

SBI Life Insurance (SBILIF)

Focus on opex & persistency to drive margins...

- Premium growth continued to remain healthy at 21% YoY to ₹ 25350 crore in FY18 (₹ 9237 crore in Q4FY18), led by 30% YoY growth in individual new business and 31% YoY in renewals. Protection business witnessed improved traction at 23% YoY to ₹ 600 crore forming 5% of NBP.
- AUM growth is healthy at 18.9% YoY to ₹116262 crore.
- Opex grew 19.8% YoY to ₹ 860 crore. Higher top-line growth led to improvement in opex ratio to 9.3% in Q4FY18 vs 9.8% in Q4FY17.
- Unlike peers, SBILIF continue to build normal tax rate of ~15.5% for calculating EV. Adopting effective tax in future for calculating EV will be margin accretive and offer further upside than estimated.

Heathy growth with focus on linked and protection business

SBI Life reported highest NBP growth among top private insurers at 35.45% CAGR in FY15-17, thereby increasing its market share to 20.04%. Led by a strong distribution franchise, we expect SBI Life's NBP to grow at 22.4% CAGR in FY18-20E, thereby gaining market share to the extent of 200-300 bps by FY18-20E. Improvement in economic conditions and focus on HNIs is expected to keep proportion of ULIP at ~58% in FY18-20E, growing at 31% CAGR to ₹ 25170 crore in FY20E. We expect protection contribution to rise from ~5% in FY18 to ~8-9% in FY20E.

Strong bancassurance, high agent productivity to drive growth

SBI Life has a big advantage due to its tie-up with SBI, which has a network of ~24000 branches. In addition, one of the largest (1,08,000 as on March 31, 2018) and productive (individual NBP of ~₹ 2,58,000 per agent) agency network adds to the distribution strength. We expect healthy traction in bancassurance at ~25.7% CAGR in FY18-20E, keeping it as major contributor to individual NBP at ~64.8% in FY20E.

Improvement in persistency & cost efficiency to keep margins steady

SBI Life has reported a consistent improvement in persistency across periods (61st month persistency rose from 25.5% in FY13 to 58.4% in FY18). Improvement in persistency, focus on high margin products and cost control may increase VNB margins by 50 bps to 16.7% in FY20E.

Growth, cost control & persistency to drive profitability; maintain BUY

SBI Life has maintained growth trajectory in last three years along with focus on profitability. We expect ~23% CAGR in EV in FY18-20E to ₹ 28858 crore, driven by 28.5% CAGR in VNB to ₹ 2199 crore in FY20E. Operating RoEV is seen at ~20% by FY20E. Given strong distribution network and continued control of cost, we remain positive on the fundamental strength. Therefore, we revise our target price upwards at ₹ 870 (3x FY20E EV) valuing the stock on an appraisal basis (EV + structural value) with 1.5x FY20E EV + 20x FY20E VNB. Maintain **BUY** rating.

Rating matrix		
Rating	:	Buy
Target	:	₹ 870
Target Period	:	12 months
Potential Upside	:	17%

What's Changed?	
Target	Changed from ₹ 760 to ₹ 870
EPS FY19E	Changed from ₹ 14 to ₹ 14.2
EPS FY20E	Changed from ₹ 14.4 to ₹ 16
Rating	Unchanged

Quarterly Performance					
₹ Crore	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Net premium	2541.8	2336.9	8.8	2386.8	6.5
Total revenue	10052.3	10775.7	-6.7	9586.2	4.9
PH Surplus	263.0	64.5	307.8	215.6	22.0
PAT	381.2	336.0	13.5	230.3	65.5

Key Financials				
₹ crore	FY17	FY18E	FY19E	FY20E
Premium	20853	25161	31702	39523
PH surplus	655	830	1235	1402
PAT	955	1151	1416	1597

