

August 9, 2024

RESULT REPORT Q1 FY25 | Sector: Insurance (Life)

Life Insurance Corporation

Higher target multiple needs healthier RoEV level

Our view – Growth improvement continues but with careful calibration of VNB margin

VNB margin - VNB margin has improved on YoY basis but the desired improvement is not entirely satisfactory in the context of LIC's medium-term target: The VNB margin for 1QFY25 amounts to 13.9% compared with 13.7% in 1QFY24. There has been a positive impact of business mix change amounting to 370 bps. The share of Individual Non-Par business in total APE has risen 759 bps YoY to 14.0%. There has been a negative impact of 120 bps and 230 bps due to product benefits and assumptions, respectively. Of the impact due to assumptions, the major negative impact on VNB margin has been due to decline in risk-free rate. It has been seen that margin improves from 1Q to 4Q and that is what is expected this year as well. The intention is to move to a VNB margin of 20% plus in the medium-term. It may be noted that product bucket margin has declined on YoY basis for each of the broad product buckets.

APE growth - LIC has delivered far better growth performance in 1Q compared with what it did during FY24: Total APE has grown 21.3% YoY to Rs 115.60bn in 1QFY25. This is a much-improved growth performance compared with the flattish 0.5% YoY growth delivered in FY24. The Individual APE for 1QFY25 was up by 13.4% YoY to Rs. 67.47bn whereas the Group business has grown 34.4% YoY to Rs 48.13bn. Within Individual business, for 1QFY25, Par APE was down -3.9% YoY whereas, Non-Par APE (including ULIP) jumped 166% YoY. While the company does not plan to reduce Par business, there will be exceptional growth in Non-Par driven by the introduction of new products. The Individual NBP sourced via Banca and alternate channels was at Rs 4.11bn for 1QFY25, up by 22.27% YoY. Management stated that, going forward, there will be focus on alternate channels such as brokers and corporate agents.

We maintain an ADD rating with a revised price target of Rs 1250: We value LIC at 0.8x FY26 P/EV for an FY25E/26E RoEV profile of 11.3/11.4%. We most prefer MFS and SBIL in the life insurance space.

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

Other Aspects (See "Our View" above for elaboration and insight)

- **VNB growth:** VNB de-grew -55.8% QoQ but grew 23.7% YoY to Rs. 16.10bn, sequentially driven lower by decrease in total APE and VNB margin.
- **Expense control:** Expense ratio fell by -434/-99bps QoQ/YoY to 11.9%, where QoQ the opex ratio was down -340bps and comm. ratio was down -94bps.
- **Persistency:** 37th month ratio rose 669/207bps QoQ/YoY to 66.4% whereas 61st month ratio rose/fell 393/-84bps QoQ/YoY to 58.4%

Exhibit 1: Result table – Standalone Financials

Rs mn	Q1 FY25	Q1 FY24	% yoy	Q4 FY24	% qoq
NBP	574,711	448,712	28.1%	751,746	-23.5%
Renewal premium	564,292	536,383	5.2%	773,681	-27.1%
Income from investments	961,826	903,094	6.5%	844,255	13.9%
APAT	104,611	95,437	9.6%	137,626	-24.0%
Expense ratio	11.9%	12.9%	-99bps	16.2%	-434bps
37th mo. Persistency*	66.4%	64.3%	207bps	59.7%	669bps
Total APE	115,600	95,320	21.3%	211,800	-45.4%
Ind APE	67,470	59,500	13.4%	149,300	-54.8%
VNB	16,100	13,020	23.7%	36,450	-55.8%
VNB Margin	13.9%	13.7%	27bps	17.2%	-328bps

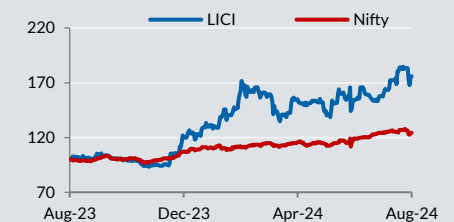
Source: Company, YES Sec-Research, *Regular Premium Basis

Recommendation	: ADD
Current price	: Rs 1,134
Target price	: Rs 1,250
Potential return	: +10%

Stock data (as on August 9, 2024)

