

SBI Life Insurance Co. Ltd.

IPO Note – 20th September 2017

Recommendation		SUBSCRIBE		BACKGROUND																			
Price Band	Rs. 685 – Rs. 700		<p>SBI Life Insurance Co. Ltd. (SBIL) is India's largest private life insurer, in terms of New Business Premium (NBP) generated in each fiscal year, since FY10. Between FY15 and FY2017, the NBP generated increased at a CAGR of 35.45%, which is the highest among the top five private life insurers (in terms of total premium in FY2017) in India.</p> <p>The company offers a comprehensive product portfolio of 37 individual and group products, including a range of protection and savings products to address the insurance needs of diverse customer segments. The company has a developed multi-channel distribution network comprising an expansive bancassurance channel, including State Bank, a large and productive individual agent network as well as other distribution channels including direct sales and sales through corporate agents, brokers, insurance marketing firms and other intermediaries.</p> <p>In FY2017, the company enjoyed a market share of Individual Rated Premium of 20.69% among private life insurers in India and 11.16% of the entire life insurance industry in India. SBIL have also increased its market share of New Business Premium generated among private life insurers in India, from 15.87% in FY2015 to 20.04% in FY17.</p> <p>Details of the Issue:</p> <p>The public issue of SBI Life consists of offer for sale of 12 crore equity shares aggregating up to Rs. 8400 Cr (at upper price band).</p> <p>Objects of the Issue:</p> <p>The whole issue of Rs. 8400 Cr (on upper band) is offer for sale by promoters.</p> <p>Valuation and Recommendation:</p> <p>SBI Life is the largest private life insurer, in terms of New Business Premium generated in each fiscal year, since Fiscal 2010. It has increased its market share of New Business Premium generated among private life insurers in India, from 15.87% in FY15 to 20.04% in FY17. Between FY15 and FY17, the New Business Premium generated increased at a CAGR of 35.45%. The total assets under management have increased at a CAGR of 11.1% from Rs. 71,339 Cr as of March 31, 2015 to Rs.97,737 Cr as of March 31, 2017 whereas PAT increased at a CAGR of 8.24% from Rs.815cr in FY15 to Rs.955cr in FY17. Lower profit growth is on account of higher growth in new business premium which has higher expenses related to it.</p>																				
Bidding Date	20 th Sep – 22 nd Sep 2017																						
Book Running Lead Manager	ICICI Sec, JM Financial, Axis Capital, BNP Paribas, Citigroup, Kotak, Deutsche Equities, SBI Cap																						
Registrar	Karvy Computershare Pvt. Ltd.																						
Sector	Life Insurance																						
Minimum Retail Application- Detail At Cut off Price																							
Number of Shares	21																						
Minimum Application Money	Rs. 14,700																						
Discount to retail	No discount																						
Payment Mode	ASBA																						
Consolidated Financials (Rs Cr)	FY17	FY16																					
Total Income	15666	20853																					
Net Profit	844	955																					
Embedded Value	16537.9	12500																					
Valuations	Lower Band	Upper Band																					
Market Cap (Rs. Cr)	68500	70000																					
EPS (x)*	6.5	6.5																					
P/E (x)*	104.7	107																					
M Cap/ EV (x)*	4.1	4.2																					
ROE (%)*	17.2%	17.2%																					
*calculated on FY17 numbers (post issue basis)																							
Post Issue Shareholding Pattern																							
Promoters	84%																						
Institutions	5%																						
Bodies Corporates & Public	11%																						
Offer structure for different categories																							
QIB (Including Mutual Fund)	44.2%																						
Non-Institutional	13.3%																						
Retail	30.9%																						
Reservation for SBI Shareholders and Employees	12.0%																						
Post Issue Equity (Rs.Cr)	1000																						
Issue Size (Rs. Cr)	8220 - 8400																						
<table border="1"> <thead> <tr> <th></th> <th>ICICI Pru</th> <th>SBI Life</th> </tr> </thead> <tbody> <tr> <td>Embedded Value</td> <td>16184</td> <td>16538</td> </tr> <tr> <td>Diluted Equity Share</td> <td>143.5</td> <td>100</td> </tr> <tr> <td>CMP</td> <td>424</td> <td>700</td> </tr> <tr> <td>Market Cap</td> <td>60844</td> <td>70000</td> </tr> <tr> <td>Market Cap/EV</td> <td>3.76</td> <td>4.23</td> </tr> </tbody> </table> <p>Though as compared to its listed peer SBI life shares are offered at higher valuation of Market Cap/Embedded Value at 4.23 times, but considering the high growth, better operating cost and Higher Persistency ratio, we feel the higher valuations are justified and we recommend to Subscribe.</p>							ICICI Pru	SBI Life	Embedded Value	16184	16538	Diluted Equity Share	143.5	100	CMP	424	700	Market Cap	60844	70000	Market Cap/EV	3.76	4.23
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SBI Life Insurance Co. Ltd.

