

LIC reported broadly in-line numbers in H1FY24, owing to weaker growth, strong boost in embedded value led by equity-market performance, and part provision on account of increased family pension liabilities. We continue to perceive that structural challenges—such as slower growth-led market-share loss, sticky operating expenses, and higher sensitivity to equity market-led EV volatility—are likely to cloud LIC’s outlook. However, LIC is currently trading at ~0.50x Sep-25E P/EV, with the structural challenges and a possible share sale by the government already in the price. We upgrade the stock to BUY, as we believe higher surplus generation and slower growth could lead to a step jump in dividend, as solvency is healthy. Our fair value Sep-24E TP is Rs760/share (offering 25% upside), and we value the shares at 0.63x Sep-25 EV (Cost of Equity: 13%; Operating RoEV: 10%; Single Stage Growth: 5%).

LIC: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	4,280,250	4,746,681	4,538,479	4,921,732	5,346,547
APE	503,900	566,820	548,817	600,680	645,220
VNB	76,190	91,560	85,798	98,306	109,080
VNB margin (%)	15.1	16.2	15.6	16.4	16.9
APE growth (%)	19.5	12.5	(3.2)	9.5	7.4
VNB growth (%)	82.8	20.2	(6.3)	14.6	11.0
Adj. EPS (Rs)	6.4	57.5	56.8	57.7	63.1
EV	5,414,920	5,822,430	6,741,285	7,337,686	7,983,968
EVOP	557,790	588,830	608,592	687,609	746,095
Op. RoEV (%)	58.3	10.9	10.5	10.2	10.2
EVPS (INR)	856.1	920.5	1,065.8	1,160.1	1,262.3
P/EV (x)	0.7	0.7	0.6	0.5	0.5
P/EVOP (x)	6.8	6.5	6.3	5.5	5.1

Source: Company, Emkay Research

Weaker growth, strong equity market-led EV boost and another pension drag

LIC reported largely in-line results, with some surprises on EV and GAAP PAT being driven by the stronger equity market-led economic variances and an increased family wage-led ~Rs 27bn provision in Q2FY24 (total cost: ~Rs110bn). The slower growth (H1FY24 APE: -10% YoY) was largely acknowledged, and was led by the 25% YoY decline in the Group business and a flat YoY Retail business. On the VNB front, margins for H1FY24 at 14.6% were flat YoY and came slightly better than our estimates of 14.2% driven by a YoY improvement of 1.7ppts in Group VNB margin, led by the changed profile of the group product mix. Persistency ratios were largely stable and OpEx sharply surged on account of the Rs27bn provision for increased family pension and a likely contribution to pension liabilities on account of actuarial valuation-led changes (Exhibit 1).

Weaker growth and sticky OpEx cloud the long-term outlook

Despite the massive scale advantage, LIC’s cost structure (commission and OpEx adjusted for minimal cost-incurring group businesses) is bloated. And that has constrained Company’s ability to sell non-par savings or ULIP products. Now, as it targets selling more of non-par (savings, annuity and protection) products and ULIPs, it will need to offer competitive pricing and returns to customers; this is hence driving the adverse impact on VNB margin (a 4.3ppt negative impact on H1FY24 VNB margin). Overall, we continue to see LIC’s cost problem and heavy dependency on individual agents limiting its growth, and the gradual market-share loss in the Individual business persisting.

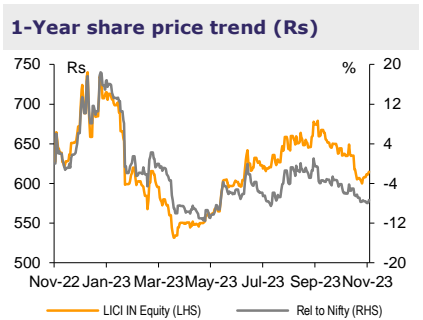
Upgrade to BUY; value LIC shares at 0.63x Sep-25 EV

Currently trading at 0.5x Sep-25E P/EV, LIC shares are already more than pricing-in the structural challenges. Given that LIC’s operating RoEV (~10%) is lower than the cost of equity, we do not value it using the appraisal value methodology, but continue to value it using the P/EV multiple. Considering 13% Cost of Equity (k), Operating RoEV of 10% (r), and single stage growth rate of 5% (g), we drive our target multiple of 0.63x Sep-25E P/EV to set our Sep-24 TP of Rs760/share. **Downside risks:** 1. Prolonged lack of clarity on dividend payout. 2. Share supply glut on account of OFS by the government of India; 3. Sharp correction in equity markets adversely impacting the embedded value.

