FIRST LIGHT

22 June 2021

RESEARCH

Power

Proposed reforms positive but state-owned discoms hold the key

VST Tillers Tractors | Target: Rs 2,300 | +6% | HOLD

Limited upside; cut to HOLD

BOB Economics Research | Weekly WRAP

US monetary cycle reversing

NTPC | Target: Rs 111 | –2% | HOLD

Renewables target doubled but not giving up on coal yet

Info edge | Target: Rs 2,880 | –42% | SELL

Higher momentum in other verticals to weigh on profitability

Power Flash |

IEEFA call takeaways: Renewable energy growth to eclipse coal

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.44	(7bps)	(20bps)	74bps
India 10Y yield (%)	6.01	(1bps)	3bps	16bps
USD/INR	73.87	0.3	(1.1)	3.0
Brent Crude (US$/bbl)	73.51	0.6	7.0	74.2
Dow	33,290	(1.6)	(2.3)	28.7
Shanghai	3,525	0.0	(0.1)	18.8
Sensex	52,344	0.0	4.3	50.7
India FII (US$ mn)	**17-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(17.2)	(265.1)	(2,845.7)	(818.5)
FII-E	(123.9)	1,392.2	7,978.3	652.0

Source: Bank of Baroda Economics Research

SUMMARY

Power

- Planned policy initiatives favour renewables and discom privatisation but state government's action will decide if structural change can occur
- Discom challenges daunting but a few more privatisation rounds can raise the private sector market by 50%
- TPWR (BUY) is closest and NTPC (HOLD) is furthest from a renewable/ private distribution future. Rate PWGR, TPW and CESC as HOLD

Click here **for the full report.**

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VST Tillers Tractors

- VSTT's Q4 operating performance was in line. EBITDA margin fell 220bps QoQ on higher RM cost and adj. PAT declined 14% to Rs 264mn
- Given market leadership in power tillers, sufficient capacity, focused growth in tractors and debt-free status, VSTT looks set for strong growth
- We maintain our estimates and Mar'22 TP of Rs 2,300 but cut our rating from BUY to HOLD as the recent stock run-up limits upside

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India Economics | Weekly Wrap

US Fed's dot plot suggests FOMC has front-loaded rate hikes to a year earlier to 2023 along with revision in inflation and growth forecast. This led to DXY's outperformance in the week. Commodities fell. Ironically, US 10Y despite intra-week volatility ended the week lower due to weak retail sales and jobless claims. India's 10Y was stable. MPC minutes reveal members are likely to be more data dependent going forward. May'21 inflation will also lead to upward revision in CPI trajectory for the year. We expect normalisation in Q4FY22.

Click here for the full report.

NTPC

- NTPC reported strong 31% YoY growth in Q4FY21 net income driven by capacity expansion
- Renewables target for FY32 has been doubled to 60GW but further addition of coal plants is possible and will depend on CEA's assessment
- We maintain HOLD with a Mar'22 TP of Rs 111

Click here for the full report.

Info Edge

- INFOE reported below-expected Q4FY21 numbers with revenue down 10% YoY (-6.5% est.) and EBITDA margin at 18% (29% est.)
- While billing growth of 25% YoY looks encouraging, it wasn't driven by the largest Naukri.com business and came off a very low base
- We tweak our FY22-FY23 EPS estimates by -1%/-6% and reiterate SELL with a revised Mar'22 TP of Rs 2,880 (vs. Rs 2,780) on rollover

Click here for the full report.

Power Flash

- Renewables will continue to outgrow coal due to lower tariffs and a burgeoning role of ESG in investing and project finance
- Grids in other countries have managed renewable generation share of 30-60%. India's grid is robust and inter-connected which is a big plus
- TPWR is our top pick as it is aligned to renewables and will be a key beneficiary of proposed distribution reforms that are critical for the sector

Click here for the full report.

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POWER

21 June 2021

Proposed reforms positive but state-owned discoms hold the key

- **Planned policy initiatives favour renewables and discom privatisation but state government's action will decide if structural change can occur**
- **Discom challenges daunting but a few more privatisation rounds can raise the private sector market by 50%**
- **TPWR (BUY) is closest and NTPC (HOLD) is furthest from a renewable/ private distribution future. Rate PWGR, TPW and CESC as HOLD**

Tarun Bhatnagar
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State governments hold the key to sector reforms: Central agency proposals to save costs for discoms through MBED, providing Rs 1tn for Rs 3tn of smart metering, and market-based procurement of renewable generation are likely to be followed by tougher policy actions. These include discom delicensing, state financing linked to reforms (subsidy via DBT), lowering of industrial electricity tariff and tougher RPO implementation. Success of these measures will hinge on state government reactions, which may also depend on the opposition to reforms by unions & subsidy beneficiaries.

