

November 26, 2024

**SECTOR REPORT** | Sector: Insurers

# Insurance Sector Report

## LIC added to BUY list, along with MFSL and SBIL

**We examine the life insurance space in detail and have added LIC to our BUY list among insurers, along with MFSL and SBIL. Aspects underpinning our call are (1) LIC's margin is lower than listed peers but it possesses levers to enhance the same and displaying the strongest trajectory in this regard (2) Sluggishness in APE growth has been left behind and, coupled with margin expansion, LIC is displaying the strongest VNB growth YoY (3) Based on the expense ratio metric, LIC seems to have reasonable control over its cost. We most prefer MFSL and SBIL in the life insurance space.**

**On the general insurance front, we remain relatively cautious on ICICIGI owing to a variety of factors.**

### LIC's margin is lower than listed peers but it possesses levers to enhance the same and displaying the strongest trajectory in this regard

LIC is the only life insurer which has witnessed VNB margin expansion on YoY basis, up 257 bps YoY whereas listed peers have seen a decline on YoY basis. Share of low-margin Par business in total APE stood at 50.1% in 2QFY25 for LIC compared with 5.9-12.7% for listed peers. We think LIC can reduce this share materially going forward and this process is already underway, with share of Par declining 8.8% YoY. Share of high-margin Non-Par has risen 7.0% YoY, while share of low-margin ULIP has risen by a relatively small 4.2%, with listed peers seeing a greater rise in the share of ULIP.

### Sluggishness in APE growth has been left behind and, coupled with margin expansion, LIC is displaying the strongest VNB growth YoY

LIC is now displaying healthy revenue growth outcome with APE growth at 25.7% YoY in 2QFY25, which has outpaced SBIL and IPRU. Coupled with VNB margin expansion, LIC has displayed the highest VNB growth on YoY basis, which has amounted to 46.9% YoY for LIC in 2QFY25, which is far higher than other listed peers.

### Based on the expense ratio metric, LIC seems to have reasonable control over its cost

LIC has the second lowest expense ratio among listed life insurers at 13.6% for 2QFY25. Only SBIL has a lower expense ratio than LIC. LIC does not seem to be paying a high commission ratio to its agents, whether individual or corporate, on a blended basis. LIC has a commission ratio of 5.5% for 2QFY25 and only SBIL has a lower commission ratio than LIC. LIC's cost control is reasonably good as reflected in its opex ratio of 8.1% for 2QFY25 and, again, only SBIL has a lower opex ratio than LIC.

### On the general insurance front, we remain relatively cautious on ICICIGI owing to a variety of factors

(1) It remains to be seen how long the motor segment growth will sustain in the face of OEM sales slowdown – (a) Motor segment GDPI growth has been 16% YoY, driven by renewals growing 26% YoY whereas new vehicle GDPI growth was flat YoY (b) Management expects new vehicle sales to be in single digits in the second half. (2) Health segment growth is lower at 12% YoY. (3) We would also like to watch how ICICIGI tackles the motor segment industry CoR being under pressure. It may be noted that the motor industry CoR has worsened from 121% to 125.6% on YoY basis, driven by loss ratio for the motor industry worsening from 84.5% in 1QFY24 to 87.6% in 1QFY25.

### We most prefer MFSL and SBIL in the life insurance space, followed by LIC

We had deliberately kept MFSL "NOT RATED" for an extended period and then initiated coverage in our [report dated 4<sup>th</sup> December 2022](#) after we felt that the negatives were priced in. We acknowledge that SBIL is undergoing an APE growth slowdown but the stock has been pricing in the same and we do not think the slowdown will persist. We are happy to recommend LIC as well in our BUY list since we think that the pace of enhancement in metrics is improved and the RoEV expansion augurs well. *This report also contains a comparison of life insurers across a variety of parameters.*

#### Life Insurance

Company	Rating	TP
Max Financial	BUY	1550
SBI Life	BUY	1975
LIC	BUY	1175
IPRU Life	ADD	825
HDFC Life	ADD	810

*N.B. In order of investment preference*

#### General Insurance

Company	Rating	TP
ICICIGI	ADD	2200

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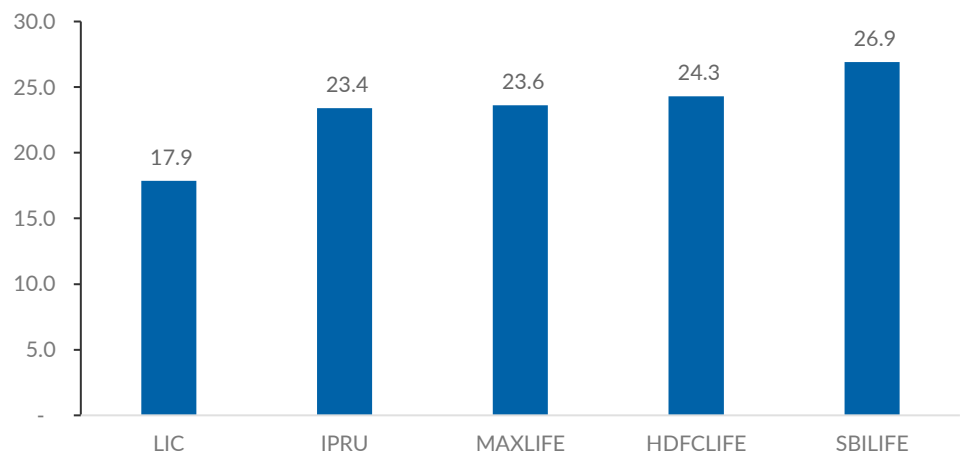
## VNB Margin Aspects

**LIC is the only life insurer which has witnessed VNB margin expansion on YoY basis**

**LIC's absolute margin level sits at the lowest level among listed peers but we think that it has levers to enhance margin**

LIC's VNB margin for 2QFY25 stood at 17.9% compared with 23.4-26.9% for listed peers. However, we think that LIC possesses levers for enhancing VNB margin going forward.

