

RESEARCH

BOB Economics Research | WPI

WPI cools further

ICICI Prudential Life | Target: Rs 645 | +26% | BUY

Some hits, some misses - maintain BUY

Metals & Mining

China demand to pick up but margins to take longer – Baosteel

SUMMARY

India Economics: WPI

WPI for Sep'22 eased to 18-month low of 10.7% from 12.4% in Aug'22, supported by broad-based moderation in food, fuel and manufactured product inflation. Within food, prices of fruits, pulses and protein based items contributed to the moderation, while pressure on cereals and vegetable prices remains. In case of fuel while YoY trend shows moderation in prices, MoM numbers indicates built up in pressure in mineral oil and electricity index. Core WPI softened further to 7% in Sep'22 from 7.9% in Aug'22, led by dip in manufactured product inflation. This trend is in line with dip in global commodity prices. Going forward, while recessionary fears will keep commodity prices in check, unseasonal rains and rising oil prices will keep have to watched for its impact on food and fuel inflation.

[Click here for the full report.](#)

ICICI Prudential Life

- H1FY23 VNB grew 25% YoY to Rs 10.9bn with margin profile strong at 31%; on course to double VNB by end-FY23 vs. FY19
- Q2 gross premium increased 3.8% YoY to Rs 99bn (10% below est.), with renewal premium up 1% and NBP up 7%
- Retain BUY on robust VNB growth and compelling valuations; TP unchanged at Rs 645

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Daily macro indicators

Indicator	12-Oct	13-Oct	Chg (%)
US 10Y yield (%)	3.90	3.94	5bps
India 10Y yield (%)	7.44	7.42	(1bps)
USD/INR	82.31	82.35	0.0
Brent Crude (US\$/bbl)	92.5	94.6	2.3
Dow	29,211	30,039	2.8
Hang Seng	16,701	16,389	(1.9)
Sensex	57,626	57,235	(0.7)
India FII (US\$ mn)	11-Oct	12-Oct	Chg (\$ mn)
FII-D	61.2	13.8	(47.3)
FII-E	(456.5)	(43.4)	413.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



Metals & Mining

- Baosteel expects steel demand recovery in China to commence from Oct-Nov'22 but weak margins to continue into Q4CY22
- We see a bottoming out of India steel margins in the September quarter and stabilisation over FY24 as recovery takes hold in China
- Prefer defensive play TATA (BUY, TP Rs 140) in the current volatile environment

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WPI

14 October 2022

WPI cools further

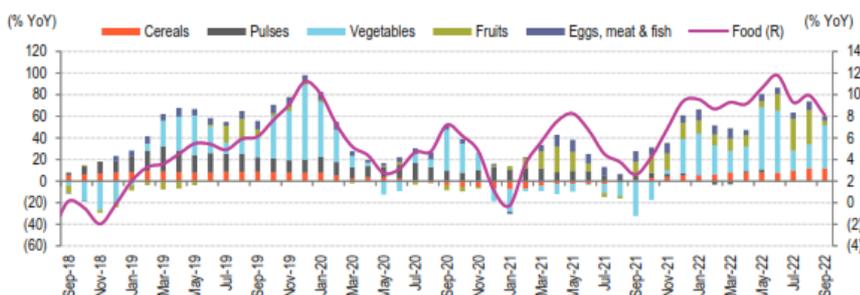
WPI for Sep'22 eased to 18-month low of 10.7% from 12.4% in Aug'22, supported by broad-based moderation in food, fuel and manufactured product inflation. Within food, prices of fruits, pulses and protein based items contributed to the moderation, while pressure on cereals and vegetable prices remains. In case of fuel while YoY trend shows moderation in prices, MoM numbers indicates built up in pressure in mineral oil and electricity index. Core WPI softened further to 7% in Sep'22 from 7.9% in Aug'22, led by dip in manufactured product inflation. This trend is in line with dip in global commodity prices. Going forward, while recessionary fears will keep commodity prices in check, unseasonal rains and rising oil prices will keep have to watched for its impact on food and fuel inflation.

