

23 January 2022

## SBI Life Insurance

Rating: **Buy**

Target Price: Rs.1,504

Share Price: Rs.1,238

*Market-share gains continue, higher margins persist; retaining a Buy*

**SBI Life's strong growth momentum led to strengthening its leading position. The company maintained decent VNB margins in a stellar quarter. Persistency ratios were high and the company is well capitalised. Claims in Q3 increased on account of Covid and sufficient reserves have been maintained to meet future possible claims. Cost ratios were low, boosting profitability.**

**Strong APE growth, VNB margins; market share inches up.** At end-9M FY22, APE grew 36% y/y to Rs101.7bn, VNB grew ~54% y/y to Rs22.3bn (actual tax basis). VNB margins grew 260bps y/y to 21.9%, and on the effective tax rate, they improved 470bps to 25.5%. We introduce FY24, with FY23e/FY24e VNB margins forecast at 22.9% each. The non-SBI bank partnership posted strong growth. Gross premiums grew ~19% y/y at end-9M FY22 to Rs413bn, with first-year premiums rising ~36%, followed by single premiums at ~25%. Renewal premiums grew 11%. Market share (NBP) for SBI life was 26.3% (23.3% the prior quarter, 22.4% a year ago).

**Cost ratios low; productivity high.** The opex ratio was a low 5.1% at end-9M FY22. Similarly, the commission ratio was 3.5%. We expect 4.9%/4.9% opex ratios in FY23/24 and a 3.6% commission ratio for both as the company is focussed on productivity.

**Profit growth strong.** At end-Q3 FY22, shareholder profit grew 56% y/y to ~Rs3.6bn with a 28% y/y rise in investment income. Covid-19 claims net of reinsurance were Rs15.3bn for 9M FY22 and the company carried unutilized reserves of ~Rs2.7bn, which should meet future claims.

**Buy rating maintained.** The stock trades at FY24e P/EV ratio of 2.3x. We value the company at 2.8x FY24e EV since it is one of the market leaders, maintains lower cost ratios and posts good VNB margins. We arrive at a TP of Rs1,504 (earlier 1,402), implying a 21% increase from the current price.

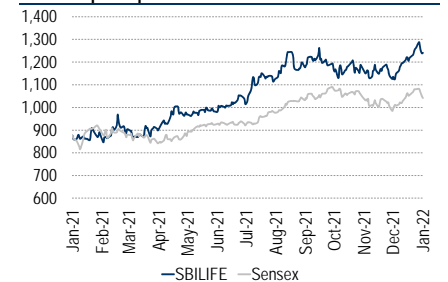
**Key risks:** Change in regulations, adverse economic events, change in persistency.

Key data	SBILIFE IN / SBIL.BO
52-week high/low	Rs1315 / 838
Sensex/Nifty	59037 / 17617
3-m average volume	\$21.1m
Market cap	Rs1241bn / \$16674.5m
Shares outstanding	1000m

Shareholding pattern (%)	Dec'21	Sep'21	Jun'21
Promoters	55.7	55.7	55.7
- of which, Pledged	-	-	-
Free Float	44.3	44.3	44.3
- Foreign Institutions	24.5	24.5	27.2
- Domestic Institutions	12.0	12.0	9.7
- Public	7.8	7.8	7.4

Estimates revision (%)	FY23e	FY24e
APE	0.9	NA
VNB margin	125bps	NA

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Gross premiums	406,347	502,542	566,059	665,521	783,699
Investment income	30,164	314,560	275,608	220,034	262,127
Operating profit	397,390	780,652	797,394	831,195	980,463
Change in reserves/ valuation liabilities	206,048	539,342	460,692	532,571	575,708
Surplus / (Deficit)	18,947	18,074	15,232	19,676	27,279
Solvency ratio (%)	195	215	208	203	205
RoAA (%)	0.9	0.8	0.5	0.5	0.6
RoEV (%)	20.4	19.1	18.0	17.9	17.4
Dividend-payout ratio (%)	0	17	20	16	13