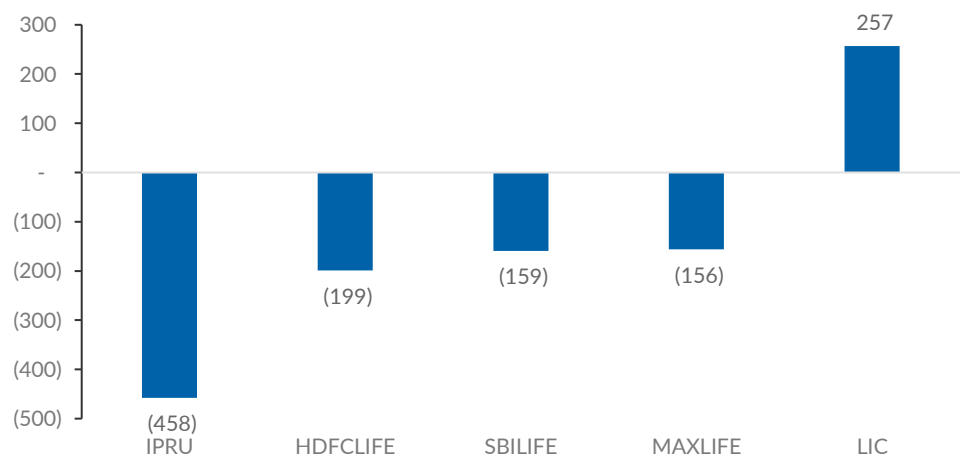
**Exhibit 1: VNB Margin Absolute – 2QFY25 - %**



Source: Companies, YES Sec

**LIC has been able to enhance VNB margin by 257 bps YoY whereas listed peers have seen a decline on YoY basis**

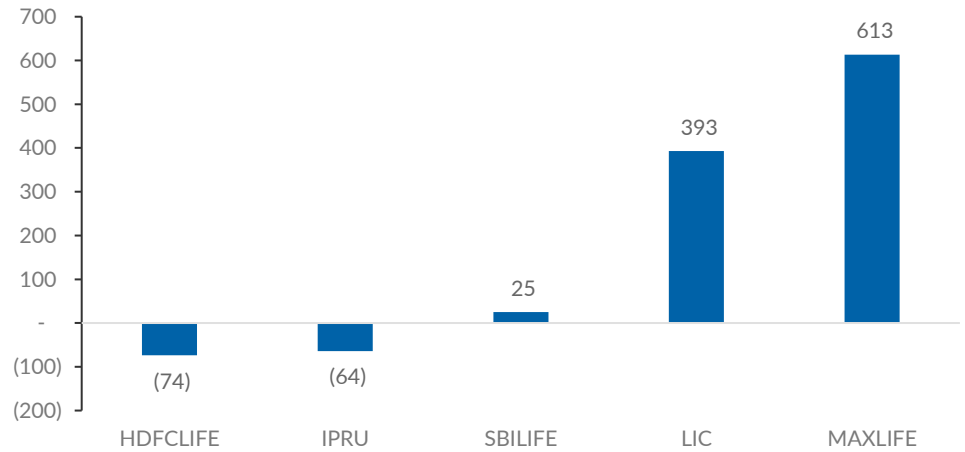
**Exhibit 2: YoY Change in VNB Margin – 2QFY25 over 2QFY24 - bps**



Source: Companies, YES Sec

**LIC's VNB margin has risen materially on sequential basis as well but that is attributable to 1Q margin being seasonally low**

**Exhibit 3: Sequential Change in VNB Margin - 2QFY25 over 1QFY25 - bps**



Source: Companies, YES Sec

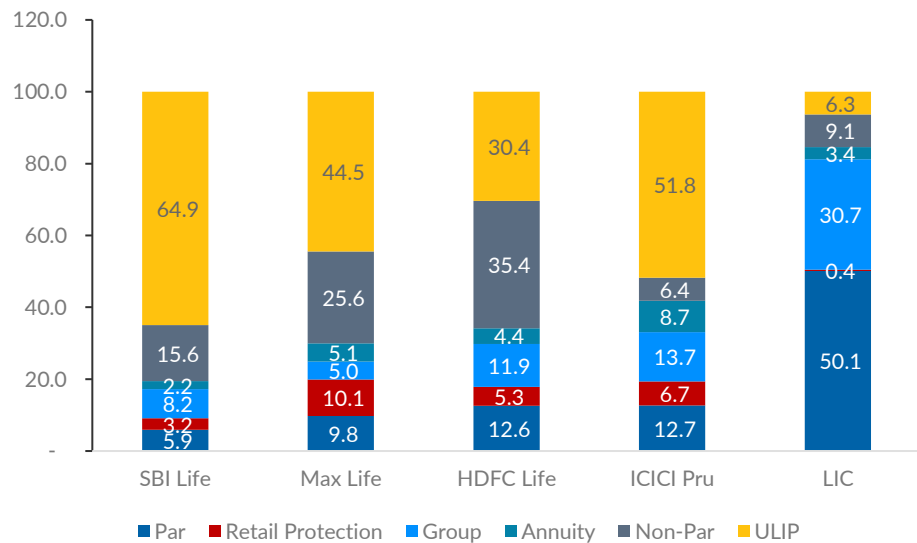
## Product Mix Aspects

### LIC can potentially reduce the share of Par business materially over a period of time

**Share of Par business in total APE is by far the highest for LIC among listed life insurers**

Share of Par business in total APE stood at 50.1% in 2QFY25 for LIC compared with 5.9-12.7% for listed peers. We think LIC can reduce this share materially going forward.

**Exhibit 4: Product Mix on APE basis – 2QFY25 - %**

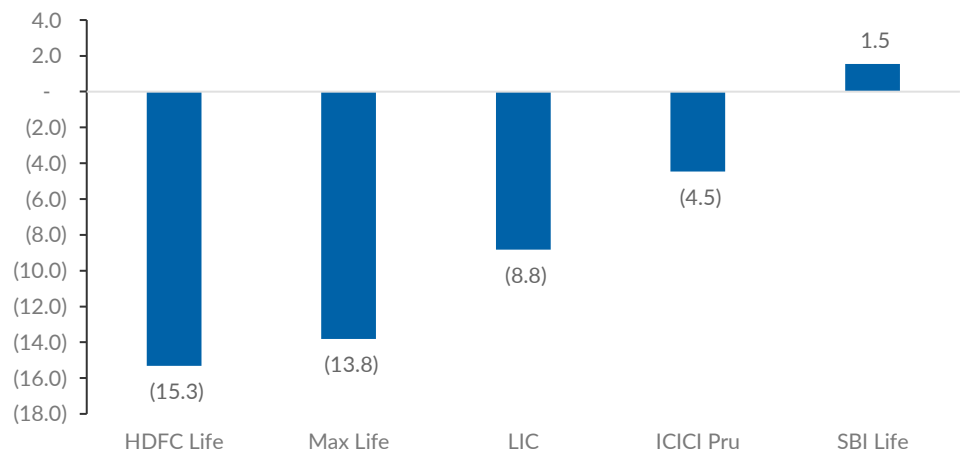


Source: Companies, YES Sec, Sorted on Par

**N.B.** Kindly note the Annuities data points for HDFL and LIC represent Individual Annuities only whereas for the others, they represent Total Annuities. Also, Group for IPRU is the sum of Group Funds and Group Protection only, for MLI, it is Group Protection only and for SBIL, it is Group Savings and Group Protection only.

