

SBI Life Insurance Co Ltd

Strong parent backing leaves no scope for doubts

SBI Life Insurance is a JV between State Bank of India (SBI-70%), and BNP Paribas Cardiff (26%). The insurer's new business premium grew 35% from FY15 to FY17; it has a leadership position with 20% market share in New Business Premium (NBP) in FY17.

Strong premium growth has resulted consistent market share gain: SBI Life has been reporting strong growth in NBP, with 38.9% growth in FY2017 and 3 year CAGR of 28.3% v/s. industry growth rate of 26.2% and 13.5% respectively. Over FY2014-17, SBI Life has improved its market share by ~300bps to 20% (FY2017). Among the Private Insurers, SBI holds the leadership position, followed by HDFC Life – 17.2%, ICICI Pru – 15.5% and retained No. 1 position since last 8 years in NBP.

Widest distribution network backed by parent has ensured healthy AUM growth: SBI Life's parent i.e. SBI has a mammoth network of ~24,000 branches, which has helped it in garnering new business on a continuous basis. This has been instrumental in the strong AUM growth up 17.1% over FY2015-17 v/s. ICICI Pru's 10.7% and HDFC Life's 16.9% over the same period. Low miss-selling, high claim settlement and low surrender ratios will continue to drive the business of the company and we expect high double digit growth to sustain for multiple years going ahead.

Diversified product portfolio, high solvency & persistency makes SBI Life's business more predictable: SBI life has a well balanced portfolio (ULIP - 50.5%, Non participating - 34.7% and Participating - 15.4%) and is well capitalised with a solvency ratio of 211% (mandatory - 150%). This will ensure growth without dilution in the coming years, boosting the RoE from current level of 17%. Further, 13/37/61 month persistency ratio is the best among Private Players (SBI – 81.1/67.4/67.2, ICICI Pru – 85.7/66.8/56.2 & HDFC Life – 80.9/63.90/56.8). This reflects in the lowest surrender ratio of 22.8% among the private players (ICICI Pru – 52.8% and HDFC Life 31.3% for FY2017).

Outlook & Valuation: We believe the Indian Life Insurance industry is in a phase of high growth and lower penetration will ensure the growth remaining higher for next couple of years. SBI Life with its strong brand name and wide distribution network is one of the best plays for Indian Life Insurance industry. At the upper price band of ₹700 the issue is offered at 4.2x its Embedded Value of ₹16,538cr, little higher than 3.8x for ICICI Prudential. **We believe the premium valuation for SBI is justified due to its higher incremental market share gain, and hence we recommended investors to "SUBSCRIBE" to the issue with long term perspective.**

Key Financials

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Premium Income	10,345	10,702	12,780	15,665	20,852
% Growth YoY		3	19	23	33
PAT	630	728	815	844	955
% Growth YoY		15	12	4	13
IEV				12,548	16,538
RoE	23	22	20	18	17
PE	111	96	86	83	73
P/BV	26	21	17	15	13
P/EV	-	-	-	6	4

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: Sept 20, 2017
 Issue Close: Sept 22, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹1,000cr

Offer for Sale: **12cr Shares

Fresh issue: NA

Post Eq. Paid up Capital: ₹1,000cr

Issue size (amount): *₹8,220cr - **8,400 cr

Price Band: ₹685-700

Lot Size: 21 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹68,500cr - **₹70,000cr

Promoters holding Pre-Issue: 96%

Promoters holding Post-Issue: 84%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	84%
Others	16%

Jaikishan J Parmar

+022 39357600, Extn: 6810

Jaikishan.parmar@angelbroking.com

Company background

SBI Life Insurance Company Ltd was established as a joint venture between the State Bank and BNPPC in 2001. As of July 31, 2017, it had a comprehensive product portfolio of 37 individual and group products (of which eight products are group products), including a range of protection and savings products to address the insurance needs of diverse customer segments.

SBI Life is India's largest private life insurer, in terms of New Business Premium generated in each fiscal year, since Fiscal 2010 (Source: CRISIL Report). It has also increased the market share of New Business Premium generated among private life insurers in India, from 15.9% in FY2015 to 20% in FY2017 (Source: CRISIL Report). Between FY2015 and FY2017, SBI Life's New Business Premium generated increased at a CAGR of 35.4%, which is the highest among the top five private life insurers (in terms of total premium in Fiscal 2017) in India (Source: CRISIL Report).

