

November 10, 2023

RESULT REPORT Q2 FY24 | Sector: Insurance (Life)

Life Insurance Corporation

Growth remains an issue, while margin provides no solace

Result Highlights (See "Our View" below for elaboration and insight)

- **VNB margin:** Calculated VNB margin for 2QFY24 rose 163bps QoQ to 15.3%.
- **VNB growth:** VNB grew 53.8% QoQ, due to growth in total APE and margin expansion.
- **APE growth:** New business APE grew 37.4% QoQ, driven higher by growth in Individual Par and Non-Par APE. APE was still down -12.5% YoY
- **Expense control:** Expense ratio rose/fell by 437bps/-102bps QoQ/YoY to 17.2%, where QoQ the opex ratio was up 391bps and commission ratio 46bps
- **Persistency:** 37th month ratio fell -409/-44bps QoQ/YoY to 60.2% whereas 61st month ratio fell -408/-66bps QoQ/YoY to 55.2%

Our view – Material rise in Embedded Value not due to structural factors

Growth seems healthy on sequential basis but is weak on YoY basis: The Individual APE in 1HFY24 was flat YoY at Rs 146.4bn whereas the Group business has de-grown -24.5% YoY to Rs 79.9bn. Within Individual business, Par APE has de-grown -2.0% YoY whereas Non-Par has grown 19.8% YoY.

VNB Margin has remained flat on YoY basis despite a rise in share of Non-Par business: The VNB margin for 1HFY24 amounts to 14.61% compared with 14.58% in 1HFY23. While the rise in the share of Non-Par products had a positive impact on VNB margin, more benefits have been given to policyholders, particularly for Annuity products, which has negatively impacted margin.

Embedded value has ramped up materially on YoY basis but this is on the back of non-structural factors: EV has risen 21.7% YoY and Unwind remains the key contributor to this rise. Other than this, Economic Variance is likely to have been another key contributor. The EV remains sensitive to equity markets with a 10% move translating to a ~7% change in EV. We do not regard these factors as structural and prospective operating RoEV remains subdued.

We maintain a less-than-bullish ADD rating with a revised price target of Rs 695: We value LIC at 0.6x FY25 P/EV for an FY24E/25E/26E RoEV profile of 10.1/10.2/10.3%. We most prefer MFS and SBIL in the life insurance space.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table – Standalone Financials

Rs mn	Q2 FY24	Q2 FY23	% yoy	Q1 FY24	% qoq
NBP	478,342	760,258	-37.1%	448,712	6.6%
Renewal premium	596,429	561,559	6.2%	536,383	11.2%
Income from investments	939,422	841,036	11.7%	903,094	4.0%
APAT	79,250	159,525	-50.3%	95,437	-17.0%
Expense ratio	17.2%	18.3%	-102bps	12.9%	437bps
37th mo. Persistency*	60.2%	60.6%	-44bps	64.3%	-409bps
Total APE	130,950	149,580	-12.5%	95,320	37.4%
Ind APE	86,880	81,930	6.0%	59,500	46.0%
VNB	20,020	22,803	-12.2%	13,020	53.8%
VNB Margin	15.3%	15.2%	4bps	13.7%	163bps

Source: Company, YES Sec-Research, *Regular Premium Basis

Recommendation	: ADD
Current price	: Rs 610
Target price	: Rs 695
Potential return	: +14%

Stock data (as on November 10, 2023)

Nifty	19,425
52 Week h/l (Rs)	754 / 530
Market cap (Rs/USD mn)	3888609 / 46683
Outstanding Shares (mn)	6,325
6m Avg t/o (Rs mn):	685
Div yield (%):	0.5
Bloomberg code:	LICI IN
NSE code:	LICI

Stock performance



	1M	3M	1Y
Absolute return	-4.3%	-7.5%	-2.8%

Shareholding pattern (As of Sept'23 end)

Promoter	96.5%
FII+DII	0.9%
Others	2.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	695	700

Financial Summary

Rs mn	FY24E	FY25E	FY26E
APE	571,733	638,517	713,937
% yoy	0.9%	11.7%	11.8%
VNB	83,655	97,058	111,577
VNB Margin	14.6%	15.2%	15.6%
PAT	405,750	460,856	515,478
% yoy	11.5%	13.6%	11.9%
EPS (Rs)	64.2	72.9	81.5
EVPS (Rs)	1,015.7	1,122.7	1,241.4
RoEV	10.1%	10.2%	10.3%
P/EV (x)	0.5	0.5	0.4
P/VNB (x)	40.7	35.1	30.5

