

# SBI Life Insurance

BSE SENSEX  
59,413

S&P CNX  
17,711

**CMP:INR1,206**

**TP: INR1,400 (+16%)**

**BUY**



Bloomberg	SBILIFE IN
Equity Shares (m)	1,000
M.Cap.(INRb)/(USDb)	1206.5 / 16.3
52-Week Range (INR)	1254 / 756
1, 6, 12 Rel. Per (%)	-4/17/-7
12M Avg Val (INR M)	2402
Free float (%)	44.3

### Financial snapshot (INR b)

Y/E MARCH	FY21	FY22E	FY23E
Net Premiums	497.7	595.0	712.0
Surplus / Deficit	18.1	18.2	21.7
Sh.PAT	14.6	15.2	17.6
NBP gr- unwtd (%)	24.3	22.0	21.0
NBP gr- APE (%)	8.2	21.7	18.0
Premium gr (%)	23.7	19.5	19.7
VNB margin (%)	23.2	24.4	25.2
RoE (%)	15.2	13.8	14.3
RoEV (%)	27.0	16.5	16.9
Total AUMs (INRt)	2.2	2.5	2.9
VNB	26.6	33.8	41.2
EV per share	364.0	424.2	496.0

### Valuations

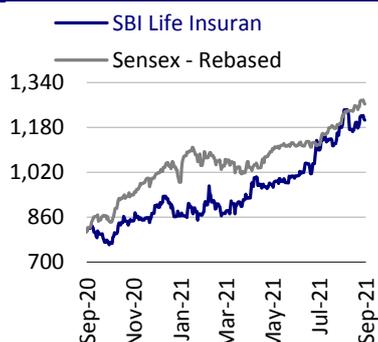
P/EV (x)	3.3	2.8	2.4
P/EVOP (x)	24.0	21.2	17.8

### Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	55.7	55.7	60.7
DII	9.6	6.9	7.0
FII	27.2	30.5	26.2
Others	7.4	6.9	6.1

FII Includes depository receipts

### Stock performance (one-year)



## Business growth recovering sharply; operating metrics steady

Estimate VNB to grow at 24% over FY21-24E

- SBILIFE has reported strong traction in new business growth, with Individual WRP growth of 52%/67% over Jul'21/Aug'21. In FY22 YTD, it has delivered Individual WRP growth of 48% YoY, while two-year CAGR stands healthy at 20%.
- Our recent interaction with the management indicates pick up in business momentum, with growth bouncing back strongly across all segments. The management is aiming at healthy double-digit growth over FY22E (20-25%), which would be among the best in the past few years. We estimate 20% CAGR in APE growth over FY21-24E.
- Agency channel has shown a strong bounce back and is contributing well to business growth. Strong momentum in high margin segments such as Annuity and Credit Life would aid further improvement in VNB margin.
- SBILIFE does not see any major challenge with respect to COVID-related claims. However, it may take a few months for the trend to stabilize completely. Persistency ratios are holding well across cohorts, while cost ratios may increase slightly on a revival in business growth.
- We estimate VNB to grow at 24% CAGR over FY21-24E, with operating RoEV to sustain by ~18% by FY24E. SBILIFE is among our preferred picks in the Life Insurance space. We reiterate our BUY rating with a TP of INR1,400/share (2.6x 1HFY24E EV).

## Growth bouncing back strongly, FY22 may be the best in the past few years

SBILIFE has been reporting strong traction in business volumes, with Individual APE growth of ~48% YoY over FY22 YTD. The management said all products are contributing to the growth revival, with ULIPs growing at 50-60% YoY, Annuity over 40% YoY, Non-PAR Guaranteed at more than 20% YoY, and Protection at over 45% YoY. Credit Life is seeing healthy traction, led by rising demand for home loans. We expect the share of Non-PAR to increase further over FY22E. The management is aiming at healthy double-digit growth over FY22E (20-25%), which would be among the best in the past few years. We estimate 20% CAGR in APE growth over FY21-24E.

