

SBI Life

Refer to important disclosures at the end of this report

Back to profitable growth

- SBIL reported Value of New Business (VNB) growth of ~12.9% yoy to Rs7bn with further improvement in VNB Margins. AUM crossed Rs2tn with private market leadership in NBP at ~23.7% market share. Renewal Premium grew 27% with 13M persistency at 86.2%.
- VNB margins improved by ~170bps yoy (+120bps qoq) to ~20% in Q3FY20, better than our and Street expectations. With a gradual decline in ULIPs, the overall margin profile should witness steady growth, aided by a rise in single premium policies.
- Management remains firm about the rising share of Protection plans through increasing focus on credit protection. However, like IPRU, SBIL also depends heavily on bancassurance (~64% of distribution by SBI), which could trigger steady growth for ULIPs in H2FY20 due to stabilizing trends in the equity market.
- We retain our estimates with VNB margin improving to ~23% by FY23E and 20.4% CAGR in absolute VNB to Rs35bn. Maintain Buy/OW stance in Insurance EAP, with a TP of Rs1,050 (Rs1,006 earlier), corresponding to 2.5x P/Mar'23 EV. We continue to like the stock based on improving profitability and attractive risk-reward.

Improvement in VNB margins likely, however, pricing is key: SBIL has reported further improvement in VNB margins at 20% (+170bps yoy) with a shift in the product mix toward the non-par business as well as a gradual rise in protection plans. We expect the trend to improve further, with the rising share of protection plans and elevated share of non-par businesses. However, management needs to reprice its existing protection plans since most reinsurance companies has already opted for a price hike. Management has confirmed that the current protection plans are cheaper than HDFCSL, however, post price hikes, competition from HDFCSL would surely play an important role.

Best-in-class operating efficiency maintained: SBIL is following Cardiff's model on bancassurance distribution, making the bank sell insurance policies rather than driving sales through its own employees sitting in the branch. Overall opex ratio for SBIL has improved to ~5.1% against ~6% last year, while the commission ratio has improved to ~3.4%. With further push for digitalization, management expects further improvement in the matrix.

Outlook and valuation: Maintain Buy/OW in EAP: Through a gradual shift toward profitable product mix and relatively comfortable valuations, we continue to like SBI Life in the insurance space. We maintain our estimates with VNB margin improving to ~23% by FY23E and ~20.4% CAGR in absolute VNB to Rs35bn. Retain Buy/OW stance in Insurance EAP, with a TP of Rs1,050 (Rs1,006 earlier), corresponding to 2.5x P/Mar'23 EV. We like the stock based on improving profitability and attractive risk-reward.

Our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Profit	13,268	14,222	20,248	25,196	29,761
EPS (Rs)	13.3	14.2	20.2	25.2	29.8
VNB	17,200	20,100	23,864	28,916	35,050
VNB margin %	17.7	18.7	20.6	22.0	23.0
EV	224,144	262,900	305,024	353,803	412,374
ROEV %	17.4	20.5	17.1	17.0	17.4
P/EV (x)	3.8	3.3	2.8	2.4	2.1

Source: Company, Emkay Research

CMP	Target Price
Rs 863 as of (January 22, 2021)	Rs 1,050 (▲) 12 months
Rating	Upside
BUY (■)	21.7 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	1/4
Target Price change (%)	4.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	20.2	25.2
Consensus	16.2	18.9
Mean Consensus TP (12M)	Rs 1,050	

Stock Details

Bloomberg Code	SBILIFE IN
Face Value (Rs)	10
Shares outstanding (mn)	1,000
52 Week H/L	1,020 / 519
M Cap (Rs bn/USD bn)	863 / 11.82
Daily Avg Volume (nos.)	1,744,327
Daily Avg Turnover (US\$ mn)	20.5

Shareholding Pattern Dec '20

Promoters	60.7%
FIIs	27.0%
DIIIs	5.9%
Public and Others	6.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	10	-	(12)
Rel. to Nifty	(5)	(9)	(22)	(26)

