

BUY
 TP: Rs 1,500 | ▲ 15%

SBI LIFE

| Insurance

| 26 July 2023

Mixed quarter; robust FY24 outlook maintained

- Q1 APE growth softened to 4% YoY as non-par business slowed; management optimistic of a rebound
- VNB margin sheds 160bps YoY but still strong at 28.8%; guided to stay rangebound in the near future
- TP revised to Rs 1,500 (vs. Rs 1,520) as we adjust estimates post Q1; maintain BUY

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APE growth in lower single digits: SBI Life’s APE grew a mere 4% YoY in Q1FY24 to Rs 30bn owing to a 29% drop in non-par plans that were impacted by new tax regulation, largely negating ULIP sales growth of 17% YoY. Per management, non-par growth should bounce back in the remainder of FY24. Gross premium grew 19% YoY to Rs 136bn. The company maintained market leadership in the private life insurance space, commanding 22% NBP and 23% individual APE share at end-Q1.

Business skewed towards ULIPs: With non-par business dropping to Rs 5.8bn in Q1FY24, its share in total APE plummeted to 19% (vs. 28% in Q1FY23). ULIPs remained in focus at 53% of APE vs. 47%. Total protection business formed 12% share vs. 11% earlier. Individual protection APE grew 5% YoY in Q1 but was outdone by group protection at 33%. Demand for annuity products has been increasing and the segment grew 86% YoY, although on a lower base.

Change in product mix hurt VNB margin: SBI Life’s VNB was flat YoY in Q1 at Rs 8.7bn with a lower 28.8% margin (-160bps YoY) owing to a change in product mix. Management expects margins to remain rangebound at this level and we accordingly bake in estimates of 28.5% each (vs. 28%) for FY24/FY25. However, we pare VNB forecasts by 2%/0.4% owing to a 4%/2% cut in our APE estimates.

Mixed persistency results; cost ratios <11%: Persistency in the 13th month and 25th cohorts decreased by 60bps and 260bps YoY to 85.0% and 76.1% respectively in Q1, whereas that for the 61st month increased to 56.7% from 50.3%. The total cost ratio declined 40bps YoY to 10.8% at end-Q1 (opex ratio up 20bps YoY to 6.8% and commission ratio down 60bps to 4%), staying below that of listed private peers.

Maintain BUY: SBI Life is trading at 1.9x FY25E P/EV. Following our estimate changes, we arrive at a revised TP of Rs 1,500 (vs. Rs 1,520), valuing the stock at an unchanged 2.3x FY25E P/EV – a 10% discount to the long-term mean. We continue to like SBI Life for its market leadership, high VNB margins, efficient cost ratios and strong brand – maintain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SBILIFE IN/Rs 1,301
Market cap	US\$ 15.9bn
Free float	45%
3M ADV	US\$ 16.5mn
52wk high/low	Rs 1,340/Rs 1,054
Promoter/FPI/DII	55%/24%/16%

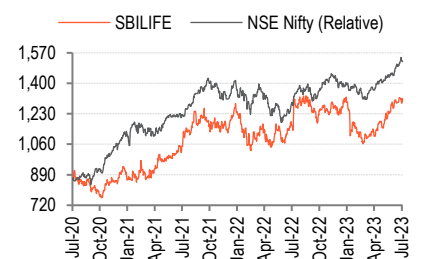
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	2,95,886	3,31,392	3,76,130
APE (Rs mn)	1,68,100	1,92,103	2,26,789
VNB (Rs mn)	50,700	54,749	64,635
Embedded Value (Rs mn)	4,60,600	5,51,496	6,60,003
VNB margin (%)	30.1	28.5	28.5
EVPS (Rs)	475.2	566.8	674.0
EPS (Rs)	17.2	17.7	19.2
Consensus EPS (Rs)	17.2	20.6	23.5
P/EV (x)	2.7	2.3	1.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

