

# Life Insurance Sector

## 4QFY24 Result Preview

April 08, 2024

### Expect 4Q to see a mixed trend; margins to remain tepid

#### Key Points

- While the overall industry growth has tracked well in Jan'24/Feb'24, led by growth in Protection and ULIP volume, we expect March'24 to see the full impact of the decline in high-ticket NPAR.
- We expect 4QFY24 VNB margins to be subdued due to higher ULIP focus, low NPAR volume and increased investments in growth.
- With the removal of a major regulatory overhang for the sector, we maintain our positive stance and prefer SBI Life and IPRU Life. Valuations remain conducive to growth.
- In our view, the key monitorables from 4QFY24 results are: (1) Growth guidance for FY25/FY26 (2) Recovery in NPAR sales and (3) FY25 VNB margin outlook

**March'24 to be affected by high base; HDFC Life a laggard:** While industry APE growth has been strong at 29%/24% YoY for Jan'24/Feb'24, we expect March'24 to see inherent weakness due to a slowdown in high-ticket NPAR policies.

- HDFC Life has reported 14% YoY growth on YTD FY24 basis, but, we expect to see a decline in March'24 due to a high base (~12% of business in high-ticket NPAR in FY23). This is likely to be offset by a subsequent recovery in Retail Protection and Credit Life businesses. For FY24, we expect to see flat growth (~9% YoY adjusted for March'23). We expect FY24 VNB margin to be similar to 9MFY24 levels (26.6%) - in line with company guidance.
- SBI Life has reported a strong growth of 18% on YTD FY24 basis; we expect FY24 run-rate to be similar, driven by growth in ULIP, Protection and low-ticket NPAR. We maintain our positive stance on SBI Life, underpinned by a stable product mix, well-entrenched banca network (~22k SBI branches as on FY23) and a favourable cost profile.
- IPRU Life has seen a strong growth of 23%/34% in Jan'24/Feb'24. We expect the trend to continue in March'24, driven by strong Retail Protection growth and high ULIP volume. However, margins are likely to be subdued as the company continues to invest in the franchise.
- Max Life has consistently performed well (25% YTD FY24 growth), led by strong growth in proprietary channels and we expect a similar trend in March'24. We expect 15% YoY growth for FY24 (~23% YoY, adjusted for high-ticket NPAR), driven by new launches. In terms of profitability, we expect VNB margins to remain range-bound at 26-27% (9MFY24 VNB margin at 25.3%).

**VNB margins to see weakness:** 9MFY24 growth has been dominated by low-margin ULIP products. This has been reflected in a lower VNB margin trend for all listed insurers and we expect the same to continue in 4QFY24. We expect an increase in the share of Protection and Annuity, to be offset by a decline in high-ticket NPAR, higher ULIP and increased investments in distribution.

**Regulatory overhang lifted; valuations attractive:** We expect growth in 4QFY24 to be driven by high ULIP volume (strong equity markets/taxation benefits). SBI Life and IPRU Life with a high share in linked business are expected to perform well. Recovery in NPAR sales remains a key monitorable. Recent IRDAI guidelines on maintaining the surrender fee income structure suggests a negligible impact on profitability and has helped remove a key regulatory overhang for the sector. Moreover, we believe that valuations are supportive, with listed life insurers trading at ~2.1-2.3x FY26E P/EV. We have maintained our positive stance on the sector, with SBI Life and IPRU Life as our top picks.

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## Exhibit 1: 4QFY24/FY24 earnings estimates

HDFC Life (Rs mn)	4QFY23	3QFY24	4QFY24E	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)	9MFY23	9MFY24	YoY (%)
APE	51,700	31,940	48,043	-7.1	50.4	133,400	133,683	0.2	81,700	85,640	4.8
VNB	15,100	8,560	12,827	-15.1	49.9	36,700	35,497	-3.3	21,600	22,670	5.0
VNB Margin (%)	29.2	26.8	26.7	-250 bps	-10 bps	27.5	26.6	-90 bps	26.4	26.5	10 bps

