SBI Life Insurance Company

Life Insurance

Product launches provide near-term VNB lever; structural advantages should help retain valuation premium

We remain constructive on SBI Life Insurance (SBLI) basis strength in its distribution and cost structure. While these business moats remain extremely relevant, the wide customer base also makes SBLI least vulnerable to regulatory changes in terms of lower tax exemptions or higher surrender value. This along with the track record of delivering core RoeV of ~20% or more for the last five years makes it one of the better candidates for multiple rerating. Near-term levers include margin-accretive product launches in retail protection and improved traction in SBI digital channel (YONO). Maintain **BUY**. Key risks: Any adverse change in distribution and cost equations under open architecture regime.

Retain BUY; revised TP of INR 1,978 (earlier INR 1,795) based on 2.4x (earlier 2.2x) FY26E EV

We factor in VNB margin of 28% and model 18% APE growth, in FY25/26E. This results in EV of INR 824bn with core RoEV of 19.3% in FY26E. We value the stock based on 2.4x FY26E EV per share to arrive at our TP of INR 1,978 (from INR 1,795). The increase in multiple is based on industry leading RoEV performance, low impact of increase in surrender value and low impact of tax exemption on insurance premiums and income (every year there is incremental push by the government to move to new tax regime devoid of any exemption). Strength in cost structure and distribution remain key business moats while focus on improving product mix could increase VNB growth in H2FY25. It has also voluntarily introduced an internal ombudsman to monitor claim settlement and mis-selling which should boost policyholder confidence.

Retail protection is focus area basis new product launches in H2FY25

SBLI's protection APE declined 19% YoY in Q1FY25 due to 30%/5% YoY decline in individual/group protection. This is in contrast to trends seen in peers. Multiple new product launches for different segments (higher sum assured, simplified 3 click journey and competitive pricing) expected in retail protection should boost growth and margins ahead. These products will be launched in close collaboration with the digital platform of SBI (YONO) which has significant penetration potential.

Financial Summary

Y/E March (INR bn)	FY23A	FY24A	FY25E	FY26E
Reported APE	168.1	197.2	232.7	274.6
Embedded Value	460.8	582.5	692.9	824.1
New value business	50.7	55.5	65.2	76.9
VNB margin (%)	30.2	28.1	28.0	28.0
P/EV (x)	3.5	2.8	2.4	2.0
EVOP as % of IEV	22.9	21.8	19.4	19.3
RoEV (%)	16.3	26.5	19.0	18.9
Core RoEV (%)	21.4	20.3	19.4	19.3

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Market Data

Market Cap (INR)	1,636bn
Market Cap (USD)	19,537mn
Bloomberg Code	SBILIFE IN
Reuters Code	SBIL BO
52-week Range (INR)	1,665 /1,251
Free Float (%)	45.0
ADTV-3M (mn) (USD)	25.7

Price Performance (%)	3m	6m	12m
Absolute	11.8	15.8	24.0
Relative to Sensex	3.3	3.0	3.2

Previous Reports

29-04-2024: Q4FY24 results review
28-01-2024: Q3FY24 results review

Margin declines YoY/QoQ in Q1FY25 due to change in product mix and adverse impact of non-par pricing

The margin dip is primarily on account of a shift in product mix towards unit-linked and some impact of yield movement of non-par which was unfavourably absorbed by the company instead of being passed on to customers and lower growth in protection. Management highlighted that saving product margins are almost stable.

- During Q1FY25, individual savings contributed 84% of total APE. Share of ULIP increased from 52% in Q1FY24 to 61% in Q1FY25, while that of par reduced from 7% in Q1FY24 to 4% in Q1FY25, and non-par mix remained stable. Protection APE's share stood at 8% (vs 12% in Q1FY24), annuity was 3% and group savings was 4% in total APE mix. Overall, APE grew 20% YoY in Q1FY25 to INR 36.4bn. Within individual savings, ULIPs grew strong at 40% YoY while non-par grew 21% YoY in Q1FY25.

