

# SBI Life Insurance

16 October 2019

Reuters: SBIL.NS; Bloomberg: SBILIFE IN

## High margin product segments drive profitable growth

SBI Life Insurance (SBIL) reported 2QFY20 results with the key pointers being (1) SBIL saw new business APE and new business premium growing 18% YoY and 34% YoY, respectively. Growth outlook remains robust (2) APE margin (on effective tax basis) improved ~40 bps QoQ to ~20.3% on the back of improving product mix. (3) SBI Life's cost leadership was reinforced with opex ratio declining 130 bps YoY to 6.5% in 1HFY20. Persistency experience continued to improve rapidly. Also, see comprehensive conference call takeaways on page 2 for significant incremental colour. Per se, on the key financial items, SBIL posted NBP growth of 33% YoY at Rs46,621mn, Surplus growth of 21% at 3,489mn and PAT decline of 48% YoY at Rs1,298mn. We have revised our estimates for FY20/FY21/FY22 and have retained a Buy rating on SBIL with a revised target price of Rs1,014 (from Rs1,009 earlier) and valuing the stock at 3.0x H1FY22E P/EV. Also, see our initiating coverage report on the life insurance sector: [A Very Attractive Way To Play Indian Financials](#). **SBI Life is our top pick in the life insurance sector.**

**SBIL saw new business APE and new business premium growing 18% YoY and 34% YoY, respectively. Growth outlook remains robust:** NBP growth was, once again, driven by Protection, which grew 32% YoY to Rs 4.9bn in 2QFY20. Group Savings also grew strongly at 63% YoY to Rs 13.2bn. Individual Savings grew 23% YoY to Rs 28.5bn. Within Individual Savings, Non Par grew fastest at 800% YoY to Rs 5.4bn on the back of recently launched guaranteed savings plan being received well. Management broadly re-iterated that, going forward, focus areas would include protection including annuities (longevity protection), single premium products and non participating products. Management indicated that they, recently, tied up with Repco Home Finance and more banca partnerships are in the pipeline. Management stated SBIL could continue to outperform the industry since they have a significant presence outside metro and urban centres, among other factors.

**APE margin (on effective tax basis) improved ~40 bps QoQ to ~20.3% on the back of improving product mix:** The APE margin for 1HFY20 improved 100bps YoY to 20.2% since the impact of improving product mix (~400 bps) offset the impact of declining interest rates (~300 bps). Share of protection rose 140 bps YoY to 11.9% in 1HFY20 NBP. Share of Non Par products, whose margin is higher than overall company margin, also rose significantly from 1.6% in 1HFY19 to 9.1% in 1HFY20 (11.6% in 2QFY20).

**SBI Life's cost leadership was reinforced with opex ratio declining 130 bps YoY to 6.5% in 1HFY20. Persistency experience continued to improve rapidly:** Low cost ratios were a function of (1) Channel mix, wherein low-cost bancassurance was still the largest contributor with 57% share of NBP in 1HFY20 (2) Healthy renewal premium growth of 33% YoY in 1HFY20 and (3) Share of Group Savings rising to 29.2% in 1HFY20 from 24.6% in 1HFY19. 13<sup>th</sup> month Persistency improved 261 bps YoY to 85.81%.

**Valuation and outlook:** We have revised our NBP estimates by 2.2%/2.2%/2.3%, VNB estimates by 1.7%/1.8%/1.8% and EV estimates by 0.5%/0.9%/1.3% for FY20/FY21/FY22, respectively. We have retained Buy rating on SBIL and revised our target price to Rs1,014 (from Rs1,009 earlier), valuing the stock at 3.0x H1FY22E P/EV.

