

CMP: ₹ 1300

Target: ₹ 1500 (15%)

Target Period: 12 months

July 29, 2022

BUY

## VNB expands sharply; growth outlook encouraging

**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

### Q1FY23 Results: Sharp rise in VNB margins aid overall performance

- Gross premium growth at 35.5% YoY; Individual NBP growth at 87% YoY
- VNB margins up 665 bps to 30.4%**, aided by change in product mix
- PAT at ₹263 crore, up 17.8% YoY slightly impacted by MTM loss on invest.
- AUM growth was decent at 13.3% YoY to ₹262350 crores.

**What should investors do?** SBIL's share price has grown by ~44% over the past three years. We believe strong growth guidance supported by distribution strength (SBI YoNo added now) and improving high margin product mix should aid overall value. The stock is reasonably priced and currently trades at 2.5x FY24E Embedded Value.

- We retain our BUY rating on the stock

**Target Price & Valuation:** We value SBIL at ~2.7x FY24 EV still lower than HDFC Life and revise our target price from ₹ 1400 to ₹1500 per share.

### Key triggers for future price performance:

- Launch of annuity product, tie-up with new fintechs to aid growth
- 25%+ growth guidance** in NBP to reflect positively on overall performance
- VNB margins set to rise with higher protection mix
- Improving persistency and healthy solvency to aid operating metrics

**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 ₹ 635



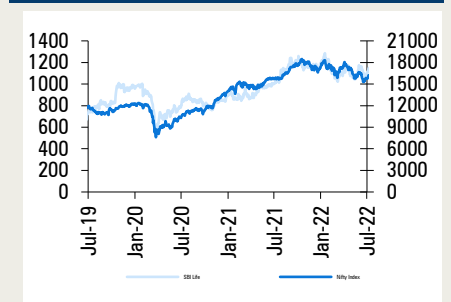
### Particulars

Particulars	Amount
Market Capitalisation	₹ 129516 crore
EV (as on March 2022)	₹ 39630 crore
AUM	₹ 262350 crore
52 week H/L	1304/1004
Face value	₹ 10

### Shareholding pattern

	Sep21	Dec21	Mar22	June22
Promoter	55.7	55.7	55.5	55.5
FII	24.5	24.5	24.2	23.9
DII	12.1	12.0	12.5	12.3
Others	7.8	7.8	7.9	8.3

### Price Chart



### Risk to our call

- Private market share based on IRP at 24.0%
- Key Risk:** 1) Increasing competitive intensity; 2) higher claim from group plan can impact surplus

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
New business premium	16592.5	20624.2	25460.0	23%	30721.2	37048.2	21%
APE	10505.2	11366.7	14300.0	14%	16783.7	20200.4	19%
Total premium	40324.0	49768.3	58432.3	21%	69825.1	83092.3	19%
PAT	1422.2	1455.9	1506.0	4%	1757.4	2152.8	20%
EV	26290.0	33386.0	39630.0	21%	45183.9	52104.0	15%
P/E (x)	91.4	89.3	86.4		74.0	60.4	
P/BV (x)	14.9	12.5	11.2		10.7	9.6	
P/IEV (x)	4.9	3.9	3.3		2.9	2.5	
RoEV (%)	20.5	19.1	20.6		15.6	15.9	

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Momentum in business growth to continue

- SBI life has posted good results pertaining to business growth during Q1FY23 as gross written premium (GWP) was up 35% YoY to ₹11350 crore. New business premium was key driver of overall growth and was up by 67% YoY to ₹5590 crore while renewal premium increased by 14% YoY to ₹5760 crore. Individual new business premium was up 87% YoY while Individual rated premium was up 86% YoY. On Annualised Premium Equivalent (APE basis) the growth stands at 80% YoY.
- Private market share based on rated premium was up from 18.9% to 24.0% on YoY basis and against 23.4% as on March 2022.
- VNB margin has improved by 665 bps YoY to 30.4% and this was mainly on account of strong new business growth and change in product mix. Non-Par segment which generally has higher margin contributed 14% to total premium mix as compared to just 3% a year ago.
- AUM grew at a decent pace of 13% YoY to ₹ 231560 crores. Shareholders and policyholders (excluding linked liabilities) assets witnessed healthy growth at ~14% and ~16% YoY, respectively.
- Commission ratio increased ~90 bps QoQ and 140 YoY, to 4.6% while Opex ratio declined to 6.6% from 7.2%. Consequently, total cost ratio was up 70 bps YoY to 11.2%.
- Overall premium growth was healthy while expenses declined on yearly basis, however a loss in investment income resulted into a net profit of ₹263 crore (up 17.8% YoY), which was slightly lower than our estimates.
- Persistency ratio was up from 84.5% to 85.6% QoQ, while solvency ratio remained steady at healthy level of 2.21x

