

May 28, 2024

**RESULT REPORT Q4 FY24** | Sector: Insurance (Life)

# Life Insurance Corporation

## Breaking free from low double-digit RoEV difficult

### Our view – Growth improves but higher margin expansion held back

**VNB margin** - While LIC has executed on its plan of enhancing share of Individual Non-Par business, other factors have prevented margin from expanding more: The VNB margin for FY24 amounts to 16.8% compared with 16.2% in FY23, implying a 60 bps improvement YoY. The share of Non-par within individual business for FY24 has improved by 943bps YoY to 18.32%. However, there has been a decline in the Par and Group margin. One of the factors is the southward movement of risk-free rate, which impacted all segments negatively. The other factor, which impacted Group business margin negatively, is the revision of annuity rates, with more benefits being given. There is also significant competitive pressure in Group business. Furthermore, there was a lot of deficit in the Group business, which was made good with the Group funded business, which typically has lower margin. There is a conscious strategy to balance growth with margin. For the quarter, calculated VNB margin for 4QFY24 declined -280bps QoQ to 17.2%.

**APE growth** - While the fourth quarter has seen enhanced growth, which is creditable, the same seems to have come at the cost of some margin dilution: For the quarter, New business APE grew by 60.0%/13.2% QoQ/YoY, driven higher YoY by growth in Par, Individual Protection, Annuity and ULIP segments. Total APE has grown 0.5% YoY to Rs 569.7bn in FY24. For FY24, 67.46% of the APE was accounted by Individual business and 32.54% was accounted by Group business. The Individual APE for FY24 was down -0.6% YoY to Rs. 384.33bn whereas the Group business has grown 2.9% YoY to Rs 185.37bn. On a headline basis, protection business is down YoY but the take up of riders has improved. Including riders, protection business is up 6% YoY to Rs 2.01bn in terms of APE.

We maintain an ADD rating with a revised price target of Rs 1200: We value LIC at 0.8x FY26 P/EV for an FY25E/26E RoEV profile of 10.3/10.4%. We most prefer MFS and SBIL in the life insurance space.

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

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

- VNB growth:** VNB grew 38.4% QoQ but de-grew -0.9% YoY to Rs. 36.45bn, sequentially driven by increase in total APE.
- Expense control:** Expense ratio rose/fell by 68/-4bps QoQ/YoY to 16.2%, where QoQ the opex ratio was up 83bps and comm. ratio was down -16bps.
- Persistency:** 37<sup>th</sup> month ratio rose/fell 16/-519bps QoQ/YoY to 59.7% whereas 61<sup>st</sup> month ratio fell -168/-151bps QoQ/YoY to 54.5%

### Exhibit 1: Result table – Standalone Financials

Rs mn	Q4 FY24	Q4 FY23	% yoy	Q3 FY24	% qoq
NBP	751,746	559,549	34.3%	547,914	37.2%
Renewal premium	773,681	760,090	1.8%	624,312	23.9%
Income from investments	844,255	678,466	24.4%	952,669	-11.4%
APAT	137,626	134,278	2.5%	94,444	45.7%
Expense ratio	16.2%	16.3%	-4bps	15.5%	68bps
37th mo. Persistency*	59.7%	64.9%	-519bps	59.5%	16bps
Total APE	211,800	191,370	10.7%	131,630	60.9%
Ind APE	149,300	152,480	-2.1%	88,650	68.4%
VNB	36,450	36,780	-0.9%	26,340	38.4%
VNB Margin	17.2%	19.2%	-201bps	20.0%	-280bps

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

Recommendation : ADD

Current price : Rs 1,030

Target price : Rs 1,200

Potential return : +17%

### Stock data (as on May 28, 2024)

Nifty	22,974
52 Week h/l (Rs)	1175 / 593
Market cap (Rs/USD mn)	6513167 / 78344
Outstanding Shares (mn)	6,235
6m Avg t/o (Rs mn):	3,212
Div yield (%):	0.3
Bloomberg code:	LICIN
NSE code:	LICI

