

SBI Life Insurance

26 April 2019

Reuters: SBIL.NS; Bloomberg: SBILIFE IN

Quest For VNB Margin Extends Beyond Protection

SBI Life Insurance (SBIL) reported 4QFY19 results with the key pointers being (1) SBIL saw new business APE growing 14% YoY (2) 13th month persistency improving to 85.1% (3) Continued strong traction in the protection business with individual protection APE growing 5.5x YoY. 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 14.8% YoY at Rs43,217mn, Surplus was negative and PAT growth of 20.1% YoY at Rs4,577mn. We have revised our estimates for FY20/FY21 and have retained a Buy rating on SBIL with a revised target price of Rs792 (from Rs787 earlier) and valuing the stock at 2.6x FY21E P/EV. Also, see our recent 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 reported new business APE growth of 14% YoY: New business APE growth came on the back of (a) introducing new and innovative products in the markets, for example, the company launched a cancer product in the protection segment which has seen encouraging response and (b) harnessing SBI's branch network. Individual rated premium grew 15% YoY while renewal premium posted a growth of 33% YoY. Overall, total NBP, at Rs137.9 bn, grew 26% YoY. Recently ramped up agency workforce is a key growth lever for the company.

13th month persistency improved to 85.1%: 13th month persistency ratio improved to 85.1% compared to 83% as of FY18. The company saw improvement in persistency across all cohorts except 61st month, which declined from 58.4% last year to 57.2%. The decline in 61st month persistency, however, was on account of reducing share of single premium business which by its very nature is of 100% persistency. Persistency in the 49th month bucket improved by 250 bps to 66.4% which is encouraging. Customer engagement and interaction resulted in decline in surrender ratios from 7.2% in FY18 to 5.2% in FY19.

Continued strong traction in the protection business with individual protection APE growing 5.5x YoY: Individual protection APE has grown by 554% YoY in FY19 and now forms ~4% of total APE with <1% share in FY18. As a result of such favorable change in product mix, VNB margin has improved from 16.2% in FY18 to 17.7% in FY19. The management remains committed to increasing VNB margin through multiple levers such as increasing share of single premium products and selling annuity and guaranteed savings products which will fetch higher margins. Overall protection margins currently are ~70%.

Valuation and outlook: We have revised our NBP estimates by -0.7%/-0.8%, VNB estimates by -0.5%/-0.6% and EV estimates by 1.1%/0.6% for FY20/FY21, respectively. We have retained Buy rating on SBIL and revised our target price to Rs792 (from Rs787 earlier), valuing the stock at 2.6x FY21E P/EV.

BUY

Sector: Insurance

CMP: Rs614

Target Price: Rs792

Upside: 29%

Shivaji Thapliyal

Research Analyst

shivaji.thapliyal@nirmalbang.com

+91-22-6273 8068

Raghav Garg

Research Analyst

raghav.garg@nirmalbang.com

+91-22-6273 8192

Key Data

Current Shares O/S (mn)	1,000
Mkt Cap (Rsbn/US\$bn)	614.4/8.7
52 Wk H / L (Rs)	775/485
Daily Vol. (3M NSE Avg.)	3,377,758

Price Performance (%)