### Reduction of share of Par business is already underway for LIC

**Exhibit 5: YoY Change in Par Share – 2QFY25 over 2QFY24 - %**

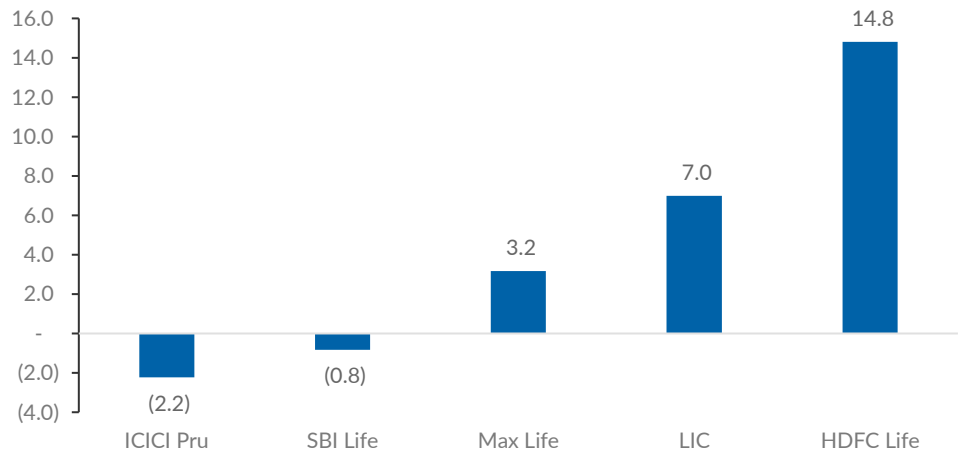


Source: Companies, YES Sec

## Some of the decline in share of Par has moved to Non-Par savings for LIC

The share of Non-Par business has risen 7.0% YoY for LIC. Only HDFL has seen a greater rise in share of Non-Par.

**Exhibit 6: YoY Change in Non-Par Share – 2QFY25 over 2QFY24 - %**

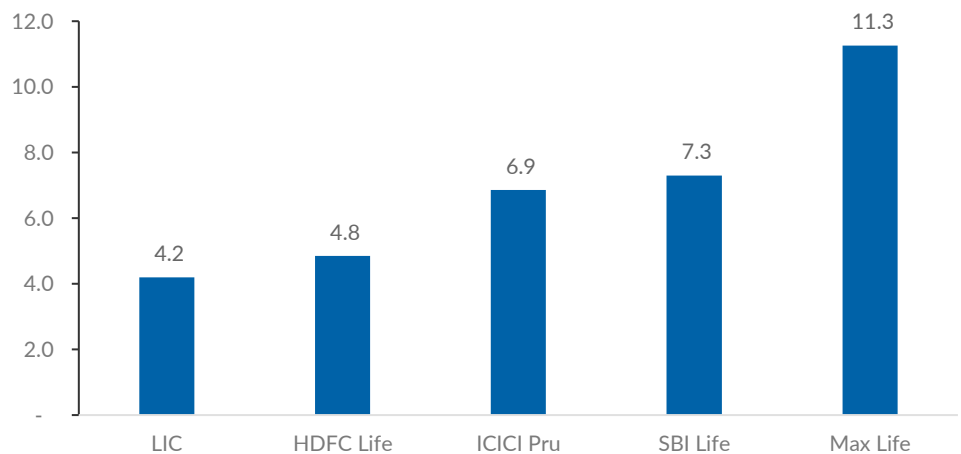


Source: Companies, YES Sec

## LIC has contained the rise in share of ULIP to a lesser quantum compared with listed peers

Share of ULIP has risen 4.2% for LIC, which is lower than other listed peers, which have seen a somewhat higher rise in share of ULIP.

**Exhibit 7: YoY Change in ULIP Share – 2QFY25 over 2QFY24 - %**

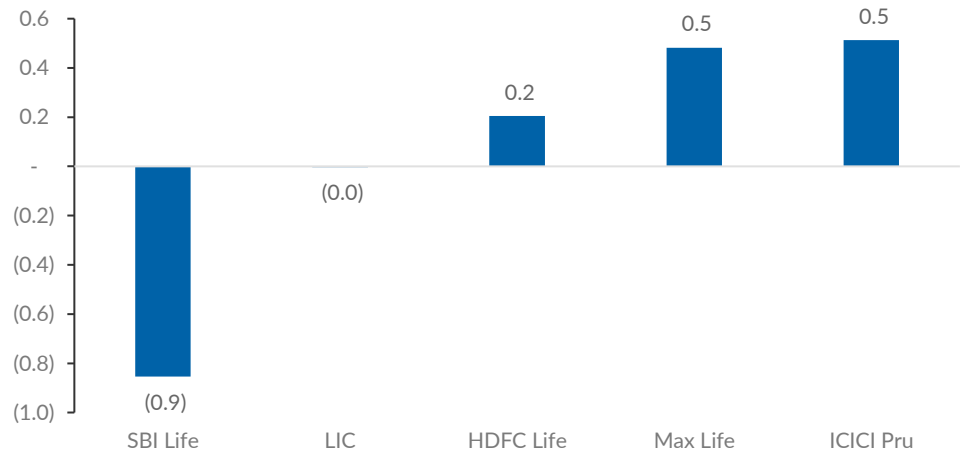


Source: Companies, YES Sec

**It is interesting to note that the share of retail protection seems to have remained within a tight range**

The change in share of retail protection has been less than 1% point for all listed life insurers on YoY basis.

**Exhibit 8: YoY Change in Retail Protection Share – 2QFY25 over 2QFY24 - %**



Source: Companies, YES Sec



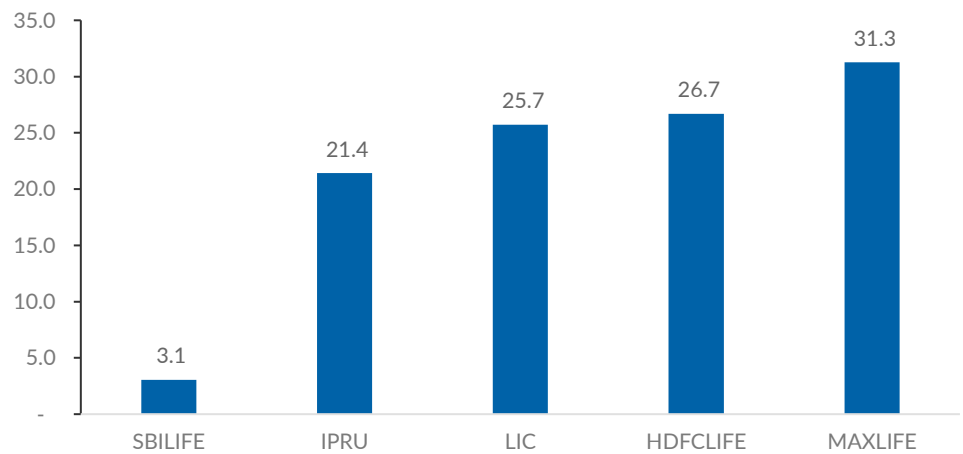
## APE Growth Aspects

### LIC is now displaying healthy revenue growth outcomes

#### LIC's APE growth is in the mid-20s on YoY basis

LIC has grown 25.7% YoY in 2QFY25, which has outpaced SBIL and IPRU.

