

**BUY**  
 TP: Rs 2,040 | ▲ 44%

**SBI LIFE**

| Insurance

| 27 April 2024

**Expect market dominance to continue**

- **FY24 APE growth strong at 17% YoY with ULIPs forming 60% of total; continues to lead the market with 23.3% share in individual APE**
- **VNB margin declined 200bps YoY, but remains comparatively better than listed peers at 28.1% at end FY24**
- **Our TP increased to Rs 2,040 (from Rs 1,970) on estimate revisions, based on an unchanged 2.5x FY26E P/EV; maintain BUY**

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**Market leadership maintained:** SBI Life’s APE grew at a strong 17% YoY to Rs 197bn in FY24 (+17% YoY to Rs 53bn in Q4FY24) and gross premium increased 21% to Rs 814bn. The company maintains market leadership in private life insurance, commanding 23.3% share in individual APE at end-FY24 (17.4% in Q4) – well ahead of the #2 player by a margin of ~800bps. We expect lower Q4 market share to be an aberration. We raise our premium estimates by 4%/5% for FY25/FY26. APE projections increase by 1% of FY25 and marginally for FY26.

**Business skewed towards ULIPs:** ULIPs remained in focus, growing 28% YoY as at end-FY24 and constituting 60% of APE vs. 55% in FY23. Non-par business declined 14% YoY to Rs 32.4bn in FY24, causing its share in total APE to reduce to 16% (22% in FY23). Total protection business formed 11% of APE. Individual protection APE slid 4% YoY, but group protection grew 45%. SBI Life introduced two new protection products in Q4 and is keen to grow its individual segment in the category. Group savings grew 89% YoY but remained a lumpy business.

**VNB margin to remain low:** SBI Life’s VNB grew 9% YoY to Rs 55.5bn at end-FY24. Over this period, the VNB margin fell from 30.1% to 28.1% majorly due to a shift in product mix towards ULIPs. We trim our FY25/FY26 margin estimates by 100/150bps at 27.5% for each of the years.

**Persistency ratios improve, expense ratio declines:** Persistency in the 13<sup>th</sup> month cohort improved to 86.8% at end-FY24 from 85.5% in the year-ago period and in the 61<sup>st</sup> month to 58.6% from 55.6%. The expense ratio declined 73bps YoY to 8.9% in FY24. In Q4, the expense ratio was positively impacted by the reversal of provisions made for commissions to the banca partners.

**Our top pick – BUY:** SBI Life is trading at 1.7x FY26E P/EV. Considering the company’s strong performance and market leadership, we increase our estimates and assign an unchanged multiple of 2.5x FY26E P/EV to the stock – in line with the long-term mean. Our TP increases to Rs 2,040 (from Rs 1,970) and carries 44% upside. SBI Life continues to be our top pick among life insurers – retain BUY.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	SBILIFE IN/Rs 1,415
Market cap	US\$ 17.2bn
Free float	45%
3M ADV	US\$ 22.5mn
52wk high/low	Rs 1,569/Rs 1,125
Promoter/FPI/DII	55%/24%/16%

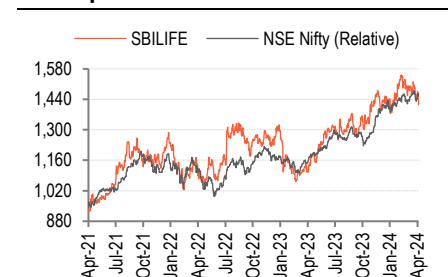
Source: NSE | Price as of 26 Apr 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
NBP (Rs mn)	3,82,383	4,47,388	5,18,970
APE (Rs mn)	1,97,200	2,31,773	2,68,857
VNB (Rs mn)	55,500	63,738	73,936
Embedded Value (Rs mn)	5,82,500	6,90,813	8,17,007
VNB margin (%)	28.1	27.5	27.5
EVPS (Rs)	581.3	689.4	815.4
EPS (Rs)	18.9	18.9	22.8
Consensus EPS (Rs)	18.9	20.0	22.0
P/EV (x)	2.4	2.1	1.7

