

BUY

TP: Rs 1,523 | ▲ 28%

SBI LIFE

| Insurance

| 29 July 2022

Standout performance by the market leader; BUY

- Stellar growth as Q1 gross premium increased 35% YoY with NBP up 67% and renewal premium up 14%
- APE grew ~80% YoY to Rs 29bn led by savings (+83%) and protection (+45%) products; VNB margin expanded 665bps YoY to 30.4%
- We assume coverage with BUY and a TP of Rs 1,523 (2.7x FY24E P/EV) based on market leadership, high growth and healthy margins

Strong growth: SBI Life’s APE grew ~80% YoY to Rs 29bn in Q1FY23 wherein savings APE, which constituted 89% of the total, grew 83%. The company bucked the industry trend in the protection business and grew 45% YoY, with both individual and group products registering handsome growth. Management expects continued momentum in the non-par savings business with ‘Platina Assure’ and ‘Smart Platina Assure’ gaining traction. Gross premium grew 35% YoY to Rs 113bn with NBP/renewal premium up 67%/14%. We factor in a 15% CAGR in APE over FY22-FY25 to Rs 220bn.

VNB margin a positive surprise: VNB increased 130% YoY to Rs 8.8bn in Q1 with a margin of 30.4%, up 665bps YoY. Considering the robust Q1 performance, we model for a 17% CAGR in VNB over FY22-FY25 to Rs 59bn and factor in margins of 27-28% over our forecast period.

Channel mix largely stable: Based on overall APE, the share of the bancassurance channel remained stable at 63% in Q1. Agency was also steady at 26%. A similar trend was seen in individual NBP but when compared to overall NBP, we see that the banca share is lower at 52% and agency was at 17%, whereas others (comprising brokers, corporate agents, direct, etc.) had a share of 31%.

Persistency improves but cost ratios elevated: Persistency in some cohorts improved significantly – for instance, the 25th month increased from 75.3% in Q1FY22 to 78.7% in Q1FY23 and the 49th month from 66.3% to 70.3%. Other cohorts held stable or saw improvement. However, as the company focused on a high-margin product mix and thus better payout to agents, it posted a higher commission ratio of 4.6% at end-Q1FY23 vs. 3.2% in Q1FY22 and a total expense ratio of 11.2% vs. 10.4%, despite opex ratio falling 66bps YoY.

BUY, TP Rs 1,523: The stock is trading at 2.1x FY24E P/EV. Given strong growth, market leadership, healthy solvency margins and high persistency ratios, we value the company at 2.7x FY24E P/EV – around its long-term mean. This translates to a TP of Rs 1,523, offering 28% upside potential – BUY.

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Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SBILIFE IN/Rs 1,191
Market cap	US\$ 15.0bn
Free float	45%
3M ADV	US\$ 14.8mn
52wk high/low	Rs 1,293/Rs 1,004
Promoter/FPI/DII	55%/24%/21%

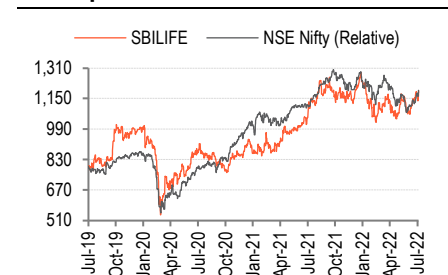
Source: NSE | Price as of 28 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,54,574	2,82,325	3,27,497
APE (Rs mn)	1,43,000	1,63,549	1,89,717
VNB (Rs mn)	37,037	45,794	51,223
Embedded Value (Rs mn)	3,96,030	4,76,002	5,67,801
VNB margin (%)	25.9	28.0	27.0
EVPS (Rs)	395.5	475.2	566.8
EPS (Rs)	15.0	15.9	17.1
Consensus EPS (Rs)	15.0	18.7	22.9
P/EV (x)	3.0	2.5	2.1

