"LIC Conference Call on the Subject of Indian Embedded Value as of 31st March 2022"

July15, 2022

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Moderator: Ladies and gentleman, good day and welcome to LIC Conference Call on the subject of Indian Embedded Value, as of 31stMarch 2022.

We have Senior Management of LIC led by Shri. M. R. Kumar – Chairperson on this call. The Senior Management team members on the call along with Chairperson are, Shri Raj Kumar – Managing Director, Shri. Siddhartha Mohanty – Managing Director, Shri. B. C. Patnaik – Managing Director, Shri. Dinesh Pant – Appointed Actuary and ED Actuarial, Shri. K. R. Ashok – ED Actuarial, Shri. Sunil Agrawal – Chief Financial Officer, and Shri. Sanjay Bajaj – Head Investor Relations.

Before we hand over the call to LIC Management, 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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

We now request the Management of LIC to start the call. And I now hand over the conference to Chairperson, LIC, Shri. M. R. Kumar for starting the call. Thank you and over to Chairperson, LIC.

M.R. Kumar: Good morning dear friends and Members of the financial market on behalf of Life Insurance Corporation of India, I extend a very warm welcome to all of you.

As you are all aware that we have gather today on this call, to present and share the information related to the Indian Embedded Value of LIC of India as on 31stMarch 2022. While we are in the silent period as per SEBI guidelines, this discussion is being held, pursuant to our two press releases and communications given to exchanges on May 30th, 2022, and June 29th 2022 respectively, regarding completion of IEV determination exercise and the disclosure of the same.In our latest communication, we had mentioned that by July 15th, 2022, we expect the exercise to be completed.

We are happy to announce that the IEV determination exercise has been completed and the IEV Report issued by M/s. Milliman Advisors LLP has been adopted by the Board on July 14th, 2022 and has also been filed with the stock exchanges.

While we acknowledge that this IEV disclosure is delayed as compared to usual market practice, we wish to state that going forward the IEV will be disclosed on six monthly basis, that is at the end of March and at the end of September every year. Also, that going forward, the IEV shall be disclosed along with the financial results.

I will now request Mr. K. R. Ashok, our ED and Head of Actuarial to run you through the key aspect of the IEV Report. And post that we will have the floor open for Q&A.

K. R. Ashok: Good morning. This is K.R. Ashok, Executive Director Actuarial. I hope you have all seen, access to that presentation which we have uploaded on our website. I will be taking you through that presentation. The presentation is about Indian Embedded Value, how the embedded value is structured, value of new business, value of new business margin, and analysis of movement of Embedded Value and Sensitivity Analysis, and certain metrics associated with that.

The Indian Embedded Value of the corporation has moved from March '20 that was the first point in time that we reported. It has moved from Rs. 46,000 to Rs. 95,605 as of March '21. From thereon, the uses of bifurcation of fund and the change pursuant to the amendment in the Act, it moved up to Rs. 539,686 and as of March '22, it is Rs. 541,492.

If we look at, go to the next slide, it's on the Embedded Value (IEV) walk we have for comparison sake, we have given the bifurcation impact thereon. And it is to the extent of Rs. 374,172. The bifurcation impact as at September was Rs.414,000 crores. There are other portions so like value of new business, which added about Rs. 7,619 crores, unwinding added about Rs. 22,700 crores and the operating experience variants added Rs. 30,684 crores and there are some change in assumptions particularly on expenses, which is giving a negative Rs. 5,200 crores. And the economic assumptions and the variants gives around Rs.15,936 crores, totaling to Rs.541,492 crores.

If we look at the buildup of Embedded Value in the next slide, the free surplus and required capital add up to an ANW of Rs.10,527crores against Rs.6,361 crores of last year. The PVFP as I have already mentioned includes the bifurcation effect. It is Rs. 547,724 crores as against Rs. 104,772 crores. And there are set offs like time value of financial options and guarantees, frictional Cost of Capital and CRNHR which is the cost of residual non-hedgeable risk totaling about Rs.16,750 crores and giving a total Embedded Value of Rs. 541,492 crores.

Now the next slide is on the value of new business. The value of new business of the corporation at a gross level, before TVFOG, Frictional Cost of Capital, and CRNHR. For the current year it is Rs.9,920 crores as against Rs. 6,440 crores of the previous year. The split of line of business wise contribution is also given thereon.

We go to the margin, the margin for Financial Year '22 in the next slide is 15.1%. This is net of say a TVFOG, CRNHR and frictional Cost of Capital, as against 9.9% of the previous year. The breakup of the individual line of business is also given.

The next slide gives the analysis of movement of IEV, as we have seen in the raindrop chart earlier, the bifurcation impact is Rs. 374,172 and the other components which we have already, I have already mentioned is given here coming to closing IEV of Rs. 541,492 crores.

The next slide is on Sensitivity Analysis, sensitivity analysis the key points I would like to mention here is the Embedded Value is sensitive to the taxation rate and the equity movement.

And the sensitivity of taxation rate is -24.3% for an increase in taxation rate and 6.5% or an equity decrease by 10%.

The change of new business margin is highly sensitive to the reference rate, where a decrease in 100 bps of reference rate, reduces the margin by 4.7% points. And similar to the Embedded Value, the taxation also has an impact of reduction of the new business margin by 4.8% points.

The next slide gives the APE mix of the corporation. And if we look at the APE mix, we can see that the individual PAR has contributed 56% of the APE, and the non-PAR has contributed 34% in total, compared to 69% of the previous year for PAR business, and 31% of non-PAR of the last year.