	1 M	6 M	1 Yr
SBI Life	0.5	9.0	(19.8)
Nifty Index	2.5	15.0	10.1

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	4QFY18	3QFY19	YoY (%)	QoQ (%)
NBP	43,217	37,656	38,974	14.8	10.9
Net premium	113,330	92,367	91,413	22.7	24.0
Investment & other income	41,690	8,156	30,151	411.2	38.3
Total income	155,021	100,523	121,564	54.2	27.5
Net commission	4,521	3,759	3,792	20.2	19.2
Opex	6,418	4,842	5,069	32.5	26.6
Total mgmt expenses	10,939	8,601	8,861	27.2	23.4
GST	1,395	1,134	1,214	23.0	14.8
Provision for taxes	294	525	455	(44.1)	(35.5)
Claims	70,853	34,881	32,569	103.1	117.5
Change in actuarial liability	71,189	52,585	73,896	35.4	(3.7)
Total cost	155,119	97,893	117,917	58.5	31.6
Surplus/(deficit)	(99)	2,630	3,647	(103.8)	(102.7)
T/f to s/hs' account	4,511	3,558	1,647	26.8	173.9
Investment & other income	1,389	1,169	1,290	18.8	7.6
Total income	5,899	4,727	2,937	24.8	100.9
Non-insurance expenses	91	835	224	(89.1)	(59.5)
T/f from p/hs' account	989	0	0	-	-
PBT	4,819	3,891	2,713	23.8	77.7
Taxes	243	79	70	205.5	247.1
PAT	4,577	3,812	2,643	20.1	73.2
AUM	1,393,247	1,144,359	1,324,058	21.7	5.2

Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

VNB margins, EV and Profitability

- The negative impact of assumption change (of Rs. 1 bn) in the EV walk is on account of maintenance cost going up.
- The management stated that the share of protection VNB in the total would be ~30%.
- New business strain during FY19 was Rs. 15.5 bn.
- Break-up of Rs. 0.8 bn worth of operating variance:
 - Persistency was positive Rs. 0.05 bn
 - Expenses was negative Rs. 0.02 bn
 - Mortality and morbidity was positive Rs. 0.74 bn
 - Others were positive Rs. 0.06 bn
- The management stated that margins in credit life are higher than average protection margins (of ~70%). Excluding the GTI business, which is low margin, the protection VNB margin would not be very different.
- Besides increasing share of protection business as a margin strategy, the company stated it would be looking at other ways as well to increase margins. Within the protection-led strategy, it would try to diversify the product portfolio.
- The company stated it can pursue various measures to increase margins, apart from increasing the share of protection business. Some of these measures are:
 - Increasing share of single premium products
 - Selling immediate annuity products and non-par guaranteed savings products.
- On the expense front, though cost ratios have improved, there has been some deterioration on unit cost basis post investing in digital and other processes which is what is reflected in the small negative variance on the expense side.
- The company is seeing positive variance on long term ULIP and savings business while persistency variance on the short term business (group savings, GTI) has been negative.
- Major chunk of VNB margin improvement is on account of product mix due to greater share of protection business. Of the total 150 bps improvement, positive 300 bps was on account of change in product mix and negative 150 bps was on account of operating and economic changes, resulting in net increase of 150 bps.

Business Growth and Product Mix

- Protection business contributed ~12% on NBP basis.
- Banca business grew 29% on NBP basis, forming 64% of the total NBP. The company added 9,468 CIFs during FY19, taking the total count to 58,995.
- NBP through the online channel grew by 29% while number of policies increased by 44%.
- The decline in 61st month persistency ratio was on account of declining share of single premium business. Single premium business, by nature, is of 100% persistency.
- Of the total group protection APE of Rs. 2.9 bn, Rs. 1.1 bn is attributable to credit protect while the remaining is GTI business.
- Credit protect is more like retail business which covers ranging from 15-20 years. The credit life business, as of now, is largely from SBI but the company is looking at securing more tie ups.
- The company stated it is putting forth products which are innovative. In last 2 years, one of the products they have launched is a cancer product in the protection portfolio which has been well accepted in the market. Further, the company is also looking at term products and trying to add features to make them more attractive.

