

SBI Life

Refer to important disclosures at the end of this report

On the right track

CMP	Target Price
Rs 1,299 as of (January 21, 2023)	Rs 1,680 (▲) 12 months
Rating	Upside
BUY (■)	29.3 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-9.7/ -16.1
Target Price change (%)	3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	16.0	19.0
Consensus	19.0	22.5
Mean Consensus TP (12M)	Rs 1,630	

Stock Details

Bloomberg Code	SBILIFE IN
Face Value (Rs)	10
Shares outstanding (mn)	1,001
52 Week H/L	1,340 / 1,004
M Cap (Rs bn/USD bn)	1,300 / 16.02
Daily Avg Volume (nos.)	961,433
Daily Avg Turnover (US\$ mn)	15.0

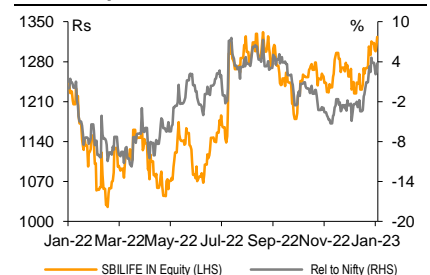
Shareholding Pattern Dec '22

Promoters	55.5%
FIIIs	25.1%
DIIIs	14.9%
Public and Others	4.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	6	9	5
Rel. to Nifty	8	3	-	3

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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SBI Life continued its good performance in Q3FY23 and reported a good set of numbers for 9MFY23. VNB for 9MFY23 at Rs36.3bn was 3% above our estimates, driven by APE being 3% above our estimates and VNB margin at 29.6% being in line with our estimates. Retail growth bounced back in Q3 after marginal slowdown in Q2, driving the overall 20% APE growth in 9MFY23, despite a marginal YoY decline in the group savings business in 9MFY23. Banca channel saw strong growth in ULIP business in Q3, and this was the underlying reason behind the sequential softening in VNB margin. Going ahead, we expect the agency channel and protection product to press the accelerator in Q4, driving up growth and margins. We believe SBI Life is on the right track with its powerful distribution channels firing up and delivering better-than-industry growth and as its product mix and cost efficiencies are offering best-in-industry margins. We have marginally tweaked our estimates to reflect 9MFY23 developments. We reiterate our Buy rating on the stock with a revised TP of Rs1,680. Powered by its formidable combination of brand and distribution reach, SBI Life remains our top pick in the sector.

- Acceleration in retail growth in Q3; Solid margins despite increased ULIP in the business mix:** SBI Life reported a 4.8ppts YoY increase in VNB margin to 29.6% in 9MFY23. Margin improvement was largely driven by a strong 12ppts YoY increase in the share of non-par savings and annuity in the product mix (9MFY23: 25%; 9MFY22: 13%) and increased risk-free rate. However, VNB margins for 9MFY23 were lower than H1 on account of Q3 product mix being heavily in favor of ULIP (ULIP in APE mix – H1FY23:49%; 9MFY23: 56%), which has lower margins. APE growth in Q3FY23 accelerated to 19% YoY after slowing to -1% YoY in Q2, despite a sharp decline in the group savings business in Q3. Ex-group savings business, APE growth in Q3 was strong at 23% YoY. On net basis, results were impressive and demonstrated the ability of the company to grow profitably and nearly double its EV every four years. Despite the absence of Covid-19 losses, PAT for 9MFY23 grew at muted 13% YoY (Q3FY23: -16% YoY to Rs3.04bn), largely on account of increased new business strain from very high growth in non-par products.
- Operating parameters largely stable; Growth in cost and commission largely a reflection of product mix change:** Persistency ratio was largely stable across the cohorts and saw material improvement in the 61st month. On the cost and commission front, SBI Life continued to remain the industry leader; however, in FY23, the cost and commission ratio has increased a bit, which is largely a reflection of changes in the product mix. So far in FY23, opex, persistency, and mortality experiences have been better than assumptions built in its EV and VNB, and this leaves some scope for positive operating variances by year-end. On the capital front, solvency ratio at 9MFY23 was robust at 225% (H1FY23: 219%).
- We expect agency and protection to press the accelerator in Q4 to aid growth; Management guides for a stable margin trajectory:** SBI Life's growth in 9MFY23 has been impressive; however, in Q3, savings (ULIP and non-par) products and banca channel seems to be the key driving forces, while agency channel and protection (group and retail) are relatively slow. We expect the agency channel and protection to support growth in Q4, where momentum in the banca channel should continue. Management remains confident of delivering 20%+ APE growth in FY23 and, at the same time, maintaining its VNB margin at a stable range of ~30%. The cost leadership advantage of SBI Life added with continued operating leverage payout drives the confidence of a stable margin trajectory, even with some changes in the product mix.
- Tweak estimates to reflect 9M developments; Reiterate Buy with a revised TP of Rs1,680:** We have tweaked our FY23-25E estimates to reflect 9M developments. This has broadly led to a marginal increase in APE and VNB, and a minimal change in EV. We reiterate our Buy rating on SBI Life with an appraisal value method-based Dec-23E TP of Rs1,680 (implying FY24E P/EV of 3.1x). SBI Life remains our top pick in the sector.

