

**BUY**

TP: Rs 1,995 | ▲ 30%

**SBI LIFE**

| Insurance

| 20 January 2025

## A healthy quarter

- **Strong APE growth YoY while margins contract in 9M on shift towards ULIP mix and new surrender guidelines**
- **Expect margins to improve supported by protection business and overall APE growth**
- **SBILIFE is attractively valued with long-term story intact, management reiterates VNB and VNB margin guidance**

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**Strong APE:** SBILIFE's APE witnessed strong growth of 29% YoY in Q3FY25 and 11% YoY in 9MFY25 on a high base and gross premium increased at a robust 11% YoY and 9% in 9MFY25. This was led by Individual APE growth of 11% in 9MFY25 and 10% YoY in Q3FY25 vs. industry growth of 6% YoY in Q3FY25. NBP was flat in 9MFY25 to Rs 262.6bn with market share of 22.4% vs. 25.3% in 9MFY24. We expect APE to grow at a CAGR of ~10% in FY24-FY27E.

**Contraction in margin:** Despite robust APE growth, VNB margin contracted by 45bps YoY to 26.9% in Q3FY25, down ~120bps YoY in 9MFY25. This was primarily on account of new surrender regulations and increase in the share of ULIPs in the product mix. However, the company indicated that the margins remain stable except in non-par protection where repricing was undertaken in Q1 and Q2. While in Q3 the margin expanded owing to new product rider launch. It reiterated its margin guidance to be in the range of 27-29% going forward with medium-term margin guidance of 27% vs. earlier guidance of 26-27% in FY25E.

**Increase in ULIP share:** SBILIFE's ULIP share increased to 67% in the product mix on an APE basis in 9MFY25 vs. 61% in 9MFY24 on account of buoyant equity markets. This seems to have impacted the VNB margins in 9MFY25. However, management indicated that non-par margins improved during the quarter.

**New product added:** The company added that the non-par guaranteed savings product Smart Platina Supreme, which was received well, had a premium collection of Rs 2.5bn in a span of 20 days. This enhanced the company's overall margins and management indicated that the margins on this product is better than the existing products.

**Assume coverage with BUY:** We expect SBILIFE to register strong growth in APE supported by protection products and to be able to maintain margins going ahead. We believe the company could clock margin of 26-28% in FY25E-FY27E. We assume coverage on SBILIFE and maintain BUY, but lower TP to Rs 1,995, from Rs 2,040, assigning a multiple of 2.3x (previously 2.5x) to its Dec'26 P/EV.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SBILIFE IN/Rs 1,541
Market cap	US\$ 17.8bn
Free float	45%
3M ADV	US\$ 32.5mn
52wk high/low	Rs 1,936/Rs 1,308
Promoter/FPI/DII	55%/22%/18%

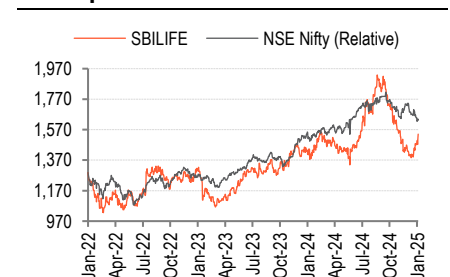
Source: NSE | Price as of 17 Jan 2025

## Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NBP (Rs mn)	3,82,383	4,15,541	4,80,780
APE (Rs mn)	1,97,200	2,28,159	2,62,039
VNB (Rs mn)	55,500	61,375	71,537
Embedded Value (Rs mn)	5,82,500	7,07,769	8,42,420
VNB margin (%)	28.1	26.9	27.3
EVPS (Rs)	582.0	707.1	841.6
EPS (Rs)	18.9	23.6	26.9
Consensus EPS (Rs)	18.9	20.0	22.0
P/EV (x)	2.6	2.2	1.8

