FIRST LIGHT

18 July 2022

RESEARCH

BOB Economics Research | Currency Outlook

More depreciation inevitable

BOB Economics Research | Monsoon Update

Monsoon and Sowing

ICICI Prudential Life | Target: Rs 645 | +25% | BUY

Strong APE growth and high margins but low premium growth

Jindal Steel & Power | Target: Rs 460 | +33% | BUY

Q1 beats estimates; look beyond uncertainty – BUY

Larsen & Toubro | NOT RATED

Annual report analysis - In a good place

Daily macro indicators

Indicator	13-Jul	14-Jul	Chg (%)
US 10Y yield (%)	2.93	2.96	3bps
India 10Y yield (%)	7.34	7.38	5bps
USD/INR	79.64	79.88	(0.3)
Brent Crude (US$/bbl)	99.6	99.1	(0.5)
Dow	30,773	30,630	(0.5)
Hang Seng	20,798	20,751	(0.2)
Sensex	53,514	53,416	(0.2)
India FII (US$ mn)	**11-Jul**	**12-Jul**	**Chg ($ mn)**
FII-D	9.9	(69.2)	(79.1)
FII-E	(183.0)	(341.5)	(158.5)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Currency Outlook

Global currencies depreciated against the dollar as a hotter than expected US inflation report drove the currency higher. Expectations that the Fed might hike its policy rate by 100bps next week after the inflation report along with increasing risks of a global recession are underpinning the dollar strength. EUR has been particularly impacted, falling below the crucial dollar-parity level for the first time in 20-years. INR too has been no exception. In the last trading session, INR fell to a record-low of US$ 79.88/$, just shy of the 80/$ mark. Adverse global environment along with rising concerns on the external front are likely to weigh on the rupee going forward. We expect, INR to remain under pressure in the near term and trade in the range of 79.75-80.15/$ in the next fortnight, with the Fed policy action providing further clues.

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

India Economics: Monsoon Update

With the advancement of South-West monsoon, rainfall is above normal at 14% above LPA till 15 Jul 2022. This has resulted in pick-up of kharif sowing which has improved by 0.1% and has further boosted the prospects of kharif crops in the coming weeks. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 6 subdivisions have received deficient rainfall during this period. It will be vital to see the impact of the deficient rainfall in these regions on kharif sowing.

Click here **for the full report.**

ICICI Prudential Life

- Q1 APE grew 25% YoY to Rs 15.2bn led by the savings segment at 25% and protection at 22%
- NBP increased 23% YoY to Rs 34bn offset by a 6% decline in renewal premium
- We assume coverage with BUY on strong APE growth and compelling valuations; TP at Rs 645 (2.2x FY24E P/EV) carries 25% upside

Click here **for the full report.**

Jindal Steel & Power

- Q1 results ahead of consensus but net debt reduction muted with higher working capital build
- As against our FY24E EBITDA/t of Rs 13.9k, JSP currently discounting Rs 11.6k/Rs 9.5k based on average 5Y/10Y EV/EBITDA multiples
- Maintain BUY with reduced TP of Rs 460 (vs. Rs 555) based on lower 4.5x EV/EBITDA (vs. 5x) to reflect economic uncertainty

Click here **for the full report.**

Larsen & Toubro

- Strategic growth plan 'Lakshya' targets revenue of Rs 2.7tn and ROE of 18%+ by FY26
- Order book at 3.3x TTM core sales guided to support revenue growth of 12-15%, core margin of 9.5%, net working capital at 20% of sales for FY23
- LT (Not Rated) is the largest infrastructure and capex play with proven execution record

