

BUY **SBI Life****In-line performance**

BFSI ▶ Result Update ▶ January 26, 2024

TARGET PRICE (Rs): 1,750

SBI Life reported a broadly in-line 9MFY24 performance, with APE coming ~2% above our estimates, while VNB margin logging at 28.1%, lower by ~0.4ppts, leading to 9M VNB of Rs40.4bn (in line with our estimate). Overall, the 9M VNB margin of 28.1% and VNB growth of 11% YoY are best-in-class among peers and are a testimony to Company's strength in brand and distribution, coupled with its cost leadership. Despite the increase in share of ULIPs in the APE products mix (+4.7ppts YoY in 9M), the company contained the VNB margin compression to 1.5ppts. Management expects SBI Life to clock robust growth in the medium term, growing above the industry rate, and VNB margins to track at around 28% for FY24, depending on the product mix. Baking-in the Q3FY24 developments, we tweak our FY24-26 estimates which results in a ~1% cut in VNB. We reiterate our BUY rating on the stock, with unchanged Dec-24E TP of Rs1,750/share (implying a FY25 P/EV of 2.7x).

SBI Life: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	587,596	673,156	787,646	900,679	1,027,649
APE	143,000	168,100	195,998	220,952	250,094
VNB	37,000	50,700	54,901	61,807	70,065
VNB margin (%)	25.9	30.1	28.0	28.0	28.0
APE growth (%)	24.9	17.6	16.6	12.7	13.2
VNB growth (%)	39.1	37.0	8.3	12.6	13.4
Adj. EPS (Rs)	15.1	17.2	19.7	22.3	25.5
EV	396,269	460,369	553,965	660,950	783,264
EVOP	56,700	90,440	95,596	108,985	124,315
Op. RoEV (%)	16.4	22.8	20.8	19.7	18.8
EVPS (INR)	396.2	460.1	553.6	660.5	782.8
P/EV (x)	3.5	3.0	2.5	2.1	1.8
P/EVOP (x)	30.9	19.4	18.3	16.1	14.1

Source: Company, Emkay Research

Satisfactory performance; best in class VNB margin and VNB growth

SBI posted a robust 17.4% APE growth during 9MFY24 to Rs143.9bn (Emkay: Rs140.8bn), driven by 27% YoY growth in the ULIP business against the backdrop of strong equity market movement. The company logged VNB margin of 28.1% for 9MFY24 (9MFY23: 29.6%), led by 27.4% VNB margin for Q3FY24 vs. our estimate of 27.8%. The YoY dip in margin was driven by higher share of ULIPs which was offset by repricing in several non-par products. SBI Life's PAT for 9MFY24 grew 14.8% YoY to Rs10.8bn – a 2.7% miss on our estimate; but Q3FY24 PAT came in at Rs3.2bn vs. our estimate of Rs3.5bn. The company witnessed slight elevation in commissions owing to higher sales of long-term plans vs. short-term plans in the non-par segment. Persistency improved across cohorts, whereas the surrender ratio saw some elevation on account of higher discontinuation in certain cohorts of ULIPs with no surrender charges.

Strong execution and brand value continue to drive the robust performance

SBI Life has delivered a consistent performance, in terms of robust APE growth and sustained margin delivery (with relatively limited volatility), despite the regulatory shocks and changing customer demand. While the share of ULIPs in the APE product mix increased to 61% in 9M (+4.7ppts YoY), the management is focused on growing the non-par and protection business. In the group protection segment, Group Term Life witnessed faster growth, while the company plans to launch several online products, with aim to grow the retail protection business. Given a strong brand, widespread distribution network, and low-cost advantage, SBI Life is on the right track to register better-than-industry growth and superior VNB margin. Management has guided to 18% APE growth during FY24, and VNB margin to stand out, at around 28%.

