

Steady growth, focus on product mix to drive earning

SBI Life reported healthy growth in premium at 22.5% YoY to ₹ 11380 crore, led by robust traction in renewals (27.7% YoY) and healthy growth in new business premium (NBP). Traction in both - individual (16% YoY) and group NBP (12% YoY) remained healthy. Focus on protection business has led to a rise in its proportion to ~12% in FY19 vs. ~6% in FY18. AUM growth remained healthy at 21% YoY to ₹ 141020 crore.

Income from investment came in robust at ₹ 4270 crore. However, opex trajectory (commission and opex related to insurance business) continued to remain a tad higher at 26% YoY, due to investment in distribution channel. A significant rise in claims paid at ₹ 7005 crore in Q4FY19 vs. ₹ 3501 crore in Q4FY18 and rise in actuarial liabilities by 35% YoY to ₹ 7119 crore, impacted policyholders surplus, which came in at ₹ 116 crore in Q4FY19 vs. ₹ 263 crore in Q4FY18. Higher transfer to shareholders account kept earnings momentum strong at 21% YoY to ₹ 460 crore. An improvement has been seen in 13th month persistency by ~204 bps YoY to 85.1% for FY19. The 61st persistency stayed at 5723% for FY19 vs. 58.4% for FY18, partly due to higher proportion of single premium policies in base year. Solvency ratio continued to stay healthy at 2.13x against regulatory requirement of 1.5x.

Strong bancassurance, improving productivity to drive growth

Share of business from bancassurance channel continues to remain robust with improving productivity of branches, led by growth in individual protection policies. Led by a strong distribution franchise, we expect NBP to grow at ~22% CAGR in FY19-21E, thereby gaining market share ahead.

Rising share of protection business & persistency to aid margin

Protection business (individual + group) witnessed robust traction of ~3x YoY to ₹ 600 crore in Q4FY19. Share of total protection increased to ~13% in FY19 vs. ~6% in FY18. Going ahead, improving persistency, high margin protection business and cost control are seen improving the VNB margin by 30 bps to 16.8% in FY20E.

Valuation & Outlook

The growth trajectory remained intact for SBI Life insurance along with focus on profitability. We expect ~17% CAGR in EV in FY19-21E to ₹ 30585 crore, driven by 25% CAGR in VNB to ₹ 2743 crore in FY21E. Strong distribution network, cost control & focus on high margin protection business and rising persistency are expected to result in healthy operating RoEV at ~18% in FY20-21E. Rolling our valuation to FY21E, we revise our target price to ₹ 800, valuing the stock at 2.6x FY21 EV.



Particulars

Particulars	Amount
Market Capitalisation	₹ 63572 crore
EV (Q4FY19)	₹ 22400 crore
AUM (Q4FY19)	₹ 141020 crore
VNB margin (FY19)	17.7%
52 week H/L	487/775
Net worth	₹ 7090 crore
Face value	₹ 10
DII holding (%)	4.4
FII holding (%)	4.9

Key Highlights

- Consistent growth in NBP along with focus on product mix to drive earnings
- Increasing share of protection business to aid margins and profitability
- Maintain our BUY recommendation with a revised target price of ₹ 800