Target Price – 12M	Sep-24
Change in TP (%)	11.8
Current Reco.	BUY
Previous Reco.	HOLD
Upside/(Downside) (%)	24.5
CMP (10-Nov-23) (Rs)	610.3

Stock Data	Ticker
52-week High (Rs)	754
52-week Low (Rs)	530
Shares outstanding (mn)	6,325.0
Market-cap (Rs bn)	3,860
Market-cap (USD mn)	46,312
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	717.0
ADTV-3M (USD mn)	8.6
Free float (%)	-
Nifty-50	19,425
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	96.5
FPIs/MFs (%)	0.1/0.9

Price Performance			
(%)	1M	3M	12M
Absolute	(4.0)	(4.9)	(1.7)
Rel. to Nifty	(2.7)	(4.3)	(8.8)



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Exhibit 1: Quarterly Financial results

(Rs bn)	H1FY24	H1FY23	YoY	H1FY24E	Var.	Q2FY24	Q2FY23	YoY (%)	Q2FY24E	%Var
Individual APE	146.4	146.4	0.0%			86.88	81.93	6.0%		
Group APE	79.9	105.9	-24.5%			44.1	67.7	-35%		
TOTAL APE	226.3	252.3	-10.3%	226.2	0.0%	131.0	149.6	-12.5%	130.895	0.0%
Value of New Business (Net)	33.0	36.8	-10.1%	32.1	2.9%	20.0	22.8	-12.2%	19.103	4.8%
VNB Margin	14.6%	14.6%	0.0ppt	14.2%	0.4ppt	15.3%	15.2%	0.0ppts	14.6%	0.7ppts
Total New Business Premium	927.1	1,242.5	-25.4%			478.3	760.3	-37.1%		
Renewal Premium	1,132.8	1,064.1	6.5%			596.4	561.6	6.2%		
Gross Premium	2,059.9	2,306.7	-10.7%			1,074.8	1,321.8	-18.7%		
PAT	174.7	166.4	5.0%	191	-9%	79.3	159.5	-50.3%	95.87	-17.3%
AUM	47,434	42,938	10.5%	46,802	1.4%					
Embedded Value	6,626	5,443	21.7%	6,457	2.6%					
SH Equity	615.0	456.7	34.7%							
Persistence Ratio (%)										
--13th month	78.5%	77.6%	0.9ppt							
--49th month	72.0%	73.8%	-1.9 ppts							
--61st month	62.5%	62.8%	-0.2ppt							
Commission Ratio (% of WTP)	23.8%	22.3%	2ppts							
Expense of Management Ratio (% of WTP)	42.5%	56.9%	-14ppts							
Solvency Ratio	190.0%	188.0%	2ppts							

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

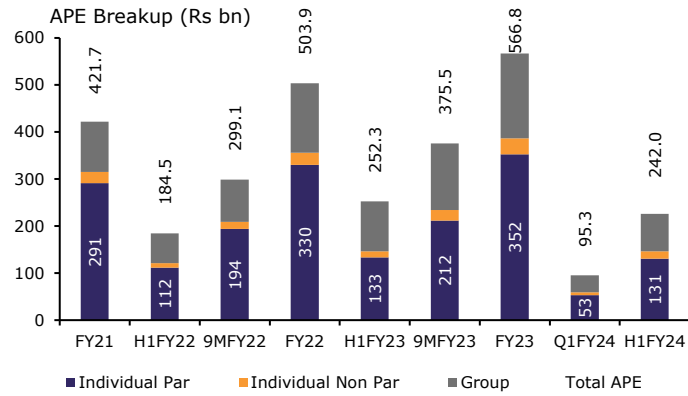
Exhibit 2: Changes in Estimates

(Rs bn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	562	549	-2.3	615	601	-2.4	661	645	-2.4
VNB	91	86	-5.3	101	98	-2.4	112	109	-2.4
VNB Margin (%)	16.1	15.6	-0.5ppt	16.4	16.4	0.0ppt	16.9	16.9	0.0ppt
EVOP	613	609	-0.8	632	688	8.8	671	746	11.3
EV	6,457	6,741	4.4	6,985	7,338	5.0	7,535	7,984	6.0
PAT	316	359	13.6	346	365	5.5	404	399	-1.2