We reiterate BUY, with unchanged TP of Rs1,750/share

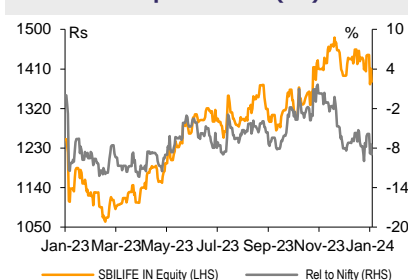
Accounting for the Q3FY24 developments, we tweak our FY24-26 estimates that results in 1-1.5% increase in APE estimates and a 0.5-0.7ppts cut in VNB margin, leading to ~1% cut in VNB estimates. We reiterate our BUY rating on the stock, with unchanged Dec-24E TP of Rs1,750/share (implying FY25E P/EV of 2.7x). SBI Life's superb execution by leveraging on its brand, distribution and cost advantage to sell products that meet customer & channel demand make it our preferred pick in the sector, where it is strongly positioned to respond to any changing regulations or customer preference.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.7
CMP (25-Jan-24) (Rs)	1,380.9

Stock Data	Ticker
52-week High (Rs)	1,495
52-week Low (Rs)	1,039
Shares outstanding (mn)	1,001.2
Market-cap (Rs bn)	1,383
Market-cap (USD mn)	16,635
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,760.0
ADTV-3M (USD mn)	21.2
Free float (%)	-
Nifty-50	21,353
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	55.4
FPIs/MFs (%)	25.9/14.6

Price Performance

(%)	1M	3M	12M
Absolute	(1.0)	5.1	9.8
Rel. to Nifty	(1.0)	(5.9)	(8.0)

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

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Exhibit 1: 9M/Q3FY24 Financial Performance

(Rs bn)	9MFY24	9MFY23	% YoY	9MFY24E	% Var	Q3FY24	Q3FY23	% YoY	Q3FY24E	% Var
Annualised Premium Equivalent (APE)	143.9	122.6	17.4	140.8	2.2	61.3	54.3	13	58.2	5.33
--o/w Savings	124.2	106.9	16.2	-		55.2	48.3	14		
--o/w Protection	15.2	12.3	23.6	-		4.5	4.6	(2)		
Protection APE (% of total APE)	10.6	10.0	0.5ppt	-		7.34	8.47	(1)		
Value of New Business	40.4	36.3	11.3	40.1	0.7	16.8	15.1	11.3	16.5	1.65
New Business Margin (%)	28.1	29.6	-1.5ppt	28.5	-0.4ppt	27.4	27.8	-0.4ppt	28.4	-0.99ppt
Individual New Business WRP	127.9	111.4	14.8			57.3	50.9	13		
Total New Business Premium	260.0	215.1	20.9			97.4	84.2	16		
Renewal premium	301.9	257.9	17.1			127.2	109.1	17		
Gross written premium	561.9	473.0	18.8			224.6	193.3	16		
PAT	10.8	9.4	14.8	11.1	-2.7	3.2	3.0	6	3.5	(8.67)
AUM	3,714	3,000	23.8	3,631	2.3	-	-	-		
SH Equity	144.3	125.8	14.7	-		-	-	-		
13th month persistency (%)	85.3	84.6	0.8ppt	-		-	-	-		
49th month persistency (%)	71.6	70.1	1.5ppts	-		-	-	-		
61st month persistency (%)	58.1	53.6	4.5ppts	-		-	-	-		
Solvency ratio (%)	209.0	225.0	-16ppt	-		-	-	-		

Source: Company, Emkay Research

Exhibit 2: Appraisal methodology-based valuation for SBI Life

Parameter (Rs bn)	Value
FY24E-39E APE CAGR	9.5%
FY24E-39E VNB CAGR	9.3%
Terminal growth rate	4.0%
Cost of Equity	13.0%
FY25 EV	661
Present value of future new business	1,135
Appraisal value - Mar-25	1,800
Share count (mn)	1,001
Appraisal value per share (Rs) - Mar-25E	1,798
Target Price - Dec-24E (Rs)	1,750

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for SBI Life

Appraisal value multiple on FY25 estimates	Rs1,750/sh
P/EV	2.7x
RoEV (%)	19.7
P/EVOP	16.1x
Implied FY25E VNB multiple	17.6x
Current price multiple on FY25 estimates	Rs1,381/sh
P/EV	2.1x
RoEV (%)	19.7
P/EVOP	12.7x
Implied FY25E VNB multiple	11.7x

