FIRST LIGHT

19 October 2023

RESEARCH

ICICI PRUDENTIAL LIFE | TARGET: Rs 518 | -1% | HOLD

Growth subdued; raise to HOLD post correction

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

Fortnightly forex review

AUTOMOBILES | Q2FY24 PREVIEW

Expect healthy traction

METALS & MINING

Steel demand resilience lowers downside risk to margins

Daily macro indicators

Indicator	16-Oct	17-Oct	Chg (%)
US 10Y yield (%)	4.71	4.83	13bps
India 10Y yield (%)	7.33	7.33	0bps
USD/INR	83.28	83.26	0.0
Brent Crude (US$/bbl)	89.7	89.9	0.3
Dow	33,985	33,998	0.0
Hang Seng	17,640	17,773	0.8
Sensex	66,167	66,428	0.4
India FII (US$ mn)	**13-Oct**	**16-Oct**	**Chg ($ mn)**
FII-D	87.4	61.4	(25.9)
FII-E	45.8	(47.2)	(93.0)

Source: Bank of Baroda Economics Research

SUMMARY

ICICI PRUDENTIAL LIFE

- Q2 APE growth muted at 3% YoY due to a 15% drop in the ICICIBC channel; ULIP and protection businesses showed traction
- VNB margin down 220bps YoY to 28.8% owing to a product mix shift; cost ratios rise further on higher commission and ad spends
- Valuations cheap following the recent correction; raise from SELL to HOLD with an unchanged TP of Rs 518

Click here **for the full report.**

INDIA ECONOMICS: CURRENCY OUTLOOK

INR has remained under pressure amidst a deterioration in the global economic environment. The war in Middle-East threatens to push global oil prices higher, in case it spill-overs to other countries which will have implications for global inflation and rates trajectory. The nervousness of the markets have led to a flight of safety, putting pressure on EM currencies, including India. Further complicating matters is the strength in US economy, which supports the case for higher for longer rates. After depreciating to a record low, INR continues to trade close to that level, supported by RBI's intervention. In the near-term, the pressure on INR is likely to persist amidst uncertainty around the Middle-East conflict and FPI outflows. We are looking at a range of 83-83.5/$ in the next few weeks, with the possibility of a move towards 84/$ also possible in case oil prices rise to US$ 100/bbl.

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AUTOMOBILES: Q2FY24 PREVIEW

- Aggregate PV revenue growth likely to remain strong at 15% YoY for our coverage in Q2 but margin pressure set to continue
- Weak exports still a drag on the 2W segment; volume data shows TVSL outdoing peers as rural economy displays signs of revival
- CV and tractor segments sending mixed signals; we remain positive on AL and MM but maintain SELL on ESCORTS

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METALS & MINING

- WSA outlook points to resilient steel demand with stabilisation in China, lowering the downside risk to steel margins
- Continuing tightness in coking coal into Q3 shifts likelihood of margin stabilisation to late-H2FY24
- We remain constructive on Indian ferrous players given benefits from upcoming brownfield expansion; prefer TATA

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HOLD
TP: Rs 518 | ∀ 1%

ICICI PRUDENTIAL LIFE | Insurance | 18 October 2023

Growth subdued; raise to HOLD post correction

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Mohit Mangal
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APE growth muted: IPRU's APE grew just 3% YoY to Rs 20.6bn in Q2FY24 but increased 7% YoY ex-ICICI Bank (ICICIBC). The ICICIBC channel continues to decline, reporting a 15% drop in APE for Q2, and now contributes only 13.7% share. The product mix shifted to ULIPs which clocked strong 13% YoY growth. Protection business inched up 3% YoY as an 84% surge in retail protection business was offset by a 15% decline in group protection. Annuity APE slipped 7% YoY in Q2 as high interest rates drew customers to bank deposits over insurance products. Owing to muted growth, we lower our FY24 APE estimate by 3%.

VNB margin declines: IPRU's VNB margin contracted 220bps YoY to 28.8% at end-H1FY24 due to a change in product mix as the high-margin non-par business saw lower demand. While the share of protection plans in APE grew 60bps YoY to 21%, the non-linked share fell 180bps YoY at end-H1. We continue to model for 29% VNB margins over our forecast period. Persistency improved across cohorts with the 13th-month ratio rising from 85.9% at end-5MFY23 to 86.9% at end-5MFY24 and the 61st-month cohort climbing from 61.2% to 65% respectively.

Higher commissions push up cost ratios: Total commissions swelled 87% YoY, leading to a 31% rise in total expense for the quarter. This translated to a total cost ratio of 18.4% in Q2 (14.8% in Q2FY23) and 19.2% in H1FY24 (15.7% in H1FY23). Commissions have shot up as caps on the same were removed by the regulator. Operating expenses moved up 9% YoY owing to higher employee, advertising and sales costs.