Financial Snapshot

Y/E March (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Annualized Premium Equivalent (APE)	114.5	143.0	168.7	194.0	221.3
APE Growth (%)	6.6	24.9	18.0	15.0	14.1
New Business Value (NBV)	26.6	37.0	49.4	57.4	66.2
NBV Margin (% of APE)	23.2	25.9	29.3	29.6	29.9
Embedded Value	345.9	396.3	459.7	549.3	654.5
Operating RoEV (%)	19.4	16.4	20.5	20.3	19.5
EVPS (Rs)	345.9	396.2	459.6	549.2	654.4
EPS (Rs)	14.6	15.1	16.0	19.0	21.9
BVPS (Rs)	104.0	116.2	130.0	147.0	166.9
P/EV (x)	3.8	3.3	2.8	2.4	2.0

Source: Company, Emkay Research

Exhibit 1: 9M/Q3FY23 Financials

Rs bn, except %	9MFY23	9MFY22	%YoY	9MFY23E	% Var	Q3FY23	Q3FY22	%YoY
Annualized Premium Equivalent (APE)	122.6	101.7	20.6	118.8	3.2	54.3	45.7	18.82
--o/w Savings	106.9	88.7	20.5	-		48.3	40.4	19.55
--o/w Protection	12.3	10.5	17.1	-		4.6	4.2	9.52
Protection APE (% of total APE)	10.0	10.3	-0.3ppts	-		8.47	9.19	-0.7ppts
Value of New Business	36.3	25.3	43.7	35.3	3.0	15.1	11.4	32.23
New Business Margin (%)	29.6	24.8	4.8ppts	29.7	-0.1ppts	27.81	24.99	2.8ppts
Individual New Business WRP	111.4	90.7	22.8	-		50.9	40.8	24.75
Total New Business Premium	215.1	187.9	14.5	-		84.2	85.0	(0.93)
Renewal premium	257.9	224.6	14.8	-		109.1	96.5	13.01
Gross written premium	473.0	412.5	14.7	-		193.3	181.6	6.48
PAT	9.4	8.3	13.2	10.6	-10.8	3.0	3.6	(16.46)
AUM	3,000	2,569	16.8	2,897	3.6	-	-	-
SH Equity	125.8	112.0	12.3	-		-	-	-
13 th month persistency (%)	84.6	83.9	0.7ppts	-		-	-	-
49 th month persistency (%)	70.1	68.3	1.8ppts	-		-	-	-
61 st month persistency (%)	53.6	48.7	4.9ppts	-		-	-	-
Solvency ratio (%)	225.0	209.0	16ppts	-		-	-	-

Source: Company, Emkay Research

Exhibit 2: Appraisal valuation method for SBI Life

Parameter (Rs bn)	Value
FY23E-38E APE CAGR	10.5%
FY23E-38E VNB CAGR	10.7%
Terminal growth rate	5.2%
Cost of Equity	13.5%
FY24 EV	549
Present value of the future new business	1,183
Appraisal value – Mar- 24	1,736
Share count (mn)	1,000
Appraisal value per share (Rs) – Mar- 24	1,735
Price target (Rs) - Dec-23	1,680