- In terms of pricing, the company stated that it may be slightly higher than comparable peers. The strategy in the following year would be lower prices marginally in order to compete more effectively.
- In recent past, the focus shifted to protection business and away from savings business. Now that protection business has stabilized, the company expects growth to pick up in par and non-par business too.
- The company stated it would grow protection business at a higher rate than the overall growth rate.
- Individual protection is coming largely from the banca channel, however, agency channel has scope for increased contribution. Through SBI's Yonon app, the company has been able to offer simple term insurance products and expects to gain meaningful traction in the future. Going forward, it would continue to harness the branch network of SBI and the agency workforce for growing the individual protection business.
- Regarding deferred annuity products, the company stated it would first like to do a detailed risk assessment of such products and gaining comfort before launching them.
- Within individual protection business, pure term insurance was Rs. 3.7 bn on APE basis and number of policies were more than 2 lac.
- Agency business has grown at a lower rate than banca as the company has been consolidating its agency channel. Also, to pursue higher growth in FY20/21, the company had ramped up agency workforce number significantly, hence productivity on per head basis has come down.
- Number of policies sold in ULIP is more than 7 lac, of the total >15 lac policies sold during FY19.
- The company stated it would like to cap the group business at 20%.
- Tie up with Allahabad Bank, which is less than 2 months old, is progressing well and the business so far has been about Rs. 55-60 mn.
- The company retains 85-86% of the pure protection business and reinsures the rest. Reinsurance depends on ticket size and type of premium. For example, one would reinsure most of the premium sourced through the online channel as sum assured is very high.
- In the protection business, average ticket size is Rs. 18,000, which is higher than comparable peers.

Exhibit 1: Key metrics

(Rsmn)	Q4FY19	Q4FY18	Q3FY19	YoY (%)	QoQ (%)
Commission ratio (%)	4.0	4.1	4.1	-8bps	-16bps
Opex ratio (%)	5.7	5.2	5.5	42bps	12bps
Mgmt expense ratio (%)	9.7	9.3	9.7	34bps	-4bps
Claims ratio (%)	62.5	37.8	35.6	2476bps	2689bps
Solvency ratio (%)	213.0	206.0	223.0	700bps	-1000bps
Yield on s/hs' funds					
with unrealized gains (%)	12.6	2.9	13.0	976bps	-38bps
without unrealized gains (%)	9.4	9.3	8.7	7bps	70bps
Persistency (%)					
13th month	74.5	82.3	80.0	-774bps	-548bps
37th month	59.9	68.0	67.4	-813bps	-751bps
61st month	51.1	58.6	56.2	-751bps	-518bps
Conservation ratio (%)	87.5	84.6	83.8	283bps	366bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: EV Table

(Rsmn)	FY19	FY18	9MFY19	YoY (%)	QoQ (%)
VNB	19,200	15,700	13,000	22.3	-
VNB margin (%)	19.8	18.4	19.6	140bps	-
EV	237,300	201,700	-	17.6	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
NBP	101,439	109,661	137,920	175,663	210,023
PAT	9,547	11,504	13,268	16,093	19,522
P/E (x)	64.4	53.4	46.3	38.2	31.5
P/B (x)	11.2	9.6	8.2	7.0	6.0
P/EV (x)	3.7	3.2	2.7	2.4	2.0
RoE (%)	18.8	19.4	19.2	19.9	20.6
RoEV (%)	23.0	17.9	17.4	17.7	17.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimates

(Rsmn)	4QFY19	4QFY18	3QFY19	YoY (%)	QoQ (%)	4QFY19E	Devi. (%)
NBP	43,217	37,656	38,974	14.8	10.9	54255	(20.3)
Operating Surplus	143,499	90,753	110,756	58.1	29.6	118707	20.9
PAT	4,577	3,812	2,643	20.1	73.2	4730	(3.2)

