

July 27, 2021

Q1FY22 Result Update

Key Financials

Y/e March	FY21	FY22E	FY23E	FY24E
Net Premiums (Rs m)	4,99,792	5,72,017	6,59,253	7,69,594
- Growth (%)	23.9	14.5	15.3	16.7
Total Income (Rs mn)	7,46,523	8,05,349	9,47,284	11,23,074
Surplus / Deficit (Rs m)	13,680	16,692	19,521	22,931
PAT (Rs m)	12,464	15,930	22,570	22,109
- Growth (%)	(12.4)	27.8	41.7	(2.0)
EPS (Rs)	12.5	15.9	22.6	22.1
Emb. Value (Rs bn)	333.8	391.9	458.6	537.3
NBP Margin (%) post overrun	20.4	21.7	22.2	22.5
RoE (%)	10.8	13.0	17.2	15.7
Operating RoEV (%)	19.1	17.0	17.0	17.1
RoEV (%)	27.0	17.4	17.0	17.2
Dividend yield (%)	0.2	0.2	0.2	0.2
Price/EV (x)	3.2	2.7	2.3	2.0
Ap. Value/EV (x)	2.8	2.7	2.6	2.5

Key Data

SBIL.BO | SBILIFE IN

52-W High / Low	Rs.1,014 / Rs.756
Sensex / Nifty	52,852 / 15,824
Market Cap	Rs.1,075.81bn / \$ 14,469.3m
Shares Outstanding	1,000.1 m
3M Avg. Daily Value	Rs.2,553.0m

Shareholding Pattern (%)

Promoter's	55.70
Foreign	27.24
Domestic Institution	9.64
Public & Others	7.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.3	19.1	21.3
Relative	4.4	5.6	(21.2)

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Improved margins; risk-reward favourable

Quick Pointers:

- Margins improve by 250bps YoY & 80bps from FY21 to 21.2% and was higher than expectation of 20.6% on actual tax basis
- COVID reserving o/s at Rs4.4bn, topping up by Rs2.62bn during the quarter is relatively lower than peer set.

SBI Life's NBP was slower with growth of 10% YoY led by a slower group business, while decent retail business growth of 37% YoY in NBP, APE grew by 28% YoY. On effective tax basis, SBILIFE is catching up toward industry players with 90bps (400bps YoY) improvement seen from FY21 to 24.1%. Margin improvement has been on good mix change mainly from continued protection (best growth amongst listed players – 62% YoY in NBP & 86% in APE). COVID claims & reserving of Rs4.4bn (incl. Rs1.8bn of Q4FY22) is near to industry trends with benefits reaped from mortality changes done in FY21. SBILIFE has underperformed peers with valuations lowest in the sector and we believe gradual margin improvement, better cost metrics and growth prospects (strong distribution) will help catch up on valuations. Retain BUY with revised TP of Rs1,250 (from Rs1,150) based on 2.5x Sep-23 (rolled over from Mar-23).

- **Margins improvement much better but much more to do:** SBILIFE's product construct has been less sensitive to sharp margin improvement. Although on back of continued retail protection traction (8% share in APE up 140bps from FY21) & slower group business helped margins improve by 400bps YoY/90bps from FY21 and despite ULIPs recovering which is compared to peers slightly better margin in our view. We continue to maintain medium-long term margins could gradually move towards 25-26% with new product push & controlled cost metrics and expect VNB CAGR of 20% over FY21-FY24
- **Claims largely in-line with industry trends:** SBILIFE suffered Rs5.7bn of claims (net of reinsurance) and made ~Rs2.6bn (80bps of FY21 EV) of additional COVID reserving in Q1FY22 and hold Rs4.4bn of COVID reserve. Claims & reserving is in-line with trends in the industry and with strengthened mortality assumptions in FY21, claim absorption was quite good and in-line with expectation of the company, hence not witnessing high impact on P&L.
- **Lower persistency with higher surrenders:** Persistency ratio (on regular premium) was slightly lower on 61st month by 80-90bps from FY21 and 210bps YoY on back of higher surrender rate being up at 3.65% v/s 1.82% YoY which is also reflective in slower renewal premium growth 10% YoY. Although, we do not expect any large adverse impact on assumption changes in EV.
- **Growth should improve; risk reward remains attractive:** In Q1FY22, APE grew by 25% YoY, while VNB grew by 50% YoY. Growth was led by 85% YoY rise in protection. SBILIFE's growth pre-pandemic has been quite strong and hence we believe, growth should improve given strong distribution, protection improvement & product enhancements towards better margins.