The next slide gives the Return on ROEV, Return on Embedded Value. The Return on Embedded Value between '21 and '22, you can see clearly that they are not exactly comparable, for the reason that the bifurcation impact comes into play in the Financial Year '22. For the Financial Year '22, the Return on Embedded Value is 11.9%. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.The first question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: First question with regards to the fund bifurcation impact, it's around Rs. 40,700 crores lower versus our disclosures in September. While the Milliman Report does talk about decline in asset value, the equity market hasn't moved over this period in a material way. So, can you please elaborate what is driving this?

K. R. Ashok: Actually what has happened is, it is true that the equity market has not moved much. But what we look at is the compensation of our assets which sit in our balance sheet. And if you want a breakup of how it has moved, the equity has contributed about 50% fall and debt has also contributed in equivalent amount of fall.

Anuj Singla: But if the equity market has not moved as much, so like you said Rs. 20,000 crores might be coming from the equity side, what explains that, is it the exposure entities have fallen by that amount, the broader market hasn't fallen, but some of the exposure entities have fallen, there has been a decline over this period. Is that the correct understanding?

K. R. Ashok: Yes, that is the correct understanding. That's what I said our portfolio has moved because of the compensation of the specific assets.

Anuj Singla: And second question is on the VNB margin, there seems to be a significant improvement and pickup in the second half of the financial year, last year FY22. These are all implied numbers, full year minus the first half disclosures. So, as per my calculation VNB margin was around 18% for the second half of FY22. And when I look at the product mix, that doesn't seem to have changed materially, the non-PAR is up by around 95 basis points in the second half over the first half. Can you elaborate what is driving this? And is this a number where we can build on for the forecast as well? Is it something or there is some kind of one-off in this number?

K. R. Ashok: If we look at the VNB, the movement of VNB, it can be broadly classified into some categories. The major contribution is due to the business mix, because if we look at the business mix from '21 to '22, I am talking about '21 to '22, which the numbers are reported in the Milliman's Report. The major contribution is due to business mix which contributes about 35% of the change. And then the next is we have added some products under the new, for the year '22 compared to the year '21, because for year '21 we have only modeled 94 products. And for year '22 we have modeled all the products. So, that addition of products has contributed about 29% of the VNB.

And then the next major thing is the RFR increase, the RFR has increased over the most of the duration by about 50 bps and that has contributed to that. And added to that is the volume increase, because there is a volume increase in APE which has contributed about 13% of the increase.

These are the major contributors to that. And then if we look at the setoffs, because there is a set-off last year and set-off this year. That set-off is, it's a minor one, it's only about contributing about only 1% of the change.

Anuj Singla: If I specifically talk about the second half over first half, possible to give something similar for these two comparable periods as well?

K. R. Ashok: No, I think currently we have only the information from March to March. From September to March, we have to work on that and we will get back to you, later.

Anuj Singla: Lastly, there is a charge of Rs. 5,243 crores related to change in operating assumptions, I think you mention about expenses there. Can you please give a bit more color on that?

K. R. Ashok: Yes, actually what happened is, the expense analysis is performed by the corporation on a quarterly basis. And the latest expense analysis is considered for the Embedded Value calculation. So, based on that the March expense experience is factored in that. And that is the major reason for the decrease in the Rs. 5,000 crores decrease in the Embedded Value.

Anuj Singla: Any major heads you can point to in terms of expenses where we saw the most escalations.

K. R. Ashok: If you look at the expenses of the corporation can be broadly split into like fixed expenses and variable expenses. And we see that there is an overall growth in the expenses. And those expenses as per the results of the analysis, we have factored into that, in the new assumptions for the year '22. And that is what is reflecting the decrease in the Embedded Value to the tune of Rs.5300 crores.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JPMorgan Chase. Please go ahead.

Deepika Mundra: Just one question, could you kindly explain as to how we should look at the unwind in the year, because if we take the fund bifurcation amount in the base Embedded Value, it seems that the unwind rate is significantly lower at 4.8%. So, could you kindly talk about that, please?

K. R. Ashok: If you look at the unwind rate, the unwind rate consists of three components. The first component is with reference to the reference rate. And the second one is the difference between the expected rate and the reference rate. And the final one goes into the investments variants components, which is the difference between the assumption and the actual. Now when we are talking about unwinding, I think we are talking about the first two items which gets captured in the IEV walk.

Let me give you the breakup so that we will have a clear picture on that going forward. See if we look at the reference rate, reference rate gives and unwind of around Rs. 4,700 crores. And the expected access over the real return gives around the Rs. 17,000 crores, giving a total of Rs. 21,000 crores.

Now if we are looking at this Rs. 21,000 crores, over the total considering even the bifurcation impact, which comes to around the opening will come, restated opening will come to around Rs. 470,000 crores. Then I think you are looking at it from that percentage, am I right?

Deepika Mundra: Yes that's correct, yes.

K. R. Ashok: So, going forward, what happens is this bifurcation impact will stay there, right. So, the next year the opening balance will become 541, so you will have to look at these numbers from that point of view.

Deepika Mundra: I get that sir, the next year the opening balance will be 541, but for this year itself if you take the restated opening balance, it seems that the unwind rate is significantly lower, is that the right way to look at it or would you look at the opening balance as the erstwhile EV which was Rs. 95,000 crores.