Source: Emkay Research, Company

Exhibit 3: Implied valuation multiple of SBI Life

Appraisal value multiple on FY24 estimates	1,680
P/EV	3.1x
RoEV (%)	20.3
P/EVOP	18.9x
Implied FY25E VNB multiple	17.1x
Current price multiple on FY24 estimates	1,299
P/EV	2.4x
RoEV (%)	20.3
P/EVOP	14.6x
Implied FY25E VNB multiple	11.3x

Source: Emkay Research, Company

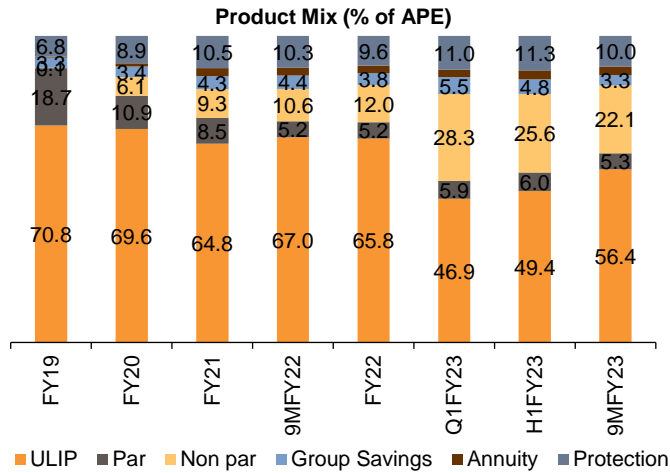
Exhibit 4: Changes in Estimates

Rs bn	Old			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
APE	167.0	189.8	215.8	168.7	194.0	221.3	1.0	2.2	2.6
VNB	48.4	55.5	64.5	49.4	57.4	66.2	1.9	3.4	2.7
VNB Margin (%)	29.0	29.2	29.9	29.3	29.6	29.9	0.3ppts	0.3ppts	0.1ppts
EVOP	80.5	91.3	105.2	81.4	93.1	107.2	1.2	2.1	1.9
EV	459.8	546.5	649.7	459.7	549.3	654.5	0.0	0.5	0.7
PAT	17.8	22.7	25.5	16.0	19.0	21.9	-9.7	-16.1	-14.1

