

November 8, 2024

**RESULT REPORT Q2 FY25** | Sector: Insurance (Life)

# Life Insurance Corporation

## RoEV improves due to underlying factors, Upgrade

### Our view – Growth and margin show improved traction, BUY

**VNB margin** - VNB margin has improved in a reasonably healthy manner on YoY basis, driven by product mix change: The VNB margin for 2QFY25 amounts to 17.9% compared with 15.3% in 2QFY24, up 257 bps YoY. On half-year basis, VNB margin has improved 160 bps YoY, with product mix change enhancing 1H margin by 430 bps whereas economic assumption change offsetting the same by 290 bps. The share of Individual Non-Par business has risen by 11.8% points on YoY basis to 19.2% in 2Q. This has come with some sacrifice in margin with 1H margin for Non-Par business declining 6.2% points to 43.8%. However, mix change proved to be the over-arching factor influencing margin. Importantly, due to various measures undertaken, the company expects the VNB margin will not get impacted due to the change in surrender value norms.

**APE growth** – APE growth continued to remain robust, with Non-Par segment driving overall growth: Total APE has grown 25.7% YoY to Rs 164.65bn in 2QFY25. Individual Non-Par segment grew 227% YoY, driven by 438% YoY growth in Non-Par Savings. While Agency remained the overwhelmingly important channel with 95.3% share in business (Individual NBP terms), other channels continued to grow faster from a small base. The banca, alternate and digital channels grew 31.8%, 28.2% and 35.6% YoY, respectively (Individual NBP terms). It may be noted that the number of policies sold in October is down as the company is focused more on ensuring persistency. In the new products, the company has revisited the minimum sum assured where there were challenges in terms of persistency. In the initial phase, the intermediaries get used to the appropriate ticket size but the company is confident that, going forward, the number of policies sold will pick up.

**We upgrade to BUY rating with a revised price target of Rs 1150:** We value LIC at 0.7x FY26 P/EV for an FY25E/26E/27E RoEV profile of 11.5/11.6/11.7%. We most prefer MFS and SBIL in the life insurance space.

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

### Other Highlights (See “Our View” above for elaboration and insight)

- **VNB growth:** VNB grew 82.7%/46.9% QoQ/YoY to Rs. 29.41bn, sequentially driven higher by increase in total APE and VNB margin.
- **Expense control:** Expense ratio rose/fell by 170/-365bps QoQ/YoY to 13.6%, where QoQ the opex ratio was up 72bps and comm. ratio was up 98bps.
- **Persistency:** 37<sup>th</sup> month ratio fell/rose -558/28bps QoQ/YoY to 60.5% whereas 61<sup>st</sup> month ratio fell -365/-41bps QoQ/YoY to 54.8%

### Exhibit 1: Result table – Standalone Financials

Rs mn	Q2 FY25	Q2 FY24	% yoy	Q1 FY25	% qoq
NBP	581,374	478,342	21.5%	574,711	1.2%
Renewal premium	619,100	596,429	3.8%	564,292	9.7%
Income from investments	1,089,724	939,422	16.0%	961,826	13.3%
APAT	76,209	79,250	-3.8%	104,611	-27.2%
Expense ratio	13.6%	17.2%	-365bps	11.9%	170bps
37th mo. Persistency*	60.5%	60.2%	28bps	66.4%	-588bps
Total APE	164,650	130,950	25.7%	115,600	42.4%
Ind APE	114,160	86,880	31.4%	67,470	69.2%
VNB	29,410	20,020	46.9%	16,100	82.7%
VNB Margin	17.9%	15.3%	257bps	13.9%	393bps

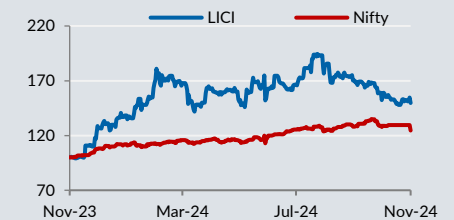
Source: Company, YES Sec-Research, \*Regular Premium Basis

Recommendation	: BUY
Current price	: Rs 915
Target price	: Rs 1150
Potential return	: +26%

### Stock data (as on November 8, 2024)

Nifty	24,148
52 Week h/l (Rs)	1222 / 598
Market cap (Rs/USD mn)	5880351 / 69719
Outstanding Shares (mn)	6,325
6m Avg t/o (Rs mn):	3,169
Div yield (%):	1.0
Bloomberg code:	LICI IN
NSE code:	LICI