Valuation summary				
	FY17E	FY18E	FY19E	FY20E
P/E	78.0	64.7	52.6	46.7
Target P/E	91.1	75.6	61.5	54.5
P/EV	4.5	3.9	3.2	2.6
Target P/EV	5.3	4.6	3.7	3.0
RoNW	18.6	19.1	20.2	19.6
VNB Margin	15.7	16.5	16.5	16.7

Stock data	
Market Capitalisation	₹ 74495 crore
EV (Q4FY18)	₹ 19070 crore
AUM (Q4FY18)	₹ 11626 crore
VNB margin (Q4FY18)	16.2%
52 week H/L	774/628
Net worth	₹ 65278 crore
Face value	₹ 10
DII holding (%)	3.3
FII holding (%)	4.3

Comparative Return Matrix (%)				
	1M	3M	6M	12M
SBI Life	15.0	11.8	NA	NA
Ipru Life	12.6	0.3	11.5	8.0
Max Financial	11.0	-5.7	-11.7	-20.8

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Exhibit 1: Financial summary

(₹ Crore)	FY16	FY17	FY18	FY19E	FY20E
New business premium	7106.5	10,143.8	10,972.5	13,433.6	16,432.2
APE	4878	6601	8428	10561	13166
Total premium	15665.5	20,852.5	25,160.5	31,702.2	39,522.8
PAT	844	955	1151	1416	1597
EV	12547.5	16,537.8	19,081.5	23,426.1	28,857.8
P/E (x)	80	71	59	48	42
P/BV (x)	14.3	12.2	10.3	9.0	7.7
P/IEV (x)	NA	4.1	3.5	2.9	2.3
RoEV (%)	NA	23.0	17.8	17.4	17.4

Source: SBI Life RHP, ICICI Direct Research

Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
First Year Premium	2,541.8	2,854.5	2,336.9	8.8	2,386.8	6.5	Growth slower in Q4 though strong full year; improvement in market share seen
Renewal Premium	5,524.44	5,451.36	4,190.92	31.8	3,904.06	41.5	Healthy conservation ratio at 85% led to growth
Single Premium	1,223.9	1,156.3	865.6	41.4	525.2	133.0	Higher single premium in Q4 led to moderate growth of 9.9% YoY in NBP APE
Net Premium income	9,236.7	9,462.1	7,346.0	25.7	6,776.2	36.3	
Income from Investments	720.5	294.0	3,348.9	-78.5	2,793.8	-74.2	Volatile equity market and elevated yield impacted investment income and simultaneously lowered actuarial liabilities.
Total revenue	10,052.3	9,771.1	10,775.7	-6.7	9,586.2	4.9	
Commission	375.9	326.0	283.2	32.8	312.4	20.3	Sequential improvement of ~50 bps in commission ratio to
Operating expenses	484.2	664.3	434.8	11.4	439.7	10.1	Improvement in efficiency led to total cost ratio at 9.3%
Management Expenses	860.1	990.3	718.0	19.8	752.1	14.4	
Benefits paid	3,501.3	3,498.0	2,659.8	31.6	2,913.8	20.2	
Change in Actuarial Liability	5,258.5	4,000.0	7,232.0	-27.3	5,592.2	-6.0	Volatility in equity and rise in bond yields kept actuarial liabilities lower
Total Expenses	9,789.3	8,568.0	10,711.2	-8.6	9,370.6	4.5	
Surplus/ (deficit)	263.0	1,203.1	64.5	307.8	215.6	22.0	Better experience in opex, lower actuarial liabilities led to increase in surplus
Transfer to SH's A/c	355.8	403.1	312.2	14.0	125.9	182.7	
Transfer from PH A/c	358.8	403.1	312.0	15.0	125.9	185.1	
Investment income	114.1	97.7	89.0	28.1	118.3	-3.6	
Profit/ (loss) before tax	389.2	448.8	332.2	17.1	240.5	61.8	
PAT	381.2	348.8	336.0	13.5	230.3	65.5	Healthy growth in premium and control on cost led to continued traction in bottom-line
Key Metrics							
NBP	3,765.7	4,010.8	3,202.5	17.6	2,911.9	29.3	
AUM	116,260.0	117,594.1	95,830.3	21.3	113,175.0	2.7	
IEV*	19,070.0		16,540.0	15.3	18,082.0	5.5	

*Company provides IEV on half yearly basis.

