

Business gains traction, margins to improve

SBI Life Insurance reported a mixed performance wherein premium accretion was healthy but higher actuarial liability offset investment income, led to lower than expected surplus and earnings.

Premium growth remained healthy at 18% YoY to ₹ 13766 crore, led by higher traction in renewal (up 24% YoY) and single premium (up 16.5% YoY). New Business Premium (NBP) witnessed moderation in growth at 9.5% YoY to ₹ 5439 crore, led by flattish group business. Protection business (individual + group) continued to report strong growth at ₹ 710 crore in Q3FY21 vs ₹ 510 crore in Q3FY20. Proportion of total protection NBP to total NBP stood at ~13% in Q3FY21. Group savings products business remained flat YoY at ₹ 1030 crore.

AUM growth accelerated 28% YoY to ₹ 209500 crore. Shareholders and policyholders (excluding linked liabilities) assets witnessed healthy growth at ~24% and ~21% YoY, respectively. Recovery in equity market and decline in yields led to strong investment income at ₹ 12777 crore (up 213% YoY) in Q3FY21, supporting total revenue trajectory. Commission expenses increased 13.6% YoY to ₹ 517 crore, while commission ratio declined ~80 bps to 4.7%. Consequently, management expense ratio improved by ~100 bps to 8.4% in Q3FY20 (absolute opex at ₹ 1162 crore) Steady premium growth coupled with healthy investment income provided a boost to traction in top-line. Lower surplus led to muted allocation to shareholders at ₹ 66 crore vs. ₹ 113 crore QoQ and ₹ 217 crore YoY. Subsequently, PAT came lower than estimate at ₹ 233 crore.

Continued focus on product mix to aid VNB margin

Pandemic has led to surge in demand for protection business; the same is expected to stabilize ahead. Post sluggish business in 1HFY21, credit life business is set to increase as disbursement pick up ahead. Apart from protection, the insurer plans to focus equally on distribution of participating and non-participating (including annuity) products. Going ahead, proportion of protection and non-unit linked business is expected to increase leading to healthy VNB margin ahead of 18%. Thus, overall premium accretion is seen at 13.8% CAGR in FY21-23E to ₹ 59370 crore, while VNB margin is seen to remain of 18% in FY21-23E.

Valuation & Outlook

Gradual tilt towards high yield products including protection and non-par products is seen to aid premium growth as well VNB margins. Strong distribution (banca as well as agency) channel to enable pedal business growth with limited traction on opex. Such operational efficiency and steady persistency is expected to further aid profitability. We continue to remain positive on businesses with long term growth potential and relatively lower balance sheet risk. Rolling our valuation on FY23E estimates, we maintain our target at ₹ 1000 per share, valuing the stock at ~2.6x FY23E EV. Maintain **Buy** rating

Key Financial Summary							
(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
New business premium	12673.7	14855.4	18071.4	19189.1	20405.4	21898.4	7%
APE	8540.0	9530.7	10505.2	12339.8	12697.2	13221.8	8%
Total premium	26861.8	32745.5	40334.4	47279.2	53470.3	59369.2	14%
PAT	2852.7	1335.8	1423.0	1518.7	1903.5	2342.2	18%
EV	18726.1	22077.6	26290.0	30098.0	34223.7	38721.9	14%
P/E (x)	30.2	64.5	60.6	56.8	45.3	36.8	
P/BV (x)	10.9	9.8	8.7	7.8	6.8	6.0	
P/IEV (x)	4.5	3.9	3.3	2.9	2.5	2.2	
RoEV (%)	17.8	17.8	17.5	15.4	14.7	14.3	



Particulars

Particulars	Amount
Market Capitalisation	₹ 86165 crore
EV (Q3FY21)	₹ 29860 crore
AUM (Q3FY21)	₹ 209500 crore
VNB margin (Q3FY21)	19.3%
52 week H/L	1019/520
Net worth	₹ 10133 crore
Face value	₹ 10
DII holding (%)	5.9
FII holding (%)	27.0

Key Highlights

- Premium accretion healthy at ~18% to ₹ 13766 crore
- Focus on protection and non-par business to aid VNB margins ahead
- Maintain BUY recommendation with unchanged target price of ₹ 1000