Exhibit 1: Higher claims & reserving impact earnings

(Rs m)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	83,767	76,434	9.6	1,56,467	(46.5)
Net Premium Income	83,126	75,881	9.5	1,55,557	(46.6)
Income from Investment (Net)	74,099	85,828	(13.7)	45,059	64.4
Total (A)	1,57,369	1,61,781	(2.7)	2,08,967	(24.7)
Net Commission	2,699	2,254	19.8	5,896	(54.2)
Opex related to Insurance	6,055	5,461	10.9	6,565	(7.8)
Benefits Paid (Net)	47,918	28,528	68.0	76,597	(37.4)
Change in actuarial liability	97,767	1,16,921	(16.4)	1,14,493	(14.6)
Total (B)	1,56,250	1,55,683	0.4	2,03,890	(23.4)
Surplus / (Deficit)	1,119	6,098	(81.6)	5,077	(78.0)
Shareholders' Account					
Trf from Policyholders A/c	(412)	2,822	(114.6)	12,175	(103.4)
Investment Income	2,817	949	196.9	2,274	23.9
Total	2,435	3,787	(35.7)	14,464	(83.2)
Non Insurance Expenses	101	95	5.8	(5)	(2,157.1)
Trf to Policyholders A/c	-	-	-	8,248	(100.0)
Profit/(Loss) before Tax	2,334	3,877	(39.8)	6,221	(62.5)
Provision for Taxation	103	(32)	(419.6)	898	(88.6)
Profit/(Loss) after Tax	2,232	3,909	(42.9)	5,324	(58.1)
Ratios					
Expense Ratio	7.2	7.1	8	4.2	303
Commission Ratio	3.2	2.9	27	3.8	(55)
Cost / TWRP	10.4	10.1	36	8.0	249

Source: Company, PL

Exhibit 2: APE growth continues to be driven by Protection especially retail protection

Rs Mn	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
New Business APE	16,200	12,700	27.6	39,700	(59.2)	1,14,500	1,07,400	6.6
Individual	13,900	10,500	32.4	36,400	(61.8)	1,02,200	97,700	4.6
Group	2,300	2,200	4.5	3,300	(30.3)	12,300	9,700	26.8
Total New Business	33,449	30,586	9.4	61,872	(45.9)	2,06,242	1,65,925	24.3
Savings	29,149	27,686	5.3	53,472	(45.5)	1,81,642	1,45,125	25.2
Protection	4,300	2,900	48.3	8,400	(48.8)	24,600	20,800	18.3
%								
Savings	87.1	90.5	(337)	86.4	72	88.1	87.5	61
Protection	12.9	9.5	337	13.6	(72)	11.9	12.5	(61)
VNB	3,400	2,400	41.7	8,800	(61.4)	23,300	20,100	15.9
VNB Margin (%)	21.2	18.7	250.0	22.2	(96.6)	20.4	18.7	170.0
EV	NA	NA	NA	334	(100.0)	334	263	27.0

Source: Company, PL

Exhibit 3: Retail business growth better; slower growth in renewal premiums

Rs Mn	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Retail New Business	18,400	13,400	37.3	57,640	(68.1)	1,25,000	1,12,400	11.2
Group New Business	15,049	17,186	(12.4)	4,232	255.6	81,242	53,500	51.9
Renewal Premium	50,317	45,849	9.7	94,596	(46.8)	2,96,299	2,40,422	23.2
Gross Written Premium	83,767	76,434	9.6	1,56,467	(46.5)	5,02,542	4,06,347	23.7

