

LIC

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9MFY23: On expected lines

CMP	Target Price
Rs 624 as of (February 9, 2023)	Rs 700 (▼) 12 months
Rating	Upside
HOLD (H)	12.0 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	9.4 / 15.2
Target Price change (%)	(17)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	44.5	46.0
Consensus	36.8	44.6
Mean Consensus TP (12M)	Rs 853	

Stock Details

Bloomberg Code	LICI IN
Face Value (Rs)	10
Shares outstanding (mn)	6,325
52 Week H/L	920 / 582
M Cap (Rs bn/USD bn)	3,878 / 47.00
Daily Avg Volume (nos.)	2,435,706
Daily Avg Turnover (US\$ mn)	20.1

Shareholding Pattern Dec '22

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

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	(3)	(10)	-
Rel. to Nifty (13)	(1)	(12)	-	-

Relative price chart



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LIC's 9MFY23 results came broadly in line with our estimates with APE of Rs375.5bn (our est: Rs389bn), VNB of Rs54.8bn (est: Rs56.4bn), and VNB margin of 14.6% (est: 14.5%). Overall APE growth moderated materially to 25.5% YoY in 9MFY23 vs. 36.7% for HY23. For Q3FY23, APE growth was muted at 7.4%YoY, driven by 32% YoY growth in group business, and was dragged down by 0% YoY growth in the individual business. PAT for 9MFY23 stood at Rs230bn (Q3FY23: Rs63.3bn), owing to a host of factors such as accounting policy-led changes of transferring surplus in the non-par account to shareholders' account. On net basis, LIC's 9MFY23 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 9M developments, we have slightly adjusted our numbers. Currently, LIC is trading on an undemanding valuation of FY24E P/EV of 0.63x. However, given the lack of positive catalysts, we continue to maintain our neutral view on the stock. We reiterate our Hold rating on the stock with our revised Dec-23E TP of Rs700 (0.75x Dec-23E P/EV).

- Sharp moderation in APE growth; Margins remain stable:** LIC's Q3FY23 APE growth stood at 7.4% YoY (Retail: 0% YoY; Group: 32% YoY), leading to a sharp moderation in 9MFY23 APE growth to 25.5% YoY from 36.7% YoY in H1FY23. The slowdown reflects the continued market share loss in the retail segment. VNB margin for 9MFY23 at 14.6% was flat vs. that in H1FY23. Q3FY23 PAT was strong at ~Rs63bn, largely led by the accounting policy change adopted from FY23, where LIC is transferring surplus in the non-par account to shareholders' account every quarter. In terms of one-offs, tax reversal in policyholders' account owing to lower effective tax rate, interest of refund of income tax, and provision for retirement benefits on account of wage revision were large, but their impact on PAT would not be material due to most of these being part of participating account. (Exhibits 1,3,4)
- 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. 9MFY23 saw a spike in the opex ratio, led by Rs115bn additional provision for retirement benefits due to wage revisions done in Q2FY23. Improved 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 5,7,8)
- Continued market share loss and sticky high cost leading to inferior EV compounding remain key concerns:** Given its large back book and surplus sitting in the non-par book, LIC has started to deliver strong accounting profit. However, at the same time, there is very little (relative to EV) value creation from the new business and the sustained market share loss in retail business continues. On the operating cost front, adjusted for single premium and group businesses, LIC's cost ratio remains inflated and sticky. With ~1.8% of retail APE coming from more than Rs5lakh annual premium, LIC is better positioned when it comes to 10(10D)-related proposed changes in the Union Budget. However, the nudge towards the exemption-less new tax regime could pose a challenge for LIC.
- Tweak estimates to reflect 9MFY23 developments; Reiterate HOLD:** To reflect 9MFY23 developments, we have tweaked our FY23-25 estimates, leading to largely unchanged headline numbers. We expect LIC to continue transferring surplus from the 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 growth and cost challenges at LIC, leading to inferior shareholder value creation, reflecting lower EV growth and inferior operating RoEV. Despite an undemanding valuation of FY24E P/EV of 0.63x, we maintain our Hold rating on the stock with our revised TP of Rs700 (0.75x Dec-23E P/EV). The higher sensitivity of EV to equity markets, subpar operating RoEV, and sustained retail market share loss lead us to value LIC at a discount to its EV. (Exhibit 2)