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Gross premiums	406,347	502,542	566,059	665,521	783,699
Net premiums	403,240	497,683	559,756	658,120	775,037
Investment income	30,164	314,560	275,608	220,034	262,127
Total commission	16,249	17,788	20,249	23,953	28,240
Operating expenses	24,788	22,409	27,159	33,359	39,830
<b>Operating profit</b>	<b>397,390</b>	<b>780,652</b>	<b>797,394</b>	<b>831,195</b>	<b>980,463</b>
- Benefits paid (net)	161,753	214,929	305,068	261,757	357,235
- Bonuses paid	756	898	987	1,106	1,239
- Chg in reserves/ val. liab.	206,048	539,342	460,692	532,571	575,708
<b>Surplus / (Deficit)</b>	<b>18,947</b>	<b>18,074</b>	<b>15,232</b>	<b>19,676</b>	<b>27,279</b>
Amounts transf. to sh a/c	14,627	16,788	14,213	18,888	26,051
Investment income of sh	4,767	6,885	9,247	8,032	5,920
<b>Total income of sh</b>	<b>19,461</b>	<b>23,736</b>	<b>23,523</b>	<b>26,982</b>	<b>32,034</b>
Total expenses of sh	(5,326)	(8,311)	(10,530)	(10,756)	(11,856)
PBT of shareholder	14,135	15,425	12,993	16,227	20,179
PAT of shareholder	14,222	14,559	12,733	15,902	19,775

Source: Company, AnandRathi Research

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	10,000	10,001	10,001	10,001	10,001
Reserves & surplus	78,839	90,926	101,160	114,562	131,837
<b>Total equity</b>	<b>87,431</b>	<b>104,004</b>	<b>111,160</b>	<b>124,563</b>	<b>141,838</b>
<b>Policyholders' funds:</b>	<b>1,479,760</b>	<b>2,043,379</b>	<b>2,504,070</b>	<b>3,036,641</b>	<b>3,612,349</b>
<b>Policy liabilities</b>	<b>1,524,237</b>	<b>1,889,570</b>	<b>2,350,262</b>	<b>2,882,833</b>	<b>3,458,540</b>
FFA	7,137	8,423	8,844	9,729	10,702
FFA – prov. of lapsed pol.	51,251	70,115	80,632	92,726	106,635
<b>Total sources of funds</b>	<b>1,625,579</b>	<b>2,225,921</b>	<b>2,704,707</b>	<b>3,263,659</b>	<b>3,871,524</b>
<b>Investments</b>	<b>802,479</b>	<b>1,025,412</b>	<b>1,457,811</b>	<b>1,684,034</b>	<b>1,951,823</b>
- Shareholders'	68,279	86,047	90,085	98,894	98,448
- Policyholders'	734,199	939,364	1,367,726	1,585,140	1,853,374
Asset. held to cover link. liab.	785,653	1,162,150	1,220,258	1,561,930	1,905,554
Loans	3,645	3,581	3,760	3,948	3,750
Fixed assets	5,812	5,654	5,937	6,234	5,922
<b>Net current assets</b>	<b>27,990</b>	<b>29,124</b>	<b>16,942</b>	<b>7,514</b>	<b>4,474</b>
<b>Total application of funds</b>	<b>1,625,579</b>	<b>2,225,921</b>	<b>2,704,707</b>	<b>3,263,659</b>	<b>3,871,524</b>

Source: Company, AnandRathi Research

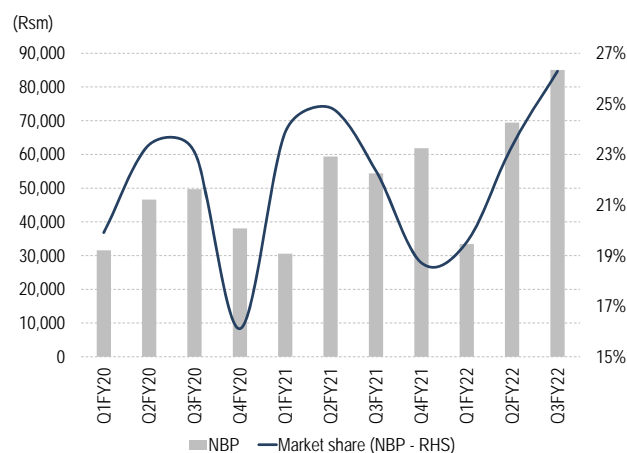
**Fig 3 – Ratio analysis (%)**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
First year premium as % of total	24.2	20.6	21.7	21.1	20.8
Renewal premium as % of total	59.2	59.0	56.5	57.2	57.9
Single premium as % of total	16.6	20.5	21.8	21.7	21.4
Net premium growth	22.6	23.4	12.5	17.6	17.8
Investment income growth	-73.2	942.8	-12.4	-20.2	19.1
EPS growth	7.2	2.3	-12.5	24.9	24.4
Embedded value growth	17.3	27.1	17.1	17.3	16.8
Solvency ratio	195.3	214.7	207.7	203.2	204.6
Conservation ratio	85.1	87.5	80.0	86.0	87.0
Opex ratio	5.9	4.8	4.7	4.9	4.9
Commission ratio	4.0	3.5	3.6	3.6	3.6
RoAA	0.9	0.8	0.5	0.5	0.6
RoAE	17.4	15.2	11.8	13.5	14.8
RoEV	20.4	19.1	18.0	17.9	17.4
Dividend-payout ratio	0.0	17.2	19.6	15.7	12.6

