

**NOT
RATED**

LIC

| Insurance

| 14 November 2022

Strong growth; focused on raising persistency

- Net premium grew 24% YoY to Rs 2.3tn in H1FY23, lifting NBP market share from 64.5% to 68.3%
- Focus on non-par and other profitable businesses saw net VNB margin expand 530bps YoY to 14.6% in H1
- 61st month persistency moved up but the 13th month ratio declined; improvement remains in focus

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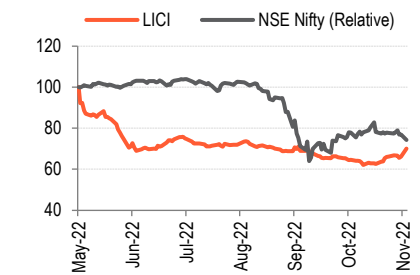
Strong growth: LIC (Not Rated) posted 24% YoY growth in net premium to Rs 2.3tn in H1FY23, led by the group business which increased 55% YoY and constituted 45% of the total (individual business grew 7%). This elevated New Business Premium (NBP) market share from 64.5% at end-H1FY22 to 68.3% at end-H1FY23. Annual premium equivalent (APE) grew 48% YoY to Rs 252bn in H1FY23, wherein group business (42% of total) rose 96% YoY. Individual non-par business also gained traction to grow 75% YoY but only constitutes 5% share. To expand its non-par business, LIC has introduced a slew of products focused on annuities in FY23 thus far. It now has a bouquet of 19 non-par and 16 par products.

Ticker/Price	LICI IN/Rs 665
Market cap	US\$ 52,095mn
Free float	3.5%
3M ADV	US\$ 10.5mn
52wk high/low	Rs 920/Rs 588
Promoter/FPI/DII	96.5%/0.2%/0.9%

Source: NSE | Price as of 14 Nov 2022

VNB margin rises: Aided by a focus on non-par and other profitable businesses, the net margin on value of new business (VNB) grew 530bps YoY to 14.6% in H1FY23. The individual non-par gross VNB margin has come down from 118% in H1FY22 to 79.5% because LIC has repriced some annuity products to make them more attractive. VNB margin benefited from a change in assumptions in H1FY23 but was negatively affected by a change in product mix.

Stock performance



Source: NSE

EV remains flat: Embedded value (EV) was flat at Rs 5.44tn in H1FY23 vs. Rs 5.41tn at end-FY22. Market movements pulled down EV, but the unwinding and VNB had a positive impact. Looking at the constituents of EV, we note a decline in value of in-force (VIF) business and an increase in adjusted net worth (ANW). This stems from a movement of funds from VIF to ANW, albeit not very significant. Going forward, the company expects that the continued strong operating performance will drive EV higher.

Raising persistency a focus area: LIC's 13th month persistency has declined 115bps YoY to 77.6% in H1FY23. The company has revised prices of its top selling products to improve persistency ratios. The 61st month ratio improved 220bps YoY to 62.8%. Management reiterated that it intends to improve persistency ratios across cohorts.

Valuation: LIC is trading at 0.8x H1FY23 EV. We do not have a rating on the stock.



