

Steady Performance; VNB Margins to Remain Range Bound

Changes in Estimates post Q1FY24

FY23E/FY24E: NPE -3.5%/-5.3% ; PAT 6.9%/24.9%; EV -4.1%/-4.1%

Recommendation Rationale

- **Margins expected to remain range bound** – VNB Margin moderated from 30.5% in Q4FY23 to 28.8% in Q1FY24 due to an increase in the share of ULIP business from 51.9% in Q4FY23 to 53% in Q1FY24 and lower share of Non-par segment. However, it continues to remain within the guided range. **In FY24, the management guided that the margin would be range bound between 28-30%.**
- **Growth in APE to be driven by growth across products** – While there was pent-up demand in the Non-Par products earlier, it has now normalised. The mix of Non-par products declined in Q1FY24. The management is looking forward to steady growth in Non-par products, contributing ~24%-25% to the product mix. The company reported healthy growth in ULIP as a result of strong capital market activity. Furthermore, protection plans witnessed healthy demand and the management expects the momentum to continue. **Despite a soft Q1FY24, the management remains confident of delivering APE growth of ~20-25% in FY24.**
- **Focus on agency channel** – Structural changes have been made to the agency which will drive productivity, even as focus on the banca channel continues. The company has added ~14K agents in Q1FY24, taking the total count to ~223K agents and it has devised a strategy to develop this channel. Thus, the structural change in the agency business will help the company accelerate growth moving forward.

Sector Outlook: Positive

Company Outlook & Guidance: We continue to like SBI Life Insurance for its strong VNB margins, healthy cost ratios and robust performance delivery potential.

Current Valuation: 2.3x FY25E EV (Earlier Valuation: 2.7x FY24E EV)

Current TP: Rs 1,535/share (Earlier TP: Rs 1,565 /share)

Recommendation: We maintain our BUY recommendation on the stock.

Financial Performance

- The company's AUM reported a robust growth of 21% YoY to Rs 3,283 Bn. SBIL's APE grew 4.5% YoY. VNB margin moderated to 28.8% from 30.1% in Q4FY23, witnessing a contraction of 130bps QoQ mainly due to an increase in ULIP. The cost ratio improved from 11.2% in Q1FY23 to 10.8% in Q1FY24.
- The key persistency ratio of the 13th and 26th months dropped by 60bps YoY and 260bps YoY respectively. However, the persistency ratio of the 61st month improved by 640bps YoY.
- New Business Premium (NBP) grew by 11% to Rs 62.1 Bn in Q1FY24 aided by growth in Single premium business by 18%. In total APE, ULIP's share in the product mix increased. PAT increased by 45% YoY to Rs 3.8 Bn.

Outlook:

The performance of SBIL has been consistently improving led by growth, margins, cost ratio, and persistency. The company's VNB margin, although fallen QoQ, stands healthy in the industry which is led by improving product mix and operating leverage. SBIL enjoys competitive cost ratios in the industry which help it maintain a superior margin profile. There was a dip in persistency ratios of 13th and 26th, however, no particular product contributed to it and the management will follow up to improve the same. With a healthy VNB margin, the management's focus is to have a balanced product mix between high and low-margin products. With insurance being highly underpenetrated in India, we believe SBIL remains well-placed in the life insurance space to explore the opportunity.

Valuation & Recommendation:

We remain positive on the stock and maintain a **BUY** rating with a TP of **Rs 1,535/share (2.3x FY25EV)**, implying an upside potential of 18% from the CMP.