Source: Company, ICICI Direct Research

Change in estimates

	FY19E			FY20E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Premiums earned - Net	32,999.1	31,702.2	-3.9	41,350.0	39,522.8	-4.4
Total	43,998.4	42,588.3	-3.2	53,737.0	51,561.1	-4.0
Transfer to Shareholders' i	1,214.6	1,234.9	1.7	1,206.1	1,402.4	16.3
PAT	1,401.3	1,415.6	1.0	1,435.5	1,596.5	11.2
EV	239.0	234.3	-2.0	291.2	288.6	-0.9

Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier	
	FY17	FY18	FY19E	FY20E	FY19E	FY20E
NBP growth	42.7	8.2	22.4	22.3	21.2	21.3
AUM growth	23.1	19.6	18.0	21.4	22.0	21.9
EV Growth	0.0	15.3	22.8	23.2	23.1	21.8

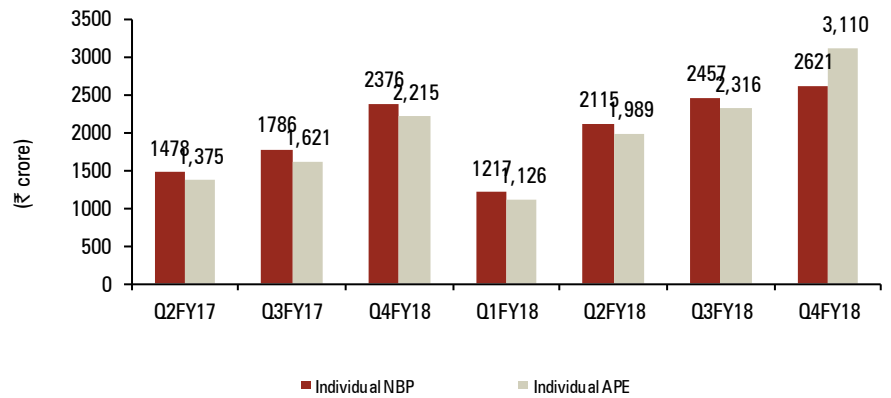
Company Analysis

Exhibit 2: Healthy NBP growth continues led by traction in individual business

NBP	FY15	FY16	FY17	Q1FY18	Q2FY18	Q3FY18	FY18	FY19E	FY20E
Individual products	3,606	4,827	6,372	1,217	2,115	2,457	8,350	10,242	12,803
Group saving products	1,493	1,649	3,284	494	249	319	2,020	3,192	3,630
Protection products	430	630	487	102	140	149	600		
Total NBP	5,529	7,107	10,144	1,800	2,489	2,912	10,972	13,434	16,432
Renewal premium	7,338	8,719	10,871	1,988	2,972	3,904	14,388	18,521	23,405
Total premium	12,867	15,825	21,015	3,763	5,385	6,776	25,361	31,954	39,837

