

BUY

Strong quarter; reiterate BUY

- SBILIFE reported a 28% YoY increase in GWP to Rs. 130.9bn in Q2FY21 driven by strong renewal premium and single premium, which grew 28% and 71% respectively to Rs 71.5bn and Rs 36.2bn. APE declined 3.5% YoY to Rs. 27.1bn but more than doubled sequentially. The savings APE declined 9.2% to Rs. 23.7bn while the protection APE grew 70% to Rs. 3.4bn. We expect SBILIFE's APE growth to be on par with the industry's.
- Individual savings APE declined 15% YoY to Rs. 21.1bn and comprise of 78% of the overall mix (Q2FY20: 88% Q1FY21: 75%). Although ULIP APE continued to decline (-13% YoY), the product has seen some recovery visible in the strong sequential performance which is aided by the larger share of debt. Par and non-par also declined 17% and 25% YoY respectively in Q2FY21. We expect retail savings to decline 5-10% in FY21.
- Protection APE mix remained flat sequentially at 12% in Q2FY21 but improved YoY (7% in Q2FY20). Growth in this segment was driven largely by retail protection which grew by 55%. Credit protect APE growth was flat but better than peers who have seen a decline in this segment. We expect overall protection growth to be 35-40% in FY21 and the protection mix to be ~12%.
- VNB margin increased to 18.7% (Q2FY20: 18.4% Q1FY21: 18.7%) mainly due to improving business mix but was offset by a changes in operating assumptions and economic variances. As a result, VNB was marginally down by 1% YoY to Rs. 5.1bn.
- Given the slower pickup in the savings business, and conservative push in the non-par guaranteed business, we revise our target price from Rs 1189 to Rs 1018 implying a FY22 P/EV 2.7x and maintain our "BUY" recommendation.**

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Premium					
Gross written premium	130,897	102,434	27.8	76,434	71.3
New business premium (NBP)	59,397	46,621	27.4	30,586	(30.1)
Annual premium equivalent	27,100	28,100	(3.6)	12,700	(34.9)
-Savings	23,700	26,100	(9.2)	11,100	(33.8)
-Protection	3,400	2,000	70.0	1,600	(41.6)
Expenses					
Management Expenses	7.7	9.9	(2.2)	10.1	(2.4)
Cost ratio (Cost/TWRP)	7.8	10.0	(2.2)	10.2	(2.4)
Commission ratio (%)	3.2	4.0	(0.8)	3.1	0.1
Operating expense ratio (%)	4.5	5.9	(1.4)	7.0	(2.5)
Profitability					
Value of new business (VNB)	5,130	5,180	(1.0)	2,370	116.5
VNB margin (%)	18.9	18.4	0.5	18.7	0.2

CMP	Rs 779
Target / Upside	Rs 1,018 / 31%
NIFTY	11,930

Scrip Details

Equity / FV	Rs mn / Rs 10
Market Cap	Rs 779bn
	USD 11bn
52-week High/Low	Rs 1,030/ 519
Avg. Volume (no)	1,520,770
Bloom Code	SBILIFE IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	(10)	(21)
Rel to NIFTY (%)	(4)	(11)	(18)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	62.8	60.7	60.7
MF/Banks/FIs	5.7	7.0	7.1
FIIIs	25.9	26.2	25.8
Public / Others	5.6	6.1	6.5

Valuation (x)

	FY21E	FY22E	FY23E
P/EV	2.6	2.3	2.0
VNB Margin	18.7	19.6	20.9
ROEV (%)	16.0	17.5	17.8
NBP multiple	31.1	25.4	22.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
APE	108,772	136,784	151,600
VNB	20,343	26,746	31,730
EV	296,793	339,595	389,902
EVOP	16.0	17.5	17.8

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Product mix

SBILIFE's heavy reliance on bancassurance channel leads to a higher mix of savings products. The current mix between savings and protection (on APE basis) stands at 88% vs 12% in H1FY21 vs 91% savings and 9% protection in FY20. The mix has skewed towards protection as the savings portfolio has declined. The management wishes to maintain a similar product mix going forward.

