

Retail Equity Research

LIC of India Limited

Life Insurance

BSE CODE: 543526

NSE CODE: LICI

Bloomberg CODE: LICI:IN

SENSEX: 65,970

BUY

12 Months Investment period

Rating as per Large cap

CMP Rs. 678

TARGET Rs. 823

 RETURN 21% 

(Closing: 24-11-23)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

New product launches to drive future

Founded and majority owned by the Government of India, Life Insurance Corporation of India Ltd (LIC) is the country's leading statutory insurance and investment corporation, with assets under management (AUM) of over Rs. 4,700,000cr and investments in more than 270 listed companies.

- In Q2FY24, LIC's gross premium income fell 18.7% YoY to Rs. 107,947cr, mainly due to lower single premium.
- In H1FY24, value of new business (VNB) fell 10.1% YoY, however the VNB margin remained stable at 14.6%.
- Market leadership, new product launches to support the non-par business strategy, a wide distribution network, and digitalisation bode well for the company's future growth. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 823, based on 0.65x FY25E embedded value (EV) per share.

LIC records lower premium on muted growth in group products

In Q2FY24, gross premium income fell 18.7% YoY to Rs. 107,947cr, mainly due to a 43.4% YoY drop in single premium to Rs. 37,955cr. First-year premium grew 9.3% YoY to Rs. 10,032cr, while renewal premium rose 6.1% YoY to Rs. 59,961cr. In H1FY24, annualised premium equivalent (APE) fell 10.3% YoY to Rs. 22,627cr, dented by a 24.5% YoY decline in the group business to Rs. 7,989cr and a 2.0% YoY decline in individual par products to Rs. 13,063cr. Individual non-par products grew 19.8% YoY to Rs. 1,575cr. In APE terms, the non-par business share increased 180bps YoY to 10.8%. The group business being cyclical in nature, the company expects resumption of steady growth in the coming quarters.

Robust growth in EV

In H1FY24, VNB decreased 10.1% YoY to Rs. 3,304cr. VNB margin was stable at 14.6%, as the positive impact of the increasing share of the non-par business (+230bps YoY) and the favourable change in assumptions (+190bps YoY) was nullified by the negative impact of competitive product pricing. Over 5.3 lakh policies were signed via the agent-assisted Ananda app, as compared to 3.1 lakh policies in H1FY23. EV grew 21.7% YoY to Rs. 661,605cr, aided by higher equity market returns. AUM grew 10.5% YoY to Rs. 4,743,389cr. The gross non-performing assets ratio improved 317bps YoY to 2.43%.

Key highlights

- During H1FY24, the company launched three new non-PAR products: Jeevan Kiran, Dhan Vriddhi, and group post-retirement medical benefit plan.
- In terms of premium, the 13th/61st month persistency ratio was 71.19%/55.17% in Q2FY24 (vs 70.52%/55.83% in Q2FY23). The solvency ratio was a strong 190% in H1FY24, well above the regulatory requirement of 150%.
- By H1FY24-end, LIC had 13.46 lakh agents. The market share by agent workforce stood at 49%. The agency force sold 96% of the policies in H1FY24.

Outlook and valuation

The company continues to diversify its product mix with a focus on enhancing the non-par share of products. Life insurance density and penetration age continues to be lower in India vis-à-vis other developing economies. With gradual rise in domestic household savings, the share of life insurance in incremental household financial saving is expected to increase steadily. LIC, as the market leader and a trusted name among the populace, is best positioned to benefit in the long-term. With an optimistic outlook, we reiterate our BUY rating on the stock with a revised target price of Rs. 823, based on 0.65x FY25E EV per share.