Source: Company, AnandRathi Research

**Fig 4 – PEV band**


Source: Bloomberg, Anand Rathi Research

**Fig 5 – Market share inched up sequentially (NBP basis)**


Source: Company, Anand Rathi Research

**Fig 6 – Price movement**


Source: Bloomberg

## Result highlights

### Q3 FY22 Results at a Glance

**Fig 7 – Policyholder account**

(Rs.m)	FY20		FY21				FY22		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Gross premium income	117,597	119,372	76,434	130,897	138,744	156,467	83,767	147,187	181,558
Reinsurance	652	742	554	2,317	1,079	910	641	581	1,305
<b>Net premium income</b>	<b>116,945</b>	<b>118,630</b>	<b>75,881</b>	<b>128,580</b>	<b>137,665</b>	<b>155,557</b>	<b>83,126</b>	<b>146,606</b>	<b>180,253</b>
Income from investments (Net)	40,733	(66,772)	85,828	55,904	127,769	45,059	74,099	107,344	24,241
Other income	113	128	72	99	85	102	145	90	89
Contribution of funds from Shareholders' A/c	0	4,763	0	-	-	8,248	-	0	0
<b>Total (A)</b>	<b>157,791</b>	<b>56,749</b>	<b>161,781</b>	<b>184,583</b>	<b>265,519</b>	<b>208,967</b>	<b>157,369</b>	<b>254,041</b>	<b>204,583</b>
<b>Net Commission</b>	<b>4,742</b>	<b>4,792</b>	<b>2,338</b>	<b>4,229</b>	<b>5,325</b>	<b>5,896</b>	<b>2,699</b>	<b>5,504</b>	<b>6,328</b>
Operating Expenses related to insurance business									
Employees remuneration and welfare expenses	3,636	3,695	3,537	3,676	3,984	3,712	3,872	4,641	4,829
Other operating expenses*	2,593	3,312	1,839	2,206	2,315	2,853	2,183	2,630	2,864
Benefits Paid (Net)	61,764	39,601	28,528	64,263	46,439	76,597	47,918	127,021	64,726
Change in actuarial liability	76,569	(4,053)	116,921	105,492	202,436	114,493	97,767	109,781	121,151
<b>Total (B)</b>	<b>151,709</b>	<b>50,153</b>	<b>155,683</b>	<b>180,652</b>	<b>262,551</b>	<b>203,890</b>	<b>156,250</b>	<b>251,471</b>	<b>202,218</b>
<b>Surplus/Deficit</b>	<b>6,082</b>	<b>6,596</b>	<b>6,098</b>	<b>3,931</b>	<b>2,968</b>	<b>5,077</b>	<b>1,119</b>	<b>2,570</b>	<b>2,365</b>
Transferred to Shareholders A/c	2,707	9,209	2,822	1,133	657	12,175	(412)	1,343	1,683