## Product mix improvement to aid expansion in VNB margin

The shift in product mix shift towards higher margin products such as Non-PAR and Protection would drive improvement in VNB margin. Strong trends continue in the Credit Life segment, thus supporting overall Protection growth. While we are not factoring in a major decline in the share of ULIP mix, SBILIFE has a significantly higher share of the ULIP business at 65% (FY21) among leading private insurers. The company will continue to benefit from the improvement in product mix over the next few years. SBILIFE has reported a 340bp improvement in VNB margin over FY19-21. We estimate margin to improve further to 25.5% by FY24E.

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**Agency channel making a strong comeback; banca trend remains robust**

SBILIFE’s agency channel has made a strong comeback as mobility restrictions have eased considerably. The management suggested that the agency channel is currently growing at 50% YoY (4.6% CAGR over FY19-21), while banca growth trends remain robust. On the distribution front, YONO is emerging as the key focus area for growth in the Individual Protection business. SBILIFE has the agent network of ~147k and will continue to make investments in expanding the agency channel. We expect both banca and agency channel to reflect improving business trends in the medium term.

**Cost ratios to increase slightly – leadership in opex to sustain**

SBILIFE has demonstrated significant control in cost ratios as the same declined to 8.3% during FY21 v/s 11.2% three years ago – a significant lead over peers. The management will continue to work on cost optimization. However, overall expenses are likely to increase due to continued investments in technology and a revival in business growth. SBILIFE has one of the lowest cost structures among its peers. It has lower banca commission rates, which allows it to maintain strong control on cost ratios. We expect cost ratios to increase to ~9.5% by FY24E.

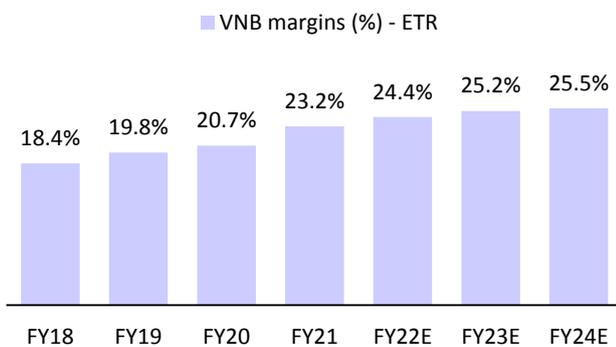
**COVID-related claims to increase over 2QFY22 levels, but the provision buffer seems adequate**

The management does not see any major challenge with respect to COVID-19 claims. However, it may take a few months for the trend to stabilize completely. Most insurers in our recent conference guided at elevated claim trends over 2QFY22 due to delays in the intimation of claims. SBILIFE said it has adequate provisioning buffers to absorb incremental COVID-19 claims.

**Valuation and view**

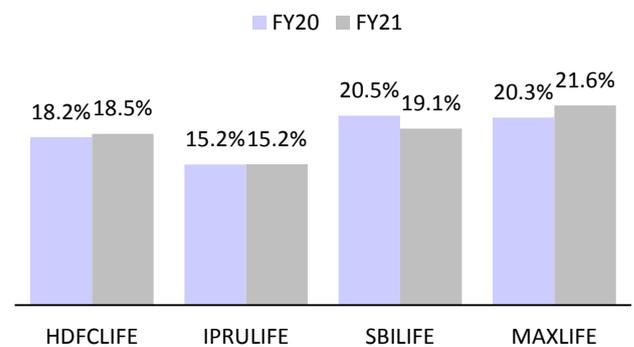
SBILIFE witnessed strong traction in premium growth across all product segments, with both agency and banca channel contributing to overall growth. We estimate APE growth at 20% CAGR over FY21-24E, led by continued momentum in non-PAR savings and Protection products, while growth in ULIP has also recovered. We estimate VNB margin to improve to 25.5% by FY24E, driving 24% CAGR in VNB over FY21-24E. Persistency ratios are holding well across cohorts, while cost leadership continues. We expect operating RoEV to sustain ~18% and estimate 17% EV growth over FY21-24E. SBILIFE is among our preferred picks in the Life Insurance space. We reiterate our BUY rating with a TP of INR1,400 per share (2.6x 1HFY24E EV).