Source: Company, Bloomberg, BOBCAPS Research

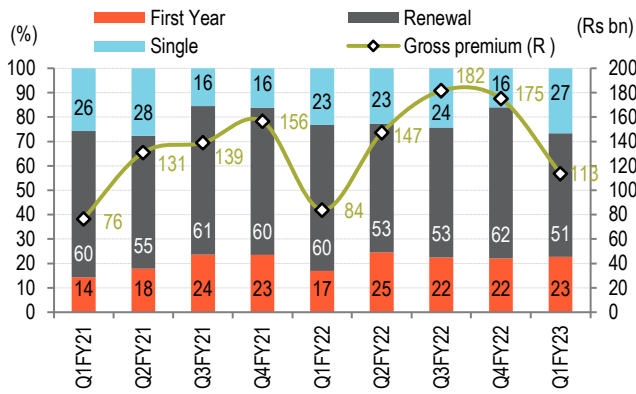
Stock performance



Source: NSE

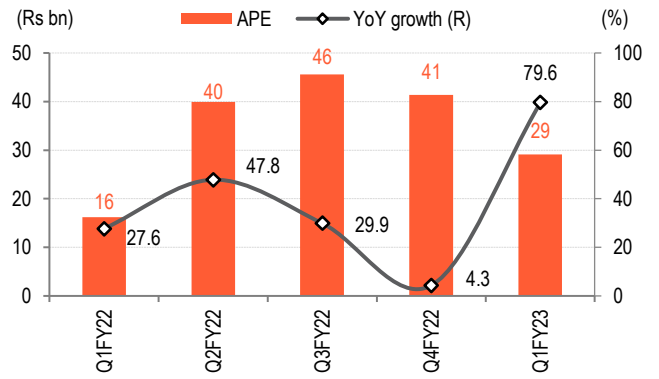


Fig 1 – Gross premium grew 35% YoY



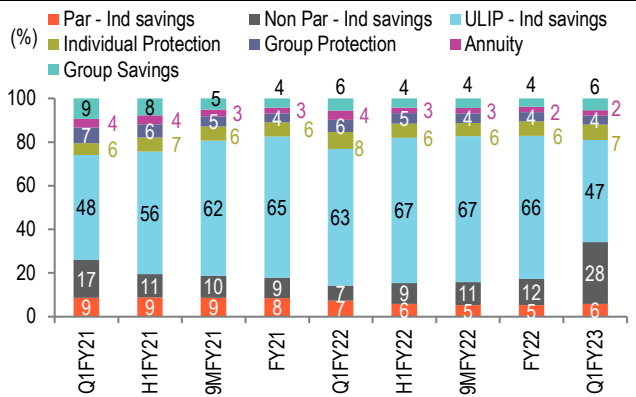
Source: Company, BOBCAPS Research

Fig 2 – APE growth strong at ~80% YoY



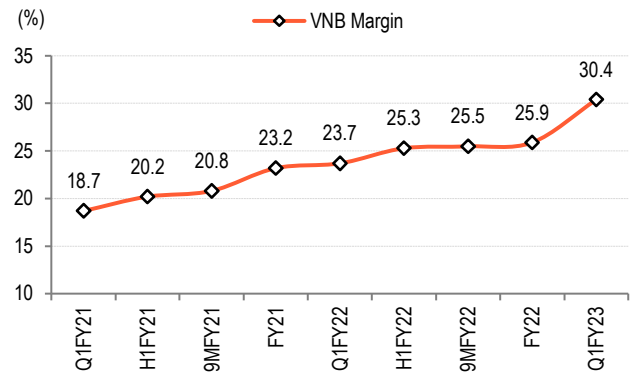
Source: Company, BOBCAPS Research

Fig 3 – Product mix: Focus on non-participating segment



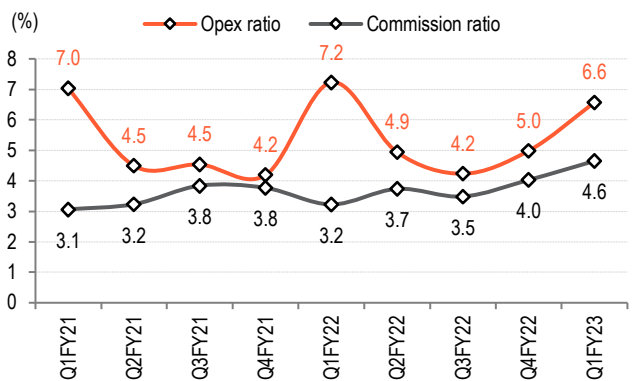
Source: Company, BOBCAPS Research

Fig 4 – Jump in VNB margin a positive surprise



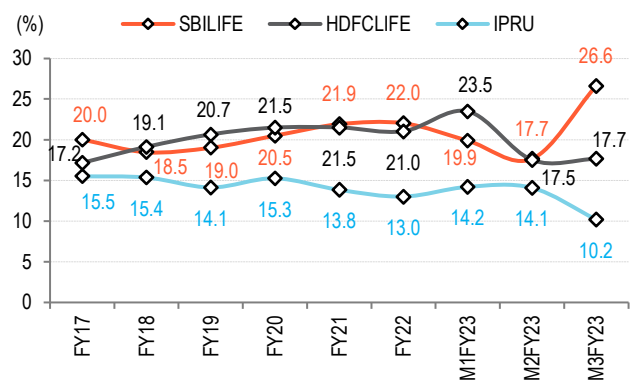
Source: Company, BOBCAPS Research

Fig 5 – Opex and commission ratios elevated in Q1FY23



Source: Company, BOBCAPS Research

Fig 6 – Leader in the private life insurance industry



Source: Company, BOBCAPS Research

Fig 7 – Policyholders’ account

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22P	FY21	YoY (%)
Gross premium income	1,13,491	83,767	35.5	1,75,085	(35.2)	5,87,596	5,02,542	16.9
First Year Premium	25,704	14,047	83.0	38,536	(33.3)	1,29,415	1,03,381	25.2
Renewal Premium	57,577	50,317	14.4	1,08,425	(46.9)	3,33,023	2,96,299	12.4