### Stock performance



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

Promoter	96.5%
FII+DII	1.0%
Others	2.5%

### △ in instance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1200	1075

### Financial Summary

Rs mn	FY24	FY25E	FY26E
APE	569,700	640,939	722,387
% yoy	0.5%	12.5%	12.7%
VNB	95,830	115,225	135,472
VNB Margin	16.8%	18.0%	18.8%
PAT	406,758	604,950	682,661
% yoy	11.8%	48.7%	12.8%
EPS (Rs)	64.3	95.6	107.9
EVPS (Rs)	1,150.0	1,264.9	1,393.0
RoEV	11.5%	10.3%	10.4%
P/EV (x)	0.8	0.7	0.7
P/VNB (x)	61.2	50.9	43.3

### △ in earnings estimates

Rs	FY24	FY25E	FY26E
VNBPS (New)	NA	18.2	21.4
VNBPS (Old)	NA	17.1	19.9
% change	NA	6.6%	7.4%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### VNB margin

- **Key figures**
  - The VNB for FY24 stood at Rs 95.83 bn as against Rs. 91.56bn in FY23, up 4.7% YoY.
  - The VNB margin for FY24 amounts to 16.8% compared with 16.2% in FY23.
- **Margin evolution**
  - Overall VNB margin has improved 60 bps YoY.
  - There has been a decline in the Par and Group margin.
- **Risk free rate**
  - One of the factors is the southward movement of risk free rate, which impacted all segments negatively.
- **Pricing**
  - The other factor, which impacted Group business margin negatively, is the revision of annuity rates, with more benefits being given.
- **Business mix**
  - Furthermore, there was a lot of deficit in the Group business, which was made good with the Group funded business, which typically has lower margin.
  - There is a conscious strategy to balance growth with margin.

### Premium growth and related aspects

- **Key APE growth figures**
  - Total APE has grown 0.5% YoY to Rs 569.7bn in FY24.
  - For FY24, 67.46% of the APE was accounted by Individual business and 32.54% was accounted by Group business.
  - The Individual APE for FY24 was down -0.6% YoY to Rs. 384.33bn whereas the Group business has grown 2.9% YoY to Rs 185.37bn.
  - **Product mix aspects**
    - Within Individual business, the share of Par was 81.68% and Non-Par was 18.32% for FY24.
    - The share of Non-par within individual business for FY24 has improved by 943bps YoY.
    - There has been an intense focus on enhancing the share of Non-par business.
- **LIC's Market Share for FY24**
  - First Year Premium Income – 58.87%.
  - Individual business – 38.44%.
  - Group business – 72.30%.
- **Protection business**
  - On a headline basis, protection business is down YoY but the take up of riders has improved.
  - Including riders, protection business is up 6% YoY to Rs 2.01bn in terms of APE.
  - The company has an ROP product, which has good popularity.

### Channel growth and mix

- **Channel mix with regards to Individual NBP for FY24**
  - Agency – 96.0%

(Con call takeaways continue on the next page)

- Banca and alternate - 3.61%
- Digital - 0.15%
- Others - 0.23%
- **Bancassurance**
  - The Individual NBP sourced via Banca and alternate channels was at Rs 20.78bn for FY24, up by 2.9% YoY.
  - IDBI Bank contributed Rs 9bn worth of premium in FY24 and the company is expecting a good contribution in FY25 as well.
  - The company is entering into partnerships with some leading banks at the national and state level and expects decent growth in overall banca business.
  - The intention is to launch some products in with the banca channel in mind.
  - The intention is to increase share of banca channel by 5-6% points (over the long-term).
- **Agency channel**
  - LIC has 1.41mn agents as of March 2024.
  - LIC has added 67,500 net agents in the last 12 months.
  - 35% of agents who are above 50 years of age contribute 45% to business.
  - Almost 50% of the agents which are being recruited are below 35 years of age.
  - **Agent strategy**
    - Agent headcount will be strengthened, and, in FY25, there will be thrust on adding new agents.
    - While agents are already using Ananda app, there is an intention to enable agents with technology.
- **Tier 2 strategy**
  - While private sector players are targeting this segment, LIC wants to have presence in every panchayat.
  - Most of the 6000 probationary development officers recruited are in Tier 2 and 3 centres.
- **Digital Channel**
  - LIC has completed 1.16mn polices via the ANANDA App in FY24 as against 0.81mn in FY23.

