

CMP: ₹ 1214

Target: ₹ 1400 (15%)

Target Period: 12 months

January 24, 2022

BUY

## Healthy premium growth; outlook optimistic...

**About the stock:** SBI Life (SBIL) is among most dominant players in the Indian life insurance industry with strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on opex ratio ahead of industry
- Strong parentage led distribution remains key catalyst

**Q3FY22 Results:** Healthy business traction, outlook optimistic.

- Gross premium growth healthy at 31% YoY; NBP growth at 56% YoY
- VNB margins healthy at 21.9%, aided by product mix and rise in pricing
- PAT at ₹ 236 crore, aided by healthy premium accretion
- Net Covid claim at ₹ 1530 crore for 9MFY22; Covid reserve at ₹ 270 crore

**What should investors do?** SBIL's share price has grown by ~1.7x over the past four years (from ~₹ 700 in October 2017 to ~₹ 1214 levels in January 2022).

- Factoring in distribution strength & diversified product mix, we retain our BUY rating on the stock

**Target Price & Valuation:** We value SBIL at 2.8x FY24 EV with revised TP of ₹ 1400.

### Key triggers for future price performance:

- Launch of non-par & protection product to aid overall growth and VNB
- Product mix & improvement in persistency to aid VNB margins at 21-22%
- Covid claim seen to moderate; reserves at ₹ 270 crore seem comfortable
- Strong distribution network remains core to maintain business momentum

**Alternate Stock Idea:** Apart from SBIL, in our coverage we also like HDFC Life.

- Dominant player in life insurance industry with huge growth potential coupled with strong distribution, product suite and best VNB margin
- BUY with a target price of ₹ 800



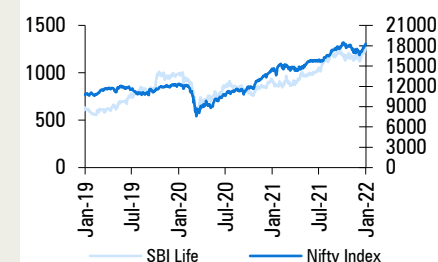
### Particulars

Particulars	Amount
Market Capitalisation	₹ 123810 crore
EV (Q2FY22)	₹ 35290 crore
AUM (Q3FY22)	₹ 256870 crore
52 week H/L	1293/838
Face value	₹ 10

### Shareholding pattern

	Dec20	Mar21	Jun21	Sep21	Dec21
Promoter	60.7	55.7	55.7	55.7	55.7
FII	25.8	30.5	27.2	24.5	24.5
DII	7.1	7.0	12.4	12.1	12.0
Others	6.5	6.9	4.7	7.8	7.8

### Price Chart



### Risk to our call

- Healthy pick-up in NBP in Q3FY22. Moderation in Covid claims
- Key Risk:** 1) Increasing competitive intensity; 2) higher claim from group plan can impact surplus

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	3 year CAGR (FY18-FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY22-24E)
New business premium	14855.4	18071.4	20620.0	19%	24501.2	28295.8	32693.1	17%
APE	9530.7	10505.2	11450.0	15%	13423.1	15622.1	18188.9	17%
Total premium	32745.5	40334.4	49769.2	24%	58692.5	67889.6	78628.9	16%
PAT	1335.8	1423.0	1460.0	11%	892.3	1397.5	1931.0	10%
EV	22077.6	26290.0	33390.0	19%	36678.7	43219.2	50811.8	15%
P/E (x)	92.6	86.9	85.0		138.6	88.5	64.1	
P/BV (x)	14.1	12.5	11.9		11.4	10.4	9.2	
P/IEV (x)	5.6	4.7	4.0		3.4	2.9	2.4	
RoEV (%)	17.8	17.5	16.9		17.3	17.7	18.1	

## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results: Healthy performance; Covid claims moderate

- Premium growth healthy at 31% YoY to ₹ 18025 crore, led by 56.3% YoY traction in NBP ₹ 8503 crore and ~14.4% YoY growth in renewals to ₹ 9653 crore
- For 9MFY22, healthy traction in individual business at 43% YoY to ₹ 11610 crore, primarily led by rise in unit linked business
- Protection business (individual + group) continued to report strong growth at 26% YoY to ₹ 2040 crore. Proportion of total protection NBP to total NBP was at ~11% in 9MFY22
- As a result of healthy growth in protection and annuity business, VNB margins improved from 21.9% to 19.3% YoY
- AUM growth accelerated 23% YoY to ₹ 256870 crore
- Commission ratio increased ~20 bps YoY to 3.4% in Q3FY21 while opex ratio declined to 4.4% in Q3FY22. Consequently, total cost ratio declined by ~ 60 bps YoY to 7.8%
- Solvency ratio remained steady at healthy level of 2.09x

