

October 27, 2020

## Q2FY21 Result Update

### Key Financials

Y/e March	FY20	FY21E	FY22E	FY23E
Net Premiums (Rs m)	4,03,240	4,47,257	5,07,619	5,75,957
- Growth (%)	22.6	10.9	13.5	13.5
Total Income (Rs mn)	4,38,428	6,19,535	7,17,802	8,30,574
Surplus / Deficit (Rs m)	18,948	15,966	18,831	21,774
PAT (Rs m)	14,222	14,965	17,449	21,450
- Growth (%)	7.2	5.2	16.6	22.9
EPS (Rs)	14.2	15.0	17.4	21.5
Emb. Value (Rs bn)	262.9	311.1	364.4	422.6
NBP Margin (%) post overrun	18.7	19.2	19.8	20.1
RoE (%)	17.4	13.7	15.0	17.2
Operating RoEV (%)	20.5	16.1	16.0	15.8
RoEV (%)	17.4	18.3	17.1	15.9
Dividend yield (%)	-	0.2	0.2	0.2
Price/EV (x)	3.0	2.5	2.1	1.8
Ap. Value/EV (x)	2.6	2.5	2.4	2.3

### Key Data

SBIL.BO | SBILIFE IN

52-W High / Low	Rs. 520 / Rs. 1,030
Sensex / Nifty	40,146 / 11,768
Market Cap	Rs. 778.89bn/ \$ 10,546.9 m
Shares Outstanding	1,000 m
3M Avg. Daily Value	Rs.1,275.1 m

### Shareholding Pattern (%)

Promoter's	60.70
Foreign	25.75
Domestic Institution	7.05
Public & Others	6.51
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.3)	13.5	(21.6)
Relative	(11.2)	(16.8)	(24.6)

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## Recovery in growth with right business mix

### Quick Pointers:

- Margins (using actual tax basis) were steady at 18.8% in Q2FY21/H1FY21
- Strong recovery in GWP led by protection & group savings

**SBI Life delivered 28% YoY growth in GWP mainly from renewal & single premium, while some recovery in regular premiums. This has led to APE recovery with de-growth of -4%/-15% YoY in Q2/H1FY21 vis-à-vis -32% YoY de-growth in Q1FY21. New business was driven by group savings, protection and recovery in ULIP. This change in business mix kept the margins steady at 18.8% (PLe of 19.6%) as recovery in ULIP offset the protection margin benefit. Improving protection mix and other higher margin products will help it deliver margins of 19-20% by FY22-23E and see strong recovery in business momentum. With the recent underperformance, SBI Life trades at 1.8x Sep P/EV which is quite attractive, hence we upgrade the stock to BUY (from Accumulate) with retained TP of Rs920 based on 2.3x Sep-22 P/EV.**

- **Growth recovery quite strong:** GWP saw strong recovery growing 27% YoY/95% QoQ v/s -3% YoY decline in Q1FY21 and was led from new business and renewal premium both growing by 28%. Overall APE though still remains in negative terrain de-growing 3% YoY in Q2FY21 and 15% in H1FY21 but has recovered quite strongly on sequential basis. New business was driven by group segment clocking a 1x growth YoY, but protection growth and recovery in ULIP also helped while Par/Non-Par savings took backseat in growth. We build-in a flattish recovery in APE for FY21 and 16-18% growth over FY22-23E with continued traction in protection and recovery in other savings segments.
- **Margins have remained steady:** VNB margins (on actual tax) remained steady at 18.8% in Q2FY21/H1FY21 v/s Q1FY21 as recovery in ULIP biz & higher group savings offset benefits from protection. Although inherently, margin traction is genetically slower for SBIL due to the build of products which are lower risk based and hence lower delta on margins vis-à-vis peers, in our view. Margins have also benefitted in protection from the lower re-insurance cost in the ROP products and price impact has been negligible. We expect, margin traction will pick up as business volume recovers going ahead.
- **Banca channel helps recover growth:** Growth in NB & APE was driven by banca channel led by better productivity, while agency channel has yet to pick up. Cost ratios have benefitted with non-commission opex being benign but certain costs should not sustain and recover back in H2FY21.
- **Recent sharp underperformance has led us to Upgrade to BUY:** We should see recovering business momentum of 12-13% and better margin products drive VNB growth of 14% over FY21-FY23 with much sharper recovery from FY22E onwards. With the recent underperformance, SBIL trades at quite attractive valuation of 1.8x Sep-22 P/EV post the recent price correction, leading us to upgrade to BUY with TP of Rs920 based on 2.3x Sep-22 P/EV.

