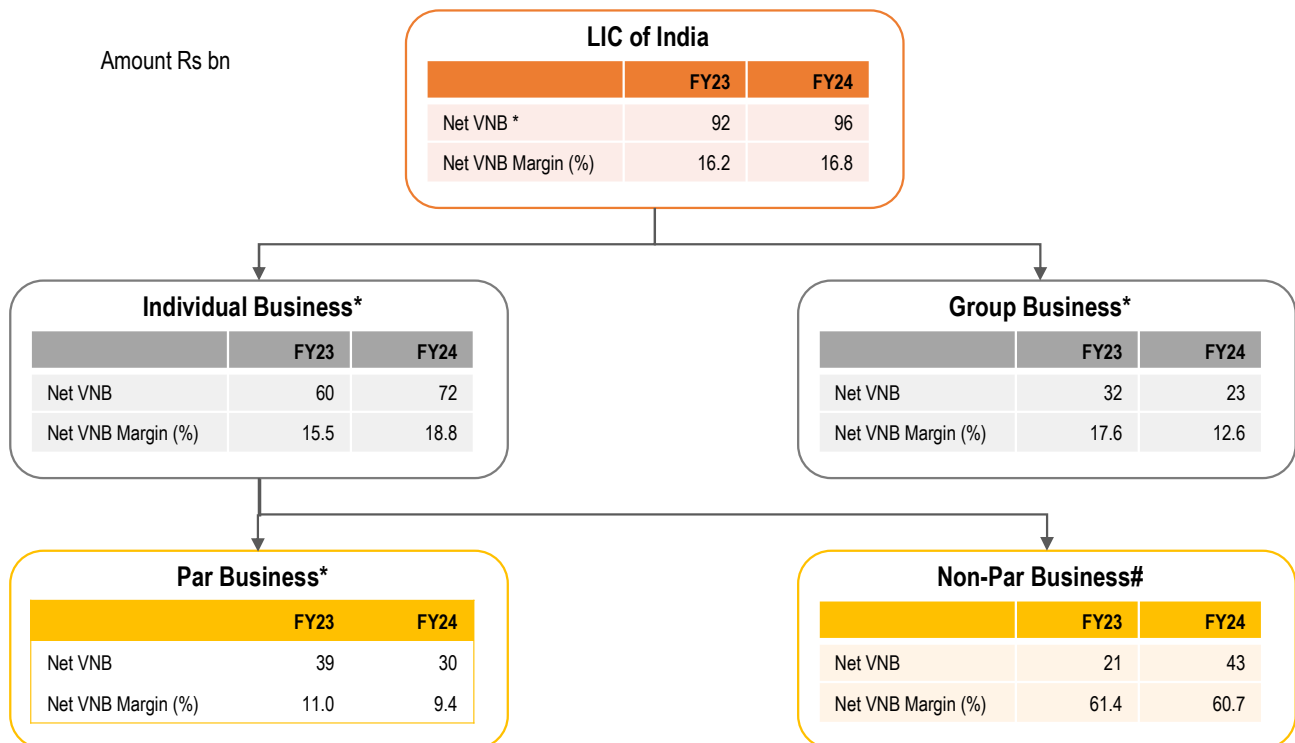
Fig 7 – Persistency ratio stable across cohorts

(%)	FY24	FY23
13th month	77.7	77.1
25th month	71.0	69.9
37th month	65.5	70.1
49th month	66.3	63.5
61st month	60.9	61.8

