Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

SBI Life Insurance Company (SBILIFE IN)

Rating: BUY | CMP: Rs673 | TP: Rs840

July 20, 2018

Q1FY19 Result Update

Key Financials

Y/e March	FY17	FY18	FY19E	FY20E
Net Premiums (Rs m)	2,08,525	2,51,601	3,06,386	3,79,779
- Growth (%)	*33.1*	*20.7*	*21.8*	*24.0*
Surplus / Deficit (Rs m)	6,544	10,229	10,646	11,661
PAT (Rs m)	9,547	11,504	13,759	14,707
- Growth (%)	*10.9*	*20.5*	*19.6*	*6.9*
EPS (Rs)	9.5	11.5	13.8	14.7
Emb. Value (Rs bn)	165.4	190.8	223.5	265.9
NBP Margin (%) post overrun	15.4	16.2	17.1	18.0
RoE (%)	18.6	19.0	19.4	17.8
Operating RoEV (%)	23.0	17.9	19.0	19.6
RoEV (%)	31.8	15.4	17.1	19.0
Dividend yield (%)	0.2	0.3	0.3	0.4
Price/EV (x)	4.1	3.5	3.0	2.5
Ap. Value/EV (x)	5.1	4.4	3.8	3.2

Key Data	SBIL.BO | SBILIFE IN
52-W High / Low	Rs.775 / Rs.625
Sensex / Nifty	36,984 / 11,167
Market Cap	Rs.807.4bn/ $ 55,449m
Shares Outstanding	2,012.5m
3M Avg. Daily Value	Rs.912.5m

Shareholding Pattern (%)

Promoter's	84.10
Foreign	4.31
Domestic Institution	4.91
Public & Others	6.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.5)	(2.4)	-
Relative	(2.2)	(3.0)	-

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Continued improvement in biz yielding results

Quick Pointers

- Company focuses to grow in protection (both segments) and also move into digitization across channels on large scale.
- Individual protection new business sawWrobust growth of 58% YoY which is sourced from all channels i.e. banca, agency and online.

SBI Life's new business APE growth was slow at 2% YoY largely due its ongoing process to move in digitally. Protection segment saw strong growth both in individual and group taking the share to 10% of overall product mix on total new business basis (5.5% in FY18). We have also seen margin expansion of 80bps to 17% in 1QFY19. Persistency Ratio has also improved across all buckets after adjusting single premium which can be reflected in strong renewal premium growth of ~35% YoY. We have reduced our APE growth estimates for FY19 and FY20 as management has reduced guidance from 30% to 25% for FY19. We maintain our recommendation of BUY with TP of Rs840 (reduced from Rs860) translating to 3.2x FY20E EV as valuations remain attractive.

- **APE growth was slow on new developments in business:** SBI Life's APE growth was slow at 2% YoY for 1Q19 as company focused to move into digitization across channels on large scale causing slight disruption. Management has reduced APE growth guidance from 30% to 25% for FY19 as it caps its growth in certain product segments for better profitability, group term life being one of them. They expect to do group term biz of Rs1.8bn for FY19 as against Rs2bn in FY18 due to competitive prices.
- **Protection business sees strong growth:** Protection new business saw robust growth of 105% YoY led by both individual and group segments. Individual segment saw strong performance of 58% YoY on innovative products in health and combination of protection cum savings coupled with simplified underwriting process. Individual protection biz was good from all three channels, banca, agency and online. Within group protection, credit life saw robust growth while group term insurance growth was slow which is expected to see pick up going ahead. Group credit life portfolio comprises 55% of home loans and 38% of personal loans; whereas on premium collected basis, more than 92% pertains to home loans.
- **Operating metrics see improvement:** Total expense ratio saw sequential improvement on all fronts, however going ahead we believe opex ratios to deteriorate slightly on branch additions. Persistency ratio has improved across all buckets after adjusting single premium with 49^{th} and 61^{st} month persistency at 58.7% and 45.7%, up from 55.3% and 44.2% in 1Q18.
- **Margins see 80bps expansion over FY18:** Margins have expanded by 80bps to 17% mainly on increasing growth in protection business and change in premium type from regular to single premium for group credit life. Other assumptions factored in the margins are as per FY18 and shall see revision if required at year end.

