

LIC

Refer to important disclosures at the end of this report

Shareholder value creation remains subpar

CMP Rs 643 as of (November 15, 2022)	Target Price Rs 750 (▼) 12 months
Rating HOLD (■)	Upside 16.7%

For H1FY23, LIC reported a mixed performance, where 36.7% YoY APE growth (Retail APE: 20.7% YoY and Group APE: 67.5% YoY) and VNB margin of 14.6% were better than our estimates, but the EV of Rs5.44trn was 3% below our estimates and largely flat (+0.85%YoY and +0.5% in H1FY23). PAT at Rs166bn was way above our estimates, as the company chose to transfer surplus Rs143bn from its non-par fund to shareholders' fund. On net basis, LIC's H1FY23 numbers do not change our opinion on the fundamental challenges of slower growth and sticky cost leading to gradual market share loss in the retail segment and subpar profitability reflecting in poor Embedded Value (shareholder value) compounding. To reflect H1 developments, we adjust our estimates, leading to 6-8% cut in FY23-25E EV estimates. Currently, LIC is trading on FY23E P/EV of 0.7x. LIC's valuation is undemanding, but we do not see catalysts to drive a material re-rating of LIC's shares. We reiterate our Hold rating on the stock with our revised TP of Rs750 (unchanged Sep-23E P/EV of 0.8x).

- **Favorable base and superior growth in group drives APE; PAT beat is a matter of accounting:** APE for H1FY23 grew at 36.7% to Rs252.3bn, led by strong 67.5% growth in the group business and Covid-19 Delta wave, which affected lower retail APE base of H1FY22. Strong growth in Group APE was driven by robust growth in the annuity product. VNB margins expanded to 14.6% for H1FY23 (H1FY22: 9.3%; FY22: 15.1%) versus our expectation of 13.8%. YoY improvement in VNB margin was driven by a combination of factors, including higher interest rates, increased annuity in group business, change in profit sharing in PAR, and growing non-par in the retail business mix. H1FY23 PAT of Rs166bn was largely driven by Rs143bn of surplus transfer from non-par funds to shareholders' fund, as enabled by accounting policy change post fund bifurcation done from H2FY22. (Exhibits 1,3,4)
- **Embedded value growth reflects muted shareholders' value creation:** H1FY23 EV of Rs5.44trn was largely flat vs. FY22 EV of Rs5.41trn and H1FY22 EV of Rs5.39trn. For H1FY23, the embedded value grew by 0.85% YoY to Rs5,443bn, delivering a muted show for the past one year. This poor EV growth is the culmination of multiple factors: a.) Flat equity market at H1FY23-end vs. FY22 and H1FY22 would have impacted EV negatively as LIC's EV remains highly sensitive to the equity market; b.) Rise in bond yields would also have had some negative impact on EV; c.) VNB's contribution to EV remains poor for LIC – 1.7-1.8% of EV and; d.) The Rs115bn additional provision related to retirement benefits on account of wage revision would have led to negative operating variance. On net basis, LIC's operating RoEV trend of ~10% will remain subpar. (Exhibit 7)
- **Operating parameters broadly stable:** Given its massive size and legacy book, operating parameters such as persistency, commission ratio, individual product mix, and opex ratios were broadly stable adjusted for one-offs. H1FY23 saw a spike in the opex ratio, led by Rs115bn additional provision for retirement benefits. Improvement in commission ratio was an outcome of higher group business. On 13th-month persistency, LIC at 77.6% remains poorer vs. private peers and 61st-month persistency of ~61% is slightly better than private peers; but adjusted for negligible ULIP in LIC's portfolio, the difference is not material. (Exhibit 5,6)
- **Adjust estimates to reflect H1 developments; Reiterate Hold:** To reflect H1FY23 developments, we have tweaked our FY23-25 estimates, leading to slightly higher APE growth, stable VNB margin, lower EV, and higher PAT and dividend. We expect LIC to continue transferring surplus from non-par fund to shareholders' fund to boost PAT and net worth to support a higher dividend and/or bonus share issuance. However, we continue to see the growth and cost challenges at LIC leading to inferior shareholder value creation, reflecting in lower EV growth and inferior operating RoEV. Despite undemanding valuation of FY23E P/EV of 0.7x, we maintain our Hold rating on the stock with our revised TP of Rs750 (0.8x Sep-23E P/EV). (Exhibit 2)

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 7\)](#)