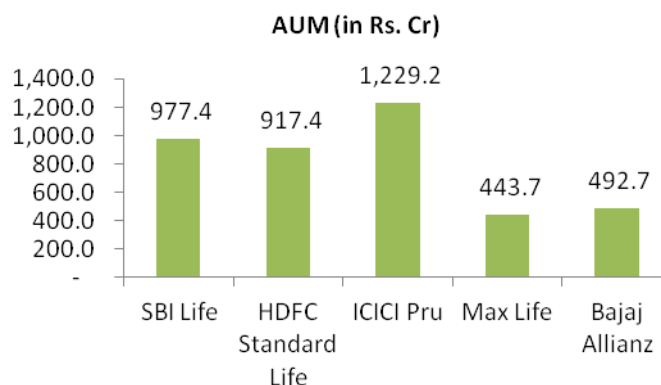
Business Overview

Incorporated in July 2001, SBI Life Insurance Company Ltd. is a joint venture between State bank of India and BNP Paribas Cardif, an insurance subsidiary of BNP Paribas. SBI Life boasts of a comprehensive product portfolio of 37 individual and group products (of which eight products are group products), including a range of protection and savings products to address the insurance needs of diverse customer segments.

SBI Life has developed a multi-channel distribution network comprising an expansive bancassurance channel, including State Bank, the largest bancassurance partner in India, a large and productive individual agent network comprising 95,177 agents as of July 31, 2017, as well as other distribution channels including direct sales and sales through corporate agents, brokers, insurance marketing firms and other intermediaries. In FY17, the company collected the highest amount of New Business Premium generated by private life insurers in India both through the bancassurance channel as well as through an individual agent network.

In FY2017, the company enjoyed a market share of Individual Rated Premium of 20.69% among private life insurers in India and 11.16% of the entire life insurance industry in India. SBIL has also increased its market share of New Business Premium generated among private life insurers in India, from 15.87% in FY2015 to 20.04% in FY17.

The assets under management (“AUM”) increased from Rs. 71,338.93 crores in FY15 to Rs. 97,736.60 crores in FY17, and were Rs. 101,226.03 crores in Q1FY18. The AUM is the second highest among top five private life insurers (in terms of total premium in FY17) in India as of March 31, 2017. PAT increased at a CAGR of 8.24% from Rs. 814.86 crores in FY15 to Rs. 954.65 crores in FY17 and was Rs. 313.44 crores for the three months ended June 30, 2017. In FY17, the company had 13th month and 61st month Persistency Ratios of 81.07% and 67.18%, respectively, with the 61st month Persistency Ratio being the highest among the top five private life insurers (in terms of total premium in Fiscal 2017) in India. Q1FY18, the 13th month Persistency Ratio was 81.97% and the 61st month Persistency Ratio was 64.62%.



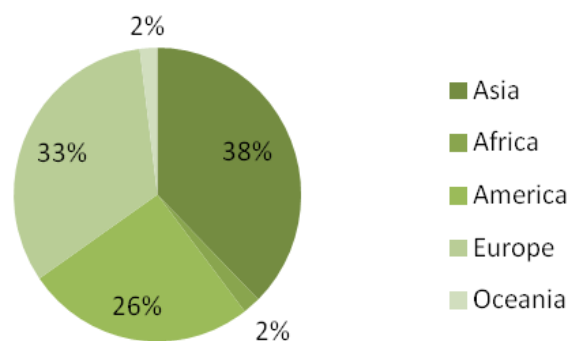
The company turned profitable within the first five years of its operations and has declared dividends every year since FY12.



Industry Prospects

- Global Life Insurance Sector Overview**

Growth in the global life insurance industry has been almost stagnant after the financial crisis in 2008. However, there was a revival in growth from 2014 onwards, as the global life insurance industry recorded 3.5% CAGR growth during 2013-2016 on real premium basis. Growth was primarily driven by China, where premium grew over 15% CAGR during the period. Asia is the largest market for life insurance, accounting for 38% of the premium collected. India's share in the global market was 2%.



- Indian Life Insurance Sector Overview**

The size of the Indian life insurance sector was Rs. 4.2 trillion on a total premium basis in FY17, making it the tenth largest life insurance market in the world and the fifth largest in Asia. Within the premium bucket, new business premium (NBP) grew at 9% CAGR during fiscals 2007 to 2017 to ~Rs.1.8 trillion, with FY17 seeing a sharp 26% YoY rise. Group business premium grew at ~22% CAGR during the period over a relatively low base, whereas individual premium rose at a tepid ~2% CAGR.