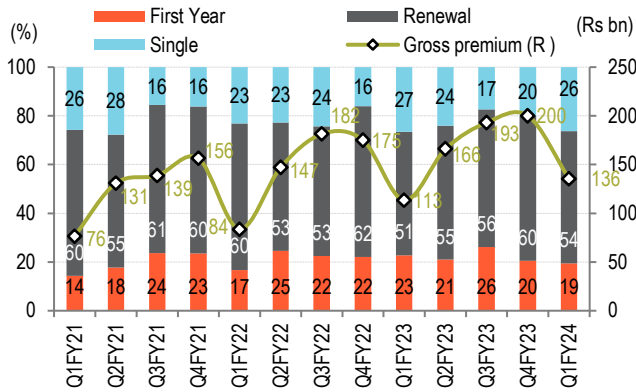
Stock performance



Source: NSE

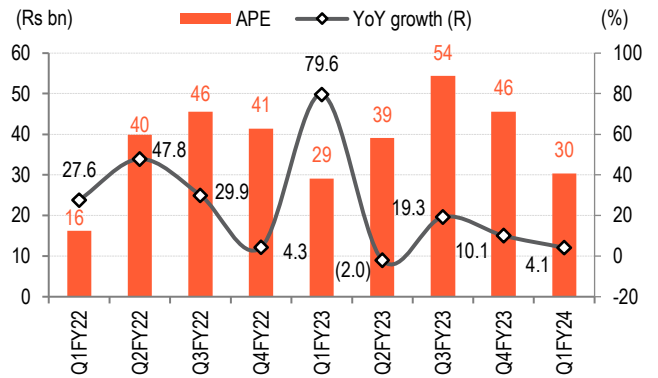


Fig 1 – Gross premium growth at 19% YoY



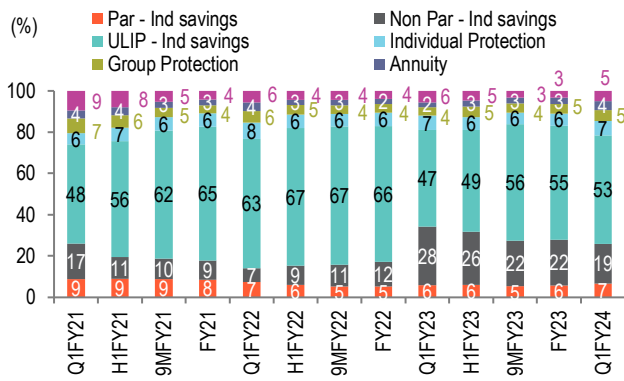
Source: Company, BOBCAPS Research

Fig 2 – APE growth dips to 4% YoY



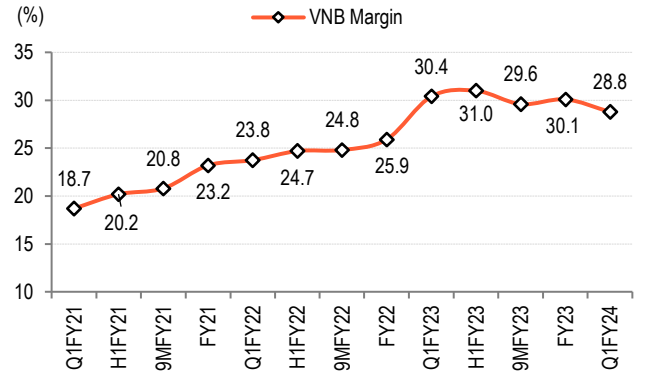
Source: Company, BOBCAPS Research

Fig 3 – Non-par business remains weak on APE basis



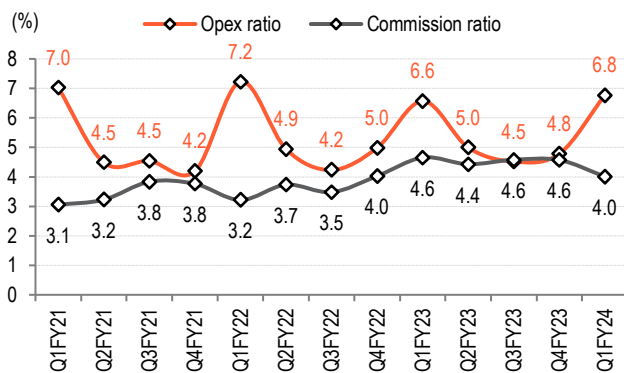
Source: Company, BOBCAPS Research | Ind – Individual

