

SBI Life Insurance

Growth recovery underway

With business recovery underway (APE: +113.0% QoQ), along with increasing VNB (VNB: +114.5% QoQ), we believe SBILIFE is on track to deliver a respectable FY21E- (APE/VNB -8.9/-8.3% 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 (1HFY21: 12.6%, +545bps YoY), and lowest operating cost ratios (1HFY21: 8.6%, -180bps YoY). We expect SBILIFE to deliver healthy FY21-23E VNB CAGR of 16.9% and RoEVs of ~13.6-15.6% over FY21-23E. We retain our BUY rating on SBILIFE with a target price of Rs 1,040 (Sep-22E EV + 27.5 x Sep-22E VNB). The stock is currently trading at FY21/22E P/EV of 2.5/2.2x and P/VNB of 24.7/19.6x. Lower growth, renewals, and protection share are key risks.

- 2QFY21 highlights:** Total APE at Rs 27.0bn (-3.7/113.0% YoY/QoQ) was in line with estimates. Increased awareness of protection and the company's strong focus resulted in robust growth in individual/group protection: 58.3/87.5% YoY, with the share increasing by 275/270bps YoY to 7.0/5.5%. The company highlighted that growth in protection is driven by volume and not pricing. Share of ULIP in the mix improved (60.1%, +1204bps QoQ) mainly at the expense of NPAR (8.9%, -924bps QoQ). Management is upbeat as it is seeing improving sales trends and believes 2HFY21 will be a period of growth. Persistency improved across cohorts except for 49th month on a YoY basis; this was reflected in strong renewal premiums, which grew 28.1/55.9% YoY/QoQ. The total expense ratio was contained at 7.7% (-218/-239bps YoY/QoQ) as the company continues to keep strong vigil over costs. Solvency improved to 245% (+2,500bps YoY) as equity markets recovered. AUM growth was strong at 20.4/6.3% YoY/QoQ. The company delivered PAT of Rs 2.9bn, +126.2/-24.6% YoY/QoQ)
- 1HFY21 adj. VNB margin** (at ETR) was at 20.2% (-15bps YoY), while reported VNBM (at ATR) was at 18.8% (-70bps YoY). Margin was higher mainly due to (1) mix change (+390bps, a higher share of single premium products and longer duration of products), (2) change in operating assumptions (-120bps, CNHNR assumption change), and (3) change in economic assumptions (-200bps, mainly risk-free rate).
- Outlook:** We expect to see recovery in business continue for SBILIFE in 2HFY21E. The company is in the process of obtaining approvals for its revised individual protection product- expected to be very competitively priced. Overall, we expect FY21E-23E APE/VNB CAGR of 14.4/16.9% YoY

Financial Summary

(Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	59.50	46.60	27.7	30.50	95.1	137.9	165.9	164.8	187.6	225.7
APE	27.05	28.10	-3.7	12.70	113.0	96.9	107.4	97.9	111.4	128.1
Adj. VNB	5.48	5.73	-4.5	2.55	114.5	19.2	22.2	20.4	23.7	27.8
Adj. VNBM (%)	20.2	20.4	-15bps	20.10	15bps	19.8	20.7	20.8	21.3	21.7
EV						236.6	276.4	314.1	358.3	405.9
MCap/EV (x)						3.3	2.8	2.5	2.2	1.9
P/VNB (x)						30.1	24.4	24.7	19.6	15.1
ROEV(%)						18.9	16.8	13.6	15.3	15.6

Source: Company, HSIE Research

BUY

CMP (as on 26 Oct 2020)	Rs 779
Target Price	Rs 1,040
NIFTY	11,768

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,040	Rs 1,040
VNB %	FY21E NIL	FY22E NIL

KEY STOCK DATA

Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,000
MCap (Rs bn) / (\$ mn)	779/10,525
6m avg traded value (Rs mn)	1,333
52 Week high / low	Rs 1,030/519

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.2)	14.7	(20.7)
Relative (%)	(15.5)	(13.5)	(23.5)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	60.7	60.7
FIs & Local MFs	7.0	7.0
FPIs	26.2	25.8
Public & Others	6.1	6.5
Pledged Shares	Nil	Nil

Source : BSE

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Disclosure:

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