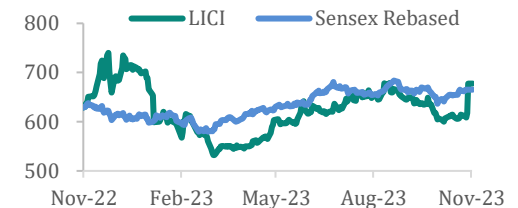
Company Data

Market Cap (cr)	Rs. 4,285,81
Outstanding Shares (cr)	6,325.0
Free Float	4.0%
Dividend Yield	0.5%
52 week high	Rs.754
52 week low	Rs.530
6m average volume (lac)	1.2
Beta	0.9
Face value	Rs.10

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	96.5	96.5	96.5
FII's	0.1	0.1	0.1
MFs/Insti	0.9	0.8	0.8
Public	2.5	2.5	2.5
Others	0.1	0.1	0.1
Total	100.0	100.0	100.0
Promoters' Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	4.5%	12.2%	7.9%
Absolute Sensex	1.7%	5.5%	5.9%
Relative Return*	2.8%	6.6%	2.0%

*Over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Net Premium	475,957	465,089	543,643
Growth (%)	10.8	-2.3	16.9
New Business (%)	16.2	22.6	20.8
Net Profit	35,997	37,443	44,838
Growth (%)	772.7	4.0	19.7
EPS (Rs.)	56.9	59.2	70.9
Growth (%)	772.7	4.0	19.7
BVPS (Rs.)	73.3	105.1	114.7
EVPS (Rs.)	920.5	1,150.7	1,265.7
RoE	77.5	56.3	61.9
RoEV	61.8	25.0	10.0
P/E	9.4	11.4	9.6
P/EV	0.6	0.6	0.5
Solvency (%)	187.0	195.0	200.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Premium Earned (Net)	107,877	132,632	(18.7)	98,755	9.2	206,632	231,437	(10.7)
Income from investments (net)	94,267	84,306	11.8	90,768	3.9	185,034	154,140	20.0
Other income	252	6,011	(95.8)	83	204.6	335	6,973	(95.2)
Total Income	202,395	222,949	(9.2)	189,606	6.7	392,001	392,550	(0.1)
Incurred Claims	83,934	84,703	(0.9)	75,363	11.4	159,297	153,837	3.5
Other expenses	110,018	117,983	(6.8)	106,611	3.2	216,629	213,479	1.5
Total Expenses	193,952	202,686	(4.3)	181,974	6.6	375,926	367,316	2.3
Tax (policyholders' A/c)	1,084	5,425	(80.0)	1,363	(20.5)	2,447	6,877	(64.4)
Surplus (Post tax)	7,812	15,380	(49.2)	7,253	7.7	15,065	19,560	(23.0)
Transfer to shareholder a/c	7,310	14,926	(51.0)	9,080	(19.5)	16,390	16,195	1.2
Interest and other income	926	189	389.5	674	37.3	1,600	379	322.2
Other expenses	108	(767)	(114.1)	21	407.6	129	61	111.2
PBT	8,128	15,882	(48.8)	9,734	(16.5)	17,861	16,513	8.2
Tax (shareholders' A/c)	97	28	253.1	99	(1.2)	196	56	249.8
Reported PAT	8,030	15,854	(49.3)	9,635	(16.7)	17,665	16,457	7.3
Adj EPS (Rs.)	12.7	25.1	(49.3)	15.2	(16.7)	27.9	26.0	7.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Premium Earned (Net)	505,943	537,971	465,089	543,643	(8.1)	1.1
Profit before tax	37,736	43,979	37,822	45,291	0.2	3.0
Net Profit	37,359	43,539	37,443	44,838	0.2	3.0
EPS (Rs.)	59.1	68.8	59.2	70.9	0.2	3.0

Policyholders' Profit & Loss Account

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net Premium	405,398	429,501	475,957	465,089	543,643
% change	6.0	5.9	10.8	-2.3	16.9
Investment Inc.	285,515	294,106	307,488	375,136	431,406
Transfer from shareholder account	5	8,327	130	16	45
Other income	12,760	810	7,659	916	2,677
Total Income	703,679	732,743	791,234	841,156	977,772
Commission	22,358	23,826	25,705	31,123	40,089
Operating Expenses	48,597	38,500	48,290	42,058	47,911
Other Expenses	7,406	(9,277)	(14,568)	(5,351)	(3,287)
Operating Profit	625,319	679,694	731,808	773,326	893,059
% change	14.7	8.7	7.7	5.7	15.5
Benefits Paid (Net)	290,718	359,514	345,751	338,565	400,886
Change in Reserves	321,574	298,174	343,242	391,137	439,997
Share of Associates	1,163	4,203	4,182	3,858	4,631
Minority Interests	-447	-6	2	4	5
Tax	9,168	7,973	5,382	5,047	5,867
<i>Tax Rate (%)</i>	2.4	0.6	0.1	0.1	0.1
Surplus/Deficit	4,575	18,230	41,617	42,438	50,944
% change	n.m.	298.4	128.3	2.0	20.0

