"Life Insurance Corporation of India

Q3 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to LIC's Q3 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. We have our senior management of LIC led by Mr. Siddhartha Mohanty, Chairperson on this call. I now hand the conference over to Mr. Siddhartha Mohanty, Chairperson, LIC. Thank you, and over to you, sir.

Siddhartha Mohanty: Thank you. Good morning, everyone. I am Siddhartha Mohanty, Chairperson LIC.

On behalf of the senior management team, I warmly welcome you all to the results and performance update call of Life Insurance Corporation of India for the third quarter and nine-month period ended December 31st, 2023.The results and a presentation can be accessed on our website and on websites of both the stock exchanges, BSE and NSE.

Along with me, on this call, I have four Managing Directors, Mr. M. Jagannath, Mr Tablesh Pandey, Mr. Sat Pal Bhanoo and Mr. R Doraiswamy. Senior officials of the Corporation present on this call are Mr. Dinesh Pant, Appointed Actuary & Executive Director & Mr K. R. Ashok, Executive Director from the Actuarial team, Mr. Sunil Agrawal, CFO from the finance team, Mr. Ratnakar Patnaik, Executive Director (Inv-Front office & CIO) and Mr K. Seshagiridhar, Executive Director (Investment – Back Office) from the Investment team, Mr. R. Sudhakar, Executive Director (Marketing & CMO), Mr. Hemant Buch, Executive Director (MBAC), Ms. Manju Bagga, Executive Director (Pension & Group Schemes), Ms. Anjubala Purushottam, Executive Director (CRM/Claims/Annuities), Ms. Rachna Khare, Executive Director (CRM/Policy Servicing) and Mr. Sanjay Bajaj, Head (Investor Relations).

I would like to thank all of you for sparing your valuable time to join this call today and listen to the LIC team.

Let me now mention the key business, operational and financial highlights for the first nine months of the financial year 2023 -24.

Premium Income

For the nine months ended December 31st, 2023 we have reported a Total Premium Income of INR 3,22,776 crore as compared to the total premium income of INR 3,42,244 crore for the corresponding nine month period of last year ending December 31st, 2022.

The Individual New Business Premium Income for nine month FY24 is INR 38,679 crore and for comparable nine month FY23 it was INR 38,828 crore. Renewal Premium Income (Individual business) for nine month FY24 is INR 1,71,040 crore as compared to INR 1,61,601 crore for nine month FY23. Therefore, for nine month ending December 31st 2023 our Total Individual Premium Income including renewals is INR 2,09,719 crore as compared to INR 2,00,429 crore for nine month ending December 31st, 2022. As measured by Total Individual Business Premium, we have grown by 4.64% on Year on Year basis.

The Group Business total premium income for nine month ended December 31st, 2023 is INR 1,13,057 crore comprising of New Business premium of INR 1,08,796 crore. In comparison for nine months ended December 31st 2022 last year the Group Business total premium income was INR 1,41,815 crore and comprised of New Business premium of INR 1,37,240 crore. Therefore, for nine month ended December 31st 2023 the Total Group Premium has declined by 20.28% as compared to similar period of previous year. Hence our overall premium for nine month ended December 31st, 2023 has registered a decline of 5.69%.

Our market share by First Year Premium Income is 58.90% (as per IRDAI) for the nine month period ended December 31st, 2023 as compared to 65.38% for the similar nine month period ended December 31st 2022.

If we were to split this total market share of 58.90% into segment wise share of individual and group business we would have a market share of 38.74% in Individual business and 72.24% in the group business for 9 months ending December 31st 2023. On a comparable basis for nine months ended December 31st 2022 the respective market shares for Individual and Group business were 40.93% and 78.65%. Therefore, we continue to retain the leadership position in both Individual and Group business segments in the Indian Insurance industry. I would also add that we are conscious about doing profitable business.

Seen on APE basis the break up of business is as follows

Total Annualised Premium Equivalent (APE) for nine month ended December 31st 2023 is INR 35,790 crore which is comprised of Individual APE of INR 23,503 Crore and Group APE of INR 12,287 Crore. Therefore, on APE basis, the individual business accounts for 65.67% and Group business accounts for 34.33%. Further of the Individual APE, the Par business accounts for INR 20,203 Crore and Non Par amounts to INR 3,299 Crore. As you can see our

Par share of individual APE is 85.96% and Non Par is 14.04% for nine month FY24. You will recall that our Non Par share for year ended March 31st 2022 and March 31st 2023 on APE basis within the overall individual business was 7.12% and 8.89 %, respectively. Further you will also remember on the last call on November 10th, 2023 we had mentioned about our Non Par mix to be 10.76% for H1 of FY24. At this point I would like to emphasise that our strategy of focusing on changing product mix by launching new Non Par products and marketing the same in a focused manner, to meet our customer needs, is showing results as we had envisaged. While we have shared Par Non Par mix for the period of 3 month, 6 months and 9 months as a disclosure, you can very well arrive at your own estimates of how the successive months and quarters are getting better for us on this aspect, since we have been listed.