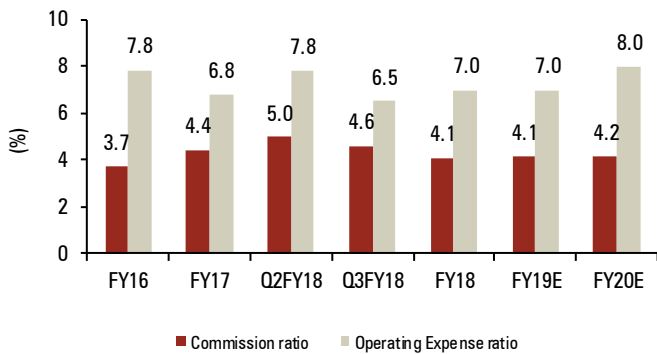
Source: Company, ICICI Direct Research

Exhibit 3: Robust growth in individual NBP (APE) at 31.2% YoY in FY18



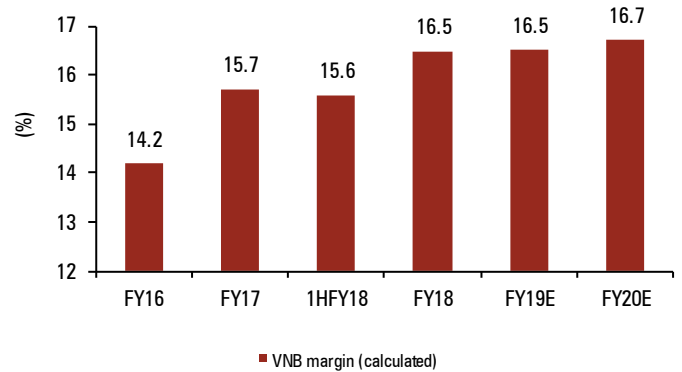
Source: Company, ICICI Direct Research

Exhibit 4: Continued focus to keep cost in check bodes well for margin



Source: Company, ICICI Direct, Research

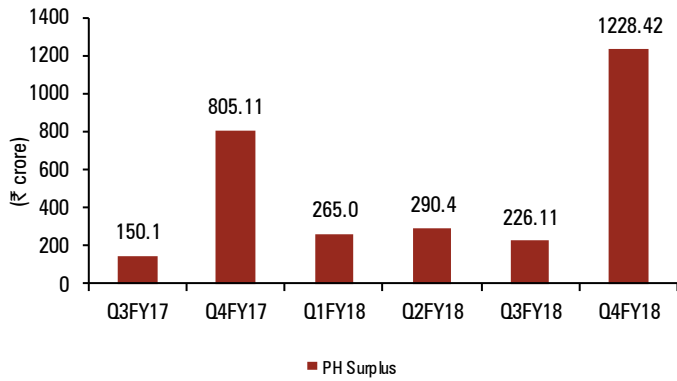
Exhibit 5: Strong NBP growth & cost efficiency to enable high VNB margins



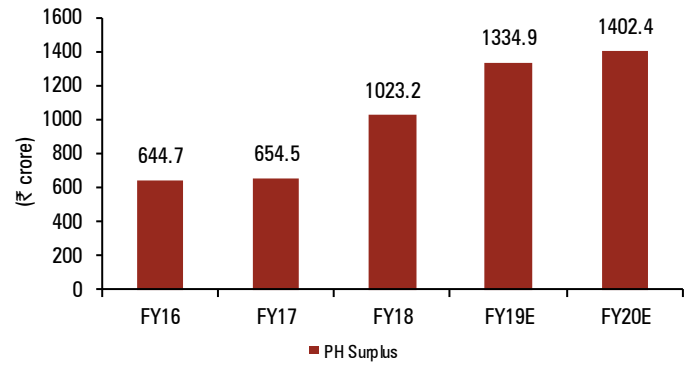
Source: Company, ICICI Direct, Research

Exhibit 6: Lower actuarial liability keeps PH surplus higher QoQ....

Exhibit 7: ...expect ~17% CAGR in PH surplus in FY18-20E



Source: Company, ICICI Direct, Research



Source: SBI Life RHP, ICICI Direct, Research

Exhibit 8: Persistency ratio (61 month) impacted by higher single premium sees revival in Q4FY18

Persistency ratio %	FY15	FY16	FY17	Q2FY18	Q3FY18	Q4FY18
13th Month	79.3	80.7	81.1	77.5	78.4	82.3
37th Month	79.2	69.2	67.4	67.8	69.5	68.0
61th Month	40.7	53.8	67.2	51.1	54.0	58.6

