

29 October 2023

India | Equity Research | Q2FY24 Result Review

SBI Life Insurance Company

Life Insurance

Sustained ~ 20% operating RoEV outlook underlines superior business strength

Overall, volume growth and margin performance remains better than peers for SBI Life (SBLI) on the back of minimal disruption in distribution from open architecture and broad-based customer segment with low concentration of high ticket size mix. This has enabled continuous near 20% RoEV for the last four years, which could lead to better valuation multiples. Unchanged volume guidance of 20% growth along with range bound margin of 28–30%, new product pipelines and support from operating variances should lead to continued strength in RoEV. Maintain **BUY**.

Retain BUY; INR 1,650 TP unchanged, based on 2.5x FY25E EV

We factor in VNB margins of 28%/27% in FY24/25E. We factor APE growth of 20%/11% in FY24E/FY25E. This results in an EV of INR 652bn with RoEV of 18.3% in FY25E.

H1FY24 volume growth strong – low mix of high-ticket-size segment and diversified product proposition

Total APE growth in H1FY24 for SBLI was 21% YoY while Q2FY24 saw 34% YoY growth in total APE. The full-year guidance for APE growth is maintained at 20% by management, implying 19.3% growth in H2FY24 on APE-basis.

Protection has witnessed improvement in group business compared to retail improvement in peers

SBLI's protection APE grew 39% YoY in H1FY24 driven by 86% YoY growth in group protection; retail protection remained flattish at INR 4.2bn. Total protection APE for SBLI stood at INR 10.7bn in H1FY24 and INR 7bn for Q2FY24. This is opposite to trends seen in HDFC Life (total protection grew 16% YoY in H1FY24 with 63% in retail protection and 3% growth in group protection) and IPRU Life (flattish protection APE in H1FY24 driven by 73% growth in retail protection offset by 14% decline in group protection).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Reported APE (INR bn)	143	168	198	228
Embedded Value (INR bn)	396.3	460.8	556.7	662.6
New value business (INR bn)	37.0	50.7	55.5	63.9
VNB margin (%)	25.9	30.2	28.0	28.0
PAT (Rs mn)	15,060	17,198	20,686	24,284
P/EV (x)	3.3	2.8	2.3	2.0
EVOP as % of IEV	20.6	22.9	20.1	19.5
RoE (%)	13.0	13.2	14.0	14.3
RoEV (%)	18.7	16.3	20.8	19.0
Core RoEV (%)	19.3	21.4	20.1	19.5

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Market Data

Market Cap (INR)	1,304bn
Market Cap (USD)	15,666mn
Bloomberg Code	SBILIFE IN
Reuters Code	SBIL BO
52-week Range (INR)	1,393 /1,039
Free Float (%)	45.0
ADTV-3M (mn) (USD)	16.9

Price Performance (%)	3m	6m	12m
Absolute	0.5	14.6	4.2
Relative to Sensex	3.9	8.3	(3.9)

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	-
Governance	63.6	63.6	-

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

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue		
EBITDA		
EPS		

Previous Reports

26-07-2023: [Q1FY24 results review](#)

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

Flattish margin performance is good. Lower non-par mix, higher ULIP offset by higher protection and volume leverage along with better product profile within segments; product pipeline is promising

Non-par mix reached highs of 28% in Q1FY23 driven by new product launch, which declined gradually to 22% in FY23. Q1/Q2 FY24 non-par mix was 19%/16%. Overall, non-par mix for H1FY24 was 17% versus 26% in H1FY23. VNB margin declined gradually in Q2FY24 to 28.5% vs 28.7% in Q1FY24.

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. Sustained strength in distribution is more important than margins.

Agency strength evident, as promised; in contrast to peers

Agency channel mix increased to 26.6% in Q2FY24, after falling to 24.8% in Q1FY24. Agency channel APE increased 45% on a QoQ-basis in Q2FY24 to INR 13.9bn. Q2FY24 saw strong additions of 16,000 agents (total agents stood at 236,978) and increase in productivity to INR 0.21mn per agent (INR 0.16mn per agent in Q1FY24). Total Agency business growth in H1FY24 was 23.6% versus 9.3/4.2% for HDFC Life/IPRU Life.