**Exhibit 1: Strong premium and investment income on shareholders help earnings**

(Rs m)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)
<b>Policyholders' Account</b>					
Gross Premium Income	130,897	102,434	27.8	76,434	71.3
Net Premium Income	128,580	101,115	27.2	75,881	69.4
Income from Investment (Net)	55,904	26,235	113.1	85,828	(34.9)
<b>Total (A)</b>	<b>184,583</b>	<b>127,454</b>	<b>44.8</b>	<b>161,781</b>	<b>14.1</b>
Net Commission	4,229	4,082	3.6	2,254	87.7
Opex related to Insurance	5,882	6,054	(2.8)	5,461	7.7
Benefits Paid (Net)	64,263	32,540	97.5	28,528	125.3
Change in actuarial liability	105,492	79,036	33.5	116,921	(9.8)
<b>Total (B)</b>	<b>180,652</b>	<b>123,965</b>	<b>45.7</b>	<b>155,683</b>	<b>16.0</b>
<b>Surplus / (Deficit)</b>	<b>3,931</b>	<b>3,489</b>	<b>12.6</b>	<b>6,098</b>	<b>(35.5)</b>
<b>Shareholders' Account</b>					
Trf from Policyholders A/c	1,133	555	104.2	2,822	(59.8)
Investment Income	1,918	1,429	34.2	949	102.1
<b>Total</b>	<b>3,067</b>	<b>1,999</b>	<b>53.4</b>	<b>3,787</b>	<b>(19.0)</b>
Non Insurance Expenses	84	104	(19.1)	95	(11.9)
Trf to Policyholders A/c	-	-	NA	-	NA
<b>Profit/(Loss) before Tax</b>	<b>2,996</b>	<b>1,192</b>	<b>151.3</b>	<b>3,877</b>	<b>(22.7)</b>
Provision for Taxation	(2)	(106)	(98.5)	(32)	(95.0)
<b>Profit/(Loss) after Tax</b>	<b>2,997</b>	<b>1,298</b>	<b>130.8</b>	<b>3,909</b>	<b>(23.3)</b>
<b>Ratios</b>					
Expense Ratio	4.5	5.9	(142)	7.1	(265)
Commission Ratio	3.2	4.0	(75)	2.9	28
Cost / TWRP	7.7	9.9	(217)	10.1	(237)

Source: Company, PL

**Exhibit 2: Strong growth in group APE; protection growth has been strong as well**

Rs Mn	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
<b>New Business APE</b>	<b>27,100</b>	<b>28,100</b>	<b>(3.6)</b>	<b>12,700</b>	<b>113.4</b>	<b>39,800</b>	<b>46,700</b>	<b>(14.8)</b>
Individual	22,700	25,600	(11.3)	10,500	116.2	33,200	41,800	(20.6)
Group	4,400	2,500	76.0	2,200	100.0	6,600	4,900	34.7
<b>Total New Business</b>	<b>59,397</b>	<b>46,621</b>	<b>27.4</b>	<b>30,586</b>	<b>94.2</b>	<b>89,983</b>	<b>78,166</b>	<b>15.1</b>
Savings	53,197	41,721	27.5	27,686	92.1	80,883	68,866	17.5
Protection	6,200	4,900	26.5	2,900	113.8	9,100	9,300	(2.2)
<b>%</b>								
Savings	89.6	89.5	7	90.5	(96)	89.9	88.1	178
Protection	10.4	10.5	(7)	9.5	96	10.1	11.9	(178)
VNB	5,100	5,200	(1.9)	2,400	112.5	7,500	8,500	(11.8)
<b>VNB Margin (%)</b>	<b>18.8</b>	<b>18.5</b>	<b>31.4</b>	<b>18.7</b>	<b>11.9</b>	<b>18.8</b>	<b>18.1</b>	<b>70.0</b>

