

October 27, 2023

**RESULT REPORT Q2 FY24** | Sector: Insurance (Life)

# SBI Life Insurance

**SBIL largely protects margin despite rise in the share of ULIP**

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

- **VNB margin:** Calculated VNB margin for 2QFY24 fell -22bps QoQ and -306bps YoY to 28.5% (on effective tax rate basis)
- **VNB growth:** VNB growth was at 71.3%/20.2% QoQ/YoY where the YoY was driven by growth in APE
- **APE growth:** New business APE grew 72.6%/33.1% QoQ/YoY driven higher YoY by ULIP, Group Protection and Group Savings
- **Expense control:** Expense ratio de-grew/grew -161/3bps QoQ/YoY to 9.5%, QoQ moved lower by a fall of -253bps in opex ratio
- **Persistency:** 37<sup>th</sup> month ratio de-grew -93/-420 bps QoQ/YoY to 68.3% whereas 61<sup>st</sup> month ratio de-grew/grew -51/331 bps QoQ/YoY to 56.1%

## Our view - SBIL largely protects margin via product repricing and protection traction

The relative sequential sustenance of margin was on account of traction for protection and repricing of non-par guaranteed and annuity products: Sequentially, the VNB margin was relatively stable despite a rise of 527 bps QoQ in the share of ULIP to 58% of APE. In terms of guidance, management reiterated the VNB margin range of 28-30%.

Management sounded particularly confident in reiterating full year APE growth guidance of 20%: For the quarter, the growth for ULIP APE was 50.2% YoY, driven by strong equity markets, to Rs 30.2bn. The other two individual savings' segments, Par and Non-Par, de-grew -4.2% and -7.5%, respectively, in APE terms, to Rs 2.3bn and Rs 8.6bn, respectively. Total protection APE grew 55.6% YoY to Rs 7bn even though individual protection de-grew -4.5% YoY to Rs 2.1bn. Group protection rose 113% YoY to Rs 4.9bn. Group protection growth was driven by group term, which saw healthy growth due to some deals fructifying. There is no strategic change in terms of approach to this business.

While bancassurance remains the dominant channel, agency growth has been faster, with further strong traction in the offing: Agency APE has grown 24% YoY (26% share) compared with banca APE growing 16% YoY (60% share). The productivity of agents has gone up. There have been gross additions of about 50,000 agents in 1H and when these agents will turn active, they will contribute to more business in 2H.

We maintain 'BUY' rating on SBIL with an unchanged price target of Rs 1720: We value SBIL at 2.8x FY25 P/EV for an FY24E/25E/26E RoEV profile of 21.5/21.9%/22.2%.

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

### Exhibit 1: Result table

Rs mn	Q2 FY24	Q2 FY23	% yoy	Q1 FY24	% qoq
NBP	100,547	74,971	34.1%	62,071	62.0%
Renewal premium	101,211	91,240	10.9%	73,480	37.7%
Income from investments	85,074	110,367	-22.9%	145,789	-41.6%
Surplus/(Deficit)	3,639	3,446	5.6%	3,801	-4.3%
APAT	3,802	3,767	0.9%	3,810	-0.2%
Expense ratio	9.5%	9.5%	3bps	11.1%	-161bps
37th mo. Persistency*	68.3%	72.5%	-420bps	69.2%	-93bps
Total APE	52,300	39,300	33.1%	30,300	72.6%
VNB (effective tax basis)	14,900	12,400	20.2%	8,700	71.3%
VNB Margin (effective tax basis)	28.5%	31.6%	-306bps	28.7%	-22bps

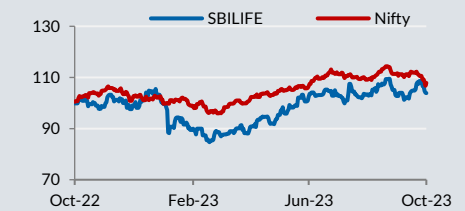
Source: Company, YES Sec-Research, \*N.B. Regular and Limited Pay under individual category

