

Keeping it simple

BFSI ▶ Result Update ▶ July 26, 2023

TARGET PRICE (Rs): 1,560

SBI Life reported a decent set of numbers in Q1FY24, with VNB of Rs8.72bn (-1% YoY; Emkay: Rs8.6bn) coming in line with our estimate, driven by slight miss on APE at Rs30.3bn (+4% YoY; Emkay: Rs30.9bn) and a minor beat on VNB margin at 28.8% (-1.4ppts YoY; Emkay: 28%). Operating assumption changes (FY23 vs FY22) partly offset the margin decline on account of the 9ppt YoY sharp decline in non-par savings in the product mix and the YoY decline in interest rates. Overall, Company continues to keep its business strategy simple by capitalizing on its brand, distribution and cost advantage as well as delivering growth and margins led by the product mix, as per customer/distributor demand. We marginally increase FY24-26E APE growth, while keeping margin estimates unchanged and reiterate our BUY rating, with Jun-24E TP of Rs1,560/share (FY25E P/EV: 2.4x).

SBI Life: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	5,87,596	6,73,156	7,76,195	8,79,842	9,93,206
APE	1,43,000	1,68,100	1,90,971	2,12,501	2,36,473
VNB	37,000	50,700	53,271	61,077	68,940
VNB margin (%)	25.9	30.1	27.9	28.7	29.2
APE growth (%)	24.9	17.6	13.6	11.3	11.3
VNB growth (%)	39.1	37.0	5.1	14.7	12.9
Adj. EPS (Rs)	15.1	17.2	20.4	23.2	26.4
EV	3,96,269	4,60,429	5,48,321	6,55,211	7,77,258
EVOP	56,700	90,500	94,892	1,08,890	1,24,047
Op. RoEV (%)	16.4	22.8	20.6	19.9	18.9
EVPS (INR)	396.2	460.1	548.0	654.8	776.8
P/EV (x)	3.3	2.8	2.4	2.0	1.7
P/EVOP (x)	27.5	17.2	16.5	14.3	12.6

Source: Company, Emkay Research

Result on expected lines; margin held up well, despite product-mix changes

SBI Life reported an overall satisfactory set of numbers in Q1FY24. APE grew a muted 4% YoY to Rs30.3bn, owing to the high base of Q1FY23 and was slightly below our estimate. VNB at Rs 8.72bn was 1% above our estimate on account of the 28.8% VNB margin coming 0.8ppt above our estimate. VNB margin declined 1.4ppts YoY, but was better than our estimate, as improved operating experience-led assumption changes partly offset the negative impact from the unfavorable product mix changes and the decline in interest rates. Profit after tax at Rs3.8bn stood 32% above our estimate. Helped by the buoyant equity markets, Assets under Management grew 23% YoY to Rs3.28trillion. Operating expense and persistency (13th- and 25th-month) saw some worsening; however, as growth catches up and the company increases its efforts on renewal, these two factors will be taken care of.

Keeping it simple remains the business strategy

Management has been consistent in keeping the business strategy simple, by capitalizing on its brand, distribution and cost advantage for penetrating the vast life insurance opportunities on offer by India (Bharat). On product mix, Management continues to reiterate its view that it will be led by customer & distributor demand in the prevailing economic environment and the company will not pursue any product-mix target. Overall, Management remains confident about delivering FY24 VNB margin of around 28%, while maintaining its aspiration of ~20% Individual APE growth. As the year progresses, growth and persistency will catch up. Despite freeing up of the commission-cap, it is unlikely that the commission payout ratio will see any material change in FY24, given: i) need to protect the interest of the customer, and ii) SBI's (Parent and main distributor) target of optimizing commission income and the franchise value of SBI Life.

