

Higher Growth Leads to Earnings Upgrade

Our recent interaction with SBILIFE convinced us that growth surprises will persist. Increasing width (and depth) at activating SBI's branch network and SBILIFE's new partner addition initiatives drive our conviction. Further, a higher than expected APE growth in 8MFY20, leads us to upgrade FY20E-22E APE by 3.4-7.2%. Retain BUY with an increased TP of Rs 1,230 (+23.4%) implying a DCF derived Dec-20E EV + 25.4x FY22E VNB. SBILIFE continues to be our top pick in the life insurance space.

- Growth continues at strong pace:** As per IRDAI data for FY20TD (Nov-19), SBILIFE's NBP/APE have increased to Rs 107.2/61.8bn, +39/22% YoY. Given the above, we are increasing our FY20E/21E/22E NBP growth to 19.2/17.8/16.9% from our earlier 15.3/15.0/15.5%.
- SBI channel out-performing, sustainably:** Even now, only 61% of SBI's branches are activated (business > Rs 0.6mn p.a.) and SBI contributed ~Rs3.8mn/branch in FY19, which SBILIFE expects to increase to Rs 4.5mn in FY20E. Here, too, there is strong polarization with ~600 branches doing very well. Incentives and competition amongst branches are successfully driving branch interest in selling insurance. SBI is also training recruits for 3 weeks during their 6 month training program, post which recruits are also taking the IRDAI examinations to qualify as specified personnel. SBI has also invested heavily on analytics and integration of SBILIFE's products on its digital platform. Lastly, SBI has increased its commission targets from SBILIFE to Rs 12.5bn (+25% YoY, in FY20E). We believe branch activations will increase and the SBI channel will easily grow at 15-20% p.a. over next 3-5 years.

- SBI arrangement:** According to SBILIFE, SBI is not looking to change to open architecture as it creates brand conflict. Additionally SBILIFE also stated that SBI's management believes loading several products onto employees will be an unnecessary strain on the employees. Further, management says that SBI is not looking for increased payouts from SBILIFE.

STANCE

Given the strong distribution footprint of its parent SBI (24k+ branches), improving protection share (1HFY20 8.8%, +340bps YoY), lowest operating cost ratios (10.4%), and improving margins (FY20E VNB margin: 20.8%, +100bps YoY), our FY20E/21E/22E APE rises 3.4/5.9/7.2% and FY21E/22E margins expand 20bps each. We expect SBILIFE to deliver strong FY19-22E VNB CAGR of 23.3% p.a. and RoEVs of ~18-18.5%. Lower than expected growth, lower protection share and lower margins remain key risks to our call.

FINANCIAL SUMMARY

Rs bn.	FY17	FY18	FY19	FY20E	FY21E	FY22E
NBP	101.5	109.7	137.9	177.3	216.4	263.5
Growth (%)	42.8	8.1	25.8	28.6	22.0	21.8
APE	66.0	85.4	96.9	115.6	136.1	159.1
Growth (%)	35.4	29.3	13.5	19.2	17.8	16.9
VNB	10.4	15.7	19.2	24.0	29.7	36.0
Growth (%)	48.3	51.4	22.3	25.2	23.4	21.2
VNB margin (%)	15.7	18.4	19.8	20.8	21.8	22.6
EV	165.7	201.7	237.3	281.4	329.3	386.8
Growth (%)	27.5	21.7	17.7	18.6	17.0	17.5
P/EV (x)	6.0	4.9	4.2	3.5	3.0	2.6
P/VNB (x)	83.6	53.0	41.4	31.6	24.1	18.6
Op. RoEV (%)	23.0	18.0	17.6	17.5	18.0	18.5

Source: Company, HDFC sec Inst Research

INDUSTRY	INSURANCE
CMP (as on 23 Dec 2019)	Rs 997
Target Price	Rs 1,230
Nifty	12,263
Sensex	41,643

