

# SBI Life Insurance (SBILIF)

CMP: ₹ 1562

Target: ₹ 1800 (15.3%)

Target Period: 12 months

November 18, 2024

## Muted Q2; Gradual recovery in VNB margin to aid valuation

About the stock: SBI Life (SBIL) is among the most dominant players in the Indian life insurance industry with strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on opex ratio ahead of industry
- Strong parentage led distribution remains key catalyst

Q2FY25 performance: SBI Life Insurance delivered muted performance, marked by relative moderation in business growth as well as anticipated decline in VNB margins. New Business Premium (NBP) de-grew 3% YoY in 1HFY25 to ₹15730 crore, with market share declining from 21.8% in Q1FY25 to 21.3% in Q2FY25. On APE basis, growth moderated to 9% YoY in 1HFY25 at ₹9030 crore. During Q2FY25, unit linked segment witnessed growth with moderation or de-growth in other product lines. Thus, VNB margin declined 180 bps YoY at 26.8% while growth in VNB remained sluggish at 2% YoY to ₹2420 crore in 1HFY25.

### Investment Rationale

- Weak momentum in parent bank impacted growth: SBI Life reported moderation in APE growth (3% in Q2FY25) primarily due to muted momentum in banca channel (primarily owing to parent). Strategy to ramp up momentum from banca through Yono app and focus on strengthening agency channel through improved productivity is seen to aid revival in business growth. Management anticipates 15-17% growth in individual rated business for FY25E, amid continued strong momentum in agency channel and 9-10% growth in banca channel.
- VNB margin to stabilize at current level: VNB margin declined 195 bps YoY to 26.8% amid higher traction in unit linked business. Implementation of new surrender norms is expected to have marginal impact on margins, despite strategy to keep commission structure un-altered. Focus on protection business through product launch is expected to provide cushion against pressure from higher growth in low margin business. Thus, management anticipates VNB margins to stabilize at 26-27% in FY25E.

### Rating and Target Price

- Revival in business growth coupled with stabilizing of VNB margins remain key. Improving distribution through increasing penetration in current partnership (SBI and other banca partners) and new partnership (including digital) to aid growth ahead
- Relatively preferred business model with relatively lower risk profile compared to financiers. Valuing the stock at 1.3x FY27E EV, we assign target price at ₹ 1800. Maintain Buy recommendation.

BUY



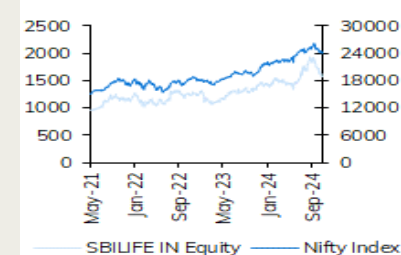
### Particulars

Particulars	Amount
Market Capitalisation	1,57,548 crore
EV (as on Mar'23)	66,070 crore
AUM	4,38,950 crore
52 week H/L	1,936/1,307
Face value	10.0

### Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	55.4	55.4	55.4	55.4
FI	25.9	25.2	24.7	25.2
DII	14.6	15.4	15.9	15.3
Others	4.0	4.0	4.0	4.1

### Price Chart



### Key risks

- Slower growth in protection business
- Alteration in distribution mix

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## Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
New business premium	20624.2	25457.3	29588.6	38238.3	23%	42755.2	49168.5	56052.1	14%
APE	11366.7	14193.1	16636.2	19552.0	20%	22096.6	25411.1	28968.7	14%
Total premium	49768.3	58432.3	66581.0	80587.1	17%	90786.3	104041.7	119364.2	14%
PAT	1455.9	1506.0	1720.6	1893.8	9%	2143.8	2386.2	2717.8	13%
EV	33384.8	39624.8	46043.8	58258.8	20%	66115.1	75003.8	85068.4	13%
P/E (x)	108.0	104.4	91.4	83.1		73.4	66.0	57.9	
P/BV (x)	15.1	13.5	12.1	10.6		9.5	8.4	7.4	
P/IEV (x)	4.7	4.0	3.4	2.7		2.4	2.1	1.9	
RoEV (%)	19.1	20.6	22.8	21.8		14.1	14.2	14.2	

