

January 25, 2024

**RESULT REPORT Q3 FY24** | Sector: Insurance (Life)

# SBI Life Insurance

## SBIL remains one of two BUY-rated life insurers

### Our view – Product mix-driven margin compression and slower growth than guidance don't necessitate change in overall stance

While VNB margin has declined, it has not declined as much as product mix change dictates, *ceteris paribus*: VNB margin for 9MFY24 was 28.1% compared with 29.6% in 9MFY23. There was 200 bps negative impact YoY due to change in product mix, mainly towards ULIP. The negative impact of product mix was offset to some extent by margin enhancement within the product buckets. Management has guided for maintaining VNB margin at 28% in 4Q.

Management has guided for APE growth in FY25 to be similar to what has been achieved in FY24 so far: Total APE was up by 17% YoY, whereas Individual APE was up by 15% YoY. Management had been guiding for ~20% growth in FY24. The key Protection APE was up 24% YoY. However, Individual protection growth has slowed but this should see improvement in 4Q. Group protection NBP grew by 25% YoY, with the growth driven by group term life. In terms of product mix going forward, there will be focus on Non-Par savings and Protection.

Non-banca non-agency APE growth has been faster, while management is expecting improved Agency growth in 4Q: The Banca, Agency and Others APE has grown 15% YoY, 15% YoY and 40% YoY, respectively. Growth in the Others channel was driven by volumes on the company's own website. Banca and Agency have contributed 65% and 24% to APE, whereas Others have contributed 11%. Agency channel has slowed down in 3Q but there is more focus on the banca channel seasonally in 3Q and management is expecting better numbers from the Agency channel in 4Q.

We maintain 'BUY' rating on SBIL with a revised price target of Rs 1825: We value SBIL at 3.0x FY25 P/EV for an FY24E/25E/26E RoEV profile of 20.7/21.2%/21.6%.

*(See Comprehensive con call takeaways on page 2 for significant incremental colour.)*

### Result Highlights (See "Our View" above for elaboration and insight)

- **VNB margin:** Calculated VNB margin for 3QFY24 fell -108bps QoQ and -40bps YoY to 27.4% (on effective tax rate basis)
- **VNB growth:** VNB growth was at 12.8%/11.3% QoQ/YoY where the YoY growth was driven by growth in APE
- **APE growth:** New business APE grew 17.2%/12.9% QoQ/YoY driven higher YoY by ULIP, Annuity and Group Savings
- **Expense control:** Expense ratio grew 27/63bps QoQ/YoY to 9.8%, where the opex ratio grew 19bps YoY and commission ratio grew 44bps YoY
- **Persistency:** 37<sup>th</sup> month ratio de-grew -26/-270 bps QoQ/YoY to 68.0% whereas 61<sup>st</sup> month ratio de-grew/grew -24/257 bps QoQ/YoY to 55.9%

### Exhibit 1: Result table

Rs mn	Q3 FY24	Q3 FY23	% yoy	Q2 FY24	% qoq
NBP	97,387	84,236	15.6%	100,547	-3.1%
Renewal premium	127,200	109,083	16.6%	101,211	25.7%
Income from investments	164,686	74,430	121.3%	85,074	93.6%
Surplus/(Deficit)	3,375	2,968	13.7%	3,639	-7.2%
APAT	3,218	3,041	5.8%	3,802	-15.4%
Expense ratio	9.8%	9.2%	63bps	9.5%	27bps
37th mo. Persistency*	68.0%	70.7%	-270bps	68.3%	-26bps
Total APE	61,300	54,300	12.9%	52,300	17.2%
VNB (effective tax basis)	16,800	15,100	11.3%	14,900	12.8%
VNB Margin (effective tax basis)	27.4%	27.8%	-40bps	28.5%	-108bps

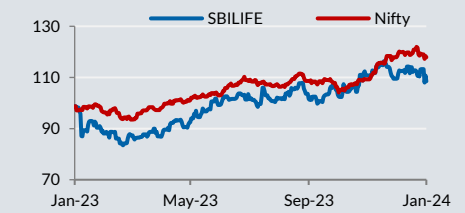
Source: Company, YES Sec-Research, \*N.B. Regular and Limited Pay under individual category

