



**HDFC securities**

Equity  
Research

Pick<sub>of the</sub>  
week

12

Industry	CMP	Recommendation	Add on dips to	Target	Time Horizon
<b>Life Insurance</b>	Rs. 689.25	Buy at CMP and Add on Dips	Rs. 689-642	Rs. 840	4 Quarters

SBI Life was established as Joint Venture between State Bank of India and BNPPC (an insurance subsidiary of BNP Paribas) in 2001. In terms of New Business Premium, it is the largest private sector Life Insurance Company in the country, with a market share of 20%. It has a diversified product mix across individual and group insurance products, and has a multi-channel distribution network comprising of bancassurance, individual agents, insurance brokers, direct sales, etc. SBI Life listed on both exchange via IPO on 3<sup>rd</sup> Oct 2017.

SBI Life is currently trading at 2.5x P/EV for FY20. We recommend SBI Life a BUY at CMP of Rs. 689 and add on decline of Rs. 642 for the target of Rs. 840 in a years' time frame.

### Investment Rationale:

#### Vast Untapped Insurance Market

The size of the Indian life insurance sector was 4.2 trn on a total premium basis in FY17, making it the 10th largest life insurance market in the world and the 5th largest in Asia. The total premium in the Indian life insurance sector grew at a CAGR of approximately 17% between FY01 and FY17. Despite this, India continues to be an underpenetrated insurance market with a life insurance penetration of 2.7%, compared to the global median penetration level of 3.5%.

At \$47 in fiscal 2016, the insurance density in India also remains very low as compared to other developed and emerging market economies. According to Swiss Re, Economic Research & Consulting "Mortality Protection Gap Asia-Pacific 2015", the Protection Gap for India was approximately \$8.5 trn as of 2014, which was much higher compared to its Asian counterparts.

#### Favorable Demographics

As we see above, India has huge Insurance market but the penetration in the market is very low compared to other emerging economies. India presents immense opportunities to expand the life insurance business given the favorable demographics, rising prosperity, rising household income and the increasing awareness of the need for financial protection.

Growth rate of total premium written by the insurance industry has outpaced the GDP growth rate over the period of FY2002-FY2016. Going forward also we believe the trend will continue and Insurance industry has a whole will have tremendous change and SBI Life Insurance is in best place to augur benefit.

HDFC Scrip Code	SBILIF
BSE Code	540719
NSE Code	SBILIFE
Bloomberg	SBILIFE
CMP as on 16 Feb 18	689.25
Equity Capital (Rs mn)	10000
Face Value (Rs)	10
Equity O/S (mn)	1000
Market Cap (Rs mn)	6,89,250
Book Value (Rs)	64.2
Avg. 52 Week Vol	1070445
52 Week High	740
52 Week Low	629

Shareholding Pattern (%)	
Promoters	84.1
Institutions	12.5
Non Institutions	3.4

PCG Risk Rating*	Yellow
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\* Refer Rating explanation

#### FUNDAMENTAL ANALYST

Nisha Sankhala

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**KEY HIGHLIGHTS**

- ***SBI Life is the largest private sector Life Insurance Company in the country, with a market share of 20% among the private players.***
- ***India has highly underpenetrated insurance market compared to other part of the world with a life insurance penetration of only 2.7%.***
- ***India presents immense opportunities to expand the life insurance business given the favorable demographics, rising prosperity, rising household income and the increasing awareness of the need for financial protection.***
- ***SBI Life is uniquely positioned to tap the vast potential in India's Life Insurance sector by harnessing the SBI Group's large distribution footprint.***
- ***SBI Life is currently trading at 2.5x P/EV for FY20. We recommend SBI Life a BUY at CMP of Rs. 689 and add on decline of Rs. 642 for the target of Rs. 840 in a years' time frame.***

**Consistent Leadership in the Industry with Strong Brand name**

SBI is the largest private sector Life Insurance Company, measured in terms of New Business Premium. Over the last four years, its New Business Premium has grown at a CAGR of 18.3%, with the market share amongst private players improving from 16.9% in FY13 to 20% in FY17.

