1 September 2020

Initiating Coverage | Sector: Banking and Financial

SBI Life Insurance

Steadfast lineage

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Contents: SBI Life insurance – Steadfast Lineage

Unmatched distribution; Steady return ratios

SBI Life Insurance

BSE SENSEX	S&P CNX
38,901	11,470

SBI Life INSURANCE With Us, You're Sure

Bloomberg	SBILIFE IN
Equity Shares (m)	1,000
M.Cap.(INRb)/(USDb)	836.3 / 11.4
52-Week Range (INR)	1030 / 520
1, 6, 12 Rel. Per (%)	-12/-8/-4
12M Avg Val (INR M)	1714
Free float (%)	39.3

Financial snapshot (INRb)

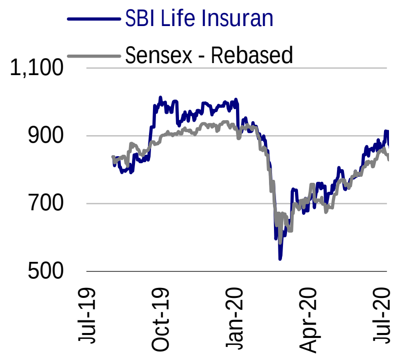
Y/E MARCH	FY21E	FY22E	FY23E
Net Premiums	469	553	657
Surplus / Deficit	19.7	22.5	26.2
Sh.PAT	16.1	18.3	21.5
NBP gr- unwtd (%)	7.0	18.0	22.0
NBP gr- APE (%)	6.2	14.3	21.5
Premium gr (%)	16.0	18.2	18.9
VNB margin (%)	19.5	19.7	20.7
RoE (%)	17.1	16.9	17.3
RoEV (%)	15.1	16.0	16.7
Total AUMs	1,774	1,997	2,245
VNB	21.8	25.1	32.1
EV per share	303	351	410
Valuations			
P/EV (x)	2.8	2.4	2.0
P/EPS (x)	52.1	45.8	38.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	60.7	62.8	67.3
DII	7.0	5.7	6.1
FII	26.2	25.9	19.4
Others	6.1	5.6	7.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR836 TP: INR1,000 (+20%) Buy

SBILIFE is India's largest private life insurer with an Individual WRP market share of 13.3% in FY20. It offers a range of Savings/Protection products and has a distinct competitive advantage in distribution due to its strong parentage. SBILIFE has a wide-spread network of 937 offices across the country with 130,418 productive agents and manages total AUM of INR1.6t as at Mar'20.

Steadfast lineage

Unmatched distribution; Steady return ratios

- **SBILIFE is India's largest private life insurer with an Individual WRP market share of 13.3% in FY20. Over FY16-20, it posted strong new business WRP CAGR of ~21%, led by strong distribution network and healthy execution.**
- **The company's strong parentage and wide branch network provides it with a distinct distribution advantage over its peers, helping it to maintain low cost ratios and capitalize on the large clientele of SBI (449m), thus, providing it with a long-term structural growth story.**
- **SBILIFE has reported an improvement in persistency trend over the years, led by focus on garnering a better quality business and need-based selling. 13th month persistency improved to 86%. It maintains the highest 61st month persistency at 60% (v/s peers), and thus, is supported by healthy growth in renewal premium.**
- **SBILIFE is also looking to optimize its product mix and is focused on improving its competitive positioning in the Protection/Annuity business. This should aid VNB margin expansion to reach ~21% by FY23E, which should drive 17% CAGR in VNB over FY20-23E. Thus, we expect operating ROEV to improve to ~18% by FY23E.**
- **We, thus, estimate SBILIFE to deliver 16% CAGR in embedded value (EV). We initiate coverage on the stock with a Buy rating and TP of INR1,000/share.**

Well placed to sail through challenges; market share gains to continue

SBILIFE delivered ~21%/23% CAGR in new business/Individual WRP over FY16-20, led by strong distribution network and healthy execution. It has strengthened its position with an individual APE based market share of ~13.3% (v/s 5.3% in FY13). We believe its distribution strength and product mix change would continue to aid market share gains. Also, renewal premium growth remains strong (29% CAGR over FY16-20), supported by improved persistency. Moreover, SBILIFE has increased its focus toward Non-PAR Savings/Protection mix, which forms ~16% of APE (v/s ~6% in FY18). Overall, we expect the share of Protection/Annuity to increase in the near term.

Banca channel provides strong distinct competitive advantage v/s peers

SBILIFE enjoys the distinct competitive advantage in distribution due to its parent SBI, which gives it access to the latter's ~22k branches and strong ~130k agents (agency network) with high productivity. Moreover, SBILIFE has added other banca partners such as South Indian Bank, Punjab & Sind Bank, Allahabad Bank and Indian Bank. Notably, the banca and agency channels collectively account for ~96% of SBILIFE's Individual APE. Also, SBILIFE remains keen on growing its proprietary and digital channels. Further, SBILIFE is expected to capitalize on the large clientele of SBI (449m), which provides it with a long-term structural growth story.

Best-in-class cost ratios; Uniquely placed to uphold leadership position

SBILIFE has one of the lowest cost structures amongst peers. Interestingly, the company has steadily reduced its total expenses as a percentage of the gross written premium (GWP) from 15.9% in FY13 to 9.9% in FY20, led by its strong banca channel. Also, SBILIFE has lower banca commission rates (v/s peers), which allows it to maintain strong control on cost ratios. We expect SBILIFE to maintain its cost leadership with GWP remaining at ~10% over FY23E. This would help SBILIFE maintain higher margins on its products (v/s peers) and improve profitability. Overall, we expect SBILIFE to deliver PAT CAGR of 15% over FY20-23E.

Persistency improves across cohorts – reflects strong quality of business

SBILIFE reported an improvement in persistency trend over the years. This was led by focus on better quality business and need-based selling. 13th month persistency improved to 86% (v/s 79% in FY15). The entity maintains the highest 61st month persistency of 60% (v/s peers), which reflects its strong persistency and quality of underwritten business.

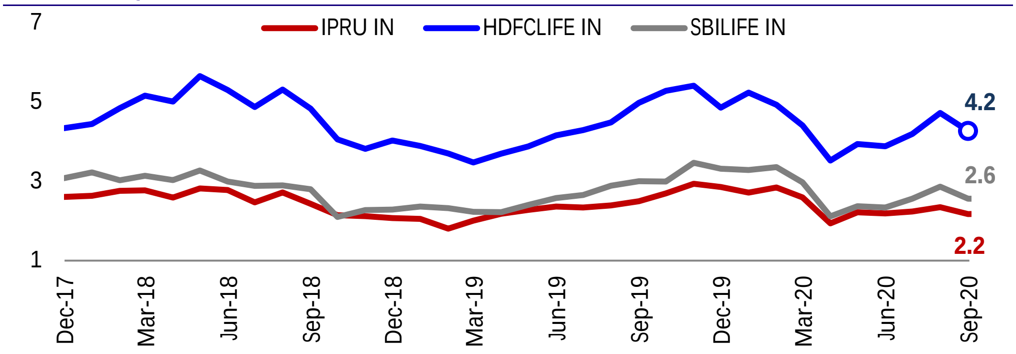
Return ratios to improve; Expect 17% CAGR in VNB over FY20-23E

Overall, we expect FY21E to be a weak year in terms of premium growth and muted VNB trends. However, premium growth should rebound from FY22E. SBILIFE is also looking to optimize its product mix with focus on the Protection/Annuity business, which should aid premium growth to reflect 15% CAGR. VNB margin expansion should reach ~21% and deliver 17% VNB CAGR over FY20-23E. Thus, we expect operating ROEV to improve to ~18% by FY23E.

Initiate with Buy

SBILIFE is in a sweet spot given its strong distribution network, cost leadership and access to its parent SBI's large customer base. Overall, we expect operating ROEV to normalize toward 18% levels with Embedded Value (EV) reflecting 16% CAGR over FY20-23E. Thus, we value the company at INR1,000/share based on 2.8x FY22E EV. We initiate coverage on SBILIFE with a Buy rating.

Exhibit 1: 1-year forward P/EV chart for various insurers



Source: MOFSL, Company

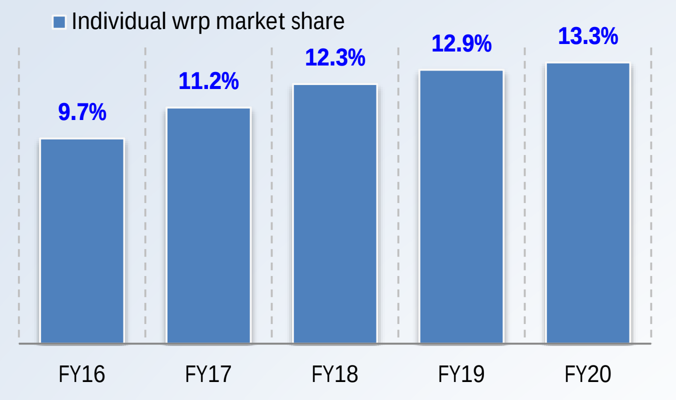
Exhibit 2: Valuation summary of life insurance companies

Val summary	Rating FY22E	Mkt. Cap (INRb)	CMP (INR)	TP (INR)	Upside (%)	EPS (INR) FY21E	EPS (INR) FY22E	EV per share (INR) FY21E	EV per share (INR) FY22E	VNB Margin (%) FY21E	VNB Margin (%) FY22E	Op. RoEV (%) FY21E	Op. RoEV (%) FY22E	P/E (x) FY21E	P/E (x) FY22E	P/EV (x) FY21E	P/EV (x) FY22E
Life Insurance																	
HDFCLIFE	Neutral	1,171	580	600	3	6.9	7.9	125	148	25.8	26.2	18.6	18.1	83.5	73.0	4.6	3.9
IPRULIFE	Buy	618	430	510	19	8.0	8.6	184	210	23.8	24.6	14.9	14.9	53.7	49.8	2.3	2.0
SBILIFE	BUY	836	836	1,000	20	16.1	18.3	303	351	19.5	19.7	17.1	16.9	52.1	45.8	2.8	2.4

Source: MOFSLe, Company

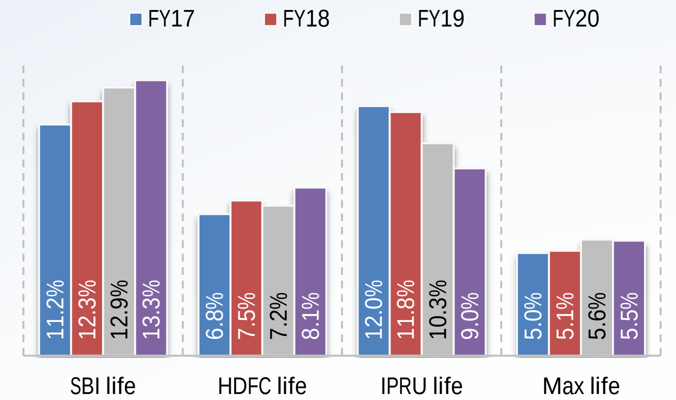
STORY IN CHARTS

Exhibit 3: Individual APE market share trends for SBILIFE



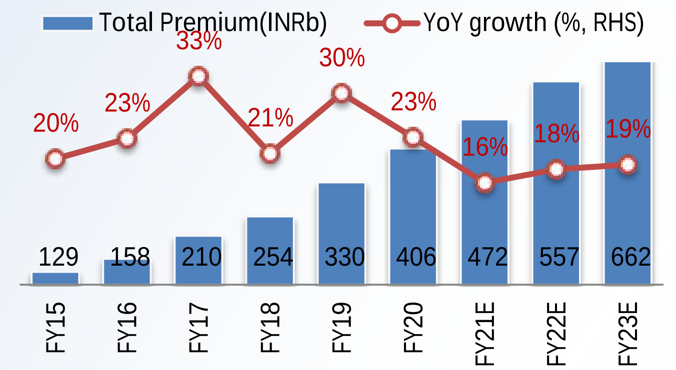
Source: Company, MOFSL

Exhibit 4: Individual WRP share across major players



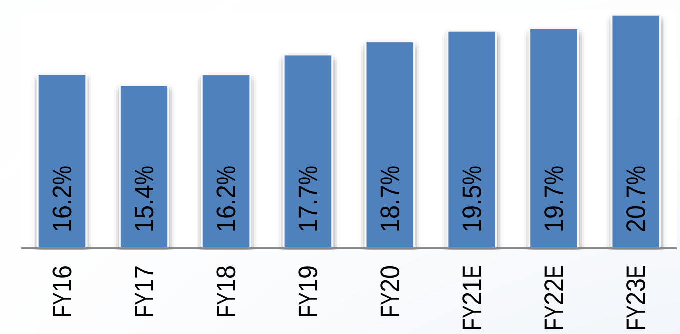
Source: Company, MOFSL

Exhibit 5: Premiums estimated at 18% CAGR over FY20-23E



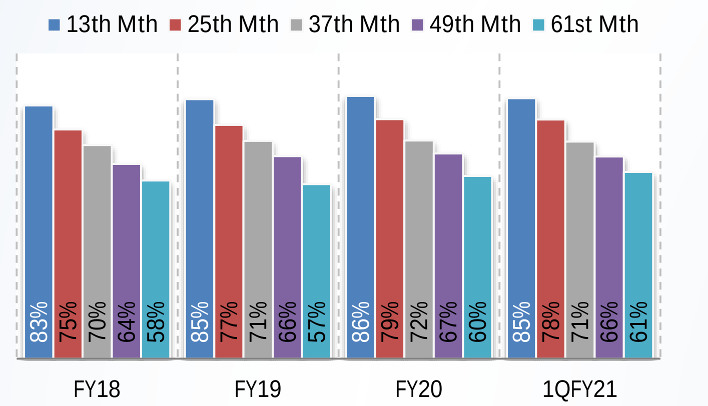
Source: MOFSL, Company

Exhibit 6: VNB margins to improve to ~21% by FY23E



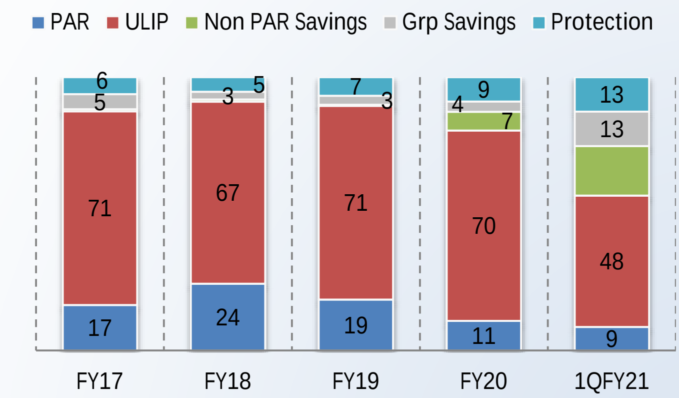
Source: MOFSL, Company

Exhibit 7: Persistency across cohorts



Source: Company, MOFSL

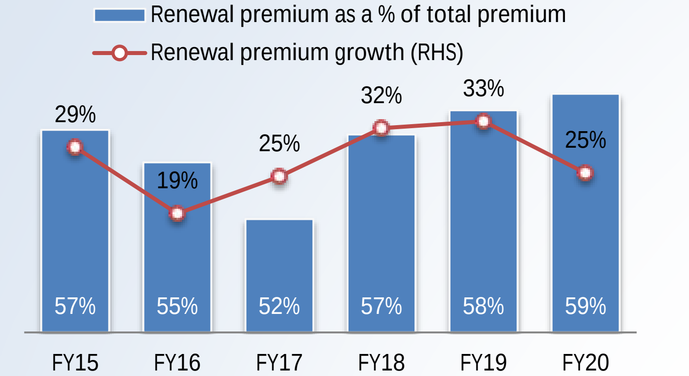
Exhibit 8: Share of protection and annuity increasing (%)