### Stock performance



	1M	3M	1Y
Absolute return	-5.2%	-18.7%	49.1%

### Shareholding pattern (As of June'24 end)

Promoter	96.5%
FII+DII	1.1%
Others	2.4%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	1150	1120

### Financial Summary

Rs mn	FY25E	FY26E	FY27E
APE	702,635	801,110	915,908
% yoy	23.3%	14.0%	14.3%
VNB	128,831	153,803	184,236
VNB Margin	18.3%	19.2%	20.1%
PAT	582,149	655,957	735,356
% yoy	43.1%	12.7%	12.1%
EPS (Rs)	92.0	103.7	116.3
EVPS (Rs)	1,278.5	1,423.5	1,587.4
RoEV	11.5%	11.6%	11.7%
P/EV (x)	0.6	0.6	0.5
P/VNB (x)	40.1	33.6	28.0

### Δ in earnings estimates

Rs	FY25E	FY26E	FY27E
VNBPS (New)	20.4	24.3	29.1
VNBPS (Old)	18.2	21.4	21.4
% change	11.8%	13.5%	36.0%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### VNB margin

- **Key figures**
  - The VNB for 1HFY25 stood at Rs 45.51 bn as against Rs. 33.04bn in 1HFY24, up 37.74% YoY.
  - The VNB margin for 1HFY25 amounts to 16.2% compared with 14.6% in 1HFY24.
- **Initiatives taken to lower Surrender rules impact**
  - The company has revised product design and pricing
  - The company has also revised commission payout structure making it more trail based but has not reduced the overall commission payout.
  - The products where the company was seeing lower persistency, they have revised the minimum ticket size.
  - **Clawback**
    - The company has clawback as an enabling provision but would not use it currently.
    - The company will take a call based on the experience going forward.
  - **Margin guidance**
    - Due to the measures undertaken, the company expects the margins will not get impacted due to the change in surrender value norms.
- **Key factors impacting margin**
  - **Reason for Sequential improvement in margin**
    - The overall margin has improved due to higher share of non-par and improved margin in par products.
    - The margin in the par segment has improved due to sale of relatively higher margin par products.
  - **VNB walk 1HFY24 to 1HFY25**
    - The VNB margin has improved 160 bps YoY to 16.2% in 1H.
    - There has been a positive impact of business mix change amounting to 430 bps as the proportion of non par has improved.
    - There has been a negative impact of 290bps due to economic assumptions.
    - There was a positive impact of 20bps due to operating assumptions.
    - **More on impact from assumptions**
      - Of the impact due to assumptions, the major negative impact on VNB margin has been due to decline in risk-free rate.
      - There has been some positive impact due to mortality assumption changes in the term businesses.

### Premium growth and related aspects

- **Key APE growth figures**
  - Total APE has grown 23.9% YoY to Rs 280.25bn in 1HFY25.
  - For 1HFY25, 64.8% of the APE was accounted by Individual business and 35.2% was accounted by Group business.
  - The Individual APE for 1HFY25 was up by 24.1% YoY to Rs. 181.63bn whereas the Group business has grown 23.4% YoY to Rs 98.62bn.
- **Product mix aspects**
  - Within Individual business, the share of Par was 73.69% and Non-Par was 26.31% for 1HFY25.
  - The share of Non-par within individual business for 1HFY25 has improved by 1555bps YoY.

(Con call takeaways continue on the next page)

- **LIC's Market Share**
  - First Year Premium Income – 61.07% in 1HFY25 as against 58.50% in 1HFY24.
  - Individual business – 39.79% in 1HFY25
  - Group business – 74.77% in 1HFY25
- **Product Aspects**
  - The company has revised its products based on new surrender value norms.
  - The Company has launched 3 more products in October and the total product count now is 35 of which 21 are Individual products, 8 are group products, 5 Individual riders and 1 group rider.
  - **New non-par products launched in 1HFY25**
    - LIC's Yuva Term Plan
    - LIC's Digi Term Plan
    - LIC's Yuva Credit Life Plan
    - LIC's Digi Credit Life Plan
- **October sluggishness**
  - The number of policies sold in October is down as the company is focused more on ensuring persistency.
  - In the new products the company has revisited the minimum sum assured where there were challenges in terms of persistency.
  - In the initial phase where the intermediaries get used to appropriate ticket size this month there was an impact but the company is confident that going forward the number of policies sold will pick up.