KEY STOCK DATA

Bloomberg	SBILIFE IN
No. of Shares (mn)	1,000
MCap (Rs bn) / (\$ mn)	997/14,000
6m avg traded value (Rs mn)	2,261

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,030/510		
	3M	6M	12M
Absolute (%)	25.9	42.4	66.8
Relative (%)	19.4	36.2	50.3

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	67.3	62.8
FIs & Local MFs	6.1	6.9
FPIs	19.4	23.7
Public & Others	7.1	6.6
Pledged Shares	Nil	Nil

Source : BSE

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- **Newer tie-ups performing better than expectation:** Management stated that relatively newer tie-ups such as ALBK, Syndicate, Repco, P&S Bank continue to do better than expectations. It expects contribution from these banks to touch 10% in new business sales as early as FY22E. Management also indicated that it is looking to add new partners shortly.
- **Products:** SBILIFE is looking to lower pricing on its term product in 4QFY20E. Currently pricing is 10-12% higher than that of the other two large pvt. competitors. Management stated that the it some mortality experience before re-pricing the product. SBILIFE also stated that it offers ~5.5% guaranteed returns on its 10-yr NPAR product. It has written ~Rs3.5bn of business in FY20TD. SBIIFE believes writing a NPAR product with longer than a 10-year duration is risky.
- **Large growth headroom available in credit protect.** SBILIFE indicated credit protect continues to be a large growth area as attachment rates in mortgages is just 42%. Increasing attachment rates, higher disbursements and activation of partners to drive growth.

FY20TD NBP growth for SBI life has been significantly ahead of private insurance industry growth.

Private sector Individual NBP growth was 31% in Nov-19.

NBP (Rs bn)	Individual		Group		Total		YTD - Individual		YTD - Group		YTD - Total	
	Nov-19	YOY (%)	Nov-19	YOY (%)	Nov-19	YOY (%)	FY20TD	YOY(%)	FY20TD	YOY(%)	FY20TD	YOY(%)
Aditya Birla Sun Life	1.9	61	2.4	64	4.2	62	10.5	21	11.5	-18	22.0	-3
Bajaj Allianz Life	1.9	55	4.0	140	5.9	104	11.7	29	20.7	14	32.4	19
Bharti Axa Life	0.5	17	0.1	-47	0.6	-3	4.0	10	1.4	-18	5.4	1
DHFL Pramerica Life	0.1	-34	0.3	-42	0.4	-40	1.1	-50	2.8	-60	3.9	-58
HDFC Standard Life	6.6	31	10.2	81	16.8	58	51.4	21	56.4	32	107.7	26
ICICI Prudential Life	7.0	24	2.7	-22	9.7	6	49.4	5	21.2	83	70.6	20
IDBI Federal Life	0.3	-29	0.1	22	0.5	-20	2.6	-26	0.9	32	3.4	-17
Kotak Mahindra Life	2.0	36	3.5	118	5.4	79	11.7	26	17.5	59	29.2	44
Max Life	4.0	21	0.4	17	4.4	20	28.0	20	2.5	4	30.6	19
PNB Met Life	1.1	12	0.5	141	1.6	33	7.7	3	2.8	121	10.5	20
SBI Life	10.5	32	4.3	32	14.8	32	67.0	28	40.2	61	107.2	39
Tata AIA Life	2.7	76	0.1	-7	2.8	72	16.9	64	0.8	2	17.7	59
Private players Total	43	31	31	53	75	39	295	19	196	27	491	22
LIC	61	49	126	135	188	97	343	20	859	58	1,202	45
Industry total	105	41	157	112	262	76	638	19	1,055	51	1,693	37