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

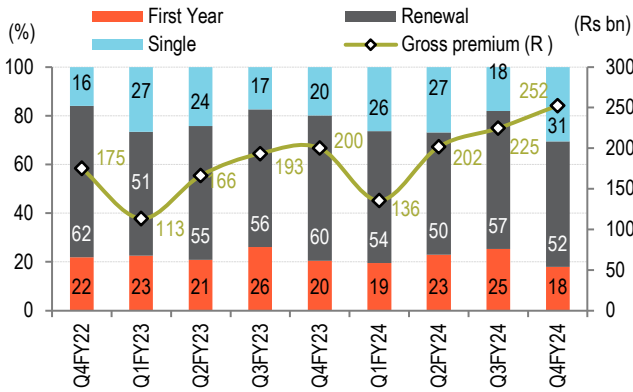
**Stock performance**



Source: NSE

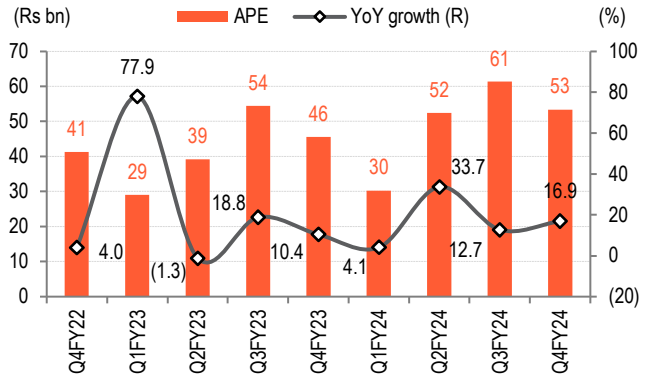


**Fig 1 – Gross premium up 26% YoY in Q4FY24**



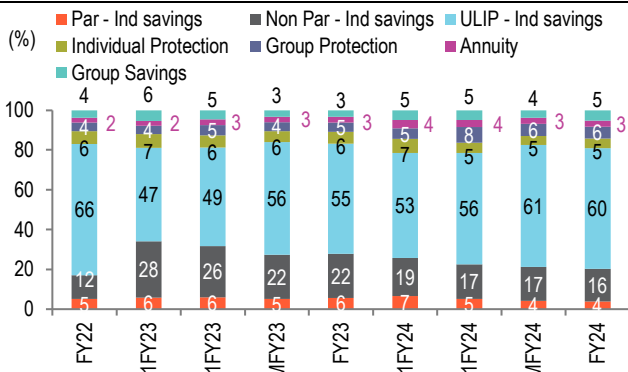
Source: Company, BOBCAPS Research

**Fig 2 – APE growth at 17% YoY**



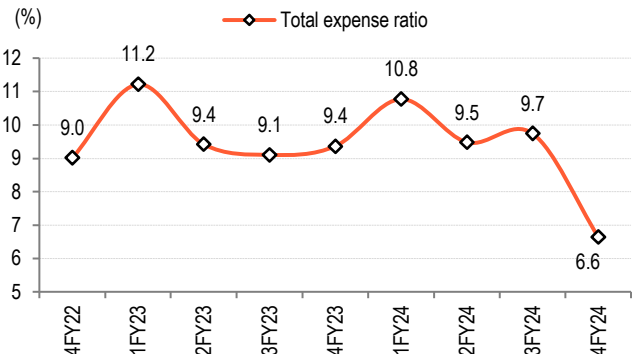
Source: Company, BOBCAPS Research

**Fig 3 – ULIPs continue to dominate the product mix**



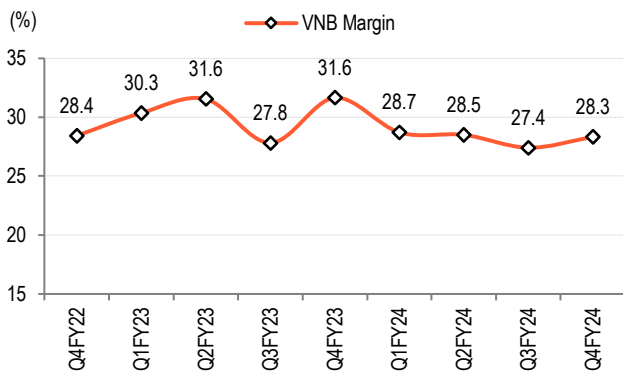
Source: Company, BOBCAPS Research | Ind – Individual

