

CMP: ₹ 1295

Target: ₹ 1500 (16%)

Target Period: 12 months

BUY

January 22, 2023

Slower growth; optimistic on long term outlook...

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

Q3FY23 Results: Premium accretion slower; higher allocation to FFA impacted PAT.

- Gross premium growth slower at 6% YoY; NBP growth declined 1% YoY
- VNB margins steady at 29.6%, aided by change in product mix
- Surplus at ₹ 296 crore; PAT at ₹ 304 crore, impacted by lower allocation to shareholder's fund
- AUM growth was decent at 17% YoY to ₹ 299900 crore

What should investors do? SBIL's share price has grown ~30% in the past three years. Relatively superior growth, strong distribution and diversified product mix to aid business growth as well VNB margin ahead. The stock is reasonably priced and currently trades at 2.1x FY25E embedded value.

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

Target Price & Valuation: Rolling to FY25E, we value SBIL at ~2.5x FY25 EV and maintain our target price at ₹ 1500 per share.

Key triggers for future price performance:

- Continued traction in non-par segment coupled with a gradual pick-up in individual protection and Ulip to aid diversified product mix and VNB margin
- Improving distribution through increasing penetration in current partnership (SBI and other banca partners) and new partnership (including digital) to aid growth ahead
- Steady persistency and healthy solvency to aid operating metrics

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

- Dominant player in the life insurance industry with huge growth potential coupled with strong distribution, product suite and best VNB margin
- BUY with a target price of ₹ 690



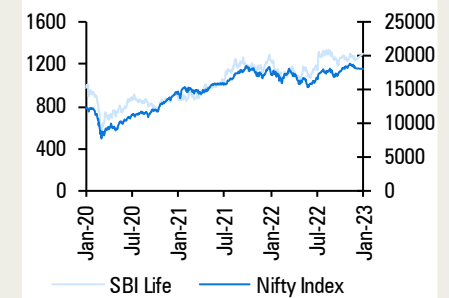
Particulars

Particulars	Amount
Market Capitalisation	₹ 129652 crore
EV (as on Sept'22)	₹ 42410 crore
AUM	₹ 299900 crore
52 week H/L	1339/1003
Face value	₹ 10

Shareholding pattern

	Mar'22	Jun'22	Sept'22	Dec'22
Promoter	55.5	55.5	55.5	55.5
FII	21.2	23.9	24.3	25.1
DII	12.5	12.3	15.7	14.9
Others	10.9	8.3	4.6	4.5

Price Chart



Risk to our call

- Private market share based on IRP at 25.7%
- Key Risk:** 1) Higher interest rate to intensify competition; 2) Slower business growth

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
New business premium	16592.5	20624.2	25460.0	23%	30428.8	36694.3	44250.8	20%
APE	10505.2	11366.7	14300.0	14%	16687.9	20084.4	24172.6	19%
Total premium	40324.0	49768.3	58432.3	21%	69535.5	82679.2	98666.0	19%
PAT	1422.2	1455.9	1506.0	4%	1632.5	1835.0	2093.7	12%
EV	26290.0	33386.0	39630.0	21%	45193.7	52162.2	60368.3	15%
P/E (x)	91.1	88.9	86.0		79.3	70.6	61.9	
P/BV (x)	14.8	12.5	11.1		10.7	9.8	8.9	
P/IEV (x)	4.9	3.9	3.3		2.9	2.5	2.1	
RoEV (%)	20.5	19.1	20.6		15.5	15.9	16.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Premium accretion slower. Market share maintained with focus across products. Higher allocation to FFA impacts profitability

- SBI Life has posted a slower but steady performance with 6% YoY growth in premium growth to ₹ 19171 crore. New business premium growth remained muted with a decline of 1% YoY to ₹ 8424 crore while renewal premium increasing 13% YoY to ₹ 10908 crore. On annualised premium equivalent (APE basis), the growth remains healthy at 19% YoY in Q3FY23. On 9MFY23 basis, APE growth is healthy at 20% YoY to ₹ 12260 crore
- Private market share based on rated individual premium was maintained at 25.7% in 9MFY23
- VNB margin was reported at 29.6% in 9MFY23 vs. 24.8% in 9MFY22 though marginal decline was seen sequentially led by a change in product mix. Non-par segment, which generally has higher margin contributed 38% (APE basis) in 9MFY23 compared to ~28% in 9MFY22
- AUM grew at a decent pace of 17% YoY to ₹ 299900 crore. Shareholders and policyholders (excluding linked liabilities) assets together witnessed healthy growth at ~17%. Assets held in lieu of linked products rose ~13% YoY. Income from investment was boosted on a YoY basis at ₹ 7443 crore
- Commission ratio increased ~10 bps QoQ and ~100 bps YoY, to 4.4% while opex ratio declined 40 bps QoQ at 4.8%. Consequently, total cost ratio declined ~30 bps QoQ but rose 140 bps YoY at 9.2% in Q3FY23
- Premium growth coupled with strong investment income resulted in a surplus of ₹ 296 crore though PAT got reported at ₹ 304 crore; down 16% YoY, owing to lower appropriation to shareholder's fund

