

Strong growth, product mix drive topline, margin

Premium growth continued to remain robust at 33% YoY to ₹ 28700 crore in 9MFY20, led by robust traction of 35% YoY in new business premium (NBP) and steady renewals at ₹ 15910 crore; up 31% YoY. Within NBP, traction in individual business remained healthy at ~26% YoY in 9MFY20 to ₹ 8040 crore. Protection business (individual + group) witnessed robust traction of 37% YoY to ₹ 1440 crore in 9MFY20. Total protection NBP as a proportion of total NBP continued to remain steady at 11% in 9MFY20.

AUM growth remained healthy at 22% YoY to ₹ 164190 crore. Income from investment surged at ₹ 4073 crore in Q3FY20, leading to higher trajectory in topline. Operating expenses (commission and opex related to insurance business) grew 23.8% YoY in Q3FY20 to ₹ 1097 crore. Led by robust premium accretion, opex ratio has dipped to 5.5% in Q3FY20 compared to 6% in Q2FY20.

Healthy accretion in premium and strong investment income led to growth in topline. Maturity of some products resulted in release of reserves leading to a jump in policyholder surplus at ₹ 633 crore in Q3FY20 vs. ₹ 383 crore in Q3FY19 and ₹ 361 crore in Q2FY20. Such high surplus led to higher allocation to policyholders at ₹ 271 crore vs. ₹ 165 crore in Q3FY19. Solvency ratio continued to remain healthy at 2.3x against regulatory requirement of 1.5x and as reported on September 30, 2019, EV was at ₹ 24690 crore.

Distribution strength, improving persistency to aid earnings

Share of business from bancassurance continues to remain robust with improving branch productivity and growth in individual protection policies. Led by a strong distribution franchise, we expect NBP to grow at ~23% CAGR in FY19-22E. Rise in annuity business and protection business, currently contributing ~8% and 11% of NBP, respectively, is seen driving premium accretion, margins and subsequently earnings. Increasing share of active branches, rise in business per branch and growing digital footprint are expected to augur well for higher penetration.

Valuation & Outlook

Despite slower premium accretion in industry, SBI Life Insurance continued with its robust growth trajectory. Improving persistency, high margin protection business and excellent operating efficiency remain strong levers for growth. We roll over our estimates to FY22E and expect ~18% CAGR in EV in FY19-22E to ₹ 36350 crore. VNB margins were reported at 18.3%. Expect VNB margins as calculated to increase from 16.7% in FY19 to ~17-18% in FY22E. Strong distribution would remain the key catalyst. Operating RoEV is seen improving at ~18.5% in FY22E. On rollover to FY22E, we revise our target price to ₹ 1180 (vs. earlier ₹ 1000), valuing the stock at 3.2x FY22E EV. We remain positive on SBI Life structurally being a play on growth led by distribution, brand reach and adequate product mix. We maintain **BUY**.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
New business premium	10,972.5	14,064.5	17,145.5	20,938.8	25,138.1	21%
APE	8540	10515	13100	16326	19875	24%
Total premium	25,160.5	32,890.3	40,585.0	50,110.0	61,494.3	23%
PAT	1152	1342	1403	1810	2073	16%
EV	19,081.4	22,431.5	26,490.0	31,023.3	36,463.9	18%
P/E (x)	61	53	50	39	34	
P/BV (x)	10.8	9.5	8.3	7.1	6.1	
P/IEV (x)	3.7	3.2	2.7	2.3	1.9	
RoEV (%)	17.8	17.8	17.9	18.2	18.7	

Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 99120 crore
EV (Q2FY20)	₹ 24690 crore
AUM (Q3FY20)	₹ 164190 crore
VNB margin (Q3FY20)	18.3%
52 week H/L	1030/510
Net worth	₹ 8070 crore
Face value	₹ 10
DII holding (%)	4.4
FII holding (%)	27.5

