

CMP: ₹ 1077

Target: ₹ 1250 (16%)

Target Period: 12 months

July 27, 2021

Steady growth amid lockdown; Covid claims elevated

About the stock: SBI Life (SBIL) is among most dominant players in the Indian life insurance industry with strong distribution network, parentage and operating metrics

- Balanced product mix with focus on opex ratio ahead of industry
- Strong parentage led distribution remain key catalyst

Q1FY22 Results: Business traction healthy, claims rise amid pandemic.

- Gross premium growth steady at 10% YoY to ₹ 8313 crore
- VNB margins healthy at 21.2%, aided by traction in protection & annuity business
- Surplus declined 82% YoY to ₹ 111 crore, led by higher Covid claims
- Covid claims (net) at ₹ 572 crore; additional Covid reserve at ₹ 445 crore

What should investors do? SBIL's share price has grown by ~0.5x over the past four years (from ~₹ 700 in October 2017 to ~₹ 1077 levels in July 2021).

- Factoring distribution strength & diversified product mix, we retain our BUY rating on the stock

Target Price & Valuation: We value SBIL at 3.1x FY23 EV with revised TP of ₹ 1250

Key triggers for future price performance:

- Focus on non-par and annuity products to aid overall growth and VNB
- Strong distribution network remains core to maintain business momentum
- Product mix & improvement in persistency to aid VNB margins at 21-22%
- Higher Covid claim remains a near term overhang; reserves at ₹ 445 crore

Alternate Stock Idea: Apart from SBIL, in our coverage we also like HDFC Life.

- Dominant player in life insurance industry with huge growth potential coupled with strong distribution, product suite and best VNB margin
- BUY with a target price of ₹ 800

BUY



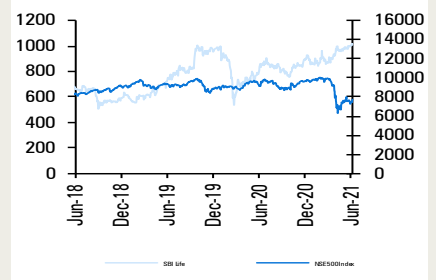
Particulars

Particulars	Amount
Market Capitalisation	₹ 86165 crore
EV (Q4FY21)	₹ 33390 crore
AUM (Q3FY21)	₹ 231560 crore
52 week H/L	1104/755
Face value	₹ 10

Shareholding pattern

	Sep20	Dec20	Mar21	Jun21
Promoter	60.7	60.7	55.7	55.7
FII	25.8	25.8	30.5	27.2
DII	7.1	7.1	7.0	12.4
Others	6.5	6.5	6.85	4.7

Price Chart



Risk to our call

- Gross premium growth remained steady at 10% YoY. Claims rise sharply
- Key Risk:** Persistent impact of pandemic increased probability of higher claims

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	3 year CAGR (FY18-FY21)	FY22E	FY23E	2 year CAGR (FY20-23E)
New business premium	14855.4	18071.4	20620.0	19%	23493.2	26845.7	14%
APE	9530.7	10505.2	11450.0	15%	13194.1	15255.8	15%
Total premium	32745.5	40334.4	49769.2	24%	57025.3	65760.7	15%
PAT	1335.8	1423.0	1460.0	11%	1349.0	2290.9	25%
EV	22077.6	26290.0	33390.0	19%	34915.7	39941.7	9%
P/E (x)	71.6	67.3	65.7		70.9	41.8	
P/BV (x)	10.9	9.7	9.2		8.6	7.4	
P/IEV (x)	4.3	3.6	3.1		2.7	2.4	
RoEV (%)	17.8	17.5	16.9		17.3	17.7	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Steady business growth; claims impact surplus

