

CMP: ₹ 1116

Target: ₹ 1400 (25%)

Target Period: 12 months

April 29, 2022

BUY

Business outlook remains healthy...

About the stock: SBI Life (SBIL) is among 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

Q4FY22 Results: PAT ahead of estimates, premium growth in line.

- Gross premium growth at 12.1% YoY; individual NBP growth at 87% YoY
- VNB margins healthy at 25.9%, aided by product mix and rise in pricing
- PAT at ₹ 672 crore, up 26.3% YoY as actuarial liabilities, benefits paid fall
- AUM growth remains healthy at 21% YoY to ₹ 267410 crore

What should investors do? SBIL's share price has grown by ~74% over the past four years (from ~₹ 640 in April 2019 to ~₹ 1116 levels in April 2022). We still believe the stock is reasonably priced and currently trades at 2.1x FY24E embedded value.

- Factoring in distribution strength & diversified product mix, we retain our **BUY** rating on the stock

Target Price & Valuation: We value SBIL at 2.7x FY24 EV and maintain TP of ₹ 1400.

Key triggers for future price performance:

- Launch of non-par & protection product to aid overall growth and VNB
- Scope for improvement in RoEV aided by increase in VNB margin ahead
- Strong distribution network remains core to maintain business momentum
- Improving persistency and healthy solvency to aid operating performance

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 ₹ 670



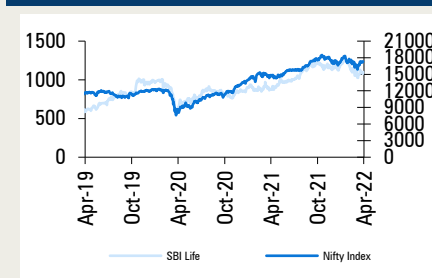
Particulars

Particulars	Amount
Market Capitalisation	₹ 111696 crore
EV	₹ 39630 crore
AUM	₹ 267410 crore
52 week H/L	1293/914
Face value	₹ 10

Shareholding pattern

	Mar21	Jun21	Sep21	Dec21	Mar22
Promoter	55.7	55.7	55.7	55.7	55.5
FII	30.5	27.2	24.5	24.5	24.2
DII	7.0	12.4	12.1	12.0	12.5
Others	6.9	4.7	7.8	7.8	7.9

Price Chart



Risk to our call

- Healthy AUM growth at 21% YoY to ₹267410 crore
- Key Risk:** 1) Increasing competitive intensity; 2) higher claim from group plan can impact surplus

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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%	28331.0	32677.0	13%
APE	10505.2	11366.7	14300.0	14%	15614.4	18166.0	13%
Total premium	40324.0	49768.3	58432.3	21%	68385.4	79769.8	17%
PAT	1422.2	1455.9	1506.0	4%	1658.6	1888.4	12%
EV	26290.0	33386.0	39630.0	21%	44994.8	51592.8	14%
P/E (x)	78.5	76.7	74.1		67.3	59.1	
P/BV (x)	12.8	10.7	9.6		9.2	8.4	
P/IEV (x)	4.2	3.3	2.8		2.5	2.2	
RoEV (%)	20.5	19.1	20.6		15.0	15.2	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Decent overall performance

- Premium growth for Q4FY22 came in at 12.1% YoY to ₹ 17434 crore and was in line with our estimates. First year premium was up 5.3% YoY while renewal and single premium were up 14.6% and 11.2% YoY, respectively. Individual new business reported strong 87% YoY growth at ₹ 8170 crore while rated premium in individual segment was up 42.6% YoY to ₹ 5190 crore. Protection new business on full year basis jumped 24% YoY to ₹ 3050 crore. This now forms 12% of total NBP
- Private market share based on individual rated premium was up 80 bps YoY to 23.4% as on March 2022
- As a result of healthy growth in protection and annuity business, VNB margins for FY22 were up 270 bps YoY to 25.9%
- AUM grew at a healthy pace of 21% YoY to ₹ 267410 crore. Shareholders and policyholders (excluding linked liabilities) assets witnessed healthy growth at ~17% and ~19% YoY, respectively. Assets held in lieu of linked products rose ~23% YoY. Investment income declined 33% YoY to ₹ 2999 crore while it was up sequentially by 24%
- Commission ratio increased ~20 bps QoQ and YoY both, to 3.7% while opex ratio remained steady at 5.1% sequentially while it was up 30 bps YoY. Consequently, total cost ratio was up 10 bps YoY and 50 bps QoQ to 8.8%
- Premium growth remained in line while shortfall in other income was offset by lesser benefits paid as well as decline in actuarial liability. As a result, net profit for the quarter was up 26% YoY to ₹ 672 crore and was ahead of our estimates. Embedded value increased by 9% YoY to ₹ 39630 crore