Source: Company, MOFSL

STORY IN CHARTS

Exhibit 9: Renewal premium growth remains robust



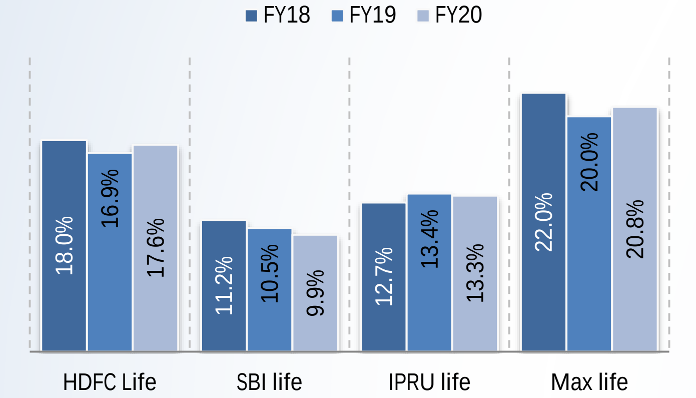
Source: Company, MOFSL

Exhibit 10: We value SBI LIFE at INR1,000 per share

Appraisal Value method (INR b)	FY22
Embedded value	351.3
New Business Profit	25.1
Appraisal Value	**1,000**
Appraisal value / Embedded value	2.8x
Valuation per share	**1,000**
Implied multiples -	
- VNB multiple	25.9
- P/ E	54.8
Upside	**20%**

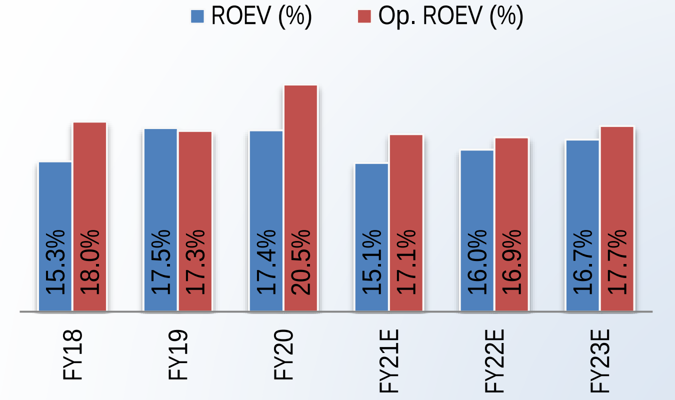
Source: Company, MOFSL

Exhibit 11: SBILIFE maintains cost leadership



Source: Company, MOFSL

Exhibit 12: Operating RoEV to remain steady at ~18% levels



Source: Company, MOFSL

SBILIFE: Unmatched distribution; Robust execution

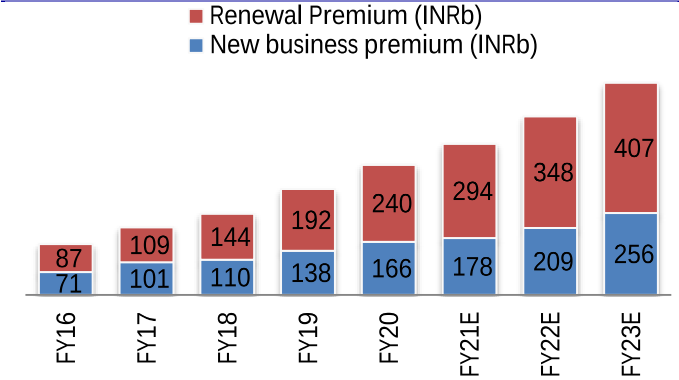
Premium growth supported by strong distribution network

SBILIFE's market share in Individual APE improved by ~360bp to 13.3% during FY16-20.

SBILIFE delivered ~21%/23% CAGR in new business/Individual WRP over FY16-20, led by a balanced product mix, strong distribution network and healthy execution. As a result, SBILIFE's share in Individual APE improved by ~360bp to 13.3% (FY20) Further, consistent improvement in the company's operating metrics has resulted in renewal premium of ~29% CAGR, the highest amongst major insurers. Overall, SBILIFE's gross written premium registered 27% CAGR over FY16-20. During 1QFY21, despite the lockdown in Apr-May'20, SBILIFE was able to manage gross premium income growth of 14% YoY, led by renewal premium (30% YoY), despite the grace period offered to customers. Other players reported decline in premium income, which thus reflects SBILIFE'S robust execution.

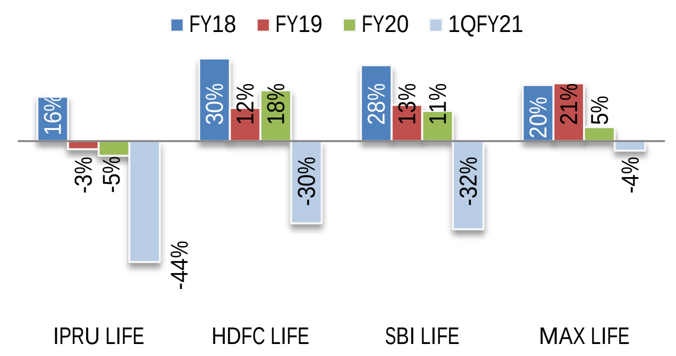
Overall, we expect business growth to witness some pressure, especially in the Savings business, given the reduced economic activity and slowdown in consumer spending. Also, sluggishness in the capital markets and lower earnings visibility should lead to tepid demand for ULIPs. On the other hand, Protection and Annuity businesses are likely to do well as they are relatively simpler to buy through digital channels. We expect SBILIFE to deliver ~14% CAGR in new business premium WRP over FY20-23E, backed by strong distribution platform, which should lead to consistent market share gains.

Exhibit 13: NBP estimated at 15% CAGR over FY20-23E



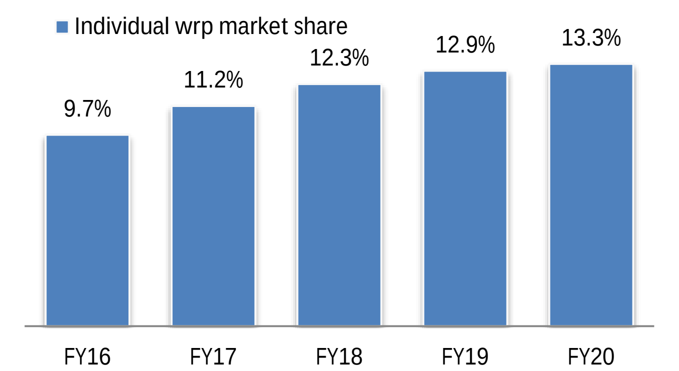
Source: Company, MOFSL

Exhibit 14: New business APE growth across major players



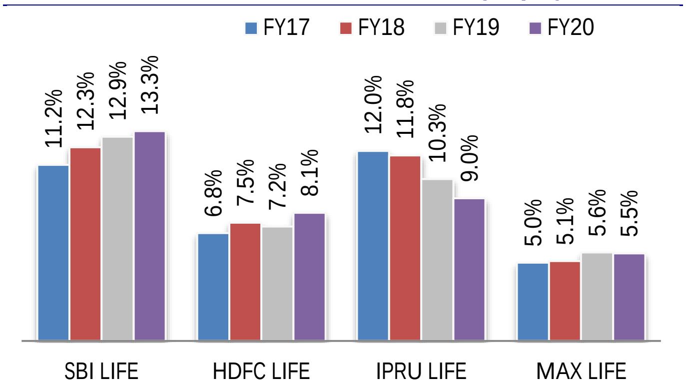
Source: Company, MOFSL;

Exhibit 15: Individual APE market share trends for SBILIFE



Source: Company, MOFSL

Exhibit 16: Individual WRP share across major players



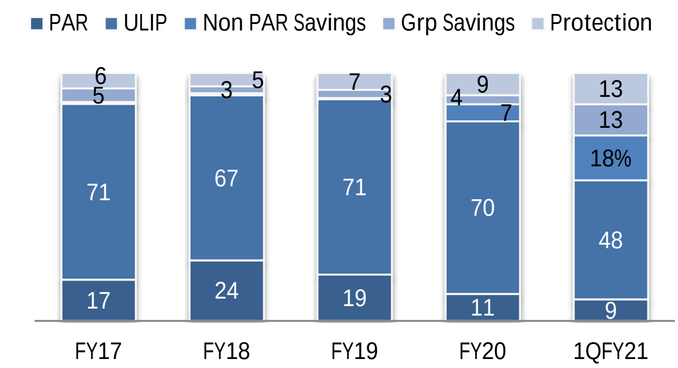
Source: Company, MOFSL

Share of Non-PAR Savings/Protection increasing

SBILIFE is increasingly focused on the Protection/Annuity segment, and thus, the share of Non-PAR Savings/Protection has improved to ~16% from ~7% in FY17. For FY20, the share of PAR/Non-PAR/ULIP/Protection in total APE stood at 11%/7%/70%/9%.

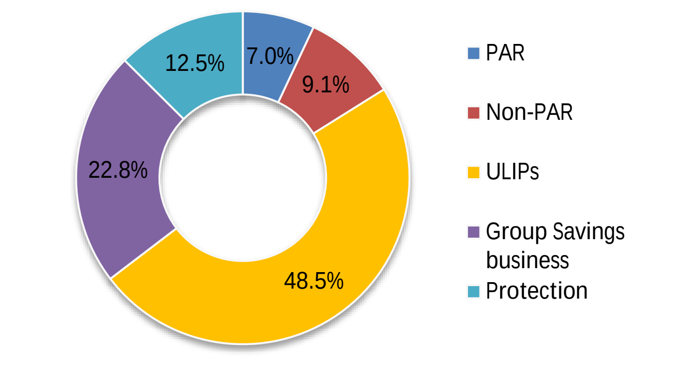
During 1QFY21, SBILIFE showed strong growth in the Non-PAR segment and indicated that it would continue expanding its share in this segment. In a low business volume quarter, the share of Non-PAR has improved sharply to ~18% (v/s 7% in FY20).

Exhibit 17: Business mix composition based on APE



Note: Based on APE Source: MOFSL, Company

Exhibit 18: SBILIFE – Business mix composition based on NBP



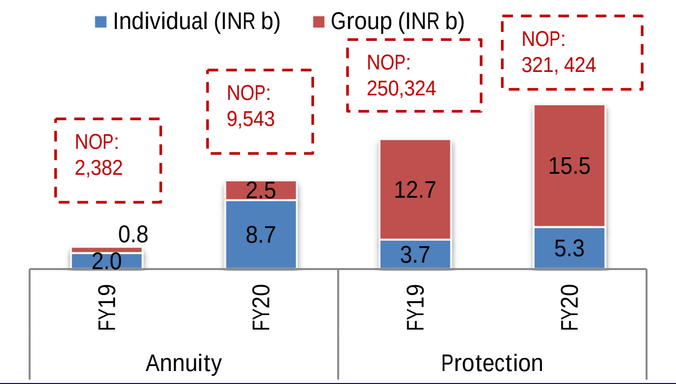
Note: Based on FY20 NBP Source: MOFSL, Company

Exhibit 19: Increasing focus toward non-PAR/Protection biz

On NBP (INR b)	FY17	FY18	FY19	FY20
Individual Protection	1.0	0.6	3.7	5.3
Group Protection	3.9	5.4	12.7	15.5
Non PAR Savings	1.7	2.1	2.2	15.1
On APE (INR b)				
Individual Protection	0.8	0.6	3.7	5.1
Group Protection	3.4	4.0	2.9	4.5
Non PAR Savings	0.5	0.7	0.4	7.4

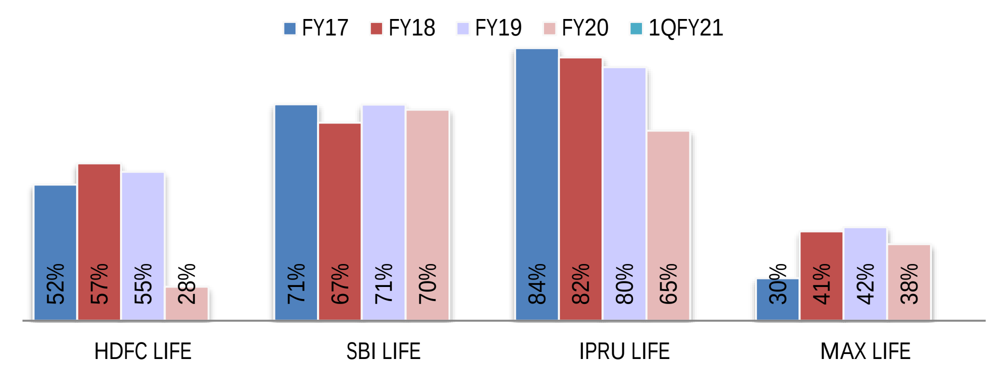
Source: Company, MOFSL

Exhibit 20: Annuity business showing strong traction



Source: Company, MOFSL; ***Note: NOP: Number of policies***

Exhibit 21: Share of ULIPs in APE mix across insurers



Note: For HDFC Life, data Individual APE basis Source: MOFSL, Company

Recent trend – Non-PAR products to post robust growth

Protection/Annuity business to gain further share in total premium mix

The life insurance sector is seeing a structural shift in the product mix toward high margin products (Individual /Group Protection and Annuities) as insurers are capitalizing on the large untapped income pools. In our view, Indian life insurers have adapted well to the growing Protection/Annuity needs of customers, and have accordingly redesigned product structures, pricing and distribution incentives. However, Non-PAR is a risky segment as the ability to hedge interest rate risk in India is very limited. However, some players have started shifting their focus toward the Non-PAR segment as (a) it is a high margin product compared to PAR/ULIPs, and (b) there is strong demand for retirement products.

See robust growth in highly under-penetrated Protection segment by FY22E

- Consistent decline in mortality charges, increasing risk awareness and deep under-penetration has turned the Protection segment into an attractive opportunity for insurers. Further, the COVID-19 pandemic should reset mindsets, in terms of the importance of life insurance as a risk cover, rather than a Savings-linked investment product.
- It also has the added advantage of being the simplest product to compare and buy through digital channels, especially in a world with social distancing norms. Currently, there are only 7 life insurers selling pure term plans. We believe that companies with higher distribution reach would benefit the most from the expanding opportunity.
- SBILIFE remains focused on continuously growing its Protection portfolio, which would further support margin expansion. We expect this segment to post robust growth due to (a) rising urban population with higher incomes, (b) high level of Protection gap, and (c) the product being simple to purchase through digital channels. We, therefore, estimate share of the Protection business to rise in the coming years.