SBI Life has developed a multi-channel distribution network comprising an expansive bancassurance channel, including State Bank, the largest bancassurance partner in India, a large and productive individual agent network comprising 95,177 agents as of July 31, 2017, as well as other distribution channels. In Fiscal 2017, it collected the highest amount of New Business Premium generated by private life insurers in India both through the bancassurance channel as well as through an individual agent network (Source: CRISIL Report).

Exhibit 1: New Business Premium split by product type

(%)	ULIP	NON PAR	PAR
FY15	35.0	38.7	26.3
FY16	45.5	33.8	20.7
FY17	50.5	38.7	10.8
Q1FY18	49.9	34.7	15.4

Source: RHP, Angel Research, PAR - Participating

Exhibit 2: New Business Premium by customer type

	Individual	Group
FY15	68.0	32.1
FY16	70.1	30
FY17	63.8	36.2
Q1FY18	67.6	32.4

Source: RHP, Angel Research

Issue details

Issuance of 12cr Equity Shares, 8cr shares by State Bank of India Ltd and 4 cr equity shares by BNP Paribas Cardif via an offer for sale. The offer would constitute up to 12% of post offer paid up share capital and net offer of up to 10.6%

Exhibit 3: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	%	No. of shares (Post-issue)	%
Promoter	96,10,00,000	96%	84,10,00,000	84%
Investor/Public	3,90,00,000	4%	15,90,00,000	16%
	1,00,00,00,000		1,00,00,00,000	

Source: RHP, Angel Research

Objects of the offer

- To list the share of the company on the exchange
- Enhance the “SBI Life Insurance” brand name and provide exit to the investor and liquidity to SBI
- Being an offer for sale, the company will not receive any proceeds from the offer

Top ten share holders

Exhibit 4: Top Shareholders pre-Issue

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage (%)
1	State Bank	70,10,00,000	70%
2	BNPPC	26,00,00,000	26%
3	Value Line Pte. Ltd	1,95,00,000	2%
4	MacRitchie Investments Pte. Ltd	1,95,00,000	2%
Total		1,00,00,00,000	100%

Source: RHP, Angel Research

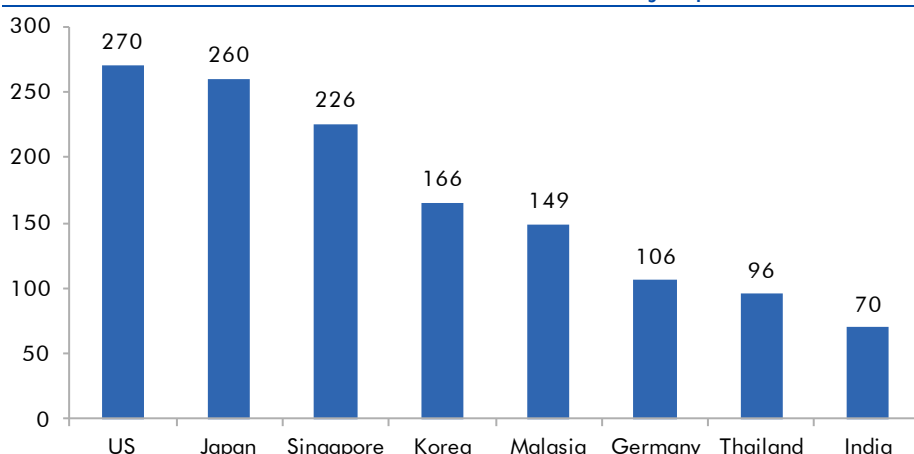
Investment Rational

Insurance industry to continue to grow

The size of the Indian life insurance industry is ₹ 4.2 trillion on a total-premium basis as of fiscal 2017. In terms of total premium, the Indian life insurance industry is the 10th largest market in the world and the fifth largest in Asia based on Swiss Re, sigma No 3/2017 report. New premium constituted 42% of the total premium as of fiscal 2017. The industry's assets under management (AUM) grew at a compound annual rate (CAGR) of 19% during FY2001-17 to ₹ 30 trillion. Total premium has grown at a stupendous 17% CAGR during FY2001-17, after the privatisation in 2000 (Source: CRISIL Report).

