

SBI Life Insurance

6 May 2020

Reuters: SBIL.NS; Bloomberg: SBILIFE IN

FY21 to be tough; remain structurally positive

SBI Life Insurance (SBIL) has reported a weak quarter due to the national lockdown impacting sales in the last 10-15 days of March'20. NBP for the quarter was Rs38bn (9% below our estimate), down 11.9% YoY. APE in 4QFY20 was down 10.8% YoY at Rs26.5bn. Segment wise, ULIP business was down 14% YoY and par business was down 50% YoY. Individual protection sales were subdued, growing by 6% YoY while group protection sales were up 67% YoY. For FY21, the traction on protection is expected to be better, partially on account of higher customer preference. On the other hand, we believe that having a higher debt component in the ULIP business gives company the confidence to keep selling linked products. As per the management, customers are comfortable buying ULIPs. This is evidenced by the fact that the persistency on the ULIP portfolio is >85%. Surrenders have fallen to 3.9% in FY20 from 5.2% last year. During the quarter, the company has done non-par business worth Rs1.8bn compared to Rs5.6bn during 9MFY20. The reduction in the non-par business seems to be in line with the reduction in the rates. Going forward, non-par is unlikely to be a focus area and would see growth moderate. To keep persistency in check, a lot of focus would be expended on ensuring that renewals come through. In terms of new business growth outlook, the management commentary indicates that FY21 would be a tough year. In terms of product mix for FY20 (APE basis), the movement has been favorable with overall share of protection increasing by 213bps YoY. From a profitability standpoint, VNB margin improved ~100bps YoY to 18.7% in FY20. While the improvement in business mix/profile added 4.9% to the base margin, change in operating assumptions (1.3%) and economic assumptions (2.5%) impacted negatively. VNB margin on protection has held stable over the past 12 months at 70-75%. On account of weak growth outlook and other unforeseen risks, we have reduced our margin estimates by 40bps and 50bps for FY21E and FY22E, respectively. For FY20, the company has reported an EV of Rs262.9bn, up 17% YoY. The positive contribution from margin improvement was partially offset by negative economic variance of Rs7.1bn. Per se, on the key financial items, SBIL posted NBP decline of 12% YoY at Rs38,054mn, surplus growth of 467% at Rs6,596mn and PAT growth of 16% YoY at Rs5,307mn. On account of a weaker than expected quarter as well as weak growth outlook, we have revised our estimates downward for FY21/FY22. We have retained our Buy rating on SBIL with a target price of Rs914 (from Rs930 earlier), valuing the stock at 2.6x FY22E P/EV. NBP was 9% below estimate and PAT was 25% above estimate. See our initiating coverage report on the life insurance sector: [A Very Attractive Way To Play Indian Financials](#).

Persistency would be a key monitorable: Though persistency trends have generally held up for FY20, witnessing improvement across cohorts, we think that FY21 would be a challenging year in terms of maintaining the renewal pipeline. With customers going into cash conservation mode and a weak economic outlook, drop in persistency could be a risk to our margin, EV and fair value estimates. Another key concern that surfaced during the quarter was the sharp drop in solvency margin from 230% in 3QFY20 to 195% in 4QFY20.a

BUY

Sector: Insurance

CMP: Rs716

Target Price: Rs914

Upside: 28%

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Key Data

Current Shares O/S (mn)	1,000
Mkt Cap (Rsbn/US\$bn)	713.6/9.4
52 Wk H / L (Rs)	1,030/519
Daily Vol. (3M NSE Avg.)	1,300,776

Price Performance (%)