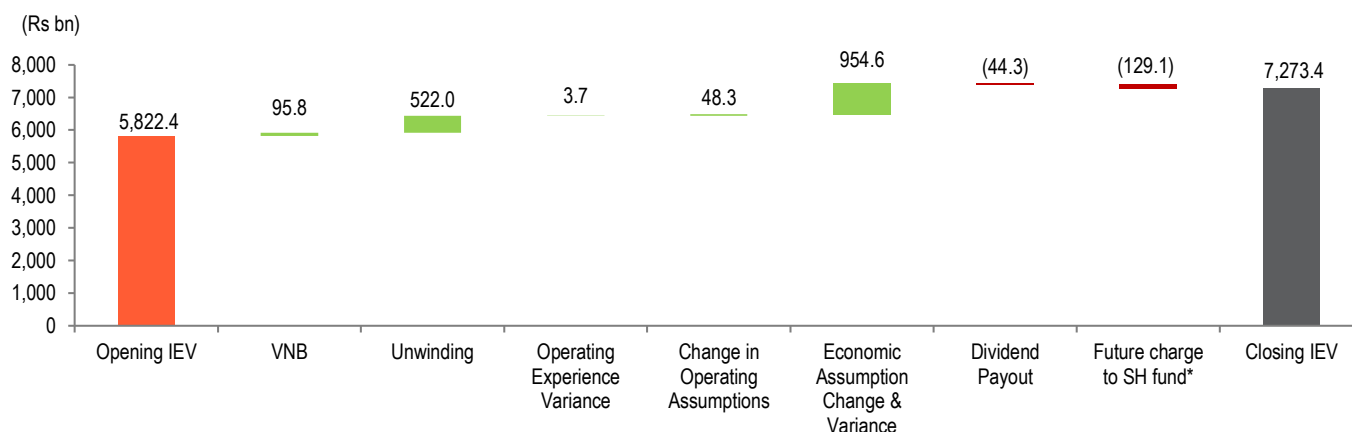
Source: Company, BOBCAPS Research Note: The above data is on premium basis as per IRDAI guidelines

Fig 8 – VNB margin positively impacted by change in business mix

Source: Company, BOBCAPS Research

Fig 9 – Net VNB margin robust in individual business

Source: Company, BOBCAPS Research | * Note: *Presentation for FY23 contained Gross VNB and VNB margin #Including Unit Linked., Presentation for FY23 contained Gross VNB and VNB margin.

Fig 10 – EV grew 25% YoY mainly due to economic assumption change and variance

Source: Company, BOBCAPS Research | * Figures may not add up to total due to rounding off. Future charge of Rs 129bn to shareholder's fund over a period of 3 years starting from FY24-25, towards excess of expenses over allowable limits as per regulatory approval.

Fig 11 – Policyholders' account

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net premium income	15,22,931	13,17,611	15.6	11,70,169	30.1	47,50,696	47,40,046	0.2
Income from investments (Net)	8,44,255	6,78,466	24.4	9,52,669	(11.4)	36,39,439	30,63,901	18.8
Other income	1,41,609	4,836	2,828.4	1,638	8,543.3	1,46,484	76,485	91.5
Total Income	25,09,232	20,01,854	25.3	21,24,470	18.1	85,37,068	78,81,734	8.3
Net Commission	82,457	84,285	(2.2)	65,198	26.5	2,59,591	2,55,804	1.5
Operating expenses	1,64,633	1,30,068	26.6	1,16,741	41.0	4,81,217	4,81,456	(0.0)
Benefits Paid (Net)	13,51,032	11,11,906	21.5	9,54,977	41.5	38,44,289	33,87,172	13.5
Change in actuarial liability	7,64,011	7,17,567	6.5	8,89,937	(14.1)	35,30,361	34,33,828	2.8
Surplus/Deficit	1,28,324	65,037	97.3	84,737	51.4	3,47,405	3,79,822	(8.5)

Source: Company, BOBCAPS Research

Fig 12 – Shareholders' account

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Amounts transferred from Policyholders'	1,27,937	1,34,161	-4.6	84,375	51.6	3,74,554	3,59,077	4.3
Income From Investments	11,240	5,711	96.8	10,610	5.9	36,946	11,478	221.9
PAT	1,37,626	1,34,278	2.5	94,444	45.7	4,06,758	3,63,974	11.8

Source: Company, BOBCAPS Research

Fig 13 – Key growth metrics

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
NBP	7,51,746	5,59,549	34.3	5,47,914	37.2	22,26,714	23,20,506	(4.0)
APE (as provided)	2,11,800	1,91,370	10.7	1,31,630	60.9	5,69,700	5,66,820	0.5
Total Expense ratio (%)	16.2	16.2	(5bps)	15.5	68bps	15.6	15.5	4bps
VNB margin (%)	17.2	19.3	(213bps)	20.0	(279bps)	16.8	16.2	60bps
Solvency ratio (%)	198	187	1,100bps	193	500bps	198	187	1,100bps

Source: Company, BOBCAPS Research

Valuation methodology

LIC posted a strong Q4 with both NBP and APE posting double-digit growth. However, FY24 saw flattish YoY growth on APE and a single digit decline in NBP. Although market share in individual APE contracted, the company remains the biggest player in the life insurance industry, backed by a productive agent force and a growing bancassurance channel.

