



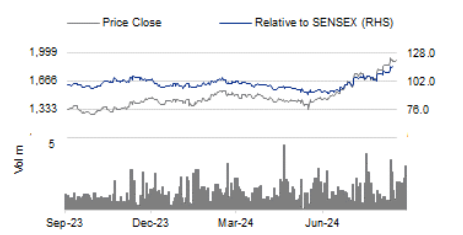
India

ADD (previously HOLD)

Consensus ratings*: Buy 33 Hold 1 Sell 0	
Current price:	Rs1,902
Target price: ▲	Rs2,150
Previous target:	Rs1,750
Up/downside:	13.0%
InCred Research / Consensus:	10.0%
Reuters:	
Bloomberg:	SBILIFE IN
Market cap:	US\$26,236m
	Rs1,905,152m
Average daily turnover:	US\$31.0m
	Rs2252.4m
Current shares o/s:	1,000.2m
Free float:	54.6%
*Source: Bloomberg	

Key changes in this note

- We feel margins will improve gradually with SBIL's rising focus on protection plans as well as the negative impact of a surge in ULIP sales already factored in.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.2	33.4	41.8
Relative (%)	7.7	25.1	15.8

Major shareholders	% held
State Bank of India	55.4
HDFC MF	3.3
Government of Singapore	3.3

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SBI Life Insurance

Margins at the bottom; risk-reward favourable

- We upgrade our rating on SBIL to ADD (from HOLD) with a new target price of Rs2,150, or ~2.6x P/FY26F EV, as the stock provides favourable risk-reward.
- We feel margins will improve gradually with SBIL's rising focus on protection plans as well as the negative impact of the surge in ULIPs already factored in.
- We are turning constructively positive on VNB growth for SBIL, which will be contributed by ULIP sales as well as by launching new protection products.

Margins at the bottom; new surrender norms to have limited impact

The VNB margin was a key negative surprise in 1QFY25 for SBI Life Insurance or SBIL, declining by ~130bp qoq to ~26.8%. Management highlighted that sluggish demand for protection plans, coupled with SBIL's inability to pass on the interest rate dip to end-customers under non-par products, resulted in such a sharp fall. We believe that going ahead, the margin trajectory to witness a gradual improvement with SBIL's rising focus on protection plans as well as the negative impact of a surge in ULIP sales already factored in. SBIL intends to launch new protection products, especially for ultra HNI customers who have low medical procedures. Also, SBIL is backing on improved demand for home loans and intends to tie up for education loans to target young customers for its protection plans. We believe the introduction of new surrender policy norms by the Insurance Regulatory Development Authority or IRDA from 1 Oct 2024 or IRDA will have a limited impact as SBIL has already adopted measures to counteract the potential margin compression. Accordingly, we have revised our VNB (value of new business) margin estimates upwards by ~30bp/70bp for FY26/27F to ~28.4%/28.8%, respectively.

VNB trajectory to remain healthy; banca channel holds the key

We are turning constructively positive on the VNB growth trajectory, which will be largely contributed by banca channels. The banca channel contributed ~59% to the APE (annual premium equivalent) channel mix, down from 65% in 1QFY24, but we attribute the same to the seasonality factor and expect an improvement from 2QFY25F led by rising demand for ULIP products due to the favourable momentum in capital markets. State Bank of India (the parent of SBIL) will continue to remain a key contributor to the growth of ULIP products. We have revised our VNB growth estimate to ~18.3% CAGR over FY24-27F from ~14.2% CAGR earlier.

