

January 24, 2021

Q3FY21 Result Update

Key Financials

Y/e March	FY20	FY21E	FY22E	FY23E
Net Premiums (Rs m)	4,03,240	4,83,342	5,51,813	6,34,504
- Growth (%)	22.6	19.9	14.2	15.0
Total Income (Rs mn)	4,38,428	7,28,911	7,83,261	9,19,492
Surplus / Deficit (Rs m)	18,948	13,536	16,512	19,231
PAT (Rs m)	14,222	12,300	15,671	20,417
- Growth (%)	7.2	(13.5)	27.4	30.3
EPS (Rs)	14.2	12.3	15.7	20.4
Emb. Value (Rs bn)	262.9	313.6	366.7	428.0
NBP Margin (%) post overrun	18.7	19.9	20.3	21.0
RoE (%)	17.4	11.6	14.0	17.1
Operating RoEV (%)	20.5	16.7	16.5	16.8
RoEV (%)	17.4	19.3	16.9	16.7
Dividend yield (%)	-	0.2	0.2	0.2
Price/EV (x)	3.3	2.7	2.3	2.0
Ap. Value/EV (x)	2.9	2.8	2.6	2.5

Key Data

SBIL.BO | SBILIFE IN

52-W High / Low	Rs. 520 / Rs.1,020
Sensex / Nifty	48,879 / 14,372
Market Cap	Rs.862.60bn/ \$ 11,820.3m
Shares Outstanding	1,000.1 m
3M Avg. Daily Value	Rs.1,492.5 m

Shareholding Pattern (%)

Promoter's	60.70
Foreign	26.99
Domestic Institution	5.93
Public & Others	6.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.0	2.2	(10.5)
Relative	(5.4)	(28.8)	(31.0)

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On a gradual recovery mode

Quick Pointers:

- Retail protection continued to grow strong up 80-100% on NB & APE basis
- Margins (using actual tax basis) was up by 50bps from H1 to 9MFY21 led by mix changes but lower surprise given strong volumes

SBI Life delivered a 7% de-growth in APE on 9MFY21 basis v/s 14% de-growth in H1FY21 on back of 13% NBP YoY. Margins also improved by 50bps to 19.3% from H1 to 9M mainly on higher share of non-PAR especially led by individual protection. Although, in our view, despite mix change & decent volumes margin improvement was slightly slow, offset by faster recovery in ULIPs. Looking from 9MFY21 we increase our estimates with 3% APE growth and margin tailwind from (i) conservative operating assumptions (ii) re-pricing of certain products especially protection which could see volume-pricing impact and (iii) improving growth, helping deliver closer to 20% VNB margins and 19% growth in ROEV for FY21 with tailwinds of same continuing in FY22/FY23. Favourable risk-reward (trading at 2.0x FY23), strong operating metrics and recent underperformance has led us to upgrade to BUY (from Accumulate) with revised TP to Rs1,080 (from Rs1,026) on 2.5x FY23 EV.

- **Decent growth more to be done:** GWP grew by 18% YoY/6% QoQ and 21% in 9MFY21. New business growth of 9% YoY looked a little slow as compared to recovery seen in 2Q21 on higher first year premium than single premiums and slower group premium during the quarter. Renewal premium growth of 24% YoY in 3Q21 has been good. Non-Par savings and protection continued to dominate growth with individual retail protection continuing to grow strong (80/100% YoY) on both NB & APE basis, ULIP has been seeing recovery, while PAR was slower. Individual protection mix is continuing to move up with share of 6.4% in overall APE, while ULIP remains at +60% in individual APE.
- **Margins have gradually moved up:** VNB margins (on actual tax) moved up to 19.3% on 9MFY21 basis up from 18.8% in H1FY21 and 18.7% in FY20. Higher protection growth of 100% YoY/16% QoQ & 41% YoY in 9MFY21 has helped to get traction in margins. Although, traction has been slightly slower as ULIP growth have been recovering for SBILIFE and is larger share in mix. Further tailwinds could come if operating assumptions improve which are now steady similar to that of FY20 end, while few higher margin product launches with pricing enhancement can give further upper blip to margins.
- **Favourable risk reward with strong operating metrics; Upgrade to BUY:** SBILIFE has recovered well in 9MFY21 post tracking behind on growth with peers with support from banca and agency channel catching up. With new product launches and improving protection proposition, growth should recover & margins should steadily move up, while it is quite good on operating metrics. SBILIFE had seen outperformance on 3M/6M basis which had led us to downgrade to Accumulate but with recent underperformance and favourable risk reward we have upgraded SBILIFE to BUY.