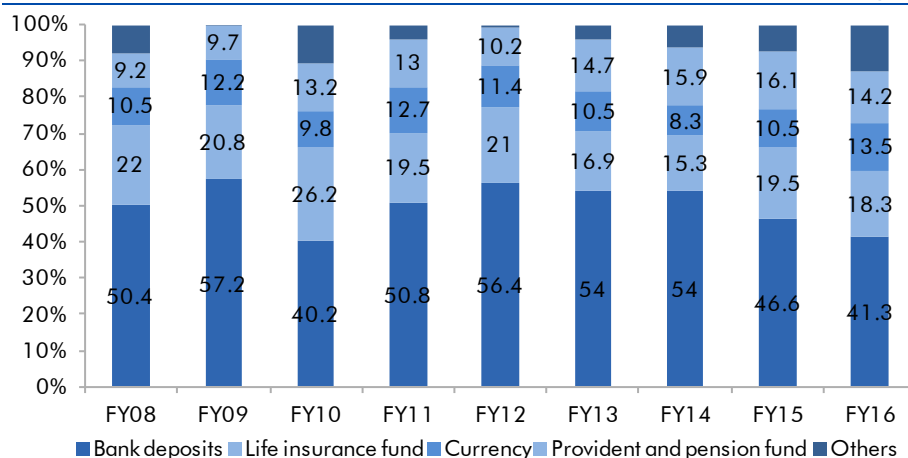
We expect healthy growth for the industry to continue going ahead owing to 1) Low Penetration of Insurance in India, 2) Focus on Financial Inclusion, 3) Increasing Insurable Population, 4) Protection Gap, 5) Rise in Healthcare Spending.

Exhibit 5: Sum assured as % of GDP low versus major peers



Source: RHP, Angel Research

Exhibit 6: Share of investment in life insurance as a % of financial savings



Source: RHP, Angel Research

Strong premium growth has resulted consistent market share gain: SBI Life has been reporting strong growth in New Business Premium, with 38.9% growth in FY2017 and 3 year CAGR of 28.3% v/s. industry growth rate of 26.2% and 13.5% respectively. Over FY2014-17, SBI Life has improved its market share by ~300bps to 20% (FY2017). Among the Private Insurers, SBI holds leadership position followed by HDFC Life – 17.2%, ICICI Pru – 15.5% and has retained No. 1 position since last 8 years in NBP.

In FY2017, it also enjoyed a market share of Individual Rated Premium of 20.7% among private life insurers in India and 11.2% of the entire life insurance industry in India (Source: CRISIL Report). Between FY2015-17, Individual Rated Premium increased at a CAGR of 38 %, the highest among the top five private life insurers (in terms of total premium in FY2017) in India (Source: CRISIL Report).

Exhibit 7: Market Share of Private Life Insurers on the Basis of New Business Premium

	FY12	FY13	FY14	FY15	FY16	FY17
SBI Life	20	17	17	16	17	20
HDFC Standard Life	12	14	14	16	16	17
ICICI Prudential Life	16	16	13	15	17	16
Max Life	6	6	8	7	7	7
Bajaj Allianz Life	8	10	9	8	7	7
Other	39	37	40	38	36	34

Source: RHP, Angel Research

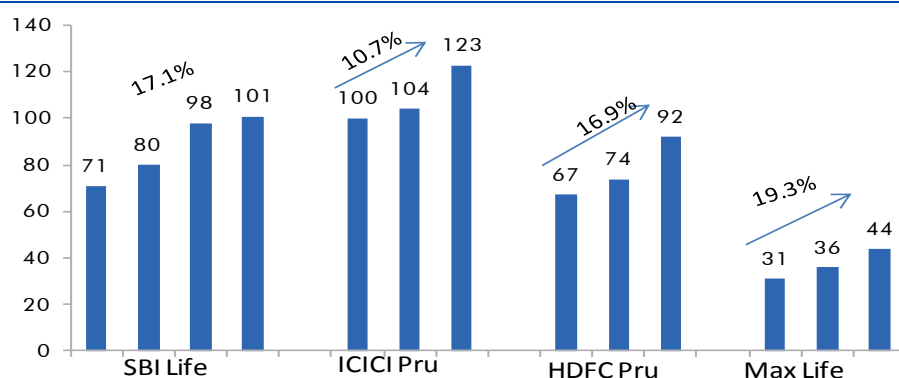
Exhibit 8: Premium growth of Private life insurance players

