

Pick of the week



SBI Life Insurance Company Ltd

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 977

Target Price

₹ 1360

Potential Upside

39%

Investment Argument

- SBI Life's 4QFY21 results were testimony to our thesis that the Value of new business (VNB) margins build in some conservatism and are broadly comparable with peers after taking cognizance of different tax rate treatments and higher operating variances.
- SBI Life reported a 22.2% VNB margin in 4QFY21 and ended the year with 20.4% VNB margins (+1.65% yoy). The company has reported steady increase in VNB margin for over the years (16.2% in 2018) and healthy operating Return on embedded value (RoEV) of 19.1% for FY21.
- One of the reasons for difference between SBI Life and HDFC Life is lower share of non-par (savings, annuity and protection share) at 22% of Annual premium equivalent (APE) for SBI Life versus 44% for HDFC Life, though SBI Life benefits from lower expense ratios.
- We are raising our Embedded Value (EV) estimates by 4.5-5% reflecting higher opening EV, 1-6% higher Embedded value operating profit (EVOP) on the back of higher volumes as well as margins. We expect the company to deliver a 21-22% medium-term VNB margin.
- SBI Life currently trades at 2.1X FY23E EV. At our fair value, it trades at 2.9X EV or 19X EVOP June 2023E

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 3rd May 2021, which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

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