	1 M	6 M	1 Yr
SBILife	9.8	(26.4)	7.4
Nifty Index	13.9	(22.8)	(21.4)

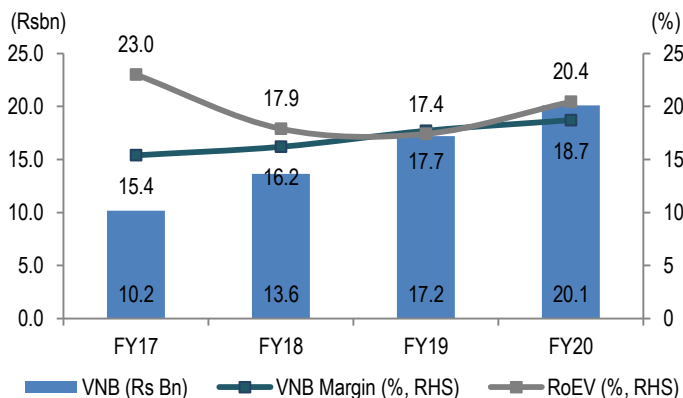
Source: Bloomberg

Y/E March (Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
NBP	38,054	43,217	49,706	(11.9)	(23.4)
Net premium	118,630	113,330	116,945	4.7	1.4
Investment & other income	(61,881)	42,679	40,845	(245.0)	(251.5)
Total income	56,749	156,010	157,791	(63.6)	(64.0)
Net commission	4,534	4,521	4,552	0.3	(0.4)
Opex	7,265	6,418	6,419	13.2	13.2
Total mgmt expenses	11,799	10,939	10,971	7.9	7.5
GST	1,565	1,395	1,534	12.2	2.0
Provision for taxes	658	294	742	124.0	(11.4)
Claims	39,601	70,580	61,764	(43.9)	(35.9)
Change in actuarial liability	(4,053)	71,189	76,569	(105.7)	(105.3)
Total cost	50,154	154,847	151,708	(67.6)	(66.9)
Surplus/(deficit)	6,596	1,163	6,082	467.1	8.4
T/f to s/hs' account	9,209	4,511	2,707	104.2	240.1
Investment & other income	(94)	1,389	1,756	(106.8)	(105.4)
Total income	9,115	5,899	4,463	54.5	104.2
Non-insurance expenses	209	81	85	157.8	147.5
T/f from p/hs' account	4,763	989	0	381.5	-
PBT	5,216	4,819	3,949	8.2	32.1
Taxes	(91)	243	51	(137.4)	(276.7)
PAT	5,307	4,577	3,898	16.0	36.1
AUM (Rs bn, Reported)	1,604	1,410	1,642	13.7	(2.3)

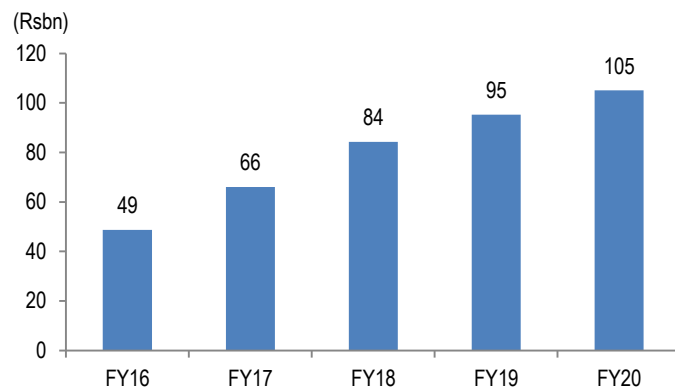
Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

