

SBI Life Insurance

BUY

INDUSTRY	Life Insurance
CMP (as on 30 Jan 2018)	Rs 670
Target Price	Rs 840
Nifty	11,050
Sensex	36,034

KEY STOCK DATA

Bloomberg	SBILIFE IN
No. of Shares (mn)	1,000
MCap (Rs bn) / (\$ mn)	668/10,498
6m avg traded value (Rs mn)	-

STOCK PERFORMANCE (%)

52 Week high / low		Rs 740/629	
	3M	6M	12M
Absolute (%)	2.0	-	-
Relative (%)	(6.4)	-	-

SHAREHOLDING PATTERN (%)

Promoters	84.1
FIs & Local MFs	3.3
FPIs	4.4
Public & Others	8.2

Source : BSE

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Robust Growth

SBI Life's 3QFY18 was a strong quarter on both on growth and margins. Higher Interest rate, product mix drove its 9MFY18 margin to 16% (FY17 – 15.4%). APE growth was strong at 42.2% despite higher base of 3QFY17.

New Business and Renewal Business premium increased by 26.1% and 32% YoY respectively. Individual Premium reported strong growth of 37.6% while Group business declined 23.8% due to less focus on fund business. The protection business clocked growth of 33.7% driven by Group term business. The share of protection improved 40bps YoY to 5.1%. VNB for 9MFY18 stood at Rs 9.3bn compared to Rs 10.4bn for FY17.

PAT for the quarter was up 21% at Rs 2.3bn despite business strain on strong growth. We upgrade our margin assumption resulting in VNB increasing by 4.6/5.5% for FY18/19 and tweak APE growth assumptions also. We continue to like SBI Life due to strong distribution footprint of its parent SBI along with industry tailwinds from financialisation of

Business Summary

(Rs bn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
NBP	29.25	23.20	26.1	24.89	17.5	101.5	114.9	141.6	172.5
APE	24.74	17.40	42.2	20.93	18.2	66.0	90.8	114.1	141.2
VNB	NM	NM	NM	NM	NM	10.4	14.9	19.1	23.8
VNB Margin (%)	16.0#	15.4#	60bps	16.0#	0bps	15.7	16.5	16.7	16.9
EV						165.4	194.0	228.8	270.8
MCap/EV (x)						4.05	3.45	2.93	2.47
P/Bv (x)						12.3	10.4	8.8	7.4
ROEV						33.2	18.7	19.2	19.5

Source: Company, HDFC sec Inst Research # Refers to FY17 and 9MFY18 margin respectively

savings. We maintain BUY with a TP of Rs 840 (FY20 EV+ 26x FY20E VNB).

Highlights of the quarter

- Mgt highlighted increase in margin for 9MFY18 to 16% is without any assumption change; Cost to Premium ratio is lower at 12.3% for 9MFY18 compared to 12.6% for 9MFY17 highlighting cost efficiency on strong growth.
- Contribution of ULIP was 61.9% compared to 50% in FY17.
- 13th month persistency for 9MFY18 improved to 81.5% from 81.1% in FY17.
- Share of banassurance in the NBP stood at 64% in 3Q compared to 53% in FY17 as the channel grew 45% and remain key driver of growth.
- AUM increased 6.3% QoQ to Rs 1.1tn with 23% Equity mix. Link products contribute 47% of AUM as on Dec'17.
- Near-term outlook: Premium growth is expected sustain driven by untapped distribution reach of its parent SBI.

Concall highlights

Cost Efficiency and margin improvement

- VNB margin revision from 15.6% in 1HFY18 to 16% for 9MFY18 is due to product mix and increase in yield curve leading to better margins. The margin is based on actual cost and mgt estimate for remaining period. Cost assumption, persistency, operating efficiency would lead to higher margin for the full year to be reported in 4QFY18.
- Group credit is the focus and currently, has a mix of both single and regular premium. From FY18, entire group credit will move to single premium. On the regular premium for credit life, 13st persistency is above 90%.
- Persistency continues to show uptrend across most buckets.

Business Outlook

- ULIP has grown 21% while overall saving products have grown 39%; It expects share of ULIP to reduce to 52-55% over a period of time.
- Group term business has grown 144% to Rs 1.2bn during 9MFY18.
- Group credit is largely through SBI network which

has grown 10% to Rs 1.4bn in 9MFY18; The growth has come from higher penetration as overall disbursement has been sluggish for Home loan. penetration level of credit policy in SBI's home loan disbursement would be 48% this has increased from 35%.