Nifty	24,329
52 Week h/l (Rs)	1222 / 597
Market cap (Rs/USD mn)	7106451 / 84709
Outstanding Shares (mn)	6,325
6m Avg t/o (Rs mn):	4,335
Div yield (%):	0.9
Bloomberg code:	LICI IN
NSE code:	LICI

Stock performance



	1M	3M	1Y
Absolute return	9.8%	25.6%	76.0%

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	ADD	ADD
Target Price	1250	1150

Financial Summary

Rs mn	FY24	FY25E	FY26E
APE	569,700	659,289	743,397
% yoy	0.5%	15.7%	12.8%
VNB	95,830	115,634	136,266
VNB Margin	16.8%	17.5%	18.3%
PAT	406,758	598,168	675,607
% yoy	11.8%	47.1%	12.9%
EPS (Rs)	64.3	94.6	106.8
EVPS (Rs)	1,150.0	1,276.4	1,418.5
RoEV	11.5%	11.3%	11.4%
P/EV (x)	0.9	0.8	0.7
P/VNB (x)	67.8	56.2	47.7

Δ in earnings estimates

Rs	FY24	FY25E	FY26E
VNBPS (New)	NA	18.3	21.5
VNBPS (Old)	NA	18.2	21.4
% change	NA	0.4%	0.6%

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COMPREHENSIVE CON-CALL TAKEAWAYS

VNB margin

▪ Key figures

- The VNB for 1QFY25 stood at Rs 16.10 bn as against Rs. 13.02bn in 1QFY24, up 23.66% YoY.
- The VNB margin for 1QFY25 amounts to 13.9% compared with 13.7% in 1QFY24.

▪ Surrender rules impact

- The impact on LIC will be less as the company hardly has any policies with less than 5-year term and the rules are different for policies having term of 5 years or longer.
- The company wants to strike the right balance across stakeholders after the surrender rule changes.
- There are many alternatives in terms of changing ticket size and structure of product.
- **Clawback**
 - Clawback is a possibility but not mandatory under new regulations.
 - Management does not wish to pre-empt and saying anything in this regard at this stage.
- **Margin impact**
 - If products remain un-modified, there would be a negative impact from surrender rule changes.
 - However, the company will modify products with an intention of protecting margin.

▪ Key factors impacting margin

- **Marketing strategy**
 - Apart from business mix, marketing strategy also impacts VNB margin.
 - The company has, in the past, strategically brought down VNB margin to bolster APE growth.
- **Risk-free rate**
 - Furthermore, the risk-free rate used to calculate VNB margin has seen a southward trend, impacting VNB margin negatively.
- **VNB walk**
 - The VNB margin has improved 20 bps YoY to 13.9% in 1Q.
 - There has been a positive impact of business mix change amounting to 370 bps.
 - There has been a negative impact of 120 bps and 230 bps due to product benefits and assumptions, respectively.
 - **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 and group businesses.

▪ Margin evolution and guidance

- The company's VNB margin is slightly better on YoY basis.
- It has been seen that margin improves from 1Q to 4Q and that is what is expected this year as well.
- **Medium-term guidance**
 - The intention is to move to a VNB margin of 20% plus in the medium-term.
 - The company is aiming to have an upward trajectory in VNB margin to be in line with other key players in the industry.
 - While there will be focus on ULIP, the growth in Non-Par savings will be even faster.

(Con call takeaways continue on the next page)

- **Decline in Par margin**
 - The major impact on Par margin has been due to decline in risk-free rate.
 - There has also been some negative impact due to change in product mix within the Par bucket with the distribution of term and ticket size changing unfavourably.

