

SBI Life Insurance

Recent correction gives further reason to enter

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Rating	BUY
Price	Rs673
Target Price	Rs865
Implied Upside	28.5%
Sensex	33,836
Nifty	10,411

(Prices as on March 14, 2018)

Trading data

Market Cap. (Rs bn)	673.5
Shares o/s (m)	1,000
3M Avg. Daily value (Rs m)	283.2

Major shareholders

Promoters	84.10%
Foreign	4.35%
Domestic Inst.	4.23%
Public & Other	7.32%

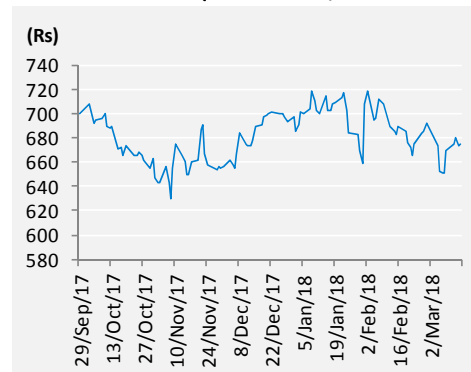
Stock Performance

(%)	1M	6M	12M
Absolute	(1.5)	(2.3)	NA
Relative	(0.2)	(3.1)	NA

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	10.5	13.2	(20.5)
2019	11.6	15.5	(25.2)

Price Performance (RIC: SBIL.BO, BB: SBILIFE IN)



Source: Bloomberg

We recently met the management of SBI Life and post the meeting, we are reiterating our positive stance on the stock. The company is changing its product mix and growing in profitable segments and also looking for cross selling / up selling opportunities to enhance growth. We believe the change in MD & CEO of SBI Life will make no difference to the growth and future strategy of the business. We have thus increased our new business APE estimates for FY18 to 37% from 27% and made changes in the product mix which has led to expansion in VNB margins to 17% for FY20 from earlier 16.6%. We maintain BUY with revised TP of Rs865 (from Rs840) which translates to 3.1x FY20E EV from 2.9x.

- SBI Life is comfortable with 65-70% of individual new business product mix to be contributed by ULIPs as it also helps in managing capital market risk, whereas on total product mix it shall range between 55 to 58%.
- SBI Life has launched new product in PAR segment "Smart Bachat" which has flavours of ULIPs having average ticket size of Rs50K and longer premium paying term (5 to 15 years). However, margins for this product are similar to ULIP i.e. 12-12.5%. This product has seen good traction and intermediaries are more keen on selling this product to gain higher commissions.
- It has also launched 2 products in individual protection i.e. Health cum protection and Cancer Care which will boost online sales. This will help boost growth via online sales channel which is currently quite low at 1% of individual sourcing mix.
- With the help of its parent SBI, SBI Life has been able to grow strong in group credit life. As of now it has mainly grown in housing and is focusing to increase its mix towards education and personal loan as well. It has penetrated within SBI fold from 35% to 48% currently within the retail segment and expects to increase to 60% going ahead.

Contd...2

Key financials (Y/e March)	2017	2018E	2019E	2020E
Net Premiums (Rs m)	2,08,525	2,56,635	3,24,060	4,06,819
Growth (%)	33.1	23.1	26.3	25.5
Total Income (Rs m)	3,02,775	3,62,540	4,52,785	5,55,573
Surplus / Deficit (Rs m)	6,544	6,672	7,001	7,887
PAT (Rs m)	9,547	9,762	10,509	11,633
Growth (%)	10.9	2.3	7.7	10.7
EPS (Rs)	9.5	9.8	10.5	11.6
Embedded Value (Rs bn)	165.4	201.2	239.6	283.3

Profitability & Valuation	2017	2018E	2019E	2020E
NBP Margin Post overrun (%)	15.4	16.1	16.6	17.0
RoE (%)	18.6	16.4	15.6	15.3
Operating RoEV (%)	23.0	23.0	20.3	19.5
RoEV (%)	31.8	21.7	19.1	18.2
Dividend Yield (%)	0.2	0.3	0.3	0.4
Price / EV (x)	4.1	3.4	2.8	2.4