Δ in earnings estimates

Rs	FY24E	FY25E	FY26E
VNBPS (New)	13.2	15.3	17.6
VNBPS (Old)	15.6	18.3	21.0
% change	-15.2%	-16.0%	-16.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

VNB and VNB margin

- **Key figures**
 - The VNB for 1HFY24 stood at Rs 33.04 bn as against Rs. 36.77bn in 1HFY23, down - 10.1% YoY.
 - The VNB margin for 1HFY24 amounts to 14.61% compared with 14.58% in 1HFY23.
- **Factors impacting margin**
 - **Product mix**
 - Rise in the share on Non-Par products had a positive impact on VNB margin.
 - **Product pricing**
 - In a competitive market, the products have to be priced competitively, which has led to a negative impact on margin.
 - More benefits have been given to policyholders, which has reduced margin.
 - This has been done particularly for annuities both on the individual and group side.
 - The annuity rates offered to customers have been increased and this is dynamically done by looking at market conditions.
 - **Risk free rates**
 - There has also been a negative impact on margin due to decline in risk free rates.
 - **Mortality experience**
 - There has been an improvement in mortality of group term business.

Embedded Value

- The IEV as of September 2023 was at Rs. 6,626 bn, up by 21.7% YoY.
- **Reasons for rise in EV**
 - The major reason for the rise in EV is unwind.
 - The MTM proportion stays flat at 15%.
 - A large part of the economic variance was driven by equity markets.
 - The performance of the core business has also contributed to the rise in EV.
- **Return on EV**
 - The RoEV has been 11.8%.

Overall premium growth and market share

- **Key APE growth figures**
 - Total APE has de-grown -10.3% YoY to Rs 226.3bn in 1HFY24.
 - For 1HFY24, 64.7% of the APE was accounted for by Individual business whereas the remaining was accounted for by Group business.
 - The Individual APE in 1HFY24 was flat YoY at Rs 146.4bn whereas the Group business has de-grown -24.5% YoY to Rs 79.9bn.
 - Within Individual business, the share of Par was 89.24% and Non-Par was 10.76% for 1HFY24.
- **LIC's Market Share for 1HFY24**
 - First Year Premium Income – 58.5%.
 - Individual business – 40.35%.
 - Group business – 70.26%.

(Con call takeaways continue on the next page)

Product growth and mix

- **Group premium**
 - Some companies are carrying out an employee benefits valuation exercise and the company is hopeful of improving growth by the end of the financial year.
 - The dip in group business is not related to the change in EoM and commission guidelines.
- **Ticket sizes**
 - Ticket sizes have actually improved for LIC due to changes effected in the plans such as increase in sum assured and minimum ticket size.
 - A rise in the share of annuities has also led to higher ticket size.
- **Par business**
 - Growth in Par business has been slow due to market conditions.
- **Non-Par business**
 - Overall agents selling Non-Par increased 3-4% YoY.

New Products

- **LIC has launched 3 new non-par products in 1HFY24**
 - LIC's Group Post-Retirement Medical Benefit Plan
 - LIC's Dhan Vriddhi Plan
 - LIC's Jeevan Kiran Plan

Persistency

- **Persistency ratios, on premium basis for 1HFY24 Vs 1HFY23**
 - 13th Month – 78.49% Vs 77.62%
 - 61st Month – 62.53%. Vs 62.77%

Channel aspects

- **Channel mix with regards to Individual NBP for 1HFY24**
 - Agency - 96.16%
 - Banca and alternate - 3.42%
 - Digital - 0.17%
 - Others - 0.26%
- **Agency**
 - LIC has 1.346mn agents as of September 2023 as against 1.347mn as of March 2023.
- **Banca and alternate channel**
 - Individual business was slow on the banca channel since single premium business on the banca channel was negatively impacted since banks were focused on deposits growth.
 - Within banca, the major contribution was driven by 3 PSU banks 1 private sector bank.

Accounting Expense and Profitability

- The expense of management ratio was at 17.23% in 2QFY24 vs 16.25% in 2QFY23
- Net profit for 2QFY24 was at Rs 79.25 bn, down by -50 YoY.

