January 24, 2021

Result Report Q3FY21 | Sector: Insurance

SBI Life

BUY	CMP Rs863	Target Rs 1,137	Upside 33%

Multiple triggers ahead

Traction in Credit protect to aid margin expansion

Credit protect business had been lackluster for SBI Life in H1FY21 (-57%), however, in Q3FY21, it has shown a strong come back with 20% growth. In conjunction with uptick in new retail lending, SBI Life's strategy to increase attachment rates for existing loans and access to SBI's huge retail loan portfolio book is expected to continue facilitating this growth momentum. Furthermore, Credit protect is one of the most margin accretive segment (in line with Pure term), which shall assist scaling up of SBI Life's VNB margin and bridging its gap with the other listed players.

SBI Life at greater advantage from recovery in ULIP business

SBI Life's product mix is heavily tilted towards ULIP as it derives 62% of its total APE from ULIP business. The recovery exhibited by ULIP on account of strong equity market performance, reduced income uncertainty and expanding ticket size is expected to positively contribute to SBI Life's premium growth. In addition, as Bancassurance is a key distribution channel for selling ULIP products, increased footprints in bank branches, we believe the demand for ULIP shall see a faster recovery.

Well positioned to seize the opportunity in Non-Par segment

The benign interest regime in addition with favorable yield curve providing an adequate hedging opportunity in the form of FRA has posed an excellent opportunity for the Non-Par products. HDFC Life and Max life had been quick enough to capitalize this opportunity and derive 1/3rd of their APE from Non-Par product. However, both these players have expressed a conscious view and are deliberately restricting any further expansion in the share of Non-Par segment to maintain a healthy balanced product mix. This provides an opportunity for players such as SBI Life to increase their presence in Non-par segment as it currently derives merely 11% of its business from this segment. We believe, the growth in Credit protect and Non-Par to move at a faster pace compared to ULIP, thereby, moving towards a margin accretive better product mix.

Significant stock underperformance, cheap valuations, Conviction BUY

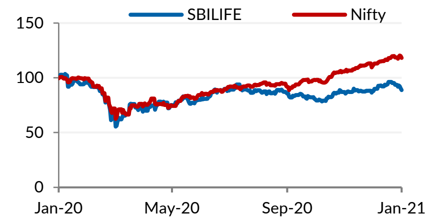
As compared to NBP growth of 6.5% yoy private players and a 1.7% yoy decline for the industry, SBI Life has demonstrated a relative strong performance for 9MFY21 with 13% yoy growth. Amongst top private players only Max Life with a 15% growth has been able to outperform. HDFC Life with 11% and ICICI Prudential with a decline of 3%, have underperformed. Despite the robust performance, the stock has relatively underperformed with just 8% return as compared to 33% for HDFC Life, 29% for ICICI Prudential and 48% for Max Life over the past eight months. We believe, this makes SBI life a good investment opportunity with favorable risk reward ratio.

Trading at FY23E P/EV of 2x as compared to 2.2x of ICICI Pru and 4.0x for HDFC Life in spite of being the lowest cost operator and better growth as compared to ICICI Pru

Stock data (as on Jan 22, 2021)

Nifty	14,372
52 Week h/l (Rs)	1020 / 519
Market cap (Rs/USD mn)	862601 / 11820
Outstanding Shares (mn)	1,000
6m Avg t/o (Rs mn):	1,358
Div yield (%):	N/A
Bloomberg code:	SBILIFE IN
NSE code:	SBILIFE

Stock performance



	1M	3M	1Y
Absolute return	1.0%	10.5%	-12.1%

Shareholding pattern (As of Sept'20 end)

Promoter	60.70%
FII+DII	32.80%
Others	6.50%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,137	1080

Financial Summary

	FY20E	FY21E	FY22E
Net premium	403,240	477,315	539,087
% yoy	22.6%	18.4%	12.9%
VNB	20,100	21,880	26,094
VNB Margin	18.7%	21.0%	22.0%
PAT	14,222	15,173	18,748
% yoy	7.2%	6.7%	23.6%
EPS (Rs)	14.2	15.2	18.7
EV/Share (Rs)	262.7	311.5	368.0
P/EV (x)	3.3	2.8	2.4
P/VNB (x)	43.1	39.6	33.2
RoEV (%)	20.4%	18.6%	19.3%
BVPS (Rs)	88.8	104.0	119.0