Source: Company, PL

**Exhibit 3: Strong growth in renewal business**

Rs Mn	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Retail New Business	28,700	29,800	(3.7)	13,400	114.2	42,100	48,500	(13.2)
Group New Business	30,697	16,821	82.5	17,186	78.6	47,883	29,666	61.4
Renewal Premium	71,499	55,813	28.1	45,849	55.9	117,348	91,213	28.7
<b>Gross Written Premium</b>	<b>130,897</b>	<b>102,434</b>	<b>27.8</b>	<b>76,434</b>	<b>71.3</b>	<b>207,331</b>	<b>169,379</b>	<b>22.4</b>

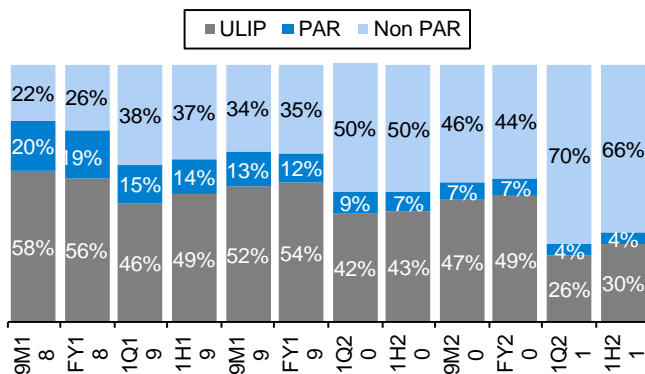
Source: Company, PL

**Exhibit 4: Individual Protection & ULIP up: growth subdued in Non Par**

Total NB Product Mix	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
<b>Rs Mn</b>								
<b>Individual Savings</b>	<b>26,800</b>	<b>28,500</b>	<b>(6.0)</b>	<b>12,600</b>	<b>112.7</b>	<b>39,400</b>	<b>46,100</b>	<b>(14.5)</b>
PAR	2,400	3,000	(20.0)	1,300	84.6	3,700	5,700	(35.1)
Non PAR	5,000	5,400	(7.4)	3,500	42.9	8,500	7,100	19.7
ULIP	19,400	20,100	(3.5)	7,800	148.7	27,200	33,300	(18.3)
<b>Group Savings</b>	<b>26,500</b>	<b>13,200</b>	<b>100.8</b>	<b>15,000</b>	<b>76.7</b>	<b>41,500</b>	<b>22,800</b>	<b>82.0</b>
<b>Protection</b>	<b>6,200</b>	<b>4,900</b>	<b>26.5</b>	<b>2,900</b>	<b>113.8</b>	<b>9,100</b>	<b>9,300</b>	<b>(2.2)</b>
<b>(%)</b>								
<b>Individual Savings</b>	<b>45.0</b>	<b>61.2</b>	<b>(1,612)</b>	<b>41.3</b>	<b>373</b>	<b>43.8</b>	<b>59.0</b>	<b>(1,517)</b>
PAR	4.0	6.4	(240)	4.3	(23)	4.1	7.3	(318)
Non PAR	8.4	11.6	(318)	11.5	(307)	9.4	9.1	37
ULIP	32.6	43.1	(1,053)	25.6	703	30.2	42.6	(1,236)
<b>Group Savings</b>	<b>44.5</b>	<b>28.3</b>	<b>1,621</b>	<b>49.2</b>	<b>(464)</b>	<b>46.1</b>	<b>29.2</b>	<b>1,696</b>
<b>Protection</b>	<b>10.4</b>	<b>10.5</b>	<b>(9)</b>	<b>9.5</b>	<b>91</b>	<b>10.1</b>	<b>11.9</b>	<b>(178)</b>

