

**SBI Life**

Refer to important disclosures at the end of this report

## Strong performance

**SBILIFE reported an impressive set of numbers in FY22, with VNB margin improving 2.6ppts to 25.9% and operating RoEV of 16.4% (19.5% after adjusting for excess Covid-19 mortality). With all its distribution channels firing, expanding product offerings and widening acceptance, we expect robust growth to continue in FY23 and beyond. The formidable combination of brand and distribution reach in terms of geography and demography makes SBILIFE a formidable force in the Indian life insurance sector. Based on the risk-reward proposition, SBILIFE remains our top pick in the sector. We reiterate our Buy rating with a revised target price of Rs1,645.**

- **Strong performance in FY22:** SBILIFE reported 25% YoY growth in APE in FY22 to Rs143bn and 39% YoY growth in VNB (on effective tax rate - ETR - basis) to Rs37bn. VNB margin expanded by 2.7ppts to 25.9% YoY. The margin expansion was largely on account of the increasing share of non-par (saving and annuity) in the portfolio. The EV for FY22 came in at Rs396bn, driven by 19.5% pre-Covid excess mortality Operating RoEV but partially offset by ~-3% on excess Covid-19 mortality and -2% on Economic Variance and dividend payout. Both the distribution channels, the bank and the agency, have delivered a strong performance. (Exhibit 1-7)
- **Operating parameters stable or improving:** Operating parameters, including persistency, product mix, distribution mix and cost ratios, were broadly stable or improving. SBILIFE remains the cost leader in the industry. On retail protection offerings, the company continues with its existing reinsurance strategy. And given its Return of Premium (ROP) heavy retail protection offering, it was able to deliver ~26% growth in retail protection APE in FY22.
- **For good, EV disclosures move to effective tax rate (ETR) only:** Bringing the disclosures in line with peers, SBILIFE has moved EV disclosures to ETR only. The detailed modeling and cashflow projection for the ETR-based calculation meant that the FY21 statutory tax rate (STR) based EV of Rs334bn moved to Rs346bn ETR. This was different from Rs364bn ETR EV for FY21, given earlier based on simplistic ETR assumption. On this Rs346bn EV, the company delivered EVOP of Rs57bn (16.4%), including a Rs10.8bn negative impact of Covid excess mortality. Adjusted for that, Operating RoEV stood at 19.5%. Persistency and cost variances remained positive and operating assumption changes had a negligible impact on EV. Overall, the move to ETR only brings clarity and consistency in EV disclosures.
- **Strong growth outlook; gradual margin improvement to continue:** With all its old warhorse distribution channels (SBI and agency) rejuvenated and performing strongly and new banca partners starting to perform well, the growth outlook is strong over the coming years. Management expects to sustain the current strong growth momentum. However, given the strong growth base of FY22, we build in ~15% APE growth in coming years. On the margin front, the VNB margin of SBILIFE at 25.9% is already comparable with peers, despite having a relatively ULIP-heavy product mix, as SBILIFE benefits from low distribution costs and opex. Management expects VNB margins to continue to improve gradually on the back of an improving product mix and operating leverage. Overall, helped by strong VNB generation, ~18-19% operating RoEV generation looks realistic in the coming years.
- **Minor changes to estimates; reiterate buy with a revised TP of Rs1,645:** To reflect FY22 developments, we have made minor changes to our estimates (Exhibit 10). Driven by a minor cut in FY23 EV, upward revision in margins and rollover to Jun'23, our appraisal value-based TP is Rs1,645 (Exhibit 8), implying FY23E P/EV of 3.5x (Exhibit 9). Given the formidable combination of brand and distribution, SBILIFE is among the best plays in the sector to deliver robust APE growth with sustained margin expansion. Based on risk reward, SBILIFE is our top pick in the sector. Notwithstanding short-term volatility, this is a classic EV compounding machine.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 7\)](#)

### Financial Snapshot (Standalone)

Y/E March (Rs bn)	FY21	FY22	FY23e	FY24e	FY25e
Annualised Premium Equivalent (APE)	114.5	143.0	165.1	190.6	220.1
New Business Value (NBV)	26.6	37.0	44.1	52.4	61.9
NBV Margin (% of APE)	23.2	25.9	26.7	27.5	28.1
Embedded Value	345.9	396.3	465.4	547.0	642.7
Operating RoEV (%)	19.4	16.4	19.2	19.0	18.8
EVPS (Rs)	345.9	396.2	465.3	546.9	642.5
EPS (Rs)	14.6	15.1	19.3	22.2	25.1
BVPS (Rs)	104.0	116.2	133.3	153.5	176.5
P/EV (x)	3.2	2.8	2.4	2.0	1.7