- Protection APE reported a decline of 19% YoY due to a decline in both individual and group protection. Credit term business is getting negotiated during the course of the year. Credit Life NBP has grown 6% YoY and stands at INR 4.7bn. There is an uptick in housing loan side which should lead to better growth going forward. In addition to that, with new protection products on individual as well as group term basis, company will be targeting education loan customers.

- Annuity APE declined 8% YoY and group savings grew 7% YoY in Q1FY25. Individual annuity contributes 90% of total annuity business. Group annuity is bulky business and SBIL's rates are competitive; in coming quarters, company will be going for larger deals.

Guidance maintained for industry-leading growth

SBIL has reported overall industry-leading growth over the years and that trajectory is likely to continue, as per the management (in FY24, total APE grew 17% vs growth of 8.5% for private industry). For FY25, management has guided for high teens growth (~18% to 20%) with VNB margin of ~28%. Management expects product mix improvement to compensate for any marginal loss in profitability due to hike in surrender value.

Agency performance remains strong, bancassurance performance may bounce back in Q2/Q3

For Q1FY25 APE basis, agency business contributed 30%, other channels contributed 11% and bancassurance contributed 59% of overall APE. Agency and banca channels have grown 45%/9% YoY in Q1FY25 while other partnerships have grown 28% YoY.

- SBI Life has strong presence, with 48-50% business from tier-2/3 cities and presence of SBI is high in these geographies. The company has not seen much competition in these regions as overall industry is having robust growth.

- Management highlighted that there is strong seasonality in banca channel with second and third quarters being strong. As such, bancassurance is likely to bounce back, aided by new product launches in protection segment on YONO app as it is a simplified product (3 click journey) with competitive pricing. Continuing strong growth in ULIP should also boost growth in banca channels.

- The company continues to be the lowest cost player in the industry and does not want to alter the commission cost as of now (expense ratio stood at 10.5% in Q1FY25 vs 10.8% in Q1FY24).

- It does not offer differentiated products in agency and banca channel and as such products and features remain common.

- Growth in agency channel was driven by increased focus with launch of Agency 2.0 aimed at improving productivity, infrastructure, opening more branches, employing more agents and increasing agent productivity. Agent productivity for Q1FY25 stands at INR 0.17mn on individual APE basis, reporting growth of 27% YoY. It added 11,188 agents during the quarter, totalling 2,57,266 agents counts, growth of 15% YoY.
- SBI branch productivity stood at INR 3.5mn in Q1FY25, growth of 14% YoY.
- Other channels, which grew 28% YoY in Q1FY25, represent other banca relationships (ex-SBI), corporate agents, brokers and online channels. It has seen good growth in online and other partner channels; there has been subdued growth for some bank partners, growth is likely to return in remaining quarters of FY25. The direct channel, corporate agents, online and web aggregators grew by 61% in terms of NBP and 38% in individual new business.

Product pipeline is promising

- To improve protection business, company has collaborated with SBI and depending on data analytics on SBI database, it is going to offer a new product on digital platform i.e. YONO app, this will be simpler product based on data analytics and pre-approved sum assured with competitive rates.
- Further, company is also designing a product for ultra HNI segment where higher sum assured is needed and the product is likely to launch in Aug'24.
- Company is planning to revamp par as well as non-par businesses with new products. It has adopted segment-wise approach based on different geographies and customers. For example, it has identified child segment and is planning to introduce child products in all the three major segments- par, non-par and UL.
- Additionally, it will be revamping rider portfolio, launching extended rider and other protection riders to provide complete solutions to customers.

Key details

- 13th/25th/49th/61st month persistency improved to 86.5%/77.5%/73.0%/59.0% in Q1FY25, from 85.0%/76.1%/70.4%/56.7% in Q1FY24, while 37th month persistency declined to 71.7%, from 74.8% for the same period due to covid year impact.
- Solvency declined to 201% in Q1FY25 from 215% in Q1FY24.
- AUM increased 26% YoY in Q1FY25 to INR 4.1trn. Debt-equity mix stood at 62:38 while more than 95% of debt investments are in AAA and sovereign instruments.
- Renewal premium share of total premium slightly increased to 54.8% in Q1FY25, from 54.2% in Q1FY24. On an absolute basis, renewal premium increased 16% YoY in Q1FY25 to INR 85.4bn vs INR 73.5bn in Q1FY24.