Source: IRDAI, HDFC sec Inst Research

Private sector Individual APE growth was 27% in Nov-19

(Rs bn)	Individual		Group		Total		YTD - Individual		YTD - Group		YTD - Total	
	Nov-19	YOY (%)	Nov-19	YOY (%)	Nov-19	YOY (%)	FY20TD	YOY (%)	FY20TD	YOY (%)	FY20TD	YOY (%)
Aditya Birla Sun Life	1.8	63	0.2	56	2.0	62	9.9	22	1.2	-28	11.0	14
Bajaj Allianz Life	1.8	54	0.4	140	2.2	64	11.3	30	2.1	14	13.4	27
Bharti Axa Life	0.5	19	0.0	-47	0.5	16	3.7	12	0.1	-18	3.8	11
DHFL Pramerica Life	0.1	-32	0.0	-42	0.2	-35	1.1	-49	0.3	-60	1.3	-52
HDFC Standard Life	4.6	43	1.0	81	5.6	49	35.8	28	5.6	32	41.4	29
ICICI Prudential Life	6.1	20	0.3	-22	6.4	17	42.1	2	2.1	83	44.2	4
IDBI Federal Life	0.2	-27	0.0	9	0.3	-26	1.8	-27	0.1	20	1.9	-26
Kotak Mahindra Life	1.4	21	0.3	97	1.7	31	8.3	11	1.8	44	10.0	16
Max Life	3.1	17	0.0	17	3.1	17	22.3	19	0.3	4	22.5	19
PNB Met Life	1.1	12	0.0	113	1.2	14	7.6	4	0.3	102	7.9	5
SBI Life	9.0	22	0.4	37	9.5	23	57.7	20	4.1	60	61.8	22
Tata AIA Life	2.3	50	0.0	-38	2.3	47	14.5	41	0.4	-38	14.9	36
Private players total	36.5	27	3.2	48	39.7	28	246.3	16	20.5	18	266.8	16
LIC	44.2	104	44.3	642	88.5	220	193.1	18	299.6	406	492.7	121
Industry total	80.7	60	47.5	482	128.2	119	439.4	17	320.2	318	759.6	68

Source: IRDAI, HDFC sec Inst Research

We build in FY20E APE growth of 19.2% for SBI Life as against FY20TD 22% growth posted by SBI Life

NPAR (+31x YoY) was the main driver of APE growth (+18.1% YoY).

ULIP sales continue to grow (+10.7% YoY) likely due to high share of debt in AUM mix, however the growth pace has slowed down considerably.

Total protection share increased to 7.1% (+124/-411bps YoY/QoQ).

Operating and performance metrics

Particulars (Rs bn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)
Product mix on APE basis							
Individual Savings	21.6	26.1	27.4	15.6	24.8	14.8	59.0
Par	4.7	4.9	5.2	2.7	3.0	-36.2	11.1
Non Par	0.1	0.1	0.1	0.5	3.2	3100.0	540.0
ULIP	16.8	21.1	22.1	12.4	18.6	10.7	50.0
Group Savings	0.8	0.7	1.1	1.0	1.3	62.5	30.0
Protection	1.4	2.1	2.5	2.1	2.0	42.9	-4.8
Individual Protection	0.8	1.1	1.6	1.1	1.2	50.0	9.1
Group Protection	0.6	1.0	0.9	1.0	0.8	33.3	-20.0
Total APE	23.8	28.9	31.0	18.7	28.1	18.1	50.3
Product mix - APE basis (%)							
Individual Savings	90.8	90.3	88.4	83.4	88.3	-250bps	483bps
PAR	19.7	17.0	16.8	14.4	10.7	-907bps	-376bps
Non-PAR	0.4	0.3	0.3	2.7	11.4	1097bps	871bps
ULIP	70.6	73.0	71.3	66.3	66.2	-440bps	-12bps
Group Savings	3.4	2.4	3.5	5.3	4.6	126bps	-72bps
Protection	5.9	7.3	8.1	11.2	7.1	124bps	-411bps
Individual Protection	3.4	3.8	5.2	5.9	4.3	91bps	-161bps
Group Protection	2.5	3.5	2.9	5.3	2.8	33bps	-250bps
Total APE	100	100	100	100	100		
Individual APE share (%)	94.1	94.1	93.5	89.3	89.5	-457bps	24bps
Group APE share (%)	5.9	5.9	6.5	10.7	10.5	457bps	-24bps
Reported VNB Margin (%)#	17.3	17.5	17.7	17.9	18.1	80bps	20bps
Adjusted VNB Margin (%)#	19.2	19.6	19.8	19.9	20.2	100bps	30bps

Source: Company, HDFC sec Inst Research

Note: #VNB margins for FY19 and for FYTD periods in respective quarters of FY20.