## BUY

Sector: Insurance

CMP: Rs839

Target Price: Rs1,014

Upside: 21%

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## Key Data

Current Shares O/S (mn)	1,000
Mkt Cap (Rsbn/US\$bn)	838.1/11.7
52 Wk H / L (Rs)	862/495
Daily Vol. (3M NSE Avg.)	1,281,183

## Price Performance (%)

	1 M	6 M	1 Yr
SBI Life	5.2	35.7	53.3
Nifty Index	3.9	(3.0)	8.0

Source: Bloomberg

Y/E March (Rsmn)	2QFY20	2QFY19	1QFY20	YoY (%)	QoQ (%)
<b>NBP</b>	<b>46,621</b>	<b>34,965</b>	<b>31,545</b>	<b>33.3</b>	<b>47.8</b>
<b>Net premium</b>	<b>101,115</b>	<b>76,616</b>	<b>66,550</b>	<b>32.0</b>	<b>51.9</b>
Investment & other income	26,339	19,767	29,885	33.2	(11.9)
<b>Total income</b>	<b>127,454</b>	<b>96,383</b>	<b>96,435</b>	<b>32.2</b>	<b>32.2</b>
Net commission	4,082	3,192	2,494	27.9	63.7
Opex	6,054	5,154	4,980	17.5	21.6
<b>Total mgmt expenses</b>	<b>10,136</b>	<b>8,347</b>	<b>7,474</b>	<b>21.4</b>	<b>35.6</b>
GST	1,320	1,058	1,114	24.8	18.5
Provision for taxes	589	390	1,779	50.8	(66.9)
Claims	32,415	27,596	28,538	17.5	13.6
Change in actuarial liability	79,036	55,921	54,497	41.3	45.0
<b>Total cost</b>	<b>123,965</b>	<b>93,491</b>	<b>93,655</b>	<b>32.6</b>	<b>32.4</b>
<b>Surplus/(deficit)</b>	<b>3,489</b>	<b>2,892</b>	<b>2,780</b>	<b>20.6</b>	<b>25.5</b>
T/f to s/hs' account	555	1,403	2,155	(60.5)	(74.2)
Investment & other income	1,444	1,229	1,729	17.5	(16.5)
<b>Total income</b>	<b>1,999</b>	<b>2,632</b>	<b>3,884</b>	<b>(24.1)</b>	<b>(48.5)</b>
Non-insurance expenses	104	68	86	52.0	21.3
T/f from p/hs' account	0	0	0	NA	NA
PBT	1,192	2,564	3,779	(53.5)	(68.5)
Taxes	(106)	59	59	NA	NA
<b>PAT</b>	<b>1,298</b>	<b>2,505</b>	<b>3,719</b>	<b>(48.2)</b>	<b>(65.1)</b>
<b>AUM</b>	<b>1,530,311</b>	<b>1,245,017</b>	<b>1,453,021</b>	<b>22.9</b>	<b>5.3</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Comprehensive Conference Call Takeaways

### VNB margins, EV, Profitability

- Improvement of 100 bps in VNB margin can be broken down into ~400 bps of improvement due to favorable product mix and ~300 bps of deterioration due to interest rates going down. For the full year, the company expects VNB margin to expand.
- As per the company, mortality experience is in line with expectations. On the persistency front, the company has been seeing improvement every quarter.
- Of the total provisioning in the P&L during the quarter, Rs. 670 mn was towards DHFL and rest was for diminution in value of investment. The provisioning on DHFL represents about 48% of the total exposure. The company stated that rest of the provisioning will come through in subsequent quarters.
- Apart from DHFL, the company stated that it doesn't have any other exposure that is stressed. Total exposure to HFCs and NBFCs combined is Rs 150 bn, of which 91% is AAA rated. Of this, Rs. 30 bn would be HDFC.
- Increase in EV over FY19 is largely due to VNB margin and unwind, both of which have contributed similarly. There is also a component of unrealized gain on debt of about Rs. 5-6 bn. As per the company, ROEV for the half year would be in line with what was seen for FY19.
- Reduction in VNB sensitivity is because of business mix wherein share of protection has increased and also due to change in computing methodology. The company stated that it has switched from computing sensitivity at the point of sale to computing it just after the sale, which has benefitted.
- Profitability on annuity is lower than protection but it is higher than the company average. The only catch is that margins depend on market interest rates. The company stated it has to re-price its products every now and then and even has to sometimes lower volumes in order to protect margins.
- Change in valuation liability is because of new business, high growth in renewals and MTM on unit linked funds due to market interest rate movements. 65% of ULIP is fixed income, hence the MTM provision is high.
- The impact of reducing internal benchmark for solvency ratio while calculating EV from 180% to 150% would be about Rs. 3 bn.
- The company aspires a 13m persistency of 90% and a 61m persistency of 70% in the next 3-5 years.
- The company hedges annuity with long term bonds, on the lines of cash flow matching. In case of guaranteed savings products, where there is interest rate risk, the company uses partly paid debentures and FRAs for hedging.

