

26 July 2023

India | Equity Research | Q1FY24 result review

SBI Life Insurance Company

Life Insurance

Valuation attractive basis VNB growth/RoEV proposition

SBI Life's VNB decline of 1% YoY in Q1FY24 was driven by lower APE growth (4% YoY) and 153bps decline in VNB margin (Q1FY24 margin stood at 27.8%). The muted show is attributable to a combination of base effect and relative change in product mix, as per the management. While the management has maintained a volume growth/margin guidance of 20%/28-30%, we remain structurally positive on its distribution strength (parent bank APE grew 7% YoY in Q1FY24 to INR 19.8bn) of the company and the overall brand franchise. This should help generate 11%/15% VNB growth and 19.6/19.2% ROEV in FY24E/25E, respectively. Maintain **BUY**.

Maintain BUY with an unchanged target price of INR 1,650 based on 2.5x (unchanged) FY25E EV

We factor VNB margin of 29% in FY24/25E. Our APE growth assumption of 15% remains unchanged in FY24E/FY25E. This results in an EV of INR 657bn with RoEV of 19.2% in FY25E.

Volume weakness attributed to base effect in Q1FY24

The APE growth in Q1FY24 for SBLI was 4% YoY on the base of a strong Q1FY23 which grew 80% YoY. Management expects volume growth to recover over the remaining FY24 helped by a gradual decline in base effect and overall organic growth. The full year guidance is maintained at 20%, implying 23% growth for the remaining 9MFY24 on APE basis. SBI channel grew 7% YoY in Q1FY24.

Margin decline driven by lower non-par mix. While overall margin is expected to be range bound, non-par mix should improve over the year

The non-par mix reached a high of 28% in Q1FY23 driven by new product launch which declined gradually to 22% for the full year FY23. While Q1FY24 non-par mix was 19%, it is ultimately expected to inch up to FY23 levels in FY24.

Financial summary

Y/E (INR mn)	FY22A	FY23A	FY24E	FY25E
Weighted APE (INR bn)	143	168	193	222
Embedded Value (INR bn)	396.3	460.8	551.2	657.3
New value business (INR bn)	37.0	50.7	56.1	64.5
VNB margin (%)	25.9	30.2	29.0	29.0
PAT (INR mn)	15,060	17,198	20,666	24,261
P/EV (x)	3.3	2.8	2.4	2.0
EVOP as % of IEV	20.6	22.9	20.2	19.7
RoE (%)	13.0	13.2	14.0	14.3
RoEV (%)	18.7	16.3	19.6	19.2
Core RoEV (%)	19.3	21.4	20.2	19.7

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Market Data

Market Cap (INR)	1,302bn
Market Cap (USD)	15,909mn
Bloomberg Code	SBILIFE IN
Reuters Code	SBIL BO
52-week Range (INR)	1,340 / 1,039
Free Float (%)	45.0
ADTV-3M (mn) (USD)	17

Price Performance (%)	3m	6m	12m
Absolute	17.7	3.7	13.9
Relative to Sensex	11.1	11.2	20.5

ESG Disclosure	2021	2022	Change
ESG score	32.0	32.3	0.3
Environment	1.6	2.4	0.8
Social	30.9	30.9	0.0
Governance	63.6	63.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

27-04-2023: [Q4FY23 results review](#)

23-01-2023: [Q3FY23 results review](#)

No expectations of any cost pressure from revised EOM guidelines

Management maintains no separate expectations of cost pressure from revised EOM guidelines allowing the scope for higher commissions. We believe fear of any cost escalation is overdone considering higher commissions also result in higher volumes which ultimately accrue to VNB in a more sustainable manner.

Agency channel is expected to bounce back in FY24 despite 2% decline YoY (in APE terms) driven by strategic initiatives

This includes an increase in headcount (38% growth YoY to 220,000 agents in Q1FY24) and productivity (INR 0.16mn per agent) through lead assist, training and increased interaction. This should lead to big improvement in agency volumes in the remaining nine months of FY24.

Protection has witnessed improvement in line with peers

SBLI's protection APE grew 17% YoY in Q1FY24, split between 6/35% in individual/group. Similarly, HDLI's total protection grew 21% YoY split between 34/17% in individual/group while IPRU reported a lower protection growth of 4.2% driven by sharp growth in retail protection APE (62% YoY) offset by 37% decline in group protection.

