October 22, 2018

Rating matrix		
Rating	:	Buy
Target (₹)	:	745
Target Period	:	12 months
Potential Upside	:	33%

What's Changed?	
Target	Changed from ₹ 870 to ₹ 745
EPS FY19E	Changed from ₹ 14.2 to ₹ 14.1
EPS FY20E	Changed from ₹ 16 to ₹ 15.8
Rating	Unchanged

Quarterly Performance

₹ Crore	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Net premium	2221.9	2039.0	9.0	1209.7	83.7
Total revenue	9638.2	7734.5	24.6	6865.5	40.4
PH Surplus	289.1	285.0	1.4	316.4	-8.6
PAT	250.5	225.5	11.1	354.3	-29.3

Key Financials

₹ crore	FY17	FY18E	FY19E	FY20E
Premium	20853	25161	31596	39303
PH surplus	655	830	1224	1387
PAT	955	1151	1406	1583

Valuation summary

	FY17E	FY18E	FY19E	FY20E
P/E	58.6	48.7	39.8	35.4
Target P/E	78.0	64.7	53.0	47.1
P/EV	3.4	2.9	2.4	2.0
Target P/EV	4.5	3.9	3.2	2.7
RoNW	18.6	19.1	20.1	19.5
VNB Margin	15.7	16.5	16.7	16.8

Stock data	
Market Capitalisation	₹ 55763 crore
EV (Q2FY19)	₹ 19910 crore
AUM (Q2FY19)	₹ 126170 crore
VNB margin (1HFY19)	17.3%
52 week H/L	487/774
Net worth	₹ 7090 crore
Face value	₹ 10
DII holding (%)	4.7
FII holding (%)	4.5

Comparative Return Matrix (%)

	1M	3M	6M	12M
SBI Life	-12.9	-15.7	-22.4	-16.8
Ipru Life	-9.0	-7.7	-13.7	-15.4
Max Financial	-18.9	-13.4	-10.7	-33.1

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SBI Life Insurance (SBILIF)

₹ 557

Steady performance continues...

- Robust growth in premium continued at 40% YoY to ₹ 7622 crore, led by 40% YoY growth in new business and 41% YoY in renewals. Traction in individual business remained at ~13.9% YoY to ₹ 2409 crore, while group business witnessed higher growth at 4x YoY to ₹ 1294 crore. Protection business (individual+group) witnessed robust traction of 171% YoY to ₹ 380 crore; ~10.5% of NBP. Such higher growth in segments led to 40% YoY growth in NBP to ₹ 3497 crore
- On APE (annualised premium equivalent) basis, NBP APE increased 15.3% YoY to ₹ 2404 crore, led by higher growth in renewal and single premium. Individual APE growth remained healthy at 9.6% YoY to ₹ 2080 crore, while group APE rose sharply to ₹ 323 crore. Total protection NBP as a proportion of total NBP rose to 10.9% in Q2FY19 from 10.1% from Q1FY19 and 5.6% in Q2FY18
- Actuarial liabilities increased 41% YoY to ₹ 5592 crore, while benefit paid grew 3.7% YoY to ₹ 2768 crore. This has led to policyholder surplus holding at ₹ 289 crore vs ₹ 285 crore in Q2FY18. With lower allocation to policyholder account, PAT came at ₹ 251
- AUM growth was healthy at 20% YoY to ₹ 126170 crore. Investment income remained subdued at ₹ 1975 crore as per market conditions.

Heathy growth with focus on linked, protection business

SBI Life reported highest NBP growth among top private insurers at 54% CAGR in FY15-18, thereby increasing its market share to ~20%. Led by a strong distribution franchise, we expect SBI Life's NBP to grow at 21.8% CAGR in FY18-20E, thereby gaining market share to the extent of 200-300 bps in 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 ₹ 25075 crore in FY20E. We expect a rise in protection business to continue, thereby contributing ~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 ~22000 branches. In addition, one of the largest (1,13,045 as on September 30, 2018) and productive (individual NBP of ~₹ 2,01,000 per agent) agency network adds to the distribution strength. We expect healthy traction in bancassurance at ~24.9% CAGR in FY18-20E, keeping it as a major contributor to individual NBP at ~64% 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 57.5% in Q2FY19). Improving persistency, high margin protection business and cost control may improve VNB margin by 30 bps to 16.8% in FY20E.

