

SBI Life Insurance | BUY

Contraction in protection drags margins, outlook steady

SBI Life reported a VNB growth of 11.5% YoY – APE grew 20.1% to INR 36.4bn while VNB margins contracted by 200bps YoY to 26.6%. VNB, at INR 9.7bn, was 6% below JMFe. The company attributed the YoY contraction in margins to product mix shift. Its ULIP premiums grew 40% to INR 22.2bn. While non-par grew 21%, par product contracted 30% to INR 1.4bn. The company saw an 8% YoY contraction in annuity to INR 1.2bn, led by pricing pressure. Further, protection growth was subdued, with individual protection contracting 29% YoY and group protection contracting by 6% YoY, to, co-incidentally, both at INR 1.5bn. Its strong banca channel continued to underperform on growth – with individual APE from the channel growing 12% to INR 20.7bn, in-line with FY24 growth but above 4Q growth of 6%. It saw its commissions to GWP ratio rise by 40bps from 4.0% to 4.4% despite a higher ULIP mix, due to the enhanced limits notified by IRDAI. The company does not expect any further change in commission structure. Performance on protection growth remains the key, as it will also support VNB margins. We estimate APE/VNB/EV growth of 16.5%/16.5%/19.4% CAGR over FY24-FY26. We continue to value the company at 2.2x FY26e EV of INR 833.7bn, maintain our Target Price of INR 1,783. Maintain BUY.

- APE growth led by strong ULIP sales:** We have seen strong ULIP sales for all insurers in last few quarters, and SBI Life, the market leader in ULIP sales, was no exception. Its ULIP premiums grew 40% to INR 22.2bn. While non-par grew 21%, par product contracted 30% to INR 1.4bn. The company saw an 8% YoY contraction in annuity to INR 1.2bn, led by pricing pressure. Protection sales was slow in the quarter – while individual protection contracted 26% YoY to INR 1.5bn, group protection sales fell 6% YoY to INR 1.5bn. Within group protection, credit protect to group term was in the ratio of 1:2. The company is **focused on growing protection** – with the launch of higher Sum Assured variants. Further, it has identified educational loan customers for sales of both individual and group protection. It has traditionally focused on home loan customers for credit-protect business. The company also intends to increase rider attachment to grow its VNB margins.
- Banca sluggish but picks up to +12% YoY:** Banca continued to underperform on growth – with individual APE from the channel growing 12% to INR 20.7bn, in-line with FY24 growth but above 4Q growth of 6%. At 62.5% of individual business, banca (entirely SBI) holds the key to the company's growth. The company expressed confidence in growth returning to the channel during 2Q-3Q of FY25. Non-banca channels grew strongly – agency +48% to INR 10.7bn (32% of individual business), while other channels (incl. non-SBI bancassurance) grew 31%. The share of non-banca, non-agency remains low at 5% of individual APE.
- VNB grew 11.5% to INR 9.7bn, 6% below JMFe, margins contracted 200bps to 26.8%:** SBI Life saw VNB margins contract 200bps YoY to 26.8%. Total VNB came in at INR 9.7bn, +11.5% YoY. The contraction in margin is line with that seen in FY24, and the absolute VNB growth, at 11.5% YoY, was an improvement over 9.5% growth in FY24. The company attributed the contraction in margins to a negative 2.6% impact due to product mix shift, compensated by a 0.7% impact of change in operating assumptions. The impact of product



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,783
Upside/(Downside)	9.2%
Previous Price Target	1,783
Change	0.0%

Key Data – SBILIFE IN

Current Market Price	INR1,633
Market cap (bn)	INR1,635.5/US\$19.5
Free Float	40%
Shares in issue (mn)	1,001.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,154.8/US\$25.7
52-week range	1,665/1,251
Sensex/Nifty	80,149/24,414
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	12.4	15.8	24.0
Relative*	9.5	2.1	2.6

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Total APE	143.0	168.1	197.2	229.6	267.5
Growth YoY (%)	24.9%	17.6%	17.3%	16.4%	16.5%
Individual APE	131.4	154.7	175.0	205.6	240.7
NBP	254.6	295.9	382.4	418.8	488.5
Opex + Commissions	51.3	64.7	72.4	89.4	104.0
VNB	37.0	50.7	55.5	64.6	75.4
Growth YoY (%)	58.8%	37.0%	9.5%	16.4%	16.7%
VNB margins	25.9%	30.1%	28.1%	28.1%	28.2%
P/EVx	3.6	3.1	2.4	2.3	2.0

