FIRST LIGHT

13 March 2020

RESEARCH

[Initiation] Info Edge | Target: Rs 2,080 | –18% | SELL

On a slippery slope – initiate with SELL

BOB Economics Research | Monthly Chartbook

RBI's rate cut to support growth

BOB Economics Research | Inflation and IIP

Inflation falls, growth rebounds

BOB Economics Research | Balance of Payments

Favourable outlook on CAD

SUMMARY

Info Edge

We begin coverage on Info Edge (INFOE) with SELL and a Mar'21 TP of Rs 2,080. INFOE's mainstay Naukri business (>70% revenue share) faces a structural threat to leadership in the online jobs market from Microsoft-backed LinkedIn. Over FY14-FY19, LinkedIn has clocked an 18% CAGR in user base vs. 11% for Naukri, backed by a unique networking proposition and high innovation spends. Profitability looks elusive in property portal 99acres as well. We expect INFOE's revenue/adj. PAT CAGR to slow to 14%/4% (FY20-FY22) and thus find core P/E rich at 54x FY22E.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.87	7bps	(70bps)	(175bps)
India 10Y yield (%)	6.13	6bps	(32bps)	(125bps)
USD/INR	73.64	0.6	(3.3)	(5.9)
Brent Crude (US$/bbl)	35.79	(3.8)	(32.8)	(47.0)
Dow	23,553	(5.9)	(19.5)	(8.4)
Shanghai	2,969	(0.9)	2.7	(1.9)
Sensex	35,697	0.2	(12.9)	(5.4)
India FII (US$ mn)	**9 Mar**	**MTD**	**CYTD**	**FYTD**
FII-D	124.3	(122.4)	(1,689.5)	1,254.7
FII-E	(948.2)	(2,194.6)	(407.7)	6,981.5

Source: Bank of Baroda Economics Research

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India Economics: Monthly Chartbook

While domestic manufacturing and services sector PMIs have risen to 8-year and 7-year highs respectively, global PMIs have shrunk led by China. Muted global manufacturing, trade and travel will also impact India. Indian 10Y yield has fallen by 23bps in Feb'20 and 25bps in Mar'20. Global yields led by US have fallen much more. This sets the context for RBI to ease rates by 25-40bps in Apr'20 after major central banks have done so lately. More importantly, this will also support the nascent recovery in India's consumption sector. However, any economic impact from current outbreak of COVID-19 may drag growth lower when government revenues are weak to support growth.

Click here for the full report.

India Economics: Inflation and IIP

CPI inflation edged down to 6.6% in Feb'20 (7.6% in Jan'20) led by moderation in prices of vegetables and fruits. Core also fell by 10bps to 4.1% due to fall in retail fuel prices. While industrial output rebounded to 2% in Jan'20, we expect domestic economic activity to decelerate on the back of supply and demand disruption from advisories and travel restrictions because of COVID-19. The current growth-inflation mix calls for 25-40bps cut in policy rate as demonstrated by large central banks in the last few weeks.

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India Economics: Balance of Payments

India's CAD fell to US$ 1.4bn (0.2% of GDP) in Q3FY20 from US$ 6.5bn in Q2FY20 (0.9% of GDP) on the back of lower trade deficit. Software receipts were resilient. With sharp increase in FPI inflows in Q3, BoP surplus rose to US$21.6bn from US$ 5.1bn in Q2. Outlook on CAD is quite favourable with (-) 29% decline in oil prices in Mar'20. While our base case is CAD of 0.6% in FY21, it assumes oil at US$ 55/bbl. Lower oil prices may even result in a surplus. This bodes well for INR and we expect it to come back to 70-72 to US$.

Click here for the full report.

SELL
TP: Rs 2,080 | ∨ 18%

INFO EDGE | IT Services | 12 March 2020

On a slippery slope – initiate with SELL

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We begin coverage on Info Edge (INFOE) with SELL and a Mar'21 TP of Rs 2,080. INFOE's mainstay Naukri business (>70% revenue share) faces a structural threat to leadership in the online jobs market from Microsoft-backed LinkedIn. Over FY14-FY19, LinkedIn has clocked an 18% CAGR in user base vs. 11% for Naukri, backed by a unique networking proposition and high innovation spends. Profitability looks elusive in property portal 99acres as well. We expect INFOE's revenue/adj. PAT CAGR to slow to 14%/4% (FY20-FY22) and thus find core P/E rich at 54x FY22E.

Structural threat to Naukri: INFOE is a clear leader among online job listing platforms in India with 85% market share at Naukri.com (ex-LinkedIn). But we believe an inability to evolve beyond job listings puts Naukri at serious risk of competitive headwinds – reminiscent of the decline at erstwhile US market leader Monster.com post LinkedIn's entry. Our view is premised on (1) LinkedIn's clear edge as a professional networking platform (vs. a plain vanilla job listing portal), (2) its steady user base growth in India (at nearly double Naukri's run-rate for FY14-FY19), and (3) parent Microsoft's deep pockets for product innovation.

