

## Balanced growth to drive VNB growth ahead

**About the stock:** SBI Life (SBIL) is among the most dominant players in the Indian life insurance industry with strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on opex ratio ahead of industry
- Strong parentage led distribution remains key catalyst

### Q4FY23 Results: Premium accretion slower than expected

- Gross premium growth slower at 14% YoY; NBP growth up 21%, led by tax amendment
- VNB margins steady at 30.1%, aided by balanced product mix
- Surplus at ₹ 1942 crore; focus on cost and decline in claims led PAT growth at 16% YoY to ₹ 777 crore
- AUM growth decent at 16% YoY to ₹ 307340 crore

**What should investors do?** SBIL's share price has grown ~45% in the past three years. Lower proportion of high ticket business, strong distribution and diversified product mix along with lowest cost on relative basis is seen aiding business growth as well VNB margin. The stock is reasonably priced and is currently trading at 1.9x FY25E embedded value.

- We retain our **BUY** rating on the stock

**Target Price & Valuation:** We broadly maintain our EV estimates for FY24-25E. We upgrade our target price for SBIL from ₹ 1300 to ₹ 1350, valuing the stock at 2.2x FY25E EV.

### Key triggers for future price performance:

- Recent amendment in taxation is not seen having a substantial impact on growth momentum. Continued traction anticipated in non-par business. Focus on annuity and protection segment to further aid growth
- Continued distribution moat in terms of banca partnership (with parent), new digital, banca partnerships and strong agency force to aid business growth
- Continue to deliver cost efficiency. Any increase in commission (new EOM guidelines) is not seen having any substantial impact on VNB trajectory

**Alternate Stock Idea:** Apart from SBIL, in our coverage we also like Star Health.

- Market leader in retail health insurance segment (~33% market share) with potential for sustained business growth and, thus, earnings trajectory
- BUY with a target price of ₹ 650



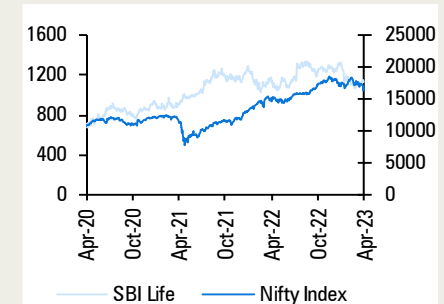
### Particulars

Particulars	Amount
Market Capitalisation	₹ 114142 crore
EV (as on Mar'23)	₹ 42410 crore
AUM	₹ 307340 crore
52 week H/L	1339/1003
Face value	₹ 10

### Shareholding pattern

	Mar'22	Jun'22	Sept'22	Dec'22	Mar'23
Promoter	55.5	55.5	55.5	55.5	55.5
FII	21.2	23.9	24.3	25.1	25.1
DII	12.5	12.3	15.7	14.9	15.1
Others	10.9	8.3	4.6	4.5	4.3

### Price Chart



### Risk to our call

- Private market share based on IRP at 22.3%
- Key Risk:** 1) Adverse change in commercial relation with parent; 2) Slower business growth

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Pravin Mule  
pravin.Mule@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
New business premium	16592.5	20624.2	24576.9	30428.8	22%	33811.6	40772.6	16%
APE	10505.2	11366.7	13427.0	16687.9	17%	18663.6	22462.0	16%
Total premium	40324.0	49768.3	58633.8	69535.5	20%	78710.3	91252.8	15%
PAT	1422.2	1455.9	903.3	1232.5	-5%	1858.0	2125.1	31%
EV	26290.0	33386.0	39264.9	45193.7	20%	51447.4	58784.5	14%
P/E (x)	80.2	78.3	75.7	66.3		61.4	53.6	
P/BV (x)	13.0	11.0	9.8	8.8		8.3	7.3	
P/IEV (x)	4.3	3.4	2.9	2.5		2.2	1.9	
RoEV (%)	20.5	19.1	17.9	15.5		14.6	15.0	

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Premium accretion slower. Lower opex, higher allocation to shareholders support earnings momentum

- SBI Life has posted premium accretion at 21% YoY at ₹ 19897 crore. New business premium growth came in relatively slower at 21% YoY at ₹ 8077 crore (-4% QoQ) despite anticipated higher traction amid tax amendment. Renewal premium is up 10% YoY at ₹ 11937 crore, with conservation ratio down ~200 bps YoY at ~81%. On annualised premium equivalent (APE basis), growth remained in single digits at 9% YoY in Q4FY23. On a FY23 basis, premium growth came in at 15% YoY with NBP growth at 16%
- Private market share based on rated individual premium maintained at 22.3% in FY23. VNB margin reported at 30.1% in FY23 (29.6% in 9MFY23) vs. 25.9% in FY22, led by change in product mix. In Q4FY23, non-par segment witnessed robust growth, group protection and annuity segment healthy momentum while individual protection de-grew on NBP basis
- AUM grew at a decent pace of 15% YoY to ₹ 307340 crore. Shareholders and policyholders (excluding linked liabilities) assets witnessed growth at ~13% and 17% YoY. Assets held in lieu of linked products rose ~17% YoY. Income from investment de-grew YoY at ₹ 1186 crore
- Commission ratio remained flat QoQ and increased ~50 bps YoY, to 4.4% in Q4FY23. Opex ratio increased 20 bps QoQ at 5%, though remained flat YoY. Consequently, total cost ratio increased ~20 bps QoQ at 9.4% in Q4FY23
- Lower cost and higher appropriation to shareholder fund offset slower premium growth resulting into a surplus of ₹ 1942 crore. Consequently, PAT increased 16% YoY at ₹ 777 crore

