

HOLD
 TP: Rs 1,140 | ▲ 5%

LIC

| Insurance

| 09 February 2024

Solid quarter; valuations overdone – cut to HOLD

- VNB margin improved 200bps YoY to 16.6% at end-9M, leading us to increase our FY24-FY26 estimates by 100-150bps
- Q3 APE growth of 7% YoY could not arrest 9M decline, but focus on profitable non-par plans remains a positive
- TP raised to Rs 1,140 (vs. Rs 965) on a 4-5% increase in our FY24-FY26 EV; downgrade to HOLD as recent rally caps upside

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VNB margin improves: LIC’s net VNB margin expanded 200bps YoY to 16.6% as of 9MFY24 because of the positive impact from a better product mix (4.9%) and favourable change in assumptions (0.7%), partly offset by a negative impact (3.6%) from product benefits. We increase our FY24/FY25/FY26 margin estimates by 100-150bps each to 17%/17.5%/18% to reflect the nine-month performance.

Recouping ground: Although 9MFY24 APE declined 5% YoY to Rs 358bn, Q3 showed 7% YoY growth. Within this, individual APE (constituting 66% share) was flat YoY at end-9M, whereas group business fell 13% YoY. Management reiterated that the lumpy fund management business has contracted, whereas other categories such as term and annuity plans grew. NBP dropped 16% YoY at end-9M, though net premium declined by a lower 6%. We reduce our premium estimates by 1-3% over our forecast period to factor in severe competition from private peers.

Focus on profitable products: The company has introduced four non-par products during 9MFY24, indicating a sustained focus on the segment. The share of non-par business in individual APE has improved from 9.45% in 9MFY23 to 14.04% in 9MFY24, tracking management’s guidance of at least 15% share put out at the time of listing (May’22). Persistency ratios were broadly stable.

Agency channel dominates: LIC’s agency channel continues to contribute a higher share of individual NBP (96%) at end-9MFY24. The bancassurance and alternate channels grew 5% YoY for the period to Rs 14.2bn.

Downgrade to HOLD post run-up: The stock is currently trading at 0.85x FY26E EV and we value LIC at a higher 0.9x multiple (vs. 0.8x earlier), an unchanged ~60% discount to peers. We raise our embedded value (EV) estimates by 4-5% for FY24-FY26 assuming a positive MTM impact from equities and now anticipate an 11% CAGR in EV over FY23-FY26 to Rs 8tn. Based on our revised estimates, our TP rises to Rs 1,140 (vs. Rs 965). Though we remain positive on LIC given its entrenched brand equity and market leadership, the recent 30%+ rally leaves just 5% upside and compels us to downgrade the stock from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	LICI IN/Rs 1,081
Market cap	US\$ 83.2bn
Free float	4%
3M ADV	US\$ 58.2mn
52wk high/low	Rs 1,175/Rs 530
Promoter/FPI/DII	97%/0%/1%

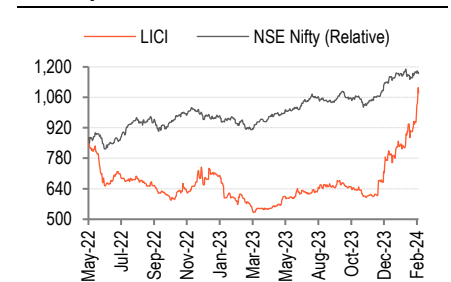
Source: NSE | Price as of 9 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	23,20,506	20,81,135	23,54,997
APE (Rs mn)	5,83,860	5,52,887	5,97,512
VNB (Rs mn)	91,560	93,991	1,04,565
Embedded Value (Rs mn)	58,22,440	66,12,613	72,74,366
VNB margin (%)	16.2	17.0	17.5
EVPS (Rs)	920.5	1,045.6	1,150.2
EPS (Rs)	57.6	39.9	58.1
Consensus EPS (Rs)	57.6	42.0	55.3
P/EV (x)	1.2	1.0	0.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