Source: Company data, JM Financial. Note: Valuations as of 24/July/2024

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mix shift is visible through a higher ULIP share in savings, at 72.5%, against 67% in 1Q24. However, the mix improved QoQ from 76.3% in 4Q24. Further, low protection share contributed to the miss on margins. Despite the low, 11%, APE share, we estimate that protection contributed 24% to FY24 VNB margins for SBI Life. With the company's roadmap for protection growth, we maintain our FY25 VNB margin estimates at FY24 levels of 28.1%. In our [IC note](#), we had highlighted that the company has richly priced its protection policies compared to peers, but it has signalled a willingness to remain competitive with targeted product launches.

- **Impact of IRDAI regulations on commissions and surrender payouts:** SBI Life saw its commissions to GWP ratio increase by 40bps from 4.0% to 4.4% despite a higher ULIP mix, due to the enhanced limits notified by IRDAI. **The company does not expect any further change in commission structure – with respect to any corporate or individual channel agent.** On the impact of surrender charges, the company did not give out a number but reiterated that the impact would be minimal due to the lowest, 25%, share of traditional products in its savings mix, amongst listed players.
- **Valuation and view:** We have remained confident in the strength of the company's banca and growing agency. We had highlighted that the key monitorables are growth in protection and commission payouts. Discussions on raising commission payouts seem to have phased out, hence, performance on protection growth remains the key, as it will also support VNB margins. We estimate APE/VNB/EV growth of 16.5%/16.5%/19.4% CAGR over FY24-FY26. We continue to value the company at 2.2x FY26e EV of INR 833.7bn, maintain our Target Price of INR 1,783. Maintain BUY.

Exhibit 1. SBI Life: Key quarterly trends

INR mn	1Q24	4Q24	1Q25	YoY %	QoQ %
Total APE (Quarterly)	30,300	53,300	36,400	20%	-32%
Individual Savings	23,700	41,000	30,600	29%	-25%
- ULIPs	15,900	31,300	22,200	40%	-29%
- Par	2,000	1,700	1,400	-30%	-18%
- Non-par	5,800	7,900	7,000	21%	-11%
Annuity	1,300	1,600	1,200	-8%	-25%
Individual protection	2,100	2,900	1,500	-29%	-48%
Individual APE	27,100	45,500	33,300	23%	-27%
Group APE	3,100	7,900	3,100	0%	-61%
- Group protection	1,600	2,900	1,500	-6%	-48%
- Group savings	1,500	5,000	1,600	7%	-68%
Total Savings + Annuity	26,500	47,600	33,400	26%	-30%
Total protection	3,700	5,800	3,000	-19%	-48%
EV (INR bn)	-	582,600	-		
VNB margin (Quarterly)	28.8%	28.3%	26.8%	-2.0%	-1.5%
VNB growth, % (YoY)	-1.1%	4.9%	11.5%		
VNB (quarterly)	8,700	15,100	9,700	11%	-36%
Channel mix - Ind APE (Quarterly)					
Banca	18,500	27,600	20,700	12%	-25%
Agency	7,200	14,700	10,700	49%	-27%
Others	1,300	2,600	1,700	31%	-35%
Savings mix, % (Quarterly)					
- ULIPs	67.1%	76.3%	72.5%	5%	-4%
- Par	8.4%	4.1%	4.6%	-4%	0%
- Non-par	24.5%	19.3%	22.9%	-2%	4%