- Individual protection continues to be laggard; Online term plan launched would help.
- Have increased tie-ups for group credit business by 33%, though mostly RRBs.
- Activation (monthly sales of Rs 25000 and above) at SBI branch level is 62% and expect growth to be robust.

Others

- Avg ticket size for ULIP is Rs 90k per policy while for traditional its Rs 40k per policy.
- Agency channel grew 23% during the quarter and productivity has improved to Rs Rs 2.34L Vs Rs 2.01 per agent
- Direct business will be only through online platform as branch cost is high; launched online term individual plan at a competitive rate

Share of ULIP is 61.9% in 3QFY18, mgt expects this to come to 52-55% as traditional products are growing faster

Last Few Quarters At A Glance

(Rs Bn)	3QFY17	1QFY18	2QFY18	3QFY18	YoY(%) Growth	QoQ(%) Growth
Premium Earned	52.6	37.9	54.6	68.2	30%	25%
Premium Ceded	-0.2	-0.3	-0.8	-0.4	100%	-50%
Net Premium Earned	52.4	37.6	53.8	67.8	29%	26%
Investment Income	8.0	27.1	24.4	29.2	265%	20%
Other Income	0.2	0.2	0.2	0.2	0%	0%
Total Income	60.6	65.0	78.4	97.2	60%	24%
Commission Income	2.1	1.7	2.7	3.1	48%	15%
Operating exp	4.9	4.3	5.2	5.4	10%	4%
Policyholder tax	0.2	1.2	0.4	0.3	50%	-25%
Claims paid (net)	19.6	26.3	26.7	29.1	48%	9%
Change in actuarial liability	31.8	28.3	41.1	56.9	79%	38%
Total exp	58.6	61.8	76.1	94.8	62%	25%
PBT	2.0	3.2	2.3	2.4	20%	4%
Tax	0.1	0.1	0.1	0.1	0%	0%
PAT	1.9	3.1	2.2	2.3	21%	5%
	1.10	1.02	1.40	1.50	36.4	7.1
New Business Premium	23.20	18.13	24.89	29.25	26.1	17.5
-Group	4.20	4.94	2.49	3.20	-23.8	28.7
-Protection	1.10	1.02	1.40	1.50	36.4	7.1
-Individual Savings	17.90	12.04	21.0	24.55	37.2	16.9
Total APE	17.40	12.83	20.93	24.74	42.2	18.2
-Individual APE	16.21	11.26	19.89	23.16	43	16
-Group APE	1.19	1.57	1.04	1.59	33	52
Savings APE Share (%)	93	88	95	94	43bps	-144bps
Protection APE Share (%)	7	12	5	6	-43bps	+144bps
Opex to Total Premium (%)	12.1	NA	12.7	11.0	-110bps	-160bps
VNB Margin (%)#	15.4	16.0	16.0	16.0	60bps	NA
AUM (Rs bn)	907	NA	1,050	1,116	23.0%	6.3%
Linked	44%	NA	46%	47%	3pp	1pp
Non-Linked	56%	NA	54%	53%	-3pp	-1pp
Equity	21%	NA	23%	24%	3pp	1pp
Debt	79%	NA	77%	76%	3pp	1pp
Solvency (x)			2.09	2.06		-3bps

Source: Company, HDFC sec Inst Research #Refers to 9MFY18 and FY17 margin

Premium Growth was strong despite de-growth in group business (fund business)

For 9MFY18, cost ratio has come down to 12.3% compared to 12.6% in 9MFY17

Share of equity remains low at 24%

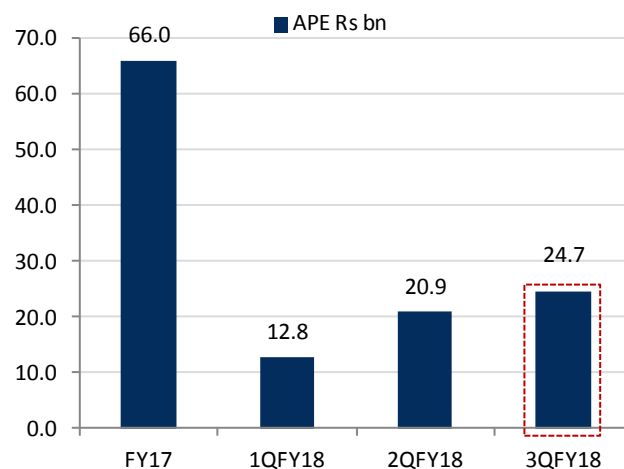
APE growth was strong at 42.2%

Share of ULIP has gone up due to de-growth in fund business over the last 9M; Growth at 21% is lower than traditional products

