



SBI Life Insurance Co. Ltd. - Best placed amongst peers in Life insurance industry but expensively valued - "SUBSCRIBE for long term"

SBI Life Insurance Company Limited was incorporated at Mumbai on October 11, 2000. The company is registered with IRDAI for carrying out the business of Life Insurance pursuant to the registration certificate dated March 29, 2001. SBI Life was established as a joint venture between the State Bank and BNP Paribas Cardif S.A ("BNPPC") in 2001. As of March 31, 2017, State Bank was India's largest commercial bank in terms of deposits, advances and number of branches. BNPPC, an insurance subsidiary of BNP Paribas, with operations across 36 jurisdictions internationally, is among the leading credit life insurance businesses globally.

SBI Life is India's Leading Private Life Insurer, in terms of New Business Premium generated in each fiscal year, since Fiscal 2010. As of July 31, 2017, SBI Life had a comprehensive product portfolio of 37 Individual and Group Products. The Individual Products include Participating Products, Non-Participating Protection Products, Other Non-Participating Products and Unit-Linked Products, while the Group Products include Credit Life Group Protection Products, Other Group Protection Products, Group Fund Management ("Group FM") Products and Other Group Products. It 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. SBI Life has consistently maintained their Solvency Ratio at over 2 in each of the last 5 fiscal years, and at 2.11 as of June 30, 2017, compared to the IRDAI mandated minimum Solvency Ratio of at least 1.50. SBI Life's embedded value stood at Rs. 16,537.9 crores as of March 2017 which is higher than its immediate peer ICICI Prudential in the listed space.

In Fiscal 2017, SBI Life had 13th month and 61st month Persistency Ratios of 81.07% and 67.18%, respectively, with their 61st month Persistency Ratio being the highest among the top 5 private life insurers (in terms of total premium in Fiscal 2017) in India (Source: CRISIL Report). For the 3 months ended June 30, 2017, the 13th month Persistency Ratio was 81.97% and the 61st month Persistency Ratio was 64.62%. In Fiscal 2017, their Mis-Selling Ratio of 0.20% was the lowest among the top 5 private life insurers (in terms of total premium in Fiscal 2017) in India (Source: CRISIL Report). For the 3 months ended June 30, 2017, the Mis-Selling Ratio was 0.20%. Their Grievance Disposal Rate was 99.96% in Fiscal 2017 and 95.10% for the 3 months ended June 30, 2017. Their Death Claims Settlement Ratio improved from 92.33% in Fiscal 2015 to 97.98% in Fiscal 2017 and was 89.61% for the 3 months ended June 30, 2017.

Investment Rationale and Recommendation

We like the story of SBI Life is uniquely positioned as it is doing well in both the major channels: - agency distribution or individual agency where it is growing at around 20 percent which is double of the general industry growth in this channel and in bancassurance the potential that is available in State Bank Group is immense. At the upper end of the price band of Rs. 700, the IPO is valued at 74x at FY17 EPS on post IPO basis which we believe is at a huge premium to its immediate listed peer - ICICI Prudential. Owing to the premium pricing, we believe listing gains would be minimal. With due consideration to the factors like:

IPO note date	Sep. 19, 2017		
Issue date	Sep. 20 – 22, 2017		
Listing date	Oct. 03, 2017		
Type of issue	OFS: Rs. 82 bn		
Face Value	Rs. 10		
Price Band	Rs. 685 – Rs. 700 per share		
Issue allocation	QIB – 50% Retail – 35% NIB – 15%		
Lot size	21 equity Shares & multiple of 21 equity shares thereafter		
Equity shares post issue	1,000 mn equity shares		
Discount	Discount for employees - Rs. 68 per share		
Post issue market cap	Rs. 700bn at upper price band		
Book Running Lead Managers	JM Financial, Axis Capital, BNP Paribas, Citigroup, Deutsche, ICICI Sec., Kotak, SBI Cap.		
Registrar to the issue	Karvy Computershare		
Y/e 31 Mar (Rs. mn)	FY17	FY16	FY15
Premium earned	208,525	156,655	127,800
Investment income	94,251	34,543	104,065
PAT	955	844	815
EPS	9.5	8.4	8.1
P/E	74	83	86
Share Capital	10,000	10,000	10,000
Networth	55,520	47,331	40,563
Book Value (Rs.)	55.5	47.3	40.5
P/BV (x)	12.6	14.8	17.3
ROE (%)	18.5	19.2	21.9

