

**NOT  
RATED**

LIC

| Insurance

| 13 February 2023

## Strong 9MFY23 growth but margins moderate

- 9MFY23 net premium grew 21% YoY to Rs 3.4tn, lifting NBP market share 400bps YoY to 65.4%
- VNB margin stable at 14.6% vs. H1FY23 but down from 15.1% in FY22 owing to a higher ULIP share
- Agency channel stable while bancassurance moved up in the individual NBP mix; persistency ratios largely steady

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**Strong growth:** LIC (Not Rated) posted 21% YoY growth in net premium to Rs 3.4tn in 9MFY23, led by the group business which increased 50% YoY (individual business grew 6%) and constituted 41% of the total. This elevated NBP market share from 61.4% at end-9MFY22 to 65.4% at end-9MFY23. APE stood at Rs 375bn in 9MFY23, wherein group business constituted 38% share. To expand its non-participating business, LIC has introduced six products in FY23 YTD. The company now has a bouquet of 19 non-par and 16 par products.

**VNB margin softens:** LIC's net VNB margin stood at 14.6% in 9MFY23, flat vs. H1FY23 but down from 15.1% in FY22 owing to a shift in product mix (-170bps impact), partly offset by a change in assumptions (+120bps). Individual par/non-par segment margins (net) stood at 11%/63.6% vs. 10.6%/68.7%. The group segment margin moderated to 12.3% vs. 12.9% in H1FY23.

**Agency share stable, bancassurance rises:** The agency channel, with 52.3% market share by no. of agents, remains an important component of LIC's network. On individual NBP basis, agency share dipped marginally from 96.5% in 9MFY22 to 96.0% at end-9MFY23; bancassurance and alternate channels improved from 2.6% to 3.5%. Management stated that IDBI Bank is its main banking partner.

**Persistency improved:** LIC's 13<sup>th</sup> month persistency increased 77bps YoY to 77.6% in 9MFY23 and the 61<sup>st</sup> month ratio also improved 82bps YoY to 62.7%.

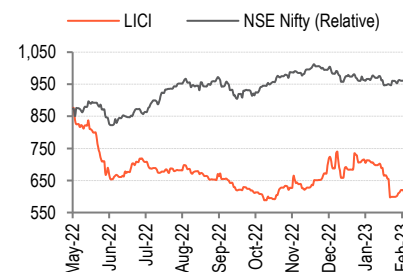
**Budget impact minimal:** Management reiterated that only 1.8% of its APE is contributed by policies over Rs 0.5mn. Thus, the impact of the FY24 budget proposal to restrict tax exemption on big-ticket life insurance policies will be minimal. Moreover, LIC has 200mn policyholders, which is 3x the taxpaying population, implying that not all customers take policies solely to garner tax deductions (see our report, [Budget spoils the insurance party](#), for the impact on private insurers).

**Valuation:** LIC is trading at 0.7x H1FY23 EV. We do not have a rating on the stock.

|                  |                 |
|------------------|-----------------|
| Ticker/Price     | LICI IN/Rs 607  |
| Market cap       | US\$ 46.4bn     |
| Free float       | 3.5%            |
| 52wk high/low    | Rs 920/Rs 582   |
| Promoter/FPI/DII | 96.5%/0.2%/0.9% |

