

SBI Life Insurance

In-line quarter; slowing premium growth

VNB declined 4% YoY (in line) vs 29% growth over last four quarters. APE declined ~13% YoY given sharp decline in ULIP/Par (14%/50%). Margin expanded 20bps QoQ to 20.7% led by rising share of protection (12% of APE vs 6.8% in 3QFY20) and annuities. Persistency improved across most buckets. 13th month persistency improved 183bps QoQ to 84.3% aided by higher mix of debt ULIPs (69% vs <50% for peers). Cost control led to expense ratio (9.9%) remaining largely flat (adjusting for NPA provisioning). Change in operating/economic assumptions contributed -1.3%/-2.5% to VNB margin in FY20. Operating assumption changes were led by revised persistency assumptions, while economic assumption changes were led by change in risk-free rate. Solvency declined to 195% vs 230% in 3QFY20 due to MTM losses. Management guided that impact of Covid-19 related claims and increase in reinsurance pricing on term offering would be contained. Maintain SELL with revised TP of Rs720 (Rs730 earlier), valuing SBIL at 2.4x FY21 EV.

Results overview

VNB growth remained muted

SBIL's premium-basis APE and NBP declined ~13% and ~12% YoY respectively largely in line with our expectations. Decline in premiums was due to sharp decline in individual savings segment. ULIP APE declined 14% YoY while Par APE declined 50% YoY. Given focus on annuities (immediate), we expect growth in the non-par segment to be relatively stronger in FY21. This along with expectation of increased mix of protection in FY21 should drive ~70bps improvement in VNB margin to 21.4% (effective tax rate basis). Expect VNB growth in FY21 to be muted at ~9%.

Operating trends largely in line

Persistency across 13th/25th/37th buckets improved 183/171/123bps QoQ while persistency across 49th/61st month declined 6/162bps. Management guided that renewal trends in April'20 largely met target with 60-65% renewals flowing digitally. Cost control led to expense ratio (9.9%) remaining largely flat (adjusting for NPA provisioning); expect expense ratio to remain largely contained through FY21. Solvency declined to 195% (regulatory minimum of 150%) vs 230% in 3QFY20 led by MTM losses in the investment book; expect solvency to improve through FY21 as markets recover.

Where do we go from here?

Given unique competitive strengths of pseudo-sovereign identity, entrenched distribution network of >22k SBI Bank branches and latent cross-sell potential, expectation around longevity of growth remains intact. We expect premium growth for SBIL to be 200-300bps higher than long-term industry growth. But rising volatility and sharp sales loss in 1QFY21 would keep VNB growth in FY21 under check (~9% in FY21). We factor in APE in FY21 to be muted at ~5%. Maintain SELL with revised TP of Rs720 (Rs730 earlier), valuing SBIL at 2.4x FY21 EV.

SELL

Result Update

Stock Information

Bloomberg Code:	SBILIFE IN
CMP (Rs):	714
TP (Rs):	720
Mcap (Rs bn/US\$ bn):	714/9.4
3M ADV (Rs mn/US\$ mn):	974/13

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	10	(22)	7	(26)
Rel. to Sensex	(4)	2	27	(2)

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY20	FY21E	FY22E
APE	107	113	126
VNB	20	22	25
VNB margin* - %	20.7	21.4	22.1
Embedded value	263	306	357

Source: Bloomberg, Ambit Capital research

* On Effective tax rate basis

Research Analysts

Udit Kariwala, CFA

udit.kariwala@ambit.co

Tel: +91 22 6623 3197

Pankaj Agarwal, CFA

pankaj.agarwal@ambit.co

Tel: +91 22 6623 3206

Exhibit 1: Valuation

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Embedded Value (Rs mn)	190,700	224,010	262,810	305,912	357,277
VNB (Rs mn)	13,850	17,190	20,100	21,877	25,327
VNB Margin*	18.4%	19.8%	20.7%	21.4%	22.1%
RoEV (%)	17.9%	17.4%	20.5%	16.4%	16.8%
EPS (Rs.)	11.5	13.3	14.2	16.6	20.6
BPS (Rs.)	65.3	75.8	87.4	103.9	124.5
P/EV	3.7	3.2	2.7	2.3	2.0
ROA (%)	1.1%	1.0%	0.90%	0.87%	0.91%
ROE (%)	19.0%	18.8%	17.4%	17.3%	18.0%