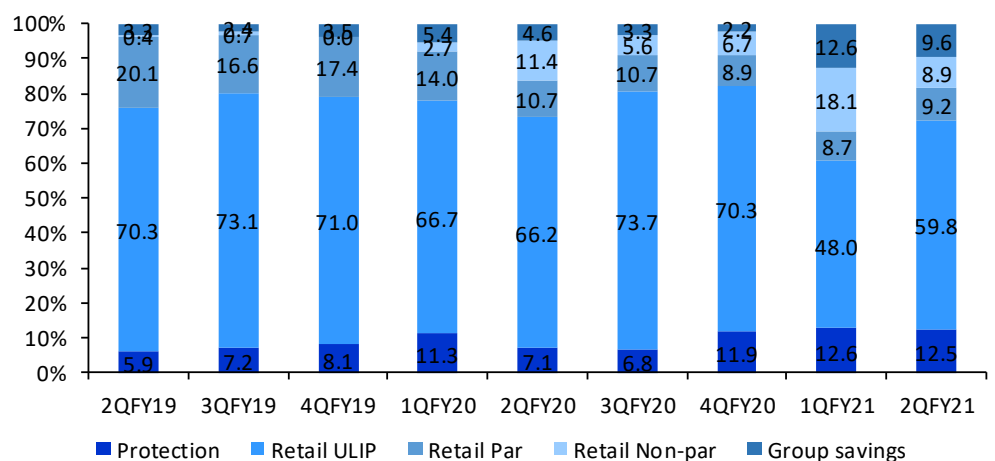
- Retail Par APE declined 17% YoY in Q2FY21 due to the roll back on the shorter duration products, preference for guaranteed return products and slower optimization of the agency channel. Unlike competitors, SBILIFE is not yet looking to push longer duration (30-40 years) products in this segment.
- Retail Non-par saw a growth in the annuity business. Strong performance in this segment in Q1FY21 was not matched as the product was repriced given the current interest rates. SBILIFE remains cautious in this product segment.
- Retail Protection remains largely dominated by the ROP (return of premium) variant vs a pure vanilla term product. This variant has a lesser margin and comprises of ~85% of the term protection mix. Growth in retail protection during the quarter was driven by higher number of policy sales vs ticket size increase. A new protection product with added features and revised pricing has been filed with IRDA.
- ULIPs saw a sequential improvement as the rate of de-growth improved. The pick-up for ULIPs was driven by SBI channel.

Exhibit 1: APE growth was flat YoY with protection growth a positive

Particulars	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
APE	23,900	29,000	31,000	18,600	28,100	33,800	26,900	12,700	27,100
Protection	1,400	2,100	2,500	2,100	2,000	2,300	3,200	1,600	3,400
Individual protection	800	1,100	1,600	1,100	1,200	700	2,100	700	1,900
Group protection	600	1,000	900	1,000	800	1,600	1,100	900	1,500
Savings	22,500	26,900	28,500	16,500	26,100	31,500	23,700	11,100	23,700
Individual Savings	21,700	26,200	27,400	15,500	24,800	30,400	23,100	9,500	21,100
ULIP	16,800	21,200	22,000	12,400	18,600	24,900	18,900	6,100	16,200
Par	4,800	4,800	5,400	2,600	3,000	3,600	2,400	1,100	2,500
Non-Par	100	200	0	500	3,200	1,900	1,800	2,300	2,400
Group savings	800	700	1,100	1,000	1,300	1,100	600	1,600	2,600