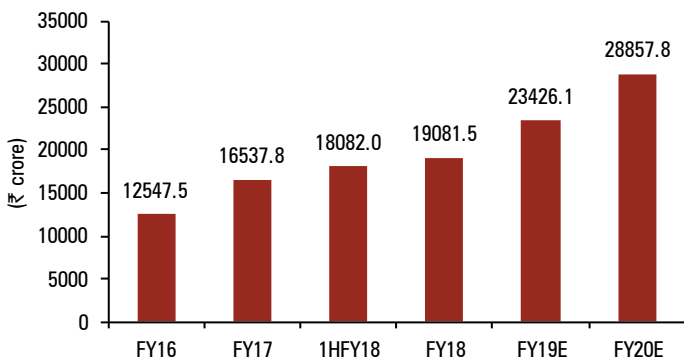
Source: Company, ICICI Direct Research

Exhibit 9: Investment growth expected at 19.7% CAGR in FY18-20E

	FY17	Q1FY18	Q2FY18	Q3FY18	FY18	FY19E	FY20E
Shareholders' investments	4,296	5,241	4,994	5,152	5,223	6,004	7,005
PH Fund Excl. Linked Assets	46,962	48,018	49,511	52,219	54,484	64,923	76,585
Assets held to cover linked liabilities	44,573	46,185	48,823	52,436	54,936	64,381	80,715
Total Investments	95,830	99,444	103,328	109,808	114,643	135,308	164,305