Fall in persistency in select buckets not related to any product, should improve on upping renewal efforts

13th/25th month persistency declined 60/260bps YoY in Q1FY24 to 85/76.1% while 37th/49th/61st month persistency improved 260/10/640bps YoY to 74.8/70.4/56.5%, respectively.

SBLI is focused on accelerating digital transformation

SBLI aims to get future-ready and support high volumes through digital transformation. It plans to increase efficiency, increase productivity, improve customer experience by providing end-to-end solutions and lower its cost through digital initiatives. SBLI introduced a GPT-based passion pledge* on website and handled 1.1mn queries through bots. It also handled 70%+ email enquiries via email ibot and 50k+ queries through call centre/IVR. SBLI has insured 231k+ lives through YONO which has led to 291% premium growth. 243k+ claims have been settled through E-Pravah and it handled 1.7mn cases through Renova (Automated reinsurance tool).

**Passion pledge is a platform to bring in behavioural change change in individuals by urging them to take a pledge towards fulfilling self-aspirations while looking after the financial needs of their loved ones and not compromise on their dreams*

Exhibit 1: Q1FY24 review

Policyholder's account (INRm)	FY23				FY24	Change	
	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Net premium income	1,10,360	1,64,773	1,91,708	1,98,969	1,31,045	18.7	(34.1)
First year premium	25,704	34,819	50,552	40,896	26,374	2.6	(35.5)
Renewal premium	57,577	91,240	1,09,083	1,19,370	73,480	27.6	(38.4)
Single premium	30,210	40,152	33,684	39,869	35,697	18.2	(10.5)
Reinsurance ceded							
Income from investments	(64,057)	1,10,367	74,430	11,861	1,45,789	(327.6)	1,129.1
Other income	108	113	130	149	86	(20.4)	(42.3)
Trf from Sh.holder's account	-	-	-	17,075	-		
Total income	46,411	2,75,252	2,66,267	2,28,054	2,76,920	496.7	21.4
Commission paid	5,076	7,118	8,452	8,714	5,212	2.7	(40.2)
First year premium	3,437	4,226	5,271	5,127	3,208	(6.7)	(37.4)
Renewal premium	1,277	2,347	2,599	3,031	1,547	21.1	(49.0)
Single premium	361	545	582	556	457	26.6	(17.8)
Operating expenses	7,657	8,546	9,139	10,017	9,398	22.7	(6.2)
Total commission & Opex	12,733	15,664	17,591	18,731	14,609	14.7	(22.0)
Benefits paid	51,717	76,367	83,559	91,232	71,034	37.4	(22.1)
Change in actuarial liability	(22,711)	1,77,323	1,59,375	96,043	1,85,197	(915.5)	92.8
Total Expenses	41,739	2,69,354	2,60,525	2,06,006	2,70,840	548.9	31.5
Provisions	(21)	(29)	100	79	(25)	18.3	(131.3)
Ser Tax on linked charges	1,633	1,978	2,317	2,267	1,874	14.8	(17.3)
PBT	3,060	3,949	3,325	19,703	4,230	38.2	(78.5)
Tax	334	503	357	280	429	28.3	53.4
Surplus/(Deficit)	2,726	3,446	2,968	19,423	3,801	39.5	(80.4)
Shareholders' Account							
Amounts trf from P/H account	1,003	1,903	1,138	23,028	1,890	88.4	(91.8)
Income from investments	1,758	2,032	2,030	2,125	2,120	20.6	(0.2)
Other income	4	0	0	3	0	(97.4)	(96.7)
Total income	2,765	3,935	3,169	25,156	4,011	45.1	(84.1)
Other expenses	82	88	85	118	79	(2.8)	(32.8)
Amounts trf to P/H account	-	-	-	17,075	-		(100.0)
Provisions	9	(20)	(24)	27	34	269.6	25.9
PBT	2,674	3,866	3,108	7,936	3,897	45.7	(50.9)
Tax	46	99	67	167	87	90.4	(48.0)
PAT	2,629	3,767	3,041	7,769	3,810	15.6	155.4
Check	-	-	-	-	-		
Ratios (%) : Calc. on unwt'd premiums	Q1	Q2	Q3	Q4	Q1	YoY (bps)	QoQ (bps)
Commission expense	4.5	4.3	4.4	4.4	3.8	(62.8)	(51.7)
Opex ratio	6.7	5.1	4.7	5.3	6.9	18.6	168.0
Calculated Ratios (%) (WRP basis)							
Commission expense	5.9	5.5	5.2	5.4	5.0	(84.2)	(36.2)
Opex ratio	8.9	6.6	5.6	6.5	9.1	21.4	258.2
Reported APE Data	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24	YoY (%)	QoQ (%)
New business APE	29,000	68,200	1,22,600	1,68,200	30,300	4.5	(82.0)
Other ratios (%)	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24	YoY (bps)	QoQ (bps)
Solvency ratio	221.0	219.0	225.0	215.0	215.0	(600.0)	-
VNB margins	30.3	31.1	29.6	30.1	28.7	(163.2)	(143.0)
Persistency ratios (%)	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24	YoY (bps)	QoQ (bps)
13th Month	85.6	85.2	84.6	85.5	85.00	(60.0)	(50.0)
25th Month	78.7	77.5	76.3	75.6	76.10	(260.0)	55.0
37th Month	72.2	72.9	73.2	74.5	74.80	260.0	29.0
49th Month	70.3	70.3	70.1	70.3	70.40	10.0	14.0
61st Month	50.3	52.5	53.6	55.6	56.70	640.0	110.0
Key Metrics (INRb)	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24		
VNB	8.8	21.2	36.3	50.7	8.7	(1.1)	(82.8)
EV	-	424	-	460	-		(100.0)
AUM	2,623	2,826	3,000	3,073	3,283	25.2	6.8