## Channel aspects

- **Channel mix with regards to Individual NBP for 1HFY25**
  - Agency – 95.33%
  - Banca – 2.90%
  - Alternate – 1.20%
  - Digital - 0.57%
- **Banca channel**
  - The NBP sourced via Banca channels was at Rs 8.55bn for 1HFY25, up by 31.78% YoY
- **Alternate channel**
  - The NBP sourced via Alternate channels was at Rs 3.53bn for 1HFY25, up by 28.18% YoY
- **Agency channel**
  - LIC has 1.44mn agents as of September 2024.
  - Market share of the company on no. of agents is 47.56% as of September 2024 against 49.35% as of September 2023
- **Digital Channel**
  - LIC has completed 0.72mn polices via the ANANDA App in 1HFY25 as against 0.53mn in 1HFY24, up by 35.6% YoY

## Accounting Expense and Profitability

- The expense of management ratio was at 12.74% in 1HFY25 vs 15.14% in 1HFY24
- Net profit for 1HFY25 was at Rs 180.82bn, up by 3.5% YoY

(Con call takeaways continue on the next page)

## Claims experience

- The total individual maturity claims were 8.56mn in 1HFY25, up 3.82% YoY.
- The total individual death claims were 0.41mn in 1HFY25, up 3.67% YoY.
- Total death claims paid was Rs 116.45bn in 1HFY25, up 7.57% YoY.
- Total maturity claims paid was Rs 945.31bn in 1HFY25, up 19.68% YoY.

## Persistency

- Persistency ratios, on premium basis for 1HFY25 Vs 1HFY24
  - 13<sup>th</sup> Month – 77.62% Vs 78.49%
  - 61<sup>st</sup> Month – 61.46%. Vs 62.53%

## Solvency

- The Solvency Ratio as of September 2024 improved to 1.98x as against 1.90x as of September 2023.

## Embedded Value

- Embedded Value of the Company was Rs. 8,217.16 bn as of September 2024, up by 24% YoY
- The ROEV was around 11.8% and unwind was around 9.5% for 1HFY25.

## AUM

- Asset under Management of the Company was Rs. 55,395.16 bn as of September 2024, up by 16.8% YoY.

## On taking strategic stake in a SAHI

- The company continues to explore all possibilities in the best interest of all stakeholders.
- There is no requirement for a comprehensive license to invest in a SAHI.

## Exhibit 2: Other Business Parameters

Rs mn	Q2FY25	Q2FY24	% yoy	Q1FY25	% qoq
<b>APE Mix, Rs mn</b>					
APE - Individual Business	114,160	86,880	31.4%	67,470	69.2%
Indi Par APE	82,530	77,210	6.9%	51,320	60.8%
Indi Non-Par APE	31,630	9,670	227.1%	16,150	95.9%
APE - Group Business	50,490	44,070	14.6%	48,130	4.9%
<b>Total APE</b>	<b>164,650</b>	<b>130,950</b>	<b>25.7%</b>	<b>115,600</b>	<b>42.4%</b>
<b>APE Mix (% Proportion)</b>					
APE - Individual Business	69%	66%	299bps	58%	1097bps
Indi Par APE	50%	59%	-884bps	44%	573bps
Indi Non-Par APE	19%	7%	1183bps	14%	524bps
APE - Group Business	31%	34%	-299bps	42%	-1097bps
<b>Distribution mix-Indi. NBP</b>					
Agency	167,684	141,263	19%	113,902	47%
Banca & alt. channels	7,758	5,732	35%	4,352	78%
Digital	1,018	250	307%	666	53%
<b>Total</b>	<b>176,460</b>	<b>147,245</b>	<b>20%</b>	<b>118,920</b>	<b>48%</b>
<b>Distribution mix-Indi. NBP (% Proportion)</b>					
Agency	95.0%	95.9%	-91bps	95.8%	-75bps
Banca & alt. channels	4.4%	3.9%	50bps	3.7%	74bps
Digital	0.6%	0.2%	41bps	0.6%	2bps
<b>Persistency*</b>					
13th Month	68.2%	71.2%	-302bps	72.4%	-418bps
61st Month	54.8%	55.2%	-41bps	58.4%	-365bps
<b>Expense ratio</b>					
Commission ratio	5.5%	5.7%	-20bps	4.5%	98bps
Opex ratio	8.1%	11.6%	-345bps	7.4%	72bps
<b>Solvency</b>					
Solvency ratio	198%	190%	800bps	199%	-100bps