Renewables challenges include module prices and delayed PPAs: Challenges facing the renewables sector are delays in SECI bid wins reaching the PPA stage, rising module cost, bid cancellations and court orders for underground transmission in Rajasthan. In our view, PPA signing should gather pace as electricity demand starts to improve with the easing of Covid-19 restrictions. Rising module costs are likely to reduce once new capacities come on board in China. The imposition of higher import duties on solar modules from Apr'22 will be reflected in upcoming bids. Older bids are likely to be covered by the 'change of law' provision.

Distribution toughest but a few states can make a big difference: Distribution reforms are likely to take longer as there is a limit to the pressure that can be applied on states without jeopardising power supply. Even without broad-based changes, if the central government can privatise distribution in union territories (2.6% of India's power volumes) and a few state governments add a further 1%, the share of private sector distribution in volume terms can rise to 10.8% or by 50% in a few years.

TPWR remains our top pick: We continue to rate TPWR as BUY as it is expected to grow in both the renewables and distribution sectors. We move NTPC from REDUCE to HOLD (in line with our new rating structure) because it is heavily exposed to coal generation which is likely to lose share in the generation mix at the cost of renewables. We migrate our ADD ratings to HOLD for CESC (as it will face tough competition from larger peers for distribution bids), TPW (given unused capacities and some key concessions coming up for renewal) and PWGR (as asset addition which drives net income is likely to remain steady).

Recommendation snapshot

Ticker	Price	Target	Rating
CESC IN	766	751	HOLD
NTPC IN	114	111	HOLD
PWGR IN	233	261	HOLD
TPWR IN	121	141	BUY
TPW IN	463	461	HOLD

Price & Target in Rupees | Price as of 18 Jun 2021

HOLD
TP: Rs 2,300 | ⮝ 6%

VST TILLERS TRACTORS | Automobiles | 21 June 2021

Limited upside; cut to HOLD

- **VSTT's Q4 operating performance was in line. EBITDA margin fell 220bps QoQ on higher RM cost and adj. PAT declined 14% to Rs 264mn**
- **Given market leadership in power tillers, sufficient capacity, focused growth in tractors and debt-free status, VSTT looks set for strong growth**
- **We maintain our estimates and Mar'22 TP of Rs 2,300 but cut our rating from BUY to HOLD as the recent stock run-up limits upside**

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In-line Q4: VSTT's revenue was in line with our estimates at Rs 1.9bn (-4% QoQ). Tractor volumes declined 27% QoQ while tillers were up 11%. Gross margin contracted 220bps QoQ owing to raw material cost inflation, leading to an EBITDA decline of 29% QoQ to Rs 213mn (vs. Rs 236mn expected). EBITDA margin for Q4 dropped 380bps QoQ to 10.9%. VSTT also reported a one-off expense of Rs 133mn with respect to VRS scheme rollout. Adj. PAT was at Rs 264mn (-14% QoQ)

Dominant market share in power tillers: VSTT commands ~50% market share in the power tiller segment. Its current capacity stands at 60,000 units per annum and FY21 utilisation was ~46%. In Jul'20, the government imposed import restrictions on Chinese tillers which command ~30% share. We thus expect VSTT to clock a brisk volume CAGR of 10% in the tiller segment during FY21-FY23.

Growing strong in tractors: Recently, the company launched a 27hp tractor. Its overall tractor capacity stands at 36,000 units per annum with sales of ~8,800 units in FY21, translating to capacity utilisation of ~24%. We model for an 8% volume CAGR in tractors for VSTT over FY21-FY23 (ahead of our expected 6% CAGR for the industry), led by strong growth in rural income, the company's enhanced product portfolio and penetration in newer markets.

Cut to HOLD as upsides capped: We expect VSTT to clock a revenue/EBITDA/ PAT CAGR of 12%/8%/6% over FY21-FY23 with EBITDA margin contracting 120bps over the same period led by lower gross margins. We maintain our estimates and Mar'22 TP of Rs 2,300, valuing the stock at 20x FY23E EPS – in line with its long-term average. The stock has run up ~20% in the last three months, limiting further upside and prompting us to cut our rating from BUY to HOLD.

Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	VSTT IN/Rs 2,162
Market cap	US$ 253.9mn
Free float	45%
3M ADV	US$ 0.5mn
52wk high/low	Rs 2,300/Rs 1,277
Promoter/FPI/DII	55%/5%/15%

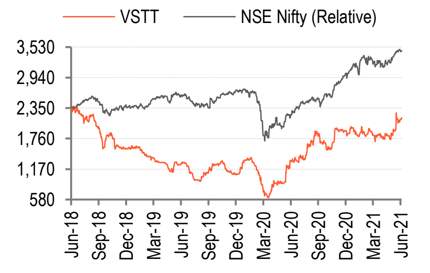
Source: NSE | Price as of 21 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	7,642	8,667	9,665
EBITDA (Rs mn)	1,053	1,084	1,221
Adj. net profit (Rs mn)	1,043	941	1,019
Adj. EPS (Rs)	120.7	108.9	118.0
Consensus EPS (Rs)	0.0	127.0	150.0
Adj. ROAE (%)	15.3	12.6	12.5
Adj. P/E (x)	17.9	19.9	18.3
EV/EBITDA (x)	17.7	16.9	15.0
Adj. EPS growth (%)	481.8	(9.8)	8.4

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

Stock performance



Source: NSE

WEEKLY WRAP

21 June 2021

US monetary cycle reversing

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US Fed's dot plot suggests FOMC has front-loaded rate hikes to a year earlier to 2023 along with revision in inflation and growth forecast. This led to DXY's outperformance in the week. Commodities fell. Ironically, US 10Y despite intra-week volatility ended the week lower due to weak retail sales and jobless claims. India's 10Y was stable. MPC minutes reveal members are likely to be more data dependent going forward. May'21 inflation will also lead to upward revision in CPI trajectory for the year. We expect normalisation in Q4FY22.

Markets

- **Bonds:** Germany's 10Y yield rose the most (by 7bps) as PPI inched up more than expected in May'21. Despite Fed being hawkish, US 10Y yield fell a tad by 1bps (1.44%) due to weaker retail sales and jobless claims data. Crude prices rose by 1.1% (US$ 74/bbl) as OPEC expects limited US oil output growth in CY21. India's 10Y yield was stable at 6.01%. System liquidity surplus fell to Rs 4.1tn as on 18 Jun 2021 from Rs 4.8tn last week.

- **Currency:** DXY rose by 1.8% (2-month high) as Fed signaled front-loading its rate hikes to CY23. AUD fell the most by 3%. GBP fell by 2.1% as UK deferred lifting lockdown restrictions owing to rising Covid-19 cases. INR fell by 1.1% amidst higher oil prices and FII outflows.

- **Equity:** Barring Nikkei, other global indices ended lower, as change in Fed's interest rate trajectory will change risk premia. Dow (3.4%) dropped the most, followed by Shanghai Comp (1.8%). Sensex (0.2%) too fell led by subdued global cues. Power and metal stocks fell the most.

- **Covid-19 tracker:** Global Covid-19 cases rose by 2.6mn this week versus 2.7mn last week. Fresh cases increased in UK (60K versus 45k). In India, cases rose by 0.5mn versus 0.7mn. Our weekly economic activity tracker index rose to 88 (100=Feb'20) from 86. Israel has fully vaccinated 59% of its population, UK at 45% and US at 44%. India is far lower at 3.5%.

- **Upcoming key events:** Major events this week include policy decision of BoE, global flash PMIs and US new home sales. On the domestic front, trajectory of Covid-19 cases following phased reopening will be monitored. Monsoon is progressing well and is 38% above LPA as of now.

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HOLD
TP: Rs 111 | ⋎ 2%

NTPC | Power | 21 June 2021

Renewables target doubled but not giving up on coal yet

- **NTPC reported strong 31% YoY growth in Q4FY21 net income driven by capacity expansion**
- **Renewables target for FY32 has been doubled to 60GW but further addition of coal plants is possible and will depend on CEA's assessment**
- **We maintain HOLD with a Mar'22 TP of Rs 111**

Tarun Bhatnagar
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Strong results: NTPC's underlying Q4 income (estimated by the company) was up 31% YoY and 16% QoQ driven by better realisations. FY21 underlying income increased 17% aided by rising capacity. The only sore point was the increase in under-recoveries in FY21 (Rs 6bn vs. Rs 2.5bn) due to technical issues faced by new plants in the start-up phase.

Reported Q4FY21 net income grew over 200% YoY led by higher regulated income and a tax credit versus very high tax in Q4FY20. Sequentially, net income grew 21% aided by the tax credit, as underlying EBIT dropped. FY21 net income was up 39% again due to lower taxes (pre-tax income declined 18%). Consolidated receivables fell from 68 days in FY20 to 58 days in FY21 but are still higher than history.

