

## Retail Equity Research

# SBI Life Insurance Co. Ltd.

### Life Insurance

BSE CODE: 540719

NSE CODE: SBILIFE

Bloomberg CODE: SBILIFE:IN

SENSEX: 37,935

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 866 TARGET Rs. 1,018 RETURN 18% ↑  
(Closing: 27-07-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

## Healthy margin supports bottom line

SBI Life Insurance Company Limited, is a joint venture between SBI and BNP Paribas formed in 2001, which offers individual and group insurance plans, including traditional and unit linked plans. Its products cover life, health, annuity, pension and variable insurance.

- In Q1FY20, Gross Written Premium (GWP) grew 14.2% YoY, on the back of Renewal Premium. The New Business Premium (NBP) however declined 2.9% YoY, as premiums slid on individual (-28.4% YoY) and protection businesses (-34.1% YoY) front.
- Annualized Premium Equivalent (APE) witnessed a decline across channels, dropping 32.1% YoY on overall basis.
- PAT went up 5.1% YoY, owing to rise in Investment income (+188.3% YoY) and lower total expenses (-10.6% YoY).
- Company's recent tie-up with UCO bank along with its strong market presence and improving VoNB margins on favorable product mix should aid growth going forward. We reiterate our BUY rating on the stock with a revised TP of Rs. 1,018 based on 2.8x FY22E Embedded value (EV).

## GWP driven by Renewal premium growth

In Q1FY20, GWP rose 14.2% YoY to Rs. 7,643cr supported by rapid growth in Renewal Premium (+29.5% YoY) partially offset by NBP (-2.9% YoY) impacted by the lockdown. However, the company was quick to gain market share in Total NBP by 100bps YoY to 6.2% in Q1FY21, post the initial phase of the lockdown. Within NBP, notable decline came in from ULIP (-40.9% YoY) owing to the volatility in the financial markets. Protection business followed the suit (-34.1% YoY), however Group savings witnessed solid growth (56.3% YoY). APE saw a 32.1% YoY drop, as both its Agency (-34.6% YoY) and Banca (-39.8% YoY) were adversely hit.

## Margin improves on favorable business mix

In Q1FY21, VoNB dropped 28.6% YoY to Rs. 237cr, while the VoNB margin expanded 80bps YoY to 18.7% owing to a slight improvement in the new business mix and profile (+620bps YoY) and partially offset by changes in economic assumptions (-420bps). Cost ratio improved by ~110bps to 10.1% supported by both Opex (~30bps) and Commission ratio (~80bps). PAT rose 5.1% YoY to reach Rs. 391cr partly aided by lower expenses. Solvency ratio improved to 2.39x (vs. 1.95x in Q4FY20) as against the regulatory mandated 1.50x

## Key highlights

- During Q1FY21, company's AUM portfolio was split equally (50:50) between linked and non-linked policies. Of the debt instruments, ~90% of the investments are in AAA-rated and Sovereign bonds. The debt-equity mix stood at 76:24.
- 13<sup>th</sup> Month Persistency ratio (based on premium) stood at 81.6% (as against 84.5% in Q1FY20).
- On June 22, SBI Life announced its tie-up with UCO Bank to provide insurance solutions via their 3,086 branch network to boost its Banca distribution channel.

## Outlook and Valuation

The initial adverse impact of the lockdown on the NBP have started to show signs of recovery. The strong brand recognition along with wide distribution network should aid growth. We reiterate our BUY rating on the stock with a revised target price of Rs. 1,018 based on 2.8x FY22E EV.

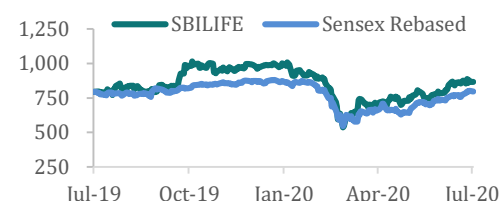
## Company Data

Market Cap (cr)	Rs. 86,611
Outstanding Shares (cr)	100.0
Free Float	37.0%
Dividend Yield	0.0%
52 week high	Rs. 1,030
52 week low	Rs. 520
6m average volume (lacs)	0.6
Beta	0.5
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	62.8	62.8	60.7
FII's	26.4	25.9	26.2
MFs/Insti	5.5	5.7	6.1
Public	2.1	2.3	2.4
Others	3.2	3.3	3.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	21.1%	-12.7%	9.0%
Absolute Sensex	19.5%	-7.8%	0.1%
Relative Return*	1.6%	-4.9%	8.8%