	SBI Life	HDFC Life	ICICI Pru Lif	Max Life	Bajaj Allianz
Premium Growth (%)					
New business premium					
2016-17 growth	43	34	16	27	14
3-year CAGR	26	29	28	17	8
5-year CAGR	9	18	9	14	4
10-year CAGR	15	18	4	15	-3
Renewal premium					
2016-17 growth	25	9	17	12	-4
3-year CAGR	24	10	19	12	-4
5-year CAGR	10	11	9	10	-10
10-year CAGR	40	24	18	28	11
Individual Rated Premium					
2016-17 growth	39	9	29	25	41
3-year CAGR	28	15	25	14	0
5-year CAGR	23	6	18	12	-5
10-year CAGR	17	11	5	13	-11

Source: RHP, Angel Research

Widest distribution network backed by parent has ensured healthy AUM growth: SBI Life's parent i.e. SBI has a mammoth network of ~24,000 branches, which helps it in garnering new business on continuous basis, and has been instrumental in the strong AUM growth up 17.1% over FY2015-17 v/s. ICICI Pru's 10.7% and HDFC Life's 16.9% over the same period. Low miss-selling, high claim settlement and low surrender ratios will continue to drive the business of the company and we expect high double digit growth to sustain for multiple years going ahead. Bancassurance represents SBI Life's largest distribution network and in FY15/16/17/Q1FY18, contributed 47.8%, 54.4%, 53% and 63.5%, respectively, of the company's total NBP in such periods. It also reported a growth of 38.4% in Individual NBP generated through bancassurance channel from FY16 to FY17.

Exhibit 9: Assets Under Management growth (₹ in Cr) (FY15-17)*



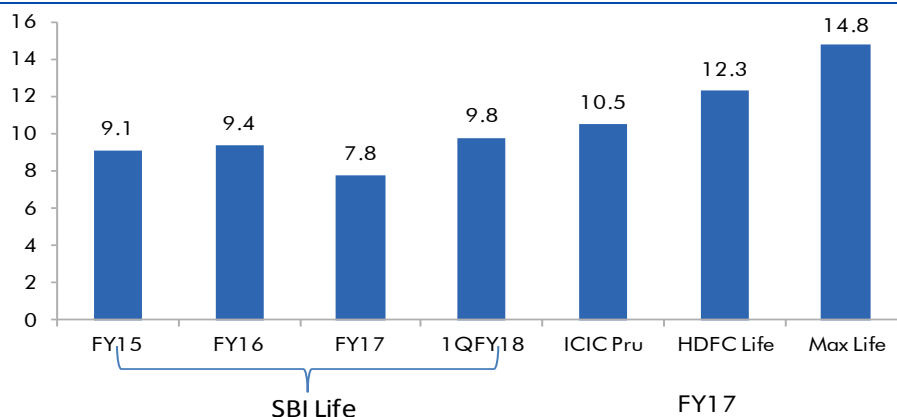
Source: RHP, Angel Research*SBI Life FY15-Q1FY18

Exhibit 10: Key Banking Partners of Top-Five Players with branch network

ICICI Prudential Life	HDFC Standard Life	SBI Life	Max Life
ICICI Bank	HDFC Bank	State Bank	Axis Bank
4,850	4,715	24,017	3,304
Standard Chartered	Sara swat Co-operative Bank	Punjab & Sind Bank	Yes Bank
101		1,500	1,000
	The Ratnakar Bank	South Indian Bank	Lakshmi Vilas Bank
	239	850	481

