

# SBI Life Insurance

BUY

CMP Rs 959

Target Rs 1221

Upside 27%

## Result Highlights

- ✓ **NBP** – NBP was at 62bn and registered a strong growth of 63%, which was better than our forecast. The growth was led by an almost doubling of single premium while First year premium also registered a healthy growth of 45%.
- ✓ **APE** – APE at Rs39.7bn was higher than our estimates of Rs37.9bn. APE grew by 47.6% yoy and 13.4% qoq. The growth was led by strong performance in the annuity and the non-par segment.
- ✓ **APE Mix** – Share of protection was stable at 6.3%, while that of ULIP declined by 24bps yoy. Share of non-par and annuity has been on a rise, with these products selling aggressively across all channels.
- ✓ **VNB & VNB Margin** – Q4FY21 VNB on actual tax rate basis at Rs8.8bn was better than our forecasts of Rs8.3bn, while VNB margin at 22.2% was in line with our estimates of 22.0%. On a yoy basis VNB margins expanded by 209bps. On effective tax rate basis VNB margins were at 27.7% (yoy expansion of 652bps).
- ✓ **Profits** - PAT came at Rs5.3bn, which was flat on y/y basis and more than doubled sequentially

**Our View** - SBI Life performance was better than our forecasts (our first cut had an error on VNB margins, find below revised results analysis). The product mix has been moving favorably with rising share of non-par, annuity and continued momentum in protection (both retail and group). Going ahead too, we expect the momentum to sustain especially in the banca channel, where both SBI (through rekindled strategy) and non-SBI (new tie ups yet to scale up) would see healthy growth. With new launches in the protection segment and expected increase in attachment rate in SBI channel, overall protection business to see relatively healthier growth. Positive rub-off on VNB margins would be seen and we expect 100bps expansion each for the next couple of years. We have upgraded our estimates by 10% to factor in a stronger performance in Q4. The stock trades at FY23E P/EV of 2.0x on actual tax rate basis and 1.8x on effective tax rate basis (comparable with peers). We maintain our BUY rating with a 1-year price target of Rs1,221 (Rs1,137 earlier).

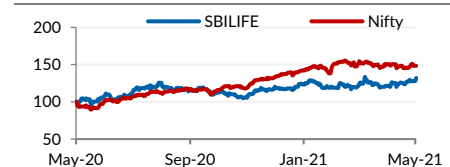
## Exhibit 1: Result Table

Rs mn	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Gross premium	156,467	119,372	31.1%	138,744	12.8%
Net premium	155,557	118,630	31.1%	137,665	13.0%
NBP	61,872	38,054	62.6%	54,388	13.8%
Renewal premium	94,596	81,319	16.3%	84,356	12.1%
Total APE	39,700	26,900	47.6%	35,000	13.4%
Commission ratio	3.8%	3.8%	-3bps	3.9%	-8bps
Opex ratio	4.2%	6.1%	-190bps	4.6%	-36bps
Surplus/(Deficit)	5,077	6,596	-23.0%	2,968	71.1%
APAT	5,324	5,307	0.3%	2,329	128.6%
VNB (actual Tax basis)	8,800	5,400	63.0%	7,000	25.7%
VNB Margin (actual tax basis)	22.2%	20.1%	209bps	20.0%	217bps
VNB (effective Tax basis)	11,000	5,700	93.0%	7,600	44.7%
VNB Margin (effective tax basis)	27.7%	21.2%	652bps	21.7%	599bps

## Stock data (as on May 03, 2021)

Sensex:	14,634
52 Week h/l (Rs)	984 / 676
Market cap (Rs/USD mn)	958668 / 12966
Outstanding Shares	1,000
6m Avg t/o (Rs mn):	1,956
Div yield (%):	0.3
Bloomberg code:	SBILIFE IN
NSE code:	SBILIFE

## Stock performance



	1M	3M	1Y
Absolute return	8.8%	11.0%	32.3%

## 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	1221	1137

## Financial Summary

	FY22	FY23	FY24
Net premium	586,570	683,352	792,983
% yoy	17.9%	16.5%	16.0%
VNB	28,661	34,080	40,485
VNB Margin	22.0%	23.0%	24.0%
Reported PAT	16,475	18,074	19,636
% yoy	13.2%	9.7%	8.6%
EPS (Rs)	16.5	18.1	19.6
Emb	394.6	466.9	552.7
Val/Share (Rs)			
P/EV (x)	2.2	1.9	1.6
P/VNB (x)	30.2	25.4	21.4

## Δ in earnings estimates

Rs. Bn	FY22e	FY23e
VNB (New)	28.7	34.1
VNB (Old)	26.1	31.0
% change	9.8%	10%

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## Exhibit 2: Other Business Parameters

Rs mn	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Distribution mix					
Banca	24,100	17,000	41.8%	23,900	0.8%
Agency	12,200	7,800	56.4%	8,600	41.9%
Others	3,400	2,200	54.5%	2,500	36.0%
Distribution mix					
Banca	61%	63%	-226bps	68%	-758bps
Agency	31%	29%	184bps	25%	616bps
Others	9%	8%	42bps	7%	142bps
Persistency					
13 month	87.5%	84.3%	317bps	83.8%	365bps
61 month	59.5%	59.4%	4bps	59.6%	-12bps
Income from investments	45,059	(66,772)	-167.5%	127,769	-64.7%