Source: Company, Emkay research

CMP	Target Price
Rs 1,117 as of (April 29, 2022)	Rs 1,645 (▲) 12 months
Rating	Upside
BUY (■)	47.3 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	1.85%
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	19.3	22.2
Consensus	19.3	22.9
Mean Consensus TP (12M)	Rs 1,498	

### Stock Details

Bloomberg Code	SBILIFE IN
Face Value (Rs)	10
Shares outstanding (mn)	1,000
52 Week H/L	1,315 / 914
M Cap (Rs bn/USD bn)	1,117 / 14.61
Daily Avg Volume (nos.)	1,431,562
Daily Avg Turnover (US\$ mn)	20.9

### Shareholding Pattern Mar '22

Promoters	55.5%
FIIIs	24.2%
DIIIs	12.5%
Public and Others	7.9%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(7)	(4)	20
Rel. to Nifty	4	(8)	(1)	3

### Relative price chart



Source: Bloomberg

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#### Avinash Singh

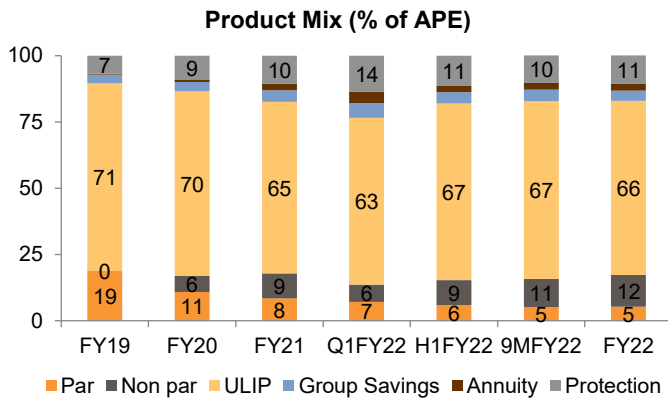
avinash.singh@emkayglobal.com  
+91 22 6612 1327