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Key Financial Summary

(₹ Crore)	FY16	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
New business premium	7106.5	10,143.8	10,972.5	14,064.5	17,145.5	20,938.8	22%
APE	4878	6601	8540	10515	13100	16326	25%
Total premium	15665.5	20,852.5	25,160.5	32,890.3	40,594.6	50,141.0	23%
PAT	844	955	1152	1342	1572	1817	16%
EV	12547.5	16,537.8	19,081.4	22,431.5	26,377.2	30,585.0	17%
P/E (x)	76	67	56	48	41	35	
P/BV (x)	13.5	11.5	9.8	8.6	7.4	6.3	
P/IEV (x)	NA	3.9	3.4	2.9	2.4	2.1	
RoEV (%)	NA	23.0	17.8	17.8	17.8	18.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
First Year Premium	2,891.2	3,071.9	2,541.8	13.7	2,734.5	5.7	Individual and group both contribute to growth
Renewal Premium	7,054.3	6,856.3	5,524.4	27.7	5,271.6	33.8	Healthy conservation ratio at 87% led to growth
Single Premium	1,430.6	1,705.9	1,223.9	16.9	1,162.9	23.0	Traction in protection and group business led to robust performance
Net Premium income	11,333	11,156	9,237	22.7	9,141	24.0	
Income from Investmer	4,150.7	2,498.0	720.5	476.1	3,001.0	38.3	Investment income remains robust
Total revenue	15,601.0	13,674	10,052.3	55.2	12,156.4	28.3	
Commission	452.1	457.4	375.9	20.2	379.2	19.2	
Operating expenses	641.8	591.3	484.2	32.6	506.9	26.6	
Management Expenses	1,093.9	1,048.7	860.1	27.2	886.1	23.4	
Benefits paid	7,085.3	4,574.1	3,501.3	102.4	3,275.7	116.3	
Change in Actuarial Lial	7,118.9	7,435.8	5,258.5	35.4	7,389.7	-3.7	
Total Expenses	15,484.7	13,316.0	9,789.3	58.2	11,791.7	31.3	Higher benefit paid and change in acturial liabilities kept opex higher
Surplus/ (deficit)	116.3	358.3	263.0	-55.8	364.7	-68.1	Healthy accretion in premium offset by increase in claims and actuarial liabilities impacted policyholders surplus
Transfer to SH's A/c	451.1	258.3	355.8	26.8	164.7	173.9	
Transfer to SH's A/c	451.1	258.3	355.8	26.8	164.7	173.9	
Investment income	136.0	143.9	114.1	19.2	126.9	7.1	
Profit/ (loss) before tax	481.9	394.1	389.2	23.8	271.3	77.7	
PAT	457.7	374.4	381.2	20.1	264.3	73.2	Higher transfer to shareholders account maintained earnings momentum

Key Metrics

NBP	4,321.7	4,777.8	3,765.7	14.8	3,897.4	10.9
AUM	141,020	140,732	116,260	21.3	134,150	5.1
IEV*	0.0	0.0	16,540	NA	0.0	NA

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E		FY21E	
(₹ Crore)	Old	New	% Change	Introduced
Premiums earned - Net	39,303	40,595	3.3	50,141
Total	51,328	53,179	3.6	65,119
Transfer to Shareholders' account	1,388	1,199	-13.6	1,361
PAT	1,583	1,572	-0.7	1,817
EV	279	224	-19.5	306

Source: Company, ICICI Direct Research

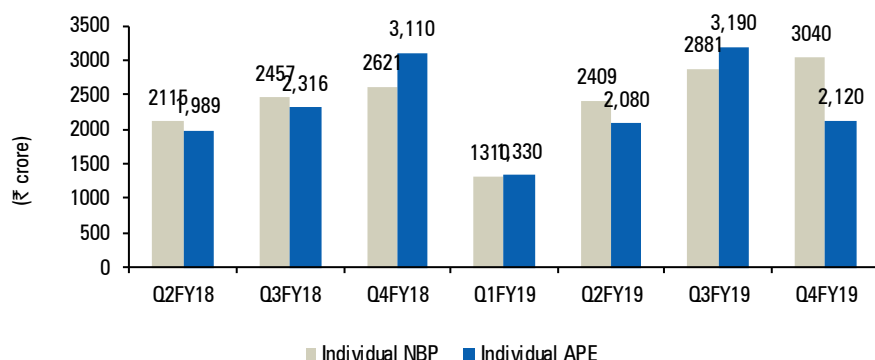
Exhibit 3: Assumption

	Current		Earlier	
	FY18	FY19	FY20E	FY20E
NBP growth	8.2	28.2	21.9	22.1
AUM growth	19.6	20.0	21.9	21.9
EV Growth	15.3	17.6	17.6	16.0
Comission ratio	4.4	4.1	4.0	4.1
VNB Margin	16.5	16.7	16.8	16.8
Conservation ratio	84.2	84.7	81.4	81.3
Opearating RoEV	17.8	17.8	17.8	18.0