Financial Snapshot

Y/E March (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Annualised Premium Equivalent (APE)	421.7	503.9	596.4	655.4	715.8
New Business Value (NBV)	41.7	76.2	96.2	108.1	122.9
NBV Margin (% of APE)	9.9	15.1	16.1	16.5	17.2
Embedded Value	956	5,415	5,626	6,095	6,572
Embedded Value Operating Profit	464	717	324	614	671
Operating RoEV (%)			9.7	10.9	11.0
EVPS (Rs)	956	856	889	964	1,039
EPS (Rs)	29.0	6.4	44.5	46.0	51.1
DPS (Rs)			17.8	23.0	30.6
BVPS (Rs)	63.6	16.5	36.8	59.8	80.2
P/EV (x)	0.64	0.72	0.69	0.64	0.59

Source: Company, Emkay Research

Exhibit 1: 9M/Q3FY23 Financials

(Rs bn)	9MFY23	9MFY22	YoY (%)	9MFY23E	Var (%)	Q3FY23	Q3FY22	YoY (%)
Individual APE	234.2	209.0	12.0%			87.76	87.76	0.0%
Group APE	141.3	90.1	56.8%	-	-	35.4	26.9	32%
TOTAL APE	375.5	299.1	25.5%	389.1	-3.5%	123.2	114.6	7.4%
Value of New Business (Net)	54.8	-	NA	56.4	-2.9%	18.0	-	NA
VNB Margin	14.6%		NA	14.5%	0.1ppts	14.6%	-	NA
Total New Business Premium	1,761.0	1,261.2	39.6%	-	-	518.4	409.4	26.6%
Renewal Premium	1,666.1	1,579.3	5.5%	-	-	601.9	568.2	5.9%
Gross Premium	3,427.1	2,840.5	20.6%	-	-	1120.4	977.6	14.6%
PAT	229.7	16.7	NM	212.2	8%	63.3	2.3	NM
AUM	44,349	40,122	10.5%	44,226.0	0.3%	-	-	-
Persistence Ratio (%)				-	-	-	-	-
--13 th month	77.6%	76.8%	0.8 ppts	-	-	-	-	-
--61 th month	62.7%	61.9%	0.8 ppts	-	-	-	-	-
Commission Ratio (% of WTP)	23.0%	24.5%	-2 ppts	-	-	-	-	-
Expense of Management Ratio (% of WTP)	47.1%	42.0%	5 ppts	-	-	-	-	-
Solvency Ratio	185.0%	177.0%	8.0 ppts	-	-	-	-	-

Source: Company, Emkay Research Note: i) WTP = Regular New Business Premium + 10% of Single Premium + 20% of Renewal Premium ii) Expense of Management does not include commission

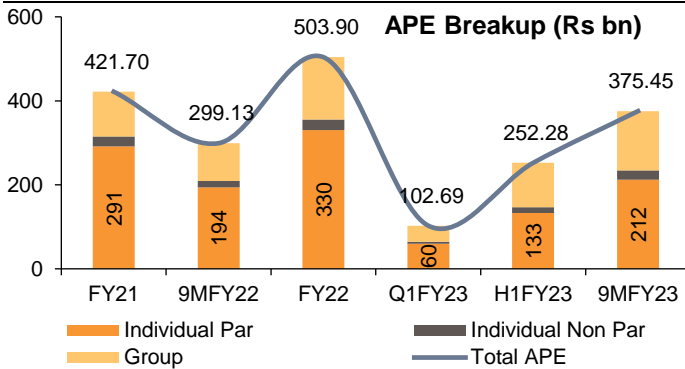
Exhibit 2: Changes in Estimates

Rs mn	Old			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
APE	596,440	655,353	715,810	596,440	655,353	715,810	0.0	0.0	0.0
VNB	96,236	108,068	122,905	96,236	108,068	122,905	0.0	0.0	0.0
VNB Margin (%)	16.1	16.5	17.2	16.1	16.5	17.2	0.0ppts	0.0ppts	0.0ppts
EVOP	323,578	615,263	674,111	323,578	614,392	671,430	0.0	-0.1	-0.4
EV	5,635,506	6,124,513	6,629,970	5,625,822	6,094,725	6,572,409	-0.2	-0.5	-0.9
PAT	257,480	252,514	281,090	281,691	290,978	322,909	9.4	15.2	14.9