SBI Life - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	1.6	1.6	2.5
Social	30.9	30.9	30.9
Governance	63.6	63.6	63.6
Overall ESG Score	32.1	32.1	32.3

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score

Q3FY23 earnings conference call highlights

- Launched individual non-linked participating whole life product with feature of regular outflows
- Healthy and substantial contribution of Platina Plus to non-par business. Non-par guarantee products to continue to witness healthy demand ahead
- Distribution partners – SBI and its RRBs contribute 69% of individual NBP
- H2FY23 is likely to be strong for SBI Life. The management maintained its growth guidance. Demand for Ulip is expected to continue to remain healthy
- No substantial competition seen from increasing interest rates on deposits
- Business in H2FY23 is expected to be more broad based with healthy growth across products including Ulip, non-par and protection
- Focus on agent addition to pedal premium growth. Highest industry wide agency productivity at ₹ 2.5 lakh
- VNB margin is expected to benefit from a diversified product mix. Guided to remain at current level in FY23E

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)			P/EV (x)				RoE (%)			
	(₹)	TP(₹)	Rating	(₹ bn)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
SBI Life Insurance	1295	1500	Buy	1296	14.6	15.1	16.3	18.4	88.9	86.0	79.3	70.6	3.9	3.3	2.9	2.5	15.2	8.5	10.8	11.4
HDFC Life	590	690	Buy	1269	6.7	5.7	6.4	8.3	87.7	103.2	91.8	71.4	4.5	4.1	3.2	2.7	17.6	18.0	18.1	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
First Year Premium	5,055.2	4,703.4	4,073.6	24.1	3,481.9	45.2	Healthy traction in Non-par, pick up seen in ULIP
Renewal Premium	10,908.3	11,255.7	9,652.9	13.0	9,124.0	19.6	Persistency remain steady
Single Premium	3,368.4	3,383.8	4,429.4	-24.0	4,015.2	-16.1	
Net Premium income	19,171	18,534	18,025	6.4	16,477	16.3	
Income from Investments	7,443.0	3,283.8	2,424.1	207.0	11,036.7	-32.6	
Total revenue	26,626.7	21,838	20,458.3	30.2	27,525.3	-3.3	
Commission	845.2	741.4	614.6	37.5	711.8	18.7	Commission ratio up 10 bps QoQ
Operating expenses	913.9	1,056.4	787.6	16.0	854.6	6.9	Opex ratio declined by 40 bps QoQ at 4.8%
Management Expenses	1,759.1	1,797.8	1,402.1	25.5	1,566.4	12.3	
Benefits paid	8,355.9	9,267.1	6,472.6	29.1	7,636.7	9.4	
Change in Actuarial Liability	15,937.5	10,157.1	12,115.1	31.6	17,732.3	-10.1	
Total Expenses	26,330.3	21,443.5	20,222.2	30.2	27,181.1	-3.1	
Surplus/ (deficit)	296.4	394.5	236.1	25.5	344.1	-13.9	Healthy renewal offset by higher actuarial liabilities
Transfer to SH's A/c	113.8	250.0	168.3	-32.4	190.3	-40.2	
Transfer to SH's A/c	113.8	250.0	168.3	-32.4	190.3	-40.2	
Investment income	203.0	205.2	222.5	-8.8	203.2	-0.1	
Profit/ (loss) before tax	310.8	438.2	381.4	-18.5	387.0	-19.7	
PAT	304.1	407.5	364.1	-16.5	377.1	-19.4	Higher allocation to FFA impacts profitability

