

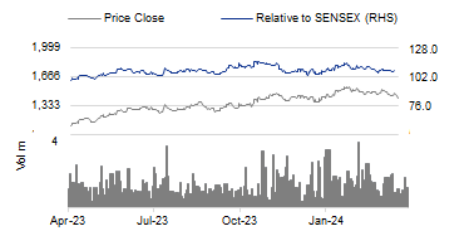
India

HOLD (no change)

Consensus ratings*: Buy 32 Hold 3 Sell 0	
Current price:	Rs1,415
Target price: ▲	Rs1,550
Previous target:	Rs1,400
Up/downside:	9.5%
InCred Research / Consensus:	-10.3%
Reuters:	SBIL.NS
Bloomberg:	SBILIFE IN
Market cap:	US\$17,004m Rs1,417,324m
Average daily turnover:	US\$22.3m Rs1856.1m
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

Price performance	1M	3M	12M
Absolute (%)	(4.8)	2.5	26.6
Relative (%)	(4.9)	0.0	4.9

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

SBI Life Insurance

Margin trajectory to remain under pressure

- SBIL reported weak VNB growth of ~5% yoy at Rs5bn in 4QFY24, but margins improved sequentially to ~28.1% (-70bp qoq) amid a better product mix.
- 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 & operating efficiency but remain concerned over weak growth & margins. Retain HOLD rating with a higher TP of Rs1,550.

VNB growth aided by ULIP; annuity & group plans are a saving grace

SBI Life Insurance Company (SBIL) reported a weak value of new business (VNB) growth of ~5% yoy in 4QFY24 at Rs15bn whereas the annualized premium equivalent (APE) grew by ~15.2% yoy to Rs53.4bn. ULIP plans continued to improve their dominance in the overall portfolio mix, with a share of ~58.6% of APE. Being the last quarter of the financial year, annuity and group savings also witnessed a healthy momentum, registering a growth of ~120% yoy and increasing the share in APE to ~12.4% vs. ~6.5% in 3QFY24. After the change in the tax regime for non-PAR products, we believe insurance products have lost some momentum, which was on expected lines. We have been highlighting our caution over the same since the event. We are factoring in ~11.9% CAGR in VNB and ~13.2% CAGR in APE over FY25-27F.

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

Margins improved sequentially by ~70bp to ~28.1% amid the momentum in annuity and group savings. However, sustainability of margin improvement remains a challenge. Though the recent surge in ULIP is also attributable to the momentum in credit markets, we continue to believe that peak VNB margin (>30% in the past few quarters) is already behind us, as a change in the taxation regime in Budget 2023 impacted the demand for the profitable product for 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 remain sustainable at ~27% for FY25F-27F, the risk to margins would be 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 have revised our target price upwards to Rs1,550, or ~2.0x FY26F price/EV. Downside risks: Demand improving and regulatory intervention failing to prevent any sustained super-normal profits. Upside risks: Surge in the demand for non-par products driving margin outperformance.

Research Analyst(s)



Jignesh SHIAL
T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Meghna LUTHRA
T (91) 22 4161 1500
E meghna.luthra@incredresearch.com

Rishabh JOGANI
T (91) 02241611569
E rishabh.jogani@incredresearch.com

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Premium (Rsm)	673,156	814,306	828,144	957,321	1,096,735
Investment And Other Income (Rsm)	(7,346)	(8,435)	(9,927)	(11,179)	(12,431)
Net Premium (Rsm)	665,810	805,871	818,218	946,142	1,084,304
Net Profit (Rsm)	1,599,124	2,621,736	2,352,389	2,765,525	3,214,370
Core EPS (Rs)	1,596.21	2,615.56	2,346.87	2,759.55	3,209.20
Core EPS Growth	(2.5%)	63.9%	(10.3%)	17.6%	16.3%
FD Core P/E (x)	1,596.21	2,615.56	2,346.87	2,759.55	3,209.20
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	0.140%	0.140%	0.140%	0.140%	0.140%
P/EV (x)	0.00	0.00	0.00	0.00	0.00
P/BV (x)	10.88	9.51	7.51	5.96	4.81
ROE	255.6%	356.0%	289.0%	312.8%	316.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings estimates

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	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	1,22,379	51.5%	25.7%
APE	15,987	39,431	45,165	42,417	29,000	38,834	53,920	46,346	30,300	52,300	61,300	53,400	15.2%	-12.9%
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	15,013	5.0%	-10.6%
VNB Margin %	23.7%	25.4%	25.5%	27.7%	30.3%	31.9%	28.0%	30.9%	28.8%	28.5%	27.4%	28.1%		
Opex Ratio %	7.4%	5.1%	4.3%	5.0%	6.8%	5.0%	4.6%	4.8%	7.0%	4.5%	4.7%	4.4%		
Profit	2,232	2,466	3,641	6,722	2,629	3,767	3,041	7,769	3,810	3,832	3,217	8,108	4.4%	152.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Particulars (Rs bn)	FY25F			FY26F			FY27F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
VNB	63.0	60.2	-4.6%	71.7	67.9	-5.3%	NA	77.6	NA
VNB Margins %	28.4%	27.1%		28.4%	27.0%		NA	27.1%	NA
APE	222.3	222.0	-0.1%	252.6	252.0	-0.2%	NA	286.3	NA
Profit	43.2	41.6	-3.6%	51.8	49.3	-5.0%	NA	55.9	NA
EV	658.1	655.2	-0.4%	773.4	766.4	-0.9%	NA	895.2	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 earnings conference call - key highlights

