

Stock Update

SBI Life Insurance Company Ltd.

September 15, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Life Insurance	Rs.1168	Buy at LTP of Rs.1168 & add more on dips of Rs.1059	Rs.1295	Rs.1370	2 quarters

HDFC Scrip Code	SBILIF EQNR
BSE Code	540719
NSE Code	SBILIFE
Bloomberg	SBILIFE
CMP Sep 14, 2021	1168
Equity Capital (Rs mn)	10001
Face Value (Rs)	10
Equity Share O/S (mn)	1000
Market Cap (Rs bn)	1168.4
Book Value (Rs)	100
Avg. 52 Wk Volumes	835923
52 Week High	1,253.5
52 Week Low	755.6

Share holding Pattern % (Jun, 2021)

Promoters	55.70
Institutions	36.88
Non Institutions	7.42
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Indian life insurance space provides a multi decadal growth story. Despite healthy growth in past 20 years CAGR of 17% between FY01-FY18, it is still at a nascent stage. It is still under penetrated (Premium as % of GDP for 2020 stood at 3.2%) as compared to other emerging countries; protection gap at 83% is also highest amongst peers. India's favourable demographics like high share of working population, rapid urbanization, rising affluence and focus on financial inclusion provide huge growth opportunities. SBI Life is uniquely positioned to tap the vast potential in India's life insurance sector by harnessing the SBI Group's large distribution footprint (24,000+ branches). Vast distribution network supported by strong, agile & analytics driven technology platform is one of the key differentiators for SBI Life. The scale of multichannel distribution platforms enables wider presence. Since FY10 SBI Life has been among the leader in terms of new business premium generated. It has one of the best expense ratio, persistence during the last quarter has shown improvement. Further, it has been well managed to tackle COVID claims.

We had issued Initiating Report on SBI Life on 21st September, 2020 and recommended Buy at Rs.848 and add on dips to Rs.764-770 band, for base case target of Rs.928 and bull case target of Rs.1017 over the next two quarters. Below is the link for the report:

<https://www.hdfcsec.com/hsl.research.pdf/SBI%20Life-%20Initiating%20Coverage-21092020.pdf>

Valuation & Recommendation:

Even during the weak economic scenario, the company has reported decent numbers in Q1FY22. In our view, SBIL deserves premium valuation given diversified product mix, strong distribution and focus on improving persistency. We have estimated SBI life to deliver CAGR of 20% for Value of New Business (VNB), 16% New Business Premium (NBP) and 16% for Embedded Value (EV) over FY21 to FY23E. The company is trading at 2.5x FY23 Embedded Value, which is at sharp discount to its peer HDFC Life. Given the high growth environment we believe that Indian life insurance companies will be keep on getting higher multiples. SBI Life offers quality at attractive valuations due to its best-in-class cost ratio, improving persistency and strong premium growth that ensures continuity in sound operating performance. Its margin has expanded in FY22 but it still lags peers and therefore has a high room for improvement over the next two years.

We believe that investors can BUY SBI Life at LTP of Rs.1168 (2.48x FY23E EV) and add on dips to Rs.1059 band (2.25x FY23E EV) for Base case fair value of Rs.1295 (2.75x FY23E EV) and the Bull case fair value of Rs.1370 (2.9x FY23E EV) over next 6 months.



Financial Summary

Particulars (Rsbn)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
NBP	33.5	30.5	9.8	61.8	-45.8	137.9	165.9	206.2	237	279.5
APE	16.2	12.7	27.3	39.7	-59.3	96.9	107.4	114.5	131.6	151
Adj. VNB	3.9	2.6	52.7	11	-64.6	19.2	22.2	26.6	32.7	38.2
Adj. VNBM (%)	24.1	20.1	400bps	27.7	-362bps	19.8	20.7	23.2	24.8	25.3
EV						236.6	276.4	350.6	406	471.4
MCap/EV (x)						4.9	4.2	3.3	2.9	2.5
P/VNB (x)						60.9	52.6	43.9	35.7	30.6
RoEV(%)						18.9	16.8	27.7	16.2	16.7

(Source: Company, HDFC sec)

