

Retail Equity Research

SBI Life Insurance Co. Ltd.

Insurance

BSE CODE: 540719

NSE CODE: SBILIFE

Bloomberg CODE: SBILIFE:IN

SENSEX: 39,298

BUY

12M Investment period

Rating as per Large Cap

CMP Rs926 TARGET Rs1,060 RETURN 14% ↑
(Closing: 18-10-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Continuing the growth momentum in Q2FY20

SBI Life Insurance Company Limited, is a joint venture between SBI and BNP Paribas formed in 2001, which offers individual and group insurance plans, including traditional and unit linked plans. Its products cover life, health, annuity, pension and variable insurance.

- Gross written premium grew 33.3% YoY in Q2FY20, as new business and renewal premiums grew 33.8% and 32.8% YoY respectively.
- For H1FY20, value of new business (VONB), which measures the profitability of new business underwritten during the period, grew 33% YoY to Rs 9,400cr.
- VONB margin, which is computed as the ratio of VONB to the amount of new business underwritten in the period, increased 100bps to 20.2%.
- Given the continued strong performance of the company we increase the target price to Rs. 1,060 based on 3.2x FY21E Embedded value (EV) and maintain our BUY rating on the stock. EV is the sum of the company's current net worth and present value of future profits.

Strong growth in premiums as SBI Life increases its market share

In Q2FY20, gross written premium (GWP) increased 33.3% YoY to Rs. 10,243cr driven by new business premium (NBP) which grew 33.8% YoY to Rs. 4,670cr, and renewal premium grew 32.8% YoY to Rs. 5,574cr. Within NBP, Group NBP grew significantly by 63.0% YoY to Rs. 1,320cr while Individual NBP was up 23.4% YoY to Rs. 2,850cr. In H1FY20, SBI Life's market share increased 200bps YoY to 21.8% in terms of NBP among the private insurers. AUM increased 22.7% YoY to Rs. 154,760cr.

Margins improve further

In H1FY20, new business margin, calculated as VONB to New Business Annualized Premium Equivalent (APE) rose 100bps YoY to 20.2% (of which 300bps negative impacted by downward interest rates movement), as VONB grew 33% YoY to Rs 9,400cr, while new business APE (amount of annualized first year premiums underwritten by the company during the period) grew 26% YoY to Rs. 4,670cr. In Q2FY20, the company continued to demonstrate cost efficiencies with Opex and commission ratio improving 80bps and 17bps YoY to 5.9% and 4.0%, respectively. Despite the strong growth in premiums and margins, Profit after tax declined 48.2% YoY to Rs. 130cr due to higher provisions. Solvency ratio rose to 2.20x (vs 2.17x in Q1FY20), as against the regulatory requirement of 1.5x while the 13M/61M persistency ratio, which indicates the stickiness of premiums, improved to 83.1%/59.6% (vs. 80.0%/55.5% in Q2FY19).

Key concall highlights

- During the quarter, annuity business grew strongly by 313% YoY to 2,669 policies amounting to Rs. 310cr
- Higher provisions in Q2FY20 of Rs. 70cr was on account of Rs. 67cr related to DHFL and the remaining due to diminution in value of assets

Outlook & Valuation

The company has consistently delivered strong growth in new business premiums, driven by group and individual accounts along with strong distribution network including 121,600 individual agents supporting the SBI Life Insurance growth story. The stock is currently trading at 3.3x FY20E EV. We increase our target price to Rs. 1,060 based on 3.2x FY21E EV and reiterate our BUY rating on the stock.