Fig 4 – VNB margin contraction in Q1 largely due to change in product mix



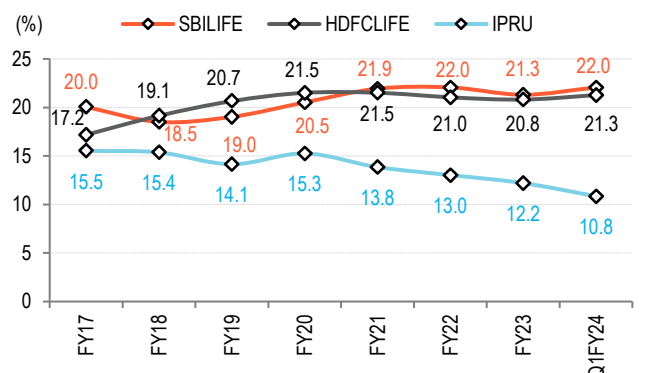
Source: Company, BOBCAPS Research

Fig 5 – Opex ratio higher but still at competitive levels



Source: Company, BOBCAPS Research

Fig 6 – NBP market share: Remains the leader in private life insurance



Source: Company, BOBCAPS Research

Fig 7 – Policyholders’ account

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Gross premium income	1,35,551	1,13,491	19.4	2,00,136	(32.3)	6,73,156	5,87,596	14.6
First Year Premium	26,374	25,704	2.6	40,896	(35.5)	1,51,971	1,29,415	17.4
Renewal Premium	73,480	57,577	27.6	1,19,370	(38.4)	3,77,270	3,33,023	13.3
Single Premium	35,697	30,210	18.2	39,869	(10.5)	1,43,915	1,25,158	15.0
Reinsurance	4,506	3,131	43.9	1,166	286.3	7,346	3,273	124.4
Net premium income	1,31,045	1,10,360	18.7	1,98,969	(34.1)	6,65,810	5,84,323	13.9
Income from investments (Net)	1,45,789	(64,057)	(327.6)	11,861	1129.1	1,32,601	2,35,679	(43.7)
Other income	86	108	(20.4)	149	(42.3)	499	327	52.2
Contribution of funds from Shareholders’ A/c	-	-	NA	17,075	(100.0)	17,075	9,942	71.7
Total	2,76,920	46,411	496.7	2,28,054	21.4	8,15,985	8,30,272	(1.7)
Commission on:								
First Year Premium	3,208	3,437	(6.7)	5,127	(37.4)	18,062	10,797	67.3
Renewal Premium	1,547	1,277	21.1	3,031	(49.0)	9,254	8,555	8.2
Single Premium	457	362	26.4	556	(17.8)	2,044	1,489	37.3
Rewards	225	200	12.2	432	(48.0)	1,265	742	70.4
Net Commission	5,436	5,277	3.0	9,146	(40.6)	30,625	21,583	41.9
Expenses of Management	14,609	12,733	14.7	18,732	(22.0)	34,224	30,153	13.5
Provision for taxes	2,303	1,967	17.1	2,546	(9.5)	9,668	8,681	11.4
Benefits Paid (Net)	71,034	51,717	37.4	91,232	(22.1)	3,02,875	3,13,398	(3.4)
Change in actuarial liability	1,85,197	(22,711)	(915.5)	96,043	92.8	4,10,031	4,37,619	(6.3)
Surplus/Deficit	3,801	2,725	39.5	19,423	(80.4)	28,562	18,838	51.6