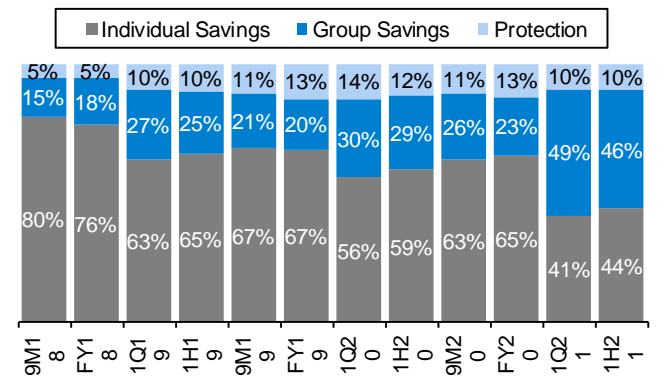
Source: Company, PL

**Exhibit 5: Total NB Product Mix – ULIP recovers with PAR on back seat in Q2FY21/1H21**



Source: Company, PL

**Exhibit 6: Total NB Product Mix – Strong change in group business**



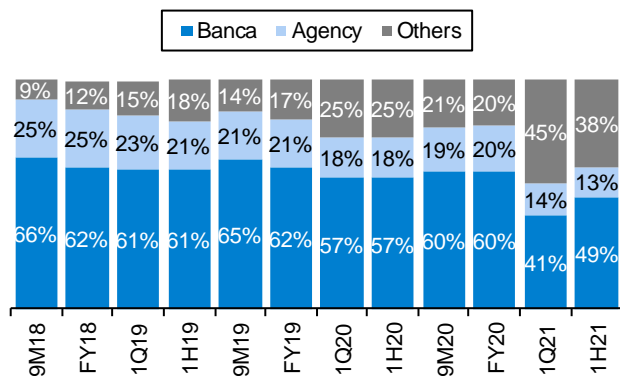
Source: Company, PL

**Exhibit 7: Agency channel productivity has suffered due to non-activity during the pandemic**

Rs Mn	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
<b>Total NB Sourcing Mix Breakup</b>								
Banca	31,560	26,593	18.7	12,540	151.7	44,100	44,574	(1.1)
Agency	7,418	8,398	(11.7)	4,282	73.2	11,700	14,076	(16.9)
Others	20,436	11,664	75.2	13,764	48.5	34,200	19,550	74.9
<b>Indv APE Sourcing Mix Breakup</b>								
Banca	15,402	17,826	(13.6)	6,510	136.6	21,912	28,842	(24.0)
Agency	5,831	7,262	(19.7)	3,465	68.3	9,296	12,122	(23.3)
Others	1,467	350	319.1	525	179.4	1,992	836	138.3