Exhibit 1: New product launches stressed PAT for a while

(Rs m)	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	138,744	117,597	18.0	130,897	6.0
Net Premium Income	137,665	116,945	17.7	128,580	7.1
Income from Investment (Net)	127,769	40,733	213.7	55,904	128.6
Total (A)	265,519	157,791	68.3	184,583	43.8
Net Commission	5,325	4,552	17.0	4,229	25.9
Opex related to Insurance	6,300	6,419	(1.9)	5,882	7.1
Benefits Paid (Net)	46,439	61,764	(24.8)	64,263	(27.7)
Change in actuarial liability	202,436	76,569	164.4	105,492	91.9
Total (B)	262,551	151,709	73.1	180,652	45.3
Surplus / (Deficit)	2,968	6,082	(51.2)	3,931	(24.5)
Shareholders' Account					
Trf from Policyholders A/c	657	2,707	(75.7)	1,133	(42.0)
Investment Income	1,745	1,740	0.2	1,918	(9.0)
Total	2,418	4,463	(45.8)	3,067	(21.2)
Non Insurance Expenses	136	85	60.4	84	61.3
Trf to Policyholders A/c	-	-	-	-	-
Profit/(Loss) before Tax	2,331	3,949	(41.0)	2,996	(22.2)
Provision for Taxation	2	51	(95.5)	(2)	(243.8)
Profit/(Loss) after Tax	2,329	3,898	(40.3)	2,997	(22.3)
Ratios					
Expense Ratio	4.5	5.5	(92)	4.5	5
Commission Ratio	3.8	3.9	(3)	3.2	61
Cost / TWRP	8.4	9.3	(95)	7.7	65

Source: Company, PL

Exhibit 2: APE growth is driven by strong show in Saving, protection & ULIP while margins driven by retail protection

Rs Mn	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
New Business APE	35,000	33,800	3.6	27,100	29.2	74,800	80,500	(7.1)
Individual	32,600	31,000	5.2	22,700	43.6	65,800	72,800	(9.6)
Group	2,400	2,800	(14.3)	4,400	(45.5)	9,000	7,700	16.9
Total New Business	54,388	49,706	9.4	59,397	(8.4)	144,371	127,871	12.9
Savings	47,288	44,506	6.3	53,197	(11.1)	128,171	113,471	13.0
Protection	7,100	5,200	36.5	6,200	14.5	16,200	14,400	12.5
%								
Savings	86.9	89.5	(259)	89.6	(262)	88.8	88.7	4
Protection	13.1	10.5	259	10.4	262	11.2	11.3	(4)
VNB	7,000	6,200	12.9	5,100	37.3	14,500	14,700	(1.4)
VNB Margin (%)	20.0	18.3	165.7	18.8	118.1	19.3	18.3	100.0

Source: Company, PL

Exhibit 3: Strong growth in renewal business

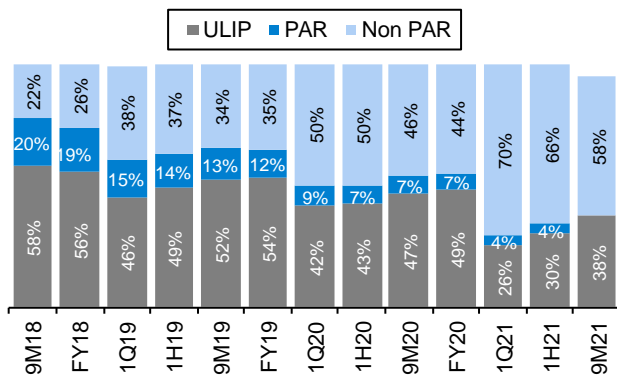
Rs Mn	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Retail New Business	38,660	35,400	9.2	28,700	34.7	67,360	83,900	(19.7)
Group New Business	15,728	14,306	9.9	30,697	(48.8)	77,011	43,971	75.1
Renewal Premium	84,356	67,891	24.3	71,499	18.0	201,704	159,104	26.8
Gross Written Premium	138,744	117,597	18.0	130,897	6.0	346,075	286,975	20.6

