

May 6, 2020

Q4FY20 Result Update

Key Financials

Y/e March	FY19	FY20E	FY21E	FY22E
Net Premiums (Rs m)	3,28,904	3,89,141	4,35,563	4,97,430
- Growth (%)	30.7	18.3	11.9	14.2
Total Income (Rs mn)	4,42,612	5,34,270	6,12,818	7,12,438
Surplus / Deficit (Rs m)	10,867	11,147	11,865	13,811
PAT (Rs m)	13,268	16,101	18,358	21,771
- Growth (%)	15.3	21.3	14.0	18.6
EPS (Rs)	13.3	16.1	18.4	21.8
Emb. Value (Rs bn)	224.0	262.8	305.1	363.5
NBP Margin (%) post overrun	17.7	18.7	19.1	19.8
RoE (%)	18.8	19.2	16.7	18.4
Operating RoEV (%)	17.4	20.5	16.5	16.6
RoEV (%)	17.5	17.3	16.1	19.1
Dividend yield (%)	0.2	-	0.2	0.2
Price/EV (x)	3.2	2.7	2.3	2.0
Ap. Value/EV (x)	2.8	2.6	2.6	2.4

Key Data

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52-W High / Low	Rs.1,030 / Rs.519
Sensex / Nifty	31,453 / 9,206
Market Cap	Rs.713.57bn/ \$ 9,433.7m
Shares Outstanding	1,000.0m
3M Avg. Daily Value	Rs.974.6m

Shareholding Pattern (%)

Promoter's	62.80
Foreign	25.87
Domestic Institution	5.74
Public & Others	5.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.8	(29.0)	3.6
Relative	(9.2)	(7.0)	24.3

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Growth slows, operating parameters better

Quick Pointers

- Strong Op ROEV of 20.5% on back of strong persistency gains in variance
- Margins were steady at 18.7% on back of focus on protection and NPar

SBI Life's NBP growth weakened to 20% YoY while seeing a tepid APE growth of 11% in FY20 and targets single digit growth for FY21. Though Protection biz growth moderated to 27% YoY it still continues to be the core focus while ULIPs performed better than peers. Margins continued to improve with 100bps YoY ending at 18.7% on back of favorable mix but were weaker than expected on conservative assumptions on future risks. Persistency continued to improve across all cohorts with ULIPs having largely stable experience, while NPar showed improvement. Overall operating metrics like persistency, margins, costs etc. expected to remain steady while growth is expected to slow down a bit going ahead. We retain BUY with revised TP of Rs 880 (from Rs 1,127) based on 2.4x (from 3.2x) Mar-22 P/EV.

- Retraction expected in NPar product:** Focus continues to remain on Protection with NPar (guaranteed) expected to see a moderation in view of lowering interest rates and will be sold on demand post repricing. Slowdown in ULIP has been lesser than peers due to relatively higher debt component which makes it fairly profitable and has seen falling surrender ratios though Par would rise if there is discomfort on ULIP end (persistencies for ULIP remain 85%+ while improved to 80%+ for Par).
- Banca channel to make way for Digital:** Digital will lead in FY21 with a better than before growth outlook already driving 50%-60% of renewal business and 100% of new business in April 2020. Banca has done well with support from the new 4-5 relationships, recent UCO Bank tie-up and the usual SBI channel with management giving a 2-3year headroom for further improvements
- VNB margins remains stable though business slows down:** Focus on high margin products of Protection and NPar led to 100bps YoY improvement in margins for FY20 to 18.7% (excl. effective tax rate) despite lower business growth. Favourable mix & growth contributed to margins, even better than peers but change in operating assumptions (for higher risks on expenses/persistency) and economic assumptions (lower yield curve) led to offset large part of gains. With mix still favoring protection, ULIPs and now par pricing with peers, margins should hold up with positive bias but APE growth for FY21 will be slower and in single digit.
- Key Concall Takeaways:** (i) For FY20, 100% NPA provision of Rs 0.53bn against DHFL bonds in ULIPs (ii) Repricing not to have a significant impact on margins as Co. is already in-line with peer rates (slightly costlier than HDFCL and cheaper than IPRU) and any changes required would be marginal (iii) Negative Eco Variance mainly from adverse impact of falling interest in NPar and provisions on CRNHR at 2%-2.5% of APE (iv) Persistencies for April came in lower than targets