Upgrade our rating to ADD with a higher target price of Rs2,150

We always liked SBIL for its leadership strength, strong distribution network and superior operating efficiency. However, we had downgraded the stock in Mar 2023 on concerns over the growth & margin trajectory due to a change in taxation norms for large-ticket non-par products. Going ahead, with margins already at the bottom and a gradual revival in the growth trajectory, the stock offers a favourable risk-reward ratio. We upgrade our rating on SBIL to ADD (from HOLD) with a higher target price of Rs2,150 (Rs1,750 earlier), or ~2.6x P/FY26F EV. Downside risks: Weak growth and incremental pressure on margins.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Premium (Rsm)	673,156	814,306	923,476	1,063,208	1,241,196
Investment And Other Income (Rsm)	(7,346)	(8,435)	(9,911)	(11,652)	(13,770)
Net Premium (Rsm)	665,810	805,871	913,565	1,051,556	1,227,425
Net Profit (Rsm)	17,206	18,946	26,156	35,014	43,582
Core EPS (Rs)	17.19	18.92	26.12	34.96	43.52
Core EPS Growth	14.2%	10.1%	38.1%	33.9%	24.5%
FD Core P/E (x)	17.19	18.92	26.12	34.96	43.52
P/NB (x)	0.00	0.00	0.00	0.00	0.00
DPS (Rs)	2.50	2.70	2.50	2.50	2.50
Dividend Yield	0.131%	0.142%	0.131%	0.131%	0.131%
P/EV (x)	4.13	3.26	2.72	2.26	1.88
P/BV (x)	14.60	12.74	10.90	9.09	7.49
ROE	2.8%	2.6%	3.0%	3.6%	3.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Our revised earnings estimates

Particulars (Rs bn)	FY25F			FY26F			FY27F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
VNB	63.4	63.6	0.4%	72.3	75.9	4.9%	82.5	91.7	11.1%
VNB margin %	28.2%	28.0%	-0.2%	28.1%	28.4%	0.3%	28.1%	28.8%	0.7%
APE	224.7	227.0	1.0%	257.7	267.2	3.7%	294.1	318.7	8.4%
Profit	24.8	26.2	5.5%	31.2	35.0	12.1%	36.0	43.6	21.1%
EV	690.0	700.0	1.4%	815.0	841.1	3.2%	960.2	1,011.5	5.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly earnings

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
New business premium	55,914	74,971	84,236	80,766	62,071	1,00,547	97,387	1,22,379	70,334	13.3%	-42.5%
APE	29,000	38,834	53,920	46,346	30,300	52,300	61,300	53,400	36,400	20.1%	-31.8%
Value of new business	8,800	12,400	15,100	14,298	8,700	14,900	16,800	15,013	9,720	11.7%	-35.3%
VNB margin %	30.3%	31.9%	28.0%	30.9%	28.8%	28.5%	27.4%	28.1%	26.8%	-2.0%	-1.3%
Opex ratio %	6.8%	5.0%	4.6%	4.8%	7.0%	4.5%	4.7%	4.4%	6.3%		
Profit	2,629	3,767	3,041	7,769	3,810	3,832	3,217	8,108	5,195	36.3%	-35.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Policy holders and shareholders account

Particulars	FY23	FY24	FY25F	FY26F	FY27F
Policyholders Account					
Gross premium Income	6,73,156	8,14,306	9,23,476	10,63,208	12,41,196
Net premium Income	6,65,810	8,05,871	9,13,565	10,51,556	12,27,425
Investment Income	1,32,601	5,03,667	3,36,495	3,89,719	4,83,526
Other Income	17,573	16,777	7,059	3,209	1,708
Total Revenue	8,15,985	13,26,314	12,57,118	14,44,484	17,12,659
Commission Expenses	30,625	32,553	38,781	44,480	51,786
Benefits Paid	3,02,875	4,31,074	4,74,463	5,14,504	6,05,682
Change in Liability	4,10,031	7,84,313	6,46,226	7,69,148	9,17,857
Operating Expenses	42,418	49,102	71,151	82,128	96,113
Total Expense	7,85,948	12,97,043	12,30,622	14,10,260	16,71,439
Surplus/(Deficit)	30,037	29,272	26,497	34,224	41,220
Shareholders Account					
Transfer form Policyholders Account	27,072	25,976	22,599	29,058	34,193
Investment Income	7,945	10,461	11,681	11,038	14,129
Expenses	17,440	16,888	6,938	3,098	1,610
Profit Before Tax	17,577	19,550	27,342	36,999	46,712
Tax	379	483	1,186	1,985	3,130
Profit After Tax	17,198	19,067	26,156	35,014	43,582