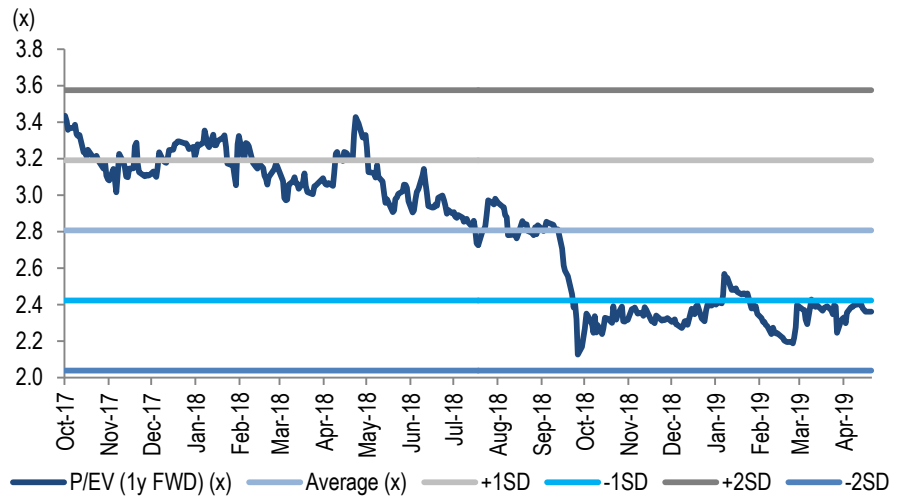
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Revised estimate		Earlier estimate		% Revision	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
NBP	410,724	496,289	413,673	500,357	(0.7)	(0.8)
VNB	20,050	23,625	20,159	23,760	(0.5)	(0.6)
VNB margin (%)	18.0	18.5	18.0	18.5	0.0	0.0
EV	261,270	304,538	258,459	302,675	1.1	0.6

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
FYP (first year premium)	81,394	90,572	104,249	118,554
SP (single premium)	28,268	47,348	71,414	91,470
NBP (new business premium)	109,661	137,920	175,663	210,023
RP (renewal premium)	143,881	191,974	235,062	286,266
Gross premium	253,542	329,894	410,724	496,289
(-) Reinsurance ceded	1,941	991	3,439	4,206
Net premiums	251,601	328,904	407,285	492,083
Income from investments & other income	86,005	113,708	116,024	146,917
Total income	337,605	442,612	523,309	639,000
- Commission expenses	11,209	13,464	16,725	19,797
- Operating expenses	17,188	21,235	26,656	31,614
- Provision for doubtful debts and taxes	3,527	5,505	7,388	8,938
Operating surplus	305,681	402,408	472,622	578,746
- Benefits paid (net)	116,775	152,331	167,084	205,698
- Interim & terminal bonuses paid	348	607	487	547
- Change in reserves	175,950	235,917	288,853	353,421
Pre-tax surplus / (deficit)	12,609	13,553	16,198	19,080
Provisions for tax	2,380	2,687	2,412	2,636
Post-tax surplus / (deficit)	10,229	10,866	13,786	16,444

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: P&L account

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E
T/f from technical a/c	8,294	9,985	11,747	13,869
Investment and other income	4,634	5,192	6,114	7,577
Total income	12,928	15,177	17,861	21,446
Total expenses	1,083	1,448	1,270	1,320
PBT	11,845	13,729	16,591	20,126
Provision for tax	341	461	498	604
PAT	11,504	13,268	16,093	19,522

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E
Source of Funds				
Shareholders' fund	65,278	75,767	88,998	105,033
Policy liabilities	1,114,345	1,351,399	1,647,002	2,005,096
Funds for future appropriations	1,935	2,816	2,039	2,575
Total	1,181,558	1,429,978	1,738,038	2,112,704
Application of Funds				
Shareholders' investments	50,143	57,232	67,534	81,041
Policyholders' investments	544,857	644,724	760,784	893,868
Asset held to cover linked liabilities	549,359	691,291	863,163	1,087,586
Net other and current assets	37,199	36,731	46,557	50,210
Total	1,181,558	1,429,978	1,738,038	2,112,704