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Source of Funds					
Share Capital	10	632	632	632	632
Reserves & Surplus	671	492	4,010	6,015	6,617
Fair Value Change	18	21	(8)	(3)	2
Shareholders' Fund	698	1,146	4,635	6,645	7,252
Policy Liabilities	342,073	372,789	406,873	444,075	484,678
Others	31,869	44,136	39,986	57,989	71,209
Policyholder's Fund	373,942	416,924	446,860	502,064	555,886
Funds for Future appropriations	0	183	392	212	331
Total	374,640	418,254	451,887	508,921	563,469
Application of Funds					
Shareholders'	43	523	2,818	5,354	5,621
Policyholders'	349,844	391,142	420,547	474,167	526,326
Assets held to cover linked liabilities	3,297	2,396	2,633	2,926	3,506
Loans	10,876	11,103	11,701	12,286	12,654
Fixed assets	347	357	384	395	407
Net Current assets	10,232	12,732	13,805	13,794	14,956
Total	374,640	418,254	451,887	508,921	563,469
BVPS (Rs.)	11.0	18.1	73.3	105.1	114.7
% change	535.9	64.1	304.5	43.4	9.1

Shareholders' Profit & Loss Account

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Transfer from Technical A/c	2,956	12,202	35,439	36,073	43,303
Investment Inc.	53	318	1,313	1,918	2,198
Total Income	3,009	12,519	36,752	37,990	45,501
% change	10.2	316.0	193.6	3.4	19.8
Other Expenses	22	27	541	153	164
Contribution to Technical A/c	5	8,327	130	16	45
Total Expenses	27	8,355	671	169	210
PBT	2,983	4,165	36,081	37,822	45,291
% change	9.7	39.6	766.4	4.8	19.7
Tax	9	40	84	378	453
<i>Tax Rate (%)</i>	0.0	0.1	0.0	0.1	0.1
Reported PAT	2,974	4,125	35,997	37,443	44,838
Adj*	0	0	0	0	0
Adj. PAT	2,974	4,125	35,997	37,443	44,838
% change	9.7	38.7	772.7	4.0	19.7
No. of shares (cr)	632	632	632	632	632
Adj. EPS (Rs.)	4.7	6.5	56.9	59.2	70.9
% change	9.7	38.7	772.7	4.0	19.7
DPS (Rs.)	0.0	1.5	3.0	5.9	7.1

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Per Share (Rs.)					
EPS	4.7	6.5	56.9	59.2	70.9
DPS	0.0	1.5	3.0	5.9	7.1
EVPS	151.2	856.1	920.5	1,150.7	1,265.7
Earnings (%)					
RoE	43.7	36.7	77.5	56.3	61.9
RoEV	31.1	7.6	61.8	25.0	10.0
Valuation (x)					
P/E (x)	184.0	132.6	9.4	11.4	9.6
P/EV (x)	5.7	1.0	0.6	0.6	0.5
Div. Yield (%)	0.0	0.2	0.6	0.9	1.0
Expenses (% of premium)					
Commission	5.5	5.5	5.4	6.7	7.4
Operating Expenses	12.0	9.0	10.1	9.0	8.8
Total Expenses	19.3	12.4	12.5	14.6	15.6
Margin (%)					
New Business	9.9	15.1	16.2	22.6	20.8
Solvency (%)					
Solvency	176.0	185.0	187.0	195.0	200.0

Recommendation Summary (since listing)



Dates	Rating	Target
23-Aug-22	BUY	810
22-Feb-23	BUY	765
7-Jun-23	BUY	727
28-Nov-23	BUY	823

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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