Profit After Tax

The Profit After Tax (PAT) for the nine months ended December 31st, 2023 was INR 26,913 crore as against INR 22,970 crore for the nine month ended December 31st, 2022. The current nine month period profit includes the transfer of an amount of INR 21,461 crore (Net of Tax), pertaining to the accretions on the Available Solvency Margin from Non Par to Shareholders account. The amount of INR 21,461 crore comprises of INR 7,692 crore for the quarter ended December 31st ,2023 besides INR 6,277 crore and INR 7,492 crore for the quarter ending June 30th, 2023 and September 30th, 2023, respectively. At this point I must highlight that the nine month profit of FY24 is not comparable to the published nine month profit figures of FY23. Therefore, I will request our CFO, Mr. Sunil Agrawal, to provide details after my opening remarks and before the start of the Q an A session today.

VNB and VNB Margins

Value of New Business (VNB) is INR 5,938 crore for the nine months ended December 31st 2023 as compared to VNB of INR 5,478 crore for the nine months ended December 31st 2022. As you can see the VNB has registered an increase of 8.40% on YOY basis. Further, the net VNB margin for the nine month FY24 is 16.6% as compared to 14.6% for nine month ended December 31st, 2022. Hence, the VNB margin has expanded by 200 basis points on a year on year basis. In comparison you will also remember that our VNB margin for first 6 months of FY 24, ended September 30th, 2023 was 14.6%. Therefore, the nine month ended December 31st, 2023 results also demonstrate the positive impact of changing product mix in Q3 of FY24 when new products have been launched.

Solvency Ratio

The solvency Ratio as on December 31st, 2023 improved to 1.93 as against 1.85 on December 31st, 2022.

Assets Under Management (AUM)

Assets under Management as on 31st December 2023 grew by 11.98% year on year to INR 49,66,371 crore as compared to INR 44,34,940 crore as on December 31st 2022.

Product Mix and New Product launches

Now I would like to inform about New Product Launches. In line with our strategy of increasing the proportion of the Non Par business, we launched new Non Par products during the first nine months of FY 2023-24 to cater to customer requirements, namely LIC's Dhan Vriddhi Plan, LIC's Jeevan Kiran Plan, LIC's Jeevan Utsav Plan and LIC's Group Post-Retirement Medical Benefit Plan, respectively.

No. of Policies Sold

During the nine months ended December 31st, 2023, we sold 1.25 crore new policies as compared to 1.28 crore policies in the nine months ended December 31st 2022 registering a marginal decline of 2.60 % over the corresponding period of last year.

Agency Workforce

As on December 31st, 2023, the total number of agents was 13.74 lakh as compared to 13.23 lakh agents as on December 31st, 2022. The market share by number of agents as on December 31st, 2023 stands at 49.67% as against 52.30% for December 31st 2022. Therefore, we have a net addition of approximately 51,000 agents in last one year.

On number of policies sold basis, the agency force sold 1.21 crore policies during the nine months ended December 31st, 2023 as compared to 1.24 crore policies during the corresponding period of last year registering decrease of 2.39%. Therefore, more than 96% of our policies for the first nine months of FY24 were sold by our Agency force. Even on premium basis, approximately 96% of New Business Premium came from our Agency channel for nine month FY24.

Contribution by Banca and Alternate Channel (BAC)

During the nine months ended December 31st 2023, other channels (BAC – Banca and Alternate Channels) collected new business premium aggregating INR 1,423 crore which was INR 1,355 crore for nine months ended December 31st 2022 registering a growth of 5.02% on a YOY basis. With this the share of Banca and Alternate Channels has increased to 3.69% for nine month period ended December 31st, 2023 as compared to 3.50% for similar period last year.

Our Overall Expense Ratio stands at 15.28% for the nine months ended December 31st 2023, as compared to 15.26% for the same period of last year. As you can see the increase was very very marginal 2 bps on year on year basis.

Persistency

On premium basis, the persistency for 13th, 25th, 37th, 49th and 61st month, for nine month FY24 stands at 78.00%, 71.92%, 67.28%, 64.92% and 62.40% respectively, as compared to 77.61%, 71.32%, 68.31%, 64.70% and 62.73% respectively for nine month FY23.

On number of policy basis, the persistency for 13th, 25th, 37th, 49th and 61st month, for nine month FY24 stands at 67.22%, 58.59%, 54.80%, 52.01% and 50.23% ,respectively, as compared to 64.99%, 59.06%, 55.32%, 52.45% and 51.42%, respectively for nine monthFY23.

Operational efficiency and Digital Progress

In our digital initiative through the Agent assisted ANANDA app, we have completed 7,84,856 policies through this App during the nine months ended December 31st 2023 as compared to 5,31,792 policies for the comparable period ending December 31st 2022 thereby registering a growth of 47.59% on YoY basis. I feel very happy to let you know that more and more agents are adopting to do business on ANANDA.

We had also announced during the last call that we have started a Digital Transformation Project called DIVE (Digital Innovation and Value Enhancement) and that we have taken on board a top reputed international consulting firm for the project.

Claims

On the claims front, during nine month FY24, we have processed 1,38,02,767 number of claims which includes 1,32,04,597 maturity claims. On an amount basis during nine month FY24, the maturity claims were INR 1,30,222 crore and the death claims were INR 16,288 crores. On a comparable basis for nine month FY23, the maturity claims were INR 1,13,936 crore and death claims were INR 17,350 crore. Therefore, the death claims are lower by 6.12 % and the maturity claims are higher by 14.29 % on a year-on-year basis.