Source: Company, Emkay Research

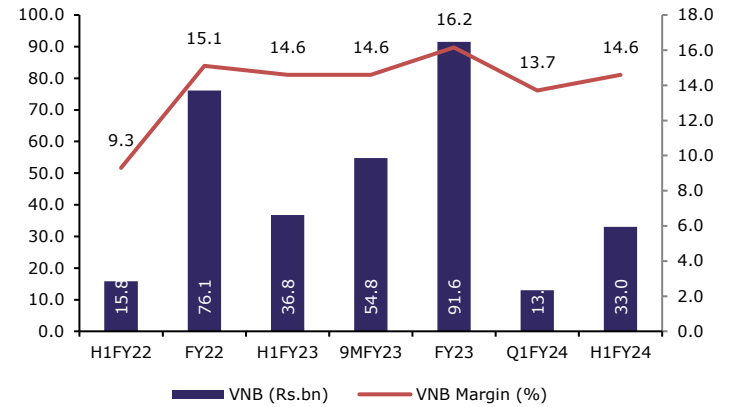
Story in Charts

Exhibit 3: LIC's APE declines 10.3% YoY in H1FY24



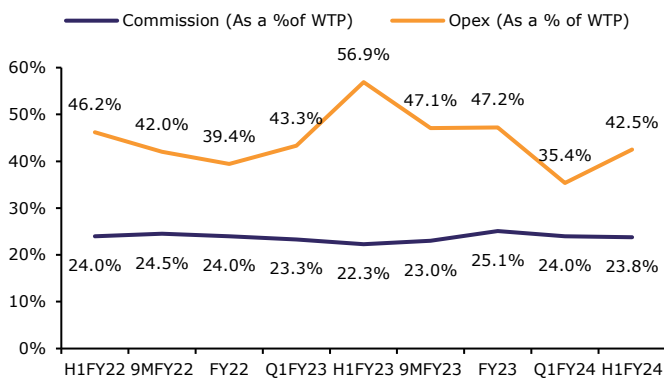
Source: Company, Emkay Research

Exhibit 4: LIC's VNB margin remains flat YoY at 14.6% during H1FY24



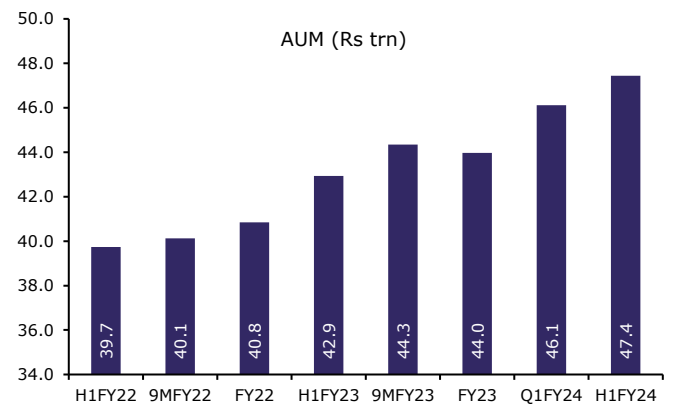
Source: Company, Emkay Research

Exhibit 5: Opex ratios improve sequentially to 42.5%



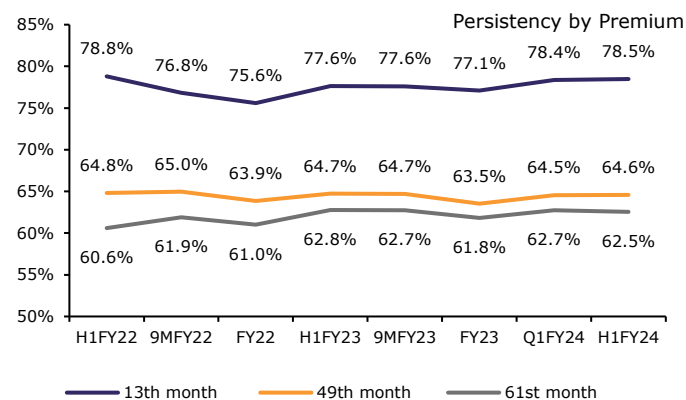
Source: Company, Emkay Research; Note: i) WTP = Regular New Business Premium + 10% of Single Premium + 20% of Renewal Premium