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

SBI Life has maintained its growth trajectory in the last three years along with focus on profitability. We expect ~21% CAGR in EV in FY18-20E to ₹ 27864 crore, driven by 25.4% CAGR in VNB to ₹ 2186 crore in FY20E. A strong distribution network, cost control and focus on high margin protection business may result in healthy operating RoEV at ~18% in FY20E. Slower APE growth and higher volatility in market impacting business remain near term concerns. Factoring in the same, we revise our target multiple at 2.7x FY20 EV (1.5x FY20E EV + 15x FY20E VNB) and arrive at a target price of ₹ 745 (earlier ₹ 870). Citing the recent correction in the stock, we maintain our **BUY** rating.

Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
First Year Premium	2,221.9	2,148.0	2,039.0	9.0	1,209.7	83.7	Slower growth led by muted performance in participating product
Renewal Premium	4,188.90	4,108.61	2,971.50	41.0	2,682.64	56.1	Healthy conservation ratio at 84% led to growth
Single Premium	1,274.6	1,076.0	449.5	183.6	866.7	47.1	Traction in protection and group business led to robust performance
Net Premium income	**7,661.5**	**7,010.2**	**5,384.6**	**42.3**	**4,754.5**	**61.1**	
Income from Investments	1,961.0	934.7	2,336.0	-16.1	2,095.3	-6.4	Rising interest rate trajectory impacted investment income
Total revenue	9,638.2	7,959.9	7,734.5	24.6	6,865.5	40.4	
Commission	319.1	294.4	267.4	19.3	195.9	62.9	
Operating expenses	515.3	532.8	424.1	21.5	459.4	12.2	Opex ratio improved to 10.9% from 13.8% in Q1FY19
Management Expenses	834.4	827.2	691.5	20.7	655.3	27.3	
Benefits paid	2,768.0	2,663.9	2,669.2	3.7	2,164.8	27.9	
Change in Actuarial Liability	5,592.0	3,870.5	3,959.5	41.2	3,491.1	60.2	
Total Expenses	9,349.1	7,515.1	7,449.5	25.5	6,549.1	42.8	
Surplus/ (deficit)	**289.1**	**444.8**	**285.0**	**1.4**	**316.4**	**-8.6**	Healthy premium growth and better experience in opex, partially offset by change in actuarial liabilties
Transfer to SH's A/c	140.3	244.8	129.7	8.2	242.4	-42.1	
Transfer from PH A/c	140.3	244.8	129.7	8.2	242.4	-42.1	
Investment income	118.8	120.9	112.8	5.4	124.0	-4.2	
Profit/ (loss) before tax	256.4	354.6	232.6	10.2	363.3	-29.4	
PAT	250.5	342.2	225.5	11.1	354.3	-29.3	Healthy growth in premium and control on cost led to continued traction in bottom-line
Key Metrics							
NBP	3,496.5	3,224.0	2,488.5	40.5	2,076.3	68.4	
AUM	126,170.0	124,626.3	107,000.3	17.9	120,280.0	4.9	
IEV*	19,910.0	0.0	16,540.0	20.4	0.0	NA	

**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	31,642.7	31,595.8	-0.1	39,397.2	39,302.7	-0.2
Total	42,526.3	42,478.4	-0.1	51,426.1	51,327.5	-0.2
Transfer to Shareholders' a	1,240.4	1,224.3	-1.3	1,411.3	1,387.5	-1.7
PAT	1,420.3	1,406.5	-1.0	1,604.4	1,583.3	-1.3
EV	234.4	230.6	-1.6	288.8	278.6	-3.5