Margin has improved on product mix and higher interest rate improving its product margin for saving products

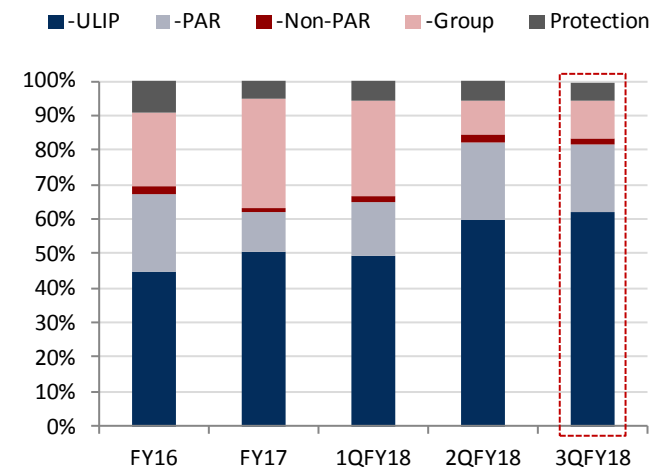
Linked product contribute 47% out of which 38% is Equity

APE trend



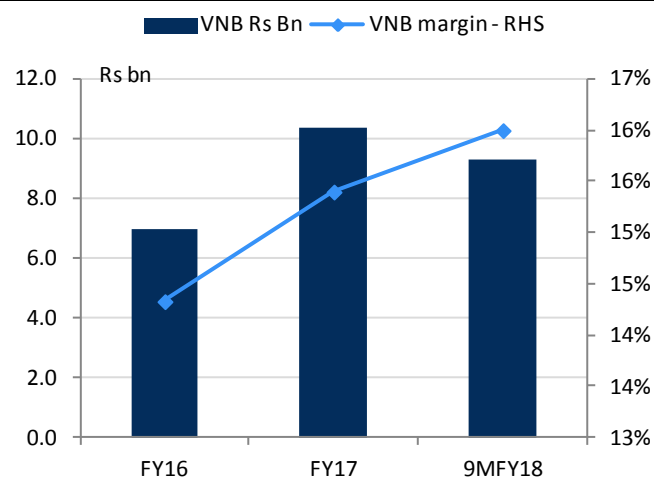
Source: Company, HDFC sec Inst Research

Product Mix On NBP



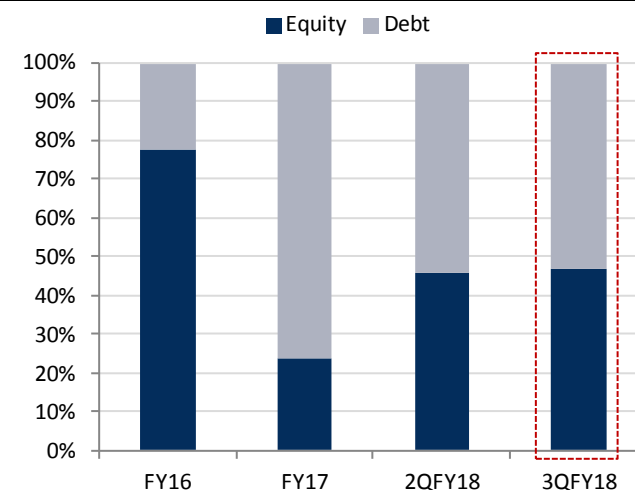
Source: Company, HDFC sec Inst Research

VNB Trend



Source: Company, HDFC sec Inst Research

AUM Mix



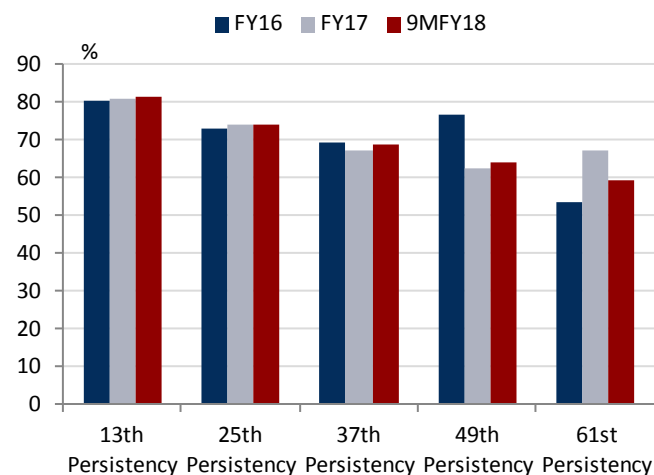
Source: Company, HDFC sec Inst Research

Persistency has been improving

Banassurance (SBI) is the key channel- the channel grew 45% in 3QFY18

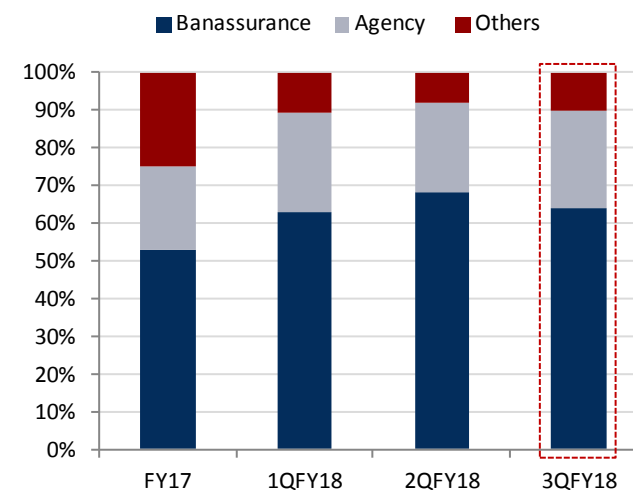
We have increased our margin assumptions

Persistency Trend



Source: Company, HDFC sec Inst Research

Channel Mix On NBP



Source: Company, HDFC sec Inst Research

Change In Estimates

Rs bn	FY18E			FY19E			FY20E		
	New	Old	Change(%)	New	Old	Change(%)	New	Old	Change(%)
APE	90.8	89.6	1.4	114.1	112.5	1.4	141.2	139.3	1.4
VNB	14.9	14.3	4.6	19.1	18.1	5.5	23.8	22.5	5.8
VNB Margin (%)	16.5	16.0	50bps	16.7	16.1	60bps	16.9	16.2	50bps
Embedded Value	194.0	193.3	0.3	228.8	227.1	0.7	270.8	267.6	1.2

Source: HDFC sec Inst Research

Peer Comparison

Rs Bn	MCap	CMP (Rs)	Reco	TP	VNB			EV			P/EV (x)			VNB Multiple (x)			APE GROWTH (%)			VNB Margin (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