Relative price chart



Source: Bloomberg

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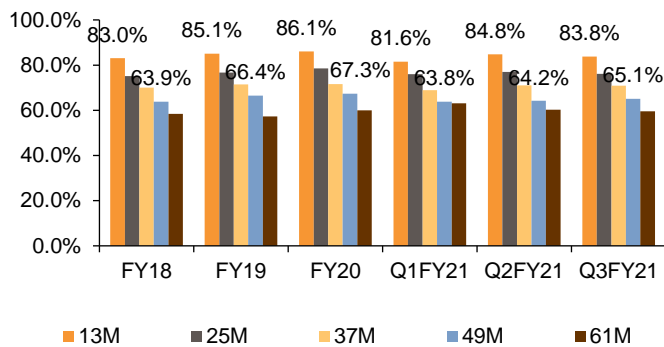
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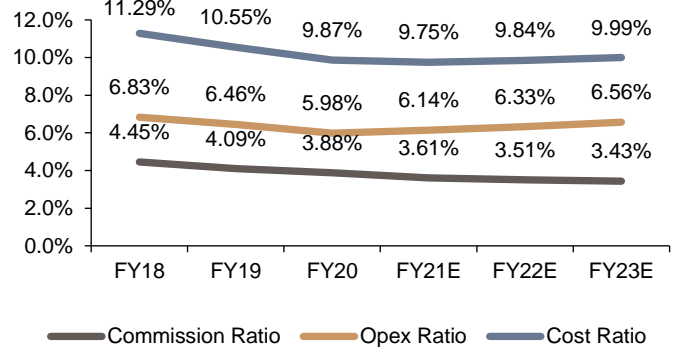
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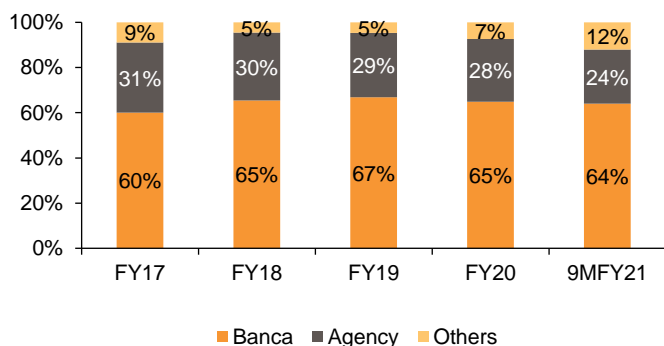
Story in Charts

Exhibit 1: Persistency remains robust


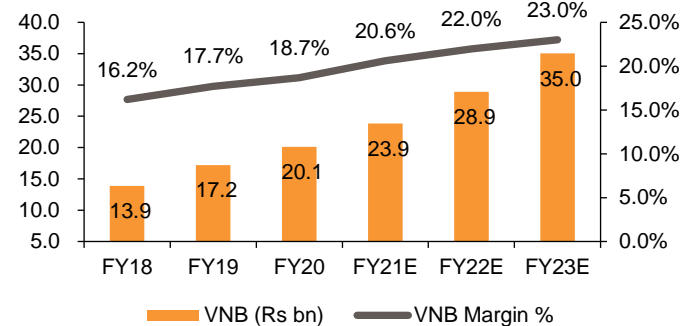
Source: Company, Emkay Research

Exhibit 2: Stable cost matrix


Source: Company, Emkay Research

Exhibit 3: Diversifying distribution mix


Source: Company, Emkay Research

Exhibit 4: VNB margins to continue robust momentum


Source: Company, Emkay Research

Exhibit 5: Revision in estimates

	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
NBP	197,704	203,931	3%	257,089	257,321	0%	320,209	325,781	2%
APE	114,665	115,675	1%	129,119	131,706	2%	151,566	152,318	0%
PAT	20,038	20,248	1%	24,295	25,196	4%	28,522	29,761	4%
EV	303,655	305,024	0%	346,795	353,803	2%	405,145	412,374	2%
VNB margin %	20.2%	20.6%	2%	21.8%	22.0%	1%	22.3%	23.0%	3%
ROE %	21.0%	21.1%	0%	21.2%	21.7%	2%	20.9%	21.2%	1%
ROEV %	16.9%	17.1%	1%	16.7%	17.0%	2%	16.7%	17.4%	4%