Key Financials (Standalone)

(Rs Bn)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Premium Earned	131.1	-34.1	18.7	-	-
Annual Premium equivalent. (APE)	30.3	-33.7	4.5	-	-
Total Expenses	270.6	31.6	499	-	-
PAT	3.8	-51	45	-	-
EPS	3.81	-51	45	-	-

Source: Company, Axis Research

(CMP as of 25 July, 2023)

CMP (Rs)	1,301
Upside /Downside (%)	18%
High/Low (Rs)	1340/1039
Market cap (Cr)	1,30,176
Avg. daily vol. (6m) Shrs.	12,75,285
No. of shares (Cr)	100.1

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	55.5	55.5	55.5
FII's	25.1	25.1	26.2
MFs /UTI	11.3	11.1	10.6
Others	8.2	8.3	7.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Premium	665.8	799.0	918.8
PAT	17.2	19.2	23.2
EV	460.0	556.6	667.9
VNB (%)	30.5	29.8	29.0
P/EV	2.8	2.3	1.9
EPS	17.2	19.2	23.2
P/E	75.6	67.6	56.0
ROE	14.0	14.3	15.8

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
NPE	-3.5	-5.3
PAT	6.9	24.9
EV	-4.1	-4.1

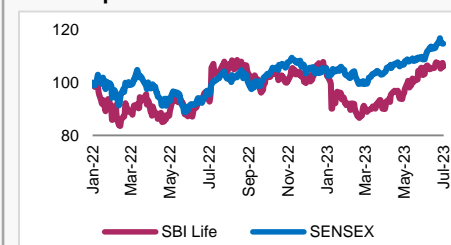
ESG disclosure Score**

Environmental Disclosure	2.4
Social Disclosure Score	30.9
Governance Disclosure	63.6
Total ESG Disclosure	32.3
Sector Average	37.5

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Key Risks to our Estimates and TP

- Changes in the interest rates would adversely impact certain products offered by the company.

Change in Estimates

(Rs Bn)

	Revised		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NPE	799.0	918.8	828.2	970.7	-3.5	-5.3
PAT	19.2	23.2	18.0	18.6	6.9	24.9
EV	556.6	667.9	580.2	696.3	-4.1	-4.1
EPS	19.2	23.2	18.0	18.6	6.9	24.9

Source: Company, Axis Securities

Results Review
(Rs Mn)

Y/E March	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
First Year Premium	26,374	25,704	2.6	40,896	-35.5
Renewal Premium	73,480	57,577	27.6	1,19,370	-38.4
Single Premium	35,697	30,210	18.2	39,869	-10.5
Premium Earned	1,35,551	1,13,491	19.4	2,00,136	-32.3
Premium on reinsurance ceded	4,506	3,131	43.9	1,167	286.2
Net premium earned	1,31,045	1,10,360	18.7	1,98,969	-34.1
Investment Income	1,45,789	-62,299	-334.0	11,861	1129.1
Other income	86	111	-22.8	149	-42.3
Total income	2,76,920	48,172	474.9	2,10,979	31.3
Commission paid	5,212	5,076	2.7	8,714	-40.2
Operating & other expenses	9,173	9,360	-2.0	9,586	-4.3
Claim/benefit paid	71,034	51,717	37.4	91,232	-22.1
Change in actuarial liability	1,85,197	-20,988	-982.4	96,043	92.8
Total expenses	2,70,615	45,165	499.2	2,05,575	31.6
Profit before tax	3,897	3,008	29.6	7,936	-50.9
Tax	87	380	-77.1	167	-48.0
Profit after tax	3,810	2,628	45.0	7,769	-51.0
Annualized premium equivalent (APE)	30,300	29,000	4.5	45,700	-33.7
VNB Margin (%)	28.8	30.4		30.1	
AUM (Bn)	3,282.8	2,623.5	25.1	3,073.0	6.8
Product mix (%) Total APE					
Par	7.0	5.9		6.6	
Non Par	19.0	28.3		22.8	
ULIP	53.0	46.9		51.9	
Individual Savings	79.0	81.0		81.3	
Group Savings	5.0	5.5		3.3	
Individual Protection	7.0	6.9		6.0	
Group Protection	5.0	4.1		5.5	
Channel mix (%) Total APE YTD					
Bancassurance	65	63		64	
Agency	25	26		26	
Others	10	11		10	
Persistency ratios (%)					
13th month	85.00	85.61		85.5	
25th month	76.10	78.72		75.6	
37th month	74.80	72.2		74.5	
49th month	70.40	70.32		70.3	
61st month	56.70	50.26		55.6	
Operational ratios (%)					
Commission Ratio	4	4.6		4.5	
Total Expense Ratio	10.8	11.2		9.6	
Solvency Ratio	2.15	221		2.15	