Source: Company, Bloomberg, BOBCAPS Research

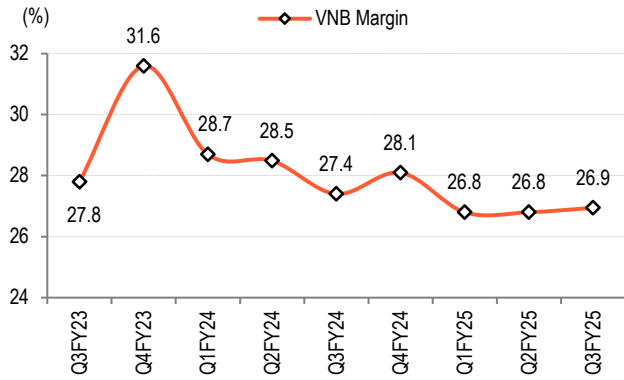
## Stock performance



Source: NSE

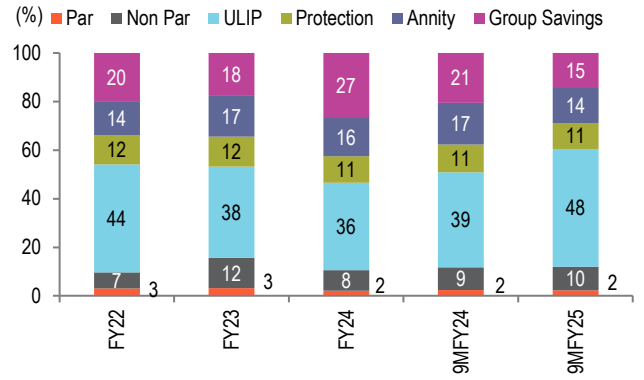


**Fig 1 – Stable margins across last few quarters**



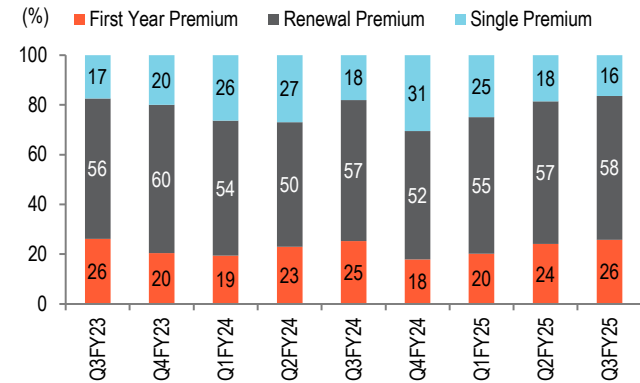
Source: Company, BOBCAPS Research

**Fig 2 – Unit-linked products continue to gain momentum**



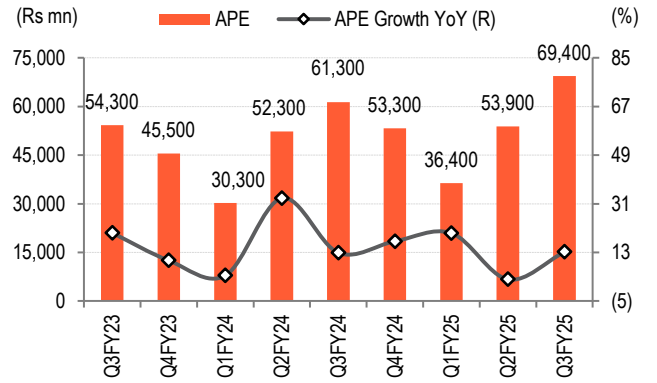
Source: Company, BOBCAPS Research

**Fig 3 – Single premium in the gross premium mix continues to shrink**



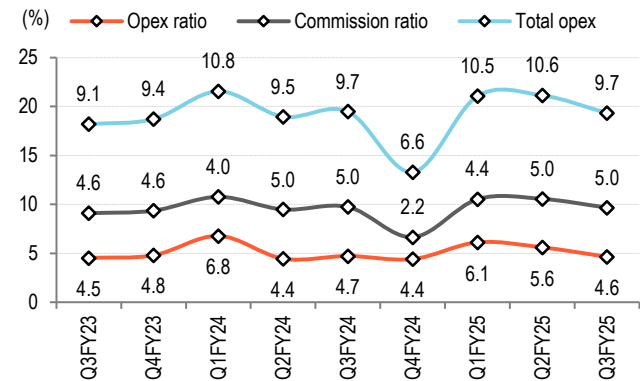
Source: Company, BOBCAPS Research

**Fig 4 – APE growth stands at 13.2% YoY for Q3FY25**



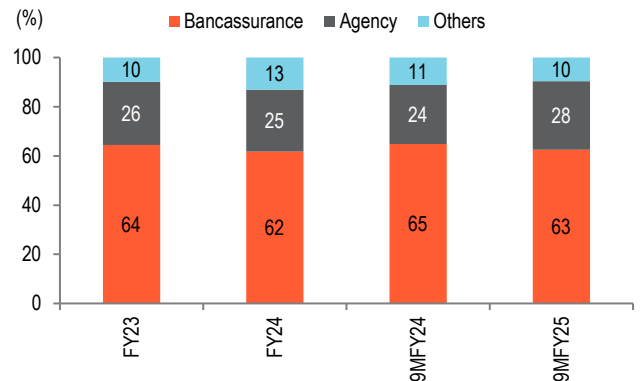
Source: Company, BOBCAPS Research

**Fig 5 – Opex moderated at optimum level for the company**

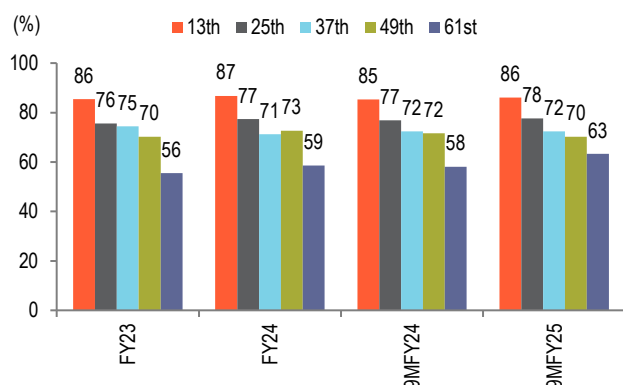


Source: Company, BOBCAPS Research

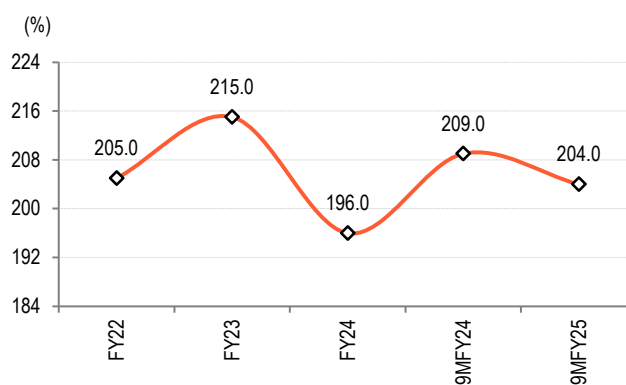
**Fig 6 – Reliance on bancassurance to fall in coming quarters**



Source: Company, BOBCAPS Research

**Fig 7 – 61<sup>st</sup> month persistency showing signs of renewal premium**


Source: Company, BOBCAPS Research

**Fig 8 – Adequate solvency margin, well above industry peers**


Source: Company, BOBCAPS Research

**Fig 9 – Policyholder's account**

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY (%)
<b>Gross premium income</b>	2,49,978	2,24,586	11.3	2,04,132	22.5	8,14,306	6,73,156	21.0
First Year Premium	64,508	56,767	13.6	49,157	31.2	1,74,757	1,51,971	15.0
Renewal Premium	1,44,676	1,27,200	13.7	1,17,212	23.4	4,31,923	3,77,270	14.5