## Embedded Value (EV)

- **Future charge to Shareholders' Fund**
  - The Future charge to Shareholders' Fund had a negative impact of Rs 129.14bn on EV in FY24.
  - This is the impact of expenses over allowable limits for FY23 and FY24 that IRDAI has allowed LIC to charge to Shareholders' account from FY25 onwards for upto 3 years.
- **Operating assumption changes**
  - The major operating assumption change is due to observing an uptick in mortality behaviour in the group business.
  - This has led to a positive impact of about Rs 48bn to EV.
- **Economic assumption change and variance**
  - Economic assumption change and variance over FY24 has amounted to Rs 954.64bn.
  - There are 3 key components of this viz. MTM impact, investment impact and RFR impact.
  - The MTM impact is the major contributing factor.
  - The investment impact is linked to actual investment performance compared with expectation.
  - The RFR impact is down compared with last year.

(Con call takeaways continue on the next page)

- **Rate of unwind**

- The rate of unwind has risen, which is linked to the outlook on interest rate, as per market consistent basis.

## Health insurance foray

- The composite insurance licence could come and hence, the company has done some internal work (to prepare for the same).
- Health insurance is a natural choice for LIC and hence, the company is exploring inorganic opportunities in the space in terms of taking a stake in a standalone health insurance company.
- However, these considerations are at a very preliminary stage.

## Trail commission regulation

- As of now, the regulator has allowed liberal commission rules.
- If the regulation necessitating shift from front-loaded to trail commission will come, the industry will implement it.
- The industry has also been attempting self-regulation.

## Persistency

- **Persistency ratios, on premium basis for FY24 Vs FY23**
  - 13<sup>th</sup> Month - 77.66% Vs 77.09%
  - 61<sup>st</sup> Month - 60.88% Vs 61.80%

## Accounting Expense and Profitability

- The expense of management ratio was at 15.57% in FY24 vs 15.53% in FY23
- Net profit for FY24 was at Rs 406.76bn, where it includes an amount of Rs.295.19 bn (Net of Tax), pertaining to the accretions on the available solvency margin, transferred from Non-Par fund to shareholders account.

## Claims experience

- The total individual maturity claims were 20.9mn in FY24, down -1.3% YoY.
- The total individual death claims were 0.83mn in FY24, down -8.7% YoY.
- Total death claims paid was Rs 226.25bn in FY24, down -3.4% YoY.
- Total maturity claims paid was Rs 2,081.36bn in FY24, up 12.5% YoY.

## Dividend

- LIC has announced final dividend of Rs 6 per equity share and has already paid an interim dividend of Rs. 4 per equity share.

## Solvency

- The Solvency Ratio as of March 2024 improved to 1.98x as against 1.87x as of March 2023.

