



HDFC securities

Click. Invest. Grow.

20
YEARS

Initiating Coverage SBI Life Insurance Company Ltd

21-September-2020



RETAIL RESEARCH



SBI Life Insurance Company Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon	CAGR returns expected post 6 months
Life Insurance	Rs.848	Buy at LTP and add on dips to Rs.764-770 band	Rs.928	Rs.1017	2 quarters	10-12%

HDFC Scrip Code	SBILIF
BSE Code	540719
NSE Code	SBILIFE
Bloomberg	SBILIFE
CMP Sep 18, 2020	848
Equity Capital (Rscr)	1000
Face Value (Rs)	10
Equity Share O/S (cr)	100
Market Cap (Rscrs)	84,794
Book Value (Rs)	85.7
Avg. 52 Wk Volumes	1954242
52 Week High	1030
52 Week Low	520

Share holding Pattern % (Jun, 2020)	
Promoters	60.7
Institutions	33.2
Non Institutions	6.1
Total	100.0

Fundamental Research Analyst

Nisha Sankhala

Nishaben.shankhala@hdfcsec.com

Our Take:

We are quite optimistic on the future of highly underpenetrated Indian life insurance industry. SBI Life is our Top Pick in the sector backed by its largest bancassurance footprint, lowest expense ratio and best-in-class solvency ratio which is mainly driven by strong parentage of SBI. Given the untapped distribution reach, management's conscious approach toward margin improvement, we believe SBI Life is well poised to notch-up market share gains. It currently maintains leadership position in NBP (New Business Premium) with a private market share of 23.9%. The company has balance sheet with an excellent capital positioning.

We also think that Covid-19 and changes in personal taxation to cause significant disruption to insurance sales in FY21. But for the long term, 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.

Valuations & Recommendation:

We expect FY21E to be a challenging year for the SBILIFE. We expect company to obtain approvals and launch newer high margin products over Q2FY21 and hence improvement in metrics is more likely over H2FY21E. Overall we think FY21E to be a muted year for the company. We expect SBI Life to deliver CAGR of 2% for Value of New Business (VNB), 5% New Business Premium (NBP) and 14% for Embedded Value (EV) over FY19 to FY22E. We have incorporated RoE improvement by 420bps between FY20-22E. Despite significant price appreciation from recent lows, SBI Life is still trading at 2.38x FY22 Embedded Value (~45% discount to HDFC Life- Second largest Private Player).

We feel that investors can BUY SBI Life at CMP of Rs.848 and add on dips to Rs.764-770 band (2.15x FY22E EV) for Base case fair value of Rs.928 (2.60x FY22E EV) and the Bull case fair value of Rs.1017 (2.85x FY22E EV) over next 6 months. We are also expecting the company to give 10-12% CAGR return over next 2-3 years.

Financial Summary

Particulars (Rsbn)	Q1FY21	Q1FY20	YoY-%	Q4FY20	QoQ-%	FY19	FY20	FY21E	FY22E
NBP	30.5	31.6	-3.5	38	-19.7	137.9	165.9	160.3	182.4
APE	12.7	18.7	-32.1	21.7	-53.1	96.9	107.4	93.3	106.2
Adj. VNB						19.2	22.2	19.6	22.9
Adj. VNBM (%)						19.8	20.7	21	21.6
EV Per Share						236.6	276.4	313.3	356.8
P/EV (x)						3.6	3.1	2.7	2.4
P/BV (x)						11.4	9.5	7.8	6.5
P/E (x)						63.8	59.7	42.6	32.9
ROEV(%)						18.9	16.8	13.4	15.1

(Source: Company, HDFC sec)

Recent Developments

1Q1FY21 highlights: Total APE (Annualised Premium Equivalent) at Rs 12.7bn declined 32.1/53.1% YoY as lockdown and partial working conditions impacted sales. While share of protection in total APE improved 137/79bps YoY/QoQ to 12.6%, Retail/group protection declined 36.4/10.4% YoY/QoQ. ULIP declined 50.8% YoY resulting in its share reducing to 48.0% (-1,828bps YoY) and consequent improvement in non-linked savings business share to 26.8% (+966bps YoY). Non-linked savings business grew 6.3% YoY with NPAR (Non Participating) savings growing to 3.6x YoY. Company's AUM portfolio is equally distributed between linked and non-linked policies. Of the debt instruments, ~90% of the investments are in AAA-rated and Sovereign bonds. The debt-equity mix stood at 76:24. Persistency deteriorated sequentially across all buckets except 61st month as renewals lagged. Strong renewal premiums growth at 29.4% YoY to Rs 45.8bn and AUM growth of 19.3% YoY to Rs 1.8tn showcase high quality of business underwritten. Solvency improved to 239% (+2,200bps YoY) as equity markets bounced back. Calculated VNB margin came in at 18.7% same as that in Q4FY20 and 80 bps higher YoY. Adjusted VNB (Value of New Business) margin at 20.1% were higher by just 20bps YoY. VNB margin was impacted mainly due to change in the risk free rate.