Recommendation	: BUY
Current price	: Rs 1,303
Target price	: Rs 1,720
Potential return	: +32%

### Stock data (as on October 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	1393 / 1054
Market cap (Rs/USD mn)	1307024 / 15697
Outstanding Shares (mn)	1,001
6m Avg t/o (Rs mn):	1,438
Div yield (%):	0.2
Bloomberg code:	SBILIFE IN
NSE code:	SBILIFE

### Stock performance



	1M	3M	1Y
Absolute return	0.1%	0.5%	4.0%

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

Promoter	55.4%
FII+DII	40.5%
Others	4.1%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,720	1,720

### Financial Summary

Rs. Mn	FY24E	FY25E	FY26E
APE	201,450	236,729	278,345
% yoy	19.8%	17.5%	17.6%
VNB	58,421	69,835	83,503
% yoy	15.2%	19.5%	19.6%
VNB Margin	29.0%	29.5%	30.0%
PAT	18,626	20,720	23,062
EPS (Rs)	18.6	20.7	23.0
EV/Share (Rs)	531.0	619.2	728.1
VNBPS (Rs)	58.4	69.8	83.4
P/EV (x)	2.5	2.1	1.8
P/VNB (x)	22.4	18.7	15.7
ROEV (%)	21.5%	21.9%	22.2%

### Δ in earnings estimates

Rs bn	FY24E	FY25E	FY26E
VNB (New)	58.4	69.8	83.5
VNB (Old)	58.4	69.8	83.5
% change	0.0%	0.0%	0.0%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### VNB and VNB margin

- VNB is up 12% YoY to Rs 23.6bn for 1H.
- VNB margin
  - VNB margin for 1H was 28.6%.
  - The decline in VNB margin on YoY basis was driven by the rise in the share of ULIP.
  - **Sequential margin evolution**
    - Sequentially, the VNB margin was relatively stable (down 22 bps on calculated basis).
    - The relative sequential sustenance of margin was on account of traction for protection and repricing of non-par guaranteed and annuity products.
- **Margin guidance**
  - Management reiterated the VNB margin range of 28-30%.
- **Commission impact**
  - There has been no change to margin due to changes in commission regulations.

### Product growth and mix

- **ULIP**
  - ULIP NBP was Rs 54.5bn, up 27% YoY.
  - The growth in the ULIP is on account of strength in equity markets.
  - Higher ULIP sales have led to higher ticket size.
  - The intended share for ULIP is 55% (presumably in individual new business).
  - **New inflows**
    - New inflows are not as debt-dominated as they used to be and are more balanced.
    - That being said, there is no challenge to ULIP growth due to market volatility.
- **Protection**
  - Total protection NBP was up 25% YoY to Rs 20.0bn in 1H.
  - **Individual protection**
    - Individual protection amounted to Rs 4.3bn, flat YoY.
    - The share of ROP in individual protection remains 15%.
    - While reinsurance support has improved, the company expects this to improve further in 6-8 months.
  - **Group protection**
    - Total group protection NBP was up 34% YoY to Rs 15.7bn.
    - **Credit life**
      - Credit life new business was up 12% YoY to Rs 10.2bn.
    - **Group term life**
      - Growth for group term life was healthy due to some deals fructifying.
      - There is no strategic change in terms of approach to this business.
- **Annuities**
  - Annuity NBP was up 45% YoY to Rs 28.6bn.
- **Non-Par savings**
  - There has been one round of IRR cut amounting to about 10 bps on the key Smart Platina product.

(Con call takeaways continue on the next page)

- The product structure is not very long term and the company does not do whole life product.

## Channel growth and mix

### ▪ Channel mix – 1H APE

- Bancassurance – 60%
- Agency – 26%
- Others – 14%

### ▪ Channel growth – 1H APE

- Bancassurance – 16%
- Agency – 24%
- Others – 44%

### ▪ More on bancassurance

#### • SBI channel

- While all SBI branches are authorized to sell SBI Life products, the share of active branches varies between 55-65%.
- SBI is not in any discussions with any other life insurer in terms of open architecture.