We reiterate BUY, with largely unchanged estimates

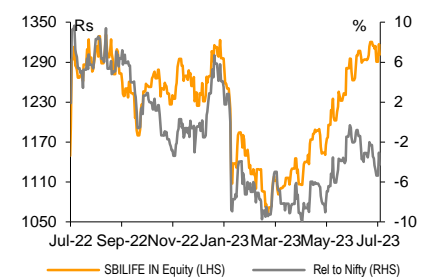
To reflect Q1FY24 developments, we adjust our estimates thus leading to ~1% increase in FY24-26E APE, while VNB margins have remain unchanged. Our PAT estimates for FY24-26E have increased by ~6%. We reiterate our BUY rating on the stock, with our Appraisal Value method-led Jun-24E Target Price of Rs1,560/share (implied FY25E P/EV: 2.4x). Given the brand, distribution and cost advantage, SBI Life is one of the best-positioned franchises in the Indian Life Insurance sector to clock sustainable growth ahead.

Target Price – 12M	Jun-24
Change in TP (%)	2.6
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	19.9
CMP (25-Jul-23) (Rs)	1,301.1

Stock Data	Ticker
52-week High (Rs)	1,340
52-week Low (Rs)	1,039
Shares outstanding (mn)	1,001.0
Market-cap (Rs bn)	1,302
Market-cap (USD mn)	15,907
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,372.5
ADTV-3M (USD mn)	16.8
Free float (%)	-
Nifty-50	19,681
INR/USD	81.9
Shareholding, Jun-23	
Promoters (%)	55.5
FPIs/MFs (%)	26.2/14.2

Price Performance

(%)	1M	3M	12M
Absolute	3.0	17.7	13.6
Rel. to Nifty	(2.3)	6.2	(4.0)

1-Year share price trend (Rs)**Avinash Singh**

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Exhibit 1: Q1FY24 Financial Result Summary

(Rs bn)	Q1FY24	Q1FY23	% YoY	Q1FY24E	% Var
Annualised Premium Equivalent (APE)	30.3	29.0	4.5	30.9	-1.8
--o/w Savings	25.2	25.1	-5.2	-	
--o/w Protection	3.7	3.2	15.6	-	
Protection APE (% of total APE)	12.2	11.0	1.2ppts	-	
Value of New Business	8.7	8.8	-0.9	8.6	1.0
New Business Margin (%)	28.8	30.4	-1.6ppts	28.0	0.8ppts
Individual New Business WRP	26.7	25.8	3.5	-	
Total New Business Premium	99.9	55.9	78.6	-	
Renewal premium	35.7	57.6	-38.0	-	
Gross written premium	135.6	113.5	19.4	-	
PAT	3.8	2.6	45.0	2.9	32.0
AUM	3,283	2,674	22.8	3,257	0.8
SH Equity	135.4	117.6	15.1	-	
13th month persistency (%)	85.0	85.6	-0.6ppts	-	
49th month persistency (%)	70.4	70.3	0.1ppts	-	
61st month persistency (%)	56.7	50.3	6.4ppts	-	
Solvency ratio (%)	215.0	221.0	-6ppts	-	

Source: Company, Emkay Research

Exhibit 2: Appraisal methodology-based valuation for SBI Life

Parameter (Rs bn)	Value
FY24E-39E APE CAGR	8.7%
FY24E-39E VNB CAGR	8.8%
Terminal growth rate	5.0%
Cost of Equity	13.5%
FY24 EV	548
Present value of future new business	957
Appraisal value - Mar-24E (Rs/sh)	1,510
Share count (mn)	1,001
Appraisal value per share - Mar-24E (Rs)	1,508
Target Price - Jun-24E (Rs/sh)	1,560

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for SBI Life

Appraisal value multiple on FY25 estimate (Rs/sh)	1,560
P/EV	2.4x
RoEV (%)	19.9
P/EVOP	13.9x
Implied FY25E VNB multiple	16.6x
Current price multiple on FY25 estimate (Rs/sh)	1,301
P/EV	2.0x
RoEV (%)	19.9
P/EVOP	11.6x
Implied FY25E VNB multiple	12.3x

