FIRST LIGHT

16 February 2021

RESEARCH

BOB Economics Research | Weekly Wrap

Global yields rise, Indian yields fall

BOB Economics Research | Wholesale Inflation

Rising commodity and oil prices push WPI higher

Mayur Uniquoters | Target: Rs 495 | +23% | BUY

All-round beat – upgrade to BUY

ONGC | Target: Rs 135 | +39% | BUY

Q3 weak; rising oil prices offer respite

Info Edge | Target: Rs 2,680 | –51% | SELL

Core businesses fail to revive

IT Services | Q3FY21 Review

Indian IT shows sustained growth resurgence

SUMMARY

India Economics: Weekly Wrap

Global yields (except India) moved higher with steady decline in Covid-19 cases and economic upturn. Oil prices rose by 5.2% and are now at highest level since Jan'20. Equity markets continue to move higher on better than estimated earnings and expectation of steady revival. Indian 10Y yield fell by 8bps with RBI signalling its discomfort over higher yields. CPI inflation print of 4.1% is also supportive. However, given the extent of general government borrowing, we do see gradual increase in yields in the medium-term.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.21	4bps	8bps	(38bps)
India 10Y yield (%)	5.99	3bps	10bps	(38bps)
USD/INR	72.76	0.1	0.4	(1.9)
Brent Crude (US$/bbl)	62.43	2.1	10.7	8.9
Dow	31,458	0.1	1.5	7.0
Shanghai	3,655	1.4	2.5	25.3
Sensex	51,544	0	4.0	24.9
India FII (US$ mn)	**11 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(18.8)	(85.7)	(584.0)	(4,677.6)
FII-E	140.7	3,419.6	5,397.8	35,373.6

Source: Bank of Baroda Economics Research

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India Economics: Wholesale Inflation

WPI accelerated to 2% in Jan'21 from 1.2% in Dec'20 led by manufactured inflation at 5.1% (4.2% in Dec'20). Metals, textiles and rubber rose the most. With oil prices continuing to inch up, even fuel and power index declined at a slower pace of -4.8% (-8.7% in Dec'20). However, food inflation contracted by 0.3% in Jan'21 led by decline seen in vegetable, cereal and protein items. The rising input prices will see a pass through in retail inflation implying a much sharper inflationary rebound when food inflation turns.

Click here for the full report.

Mayur Uniquoters

Mayur Uniquoters' (MUNI) Q3FY21 standalone revenue swelled 31% YoY to a record Rs 1.6bn. Operating margins expanded 715bps YoY to 27.2% backed by higher gross margins and lower expenditure, aiding above-estimated EBITDA/PBT growth of 78%/87%. Auto segment demand has revived in Q3 and management expects similar trends in Q4. We raise FY21-FY23 EBITDA by 13-30% due to the swift revival in user segments, reset our target P/E to 20x (vs. 15x), and move from ADD to BUY. On rollover, our Mar'22 TP rises to Rs 495 (vs. Rs 300).

Click here for the full report.

ONGC

ONGC's Q3FY21 EBITDA at Rs 65bn (–47% YoY) underperformed estimates owing to higher operating costs. Q3 highlights: (a) oil/gas production continued to decline (–3.3%/–5.9% YoY), (b) operating costs rose to US$ 9.5/bbl, and (c) oil and gas realisations were in line at US$ 43.9/bbl and US$ 1.8/mmbtu respectively. The recent spike in oil price offers much respite, leading us to raise FY21/FY22/ FY23 earnings by 36%/48%/26% as we hike oil price estimates to US$ 45/55/60 (per barrel). Post rollover, our Mar'22 TP changes to Rs 135 (vs. Rs 104).

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Info Edge

Info Edge (INFOE) reported a 15% YoY sales decline in Q3FY21. 99acres remained weak with 23% YoY contraction, recruitment solutions slumped 18% and other verticals also fell 8%. Deferred sales dropped 14% YoY, indicating weakness ahead. We believe that the steady sequential recovery in site traffic is not translating into revenues and expect a delayed revival in core businesses. We tweak our FY22-FY23 EPS by 3%. Reiterate SELL with a revised Mar'22 TP of Rs 2,680 (vs. Rs 2,010) due to higher Zomato valuations and rollover.

Click here for the full report.

IT Services: Q3FY21 Review

Q3FY21 sequential revenue growth and margins for the IT services sector have been robust, surpassing our already-optimistic estimates. Cloud and automation remained the key demand drivers alongside cost takeout. BFSI held steady and manufacturing saw a sector-wide pickup. Most companies are confident of double-digit growth in FY22 on the back of robust deal pipelines. Operating margins also ticked up in Q3 despite seasonal headwinds. We remain positive on TCS, HCLT & TECHM among large-caps and LTI & Coforge among mid-caps.

