

SBI Life Insurance Ltd.

Focus on protection business & digitalization to drive profitability

CMP INR 774	Target INR 996	Potential Upside 29%	Market Cap (INR Cr) INR 77,445	Recommendation BUY	Sector Life Insurance
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Result Highlights of Q2 FY21:

- GWP rose 71% QoQ/lower by 28% YoY on better new business and improved persistency.
- 13th and 61st month persistency rose 10bps YoY and 340 bps YoY respectively. The persistency was at 85.9% and 60.9% respectively.
- Value of new business rose 20% YoY/24% QoQ. The VNB margin rose 70 bps YoY/10 bps QoQ.
- SBI Life reported PAT of INR 300 Cr. up by 131% QoQ. Solvency ratio improved to 245% up 2500 bps YoY/600 bps QoQ.

MARKET DATA

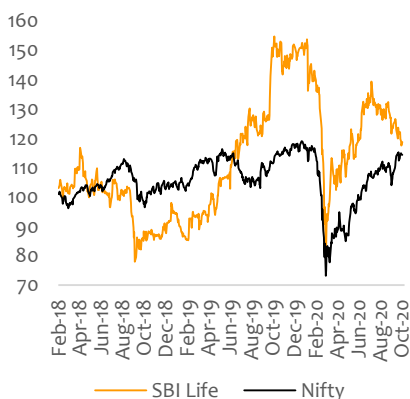
Shares outs (Cr)	100
Equity Cap (INR Cr)	9,663
Mkt Cap (INR Cr)	77,445
52 Wk H/L (INR)	1,030/519
Volume Avg (3m K)	1521
Face Value (INR)	10
Bloomberg Code	SBLife IN

KEY FINANCIALS

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
GWP	25,354	32,989	40,635	44,285	49,160
PAT	1,150	1,327	1,422	1,045	1,294
EPS (INR/Share)	11.5	13.3	14.2	10.4	12.9
NBP-APE	8,538	9,702	10,740	10,919	11,976
VNB	1,385	1,720	2,010	2,020	2,215
VNB Margin (%)	16.2%	17.7%	18.7%	18.5%	18.5%
EVPS (INR/Share)	191	224	263	303	357

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



GWP growth healthy as renewal premiums improve:

The business for SBI life improved sequentially and annually, growing 28% YoY/71% QoQ as business across channels improve. The renewal premium grew 28% YoY/123% QoQ as persistency across tenure improved materially. The market share rose to 24.5% from 23.9% in Q1FY21. The growth was also witnessed from new Banca partnerships. Overall Banca partnership from non SBI is likely to have risen 71% YoY in H1FY20 but was lower 25% YoY in the SBI channel and lower by 21% YoY in agency. The agency productivity is likely to have been lower, but it has not undertaken any steps to reduce agency partners in this time.

Improved mix aids VNB margins:

The change in mix aided an improved VNB margin to 18.8% higher by 70 bps YoY/10 bps QoQ. The proportion of benefit in the margin on account of change in mix is 390 bps YoY. The share of ULIP rose 700bps QoQ/100 bps to 55%, whilst the share of protection and Par remained the same. However, the share of profitable segment within Par and protection rose aiding the margins. It doesn't intend to focus on one segment and plans to expand all products across segments and customers. The offtake in ULIP was promising with an increase in ticket size and guaranteed products grew strongly, but it remains cautious on guaranteed product that could increase balance sheet risk.

Persistency improved and growth led by renewals reduce cost ratios:

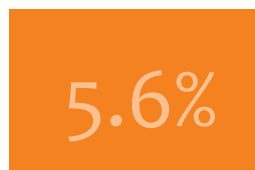
The cost ratio fell to 8.6% from 10.1% last quarter as growth in premium was led by renewal. The persistency has improved across products. The 13th month persistency rose 10 bps YoY to 85.9%, 25th month improved 140 bps YoY to 78.8%; 37th month improved by 110 bps YoY to 72.1%; 49th month persistency fell 160 bps YoY to 66.3% and 61st month persistency improved 340 bps YoY to 60.9%. The improvements are positive, especially during this time and SBI Life's higher dependence on agents.

