

SBI Life Insurance Ltd.



RESULT UPDATE

27th October 2022

SBI Life Insurance Ltd.

VNB margins continues to strengthen; APE growth moderates

CMP INR 1,255	Target INR 1,550	Potential Upside 23.5%	Market Cap (INR Mn) INR 12,57,697	Recommendation BUY	Sector Life Insurance
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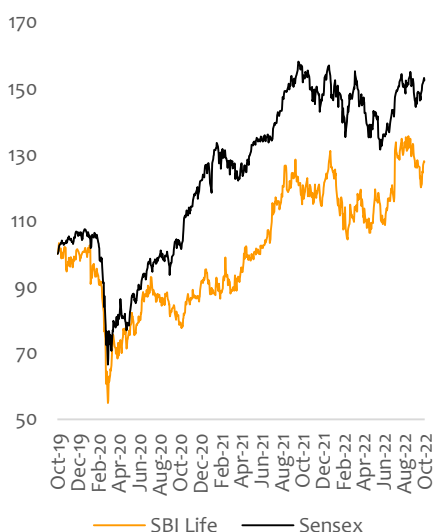
Result Highlights of Q2FY23:

- Gross Written Premium (GWP) grew by 12.9% YoY/ 46.5% QoQ to INR 1,66,211 Mn in Q2FY23, mainly driven 17.3% YoY/ 58.5% QoQ growth in renewal premium.
- Value of New Business (VNB) grew by 24.0% YoY/ 40.9% QoQ to INR 12.4 Bn in Q2FY23 with margins at 31.6%. The VNB margins expanded by 643 bps YoY/ 121 bps QoQ. Profit after Tax (PAT) was at INR 3,767 Mn in Q2FY23, a growth of 52.8% YoY/ 43.3% QoQ.
- The solvency ratio as of September 30, 2022, stood at 2.19x (improvement of 700 bps YoY) as against the regulatory requirement of 1.50x. The company's net worth increased by 11.9% from INR 122.1 Bn.

MARKET DATA

Shares outs (Mn)	1,001
Equity Cap (INR Mn)	1,22,100
Mkt Cap (INR Mn)	12,57,697
52 Wk H/L (INR)	1,340/1,004
Volume Avg (3m K)	1,163
Face Value (INR)	10
Bloomberg Code	SBILIFE IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,844
NIFTY	17,656

KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
GWP	4,06,347	5,02,542	5,87,596	7,04,819	8,48,033
PAT	14,222	14,559	15,060	17,236	19,643
EPS (INR/Share)	14.2	14.6	15.1	17.2	19.6
NBP-APE	1,07,400	1,13,667	1,41,931	1,70,943	2,05,914
VNB	20,100	23,300	27,000	52,992	64,863
VNB Margin (%)	18.7%	20.4%	25.9%	31.0%	31.5%
EVPS (INR/Share)	262.8	333.9	386.3	470.0	574.7

Source: Company, KRChoksey Research

Strong premium growth; maintained its market leadership in IRP: SBILIFE reported GWP growth of 12.9% YoY/ 46.5% QoQ at INR 1,66,211 Mn, where the New Business Premium (NBP) grew 8.0% YoY (+34.1% QoQ), and its renewal business grew 17.3% YoY (58.5% QoQ). The protection NBP has increased by 32.2% YoY in H1FY23 at INR 16.0 Bn, while the Annuity NBP grew by 39.4% YoY. The APE for Q2FY23 stood at INR 39,300 Mn, a growth of 35.5% QoQ, while declined by 1.3% YoY. The non-par APE mix increased to 25.6% during the quarter from 9.5% in H1FY22. The company targets to bring down the contribution from the ULIP segment in the range of 50-55% to maintain the growth in Non-Par segment. In recent times, ULIP saw a decline in share to 49.0% owing to market volatility but reported slight recovery in Q2FY23. SBILIFE has been focusing on new product launches in the Annuity segment. On the distribution mix, the APE mix for H1FY23 stood at bancassurance channel 63.0%, agency channel 25.3%, and other channels 11.7%. The agency APE stood at INR 17.3 Bn, a growth of 13.1% YoY. SBILIFE maintained its market leadership in Individual Rated premium at 23.7% amongst the private players. We expect the growth trajectory to be resilient on the back of improved product mix, new product launches & diversified distribution channels. We see a growth of 20.1% CAGR in GWP over FY22-24E, while APE to grow by 20.4% CAGR.