Source: Company, Emkay Research

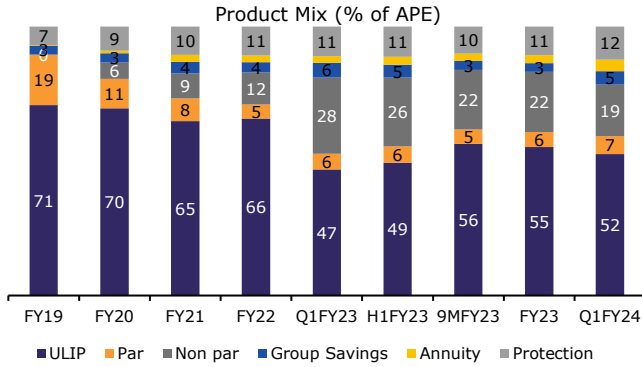
Exhibit 4: Changes in Estimates

(Rs bn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	188.7	191.0	1.2	210.1	212.5	1.1	234.0	236.5	1.0
VNB	52.7	53.3	1.1	60.5	61.1	1.0	68.5	68.9	0.6
VNB Margin (%)	27.9	27.9	0.0ppts	28.8	28.7	0.0ppts	29.3	29.2	-0.1ppts
EVOP	94.3	94.9	0.6	108.2	108.9	0.6	123.5	124.0	0.4
EV	547.7	548.3	0.1	654.0	655.2	0.2	775.5	777.3	0.2
PAT	19.2	20.4	6.0	21.8	23.2	6.4	24.7	26.4	6.7