Recommendation	: BUY
Current price	: Rs 1,381
Target price	: Rs 1,825
Potential return	: +32%

### Stock data (as on January 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	1495 / 1054
Market cap (Rs/USD mn)	1412299 / 16998
Outstanding Shares (mn)	1,001
6m Avg t/o (Rs mn):	1,484
Div yield (%):	0.2
Bloomberg code:	SBILIFE IN
NSE code:	SBILIFE

### Stock performance



	1M	3M	1Y
Absolute return	-1.0%	5.1%	9.8%

### Shareholding pattern (As of Dec'23 end)

Promoter	55.43%
FII+DII	40.6%
Others	4.0%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,825	1,850

### Financial Summary

Rs. Mn	FY24E	FY25E	FY26E
APE	195,825	229,979	270,245
% yoy	16.4%	17.4%	17.5%
VNB	54,831	65,544	78,371
% yoy	8.1%	19.5%	19.6%
VNB Margin	28.0%	28.5%	29.0%
PAT	18,539	20,587	22,887
EPS (Rs)	18.5	20.6	22.9
EV/Share (Rs)	527.5	611.0	714.2
VNBPS (Rs)	54.8	65.5	78.3
P/EV (x)	2.6	2.3	1.9
P/VNB (x)	25.2	21.1	17.6
ROEV (%)	20.7%	21.2%	21.6%

### Δ in earnings estimates

Rs bn	FY24E	FY25E	FY26E
VNB (New)	54.8	65.5	78.4
VNB (Old)	58.4	69.8	83.5
% change	-6.1%	-6.1%	-6.1%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### VNB margin

- VNB for 9MFY24 is up by 11% YoY.
- VNB margin for 9MFY24 was 28.1% compared with 29.6% in 9MFY23.
- **Product mix aspect**
  - There was 200 bps negative impact YoY due to change in product mix mainly towards ULIP.
- **Product level margin**
  - The negative impact of product mix was offset to some extent by margin enhancement within the product levels.
  - Longer term policies tend to have better margin profile and there has been a shift towards longer term policies and there are other factors at play that impact product margin.
  - Non-Par products have been repriced 2-3 times as the regulator allows repricing when interest rates change.
- **Expense impact**
  - Expense assumptions will be reviewed in March but management does not see any negative impact due to assumptions being already conservative.
- **Margin guidance**
  - Management sticks to maintaining VNB margin at 28% in 4Q.

### Product growth and mix

- **Key new business growth figures (9MFY24 over 9MFY23)**
  - **New business premium**
    - New business premium is up 21% YoY.
    - New business premium private market share was 25.3%, up by 219bps YoY.
    - Individual new business premium is up 17% YoY.
    - Individual New business premium private market share was 29.1%, up by 184bps YoY.
  - **Gross written premium**
    - Gross written premium was up 19% YoY.
  - **Annual premium equivalent**
    - Total APE was up by 17% YoY.
    - Individual APE was up by 15% YoY.
- **Protection business**
  - Protection NBP was up 17% YoY, driven by group protection.
  - Protection APE is up 24% YoY.
  - **Individual protection**
    - Individual protection growth has slowed down but this should see improvement in 4Q.
    - The company is in the process of introducing new products that can be sold online.
    - Share of ROP in retail protection is 86%.
  - **Group protection**
    - Group protection NBP grew by 25% YoY.
    - Group protection growth has been driven by group term life.
    - Credit life NBP grew by 11% YoY.