Valuation cheap post correction; raise to HOLD: We continue to value the stock at 1.6x FY25E P/EV, a 30% discount to the long-term mean, for an unchanged TP of Rs 518. We remain cautious on IPRU due to the company's prolonged market share bleed (both on NBP and individual APE basis), weak APE growth, slow business from the parent and regulatory headwinds. However, the stock is now fairly priced following an 8% correction over the past 45 days, leading us to move it from SELL to HOLD.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	IPRU IN/Rs 521
Market cap	US$ 9.1bn
Free float	27%
3M ADV	US$ 12.2mn
52wk high/low	Rs 616/Rs 381
Promoter/FPI/DII	73%/17%/5%

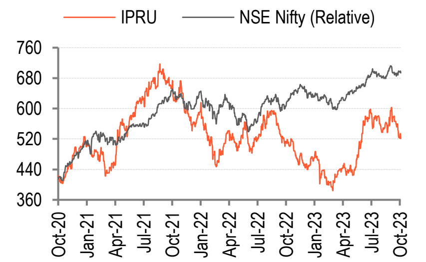
Source: NSE | Price as of 18 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	174,125	192,472	210,674
APE (Rs mn)	86,400	78,031	88,227
VNB (Rs mn)	27,648	22,629	25,586
Embedded Value (Rs mn)	356,338	409,034	467,903
VNB margin (%)	32.0	29.0	29.0
EVPS (Rs)	248.0	284.6	325.5
EPS (Rs)	5.6	6.0	6.1
Consensus EPS (Rs)	5.6	8.0	8.6
P/EV (x)	2.1	1.8	1.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CURRENCY OUTLOOK

18 October 2023

Fortnightly forex review

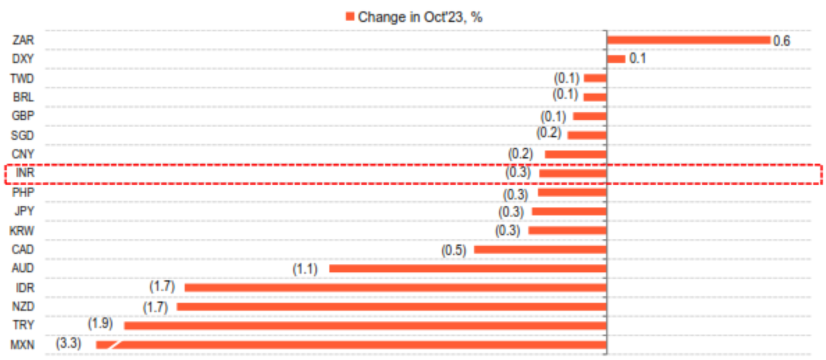
Aditi Gupta
Economist

INR has remained under pressure amidst a deterioration in the global economic environment. The war in Middle-East threatens to push global oil prices higher, in case it spill-overs to other countries which will have implications for global inflation and rates trajectory. The nervousness of the markets have led to a flight of safety, putting pressure on EM currencies, including India. Further complicating matters is the strength in US economy, which supports the case for higher for longer rates. After depreciating to a record low, INR continues to trade close to that level, supported by RBI's intervention. In the near-term, the pressure on INR is likely to persist amidst uncertainty around the Middle-East conflict and FPI outflows. We are looking at a range of 83-83.5/$ in the next few weeks, with the possibility of a move towards 84/$ also possible in case oil prices rise to US$ 100/bbl.

Movement in global currencies

Global currencies remained under pressure in Oct'23 amidst a risk-off sentiment. Outperformance of US economy leading to expectations of tighter US policy pushed US 10Y yields to multi-year highs. Also supporting the demand for dollar is the crisis in the Middle-East which buoyed the safe-haven appeal of the greenback. All major currencies depreciated against the dollar, with EM currencies being particularly worse off.

Figure 1: Currency movement in Oct'23



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 17 Oct 2023

How did INR fare?

INR has depreciated by 0.3% in Oct'23 so far. In fact, it closed at a fresh historic low of 83.28/$ on 16 Oct 2023. It has continued to trade close to this level in the last few sessions, supported to a large extent by RBI's intervention. The pressure on INR has come from weak investor sentiment due to the war in Israel as well as higher US yields. INR is likely to remain under pressure until the picture around the conflict in Middle-East remains hazy. RBI is likely to maintain its intervention to keep the exchange rate in a comfortable range.