Risk to our call

- Increase in claims due to pandemic can hurt profitability
- Increased non-par business poses interest rate risk

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
First Year Premium	3,276.5	2,978.4	3,114.2	5.2	2,315.5	41.5	Gradual unlocking of the economy led to pickup in premium accretions
Renewal Premium	8,435.6	8,615.8	6,789.1	24.3	7,149.9	18.0	Relatively higher persistency ratios aided renewal premium growth
Single Premium	2,162.3	2,108.4	1,856.4	16.5	3,624.2	-40.3	Credit life & protection business reported strong growth which supported single premium
Net Premium income	13,766	13,194	11,695	17.7	12,858	7.1	
Income from Investments	12,776.9	4,349.0	4,073.3	213.7	5,590.4	128.6	Recovery in equities & decline in yield led to strong investment income
Total revenue	26,551.9	17,563	15,779.1	68.3	18,458.3	43.8	
Commission	517.2	461.8	455.2	13.6	414.5	24.8	Elevated commissions due to higher NBP
Operating expenses	645.3	686.1	641.9	0.5	588.2	9.7	
Management Expenses	1,162.5	1,147.9	1,097.1	6.0	1,002.7	15.9	
Benefits paid	4,643.9	6,267.1	6,176.4	-24.8	6,426.3	-27.7	
Change in Actuarial Liability	20,243.6	9,310.5	7,656.9	164.4	10,549.2	91.9	
Total Expenses	26,255.4	17,056.7	15,171.4	73.1	18,056.9	45.4	Higher actuarial liability and claims led to 73% growth in total expenses
Surplus/ (deficit)	296.5	506.2	607.6	-51.2	401.4	-26.1	Lower surplus due to higher actuarial liabilities & claims
Transfer to SH's A/c	65.7	246.2	270.7	-75.7	113.3	-42.0	
Transfer to SH's A/c	65.7	246.2	270.7	-75.7	113.3	-42.0	
Investment income	174.5	178.3	174.0	0.2	191.8	-9.0	
Profit/ (loss) before tax	233.1	410.6	394.9	-41.0	299.6	-22.2	
PAT	232.9	390.0	389.8	-40.3	299.7	-22.3	
Key Metrics							
NBP	5,438.8	5,086.8	4,970.6	9.4	5,939.7	-8.4	AUM revived with recovery in markets
AUM	2,09,500	1,93,287	1,64,190	27.6	1,86,360	12.4	
IEV*	29,860	NA	24,690	20.9	NA	NA	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Premiums earned - Net	47,503	47,279	-0.5	54848	53,470	-2.5	59369
Total	52,547	64,381	22.5	60704	68,007	12.0	76474
Transfer to Shareholders' account	1,283	1,136	-11.5	1607	1,433	-10.8	1862
PAT	1,620	1,519	-6.3	1984	1,904	-4.0	2342
EV	301	301	-0.1	345	342	-0.8	387

Source: Company, ICICI Direct Research

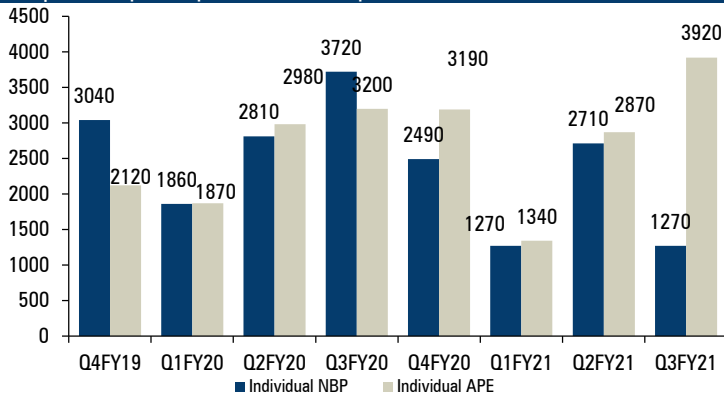
Exhibit 3: Assumption

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
NBP growth	8.8	20.3	15.6	6.3	7.3	19.2	12.7
AUM growth	20.4	14.2	23.8	18.1	17.0	16.2	16.0
EV Growth	15.8	19.1	14.5	13.7	13.1	14.6	14.6
Commission ratio	4.1	3.6	3.5	3.5	3.4	3.6	3.6
VNB Margin	17.7	20.7	18.5	18.5	18.6	18.0	18.0
Conservation ratio	85.2	85.1	84.0	83.6	83.7	82.9	81.9
Operating RoEV	17.8	17.5	15.4	14.7	14.3	15.5	15.6