## Concall highlights and outlook

- Growth guidance maintained at 15-17% in terms of Individual rated premium for FY25E.
- VNB margin expected at 26-27% in FY25E, backed by increased traction in protection business which is a high margin segment. Long-term guidance for VNB margin maintained at 28%.
- Growth in ULIPs at 19%, significantly outpacing high-margin retail protection (-57% YoY) business, amid positive movement in equities. However, VONB margin affected due to an increase in the share of ULIP business.
- The company restructured and launched 15 existing products to align with regulatory requirements and market trends. They introduced 9 new products, including 5 ULIPs, 2 term insurance, and 1 endowment product.
- No substantial pressure anticipated from implementation of surrender regulations. Thus, alteration in commission structure has not been undertaken.
- Delay in product launch led to slower traction in protection business; contributing 8% of APE, with ₹ 800 crores in premiums. Credit life growth remained laggard but management expects growth at 9-10% for FY25.
- Launch of new products in protection segment including one high-ticket coverage product and healthy customer response imparts confidence of revival in growth in individual protection business.
- The company is pushing HNI-targeted products like a high-value protection product, emphasizing competitive rates and analytics-based customer targeting.
- SBI Banca channel showed slower growth at 9%, attributed to focus on integration and enhancing digital initiatives. Management anticipates 9% growth in banca channel and more than 30% uptick in agency channel.
- 99% of individual proposals are now submitted digitally, and 44% of proposals are processed through automated underwriting.

**Exhibit 1: Variance Analysis**

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
First Year Premium	4,915.7	4,633.3	6.1	3,146.4	56.2	Driven by non-par and individual protection business
Renewal Premium	11,721.2	10,121.1	15.8	8,538.7	37.3	Persistency remain steady
Single Premium	3,776.3	5,421.4	-30.3	3,887.0	-2.8	
<b>Net Premium income</b>	<b>20,266</b>	<b>20,050</b>	<b>1.1</b>	<b>15,105</b>	<b>34.2</b>	
Income from Investments	19,753.1	8,507.4	132.2	19,283.5	2.4	
Total revenue	40,015.0	28,568.6	40.1	34,392.1	16.3	
Commission	937.2	795.9	17.7	568.9	64.7	Commission ratio up ~60 bps YoY to 4.6%
Operating expenses	1,319.8	1,116.2	18.2	1,071.5	23.2	Opex ratio up ~100 bps YoY to 6.5%
Management Expenses	2,257.0	1,912.1	18.0	1,640.4	37.6	
Benefits paid	14,010.2	10,044.5	39.5	9,829.2	42.5	
Change in Actuarial Liability	23,053.2	15,970.8	44.3	22,032.5	4.6	
Total Expenses	39,649.4	28,205.2	40.6	33,774.6	17.4	
<b>Surplus/ (deficit)</b>	<b>365.7</b>	<b>363.4</b>	<b>0.6</b>	<b>617.4</b>	<b>-40.8</b>	Healthy premium offset by higher actuarial liabilities
Transfer to SH's A/c	254.5	166.5	52.8	275.2	-7.5	
Transfer to SH's A/c	254.5	166.5	52.8	275.2	-7.5	
Investment income	282.6	247.6	14.1	264.8	6.7	
Profit/ (loss) before tax	547.1	387.0	41.4	535.5	2.2	
PAT	529.6	380.2	39.3	519.5	1.9	
<b>Key Metrics</b>						
NBP	8,692.0	10,054.7	-13.6	7,033.4	23.6	Individual non-par & annuity remain in focus
AUM	4,38,950	3,45,150	27.2	4,14,770	5.8	Robust growth on YoY basis

## Financial Summary

### Exhibit 2: Profit and loss statement

		₹ crore				
(₹ Crore)	FY23	FY24	FY25E	FY26E	FY27E	
Premiums earned - Net	66581.0	80587.1	90786.3	104041.7	119364.2	
Income from Investments	13260.1	50366.6	51121.2	43689.6	54368.1	
Other income	49.9	50.1	55.1	60.6	66.7	
Contribution from the Shareholders' account	1707.5	1627.6	1464.8	1318.3	1186.5	
<b>Total</b>	<b>81598.5</b>	<b>132631.4</b>	<b>143427.4</b>	<b>149110.2</b>	<b>174985.5</b>	
Commission	3062.5	3255.3	3552.9	4302.5	4927.8	
Operating expenses	3409.5	3981.9	4586.8	5256.5	6030.7	
Benefits paid (Net)	30090.2	42724.4	48196.8	55114.5	64655.6	
Change in valuation of policy liabilities	41003.1	78431.3	82749.5	79509.0	94017.5	
Others	197.3	383.1	8.0	8.0	8.0	
Provision for tax	979.7	1064.0	1225.6	1404.6	1611.4	
Surplus/(deficit) after tax	2856.2	2791.5	3107.8	3515.2	3734.6	
Transfer to Shareholders' account	2707.1	2597.6	2807.8	3215.2	3434.6	
<b>(₹ Crore)</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	
Amounts transferred from Policyholders' account	2707.1	2597.6	2807.8	3215.2	3434.6	
Income from investments	795.3	1034.1	1185.7	1262.5	1432.6	
<b>Total</b>	<b>3502</b>	<b>3632</b>	<b>3993</b>	<b>4478</b>	<b>4867</b>	
Expenses other than insurance	36.5	62.0	10.7	10.8	10.9	
Contribution to Policyholders' account	1707.5	1627.6	1757.8	1977.5	2017.1	
Others	15.9	15.9	15.9	15.9	15.9	
Profit before Tax	1758.4	1942.1	2225.0	2489.4	2839.2	
Provision for tax	37.9	48.3	81.1	103.2	121.4	
<b>PAT</b>	<b>1720.6</b>	<b>1893.8</b>	<b>2143.8</b>	<b>2386.2</b>	<b>2717.8</b>	