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AUTOMOBILES | Q2FY24 Preview | 18 October 2023

Expect healthy traction

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- **Weak exports still a drag on the 2W segment; volume data shows TVSL outdoing peers as rural economy displays signs of revival**
- **CV and tractor segments sending mixed signals; we remain positive on AL and MM but maintain SELL on ESCORTS**

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Passenger vehicles (PV): We expect healthy 15%+ YoY aggregate revenue growth for PV OEMs under our coverage (MSIL and MM) in Q2FY24. Their focus remains on high-end products, typically in the SUV segment. MSIL had two launches in H1FY24 (Jimny and Fronx) and bookings indicate a healthy trend. MM continues to shift focus from earnings to volume growth given new capacities that can help address the long wait periods. Gross margin recovery is likely to average close to 100bps for our coverage due to abating raw material cost and supply constraints. EBITDA margins are also expected to recover, with MSIL forecast to see a ~75bps YoY and QoQ pickup due to better operating efficiencies.

Two-wheelers (2W): Volume data shows softness across the 2W pack (ex-TVSL) in Q2, largely due to poor exports. Even so, gross margins for our coverage are expected to rebound YoY due to supply chain issues in the base quarter. Launches in the high-end segment and better volumes in the 100-110cc category point to rural recovery.

Commercial vehicles (CV): CVs are seeing a healthy revival, with AL's volumes having advanced 10% YoY and 21% QoQ in Q2 (also aided by the bus segment). We expect higher volumes to fuel healthy revenue growth both YoY and sequentially. AL's gross margin is forecast to remain flat QoQ but recover YoY due to the absence of supply chain impediments. EIM's CV segment has fared well, with volumes rising 11% QoQ (flat YoY), and TTMT's (Not Rated) volumes have increased in mid-single digits QoQ while staying flat YoY in Q2.

Tractors: Volumes in the tractor segment dropped QoQ and YoY despite gathering pace towards the end of Q2. ESCORTS' volumes fell 17% QoQ (-7% YoY) and hence we estimate a 10% sequential revenue decline to Rs 21bn. MM's tractor volumes contracted 22% QoQ and 2% YoY. VSTT's tractor sales fell 2% QoQ (-15% YoY) but the tipper segment offset the fall, which should translate to flat sequential revenue.

Positive on MM and AL: We maintain BUY on AL (TP Rs 210) and MM (Rs 1,824) while retaining SELL on ESCORTS (Rs 2,343). We await further recovery in 2Ws before turning positive on the segment.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	177	210	BUY
BJAUT IN	5,141	4,837	HOLD
EIM IN	3,501	3,601	HOLD
ESCORTS IN	3,340	2,343	SELL
HMCL IN	3,173	3,009	HOLD
MM IN	1,577	1,824	BUY
MSIL IN	10,751	10,533	HOLD
TVSL IN	1,609	1,440	HOLD
VSTT IN	3,682	3,464	HOLD

Price & Target in Rupees | Price as of 17 Oct 2023

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METALS & MINING

18 October 2023

Steel demand resilience lowers downside risk to margins

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- **Continuing tightness in coking coal into Q3 shifts likelihood of margin stabilisation to late-H2FY24**
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Ferrous wrap: In this report, we cover the WSA's global steel demand outlook, China's Sep'23 production data, and the quarterly production releases of global iron ore majors – BHP, Rio Tinto (RIO) and Vale.

Resilient steel demand lowers risk to margins: The WSA's Oct'23 steel demand outlook points to resilient growth in CY23 despite a lower forecast of 1.8%. More importantly, WSA expects China's property market to stabilise in the later part of the year and sees demand growth supported by government measures.

China's production trending down but more cuts needed: While China's steel production has dropped to 82mt or 1bnt annualised in Sep'23, demand is likely to soften in winter months, with early signs already visible in October. Exports also remain high at 8mt in September. We believe China needs further production cuts to balance the domestic market in winter months.

Iron ore to be range-bound: Though collective iron ore production increased seasonally for the three iron ore majors, it is likely to be somewhat down-to-flat QoQ over Oct-Dec'23. With potential steel production cuts in China, the iron ore market balance is likely to loosen, keeping prices softer in the range of US$ 100-110/t.

Coking coal tightness to continue through December: BHP's release confirms weakness in Australian coking coal supply over Jul-Sep'23, which we believe has driven up prices from US$ 230/t to over US$ 350/t. Further, BHP's guidance suggests supply weakness is likely to continue till December.

Margin stabilisation to shift to Q4FY24: With tightness in coking coal continuing in Q3FY24, we expect margin stabilisation to move to Q4 – still within our current timeframe of H2FY24 (see our **metals quarterly preview** of 11 October).

Constructive on Indian ferrous sector: Earnings prospects from ongoing expansion keeps us positive even at mid-cycle margins. Maintain BUY on TATA (TP Rs 155) and JSP (TP Rs 810).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	683	810	BUY
JSTL IN	784	845	HOLD
SAIL IN	88	90	HOLD
TATA IN	127	155	BUY

Price & Target in Rupees | Price as of 18 Oct 2023

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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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