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Opening Embedded value (EV)	125,475	165,379	190,834	224,144	262,900	305,024	353,803
Expected return on existing business (A+B+C)	18,506	15,800	16,020	25,800	21,032	22,877	26,535
Expected return on existing business (unwind) (A)	10,862	14,100	16,200	19,000	21,032	22,877	26,535
Operating assumption changes (B)	5,963	100	(1,010)	1,200	-	-	-
VNB added during the period	10,367	13,855	17,200	20,100	23,864	28,916	35,050
Operating experience variance (C)	1,681	1,600	830	5,600	-	-	-
IEV operating earnings (EVOP)	28,873	29,655	33,220	45,900	44,896	51,793	61,585
Economic assumption changes and investment variance	12,835	(1,800)	2,500	(7,000)	-	-	-
IEV total earnings	41,708	27,855	35,720	38,900	44,896	51,793	61,585
Capital contributions/ / (dividends paid out)	(1,805)	(2,400)	(2,410)	(144)	(2,773)	(3,014)	(3,014)
Closing IEV	165,378	190,834	224,144	262,900	305,024	353,803	412,374
Expected return as % of opening (PAT/opening EV)	7.6%	7.0%	7.0%	6.3%	7.7%	8.3%	8.4%
VIF transfer as % of opening (unwinding/opening EV)	8.7%	8.5%	8.5%	8.5%	8.0%	7.5%	7.5%
ROEV %	23.0%	17.9%	17.4%	20.5%	17.1%	17.0%	17.4%
Operating ROEV %	16.9%	16.9%	17.5%	17.4%	17.1%	17.0%	17.4%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premium	328,904	403,253	475,720	562,152	669,524
Income from investments	112,081	29,968	138,908	164,564	194,414
Contribution from the shareholders fund	989	4,763	0	0	0
Miscellaneous income	638	458	503	554	609
Total income	442,612	438,441	615,131	727,270	864,546
Commissions	13,463	15,662	17,160	19,738	22,995
Operating expenses	21,235	24,131	29,222	35,600	43,921
Provisions	5,505	6,776	7,421	8,208	9,241
Total expenses	40,203	46,569	53,802	63,545	76,157
Benefits paid (net)	152,938	162,509	183,169	211,172	243,049
Change in liabilities (net)	235,917	206,049	347,925	418,051	506,644
Total	388,855	368,558	531,094	629,223	749,693
Surplus	13,553	23,314	30,234	34,501	38,696
Tax	2,687	3,767	4,961	5,835	6,584
Net surplus	10,866	19,547	25,273	28,667	32,112
Transfer to shareholders account	9,985	14,627	15,232	19,329	23,010

Shareholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Transfer from policyholders account	9,985	14,627	15,232	19,329	23,010
Income from investments	5,057	4,767	6,145	7,178	8,259
Other income	135	68	78	90	103
Total income	15,177	19,461	21,456	26,597	31,373
Expenses	300	483	555	639	735
Profit before tax	13,729	14,135	20,900	25,958	30,638
Tax	461	(86)	652	762	877
Net profit	13,268	14,222	20,248	25,196	29,761

Balance Sheet

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Sources of funds					
Share capital	10,000	10,000	10,000	10,000	10,000
Reserve and surplus	64,601	78,839	96,315	118,497	145,244
Fair value change account credit/(debit)	1,162	(1,408)	(1,408)	(1,408)	(1,408)
Net worth (including fair value change)	75,764	87,431	104,907	127,088	153,836
Policyholders funds	1,351,399	1,531,011	1,855,293	2,236,817	2,691,472
Funds for future appropriations	2,816	7,137	17,177	26,514	35,616
Total liabilities	1,429,978	1,625,579	1,977,376	2,390,420	2,880,923
Application of funds					
Shareholders investments	57,232	68,279	81,935	98,322	117,987
Policyholders investments	644,724	734,199	885,478	1,062,573	1,275,088
Assets to cover linked liabilities	691,291	785,653	942,784	1,131,341	1,357,609
Loans	1,725	3,645	3,645	3,645	3,645
Fixed assets	5,952	5,812	5,812	5,812	5,812
Net current assets (A-B)	29,054	27,990	57,722	88,726	120,783
Total assets	1,429,978	1,625,579	1,977,376	2,390,420	2,880,923