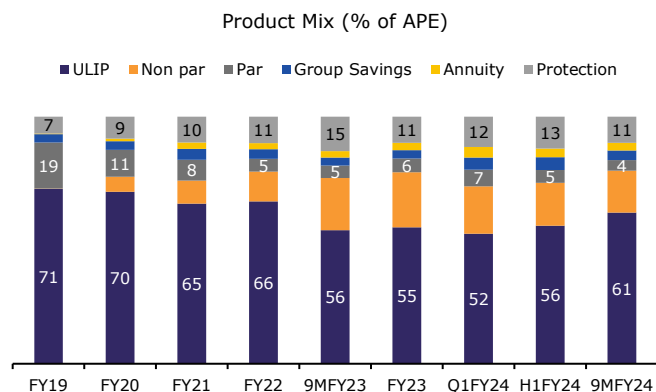
Source: Company, Emkay Research

Exhibit 4: Changes in Estimates

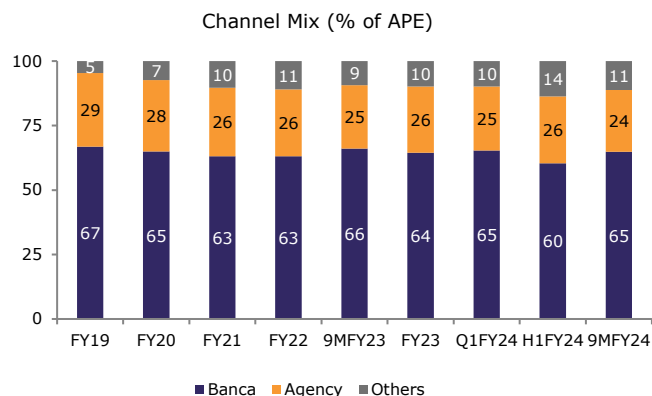
(Rs bn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	194.8	196.0	0.6	219.4	221.0	0.7	246.4	250.1	1.5
VNB	55.5	54.9	-1.1	62.5	61.8	-1.1	70.8	70.1	-1.1
VNB Margin (%)	28.5	28.0	-0.5ppt	28.5	28.0	-0.5ppt	28.7	28.0	-0.7ppt
EVOP	97.1	95.6	-1.6	110.5	109.0	-1.3	126.2	124.3	-1.5
EV	550.5	554.0	0.6	659.0	660.9	0.3	783.2	783.3	0.0
PAT	20.4	19.8	-3.2	23.3	22.4	-4.2	26.7	25.5	-4.3