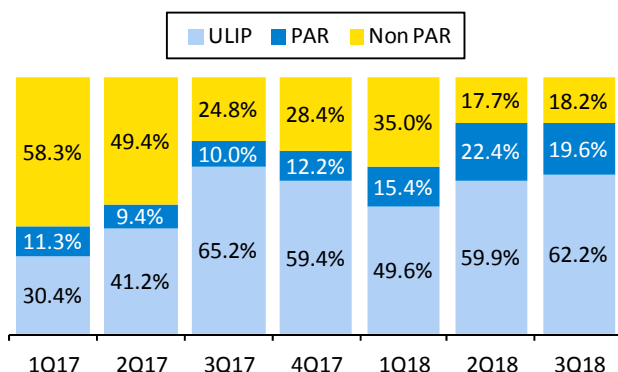
Source: Company Data; PL Research

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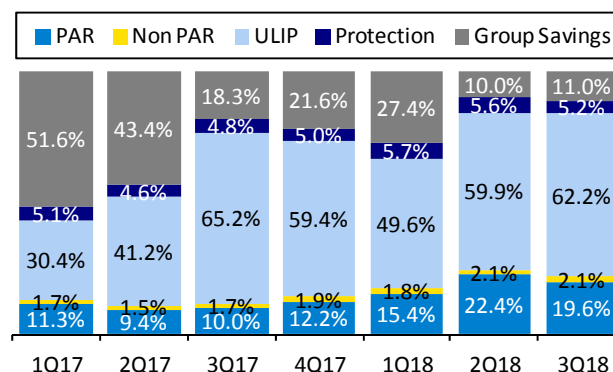
- SBI Life has de-grown its group fund business significantly and is now only 12% of total new business product mix from 27% earlier. However, it is has targeted of keeping it around 15 to 18% as this business gives them opportunities to cross sell in group term insurance segment and later also grow in individual product segment.
- SBI Life is well established in tier 2 & 3 cities and is 2nd or 3rd best in metro and Tier 1 cities after HDFC SL and ICICI Prulife. However, they have started focusing to garner business in affluent customer segment as well with the help of their parent via SBI Wealth Management services and provide services to the existing customers for starters.
- We believe the change in MD & CEO from Mr. Arijit Basu to Mr. Sanjeev Nautiyal s unlikely to make any difference to the growth and the future strategy of the company. Like Mr. Basu who has previously served as Chief General Manager of Delhi at SBI, Mr Nautial has served as the Chief General Manager of Ahmedabad circle.

Exhibit 1: PAR share has increased significantly; however overall mix is dominated by ULIPs



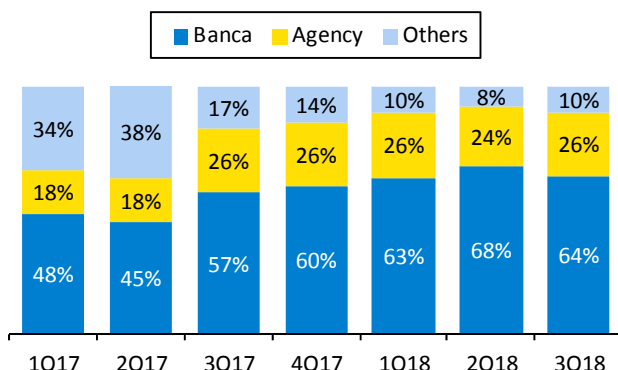
Source: Company Data, PL Research

Exhibit 2: Group fund business has come down quite steadily; whereas protection share stands at 6% for 9M18



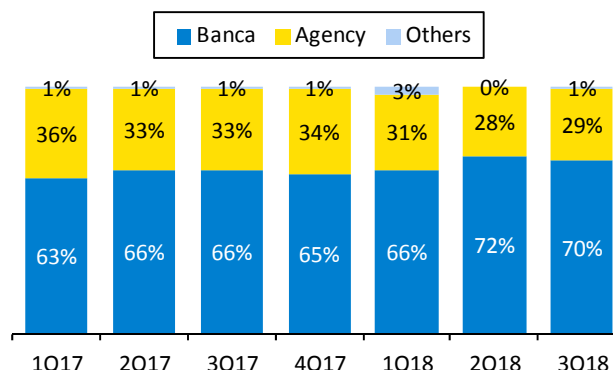
Source: Company Data, PL Research

Exhibit 3: Total New Business Sourcing Mix: Group Term Insurance is majorly acquired directly

