



# Prime Stock

## Short Term Fundamental Pick

Life Insurance Corporation of India





**TODAY'S PRIME STOCK (SHORT-TERM INVESTMENT)****Life Insurance Corporation of India**

BSE CODE: 543526

NSE CODE: LICI

Sector: Finance

Industry: Insurance

**CMP (Rs): 925 | Buy Range: 915-925 | Target Price: 1070 | Potential Upside: 15%****Duration of Recommendation: 6 Months**

**Life Insurance Corporation (LIC)** is the largest insurance provider company in India. It has a market share of above 66.2% in new business premium. The company offers participating insurance products and non-participating products like unit-linked insurance products, saving insurance products, term insurance products, health insurance, and annuity & pension products.

**INVESTMENT RATIONALE**

**Market leadership and Government Backing:** LIC is the largest life insurer in India and has a dominant agency force, comprising 47.56% of the life insurance industry. It holds a significant market share in premium (61.07%) and policies (68.72%). LIC also has a wide geographic reach, with offices covering 92% of districts in India compared to 81% for the combined private sector. LIC's reputation as a trusted insurer along with its backing by the Government of India, provides a competitive edge.

**Expanding Product Mix with Non-Par Products:** LIC's focus on increasing the share of non-participating (Non-Par) products, which have higher profit margins, is likely to boost its profitability. The company's recent launches of new Non-Par products and plans for further product diversification indicate a promising shift towards higher-margin segments.

**Expected Improvement in VNB Margins:** LIC has projected its Value of New Business (VNB) margin to improve to 19% by FY26, driven by a higher share of Non-Par business and strategic product launches. This margin expansion directly contributes to higher profitability.

**Potential Entry into Health Insurance:** LIC's consideration of entering the health insurance sector is a promising development, as it opens up an entirely new line of business. Health insurance is a high-growth segment in India, and LIC's brand reputation and extensive reach could position it well to capture market share quickly in this sector.

**Embedded Value Growth:** As of September 30, 2024, the Life Insurance Corporation of India (LIC) reported an Indian Embedded Value (IEV) of ₹8,21,716 crores, marking a 24.01% increase from ₹6,62,605 crores as of September 30, 2023. This metric indicates the increasing value of the company's future profits from existing policies, an essential measure of intrinsic value for insurers.

**Healthy performance in Q2FY24:** LIC's Q2FY25 results showcase robust growth in net premium income (up 11.5% YoY to ₹1,20,325.66 crore) and investment income (up 16% YoY), reflecting strong demand and efficient asset management. However, net profit dropped by 3.84% YoY. The solvency ratio improved to 1.98, and gross NPA ratio declined, indicating solid financial health and risk management. AUM grew to ₹55.4 trillion. Improved operational efficiency, evidenced by a drop in expense ratios, and high customer retention underscore LIC's stability and growth potential, making it attractive for investors.

**Favorable Demographics and Rising Insurance Demand in India:** India's young & growing population coupled with increasing awareness & affordability of insurance products, supports a long-term demand growth trajectory. LIC is well-positioned to benefit from this structural trend and increase its market share.

**Our Recommendation & Valuations:** At current market price, stock is trading at a P/EV multiple of 0.7x based on EV as on September 30, 2024 which is Rs. 6,62,605 crores. We estimate 15% CAGR growth rate in Embedded Value during FY24-FY25. We recommend BUY with target price of ₹1,070, based on a 0.7x multiple of the estimated EV for FY26.



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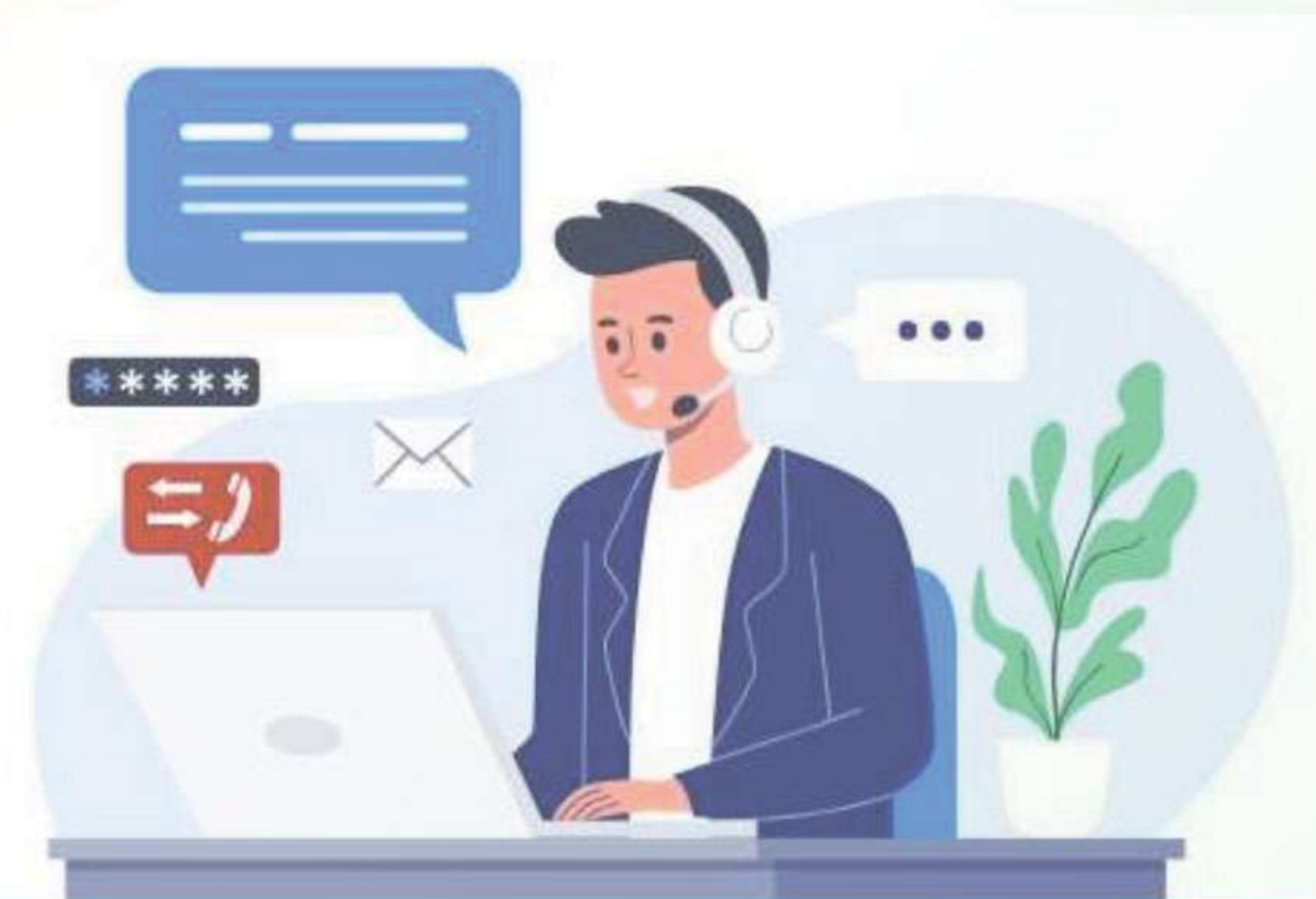
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