Source: Company, Axis Securities

Financials (Standalone)

Policy Holders Account

(Rs Bn)

Y/E March	FY22	FY23P	FY24E	FY25E
Gross Premium	587.5	673.2	799.1	927.7
First-year premium	129.4	152.0	190.2	218.8
Renewal Premium	333	377.3	433.9	498.9
Single Premium	125.1	143.9	175.0	210.0
Net Premium (net of reinsurance)	584.3	665.8	799.0	918.8
Income from investments	235.7	132.6	312.7	342.7
Other income	0.4	0.5	0.5	0.5
Total income	830.3	798.9	1112.2	1262.0
Commission	20.8	29.4	32.3	37.1
Operating Expenses	29.7	34.1	40.9	49.1
Operating Profit	779.7	735.4	1038.9	1175.8
Net benefits paid	313.4	302.9	455.4	535.1
Change in reserves	437.6	410.0	558.6	611.9
Provision for tax	1.3	1.5	6.3	6.3
Surplus/Deficit after Tax	27.4	21.1	18.6	22.4
Shareholders Account	17.3	27.1	21.4	25.1
Transfer from the policyholder's account	9.8	7.9	9.9	10.4
Income from investments	0.1	0.0	0.1	0.1
Other income	27.2	35.0	31.4	35.6
Total income	1.6	0.4	1.8	2.0
Ex-insurance expenses	9.8	17.1	9.6	9.4
Contribution to Policyholders Account	15.6	17.6	20.0	24.2
Profit before tax	0.5	0.4	0.8	1.0
Tax	15.1	17.2	19.2	23.2
Profit after tax	17.3	27.1	21.4	25.1

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22	FY23P	FY24E	FY25E
Growth				
New Business Premium	23.4	16	19	14.5
Net Earned Premium	17.4	13.9	20.0	15.0
APE (%)	24.9	17.0	19.0	15.5
AUM (%)	21.1	15.0	26.4	20.0
PAT (%)	4.1	13.9	11.8	20.8
Valuations				
EPS (Rs)	15.1	17.2	19.2	23.2
BV (Rs)	116.2	130.2	150.5	173.7
EV (Rs Bn)	396.3	460.0	556.6	667.9
DPS	2	2.6	3.0	3.3
Dividend Yield	0.2	0.2	0.2	0.2
Dividend Payout	13.2	15.1	15.6	14.0
P/EV	3.3	2.8	2.3	1.9
P/E	86.2	75.6	67.6	56.0
Capital & Efficiency				
VNB Margin	26.1	30.5	29.8	29.0
ROA (%)	20.6	22.9	21.6	20.8
ROE (%)	19.3	16.8	19.8	19.4
Commission ratio (%)	13.7	14.0	14.3	15.8
Insurance expense (%)	3.6	4.5	4.4	4.4
Expense ratio (%)	5.1	5.1	5.2	5.1

Source: Company, Axis Securities

SBI Life Insurance Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-20	BUY	1,145	Company Update
06-May-20	Hold	779	Result Update
22-Jul-20	BUY	996	Result Update
27-Jul-20	BUY	996	Pick of the week
26-Oct-20	BUY	998	Result Update
25-Jan-21	BUY	1,076	Result Update
15-Feb-21	BUY	1,011	Pick of the week
26-Apr-21	BUY	1,035	Pick of the week
04-May-21	BUY	1,150	Result Update
27-Jul-21	BUY	1,290	Result Update
28-Oct-21	BUY	1,425	Result Update
24-Jan-22	BUY	1,530	Result Update
29-Apr-22	BUY	1,530	Result Update
29-Jul-22	BUY	1,540	Result Update
25-Oct-22	BUY	1,540	Result Update
23-Jan-23	BUY	1,565	Result Update
26-Jul-23	BUY	1,535	Result Update

Source: Axis Securities

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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