Key Highlights

- Consistent growth in NBP along with focus on product mix to drive earnings
- Strong banca tie-up & focus on digital to remain key catalyst in business growth
- Maintain our BUY recommendation with a revised target price of ₹ 1180

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Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
First Year Premium	3,114.2	2,880.9	2,734.5	13.9	2,548.0	22.2	Business growth across product segment led to healthy accretion in new business
Renewal Premium	6,789.1	7,045.4	5,271.6	28.8	5,581.3	21.6	Conservation ratio continued to remain steady at ~85%
Single Premium	1,856.4	1,693.2	1,162.9	59.6	2,114.0	-12.2	Traction in protection and group business led to a robust performance
Net Premium income	11,695	11,162	9,141	27.9	10,112	15.7	
Income from Investment	4,073.3	2,906.2	3,001.0	35.7	2,623.5	55.3	Surge witnessed in investment income
Total revenue	15,779.1	14,088	12,156.4	29.8	12,745.4	23.8	
Commission	455.2	457.6	379.2	20.1	408.2	11.5	
Operating expenses	641.9	669.7	506.9	26.6	605.4	6.0	
Management Expenses	1,097.1	1,127.4	886.1	23.8	1,013.7	8.2	Continued focus on improving efficiency keeps opex
Benefits paid	6,176.4	4,464.8	3,275.7	88.6	3,254.0	89.8	
Change in Actuarial Liability	7,656.9	7,786.8	7,389.7	3.6	7,903.6	-3.1	
Total Expenses	15,170.9	13,658.5	11,791.7	28.7	12,396.5	22.4	
Surplus/ (deficit)	608.2	429.8	364.7	66.7	348.9	74.3	Healthy accretion in premium and investment income leads to healthy growth in surplus
Transfer to SH's A/c	270.7	179.8	164.7	64.4	55.5	387.8	
Transfer to SH's A/c	270.7	179.8	164.7	64.4	55.5	387.8	
Investment income	174.0	131.0	126.9	37.1	142.9	21.8	
Profit/ (loss) before tax	394.9	302.9	271.3	45.6	119.2	231.3	
PAT	389.8	287.7	264.3	47.5	129.8	200.2	Robust earnings growth led by healthy traction in business and improvement in VNB margin

Key Metrics

NBP	4,970.6	4,574.2	3,897.4	27.5	4,662.1	6.6
AUM	164,190	161,457	134,150	22.4	154,760	6.1
IEV*	0.0	NA	16,540	NA	24,690.0	NA

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			FY22E
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced
Premiums earned - Net	40,595	40,585	0.0	50,141	50,110	-0.1	61,494
Total	53,179	53,168	0.0	65,119	65,281	0.2	79,325
Transfer to Shareholders' account	992	1,007	1.5	1,241	1,345	8.4	1,524
PAT	1,388	1,403	1.0	1,709	1,810	5.9	2,073
EV	224	224	0.0	310	310	-0.1	365