**Fig 4 – Total expense ratio remains competitive**



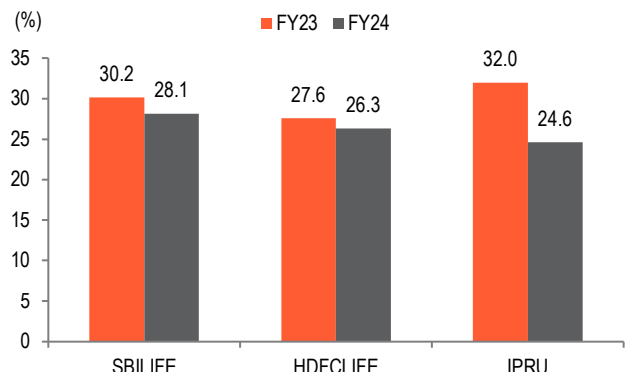
Source: Company, BOBCAPS Research

**Fig 5 – VNB margin holds up despite higher share of ULIP**



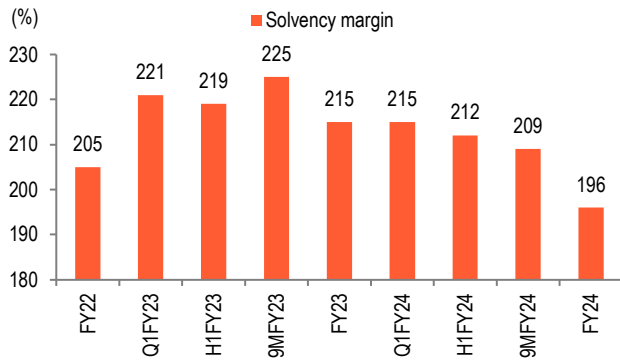
Source: Company, BOBCAPS Research

**Fig 6 – VNB margin still better than major listed peers**



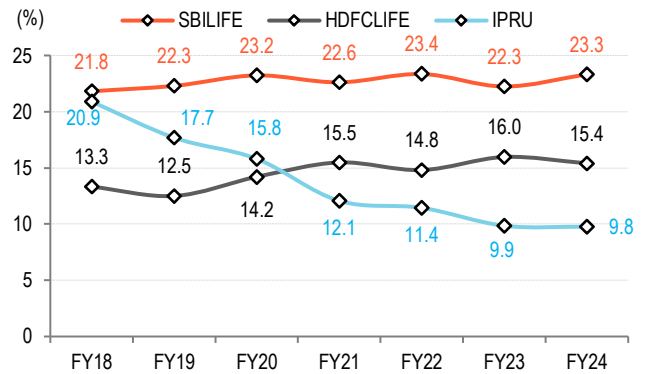
Source: Company, BOBCAPS Research

**Fig 7 – Solvency margin adequate**



Source: Company, BOBCAPS Research

**Fig 8 – Individual APE market share expands to 23.3% in FY24; top player in the private space**



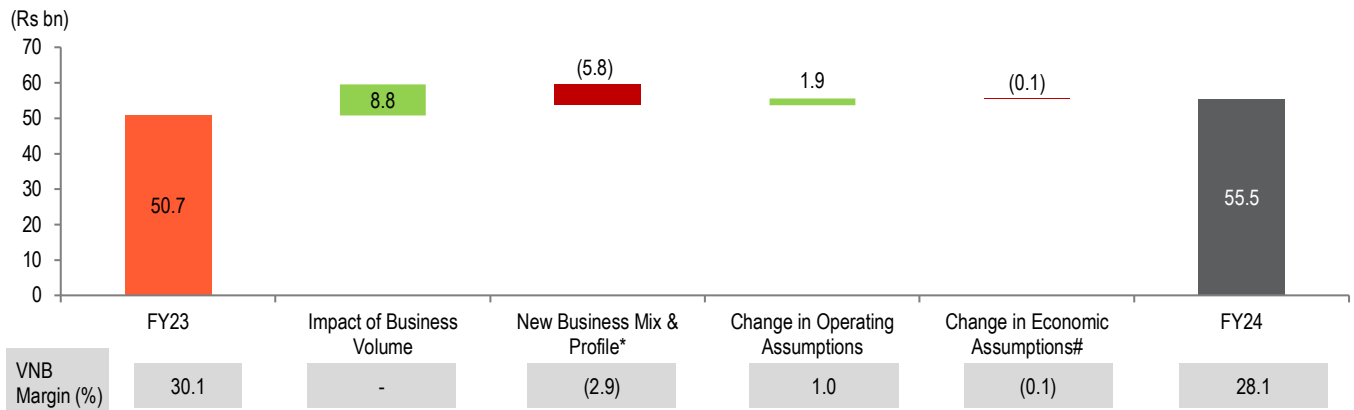
Source: Company, BOBCAPS Research

**Fig 9 – Distribution mix (APE)**

(%)	Q1FY22	H1FY22	9MFY22	FY22	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24	H1FY24	9MFY24	FY24
Bancassurance	57.0	62.0	64.0	63.0	63.0	63.0	66.0	64.0	65.0	60.0	65.0	62.0
Agency	29.0	27.0	25.0	26.0	26.0	25.0	25.0	26.0	25.0	26.0	24.0	25.0
Others	14.0	11.0	11.0	11.0	11.0	12.0	9.0	10.0	10.0	14.0	11.0	13.0