Single Premium	40,794	40,620	0.4	37,763	8.0	2,07,626	1,43,915	44.3
Reinsurance	1,703	1,421	19.8	1,471	15.8	8,435	7,346	14.8
<b>Net premium income</b>	<b>2,48,275</b>	<b>2,23,165</b>	<b>11.3</b>	<b>2,02,661</b>	<b>22.5</b>	<b>8,05,871</b>	<b>6,65,810</b>	<b>21.0</b>
Income from investments (Net)	(62,817)	1,64,686	(138.1)	1,97,531	(131.8)	5,03,666	1,32,601	279.8
Other income	(37)	183	(120.4)	(41)	(9.5)	501	499	0.5
Contribution of funds from Shareholders' A/c	0	0	-	0	-	16,276	17,075	(4.7)
<b>Total</b>	<b>1,85,422</b>	<b>3,88,034</b>	<b>(52.2)</b>	<b>4,00,150</b>	<b>(53.7)</b>	<b>13,26,314</b>	<b>8,15,985</b>	<b>62.5</b>
<b>Commission on</b>								
First Year Premium	5,929	5,725	3.6	4,859	22.0	18,473	18,062	2.3
Renewal Premium	3,602	3,046	18.3	2,937	22.6	10,406	9,254	12.5
Single Premium	612	596	2.8	576	6.3	2,171	2,044	6.2
Others	2,441	1,923	27.0	1,777	37.4	1,502	1,265	18.7
<b>Net Commission</b>	<b>12,585</b>	<b>11,289</b>	<b>11.5</b>	<b>10,148</b>	<b>24.0</b>	<b>32,553</b>	<b>30,625</b>	<b>6.3</b>
Expenses of Management	24,172	21,877	10.5	21,569	12.1	39,626	34,224	15.8
<b>Operating Profit</b>	<b>1,48,665</b>	<b>3,54,868</b>	<b>(58.1)</b>	<b>3,68,433</b>	<b>(59.6)</b>	<b>12,54,135</b>	<b>7,51,136</b>	<b>67.0</b>
Provision for taxes	219	409	(46.4)	545	(59.8)	10,833	9,668	12.0
Benefits Paid (Net)	1,25,341	1,11,361	12.6	1,40,102	(10.5)	4,31,074	3,02,875	42.3
Change in actuarial liability	29,084	2,48,641	(88.3)	2,30,532	(87.4)	7,84,313	4,10,031	91.3
<b>Surplus/Deficit</b>	<b>3,470</b>	<b>3,375</b>	<b>2.8</b>	<b>4,661</b>	<b>(25.5)</b>	<b>27,915</b>	<b>28,562</b>	<b>(2.3)</b>