### Business Growth and Product Mix

- In terms of growth, the management said that they would continue to perform in line with what they have delivered so far YTD and that they would be affected by industry headwinds but would still continue to outperform. One of the reasons for handling the industry slowdown better is because of SBI's reach which has been able to absorb the shocks better.
- The company stated its focus on retired products through guaranteed products and protection has paid, while ULIPs have grown as well.
- Total combined exposure to Indiabulls, Yes Bank and DHFL is Rs. 3.8 bn. None has defaulted except DHFL. The company stated that it has no exposure to ADAG.
- As per the company, the investment in DHFL was in the shareholders' AUM. The impact related to ULIP has already been marked to market.
- On the non-par savings front, the company was earlier offering IRR of 5.5-6% but has revised it down to 5-5.5% which is more in line with current rates.

- Proportion of ROP products in individual protection business is about 90%. Profit margin on ROP is higher than the company average and it brings in more premium than pure term premium.
- Of the overall individual business, about 1% is direct.
- The company has been hedging guaranteed products with PPDs and now with FRAs too, since RBI allowed it.
- In terms of annuity, the company sources business from 1) upselling to existing group customers as they retire, 2) selling to NPS customers, and 3) selling to individual customers of banks. Overall, annuity remains a focus area.
- Contribution of annuity on APE basis is 1.1-5% since it is mostly single premium.
- Recently, LIC launched 2 products, one of which had pricing which is higher than the company's. The company further stated that it is in the process of reviewing its pricing and that it wants to be competitive with the nearest peer group of companies.
- Credit life business during H1FY20 is Rs. 6 bn and GTI is Rs. 0.9 bn, on NBP basis. In terms of APE, credit life is about Rs. 0.6 bn and GTI is Rs. 0.9 bn.
- Despite revising rates on Platina (guaranteed savings), the company has seen good flows. It is about 5-7% of individual flows.

## Distribution

- The company stated that it sells a large number of policies through the YONO app everyday however the average ticket sizes are very small and the business is mostly group based.

## Claims and Expenses

- As per the company, cost ratios are in line with topline growth. Going forward, the company is looking at pursuing digital initiatives aggressively.
- Par business and non-par businesses have 15-20% commissions which are similar to savings products since these are viewed as traditional products by the distributors.

## Exhibit 1: Key metrics

(Rsmn)	2QFY20	2QFY19	1QFY20	YoY (%)	QoQ (%)
Commission ratio (%)	4.0	4.2	3.7	-13bps	29bps
Opex ratio (%)	6.0	6.7	7.5	-74bps	-150bps
Mgmt expense ratio (%)	10.0	10.9	11.2	-87bps	-121bps
Claims ratio (%)	32.1	36.0	42.9	-396bps	-1083bps
Solvency ratio (%)	220.0	221.0	217.0	-100bps	300bps
<b>Yield on s/hs' funds</b>					
with unrealized gains (%)	8.2	8.2	7.8	-4bps	36bps
without unrealized gains (%)	10.8	8.5	11.3	236bps	-51bps
<b>Persistence (%)</b>					
13 <sup>th</sup> month	83.1	80.0	84.5	310bps	-133bps
37 <sup>th</sup> month	68.9	68.4	70.6	47bps	-167bps
61 <sup>st</sup> month	59.6	55.5	56.3	410bps	328bps
Conservation ratio (%)	87.1	83.6	90.9	346bps	-389bps