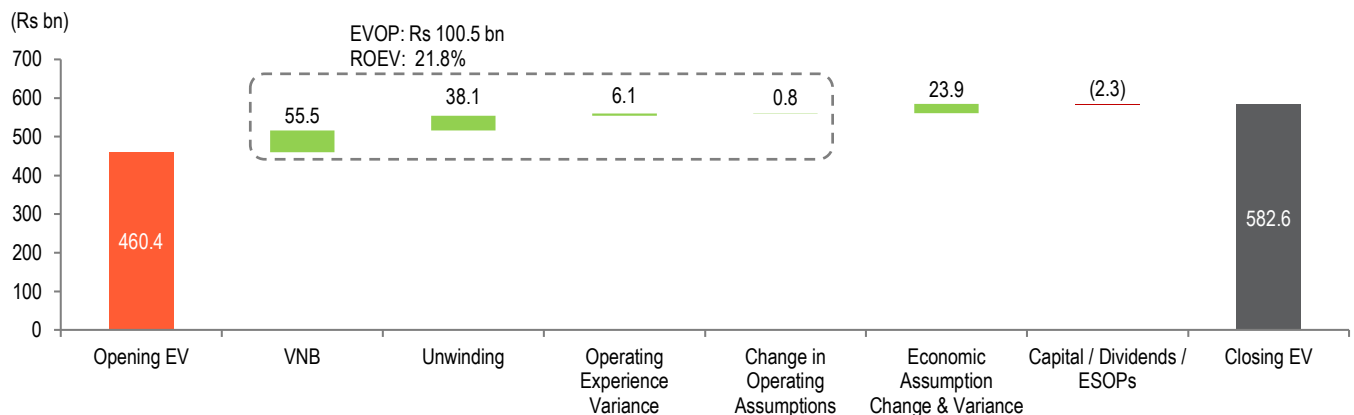
Source: Company, BOBCAPS Research

**Fig 10 – VNB up 9% YoY but product mix shift towards ULIPs constrained VNB margin**



Source: Company, BOBCAPS Research | Note: 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

**Fig 11 – EV positively impacted by economic assumption change; ROEV stands at 21.8%**



Source: Company, BOBCAPS Research | Note: EV = Embedded Value, EVOP Embedded Value Operating Profit, ROEV Return on Embedded Value

**Fig 12 – Policyholders’ account**

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
<b>Gross premium income</b>	2,52,411	2,00,136	26.1	2,24,586	12.4	8,14,306	6,73,156	21.0
First Year Premium	45,283	40,896	10.7	56,767	(20.2)	1,74,757	1,51,971	15.0
Renewal Premium	1,30,033	1,19,370	8.9	1,27,200	2.2	4,31,923	3,77,270	14.5
Single Premium	77,096	39,869	93.4	40,620	89.8	2,07,626	1,43,915	44.3
Reinsurance	1,247	1,166	6.9	1,421	(12.3)	8,435	7,346	14.8
<b>Net premium income</b>	<b>2,51,165</b>	<b>1,98,969</b>	<b>26.2</b>	<b>2,23,165</b>	<b>12.5</b>	<b>8,05,871</b>	<b>6,65,810</b>	<b>21.0</b>
Income from investments (Net)	1,08,117	11,861	811.5	1,64,686	(34.3)	5,03,666	1,32,601	279.8
Other income	118	149	(20.9)	183	(35.6)	501	499	0.5
Contribution of funds from Shareholders’ A/c	16,276	17,075	(4.7)	-	NA	16,276	17,075	(4.7)
<b>Total</b>	<b>3,75,675</b>	<b>2,28,054</b>	<b>64.7</b>	<b>3,88,034</b>	<b>(3.2)</b>	<b>13,26,314</b>	<b>8,15,985</b>	<b>62.5</b>
Commission on:								
First Year Premium	4,689	5,127	(8.5)	5,725	(18.1)	18,473	18,062	2.3
Renewal Premium	3,277	3,031	8.1	3,046	7.6	10,406	9,254	12.5
Single Premium	548	556	(1.5)	596	(8.1)	2,171	2,044	6.2
Rewards	(2,855)	432	(761.2)	1,923	(248.5)	1,502	1,265	18.7
<b>Net Commission</b>	<b>5,659</b>	<b>9,146</b>	<b>(38.1)</b>	<b>11,289</b>	<b>(49.9)</b>	<b>32,553</b>	<b>30,625</b>	<b>6.3</b>
<b>Expenses of Management</b>	<b>16,764</b>	<b>18,732</b>	<b>(10.5)</b>	<b>21,877</b>	<b>(23.4)</b>	<b>72,179</b>	<b>64,849</b>	<b>11.3</b>
Provision for taxes	2,782	2,546	9.3	3,074	(9.5)	10,833	9,668	12.0
Benefits Paid (Net)	1,48,233	91,232	62.5	1,11,361	33.1	4,31,074	3,02,875	42.3
Change in actuarial liability	1,90,769	96,043	98.6	2,48,641	(23.3)	7,84,313	4,10,031	91.3
<b>Surplus/Deficit</b>	<b>17,099</b>	<b>19,423</b>	<b>(12.0)</b>	<b>3,375</b>	<b>406.6</b>	<b>27,915</b>	<b>28,562</b>	<b>(2.3)</b>