Exhibit 22: Protection mix of 4 listed players stood at INR39.2b

FY20	Total APE	Protection Mix (%)	Protection mix (INR m)
HDFC Life	74,070	17.2%	12,740
IPRU Life	73,810	15.1%	11,160
SBI Life	1,07,500	8.9%	9,600
Max Life	41,490	13.0%	5,710
Total	**2,96,870**		**39,210**

Source: Company, MOFSL

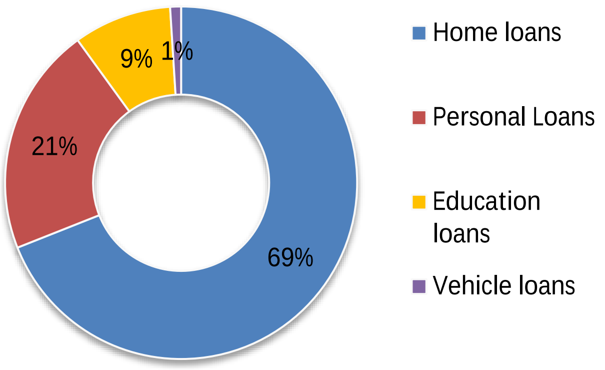
Apart from Individual Protection, the company is also focused on Group Protection, which involves Credit Life. SBILIFE's Individual and Group Protection formed 8.9% of the total APE (v/s 5.4% in FY18). The Group Protection APE grew 55% YoY during FY20 with the share of its mix rising to 4.2%. Its Credit Life portfolio comprises Home loans (69%), Personal loans (21%) and Education loans (9%). The number of Protection policies grew 28% YoY to ~321k with an average ticket size of INR16k in the Individual segment (v/s INR15k in FY19). **However, in the near term, Credit Life should reflect muted trends due to demand slowdown across Retail loan segments.**

Exhibit 23: APE split between Individual Protection, Group Protection and Non-PAR Savings across major insurers

APE Mix	SBI LIFE			HDFC LIFE			IPRU LIFE			Max LIFE		
	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21
Total APE (INR b)	**96.9**	**107.5**	**12.7**	**62.6**	**74.1**	**12.0**	**78.0**	**73.8**	**8.2**	**39.5**	**41.5**	**6.6**
Individual Protection	3.8%	4.7%	5.5%	6.7%	7.6%	11.0%	5.6%	10.4%	NA	5.7%	8.0%	14.0%
Group Protection	3.0%	4.2%	7.1%	10.3%	9.6%	2.0%	3.7%	4.7%	NA	4.5%	5.0%	11.0%
Total Protection	**6.8%**	**8.9%**	**12.6%**	**17.0%**	**17.2%**	**13.0%**	**9.3%**	**15.1%**	**26.0%**	**10.2%**	**13.0%**	**25.0%**
Non-PAR Savings	**0.4%**	**6.9%**	**18.1%**	**15.0%**	**41.0%**	**28.0%**	**0.9%**	**5.2%**	**24.4%**	**9.0%**	**18.0%**	**18.0%**

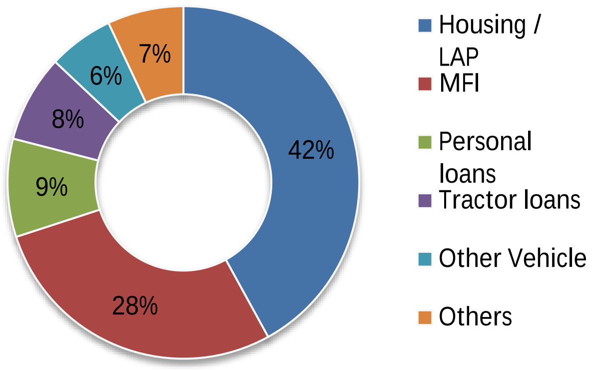
Source: Company, MOFSL

Exhibit 24: SBILIFE - Credit Life portfolio



Source: MOFSL, Company; Data as on 1HFY20

Exhibit 25: HDFCLIFE – Credit Life portfolio



Source: MOFSL, Company

Rising Protection mix enables strong VNB growth for major life insurers

The rising Protection mix has enabled stable VNB growth for most insurance players in FY20. During FY17-20, absolute VNB for life insurance players registered 22-35% CAGR – IPRULIFE/SBILIFE delivered absolute VNB CAGR of 35%/25% during this period led by rising mix of the Protection business. SBILIFE has increased its focus toward Non-PAR savings/Protection mix, which currently forms ~16% of its total APE (v/s ~6% in FY18). Overall, we thus expect VNB growth momentum to remain strong and expect VNB margin for SBILIFE to improve to ~21% by FY23E.

Exhibit 26: Growth in VNB remains robust

VNB (INR b)	FY17	FY19	FY20	CAGR FY17-FY20
HDFC LIFE	9.1	15.4	19.2	28%
IPRU LIFE	6.6	13.3	16.0	35%
SBI LIFE	10.2	17.2	20.1	25%
MAX LIFE	5.0	8.6	8.9	22%

Source: MOSL, Company

Exhibit 27: Comparative pricing of pure term cover across insurers (Cover: INR10m, up to 70 years)

		Age - 30 Yrs (Old Pricing)		Age - 30 Yrs (Current Pricing)	
Insurer	Claim settled (%)	Monthly premium (INR)	Yearly Premium (INR)	Monthly premium (INR)	Yearly Premium (INR)
IPRU LIFE	97.8	1,068	12,502	1,468	17,190
HDFC LIFE	99.0	1,073	12,478	1,102	12,601
MAX LIFE	99.2	893	10,148	1,038	11,800
SBI LIFE	94.5	1,282	15,070	1,282	15,070
TATA AIA	99.1	876	9,912	1,146	12,980
KOTAK LIFE	96.3	841	9,558	841	9,558
Aditya Birla Capital	97.1	924	10,270	1,170	12,998

Source: Policy bazaar, MOFSL; old pricing as on Mar'20

Annuity business gaining traction and remains key focus segment

Emergence of nuclear families, rapidly increasing ageing population with lack of awareness regarding systematic retirement planning and advancement in healthcare facilities (leading to higher-life expectancy) should create huge demand for Retirement Savings products, especially Annuities. LIC, HDFCLIFE, IPRULIFE and SBILIFE are the major Annuity providers.

Capitalizing on the opportunity, HDFCLIFE/IPRULIFE managed CAGR of ~100%/72% for their Annuity premiums (un-weighted) over FY17-20. Annuity formed ~16%/~8% of total premiums as of FY20. SBILIFE's un-weighted annuity premium grew 300% YoY during FY20 and contributes 6.8% to the total premium as on FY20.

SBILIFE sold 9.5k policies in the Annuity segment while the total new business premium collected was INR11.2b in FY20 (v/s INR2.8b in FY19). Share of Annuity in the total NBP increased to 6.8% (v/s 2.0% in FY19), while that of Pension and the Annuity corpus stood at INR164b. According to management, Annuity policies are sold to existing Group/Individual customers of the bank (SBI), agency partners and retiring NPS customers.

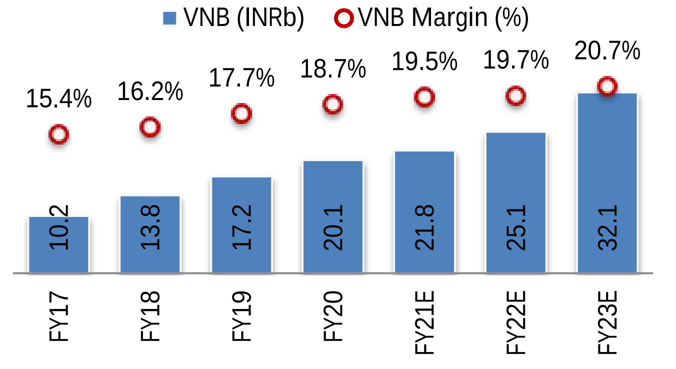
Share of Annuity business for SBILIFE in individual NBP improved to 12.0% in 1QFY21.

Exhibit 28: Annuity premiums (un-weighted) across major insurers

Annuity Premiums	FY18	FY19	FY20	1QFY21	CAGR (FY18-FY20) (%)
HDFC LIFE	10,655	25,920	27,582	6,034	61%
IPRU LIFE	3,108	6,854	10,430	NA	83%
SBI LIFE	2,116	2,767	11,200	1,608	130%
as a % of total premium					
HDFC LIFE	4.5%	8.9%	8.4%	10.5%	390bp
IPRU LIFE	1.1%	2.2%	3.1%	NA	200bp
SBI LIFE	0.8%	0.8%	2.8%	2.1%	200bp
as a % of New business premium					
HDFC LIFE	9.4%	17.3%	16.0%	23.0%	660bp
IPRU LIFE	3.4%	6.6%	8.4%	NA	500bp
SBI LIFE	1.9%	2.0%	6.8%	5.3%	480bp

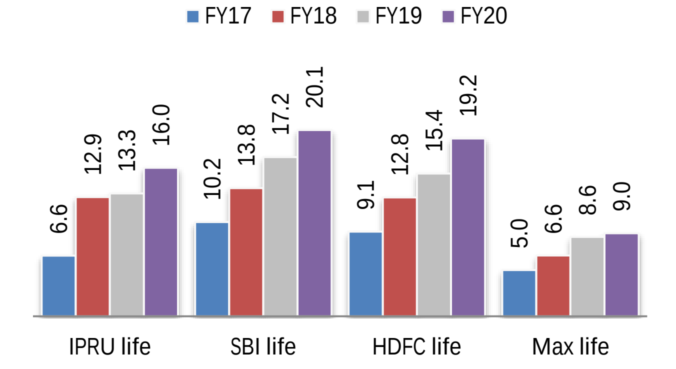
Source: Company, MOFSL

Exhibit 29: SBILIFE to deliver 17% VNB CAGR over FY20-23E



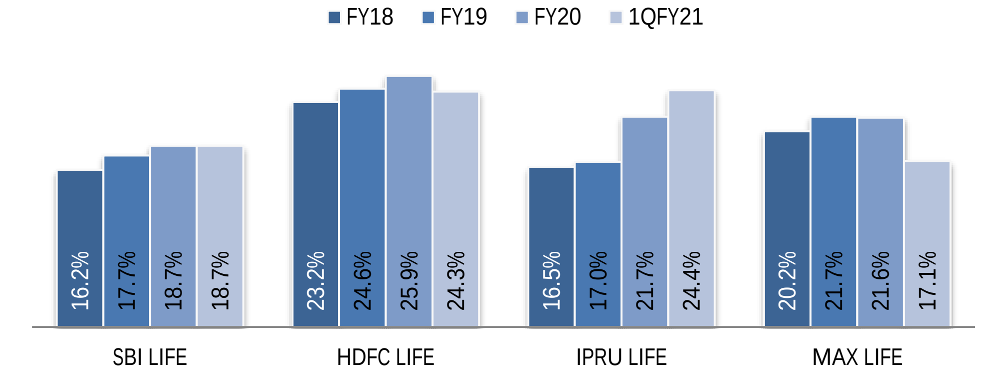
Source: Company, MOFSL

Exhibit 30: SBILIFE/HDFCLIFE maintain highest absolute VNBs



Source: Company, MOFSL

Exhibit 31: VNB margin trend across insurers

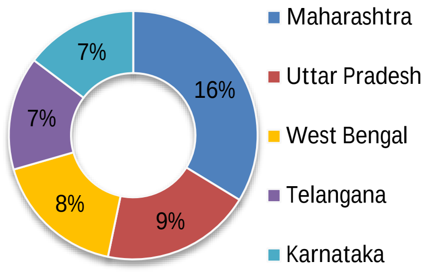


Source: Company, MOFSL

Geographical diversity remains high

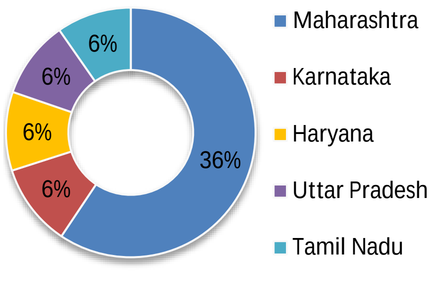
Top-5 states contribute 48% of total premiums: SBILIFE is well diversified across geographies compared to its peers. Based on the premium mix, the top-5 states contributed 48% of the total premium for SBILIFE (v/s ~60%/66% for HDFCLIFE/IPRULIFE). Thus, SBILIFE has demonstrated robust premium growth while maintaining healthy geographical mix. Even for Kotak LIFE and Tata AIA, the top-5 states contribute ~77%/62% of the total premium while for Max LIFE, the number stands at ~53%.

Exhibit 32: SBILIFE – 48% of premium comes from top-5 states



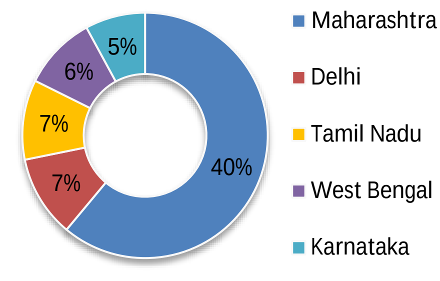
Source: MOFSL, Company

Exhibit 33: HDFCLIFE – 60% of premium comes from top-5 states



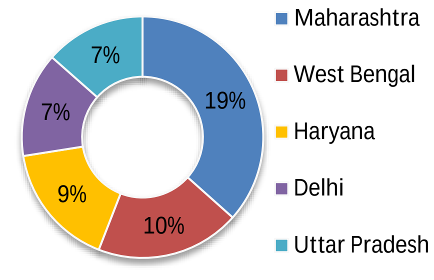
Source: MOFSL, Company

Exhibit 34: IPRULIFE – 66% of premium comes from top-5 states



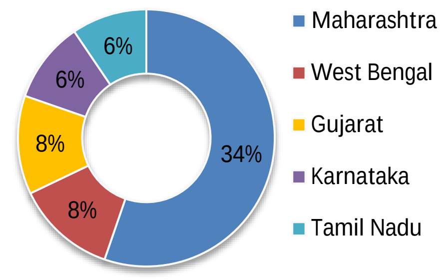
Source: MOFSL, Company

Exhibit 35: Max LIFE – 53% of premium comes from top-5 states



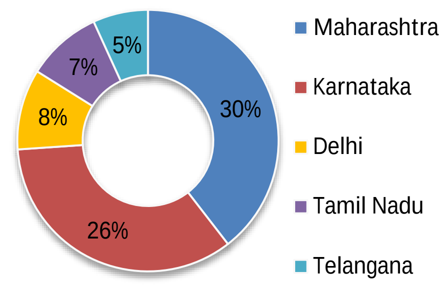
Source: MOFSL, Company

Exhibit 36: Tata AIA LIFE – 62% of premium comes from top-5 states



Source: MOFSL, Company

Exhibit 37: Kotak LIFE – 77% of premium comes from top-5 states



Source: MOFSL, Company

Strong distribution/brand to sustain growth momentum

Banca and agency channel accounts for ~96% of Individual NBP

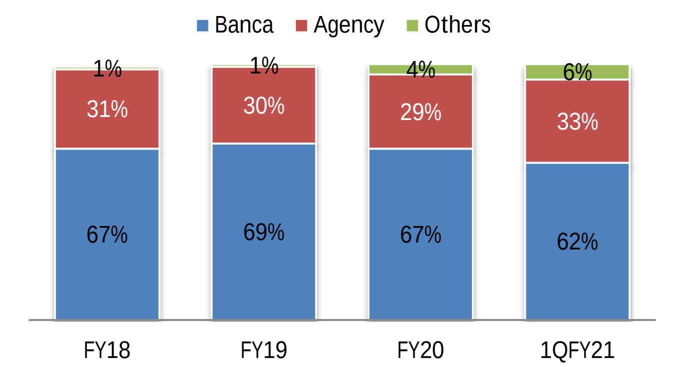
Amongst the life insurance companies under our coverage, SBILIFE has the most diversified distribution network in India, consisting of banca channel, agents, CIS and owned offices. This has enabled it to deliver 21% CAGR in new business premium WRP over FY16-20 and has propelled it to rank amongst the top-3 insurers in India. In terms of Individual WRP, the company has gained over ~360bp market share since FY16. It currently accounts for ~23% of private industry and ~13% of the total life insurance industry as at FY20. The share of banca and agency accounts for 95% of the Individual new business premium.