**Exhibit 1: Expect VNB margin to improve to ~25.5% by FY24E**



Source: MOFSL, Company

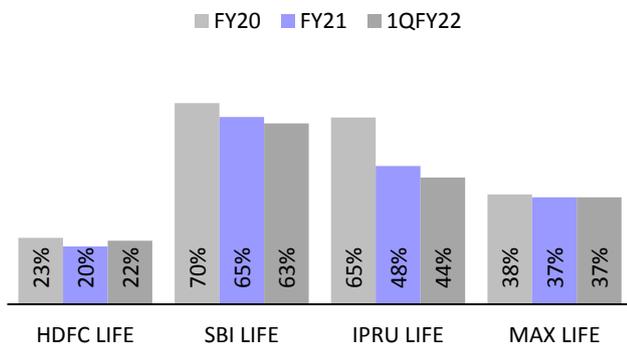
**Exhibit 2: Operating RoEV trend across key players**



Source: MOFSL, Company

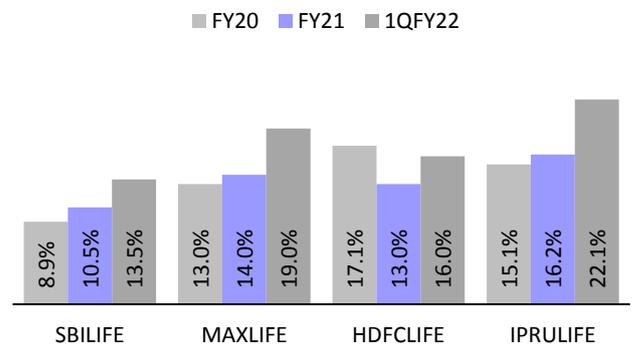
## Story in charts

**Exhibit 3: Mix of ULIP segment across key players**



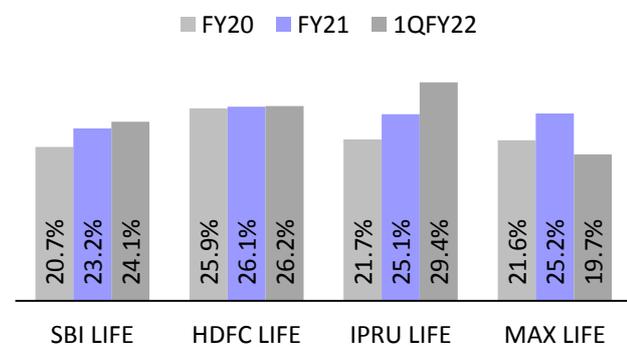
Source: MOFSL, Company

**Exhibit 4: Mix of Protection segment across key peers**



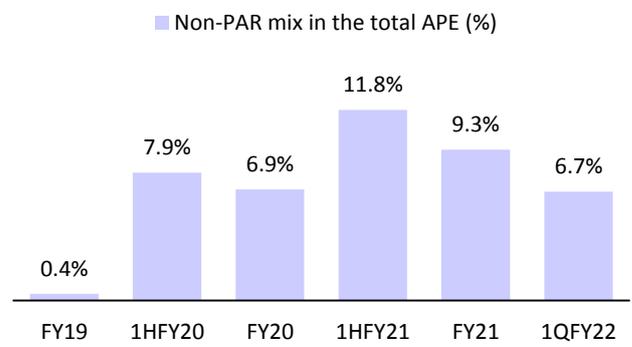
Source: MOFSL, Company

**Exhibit 5: VNB margin trends across key players**



Source: MOFSL, Company

**Exhibit 6: Non-PAR savings mix for SBILIFE**



Source: MOFSL, company; Distribution mix based on APE

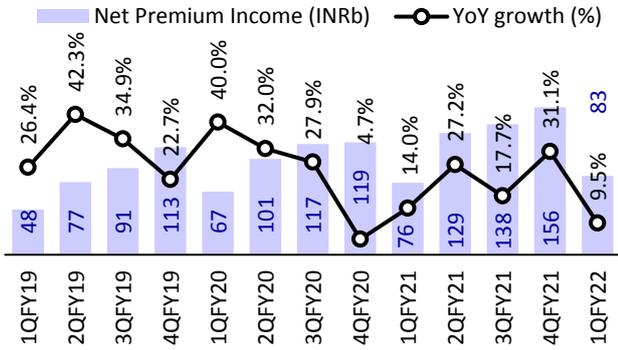
**Exhibit 7: COVID-19 claim trends across peers**

Particulars	HDFCLIFE		IPRULIFE		SBILIFE		MAXLIFE	
	FY21	1QFY22	FY21	1QFY22	FY21	1QFY22	FY21	1QFY22
Death claims (INR b)	2.3	15.7	4.6	11.2	NA	7.1	NA	10.3
Death claims – net of reinsurance (INR b)	1.5	9.6	2.6	5.0	3.2	5.7	1.2	5.6
Additional provisions reserve buffer (INR b)	1.7	7.0	3.3	5.0	1.8	4.4	5.0	2.7
EV (INR b)	266.2	273.3	291.1	NA	364.0	NA	118.3	122.9
<b>Net COVID-19 claims as a percentage of EV</b>	<b>0.5%</b>	<b>3.5%</b>	<b>0.9%</b>	<b>NA</b>	<b>0.9%</b>	<b>NA</b>	<b>1.0%</b>	<b>4.6%</b>
<b>COVID-19 reserves as a percentage of EV</b>	<b>0.6%</b>	<b>2.6%</b>	<b>1.1%</b>	<b>NA</b>	<b>0.5%</b>	<b>NA</b>	<b>4.2%</b>	<b>2.2%</b>