Single Premium	30,210	19,402	55.7	28,124	7.4	1,25,158	1,02,861	21.7
Reinsurance	3,131	641	388.3	747	318.9	3,274	4,859	(32.6)
Net premium income	1,10,360	83,126	32.8	1,74,338	(36.7)	5,84,323	4,97,683	17.4
Income from investments (Net)	(64,057)	74,099	NA	29,995	NA	2,35,680	3,14,560	(25.1)
Other income	108	145	(25.5)	125	(13.7)	448	358	25.1
Contribution of funds from Shareholders' A/c	-	-	NA	9,822	(100.0)	9,822	8,248	19.1
Total	46,411	1,57,369	(70.5)	2,14,279	(78.3)	8,30,272	8,20,849	1.1
Commission on								
First Year Premium	3,437	1,190	188.8	3,495	(1.6)	10,797	8,636	25.0
Renewal Premium	1,277	1,225	4.3	2,836	(55.0)	8,555	7,668	11.6
Single Premium	362	202	79.2	448	(19.3)	1,489	1,122	32.7
Rewards	200	82	143.8	274	(26.9)	742	362	104.8
Net Commission	5,277	2,699	95.5	7,052	(25.2)	21,583	17,788	21.3
Expenses of Management	12,733	8,754	45.5	15,777	(19.3)	30,153	22,409	34.6
Provision for taxes	1,967	1,807	8.9	2,424	(18.9)	8,681	7,410	17.2
Benefits Paid (Net)	51,717	47,918	7.9	73,734	(29.9)	3,13,398	2,15,826	45.2
Change in actuarial liability	(22,711)	97,767	NA	1,08,921	NA	4,37,619	5,39,342	(18.9)
Surplus/Deficit	2,725	1,119	143.5	12,784	(78.7)	18,838	18,074	4.2