Recent Developments

Q1FY22 Result Update

Gross Written Premium (GWP) grew by 10% to Rs.83.8 bn in Q1FY22 mainly due to 29% growth in First Year Premium and 10% growth in Renewal Premium. The company reported net profit of Rs.2.2 bn, down 43% YoY due to increased claims paid and rise in provisions for covid. Annualized Premium Equivalent stood at Rs. 16.2 bn up 27% YoY vs 13% for the industry, aided by strong recovery in ULIPs. 52% growth was reported in Value of New Business (VoNB) to Rs.3.9 bn. VoNB Margin improved by 400 bps to 24.1%. Assets under Management (AuM) grew by 32% to Rs.2.3 trn with debt-equity mix of 72:28. Over 90% of the debt investments are in AAA and Sovereign instruments. Total Cost ratio for Q1FY22 was at 10.5% vs 10.1% YoY. Commission ratio was at 3.2% and Operating Expense was 7.2% for Q1FY22. Management has indicated that the focus will be on increasing banca penetration to 100% from 85% in FY21. Further, the improving share of protection will be at the centre of all the future efforts. Even during the quarter, protection segment has displayed strong traction, with the share of retail and group protection within the mix at an all-time high of 7.6% and 5.8% respectively.

July 2021 business update

Life insurance industry as a whole has witnessed revival in July month. The sector was hit hard due to second wave of COVID-19. The number of policies sold grew by 16.5% YoY and Individual APE was up by 15% for the overall insurance industry. SBI Life has shown the strongest recovery, with individual APE up 52% YoY, partially on account of a favorable base. YTD growth is also healthy at 40% YoY. Number of individual policies sold was up 22.8% YoY for July 2021 and up 30.2% YoY YTD. ULIP has seen strong rebound, while non-par savings has not been up to the mark of peers.

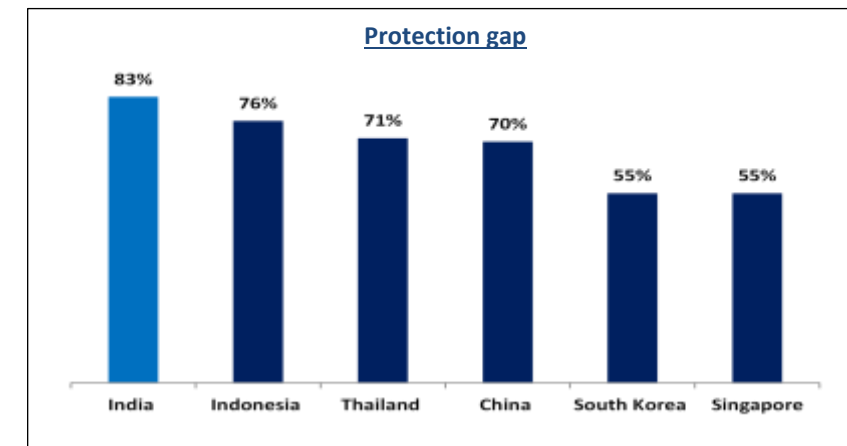
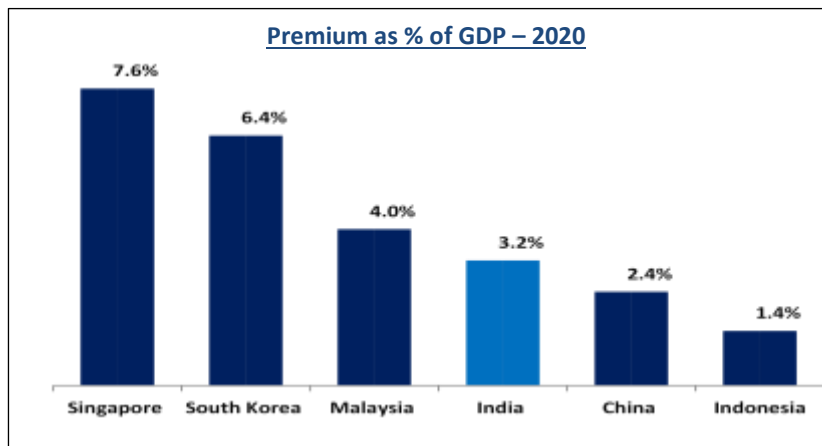