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Conservation ratio %	85.2	85.1	81.5	81.4	82.1
Commissions ratio %	4.1	3.9	3.6	3.5	3.4
Opex ratio %	6.5	6.0	6.1	6.3	6.6
ROA %	1.0	0.9	1.1	1.2	1.1
ROE %	18.8	17.4	21.1	21.7	21.2
Dividend payout ratio %	15.1	14.1	11.4	9.9	8.4

EV Data	FY19	FY20	FY21E	FY22E	FY23E
Embedded value (Rs mn)	224,144	262,900	305,024	353,803	412,374
Value of new business (Rs mn)	17,200	20,100	23,864	28,916	35,050
EVOP (Rs mn)	33,220	45,900	44,896	51,793	61,585
ROEV %	17.4	20.5	17.1	17.0	17.4
VNB margin %	17.7	18.7	20.6	22.0	23.0

Source: Company, Emkay Research

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	13.3	14.2	20.2	25.2	29.8
DPS	2.0	2.0	2.3	2.5	2.5
BVPS	75.8	87.4	104.9	127.1	153.8

Valuation (x)	FY19	FY20	FY21E	FY22E	FY23E
P/E	65.0	60.7	42.6	34.2	29.0
P/B	11.4	9.9	8.2	6.8	5.6
P/EV	3.8	3.3	2.8	2.4	2.1
P/VNB	50.1	42.9	36.1	29.8	24.6
Dividend yield (%)	0.2	0.2	0.3	0.3	0.3

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
GWP	30.1	29.3	18.2	18.3	19.2
New business premium (NBP)	25.8	34.6	22.9	26.2	26.6
Annualized premium equivalent (APE)	13.2	21.9	10.1	13.9	15.6
Retail APE	0.0	22.7	39.6	14.1	16.0
Commissions	20.1	22.1	9.6	15.0	16.5
Operating expenses	23.5	24.1	21.1	21.8	23.4
Net income	15.3	(3.9)	42.4	24.4	18.1

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net earned premium	116,945	118,630	75,881	128,580	137,665
Total income	159,547	51,892	162,745	186,516	267,280
Total expenses	155,597	41,914	158,868	183,521	264,949
Net income	3,898	5,307	3,909	2,997	2,329
EPS (Rs)	3.90	5.31	3.91	3.00	2.33

Source: Capitaline

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	62.8	62.8	60.7	60.7	60.7
FIIIs	26.4	25.9	26.2	25.8	27.0
DIIIs	5.5	5.7	7.0	7.1	5.9
Public and Others	5.3	5.6	6.1	6.5	6.4