#### Mahek Shah

mahek.shah@emkayglobal.com  
+91 22 6612 1218

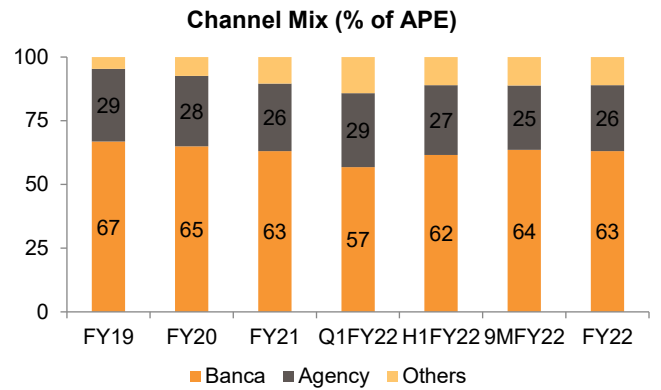
# Story in Charts

**Exhibit 1: Non-par showing gradual increase in FY22**



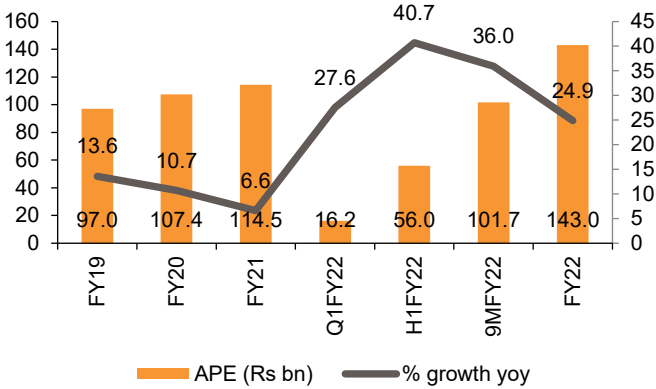
Source: Company, Emkay Research

**Exhibit 2: Banca continues to contribute strongly to the channel mix**



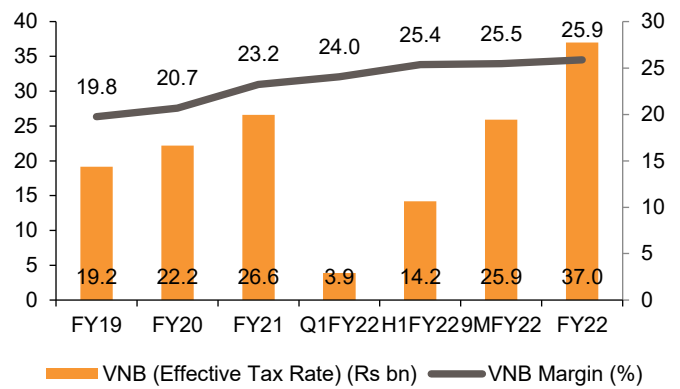
Source: Company, Emkay Research

**Exhibit 3: APE up ~24.9% yoy at Rs143bn for FY22**



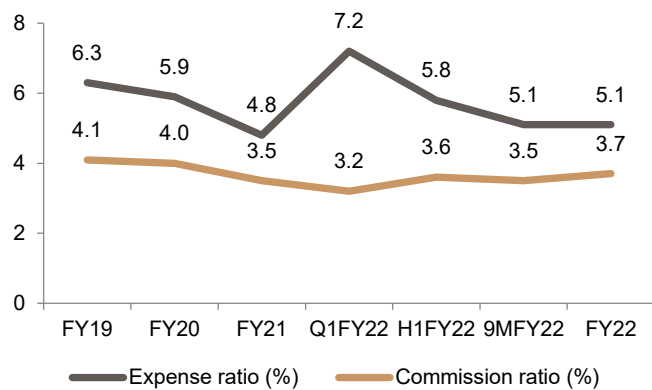
Source: Company, Emkay Research

**Exhibit 4: Margins up ~270bps yoy**



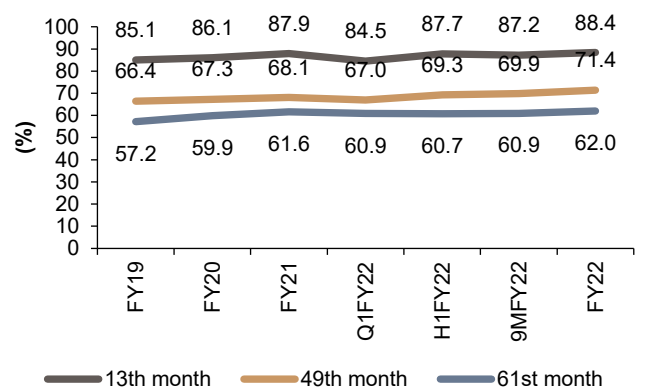
Source: Company, Emkay Research

**Exhibit 5: Cost ratios improve with focus on improving cost structure**



Source: Company, Emkay Research

**Exhibit 6: 13M and 49M persistency ratios continue to improve**



Source: Company, Emkay Research

## Exhibit 7: Quarterly financials

in Rs bn except %	FY22	FY21	%yoy	4QFY22	4QFY21	%yoy	FY21	FY20	%yoy
<b>Annualised Premium Equivalent (APE)</b>	<b>143.0</b>	<b>114.5</b>	<b>24.9</b>	<b>41.3</b>	<b>39.7</b>	<b>4.0</b>	<b>114.5</b>	<b>107.4</b>	<b>6.6</b>
--o/w Savings	124.2	99.5	24.8	35.5	33.0	7.6	99.5	96.7	2.9
--o/w Protection	15.3	12.0	27.5	4.8	3.7	29.7	12.0	9.6	25.0
Protection APE (% of total APE)	10.7	10.5	0.2ppts	11.6	9.3	2.3ppts	10.5	8.9	1.5ppts
Value of New Business	37.0	26.6	39.1	11.1	11.1	0.5	26.6	22.2	19.8
New Business Margin (%)	25.9	23.2	2.6ppts	27%	28%	-1.0ppts	23.2	20.7	2.6ppts
<b>Embedded Value</b>	<b>396.3</b>	<b>346.1</b>	<b>14.5</b>	<b>NA</b>	<b>NA</b>	<b>NM</b>	<b>346.1</b>	<b>276.4</b>	<b>25.2</b>
Individual New Business WRP	128.7	102.2	26.0	38.0	36.4	4.5	102.2	97.7	4.6
Total New Business Premium	254.6	206.2	23.4	66.7	61.9	7.7	206.2	165.9	24.3
Renewal premium	333.0	296.3	12.4	108.4	94.6	14.6	296.3	240.4	23.2
Gross written premium	587.6	502.5	16.9	175.1	156.5	11.9	502.5	406.3	23.7
<b>PAT</b>	<b>15.1</b>	<b>14.6</b>	<b>3.4</b>	<b>6.7</b>	<b>5.3</b>	<b>26.2</b>	<b>14.6</b>	<b>14.1</b>	<b>3.0</b>
AUM	2,674	2,209	21.1	2,674.1	2,208.7	21.1	2,209	1,604	37.7
SH Equity	116.2	104.0	11.7	116.2	104.0	11.7	104.0	87.4	19.0
13th month persistency (%)	88.4	87.9	0.5ppts				87.9	86.1	1.8ppts
49th month persistency (%)	71.4	68.1	3.3ppts				68.1	67.3	0.8ppts
61st month persistency (%)	62.0	61.6	0.4ppts				61.6	59.9	1.7ppts
Solvency ratio (%)	205.0	215.0	-10ppts	205.0	215.0	-10ppts	215.0	195.0	20ppts