Source: MOFSL, Company

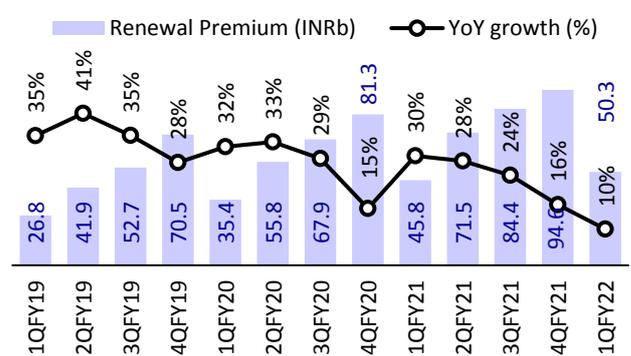
Story in charts

Exhibit 8: Net premium growth healthy at 9.5% YoY



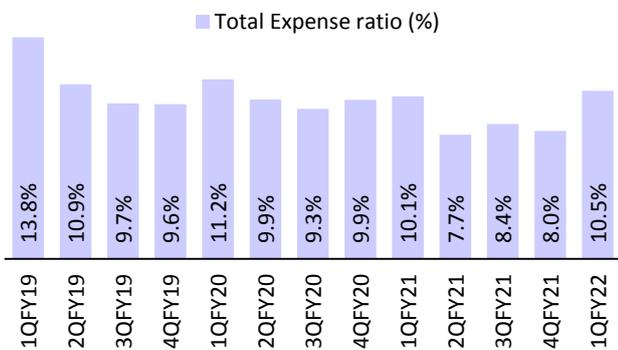
Source: MOFSL, Company

Exhibit 9: Renewal premium growth stood at 10% YoY



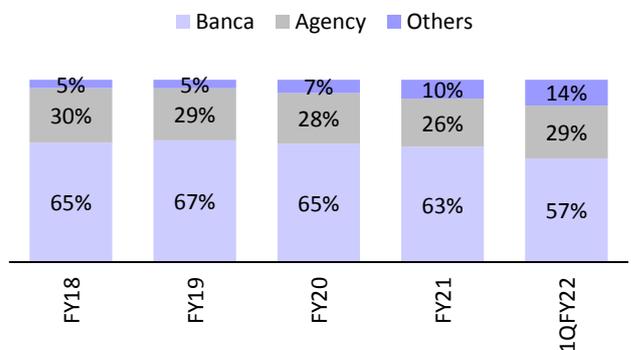
Source: MOFSL, Company

Exhibit 10: Total expense ratio stood at 10.5%



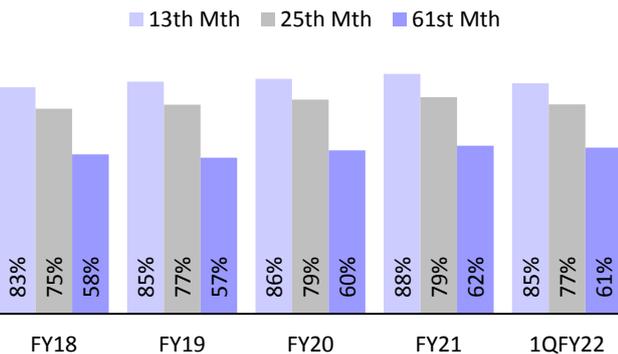
Source: MOFSL, Company

Exhibit 11: Distribution mix across channels



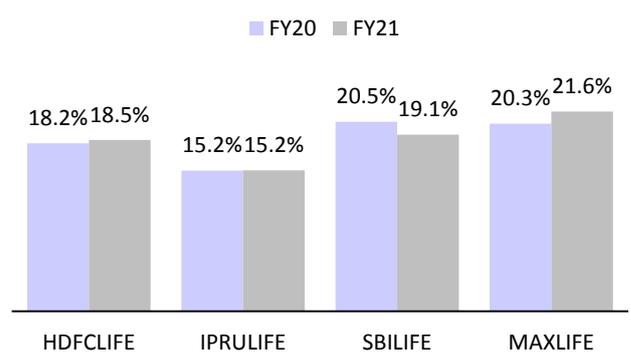
Source: MOFSL, Company

Exhibit 12: Persistency trends for SBILIFE



Source: MOFSL, Company

Exhibit 13: Operating RoEV trend across key players



Source: MOFSL, Company

## Financials and valuations

Technical account (INR b)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Gross Premiums	253.5	329.9	406.3	502.5	600.5	718.9	856.1
Reinsurance Ceded	(1.9)	(1.0)	(3.1)	(4.9)	(5.5)	(6.9)	(8.2)
Net Premiums	251.7	328.9	403.2	497.7	595.0	712.0	847.8
