

CMP: ₹ 1245

Target: ₹ 1500 (20%)

Target Period: 12 months

BUY

October 23, 2022

Business growth steady, VNB expansion continues...

About the stock: SBI Life (SBIL) is among the most dominant players in the Indian life insurance industry with strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on opex ratio ahead of industry
- Strong parentage led distribution remains key catalyst

Q2FY23 Results: Premium accretion slower; earnings came ahead of estimates

- Gross premium growth slower at 12% YoY; NBP growth at 8% YoY
- VNB margins up 630 bps to 31%**, aided by change in product mix
- PAT at ₹ 377 crore, up 53% YoY led by healthy surplus in Q2FY23
- AUM growth was decent at 16% YoY to ₹ 282630 crore

What should investors do? SBIL's share price has grown ~44% in the past three years. Continued strong growth guidance supported by distribution strength (including SBI YoNo), improving high margin product mix should aid overall value. The stock is reasonably priced and currently trades at 2.5x FY24E embedded value.

- We retain our **BUY** rating on the stock

Target Price & Valuation: We continue to value SBIL at ~2.8x FY24 EV and maintain our target price at ₹ 1500 per share.

Key triggers for future price performance:

- Focus on non-par and protection segment (group) to drive business growth as well as VNB margin. Management guidance continued at 20-25% CAGR
- Focus on increasing distribution network (agency as well as banca) and improving productivity to aid growth at optimal distribution cost
- Improving persistency and healthy solvency to aid operating metrics
- Bima Sugam is looked upon as an initiative expected to add new to insurance customers. SBI Life remains optimistic

Alternate Stock Idea: Apart from SBIL, in our coverage we also like HDFC Life.

- Dominant player in life insurance industry with huge growth potential coupled with strong distribution, product suite and best VNB margin
- BUY with a target price of ₹ 635



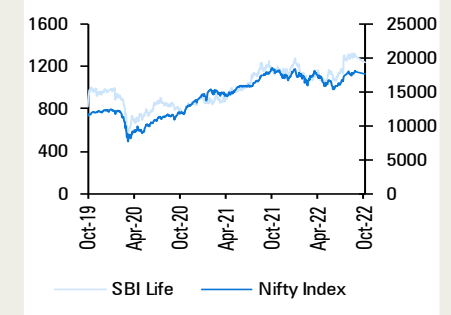
Particulars

Particulars	Amount
Market Capitalisation	₹ 124673 crore
EV (as on Sept22)	₹ 42410 crore
AUM	₹ 282600 crore
52 week H/L	1339/1003
Face value	₹ 10

Shareholding pattern

	Sep21	Dec21	Mar22	June22	Sept22
Promoter	55.7	55.7	55.5	55.5	55.5
FII	24.5	24.5	24.2	23.9	24.3
DII	12.1	12.0	12.5	12.3	11.7
Others	7.8	7.8	7.9	8.3	8.5

Price Chart



Risk to our call

- Private market share based on IRP at 24.5%
- Key Risk:** 1) Passing on higher rate to non-par products could impact margin; 2) Slower business growth

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
New business premium	16592.5	20624.2	25460.0	23%	30428.8	36694.3	20%
APE	10505.2	11366.7	14300.0	14%	16687.9	20084.4	19%
Total premium	40324.0	49768.3	58432.3	21%	69535.5	82679.2	19%
PAT	1422.2	1455.9	1506.0	4%	1632.5	2004.0	15%
EV	26290.0	33386.0	39630.0	21%	45193.7	52125.7	15%
P/E (x)	87.5	85.5	82.7		76.3	62.1	
P/BV (x)	14.2	12.0	10.7		10.3	9.3	
P/IEV (x)	4.7	3.7	3.1		2.8	2.4	
RoEV (%)	20.5	19.1	20.6		15.5	15.9	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Premium accretion on a slower track

- SBI Life has posted slower but steady performance with 12% YoY growth in premium growth to ₹ 16477 crore. New business premium grew 8% YoY to ₹ 7497 crore while renewal premium increased 20% YoY to ₹ 4015 crore. On annualised premium equivalent (APE basis), growth declined 2% YoY in Q2FY23. However, on H1FY23 basis, APE growth is healthy at 22% YoY to ₹ 6830 crore
- Private market share based on rated individual premium was up from 24% to 25.3% on a YoY basis in H1FY23
- VNB margin has improved by ~630 bps YoY to 31% in H1FY23. This was mainly on account of strong new business growth and change in product mix. Non-par segment, which generally has higher margin, contributed 26% in H1FY23 compared to ~9.5% in H1FY22
- AUM grew at a decent pace of 16% YoY to ₹ 282630 crore. Shareholders and policyholders (excluding linked liabilities) assets together witnessed healthy growth at ~17%. Assets held in lieu of linked products rose ~14% YoY. Income from investment boosted sequentially and got reported at ₹ 11037 crore
- Commission ratio declined ~30 bps QoQ but increased ~70 bps YoY, to 4.3% while opex ratio declined to 5% from 6.6%. Consequently, total cost ratio declined ~200 bps QoQ but rose 70 bps YoY at 9.4% in Q2FY23
- Steady premium growth coupled with strong investment income resulted into a surplus of ₹ 360 crore and PAT at ₹ 377 crore; up 53% YoY and 43.3% QoQ, ahead of our estimates