Average ticket size for an Individual protection policy is INR16k for SBI LIFE v/s INR15k in FY19.

Further, SBILIFE has started offering Group Term Insurance (Insta Life Secure) on the YONO app since Oct'18; it has sold ~138.6k policies till Mar'20. Also, management plans to introduce products like Credit Life through the YONO app, which should improve the share of direct/online channels in the distribution mix on the whole.

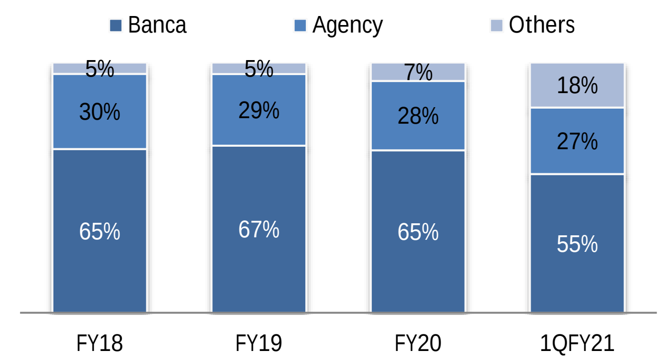
Overall, we expect SBILIFE to deliver ~15% CAGR in un-weighted new business premium over FY20-23E, led by increasing penetration/productivity levels of both banca and agency, along with proportion of direct/other sales mix also improving.

Exhibit 38: Banca and Agency form 95% of Individual NBP



Source: MOFSL, Company

Exhibit 39: Banca and Agency form 93% of total APE



Note: Based on APE

Source: MOFSL, Company

Exhibit 40: SBILIFE has vast distribution reach consisting bank branches, agents and offices

Distribution reach	FY20
Branches	**40,771**
SBI	21,959
SIB	870
Punjab & Sind Bank	1,521
Allahabad Bank+ Indian Bank	6,062
Syndicate Bank+ Canara Bank	10,359
Agent Network	**1,30,418**
Offices	**937**

Source: Company, MOFSL

Banca channel – key strength; new tie-ups/rising penetration to drive growth

SBILIFE benefits immensely from its parent SBI's (a) strong brand name, and (b) wide distribution network of ~22k branches. Besides SBI, the company has also tied up with South Indian Bank, Punjab & Sind Bank, Allahabad Bank, Syndicate Bank and Indian Bank. Robust banca distribution has been SBILIFE's key competitive advantage and complements its well diversified product portfolio.

Contribution of banca channel in Individual NBP stood at ~67% in FY20.

- SBILIFE plans to further leverage its parent SBI's network as its current penetration rate (both in terms of branch and customer count level) is fairly low on a customer base of ~420m. The company's large bancassurance channel provides significant cross-selling opportunities with minimal distribution costs. Thus, SBILIFE would continue leveraging its parent's (SBI) branch network and customer base to identify and penetrate new markets. During FY20, the company registered 14% growth in NBP sourced via its banca channel. Contribution of the banca channel to Individual NBP stood at ~67%.
- SBI's growing proportion of retail loans at 31.3% of the overall book (v/s 27.1% in 3QFY18) and large clientele base of ~420m customers provides SBILIFE a strong customer base to cross-sell its insurance products. Also, the home loan portfolio, which forms ~20% of the overall loan book, provides good opportunity to cross-sell the Credit Life product.

Exhibit 41: Productivity and ticket size improving

	Bancassurance		Agency	
	FY19	FY20	FY19	FY20
Productivity per branch	INR 3.0m	INR 3.5m	INR 2.5m	INR 2.6m
NBP - Protection Share	17%	18%	2%	2%
NBP - Annuity Share	1%	5%	1%	4%
Ticket Size	INR 71K	INR 82K	INR 51K	INR 57K

Source: Company, MOFSL

Exhibit 42: Key Bancassurance partners of major life insurers

Insurer	Bancassurance Partners
ICICI Prudential	Standard Chartered Bank, ICICI Bank
HDFC Life	HDFC Bank, RBL Bank, IDFC First Bank, Bandhan, IDFC First Bank
SBI Life	SBI, South Indian bank , Punjab & Sind Bank, Allahabad Bank, Syndicate Bank, Indian Bank.
Max Life	Axis Bank, Laxmi Vilas Bank, Yes Bank

Source: Company, MOFSL

Exhibit 43: SBI's strong retail portfolio offers significant cross-sell opportunities for SBILIFE

	FY18	FY19	FY20	CAGR (FY18-FY20)
Retail Loans (INRb)	**5,466**	**6,478**	**7,476**	**17%**
% of loan book	**28.2%**	**29.6%**	**32.2%**	
Home (INRb)	**3,131**	**4,004**	**4,559**	**21%**
% of loan book	**16.2%**	**18.3%**	**19.6%**	
Auto (INRb)	**664**	**719**	**727**	**5%**
% of loan book	**3.4%**	**3.3%**	**3.1%**	

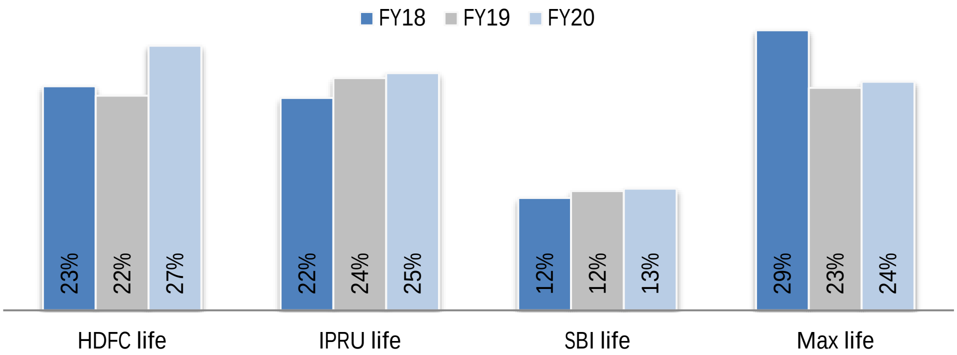
Source: MOFSL, Company

SBI has the lowest banca commission rates v/s peers.

SBILIFE – Lowest banca commission compared to peers

SBILIFE's commission rates are the lowest among peers at 13% for the banca channel. Over FY18-FY20, commission rates for SBILIFE increased by 100bp while for IPRULIFE/HDFCLIFE, it improved by 300bp/400bp to 25%/27%.

Exhibit 44: SBILIFE has the lowest banca commission rate v/s peers



Source: Company, MOFSL,

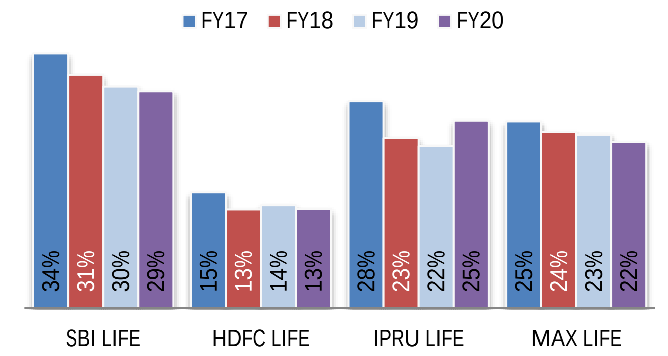
SBILIFE continues to drive the Protection business through agency and direct channels.

Agent productivity best-in-class: Despite several shortcomings associated with the agency channel (cost, recruitment and training issues, low productivity), a strong agency network is a must for a life insurance company. While the banca channel can help cross-sell insurance products to existing bank customers, it is the agency channel, which gets incremental new business. SBILIFE has one of the most productive agency channels, which accounted for ~29% of Individual NBP over FY20.

Agent productivity improves to 260k in FY20.

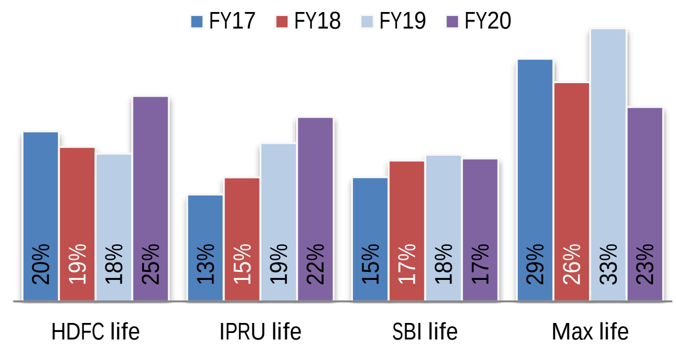
- SBILIFE's agency channel was relatively unaffected despite slew of regulatory changes by the IRDA while most other insurers downsized their agency channel. The company aims to maintain calibrated growth in its Individual agent network by recruiting additional agents/sales managers and focusing on regions with significant business potential.
- **Improving productivity of agency channel remains key focus:** SBILIFE reported improvement in agent productivity from INR213k in FY16 to INR260k in FY20. We expect productivity of the agency channel to improve further due to (a) sustained efforts made in building it, (b) adequate training provided to agents, and (c) reduced cases of mis-selling. This should further strengthen the company's distribution mix and enable healthy business growth.
- Besides the above mentioned channels, SBILIFE also focuses on direct sales through its website and mobile applications, which are supported by dedicated customer service and call centers.

Exhibit 45: Contribution of agency to Individual premiums



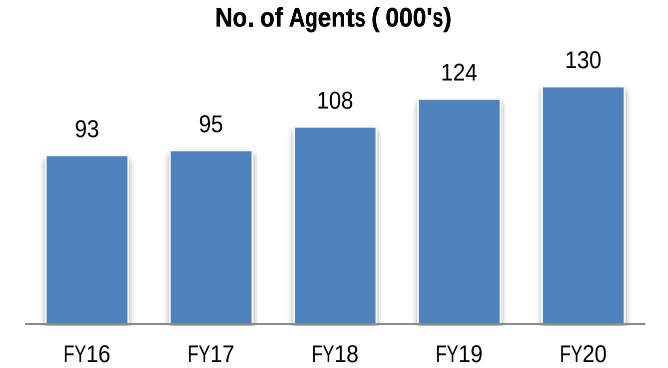
Source: Company, MOFSL

Exhibit 46: Agency commission rates across various players



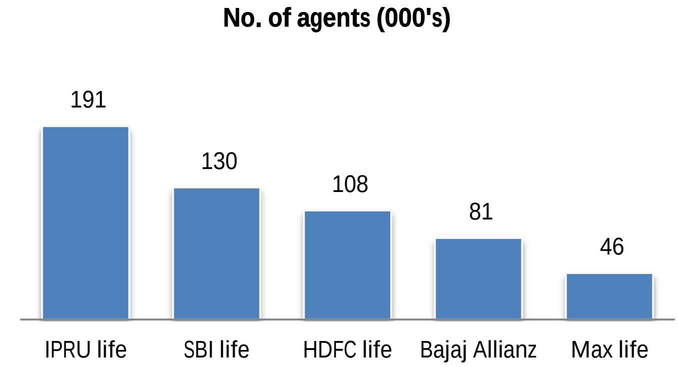
Source: Company, MOFSL

Exhibit 47: Steady increase in number of agents



Source: Company, MOFSL

Exhibit 48: Agency channel size for major insurers



Source: Company, MOFSL

Best-in-class expense ratios; Cost-leadership to sustain

SBILIFE has lowest expense ratio amongst peers

Total expense ratio improved to 9.9% in FY20.

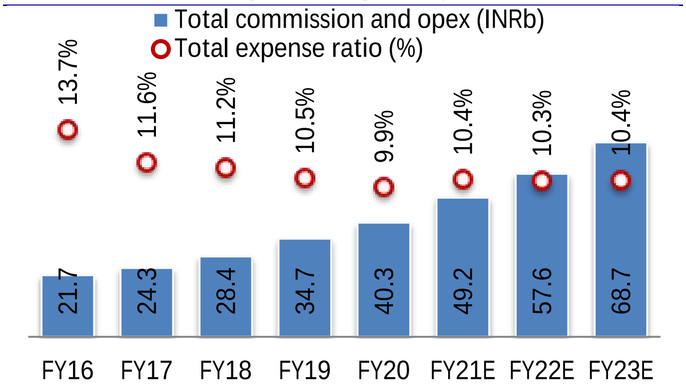
SBILIFE has one of the lowest cost structures amongst leading private insurers, despite a relatively higher mix of agency channel in total new business sourcing. Having the lower cost structure enables the company to price its products competitively and yet maintain high profitability levels. SBILIFE has steadily reduced its total expense ratio to 9.9% (v/s 11.6% in FY17). While cost ratios in the last few years have improved in the Savings business, it remains higher in the Protection segment.

We estimate SBILIFE's average cost to GWP ratio to remain at ~10% over FY23E

The company intends to use its low-cost ratio to strategically invest in long-term distribution development, technology and brand to improve customer on-boarding, and client servicing through chat-bots, etc. We expect SBILIFE to retain its cost-leadership amongst private insurers as management's focus is on controlling cost in a low business volume environment. Thus, the rationalization of resources, networks, and other fixed costs would be the top focus.

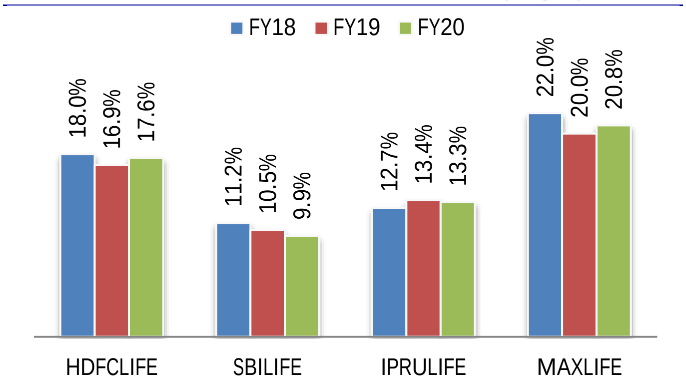
However, we believe that an increasing mix toward Non-PAR Savings and the Protection business would limit major improvements on the cost front. We, thus, estimate SBILIFE's average cost to GWP ratio to remain at ~10% over FY23E.