Business performance

- LIC's net premium grew 5% YoY to Rs 1.2tn in Q3FY24 but declined 6% YoY to Rs 3.2tn in 9MFY24.
- APE increased 7% YoY to Rs 132bn for the quarter while falling 5% for the 9M period to Rs 358bn. Within this, individual APE (constituting 66% share) was flat YoY at end-9MFY24 and group business fell 13%. Group APE declined because some big-ticket accounts have spilt over from Q3 to Q4FY24 and lumpy fund-related business decreased, though annuity and group term premiums have grown.
- Management reiterated a focus on selling more profitable products and accordingly introduced four non-par plans during 9MFY24. Of these, management indicated that one of them alone – Jeevan Utsav launched in Nov'23 – has collected over Rs 10bn in premium. Besides focusing on profitability, the company also intends to make products more competitive in terms of pricing.
- The share of non-par business in individual APE has improved from 9.45% in 9MFY23 to 14.04% in 9MFY24, and management is looking to increase it further. At the time of listing in May'22, LIC had set a 15% target for non-par contribution to the product mix, which is likely to be met (and even exceeded) by Q4FY24. The company will continue to focus on maintaining a balanced product mix.
- Individual non-par protection business contracted 33% YoY to Rs 1.3bn at end-9MFY24, but it is a small component of the product mix and did clock margin gains. The company is planning to come out with more variants of term products in the medium term to boost sales.
- LIC's total expense ratio remained stable at 15.3% in 9MFY24. For Q3, it increased 320bps YoY to 15.5% with a sequential drop of 170bps.
- AUM grew 12% YoY to Rs 49.7tn at end-9MFY24.
- Persistency has improved marginally in the 13th month cohort from 77.6% at end-9MFY23 to 78% at end-9MFY24, whereas there was a slight decline in the 61st month cohort from 62.7% to 62.4%.
- Of the 12.6mn policies sold by LIC in 9MFY24, women bought 4.5mn. This apart, the company has a ~43% share in women agents recruited by the life insurance industry.

Distribution mix

- The agency channel continues to dominate LIC's distribution mix, accounting for 95.9% share of individual NBP at end-9MFY24. Its market share by number of agents stood at 49.7%. Of the company's 1.4mn agents, 76% are in the 18-40 age group and 63% have been associated with the company for more than five years.
- Individual NBP sourced through bancassurance and alternate channels grew 5% YoY to Rs 14.2bn.

- The company has robust distribution capabilities by way of 82 bancassurance partnerships, 1.4mn agents, 160 corporate agents, 290 brokers, 19,000+ micro insurance agents and 3,600+ branches.
- LIC issued 0.78mn policies digitally through its proprietary Ananda app in 9MFY24 as compared to 0.81mn in FY23.

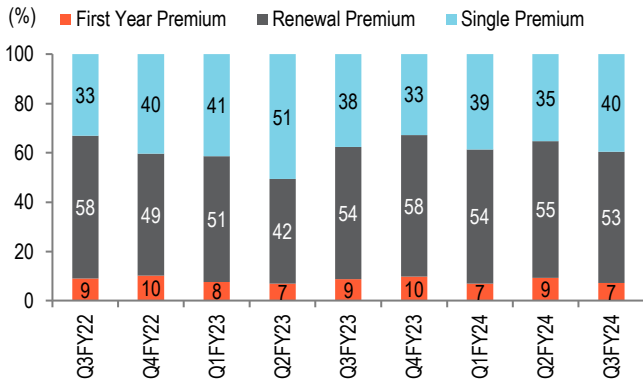
VNB and VNB margin

- VNB margin (net) grew 200bps YoY to 16.6% at end-9MFY24 with the positive impact of a better business mix (4.9%) and favourable change in assumptions (0.7%), offset by a 3.6% negative impact from product benefits. The benefits are being enhanced in annuity products (repriced twice in the last one year), 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 16% in 9MFY23 to 17.8% in 9MFY24, whereas that in the group business increased from 12.3% to 14.3%.
- Net VNB was Rs 59.4bn at end-9MFY24 as compared to Rs 54.8bn in the year-ago period.