In summary, I would like to make three points

1. First Our efforts towards changing our product mix are succeeding and we have been able to increase our Non Par share within the individual business to 14.04% which is significant increase from 7.12% around the time of our listing.

2. Secondly, we are able to launch products that are competitive, meet customer expectations and the needs of various marketing intermediaries and channels.

3. Finally, our sharp focus on enhancing margins in the business is also yielding results as is evident in the 200 bps increase in VNB margin to 16.60% on a yoy basis.

Before I close my opening remarks, I would like to share that the Board has approved an Interim Dividend of Rs. 4/- per share in its meeting held on 8th February 2024.

We are thankful to our customers, shareholders, employees, agents, marketing channels for their faith and trust in us. We remain committed to maintaining our leadership in the market while delivering superior value to all our stakeholders.

Thank you very much. Before we open the floor for questions, I would like to invite our CFO, Mr. Sunil Agarwal to explain the profit numbers especially with respect to the comparable numbers for similar period last year.

Sunil Agrawal: Thank you, sir. Good morning, everyone. The profit figures for the quarter are comparable. The profit figure for the quarter, INR9,444 crores is comparable with the quarterly profit of last year INR6,334 crores, which is a 49% increase. The profit number for 9-month period ended December 2023 is not comparable with the 9-month period in the previous year because in the previous year included an accretion of ASM for the quarter ended 31st March 2022 also, which amounted to INR4,542 crores. So if we remove that from INR22,969 crores.

The comparable profit for the 9-month period 31st December 2022, is INR18,427 crores, which is comparable to the profit for 9-month period ended December 31, 2023, which is INR26,913 crores, which is a 46% increase in profits comparable profit. Thank you.

Siddhartha Mohanty: We now invite questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sujit Jain from Bajaj Allianz. Please go ahead.

Sujit Jain: Mr. Mohanty and team, our compliments on a great set of numbers. Sir, I wanted to check with you the sustenance of this VNB margin going into Q4? And what would be the guidance for FY '25 and over medium term? And if not guidance, in terms of your aspiration, how VNB margins will pan out next year and in the medium term? let's say, over a period of 3 years?

Siddhartha Mohanty: Actually, it would not be appropriate to give any specific figures. But as you observe, whatever commitment we made during listing, we are in line with achieving our commitment from 14.4% to 16.6% now. And you see the product mix, we are launching high-margin products. And it is not only for shareholder but first keep in mind customers' interest. So those products get traction in the market. And in coming days we'll continue this effort and the margin in my sense is it will definitely improve and it will be competitive in the market in coming days.

Sujit Jain: Okay. And you have, sir, mentioned in a variety of your interactions in post listing about improving on 3 vectors. And in the initial commentary, you've given the progress on these 3 vectors as well, which is product mix, channel mix and digital intervention. Specifically on product mix and channel mix, you've given numbers. But directionally, where do you see LIC going in FY '25 on these 2 aspects, product mix and channel mix?

Siddhartha Mohanty: Product mix, channel mix you see already it has -- already shown results. Product mix, new products we have launched and if you see the share of APE, share of APE has gone up like substantially, it has gone up and in coming days also new products, which will be launched we have to take care of customer as well as all other stakeholders. So definitely, this product mix will help not only margin but fair and good growth will be there. But at the same it's channel mix when we say, our alternate channel we are focusing alternate channel banca also. Banca slight increase is there from 3.5% to 3.7%. So further growth we expect we'll focus more on alternate channel in coming days. But more than that, Digital Marketing also we are focusing where our share is very, very negligible less than 1%. Because we have taken this initiative project, DIVE (Digital Innovation and Value Enhancement). So coming days customers also will be happy to contact directly LIC and consider their policy decision, whatever policy they want to take, they can take. So on these 3 fronts, already work has started and those are showing results, and it will continue.

Sujit Jain: But what targets you set for you to eventually say that you kind of met the targets or the milestones or did not achieve, etc, especially in non-par share, where do you see it going? What is your target share and the Banca share in the mix and the digital share in the mix.

Siddhartha Mohanty: See, non-par share, we committed it will be 15% APE share of non-par to total business. And we have almost reached there today. And my sense is by March, it will further improve, whatever commitment we will deliver more than our commitment. And so far as banca and alternate channels, those are growing -- if you observe insurance companies, which are doing well in banca they are owned by banks.

So they have that advantage. We tie up with many banks and gradually, slowly, it is going up. And if you see, volume-wise also our position will be, I think, to 6th or 7th the total volume of a premium in Banca. So that's where progress will be there. But more than that, we will focus on the technology path, not only for customer acquisition because that is the one area we are focusing more and more, coming days that will be our focus.

But also all our aspects total servicing everything so that a customer never comes to our office, sitting at home he can take policy, he can get all services. With this policy he can get his loan, he can get his claim, he can change the nomination, all -- everything. So that is our objective.

Moderator: Next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Congratulations on a good set of numbers. Mr. Mohanty, the first question is with regards to the strong performance in the non-par...

Moderator: Anuj, sorry to interrupt you. Can you please...

Siddhartha Mohanty: Speak louder please.

Anuj Singla: Is it better?

Moderator: Yes, yes. Thank you.

Anuj Singla: Yes, sir, my first question is with regards to the non-par mix, so what we have seen is you had this product Jeevan Utsav, where I think which has done very well. Would it be possible to share what kind of premium you collected in that product? And the second part is when you look at the pipeline for 4Q, do you have any similar product which can support strong growth on the non-par momentum continuing in the 4Q as well?

