

India

**ADD** (no change)

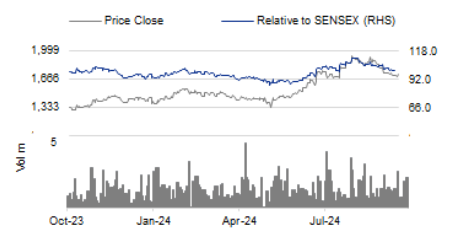
Consensus ratings\*: Buy 33 Hold 1 Sell 0

Current price:	Rs1,716
Target price:	Rs2,150
Previous target:	Rs2,150
Up/downside:	25.3%
InCred Research / Consensus:	5.3%
Reuters:	
Bloomberg:	SBILIFE IN
Market cap:	US\$23,677m
	Rs1,719,302m
Average daily turnover:	US\$33.4m
	Rs2424.6m
Current shares o/s:	1,000.2m
Free float:	54.6%

\*Source: Bloomberg

**Key changes in this note**

- SBIL is shifting insurance sourcing towards its digital platform (YONO), which also impacted the growth temporarily during the quarter.



Price performance	1M	3M	12M
Absolute (%)	(10.6)	7.6	28.2
Relative (%)	(5.2)	7.7	3.4

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

# SBI Life Insurance

## Margin compromised to aid growth

- SBIL witnessed weak growth momentum in 2Q, with ~3.5% yoy decline in VNB amid the high base of last year as well as weak momentum in banca channel.
- The company has revised its margin guidance to ~27%, vs. ~28% earlier, as managing growth has a price but 2HFY25F is likely to witness an improvement.
- We like SBIL for its leadership positioning & operating efficiency but keeping an eye on growth & margins. Retain our ADD rating with a TP of Rs2,150.

### VNB trajectory remains subdued amid weakness in banca channel

SBI Life Insurance Company (SBIL) reported ~3.5% yoy decline in the value of new business (VNB) to Rs14.4bn whereas the annualized premium equivalent (APE) grew by ~3.1% yoy to Rs53.9bn in 2QFY25. Management attributed the slowdown to the high base of last year, but the share of banks (especially State Bank of India or SBI) continues to witness a decline on individual new business premium basis to ~58% against ~65% last year & ~59% last quarter. SBI is shifting the insurance sourcing towards its digital platform (YONO), which also impacted on the growth temporarily during the quarter. ULIPs continued to retain their dominance in the overall portfolio mix, with a share of ~63% of APE, while the share of protection plans remained sluggish at ~9% of APE. We retain our VNB growth estimate at ~18% CAGR and APE growth at ~17.3% CAGR over FY24-27F.

### Margin guidance for FY25F revised downwards to ~27%

The VNB margin during the quarter remained flat sequentially at ~26.8% amid a stable product mix as well as limited impact of policy surrender rate changes on the company. Interestingly, the company has revised its margin guidance to ~27% against ~28% for FY25F. Management remains firm of managing its share of unit-linked insurance plans or ULIPs at ~60% but to maintain new business growth, management is keeping the prices lower which, in turn, is impacting the margin trajectory. Accordingly, we have revised our VNB margin estimates downwards by ~80bp/10bp for FY25F/26F to ~27.4%/28%, respectively. However, we remain optimistic about a positive surprise on the margin front in 2HFY25F amid the launch of protection plans in Sep 2024 as well as rising traction in credit life, which remained flat sequentially. However, we will keep a close eye on future margin trend of the company.

### Outlook and valuation

We like SBIL for its leadership strength and superior operating efficiency. The company's private market share stands at 21.3% and total market share at 8.3%. We had recently upgraded the stock's rating amid a favourable risk-reward ratio and improving growth & margin trajectory. We retain our ADD rating on SBIL with a target price of Rs2,150, or ~2.6x FY26F price/EV. Downside risks: Demand improving and regulatory intervention failing to prevent any sustained super-normal profits.

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**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	0.146%	0.157%	0.146%	0.146%	0.146%
P/EV (x)	3.73	2.95	2.46	2.05	1.70
P/BV (x)	13.17	11.50	9.84	8.20	6.76
ROE	14.0%	13.6%	16.2%	18.3%	18.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

Particulars (Rs bn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	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	86,920	-13.6%	23.6%
APE	29,000	38,834	53,920	46,346	30,300	52,300	61,300	53,400	36,400	53,900	3.1%	48.1%
Value of new business	8,800	12,400	15,100	14,298	8,700	14,900	16,800	15,013	9,720	14,380	-3.5%	47.9%
VNB margin %	30.3%	31.9%	28.0%	30.9%	28.8%	28.5%	27.4%	28.1%	26.8%	26.8%	-6.0%	-0.1%
Opex ratio %	6.8%	5.0%	4.6%	4.8%	7.0%	4.5%	4.7%	4.4%	6.3%	5.6%		
Profit	2,629	3,767	3,041	7,769	3,810	3,832	3,217	8,108	5,195	5,294	38.2%	1.9%