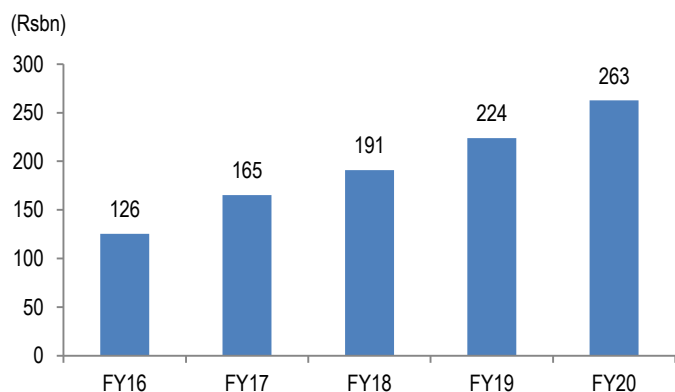
- Most of the non-par business was done in 2Q and 3Q and slowed down quite a bit in 4Q. In FY21, the individual non-par piece is likely to witness moderate growth.
- Though 1QFY21 will be a 'no activity' period, the company would strive to achieve positive growth. On the other hand, protection is expected to continue to gain customer preference, which should result in better growth in FY21.
- Amid the lockdown and social distancing, the company has been investing in IT infra and other processes to undertake digital training of agents.
- The DHFL exposure stands fully provided for. Apart from this, there is no other stressed exposure. AAA-rated form 92% of the portfolio.
- A cautious strategy to reduce equity exposure over time and simultaneously increase the debt component in the ULIP segment has helped the company to sell linked products to its customers. As per the company, its customers are comfortable buying ULIPs. Persistency in ULIPs has held up. Surrender ratio has improved.
- Post competitors increasing rates on protection products, the company's pricing is in line with its peers (slightly costlier than HDFC Life, cheaper than ICICI Pru Life). The company is currently looking to enhance some features in the protection products and marginally realign rates post rates revision by reinsurers. Profitability is unlikely to be impacted.
- The negative impact of 1.3% on VNB margin due to change in operating assumptions relates to risk provisioning done in anticipation of increasing expenses and falling persistency.
- Company expects lower collections in April to be balanced by other factors like extension of grace period by the regulator. That said, the renewals target for April has been achieved.
- The components of negative Rs7.1bn economic variance include debt MTM of ~Rs9.6bn and equity MTM of ~Rs9.9bn. The impact of change in yield curve is a negative Rs12bn.
- Breakup of protection premium (NBP basis) for FY20 is as follows:
 - Credit life Rs13.51bn (vs. Rs11.30bn last year)
 - Individual Rs5.29bn (vs. Rs3.71bn last year)
 - GTI Rs2.02bn (vs. Rs1.42bn last year)
- ULIP persistency stands at 85%+, par persistency stands at 80%+.
- Protection rates have increased by 15-20% over the last month.
- VNB for protection business stands at 70-75%.
- Company expects some growth challenges on SBI's part since the bank would be more focused on collections rather than cross selling.
- Company has reopened 200 of its 900 branches over the last few days.
- New business strain was Rs22bn of which protection would be ~50%.
- Currently, company is doing tele-medical health screenings selectively. While this is for the short term, company would eventually work towards this model on a sustainable basis.
- 60-65% of the renewals are coming electronically.

Exhibit 1: VNB, VNB Margin and RoEV


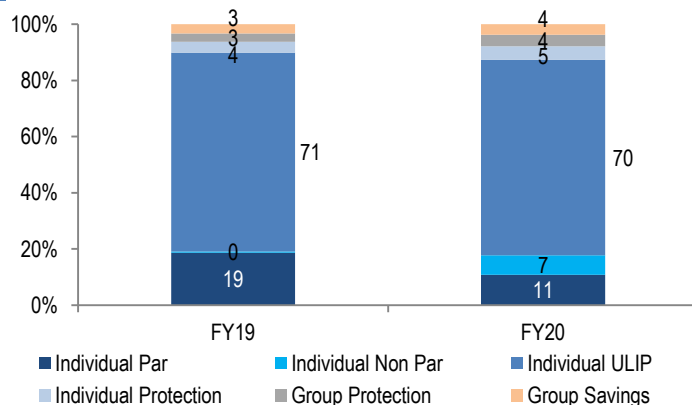
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: NBP – APE (Rs bn)