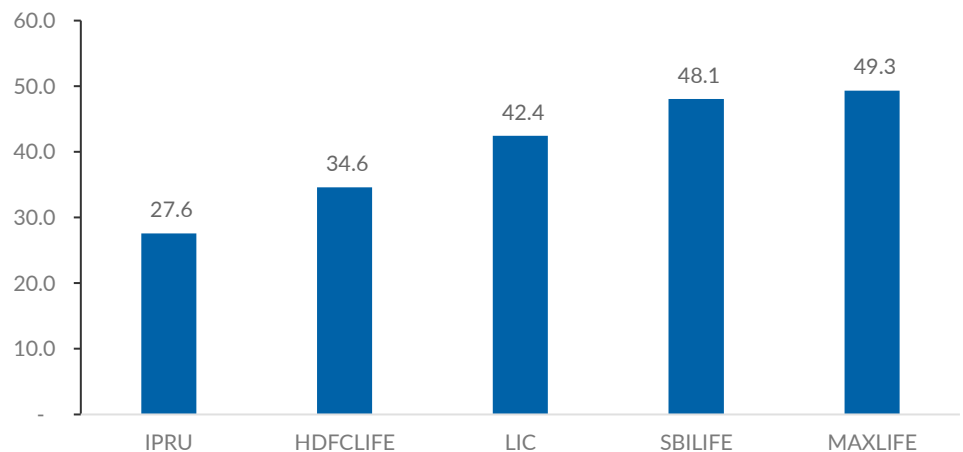
**Exhibit 9: YoY APE Growth- 2QFY25 over 2QFY24 - %**



Source: Companies, YES Sec

#### Sequential APE growth is strong for all listed life insurers due to 1Q being seasonally weak

**Exhibit 10: Sequential APE Growth- 2QFY25 over 1QFY25 - %**



Source: Companies, YES Sec

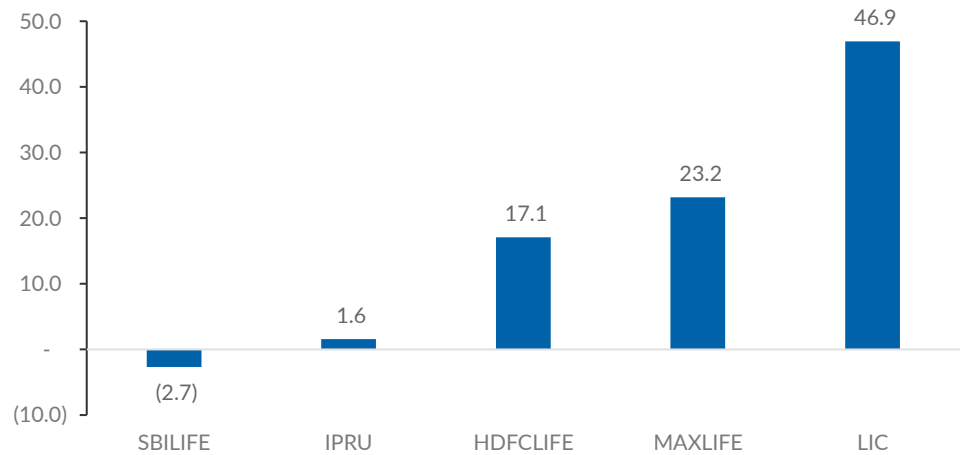
## VNB Growth Aspects

**Coupled with VNB margin expansion, LIC has displayed the highest VNB growth on YoY basis**

**VNB growth for LIC is head and shoulders above other listed peers on YoY basis**

VNB growth has amounted to 46.9% YoY for LIC in 2QFY25, which is far higher than other listed peers.

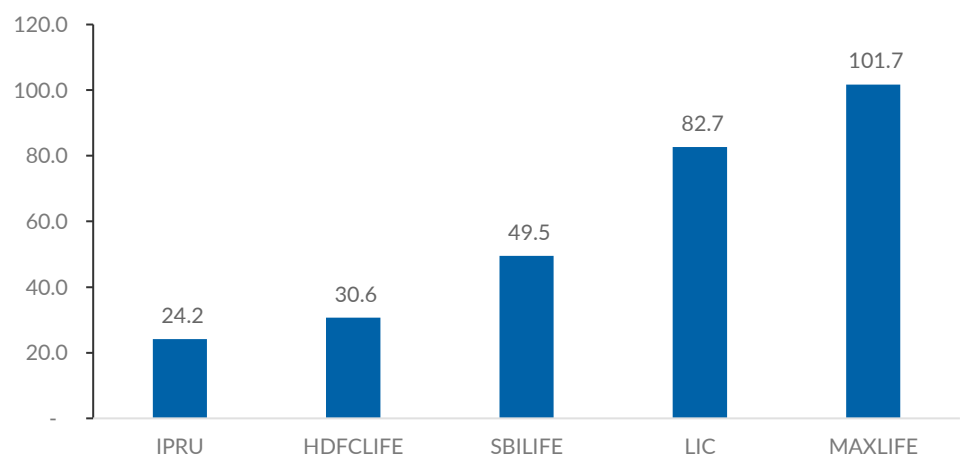
**Exhibit 11: YoY VNB Growth – 2QFY25 over 2QFY24 - %**