Source: Company, ICICI Direct Research

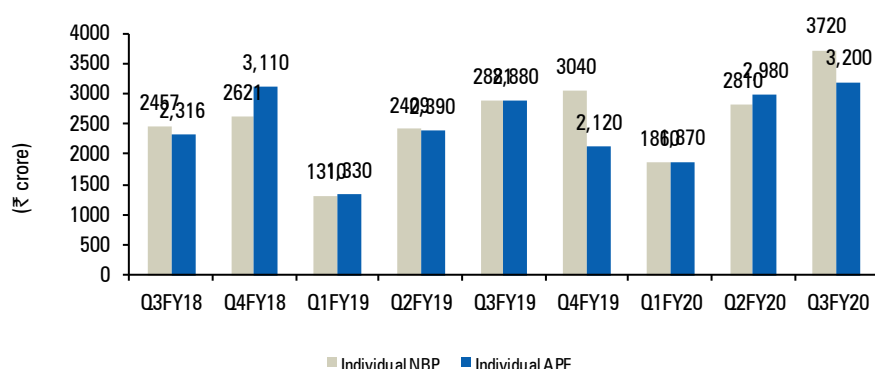
Exhibit 3: Assumption

	Current		Introduced		Earlier	
	FY19	FY20E	FY21E	FY22E	FY20E	FY21E
NBP growth	28.2	21.9	22.1	20.1	21.9	22.1
AUM growth	20.0	21.8	21.9	21.8	21.9	21.9
EV Growth	17.6	18.1	17.1	17.5	18.1	17.2
Commission ratio	4.1	4.0	4.1	4.1	4.0	4.1
VNB Margin	16.7	17.0	17.2	17.2	17.0	17.2
Conservation ratio	84.7	81.4	81.2	81.2	81.4	81.3
Operating RoEV	17.8	17.9	18.2	18.7	17.9	18.2

Source: Company, ICICI Direct Research

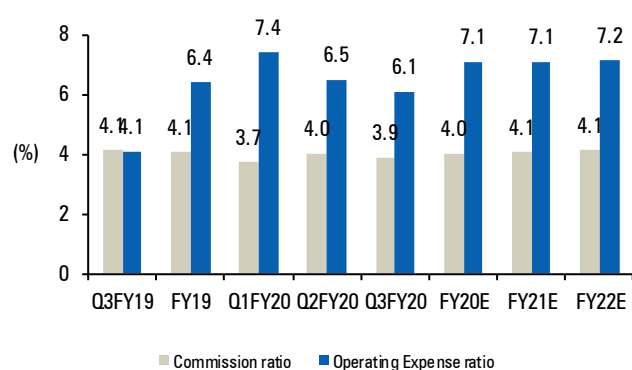
Story in Charts

Exhibit 4: Growth in individual NBP healthy in Q3FY20



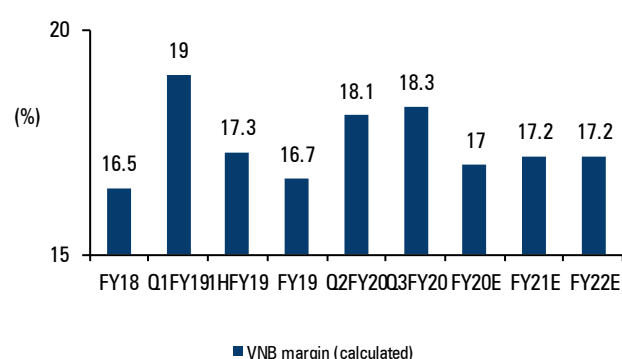
Source: Company, ICICI Direct Research

Exhibit 5: Focus on efficiency leads to steady opex ratio



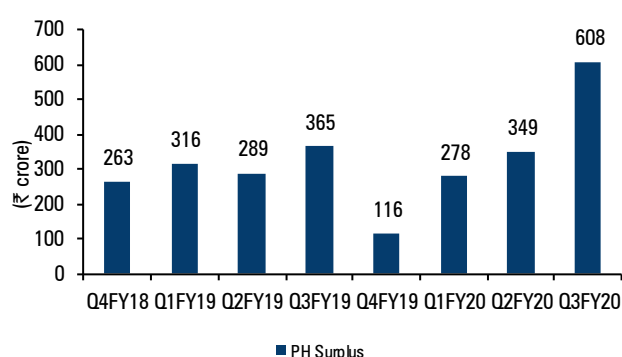
Source: Company, ICICI Direct Research

Exhibit 6: Change in product mix enables high VNB margins



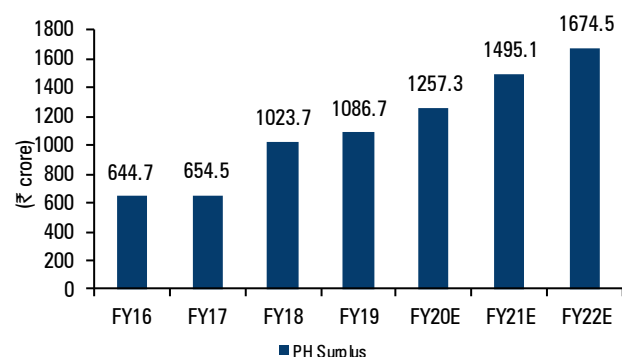
Source: Company, ICICI Direct Research

Exhibit 7: Healthy topline lead to higher surplus...



