13 December 2022

Company Update | Sector: Banking and Financial

SBI Life Insurance

BSE SENSEX	S&P CNX
62,535	18,563

Apne liye. Apno ke liye.

Bloomberg	SBILIFE IN
Equity Shares (m)	1,000
M.Cap.(INRb)/(USDb)	1277.6 / 15.4
52-Week Range (INR)	1340 / 1004
1, 6, 12 Rel. Per (%)	1/-6/0
12M Avg Val (INR M)	1450
Free float (%)	44.5

Financial snapshot (INR b)

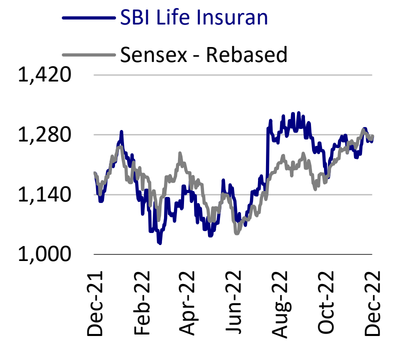
Y/E MARCH	FY22	FY23E	FY24E
Net Premiums	584.3	695.6	840.2
Surplus / Deficit	18.8	24.0	26.6
Sh. PAT	15.1	18.2	19.0
NBP gr- unwtd (%)	23.4	25.0	20.0
NBP gr- APE (%)	24.9	26.3	25.7
Premium gr (%)	16.9	19.5	20.7
VNB margin (%)	25.9	30.5	31.4
RoEV (%)	18.7	20.7	21.9
Total AUMs (INRt)	2.7	3.1	3.8
VNB	37.0	54.7	70.8
EV per share	396.3	478.5	583.3
Valuations			
P/EV (x)	3.2	2.7	2.2
P/EVOP (x)	18.5	14.4	11.6

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	55.5	55.5	55.7
DII	15.7	12.3	12.1
FII	24.3	23.9	24.5
Others	4.6	8.3	7.8

FII Includes depository receipts

Stock Performance (1-year)



CMP:INR1,277 TP: INR1,600 (+25%) BUY

Well poised to capture growth opportunities

Operating metrics robust; RoEV to expand to ~22% by FY24E

- **SBILIFE has delivered a robust NBP growth of 26% in FY23YTD, outperforming the leading private players. We estimate SBILIFE to deliver an APE CAGR of 26% over FY22-24, the highest in our LI coverage universe.**
- **The company's premium mix has improved with the share of annuity and protection in total NBP increasing 900bp over the last three years, while the mix of ULIP/PAR has reduced. We estimate the product mix to improve further, thus keeping margins resilient.**
- **A strong agency channel in bancassurance provides SBILIFE a distinct competitive advantage in the distribution of its insurance products. Improving productivity of both these channels reinforces our faith in the long-term growth prospects of the company.**
- **We estimate VNB to register a CAGR of 38% over FY22-24, while margins to expand to 31.4%. We expect VNB contribution to Operating RoEV to improve to 15% in FY24 from 9% in FY20, thus driving RoEV to 22% in FY24E.**
- **SBILIFE is among our preferred picks in the life insurance space and we reiterate our BUY rating on the stock with a TP of INR1,600 (2.5x Sep'24E EV).**

Well positioned for growth; market share gains to continue

SBILIFE is well poised for growth with a wide array of product offerings and an expanding distribution base with emphasis on improving productivity of the banca channel. In FY23YTD, the company gained 160bp of market share on the basis of individual NBP, though it lost a market share of 80bp on the overall NBP. In 7MFY23, NBP grew 26%, led by growth in individual as well as group business. However, this is lower than industry growth due to strong performance by LIC during the same period. We expect SBILIFE to claw back its market share as the year progresses, led by rising focus on protection and non-par savings, annuity segment. This will also have a positive effect on margins.

Resilient performance in protection segment; growth to recover further

Protection is a strong focus area for SBILIFE as it offers a multi-decade growth opportunity, given high under-penetration and large protection gap. In FY22, there was a lack of aggression to underwrite retail protection at large, due to a raging pandemic coupled with price hikes by reinsurers. However, SBILIFE bucked the industry trend and grew overall/retail protection APE at 22%/17% YoY, respectively, in 1HFY23. As the mortality fear of pandemic continues to recede, we are witnessing growing comfort to underwrite retail protection. Credit life is also witnessing a healthy traction, led by improved disbursements and loan growth.

Non-par savings/annuity to be a primary growth driver

Insurers are realizing the growing opportunity size of retirement space, led by improving longevity and limited social security schemes. Thus, growth in pension/annuity business will be driven by changing demographics, increase in life expectancy, and lack of formal social security for wider population. To capture this large growth opportunity, SBILIFE offers different annuity products to individual and group customers. Non-par savings APE (including annuity) grew 191% YoY in 1HFY23 and forms 29% of overall APE vs 12% in FY21.

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Expanding presence through a robust distribution network

The distribution machinery of SBILIFE has exclusive access to over 22,000 branches of SBIN, thereby, strengthening its banca channel. An increasing focus on improving the productivity of this channel will further boost the overall performance. While banca hogs the limelight, SBIN's digital footprint has expanded across various mobile and web-based applications, enhancing presence in several touch points. This is further supported by a wide network of more than 1,78,000 individual agents as of Sep'22 with a high productivity of INR0.23m.

Strengthening cost leadership

SBILIFE has consistently demonstrated significant control over its cost ratios. The company's total cost ratio (Commissions and Opex.) increased to 10.2% in 1HFY23 from 8.8% in FY22. However, SBILIFE continues to be the lowest cost player by a wide margin as it continues to focus on improving cost efficiency and adopting cost containment activities. However, the ratio will be remain elevated in the near term, as the company continues to invest in the brand, build a wider distribution network, and grow the share of protection and non-par savings/annuity in business mix. We estimate a modest increase of ~60bp (vs. FY22) to 9.4% by FY24E.

Worst of COVID claims behind; adequate COVID reserves going into FY23

In FY22, SBILIFE received Covid claims (net of reinsurance) of INR15.9b across various lines of businesses, higher than INR10.2b and INR8.2b claims of IPRU and HDFCLIFE, respectively. SBILIFE also carries a reserve of INR2.9b for delayed claim intimations due to the pandemic. We believe this should be sufficient to cover residual claims in FY23.

VNB contribution to EV increased to 11%; RoEV to see a structural uplift

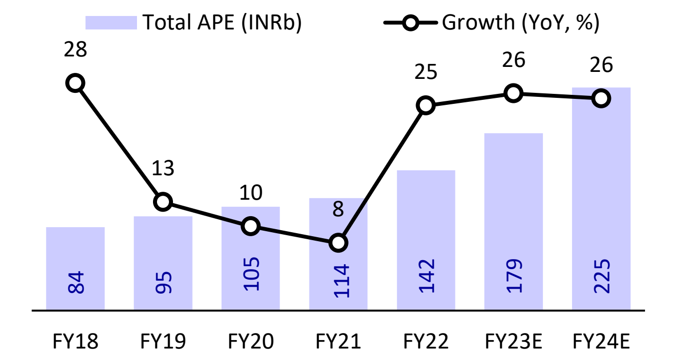
SBILIFE's VNB margin spiked to 31% in 1HFY23 vs 20% in FY19, leading to a sharp jump in contribution of VNB to EV accretion. We expect this trend to continue and estimate the contribution of VNB in Operating RoEV to rise to ~15% by FY24 from 9% in FY19. We believe a higher operating RoEV at 22-23% is sustainable, given the sharp improvement in margins on the back of a more optimal product mix. We estimate EV to register a CAGR of at 21% over FY22-24 with a robust operating RoEV of ~23% by FY24.