Exhibit 1: Profitability has risen on improving operating parameters

(Rs m)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	47,590	37,881	*25.6*	92,901	*(48.8)*
Net Premium Income	47,545	37,626	*26.4*	92,367	*(48.5)*
Income from Investments (Net)	20,953	26,070	*(19.6)*	7,205	*190.8*
Total (A)	**68,655**	**63,884**	***7.5***	**1,00,523**	***(31.7)***
Net Commission	1,959	1,651	*18.6*	3,759	*(47.9)*
Opex related to Insurance	4,594	3,718	*23.5*	4,842	*(5.1)*
Benefits Paid (Net)	21,648	26,280	*(17.6)*	35,013	*(38.2)*
Change in actuarial liability	34,911	27,848	*25.4*	52,585	*(33.6)*
Total (B)	**65,491**	**61,288**	***6.9***	**97,893**	***(33.1)***
Surplus / (Deficit)	**3,164**	**2,595**	***21.9***	**2,630**	***20.3***
Shareholders' Account					
Trf from Policyholders A/c	2,424	2,180	*11.2*	3,558	*(31.9)*
Investment Income	1,240	1,070	*15.9*	1,141	*8.7*
Total	**3,698**	**3,285**	***12.6***	**4,727**	***(21.8)***
Expenses other than related to insurance	73	63	*16.4*	73	*(0.4)*
Trf to Policyholders A/c	-	-	*NA*	756	*NA*
Profit/(Loss) before Tax	**3,633**	**3,222**	***12.7***	**3,891**	***(6.6)***
Provision for Taxation	89	88	*2.1*	79	*12.6*
Profit/(Loss) after Tax	**3,543**	**3,134**	***13.0***	**3,812**	***(7.0)***
Ratios					
Expense Ratio	9.7	9.8	*(16)*	5.2	*444*
Commission Ratio	4.1	4.4	*(24)*	4.0	*7*
Cost / TWRP	13.8	14.2	*(41)*	9.3	*451*

Source: Company, PL

Exhibit 2: APE growth was slow; whereas protection growth was robust in both segments

Rs Mn	Q1FY19	Q1FY18	YoY Chg.	Q4FY18	QoQ Chg.	FY18	FY17	YoY Chg.
New Business APE	***13,100***	***12,828***	***2.1***	***26,900***	***(51.3)***	***85,400***	***67,300***	***26.9***
Individual	12,100	11,096	*9.0*	24,400	*(50.4)*	77,900	59,400	*31.1*
Group	1,000	1,732	*(42.3)*	2,500	*(60.0)*	7,500	7,900	*(5.1)*
Total New Business	***20,763***	***18,000***	***15.3***	***37,657***	***(44.9)***	***1,09,661***	***1,01,439***	***8.1***
Savings	18,663	16,978	*9.9*	35,557	*(47.5)*	1,03,661	96,539	*7.4*
Protection	2,100	1,022	*105.5*	2,100	-	6,000	4,900	*22.4*
%								
Savings	89.9	94.3	*(444)*	94.4	*(454)*	94.5	95.2	*(64.1)*
Protection	10.1	5.7	*444*	5.6	*454*	5.5	4.8	*64.1*
VNB	2,200	-	*NA*	4,600	***(51.5)***	**13,900**	**10,400**	***33.7***
VNB Margin (%)	**17.0**	**-**	***NA***	**17.1**	*(10.0)*	16.2	15.4	*80.0*

Source: Company, PL

Exhibit 3: **Renewal premium and group new biz growth was strong; whereas retail new biz growth was slightly slow**

Rs Mn	Q1FY19	Q1FY18	*YoY Chg.*	Q4FY18	*QoQ Chg.*	FY18	FY17	*YoY Chg.*
Retail New Business	13,300	12,170	*9.3*	26,200	*(49.2)*	84,100	64,700	*30.0*
Group New Business	7,463	5,830	*28.0*	11,457	*(34.9)*	25,561	36,739	*(30.4)*
Renewal Premium	26,826	19,880	*34.9*	55,244	*(51.4)*	1,43,881	1,08,713	*32.3*
Gross Weighted Premium	**47,590**	**37,881**	***25.6***	**92,901**	***(48.8)***	**2,53,542**	**2,10,151**	***20.6***