Source: Company, ICICI Direct Research

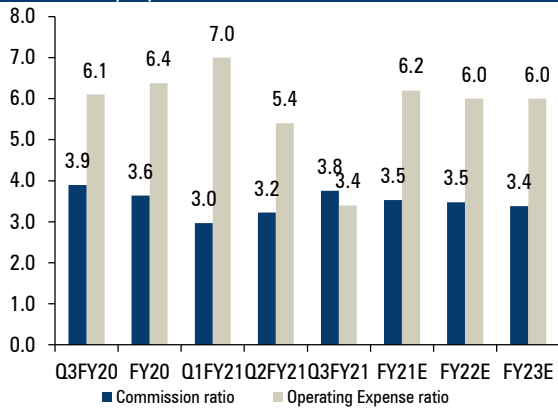
Story in Charts

Exhibit 4: Sequential pick-up in individual premiums



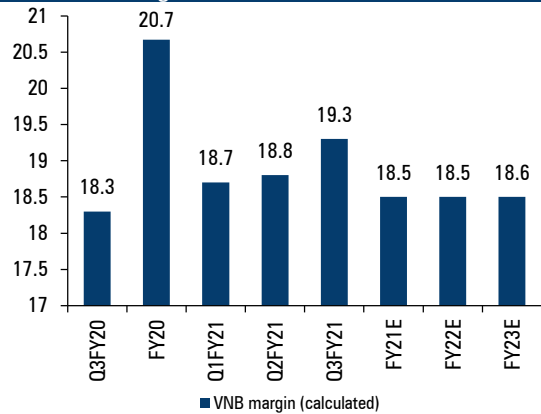
Source: Company, ICICI Direct Research

Exhibit 5: Steady opex ratio



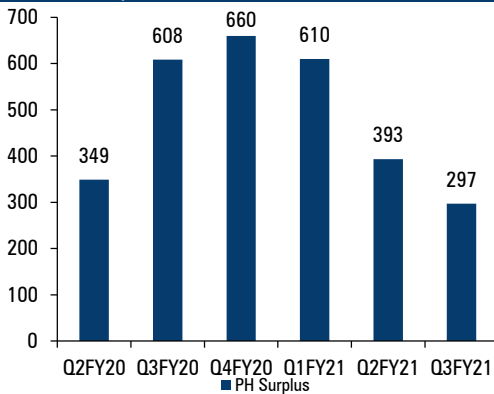
Source: Company, ICICI Direct Research

Exhibit 6: VNB margins ahead of 18%



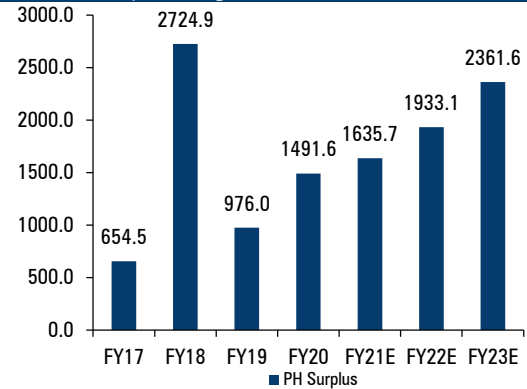
Source: Company, ICICI Direct Research

Exhibit 7: Lower surplus due to actuarial liabilities & claims



Source: Company, ICICI Direct Research

Exhibit 8: PH surplus to grow 16.5% CAGR over FY20-23E



Source: Company, ICICI Direct Research

Exhibit 9: Persistency ratios trend

Persistency ratio %	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
13th Month	84.46	83.13	82.46	84.29	81.55	84.83	83.8
37th Month	70.57	75.91	75.46	70.13	68.88	70.98	70.9
61th Month	56.27	59.55	61.06	59.44	63.14	60.32	59.6