Premium growth and related aspects

- **Key APE growth figures**
 - Total APE has grown 21.3% YoY to Rs 115.60bn in 1QFY25.
 - For 1QFY25, 58.37% of the APE was accounted by Individual business and 41.63% was accounted by Group business.
 - The Individual APE for 1QFY25 was up by 13.41% YoY to Rs. 67.47bn whereas the Group business has grown 34.37% YoY to Rs 48.13bn.
 - **Product mix aspects**
 - Within Individual business, the share of Par was 76.06% and Non-Par was 23.94% for 1QFY25.
 - The share of Non-par within individual business for 1QFY25 has improved by 1372bps YoY
- **LIC's Market Share**
 - First Year Premium Income – 64.02% in 1QFY25 as against 61.42% in 1QFY24
 - Individual business – 39.27% in 1QFY25 as against 40.84% in 1QFY24
 - Group business – 76.59% in 1QFY25 as against 72.5% in 1QFY24
- **Product growth and mix**
 - There is some saturation in the Par business, but it will see reasonable growth.
 - While the company does not plan to reduce Par business, there will be exceptional growth in Non-Par driven by the introduction of new products.
 - **Product launches**
 - Jeevan Utsav has helped Non-Par growth in the past.
 - The company has modified 2 products i.e. LIC' Jeevan Akshay VII and LIC's New Jeevan Shanti and reintroduced them in 1QFY25.
 - LIC has introduced more non-par products in August 2024.
 - The company has recently launched Yuva Term and Yuva Credit Life.

Channel aspects

- **Channel mix with regards to Individual NBP for 1QFY25**
 - Agency – 95.78%
 - Banca and alternate - 3.46%
 - Digital - 0.56%
 - Others - 0.20%
- **Banca channel**
 - The Individual NBP sourced via Banca and alternate channels was at Rs 4.11bn for 1QFY25, up by 22.27% YoY
- **Agency channel**
 - LIC has 1.42mn agents as of June 2024.
 - Market share of the company on no. of agents is 48.64% in 1QFY25 against 50.94% in 1QFY24
 - LIC has undertaken an agency transformation project Jeevan Samarth
 - LIC has partnered with a strategy consulting firm A. T. Kearney which will undertake this agency transformation project

(Con call takeaways continue on the next page)

- **Digital Channel**
 - LIC has completed 2.50mn policies via the ANANDA App in 1QFY25 as against 2.22mn in 1QFY24, up by 12.36% YoY
- **General comments**
 - Bancassurance growth has improved.
 - While agency will not be de-focused, there will be focus on other direct and digital channels.
 - There will be focus on alternate channels such as brokers and corporate agents.

Accounting Expense and Profitability

- The expense of management ratio was at 11.87% in 1QFY25 vs 12.85% in 1QFY24
- Net profit for 1QFY25 was at Rs 104.61bn, up by 9.6% YoY

Claims experience

- The total individual maturity claims were 3.87mn in 1QFY25, up 5.2% YoY.
- The total individual death claims were 0.19mn in 1QFY25, down -0.75% YoY.
- Total death claims paid was Rs 54.67bn in 1QFY25, up 6.22% YoY.
- Total maturity claims paid was Rs 419.54bn in 1QFY25, up 21.21% YoY.

Solvency

- The Solvency Ratio as of June 2024 improved to 1.99x as against 1.89x as of June 2023.

AUM

- Asset under Management of the Company was Rs. 53,587.81 bn in 1QFY25 vs Rs. 46,110.67 bn in 1QFY24, up by 16.22% YoY

Persistency

- **Persistency ratios, on premium basis for 1QFY25 Vs 1QFY24**
 - 13th Month – 78.23% Vs 78.37%
 - 61st Month – 61.62%. Vs 62.73%
- **Par business**
 - The smaller-ticket Par products have seen declining persistency and the company will review these products.

On taking strategic stake in a SAHI

- The company continues to explore all possibilities in the best interest of all stakeholders.

Exhibit 2: Other Business Parameters

Rs mn	Q1FY25	Q1FY24	% yoy	Q4FY24	% qoq
APE Mix, Rs mn					
APE - Individual Business	67,470	59,500	13.4%	149,300	-54.8%
Indi Par APE	51,320	53,420	-3.9%	111,890	-54.1%
Indi Non-Par APE	16,150	6,080	165.6%	37,420	-56.8%
APE - Group Business	48,130	35,820	34.4%	62,500	-23.0%
Total APE	115,600	95,320	21.3%	211,800	-45.4%

APE Mix (% Proportion)					
APE - Individual Business	58%	62%	-406bps	70%	-1213bps
Indi Par APE	44%	56%	-1165bps	53%	-843bps
Indi Non-Par APE	14%	6%	759bps	18%	-370bps
APE - Group Business	42%	38%	406bps	30%	1213bps