### Q3FY22 earnings conference call highlights

- Individual rated new business premium were at ₹ 9070 crore with market share of 24.8% in 9MFY22 with improvement of 143 basis points over 9MFY21 while Individual new business premium was at ₹ 19790 crore with private market share of 23.7%
- New partnerships such as Indian Bank, Uco Bank, South Indian Bank, Yes Bank and Punjab Sind Bank registered growth of 48%. These relationships contribute almost 3% of the individual APE as on December 31, 2021
- Covid claims net of reinsurance paid as well as outstanding were at ₹ 1530 crore. The company has kept additional reserve amounting to ₹ 270 crore for Covid-19 pandemic over and above the policy liabilities
- Other channels like direct, corporate agents, brokers, online and web aggregators grew 69% in terms of individual new business premium and 50% in Individual APE. New business premium through other channel registered growth of 61%
- In annuity, individual annuity was at ₹ 1200 crore while group annuity was ₹ 1443 crore. Under group protection business, credit life was at ₹ 1140 crore while GTI was at ₹ 280 crore
- The management expects product mix at 12-15% in protection, 15-20% in non-par platina or similar products, annuities at 10% with remaining share that of Ulips
- Volume of business, product mix and pricing has helped in VNB margin expansion by 260 bps from 19.3% in 9MFY21 to 21.9% in 9MFY22

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/EV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SBI Life Insurance	1214	1400	Buy	1,238	28.5	13.4	14.2	42.6	90.9	85.3	6.4	5.5	4.6	42.5	16.0	15.2
HDFC Life	642	800	Buy	1354	3.6	3.9	4.1	176.6	163.0	156.5	18.3	14.5	12.5	32.8	32.7	28.5

Source: Company, ICICI Direct Research

We believe SBIL deserves premium valuation given diversified product mix, strong distribution and focus on improving persistency.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
First Year Premium	4,073.6	4,105.7	3,276.5	24.3	3,609.7	12.8	ULIP and protection business contributed to premium growth
Renewal Premium	9,652.9	10,189.5	8,435.6	14.4	7,775.1	24.2	
Single Premium	4,429.4	4,316.8	2,162.3	104.8	3,333.8	32.9	
<b>Net Premium income</b>	<b>18,025</b>	<b>17,770</b>	<b>13,766</b>	<b>30.9</b>	<b>14,661</b>	<b>23.0</b>	
Income from Investments	2,424.1	6,271.1	12,776.9	-81.0	10,734.4	-77.4	Income from investment remained muted YoY
Total revenue	20,458.3	24,061	26,551.9	-22.9	25,404.1	-19.5	
Commission	614.6	675.3	517.2	18.8	529.9	16.0	Commission ratio remained steady at 3.4%
Operating expenses	787.6	888.5	645.3	22.0	747.6	5.4	
Management Expenses	1,402.1	1,563.7	1,162.5	20.6	1,277.5	9.8	Mgt expense ratio lower at 7.8%
Benefits paid	6,472.6	11,106.1	4,643.9	39.4	12,702.1	-49.0	Moderation in Covid claims
Change in Actuarial Liability	12,115.1	10,872.3	20,243.6	-40.2	10,978.1	10.4	
Total Expenses	20,222.2	23,788.8	26,255.4	-23.0	25,148.0	-19.6	
<b>Surplus/(deficit)</b>	<b>236.1</b>	<b>272.1</b>	<b>296.5</b>	<b>-20.4</b>	<b>256.1</b>	<b>-7.8</b>	Higher benefit paid kept surplus lower
Transfer to SH's A/c	168.3	90.0	65.7	156.0	134.3	25.3	
Transfer to SH's A/c	168.3	90.0	65.7	156.0	134.3	25.3	
Investment income	222.5	224.6	174.5	27.5	240.6	-7.5	
Profit/ (loss) before tax	381.4	297.6	233.1	63.6	251.9	51.4	
PAT	364.1	276.8	232.9	56.3	246.6	47.6	Higher appropriation supports PAT
<b>Key Metrics</b>							
NBP	8,502.9	8,422.5	5,438.8	56.3	6,943.6	22.5	
AUM	256,870	250,844	209,500	22.6	244,180	5.2	
IEV*	35,290.0	NA	29,860.0	18.2	NA	NA	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Premiums earned - Net	57025	58,692	2.9	65,760.7	67890	3.2	78629
Total	86659	84,203	-2.8	87,359.0	93980	7.6	108430
Transfer to Shareholders' account	823	1,027	24.9	1,705.7	1340	-21.4	1859
PAT	1299	1,322	1.8	2,207.8	1647	-25.4	2181
EV	366	367	0.3	428.1	432	1.0	508

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
NBP growth	23.6	19.5	15.5	15.5	23.6	14.5	14.3
AUM growth	25.8	25.6	21.4	19.9	25.8	26.9	18.5
EV Growth	18.0	18.2	17.8	17.6	18.0	17.8	17.1
Commission ratio	3.2	3.5	3.5	3.5	3.2	3.5	3.5
VNB Margin	20.4	21.7	21.8	21.8	20.4	21.7	21.8
Conservation ratio	87.5	86.6	85.6	85.7	87.5	85.0	85.7
Operating RoEV	16.9	17.3	17.7	18.1	16.9	17.3	17.7