Exhibit 6: AUM increases to Rs47.4trn, as of H1FY24



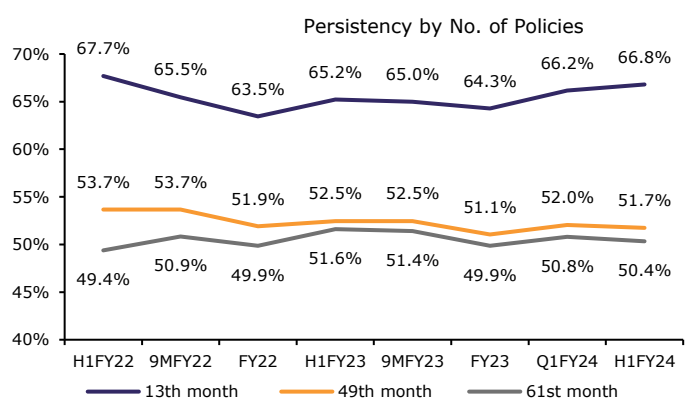
Source: Company, Emkay Research

Exhibit 7: Persistency ratio, by premium, improves for the 13th month



Source: Company, Emkay Research

Exhibit 8: 13th Month Persistency, by number of policies, improves sequentially



Source: Company, Emkay Research

Earnings Conference Call Highlights

- LIC recently launched three new products—*LIC Jeevan Kiran* and *LIC Dhan Vridhi* in the Individual category, and *LIC Group Retirement plan* in the Group segment. Management said that the new products launched were gaining good traction.
- While market share in the Individual business remained stable, LIC saw some impact on the market share of its Group business, due to the cyclical nature of the business. The management remains confident about retrieving growth in the Group business by the end of the year.
- LIC's product-mix strategy to increase share of the Non-Par business is well on track, and progressing well on a consistent basis.
- During the first half of the year, LIC sold around 8mn policies, 96% of which were sold by the agency channel. The total number of agents as of Sep-23 stood at 1.35mn, representing market share of 49%.
- The management mentioned that growth in the number of policies and the premium via the Banca/alternate channels indicated the corporation's focus on diversifying the distribution mix. The corporation added around three fintech partners recently.
- The management said that the corporation is on the right track with regard to the strategy pertaining to changes in product mix, distribution mix and digital transformation.
- Benefits being enhanced in annuity products entails an impact on margins, resulting in some margin compression. These annuity products are highly competitive; hence, the corporation has refreshed the rates in annuity products.
- VNB margin is likely to be driven by margin of Non-par products. With the strategy focused on increasing the share of non-par products, the management believes the VNB margin should inch upward.
- The management stated that commission rates differ from product to product. At the time of any new product launches, commission rates are decided as per the market dynamics.
- Increase in the share of non-par products in the product mix will be a gradual progression, as many agents are still being trained to sell non-par products. The senior agents are pitching non-par products.
- The ticket size has increased in various product categories, while there has been an uptick in the overall ticket size. The increase in ticket size is driven by growth in annuity products and introduction of some minimum ticket-size and sum-assured products. The newly launched *Dhan Vridhi* product has an average ticket size of Rs0.2mn.
- The management stated that a large portion of the growth in EV is attributed to the movement in capital markets.
- The management mentioned that growth in single premium products through the banca channel was impacted; however, regular premium products posted decent growth.

LIC : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross premium	4,280,250	4,746,681	4,538,479	4,921,732	5,346,547
Net premium	4,274,192	4,740,046	4,532,135	4,914,852	5,339,073
Investment income	2,928,945	3,063,901	3,844,253	3,676,333	3,942,504
Other income	7,889	77,786	1,411	1,138	947
Total revenue	7,211,026	7,881,734	8,377,799	8,592,324	9,282,525
Commission expense	231,715	255,804	249,284	267,807	282,751
Operating expense	388,907	481,456	369,560	400,767	424,681
Benefits paid (net)	3,574,649	3,425,768	3,359,503	4,051,696	4,321,873
Change in reserves	2,972,776	3,433,828	3,977,991	3,452,184	3,805,244
Total expenses	7,153,961	7,501,912	8,021,387	8,240,256	8,905,242
Surplus/Deficit	57,065	379,822	356,411	352,067	377,283
Trf from policyholders' acct	38,754	359,077	356,411	352,067	377,283
Shareholders' results	1,913	5,491	21,432	31,966	42,979
PBT	40,667	364,568	377,843	384,033	420,262
Extraordinary items	0	0	0	0	0
Tax expense	236	594	18,892	19,202	21,013
Reported PAT	40,431	363,974	358,951	364,832	399,249
PAT growth (%)	39.4	800.2	(1.4)	1.6	9.4
Adjusted PAT	40,431	363,974	358,951	364,832	399,249
Diluted EPS (Rs)	6.4	57.5	56.8	57.7	63.1
Diluted EPS growth (%)	(78.0)	800.2	(1.4)	1.6	9.4
DPS (Rs)	0.0	1.5	14.2	14.4	15.8
Dividend payout (%)	0.0	2.6	25.0	25.0	25.0
Effective tax rate (%)	1	0	5	5	5
Shares outstanding (mn)	6,325	6,325	6,325	6,325	6,325