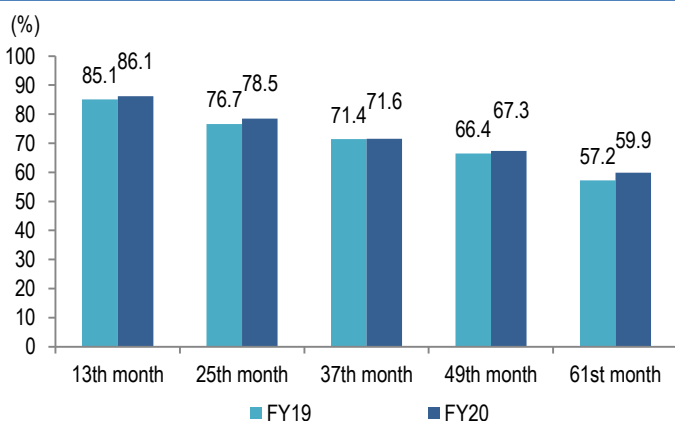
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Closing EV (Rs bn)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: APE mix (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Persistency Ratio (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key metrics

(Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Commission ratio (%)	3.8	4.0	3.9	-17bps	-7bps
Opex ratio (%)	6.1	5.7	5.5	46bps	64bps
Mgmt expense ratio (%)	9.9	9.7	9.4	29bps	56bps
Claims ratio (%)	33.4	62.3	52.8	-2890bps	-1943bps
Solvency ratio (%)	195.0	213.0	230.0	-1800bps	-3500bps
Yield on s/hs' funds					
with unrealized gains (%)	(1.0)	12.6	9.9	-1365bps	-1091bps
without unrealized gains (%)	(6.8)	9.4	9.1	-1620bps	-1588bps
Persistency (%)					
13 th month	84.3	84.5	82.5	-19bps	182bps
37 th month	70.1	69.2	68.9	89bps	123bps
61 st month	59.4	54.9	61.1	450bps	-162bps
Conservation ratio (%)	81.8	87.5	84.8	-569bps	-303bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EV Table

(Rsmn)	FY20	FY19	9MFY20	YoY (%)	QoQ (%)
VNB	20,100	17,200	14,700	16.9	-
VNB margin (%)	18.7	17.7	18.3	100bps	40bps
EV	262,900	224,000	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
NBP	101,439	109,661	137,920	165,925	185,963	216,000
PAT	9,547	11,504	13,268	14,222	17,505	19,764
P/E (x)	75.0	62.2	53.9	50.3	40.9	36.2
P/B (x)	13.1	11.2	9.6	8.1	6.9	5.9
P/EV (x)	4.3	3.8	3.2	2.7	2.4	2.1
RoE (%)	18.8	19.4	19.2	17.4	18.1	17.6
RoEV (%)	23.0	17.9	17.4	20.4	16.0	16.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Actual performance versus our estimates

(Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Q4FY20E	Devi. (%)
NBP	38,054	43,217	49,706	(11.9)	(23.4)	41,726	(8.8)
PAT	5,307	4,577	3,898	16.0	36.1	4,245	25.0

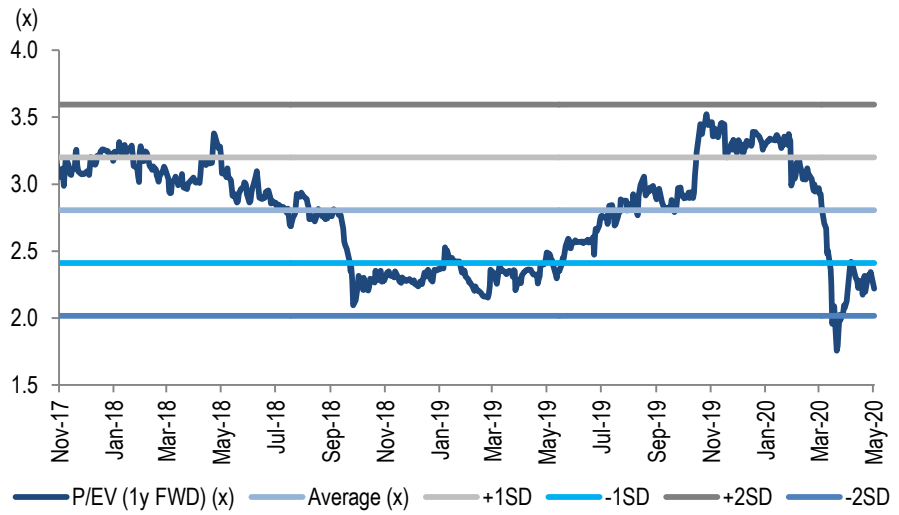
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Change in our estimates