Financial Snapshot (Standalone)

Y/E March (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Annualized Premium Equivalent (APE)	421.7	503.9	579.5	637.4	701.2
New Business Value (NBV)	41.7	76.2	89.7	103.1	118.3
NBV Margin (% of APE)	9.9	15.1	15.5	16.2	16.9
Embedded Value	956	5,415	5,639	6,124	6,629
Embedded Value Operating Profit	464	717	317	611	670
Operating RoEV (%)			9.5	10.8	10.9
EVPS (Rs)	956	856	891	968	1,048
EPS (Rs)	29.0	6.4	36.9	39.5	43.5
DPS (Rs)			14.8	19.7	26.1
BVPS (Rs)	63.6	16.5	32.2	52.0	69.4
P/EV (x)	0.67	0.75	0.72	0.66	0.61

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	104 / 71
Target Price change (%)	-6.25
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	36.9	39.5
Consensus	10.8	13.8
Mean Consensus TP (12M)	Rs 842	

Stock Details

Bloomberg Code	LICI IN
Face Value (Rs)	10
Shares outstanding (mn)	6,325
52 Week H/L	920 / 588
M Cap (Rs bn/USD bn)	4,204 / 51.73
Daily Avg Volume (nos.)	13,24,274
Daily Avg Turnover (US\$ mn)	10.6

Shareholding Pattern Sep '22

Promoters	96.5%
FIIIs	0.2%
DIIIs	0.9%
Public and Others	2.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	(3)	-	-
Rel. to Nifty	2	(6)	-	-

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Story in Charts

Exhibit 1: Financial Results

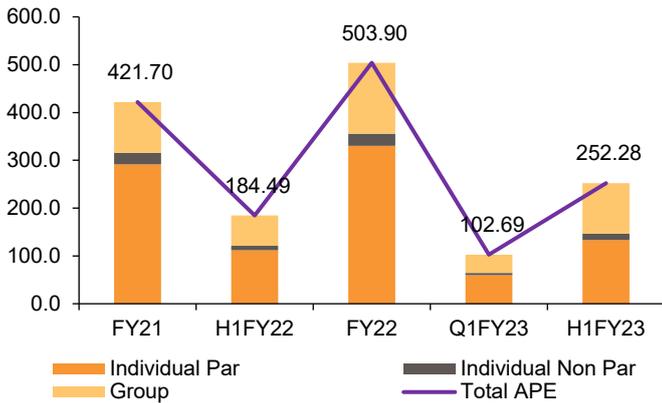
(Rs bn)	H1FY23	H1FY22	YoY (%)	H1FY23E	Var(%)
Individual APE	146.4	121.3	20.7%		
--Par	133.3	111.9	19.1%	-	-
--Non Par	13.2	9.4	40.4%	-	-
Group APE	105.9	63.2	67.5%	-	-
TOTAL APE	252.3	184.5	36.7%	235.6	7.1%
Value of New Business (Net)*	36.8	15.8	132.3%	32.5	13.1%
VNB Margin*	14.6%	9.3%	5.3ppts	13.8%	0.8ppts
Total New Business Premium	1,242.5	851.8	45.9%	-	-
Renewal Premium	1,064.1	1,011.1	5.2%	-	-
Gross Premium	2,306.7	1,862.9	23.8%	-	-
PAT	166.4	14.4	1057.9%	18.2	816%
AUM	42,938	39,742	8.0%	43,071.0	-0.3%
Embedded Value	5,443	5,397	0.9%	5,610.4	-3.0%
SH Equity	260.7	78.2	233.4%	-	-
Persistency Ratio (%)				-	-
--13 th month	77.6%	78.8%	-1.2 ppts	-	-
--49 th month	73.8%	70.9%	2.9 ppts	-	-
--61 th month	64.7%	64.8%	-0.1 ppts	-	-
Commission Ratio (% of WTP)	22.3%	24.0%	-2 ppts	-	-
Expense of Management Ratio (% of WTP)	33.2%	46.2%	-13 ppts	-	-
Solvency Ratio	188.0%	183.0%	5.0 ppts	-	-

Source: Company, Emkay Research; * VNB and VNB Margin are for the covered business. In H1FY23, the covered business represents almost 100% of APE; and in H1FY22, covered business was 93% of the APE or Rs170.7bn APE.

