

Growth revives; product mix to aid earnings...

SBI Life Insurance reported a healthy set of numbers led by strong renewal premium and investment income. Higher actuarial liability and elevated claims were offset by steady opex, which led to reasonable PAT growth.

Premium growth was strong at 27.2% YoY to ₹ 12858 crore, led by higher traction in renewal (up 28% YoY) and single NBP (up 71% YoY). Growth in renewal premium continued to remain healthy at ~28.1% YoY to ₹ 7150 crore. New business premium (NBP) growth was healthy at 27.4% YoY to ₹ 5940 crore, led by strong accretion in protection & group premium. Among NBP, traction in individual business was muted at ₹ 2680 crore vs. ₹ 2850 crore in Q2FY20, primarily led by decline in premium in Ulip (down 3.5% YoY) and non-par products (down 7.5% YoY). However, protection business reported strong growth at ₹ 620 crore in Q2FY21, up 26.5% YoY. Proportion of total protection NBP to total NBP was at ~10.4% in Q2FY21. Group savings products reported strong growth at ₹ 2650 crore, up 100.8% YoY.

Healthy NBP accretion led to elevated commission expenses at ₹ 414 crore, up 1.5% YoY, 83.9% QoQ. Elevated commissions despite higher sourcing via banks (banca + others) were at ~87%. Higher commission expenses were offset by steady opex, leading to overall opex to come in at ₹ 1003 crore vs. ₹ 1014 crore in Q2FY20. Strong premium growth coupled with healthy investment income provided a boost to traction in topline. However, higher actuarial liability and elevated claims (benefits paid) led to sequentially lower policyholder surplus at ₹ 410 crore. Subsequently, PAT was at ₹ 300 crore vs. ₹ 610 crore in Q1FY21 (₹ 130 crore in Q2FY20). The company has entered into banca tie-up with Yes Bank during the quarter.

Protection business to aid VNB margins ahead

Rise in Ulip proportion (~65% of new business premium) coupled with a decline in non-par products was completely offset by a strong growth in protection business, which led to healthy VNB margins at 18.8%, up 70 bps YoY. Among protection, credit life and individual term, which are high margin products, gain traction. We expect higher customer skewness towards protection business to keep VNB margins ahead of 18%. However, growth in non-par products, lower relatively, would be in focus. Overall premium accretion is seen at ~15% CAGR in FY20-22E to ₹ 53028 crore.

Valuation & Outlook

Increase in customer appetite towards protection products amid Covid bodes well for long term business growth and VNB margin. Competitive pricing, focus on protection business, excellent operating efficiency remain key drivers. We continue to prefer businesses with long term growth potential and lower balance sheet, we remain structurally positive on the stock. Hence, we maintain our **BUY** rating on the stock with an unchanged target price of ₹ 1000/share, valuing the stock at ~2.9x FY22E EV (~₹ 34106 crore in FY22E).



Particulars

Particulars	Amount
Market Capitalisation	₹77879 crore
EV (Q2FY21)	₹ 29860 crore
AUM (Q2FY21)	₹186360 crore
VNB margin (Q2FY21)	18.8%
52 week H/L	1030/520
Net worth	₹9664 crore
Face value	₹10
D II holding (%)	7.1
F II holding (%)	25.8

Key Highlights

- Premium accretion healthy at ~27.2% to ₹ 12858 crore
- Focus on protection and non-par business to aid VNB margins ahead
- Maintain BUY recommendation with unchanged target price of ₹ 1000