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

## Exhibit 3: Quarterly Actuals Vs Estimates

Q2 FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	581,374	627,727	(7.4)
Total APE	164,650	127,248	29.4
VNB	29,410	19,762	48.8

Source: Company, YES Sec – Research

## Exhibit 4: Product Mix on APE basis

Particulars	Q2FY25	Q2FY24	% yoy	Q1FY25	% qoq
<b>APE Mix, Rs mn</b>					
Individual Par	82,530	77,210	6.9%	51,320	60.8%
Individual Non Par	31,630	9,670	227.1%	16,150	95.9%
Individual Saving	15,010	2,790	438.0%	7,880	90.5%
Protection	610	490	24.5%	380	60.5%
Annuity	5,580	3,600	55.0%	3,590	55.4%
ULIP	10,410	2,790	273.1%	4,310	141.5%
Group Business	50,490	44,070	14.6%	48,130	4.9%
<b>Total APE</b>	<b>164,650</b>	<b>130,950</b>	<b>25.7%</b>	<b>115,600</b>	<b>42.4%</b>
<b>APE Mix, %</b>					
Individual Par	50.1	59.0	-884bps	44.4	573bps
Individual Non Par	19.2	7.4	1183bps	14.0	524bps
Individual Saving	9.1	2.1	699bps	6.8	230bps
Protection	0.4	0.4	0bps	0.3	4bps
Annuity	3.4	2.7	64bps	3.1	28bps
ULIP	6.3	2.1	419bps	3.7	259bps
Group Business	30.7	33.7	-299bps	41.6	-1097bps

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS (STANDALONE)

### Exhibit 5: Policyholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Policyholders account</b>					
Net premium	4,740,046	4,750,696	5,512,379	6,104,907	6,807,633
Income from investments	3,063,901	3,639,439	4,462,310	4,867,442	5,331,267
Other income	76,485	146,484	161,132	177,245	194,970
From shareholders a/c	1,301	449	494	543	598
<b>Total income</b>	<b>7,881,734</b>	<b>8,537,068</b>	<b>10,136,314</b>	<b>11,150,138</b>	<b>12,334,468</b>
Commission	255,804	259,591	286,644	317,455	353,997
Operating Expenses	481,456	481,217	485,089	537,232	599,072
Benefits paid	3,425,768	3,888,093	3,723,098	4,123,549	4,598,454
Change in valuation of liability	3,433,828	3,530,361	4,876,240	5,342,064	5,881,549
Others	(147,371)	(27,851)	108,694	120,873	134,801
Provision for Tax	52,429	58,252	101,610	112,532	125,485
<b>Surplus/(Deficit)</b>	<b>379,822</b>	<b>347,405</b>	<b>554,939</b>	<b>596,433</b>	<b>641,111</b>
Transfer to shareholders A/C	359,077	374,554	527,192	566,611	609,056

Source: Company, YES Sec – Research

### Exhibit 6: Shareholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Transfer from Policyholders' account	359,077	374,554	527,192	566,611	609,056
Income from Investments	11,508	36,946	61,558	96,698	134,468
<b>Total A</b>	<b>370,585</b>	<b>411,501</b>	<b>588,750</b>	<b>663,309</b>	<b>743,524</b>
Expenses (apart from insurance)	4,716	3,180	2,709	2,980	3,278
Contribution to Policyholders' Acc	1,301	449	494	543	598
Others	0	0	0	0	0
<b>Total B</b>	<b>6,017</b>	<b>3,629</b>	<b>3,203</b>	<b>3,523</b>	<b>3,876</b>
Profit/(Loss) before tax	364,568	407,872	585,547	659,785	739,648
Provision for Taxation	594	1,114	3,398	3,829	4,292
<b>Profit/(Loss) after tax</b>	<b>363,974</b>	<b>406,758</b>	<b>582,149</b>	<b>655,957</b>	<b>735,356</b>