Exhibit 49: Total cost (% of GWP) to stay at ~10% over FY22E



Source: Company, MOFSL

Exhibit 50: Total cost to GWP ratio across major players



Source: Company, MOFSL

Exhibit 51: Employee strength of various insurers – IPRULIFE has tight control on headcount

Insurance Players	FY11	FY14	FY17	FY18	FY19	FY20
IPRU LIFE	13,000	10,700	12,397	15,780	14,099	14,630
SBI LIFE	7,292	9,114	12,051	13,207	14,961	NA
HDFC LIFE	12,548	13,900	14,800	17,601	19,583	NA
MAX LIFE	NA	NA	9,446	10,226	12,082	15,020

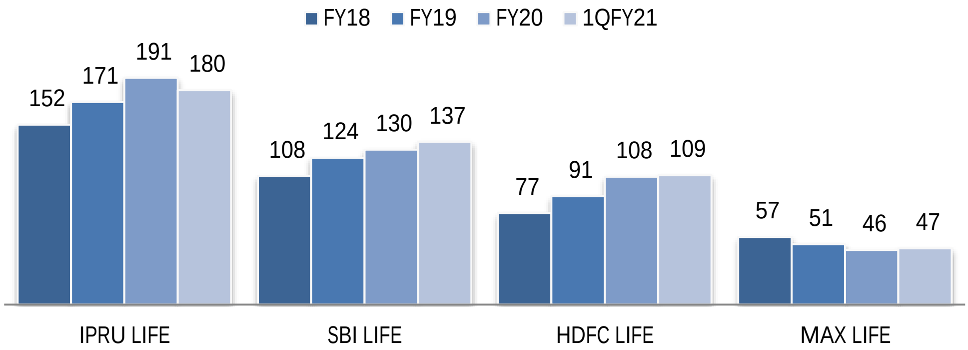
Source: MOFSL, Company

Exhibit 52: Branch network of various insurers

	FY11	FY14	FY17	FY18	FY19	FY20
SBI LIFE	629	762	801	825	908	937
HDFC LIFE	498	429	414	414	412	421
MAX LIFE	NA	NA	205	203	334	391

Source: MOFSL, Company

Exhibit 53: Agents (k) – Trends across insurers; rising for SBILIFE



Source: MOFSL, Company

Persistency/mix improvement – Key levers for margin expansion

Lower surrender ratios aid pick-up in renewal premium growth

- SBILIFE has been able to improve new business margins from 15.4% in FY17 to 18.7% in FY20, backed by strong cost-control, improving Protection mix and robust persistency rate. However, its product mix is dominated by ULIPs (~70% of APE), which have inherently lower margins. This has dragged margins despite the company having one of the lowest cost-structures.
- SBILIFE's 13th/25th month persistency has improved by 107bp/188bp over the past one year to 86.1%/78.5% over FY20. The company has one of the highest persistency rates at the longer end with 61st month persistency of 59.9% (57.2% for FY19). This has enabled it to report steady margin expansion over the past few years.
- However, due to the lockdown in Apr-May'20 and weak capital markets, the persistency trends weekend as customers utilized grade period in making renewal payments. Among segments, SBILIFE witnessed modest decline in persistency for the ULIP segment while trends improved in the Protection segment. Thus, 13th month persistency declined to 85.4% during 1QFY21 while 61st month persistency further improved to 61.2%. Overall, we remain watchful of near-term persistency rates.

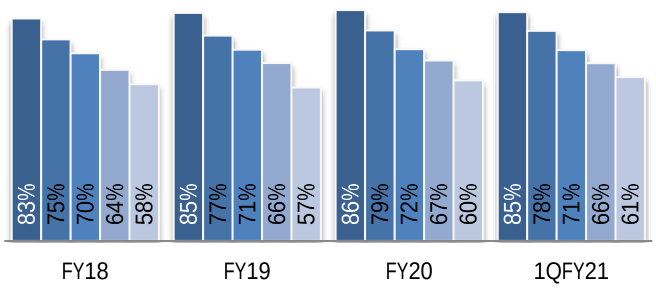
Exhibit 54: Persistency trends decline across insurers

Persistency	SBI Life			HDFC Life			IPRU Life			MAX Life		
	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21
13th Mth	85.1%	86.1%	85.4%	87.2%	90.1%	87.0%	84.6%	83.2%	81.8%	83.0%	83.0%	82.0%
25th Mth	76.7%	78.5%	78.4%	80.5%	80.2%	80.8%	75.6%	75.1%	73.4%	71.0%	71.0%	68.0%
37th Mth	71.4%	71.6%	71.2%	72.0%	73.8%	69.5%	69.3%	66.7%	65.4%	64.0%	63.0%	61.0%
49th Mth	66.4%	67.3%	66.3%	67.7%	67.2%	64.9%	63.8%	64.6%	63.9%	58.0%	59.0%	57.0%
61st Mth	57.2%	59.9%	61.2%	52.3%	55.0%	54.4%	56.8%	56.0%	56.8%	53.0%	52.0%	52.0%

Source: MOFSL, Company

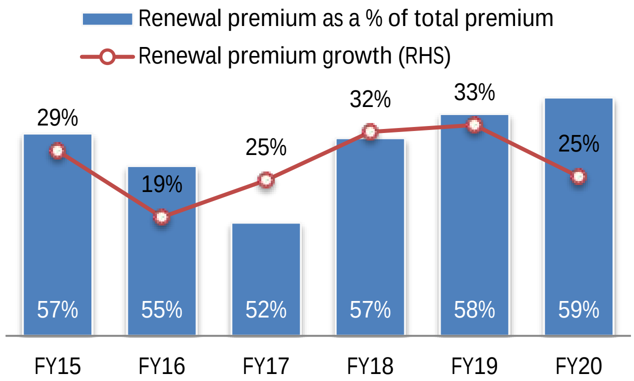
During FY20, the company reported renewal premium growth of 25% YoY (average of 29% over the past 4 years), which is the highest amongst major insurers. Strong renewal premium growth has contributed to the build-up of policy reserves, and hence, value in force (VIF).

Exhibit 55: Persistency ratio trends



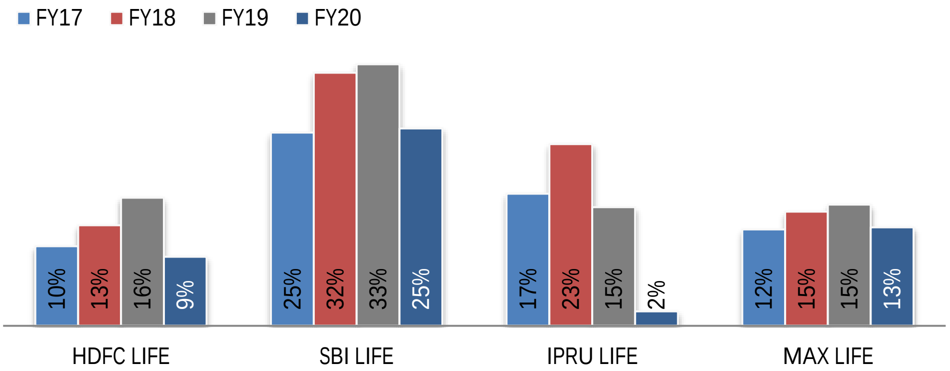
Source: Company, MOFSL

Exhibit 56: Renewal premium growth remains robust



Source: Company, MOFSL

Exhibit 57: SBILIFE has highest renewal premium growth across peers



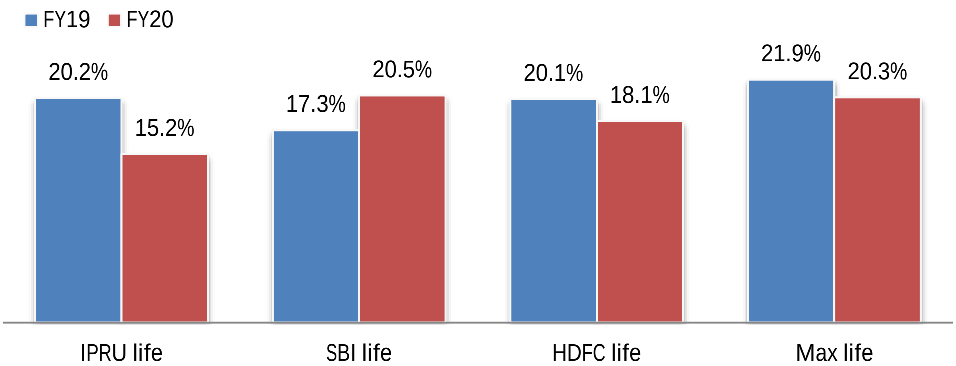
Source: MOFSL, Company

Operating RoEV declines across insurers, but SBILIFE bucks the trend

With consistent improvement in margins over the last few years along with strong cost control, operating RoEV has improved across insurers. This was further aided by positive operating variances, mainly as cost overruns declined and persistency/other operating parameters improved. However, in FY20, the negative impact on operating assumptions, led by change in the effective tax rate adversely affected operating RoEV.

The operating assumption change for HDFCLIFE/IPRULIFE/MAXLIFE has declined to INR1.2b/INR2.25b/INR3.2b, while it has increased for SBILIFE to INR1.2b. Thus, operating RoEV has declined across insurers (barring SBILIFE) – it declined to 15.2% for IPRULIFE (v/s 20.2% in FY19), to 18.1% for HDFCLIFE (v/s 20.1% in FY19) and to 20.3% for MAXLIFE (v/s 21.9% in FY19). However, it improved to 20.5% for SBILIFE (v/s 17.3% in FY19). Overall, we estimate SBILIFE's operating ROEV at ~18% for FY23E.

Exhibit 58: Operating RoEV trends



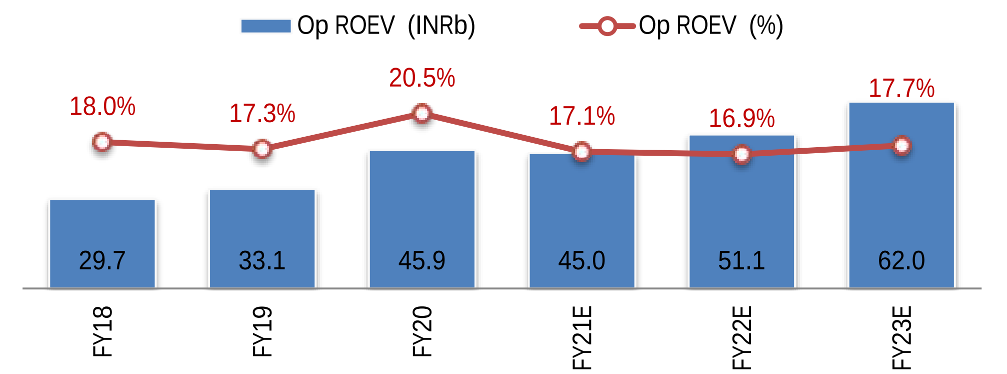
Source: MOFSL, Company

Exhibit 59: EV movement analysis

INR b	HDFC LIFE		IPRU LIFE		SBI LIFE		MAX LIFE	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Opening EV	**152.2**	**183.0**	**187.9**	**216.2**	**190.7**	**224.0**	**75.1**	**89.4**
Unwind	13.0	13.7	15.8	17.3	16.2	19.0	7.0	8.1
Unwind rate (%)	**8.5%**	**7.5%**	**8.4%**	**8.0%**	**8.5%**	**8.5%**	**9.3%**	**9.1%**
VNB	15.4	19.2	13.3	16.1	17.2	20.1	8.2	9.0
Operating experience variances	2.2	1.5	4.7	1.8	0.8	5.6	1.3	1.0
Change in Operating assumptions		(1.2)	4.2		(1.0)	1.2		
EVOP	**30.6**	**33.1**	**38.0**	**32.9**	**33.2**	**45.9**	**16.5**	**18.1**
Economic assumption change & Invt. variance	3.6	(10.0)	(1.2)	(14.8)	2.5	(7.1)	3.8	(3.2)
Others (ESOP/Dividend Payouts)	(3.4)	0.4	(8.4)	(4.1)	(2.4)	-	(6.0)	(4.6)
Closing EV	**183.0**	**206.5**	**216.2**	**230.3**	**224.0**	**262.9**	**89.4**	**99.8**
Operating RoEV (%)	**20.1**	**18.1**	**20.2**	**15.2**	**17.4**	**20.5**	**21.9**	**20.3**

Source: MOFSL, Company

Exhibit 60: Operating RoEV estimated at ~18% for FY23E

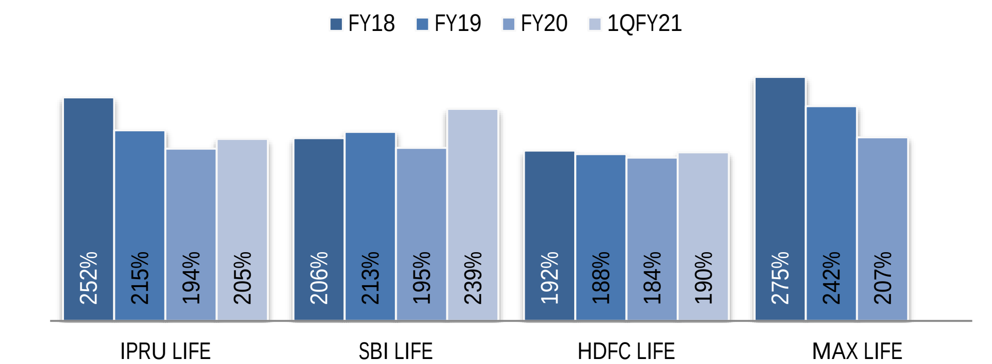


Source: MOFSL, Company

High solvency ratio v/s peers; SBILIFE may not need capital for growth

- SBILIFE is the only private-sector life insurance company in India to declare profit within its first 6 years of operations. The company currently has a solvency ratio of 239% (v/s regulatory requirement of 150%), which is the highest amongst leading insurers. SBILIFE, thus, has sufficient capital to pursue growth opportunities across business segments.

Exhibit 61: Solvency ratio across peers



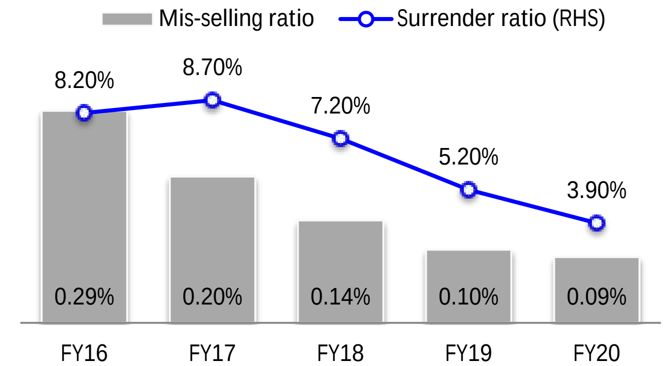
Source: MOFSL, Company

Strong customer service; instances of mis-selling have declined sharply

SBILIFE places strong emphasis on offering high quality customer experience across the life term of an insurance policy – right from customer on-boarding and policy issuance to service and claims settlement. The company's focus on need-based selling and superior customer service has helped improve customer satisfaction and supported renewal premium growth. As a result, customer complaints have reduced to 26 per 10k policies (v/s 47 per 10k policies in FY18). Also, the mis-selling ratio with respect to unfair business practices stands at 0.09% (v/s 0.20% in FY17).