Click here **for the full report.**

CURRENCY OUTLOOK

15 July 2022

More depreciation inevitable

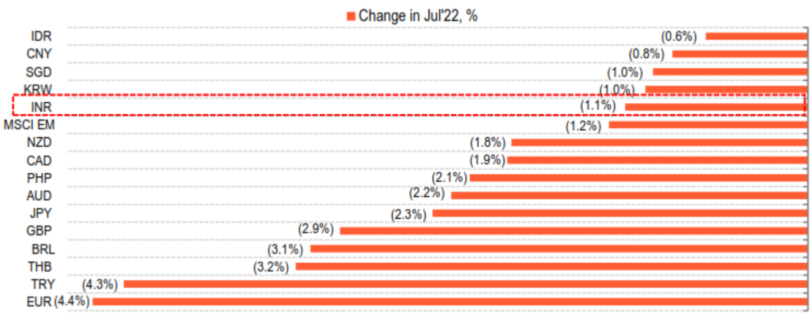
Aditi Gupta
Economist

Global currencies depreciated against the dollar as a hotter than expected US inflation report drove the currency higher. Expectations that the Fed might hike its policy rate by 100bps next week after the inflation report along with increasing risks of a global recession are underpinning the dollar strength. EUR has been particularly impacted, falling below the crucial dollar-parity level for the first time in 20-years. INR too has been no exception. In the last trading session, INR fell to a record-low of US$ 79.88/$, just shy of the 80/$ mark. Adverse global environment along with rising concerns on the external front are likely to weigh on the rupee going forward. We expect, INR to remain under pressure in the near term and trade in the range of 79.75-80.15/$ in the next fortnight, with the Fed policy action providing further clues.

How have currencies fared?

A stronger dollar weighed on almost all major global currencies in Jul'22. DXY index gained by 3.7% in Jul'22 so far (13.5% in CYTD22), as higher than expected inflation print in the US have fueled expectations that the Fed may have to step up its efforts to curb inflation. US CPI rose to a 41-year high of 9.1% in Jun'22, much higher than expectations of an 8.8% increase. As a result, analysts now believe that the Fed might hike rates by a historic 100bps later in the month, following up on a 75bps hike in the last meeting. Fed officials, have hinted in the recent past that inflation remains a priority with the Chairman even pledging "unconditional" support to tame rising prices. Dollar has also found support from an increasingly pessimistic global outlook as higher rates are likely to impinge on growth. Apart from this, energy crisis in the Eurozone and a flare-up in Covid-19 cases in China, are also weighing heavily on the global growth narrative.

Figure 1: Currency movement



Source: Bloomberg, Bank of Baroda | Data as of 14 Jul 2022 | Note: Figures in bracket denote depreciation against USD

EUR has faced the brunt of the dollar's rally and has shed 4.4% this month, even slipping below the dollar parity level-a first in 20 years. It is presently trading just marginally above that level. The Eurozone has been impacted significantly from the Russia-Ukraine war and subsequent threat of Russia cutting of gas supplies to the region.

MONSOON UPDATE

15 July 2022

Monsoon and Sowing

Jahnavi Prabhakar
Economist

With the advancement of South-West monsoon, rainfall is above normal at 14% above LPA till 15 Jul 2022. This has resulted in pick-up of kharif sowing which has improved by 0.1% and has further boosted the prospects of kharif crops in the coming weeks. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 6 subdivisions have received deficient rainfall during this period. It will be vital to see the impact of the deficient rainfall in these regions on kharif sowing.

Where does Kharif sowing stand?

For the week ending 15 Jul 2022, overall kharif sown area has increased by 0.1% compared with last year (previous week it had declined by 9.3%). Sown area of coarse cereals (7.9%), pulses (9%) and oilseeds (7.4%) has improved. Additionally, cotton sowing has also been higher by 6.5%. However, for crops like rice, sowing area has declined by 17.4%. Sugarcane and Jute and Mesta too have registered much lower sowing by 0.7% and 1.4% respectively.

Table 1: Kharif Sowing

	Area sown in 2022-23 (mn ha)	Area sown in 2021-22 (mn ha)	Growth (YoY %)
Foodgrains	29.5	30.9	(4.6)
Cereals	9.4	8.7	7.9
Rice	12.9	15.6	(17.4)
Pulses	7.3	6.7	9.0
Oilseeds	13.4	12.5	7.4
Cotton	10.3	9.7	6.5
Sugarcane	5.3	5.4	(0.7)
Jute and Mesta	0.7	0.7	(1.4)
Total	59.2	59.1	0.1

Source: CEIC, Bank of Baroda | Data as of 15 Jul 2022

Monsoon:

For the period 1 Jun 2022 to 15 Jul 2022, South West Monsoon is 14% above LPA compared with last year.