(Con call takeaways continue on the next page)

Claims experience

- The total individual maturity claims were 8.24mn in 1HFY24, up 1.78% YoY
- The total individual death claims were 0.4mn in 1HFY24, down -10.2% YoY
- The death claim settlement ratio was at 96.1% in 1HFY24, up by 53bps YoY

Solvency

- The Solvency Ratio as of September 2023 improved to 1.90x as against 1.88x as of September 2022.

Exhibit 2: Quarterly Actuals Vs Estimates

Q2 FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	478,342	452,133	5.8
Total APE	130,950	115,591	13.3
VNB	20,020	15,605	28.3

Source: Company, YES Sec – Research

Exhibit 3: Other Business Parameters

Rs mn	Q2FY24	Q2FY23	% yoy	Q1FY24	% qoq
APE Mix, Rs mn					
APE - Individual Business	86,880	81,930	6.0%	59,500	46.0%
Indi Par APE	77,210	73,780	4.6%	53,420	44.5%
Indi Non-Par APE	9,670	8,150	18.7%	6,080	59.1%
APE - Group Business	44,070	67,650	-34.9%	35,820	23.0%
Total APE	130,950	149,580	-12.5%	95,320	37.4%
APE Mix (% Proportion)					
APE - Individual Business	66%	55%	1157bps	62%	392bps
Indi Par APE	59%	49%	964bps	56%	292bps
Indi Non-Par APE	7%	5%	194bps	6%	101bps
APE - Group Business	34%	45%	-1157bps	38%	-392bps
Distribution mix-Indi. NBP					
Agency	141,263	129,852	9%	100,906	40%
Banca & alt. channels	5,244	5,359	-2%	3,369	56%
Digital	250	155	62%	178	41%
Other	487	604	-19%	167	191%
Total	147,245	135,970	8%	104,620	41%
Distribution mix-Indi. NBP (% Proportion)					
Agency	95.9%	95.5%	44bps	96.5%	-51bps
Banca & alt. channels	3.6%	3.9%	-38bps	3.2%	34bps
Digital	0.2%	0.1%	6bps	0.2%	0bps
Other	0.3%	0.4%	-11bps	0.2%	17bps
Persistency*					
13th Month	71.2%	70.5%	67bps	75.1%	-391bps
61st Month	55.2%	55.8%	-66bps	59.3%	-408bps
Expense ratio					
Commission ratio	5.7%	4.4%	126bps	5.2%	46bps
Opex ratio	11.6%	13.9%	-228bps	7.7%	391bps
Solvency					
Solvency ratio	190%	188%	200bps	189%	100bps

Source: Company, YES Sec – Research, *Regular Premium Basis

Exhibit 4: Product Mix on APE basis

Rs mn	1HFY24	1HFY23	% yoy
APE Mix, Rs mn			
Individual Par	130,630	133,280	-2.0%
Individual Non Par	15,750	13,150	19.8%
Individual Saving	3,810	1,400	172.1%
Protection	820	1,250	-34.4%
Annuity	6,490	5,910	9.8%
ULIP	4,630	4,590	0.9%
Group Business	79,890	105,850	-24.5%
Total APE	226,270	252,280	-10.3%

Source: Company, YES Sec – Research

ANNUAL FINANCIALS (STANDALONE)

Exhibit 5: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Policyholders account					
Net premium	4,274,192	4,740,046	4,885,445	5,274,609	5,730,834
Income from investments	2,928,945	3,063,901	3,730,984	4,138,493	4,494,417
Other income	7,795	76,485	84,134	92,547	101,802
From shareholders a/c	83,275	1,301	1,431	1,574	1,732
Total income	7,294,206	7,881,734	8,701,994	9,507,224	10,328,785
Commission	236,912	255,804	256,486	274,280	298,003
Operating Expenses	383,709	481,456	439,690	464,166	504,313
Benefits paid	3,534,376	3,425,768	3,337,461	3,562,134	3,870,462
Change in valuation of liability	3,062,885	3,433,828	4,091,201	4,563,756	4,956,735
Others	(142,708)	(147,371)	84,449	105,554	116,057
Provision for Tax	78,786	52,429	90,054	97,227	105,637
Surplus/(Deficit)	140,246	379,822	402,654	440,108	477,577
Transfer to shareholders A/C	121,935	359,077	382,522	418,102	453,698