Source: Company, Emkay Research

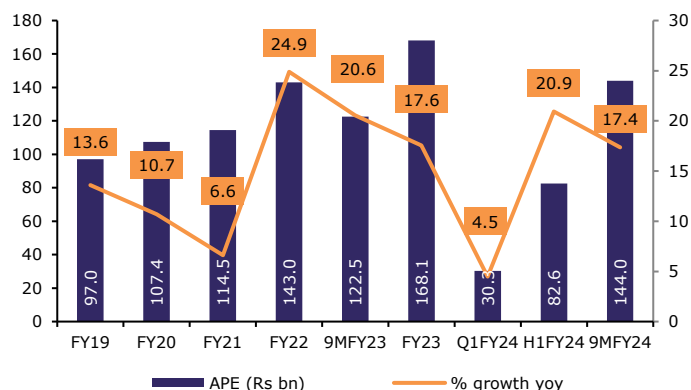
Story in Charts

Exhibit 5: ULIP dominates the APE product mix at 61%


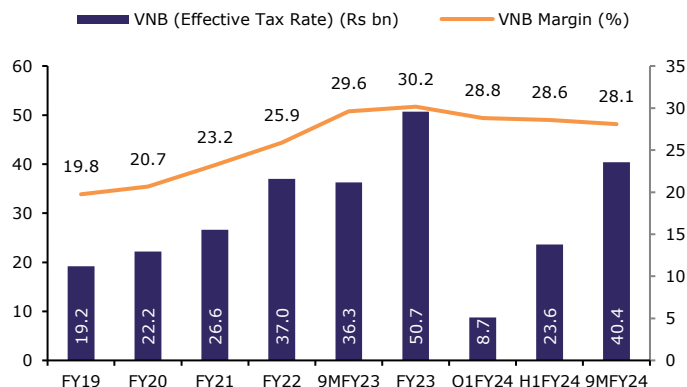
Source: Company, Emkay Research

Exhibit 6: Banca channel share grows sequentially to 65% during 9MFY24


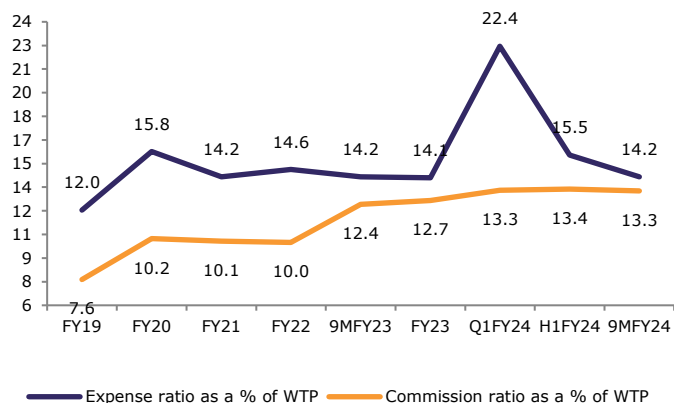
Source: Company, Emkay Research

Exhibit 7: SBI Life's APE grows 17.4% during 9MFY24


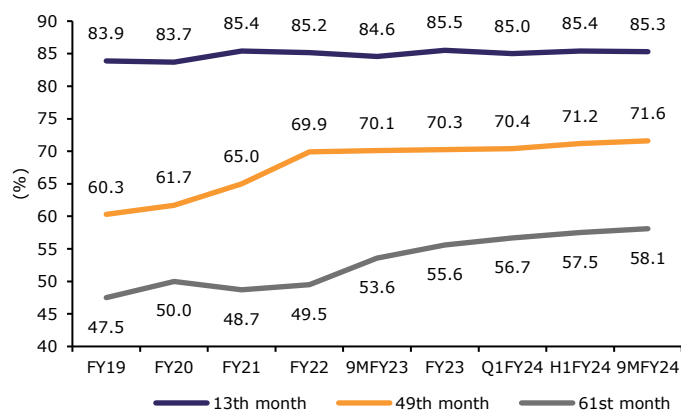
Source: Company, Emkay Research

Exhibit 8: Despite higher share of ULIP, VNB margin stood at 28.1%


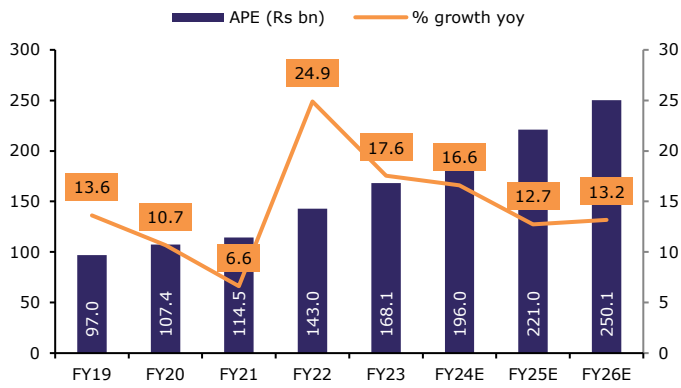
Source: Company, Emkay Research

Exhibit 9: Expense ratio moderates sequentially to 14.2% during 9MFY24


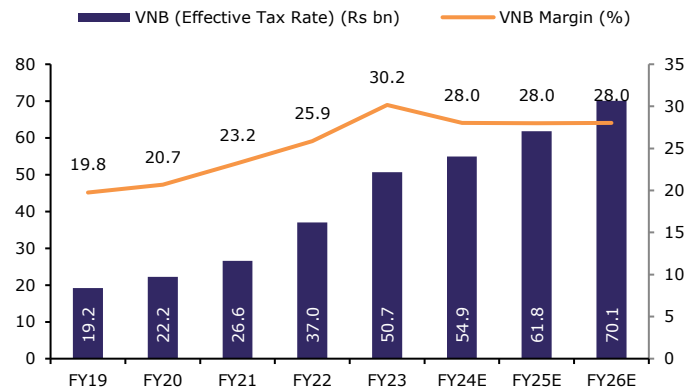
Source: Company, Emkay Research

Exhibit 10: Persistency improves across cohorts during 9MFY24


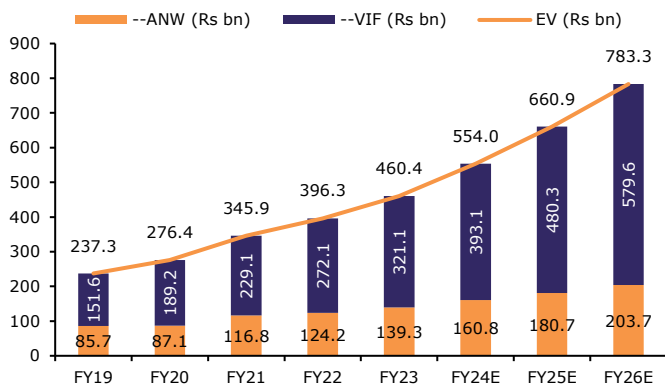
Source: Company, Emkay Research

Exhibit 11: APE expected to grow 16.6% during FY24E

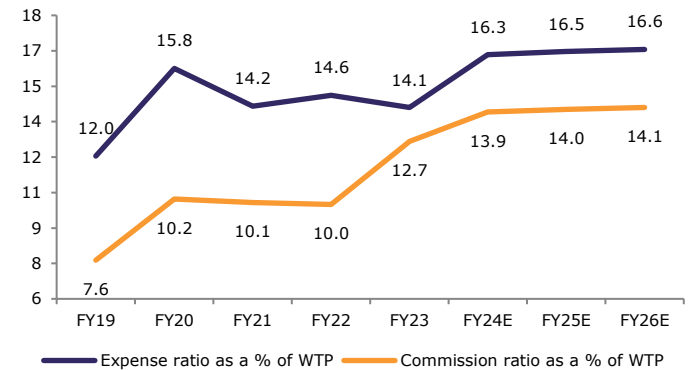
Source: Company, Emkay Research

Exhibit 12: VNB margin likely to remain around 28%

Source: Company, Emkay Research

Exhibit 13: SBI Life expected to deliver EV of Rs783bn by FY26E

Source: Company, Emkay Research

Exhibit 14: Operating expenses likely to rise in FY24E

Source: Company, Emkay Research

Earnings Conference Call Highlights

- SBI Life aims to provide comprehensive insurance products to fulfill customer's unique needs through personalized solutions.
- The company launched 2 new 'Return of Premium Term' (ROP) products offering higher sum assured at affordable prices. Management believes margins for the particular products would remain in the same range as those of the existing products.
- The shift in VNB margins is largely on account of increase in share of ULIPs.
- Agency channel grew 15% during 9MFY24. Agency continues to be a focus area. The management expects agency performance to improve in Q4FY24.
- Around 39% of the business is from Rural and Semi-Urban areas. SBI has many branches in these areas and, hence, the management does not see competitive intensity rising, with other private players tapping tier 2/3 markets. Management remains focused on increasing the agent-count and active branches of SBI.