Consistently improving VNB margin leading to a strong growth in VNB: The VNB margins were 31.6% higher by 643 bps YoY (+121 bps QoQ) in Q2FY23, driven by an improved product mix led by the Non-Par/ Protection segment. The margin expansion has led to strong growth in absolute VNB of 24.0% YoY (+40.9% QoQ) at INR 12,400 Mn. We see VNB margins to remain sustainable in the range of 31.0-31.5% for FY23E/ FY24E. The company will be able to deliver healthy growth in VNB, led by a product mix shift within the Non-Par segment, driving margins.

Persistence ratio improved QoQ; Cost ratio higher for H1FY23: The persistency ratio for the 13th month & 61st month improved sequentially by 45 bps & 363 bps, respectively. The cost ratio stood at 10.2% in H1FY23 against 9.5% in H1FY22. The commission ratio reported an increase in H1FY23 at 4.5% against 3.6% in H1FY22. The opex ratio reduced for H1FY23 from 5.8% in H1FY22 to 5.6% in H1FY23. SBILIFE continued to maintain its cost leadership in H1FY23.

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-22	Jun-22	Mar-22
Promoters	55.5	55.5	55.5
FIIIs	24.3	23.9	24.2
DIIIs	15.6	12.3	12.5
Others	4.6	8.3	7.9
Total	100	100	100

20.4%

APE CAGR between FY22 and FY24E

55.0%

VNB CAGR between FY22 and FY24E

ANALYST

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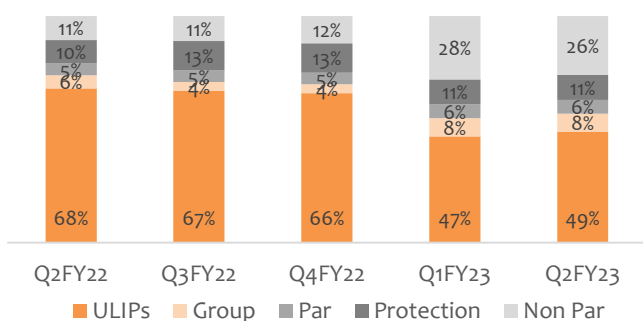
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Key Concall Highlights

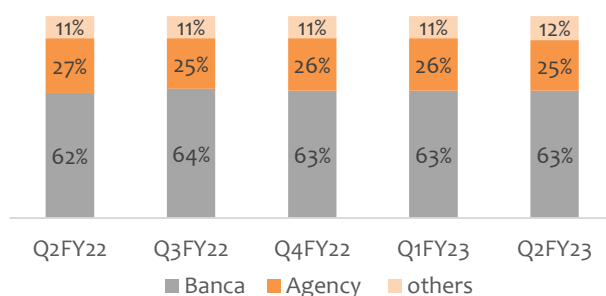
- Non-par guaranteed new business had registered a strong growth YoY, mainly due to the new business contribution of Smart Platina Plus, which is INR 12.7 bn in H1FY23. This product was launched on March 22 and has seen strong traction in the New Business Premium mainly due to the product features, which are highly accepted in the market.
- Under the Annuity segment, the company offers immediate and deferred annuities. Individual annuity businesses grew 136% over the same period last year.
- Partnerships like Indian Bank, UCO Bank, South Indian Bank, Punjab and Sindh Bank and Yes Bank registered a growth of 62%. These partnerships have started contributing 3% of the individual new business premium.
- The growth in VNB is fueled by a change in product mix, with a predominantly non-par segment contributing to the business volume. With its growth targets and the product mix shift, SBILIFE expects to maintain healthy VNB and VNB growth rates.
- The company continues the efficient use of technology to simplify the process. 99% of individual proposals are being submitted digitally. 43% of individual proposals are processed through automated underwriting.
- SBILIFE continuously endeavours to maintain its leadership position and further increase its market share by offering innovative products that meet customers' evolving needs with a widespread robust distribution network accompanied by digital technology and innovation strength.
- It will continue leveraging existing partnerships, exploring new partners, and launching new products.
- SBILIFE expects the GWP to grow in the range of 20-25% for H2FY23E.
- The company launched the SBI Life Retire Smart Plus product, a unit-linked pension savings product, during the quarter.