Source: Company, Emkay Research

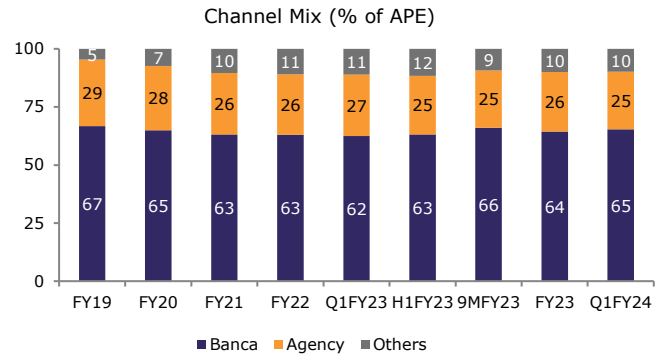
Story in Charts

Exhibit 5: Share of non-par products decreases sequentially to 19%



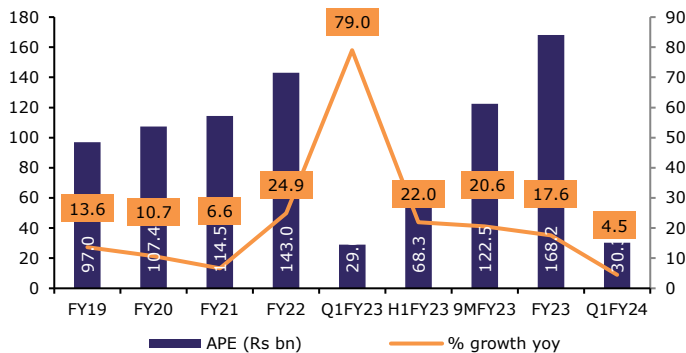
Source: Company, Emkay Research

Exhibit 6: Banca channel remains the major distributor



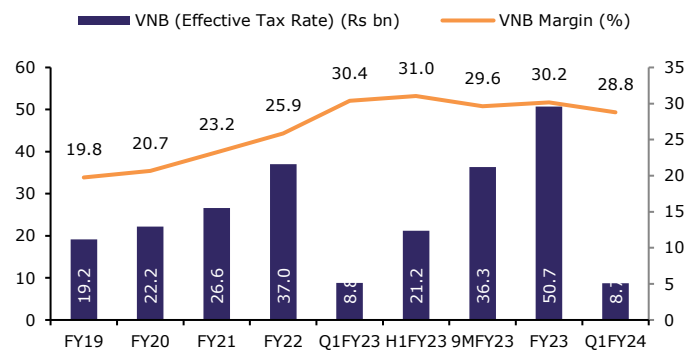
Source: Company, Emkay Research

Exhibit 7: APE growth slows down to 4.5% on the back of high base



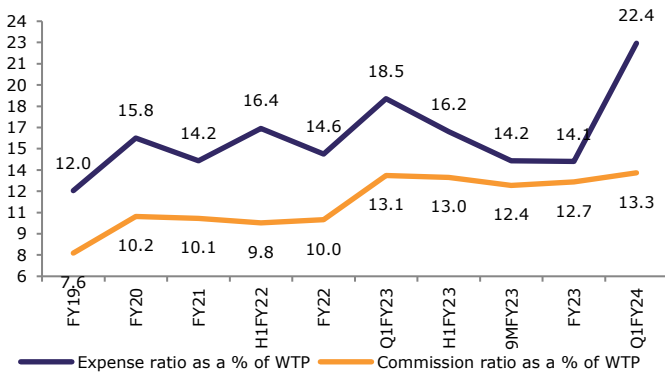
Source: Company, Emkay Research

Exhibit 8: VNB margins dip to 28.8% during Q1FY24



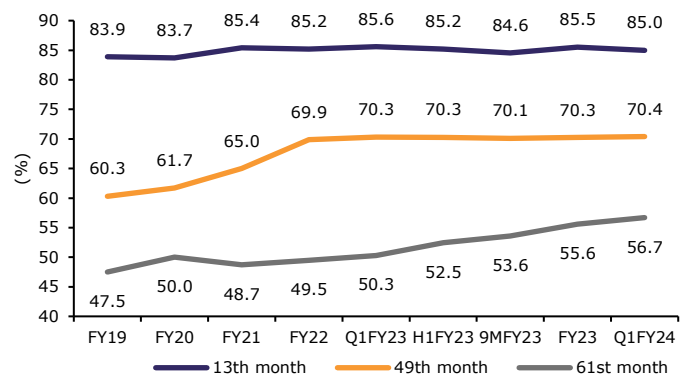
Source: Company, Emkay Research

Exhibit 9: Slower premium growth during Q1FY24 led to higher Opex to WTP.



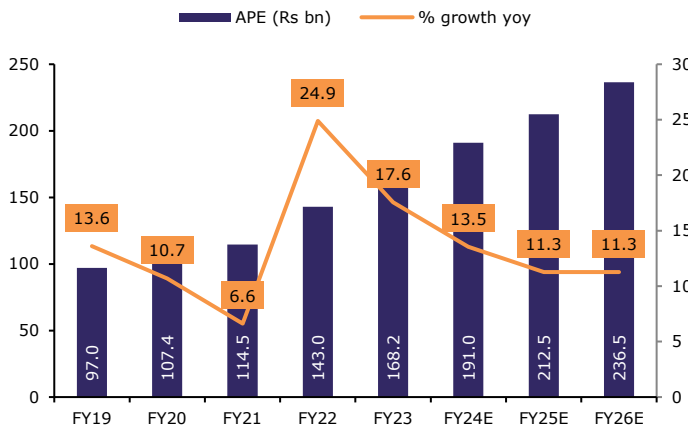
Source: Company, Emkay Research Note: Weighted Total Premium (WTP)= 100% of First Year Regular Premium + 10% of Single Premium+ 20% of Renewal Premium