Exhibit 1: Slow top line & provisions impact earnings

(Rs m)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	1,19,372	1,13,760	4.9	1,17,597	1.5
Net Premium Income	1,18,630	1,13,330	4.7	1,16,945	1.4
Income from Investment (Net)	(66,772)	41,507	(260.9)	40,733	(263.9)
Total (A)	56,749	1,56,010	(63.6)	1,57,791	(64.0)
Net Commission	4,534	4,521	0.3	4,552	(0.4)
Opex related to Insurance	7,265	6,418	13.2	6,419	13.2
Benefits Paid (Net)	39,601	70,853	(44.1)	61,764	(35.9)
Change in actuarial liability	(4,053)	71,189	(105.7)	76,569	(105.3)
Total (B)	50,154	1,54,847	(67.6)	1,51,709	(66.9)
Surplus / (Deficit)	6,596	1,163	467.0	6,082	8.4
Shareholders' Account					
Trf from Policyholders A/c	9,209	4,511	104.2	2,707	240.1
Investment Income	(115)	1,360	(108.4)	1,740	(106.6)
Total	9,115	5,899	54.5	4,463	104.2
Non Insurance Expenses	209	81	157.8	85	147.5
Trf to Policyholders A/c	4,763	989	381.5	-	NA
Profit/(Loss) before Tax	5,216	4,819	8.2	3,949	32.1
Provision for Taxation	(91)	243	(137.4)	51	(276.7)
Profit/(Loss) after Tax	5,307	4,577	16.0	3,898	36.1
Ratios					
Expense Ratio	6.1	5.6	44	5.5	63
Commission Ratio	3.8	4.0	(18)	3.9	(7)
Cost / TWRP	9.9	9.6	27	9.3	56

Source: Company, PL

Exhibit 2: Margins maintained in-spite of falling APE with main support from protection

Rs Mn	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
New Business APE	26,900	31,000	(13.2)	33,800	(20.4)	1,07,400	97,000	10.7
Individual	24,900	28,400	(12.3)	31,000	(19.7)	97,700	89,500	9.2
Group	2,000	2,600	(23.1)	2,800	(28.6)	9,700	7,500	29.3
Total New Business	38,054	43,217	(11.9)	49,706	(23.4)	1,65,925	1,37,920	20.3
Savings	31,754	37,417	(15.1)	44,506	(28.7)	1,45,125	1,21,520	19.4
Protection	6,300	5,800	8.6	5,200	21.2	20,800	16,400	26.8
%								
Savings	83.4	86.6	(314)	89.5	(609)	87.5	88.1	(64.5)
Protection	16.6	13.4	314	10.5	609	12.5	11.9	64.5
VNB	5,400	5,600	(3.6)	6,200	(12.9)	20,100	17,200	16.9
VNB Margin (%)	20.1	18.1	201.0	18.3	173.1	18.7	17.7	100.0

Source: Company, PL

Exhibit 3: New business sees a slowdown while renewal business maintains momentum

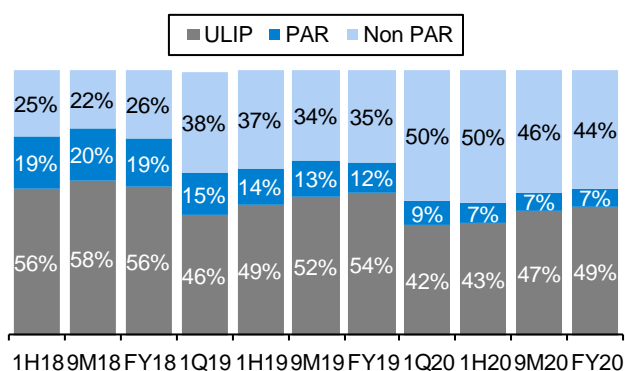
Rs Mn	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Retail New Business	28,500	30,400	(6.3)	35,400	(19.5)	1,12,400	96,400	16.6
Group New Business	9,554	12,817	(25.5)	14,306	(33.2)	53,500	41,520	28.9
Renewal Premium	81,319	70,543	15.3	67,891	19.8	2,40,422	1,91,974	25.2
Gross Written Premium	1,19,372	1,13,760	4.9	1,17,597	1.5	4,06,347	3,29,894	23.2