MARKET INFO

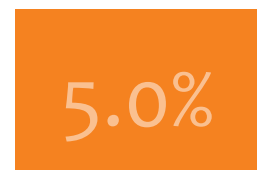
SENSEX	40,552
NIFTY	11,889

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-19	Mar-20
Promoters	60.7	60.7	62.80
FIIs	25.8	26.1	25.87
DIIIs	5.7	5.7	5.74
Others	7.8	7.5	5.59
Total	100	100	100



APE CAGR between FY20 and FY22E



VNB CAGR between FY20 and FY22E

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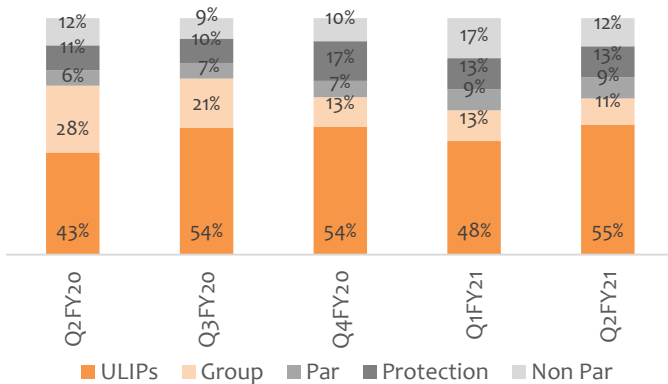
Key Concall Highlights

- (i) The sales of non-par is slightly subdued in the second quarter as the company is sceptical on the high share of guaranteed products. Of the non-par saving growing 20%, non-par guaranteed savings has grown 30%.
- (ii) It has hedged against guaranteed products with the partly paid bonds and are likely to enter in FRAs.
- (iii) There is MoM improvement in agency and banca.
- (iv) YONO is a small proportion of total premium. Though number of lives are large, but ticket sizes are smaller. The growth is 58% on a rated basis in individual premium.
- (v) Credit life is same as last year, and individual protection is 58% higher than last year.
- (vi) Change in interest rate sensitivity is on account of change in mix.
- (vii) It is likely to increase branches into turbo branches in select cities after 4 years
- (viii) Improvement is witnessed in upselling both in Banca and agency
- (ix) ULIP ticket size is higher than last year. It is not keen on long duration Par products
- (x) Pullback on group products is not conscious but LIC's rates are higher.
- (xi) Change in 49th month persistency does not have a material impact.

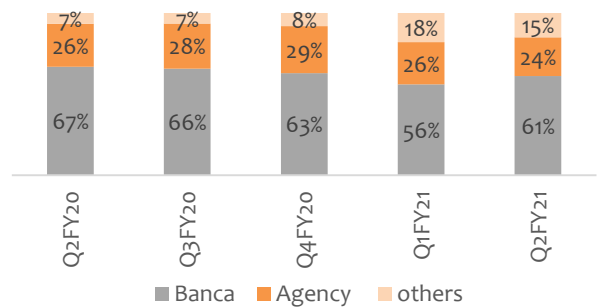
Valuation and view

The growth in premium and improved persistency is a positive. It is witnessing month on month improvement across channels and products. We expect the improvement in persistency to lever growth. We expect improvement in agent productivity as well. The diversified product mix and focus across segments and products is a positive to hedge risks. ULIP too has shown improvement. The digital focus (through Yono), scope for agent productivity and growth in Banca especially new partners is likely to improve efficiency. **We apply a 2.8x P/EV on FY21E EVPS of INR 357 and a VNB multiple of 29x on FY21E to arrive at a weighted average TP of INR 996 per share for SBI Life (50:50 weights on the P-EV and appraisal value methodology); indicating a 29% upside to CMP. We reiterate a "BUY" on the shares of SBI Life.**