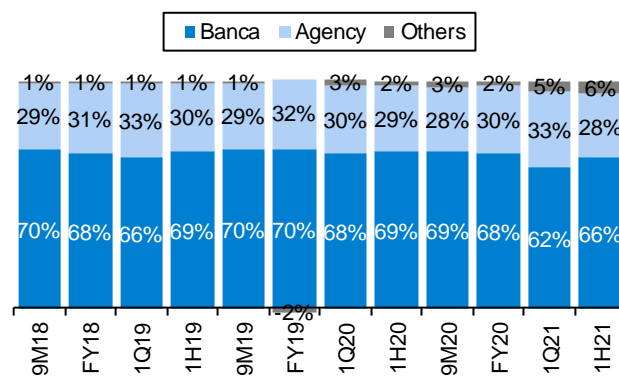
Source: Company, PL

**Exhibit 8: Banca has shown sharp recovery....**



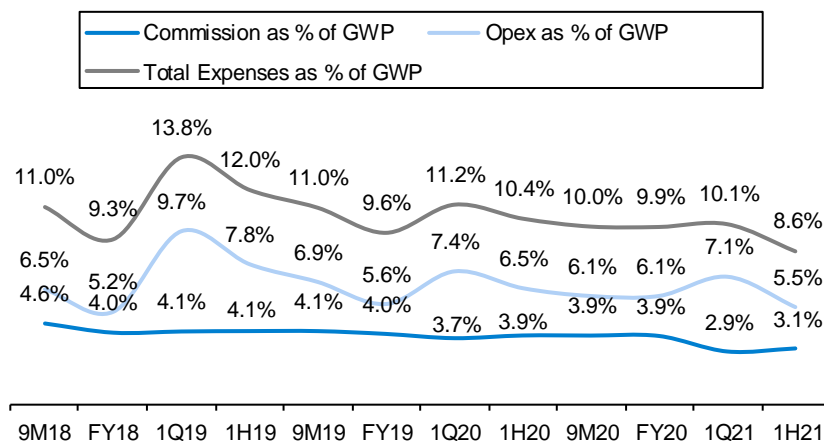
Source: Company, PL

**Exhibit 9: .... similarly, on Individual basis has increased**



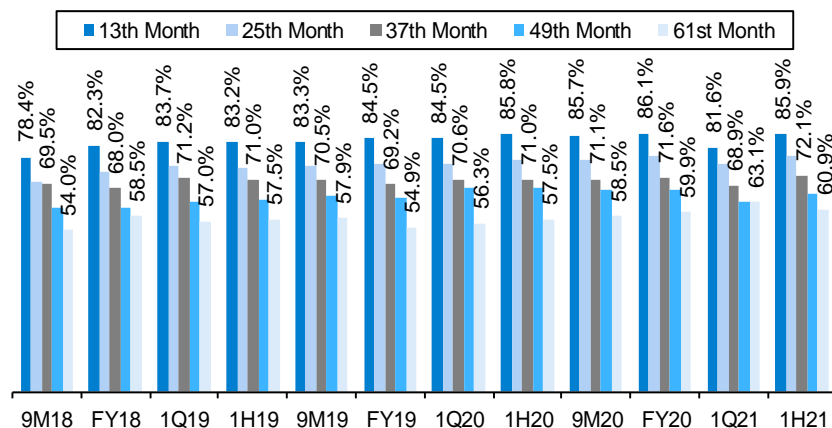
Source: Company, PL

**Exhibit 10: Lower business volumes help costs especially non-commission**



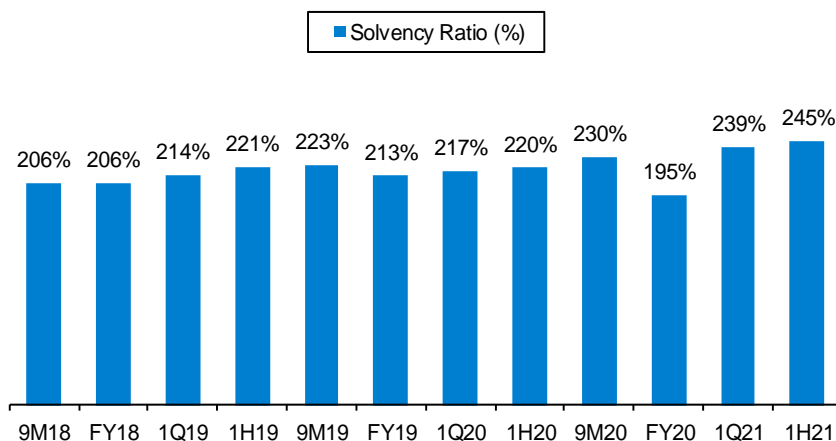
Source: Company, PL

**Exhibit 11: Persistency improves across except 49m which has been nominally up from FY20**



Source: Company, PL

**Exhibit 12: Solvency Ratio spikes up as markets improve**



Source: Company, PL

**Exhibit 13: Change in Estimates – We adjust APE growth marginally lower for FY21**

(Rs bn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22	FY23E	FY21E	FY21E	FY22E
APE	107.9	125.0	145.0	105.3	125.0	145.1	(2.4)	-	0.1
VNB	20.6	24.7	28.7	20.2	24.7	29.2	(2.0)	-	1.7
VNB Margin (%)	19.1	19.8	19.8	19.2	19.8	20.1	0.1	-	0.3
EV	311.6	364.9	422.9	311.1	364.4	422.6	(0.1)	(0.1)	(0.1)
Price target (Rs)	920			920			0		
Recommendation	Accumulate			BUY					

Source: PL

Drop in solvency on back of fall in capital markets which has been similar to peers

**Exhibit 14: We maintain our TP at Rs 920 based on 2.3x P/EV Sep-22E**

<b>PT calculation and upside</b>	
Op RoEV	16.0%
CoE	14.1%
Terminal Growth	5.0%
<b>Embedded value</b>	<b>394</b>
<b>Price / Embedded value</b>	<b>2.3</b>
<b>Appraisal Value</b>	<b>920</b>
Number of shares, mn	1,000
<b>Valuation per share</b>	<b>920</b>
<b>CMP</b>	<b>779</b>
<i>Upside (%)</i>	18.2%