SBI Life	668	670	BUY	840	14.9	19.1	23.8	194.0	228.8	270.8	3.45	2.93	2.47	31.8	23.1	16.8	37.6	25.6	23.7	16.5	16.7	16.9
ICICI Pru Life	596	415	BUY	480	11.0	14.1	17.7	178.9	198.8	222.9	3.33	3.00	2.67	37.9	28.1	21.0	23.2	21.8	19.9	13.8	14.5	15.2
Max Financial	142	528	BUY	665	6.1*	7.3*	8.7*	74.4*	84.1*	95.8*	2.72	2.41	2.11	21.0	16.2	12.2	17.9	19.0	19.0	18.9	19.0	19.0
HDFC Life#	848	424	NR	NR	12.5	15.8	20.1	146.8	175.1	209.9	5.77	4.84	4.04	56.1	42.5	31.8	37.0	22.0	19.0	22.4	23.2	24.7

Source: Companies, HDFC Sec Inst Research, * For Max Life, #Consensus Estimates for HDFC Life

Policyholder AC

(Rs mn)	FY17	FY18E	FY19E	FY20E
Total Premium earned	208,525	257,406	328,608	418,623
Income from investments and other income	93,624	81,796	98,833	120,874
Transfer from shareholders AC	627	500	500	500
Total Income	302,775	339,702	427,941	539,997
Commission	7,833	10,709	13,667	17,285
Operating expenses	16,465	20,421	25,743	31,962
Provisions	2,223	2,383	2,502	2,627
Total Expenses	26,522	33,512	41,912	51,875
Benefits Paid	95,502	110,094	132,282	161,236
Change in valuation of liabilities	172,410	184,854	241,068	309,966
Total	267,912	294,948	373,350	471,202
Surplus	8,342	11,241	12,679	16,921
Tax	1,798	2,248	2,536	3,384
Net Surplus	6,544	8,993	10,143	13,537
Transfer to shareholders AC	6,546	8,993	10,143	13,537