Valuation and view: Q2FY23 performance of SBILIFE continues to be strongly led by healthy business traction. The company has been reporting 30%+ margins in the last few quarters, led by the increasing focus on the Non-Par segment. This led to strong growth in VNB. SBILIFE reported a sequential pick-up in the share of ULIP during the quarter. The protection segment for the quarter was stable, while the Non-Par segment reported slight moderation owing to an increase in ULIP share. The company has been focusing on new launches, especially in immediate Annuity Products and has been gaining decent traction. We expect SBILIFE to maintain the current margin levels of 31.0%, driven by increased growth momentum in the Protection & Annuity segments. The risk-reward trade-off is positive for SBILIFE. SBILIFE has been outperforming its private peers and is well-placed in terms of growth. The current valuation is relatively attractive compared to its peers. We expect the GWP to grow at 20.1% CAGR over FY22-24E with a VNB growth of 55.0% CAGR. PAT is expected to grow at 18.4% CAGR over FY22-24E, maintaining its cost leadership. **We continue to apply a 2.7x P/EV on FY24E EVPS of INR 574.3 and a VNB multiple of 15x to arrive at a weighted average TP of INR 1,550 per share (unchanged) for SBI Life (50:50 weights on the P-EV and appraisal value methodology); implying a potential upside of 23.5% from the CMP. Accordingly, we maintain our rating as "BUY" on the shares of SBILIFE.**

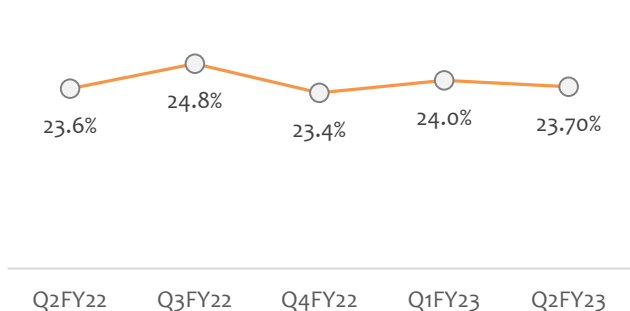
Product mix (%): ULIP contribution regains traction



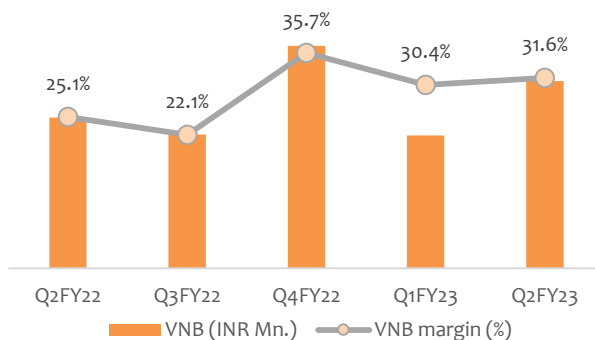
Channel mix on APE basis (%)
Stable mix



Market Share among private insurers (%)



VNB and VNB margin (%): Steady improvement in VNB margin



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue Account / Policyholders' Account					
Gross premiums	4,06,347	5,02,542	5,87,596	7,04,819	8,48,033
Reinsurance ceded	3,107	4,859	3,273	5,639	6,784
Net premiums	4,03,240	4,97,683	5,84,323	6,99,180	8,41,249
Net income from investments	29,968	3,14,560	2,35,680	1,86,996	2,21,273
Total income	4,38,428	8,20,849	8,30,272	8,86,176	10,62,522
Commission expenses	16,249	17,425	20,841	24,669	32,225
Operating expenses	24,131	24,485	30,487	36,651	44,098
Service tax on linked charges	5,538	6,434	7,725	12,264	14,756
Operating profit	3,92,510	7,72,505	7,71,220	8,12,593	9,71,443
Benefits paid (net)	1,62,509	2,15,827	3,13,398	2,58,697	3,11,262
Interim Bonuses Paid	0	0	0	0	0
Change in reserves	2,06,049	5,39,342	4,37,619	5,22,000	6,25,000
Provisions	5,005	-737	1,365	7,974	8,795
Surplus/(Deficit)	18,947	18,074	18,838	23,922	26,386

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
First year premiums	98,288	1,03,381	1,29,415	1,55,298	1,86,358
Single premiums	67,637	1,02,861	1,25,158	1,56,448	1,95,560
New business premium (NBP)	1,65,925	2,06,242	2,54,574	3,11,746	3,81,918
NBP growth (%)	20%	24%	23%	22%	23%
Renewal premiums	2,40,422	2,96,299	3,33,023	3,93,073	4,66,115
Renewal premiums growth (%)	25%	23%	12%	18%	19%
Total premiums	4,06,347	5,02,542	5,87,596	7,04,819	8,48,033
Total premium growth (%)	23%	24%	17%	20%	20%
NBP - APE	1,07,400	1,13,667	1,41,931	1,70,943	2,05,914
NBP - APE growth (%)	11%	6%	25%	20%	20%

Source: Company, KRChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Profit & Loss Account / Shareholders' Account					
Transfer from Technical account	14,627	16,788	17,324	19,422	21,886
Income from investments & other income	4,835	6,948	9,884	8,199	9,593
Total income	19,461	23,736	27,208	27,622	31,479
Total expenses	5,326	8,311	11,601	9,668	11,018
PBT	14,135	15,425	15,608	17,954	20,461
Provision for tax	-86	866	548	718	818
PAT	14,222	14,559	15,060	17,236	19,643

Source: Company, KRChoksey Research

SBI Life Insurance Ltd.

Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Share capital	10,000	10,001	10,004	10,007	10,007
Reserves and surplus	78,839	90,926	1,04,181	1,18,659	1,35,159
Fair value change account - net	-1,408	3,077	2,039	2,000	2,000
Shareholders' fund	87,431	1,04,004	1,16,223	1,30,666	1,47,166
Liabilities (Policyholder's Funds)					
Fair value change account - net	-15,872	27,268	32,069	38,782	44,213
Policy liabilities	7,61,230	9,24,075	10,97,590	12,78,693	14,83,284
Provision for linked liabilities	7,63,007	9,65,495	11,74,871	12,92,358	14,21,594
Credit/[debit] fair value change account	-28,605	1,26,541	1,69,659	2,05,174	2,33,906
Discontinued due to non-payment of premium	51,251	70,115	81,723	98,830	1,12,670
Sub-Total	15,31,011	21,13,494	25,55,913	29,13,837	32,95,667
Funds for future Appropriations	7,137	8,423	9,936	9,936	9,936
Total Sources of Funds	16,25,579	22,25,921	26,82,072	30,54,439	34,52,769
Application of Funds					
Investments					
- Shareholders'	68,280	86,047	1,00,758	1,17,887	1,37,928
- Policyholders'	7,34,199	9,39,364	11,21,307	12,78,290	14,44,467
Asset held to cover linked liabilities	7,85,653	11,62,150	14,26,253	16,25,929	18,37,299
Loans	3,645	3,581	3,627	3,627	3,627
Fixed assets - net block	5,812	5,654	5,268	5,268	5,268
Net current assets	27,990	29,124	24,860	23,440	24,180
Total Applications of Funds	16,25,579	22,25,921	26,82,072	30,54,439	34,52,769

Source: Company, KRChoksey Research

EV Calculation (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Opening EV	2,24,050	2,62,850	3,33,900	3,86,300	4,70,019
Unwind	19,000	20,630	27,300	31,584	38,072
VNB (or NBAP)	20,100	23,300	27,000	52,992	64,863
Operating variance	6,700	6,250	4,600	2,400	2,400
EV Operating Profit (EVOP)	45,800	50,180	58,900	86,977	1,05,334
Non-operating variance	-7,000	23,200	-4,500	-500	2,500
EV Profit	38,800	73,380	54,400	86,477	1,07,834
Net capital injection	0	-2,330	-2,000	-2,758	-3,143
Closing EV	2,62,850	3,33,900	3,86,300	4,70,019	5,74,711

Source: Company, KRChoksey Research

Key Financials (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Total premium	4,06,347	5,02,542	5,87,596	7,04,819	8,48,033
Net premium earned	4,03,240	4,97,683	5,84,323	6,99,180	8,41,249
NBP-APE	1,07,400	1,13,667	1,41,931	1,70,943	2,05,914
Combined ratio (%)	9.9%	8.3%	8.7%	8.0%	8.0%
Surplus/(Deficit)	18,947	18,074	18,838	23,922	26,386
VNB margin (%)	18.7%	20.4%	25.9%	31.0%	31.5%
PAT	14,222	14,559	15,060	17,236	19,643
EPS (INR)	14.2	14.6	15.1	17.2	19.6
EVPS (INR)	262.8	333.9	386.3	470.0	574.3
RoEV (%)	20.4%	19.1%	17.6%	22.5%	22.4%
RoE (%)	17.4%	15.2%	13.7%	14.0%	14.1%

Source: Company, KRChoksey Research

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SBI Life Insurance				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-22	1,255	1,550	BUY	Buy	More than 15%
29-Jul-22	1,294	1,550	BUY		
30-Apr-22	1,106	1,435	BUY	Accumulate	5% – 15%
24-Jan-22	1,225	1,435	BUY		
28-Oct-21	1,174	1,435	BUY	Hold	0 – 5%
28-July-21	1,129	1,240	ACCUMULATE		
07-May-21	969	1,200	BUY	Reduce	-5% – 0
17-Mar-21	914	1000	ACCUMULATE		
				Sell	Less than – 5%

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