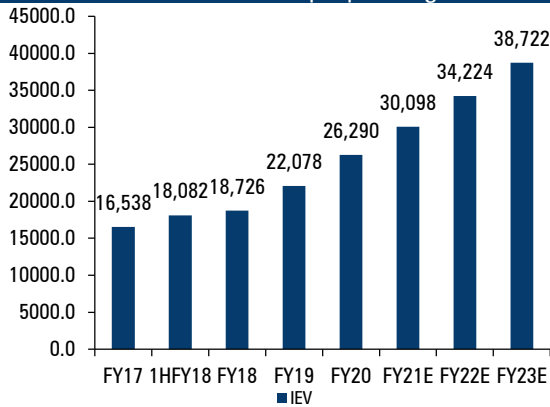
Source: Company, ICICI Direct Research

Exhibit 10: Investment profile

	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	FY21E	FY22E	FY23E
Shareholders' investments	6900	6909	6993	7924	8083	8343	8684	8876	9441	10818
PH Fund Excl. Linked Assets	66091	69190	73411	75159	77695	82520	88953	92889	110196	130328
Assets held to cover linked liabilities	72311	76932	82064	76072	87868	93476	109448	95231	113044	130996
Total Investments	145302	153031	162469	159155	173645	184338	207085	196996	232681	272141

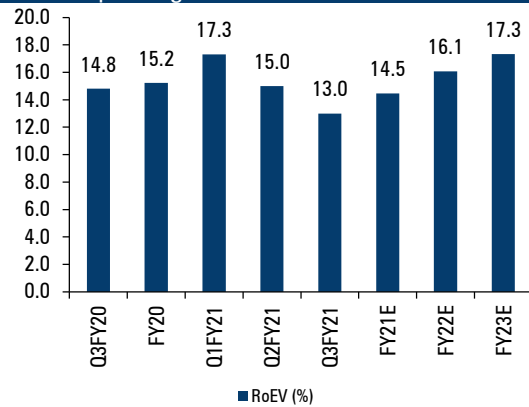
Source: Company, ICICI Direct Research

Exhibit 11: Incremental NBP to propel EV growth



Source: Company, ICICI Direct Research

Exhibit 12: Improving return ratios



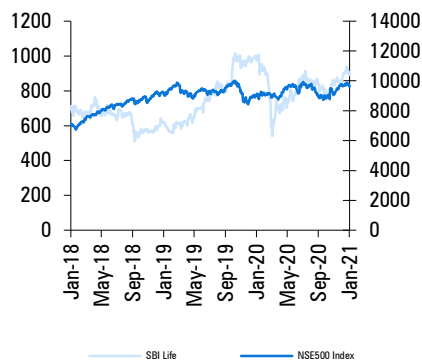
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	62.8	62.8	60.7	60.7	60.7
FII	27.5	25.9	26.2	25.8	25.8
DII	4.4	5.7	7.0	7.1	7.1
Others	5.3	5.59	6.13	6.5	6.5

Source: Company, ICICI Direct Research

Exhibit 14: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Policyholders Account					
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Premiums earned - Net	32745.5	40334.4	47279.2	53470.3	59369.2
Income from Investments	11242.0	2997.0	16967.5	14397.6	16959.7
Other income	63.8	70.2	91.3	100.4	110.4
Contribution from the Shareholders' account	98.9	47.6	42.8	38.6	34.7
Total	44150.3	43449.2	64380.9	68006.9	76474.1
Commission	1346.4	1477.8	1681.9	1869.7	2020.9
Operating expenses	2123.5	2592.0	2953.1	3232.1	3588.7
Benefits paid (Net)	15293.8	16215.0	18928.0	23483.9	27822.9
Change in valuation of policy liabilities	23591.7	20605.0	37966.0	36158.4	39204.6
Others	6.6	7.9	8.6	8.0	8.0
Provision for tax	812.3	1059.9	1207.6	1321.6	1467.5
Surplus/(deficit) after tax	976.0	1491.6	1635.7	1933.1	2361.6
Transfer to Shareholders' account	887.9	1059.6	1135.7	1433.1	1861.6