Source: Companies, YES Sec

**Sequential VNB growth is strong for all listed life insurers due to 1Q being seasonally weak**

**Exhibit 12: Sequential VNB Growth – 2QFY25 over 1QFY25 - %**



Source: Companies, YES Sec

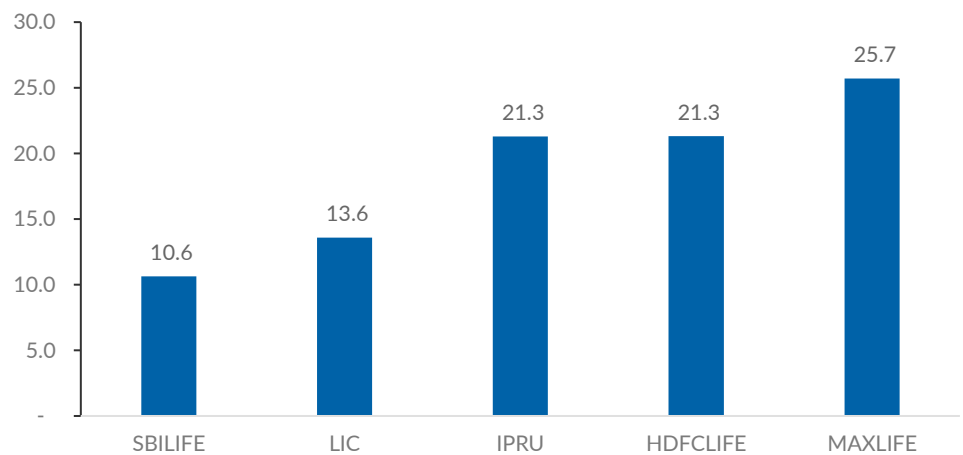
## Expense Ratio Aspects

**Based on the expense ratio metric, LIC seems to have reasonable control over its cost**

**LIC has the second lowest expense ratio among listed life insurers**

LIC has an expense ratio of 13.6% for 2QFY25. Only SBIL has a lower expense ratio than LIC.

**Exhibit 13: Total Expense Ratio – 2QFY25 - %**

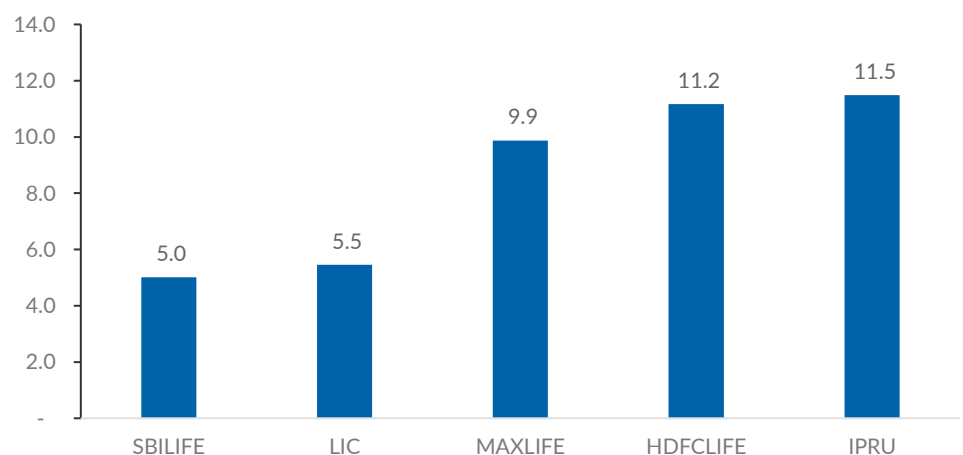


Source: Companies, YES Sec

**LIC does not seem to be paying a high commission ratio to its agents, whether individual or corporate, on a blended basis**

LIC has a commission ratio of 5.5% for 2QFY25. Only SBIL has a lower commission ratio than LIC.

**Exhibit 14: Commission Ratio – 2QFY25 - %**

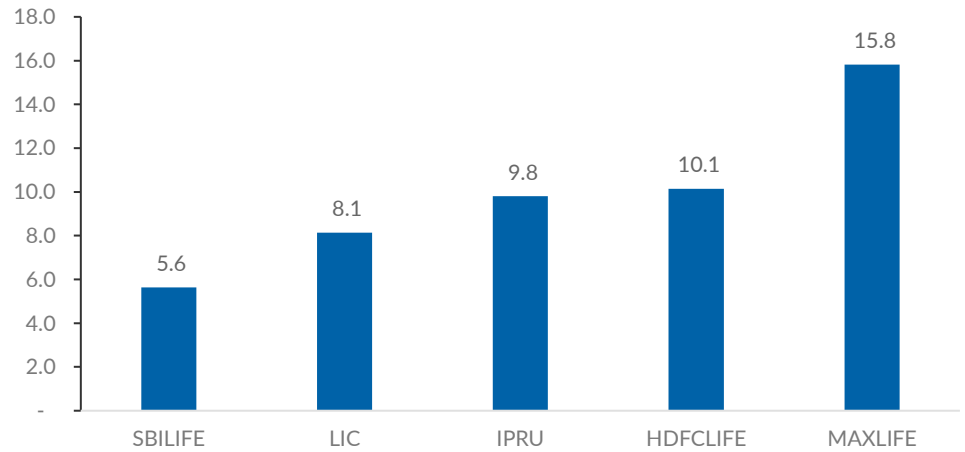


Source: Companies, YES Sec

**LIC's cost control is reasonably good as reflected in its opex ratio**

LIC has an opex ratio of 8.1% for 2QFY25. Only SBIL has a lower opex ratio than LIC.

**Exhibit 15: Opex Ratio – 2QFY25 - %**



Source: Companies, YES Sec

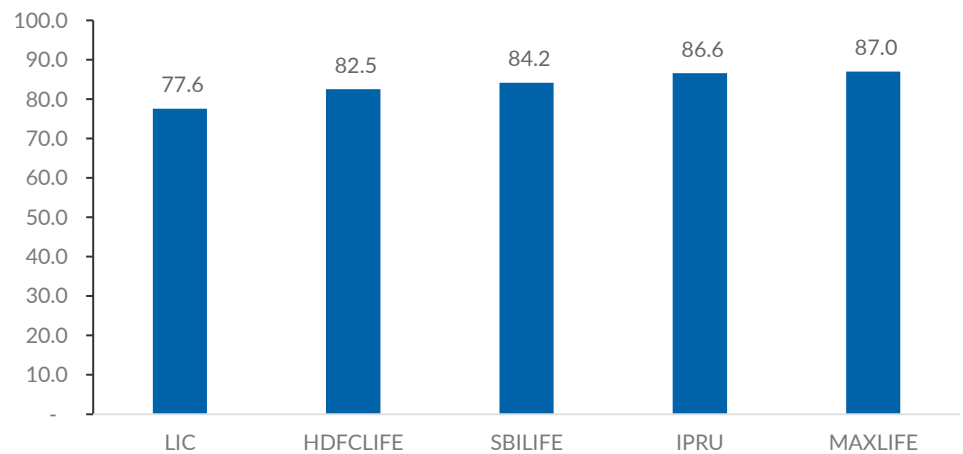
## Persistency Aspects

### LIC needs to improve upon its persistency outcomes across cohorts

**LIC seems to have the lower persistency ratio across cohorts among listed life insurers**

LIC has a 13<sup>th</sup> month persistency of 77.6%, which is the lowest among listed peers.