Source: Company, BOBCAPS Research

Fig 8 – Shareholders’ account

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22P	FY21	YoY (%)
Transfer from Policyholders' Account	1,003	(412)	NA	14,712	(93.2)	17,324	16,788	3.2
Investment Income	1,758	2,817	(37.6)	2,382	(26.2)	9,831	6,885	42.8
Other income	4	30	(87.4)	1	660.0	54	63	(15.0)
Expenses other than those related to insurance business	82	101	(18.9)	123	(33.3)	1,779	63	2725.7
Transfer of funds to Policyholders' Account	-	-	NA	10,031	(100.0)	9,822	8,248	19.1
Profit before tax	2,674	2,334	14.6	6,941	(61.5)	15,608	15,425	1.2
Provisions for tax	46	103	(55.5)	219	(79.1)	548	866	(36.8)
Profit after tax and before extraordinary items	2,629	2,232	17.8	6,722	(60.9)	15,060	14,559	3.4

Source: Company, BOBCAPS Research

Fig 9 – Balance sheet

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22P	FY21	YoY (%)
Share Capital	10,005	10,002	0.0	10,004	0.0	10,004	10,001	0.0
Reserves and Surplus	1,06,879	93,202	14.7	1,04,181	2.6	1,04,181	90,926	14.6
Credit / (Debit) Fair Value Change Account	714	2,573	(72.2)	2,039	(65.0)	2,039	3,077	(33.7)
Sub-Total	1,17,598	1,05,777	11.2	1,16,223	1.2	1,16,223	1,04,004	11.7
POLICYHOLDERS' FUNDS:								
Policy Liabilities	11,44,540	9,57,479	19.5	10,97,590	4.3	10,97,590	9,24,075	18.8
Provision for Linked Liabilities	11,99,007	9,96,961	20.3	11,74,871	2.1	11,74,871	9,65,495	21.7
Add: Fair value change	91,072	1,77,177	(48.6)	2,01,728	(54.9)	2,01,728	1,53,809	31.2
Total Provision for Linked & Discontinued Policyholders Liabilities	86,756	80,802	7.4	81,723	6.2	81,723	70,115	16.6
Funds for Future Appropriations	11,659	9,955	17.1	9,936	17.3	9,936	8,423	18.0
TOTAL	25,33,034	22,22,374	14.0	25,65,849	(1.3)	25,65,849	21,21,916	20.9
Total Liabilities & Equity	26,50,632	23,28,151	13.9	26,82,072	(1.2)	26,82,072	22,25,921	20.5
Assets								
INVESTMENTS:								
Shareholders'	1,08,051	94,804	14.0	1,00,758	7.2	1,00,758	86,047	17.1
Policyholders'	11,31,101	9,72,265	16.3	11,21,307	0.9	11,21,307	9,39,364	19.4
Asset held to cover Linked Liabilities	13,56,593	12,26,512	10.6	14,26,253	(4.9)	14,26,253	11,62,150	22.7
Loans	3,817	3,345	14.1	3,627	5.2	3,627	3,581	1.3
Fixed Assets	5,325	5,595	(4.8)	5,268	1.1	5,268	5,654	(6.8)
NET CURRENT ASSETS	45,745	25,630	78.5	24,860	84.0	24,860	29,124	(14.6)
TOTAL ASSETS	26,50,632	23,28,151	13.9	26,82,072	(1.2)	26,82,072	22,25,921	20.5