Valuation and view: Attractively priced for stable business fundamentals

SBILIFE has witnessed strong traction in premium growth across all products segments (barring PAR) with agency and banca channel contributing to overall growth in FY22. The trends in 1HFY23 are strong with the company gaining further market share among private players. We expect this trend to continue on the back of wider product offerings combined with robust distribution capabilities. We estimate APE CAGR of 26% over FY22-24, led by continued momentum in non-par savings and protection products. We also estimate VNB margins to improve to 31.4% by FY24, driving 38% CAGR in VNB over FY22-24E. We expect operating RoEV to improve to ~23% and estimate 21% CAGR in EV over FY22-24E. **SBILIFE is our preferred pick in the life insurance space and we reiterate our BUY rating with a revised TP of INR1,600 (2.5x Sep'24E EV).**

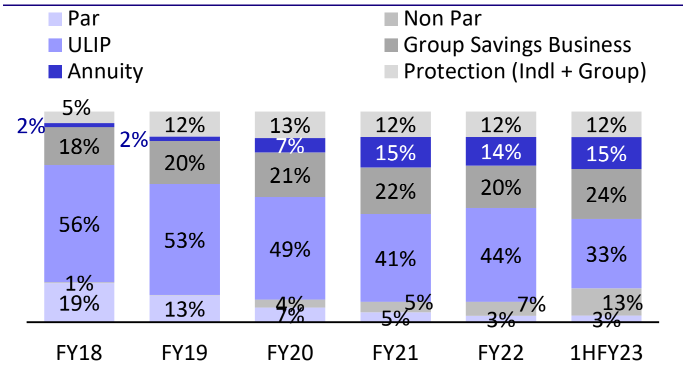
Focused charts

Exhibit 1: APE to register a CAGR of 26% over FY22-24



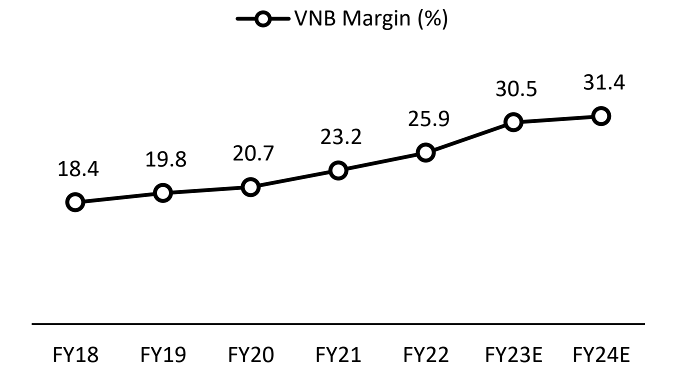
Source: MOFSL, Company

Exhibit 2: Rising share of annuity and non-par savings in mix



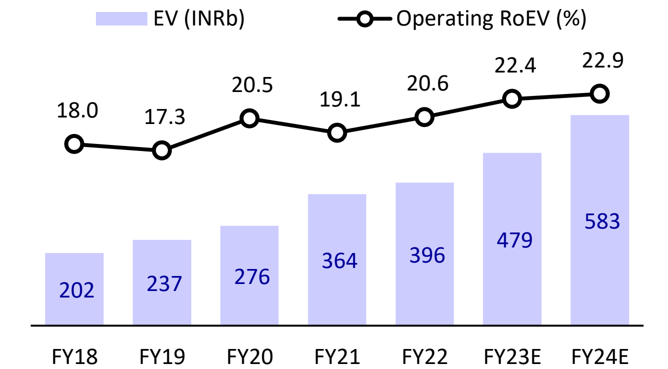
Source: MOFSL, Company

Exhibit 3: Rising VNB margin trajectory, primarily driven by an improving business mix



Source: MOFSL, Company

Exhibit 4: We expect Operating RoEV trend to improve on the back of healthy growth and optimum product mix



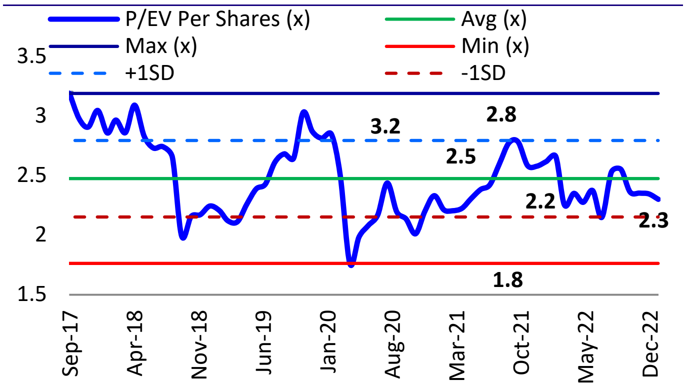
Source: MOFSL, Company

Exhibit 5: A sharp improvement in VNB margin has enabled higher EV accretion on a sustainable basis

Contribution to EV accretion (%)	FY18	FY20	FY22	FY24E
Unwinding	8.5	8.5	8.2	8.4
VNB	8.4	9.0	11.1	14.8
Operating variance	1.0	2.5	1.4	0.2
Change in operating assumptions	0.1	0.5	(0.0)	(0.4)
Operating RoEV	18.0	20.5	20.6	22.9
Economic variance	(1.1)	(3.2)	(1.3)	(0.3)
Dividend paid / capital injection	(1.5)	-	(0.6)	(0.7)
RoEV	15.4	17.3	18.7	21.9

Source: MOFSL, Company

Exhibit 6: Valuation of SBILIFE has corrected to 2.3X from 2.8X over the last 15 months, offering attractive opportunity

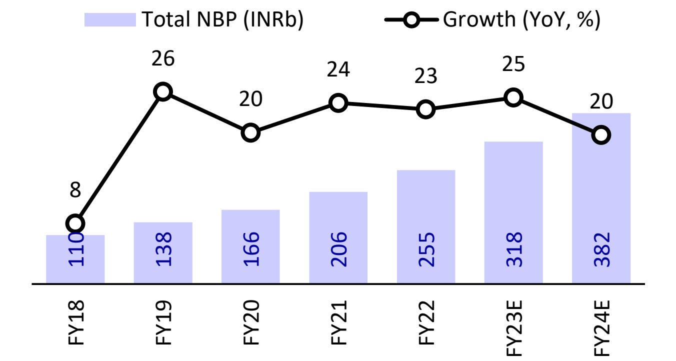


Source: MOFSL, Company

Healthy topline growth, led by enhanced product suite and distribution

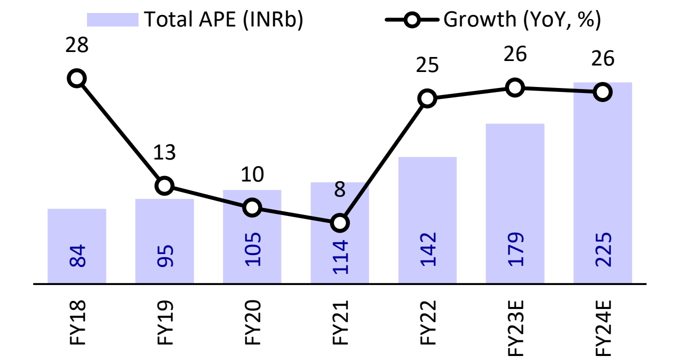
- SBILIFE operates with the strategy of approaching customers with a wide array of product offerings, thereby providing them with various choices. While it does not push any particular product or a channel, it aspires to grow the share of protection and annuity in business mix.
- These products are highly under-penetrated and offer a long runway for growth. Also, these are relatively higher margin products, and thus, offer an upside fillip to margin.
- We estimate NBP/APE CAGR of 22%/26% over FY22-24 for SBILIFE, higher than industry growth, as the company is expected to gain market share, led by a solid brand recall, wide product suite, and deep distribution capabilities.