(Con call takeaways continue on the next page)

- **Share of protection**
  - The company will continue to focus on increasing the share of protection in product mix.
- **Annuity business**
  - Individual Annuity business grew 35% YoY, largely due to contribution of Smart Annuity plans
- **Ticket size**
  - The average ticket size of Non-Par is about Rs 90,000.
  - For ULIP, it is more than Rs 100,000.
  - For Par, is slightly lower than for Non-Par.
- **Product pipeline**
  - Product launches have been planned for Non-Par savings, Pure Term and Deferred annuity products.
- **APE growth guidance**
  - Management has guided for similar APE growth for FY25 to what has been achieved in FY24 so far.
- **Product mix**
  - **APE basis for 9MFY24**
    - Par saving 4%
    - Non par saving 17%
    - ULIP 61%
    - Protection 11%
    - Annuity 3%
    - Group Savings 4%
  - **More on Guaranteed business share**
    - The share of Guaranteed non-par savings products was 14% in individual NBP and 19% in Individual APE.
  - **Single premium**
    - Single premium contributed 31% to Individual NBP, attributable to growth in individual annuity products
  - **Product mix comment**
    - Going forward, there will be focus on Non-Par savings and Protection.
- **New products launched**
  - The company has launched 2 new ROP products (1) SBI Life Saral Swadhan Supreme (2) SBI Life Smart Swadhan Supreme.

## Persistency

- **On Individual Regular premium and limited premium paying policy**
  - 13<sup>th</sup> month persistency was 85.3%
  - 61<sup>st</sup> Month persistency was at 58.1%, an improvement of 449bps YoY
- **Surrender aspects**
  - **Regulation on Surrender charges**
    - The company's objective is that it offers sustainable rates to customers.
    - Hence, the impact from impending regulatory change in surrender charges would impact the company less than peers.

(Con call takeaways continue on the next page)

- **Surrender ratio**
  - Surrender ratio has risen from 4.8% in 9MFY23 to 6.1% to 9MFY24.
  - Management does not see a concern here and has cited improvement in persistency.
  - Some ULIP products have a 5-year premium payment term and then the policyholder has the option to surrender.
  - Some investors seem to have capitalized on the market opportunity (and surrendered to book profit).
- **Non-Par persistency**
  - There is no great differential in Non-Par persistency to company level persistency.

## Channel growth and mix

- **Channel mix on APE basis**
  - Banca was 65%
  - Agency 24%
- **Channel growth**
  - The banca APE has grown 15% YoY.
  - The Agency APE has grown 15% YoY.
  - Other APE has grown 40% YoY.
- **More on Agency channel**
  - The company has around 243,590 agents and during 9MFY24, net agents added were 24,860.
  - Agency channel has slowed down in 3Q but this is seasonal as in 3Q, there is more focus on the banca channel.
  - Agency channel comes back in 4Q and management is expecting better numbers in 4Q.
  - Management does not see any meaningful difference in agency and banca channel growth, going forward.
- **Rural and semi urban markets**
  - 39% of the business comes from rural and semi urban markets.
  - SBI has the largest presence in rural and semi urban markets.
  - While other players are entering these markets, it will take a while before they are able to make an impact.
- **More on Others channel**
  - Growth in the Others channel was driven by volumes on the company's own website.
- **More on Banca channel**
  - The penetration of the SBI customer base is less than 2%.
  - Branch productivity can also be improved further.

## Operating expenses

- **Commission ratio**
  - There has been some minor tweaking in commission rates but no major change in stance.
  - The rise in commission ratio is mainly due to change in product mix i.e. due to shift from shorter pay to longer pay products.
- **More colour**
  - There is no change to underlying cost structure at the company and normal business expenditure has gone up.
  - There has been some infra and digital adoption and some employee addition.

(Con call takeaways continue on the next page)

## Solvency

- The solvency ratio stood at 209%.

## Settlement ratio

- The death claim settlement ratio was at 98.8%, an improvement of 148bps YoY.