Regulations

- Management highlighted it will be least affected by new regulations on surrender value (non-par mix is 19% of total APE) and is not planning to change commission structure for corporate and individual agents. As per management, company's surrender value is higher than the regulatory requirement and as such there will be less impact except for impact coming in year one.
- Measures like special surrender value, increase in free look-in period, long against policies for all non-linked savings, offering surrender value and robust processes to address customer grievances will further increase insurance penetration.

- Mis-selling ratio stands at 0.04%, lowest in the industry. To further strengthen the customers grievances, company has created the position of ombudsman internally and hired industry veteran to set a new benchmark in customer satisfaction.

- On composite licensing, management believes life and general businesses are different based on risk, asset-liability management, while distribution channel and certain other things have synergies. Parent bank has company in general insurance, as and when composite license comes, parent bank will take a call depending on market conditions.

Exhibit 1: Q1FY25 result review

Policyholder's account (INR mn)	FY24				FY25		
	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Net premium income	**1,31,045**	**2,00,497**	**2,23,165**	**2,51,165**	**1,51,055**	15.3	(39.9)
First year premium	*26,374*	*46,333*	*56,767*	*45,283*	*31,464*	19.3	(30.5)
Renewal premium	*73,480*	*1,01,211*	*1,27,200*	*1,30,033*	*85,387*	16.2	(34.3)
Single premium	*35,697*	*54,214*	*40,620*	*77,096*	*38,870*	8.9	(49.6)
Reinsurance ceded							
Income from investments	1,45,789	85,074	1,64,686	1,08,117	1,92,835	32.3	78.4
Other income	86	115	183	118	31	(64.2)	(73.9)
Trf from Sh.holder's account	-	-	-	16,276	-		
Total income	**2,76,920**	**2,85,686**	**3,88,034**	**3,75,675**	**3,43,921**	**24.2**	**(8.5)**
Commission paid	5,212	7,959	9,366	8,514	5,689	9.2	(33.2)
First year premium	3,208	4,852	5,725	4,689	3,472	8.2	(26.0)
Renewal premium	1,547	2,536	3,046	3,277	1,748	13.0	(46.6)
Single premium	457	571	596	548	469	2.6	(14.4)
Operating expenses	9,398	11,162	12,511	8,251	10,715	14.0	29.9
Total commission & Opex	**14,609**	**19,121**	**21,877**	**16,764**	**16,404**	**12.3**	**(2.2)**
Benefits paid	71,034	1,00,445	1,11,361	1,48,233	98,292	38.4	(33.7)
Change in actuarial liability	1,85,197	1,59,708	2,48,641	1,90,769	2,20,325	19.0	15.5
Total Expenses	**2,70,840**	**2,79,274**	**3,81,879**	**3,55,766**	**3,35,021**	**23.7**	**(5.8)**
Provisions	(25)	98	(295)	28	(167)		
Ser Tax on linked charges	1,874	2,303	2,664	2,634	2,271	21.1	(13.8)
PBT	4,230	4,010	3,784	17,247	6,796	**60.7**	**(60.6)**
Tax	429	371	409	148	615	43.3	316.0
Surplus/(Deficit)	**3,801**	**3,639**	**3,375**	**17,099**	**6,181**	**62.6**	**(63.9)**
Shareholders' Account	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**YoY (%)**	**QoQ (%)**
Amounts trf from P/H account	1,890	1,665	848	21,573	2,752	45.6	(87.2)
Income from investments	2,120	2,476	2,474	3,270	2,648	24.9	(19.0)
Other income	0	(0)	-	-	2		
Total income	**4,011**	**4,141**	**3,323**	**24,843**	**5,401**	**34.7**	**(78.3)**
Other expenses	79	251	67	118	84	5.7	(28.8)
Amounts trf to P/H account	-	-	-	16,276	-		
Provisions	34	20	(34)	86	(38)		
PBT	**3,897**	**3,870**	**3,290**	**8,364**	**5,355**	**37.4**	**(36.0)**
Tax	87	68	73	256	160	83.6	(37.5)
PAT	**3,810**	**3,802**	**3,218**	**8,108**	**5,195**	**36.3**	**(35.9)**
Ratios (%) : Calc. on unwtd premiums	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**YoY (bps)**	**QoQ (bps)**
Commission expense	3.8	3.9	4.2	6.9	3.7	(19)	(323)
Opex ratio	6.9	5.5	5.6	6.7	6.9	(5)	21
Calculated Ratios (%) (WRP basis)							
Commission expense	5.0	5.2	5.0	15.7	4.7	(33)	(1,097)
Opex ratio	9.1	7.3	6.7	15.2	8.9	(21)	(632)
Reported APE Data	**Q1FY24**	**H1FY24**	**9MFY24**	**FY24**	**Q1FY25**	**YoY (%)**	
New business APE	30,300	68,200	1,43,900	1,97,200	36,400	**20.1**	
Other ratios (%)	**Q1FY24**	**H1FY24**	**9MFY24**	**FY24**	**Q1FY25**	**YoY (bps)**	
Solvency ratio	215.0	212.0	209.0	196.0	201.0	(1,400.0)	
VNB margins	28.7	28.5	28.1	28.1	26.7	(198.2)	
Persistency ratios (%)	**Q1FY24**	**H1FY24**	**9MFY24**	**FY24**	**Q1FY25**	**YoY (bps)**	
13th Month	85.00	85.40	85.27	86.78	86.50	150	
25th Month	76.10	76.70	76.88	77.38	77.50	140	
37th Month	74.80	73.60	72.38	71.26	71.70	(310)	
49th Month	70.40	71.20	71.59	72.67	73.00	260	
61st Month	56.70	57.50	58.08	58.55	59.00	230	
Key Metrics (INR bn)	**Q1FY24**	**H1FY24**	**9MFY24**	**FY24**	**Q1FY25**		
VNB	8.7	21.2	40.4	55.5	9.7	**11.8**	
EV	-	513		583	583		
AUM	3,283	3,452	3,714	3,889	4,148	**26.3**	**6.6**