Income from Investments	84.6	112.1	30.0	314.6	157.5	187.4	222.8
Other Income	1.4	1.6	5.2	8.6	10.8	13.4	16.8
<b>Total income (A)</b>	<b>337.7</b>	<b>442.6</b>	<b>438.4</b>	<b>820.8</b>	<b>763.3</b>	<b>912.8</b>	<b>1,087.4</b>
Commission	11.2	13.5	16.2	17.7	23.0	27.6	33.1
Operating expenses	17.2	21.2	24.1	24.1	33.4	39.6	47.9
<b>Total commission and opex</b>	<b>28.4</b>	<b>34.7</b>	<b>40.3</b>	<b>41.9</b>	<b>56.5</b>	<b>67.2</b>	<b>81.1</b>
Benefits Paid (Net)	117.1	152.9	162.5	215.8	214.6	257.1	306.3
Chg. in reserves	176.0	235.9	206.0	539.3	464.3	554.2	652.7
Prov. for doubtful debts	3.5	5.5	6.8	4.7	8.1	9.6	11.4
<b>Total expenses (B)</b>	<b>325.1</b>	<b>429.0</b>	<b>415.7</b>	<b>801.8</b>	<b>743.5</b>	<b>888.1</b>	<b>1,051.5</b>
<b>(A) - (B)</b>	<b>12.6</b>	<b>13.6</b>	<b>22.8</b>	<b>19.1</b>	<b>19.8</b>	<b>24.7</b>	<b>35.9</b>
<b>Surplus/Deficit (calculated)</b>	<b>10.2</b>	<b>10.9</b>	<b>19.0</b>	<b>18.1</b>	<b>18.2</b>	<b>21.7</b>	<b>29.8</b>