Due to rising reinsurance rates, the company will try to keep premium rates competitive, which could pressurise VNB margins, but expected growth in business volume is expected to offset margin pressure and drive earnings.

For FY21, the company is targeting marginal growth over FY20. We also think that Covid-19 and changes in personal taxation to cause significant disruption to insurance sales in FY21. Management highlighted that the demand for protection has been strong and overall, the company is also targeting good business volume in this segment.

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.

Past pandemics show increased sales and lower persistency trends. A study of past pandemics such as SARS (CY 2002-04) and MERS (CY 2013-14) demonstrates increased sales of health insurance during the pandemics and life insurance post the pandemics. We expect similar trends to play out in India.

Long term Triggers

India has highly underpenetrated insurance market compared to the other parts of the world with a life insurance penetration of less than 3%. This presents immense opportunities to expand the life insurance business given the favorable demographics, rising prosperity, growing household income and the increasing awareness of the need for financial protection. 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). Management stated that relatively newer tie-ups such as Allahabad Bank, Syndicate, Repco, P&S Bank continue to do better than expectations. It expects contribution from these banks to touch 10% in new business sales as early as FY22E.

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 only less than 2% 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 (~70% in debt - more than several of its peers). It also benefits out of lower cost of acquisition reflecting lower commission structures from SBI.

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 Q1FY21 is bancassurance channel 41%, agency channel 14%, and other channels 45%.

SBI Life's superlative customer service has created one of the best- in- class persistency ratio. In FY19 and in FY20, the Company reported robust and above industry average numbers. It is the lowest cost life insurer with an operating cost to the premium ratio of 6.1% (Q1FY21) against ~7.1% last year, ~200bps lower than the closest competitor. With a further push for digitalization, management expects stability over operating expenses and improvement in the matrix.

Management has indicated that for long term their endeavor will be towards improving margins by 1) increasing share of protection and other high margin business, 2) increasing proportion of single premium policy sales, and 3) launch and sale of immediate annuity products.

What could go wrong?

- We expect the savings business to face headwinds as lower business activity impacts savings levels. Companies with high dependence on ULIPs are likely to be impacted significantly. SBI Life has 69.6% of individual Annualized premium equivalent (APE).
- Indian life insurers are witnessing a hardening of term reinsurance premiums. Companies are reworking rates for end consumers while trying to ensure the least impact on their margins. However, amongst the companies, SBI Life is likely to get least impacted as it was charging higher rates vs. competitors.
- Slow economic growth might impact the business both in terms of new business growth and persistency.
- Any adverse change of regulations by IRDA might impact the profitability of the business.
- Insurance business is highly competitive business. There has been intense competition from other private life insurers and since last few months, LIC has also become aggressive and has been gaining market share. Rising competition especially via digital disruptors poses pricing risk.

- An increased share of the guaranteed return businesses can raise risk from volatility in interest rates. SBI had 18% share of Non PAR APE in its revenues in Q1FY21.
- Adverse regulatory change in Bancassurance agreement with SBI can impact the low cost of sales and overall profitability.
- Slower tapping of/adoption by SBI clients, slower adoption of digital sales and higher than expected mortality are other concerns faced by the company.