Long term Triggers

Uniquely positioned to tap the vast potential in India’s life insurance sector

India is a 10th largest life insurance market worldwide and 5th largest in Asia with Rs.4.6 trn in total premium business. The total premium grew at CAGR of 17% between FY01-FY18. Still India continues to be under penetrated as compared to countries like China, Thailand and Korea. Premium as % of GDP for 2020 stood at 3.2% for India; protection gap at 83% is also highest amongst peers. In terms of life insurance density, India has recently shown improvement but still hovers near the per capita premium levels seen a decade ago. Increase in disposable income coupled with pandemic-induced awareness of protection products will increase penetration level. Swiss Re estimates protection gap to rise from US\$16.5 trn in 2019 to US\$35.6 trn in 2030. Combination of a high share of working population (One of the highest young population nations with median age of 28 years), rapid urbanization (Growth in urban population at 2.4% CAGR between FY15-FY20), rising affluence and focus on financial inclusion to propel the growth of Indian life insurance sector. Protection is the most profitable part of business; and this market could double in 5 years as penetration of protection is low at 10% of addressable population.

SBI Life is uniquely positioned to tap the vast potential in India’s life insurance sector by harnessing the SBI Group’s large distribution footprint (24,000+ branches). SBI Life has a natural advantage of being part of a giant ecosystem of SBI that boasts nearly 50 cr clients. This also results in the company having geographically the most diversified business mix amongst its private peers. So far, SBI Life may have tapped mere 2-3% of these clients and hence the potential for growth is long. Its products are designed according to SBI’s client base with ULIPs having higher share of debt. It also benefits out of lower cost of acquisition reflecting lower commission structures from SBI. Management has also stated that relatively newer tie-ups such as Allahabad Bank, Syndicate, Repco, P&S Bank continue to do better than expectations.





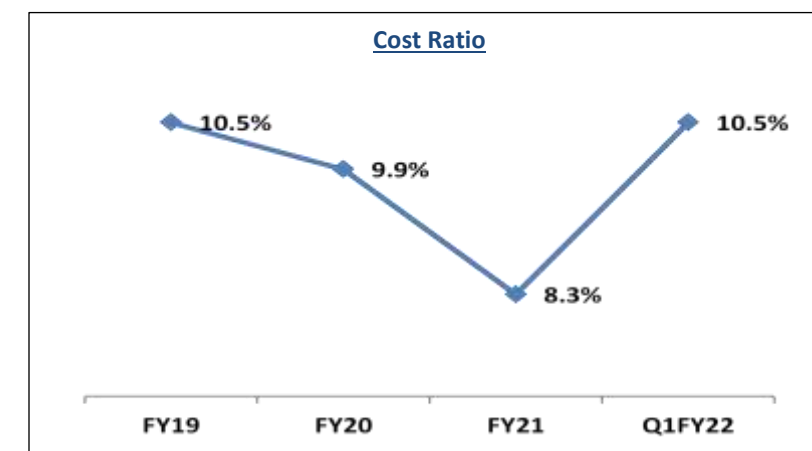
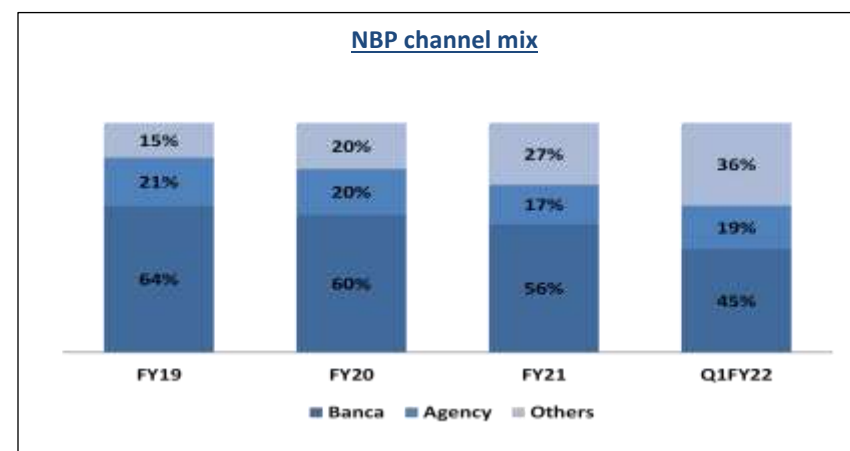
Robust distribution network