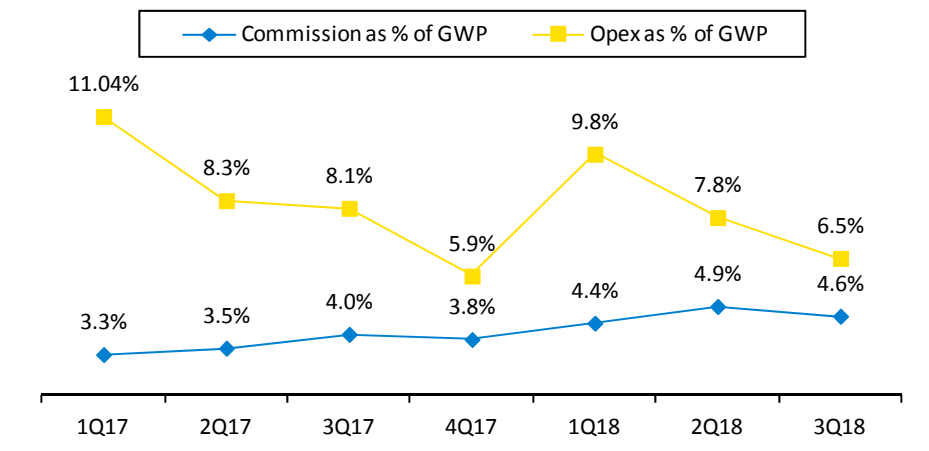


Source: Company Data, PL Research

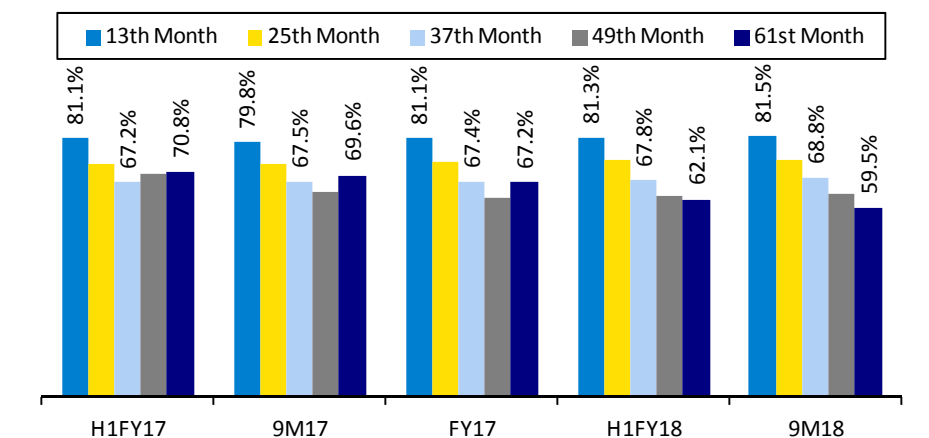
Exhibit 4: Individual New Business Sourcing Mix: Agency channel also contributes good growth