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 5: Policyholders Account

(₹ Crore)	FY20	FY21E	FY22E	FY23E	FY24E
Premiums earned - Net	40334.4	49769.2	58692.5	67889.6	78628.9
Income from Investments	2997.0	31456.0	24981.9	25594.1	29332.7
Other income	70.2	35.8	100.4	110.4	121.5
Contribution from the Shareholders' account	47.6	824.8	428.4	385.6	347.0
<b>Total</b>	<b>43449.2</b>	<b>82084.9</b>	<b>84203.2</b>	<b>93979.7</b>	<b>108430.1</b>
Commission	1477.8	1742.5	2049.1	2380.1	2767.6
Operating expenses	2592.0	2448.5	3606.9	4172.1	4832.1
Benefits paid (Net)	16215.0	21582.7	29924.5	30446.9	37102.7
Change in valuation of policy liabilities	20605.0	53934.2	46042.3	53676.5	59635.2
Others	7.9	-0.8	8.0	8.0	8.0
Provision for tax	1059.9	741.0	1474.9	1706.0	1975.9
Surplus/(deficit) after tax	1491.6	1807.4	1097.5	1590.1	2108.6
Transfer to Shareholders' account	1059.6	1678.8	1027.5	1340.1	1858.6

Source: Company, ICICI Direct Research

### Exhibit 6: Shareholders Account

(₹ Crore)	FY20	FY21E	FY22E	FY23E	FY24E
Amounts transferred from Policyholders' account	1059.6	1678.8	1027.5	1340.1	1858.6
Income from investments	490.7	694.8	923.6	894.8	875.6
<b>Total</b>	<b>1550</b>	<b>2374</b>	<b>1951</b>	<b>2235</b>	<b>2734</b>
Expenses other than insurance	70.0	31.0	168.0	151.2	136.1
Contribution to Policyholders' account	47.6	824.8	428.4	385.6	347.0
Others	15.9	-24.7	-24.7	-24.7	-24.7
Profit before Tax	1432.7	1542.5	1354.7	1698.2	2251.1
Provision for tax	-9.0	86.6	32.4	50.7	70.0
<b>PAT</b>	<b>1441.7</b>	<b>1455.9</b>	<b>1322.3</b>	<b>1647.5</b>	<b>2181.0</b>

Source: Company, ICICI Direct Research

### Exhibit 7: Balance Sheet

(₹ Crore)	FY20	FY21E	FY22E	FY23E	FY24E
<b>Sources of Funds</b>					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	8885	9093	9810	10906	12420
Credit/[debit] fair value change account	20	308	308	308	308
<b>Networth</b>	<b>9905</b>	<b>10400</b>	<b>11118</b>	<b>12214</b>	<b>13728</b>
Policyholders' funds	157733	200949	245539	299216	358851
<b>Total Liabilities</b>	<b>168352</b>	<b>211349</b>	<b>258371</b>	<b>313643</b>	<b>375292</b>
<b>Applications of Funds</b>					
Shareholders' investments	7924	8605	8664	8944	10080
Policyholders' investments	75159	93936	120203	148056	179570
Asset held to cover linked liabilities	76072	98215	122443	148121	176090
Loans	212	358	405	457	517
Fixed assets - net block	755	565	947	1061	1188
Net current assets	8229	9670	5421	6715	7559
<b>Total Assets</b>	<b>168352</b>	<b>211349</b>	<b>258083</b>	<b>313356</b>	<b>375005</b>

Source: Company, ICICI Direct Research

**Exhibit 8: Key Ratios**

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
<b>Valuation</b>					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	14.2	14.6	8.9	14.0	19.3
DPS (₹)	2.6	2.5	1.6	2.5	3.5
BV (₹)	99.0	104.2	108.3	119.3	134.4
EV per share	263	310	367	432	508
P/E	86.9	85.0	138.6	88.5	64.1
P/BV	12.5	11.9	11.4	10.4	9.2
P/IEV	4.7	4.0	3.4	2.9	2.4
<b>Efficiency Ratios (%)</b>					
Commission expenses as a % of Gross Premium	3.6	3.2	3.5	3.5	3.5
Management expenses incl commission as a %	10.0	9.4	9.6	9.6	9.6
<b>Return Ratios and capital (%)</b>					
Return on Net worth	15.2	15.2	8.4	12.3	15.2
Operating RoEV	17.5	16.9	17.3	17.7	18.1
Solvency Ratio	200	200	200	200	200
<b>Key Ratios (%)</b>					
Conservation Ratio	85.1	87.5	86.6	85.6	85.7
VNB Margin	18.7	20.4	21.7	21.8	21.8
Surrender Ratio	4.7	4.8	6.0	4.9	4.9
Benefits paid as a % of Opening Liability	11.7	11.9	14.9	12.3	12.3
NBP (proportion %)					

Source: Company, ICICI Direct Research

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Sell: <-15%



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