Source: Company, BOBCAPS Research

**Fig 13 – Shareholders’ account**

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Transfer from Policyholders’ Account	21,573	23,028	(6.3)	848	2443.3	25,977	27,072	(4.0)
Investment Income	3,270	2,125	53.9	2,474	32.2	10,341	7,945	30.2
Other income	-	3	(100.0)	-	NA	-	8	(100.0)
Expenses other than those related to insurance business	118	118	(0.3)	67	76.9	515	372	38.2
Transfer of funds to Policyholders’ Account	16,276	17,075	(4.7)	-	NA	16,276	17,075	(4.7)
Profit before tax	8,364	7,936	5.4	3,290	154.2	19,421	17,584	10.4
Provisions for tax	256	167	52.6	73	250.5	(483)	(379)	27.6
<b>Profit after tax and before extraordinary items</b>	<b>8,108</b>	<b>7,769</b>	<b>4.4</b>	<b>3,218</b>	<b>152.0</b>	<b>18,938</b>	<b>17,206</b>	<b>10.1</b>

Source: Company, BOBCAPS Research

**Fig 14 – Key ratios and growth metrics**

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
NBP	1,22,379	80,765	51.5	97,387	25.7	3,82,383	2,95,886	29.2
APE	53,300	45,500	17.1	61,300	(13.1)	1,97,200	1,68,100	17.3
VNB	15,100	14,400	4.9	16,800	(10.1)	55,500	50,700	9.5
Expense ratio (%)	6.6	9.4	(272bps)	9.7	(310bps)	8.9	9.6	(73bps)
VNB margin (%)	28.3	31.6	(332bps)	27.4	92bps	28.1	30.2	(202bps)

Source: Company, BOBCAPS Research

## Earnings call takeaways

### Business highlights

- APE increased 17% YoY in FY24 to Rs 197bn (17% YoY to Rs 53.3bn in Q4), of which 87% was individual APE. Protection APE stands at Rs 21bn with growth of 18% YoY.
- NBP grew 29% YoY to Rs 382bn at end FY24.
- The total expense ratio decreased 270bps YoY and 300bps QoQ to 6.6% in Q4 on account of negative rewards number owing to the reversal of provisions made for commissions to the banca partners. For FY24, the number was 8.9%, one of the lowest in the industry.

### Product mix

- Positive market sentiment boosted demand for SBI Life's ULIPs by 28% YoY to Rs 119.3bn at end-FY24, raising their share in APE to 60% from 55% in the year-ago period. Annuity plans grew 22% YoY on a lower base, forming 3% of the mix.
- The non-participating segment remained soft, declining 14% YoY to Rs 32.4bn at end-FY24 and forming 16% of total APE vs. 22% in FY23.
- Protection business increased 18% YoY to Rs 21.0bn at end-FY24, with individual business declining 4% to Rs 9.4bn whereas group grew 45% to Rs 11.6bn. The protection business constituted 11% of APE similar to the year-ago period. The company launched two new products in this category.
- The group savings business grew 89% YoY to Rs 10.6bn at end FY24 forming 5% of the mix and it is a lumpy business dependent on the requirement of corporates.

