

# SBI Life Insurance

## In-line performance

Over FY21E we expect covid-19 and changes in personal taxation to cause significant disruption to insurance sales (FY21E APE: -13.1% YoY). We however take a longer term view on the business and appreciate the strong distribution footprint of its parent SBI (24k+ branches), improving protection share (1QFY21: 12.6%, +137bps YoY), lowest operating cost ratios (1QFY21: 10.1%). We expect SBILIFE to deliver healthy FY20-23E VNB CAGR of 6.6% and RoEVs of ~13.4-15.4% over FY21-23E. We retain our BUY rating on SBILIFE with an unchanged TP of Rs 975 (Mar-21E EV + 28.9x Mar-22E VNB). The stock is currently trading at FY21/22E P/EV of 2.8/2.5x and P/VNB of 31.2/25.1x. Lower growth, renewals, and protection share are key risks.

- **1QFY21 highlights:** Total APE at Rs 12.7bn declined 32.1/53.1% YoY as lockdown and partial working conditions impacted sales. While share of protection in total APE improved 137/79bps YoY/QoQ to 12.6%, Retail/group protection declined 36.4/10.4% YoY/QoQ. ULIP declined 50.8% YoY resulting in its share reducing to 48.0% (-1,828bps YoY) and consequent improvement in non-linked savings business share to 26.8% (+966bps YoY). Non-linked savings business grew 6.3% YoY with NPAR savings growing to 3.6x YoY.
- Persistency deteriorated sequentially across all buckets except 61<sup>st</sup> month as renewals lagged. Strong renewal premiums growth at 29.4% YoY to Rs 45.8bn and AUM growth of 19.3% YoY to Rs 1.8tn showcase high quality of business underwritten. Solvency improved to 239% (+2,200bps YoY) as equity markets bounced back.
- **Adj. VNB margin** at 20.1% were higher by 20bps YoY but ~100bps lower than our estimates. Margins were lower mainly due to 1) negative impact of change in operating assumptions of (-120bps- largely due to re-insurance price hike), 2) mix change (+620bps), and 3) change in economic assumptions (-420bps, mainly risk free rate).
- **Outlook:** We expect FY21E to be a challenging year for the SBILIFE. We expect company to obtain approvals and launch newer high margin products over 2QFY21 and hence improvement in metrics is more likely over 2HFY21E. Overall we expect FY21E to be a muted year for the company with FY21E APE/VNB expected to decline 13.1/11.7% YoY.

## Quarterly financial summary

| (Rs bn)      | 1Q<br>FY21 | 1Q<br>FY20 | YoY<br>(%) | 4Q<br>FY20 | QoQ<br>(%) | FY19  | FY20  | FY21E | FY22E | FY23E |
|--------------|------------|------------|------------|------------|------------|-------|-------|-------|-------|-------|
| NBP          | 30.5       | 31.6       | -3.5       | 38         | -19.7      | 137.9 | 165.9 | 160.3 | 182.4 | 219.8 |
| APE          | 12.7       | 18.7       | -32.1      | 27.1       | -53.1      | 96.9  | 107.4 | 93.3  | 106.2 | 122.2 |
| Adj. VNB     | 2.4        | 3.7        | -31.4      | 5.8        | -55.8      | 19.2  | 22.2  | 19.6  | 22.9  | 26.9  |
| Adj. VNB (%) | 20.1       | 19.9       | 20bps      | 21.3       | -120bps    | 19.8  | 20.7  | 21.0  | 21.6  | 22.0  |
| EV           |            |            |            |            |            | 236.6 | 276.4 | 313.3 | 356.8 | 403.6 |
| MCap/EV (x)  |            |            |            |            |            | 3.8   | 3.2   | 2.8   | 2.5   | 2.2   |
| P/VNB (x)    |            |            |            |            |            | 35.8  | 29.4  | 31.2  | 25.1  | 19.8  |
| ROEV (%)     |            |            |            |            |            | 18.9  | 16.8  | 13.4  | 15.1  | 15.4  |

Source: Company, HSIE Research

## BUY

|                         |        |
|-------------------------|--------|
| CMP (as on 21 Jul 2020) | Rs 888 |
| Target Price            | Rs 975 |
| NIFTY                   | 11,162 |

| KEY CHANGES  | OLD    | NEW    |
|--------------|--------|--------|
| Rating       | BUY    | ADD    |
| Price Target | Rs 975 | Rs 975 |
| VNB %        | FY21E  | FY22E  |
|              | Nil    | Nil    |

## KEY STOCK DATA

|                             |              |
|-----------------------------|--------------|
| Bloomberg code              | SBILIFE IN   |
| No. of Shares (mn)          | 1,000        |
| MCap (Rs bn) / (\$ mn)      | 888/11,904   |
| 6m avg traded value (Rs mn) | 1,179        |
| 52 Week high / low          | Rs 1,030/519 |

## STOCK PERFORMANCE (%)

|              | 3M   | 6M    | 12M  |
|--------------|------|-------|------|
| Absolute (%) | 32.3 | (8.7) | 19.3 |
| Relative (%) | 8.5  | (0.5) | 20.3 |

## SHAREHOLDING PATTERN (%)

|                 | Mar-20 | Jun-20 |
|-----------------|--------|--------|
| Promoters       | 62.8   | 60.7   |
| FIs & Local MFs | 5.7    | 7.0    |
| FPIs            | 25.9   | 26.2   |
| Public & Others | 5.6    | 6.1    |
| Pledged Shares  | 0.0    | 0.0    |

Source : BSE

Pledged shares as % of total shares

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**Disclosure:**

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