Source: Ambit Capital research* On Effective tax rate basis

Exhibit 2: Change in Estimates

	New Estimates		Old Estimates		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Recommendation	BUY		BUY			
Target price (Rs)	720		730		-1%	
Assumptions						
APE growth	5.0%	12.0%	7.5%	12.0%	-2.5%	0%
VNB margin*	21.4%	22.1%	20.0%	20.7%	141 bps	132 bps
Outputs (Rs mn)						
VNB (Rs bn)	21.9	25.3	21.1	24.6	4%	3%
EVOP (Rs bn)	43.1	51.4	40.1	46.3	8%	11%
Embedded Value (Rs bn)	305.9	357.3	294.9	337.5	4%	6%
ROEV (%)	16.4%	16.8%	15.5%	15.7%	87 bps	111 bps

Source: Company, Ambit Capital research* On Effective tax rate basis

Exhibit 3: Quarterly premium trends

Premiums (Rs bn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)
Gross Written Premiums	113.8	66.9	102.4	117.6	119.4	5%
--First Year Premium	28.9	16.4	25.5	31.1	25.2	-13%
--Single Premium	14.3	15.1	21.1	18.6	12.8	-10%
--Renewal Premium	70.5	35.4	55.8	67.9	81.3	15%
--Reinsurance	(0)	(0)	(1)	(1)	(1)	73%
Net Premiums Earned	113.3	66.6	101.1	116.9	118.6	5%
Total New Business Premium	43	32	47	50	38	-12%
--Savings APE	28.5	16.5	26.1	31.5	23.8	-16%
--Protection APE	2.5	2.1	2.0	2.3	3.2	28%
--Individual APE	29.0	16.6	26.0	31.5	24.9	-14%
--Group APE	2.0	2.0	2.1	2.3	2.1	5%
Total APE	31.0	18.6	28.1	33.8	26.9	-13.2%
APE Mix - %						
--Savings APE	91.9	88.7	92.9	93.2	88.5	
--Protection APE	8.1	11.3	7.1	6.8	11.9	
--Individual APE	93.5	89.2	92.5	93.2	92.6	
--Group APE	6.5	10.8	7.5	6.8	7.8	

Source: Company, Ambit Capital research

Exhibit 4: Quarterly profitability trends

Profitability (Rs bn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)
VNB	5.6	3.3	5.2	6.2	5.4	-4%
VNB margins (%)	17.7	17.9	18.1	18.3	18.7	100 bps
VNB margins with tax benefit (%)	19.8	19.9	20.2	20.5	20.7	90 bps
Reported PAT	4.6	3.7	1.3	3.9	5.3	16%
Protection share in APE (%)	8.1	11.3	7.1	6.8	11.9	383 bps

Source: Company, Ambit Capital research

Exhibit 5: Product and distribution mix; protection making its way

Product mix basis APE (Rs bn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)
Individual Savings	27.4	15.5	24.8	30.4	23.2	-15%
--ULIP	22.1	12.4	18.6	24.9	18.9	-14%
--Par	5.2	2.7	3.0	3.4	2.6	-50%
--Non-Par Saving	0.1	0.5	3.2	1.9	1.8	1700%
Individual Protection	1.6	1.1	1.2	1.1	1.7	6%
Group Protection	0.9	1.0	0.8	1.2	1.5	67%
Group Savings	1.1	1.0	1.3	1.1	0.6	-45%
Total APE	31.0	18.6	28.1	33.8	26.9	-13%
Product mix basis APE (%)						
Individual Savings	88.4	83.3	88.3	89.9	86.2	
--ULIP	71.3	66.7	66.2	73.7	70.3	
--Par	16.8	14.5	10.7	10.1	9.7	
--Non-Par Saving	0.3	2.7	11.4	5.6	6.7	
Individual Protection	5.2	5.9	4.3	3.3	6.3	
Group Protection	2.9	5.4	2.8	3.6	5.6	
Group Savings	3.5	5.4	4.6	3.3	2.2	
Distribution mix basis APE (Rs bn)						
Banca	19.9	11.8	18.8	22.2	17.0	-15%
Agency	9.5	5.2	7.4	9.4	7.8	-18%
Other	1.6	1.6	1.9	2.2	2.2	38%
Total APE	31.0	18.6	28.1	33.8	26.9	-13%
Distribution mix (%)						
Banca	64.2	63.4	66.9	65.7	63.2	
Agency	30.6	28.0	26.3	27.8	29.0	
Other	5.2	8.6	6.8	6.5	8.2	

Source: Company, Ambit Capital research

Exhibit 6: Cost, AUM and persistency trends

Cost Ratios (%)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (bps)
Opex ratio (excl. commission)	5.6	7.4	6.0	5.4	6.1	44
Commission ratio	4.0	3.7	3.9	3.9	3.8	(18)
Total Expenses (Opex+Commission)/Total Premium	9.6	11.2	9.9	9.3	9.9	26
AUMs (Rs bn)						
Total AUMs	68.7	1,470	78	94	(38)	-156%
Linked AUMs share	49%	49%	77%	50%	49%	
Non-linked AUMs share	51%	51%	23%	50%	51%	
Persistency & Solvency Ratio (%)						
13th month	84.48	84.46	85.81	82.46	84.29	(19)
25th month	75.80	75.97	77.36	75.46	77.17	137
37th month	69.24	70.57	71.01	68.90	70.13	89
49th month	64.51	67.89	67.94	64.62	64.56	5
61st month	54.94	56.27	57.48	61.06	59.44	450
Solvency Ratio	213	217	220	230	195	(1,800)