Source: Company, PL

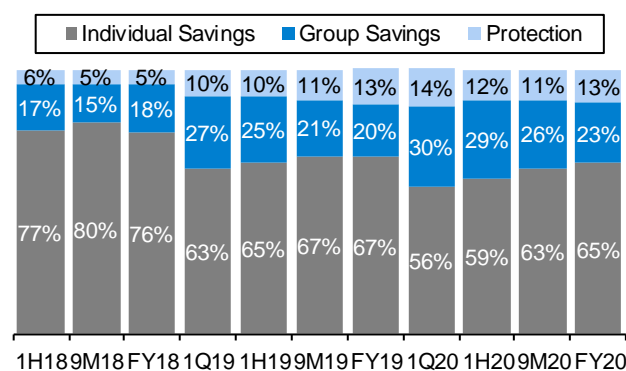
Exhibit 4: Non-par growth domination continues, PAR declines while protection growth moderates

Total NB Product Mix	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Rs Mn								
Individual Savings	26,800	28,800	(6.9)	34,300	(21.9)	1,07,200	92,700	15.6
PAR	2,600	5,000	(48.0)	3,300	(21.2)	11,600	17,600	(34.1)
Non PAR	3,700	600	516.7	4,300	(14.0)	15,100	2,200	586.4
ULIP	20,500	23,100	(11.3)	26,700	(23.2)	80,500	72,800	10.6
Group Savings	4,800	8,500	(43.5)	10,300	(53.4)	37,900	28,800	31.6
Protection	6,300	5,800	8.6	5,200	21.2	20,800	16,400	26.8
(%)								
Individual Savings	70.7	67.0	374	68.9	184	64.6	67.3	(265)
PAR	6.9	11.6	(477)	6.6	23	7.0	12.8	(578)
Non PAR	9.8	1.4	837	8.6	113	9.1	1.6	751
ULIP	54.1	53.7	37	53.6	48	48.5	52.8	(431)
Group Savings	12.7	19.8	(710)	20.7	(802)	22.8	20.9	195
Protection	16.6	13.5	313	10.4	618	12.5	11.9	64

Source: Company, PL

Exhibit 5: Total NB Product Mix- ULIP inches up sequentially


Source: Company, PL

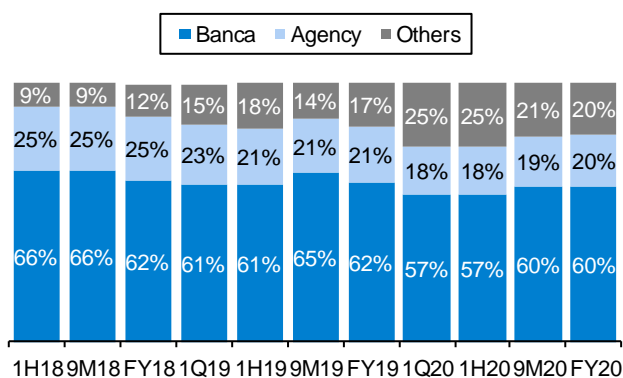
Exhibit 6: Total NB Product Mix- Indi Savings dominate


Source: Company, PL

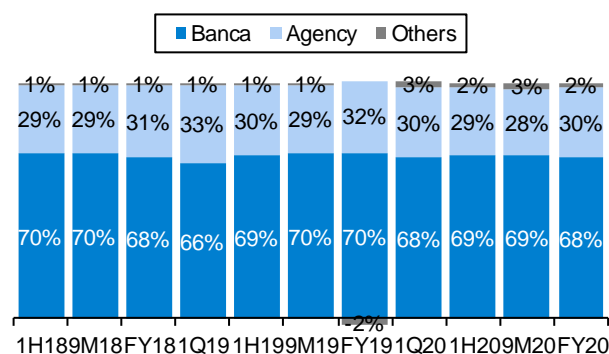
Exhibit 7: Banca well supported by new relationships while others (digital channel) continues to do well

Rs Mn	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Total NB Sourcing Mix Breakup								
Banca	32,166	27,643	16.4	26,593	21.0	76,740	61,620	24.5
Agency	10,225	8,211	24.5	8,398	21.8	24,301	19,908	22.1
Others	7,309	3,246	125.2	11,664	(37.3)	26,859	13,272	102.4
Indv APE Sourcing Mix Breakup								
Banca	22,287	18,900	17.9	17,826	25.0	51,129	43,330	18.0
Agency	9,044	7,830	15.5	7,262	24.5	20,748	17,951	15.6
Others	969	270	258.9	350	176.9	2,223	619	259.1