Source: Company, ICICI Direct Research

Exhibit 8: ...expect ~16% CAGR in PH surplus in FY19-22E



Source: Company, ICICI Direct Research

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

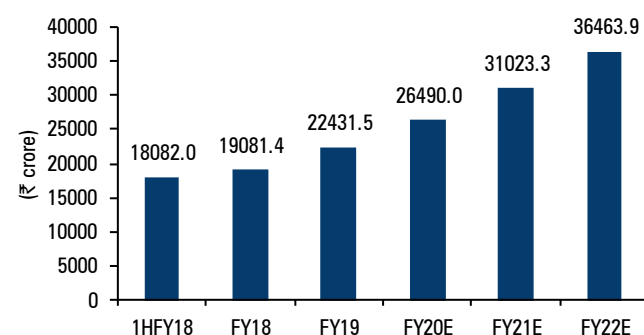
Persistency ratio %	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
13th Month	82.5	80.0	80.0	84.5	84.5	83.1	82.5
37th Month	71.3	71.7	67.4	75.8	70.6	75.9	75.5
61th Month	57.8	68.4	56.2	69.2	56.3	59.6	61.1

Source: Company, ICICI Direct Research

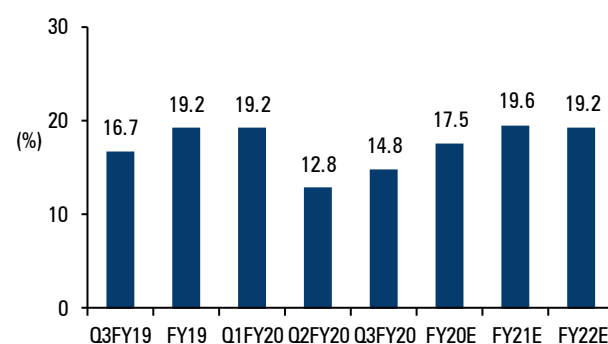
Exhibit 10: Investment growth expected at ~22% CAGR in FY20-22E

	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20E	FY21E	FY22E
Shareholders' investments	5693	5774	5904	5958	6900	6909	6993	6838	7974	9274
PH Fund Excl. Linked Assets	56309	58979	61692	65762	66091	69190	73411	78214	92795	109926
Assets held to cover linked liabilities	56569	59749	64810	65821	72311	76932	82064	82534	103593	129683
Total Investments	118571	124502	132406	137541	145302	153031	162469	167586	204361	248883