Q2FY23 earnings conference call highlights

- H2FY23 is likely to be strong for SBI Life. The management maintained its growth guidance at 20-25%. Demand for Ulip is expected to continue to grow
- Launched new pension product with added features for better customer experience
- To broaden the reach SBI Life has tied up with Indian Post Payments Bank Ltd, which will be able to tap unserved markets
- Healthy growth in non-par business at 221% YoY; acceptance of Smart Platinum Plan remains strong (contributed ~25% of business in Q2FY23). Further, change in non-par business mix aided improvement in margin
- Individual NBP growth driven by individual annuity product. Ulip has remained flagship segment wherein individual ULIP contributes 51% of new individual NBP
- Distribution partners – SBI and its RRBs contribute 67% of individual NBP. Partnership with Uco Bank, Indian bank, South Indian Bank and Yes Bank now contributes 3% of individual NBP
- Growth in VNB, VNB margins was led by a change on product mix predominantly contributed by non-par segment and business volumes. Repricing rates in guarantee rate under evaluation, if undertaken could impact margins but could aid business growth
- Total 9.3 lakh new policies were issued as of September 2022
- Focus on agent addition to pedal premium growth. Highest industry wide agency productivity at ₹ 2.5 lakh

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
SBI Life Insurance	1245	1500	Buy	1246	14.6	15.1	16.3	20.0	85.5	82.7	76.3	62.1	3.7	3.1	2.8	2.4	15.2	8.5	10.9	13.0
HDFC Life	536	635	Buy	1164	6.7	5.7	6.8	8.2	79.6	93.7	78.3	65.5	4.1	3.8	3.0	2.5	17.6	18.0	18.1	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
First Year Premium	3,481.9	3,482.0	3,609.7	-3.5	2,570.4	35.5	Driven by non-par and individual protection business
Renewal Premium	9,124.0	9,791.0	7,775.1	17.3	5,757.7	58.5	
Single Premium	4,015.2	4,015.0	3,333.8	20.4	3,021.0	32.9	
Net Premium income	16,477	16,538	14,661	12.4	11,036	49.3	
Income from Investments	11,036.7	3,044.5	10,734.4	2.8	-6,405.7	-272.3	Steady yields and better equities led to gains
Total revenue	27,525.3	19,603	25,404.1	8.3	4,641.1	493.1	
Commission	711.8	562.3	529.9	34.3	507.6	40.2	Commission ratio 30 bps QoQ
Operating expenses	831.1	1,075.0	747.6	11.2	745.7	11.5	Sequentially down due to sesonality but up YoY as business activity rises
Management Expenses	1,542.9	1,637.3	1,277.5	20.8	1,253.2	23.1	
Benefits paid	7,636.7	8,269.1	12,702.1	-39.9	5,171.7	47.7	
Change in Actuarial Liability	17,732.3	9,230.1	10,978.1	61.5	-2,271.1	-880.8	
Total Expenses	27,165.4	19,358.1	25,148.0	8.0	4,349.0	524.6	
Surplus/ (deficit)	359.8	244.7	256.1	40.5	292.1	23.2	Steady premium & robust invt income led surplus ahead of estimates
Transfer to SH's A/c	190.3	100.0	134.3	41.7	100.3	89.6	
Transfer to SH's A/c	190.3	100.0	134.3	41.7	100.3	89.6	
Investment income	203.2	223.0	240.6	-15.6	175.8	15.6	
Profit/ (loss) before tax	387.0	306.0	251.9	53.6	267.4	44.7	
PAT	377.1	284.5	246.6	52.9	262.9	43.5	Higher surplus boost PAT
Key Metrics							
NBP	7,497.1	7,497.0	6,943.6	8.0	5,591.4	34.1	Individual non-par & grp protection remain in focus
AUM	2,82,630	2,70,619	2,44,180	15.7	2,62,350	7.7	Decent growth on YoY basis