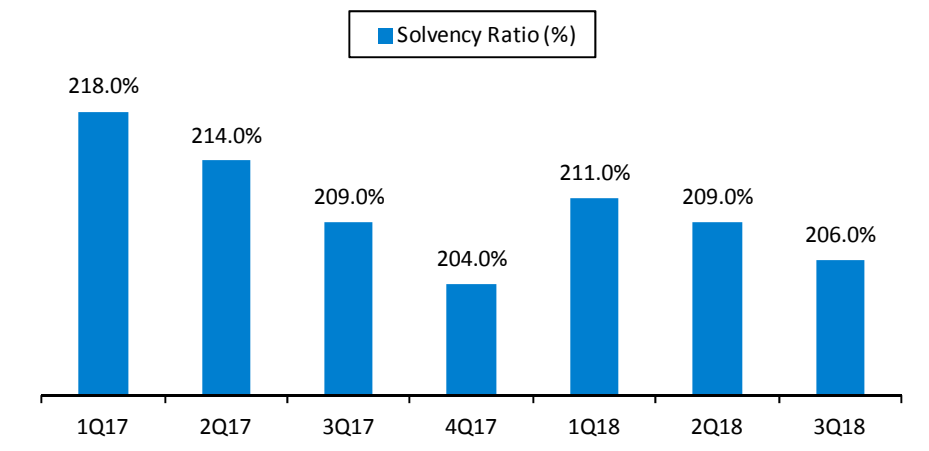
Source: Company Data, PL Research

Exhibit 5: Cost Ratios are the lowest for SBI Life amongst all peers


Source: Company Data, PL Research

Exhibit 6: Persistency Ratio across all buckets has been improving


Source: Company Data, PL Research

Exhibit 7: Solvency Ratio remains healthy even on high growth phase


Source: Company Data, PL Research

Exhibit 8: Change in estimates table

(Rs bn)	Old			Revised			% Change		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
APE	85.3	109.3	135.4	90.5	113.0	138.1	6.1	3.4	2.0
VNB	13.6	17.9	22.5	14.5	18.8	23.4	7.1	4.9	4.0
VNB Margin (%)	15.9	16.4	16.6	16.1	16.6	17.0	0.2	0.2	0.3
EV	200.2	240.5	286.4	201.2	239.6	283.3	0.5	(0.4)	(1.1)
Price target (Rs)	840			865			3.0		
Recommendation	BUY			BUY					

Source: Company Data, PL Research

Exhibit 9: We increase our TP to Rs865 (from Rs840) on 3.1x (from 2.9x) FY20E P/EV

PT calculation and upside	FY20E
Op RoEV	19.5%
CoE	12.5%
g	5.0%
Embedded value	283
Price / Embedded value	3.1
Appraisal Value	865
Number of shares, mn	1,000
Valuation per share	865
CMP	681
<i>Upside (%)</i>	<i>27%</i>

Source: Company Data, PL Research

Exhibit 10: Key metrics and EV movement

Rs bn	FY16	FY17	FY18E	FY19E	FY20E
APE	49.4	67.3	90.5	113.0	138.1
YoY growth (%)		36.2%	34.5%	24.9%	22.2%
NBV	7.0	10.4	14.5	18.8	23.4
YoY growth (%)		48.3%	40.3%	29.1%	24.7%
EV Movement					
Opening IEV	118.4	125.5	165.4	201.2	239.6
New Business Value	7.0	10.4	14.5	18.8	23.4
EVOP	22.5	28.9	38.0	40.9	46.6
Dividend payout	1.4	1.8	2.2	2.5	2.9
Closing EV	125.5	165.4	201.2	239.6	283.3
<i>Adjusted Net worth</i>		<i>70.0</i>	<i>77.5</i>	<i>85.5</i>	<i>94.6</i>
<i>Value in force (VIF)</i>		<i>95.4</i>	<i>123.8</i>	<i>154.0</i>	<i>188.7</i>
Ratios (%)					
NBAP margins	14.2%	15.4%	16.1%	16.6%	17.0%
RoEV	5.9%	31.8%	21.7%	19.1%	18.2%
Operating RoEV	19.0%	23.0%	23.0%	20.3%	19.5%

Source: Company Data, PL Research

Appendix

Exhibit 11: Policyholders' Account (Technical Account)

Technical account (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net earned premium	1,30,808	1,03,821	1,06,571	1,27,800	1,56,654	2,08,525	2,56,635	3,24,060	4,06,819
Investment income	5,831	43,739	63,540	1,02,429	33,409	92,950	1,04,442	1,27,079	1,46,901
Other income	2,009	2,879	3,435	1,669	1,128	1,301	1,463	1,646	1,852
Total Revenue	1,38,648	1,50,440	1,73,546	2,31,898	1,91,191	3,02,775	3,62,540	4,52,785	5,55,573
Commission expense	5,184	5,113	5,562	6,037	7,143	7,833	9,667	12,483	15,434
Operating expense	10,239	11,510	11,034	11,778	14,581	16,465	13,734	25,204	35,348
Benefit Cost	1,16,931	1,25,742	1,46,609	2,04,818	1,59,464	2,67,671	3,27,405	4,01,974	4,88,999
Total expense	1,32,794	1,43,124	1,65,295	2,24,913	1,84,548	2,96,231	3,55,868	4,45,784	5,47,686
Surplus / Deficit	5,854	7,316	8,251	6,985	6,644	6,544	6,672	7,001	7,887