\*over or under performance to benchmark index



Standalone (Rs cr)	FY20A	FY21E	FY22E
Net Premium	40,324	47,343	55,868
Growth (%)	22.6	17.4	18.0
New Business (%)	18.7	18.8	19.1
Net Profit	1,422	1,572	1,868
Growth (%)	7.2	10.5	18.9
EPS (Rs.)	14.2	15.7	18.7
Growth (%)	7.2	10.5	18.9
BVPS (Rs.)	88.8	99.6	115.0
EVPS (Rs.)	262.9	308.9	363.6
RoE	16.0	15.8	16.2
RoEV	20.5	17.5	18.5
P/E	45.1	55.1	46.4
P/EV	2.4	2.8	2.4
Solvency (x)	195.0	215.1	216.8

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
<b>Premium Earned (Net)</b>	<b>7,588</b>	<b>6,655</b>	<b>14.0</b>	<b>11,863</b>	<b>(36.0)</b>
Income from investments (net)	8,583	2,977	188.3	(6,677)	(228.5)
Other income	7	11	(36.2)	489	(98.5)
<b>Total Income</b>	<b>16,178</b>	<b>9,644</b>	<b>67.8</b>	<b>5,675</b>	<b>185.1</b>
Incurred Claims	2,853	2,860	(0.3)	3,960	(28.0)
Others expenses	12,476	6,327	97.2	989	1,160.9
<b>Total Expenses</b>	<b>15,329</b>	<b>9,188</b>	<b>66.8</b>	<b>4,950</b>	<b>209.7</b>
Tax (policyholders' A/c)	239	178	34.5	66	264.0
<b>Surplus (Post tax)</b>	<b>610</b>	<b>278</b>	<b>119.3</b>	<b>660</b>	<b>(7.5)</b>
Transfer to shareholder account	282	216	31.0	921	(69.4)
Interest and other income	96	173	(44.2)	(9)	(1,126.0)
Other expenses	(9)	11	n.m.	390	n.m.
<b>PBT</b>	<b>388</b>	<b>378</b>	<b>2.6</b>	<b>522</b>	<b>(25.7)</b>
Tax (shareholders' A/c)	(3)	6	n.m.	(9)	64.6
<b>Reported PAT</b>	<b>391</b>	<b>372</b>	<b>5.1</b>	<b>531</b>	<b>(26.3)</b>
<b>Adj EPS (Rs.)</b>	<b>3.9</b>	<b>3.7</b>	<b>5.1</b>	<b>5.3</b>	<b>(26.2)</b>

### Change in Estimates

	Old Estimates		New Estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Premium Earned (Net)</b>	<b>46,495</b>	<b>56,643</b>	<b>47,343</b>	<b>55,868</b>	<b>1.8</b>	<b>(1.4)</b>
Profit before tax	1,701	1,922	1,654	1,966	(2.8)	2.3
Net Profit	1,616	1,826	1,572	1,868	(2.8)	2.3
<b>EPS (Rs.)</b>	<b>16.2</b>	<b>18.3</b>	<b>15.7</b>	<b>18.7</b>	<b>(2.8)</b>	<b>2.3</b>

### Policyholders' Profit & Loss Account

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net Premium</b>	<b>25,160</b>	<b>32,890</b>	<b>40,324</b>	<b>47,343</b>	<b>55,868</b>
% change	20.7	30.7	22.6	17.4	18.0
Income from Inv.	8,456	11,208	2,997	12,886	14,175
Transfer from shareholder account	76	99	476	191	215
Other income	69	64	46	18	21
<b>Total Income</b>	<b>33,761</b>	<b>44,261</b>	<b>43,843</b>	<b>60,438</b>	<b>70,279</b>
Commission	1,121	1,346	1,566	1,934	2,214
Operating Expenses	1,719	2,093	2,413	2,961	3,514
Other Expenses	353	581	736	857	996
<b>Operating Profit</b>	<b>30,568</b>	<b>40,241</b>	<b>39,127</b>	<b>54,686</b>	<b>63,555</b>
% change	10.7	31.6	(2.8)	39.8	16.2
Benefits Paid (Net)	11,677	15,294	16,251	21,214	24,668
Change in Reserves	17,595	23,592	20,605	31,428	36,545
Tax	238	269	377	348	398
<i>Tax Rate (%)</i>	18.9	19.8	16.6	17.0	17.0
<b>Surplus/Deficit</b>	<b>1,023</b>	<b>1,087</b>	<b>1,895</b>	<b>1,697</b>	<b>1,944</b>
% change	56.3	6.2	74.4	(10.5)	14.6