Source: RHP, Ajcon Research

a) underpenetration in Life Insurance industry, b) one of the largest private life insurer, c) cost ratios, mis-selling ratio of SBI Life are relatively lower than other players, d) consistent track record of rapid growth, e) significant brand equity and pre eminent promoters, f) diversified product portfolio, g) expansive multi - channel distribution with pan - India bancassurance channel and high agent productivity, consistently maintained its Solvency Ratio at over 2 in each of the last 5 fiscal years, and at 2.11 as of June 30, 2017, compared to the IRDAI mandated minimum Solvency Ratio of at least 1.50, h) highest embedded value in Life Insurance Industry, we recommend "SUBSCRIBE" to the issue for investors for a long term horizon of 5-10 years as the real fruits of the story would grow multifold over that period.



Objects of the issue

The IPO includes an initial public offer of upto 120 mn. Equity shares of face value of Rs. 10 each through an offer for sale by State Bank of India and BNP Paribas Cardif where each will be selling up to 80 mn. Equity shares and up to 40 mn equity shares respectively.

Promoter SBI will reduce its holding by 8 percent to 62.1 percent and BNPPC will reduce 4 percent stake to 22 percent.

Company and Promoters

SBI Life Insurance Company Limited ("SBI Life") was incorporated at Mumbai on October 11, 2000 as a Public Limited Company under the Companies Act 1956, and received certificate of commencement of business from the RoC on November 20, 2000. The company is registered with the IRDAI for carrying out business of life insurance pursuant to the registration certificate dated March 29, 2001.

In Fiscal 2017, SBI Life enjoyed a market share of Individual Rated Premium of 20.69% among Private Life Insurers in India and 11.16% of the entire Life Insurance industry in India (*Source: CRISIL Report*). Between Fiscal 2015 and Fiscal 2017, their Individual Rated Premium increased at a CAGR of 37.90 %, the highest among the Top 5 Private Life Insurers (in terms of total premium in Fiscal 2017) in India (*Source: CRISIL Report*). They have also issued the highest number of Individual Life Policies annually among the Top 5 Private Life Insurers (in terms of Total Premium in Fiscal 2017) in India since Fiscal 2014 (*Source: CRISIL Report*).

Based on the Embedded Value Report issued by the Independent Actuary, SBI Life's Embedded Value was Rs. 16,537.9 crore as of March 31, 2017. The Value of New Business was Rs.1,036.8 crore in Fiscal 2017 while their Value of New Business Margin was 15.4% and the Present Value of New Business Premium Margin for Fiscal 2017 was 3.8%.

As of July 31, 2017, SBI Life had a comprehensive product portfolio of 37 Individual and Group Products, including a range of protection and savings products to address the insurance needs of diverse customer segments. The Individual Products include Participating Products, Non-Participating Protection Products, Other Non-Participating Products and Unit-Linked Products, which contributed 10.77%, 0.95%, 1.69% and 50.36%, respectively, of their New Business Premium in Fiscal 2017; while the Group Products include Credit Life Group Protection Products, Other Group Protection Products, Group Fund Management ("Group FM") Products and Other Group Products, which contributed 2.72%, 1.14%, 31.73% and 0.65%, respectively, of their New Business Premium in Fiscal 2017 and 2.91%, 2.04%, 26.84% and 0.60%, respectively, of the New Business Premium for the 3 months ended June 30, 2017.



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Promoters background

The Promoters of the company are State Bank and BNP Paribas Cardif S.A (“BNPPC”). State Bank and BNPPC have been identified as promoters in previous filings with IRDAI. Further, SBI Life is an “Indian owned and controlled” company under the Insurance Act and applicable regulations thereunder. State Bank currently holds 701,000,000 Equity Shares and BNPPC holds 260,000,000 Equity Shares, equivalent to 70.10% and 26% of the pre-Offer issued, subscribed and paid-up Share capital of the company, respectively.

As of March 31, 2017, State Bank was India’s largest commercial bank in terms of deposits, advances and number of branches (Source: RBI data). Following its recent merger with certain of its associate banks and a non-affiliate bank, with effect from April 1, 2017, State Bank had 24,017 branches and 195 international offices in 36 countries and more than 420 million customers. BNPPC, an insurance subsidiary of BNP Paribas, with operations across 36 jurisdictions internationally, is among the leading credit life insurance businesses globally. BNP Paribas was a top 10 global financial institution in terms of revenues in 2016 (Source: Fortune Global 500). Company’s relationship with State Bank and BNPPC has enabled them to enhance their brand, access specialist industry expertise, grow their business and consolidate the market position.