As management focus shifted towards NPAR business, PAR product sales reduced.

SBI Life continues to show cost discipline as opex ratio was contained at 9.9% (-98bps YoY)

AUM growth was robust at 22.7% YoY taking total AUM to Rs 1.54tn.

Particulars (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)
Product mix (NBP basis)							
Individual Savings	23.1	27.8	28.7	17.6	28.5	23.4	61.9
Par	4.6	4.8	5.0	2.7	3.0	-34.8	11.1
Non Par	0.6	0.7	0.6	1.7	5.4	800.0	217.6
ULIP	17.9	22.3	23.1	13.2	20.1	12.3	52.3
Group Savings	8.1	6.6	8.5	9.6	13.2	63.0	37.5
Protection	3.7	4.8	5.8	4.3	5.0	35.1	16.3
Individual Protection	0.8	1.1	1.6	1.1	1.3	62.5	18.2
Group Protection	2.9	3.7	4.2	3.2	3.7	27.6	15.6
Total	34.9	39.2	43.0	31.5	46.7	33.8	48.3
Product mix (NBP basis) (%)							
Individual Savings	66.2	70.9	66.7	55.9	61.0	-516bps	515bps
Par	13.2	12.2	11.6	8.6	6.4	-676bps	-215bps
Non Par	1.7	1.8	1.4	5.4	11.6	984bps	617bps
ULIP	51.3	56.9	53.7	41.9	43.0	-825bps	114bps
Group Savings	23.2	16.8	19.8	30.5	28.3	506bps	-221bps
Protection	10.6	12.2	13.5	13.7	10.7	10bps	-294bps
Individual Protection	2.3	2.8	3.7	3.5	2.8	49bps	-71bps
Group Protection	8.3	9.4	9.8	10.2	7.9	-39bps	-224bps
Total	100.0	100.0	100.0	100.0	100.0		
Channel mix (%)							
Banassurance	61.0	70.7	61.8	57.0	57.0	-400bps	0bps
Agency	19.8	21.0	21.0	18.0	18.0	-181bps	0bps
Others	19.2	8.3	17.2	25.0	25.0	581bps	0bps
Operating expenses Ratio (%)	10.9	9.6	9.6	11.2	9.9	-98bps	-126bps
AUM (Rs bn)							
Linked (%)	47	48	49	49	50	300bps	100bps
Non-Linked (%)	53	52	51	51	50	-300bps	-100bps
Equity (%)	22	22	23	23	23	100bps	0bps
Debt (%)	78	78	77	77	77	-100bps	0bps
Persistence (%)							
13th month persistency	80.0	80.1	85.1	84.5	83.1	310bps	-133bps
25th month persistency	71.7	72.4	76.7	76.0	75.9	422bps	-6bps
37th month persistency	68.4	67.4	71.4	70.6	68.9	47bps	-167bps
49th month persistency	64.9	66.1	66.4	67.9	65.8	82bps	-214bps
61st month persistency	55.5	56.2	57.2	56.3	59.8	430bps	348bps

Source: Company, HDFC sec Inst Research

Change in estimates

Rs bn	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
APE	115.6	111.7	3.4	136.1	128.5	5.9	159.1	148.4	7.2
VNB	24.0	23.2	3.6	29.7	27.8	6.7	36.0	33.2	8.3
VNB Margin (%)	20.8	20.8	0.0	21.8	21.6	20.0	22.6	22.4	20.0
Embedded Value	281.4	280.6	0.3	329.3	326.3	0.9	386.8	380.3	1.7