Exhibit 10: 61st-month persistency witnesses consistent improvement



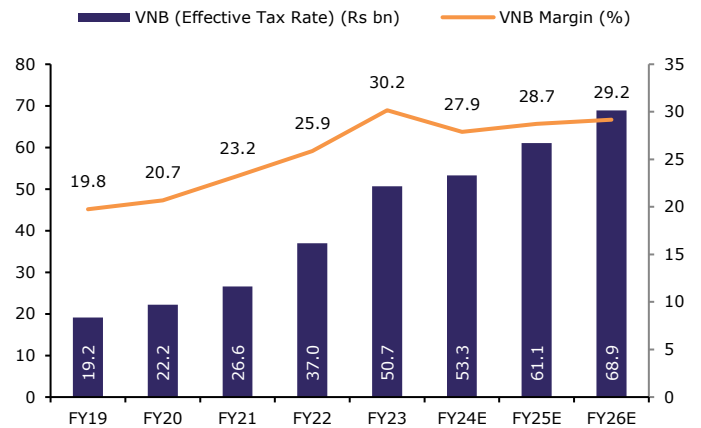
Source: Company, Emkay Research

Exhibit 11: APE is expected to grow 13.5% during FY24E



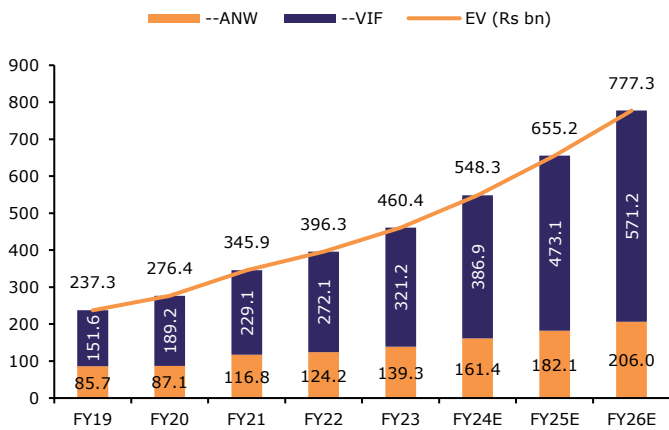
Source: Company, Emkay Research

Exhibit 12: VNB margins are likely to dip to 27.9% during FY24E



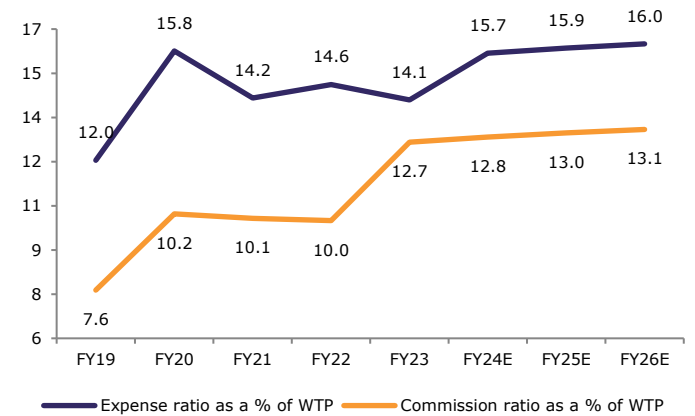
Source: Company, Emkay Research

Exhibit 13: SBI Life is expected to deliver EV of Rs777bn by FY26E



Source: Company, Emkay Research

Exhibit 14: Operating and Commission expenses are likely to rise in FY24E



Source: Company, Emkay Research

Earnings conference call highlights

- Management reiterated its APE growth guidance of ~20% by FY24. The company endeavors to grow at a rate above the industry's.
- Regarding the YoY dip in VNB margins, Management stated that pent-up demand for Smart Platina Plus Non-Par product in Q1FY23 led to a dip in margins.
- Going forward, the Management is looking at steady growth in the Non-Par segment. The company witnessed good traction in ULIP owing to the ULIP fund performance and the movement in equity markets.
- Management does not see the Non-Par product's demand diminishing. The contribution of Non-Par products in the overall product mix is expected to be at 24-25%.
- With the agency channel declining during the quarter, Management said that the company is increasing the number of agents along with making some structural changes in the agency channel, the results of which will be seen from Q2FY24.
- Banca channels other than SBI posted growth of 5% during Q1FY24, and the company aspires to grow the other bank channels at >20%. Management stated that banks other than SBI contributed to 3% in the distribution mix.
- With respect to the new Commission and EoM regulations, Management said that the company's business will continue to be fair to its distributors and partners. The company will ensure that there is enough on the table for customers and distributors. Management does not see any pressure on payouts due to the impact of the new Expense of Management regulations.
- There was a slight dip in the 13th- and 25th-month persistency, and the company will bridge the gap through closer calling with customers and increased efforts on renewal. Management clarified that no particular product led to significant dip in persistency.
- The company has been continuously growing the protection business and, going forward, Management is expecting a similar trajectory, as there the protection business entails considerably potential.
- SBI Life is recruiting more agents and training them better, to garner more leads. Management expects to see good results, in terms of growth and productivity.