Exhibit 7: NBP to register a CAGR of 22% over FY22-24



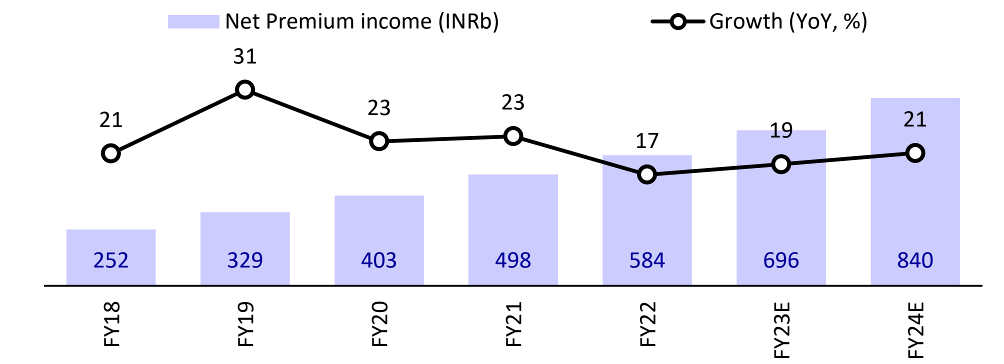
Source: MOFSL, Company

Exhibit 8: Similar broad-based CAGR of 26% in APE



Source: MOFSL, Company

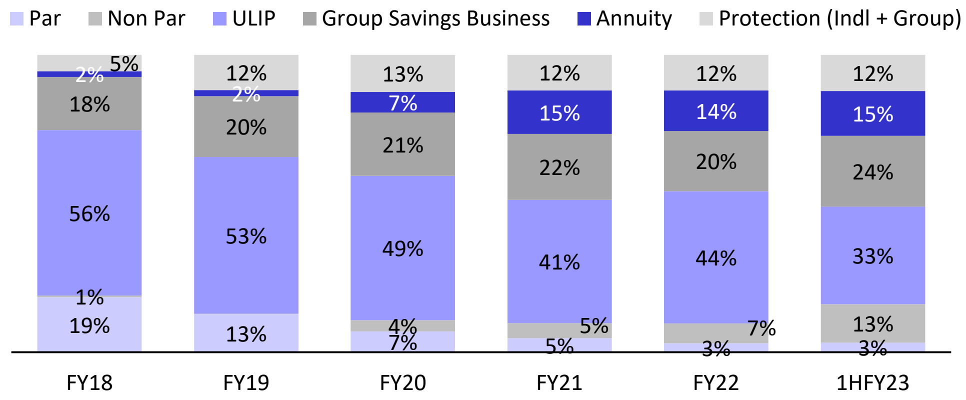
Exhibit 9: Net premium growth lower than NBP/APE due to slower growth in renewals



Source: MOFSL, Company

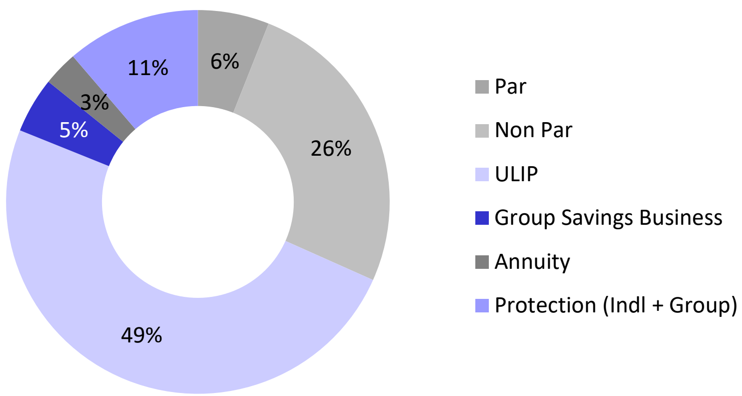
- Over the last few years, share of protection and annuity has increased to 12% and 15% of NBP in 1HFY23 from 5% and 2% in FY18, respectively. This came at the cost of a declining mix of Par and ULIP business.
- The mix of ULIP continues to moderate due to a wider product offering as well lower demand affected by volatile capital markets. As a result, NBP's share in the mix has fallen to 33% in 1HFY23 from 56% in FY18. We do expect some of this loss to claw back as capital markets recover.
- Over the last few years, SBILIFE has launched several products to address gaps in portfolio to meet evolving customer needs and capture possible growth opportunities. Product innovation and therefore understanding needs of the customer is critical for sustained growth in the future.

Exhibit 10: Rising share of annuity and non-par savings in NBP; forms 28% in 1HFY23



Source: MOFSL, Company

Exhibit 11: Share of annuity/non-par savings lower on the basis of APE as they are typically single premium products; ULIP dominates business mix at 49% in 1HFY23

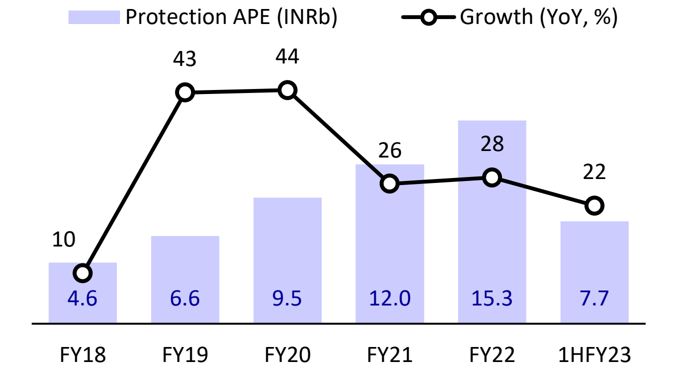


Source: MOFSL, Company

Resilient performance in protection; growth trajectory to recover further

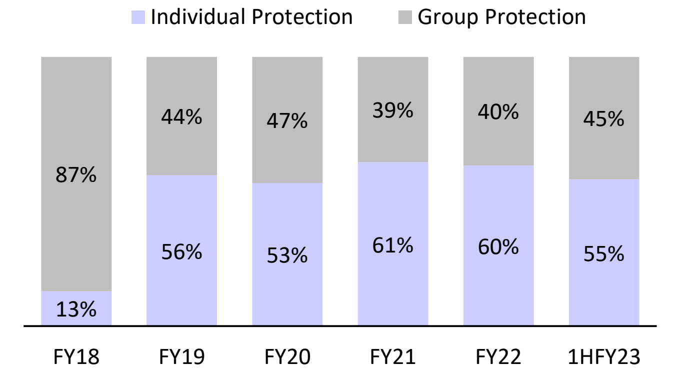
- Resulting from the impact of the pandemic, there is a general mind-set reset toward buying protection, with people realizing the gaps in financial security. Thus, it presents a strong growth opportunity for SBILIFE in the near term. Decreased penetration levels and large mortality gaps are expected to sustain growth for a reasonably long period of time.
- SBILIFE's wide product offerings aim to bridge the gap while capturing the large growth opportunity of this segment. In 1HFY23, Protection APE grew 22% YoY, led by individual as well as group businesses. Despite supply-side challenges in the form of reluctance to undergo medical check-ups and reinsurer-led price hike in retail protection, a 17% growth in individual protection APE is commendable.
- With this, protection now forms 11% of the business mix in 1HFY23.

Exhibit 12: Protection APE grew at 35% CAGR over FY18-22



Source: MOFSL, Company

Exhibit 13: Impressive ramp up of individual protection

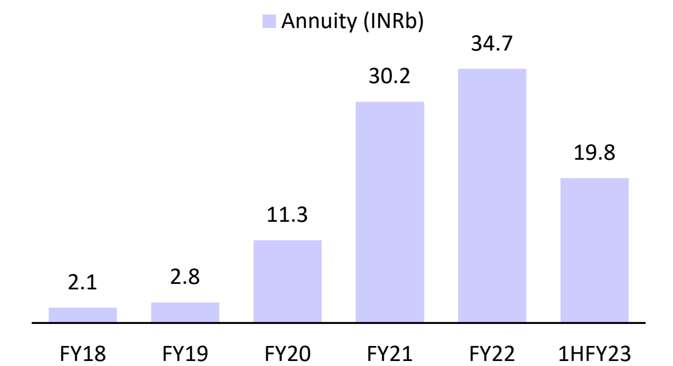


Source: MOFSL, Company

Favorable demographics to support growth in Annuity & Pension products

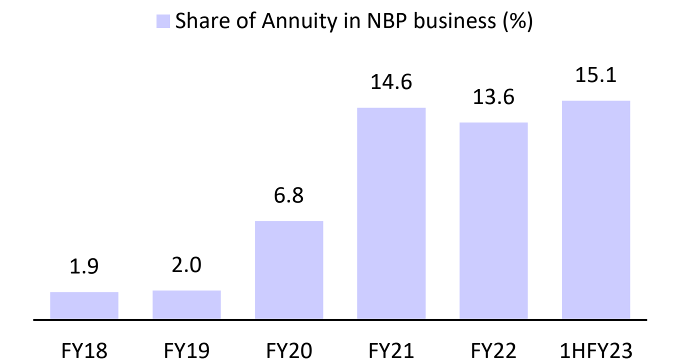
- The proportion of elderly population in India is expected to rise to 17% by 2060 from 7% in 2020, leading to improved demand for annuity and pension products.
- Due to rising awareness, increased life expectancy, and thrust of insurance players, demand for annuity and other retirement products should continue to grow. Thus, the segment offers a multi-decade growth opportunity as its current penetration is low with private pension assets at only 5% of GDP.
- To capture this opportunity, SBILIFE has a wide suite of products ranging from individual immediate annuity product, group immediate annuity product, a unit-linked pension product, and a participating pension product.
- Due to the company's continued focus on annuity NBP, it has registered a CAGR of 102% over FY18-22. Annuity NBP, which is a relatively higher margin product, now forms 15% of NBP (1HFY23).