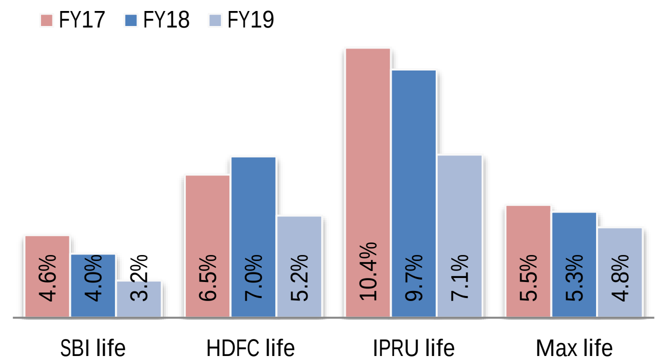
SBILIFE has also improved its Individual claim settlement ratio from 89.7% in FY15 to 96% in FY20. The company's continued efforts in improving the quality of new business, strong commitment to customer service and reduction in mis-selling has resulted in improved customer experience. Thus, it has supported growth in the renewal business and persistency ratios.

Exhibit 62: Grievance ratio has improved significantly



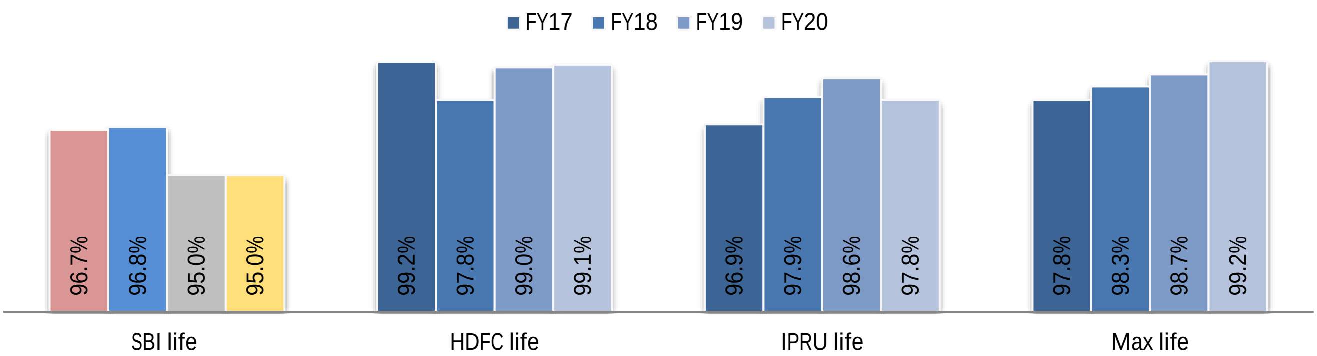
Note: Surrender rates are based on Individual linked policies

Exhibit 63: Surrender/avg. AUM lowest for SBILIFE



Source: Company, MOFSL

Exhibit 64: Claims settlement ratio across major insurers



Source: Company, MOFSL

Sensitivity Analysis across various parameters

- According to a sensitivity analysis, a 10% decline in the equity markets would translate to VNB/EV impact of 0.3%/1.1% for HDFCLIFE, 0.7%/1.8% for IPRULIFE, 1% EV impact for MAXLIFE and 1.4% EV impact for SBILIFE.
- Further, a 10% movement in the lapse rate would translate to EV/VNB impact of 0.7%/2.1% for HDFCLIFE, 1.3%/5.8% for SBILIFE, and 1.1%/5.0% for IPRULIFE.

Exhibit 65: Sensitivity analysis across insurers

Sensitivity analysis	IPRU LIFE		HDFC LIFE		SBI LIFE		MAX LIFE	
	% change in IEV	% change in VNB	% change in IEV	% change in VNB	% change in IEV	% change in VNB	% change in IEV	% change in VNB
1% increase in interest rates	-2.5%	-2.4%	-1.2%	-2.8%	-3.4%	1.7%	-2.0%	2.0%
1% decrease in interest rates	2.6%	2.2%	0.6%	0.9%	3.6%	-1.8%	2.0%	-6.0%
10% increase in lapse rates	-1.1%	-5.0%	-0.7%	-2.1%	-1.3%	-5.8%	-1.0%	-4.0%
10% decrease in lapse rates	1.1%	5.1%	0.8%	2.1%	1.3%	5.7%	1.0%	4.0%
10% decrease in Equity Value	-1.8%	-0.7	-1.1%	-0.3%	-1.4%	0.0%	-1.0%	Negligible
10% increase in maintenance exp	-0.8%	-3.0%	-0.8%	-2.4%	-0.6%	-2.2%	-1.0%	-7.0%
10% decrease in maintenance exp	0.9%	3.0%	0.8%	2.4%	0.6%	2.2%	1.0%	7.0%
Changes in tax rate to 25%	-4.0%	-11.4%	-7.7%	-20.0%	-8.4%	-15.6%	-12.0%	-20.0%

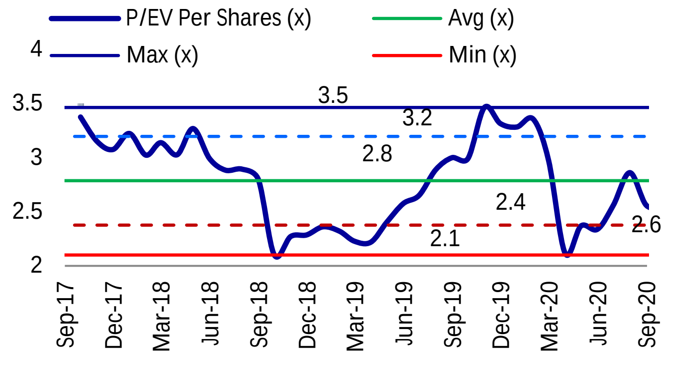
Source: Company, MOFSL

Strong Distribution/Cost Leadership to aid share gains; Initiate with Buy

Operating RoEV to sustain at ~18% over FY20-22E

- With Individual market share of ~13.3% in FY20, SBILIFE is the market leader amongst private life insurers. Favorable demographics, increasing customer awareness about financial products and strong distribution network of its parent SBI should help the company to report strong performance.
- We expect SBILIFE to continue delivering good persistency and renewal growth. At the same time, it should maintain cost leadership.
- The share of ULIPs has remained stable for SBILIFE over the last few years. The company, however, has started focusing more on the Protection/ Annuity segment. This has led to the share of Non-PAR Savings/Protection improving to ~16% from ~7% in FY17. The rising Protection/Annuity mix should ensure improving VNB growth.
- Overall, we expect FY21E to be a weak year in terms of premium growth and muted VNB trends. However, we expect premium growth to rebound from FY22E. SBILIFE is also looking to optimize its product mix with focus on the Protection/Annuity business. This should aid premium growth to reflect 15% CAGR. VNB margin expansion should reach ~21% and deliver 17% VNB CAGR over FY20-23E. Thus, we expect operating ROEV to improve to ~18% by FY23E.
- **Valuation and view:** SBILIFE is in a sweet spot given its strong distribution network, cost leadership and access to its parent SBI's large customer base. Overall, we expect operating ROEV to normalize toward 18% levels with Embedded Value (EV) reflecting 16% CAGR over FY20-23E.Thus, we value the company at INR1,000/share based on 2.8x FY22E EV. **We initiate coverage on SBILIFE with a Buy rating.**

Exhibit 66: SBILIFE 1-year forward P/EV



Source: Company, MOFSL

Exhibit 67: Appraisal value method – We value SBILIFE at INR1,000/share

Appraisal Value method (INR b)	FY22
Embedded value	351.3
New Business Profit	25.1
Appraisal Value	**1,000**
Appraisal value / Embedded value	2.8x
Valuation per share	**1,000**
Implied multiples -	
- VNB multiple	25.9
- P/ E	54.8
Upside	**20%**

Source: Company, MOFSL

Key risks

- In a declining interest rate environment, the scaling up of Non-PAR fixed guaranteed savings product increases balance sheet risk for insurers. Thus, to mitigate this risk, insurers seek to hedge interest rate risk through use of forward rate agreement (FRA) to manage cash flows. However, the current volatility in policy rates may not result in the perfect hedge. This could affect the cost of FRAs, leading to difficulties for insurers to manage cash flows.
- Both HDFCLIFE and IPRULIFE have significantly increased focus on improving digital adoption, online platform and product innovation to provide unique solutions to customers. Therefore, sluggishness in digital adoption would be a key risk for SBILIFE.
- SBILIFE has a high share of ULIPs in the total business mix. Therefore, volatility in the capital markets remains a key risk on the sale of ULIPs as witnessed in the COVID pandemic. Subdued equity markets or excessive volatility in interest rates impact investment returns for insurers.
- The COVID-19 pandemic could have a severe impact on the asset quality of investments. This could, in turn, result in higher provisioning on its investments.
- Mortality experience is another key risk in the insurance business.

Exhibit 68: Sensitivity analysis across insurers

Sensitivity analysis	SBI LIFE	
	% change in IEV	% change in VNB
1% increase in interest rates	-3.4%	1.7%
1% decrease in interest rates	3.6%	-1.8%
10% increase in lapse rates	-1.3%	-5.8%
10% decrease in lapse rates	1.3%	5.7%
10% decrease in Equity Value	-1.4%	0.0%
10% increase in maintenance exp	-0.6%	-2.2%
10% decrease in maintenance exp	0.6%	2.2%
Changes in tax rate to 25%	-8.4%	-15.6%

Source: MOSL, Company

SWOT analysis

- Largest private sector life insurance player in terms of Individual WRP with strong parentage.
- Un-matched distribution led by strong bancassurance network coupled with highly productive agency channel.
- Best-in-class cost ratios.
- Superior customer service – can be gauged from low grievance ratio, high claim settlement and reduced mis-selling cases.

- Dependence on ULIPs is high.
- The share of return on premium (ROP) products in the Protection business is high, limiting margin expansion.
- Dependency on banca channel is the highest amongst all major insurers.

- Operates in an underpenetrated segment with huge growth potential.
- Huge scope to leverage SBI's vast branch network and other partnerships.
- Margin profile could improve further with higher share of the Protection/Annuity business.

- High dependence on ULIPs may impact business growth and profitability in a cyclical downturn.
- High proportion of Protection business could result in high claim incidence in the event of a natural calamity, and thus, result in adverse mortality variance.

Bull & Bear case

Bull Case

- In our bull case, we assume 19% premium CAGR over FY20- 23E (v/s 15% in the base case). We believe strong growth opportunities in an underpenetrated market could surprise on the upside.
- We expect FY22E VNB margins to improve to ~21.7% v/s 20.7% in the base case.
- We expect shareholder's PAT CAGR of 23% (15% in the base case), leading to an average operating RoEV/RoEV of ~19%/~18% over FY20-23E (v/s base case of ~18%/~17%).
- Based on the above assumptions, we value SBILIFE at INR1,300 (3.6x FY22E EV).

Bear Case

- In our bear case, we assume 10% premium CAGR over FY20-23E (v/s 15% in the base case). Increasing competition and dilution in the bancassurance channel could lead to lower-than-expected growth.
- We expect FY22E VNB margins at 19.3% (v/s 20.7% in the base case) due to slower-than-expected growth in the Protection business.
- Based on the above assumptions, we value SBILIFE at INR525 (1.5x FY22E EV).

SCENARIO ANALYSIS - BULL CASE

Bull Case (INR b)	FY21E	FY22E	FY23E
Gross Premium	476.5	572.9	696.1
Total income	616.8	730.8	871.8
Total expenses	590.4	697.3	833.7
Surplus	**21.2**	**27.0**	**32.1**
Sh. holder's PAT	**17.3**	**21.6**	**26.7**
NBP - wrp	115	135	170
VNB margin (%)	**19.9%**	**20.5%**	**21.7%**
EV	304.0	358.0	420.0
Operating ROEV	**17.5%**	**17.7%**	**18.9%**
RoEV (%)	**15.6%**	**16.9%**	**18.0%**

Source: Company, MOFSL

SCENARIO ANALYSIS – BEAR CASE

Bear Case (INR b)	FY21E	FY22E	FY23E
Gross Premium	464.9	335.7	615.1
Total income	601.5	694.5	797.0
Total expenses	590.1	675.6	769.5
Surplus	**9.0**	**14.7**	**19.3**
Sh. holder's PAT	**10.6**	**14.8**	**17.1**
NBP - wrp	107	116	134
VNB margin (%)	**18.8**	**18.9**	**19.3**
EV/Share	295.0	340	395.0
Operating ROEV	**17.8**	**16.4**	**16.5**
RoEV (%)	**15.8**	**14.9**	**15.1**

Source: Company, MOFSL

Comparative Analysis of various insurers

Exhibit 69: Comparison of key metrics across key insurers

Key Metrics (FY20)	Max Life	HDFC Life	IPRU Life	SBI Life
Renewal Premium	106,000	154,684	209,432	240,422
% Growth	12.6%	8.8%	1.8%	25.2%
VNB	8,970	19,190	16,050	20,100
% Growth	4.8%	24.6%	20.8%	16.9%
VNB Margin (Post overrun)	21.6%	25.9%	21.7%	18.7%
VNB Margin (Pre overrun)	24.3%	NA	NA	NA
EV	99,770	206,500	230,300	262,900
% Growth	11.6%	12.8%	6.5%	17.4%
Opex to GWP	14.5%	17.6%	15.9%	9.9%
Operating RoEV	20.3%	18.1%	15.2%	20.5%
RoE	20.0%	20.5%	15.0%	17.4%
Solvency Ratio	207%	184%	194%	195%
AUM (INRb)	685	1,272	1,530	1,604
Debt	83%	71%	53%	79%
Equity	17%	29%	47%	21%
Product Mix based on APE (%)				
PAR	30%	19%	12%	11%
Non-PAR	18%	45%	9%	7%
ULIP	38%	28%	65%	70%
Protection	13%	8%	15%	9%
Persistency				
13th Month	83%	90%	85%	86%
25th Month	71%	80%	77%	79%
37th Month	63%	74%	69%	72%
49th Month	59%	67%	66%	67%
61st Month	52%	55%	57%	60%

Source: MOFSL, Company; Note: HDFC Life based on product mix based on Individual APE

Company Information – About SBILIFE

SBILIFE is India's largest private life insurer with an Individual WRP market share of 13.3% in FY20. It offers a range of Savings and Protection products catering to Individual as well as group customers through traditional and unit-linked plans. The products encompass Life, Annuity, Health, Pension and Variable insurance. Further, SBILIFE has a distinct competitive advantage in distribution due to its tie-up with its parent SBI, which gives it access to the latter's ~22k branches. It also has other banca partners such as South Indian Bank, Punjab & Sind Bank, Allahabad Bank and Indian Bank. It has a widespread network of 937 offices across the country with a productive agent network of 137k agents. Overall, SBILIFE manages a total AUM of INR1.7t as at Jun'20.

Stable and experienced management team

SBILIFE's management team has rich experience across banking, financial services and insurance sectors with proven track record.

Mr. Rajnish Kumar is Chairman of the State Bank group and has been with SBI for over three decades. He was appointed on the board of SBILIFE from 28th Mar'16. Prior to this, he was the MD and CEO of SBI Capital. He has over 39 years of experience in banking and financial services.