### Distribution channels

- Bancassurance constituted 62% of APE at end-FY24 (64% a year ago) and agents contributed 25% (vs. 26%). Both the bancassurance and agency channels grew 13%/15% YoY, whereas others (online, brokers) grew by 54%. Productivity per State Bank of India branch is Rs 6.7mn based on individual NBP.
- Penetration of the company in SBI is around 2% and if we look at account holders having more than Rs10,000 in savings bank account balances the penetration is 3.5-4%.
- SBI Life has a total of 246,078 agents (+18% YoY). Productivity per agent is Rs 240k based on individual NBP. The agency has 35% share in policy sales.

### VNB

- VNB margin decreased 200bps YoY to 28.1% in FY24 on account of a change in product mix (-290bps impact) and economic assumptions (-10bps), partly offset by higher operating assumptions (+100bps).
- VNB increased 9% YoY to Rs 55.5bn at end-FY24.

**Embedded Value**

- EV stood at Rs 582.6bn, rising 27% over FY23. Operating variance was positive owing to a better mortality experience.
- Embedded value operating profit stood at Rs 100.5bn as of FY24. Operating return on embedded value was 21.8%.

**Persistency & surrender ratios**

- SBI Life's 13<sup>th</sup> month persistency improved from 85.5% a year ago to 86.8% in FY24. The 61<sup>st</sup> month cohort improved significantly from 55.6% to 58.6%.
- The surrender ratio moved up from 5.1% in FY23 to 6.5% in FY24, and the overall death claim settlement ratio stands at 99.2%.

## Valuation methodology

SBI Life consistently outperforms peers and maintains market leadership in the private life insurance space, commanding 23.3% share in individual APE as at end-FY24. Despite having a smaller market share in Q4, it was still the top spot for the quarter. The bancassurance partnership (closed architecture) with parent SBI remains a key competitive edge owing to the bank's deep reach in smaller towns and cities, which puts rival entrants at a disadvantage. The company boasts strong brand equity and pedigree, a wide network of ~1,000 branches and ~240,000 agents, and one of the lowest cost ratios among listed peers.

Following a healthy FY24 marked by strong growth, we raise our net premium estimates by 4%/5% for FY25/FY26. The APE estimates are raised by 1% for FY25 and marginally for FY26. Factoring in a low VNB margin owing to higher share of ULIP, we pare our FY25/FY26 margin assumption by 100bps /150bps to 27.5% for each of the years. Consequently, the EV estimates are also increased by 5%/3% for FY25/FY26.

SBI Life is trading at 1.7x FY26E P/EV. Considering the company's consistent performance and market leadership, we continue to assign a multiple of 2.5x FY26E P/EV to the stock – in line with the long-term mean – for a higher TP of Rs 2,040 (previously Rs 1,970), which carries 44% upside. SBI Life remains our top pick among life insurers for its leading position, better VNB margins, efficient cost ratios and strong brand – retain BUY.

**Fig 15 – Revised estimates**

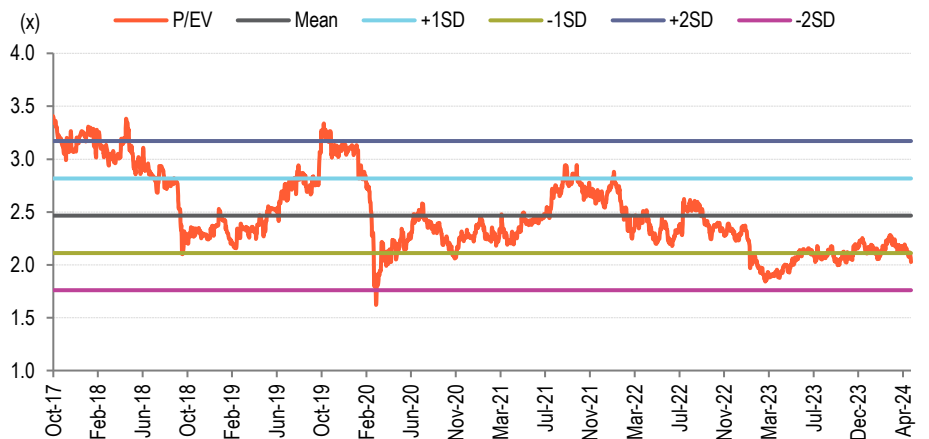
(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Gross Premium	956	1,117	916	1,067	4.3	4.7
Net Premium	945	1,104	906	1,055	4.3	4.7
VNB	64	74	65	78	(2.3)	(4.8)
APE	232	269	229	268	1.3	0.4
EV	691	817	660	791	4.7	3.3
VNB Margin (%)	27.5	27.5	28.5	29.0	(100bps)	(150bps)