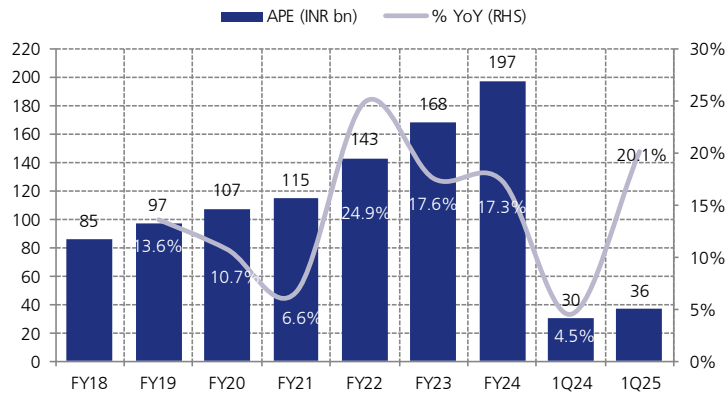
Source: Company, JM Financial

Exhibit 2. Trend in Embedded Value accretion

EV Walk	FY22	FY23	FY24	FY25e	FY26e
Opening EV	333,900	396,300	460,400	582,600	701,506
Unwind	27,300	34,100	38,100	48,065	55,904
VNB	37,000	50,700	55,500	64,584	75,400
Core EVOP	64,300	84,800	93,600	112,648	131,304
Operating variance	4,600	5,800	6,900	2,783	1,647
Op EVOP	68,900	90,600	100,500	115,431	132,951
Economic variance	-4,500	-24,200	23,900	5,975	2,247
EV, before capital changes	398,300	462,700	584,800	704,006	836,704
Dividends, ESOPs & capital raise	-2,000	-2,100	-2,300	-2,500	-3,000
Closing EV	396,300	460,600	582,500	701,506	833,704

