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FIRST LIGHT

17 August 2021

RESEARCH

[Sector Report] Metals & Mining

Disciplined capital allocation key to improving payout - Prefer TATA, JSP

Info Edge | Target: Rs 6,530 | +20% | BUY

Naukri poised for accelerated growth; upgrade to BUY

BOB Economics Research | WPI

Food and Fuel inflation drops, core inches up

SUMMARY

[Sector Report] Metals & Mining

- Indian steel margins expected to remain elevated near term but revert to mean in longer run
- Steel companies to report robust results, albeit unlikely to beat consensus – prefer players with robust capital allocation policies
- Initiate with BUY on TATA & JSP but HOLD on JSTL & SAIL due to disproportionally higher risk from margins cooling off

Click here **for the full report.**

Info Edge

- In-line Q1 with revenue up 14% YoY (deferred revenue up 36%) and EBITDA margin at 31.2%
- Tech talent crunch in IT/ITES verticals to catalyse growth for Naukri; favourable real estate market dynamics to aid 99acres
- Upgrade to BUY (vs. SELL) with a new Jun'22 TP of Rs 6,530 (vs. Rs 2,880) on better traction in Naukri and upcoming recovery of 99acres

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.36	3bps	(1bps)	64bps
India 10Y yield (%)	6.23	(1bps)	0bps	36bps
USD/INR	74.26	0.3	0.4	0.8
Brent Crude (US$/bbl)	71.31	(0.2)	(5.1)	58.6
Dow	35,500	0.0	1.4	27.3
Shanghai	3,525	(0.2)	(0.7)	6.1
Sensex	54,844	0.6	4.7	43.2
India FII (US$ mn)	**11-Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	39.2	10.5	(3,242.7)	(1,215.4)
FII-E	39.9	587.1	6,965.3	(361.0)

Source: Bank of Baroda Economics Research

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India Economics: WPI

WPI inflation eased to 3-month low of 11.2% in Jul’21 from 12.1% in Jun'21, led by lower food (4.5% in Jul’21 from 6.7% in Jun'21) and fuel inflation (26% in Jul’21 from 32.8% in Jun'21). The decline in food inflation was quite broad-based. On the other hand, core inflation inched up. Pass-through of higher commodity prices to consumers is yet not complete. We expect CPI inflation at 5.5% in FY22. RBI is likely to reverse monetary policy from Q4FY22 with an eventual repo rate hike in early FY23.

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METALS & MINING

16 August 2021

Disciplined capital allocation key to improving payout

- **Indian steel margins expected to remain elevated near term but revert to mean in longer run**
- **Steel companies to report robust results, albeit unlikely to beat consensus – prefer players with robust capital allocation policies**
- **Initiate with BUY on TATA & JSP but HOLD on JSTL & SAIL due to disproportionally higher risk from margins cooling off**

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Global steel margins largely supported by demand-supply imbalance: H1CY21 margin strength was supported by high demand both in China and the rest of the world amid slow catch-up of supply and pass-along of elevated raw material prices due to supply chain disruptions. China's publicised intent to cut emissions from its steel industry by lowering production could further support steel prices.

Steel margins to normalise over longer term: The demand-supply imbalance was in part due to supply disruptions and pent-up demand. We believe both of these will ease sooner than later. We expect steel demand to moderate over the next 6 months, while it could take 12-18 months to restore iron ore supply and 6-12 months for coking coal. We, therefore, believe steel margins will soften over the next 6-12 months with steel prices easing to US$ 650/t by FY23. If China does move to curtail steel sector emissions, the current run may be extended, which would mean another 12-24 months before the demand-supply balance is restored to mid-cycle levels.

Sustainable profit opens up scope for meaningful increase in payout: The Indian steel industry, unlike its Chinese counterpart, gains from higher spreads due to domestic iron ore, and has also benefitted from coking coal differentials as China moved away from traditional supplier Australia. Companies have used this windfall to deleverage and restore balance sheet health, with the FY22 net debt/EBITDA ratio estimated at 1.2x on average for our coverage vs. 2.3x in FY21. This opens up the possibility of an increase in payout, and players with a disciplined capital allocation approach will have more flexibility.

