

India

**HOLD** (no change)

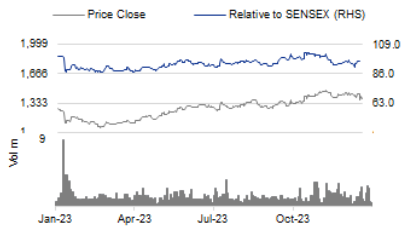
Consensus ratings\*: Buy 31 Hold 4 Sell 0

Current price:	Rs1,381
Target price:	Rs1,400
Previous target:	Rs1,400
Up/downside:	1.4%
InCred Research / Consensus:	-16.7%
Reuters:	SBIL.NS
Bloomberg:	SBILIFE IN
Market cap:	US\$16,635m
	Rs1,382,613m
Average daily turnover:	US\$19.4m
	Rs1614.9m
Current shares o/s:	1,000.2m
Free float:	50.0%

\*Source: Bloomberg

**Key changes in this note**

► The surge in ULIP demand, coupled with the sluggish momentum in protection plans, resulted in a subdued margin profile, which may remain for some time.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(1.0)	5.8	9.8
Relative (%)	(0.1)	(5.5)	(6.5)

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

# SBI Life Insurance

## Shift in portfolio mix impacts margins

- SBIL posted weak VNB growth of ~11.3% in 3QFY24 at Rs16.8bn, with further softness in margins at ~27.4% (-110bp qoq) amid a surge in ULIPs.
- The surge in ULIP demand, coupled with the sluggish momentum in protection plans, resulted in a subdued margin profile, which may remain for some time.
- We like SBIL for its better reach and operating efficiency but remain concerned over weak growth and margins. Retain HOLD rating with a TP of Rs1,400.

### VNB growth aided by ULIPs; market share gain provides comfort

SBI Life Insurance Company (SBIL) reported a weaker value of new business (VNB) growth of ~11% yoy to Rs16.8bn whereas the annualized premium equivalent (APE) grew ~13.7% yoy to Rs61.3bn in 3QFY24. However, unit-linked insurance plans or ULIPs continued to improve their dominance in the overall portfolio mix, with their share rising to ~68.4% of APE vs. ~56.3% last quarter whereas the share of PAR products continues to decline. Despite weak growth, SBIL continued to gain market share sequentially to ~29.1% amid better market penetration of the company. After the change in the tax regime for non-PAR products, we believe insurance products have lost some momentum, which is on the expected lines. We have been highlighting our caution over the same since the event. We are factoring in ~12.3% CAGR in VNB and ~14.5% CAGR in APE over FY23-26F.

### Margins likely to be under pressure amid a decline in non-PAR

With the shift in portfolio mix, margins continue to witness pressure. VNB margins dipped by ~110bp qoq to ~27.4bp, a trend, we believe, may stay for a while. Though the recent surge in ULIPs is also attributable to the momentum in credit markets, we continue to believe that peak VNB margins (>30% in the past few quarters) are already behind us, as a change in the taxation regime in the Union Budget 2023 impacted the demand for profitable products of insurers. This, coupled with ULIP plans gaining pace as well as some pricing benefits, are likely to be passed on to end-customers through linearity in policy pricing. Though we expect the margin trend to sustain at ~28.5% in FY24F-26F, the risk to margins stand elevated.

### Outlook & valuation

We like SBIL for its leadership strength and superior operating efficiency. However, we remain concerned over the slowing growth trajectory due to the levy of tax on maturity in the case of large-ticket premium products. We retain our HOLD rating on SBIL amid the uncertainty over its growth and margins. We maintain our target price of Rs1,400, or ~2.1x FY25F price/EV. Downside risks: Demand improving along with regulatory intervention failing to prevent any sustained supernormal profits. Upside risks: Surge in demand for non-par products driving margin outperformance.