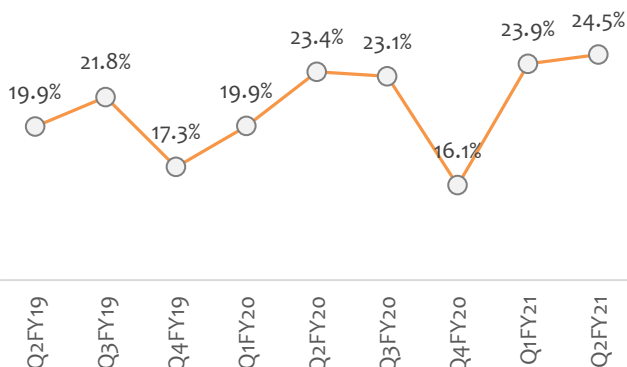
Product mix (%): ULIPs gained traction. Though focus is on all segments



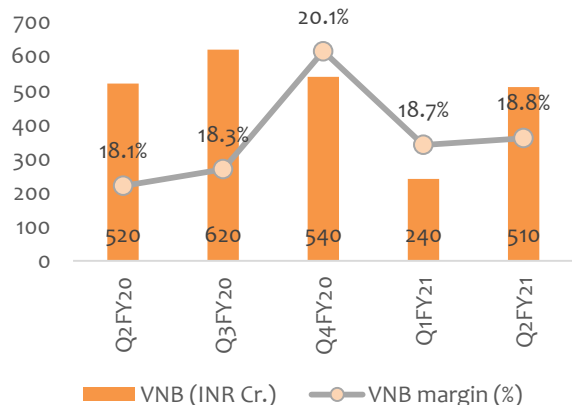
Channel mix on APE basis (%) Banca regained share



Market Share among private insurers (%): Healthy gains



VNB and VNB margin (%) (RHS): Steady improvement in VNB margin



Source: Company, KRChoksey Research

ANALYST

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SBI Life Insurance Ltd.

KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (Crore INR)	FY18	FY19	FY20	FY21E	FY22E
Revenue Account / Policyholders' Account					
Gross premiums	25,354	32,989	40,635	44,285	49,160
Reinsurance ceded	194	99	311	389	431
Net premiums	25,160	32,890	40,324	43,897	48,729
Net income from investments	8,600	11,371	3,519	11,677	11,229
Total income	33,761	44,261	43,843	55,574	59,958
Commission expenses	1,121	1,377	1,625	1,771	1,966
Operating expenses	1,719	2,093	2,413	3,100	3,441
Service tax on linked charges	348	454	554	642	642
Operating profit	30,573	40,337	39,251	50,060	53,908
Benefits paid (net)	11,677	15,294	16,251	21,948	21,928
Interim Bonuses Paid	35	0	0	84	84
Change in reserves	17,595	23,592	20,605	26,180	29,761
Provisions	243	365	501	462	534
Surplus/(Deficit)	1,023	1,087	1,895	1,386	1,602

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (Crore INR)	FY18	FY19	FY20	FY21E	FY22E
First year premiums	8,139	9,057	9,829	10,222	11,244
Single premiums	2,827	4,735	6,764	6,967	7,315
New business premium (NBP)	10,966	13,792	16,592	17,189	18,559
NBP growth (%)	8%	26%	20%	4%	8%
Renewal premiums	14,388	19,197	24,042	27,097	30,601
Renewal premiums growth (%)	32%	33%	25%	13%	13%
Total premiums	25,354	32,989	40,635	44,285	49,160
Total premium growth (%)	21%	30%	23%	9%	11%
NBP - APE	8,538	9,702	10,740	10,919	11,976
NBP - APE growth (%)	27%	14%	11%	2%	10%

Source: Company, KRChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (Crore INR)	FY18	FY19	FY20	FY21E	FY22E
Profit & Loss Account / Shareholders' Account					
Transfer from Technical account	829	999	1,463	986	1,352
Income from investments & other income	464	519	483	731	750
Total income	1,293	1,518	1,946	1,716	2,101
Total expenses	108	145	533	639	767
PBT	1,184	1,373	1,414	1,077	1,334
Provision for tax	34	46	-9	32	40
PAT	1,150	1,327	1,422	1,045	1,294

Source: Company, KRChoksey Research

SBI Life Insurance Ltd.

