

Bid for Long Term

Key Data	
Floor Price (Rs)	650
Face Value (Rs)	10/-
Issue Size (Rs)	1625cr
Total offered	2,50,00,000 shares
Retail	
Issue Opens	June 26, 2019
Issue Closes	June 26, 2019
Offered shares	25,00,000
NSE Code	SBILIFE
BSE Code	540719
52 Week High	714
52 Week Low	487
Source: BSE India	

SBI Life Insurance Company Ltd

Company Background:

Established in 2001, SBI Life Insurance Company Limited, a joint venture between State Bank of India and BNP Paribas Cardif, is one of the leading life Insurance companies in India. SBI Life has an authorized capital of Rs. 20 billion and a paid-up capital of Rs. 10.0 billion.

SBI Life offers a comprehensive range of life insurance and pension products at competitive prices, ensuring high standards of customer service, and world-class operating efficiency. The company offers individual and group products, which include savings and protection plans to address the insurance needs of diverse customer segments.

As on March 31, 2019, the company manages an AUM of more than Rs. 1410.2bn and a debt-to-equity mix of 77:23. More than 90% of its debt investments are AAA rated and Sovereign instruments.

SBI Life has a multi-channel distribution network comprising an expansive Bancassurance channel with SBI, which has an unrivalled strength of more than 22,000 branches across the country. SBI Life also has a large and productive agent network comprising 123,613 agents, as on March 31, 2019. The company's other distribution channels include direct sales and sales through corporate agents, brokers, insurance marketing firms, and other intermediaries. As on March 31, 2019, the company has a widespread network of 908 offices across the country to address customer needs effectively and efficiently. The company had an AUM of Rs. 1,410.2 bn as of March 31, 2019.

Issue Details:

The promoter of the company - BNP Paribas Cardif, proposes to sell up to 2,50,00,000 equity shares representing 2.5% of the total paid-up equity share capital of the company and face value of Rs. 10/- each. The floor price has been set at Rs. 650/- per share.

Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on June 25, 2019 for institutional bidders. Retails investors for whom 10% shares have been reserved will get to bid on June 26, 2019.

Rationales:

Capitalize on insurance industry growth opportunities

The domestic life insurance market of India is highly under penetrated compared with the global average. India's life insurance penetration stood at ~2.8% with life insurance density standing at \$55 as on 2017. This shows that India has the highest protection gap in the region, since the growth in savings and life insurance coverage has lagged behind economic and wage growth. With this, the protection gap has increased more than 4x in the past 15 years with significantly low insurance penetration and density. The average penetration for the life insurance industry globally is 3.5% as of 2017, which is 70 bps more than the Indian life insurance industry. We believe the Indian insurance market offers large growth potential, propelled by gradual recovery in GDP growth, rise in urbanization, low inflation level, improvement in the financial savings rate, initiatives undertaken by the government to ensure adequate social security, and favorable demographics with growing awareness and importance of insurance.

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Superior brand equity

The insurance business is substantially dependent on reputation. In order to maintain their leadership position across various geographies and different customer segments, company continue to focus on further strengthening their brand by augmenting customer relationships, maintaining stakeholder expectations and improving claims management processes. They continue to build on existing corporate culture and strengthen their image as a socially responsible insurance company through various corporate social responsibility and insurance awareness initiatives with the intent to pursue sustainable, value enhancing long-term growth and profitability. Their strategy is to maintain and enhance their brand value by ensuring best in class risk management practices and implementing global best practices.

Ensure profitable growth through balanced product portfolio and expansive distribution network

The company continues to focus on ensuring profitability of their business by maintaining a diversified product portfolio. They intend to continue to leverage their strong multi-channel distribution network to ensure profitable growth. Their large bancassurance channel provides significant cross-selling opportunities with minimal distribution costs. In particular, they will continue to focus on leveraging State Bank's large branch network and customer base to identify and penetrate new markets. SBI Life has a multi-channel distribution network comprising of an expansive bancassurance channel with SBI, which has an unrivalled strength of over 22,000 branches across the country. SBI Life also has a large and productive agent network comprising of 123,613 agents, as on March 31, 2019. The company has strong distribution network of 184,452 trained insurance professional and widespread operations with 908 offices across country. Further, they continue to increase their focus on direct sales through website and customized mobile applications supported by dedicated customer service and call centres.

Strong financial performance led by consistent and profitable growth

Over the years, SBI Life has a successful track record of delivering consistent growth in total premium and Value of New Business (VNB). The company aims to continue adding economic value to its shareholders by increasing the total premium and VNB, while reducing total operating cost ratio across business cycles. Further, they have increased their market share of New Business Premium generated among private life insurers in India, from 15.87% in FY15 to 19.0% in FY19. Moreover, in FY19, they enjoyed a market share of Individual Rated Premium of 22.3% among private life insurers in India and 12.9% of the entire life insurance industry in India. In the last three years (FY17-FY19), the company's new business premium business grew at a CAGR of 25% to Rs. 137.9bn while PAT grew at a CAGR of 16% to Rs. 13.3bn. Further, during FY19, the company's total premium business and profit grew by 30% and 15% respectively on a YoY basis. The company's 13th month and 61st month persistency ratio stands at 85.07% and 5% respectively. Moreover, SBI Life has a strong balance sheet with a total net worth of Rs. 75.8bn and a solvency ratio of 2.13 as on March 2019. As on March 2019, the company's embedded value (EV) stands at Rs. 224bn with return on equity stands at 18.8%.

Recommendations:

At the floor price of Rs 650 /-, the stock trades at 2.90x its FY19 Embedded Value of Rs. 224bn. We believe SBI Life is one of the best proxy plays on the rising penetration of life insurance market in India. Further, strong distribution reach, superior product mix, and well-established brand equity help the company capitalize on future growth. Hence, we recommend to **BID** for the OFS on a long-term basis.

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