New targets: NTPC doubled its renewable capacity target to 60GW by FY32 and plans to reach 15GW by FY24 from just 1GW at the end of FY20. The company has not revised its FY32 total capacity target of 130GW. On new coal plant additions, NTPC will be guided by CEA's ongoing study on requirements of coal generation.

Set to remain coal-asset heavy: NTPC's Q4 results were strong and the increase in its renewables target is positive, but the company is still open to building new coal plants. The targeted 15GW renewable capacity by FY24 looks steep as the current under-construction/planned pipeline is lower at 7GW. Even with these new targets, NTPC will remain a majority coal generation company till 2030 which will make it less attractive for the growing list of investors incorporating ESG in their investment process.

Retain HOLD: We maintain our HOLD rating on the stock despite income growth as we believe ESG-related issues will continue to cap stock upside. Our Mar'22 TP of Rs 111 is arrived at using a DCF-based SOTP valuation. Key positive drivers include the company's move towards renewables. Negative drivers include announcements of more coal plants, operational issues and unfavourable regulatory changes.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NTPC IN/Rs 114
Market cap	US$ 15.2bn
Free float	49%
3M ADV	US$ 30.0mn
52wk high/low	Rs 121/Rs 78
Promoter/FPI/DII	51%/12%/32%

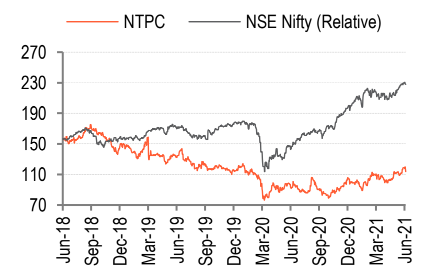
Source: NSE | Price as of 18 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	11,15,311	14,30,644	15,09,449
EBITDA (Rs mn)	3,59,318	4,20,430	4,65,255
Adj. net profit (Rs mn)	1,61,469	1,68,088	1,89,788
Adj. EPS (Rs)	16.3	17.0	19.2
Consensus EPS (Rs)	0.0	15.7	18.6
Adj. ROAE (%)	12.8	10.1	13.2
Adj. P/E (x)	7.0	6.7	5.9
EV/EBITDA (x)	8.0	7.2	6.6
Adj. EPS growth (%)	39.2	4.1	12.9

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

Stock performance



Source: NSE

RESULT REVIEW

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SELL

TP: Rs 2,880 | ▼ 42%

INFO EDGE | IT Services | 21 June 2021

Higher momentum in other verticals to weigh on profitability

- **INFOE reported below-expected Q4FY21 numbers with revenue down 10% YoY (-6.5% est.) and EBITDA margin at 18% (29% est.)**
- **While billing growth of 25% YoY looks encouraging, it wasn't driven by the largest Naukri.com business and came off a very low base**
- **We tweak our FY22-FY23 EPS estimates by -1%/-6% and reiterate SELL with a revised Mar'22 TP of Rs 2,880 (vs. Rs 2,780) on rollover**

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Subpar Q4 performance on all fronts: Revenue contracted 10.2% YoY, falling below our estimate of a 6.5% decline. EBITDA margin stood at 18% vs. 29% expected, weighed down by the full impact of wage revision, higher variable payouts and elevated advertising spend (for 99acres.com and Jeevansaathi.com). EBITDA underperformed our estimate by 39% and consensus by 42%.

Recovery in recruitment lags other verticals: Segment-wise, the best performance came from non-Naukri verticals (99acres, Jeevansaathi, Shiksha), which posted flattish revenues (-0.6% YoY) while Naukri.com continued to decline (-14%). Total billing was up 25% YoY backed by 41%, 24% and 22% growth in 99acres, other verticals and Naukri respectively. Deferred sales grew 11.8% YoY, signaling better revenue growth in upcoming quarters. Here too, 99acres and other verticals led the way with Naukri lagging behind. We note that operational losses in other verticals will weigh on operating margins.

Naukri unaffected by second Covid wave: Management stated that the recruitment activity on its platform was surprisingly unaffected by the second Covid wave while other verticals saw a reduction in activity. Resumes uploaded increased by 2mn QoQ though the number of unique visitors rose by only 9.7% QoQ in Q4. Demand in the IT/ITES space gained momentum. IIM Jobs' revenue grew 55% YoY in Q4 and it is expected to be legally merged with INFOE in July. INFOE is also investing in blue-collar platform Jobhai.com which operates in the NCR and has shown encouraging trial results.