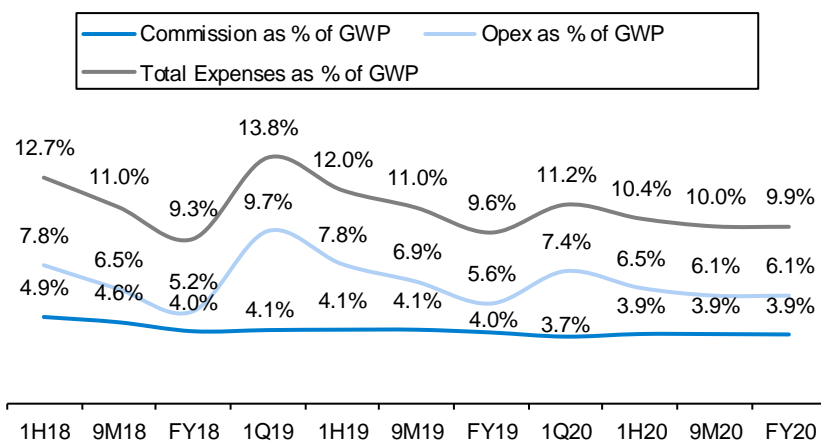
Source: Company, PL

Exhibit 8: Banca remains key while agency grows too


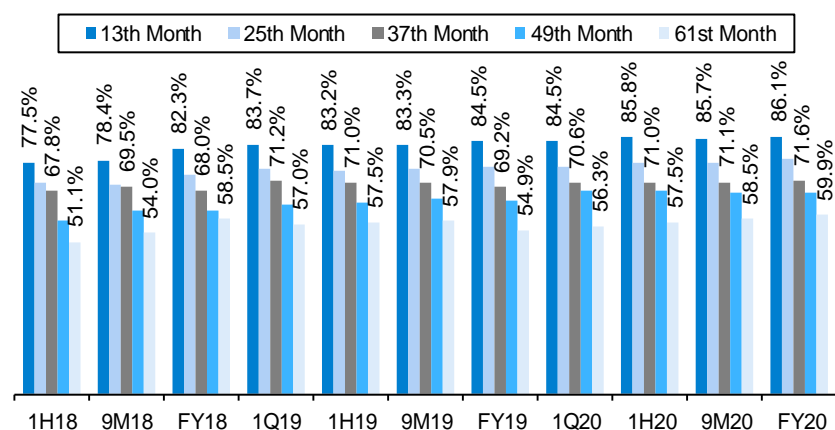
Source: Company, PL

Exhibit 9: On Ind. basis, banca dominates but others (direct and broker) continues to gain


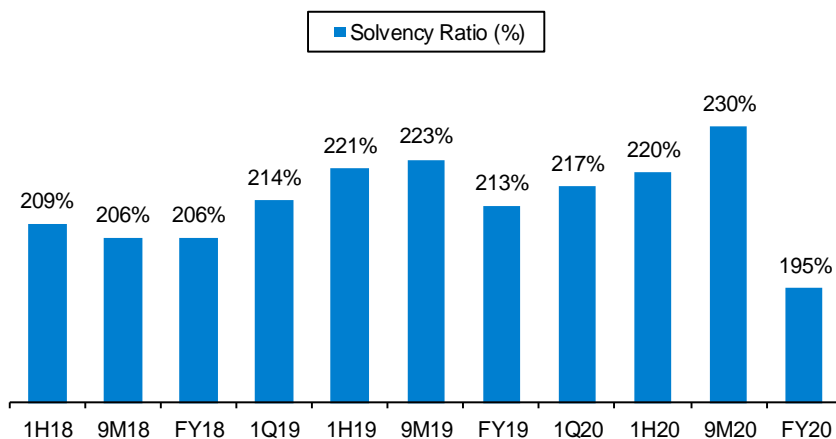
Source: Company, PL

Exhibit 10: Expense Ratios remain tightly controlled


Source: Company, PL

Exhibit 11: Persistency across all cohorts remains strong


Source: Company, PL

Exhibit 12: Solvency Ratio adversely impacted by falling equity markets


Source: Company, PL

Exhibit 13: Change in Estimates – We lower our growth and slightly lower margins

(Rs bn)	Old		Revised		% Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
APE	129.8	156.6	114.2	132.3	(12.0)	(15.5)
VNB	26.4	32.7	21.9	26.2	(17.3)	(20.0)
VNB Margin (%)	20.4	20.9	19.1	19.8	(1.2)	(1.1)
EV	305.5	361.5	305.1	363.5	(0.2)	0.5
Price target (Rs)	1,127		880		(2.5)	
Recommendation	BUY		BUY			