SBI Life has strong distribution network of 212,821 trained insurance professionals consisting of agents, CIFs and SPs along with widespread operations with 947 offices across country. Further, it has a widespread bancassurance network of 14 partners.



The Company has diversified distribution network comprising of strong bancassurance channel, agency channel and others comprising of corporate agents, brokers, micro agents, common service centers, insurance marketing firms, web aggregators and direct business. NBP channel mix for Q1FY22 is bancassurance channel 45%, agency channel 19%, and other channels 36%.

SBI Life has lowest operating expense ratio among private life insurance companies due to its robust distribution mode. The average of expense ratios over FY18-FY21 is 10% for SBI Life, which for other peers stood at 15%. Low cost structure from parent and strong agent productivity supports lower opex.





Digital transformation

The company continues to deploy new digital technologies as an enabler across all aspects of its business, including products, distribution and services. This deployment results in enhancing customer experience across various touchpoints. The Company has adopted various mobile and web-based applications for both customers and sales representatives. It uses different digital marketing tools and data analytics to increase penetration and capture the market share. This has led to an increased policies sold through online channel and web aggregators.

With the efficient use of technology, the company now has 99% of individual proposals being submitted digitally, 45% of individual proposals are processed through automated underwriting. Also the automation and digitalization have significantly enlarged customer experience and uninterrupted services during the times of the pandemic.

Distribution might to be further boosted by focus on agency channel.

Agency remains an important element of distribution strategy with a contribution of ~30% in APE. SBI Life places a lot of importance on nurturing and training individual agents so that they can understand various products, customer needs and improve productivity. For this SBI life is continuously investing in them to reap long-term benefits. Despite the lockdown in Q1FY22, sales of agency grew 38% YoY to Rs.470 cr.

Consistent track record and well managed to tackle COVID claims

Since FY10 SBI Life has been among the leader in terms of new business premium generated. The company has focused on achieving high-quality earnings since inception, which is demonstrated by the fact that it turned profitable within the first five years of operations. SBI Life has consistently delivered industry-leading APE, VNB and EV over FY18-FY21. The average of last five years' return on equity was at 18%. Even during the quarter when the industry had to pay high claims and provide high claim reserves, the company was still able to post profit.

Persistency ratio: SBI Life's superlative customer service has created one of the best-in-class persistency ratio. In past three years, the Company reported robust and above industry average numbers. During Q1FY21, the company reported strong growth in 13th month persistency by 295 bps to 84.50% due to focus on improving the quality of business and customer retention. Further, 61st month persistency for Q1FY22 stood at 60.88%.

Solvency: It has stable and consistently managed Balance Sheet with solvency ratio at 2.15 against regulatory mandate of 1.50.

COVID claims:

The life insurance industry has witnessed a tremendous pressure due to COVID-19 second wave as the death rates were high this time. There was a 1.43x growth in number of deaths in India from FY21 to Q1FY22. The company has also seen 1.28x increase in number of



claims reported from FY21 to Q1FY22. Total number of COVID Claims in Q1FY22 was 8,956. However, as mortality assumptions were strengthened in Q4FY21, SBI Life did not have any negative mortality experience on an overall basis (demonstrating conservative assumptions). It has created additional Rs.4.4 bn additional COVID reserves to protect against any negative surprises. We feel that this Covid-19 could be blessing in disguise for the industry as it will create renewed push for insurance coverage by Government and increase need for coverage felt by the general public.