Key details

- 13th/25th month persistency declined 20/200bps YoY in Q2FY24 to 85.4/76.7% while 37th/49th/61st month persistency improved 140/90/720bps YoY to 73.6/71.2/57.5%.
- Solvency declined to 212 in H1FY24 from 215 in Q1FY24 and 219 in H1FY23.
- AUM increased 5%/22% QoQ/YoY in Q2FY24 to INR 3.4trn. Debt-equity mix stood at 68:32 while more than 95% of the debt investments are in AAA and sovereign instruments
- Renewal premium share of total premium declined 142bps to 51.8% in H1FY24 from 53.2% in H2FY24. On absolute basis Renewal premium increased 17% YoY in H1FY24 to INR 174bn versus INR 148bn in H1FY23.
- EV increased to INR 513bn in H1FY24, from INR 460bn in FY23.
- Sensitivity percentages
 - Overall sensitivity of EV to -1% change in interest rates increased from 3.3% in FY23 to 3.4% in H1FY24. Overall sensitivity of EV to +1% change in interest rates remained same at (3.7%).
 - Sensitivity of EV to decrease of 10% in equity markets remained same at (1.6%) in H1FY24.
- 60% of protection consists of GTI and credit life while 40% is retail, within which 85% is Return of Premium Variant.

Exhibit 1: Q2FY24 review

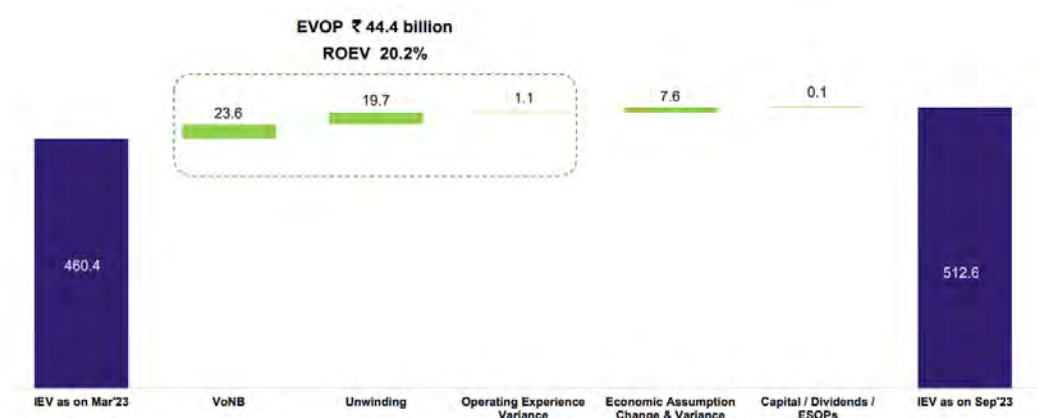
Policyholder's account (INR mn)	FY23				FY24		Change	
	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net premium income	1,10,360	1,64,773	1,91,708	1,98,969	1,31,045	2,00,497	21.7	53.0
First year premium	25,704	34,819	50,552	40,896	26,374	46,333	33.1	75.7
Renewal premium	57,577	91,240	1,09,083	1,19,370	73,480	1,01,211	10.9	37.7
Single premium	30,210	40,152	33,684	39,869	35,697	54,214	35.0	51.9
Reinsurance ceded								
Income from investments	(64,057)	1,10,367	74,430	11,861	1,45,789	85,074	(22.9)	(41.6)
Other income	108	113	130	149	86	115	2.3	34.5
Transfer from Shareholder's account	-	-	-	17,075	-	-		
Total income	46,411	2,75,252	2,66,267	2,28,054	2,76,920	2,85,686	3.8	3.2
Commission paid	5,076	7,118	8,452	8,714	5,212	7,959	11.8	52.7
First year premium	3,437	4,226	5,271	5,127	3,208	4,852	14.8	51.3
Renewal premium	1,277	2,347	2,599	3,031	1,547	2,536	8.1	64.0
Single premium	361	545	582	556	457	571	4.8	24.9
Operating expenses	7,657	8,546	9,139	10,017	9,398	11,162	30.6	18.8