Source: Company, ICICI Direct Research

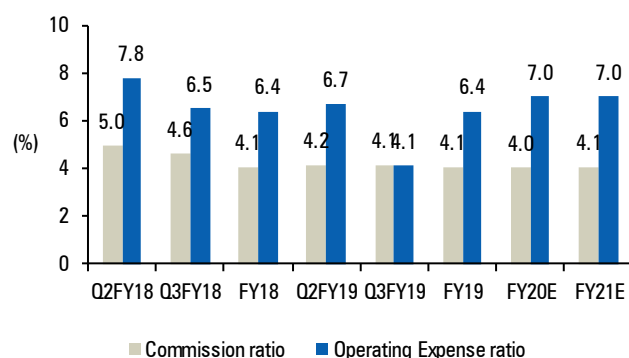
Story in Charts

Exhibit 4: Growth in individual NBP healthy in Q4FY19



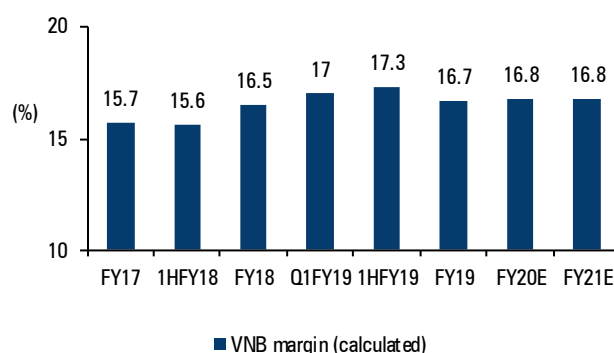
Source: Company, ICICI Direct Research

Exhibit 5: Continued focus to keep cost in check boding well for margin



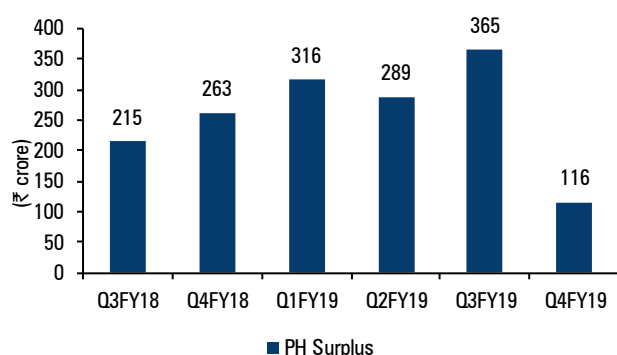
Source: Company, ICICI Direct Research

Exhibit 6: Growth in protection mix & cost control enable high VNB margins



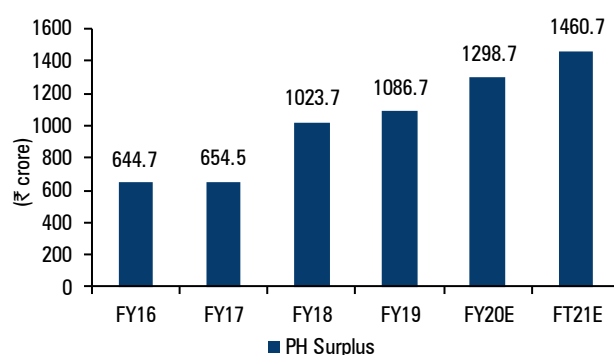
Source: Company, ICICI Direct Research

Exhibit 7: Rise in actuarial liabilities impacts PH surplus....



Source: Company, ICICI Direct Research

Exhibit 8: ...expect ~15.9% CAGR in PH surplus in FY19-21E



Source: Company, ICICI Direct Research

Exhibit 9: Persistency ratio (13th month) – steady improvement on YoY basis

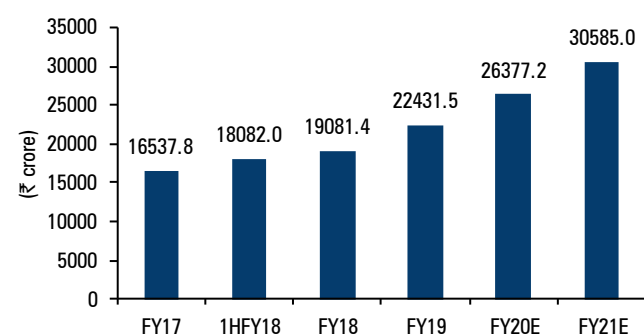
Persistency ratio %	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
13th Month	77.5	78.4	82.3	82.5	80.0	80.0	84.5
37th Month	67.8	69.5	68.0	71.3	71.7	67.4	75.8
61th Month	51.1	54.0	58.6	57.8	68.4	56.2	69.2