Source: Company, BOBCAPS Research

**Fig 10 – Shareholder's account**

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY (%)
<b>Transfer from Policyholders' Account</b>	<b>2,623</b>	<b>848</b>	<b>209.3</b>	<b>2,545</b>	<b>3.1</b>	<b>25,977</b>	<b>27,072</b>	<b>(4.0)</b>
Investment Income	3,161	2,474	27.7	2,826	11.9	5,03,666	1,32,601	279.8
Other income	(37)	183	(120.4)	(41)	(9.5)	0	8	(100.0)
Expenses other than those related to insurance business	69	67	3.5	85	(19.1)	515	372	38.2
Transfer of funds to Policyholders' Account	0	0	-	0	-	16,276	17,075	(4.7)
Provisions for diminution in value of investments	9	(34)	(125.0)	(184)	(104.7)	(106)	8	(1,490.8)
<b>Profit before tax</b>	<b>5,716</b>	<b>3,290</b>	<b>73.7</b>	<b>5,469</b>	<b>4.5</b>	<b>19,421</b>	<b>17,584</b>	<b>10.4</b>
Provisions for tax	208	73	185.2	175	18.7	483	379	27.6
<b>Profit after tax and before extraordinary items</b>	<b>5,508</b>	<b>3,218</b>	<b>71.2</b>	<b>5,294</b>	<b>4.0</b>	<b>18,938</b>	<b>17,206</b>	<b>10.1</b>

Source: Company, BOBCAPS Research

## Earnings call highlights

### Business highlights

- SBILIFE's gross premium income rose 11% YoY in Q3FY25 aided by first year premium (up 14% YoY) and renewal premium growth (up 14% YoY). While single premium was stable YoY. Net premium income grew 11% YoY in Q3FY25.
- Individual new business is at Rs 5.2bn which grew 12% YoY in Q3FY25. Group protection was at Rs 22.7bn in Q3FY25. Credit life witnessed growth of 8% YoY to Rs 17.3bn. Overall protection business, now constituting 8% of the APE, was at Rs 13.5bn.
- The company plans to add 40 branches by FY25 and expand to Tier-3 and -4 geographies.

### Product mix

- Buoyant equity markets led to increase in the share of ULIPs to 67% in 9MFY25 as there was increased demand for such products.
- The product mix stood at ULIPs 67%, par savings 4%, non-par savings 16%, protection 8% and annuities 2%.
- For the company, retail protection continues to do well with growth clocking 12% YoY in Q3FY25 on an NBP basis. Credit life growth too picked up, which grew 8% YoY to Rs 17.3bn.
- The company is witnessing healthy growth in the pure protection policies as compares to RoP policies which has positively impacted the sum assured. Sum assured grew 33% YoY in 9MFY25 to Rs 1,815bn.

The company relaunched all its products in accordance with the new surrender guidelines.

### Banca channel mix

- The company reiterated that growth in the distribution channel was in line with its targets set earlier. Bancassurance grew 7% YoY and agency channel 28% YoY in 9MFY25 with a mix of 63% and 28% respectively.
- The company expects growth of channels to be at similar levels going forward.
- During the quarter, the company saw more deletions of agents as the company moved to a new definition which led to net deletion of agents to the tune of ~45,000 agents.

## Valuation methodology

SBI Life registered a healthy quarterly performance with strong APE growth of 29% YoY in Q3FY25 and 11% YoY in 9MFY25 on a high base and gross premium increased at a robust 11% YoY and 9% in 9MFY25. VNB margin contracted by 45bps YoY to 26.9% in Q3FY25, down ~120bps YoY in 9MFY25. This was primarily on account of new surrender regulations and increase in the share of ULIPs in the product mix.