Fig 1 – Key operational data

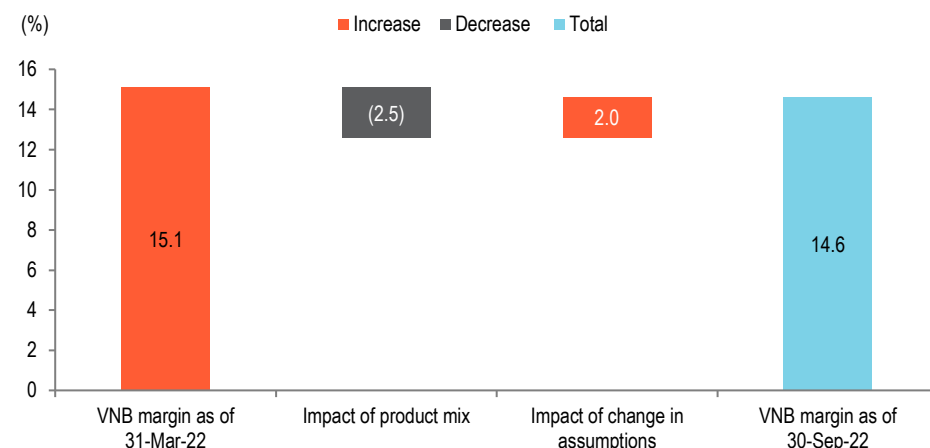
(Rs bn)	H1FY23	H1FY22	YoY growth (%)
Net Premium	2,305	1,861	23.9
Individual	1,277	1,198	6.7
Group	1,027	663	54.9
APE	252	171	47.8
Individual Par	133	109	22.0
Individual Non - Par	13	8	75.3
Group	106	54	96.1
Indian Embedded Value	5,443	5,397	0.9
Value of New Business (Net)	37	16	132.3
VNB Margin (Net) (%)	14.6	9.3	530bps
VNB Margin (Gross) (%)	19.2	17.9	130bps
VNB Margin (Gross - Individual Par) (%)	14.5	12.9	160bps
VNB Margin (Gross - Individual Non-Par) (%)	79.5	118.0	(3,850bps)
VNB Margin (Gross - Group) (%)	17.6	14.3	330bps
Operating expense ratio (%)	16.7	15.3	136bps
Commission Ratio (%)	4.7	5.3	(58bps)
AUM	42,938	39,506	8.7
Persistency (premium basis)			
13th month (%)	77.6	78.8	(115bps)
61st month (%)	62.8	60.6	220bps
Solvency (%)	188	183.0	500bps
Covid claims paid (Rs bn)	4	4	12.3
Total death claims paid (Rs bn)	117	213	(45.3)
Death Claim Settlement Ratio (%)	95.6	94.1	152bps
Market share (%)			
NBP	68.3	64.5	376bps
Policies	71.2	70.9	25bps

Source: Company, BOBCAPS Research

Fig 2 – New product launch – FY23

Name of Products	LIC's Bima Ratna	LIC's Dhan Sanchay	LIC's Pension Plus
Introduction date	27-May-22	14-Jun-22	05-Sep-22
Par/Non-Par	Non-Par (Banca)	Non-Par	Non-Par
Product categories	Money Back	Endowment	Pension
Features of product	Non-linked, individual, saving plan	Non-linked, individual, saving plan	Unit-linked, individual, pension plan
No of policies sold to date	2,753	9,923	24,473
Premium collected to date (Rs mn)	102	821	1,190
Ticket size (Rs)	37,158	82,754	48,633

Source: Company, BOBCAPS Research

Fig 3 – VNB margin benefited from revised operating assumptions


Source: Company, BOBCAPS Research

Earnings call highlights

Value of new business (VNB) margin

- LIC's VNB margin benefited from a change in assumptions in H1FY23, offset by an unfavourable product mix:
 - An increase in risk-free rate (which is based on the market and changes frequently) resulted in a positive change in assumptions and margins.
 - Despite the group business doing well (led by the annuities), an unfavorable change in product mix weighed on margins.
- Gross VNB margin (individual non-par) declined from 118% in H1FY22 to 79.5% in H1FY23 because the company repriced some annuity products to make them more attractive.

Embedded value (EV)

- Market movements pulled down EV, but the unwinding and VNB had a positive impact. The unwind rate, although disclosed only by end-FY23, is guided to be in the range of 8-9%. Management clarified that details of EV constituents would be disclosed on an annual basis.
- Looking at the constituents of EV, we note a decline in VIF business and an increase in ANW during H1. This stems from a movement of funds from VIF to ANW, albeit not very significant.
- Going forward, the company expects that the continued strong operating performance will drive EV higher.
- Draft regulations on commission and expenses by the Insurance Regulatory and Development Authority (IRDA) will not have any negative impact on LIC.