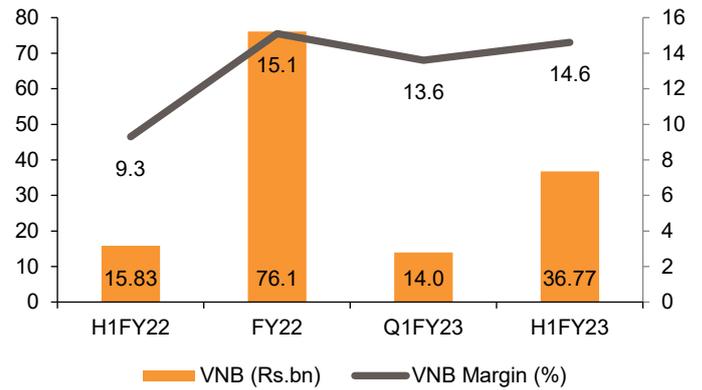
Exhibit 2: Changes in Estimates

Rs mn	Old			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
APE	5,54,290	6,09,719	6,70,691	5,79,485	6,37,434	7,01,177	4.5	4.5	4.5
VNB	81,633	98,348	1,17,455	89,675	1,03,105	1,18,324	9.9	4.8	0.7
VNB Margin (%)	14.7	16.1	17.5	15.5	16.2	16.9	0.7ppts	0.0ppts	-0.6ppts
EVOP	6,23,125	6,95,275	7,75,144	3,17,018	6,10,570	6,69,502	-49.1	-12.2	-13.6
EV	59,69,273	65,76,893	72,25,747	56,38,507	61,24,202	66,28,585	-5.5	-6.9	-8.3
PAT	1,14,620	1,46,092	2,10,484	2,33,578	2,49,751	2,75,198	103.8	71.0	30.7