Source: Company, Ambit Capital research

Financials

Policyholders Account

(Rs mn)	FY18	FY19	FY20	FY21E	FY22E
First year premium	81,394	90,572	98,288	105,297	117,933
Renewal premium	143,881	191,974	240,422	267,944	303,002
Single premium	28,268	47,348	67,637	55,045	61,651
Gross Written Premiums	253,542	329,894	406,347	428,287	482,586
Net Premiums Earned	251,601	328,904	403,240	427,000	481,136
Investment Income	84,563	112,081	29,968	159,917	190,510
Total Income	337,605	442,612	438,428	587,287	672,063
Commission Expenses	11,209	13,463	15,662	16,868	18,971
Operating expenses	17,188	21,235	24,718	30,322	34,072
Benefits paid (Net)	116,775	152,331	162,509	224,493	266,842
Change in valuation of policy liabilities	175,950	235,917	206,049	294,386	327,490
Total Expenses	324,997	429,058	419,481	570,980	652,862
Surplus/(deficit) after tax	10,229	10,866	18,947	13,074	15,394
Transfer to Shareholders' account	8,294	9,985	14,627	10,258	12,578

Source: Ambit Capital research

Shareholders' Account

(Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Amounts transferred from Policyholders' account	8,294	9,985	14,627	10,258	12,578
Income from investments	4,521	5,057	4,767	7,281	9,219
Total Income	12,928	15,177	19,461	17,675	21,933
Total Expenses	1,083	1,448	5,326	535	664
Profit before Tax	11,845	13,729	14,135	17,140	21,269
PAT	11,504	13,268	14,222	16,565	20,556

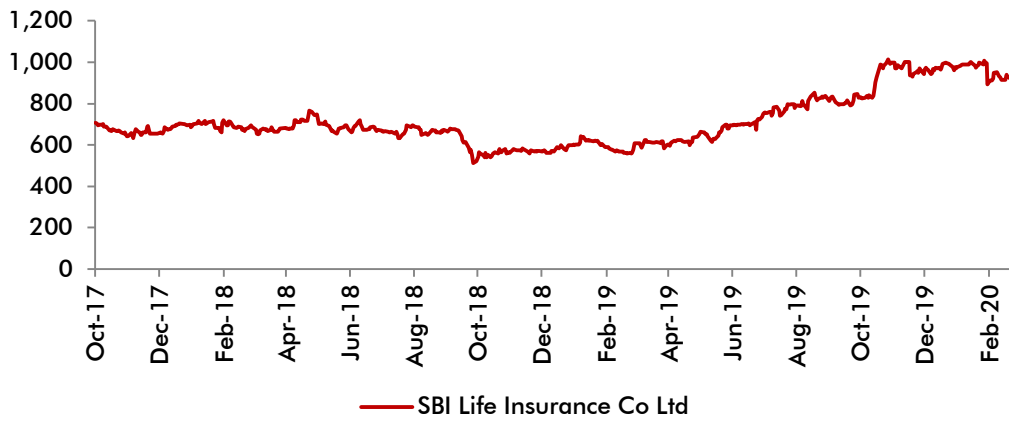
Source: Ambit Capital research

Balance Sheet

(Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Share capital	10,000	10,000	10,000	10,000	10,000
Reserve and surplus	53,745	64,601	78,839	93,931	114,487
Networth	65,278	75,764	87,431	103,931	124,487
Policyholders' funds	1,114,345	1,351,399	1,531,011	1,955,153	2,294,494
Funds For Future Appropriations	1,935	2,816	7,137	8,449	11,265
Total Liabilities	1,181,558	1,429,978	1,625,579	2,067,533	2,430,245
Applications of Funds					
Shareholders' investments	50,143	57,232	68,280	92,194	115,566
Policyholders' investments	544,857	644,724	734,199	824,429	920,331
Total Investments	595,000	701,956	802,479	916,623	1,035,897
Asset held to cover linked liabilities	549,359	691,291	785,653	1,111,646	1,354,277
Total Assets	1,181,558	1,429,978	1,625,579	2,067,533	2,430,245

Source: Ambit Capital research

SBI Life Insurance Co Ltd (SBILIFE IN, SELL)



Source: Bloomberg, Ambit Capital research

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