- ✓ **Persistency improvement** – Sequentially, persistency except for 61st Month saw an improvement across all time periods. On a yoy basis persistency across all time frames saw an improvement.
- ✓ **Opex and commission ratios** – Commission ratios remained stable on yoy basis, whereas, Opex ratio improved by 190bps yoy to 4.2%.
- ✓ **Channel Mix** – Mix of another channel increased by 42bps on YoY basis and that of agency grew by 184bps. Banca channel saw a decline in share on both yoy and sequential basis.

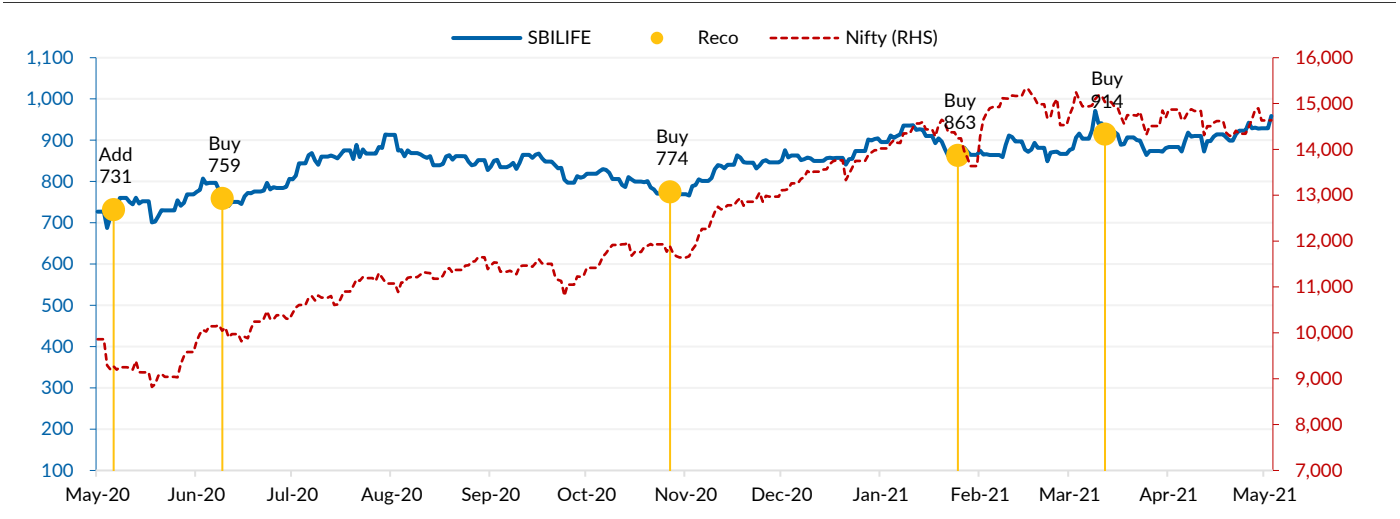
## CON-CALL HIGHLIGHTS

- ✓ **Product**
  - Tried to maintain the product mix, as group protect was already done in 9MFY21, Q4FY21 was muted.
  - There is no push strategy, want to offer products as per customer suitability. There is no intention to push non-par or restrict any sale of the same.
  - Launched a reprised protection product today (around 10% price hike taken). This price hike has nothing to do with reinsurance pricing exactly.
  - In Q1FY22, likely to come up with the pure protection product talked about earlier and is expected to drive the term volumes.
  - Annuity demand is driven by all NPS, corporate and individual customers.
  - Individual Protection Average ticket size – Rs. 22,000 - Rs. 25,000
  - ROP continues to contribute around 84-85% of total protection business.
- ✓ **Distribution Channel**
  - There is long way to go for activation of all branches.

# SBI Life Insurance

- Have good partnership going on with SBI and activity level has grown up which gives the indication of potential available with the Bank.
- ✓ Persistency - Small dip in 61st month bucket persistency due to maturity of few products after the 5th year.
- ✓ Margin
  - Margin is driven by change in product mix
  - Will do repricing when appropriate and introduce new products as per customer demand to drive margin higher.
- ✓ Variances and Expenses
  - Comfortable with Covid claims and have made additional reserves of Rs. 1.83bn as on March 2021.
  - As situation evolve and more clarity is gained will accordingly take the reversal of assumptions taken on mortality and persistency.
  - Total 5076 covid claims paid amounting to Rs. 3.20bn (net of reinsurance). Total claims for the year was at Rs. 30.2bn. No of policies sold has been on the rise, therefore there is a rise in non-covid claims as well. However, it remains well within the assumptions built in.
  - Have taken higher mortality assumption of Rs. 800mn for coming year.
  - Probably, the opex ratios are near the bottom but will continue to optimize cost and improve efficiencies.
  - Revised Unwind rate due to lower interest rate.

## Recommendation Tracker



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