Sonal Badhan
Economist

Food inflation cools down:

Headline WPI moderated for the 4th consecutive month in Sep'22 and was down to 10.7% (BoB est.: 11.8%) from 12.4% in Aug'22. Food inflation in Sep'22 inched down to 8.1% from 9.9% in Aug'22. Barring prices of vegetables and milk, all other sub-components (food grains, fruits, protein based items, condiments & species) reflected cooling down of inflation in Sep'22. Prices of fruits (4.5% versus 31.7%), spices (18.2% versus 23.5%) and eggs (-13.7 versus 0.3%) fell the most. Dip in food grain inflation was mainly owing to sharp decline in prices of pulses (-0.3% versus 2.6%). However, cereal inflation still remains elevated at 11.9% in Sep'22 versus 11.8% in Aug'22. Within cereals, paddy inflation accelerated (5.8% versus 4.3%), while prices of wheat cooled down marginally (16.1% versus 17.6%). On a global level, World Bank's pink sheet shows that international rice prices rose for the second consecutive month in Sep'22 by 7.9% from 6.4% in Aug'22 and following 0.4% contraction in Jul'22. International prices of wheat too have risen and were up by 22.2% in Sep'22 versus 16.5% in Aug'22. Vegetable inflation also remains a cause of concern as prices inched up by 39.7% in Sep'22 following a 22.3% increase in the previous month. Unseasonal rains and rising international food prices pose upside risks to domestic prices in the coming months.

Figure 1: Food inflation dips in Sep'22



Source: CEIC, Bank of Baroda Research



BUY
 TP: Rs 645 | ▲ 26%

ICICI PRUDENTIAL LIFE | Insurance

15 October 2022

Some hits, some misses – maintain BUY

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Mohit Mangal
 research@bobcaps.in

Strong VNB growth and margins: IPRU's VNB grew 21% YoY to Rs 6.2bn in Q2FY23 (+25% in H1FY23), putting the company on course to achieve its target of doubling VNB (from the FY19 base) by end-FY23. The H1 VNB margin at 31% (vs. 28% in FY22) stems from a focus on higher margin products. We forecast VNB margins for FY23/FY24/FY25 at 30%/28%/28% vs. 29%/28%/28% earlier, with VNB now expected to log a 15% CAGR (to Rs 33bn) over FY22-FY25 vs. 16% earlier owing to cut in our APE estimates. At end-Q2, gross premium grew 3.8% YoY to Rs 99bn (vs. Rs 109bn est.). NBP increased 7.3% YoY and renewal premium 1.3%.

Protection APE up 35%: APE grew 1% YoY to Rs 20bn in Q2 (10% YoY to Rs 35bn in H1FY23), wherein protection APE (19% share) rose 36% (29% YoY to Rs 7.1bn in H1). Savings declined 5% YoY to Rs 16.2bn (but grew 6% YoY in H1) due to deceleration in linked and group products. Annuity remained a silver line, rising 69% YoY to Rs 1.4bn (69% YoY in H1 as well to Rs 2.3bn).

Banks (ex-ICICI Bank) expand in distribution mix: The share of the bancassurance channel in APE dipped from 39% in FY22 to 32% in H1FY23 as ICICI Bank showed a 29% YoY decline, whereas other banks witnessed a 32% increase. The group channel posted robust growth with its share rising to 20% from 15%. Direct channel share declined from 12.9% to 11.8%.

Cost ratios and persistency improve: The opex ratio of 11.5% in H1FY23 (9.4% in H1FY22) looks elevated but has moderated in Q2 vs. Q1FY23. Commission ratio remained stable at 4.2%. We factor in an opex ratio of 9.8% across FY23-FY25 and a commission ratio of 4.5-4.6%. Persistency has improved across cohorts with 13th month ratios improving from 85.1% at end-5MFY22 to 85.9% at end-5MFY23 and 49th month levels rising from 64.6% to 65.4%.