Source: Company, BOBCAPS Research

Fig 10 – Key ratios and growth metrics

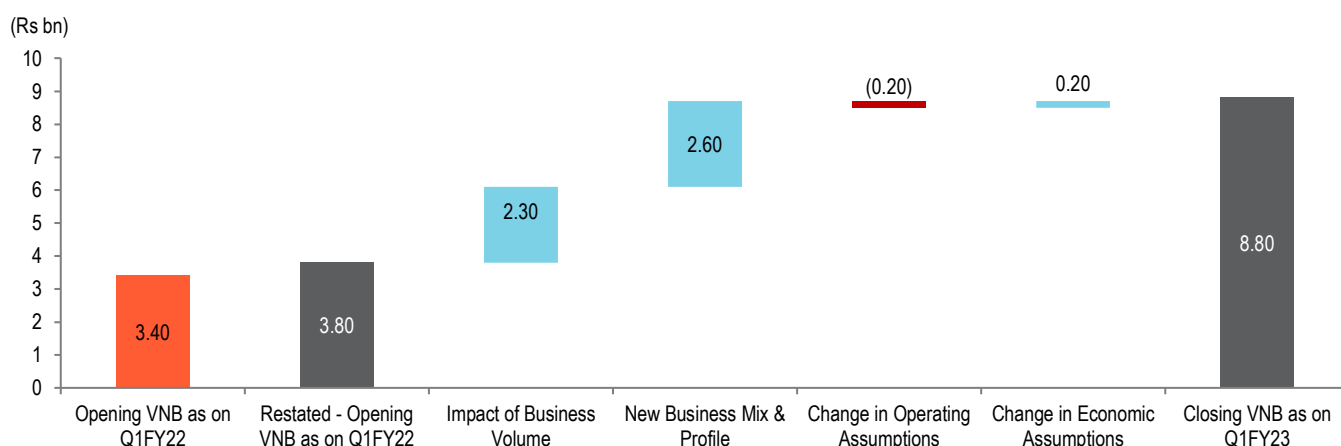
(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22P	FY21	YoY (%)
NBP	55,900	33,500	66.9	66,700	(16.2)	2,54,574	2,06,242	23.4
APE	29,100	16,200	79.6	41,400	(29.7)	1,43,000	1,14,500	24.9
VNB	8,800	3,830	129.8	14,740	(40.3)	31,395	23,358	34.4
Opex ratio (%)	6.6	7.2	(66bps)	5.0	159bps	5.1	4.8	26bps
Commission ratio (%)	4.6	3.2	143bps	4.0	62bps	3.7	3.5	13bps
Expense ratio (%)	11.2	10.4	77bps	9.0	221bps	8.7	8.3	40bps
VNB margin (%)	30.4	23.7	665bps	NA	NA	25.9	23.2	170bps
Solvency ratio (%)	221.0	215.0	600bps	205	1600bps	204.8	214.7	(993bps)
Persistency ratio (Regular Premium / Limited Premium Payment under Individual category)								
13th month (%)	85.6	85.9	(25bps)	NA	NA	85	85	(21bps)
61st month (%)	50.3	49.3	95bps	NA	NA	49	51	(137bps)

Source: Company, BOBCAPS Research

Fig 11 – Distribution mix

(%)	Q1FY20	H1FY20	9MFY20	FY20	Q1FY21	H1FY21	9MFY21	FY21	Q1FY22	H1FY22	9MFY22	FY22	Q1FY23
APE													
Banca	64.0	66.0	66.0	65.0	56.0	61.0	64.0	63.0	57.0	62.0	64.0	63.0	63.0
Agency	28.0	27.0	27.0	28.0	26.0	24.0	24.0	26.0	29.0	27.0	25.0	26.0	26.0
Others	8.0	8.0	7.0	7.0	18.0	15.0	12.0	11.0	14.0	11.0	11.0	11.0	11.0