Risk & Concern

- Low interest rates are the biggest challenge for the growth of life insurers. Low interest rate attracts lower customers especially in the saving business. SBI Life has 63% of individual Annualized premium equivalent (APE) coming from ULIP. Further, insurers derive majority of their profits from investment income. The erosion of investment returns from low interest rates, tightening spreads and inverted yield curves will not only undercut this critical source of profitability, but also potentially put ratings at risk.
- Any adverse change of regulations by IRDA might impact the business.
- Adverse regulatory change in Bancassurance agreement with SBI can impact the low cost of sales and overall profitability.
- Higher than expected claims paid could also hurt the profitability. In the near-term, the increase in mortality and morbidity rates induced by the pandemic is a matter of concern (189k reported Covid deaths till date in FY22 compared to 162k in FY21).
- Insurance business is highly competitive business. There has been intense competition from other private life insurers and since last few quarters, LIC has also become aggressive and has been gaining market share. Rising competition especially via digital disruptors poses pricing risk.

Company Background:

SBI Life Insurance Company Limited (SBI Life), is one of the leading private life insurers in India. It provides a comprehensive range of savings and protection products to individual and group customers across traditional and unit-linked plans. The products are available in the life, pension, annuity and health segments. It has covered 1.2 mn+ lives with total sum assured of more than Rs.840 bn.

It started operations in 2001, as a joint venture between SBI (currently 55.5% stake) and BNP Paribas Cardif (0.2%). It got listed on exchanges in Q3FY18. Around 12% stake was diluted during the process. In June 2020, SBI offloaded 2.1% stake in the company and in March 2021, BNP Paribas Cardif offloaded 5% stake.



APE Product mix:

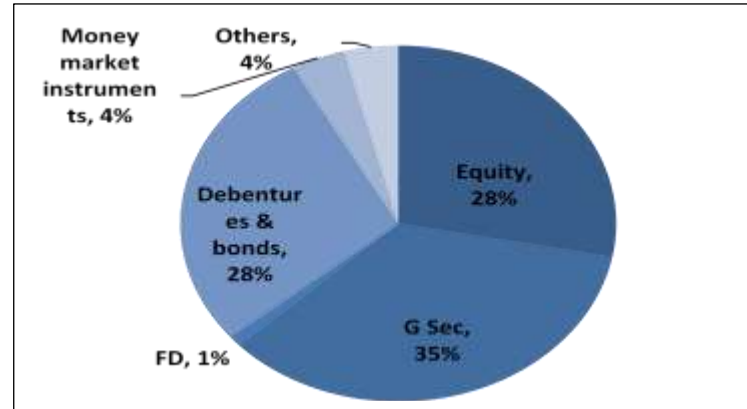
	FY19	FY20	FY21	Q1FY21	Q1FY22	YoY%	Mix%
Individual Savings	87.0	93.0	94.6	9.4	12.4	33.0	77.0
-PAR	18.1	11.7	9.7	1.1	1.2	6.0	7.0
-Non PAR	0.2	6.5	10.7	2.2	1.1	-51.0	7.0
-ULIP	68.6	74.8	74.2	6.1	10.2	68.0	63.0
Protection	6.6	9.5	12.0	1.6	2.2	37.0	13.0
-Individual	3.7	5.1	7.3	0.7	1.3	76.0	8.0
-Group	2.9	4.5	4.7	0.9	0.9	4.0	6.0
Annuity	0.3	1.1	3.0	0.5	0.7	26.0	4.0
Group Savings	3.1	3.7	4.9	1.2	0.9	-27.0	6.0
Total APE	97.0	107.4	114.5	12.7	16.2	27.0	

Peer Comparison:

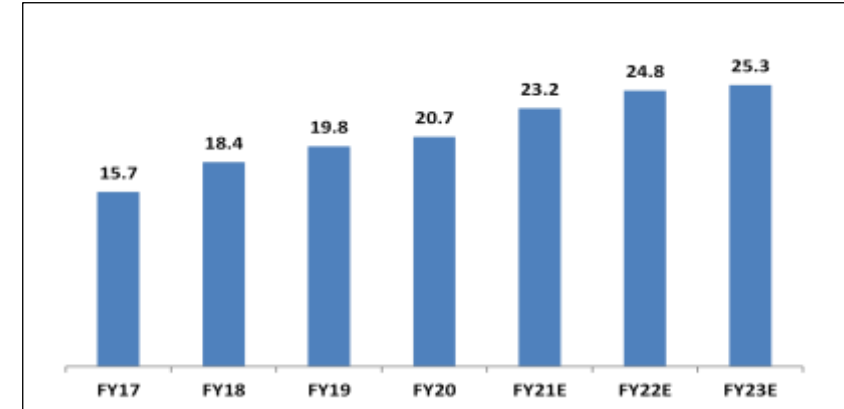
	CMP	Market Share as of Jun-21	VNB Margin %	ROE%	EV (Rs. bn)			P/EV (x)			P/E (x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
IPRU	690	5.1	25.1	12	291	316	359	3.4	3.2	2.8	104.0	99.6	87.1
MAXF	1094	2.5	25.2	24	118	141	167	4.0	3.1	2.9	72.0	64.0	46.0
SBILIFE	1168	7.0	23.2	15.3	351	406	471	3.3	2.9	2.5	80.0	76.8	71.7
HDFCLIFE	739	7.2	26.2	17.6	266	305	360	5.6	4.8	4.1	109.6	101.9	86.4



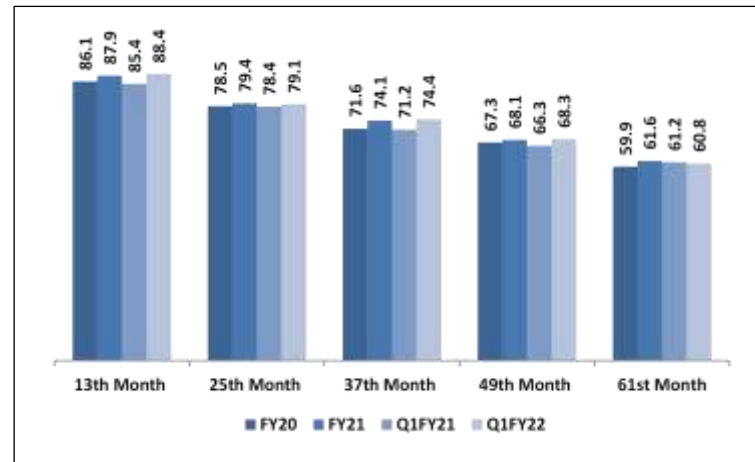
AUM Mix(%)



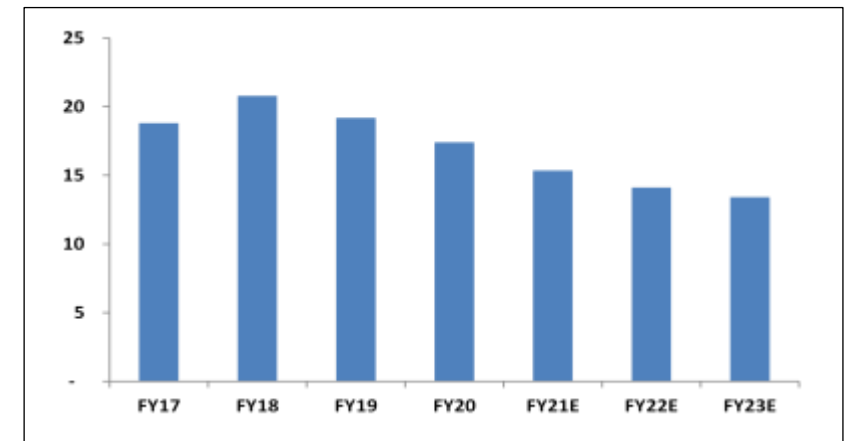
VNB margin (%)



Persistency (%)



RoE%



(Source: Company, HDFC sec Research)



Financials

Policyholder Account (in mn)