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	69,825	69,536	-0.4	83,092.0	82679	-0.5
Total	93,223	92,923	-0.3	1,10,847.0	110397	-0.4
Transfer to Shareholders' account	2,188	2,059	-5.9	2,490.0	2343	-5.9
PAT	1,757	1,633	-7.1	2,153.0	2004	-6.9
EV	452	452	0.0	521.0	521	0.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
NBP growth	24.3	23.4	19.5	20.6	19.2	20.6	19.2
AUM growth	37.7	22.2	16.2	19.7	18.5	19.8	18.5
EV Growth	38.5	8.9	14.0	15.3	17.8	15.3	17.8
Comission ratio	3.5	3.5	3.6	3.6	3.5	3.5	3.5
VNB Margin	18.7	21.7	21.8	21.8	21.7	21.8	21.7
Conservation ratio	87.5	83.3	85.0	85.2	86.6	85.2	86.6
Opearing RoEV	19.1	20.6	21.0	21.4	19.5	21.4	19.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Premiums earned - Net	40324.0	49768.3	58432.3	69535.5	82679.2
Income from Investments	2996.8	31456.0	23568.0	22106.5	26556.2
Other income	45.8	35.8	44.8	43.3	47.6
Contribution from the Shareholders' account	476.3	824.8	982.2	1237.2	1113.5
Total	43842.8	82084.9	83027.2	92922.6	110396.5
Commission	1624.9	1778.8	2084.1	2535.8	3018.9
Operating expenses	2413.1	2412.3	2974.5	3932.0	4800.5
Benefits paid (Net)	16175.3	21492.9	31339.8	32318.7	38709.0
Change in valuation of policy liabilities	20604.9	53934.2	43761.9	51040.7	60273.4
Others	75.6	89.8	101.7	8.0	8.0
Provision for tax	1054.4	569.6	126.2	928.5	1133.6
Surplus/(deficit) after tax	1894.7	1807.4	1807.4	2158.9	2453.2
Transfer to Shareholders' account	1462.7	1678.8	1732.4	2058.9	2343.2

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Amounts transferred from Policyholders' account	1462.7	1678.8	1732.4	2058.9	2343.2
Income from investments	483.5	694.8	988.4	886.0	857.5
Total	1946	2374	2721	2945	3201
Expenses other than insurance	56.3	31.0	157.0	30.6	24.7
Contribution to Policyholders' account	476.3	824.8	982.2	1237.2	1113.5
Others	15.9	15.9	6.3	6.3	6.3
Profit before Tax	1413.6	1542.5	1560.8	1677.2	2062.5
Provision for tax	-8.6	86.6	54.8	44.7	58.5
PAT	1422.2	1455.9	1506.0	1632.5	2004.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share capital	1000	1000	1000	1000	1000
Reserve and surplus	7884	9093	10418	10763	12044
Credit/[debit] fair value change account	-141	308	204	308	308
Networth	8743	10401	11622	12071	13352
Policyholders' funds	153101	211349	255591	309177	369451
Total Liabilities	162558	222592	268207	323090	385145
Applications of Funds					
Shareholders' investments	6828	8605	10076	9053	10014
Policyholders' investments	73420	93936	112131	143029	174324
Asset held to cover linked liabilities	78565	116215	142625	158859	187693
Loans	364	358	363	445	503
Fixed assets - net block	581	565	527	697	780
Net current assets	2799	2912	2486	11007	11831
Total Assets	162558	222592	268207	323090	385145

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	14.2	14.6	15.1	16.3	20.0
DPS (₹)	0.0	2.5	1.6	2.2	2.9
BV (₹)	87.4	104.0	116.2	120.7	133.4
EV per share	263	334	396	452	521
P/E	87.5	85.5	82.7	76.3	62.1
P/BV	14.2	12.0	10.7	10.3	9.3
P/IEV	4.7	3.7	3.1	2.8	2.4
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.0	3.5	3.5	3.6	3.6
Management expenses incl commission as	9.9	8.3	9.6	9.2	9.4
Return Ratios and capital (%)					
Return on Net worth	17.4	15.2	13.7	10.9	13.0
Operating RoEV	20.5	19.1	20.6	21.0	21.4
Solvency Ratio	195	215	205	200	200
Key Ratios (%)					
Conservation Ratio	85.1	87.5	83.3	85.0	85.2
VNB Margin	18.7	18.7	21.7	21.8	21.8
Surrender Ratio	3.9	3.9	4.6	5.0	5.0
Benefits paid as a % of Opening Liability	11.9	14.0	14.8	12.5	12.4

Source: Company, ICICI Direct Research

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