Dinesh Pant: Let me clarify little bit on this. See these ratios when we see, we will have to see, if for example if we simplistically see, it will be seen that last year it was some, operating profits were 35%, this year 11%. And somebody would feel it has come down. Basically it has not come down, if you see as per the numbers, they have increased from Rs. 17,000 to almost Rs. 55,000 crores. The issue is that corporation wants to be transparent about it. And we have for example when this ratio of 35% of previous year have been shown. The base was around Rs. 45,000 crores or so, right. So, we just can't be ledby the ratio, we have to see the numbers involved here.

Here, as Mr.Ashok was clarifying in order to ensure that consistency because every time the analysts, everybody will be comparing from year-to-year basis, and at that point of time the initial points maybe forgotten sort of thing. So, if the same number which you mentioned about has reduced, suppose we remove this effect of this 374, and then we just take the amount, it would be significantly higher number 25% to 30%. So, here what we are trying to do is, we are trying to and in fact it's like readjusted ratio, which is being calculated, considering that next year also, this number will be there.

Now this ratio for LIC would be different from a different Company, at times people tend to compare, because of the constitution of the total Embedded Value, in LIC's Embedded value (PVFP) large portion is also coming from the you know legacy release in terms of market value of these assets, which is the strength for the corporations coming from the past, which is possibly may not be there with somebody.

So, because of the large base this ratio may look like. But if we see this, because it's the unwind and the source of unwind are compared between each other than the ratios will be significantly higher. So, this is how we want to actually analyze an entity and see the ratios, it will depend, because we cannot ignore the constitution of the components and then only we will have to compare.

Moderator: Thank you. The next question is from the line of Jayant from Credit Suisse. Please go ahead.

Jayant: Two questions, one is in operating experience, EV moment, we see newly model plans and others contributing around Rs. 31,000 crores. Can you elaborate a little bit on these two? And follow-up to that would be in the newly model plans, can you talk about these products and their margins and how much business are you currently doing in these products?

K. R. Ashok: Yes it is, we have, when we went for IPO, we have modeled only 94 products and subsequent to that, we took up the project of completing the entire products suite of LIC into the profit system. And that was successfully completed by March '22. And due to that the Embedded Value has increased by Rs. 14,300 crores in the current year. If we look at the newly modeled products, actually when we selected the 94 products, we counted on the contribution of those products in reserves. And that was taken to being more than 90% of the reserve considering the materiality, which we have, the Board of the corporation has decided for the purpose of IPO.

Now when we have modeled all the other products, if we look at the profitability of these products vis-à-vis the base now if you take this as representing **10%**, then effectively the total will come to in proportion, it will be in proportion with or slightly more than in proportion with the opening balance of 95.

So, effectively what happens is, there is some, because there are basically impact of the RFRs impact will also be there in this because it is very difficult to call out all the experiences separately, and that is one of the reason why the new products when it is shown separately, looks to be higher.

And one more thing you need to understand is these two new products were included in the previous period, then it would have contributed to others like persistency, mortality, and expenses, which is now included, everything is included under the newly model plans. So, that is also one of the reason why it looks slightly more than overall proportion.

And the next question on others, which is around Rs. 16,571 crores, the major portion of 50% of that comes from data purification exercise, which we have done. And we are continuously doing as a part of the corporation's approach towards data purity. And the second one is the general release from the global reserves which is contributing about 50% on that.

Jayant: Is it right to understand this is a one-time, both of these items, except the data purification part.

K. R. Ashok: See the global reserves, actually what happens is each year when we do the valuation, we do the statutory valuation on a policy-by-policy basis. But certain parameters, certain risks are captured at a global level and it would not be allocated to the individual policy level. So, those are a global reserves that we set aside. When we do the Embedded Value calculation, the risks are captured in a different way. Therefore, what happens many of these global reserves gets released. So, this is the difference between this factor and the best estimator process. And this if you notice, this will be the incremental global reserve release, will be there year-on-year.

Dinesh Pant: Just to elaborate on that, in fact you raised the point whether this is going to be one-time or it is going to be repetitive. Let's appreciate one thing here that actually when EV includes the value of VNB also. So, when we say new products have been modeled into it, naturally there is a component of VNB also into it. For example, let's say, supposed, I am just giving you very rough estimates to you, let's say, in a particular line of business, the EV is Rs. 20,000 crores. And then it also includes the VNB of Rs. 1,500 crores or say Rs. 2,000 crores from the last year. That portion of VNB will continue to come in the future years also.

To give you an example, for example for the participating business, which is a long term business for the corporation and also because the composition of the distribution surplus coming out of it. Say the VNB portion is say 4% to 5% of the EV. When we move towards non-PAR saving type of products, because of the shorter lifecycle, because of it their immediacy from start from today, the component of VNB would be something around say may be 8% or so. If we go into group type of products, the VNB composition to the EV ratio can be something around 12% to 14%.

So, it would depend upon, for example in case of LIC, like you know many products which have been modeled now for example, they are new products so new products means their VNB to EV ratio is almost similar. Because if the product for example has been launched in particular last year only then possibility, EV and VNB would be same. So, the release from

VNB from those products are going to be tremendous. So, to be able to say that it's a one-time thing, may not be fully appropriate in a sense, it would depend upon which lifecycle, which part of this product has been launched for what duration, the value of EV and what is the ratio of VNB to EV for those products.

Jayant: Last question on the non-PAR products you just touched upon, can you tell us little bit about your strategy on how you will scale up because as of now we can see that it's not being very meaningful yet the improvement. So, what are your strategies and how do you plan to incentivize the agents to push more of the non-PAR products.