Mr. Arijit Basu is the Managing Director and Chief Executive Officer of the company. He has over 34 years of experience in the field of banking. Arundhati Bhattacharya is the Nominee Director of State Bank and the Chairman of the company. She was appointed as a Nominee Director w.e.f. October 7, 2013. She joined the central board of directors of State Bank on August 2, 2013 and currently holds the position of chairman of State Bank. She has more than 39 years of experience in the field of banking and financial services. She was involved in setting up several new companies/initiatives of State Bank including SBI General Insurance Company Limited, SBI Macquarie Infrastructure Fund, SBI SG Securities Limited, as well as the launch of new information and technology platforms such as mobile banking and financial planning in State Bank.



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Key strengths

Largest private life insurer

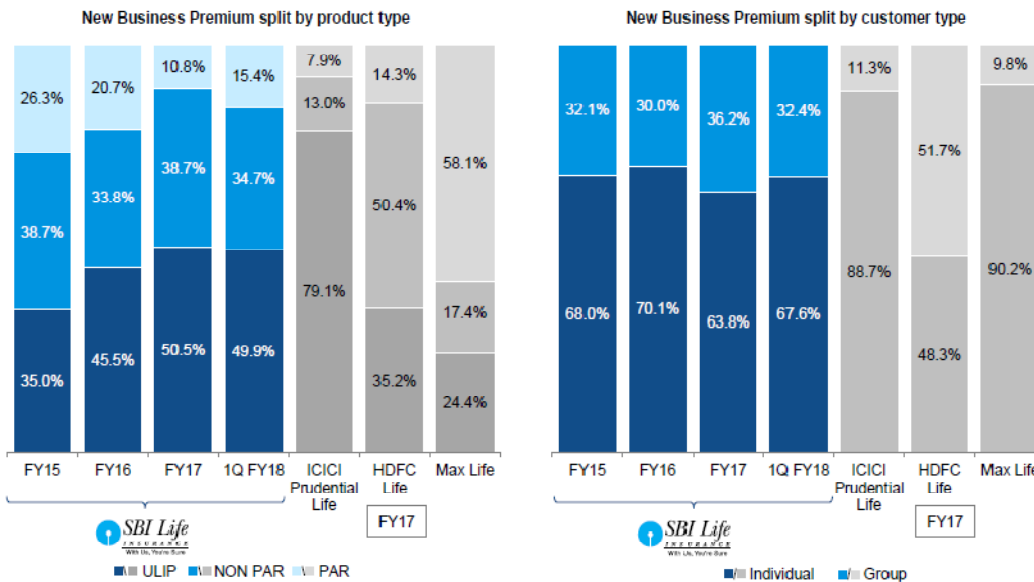
Leadership well established across various KPIs amongst Top 4¹ private life insurers in FY17

Total NBP Private Market share	Total Individual NOP ('000)	Renewal Premium growth FY14-17 CAGR	Bancassurance Individual NEP FY14-17 CAGR	Agent Productivity ² (INR '000)	Total Cost Ratio ³	37 / 61 – Month Persistency	Mis-selling Ratio ⁴
1 SBI Life 20.0%	1 SBI Life 1,275.5	1 SBI Life 24.2%	1 SBI Life 40.0%	1 SBI Life 234.5	1 SBI Life 11.6%	1 SBI Life 67.4% / 67.2%	1 SBI Life 0.2%
HDFC Life 17.2%	HDFC Life 1,083.2	ICICI Prudential Life 18.7%	ICICI Prudential Life 29.8%	Max Life 165.9	ICICI Prudential Life 13.9%	ICICI Prudential Life 66.8% / 56.2%	HDFC Life 0.6%
ICICI Prudential Life 15.5%	ICICI Prudential Life 702.7	Max Life 12.4%	Max Life 24.7%	ICICI Prudential Life 127.5	HDFC Life 16.4%	HDFC Life 63.9% / 56.8%	ICICI Prudential Life 0.8%
Max Life 7.2%	Max Life 503.4	HDFC Life 10.2%	HDFC Life 15.5%	HDFC Life 95.1	Max Life 23.8%	Max Life 59.7% / 53.0%	Max Life 1.2%