### Shareholders' Profit & Loss Account

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Transfer from Technical A/c	829	999	1,463	1,476	1,740
Investment Inc.	464	519	483	507	533
<b>Total Income</b>	<b>1,293</b>	<b>1,518</b>	<b>1,946</b>	<b>1,984</b>	<b>2,272</b>
% change	21.5	17.4	28.2	1.9	14.6
Other Expenses	33	46	56	139	91
Contribution to Technical A/c	76	99	476	191	215
<b>Total Expenses</b>	<b>108</b>	<b>145</b>	<b>533</b>	<b>329</b>	<b>306</b>
<b>PBT</b>	<b>1,184</b>	<b>1,373</b>	<b>1,414</b>	<b>1,654</b>	<b>1,966</b>
% change	21.5	15.9	3.0	17.0	18.9
Tax	34	46	(9)	83	98
<i>Tax Rate (%)</i>	2.9	3.4	-0.6	5.0	5.0
<b>Reported PAT</b>	<b>1,150</b>	<b>1,327</b>	<b>1,422</b>	<b>1,572</b>	<b>1,868</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>1,150</b>	<b>1,327</b>	<b>1,422</b>	<b>1,572</b>	<b>1,868</b>
% change	20.5	15.3	7.2	10.5	18.9
No. of shares (cr)	100	100	100	100	100
<b>Adj EPS (Rs.)</b>	<b>11.5</b>	<b>13.3</b>	<b>14.2</b>	<b>15.7</b>	<b>18.7</b>
% change	20.4	15.4	7.2	10.5	18.9
DPS (Rs.)	2.0	2.0	0.0	2.4	2.8

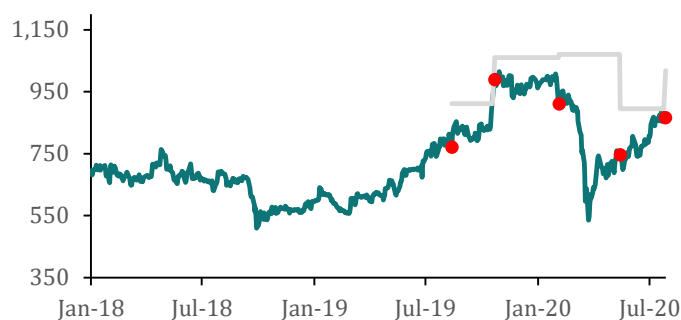
### BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Source of Funds</b>					
Share Capital	1,000	1,000	1,000	1,000	1,000
Reserves & Surplus	5,374	6,460	7,884	8,966	10,498
Fair Value Change	153	116	(141)	42	42
<b>Shareholders' Fund</b>	<b>6,528</b>	<b>7,576</b>	<b>8,743</b>	<b>10,007</b>	<b>11,540</b>
Policy Liabilities	55,556	64,954	76,123	79,929	81,528
Others	55,879	70,185	76,978	90,090	91,891
<b>Policyholder's Fund</b>	<b>111,434</b>	<b>135,140</b>	<b>153,101</b>	<b>170,019</b>	<b>173,419</b>
Funds for Future appropriations	193	282	714	934	1138
<b>Total</b>	<b>118,156</b>	<b>142,998</b>	<b>162,558</b>	<b>180,960</b>	<b>186,097</b>
<b>Application of Funds</b>					
Shareholders'	5,014	5,723	6,828	7,793	8,895
Policyholders'	54,486	64,472	73,420	83,609	95,213
Assets held to cover linked liabilities	54,936	69,129	78,565	85,829	78,293
Loans	171	173	364	368	372
Fixed assets	581	595	581	567	554
Net Current assets	2,968	2,905	2,799	2,793	2,771
<b>Total</b>	<b>118,156</b>	<b>142,998</b>	<b>162,558</b>	<b>180,960</b>	<b>186,097</b>

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Per Share (Rs.)</b>					
EPS	11.5	13.3	14.2	15.7	18.7
DPS	2.0	2.0	0.0	2.4	2.8
EV	190.6	224.0	262.9	308.9	363.6
<b>Earnings (%)</b>					
RoE	18.0	17.8	16.0	15.8	16.2
RoEV	17.9	17.4	20.5	17.5	18.5
<b>Valuation (x)</b>					
P/E (x)	58.6	46.0	45.1	55.1	46.4
P/EV (x)	3.5	2.7	2.4	2.8	2.4
Div. Yield (%)	0.2	0.3	0.0	0.3	0.3
<b>Expenses (% of premium)</b>					
Commission	4.4	4.1	3.9	4.0	3.9
Operating Expenses	6.8	6.3	5.9	6.1	6.1
Total Expenses	12.6	12.2	11.6	11.9	11.7
<b>Margin (%)</b>					
New Business	16.2	17.7	18.7	18.8	19.1
<b>Solvency (x)</b>					
Solvency	206.0	213.0	195.0	215.1	216.8

## Recommendation Summary



Dates	Rating	Target
13-Aug-19	BUY	911
21-Oct-19	BUY	1,060
4-Feb-20	BUY	1,071
14-May-20	BUY	895
28-Jul-20	BUY	1,018

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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