Source: BOBCAPS Research

**Fig 16 – Valuation summary**

Particulars	
Embedded Value (FY26E) (Rs bn)	817
PV of Future business (Rs bn)	1,207
Total value (Rs bn)	2,024
Current P/ EV (FY26E)	1.7
Implied P/ EV (FY26E)	2.5
<b>Implied Target Price (Rs)</b>	<b>2,038</b>
<b>Implied Target Price (Round off) (Rs)</b>	<b>2,040</b>
Current Price (Rs)	1,415
Upside (%)	44.2

Source: Company, BOBCAPS Research

**Fig 17 – 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, ULIP proceeds are currently taxed to the extent the yearly premium exceeds Rs 0.25mn and any further tax hike would be negative. Similarly, any increase in the income tax rate for 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 still 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, such as 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 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 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	15.3	588	775	BUY
ICICI Prudential Life	IPRU IN	9.9	566	650	HOLD
LIC	LICI IN	76.1	988	1,140	HOLD
SBI Life	SBILIFE IN	17.2	1,415	2,040	BUY

Source: BOBCAPS Research, NSE | Price as of 26 Apr 2024



## Glossary

Glossary of Abbreviations			
<b>APE</b>	Average 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>RWRP</b>	Retail Weighted Received Premium
<b>EVOP</b>	Embedded Value Operating Profit	<b>ULIP</b>	Unit Linked Insurance Plan
<b>HNI</b>	High Net Worth Individuals	<b>VNB</b>	Value of New Business
<b>IRDA</b>	Insurance Regulatory and Development Authority		

## Financials

### Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Gross premium income</b>	<b>5,87,596</b>	<b>6,73,156</b>	<b>8,14,306</b>	<b>9,56,131</b>	<b>11,17,195</b>
First year premium	1,29,415	1,51,971	1,74,757	2,20,800	2,56,127
Renewal premium	3,33,023	3,77,270	4,31,923	5,08,743	5,98,225
Single premium	1,25,158	1,43,915	2,07,626	2,26,589	2,62,843
<b>Net written premium</b>	<b>5,84,323</b>	<b>6,65,810</b>	<b>8,05,871</b>	<b>9,45,411</b>	<b>11,04,088</b>
Income from investments	2,35,679	1,32,601	5,03,666	2,67,687	2,95,393
Other Income	10,270	17,573	16,777	21,199	23,716
<b>Total income</b>	<b>8,30,272</b>	<b>8,15,985</b>	<b>13,26,314</b>	<b>12,34,297</b>	<b>14,23,198</b>
Commissions	21,583	30,625	32,553	46,825	54,706
Operating expenses	30,153	34,224	39,626	49,277	60,895
Benefits and bonuses paid	3,13,398	3,02,875	4,31,074	4,33,477	5,44,013
Change in liabilities (net)	4,37,619	4,10,031	7,84,313	6,59,741	7,12,104
Others	0	0	0	0	0
<b>Total expenses</b>	<b>8,02,753</b>	<b>7,77,754</b>	<b>12,87,567</b>	<b>11,89,320</b>	<b>13,71,718</b>
<b>Surplus before tax</b>	<b>27,519</b>	<b>38,231</b>	<b>38,747</b>	<b>44,977</b>	<b>51,480</b>
Provision for tax	8,681	9,668	10,833	13,642	15,783
<b>Surplus after tax</b>	<b>18,838</b>	<b>28,562</b>	<b>27,915</b>	<b>31,335</b>	<b>35,697</b>
Trf to shareholders' a/c	17,324	27,072	25,977	29,084	32,700
Balance being FFA	1,513	1,491	1,938	2,251	2,997

### Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Trf from policyholders' a/c	17,324	27,072	25,977	29,084	32,700
Income from investments	9,831	7,945	10,341	11,733	14,666
Contr. to policyholders' fund	(9,821)	(17,075)	(16,276)	(20,634)	(23,110)
Others	(1,726)	(357)	(620)	(723)	(847)
<b>PBT</b>	<b>15,608</b>	<b>17,584</b>	<b>19,421</b>	<b>19,460</b>	<b>23,409</b>
Provision for taxation	(548)	(379)	(483)	(486)	(585)
<b>PAT</b>	<b>15,060</b>	<b>17,206</b>	<b>18,938</b>	<b>18,973</b>	<b>22,824</b>
Dividend+Interim div.+DDT	2,003	2,504	2,705	2,756	3,006