Exhibit 14: Annuity business registers CAGR of 102% over FY18-22



Source: MOFSL, Company

Exhibit 15: Share of annuity in NBP business mix, currently at 15%, is increasing gradually

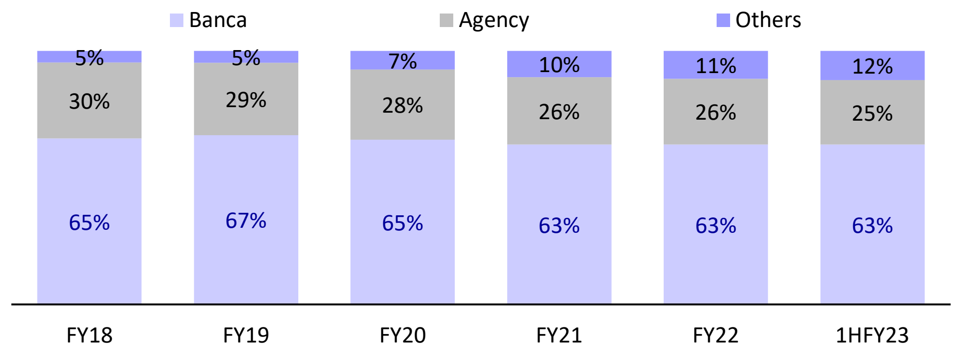


Source: MOFSL, Company

Distribution network remains its competitive edge

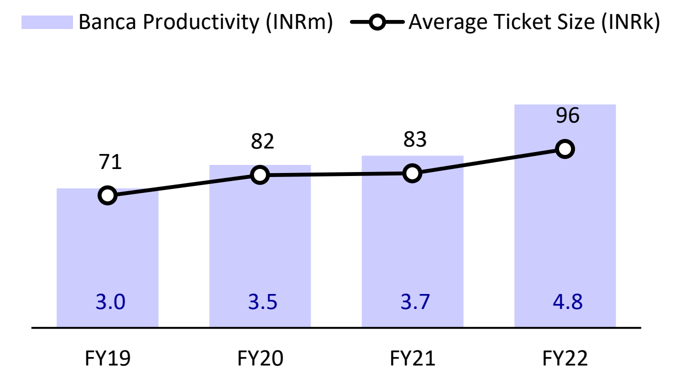
- The distribution machinery of SBILIFE has exclusive access to over 22,000 branches of SBI, thereby, strengthening its banca channel. The presence of other banca partners is an added advantage with a contribution of 4% to overall APE.
- Higher focus of the management on improving the productivity of SBI (banca partner) is paying off as the same rose to INR4.0m in 1HFY23 on the basis of individual NBP. With banca forming 63% of APE, it will further boost the company's overall performance.
- While banca hogs the limelight, SBILIFE's digital footprint has expanded across various mobile and web-based applications, enhancing presence in several touch points.
- The company is also supported by a strong network of more than 178,000 agents. While there has been realignment in FY22, the agent network has recorded a CAGR of 8% over FY18-22. The productivity of this channel remains strong at INR0.23m in 1HFY23.
- As of 1HFY23, banca dominates the distribution mix with a share of 63% followed by agency network at 25% of APE. The residual 12% comes from new age partnerships and direct channel.

Exhibit 16: Banca dominates the distribution landscape with a 63% share of APE



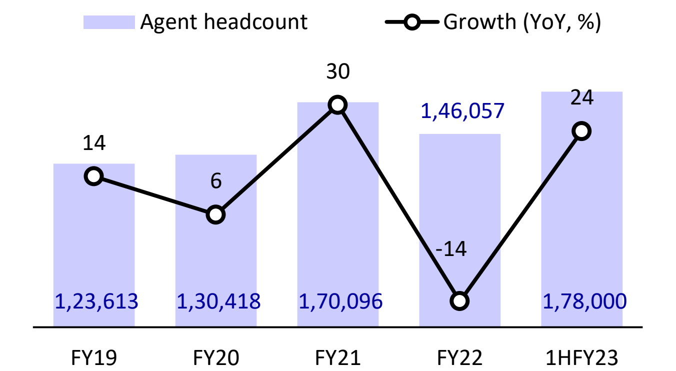
Source: MOFSL, Company

Exhibit 17: Banca Productivity on a rising trajectory coupled with increase in average ticket size



Source: MOFSL, Company

Exhibit 18: Agent addition pace has gathered steam after realignment in FY22

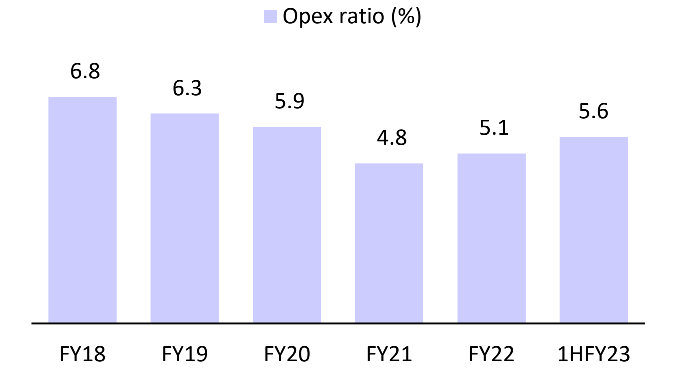


Source: MOFSL, Company

Cost leadership has strengthened further

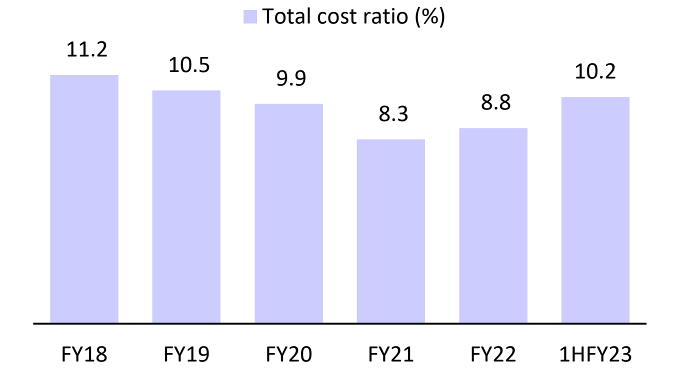
- SBILIFE is the lowest cost player in the industry with a total cost ratio of 10.2% in 1HFY23. It has been maintaining cost leadership by a wide margin for a long time.
- The company continues to focus on improving efficiency and reducing operating expenses to maintain its rank of being the lowest cost producer.
- The company's total cost ratio (Commissions and Opex.) increased in recent quarters due to slower pace of revenue growth while the company continued to invest in building the brand and expanding distribution network.
- While SBILIFE continues to focus on improving cost efficiency and adopting cost containment activities, we expect the cost ratio to remain elevated in the near term as the company continues to invest in building its brand, expanding its distribution network, and growing the share of protection and non-par savings/annuity in business mix.

