

India

ADD (no change)

Consensus ratings*: Buy 33 Hold 0 Sell 0

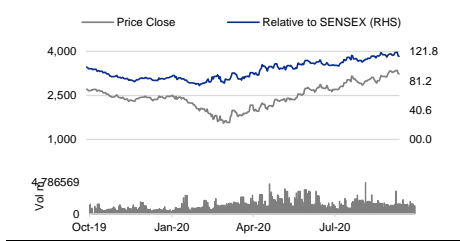
Current price:	Rs1,118
Target price:	Rs1,400
Previous target:	Rs1,650
Up/downside:	25.2%
InCred Research / Consensus:	-9.5%

Reuters:	
Bloomberg:	SBILIFE IN
Market cap:	US\$15,414m
	Rs1,119,301m
Average daily turnover:	US\$19.6m
	Rs1421.7m
Current shares o/s:	1,000.2m
Free float:	50.0%

*Source: Bloomberg

Key changes in this note

- ▶ We are factoring in ~17.2% CAGR in VNB over FY23-26F against ~18.5% CAGR earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.5	(11.1)	2.1
Relative (%)	(3.9)	(12.5)	(3.8)

Major shareholders	% held
State Bank of India	55.5
IPRU Equity Savings Fund	3.1
Government of Singapore	2.8

Analyst(s)



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SBI Life Insurance

Steady 4Q; growth concern elevates

- SBIL reported a healthy growth of ~21.8% yoy in VNB & ~9.9% yoy in APE during 4QFY23, but the trend has been weakening sequentially.
- VNB margins witnessed a sequential surge to ~30.7% against ~28% last quarter amid a seasonal spurt in savings and protection plans over ULIPs.
- With tax implication for large-ticket premium plans, we are factoring in a slowdown in savings plans. Retain ADD rating with a lower TP of Rs1,400.

Growth momentum loses shine; further slowdown likely

SBI Life Insurance Company (SBIL) reported ~21.8% yoy growth in the Value of New Business (VNB) to Rs14.3bn whereas Annualized Premium Equivalent (APE) grew by ~9.9% yoy to Rs46.6bn in 4QFY23. The trend is witnessing a sequential decline despite 4Q remaining seasonally a strong quarter. SBIL maintained its leadership position in the Individual Rated Premium segment with ~27.2% private market share as of 31 Mar 2023. There was a spurt in demand for non-PAR savings, which we also attribute to tax implication from the next financial year. We are concerned over the slowing growth trajectory for most insurers due to tax implementation on maturity in case of large-ticket premium products. We are factoring in ~17.2% CAGR in VNB over FY23-26F against ~18.5% CAGR earlier. We also expect SBIL to grow superiorly compared to most large private insurers due to its diversified product mix as well as deep geographical reach led by strong distribution infrastructure.

Expect margin sustainability amid better product mix and pricing

Though we feel peak VNB margins (>30% in the past few quarters) may be behind us, as ULIP plans gather pace as well as some pricing benefits are expected to be passed on to end-customers through linearity in policy pricing. However, we expect the margin trend to remain sustainable at ~29% for FY24F-26F amid better pricing and a reshuffle in product portfolio towards better-margin products. Management highlighted that policy pricing had dynamic adjustment for products, including repricing of annuities, term plans, etc.

Outlook & valuation

We like SBIL for its leadership strength, improving margins and superior operating efficiency. However, we remain concerned about the slowing growth trajectory due to tax implementation on maturity for large-ticket premium products. We are factoring in ~17.2% CAGR in VNB over FY23-26F against ~18.5% CAGR earlier. However, we maintain our VNB margin estimate of ~29% for FY24F-25F. We maintain our ADD rating on the stock with a lower target price of Rs1,400, (Rs1,650 earlier), corresponding to ~2.5x price/EV on FY24F. Key downside risks: Demand disruption due to a resurgence of the Covid-19 pandemic along with regulatory intervention to prevent any sustained super-normal profits. Credit protect product margins may also be at risk of erosion.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Premium (Rsm)	587,596	673,156	776,351	900,708	1,041,451
Investment And Other Income (Rsm)	(3,274)	(7,346)	(8,883)	(10,491)	(12,302)
Net Premium (Rsm)	584,323	665,810	767,468	890,217	1,029,150
Net Profit (Rsm)	14,562	13,311	28,823	34,106	41,066
Core EPS (Rs)	20.10	5.30	21.14	26.31	33.15
Core EPS Growth	17.3%	(73.6%)	298.5%	24.5%	26.0%
FD Core P/E (x)	20.10	5.30	21.14	26.31	33.15
P/NB (x)	0.00	0.00	0.00	0.00	0.00
DPS (Rs)	2.50	2.50	2.50	2.50	2.50
Dividend Yield	0.178%	0.178%	0.178%	0.178%	0.178%
P/EV (x)	0.00	0.00	0.00	0.00	0.00
P/BV (x)	10.12	8.65	6.85	5.52	4.49
ROE	3.7%	0.8%	2.9%	3.2%	3.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly parameters