Source: Company, BOBCAPS Research

Fig 8 – Shareholders’ account

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Transfer from Policyholders’ Account	1,890	1,003	88.4	23,028	(91.8)	27,072	17,324	56.3
Investment Income	2,120	1,758	20.6	2,125	(0.2)	7,945	9,831	(19.2)
Other income	0	4	(97.4)	3	(96.7)	8	54	(86.0)
Expenses other than those related to insurance business	79	82	(2.8)	118	(32.8)	(365)	(1,779)	(79.5)
Transfer of funds to Policyholders’ Account	-	-	NA	17,102	(100.0)	(17,075)	(9,821)	73.9
Profit before tax	3,897	2,674	45.7	7,936	(50.9)	17,584	15,608	12.7
Provisions for tax	87	46	90.4	167	(48.0)	(379)	(548)	(30.8)
Profit after tax and before extraordinary items	3,810	2,629	45.0	7,769	(51.0)	17,206	15,060	14.2

Source: Company, BOBCAPS Research

Fig 9 – Key ratios and growth metrics

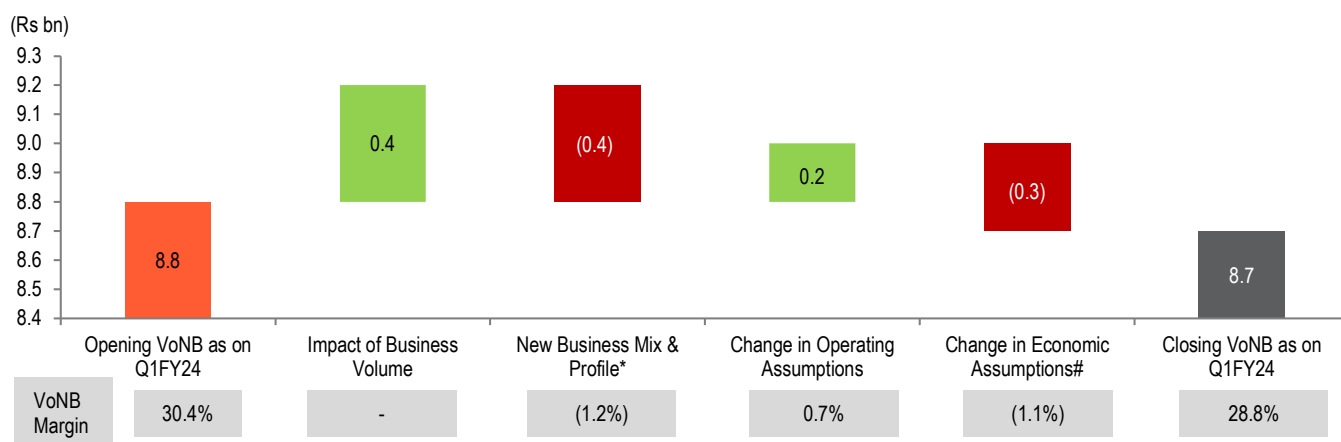
(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
NBP	62,071	55,914	11.0	80,765	(23.1)	2,95,886	2,54,574	16.2
APE	30,300	29,100	4.1	45,600	(33.6)	1,68,100	1,43,000	17.6
VNB	8,700	8,800	(1.1)	50,700	(82.8)	50,700	37,037	36.9
Opex ratio (%)	6.8	6.6	20bps	4.8	198bps	5.1	5.1	0bps
Commission ratio (%)	4.0	4.6	(64bps)	4.6	(56bps)	4.5	3.7	88bps
Expense ratio (%)	10.8	11.2	(44bps)	9.4	142bps	9.6	8.7	88bps
VNB margin (%) – Cumulative	28.8	30.4	(160bps)	30.1	(130bps)	30.1	25.9	420bps
Solvency ratio (%)	215.0	221.0	(600bps)	215	0bps	215.0	205.0	1,000bps
Persistency ratio (Regular Premium / Limited Premium Payment under Individual category)								
13th month (%) – Cumulative	85.0	85.6	(61bps)	85.5	(50bps)	85.5	85.2	30bps
61st month (%) - Cumulative	56.7	50.3	644bps	55.6	110bps	55.6	49.5	610bps