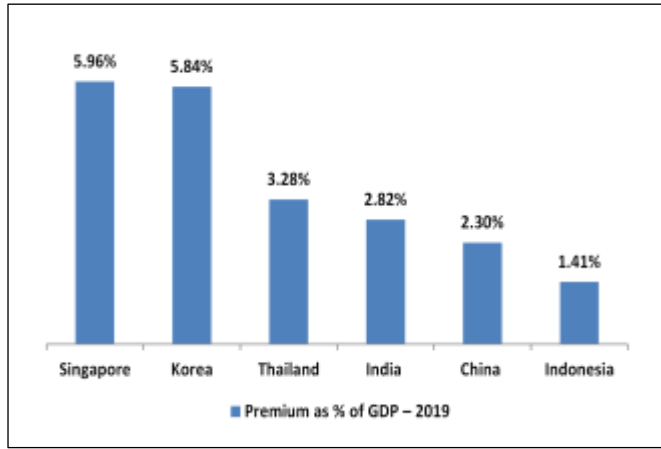
Company Profile:

SBI Life Insurance Company Limited, is a joint venture between State Bank of India (SBI) (currently holds 55.5% stake) and BNP Paribas (currently holds 5.2% stake) formed in 2001. SBI Life was the first private sector insurer to achieve breakeven in FY06, primarily leveraging SBI's branch network to reduce its distribution costs. SBI has the largest bank distribution network in India. BNP Paribas Cardif S.A. is the one of the largest life insurance company in France, and a worldwide leader in creditor insurance products. BNP operates in many countries mainly through the bancassurance and partnership models. Since FY10 SBI Life has been the leader in terms of new business premium generated with a market share of 23.9% among private life insurers and 6.2 % in the industry in Q1FY21. SBI Life offers a comprehensive range of life insurance and pension products at competitive prices, ensuring high standards of customer service and world class operating efficiency. The Company offers individual and group products which include savings and protection plans to address the insurance needs of diverse customer segments. The Company has AUM of Rs.1753.5 bn as of June 30, 2020.

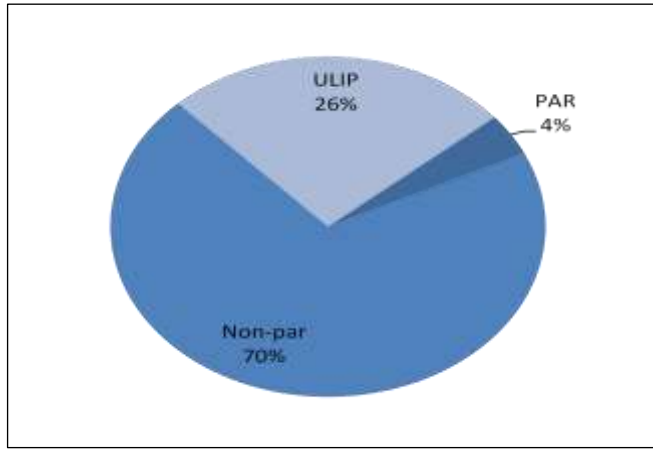
Peer Comparison:

	CMP	Market Share as of Jun-20	VNB Margin %	AUM (in Rs. Bn)	EV			P/EV			P/E		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
IPRU	423	3.04	21.7	1640	160	181	206	2.6	2.3	2.1	53	42	35
MAXF	610	1.82	21	735	268	214	234	2.3	2.9	2.6	51	47	44
SBILIFE	848	6.20	20.7	1588	276	313	357	3.1	2.7	2.4	61	42	33
HDFCLIFE	585	5.38	25.9	1273	102	116	134	5.7	5.0	4.4	84	65	49