Source: Company

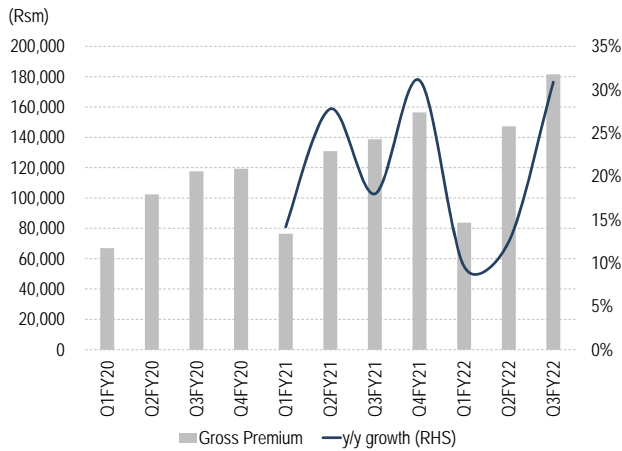
**Fig 8 – Shareholders' A/C**

(Rs.m)	FY20		FY21				FY22		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Transfer from Policyholders' Account	2,707	9,209	2,822	1,133	657	12,175	(412)	1,343	1,683
Total income under Shareholders' Account	0	0	0	0	0	0	0	0	0
Investment Income	1,740	(115)	949	1,918	1,745	2,274	2,817	2,406	2,225
Other income	16	21	16	16	16	16	30	15	8
Expenses other than those related to insurance business	85	209	95	84	136	(5)	101	1,245	101
Transfer of funds to Policyholders' Account	0	4,763	0	0	0	8,248	0	0	0
Provisions for doubtful debts (including write off)	0	0	0	0	0	0	0	0	0
Provisions for diminution in value of investments <sup>6</sup>	430	(1,073)	(185)	(13)	(49)	0	0	0	0
<b>Profit before tax</b>	<b>3,949</b>	<b>5,216</b>	<b>3,877</b>	<b>2,996</b>	<b>2,331</b>	<b>6,221</b>	<b>2,334</b>	<b>2,519</b>	<b>3,814</b>
Provisions for tax	51	(91)	(32)	(2)	2	898	103	53	173
<b>Profit after tax and before extraordinary items</b>	<b>3,898</b>	<b>5,307</b>	<b>3,909</b>	<b>2,997</b>	<b>2,329</b>	<b>5,324</b>	<b>2,232</b>	<b>2,466</b>	<b>3,641</b>