Others

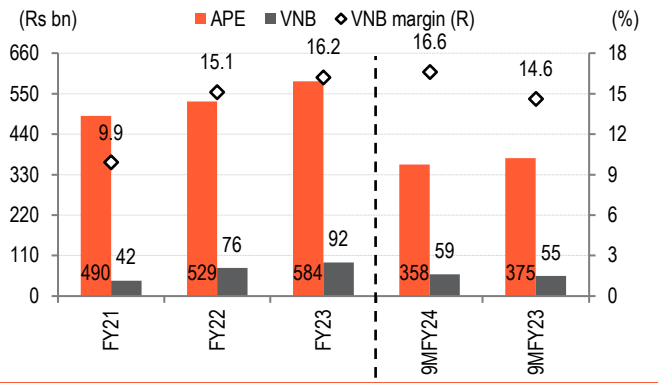
- At end-9MFY24, maturity claims grew 14% YoY to Rs 1.3tn while death claims declined 6% YoY to Rs 163bn. The company processed 13.2mn individual claims during 9M, including 0.6mn death claims. Its claim settlement ratio (death) was 98.5% as against 97.4% in the year-ago period.
- The number of policyholder complaints per 10,000 policies sold stood at 47.1 and the repudiated claim ratio for H1FY24 was 1.42%.
- LIC's solvency ratio remains comfortable at 193% in 9MFY24 as compared to 185% in 9MFY23.
- Management has announced an interim dividend of Rs 4/sh.

Fig 1 – Gross premium up 5% YoY in Q3FY24 owing to rise in single premium



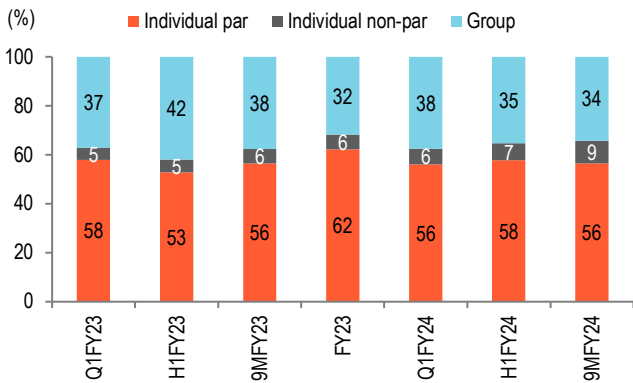
Source: Company, BOBCAPS Research

Fig 2 – VNB margin expands 200bps YoY at end 9MFY24



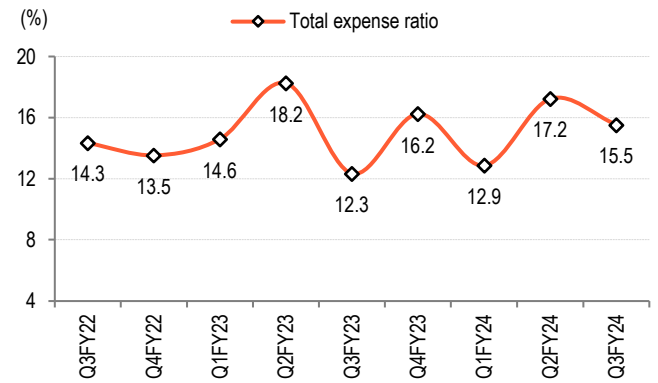
Source: Company, BOBCAPS Research | Note: APE is calculated