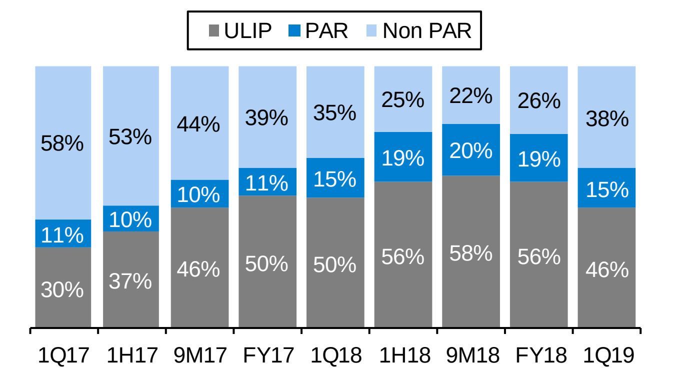
Source: Company, PL

Exhibit 4: **Growth was slow in savings product whereas protection saw strong performance**

Total NB Product Mix	Q1FY19	Q1FY18	*YoY Chg.*	Q4FY18	*QoQ Chg.*	FY18	FY17	*YoY Chg.*
Rs Mn								
Individual Savings	**13,100**	**12,039**	***8.8***	**26,000**	***(49.6)***	**83,500**	**63,700**	***31.1***
PAR	3,200	2,778	*15.2*	6,200	*(48.4)*	20,300	10,900	*86.2*
Non PAR	300	332	*(9.6)*	700	*(57.1)*	2,100	1,700	*23.5*
ULIP	9,500	8,930	*6.4*	19,000	*(50.0)*	61,000	51,100	*19.4*
Group Savings	**5,600**	**4,939**	***13.4***	**9,600**	***(41.7)***	**20,200**	**32,800**	***(38.4)***
Protection	**2,100**	**1,022**	***105.5***	**2,100**	**-**	**6,000**	**4,900**	***22.4***
(%)								
Individual Savings	**63.0**	**66.9**	***(389.9)***	**69.1**	***(616.8)***	**76.2**	**62.8**	***1,336.6***
PAR	15.4	15.4	*(4.8)*	16.5	*(110.5)*	18.5	10.7	*777.2*
Non PAR	1.4	1.8	*(40.2)*	1.9	*(41.9)*	1.9	1.7	*24.0*
ULIP	45.7	49.6	*(393.5)*	50.5	*(485.9)*	55.7	50.4	*526.2*
Group Savings	**26.9**	**27.4**	***(51.4)***	**25.5**	***139.1***	**18.4**	**32.3**	***(1,391.6)***
Protection	**10.1**	**5.7**	***441.9***	**5.6**	*451.1*	**5.5**	**4.8**	*64.2*

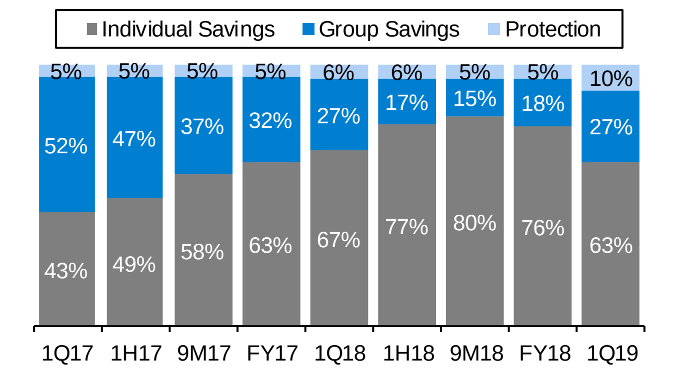
Source: Company, PL

Exhibit 5: **Total NB Product Mix: Non PAR sees high traction**



Source: Company, PL

Exhibit 6: **Total NB Product Mix: Protection and Group Savings see high traction**