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity	1,16,223	1,30,175	1,49,084	1,62,132	1,81,951
Policyholders' funds	24,74,190	28,57,634	36,51,022	45,30,185	52,42,288
FFA	9,936	11,427	13,366	13,633	13,906
Others	81,723	96,630	1,14,357	1,16,644	1,18,977
<b>Total liabilities</b>	<b>26,82,072</b>	<b>30,95,866</b>	<b>39,27,828</b>	<b>48,22,594</b>	<b>55,57,121</b>
Shareholders' funds	1,00,758	1,12,087	1,30,364	1,62,955	2,03,693
Policyholders' funds	11,21,307	12,98,702	15,65,436	15,57,161	17,02,084
Assets to cover linked liab.	14,26,253	16,32,555	21,60,103	25,92,123	31,10,548
Others	33,754	52,521	71,927	5,10,355	5,40,796
<b>Total assets</b>	<b>26,82,072</b>	<b>30,95,866</b>	<b>39,27,830</b>	<b>48,22,594</b>	<b>55,57,121</b>

### Key Metrics

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
AUM (Rs mn)	26,74,000	30,73,390	37,53,683	43,44,712	50,39,303
NBP (Rs mn)	2,54,574	2,95,886	3,82,383	4,47,388	5,18,970
APE (Rs mn)	1,43,000	1,68,100	1,97,200	2,31,773	2,68,857
VNB (Rs mn)	37,037	50,700	55,500	63,738	73,936
VNB margin (%)	25.9	30.1	28.1	27.5	27.5
Embedded value (Rs mn)	3,96,030	4,60,600	5,82,500	6,90,813	8,17,007
ROEV (%)	20.7	22.9	21.8	19.1	18.7
ROE (%)	13.7	14.0	13.6	12.2	13.3
Opex ratio (%)	5.1	5.1	4.9	5.2	5.5
Cost ratio (%)	8.7	9.6	8.9	10.1	10.4
Solvency ratio (%)	204.8	215.4	191.8	188.7	190.7
EPS (Rs)	15.0	17.2	18.9	18.9	22.8
BVPS (Rs)	116.2	130.1	148.9	162.0	181.8
EVPS (Rs)	395.5	459.9	581.3	689.4	815.4

Source: Company, BOBCAPS Research

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**BUY** – Expected return >+15%

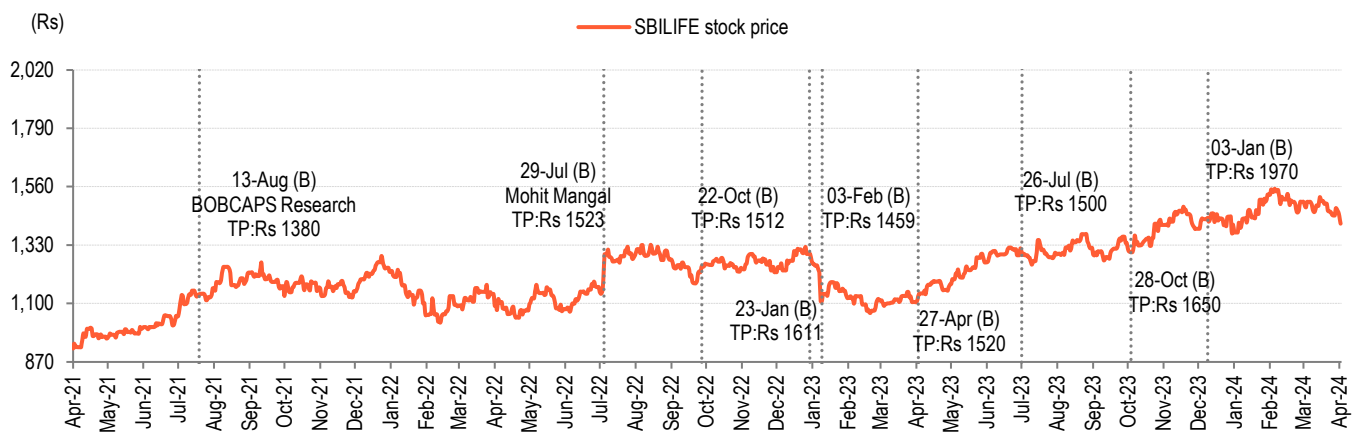
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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