1. Top 4 private players by total premiums in FY17 as per CRISIL Report
 2. Agent productivity – Individual NBP per average number of Agents
 3. Total Cost Ratio = (Opex + commissions)/Total GWP
 4. Mis-selling Ratio = Unfair Business Practices / Total NOP during Year
 Source - CRISIL Report, Company data

Diverse product portfolio

Well balanced product portfolio (%)



In FY17, protection products (Individual + Group) contributed 4.8% of NBP

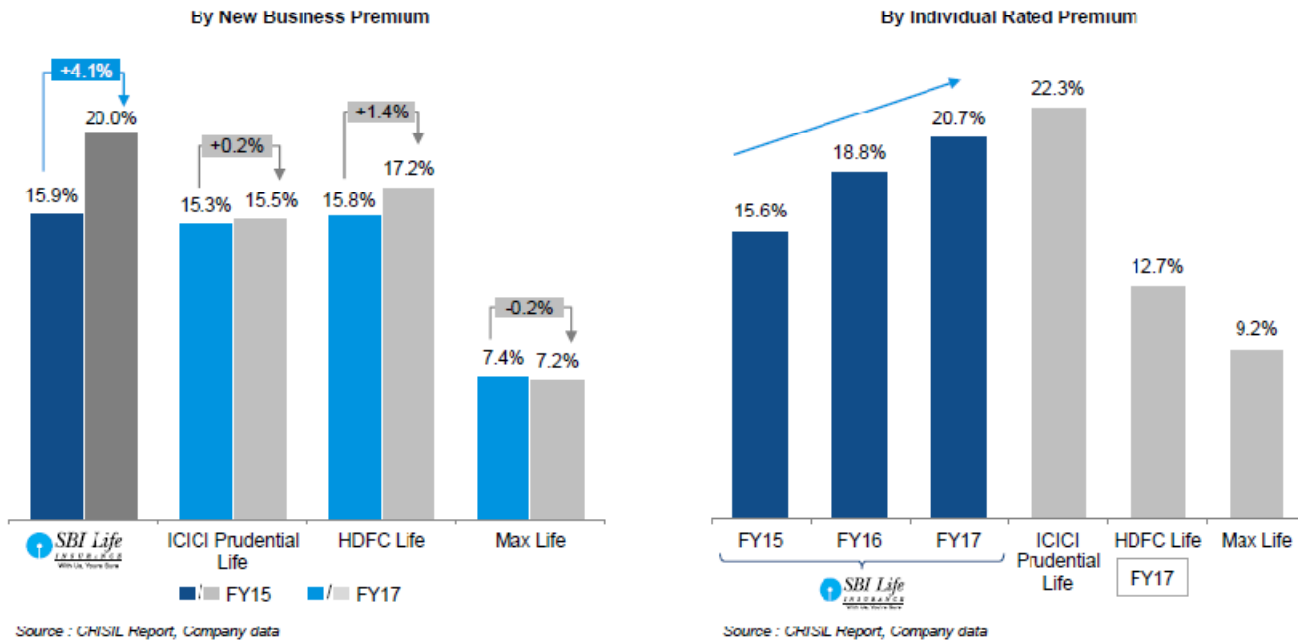
Source - CRISIL Report, Company data



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Consistent track record of rapid growth

Market Share¹ gains over the years

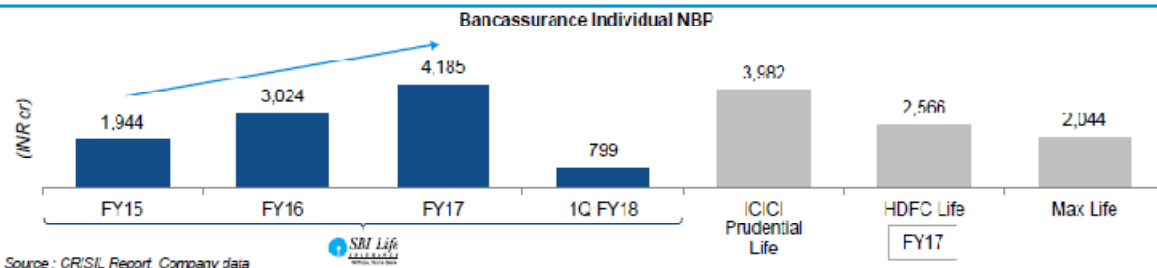


Consistently growing faster than the industry and highest amongst top 4 private insurers; Gaining market share and retained #1 position since last 8 years²