Source: PL

Drop in solvency on back of fall in capital markets which has been similar to peers

Exhibit 14: We revise our TP to Rs 880 (from Rs1,127) based on 2.4x P/EV Mar-22E (from 3.2x Sep-22 P/EV)

PT calculation and upside	
Op RoEV	16.6%
CoE	14.4%
Terminal Growth	5.0%
Embedded value	363
Price / Embedded value	2.4
Appraisal Value	880
Number of shares, mn	1,000
Valuation per share	880
CMP	714
<i>Upside (%)</i>	23.2%

Source: Company, PL

Exhibit 15: Key Metrics and EV movement

Rs bn	FY17	FY18	FY19	FY20E	FY21E	FY22E
APE	67.3	85.4	97.0	107.4	114.2	132.3
YoY growth (%)	36.2	26.9	13.6	10.7	6.3	15.9
NBV	10.4	13.9	17.2	20.1	21.9	26.2
YoY growth (%)	48.3	33.6	24.1	16.9	8.7	19.9
EV Movement						
Opening IEV	125.5	165.4	190.7	224.0	262.8	305.1
New Business Value	10.4	13.9	17.2	20.1	21.9	26.2
EVOP	28.9	29.6	33.2	45.9	43.4	50.6
Dividend payout	1.8	2.4	2.4	-	2.1	2.1
Closing EV	165.4	190.7	224.0	262.8	305.1	363.5
<i>Adjusted Net worth</i>	70.0	74.7	85.7	102.0	118.5	138.4
<i>Value in force (VIF)</i>	95.4	116.0	138.4	160.8	186.6	225.0
Ratios (%)						
NBAP margins	15.4	16.2	17.7	18.7	19.1	19.8
RoEV	31.8	15.3	17.5	17.3	16.1	19.1
Operating RoEV	23.0	17.9	17.4	20.5	16.5	16.6

Source: Company, PL

Technical account (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross Premiums	3,29,894	3,91,937	4,38,607	5,00,977
Reinsurance Ceded	(991)	(2,796)	(3,045)	(3,547)
Net Premiums	3,28,904	3,89,141	4,35,563	4,97,430
Income from Investments	1,12,081	1,43,288	1,75,173	2,12,650
Other Income	1,627	1,841	2,083	2,357
Total income	4,42,612	5,34,270	6,12,818	7,12,438
Commission	13,463	14,132	15,367	17,400
Operating expenses	21,235	24,253	26,179	29,844
Prov for doubtful debts	9	-	-	-
Operating Profit	4,07,904	4,95,885	5,71,271	6,65,193
Prov for Tax	2,689	3,021	3,583	4,134
Benefits Paid (Net)	1,52,331	1,69,105	1,86,587	2,14,279
Chg in reserves	2,35,917	3,11,328	3,67,707	4,31,146
Surplus / Deficit	10,867	11,147	11,865	13,811

Shareholder's a/c (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Transfer from technical a/c	9,985	11,147	11,865	13,811
Income From Investments	5,192	6,594	8,360	10,063
Total Income	15,177	17,893	20,395	24,045
Other expenses	398	345	397	397
Contribution to technical a/c	989	1,119	1,266	1,433
Total Expenses	1,448	1,464	1,662	1,829
PBT	13,729	16,430	18,732	22,215
Prov for Tax	461	329	375	444
PAT	13,268	16,101	18,358	21,771

Premium (Rs m) & growth (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
New business prem - unwttd	1,37,920	1,65,900	1,79,172	2,07,840
New business prem - APE	95,307	1,05,021	1,14,205	1,32,326
Renewal premium	1,91,974	2,26,037	2,59,435	2,93,138
Total premium - unwttd	3,29,894	3,91,937	4,38,607	5,00,977
New bus. growth - unwttd	25.8	20.3	8.0	16.0
New business growth - APE	13.2	10.2	8.7	15.9
Renewal premium growth	33.4	17.7	14.8	13.0
Total prem growth - unwttd	30.1	18.8	11.9	14.2