Source: I-Sec research, Company data

Exhibit 2: APE product and distribution mix trend

INR bn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q1FY24 YoY chg
Individual Savings	12.4	33.6	38.1	34.6	23.6	31.7	47.5	37.0	23.8	1%
- Par	1.2	2.1	2.0	2.2	1.7	2.4	2.4	3.0	2	18%
- Non Par	1.1	4.2	5.5	6.3	8.2	9.3	9.6	10.4	5.8	-29%
- ULIP	10.2	27.1	30.8	26.0	13.6	20.1	35.5	23.7	15.9	17%
Individual Protection	1.3	2.3	2.5	3.1	2.0	2.2	2.6	3.0	2.10	5%
Group Protection	0.9	1.8	1.7	1.8	1.2	2.3	2.0	2.5	1.60	33%
Annuity	0.7	0.8	1.2	0.9	0.7	1.3	1.4	1.6	1.30	86%
Group Savings	0.9	1.5	2.1	1.0	1.6	1.6	0.9	1.5	1.50	-6%
Total APE	16.2	39.9	45.6	41.4	29.1	39.1	54.4	45.6	30.3	4%
Mix (APE terms) (%)										
Individual	84%	90%	89%	91%	88%	87%	92%	88%	85%	-249.4
Group	11%	8%	8%	7%	10%	10%	5%	9%	10%	60.9
VNB INR bn										
VNB INR bn	3.89	9.95	12.06	11.10	8.8	12.36	15.10	14.40	8.7	-1%
VNB Margin	24%	24.9%	26.5%	26.8%	30.4%	31.6%	27.8%	31.6%	28.8%	-153
Total APE Mix (%)										
Protection	14%	10.3%	9%	11.9%	11.0%	11.5%	8.5%	12.1%	12.2%	121
Group	6%	4.4%	4%	4.4%	4.1%	5.9%	3.7%	5.5%	5.3%	116
Individual	8%	5.9%	5%	7.5%	6.9%	5.6%	4.8%	6.6%	6.9%	6
Savings										
- Par	7%	5%	4%	5%	6%	6%	4.4%	6.6%	6.6%	76
- Non Par	7%	11%	12%	15%	28%	24%	18%	23%	19%	-904
- ULIP	63%	68%	68%	63%	47%	51%	65%	52%	52%	574
Annuity	4%	2%	3%	2%	2.4%	3%	2.6%	3.5%	4.3%	188
Group savings	5.5%	4%	5%	2%	5.5%	4.1%	1.7%	3.29%	5.0%	-55
Distribution by Channel										
Banca	9.2	25.3	30.2	25.5	18.2	24.9	37.9	27.3	19.8	9%
Agency	4.7	10.6	10.4	11.4	7.7	9.6	12.7	13.2	7.5	-2%
Others	2.3	3.9	5.1	4.4	3.2	4.7	3.5	5.3	3	-5%
Total APE	16.2	39.8	45.7	41.3	29	39.2	54.4	45.6	30.3	4%
Total Distribution mix										
Banca	57%	64%	66%	62%	63%	64%	69.7%	59.9%	65.3%	258.8
Agency	29%	27%	23%	28%	27%	24%	23.3%	28.9%	24.8%	-179.9
Others	14%	10%	11%	11%	11%	12%	6%	12%	10%	-113.3
Total APE	100%	100%	100%	100%	100%	100%	100%	100%	100%	