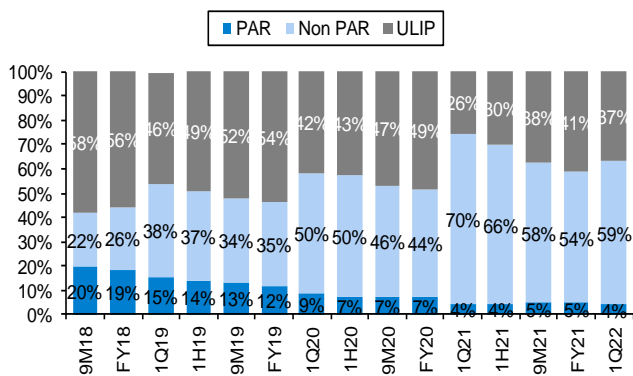
Source: Company, PL

Exhibit 4: Strong protection growth and rebound in ULIP business

Total NB Product Mix	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Rs Mn								
Individual Savings	21,300	16,200	31.5	39,500	(62.5)	1,15,900	1,07,200	8.1
PAR	1,300	1,300	-	3,100	(58.1)	9,700	11,600	(16.4)
Non PAR	7,600	7,100	7.0	5,200	46.2	20,700	15,100	37.1
ULIP	12,400	7,800	59.0	31,200	(60.3)	85,500	80,500	6.2
Group Savings	7,900	11,400	(30.7)	13,900	(43.2)	65,700	37,900	73.4
Protection	4,300	2,900	48.3	8,400	(48.8)	24,600	20,800	18.3
	33,500	30,500	9.8					
(%)								
Individual Savings	63.6	53.1	1,047	63.9	(1,974)	56.2	64.6	(841)
PAR	3.9	4.3	(38)	5.0	(114)	4.7	7.0	(229)
Non PAR	22.7	23.3	(59)	8.4	1,427	10.0	9.1	94
ULIP	37.0	25.6	1,144	50.5	(1,347)	41.5	48.5	(706)
Group Savings	23.6	37.4	(1,379)	22.5	109	31.9	22.8	902
Protection	12.8	9.5	333	13.6	(76)	11.9	12.5	(61)

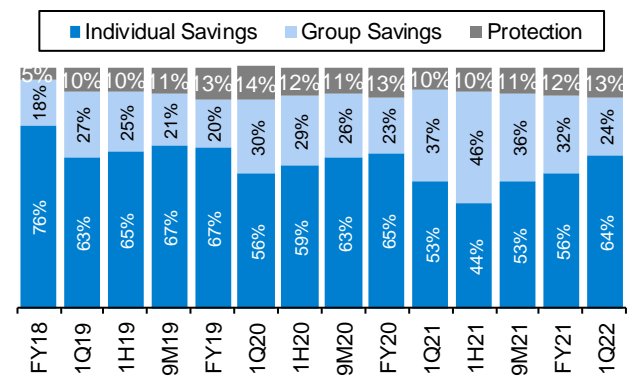
Source: Company, PL

Exhibit 5: Total NB Product Mix – Non-PAR improves



Source: Company, PL

Exhibit 6: Total NB Product Mix – Individual biz improves



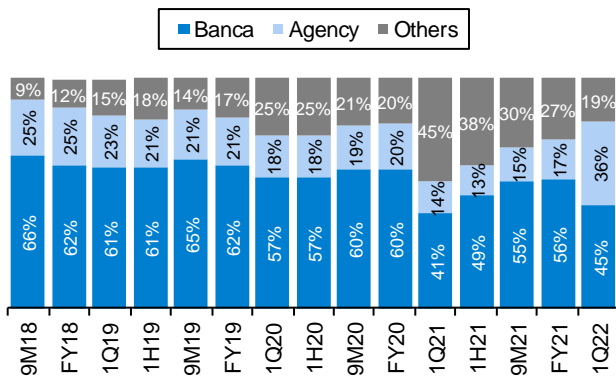
Source: Company, PL

Exhibit 7: Agency continues to grow; Company continues to tie-up with Banks to increase penetration

