

SBI Life Insurance

SBI Life Insurance is a JV between State Bank of India (SBI - 57.6%) and BNP Paribas Cardiff (5.2%). The insurer's New Business Premium (NBP) grew 18% from FY2017 to FY2020; it has a second position in private players with 20.7% market share in New Business Premium in FY2020.

Strong premium growth has led to consistent market share gain: SBI Life has been reporting strong growth in NBP, with 20% growth in FY2020 and 3 year CAGR of 42% vs. industry growth rate of 11% and 38%, respectively. Over FY2015-20, SBI Life has improved its market share by ~260bps to 20.7% (FY2020).

Widest distribution network (bancassurance) backed by parent has ensured healthy growth: SBI Life's parent i.e. SBI has a mammoth network of ~22,141 branches and other bank tie-ups, which helps it in garnering new business on a continuous basis. 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.

Cost structure best in the industry: Primary reason behind low opex ratio for SBI Life is Parent SBI, as this business has been largely on auto pilot structure and incremental cost for new business is less. Further, its low commission ratios and high agent productivity also indicate the ability to drive growth while keeping costs in check.

Outlook & Valuation: We believe the Indian Life Insurance industry is in a phase of high growth and lower penetration will ensure that the growth remains 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. Further, historically, insurance products have seen growth post pandemic scenario. At the cut off rate ₹742.6, the offer for sale is offered at 2.7x its Embedded Value of ₹27,640cr. We believe SBI Life will continue to gain market share considering its bancassurance strength and operational efficiency. Hence, we recommended investors to "SUBSCRIBE" to the issue with long term perspective.

Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	FY20
Premium Income	20,853	25,160	32,890	40,324
% Growth YoY	33	21	31	23
PAT	955	1,150	1,327	1,422
% Growth YoY	11	20	15	7
EV		19,070	23,730	27,640
RoE	19	19	19	17
PE	78	65	56	52
P/BV	14	12	10	8
P/EV		3.9	3.1	2.7

Valuation done on Cut off Rate, EV – Embedded Value

SUBSCRIBE

Issue Open: June 15, 2020
Issue Close: June 15, 2020

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹1000cr

Offer for Sale: 2.1cr Shares

Post Eq. Paid up Capital: ₹1,000cr

Issue size (amount): ₹1,579 cr

Cut off Rate: ₹742.60

Allocation

Non-Retail	90% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	63%
Others	37%

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Issue Details

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India's biggest public-sector lender, State Bank of India (SBI) has decided to reduce its stake in SBI Life Insurance Company by 2.10% through an Offer For Sale (OFS) to achieve minimum public shareholding of 25%. At a cut off rate ₹742.63 per share, the OFS stands at a 1% discount to SBI Life's closing price of ₹750 apiece on Friday.

Investors under the retail category will only be allowed to bid for shares valuing not more than ₹2 lakh. SBI Life Insurance informed the bourses that no discount shall be offered to retail investors but 10% of the shares on sale will be reserved for the category.

Exhibit 1: Pre and Post-OFS shareholding pattern (shares in cr)

Particular	No of shares (Pre-issue)		No of shares (Post-issue)	
		%		%
Promoter (GOI)	62.80	63	60.70	61
Institution/Public	37.20	37	39.30	39
Total	100.0	100	100.00	100

Exhibit 2: Relative Comparison (₹ cr)

Company	Embedded Value				VNBM (%)			Net Worth	PAT	Valuation (X)			
	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY20	FY20	M.Cap	P/NW	P/EV	P/E
ICICIPru	18,788	21,620	23,032	10	17	17	22	7,213	1,068	57,571	8	2	54
HDFCLife	15,216	18,300	20,700	22	23	25	26	6,801	1,295	1,01,423	15	5	78
SBI Life	19,070	23,730	27,640	16	18	20	21	8,743	1,422	74,262	8	3	52

Source: Company

Income Statement

Particular	FY16	FY17	FY18	FY19	FY20
Policyholder Account					
Total premium earned - Net	15,666	20,853	25,160	32,890	40,324
YoY Growth %		33	21	31	23
Income from investments	3,361	9,362	8,525	11,272	3,043
Transfer from shareholder a/c	93	63	76	99	476
Total income	19,119	30,278	33,761	44,261	43,843
YoY Growth %		58	12	31	(1)
Commission	714	783	1,121	1,346	1,625
YoY Growth %		10	43	20	21
Operating expenses	1,458	1,647	1,719	2,124	2,413
YoY Growth %		13	4	24	14
Provisions	175	223	353	551	678
Total expenses	2,348	2,652	3,192	4,020	4,716
YoY Growth %		13	20	26	17
Benefits paid	7,967	9,550	11,712	15,294	16,251
Change in valuation of liabilities	7,987	17,241	17,595	23,592	20,605
Total	15,954	26,791	29,307	38,886	36,856
Surplus	818	834	1,261	1,355	2,272
Tax	153	180	238	269	377
Net surplus	664	654	1,023	1,087	1,895
Transfer to shareholders account	666	655	829	999	1,463
YoY Growth %		-2	27	20	46
Shareholders account					
Transfer from policyholders' a/c	666	655	829	999	1,463
Investment income	318	402	452	506	477
Other income	8	8	11	14	7
Total income	991	1,064	1,293	1,518	1,946
YoY Growth %		7	21	17	28
Expenses	24	27	33	46	56
Contribution to policyholders' a/c	93	63	76	99	476
Profit before tax	874	975	1,185	1,373	1,414
YoY Growth %		12	22	16	3
Taxes	13	20	34	46	(9)
PAT	861	955	1,150	1,327	1,422
YoY Growth %		11	20	15	7

Balance Sheet

Particular	FY16	FY17	FY18	FY19	FY20
Source					
Share capital	1,000	1,000	1,000	1,000	1,000
Reserve and surplus	3,691	4,465	5,375	6,460	7,884
Net worth	4,691	5,465	6,375	7,460	8,884
Credit/debit balance in fair value a/c	42	87	153	116	(141)
Policyholders' a/c	75,991	93,673	1,11,435	1,35,140	1,53,101
Funds for future appropriation	0	-	194	282	714
Total Liabilities	80,725	99,225	1,18,156	1,42,998	1,62,558
Application					
Shareholders' Investments	3,565	4,296	5,014	5,723	6,828
Policyholders' investments	38,256	46,962	54,486	64,472	73,420
Asset to cover linked liabilities	36,022	44,573	54,936	69,129	78,565
AUM	77,843	95,830	1,14,436	1,39,325	1,58,813
YoY Growth %		23	19	22	14
Loans	124	178	171	173	365
Fixed assets + DTA	447	539	581	595	581
Net current assets	2,311	2,678	2,968	2,905	2,799
Total Assets	80,725	99,225	1,18,156	1,42,998	1,62,558
YoY Growth %		23	19	21	14

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