Source: Company, BOBCAPS Research

Fig 10 – Distribution mix (APE)

(%)	Q1FY21	H1FY21	9MFY21	FY21	Q1FY22	H1FY22	9MFY22	FY22	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24
Banca	56.0	61.0	64.0	63.0	57.0	62.0	64.0	63.0	63.0	63.0	66.0	64.0	65.0
Agency	26.0	24.0	24.0	26.0	29.0	27.0	25.0	26.0	26.0	25.0	25.0	26.0	25.0
Others	18.0	15.0	12.0	11.0	14.0	11.0	11.0	11.0	11.0	12.0	9.0	10.0	10.0

Source: Company, BOBCAPS Research | Banca – Bancassurance

Fig 11 – VNB remained flat in Q1; margins dipped

Source: Company, BOBCAPS Research | The methodology, assumptions and the results have been reviewed by Willis Towers Watson Actuarial Advisory LLP | *Impact of change mainly in business mix and profile (age, term, channel etc.); # Risk free rate change

Earnings call highlights

Business highlights

- SBI Life's NBP grew 11% YoY in Q1FY24 to Rs 62bn. Individual NBP increased 18% YoY to Rs 41bn and protection NBP grew 12% to Rs 7.8bn. Gross premium at Rs 136bn was up 19% YoY. APE registered 4% YoY growth to Rs 30.3bn.
- The company-maintained market leadership in the private space with NBP market share of 22% for Q1 (23% in individual APE terms).
- VNB margin stood at 28.8% at end-Q1FY24, declining 160bps over Q1FY23. AUM grew 25% to Rs 3.3tn.
- The opex ratio expanded 20bps YoY to 6.8% whereas the total cost ratio declined 40bps to 10.8%.
- Solvency margin remained comfortable at 215%.
- Total new business sum assured grew 44% YoY as compared to 42% at the industry level.
- Management expects growth momentum to continue and has guided for at least 20% business growth in FY24.

Product mix

- APE growth at 4% YoY was negatively impacted by a 29% decline in the non-participating segment as demand faltered after the new tax regulations on high-value policies came into effect from Apr'23. Consequently, the contribution from non-par savings products in APE dropped to 19% from 28% in Q1FY23.
- Positive market sentiment boosted the demand for ULIPs by 17% YoY to Rs 15.9bn with its share in APE increasing from 47% in Q1FY23 to 53%. Annuity, on a lower base, grew the highest at 86% YoY with its share improving from 2% to 4%. Individual protection share was stable at 7% whereas group protection improved from 4% to 5%.
- The company expects the non-par segment to pick up pace and to form 24-25% of APE by end-FY24, like that in FY23.
- New business underwritten in the annuity and pension segments totalled Rs 18.3bn in Q1, up 57% YoY. Annuity products are priced in line with rates prevailing in the market.
- Credit life insurance accounted for 45% of the group protection business. The balance came from group term insurance.

Distribution channels

- Bancassurance constituted 65% of the company's total APE at end-Q1FY24 (vs. 63% a year ago), whereas the share contributed by agents was stable at 25%.
- The share of non-SBI banks is ~3% and management expects this channel to deliver 20%+ growth ahead.
- During Q1, other channels, including direct, corporate agents, online brokers and web aggregators, grew 62% in terms of individual NBP and 18% in terms of individual APE.
- SBI Life added 14,048 agents during Q1, taking the total count to 222,822 (+38% YoY).
- Productivity per SBI branch is high at Rs 4.7mn and has scope to rise further as life insurance is an underpenetrated segment in India.
- IRDA's recent EOM (expense of management) guidelines do not entail a drastic change in commission payouts to distributors.