Source: Company, BOBCAPS Research

Fig 12 – VNB growth breakup

Source: Company, BOBCAPS Research

Earnings call highlights

- Non-par segment a key focus area:** SBI Life's 'Platina Assure' and 'Smart Platina Assure' products have seen good traction and management expects healthy demand going forward as well. The non-par segment is margin accretive and thus an important part of the product mix. Of the total non-par premium, 30% was contributed by income plans in Q1FY23. The company does hedge depending on the requirements and interest rate environment, and it has products backed by both, partially paid bonds and FRAs (forward rate agreements).
- Pricing in non-par business to be market dependent:** The pricing for non-par savings products will depend on market conditions and interest rates. The company does not want to stray far from the market. The intention is to maintain the spread that is earned currently.
- No product mix target:** SBI Life does not have an internal limit on the non-par contribution in the overall product mix but believes it should be 25-30%, as other product segments are growing as well.
- Protection growth strong:** India has a large requirement for protection products, and management opines that the country will require more return of premium (ROP) products rather than pure term products. The 45%+ growth in the company's Q1 protection APE has been bolstered by ROP.
- ULIP shows traction:** ULIP on NBP basis grew 42% YoY despite the base effect. However, the company doesn't push any product and goes by customer preference. Also, bancassurance is a prominent distribution channel for ULIP products.
- Par segment a bit tepid:** There has been a shift from par to non-par products over the last couple of years. However, the company expects the par segment to grow from the current level.
- Not chasing margins:** Although the VNB margin increased significantly in Q1, the company indicated that it does not chase margins. Profitability is a function of product mix and there could be some fluctuations depending on which products are sold in a particular timeframe.

- **Branch expansion to continue:** Management believes in sustainable branch growth and has never had to close down any branches. Going forward, the company expects to add 30- 40 branches every year.
- **Guides for 25%+ growth in premium:** SBI Life expects premium growth across product segments to drive a 25%+ uptick for FY23.
- **YONO platform to see better growth:** Management expects the YONO platform to deliver better results as more products are added. Currently, only protection products are sold here.

Valuation methodology

SBI Life is a market leader in the private life insurance space with 22% share at end-FY22 and 21.9% in Q1FY23, and has strong brand equity and parentage. It is focused on maintaining a balanced product mix and enjoys a robust VNB margin (30.4% in Q1FY23, 25.9% in FY22). The company has ~1,000 branches and intends to add 30-40 more per year, along with 0.16mn agents. Although costs increased this quarter (commission ratio/opex ratio of 4.6%/6.6%), these have been historically lower on an annual basis (3.7%/5.1% in FY22).

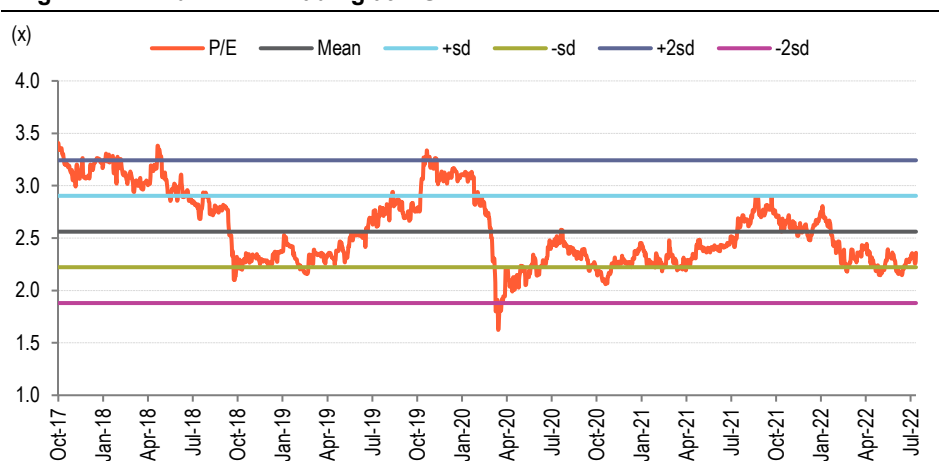
The stock is trading at 2.1x FY24E P/EV. Given strong growth, market leadership, healthy solvency margins and high persistency ratios, we value the company at 2.7x FY24E P/EV – around its long-term mean. This translates to a TP of Rs 1,523, offering 28% upside potential. We assume coverage of SBI Life with a BUY recommendation.