Exhibit 19: Continuously improving cost ratio; however, increase in FY22/1HFY23 is driven by investment in distribution



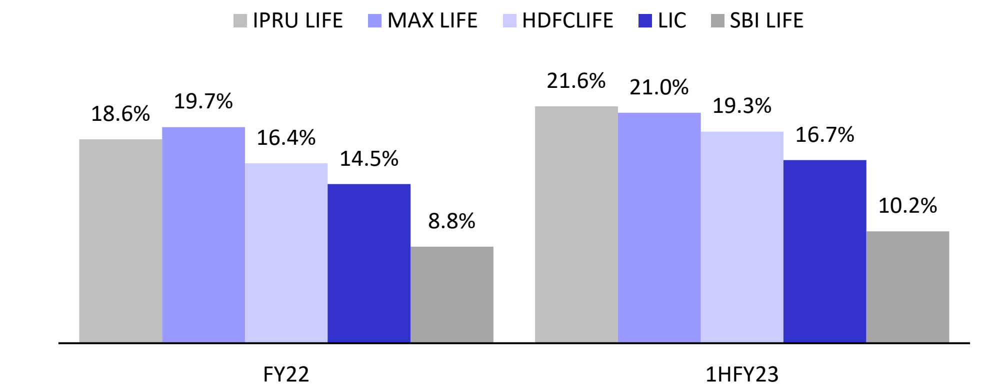
Source: MOFSL, Company

Exhibit 20: SBI Life is still the lowest cost manufacturer by a wide margin



Source: MOFSL, Company

Exhibit 21: SBILIFE stands out with a significantly lower cost ratio vs. peers

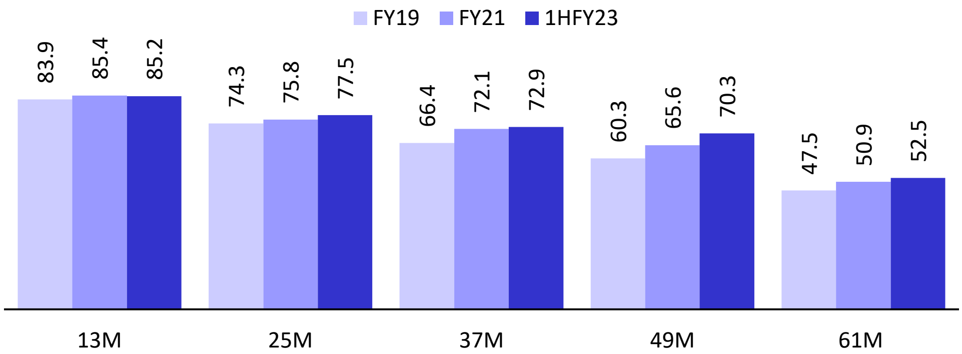


Source: MOFSL, Company

Persistency ratio improved significantly

- SBILIFE runs a Revival campaign with the motive of reviving lapsed policies and rebuilding relationships with policyholders. The inputs collected through renewal analytics are further applied to determine the likelihood of revival of policy. Thus, the call centre operations are focussed on policyholders with a higher probability of renewal.
- Such measures have helped SBILIFE to maintain and improve persistency ratio in key cohorts. Maintaining a high level of persistency ratio is critical as it paves way for regular revenues through renewal premiums. Therefore, the company ensures continuous engagement to improve the same.
- In 1HFY23, persistency ratio witnessed marginal improvements in later stage buckets such as 37M, 49M, and 61M, while it was stable in 13M.

Exhibit 22: Persistency ratio improved in later stage buckets in 1HFY23

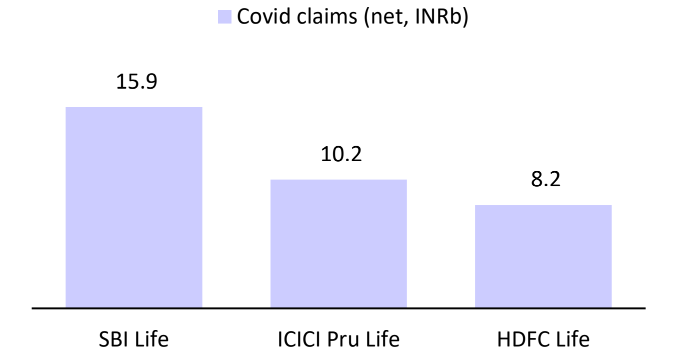


Source: MOFSL, Company

Worst of COVID claims behind; holds reserve of INR2.9b for delayed intimations

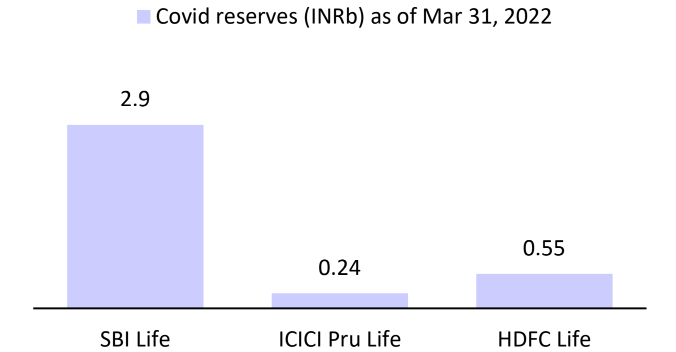
- Much like peers, SBILIFE too faced the pressure of spike in mortality due to Covid. While heightened claims were received in FY21/22, we believe the worst is behind us.
- In FY22, SBILIFE received Covid claims (net of reinsurance) of INR15.9b across various lines of businesses. In addition to this, it carries a reserve of INR2.9b for delayed claim intimations due to the pandemic.
- We believe this should be sufficient enough to cover delayed claim intimations in FY23, in the absence of any further waves. Therefore, the worst of the pandemic and its impact on financials seem to be behind us.
- While Covid caused a spike in deaths and therefore claims, it has definitely raised awareness about insurance products, especially health insurance and pure protection. To that extent, it has transformed the category from a push to pull product. More often, these days, the potential policyholder has decided to buy a pure term before meeting the sales representative and only needs a nudge for the transaction to be completed.

Exhibit 23: SBILIFE received Covid claims of INR15.9 (net of reinsurance) in FY22



Source: MOFSL, Company

Exhibit 24: SBILIFE carries the highest amount of Covid reserves, going into FY23



Source: MOFSL, Company

Moderate EV sensitivity to Interest rate/equity market fluctuations

- In the below exhibit, we compare the sensitivity of Embedded Value (EV) and Value of new business (VNB) to key parameters for all the leading insurers.
- On the basis of this examination, we conclude that the sensitivity of SBILIFE to interest rates and equity market fluctuations is partially better than select private peers.
- In the current rising interest rate environment, insurers with a lower sensitivity to interest rate/reference rate are better placed than others. VNB of SBILIFE has the least exposure to interest rate fluctuations. However, fluctuations in EV is relatively higher to a change in interest rate.
- In the case of an adverse capital market change, LIC will be most adversely impacted, owing to its high sensitivity to this variable because of a relatively higher share of equity investments. The other leading insurers are similarly placed against a fall in equity market values.

Exhibit 25: Sensitivity analysis of leading insurers to key variables

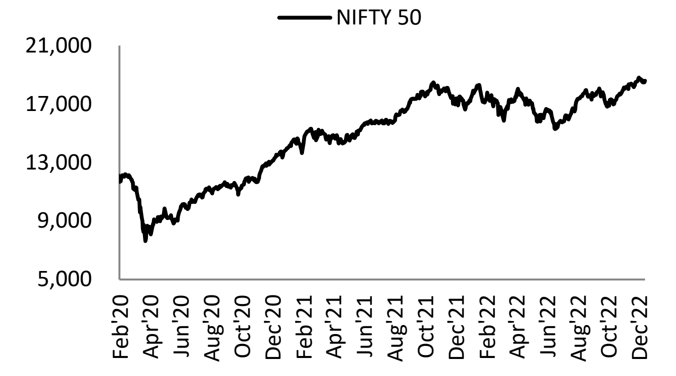
		% Change in EV					% Change in VNB				
Key parameter	**Scenario**	**HDFC LIFE**	**IPRU**	**SBI LIFE**	**Max Life**	**LIC**	**HDFC LIFE**	**IPRU**	**SBI LIFE**	**Max Life**	**LIC**
Reference rates	Increase in 100bps	-2.3	-4.2	-4.1	-2.0	-0.6	-1.4	-3.5	-0.7	4.0	8.2
	Decrease in 100bps	1.9	4.6	3.6	1.0	-0.1	0.7	3.2	0.5	-5.0	-23.3
Discontinuance rates	10% increase	-0.4	-1.0	-1.1	-1.0	-0.2	-0.5	-4.9	-2.3	-2.0	-4.1
	10% decrease	0.4	1.0	1.4	1.0	0.2	0.5	5.3	2.8	2.0	4.1
Mortality/morbidity rates**	10% increase	-1.0	-1.9	-1.9	-2.0	0.0	-1.5	-8.3	-3.8	-4.0	0.0
	10% decrease	1.0	1.9	1.9	2.0	0.0	1.5	8.4	3.8	4.0	0.0
Acquisition expenses	10% increase	NA	Nil	NA	NA	NA	-4.2	-10.1	NA	NA	-2.1
	10% decrease	NA	Nil	NA	NA	NA	4.2	10.1	NA	NA	2.1
Maintenance expenses	10% increase	-0.8	-0.7	-0.6	-1.0	-0.4	-0.5	-2.3	-1.2	-6.0	-3.4
	10% decrease	0.8	0.7	0.6	1.0	0.4	0.5	2.3	1.2	6.0	3.4
Equity values	10% increase	NA	1.9	NA	1.0	NA	NA	0.6	NA	Negligible	NA
	10% decrease	-1.4	-1.9	-1.6	-1.0	-6.4	-0.2	-0.6	-0.2	Negligible	-3.4
Tax rate	Increases to 25%	-8.4	-6.3	-5.0	-14.0	-24.2	-5.0	-10.3	-8.4	-20.0	-32.2