VNB

- VNB margin decreased from 30.4% in Q1FY23 to 28.8% in Q1FY24 on account of a change in product mix (-40bps impact) and economic assumptions (-30bps), offset by higher operating assumptions (+20bps).
- VNB remained flat at Rs 8.7bn in Q1. Management indicated that incremental business will be steered by APE growth as margins are likely to be rangebound.

Persistency & Surrender ratios

- 13th month persistency declined to 85% vs. 85.6% in Q1FY23. The 61st month cohort improved significantly to 56.7% vs. 50.3%.
- Management indicated that efforts to raise renewal premium should translate to normalisation of 13th and 25th month persistency by Q2.
- The surrender ratio moved up from 3.9% in Q1FY23 to 5.8% as customers encashed ULIP policies amid the rally in equity markets.

Valuation methodology

SBI Life has consistently maintained market leadership in the private life insurance space, commanding 21.3% NBP market share and 22.3% share in individual APE as at end-FY23 (22% and 23% respectively in Q1FY24). The company boasts strong brand equity and pedigree, with a wide reach across ~1,000 branches and 0.2mn agents.

VNB margin remains high at 28.8% in Q1 given the company's focus on a balanced product mix, and its cost ratio is the lowest among listed peers. Aligning our forecasts with management guidance, we now bake in VNB margins of 28.5% each (vs. 28% earlier) for FY24/FY25. However, we pare VNB forecasts by 2%/0.4% owing to a 4%/2% cut in our APE estimates

SBI Life is trading at 1.9x FY25E P/EV. Following our estimate changes, we arrive at a revised TP of Rs 1,500 (vs. Rs 1,520), valuing the stock at an unchanged 2.3x FY25E P/EV – a 10% discount to the long-term mean. We continue to like SBI Life for its market leadership, high VNB margins, efficient cost ratios and strong brand – maintain BUY.

Fig 12 – Revised estimates

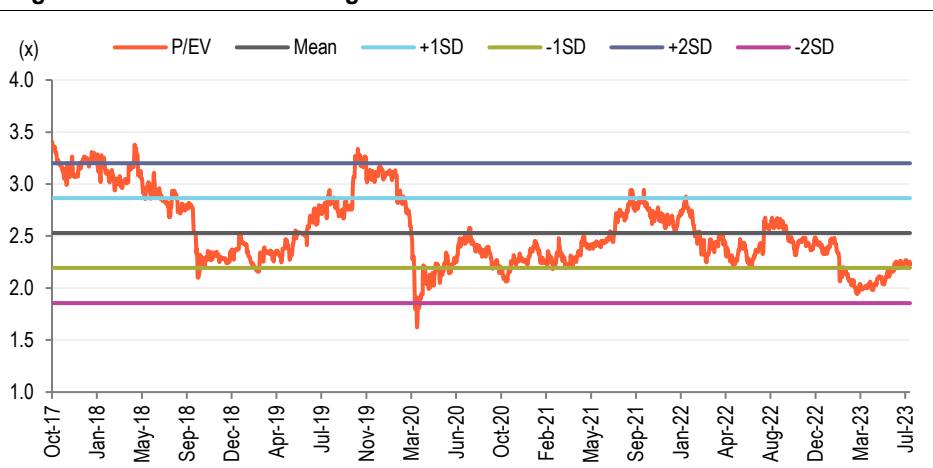
(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Gross Premium	7,60,077	8,70,677	7,71,287	8,89,540	(1.5)	(2.1)
Net Premium	7,51,220	8,60,581	7,64,304	8,81,535	(1.7)	(2.4)
VNB	55	65	56	65	(2.0)	(0.4)
APE	192	227	199	232	(3.7)	(2.2)
EV	551	660	553	661	(0.2)	(0.2)
VNB Margin (%)	28.5	28.5	28.0	28.0	50bps	50bps