- Management does not have any concern with respect to the proposed draft for product regulation regarding the change in surrender value. Management expects the regulator to take a balanced view, keeping in mind the persistency of products.
- Management expects Individual Protection to grow well in the fourth quarter. The group term insurance product is growing at a faster pace, leading growth in the group protection segment.
- There has been no significant change in the commission structure in the agency channel.
- The objective is to offer a long-term sustainable rate to the policyholder and maintain the margin. Non-par share in the APE product mix is lower than peers' and, hence, the change in surrender value should not affect SBI Life much.
- SBI Life is working on launching some products in the Non-Par savings products vertical.
- Management said that the company is not looking to increase the commission structure in the near future, as the existing commission structure is showcasing good growth for the company.
- There is a shift in Non-Par products, from short-term to long-term plans, thus resulting in increased commission ratios for the first year.
- Penetration in the Banca channel is less than 2% and, so, there is a huge growth opportunity which will also result in increased productivity per branch.
- There has been some margin enhancement in certain products.
- Management reiterated its guidance for around 28% margin in FY24.
- Total new business in the life insurance industry is a fraction of that of total deposits; hence, the management does not see any risk on growth in life insurance premiums.
- SBI Life has the lowest number of miss-selling complaints. With the opportunity available in the banca channel, the growth rate will endure. There has been no major change in growth trends in the agency/banca channels during Jan-24.
- Management expects SBI Life to end the financial year with an APE growth in the 17-18% range.
- There is no change in the cost structure of the business. There has been some increase in costs on account of infrastructure, digital adoption, and increase in employee headcount.
- Company focus is on the product mix. Q3FY24 saw good traction in ULIPs and the Non-Par segment. Management will continue to focus on non-par savings products as well as protection products in the mid-term.