Rs Mn	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Total NB Sourcing Mix Breakup								
Banca	15,075	12,540	20.2	36,052	(58.2)	1,15,472	99,540	16.0
Agency	12,060	4,282	181.6	13,394	(10.0)	35,054	33,180	5.6
Others	6,365	13,764	(53.8)	12,354	(48.5)	55,674	33,180	67.8
Indv APE Sourcing Mix Breakup								
Banca	8,757	6,510	34.5	23,072	(62.0)	68,474	66,436	3.1
Agency	4,587	3,465	32.4	11,872	(61.4)	29,638	29,310	1.1
Others	556	525	5.9	1,456	(61.8)	4,088	1,954	109.2

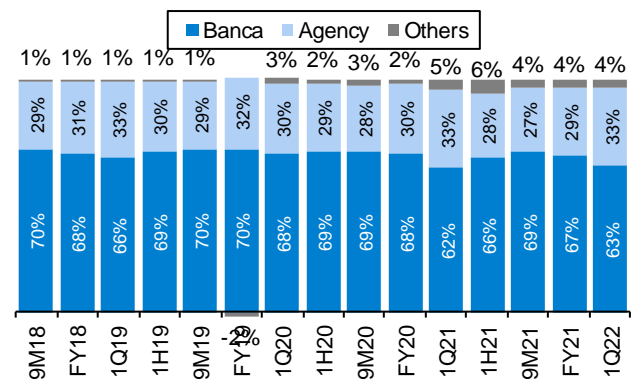
Source: Company, PL

Exhibit 8: Agency share improves but Banca dips



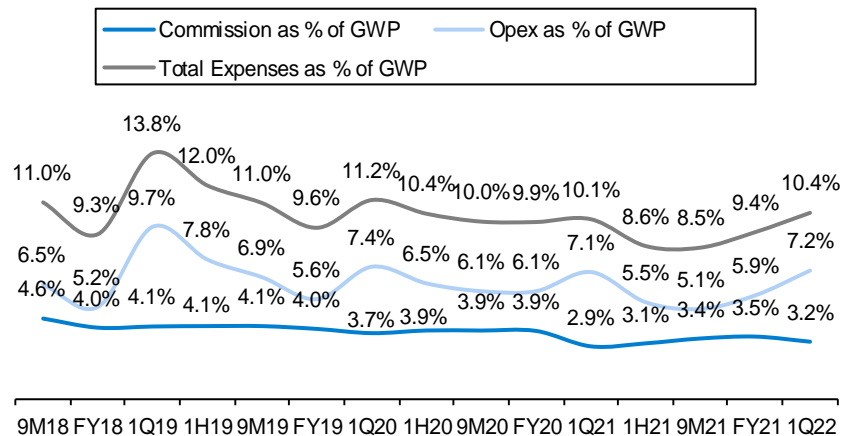
Source: Company, PL

Exhibit 9: Similar trends of agency in individual business



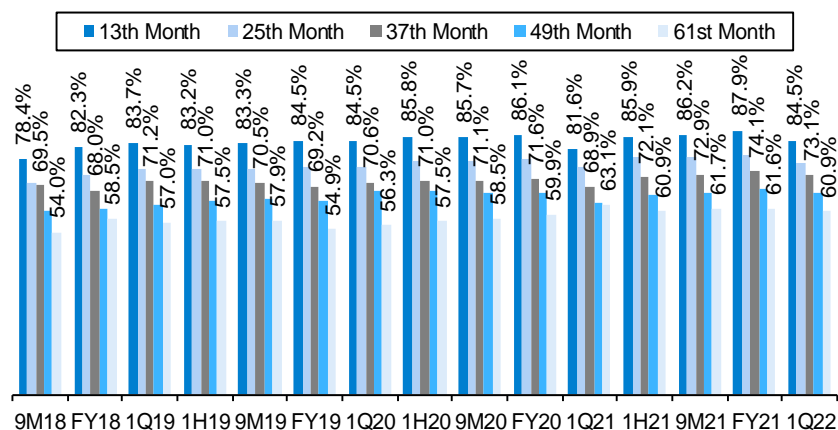
Source: Company, PL

Exhibit 10: Cost has increased marginally but under control



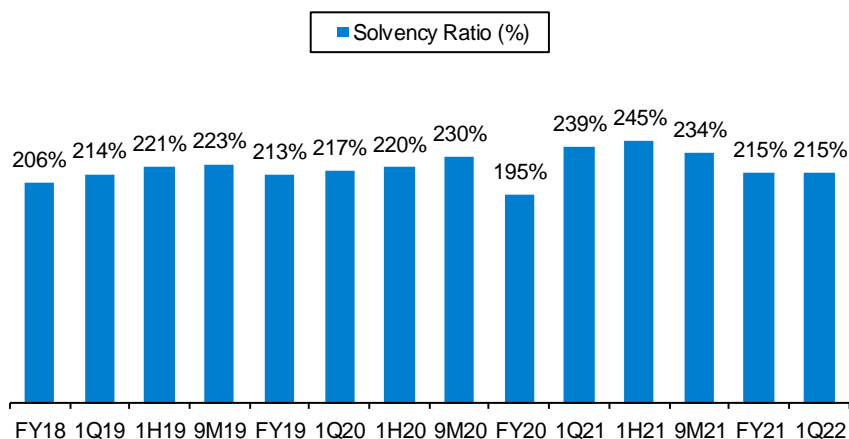
Source: Company, PL

Exhibit 11: Small persistency impact on 61st month bucket



Source: Company, PL