Source: BOBCAPS Research

Fig 13 – Valuation summary

Particulars	
Embedded Value (FY25E) (Rs bn)	660
PV of Future business (Rs bn)	842
Total value (Rs bn)	1,502
Current P/EV (FY25E) (x)	2.0
Implied P/EV (FY25E) (x)	2.3
Implied Target Price (Rs)	1,500
Current Price (Rs)	1,310
Upside (%)	15

Source: Company, BOBCAPS Research

Fig 14 – 1Y fwd P/EV – Trading around -1SD


Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Change in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, currently ULIP proceeds are taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in income tax rate of insurance companies can adversely impact profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are opting for a balanced product mix, many of them have sizeable business coming from ULIPs.
- **Increasing interest rates:** The guaranteed return businesses can be affected by an increase in interest rates as other financial instruments (e.g. deposits) become more attractive.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. The shareholders' equity and earnings and policyholders' funds may be affected by fair value re-valuation of bonds held in investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered for reasons such as job loss and monetary requirements, which lowers the persistency ratios.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	16.9	652	700	HOLD
ICICI Prudential Life	IPRU IN	10.1	577	518	SELL
LIC	LICI IN	48.0	623	775	BUY
SBI Life	SBILIFE IN	15.9	1,301	1,500	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Jul 2023

Glossary

Glossary of Abbreviations			
APE	Average Premium Equivalent	NBP	New Business Premium
EOM	Expenses of Management	ROEV	Return on Embedded Value
EV	Embedded Value	RWRP	Retail Weighted Received Premium
EVOP	Embedded Value Operating Profit	ULIP	Unit Linked Insurance Plan
HNI	High Net Worth Individuals	VNB	Value of New Business
IRDA	Insurance Regulatory and Development Authority		

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Gross premium income	5,02,542	5,87,596	6,73,156	7,60,077	8,70,677
First year premium	1,03,381	1,29,415	1,51,971	1,74,420	2,07,590
Renewal premium	2,96,299	3,33,023	3,77,270	4,28,685	4,94,546
Single premium	1,02,861	1,25,158	1,43,915	1,56,972	1,68,540
Net written premium	4,97,683	5,84,323	6,65,810	7,51,220	8,60,581
Income from investments	3,14,560	2,35,679	1,32,601	3,36,372	2,97,883
Other Income	8,606	10,270	17,573	19,173	21,073
Total income	8,20,849	8,30,272	8,15,985	11,06,765	11,79,537
Commissions	17,788	21,583	30,625	32,628	36,740
Operating expenses	22,409	30,153	34,224	44,724	49,833
Benefits and bonuses paid	2,15,826	3,13,398	3,02,875	3,78,296	3,80,064
Change in liabilities (net)	5,39,342	4,37,619	4,10,031	6,11,818	6,71,256
Others	0	0	0	0	0
Total expenses	7,95,365	8,02,753	7,77,754	10,67,466	11,37,892
Surplus before tax	25,484	27,519	38,231	39,298	41,645
Provision for tax	7,410	8,681	9,668	10,273	10,638
Surplus after tax	18,074	18,838	28,562	29,026	31,007
Trf to shareholders' a/c	16,788	17,324	27,072	27,415	29,531
Balance being FFA	1,287	1,513	1,491	1,611	1,476

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Trf from policyholders' a/c	16,788	17,324	27,072	27,415	29,531
Income from investments	6,885	9,831	7,945	9,864	11,197
Contr. to policyholders' fund	(8,248)	(9,821)	(17,075)	(18,700)	(20,570)
Others	0	(1,726)	(357)	(376)	(395)
PBT	15,425	15,608	17,584	18,203	19,763
Provision for taxation	(866)	(548)	(379)	(455)	(494)
PAT	14,559	15,060	17,206	17,748	19,269
Dividend+Interim div.+DDT	2,500	2,003	2,504	3,004	3,004

