

## RESEARCH

### ICICI PRUDENTIAL LIFE | TARGET: Rs 494 | -15% | SELL

Stock runup unwarranted; cut to SELL

### HERO MOTOCORP | TARGET: Rs 2,871 | +1% | HOLD

Management meet takeaways: Climbing on the premium bandwagon

## SUMMARY

### ICICI PRUDENTIAL LIFE

- NBP and individual APE CAGR the lowest in the listed private space for FY17-FY23; underperformance continued in 2MFY24
- Retail protection APE CAGR at -7% over FY19-FY23 vs. +8% for HDFC Life and +28% for SBI Life
- No major growth levers justify the recent stock rally; cut from HOLD to SELL with an unchanged TP of Rs 494

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

### HERO MOTOCORP

- Upcoming launch of high-end 125cc motorcycle to help shore up market share (21% currently)
- Aggressive plans to roll out 4 premium vehicles over 4 quarters could help make amends for late entry into the high-end segment
- We raise FY24/FY25 EPS 2.0%/4% for a new SOTP-based TP of Rs 2,871 (vs. Rs 2,712); maintain HOLD

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

### Daily macro indicators

Ticker	26-Jun	27-Jun	Chg (%)
US 10Y yield (%)	3.72	3.76	4bps
India 10Y yield (%)	7.07	7.06	0bps
USD/INR	82.04	82.03	0.0
Brent Crude (US\$/bbl)	74.2	72.3	(2.6)
Dow	33,715	33,927	0.6
Hang Seng	18,794	19,148	1.9
Sensex	62,970	63,416	0.7
India FII (US\$ mn)	23-Jun	26-Jun	Chg (\$ mn)
FII-D	371.8	(96.9)	(468.7)
FII-E	24.3	(42.6)	(66.9)

Source: Bank of Baroda Economics Research



**SELL**

TP: Rs 494 | ▼ 15%

ICICI PRUDENTIAL LIFE

| Insurance

| 28 June 2023

## Stock runup unwarranted; cut to SELL

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**Growth concerns:** IPRU has had the poorest NBP growth among private listed life insurers over FY17-FY23 with a CAGR of 14% as compared to 22% for HDFC Life and 20% for SBI Life. Similarly, individual APE growth has stagnated whereas the two peers clocked in at 20% and 17% respectively. The downside continued in Apr-May'23 when IPRU's NBP slipped 18% YoY for the 2M period vs. 9% growth for the private sector. Individual APE also shrank by 14% vs. 5% growth for the private space. Consequently, IPRU's NBP market share stands depleted to 10.7% at end-2MFY24 from 15.5% at end-FY17 and individual APE share has plunged from 22.3% to 8.6%.

**Bancassurance channel failing to pull its weight:** Parent ICICI Bank's (ICICIBC) strategy of targeting protection and annuity revenues while eschewing sales of savings non-linked plans was a key reason for IPRU's lower growth. At its peak the parent contributed 51% of APE at end-FY19, but this proportion has declined to just 14% at end-FY23. In a positive, the share of APE originated by the non-ICICIBC bancassurance channel has quadrupled from 4% to 16%. Even so, we note that major listed peers derive a majority of their business from the bancassurance channel – a differentiating growth factor.

**Retail protection business continues to weaken:** IPRU's retail protection APE has fallen at a 7% CAGR over FY19-FY23 (vs. +8% for HDFC Life and +28% for SBI Life), and its share in total protection APE has dwindled from 60% to 22%. Although the company registered a strong 20% CAGR in protection APE over FY19-FY23, the group category was behind the growth (including credit life products).

**Valuations stretched; downgrade to SELL:** The stock is currently trading at 1.8x FY25E P/EV, having run up 25% in June thus far. We see no major growth levers to justify the rally and continue to value the stock at 1.5x FY25E P/EV, 2SD below the long-term mean multiple, for an unchanged TP of Rs 494. Our valuation incorporates the negatives of sustained market share bleed, weak retail protection APE growth and regulatory headwinds but positives of high VNB margin and sound persistency ratios. Given the 15% downside potential from the current price, we downgrade the stock from HOLD to SELL.