India's life insurance penetration stood at 2.7% in 2016, compared with 4.4% in 2010, suggesting the untapped potential of the Indian life insurance market. The protection gap for India stood at US\$ 8.5 trillion as of 2014, which was much higher compared with its Asian counterparts. The protection margin for India was highest among all the countries at 92% in Asia Pacific.

SBI Life Insurance Co. Ltd.

Investment Rationale

- Consistent track record of rapid growth**

The company is India’s largest private life insurer, in terms of New Business Premium generated in each fiscal year, since FY10. SBIL increased its market share of New Business Premium generated among private life insurers in India, from 15.87% in FY15 to 20.04% in FY17, and market share of New Business Premium in the entire life insurance industry, from 4.89% to 5.80% for the same period. Between FY15 to FY17, the company’s New Business Premium generated increased at a CAGR of 35.45%, faster than the growth rate of the private life insurance industry in India during the same period.

- Diversified Multi-channel distribution network**

The company offers its customers; access to their products and services through an extensive multi-channel sales network across India including through the bancassurance partners, individual agents, corporate agents, insurance marketing firms, micro-agents and other intermediaries. The company’s bancassurance partner provides them with a strong presence across rural and urban areas, including metropolitan cities, tier I, tier II and tier III cities and towns across India. SBIL also has a large and productive individual agent network comprising 95,177 agents as of July 31, 2017.

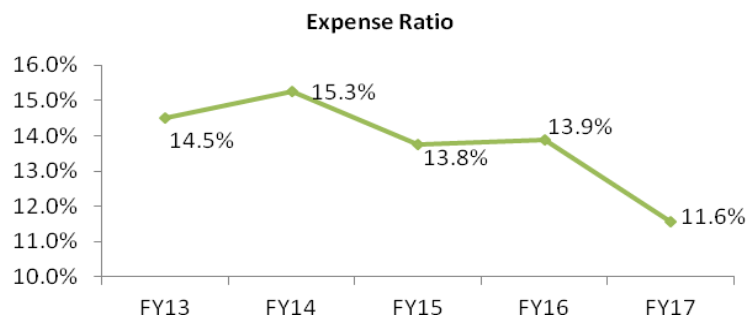
In FY17, the company collected the highest amount of New Business Premium generated by private life insurers in India both through the bancassurance channel as well as through an individual agent network.

Particulars	SBI Life	HDFC Standard Life	ICICI Prudential Life	Max Life	Bajaj Allianz
Channel Mix - Retail Business (FY17)					
Individual Agents	34.1%	15.5%	23.5%	25.0%	84.7%
Corporate Agents – Banks	64.7%	61.1%	57.1%	61.8%	3.9%
Others	1.2%	23.4%	19.4%	13.2%	11.4%

Source: RHP

- Robust Operational and Financial performance**

SBI Life enjoys strong financials with New Business Premiums growing at 35.4% CAGR during the period FY15 to FY17 and Gross Premiums growing at 27.8% CAGR during the same period. In the last 5 year the profit has grown by ~11% CAGR. The expense ratio has been declining year on year indicating good operating efficiency.



SBI Life Insurance Co. Ltd.

However, the ROE has been continuously thinning. This decrease can be attributed to the high growth rate in the new business premiums earned by the company along with the overall high growth rate, resulting in a lower ROE each year.

The company also has the 2nd largest AUM among top five private life insurers (in terms of total premium in FY17) in India, AUM in FY17 being Rs. 97,736.60 crores and Rs. 101,226.03 crores in Q1FY18. As of June 30, 2017, most of SBILs unit-linked funds that are benchmarked to independent indices have out-performed the benchmark over the last 5 year, 3 year and 1 year horizons.