Mr. Mahesh Kumar Sharma (MD & CEO)

Mr. Mahesh Kumar Sharma (MD & CEO): He became the MD & CEO of SBILIFE with effect from 9th May'20. Prior to this, he was associated with SBI for the past 29 years and served in various geographical locations both in India and abroad. Till Mar'20 he was posted as Regional Head, East Asia, Hong Kong.

Mr. Sanjeev Pujari (President – Actuarial and Risk Management, Chief Risk Officer): Mr. Sanjeev Pujari has 33 years of experience in the life insurance industry. He has been associated with SBILIFE since Jun'08. Prior to this, he worked with Future Generali Life Insurance and LIC. He holds a Bachelor's degree in Science, a Master's degree in Physics and is a Fellow of the Institute of Actuaries, India. He also holds a diploma from the UK's Faculty of Actuaries, Institute of Actuaries.

Mr. Abhijit Gulanikar (President–Business Strategy): He has over 20 years of experience in life insurance, general insurance, banking and corporate finance and is associated with SBILIFE since Jan'09. He holds a Bachelor's degree in Commerce and is an associate of ICAI. He also holds a PGDM from IIM, Ahmedabad. He has earlier worked with companies like Bharati Axa Life, Bajaj Allianz General Insurance, ICICI Bank and Bajaj Auto Limited.

Mr. Sangramjit Sarangi (President and Chief Financial Officer): Mr. Sangramjit Sarangi is the CFO of SBILIFE and has been associated with the company since Dec'09. He holds a Bachelor's degree in Commerce and Law and is a qualified Chartered Accountant. He has more than 19 years of experience in the life insurance and mutual fund industry. He has previously worked with ICICI Prudential Life and SBI Mutual Fund.

Mr. Subhendu Kumar Bal (Appointed Actuary): Mr. Subhendu Kumar Bal is the appointed Actuary at SBILIFE. He holds a post-graduate degree in Statistics and is a fellow of the Institute of Actuaries, India. He has been associated with the company since Jun'08. He has previously worked with Metlife India Insurance and LIC.

Annexure- Impact of COVID-19 on Life Insurers

The business volumes of nearly all life insurers have been hit due to the COVID-19-led lockdown. Nearly all players have reported a significant drop in the total APE since Mar'20. In 1QFY21, private players' Individual WRP declined 23.1% YoY and dropped 18.2% YoY for the industry – while the decline was steep over Apr-May'20, it moderated since Jun'20.

Overall, in 1QFY21, life insurers (barring MAXLIFE) reported 30-44% plunge in total APE, affected by sharp decline in ULIP sales across insurers. On the other hand, MAXLIFE reported 4% decline in total APE. Among business segments, Individual Protection trends remained strong across most insurers, barring SBILIFE, which reflected strong traction in the Non-PAR segment. However, SBILIFE's management has indicated protection growth would pick up and be a key focus segment. SBILIFE and IPRULIFE have a higher ULIP share, and therefore, have reported sharp declines v/s HDFCLIFE. SBILIFE/IPRULIFE's ULIP APE declined 52%/66% YoY while that for HDFCLIFE/MAXLIFE, it declined 19%/9% YoY. Furthermore, Credit Life growth was better for SBILIFE than IPRULIFE/HDFCLIFE (reported 70% YoY decline). This was because SBILIFE is more focused on cross-selling to existing customers. MAXLIFE reported strong traction of 102%/32% YoY in Individual/Group Protection. While protection growth for IPRULIFE stood flat YoY, its share in the total APE improved to 26% (v/s 15.1% in FY20).

Exhibit 70: Individual WRP, growth and market share – sorted on Jun'20 basis

INR m	Jun-20	YoY growth	Mkt share	FY21YTD	YoY growth	Mkt share	FY20	YoY growth	Mkt share
Grand Total	**52,884**	**-1.4%**	**100.0%**	**105,854**	**-18.2%**	**100.0%**	**734,885**	**6.2%**	**100.0%**
Total Private	**30,478**	**-7.0%**	**57.6%**	**57,983**	**-23.1%**	**54.8%**	**420,314**	**4.8%**	**57.2%**
Total Public	**22,406**	**7.5%**	**42.4%**	**47,871**	**-11.2%**	**45.2%**	**314,572**	**8.3%**	**42.8%**
SBI Life	6,380	-5.0%	12.1%	10,454	-35.5%	9.9%	97,711	9.1%	13.3%
HDFC Life	5,707	-3.1%	10.8%	10,715	-18.9%	10.1%	59,646	19.0%	8.1%
Max Life	3,543	13.3%	6.7%	6,209	-3.6%	5.9%	40,785	5.2%	5.5%
ICICI Prudential	3,090	-43.5%	5.8%	6,558	-49.4%	6.2%	66,427	-6.4%	9.0%
Tata AIA	2,448	18.0%	4.6%	5,381	17.2%	5.1%	26,918	20.6%	3.7%
Bajaj Allianz	1,610	13.6%	3.0%	3,304	-0.5%	3.1%	19,268	10.6%	2.6%
Birla Sun Life	1,608	15.6%	3.0%	3,091	5.0%	2.9%	17,018	0.5%	2.3%
Kotak Life	1,155	23.7%	2.2%	2,355	7.7%	2.2%	16,454	-1.3%	2.2%
PNB Met Life	915	-9.5%	1.7%	1,861	-22.2%	1.8%	12,964	-5.5%	1.8%

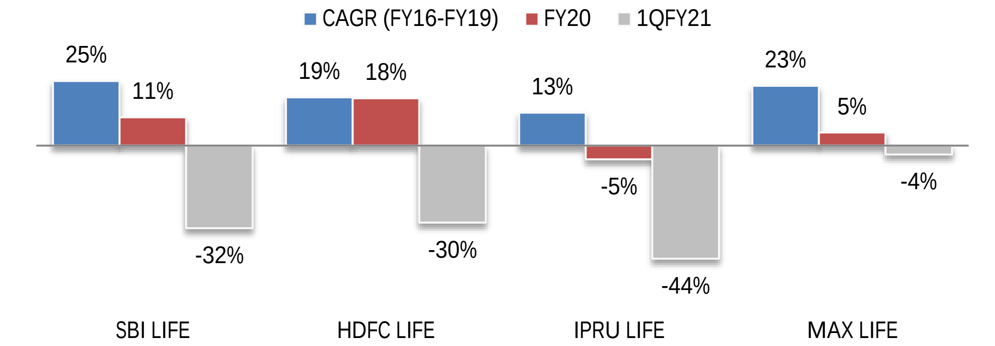
Source: Company, MOFSL

Exhibit 71: Individual WRP, growth and market share – sorted on Jul'20 basis

INR m	Jul-20	YoY growth	Mkt share	FY21YTD	YoY growth	Mkt share	FY20	YoY growth	Mkt share
Grand Total	**58,127**	**-0.3%**	**100.0%**	**163,981**	**-12.6%**	**100.0%**	**734,885**	**6.2%**	**100.0%**
Total Private	**32,078**	**-7.1%**	**55.2%**	**90,060**	**-18.1%**	**54.9%**	**420,314**	**4.8%**	**57.2%**
Total Public	**26,049**	**9.6%**	**44.8%**	**73,920**	**-4.8%**	**45.1%**	**314,572**	**8.3%**	**42.8%**
SBI Life	7,199	-14.4%	12.4%	17,653	-28.3%	10.8%	97,711	9.1%	13.3%
HDFC Life	5,860	12.2%	10.1%	16,576	-10.1%	10.1%	59,646	19.0%	8.1%
ICICI Prudential	3,807	-36.5%	6.5%	10,364	-45.3%	6.3%	66,427	-6.4%	9.0%
Max Life	3,400	-2.0%	5.8%	9,608	-3.0%	5.9%	40,785	5.2%	5.5%
Tata AIA	2,228	18.2%	3.8%	7,608	17.5%	4.6%	26,918	20.6%	3.7%
Bajaj Allianz	1,794	28.9%	3.1%	5,097	8.2%	3.1%	19,268	10.6%	2.6%
Birla Sun Life	1,375	0.5%	2.4%	4,466	3.6%	2.7%	17,018	0.5%	2.3%
Kotak Life	1,157	0.8%	2.0%	3,512	5.4%	2.1%	16,454	-1.3%	2.2%
PNB Met Life	998	1.1%	1.7%	2,858	-15.4%	1.7%	12,964	-5.5%	1.8%

Source: Company, MOFSL

Exhibit 72: APE growth trends for key insurance players



Source: MOFSL, Company

Exhibit 73: Premium mix trend across ULIPs and Protection (%)

Business mix trends based on APE	FY18	FY19	FY20	1QFY21
ULIP				
SBILIFE	66.5	70.8	69.6	48.0
HDFCLIFE*	57.0	55.0	28.0	27.0
IPRULIFE	81.9	79.6	64.7	43.6
MAXLIFE	41.0	42.0	38.0	35.0
Protection				
SBILIFE	5.4	6.8	8.9	12.6
HDFCLIFE	11.0	17.0	17.2	13.0
IPRULIFE	5.7	9.3	15.1	26.0
MAXLIFE	8.0	10	13.0	25.0

Source: MOFSL, Company; Note: HDFCLIFE's ULIP share based on Individual APE

Persistency may see some near-term pressure led by ULIPs

- Due to the lockdown in Apr-May'20 and choppy capital markets, persistency trends were weak across most insurers as customers utilized grade period in making renewal payments. However, most companies highlighted that renewal period trends are gradually picking up and better trends are expected in the coming quarters. Also, among segments, most companies witnessed modest decline in persistency in the ULIP segment while trends improved in the Protection segment.

- Overall, volatility in the capital markets and lower earnings visibility should lead to tepid demand in ULIPs over the next few quarters. The share of market-linked Savings is significantly higher in the total premium mix. Thus, we remain watchful of near-term persistency rates.

Exhibit 74: Persistency trend decline across insurers (%)

Persistency	SBI Life			HDFC Life			IPRU Life			MAX Life		
	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21
13th Mth	85.1	86.1	85.4	87.2	90.1	87.0	84.6	83.2	81.8	83.0	83.0	82.0
25th Mth	76.7	78.5	78.4	80.5	80.2	80.8	75.6	75.1	73.4	71.0	71.0	68.0
37th Mth	71.4	71.6	71.2	72.0	73.8	69.5	69.3	66.7	65.4	64.0	63.0	61.0
49th Mth	66.4	67.3	66.3	67.7	67.2	64.9	63.8	64.6	63.9	58.0	59.0	57.0
61st Mth	57.2	59.9	61.2	52.3	55.0	54.4	56.8	56.0	56.8	53.0	52.0	52.0

Source: MOFSL, Company

Sharp APE decline impacts VNB trends, but product mix to drive VNB margins

Absolute VNB declined across insurers in the range of 16%-43%, affected by a plunge in APE. However, VNB margin expanded 340bp YoY to 24.4% for IPRULIFE, led by higher protection share of 26% (v/s 14.6% in 1QFY20). SBILIFE's VNB margins expanded 80bp YoY to 18.7%, led by annuity, as the share of non-PAR increased to 18.1% in 1QFY21 (v/s 2.7% in 1QFY20). On the other hand, despite HDFCLIFE's Individual Protection APE rising 50% YoY, the company's VNB margin contracted to 24.3% (v/s 29.8% in 1QFY20). It was affected by decline in Credit Life and growth slowdown in the Non-PAR segment. Additionally, MAXLIFE's margins declined to 17.1%, despite reflecting robust Protection growth.

Overall, we remain positive on the margin trajectory due to (a) share of Protection and Non-PAR Savings increasing further, (b) reprising of Protection plans from 2HFY21, and (c) increase in the non-linked Savings business. However, ULIPs should take time to revive.

Exhibit 75: APE split between Individual Protection, Group Protection and Non-PAR Savings across major insurers

APE Mix	SBI LIFE			HDFC LIFE			IPRU LIFE			Max LIFE		
	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21	FY19	FY20	1QFY21
Total APE (INR b)	**96.9**	**107.5**	**12.7**	**62.6**	**74.1**	**12.0**	**78.0**	**73.8**	**8.2**	**39.5**	**41.5**	**6.6**
Individual Protection	3.8%	4.7%	5.5%	6.7%	7.6%	11.0%	5.6%	10.4%	NA	5.7%	8.0%	14%
Group Protection	3.0%	4.2%	7.1%	10.3%	9.6%	2.0%	3.7%	4.7%	NA	4.5%	5.0%	11%
Total Protection	**6.8%**	**8.9%**	**12.6%**	**17.0%**	**17.2%**	**13.0%**	**9.3%**	**15.1%**	**26.0%**	**10.2%**	**13.0%**	**25%**
Non-PAR Savings	**0.4%**	**6.9%**	**18.1%**	**15.0%**	**41.0%**	**28.0%**	**0.9%**	**5.2%**	**24.4%**	**9.0%**	**18.0%**	**18%**

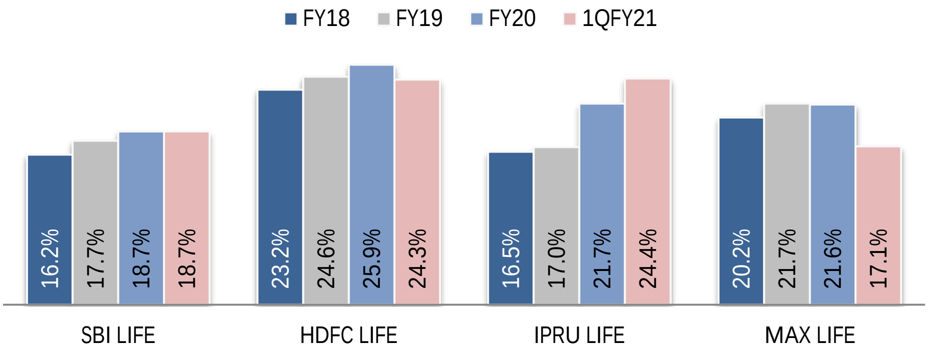
Source: Company, MOFSL

Exhibit 76: Annuity premiums (un-weighted) across major insurers

Annuity Premiums	FY18	FY19	FY20	1QFY21	CAGR (FY18-FY20) (%)
HDFC LIFE	10,655	25,920	27,582	6,034	61%
IPRU LIFE	3,108	6,854	10,430	NA	83%
SBI LIFE	2,116	2,767	11,200	1,608	130%
as a % of total premium					
HDFC LIFE	4.5%	8.9%	8.4%	10.5%	390bp
IPRU LIFE	1.1%	2.2%	3.1%	NA	200bp
SBI LIFE	0.8%	0.8%	2.8%	2.1%	190bp
as a % of New business premium					
HDFC LIFE	9.4%	17.3%	16.0%	23.0%	660bp
IPRU LIFE	3.4%	6.6%	8.4%	NA	500bp
SBI LIFE	1.9%	2.0%	6.8%	5.3%	480bp

Source: Company, MOFSL

Exhibit 77: VNB margin trend across insurers

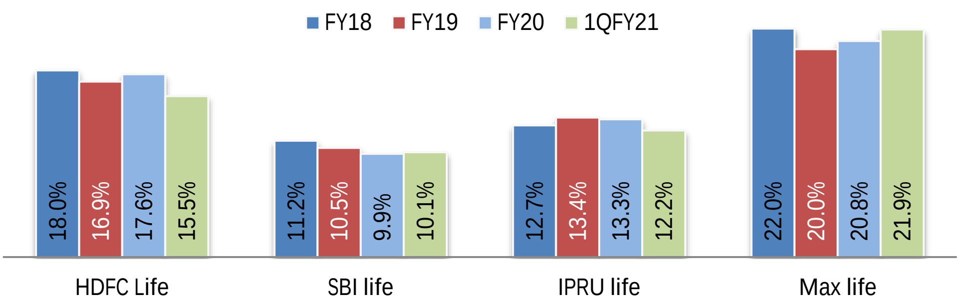


Source: Company, MOFSL

Sharp improvement in cost efficiencies across insurers

Overall, the sharp decline in volumes for most insurers (due to the lockdown) and weakness in capital markets drove lower demand for market-linked Savings business. Thus, insurers have increased focus on cost efficiencies. The company's key focus to drive cost improvement is to control discretionary expenses, making costs more variable, improving efficiency through digital adoption, and re-negotiating branch rentals, etc. Overall, HDFCLIFE's total expenses (incl. commissions) declined 25% YoY, and thus, its total expense ratio improved by 290bp YoY to 15.5%. IPRULIFE reported 23% YoY decline in operating expenses, and thus, total expense ratio improved by 220bp YoY to 14.8%. SBILIFE's opex growth also declined to 3.2% YoY, leading to its total expense ratio improving by ~110bp YoY to 10.1%. SBILIFE still maintains cost leadership over other insurers.