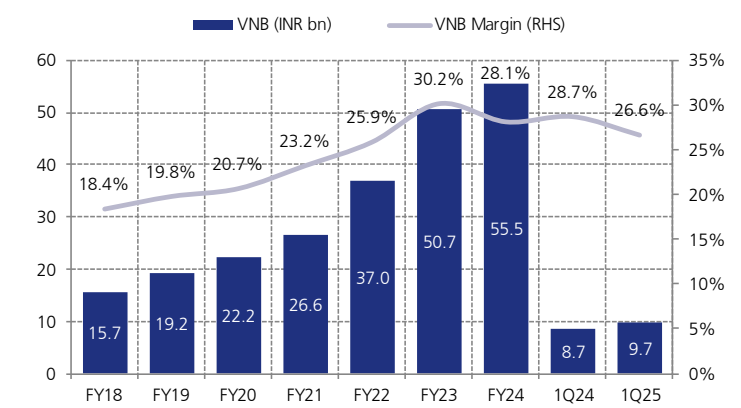
Source: Company, JM Financial

Exhibit 3. Consistent growth in APE – 1Q +20% yoy



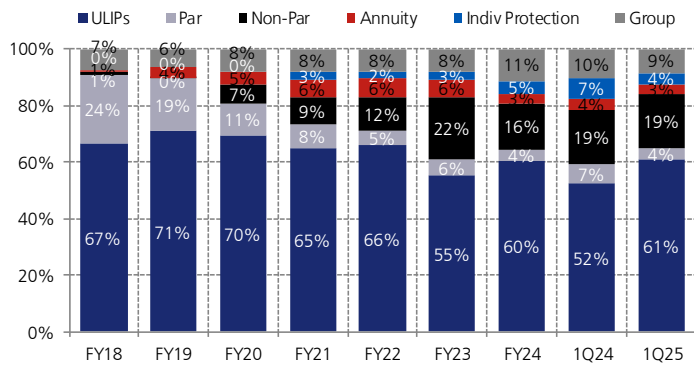
Source: Company, JM Financial

Exhibit 4. VNB margins has contracted from 30% peak – 1Q 26.6%



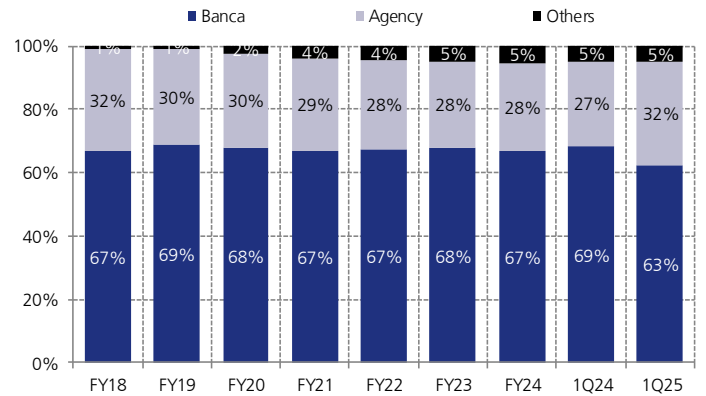
Source: Company, JM Financial

Exhibit 5. ULIP share has been consistently high – 1Q 61%



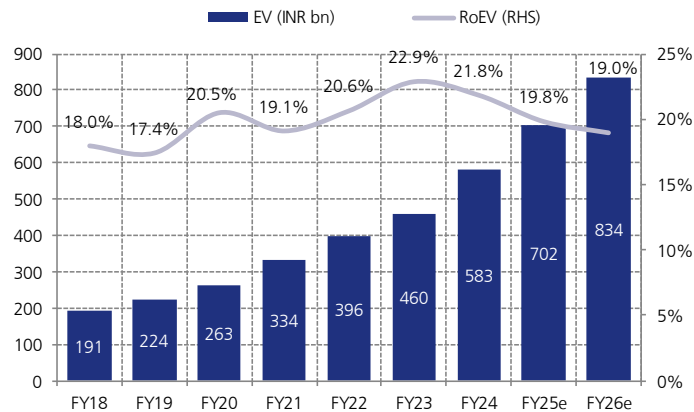
Source: Company, JM Financial

Exhibit 6. SBI has driven individual APE – share down to 63% in 1Q



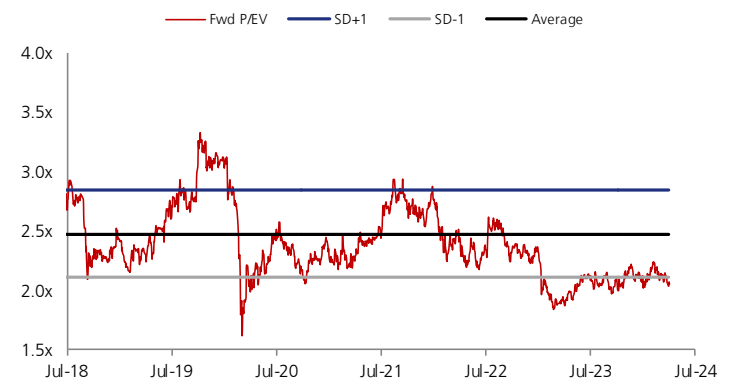
Source: Company, JM Financial

Exhibit 7. Consistent RoEV of 17%+ since FY18- expect 19%+



Source: Company, JM Financial

Exhibit 8. Stock 1 SD below mean at 2.2x 1 yr-forward P/EV



Source: Company, JM Financial

Financial Tables (Standalone)

Technical Statement						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Gross premiums	587,596	673,156	814,306	942,454	1,120,158	
Net premiums	584,323	665,810	805,871	934,067	1,110,240	
Investment income	235,680	132,601	503,666	288,889	396,929	
Other Income	10,270	17,573	16,777	39,395	47,933	
Total Income	830,272	815,985	1,326,314	1,262,351	1,555,101	
Commissions	21,583	30,625	32,553	43,674	51,908	
Operating expenses	29,745	34,095	39,819	45,726	52,062	
Provisions & Taxes	9,090	9,797	10,640	12,661	15,389	
Total expenses	60,418	74,517	83,012	102,060	119,359	
Benefits paid	313,398	302,875	431,074	450,096	557,469	
Change in valuation of life reserves	437,619	410,031	784,313	609,339	754,700	
Total Benefits	751,017	712,906	1,215,388	1,059,435	1,312,169	
Surplus/(Deficit) for the year	18,838	28,563	27,915	61,461	75,641	