- Rajasthan, Gujarat, Maharashtra and Southern belt such as Tamil Nadu, Telangana, Karnataka and Andhra Pradesh have been receiving excess rainfall.
- On the other hand, states such as Uttar Pradesh, Bihar, Jharkhand, West Bengal, Delhi and Manipur have been witnessing deficient rainfall.
- North Eastern such as Assam, Nagaland, Arunachal Pradesh, Sikkim and other states including Punjab, Haryana, Madhya Pradesh, Chhattisgarh, Odisha and Jammu and Kashmir have been receiving normal rainfall, during this period.

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BUY
TP: Rs 645 | ⮝ 25%

ICICI PRUDENTIAL LIFE | Insurance | 18 July 2022

Strong APE growth and high margins but low premium growth

- **Q1 APE grew 25% YoY to Rs 15.2bn led by the savings segment at 25% and protection at 22%**
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Mohit Mangal
research@bobcaps.in

Strong APE growth: IPRU's Q1FY23 APE grew 25% YoY to Rs 15.2bn wherein protection APE (22% share) rose 22%. Savings grew 25% YoY to Rs 11.9bn led by the non-linked and annuity segments. We factor in a 16% CAGR in APE growth during FY22-FY25 to Rs 120bn owing to IPRU's focus on a balanced product mix.

Doubling of VNB on anvil; margins high: VNB increased 32% YoY to Rs 4.7bn in Q1FY23, validating management's target of doubling business from ~Rs 13bn in FY19 to ~Rs 26bn this year. The Q1 VNB margin of 31% (vs. 28.0% in FY22) stems from a focus on higher margin products despite a faltering retail protection business (carrying the highest margins). We expect absolute VNB to clock a 16% CAGR over FY22-FY25 to Rs 34bn with VNB margins of 28-29% over the forecast period.

Gross premium growth muted: Gross premium grew at a modest 6% YoY led by 26%/18% growth in single/first year premium. New business premium (NBP) increased 23% YoY whereas renewal premium declined 6%. The surplus on policyholders' account more than doubled to Rs 3.9bn and the company also reported a shareholders' profit of Rs 1.6bn (loss of Rs 1.9bn in Q1FY22).

Channel mix healthy: The share of the bancassurance channel in total APE dipped from 39% in Q1FY22 to 35% in Q1FY23, with the decrease in ICICI Bank's share offset by strong growth in other banks' share (15% of total APE vs. 4% three years ago). The group channel has posted robust growth with its share rising to 21%.

Cost ratios elevated: The opex ratio of 12.6% (11.2% in Q1FY22) looks elevated on a 20% increase in absolute opex but remained lower than new business growth. Commission ratio at 4.2% was broadly stable. We factor in opex ratios of 9.8%/9.7%/9.7% for FY23/FY24/FY25 and commission ratios at 4.5%/4.6%/4.6%.

BUY, TP Rs 645: The stock trades at 1.8x FY24E P/EV. Given adequate solvency margins and high persistency, offset by a decline in market share (NBP), we value the company at 2.2x FY24E P/EV – a 10% discount to long-term mean– leading to a TP of Rs 645 with 25% upside from the current price.