Total commission & Opex	12,733	15,664	17,591	18,731	14,609	19,121	22.1	30.9
Benefits paid	51,717	76,367	83,559	91,232	71,034	1,00,445	31.5	41.4
Change in actuarial liability	(22,711)	1,77,323	1,59,375	96,043	1,85,197	1,59,708	(9.9)	(13.8)
Total Expenses	41,739	2,69,354	2,60,525	2,06,006	2,70,840	2,79,274	3.7	3.1
Provisions	(21)	(29)	100	79	(25)	98	(440.5)	(500.0)
Service Tax on linked charges	1,633	1,978	2,317	2,267	1,874	2,303	16.4	22.9
PBT	3,060	3,949	3,325	19,703	4,230	4,010	1.6	(5.2)
Tax	334	503	357	280	429	371	(26.2)	(13.5)
Surplus/(Deficit)	2,726	3,446	2,968	19,423	3,801	3,639	5.6	(4.3)
Shareholders' Account	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Amounts trf from P/H account	1,003	1,903	1,138	23,028	1,890	1,665	(12.5)	(11.9)
Income from investments	1,758	2,032	2,030	2,125	2,120	2,476	21.8	16.8
Other income	4	0	0	3	0	(0)	(125.0)	(200.0)
Total income	2,765	3,935	3,169	25,156	4,011	4,141	5.2	3.2
Other expenses	82	88	85	118	79	251	185.0	215.9
Amounts trf to P/H account	-	-	-	17,075	-	-		
Provisions	9	(20)	(24)	27	34	20	(204.6)	(40.0)
PBT	2,674	3,866	3,108	7,936	3,897	3,870	0.1	(0.7)
Tax	46	99	67	167	87	68	(31.4)	(22.0)
PAT	2,629	3,767	3,041	7,769	3,810	3,802	0.9	(0.2)
Ratios (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
Commission expense	4.5	4.3	4.4	4.4	3.8	3.9	(7.9)	2.6
Opex ratio	6.7	5.1	4.7	5.3	6.9	5.5	7.6	(20.2)
Ratios (%) (WRP basis)								
Commission expense	5.9	5.5	5.2	5.4	5.0	5.2	(4.9)	3.3
Opex ratio	8.9	6.6	5.6	6.5	9.1	7.3	11.1	(19.7)
Reported APE Data	Q1FY23	H1FY23	9MFY23	FY23	Q1FY24	H1FY24	YoY (bps)	QoQ (bps)
New business APE	29,000	68,200	1,22,600	1,68,200	30,300	52,300	4.5	(82.0)
Other ratios (%)								
Solvency ratio	221.0	219.0	225.0	215.0	215.0	212.0	(3.2)	(1.4)
VNB margins	30.3	31.1	29.6	30.1	28.7	28.5	(8.3)	(0.8)
Persistency ratios (%)								
13th Month	85.6	85.2	84.6	85.5	85.00	85.40	0.3	0.5
25th Month	78.7	77.5	76.3	75.6	76.10	76.70	(1.1)	0.8
37th Month	72.2	72.9	73.2	74.5	74.80	73.60	0.9	(1.6)
49th Month	70.3	70.3	70.1	70.3	70.40	71.20	1.3	1.1
61st Month	50.3	52.5	53.6	55.6	56.70	57.50	9.6	1.4
Key Metrics (INR bn)								
VNB	8.8	21.2	36.3	50.7	8.7	14.9	(29.7)	71.3
EV	-	424	-	460	-	513	20.9	
AUM	2,623	2,826	3,000	3,073	3,283	3,452	22.1	5.1