Prefer TATA, JSP: With the steel cycle at a peak, we would prioritise capital discipline over expansion projects. We are therefore positive on Tata Steel (TATA) and Jindal Steel & Power (JSP) who are now focusing on responsible growth. JSW Steel (JSTL) has a higher commitment to aggressive growth and will be disproportionally impacted if margins cool off. SAIL's discount to peers will continue, in our view, given its lower operational efficiency and pro-growth capital allocation policies. We initiate on TATA (TP Rs 1,755) and JSP (TP Rs 555) with BUY ratings and JSTL (TP Rs 795) and SAIL (TP Rs 150) with HOLD.

Recommendation snapshot

Ticker	Price	Target	Rating
TATA IN	1,462	1,755	BUY
JSTL IN	749	795	HOLD
JSP IN	424	555	BUY
SAIL IN	134	150	HOLD

Price & Target in Rupees | Price as of 13 Aug 2021

BUY
TP: Rs 6,530 | ⮝ 20%

INFO EDGE | Internet | 17 August 2021

Naukri poised for accelerated growth; upgrade to BUY

- **In-line Q1 with revenue up 14% YoY (deferred revenue up 36%) and EBITDA margin at 31.2%**
- **Tech talent crunch in IT/ITES verticals to catalyse growth for Naukri; favourable real estate market dynamics to aid 99acres**
- **Upgrade to BUY (vs. SELL) with a new Jun'22 TP of Rs 6,530 (vs. Rs 2,880) on better traction in Naukri and upcoming recovery of 99acres**

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Robust quarterly performance: In line with our estimate, INFOE reported 14% YoY revenue growth in Q1FY22, its first quarter of positive YoY growth since the onset of Covid-19. EBITDA margin stood at 31.2%, up 13ppt QoQ (down 610bps YoY). Billing recovered significantly, rising 67% YoY. Growth was led by a 74% YoY rise in Naukri billings. Deferred sales increased 36% YoY, the best print in 11 quarters, indicating better growth in the near future.

99acres saw Covid 2.0 impact but outlook positive: Since home buying is a high involvement category, it suffered heavily during the second Covid wave. Although 99acres' billing was up 60% YoY, it declined 69% QoQ. In tandem, INFOE curtailed 99acres' advertising spend in Q1 as Covid 2.0 led to a second lockdown. Management indicated that traffic has started to return from July onwards with the easing of restrictions. A favourable real estate industry dynamic (low interest rate, better affordability and Covid-linked willingness to buy bigger houses) sets an optimistic outlook for the business. Management indicated healthy traction on rentals as well.

Tech talent crunch brightens up Naukri outlook: Naukri's Q1 revenue increased 11.2% YoY on the back of 21% YoY growth in the IT/ITES vertical. Management also indicated buoyant hiring activity on the Naukri platform led by a technology talent crunch. The Jul'21 Jobspeak index for IT/ITES reached a record high, growing 200%+ YoY and confirming robust demand. INFOE expects strong traction led by (1) higher realisation (shaped by the absence of bulk discounts, otherwise a common practice), (2) increased volumes, and (3) expansion of client base.

Covid reshaped Naukri seasonality: Deferral of annual contract renewal amid Covid-19 has changed Naukri's seasonality. Management now expects better traction for the business in Q2 and Q3 led by the altered client contract renewal cycle.

Upgrade to BUY: We upgrade INFOE to BUY from SELL on the back of a revitalised revenue and margin outlook for Naukri.com. We raise our FY22/FY23 EPS by 11%/15% and roll to a Jun'22 SOTP-based TP of Rs 6,530 (vs. Rs 2,880).