M. R. Kumar: Very sorry, we wouldn't be able to take that question because you know we are in the silence period as I mentioned in the beginning and it will be forward-looking and that's what I think, maybe in the Earnings Call that we have after the financial results we will be able to talk about that.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: So, firstly just to clarify like the VNB margin improvement that you have reported, is this sustainable and like the improvement that we were expecting anyhow, because of the change in the distribution surplus will further add to it over the coming years, is that a fair understanding?

Dinesh Pant: Just to respond slightly to that question, the point is whether it is sustainable or whether it will sustain or grow? I think nobody can exactly talk, sustainable of course, sustained or improved, only future will tell. But definitely as we are responding that as long as the strategic, see for corporation, ultimate aim or for any insurer for that, where the ultimate is to create higher value of VNB, right in the interest of the shareholder, but not coming in the cost of the policy holder, because the entire business has to grow, only one element cannot be the criteria.

So, definitely, corporation is there to create value for the policyholders as well as for the shareholders. And the approach and the evident strategy will be in order to grow, that goes without saying, because that's going to be there. Ultimately as Mr. Ashok had already clarified also, it depends on various elements, the actual business mix, the way the markets behave, and all those things. So, it's very much sustainable. And what numbers will come, we will discuss in the next meeting when we meet, sure.

Nitin Agarwal: And secondly on the sensitivity if I look at while the EV sensitivity to the market movement is broadly unchanged from the last September '21 disclosures. But the VNB sensitivity to rising interest rates has moderated. So, what has really driven this change?

K. R. Ashok: See as far as the sensitivity is concerned, the EV sensitivity for the equity is more or less similar to what we see in the post to bifurcation of funds so it has not changed much. In case of VNB, actually the sensitivity, because what happens in this when we test the sensitivity, we are testing the sensitivity from the current base rate. When the base rate itself changes, the sensitivity movement will also change. And you may be aware that 50 bps of reference rate has changed, it has increased over the last year. Since the base rate has changed, the sensitivity impact also will be, we expect that to be different.

Nitin Agarwal: And lastly while you did explain on the unwind, what sort of discount rate one should now bill for FY23, because there are no precedence as such, and this number is a pretty critical when it comes to evaluating the EV or assessing the EV for the next year. So, what is the discount rate that one should broadly work with for FY23 and beyond? Any color if you can provide around that?

Dinesh Pant: I was just drawing upon right from your previous question also. When we talk about change in VNB, we have to take cognizant of the fact that, as far as EV is there, equity changes are going to be larger part of sensitivity. For VNB portions possibly the interest rate becomes more significant there. And we have seen more significant change in interest rates. So, that's causing the larger change in the sensitivity there.

As far as for future discounting is there, at any point of valuation whenever it will be done, what are the interest rates, what is the view of the actuarial at that point of time. What is the outcome of the assumptions which has been taken whether they have sustained or there is a revision which is required?So, it depends on couple of factors and the combination of them. Whether their demands change in the view of the assumption settings at that point of time?So, objective and subjective criteria, based on the judgment, and the experience analysis which emerge at that point of time, would decide what rates would be taken.

Moderator: Thank you. Next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: First one is on Slide #7 where you have given us the new business margins across the products. So, PAR business growth margins have gone from 11% to 13.55%, so I am just referring to that. If I remember when we had the disclosure around the last time, when there was a base case for fiscal '20, there was an alternate case. I think those margins were coming to 12.5% where the PAR surplus actually moves from whatever 5% to 10% and so this has come higher. I know there is an element of net versus gross. But just trying to understand how has that mode versus say the alternate one scenario that we had earlier.

K. R. Ashok: See the alternate scenario considers only one aspect of that which is the distribution part. But whereas the actual calculation considers all the components that also includes the RFR change. The RFR change has the important effect on the improvement that we see in the margins.

Shyam Srinivasan: So, we can fairly assume that the since it's not fully the surplus is fully not moved to 10, across the Board, there is potential accretion even here on from a distribution perspective, forget the mix perspective, maybe the distribution is still yet to play. Would that be a fair observation to make?

Dinesh Pant: Yes, you are absolutely right, because if you see in the scenario one in the last presentation which you rightly pointed out, even base value which was around Rs. 4,100 crores or more around Rs. 5,199 crores. So, it was clearly shown at that point of time just to give a clear indication, that the value for VNB which has been done say two years back, with the expectation of 5% would be different. Value of VNB which has been done on this transition stage where 92.5and then shifting towards 90 would be different. And value of new business, which is right now, because the present value of that one year impact is going to be significant at 2.5%, two points. So, it is something which is done after 2025, the value of new business will straight away be 10% and all of those things, for of course non-PAR it is already 100%. So, that gets reflected here, almost Rs. 1,000 crores, Rs. 2,000 crores difference, I will not go into numbers because that will again depend on the volume of the business and the construct of the business. But you are absolutely right, it will impact and that will continue to be so. So, value of new business will increase also because of the business which is done in the next year and this year.

Shyam Srinivasan: Second question is again back on Slide #10 and I am not looking for a forward-looking statement sir. But more on what went right in fiscal 2022 and what were the challenges especially on individual non-PAR right. If you see the growth rate is 13% for individual PAR, it's faster than individual non-PAR. If you remember in the road shows we were talking about individual non-PAR to grow faster. So, maybe some of the challenges, maybe it's early days but if you can help us dissect, how if, I am not looking for a growth guidance for next year, but just a qualitative aspect.