Source: I-Sec research, Company data

Exhibit 2: APE product and distribution mix trend

INR bn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q2FY24 YoY chg
Individual Savings	31.7	47.5	37.0	23.8	40.9	29%
- Par	2.4	2.4	3.0	2	2.3	-3%
- Non Par	9.3	9.6	10.4	5.8	8.6	-8%
- ULIP	20.1	35.5	23.7	15.9	30.2	50%
Individual Protection	2.2	2.6	3.0	2.10	2.1	-4%
Group Protection	2.3	2.0	2.5	1.60	4.9	113%
Annuity	1.3	1.4	1.6	1.30	1.6	23%
Group Savings	1.6	0.9	1.5	1.50	2.7	70%
Total APE	39.1	54.4	45.6	30.3	52.3	34%
Mix (APE terms) (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q2FY24 YoY chg.
Individual	87%	92%	88%	85%	82%	-434
Group	10%	5%	9%	10%	15%	461
VNB INR bn	12.40	15.10	14.40	8.70	14.90	20%
VNB Margin	31.7%	27.8%	31.6%	28.7%	28.5%	-320
Total APE Mix (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q4FY23 YoY chg. (bps)
Protection	11.5%	8.5%	12.1%	12.2%	13.4%	192
Savings						-
- Par	6%	4.4%	6.6%	6.6%	4.4%	-170
- Non Par	24%	18%	23%	19%	16%	-733
- ULIP	51%	65%	52%	52%	58%	638
Annuity	3%	2.6%	3.5%	4.3%	3.1%	-26
Group savings	4.1%	1.7%	3.29%	5.0%	5.2%	111
	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q2FY24 YoY chg.
Banca	24.9	37.9	27.3	19.8	30.1	21%
Agency	9.6	12.7	13.2	7.5	13.9	45%
Others	4.7	3.5	5.3	3	8.3	77%
Total APE	39.2	54.4	45.6	30.3	52.26	33%
Total Distribution mix	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q4FY23 YoY chg. (bps)
Banca	64%	69.7%	59.9%	65.3%	57.6%	-592
Agency	24%	23.3%	28.9%	24.8%	26.6%	211
Others	12%	6%	12%	10%	16%	389
Total APE	100%	100%	100%	100%	100%	-

Source: I-Sec research, Company data

Exhibit 3: EV Walk H1FY24 (INR bn)


Source: I-Sec research, Company data

Exhibit 4: EV projections

INR bn	FY22	FY23	FY24E	FY25E
Reported APE (INR bn)	142.9	168.1	198.4	228.1
% growth (YoY)	24.6%	17.7%	18%	15.0%
New Business Profits (Rsbn)	37.0	50.7	55.5	63.9
VNB Margin (%)	25.90%	30.2%	28.0%	28.0%
Embedded value (IEV)				
VNB (effective tax rate)	37.0	50.7	55.5	63.9
VNB Margin (effective tax rate)	25.90	30.2	28.0	28.0
Opening EV	333.9	396.30	460.8	556.7
Unwinding	27.3	34.1	36.9	44.5
- Unwinding rate	8.2%	8.6%	8.0%	8.0%
VNB	37.0	50.7	55.5	63.9
Operating experience variance	4.7	-	-	-
change in operating assumptions	(0.1)	5.8		
EVOP	68.9	90.6	92.4	108.4
Economic assumption change and variance	(4.5)	(24.0)	6.0	
Dividend paid / capital injection	(2.0)	(2.1)	(2.5)	(2.5)
Closing EV	396.3	460.80	556.7	662.6
Embedded Value per share (INR)	396.3	460.8	556.7	662.6
EV Profit, INR bn	62.4	64.5	95.9	105.9
RoEV (%)	18.7%	16.3%	20.8%	19.0%
EVOP as a % of EV	20.6%	22.9%	20.1%	19.5%
EVOP, INR bn	68.9	90.6	92.4	108.4
Core ROEV (%)	19.3%	21.4%	20.1%	19.5%

Source: I-Sec research, Company data

Exhibit 5: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	55.5	55.5	55.4
Institutional investors	40.2	40.4	40.5
MFs and others	11.1	10.6	10.9
Insurance Cos	2.7	2.2	2.0
FIIIs	26.4	27.6	27.6
Others	4.3	4.2	4.1