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	YoY(%)	QoQ(%)
New business premium	30,586	59,397	54,388	61,872	33,449	69,436	85,029	66,660	55,914	74,971	84,236	80,766	21.2%	-4.1%
APE	12,700	27,100	35,000	39,700	15,987	39,431	45,165	42,417	28,725	38,834	53,920	46,621	9.9%	-13.5%
Value of New Business	2,600	5,400	7,600	10,964	3,800	10,000	11,500	11,737	8,800	12,400	15,100	14,298	21.8%	-5.3%
VNB Margin %	20.1%	19.9%	21.7%	27.6%	23.7%	25.4%	25.5%	27.7%	30.6%	31.9%	28.0%	30.7%		
Opex ratio %	7.1%	4.6%	4.6%	4.2%	7.4%	5.1%	4.4%	5.2%	6.8%	5.2%	4.8%	5.1%		
Profit	3,909	2,997	2,329	5,324	2,232	2,466	3,641	6,722	3,641	3,767	3,041	7,769	15.6%	155.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue	584,323	665,810	767,468	890,217	1,029,150
Total Claims and Changes in Reserves					
Acq. Costs/Other Underwriting Exp.					
Total Underwriting Result	584,323	665,810	767,468	890,217	1,029,150
Investment Income on Tech Reserve					
Insurance Profit / (Loss)	584,323	665,810	767,468	890,217	1,029,150
Total Other Technical Income					
Total Other Revenues	236,128	133,100	302,642	356,453	424,060
Total Operating Costs					
Other Technical Income / (Loss)					
Depreciation And Amortisation	(1,262)	(1,474)	(1,905)	(2,045)	(2,353)
Operating Profit					
Pretax Income/(Loss) from Assoc.	(5,540)	8,006	7,685	7,792	7,918
Post-Tax Oper. Earnings - Life/Other Biz					
Head Office Costs					
Non-Operating Income/(Expense)	7,610	8,757	10,504	12,600	15,115
Net Interest Income	(356)	(410)	(471)	(542)	(623)
Investment Income on Shareholders Fund	(9,822)	(17,075)	(6,830)	(2,732)	(1,093)
Other Income					
Exceptional Items					
Pre-tax Profit	13,868	10,954	29,688	36,624	44,683
Taxation	693	2,356	(865)	(2,518)	(3,618)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	14,562	13,311	28,823	34,106	41,066
Minority Interests					
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14,562	13,311	28,823	34,106	41,066

Operating Ratios					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Premium Retention Ratio (life & Health)	99.4%	98.9%	98.9%	98.8%	98.8%
Benefits Ratio (life & Health)					
Acquisition Expense Ratio (life & Health)					
Admin Expense Ratio (life & Health)					
Total Expense Ratio (life & Health)					
Policyholder Dividends Ratio (life & Health)					
Combined Underwriting Ratio (life & Health)					
Underwriting Profit Margin (life & Health)	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Profit Margin (life & Health)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Fixed Assets	5,654	5,654	5,654	5,654	5,654
Intangible Assets					
Other Long Term Assets					
Total Non-current Assets					
Total Cash And Equivalents					
Trade Debtors					
Other Current Assets	(3,292)	(40,401)	(66,128)	(91,528)	(115,916)
Total Current Assets	289	(36,820)	(62,547)	(87,947)	(112,336)
Creditors - Direct & Reinsurance Business					
Provision For Claims Outstanding					
Other Current Liabilities					
Total Current Liabilities					
Total Long-term Debt					
Hybrid Debt - Debt Component					
Other Liabilities					
Total Non-current Liabilities	1,408,544	1,679,453	2,006,468	2,400,315	2,874,364
Total Technical & Other Provisions	1,116,386	1,315,453	1,559,787	1,858,442	2,222,281
Total Liabilities	2,524,930	2,994,907	3,566,255	4,258,757	5,096,645
Shareholders Equity	110,526	129,343	163,350	202,748	249,231
Minority Interests					
Total Equity	110,526	129,343	163,350	202,748	249,231
Life Embedded Value					

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Premium Growth	17.4%	13.9%	15.3%	16.0%	15.6%
Operating Profit Growth (Life & Health)	17.4%	13.9%	15.3%	16.0%	15.6%
Value Of New Life Business Growth (after-tax)					
Life Embedded Value Growth					
Pre-tax Margin	2.37%	1.65%	3.87%	4.11%	4.34%
Net Profit Margin	2.49%	2.00%	3.76%	3.83%	3.99%
Effective Tax Rate			2.91%	6.88%	8.10%
Net Dividend Payout Ratio	13.6%	14.9%	6.9%	5.8%	4.8%
Return On Average Assets					
Net Gearing					
Financial Leverage					
Equity / Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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