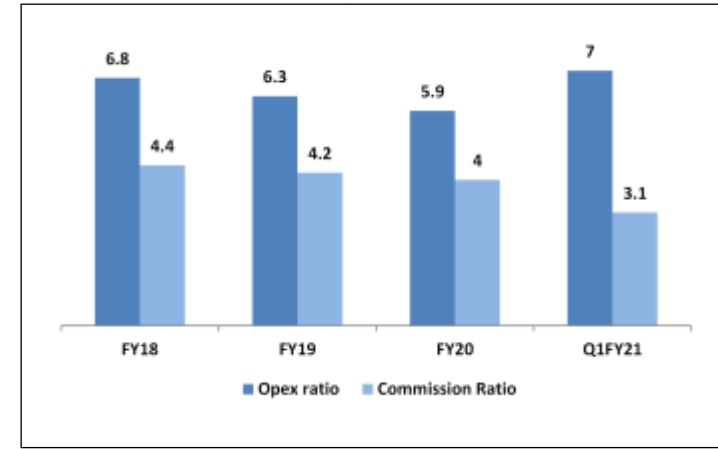
Under Penetration versus other Markets



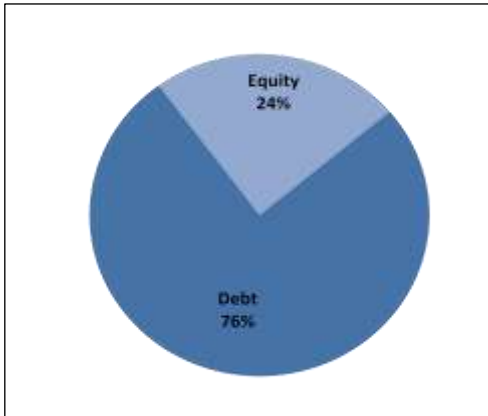
Distribution strength



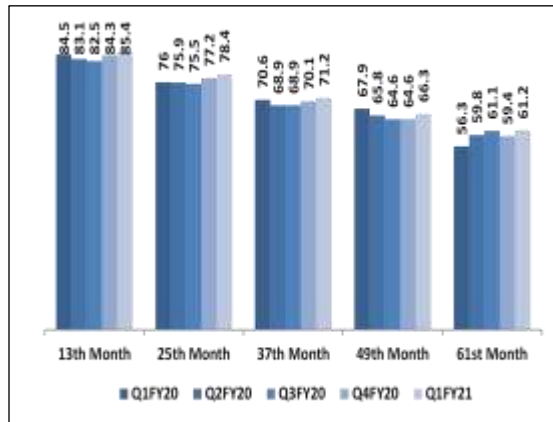
High levels of cost efficiencies leading to growing profitability



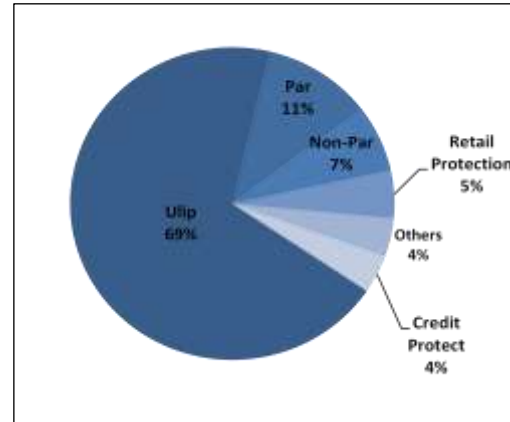
AUM Mix%



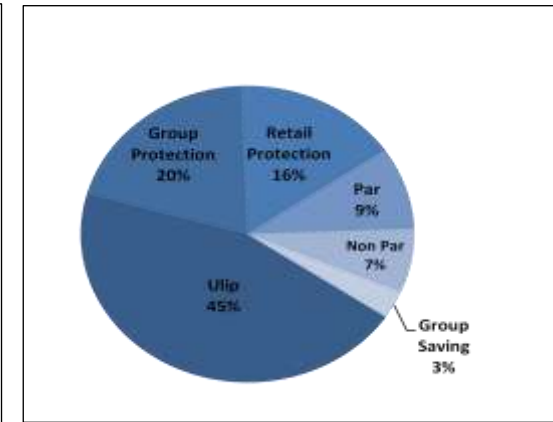
Persistency Trend



Product Mix (% of FY20 APE)



FY20 VNB Share (%)



Financials

Policyholder Account (in mn)

	FY19	FY20	FY21E	FY22E
Total premium earned	3,28,904	4,03,240	4,45,126	4,94,917
Income from investments and other income	1,12,719	30,426	1,35,868	1,54,933
Transfer from shareholders account	989	4,763	1,191	1,238
Total income	4,42,612	4,38,428	5,82,185	6,51,088
Commission	13,464	16,249	15,987	17,859
Operating expenses	21,235	24,131	29,123	31,336
Provisions	5,505	6,776	6,063	6,366
Total expenses	40,203	47,156	51,172	55,562
Benefits paid	1,52,938	1,62,509	2,43,176	2,67,293
Change in valuation of liabilities	2,35,917	2,06,049	2,62,101	2,96,068
Total	3,88,855	3,68,558	5,05,277	5,63,361
Surplus	13,553	22,714	25,736	32,166
Tax	2,687	3,767	4,268	5,335
Net surplus	10,866	18,947	21,467	26,831
Transfer to shareholders account	9,985	14,627	17,174	21,464

Shareholders account (in mn)