Dinesh Pant: See yes, we can definitely talk about what went right and what helped us. Definitely very, absolutely clear cut strategy. Clear cut determination on the part of the corporation to ensure best value for the shareholders. In the last year you would see LIC has launched many products which are non-PAR products. So, typically now we are back off almost four. You see this is the first time at the end of this year when in the construct, if you see different product mix of the corporation out of say 33 products more than 50% products are non-PAR products. We have now got into channel specific products for the first time. We have for banca channel, we have got channel based products. We have got almost very competitive products in the non-PAR segment. So, all these things these are clear cut and so this has all has helped us and that we will continue. Again corporation continue to look around all these things as per emerging business strategy.

Shyam Srinivasan: My last question is on Slide #11. EVOP Rs. 55,000 crores I am just trying to add which are the numbers in your team that you have added to reach that? I broadly just added but I couldn't reach the number. Is there some adjustment I need to do to reach the Rs. 55,779 number?

K. R. Ashok: I think you have access to this Milliman report and there if you analysis of movement, if you go to that page, there is an item called EV operating earnings, which is that number Rs. 55,779.

Shyam Srinivasan: Correct, sir but I am looking at your whatever EV walk so I will add unwind, I will add VNB what else below that, the variants we are adding, I am just --?

K. R. Ashok: Yes see I can tell you, it's VNB we have to add VNB, we have to add unwind and then we have to add the operating variants, which is persistency, mortality expenses, newly modeled plans, and there is another component and then the change in operating assumptions. If you add all of that you will get Rs. 55,779.

Moderator: Thank you. Next question is from the line of Nidhesh from Investec India. Please go ahead.

Nidhesh: Firstly this newly model plan, now incrementally they are part of VNB, right, so they will not come into EV walk, is that right understanding?

Dinesh Pant: They will continue to, you said about the newly model products?

Nidhesh: Yes, newly model plans?

Dinesh Pant: See what happens, once the products have been modeled they are part of the EV and EV again is something, you know what EV reflects is nothing but the present value of the shareholder for the existing business. So, even when you go to next period of time, say next quarter or next year, at that point of time, the composition of the business would again change, because some of the policies will be out of the book, some of the policies new would be added. So, these policies as long as they are part of the overall business, existing business of the corporation they will continue to be part of the EV also.

Nidhesh: So, they are not part of VNB, are these part of VNB?

Dinesh Pant: So, in fact what happens, for example this new model products, they become part of EV. Now VNB reflect the business which has been done in the last year. So, whatever new business will be done under these products, in the next year will become VNB for the next year, that's what I was trying to give idea before that we have to see newly modeled products, if they are new products, their VNB could be very much nearer to the EV value. So, it depends upon the overall new business done under a policy to the ratio of overall business done under that policy over the lifetime of the business. We will continue to contribute in that proportion to VNB also, earlier they are closed products, so those products which are just closed for sale, do not contribute to VNB. All the products which are available for sales, continue to contribute towards VNB.

Nidhesh: Because we don't see such line item for the other listed peers. My understanding was on this that when we did the IPO we modeled 93% of the products. So, 94 products we have new modeled which represents around 93% of APE. Now the unmodeled product that we have not modeled as of September '21 that have also been modeled now.

Dinesh Pant: Yes.

Nidhesh: So, if all the products are now modeled, why should we get this newly modeled plans for FY23 EV Walk.

Dinesh Pant: Because in FY23 there will be again new model products also. New products will also be introduced.

Nidhesh: New products will be introduced they will come into this, okay understood.

Dinesh Pant: Yes, there will be the new products which will come there.

Nidhesh: Second is in your APE can you give a bit more detail bifurcation how much is retail protection APE for FY21/FY22, how much is group protection APE in FY21/FY22 and how much is individual annuity APE for FY21/FY22?

Dinesh Pant: Yes, as far as the APE constitution was there around Rs. 33,000 crores was coming from individual participating business in the last year. Individual non-participating business was around Rs. 2,500 crores plus. And group business was Rs. 14,000 crores or so.

Nidhesh: No, sir I was looking for more detailed data, because other listed peers reported a very detailed APE breakup. We get how much is retail protection, how much is annuity, how much is group protection, if that data is available that will be useful?

Dinesh Pant: See largely I can just suggest to you, yes there has been a growth of, in certain cases there has been conscious decision which have been done and we can provid the data subsequently –

Nidhesh: And lastly, in this year we have not paid any dividends, because in EV walk I couldn't see any dividend item? And going forward what will be the dividend payout policy?

Dinesh Pant: See as of now, actually what happenes that you see if you also need to understand one thing, all this because you are analyst, you will better understand this thing. All the financials of the company have to be seen EV typically represents the shareholder value for the shareholders, right. We are aware from the financial statements that the Board has recommended certain amounts which is subject to approval of AGM. So, that's a decision to be finalized which can only be crystallized, finalized and taken as far as it is connected to the recommendation after the AGM is there. So, from the financials what amount has been recommended is already available.

Nidhesh: And going forward the dividend payout ratio will be similar to this year or?

Dinesh Pant: That's a decision to be decided by the Board as per the dividend policy –

Nidhesh: O.K. Thank you.

Moderator: Thank you. Next question is from the line of Dhaval from DSP Mutual Fund. Please go ahead.

Dhaval: Few questions, first is in the EV sensitivity, we have 6.5% impact for a 10% movement in equity. Just from an understanding perspective, where would this impact be highest, within the EV walk and if you could specifically quantify the impact on unwind so hypothetically your portfolio is down 10% next year how much would be the impact on the Unwind number, if you could give broad guidance around or some expectation around that that would be useful. Just from an understanding perspective?

K. R. Ashok: Actually, it is true that the sensitivity of EV for to equity is 6.5% for a fall of 10% in equity. If we look at the walk there is one item called economic variants and any market movement changes to EV is captured in that item.