Source: MOFSL, Company

- Equity markets in India have recouped its losses of CY2022 and are again trading at life highs at an index level. Thus, adverse economic variance reported by insurers in FY22/1HFY23 will reverse provided the market stays at these levels.

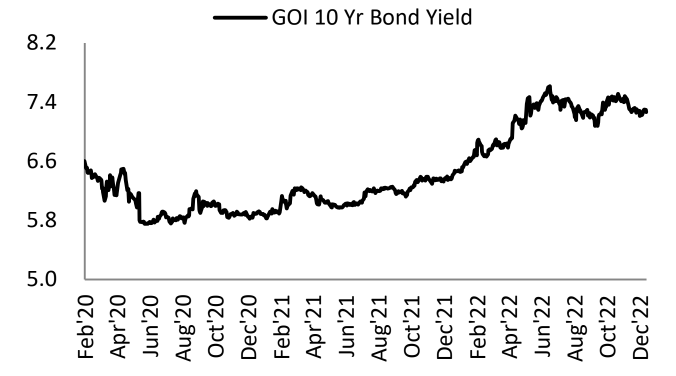
- In line with the tightening monetary policy across all Central Banks in the world, bond yields have started to rise since late CY2021. After rallying for a large part of this year, a slower pace of inflation and expectations of lower hike in interest rates by major Central Banks has led to a correction in bond yields over the last few weeks. In India, 10-yr GOI bond yields are currently trading at 7.266%, 35bp lower than the high of 7.62%, witnessed on 16-Jun-22.
- Lower bond yields will have a positive effect on VNB and EV of insurers. This will also enable insurers to reverse some of the adverse economic variance reported in FY22/1HFY23.

Exhibit 26: Equity markets are trading at a lifetime high



Source: MOFSL, Company

Exhibit 27: 10-yr GOI bond yields currently trades at 7.27%

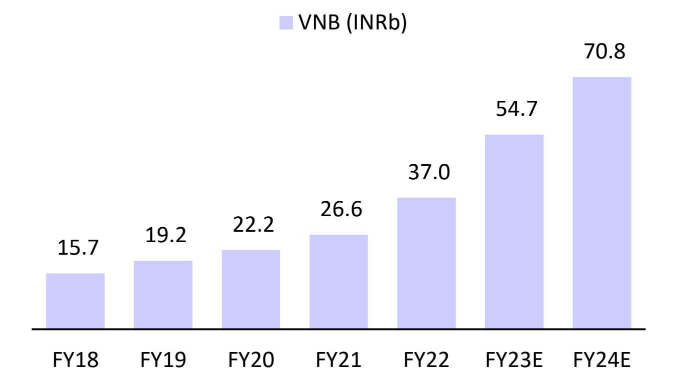


Source: MOFSL, Company

VNB registered a CAGR of 24% over FY19-22; estimate margins to expand to 31.4% by FY24

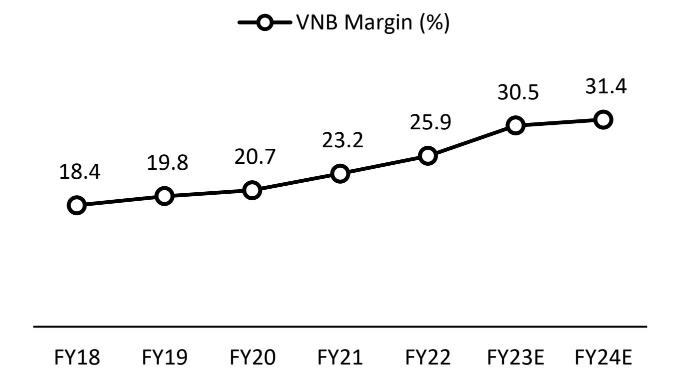
- SBILIFE grew VNB at an impressive rate of 24% CAGR over FY19-22. This is on the back of healthy growth in APE, witnessing a 14% CAGR and an improvement ~600bp in VNB margin during the same period.
- The improvement in VNB margin was led by a more optimum product mix with a higher share of higher margin products such as protection and annuity.
- With the company's increased focus on these high margin segments, we expect the share of these segments to go up in the mix, positively impacting margins. As a result, we estimate VNB margins to expand to 31.4% by FY24E.

Exhibit 28: We expect VNB to record a CAGR of 38% over FY22-24, led by improving margins and healthy APE growth



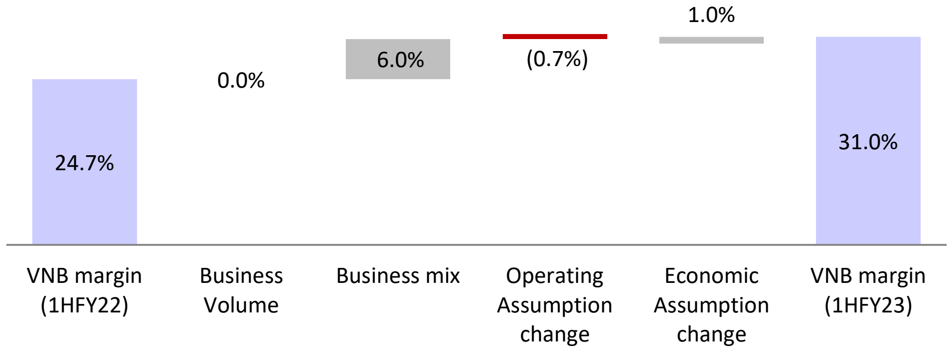
Source: MOFSL, Company

Exhibit 29: VNB margin improved ~610bp over the last four years, primarily driven by an improving business mix



Source: MOFSL, Company

Exhibit 30: Improvement in VNB margin of 630bp in 12M ending 1HFY23, led primarily by a better business mix

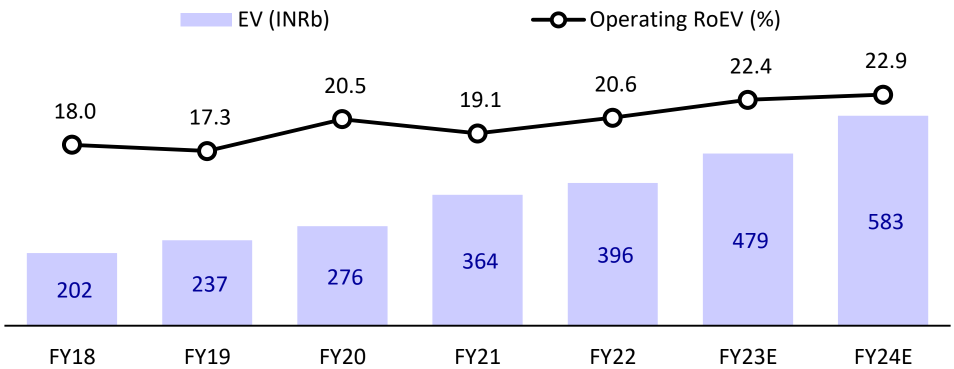


Source: MOFSL, Company

EV growth to accelerate on rising VNB contribution; estimate FY24E RoEV at 22%

- In FY22, SBILIFE changed its methodology of accounting for VNB and EV to Effective Tax Rate (ETR) basis, for better comparison with peers. EV grew 9% YoY to reach INR396b in FY22. In 1HFY23, EV grew 10% YoY to INR424b.
- We estimate EV to record a CAGR of 21% over FY22-24E with robust operating RoEV of ~23% by FY24E. This is higher than the historical run-rate as the sharp rise in VNB margins over the recent years has led to ~600bp increase in VNB contribution to the EV walk.