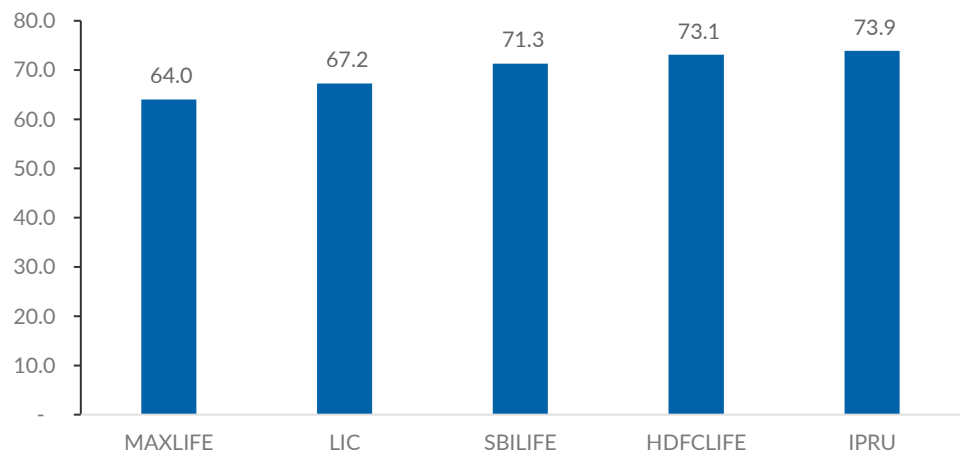
**Exhibit 16: 13<sup>th</sup> month persistency – 2QFY25 - %**



Source: Companies, YES Sec

LIC has a 37<sup>th</sup> month persistency of 67.2%, which is the second lowest among listed peers.

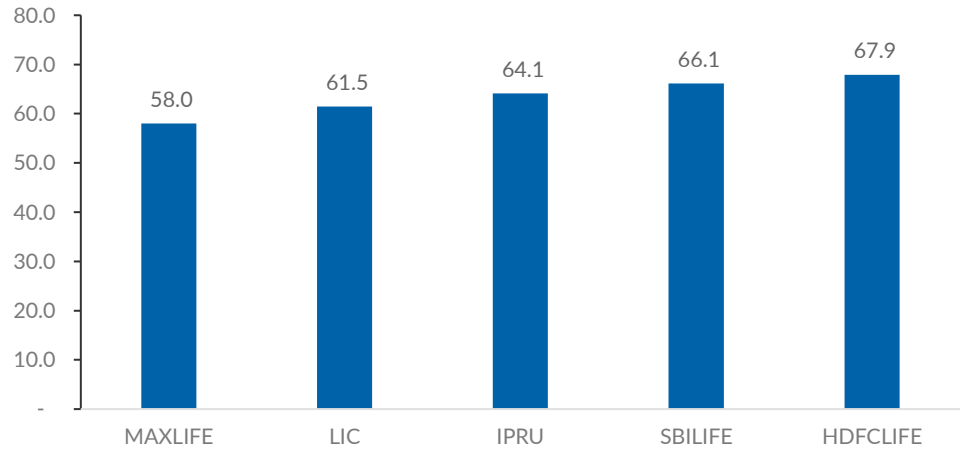
**Exhibit 17: 37<sup>th</sup> month persistency – 2QFY25 - %**



Source: Companies, YES Sec

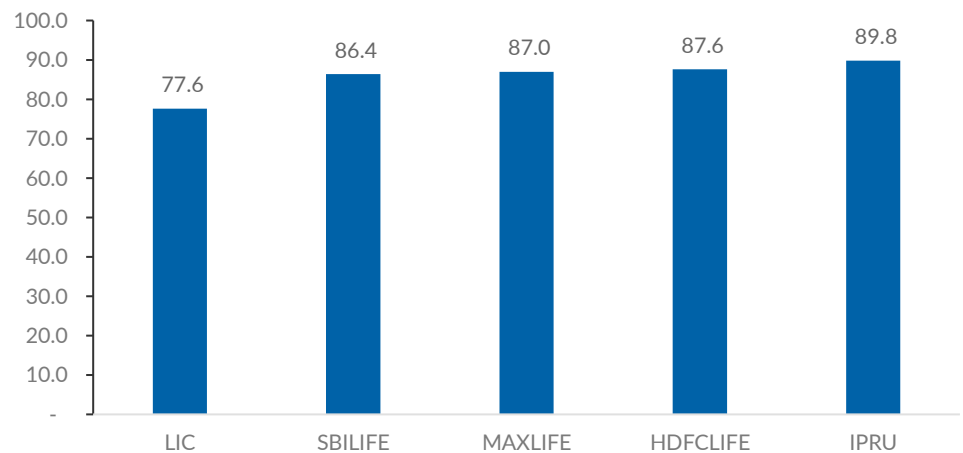
LIC has a 61<sup>st</sup> month persistency of 61.5%, which is the second lowest among listed peers.