Source: RHP, Angel Research

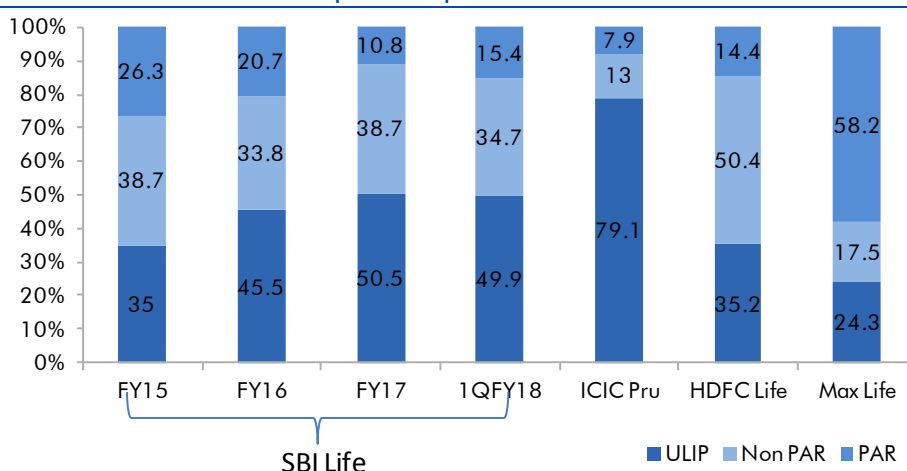
Exhibit 11: One of the lowest operating expense ratio (%)



Source: RHP, Angel Research

Diversified product portfolio, high solvency & persistency makes SBI Life's business more predictable: SBI Life has a well balanced portfolio (ULIP – 50.5%, Non participating – 34.7% and Participating – 15.4%) and is well capitalised with a solvency ratio of 211% (mandatory – 150%). This will ensure growth without dilution in the coming years, boosting the RoE from current level of 17%. Further, 13/37/61 month persistency ratio is the best among Private Players (SBI – 81.1/67.4/67.2, ICICI Pru – 85.7/66.8/56.2 & HDFC Life 80.9/63.90/56.8). This reflects in the lowest surrender ratio of 22.8% among the Private players (ICICI Pru – 52.8% and HDFC Life – 31.3% for FY2017).

Exhibit 12: Well balanced product portfolio



Source: RHP, Angel Research

Exhibit 13: Customer retention through quality underwriting...

Persistency ratio (fiscal 2017) By premium (%)	SBI Life	HDFC Life	ICICI Pru Life	Max Life	Bajaj Allianz
13	81	81	86	80	68
25	74	73	74	70	51
37	67	64	67	60	44
49	62	58	59	55	38
61	67	57	56	53	32

Source: RHP, Angel Research

Persistency Ratio

As most of Insurance products require periodic premium contributions from policyholders. The customer retention is essential for continued profitable growth. Customer retention is also directly linked to Persistency Ratios, which is a crucial indicator of business viability.

Persistency is the percentage of premium of policies remaining in force to the premium of all policies issued. Persistency is calculated with respect to policies issued in a fixed period prior to the period of measurement. Maintaining a high level of persistency is important to results of operations, as a large block of in-force policies provides SBI Life with regular revenues in the form of Renewal Premiums.

Outlook & Valuation

We believe the Indian Life Insurance industry is in a phase of high growth and lower penetration will ensure the growth remaining higher for next couple of years. SBI Life with its strong brand name and wide distribution network is one of the best plays for Indian Life insurance industry. At the upper price band of ₹700 the issue is offered at 4.2x its Embedded Value of ₹16,538cr, little higher than 3.8x for ICICI Prudential. **We believe the premium valuation for SBI is justified due to its higher incremental market share gain, and hence we recommended investors to “SUBSCRIBE” to the issue with long term perspective.**

Exhibit 14:

	SBI Life	ICICI Pru Life*
Implied Market Cap	70,000	60,800
EV	16,550	16,190
P/EV	4.2	3.8
ROEV (%)	23.0	16.5

Source: Company, Angel Research, * ICICI Pru Life Market Cap as on 18th Sep 2017

Key Risk

Any termination of, or adverse change in bancassurance arrangements

In Fiscal 2015, 2016 and 2017 and for the three months ended June 30, 2017, the bancassurance channel contributed 51.7%, 60.7%, 64.7% and 65.6%, respectively, of New Business Premium from individual products. If there is any adverse change in this channel it may impact the profitability of the company.

Abrupt change in interest rates

The profitability of certain insurance products and return on investment are particularly sensitive to interest rate fluctuations. As of Q1FY18, 77% of the company's investments were in debt securities. Changes in prevailing interest rates could reduce the investment returns and spread and thus materially and adversely affect the business and investment returns, financial condition and results of operations.