### Q4FY23 earnings conference call highlights

- SBI Life has maintained its leadership position in terms of number of policies. Individual new business sum assured grew 13% YoY vs. 12% growth of industry
- Non par guaranteed products registered robust growth of 116% YoY driven by business contribution of Smart Platina Plus product. Individual annuity business grew 134% YoY led by new business contribution of Smart Annuity Plus product
- During the quarter, Banca channel contributed 63% to Individual APE and non SBI banca partners (like Indian bank, Uco Bank, South Indian Bank, Yes Bank, Punjab & Sind Bank) had contributed ~3% to individual NBP. SBI Life has also signed corporate agency agreement with Karur Vysya Bank
- With healthy growth and change in product mix, the management expects to maintain healthy and sustainable VNB growth. APE growth guidance for FY24 continues to be in the range of 20-25% YoY. Margins are expected to remain in a similar range (~29-30%)
- In the last two to three years, product mix is moving towards the non-par business and yield curve is going up. Continue to focus on protection business. Ulip is also expected to witness strong growth in FY24E
- Credit life share in terms of APE was at ₹ 2000 crore in FY23 vs. ₹ 1700 crore in FY22

SBI Life - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	1.6	1.6	2.5
Social	30.9	30.9	30.9
Governance	63.6	63.6	63.6
<b>Overall ESG Score</b>	<b>32.1</b>	<b>32.1</b>	<b>32.3</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score

### Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	(₹ bn)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E
SBI Life Insurance	1140	1350	Buy	114	15.1	17.2	18.6	21.3	75.7	66.3	61.4	53.6	2.9	2.5	2.2	1.9	8.5	10.8	16.2	15.9
HDFC Life	517	570	Hold	111	5.7	6.4	7.3	8.7	90.4	80.6	70.9	59.2	3.6	2.8	2.4	2.0	18.0	18.1	18.2	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
First Year Premium	4,089.6	3,857.0	3,853.6	6.1	5,055.2	-19.1	Uptick in Q4FY23 premium led by tax amendment
Renewal Premium	11,937.0	12,491.7	10,842.5	10.1	10,908.3	9.4	Persistency remain steady
Single Premium	3,986.9	3,949.5	2,812.4	41.8	3,368.4	18.4	
<b>Net Premium income</b>	<b>19,897</b>	<b>19,518</b>	<b>17,434</b>	<b>14.1</b>	<b>19,171</b>	<b>3.8</b>	
Income from Investments	1,186.1	7,389.0	2,999.5	-60.5	7,443.0	-84.1	
Total revenue	22,805.4	26,926	21,427.9	6.4	26,626.7	-14.4	
Commission	871.4	917.3	677.9	28.6	845.2	3.1	Commission ratio up ~50 bps YoY to 4.4%
Operating expenses	1,001.8	1,014.9	872.5	14.8	913.9	9.6	Opex ratio steady at 5%
Management Expenses	1,873.2	1,932.2	1,550.4	20.8	1,759.1	6.5	
Benefits paid	9,123.2	8,392.5	7,373.4	23.7	8,355.9	9.2	
Change in Actuarial Liability	9,604.3	14,793.7	10,892.1	-11.8	15,937.5	-39.7	
Total Expenses	20,863.6	25,389.9	20,122.6	3.7	26,330.3	-20.8	
<b>Surplus/ (deficit)</b>	<b>1,941.8</b>	<b>1,536.6</b>	<b>1,305.3</b>	<b>48.8</b>	<b>296.4</b>	<b>555.1</b>	Healthy premium and lower actuarial liabilities led to higher surplus
Transfer to SH's A/c	2,302.8	1,600.0	1,471.2	56.5	113.8	1,923.7	
Transfer to SH's A/c	2,302.8	1,600.0	1,471.2	56.5	113.8	1,923.7	
Investment income	212.5	212.2	238.2	-10.8	203.0	4.7	
Profit/ (loss) before tax	793.6	813.1	694.1	14.3	310.8	155.3	
PAT	776.9	756.1	672.2	15.6	304.1	155.4	

Key Metrics							
NBP	8,076.5	7,806.5	6,666.0	21.2	8,423.6	-4.1	Individual non-par & annuity remain in focus
AUM	3,07,340		2,67,410	14.9	2,99,990	2.5	Decent growth on YoY basis