Source: NSE | Price as of 13 Feb 2023

## Stock performance



Source: NSE



## 9MFY23 snapshot

**Fig 1 – Key operational data**

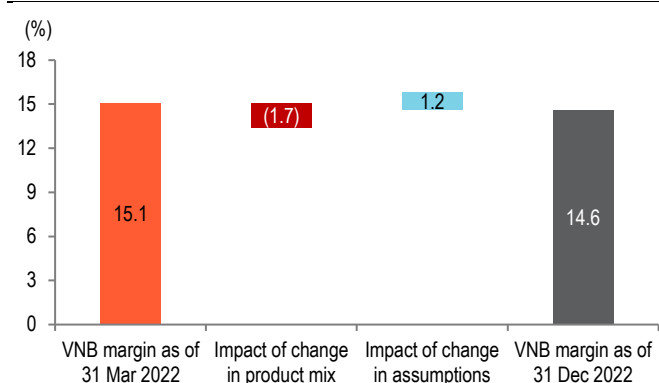
| Particulars (Rs bn)                     | 9MFY23 | 9MFY22 | YoY growth (%) |
|---|--------|--------|----------------|
| Net Premium                             | 3,422  | 2,837  | 20.6           |
| Individual                              | 2,004  | 1,892  | 5.9            |
| Group                                   | 1,418  | 945    | 50.1           |
| APE                                     | 375    | NA     | NA             |
| Individual Par                          | 212    | NA     | NA             |
| Individual Non – Par                    | 22     | NA     | NA             |
| Group                                   | 141    | NA     | NA             |
| Value of New Business (Net)             | 55     | NA     | NA             |
| AUM                                     | 44,349 | 40,122 | 10.5           |
| Covid claims paid                       | 5      | 14     | (65.5)         |
| Total death claims paid                 | 174    | 293    | (40.7)         |
| <b>Key ratios (%)</b>                   |        |        |                |
| VNB Margin (Net)                        | 14.6   | NA     | NA             |
| VNB Margin (Gross)                      | 19.1   | NA     | NA             |
| VNB Margin (Gross - Individual Par)     | 14.4   | NA     | NA             |
| VNB Margin (Gross - Individual Non-Par) | 73.5   | NA     | NA             |
| VNB Margin (Gross - Group)              | 17.7   | NA     | NA             |
| Total opex ratio                        | 15.3   | 15.0   | 27bps          |
| Commission ratio                        | 5.0    | 5.5    | (53bps)        |
| <b>Persistency (premium basis) (%)</b>  |        |        |                |
| 13th month                              | 77.6   | 76.8   | 77bps          |
| 61st month                              | 62.7   | 61.9   | 82bps          |
| <b>Solvency and Claims (%)</b>          |        |        |                |
| Solvency                                | 185.0  | 177.0  | 800bps         |
| Death Claim Settlement Ratio            | 97.4   | 96.1   | 133bps         |
| <b>Market share (%)</b>                 |        |        |                |
| NBP                                     | 65.4   | 61.4   | 398bps         |
| Policies                                | 70.2   | 71.9   | (163bps)       |

Source: Company, BOBCAPS Research | Note: NA denotes that the number is not comparable as the company has changed the way it computes profits since the Sep'22 quarter.

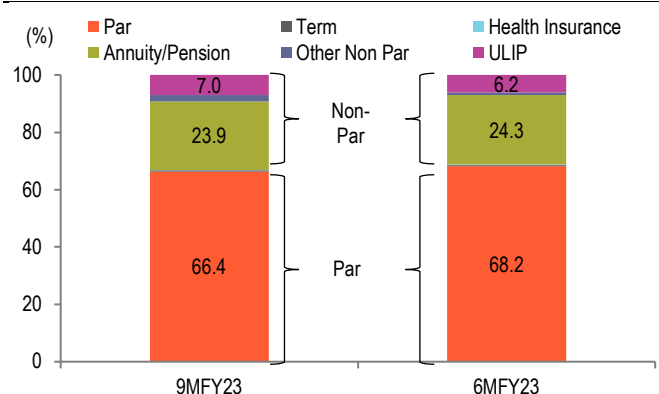
**Fig 2 – Non-par schemes launched in 9MFY23**

| Products           | Bima Ratna                          | Dhan Sanchay                        | Pension Plus                          | Dhan Varsha                         | New Tech Term  | New Jeevan Amar  |
|--------------------|-------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|--|--|
| Introduction date  | 27-May-22                           | 14-Jun-22                           | 05-Sep-22                             | 17-Oct-2022                         | 23-Nov-2022  | 23-Nov-2022  |
| Par/Non-Par        | Non-Par (Banca)                     | Non-Par                             | Non-Par                               | Non-Par                             | Non-Par  | Non-Par  |
| Product categories | Money Back                          | Endowment                           | Pension                               | Endowment                           | Term   | Term   |
| Features           | Non-linked, individual, saving plan | Non-linked, individual, saving plan | Unit-linked, individual, pension plan | Non-linked, individual, saving plan | Non-linked, non-par, individual pure risk premium plan | Non-linked, non-par, individual pure risk premium plan |

Source: Company, BOBCAPS Research

**Fig 3 – VNB margin benefited from revised assumptions**

Source: Company, BOBCAPS Research

**Fig 4 – ULIP share increases; par reduces**

Source: Company, BOBCAPS Research | Note: The above data is based on NBP

## Earnings call highlights

### VNB margin

- LIC's VNB margin (net) stood at 14.6% at end-9MFY23, the same level as H1FY23 but lower than the 15.1% reported at end-FY22 owing to a shift in product mix (-170bps impact), partly offset by a change in assumptions (+120bps). Note, the data is not comparable YoY due to a change in the way the company computes profits (since Q2FY23). LIC's VNB margin (gross) stood at 19.1% at end-9MFY23 vs. 19.2% at end-H1FY23.
- Net VNB margin in the individual par segment improved to 11% at end-9MFY23 from 10.6% in H1FY23, whereas that in the non-par segment moderated to 63.6% from 68.7%. The group segment margin dipped to 12.3% from 12.9%.