As at March	FY19	FY20	FY21E	FY22E
Transfer from policyholders' a/c	9,985	14,627	17,174	21,464
Investment income	5,057	4,767	5,804	7,819
Other income	135	68	34	36
Total income	15,177	19,461	23,011	29,319
Expenses	459	563	567	610
Contribution to policyholders' a/c	989	4,763	1,191	1,238
Profit before tax	13,729	14,135	21,254	27,470
Taxes	461	-86	1,382	1,648
PAT	13,268	14,222	19,873	25,822

SBI Life Insurance Company Ltd

Balance Sheet (in mn)

	FY19	FY20	FY21E	FY22E
Source				
Share capital	10,000	10,000	10,000	10,000
Reserve and surplus	64,601	78,839	98,712	1,20,660
Net worth	74,601	88,839	1,08,712	1,30,661
Credit/debit balance in fair value a/c	1,162	-1,408	-1,408	-1,408
Policyholders' a/c	13,51,399	15,31,011	17,93,112	20,89,180
Funds for future appropriation	2,816	7,137	7,494	7,868
Total Liabilities	14,29,978	16,25,579	19,07,909	22,26,300
Application				
Shareholders' Investments	57,232	68,280	86,873	1,07,485
Policyholders' investments	6,44,724	7,34,199	-	-
Asset to cover linked liabilities	6,91,291	7,85,653	17,81,953	20,78,021
Loans	1,725	3,645	3,736	3,829
Fixed assets + DTA	5,952	5,812	5,957	6,106
Net current assets	29,054	27,990	29,390	30,859
Total Assets	14,29,978	16,25,579	19,07,909	22,26,300

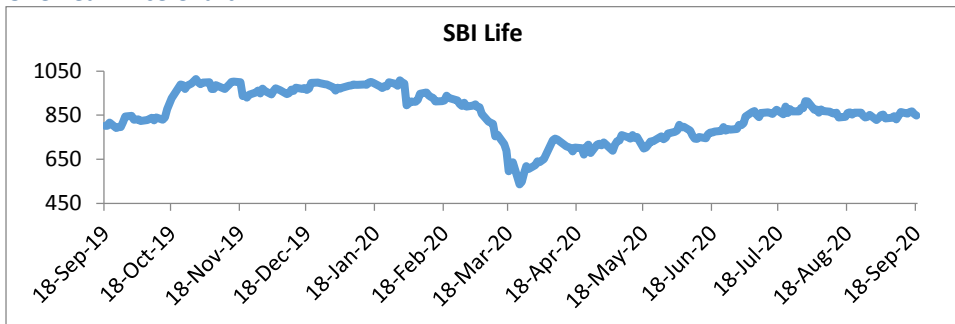
Performance metrics

	FY19	FY20	FY21E	FY22E
NBP	1,37,920	1,65,925	1,60,255	1,82,370
APE	96,900	1,07,400	93,295	1,06,169
VNB	19,200	22,200	19,592	22,933
EV	2,36,609	2,76,400	3,13,321	3,56,780
EVOP	35,514	47,400	36,922	47,332
Rs/share				
EPS	13.3	14.2	19.9	25.8
BV	74.6	88.8	108.7	130.7
DPS	2	-	-	3.2
Expense ratios (%)				
Commissions/premium	4.1	4	3.6	3.6
Opex/premium	6.5	6	6.5	6.3
Total expenses/premium	12.2	11.7	11.5	11.2
Efficiency ratios (%)				
RoAA	1	0.9	1.1	1.2
RoE	19.2	17.4	20.1	21.6
RoEV return	18.9	16.8	13.4	15.1
Valuation				
P/E (x)	63.8	59.7	42.6	32.9
P/ABV (x)	11.4	9.5	7.8	6.5
P/EV (x)	3.6	3.1	2.7	2.4

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.

One Year Price Chart



SBI Life Insurance Company Ltd

Disclosure:

I, Nisha Sankhala, MBA, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | IN-DP-372-2018 (CDSL, NSDL) | CDSL DP ID: 12086700 | NSDL DP ID: IN304279 | AMFI Reg No.

ARN -13549 | PFRDA Reg. No - POP 11092018 | IRDA Corporate Agent Licence No.CA0062 | Research Analyst Reg. No. INH000002475 | Investment Adviser: INA000011538 | CIN-U67120MH2000PLC15219