Source: Company, PL

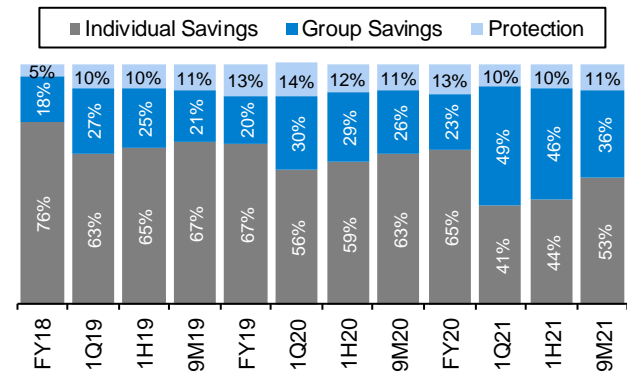
Exhibit 4: NPAR Savings, & ULIP up: growth subdued in Par

Total NB Product Mix	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Rs Mn								
Individual Savings	37,000	34,300	7.9	26,800	38.1	76,400	80,400	(5.0)
PAR	2,900	3,300	(12.1)	2,400	20.8	6,600	9,000	(26.7)
Non PAR	7,000	4,300	62.8	5,000	40.0	15,500	11,400	36.0
ULIP	27,100	26,700	1.5	19,400	39.7	54,300	60,000	(9.5)
Group Savings	10,300	10,300	(0.0)	26,500	(61.1)	51,800	33,100	56.5
Protection	7,100	5,200	36.5	6,200	14.5	16,200	14,400	12.5
(%)								
Individual Savings	68.0	68.9	(86)	45.0	2,297	52.9	62.9	(995)
PAR	5.3	6.6	(130)	4.0	130	4.6	7.0	(247)
Non PAR	12.9	8.6	423	8.4	446	10.7	8.9	182
ULIP	49.8	53.6	(380)	32.6	1,721	37.6	46.9	(931)
Group Savings	18.9	20.7	(175)	44.5	(2,560)	35.9	25.9	999
Protection	13.1	10.4	261	10.4	263	11.2	11.3	(4)

Source: Company, PL

Exhibit 5: Total NB Product Mix – ULIP recovers with PAR on back seat in Q3FY21/9M21


Source: Company, PL

Exhibit 6: Total NB Product Mix – Strong growth in Indi. Savings


Source: Company, PL

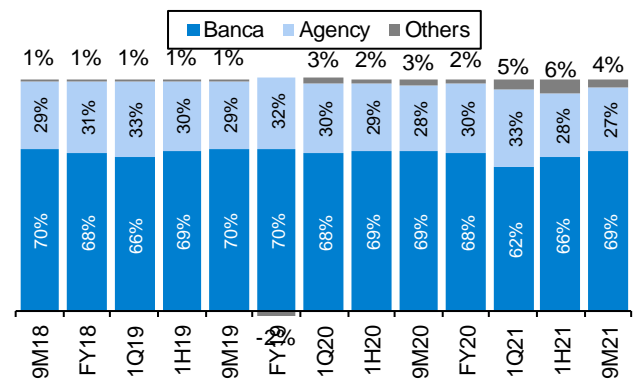
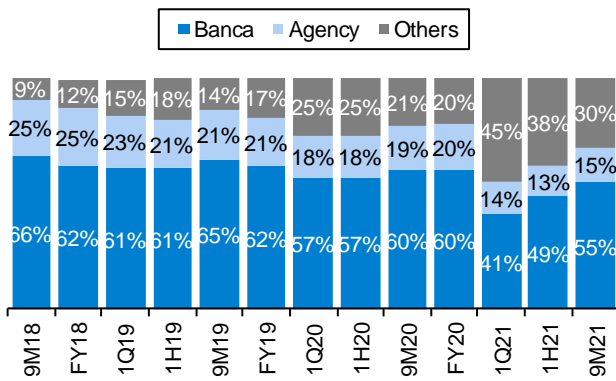
Exhibit 7: Agency getting back however strong growth in Banca: +ve growth expected in both channels by the end of FY21