### ▪ More on agency channel

- The productivity of agents has gone up.
- There have been gross additions of about 50,000 agents in 1H.
- When these agents will turn active, they will contribute to more business in 2H.

## Total revenue growth

### ▪ Gross written premium

- Gross written premium is up 21% YoY to Rs 337bn.
- Renewal premium is Rs 174.7bn.

### ▪ New business premium

- NBP is up 24% YoY to Rs 162.6bn.
- Individual NBP is up 20% YoY to Rs 101.7bn.
- Single premium is 34% of individual NBP, driven by individual annuities.
- Group NBP is Rs 61bn.

### ▪ APE

- Total APE is up 21% YoY to Rs 82.6bn.
- Individual APE is up 17% YoY to Rs 71.4bn.
- **Guidance**
  - Management reiterated growth guidance of 20% for FY24.

## Embedded value

- EV is up 21% YoY to Rs 512.6bn.

### ▪ EVOP

- The EVOP amounted to Rs 44.4bn.

### ▪ RoEV

- The operating RoEV amounted to 20.2%.

(Con call takeaways continue on the next page)

- **Operating variance**
  - Positive operating variance was on account of all key components viz. mortality, expenses and persistency.
  - Management expects operating variance to improve further.

## Operating expenses

- The opex ratio is 5.4%.
- **Commission**
  - There is no impact on agency commissions so far.
  - The company will take a call later based on prevailing sentiment.
  - **Ratio**
    - The overall commission ratio has remained largely stable YoY at 4.5%.

## AUM

- AUM is up 22% YoY to Rs 3451bn.

## Solvency

- Solvency ratio is 2.12x.

## Persistency

- The improvement in the 49th and 61st month persistency amounted to 92 bps and 509 bps.

## Digital traction

- 99% of individual proposals are submitted digitally.
- 54% of these proposals are processed by automated under-writing.

### Exhibit 2: Quarterly Actuals Vs Estimates

Q2 FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	100,547	97,942	2.7
Total APE	52,300	50,542	3.5
VNB	14,900	14,657	1.7

Source: Company, YES Sec – Research

## Exhibit 3: Other Business Parameters

Rs mn	Q2 FY24	Q2 FY23	% yoy	Q1 FY24	% qoq
<b>APE by Product (Rs mn)</b>					
Individual Savings	41,000	31,800	28.9%	23,800	72.3%
Par	2,300	2,400	-4.2%	2,000	15.0%
Non par	8,600	9,300	-7.5%	5,800	48.3%
ULIP	30,200	20,100	50.2%	15,900	89.9%
Total Protection	7,000	4,500	55.6%	3,700	89.2%
Individual Protection	2,100	2,200	-4.5%	2,100	0.0%
Group Protection	4,900	2,300	113.0%	1,600	206.3%
Total Annuity	1,600	1,300	23.1%	1,300	23.1%
Group Savings	2,700	1,600	68.8%	1,500	80.0%
<b>Total APE</b>	<b>52,300</b>	<b>39,200</b>	<b>33.4%</b>	<b>30,300</b>	<b>72.6%</b>
<b>Product Mix (% in APE)</b>					
Individual Savings	78%	81%	-273bps	79%	-15bps
Par	4%	6%	-172bps	7%	-220bps
Non par	16%	24%	-728bps	19%	-270bps
ULIP	58%	51%	647bps	52%	527bps
Total Protection	13%	11%	190bps	12%	117bps
Individual Protection	4%	6%	-160bps	7%	-292bps
Group Protection	9%	6%	350bps	5%	409bps
Total Annuity	3%	3%	-26bps	4%	-123bps
Group Savings	5%	4%	108bps	5%	21bps
<b>APE by Channel (Rs mn)</b>					
Banca	30,100	24,900	20.9%	19,800	52.0%
Agency	13,900	9,600	44.8%	7,500	85.3%
Others	8,300	4,700	76.6%	3,000	176.7%
<b>Channel mix (% in APE)</b>					
Banca	58%	64%	-597bps	65%	-779bps
Agency	27%	24%	209bps	25%	182bps
Others	16%	12%	388bps	10%	597bps
<b>Persistency*</b>					
13 <sup>th</sup> month	83.3%	81.5%	178bps	81.5%	183bps
61 <sup>st</sup> month	56.1%	52.8%	331bps	56.6%	-51bps
<b>Expense ratio</b>					
Commission ratio	5.1%	4.5%	61bps	4.1%	92bps
Opex ratio	4.5%	5.0%	-58bps	7.0%	-253bps
<b>Solvency</b>					
Solvency ratio	212%	219%	-700bps	215%	-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	782,679	919,741	1,083,057
Income from investments	235,680	132,601	366,496	422,939	488,955
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>1,168,507</b>	<b>1,363,944</b>	<b>1,595,403</b>
Commission	21,583	30,625	36,000	42,305	49,817
Employee expenses	18,164	20,464	24,056	28,268	33,288
Other opex	11,581	13,631	16,024	18,830	22,174
Benefits paid	313,398	302,875	352,848	414,466	487,559
Change in valuation of liability	437,619	410,031	696,787	812,187	948,897
Others	7,829	8,323	9,762	11,448	13,458
Provision for Tax	1,262	1,474	2,148	2,506	2,930
<b>Surplus/(Deficit)</b>	<b>18,838</b>	<b>28,562</b>	<b>30,882</b>	<b>33,933</b>	<b>37,281</b>
Transfer to shareholders A/C	17,324	27,072	29,270	32,162	35,335