(Rsmn)	Revised estimate		Earlier estimate		% Revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NBP	185,963	216,000	205,299	243,335	(9.4)	(11.2)
VNB	21,457	23,728	23,080	25,871	(7.0)	(8.3)
VNB margin (%)	18.8	18.8	19.2	19.3	-40bps	-50bps
EV	302,655	348,716	304,908	354,426	(0.7)	(1.6)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: One-year forward P/EV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 12: Revenue account

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
FYP (first year premium)	81,394	90,572	98,288	106,151	116,235
SP (single premium)	28,268	47,348	67,637	79,812	99,765
NBP (new business premium)	109,661	137,920	165,925	185,963	216,000
RP (renewal premium)	143,881	191,974	240,422	274,355	312,015
Gross premium	253,542	329,894	406,347	460,318	528,015
(-) Reinsurance ceded	1,941	991	3,107	3,520	4,037
Net premiums	251,601	328,904	403,240	456,798	523,978
Investment & other income	86,005	113,708	35,188	30,025	92,458
Total income	337,605	442,612	438,428	486,823	616,435
- Commission expenses	11,209	13,463	15,662	18,413	21,121
- Operating expenses	17,188	21,235	24,718	28,540	32,423
- Provisions	3,527	5,505	6,857	6,640	7,621
Operating surplus	305,681	402,408	391,272	433,328	555,385
- Benefits paid (net)	116,775	152,331	161,753	197,937	227,046
- Interim & terminal bonuses paid	348	607	756	561	634
- Change in reserves	175,950	235,917	206,049	212,513	303,375
Pre-tax surplus / (deficit)	12,609	13,553	22,714	22,317	24,330
Provisions for tax	2,380	2,687	3,767	3,826	4,263
Post-tax surplus / (deficit)	10,229	10,866	18,947	18,492	20,067

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: P&L account

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
T/f from technical a/c	8,294	9,985	14,627	13,928	15,016
Investment and other income	4,634	5,192	4,835	5,138	5,909
Total income	12,928	15,177	19,461	19,066	20,925
Total expenses	1,083	1,448	5,326	1,020	550
PBT	11,845	13,729	14,135	18,046	20,375
Provision for tax	341	461	-86	541	611
PAT	11,504	13,268	14,222	17,505	19,764

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance Sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Source of Funds					
Shareholders' fund	65,278	75,763	87,431	106,765	123,861
Policy liabilities	1,114,345	1,351,399	1,531,011	1,757,397	2,069,771
Funds for future appropriations	1,935	2,816	7,137	4,564	5,050
Total	1,181,558	1,429,978	1,625,579	1,868,726	2,198,682
Application of Funds					
Shareholders' investments	50,143	57,232	68,280	78,521	90,300
Policyholders' investments	544,857	644,724	734,199	848,000	1,007,900
Asset held to cover linked liabilities	549,359	691,291	785,653	907,430	1,063,507
Net other and current assets	37,199	36,731	37,447	34,775	36,975
Total	1,181,558	1,429,978	1,625,579	1,868,726	2,198,682

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Embedded value table

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Opening EV	165,404	190,700	224,010	262,710	302,655
Unwind	14,100	16,210	19,000	22,395	25,801
VNB (or NBAP)	13,900	17,190	20,100	21,457	23,728
Operating variance	1,600	(180)	6,700	(1,800)	100
EV Operating Profit (EVOP)	29,600	33,220	45,800	42,052	49,629
Non-operating variance	(1,800)	2,500	(7,100)	-	-
EV Profit	27,800	35,720	38,700	42,052	49,629
Net capital injection	(2,400)	(2,410)	-	(2,107)	(3,568)
Closing EV	190,804	224,010	262,710	302,655	348,716