Source: I-Sec research, Company data

Exhibit 2: Product and distribution mix trend

INR bn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q1FY25 YoY
Individual Savings	23.8	40.9	53.9	41.0	30.6	29%
- Par	2	2.3	1.8	1.7	1.4	-30%
- Non Par	5.8	8.6	10.1	7.9	7.0	21%
- ULIP	15.9	30.2	41.9	31.3	22.2	40%
Individual Protection	2.10	2.1	2.3	2.9	1.5	-29%
Group Protection	1.60	4.9	2.2	2.9	1.5	-6%
Annuity	1.30	1.6	1.6	1.6	1.2	-8%
Group Savings	1.50	2.7	1.4	5.0	1.6	7%
Total APE	30.3	52.3	61.3	53.3	36.4	20%
Mix (APE terms) (%)	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q1FY25 YoY (bps)**
Individual	90%	85%	94%	85%	91%	171
Group	10%	15%	6%	15%	9%	-171
	Q1FY24	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q1FY25 YoY**
VNB (INR bn)	8.7	14.9	16.8	15.1	9.7	11.8%
VNB Margin	28.7%	28.5%	27.4%	28.3%	26.7%	-198
	-1.53%					
Total APE Mix (%)	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q1FY25 YoY (bps)**
Protection	12.2%	13.4%	7.3%	10.9%	8.2%	-397
Savings	78.2%	78.7%	87.7%	76.7%	84.1%	585
- Par	6.6%	4.4%	2.9%	3.2%	3.8%	-275
- Non Par	19%	16%	16%	15%	19%	9
- ULIP	52%	58%	68%	59%	61%	851
Annuity	4.3%	3.1%	2.6%	3.0%	3.3%	-99
Group savings	5.0%	5.2%	2.2%	9.4%	4.4%	-55
	Q1FY24	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q1FY25 YoY (%)**
Banca	19.8	30.1	43.4	28.6	21.6	9%
Agency	7.5	13.9	13.2	15.0	10.9	45%
Others	3.0	8.3	4.8	9.6	3.9	30%
Total APE	30.3	52.3	61.3	53.3	36.4	20%
Total Distribution mix	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q1FY25 YoY (bps)**
Banca	65%	58%	71%	54%	59%	-601
Agency	25%	27%	22%	28%	30%	519
Others	10%	16%	8%	18%	11%	81
Total APE	100%	100%	100%	100%	100%	0