Source: Company, HDFC sec Inst Research

Shareholders AC

(Rs mn)	FY17	FY18E	FY19E	FY20E
Transfer from policyholders' a/c	6,546	8,993	10,143	13,537
Investment income	4,016	4,296	5,255	6,403
Total income	10,562	13,288	15,399	19,939
Expenses	275	206	227	244
Contribution to policyholders' a/c	627	627	627	627
Profit before tax	9,659	12,455	14,545	19,068
Taxes	199	623	727	954
PAT	9,460	11,832	13,817	18,115

Source: Company, HDFC sec Inst Research

Key Ratios

In %	FY17	FY18E	FY19E	FY20E
Premium Growth	33.1	23.4	27.7	27.4
NBP Growth	42.8	13.3	23.2	21.8
APE Growth	35.3	37.6	25.6	23.7
Commissions Growth	9.7	36.7	27.6	26.5
Opex Growth	12.9	24.0	26.1	24.2
Commissions / premium	3.8	4.2	4.2	4.1
Opex / premium	7.9	7.9	7.8	7.6
PAT Growth	10.8	25.1	16.8	31.1
RoAA	1.1	1.1	1.1	1.1
RoE	18.6	19.9	19.7	21.7
EPS (Rs)	9.46	11.83	13.82	18.11
BV (Rs)	54.6	64.2	75.7	91.1
EV (Rs mn)	165,379	193,986	228,832	270,763
VNB (Rs mn)	10,368	14,946	19,065	23,801
EVOP (Rs mn)	28,874	30,846	37,195	44,650
ROEV	33.2	18.7	19.2	19.5
P/E (x)	70.8	56.6	48.5	37.0
P/ABV (x)	12.26	10.43	8.85	7.35
P/EV (x)	4.05	3.45	2.93	2.47
P/NBV (x)	48.7	31.8	23.1	16.8

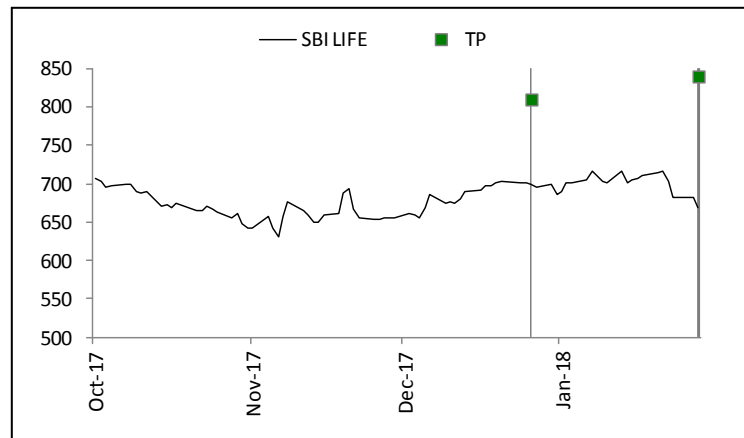
Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18E	FY19E	FY20E
Source				
Share capital	10,000	10,000	10,000	10,000
Reserve and surplus	44,648	54,246	65,718	81,121
Net worth	54,648	64,246	75,718	91,121
Credit/debit balance in fair value a/c	873	873	873	873
Policyholders' a/c	936,732	1,121,586	1,362,653	1,672,619
Funds for future appropriation	-	-	-	-
Total Liabilities	992,252	1,186,704	1,439,245	1,764,613
Application				
Shareholders' Investments	42,955	52,553	64,026	79,428
Policyholders' investments	469,617	539,099	657,222	809,105
Asset to cover linked liabilities	445,730	561,103	684,047	842,130
Loans	1,782	1,782	1,782	1,782
Fixed assets + DTA	5,385	5,385	5,385	5,385
Net current assets	26,783	26,783	26,783	26,783
Debit balance in P&L	-	-	-	-
Total Assets	992,252	1,186,704	1,439,245	1,764,613

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Dec-17	697	BUY	810
30-Jan-18	670	BUY	840

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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