Q4FY22 earnings conference call highlights

- In August it repriced some guaranteed products aiding VNB margins
- Did lot of forward rate agreement leading to reduce interest rate sensitivity
- Expect margins to move up, going ahead, aided by higher contribution from non-par products
- Methodology change aided VNB margin by 2.9%
- Agent productivity has improved by 21% as compared to last year
- Slight impact on business growth due to lockdowns at the beginning of the quarter
- Expect good volumes in high margin products due to better demand
- In individual annuity product the company gained the private market share by 166 basis points to 23.4%
- Total 19.2 lakh new policies were issued and registered growth of 16% YoY
- Total annuity and pension underwritten by the company is ₹ 7230 crore registering growth of 15% YoY
- Covid claims net of reinsurance paid as well as outstanding were at ₹ 1590 crore. The company has kept additional reserve amounting to ₹ 290 crore for Covid 19 pandemic, over and above policy liabilities

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SBI Life Insurance	1116	1400	Buy	1117	15.1	16.6	18.9	76.1	69.0	60.6	2.9	2.5	2.2	13.7	11.1	12.0
HDFC Life	571	670	Buy	1207	6.7	9.0	8.9	84.7	63.7	64.1	4.3	3.7	3.1	18.0	18.1	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
First Year Premium	3,853.6	3,972.6	3,660.3	5.3	4,073.6	-5.4	
Renewal Premium	10,842.5	11,414.3	9,459.6	14.6	9,652.9	12.3	
Single Premium	2,812.4	2,715.8	2,528.9	11.2	4,429.4	-36.5	
Net Premium income	17,434	17,434	15,556	12.1	18,025	-3.3	Growth driven by traction in Individual NBP
Income from Investments	2,999.5	6,604.8	4,505.9	-33.4	2,424.1	23.7	Decline on YoY basis due to hardening interest rates
Total revenue	21,427.9	24,059	20,896.7	2.5	20,458.3	4.7	
Commission	677.9	662.5	585.6	15.8	614.6	10.3	Increased business activity lead to rise in commissions
Operating expenses	872.5	871.7	660.5	32.1	787.6	10.8	
Management Expenses	1,550.4	1,534.2	1,246.1	24.4	1,402.1	10.6	
Benefits paid	7,373.4	10,111.6	7,659.7	-3.7	6,472.6	13.9	Below expectations
Change in Actuarial Liability	10,892.1	11,682.3	11,449.3	-4.9	12,115.1	-10.1	
Total Expenses	20,122.6	23,574.7	20,389.5	-1.3	20,222.2	-0.5	
Surplus/ (deficit)	1,305.3	484.0	507.2	157.3	236.1	452.8	
Transfer to SH's A/c	1,471.2	380.0	1,217.5	20.8	168.3	774.4	Lesser benefits aided
Transfer to SH's A/c	1,471.2	380.0	1,217.5	20.8	168.3	774.4	
Investment income	238.2	237.9	227.4	4.8	222.5	7.1	
Profit/ (loss) before tax	694.1	525.3	622.1	11.6	381.4	82.0	
PAT	672.2	488.5	532.4	26.3	364.1	84.6	Ahead of estimates due to control over opex

Key Metrics

NBP	6,666.0	6,688.4	6,189.2	7.7	8,502.9	-21.6	YoY uptick due to individual NBP
AUM	2,67,410	2,64,192	2,20,870	21.1	2,56,870	4.1	Healthy growth with Shareholder and Policyholder funds showing good uptick