Source: Company, ICICI Direct Research

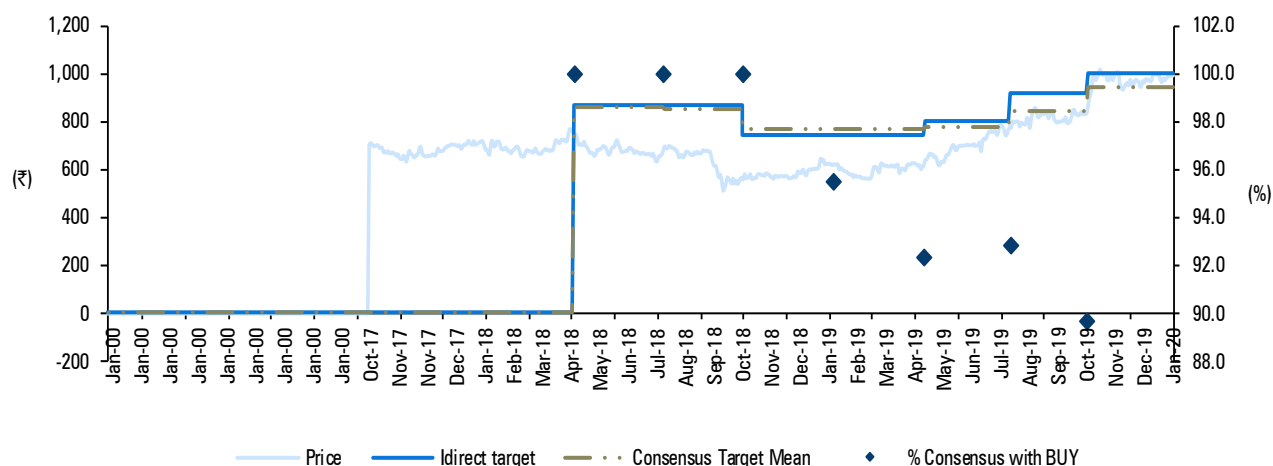
Exhibit 11: Incremental NBP to propel EV growth


Source: Company, ICICI Direct Research

Exhibit 12: Healthy premium growth to lead RoE at ~18-19%


Source: Company, ICICI Direct Research

Exhibit 13: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 14: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	STATE BANK OF INDIA	13-09-2019	57.60	576.00M	0
2	CA EMERALD INV	30-06-2019	9.00	90.00M	0
3	BNP PARIBAS CARDIF	30-06-2019	5.20	52.01M	0
4	CANADA PENSION PLAN	31-03-2019	2.86	28.58M	0
5	ICICI PRUDENTIAL ASS	31-12-2019	2.17	21.75M	-3.22M
6	MACRITCHIE INVS PTE	30-06-2019	1.95	19.50M	0
7	VALUE LINE PTE LTD	30-06-2019	1.95	19.50M	0
8	MACRITCHIE INVEST P	30-09-2017	1.95	19.50M	0
9	STANDARD LIFE ABERDE	31-12-2019	1.85	18.54M	+0.27M
10	BLACKROCK	13-01-2020	1.04	10.39M	+0.01M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	84.1	69.8	67.3	62.8	62.8
FII	4.9	14.1	19.4	23.7	27.5
DII	4.4	4.4	6.2	6.9	4.4
Others	6.6	11.8	7.1	6.6	5.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Policyholders Account

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E
Premiums earned - Net	25160.5	32890.3	40585.0	50110.0	61494.3
Income from Investments	8456.3	11207.8	12424.0	14999.7	17657.9
Other income	68.6	63.8	70.2	91.3	100.4
Contribution from the Shareholders' account	75.6	98.9	89.0	80.1	72.1
Total	33,761.0	44,260.9	53,168.3	65,281.1	79,324.7
Commission	1120.9	1346.4	1648.7	2055.9	2567.8
Operating expenses	1718.8	2123.5	2904.4	3586.1	4431.8
Benefits paid (Net)	11712.0	15293.8	16206.4	20085.0	24486.4
Change in valuation of policy liabilities	17595.0	23591.7	30032.6	36678.7	44460.9
Others	5.5	6.6	7.9	8.6	8.0
Provision for tax	585.2	812.3	1111.0	1371.7	1695.2
Surplus/(deficit) after tax	1023.7	1086.7	1257.3	1495.1	1674.5
Transfer to Shareholders' account	830.2	998.5	1,007.3	1,345.1	1,524.5