Source: Company, Emkay Research.

## Exhibit 8: Appraisal value method valuation of SBI Life

Parameter (Rs bn)	Value
FY23e-38e APE CAGR	10.3%
FY23e-38e VNB CAGR	10.5%
Terminal growth rate	5.0%
Cost of Equity	12.5%
FY23 EV	465
Present value of future new business	1,129
Appraisal value - Mar- 23	1,599
Share count (mn)	1,000
Appraisal value per share (Rs.) - Mar- 23	1,598
<b>Price target (Rs.) - Jun-23</b>	<b>1,645</b>

Source: Emkay Research

## Exhibit 9: Implied valuation multiples

<b>Appraisal value multiple on FY23 estimates</b>	<b>1,645</b>
P/EV	3.5x
RoEV (%)	19.2
P/EVOP	22.5x
Implied FY24e VNB multiple	21.5x
<b>Current price multiple on FY23 estimates</b>	<b>1,118</b>
P/EV	2.4x
RoEV (%)	19.2
P/EVOP	15.3x
Implied FY24e VNB multiple	12.5x

Source: Emkay Research. Note: Implied VNB multiple is the derived number that is the ratio of premium of appraisal value/market cap over closing EV of previous year to VNB

## Exhibit 10: Changes in Estimates

Rs bn	Old			Revised			% Change		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
APE	167.0	192.9	NA	165.1	190.6	220.1	-1.2	-1.2	NA
VNB	43.2	50.8	NA	44.1	52.4	61.9	2.2	3.2	NA
VNB Margin (%)	25.8	26.3	NA	26.7	27.5	28.1	0.9ppts	1.2ppts	NA
EVOP	71.4	82.5	NA	76.2	88.6	102.6	6.8	7.3	NA
EV	487.2	567.2	NA	465.4	547.0	642.7	-4.5	-3.6	NA
PAT	16.9	20.0	NA	19.3	22.2	25.1	14.4	11.1	NA

Source: Company, Emkay Research

## Con-call highlights

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- Management stated that the total new business premium grew by 23% vs. the Industry growth rate of 13%. The value of new business stood at Rs37bn at a growth rate of 39%.
- The company launched a new non-par guaranteed product – Smart Platina Plus. Management said that the newly launched product had a positive response in a short span of time and expects the product to perform well in the coming quarters.
- Management said the company saw its 25 month and 49 month persistency grow by 221bps and 423bps, respectively.
- Management said that in comparison to the previous quarter, VNB was flat not on account of any change in methodology but because of the business mix and the kind of products the company sold this quarter vs. last quarter.
- Due to the impact of the Omicron wave, business for Jan-Feb'22 was affected, while growth picked up in Mar'22. Having faced such external problems, the company posted 25% growth in APE, which itself shows the strength of the company, said management.
- With respect to hedging, management said that it was not expecting any challenges and the prices of the Forward Rate Agreements were much in line with their budgeted numbers.
- Management said the company has re-priced the guaranteed products, giving benefits to its customers as well as making reasonable profits in terms of margins.
- Management said that the Credit Life Business stood at Rs5.4bn for the Quarter and Rs17bn for FY22. With respect to the Annuity Business, the numbers for Individual stood at Rs17.8bn and Group at Rs16.9bn.
- Management expects that the company will have more non-par products in the mix, with protection products already being strong. Protection products grew by 26% in FY22, in line with growth of other products. Management expects the trend to continue, with growing margins and a shift in the product mix. Management reiterated that it does not intend to reduce or discourage ULIP products as long as customer demand persists.
- Management believes it has its own strength and would not be affected by LIC or any other player, given the company's strong distribution network. With good products and better growth, the company doesn't expect its business to get affected.