Source: Company, Emkay Research

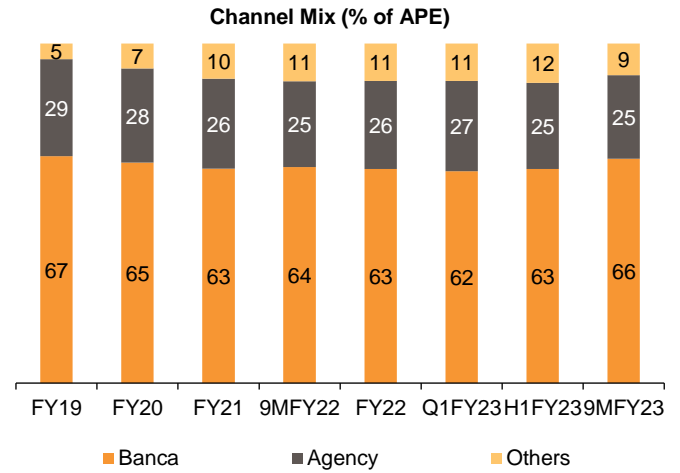
Story in Charts

Exhibit 5: Share of ULIP increases to 56% sequentially



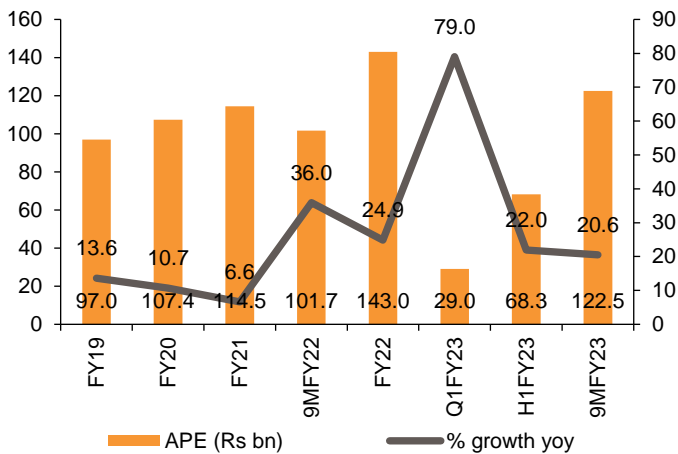
Source: Company, Emkay Research

Exhibit 6: Share of banca moves up sequentially



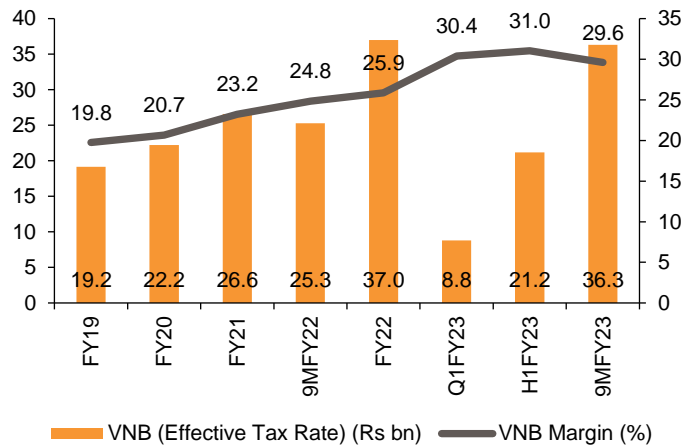
Source: Company, Emkay Research

Exhibit 7: APE grew by 21% YoY for 9MFY23



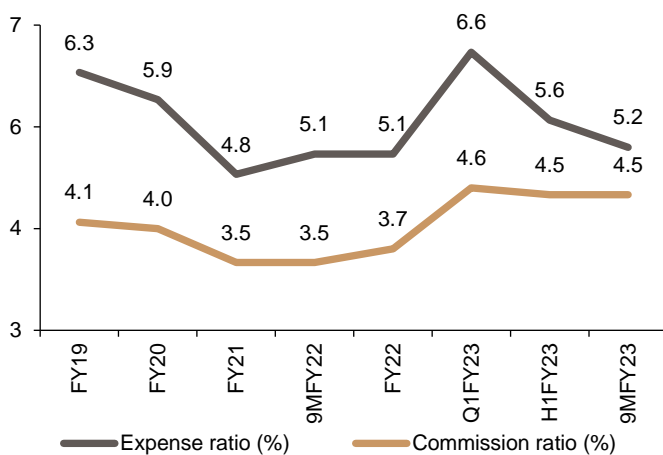
Source: Company, Emkay Research

Exhibit 8: Margins declined to 29.6% led by a higher share of ULIP



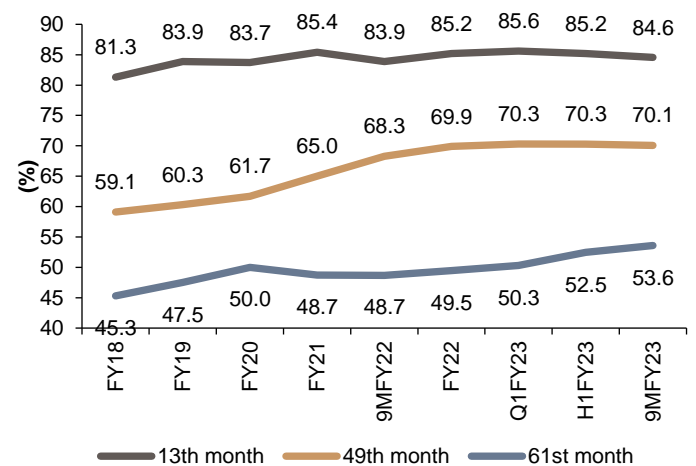
Source: Company, Emkay Research

Exhibit 9: Expense ratios improve sequentially; Product mix changes have driven up the commission and expense ratio in FY23



Source: Company, Emkay Research

Exhibit 10: 61-month persistency ratio increases to 53.6%



Source: Company, Emkay Research

Conference Call Highlights

■ Product Launch

- During the quarter, SBI Life launched its non-linked participating product, SBI Smart Lifetime Saver, a product that offers one's family an income upgrade for the lifetime.