Rs Mn	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Total NB Sourcing Mix Breakup								
Banca	47,860	32,166	48.8	31,560	51.6	79,420	76,740	3.5
Agency	14,242	10,225	39.3	7,418	92.0	21,660	24,301	(10.9)
Others	22,884	7,309	213.1	20,436	12.0	43,320	26,859	61.3
Indv APE Sourcing Mix Breakup								
Banca	23,628	22,287	6.0	15,402	53.4	45,540	51,129	(10.9)
Agency	8,524	8,626	(1.2)	5,831	46.2	17,820	20,748	(14.1)
Others	648	1,387	(53.3)	1,467	(55.8)	2,640	2,223	18.8

Source: Company, PL

Exhibit 8: Strong growth Banca; Agency increasing slowly

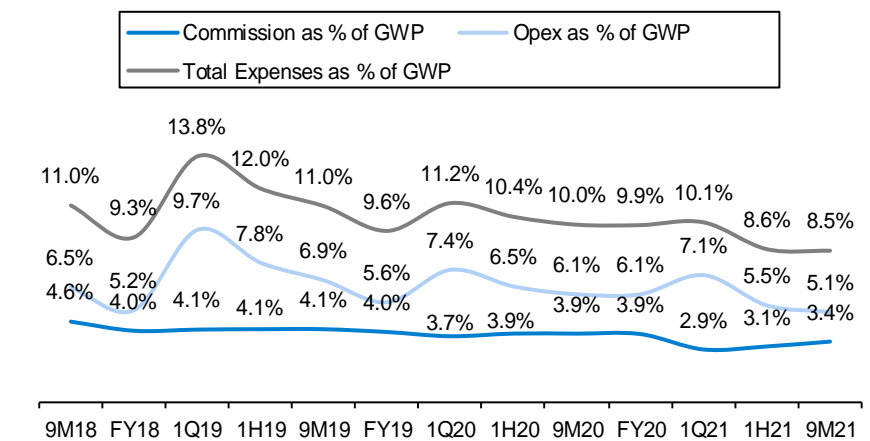
Exhibit 9: similarly, on Individual basis has increased



Source: Company, PL

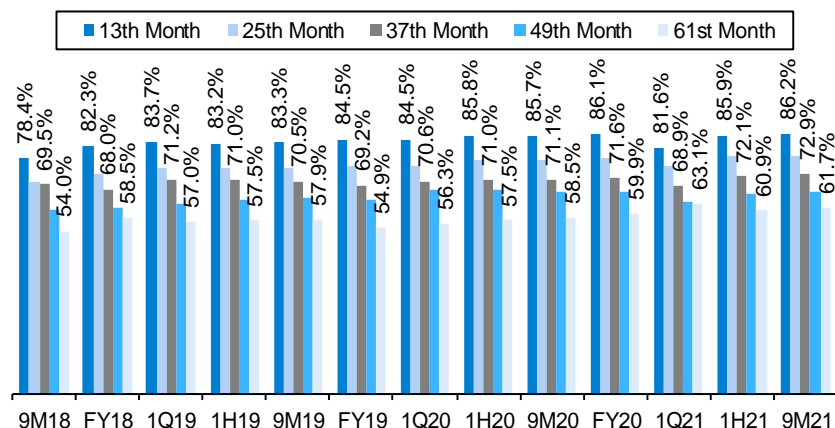
Source: Company, PL

Exhibit 10: Increase in ULIP gives cost efficiency



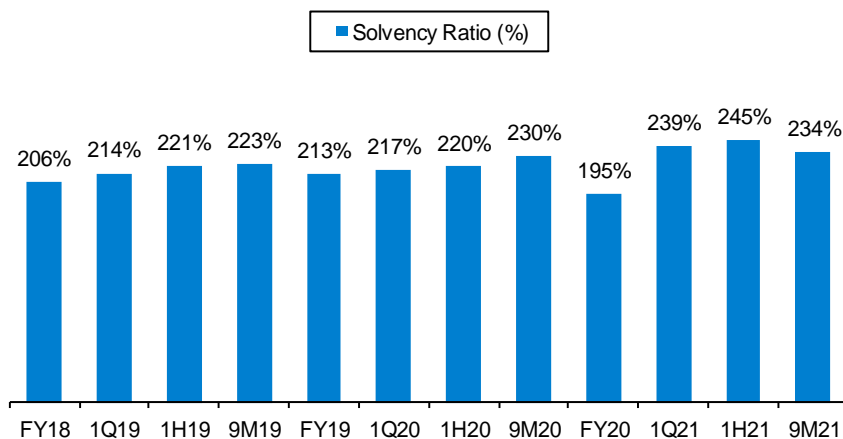
Source: Company, PL

Exhibit 11: Persistency improved across cohorts except for 61st month on a YoY basis