Exhibit 31: EV recorded a CAGR of 18% over FY18-22 with operating RoEV of ~19%; we expect this to improve on the back of healthy growth and optimum product mix



Source: MOFSL, Company

- **We believe a higher operating RoEV at 22-23% is sustainable,** given the sharp improvement in VNB margins on the back of a more optimal product mix. Higher margin products such as annuity/pension and protection are highly underpenetrated and offer a long growth runway.
- This in turn will allow insurers to gradually expand the share of such products in their business mix. Thus, margins are expected to continue to expand.
- The company's VNB margin spiked to 31% in 1HFY23 vs 20% in FY19, leading to a sharp jump in contribution of VNB to EV accretion. We expect this trend to continue and estimate the contribution of VNB in Operating RoEV to rise to 15% by FY24E from 9% in FY19.
- Also, as VNB margin is sustainable at this level, we believe operating RoEV has also shifted higher by a couple of percentage points.

Exhibit 32: Significant improvement in VNB generation capability has structurally lifted stronger EV prospects

EV Walk (INRb)	FY18	FY19	FY20	FY21	FY22*	FY23E	FY24E
Opening EV	**165.4**	**190.9**	**224.0**	**262.9**	**333.8**	**396.1**	**478.3**
Unwinding	14.1	16.2	19.0	20.6	27.3	32.7	39.9
VNB	13.9	17.2	20.1	23.3	37.0	54.7	70.8
Operating variance	1.6	0.8	5.6	7.1	4.7	1.9	0.8
Change in operating assumptions	0.1	(1.0)	1.2	(0.8)	(0.1)	(0.5)	(1.9)
EVOP	**29.7**	**33.1**	**45.9**	**50.2**	**68.9**	**88.8**	**109.6**
Economic assumption change and variance	(1.8)	2.5	(7.1)	23.2	(4.5)	(3.6)	(1.4)
Dividend paid / capital injection	(2.4)	(2.4)	-	(2.5)	(2.0)	(3.0)	(3.4)
Closing EV	**190.9**	**224.0**	**262.9**	**333.8**	**396.1**	**478.3**	**583.1**
Operating RoEV	**18.0**	**17.3**	**20.5**	**19.1**	**20.6**	**22.4**	**22.9**
RoEV	**15.4**	**17.3**	**17.4**	**27.0**	**18.7**	**20.7**	**21.9**

* FY22 Opening EV is based on Actual Tax Rate (ATR) while closing is based on Effective Tax Rate, in line with peers   Source: MOFSL, Company

Exhibit 33: A sharp improvement in VNB margin has enabled higher EV accretion on a sustainable basis

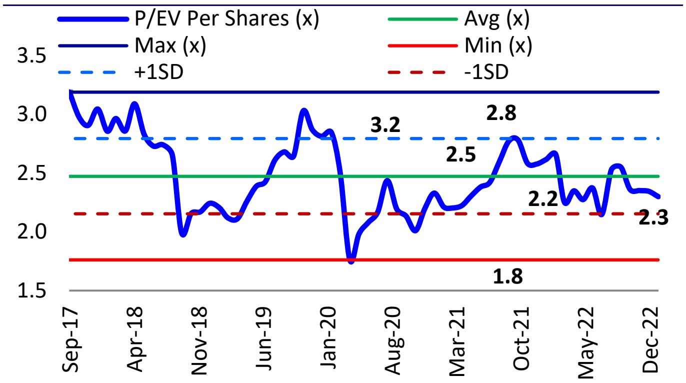
Contribution to EV accretion (%)	FY18	FY19	FY20	FY21	FY22*	FY23E	FY24E
Unwinding	8.5	8.5	8.5	7.8	8.2	8.3	8.4
VNB	8.4	9.0	9.0	8.9	11.1	13.8	14.8
Operating variance	1.0	0.4	2.5	2.7	1.4	0.5	0.2
Change in operating assumptions	0.1	(0.5)	0.5	(0.3)	(0.0)	(0.1)	(0.4)
Operating RoEV	**18.0**	**17.3**	**20.5**	**19.1**	**20.6**	**22.4**	**22.9**
Economic assumption change and variance	(1.1)	1.3	(3.2)	8.8	(1.3)	(0.9)	(0.3)
Dividend paid / capital injection	(1.5)	(1.3)	-	(1.0)	(0.6)	(0.8)	(0.7)
RoEV	**15.4**	**17.3**	**17.3**	**27.0**	**18.7**	**20.7**	**21.9**

Source: MOFSL, Company

Attractive valuations due to recent correction

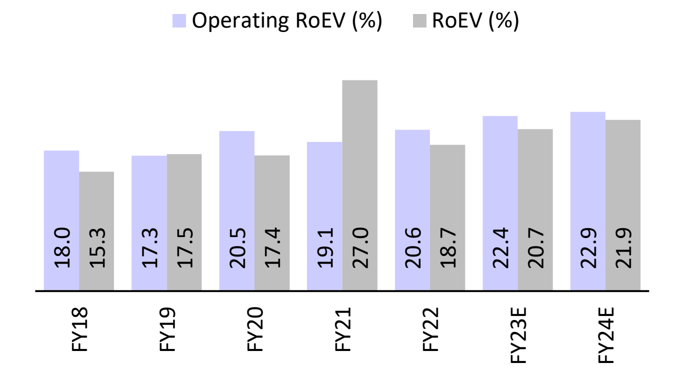
- SBILIFE stock has been range bound in the last three months due to softer growth in premium, on account of moderation in industry premium growth. However, we expect growth to pick up gradually, given the demand for Annuity and Non-PAR policies, and a recovery in the Protection and ULIP business, given healthy performance of capital markets.
- We feel the quality of VNB generation of SBILIFE has improved sharply, primarily driven by a favorable business mix. The mix can improve further with a greater share of higher margin products such as annuity, protection, and non-par savings.
- Thus, the recent stock price correction offers an attractive entry point for long-term investors. Over the last 15 months, valuation has also corrected significantly to its current 2.3x from a high of 2.8x (one-year forward).

Exhibit 34: Valuation of SBILIFE has corrected to 2.3X from 2.8X over the last 15 months



Source: MOFSL, Bloomberg

Exhibit 35: We estimate operating RoEV/RoEV to come healthy at ~23%/22% by FY24



Source: MOFSL, Bloomberg

Financials and valuations

Technical account (INR b)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross Premiums	253.5	329.9	406.3	502.5	587.6	702.0	847.4
Reinsurance Ceded	(1.9)	(1.0)	(3.1)	(4.9)	(3.3)	(6.5)	(7.2)
Net Premiums	251.7	328.9	403.2	497.7	584.3	695.6	840.2
Income from Investments	84.6	112.1	30.0	314.6	235.7	186.7	221.6
Other Income	1.4	1.6	5.2	8.6	10.3	13.4	16.8
Total income (A)	**337.7**	**442.6**	**438.4**	**820.8**	**830.3**	**895.7**	**1,078.6**
Commission	11.2	13.5	16.2	17.7	21.6	26.6	32.3
Operating expenses	17.2	21.2	24.1	24.1	29.7	39.0	47.8
Total commission and opex	**28.4**	**34.7**	**40.3**	**41.9**	**51.3**	**65.6**	**80.1**
Benefits Paid (Net)	117.1	152.9	162.5	215.8	313.4	255.8	307.0
Chg in reserves	176.0	235.9	206.0	539.3	437.6	538.8	650.7
Prov for doubtful debts	3.5	5.5	6.8	4.7	7.8	8.5	10.6
Total expenses (B)	**325.1**	**429.0**	**415.7**	**801.8**	**810.2**	**868.6**	**1,048.4**
(A) - (B)	**12.6**	**13.6**	**22.8**	**19.1**	**20.1**	**27.1**	**30.1**
Prov for Tax	2.4	2.7	3.8	1.0	1.3	3.1	3.5
Surplus / Deficit (calculated)	**10.2**	**10.9**	**19.0**	**18.1**	**18.8**	**24.0**	**26.6**
	56%	6%	75%	-5%			