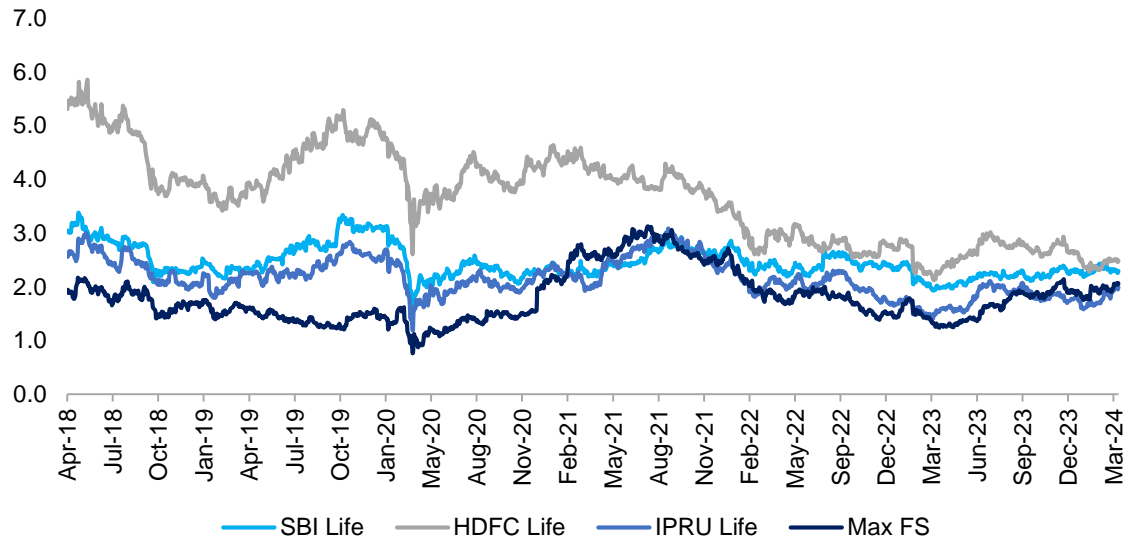
IPRU Life (Rs mn)	4QFY23	3QFY24	4QFY24E	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)	9MFY23	9MFY24	YoY (%)
APE	32,990	19,090	31,617	-4.2	65.6	86,400	85,937	-0.5	53,410	54,320	1.7
VNB	10,550	4,360	8,378	-20.6	92.2	27,650	22,888	-17.2	17,100	14,510	-15.1
VNB Margin (%)	32.0	22.8	26.5	-550 bps	370 bps	32.0	26.6	-540 bps	32.0	26.7	-530 bps

Max Life (Rs mn)	4QFY23	3QFY24	4QFY24E	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)	9MFY23	9MFY24	YoY (%)
APE	24,680	17,950	25,754	4.4	43.5	61,780	71,364	15.5	37,100	45,610	22.9
VNB	7,700	4,890	7,005	-9.0	43.3	19,490	18,525	-5.0	11,790	11,520	-2.3
VNB Margin (%)	31.2	27.2	27.2	-400 bps	0 bps	31.5	26.0	-550 bps	31.8	25.3	-650 bps

SBI Life (Rs mn)	4QFY23	3QFY24	4QFY24E	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)	9MFY23	9MFY24	YoY (%)
APE	45,700	61,300	52,807	15.6	-13.9	168,300	196,707	16.9	122,600	143,900	17.4
VNB	14,400	16,800	13,730	-4.7	-18.3	50,700	54,130	6.8	36,300	40,400	11.3
VNB Margin (%)	31.5	27.4	26.0	-550 bps	-140 bps	30.1	27.5	-260 bps	29.6	28.1	-150 bps

Source: Respective Life Insurance Companies, Nirmal Bang Institutional Equities Research

## Exhibit 2: Valuations attractive; Reiterate BUY on SBI Life and IPRU Life



Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Valuation summary

Company	CMP	Mcap (Rsbn)	TP	Rating	Upside / Downside	P/EV (x)			APE (Rsbn)			VNB (Rsbn)			VNB Margin (%)			Embedded Value (Rsbn)			RoEV (%)		
						FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
HDFC Life	635	1,366.1	670	Acc	5%	3.5	3.0	2.5	131.0	133.7	155.4	36.7	35.6	42.3	27.6	26.6	27.2	395.3	463.0	543.6	19.7	17.1	17.4
IPRU Life	630	907.3	730	Buy	16%	2.5	2.3	2.0	86.4	85.9	100.7	27.7	22.9	27.7	32.0	26.6	27.5	356.4	394.6	446.0	17.4	14.4	15.0
Max FS	1,034	356.8	1,165	Acc	13%	2.2	1.8	1.5	62.1	71.4	83.5	19.5	18.6	22.2	31.2	26.0	26.6	162.6	196.0	235.3	22.1	20.5	20.1
SBI Life	1,519	1,520.9	1,775	Buy	17%	3.3	2.7	2.3	166.4	196.7	227.2	50.7	54.1	64.1	30.1	27.5	28.2	460.3	555.6	663.7	22.8	20.4	20.2

Source: Company, Nirmal Bang Institutional Equities Research

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