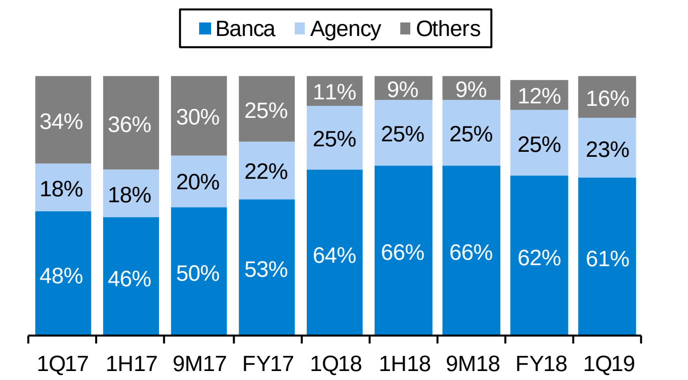
Source: Company, PL

Exhibit 7: Mixed performance across channels

Rs Mn	Q1FY19	Q1FY18	*YoY Chg.*	Q4FY18	*QoQ Chg.*	FY18	FY17	*YoY Chg.*
Total NB Sourcing Mix Breakup								
Banca	12,688	11,383	*11.5*	20,432	*(37.9)*	67,952	53,742	*26.4*
Agency	4,784	4,749	*0.7*	9,400	*(49.1)*	27,400	22,308	*22.8*
Others	3,328	1,869	*78.1*	6,672	*(50.1)*	13,152	25,350	*(48.1)*
Indv APE Sourcing Mix Breakup								
Banca	7,986	7,376	*8.3*	15,522	*(48.6)*	52,972	38,610	*37.2*
Agency	3,977	3,413	*16.5*	8,634	*(53.9)*	24,149	20,196	*19.6*
Others	137	306	*(55.2)*	244	*(43.8)*	779	594	*31.1*

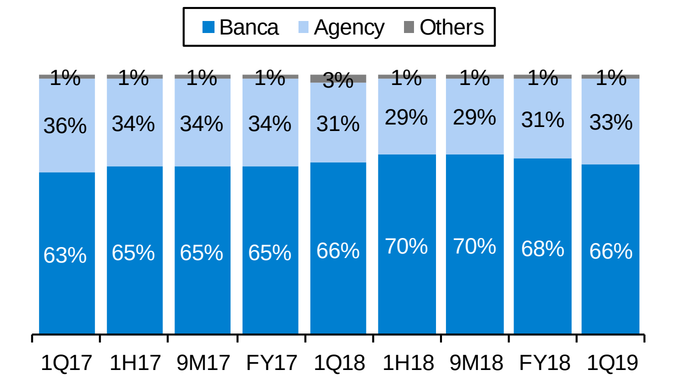
Source: Company, PL

Exhibit 8: Total NB Sourcing Mix: Remains broadly similar



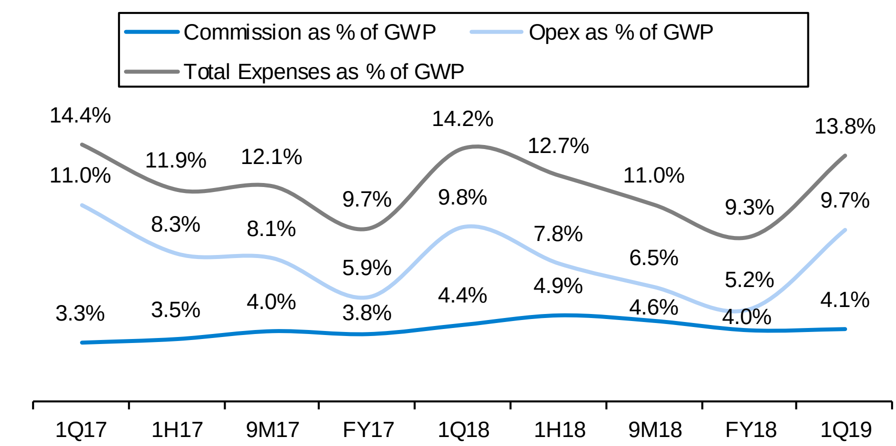
Source: Company, PL

Exhibit 9: Individual APE Sourcing Mix: Remains broadly similar



Source: Company, PL

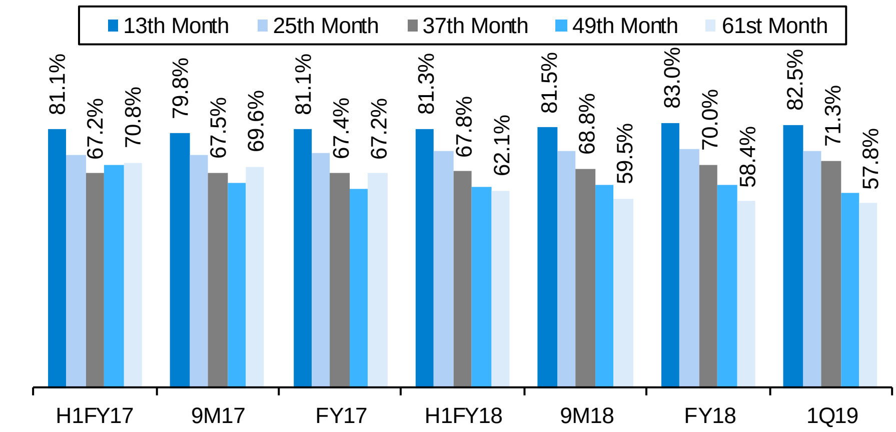
Exhibit 10: Total expense ratio sees sequential improvement led by both parameters