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



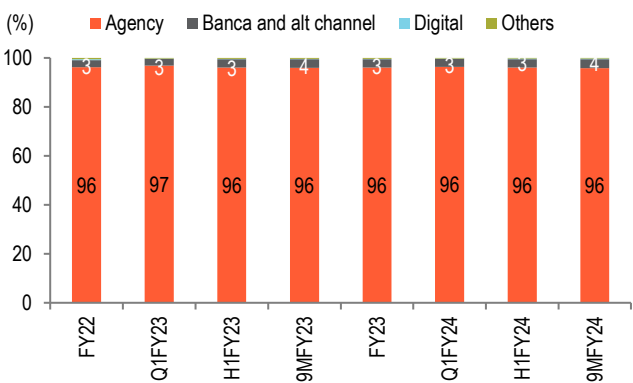
Source: Company, BOBCAPS Research

Fig 4 – Total expense ratio declined sequentially owing to moderation in opex ratio



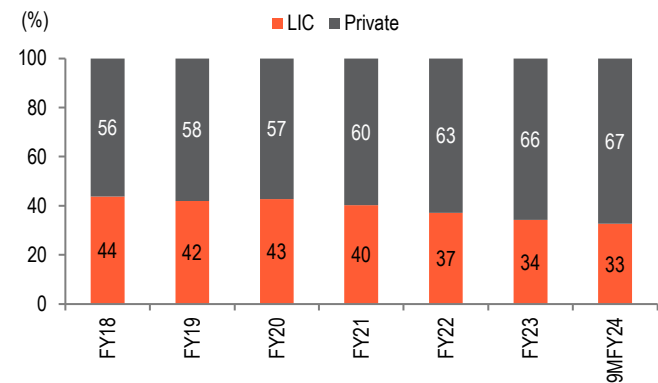
Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