Reinvesting cash in core business: Management plans to reinvest cash from the Naukri business and Zomato stake sale in its core businesses of real estate, jobs, education and matrimony. It has no plans for dividend payouts in the near future. INFOE is looking at acquisitions in the recruitment space on the lines of its 'Zwayam' deal. Zwayam is a SaaS-based sourcing and screening solution (FY21 revenue: Rs 64.6mn) acquired by INFOE in FY21 that is expected to augment Naukri's business. The company also intends to keep investing in marketing for Jeevansaathi for the next 3-4 years.

Key changes

Target	Rating
▲	◄►

Ticker/Price	INFOE IN/Rs 4,978
Market cap	US$ 8.6bn
Free float	54%
3M ADV	US$ 43.2mn
52wk high/low	Rs 5,880/Rs 2,660
Promoter/FPI/DII	38%/39%/22%

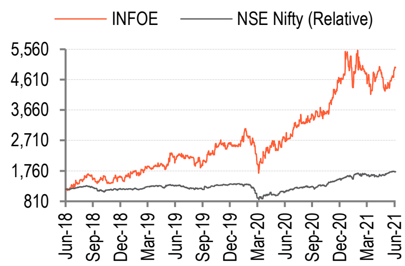
Source: NSE | Price as of 21 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	10,986	13,051	15,217
EBITDA (Rs mn)	2,772	3,902	4,466
Adj. net profit (Rs mn)	2,739	3,987	4,434
Adj. EPS (Rs)	21.3	31.0	34.5
Consensus EPS (Rs)	21.3	28.5	34.4
Adj. ROAE (%)	7.8	8.5	8.8
Adj. P/E (x)	233.8	160.6	144.4
EV/EBITDA (x)	230.1	162.8	141.6
Adj. EPS growth (%)	(16.7)	45.6	11.2

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

Stock performance



Source: NSE

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POWER

21 June 2021

IEEFA call takeaways: Renewable energy growth to eclipse coal

- **Renewables will continue to outgrow coal due to lower tariffs and a burgeoning role of ESG in investing and project finance**
- **Grids in other countries have managed renewable generation share of 30-60%. India's grid is robust and inter-connected which is a big plus**
- **TPWR is our top pick as it is aligned to renewables and will be a key beneficiary of proposed distribution reforms that are critical for the sector**

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We hosted Institute for Energy Economics and Financial Analysis (IEEFA), a think tank examining issues, trends and policies related to global energy markets. Key takeaways:

Positive on renewables: IEEFA expects the share of renewables in India's energy generation to cross 50% by 2030 and coal generation to continue to decline after peaking in a few years. Grid integrity due to intermittency from renewables can be managed by flexible thermal generation, battery storage and green hydrogen.

Coal generation set to peak out: Coal generation may be very close to the peak as (1) discoms will find coal power plants viable only at PLFs above 75% whereas the average utilisation is 60-65%, (2) ramp-up of coal generation plants is a slow process, (3) coal prices in India will increase as Coal India's wage cost rises, and (4) Indian financial institutions will ultimately align policies with global institutions who are staying away from coal financing. However, this fossil fuel will continue to play a key role in balancing the grid till storage batteries become financially viable.

India grid capable of handling intermittency: India is one of the few large countries with an integrated grid (something even the US doesn't have). Last year, when the entire nation switched off lights for a few minutes, the grid was able to manage a ramp-up and ramp-down of 31GW (~17% of India's peak load), indicating its robustness. While intermittency is a real risk, new grid technology has been able to handle renewables share of 30-50% in Germany and ~60% in South Australia.

Market and distribution reforms critical: A national pricing system with time-of-day pricing and use of batteries will incentivise renewables. Also, distribution finances need to be fixed, not just for the renewable sector but to attract capital from the domestic and global private sector.

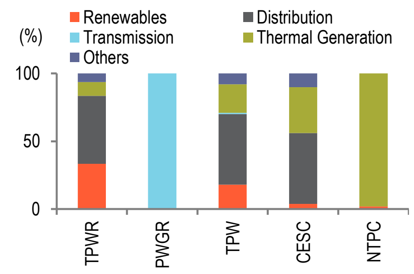
TPWR our top pick: The discussion with IEEFA reinforced our view that a growing renewable share and distribution reform will be positive for TPWR (BUY, Rs 141).

Recommendation snapshot

Ticker	Price	Target	Rating
CESC IN	765	751	HOLD
NTPC IN	114	111	HOLD
PWGR IN	233	261	HOLD
TPWR IN	121	141	BUY
TPW IN	455	461	HOLD

Price & Target in Rupees | Price as of 18 Jun 2021

EBITDA mix: FY22



Source: BOBCAPS Research

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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