

# SBI Life Insurance

BUY

CMP Rs781

Target 1,006

Upside 29%

## Key highlights of Q2 FY21 performance

- ✓ **NBP** – NBP was at Rs59bn and registered a growth of 27%, which was better than our forecast of 18%. The growth was led by a sharp 71% jump in single premium while First year premium registered a de-growth of 9%.
- ✓ **APE** – APE at Rs27bn was higher than our estimates of Rs26bn. APE de-grew by 3.6% yoy and grew by 113%qoq. The de-growth was led by 20% decline in par business, 25% fall Non-Par business and 13% fall in ULIP, however the de-growth was offset by 58% jump in individual protection business and 95% yoy surge in group business.
- ✓ **APE Mix** – Share of Protection surged 274bps and that of group business increased by 766 bps. This was offset by decline of 182bps, 253bps and 641 bps in share of Par, Non-Par and ULIPs respectively.
- ✓ **VNB & VNB Margin** – Q2 FY21 VNB at Rs5.4bn was 4% lower than our forecasts of Rs5.6bn, while VNB margin at 19.9% was below our estimates of 21.7%. On a yoy basis VNB margins contracted by 36bps.
- ✓ **Persistency improvement** – Sequentially, persistency except for 61st Month improved across all time periods. On a yoy basis only 49th month persistency saw a decline.
- ✓ **Opex and commission ratios** – Cost ratios have improved significantly with commission ratios falling 75bps yoy whereas Opex ratio improved by 141bps yoy to 4.6%
- ✓ **EV** – EV improved by Rs49bn (19%) to Rs312bn from March 2020.
- ✓ **Profits** - PAT came at Rs3bn lower than our expectation of Rs3.8bn due to higher than expected benefits paid.

## Q2 FY21 result, a mix bag of performance, attractively priced at FY22E P/EV of 2.1x, Retain BUY

We remain positive on SBI Life with consistent performance on the protection business and revival in the ULIP business. It continues to focus on extracting more from its bancassurance and agency channels. Limited presence on the online platforms, however, is a dampener. The stock trades at FY22E P/EV of 2.1x, which we find attractive. We maintain our estimates and recommend BUY with a 1-year price target of Rs1,006.

### Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY19	FY20E	FY21E	FY22E
Net premium income	328,904	403,240	442,415	494,459
% yoy	30.7%	22.6%	9.7%	11.8%
VNB	17,190	20,100	18,804	23,221
VNB Margin	17.7%	18.7%	20.0%	21.5%
Reported PAT	13,268	14,222	16,241	17,140
% yoy	15.3%	7.2%	14.2%	5.5%
EPS (Rs)	13.3	14.2	16.2	17.1
Emb Val/Share (Rs)	224.0	262.7	308.5	362.4
P/EV (x)	3.5	3.0	2.5	2.1
P/VNB (x)	45.4	38.9	41.5	33.6
RoEV (%)	17.4%	20.4%	17.4%	18.5%
BVPS (Rs)	74.6	88.8	105.1	119.1

Source: Company, YES Sec – Research

#### PRAYESH JAIN

Lead Analyst

prayesh.jain@ysil.in

+91 98218 04046



#### URMILA BOHRA, Associate

urmila.bohra@ysil.in

#### AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

- ✓ **Channel Mix** – Mix of other channel increased by 694bps on YoY basis. On QoQ basis, share of banca improved by 823bps.

## MANAGEMENT Commentary

### ✓ **Product mix**

- Non-par:
  - Towards beginning of year were selling existing guaranteed products but it has bearing on long term business, repriced the product with lower guarantees and therefore sales remained subdued during the quarter. Conscious view on guarantee products. Entering into FRA agreements soon with banks.
  - Currently Non Par savings are more attractive among customers compared to Par products.
- Protection:
  - Growth in Term Protect mainly on back of volume growth.
  - Credit protect has seen traction and reached last year level.
  - In terms of new business, Credit protect Rs.3.3bn for H1FY20 and H1FY21, GTI at Rs4.9bn in H1FY21 v/s Rs.2bn in H1FY20.
  - Share of Pure protection is 15% and 85% ROP, the mix has largely remained the same. Margins are largely good for both the products.
  - Expect individual protection to continue the growth trajectory.
  - Ticket size of Individual protection remains at Rs. 18,000 to Rs. 20,000
- ULIP:
  - ULIP sales have seen an uptick and confident that it shall have healthy share in business mix. Ticket size has increased compared to last year.
  - In ULIP, customer preference is towards debt investment. (ULIP AUM mix - Debt 63%, equity in 27%)
  - Group savings: Declared rates are higher than LIC and leading to growth of Group savings, in last few years the product has remained profitable. Rates for product with advance rates are already reduced and for the other product shall revise the rate on 31<sup>st</sup> March.

### ✓ **Distribution**

- Yono covered 4lac lives (Small Proportion in terms of Premium collected as ticket size is smaller). Yono showed 58% growth in terms of Individual premium.
- Network of 154,158 agents as on Sept 2020
- To widen reach, tied up with Yes bank during Q2FY21
- Agency and Banca showing a positive trend on MoM basis. Trend is expected to continue however growth may not remain this steep.
- Increasing Super Turbo after 4years in selected geographies where additional growth potential is seen, cities such as Mumbai and Delhi.
- Average productivity of agents has gone down due to new agents yet to contribute business on back of Covid. therefore, Q3 FY21 shall be really good.
- Indian Bank, Punjab & Sind bank and South Indian Bank are driving the increase in share of other channel. (Only share of SBI disclosed under Banca channel)
- Lot of efforts needed to be visible on web aggregators. Not very focused on that channel as don't want to go beyond any regulatory norms.