Fig 13 – Valuation summary

Particulars	
Embedded Value (FY24E) (Rs bn)	568
PV of Future business (Rs bn)	958
Total value (Rs bn)	1,526
Current P/EV (FY24E) (x)	2.1
Implied P/EV (FY24E) (x)	2.7
Implied Target Price (Rs)	1,523
Current Price (Rs)	1,191
Upside (%)	28%

Source: Company, BOBCAPS Research

Fig 14 – 1Y fwd P/EV – Trading at -1SD



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Change in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, currently ULIP proceeds are taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in income tax rate of insurance companies can adversely impact profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are opting for a balanced product mix, many of them have sizeable business coming from ULIPs.
- **Increasing interest rates:** The guaranteed return businesses can be affected by an increase in interest rates as other financial instruments (e.g. deposits) become more attractive. HDFC Life had ~28% share of non-par in the total APE mix as of FY22.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. The shareholders' equity and earnings and policyholders' funds may be affected by fair value re-valuation of bonds held in investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss, monetary requirements, etc., which lowers the persistency ratios

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	14.1	532	701	BUY
ICICI Prudential Life	IPRU IN	9.5	530	645	BUY
SBI Life	SBILIFE IN	15.0	1,191	1,523	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Jul 2022

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Gross premium income	5,02,542	5,87,596	6,82,835	7,97,027	9,28,847
First year premium	1,03,381	1,29,415	1,39,179	1,61,448	1,87,280
Renewal premium	2,96,299	3,33,023	4,00,510	4,69,530	5,48,951
Single premium	1,02,861	1,25,158	1,43,146	1,66,049	1,92,617
Net written premium	4,97,683	5,84,323	6,76,989	7,90,227	9,20,943
Income from investments	3,14,560	2,35,680	1,60,173	2,17,758	2,75,498
Other Income	8,606	10,270	10,353	11,369	12,487
Total income	8,20,849	8,30,272	8,47,514	10,19,354	12,08,927
Commissions	17,788	21,583	30,457	34,756	39,577
Operating expenses	22,409	30,153	41,118	46,735	52,226
Benefits and bonuses paid	2,15,826	3,13,398	2,74,748	3,42,854	4,00,541
Change in liabilities (net)	5,39,342	4,37,619	4,67,524	5,56,300	6,70,756
Others	0	0	0	0	0
Total expenses	7,95,365	8,02,753	8,13,848	9,80,644	11,63,101
Surplus before tax	25,484	27,519	33,666	38,709	45,827
Provision for tax	7,410	8,681	14,424	17,475	20,879
Surplus after tax	18,074	18,838	19,242	21,234	24,947
Trf to shareholders' a/c	16,788	17,324	17,984	19,808	23,174
Balance being FFA	1,287	1,513	1,257	1,426	1,773

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Trf from policyholders' a/c	16,788	17,324	17,984	19,808	23,174
Income from investments	6,885	9,831	9,335	9,809	9,898
Contr. to policyholders' fund	(8,248)	(9,822)	(9,980)	(10,978)	(12,076)
Others	0	(1,726)	(1,098)	(1,192)	(1,296)
PBT	15,425	15,608	16,242	17,447	19,701
Provision for taxation	(866)	(548)	(325)	(349)	(394)
PAT	14,559	15,060	15,917	17,098	19,307
Dividend+Interim div.+DDT	2,500	2,003	2,504	2,504	2,504