Fig 6 – LIC's individual APE market share has marginally declined in 9MFY24

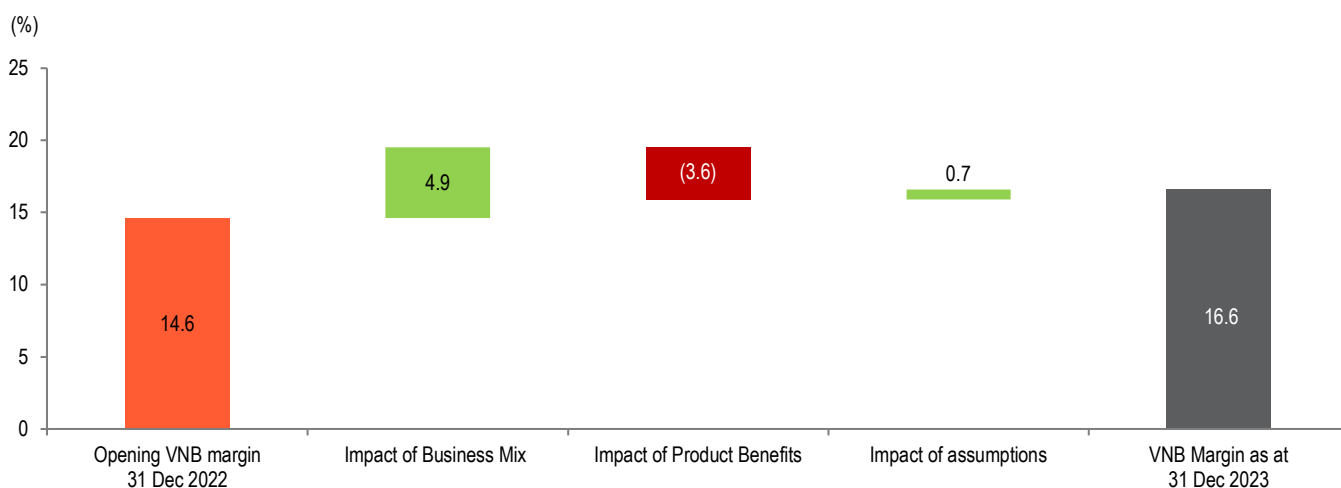


Source: Company, BOBCAPS Research

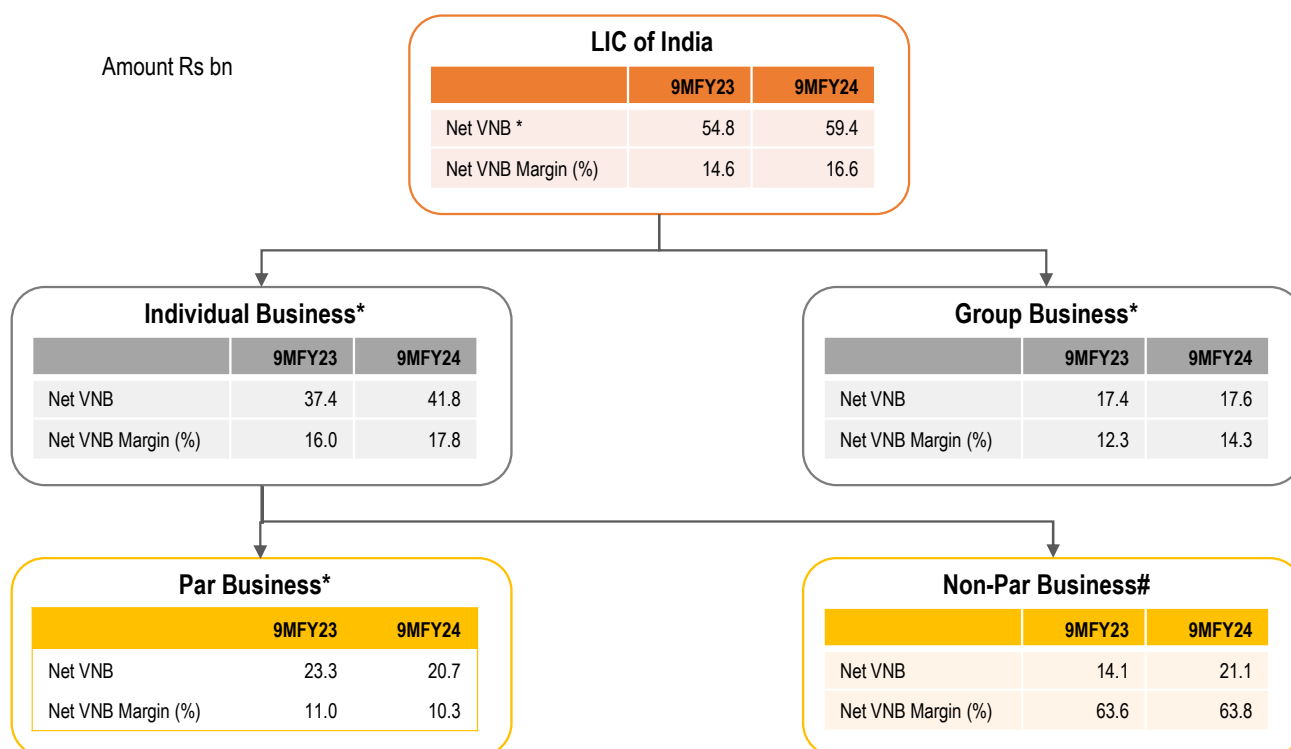
Fig 7 – Persistency ratio stable across cohorts

(%)	9MFY24	9MFY23
13th month	78.0	77.6
25th month	71.9	71.3
37th month	67.3	68.3
49th month	64.9	64.7
61st month	62.4	62.7

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 non-par business

Source: Company, BOBCAPS Research | *Presentation for 9MFY23 contained Gross VNB and VNB margin, #Including Unit Linked Plans