Source: Bloomberg, I-Sec research

Exhibit 6: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 7: Technical Account

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Gross Premiums	5,87,596	6,73,156	7,84,071	9,24,492
Reinsurance Ceded	(3,274)	(7,346)	(2,126)	(2,126)
Net Premiums	5,84,323	6,65,810	7,81,945	9,22,366
Income from Investments	2,35,680	1,32,601	2,00,460	2,20,375
Other Income	10,270	17,573	2,029	2,029
Total income	8,30,272	8,15,985	9,84,434	11,44,770
Commission	20,841	29,360	32,181	38,014
Operating expenses	30,487	35,360	47,857	56,436
Total commission and opex	51,327	64,720	80,038	94,450
Benefits Paid (Net)+ bonus	2,97,171	3,02,875	3,20,291	3,53,084
Chg in reserves	-	-	-	-
Total expenses	3,65,112	3,85,706	4,40,149	4,47,534
Prov for doubtful debts	16,614	18,111	39,821	51,116
PBT	11,95,384	12,01,691	14,24,583	16,43,421
Surplus / Deficit before tax	18,838	28,562	20,151	24,189
Tax (incl. Service Tax & GST)	-	-	-	-
Prov for Tax	-	-	-	-
Surplus / Deficit	36,162	55,633	20,151	24,189

Source Company data, I-Sec research

Exhibit 8: Shareholder's Account

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Transfer from technical a/c	17,324	27,072	14,783	17,805
Income From Investments	9,831	7,945	8,581	9,267
Total Income	27,208	35,024	23,371	27,080
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	21,326	25,035
Prov for Tax	548	379	640	751
PAT	15,060	17,198	20,686	24,284

Source Company data, I-Sec research

Exhibit 9: Balance Sheet

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Share Capital	10,004	10,009	10,009	10,009
Reserves And Surplus	1,04,181	1,19,237	1,36,923	1,58,206
Shareholders' Fund	1,16,223	1,30,175	1,47,954	1,69,340
Policy Liabilities	12,67,250	14,30,031	16,26,102	19,17,380
Prov. for Linked Liab.	11,74,871	14,07,214	17,08,624	20,83,032
Funds For Future App.	-	-	-	-
Current liabilities & prov.	62,515	64,537	60,759	69,556
Borrowings	-	-	-	-
Total	27,33,370	31,46,862	36,74,561	43,88,976
Shareholders' investment	1,00,758	1,12,087	2,92,343	3,49,960
Policyholders' investment	11,21,307	12,98,702	14,94,907	17,64,457
Assets to cover linked liab.	14,26,253	16,32,555	17,73,830	21,50,120
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	36,74,561	43,88,976

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	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	10.1	9.2
Solvency ratio (%)	205	215	-	-
Total AUMs (INR bn)	2,648	3,043	3,561	4,264.
(Equity (%))	24.0	24.0	24.0	24.0
Profitability ratios (%)				
VNB margin, basis effective tax rate (%)	25.9	30.2	28.0	28.0
RoE (%)	13.0	13.2	14.0	14.3
Core EVOP(unwind +VNB)	19.3	21.4	20.1	19.5
EVOP as % of IEV	20.6	22.9	20.1	19.5
RoEV (%)	18.7	16.3	20.8	19.0
Valuation ratios				
Dividend per share (Rs)	2.0	3.0	3.0	3.0
Dividend payout ratio (%)	13.3	17.4	14.5	12.35
EPS (INR)	15.0	17.2	20.7	24.3
VNB (INR bn)	37.0	50.7	55.5	63.9
EV (INR bn)	396.3	460.8	556.7	662.6
VIF (INR bn)	270.1	320.7	398.8	483.3
ANW (INR bn)	126.2	140.1	157.9	179.3
VIF as % of EV	126.2	140.1	157.9	179.3
EV per share (INR)	395.9	460.4	556.2	662.0
P/EV (x)	3.3	2.8	2.3	2.0
P/EPS (x)	86.6	75.8	63.0	53.7

Source Company data, I-Sec research

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