Shareholder's a/c (INR b)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Transfer from technical a/c	8.3	10.0	14.6	16.8	14.3	17.2	20.0
Income from Investments	4.6	5.2	4.8	6.9	6.8	7.9	9.3
<b>Total Income</b>	<b>12.9</b>	<b>15.2</b>	<b>19.5</b>	<b>23.7</b>	<b>21.2</b>	<b>25.1</b>	<b>29.3</b>
Contribution to technical a/c	0.8	1.0	4.8	8.2	5.4	6.7	8.4
Total Expenses	1.1	1.4	5.3	8.3	5.8	7.3	9.2
<b>PBT</b>	<b>11.8</b>	<b>13.7</b>	<b>14.1</b>	<b>15.4</b>	<b>15.4</b>	<b>17.7</b>	<b>20.1</b>
Prov. for Tax	0.3	0.5	(0.1)	0.9	0.2	0.2	0.2
<b>PAT</b>	<b>11.5</b>	<b>13.3</b>	<b>14.2</b>	<b>14.6</b>	<b>15.2</b>	<b>17.6</b>	<b>19.8</b>
<i>Growth</i>	20.5%	15.3%	7.2%	2.4%	4.4%	15.4%	13.0%

Premium (INR b) and growth (%)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
New business prem. – unwttd.	110	138	166	206	252	304	365
New business prem. – WRP	84	95	105	114	138	163	198
Renewal premium	144	192	240	296	349	414	491
New bus. growth – unwttd.	8.1%	25.8%	20.3%	24.3%	22.0%	21.0%	20.0%
New business growth – WRP	27.6%	13.2%	10.2%	8.2%	21.7%	18.0%	21.0%
Renewal premium growth	32.3%	33.4%	25.2%	23.2%	17.8%	18.8%	18.4%

Premium mix (%)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>New business – unwttd.</b>							
- Individual mix	76.7%	69.9%	67.8%	60.6%	68.0%	70.0%	70.0%
- Group mix	23.3%	30.1%	32.2%	39.4%	32.0%	30.0%	30.0%
<b>New business mix - WRP</b>							
- Participating	24.0%	18.4%	10.9%	8.4%	9.1%	10.3%	10.2%
- Non-participating	9.0%	10.3%	18.6%	26.6%	19.8%	22.4%	23.0%
- ULIPs	67.0%	71.3%	70.5%	65.0%	71.1%	67.4%	66.8%
<b>Total premium mix – unwttd.</b>							
- Participating	24.8%	21.8%	18.3%	15.1%	16.0%	15.3%	15.2%
- Non-participating	19.5%	20.8%	23.8%	28.2%	29.4%	30.8%	30.9%
- ULIPs	55.7%	57.4%	57.9%	56.6%	54.5%	53.9%	53.8%

Individual prem. sourcing mix	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Individual agents	31.2%	29.6%	28.8%	27.7%	26.7%	25.2%	25.2%
Corporate agents – Banks	67.4%	68.9%	67.5%	65.4%	67.0%	68.0%	68.0%
Direct business	0.8%	0.7%	2.0%	4.1%	4.5%	5.0%	5.0%
Others	0.5%	0.7%	1.8%	2.8%	1.8%	1.8%	1.8%

