



India

**HOLD** (previously ADD)

Consensus ratings\*: Buy 32 Hold 1 Sell 0

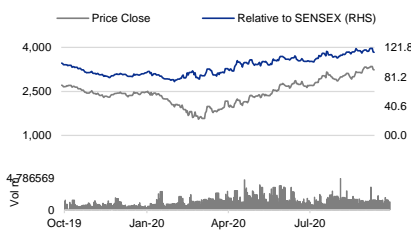
Current price: Rs1,301  
 Target price: Rs1,400  
 Previous target: Rs1,400  
 Up/downside: 7.6%  
 InCred Research / Consensus: -10.0%

Reuters:  
 Bloomberg: SBILIFE IN  
 Market cap: US\$17,935m  
 Rs1,302,356m  
 Average daily turnover: US\$20.5m  
 Rs1489.3m  
 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 (%)	3.0	17.7	13.6
Relative (%)	(2.2)	6.9	(5.3)

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

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**SBI Life Insurance****Rising concerns over growth and margins**

- We downgrade SBI Life to HOLD (from ADD) amid rising concerns over the growth of profitable non-par products and the pressure increasing on margins.
- SBI Life posted VNB of Rs8.7bn (~1% yoy) amid slowing demand for non-par savings & VNB margin declining qoq to ~28.8% vs. ~30.9% in the last quarter.
- With tax implication for large-ticket premiums, a slowdown likely in savings with margin pressure. Downgrade the rating to HOLD with a target price of Rs1,400.

**Growth losing momentum - slowdown likely**

SBI Life Insurance Company (SBI Life) reported ~1% yoy decline in the value of new business (VNB) to Rs8.7bn whereas annualized premium equivalent (APE) grew by ~4% yoy to Rs30.3bn in 1QFY24. The trend is witnessing a sequential decline, despite healthy momentum in ULIP plans, due to the strong undercurrent in capital markets. The company also lost its market share with the private market share at ~26.8% against ~27.2% during the last quarter. We remain concerned about the slowing growth trajectory for most insurers 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.

**Margins may stay under pressure amid a decline in non-par products**

We continue to believe that peak VNB margins (>30% in past few quarters) is already behind us, as ULIP plans are gathering pace as well as some pricing benefits are likely to be passed on to end-customers via linearity in policy pricing. Though we expect the margin trend to remain sustainable at ~29% over FY24F-26F amid better pricing, the risk to margins would be elevated amid a declining share of better-margin products.

**Open architecture on commissions may add to margin pressure**

State Bank of India or SBI, the parent company, remains a major source of distribution for SBI Life due to its large reach and pan-India penetration. However, with open architecture in place for policy distribution, SBI as a bank may command higher commissions which, in turn, will exert pressure on the margins trajectory of individual products and schemes. Though the company's management is confident of no such change in the commission structure, we will keep a close eye on any such development.

**Outlook & valuation**

We like SBI Life 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 at ~29% for FY24F-25F. We have downgraded SBI Life's rating to HOLD (ADD earlier) with a TP of Rs1,400 or ~2.1x price/EV on FY25F. Upside risks: Demand improving along with regulatory intervention failing to prevent any sustained supernormal profits. Downside risk: Credit protect product margins facing the erosion risk.

**Financial Summary**

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Gross Premium (Rsm)	502,542	587,596	673,156	776,351	900,708
Investment And Other Income (Rsm)	(4,859)	(3,274)	(7,346)	(8,883)	(10,491)
Net Premium (Rsm)	497,683	584,323	665,810	767,468	890,217
Net Profit (Rsm)	15,845	14,562	13,311	28,823	34,106
Core EPS (Rs)	17.13	20.10	5.30	21.14	26.31
Core EPS Growth	(32.7%)	17.3%	(73.6%)	298.5%	24.5%
FD Core P/E (x)	17.13	20.10	5.30	21.14	26.31
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	0.153%	0.153%	0.153%	0.153%	0.153%
P/EV (x)	0.00	0.00	0.00	0.00	0.00
P/BV (x)	12.51	11.77	10.06	7.97	6.42
ROE	3.8%	3.7%	0.8%	2.9%	3.2%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

Rsm	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY(%)	QoQ(%)
New business premium	33,449	69,436	85,029	66,660	55,914	74,971	84,236	80,766	62,071	11.0%	-23.1%
APE	15,987	39,431	45,165	42,417	29,000	38,834	53,920	46,346	30,300	4.5%	-34.6%
Value of new business	3,800	10,000	11,500	11,737	8,800	12,400	15,100	14,298	8,700	-1.1%	-39.2%
VNB margin %	23.7%	25.4%	25.5%	27.7%	30.3%	31.9%	28.0%	30.9%	28.8%		
Opex ratio %	7.4%	5.1%	4.4%	5.2%	6.8%	5.2%	4.8%	5.1%	7.2%		
Profit	2,232	2,466	3,641	6,722	3,641	3,767	3,041	7,769	3,810	4.7%	-51.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