Source: Company

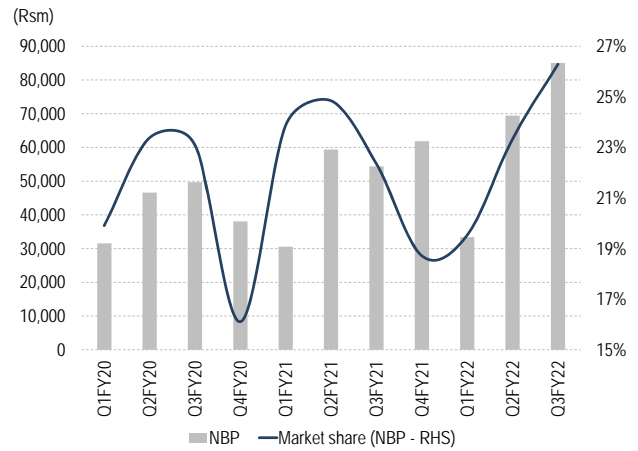
# A look at the quarter

**Fig 9 – Gross premiums grew 31% y/y at end-Q3 FY22**



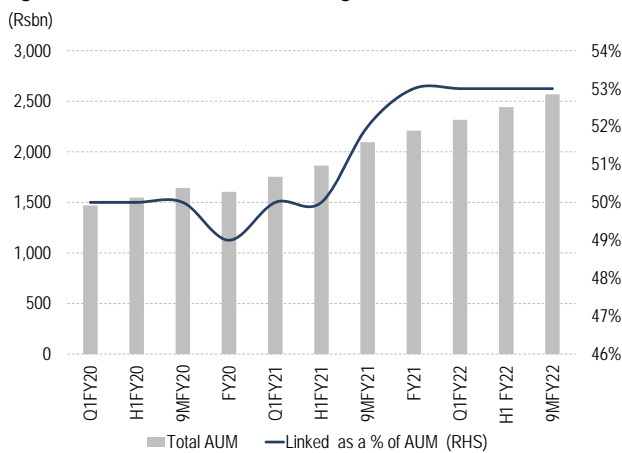
Source: Company, Anand Rathi Research

**Fig 10 – Market share inched up sequentially (NBP basis)**



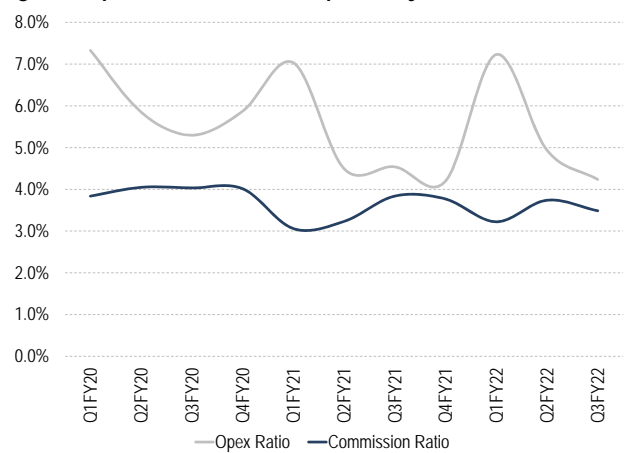
Source: Company, Anand Rathi Research

**Fig 11 – Linked as a % of AUM significant**



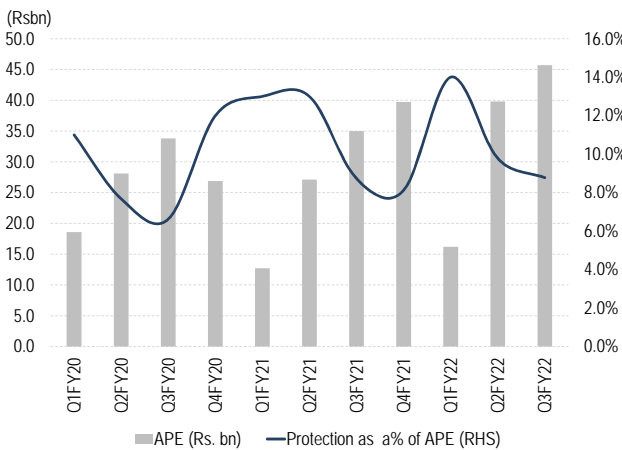
Source: Company, Anand Rathi Research

**Fig 12 – Opex ratio declined sequentially**



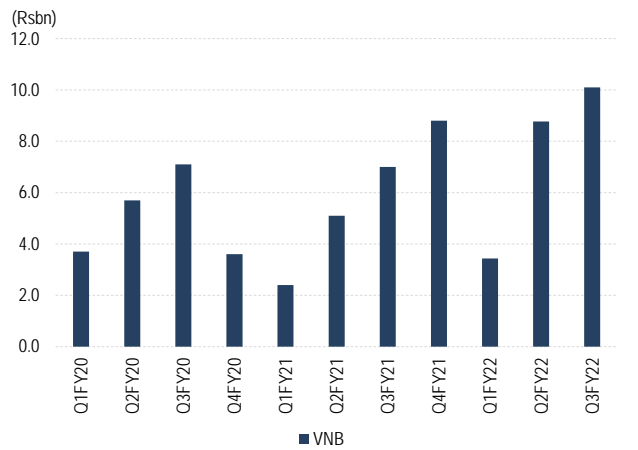
Source: Company, Anand Rathi Research

**Fig 13 – Share of protection declined q/q; APE growth high**



Source: Company, Anand Rathi Research

**Fig 14 – VNB growth strong**



Source: Company, Anand Rathi Research

Fig 15 – Product mix - NBP

(Rs.bn)	FY20				FY21				FY22		
	Q1	H1	9M	FY20	Q1	H1	9M	FY21	Q1	H1	9M
<b>Savings</b>	17.6	46.1	80.4	98.4	11.1	34.9	68.2	105.7	14.8	54.2	97.9
Par	2.7	5.7	9.0	11.6	1.3	3.7	6.6	9.7	1.3	3.5	5.5
Non Par	1.7	7.1	11.4	6.3	1.9	4.0	7.3	10.5	1.1	5.3	10.7
ULIP	13.2	33.3	60.0	80.5	7.8	27.2	54.3	85.5	12.4	45.4	81.7
<b>Protection</b>	4.4	9.3	14.4	20.8	2.9	9.1	16.2	24.6	4.3	12.1	20.4
Individual	1.1	2.4	3.6	5.3	0.8	2.7	4.9	7.4	1.3	3.7	6.2
Group	3.2	6.9	10.9	15.5	2.2	6.4	11.3	17.2	3.0	8.4	14.2
<b>Annuity</b>	-	-	-	11.3	5.2	15.7	22.0	30.2	6.5	14.2	26.4
<b>Group Savings</b>	9.6	22.8	33.1	35.4	11.4	30.3	38.0	45.7	7.9	22.4	43.2
<b>Total NBP</b>	<b>31.5</b>	<b>78.2</b>	<b>127.9</b>	<b>165.9</b>	<b>30.6</b>	<b>90.0</b>	<b>144.4</b>	<b>206.2</b>	<b>33.4</b>	<b>102.9</b>	<b>187.9</b>

Source: Company, Anand Rathi Research

Fig 16 – Channel mix - NBP

(%)	FY20				FY21				FY22		
	Q1	H1	9M	FY20	Q1	H1	9M	FY21	Q1	H1	9M
Banca	57	57	60	60	41	49	55	56	45	51	51
Agency	18	18	19	20	14	13	15	17	19	19	17
Others	25	25	22	20	45	38	30	27	36	30	32

Source: Company, Anand Rathi Research

Fig 17 – Persistency ratios

(%)	9MFY21	9MFY22
13th month	83%	84%
25th month	76%	76%
37th month	71%	72%
49th month	64%	68%
61st month	53%	49%

Source: Company, Anand Rathi Research

Note: (i) The persistency ratios are calculated as per IRDAI circular no. IRDAI/F&A/CIR/MISC/256/09/2021 dated September 30, 2021.