**Exhibit 11: Key Financials**

Y/E March (Rs mn)	2019	2020	2021	2022	2023e	2024e	2025e
<b>Policyholders' account</b>							
Gross written premium	3,29,894	4,06,347	5,02,542	5,87,596	6,93,581	8,15,013	9,54,712
Net earned premium	3,28,904	4,03,240	4,97,683	5,84,323	6,89,717	8,06,863	9,45,165
Total revenue	4,42,612	4,38,428	8,20,849	8,30,272	8,86,913	10,33,764	12,08,412
Commission expense	13,769	16,249	17,788	21,583	25,476	29,803	34,911
Operating expenses	20,930	24,131	24,123	29,745	34,420	40,266	47,168
Surplus/Deficit	10,866	18,947	18,074	18,838	20,097	18,582	18,467
<b>Shareholders' account</b>							
Transfer from policyholders' account	9,985	14,627	16,788	17,324	19,097	17,582	17,467
<b>Profit after tax</b>	<b>13,268</b>	<b>14,222</b>	<b>14,558</b>	<b>15,060</b>	<b>19,344</b>	<b>22,192</b>	<b>25,056</b>
<b>Balance Sheet</b>							
Sources of Funds							
Shareholders' Funds	75,764	87,431	1,04,004	1,16,223	1,33,328	1,53,521	1,76,577
Policyholders' Funds: Insurance reserves and provisions	13,51,399	15,31,011	21,13,493	25,55,913	29,78,752	34,82,157	40,80,601
Others	2,816	7,137	8,423	9,936	11,924	14,308	17,170
<b>Total</b>	<b>14,29,978</b>	<b>16,25,579</b>	<b>22,25,921</b>	<b>26,82,072</b>	<b>31,24,004</b>	<b>36,49,986</b>	<b>42,74,348</b>
Application of Funds							
Shareholders' Investments	57,232	68,279	86,047	1,00,758	1,15,587	1,33,093	1,53,081
Policyholders' Investments	6,44,724	7,34,199	9,39,364	11,21,307	13,06,811	15,27,660	17,90,204
Assets Held to Cover Linked Liabilities	6,91,291	7,85,653	11,62,150	14,26,253	16,62,206	19,43,117	22,77,062
<b>Total</b>	<b>14,29,978</b>	<b>16,25,579</b>	<b>22,25,921</b>	<b>26,82,072</b>	<b>31,24,004</b>	<b>36,49,986</b>	<b>42,74,348</b>
<b>Embedded Value Account</b>							
Embedded Value	2,37,290	2,76,360	3,45,869	3,96,269	4,65,449	5,47,044	6,42,684
Annualised Premium Equivalent (APE)	97,000	1,07,370	1,14,480	1,43,000	1,65,081	1,90,599	2,20,097
New Business value	19,160	22,200	26,600	37,000	44,109	52,438	61,862
New Business Margin (%)	19.8	20.7	23.2	25.9	26.7	27.5	28.1
EV Operating Profit	35,190	48,020	53,480	56,700	76,180	88,595	1,02,640
Operating RoEV (%)	17.4	20.2	19.4	16.4	19.2	19.0	18.8
<b>Per share data, in Rs</b>							
EPS	13.27	14.22	14.56	15.06	19.34	22.19	25.05
DPS	2.0	0.0	2.5	2.0	2.0	2.0	2.0
EVPS	237.3	276.4	345.9	396.2	465.3	546.9	642.5
BVPS	75.8	87.4	104.0	116.2	133.3	153.5	176.5
EV Op. Profit per share	35.2	48.0	53.5	56.7	76.2	88.6	102.6
<b>Key Ratio</b>							
Return on Equity (%)	18.8	17.4	15.2	13.7	15.5	15.5	15.2
Commission expense/TWRP (%)	4.8	4.7	4.4	4.6	4.6	4.6	4.6
Operating expenses/TWRP (%)	7.6	7.4	5.5	6.4	6.2	6.2	6.2
Total expense (% of TWRP)	12.5	12.2	9.9	11.0	10.7	10.7	10.8
Total expense (% of Avg AUM)	2.69	2.69	2.20	2.10	2.07	2.07	0.00
Conservation ratio (%)	85.2	85.1	87.5	83.3	85.3	85.3	85.3

