

SBI Life Insurance

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
633	800	26.4%	775 / 485	633000

Key Highlights:

- SBI Life reported 14% growth in APE in 4QFY19, in line with 9MFY19 growth rate though lower than 17% reported in 3QFY19.
- VNB margin expanded to 18.1% from 17.5% in 3QFY19 likely due to higher share of protection business at 8.1% of total from 7.3% in 3QFY19 and 4.5% in 1QFY19; this is a consequence of conscious focus of its management on this segment.
- Expenses were up 27% yoy as compared to 22% growth in gross premium and 14% growth in APE. Cost-to-APE ratio increased to 10.8% from 10.5% in 4QFY18 and cost-to-AUM ratio increased by 20 bps to 3.2%
- SBI Life reported operating RoEV of 17.3% in FY2019, down from 17.9% in FY2018. The decline was largely due to lower operating variance.
- While APE growth for the year was moderate at 13%, VNB growth accelerated to 24% as margins expanded to 18% from 16.3%. This was largely driven by an increase in the protection business.
- In FY2019, SBI Life focused on increasing individual protection business, up 6X to 4% of total APE. About 95% of this is generated from SBI branches.
- We expect SBI Life to deliver 18% medium-term operating RoEV with 19% VNB and 19% EVOP CAGR during FY2019-22E based on the following a) We expect SBI Life to report about 18% APE CAGR b) VNB margins will likely expand marginally (25-30 bps) due to increase in margins of the savings business. We expect VNB margins in the protection business to decline to about 65% in FY2022E from 78% in FY2019 due to rising competition c) We are building some positive variance to reflect (1) lower effective tax rates and (2) improving headline persistency.
- We continue to build in high-teens growth and moderate improvement in VNB margins to drive ~18% operating RoEV. Retain BUY with fair value of Rs800 (up from Rs790).

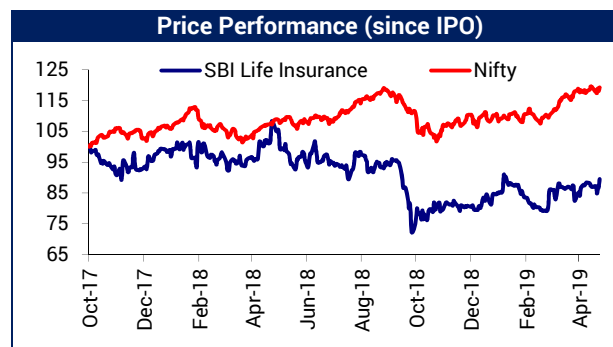
Financials (Rs bn)*	FY19	FY20E	FY21E
APE **	97	114	135
YoY (%)	13.5	18.0	18.0
VNB #	17	21	25
YoY (%)	23.7	21.3	18.0
EV movement			
Opening Embedded Value	190.7	223.8	262.3
VNB	17.2	20.9	24.6
Expected return	16.2	19.0	22.3
Operating variance	(0.4)	0.6	0.8
Non-operating variance	0.1	(2.0)	(2.3)
Closing Embedded Value	223.8	262.3	307.7
VNB Margin (%)	18.0	18.3	18.3
RoEV (%)	17.3	17.2	17.3
Operating RoEV (%)	17.3	18.1	18.2

Source: Kotak Institutional Equities; *Standalone

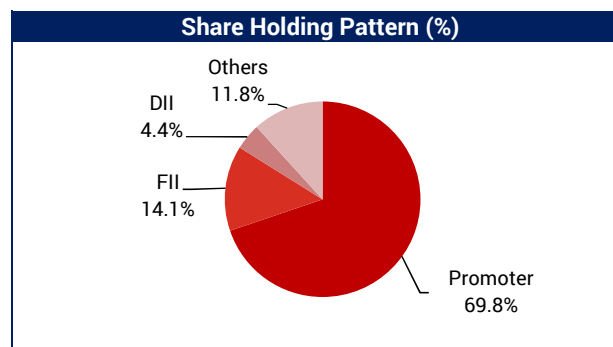
Financials (Rs mn)*	Q4-FY18	Q4-FY19	% Chg
Net premium	92,367	113,330	23%
Expenses of management	8,601	10,939	27%
Net cash flows	48,010	30,845	-36%
PBT	3,891	4,891	26%
PAT	3,812	4,577	20%
APE	26,641	30,342	14%

Source: Kotak Institutional Equities; *Standalone

** Annualised Premium Equivalent # Value of new business



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated April 26, 2019 and it does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PGC research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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