(ii) Regular Premium and Limited Premium Paying Term policies of only Individual Segment are considered in above calculation. Group Business is not considered.

(iii) Ratios are calculated using policies issued between 1st December to 30th November period of the relevant year

## Conference call highlights

### Operational update

- **APE growth.** At end-Q3 FY22, APE grew ~31% y/y to Rs46bn (36% at end-9M FY22 to ~Rs102bn). Out of ~Rs.102bn APE for 9M FY22, individual APE was Rs.91.4bn.
- **VNB and VNB margin.** At end-9M FY22, VNB grew ~54% y/y to Rs22.3bn (actual tax basis). The VNB margin was 21.9% at end-9M FY22, compared to 19.3% for 9M FY21. On the effective tax rate, VNB grew ~66% y/y to Rs25.9bn. VNB margins improved from 20.8% at end-9M FY21 to 25.5% at end-9M FY22.
- **Protection APE** constituted ~10% of overall APE at end-9M FY22 (~11% in H1 FY22).
- Individual new business premiums grew 43% y/y to Rs116.1bn at end-9M FY22.
- The solvency ratio was 209% at end-9M FY22 as compared to the regulatory requirements of 150%. AUM was Rs2.6trn (Rs2.1trn a year ago), growing 23% y/y with debt-equity mix of 71:29. Over 96% of the debt investments are in AAA and Sovereign instruments.
- Unfair business practice was a low 0.07% at end-9M FY22 (0.06% in 9M FY21). The surrender ratio was 4.52% at end-9M FY22, compared to 3.12% at end-9M FY21.
- New partnerships (Indian Bank, South Indian Bank, Yes Bank, Panjab Bank etc.) registered strong growth. The number of agents is about 0.14m.

### Key discussion points

- The number of Covid claims was 26,708 at end-9M-FY22. Covid-19 claims net of reinsurance were ~Rs15.3bn for 9M FY22. The company has maintained additional reserves of ~Rs2.7bn for the Covid-19 pandemic.
- The annuity business was Rs26.4bn and constitutes 14% of the new business premium. Of this, Rs12bn is individual annuity, Rs14.4bn is group.
- Total group protection was Rs14.2bn. Of this, credit life new business grew 31% to Rs11.4bn whereas group was about Rs2.8bn.
- Hedging the non-par business is done through partially paid bonds. 11% of APE is non-par and the company doesn't set an upward limit to this category. The company is focusing on the platina product.
- The company has a unique pure-term product that actually addresses various life stages of persons. For e.g. Once a customer gets married, s/he can increase the cover of an existing policy at the same rate and without new underwriting. Thus, the company believes that pure term products will play an important part of the protection mix.
- The company is focusing on a macro strategy (under penetration, protection need, etc.) along with increasing the number of agents as the main rationale for growth.
- Productivity per agent was Rs267,000. Similarly, agent activation was 16%. Ideally, the company aims at 20-25%. In terms of other banks in

bancassurance, Indian Bank has grown 13%, UCO 105%, South Indian Bank 81%, Punjab and Sindh Bank 54%.

- The company is focusing on digital development. It is improving the website, user experience on the website, on the app, etc. The focus is on proprietary tools.
- The company expects growth in renewal premiums in Q4 FY22.
- The retention level on protection products has been the same although the company refrained from giving data.
- The company is well capitalized and profits should suffice to keep it capitalized.
- The average sum insured for term insurance policies is Rs4.5m-5m.