Distribution mix-Indi. NBP					
Agency	113,902	100,906	13%	183,313	-38%
Banca & alt. channels	4,115	3,369	22%	6,563	-37%
Digital	666	178	274%	208	220%
Other	238	167	42%	283	-16%
Total	118,920	104,620	14%	190,368	-38%

Distribution mix-Indi. NBP (% Proportion)					
Agency	95.8%	96.5%	-67bps	96.3%	-51bps
Banca & alt. channels	3.5%	3.2%	24bps	3.4%	1bps
Digital	0.6%	0.2%	39bps	0.1%	45bps
Other	0.2%	0.2%	4bps	0.1%	5bps

Persistency*					
13th Month	72.4%	75.1%	-275bps	71.9%	49bps
61st Month	58.4%	59.3%	-84bps	54.5%	393bps

Expense ratio					
Commission ratio	4.5%	5.2%	-73bps	5.4%	-94bps
Opex ratio	7.4%	7.7%	-26bps	10.8%	-340bps

Solvency					
Solvency ratio	199%	189%	1000bps	198%	100bps

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

Exhibit 3: Quarterly Actuals Vs Estimates

Q1 FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	574,711	581,183	(1.1)
Total APE	115,600	127,050	(9.0)
VNB	16,100	17,800	(9.5)

Source: Company, YES Sec – Research

Exhibit 4: Product Mix on APE basis

Particulars	1QFY25	1QFY24	% yoy	4QFY24	% qoq
APE Mix, Rs mn					
Individual Par	51,320	53,420	-3.9%	111,890	-54.1%
Individual Non Par	16,150	6,080	165.6%	37,420	-56.8%
Individual Saving	7,880	1,020	672.5%	23,630	-66.7%
Protection	380	330	15.2%	1,090	-65.1%
Annuity	3,590	2,890	24.2%	5,910	-39.3%
ULIP	4,310	1,840	134.2%	6,800	-36.6%
Group Business	48,130	35,820	34.4%	62,500	-23.0%
Total APE	115,600	95,320	21.3%	211,800	-45.4%
APE Mix, %					
Individual Par	44.4	56.0	-1165bps	52.8	-843bps
Individual Non Par	14.0	6.4	759bps	17.7	-370bps
Individual Saving	6.8	1.1	575bps	11.2	-434bps
Protection	0.3	0.3	-2bps	0.5	-19bps
Annuity	3.1	3.0	7bps	2.8	32bps
ULIP	3.7	1.9	180bps	3.2	52bps
Group Business	41.6	37.6	406bps	29.5	1213bps

Source: Company, YES Sec – Research

ANNUAL FINANCIALS (STANDALONE)

Exhibit 5: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Policyholders account					
Net premium	4,274,192	4,740,046	4,750,696	5,335,636	5,842,488
Income from investments	2,928,945	3,063,901	3,639,439	4,450,731	4,828,868
Other income	7,795	76,485	146,484	161,132	177,245
From shareholders a/c	83,275	1,301	449	494	543
Total income	7,294,206	7,881,734	8,537,068	9,947,993	10,849,145
Commission	236,912	255,804	259,591	277,453	303,809
Operating Expenses	383,709	481,456	481,217	469,536	514,139
Benefits paid	3,534,376	3,425,768	3,888,093	3,603,496	3,946,042
Change in valuation of liability	3,062,885	3,433,828	3,530,361	4,822,640	5,245,745
Others	(142,708)	(147,371)	(27,851)	105,145	116,148
Provision for Tax	78,786	52,429	58,252	98,352	107,695
Surplus/(Deficit)	140,246	379,822	347,405	571,372	615,567
Transfer to shareholders A/C	121,935	359,077	374,554	542,803	584,789

Source: Company, YES Sec – Research

Exhibit 6: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Transfer from Policyholders' account	121,935	359,077	374,554	542,803	584,789
Income from Investments	2,012	11,508	36,946	62,059	98,285
Total A	123,947	370,585	411,501	604,863	683,074
Expenses (apart from insurance)	5	4,716	3,180	2,709	2,980
Contribution to Policyholders' Acc	83,275	1,301	449	494	543
Others	0	0	0	0	0
Total B	83,280	6,017	3,629	3,203	3,523
Profit/(Loss) before tax	40,667	364,568	407,872	601,660	679,550
Provision for Taxation	236	594	1,114	3,491	3,943
Profit/(Loss) after tax	40,431	363,974	406,758	598,168	675,607