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Key Financial Summary

(₹C crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
New business premium	12673.7	14855.4	18071.4	18937.6	20166.5	6%
APE	8540.0	9530.7	10505.2	12088.3	12458.3	9%
Total premium	26861.8	32745.5	40334.4	47029.6	53028.5	15%
PAT	2852.7	1335.8	1423.0	1575.4	1949.7	17%
EV	18726.1	22077.6	26290.0	30039.2	34106.0	14%
P/E (x)	27.3	58.3	54.7	49.4	40.0	
P/BV (x)	9.9	8.9	7.9	7.0	6.1	
P/IEV (x)	4.1	3.5	3.0	2.6	2.3	
RoEV (%)	17.8	17.8	17.5	15.2	14.6	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
First Year Premium	2,315.5	2,248.0	2,548.0	-9.1	1,085.8	113.3	Gradual unlocking of economy leads to pickup in premium accretion
Renewal Premium	7,149.9	7,072.6	5,581.3	28.1	4,584.4	56.0	Relatively higher persistency ratios aids renewal premium growth
Single Premium	3,624.2	3,451.0	2,114.0	71.4	1,972.8	83.7	Credit life & protection business reports strong growth, which supported single premium
Net Premium income	12,858	12,202	10,112	27.2	7,588	69.4	
Income from Investments	5,590.4	3,352.3	2,623.5	113.1	8,582.8	-34.9	Recovery in equities & decline in yield leads to strong investment income
Total revenue	18,458.3	15,574	12,745.4	44.8	16,178.1	14.1	
Commission	414.5	475.9	408.2	1.5	225.4	83.9	Elevated commissions due to higher NBP
Operating expenses	588.2	780.9	605.4	-2.8	545.7	7.8	
Management Expenses	1,002.7	1,256.8	1,013.7	-1.1	771.1	30.0	
Benefits paid	6,426.3	4,478.0	3,254.0	97.5	2,852.8	125.3	
Change in Actuarial Liability	10,549.2	8,912.3	7,903.6	33.5	11,692.1	-9.8	
Total Expenses	18,056.9	14,966.7	12,396.8	45.7	15,568.3	16.0	Higher actuarial liability and claims leads to 46% growth in total expenses
Surplus/ (deficit)	401.4	607.3	348.6	15.1	609.8	-34.2	Lower surplus due to higher actuarial liabilities & claims
Transfer to SH's A/c	113.3	279.8	55.5	104.2	282.2	-59.8	
Transfer to SH's A/c	113.3	279.8	55.5	104.2	282.2	-59.8	
Investment income	191.8	162.1	142.9	34.2	94.9	102.1	
Profit/ (loss) before tax	299.6	427.9	119.2	151.3	387.7	-22.7	
PAT	299.7	406.5	129.8	130.8	390.9	-23.3	Optically higher YoY PAT due to lower base and steady opex

Key Metrics

NBP	5,939.7	5,699.0	4,662.1	27.4	3,058.6	94.2	AUM revives with recovery in markets
AUM	186,360	171,914	154,760	20.4	175,350	6.3	
IEV*	29,860	NA	24,690	20.9	NA	NA	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	47,503	47,030	-1.0	54,848	53,028	-3.3
Total	52,547	64,120	22.0	60,704	67,537	11.3
Transfer to Shareholders' account	1,283	1,195	-6.9	1,607	1,478	-8.0
PAT	1,620	1,575	-2.8	1,984	1,950	-1.7
EV	301	300	-0.3	345	341	-1.2

Source: Company, ICICI Direct Research

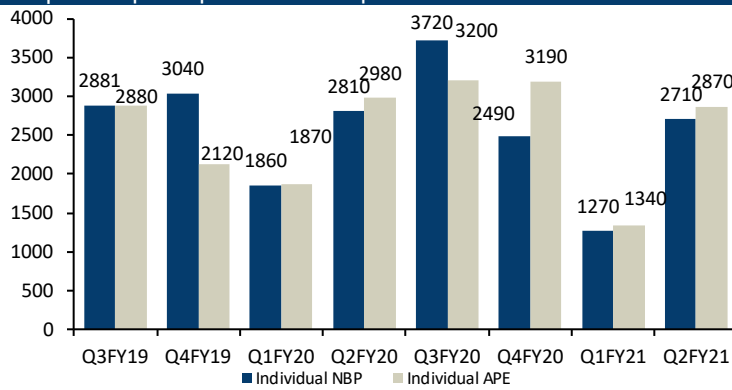
Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
NBP growth	8.8	20.3	14.1	6.5	19.2	12.7
AUM growth	20.4	14.2	23.7	18.0	16.2	16.0
EV Growth	15.8	19.1	14.3	13.5	14.6	14.6
Commission ratio	4.1	3.6	3.5	3.5	3.6	3.6
VNB Margin	17.7	20.7	18.5	18.5	18.0	18.0
Conservation ratio	85.2	85.1	84.0	83.6	82.9	81.9
Operating RoEV	17.8	17.5	15.2	14.6	15.5	15.6