Source: Company, PL

Exhibit 12: Solvency Ratio remains good in line with market



Source: Company, PL

Exhibit 13: Change in Estimates – We improve APE growth marginally along with tad increase in margins for FY21

(Rs bn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22	FY23E	FY21E	FY21E	FY22E
APE	105.3	125.0	145.1	107.9	127.5	153.4	2.5	2.0	5.7
VNB	20.2	24.7	29.2	21.5	25.9	32.2	6.4	4.5	10.3
VNB Margin (%)	19.2	19.8	20.1	19.9	20.3	21.0	0.7	0.5	0.9
EV	311.1	364.4	422.6	313.6	366.7	428.0	0.8	0.6	1.3
Price target (Rs)		1026			1080				5
Recommendation		BUY			BUY				

Source: PL

Drop in solvency on back of fall in capital markets which has been similar to peers

Exhibit 14: We maintain our TP at Rs 1026 based on 2.3x P/EV Mar-22E

PT calculation and upside	
Op RoEV	16.8%
CoE	13.7%
Terminal Growth	5.0%
Embedded value	428
Price / Embedded value	2.5
Appraisal Value	1080
Number of shares, mn	1,000
Valuation per share	1080
CMP	862
<i>Upside (%)</i>	25.4%

Source: Company, PL

Exhibit 15: Key Metrics and EV movement

Rs bn	FY18	FY19	FY20	FY21E	FY22E	FY23E
APE	85.4	97.0	107.4	107.9	127.5	153.4
YoY growth (%)	26.9	13.6	10.7	0.5	18.1	20.3
NBV	13.9	17.2	20.1	21.5	25.9	32.2
YoY growth (%)	33.6	24.1	17.0	7.0	20.1	24.5
EV Movement						
Opening IEV	165.4	190.7	224.0	262.9	313.6	366.7
New Business Value	13.9	17.2	20.1	21.5	25.9	32.2
EVOP	29.5	33.2	45.9	43.8	51.8	61.6
Dividend pay-out	2.4	2.4	-	2.1	2.2	2.3
Closing EV	190.7	224.0	262.9	313.6	366.7	428.0
<i>Adjusted Net worth</i>	74.7	85.7	97.3	107.3	120.4	138.6
<i>Value in force (VIF)</i>	116.0	138.4	165.6	206.3	246.3	289.5
Ratios (%)						
NBAP margins	16.2	17.7	18.7	19.9	20.3	21.0
RoEV	15.3	17.5	17.4	19.3	16.9	16.7
Operating RoEV	17.9	17.4	20.5	16.7	16.5	16.8

Source: Company, PL



Technical account (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross Premiums	4,06,347	4,87,082	5,56,176	6,39,428
Reinsurance Ceded	(3,107)	(3,740)	(4,363)	(4,924)
Net Premiums	4,03,240	4,83,342	5,51,813	6,34,504
Income from Investments	29,968	2,39,586	2,24,593	2,77,129
Other Income	5,220	5,982	6,856	7,858
Total income	4,38,428	7,28,911	7,83,261	9,19,492
Commission	16,249	15,362	17,345	20,068
Operating expenses	24,131	28,489	32,455	37,366
Prov for doubtful debts	7	-	-	-
Operating Profit	3,98,042	6,85,059	7,33,461	8,62,058
Prov for Tax	3,767	3,357	3,748	4,381
Benefits Paid (Net)	1,61,754	2,01,838	2,24,837	2,60,905
Chg in reserves	2,06,049	4,65,368	4,87,217	5,76,172
Surplus / Deficit	18,948	13,536	16,512	19,231

Shareholder's a/c (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	14,627	13,536	16,512	19,231
Income From Investments	4,835	5,029	6,372	9,507
Total Income	19,462	18,564	22,884	28,738
Other expenses	732	555	639	735
Contribution to technical a/c	4,763	5,458	6,255	7,169
Total Expenses	5,326	6,013	6,894	7,904
PBT	14,136	12,551	15,990	20,834
Prov for Tax	(86)	251	320	417
PAT	14,222	12,300	15,671	20,417