SBI Life: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross premium	587,596	673,156	787,646	900,679	1,027,649
Net premium	584,323	665,810	779,769	891,672	1,017,373
Investment income	235,680	132,601	306,714	313,883	371,327
Other income	10,270	17,573	12,452	8,867	6,358
Total revenue	830,272	815,985	1,098,935	1,214,421	1,395,057
Commission expense	21,583	30,625	38,986	44,580	50,865
Operating expense	29,745	34,095	45,779	52,348	59,728
Benefits paid (net)	312,381	302,875	335,308	408,669	485,410
Change in reserves	437,619	410,031	646,356	676,132	765,513
Total expenses	811,434	787,422	1,077,751	1,194,678	1,376,289
Surplus/Deficit	18,838	28,562	21,185	19,744	18,768
Trf from policyholders' acct	17,324	27,072	20,185	18,744	17,767
Shareholders' results	(1,717)	(9,487)	294	4,425	8,665
PBT	15,607	17,584	20,478	23,169	26,432
Tax expense	548	379	717	811	925
Reported PAT	15,060	17,206	19,762	22,358	25,507
PAT growth (%)	3.4	14.2	14.9	13.1	14.1
Adjusted PAT	15,060	17,206	19,762	22,358	25,507
Diluted EPS (Rs)	15.1	17.2	19.7	22.3	25.5
Diluted EPS growth (%)	3.4	14.2	14.9	13.1	14.1
DPS (Rs)	2.0	2.5	2.5	2.5	2.5
Dividend payout (%)	13.3	14.5	12.7	11.2	9.8
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	143,000	168,100	195,998	220,952	250,094
VNB	37,000	50,700	54,901	61,807	70,065
VNB margin (%)	25.9	30.1	28.0	28.0	28.0
APE growth (%)	24.9	17.6	16.6	12.7	13.2
VNB growth (%)	39.1	37.0	8.3	12.6	13.4
Operating ratios (%)					
NB commission/APE	8.6	12.0	NA	NA	NA
Commissions/TWRP	4.5	5.6	6.2	6.2	6.3
Total exp ratio/TWRP	6.3	6.3	7.3	7.3	7.3
Conservation ratio	83.3	81.6	81.6	81.6	81.6
Solvency ratio	205.0	215.0	NA	NA	NA
RoE	15.2	13.7	14.0	14.3	14.3
Historical metrics					
APE mix (%)	FY22	FY23	FY24E	FY25E	FY26E
A. Retail protection	6.4	5.8	NA	NA	NA
B. Group protection	3.1	3.6	NA	NA	NA
C. Savings - individual	0.0	0.0	NA	NA	NA
Par	5.2	5.7	NA	NA	NA
Non-Par	12.0	22.3	NA	NA	NA
ULIP	65.8	55.3	NA	NA	NA
D. Group Savings	3.8	3.3	NA	NA	NA
Persistence ratios (%)					
13th Month	85.2	85.5	NA	NA	NA
49th Month	69.9	70.3	NA	NA	NA

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	104,181	119,237	135,903	155,759	178,764
Net worth	116,223	130,175	146,842	166,698	189,702
Borrowings	0	0	0	0	0
Policy liabilities	1,097,590	1,301,319	1,566,072	1,862,898	2,198,096
Prov for linked liab.	1,344,530	1,535,926	1,870,509	2,262,882	2,707,193
FFA	9,936	11,427	13,713	16,455	19,747
Current liabilities & prov	51,298	50,996	63,608	76,205	90,232
Total liabilities & equity	2,682,072	3,095,866	3,761,174	4,459,904	5,251,713
Shareholders' investment	100,758	112,087	126,438	143,535	163,343
Policyholders' investment	1,121,307	1,298,702	1,582,842	1,880,072	2,216,594
Assets to cover linked liab.	1,426,253	1,632,555	1,989,738	2,363,375	2,786,406
Current assets	76,157	94,413	114,702	136,011	160,159
Total assets	2,682,072	3,095,866	3,761,174	4,459,904	5,251,713
BV/share (INR)	116.2	130.1	146.7	166.5	189.5
EV/share (INR)	396.2	460.1	553.6	660.5	782.8
EVOP/share (INR)	56.7	90.4	95.5	108.9	124.2
Embedded value	396,269	460,369	553,965	660,950	783,264
ANW	124,192	139,253	160,842	180,698	203,702
VIF	272,077	321,116	393,124	480,252	579,562
VIF share in EV (%)	68.7	69.8	71.0	72.7	74.0
Total AUM	2,673,177	3,086,761	3,750,113	4,446,789	5,236,269
Investment yield (%)	10.2	4.9	9.5	8.1	8.1
Yield on PH funds (%)	10.1	4.8	9.4	8.0	8.0
Yield on SH funds (%)	10.5	7.5	10.4	9.6	9.6