Fig 10 – Policyholders’ account

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	YoY (%)	9MFY24	9MFY23	YoY (%)
Net premium income	11,70,169	11,17,876	4.7	10,73,968	9.0	32,27,764	34,22,435	(5.7)
Income from investments (Net)	9,52,669	8,48,890	12.2	9,39,422	1.4	27,95,185	23,85,635	17.2
Other income	1,638	2,098	(21.9)	2,481	(34.0)	4,874	71,650	(93.2)
Total Income	21,24,470	19,68,907	7.9	20,15,874	5.4	60,27,835	58,79,880	2.5
Net Commission	65,198	63,190	3.2	60,774	7.3	1,77,134	1,71,519	3.3
Operating expenses	1,16,741	74,804	56.1	1,24,372	(6.1)	3,16,583	3,51,388	(9.9)
Benefits Paid (Net)	9,54,977	7,84,604	21.7	8,33,639	14.6	25,37,061	23,13,861	9.6
Change in actuarial liability	8,89,937	9,76,746	(8.9)	9,13,400	(2.6)	27,66,349	27,14,261	1.9
Surplus/Deficit	84,737	1,28,822	(34.2)	72,522	16.8	2,19,080	3,14,785	(30.4)

Source: Company, BOBCAPS Research

Fig 11 – Shareholders’ account

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	YoY (%)	9MFY24	9MFY23	YoY (%)
Amounts transferred from Policyholders’	84,375	60,991	38.3	72,170	16.9	2,46,618	2,24,916	9.6
Income From Investments	10,610	2,813	277.1	8,817	20.3	25,706	5,767	345.7
PAT	94,444	63,342	49.1	79,250	19.2	2,69,131	2,29,696	17.2

Source: Company, BOBCAPS Research

Fig 12 – Key growth metrics

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	YoY (%)	9MFY24	9MFY23	YoY (%)
NBP	5,47,914	5,18,418	5.7	4,78,342	14.5	14,74,968	17,60,957	(16.2)
APE (as provided)	1,31,630	1,23,170	6.9	1,30,950	0.5	3,57,900	3,75,450	(4.7)
Total Expense ratio (%)	15.5	12.3	320bps	17.2	(171bps)	15.3	15.3	2bps
VNB margin (%)	20.0	15.3	470bps	14.6	540bps	16.6	14.6	200bps
Solvency ratio (%)	193	185	800bps	190	300bps	193	185	800bps

Source: Company, BOBCAPS Research

Valuation methodology

LIC had a solid December quarter with both NBP and APE posting annual growth. However, 9MFY24 saw a decline on both counts. 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 (four launched in 9M) and strong growth in APE, LIC's VNB margin at end-9MFY24 grew 200bps YoY to 16.6%. Also, management has repriced annuities twice to make them more competitive. We increase our VNB margin assumptions by 100-150bps over FY24-FY26 considering the strong sales of non-par products. At the same time, we trim premium estimates by 1-3% to factor in severe competition from private peers. EV estimates have been increased 4-5% for our forecast period as we assume a positive MTM impact from equities. We now anticipate an 11% CAGR in EV over FY23-FY26 to Rs 8tn.

The stock has run up ~30% since Jan'24 and is currently trading at 0.85x FY26E EV. We value LIC at a higher 0.9x FY26E EV multiple (vs. 0.8x earlier), an unchanged ~60% discount to peers. Based on our revised estimates, our TP rises to Rs 1,140 (vs. Rs 965). Though we remain positive on LIC given its entrenched brand equity, market leadership and superior agency force, the recent 30%+ rally leaves just 5% upside and compels us to downgrade the stock from BUY to HOLD.

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 13 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gross Premium	4,645	5,066	5,571	4,695	5,145	5,742	(1.1)	(1.5)	(3.0)
Net Premium	4,638	5,058	5,563	4,688	5,137	5,733	(1.1)	(1.5)	(3.0)
VNB	94	105	118	88	103	117	6.7	1.2	0.5
APE	553	598	655	568	626	711	(2.7)	(4.6)	(7.9)
Embedded Value (EV)	6,613	7,274	8,003	6,348	6,912	7,585	4.2	5.2	5.5
VNB Margin (%)	17.0	17.5	18.0	15.5	16.5	16.5	150bps	100bps	150bps