Source: Company, PL

**Exhibit 15: Key Metrics and EV movement**

<b>Rs bn</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
<b>APE</b>	<b>85.4</b>	<b>97.0</b>	<b>107.4</b>	<b>105.3</b>	<b>125.0</b>	<b>145.1</b>
<b>YoY growth (%)</b>	<b>26.9</b>	<b>13.6</b>	<b>10.7</b>	<b>(2.0)</b>	<b>18.7</b>	<b>16.1</b>
NBV	13.9	17.2	20.1	20.2	24.7	29.2
YoY growth (%)	33.6	24.1	17.0	0.6	22.3	18.0
<b>EV Movement</b>						
Opening IEV	165.4	190.7	224.0	262.9	311.1	364.4
New Business Value	13.9	17.2	20.1	20.2	24.7	29.2
EVOP	29.5	33.2	45.9	42.2	49.9	57.7
Dividend pay-out	2.4	2.4	-	2.1	2.1	2.1
<b>Closing EV</b>	<b>190.7</b>	<b>224.0</b>	<b>262.9</b>	<b>311.1</b>	<b>364.4</b>	<b>422.6</b>
<i>Adjusted Net worth</i>	74.7	85.7	97.3	109.9	125.0	144.3
<i>Value in force (VIF)</i>	116.0	138.4	165.6	201.2	239.5	278.2
<b>Ratios (%)</b>						
NBAP margins	16.2	17.7	18.7	19.2	19.8	20.1
RoEV	15.3	17.5	17.4	18.3	17.1	15.9
Operating RoEV	17.9	17.4	20.5	16.1	16.0	15.8

Source: Company, PL



**Technical account (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross Premiums	4,06,347	4,50,373	5,11,137	5,79,915
Reinsurance Ceded	(3,107)	(3,116)	(3,518)	(3,958)
Net Premiums	4,03,240	4,47,257	5,07,619	5,75,957
Income from Investments	29,968	1,66,296	2,03,327	2,46,759
Other Income	5,220	5,982	6,856	7,858
<b>Total income</b>	<b>4,38,428</b>	<b>6,19,535</b>	<b>7,17,802</b>	<b>8,30,574</b>
Commission	16,249	15,850	17,971	20,394
Operating expenses	24,131	26,905	30,532	34,647
Prov for doubtful debts	7	-	-	-
<b>Operating Profit</b>	<b>3,98,042</b>	<b>5,76,779</b>	<b>6,69,299</b>	<b>7,75,533</b>
Prov for Tax	3,767	3,675	4,239	4,885
Benefits Paid (Net)	1,61,754	1,94,544	2,16,987	2,46,350
Chg in reserves	2,06,049	3,61,633	4,28,095	5,01,156
<b>Surplus / Deficit</b>	<b>18,948</b>	<b>15,966</b>	<b>18,831</b>	<b>21,774</b>

**Shareholder's a/c (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	14,627	15,966	18,831	21,774
Income From Investments	4,835	5,317	5,784	7,839
<b>Total Income</b>	<b>19,462</b>	<b>21,283</b>	<b>24,615</b>	<b>29,613</b>
Other expenses	732	555	555	555
Contribution to technical a/c	4,763	5,458	6,255	7,169
<b>Total Expenses</b>	<b>5,326</b>	<b>6,013</b>	<b>6,810</b>	<b>7,725</b>
<b>PBT</b>	<b>14,136</b>	<b>15,270</b>	<b>17,805</b>	<b>21,888</b>
Prov for Tax	(86)	305	356	438
<b>PAT</b>	<b>14,222</b>	<b>14,965</b>	<b>17,449</b>	<b>21,450</b>

**Premium (Rs m) & growth (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business prem - unwtd	1,65,925	1,69,243	1,96,322	2,25,771
New business prem - APE	1,05,052	1,05,273	1,24,993	1,45,084
Renewal premium	2,40,422	2,81,130	3,14,815	3,54,144
Total premium - unwtd	4,06,347	4,50,373	5,11,137	5,79,915
New bus. growth - unwtd	20.3	2.0	16.0	15.0
New business growth - APE	10.2	0.2	18.7	16.1
Renewal premium growth	25.2	16.9	12.0	12.5
Total prem growth - unwtd	23.2	10.8	13.5	13.5