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	81,182	78,710	-3.0	96,182	91,253	-5.1
Total	1,12,328	1,03,511	-7.8	1,34,634	1,20,022	-10.9
Transfer to Shareholders' account	1,778	2,479	39.5	1,867	2,480	32.8
PAT	1,703	1,858	9.1	1,992	2,125	6.7
EV/Share	517	514	-0.5	593	588	-0.9

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
NBP growth	14.3	20.6	15.6	20.6
AUM growth	19.7	16.9	20.3	20.3
EV Growth	11.7	14.3	14.4	14.8
Comission ratio	3.7	3.7	3.6	3.6
VNB Margin	29.6	30.0	29.6	30.0
Conservation ratio	83.1	82.0	85.2	85.2
Opearating RoEV	21.4	21.8	21.4	21.8

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 5: Policyholders Account

(₹ Crore)	FY22	FY23	FY24E	FY25E
Premiums earned - Net	58432.3	66581.0	78710.3	91252.8
Income from Investments	23568.0	13260.1	23639.4	27714.5
Other income	44.8	49.9	47.6	52.4
Contribution from the Shareholders' account	982.2	1707.5	1113.5	1002.1
<b>Total</b>	<b>83027.2</b>	<b>81598.5</b>	<b>103510.9</b>	<b>120021.8</b>
Commission	2084.1	2936.0	2906.1	3389.5
Operating expenses	2974.5	3409.5	4570.0	5298.3
Benefits paid (Net)	31339.8	30287.5	39049.1	46723.3
Change in valuation of policy liabilities	43761.9	41003.1	53019.1	60471.8
Others	101.7	197.3	8.0	8.0
Provision for tax	126.2	147.4	1079.1	1251.1
Surplus/(deficit) after tax	1807.4	2856.2	2879.4	2879.8
Transfer to Shareholders' account	1732.4	2707.2	2479.4	2479.8

Source: Company, ICICI Direct Research

### Exhibit 6: Shareholders Account

(₹ Crore)	FY22	FY23	FY24E	FY25E
Amounts transferred from Policyholders' account	1732.4	2707.2	2479.4	2479.8
Income from investments	988.4	794.5	926.7	1051.8
<b>Total</b>	<b>2721</b>	<b>3502</b>	<b>3406</b>	<b>3532</b>
Expenses other than insurance	157.0	37.2	24.7	19.5
Contribution to Policyholders' account	982.2	1707.5	1447.5	1302.8
Others	6.3	6.3	6.3	6.3
Profit before Tax	1560.8	1758.4	1933.9	2209.5
Provision for tax	54.8	37.9	75.9	84.4
<b>PAT</b>	<b>1506.0</b>	<b>1720.6</b>	<b>1858.0</b>	<b>2125.1</b>

Source: Company, ICICI Direct Research

### Exhibit 7: Balance Sheet

(₹ Crore)	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>				
Share capital	1000	1001	1000	1000
Reserve and surplus	10418	11924	12403	14226
Credit/[debit] fair value change account	204	93	308	308
<b>Networth</b>	<b>11622</b>	<b>13017</b>	<b>13711</b>	<b>15534</b>
Policyholders' funds	255591	296569	362196	422668
<b>Total Liabilities</b>	<b>268207</b>	<b>309587</b>	<b>378250</b>	<b>441045</b>
<b>Applications of Funds</b>				
Shareholders' investments	10076	11209	13025	14757
Policyholders' investments	112131	129870	171137	202439
Asset held to cover linked liabilities	142625	163256	183626	212647
Loans	363	389	503	568
Fixed assets - net block	527	522	780	874
Net current assets	2486	4342	9179	9760
<b>Total Assets</b>	<b>268207</b>	<b>309587</b>	<b>378250</b>	<b>441045</b>

Source: Company, ICICI Direct Research

**Exhibit 8: Key Ratios**

<b>(Year-end March)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Valuation</b>				
No. of Equity Shares (Crore)	100.0	100.1	100.0	100.0
Diluted EPS (₹)	15.1	17.2	18.6	21.3
DPS (₹)	1.6	2.2	3.8	4.2
BV (₹)	116.2	130.1	137.1	155.3
<b>EV per share</b>	<b>396</b>	<b>452</b>	<b>514</b>	<b>588</b>
P/E	75.7	66.3	61.4	53.6
P/BV	9.8	8.8	8.3	7.3
P/IEV	2.9	2.5	2.2	1.9
<b>Efficiency Ratios (%)</b>				
Commission expenses as a % of Gross Premium	3.5	3.6	3.7	3.7
Management expenses incl commission as a % of Gross F	9.6	9.2	9.4	9.4
<b>Return Ratios and capital (%)</b>				
Return on Net worth	13.7	10.8	16.2	15.9
Operating RoEV	20.6	21.0	21.4	21.8
Solvency Ratio	205	200	200	200
<b>Key Ratios (%)</b>				
Conservation Ratio	83.3	85.0	83.1	82.0
VNB Margin	21.7	29.7	29.6	30.0
Surrender Ratio	4.6	5.0	5.0	5.1
Benefits paid as a % of Opening Liability	14.8	12.5	12.6	12.8

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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