Exhibit 12: Solvency Ratio remains stable despite of Covid Claims



Source: Company, PL

Exhibit 13: We marginally tweak our APE assumptions and incorporate better margins

Est. change table Rs Bn	Earlier			Revised			%Change		
	FY22E	FY23	FY24	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
APE	132.1	154.0	-	132.9	155.0	182.9	0.6	0.6	-
VNB	27.6	34.3	-	28.8	34.5	41.1	4.5	0.6	-
VNB Margin (%)	20.9	22.2	-	21.7	22.2	22.5	0.8	-	-
EV	390.7	457.1	-	391.9	458.6	537.3	0.3	0.3	-
Price target (Rs)		1,150			1,250			9%	
Recommendation		BUY			BUY				

Source: Company, PL

Exhibit 14: We revise our TP to Rs 1,250 (from Rs1,150) based on 2.5x P/EV Sep-23E (rolled over from Mar-23)

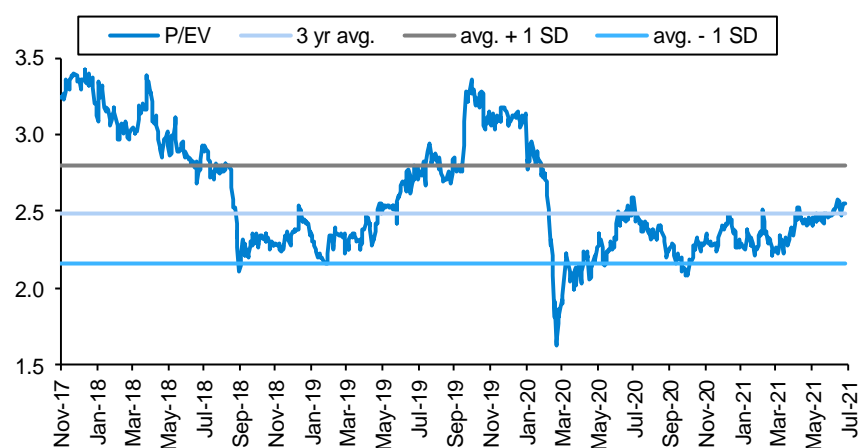
PT calculation and upside	
Op RoEV	16.9%
CoE	13.8%
Terminal Growth	5.0%
Embedded value – Sep'23	497
Price / Embedded value	2.5
Appraisal Value – Sep'23	1,250
Number of shares, mn	1,000
Valuation per share	1,250
CMP	1,077
Upside (%)	16.1%