Source: Company, YES Sec – Research

Exhibit 7: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Shareholders' Funds:					
Share Capital	63,250	63,250	63,250	63,250	63,250
Reserve and surplus	40,430	394,920	757,401	1,334,486	1,989,009
Credit/(Debit) Fair Value Ch. Acct.	411	(1,477)	(1,269)	(1,269)	(1,269)
Policyholders' Funds					
Policy Liabilities	37,100,395	40,512,485	43,953,253	48,645,140	53,694,756
Provision for Linked Liabilities	238,858	261,592	348,761	479,514	675,643
Fair Value change	4,002,393	3,482,803	6,926,821	6,926,821	6,926,821
Insurance Reserve	128,546	156,781	155,941	155,941	155,941
Fund For Discontinued Policies	823	1,772	4,079	4,894	5,873
Funds for future appropriation	18,344	39,187	12,147	40,716	71,494
Sources of Funds	41,593,452	44,911,314	52,220,383	57,649,492	63,581,518
Investments - Shareholders	64,121	293,635	637,440	1,135,680	1,672,459
Investments Policyholders	38,956,935	41,891,778	48,765,124	52,711,146	57,122,374
Assets Held to Cover Linked Liab.	239,386	263,095	352,578	486,802	688,139
Loans	1,098,756	1,155,624	1,202,583	1,322,841	1,455,125
Fixed Assets	35,520	38,196	40,570	43,570	46,570
Net Current Assets	1,198,732	1,268,986	1,222,088	1,949,452	2,596,851
Misc. Expenditure	0	0	0	0	0
Application of funds	41,593,452	44,911,314	52,220,383	57,649,492	63,581,518

Source: Company, YES Sec – Research

Exhibit 8: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Opening EV	956,050	5,414,920	5,822,430	7,273,440	8,073,514
Bifurcation impact	3,741,720	0	0	0	0
Unwind of Discount	227,190	415,770	521,980	618,242	686,249
Value of New Business	76,190	91,560	95,830	115,634	136,266
Operating Assumption Changes	(52,430)	20,600	48,290	0	0
Operating Experience Variance	306,840	60,900	3,680	87,281	96,882
EV Operating Profit (EVOP)	557,790	588,830	669,780	821,158	919,397
Economic Variance	159,360	(171,830)	954,640	0	0
EV Profit	717,150	417,000	1,624,420	821,158	919,397
Future Charge to Sh. Fund	0	0	(129,140)	0	0
Net Capital Inflow / Outflow	0	(9,490)	(44,270)	(21,083)	(21,083)
Closing EV	5,414,920	5,822,430	7,273,440	8,073,514	8,971,828

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	353,223	BV	313,948	1.1	45.2%	159,798	25.3
IDBI Bank	1,018,790	BV	419,344	2.4	49.2%	501,652	79.3
LIC MF	31,761	AUM	317,607	10%	45.0%	14,292	2.3
Value of Subsidiaries						675,743	106.8

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	NA	659,289	743,397	NA	640,939	722,387	NA	2.9	2.9
Value of new business	NA	115,634	136,266	NA	115,225	135,472	NA	0.4	0.6
Embedded Value	NA	8,073,514	8,971,828	NA	8,000,371	8,810,792	NA	0.9	1.8