Key changes

Target	Rating
▼	◄►

Ticker/Price	IPRU IN/Rs 517
Market cap	US$ 9.3bn
Free float	27%
3M ADV	US$ 9.4mn
52wk high/low	Rs 724/Rs 430
Promoter/FPI/DII	73%/16%/5%

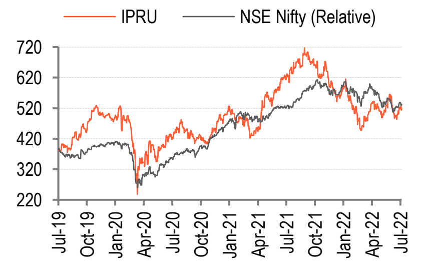
Source: NSE | Price as of 15 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	1,55,022	1,81,376	2,10,396
APE (Rs mn)	77,330	88,960	1,03,159
VNB (Rs mn)	21,652	25,798	28,885
Embedded Value (Rs mn)	3,16,250	3,64,883	4,20,250
VNB margin (%)	28.0	29.0	28.0
EVPS (Rs)	220.2	254.0	292.6
EPS (Rs)	5.3	6.4	7.6
Consensus EPS (Rs)	5.3	8.7	10.7
P/EV (x)	2.3	2.0	1.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 460 | ⮝ 33%

JINDAL STEEL & POWER | Metals & Mining | 18 July 2022

Q1 beats estimates; look beyond uncertainty – BUY

- **Q1 results ahead of consensus but net debt reduction muted with higher working capital build**
- **As against our FY24E EBITDA/t of Rs 13.9k, JSP currently discounting Rs 11.6k/Rs 9.5k based on average 5Y/10Y EV/EBITDA multiples**
- **Maintain BUY with reduced TP of Rs 460 (vs. Rs 555) based on lower 4.5x EV/EBITDA (vs. 5x) to reflect economic uncertainty**

Kirtan Mehta, CFA
research@bobcaps.in

Results ahead but net debt reduction muted: JSP's Q1FY23 adj. EBITDA/adj. net income at Rs 29.9bn/Rs19.3bn were 37%/95% ahead of consensus. EBITDA of India operations improved by Rs 3.7k/t with above-expected realisations (+Rs 7.4k/t QoQ). Despite Rs 60bn of cash generation in Q1 including inflow for sale of the JPL stake, net debt reduction was muted at Rs 11bn due to Rs 25bn-30bn of working capital build.

Operational guidance turns softer for FY23: JSP's new FY23 production guidance at 8.2-8.4mt is lower than the 8.5-9mt communicated during the Q4FY22 call. Similarly, its export target at 1.5-1.6mt is lower than the 2.5mt posted in FY22. High coking coal costs (down by only US$ 40-50/t QoQ in Q2) are likely to extend margin pressure into the September quarter. We cut our standalone EBITDA/t forecasts by 18%/23% to Rs 13.4k/Rs 13.9k for FY23/FY24. This results in a 13%/15% reduction in our FY23/FY24 consolidated EBITDA estimates.

Steel sector adjusting to economic realities: We are starting to see production cuts in China and Europe to balance market supply and demand, in response to sharp declines in prices and margins. Raw material chains are also deflating with coking coal prices reducing to US$ 240-250/t and iron ore prices dropping below US$ 100. These factors should help margins return to mid-cycle levels over the next couple of quarters. A key catalyst for the sector is stabilisation of steel demand in China as the stimulus translates to accelerated infrastructure investments.

Maintain BUY: We cut our TP to Rs 460 (from Rs 555) as we reduce forecasts and also lower our target 1Y forward EV/EBITDA multiple to 4.5x (from 5.0x), while rolling valuations forward to FY24 when India HRC price is forecast at US$ 642/t. We maintain our rating at BUY looking beyond the current uncertainty and factoring in the company's healthy growth and margin profile. JSP is trading at 3.1x FY24E EV/EBITDA. At the stock's average 5Y/10Y multiples of 4.6x/5.6x, it is factoring in EBITDA/t of Rs 11.6k/Rs 9.5k which is below the mid-cycle level.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JSP IN/Rs 346
Market cap	US$ 4.4bn
Free float	40%
3M ADV	US$ 39.7mn
52wk high/low	Rs 578/Rs 304
Promoter/FPI/DII	60%/10%/17%