Source: I-Sec research, Company data

Exhibit 3: EV projection

INR bn	FY23	FY24	FY25E	FY26E
APE (INR bn) (Reported)	168.1	197.2	232.7	274.6
% growth (YoY)	17.7%	17.3%	18.0%	18.0%
New Business Profits (INR bn)	50.7	55.5	65.2	76.9
VNB Margin (%)	30.2%	28.1%	28.0%	28.0%
Embedded value (IEV)				
VNB (effective tax rate)	50.7	55.5	65.2	76.9
VNB Margin (effective tax rate)	30.2	28.1	28.0	28.0
Opening EV	**396.30**	**460.4**	**582.5**	**692.9**
Unwinding	34.1	38.1	47.8	56.8
- Unwinding rate	8.6%	8.3%	**8.2%**	**8.2%**
VNB	50.7	55.5	65.2	76.9
Operating experience variance	-	6.1	-	-
change in operating assumptions	5.8	0.8		
EVOP	**90.6**	**100.5**	**112.9**	**133.7**
Economic assumption change and variance	(24.0)	23.9		
Dividend paid / capital injection	(2.1)	(2.3)	(2.5)	(2.5)
Closing EV	**460.80**	**582.5**	**692.9**	**824.1**
Embedded Value per share (INR)	460.8	582.5	692.9	824.1
EV Profit, INR bn	64.5	122.1	110.4	131.2
RoEV (%)	16.3%	26.5%	19.0%	18.9%
EVOP as a % of EV	22.9%	21.8%	19.4%	19.3%
EVOP, INR bn	90.6	100.5	112.9	133.7
Core ROEV (%)	21.4%	20.3%	19.4%	19.3%

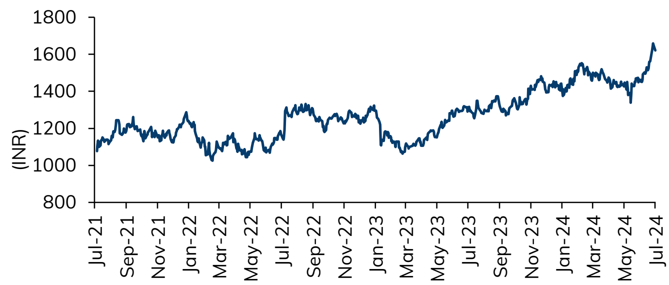
Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	55.4	55.4	50.0
Institutional investors	40.6	40.6	37.6
MFs and others	11.5	12.3	12.0
FIs/Banks	0.0	0.0	0.0
Insurance	1.8	1.7	0.0
FIIs	27.3	26.6	25.6
Others	4.0	4.0	12.4

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Technical account

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Gross Premiums	6,73,156	8,14,306	9,61,514	11,23,760
Reinsurance Ceded	(7,346)	(8,435)	(2,126)	(2,126)
Net Premiums	6,65,810	8,05,871	9,59,388	11,21,634
Income from Investments	1,32,601	5,03,666	2,21,322	2,45,130
Other Income	17,573	501	2,029	2,029
Total income	**8,15,985**	**13,26,314**	**11,82,734**	**13,68,793**
Commission	29,360	31,051	39,182	45,756
Operating expenses	35,360	41,321	58,656	68,549
Total commission and opex	**64,720**	**72,372**	**97,837**	**1,14,305**
Benefits Paid (Net)+ bonus	3,02,875	4,31,074	3,70,003	4,11,590
Chg in reserves	-	-	-	-
Total expenses	**3,85,706**	**5,23,344**	**4,67,840**	**5,25,895**
Prov for doubtful debts	18,111	19,897	51,119	65,570
PBT	**12,01,691**	**18,33,382**	**17,01,699**	**19,60,258**
Surplus / Deficit before tax	28,562	27,915	17,123	18,967
Tax (incl. Service Tax &GST)	-	-	-	-
Prov for Tax	-	-	-	-
Surplus / Deficit	**28,563**	**27,915**	**12,742**	**14,166**