Click here for the full report.

WEEKLY WRAP

15 February 2021

Global yields rise, Indian yields fall

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Global yields (except India) moved higher with steady decline in Covid-19 cases and economic upturn. Oil prices rose by 5.2% and are now at highest level since Jan'20. Equity markets continue to move higher on better than estimated earnings and expectation of steady revival. Indian 10Y yield fell by 8bps with RBI signalling its discomfort over higher yields. CPI inflation print of 4.1% is also supportive. However, given the extent of general government borrowing, we do see gradual increase in yields in the medium-term.

Markets

- **Bonds:** Global 10Y yields closed higher (except India). US and UK 10Y yield rose the most at 4bps, supported by better than expected GDP data in the UK and US lawmaker's approval of US$ 1.9tn fiscal stimulus. Oil prices rose by 5.2% (US$ 62/bbl, now at highest level since Jan'20). India's 10Y yield fell by 8bps (5.99%) with RBI not comfortable with higher yields. System liquidity surplus swelled to Rs 6.2tn as on 12 Feb 2021, same as in the previous week.

- **Currency:** Global currencies closed higher. DXY fell by 0.6% (2-week low). EUR rose by 0.6% as European Commission now expects output in Euro Area to reach its pre-crisis levels, earlier than anticipated. GBP rose by 0.8% as UK's GDP rose more than expected in Q4CY20. INR appreciated by 0.2% supported by FII inflows of US$ 1.1bn.

- **Equity:** Barring Dax (flat), other global equity indices ended higher led by China and Japan. Equity markets are also buoyed by better than expected earnings. FTSE gained 1.5%. Sensex (1.6%) too ended in green led by consumer durable and real estate stocks.

- **Covid-19 tracker:** Global cases rose by 2.7mn in the week ending 14 Feb 2021 versus 3.2mn in the previous week led by dip in UK, US, Germany and France. India added 79k cases in the week versus 80k last week.

- **Upcoming key events:** This week flash PMIs for Feb'21 will be released along with minutes of US FOMC and RBA. Also, Germany's ZEW, US industrial production and retail sales data is due.

WHOLESALE INFLATION

15 February 2021

Rising commodity and oil prices push WPI higher

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WPI accelerated to 2% in Jan'21 from 1.2% in Dec'20 led by manufactured inflation at 5.1% (4.2% in Dec'20). Metals, textiles and rubber rose the most. With oil prices continuing to inch up, even fuel and power index declined at a slower pace of -4.8% (-8.7% in Dec'20). However, food inflation contracted by 0.3% in Jan'21 led by decline seen in vegetable, cereal and protein items. The rising input prices will see a pass through in retail inflation implying a much sharper inflationary rebound when food inflation turns.

Food inflation contracts: Food inflation fell to a 26-month low of (-) 0.3% in Jan'21 from 0.9% in Dec'20. This was led by sharp contraction of 20.8% in vegetable prices in Jan'21 from 13.2% in Dec'20. Within vegetables, potato prices fell by 22% in Jan'21 compared with an increase of 37.7% in Dec'20. Tomato prices also declined by 12.2% in Jan'21 (increase of 40.2% in Dec'20) led by surplus availability. Cereal prices declined further by 7.3% in Jan'21 driven by contraction in wheat prices (11.6% in Jan'21 from 11.1% in Dec'20). Pulses inflation moderated to 7.9% in Jan'21 from 9.7% in Dec'20. Prices of eggs, meat and fish edged lower at (-) 1.8% in Jan'21 (increase of 1.4% in Dec'20).

Fuel and power deflation eases further: Fuel and power index fell by 4.8% in Jan'21 versus 8.7% decline seen in Dec'20. Mineral oil index registered contraction of 8.7% versus decline of 11.2% seen in Dec'20 led by broad based increase apart from furnace oil. Prices of Bitumen, Kerosene, Naphtha and LPG rose the most. Electricity prices too fell by only 0.4% following 10.7% dip in Dec'20. With international oil prices up by 8.6% in Feb'21 (YoY) versus 13.1% decline in Jan'21, we expect sharp pick up in fuel and power inflation going forward.