### Q1FY23 earnings conference call highlights

- Launched SBI life annuity product in Q1FY23, it offers comprehensive range of annuity with option of deferred annuity.
- In a view to broaden the reach company has tied up with Paschim Bangal Gramin Bank (west Bengal). Entered into an agreement with major fintechs (phonepay etc).
- Growth in VNB and VNB margins is led by change in product mix predominantly in non-par, savings, guarantee segments. The VNB margins are expected to see further uptick led by Non-Par Guaranteed, Annuity and Protection segments
- Share of new product in non-par is 30%. Annuity has grown by 3%, pension and annuity grown by 18%.
- Retail protection business growth led by agency channel.
- For non-par savings product, pricing will be dependent on market conditions.
- Good traction seen in YoNo platform (right now only protection plans are sold via YoNo) and will add more products going ahead.
- 30-40 branch addition per year likely.
- 25% growth guidance in premium

### Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
SBI Life Insurance	1300	1500	Buy	1292	14.6	15.1	17.6	21.5	89.3	86.4	74.0	60.4	3.9	3.3	2.9	2.5	15.2	8.5	12.0	14.0
HDFC Life	542	635	Buy	1145	6.7	5.7	7.4	8.9	80.5	94.8	73.2	60.9	4.1	3.8	3.0	2.5	17.6	18.0	18.1	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
First Year Premium	2,570.4	2,394.9	1,404.8	83.0	3,853.6	-33.3	Driven by non-par and protection business
Renewal Premium	5,757.7	5,535.4	5,031.7	14.4	10,842.5	-46.9	
Single Premium	3,021.0	2,401.8	1,940.2	55.7	2,812.4	7.4	
<b>Net Premium income</b>	<b>11,036</b>	<b>9,852</b>	<b>8,313</b>	<b>32.8</b>	<b>17,434</b>	<b>-36.7</b>	
Income from Investments	-6,405.7	2,938.6	7,409.9	-186.4	2,999.5	-313.6	Impact due to hardening of yields
Total revenue	4,641.1	12,811	15,736.9	-70.5	21,427.9	-78.3	
Commission	507.6	315.3	261.7	94.0	677.9	-25.1	
Operating expenses	745.7	689.7	613.7	21.5	872.5	-14.5	Sequentially down due to sesonality but up YoY as business activity rises
Management Expenses	1,253.2	1,004.9	875.4	43.2	1,550.4	-19.2	
Benefits paid	5,171.7	3,941.0	4,791.8	7.9	7,373.4	-29.9	
Change in Actuarial Liability	-2,271.1	7,331.3	9,776.7	-123.2	10,892.1	-120.9	
Total Expenses	4,349.0	12,548.6	15,625.6	-72.2	20,122.6	-78.4	
<b>Surplus/ (deficit)</b>	<b>292.1</b>	<b>262.4</b>	<b>111.3</b>	<b>162.4</b>	<b>1,305.3</b>	<b>-77.6</b>	
Transfer to SH's A/c	100.3	100.0	-41.2	-343.5	1,471.2	-93.2	
Transfer to SH's A/c	100.3	100.0	-41.2	-343.5	1,471.2	-93.2	
Investment income	175.8	219.2	281.7	-37.6	238.2	-26.2	
Profit/ (loss) before tax	267.4	302.2	233.4	14.6	694.1	-61.5	
PAT	262.9	281.1	223.2	17.8	672.2	-60.9	Healthy growth despite lower investment income
<b>Key Metrics</b>							
NBP	5,591.4	4,796.7	3,345.0	67.2	6,666.0	-16.1	Individual NBP up 87% YoY
AUM	2,62,350	2,50,091	2,31,560	13.3	2,67,410	-1.9	Decent growth on YoY basis

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	68,385	69,825	2.1	78,629.0	83092	5.7
Total	94,603	93,223	-1.5	1,08,430.0	110847	2.2
Transfer to Shareholders' account	2,086	2,188	4.9	1,859.0	2490	34.0
PAT	1,659	1,757	5.9	2,181.0	2153	-1.3
EV	450	452	0.4	508.0	521	2.6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
NBP growth	24.3	23.4	20.7	20.6	19.2	15.3	15.3
AUM growth	37.7	22.2	16.3	19.8	18.5	20.5	19.2
EV Growth	38.5	8.9	14.0	15.3	17.8	17.1	16.9
Comission ratio	3.5	3.5	3.5	3.5	3.5	3.5	3.5
VNB Margin	18.7	21.7	21.8	21.8	21.7	21.8	21.8
Conservation ratio	87.5	83.3	85.0	85.2	86.6	85.6	85.6
Opearating RoEV	19.1	20.6	21.0	21.4	19.5	19.9	20.3