**Premium mix (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>New business - unwtd</b>				
- Individual mix	67.8	64.0	67.0	68.0
- Group mix	32.2	36.0	33.0	32.0
<b>New business mix - APE</b>				
- Participating	10.9	14.3	14.0	13.9
- Non-participating	18.6	20.5	20.4	19.7
- ULIPs	70.5	65.2	65.6	66.4
<b>Total premium mix - unwtd</b>				
- Participating	18.3	24.9	24.7	24.6
- Non-participating	23.8	27.5	27.4	27.1
- ULIPs	57.9	47.6	47.9	48.3

Source: Company Data, PL Research

**Balance sheet (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Sources of Fund</b>				
Share Capital	10,000	10,000	10,000	10,000
Reserves And Surplus	78,839	91,703	1,07,052	1,26,402
Shareholders' Fund	87,431	1,00,042	1,15,092	1,34,442
Policy Liabilities	7,61,230	9,24,954	11,30,671	13,68,697
Prov. for Linked Liab.	7,63,007	9,26,391	11,48,770	14,11,899
Funds For Future App.	-	-	-	-
Current liabilities & prov.	30,223	35,663	42,082	42,082
<b>Total</b>	<b>16,55,802</b>	<b>19,95,044</b>	<b>24,46,047</b>	<b>29,66,553</b>
<b>Application of Funds</b>				
Shareholders' inv	68,279	56,819	79,277	1,05,172
Policyholders' inv	7,34,199	9,56,585	11,76,276	14,30,465
Assets to cover linked liab.	7,85,653	9,09,933	11,13,121	13,53,544
Loans	3,645	3,827	4,018	4,018
Fixed Assets	5,812	6,044	6,407	6,407
Current assets	58,213	61,835	66,947	66,947
<b>Total</b>	<b>16,55,802</b>	<b>19,95,044</b>	<b>24,46,047</b>	<b>29,66,553</b>

**Operating ratios**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Investment yield (%)	1.9	8.5	8.4	8.4
<b>Commissions / GWP</b>	<b>4.0</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>
- first year premiums	9.0	5.6	5.5	5.4
- renewal premiums	2.7	3.5	3.5	3.5
- single premiums	1.4	0.7	0.7	0.7
Operating expenses / GWP	5.9	6.0	6.0	6.0
<b>Total expense ratio</b>	<b>9.9</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>
Claims / NWP	40.1	43.5	42.7	42.8
Solvency margin	195.0	215.0	215.0	215.0

**Persistency ratios (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
13th Month	81.3	81.3	81.3	81.3
25th Month	74.3	74.3	74.3	74.3
37th Month	68.0	68.0	68.0	68.0
49th Month	62.0	62.0	62.0	62.0
61st Month	65.6	65.6	65.6	65.6

**Profitability ratios (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NBP margin (%) post overrun	18.7	19.2	19.8	20.1
RoE (%)	17.4	13.7	15.0	17.2
RoIC (%)	142.2	149.6	232.6	429.0

**Valuation ratios**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total AUMs (Rs bn)	1,588	1,923	2,369	2,889
- of which equity AUMs (%)	21.0	32.0	32.0	32.0
EVOP as % of MCEV	20.5	16.1	16.0	15.8
RoEV (%)	17.4	18.3	17.1	15.9
Dividend %	-	0.2	0.2	0.2
Dividend payout ratio (%)	-	14.0	12.0	9.8
EPS, Rs	14.2	15.0	17.4	21.5
Embedded Value (Rs bn)	262.9	311.1	364.4	422.6

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	468
2	Bank of Baroda	BUY	65	44
3	Federal Bank	BUY	69	52
4	HDFC Bank	BUY	1,385	1,203
5	HDFC Life Insurance Company	Reduce	533	571
6	ICICI Bank	BUY	462	402
7	ICICI Prudential Life Insurance Company	Hold	424	434
8	IDFC First Bank	Sell	21	32
9	IndusInd Bank	BUY	680	623
10	Kotak Mahindra Bank	Accumulate	1,389	1,320
11	Max Financial Services	Accumulate	651	610
12	Punjab National Bank	BUY	40	29
13	SBI Life Insurance Company	Accumulate	920	828
14	South Indian Bank	BUY	10	7
15	State Bank of India	BUY	276	198

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<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly





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