SBI Life has a diversified product mix. The contribution of ULIP/PAR/Non-PAR/Protection/Fund Business is 50/11/2/5/32% respectively. It has a strong individual channel network, with bancassurance and agency channels contributing 65% and 34% respectively.

SBI Life is uniquely positioned to tap the vast potential in India's Life Insurance sector by harnessing the SBI Group's large distribution footprint, with more than 24K branches. Further, it has tied up with 17 regional rural banks and other players such as South India Bank and Punjab & Sind Bank. It has benefitted immensely from the group synergy programme to cross sell financial products. The bancassurance channel has grown at a CAGR of 46.7% over FY15-17.

**Experienced Management Team**

Company's Board consist of many Industry professionals from both SBI and BNPPC. The management team has extensive experience and know-how in the Indian Life insurance industry. Company's MD & CEO, Arijit Basu has 34 years of experience in BFSI segment and has been with SBI since 1983.

Julien Hautiere Rey is the Deputy CEO of the company. Rey has been the Deputy CEO of SBI Life since October 2016. Prior to joining SBI Life, he was the Chief Finance & Risk officer at BNP Paribas Cardif Russia.

Sangramjit Sarangi is the CFO of the company. He holds chartered Accountant Degree and has 18 years of experience in MF and Insurance Industry. He has been with SBI Group since 2009.

**Healthy financial ratios and Balance sheet**

The Company has strong balance sheet with an excellent capital positioning, which leads solvency ratio to 209% compared to the IRDAI-prescribed control level of 150%.

SBI Life has delivered consistence return to its shares holders. It has given average return on equity of around 20% since last 3 years. It also has decent track record of distributing income in terms of dividend to its shareholders.

The 13<sup>th</sup> month persistency ratio, which has been increasing in recent years, has reached to 81% in FY17, one of the highest in the Indian life insurance sector. Likewise 61<sup>st</sup> month persistency ratio, at 67% in FY17, was also the highest in the Indian life insurance sector.

SBI Life has AUM of around Rs. 977 bn, as of FY17 and it has grown at 16% CAGR in last 5 years. 23% of this AUM is Equity and talking about geographic distribution SBI Life's portfolio is far more diversified.

### **View & Valuation:**

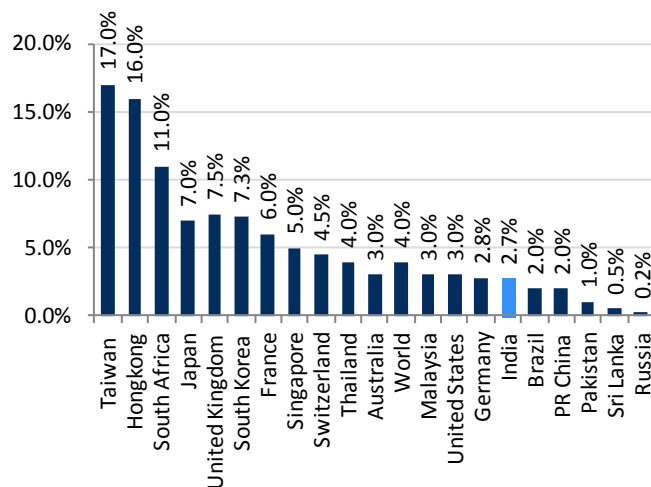
SBI Life Insurance is a play on the under-penetrated Life Insurance market, with a strong distribution footprint of its parent SBI. Given the untapped distribution reach, along with tailwinds towards the financialisation of savings, we expect 18.9% and 29.5% CAGR growth between FY17-20E in the New Business Premium and Value of New Business for SBI Life Insurance.

Besides this, in recent Budget Government has proposed to introduce LTCG on Equity and Mutual Fund investments. So now Investors will be more attracted to unit linked life insurance products (ULIPs) as the income from this is free in the hand of the investor at the time of withdrawal.