# Life Insurance Corporation

## Exhibit 2: Other Business Parameters

Rs mn	Q4FY24	Q4FY23	% yoy	Q3FY24	% qoq
<b>APE Mix, Rs mn</b>					
APE - Individual Business	149,300	152,480	-2.1%	88,650	68.4%
Indi Par APE	111,890	140,235	-20.2%	71,400	56.7%
Indi Non-Par APE	37,420	12,245	205.6%	17,240	117.1%
APE - Group Business	62,500	38,890	60.7%	42,980	45.4%
<b>Total APE</b>	<b>211,800</b>	<b>191,370</b>	<b>10.7%</b>	<b>131,630</b>	<b>60.9%</b>
<b>APE Mix (% Proportion)</b>					
APE - Individual Business	70%	80%	-919bps	67%	314bps
Indi Par APE	53%	73%	-2045bps	54%	-142bps
Indi Non-Par APE	18%	6%	1127bps	13%	457bps
APE - Group Business	30%	20%	919bps	33%	-314bps
<b>Distribution mix-Indi. NBP</b>					
Agency	183,313	192,122	-5%	128,646	42%
Banca & alt. channels	6,563	6,623	-1%	5,660	16%
Digital	208	259	-20%	229	-9%
Other	283	286	-1%	390	-27%
<b>Total</b>	<b>190,368</b>	<b>199,290</b>	<b>-4%</b>	<b>134,925</b>	<b>41%</b>
<b>Distribution mix-Indi. NBP (% Proportion)</b>					
Agency	96.3%	96.4%	-11bps	95.3%	95bps
Banca & alt. channels	3.4%	3.3%	12bps	4.2%	-75bps
Digital	0.1%	0.1%	-2bps	0.2%	-6bps
Other	0.1%	0.1%	1bps	0.3%	-14bps
<b>Persistency*</b>					
13th Month	71.9%	70.2%	170bps	70.9%	97bps
61st Month	54.5%	56.0%	-151bps	56.2%	-168bps
<b>Expense ratio</b>					
Commission ratio	5.4%	6.4%	-98bps	5.6%	-16bps
Opex ratio	10.8%	9.9%	94bps	10.0%	83bps
<b>Solvency</b>					
Solvency ratio	198%	187%	1100bps	193%	500bps

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

## Exhibit 3: Quarterly Actuals Vs Estimates

Q4 FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	751,746	698,530	7.6
Total APE	211,800	185,224	14.3
VNB	36,450	37,063	(1.7)

Source: Company, YES Sec – Research

## Exhibit 4: Product Mix on APE basis

Particulars	4QFY24	4QFY23	% yoy	3QFY24	% qoq
<b>APE Mix, Rs mn</b>					
Individual Par	111,890	140,250	-20.2%	71,400	56.7%
Individual Non Par	37,420	12,230	206.0%	17,240	117.1%
Individual Saving	23,630	2,330	914.2%	10,680	121.3%
Protection	1090	900	21.1%	450	142.2%
Annuity	5,910	5,470	8.0%	3,420	72.8%
ULIP	6,800	3,530	92.6%	2,690	152.8%
Group Business	62,500	38,890	60.7%	42,980	45.4%
<b>Total APE</b>	<b>211,800</b>	<b>191,370</b>	<b>10.7%</b>	<b>131,630</b>	<b>60.9%</b>
<b>APE Mix, %</b>					
Individual Par	52.8	73.3	-2046bps	54.2	-141bps
Individual Non Par	17.7	6.4	1128bps	13.1	457bps
Individual Saving	11.2	1.2	994bps	8.1	304bps
Protection	0.5	0.5	4bps	0.3	17bps
Annuity	2.8	2.9	-7bps	2.6	19bps
ULIP	3.2	1.8	137bps	2.0	117bps
Group Business	29.5	20.3	919bps	32.7	-314bps

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS (STANDALONE)

### Exhibit 5: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Policyholders account</b>					
Net premium	4,274,192	4,740,046	4,750,696	5,260,813	5,745,350
Income from investments	2,928,945	3,063,901	3,639,439	4,445,829	4,813,452
Other income	7,795	76,485	146,484	161,132	177,245
From shareholders a/c	83,275	1,301	449	494	543
<b>Total income</b>	<b>7,294,206</b>	<b>7,881,734</b>	<b>8,537,068</b>	<b>9,868,268</b>	<b>10,736,591</b>
Commission	236,912	255,804	259,591	273,562	298,758
Operating Expenses	383,709	481,456	481,217	462,952	505,591
Benefits paid	3,534,376	3,425,768	3,888,093	3,552,862	3,880,339
Change in valuation of liability	3,062,885	3,433,828	3,530,361	4,799,948	5,209,201
Others	(142,708)	(147,371)	(27,851)	103,642	114,427
Provision for Tax	78,786	52,429	58,252	96,973	105,904
<b>Surplus/(Deficit)</b>	<b>140,246</b>	<b>379,822</b>	<b>347,405</b>	<b>578,329</b>	<b>622,370</b>
Transfer to shareholders A/C	121,935	359,077	374,554	549,412	591,251