Source Company data, I-Sec research

Exhibit 7: Shareholder's account

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Transfer from technical a/c	27,072	25,977	12,475	13,836
Income From Investments	7,945	10,341	11,168	12,061
Total Income	**35,024**	**36,317**	**23,643**	**25,897**
Other expenses	372	515	500	500
Contribution to P/H A/C	-	-	-	-
Total Expenses	17,447	16,790	2,046	2,046
PBT	**17,584**	**19,421**	**21,597**	**23,851**
Prov for Tax	379	483	648	716
PAT	**17,206**	**18,938**	**20,949**	**23,136**

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share Capital	10,009	10,015	10,015	10,015
Reserves And Surplus	1,19,237	1,35,900	1,53,849	1,73,985
Shareholders' Fund	**1,30,175**	**1,49,086**	**1,67,352**	**1,87,837**
Policy Liabilities	14,30,031	19,36,423	21,96,395	25,82,431
Prov. for Linked Liab.	14,07,214	16,67,408	21,33,653	25,99,435
Funds For Future App.	-	-	-	-
Current liabilities & prov.	63,667	71,052	65,960	75,475
Borrowings	-	-	-	-
Total	**31,45,992**	**39,82,988**	**47,43,873**	**56,50,172**
Shareholders' investment	1,12,087	1,30,364	6,31,894	7,47,592
Policyholders' investment	12,98,702	15,65,436	17,76,473	20,93,766
Assets to cover linked liab.	16,32,555	21,60,103	21,94,102	26,49,857
Loans	3,889	3,888	3,888	3,888
Fixed Assets	5,215	5,570	6,127	6,739
Current assets	93,543	1,17,628	1,29,391	1,42,330
Total	**31,45,992**	**39,82,988**	**47,43,873**	**56,50,172**

Source Company data, I-Sec research

Exhibit 9: Premium details

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
New business premium	3,03,020	3,91,804	4,62,329	5,45,549
Total weighted APE	1,66,327	1,95,607	2,30,816	2,72,363
Renewal premium	3,77,745	4,34,214	4,99,185	5,78,212
Total premium	6,80,765	8,26,018	9,61,514	11,23,760
NBP growth (%)	19.2	29.3	18.0	18.0
APE growth (%)	14.1	17.6	18.0	18.0
Renewal premium growth (%)	13.9	14.9	15.0	15.8
Total premium growth (%)	16.2	21.3	16.4	16.9

Source Company data, I-Sec research

Exhibit 10: Key ratio

(year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Ratios (%)				
Commissions / GWP	4.4	3.8	4.1	4.1
Operating expenses / GWP	5.3	5.1	6.1	6.1
Total expense ratio	9.6	8.9	10.2	10.2
Benefits Paid / Total Liability	11.2	13.4	9.4	8.6
Profitability ratios (%)				
VNB margin, basis effective tax rate (%)	30.2	28.1	28.0	28.0
RoE (%)	13.2	12.8	12.5	12.4
Core EVOP(unwind +VNB)	21.4	20.3	19.4	19.3
EVOP as % of IEV	22.9	21.8	19.4	19.3
RoEV (%)	16.3	26.5	19.0	18.9
Valuation ratios				
Dividend per share (INR)	3.0	3.0	3.0	3.0
EPS (INR)	17.2	19.0	21.0	23.3
VNB (INR bn)	50.7	55.5	65.2	76.9
EV (INR bn)	460.8	582.5	692.9	824.1
VIF (INR bn)	320.7	423.5	515.6	626.0
ANW (INR bn)	140.1	159.0	177.3	198.1
VIF as % of EV	140.1	159.0	177.3	198.1
EV per share (INR)	460.1	581.6	691.9	822.9
P/EV (x)	3.5	2.8	2.4	2.0
P/EPS (x)	95.1	85.9	77.8	69.9

Source Company data, I-Sec research

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