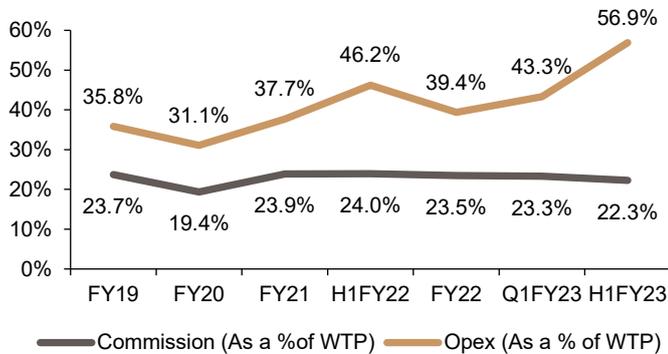
Source: Company, Emkay Research

Exhibit 3: Total APE grows by 36.7% to Rs252bn in H1FY23

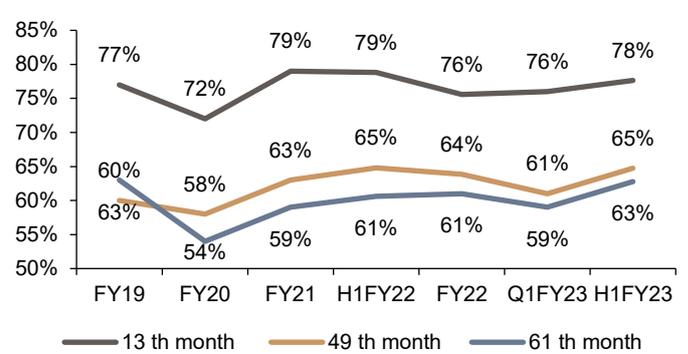
Source: Company, Emkay Research

Exhibit 4: Margins expand to 14.6% for H1FY23

Source: Company, Emkay Research

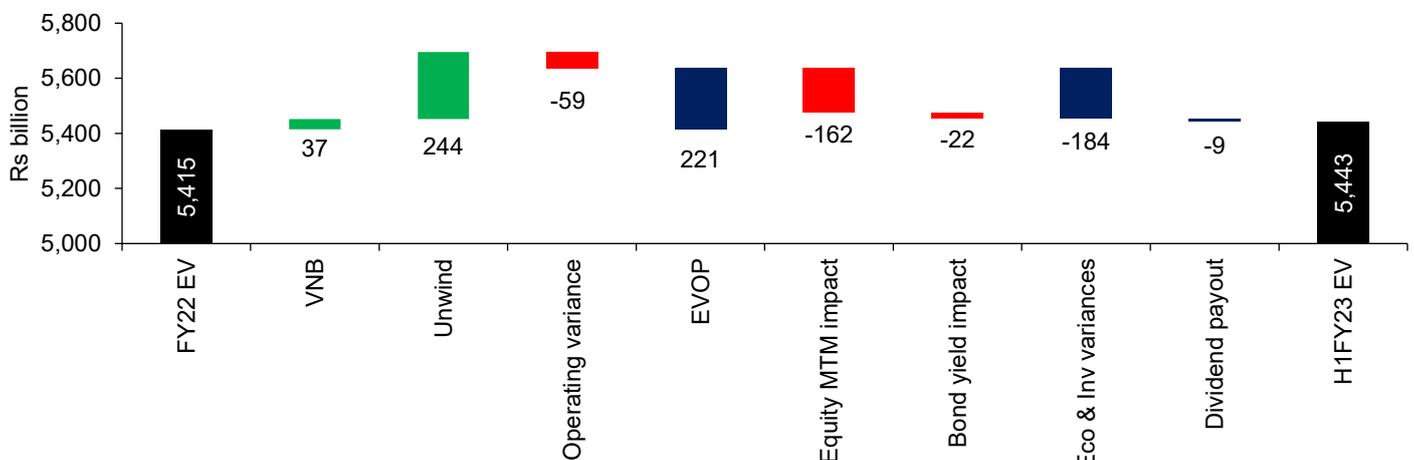
Exhibit 5: Commission and opex costs remained elevated

Source: Company, Emkay Research (Note: WTP= Regular New Business Premium + 10% of Single Premium + 20% of Renewal Premium)

Exhibit 6: Persistency improves across cohorts in H1FY23 vs. FY22

Source: Company, Emkay Research

Given that the commission, acquisition cost, and operating expenses are very different for the regular new business, single premium, and renewal business, it is important to use a normalized denominator to gauge cost ratios. To adjust for these differences in associated cost across different types of premiums, we prefer to use Weighted Total Premium (WTP) as the denominator. [WTP = Regular New Business Premium + 10% of Single Premium + 20% of Renewal Premium.]

Exhibit 7: Estimated Embedded Value walk for H1FY23

Source: Company, Emkay Research; Note: LIC has not disclosed EV Walk for H1FY23. The above chart is based on our estimates.

Conference Call Highlights:

- Market share based on NBP is 68.25% as of H1FY23.
- Market share of 42% in Individual business based on NBP
- Non-par share is 8.99% for H1FY23. Management said that it continues to increase the share of non-par with every passing quarter.
- The current period profit increased due to a Rs142.71bn transfer from non-par to shareholders' account. Management clarified the above adjustment was due to the change in accounting policy.
- The corporation made provision of Rs115.43bn on account of wage revision.
- Other income includes ~Rs6,6bn of interest on Income Tax Refund.
- Embedded value increased by 0.85% YoY. Management said that 100% of the products were considered for the calculation of EV.
- AUM grew by 8.69% YoY to Rs4,293bn.
- The company launched three new non-par products in H1FY23, namely LIC Bima Ratna, Dhan Sanchay, and Pension Plus.
- The company sold 83 lakh new policies in H1 recording growth of 13.55% YoY.
- Management said that the focus remains on changing the product mix, diversifying channels in distribution, and launching new products.
- Management said that VNB margins increased on account of assumption changes and the major component of assumption change is the risk-free rate based on market data. Increased risk-free rate has led to higher margin.
- Within the group business, the proportion of annuity has grown, leading to increased group in the overall product mix.
- Management said that some market movements have bought the EV down. The operating variance and unwinding have led to moving up of EV. Hence, on a net basis, there is an overall increase in EV.
- Management said that as per the Draft EoM Regulations, on an overall basis, the position of LIC becomes more comfortable. Management said that the 70% limit was not final and there are more discussions going on with the regulator and industry.
- Funds bifurcations have impacted the EV; hence, EV growth is a bit slow in the initial stage.
- Management said around 20 non-par products and 16 par products are being offered, which cater to different segments. Growth has picked up across segments. Savings in non-par products have led to greater VNB margins.
- The strategy of the corporation is for growth in savings and ULIP products being the key drivers. Management is relooking at protections. Non-par savings grew at 250%, Annuity grew at 7% and ULIPs grew at 70% for H1FY23.
- Management said for Guarantees (Dhan Varsha), IRR can go up to over 6% for a 10-15 year product. There are other products in the pipeline as well.
- The group business has higher VNB margins due to increased sales of annuity
- The unwind is the expected experience in interest rates. Management said unwind can be assumed at 8-9%.
- Covid reserve is still being maintained and management reviews it periodically.
- Persistency impact on EV Walk is not that significant. The firm has looked into the products leading to challenges in persistency. The company's focus remains on increasing the persistency across products.
- Almost 60% of the group business is fund-based business.
- The strategy is to leverage any channel available for growth. Hence, ahead of the launch of Bima Sugam, management is reviewing the marketing strategy. Overall, management commentary on Bima Sugam seemed quite positive.