Siddhartha Mohanty: See, we have collected almost more than INR1,000 crores under this product only, Jeevan Utsav. And if you see, recently, we have launched, of course, this last month, LIC Index Plus then Jeevan Dhara II, deferred annuity plan also which we have launched. So all these products are very competitive you compare return and other aspects.

So these are competitive products. And also, we have revised the rates in our annuity products like Jeevan Akshay-VII and Jeevan Shanti. So these rates have been upward, revision has been done. And we have also one single premium product. There also, we have enhanced the rate, return rate Dhan Vriddhi. So all these products will get traction in the market, and we expect a very high performance during a couple of days left for the year to close.

Anuj Singla: Okay. Sir, just to circle back on the question which the previous participant also asked. When you look at the margin outlook, the third quarter which we tend to look at by taking out the 6 months number from the 9 months, is a very strong performance on the VNB margin side. When we look at the outlook for the next quarter or the next year per se do you think this is sustainable on that part?

I -- alluded to the non-par savings mix continuing to improve, but it's a very strong performance in this quarter, and I think driven by this Jeevan Utsav product, so do you think this kind of margins we can sustain and given the annuity you know repricing which you have done, does it pose risk to the margins in the next couple of quarters?

Siddhartha Mohanty: See, if I say, definitely, we are very much positive on this aspect. Particularly if you see Jeevan Utsav product that has taken care of all segments. That has not only taken care of customers while giving high and competitive returns but also intermediaries and at this time shareholders. And Jeevan Dhara II other products also, I am very much confident in coming days we'll sustain that margin. I would request our Appointed Actuary, Mr. Dinesh he will throw light further.

Dinesh Pant: Good morning, see we need to appreciate one point that, yes, it is a very conscious strategy that Corporation has taken about rebalancing. And despite of the fact that last year revision in annuity rates happened twice but the overall VNB margin, even for the 9-month period has not come down for us. That has been possible because of the business mix.

While, yes, certain products have given us head start on this thing. What we are looking forward is not overdependence on any single product. The entire mix of the products is going to sustain this momentum. But we are largely also looking not only in the context of margins, but also in context of overall absolute VNB that is important to us. So the entire strategy is going to be very dynamic in which the growth and reasonable level of margins coupled together would drive towards the VNB and overall profitability.

Anuj Singla: Got it. And lastly, sir, on the protection side, the performance, again there is a decline on a Y-o-Y basis. What steps are we taking in terms of maybe product and distribution to address that?

Dinesh Pant: Yes. On the protection side also, you would appreciate that the industry overall, and we also had revised our premium rates in order to make them sustainable and viable. It's very interesting that even when their number growth is less, actually the margins have improved there and even the VNB has improved there.

But again, we are looking at it very closely, we are trying to -- in fact to be fair that in our group side protection also we have done very good. Very good growth has happened and the margins have also significantly improved, loss ratios have come down there. So again, we are continuously looking into this segment, and we'll look into which are the elements where we can look into reviewing the pricing also. In fact, we also look forward to some more variants of term products to be worked on and considered in the coming quarters.

Moderator: Next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Thanks for the opportunity and a good set of performance. A couple of questions. The first one is more on the margin side. So if I see 2 parts of margin, I mean, the non-par and par, at such a large scale, par margin Y-o-Y is appearing to be declining slightly. Now what explains that? Because generally par margins are stable and even interest rates have been broadly stable. So what explains minor drop in par margin.

And on the non-par side, I mean, including ULIP or 63% kind of a margin with a little help from protection looks pretty strong. Now that would mean that you know that in terms of your benefit offering likely would be lower than what your competitors are offering on the non-par savings and annuity side. So if competition heats up and you were to sort of improve your offerings in these 2 non-par and annuity.

Do you think that this 63% can come under pressure? Of course, I am cognizant of the fact that at the overall level your non-pap share will sort of increase, but the non-par margins. So just I want explanation that what is causing sort of a pressure on par margins? And what sort of you know margins do you think that can be sustained in this non-par? That's my first question. I will come with second question later.

K R Ashok: Yes, this is Ashok. See, if you look at the par margins, yes, they agree that's a small decline in the par margins but basically what happens is par itself is a big portfolio and the...

Moderator: Sorry to interrupt you, can you come little closer to the mic?

K R Ashok: Yes. It is true that the par margins -- am I audible now?

Moderator: Yes, sir.

K R Ashok: The par margins are slightly declined. That is basically because this is an inherent business mix change in the within the par because there are certain products which are having a higher profit signatures compared to other products.

So normally what happens is in the par portfolio that fluctuation do happen over a period of time. And it is also aided by the movement in the risk free rates. So putting it all together that -- the minor decline in the par margins was expected.

Looking at the non-par and annuity, see what happens is the profitability and the competition are 2 sides of a coin. So if the competition increases automatically the profitability expected to reduce. But the art is in balancing the two. And I think we have successfully done that in our recently launched products because we could able to garner a good amount of premium from the market. And also, we could sustain growth in these margins.

Avinash Singh: Okay. Just on par, just to confirm, Y-o-Y 9-month margins – or this minor dip, is it not caused by any sort of a change in operating side, either the expenses or the persistency behavior? Or some contribution coming out of these two factors as well?