Core inflation firms up: Core inflation rose to 5.1% in Jan'21 (highest since Oct'18) from 4.2% in Dec'20. Manufactured products inflation also rose to 5.1% (highest in the 2011-12 series) from 4.2% in Dec'20. Of the 22 commodities, prices of 13 commodities rose, with basic metals, textiles, rubber items and fabricated metal products taking the lead. Further, with improvement in global demand and drop in Covid-19 cases, international commodity prices were up by 13.4% in Jan'21 on YoY basis versus an increase of 10.5% seen in Dec'20. We expect manufactured products inflation to remain elevated in the coming months.

BUY
TP: Rs 495 | ⮝ 23%

MAYUR UNIQUOTERS | Textiles | 15 February 2021

All-round beat – upgrade to BUY

Mayur Uniquoters' (MUNI) Q3FY21 standalone revenue swelled 31% YoY to a record Rs 1.6bn. Operating margins expanded 715bps YoY to 27.2% backed by higher gross margins and lower expenditure, aiding above-estimated EBITDA/PBT growth of 78%/87%. Auto segment demand has revived in Q3 and management expects similar trends in Q4. We raise FY21-FY23 EBITDA by 13-30% due to the swift revival in user segments, reset our target P/E to 20x (vs. 15x), and move from ADD to BUY. On rollover, our Mar'22 TP rises to Rs 495 (vs. Rs 300).

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Strong revenue growth: MUNI reported its best-ever standalone quarterly sales of Rs 1.6bn (+31% YoY), with volumes up 28% YoY. Per management, demand from the automotive segment has been improving from September. Footwear sales have also started to ramp up from November, growing 23% YoY in Q3. The company expects to begin supply to Mercedes-South Africa and also to Volkswagen India from Q1FY22. Its PU plant has begun to scale up and the company is targeting Rs 1bn revenues over the next few years.

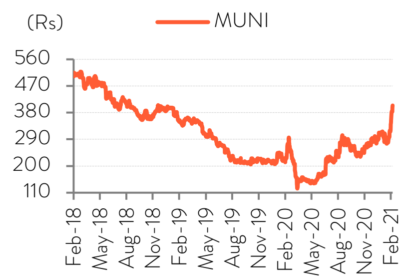
Operating margins surge: MUNI reported 715bps YoY expansion in standalone EBITDA margins to 27.2% due to higher gross margins (+360bps) and lower other expense (–245bps) and employee cost (–110bps), resulting in EBITDA growth of 78% YoY. Gross margin expansion stemmed from a better product mix and lower raw material cost while other expenses declined as a percentage of sales due to operating leverage. Per management, recent price hikes across segments should offset higher input prices and thus protect margins.

Upgrade to BUY: We increase our FY21-FY23 PAT by 21-47% due to the faster recovery in end-user verticals than expected. In light of the improving demand outlook, we also raise our target P/E to 20x (from 15x), in line with the five-year average. Upgrade to BUY from ADD with a revised TP of Rs 495.

Ticker/Price	MUNI IN/Rs 404
Market cap	US$ 247.7mn
Shares o/s	45mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 439/Rs 119
Promoter/FPI/DII	61%/5%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,913	5,280	4,866	6,124	7,031
EBITDA (Rs mn)	1,292	1,039	1,057	1,345	1,554
Adj. net profit (Rs mn)	731	655	763	956	1,107
Adj. EPS (Rs)	16.1	14.4	17.1	21.5	24.8
Adj. EPS growth (%)	(19.2)	(10.5)	18.6	25.3	15.8
Adj. ROAE (%)	15.1	12.0	13.0	15.1	15.7
Adj. P/E (x)	25.0	28.0	23.6	18.8	16.2
EV/EBITDA (x)	12.7	15.6	15.2	11.9	10.1

Source: Company, BOBCAPS Research

BUY
TP: Rs 135 | ⮝ 39%

ONGC | Oil & Gas | 15 February 2021

Q3 weak; rising oil prices offer respite

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ONGC's Q3FY21 EBITDA at Rs 65bn (–47% YoY) underperformed estimates owing to higher operating costs. Q3 highlights: (a) oil/gas production continued to decline (–3.3%/–5.9% YoY), (b) operating costs rose to US$ 9.5/bbl, and (c) oil and gas realisations were in line at US$ 43.9/bbl and US$ 1.8/mmbtu respectively. The recent spike in oil price offers much respite, leading us to raise FY21/FY22/FY23 earnings by 36%/48%/26% as we hike oil price estimates to US$ 45/55/60 (per barrel). Post rollover, our Mar'22 TP changes to Rs 135 (vs. Rs 104).