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	63.4	62.1	-2.0%	72.3	74.7	3.3%	82.5	91.0	10.2%
VNB margin %	28.2%	27.4%	-0.8%	28.1%	28.0%	-0.1%	28.1%	28.5%	0.5%
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	698.4	1.2%	815.0	838.3	2.9%	960.2	1,007.8	5.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY25 earnings-call highlights

- Management maintained its guidance of improving protection and annuity share in the mix in 3QFY25F. The full-year APE growth guidance is 15%.
- VBN margin to be 26-27% for FY25F, with VBN growth between 15-16%. The guidance stands reduced from 28%, foreseeing 2HFY25F, but the long-term guidance remains at 28%.
- The margin was under pressure as SBI Life had not gone for repricing for the past few quarters. The repricing took place last month, leading to a better margin.
- The repricing of non-PAR products is a continuous process as the yields go down. They have been repriced and launched in Aug 2024.
- The banca channel had lower growth due to a high base and the digital initiatives did not shape up as expected, but management believes an improvement is likely, bringing back growth on track.
- Non-banca channel had a mixed trend in terms of growth. Management is working to improve the non-banca channel.
- The credit life business had a slow growth rate due to lower disbursements.
- The group term insurance business saw unsustainable pricing by a few market players, which led to the slowdown in business.
- As per the new policy surrender value norms, all products had to be redesigned to comply with the norms. The full impact has not been transferred to customers yet, but the impact is minimum as the old surrender values were higher than that of the industry, leading to a low impact on SBI Life.
- SBI Life employees are not present at SBI's branches for sales pitch. The sales pitch is done by SBI employees having a valid certificate to sell insurance products. These employees are trained from time to time for new products launched by SBI Life.
- Annuity products witnessed some decline in the first half, but the second half is expected to be better.
- The product level persistence improved during the quarter, as management aims to have a branch-level connect with customers to understand and resolve their problems with product offerings.

**BY THE NUMBERS**

<b>Profit &amp; Loss</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
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					
<b>Total Other Revenues</b>	<b>815,985</b>	<b>1,326,314</b>	<b>1,257,118</b>	<b>1,444,484</b>	<b>1,712,659</b>
<b>Total Operating Costs</b>					
Other Technical Income / (Loss)					
<b>Depreciation And Amortisation</b>	<b>(1,474)</b>	<b>(1,357)</b>	<b>(1,477)</b>	<b>(1,945)</b>	<b>(2,252)</b>
<b>Operating Profit</b>					
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					
<b>Non-Operating Income/(Expense)</b>	<b>7,953</b>	<b>10,341</b>	<b>11,681</b>	<b>11,038</b>	<b>14,129</b>
<b>Net Interest Income</b>	<b>(365)</b>	<b>(612)</b>	<b>(430)</b>	<b>(495)</b>	<b>(569)</b>
Investment Income on Shareholders Fund	(17,075)	(16,276)	(6,507)	(2,603)	(1,041)
Other Income					
Exceptional Items					
<b>Pre-tax Profit</b>	<b>17,585</b>	<b>19,429</b>	<b>27,342</b>	<b>36,999</b>	<b>46,712</b>
Taxation	(379)	(483)	(1,186)	(1,985)	(3,130)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>17,206</b>	<b>18,946</b>	<b>26,156</b>	<b>35,014</b>	<b>43,582</b>
Minority Interests					
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>17,206</b>	<b>18,946</b>	<b>26,156</b>	<b>35,014</b>	<b>43,582</b>

<b>Operating Ratios</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
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**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Fixed Assets	5,215	5,570	5,570	5,570	5,570
Intangible Assets					
Other Long Term Assets					
<b>Total Non-current Assets</b>	<b>3,043,345</b>	<b>3,855,903</b>	<b>4,616,655</b>	<b>5,522,465</b>	<b>6,614,342</b>
Total Cash And Equivalents					
Trade Debtors					
Other Current Assets	43,417	62,470	27,293	11,248	3,520
<b>Total Current Assets</b>	<b>47,306</b>	<b>66,357</b>	<b>31,181</b>	<b>15,136</b>	<b>7,408</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>1,643,983</b>	<b>2,173,469</b>	<b>2,607,910</b>	<b>3,129,555</b>	<b>3,756,440</b>
<b>Total Technical &amp; Other Provisions</b>	<b>1,321,708</b>	<b>1,605,276</b>	<b>1,871,172</b>	<b>2,204,405</b>	<b>2,617,026</b>
<b>Total Liabilities</b>	<b>2,965,691</b>	<b>3,778,744</b>	<b>4,479,082</b>	<b>5,333,960</b>	<b>6,373,466</b>
Shareholders Equity	130,175	149,086	174,323	209,210	253,854
Minority Interests					
<b>Total Equity</b>	<b>13,029,066</b>	<b>14,930,476</b>	<b>17,457,902</b>	<b>20,951,734</b>	<b>25,422,674</b>
Life Embedded Value	460,500	582,500	698,443	838,313	1,007,750

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
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%	1,984.2%	1,995.7%	2,021.2%
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 Equity / Assets	23.10	24.71	26.20	26.44	26.21

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.