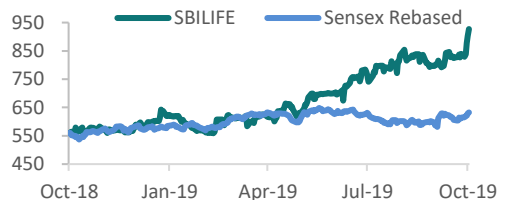
Company Data

Market Cap (cr)	Rs. 92,576
Outstanding Shares (cr)	99.9
Free Float	37%
Dividend Yield	0.2%
52 week high	Rs. 930
52 week low	Rs. 495
6m average volume (cr)	0.1
Beta	0.4
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	69.8	67.3	62.8
FII's	14.1	19.4	23.7
MFs/Insti	4.4	6.2	6.9
Public	2.1	2.0	1.9
Others	9.7	5.1	4.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	25.1%	50.8%	65.6%
Absolute Sensex	1.0%	0.4%	13.0%
Relative Return*	24.1%	50.4%	52.6%

*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Premium	32,890	41,552	51,720
Growth (%)	30.7	26.3	24.5
New Business (%)	17.7	17.7	18.5
Net Profit	1,327	1,412	1,694
Growth (%)	15.3	6.5	19.9
EPS (Rs)	13.3	14.1	16.9
Growth (%)	15.4	6.5	19.9
BV (Rs)	74.6	86.3	100.9
EV (Rs)	224.1	282.5	329.1
RoE	17.8	16.4	16.8
RoEV	17.4	27.0	17.2
P/E	46.0	65.5	54.6
P/EV	2.7	3.3	2.8
Solvency (x)	213.0	208.8	207.9

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Net Premium	10,112	7,662	32.0	6,655	51.9	16,767	12,416	35.0
Transfer from technical A/c	56	140	(60.5)	216	(74.2)	271	383	(29.2)
Investment Income	144	123	17.5	173	(16.5)	317	250	26.8
Total income	200	263	(24.1)	388	(48.5)	588	633	(7.1)
Other expenses	81	7	-	11	-	91	13	582.4
Contribution to technical A/C	0	0	-	0	-	0	0	
Total Expenses	81	7	-	11	-	91	13	582.4
Profit Before Tax	119	256	(53.5)	378	(68.5)	497	620	(19.8)
Tax	(11)	6	(280.8)	6	(279.0)	(5)	15	(131.6)
Net Profit	130	251	(48.2)	372	(65.1)	502	605	(17.0)
EPS - Diluted (Rs)	1.3	2.5	(48.2)	3.7	(65.1)	5.0	6.1	(17.0)

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Premium Earned (Net)	41,080	51,425	41,552	51,720	1.1	0.6
Profit before tax	1,551	1,754	1,459	1,750	(5.9)	(0.2)
Net Profit	1,501	1,698	1,412	1,694	(5.9)	(0.2)
EPS (Rs)	15.0	17.0	14.1	16.9	(5.9)	(0.2)



Shareholders' Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Transfer from Technical A/c	655	829	998	1,172	1,327
Investment Inc.	410	464	519	574	641
Total Income	1,064	1,293	1,518	1,746	1,968
% change	7.4	21.5	17.4	15.0	12.7
Other Expenses	27	33	46	175	91
Contribution to Technical A/c	63	76	99	112	126
Total Expenses	90	108	145	287	217
PBT	975	1,184	1,373	1,459	1,750
% change	11.5	21.5	15.9	6.3	19.9
Tax	20	34	46	47	56
<i>Tax Rate (%)</i>	2.0	2.9	3.4	3.2	3.2
Reported PAT	955	1,150	1,327	1,412	1,694
Adj*	0	0	0	0	0
Adj PAT	955	1,150	1,327	1,412	1,694
% change	10.9	20.5	15.3	6.5	19.9
No. of shares (cr)	100	100	100	100	100
Adj EPS (Rs)	9.6	11.5	13.3	14.1	16.9
% change	10.9	20.4	15.4	6.5	19.9
DPS (Rs)	1.5	2.0	2.0	2.0	2.0