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

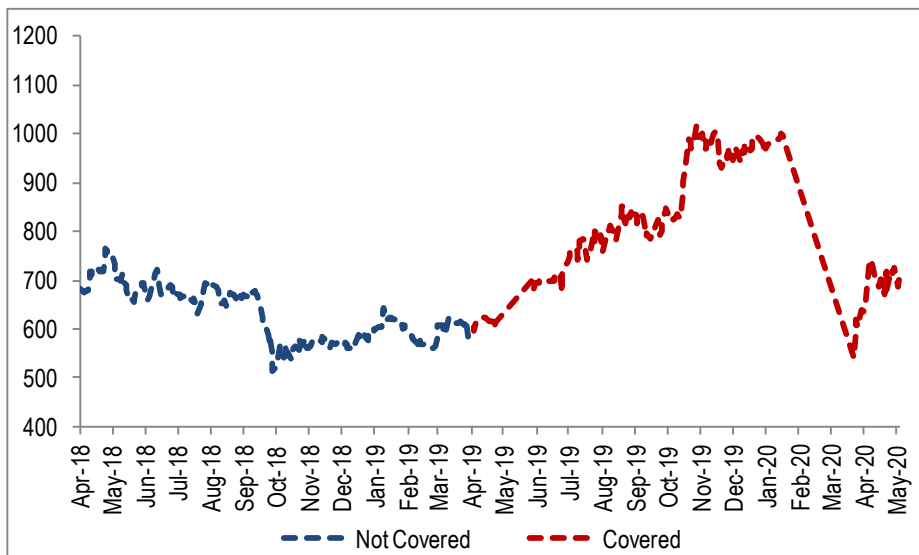
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
NBP-APE	27.6	13.2	10.2	8.6	10.6
Renewal premium	32.3	33.4	25.2	14.1	13.7
Net premium	20.7	30.7	22.6	13.3	14.7
PAT	20.5	15.3	7.2	23.1	12.9
Total AUM	19.4	21.7	14.0	15.5	17.9
Total Assets	19.1	21.0	13.7	15.0	17.7
Expense analysis (%)					
Commission ratio	4.4	4.1	4.0	4.0	4.0
Opex ratio	6.8	6.4	6.1	6.2	6.1
Claims ratio	46.1	46.2	39.3	43.0	43.0
P/hs' opex / Avg P/hs' AUM	1.7	1.7	1.7	1.7	1.7
Profitability analysis (%)					
RoA	1.1	1.0	0.9	1.0	1.0
RoE	19.4	19.2	17.4	18.1	17.6
RoEV	17.9	17.4	20.4	16.0	16.4
VNB margin	16.2	17.7	18.7	18.8	18.8
S/hs' AUM yield	10.0	9.7	7.7	7.0	7.0
P/hs' AUM yield	8.4	9.2	2.1	1.7	4.7
Balance sheet analysis					
P/hs' funds / P/hs' AUM (x)	1.0	1.0	1.0	1.0	1.0
P/hs' liabilities / Net worth (x)	17.3	17.8	17.6	17.0	17.0
Per share data (Rs)					
EPS	11.5	13.3	14.2	17.5	19.8
BVPS	63.7	74.6	88.8	104.2	120.4
EVPS	190.8	224.0	262.7	302.7	348.7
Valuation data (x)					
P/E	62.2	53.9	50.3	40.9	36.2
P/BV	11.2	9.6	8.1	6.9	5.9
P/EV	3.8	3.2	2.7	2.4	2.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 April 2019	Buy	601	787
26 April 2019	Buy	614	792
8 April 2019	Buy	754	901
24 July 2019	Buy	776	932
7 October 2019	Buy	824	1,009
16 October 2019	Buy	839	1,014
8 January 2020	Buy	990	1,149
23 January 2020	Buy	982	1,149
27 March 2020	Buy	606	930
9 April 2020	Buy	743	930
6 May 2020	Buy	716	914

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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