Source: Company, Emkay Research

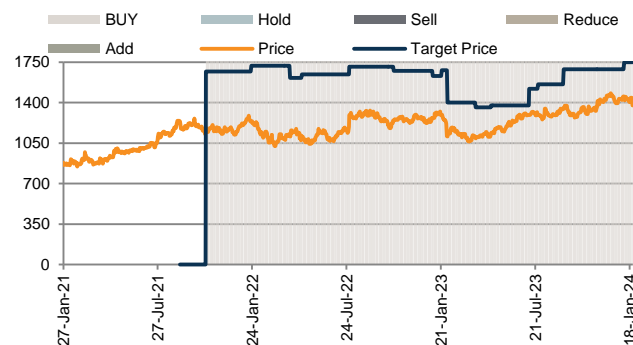
Valuation & key ratios					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	91.7	80.3	69.9	61.8	54.2
P/B (x)	11.9	10.6	9.4	8.3	7.3
P/EV (x)	3.5	3.0	2.5	2.1	1.8
P/EVOP (x)	30.9	19.4	18.3	16.1	14.1
Implied P/VNB (x)	28.0	19.4	16.8	13.4	10.3
Dividend yield (%)	0.1	0.2	0.2	0.2	0.2
EV account and RoEV					
Opening EV	346,069	396,269	460,369	553,965	660,950
Premium unwind	27,300	34,100	38,695	45,177	52,250
VNB	37,000	50,700	54,901	61,807	70,065
Operating variance	(7,700)	5,640	2,000	2,000	2,000
EVOP	56,700	90,440	95,596	108,985	124,315
Investment variance	(4,500)	(24,240)	0	0	0
Capital movement	(2,000)	(2,100)	(2,000)	(2,000)	(2,000)
Closing EV	396,269	460,369	553,965	660,950	783,264
Change in EV	50,200	64,100	93,596	106,985	122,315
RoEV (%)	15.6	16.7	20.8	19.7	18.8
Operating RoEV (%)	16.4	22.8	20.8	19.7	18.8
EVOP growth (%)	12.9	59.5	5.7	14.0	14.1
EV growth (%)	14.6	16.2	20.3	19.3	18.5
Core operating RoEV (%)	16.4	22.8	20.8	19.7	18.8
Unwind rate (%)	7.9	8.6	8.4	8.2	7.9
VNB-to-opening EV (%)	10.7	12.8	11.9	11.2	10.6

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Jan-24	1,449	1,750	Buy	Avinash Singh
07-Jan-24	1,454	1,750	Buy	Avinash Singh
28-Dec-23	1,435	1,690	Buy	Avinash Singh
18-Dec-23	1,447	1,690	Buy	Avinash Singh
07-Dec-23	1,456	1,690	Buy	Avinash Singh
30-Nov-23	1,435	1,690	Buy	Avinash Singh
07-Nov-23	1,341	1,690	Buy	Avinash Singh
29-Oct-23	1,303	1,690	Buy	Avinash Singh
09-Oct-23	1,277	1,690	Buy	Avinash Singh
04-Oct-23	1,271	1,690	Buy	Avinash Singh
13-Sep-23	1,346	1,690	Buy	Avinash Singh
08-Sep-23	1,341	1,560	Buy	Avinash Singh
21-Aug-23	1,279	1,560	Buy	Avinash Singh
09-Aug-23	1,349	1,560	Buy	Avinash Singh
26-Jul-23	1,293	1,560	Buy	Avinash Singh
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

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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