- Developing a digital platform of own.
- ✓ **VNB and VNB Margin**
  - Operating assumption in VNB of Rs. 0.5bn, risk margin kept because of Covid and no assumption changed during the quarter.
  - Lower impact of Term reinsurance rate hike as the sum assured is small in size.
  - Increase in margin due to growth in Protection business has compensated for contraction in margin due to increase in ULIP business.
  - Term price hike not taken. Yet to receive the regulatory approval for repriced product.
  - No significant change in product margins in last few quarters.
  - Individual +Group protection contributes to 26% of H1FY21 VNB.
- ✓ **Cost**
  - Business model ensures lower Opex and expect the same to continue. It will remain competitive.
  - However, there could be slight increase in opex with economy opening up.
- ✓ **EV and Sensitivity**
  - Change in Interest rate sensitivity is due to change in product mix.
  - Dynamic pricing strategic and focus on ALM to bring down the sensitivity of reference rate.
- ✓ **Others**
  - Significant improvement in Renewal with use of Data Analytics.
  - Improvement in Solvency – Increase is due to Market improvement.
  - The impact of ETR shall be dependent on the business mix. (Different tax impact on each product)

## Exhibit 2: Result Table

Rs mn	Q2 FY21	Q2 FY20	% yoy	Q1 FY21	% qoq	Q2FY21E
Gross premium	130,897	102,434	27.8%	76,434	71.3%	110,682
Net premium	128,580	101,115	27.2%	75,881	69.4%	109,881
NBP	59,397	46,621	27.4%	30,586	94.2%	55,061
Renewal premium	71,499	55,813	28.1%	45,849	55.9%	55,621
APE	27,100	28,100	-3.6%	12,700	113.4%	25,967
Ind APE	23,000	26,000	-11.5%	10,200	125.5%	
Commission ratio	3.3%	4.0%	-75bps	3.1%	21bps	3.1%
Opex ratio	4.6%	6.0%	-141bps	7.1%	-251bps	5.7%
Surplus/(Deficit)	3,931	3,489	12.7%	6,098	-35.5%	6,341
APAT	2,997	1,298	130.8%	3,909	-23.3%	3,835
VNB	5,400	5,700	-5.3%	2,600	107.7%	5,632
VNB Margin	19.9%	20.3%	-36bps	20.5%	-55bps	21.7%
<b>APE Mix</b>						
Par	2,400	3,000	-20.0%	1,100	118.2%	
Non par	2,400	3,200	-25.0%	2,300	4.3%	
ULIP	16,200	18,600	-12.9%	6,100	165.6%	
Individual Protection	1,900	1,200	58.3%	700	171.4%	
Group	4,100	2,100	95.2%	2,500	64.0%	
<b>Total APE</b>	<b>27,100</b>	<b>28,100</b>	<b>-3.6%</b>	<b>12,700</b>	<b>113.4%</b>	
<b>APE Mix</b>						
Par	8.9%	10.7%	-182bps	8.7%	19bps	
Non par	8.9%	11.4%	-253bps	18.1%	-925bps	
ULIP	59.8%	66.2%	-641bps	48.0%	1175bps	
Individual Protection	7.0%	4.3%	274bps	5.5%	150bps	
Total individual	84.5%	92.5%	-802bps	80.3%	419bps	
Group	15.1%	7.5%	766bps	19.7%	-456bps	
<b>Total APE</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0bps</b>	<b>100.0%</b>	<b>0bps</b>	
<b>Distribution mix</b>						
Banca	17,200	18,800	-8.5%	7,100	142.3%	
Agency	6,100	7,400	-17.6%	3,400	79.4%	
Others	3,700	1,900	94.7%	2,300	60.9%	
	27,000	28,100		12,800		
<b>Distribution mix</b>						
Banca	64%	67%	-320bps	55%	823bps	
Agency	23%	26%	-374bps	27%	-397bps	
Others	14%	7%	694bps	18%	-427bps	
<b>Persistency</b>						
13 month	84.8%	83.1%	170bps	81.6%	328bps	
61 month	60.3%	59.6%	77bps	63.1%	-282bps	
Income from investments	55,904	26,235	113.1%	85,828	-34.9%	35,000

Source: Company, YES Sec – Research

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Prayesh Jain, Urmila Bohra

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

**Registered Address:** Unit No. 602 A, 6th Floor, Tower 1 & 2,  
One International Center, Senapati Bapat Marg, Elphinstone Road,  
Mumbai - 400013, Maharashtra, India  
Email: [research@ysil.in](mailto:research@ysil.in) | Website: <https://yesinvest.in>

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single  
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member  
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |  
MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:  
INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and  
Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI  
Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338 |

**Details of Compliance Officer:** Vaibhav Purohit (For Broking / Research /  
Investment Adviser): Email: [compliance@ysil.in](mailto:compliance@ysil.in) /  
Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking):  
Email: [dhanraj.uchil@ysil.in](mailto:dhanraj.uchil@ysil.in) / Contact No.: 022-33479684

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value-added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.