Source: Company, ICICI Direct Research

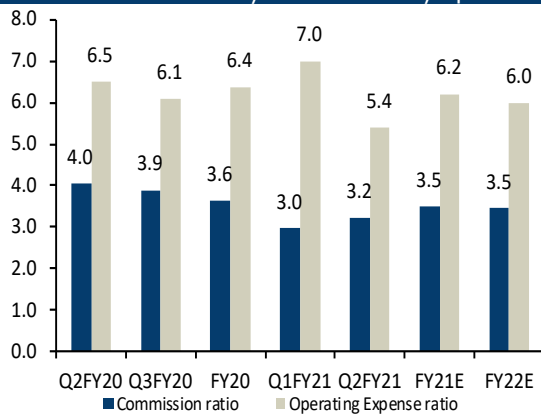
Story in Charts

Exhibit 4: Sequential pick-up in individual premiums



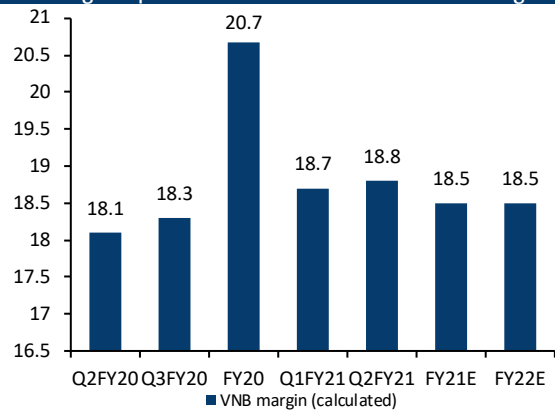
Source: Company, ICICI Direct Research

Exhibit 5: Focus on efficiency leads to steady opex ratio



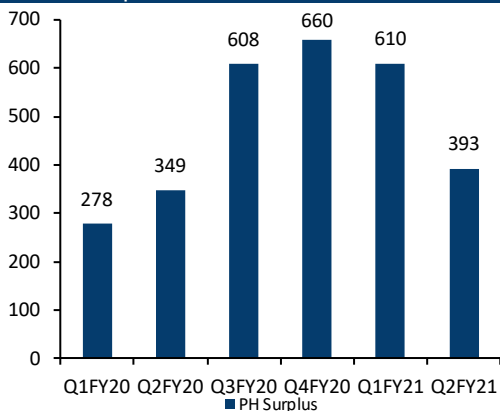
Source: Company, ICICI Direct Research

Exhibit 6: Higher protection business aids VNB margins



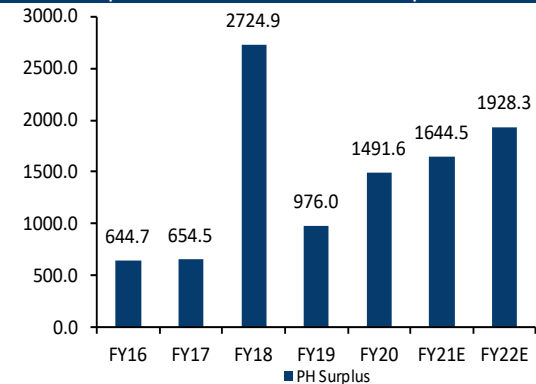
Source: Company, ICICI Direct Research

Exhibit 7: Lower surplus due to actuarial liabilities & claims



Source: Company, ICICI Direct Research

Exhibit 8: ...expect ~17% CAGR in PH surplus in FY21-22E



Source: Company, ICICI Direct Research

Exhibit 9: Persistency ratios trend

Persistency ratio %	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
13th Month	84.48	84.46	83.13	82.46	84.29	81.55	84.83
37th Month	75.8	70.57	75.91	75.46	70.13	68.88	70.98
61th Month	69.24	56.27	59.55	61.06	59.44	63.14	60.32