Premium (Rs m) & growth (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business prem - unwtd	1,65,925	1,95,791	2,25,160	2,58,934
New business prem - APE	1,05,052	1,07,905	1,27,477	1,53,355
Renewal premium	2,40,422	2,91,291	3,31,016	3,80,494
Total premium - unwtd	4,06,347	4,87,082	5,56,176	6,39,428
New bus. growth - unwtd	20.3	18.0	15.0	15.0
New business growth - APE	10.2	2.7	18.1	20.3
Renewal premium growth	25.2	21.2	13.6	14.9
Total prem growth - unwtd	23.2	19.9	14.2	15.0

Premium mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business - unwtd				
- Individual mix	67.8	59.0	63.0	65.0
- Group mix	32.2	41.0	37.0	35.0
New business mix - APE				
- Participating	10.9	10.7	10.5	13.4
- Non-participating	18.6	24.3	26.2	24.6
- ULIPs	70.5	65.1	63.3	62.0
Total premium mix - unwtd				
- Participating	18.3	15.6	14.9	15.1
- Non-participating	23.8	30.7	31.4	30.8
- ULIPs	57.9	53.8	53.7	54.1

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sources of Fund				
Share Capital	10,000	10,000	10,000	10,000
Reserves And Surplus	78,839	89,039	1,02,510	1,20,627
Shareholders' Fund	87,431	97,378	1,10,549	1,28,666
Policy Liabilities	7,61,230	9,04,649	10,95,306	13,18,502
Prov. for Linked Liab.	7,63,007	10,50,431	13,46,991	16,99,966
Funds For Future App.	-	-	-	-
Current liabilities & prov.	30,223	35,663	42,082	42,082
Total	16,55,802	20,96,114	26,04,361	31,98,649
Application of Funds				
Shareholders' inv	68,279	69,497	1,00,418	1,37,248
Policyholders' inv	7,34,199	9,31,642	11,32,333	13,67,277
Assets to cover linked liab.	7,85,653	10,23,269	12,94,237	16,16,752
Loans	3,645	3,827	4,018	4,018
Fixed Assets	5,812	6,044	6,407	6,407
Current assets	58,213	61,835	66,947	66,947
Total	16,55,802	20,96,114	26,04,361	31,98,649

Operating ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Investment yield (%)	1.9	11.6	8.7	8.8
Commissions / GWP	4.0	3.2	3.1	3.1
- first year premiums	9.0	4.6	4.3	4.2
- renewal premiums	2.7	3.5	3.5	3.5
- single premiums	1.4	0.7	0.7	0.7
Operating expenses / GWP	5.9	5.8	5.8	5.8
Total expense ratio	9.9	9.0	9.0	9.0
Claims / NWP	40.1	41.8	40.7	41.1
Solvency margin	195.0	215.0	215.0	215.0

Persistency ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
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	FY20	FY21E	FY22E	FY23E
NBP margin (%) post overrun	18.7	19.9	20.3	21.0
RoE (%)	17.4	11.6	14.0	17.1
RoIC (%)	142.2	123.0	208.9	408.3

Valuation ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total AUMs (Rs bn)	1,604	2,024	2,527	3,121
- of which equity AUMs (%)	20.8	26.0	25.0	25.0
EVOP as % of MCEV	20.5	16.7	16.5	16.8
RoEV (%)	17.4	19.3	16.9	16.7
Dividend %	-	0.2	0.2	0.2
Dividend payout ratio (%)	-	17.1	14.0	11.3
EPS, Rs	14.2	12.3	15.7	20.4
Embedded Value (Rs bn)	262.9	313.6	366.7	428.0

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	750	673
2	Bank of Baroda	BUY	82	66
3	Federal Bank	Accumulate	88	77
4	HDFC Bank	BUY	1,690	1,467
5	HDFC Life Insurance Company	Reduce	600	717
6	ICICI Bank	BUY	614	542
7	ICICI Prudential Life Insurance Company	Reduce	485	526
8	IDFC First Bank	Sell	32	44
9	IndusInd Bank	Accumulate	1,026	940
10	Kotak Mahindra Bank	Hold	1,912	1,971
11	Max Financial Services	Accumulate	760	727
12	Punjab National Bank	Hold	37	35
13	SBI Life Insurance Company	Accumulate	1,026	936
14	South Indian Bank	BUY	10	9
15	State Bank of India	BUY	325	286

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



ANALYST CERTIFICATION

(Indian Clients)

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