Dhaval: There will be no impact on Unwind rate?

K. R. Ashok: Unwind rate depends on see, what happens, if at all there is any change in the interest rate environment which macro, in case if it moves along with the equity market, then there will be an impact. But considering the equity alone, there won't be any impact on the Unwind.

Dhaval: Second question was, if you could quantify the VNB margin improvement, how much of that was from the interest rate increase, since we have a positive sensitivity to rising rates, if you could just quantity for FY22 or second half of FY22 how much of that was due to rate change?

K. R. Ashok: See actually earlier I have already explained what is the rough contribution of each of the elements for the change in the VNB. The RFR impact is around, it contributes to around 14% of the increase.

Dhaval: And the third question is relating to PVNBP margin, we had provided that in September to be about 1.3% what is it for FY22? If you could give that data point?

K. R. Ashok: Actually that ratio which is the present value of new business premium, you are referring to that right, the –

Dhaval: Correct the margin Yes.

K. R. Ashok: Actually, what happens that is normally calculated as a part of disclosure to IPO and it is normally not calculated as a part of regular disclosure. Therefore, that is one of the reason we have not disclosed it.

Dhaval:	Qualitatively would it be similar to where it was in September, because the reason I ask is if you look at your VIF or your PVFP growth that's broadly flattish from September. So, just from that perspective I am just trying to understand if the margin has increased or remained same?
K. R. Ashok:	See we have to look at what goes into that calculation. Actually, the denominator captures the entire percent value of the premiums, that is expected to be received. So, the discount rate plays a major role in that. So, when the discount rate changes, it has an impact on that. So, we know that the discount rate has increased so to that extent the denominator would have decreased. If the amount has been calculated, the denominator would have decreased.
Dhaval:	Lastly if you could just quantify the dividend amount that will get deducted from EV in next year, based on shareholder approval, what is the expected dividend amount to be deducted, just a data keeping question?
Sunil Agarwal:	The dividend amount would be around Rs. 948 crores.
Moderator:	Thank you. Next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.
Dipanjan Ghosh:	So, on the first question on unwinding, again going back to the same point. Now if I look at your 1HFY22 EV which was around 5397 billion and I reduce it by the mark-to-market that was sitting on your non-PAR book out there. So, broadly core EV comes out to be around 2 trillion. Now taking some assumptions on unwinding for 1H, on the base of 1248 billion without bifurcation and calculating the remaining unwinding, do we get broadly around 14% or 15% sort of unwinding on the core book, including a 12% on the real-world access return which we saw in 2021. So, is it fair to assume that if I strip off your EV from the mark-to-market and then given an unwinding of around 12% to 13% that looks like a reasonable estimate?
K. R. Ashok:	Actually, the way we look at Unwind, is normally what happens is it is the embedded value that moves through in a year and the releases that happens because of the unwind due to reference rate it is one component and the second component is the expected value return over the reference rate. Now the number which you are talking about is excluding the bifurcation impact right? Am I right in the understanding of your question?
Dipanjan Ghosh:	Yes so what I am saying is should one look at unwinding excluding the unrealized gains that is sitting on your book, because if I look at correctly that will be included in your economic variance every year based on the market movements of these assets.
K. R. Ashok:	See economic variance will include two component, one component is mark-to-market movement and second component is APE. There the expected estimate basis and the actual return. So, those two will come under economic variants.

Dinesh Pant: See what you are possibly trying to suggest is how to look it, I think we leave it best to the analyst to decide it, but frankly speaking, if want to, for some reason for comparability you want to say, suppose this 374 or 440 market value is removed then actually the operating returns would be much higher, because if you can just look at the figures the opening figure of embedded value was around Rs. 95,000 crores pre-bifurcation in fact. And Rs. 55,000 crores is the operating release which is coming. Even for hypothetically if we take away the impact of the one-off items of newly modeled items it's significantly higher amount of Rs. 25,000 to Rs. .30,000 crores. And I think you are the calculators; you can calculate the ratio it would be significantly higher than 12% for sure.

So, yes, for sure analyst can see which portion, what they want to take as a denominator, what they want to take as a numerator, which part they want to do. But what has been presented as of now is as per the consistent market practices so the comparability is there and beyond that analysis can be done. And this ratio is much stronger than what you had suggested.

Dipanjan Ghosh: Second question on the VNB margins, you mentioned the 29% of expansion is due to the newly modeled business between FY21 and FY22. And just as one of the participants mentioned it, the business was around 8% to 10% of your APE. So, is it fair to assume that on the unmodeled businesses the margin is tad higher than your overall business that was modeled till 1H?

K. R. Ashok: See actually, we selected the 94 products for the IPO. It was selected based on the contribution to reserves. And then that covered more than 91% of the reserves. And that was how it was decided. Now when we added, because at some point in time we had to complete the entire process and so we thought we will complete it by March '22 and all the products were taken into the system. And model for the IEV March '22. Now when we did this, we found out that it was quite a sizable portion of the VNB is coming from that business. And one we have to understand one important thing in that is this unmodeled portion contain too many products that are already in existence and there are some products which are also open to new business. So, there is a mix of it.So, when I mentioned, that it is 29% contribution it is 29% contribution for only products which contributed to VNB.

Dipanjan Ghosh: If I look at your other variants of 50% which came from the released from the global reserves. So, how should one think of it and is there any way, you can kind of quantify this number, as I what is sitting on your books today?

K. R. Ashok: See I have already explained, global reserve is kept outside the contract sir, because the contract normally all the contracts individually are valued as per the IRDA regulations and global reserves that reserves that cannot be individually allocated to the contracts. Now this global reserve, there will be movement in the global reserve based on the actuarial principles year-on-year. And these movements will be captured going forward.