Exhibit 4: Balance Sheet

Particulars (INR Cr)	FY18	FY19	FY20	FY21E	FY22E
Sources of funds					
Share capital	1,000	1,000	1,000	1,000	1,000
Reserves and surplus	5,374	6,460	7,884	8,762	9,849
Fair value change account - net	153	116	-141	200	200
Shareholders' fund	6,528	7,576	8,743	9,962	11,049
Liabilities (Policyholder's Funds)					
Fair value change account - net	943	1,056	-1,587	-1,859	-2,176
Policy liabilities	55,556	64,954	76,123	89,140	1,04,383
Provision for linked liabilities	49,558	60,592	76,301	89,348	1,04,627
Credit/[debit] fair value change account	3,105	5,161	-2,861	-3,350	-3,922
Discontinued due to non-payment of premium	2,272	3,376	5,125	6,002	7,028
Sub-Total	1,11,434	1,35,140	1,53,101	1,79,281	2,09,042
Funds for future Appropriations	193	282	714	100	100
Total Sources of Funds	1,18,156	1,42,998	1,62,558	1,89,343	2,20,191
Application of Funds					
Investments					
- Shareholders'	5,014	5,723	6,828	7,784	8,874
- Policyholders'	54,486	64,472	73,420	85,901	1,00,505
Asset held to cover linked liabilities	54,936	69,129	78,565	91,921	1,07,548
Loans	171	173	364	364	364
Fixed assets - net block	581	595	581	581	581
Net current assets	2,968	2,905	2,799	2,791	2,319
Total Applications of Funds	1,18,156	1,42,998	1,62,558	1,89,343	2,20,191

Source: Company, KRChoksey Research

EV Calculation (INR Cr)	FY18	FY19	FY20	FY21E	FY22E
Opening EV	16,539	19,071	22,405	26,285	30,342
Unwind	1,406	1,621	1,900	2,234	2,427
VNB (or NBAP)	1,385	1,720	2,010	2,020	2,215
Operating variance	163	-16	670	370	570
EV Operating Profit (EVOP)	2,954	3,325	4,580	4,624	5,213
Non-operating variance	-181	250	-700	-400	300
EV Profit	2,773	3,575	3,880	4,224	5,513
Net capital injection	-241	-241	0	-167	-207
Closing EV	19,071	22,405	26,285	30,342	35,648

Source: Company, KRChoksey Research

Key Financials (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
Total premium	25,354	32,989	40,635	44,285	49,160
Net premium earned	25,160	32,890	40,324	43,897	48,729
NBP-APE	8,538	9,702	10,740	10,919	11,976
Combined ratio (%)	11.2%	10.5%	9.9%	8.0%	8.0%
Surplus/(Deficit)	1,023	1,087	1,895	1,386	1,602
VNB margin (%)	16.2%	17.7%	18.7%	18.5%	18.5%
PAT	1,150	1,327	1,422	1,045	1,294
EPS (INR)	11.5	13.3	14.2	10.4	12.9
EVPS (INR)	190.7	224.1	262.9	303.4	356.5
RoEV (%)	17.9%	17.4%	20.4%	17.6%	17.2%
RoE (%)	19.0%	18.8%	17.4%	11.2%	12.3%

Source: Company, KRChoksey Research

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SBI Life Insurance				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-20	774	996	BUY	Buy	More than 15%
24-Sep-20	833	996	BUY		
24-July-20	859	996	BUY	Accumulate	5% – 15%
06-May-20	731	867	BUY	Hold	0 – 5%
24-Jan-20	986	1,139	BUY	Reduce	-5% – 0
17-Oct-19	877	1,027	BUY	Sell	Less than – 5%
16-Sept-19	798	972	BUY		

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