K R Ashok: Yes. See, there is a little bit, but the contributions are very minor compared to the upside that we get on the business mix. If you look at the margin walk we have given, the two big impacts, one is on the business mix, which already shared by our Chairman that there is a good movement in the Non Par share, including ULIPs that are added to that. And we have repriced annuities twice during the year, increasing the benefits naturally pushing the margins up.

But the other components are very minor in nature. The major impact or the contributor for the assumption changes are in RFR change which is pushing it south and there has been some certain updates in the mortality looking at the recent experience, and which is pushing it slightly up. So putting it all together, the single one driver is the business that our Chairman pointed out.

Avinash Singh: Okay, sir. And my second question is, again, more sort of explanation I would require from your side. If we see the segmental surplus that you gave in your results of the Par surplus that – Par GAAP accounting surplus has been in the deficit for last few quarters. And also, last year in the 9 months, you were building, I mean, the FFA almost in the tune of roughly INR9,000 crores, whereas in this 9 months, you have taken out the FFA and INR3,000-odd crores.

So what is sort of explaining this that -- again, I'm not looking just 1 quarter, I'm looking 9 months as a whole. What is explaining this sort of this change in how you are sort of building FFA versus withdrawing and also the surplus emergence in par that seems to be negative for last 9 months.

Dinesh Pant: Yes. If I would like to explain that, actually, we would appreciate that general insurance companies would be building on the FFAs for the purpose either for the purpose of requirement of solvency or when there's no certainty about certain amount to be distributed at any particular point of time. You would have seen from the results of the Corporation. Corporation has been going from strength to strength as far as the solvency is concerned. In fact, some years back, we stand around 1.6. So today, we are standing at 1.93. So in this year, we had taken calibrated decision right from the first quarter that in which -- the certain amounts which were sitting in the FFA be used for the provisions for the liability purposes because that has to be routed through the revenue account.

That's why you are seeing deficit. Actually, it's not a deficit. In the balance sheet, it's the entry fee. It is only adjustment to adjust the FFA. Frankly, going towards the end of the year, FFA should keep on reducing because one gets more certainty about how the distribution should happen.

So right now, the strategy is not to go overboard to that FFA, it is not the requirement. And we expect this deficit, which is seen. Actually it is -- there is no deficit as such, it is only that the amount which was there in the FFA around INR4,000 crores plus still it is INR1000 crores plus. So that amount has been adjusted towards making greater provision into actuarial liability side of it.

And because the entry pass is for the revenue account, therefore, it looks like negative. Otherwise, there's no negative. The fund is very much in the plus and is very surplus position itself. So FFA, we do not want to have much, but a certain amount of cushion is required at any point. That's why FFA is provided here. Otherwise, it's not required for any solvency purpose. We would like to make actual distribution of whatever surpluses are there in the Par Fund.

Avinash Singh: Lastly, if I can just speak because you raised the point of solvency and very valid point that at 1.93% you are sort of having very strong solvency. And also to add to that, a very large amount of unrealized gains that is not right now counting towards your Available Solvency Margin. In that backdrop, I mean, should we expect the dividend, of course, you have announced INR4 per share.

Going forward, I mean, Q4 also, the board would likely take up dividend because, I mean, the amount sort of you realized from your unrealized, that is not any way going to impact your solvency part because today that is not part of your ASM. So, should we expect again in the next quarter that the Board will be considering dividend?

Siddhartha Mohanty: Let us wait for that, at this point, we should not guess anything.

Dinesh Pant: Board has to take overall call, what is the capital requirement of the company, solvency, as well as the overall interest of all the stakeholders. I think very bold and rightful decision has already been made by our Board and that would be the course of action in future also in the overall interest of all the stakeholders.

Moderator: Next question is from the line of Sanketh Godha from Avendus Park. Please go ahead.

Sanketh Godha: Sir, if I see your non-par margin in 1H was around 50 percentage, now it is closer to 64 percentage. So I believe it is largely because of Utsav. So what nature -- the whole life nature of Utsav makes it better margin? And if you keep on introducing whole life products in non-par or longer tenured plants in non-par, do you expect the 64% margin to hold up going ahead or not? That's my first question.

Dinesh Pant: Yes, Sanketh, actually, you would realize and appreciate that business strategy is not there is no single panacea and it's not that every product just because it is a whole life that is going to serve the purpose because then it also brings about challenges in terms of reinvestment risk and long duration risk also.

So it is -- that's why I'm -- I said earlier also that the larger purpose of introducing products, the primary purpose to ensure that your product basket is complete, you are able to tap and you know whatever the overall directions are mentioned reaching every policyholder ensuring for all policies that the larger purpose that customer-orientated solutions are provided.

So it is not only from the margin point of view that products are introduced. So this product, we -- it took us a longer time to design, think around so that we give it a holistic approach. And what we are looking forward is, yes, this is a great product for everybody as Chairman rightly mentioned earlier also. But what know every product may not necessarily be a right solution.

So what -- it's not -- we have rightly -- we're also using the par side also. We already have Jeevan Umang, which is also a very like product. And it's a very comprehensive product that one also. So -- but -- what we are looking forward to is that coming out with a different variety of products. We have -- in fact, if you look into our recent products, we have introduced short-term -- premium paying term products also.