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	549,412	591,251
Income from Investments	2,012	11,508	36,946	62,272	98,917
<b>Total A</b>	<b>123,947</b>	<b>370,585</b>	<b>411,501</b>	<b>611,684</b>	<b>690,169</b>
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
<b>Total B</b>	<b>83,280</b>	<b>6,017</b>	<b>3,629</b>	<b>3,203</b>	<b>3,523</b>
Profit/(Loss) before tax	40,667	364,568	407,872	608,481	686,645
Provision for Taxation	236	594	1,114	3,531	3,984
<b>Profit/(Loss) after tax</b>	<b>40,431</b>	<b>363,974</b>	<b>406,758</b>	<b>604,950</b>	<b>682,661</b>

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	1,341,267	2,002,845
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	48,622,448	53,635,520
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	41,064	72,182
<b>Sources of Funds</b>	<b>41,593,452</b>	<b>44,911,314</b>	<b>52,220,383</b>	<b>57,633,930</b>	<b>63,536,806</b>
Investments - Shareholders	64,121	293,635	637,440	1,141,747	1,684,458
Investments Policyholders	38,956,935	41,891,778	48,765,124	52,598,460	56,880,668
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	2,040,510	2,781,846
Misc. Expenditure	0	0	0	0	0
<b>Application of funds</b>	<b>41,593,452</b>	<b>44,911,314</b>	<b>52,220,383</b>	<b>57,633,930</b>	<b>63,536,806</b>

Source: Company, YES Sec – Research

## Exhibit 8: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Opening EV</b>	<b>956,050</b>	<b>5,414,920</b>	<b>5,822,430</b>	<b>7,273,440</b>	<b>8,000,371</b>
Bifurcation impact	3,741,720	0	0	0	0
Unwind of Discount	227,190	415,770	521,980	545,508	600,028
Value of New Business	76,190	91,560	95,830	115,225	135,472
Operating Assumption Changes	(52,430)	20,600	48,290	0	0
Operating Experience Variance	306,840	60,900	3,680	87,281	96,004
<b>EV Operating Profit (EVOP)</b>	<b>557,790</b>	<b>588,830</b>	<b>669,780</b>	<b>748,014</b>	<b>831,505</b>
Economic Variance	159,360	(171,830)	954,640	0	0
EV Profit	717,150	417,000	1,624,420	748,014	831,505
Future Charge to Sh. Fund	0	0	(129,140)	0	0
Net Capital Inflow / Outflow	0	(9,490)	(44,270)	(21,083)	(21,083)
<b>Closing EV</b>	<b>5,414,920</b>	<b>5,822,430</b>	<b>7,273,440</b>	<b>8,000,371</b>	<b>8,810,792</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	270,812	1.3	45.2%	159,375	25.2
IDBI Bank	964,060	BV	371,065	2.6	49.2%	474,703	75.1
LIC MF	26,014	AUM	260,137	10%	45.0%	11,706	1.9
<b>Value of Subsidiaries</b>							<b>645,785</b>
Source: Company, YES Sec – Research							<b>102.1</b>

## 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	640,939	722,387	NA	633,569	710,225	NA	1.2	1.7
Value of new business	NA	115,225	135,472	NA	108,099	126,164	NA	6.6	7.4
Embedded Value	NA	8,000,371	8,810,792	NA	7,122,324	7,889,213	NA	12.3	11.7