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**Financial Summary**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Premium (Rsm)	587,596	673,156	740,796	831,742	968,577
Investment And Other Income (Rsm)	(3,273)	(7,346)	(8,670)	(10,010)	(11,468)
Net Premium (Rsm)	584,323	665,810	732,125	821,732	957,109
Net Profit (Rsm)	1,638,993	1,599,124	2,027,265	2,360,195	2,787,543
Core EPS (Rs)	1,636.87	1,596.21	2,022.37	2,354.58	2,781.37
Core EPS Growth	0.4%	(2.5%)	26.7%	16.4%	18.1%
FD Core P/E (x)	1,636.87	1,596.21	2,022.37	2,354.58	2,781.37
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	0.144%	0.144%	0.144%	0.144%	0.144%
P/EV (x)	0.00	0.00	0.00	0.00	0.00
P/BV (x)	11.89	10.62	8.50	6.77	5.43
ROE	302.7%	255.6%	289.4%	303.1%	312.7%

% Change In Core EPS Estimates  
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly Earnings Update**

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
New business premium	33,449	69,436	85,029	66,660	55,914	74,971	84,236	80,766	62,071	1,00,547	97,387	15.6%	-3.1%
APE	15,987	39,431	45,165	42,417	29,000	38,834	53,920	46,346	30,300	52,300	61,300	13.7%	17.2%
Value of new business	3,800	10,000	11,500	11,737	8,800	12,400	15,100	14,298	8,700	14,900	16,800	11.3%	12.8%
VNB margin %	23.7%	25.4%	25.5%	27.7%	30.3%	31.9%	28.0%	30.9%	28.8%	28.5%	27.4%		
Opex ratio %	7.4%	5.1%	4.3%	5.0%	6.8%	5.0%	4.6%	4.8%	7.0%	4.5%	4.7%		
Profit	2,232	2,466	3,641	6,722	2,629	3,767	3,041	7,769	3,810	3,832	3,217	5.8%	-16.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Revision in earnings Estimate**

Particulars (Rs bn)	FY24F			FY25F			FY26F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
VNB	52.2	55.7	6.7%	61.2	63.0	3.0%	72.5	71.7	-1.0%
VNB margin %	28.6%	28.6%		28.7%	28.4%		29.2%	28.4%	
APE	182.9	194.6	6.4%	213.5	222.3	4.1%	248.4	252.6	1.7%
Profit	33.9	35.4	4.5%	41.2	43.2	4.8%	49.7	51.8	4.3%
EV	555.0	558.5	0.6%	652.6	658.1	0.8%	768.3	773.4	0.7%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## 3QFY24 earnings con-call: Key highlights

- Slowdown in agency channel growth but no general slowdown seen. 3Q is more bank-focused and agency channel will make a comeback in 4QFY24F.
- As regards the agency channel, there are no changes in the commission structure, just minor changes in the commission. No major change in the cost structure.
- Private players are set to enter T-2 and T-3 cities but the company does not see a significant challenge as till the time they reach there, it would have strengthened its presence even further.
- The surrender value regulation is in the draft stage, but it will have not much effect and there's no concerns in this regard as all things depend on the product mix. The surrender value is not very aggressive in its current offerings as compared to peers.
- The company is present at all State Bank of India or SBI branches, which will increase its active branches.
- The growth in ULIPs is attributed to positive movement in the equity market. Withdrawal in ULIPs is higher as the equity market is bullish.
- Launch of Saral Sodan Supreme and SBI Life Smart Sodan Supreme products, which offer a higher sum assured as compared to the previous versions, with affordable pricing.
- The loan ticket size is Rs90,000 in non-par, in the case of ULIPs it is Rs1,00,000, and for par it is a bit lower than non-par.
- The company continues to be the lowest cost player in the industry. It will continue to remain so comfortably with the low-cost strategy.