Source: Company, ICICI Direct Research

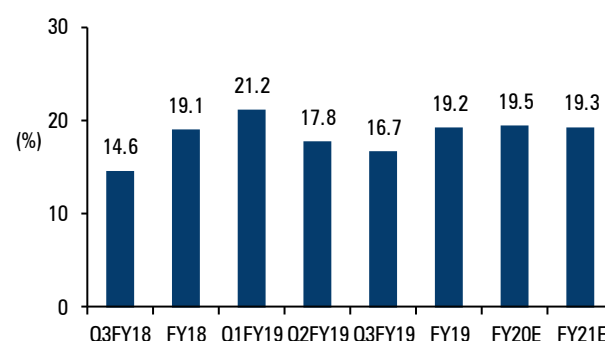
Exhibit 10: Investment growth expected at ~21% CAGR in FY19-21E

	Q1FY18	Q2FY18	Q3FY18	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	FY20E	FY21E
Shareholders' investments	5241	4994	5152	5223	5693	5774	5904	5958	6945	8084
PH Fund Excl. Linked Assets	48018	49511	52219	54484	56309	58979	61692	65762	78238	92867
Assets held to cover linked liabilities	46185	48823	52436	54936	56569	59749	64810	65821	82534	103481
Total Investments	99444	103328	109808	114644	118571	124502	132406	137541	167717	204432

Source: Company, ICICI Direct Research

Exhibit 11: Incremental NBP to propel EV growth


Source: Company, ICICI Direct Research

Exhibit 12: Healthy premium growth to lead to RoE at ~19%


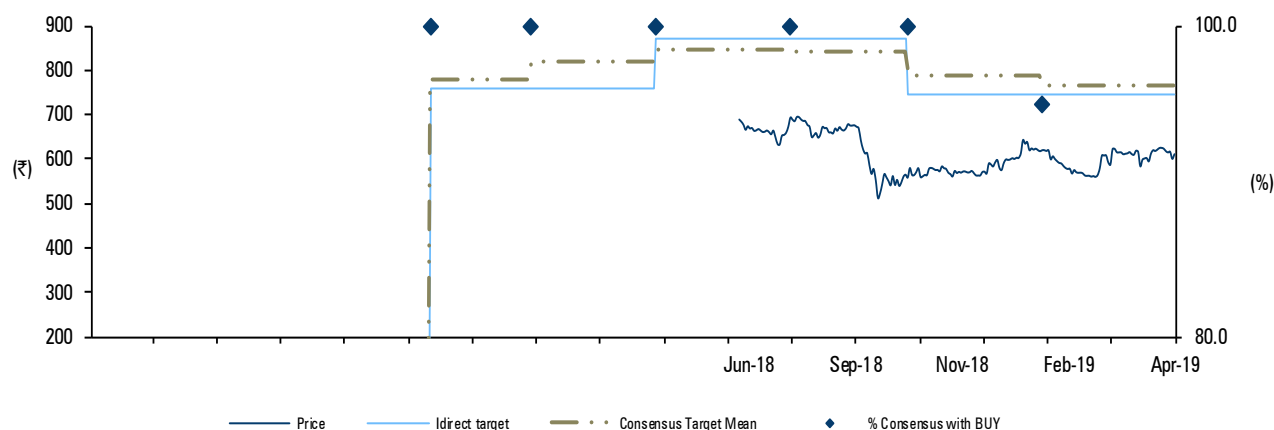
Source: Company, ICICI Direct Research

Exhibit 13: Protection business growth continued to remain robust; forms ~12% of NBP in FY19