### Key changes

Target	Rating
◀▶	▼

Ticker/Price	IPRU IN/Rs 580
Market cap	US\$ 10.1bn
Free float	5%
3M ADV	US\$ 12.1mn
52wk high/low	Rs 609/Rs 381
Promoter/FPI/DII	73%/17%/5%

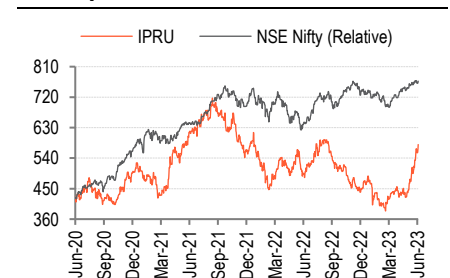
Source: NSE | Price as of 27 Jun 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	1,74,125	1,91,538	2,06,861
APE (Rs mn)	86,400	90,112	98,796
VNB (Rs mn)	27,648	25,682	28,157
Embedded Value (Rs mn)	3,56,338	4,11,087	4,72,691
VNB margin (%)	32.0	28.5	28.5
EVPS (Rs)	248.0	286.1	329.1
EPS (Rs)	5.6	6.8	8.5
Consensus EPS (Rs)	5.6	8.0	8.6
P/EV (x)	2.3	2.0	1.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**HOLD**

TP: Rs 2,871 | ▲ 1%

**HERO MOTOCORP**

| Automobiles

| 28 June 2023

**Management meet takeaways: Climbing on the premium bandwagon**

- Upcoming launch of high-end 125cc motorcycle to help shore up market share (21% currently)
- Aggressive plans to roll out 4 premium vehicles over 4 quarters could help make amends for late entry into the high-end segment
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**Targeting market share recovery in the core segment:** HMCL’s launch pipeline for FY24 includes two motorcycles in its core 125cc segment in the sports and premium categories. This apart, its X-tec line (25% of FY23 volumes) caters to ongoing premiumisation trends. We expect customer-centric launches to strengthen HMCL’s presence in the 125cc segment and aid revival in segmental market share which has contracted to 21% in FY23.

**Construction of premium portfolio and brands:** A total of four high-end two-wheeler launches are scheduled by the company over the next four quarters – two core and two upper premium. The brand’s premium push will also be burnished by the popularity of Harley-Davidson. In partnership with the iconic brand, HMCL plans to unveil 100+ exclusive premium dealerships pan-India in FY24. Management hopes to bolster high-end sales by tapping young users and augmenting digital offerings.

**Enhancing its EV presence:** HMCL is looking to expand its Vida line of electric vehicles from FY25 which will be sold through Vida hubs (exclusive dealerships) and pods (Hero 2.0 and premium dealerships). The company aims to expand charging infrastructure and interoperability with Ather, the No. 2 EV player in the Indian market behind BJAUT. Management also intends to push e-commerce sales on platforms such as Flipkart and to launch new EV variants to mitigate competition.

**Cost optimisation and margin expansion plan:** HMCL’s margin expansion plan revolves around extending its model-specific EBITDA programme, localising its supply chain, optimising plant opex, and reducing vehicle size (to lower material costs and also consumer operating cost, thereby raising popularity).

**Retain HOLD:** Following the new roadmap shared by HMCL, we raise our FY24/FY25 earnings estimates by 2%/4%. We now model for a revenue/EBITDA/adj. PAT CAGR of 15%/18%/18% over FY22-FY25 with EBITDA margin averaging at ~13%. The response to HMCL’s aggressive premium launch programme and EV consolidation will yield results with a lag. Hence, we continue to value the core business at 13x FY25E EPS. Post estimate revision, our SOTP-based TP rises to Rs 2,871 (vs. Rs 2,712). HOLD.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	HMCL IN/Rs 2,829
Market cap	US\$ 6.9bn
Free float	65%
3M ADV	US\$ 21.2mn
52wk high/low	Rs 3,026/Rs 2,246
Promoter/FPI/DII	35%/30%/24%

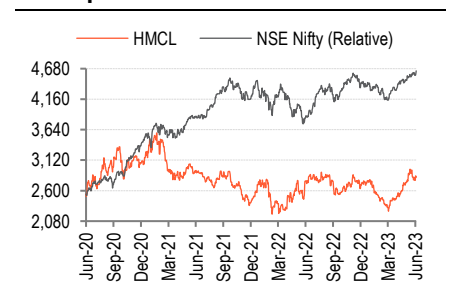
Source: NSE | Price as of 28 Jun 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	3,38,057	3,86,660	4,46,034
EBITDA (Rs mn)	39,863	48,988	58,247
Adj. net profit (Rs mn)	29,107	35,582	41,691
Adj. EPS (Rs)	145.8	178.2	208.8
Consensus EPS (Rs)	145.8	177.0	197.0
Adj. ROAE (%)	17.5	19.5	20.4
Adj. P/E (x)	19.4	15.9	13.5
EV/EBITDA (x)	14.1	11.5	9.6
Adj. EPS growth (%)	17.7	22.2	17.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



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**BUY** – Expected return >+15%

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

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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