Going ahead, we expect SBILIFE to register strong growth in APE supported by protection products and is likely to maintain margins going ahead. We believe the company could clock margin of 26-28% in FY25E-FY27E. We assume coverage on SBILIFE and maintain BUY, but lower TP to Rs 1,995, from Rs 2,040, assigning a multiple of 2.3x (previously 2.5x) to its Dec'26 P/EV

## Key risks

Key downside risks to our estimates are:

- **Change in regulatory framework:** Any unfavourable change in regulations can affect business growth. For example, ULIP proceeds are currently taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in income tax rate for insurance companies could adversely impact profitability, in our view.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper growth of ULIPs. Although insurance companies are opting for balanced product mixes, many of them have sizeable business coming from ULIPs.
- **Increasing interest rates:** Guaranteed-return businesses could 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 also be affected by fair value revaluation 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 in case of job loss and monetary requirements, among other factors, which lowers the persistency ratios.

## Glossary

### Glossary of Abbreviations

<b>APE</b>	Annual Premium Equivalent	<b>NBP</b>	New Business Premium
<b>EOM</b>	Expenses of Management	<b>ROEV</b>	Return on Embedded Value
<b>EV</b>	Embedded Value	<b>ROP</b>	Return of Premium
<b>EVOP</b>	Embedded Value Operating Profit	<b>RWRP</b>	Retail Weighted Received Premium
<b>HNI</b>	High Net Worth Individuals	<b>ULIP</b>	Unit Linked Insurance Plan
<b>IRDAI</b>	Insurance Regulatory and Development Authority	<b>VNB</b>	Value of New Business

## Financials

### Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Gross premium income</b>	<b>6,73,156</b>	<b>8,14,306</b>	<b>9,23,423</b>	<b>10,68,401</b>	<b>12,28,661</b>
First year premium	1,51,971	1,74,757	1,98,175	2,29,288	2,45,732
Renewal premium	3,77,270	4,31,923	5,07,883	5,87,621	6,75,764
Single premium	1,43,915	2,07,626	2,17,366	2,51,492	3,07,165
<b>Net written premium</b>	<b>6,65,810</b>	<b>8,05,871</b>	<b>9,14,189</b>	<b>10,57,717</b>	<b>12,16,374</b>
Income from investments	1,32,601	5,03,666	5,40,829	5,63,767	6,39,426
Other Income	17,573	16,777	19,250	22,105	25,373
<b>Total income</b>	<b>8,15,985</b>	<b>13,26,314</b>	<b>14,74,269</b>	<b>16,43,589</b>	<b>18,81,173</b>
Commissions	30,625	32,553	35,995	41,931	48,254
Operating expenses	34,224	39,626	50,043	52,554	60,488
Benefits and bonuses paid	3,02,875	4,31,074	4,76,774	5,30,341	6,29,000
Change in liabilities (net)	4,10,031	7,84,313	8,64,759	9,65,485	10,81,353
Others	0	0	0	0	0
<b>Total expenses</b>	<b>7,77,754</b>	<b>12,87,567</b>	<b>14,27,571</b>	<b>15,90,311</b>	<b>18,19,095</b>
<b>Surplus before tax</b>	<b>38,231</b>	<b>38,747</b>	<b>46,698</b>	<b>53,278</b>	<b>62,078</b>
Provision for tax	9,668	10,833	13,167	14,297	16,437
<b>Surplus after tax</b>	<b>28,562</b>	<b>27,915</b>	<b>33,531</b>	<b>38,981</b>	<b>45,641</b>
Trf to shareholders' a/c	27,072	25,977	31,854	35,083	41,077
Balance being FFA	1,491	1,938	1,677	3,898	4,564

### Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Trf from policyholders' a/c	27,072	25,977	31,854	35,083	41,077
Income from investments	7,945	10,341	11,733	14,666	18,332
Contr. to policyholders' fund	(17,075)	(16,276)	(18,709)	(21,515)	(24,742)
Others	(357)	(620)	(672)	(728)	(790)
<b>PBT</b>	<b>17,584</b>	<b>19,421</b>	<b>24,207</b>	<b>27,505</b>	<b>33,877</b>
Provision for taxation	(379)	(483)	(605)	(550)	(678)
<b>PAT</b>	<b>17,206</b>	<b>18,938</b>	<b>23,601</b>	<b>26,955</b>	<b>33,199</b>
Dividend+Interim div.+DDT	2,504	2,705	2,705	3,507	3,507