1. Amongst private players
2. By New Business Premium

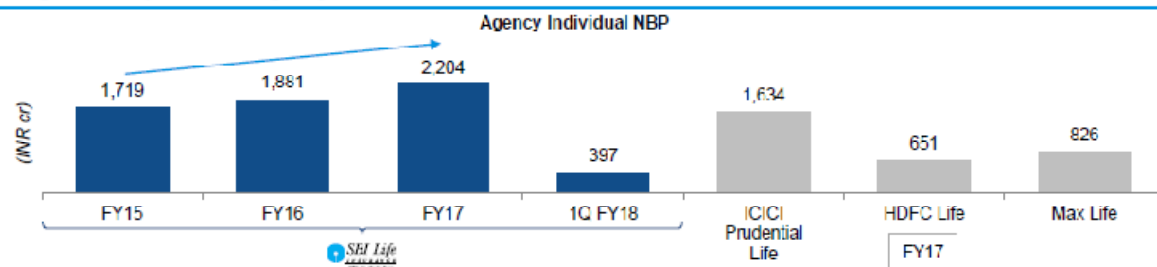
Expansive multi channel distribution network

Substantial untapped bancassurance network



Largest bancassurance network¹ with 26,367² branches

Large & most productive agency workforce



Large agency network with 95,355 individual agents as of 31 March 2017

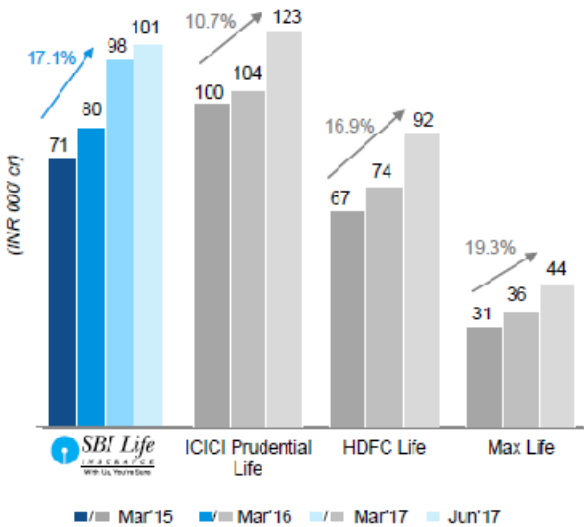
1. By new business premium for private players in FY17
2. Includes branches of State Bank of India, Punjab & Sind Bank and South Indian Bank



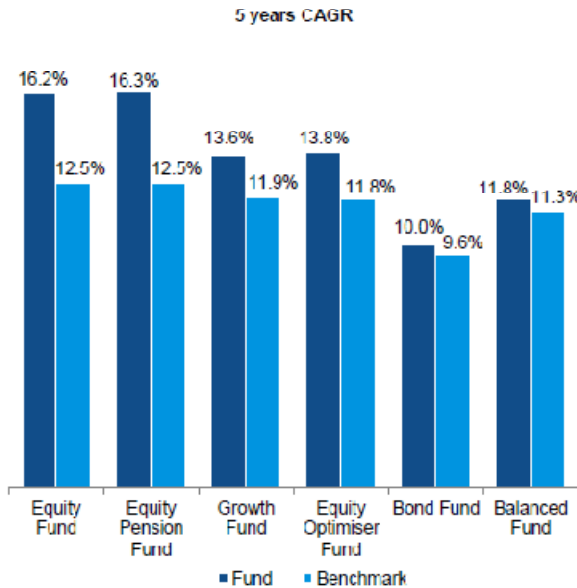
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Strong growth in AUM with superior investment performance

Assets Under Management growth



Outperforming the benchmarks consistently

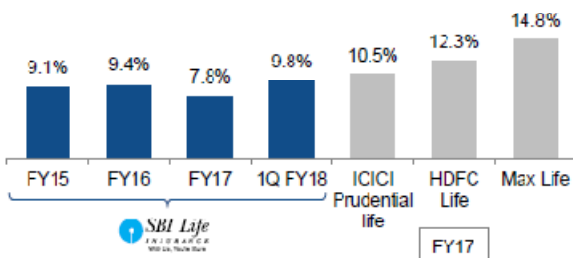


Investment in high quality assets with 90.2% of fixed income portfolio comprised of domestic AAA-rated instruments including sovereign instruments as of 30 June 2017