Among its peers, SBIL enjoys the lowest operating expenses ratio along with the lowest total cost ratio. It has issued the highest number of policies in FY17 and had a high agent productivity highlighting the effectiveness of its wide-spread distribution channel network

Particulars	Unit	SBI Life	HDFC Standard Life	ICICI Prudential Life	Max Life	Bajaj Allianz
Operating performance						
No. of Policies issued	Thousands	1275.5	1083.2	702.7	503.4	273.8
New Business Premium (Fiscal 2007-2017 CAGR)	%	14.7%	18.3%	4.1%	14.8%	-2.6%
Commission ratio	%	3.7%	4.1%	3.4%	9.0%	2.4%
New Business Premium Commission Ratio	%	5.1%	7.5%	6.0%	17.0%	2.4%
Operating expense ratio (Operating Expense/AUM – fiscal 2017)	%	1.9%	2.9%	2.1%	4.0%	2.3%
Total Cost Ratio	%	11.6%	16.4%	13.9%	23.8%	19.5%
Agent Productivity	Rs.	234500.5	95072.7	127530.8	165933.4	108097.1
Number of Individual Agents	No.s	95355	54516	136114	54283	77097

Source: RHP

- Strong persistency ratios**

The ratio of life insurance policies remaining in force to all the policies issued in a fixed period reflect the ability of the company to add value to customer services and the high customer retention level that the company enjoys.

In FY17, SBIL had 13th month and 61st month Persistency Ratios of 81.07% and 67.18%, respectively, with their 61st month Persistency Ratio being the highest among the top five private life insurers (in terms of total premium in Fiscal 2017) in India. For Q1FY18, the 13th month Persistency Ratio was 81.97% and the 61st month Persistency Ratio was 64.62%. In Fiscal 2017, their Mis-Selling Ratio of 0.20% was the lowest among its peers in India.

Persistency Ratio	FY13	FY14	FY15	FY16	FY17	Q1FY18
Based on Premium						
13th Month	86.2%	79.6%	79.3%	80.7%	81.1%	82.0%
25th Month	80.5%	82.4%	73.9%	73.2%	73.9%	74.8%
37th Month	59.9%	72.3%	79.2%	69.2%	67.4%	67.2%
49th Month	24.4%	54.5%	64.5%	76.9%	62.5%	63.0%
61th Month	25.5%	19.8%	40.7%	53.8%	67.2%	64.6%

Persistency Ratio	SBI Life	HDFC Standard Life	ICICI Pru	Max Life	Bajaj Allianz
13th Month	81.07%	80.88%	85.70%	80.40%	68.20%
25th Month	73.86%	73.34%	73.90%	70.40%	51.10%
37th Month	67.36%	63.90%	66.80%	59.70%	43.90%
49th Month	62.46%	58.31%	59.30%	54.90%	38.20%
61th Month	67.18%	56.79%	56.20%	53.00%	31.60%

Key Risk and Concerns

- **Highly competitive Industry and dynamics in product mix**

The Indian life insurance sector is highly competitive and may be subject to consolidation, macro economic factors beyond the control of the company among other factors such as sustenance in intense competitive pressures.

The capital requirements, pricing assumptions, level of reserves, profitability and the patterns of profits vary based on each product and changes in the product mix may impact the results of operations and the financial condition.

- **Dependence on bancassurance partners**

In the extensive multi-channel distribution network across India, bancassurance represents the largest distribution channel, contributing 51.75%, 60.74%, 64.71% and 65.66%, in FY15, FY16 and FY17 respectively, of the New Business Premium from individual products.

The company has seen a constant increase in the sales through the bancassurance channels, supported by the expansive distribution network of their bancassurance partners and significant access to potential customers.

- **Alteration of Regulatory Policies**

The regulatory environment in which the company operates is subject to change both in the form of gradual evolution and periodical significant reforms. Any change in the regulations may require the company to make significant changes to the business practices and policies and could have an adverse effect on the business, financial condition, results of operations and prospects.

- **Dependence on Indian capital Market**

As of Q1FY18, AUMs stood at Rs. 101226.03 crores, and investment in equities, government securities and corporate bonds represented 23.02%, 46.44% and 21.92%, respectively, of the AUM. Any significant decline in stock prices or dividends from stocks could negatively affect net investment income. Downturns in equity markets and in the credit rating can have a negative impact, due to the decline in the value of funds under management, and profitability.



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Valuation and Recommendation

SBI Life is the largest private life insurer, in terms of New Business Premium generated in each fiscal year, since Fiscal 2010. It has even increased its market share of New Business Premium generated among private life insurers in India, from 15.87% in Fiscal 2015 to 20.04% in Fiscal 2017.

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Peer Comparison

	ICICI Pru	SBI Life
Embedded Value	16184	16538
Diluted Equity Share	143.5	100
CMP	424	700
Market Cap	60844	70000
Market Cap/EV	3.76	4.23

Though as compared to its listed peer SBI life shares are offered at higher valuation of Market Cap/Embedded Value at 4.23 times, but considering the high growth, better operating cost and higher Persistency ratio we feel the higher valuation are justified and **we recommend to Subscribe**.

Note: Embedded Value (EV) is a measure of the present value of shareholders' interests in the earnings distributable from the assets of the business after an allowance for the aggregate risks in the business.