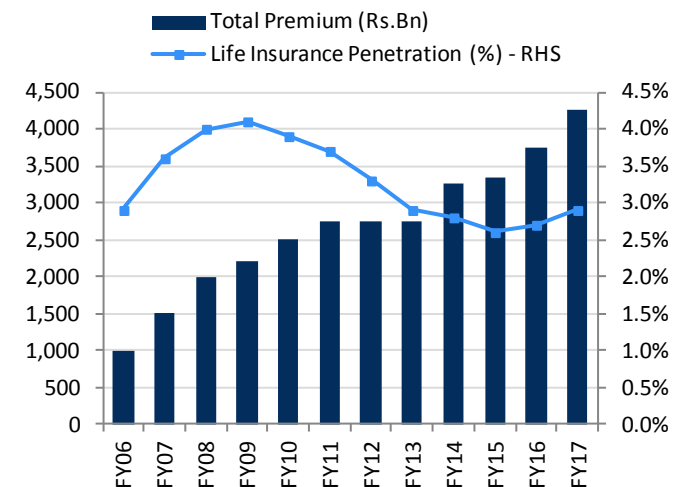
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### **Risk & Concerns:**

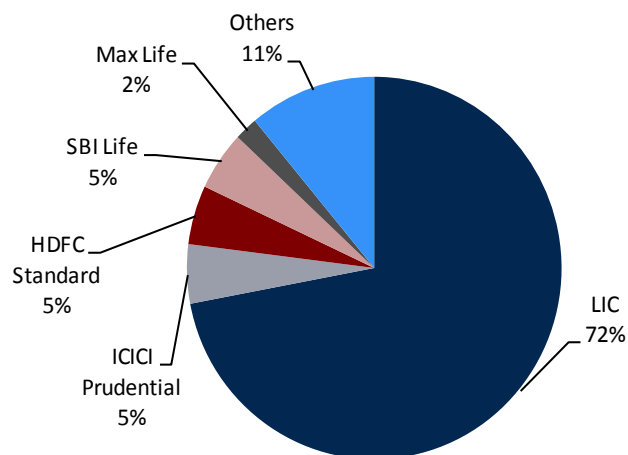
- Insurance companies pay a lower corporate tax rate of 14.5%. Any move to increase this to the normal rate would significantly reduce EV and VNB.
- Change in IRDA norms remain a sector level risk.
- Low share of direct channel is a concern.
- Highly competitive business.

**Life Insurance Industry Penetration (2016)**


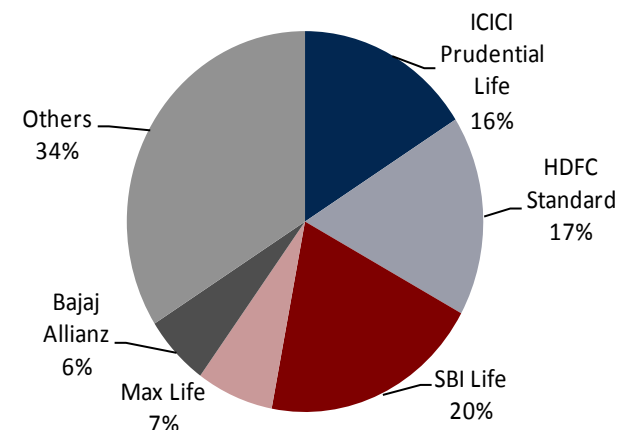
Source: Company, HDFC sec Research

**Total Premium Trend**


Source: Company, HDFC sec Research

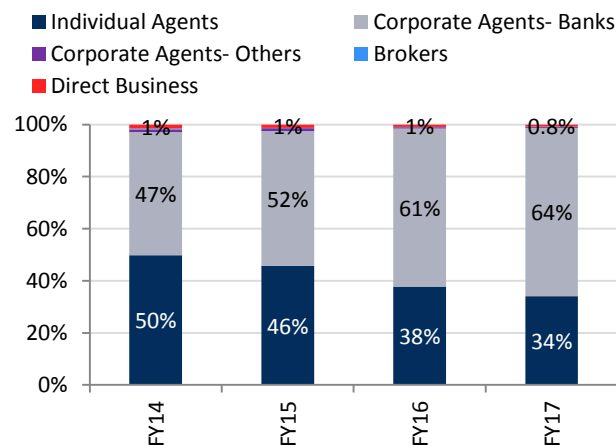
**LIC Dominates The Industry (New Premium: FY17)**