**Exhibit 18: 61<sup>st</sup> month persistency – 2QFY25 - %**



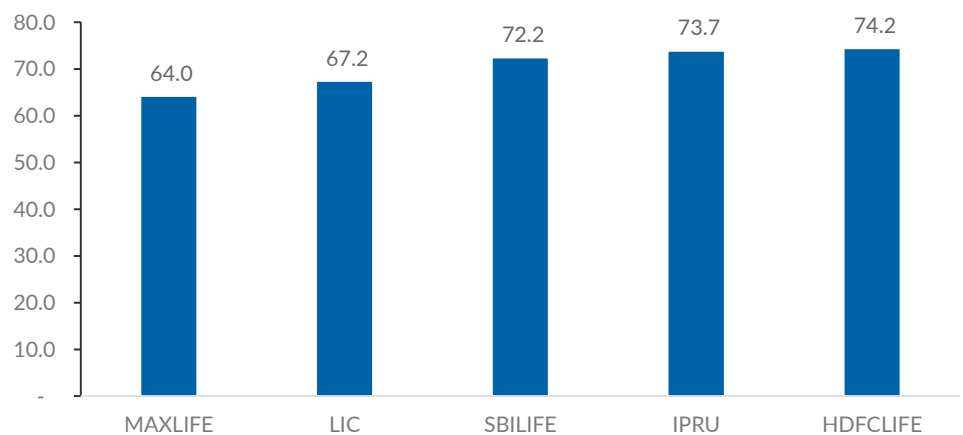
Source: Companies, YES Sec

**Exhibit 19: 13<sup>th</sup> month persistency – 1HFY25 - %**



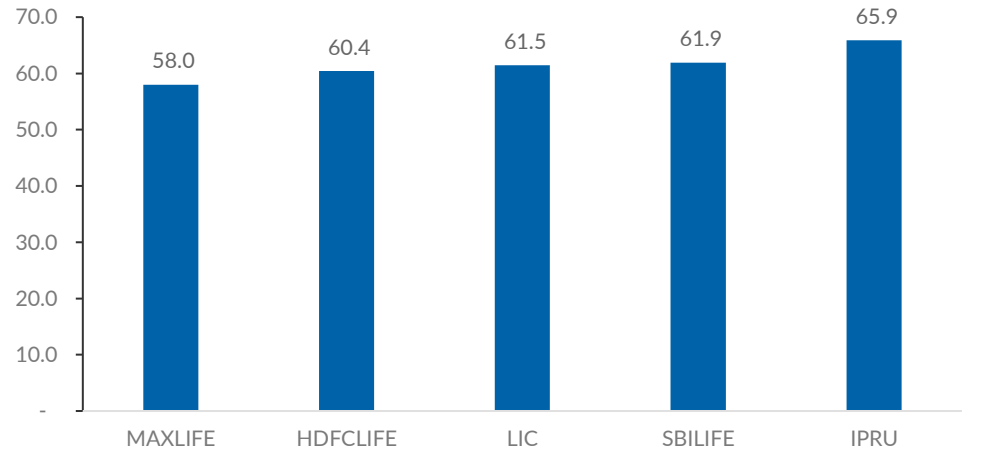
Source: Companies, YES Sec

**Exhibit 20: 37<sup>th</sup> month persistency – 1HFY25 - %**



Source: Companies, YES Sec

**Exhibit 21: 61<sup>st</sup> month persistency – 1HFY25 - %**



Source: Companies, YES Sec

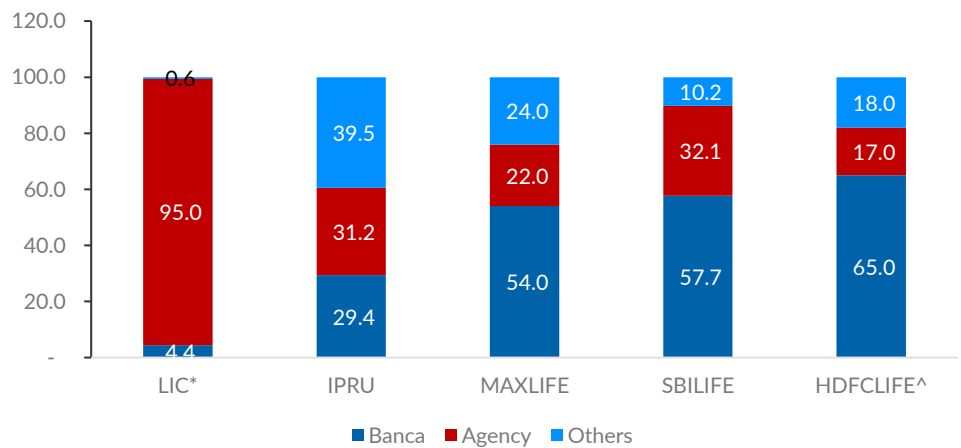
## Channel Mix Aspects

### LIC remains a predominantly agency-driven life insurer

#### Agency remains the overwhelmingly important distribution channel for LIC

Share of Agency channel is as much as 95.0% for LIC compared with 17.0-32.1% for other listed peers.

**Exhibit 22: Channel Mix on APE Basis – 2QFY25 - %**

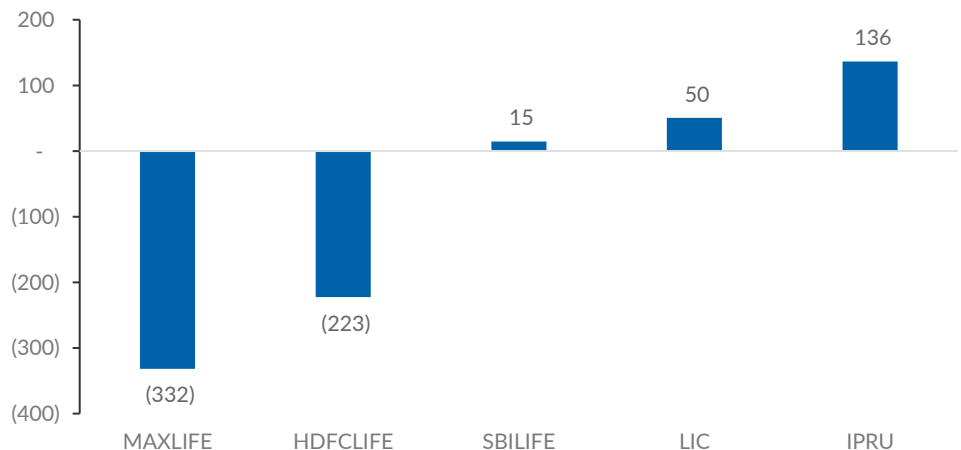


Source: Companies, YES Sec, Sorted on Banca, Refer Note Below

### LIC is gradually increasing the share of bancassurance channel sourcing

The share of bancassurance channel has risen 50 bps YoY for LIC to 4.4% in 2QFY25.

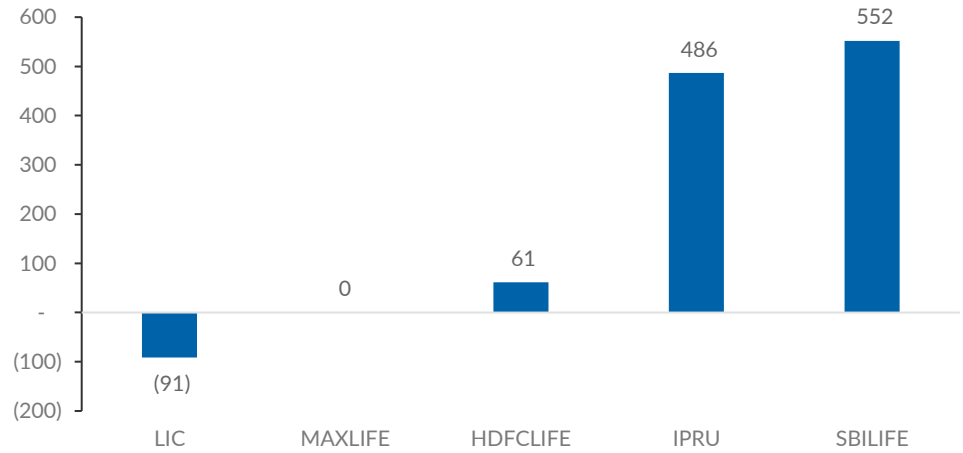
**Exhibit 23: YoY Change in Banca Channel Share – 2QFY25 over 2QFY24 - bps**