Maintain BUY: The stock trades at 1.8x FY24E P/EV. Given high persistency and strong VNB growth, partly offset by a decline in market share (NBP), we continue to value the company at 2.2x FY24E P/EV – a 10% discount to the long-term mean. This leads to an unchanged TP of Rs 645, which offers 26% upside.

Key changes



Ticker/Price	IPRU IN/Rs 513
Market cap	US\$ 9.0bn
Free float	27%
3M ADV	US\$ 7.5mn
52wk high/low	Rs 682/Rs 430
Promoter/FPI/DII	73%/16%/9%

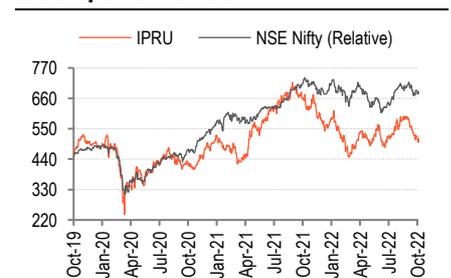
Source: NSE | Price as of 14 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	1,55,022	1,76,726	2,05,002
APE (Rs mn)	77,330	86,483	1,00,287
VNB (Rs mn)	21,652	25,945	28,080
Embedded Value (Rs mn)	3,16,250	3,65,028	4,19,600
VNB margin (%)	28.0	30.0	28.0
EVPS (Rs)	220.2	254.1	292.1
EPS (Rs)	5.3	5.9	8.3
Consensus EPS (Rs)	5.3	7.6	9.5
P/EV (x)	2.3	2.0	1.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE




METALS & MINING

14 October 2022

China demand to pick up but margins to take longer: Baosteel

 Kirtan Mehta, CFA
 research@bobcaps.in

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- **We see a bottoming out of India steel margins in the September quarter and stabilisation over FY24 as recovery takes hold in China**
- **Prefer defensive play TATA (BUY, TP Rs 140) in the current volatile environment**

We hosted Ms Tao, representative of Securities Affairs from Baosteel (Not Rated), a listed arm of the world's largest steel producer China Baowu Group.

Margin revival in China only after Q4CY22: Despite expectations of steel demand recovery starting from Oct-Nov'22, Baosteel still believes margins will weaken in Q4CY22 as the industry is recuperating from sluggish demand in Q3 and relatively high coking coal prices. Considering the possibility of an extended downturn, Baosteel is focused on deepening cost reductions to protect margins.

Demand to start recovering from Oct-Nov: Baosteel expects Chinese steel demand to start gaining traction from October-November, driven by higher volume offtake from the infrastructure (H1: -3.2% YoY, H2: +16%) and automotive (H1: -14%, H2: +8.8%) segments, even as real estate continues to decline (H1: -9.3%, H2: -7.7%). The company sees demand growth resuming in CY23 on a lower base of CY22.

China industry needs to match production to lower demand: With no explicit supply reforms in progress, market-based mechanisms are at play to align production with demand, leading to margins below the 10Y average. Chinese steel industry profit is down 88% YoY to US\$ 5.8bn over Jan-Aug'22.

Read-across for steel players: A return of Chinese demand is the first step towards stabilisation of margins. Given Baosteel's forecast of soft margins continuing into Q4CY22, we now believe margin stabilisation at a mid-cycle level could materialise over FY24 (vs. FY23 earlier) as demand traction rises post the Chinese lunar holidays. However, Indian steel margins are likely to bottom out earlier in Q2FY23 – we expect recovery from Q3 led by a drop in coal cost, increase in sales volume and gradual revival in prices. Coking coal costs have eased from US\$ 440/t (average) in Q2 to US\$ 250-300 levels but face upside risk.

Constructive on Indian ferrous players: We remain constructive on Indian ferrous players as we look beyond near-term uncertainty and focus on delivery of the next wave of expansion. Defensive play TATA (BUY, TP Rs 140) remains our top pick.



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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