Exhibit 8: Key Financials

Y/E March (Rs mn)	2019	2020	2021	2022	2023E	2024E	2025E
Policyholders' account							
Gross written premium	33,75,051	37,93,896	40,32,866	42,80,250	48,42,602	52,19,667	56,31,263
Net earned premium	33,71,854	37,90,626	40,28,443	42,74,192	48,35,748	52,12,280	56,23,293
Investment income	22,27,577	23,53,453	27,87,611	29,28,945	31,91,967	34,73,516	37,63,406
Other income	8,413	14,751	5,995	7,889	1,566	546	533
Total revenue	56,07,844	61,58,829	68,22,050	72,11,026	80,29,281	86,86,343	93,87,232
Commission expense	1,93,112	2,13,383	2,21,699	2,31,715	2,34,513	2,50,833	2,67,649
Operating expenses	2,91,820	3,42,545	3,49,844	3,88,907	4,11,039	4,43,044	4,77,980
Benefits cost	49,47,713	54,04,016	60,90,763	65,47,425	70,44,067	76,25,557	82,42,854
Total expense	55,81,238	61,31,852	67,93,129	71,53,961	77,82,344	84,16,295	90,89,688
Surplus/Deficit	26,606	26,977	28,921	57,065	2,46,937	2,70,047	2,97,544
Shareholders' account							
Transfer from policyholders' account	26,606	26,977	28,890	38,754	2,46,937	2,70,047	2,97,544
Profit after tax	26,885	27,127	29,006	40,431	2,33,578	2,49,751	2,75,198
Balance Sheet							
Sources of Funds							
Shareholders' Funds	6,787	7,395	63,607	1,04,091	2,03,808	3,28,683	4,38,762
Policyholders' Funds: Insurance reserves and provisions	305,49,338	312,37,325	372,25,384	414,71,016	453,39,098	491,28,155	532,23,054
Others	2	-7,395	33	18,344	22,013	26,416	31,699
Total	305,56,127	312,37,325	372,89,024	415,93,452	455,64,918	494,83,254	536,93,516
Application of Funds							
Shareholders' Investments	6,366	6,794	7,136	64,121	1,25,548	2,02,472	2,70,282
Policyholders' Investments	275,35,495	284,82,668	348,76,549	389,56,935	425,90,523	461,49,878	499,96,534
Assets Held to Cover Linked Liabilities	7,56,814	3,25,098	3,29,495	2,39,386	2,61,714	2,83,586	3,07,224
Total	305,56,127	312,37,325	372,89,024	415,93,452	455,64,918	494,83,254	536,93,516
Embedded Value Account							
Embedded Value		4,64,970	9,56,050	54,14,920	56,38,507	61,24,202	66,28,585
Annualized Premium Equivalent (APE)			4,21,700	5,03,900	5,79,485	6,37,434	7,01,177
New Business Value			41,670	76,190	89,675	1,03,105	1,18,324
New Business Margin (%)			9.9	15.1	15.5	16.2	16.9
EV Operating Profit			1,71,510	5,57,790	5,17,018	6,10,570	6,69,502
Operating RoEV (%)					9.5	10.8	10.9
Per share data (Rs)							
EPS	26.88	27.13	29.01	6.39	36.93	39.49	43.51
DPS	26.6	27.0	0.0	0.0	14.8	19.7	26.1
EVPS	0.0	4,649.7	9,560.5	866.4	902.2	979.9	1,060.6
BVPS	67.9	74.0	636.1	16.7	32.6	52.6	70.2
EV Op. Profit per share	0.0	0.0	1,715.1	89.2	82.7	97.7	107.1
Key Ratio							
Return on Equity (%)	405%	383%	82%	48%	152%	94%	72%
Commission expense/WTP (%)	23.7%	19.4%	23.9%	23.5%	22.8%	22.6%	22.5%
Operating expenses/WTP (%)	35.8%	31.1%	37.7%	39.4%	38.0%	38.1%	38.3%
Total expense (% of WTP)	59.5%	50.4%	61.6%	62.9%	59.6%	59.7%	59.8%
Total expense (% of Avg. AUM)	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%
Conservation ratio (%)	92.2%	88.8%	84.5%	90.6%	91.0%	91.0%	91.0%