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity	1,04,004	1,16,223	1,27,597	1,42,191	1,58,993
Policyholders' funds	20,43,379	24,74,190	29,21,264	34,77,564	41,48,320
FFA	8,423	9,936	10,930	11,258	11,483
Others	70,115	81,723	89,895	92,592	94,444
Total liabilities	22,25,921	26,82,072	31,49,686	37,23,604	44,13,240
Shareholders' funds	86,047	1,00,758	1,18,895	1,42,674	1,74,062
Policyholders' funds	9,39,364	11,21,307	14,91,012	18,81,444	23,49,301
Assets to cover linked liab.	11,62,150	14,26,253	14,97,566	16,47,322	18,12,055
Others	38,359	33,754	42,214	52,164	77,823
Total assets	22,25,921	26,82,072	31,49,686	37,23,604	44,13,240

Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
AUM (Rs mn)	22,08,710	26,74,000	32,44,910	38,31,431	45,18,277
NBP (Rs mn)	2,06,242	2,54,574	2,82,325	3,27,497	3,79,897
APE (Rs mn)	1,14,500	1,43,000	1,63,549	1,89,717	2,20,071
VNB (Rs mn)	23,358	37,037	45,794	51,223	59,419
VNB margin (%)	20.4	25.9	28.0	27.0	27.0
Embedded value (Rs mn)	3,33,630	3,96,030	4,76,002	5,67,801	6,75,140
ROEV (%)	19.1	20.7	20.8	19.8	19.3
ROE (%)	15.2	13.7	13.1	12.7	12.8
Opex ratio (%)	4.8	5.1	5.9	5.8	5.5
Cost ratio (%)	8.3	8.7	10.4	10.1	9.8
Solvency ratio (%)	214.7	204.8	222.2	221.3	219.4
EPS (Rs)	14.6	15.0	15.9	17.1	19.3
BVPS (Rs)	104.0	116.2	127.6	142.2	159.0
EVPS (Rs)	333.6	395.5	475.2	566.8	674.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

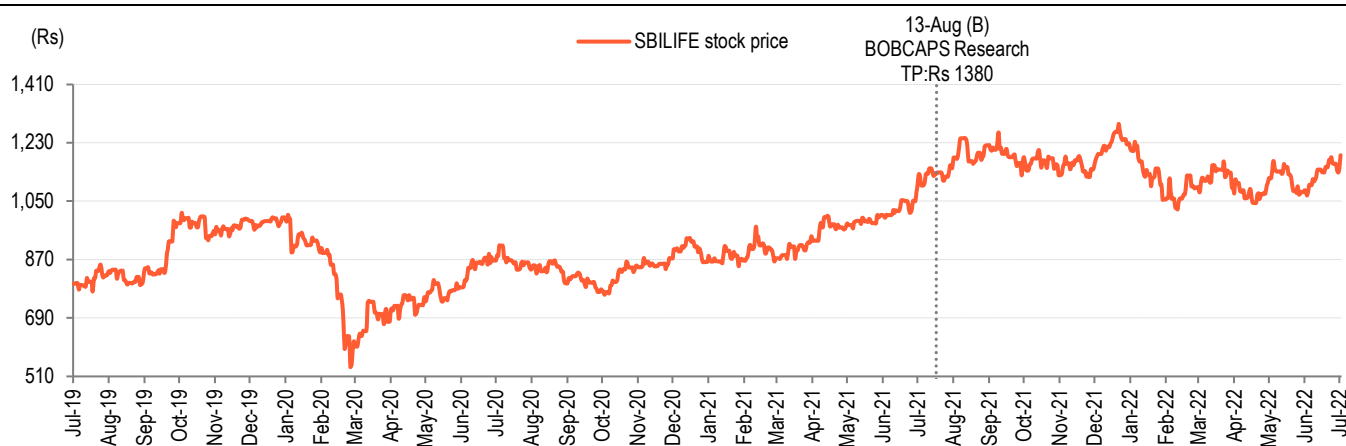
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SBI LIFE (SBILIFE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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