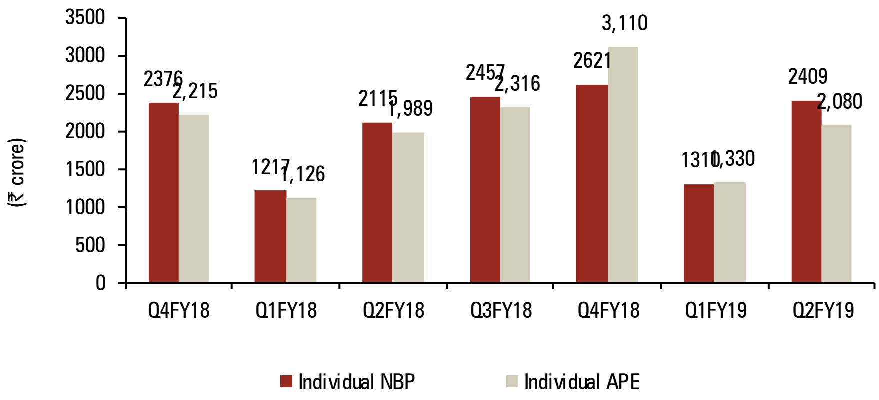
Source: Company, ICICI Direct Research

Assumptions

		Current			Earlier	
	FY17	FY18	FY19E	FY20E	FY19E	FY20E
NBP growth	42.7	8.2	21.3	22.3	21.9	22.3
AUM growth	23.1	19.6	18.0	21.3	18.0	21.4
EV Growth	0.0	15.3	20.9	20.8	22.9	23.2
Comission ratio	3.7	4.4	4.1	4.1	4.1	4.1
VNB Margin	15.7	16.5	16.7	16.8	16.7	16.8
Conservation ratio	81.4	84.2	82.3	81.4	82.2	81.4
Opearating RoEV	23.0	17.8	17.7	17.5	17.8	17.3

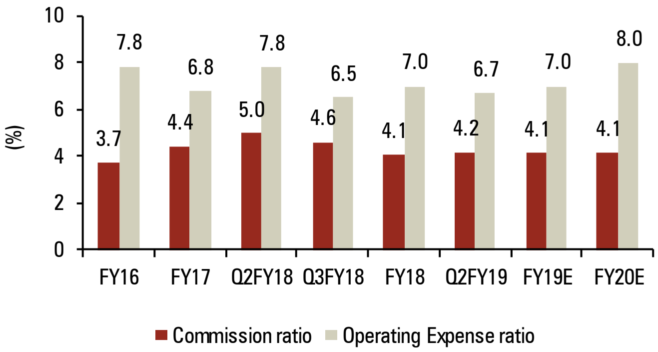
Source: Company, ICICI Direct Research

Exhibit 2: Growth in individual NBP (APE) healthy at 9.6% YoY in Q2FY19



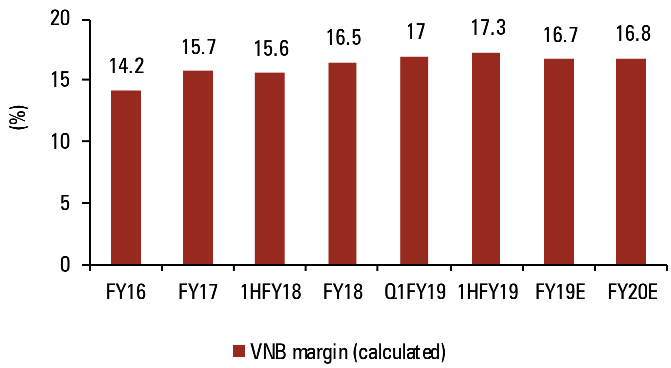
Source: Company, ICICI Direct Research

Exhibit 3: Continued focus to keep cost in check boding well for margin



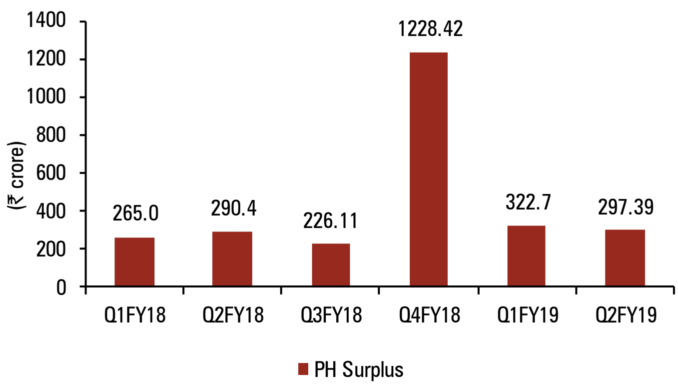
Source: Company, ICICI Direct Research

Exhibit 4: Growth in protection mix & cost control enable high VNB margins



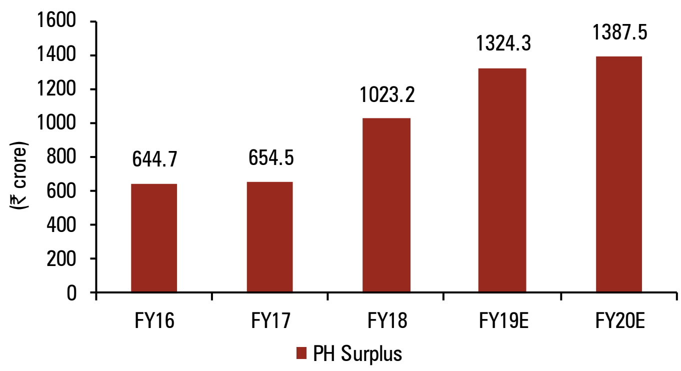
Source: Company, ICICI Direct Research

Exhibit 5: Increase in actuarial liabilities impact PH surplus ….