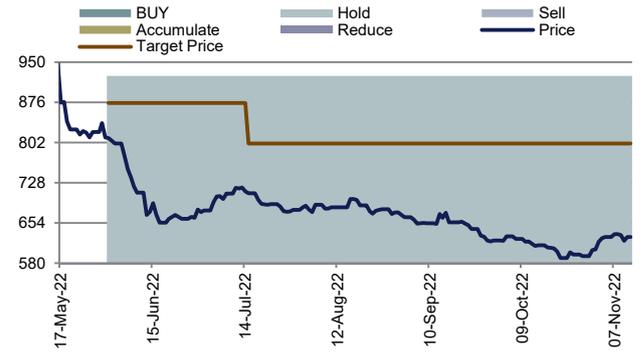
Source: Company, Emkay Research

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
08-Nov-22	633	800	12m	Hold	Avinash Singh
10-Oct-22	619	800	12m	Hold	Avinash Singh
29-Sep-22	620	800	12m	Hold	Avinash Singh
07-Sep-22	653	800	12m	Hold	Avinash Singh
05-Sep-22	660	800	12m	Hold	Avinash Singh
24-Aug-22	676	800	12m	Hold	Avinash Singh
13-Aug-22	682	800	12m	Hold	Avinash Singh
08-Aug-22	680	800	12m	Hold	Avinash Singh
15-Jul-22	709	800	12m	Hold	Avinash Singh
08-Jun-22	738	875	12m	Hold	Avinash Singh
01-Jun-22	810	875	12m	Hold	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



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Sector

Insurance and Non-lending Financials

Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Insurance	1.67	1.62	-3%	-6	100.00	
HDFC Life Insurance	0.45	0.52	14%	6	30.82	0
ICICI Lombard	0.24	0.25	2%	0	14.84	0
ICICI Pru Life	0.17	0.13	-22%	-4	7.87	0
LIC	0.11	0.11	-5%	-1	6.33	0
Max Financial	0.13	0.12	-12%	-2	6.88	0
SBI Life	0.52	0.50	-3%	-2	29.96	0
Star Health	0.05	0.05	10%	0	3.10	0
Cash	0.00	0.06	NA	6	3.30	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	16-Nov-21	16-May-22	16-Aug-22	17-Oct-22	16-Nov-22
EAP - BFSI-Insurance	100.0	180.9	148.9	178.0	162.0	168.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	183.9	149.2	170.8	154.1	154.6

*Performance measurement base date 1st April 2019

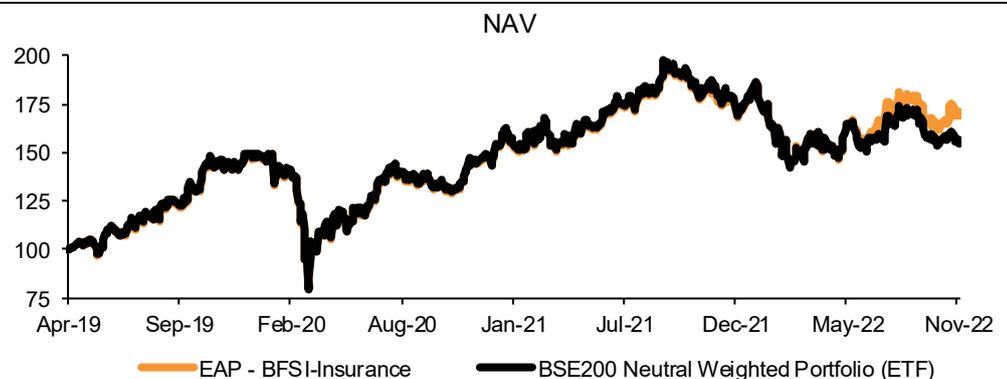
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	4.2%	-5.2%	13.3%	-6.7%
BSE200 Neutral Weighted Portfolio (ETF)	0.3%	-9.5%	3.6%	-15.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 18 Nov 2022 01:13:56 (SGT)

Dissemination Date: 18 Nov 2022 01:14:56 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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