Source: Company Data, PL Research

Exhibit 12: Shareholders' Account (Revenue Account)

Shareholder's a/c (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Transfer from policholders' account	5,969	7,384	8,396	7,044	6,656	6,546	6,672	7,001	7,887
Investment income	1,025	1,571	2,095	2,836	3,257	4,098	4,311	4,880	5,295
Expenses	1,436	2,733	3,090	1,535	1,175	898	1,021	1,157	1,311
Profit before tax	5,558	6,222	7,401	8,345	8,738	9,746	9,961	10,723	11,870
Tax expenses	-	-	-	144	127	199	199	214	237
Profit after tax	5,558	6,222	7,401	8,200	8,610	9,547	9,762	10,509	11,633

Source: Company Data, PL Research

Exhibit 13: Balance Sheet

Balance sheet (Rs m)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sources of Fund									
Shareholders' Fund	21,556	27,100	33,423	40,394	47,331	55,521	63,247	71,379	80,331
Borrowings	-	-	-	-	-	-	-	-	-
Policyholders' Funds: Insurance reserves and provisions	4,46,607	4,92,389	5,48,132	6,64,986	7,43,386	9,17,462	11,32,439	14,04,482	17,37,495
Others	1,001	3,700	8,410	16,726	16,529	19,270	22,160	25,484	30,071
Total	4,69,165	5,23,190	5,89,965	7,22,107	8,07,246	9,92,252	12,17,846	15,01,345	18,47,897
Application of Funds									
Shareholders' inv	13,608	18,116	23,535	30,702	35,649	42,955	50,756	57,682	66,896
Policyholders' inv	1,69,487	2,16,949	2,53,239	3,15,045	3,82,559	4,69,617	5,64,014	7,01,148	8,73,029
Assets to cover linked liabilities	2,64,682	2,65,479	2,85,973	3,48,101	3,60,219	4,45,730	5,64,034	6,97,617	8,54,992
Net Current Assets	17,453	19,593	24,007	25,526	23,111	26,783	30,800	35,420	41,796
Other Assets	3,935	3,054	3,213	2,733	5,708	7,167	8,242	9,478	11,184
Total	4,69,165	5,23,190	5,89,965	7,22,107	8,07,246	9,92,252	12,17,846	15,01,345	18,47,897

Source: Company Data, PL Research

Exhibit 14: Embedded Value

Embedded Value (Rs m)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Embedded Value			1,18,429	1,25,475	1,65,379	2,01,218	2,39,571	2,83,291
Annualised Premium Equivalent (APE)	28,746	32,043	35,511	48,781	66,009	90,497	1,13,022	1,38,136
New Business Value				6,990	10,368	14,548	18,783	23,422
New Business Margin (%)				14.2%	15.4%	16.1	16.6	17.0
EV Operating Profit				22,490	28,874	38,006	40,880	46,609
Operating RoEV (%)				19.0%	23.0%	22.98	20.32	19.46

Source: Company Data, PL Research

Exhibit 15: Key Ratios

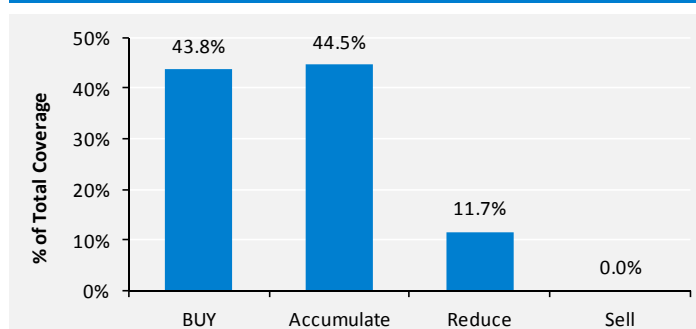
Key ratios	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Commission expense/GWP (%)	3.9%	4.9%	5.2%	4.7%	4.5%	3.7%	3.7%	3.6%	3.6%
Operating expense/GWP (%)	7.8%	11.0%	10.3%	9.2%	9.2%	7.8%	7.9%	7.7%	7.4%
Total expense/GWP (%)	11.7%	15.9%	15.5%	13.8%	13.7%	11.6%	11.6%	11.3%	11.1%

Source: Company Data, PL Research

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