Source: Company, Emkay Research

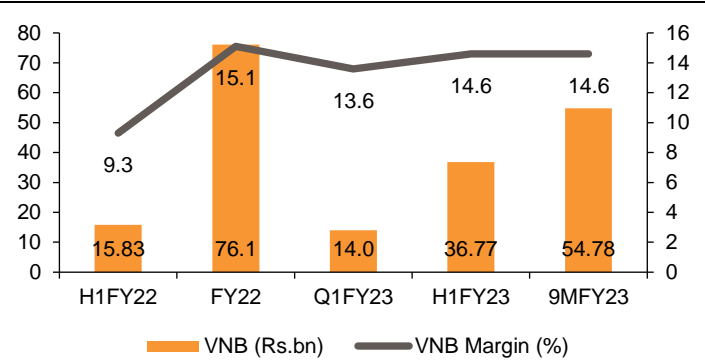
Story in Charts

Exhibit 3: APE increases to Rs376bn, growing at 26% for 9MFY23



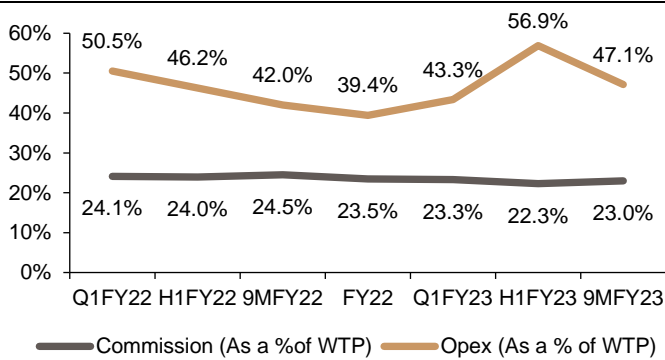
Source: Company, Emkay Research

Exhibit 4: VNB margin remains flat sequentially



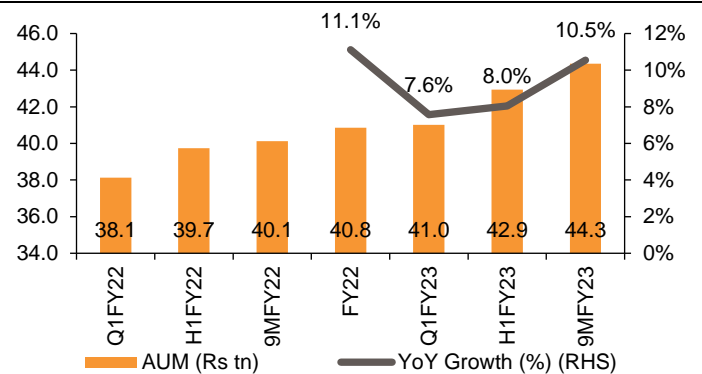
Source: Company, Emkay Research

Exhibit 5: Opex ratio declines sequentially



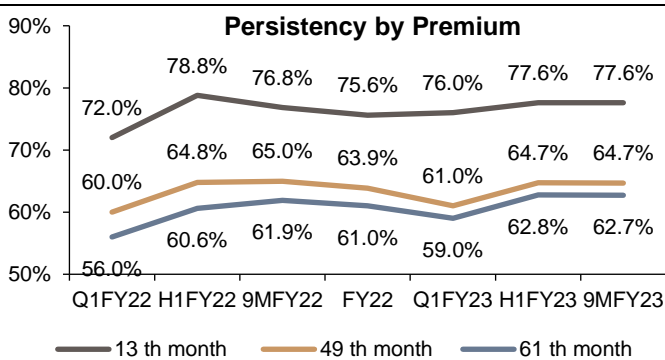
Source: Company, Emkay Research

Exhibit 6: AUM grows to Rs44.3trn for 9MFY23



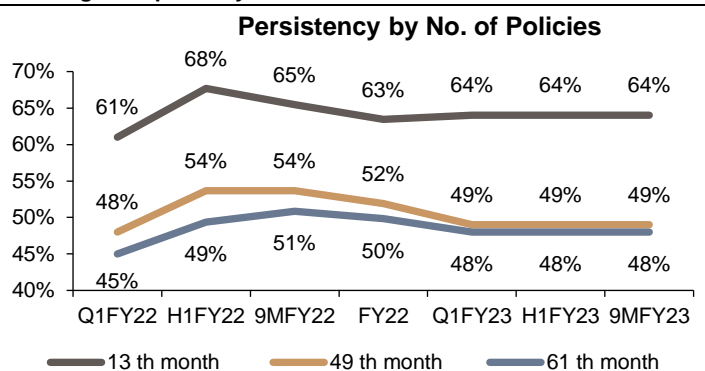
Source: Company, Emkay Research

Exhibit 7: Persistency ratios (Premium) improve over FY22



Source: Company, Emkay Research

Exhibit 8: Persistency ratios (No. of Policies) broadly remain unchanged sequentially



Source: Company, Emkay Research

Conference Call Highlights

■ Premium Growth

- With the launch of various new products, LIC is working on getting the agents trained to sell the new products. Hence, going forward, management expects good growth in premiums with the agents coming back on the streets with new products.
- LIC has revised annuity rates and, henceforth, expects good traction for annuity products in the near term.

■ VNB and VNB Margins

- VNB margins remained flat sequentially majorly due to the impact of changes in product mix and interest rates.
- ULIP products grew better than non-par products, resulting in a drag on VNB margins, as ULIP products are low-margin products.
- VNB margins were also impacted by the revision of annuity rates in Aug-22, and the impact is in line with management's expectations. As per management, the deferred annuity rates were revised for particular products to be in line with the competition.
- Management expects growth in APE to offset the impact on margins and, hence, the absolute VNB should grow going forward.

■ Product Mix

- The share of non-par products increased to 9.45% in the APE mix for 9MFY23 vs. 7.12% for FY22. Management said the non-par book has been growing gradually and consistently with dynamic customer demand.