Given a focus on non-par products (six launched ex ULIP in FY24), LIC's VNB margin at end FY24 grew 60bps YoY to 16.8%. Management has repriced annuities to make them more competitive. We maintain our VNB margin assumptions of 17.5%/18.0% for FY25E/FY26E. EV grew 25% YoY at end FY24 to Rs 7.3tn, beating our estimate by 10%. This was due to the MTM gains arising out of the equity portfolio and higher unwind. We have increased our EV estimates by 9%/8% for FY25/FY26 to Rs 7.9tn/Rs 8.7tn.

The stock is currently trading at 0.7x FY26E EV. We value LIC at an unchanged 0.9x FY26E EV, a ~60% discount to peers. Based on our revised estimates, our TP rises to Rs 1,260 (vs. Rs 1,140). This gives us a 24% upside and we thereby upgrade from HOLD to BUY. We remain positive on LIC given its entrenched brand equity, market leadership and superior agency force.

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

Fig 14 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Gross Premium	5,096	5,508	5,066	5,571	0.6	(1.1)
Net Premium	5,088	5,500	5,058	5,563	0.6	(1.1)
VNB	108	120	109	123	(0.9)	(1.8)
APE	616	669	621	681	(0.9)	(1.8)
Embedded Value (EV)	7,935	8,669	7,276	8,009	9.1	8.2
VNB Margin (in %)	17.5	18.0	17.5	18.0	0bps	0bps

Source: BOBCAPS Research

Fig 15 – Peer comparison

Ticker	Rating	CMP (Rs)	Target Price (Rs)	Upside (%)	P/EV (CMP)		P/EV (Implied)	
					FY25E	FY26E	FY25E	FY26E
LICI IN	BUY	1,016	1,260	24	0.8	0.7	1.0	0.9
SBILIFE IN	BUY	1,451	2,040	41	2.1	1.8	3.0	2.5
HDFCLIFE IN	BUY	578	775	34	2.3	1.9	3.0	2.6
IPRU IN	HOLD	583	650	11	1.7	1.5	1.9	1.7

Source: BOBCAPS Research

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. 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.
- **Slow scale-up of non-par book:** 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. This apart, 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	578	775	BUY
ICICI Prudential Life	IPRU IN	10.2	583	650	HOLD
LIC	LICI IN	78.2	1,016	1,260	BUY
SBI Life	SBILIFE IN	17.7	1,451	2,040	BUY

Source: BOBCAPS Research, NSE | Price as of 28 May 2024

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)	FY22A	FY23A	FY24P	FY25E	FY26E
Gross premium income	42,80,250	47,46,681	47,57,519	50,95,659	55,07,547
First year premium	3,66,493	3,90,899	3,90,380	4,09,898	4,38,591
Renewal premium	22,90,928	24,26,175	25,30,805	26,29,066	27,65,458
Single premium	16,22,828	19,29,607	18,36,335	20,56,695	23,03,498
Net written premium	42,74,192	47,40,046	47,50,696	50,88,351	54,99,648
Income from investments	29,28,945	30,63,901	36,39,439	40,70,183	43,75,817
Other Income	7,795	76,485	1,46,484	1,61,132	1,85,302
Total income	72,94,206	78,81,734	85,37,068	93,19,666	1,00,60,767
Commissions	2,36,912	2,55,804	2,59,591	2,79,706	2,96,368
Operating expenses	3,83,709	4,81,456	4,81,217	5,09,566	5,50,755
Benefits and bonuses paid	35,74,649	34,25,768	38,88,093	42,51,783	46,38,332
Change in liabilities (net)	29,72,776	34,33,828	35,30,361	38,71,756	41,21,671
Others	0	0	0	0	0
Total expenses	71,68,046	75,96,855	81,59,262	89,12,811	96,07,126
Surplus before tax	2,19,032	4,32,250	4,05,656	4,34,590	4,79,990
Provision for tax	78,786	52,429	58,252	60,843	67,199
Surplus after tax	1,40,246	3,79,822	3,47,405	3,73,747	4,12,791
Trf to shareholders' a/c	1,21,935	3,59,077	3,74,554	4,02,955	4,45,051
Balance being FFA	18,311	20,744	(27,150)	(29,208)	(32,260)

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Trf from policyholders' a/c	1,21,935	3,59,077	3,74,554	4,02,955	4,45,051
Income from investments	2,012	11,478	36,946	57,370	97,644
Contr. to policyholders' fund	83,275	1,301	449	0	0
Others	5	4,716	3,180	0	0
PBT	40,677	3,73,971	4,14,231	4,60,325	5,42,695
Provision for taxation	236	594	1,114	1,246	1,469
PAT	40,441	3,73,377	4,13,117	4,59,079	5,41,226
Dividend+Interim div.+DDT	9,487	18,973	37,950	44,275	50,600