■ Product Mix

- SBI Life has witnessed strong traction in non-par guaranteed products, especially Smart Platina Plus, for the past few quarters. Management said that ULIP demand had always been there; however, strong growth in guaranteed savings products led to non-par overshadowing ULIP in the product mix. Management expects ULIP to contribute around 60% to the product mix in the near to medium term.
- The company does not aim for a particular product mix and the mix would be driven by customer demand, in line with what the company can offer.
- Protection products grew for the industry as well as for SBI Life. Protection products are growing steadily on a QoQ basis and are expected to continue growing ahead. Growth in group protection is majorly driven by growth in Credit Life.
- There is good demand for annuity products across all distribution channels.

■ Distribution

- The agency force increased by a huge number with the addition of 45,000-46,000 agents. Management believes the benefit of the investments in the agency channel will come going forward.
- Protection through other channels witnessed 36% growth.
- SBI Bank channel continued to expand its market share with 22% growth in the number of policies where the industry's growth is negligible. Management said it would track the number of people covered, the number of branch additions, and the ticket size to further inch up the per-branch productivity in the SBI Bank channel.

■ Margins

- Changes in VNB margins were driven by the increase in ULIP in the overall product mix. Management stated there were no changes in assumption during the quarter.
- Management said that VNB margins should largely remain at current levels for FY23.
- Management expects margins to expand going forward, if there is a positive change in operating assumptions and with improved sales of margin-accretive products.

■ Commission

- Commissions inched up on account of changes in the product mix; however, there are no significant changes in commission rates.

■ Digitalization

- 99% of individual policies were processed digitally and 45% of the policies were processed through auto approval.

Exhibit 11: Financial Summary

Y/E March (Rs mn)	2020	2021	2022	2023E	2024E	2025E
Policyholders' account						
Gross written premium	406,347	502,542	587,596	673,864	781,205	901,831
Net earned premium	403,240	497,683	584,323	670,110	773,393	892,813
Total revenue	438,428	820,849	830,272	780,642	974,226	1,123,975
Commission expense	16,249	17,788	21,583	24,752	28,566	32,977
Operating expenses	24,131	24,123	29,745	33,441	38,596	44,555
Surplus/Deficit	18,947	18,074	18,838	21,076	15,711	15,873
Shareholders' account						
Transfer from policyholders' account	14,627	16,788	17,324	20,076	14,711	14,873
Profit after tax	14,222	14,558	15,060	16,030	19,017	21,886
Balance Sheet						
Sources of Funds						
Shareholders' Funds	87,431	104,004	116,223	130,013	147,029	166,914
Policyholders' Funds: Insurance reserves and provisions	1,531,011	2,113,493	2,555,913	2,874,725	3,341,257	3,884,835
Others	7,137	8,423	9,936	11,924	14,308	17,170
Total	1,625,579	2,225,921	2,682,072	3,016,661	3,502,594	4,068,919
Application of Funds						
Shareholders' Investments	68,279	86,047	100,758	112,713	127,465	144,704
Policyholders' Investments	734,199	939,364	1,121,307	1,261,173	1,465,846	1,704,319
Assets Held to Cover Linked Liabilities	785,653	1,162,150	1,426,253	1,604,157	1,864,492	2,167,820
Total	1,625,579	2,225,921	2,682,072	3,016,661	3,502,594	4,068,919
Embedded Value Account						
Embedded Value	276,360	345,869	396,269	459,699	549,341	654,525
Annualised Premium Equivalent (APE)	107,370	114,480	143,000	168,720	194,028	221,348
New Business value	22,200	26,600	37,000	49,358	57,407	66,243
New Business Margin (%)	20.7	23.2	25.9	29.3	29.6	29.9
EV Operating Profit	48,020	53,480	56,700	81,430	93,142	107,184
Operating RoEV (%)	20.2	19.4	16.4	20.5	20.3	19.5
Per share data(Rs)						
EPS	14.22	14.56	15.06	16.03	19.01	21.88
DPS	0.0	2.5	2.0	2.0	2.0	2.0
EVPS	276.4	345.9	396.2	459.6	549.2	654.4
BVPS	87.4	104.0	116.2	130.0	147.0	166.9
EV Op. Profit per share	48.0	53.5	56.7	81.4	93.1	107.2
Key Ratio						
Return on Equity (%)	17.4	15.2	13.7	13.0	13.7	13.9
Commission expense/TWRP (%)	4.7	4.4	4.6	4.5	4.4	4.4
Operating expenses/TWRP (%)	7.4	5.5	6.4	6.0	6.0	6.0
Total expense (% of TWRP)	12.2	9.9	11.0	10.5	10.5	10.5
Total expense (% of Avg. AUM)	2.69	2.20	2.10	2.05	2.07	2.05
Conservation ratio (%)	85.1	87.5	83.3	83.3	83.3	83.3