NBP	FY17	Q1FY18	Q2FY18	Q3FY18	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Proportion of NBP
Individual products	6372	1217	2115	2457	8350	1310	2409	2881	9270	67.2%
Group saving products	3284	494	249	319	2020	560	1294	1016	2880	20.9%
Protection products	487.3	102.18	140.02	148.79	600	210	380	470	1640	11.9%
Total NBP	10144	1800	2489	2912	10972	2076	3497	3897	13790	
Renewal premium	10871	1988	2972	3904	14388	2683	4189	5272	19200	
Total premium	21015	3763	5385	6776	25361	4755	7662	9141	32990	

Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position (m)	Change (m)
1	State Bank of India	31-12-2018	62.10%	621.00M	0
2	BNP Paribas Asset Management Asia Limited	29-03-2019	7.70%	77.01M	-142.99M
3	MacRitchie Investments Pte. Ltd.	31-12-2018	1.95%	19.50M	0
4	Value Line Pte. Ltd.	31-12-2018	1.95%	19.50M	0
5	ICICI Prudential Asset Management Co. Ltd.	31-12-2018	1.54%	15.37M	+2.96M
6	Aberdeen Standard Investments (Asia) Limited	28-02-2019	0.55%	5.51M	-0.71M
7	Baron Capital Management, Inc.	31-12-2018	0.54%	5.43M	+0.06M
8	The Vanguard Group, Inc.	31-03-2019	0.51%	5.10M	+0.01M
9	Aditya Birla Sun Life AMC Limited	31-03-2019	0.50%	5.03M	+2.58M
10	CPP Investment Board [Activist]	31-03-2018	0.47%	4.66M	+4.66M

Source: Reuters, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
ICICI Prudential Asset Management Co. Ltd.	+25.46M	+2.96M	BNP Paribas Asset Management Asia Limited	-1,205.87M	-142.99M
Aditya Birla Sun Life AMC Limited	+21.76M	+2.58M	Aberdeen Standard Investments (Asia) Limited	-5.76M	-0.71M
Principal Asset Management Private Limited	+8.75M	+1.04M	Grandeur Peak Global Advisors, LLC	-4.47M	-0.59M
DSP Investment Managers Pvt. Ltd.	+6.34M	+0.75M	HDFC Asset Management Co., Ltd.	-2.40M	-0.29M
Sundaram Asset Management Company Limited	+4.72M	+0.56M	T. Rowe Price International (UK) Ltd.	-2.00M	-0.24M

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	84.1	84.1	84.1	84.1	69.8
FII	4.3	4.3	4.5	4.9	14.1
DII	3.3	4.9	4.7	4.4	4.4
Others	8.3	6.7	6.7	6.6	11.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Policyholders Account

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E
Premiums earned - Net	20852.5	25160.5	32890.3	40594.6	50141.0
Income from Investments	9295.0	8456.3	11207.8	12425.1	14820.5
Other income	67.4	68.6	63.8	70.2	77.2
Contribution from the Shareholders' account	62.7	75.6	98.9	89.0	80.1
Total	30,277.6	33,761.0	44,260.9	53,178.9	65,118.8
Commission	783.3	1120.9	1346.4	1648.9	2056.7
Operating expenses	1646.5	1718.8	2123.5	2864.2	3537.8
Benefits paid (Net)	9526.1	11712.0	15293.8	16206.4	20087.9
Change in valuation of policy liabilities	17241.0	17595.0	23591.7	30057.2	36612.9
Others	24.1	5.5	6.6	7.9	9.5
Provision for tax	402.2	585.2	812.3	1095.6	1353.2
Surplus/(deficit) after tax	654.5	1023.7	1086.7	1298.7	1460.7
Transfer to Shareholders' account	654.7	830.2	998.5	1,198.7	1,360.7