Shareholder's a/c (INR b)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Transfer from technical a/c	8.3	10.0	14.6	16.8	17.3	19.5	21.4
Income From Investments	4.6	5.2	4.8	6.9	9.9	7.8	9.2
Total Income	**12.9**	**15.2**	**19.5**	**23.7**	**27.2**	**27.4**	**30.7**
Other expenses	0.6	0.6	1.0	0.6	2.9	2.2	3.1
Contribution to technical a/c	0.8	1.0	4.8	8.2	9.8	6.7	8.4
Total Expenses	1.1	1.4	5.3	8.3	11.6	8.9	11.5
PBT	**11.8**	**13.7**	**14.1**	**15.4**	**15.6**	**18.4**	**19.2**
Prov for Tax	0.3	0.5	(0.1)	0.9	0.5	0.2	0.2
PAT	**11.5**	**13.3**	**14.2**	**14.6**	**15.1**	**18.2**	**19.0**
Growth	20.5%	15.3%	7.2%	2.4%	3.4%	21.2%	4.1%

Premium (INR b) & growth (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
New business prem - unwtd	109.7	137.9	165.9	206.2	254.6	318.2	381.9
New business prem - wrp	84.2	95.3	105.1	113.7	141.9	179.3	225.5
Renewal premium	143.9	192.0	240.4	296.3	333.0	383.8	465.5
Total premium - unwtd	253.5	329.9	406.3	502.5	587.6	702.0	847.4
New bus. growth - unwtd	8.1%	25.8%	20.3%	24.3%	23.4%	25.0%	20.0%
New business growth - wrp	27.6%	13.2%	10.2%	8.2%	24.9%	26.3%	25.7%
Renewal premium growth	32.3%	33.4%	25.2%	23.2%	12.4%	15.3%	21.3%
Total prem growth - unwtd	20.6%	30.1%	23.2%	23.7%	16.9%	19.5%	20.7%

Premium mix (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
New business - unwtd							
- Individual mix	76.7%	69.9%	67.8%	60.6%	64.8%	70.0%	70.0%
- Group mix	23.3%	30.1%	32.2%	39.4%	35.2%	30.0%	30.0%
New business mix - WRP							
- Participating	24.0%	18.4%	10.9%	8.4%	5.3%	10.1%	9.5%
- Non-participating	9.0%	10.3%	18.6%	26.6%	28.9%	43.5%	42.5%
- ULIPs	67.0%	71.3%	70.5%	65.0%	65.8%	46.4%	48.0%
Total premium mix - unwtd							
- Participating	24.8%	21.8%	18.3%	15.1%	12.9%	15.7%	15.3%
- Non-participating	19.5%	20.8%	23.8%	28.2%	30.3%	35.8%	34.3%
- ULIPs	55.7%	57.4%	57.9%	56.6%	56.8%	48.6%	50.5%

Individual prem sourcing mix (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Individual agents	31.2%	29.6%	28.8%	27.7%	26.6%	27.7%	28.4%
Corporate agents-Banks	67.4%	68.9%	67.5%	65.4%	64.9%	65.0%	63.4%
Direct business	0.8%	0.7%	2.0%	4.1%	5.3%	5.3%	6.0%
Others	0.5%	0.7%	1.8%	2.8%	3.1%	2.0%	2.2%

Financials and valuations

Balance sheet (INR b)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Fund							
Share Capital	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Reserves And Surplus	53.7	64.6	78.8	90.9	104.2	119.4	135.0
Shareholders' Fund	**65.3**	**75.8**	**87.4**	**104.0**	**116.2**	**131.2**	**146.5**
Policy Liabilities	555.6	649.5	761.2	924.1	1,097.6	1,326.4	1,609.8
Prov. for Linked Liab.	495.6	605.9	763.0	965.5	1,174.9	1,348.7	1,566.4
Funds For Future App.	-	2.8	7.1	8.4	9.9	11.7	13.8
Current liabilities & prov.	35.5	37.4	30.2	42.4	51.3	53.4	55.7
Total	**1,217.1**	**1,467.3**	**1,655.8**	**2,268.3**	**2,733.4**	**3,232.1**	**3,854.7**
Application of Funds							
Shareholders’ inv	50.1	57.2	68.3	86.0	100.8	118.9	140.3
Policyholders’ inv	544.9	644.7	734.2	939.4	1,121.3	1,364.3	1,654.4
Assets to cover linked liab.	549.4	691.3	785.7	1,162.2	1,426.3	1,648.4	1,941.0
Loans	1.7	1.7	3.6	3.6	3.6	4.2	4.8
Fixed Assets	5.8	6.0	5.8	5.7	5.3	5.7	6.1
Current assets	65.2	66.4	58.2	71.5	76.2	90.7	108.0
Total	**1,217.1**	**1,467.3**	**1,655.8**	**2,268.3**	**2,733.4**	**3,232.1**	**3,854.7**

Operating ratios (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Investment yield	7.8%	8.4%	1.9%	15.0%	9.3%	6.2%	6.2%
Commissions / GWP	**4.4%**	**4.1%**	**4.0%**	**3.5%**	**3.7%**	**3.8%**	**3.8%**
- first year premiums	8.7%	8.3%	8.4%	8.4%	8.3%	10.2%	10.1%
- renewal premiums	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%	2.6%
- single premiums	0.8%	1.5%	1.4%	1.1%	1.2%	1.8%	1.8%
Operating expenses / GWP	6.8%	6.4%	5.9%	4.8%	5.1%	5.6%	5.6%
Total expense ratio	**11.2%**	**10.5%**	**9.9%**	**8.3%**	**8.7%**	**9.3%**	**9.4%**
Claims / NWP	46.4%	46.3%	40.1%	43.2%	53.5%	36.6%	36.4%
Solvency ratio	206%	213%	195%	215%	205%	211%	206%

Persistency ratios (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
13th Month	83.0%	85.1%	86.1%	87.9%	88.4%	88.8%	89.1%
25th Month	75.2%	76.7%	78.5%	79.4%	81.7%	83.1%	83.9%
37th Month	70.0%	71.4%	71.6%	74.1%	76.0%	77.0%	77.4%
49th Month	63.9%	66.4%	67.3%	68.1%	71.4%	73.1%	73.9%
61st Month	58.4%	57.2%	59.9%	61.6%	62.0%	62.2%	62.4%

Profitability ratios (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
VNB margin (%)	18.4%	19.8%	20.7%	23.2%	25.9%	30.5%	31.4%
RoE (%)	19.0%	18.8%	17.4%	15.2%	13.7%	14.8%	13.7%
RoIC (%)	19.4%	19.2%	17.4%	15.3%	14.0%	15.0%	13.8%
Operating ROEV (%)	18.0%	17.3%	20.5%	19.1%	20.6%	22.4%	22.9%
RoEV (%)	15.3%	17.5%	17.4%	27.0%	18.7%	20.7%	21.9%

Valuation ratios	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total AUMs	1,163	1,410	1,604	2,209	2,674	3,132	3,800
- of which equity AUMs (%)	23%	23%	21%	27%	29%	30%	31%
Dividend %	20%	20%	0%	25%	20%	30%	34%
Dividend payout ratio (%)	21%	18%	0%	17%	13%	16%	18%
EPS, Rs	11.5	13.3	14.2	14.6	15.1	18.2	19.0
VNB	15.7	19.2	22.2	26.6	37.0	54.7	70.8
- VNB growth (%)	36.1%	22.3%	15.6%	19.8%	39.1%	48%	30%
EV per share	201.7	237.3	276.4	364.0	396.3	478.5	583.3
VIF as % of EV	61%	62%	63%	63%	68%	71%	73%
P/VIF	11.0	9.2	7.7	6.1	4.7	3.8	3.0
P/AUM (%)	110%	91%	80%	58%	48%	41%	34%
P/EV (x)	6.3	5.4	4.6	3.5	3.2	2.7	2.2
P/EPS (x)	111.0	96.2	89.8	87.7	84.8	70.0	67.2
P/EVOP (x)	43.0	38.6	27.8	25.4	18.5	14.4	11.6
P/VNB (x)	81.3	66.5	57.5	48.0	34.5	23.3	18.0

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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