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity	1,04,091	4,56,694	8,19,382	12,31,282	17,17,109
Policyholders' funds	4,14,71,016	4,44,15,434	5,13,88,854	5,52,60,610	5,93,82,281
FFA	2,38,858	2,61,592	3,48,761	3,75,037	4,03,010
Others	18,344	39,187	12,147	12,147	12,147
Total liabilities	4,15,93,452	4,49,11,314	5,22,20,383	5,65,04,039	6,11,11,537
Shareholders' funds	64,121	2,93,635	6,37,440	12,20,556	14,86,258
Policyholders' funds	3,89,56,935	4,18,91,778	4,87,65,124	5,26,36,880	5,67,58,551
Assets to cover linked liab.	2,39,386	2,63,095	3,52,578	0	0
Others	23,33,009	24,62,806	24,65,241	26,46,604	28,66,729
Total assets	4,15,93,452	4,49,11,314	5,22,20,383	5,65,04,039	6,11,11,537

Key Metrics

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
AUM (Rs mn)	4,08,48,327	4,39,72,046	4,74,89,810	5,12,88,994	5,53,92,114
NBP (Rs mn)	19,89,322	23,20,506	22,26,714	24,66,593	27,42,089
APE (Rs mn)	5,28,776	5,83,860	5,74,013	6,15,568	6,68,941
VNB (Rs mn)	76,190	91,560	95,830	1,07,724	1,20,409
VNB margin (%)	15.1	16.2	16.8	17.5	18.0
Embedded value (Rs mn)	54,14,930	58,22,440	72,73,450	79,35,105	86,69,285
ROEV (%)	11.9	10.9	11.5	9.5	9.5
ROE (%)	11.9	10.9	11.5	9.5	9.5
Opex ratio (%)	9.0	10.1	10.1	10.0	10.0
Cost ratio (%)	14.5	15.5	15.6	15.5	15.4
Solvency ratio (%)	184.5	187.2	197.9	200.9	202.8
EPS (Rs)	6.4	57.6	64.3	71.9	84.8
BVPS (Rs)	16.5	72.2	129.5	194.7	271.5
EVPS (Rs)	856.1	920.5	1,150.0	1,254.6	1,370.6

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

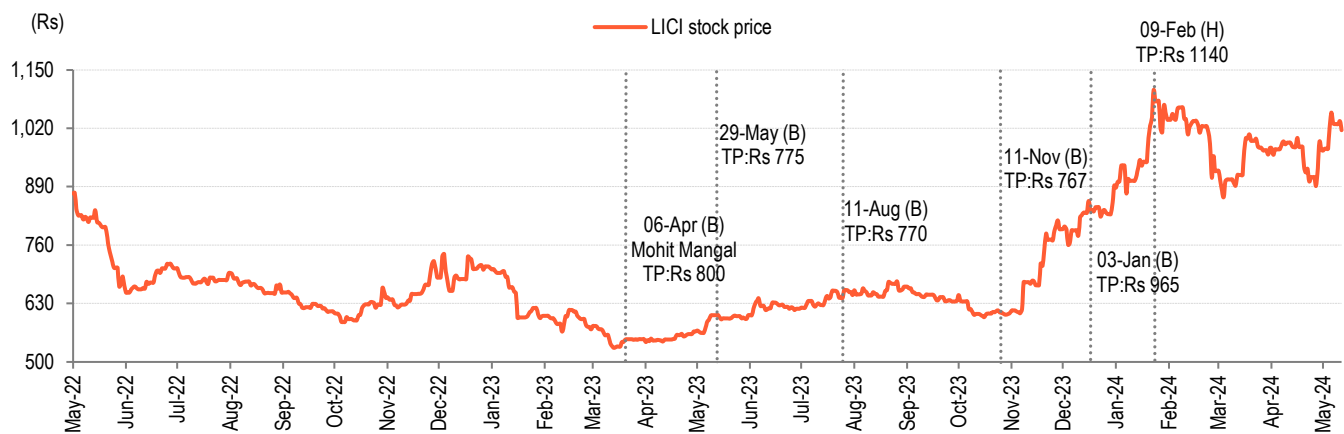
HOLD – Expected return from -6% to +15%

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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