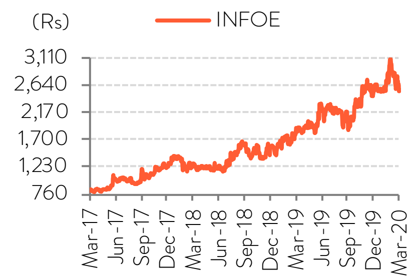
Elusive profitability in 99acres: INFOE's portal 99acres.com is also the No. 1 property platform in India, but persistent weakness in the residential property market and stiff competition – marked by a narrowing traffic-share lead over the second-largest peer – hinder predictable, profitable growth. In 9MFY20, 99acres posted EBITDA of ~Rs 90mn. We expect future profitability to be elusive as rising competition from MagicBricks.com and Housing.com drive up advertising and marketing spends moving into FY21.

Initiate with SELL: We bake in a 330bps EBITDA margin slide and a 4% CAGR in adj. PAT at INFOE over FY20-FY22 as competition and macro weakness crimp growth. Naukri and 99acres comprise ~63% of our SOTP-based TP of Rs 2,080.

Ticker/Price	INFOE IN/Rs 2,548
Market cap	US$ 4.3bn
Shares o/s	123mn
3M ADV	US$ 9.4mn
52wk high/low	Rs 3,130/Rs 1,777
Promoter/FPI/DII	40%/36%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,155	10,982	12,776	14,591	16,599
EBITDA (Rs mn)	2,973	3,414	4,500	4,872	5,299
Adj. net profit (Rs mn)	2,737	3,152	3,862	3,865	4,153
Adj. EPS (Rs)	22.3	25.6	31.4	31.4	33.8
Adj. EPS growth (%)	31.4	15.2	22.5	0.1	7.5
Adj. ROAE (%)	13.4	14.2	15.9	14.4	13.9
Adj. P/E (x)	114.4	99.4	81.1	81.0	75.4
EV/EBITDA (x)	105.2	91.6	69.5	63.9	58.1

Source: Company, BOBCAPS Research

RBI's rate cut to support growth

While domestic manufacturing and services sector PMIs have risen to 8-year and 7-year highs respectively, global PMIs have shrunk led by China. Muted global manufacturing, trade and travel will also impact India. Indian 10Y yield has fallen by 23bps in Feb'20 and 25bps in Mar'20. Global yields led by US have fallen much more. This sets the context for RBI to ease rates by 25-40bps in Apr'20 after major central banks have done so lately. More importantly, this will also support the nascent recovery in India's consumption sector. However, any economic impact from current outbreak of COVID-19 may drag growth lower when government revenues are weak to support growth.

Muted consumption demand: Broad consumption indicators such as four-wheeler sales, freight activity, passenger traffic, electricity consumption, non-oil-non-gold imports show that economic growth has bottomed out. Fresh dip in consumption is possible if current outbreak of COVID-19 intensifies. On the agri front, foodgrain production is also expected to be higher by 2.4% for 2019-20 as per the 2nd advance estimates on the back of higher rabi sowing. Along with higher prices, it bodes well for consumption.

Government spending continues to cool: In Jan'20, general government spending cooled off further on a 3MMA basis (10% vs 13.3% in Q3), driven both by centre and states. Both revenue and capex spending has eased, with latter seeing a sharper slowdown. States' capex has contracted the most (-12.1% in Jan'20 vs -1% in Q3). Muted revenue growth remains a key reason behind this trend. Centre's gross tax collections are down by (-) 2% in FYTD20 vs FY20RE of 4% growth. Indirect tax collections are also lower at 0.9% vs RE: 5.3%. States' tax receipts have risen by only 2% so far vs 14% growth in FYTD19. States are relying heavily on market borrowing at Rs 5.1tn (Apr'19-Feb'20) versus Rs 4.7tn in Apr'18-Feb'19.

Sharp drop in yield: India's 10Y yield fell by 23bps in Feb'20 after FY20 gross borrowings by Centre were kept at Rs 7.1tn and as global yields fell over impact of COVID-19 on economic activity. Gold prices rose by 2.5%. In Mar'20, India's 10Y yield has fallen further by 25bps after sharp drop in oil prices (-29% to US$ 36/bbl) as OPEC+ failed to curtail output. Though CPI inflation is at 7.6%, higher than RBI's target of 4%, RBI too is widely expected to cut rates in Apr'20 to prop growth.

INR to see through short-term volatility: INR depreciated by (-) 1.1% in Feb'20 amidst heightened concerns over COVID-19 outbreak. In Mar'20, it has depreciated further by (-) 2.0% led by a global sell-off and resultant FPI outflows (US$ 2.3bn in Mar'20). However, we expect INR to recover from the current levels once markets stabilise. Lower oil prices, higher FDI inflows and record forex reserves imply INR is likely to trade in the range of 70-72 to US$.

INFLATION AND IIP

12 March 2020

Inflation falls, growth rebounds

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CPI inflation edged down to 6.6% in Feb'20 (7.6% in Jan'20) led by moderation in prices of vegetables and fruits. Core also fell by 10bps to 4.1% due to fall in retail fuel prices. While industrial output rebounded to 2% in Jan'20, we expect domestic economic activity to decelerate on the back of supply and demand disruption from advisories and travel restrictions because of COVID-19. The current growth-inflation mix calls for 25-40bps cut in policy rate as demonstrated by large central banks in the last few weeks.