Policyholders' Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net Premium	20,852	25,160	32,890	41,552	51,720
% change	33.1	20.7	30.7	26.3	24.5
Income from Inv.	9,295	8,456	11,208	11,504	11,433
Transfer of funds from shareholders' account	63	76	99	112	126
Other income	67	69	64	72	81
Total Income	30,278	33,761	44,261	53,055	63,361
Commission	783	1,121	1,346	1,614	1,964
Operating Expenses	1,646	1,719	2,124	2,545	3,105
Other Expenses	222	353	550	660	788
Operating Profit	27,625	30,568	40,241	48,236	57,504
% change	64.7	10.7	31.6	19.9	19.2
Benefits Paid (Net)	9,526	11,677	15,294	18,333	21,893
Change in Reserves	17,241	17,595	23,592	28,279	33,772
Tax	180	238	269	322	364
<i>Tax Rate (%)</i>	21.6	18.9	19.8	19.8	19.8
Surplus/Deficit	654	1,023	1,087	1,303	1,474
% change	(1.5)	56.3	6.2	19.9	13.2

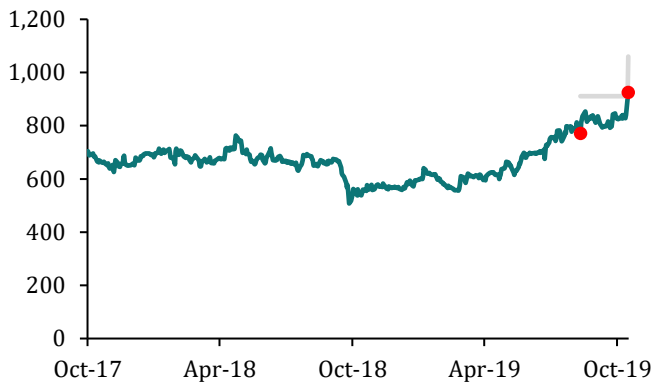
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Source of Funds					
Share Capital	1,000	1,000	1,000	1,000	1,000
Reserves & Surplus	4,465	5,374	6,460	7,633	9,087
Fair Value Change	87	153	116	117	119
Shareholders' Fund	5,552	6,528	7,576	8,750	10,205
Policy Liabilities	48,324	55,556	64,954	68,202	69,566
Others	45,349	55,879	70,185	71,589	73,021
Policyholder's Fund	93,673	111,434	135,140	139,791	142,587
Funds for Future appropriations	0	193	282	412	559
Total	99,225	118,156	142,998	148,953	153,352
Application of Funds					
Shareholders'	4,296	5,014	5,723	7,154	8,165
Policyholders'	46,962	54,486	64,472	76,290	90,273
Assets held to cover linked liabilities	44,573	54,936	69,129	61,836	51,205
Loans	178	171	173	181	183
Fixed assets	538	581	595	609	624
Net Current assets	2,678	2,968	2,905	2,883	2,901
Total	99,225	118,156	142,998	148,953	153,352

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Per Share (Rs)					
EPS	9.6	11.5	13.3	14.1	16.9
DPS	1.5	2.0	2.0	2.0	2.0
EV	165.4	190.6	224.1	282.5	329.1
Earnings (%)					
RoE	17.5	18.0	17.8	16.4	16.8
RoEV		17.9	17.4	27.0	17.2
Valuation (x)					
P/E (x)	72.1	58.6	46.0	65.5	54.6
P/EV (x)	4.2	3.5	2.7	3.3	2.8
Div. Yield (%)	0.2	0.2	0.2	0.3	0.2
Expenses (% of premium)					
Commission	3.7	4.4	4.1	3.9	3.8
Operating Expenses	7.8	6.8	6.4	6.1	6.0
Total Expenses	12.6	12.6	12.2	11.6	11.3
Margin (%)					
New Business	15.4	16.2	17.7	17.7	18.5
Solvency (x)					
Solvency	204.0	206.0	213.0	208.8	207.9

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
13-Aug-19	BUY	911
21-Oct-19	BUY	1,060

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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