## Previous con-call highlights Q2 FY22

### Operational update

- **APE growth.** At end-Q2 FY22, APE grew ~47% y/y to Rs40bn (41% at end-H1 FY22 to Rs56bn).
- **VNB and VNB margin.** At end-H1 FY22, VNB grew ~64% y/y to Rs12.2bn (actual tax basis). The VNB margin was 21.8% at end-H1 FY22, compared to 18.8% in H1 FY21. On the effective tax rate, VNB grew ~77% y/y to Rs14.2bn. VNB margins improved from 20.2% at end-H1 FY21 to 25.3% at end-H1 FY22. The non-linear change in the VNB margins (actual and effective tax rate) was due to investments and their tax treatment.
- **Protection APE** constituted ~11% of overall APE at end-H1 FY22 (~14% in Q1 FY22).
- Due to buoyant markets, the individual ULIP business was Rs45.4bn at end-H1 FY22 (growing 67% y/y), which constituted 70% of individual new business premiums.
- Guaranteed non-par savings products have also seen traction in Q2 FY22 (over 100% growth), making up 8% of individual new business and 10% of overall APE. Management expects this segment to be 12-13% of overall APE by the year end.
- Individual new business premiums grew 54% y/y to Rs64.8bn at end-H1 FY22.
- **Annuity business (APE basis)** declined 9% y/y to Rs14.2bn at end-H1 FY22. This is because of group annuity where there is de-growth. Individual annuity has seen strong growth. Management expects growth in the group business to be high by end- FY22.
- Gross claims overall are Rs37bn and net claims were ~Rs31bn in H1 FY22. Total Covid-19 claims were 22,606 and in rupee terms they were Rs13.4bn. The company made additional Covid-19 reserves of Rs2.7bn for future claims. Mortality assumptions are within limits.
- The solvency ratio was 212% at end-H1 FY22. The Embedded Value (EV) grew 18% y/y to Rs353bn (actual tax-rate basis). AUM was Rs2.4trn (Rs1.9trn a year ago), growing 31% y/y. The company sold ~0.8mn policies by end-H1 FY22, with 29% y/y growth.
- During Q2 FY22, the company added a deferred annuity option for group clients, soon to be extended to individual customers.
- At end-H1 FY22 it had added ~20,000 agents. The total number of agents is about 0.14m.
- Unfair business practices is a low 0.08% at end H1 FY22 (0.07% in H1 FY21).

### Key discussion points

- **Reinsurance hikes.** The company is not considering rate hikes on protection policies for the next one year. It launched a new product (new E-shield product) in the quarter and the price hike has been factored in.
- The new E-shield product-launched margin profile will be superior to the ROP products.
- **VNB margins.** VNB margins grew significantly because of 1) volume



of business, 2) product mix and 3) pricing (dynamic adjustment of pricing of various products e.g. repricing of annuities, term plan). Some other peers are providing data on an effective tax-rate basis; hence, there is mention of VNB margins. Margins are expected to be sustainable and there are no one-off items.

- **ULIP**, a significant portion of APE, will continue to bring growth to the company as it is profitable. ULIP margins are significant although they are lower than the company average.
- **Retail protection grew 37% y/y** to Rs3.7bn at end-H1 FY22 on an NBP basis. The ROP and non-ROP products are growing at similar rates. The pricing of the term is sustainable and the company does not push for sale of a particular product.
- Renewal premium growth was lower (9% y/y) at end-H1 FY22. However, growth was higher (29% y/y) at end-H1 FY21. Persistency has gone up but last year's growth was lower; thus, renewal premium growth was lower. Also, the single premium has inched up.
- During Covid-19, customers are attracted to guaranteed-returns products. Non-par business products like Platina continue to do well and management expects 15-18% growth. The yield on Platina has gone up significantly in the last six months and there is the possibility of passing on the benefit to customers; hence, it could be repriced.
- Credit protect grew **33% y/y** on NBP and APE terms at end-Q2 FY22. This figure, if taken semiannually, grew 41% y/y. The group term increased 13% y/y at end-Q2 FY22.
- **Persistency**. H1 FY22 persistency has improved compared to H1 FY21 as renewals are going as planned. It will further improve ahead. However, the 61<sup>st</sup>-month persistency declined as ULIP surrenders increased on account of better market returns. Customers that have completed five years would like to benefit from higher asset values.
- EV growth in the last six months has been Rs19bn at end-H1 FY22, whereas VNB growth was Rs12bn. There is no extraordinary variance on the operating and non-operating assumptions. However, economic assumptions keep changing.
- **Covid-19 walk**. The unutilized provisioning was Rs2.7bn at end-Q2 FY22 (Rs4.5bn at end-Q1 FY22). The decline is because provisions were used to pay off Covid-19 claims. Of Rs13.4bn, Covid claims of ~Rs2.5bn were supported by reserves made in Q1 FY22.
- The company has provided Rs1.15bn incl. interest toward litigation in one of the cases going on in the Supreme Court.
- The income plan in the non-par segment is in the WIP stage and will be launched soon.
- The range of IRR in guaranteed non-par products is 3.6-5-5% depending on product term.
- **Yonoapp**: SBI Life has done new business of Rs100m in H1 FY22 on the app, compared to Rs300m in FY21. Cumulative lives covered through the Yono app are 0.75m. More products would be launched on this app. Also, the company is working on its own proprietary channel.