Source: Company, PL

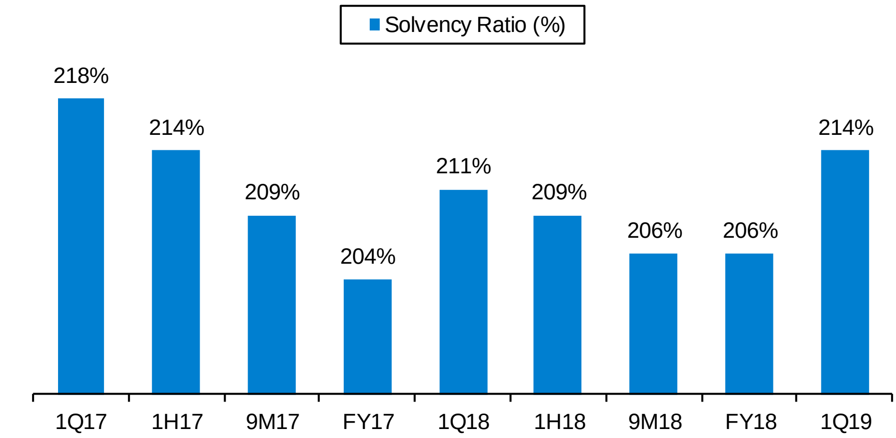
Persistency ratio has improved across all buckets after adjusting single premium with 49th and 61st month persistency at 58.7% and 45.7% from 55.3% and 44.2% in 1Q18

Exhibit 11: **Persistency Ratio incl. single premium sees deterioration on account of particular cohort's bad performance in the past**



Source: Company, PL

Exhibit 12: **Solvency Ratio is very healthy despite strong growth in protection**



Source: Company, PL

Exhibit 13: **Change in estimates table – We have reduced APE growth estimates**

	Old		Revised		% Change	
Rs Bn	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
APE	108.9	138.0	106.2	130.8	*(2.4)*	*(5.2)*
VNB	18.6	24.8	18.2	23.5	*(2.4)*	*(5.2)*
VNB Margin (%)	17.1	18.0	17.1	18.0	-	-
EV	223.9	267.7	223.5	265.9	*(0.2)*	*(0.7)*
Price target (Rs)	**860**		**840**		***0.0***	
Recommendation	**BUY**		**BUY**			

Source: Company, PL

Exhibit 14: We reduce our TP to Rs840 (from Rs860) on 3.2x P/EV FY20E

PT calculation and upside	
Op RoEV	19.6%
CoE	12.5%
g	5.0%
Embedded value	**266**
Price / Embedded value	**3.2**
Appraisal Value	**840**
Number of shares, mn	1,000
Valuation per share	**840**
CMP	673
Upside (%)	*24.9%*

Source: Company, PL

Exhibit 15: Key Metrics and EV movement

Rs bn	FY16	FY17	FY18	FY19E	FY20E
APE	49.4	67.3	85.4	106.2	130.8
YoY growth (%)		36.2	26.9	24.4	23.1
NBV	7.0	10.4	13.8	18.2	23.5
YoY growth (%)		48.3	33.4	31.4	29.3
EV Movement					
Opening IEV	118.4	125.5	165.4	190.8	223.5
New Business Value	7.0	10.4	13.8	18.2	23.5
EVOP	22.5	28.9	29.6	36.2	43.8
Dividend payout	1.4	1.8	2.4	2.5	2.9
Closing EV	**125.5**	**165.4**	**190.8**	**223.5**	**265.9**
Adjusted Net worth		*70.0*	*74.7*	*86.2*	*98.3*
Value in force (VIF)		*95.4*	*116.1*	*137.3*	*167.6*
Ratios (%)					
NBAP margins	14.2	15.4	16.2	17.1	18.0
RoEV	5.9	31.8	15.4	17.1	19.0
Operating RoEV	19.0	23.0	17.9	19.0	19.6

Source: Company, PL

Appendix

Exhibit 16: Policyholders' Account (Technical Account)