So what we are looking forward is that product should be, first of all, rightful from the context of the policyholders. It should be attractive enough for the marketing channel. And then it should definitely have a value for the shareholders also. So that is what has happened. That's what I was earlier also saying that the overall strategy is not just in context of products but the strategy around marketing them and whatever technological support can be provided so that the ultimate value comes out of that. So that's going to be therefore, all our products in that context are important for us.

Sanketh Godha: Got it. But the margin expansion, what you are seeing from 1:9 months is largely attributed to Utsav and then the nature of the product. That's a fair understanding, right, sir?

Dinesh Pant: Yes, yes. This is also a product, but there are other products also which are delivering much higher margin than the overall margin that we are seeing. So at this point of time, we will have to review our margins also because then in a competitive market, it's a toss-up between what margins you want to give and what is the business growth? Because market share optimum market share is also a consideration. So we expect that there is going to be some saturation point. So we continue to introduce a different variety of products and continue to review our existing products.

Sanketh Godha: Got it. And second point, sir, if I look your growth, your par business is struggling a bit to grow in the 9 months. And whether -- just because company is focusing on non-par whether the focus on non-par is cannibalizing to par and, therefore, it is not translating into overall company growth, maybe product mix is good, margins coming from there is good, but the overall growth is struggling. Just wanted to understand that, is it fair to conclude that the non-par focus has cannibalized into par or to some extent ULIP also when the market were that great and you're not going in that piece in that sense?

Siddhartha Mohanty: The first thing is that when we talk of par and non-par, first focus is customer. So, any product we design we keep customers in mind and the design so that customer gets best of the product.

And since there has been directional change and focus is more on non-par at present, some impact has been there on par, CMO will...

R. Sudhakar: Sudhakar, CMO. Yes, our Chairperson put it, there will be some impact on the par side also. But at this time we are focusing that different categories of agents are having their specialization and they are actually selling their products. That is why par continues to be the large proportion of business which we are having today. There are very strong plans which are there in par also, which have actually grown.

At the same time, during the last year, there were also revisions which we have made in the -- some of the plans in the par business, increasing the sum assured and increasing the ticket size in certain cases. So such increases have impacted a little bit of a number of policies in those plans, which have been compensated more than in the non-par side through the non-par products, which have been launched in the recent past.

Sanketh Godha: Got it, sir. But sir, given this strategy, can we expect a positive growth to happen in FY '24 or growth to come back in FY '25 in total APE terms or you are okay with not growing as significantly but mix changing and resulting in the margin?

Dinesh Pant: Definitely, we would like our growth trajectory to be there. In fact, it is already on track to that and it will be -- the APE growth will also continue to be our driver. So that's very much on the focus. And that if you see quarter-to-quarter, that situation has improved. In fact, in the individual side, it is already -- there is APE growth, which is already there.

So we are looking forward to having rational margins, margin improvement, VNB improvement as well as the APE growth because without APE growth and the combination of the margin, the overall VNB won't grow. So that direction is very clear for the Corporation, we have to continue -- we'll continue...

Sanketh Godha: Okay, sir. And last one, just on group business on overall basis, it has declined for 9 months. Just if you can give a little color on the group business, what led to this decline, whether it is GTL or fund-based business or annuity just -- and your outlook on, say, GTL or annuity, what is your outlook given it has declined in the current year.

Siddhartha Mohanty: Actually group business, you see some of the big ticket we could not get in time. So those are coming. If you see whatever decline was there in Q2 that has been reduced in Q3. And if I tell today it has further improved. So I'm confident whatever target is there for group business, we will definitely achieve in the current year because we are getting confidence from our all our customers, big clients. So they are gradually releasing money.

Sanketh Godha: Sir, but this pressure is largely in annuity or GTL or it's more in fund-based business that moderation in the growth in group?

Manju Bagga: This is Manju looking after this. So there is definitely a reduction in the fund-based business and that is because fund-based business is a lumpy business, and therefore, some premiums, which have come last year, definitely, will not be repeated, but we are looking into more funds from other sources. And as regards GTL business, it has shown a good growth and annuities are also continuing to show grow.

Sanketh Godha: Okay. So sir, the moderation is only because of the fund-based business, the profitable segments like GTL and annuity have grown in the.

Manju Bagga: Yes.

Siddhartha Mohanty: Those are growing.

Moderator: Next question is from the line of Ajox from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Congrats on a good set of numbers. Sir, if I just back compute the new business from individual non-par, the new business on the APE side of things, it seems to be a decline Q-on-Q. Is that what you're getting at?

Siddhartha Mohanty: See, non-par, you are talking, I'll give you a specific figure for...

Ajox Frederick: Yes, yes, please, please go ahead. Yes.

Siddhartha Mohanty: Yes. Non-par APE which -- hello?

Ajox Frederick: Hello, can you hear me?

Siddhartha Mohanty: Yes, non-par APE last year Q3 -- up to Q3 9 months of 2022 and 9 months '23, if you compare earlier, it was INR2,213 crores as against that, currently, it is INR 3,299 crores. So thereby, we are showing 49% growth in total volume. Under share also -- non-par share also, as I mentioned earlier, it has moved up to more than 14%.

Ajox Frederick: Yes, sir. I understand that. I was talking from the new business mix, which you gave at a proportion. You gave the split of new business mix and coming from the other non-par segment. Probably I can take it off-line also in case you don't have the numbers available.