	FY19	FY20	FY21	FY22E	FY23E
Total premium earned	3,28,904	4,03,240	4,97,683	5,64,309	6,50,584
Income from investments and other income	1,12,719	30,425	3,14,918	2,52,383	1,92,777
Transfer from shareholders account	989	4,763	8,248	8,578	8,921
Total income	4,42,612	4,38,428	8,20,849	8,25,269	8,52,282
Commission	13,464	16,249	17,788	20,237	23,129
Operating expenses	21,235	24,131	24,123	35,730	39,945
Provisions	5,505	6,776	4,721	7,270	7,634
Total expenses	40,203	47,156	46,631	63,237	70,708
Benefits paid	1,52,938	1,62,509	2,15,827	3,57,257	3,72,034
Change in valuation of liabilities	2,35,917	2,06,049	5,39,342	3,78,714	3,82,849
Total	3,88,855	3,68,559	7,55,168	7,35,971	7,54,883
Surplus	13,553	22,714	19,050	26,060	26,691
Tax	2,687	3,767	976	4,322	4,427
Net surplus	10,866	18,946	18,074	21,738	22,264
Transfer to shareholders account	9,985	14,627	16,788	17,390	17,811

Shareholders account (in mn)

As at March	FY19	FY20	FY21	FY22E	FY23E
Transfer from policyholders' a/c	9,985	14,627	16,788	17,390	17,811
Investment income	5,057	4,767	6,885	7,744	8,863
Other income	135	68	63	66	70
Total income	15,177	19,461	23,736	25,201	26,744
Expenses	459	563	63	433	468
Contribution to policyholders' a/c	989	4,763	8,248	8,578	8,921
Profit before tax	13,729	14,135	15,425	16,190	17,355
Taxes	461	(86)	866	971	1,041
PAT	13,268	14,222	14,559	15,219	16,313



Balance Sheet (in mn)

	FY19	FY20	FY21	FY22E	FY23E
Sources of funds					
Share capital	10,000	10,000	10,001	10,001	10,001
Reserve and surplus	64,601	78,839	90,926	1,04,623	1,18,490
Net worth	74,601	88,839	1,00,927	1,14,624	1,28,490
Credit/debit balance in fair value a/c	1,162	-1,408	3,077	3,077	3,077
Policyholders' a/c	13,51,399	15,31,011	21,13,493	24,92,207	28,75,056
Funds for future appropriation	2,816	7,137	8,423	8,844	9,287
Total Liabilities	14,29,978	16,25,579	22,25,921	26,18,752	30,15,910
Application of funds					
Shareholders' Investments	57,232	68,279	86,047	98,478	1,11,021
Policyholders' investments	6,44,724	7,34,199	9,39,364	-	-
Asset to cover linked liabilities	6,91,291	7,85,653	11,62,150	24,80,228	28,63,077
Loans	1,725	3,645	3,581	3,670	3,762
Fixed assets + DTA	5,952	5,812	5,654	5,796	5,941
Net current assets	29,054	27,990	29,124	30,580	32,109
Total Assets	14,29,978	16,25,579	22,25,921	26,18,752	30,15,910

Performance metrics

	FY19	FY20	FY21	FY22E	FY23E
NBP	1,37,920	1,65,925	2,06,242	2,36,978	2,79,520
APE	96,900	1,07,400	1,14,500	1,31,628	1,50,992
VNB	19,200	22,200	26,600	32,685	38,248
EV	2,36,609	2,76,400	3,50,600	4,05,963	4,71,420
EVOP	35,514	47,400	53,500	55,385	67,404
Rs/share					
EPS	13.3	14.2	14.6	15.2	16.3
BV	74.6	88.8	100.9	114.6	128.5
DPS	2	-	2.1	1.3	2
Expense ratios (%)					
Commissions/premium	4.1	4	3.6	3.6	3.6
Opex/premium	6.5	6	4.8	6.3	6.1
Total expenses/premium	12.2	11.7	9.4	11.2	10.9
Efficiency ratios (%)					
RoAA	1	0.9	0.8	0.6	0.6
RoE	19.2	17.4	15.3	14.1	13.4
RoEV return	18.9	16.8	27.7	16.2	16.7
Valuation					
P/E (x)	87.8	82.3	80	76.8	71.7
P/ABV (x)	15.7	13.2	11.6	10.2	9.1
P/EV (x)	4.9	4.2	3.3	2.9	2.5