Premium mix (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
New business - unwttd				
- Individual mix	69.9	67.8	67.0	69.0
- Group mix	30.1	32.2	33.0	31.0
New business mix - APE				
- Participating	18.4	11.0	15.5	14.0
- Non-participating	10.3	20.2	19.5	20.4
- ULIPs	71.3	68.8	65.0	65.6
Total premium mix - unwttd				
- Participating	21.8	22.9	24.5	23.9
- Non-participating	20.8	28.4	27.6	28.2
- ULIPs	57.4	48.7	47.9	47.9

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sources of Fund				
Share Capital	10,000	10,000	10,000	10,000
Reserves And Surplus	64,601	80,703	96,960	1,16,631
Shareholders' Fund	75,764	92,074	1,08,578	1,28,541
Policy Liabilities	6,49,544	7,86,748	9,62,262	11,66,259
Prov. for Linked Liab.	6,05,921	8,08,244	10,00,437	12,27,585
Funds For Future App.	-	-	-	-
Current liabilities & prov.	37,360	44,085	52,020	61,384
Total	14,67,338	18,44,352	22,56,875	27,41,390
Application of Funds				
Shareholders' inv	57,232	89,305	1,07,392	1,29,393
Policyholders' inv	6,44,724	8,04,476	9,91,958	12,09,907
Assets to cover linked liab.	6,91,291	8,63,143	10,54,360	12,80,356
Loans	1,725	2,036	2,402	2,834
Fixed Assets	5,952	7,024	8,288	9,780
Current assets	66,414	78,369	92,475	1,09,120
Total	14,67,338	18,44,352	22,56,875	27,41,390

Operating ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
Investment yield (%)	8.2	8.5	8.5	8.5
Commissions / GWP	4.1	3.6	3.5	3.5
- first year premiums	8.3	7.0	5.4	5.3
- renewal premiums	2.7	2.8	3.5	3.5
- single premiums	1.5	0.7	0.7	0.7
Operating expenses / GWP	6.4	6.2	6.0	6.0
Total expense ratio	10.5	9.8	9.5	9.4
Claims / NWP	46.3	43.5	42.8	43.1
Solvency margin	213.0	214.0	215.0	215.0

Persistency ratios (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
13th Month	81.3	81.3	81.3	81.3
25th Month	74.3	74.3	74.3	74.3
37th Month	68.0	68.0	68.0	68.0
49th Month	61.9	62.0	62.0	62.0
61st Month	64.1	64.2	64.2	64.2

Profitability ratios (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
NBP margin (%) post overrun	17.7	18.7	19.1	19.8
RoE (%)	18.8	19.2	16.7	18.4
RoIC (%)	132.7	161.0	183.6	326.6

Valuation ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
Total AUMs (Rs bn)	1,393	1,757	2,154	2,620
- of which equity AUMs (%)	30.0	32.0	32.0	32.0
EVOP as % of MCEV	17.4	20.5	16.5	16.6
RoEV (%)	17.5	17.3	16.1	19.1
Dividend %	0.2	-	0.2	0.2
Dividend payout ratio (%)	18.2	-	11.4	9.6
EPS, Rs	13.3	16.1	18.4	21.8
Embedded Value (Rs bn)	224.0	262.8	305.1	363.5

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	475	455
2	Bandhan Bank	Subscribe	-	-
3	Bank of Baroda	BUY	83	50
4	Federal Bank	BUY	73	41
5	HDFC	BUY	1,406	1,278
6	HDFC Bank	BUY	1,105	910
7	HDFC Life Insurance Company	Hold	454	485
8	ICICI Bank	BUY	509	331
9	ICICI Prudential Life Insurance Company	Accumulate	385	385
10	IDFC First Bank	Accumulate	25	22
11	IndusInd Bank	BUY	720	407
12	Kotak Mahindra Bank	Accumulate	1,405	1,251
13	Max Financial Services	BUY	610	484
14	Punjab National Bank	BUY	40	31
15	SBI Life Insurance Company	BUY	1,127	982
16	South Indian Bank	BUY	11	6
17	State Bank of India	BUY	317	184

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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