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
APE	503,900	566,820	548,817	600,680	645,220
VNB	76,190	91,560	85,798	98,306	109,080
VNB margin (%)	15.1	16.2	15.6	16.4	16.9
APE growth (%)	19.5	12.5	(3.2)	9.5	7.4
VNB growth (%)	82.8	20.2	(6.3)	14.6	11.0
Operating ratios (%)					
NB commission/APE	20.3	19.9	21.0	20.9	20.3
Commissions/TWRP	8.2	8.5	7.9	8.0	7.8
Total exp ratio/TWRP	22.0	24.5	19.7	19.9	19.6
Conservation ratio	90.6	91.3	91.6	91.6	91.6
Solvency ratio	185.0	187.0	0.0	0.0	0.0
RoE	48.2	129.8	60.7	42.3	34.7
Historical metrics					
APE mix (%)	FY22	FY23	FY24E	FY25E	FY26E
A. Retail protection	NA	NA	NA	NA	NA
B. Group protection	NA	NA	NA	NA	NA
C. Savings - individual	NA	NA	NA	NA	NA
Par	65.6	62.2	NA	NA	NA
Non-Par	5.0	6.1	NA	NA	NA
ULIP	NA	NA	NA	NA	NA
D. Group Savings	29.4	31.8	NA	NA	NA
Persistency ratios (%)					
13th Month	75.6	77.1	NA	NA	NA
49th Month	63.9	63.5	NA	NA	NA

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	63,250	63,250	63,250	63,250	63,250
Reserves & surplus	40,430	394,920	663,843	937,467	1,236,903
Net worth	104,091	456,694	726,416	1,000,040	1,299,477
Borrowings	0	0	0	0	0
Policy liabilities	37,100,395	40,512,485	44,140,915	47,289,743	50,760,606
Prov for linked liab.	238,858	261,592	285,021	305,354	327,765
FFA	18,344	39,187	47,024	56,429	67,715
Current liabilities & prov	712,446	593,808	576,833	548,246	516,506
Total liabilities & equity	41,593,452	44,911,314	49,166,865	52,902,078	57,018,044
Shareholders' investment	64,121	293,635	467,056	642,984	835,510
Policyholders' investment	38,956,935	41,891,778	45,643,741	48,899,775	52,488,808
Assets to cover linked liab.	239,386	263,095	286,659	307,108	329,649
Current assets	1,911,178	1,862,793	2,039,301	2,194,227	2,364,946
Total assets	41,593,452	44,911,314	49,166,865	52,902,078	57,018,044
BV/share (INR)	16.5	72.2	114.8	158.1	205.5
EV/share (INR)	856.1	920.5	1,065.8	1,160.1	1,262.3
EVOP/share (INR)	89.2	94.2	97.4	110.0	119.4
Embedded value	5,414,920	5,822,430	6,741,285	7,337,686	7,983,968
ANW	105,270	461,150	0	0	0
VIF	5,309,660	5,361,480	0	0	0
VIF share in EV (%)	98.1	92.1	0.0	0.0	0.0
Total AUM	40,733,520	43,987,667	48,082,457	51,662,878	55,608,035
Investment yield (%)	7.9	7.5	8.7	7.7	7.7
Yield on PH funds (%)	7.9	7.5	8.7	7.7	7.7
Yield on SH funds (%)	5.6	6.4	5.9	5.9	5.9