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	67,890	68,385	0.7	78,629.0	79770	1.5
Total	93,980	94,603	0.7	1,08,430.0	109228	0.7
Transfer to Shareholders' account	1,340	2,086	55.7	1,859.0	2222	19.5
PAT	1,647	1,659	0.7	2,181.0	1888	-13.4
EV	432	450	4.2	508.0	516	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
NBP growth	24.3	23.4	11.3	15.3	19.2	15.3	15.3
AUM growth	37.7	22.2	16.8	19.2	18.5	20.5	19.2
EV Growth	38.5	8.9	13.5	14.7	17.8	17.1	16.9
Comission ratio	3.5	3.5	3.5	3.5	3.5	3.5	3.5
VNB Margin	18.7	21.7	21.8	21.8	21.7	21.8	21.8
Conservation ratio	87.5	83.3	87.0	87.2	86.6	85.6	85.6
Opearating RoEV	19.1	20.6	21.0	21.4	19.5	19.9	20.3

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	68385.4	79769.8
Income from Investments	2996.8	31456.0	23568.0	24937.3	28297.1
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	94603.2	109228.1
Commission	1624.9	1778.8	2084.1	2396.7	2803.5
Operating expenses	2413.1	2412.3	2974.5	4212.2	4913.5
Benefits paid (Net)	16175.3	21492.9	31339.8	32267.1	38834.4
Change in valuation of policy liabilities	20604.9	53934.2	43761.9	52538.5	59186.9
Others	75.6	89.8	101.7	8.0	8.0
Provision for tax	1054.4	569.6	126.2	994.7	1160.2
Surplus/(deficit) after tax	1894.7	1807.4	1807.4	2185.9	2321.6
Transfer to Shareholders' account	1462.7	1678.8	1732.4	2085.9	2221.6

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	2085.9	2221.6
Income from investments	483.5	694.8	988.4	886.0	859.0
Total	1946	2374	2721	2972	3081
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	1704.2	1942.4
Provision for tax	-8.6	86.6	54.8	45.6	54.0
PAT	1422.2	1455.9	1506.0	1658.6	1888.4

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	10783	11950
Credit/[debit] fair value change account	-141	308	204	308	308
Networth	8743	10401	11622	12091	13258
Policyholders' funds	153101	211349	255591	310675	369862
Total Liabilities	162558	222592	268207	324609	385462
Applications of Funds					
Shareholders' investments	6828	8605	10076	8852	9728
Policyholders' investments	73420	93936	112131	144468	174511
Asset held to cover linked liabilities	78565	116215	142625	158918	187917
Loans	364	358	363	457	517
Fixed assets - net block	581	565	527	697	780
Net current assets	2799	2912	2486	10928	11722
Total Assets	162558	222592	268207	324321	385175

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of Equity Shares (Crore)	100.0	100.0	100.0	100.0	100.0	100.0
Diluted EPS (₹)	13.3	14.2	14.6	15.1	16.6	18.9
DPS (₹)	2.0	0.0	2.5	1.6	2.3	2.7
BV (₹)	75.8	87.4	104.0	116.2	120.9	132.6
EV per share	224	263	334	396	450	516
P/E	84.1	78.5	76.7	74.1	67.3	59.1
P/BV	14.7	12.8	10.7	9.6	9.2	8.4
P/IEV	5.0	4.2	3.3	2.8	2.5	2.2
Efficiency Ratios (%)						
Commission expenses as a % of Gross Premium	4.1	4.0	3.5	3.5	3.5	3.5
Management expenses incl commission as	10.5	9.9	8.3	9.6	9.6	9.6
Return Ratios and capital (%)						
Return on Net worth	18.8	17.4	15.2	13.7	11.1	12.0
Operating RoEV	17.4	20.5	19.1	20.6	21.0	21.4
Solvency Ratio	213	195	215	205	200	200
Key Ratios (%)						
Conservation Ratio	85.2	85.1	87.5	83.3	87.0	87.2
VNB Margin	18.0	18.7	18.7	21.7	21.8	21.8
Surrender Ratio	5.2	3.9	3.9	4.6	5.0	5.0
Benefits paid as a % of Opening Liability	13.6	11.9	14.0	14.8	12.4	12.4

Source: Company, ICICI Direct Research

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