Source: Company, ICICI Direct Research

Exhibit 6: …expect ~16.4% CAGR in PH surplus in FY18-20E



Source: SBI Life RHP, ICICI Direct Research

Exhibit 7: Persistency ratio (61 month) – steady improvement on YoY basis

Persisitency ratio %	FY16	FY17	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
13th Month	80.7	81.1	77.5	78.4	82.3	82.5	83.2
37th Month	69.2	67.4	67.8	69.5	68.0	71.3	71.0
61th Month	53.8	67.2	51.1	54.0	58.6	57.8	57.5

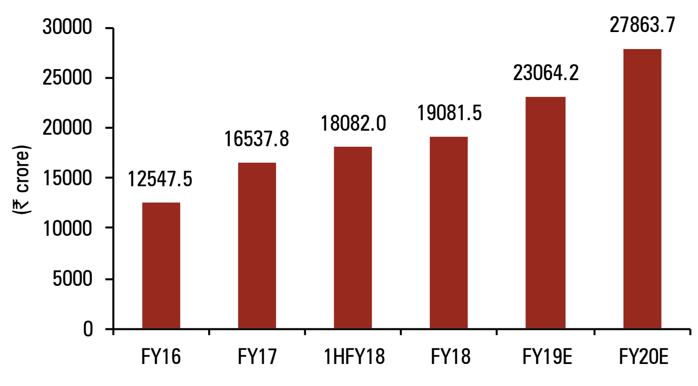
Source: Company, ICICI Direct Research

Exhibit 8: Investment growth expected at 17.6% CAGR in FY18-20E

	Q1FY18	Q2FY18	Q3FY18	FY18	Q1FY19	Q2FY19	FY19E	FY20E
Shareholders' investments	5241	4994	5152	5223	5693	5774	5998	6991
PH Fund Excl. Linked Assets	48018	49511	52219	54484	56309	58979	64867	76415
Assets held to cover linked liabilities	46185	48823	52436	54936	56569	59749	64359	80638
Total Investments	99444	103328	109808	114643	118571	124502	135225	164044

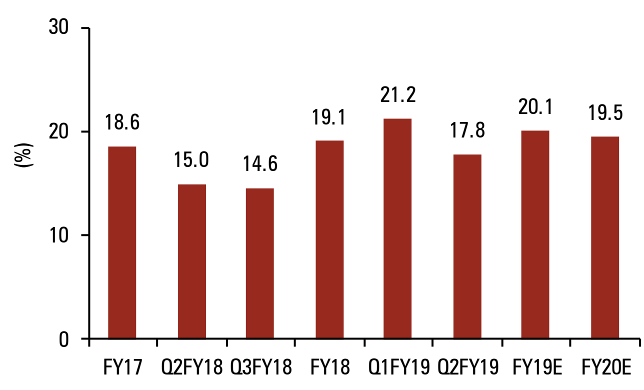
Source: Company, ICICI Direct Research

Exhibit 9: EV growth led by incremental NBP and lower surrender



Source: Company, ICICI Direct Research

Exhibit 10: Healthy premium growth to lead to higher RoE



Source: Company, ICICI Direct Research

Outlook and valuation

SBI Life has maintained its growth trajectory in the last three years along with focus on profitability. We expect ~21% CAGR in EV in FY18-20E to ₹ 27864 crore, driven by 25.4% CAGR in VNB to ₹ 2186 crore in FY20E. A strong distribution network, cost control and focus on high margin protection business may result in healthy operating RoEV at ~18% in FY20E. Slower APE growth and higher volatility in market impacting business remain near term concerns. Factoring in the same, we revise our target multiple at 2.7x FY20 EV (1.5x FY20E EV + 15x FY20E VNB) and arrive at a target price of ₹ 745 (earlier ₹ 870). Citing the recent correction in the stock, we maintain our BUY rating.