Source: Company, YES Sec – Research

Exhibit 6: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Transfer from Policyholders' account	121,935	359,077	382,522	418,102	453,698
Income from Investments	2,012	11,508	27,033	47,023	66,526
Total A	123,947	370,585	409,554	465,125	520,224
Expenses (apart from insurance)	5	4,716	4	5	5
Contribution to Policyholders' Acc	83,275	1,301	1,431	1,574	1,732
Others	0	0	0	0	0
Total B	83,280	6,017	1,436	1,579	1,737
Profit/(Loss) before tax	40,667	364,568	408,119	463,546	518,487
Provision for Taxation	236	594	2,368	2,690	3,009
Profit/(Loss) after tax	40,431	363,974	405,750	460,856	515,478

Source: Company, YES Sec – Research

Exhibit 7: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' Funds:					
Share Capital	63,250	63,250	63,250	63,250	63,250
Reserve and surplus	40,430	394,920	786,296	1,226,069	1,720,464
Credit/(Debit) Fair Value Ch. Acct.	411	(1,477)	(1,477)	(1,477)	(1,477)
Policyholders' Funds					
Policy Liabilities	37,100,395	40,512,485	44,569,584	49,082,188	53,962,196
Provision for Linked Liabilities	238,858	261,592	295,694	346,845	423,573
Fair Value change	4,002,393	3,482,803	3,482,803	3,482,803	3,482,803
Insurance Reserve	128,546	156,781	156,781	156,781	156,781
Fund For Discontinued Policies	823	1,772	2,127	2,552	3,062
Funds for future appropriation	18,344	39,187	59,319	81,325	105,204
Sources of Funds	41,593,452	44,911,314	49,414,377	54,440,337	59,915,856
Investments - Shareholders	64,121	293,635	538,134	805,376	1,095,369
Investments Policyholders	38,956,935	41,891,778	45,334,325	49,152,790	53,383,108
Assets Held to Cover Linked Liab.	239,386	263,095	298,659	352,004	432,022
Loans	1,098,756	1,155,624	1,271,187	1,398,305	1,538,136
Fixed Assets	35,520	38,196	41,196	44,196	47,196
Net Current Assets	1,198,732	1,268,986	1,930,876	2,687,665	3,420,025
Misc. Expenditure	0	0	0	0	0
Application of funds	41,593,452	44,911,314	49,414,377	54,440,337	59,915,856

Source: Company, YES Sec – Research

Exhibit 8: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Opening EV	956,050	5,414,920	5,822,430	6,424,100	7,101,138
Bifurcation impact	3,741,720	0	0	0	0
Unwind of Discount	227,190	415,770	436,682	481,808	532,585
Value of New Business	76,190	91,560	83,655	97,058	111,577
Operating Assumption Changes	(52,430)	20,600	0	0	0
Operating Experience Variance	306,840	60,900	66,958	77,089	85,214
EV Operating Profit (EVOP)	557,790	588,830	587,295	655,955	729,376
Economic Variance	159,360	(171,830)	0	0	0
EV Profit	717,150	417,000	587,295	655,955	729,376
Net Capital Inflow / Outflow	0	(9,490)	14,375	21,083	21,083
Closing EV	5,414,920	5,822,430	6,424,100	7,101,138	7,851,598

Source: Company, YES Sec – Research

Exhibit 9: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
LIC Housing Finance	248,573	BV	270,812	0.9	45.2%	112,455	17.8
IDBI Bank	681,702	BV	371,065	1.8	49.2%	335,670	53.1
LIC MF	17,639	AUM	176,386	0.1	45.0%	7,937	1.3
Value of Subsidiaries						456,062	72.1

Source: Company, YES Sec – Research

Exhibit 10: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Annual Premium Equivalent	571,733	638,517	713,937	618,089	690,307	771,833	(7.5)	(7.5)	(7.5)
Value of new business	83,655	97,058	111,577	98,651	115,508	132,752	(15.2)	(16.0)	(16.0)
Embedded Value	6,424,100	7,101,138	7,851,598	6,439,097	7,135,889	7,910,547	(0.2)	(0.5)	(0.7)