Source: I-Sec research, Company data

Exhibit 3: Estimating SBI Life EV

INR bn	FY22	FY23	FY24E	FY25E
APE (INR bn)	142.9	168.1	193.3	222.3
% growth (YoY)	24.6%	17.7%	15%	15.0%
New Business Profits (INR bn)	37.0	50.7	56.1	64.5
VNB Margin (%)	25.90%	30.2%	29.0%	29.0%
Embedded value (IEV)				
VNB (effective tax rate)	37.0	50.7	56.1	64.5
VNB Margin (effective tax rate)	25.90	30.2	29.0	29.0
Opening EV	333.9	396.30	460.8	551.2
Unwinding	27.3	34.1	36.9	44.1
- Unwinding rate	8.2%	8.6%	8.0%	8.0%
VNB	37.0	50.7	56.1	64.5
Operating experience variance	4.7	-	-	-
change in operating assumptions	(0.1)	5.8		
EVOP	68.9	90.6	92.9	108.6
Economic assumption change and variance	(4.5)	(24.0)		
Dividend paid / capital injection	(2.0)	(2.1)	(2.5)	(2.5)
Closing EV	396.3	460.80	551.2	657.3
Embedded Value per share (INR)	396.3	460.8	551.2	657.2
EV Profit, INR bn	62.4	64.5	90.4	106.1
RoEV (%)	18.7%	16.3%	19.6%	19.2%
EVOP as a % of EV	20.6%	22.9%	20.2%	19.7%
EVOP, INR bn	68.9	90.6	92.9	108.6
Core ROEV (%)	19.3%	21.4%	20.2%	19.7%

Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	55.5	55.5	55.5
Institutional investors	40.0	40.2	40.4
MFs and others	11.3	11.1	10.6
Insurance Cos	2.4	2.7	2.2
FII's	26.3	26.4	27.6
Others	4.5	4.3	4.2

Source: Bloomberg, I-Sec research

Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

Financial summary

Exhibit 6: Technical account

(INR mn, year ending)

	FY22A	FY23A	FY24E	FY25E
Gross Premiums	5,87,596	6,73,156	7,75,593	9,10,945
Reinsurance Ceded	(3,274)	(7,346)	(2,126)	(2,126)
Net Premiums	5,84,323	6,65,810	7,73,467	9,08,819
Income from Investments	2,35,680	1,32,601	2,00,415	2,20,204
Other Income	10,270	17,573	2,029	2,029
Total income	8,30,272	8,15,985	9,75,911	11,31,052
Commission	20,841	29,360	31,867	37,485
Operating expenses	30,487	35,360	47,344	55,612
Total commission and opex	51,327	64,720	79,211	93,097
Benefits Paid (Net)+ bonus	2,97,171	3,02,875	3,17,455	3,49,161
Chg in reserves	-	-	-	-
Total expenses	3,65,112	3,85,706	4,36,462	4,42,258
Prov for doubtful debts	16,614	18,111	39,797	51,061
PBT	11,95,384	12,01,691	14,12,373	16,24,371
Surplus / Deficit before tax	18,838	28,562	20,120	24,155
Tax (incl. Service Tax & GST)	-	-	-	-
Prov for Tax	-	-	-	-
Surplus / Deficit	36,162	55,633	20,120	24,155