## Financials and valuations

Balance Sheet (INR b)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of Fund</b>							
Share Capital	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Reserves and Surplus	53.7	64.6	78.8	90.9	103.1	117.2	133.0
<b>Shareholders' Fund</b>	<b>65.3</b>	<b>75.8</b>	<b>87.4</b>	<b>104.0</b>	<b>115.7</b>	<b>129.4</b>	<b>144.9</b>
Policy Liabilities	555.6	649.5	761.2	924.1	1,107.2	1,337.4	1,605.5
Prov. for Linked Liab.	495.6	605.9	763.0	965.5	1,132.4	1,331.2	1,567.3
Funds For Future App.	-	2.8	7.1	8.4	9.9	11.7	13.8
Current liabilities and prov.	35.5	37.4	30.2	42.4	44.1	45.9	47.8
<b>Total</b>	<b>1,217.1</b>	<b>1,467.3</b>	<b>1,655.8</b>	<b>2,268.3</b>	<b>2,692.9</b>	<b>3,217.3</b>	<b>3,844.3</b>
<b>Application of Funds</b>							
Shareholders' inv.	50.1	57.2	68.3	86.0	101.5	119.8	141.4
Policyholders' inv.	544.9	644.7	734.2	939.4	1,120.2	1,351.5	1,620.5
Assets to cover linked liab.	549.4	691.3	785.7	1,162.2	1,375.6	1,632.7	1,948.1
Current assets	65.2	66.4	58.2	71.5	85.3	101.9	121.9
<b>Total</b>	<b>1,217.1</b>	<b>1,467.3</b>	<b>1,655.8</b>	<b>2,268.3</b>	<b>2,692.9</b>	<b>3,217.3</b>	<b>3,844.3</b>
<b>Operating ratios (%)</b>							
Investment yield	7.8%	8.4%	1.9%	15.1%	6.3%	6.3%	6.4%
<b>Commissions/GWP</b>	<b>4.4%</b>	<b>4.1%</b>	<b>4.0%</b>	<b>3.5%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.9%</b>
Operating expenses/GWP	6.8%	6.4%	5.9%	4.8%	5.6%	5.5%	5.6%
<b>Total expense ratio</b>	<b>11.2%</b>	<b>10.5%</b>	<b>9.9%</b>	<b>8.3%</b>	<b>9.4%</b>	<b>9.3%</b>	<b>9.5%</b>
Solvency ratio	206%	213%	195%	215%	193%	179%	166%
<b>Persistence ratios (%)</b>							
13th Month	83.0%	85.1%	86.1%	87.9%	88.5%	88.9%	89.2%
25th Month	75.2%	76.7%	78.5%	79.4%	79.6%	79.8%	79.9%
37th Month	70.0%	71.4%	71.6%	74.1%	74.8%	75.2%	75.4%
49th Month	63.9%	66.4%	67.3%	68.1%	68.3%	68.4%	68.5%
61st Month	58.4%	57.2%	59.9%	61.6%	62.1%	62.5%	62.6%
<b>Profitability ratios (%)</b>							
VNB margin (%)	18.4%	19.8%	20.7%	23.2%	24.4%	25.2%	25.5%
RoE (%)	19.0%	18.8%	17.4%	15.2%	13.8%	14.3%	14.5%
Operating RoEV (%)	18.0%	17.3%	20.5%	19.1%	17.0%	17.4%	17.7%
RoEV (%)	15.3%	17.5%	17.4%	27.0%	16.5%	16.9%	17.3%
<b>Valuation ratios</b>							
Total AUM	1,163	1,410	1,604	2,209	2,467	2,949	3,524
- of which equity AUM (%)	23%	23%	21%	27%	28%	28%	29%
Dividend (%)	20%	20%	0%	25%	30%	35%	40%
Dividend payout ratio (%)	21%	18%	0%	17%	20%	20%	20%
EPS (INR)	11.5	13.3	14.2	14.6	15.2	17.6	19.8
VNB	15.7	19.2	22.2	26.6	33.8	41.2	50.5
- VNB growth (%)	36.1%	22.3%	15.6%	19.8%	27%	22%	23%
EV per share	201.7	237.3	276.4	364.0	424.2	496.0	581.7
P/EV (x)	6.0	5.1	4.4	3.3	2.8	2.4	2.1
P/EPS (x)	104.8	90.9	84.8	82.8	79.3	68.7	60.8
P/EVOP (x)	40.6	36.5	26.3	24.0	21.2	17.8	15.0

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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