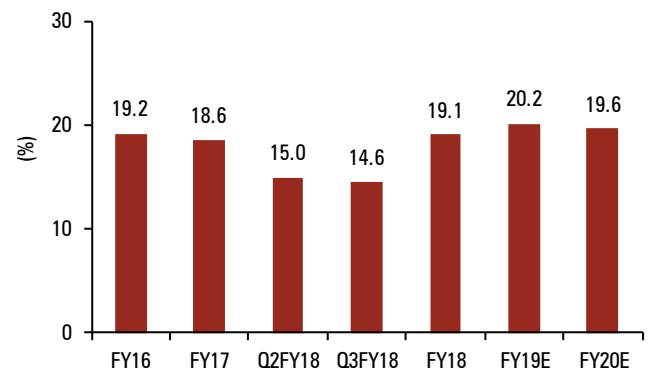
Source: Company, ICICI Direct Research

Exhibit 10: EV growth led by incremental NBP and lower surrender



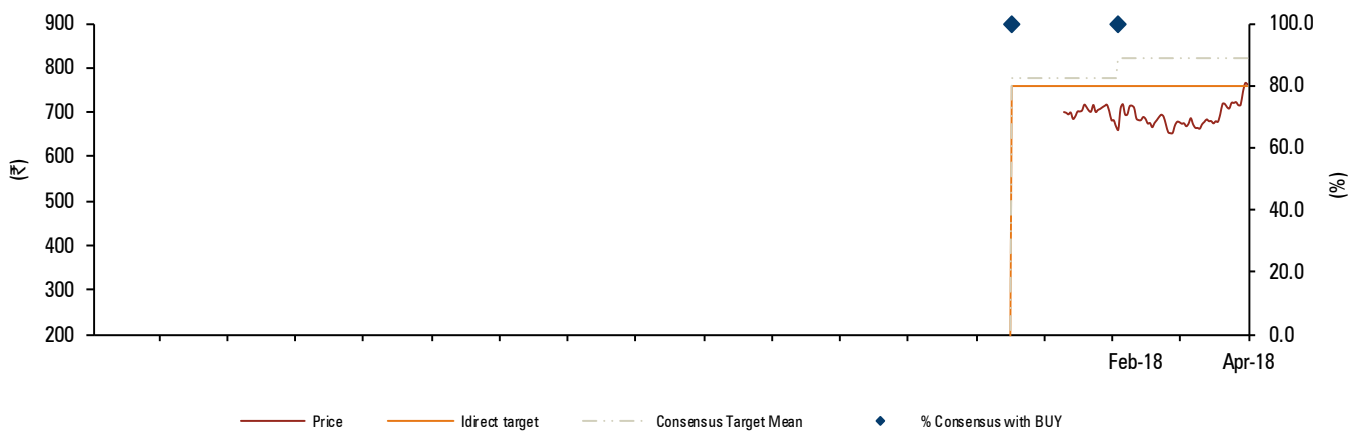
Source: Company, ICICI Direct, Research

Exhibit 11: Healthy premium growth to lead to higher RoE



Source: Company, ICICI Direct, Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	State Bank of India	31-12-2017	62.10%	621.00M	+621.00M
2	BNP Paribas Asset Management Asia Limited	31-12-2017	22.00%	220.00M	+218.92M
3	MacRitchie Investments Pte. Ltd.	31-12-2017	1.95%	19.50M	+19.50M
4	Value Line Pte. Ltd.	31-12-2017	1.95%	19.50M	+19.50M
5	GIC Private Limited	31-12-2017	1.07%	10.72M	+10.72M
6	Reliance Nippon Life Asset Management Limited	31-03-2018	0.84%	8.36M	+0.15M
7	ICICI Prudential Asset Management Co. Ltd.	31-03-2018	0.56%	5.61M	+0.16M
8	Baron Capital Management, Inc.	31-12-2017	0.47%	4.70M	+4.70M
9	Aditya Birla Sun Life AMC Limited	31-03-2018	0.42%	4.23M	+0.43M
10	DSP BlackRock Investment Managers Pvt. Ltd.	31-03-2018	0.33%	3.29M	0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	96.1	96.1	84.1	84.1	84.1
FII			4.1	4.5	4.3
DII			3.0	4.1	3.3
Others	3.9	3.9	8.8	7.3	8.3

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
State Bank of India	+6,765.05M	+621.00M	Janus Henderson Investors	-9.73M	-0.89M
BNP Paribas Asset Management Asia Limited	+2,384.87M	+218.92M	Kotak Mahindra Asset Management Company Ltd.	-4.80M	-0.46M
MacRitchie Investments Pte. Ltd.	+212.43M	+19.50M	BlackRock Investment Management (UK) Ltd.	-4.55M	-0.45M
Value Line Pte. Ltd.	+212.43M	+19.50M	HSBC Global Asset Management (India) Private Limited	-2.37M	-0.23M
GIC Private Limited	+116.81M	+10.72M	L&T Investment Management Limited	-2.38M	-0.23M

Source: Reuters, ICICI Direct Research

Financial Summary

Exhibit 12: Policyholders Account

(₹ Crore)	FY16	FY17	FY18	FY19E	FY20E
Premiums earned - Net	15665.5	20852.5	25160.5	31702.2	39522.8
Income from Investments	3340.9	9295.0	8456.3	10742.6	11894.0
Other income	19.7	67.4	68.6	75.4	83.0
Contribution from the Shareholders' account	93.7	62.7	75.6	68.1	61.3
Total	19,119.8	30,277.6	33,761.0	42,588.3	51,561.1
Commission	714.3	783.3	1120.7	1305.8	1649.8
Operating expenses	1480.9	1646.5	1719.4	2236.8	2788.6
Benefits paid (Net)	7958.5	9526.1	11712.0	13372.1	15930.6
Change in valuation of policy liabilities	7986.9	17241.0	17595.0	23570.9	28832.7
Others	7.4	24.1	5.5	6.6	7.9
Provision for tax	327.2	402.2	585.2	761.2	949.0
Surplus/(deficit) after tax	644.7	654.5	1023.2	1334.9	1402.4
Transfer to Shareholders' account	651.8	654.7	829.7	1,234.9	1,402.4

Source: SBI Life RHP, ICICI Direct Research

Exhibit 13: Shareholders Account

(₹ Crore)	FY16	FY17	FY18	FY19E	FY20E
Amounts transferred from Policyholders' account	651.8	654.7	829.7	1234.9	1402.4
Income from investments	325.7	409.8	462.7	514.4	557.6
Total	977.5	1,064.5	1,292.4	1,749.3	1,960.0
Expenses other than insurance	28.7	27.1	32.0	35.2	42.3
Contribution to Policyholders' account	93.7	62.7	75.6	68.1	61.3
Others	3.0	4.0	7.4	4.0	4.0
Profit before Tax	855.2	974.7	1184.9	1646.0	1856.4
Provision for tax	11.0	19.9	34.1	230.4	259.9
PAT	844.2	954.7	1,150.8	1,415.6	1,596.5