### Product mix

- LIC launched 6 non-participating products in 9MFY23, taking its portfolio to a total of 19 non-par (including 3 annuity), 16 par, 10 group (including one credit life and one annuity) products and 8 riders.
- Total APE stood at Rs 375bn at end-9MFY23, of which individual/group business formed 62%/38%. Of the individual business, 91% was par whereas the remaining 9% was non-par. Overall, non-par products formed 9.45% of APE at end-9MFY23 as compared to 8.98% at end-H1FY23, 7.76% in Q1FY23 and 7.12% in FY22.
- On NBP basis, the share of par/non-par products stood at 66.4%/33.6%. Annuity/pension and ULIPs constituted a bulk of the non-par segment at 23.9% and 7.0% respectively. Term products contributed only 0.4%.

### Distribution channels

- The agency channel remains an important part of LIC's distribution network. However, the robust agency force of 1.32mn has moderated by 0.5% YoY due to attrition. LIC's market share by number of agents stands at 52.3%. A total of 0.3mn agents were trained in 9MFY23, of which 78,691 were newly recruited.
- Apart from a robust agency network, LIC also has 78 bancassurance partnerships, 286 brokers, 157 corporate agents, 110 insurance marketing firms, 3,623 branched and satellite offices, and 19,691 micro insurance agents.
- On individual NBP basis, agency share dipped from 96.5% in 9MFY22 to 96.0% at end-9MFY23; bancassurance and alternate channels improved from 2.6% to 3.5%. Management stated that IDBI Bank is its main banking partner.

### Persistency

- Persistency ratios remained largely stable with 13<sup>th</sup> month persistency up 77bps YoY to 77.6% in 9MFY23 and the 61<sup>st</sup> month ratio up 82bps YoY to 62.7%.

### Others

- Management sees minimal impact of the FY24 budget proposal to restrict tax exemption on big-ticket life insurance policies given that only 1.8% of its APE is contributed by policies over Rs 0.5mn. Also, its large base of 200mn policyholders, which is 3x the taxpaying population, implies that not all customers take policies solely to garner tax deductions.
- 'Dhan Varsha', a product newly launched in Oct'22, caters to a larger audience base and offers IRR of over 6% in certain buckets.
- Commission ratio declined 53bps YoY to 5% at end-9MFY23 whereas the total opex ratio increased 27bps YoY to 15.3%.
- Per management, exposure to the Adani Group is less than 1% of total AUM at end-Dec'22 on book value basis. The bifurcation of this exposure between par and non-par has not been disclosed.

## Key financials

**Fig 5 – Policyholders’ account – Standalone**

| Y/E 31 Mar (Rs bn)                               | 9MFY23       | 9MFY22       | Change (%)   |
|--|--------------|--------------|--------------|
| <b>Gross Premium</b>                             | <b>3,427</b> | <b>2,841</b> | <b>20.6</b>  |
| Reinsurance ceded                                | 5            | 4            | 20.8         |
| Net premium                                      | 3,422        | 2,837        | 20.6         |
| <b>Investment Income</b>                         | <b>2,385</b> | <b>2,254</b> | <b>5.8</b>   |
| Other income                                     | 72           | 6            | 1,132.7      |
| Contribution from shareholders account           | 0            | 51           | (99.3)       |
| <b>Total Income</b>                              | <b>5,880</b> | <b>5,147</b> | <b>14.2</b>  |
| <b>Total commissions</b>                         | <b>172</b>   | <b>157</b>   | <b>9.3</b>   |
| Operating expenses (including provisions)        | 320          | 186          | 72.0         |
| -Operating expenses                              | 351          | 269          | 30.7         |
| <b>Operating Profit</b>                          | <b>5,388</b> | <b>4,804</b> | <b>12.2</b>  |
| Provision for tax                                | 44           | 80           | (45.4)       |
| Benefits paid (Net)                              | 2,287        | 2,330        | (1.9)        |
| Bonuses paid                                     | 27           | 25           | 10.6         |
| <b>Change in reserves/ valuation liabilities</b> | <b>2,694</b> | <b>2,387</b> | <b>12.9</b>  |
| Transfer to provision for linked liabilities     | 21           | (95)         | (122.5)      |
| Transfer to funds for discontinued policies      | 1            | 0            | 159.6        |
| <b>Surplus / (Deficit)</b>                       | <b>315</b>   | <b>78</b>    | <b>305.7</b> |
| Transfer to shareholder's account                | 225          | 67           | 237.9        |
| Balance for future appropriations                | 90           | 11           | 714.3        |