Particulars (Rs bn)	FY24F			FY25F			FY26F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
VNB	57.9	58.2	0.5%	67.0	67.3	0.5%	76.3	76.7	0.5%
VNB Margins %	29.4%	29.5%		29.3%	29.5%		29.3%	29.4%	
APE	196.1	197.1	0.5%	227.4	228.5	0.5%	259.2	260.5	0.5%
Profit	36.3	36.5	0.5%	41.7	41.9	0.5%	20.1	20.2	0.5%
EV	558.2	561.0	0.5%	661.8	665.1	0.5%	781.9	785.8	0.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**

<b>Profit &amp; Loss</b>					
<b>(Rsm)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue	497,683	584,323	665,810	767,468	890,217
Total Claims and Changes in Reserves					
Acq. Costs/Other Underwriting Exp.					
Total Underwriting Result	497,683	584,323	665,810	767,468	890,217
Investment Income on Tech Reserve					
Insurance Profit / (Loss)	497,683	584,323	665,810	767,468	890,217
Total Other Technical Income					
<b>Total Other Revenues</b>	<b>323,166</b>	<b>236,128</b>	<b>133,100</b>	<b>302,642</b>	<b>356,453</b>
<b>Total Operating Costs</b>					
Other Technical Income / (Loss)					
<b>Depreciation And Amortisation</b>	<b>(976)</b>	<b>(1,262)</b>	<b>(1,474)</b>	<b>(1,905)</b>	<b>(2,045)</b>
<b>Operating Profit</b>					
Pretax Income/(Loss) from Assoc.	(1,287)	(5,540)	8,006	7,685	7,792
Post-Tax Oper. Earnings - Life/Other Biz					
Head Office Costs					
<b>Non-Operating Income/(Expense)</b>	<b>6,948</b>	<b>7,610</b>	<b>8,757</b>	<b>10,504</b>	<b>12,600</b>
<b>Net Interest Income</b>	<b>(63)</b>	<b>(356)</b>	<b>(410)</b>	<b>(471)</b>	<b>(542)</b>
Investment Income on Shareholders Fund	(8,248)	(9,822)	(17,075)	(6,830)	(2,732)
Other Income					
Exceptional Items					
<b>Pre-tax Profit</b>	<b>16,711</b>	<b>13,868</b>	<b>10,954</b>	<b>29,688</b>	<b>36,624</b>
Taxation	(866)	693	2,356	(865)	(2,518)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>15,845</b>	<b>14,562</b>	<b>13,311</b>	<b>28,823</b>	<b>34,106</b>
Minority Interests					
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>15,845</b>	<b>14,562</b>	<b>13,311</b>	<b>28,823</b>	<b>34,106</b>

<b>Operating Ratios</b>					
<b>(Rsm)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Premium Retention Ratio (life & Health)	99.0%	99.4%	98.9%	98.9%	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)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Fixed Assets	5,654	5,654	5,654	5,654	5,654
Intangible Assets					
Other Long Term Assets					
<b>Total Non-current Assets</b>					
Total Cash And Equivalents					
Trade Debtors					
Other Current Assets	29,124	(3,292)	(40,401)	(66,128)	(91,528)
<b>Total Current Assets</b>	<b>32,705</b>	<b>289</b>	<b>(36,820)</b>	<b>(62,547)</b>	<b>(87,947)</b>
Creditors - Direct & Reinsurance Business					
Provision For Claims Outstanding					
Other Current Liabilities					
<b>Total Current Liabilities</b>					
Total Long-term Debt					
Hybrid Debt - Debt Component					
Other Liabilities					
<b>Total Non-current Liabilities</b>	<b>1,170,573</b>	<b>1,408,544</b>	<b>1,679,453</b>	<b>2,006,468</b>	<b>2,400,315</b>
<b>Total Technical &amp; Other Provisions</b>	<b>951,343</b>	<b>1,116,386</b>	<b>1,315,453</b>	<b>1,559,787</b>	<b>1,858,442</b>
<b>Total Liabilities</b>	<b>2,121,916</b>	<b>2,524,930</b>	<b>2,994,907</b>	<b>3,566,255</b>	<b>4,258,757</b>
Shareholders Equity	104,004	110,526	129,343	163,350	202,748
Minority Interests					
<b>Total Equity</b>	<b>104,004</b>	<b>110,526</b>	<b>129,343</b>	<b>163,350</b>	<b>202,748</b>
Life Embedded Value					

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Net Premium Growth	23.4%	17.4%	13.9%	15.3%	16.0%
Operating Profit Growth (Life & Health)	23.4%	17.4%	13.9%	15.3%	16.0%
Value Of New Life Business Growth (after-tax)					
Life Embedded Value Growth					
Pre-tax Margin	3.36%	2.37%	1.65%	3.87%	4.11%
Net Profit Margin	3.18%	2.49%	2.00%	3.76%	3.83%
Effective Tax Rate	5.18%			2.91%	6.88%
Net Dividend Payout Ratio	12.6%	13.6%	14.9%	6.9%	5.8%
Return On Average Assets					
Net Gearing					
Financial Leverage					
Equity / Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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