Source: Company, ICICI Direct Research

Exhibit 19: Shareholders Account

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E
Amounts transferred from Policyholders' acc	654.7	830.2	998.5	1198.7	1360.7
Income from investments	409.8	462.7	518.9	555.6	645.4
Total	1,064.5	1,292.9	1,517.4	1,754.3	2,006.1
Expenses other than insurance	27.1	31.7	45.9	36.0	43.2
Contribution to Policyholders' account	62.7	75.6	98.9	89.0	80.1
Others	4.0	7.4	15.9	15.9	15.9
Profit before Tax	974.7	1185.6	1372.6	1629.3	1882.8
Provision for tax	19.9	34.1	46.5	57.0	65.9
PAT	954.7	1,151.5	1,326.1	1,572.3	1,816.9

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	4465	5376	6428	7661	9085
Credit/[debit] fair value change account	87	153	20	20	20
Networth	5552	6529	7448	8681	10106
Policyholders' funds	93673	111434	137342	167400	204012
Total Liabilities	99225	118157	145072	176462	214600
Applications of Funds					
Shareholders' investments	4296	5223	5958	6945	8084
Policyholders' investments	46962	54484	65762	78238	92867
Asset held to cover linked liabilities	44573	54936	65821	82534	103481
Loans	178	171	188	212	240
Fixed assets - net block	538	581	663	755	861
Net current assets	2678	2761	6680	7777	9066
Total Assets	99225	118157	145072	176462	214600

Source: Company, ICICI Direct Research

Exhibit 21: Key Ratios

(Year-end March)	FY17	FY18	FY19E	FY20E	FY21E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	9.6	11.5	13.4	15.7	18.2
DPS (₹)	1.5	2.0	2.4	2.8	3.3
BV (₹)	55.5	65.3	74.5	86.8	101.1
EV per share	165	191	224	264	306
P/E	67.0	55.6	47.7	40.7	35.2
P/BV	11.5	9.8	8.6	7.4	6.3
P/IEV	3.9	3.4	2.9	2.4	2.1
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	3.7	4.4	4.1	4.0	4.1
Management expenses incl commission as a % of Gross Premium	11.6	11.2	10.5	11.0	11.1
Return Ratios and capital (%)					
Return on Net worth	18.6	19.1	19.2	19.5	19.3
Operating RoEV	23.0	17.8	17.8	17.8	18.0
Solvency Ratio	204	200	195	200	200
Key Ratios (%)					
Conservation Ratio	81.4	84.2	84.7	81.4	81.3
VNB Margin	15.7	16.5	16.7	16.8	16.8
Surrender Ratio	5.7	5.3	5.6	4.7	4.8
Benefits paid as a % of Opening Liability	12.5	12.5	13.7	11.8	12.0
NBP (proportion %)					
Traditional	49.5	39.5	42.2	41.3	40.3
Linked	50.5	60.5	57.8	58.7	59.7

Source: Company, ICICI Direct Research

Exhibit 22: Key parameters

(Year-end March)	FY17	FY18E	FY19E	FY20E	FY21E
NBP	10,143.8	10,972.5	14,064.5	17,145.5	20,938.8
Growth (%)	42.7	8.2	28.2	21.9	22.1
Linked	5122.9	6639.9	8129.7	10070.5	12490.2
Growth (%)	58.4	29.6	22.4	23.9	24.0
Non Linked	5020.9	4332.6	5934.8	7075.0	8448.7
Growth (%)	29.6	-13.7	37.0	19.2	19.4
APE	6600.9	8540.0	10515.0	13100.2	16326.0
Growth (%)	35.3	29.4	23.1	24.6	24.6
VNB	1036.8	1390.0	1756.0	2200.8	2742.8
Growth (%)		34.1	26.3	25.3	24.6
EV	16537.8	19070.0	22431.5	26377.2	30585.0
Growth (%)		15.3	17.6	17.6	16.0
AUM	95830.3	114643.9	137541.0	167716.6	204431.6
Growth (%)	23.1	19.6	20.0	21.9	21.9
PH Funds	91534.8	109420.4	131582.5	160772.0	196347.4
Growth (%)	23.2	19.5	20.3	22.2	22.1
SH Funds	4295.5	5223.5	5958.5	6944.6	8084.2
Growth (%)	20.5	21.6	14.1	16.6	16.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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