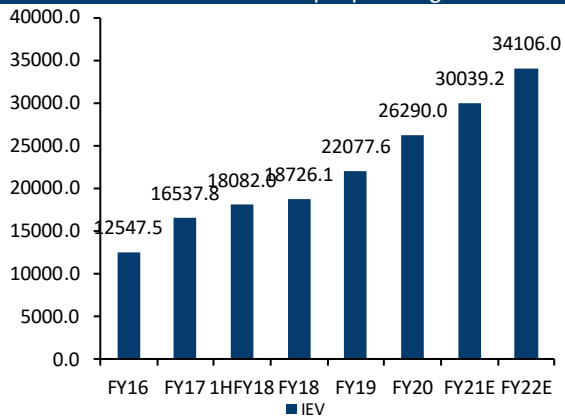
Source: Company, ICICI Direct Research

Exhibit 10: Investment growth expected at ~18% CAGR in FY21-22E

	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	FY21E	FY22E
Shareholders' investments	6900	6909	6993	7924	8083	8343	8912	9501
PH Fund Excl. Linked Assets	66091	69190	73411	75159	77695	82520	92889	110196
Assets held to cover linked liabilities	72311	76932	82064	76072	87868	93476	95010	112458
Total Investments	145302	153031	162469	159155	173645	184338	196811	232155

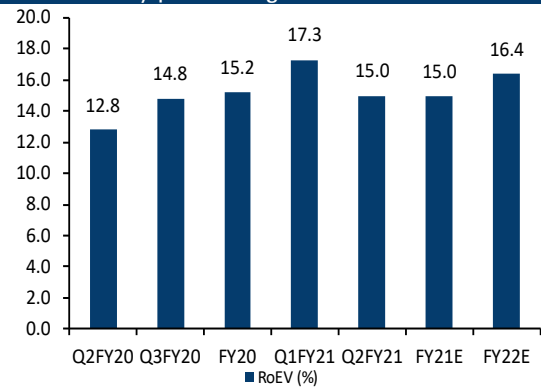
Source: Company, ICICI Direct Research

Exhibit 11: Incremental NBP to propel EV growth



Source: Company, ICICI Direct Research

Exhibit 12: Healthy premium growth to lead RoE at ~16%



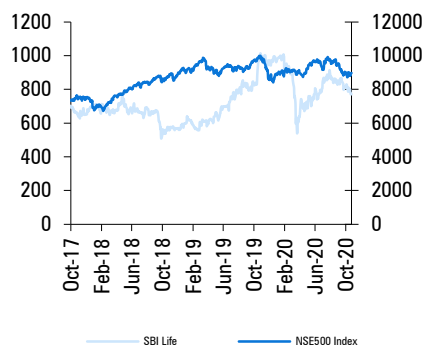
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	62.8	62.8	62.8	60.7	60.7
FII	23.7	27.5	25.9	26.2	25.8
DII	6.9	4.4	5.7	7.0	7.1
Others	6.6	5.3	5.59	6.13	6.5

Source: Company, ICICI Direct Research

Exhibit 14: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Policyholders Account					
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Premiums earned - Net	26861.8	32745.5	40334.4	47029.6	53028.5
Income from Investments	8456.3	11242.0	2997.0	16956.5	14369.3
Other income	68.6	63.8	70.2	91.3	100.4
Contribution from the Shareholders' account	75.6	98.9	47.6	42.8	38.6
Total	35462.2	44150.3	43449.2	64120.2	67536.8
Commission	1120.9	1346.4	1477.8	1660.7	1844.5
Operating expenses	1718.8	2123.5	2592.0	2937.5	3205.4
Benefits paid (Net)	11712.0	15293.8	16215.0	18928.0	23456.7
Change in valuation of policy liabilities	17595.0	23591.7	20605.0	37739.7	35783.1
Others	5.5	6.6	7.9	8.6	8.0
Provision for tax	585.2	812.3	1059.9	1201.2	1310.7
Surplus/(deficit) after tax	2724.9	976.0	1491.6	1644.5	1928.3
Transfer to Shareholders' account	2531.4	887.9	1059.6	1194.5	1478.3