Source: Company, BOBCAPS Research

**Fig 6 – Shareholders’ account (non-technical account) – Standalone**

| Y/E 31 Mar (Rs bn)                                 | 9MFY23     | 9MFY22    | Change (%)     |
|--|------------|-----------|----------------|
| Amounts transferred from the Policyholders Account | 225        | 67        | 237.9          |
| <b>Investment Income</b>                           | <b>6</b>   | <b>1</b>  | <b>382.7</b>   |
| Other Income                                       | 0          | -         | NA             |
| <b>Total Income</b>                                | <b>231</b> | <b>68</b> | <b>240.5</b>   |
| Other expenses                                     | 0.003      | 0.004     | (23.3)         |
| other provision                                    | -          | -         | NA             |
| Contribution to the Policyholders’ Fund            | 0.4        | 51        | (99.3)         |
| Total expenses                                     | 0.4        | 51        | (99.3)         |
| PBT  | 230        | 17        | 1,244.6        |
| Tax  | 0.7        | 0.4       | 56.9           |
| <b>PAT</b>   | <b>230</b> | <b>17</b> | <b>1,274.2</b> |

Source: Company, BOBCAPS Research

**Fig 7 – Balance sheet – Standalone**

| Y/E 31 Mar (Rs bn)                        | 9MFY23        | 9MFY22        | Change (%)   |
|---|---------------|---------------|--------------|
| <b>Share Capital</b>                      | 63            | 63            | -            |
| <b>Reserves &amp; surplus</b>             | 261           | 17            | 1,459.3      |
| Fair Value Change account - Net           | 0             | 1             | (50.4)       |
| <b>Total Equity</b>                       | <b>324</b>    | <b>81</b>     | <b>302.7</b> |
| <b>Liability</b>                          |               |               |              |
| <b>Policyholders' Funds:</b>              | <b>44,195</b> | <b>40,245</b> | <b>9.8</b>   |
| <b>Policy Liabilities</b>                 |               |               |              |
| - Insurance Reserves                      | 129           | 129           | 0.6          |
| - Provision for Linked Liabilities        | 260           | 234           | 11.2         |
| Add: Fair value change                    |               |               |              |
| FFA                                       | 108           | 11            | 877.5        |
| FFA - provision of lapsed policies        | 1             | 1             | 102.7        |
| <b>Total Sources of funds</b>             | <b>45,019</b> | <b>40,700</b> | <b>10.6</b>  |
| <b>Application Of Funds</b>               |               |               |              |
| <b>Investments</b>                        |               |               |              |
| - Shareholders'                           | 238           | 64            | 273.8        |
| - <b>Policyholders'</b>                   | <b>42,281</b> | <b>38,298</b> | <b>10.4</b>  |
| - Assets held to cover Linked Liabilities | 261           | 234           | 11.5         |
| Loans                                     | 1,140         | 1,101         | 3.5          |
| Fixed Assets                              | 38            | 34            | 9.1          |
| Net Current Assets                        | 1,061         | 969           | 9.5          |
| <b>Total application of funds</b>         | <b>45,019</b> | <b>40,700</b> | <b>10.6</b>  |

Source: Company, BOBCAPS Research

## Glossary

| Glossary of Abbreviations |  |             |                            |
|---------------------------|--|-------------|----------------------------|
| <b>APE</b>                | Average Premium Equivalent                     | <b>NBP</b>  | New Business Premium       |
| <b>EV</b>                 | Embedded Value                                 | <b>ULIP</b> | Unit Linked Insurance Plan |
| <b>GWP</b>                | Gross Written Premium                          | <b>VNB</b>  | Value of New Business      |
| <b>IRDA</b>               | Insurance Regulatory and Development Authority |             |                            |

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**Note:** Recommendation structure changed with effect from 21 June 2021

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