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 5: Policyholders Account

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Premiums earned - Net	40324.0	49768.3	58432.3	69825.1	83092.3
Income from Investments	2996.8	31456.0	23568.0	22117.5	26593.6
Other income	45.8	35.8	44.8	43.3	47.6
Contribution from the Shareholders' account	476.3	824.8	982.2	1237.2	1113.5
<b>Total</b>	<b>43842.8</b>	<b>82084.9</b>	<b>83027.2</b>	<b>93223.2</b>	<b>110847.0</b>
Commission	1624.9	1778.8	2084.1	2463.4	2935.8
Operating expenses	2413.1	2412.3	2974.5	3948.4	4824.5
Benefits paid (Net)	16175.3	21492.9	31339.8	32267.1	38681.5
Change in valuation of policy liabilities	20604.9	53934.2	43761.9	51315.5	60657.6
Others	75.6	89.8	101.7	8.0	8.0
Provision for tax	1054.4	569.6	126.2	932.4	1139.2
Surplus/(deficit) after tax	1894.7	1807.4	1807.4	2288.4	2600.4
Transfer to Shareholders' account	1462.7	1678.8	1732.4	2188.4	2490.4

Source: Company, ICICI Direct Research

### Exhibit 6: Shareholders Account

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Amounts transferred from Policyholders' account	1462.7	1678.8	1732.4	2188.4	2490.4
Income from investments	483.5	694.8	988.4	886.0	864.6
<b>Total</b>	<b>1946</b>	<b>2374</b>	<b>2721</b>	<b>3074</b>	<b>3355</b>
Expenses other than insurance	56.3	31.0	157.0	30.6	24.7
Contribution to Policyholders' account	476.3	824.8	982.2	1237.2	1113.5
Others	15.9	15.9	6.3	6.3	6.3
Profit before Tax	1413.6	1542.5	1560.8	1806.7	2216.8
Provision for tax	-8.6	86.6	54.8	49.2	63.9
<b>PAT</b>	<b>1422.2</b>	<b>1455.9</b>	<b>1506.0</b>	<b>1757.4</b>	<b>2152.8</b>

Source: Company, ICICI Direct Research

### Exhibit 7: Balance Sheet

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	7884	9093	10418	10861	12243
Credit/[debit] fair value change account	-141	308	204	308	308
<b>Networth</b>	<b>8743</b>	<b>10401</b>	<b>11622</b>	<b>12169</b>	<b>13551</b>
Policyholders' funds	153101	211349	255591	309452	370110
<b>Total Liabilities</b>	<b>162558</b>	<b>222592</b>	<b>268207</b>	<b>323463</b>	<b>386003</b>
<b>Applications of Funds</b>					
Shareholders' investments	6828	8605	10076	8911	9947
Policyholders' investments	73420	93936	112131	143304	174983
Asset held to cover linked liabilities	78565	116215	142625	158859	187693
Loans	364	358	363	445	503
Fixed assets - net block	581	565	527	697	780
Net current assets	2799	2912	2486	10959	11809
<b>Total Assets</b>	<b>162558</b>	<b>222592</b>	<b>268207</b>	<b>323175</b>	<b>385715</b>

Source: Company, ICICI Direct Research

**Exhibit 8: Key Ratios**

(Year-end March)	FY20	FY21	FY22	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	15.1	17.6	21.5
DPS (₹)	0.0	2.5	1.6	2.4	3.2
BV (₹)	87.4	104.0	116.2	121.7	135.5
<b>EV per share</b>	263	334	396	452	521
P/E	91.4	89.3	86.4	74.0	60.4
P/BV	14.9	12.5	11.2	10.7	9.6
P/IEV	4.9	3.9	3.3	2.9	2.5
<b>Efficiency Ratios (%)</b>					
Commission expenses as a % of Gross Premium	4.0	3.5	3.5	3.5	3.5
Management expenses incl commission as	9.9	8.3	9.6	9.1	9.2
<b>Return Ratios and capital (%)</b>					
Return on Net worth	17.4	15.2	13.7	12.0	14.0
Operating RoEV	20.5	19.1	20.6	21.0	21.4
Solvency Ratio	195	215	205	200	200
<b>Key Ratios (%)</b>					
Conservation Ratio	85.1	87.5	83.3	85.0	85.2
VNB Margin	18.7	18.7	21.7	21.8	21.8
Surrender Ratio	3.9	3.9	4.6	5.0	5.0
Benefits paid as a % of Opening Liability	11.9	14.0	14.8	12.4	12.4

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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