Source: DART, Company

Exhibit 2: Protection mix increasing while savings decreasing

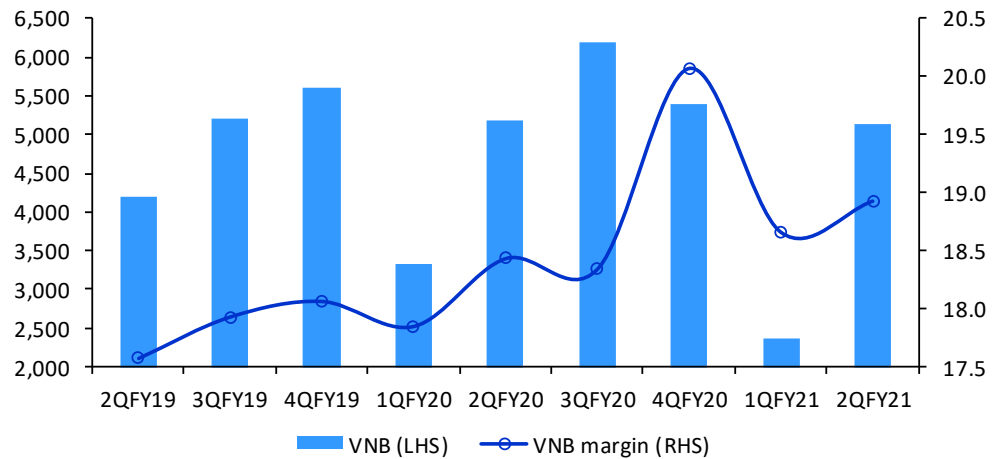


Source: DART, Company

Margins

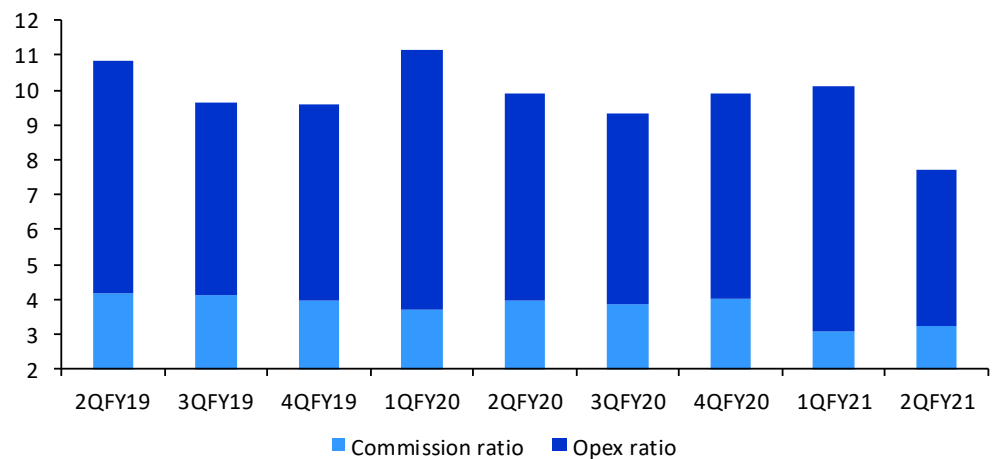
VNB margins were a positive as the margin remained stable despite the company not passing through the complete re-insurance price hike and the mix of ULIPs (lower margin products) increasing sequentially. One of the levers for the stable margins was the control in costs, as opex ratio declined significantly. The cost ratios continue to improve; however, we do not see further headroom for improvement.

Exhibit 3: VNB margin stable



Source: DART, Company

Exhibit 4: Cost ratio well managed, not much further headroom to improve (%)