Source: Company, HDFC sec Research

**Private Players' Market Share On NBP (FY17)**


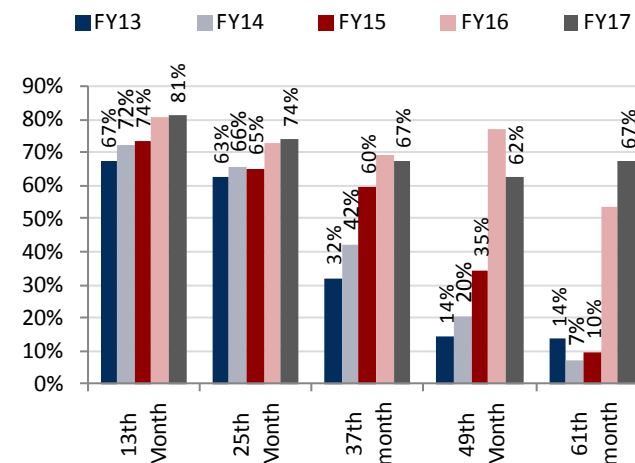
Source: Company, HDFC sec Research

### Channel Mix (Individual NBP)



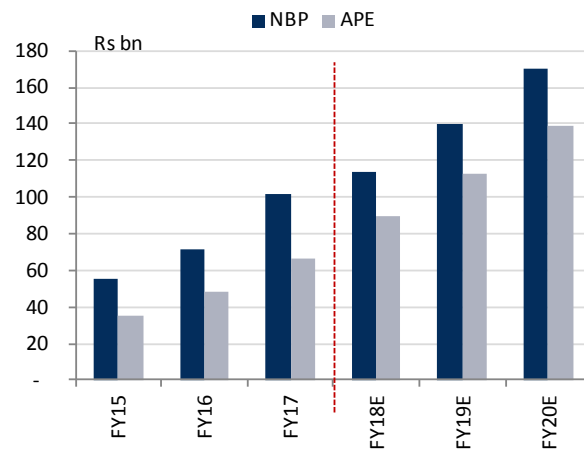
Source: Company, HDFC sec Research

### Persistency Across Buckets Has Improved



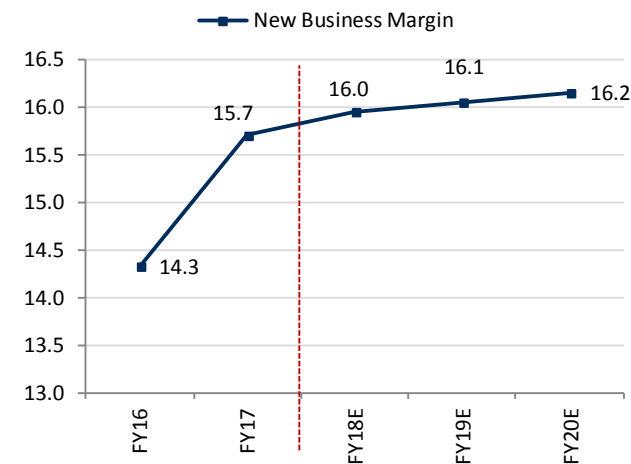
Source: Company, HDFC sec Research

### Trend in NBP and APE

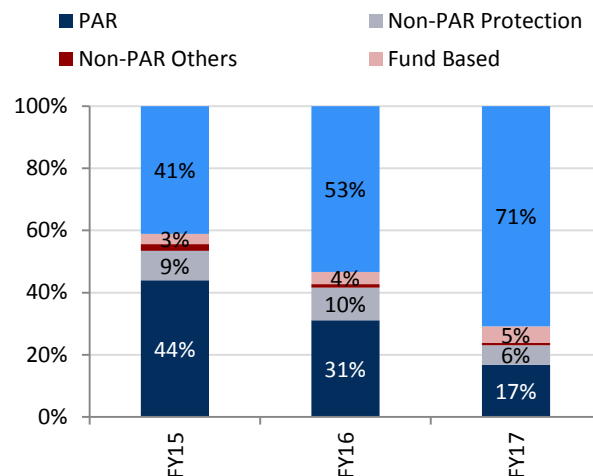


Source: Company, HDFC sec Research

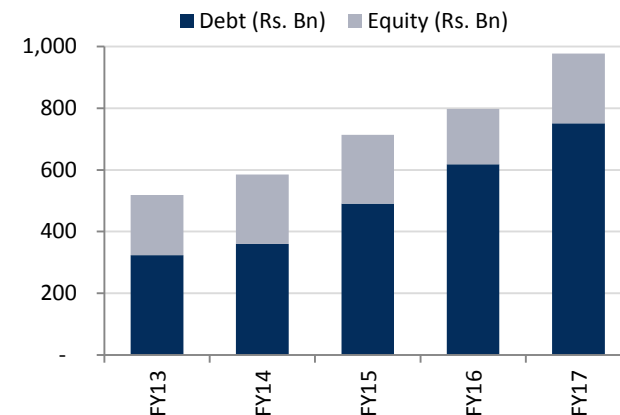
### Trend In Margin



Source: Company, HDFC sec Research

**Product Mix (APE)**


Source: Company, HDFC sec Research

**AUM Mix**


Source: Company, HDFC sec Research

**Policyholder AC**

(Rs mn)	FY17	FY18E	FY19E	FY20E
Total Premium earned	208,525	257,406	328,608	418,623
Income from investments and other income	93,624	81,796	98,833	120,874
Transfer from shareholders AC	627	500	500	500
<b>Total Income</b>	<b>302,775</b>	<b>339,702</b>	<b>427,941</b>	<b>539,997</b>
Commission	7,833	10,709	13,667	17,285
Operating expenses	16,465	20,421	25,743	31,962
Provisions	2,223	2,383	2,502	2,627
<b>Total Expenses</b>	<b>26,522</b>	<b>33,512</b>	<b>41,912</b>	<b>51,875</b>
Benefits Paid	95,502	110,094	132,282	161,236
Change in valuation of liabilities	172,410	184,854	241,068	309,966
<b>Total</b>	<b>267,912</b>	<b>294,948</b>	<b>373,350</b>	<b>471,202</b>
<b>Surplus</b>	<b>8,342</b>	<b>11,241</b>	<b>12,679</b>	<b>16,921</b>
Tax	1,798	2,248	2,536	3,384
<b>Net Surplus</b>	<b>6,544</b>	<b>8,993</b>	<b>10,143</b>	<b>13,537</b>