Statement of Revenue

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Policyholders account					
Premiums earned - Net	10,345	10,702	12,780	15,665	20,852
% Growth YoY		3	19	23	33
Income from Investment	4,618	6,655	10,393	3,435	9,358
Other Income	12	12	14	20	67
Total Income (A)	14,976	17,373	23,206	19,142	30,311
% Growth YoY		16	34	(18)	58
Total Expenditure (B)	1,720	1,853	1,999	2,522	2,832
% Growth YoY		8	8	26	12
Commission	510	558	604	714	783
% Growth YoY		9	8	18	10
Provision for Doubtful Debts	1,000	1,089	1,168	1,481	1,646
Other Expenses	210	206	228	327	402
Liabilities against life policies (C)	12,521	14,704	20,484	15,953	26,791
Benefits paid (Net)	7,779	8,780	8,198	7,959	9,526
Interim & terminal bonuses paid	1	2	3	7	24
Change in valuation of Liab in respect of LP*	-	-	-	-	-
(a) Gross **	4,663	3,868	6,066	6,759	8,592
(b) (Amount ceded in Re-insurance)	(8)	(9)	(1)	(30)	(3)
(c) Amount accepted in Re-insurance	-	-	-	-	-
(d) Fund reserve	(190)	1,578	5,381	1,232	8,277
(e) Funds for discontinued policies	277	485	838	27	376
SURPLUS/ (DEFICIT) (D) = (A) - (B) - (C)	735	815	722	667	687
% Growth YoY		11	(11)	(8)	3
Appropriation	6	8	(15)	(15)	(33)
Shareholder Accounts					
Shareholder Accounts	741	823	707	652	655
Income from Investment					
Interest, Dividend & Rent - Gross	133	174	232	276	314
Other Investment Income	24	36	52	50	95
Total Income	898	1,033	991	977	1,064
% Growth YoY		15	(4)	(1)	9
Operating Expenditure	268	305	162	122	90
Profit / (Loss) Before Tax	630	728	829	855	975
Tax	-	-	14	11	20
PAT	630	728	815	844	955
% Growth YoY		15	12	4	13
EPS	6	7	8	8	10
% Growth YoY		15	12	4	13

Source: RHP ,LP-Life Policy

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Source Of Fund					
Share capital	1,000	1,000	1,000	1,000	1,000
Reserves	1,736	2,356	3,056	3,733	4,552
Shareholders funds	2,736	3,356	4,056	4,733	5,552
Borrowing	4	3	3	-	-
Policyholders fund					
Policyholders liabilities	23,019	27,057	33,361	39,970	49,100
Provisions for linked liabilities	26,526	28,590	34,809	36,022	44,573
Funds for future appropriation	23	12	7	0	-
Total liabilities	52,309	59,018	72,237	80,725	99,225
Application of Fund					
Shareholders funds	1,812	2,353	3,070	3,565	4,296
Policyholders	21,688	25,324	31,504	38,256	46,962
Asset held to cover linked liabilities	26,548	28,597	34,810	36,022	44,573
AUM	50,047	56,275	69,385	77,843	95,830
% Growth YoY		12	23	12	23
Loans	0	1	2	124	178
Fixed assets	286	308	298	447	538
Current assets					
Cash	2,153	2,542	2,524	2,617	2,430
Advances and Other Assets	1,228	1,515	1,912	2,399	3,263
Current liabilities	1,406	1,623	1,884	2,705	3,014
Ner Current Asset	1,976	2,434	2,552	2,311	2,678
Total Asset	52,309	59,018	72,237	80,725	99,225
% Growth YoY		13	22	12	23

Source: RHP

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17
Per Share Data (₹)					
EPS	6.3	7.3	8.1	8.4	9.5
BV	27.4	33.6	40.6	47.3	55.5
IEV				12,548	16,538
Valuation Ratio					
PE	111.1	96.2	85.9	82.9	73.3
P/BV	25.6	20.9	17.3	14.8	12.6
P/EV				5.6	4.2
ROE (%)	23.0	21.7	20.1	17.8	17.2
Solvency Ratio (x)			2.2	2.1	2.0
Opex Ratio (%)					
Operation Exp			9.1	9.4	7.8
Commission			4.7	4.5	3.7
Total Cost			13.8	13.9	11.5
Persistence Ratio (Months)					
					%
13					81.1
25					73.9
37					67.4
49					62.5
61					67.2

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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