Key Metrics

NBP	8,423.6	8,087.2	8,502.9	-0.9	7,497.1	12.4	Individual non-par & annuity remain in focus
AUM	2,99,990	2,91,897	2,56,870	16.8	2,82,630	6.1	Decent growth on YoY basis

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Premiums earned - Net	69,825	69,536	-0.4	83,092	82,679	-0.5	98,666
Total	93,223	92,923	-0.3	1,10,847	1,14,593	3.4	1,37,856
Transfer to Shareholders' account	2,188	2,059	-5.9	2,490	1,915	-23.1	1,963
PAT	1,757	1,633	-7.1	2,153	1,835	-14.8	2,094
EV	452	452	0.0	521	522	0.1	604

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
NBP growth	19.5	20.6	20.6	20.6	19.2
AUM growth	17.2	21.0	20.9	19.8	18.5
EV Growth	14.0	15.4	15.7	15.3	17.8
Comission ratio	3.6	3.6	3.6	3.5	3.5
VNB Margin	29.7	29.6	30.0	21.8	21.7
Conservation ratio	85.0	85.2	85.2	85.2	86.6
Opearating RoEV	21.0	21.4	21.8	21.4	19.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Premiums earned - Net	58432.3	69535.5	82679.2	98666.0
Income from Investments	23568.0	22106.5	30752.4	38135.2
Other income	44.8	43.3	47.6	52.4
Contribution from the Shareholders' account	982.2	1237.2	1113.5	1002.1
Total	83027.2	92922.6	114592.7	137855.7
Commission	2084.1	2535.8	3018.9	3604.8
Operating expenses	2974.5	3932.0	4800.5	5728.7
Benefits paid (Net)	31339.8	32318.7	38709.0	46834.2
Change in valuation of policy liabilities	43761.9	51040.7	64897.9	78254.7
Others	101.7	8.0	8.0	8.0
Provision for tax	126.2	928.5	1133.6	1352.7
Surplus/(deficit) after tax	1807.4	2158.9	2024.9	2072.6
Transfer to Shareholders' account	1732.4	2058.9	1914.9	1962.6

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Amounts transferred from Policyholders' account	1732.4	2058.9	1914.9	1962.6
Income from investments	988.4	886.0	1110.8	1214.5
Total	2721	2945	3026	3177
Expenses other than insurance	157.0	30.6	24.7	19.5
Contribution to Policyholders' account	982.2	1237.2	1113.5	1002.1
Others	6.3	6.3	6.3	6.3
Profit before Tax	1560.8	1677.2	1887.5	2155.5
Provision for tax	54.8	44.7	52.4	61.8
PAT	1506.0	1632.5	1835.0	2093.7

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share capital	1000	1000	1000	1000
Reserve and surplus	10418	10763	11896	13231
Credit/[debit] fair value change account	204	308	308	308
Networth	11622	12071	13204	14539
Policyholders' funds	255591	309177	374075	452330
Total Liabilities	268207	323090	389621	469711
Applications of Funds				
Shareholders' investments	10076	11467	12543	13812
Policyholders' investments	112131	143029	176480	216810
Asset held to cover linked liabilities	142625	158859	190161	227937
Loans	363	445	503	568
Fixed assets - net block	527	697	780	874
Net current assets	2486	8593	9153	9710
Total Assets	268207	323090	389621	469711

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0
Diluted EPS (₹)	15.1	16.3	18.4	20.9
DPS (₹)	1.6	2.2	2.6	3.1
BV (₹)	116.2	120.7	132.0	145.4
EV per share	396	452	522	604
P/E	86.0	79.3	70.6	61.9
P/BV	11.1	10.7	9.8	8.9
P/IEV	3.3	2.9	2.5	2.1
Efficiency Ratios (%)				
Commission expenses as a % of Gross Premium	3.5	3.6	3.6	3.6
Management expenses incl commission as a % of Gross F	9.6	9.2	9.4	9.4
Return Ratios and capital (%)				
Return on Net worth	13.7	10.8	11.4	12.3
Operating RoEV	20.6	21.0	21.4	21.8
Solvency Ratio	205	200	200	200
Key Ratios (%)				
Conservation Ratio	83.3	85.0	85.2	85.2
VNB Margin	21.7	29.7	29.6	30.0
Surrender Ratio	4.6	5.0	5.0	5.0
Benefits paid as a % of Opening Liability	14.8	12.5	12.4	12.4

Source: Company, ICICI Direct Research

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