Moderator: Thank you. Next question is from the line of Madhukar Ladha from Elara Capital. Please go ahead.

Madhukar Ladha: I wanted to understand a little better, of how non-PAR margins that computed. So, is there a component of expected equity returns also in VNB computation, because maybe and the reason I am asking is that before the TVFOG, FC, CRNHR recourse, if I look at the non-PAR margins they are like at about Rs. 104% for FY22. So, the first question is are there any future expected equity returns built into the non-PAR margins?

K. R. Ashok: Actually what happens is in the calculation of VNB all the assets are projected at their reference risk-free rate and discounted at the risk-free rate. So, naturally any future movement in the market is not considered.

Madhukar Ladha: And if you have sort of an equity investment, would you build in a higher than expected return on that portion of the investment also for the future? Or it is at risk-free rate?

K. R. Ashok: See the calculation of Indian Embedded Value is clearly specified in guidelines issued by the Institute of Actuaries of India through the Actuarial Practice Standard 10. And that clearly specifies that the reference rate shall be the risk free rate which is considered. So, any market movement during the year, will be captured in the economic variants.

Madhukar Ladha: And even on the group margin side, we have seen a good improvement, so if you look at FY21 we were at about 11.5% which will go onto 19%. I understand that there is a Board resolution for these certain group fund management business. So, can you explain a little bit about that Board resolution? And also just for a fund management business, the margin, probably seems high, I may not understand this as well. So, maybe you could explain that also a little bit about how these are computed.

K.R. Ashok: In case of group funds we used to declare the interest rates on those funds. And what you are referring I think is regarding the Board approved policy for crediting interest rates where it is, there is a clear cut guideline on how the interest rate has to be declared and what is the margins we have to keep. So, those things are reflected when the embedded value calculations for group funds is done as well as the VNB calculations.

Madhukar Ladha: Was there an increase in your crediting rate which has resulted in an increase in margins? So, effectively if you are keeping a higher percentage of the profit and your policy holders, you are taking a certain higher percentage of the policy holder's income, right?

K.R. Ashok: This group VNB the major contribution is through the change in RFR particularly in group annuities, because of the longer term, the impact of RFR was quite high under those products. As far as the interest rate crediting is concerned, this we thought it as a part of a good governance to have a clear cut policy and to go by that.

Madhukar Ladha: Final question, can you bifurcate between back book surplus, new business strain and the final result of policy holder surplus, can you give that number?

Dinesh Pant: See for the purpose of embedded value this new business strain and those numbers are not right now we are discussing on that. So, all the elements which contribute to embedded value are already as a part of the report, new business strain and all those things will come as a part of the statutory valuation.

Madhukar Ladha: And can you, will it be possible for you to discuss that?

Dinesh Pant: We can discuss it at a later point of time for sure.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Thanks for the opportunity, 3 questions. First is you mentioned that new products modeled had around 29% contribution to the VNB. So, just to clarify, when we are saying that VNB of, we had a VNB of 76 billion, 29% of that came in from the new products that you modeled this year.

K. R. Ashok: Actually that 29% is the increase, out of the increase 29% is contributed by this, not the total base.

Nischint Chawathe: So, 29% of the 76 billion or what?

Dinesh Pant: 76 minus 4100 which was there, so almost a 3500 which was there. It's just estimated, it's not exact number.

Nischint Chawathe: The other thing is, so the new products modeled, these are products which were already in existence, but just that you had not modeled them in the previous years right?

Dinesh Pant: Yes, actually as Mr. Ashok has already clarified. LIC had around 252 products, it's a large base. So, LIC had to go for an IPO and the basis was that statutory reasons, at that time we didn't have embedded value numbers so statutory reserves 91% coverage was being provided and Materiality point network covering almost 97%, 98% of the new business, being sold. So, as per the Board approved policy on the Materiality so these products were taken. Subsequently and this exercise, when it got concluded, then all other products, remaining products, they were not new products, they were products which were existing at that point of time as of 31st March. They were newly introduced during the year also, some of them were there. All of them were included and the entire basket of 262 products were included for this current statutory valuation.

So, contribution from them, in fact if you see it's a very consistent, because, if you takeaway just one this increase in market value or change in market value constituent of the EV, that

1.45 so it's around Rs. 14,000 crores so it's consistent with the reserving also, but let's note a point that, statutory reserve basis and embedded value basis are different. So, those numbers may not necessarily be exactly consistent with each other. So, proportions can change as when we take as a value of the Embedded Value and then we take as a proportion to statutory --

Nischint Chawathe: That is fair, but I think the point I am trying to kind of come to is thatas a principle this is not necessarily the value-added that by the corporation during the year, right. This was something that you have already been doing for the years, but just that you have taken cognizance of that today.

Dinesh Pant: Yes, that's why it's a part of the Embedded Value calculations where it is being reflected and very small portion in the VNB also which is there. So, it is not necessarily, which was not there, it was there. But it was not reflected in the earlier disclosures. Because in a way that value was there, but because we had modeled only 94 products so value for those products was seen at that time.

Nischint Chawathe: Just going back to the first point that we discussed and this was essentially the Rs. 40,000 odd crore differences in the bifurcation calculation. You mentioned that almost half of it came in because of equity market movements. So, maybe a different way to kind of do it or probably -- actuaries I am sure had a different way of kind of looking at it. But it is also possible that some part of it could possibly be passed through the economic variants rather than kind of passing it through the bifurcation impact.