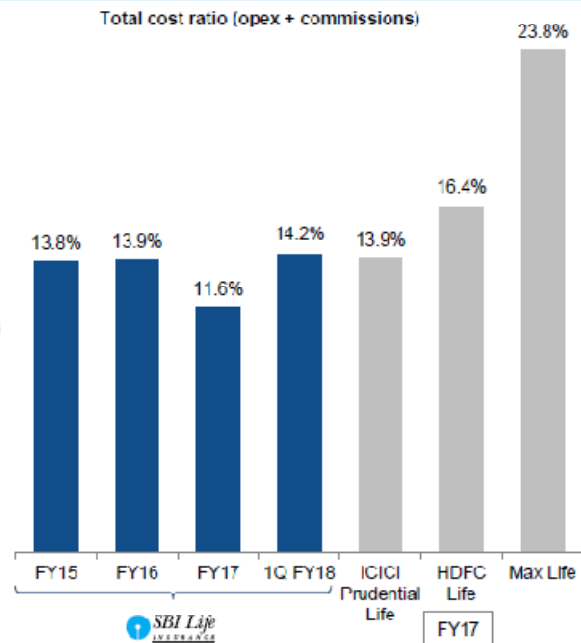
Cost leadership with improving operating performance

Best in class efficiency amongst peers

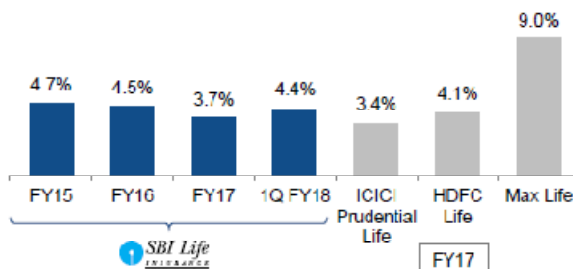
One of the lowest operating expense ratio...



...making it the most efficient amongst peers



...and total commission ratio...



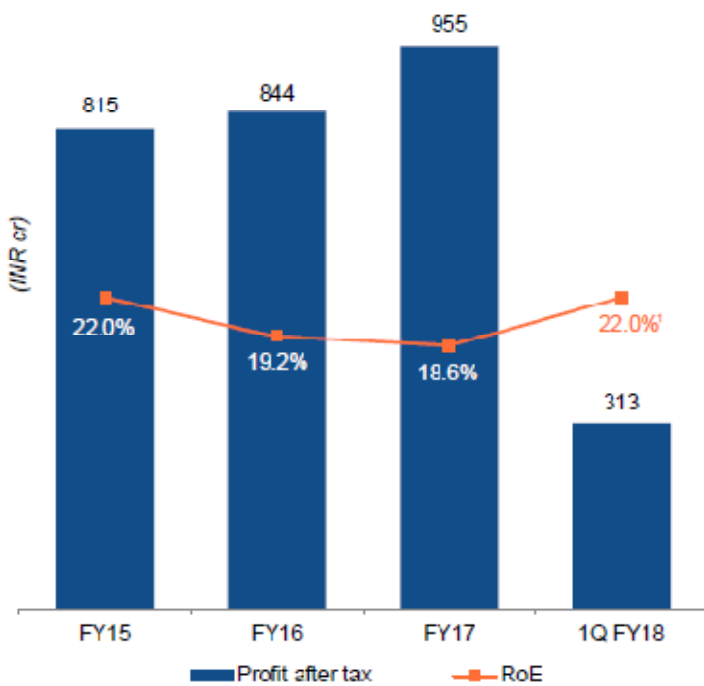
NBP commission ratio New Business Commissions (first year + single) / New Business Premium of 6.1%, 6.0%, 7.6%, 17.0% for SBI Life, ICICI Prudential Life, HDFC Life and Max Life respectively
Source: CRISIL Report, Company data



Superior operating and financial performance

Adding value for shareholders

Strong profitability trend with steady RoEs



Source : Company data

Key metric (INR cr)	FY17
APE	6,727
VNB	1,037
EV	16,538
VNB margin	15.4%
EV Operating profit	2,888
Operating RoEV	23%

Strong solvency ratio of 2.11x as of 30 June 2017 as opposed to regulatory minimum of 1.50x

Source : CPISIL Report, Company data

Turned profitable within first 5 years of operations

1. Annualized RoE arrived by multiplying 1Q FY18 RoE of 5.5% with four



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