Source: Company, ICICI Direct Research

Exhibit 17: Shareholders Account

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E
Amounts transferred from Policyholders' acc	830.2	998.5	1007.3	1345.1	1524.5
Income from investments	462.7	518.9	571.5	654.1	747.7
Total	1,292.9	1,517.4	1,578.8	1,999.1	2,272.2
Expenses other than insurance	31.7	45.9	36.0	43.2	51.8
Contribution to Policyholders' account	75.6	98.9	89.0	80.1	72.1
Others	7.4	15.9	15.9	15.9	15.9
Profit before Tax	1185.6	1372.6	1453.8	1875.8	2148.2
Provision for tax	34.1	46.5	50.9	65.7	75.2
PAT	1,151.5	1,326.1	1,402.9	1,810.2	2,073.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	5376	6428	7528	8947	10572
Credit/[debit] fair value change account	153	20	20	20	20
Networth	6529	7448	8548	9967	11593
Policyholders' funds	111434	137342	167375	204054	248515
Total Liabilities	118157	145072	176455	214703	260939
Applications of Funds					
Shareholders' investments	5223	5958	6838	7974	9274
Policyholders' investments	54484	65762	78214	92795	109926
Asset held to cover linked liabilities	54936	65821	82534	103593	129683
Loans	171	188	212	240	271
Fixed assets - net block	581	663	755	861	982
Net current assets	2761	6680	7900	9240	10803
Total Assets	118157	145072	176455	214703	260939

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios

(Year-end March)	FY18	FY19E	FY20E	FY21E	FY22E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	11.5	13.4	14.0	18.1	20.7
DPS (₹)	2.0	2.4	2.5	3.3	3.7
BV (₹)	65.3	74.5	85.5	99.7	115.9
EV per share	191	224	265	310	365
P/E	61.4	52.7	50.4	39.1	34.1
P/BV	10.8	9.5	8.3	7.1	6.1
P/IEV	3.7	3.2	2.7	2.3	1.9
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.4	4.1	4.0	4.1	4.1
Management expenses incl commission as	11.2	10.5	11.1	11.2	11.3
Return Ratios and capital (%)					
Return on Net worth	19.1	19.2	17.5	19.6	19.2
Operating RoEV	17.8	17.8	17.9	18.2	18.7
Solvency Ratio	200	195	200	200	200
Key Ratios (%)					
Conservation Ratio	84.2	84.7	81.4	81.2	81.2
VNB Margin	16.5	16.7	17.0	17.2	17.2
Surrender Ratio	5.3	5.6	4.7	4.8	4.8
Benefits paid as a % of Opening Liability	12.5	13.7	11.8	12.0	12.0
NBP (proportion %)					
Traditional	39.5	42.2	41.3	40.3	40.2
Linked	60.5	57.8	58.7	59.7	59.8

Source: Company, ICICI Direct Research

Exhibit 20: Key parameters

(Year-end March)	FY18E	FY19E	FY20E	FY21E	FY22E
NBP	10,972.5	14,064.5	17,145.5	20,938.8	25,138.1
Growth (%)	8.2	28.2	21.9	22.1	20.1
Linked	6639.9	8129.7	10070.5	12490.2	15031.5
Growth (%)	29.6	22.4	23.9	24.0	20.3
Non Linked	4332.6	5934.8	7075.0	8448.7	10106.6
Growth (%)	-13.7	37.0	19.2	19.4	19.6
APE	8540.0	10515.0	13100.2	16326.0	19875.3
Growth (%)	29.4	23.1	24.6	24.6	21.7
VNB	1390.0	1756.0	2227.0	2808.1	3418.5
Growth (%)	34.1	26.3	26.8	26.1	21.7
EV	19070.0	22431.5	26490.0	31023.3	36463.9
Growth (%)	15.3	17.6	18.1	17.1	17.5
AUM	114643.9	137541.0	167586.4	204361.3	248882.7
Growth (%)	19.6	20.0	21.8	21.9	21.8
PH Funds	109420.4	131582.5	160748.0	196387.6	239608.7
Growth (%)	19.5	20.3	22.2	22.2	22.0
SH Funds	5223.5	5958.5	6838.4	7973.7	9273.9
Growth (%)	21.6	14.1	14.8	16.6	16.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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