PRAYESH JAIN
Lead Analyst
prayesh.jain@ysil.in
+91 98218 04046

URMILA BOHRA, Associate
urmila.bohra@ysil.in

AMAR AMBANI, Sr. President, Head of Research
amar.ambani@ysil.in

Result Highlights

- ✓ **NBP –** NBP was at 54bn and registered a growth of 9%, which was in line with our forecast. The growth was led by a strong growth of 16% in single premium while First year premium registered a growth of 5%.
- ✓ **APE –** APE at Rs35bn was slightly lower than our estimates of Rs35.7bn. APE grew by 3.6% yoy and 29% qoq. The growth was led by 89.5% jump in Non-Par business and doubling of Individual Protection business.
- ✓ **APE Mix –** Share of Protection surged 303bps and that of Non-Par increased by 466bps. This was offset by decline of 149bps, 481bps and 52bps in share of Par, ULIPs and Group business respectively.
- ✓ **VNB & VNB Margin –** Q3FY21 VNB at Rs7.6bn was higher than our forecasts of Rs6.9bn, while VNB margin at 21.7% was above our estimates of 19.4%. On a yoy basis VNB margins expanded by 71bps.
- ✓ **Persistency improvement –** Sequentially, persistency except for 49th Month saw a decline across all time periods. On a yoy basis only 61st month persistency saw a decline.
- ✓ **Opex and commission ratios –** Commission ratios remained stable on yoy basis, however, witnessed an increase of 58bps on sequential basis. Whereas, Opex ratio improved by 91bps yoy to 4.6%. and remained stable sequentially.
- ✓ **Profits** - PAT came at Rs2.3bn, which was a de-growth of 40% on y/y basis and 22% sequentially on back of new business strain.
- ✓ **Channel Mix –** Mix of other channel increased by 63bps on YoY basis and that of banca grew by 261bps. On QoQ basis, share of other channel contracted by 656bps.
- ✓ **Change in forecasts –** 9MFY21 APE is 77% of our FY21 estimates and 81% VNB share of our forecasts.
- ✓ **Valuations -** The stock currently trades at FY23E P/EV of 2x.

CONCALL TAKEWAYS

Products

- ✓ Protection
  - Individual protection selling more even in mature markets, continuing to increase the share of business mix as protection gap is huge, industry will evolve more towards protection, SBI Bank has 45cr customers, SBI Branches are selling more and more protection, Demand for protection is not plateauing, just minor slowdown post the spike in the initial lockdown phase.
  - Expect the approval for priced protection re- product to come in Q4FY21.
  - More than 50% I protection in developed market. This is something which shall come in India in distinct future. Saving product is good way to push Insurance products and no harm in continuing the savings business.
  - Protection margin is higher than other products, TROP continues to dominate 75-80% share, Retail protection grew primarily from volume growth. The pricing for TROP not changed. TROP ticket is Rs.18,000-20,000
  - Emphasis on selling protection and good demand has helped doubling of Individual Protection APE. However, with pandemic gone people might lose that interest and the protection momentum may slow-down to 30-40%.
  - Credit life has picked up, credit protect now touching last year number expected to outgrow last year performance,

- Group protection mix: 9m FY21 Rs870crore Credit protect, Rs270cr GTI, 9m FY20 Credit protect Rs945cr, Rs145cr GTI

✓ Non Par –

- Repricing actively and monitoring regularly, able to sell the product, demand availability and hedging availability will be key for selling more, 1400crs partly paid up bonds last two year 14bn guarantees 5x exposure, started doing FRAs as well, PPB continuously hedging,
- 1st premium does not require hedge as invested immediately

✓ Credit linked - One is more concerned in the loan procedure and is not keen on taking insurance at the time. So have started going back to the old customers in turn increasing the attachment rates to 43%. Large part of India has attachment rate greater then 50% however, in metro cities with higher ticket size, the attachment rates are low, trying to gradually increase the same. In attachment product 96% is contributed by home loan.

✓ 10lac Individual life covered in 9MFY21.

✓ New par product: Distribution is happening to all channel, minimum ticket is 1 lakh, mass affluent customers is the target, product offers lot of flexibility to customer and hence a strong response.

✓ 4 new product launched in Q3FY21.

✓ ULIP – Demand is moving towards equity, unrealized gains have increased on the back of market returns, new sales 60:40 debt equity from 65:35 last year.

Distribution Channel

✓ Endeavour to increase the number of representative in each SBI bank. Started using analytics with the strong database of SBI bank to have specific target based selling.

✓ Agency is normalizing but banca has demonstrated a positive growth. Aspire to end FY21 with positive growth for both Agency and Banca channel.

✓ Video calls, and other digital modes are replacing branch visits, people are returning to branches but not a big influencer

VNB and Margins

✓ Interest rate sensitivity to VNB – Worsened from H1, Partly paid up bonds, FRAs and LT bonds are used to minimize interest rate sensitivity, the reported data for H1 was with a lag of 1 quarter whereas the same for 9m FY21 is for the full period

✓ No VNB assumption changes made

✓ Interest sensitive products are re-priced to retain the margins.

✓ Product Mix and ticket size shall play a role in determining the margins.

✓ Aspire to achieve positive VNB growth in FY21.

✓ Created a buffer on VNB Margin with regards to COVID – will get reflected in Q4 FY21

Expense ratio

✓ Low expense ratio because of lower conference and events, but invested in infra, some adjustments will happen going ahead, percentage term will remain lower.