Source: Company, ICICI Direct Research

Exhibit 16: Shareholders Account					
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Amounts transferred from Policyholders' acco	2531.4	887.9	1059.6	1194.5	1478.3
Income from investments	462.7	623.1	490.7	564.9	681.5
Total	2994	1511	1550	1759	2160
Expenses other than insurance	31.7	45.9	70.0	84.0	100.8
Contribution to Policyholders' account	75.6	98.9	47.6	42.8	38.6
Others	7.4	15.9	15.9	15.9	15.9
Profit before Tax	2886.8	1366.1	1432.7	1632.6	2020.4
Provision for tax	34.1	46.3	-9.0	57.1	70.7
PAT	2852.7	1319.8	1441.7	1575.4	1949.7

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet					
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	6722	7769	8885	10120	11649
Credit/(debit) fair value change account	153	20	20	20	20
Networth	7875	8789	9905	11140	12669
Policyholders' funds	111434	138095	157733	195473	231256
Total Liabilities	119503	147166	168352	207777	245538
Applications of Funds					
Shareholders' investments	6300	7031	7924	8912	9501
Policyholders' investments	54484	66496	75159	92889	110196
Asset held to cover linked liabilities	54936	65821	76072	95010	112458
Loans	171	188	212	240	271
Fixed assets - net block	581	663	755	861	982
Net current assets	3030	6967	8229	9864	12130
Total Assets	119503	147166	168352	207777	245538

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	28.5	13.4	14.2	15.8	19.5
DPS (₹)	5.0	2.4	2.6	2.8	3.5
BV (₹)	78.8	87.9	99.0	111.4	126.7
EV per share	191	221	263	300	341
P/E	20.0	42.7	40.1	36.2	29.2
P/BV	7.2	6.5	5.8	5.1	4.5
P/IEV	3.0	2.6	2.2	1.9	1.7
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.1	4.1	3.6	3.5	3.5
Management expenses incl commission :	10.5	10.5	10.0	9.7	9.5
Return Ratios and capital (%)					
Return on Networth	42.5	16.0	15.2	15.0	16.4
Operating RoEV	17.8	17.8	17.5	15.2	14.6
Solvency Ratio	200	195	200	200	200
Key Ratios (%)					
Conservation Ratio	84.2	85.2	85.1	84.0	83.6
VNB Margin	16.2	17.7	20.7	18.5	18.5
Surrender Ratio	5.3	5.6	4.7	4.8	4.8
Benefits paid as a % of Opening Liability	12.5	13.7	11.7	11.9	11.9
NBP (proportion %)					
Traditional	47.6	48.8	55.1	54.9	59.4
Linked	52.4	51.2	44.9	45.1	40.6

Source: Company, ICICI Direct Research

Exhibit 19: Key parameters

(Year-end March)	FY18E	FY19	FY20	FY21E	FY22E
NBP	12673.717	13791.94	16592.5	18937.581	20166.482
Growth (%)	24.9	8.8	20.3	14.1	6.5
Linked	6639.9	8129.7	8927.4	8546.4	8189.0
Growth (%)	29.6	22.4	9.8	-4.3	-4.2
Non Linked	6033.8	6725.6	9144.0	10391.2	11977.5
Growth (%)	20.2	11.5	36.0	13.6	15.3
APE	8540.0	9530.7	10505.2	12088.3	12458.3
Growth (%)	29.4	11.6	10.2	15.1	3.1
VNB	1390.0	1720.0	2220.0	2236.3	2304.8
Growth (%)	34.1	23.7	29.1	0.7	3.1
EV	19070.0	22077.6	26290.0	30039.2	34106.0
Growth (%)	15.3	15.8	19.1	14.3	13.5
AUM	115720.7	139348.0	159154.6	196811.0	232154.6
Growth (%)	20.8	20.4	14.2	23.7	18.0
PH Funds	109420.4	132316.6	151230.7	187899.0	222653.2
Growth (%)	19.5	20.9	14.3	24.2	18.5
SH Funds	6300.3	7031.4	7923.9	8912.0	9501.4
Growth (%)	46.671054	11.604308	12.693207	12.470099	6.6138336

Source: Company, ICICI Direct Research

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Sell: <-15%



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