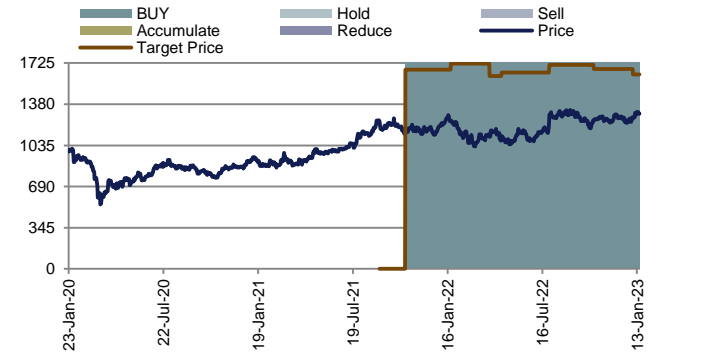
Source: Company, Emkay Research

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
10-Jan-23	1,303	1,630	12m	Buy	Avinash Singh
5-Jan-23	1,268	1,630	12m	Buy	Avinash Singh
3-Jan-23	1,268	1,675	12m	Buy	Avinash Singh
8-Dec-22	1,267	1,675	12m	Buy	Avinash Singh
8-Nov-22	1,279	1,675	12m	Buy	Avinash Singh
22-Oct-22	1,246	1,675	12m	Buy	Avinash Singh
10-Oct-22	1,239	1,710	12m	Buy	Avinash Singh
29-Sep-22	1,240	1,710	12m	Buy	Avinash Singh
7-Sep-22	1,332	1,710	12m	Buy	Avinash Singh
5-Sep-22	1,293	1,710	12m	Buy	Avinash Singh
24-Aug-22	1,288	1,710	12m	Buy	Avinash Singh
8-Aug-22	1,270	1,710	12m	Buy	Avinash Singh
29-Jul-22	1,294	1,710	12m	Buy	Avinash Singh
8-Jun-22	1,136	1,645	12m	Buy	Avinash Singh
17-May-22	1,070	1,645	12m	Buy	Avinash Singh
12-May-22	1,061	1,645	12m	Buy	Avinash Singh
9-May-22	1,064	1,645	12m	Buy	Avinash Singh
6-May-22	1,059	1,645	12m	Buy	Avinash Singh
29-Apr-22	1,106	1,645	12m	Buy	Avinash Singh
19-Apr-22	1,125	1,615	12m	Buy	Avinash Singh
6-Apr-22	1,107	1,615	12m	Buy	Avinash Singh
8-Feb-22	1,131	1,720	12m	Buy	Avinash Singh
22-Jan-22	1,241	1,720	12m	Buy	Avinash Singh
18-Jan-22	1,266	1,670	12m	Buy	Avinash Singh
7-Dec-21	1,159	1,670	12m	Buy	Avinash Singh
9-Nov-21	1,207	1,670	12m	Buy	Avinash Singh
27-Oct-21	1,186	1,670	12m	Buy	Avinash Singh
7-Sep-21	1,239	-	12m	UR	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 22 Jan 2023 14:46:28 (SGT)

Dissemination Date: 22 Jan 2023 14:47:28 (SGT)

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