Policyholders' Account	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net earned premium	1,30,808	1,03,821	1,06,571	1,27,800	1,56,654	2,08,525	2,51,601	3,06,386	3,79,779
Investment income	5,831	43,739	63,540	1,02,429	33,409	92,950	84,563	1,24,270	1,43,867
Other income	2,009	2,879	3,435	1,669	1,128	1,301	1,442	1,625	1,832
Total Revenue	**1,38,648**	**1,50,440**	**1,73,546**	**2,31,898**	**1,91,191**	**3,02,775**	**3,37,605**	**4,32,282**	**5,25,478**
Commission expense	5,184	5,113	5,562	6,037	7,143	7,833	11,209	13,163	15,527
Operating expense	10,239	11,510	11,034	11,778	14,581	16,465	17,188	19,751	24,334
Benefit Cost	1,16,931	1,25,742	1,46,609	2,04,818	1,59,464	2,67,671	2,92,725	3,86,149	4,70,484
Total expense	**1,32,794**	**1,43,124**	**1,64,102**	**2,24,913**	**1,84,548**	**2,96,231**	**3,27,376**	**4,21,636**	**5,13,817**
Surplus / Deficit	**5,854**	**7,316**	**9,444**	**6,985**	**6,644**	**6,544**	**10,229**	**10,646**	**11,661**

Source: Company, PL

Exhibit 17: Shareholders' Account (Revenue Account)

Shareholders' Account	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Transfer from policholders' account	5,969	7,384	8,396	7,044	6,656	6,546	8,294	10,646	11,661
Investment income	1,025	1,571	2,095	2,836	3,257	4,098	4,634	4,615	4,730
Expenses	1,436	2,733	3,090	1,535	1,175	898	1,083	1,220	1,384
Profit before tax	**5,558**	**6,222**	**7,401**	**8,345**	**8,738**	**9,746**	**11,845**	**14,040**	**15,007**
Tax expenses	-	-	-	144	127	199	341	281	300
Profit after tax	**5,558**	**6,222**	**7,401**	**8,200**	**8,610**	**9,547**	**11,504**	**13,759**	**14,707**

Source: Company, PL

Exhibit 18: Balance Sheet

Balance Sheet	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Sources of Fund									
Shareholders' Fund	21,556	27,100	33,423	40,394	47,331	55,521	65,278	76,740	88,876
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	10,91,622	13,51,493	16,77,710
Others	1,001	3,700	8,410	16,726	16,529	19,270	24,658	26,131	30,835
Total	**4,69,165**	**5,23,190**	**5,89,965**	**7,22,107**	**8,07,246**	**9,92,252**	**11,81,558**	**14,54,364**	**17,97,422**
Application of Funds									
Shareholders' inv	13,608	18,116	23,535	30,702	35,649	42,955	50,143	47,005	58,102
Policyholders' inv	1,69,487	2,16,949	2,53,239	3,15,045	3,82,559	4,69,617	5,44,857	6,72,204	8,35,154
Assets to cover linked liab.	2,64,682	2,65,479	2,85,973	3,48,101	3,60,219	4,45,730	5,49,359	6,92,377	8,53,686
Net Current Assets	17,453	19,593	24,007	25,526	23,111	26,783	29,677	34,129	40,272
Other Assets	3,935	3,054	3,213	2,733	5,708	7,167	7,522	8,650	10,207
Total	**4,69,165**	**5,23,190**	**5,89,965**	**7,22,107**	**8,07,246**	**9,92,252**	**11,81,558**	**14,54,364**	**17,97,422**

Source: Company, PL

Exhibit 19: **Embedded Value**

Embedded Value	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Embedded Value			1,18,429	1,25,475	1,65,379	1,90,813	2,23,489	2,65,934
Annualised Premium Equivalent (APE)	28,746	32,043	35,511	49,390	67,273	84,220	1,06,213	1,30,791
New Business Value				6,990	10,368	13,835	18,175	23,507
New Business Margin (%)				14.2	15.4	16.2	17.1	18.0
EV Operating Profit				22,490	28,874	29,635	36,203	43,833
Operating RoEV (%)				19.0	23.0	17.9	19.0	19.6

Source: Company, PL

Exhibit 20: **Key Ratios**

Key Ratio	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Commission expense/GWP (%)	3.9	4.9	5.2	4.7	4.5	3.7	4.4	4.3	4.1
Operating expense/GWP (%)	7.8	11.0	10.3	9.2	9.2	7.8	6.8	6.4	6.4
Total expense/GWP (%)	11.7	15.9	15.5	13.8	13.7	11.6	11.2	10.7	10.4

Source: Company, PL

PL’s Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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