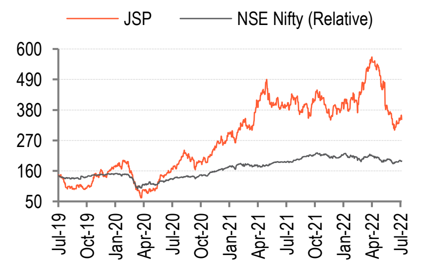
Source: NSE | Price as of 15 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	510,856	501,795	491,323
EBITDA (Rs mn)	155,134	106,981	114,843
Adj. net profit (Rs mn)	82,550	52,598	59,204
Adj. EPS (Rs)	80.9	51.6	58.0
Consensus EPS (Rs)	80.9	52.4	61.7
Adj. ROAE (%)	24.5	13.8	13.6
Adj. P/E (x)	4.3	6.7	6.0
EV/EBITDA (x)	3.7	4.5	3.7
Adj. EPS growth (%)	56.6	(36.3)	12.6

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

Stock performance



Source: NSE

COMPANY UPDATE

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NOT RATED

LARSEN & TOUBRO | Capital Goods | 15 July 2022

Annual report analysis: In a good place

- **Strategic growth plan 'Lakshya' targets revenue of Rs 2.7tn and ROE of 18%+ by FY26**
- **Order book at 3.3x TTM core sales guided to support revenue growth of 12-15%, core margin of 9.5%, net working capital at 20% of sales for FY23**
- **LT (Not Rated) is the largest infrastructure and capex play with proven execution record**

Vinod Chari | Tanay Rasal
research@bobcaps.in

Key highlights from LT's FY22 annual report:

Pursuing a differentiated growth path: LT is aspiring for Rs 2.7tn in revenue and ROE of 18% or higher by FY26, implying a 15% CAGR. The company launched its strategic growth plan 'Lakshya 2026' in FY22 with a renewed focus on EPC projects, hi-tech manufacturing, and services. However, underlying trends suggest that LT is transitioning into a services company, with future initiatives centred on digitisation. Illustrative of this is the fact that IT revenue/EBIT contribution increased from 9%/ 16% to 21%/39% over FY16-FY22.

Key growth themes: The Lakshya strategy's major themes are centred on (i) incubation and scaling up of new-age businesses (green hydrogen, electrolyser, data centres, e-commerce), (ii) profitable expansion with sustainable growth in the current business portfolio, and (iii) divestment of non-core assets.

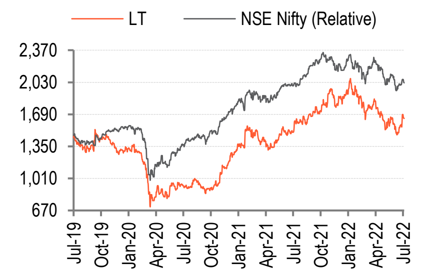
Challenges moderating: LT has been burdened by difficulties executing the Hyderabad Metro and Nabha power plant. That said, the Hyderabad Metro has seen positive developments in Q4FY22 (refinancing of term loan, assistance from Telangana government and ridership returning to normalcy). In the case of the Nabha power plant, management remains optimistic about medium-term divestment.

Order book strong; optimising cash flow: At Rs 3.6tn, the order book remains strong (3.3x FY22 core revenue). Despite a lower tender-to-award ratio of 51% in FY22 (vs. 70% in FY21), the company has managed a 10% increase in order inflow to Rs 1.9tn. LT has focused on cash flow optimisation in recent quarters, as evidenced by the decline in net working capital intensity to 19.9% in FY22 vs. 22.3% in FY21. ROE has thus risen by 115bps to 12% (vs. 11% in FY21). Cash & cash equivalent has risen to Rs 190bn (vs. Rs 162bn in FY21). The company is debt-free, excluding debt of Rs 841bn related to financial services. For FY23, it has guided for revenue and order inflow growth of 12-15%, core margin of 9.5% and net working capital at 20% of sales.

Ticker/Price	LT IN/Rs 1,685
Market cap	US$ 2,9640mn
Free float	100%
52wk high/low	Rs 2,078/Rs 1,457
Promoter/FPI/DII	0%/22%/34%

Source: NSE | Price as of 15 Jul 2022

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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