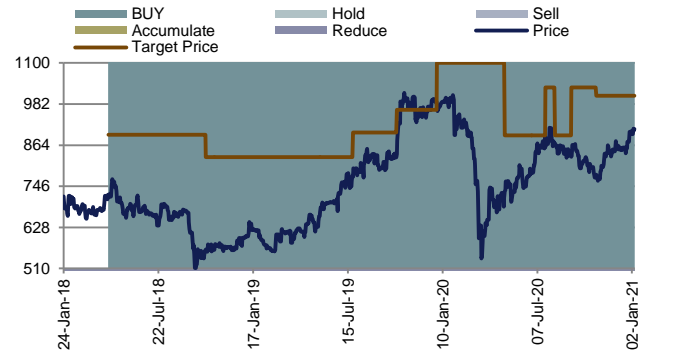
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Dec-20	858	1,006	12m	Buy	Jignesh Shial
26-Oct-20	779	1,006	12m	Buy	Jignesh Shial
09-Sep-20	831	1,030	12m	Buy	Jignesh Shial
09-Aug-20	869	892	12m	Buy	Jignesh Shial
22-Jul-20	859	1,030	12m	Buy	Jignesh Shial
01-Jul-20	805	892	12m	Buy	Jignesh Shial
11-Jun-20	741	892	12m	Buy	Jignesh Shial
06-May-20	731	892	12m	Buy	Jignesh Shial
07-Feb-20	947	1,100	12m	Buy	Neeraj Toshniwal
23-Jan-20	986	1,100	12m	Buy	Neeraj Toshniwal
30-Dec-19	976	1,100	12m	Buy	Neeraj Toshniwal
09-Dec-19	942	965	12m	Buy	Neeraj Toshniwal
08-Nov-19	982	965	12m	Buy	Neeraj Toshniwal
15-Oct-19	838	965	12m	Buy	Neeraj Toshniwal
11-Oct-19	840	900	12m	Buy	Neeraj Toshniwal
03-Oct-19	831	900	12m	Buy	Neeraj Toshniwal
11-Sep-19	800	900	12m	Buy	Neeraj Toshniwal
13-Aug-19	771	900	12m	Buy	Neeraj Toshniwal
24-Jul-19	773	900	12m	Buy	Neeraj Toshniwal
13-May-19	620	830	12m	Buy	Neeraj Toshniwal
26-Apr-19	637	830	12m	Buy	Neeraj Toshniwal
22-Apr-19	616	830	12m	Buy	Neeraj Toshniwal
13-Mar-19	615	830	12m	Buy	Neeraj Toshniwal
19-Jan-19	620	830	12m	Buy	Neeraj Toshniwal
19-Oct-18	564	830	12m	Buy	Neeraj Toshniwal
26-Jul-18	673	894	12m	Buy	Neeraj Toshniwal
18-Apr-18	721	894	12m	Buy	Neeraj Toshniwal

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Insurance	1.50	1.50	0%	0	100.00
HDFC Life	0.68	0.69	1%	1	45.84
ICICI Pru Life	0.24	0.23	-7%	-2	15.03
Max Financial	0.15	0.16	4%	1	10.55
SBI Life	0.42	0.43	1%	1	28.57
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	23-Jan-20	23-Jul-20	22-Oct-20	22-Dec-20	21-Jan-21
EAP - BFSI-Insurance	100.0	147.6	140.6	128.8	145.2	155.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	148.2	141.3	129.4	146.1	156.0

*Performance measurement base date 1st April 2019

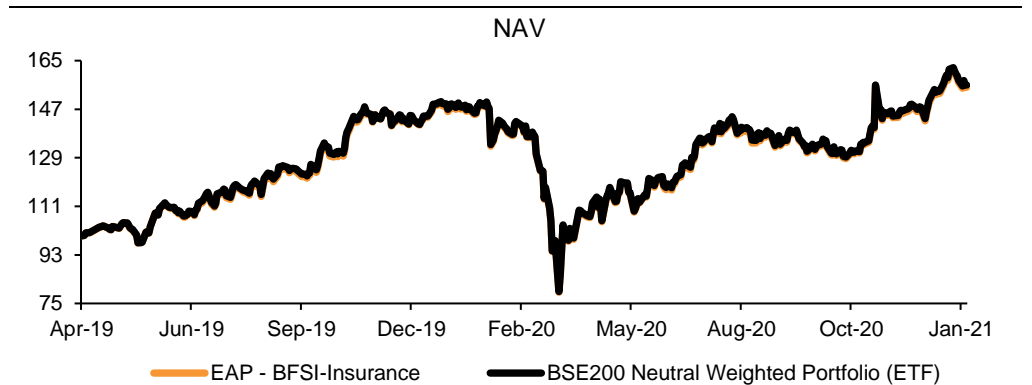
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	6.8%	20.5%	10.3%	5.1%
BSE200 Neutral Weighted Portfolio (ETF)	6.8%	20.6%	10.4%	5.3%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 Jan 2021 01:15:06 (SGT)

Dissemination Date: 23 Jan 2021 01:16:06 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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