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: EV Table

(Rsmn)	H1FY20	H1FY19	Q1FY20	YoY (%)	QoQ (%)
VNB	9,400	7,100	3,700	32.4	-
VNB margin (%)	20.2	19.2	19.9	100bps	30bps
EV	261,500	211,700	-	23.5	NA

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
NBP	101,439	109,661	137,920	166,749	198,005	236,209
PAT	9,547	11,504	13,268	12,089	15,351	17,628
P/E (x)	87.9	72.9	63.2	69.4	54.7	47.6
P/B (x)	15.4	13.2	11.2	10.0	8.7	7.6
P/EV (x)	5.1	4.4	3.7	3.2	2.7	2.3
RoE (%)	18.8	19.4	19.2	15.2	17.0	17.1
RoEV (%)	23.0	17.9	17.4	18.5	18.6	18.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Actual performance versus our estimates

(Rsmn)	Q2FY20	Q2FY19	Q1FY20	YoY (%)	QoQ (%)	Q2FY20E	Devi. (%)
NBP	46,621	34,965	31,545	33.3	47.8	40,796	14.3
Operating Surplus	117,318	88,036	88,961	33.3	31.9	114,799	2.2
PAT	1,298	2,505	3,719	(48.2)	(65.1)	3,024	(57.1)

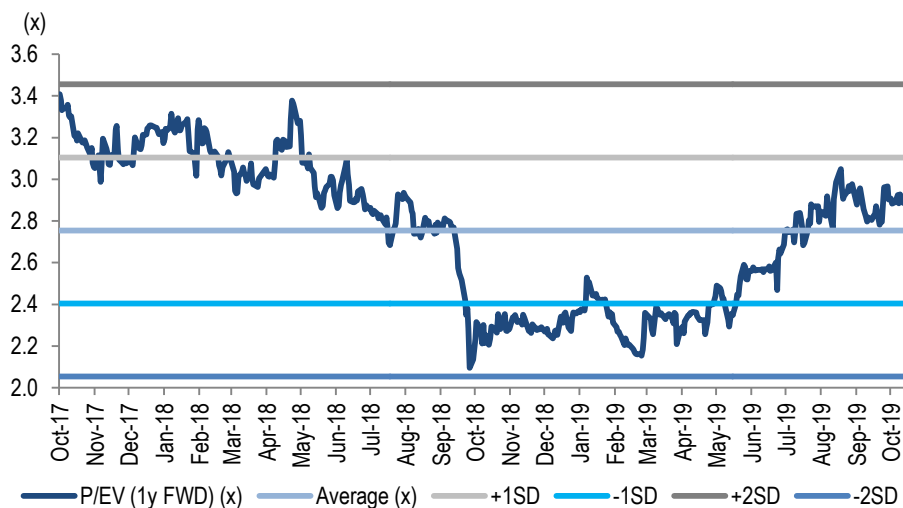
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Change in our estimates

(Rsmn)	Revised estimate			Earlier estimate			% Revision		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
NBP	166,749	198,005	236,209	163,223	193,734	231,010	2.2	2.2	2.3
VNB	21,357	25,083	28,742	20,991	24,651	28,244	1.7	1.8	1.8
VNB margin (%)	19.0	19.5	19.5	19.0	19.5	19.5	0bps	0bps	0bps
EV	263,944	310,602	365,103	262,657	307,921	360,561	0.5	0.9	1.3

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: One-year forward P/EV**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 7: Revenue account