- Individual new business premium has single premiums contributing around 31%, which was mainly attributed to the growth in individual annuity product. Excluding the annuity business, single premium contributed 12% to individual business.
- As regards embedded value, the operating variance, which the company's management has adopted, is a prudent approach in setting assumptions, which led to parity variance.
- The company is not seeking to just gain market share as it also wants to be profitable and is looking to grow in group term and credit life businesses.
- The products across the composition of its existing business are reviewed every time in terms of interest rate and other expenses to optimize the returns for the shareholders and policyholders.
- The margins are reviewed as a segmental approach, which reflects the experience of that segment. Within the existing product line, management expects a lot of opportunities to optimize the value for the policyholders and shareholders.
- The product mix had a higher share of ULIPs due to strong market performance. The company continues to offer a wide range of products to grow across segments.
- As retired people comprise the fastest-growing segment in India's population, management anticipates a long-term growth story in annuity, which is a profitable business that adds to margins.
- The company's presence is not only good in Tier-1 and Tier-2 cities, but it is also good in rural areas due to State Bank of India's branch network and agency channel.
- For the banker channel, 3Q is good over the years and the Mar 2024 performance is better than that of the industry.
- Individual protection business was muted due to customers preferring ULIPs while management remains focused on growing the individual protection business.
- Last year, there was a drop in 25 months' persistency due to Covid-19 cohort, which has now moved to 37 months.
- The company's margins are not under pressure if anyone in the industry launches a new product. Management remains conscious about product pricing whenever such product is launched.
- Excess returns will be maintained except when there is any change in the yield curve.
- Term plans with a return of premium option in the Rs2.5m and above range was launched in Jan 2024. Management is in the process of reviewing pure premium products and is going to launch them soon.

- The economic assumption change is negative for the value of new business (VoNB) and positive for embedded value (EV). The change reflects the emerging trend in response to the change in demographic assumptions. The EV reflects existing books whereas VoNB reflects new business. Any change in the interest rates will have a different impact on them.
- The economic assumption on EV has a wider approach, taking economic variance to factor in the change in the yield curve.

BY THE NUMBERS

Profit & Loss					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue	665,810	805,871	818,218	946,142	1,084,304
Total Claims and Changes in Reserves					
Acq. Costs/Other Underwriting Exp.					
Total Underwriting Result	665,810	805,871	818,218	946,142	1,084,304
Investment Income on Tech Reserve					
Insurance Profit / (Loss)	665,810	805,871	818,218	946,142	1,084,304
Total Other Technical Income					
Total Other Revenues	132,750	504,167	375,333	457,176	544,903
Total Operating Costs					
Other Technical Income / (Loss)					
Depreciation And Amortisation	(1,474)	(1,357)	(2,327)	(2,656)	(2,972)
Operating Profit					
Pretax Income/(Loss) from Assoc.	1,491	1,938	5,355	5,780	4,938
Post-Tax Oper. Earnings - Life/Other Biz					
Head Office Costs					
Non-Operating Income/(Expense)	7,953	10,341	10,951	13,141	15,769
Net Interest Income	(364)	(620)	(592)	(680)	(782)
Investment Income on Shareholders Fund	17,075	16,276	2,732	1,093	437
Other Income					
Exceptional Items					
Pre-tax Profit	1,599,503	2,622,219	2,354,296	2,768,367	3,218,007
Taxation	(379)	(483)	(1,907)	(2,842)	(3,637)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	1,599,124	2,621,736	2,352,389	2,765,525	3,214,370
Minority Interests					
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,599,124	2,621,736	2,352,389	2,765,525	3,214,370

Operating Ratios					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Premium Retention Ratio (life & Health)	98.9%	99.0%	98.8%	98.8%	98.9%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Fixed Assets	5,654	5,570	5,570	5,570	5,570
Intangible Assets					
Other Long Term Assets					
Total Non-current Assets	3,071,740	3,855,903	4,521,807	5,426,169	6,511,402
Total Cash And Equivalents					
Trade Debtors					
Other Current Assets	14,890	62,470	93,705	140,557	210,835
Total Current Assets	18,471	66,358	97,592	144,445	214,723
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	1,643,983	2,173,468	2,428,555	2,916,302	3,499,600
Total Technical & Other Provisions	1,321,708	1,605,276	1,948,185	2,292,101	2,714,239
Total Liabilities	2,965,691	3,778,744	4,376,740	5,208,403	6,213,838
Shareholders Equity	130,175	149,086	188,492	237,624	294,548
Minority Interests					
Total Equity	130,175	149,086	188,492	237,624	294,548
Life Embedded Value					

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Premium Growth	13.9%	21.0%	1.5%	15.6%	14.6%
Operating Profit Growth (Life & Health)	13.9%	21.0%	1.5%	15.6%	14.6%
Value Of New Life Business Growth (after-tax)					
Life Embedded Value Growth					
Pre-tax Margin	240.23%	325.39%	287.73%	292.60%	296.78%
Net Profit Margin	240.18%	325.33%	287.50%	292.29%	296.45%
Effective Tax Rate	0.02%	0.02%	0.08%	0.10%	0.11%
Net Dividend Payout Ratio	0.1%	0.1%	0.1%	0.1%	0.1%
Return On Average Assets	56.10%	75.69%	56.16%	55.60%	53.85%
Net Gearing					
Financial Leverage	4.56	4.71	5.16	5.64	5.88
Equity / Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in thisreport and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.