## Exhibit 2: Quarterly Actuals Vs Estimates

Q3 FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	97,387	78,868	23.5
Total APE	61,300	47,812	28.2
VNB	16,800	13,622	23.3

Source: Company, YES Sec – Research

## Exhibit 3: Other Business Parameters

Rs mn	Q3 FY24	Q3 FY23	% yoy	Q2 FY24	% qoq
<b>APE by Product (Rs mn)</b>					
Individual Savings	53,800	47,500	13.3%	41,000	31.2%
Par	1,800	2,400	-25.0%	2,300	-21.7%
Non par	10,100	9,600	5.2%	8,600	17.4%
ULIP	41,900	35,500	18.0%	30,200	38.7%
Total Protection	4,500	4,600	-2.2%	7,000	-35.7%
Individual Protection	2,300	2,600	-11.5%	2,100	9.5%
Group Protection	2,200	2,000	10.0%	4,900	-55.1%
Total Annuity	1,600	1,400	14.3%	1,600	0.0%
Group Savings	1,400	900	55.6%	2,700	-48.1%
<b>Total APE</b>	<b>61,300</b>	<b>54,400</b>	<b>12.7%</b>	<b>52,300</b>	<b>17.2%</b>
<b>Product Mix (% in APE)</b>					
Individual Savings	88%	87%	45bps	78%	937bps
Par	3%	4%	-148bps	4%	-146bps
Non par	16%	18%	-117bps	16%	3bps
ULIP	68%	65%	310bps	58%	1061bps
Total Protection	7%	8%	-111bps	13%	-604bps
Individual Protection	4%	5%	-103bps	4%	-26bps
Group Protection	4%	4%	-9bps	9%	-578bps
Total Annuity	3%	3%	4bps	3%	-45bps
Group Savings	2%	2%	63bps	5%	-288bps
<b>APE by Channel (Rs mn)</b>					
Banca	43,350	37,900	14.4%	30,100	44.0%
Agency	13,150	12,800	2.7%	13,900	-5.4%
Others	4,800	3,500	37.1%	8,300	-42.2%
<b>Channel mix (% in APE)</b>					
Banca	71%	70%	79bps	58%	1317bps
Agency	21%	24%	-216bps	27%	-513bps
Others	8%	6%	137bps	16%	-804bps
<b>Persistency*</b>					
13 <sup>th</sup> month	82.1%	80.5%	156bps	83.3%	-123bps
61 <sup>st</sup> month	55.9%	53.3%	257bps	56.1%	-24bps
<b>Expense ratio</b>					
Commission ratio	5.1%	4.6%	44bps	5.1%	-1bps
Opex ratio	4.7%	4.6%	19bps	4.5%	28bps
<b>Solvency</b>					
Solvency ratio	209%	225%	-1600bps	212%	-300bps

Source: Company, YES Sec – Research, \*N.B. Regular and Limited Pay under individual category

## ANNUAL FINANCIALS

### Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net premium	584,323	665,810	777,174	908,534	1,065,854
Income from investments	235,680	132,601	366,158	422,193	487,722
Other income	448	499	548	603	664
Contri from shareholders A/C	9,822	17,075	18,782	20,661	22,727
<b>Total income</b>	<b>830,272</b>	<b>815,985</b>	<b>1,162,663</b>	<b>1,351,991</b>	<b>1,576,967</b>
Commission	21,583	30,625	35,747	41,789	49,025
Employee expenses	18,164	20,464	23,886	27,924	32,759
Other opex	11,581	13,631	15,911	18,601	21,821
Benefits paid	313,398	302,875	352,473	413,265	485,367
Change in valuation of liability	437,619	410,031	692,002	802,779	934,683
Others	7,829	8,323	9,694	11,310	13,247
Provision for Tax	1,262	1,474	2,138	2,485	2,897
<b>Surplus/(Deficit)</b>	<b>18,838</b>	<b>28,562</b>	<b>30,812</b>	<b>33,838</b>	<b>37,167</b>
Transfer to shareholders A/C	17,324	27,072	29,204	32,072	35,227

Source: Company, YES Sec – Research

### Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Transfer from Policyholders' account	17,324	27,072	29,204	32,072	35,227
Income from Investments	9,831	7,945	8,927	10,070	11,375
<b>Total A</b>	<b>27,155</b>	<b>35,017</b>	<b>38,131</b>	<b>42,142</b>	<b>46,602</b>
Expenses (apart from insurance)	1,570	372	410	450	496
Contribution to Policyholders' Acc	9,822	17,075	18,782	20,661	22,727
Others	210	(8)	0	0	0
Total B	11,601	17,440	19,192	21,111	23,222
Profit/(Loss) before tax	15,608	17,584	18,947	21,041	23,391
Provision for Taxation	548	379	408	453	504
<b>Profit/(Loss) after tax</b>	<b>15,060</b>	<b>17,206</b>	<b>18,539</b>	<b>20,587</b>	<b>22,887</b>