- The company is not looking to significantly change the business mix in order to chase margins. Management explained that when rates decrease, there is need to lock-in the interest rates which will drive customers to buy Non-Par products. Non-Par products with ticket size less than Rs0.5mn remain tax exempt; this will keep demand intact for such a category of Non-Par products.
- Credit Life has been growing at a fast clip for SBI Life and, as market and disbursements grow, Management expects good traction in attachment rates leading to adequate growth in the credit life business.
- Management said that the company should deliver margins in the 28-30% range.

SBI Life: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross premium	5,87,596	6,73,156	7,76,195	8,79,842	9,93,206
Net premium	5,84,323	6,65,810	7,68,433	8,71,044	9,83,274
Investment income	2,35,680	1,32,601	2,55,298	3,03,939	3,59,006
Other income	10,270	17,573	12,452	8,867	6,358
Total revenue	8,30,272	8,15,985	10,36,183	11,83,849	13,48,637
Commission expense	21,583	30,625	35,345	40,065	45,227
Operating expense	29,745	34,095	43,192	48,960	55,268
Benefits paid (net)	3,12,381	3,02,875	3,44,170	4,04,596	4,71,416
Change in reserves	4,37,619	4,10,031	5,79,338	6,56,782	7,42,621
Total expenses	8,11,434	7,87,422	10,13,204	11,63,051	13,28,810
Surplus/Deficit	18,838	28,562	22,979	20,799	19,827
Trf from policyholders' acct	17,324	27,072	21,979	19,799	18,826
Shareholders' results	(1,717)	(9,487)	(875)	4,238	8,510
PBT	15,607	17,584	21,104	24,037	27,336
Tax expense	548	379	739	841	957
Reported PAT	15,060	17,206	20,366	23,196	26,379
PAT growth (%)	3.4	14.2	18.4	13.9	13.7
Adjusted PAT	15,060	17,206	20,366	23,196	26,379
Diluted EPS (Rs)	15.1	17.2	20.4	23.2	26.4
Diluted EPS growth (%)	3.4	14.2	18.4	13.9	13.7
DPS (Rs)	2.0	2.5	2.5	2.5	2.5
Dividend payout (%)	13.3	14.5	12.3	10.8	9.5
Effective tax rate (%)	4	2	4	4	4
Shares outstanding (mn)	1,000	1,001	1,001	1,001	1,001

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
APE	1,43,000	1,68,100	1,90,971	2,12,501	2,36,473
VNB	37,000	50,700	53,271	61,077	68,940
VNB margin (%)	25.9	30.1	27.9	28.7	29.2
APE growth (%)	24.9	17.6	13.6	11.3	11.3
VNB growth (%)	39.1	37.0	5.1	14.7	12.9
Operating ratios (%)					
NB commission/APE	8.6	12.0			
Commissions/TWRP	4.5	5.6	5.7	5.7	5.7
Total exp ratio/TWRP	6.3	6.3	7.0	7.0	7.0
Conservation ratio	83.3	81.6	81.6	81.6	81.6
Solvency ratio	205.0	215.0			
RoE	15.2	13.7	14.0	14.7	14.7
Historical metrics					
APE mix (%)	FY22	FY23	FY24E	FY25E	FY26E
A. Retail protection	6.4	5.8			
B. Group protection	3.1	3.6			
C. Savings - individual					
Par	5.2	5.7			
Non-Par	12.0	22.3			
ULIP	65.8	55.3			
D. Group Savings	3.8	3.3			
Persistency ratios (%)					
13th Month	85.2	85.5			
49th Month	69.9	70.3			