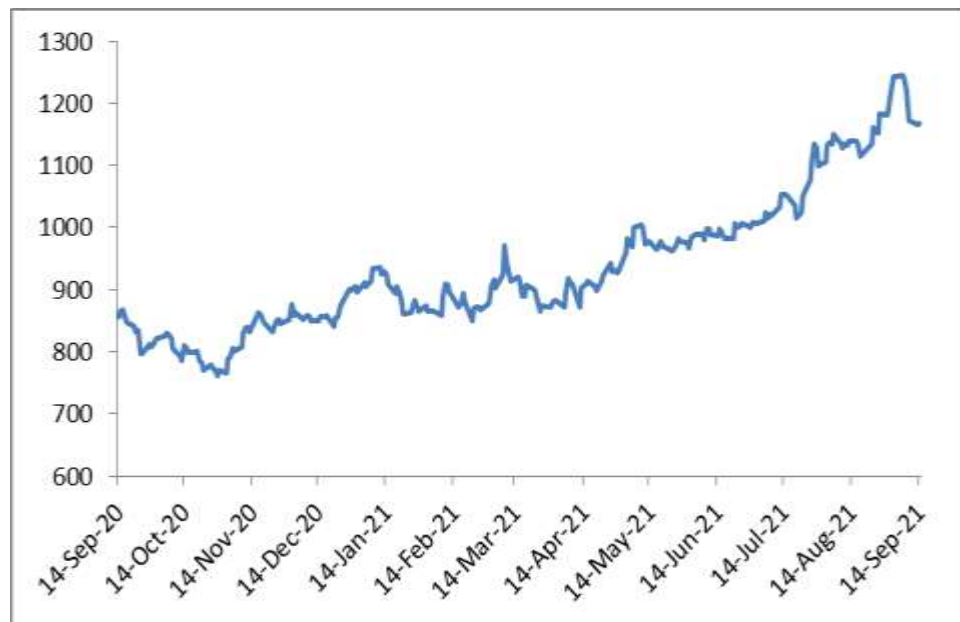


Definitions, abbreviations and explanatory notes:

- **New Business Premium (NBP):** Insurance premium that is due in the first policy year of a life insurance contract or a single lump sum payment from the policyholder.
- **Annualized Premium Equivalent (APE):** The sum of annualized first year premiums on regular premium policies, and 10% of single premiums, written by the Company during the fiscal year from both retail and group customers.
- **Renewal Premium:** Life insurance premiums falling due in the years subsequent to the first year of the policy.
- **Embedded Value:** Insurance is a long-term business. You buy a policy today but continue to pay premiums for several years. It is from this future income that the insurers make profits. So the value of a life insurance company is assessed by future profits that the current business is able to generate. This is captured by the embedded value (EV) that represents the sum of present value of all future profits from the existing business and shareholders' net worth. Embedded value simply represents the value generated from the business sold by the company, if it were to stop writing anymore business.
- **Value of New Business (VoNB):** VoNB is the present value of expected future earnings from new policies written during a specified period and it reflects the additional value to shareholders expected to be generated through the activity of writing new policies during a specified period.
- **Value of New Business Margin / VoNB Margin:** VoNB Margin is the ratio of VoNB to New Business Annualized Premium Equivalent for a specified period and is a measure of the expected profitability of new business.
- **Solvency Ratio:** Solvency ratio means ratio of the amount of Available Solvency Margin to the amount of Required Solvency Margin as specified in form-KT-3 of IRDAI Actuarial Report and Abstracts for Life Insurance Business Regulations.
- **Persistency:** The proportion of business renewed from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten.
- **PAR:** With participating insurance, a portion of the risk is shared among the policyholders and the company. As part of this risk-sharing relationship, par policyholders may also share in certain rewards when their policies perform better than originally expected. This reward may come in the form of a policyholder dividend, which is a portion of the earnings from the par account where the investments, expenses and other items related to the company's par policies are tracked.
- **Non-PAR:** A non-participating life insurance plan is one where the policyholder does not receive any bonuses or add-ons in the form of dividends declared by the insurer from time to time. As the name suggests, the insurer does not "participate" in the insurance company's business.



One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



SBI Life Insurance Company Ltd.



Disclosure:

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