Source: Company, YES Sec – Research

## Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' Funds:					
Share Capital	10,004	10,009	10,009	10,009	10,009
Reserve and surplus	104,181	119,237	134,068	150,538	168,848
Policyholders' Funds					
Policy Liabilities	1,129,659	1,321,708	1,591,294	1,918,674	2,316,375
Provision for Linked Liabilities	1,344,530	1,535,926	1,756,030	2,009,150	2,300,238
Funds for future appropriation	9,936	11,427	11,427	11,427	11,427
<b>Sources of Funds</b>	<b>2,682,072</b>	<b>3,095,866</b>	<b>3,619,291</b>	<b>4,238,944</b>	<b>4,973,264</b>
Investments - Shareholders	100,758	112,087	124,308	137,729	152,471
Investments Policyholders	2,547,560	2,931,258	3,384,266	3,919,132	4,551,225
Fixed Assets	5,268	5,215	5,365	5,515	5,665
Net Current Assets	24,859	43,417	101,462	172,679	260,014
Misc. Expenditure	0	0	0	0	0
<b>Application of funds</b>	<b>2,682,072</b>	<b>3,095,866</b>	<b>3,619,291</b>	<b>4,238,944</b>	<b>4,973,264</b>

Source: Company, YES Sec – Research

## Exhibit 7: EV Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Opening EV</b>	333,900	396,300	460,400	527,939	611,592
Unwind of Discount	27,300	34,100	39,616	45,427	52,625
Value of New Business	37,000	50,700	54,831	65,544	78,371
Operating Assumption Changes	(100)	700	0	0	0
Operating Experience Variance	4,600	4,900	1,000	1,000	1,000
<b>EV Operating Profit (EVOP)</b>	<b>68,800</b>	<b>90,400</b>	<b>95,447</b>	<b>111,971</b>	<b>131,996</b>
Economic Variance	(4,500)	(24,200)	(24,200)	(24,200)	(24,200)
<b>EV Profit</b>	<b>64,300</b>	<b>66,200</b>	<b>71,247</b>	<b>87,771</b>	<b>107,796</b>
Net Capital Inflow / Outflow	(2,000)	(2,100)	(3,708)	(4,117)	(4,577)
<b>Closing EV</b>	<b>396,200</b>	<b>460,400</b>	<b>527,939</b>	<b>611,592</b>	<b>714,811</b>

Source: Company, YES Sec – Research

## Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Annual Premium Equivalent	195,825	229,979	270,245	201,450	236,729	278,345	(2.8)	(2.9)	(2.9)
Value of new business	54,831	65,544	78,371	58,421	69,835	83,503	(6.1)	(6.1)	(6.1)
Embedded Value	527,939	611,592	714,811	531,511	619,736	728,753	(0.7)	(1.3)	(1.9)