- Premium growth remained moderate at 10% YoY to ₹ 8313 crore, led by 9.4% YoY traction in NBP of ₹ 3345 crore. Growth in renewal premium continued to remain healthy at ~9.8% YoY to ₹ 5032 crore, with improvement in 13th month persistency at 84.5%. In terms of NBP breakup, traction in individual business witnessed healthy pick up at 33% YoY to ₹ 1840 crore, primarily led by ~59% YoY rise in unit linked business. Protection business (individual + group) continued to report strong growth at ₹430 crore vs. ₹ 290 crore YoY. Proportion of total protection NBP to total NBP was at ~13% in Q1FY22 vs. 9.5% in Q1FY21. Annuity premium grew 26% YoY to ₹ 650 crore
- As a result of increased quantum of protection and annuity business, VNB margins improved from 18.7% to 21.2% YoY
- AUM growth accelerated 32% YoY to ₹ 231560 crore. Shareholders and policyholders (excluding linked liabilities) assets witnessed healthy growth at ~17% and ~25% YoY, respectively. Assets held in lieu of linked products jumped ~40% YoY to ₹ 122615 crore. Investment income declined 13.6% YoY to ₹ 7410 crore, due to base effect
- Commission ratio remained broadly steady at 3.1% in Q1FY21 (up ~10 bps YoY) and opex ratio increased ~20 bps YoY to 7.4% in Q1FY22. Consequently, management expense ratio increased ~30 bps YoY to 10.5%
- Premium growth remained healthy amid lockdown but higher benefit paid including net Covid claims of ₹ 570 crore, additional Covid reserve of ₹ 444.7 crore and elevated actuarial liabilities adjustment impacted policyholder surplus which came at ₹ 111 crore (lower than our estimate). Consequently, PAT came at ₹ 223 crore, down ~43% YoY
- Solvency ratio remained steady at healthy level of 2.15x

Q1FY22 earnings conference call highlights

- Covid related provision was at ₹ 183 crore in Q4FY22, which is now at ₹ 445 crore
- SBIL plans to launch revised pricing on non-par products, which is expected to boost business ahead
- Total death claims (net) at 3000 crore in FY21 and ₹ 1315 crore in Q1FY22
- Gross Covid claims at ₹ 713 crore in Q1FY22; claims (net of reinsurance) at ₹ 572 crore
- Hike in reinsurance is not expected to have material on margins
- Average ticket size in unit linked products is at ₹ 1 lakh and non-par products is at ₹ 40,000-50,000

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/EV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SBI Life Insurance	1077	1250	Buy	1,077	14.6	13.5	22.9	74.0	79.8	47.0	3.5	3.1	2.7	15.2	12.5	19.0
HDFC Life	674	800	Buy	1342	6.7	7.9	8.1	100.0	85.8	83.3	5.1	4.4	3.8	17.6	17.4	16.1

Source: Company, ICICI Direct Research

We believe SBIL deserves premium valuation given diversified product mix, strong distribution and focus on improving persistency.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
First Year Premium	1,404.8	1,350.0	1,085.8	29.4	3,660.3	-61.6	ULIP, annuity and protection business contributed to premium growth
Renewal Premium	5,031.7	4,989.8	4,584.4	9.8	9,459.6	-46.8	Relatively higher persistency ratios aided renewal premium growth
Single Premium	1,940.2	1,847.2	1,972.8	-1.7	2,528.9	-23.3	Lower group business kept growth muted
Net Premium income	8,313	7,867	7,588	9.5	15,556	-46.6	
Income from Investments	7,409.9	4,783.3	8,582.8	-13.7	4,505.9	64.4	
Total revenue	15,736.9	12,671	16,178.1	-2.7	20,896.7	-24.7	
Commission	261.7	299.0	225.4	16.1	585.6	-55.3	Commission ratio remained steady at 3.1%
Operating expenses	613.7	550.7	545.7	12.4	660.5	-7.1	Opec ratio increased ~20 bps QoQ at 7.4%
Management Expenses	875.4	849.7	771.1	13.5	1,246.1	-29.7	
Benefits paid	4,791.8	3,642.5	2,852.8	68.0	7,659.7	-37.4	Covid claims of ₹ 570 crore and additional reserves of ₹ 444.7 crore
Change in Actuarial Liability	9,776.7	7,514.9	11,692.1	-16.4	11,449.3	-14.6	
Total Expenses	15,625.6	12,303.5	15,568.3	0.4	20,389.5	-23.4	
Surplus/ (deficit)	111.3	367.0	609.8	-81.7	507.2	-78.1	
Transfer to SH's A/c	-41.2	250.0	282.2	-114.6	1,217.5	-103.4	
Transfer to SH's A/c	-41.2	250.0	282.2	-114.6	1,217.5	-103.4	
Investment income	281.7	200.5	94.9	196.9	227.4	23.9	
Profit/ (loss) before tax	233.4	433.5	387.7	-39.8	622.1	-62.5	
PAT	223.2	403.1	390.9	-42.9	532.4	-58.1	Higher claims impacted earnings

Key Metrics

NBP	3,345.0	3,197.2	3,058.6	9.4	6,189.2	-46.0
AUM	2,31,560	2,25,095	1,75,350	32.1	2,20,870	4.8
IEV*	NA	NA	NA	NA	29,860.0	NA