Product mix

- LIC has a bouquet of 19 non-participation and 16 participation products. Individual non-par business is gaining traction, with 75% YoY growth in H1. New products launched in FY23 are also focused on the non-par segment. The company has added riders which support product growth. The group segment has gained momentum as well. The company is also looking to review the protection product basket.
- Non-par savings grew by 250% YoY in H1FY23, non-par annuity by 7% (on a higher base), and unit-linked insurance plans (ULIP) by 79%.
- Some of the guaranteed non-par products, including recent launches, have a 6%+ IRR (returns vary based on age, premium paying terms, etc.).

Persistency

- The 13th month persistency has declined QoQ due to seasonality.
- The company has revised prices of its top selling products to improve persistency ratios.

Others

- LIC's Covid-19 reserve which was at Rs 70bn-80bn earlier has been maintained at these levels at end-H1FY23. Though such claims have been reducing, the company will review these reserves in future.
- Sensitivity of interest rates to VNB margin would be non-linear, per management. In addition, the company estimates that a decrease of 100bps in reference rates would result in a 3.4% decline in VNB margin at end-H1FY23 as compared to a 4.7% decline as at end-FY22.
- LIC is examining options to put its products on the IRDA-backed online marketplace 'Bima Sugam'.

Key financials

Fig 4 – Policyholders’ account – Standalone

Y/E 31 Mar (Rs bn)	H1FY23	H1FY22	Change (%)
Gross Premium	2,307	1,863	23.8
Reinsurance ceded	(2)	(2)	(12.0)
Net Premium	2,305	1,861	23.9
Investment Income	1,537	1,488	3.3
Other income	70	2	3,573.6
Contribution from shareholders account	0	54	(99.8)
Total Income	3,911	3,404	14.9
Total commissions	108	97	11.1
Operating expenses (including provisions)	281	104	171.6
-Operating expenses	277	188	47.0
Operating Profit	3,521	3,203	9.9
Prov for tax	68	48	43.0
Benefits Paid (Net)	1,514	1,491	1.6
Bonuses Paid	15	14	5.1
Change in reserves/ valuation liabilities	1,732	1,633	6.1
Transfer to provision for linked liabilities	5	(94)	(105.6)
Transfer to funds for discontinued policies	0	0	151.5
Surplus / (Deficit)	186	112	66.4
Transfer to shareholder’s account	164	68	142.0
Balance for future appropriations	22	44	(50.0)

Source: Company, BOBCAPS Research

Fig 5 – Shareholders’ account (non-technical account) – Standalone

Y/E 31 Mar (Rs bn)	H1FY23	H1FY22	Change (%)
Amounts transferred from the Policyholders Account	164	68	142.0
Investment Income	167	68	144.8
Other Income	0	-	NA
Total Income	167	68	144.8
Other expenses	0.002	0.002	(21.8)
other provision	-	-	NA
Contribution to the Policyholders’ Fund	0.1	54	(99.8)
Total Expenses	0.1	54	(99.8)
PBT	167	15	1,048.6
Tax	0.4	0.2	181.7
PAT	166	14	1,057.9

Source: Company, BOBCAPS Research

Fig 6 – Balance sheet – Standalone

Y/E 31 Mar (Rs bn)	H1FY23	H1FY22	Change (%)
Share Capital	63	63	-
Reserves & surplus	197	14	1,273.4
Fair Value Change account - Net	0	1	(73.1)
Total Equity	261	78	233.4
Liability			
Policyholders' Funds:	42,686	39,748	7.4
Policy Liabilities	-	-	-
- Insurance Reserves	129	129	(0.6)
- Provision for Linked Liabilities	244	235	3.7
Add: Fair value change	-	-	-
FFA	40	44	(8.4)
FFA - provision of lapsed policies	1	1	88.9
Total Sources of funds	43,361	40,236	7.8
Application Of Funds			
Investments			
- Shareholders'	95	63	50.0
- Policyholders'	40,994	37,718	8.7
- Assets held to cover Linked Liabilities	245	236	3.9
Loans	1,129	1,090	3.6
Fixed Assets	37	34	6.4
Net Current Assets	863	1,095	(21.2)
Total application of funds	43,361	40,236	7.8

Source: Company, BOBCAPS Research

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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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