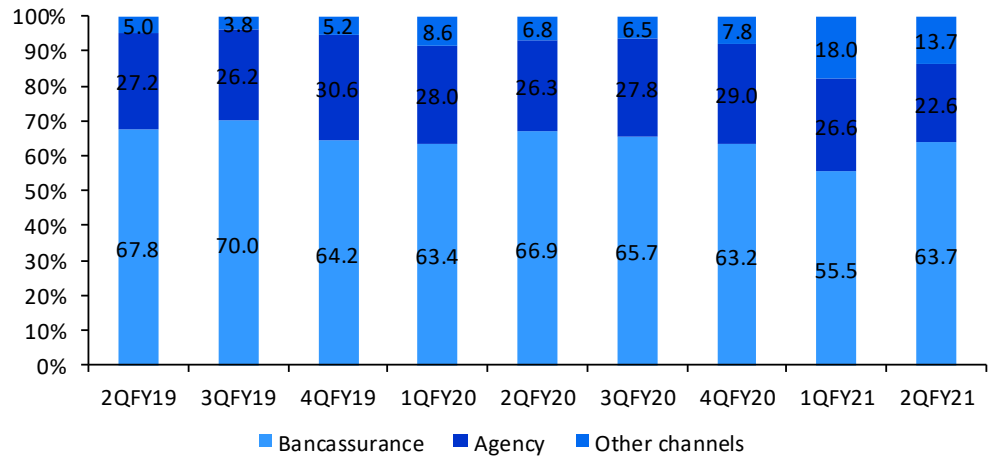


Source: DART, Company

Distribution mix

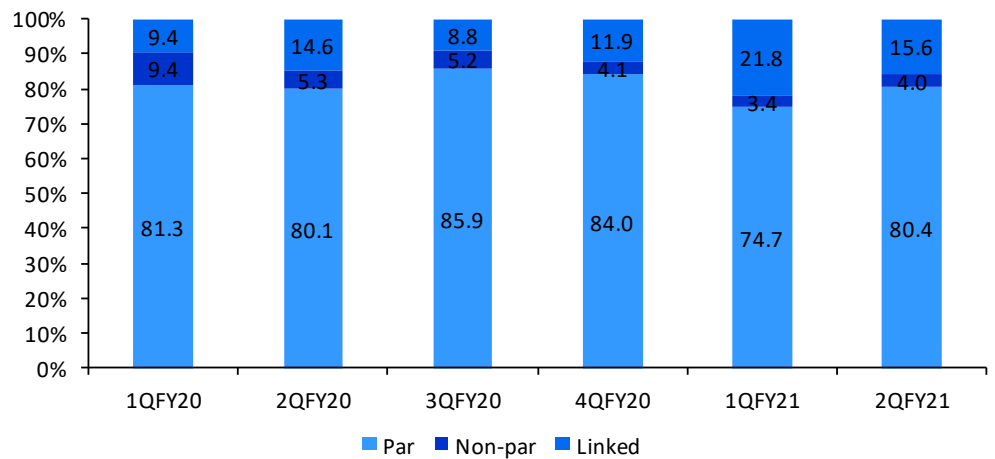
Both the bancassurance (SBI) and the agency channel saw a pick-up during the quarter as against Q1FY21. Bancassurance continues to dominate the mix with a share of 64% on an APE basis. Heavy reliance on this channel has lent to a more savings oriented business model. Currently, 3-4 branches are managed by 1 employee. We do not see any material changes in the distribution mix.

Exhibit 5: Bancassurance continues to be the dominant channel



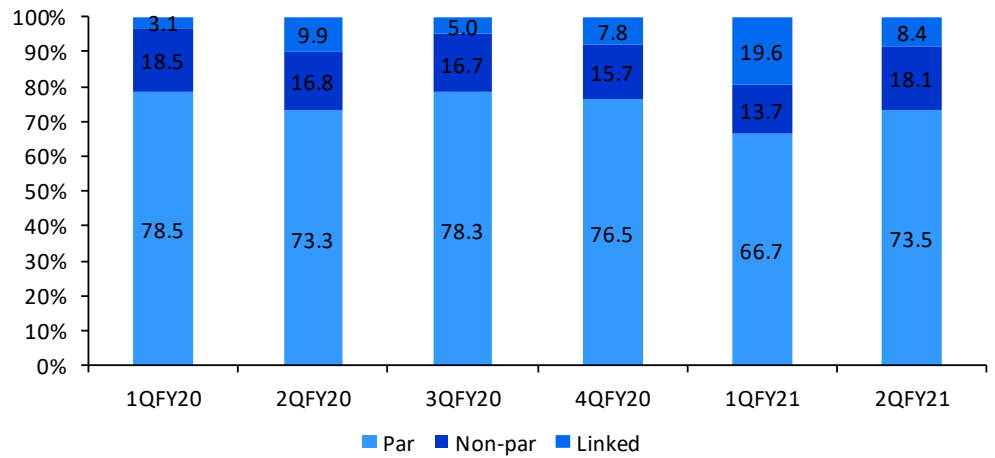
Source: DART, Company

Exhibit 6: Par and linked products are the dominant products in the bancassurance channel



Source: DART, Company

Exhibit 7: Agency channel product mix



Source: DART, Company

Exhibit 8: Change in estimates

	FY21			FY22			FY23		
	New	Old	% change	New	Old	% change	New	Old	% change
APE	108,772	85,267	27.6	136,784	109,036	25.4	151,600	131,201	15.5
Protection	13,299	12,989	2.4	17,498	16,355	7.0	21,224	19,680	7.8
Savings	95,473	72,278	32.1	119,286	92,681	28.7	130,376	111,521	16.9
Protection mix (%)	12.2	15.2	(3.0)	12.8	15.0	(2.2)	14.0	15.0	(1.0)
Savings mix (%)	87.8	84.8	3.0	87.2	85.0	2.2	86.0	85.0	1.0
VNB	20,343	16,870	20.6	26,746	21,674	23.4	31,730	27,117	17.0
VNB margin (%)	18.7	19.8	(1.1)	19.6	19.9	(0.3)	20.9	20.7	0.3

Source: DART

Profit and Loss Account

Particulars	FY20A	FY21E	FY22E	FY23E
Premium earned	406,347	511,162	603,184	691,958
Premium on reinsurance	(3,107)	(4,399)	(3,850)	(5,242)
Net premium earned	403,240	506,762	599,334	686,716
Investment income	33,417	194,759	111,277	134,284
Other income	526	506	603	692
Total income	437,183	702,027	711,214	821,692
Commission paid	15,921	17,278	21,152	23,966
Expenses	30,481	33,791	40,864	44,783
Tax on policyholders fund	3,767	3,133	3,456	3,348
Claims/benefits paid	162,509	213,712	239,734	274,686
Change in actuarial liability	210,369	416,425	385,957	452,412
Total Outgo	423,047	684,339	691,162	799,194
Profit before tax	14,136	17,689	20,052	22,498
Tax charge	(86)	507	1,003	1,125
Profit after tax	14,222	17,181	19,050	21,373