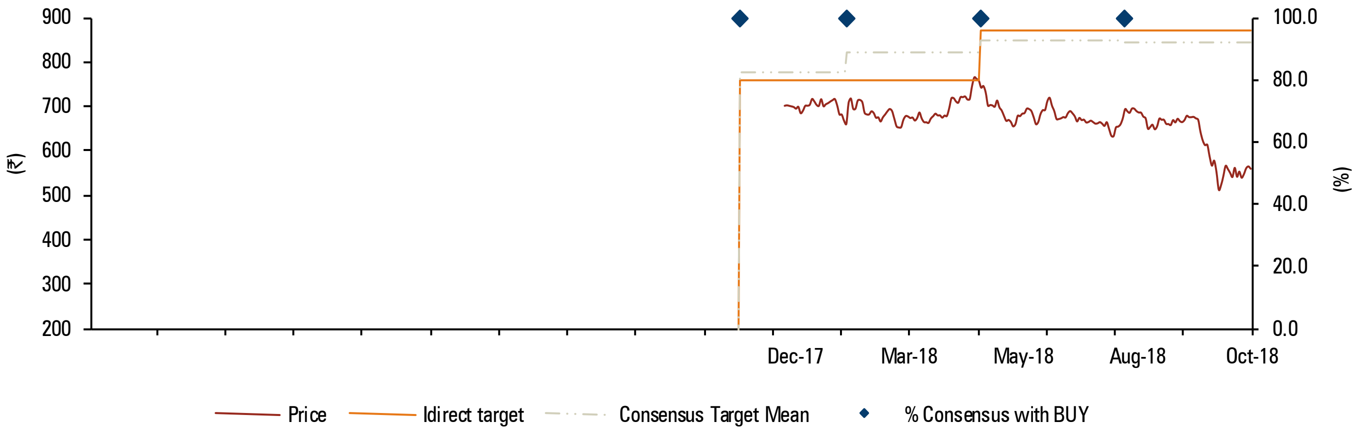
Unlike peers, SBI Life continues to build a normal tax rate of ~15.5% for calculating EV. As of September 2018, calculated EV, assuming effective tax rate, stands at ₹ 21,170 crore. Thus, adopting effective tax in future for calculating EV will be margin accretive and offer further upside than estimated

Exhibit 11: Financial summary

(₹ Crore)	FY16	FY17	FY18	FY19E	FY20E
New business premium	7106.5	10,143.8	10,972.5	13,312.2	16,280.4
APE	4878	6601	8540	10440	13014
Total premium	15665.5	20,852.5	25,160.5	31,595.8	39,302.7
PAT	844	955	1151	1406	1583
EV	12547.5	16,537.8	19,081.5	23,064.2	27,863.7
P/E (x)	80	71	59	48	43
P/BV (x)	14.3	12.2	10.3	9.0	7.7
P/IEV (x)	NA	4.1	3.5	2.9	2.4
RoEV (%)	NA	23.0	17.8	17.7	17.5

Source: SBI Life RHP, 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	30-06-2018	62.10%	621.00M	0
2	BNP Paribas Asset Management Asia Limited	30-06-2018	22.00%	220.00M	0
3	MacRitchie Investments Pte. Ltd.	30-06-2018	1.95%	19.50M	0
4	Value Line Pte. Ltd.	30-06-2018	1.95%	19.50M	0
5	ICICI Prudential Asset Management Co. Ltd.	30-09-2018	1.21%	12.12M	+0.81M
6	Reliance Nippon Life Asset Management Limited	30-06-2018	1.17%	11.70M	-0.31M
7	Baron Capital Management, Inc.	30-06-2018	0.52%	5.20M	0
8	CPP Investment Board [Activist]	31-03-2018	0.47%	4.66M	+4.66M
9	Aditya Birla Sun Life AMC Limited	30-09-2018	0.33%	3.31M	-2.04M
10	Kotak Mahindra Asset Management Company Ltd.	31-08-2018	0.31%	3.05M	0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	84.1	84.1	84.1	84.1	84.1
FII	4.1	4.5	4.3	4.3	4.5
DII	3.0	4.1	3.3	4.9	4.7
Others	8.8	7.3	8.3	6.7	6.7