**BY THE NUMBERS**

<b>Profit &amp; Loss</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue	584,323	665,810	732,125	821,732	957,109
Total Claims and Changes in Reserves					
Acq. Costs/Other Underwriting Exp.					
Total Underwriting Result	584,323	665,810	732,125	821,732	957,109
Investment Income on Tech Reserve					
Insurance Profit / (Loss)	584,323	665,810	732,125	821,732	957,109
Total Other Technical Income					
<b>Total Other Revenues</b>	<b>235,800</b>	<b>132,750</b>	<b>294,574</b>	<b>375,333</b>	<b>457,176</b>
<b>Total Operating Costs</b>					
Other Technical Income / (Loss)					
<b>Depreciation And Amortisation</b>	<b>(1,262)</b>	<b>(1,474)</b>	<b>(2,111)</b>	<b>(2,344)</b>	<b>(2,710)</b>
<b>Operating Profit</b>					
Pretax Income/(Loss) from Assoc.	1,513	1,491	4,754	5,448	5,974
Post-Tax Oper. Earnings - Life/Other Biz					
Head Office Costs					
<b>Non-Operating Income/(Expense)</b>	<b>9,884</b>	<b>7,953</b>	<b>10,417</b>	<b>12,500</b>	<b>14,999</b>
<b>Net Interest Income</b>	<b>(1,779)</b>	<b>(364)</b>	<b>(427)</b>	<b>(491)</b>	<b>(565)</b>
Investment Income on Shareholders Fund	9,821	17,075	6,830	2,732	1,093
Other Income					
Exceptional Items					
<b>Pre-tax Profit</b>	<b>1,639,540</b>	<b>1,599,503</b>	<b>2,028,119</b>	<b>2,362,515</b>	<b>2,790,878</b>
Taxation	(548)	(379)	(853)	(2,319)	(3,335)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,638,993</b>	<b>1,599,124</b>	<b>2,027,265</b>	<b>2,360,195</b>	<b>2,787,543</b>
Minority Interests					
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,638,993</b>	<b>1,599,124</b>	<b>2,027,265</b>	<b>2,360,195</b>	<b>2,787,543</b>

<b>Operating Ratios</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Premium Retention Ratio (life & Health)	99.4%	98.9%	98.8%	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**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</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>	<b>2,629,513</b>	<b>3,071,740</b>	<b>3,786,498</b>	<b>4,543,798</b>	<b>5,452,558</b>
Total Cash And Equivalents					
Trade Debtors					
Other Current Assets	43,323	14,890	22,335	33,503	50,254
<b>Total Current Assets</b>	<b>46,904</b>	<b>18,471</b>	<b>22,335</b>	<b>33,503</b>	<b>50,254</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>1,436,189</b>	<b>1,643,983</b>	<b>2,024,377</b>	<b>2,431,464</b>	<b>2,919,405</b>
<b>Total Technical &amp; Other Provisions</b>	<b>1,129,659</b>	<b>1,321,708</b>	<b>1,572,921</b>	<b>1,878,455</b>	<b>2,249,173</b>
<b>Total Liabilities</b>	<b>2,565,848</b>	<b>2,965,691</b>	<b>3,597,298</b>	<b>4,309,919</b>	<b>5,168,579</b>
Shareholders Equity	116,223	130,175	162,519	203,893	254,268
Minority Interests					
<b>Total Equity</b>	<b>116,223</b>	<b>130,175</b>	<b>162,519</b>	<b>203,893</b>	<b>254,268</b>
Life Embedded Value					

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Net Premium Growth	17.4%	13.9%	10.0%	12.2%	16.5%
Operating Profit Growth (Life & Health)	17.4%	13.9%	10.0%	12.2%	16.5%
Value Of New Life Business Growth (after-tax)					
Life Embedded Value Growth					
Pre-tax Margin	280.59%	240.23%	277.02%	287.50%	291.59%
Net Profit Margin	280.49%	240.18%	276.90%	287.22%	291.25%
Effective Tax Rate	0.03%	0.02%	0.04%	0.10%	0.12%
Net Dividend Payout Ratio	0.1%	0.1%	0.1%	0.1%	0.1%
Return On Average Assets	68.05%	56.10%	59.12%	56.67%	55.77%
Net Gearing					
Financial Leverage	4.45	4.56	4.91	5.36	5.62
Equity / Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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