- Group APE stood at Rs141bn for 9MFY23, with a major contribution from saving schemes and funds-based business. However, according to management, the group term business is not that small though.

■ Distribution Mix

- The agency channel sold ~12.4mn policies during 9MFY23, contributing to 96% of the overall number of policies sold.
- Management said during certain months, there is a sharp drop out in the number of agents. However, with constant recruitment efforts, the number of agents should grow by year-end.
- The agents' productivity has saturated with an increased focus on the par business. Hence, with the launch of new products in the non-par segment, management expects agents' productivity to increase.
- The banca channel has shown good growth during 9MFY23 and management is implementing multiple strategies to expand the banca channel.
- Management stated the maximum volume in the banca channel came from IDBI Bank's partnership and management sees positive growth ahead.
- On the expansion in banca channel and new partnerships, management said that LIC is trying to look at bigger branches of the banks called the power outlets and is looking to ramp up business with these power outlets.

■ Budget Impact

- As per management, the impact due to the withdrawal of exemption on non-ULIP policies with annual premiums aggregating to more than Rs5lakh is minimal as the average ticket size for LIC is on the lower side.
- With a customer base of ~200mn and around 60mn tax filers, only a certain percentage of premiums is likely to get affected due to the nudge on the new tax regime where no deductions pertaining to Sec 80C would be allowed. Moreover, as per management, there is lot of scope for LIC to grow going forward.
- Total exposure to Adani Group on a book value basis is less than 1% of AUM. According to management, policyholders are well protected and there is no major impact on shareholders' value.