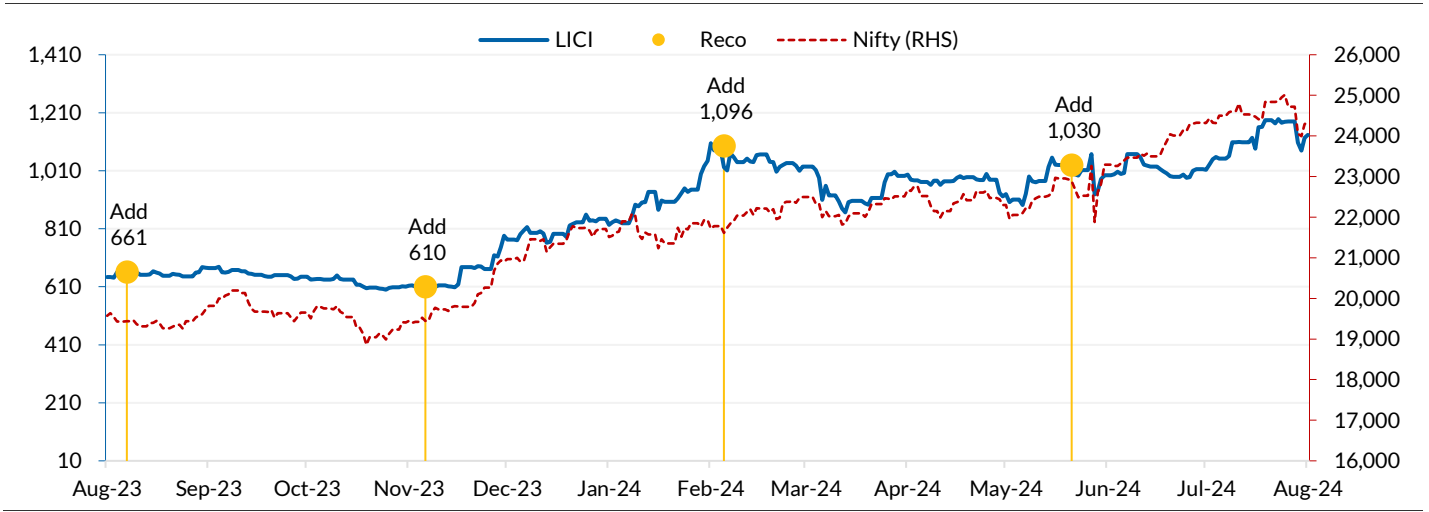
Source: Company, YES Sec – Research

Exhibit 11: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth (%) - P&L					
New business premium	7.9%	16.6%	-4.0%	21.2%	12.8%
Renewal premium	4.7%	5.9%	4.3%	4.6%	6.2%
Net premium	6.1%	10.9%	0.2%	12.3%	9.5%
PAT	39.4%	800.2%	11.8%	47.1%	12.9%
VNB	82.8%	20.2%	4.7%	20.7%	17.8%
Growth (%) - Balance Sheet					
Total AUM	11.5%	8.1%	17.2%	9.2%	9.5%
Total Assets	11.5%	8.0%	16.3%	10.4%	10.3%
Embedded value	466.4%	7.5%	24.9%	11.0%	11.1%
Profitability ratios (%)					
VNB Margin	15.1%	16.2%	16.8%	17.5%	18.3%
Expense metrics (%)					
Commission ratio	5.5%	5.4%	5.5%	5.2%	5.2%
Opex ratio	9.0%	10.2%	10.1%	8.8%	8.8%
Expense ratio	14.5%	15.6%	15.6%	14.0%	14.0%
Persistence (%)					
Conservation Ratio	90.6%	91.3%	89.8%	90.6%	90.6%
Return ratios (%)					
RoEV	11.9%	10.9%	11.5%	11.3%	11.4%
ROE	39.0%	79.4%	49.6%	42.8%	32.9%
RoA	0.1%	0.8%	0.8%	1.1%	1.1%
Solvency					
Solvency Ratio	185%	187%	198%	190%	185%
Underwriting					
Claims ratio	82.7%	72.3%	81.8%	67.5%	67.5%
Claims / AUM	9.0%	8.1%	7.8%	6.6%	6.6%
Per share data (Rs)					
EPS	6.4	57.5	64.3	94.6	106.8
VNBPS	12.0	14.5	15.2	18.3	21.5
BVPS	16.4	72.4	129.7	221.0	324.5
EVPS	856.1	920.5	1150.0	1276.4	1418.5
Valuation (x)					
P/E	160.7	17.9	16.0	10.9	9.6
P/VNB	85.3	71.0	67.8	56.2	47.7
P/BV	62.7	14.2	7.9	4.6	3.2
P/EV	1.2	1.1	0.9	0.8	0.7

Source: Company, YES Sec – Research

Recommendation Tracker



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