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
FYP (first year premium)	81,394	90,572	106,366	120,920	137,526
SP (single premium)	28,268	47,348	60,383	77,085	98,683
<b>NBP (new business premium)</b>	<b>109,661</b>	<b>137,920</b>	<b>166,749</b>	<b>198,005</b>	<b>236,209</b>
RP (renewal premium)	143,881	191,974	238,955	291,302	348,567
<b>Gross premium</b>	<b>253,542</b>	<b>329,894</b>	<b>405,704</b>	<b>489,306</b>	<b>584,776</b>
(-) Reinsurance ceded	1,941	991	3,136	3,818	4,686
<b>Net premiums</b>	<b>251,601</b>	<b>328,904</b>	<b>402,568</b>	<b>485,488</b>	<b>580,090</b>
Income from investments & other income	86,005	113,708	116,960	148,028	177,804
<b>Total income</b>	<b>337,605</b>	<b>442,612</b>	<b>519,528</b>	<b>633,516</b>	<b>757,894</b>
- Commission expenses	11,209	13,463	16,689	19,714	23,070
- Operating expenses	17,188	21,235	26,436	31,280	37,060
- Provision for doubtful debts and taxes	3,527	5,505	7,498	9,065	10,808
<b>Operating surplus</b>	<b>305,681</b>	<b>402,408</b>	<b>468,983</b>	<b>573,548</b>	<b>687,063</b>
- Benefits paid (net)	116,775	152,331	161,252	198,137	238,751
- Interim & terminal bonuses paid	348	607	492	551	615
- Change in reserves	175,950	235,917	293,481	359,878	430,961
<b>Pre-tax surplus / (deficit)</b>	<b>12,609</b>	<b>13,553</b>	<b>13,759</b>	<b>14,982</b>	<b>16,736</b>
Provisions for tax	2,380	2,687	2,380	2,464	2,915
<b>Post-tax surplus / (deficit)</b>	<b>10,229</b>	<b>10,866</b>	<b>11,379</b>	<b>12,519</b>	<b>13,821</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: P&L account

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
T/f from technical a/c	8,294	9,985	9,016	9,568	10,177
Investment and other income	4,634	5,192	6,114	7,577	8,546
<b>Total income</b>	<b>12,928</b>	<b>15,177</b>	<b>15,129</b>	<b>17,146</b>	<b>18,723</b>
<b>Total expenses</b>	<b>1,083</b>	<b>1,448</b>	<b>2,666</b>	<b>1,320</b>	<b>550</b>
PBT	11,845	13,729	12,463	15,826	18,173
Provision for tax	341	461	374	475	545
<b>PAT</b>	<b>11,504</b>	<b>13,268</b>	<b>12,089</b>	<b>15,351</b>	<b>17,628</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Source of Funds</b>					
<b>Shareholders' fund</b>	<b>65,278</b>	<b>75,763</b>	<b>85,858</b>	<b>98,626</b>	<b>113,334</b>
Policy liabilities	1,114,345	1,351,399	1,648,698	2,013,267	2,449,907
Funds for future appropriations	1,935	2,816	2,363	2,951	3,643
<b>Total</b>	<b>1,181,558</b>	<b>1,429,978</b>	<b>1,736,918</b>	<b>2,114,843</b>	<b>2,566,884</b>
<b>Application of Funds</b>					
Shareholders' investments	50,143	57,232	67,534	81,041	98,870
Policyholders' investments	544,857	644,724	765,003	898,155	1,050,914
Asset held to cover linked liabilities	549,359	691,291	871,026	1,097,493	1,382,842
Net other and current assets	37,199	36,731	33,354	38,154	34,258
<b>Total</b>	<b>1,181,558</b>	<b>1,429,978</b>	<b>1,736,918</b>	<b>2,114,843</b>	<b>2,566,884</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Embedded value table

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Opening EV</b>	<b>165,404</b>	<b>190,700</b>	<b>224,010</b>	<b>263,944</b>	<b>310,602</b>
Unwind	14,100	16,210	19,096	22,501	26,478
VNB (or NBAP)	13,900	17,190	21,357	25,083	28,742
Operating variance	1,600	-180	1,100	1,400	2,100
<b>EV Operating Profit (EVOP)</b>	<b>29,600</b>	<b>33,220</b>	<b>41,553</b>	<b>48,983</b>	<b>57,320</b>
Non-operating variance	-1,800	2,500	1,000	1,000	1,000
<b>EV Profit</b>	<b>27,800</b>	<b>35,720</b>	<b>42,553</b>	<b>49,983</b>	<b>58,320</b>
Net capital injection	-2,400	-2,410	-2,619	-3,326	-3,819
<b>Closing EV</b>	<b>190,804</b>	<b>224,010</b>	<b>263,944</b>	<b>310,602</b>	<b>365,103</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Key ratios