Exhibit 9: Key Financial Summary

Y/E March (Rs mn)	2020	2021	2022	2023E	2024E	2025E
Policyholders' account						
Gross written premium	3,793,896	4,032,866	4,280,250	5,104,351	5,552,224	6,036,472
Net earned premium	3,790,626	4,028,443	4,274,192	5,097,127	5,544,366	6,027,928
Investment income	2,353,453	2,787,611	2,928,945	3,198,942	3,497,046	3,808,208
Other income	14,751	5,995	7,889	1,566	546	533
Total revenue	6,158,829	6,822,050	7,211,026	8,297,635	9,041,959	9,836,670
Commission expense	213,383	221,699	231,715	240,303	259,447	279,053
Operating expenses	342,545	349,844	388,907	433,256	471,271	512,374
Benefits cost	5,404,016	6,090,763	6,547,425	7,233,767	7,899,762	8,594,915
Total expense	6,131,852	6,793,129	7,153,961	8,000,052	8,727,342	9,487,547
Surplus/Deficit	26,977	28,921	57,065	297,583	314,617	349,123
Shareholders' account						
Transfer from policyholders' account	26,977	28,890	38,754	297,583	314,617	349,123
Profit after tax	27,127	29,006	40,431	281,691	290,978	322,909
Balance Sheet						
Sources of Funds						
Shareholders' Funds	7,395	63,607	104,091	232,676	378,165	507,328
Policyholders' Funds: Insurance reserves and provisions	31,237,325	37,225,384	41,471,016	45,528,798	49,578,390	53,991,285
Others	-7,395	33	18,344	22,013	26,416	31,699
Total	31,237,325	37,289,024	41,593,452	45,783,487	49,982,970	54,530,313
Application of Funds						
Shareholders' Investments	6,794	7,136	64,121	143,331	232,953	312,519
Policyholders' Investments	28,482,668	34,876,549	38,956,935	42,768,724	46,572,819	50,718,193
Assets Held to Cover Linked Liabilities	325,098	329,495	239,386	262,809	286,185	311,658
Total	31,237,325	37,289,024	41,593,452	45,783,487	49,982,970	54,530,313
Embedded Value Account						
Embedded Value	464,970	956,050	5,414,920	5,625,822	6,094,725	6,572,409
Annualized Premium Equivalent (APE)		421,700	503,900	596,440	655,353	715,810
New Business Value		41,670	76,190	96,236	108,068	122,905
New Business Margin (%)		9.9	15.1	16.1	16.5	17.2
EV Operating Profit		171,510	557,790	523,578	614,392	671,430
Operating RoEV (%)				9.7	10.9	11.0
Per share data (Rs)						
EPS	27.13	29.01	6.39	44.54	46.00	51.05
DPS	27.0	0.0	0.0	17.8	23.0	30.6
EVPS	4,649.7	9,560.5	856.1	889.5	963.6	1,039.1
BVPS	74.0	636.1	16.7	37.2	60.5	81.2
EV Op. Profit per share	0.0	1,715.1	89.2	83.8	98.3	107.4
Key Ratio						
Return on Equity (%)	383%	82%	48%	167%	95%	73%
Commission expense/WTP (%)	19.4%	23.9%	23.5%	22.4%	22.3%	22.2%
Operating expenses/WTP (%)	31.1%	37.7%	39.4%	38.5%	38.7%	39.0%
Total expense (% of WTP)	50.4%	61.6%	62.9%	59.9%	60.0%	60.2%
Total expense (% of Avg AUM)	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%
Conservation ratio (%)	88.8%	84.5%	90.6%	91.0%	92.0%	92.0%

Source: Company, Emkay Research

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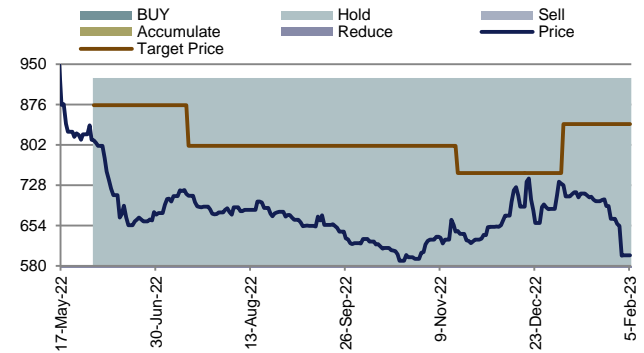
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RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
7-Feb-23	603	840	12m	Hold	Avinash Singh
6-Feb-23	600	840	12m	Hold	Avinash Singh
2-Feb-23	599	840	12m	Hold	Avinash Singh
10-Jan-23	715	840	12m	Hold	Avinash Singh
5-Jan-23	728	840	12m	Hold	Avinash Singh
3-Jan-23	735	750	12m	Hold	Avinash Singh
8-Dec-22	662	750	12m	Hold	Avinash Singh
17-Nov-22	644	750	12m	Hold	Avinash Singh
8-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
7-Sep-22	653	800	12m	Hold	Avinash Singh
5-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
8-Aug-22	680	800	12m	Hold	Avinash Singh
15-Jul-22	709	800	12m	Hold	Avinash Singh
8-Jun-22	738	875	12m	Hold	Avinash Singh
1-Jun-22	810	875	12m	Hold	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

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

Completed Date: 10 Feb 2023 16:30:02 (SGT)

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