Key changes

Target	Rating
▲	▲

Ticker/Price	INFOE IN/Rs 5,446
Market cap	US$ 9.4bn
Free float	62%
3M ADV	US$ 41.9mn
52wk high/low	Rs 5,880/Rs 3,220
Promoter/FPI/DII	38%/38%/24%

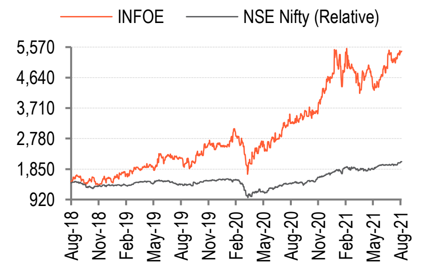
Source: NSE | Price as of 16 Aug 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	10,986	13,804	16,488
EBITDA (Rs mn)	2,772	4,495	5,389
Adj. net profit (Rs mn)	2,739	4,408	5,086
Adj. EPS (Rs)	21.3	34.3	39.5
Consensus EPS (Rs)	21.3	28.5	34.4
Adj. ROAE (%)	7.8	9.3	10.0
Adj. P/E (x)	255.8	158.9	137.7
EV/EBITDA (x)	251.9	154.7	128.5
Adj. EPS growth (%)	(16.7)	61.0	15.4

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

Stock performance



Source: NSE

WHOLESALE INFLATION

16 August 2021

Food and Fuel inflation drops, core inches up

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WPI inflation eased to 3-month low of 11.2% in Jul'21 from 12.1% in Jun'21, led by lower food (4.5% in Jul'21 from 6.7% in Jun'21) and fuel inflation (26% in Jul'21 from 32.8% in Jun'21). The decline in food inflation was quite broad-based. On the other hand, core inflation inched up. Pass-through of higher commodity prices to consumers is yet not complete. We expect CPI inflation at 5.5% in FY22. RBI is likely to reverse monetary policy from Q4FY22 with an eventual repo rate hike in early FY23.

Food inflation cools off: Food inflation eased to a 5-month low of 4.5% in Jul'21 from 6.7% in Jun'21 led by sharp drop in perishables. Fruits and vegetables index fell by 6.7% in Jul'21 compared with an increase of 2% in Jun'21. Within this, prices of potatoes (declined by 36.4% from 31% in Jun'21) and tomatoes (dropped by 42.5% from 16.3% in Jun'21) dropped the most. Even pulses inflation eased a bit to 8.3% in Jul'21 from 11.5% in Jun'21. Egg inflation too moderated to a 4-month low of 22.8% in Jul'21 from 29.7% in Jun'21. Cereal prices remained muted (declining by 2.8% in Jul'21. However, onion prices accelerated in Jul'21 (72% from 64.3% in Jun'21). So was the case with oilseeds. The broad-based decline in food inflation is a welcome change and bodes well for inflation outlook in coming months.

Fuel and power inflation drops: Fuel and power inflation eased to 26% in Jul'21 from 32.8% in Jun'21. Base effect explains this. Mineral oil index moderated to 51.8% in Jul'21 from 61.8% in Jun'21. This is in-line with movement of international oil prices (72% YoY increase in Jul'21 versus 80% in Jun'21). Different components of minerals oils such as Kerosene (77% in Jun'21 versus 198% in Jun'21), Naphtha (59% versus 87%) and Bitumen (35% versus 64%) also moved accordingly. Electricity index also saw a sharp drop from 10% in Jun'21 to a decline of 2.8% in Jul'21. We expect moderation in fuel inflation to continue in the coming months on the back of base effect and steady international oil prices.

Core inflation inches up: Core inflation rose to 10.8% in Jul'21 from 10.4% in Jun'21. Manufactured products inflation also picked up to 11.2% from 10.9% in Jun'21. Of the 22 commodity indices, as many as 14 indices rose at a faster pace in Jul'21 than Jun'21 led by tobacco, fabricated metal products, textiles, non-metallic mineral products and machinery equipment. In Aug'21 (MTD), international commodity prices are up by only 0.4% (MoM) compared with 1.1% rise seen in Jul'21. Rising cases of Covid-19 have brought some stability to international commodity prices. However, virus seems to be following an ebb and flow pattern. A decline in cases may drive commodity prices up again. In addition, higher commodity prices have not been passed on to consumers entirely as of now. This pass-through is likely to play out in the coming months and quarters.

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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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