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
CPP Investment Board	+48.54M	+4.66M	Aditya Birla Sun Life AMC Limited	-14.41M	-2.04M
ICICI Prudential Asset Management Co. Ltd.	+5.68M	+0.81M	BlackRock Investment Management, LLC	-4.20M	-0.42M
Florida State Board of Administration	+2.40M	+0.23M	Reliance Nippon Life Asset Management Limited	-3.04M	-0.31M
Pictet Asset Management Ltd.	+2.11M	+0.21M	BNP Paribas Asset Management India Pvt. Ltd.	-1.54M	-0.22M
Sundaram Asset Management Company Limited	+1.07M	+0.11M	SBI Funds Management Pvt. Ltd.	-1.46M	-0.21M

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	31595.8	39302.7
Income from Investments	3340.9	9295.0	8456.3	10739.1	11880.6
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	42,478.4	51,327.5
Commission	714.3	783.3	1120.7	1296.0	1635.4
Operating expenses	1480.9	1646.5	1719.4	2229.3	2773.1
Benefits paid (Net)	7958.5	9526.1	11712.0	13372.1	15921.2
Change in valuation of policy liabilities	7986.9	17241.0	17595.0	23491.3	28658.6
Others	7.4	24.1	5.5	6.6	7.9
Provision for tax	327.2	402.2	585.2	758.7	943.7
Surplus/(deficit) after tax	644.7	654.5	1023.2	1324.3	1387.5
Transfer to Shareholders' account	651.8	654.7	829.7	1,224.3	1,387.5

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	1224.3	1387.5
Income from investments	325.7	409.8	462.7	514.4	557.1
Total	977.5	1,064.5	1,292.4	1,738.7	1,944.6
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	1635.5	1841.0
Provision for tax	11.0	19.9	34.1	229.0	257.7
PAT	844.2	954.7	1,150.8	1,406.5	1,583.3

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	6478	7719
Credit/[debit] fair value change account	42	87	153	20	20
Networth	**4733**	**5552**	**6529**	**7498**	**8740**
Policyholders' funds	**75991**	**93673**	**111434**	**134926**	**163584**
Total Liabilities	80724	99225	118157	142718	172618
Applications of Funds					
Shareholders' investments	3565	4296	5223	5998	6991
Policyholders' investments	38256	46962	54484	64867	76415
Asset held to cover linked liabilities	36022	44573	54936	64359	80638
Loans	124	178	171	188	212
Fixed assets - net block	447	538	581	663	755
Net current assets	2311	2678	2761	6642	7606
Total Assets	80724	99225	118157	142718	172618

Source: SBI Life RHP, ICICI Direct Research

Exhibit 15: Key Ratios

(Year-end March)	FY16	FY17	FY18	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	14.1	15.8
DPS (₹)	1.2	1.5	2.0	2.5	2.8
BV (₹)	47.3	55.5	65.3	75.0	87.4
EV per share	125	165	191	231	279
P/E	80.0	70.7	58.7	48.0	42.6
P/BV	14.3	12.2	10.3	9.0	7.7
P/IEV	NA	4.1	3.5	2.9	2.4
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	20.1	19.5
Opearating RoEV	NA	23.0	17.8	17.7	17.5
Solvency Ratio	212	204	200	195	200
Key Ratios (%)					
Conservation Ratio	81.7	81.4	84.2	82.3	81.4
VNB Margin		15.7	16.5	16.7	16.8
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	38.9	38.1
Linked	45.5	50.5	60.5	61.1	61.9

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	13,312.2	16,280.4
Growth (%)		42.7	8.2	21.3	22.3
Linked	3233.3	5122.9	6639.9	8129.7	10070.5
Growth (%)		58.4	29.6	22.4	23.9
Non Linked	3873.2	5020.9	4332.6	5182.5	6209.8
Growth (%)		29.6	-13.7	19.6	19.8
APE	4878.1	6600.9	8540.0	10439.8	13013.7
Growth (%)		35.3	29.4	22.2	24.7
VNB		1036.8	1390.0	1743.4	2186.3
Growth (%)			34.1	25.4	25.4
EV	12547.5	16537.8	19070.0	23064.2	27863.7
Growth (%)			15.3	20.9	20.8
AUM	77842.7	95830.3	114643.4	135224.9	164043.8
Growth (%)		23.1	19.6	18.0	21.3
PH Funds	74277.8	91534.8	109420.4	129226.4	157052.3
Growth (%)		23.2	19.5	18.1	21.5
SH Funds	3564.9	4295.5	5223.0	5998.5	6991.5
Growth (%)		20.5	21.6	14.8	16.6

Source: SBI Life RHP, ICICI Direct Research

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