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity	1,04,004	1,16,223	1,30,175	1,43,989	1,60,253
Policyholders' funds	20,43,379	24,74,190	28,57,634	35,11,263	41,82,519
FFA	8,423	9,936	11,427	11,770	12,006
Others	70,115	81,723	96,630	99,529	1,01,519
Total liabilities	22,25,921	26,82,072	30,95,866	37,66,551	44,56,297
Shareholders' funds	86,047	1,00,758	1,12,087	1,34,504	1,64,095
Policyholders' funds	9,39,364	11,21,307	12,98,702	19,01,335	23,71,181
Assets to cover linked liab.	11,62,150	14,26,253	16,32,555	16,47,322	18,12,055
Others	38,359	33,754	52,521	83,389	1,08,967
Total assets	22,25,921	26,82,072	30,95,866	37,66,551	44,56,297

Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
AUM (Rs mn)	22,08,710	26,74,000	32,42,897	38,27,480	45,11,917
NBP (Rs mn)	2,06,242	2,54,574	2,95,886	3,31,392	3,76,130
APE (Rs mn)	1,14,500	1,43,000	1,68,100	1,92,103	2,26,789
VNB (Rs mn)	23,358	37,037	50,700	54,749	64,635
VNB margin (%)	20.4	25.9	30.1	28.5	28.5
Embedded value (Rs mn)	3,33,630	3,96,030	4,60,600	5,51,496	6,60,003
ROEV (%)	19.1	20.7	22.9	20.4	20.2
ROE (%)	15.2	13.7	14.0	12.9	12.7
Opex ratio (%)	4.8	5.1	5.1	5.9	5.7
Cost ratio (%)	8.3	8.7	9.6	10.2	9.9
Solvency ratio (%)	214.7	204.8	223.0	218.5	216.2
EPS (Rs)	14.6	15.0	17.2	17.7	19.2
BVPS (Rs)	104.0	116.2	130.1	143.9	160.3
EVPS (Rs)	333.6	395.5	475.2	566.8	674.0

Source: Company, BOBCAPS Research

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

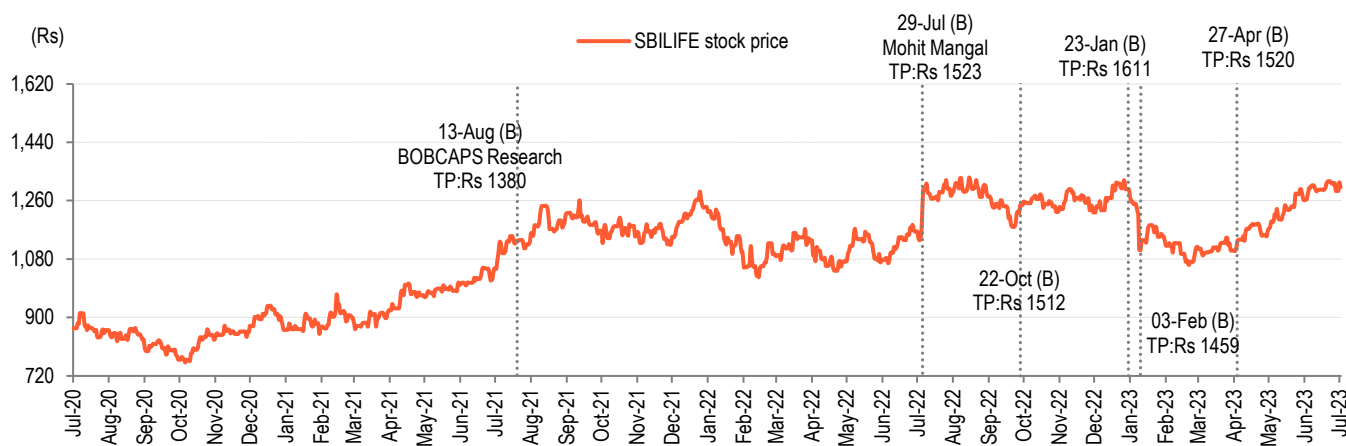
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SBI LIFE (SBILIFE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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