But sir, again, the follow-up to Avinash's question, the others. Again, if you split the first half and 9 months, we see that the new product's margins are phenomenal like versus the industry is. So you mentioned that there is a case for you to come off and be more competitive. So if that is the case, how much will you sacrifice on the margins there to gain growth?

Siddhartha Mohanty: We have to maintain balance because growth is required as well as margin both things…

Dinesh Pant: Yes, as we explained earlier also, this challenge is always going to be there. And that's what we have ensured that even in the 9-month period, while we have previously increased our rates. There has not been any let down on the mix. So in certain products for sure at a certain point of time when the competition -- no market is without competition.

So there in order to remain competitive we will have the review. But then we continue to introduce new products also simultaneously. Our ultimate aim, if you look at 16.6%, we have to move from there upwards on the margin side, that's the direction.

And on the VNB side, we want to show robust growth also. So that is like a very dynamic strategy about rebalancing the margin. But very interesting point here to be noted is that when we are having good margins here, the returns to the policyholders are also very good. And the products have been so designed in a manner so that it takes care of all the things.

Ajox Frederick: That's very promising. And sir, just one question. Final question from my side is that sequentially, 2Q versus 3Q, except this new product, which is propping up margins substantially, have we gained product level margins sequentially 2Q versus 3Q?

Dinesh Pant: Product level margins, every product might not have gained, as I was saying. At certain point of time, certain products would be the leaders in the margin certain others would have to be because we also have to look at which are the point of competition. And we'll have to review our offerings there, for example, recently this annuity product we have seen a lot of competition there. So -- then at certain point of time, you have to look into margin versus your growth strategy there. So the overall mix has to deliver, and that's the strategy.

Ajox Frederick: Yes. I was talking from 2Q to 3Q perspective, historically, 2Q versus 3Q product level margins have broadly remained the same, other than this.

Dinesh Pant: Yes, yes. Under the non-par, we can say they have remained almost the same.

Ajox Frederick: Sequentially right. Okay.

Dinesh Pant: Yes under non-par also. Par also when you ask what we need to understand that when new product offerings are given, that customers can be very common at certain times, they can choose the new ones. So this small variations in the participating side also need to be seen in that context also that when the greater offerings which are not earlier there, now when they come, people with preference they may been shift. It's not necessarily because LIC wants them to take non participating products, it's a customer choice. So these sort of variations from quarter-to-quarter over a trajectory of years also can be seen.

Moderator: Next question is from the line of Aditi Joshi from JP Morgan. Please go ahead.

Aditi Joshi: So I have a couple of questions. The first one is related to non-par. Just if you are able to provide some details on it. The first one is, sir, can you please share the duration of these products as in what is the typical duration as compared to your par products? And the second, can you also provide split of the type of premiums, which is coming from these non-par as in split between a single premium versus the regular premium products?

And from a risk management perspective, how do you plan to manage the risk from these products, especially from a perspective of investment spread management. Again, I just want to understand your thoughts as in what challenges are you facing? Or if not, is it is that -- is the asset management assets liability matching comfortable at this point?

Or what challenges you might face in the future? The reason I'm asking that as you shared previously that the mix because you're trying to limit is around 15%. So I'm just trying to understand what is limiting you to this 15% mix because given the margins are pretty much higher for this product?

And just a related one is that as you increase the share of non-par in a mix, how will it affect the unwind in your embedded value because the EV mix is largely skewed towards the value in force. And if you look at the EV movement, a large of it comes from the unwind. So this is the first question.

Dinesh Pant: Yes. As far as you're pointing to that, there's nothing limiting us to 15% sort of level. The appreciable growth I was mentioned earlier from around 8% to 14% has happened, because of the strategic efforts which have been made towards creating a larger set of products, which because as you all will appreciate that we are not offering many non-par products because surplus distribution mechanism being in a different manner.

And now that is being offered. So that there's a natural traction towards that also because larger offerings are there, and there's a conscious effort also on that side. So there is nothing limiting that we shall be at 14%. Our aim is to provide products, which are value addition for us and good offerings to the customer, and they will pick and chose.

And then automatically, we would expect because the people who are interested in guarantees will move towards non-participating products, people who want discretionary type of benefits will continue to take and many people will like to take both these type of products also because they would like guarantee as well as discretionary. So that's the element.

As far as risk management is concerned, we are very cautious about how to ensure, in fact, very line of business-wise specific calls are taken, you would see that larger distribution equity would be there in the participating, discretionary. So therefore, annuities are matched by long-dated papers so that and where the cash flow matching is actually in tune with the investment asset there. Similarly, for the funds in the non-par side also, the larger proportion -- significant proportion is towards fixed securities.

And very calibrated approach is taken. The investment market is always full of risk and our job is to ensure that proper -- due risk management is done. So all the policies are in place, all the actions are taken. And we try to ensure that ALM matching takes place. But within that, optimization of returns can be ensured.

So that's a very continuous activity, which is undertaken and which is -- that's why we are taking line of business-wise as well as product-wise approach on what should be the backing assets how should their risk and rewards to be decided based on the available opportunities there.