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	95.5	10.6	10.8	10.6	9.7
P/B (x)	36.6	8.4	5.3	3.8	2.9
P/EV (x)	0.7	0.7	0.6	0.5	0.5
P/EVOP (x)	6.8	6.5	6.3	5.5	5.1
Implied P/VNB (x)	(743.0)	(17.0)	(22.9)	(29.3)	(31.9)
Dividend yield (%)	0.0	0.2	2.3	2.4	2.6
EV account and RoEV					
Opening EV	956,050	5,414,920	5,822,430	6,741,285	7,337,686
Premium unwind	227,190	415,770	465,794	539,303	587,015
VNB	76,190	91,560	85,798	98,306	109,080
Operating variance	254,410	81,500	57,000	50,000	50,000
EVOP	557,790	588,830	608,592	687,609	746,095
Investment variance	159,360	(171,830)	400,000	0	0
Capital movement	0	(9,490)	(89,738)	(91,208)	(99,812)
Other changes	0	0	0	0	1
Closing EV	5,414,920	5,822,430	6,741,285	7,337,686	7,983,968
Change in EV	4,458,870	407,510	918,855	596,401	646,282
RoEV (%)	75.0	7.7	17.3	10.2	10.2
Operating RoEV (%)	58.3	10.9	10.5	10.2	10.2
EVOP growth (%)	225.2	5.6	3.4	13.0	8.5
EV growth (%)	466.4	7.5	15.8	8.8	8.8
Core operating RoEV (%)	58.3	10.9	10.5	10.2	10.2
Unwind rate (%)	23.8	7.7	8.0	8.0	8.0
VNB-to-opening EV (%)	8.0	1.7	1.5	1.5	1.5

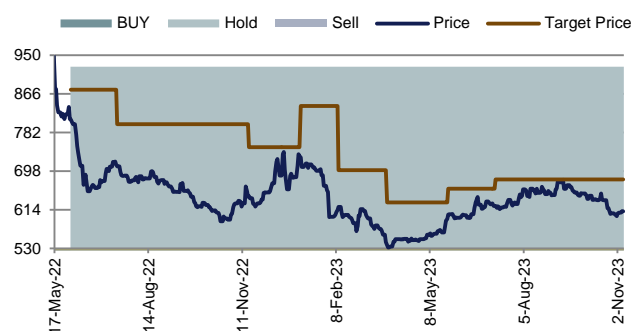
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Oct-23	635	680	Hold	Avinash Singh
09-Oct-23	635	680	Hold	Avinash Singh
04-Oct-23	637	680	Hold	Avinash Singh
08-Sep-23	674	680	Hold	Avinash Singh
21-Aug-23	652	680	Hold	Avinash Singh
11-Aug-23	660	680	Hold	Avinash Singh
09-Aug-23	644	680	Hold	Avinash Singh
09-Jul-23	623	680	Hold	Avinash Singh
10-Jun-23	602	660	Hold	Avinash Singh
25-May-23	604	660	Hold	Avinash Singh
16-May-23	568	630	Hold	Avinash Singh
21-Apr-23	548	630	Hold	Avinash Singh
03-Apr-23	545	630	Hold	Avinash Singh
28-Mar-23	537	630	Hold	Avinash Singh
09-Mar-23	599	700	Hold	Avinash Singh
10-Feb-23	620	700	Hold	Avinash Singh
07-Feb-23	603	840	Hold	Avinash Singh
06-Feb-23	600	840	Hold	Avinash Singh
02-Feb-23	599	840	Hold	Avinash Singh
10-Jan-23	715	840	Hold	Avinash Singh
05-Jan-23	728	840	Hold	Avinash Singh
03-Jan-23	735	750	Hold	Avinash Singh
08-Dec-22	662	750	Hold	Avinash Singh
17-Nov-22	644	750	Hold	Avinash Singh
08-Nov-22	633	800	Hold	Avinash Singh
10-Oct-22	619	800	Hold	Avinash Singh
29-Sep-22	620	800	Hold	Avinash Singh
07-Sep-22	653	800	Hold	Avinash Singh
05-Sep-22	660	800	Hold	Avinash Singh
24-Aug-22	676	800	Hold	Avinash Singh
13-Aug-22	682	800	Hold	Avinash Singh
08-Aug-22	680	800	Hold	Avinash Singh
15-Jul-22	709	800	Hold	Avinash Singh
08-Jun-22	738	875	Hold	Avinash Singh
01-Jun-22	810	875	Hold	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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