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	29,270	32,162	35,335
Income from Investments	9,831	7,945	8,949	10,115	11,445
<b>Total A</b>	<b>27,155</b>	<b>35,017</b>	<b>38,219</b>	<b>42,278</b>	<b>46,780</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	19,036	21,176	23,569
Provision for Taxation	548	379	410	456	508
<b>Profit/(Loss) after tax</b>	<b>15,060</b>	<b>17,206</b>	<b>18,626</b>	<b>20,720</b>	<b>23,062</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	134,137	150,714	169,163
Policyholders' Funds					
Policy Liabilities	1,129,659	1,321,708	1,597,900	1,933,207	2,340,421
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>3,625,966</b>	<b>4,253,653</b>	<b>4,997,626</b>
Investments - Shareholders	100,758	112,087	124,336	137,795	152,582
Investments Policyholders	2,547,560	2,931,258	3,389,559	3,930,776	4,570,492
Fixed Assets	5,268	5,215	5,365	5,515	5,665
Net Current Assets	24,859	43,417	102,817	175,678	264,997
Misc. Expenditure	0	0	0	0	0
<b>Application of funds</b>	<b>2,682,072</b>	<b>3,095,866</b>	<b>3,625,966</b>	<b>4,253,653</b>	<b>4,997,626</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	531,511	619,736
Unwind of Discount	27,300	34,100	39,616	45,734	53,326
Value of New Business	37,000	50,700	58,421	69,835	83,503
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>99,036</b>	<b>116,569</b>	<b>137,829</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>74,836</b>	<b>92,369</b>	<b>113,629</b>
Net Capital Inflow / Outflow	(2,000)	(2,100)	(3,725)	(4,144)	(4,612)
<b>Closing EV</b>	<b>396,200</b>	<b>460,400</b>	<b>531,511</b>	<b>619,736</b>	<b>728,753</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	201,450	236,729	278,345	201,450	236,729	278,345	0.0	0.0	0.0
Value of new business	58,421	69,835	83,503	58,421	69,835	83,503	0.0	0.0	0.0
Embedded Value	531,511	619,736	728,753	531,511	619,736	728,753	0.0	0.0	0.0