Source: Company, YES Sec – Research

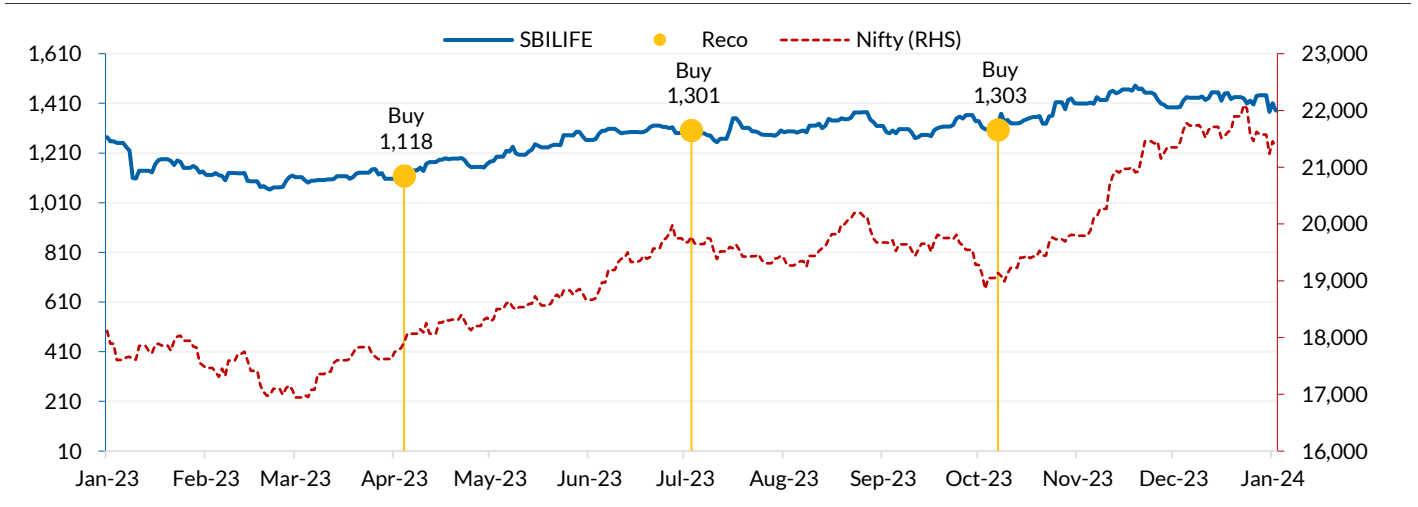


## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%) - P&amp;L</b>					
New business premium	23.4%	16.2%	19.2%	19.1%	19.2%
Renewal premium	12.4%	13.3%	14.4%	14.8%	15.5%
Net premium	17.4%	13.9%	16.7%	16.9%	17.3%
PAT	3.4%	14.2%	7.8%	11.0%	11.2%
VNB	39.1%	37.0%	8.1%	19.5%	19.6%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	21.1%	14.9%	15.3%	15.6%	15.9%
Total Assets	20.5%	15.4%	16.9%	17.1%	17.3%
Embedded value	18.7%	16.2%	14.7%	15.8%	16.9%
<b>Profitability ratios (%)</b>					
VNB Margins	25.9%	30.1%	28.0%	28.5%	29.0%
Commission ratio	3.7%	4.6%	4.6%	4.6%	4.6%
Opex ratio	5.1%	5.1%	5.1%	5.1%	5.1%
Expense ratio	8.8%	9.7%	9.7%	9.7%	9.7%
Conservation Ratio	83.3%	81.6%	81.6%	81.6%	81.6%
<b>Return ratios (%)</b>					
ROE	13.2%	13.3%	12.9%	12.8%	12.8%
RoEV	20.6%	22.8%	20.7%	21.2%	21.6%
RoA	0.6%	0.6%	0.6%	0.5%	0.5%
<b>Investment Return (%)</b>					
Invest. Yield - Sh.	10.6%	7.5%	7.6%	7.7%	7.8%
Invest. Yield - Ph.	10.1%	4.8%	11.6%	11.6%	11.5%
<b>Solvency</b>					
Solvency Ratio	205%	215%	210%	205%	200%
<b>Underwriting</b>					
Claims ratio	53.6%	45.5%	45.4%	45.5%	45.5%
Claims / AUM	11.8%	10.0%	10.0%	10.2%	10.3%
<b>Per share data (Rs)</b>					
EPS	15.1	17.2	18.5	20.6	22.9
VNBPS	37.0	50.7	54.8	65.5	78.3
BVPS	114.1	129.1	143.9	160.4	178.7
EVPS	396.2	460.0	527.5	611.0	714.2
<b>Valuation (x)</b>					
P/E	91.7	80.3	74.6	67.1	60.4
P/VNB	37.3	27.3	25.2	21.1	17.6
P/BV	12.1	10.7	9.6	8.6	7.7
P/EV	3.5	3.0	2.6	2.3	1.9

Source: Company, YES Sec – Research

## Recommendation Tracker



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