Source: HDFC sec Inst Research estimates

Embedded Value movement

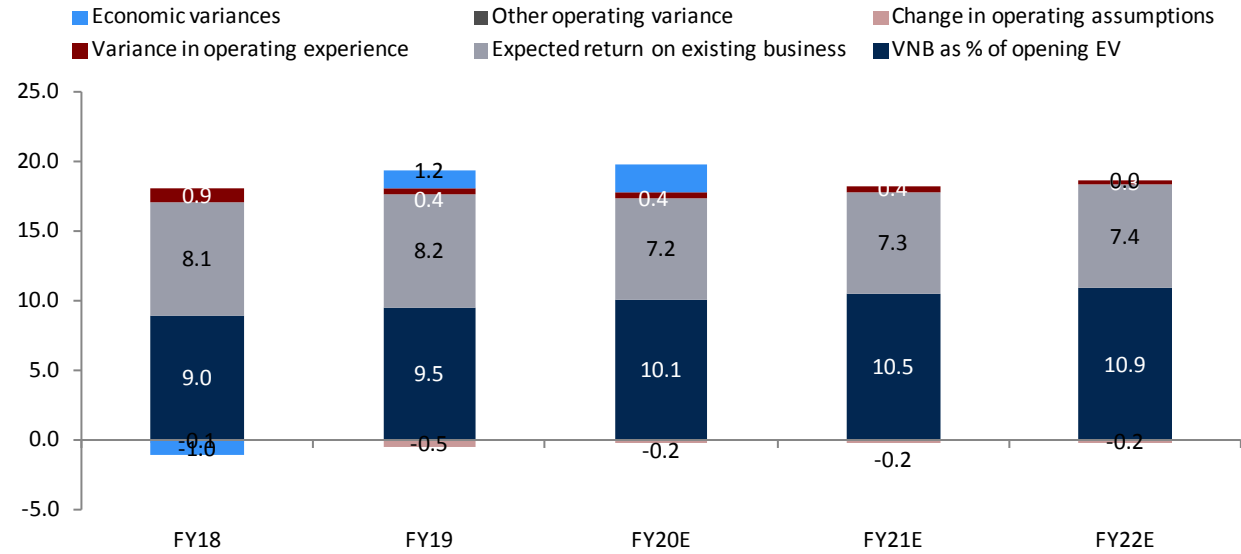
Particulars (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Opening IEV	174,200	201,700	237,314	281,369	329,264
Value added by new business	15,700	19,200	24,035	29,667	35,959
Expected return on existing business	14,100	16,514	17,087	20,540	24,366
Variance in Operating experience	1,600	800	1,000	1,000	1,000
Change in operating assumptions	-100	-1,000	-500	-500	-500
Other operating variance					
IEV operating earnings	31,300	35,514	41,621	50,707	60,825
Economic variances	-1,800	2,500	5,000	0	0
Other non-operating variances	0	0	0	0	0
Total IEV earnings	29,500	38,014	46,621	50,707	60,825
Capital contributions / dividend payouts	-2,000	-2,400	-2,567	-2,812	-3,293
Closing IEV	201,700	237,314	281,369	329,264	386,796

*FY18 opening IEV adjusted for effective tax rate

Source: Company, HDFC sec Inst Research

We upgrade our FY20E/21E/22E APE expectation 3.4/5.9/7.2% and tweak our FY21E/22E margin assumption by 20bps each.

RoEV stack up chart



Source: Company, HDFC sec Inst Research

RoEVs are expected to be in the range of ~18-18.5%.