## Valuation

We introduce FY24 into the valuation. The stock trades at FY24e P/EV ratio of 2.3x. We value the company at 2.8x FY24e embedded value on account of it being one of the market leaders, lower cost ratios and good VNB margins to arrive at a target price of Rs1,504 (earlier Rs1,402), implying a 21% rise from the current price. We retain our Buy recommendation.

**Fig 18 – Change in estimates**

	Old		Revised		% change	
	FY23	FY24	FY23	FY24	FY23	FY24
APE (Rs bn)	155	NA	156	181	0.9	NA
VNB (Rs bn)	33	NA	36	41	6.7	NA
VNB Margin (%)	21.6	NA	22.9	22.9	125bps	NA
EV (Rs. bn)	455	NA	459	536	0.9	NA

Source: Company, Anand Rathi Research

**Fig 19 – Valuation synopsis**

Embedded value(FY24) (Rs bn)	536
Future business value (Rs bn)	969
Appraisal value (Rs bn)	1,504
Implied/ Assigned P/EV multiple (x)	2.8
No. of shares (m)	1,000
<b>Target price (Rs)</b>	1,504
Current price (Rs)	1,238
Upside (%)	21.5

Source: Anand Rathi Research

### Key risks

- **Change in insurance regulatory norms:** Life insurance companies operate in a highly regulated context. Any change in regulations norms could affect the business and profitability. For example, a company would be unable to obtain regulatory approval or licenses in future.
- **Losses from capital and bond markets:** The business of life insurance companies depends on capital-market performance. Any decline in capital markets impacts AUM, resulting in a corresponding decrease in fund-management charges in unit-linked funds, which are marked to the market.
- **Adverse economic events** may result in financial difficulties or default of issuers of bonds held in the company's investment portfolios. Besides, credit spreads and benchmark interest-rate variations could reduce the fair value of these bonds. In these circumstances, impairment losses may be realised upon their sale. Moreover, shareholders' equity and earnings and policyholders' funds may be affected by fair value re-valuation of bonds held in investment portfolios.
- **Policies being surrendered:** Life insurance companies also face the risk of surrendered policies. Typically, in ULIPs, surrenders are a more common feature because surrender value increases when NAV increases. In ULIPs, one can withdraw policies after five years even if they have been taken for longer durations. Also, there are great

chances that a policyholder will withdraw/surrender a policy if there are job losses, need for money, etc.

- **Restriction on credit life could impact revenues:** According to reports, the IRDA is considering a proposal to ban credit-linked group policies that are compulsory while availing of home loans. This is because the regulator wants to avoid mis-selling of these products to home-buyers. If a similar sort of ban is imposed on the credit life category, it could have a substantial impact.

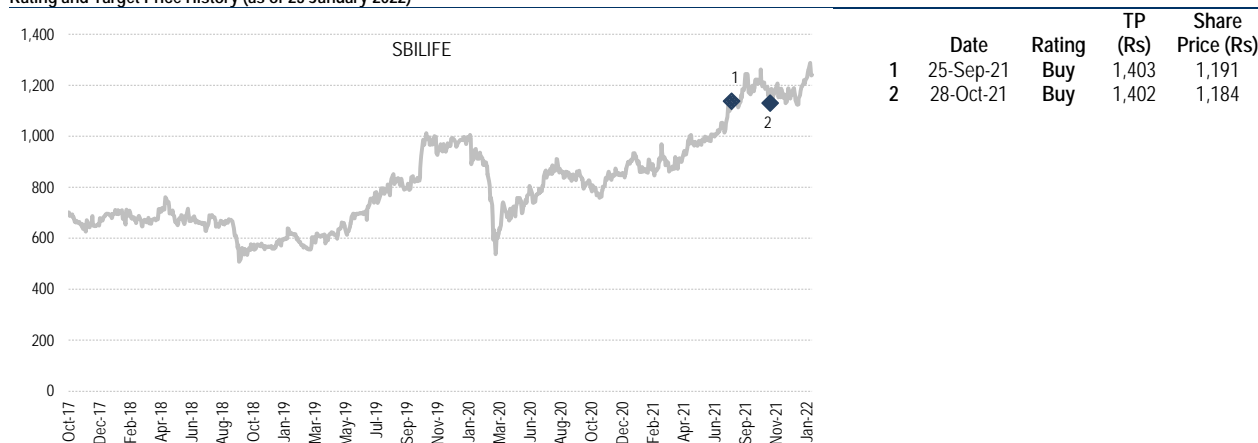
## Appendix

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