SBI Life Insurance Co. Ltd.

Financials

Particulars	FY14	FY15	FY16	FY17	Q1FY18
Premiums earned	10,701.9	12,780.0	15,665.5	20,852.5	3,762.6
YoY Growth	3.4%	19.4%	22.6%	33.1%	
Assets Under Management		71338.9	79827.6	97736.6	101226.0
Amount transferred from Policyholders Account	823.3	707.3	651.7	654.6	218.0
Income from Investments	202.2	276.1	317.8	401.6	107.0
Other Income	7.36	7.46	7.93	8.21	3.48
Total (A)	1032.9	990.8	977.4	1064.4	328.5
Expenses other than those directly related to the insurance business	5.1	12.9	28.3	27.5	6.3
Contribution to the Policyholder's Account	301.1	149.7	93.7	62.7	-
Provisions (Other than taxation)	(1.0)	(1.1)	0.4	(0.4)	-
Total (B)	305.1	161.5	122.3	89.8	6.3
YoY Growth	13.8%	-47.1%	-24.3%	-26.6%	
Profit / (Loss) before Tax	727.8	829.3	855.1	974.6	322.2
YoY Growth	15.5%	14.0%	3.1%	14.0%	
Total Tax provision	-	14.5	11.0	19.9	8.8
Tax Rate					
Profit / (Loss) after Tax	727.8	814.9	844.1	954.7	313.4
YoY Growth	15.5%	12.0%	3.6%	13.1%	

Source: RHP

SBI Life Insurance Co. Ltd.

Particulars	FY14	FY15	FY16	FY17	Q1FY18
Sources of funds					
Shareholders' funds:					
Share capital	1000.00	1,000.0	1000.0	1,000.0	1,000.0
Reserve and surplus	2356.32	3,056.3	3733.1	4,552.1	4,878.8
Sub - total	3356.32	4,056.3	4733.1	5,552.1	5,878.8
Deferred tax liability	2.57	3.2	0.0	-	-
Policyholders' funds:					
Credit/[debit] fair value change account	261.89	500.8	335.4	776.4	808.6
Policyholders' funds	264.46	504.0	335.4	776.4	808.6
Non unit liabilities (A)	3620.78	4,560.3	5068.5	6,328.5	6,687.4
(a) Provision for linked liabilities	24279.23	27,874.4	32098.9	38,855.9	39,667.2
(b) Credit/[debit] fair value change account	3477.05	5,263.1	2270.1	3,790.2	4,266.9
Provision for linked liabilities (B)	27756.28	33,137.5	34369.0	42,646.1	43,934.1
(a) Discontinued on account of non-paymen	821.38	1,645.7	1639.4	1,896.7	2,215.3
(b) Other discontinuance	12.19	25.5	13.3	30.2	35.9
Funds for discontinued policies (C)	833.57	1,671.1	1652.6	1,927.0	2,251.2
Total linked liabilities (B)+(C)	28589.85	34,808.6	36021.7	44,573.0	46,185.3
Policy liabilities	26795.04	32,860.4	39634.2	48,323.8	49,496.3
Sub - total	55649.35	68,172.9	75991.2	93,673.2	96,490.2
Funds for Future Appropriations	11.92	7.3	0.2	-	41.5
Total Laibilities	59017.59	72,236.6	80724.6	99,225.2	1,02,410.5
Application of funds					
Investments					
Shareholders'	2353.46	3,070.2	3564.9	4,295.5	5,240.8
Policyholders'	25323.88	31,504.5	38255.9	46,961.7	48,017.8
Asset held to cover linked liabilities	28597.28	34,810.1	36021.9	44,573.0	46,185.3
Loans	0.64	1.8	123.6	178.2	177.5
Fixed assets - net block	308.16	298.4	447.2	538.5	558.4
Total Investments	56583.42	69,685.0	78413.5	96,547.0	1,00,179.8
Current assets					
Cash and Bank balances	2542.29	2,523.8	2616.8	2,429.8	1,884.8
Advances and Other assets	1514.61	1,911.8	2398.8	3,262.8	2,904.7
Sub-Total (A)	4056.90	4,435.5	5015.6	5,692.6	4,789.5
Current liabilities	1451.36	1,676.6	2502.6	2,764.1	2,331.3
Provisions	171.37	207.3	201.9	250.2	227.4
Sub-Total (B)	1622.72	1,883.9	2704.5	3,014.3	2,558.7
Net Current Assets	2434.18	2,551.6	2311.1	2,678.3	2,230.7
Total	59017.59	72,236.6	80724.6	99,225.2	1,02,410.5

Source: RHP



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