Source: Company, JM Financial

Shareholder's Statement						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Transfer from the Policyholders' Account	17,324	27,071	25,977	52,242	64,295	
Investment income	9,831	7,945	10,341	12,352	13,587	
Other income	54	7	-	-	-	
Total income	27,208	35,024	36,317	64,593	77,881	
Operating expenses	1,779	365	620	489	557	
Contribution to the policyholders A/C	9,821	17,075	16,276	23,906	28,413	
Profit before tax	15,608	17,584	19,421	40,199	48,911	
Tax	548	379	483	804	978	
Profit after tax	15,060	17,206	18,938	39,395	47,933	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
VNB (INR mn)	37,000	50,700	55,500	64,584	75,400
VNB growth	39%	37%	9%	16%	17%
Reported VNB margin	25.9%	30.2%	28.1%	28.1%	28.2%
NBP (INR mn)	254,574	295,886	382,383	418,820	488,531
- Growth	23%	16%	29%	10%	17%
APE	143,000	168,100	197,200	229,558	267,532
- Growth	25%	18%	17%	18%	17%
Opex (ex-comm) ratio	5.06%	5.06%	4.89%	4.85%	4.65%
Commissions ratio	3.67%	4.55%	4.00%	4.63%	4.63%

Source: Company, JM Financial

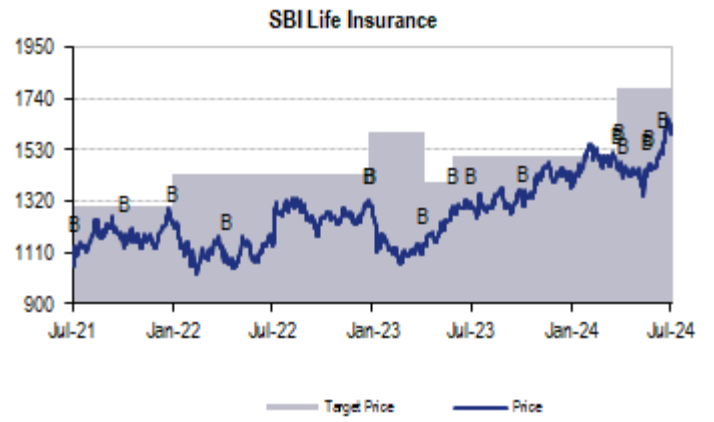
Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Investments	100,758	112,087	130,364	135,625	149,188	
Policyholders' Investments	1,121,307	1,298,702	1,565,436	2,550,750	3,479,145	
Unit linked Investments	1,426,253	1,632,555	2,160,103	2,540,811	3,061,482	
Loans	3,627	3,889	3,888	5,445	6,472	
Fixed assets	5,268	5,215	5,570	6,215	6,800	
Net Current Assets / (Liab)	24,859	43,417	62,470	51,737	56,614	
Total Assets	2,682,072	3,095,866	3,927,830	5,290,583	6,759,701	
Borrowings	-	-	-	-	-	
Fair Value Change Account	201,728	149,101	47,191	149,101	149,101	
Policy Liabilities	1,179,313	1,397,949	1,558,085	2,525,242	3,444,354	
Linked Liabilities	1,174,871	1,407,214	2,160,103	2,413,770	2,908,408	
FFA	9,936	11,427	13,366	15,999	19,016	
Total Liabilities	2,565,849	2,965,691	3,778,744	5,104,113	6,520,878	
Share Capital	10,004	10,009	10,015	10,049	10,069	
Reserves and surplus	104,181	119,237	139,071	176,421	228,754	
Fair Value Change Account	2,039	929	-	-	-	
Shareholder's equity	116,223	130,175	149,086	186,470	238,823	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
6-May-20	Buy	860	
22-Jul-20	Buy	1,000	16.3
24-Jan-21	Buy	1,040	4.0
4-May-21	Buy	1,150	10.6
27-Jul-21	Buy	1,300	13.0
27-Oct-21	Buy	1,300	0.0
24-Jan-22	Buy	1,430	10.0
1-May-22	Buy	1,430	0.0
16-Jan-23	Buy	1,600	11.9
21-Jan-23	Buy	1,600	0.0
27-Apr-23	Buy	1,400	-12.5
20-Jun-23	Buy	1,500	7.1
25-Jul-23	Buy	1,500	0.0
27-Oct-23	Buy	1,500	0.0
17-Apr-24	Buy	1,783	18.9
22-Apr-24	Buy	1,783	0.0
29-Apr-24	Buy	1,783	0.0
10-Jun-24	Buy	1,783	0.0
13-Jun-24	Buy	1,783	0.0
9-Jul-24	Buy	1,783	0.0

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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