Source: Companies, YES Sec, Refer Note Below

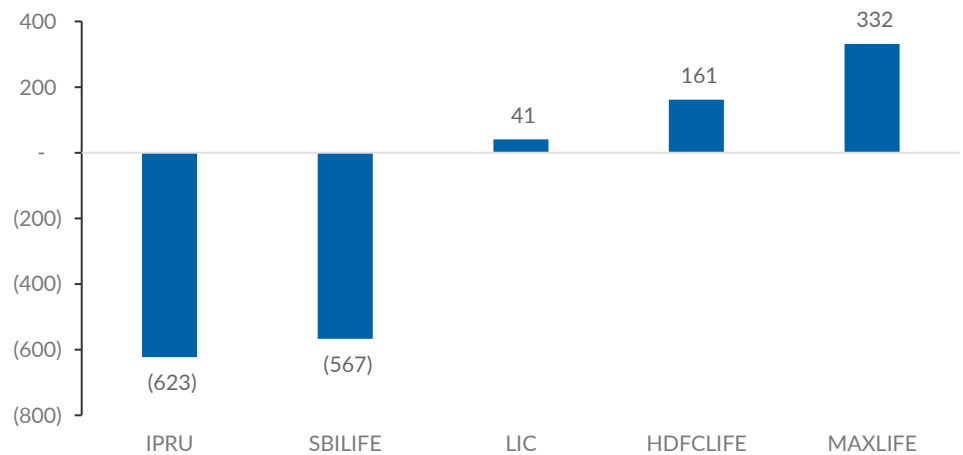


**Exhibit 24: YoY Change in Agency Channel Share – 2QFY25 over 2QFY24 - bps**



Source: Companies, YES Sec, Refer Note Below

**Exhibit 25: YoY Change in Other Channel Share – 2QFY25 over 2QFY24 - bps**



Source: Companies, YES Sec, Refer Note Below

**N.B.** Channel mix on Total APE for IPRU, SBILIFE and MAXLIFE. Channel mix on Individual APE for HDFCLIFE whereas Individual NBP for LIC.

## Solvency Ratio

**There are no concerns as such for listed life insurers on the capital front**

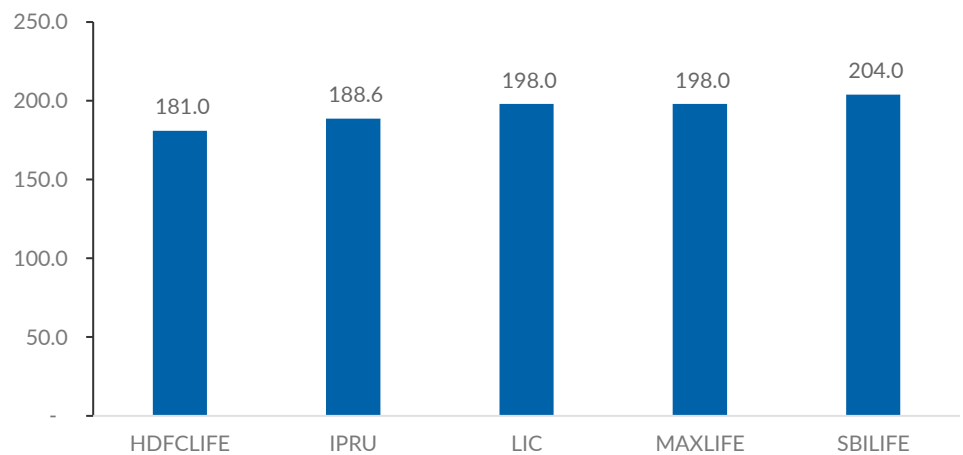
**Indian life insurers are not known to carry any major balance sheet risk**

Indian life insurers are known not to hold any high-risk assets on their balance sheet, not have any outsized exposure to guaranteed business and maintain sound asset quality. In any case, most of the investment risk for Indian life insurers is not borne by shareholders.

**LIC has a solvency ratio well above the minimum threshold**

LIC has a solvency ratio of 198%, well above the regulatory minimum of 150%.

**Exhibit 26: Solvency Ratio – 2QFY25 - %**



Source: Companies, YES Sec

## General Insurer

**Exhibit 27: 2Q FY25 Results – General Insurance**

Company	GWP		Chg. In GWP		Inc from Invest.		Chg. In Inc. from Invest.		Underwriting Profit	Chg. In Underwriting Profit		PAT		Chg. In PAT	
	Rs. mn	% qoq	% yoy	Rs. mn	% qoq	% yoy	Rs. mn	% qoq	% yoy	Rs. mn	% qoq	% yoy	Rs. mn	% qoq	% yoy
ICICI Lombard	69,483	(12.4)	10.8	8,463	0.2	17.0	(1,609)	(53.6)	10.2	6,940	19.6	20.2			

Source: Company, YES Sec-Research

## Valuation table

**Exhibit 28: Valuation Table - Life Insurers (Stocks in the order of investment preference)**

Company	Rating	CMP	TP	Upside	VNBPS (Rs)			P/VNBPS (x)		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Max Financial	BUY	1180	1550	31	51.2	62.2	72.6	23.0	19.0	16.2
SBI Life	BUY	1506	1975	31	61.2	71.8	82.9	24.6	21.0	18.2
LIC*	BUY	907	1175	30	20.4	24.3	29.1	39.7	33.3	27.8
IPRU Life	ADD	689	825	20	18.1	21.0	24.2	38.1	32.7	28.5
HDFC Life	ADD	682	810	19	18.8	22.3	26.0	36.2	30.5	26.2

Company	EVPS (Rs)			P/ EVPS (x)			RoEV (%)			VNB Margin (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Max Financial	583	692	820	2.0	1.7	1.4	20.2	19.7	19.5	23.5	24.5	24.5
SBI Life	690	818	966	2.2	1.8	1.6	19.1	19.0	18.7	27.5	28.0	28.0
LIC*	1,279	1,424	1,587	0.6	0.6	0.5	11.5	11.6	11.7	18.3	19.2	20.1
IPRU Life	337	387	445	2.0	1.8	1.5	15.4	15.4	15.3	23.9	24.2	24.2
HDFC Life	256	298	347	2.7	2.3	2.0	17.0	17.2	17.2	25.0	25.5	25.5

Source: Companies, YES Sec - Research; \*Valuation for LIC is the implied valuation net of the value of subsidiaries

**Exhibit 29: Valuation Table - General Insurer**

Company	Rating	CMP	TP	Upside	EPS (Rs)			P/EPS (x)		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
ICICI	ADD	1853	2200	19	48.8	57.7	66.3	37.9	32.1	28.0

Company	BVPS (Rs)			P/ BVPS (x)			ROE (%)			Combine Ratio (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
ICICI	280	325	380	6.6	5.7	4.9	17.5	17.7	17.5	102.0	101.2	101.3

Source: Companies, YES Sec - Research

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