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity	1,30,175	1,49,084	1,66,811	1,90,259	2,19,951
Policyholders' funds	28,57,634	36,51,022	45,15,781	54,81,266	65,62,618
FFA	11,427	13,366	13,633	13,906	14,184
Others	96,630	1,14,357	1,16,644	1,18,977	1,21,356
<b>Total liabilities</b>	<b>30,95,866</b>	<b>39,27,828</b>	<b>48,12,869</b>	<b>58,04,407</b>	<b>69,18,110</b>
Shareholders' funds	1,12,087	1,30,364	1,62,955	2,03,693	2,54,617
Policyholders' funds	12,98,702	15,65,436	18,84,617	22,70,792	27,39,398
Assets to cover linked liab.	16,32,555	21,60,103	25,92,123	31,10,548	31,10,548
Others	52,521	71,927	1,73,174	2,19,374	28,13,547
<b>Total assets</b>	<b>30,95,866</b>	<b>39,27,830</b>	<b>48,12,869</b>	<b>58,04,407</b>	<b>69,18,110</b>

### Key Metrics

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
AUM (Rs mn)	30,73,390	39,04,623	46,87,591	56,34,797	67,81,783
NBP (Rs mn)	2,95,886	3,82,383	4,15,541	4,80,780	5,52,897
APE (Rs mn)	1,68,100	1,97,200	2,28,159	2,62,039	3,03,797
VNB (Rs mn)	50,700	55,500	61,375	71,537	83,544
VNB margin (%)	30.1	28.1	26.9	27.3	27.5
Embedded value (Rs mn)	4,60,600	5,82,500	7,07,769	8,42,420	10,03,358
ROEV (%)	22.9	21.8	18.5	18.1	17.9
ROE (%)	14.0	13.6	14.9	15.1	16.2
Opex ratio (%)	5.1	4.9	5.4	4.9	4.9
Cost ratio (%)	9.6	8.9	9.3	8.9	8.9
Solvency ratio (%)	215.4	191.8	191.3	187.8	0.0
EPS (Rs)	17.2	18.9	23.6	26.9	33.1
BVPS (Rs)	130.1	148.9	166.7	190.1	219.7
EVPS (Rs)	460.2	582.0	707.1	841.6	1,002.4

Source: Company, BOBCAPS Research

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**BUY** – Expected return >+15%

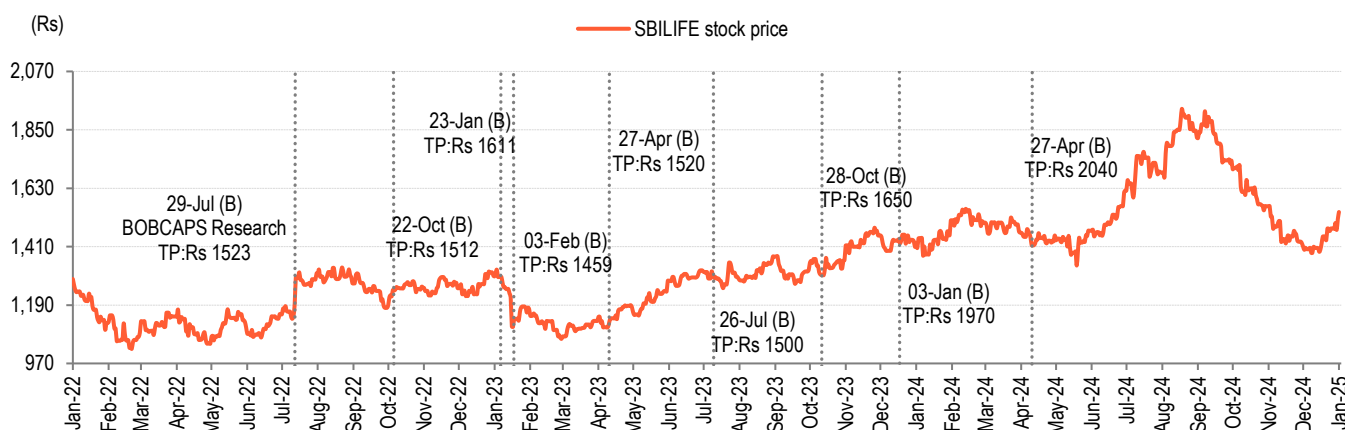
**HOLD** – Expected return from -6% to +15%

**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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