SOURCE: INCRED RESEARCH

BY THE NUMBERS

Profit & Loss					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue	665,810	805,871	913,565	1,051,556	1,227,425
Total Claims and Changes in Reserves					
Acq. Costs/Other Underwriting Exp.					
Total Underwriting Result	665,810	805,871	913,565	1,051,556	1,227,425
Investment Income on Tech Reserve					
Insurance Profit / (Loss)	665,810	805,871	913,565	1,051,556	1,227,425
Total Other Technical Income					
Total Other Revenues	815,985	1,326,314	1,257,118	1,444,484	1,712,659
Total Operating Costs					
Other Technical Income / (Loss)					
Depreciation And Amortisation	(1,474)	(1,357)	(1,477)	(1,945)	(2,252)
Operating Profit					
Pretax Income/(Loss) from Assoc.	(1,491)	(1,938)	(2,421)	(3,221)	(4,775)
Post-Tax Oper. Earnings - Life/Other Biz					
Head Office Costs					
Non-Operating Income/(Expense)	7,953	10,341	11,681	11,038	14,129
Net Interest Income	(365)	(612)	(430)	(495)	(569)
Investment Income on Shareholders Fund	(17,075)	(16,276)	(6,507)	(2,603)	(1,041)
Other Income					
Exceptional Items					
Pre-tax Profit	17,585	19,429	27,342	36,999	46,712
Taxation	(379)	(483)	(1,186)	(1,985)	(3,130)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	17,206	18,946	26,156	35,014	43,582
Minority Interests					
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	17,206	18,946	26,156	35,014	43,582

Operating Ratios					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Premium Retention Ratio (life & Health)	98.9%	99.0%	98.9%	98.9%	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	5,215	5,570	5,570	5,570	5,570
Intangible Assets					
Other Long Term Assets					
Total Non-current Assets	3,043,345	3,855,903	4,616,655	5,522,465	6,614,342
Total Cash And Equivalents					
Trade Debtors					
Other Current Assets	43,417	62,470	27,293	11,248	3,520
Total Current Assets	47,306	66,357	31,181	15,136	7,408
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	2,173,469	2,607,910	3,129,555	3,756,440
Total Technical & Other Provisions	1,321,708	1,605,276	1,871,172	2,204,405	2,617,026
Total Liabilities	2,965,691	3,778,744	4,479,082	5,333,960	6,373,466
Shareholders Equity	130,175	149,086	174,323	209,210	253,854
Minority Interests					
Total Equity	13,029,066	14,930,476	17,457,902	20,951,734	25,422,674
Life Embedded Value	460,500	582,500	699,976	841,139	1,011,550

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Premium Growth	13.9%	21.0%	13.4%	15.1%	16.7%
Operating Profit Growth (Life & Health)	13.9%	21.0%	13.4%	15.1%	16.7%
Value Of New Life Business Growth (after-tax)					
Life Embedded Value Growth	1,622.4%	2,645.5%	2,010.5%	2,009.7%	2,026.0%
Pre-tax Margin	2.64%	2.41%	2.99%	3.52%	3.81%
Net Profit Margin	2.58%	2.35%	2.86%	3.33%	3.55%
Effective Tax Rate	2.15%	2.49%	4.34%	5.37%	6.70%
Net Dividend Payout Ratio	14.5%	14.3%	9.6%	7.2%	5.7%
Return On Average Assets	0.60%	0.55%	0.62%	0.69%	0.72%
Net Gearing					
Financial Leverage	4.55	4.69	4.93	5.16	5.33
Equity / Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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