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet

		₹ crore				
(₹ Crore)	FY23	FY24	FY25E	FY26E	FY27E	
<b>Sources of Funds</b>						
Share capital	1001	1001	1001	1001	1001	
Reserve and surplus	11924	13590	15242	17472	20097	
Credit/(debit) fair value change account	93	317	317	317	317	
Networth	13017	14909	16560	18791	21416	
Policyholders' funds	296569	376538	459287	538796	632814	
<b>Total Liabilities</b>	<b>309587</b>	<b>392783</b>	<b>477684</b>	<b>559924</b>	<b>657067</b>	
<b>Applications of Funds</b>						
Shareholders' investments	11209	13036	15732	17851	20345	
Policyholders' investments	129870	156544	205664	254752	309552	
Asset held to cover linked liabilities	163256	216010	239721	270743	309545	
Loans	389	389	439	496	561	
Fixed assets - net block	522	557	624	699	782	
Net current assets	4342	6247	15504	15382	16281	
<b>Total Assets</b>	<b>309587</b>	<b>392783</b>	<b>477684</b>	<b>559924</b>	<b>657067</b>	

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E	FY27E
<b>Valuation</b>					
No. of Equity Shares (Crore)	100.1	100.1	100.1	100.1	100.1
Diluted EPS (₹)	17.2	18.9	21.4	23.8	27.1
DPS (₹)	25.0	27.0	40.2	51.1	60.2
BV (₹)	130.1	148.9	165.4	187.6	213.8
<b>EV per share</b>	<b>460</b>	<b>582</b>	<b>660</b>	<b>749</b>	<b>849</b>
P/E	91.4	83.1	73.4	66.0	57.9
P/BV	12.1	10.6	9.5	8.4	7.4
P/EV	3.4	2.7	2.4	2.1	1.9
<b>Efficiency Ratios (%)</b>					
Commission expenses as a % of Gross Premium	4.5	4.0	3.9	4.1	4.1
Management expenses incl commission as a % of Gros	9.6	8.9	8.9	9.1	9.1
<b>Return Ratios and capital (%)</b>					
Return on Net worth	14.0	13.6	14.2	16.1	16.7
Operating RoEV	21.0	21.4	21.8	22.2	22.6
Solvency Ratio	215	196	200	200	200
<b>Key Ratios (%)</b>					
Conservation Ratio	81.6	81.6	80.7	81.4	82.0
VNB Margin	29.7	29.6	26.5	27.1	27.4
Surrender Ratio	5.1	6.5	5.1	4.8	4.8
Benefits paid as a % of Opening Liability	11.7	14.4	12.8	12.0	11.9
NBP (proportion%)					

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E	FY27E
NBP	29590.0	38238.3	42755.2	49168.5	56052.1
Growth (%)	16.2	29.2	11.8	15.0	14.0
Linked	11176.5	13861.5	15940.7	18331.8	20898.2
Growth (%)	-1.6	24.0	15.0	15.0	14.0
Non Linked	18412.1	24376.9	26814.5	30836.7	35153.9
Growth (%)	30.6	32.4	10.0	15.0	14.0
APE	16810.0	19552.0	22096.6	25411.1	28968.7
Growth (%)	17.6	16.3	13.0	15.0	14.0
VNB	5067.0	5548.0	3866.9	4446.9	5069.5
Growth (%)	36.8	9.5	-30.3	15.0	14.0
EV	46040.0	58258.8	66115.1	75003.8	85068.4
Growth (%)	16.2	26.5	13.5	13.4	13.4
AUM	307340.0	385590.3	461116.9	543346.9	639441.6
Growth (%)	16.1	25.5	19.6	17.8	17.7
PH Funds	293125.8	372553.9	445384.8	525495.6	619096.4
Growth (%)	15.1	27.1	19.5	18.0	17.8
SH Funds	11208.7	13036.4	15732.1	17851.3	20345.2
Growth (%)	11.2	16.3	20.7	13.5	14.0

Source: Company, ICICI Direct Research

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