KEY HIGHLIGHTS

- CPI moderates to 6.6% in Feb'20 versus 7.6% in Jan'20.
- Core inflation edged down by 10bps to 4.1%.
- IIP growth rebounds by 2% in Jan'20, led by manufacturing.

IIP growth rebounds: Industrial output rose to a 6-month high of 2% in Jan'20 from 0.1% in Dec'19. This was led by improvement in both manufacturing at 1.5% (-0.7% in Dec'19) and electricity at 3.1% (-0.1% in Dec'19). Within manufacturing, intermediate goods continue to grow in double digits at 15.8% in Jan'20 compared with 12.5% in Dec'19. Primary goods output moderated to 1.8% in Jan'20 (vs 2.2% in Dec'19). On the other hand, pace of decline slowed significantly for capital goods (-4.3% vs -18.2% in Dec'19) and consumer non-durable goods (-0.3% vs -3.7% in Dec'19). Within FMCG, manufacture of tobacco products was the biggest contributor to the growth rising by 22.8%.

CPI inflation moderated to 6.6%: CPI inflation edged down by 100bps to 6.6% in Feb'20 from 7.6% in Jan'20. This was led by 280bps drop in food inflation (10.8% in Feb'20 compared with 13.6% in Jan'20). Vegetable prices fell sharply to 31.6% in Feb'20 compared with 50.2% in Jan'20. Fruits, eggs, meat and fish and sugar showed softening in inflation in Feb'20. Outlook for food inflation is favourable with improved Rabi sowing and further dip in vegetable prices in Mar'20. In addition, dip in global food prices will be a tailwind for muted domestic food prices as well.

Core inflation edged down: Core inflation fell by 10bps to 4.1% in Feb'20 compared with 4.2% in Jan'20. This was led by 100bps fall in transport and communication inflation (5.2% in Feb'20 compared with 6.2% in Jan'20), because of transmission of 13% fall in crude prices in Feb'20. Inflation in personal care items also moderated by 20bps to 6.9% in Feb'20. We expect core inflation to moderate in the coming months as 1) as oil prices have fallen further by (-) 29% in Mar'20 and 2) domestic demand remains weak and COVID-19 will hit domestic demand further—particularly services. In our opinion, this gives RBI room to reduce rates by 25-40bps in Apr'20.

BALANCE OF PAYMENTS

12 March 2020

Favourable outlook on CAD

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India's CAD fell to US$ 1.4bn (0.2% of GDP) in Q3FY20 from US$ 6.5bn in Q2FY20 (0.9% of GDP) on the back of lower trade deficit. Software receipts were resilient. With sharp increase in FPI inflows in Q3, BoP surplus rose to US$21.6bn from US$ 5.1bn in Q2. Outlook on CAD is quite favourable with (-) 29% decline in oil prices in Mar'20. While our base case is CAD of 0.6% in FY21, it assumes oil at US$ 55/bbl. Lower oil prices may even result in a surplus. This bodes well for INR and we expect it to come back to 70-72 to US$.

CAD narrowed sharply in Q3: Led by sharp reduction in trade deficit, India's CAD fell to US$ 1.4bn in Q3FY20 (0.2% of GDP) from US$ 6.5bn in Q2FY20 (0.9% of GDP). Trade deficit fell to US$ 34.6bn in Q3 from US$ 38.1bn in Q2, led by moderation in non-oil imports (muted domestic demand). Merchandise exports rose marginally to US$ 81.2bn in Q3 compared to US$ 80bn in Q2 and services (net) receipts increased to US$ 21.4bn in Q3 from US$ 20.4bn in Q2. Private transfers (remittances) were up by 8% in Q3. This may see a dip as remittances from Gulf may be muted on the back of large dip in oil prices.

BoP surplus at US$ 21.6bn in Q3FY20: Capital inflows increased to US$ 22.4bn in Q3 from US$ 12.3bn in Q2 on the back of higher FDI and FPI inflows. FDI inflows gained pace and rose to US$ 10bn in Q3 from US$ 7.9bn in Q2. FPI inflows increased to US$ 7.8bn from US$ 2.5bn in Q2. Banking capital outflows continued at an accelerated pace of US$ 2.3bn in Q3 versus US$ 1.8bn in Q2. However, FPI inflows have reversed in Q4 to outflows of US$ 500mn and may increase further as we see risk-off in global markets related to coronavirus.

Lower oil prices to narrow CAD: While we will see FPI outflows in Q4, CAD is expected to remain range bound as oil prices have dipped in Mar'20 and non-oil imports will be muted. In fact, we may see a current account surplus in the near-term if non-oil imports continue to slide and oil prices sustain at this level. Our base case is CAD of 0.6% of GDP in FY21 on an average crude price of US$55/bbl. If prices are materially lower, current account may be in surplus. At the same time, we see FDI and FII inflows gaining pace as a number of strategic sales are lined up next year. The above backdrop is favourable for INR and we see it coming back to 70-72 range to US$ once risk-off subsides.

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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