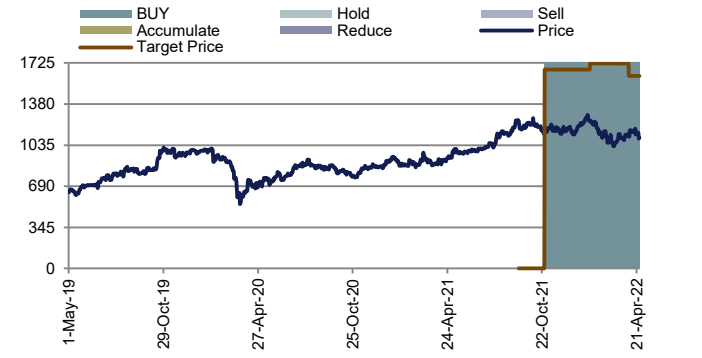
Source: Company data, Emkay Research

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-Apr-22	1,125	1,615	12m	Buy	Avinash Singh
6-Apr-22	1,107	1,615	12m	Buy	Avinash Singh
8-Feb-22	1,131	1,720	12m	Buy	Avinash Singh
22-Jan-22	1,241	1,720	12m	Buy	Avinash Singh
18-Jan-22	1,266	1,670	12m	Buy	Avinash Singh
7-Dec-21	1,159	1,670	12m	Buy	Avinash Singh
9-Nov-21	1,207	1,670	12m	Buy	Avinash Singh
27-Oct-21	1,186	1,670	12m	Buy	Avinash Singh
7-Sep-21	1,239	-	12m	UR	Avinash Singh

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Insurance



### Analyst: Avinash Singh

#### Contact Details

avinash.singh@emkayglobal.com  
+91 22 66121327

#### Sector

Insurance and Non-lending Financials

#### Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>BFSI-Insurance</b>	<b>1.36</b>	<b>1.36</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>	
HDFC Life Insurance	0.53	0.56	6%	3	41.07	0
ICICI Pru Life	0.20	0.07	-64%	-13	5.23	0
Max Financial	0.16	0.19	18%	3	14.04	0
SBI Life	0.47	0.54	15%	7	39.66	0
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>	<b>0</b>

Source: Emkay Research

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Apr-21	27-Oct-21	27-Jan-22	28-Mar-22	27-Apr-22
EAP - BFSI-Insurance	100.0	160.7	182.2	170.8	145.7	151.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	161.4	183.0	170.8	145.3	151.8

\*Performance measurement base date 1<sup>st</sup> April 2019

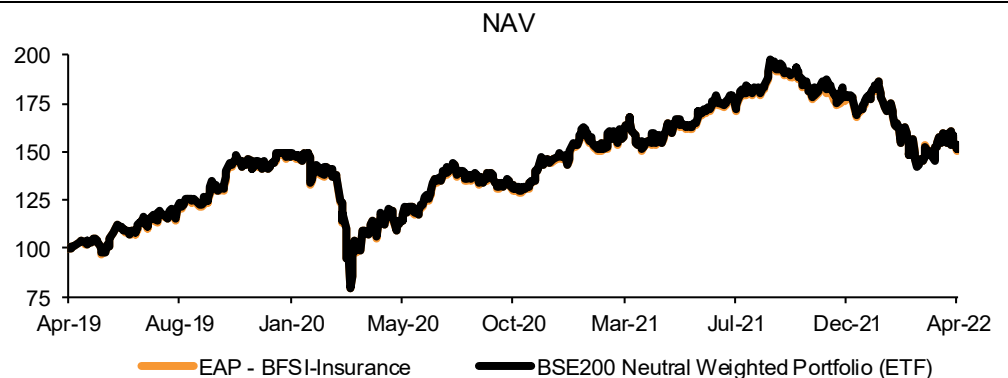
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	3.8%	-11.4%	-17.0%	-5.9%
BSE200 Neutral Weighted Portfolio (ETF)	4.4%	-11.1%	-17.1%	-6.0%

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: 29 Apr 2022 04:51:49 (SGT)

Dissemination Date: 29 Apr 2022 04:52:49 (SGT)

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

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com