Source: Company, ICICI Direct Research

Exhibit 16: Shareholders Account					
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Amounts transferred from Policyholders' account	887.9	1059.6	1135.7	1433.1	1861.6
Income from investments	623.1	490.7	564.9	678.8	721.2
Total	1511	1550	1701	2112	2583
Expenses other than insurance	45.9	70.0	84.0	100.8	121.0
Contribution to Policyholders' account	98.9	47.6	42.8	38.6	34.7
Others	15.9	15.9	15.9	15.9	15.9
Profit before Tax	1366.1	1432.7	1573.8	1972.5	2427.1
Provision for tax	46.3	-9.0	55.1	69.0	84.9
PAT	1319.8	1441.7	1518.7	1903.5	2342.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet					
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	7769	8885	10076	11568	13404
Credit/(debit) fair value change account	20	20	20	20	20
Networth	8789	9905	11096	12588	14424
Policyholders' funds	138095	157733	195699	231857	271062
Total Liabilities	147166	168352	208008	246159	287700
Applications of Funds					
Shareholders' investments	7031	7924	8876	9441	10818
Policyholders' investments	66496	75159	92889	110196	130328
Asset held to cover linked liabilities	65821	76072	95231	113044	130996
Loans	188	212	240	271	307
Fixed assets - net block	663	755	861	982	1119
Net current assets	6967	8229	9911	12225	14133
Total Assets	147166	168352	208008	246159	287700

Source: Company, ICICI Direct Research

Exhibit 18: 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	15.2	19.0	23.4
DPS (₹)	2.4	2.6	2.7	3.4	4.2
BV (₹)	87.9	99.0	111.0	125.9	144.2
EV per share	221	263	301	342	387
P/E	64.5	60.6	56.8	45.3	36.8
P/BV	9.8	8.7	7.8	6.8	6.0
P/IEV	3.9	3.3	2.9	2.5	2.2
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.1	3.6	3.5	3.5	3.4
Management expenses incl commission as a %	10.5	10.0	9.7	9.5	9.4
Return Ratios and capital (%)					
Return on Net worth	16.0	15.2	14.5	16.1	17.3
Operating RoEV	17.8	17.5	15.4	14.7	14.3
Solvency Ratio	195	200	200	200	200
Key Ratios (%)					
Conservation Ratio	85.2	85.1	84.0	83.6	83.7
VNB Margin	17.7	20.7	18.5	18.5	18.6
Surrender Ratio	5.6	4.7	4.8	4.8	4.8
Benefits paid as a % of Opening Liability	13.7	11.7	11.9	11.9	11.9
NBP (proportion %)					
Traditional	48.8	55.1	54.2	58.7	63.1
Linked	51.2	44.9	45.8	41.3	36.9

Source: Company, ICICI Direct Research

Exhibit 19: Key parameters

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
NBP	13791.9	16592.5	19189.1	20405.4	21898.4
Growth (%)	8.8	20.3	15.6	6.3	7.3
Linked	8129.7	8927.4	8797.9	8427.9	8081.3
Growth (%)	22.4	9.8	-1.5	-4.2	-4.1
Non Linked	6725.6	9144.0	10391.2	11977.5	13817.1
Growth (%)	11.5	36.0	13.6	15.3	15.4
APE	9530.7	10505.2	12339.8	12697.2	13221.8
Growth (%)	11.6	10.2	17.5	2.9	4.1
VNB	1720.0	2220.0	2282.9	2349.0	2459.3
Growth (%)	23.7	29.1	2.8	2.9	4.7
EV	22077.6	26290.0	30098.0	34223.7	38721.9
Growth (%)	15.8	19.1	14.5	13.7	13.1
AUM	139348.0	159154.6	196996.1	232680.7	272141.3
Growth (%)	20.4	14.2	23.8	18.1	17.0
PH Funds	132316.6	151230.7	188119.7	223239.8	261323.2
Growth (%)	44.6	14.3	24.4	18.7	17.1
SH Funds	7031.4	7923.9	8876.4	9440.9	10818.1
Growth (%)	63.7	12.7	12.0	6.4	14.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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