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	10,004	10,009	10,009	10,009	10,009
Reserves & surplus	1,04,181	1,19,237	1,36,508	1,57,201	1,81,078
Net worth	1,16,223	1,30,175	1,47,446	1,68,139	1,92,016
Borrowings	0	0	0	0	0
Policy liabilities	10,97,590	13,01,319	15,57,588	18,46,952	21,72,749
Prov for linked liab.	13,44,530	15,35,926	18,58,794	22,40,861	26,72,190
FFA	9,936	11,427	13,713	16,455	19,747
Current liabilities & prov	51,298	50,996	61,825	73,837	87,185
Total liabilities & equity	26,82,072	30,95,866	36,94,760	43,74,978	51,44,767
Shareholders' investment	1,00,758	1,12,087	1,26,958	1,44,776	1,65,336
Policyholders' investment	11,21,307	12,98,702	15,53,381	18,42,104	21,68,563
Assets to cover linked liab.	14,26,253	16,32,555	19,52,703	23,15,648	27,26,027
Current assets	76,157	94,413	1,12,677	1,33,421	1,56,897
Total assets	26,82,072	30,95,866	36,94,760	43,74,978	51,44,767
BV/share (INR)	116.2	130.1	147.3	168.0	191.8
EV/share (INR)	396.2	460.1	548.0	654.8	776.8
EVOP/share (INR)	56.7	90.4	94.8	108.8	124.0
Embedded value	3,96,269	4,60,429	5,48,321	6,55,211	7,77,258
ANW	1,24,192	1,39,253	1,61,446	1,82,139	2,06,016
VIF	2,72,077	3,21,176	3,86,875	4,73,072	5,71,242
VIF share in EV (%)	68.7	69.8	70.6	72.2	73.5
Total AUM	26,73,177	30,86,761	36,83,895	43,62,112	51,29,638
Investment yield (%)	10.2	4.9	8.0	8.0	8.0
Yield on PH funds (%)	10.1	4.8	7.9	7.9	7.9
Yield on SH funds (%)	10.5	7.5	9.4	9.4	9.4

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	86.4	75.7	63.9	56.1	49.4
P/B (x)	11.2	10.0	8.8	7.7	6.8
P/EV (x)	3.3	2.8	2.4	2.0	1.7
P/EVOP (x)	27.5	17.2	16.5	14.3	12.6
Implied P/VNB (x)	25.8	17.9	15.8	12.3	9.4
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2
EV account and RoEV					
Opening EV	3,46,069	3,96,269	4,60,429	5,48,321	6,55,211
Premium unwind	27,300	34,100	39,621	45,814	53,107
VNB	37,000	50,700	53,271	61,077	68,940
Operating variance	(7,700)	5,700	2,000	2,000	2,000
EVOP	56,700	90,500	94,892	1,08,890	1,24,047
Investment variance	(4,500)	(24,240)	(5,000)	0	0
Capital movement	(2,000)	(2,100)	(2,000)	(2,000)	(2,000)
Other changes	0	0	0	0	0
Closing EV	3,96,269	4,60,429	5,48,321	6,55,211	7,77,258
Change in EV	50,200	64,160	87,892	1,06,890	1,22,047
RoEV (%)	15.6	16.7	19.5	19.9	18.9
Operating RoEV (%)	16.4	22.8	20.6	19.9	18.9
EVOP growth (%)	12.9	59.6	4.9	14.8	13.9
EV growth (%)	14.6	16.2	19.1	19.5	18.6
Unwind rate (%)	7.9	8.6	8.6	8.4	8.1
VNB-to-opening EV (%)	10.7	12.8	11.6	11.1	10.5