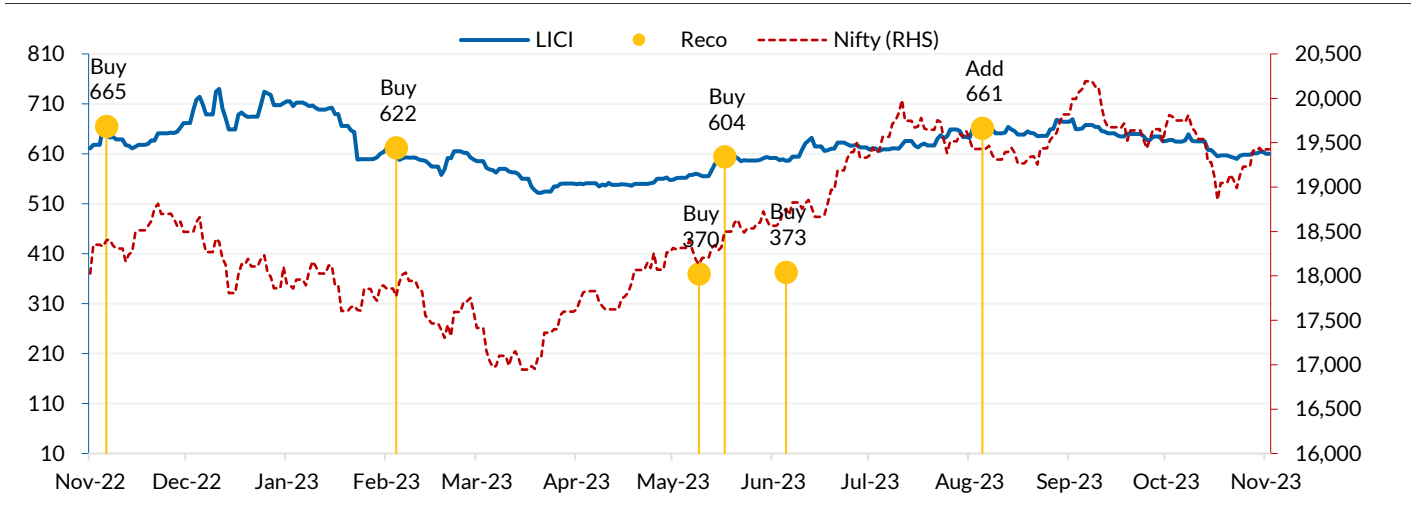
Source: Company, YES Sec – Research

Exhibit 11: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth (%) - P&L					
New business premium	7.9%	16.6%	0.9%	11.7%	11.8%
Renewal premium	4.7%	5.9%	5.2%	4.6%	5.6%
Net premium	6.1%	10.9%	3.1%	8.0%	8.6%
PAT	39.4%	800.2%	11.5%	13.6%	11.9%
VNB	82.8%	20.2%	-8.6%	16.0%	15.0%
Growth (%) - Balance Sheet					
Total AUM	11.5%	8.1%	8.8%	9.0%	9.1%
Total Assets	11.5%	8.0%	10.0%	10.2%	10.1%
Embedded value	466.4%	7.5%	10.3%	10.5%	10.6%
Profitability ratios (%)					
VNB Margin	15.1%	16.2%	14.6%	15.2%	15.6%
Expense metrics (%)					
Commission ratio	5.5%	5.4%	5.3%	5.2%	5.2%
Opex ratio	9.0%	10.2%	9.0%	8.8%	8.8%
Expense ratio	14.5%	15.6%	14.3%	14.0%	14.0%
Persistence (%)					
Conservation Ratio	90.6%	91.3%	90.6%	90.6%	90.6%
Return ratios (%)					
RoEV	11.9%	10.9%	10.1%	10.2%	10.3%
ROE	62.9%	58.5%	53.0%	47.9%	43.4%
RoA	0.1%	0.8%	0.9%	0.9%	0.9%
Solvency					
Solvency Ratio	185%	187%	182%	180%	180%
Underwriting					
Claims ratio	82.7%	72.3%	68.3%	67.5%	67.5%
Claims / AUM	9.0%	8.1%	7.2%	7.1%	7.0%
Per share data (Rs)					
EPS	6.4	57.5	64.2	72.9	81.5
VNBPS	12.0	14.5	13.2	15.3	17.6
BVPS	16.4	72.4	134.3	203.8	282.0
EVPS	856.1	920.5	1015.7	1122.7	1241.4
Valuation (x)					
P/E	84.2	9.4	8.4	7.4	6.6
P/VNB	44.7	37.2	40.7	35.1	30.5
P/BV	32.8	7.4	4.0	2.6	1.9
P/EV	0.6	0.6	0.5	0.5	0.4

Source: Company, YES Sec – Research

Recommendation Tracker



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