Source: Company, YES Sec – Research

## Exhibit 7: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' Funds:					
Share Capital	63,250	63,250	63,250	63,250	63,250
Reserve and surplus	394,920	757,401	1,318,466	1,953,340	2,667,613
Credit/(Debit) Fair Value Ch. Acct.	(1,477)	(1,269)	(1,269)	(1,269)	(1,269)
Policyholders' Funds					
Policy Liabilities	40,512,485	43,953,253	48,698,740	53,844,675	59,432,030
Provision for Linked Liabilities	261,592	348,761	479,514	675,643	969,836
Fair Value change	3,482,803	6,926,821	6,926,821	6,926,821	6,926,821
Insurance Reserve	156,781	155,941	155,941	155,941	155,941
Fund For Discontinued Policies	1,772	4,079	4,894	5,873	7,048
Funds for future appropriation	39,187	12,147	39,894	69,716	101,771
<b>Sources of Funds</b>	<b>44,911,314</b>	<b>52,220,383</b>	<b>57,686,251</b>	<b>63,693,989</b>	<b>70,323,041</b>
Investments - Shareholders	293,635	637,440	1,121,351	1,641,444	2,200,498
Investments Policyholders	41,891,778	48,765,124	52,977,325	57,742,962	63,136,626
Assets Held to Cover Linked Liab.	263,095	352,578	486,802	688,139	990,143
Loans	1,155,624	1,202,583	1,322,841	1,455,125	1,600,638
Fixed Assets	38,196	40,570	43,570	46,570	49,570
Net Current Assets	1,268,986	1,222,088	1,734,363	2,119,749	2,345,566
Misc. Expenditure	0	0	0	0	0
<b>Application of funds</b>	<b>44,911,314</b>	<b>52,220,383</b>	<b>57,686,251</b>	<b>63,693,989</b>	<b>70,323,041</b>

Source: Company, YES Sec – Research

## Exhibit 8: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Opening EV</b>	<b>5,414,920</b>	<b>5,822,430</b>	<b>7,273,440</b>	<b>8,086,711</b>	<b>9,003,841</b>
Bifurcation impact	0	0	0	0	0
Unwind of Discount	415,770	521,980	618,242	687,370	765,326
Value of New Business	91,560	95,830	128,831	153,803	184,236
Operating Assumption Changes	20,600	48,290	0	0	0
Operating Experience Variance	60,900	3,680	87,281	97,041	108,046
<b>EV Operating Profit (EVOP)</b>	<b>588,830</b>	<b>669,780</b>	<b>834,354</b>	<b>938,213</b>	<b>1,057,609</b>
Economic Variance	(171,830)	954,640	0	0	0
EV Profit	417,000	1,624,420	834,354	938,213	1,057,609
Future Charge to Sh. Fund	0	(129,140)	0	0	0
Net Capital Inflow / Outflow	(9,490)	(44,270)	(21,083)	(21,083)	(21,083)
<b>Closing EV</b>	<b>5,822,430</b>	<b>7,273,440</b>	<b>8,086,711</b>	<b>9,003,841</b>	<b>10,040,366</b>

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	352,288	BV	313,948	1.1	45.2%	159,375	25.2
IDBI Bank	909,116	BV	534,315	1.7	49.2%	447,649	70.8
LIC MF	31,761	AUM	317,607	10%	45.0%	14,292	2.3
<b>Value of Subsidiaries</b>						<b>621,316</b>	<b>98.2</b>

Source: Company, YES Sec – Research



## Exhibit 10: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Annual Premium Equivalent	702,635	801,110	915,908	659,289	743,397	839,882	6.6	7.8	9.1
Value of new business	128,831	153,803	184,236	115,634	136,266	160,441	11.4	12.9	14.8
Embedded Value	8,086,711	9,003,841	10,040,366	8,073,514	8,971,828	9,981,453	0.2	0.4	0.6