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	57025	57,025	0.0	57,025.3	65761	15.3
Total	72154	74,318	3.0	72,154.0	86733	20.2
Transfer to Shareholders' account	1290	849	-34.2	1,289.9	1745	35.3
PAT	1716	1,299	-24.3	1,715.7	2191	27.7
EV	356	349	-1.8	355.7	399	12.3

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current					Earlier		
	FY19	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
NBP growth	8.8	20.3	23.6	14.5	14.3	15.6	14.5	14.3
AUM growth	20.4	14.2	25.8	22.9	19.3	23.8	22.5	17.0
EV Growth	15.8	19.1	18.0	12.5	14.4	14.5	14.6	14.7
Comission ratio	4.1	3.6	3.2	3.3	3.3	3.5	3.3	3.3
VNB Margin	17.7	18.7	20.4	21.2	21.6	18.5	20.3	20.6
Conservation ratio	85.2	85.1	87.5	85.0	85.7	84.0	85.0	85.7
Opearating RoEV	17.8	17.5	16.9	17.3	17.7	15.4	17.3	17.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Premiums earned - Net	32745.5	40334.4	49769.2	57025.3	65760.7
Income from Investments	11242.0	2997.0	31456.0	17153.3	20827.6
Other income	63.8	70.2	35.8	100.4	110.4
Contribution from the Shareholders' account	98.9	47.6	824.8	38.6	34.7
Total	44150.3	43449.2	82084.9	74317.5	86733.5
Commission	1346.4	1477.8	1742.5	1912.6	2216.4
Operating expenses	2123.5	2592.0	2448.5	3447.0	3975.0
Benefits paid (Net)	15293.8	16215.0	21582.7	25735.1	29748.0
Change in valuation of policy liabilities	23591.7	20605.0	53934.2	40406.2	46815.5
Others	6.6	7.9	-0.8	8.0	8.0
Provision for tax	812.3	1059.9	741.0	1409.5	1625.4
Surplus/(deficit) after tax	976.0	1491.6	1807.4	1399.1	2345.1
Transfer to Shareholders' account	887.9	1059.6	1678.8	849.1	1745.1

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Amounts transferred from Policyholders' account	887.9	1059.6	1678.8	849.1	1745.1
Income from investments	623.1	490.7	694.8	638.2	684.5
Total	1511	1550	2374	1487	2430
Expenses other than insurance	45.9	70.0	31.0	100.8	121.0
Contribution to Policyholders' account	98.9	47.6	824.8	38.6	34.7
Others	15.9	15.9	-24.7	-24.7	-24.7
Profit before Tax	1366.1	1432.7	1542.5	1347.9	2274.0
Provision for tax	46.3	-9.0	86.6	48.9	83.1
PAT	1319.8	1441.7	1455.9	1299.0	2190.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	7769	8885	9093	10168	11964
Credit/(debit) fair value change account	20	20	308	308	308
Networth	8789	9905	10400	11476	13272
Policyholders' funds	138095	157733	200949	239903	286719
Total Liabilities	147166	168352	211349	253093	302205
Applications of Funds					
Shareholders' investments	7031	7924	8605	8951	9738
Policyholders' investments	66496	75159	93936	118371	142792
Asset held to cover linked liabilities	65821	76072	98215	118638	140889
Loans	188	212	358	405	457
Fixed assets - net block	663	755	565	947	1061
Net current assets	6967	8229	9670	5493	6980
Total Assets	147166	168352	211349	252805	301917

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	13.4	14.2	14.6	13.5	22.9
DPS (₹)	2.4	2.6	2.5	2.4	4.1
BV (₹)	87.9	99.0	104.2	111.9	129.8
EV per share	221	263	310	349	399
P/E	71.6	67.3	65.7	70.9	41.8
P/BV	10.9	9.7	9.2	8.6	7.4
P/IEV	4.3	3.6	3.1	2.7	2.4
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.1	3.6	3.2	3.3	3.3
Management expenses incl commission as	10.5	10.0	9.4	9.3	9.3
Return Ratios and capital (%)					
Return on Net worth	16.0	15.2	15.2	12.5	19.0
Operating RoEV	17.8	17.5	16.9	17.3	17.7
Solvency Ratio	195	200	200	200	200
Key Ratios (%)					
Conservation Ratio	85.2	85.1	87.5	85.0	85.7
VNB Margin	17.7	18.7	20.4	21.2	21.6
Surrender Ratio	5.6	4.7	4.8	5.1	4.9
Benefits paid as a % of Opening Liability	13.7	11.7	11.9	12.8	12.3

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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