<b>Transfer to shareholders AC</b>	<b>6,546</b>	<b>8,993</b>	<b>10,143</b>	<b>13,537</b>

Source: Company, HDFC sec Research

**Shareholders AC**

(Rs mn)	FY17	FY18E	FY19E	FY20E
Transfer from policyholders' a/c	6,546	8,993	10,143	13,537
Investment income	4,016	4,296	5,255	6,403
<b>Total income</b>	<b>10,562</b>	<b>13,288</b>	<b>15,399</b>	<b>19,939</b>
Expenses	275	206	227	244
Contribution to policyholders' a/c	627	627	627	627
<b>Profit before tax</b>	<b>9,659</b>	<b>12,455</b>	<b>14,545</b>	<b>19,068</b>
Taxes	199	623	727	954
<b>PAT</b>	<b>9,460</b>	<b>11,832</b>	<b>13,817</b>	<b>18,115</b>

Source: Company, HDFC sec Research

**Balance Sheet**

(Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Source</b>				
Share capital	10,000	10,000	10,000	10,000
Reserve and surplus	44,648	54,246	65,718	81,121
<b>Net worth</b>	<b>54,648</b>	<b>64,246</b>	<b>75,718</b>	<b>91,121</b>
Credit/debit balance in fair value a/c	873	873	873	873
Policyholders' a/c	936,732	1,121,586	1,362,653	1,672,619
Funds for future appropriation	-	-	-	-
<b>Total Liabilities</b>	<b>992,252</b>	<b>1,186,704</b>	<b>1,439,245</b>	<b>1,764,613</b>
<b>Application</b>				
Shareholders' Investments	42,955	52,553	64,026	79,428
Policyholders' investments	469,617	539,099	657,222	809,105
Asset to cover linked liabilities	445,730	561,103	684,047	842,130
Loans	1,782	1,782	1,782	1,782
Fixed assets + DTA	5,385	5,385	5,385	5,385
Net current assets	26,783	26,783	26,783	26,783
Debit balance in P&L	-	-	-	-
<b>Total Assets</b>	<b>992,252</b>	<b>1,186,704</b>	<b>1,439,245</b>	<b>1,764,613</b>