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Embedded value table

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E
Opening EV	165,404	190,700	224,010	261,270
Unwind	14,100	16,210	19,096	22,273
VNB (or NBAP)	13,900	17,190	20,050	23,625
Operating variance	1,600	(180)	600	600
EV Operating Profit (EVOP)	29,600	33,220	39,747	46,497
Non-operating variance	-1,800	2,500	1,000	1,000
EV Profit	27,800	35,720	40,747	47,497
Net capital injection	-2,400	-2,410	-3,487	-4,229
Closing EV	190,804	224,010	261,270	304,538

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

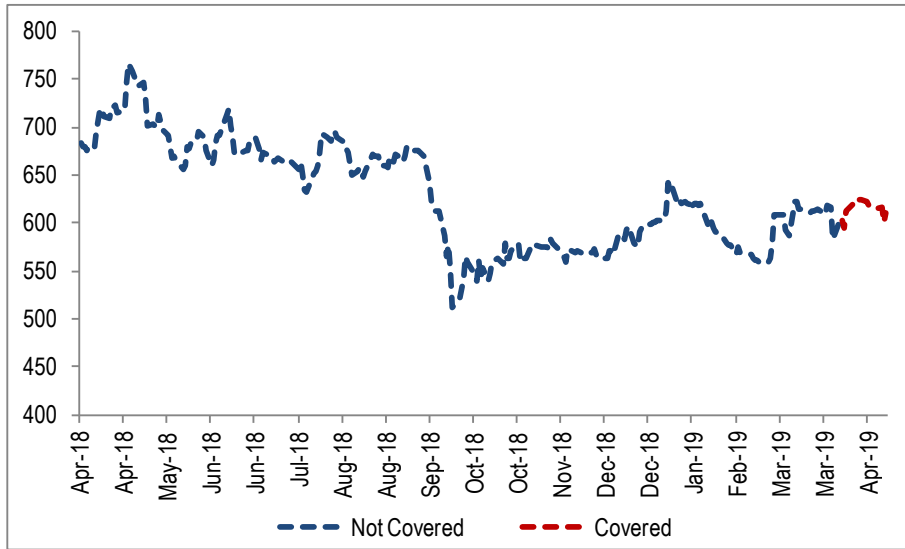
Y/E March	FY18	FY19	FY20E	FY21E
Growth (%)				
New business premium	8.1	25.8	27.4	19.6
Renewal premium	32.3	33.4	22.4	21.8
Net premium	20.7	30.7	23.8	20.8
PAT	20.5	15.3	21.3	21.3
Total AUM	19.4	21.7	21.4	21.9
Total Assets	19.1	21.0	21.5	21.6
Expense analysis (%)				
Commission ratio	4.4	4.1	4.1	4.0
Opex ratio	6.8	6.4	6.5	6.4
Claims ratio	46.1	46.3	40.7	41.4
P/hs' opex / Avg P/hs' AUM	1.7	1.7	1.8	1.8
Profitability analysis (%)				
RoA	1.1	1.0	1.0	1.0
RoE	19.4	19.2	19.9	20.6
RoEV	17.9	17.4	17.7	17.8
VNB margin	16.2	17.7	18.0	18.5
S/hs' AUM yield	10.0	9.7	9.8	10.2
P/hs' AUM yield	8.4	9.2	7.7	8.0
Balance sheet analysis				
P/hs' funds / P/hs' AUM (x)	1.0	1.0	1.0	1.0
P/hs' liabilities / Net worth (x)	17.3	17.8	18.5	19.3
Per share data (Rs)				
EPS	11.5	13.3	16.1	19.5
BVPS	63.7	74.6	87.2	102.5
EVPS	190.8	224.0	261.3	304.5
Valuation data (x)				
P/E	53.4	46.3	38.2	31.5
P/BV	9.6	8.2	7.0	6.0
P/EV	3.2	2.7	2.4	2.0

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

Rating track graph



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: We, Shivaji Thapliyal and Raghav Garg, the research analysts are the authors of this report, hereby certify that the views expressed in this research report accurately reflects our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analysts was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analysts are principally responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010