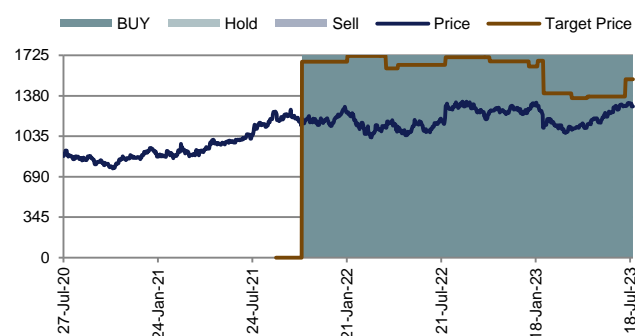
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
09-Jul-23	1,294	1,520	Buy	Avinash Singh
10-Jun-23	1,232	1,375	Buy	Avinash Singh
01-Jun-23	1,208	1,375	Buy	Avinash Singh
16-May-23	1,181	1,375	Buy	Avinash Singh
27-Apr-23	1,137	1,375	Buy	Avinash Singh
21-Apr-23	1,107	1,360	Buy	Avinash Singh
03-Apr-23	1,104	1,360	Buy	Avinash Singh
28-Mar-23	1,091	1,360	Buy	Avinash Singh
09-Mar-23	1,097	1,400	Buy	Avinash Singh
07-Feb-23	1,132	1,400	Buy	Avinash Singh
06-Feb-23	1,138	1,400	Buy	Avinash Singh
02-Feb-23	1,108	1,400	Buy	Avinash Singh
22-Jan-23	1,296	1,680	Buy	Avinash Singh
10-Jan-23	1,303	1,630	Buy	Avinash Singh
05-Jan-23	1,268	1,630	Buy	Avinash Singh
03-Jan-23	1,268	1,675	Buy	Avinash Singh
08-Dec-22	1,267	1,675	Buy	Avinash Singh
08-Nov-22	1,279	1,675	Buy	Avinash Singh
22-Oct-22	1,246	1,675	Buy	Avinash Singh
10-Oct-22	1,239	1,710	Buy	Avinash Singh
29-Sep-22	1,240	1,710	Buy	Avinash Singh
07-Sep-22	1,332	1,710	Buy	Avinash Singh
05-Sep-22	1,293	1,710	Buy	Avinash Singh
24-Aug-22	1,288	1,710	Buy	Avinash Singh
08-Aug-22	1,270	1,710	Buy	Avinash Singh
29-Jul-22	1,294	1,710	Buy	Avinash Singh
08-Jun-22	1,136	1,645	Buy	Avinash Singh
17-May-22	1,070	1,645	Buy	Avinash Singh
12-May-22	1,061	1,645	Buy	Avinash Singh
09-May-22	1,064	1,645	Buy	Avinash Singh
06-May-22	1,059	1,645	Buy	Avinash Singh
29-Apr-22	1,106	1,645	Buy	Avinash Singh
19-Apr-22	1,125	1,615	Buy	Avinash Singh
06-Apr-22	1,107	1,615	Buy	Avinash Singh
08-Feb-22	1,131	1,720	Buy	Avinash Singh
22-Jan-22	1,241	1,720	Buy	Avinash Singh
18-Jan-22	1,266	1,670	Buy	Avinash Singh
07-Dec-21	1,159	1,670	Buy	Avinash Singh
09-Nov-21	1,207	1,670	Buy	Avinash Singh
27-Oct-21	1,186	1,670	Buy	Avinash Singh
07-Sep-21	1,239	-	UR	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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