Moderator: Aditi, sorry, I'll request you to come back for a follow-up question. Participants will be the last two questions. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: I'm looking at your VNB Walk, and this is slide 18. And what it suggests is that the impact of product benefits over a 9-month period, and I know it's not directly comparable, but it's actually down minus 3.6%. And I know we've seen margin expansion, but it's kind of -- I'm just trying to understand as to why it is negative at this current time?

K R Ashok: Yes, this is Ashok.

Nischint Chawathe: Particularly in product mix, yes.

K R Ashok: Am I audible now?

Nischint Chawathe: Yes, yes, sir.

K R Ashok: Yes. See, as I've mentioned earlier, we have repriced annuities twice during the year. That is one in August and one in February. And that is the main reason why the margin was low -- so actually contributing to a lower margin for the period.

Nischint Chawathe: Sure. And if I look at the impact of assumptions, right, this is 0.7% in the 9-month period versus 1.9% and 2% in the previous 2 presentations. So is it something that assumptions have been downgraded as well for this quarter?

K R Ashok: See, actually, the major part of the assumption is the RFR change, which -- on which we don't have any control and it's a market-driven number. And the RFR is actually pushing the margins by -- in the down side. And the requirements of the VNB calculation required us to update the latest information into the calculations. And we have updated the mortality element based on the recent experience in to it. And that is done sometime in June '23. And these 2 are the major things that impact the assumption.

Nischint Chawathe: And just one small question is, if I look at the average policy term that has gone up from -- in the non-par segment has gone up from 16 years to 43 years. What really explains this?

K R Ashok: Actually, the -- if we look at the current quarter's performance, the current quarter's performance is riding on the product volumes under non-par and the average term because that being a whole life policy naturally shifts the average non-par savings term up.

Nischint Chawathe: But I'm just trying to see -- first half the term was 16, 9 months the term is 43. Probably, it means that your term for the -- for Utsav that you sold in the quarter would be like 50, 55 and your average age is something like 32. So is that how one should think of it and that's where it goes to like 80 plus is the whole life policy.

K R Ashok: See actually -- since it is whole life, technically it is whole life, so it goes to the end of the...

Nischint Chawathe: And your assumption would be like 85...

K R Ashok: And therefore, the projection period will also be till the end of the contract. And that is because of the huge number of business that is being done there, it takes the average term.

Dinesh Pant: But this is not the premium paying term it is a policy term.

K R Ashok: Policy term. 99 minus.

Dinesh Pant: Or premium paying term. Generally, these are limited premium paying products.

Moderator: Next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: So my question is on the hedging mechanism. So could you let us know now that non-par has become around 14% of your APE. How are you....

Moderator: Sorry, to interrupt you. Your audio is not clear.

Supratim Datta: Can you hear me now?

Moderator: Clear.

Supratim Datta: So I wanted to understand the hedging mechanism for your non-par products. How are you hedging the risk now that it has become a substantial part of the book?

Dinesh Pant: Yes, there are two, three things to be appreciated that. First of all, as far as non-par annuities are concerned, there is not a great requirement for hedging there because the cash flow management as long as you can get adequately matching duration long-term bonds, which are available 40-year bonds, for example, there has been there. So to that extent, the reinvestment risk gets hedged because the cash flows coming from the coupons are very well matched to the pay outs.

As far as -- also another point, as of now our portfolio in the non-par segment is not that big as the portion to overall portfolio. But we already have our derivative policy approved from the Board and we start to rolling out now onwards so that future cash flows or reinvestment risk can be taken care out of it.

As for a current amount of volumes are there, they don't pose any threat in that context. But we are very conscious about it. Therefore, already the derivative policy is in place, and it starts getting implemented very soon.

Supratim Datta: And sir, just a follow-up on that. So now that you're rolling out the derivative method of mechanism. So should that come at a cost.

Moderator: Supratim, your voice is breaking.

Supratim Datta: Can you hear me now?

Moderator: Can you come in a better reception area, please?

Supratim Datta: Is this better now?

Moderator: Yes, thank you.

Supratim Datta: Yes. So I wanted to understand now that you're putting in place this derivative mechanism, how would that impact margins because this will come at a cost?

Dinesh Pant: Definitely. That's why we have not gone for it as long as the cash flow. Generally derivative will be required largely when there are -- cash flows are an issue for an insurance company. More pronounced requirement for them. So we want the policy in place and make a selective utilization of that wherever we need it. Because it's not only about the cost of derivative, but at times when the interest rates go up. So those -- many challenges are there in that also.

But the option should be available, so that whenever you are taking calls or such instruments are -- another way of managing that is the duration management. So in case there are challenges, like, we have introduced long-term products. We also are introducing short duration products also, for example, we talked about single-premium products. So there, the risk will be lesser because the matching instruments will be available.

We want to optimize whatever the best option going for the derivative or not going for that. So that will depend upon the cash flow and the situations at that point of time. It's not that just because you're derivative policy, you are supposed to hedge everything that you have. So what is our interest rate view at that point of time in case if the interest rates movements what are we expecting? So we'll take a call based on that.

Moderator: As there are no further questions, I will now hand the conference over to Mr. Mohanty for closing comments.

Siddhartha Mohanty: Thank you. I hope we have answered all your queries satisfactorily. Please feel free to reach out to us if you need to understand more. Once again, thanks for your valuable time, we are committed to living up to the expectation of all our stakeholders. Thank you.

Moderator: Thank you very much. On behalf of LIC, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.