Source: BOBCAPS Research

Fig 14 – Peer comparison

Ticker	Rating	CMP (Rs)	Target Price (Rs)	Upside (%)	P/EV (CMP)		P/EV (Implied)	
					FY25E	FY26E	FY25E	FY26E
LICI IN	HOLD	1,081	1,140	5	0.9	0.9	1.0	0.9
SBILIFE IN	BUY	1,440	1,970	37	2.2	1.8	3.0	2.5
HDFCLIFE IN	BUY	584	850	46	2.2	1.9	3.3	2.8
IPRU IN	HOLD	521	556	7	1.6	1.4	1.7	1.5

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- **Favourable changes in regulatory framework:** Any favourable change in regulations, such as higher 80C income tax deduction limits, can positively impact LIC's growth.
- **Increase in market share:** LIC has lost market share for the past few quarters. Any reversal of trend will be a positive.
- **Profits from capital and bond markets:** Prolonged strength in capital markets could push growth in ULIPs ahead of estimates. Although insurance companies are aiming for a balanced product mix, many of them still have sizeable business coming from ULIPs.

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	15.2	584	850	BUY
ICICI Prudential Life	IPRU IN	9.1	521	556	HOLD
LIC	LICI IN	83.2	1,081	1,140	HOLD
SBI Life	SBILIFE IN	17.5	1,440	1,970	BUY

Source: BOBCAPS Research, NSE | Price as of 9 Feb 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	FY24E	FY25E	FY26E
Gross premium income	42,80,250	47,46,681	46,44,673	50,65,887	55,71,275
First year premium	3,66,493	3,90,899	3,83,081	4,02,236	4,30,392
Renewal premium	22,90,928	24,26,175	25,63,538	27,10,890	28,95,207
Single premium	16,22,828	19,29,607	16,98,054	19,52,762	22,45,676
Net written premium	42,74,192	47,40,046	46,37,706	50,58,289	55,62,918
Income from investments	29,28,945	30,63,901	35,15,978	38,20,280	41,53,108
Other Income	7,795	76,485	45,891	50,480	55,528
Total income	72,94,206	78,81,734	81,99,575	89,29,048	97,71,555
Commissions	2,36,912	2,55,804	2,58,534	2,80,979	3,00,106
Operating expenses	3,83,709	4,81,456	3,83,186	4,05,271	4,45,702
Benefits and bonuses paid	35,74,649	34,25,768	35,87,960	39,88,928	43,53,181
Change in liabilities (net)	29,72,776	34,33,828	38,52,798	40,17,838	43,02,883
Others	0	0	0	0	0
Total expenses	71,68,046	75,96,855	80,82,478	86,93,016	94,01,872
Surplus before tax	2,19,032	4,32,250	2,58,141	3,70,023	4,96,974
Provision for tax	78,786	52,429	30,977	44,403	59,637
Surplus after tax	1,40,246	3,79,822	2,27,164	3,25,620	4,37,337
Trf to shareholders' a/c	1,21,935	3,59,077	2,27,164	3,25,620	4,37,337
Balance being FFA	18,311	20,744	0	0	0

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Trf from policyholders' a/c	1,21,935	3,59,077	2,27,164	3,25,620	4,37,337
Income from investments	2,012	11,478	32,300	50,164	59,461
Contr. to policyholders' fund	83,275	1,301	0	0	0
Others	5	4,716	0	0	0
PBT	40,677	3,73,971	2,59,464	3,75,785	4,96,798
Provision for taxation	236	594	412	599	795
PAT	40,441	3,73,377	2,59,052	3,75,185	4,96,004
Dividend+Interim div.+DDT	9,487	18,973	31,622	37,947	44,271