Performance metrics, growth and ratios

Performance metrics (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
NBP	109,661	137,920	177,341	216,414	263,535
APE	85,400	96,900	115,552	136,088	159,112
VNB*	15,700	19,200	24,035	29,667	35,959
EV*	201,700	237,314	281,369	329,264	386,796
EVOP	31,300	35,514	41,621	50,707	60,825
Rs/share					
EPS	11.5	13.3	14.1	15.5	18.1
BV	63.7	74.6	86.2	98.8	113.6
DPS	1.7	2.0	2.1	2.3	2.7
Growth (%)					
Premium Growth	60.6	30.7	25.6	23.3	21.2
Total income growth	11.5	31.1	21.7	22.0	20.4
Commissions Growth	56.9	20.1	23.0	20.6	18.9
Opex Growth	17.9	23.5	29.3	21.4	17.5
Commissions / premium	4.5	4.1	4.0	3.9	3.8
Opex / premium	6.8	6.5	6.6	6.5	6.3
PAT Growth	33.6	15.3	6.4	9.6	17.1
Performance metrics growth (%)					
NBP	8.1	25.8	28.6	22.0	21.8
APE	29.3	13.5	19.2	17.8	16.9
VNB	51.4	22.3	25.2	23.4	21.2
EV	21.7	17.7	18.6	17.0	17.5
EVOP	8.4	13.5	17.2	21.8	20.0
EPS	20.5	15.3	6.4	9.6	17.1
BV	16.6	17.0	15.5	14.7	15.0
DPS	33.3	20.0	6.9	9.6	17.1
Expense ratios (%)					
Commissions/premium	4.5	4.1	4.0	3.9	3.8
Opex/premium	6.8	6.5	6.6	6.5	6.3
Total expenses/premium	12.7	12.2	11.8	11.4	11.0
Efficiency ratios (%)					
RoAA	1.2	1.0	0.9	0.8	0.8
RoE	20.8	19.2	17.6	16.7	17.1
RoEV return	16.9	18.8	19.6	18.0	18.5
Operating RoEV	18.0	17.6	17.5	18.0	18.5
Non-operating RoEV	(1.0)	1.2	2.1	-	-

**We build in FY19-22E APE
CAGR of 18.0%.**

Ratios on CMP	FY18	FY19	FY20E	FY21E	FY22E
P/E (x)	86.7	75.2	70.6	64.4	55.0
P/ABV (x)	15.6	13.4	11.6	10.1	8.8
P/EV (x)	4.9	4.2	3.5	3.0	2.6
P/VNB Multiple (x)	53.0	41.4	31.6	24.1	18.6
P/EVOP (x)	31.9	28.1	24.0	19.7	16.4
P/VIF (x)	8.6	6.6	5.7	4.9	4.2
P/AUM(x)	0.9	0.7	0.6	0.5	0.4
Ratios on TP					
P/E (x)	106.9	92.7	87.1	79.5	67.9
P/ABV (x)	19.3	16.5	14.3	12.4	10.8
P/EV (x)	6.1	5.2	4.4	3.7	3.2
P/VNB Multiple (x)	67.8	53.6	41.3	32.0	25.0
P/EVOP (x)	39.3	34.6	29.6	24.3	20.2
P/VIF (x)	10.6	8.1	7.0	6.0	5.1
P/AUM(x)	1.1	0.9	0.7	0.6	0.5

* Adjusted for change in effective tax rate

Source: Company financials and disclosures, HDFC sec Inst Research

Policyholder's Account

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Total premium earned	251,601	328,904	413,154	509,293	617,409
Income from investments and other income	85,248	112,719	124,870	147,388	173,195
Transfer from shareholders account	756	989	500	520	541
Total income	337,605	442,612	538,523	657,201	791,145
Commission	11,209	13,464	16,558	19,975	23,750
Operating expenses	17,188	21,235	27,447	33,321	39,151
Provisions	3,527	5,505	4,769	5,007	5,258
Total expenses	31,924	40,203	48,774	58,303	68,159
Benefits paid	117,123	152,938	191,050	247,961	307,095
Change in valuation of liabilities	175,950	235,917	284,645	335,356	397,749
Total	293,073	388,855	475,695	583,317	704,844
Surplus	12,609	13,553	14,054	15,581	18,142
Tax	2,380	2,687	2,786	3,089	3,597
Net surplus	10,229	10,866	11,268	12,492	14,545