Source: SBI Life RHP, ICICI Direct Research

Exhibit 14: Balance Sheet

(₹ Crore)	FY16	FY17	FY18	FY19E	FY20E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	3691	4465	5375	6485	7737
Credit/[debit] fair value change account	42	87	153	20	20
Networth	4733	5552	6529	7505	8757
Policyholders' funds	75991	93673	111434	135005	163838
Total Liabilities	80724	99225	118157	142804	172889
Applications of Funds					
Shareholders' investments	3565	4296	5223	6004	7005
Policyholders' investments	38256	46962	54484	64923	76585
Asset held to cover linked liabilities	36022	44573	54936	64381	80715
Loans	124	178	171	188	212
Fixed assets - net block	447	538	581	663	755
Net current assets	2311	2678	2761	6645	7615
Total Assets	80724	99225	118157	142804	172889

Source: SBI Life RHP, ICICI Direct Research

Exhibit 15: Key Ratios

(Year-end March)	FY16	FY17	FY18E	FY19E	FY20E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	8.4	9.6	11.5	14.2	16.0
DPS (₹)	1.2	1.5	2.0	2.5	2.9
BV (₹)	47.3	55.5	65.3	75.1	87.6
EV per share	125	165	191	234	289
P/E	80.0	70.7	58.7	47.7	42.3
P/BV	14.3	12.2	10.3	9.0	7.7
P/IEV	NA	4.1	3.5	2.9	2.3
Efficiency Ratios (%)					
Commission expenses as a % of Gross					
Premium	4.5	3.7	4.4	4.1	4.1
Management expenses incl commission as a %	13.9	11.6	11.2	11.1	11.1
Return Ratios and capital (%)					
Return on Net worth	19.2	18.6	19.1	20.2	19.6
Operating RoEV	NA	23.0	17.8	17.4	17.4
Solvency Ratio	212	204	200	195	200
Key Ratios (%)					
Conservation Ratio	81.7	81.4	84.2	82.2	81.4
VNB Margin		15.7	16.5	16.5	16.7
Surrender Ratio	4.7	5.7	5.3	4.9	4.7
Benefits paid as a % of Opening Liability	11.7	12.5	12.5	12.0	11.8
NBP (proportion %)					
Traditional	54.5	49.5	39.5	39.0	38.2
Linked	45.5	50.5	60.5	61.0	61.8

Source: SBI Life RHP, ICICI Direct Research

Exhibit 16: Key parameters

(Year-end March)	FY16	FY17	FY18E	FY19E	FY20E
NBP	7,106.5	10,143.8	10,972.5	13,433.6	16,432.2
Growth (%)		42.7	8.2	22.4	22.3
Linked	3233.3	5122.9	6639.9	8191.2	10147.4
Growth (%)		58.4	29.6	23.4	23.9
Non Linked	3873.2	5020.9	4332.6	5242.5	6284.8
Growth (%)		29.6	-13.7	21.0	19.9
APE	4878.1	6600.9	8540.0	10561.2	13165.5
Growth (%)		35.3	29.4	23.7	24.7
VNB		1036.8	1390.0	1742.6	2198.6
Growth (%)			34.1	25.4	26.2
EV	12547.5	16537.8	19070.0	23426.1	28857.8
Growth (%)			15.3	22.8	23.2
AUM	77842.7	95830.3	114643.4	135308.1	164305.0
Growth (%)		23.1	19.6	18.0	21.4
PH Funds	74277.8	91534.8	109420.4	129304.0	157299.5
Growth (%)		23.2	19.5	18.2	21.7
SH Funds	3564.9	4295.5	5223.0	6004.2	7005.5
Growth (%)		20.5	21.6	15.0	16.7

Source: SBI Life RHP, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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