Others

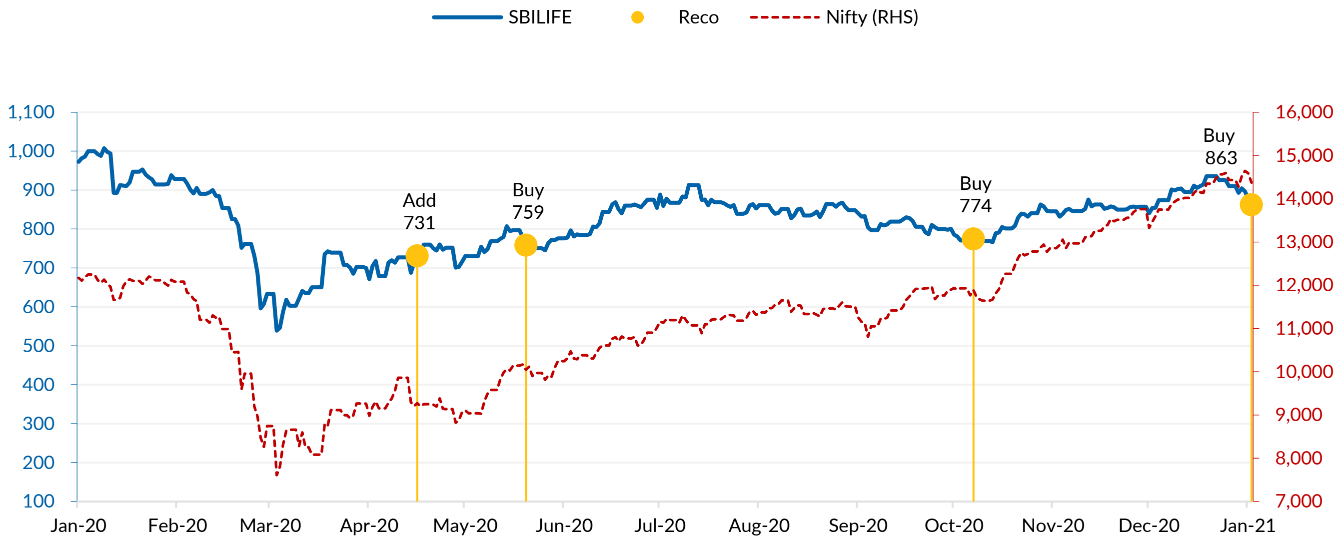
✓ Measuring success by EV (highest in the industry), Persistency (healthy 61st month persistency and improve 13th month persistency at level with developed market), Accounting Profit, healthy solvency ratio above the regulatory norms. Shall continue to focus on these parameters going ahead.

✓ No information on BNP Paribas Cardiff selling stake

Exhibit 1: Result Table

Rs mn	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq	Q3 FY21E
Gross premium	138,744	117,597	18.0%	130,897	6.0%	
Net premium	137,665	116,945	17.7%	128,580	7.1%	
NBP	54,388	49,706	9.4%	59,397	-8.4%	54,394
Renewal premium	84,356	67,891	24.3%	71,499	18.0%	
APE	35,000	33,800	3.6%	27,100	29.2%	35,709
Commission ratio	3.9%	3.9%	-2bps	3.3%	58bps	
Opex ratio	4.6%	5.5%	-91bps	4.6%	0bps	
Surplus/(Deficit)	2,968	6,082	-51.2%	3,931	-24.5%	
APAT	2,329	3,898	-40.3%	2,997	-22.3%	
VNB	7,600	7,100	7.0%	5,400	40.7%	6,921
VNB Margin	21.7%	21.0%	71bps	19.9%	179bps	19.4%
APE Mix						
Par	3,000	3,400	-11.8%	2,400	25.0%	
Non par	3,600	1,900	89.5%	2,400	50.0%	
ULIP	24,100	24,900	-3.2%	16,200	48.8%	
Individual Protection	2,200	1,100	100.0%	1,900	15.8%	
Group	2,200	2,300	-4.3%	4,100	-46.3%	
Total APE	35,000	33,800	3.6%	27,100	29.2%	
APE Mix						
Par	8.6%	10.1%	-149bps	8.9%	-28bps	
Non par	10.3%	5.6%	466bps	8.9%	143bps	
ULIP	68.9%	73.7%	-481bps	59.8%	908bps	
Individual Protection	6.3%	3.3%	303bps	7.0%	-73bps	
Total individual	94.0%	92.6%	140bps	84.5%	950bps	
Group	6.3%	6.8%	-52bps	15.1%	-884bps	
Total APE	100.0%	100.0%	0bps	100.0%	0bps	
Distribution mix						
Banca	23,900	22,200	7.7%	17,200	39.0%	
Agency	8,600	9,400	-8.5%	6,100	41.0%	
Others	2,500	2,200	13.6%	3,700	-32.4%	
	35,000	33,800		27,000		
Distribution mix						
Banca	68%	66%	261bps	64%	458bps	
Agency	25%	28%	-324bps	23%	198bps	
Others	7%	7%	63bps	14%	-656bps	
Persistency						
13 month	83.8%	82.5%	135bps	84.8%	-102bps	
61 month	59.6%	61.1%	-146bps	60.3%	-72bps	
Income from investments	127,769	40,733	213.7%	55,904	128.6%	

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Prayesh Jain, Urmila Bohra

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India.

Tel: +91-22-71123123 | Email: research@ysil.in | Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 |INVESTMENT ADVISER: INA000007331| Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

YES SECURITIES
INSTITUTIONAL EQUITIES

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.