Source: Company, HDFC sec Inst Research

Shareholder's Account

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Transfer from policyholders' a/c	8,294	9,985	10,141	10,618	12,363
Investment income	4,521	5,057	5,723	6,729	7,837
Other income	113	135	-	-	-
Total income	12,928	15,177	15,864	17,347	20,201
Expenses	327	459	498	539	585
Contribution to policyholders' a/c	756	989	500	520	541
Profit before tax	11,845	13,729	14,867	16,288	19,075
Taxes	341	461	743	814	954
PAT	11,504	13,268	14,124	15,473	18,122

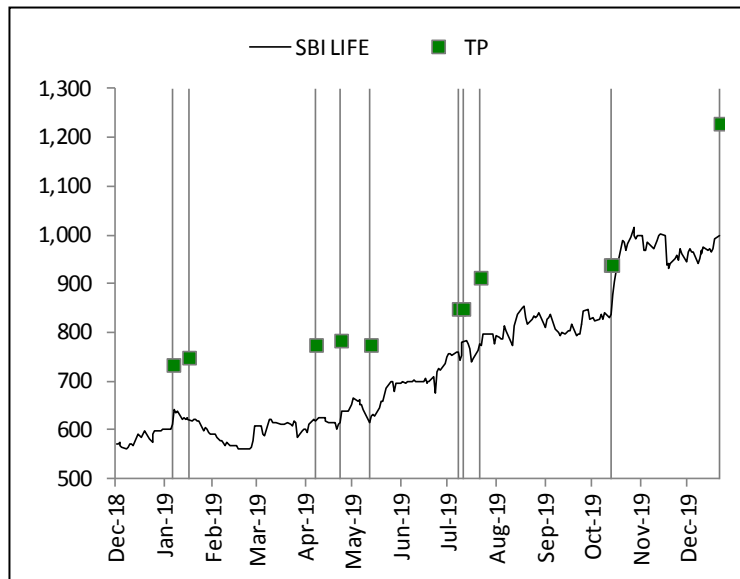
Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Sources of funds					
Share capital	10,000	10,000	10,000	10,000	10,000
Reserve and surplus	53,745	64,601	76,158	88,820	103,648
Net worth	63,745	74,601	86,158	98,820	113,648
Credit/debit balance in fair value a/c	1,534	1,162	1,162	1,162	1,162
Policyholders' a/c	1,114,345	1,351,399	1,636,044	1,971,400	2,369,149
Funds for future appropriation	1,935	2,816	2,957	3,105	3,260
Total Liabilities	1,181,558	1,429,978	1,726,321	2,074,487	2,487,219
Application of funds					
Shareholders' Investments	50,144	57,232	67,286	78,373	91,553
Policyholders' investments	544,857	644,724	-	-	-
Asset to cover linked liabilities	549,359	691,291	1,620,660	1,956,016	2,353,765
Loans	1,709	1,725	1,768	1,812	1,858
Fixed assets + DTA	5,813	5,952	6,101	6,254	6,410
Net current assets	29,677	29,054	30,507	32,032	33,634
Debit balance in P&L	-	-	-	-	-
Total Assets	1,181,558	1,429,978	1,726,321	2,074,487	2,487,219

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
8-Jan-19	605	BUY	735
19-Jan-19	620	BUY	750
9-Apr-19	620	BUY	776
26-Apr-19	614	BUY	785
14-May-19	616	BUY	776
9-Jul-19	759	BUY	850
13-Jul-19	781	BUY	850
24-Jul-19	776	BUY	914
14-Oct-19	840	BUY	940
16-Oct-19	840	BUY	940
24-Dec-19	997	BUY	1230

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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