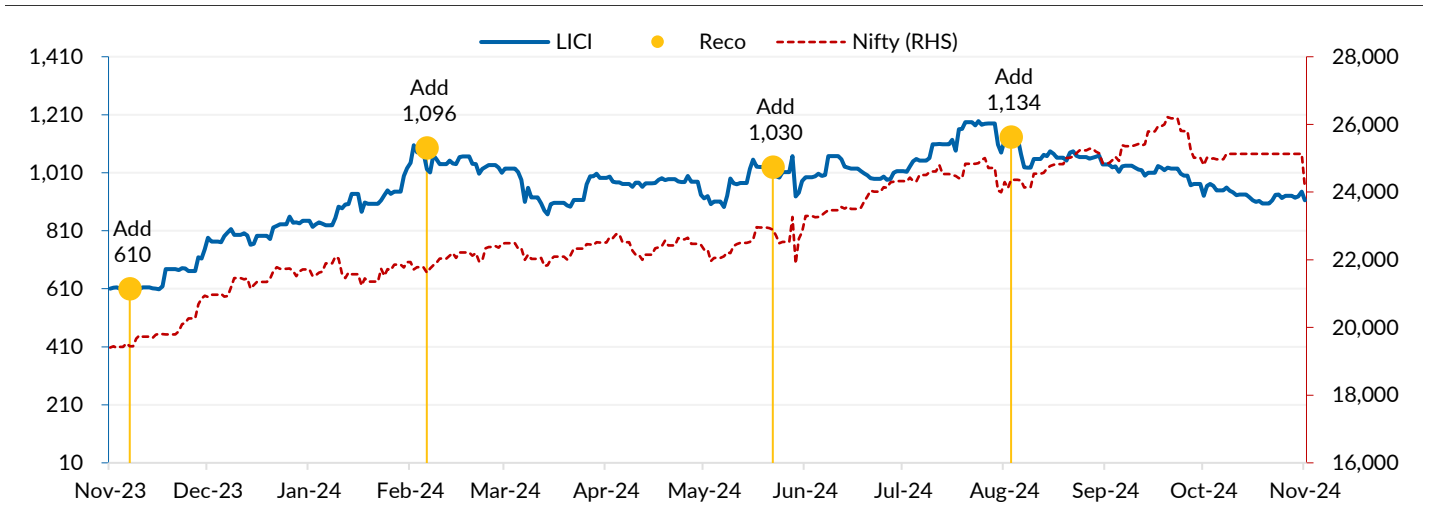
Source: Company, YES Sec – Research

## Exhibit 11: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth (%) - P&amp;L</b>					
New business premium	16.6%	-4.0%	29.2%	14.0%	14.3%
Renewal premium	5.9%	4.3%	4.6%	7.2%	8.3%
Net premium	10.9%	0.2%	16.0%	10.7%	11.5%
PAT	800.2%	11.8%	43.1%	12.7%	12.1%
VNB	20.2%	4.7%	34.4%	19.4%	19.8%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	8.1%	17.2%	9.7%	10.1%	10.4%
Total Assets	8.0%	16.3%	10.5%	10.4%	10.4%
Embedded value	7.5%	24.9%	11.2%	11.3%	11.5%
<b>Profitability ratios (%)</b>					
VNB Margin	16.2%	16.8%	18.3%	19.2%	20.1%
<b>Expense metrics (%)</b>					
Commission ratio	5.4%	5.5%	5.2%	5.2%	5.2%
Opex ratio	10.2%	10.1%	8.8%	8.8%	8.8%
Expense ratio	15.6%	15.6%	14.0%	14.0%	14.0%
<b>Persistence (%)</b>					
Conservation Ratio	91.3%	89.8%	90.6%	90.6%	90.6%
<b>Return ratios (%)</b>					
RoEV	10.9%	11.5%	11.5%	11.6%	11.7%
ROE	79.4%	49.6%	42.1%	32.5%	26.9%
RoA	0.8%	0.8%	1.1%	1.1%	1.1%
<b>Solvency</b>					
Solvency Ratio	187%	198%	190%	185%	185%
<b>Underwriting</b>					
Claims ratio	72.3%	81.8%	67.5%	67.5%	67.5%
Claims / AUM	8.1%	7.8%	6.8%	6.9%	6.9%
<b>Per share data (Rs)</b>					
EPS	57.5	64.3	92.0	103.7	116.3
VNBPS	14.5	15.2	20.4	24.3	29.1
BVPS	72.4	129.7	218.5	318.8	431.8
EVPS	920.5	1150.0	1278.5	1423.5	1587.4
<b>Valuation (x)</b>					
P/E	14.2	12.7	8.9	7.9	7.0
P/VNB	56.4	53.9	40.1	33.6	28.0
P/BV	11.3	6.3	3.7	2.6	1.9
P/EV	0.9	0.7	0.6	0.6	0.5

Source: Company, YES Sec – Research

## Recommendation Tracker



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