Exhibit 78: Cost ratios improve in 1QFY21, led by lower business volumes



Source: MOFSL, Company

FY21E growth outlook muted

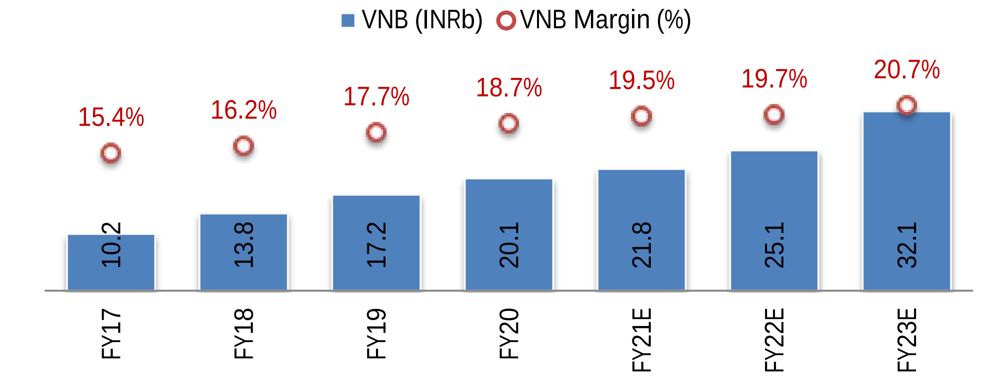
Resilient operating metrics, improving business mix key positives

We expect business growth to remain under pressure over the near term, especially for the Savings business, given the reduced economic activity and consumption slowdown. Also, sluggishness in the capital markets and lower earnings visibility should lead to tepid demand for ULIPs. On the other hand, the Protection and Annuity businesses are likely to do well as they are relatively simpler to buy through digital channels. Thus, we expect the share of Protection/Non-PAR Savings to increase in the overall premium mix and support further margin expansion.

Protection to remain key growth driver of margin expansion: We believe the COVID-19 pandemic would reset mindsets, in terms of the importance of life insurance as a risk cover, rather than a savings-linked investment product. Thus, we expect demand for Protection to gain further momentum. Further, the Protection segment also has the added advantage of being the simplest product to compare and buy through digital channels, especially in a world with social distancing norms. This will help drive margin expansion; however, the full margin benefit should get reflected 2HFY21 onwards as insurers are increasing the pricing of term plans to neutralize the impact of the re-insurance hike.

Focus on increasing cost efficiencies: While cost ratios have improved in the Savings business, they remain high in the Protection segment. Furthermore, rising digital penetration should lead to continued investments in technology platforms to improve customer on-boarding, client servicing through chatbots, etc. In the near term, management focus would be on controlling costs in a low business volume environment. Thus, key focus areas such as controlling discretionary expenses, making cost more variable, and re-negotiating branch rentals would drive improvement. Therefore, cost metrics would be a key monitorable in the near term.

Exhibit 79: SBILIFE – expect VNB margin to improve to ~21% by FY23E



Source: MOFSL, Company

Financials and valuations

Technical account (INR b)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Gross Premiums	253.5	329.9	406.3	471.5	557.1	662.4
Reinsurance Ceded	(1.9)	(1.0)	(3.1)	(3.0)	(4.4)	(5.4)
Net Premiums	251.7	328.9	403.2	468.5	552.7	657.0
Income from Investments	84.6	112.1	30.0	136.6	154.1	170.9
Other Income	1.4	1.6	5.2	6.8	8.5	10.6
Total income (A)	**337.7**	**442.6**	**438.4**	**611.9**	**715.3**	**838.5**
Commission	11.2	13.5	16.2	19.5	22.9	27.2
Operating expenses	17.2	21.2	24.1	29.7	34.8	41.6
Total commission and opex	**28.4**	**34.7**	**40.3**	**49.2**	**57.6**	**68.7**
Benefits Paid (Net)	117.1	152.9	162.5	236.5	289.0	341.9
Chg in reserves	176.0	235.9	206.0	295.0	332.8	386.3
Prov for doubtful debts	3.5	5.5	6.8	6.5	7.5	8.8
Total expenses (B)	**325.1**	**429.0**	**415.7**	**587.2**	**686.9**	**805.7**
(A) - (B)	**12.6**	**13.6**	**22.8**	**24.7**	**28.4**	**32.8**
Prov for Tax	2.4	2.7	3.8	5.0	5.9	6.6
Surplus / Deficit (calculated)	**10.2**	**10.9**	**19.0**	**19.7**	**22.5**	**26.2**

Shareholder's a/c (INR b)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	8.3	10.0	14.6	13.0	14.6	17.3
Income From Investments	4.6	5.2	4.8	4.4	5.5	6.5
Total Income	**12.9**	**15.2**	**19.5**	**17.5**	**20.1**	**23.9**
Other expenses	0.6	0.6	1.0	0.7	1.0	1.5
Contribution to technical a/c	0.8	1.0	4.8	-	-	-
Total Expenses	1.1	1.4	5.3	0.7	1.0	1.5
PBT	**11.8**	**13.7**	**14.1**	**16.7**	**19.0**	**22.4**
Prov for Tax	0.3	0.5	(0.1)	0.7	0.8	0.9
PAT	**11.5**	**13.3**	**14.2**	**16.1**	**18.3**	**21.5**
Growth	*20.5%*	*15.3%*	*7.2%*	*12.9%*	*13.7%*	*17.8%*

Premium (INR b) & growth (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
New business prem - unwtd	110	138	166	178	209	256
New business prem - wrp	84	95	105	112	127	155
Renewal premium	144	192	240	294	348	407
Total premium - unwtd	254	330	406	472	557	662
New bus. growth - unwtd	8.1%	25.8%	20.3%	7.0%	18.0%	22.0%
New business growth - wrp	27.6%	13.2%	10.2%	6.2%	14.3%	21.5%
Renewal premium growth	32.3%	33.4%	25.2%	22.3%	18.2%	17.0%
Total prem growth - unwtd	20.6%	30.1%	23.2%	16.0%	18.2%	18.9%

Premium mix (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
New business - unwtd						
- Individual mix	76.7%	69.9%	67.8%	66.0%	68.0%	67.0%
- Group mix	23.3%	30.1%	32.2%	34.0%	32.0%	33.0%
New business mix - WRP						
- Participating	24.0%	18.4%	10.9%	12.4%	13.3%	13.8%
- Non-participating	9.0%	10.3%	18.6%	15.4%	14.1%	15.0%
- ULIPs	67.0%	71.3%	70.5%	72.2%	72.6%	71.2%
Total premium mix - unwtd						
- Participating	24.8%	21.8%	18.3%	21.9%	22.4%	22.4%
- Non-participating	19.5%	20.8%	23.8%	24.3%	25.3%	26.0%
- ULIPs	55.7%	57.4%	57.9%	53.8%	52.2%	51.6%

Financials and valuations

Balance sheet (INR b)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sources of Fund						
Share Capital	10.0	10.0	10.0	10.0	10.0	10.0
Shareholders' Fund	**65.3**	**75.8**	**87.4**	**100.6**	**115.4**	**132.9**
Policy Liabilities	555.6	649.5	761.2	841.7	960.7	1,097.1
Prov. for Linked Liab.	495.6	605.9	763.0	885.3	1,003.0	1,136.4
Funds For Future App.	-	2.8	7.1	8.2	9.7	11.4
Current liabilities & prov.	35.5	37.4	30.2	29.0	30.1	31.3
Total	**1,217.1**	**1,467.3**	**1,655.8**	**1,858.0**	**2,097.4**	**2,366.6**
Application of Funds						
Shareholders' inv	50.1	57.2	68.3	79.9	97.7	113.4
Policyholders' inv	544.9	644.7	734.2	859.2	981.2	1,121.1
Assets to cover linked liab.	549.4	691.3	785.7	834.7	918.2	1,010.0
Total	**1,217.1**	**1,467.3**	**1,655.8**	**1,858.0**	**2,097.4**	**2,366.6**

Operating ratios (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Investment yield	7.8%	8.4%	1.9%	8.1%	8.1%	8.0%
Commissions / GWP	**4.4%**	**4.1%**	**4.0%**	**4.1%**	**4.1%**	**4.1%**
- first year premiums	8.7%	8.3%	8.4%	8.1%	8.0%	8.1%
- renewal premiums	2.7%	2.7%	2.7%	2.7%	2.5%	2.5%
- single premiums	0.8%	1.5%	1.4%	2.1%	2.0%	2.0%
Operating expenses / GWP	6.8%	6.4%	5.9%	6.3%	6.2%	6.3%
Total expense ratio	**11.2%**	**10.5%**	**9.9%**	**10.4%**	**10.3%**	**10.4%**
Claims / NWP	46.4%	46.3%	40.1%	50.3%	52.1%	51.8%
Solvency ratio	206%	213%	195%	191%	182%	175%

Persistency ratios (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
13th Month	83.0%	85.1%	86.1%	85.6%	86.4%	86.6%
25th Month	75.2%	76.7%	78.5%	77.6%	79.0%	79.3%
37th Month	70.0%	71.4%	71.6%	71.5%	71.6%	71.8%
49th Month	63.9%	66.4%	67.3%	66.9%	67.5%	68.3%
61st Month	58.4%	57.2%	59.9%	59.6%	60.0%	60.2%

Profitability ratios (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
VNB margin (%)	16.2%	17.7%	18.7%	19.5%	19.7%	20.7%
RoE (%)	19.0%	18.8%	17.4%	17.1%	16.9%	17.3%
RoIC (%)	19.4%	19.2%	17.4%	16.8%	16.7%	17.2%
Operating ROEV (%)	18.0%	17.3%	20.5%	17.1%	16.9%	17.7%
RoEV (%)	15.3%	17.5%	17.4%	15.1%	16.0%	16.7%

Valuation ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total AUMs	1,163	1,410	1,410	1,774	1,997	2,245
- of which equity AUMs (%)	23%	23%	23%	24%	25%	26%
Dividend %	20%	20%	0%	25%	30%	35%
Dividend payout ratio (%)	21%	18%	0%	19%	20%	20%
EPS, Rs	11.5	13.3	14.2	16.1	18.3	21.5
VNB	13.8	17.2	20.1	21.8	25.1	32.1
- VNB growth (%)	36.1%	24.1%	17.0%	8%	15%	28%
EV per share	190.6	224.0	262.9	302.7	351.3	410.1
P/AUM (%)	72%	59%	59%	47%	42%	37%
P/EV (x)	4.4	3.7	3.2	2.8	2.4	2.0
P/EPS (x)	72.7	63.0	58.8	52.1	45.8	38.9

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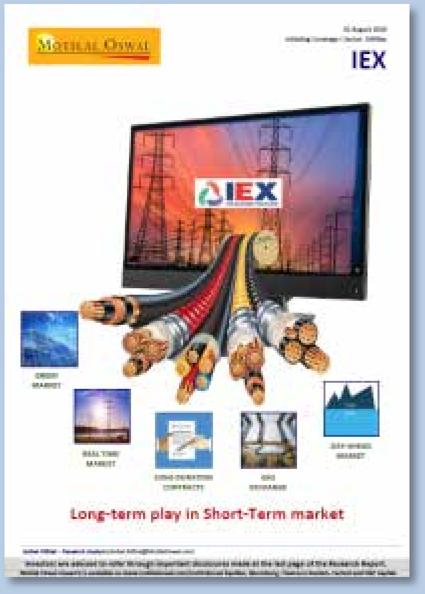

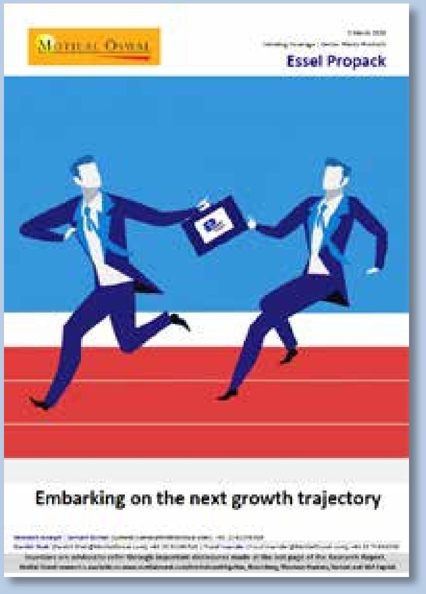

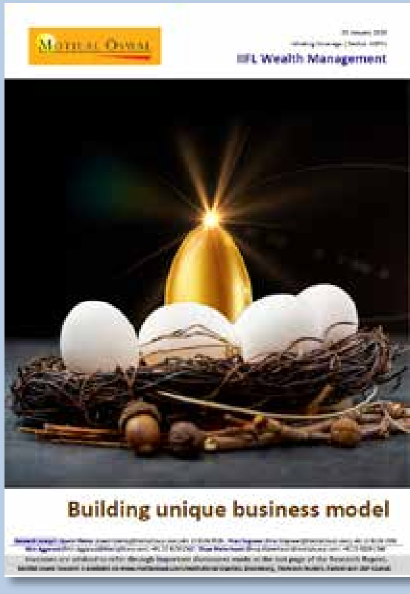

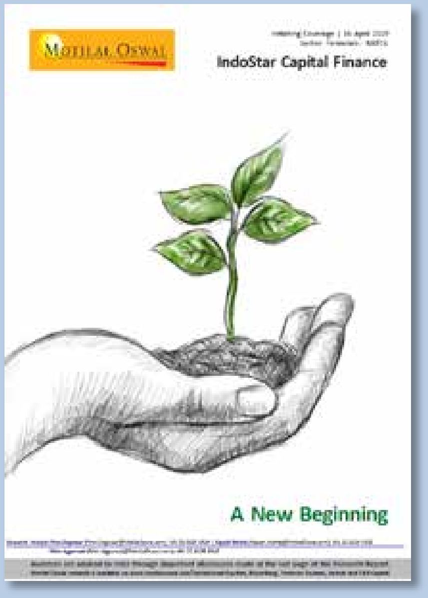

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