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity	1,04,091	4,56,694	6,78,741	10,08,091	14,50,751
Policyholders' funds	4,14,71,016	4,44,15,434	4,82,68,232	5,22,86,070	5,65,88,952
FFA	2,38,858	2,61,592	2,84,284	3,07,948	3,33,290
Others	18,344	39,187	39,187	39,187	39,187
Total liabilities	4,15,93,452	4,49,11,314	4,89,86,160	5,33,33,347	5,80,78,891
Shareholders' funds	64,121	2,93,635	5,57,382	6,99,540	8,86,750
Policyholders' funds	3,89,56,935	4,18,91,778	4,57,44,576	4,97,62,413	5,40,65,296
Assets to cover linked liab.	2,39,386	2,63,095	0	0	0
Others	23,33,009	24,62,806	26,84,202	28,71,394	31,26,844
Total assets	4,15,93,452	4,49,11,314	4,89,86,160	5,33,33,347	5,80,78,891

Key Metrics

Y/E 31 Mar	FY22A	FY23A	FY24E	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	20,81,135	23,54,997	26,76,068
APE (Rs mn)	5,28,776	5,83,860	5,52,887	5,97,512	6,54,960
VNB (Rs mn)	76,190	91,560	93,991	1,04,565	1,17,893
VNB margin (%)	15.1	16.2	17.0	17.5	18.0
Embedded value (Rs mn)	54,14,930	58,22,440	66,12,613	72,74,366	80,02,681
ROEV (%)	11.9	10.9	9.1	8.6	8.6
ROE (%)	11.9	10.9	9.1	8.6	8.6
Opex ratio (%)	9.0	10.1	8.3	8.0	8.0
Cost ratio (%)	14.5	15.5	13.8	13.5	13.4
Solvency ratio (%)	184.5	187.2	195.5	195.3	194.8
EPS (Rs)	6.4	57.6	39.9	58.1	77.0
BVPS (Rs)	16.5	72.2	107.3	159.4	229.4
EVPS (Rs)	856.1	920.5	1,045.6	1,150.2	1,265.3

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

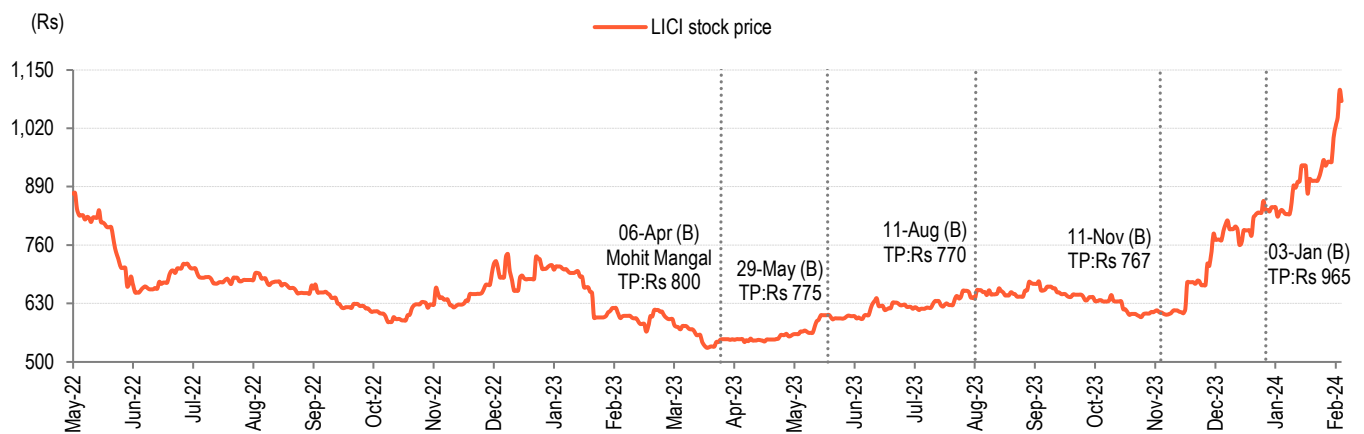
HOLD – Expected return from -6% to +15%

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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