Balance Sheet

Particulars	FY20A	FY21E	FY22E	FY23E
Share capital	10,000	10,001	10,001	10,001
Reserve and surplus	78,839	104,291	132,512	164,173
Credit/[debit] fair value change account	(1,408)	876	876	876
Shareholders' funds	87,431	115,168	143,388	175,050
Borrowings	0	0	0	0
Credit/(debit) fair value change account	(15,872)	3,325	3,325	3,325
Revaluation reserve - Investment property	0	0	0	0
Total insurance reserves	1,546,883	1,952,526	2,327,457	2,768,294
Funds for future appropriations	7,137	17,919	28,945	40,520
Total	1,625,579	2,088,938	2,503,115	2,987,188
Application of funds				
Assets under management	1,588,132	2,062,268	2,511,769	3,026,806
Shareholders'	68,280	86,797	105,502	128,239
Policyholders'	734,199	944,769	1,148,268	1,369,268
Asset held to cover linked liabilities	785,653	1,011,033	1,205,621	1,451,217
Other assets	37,447	46,339	43,724	38,464
TOTAL	1,625,579	2,108,607	2,555,493	3,065,271

E – Estimates

Embedded Value

Particulars	FY20A	FY21E	FY22E	FY23E
Opening EV	224,000	262,900	296,793	339,595
Unwind	20,100	21,032	23,743	27,168
VNB	19,000	20,343	26,746	31,730
Operating variances	5,600	789	1,484	1,698
EV Operating Profit	45,900	42,164	51,973	60,596
Economic variances	(7,100)	0	0	0
Capital injections/outflow	0	(8,271)	(9,170)	(10,289)
Closing EV	262,900	296,793	339,595	389,902

Key ratios

Particulars	FY20A	FY21E	FY22E	FY23E
APE growth	10.7	1.3	25.8	10.8
Savings APE growth	8.2	(2.4)	24.9	9.3
Protection APE growth	45.5	38.5	31.6	21.3
Business mix (APE basis)				
ULIP	69.6	59.7	62.5	61.9
Par	10.8	10.6	11.3	12.0
Non-par	6.9	9.9	8.7	10.3
Protection	8.9	12.2	12.8	14.0
Commission ratio	3.9	3.4	3.5	3.5
First year commission	8.6	8.7	8.6	8.7
Renewal premium commission	2.7	2.6	2.7	2.7
Single premium commission	1.4	1.1	1.4	1.3
Operating expense ratio	6.0	5.6	5.9	5.8
Management expense ratio	9.9	9.0	9.4	9.3
Cost to TWRP	10.1	8.7	9.0	8.6
VNB	19,000	20,343	26,746	31,730
VNB growth	17.3	7.1	31.5	18.6
VNB margin	18.7	18.7	19.6	20.9
RoEV	20.5	16.0	17.5	17.8

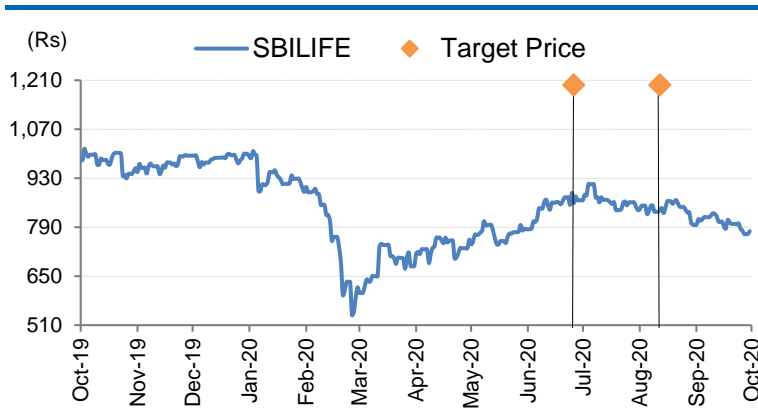
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Buy	1,197	859
Sep-20	Buy	1,197	838

*Price as on recommendation date

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