K. R. Ashok: Yes, see what happens is what we thought is we should show that as part of disclosure. So, that the analyst and the investors understand and clearly appreciate that where from these numbers are coming. So, to enhance the clarity and to make proper disclosures, it was shown there.

Nischint Chawathe: Yes, but you could, I mean in a normal course probably a part of this Rs. 40,000 maybe Rs. 20,000 could go through an economic variants.

K. R. Ashok: See what happens that's what we are saying is, there would be a distortion if we look at these opening and closing. To avoid that distortion we should let separate bifurcation impact. So, going forward what happens is that for example in the next year, the opening itself will be Rs. 541,000 crores. So, that those at that time and during that year whatever changes happens in the market movement will get reflected in the economic variants.

Dinesh Pant: See, economic variants would typically reflect the actuals from the investments, you assumed and you are actually you know realizing. This variants shows generally analyzing, which is not actualize, realize, but which is there as per the market values. So, not necessarily that it would be in the economic assumption. They can be seen separately. Economic variants is different from actual --

Moderator: Thank you. Ladies and gentleman, due to time constraint we will take the last question from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: My first question is related to the required capital and frictional cost of capital in your EV split, wanted to understand why the numbers are zero from the financial year, if you could throw some light on that?

K. R. Ashok: Actually the required, frictional cost of required capital is an item that comes when the cash flows are projected, we look at whether there is any requirement that comes. In order to meet the solvency ratio 160% which is the targeted solvency ratio. Since we have started with the 185% currently and this has given a cushion that has ensured that there is no further requirement of capital going ahead on the Embedded Value basis.

Swarnabh Mukherjee: Just to understand this required capital numbers in your case does not imply the solvency capital that is required to be held to cover the business rather, whether any additional amount of capital is required. Could that be a correct understanding?

Dinesh Pant: Actually as per Actuarial Practice Standard 10 or as per the purpose of the Embedded Value, the required capital reflects the regulatory minimum capital is 150 or higher of the two or as per the Board approved policy for that insurer. So, in case of corporation our targets solvency ratio is 1.6. So, our required capital has to be seen in this context. But actual solvency has been more than, was around 185 or so. So, in that context, the entire amount above that can be treated as like a free surplus.

So, then that shareholder typically from the regulatory point of view is allowed to invest that money which is not tied up for the purpose of solvency, to be invested even beyond provisions of Investment Regulations and all those things. So, in that context this is treated as free surplus. And therefore the cost of capital, because it's not the shareholder's money is not regulatorily or in fact from the commitment point are not tied up for solvency. So, therefore the friction cost of capital is not required.

Swarnabh Mukherjee: Now again coming back to the margins, VNB margin numbers. As you have already alluded regarding the group business that the, jump in the group gross VNB margins, came from the fact that there was basically a contribution of RFR increase on the group annuity side. If you could highlight also what transpired in case of the PAR side where there was a slight increase as well as on the non-PAR side, keeping say the numbers we put it in first half, vis-à-vis that why non-PAR margin came down slightly and PAR margins were seeing a slight uptick, if you could highlight that.

K. R. Ashok: Actually if we look at the corporations portfolio overall, the savings component, saving business carries a bigger proportion. And the savings component is highly sensitive to interest rate movement, particularly when the interest rate moves favorably. When the savings products are sold, it has certain positive impact on the VNB margins. And the reason why it is impacting more on group annuity is because the annuity being a long-term, and the long-term contracts have a bigger impact due to the compounding effect and that is one of the reasons why the margins for group annuities have gone up slightly higher.

In case of participating also, the margins have gone up higher and the major reason is the RFR changes. In case of non-participating, we have the Term Assurance products as well as annuity sitting there. So, the group annuities and individual annuities behave similarly. And the Term Assurance products are also giving healthier margin. And that is also improving the margins for non-PAR business. So, I think I have covered the point.

Swarnabh Mukherjee: This I understand vis-à-vis FY21 you have commented on. So, for the non-PAR business vis-à-vis what number was there at the end of first half, for first half year you have reported. If for the non-PAR side, if you could throw that first half gross margins 118% for non-PAR. Now for full year we are looking at 104%. So, what was the reason for this delta?

K. R. Ashok: Yes, actually we have reported and we have analyzed for this full year because that is consistent with the other comparisons which we are doing. So, immediately I don't have those numbers with me, so possibly we can connect separately and then we can discuss then.

Swarnabh Mukherjee: The sensitivity to interest rate for EV, both numbers are in the same direction and you have mentioned in the comment that this is due to asymmetric impact of PAR, TVFOG, if you couldhelp me understandin a little bit of less technical term maybe what had happened?

Dinesh Pant: See actually what happens is this time value of options and guarantees, it moves asymmetrically. What happens is when the interest rate falls the cost of guarantees move up, because we would have guaranteed say for example we have guaranteed it say x percent, and the interest rate comes closer to x percent. So, the potential time value of that option goes upfront. So, what happens is, when the interest rate goes up, the asset value goes down. So, there is a sort of distortion here and therefore the movement is not symmetrical here, it is caused because of the TVFOG which is the time value of options and guarantees.

Moderator: Ladies and gentleman, we will take that as a last question. I now hand the conference, over to Mr. M. R. Kumar, Chairperson, LIC for closing comments.

M. R. Kumar: Thank you everyone for being on the call today. I wish we could have taken more questions but the time limitations did not permit us to do so. May be we can catch up later on next time in the earnings calls, that call we will have after the Q1 Results Financials are declared. Thank you, once again everybody.

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