Source: Company, PL

Exhibit 15: Key Metrics and EV movement

Rs bn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
APE	85.4	97.0	107.4	114.5	132.9	155.0	182.9
YoY growth (%)	26.9	13.6	10.7	6.6	16.1	16.6	18.0
NBV	13.9	17.2	20.1	23.3	28.8	34.5	41.1
YoY growth (%)	33.6	24.1	17.0	15.9	23.7	19.5	19.3
EV Movement							
Opening IEV	165.4	190.7	224.0	262.9	333.8	391.9	458.6
New Business Value	13.9	17.2	20.1	23.3	28.8	34.5	41.1
EVOP	29.5	33.2	45.9	50.2	56.8	66.5	78.5
Dividend pay-out	2.4	2.4	-	2.5	2.2	2.3	2.3
Closing EV	190.7	224.0	262.9	333.8	391.9	458.6	537.3
Adjusted Net worth	74.7	85.7	97.3	104.0	117.4	137.7	157.5
Value in force (VIF)	116.0	138.4	165.6	229.8	274.4	320.9	379.8
Ratios (%)							
NBAP margins	16.2	17.7	18.7	20.4	21.7	22.2	22.5
RoEV	15.3	17.5	17.4	27.0	17.4	17.0	17.2
Operating RoEV	17.9	17.4	20.5	19.1	17.0	17.0	17.1

Source: Company, PL

Exhibit 16: One Year Forward P/EV for SBI Life


Source: Company, PL



Technical account (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Gross Premiums	5,03,705	5,76,644	6,64,672	7,75,951
Reinsurance Ceded	(3,913)	(4,627)	(5,419)	(6,357)
Net Premiums	4,99,792	5,72,017	6,59,253	7,69,594
Income from Investments	2,40,749	2,26,476	2,80,173	3,44,472
Other Income	5,982	6,856	7,858	9,008
Total income	7,46,523	8,05,349	9,47,284	11,23,074
Commission	15,755	17,639	20,310	23,666
Operating expenses	29,413	33,527	38,626	45,074
Prov for doubtful debts	-	-	-	-
Operating Profit	7,01,355	7,54,182	8,88,349	10,54,334
Prov for Tax	3,401	3,736	4,415	5,204
Benefits Paid (Net)	2,09,323	2,35,718	2,75,552	3,22,039
Chg in reserves	4,73,990	4,96,889	5,87,492	7,02,525
Surplus / Deficit	13,680	16,692	19,521	22,931

Shareholder's a/c (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Transfer from technical a/c	13,680	16,692	19,521	22,931
Income From Investments	5,052	6,457	11,414	8,692
Total Income	18,731	23,148	30,935	31,624
Other expenses	555	639	735	845
Contribution to technical a/c	5,458	6,255	7,169	8,219
Total Expenses	6,013	6,894	7,904	9,063
PBT	12,718	16,255	23,031	22,560
Prov for Tax	254	325	461	451
PAT	12,464	15,930	22,570	22,109

Premium (Rs m) & growth (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
New business prem - unwtd	2,07,406	2,38,517	2,74,295	3,23,668
New business prem - APE	1,12,087	1,32,878	1,54,979	1,82,875
Renewal premium	2,96,299	3,38,126	3,90,377	4,52,283
Total premium - unwtd	5,03,705	5,76,644	6,64,672	7,75,951
New bus. growth - unwtd	25.0	15.0	15.0	18.0
New business growth - APE	6.7	18.5	16.6	18.0
Renewal premium growth	23.2	14.1	15.5	15.9
Total prem growth - unwtd	24.0	14.5	15.3	16.7