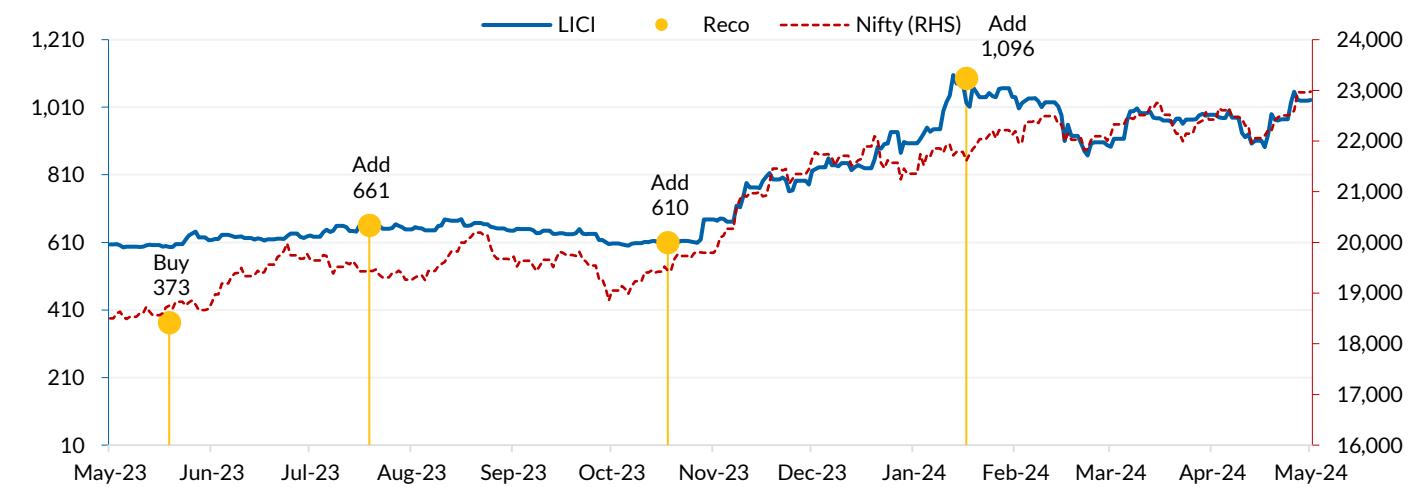
Source: Company, YES Sec - Research

## Exhibit 11: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth (%) - P&amp;L</b>					
New business premium	7.9%	16.6%	-4.0%	17.8%	12.7%
Renewal premium	4.7%	5.9%	4.3%	4.6%	5.8%
Net premium	6.1%	10.9%	0.2%	10.7%	9.2%
PAT	39.4%	800.2%	11.8%	48.7%	12.8%
VNB	82.8%	20.2%	4.7%	20.2%	17.6%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	11.5%	8.1%	17.2%	9.0%	9.3%
Total Assets	11.5%	8.0%	16.3%	10.4%	10.2%
Embedded value	466.4%	7.5%	24.9%	10.0%	10.1%
<b>Profitability ratios (%)</b>					
VNB Margin	15.1%	16.2%	16.8%	18.0%	18.8%
<b>Expense metrics (%)</b>					
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%
<b>Persistency (%)</b>					
Conservation Ratio	90.6%	91.3%	89.8%	90.6%	90.6%
<b>Return ratios (%)</b>					
RoEV	11.9%	10.9%	11.5%	10.3%	10.4%
ROE	39.0%	79.4%	49.6%	43.1%	33.0%
RoA	0.1%	0.8%	0.8%	1.1%	1.1%
<b>Solvency</b>					
Solvency Ratio	185%	187%	198%	190%	185%
<b>Underwriting</b>					
Claims ratio	82.7%	72.3%	81.8%	67.5%	67.5%
Claims / AUM	9.0%	8.1%	7.8%	6.6%	6.5%
<b>Per share data (Rs)</b>					
EPS	6.4	57.5	64.3	95.6	107.9
VNBPS	12.0	14.5	15.2	18.2	21.4
BVPS	16.4	72.4	129.7	222.1	326.7
EVPS	856.1	920.5	1150.0	1264.9	1393.0
<b>Valuation (x)</b>					
P/E	145.2	16.1	14.4	9.7	8.6
P/VNB	77.0	64.1	61.2	50.9	43.3
P/BV	56.6	12.8	7.2	4.2	2.8
P/EV	1.1	1.0	0.8	0.7	0.7

Source: Company, YES Sec - Research

## Recommendation Tracker



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