Source Company data, I-Sec research

Exhibit 7: Shareholder's account

(INR mn, year ending)

	FY22A	FY23A	FY24E	FY25E
Transfer from technical a/c	17,324	27,072	14,762	17,781
Income From Investments	9,831	7,945	8,581	9,267
Total Income	27,208	35,024	23,350	27,057
Other expenses	1,570	372	500	500
Contribution to P/H A/C	-	-	-	-
Total Expenses	11,601	17,447	2,046	2,046
PBT	15,608	17,577	21,305	25,011
Prov for Tax	548	379	639	750
PAT	15,060	17,198	20,666	24,261

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending)

	FY22A	FY23A	FY24E	FY25E
Share Capital	10,004	10,009	10,009	10,009
Reserves And Surplus	1,04,181	1,19,237	1,36,902	1,58,163
Shareholders' Fund	1,16,223	1,30,175	1,47,934	1,69,297
Policy Liabilities	12,67,250	14,30,031	16,24,982	19,14,215
Prov. for Linked Liab.	11,74,871	14,07,214	17,04,940	20,73,039
Funds For Future App.	-	-	-	-
Current liabilities & prov.	62,515	64,537	60,759	69,556
Borrowings	-	-	-	-
Total	27,33,370	31,46,862	36,69,736	43,75,775
Shareholders' investment	1,00,758	1,12,087	2,92,354	3,49,982
Policyholders' investment	11,21,307	12,98,702	14,93,793	17,61,296
Assets to cover linked liab.	14,26,253	16,32,555	17,70,109	21,40,058
Loans	3,627	3,889	3,889	3,889
Fixed Assets	5,268	5,215	5,737	6,310
Current assets	76,157	94,413	1,03,854	1,14,240
Total	27,33,370	31,46,862	36,69,736	43,75,775

Source Company data, I-Sec research

Exhibit 9: Premium details

(INR mn, year ending)

	FY22A	FY23A	FY24E	FY25E
New business premium	2,54,211	2,92,343	3,36,487	3,87,296
Total weighted APE	1,45,737	1,67,598	1,92,905	2,22,033
Renewal premium	3,31,519	3,62,858	4,39,106	5,23,649
Total premium	5,85,730	6,55,201	7,75,593	9,10,945
NBP growth (%)	23.1	15.0	15.1	15.1
APE growth (%)	28.2	15.0	15.1	15.1
Renewal premium growth (%)	22.3	9.5	21.0	19.3
Total premium growth (%)	22.7	11.9	18.4	17.5

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending)

	FY22A	FY23A	FY24E	FY25E
Operating Ratios (%)				
Investment yield (%)	10.2	4.9	6.3	5.9
Commissions / GWP	3.5	4.4	4.1	4.1
Operating expenses / GWP	5.2	5.3	6.1	6.1
Total expense ratio	8.7	9.6	10.2	10.2
Benefits Paid / Total Liability	13.1	11.2	-	-
Solvency ratio (%)	-	-	-	-
Total AUMs (INR bn)	2,648.3	3,043.3	3,556.3	4,251.3
(Equity (%))	24.0	24.0	24.0	24.0
Profitability ratios (%)				
VNB margin, basis effective tax rate (%)	25.9	30.2	29.0	29.0
RoE (%)	13.0	13.2	14.0	14.3
Core EVOP(unwind +VNB)	19.3	21.4	20.2	19.7
EVOP as % of IEV	20.6	22.9	20.2	19.7
RoEV (%)	18.7	16.3	19.6	19.2
Valuation ratios				
Dividend per share (INR)	2.0	3.0	3.0	3.0
Dividend payout ratio (%)	-	-	-	-
EPS (INR)	15.0	17.2	20.6	24.2
VNB (INR bn)	37.0	50.7	56.1	-
EV (INR bn)	396.3	460.8	551.2	657.3
VIF (INR bn)	270.1	320.7	393.4	478.1
ANW (INR bn)	126.2	140.1	157.9	179.2
VIF as % of EV	126.2	140.1	157.9	179.2
EV per share (INR)	395.9	460.4	550.7	656.7
P/EV (x)	-	-	-	-
P/EPS (x)	86.5	75.7	63.0	53.7

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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