Premium mix (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
New business - unwtd				
- Individual mix	65.0	63.0	65.0	65.0
- Group mix	35.0	37.0	35.0	35.0
New business mix - APE				
- Participating	9.1	5.3	8.8	8.8
- Non-participating	22.9	27.1	27.8	27.8
- ULIPs	68.0	67.5	63.4	63.4
Total premium mix - unwtd				
- Participating	15.0	13.6	13.8	13.7
- Non-participating	31.1	32.1	32.7	32.9
- ULIPs	53.9	54.3	53.5	53.4

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sources of Fund				
Share Capital	10,000	10,000	10,000	10,000
Reserves And Surplus	89,203	1,02,933	1,23,203	1,43,012
Shareholders' Fund	97,541	1,10,972	1,31,242	1,51,051
Policy Liabilities	9,06,900	10,98,110	13,25,374	15,94,424
Prov. for Linked Liab.	10,56,801	13,62,481	17,22,708	21,56,184
Funds For Future App.	-	-	-	-
Current liabilities & prov.	35,663	42,082	42,082	42,082
Total	21,04,900	26,23,078	32,30,840	39,53,174
Application of Funds				
Shareholders' inv	70,118	1,02,057	1,41,451	1,84,506
Policyholders' inv	9,33,985	11,35,259	13,74,484	16,57,694
Assets to cover linked liab.	10,29,089	13,08,390	16,37,532	20,33,602
Loans	3,827	4,018	4,018	4,018
Fixed Assets	6,044	6,407	6,407	6,407
Current assets	61,835	66,947	66,947	66,947
Total	21,04,900	26,23,078	32,30,840	39,53,174

Operating ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
Investment yield (%)	11.6	8.7	8.8	8.8
Commissions / GWP	3.1	3.1	3.1	3.0
- first year premiums	4.6	4.1	4.0	4.0
- renewal premiums	3.5	3.5	3.5	3.5
- single premiums	0.7	0.7	0.7	0.7
Operating expenses / GWP	5.8	5.8	5.8	5.8
Total expense ratio	9.0	8.9	8.9	8.9
Claims / NWP	41.9	41.2	41.8	41.8
Solvency margin	215.0	215.0	215.0	215.0

Persistency ratios (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
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	FY21	FY22E	FY23E	FY24E
NBP margin (%) post overrun	20.4	21.7	22.2	22.5
RoE (%)	10.8	13.0	17.2	15.7
RoIC (%)	124.6	199.1	376.2	552.7

Valuation ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total AUMs (Rs bn)	2,209	2,546	3,153	3,876
- of which equity AUMs (%)	27.0	25.0	25.0	25.0
EVOP as % of MCEV	19.1	17.0	17.0	17.1
RoEV (%)	27.0	17.4	17.0	17.2
Dividend %	0.2	0.2	0.2	0.2
Dividend payout ratio (%)	16.8	13.8	10.2	10.4
EPS, Rs	12.5	15.9	22.6	22.1
Embedded Value (Rs bn)	333.8	391.9	458.6	537.3

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	822	758
2	Bank of Baroda	BUY	100	86
3	Federal Bank	Accumulate	97	85
4	HDFC Bank	BUY	1,870	1,522
5	HDFC Life Insurance Company	Hold	725	679
6	ICICI Bank	BUY	815	677
7	ICICI Prudential Life Insurance Company	Accumulate	670	605
8	IDFC First Bank	Reduce	48	54
9	IndusInd Bank	BUY	1,195	1,031
10	Kotak Mahindra Bank	Hold	1,900	1,755
11	Max Financial Services	Accumulate	1,120	1,051
12	Punjab National Bank	Accumulate	47	42
13	SBI Life Insurance Company	Accumulate	1,023	1,014
14	South Indian Bank	Hold	11	11
15	State Bank of India	BUY	480	430

PL's Recommendation Nomenclature (Absolute Performance)

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



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