Source: Company, YES Sec - Research

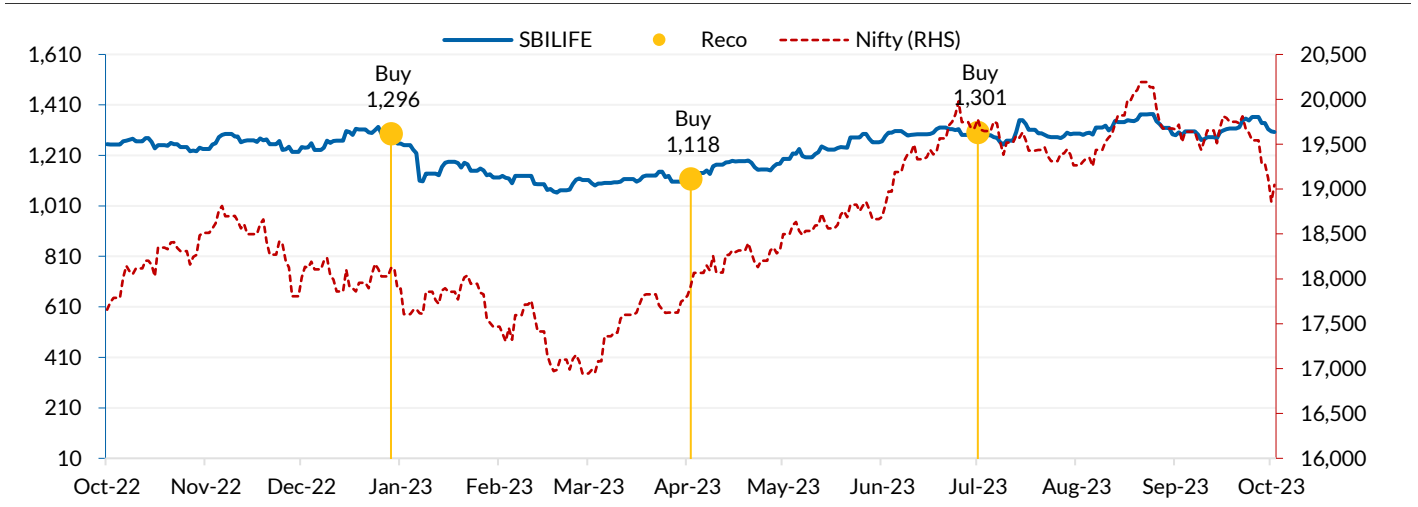
## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%) - P&amp;L</b>					
New business premium	23.4%	16.2%	21.1%	19.1%	19.2%
Renewal premium	12.4%	13.3%	14.4%	15.9%	16.2%
Net premium	17.4%	13.9%	17.6%	17.5%	17.8%
PAT	3.4%	14.2%	8.3%	11.2%	11.3%
VNB	39.1%	37.0%	15.2%	19.5%	19.6%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	21.1%	14.9%	15.5%	15.8%	16.1%
Total Assets	20.5%	15.4%	17.1%	17.3%	17.5%
Embedded value	18.7%	16.2%	15.4%	16.6%	17.6%
<b>Profitability ratios (%)</b>					
VNB Margins	25.9%	30.1%	29.0%	29.5%	30.0%
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%	12.9%	12.9%
RoEV	20.6%	22.8%	21.5%	21.9%	22.2%
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%	7.9%
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%	45.1%	45.1%	45.0%
Claims / AUM	11.8%	10.0%	10.0%	10.2%	10.3%
<b>Per share data (Rs)</b>					
EPS	15.1	17.2	18.6	20.7	23.0
VNBPS	37.0	50.7	58.4	69.8	83.4
BVPS	114.1	129.1	144.0	160.6	179.0
EVPS	396.2	460.0	531.0	619.2	728.1
<b>Valuation (x)</b>					
P/E	86.8	76.0	70.2	63.1	56.7
P/VNB	35.3	25.8	22.4	18.7	15.7
P/BV	11.5	10.1	9.1	8.1	7.3
P/EV	3.3	2.8	2.5	2.1	1.8

Source: Company, YES Sec – Research



## Recommendation Tracker



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