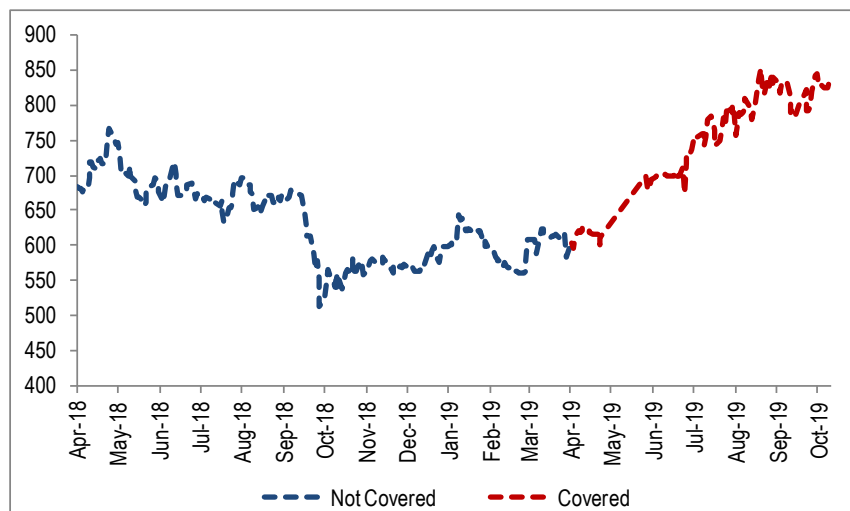
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
<b>Growth (%)</b>					
New business premium	8.1	25.8	20.9	18.7	19.3
Renewal premium	32.3	33.4	24.5	21.9	19.7
Net premium	20.7	30.7	22.4	20.6	19.5
PAT	20.5	15.3	-8.9	27.0	14.8
Total AUM	19.4	21.7	22.3	21.9	22.0
Total Assets	19.1	21.0	21.5	21.8	21.4
<b>Expense analysis (%)</b>					
Commission ratio	4.4	4.1	4.1	4.0	3.9
Opex ratio	6.8	6.4	6.5	6.4	6.3
Claims ratio	46.1	46.2	39.7	40.5	40.8
P/hs' opex / Avg P/hs' AUM	1.7	1.7	1.8	1.7	1.7
<b>Profitability analysis (%)</b>					
RoA	1.1	1.0	0.8	0.8	0.8
RoE	19.4	19.2	15.2	17.0	17.1
RoEV	17.9	17.4	18.5	18.6	18.5
VNB margin	16.2	17.7	19.0	19.5	19.5
S/hs' AUM yield	10.0	9.7	9.8	10.2	9.5
P/hs' AUM yield	8.4	9.2	7.7	8.0	7.9
<b>Balance sheet analysis</b>					
P/hs' funds / P/hs' AUM (x)	1.0	1.0	1.0	1.0	1.0
P/hs' liabilities / Net worth (x)	17.3	17.8	18.9	20.3	21.7
<b>Per share data (Rs)</b>					
EPS	11.5	13.3	12.1	15.4	17.6
BVPS	63.7	74.6	84.1	96.1	109.9
EVPS	190.8	224.0	263.9	310.6	365.1
<b>Valuation data (x)</b>					
P/E	72.9	63.2	69.4	54.7	47.6
P/BV	13.2	11.2	10.0	8.7	7.6
P/EV	4.4	3.7	3.2	2.7	2.3

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 April 2019	Buy	601	787
26 April 2019	Buy	614	792
8 April 2019	Buy	754	901
24 July 2019	Buy	776	932
7 October 2019	Buy	824	1,009
16 October 2019	Buy	839	1,014

## Rating track graph





## DISCLOSURES

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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