Source: Company, HDFC sec Research

**Key Ratios**

In %	FY17	FY18E	FY19E	FY20E
Premium Growth	33.1	23.4	27.7	27.4
NBP Growth	42.8	13.3	23.2	21.8
APE Growth	35.3	37.6	25.6	23.7
Commissions Growth	9.7	36.7	27.6	26.5
Opex Growth	12.9	24.0	26.1	24.2
Commissions / premium	3.8	4.2	4.2	4.1
Opex / premium	7.9	7.9	7.8	7.6
PAT Growth	10.8	25.1	16.8	31.1
RoAA	1.1	1.1	1.1	1.1
RoE	18.6	19.9	19.7	21.7
EPS (Rs)	9.46	11.83	13.82	18.11
BV (Rs)	54.6	64.2	75.7	91.1
EV (Rs mn)	165,379	193,986	228,832	270,763
VNB (Rs mn)	10,368	14,946	19,065	23,801
EVOP (Rs mn)	28,874	30,846	37,195	44,650
ROEV	33.2	18.7	19.2	19.5
P/E (x)	72.8	58.2	49.9	38
P/ABV (x)	12.6	10.7	9.1	7.6
P/EV (x)	4.2	3.6	3	2.5

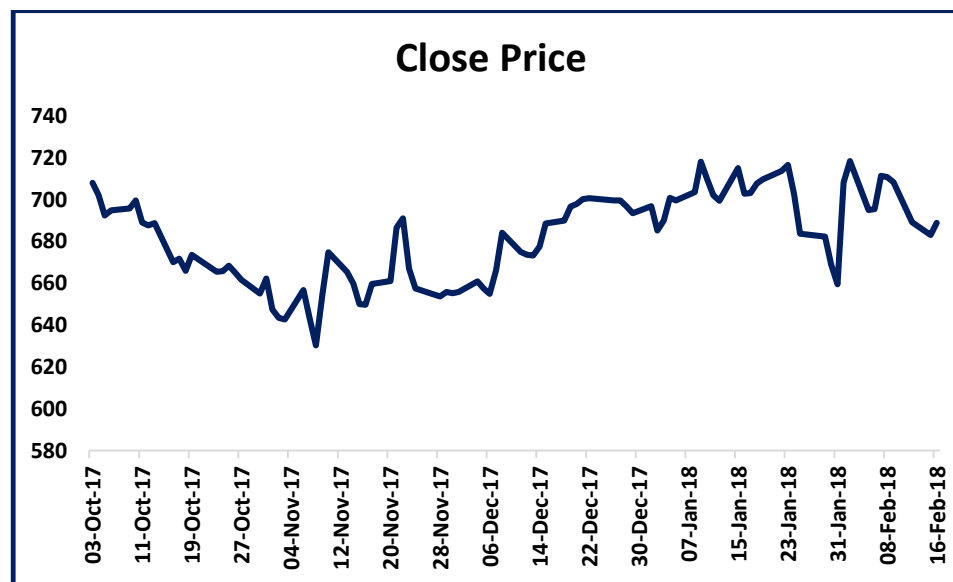
Source: Company, HDFC sec Research

**Rating Chart**

R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
		RISK		

**Ratings Explanation:**

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTIFIES PRICE CAN RISE BY 15%	IF INVESTMENT RATIONALE FRUCTIFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTIFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTIFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTIFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTIFIES PRICE CAN RISE BY 50% OR MORE



Source: BSE, HDFC sec Research

**Rating Definition:**

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

**Disclosure:**

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Any holding in stock –NO

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