Higher oil prices to improve cash flows: The rise in oil price to ~US$ 63/bbl offers much-needed respite for ONGC, improving its cash flows and alleviating cost headwinds. Domestic gas price increases should follow with a lag in FY22 (revisions due in Apr'21 and Oct'21). OVL's earnings could also get a boost as investments escalate for development of the Mozambique project (first gas expected by FY24). Cash flows for domestic gas projects (KG basin, among others) would improve as these fields can attract a higher gas price.

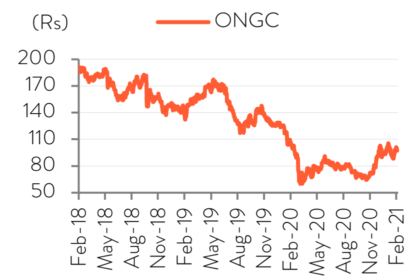
Production remains a drag: Oil and gas production continued to decline as fields remained affected by delays in workover operations and slow recovery in domestic gas demand (mostly from the CNG segment). Per management, production appears to have returned to pre-Covid levels in Q4FY21. Incremental gas production from new fields such as KG-98/2 remains in question as the pandemic has delayed development plans. Management will provide revised guidance on production ramp-up over the next few weeks.

Valuations trailing oil prices: ONGC's CMP implies oil at US$ 45/bbl, trailing the sudden, sharp rise in prices. Given our higher long-term oil price estimate of US$ 60/bbl, improving cash flows and hence a decline in leverage, we see a strong probability of either increased dividends or buybacks.

Ticker/Price	ONGC IN/Rs 97
Market cap	US$ 16.8bn
Shares o/s	12,580mn
3M ADV	US$ 44.5mn
52wk high/low	Rs 108/Rs 50
Promoter/FPI/DII	60%/8%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	4,534,606	4,250,014	3,037,860	3,726,907	4,630,347
EBITDA (Rs mn)	838,648	611,687	571,948	628,743	720,384
Adj. net profit (Rs mn)	348,309	168,256	193,888	241,011	282,032
Adj. EPS (Rs)	27.7	13.4	15.4	19.2	22.4
Adj. EPS growth (%)	51.6	(51.7)	15.2	24.3	17.0
Adj. ROAE (%)	16.4	7.9	9.0	10.3	11.1
Adj. P/E (x)	3.5	7.3	6.3	5.1	4.3
EV/EBITDA (x)	2.4	3.6	3.9	3.5	3.1

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 2,680 | ⋎ 51%

INFO EDGE | IT Services | 15 February 2021

Core businesses fail to revive

Info Edge (INFOE) reported a 15% YoY sales decline in Q3FY21. 99acres remained weak with 23% YoY contraction, recruitment solutions slumped 18% and other verticals also fell 8%. Deferred sales dropped 14% YoY, indicating weakness ahead. We believe that the steady sequential recovery in site traffic is not translating into revenues and expect a delayed revival in core businesses. We tweak our FY22-FY23 EPS by 3%. Reiterate SELL with a revised Mar'22 TP of Rs 2,680 (vs. Rs 2,010) due to higher Zomato valuations and rollover.

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YoY contraction continues: INFOE's Q3 revenue fell 15% YoY and billings declined 1%, coming in below our expectations. Revenue from recruitment solutions/99acres/other verticals fell 18%/23%/8% YoY. Weakness in recruitment was due to a drop in hiring activity. Billings at Naukri and 99acres contracted by 4% and 3% YoY respectively. IIMJobs – one of the investee companies – however registered 17% growth in Q3 billings. INFOE's EBITDA margin stood at 25%, down 800bps YoY but above our estimate of 20%. Employee and advertisement-promotion costs have reduced QoQ. EBIT margin stood at 21%, down 880bps YoY. PAT declined 21% YoY.

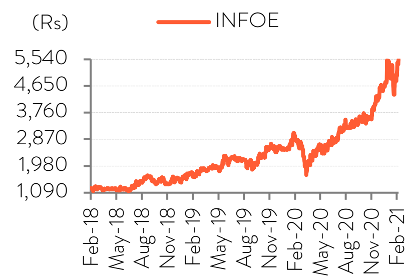
Real estate still under pressure: Sales at 99acres declined 23% YoY. The number of paid listings was also down 21% YoY, faring worse than the 12% decline seen in Q2FY21. Broker and rental listings have been slow to revive but owner listings have surged 20-30% YoY, indicating a demand-supply gap.

4B acquisition bodes well: INFOE has acquired 4B Networks Private Limited by investing Rs 90mn towards 1,747 of 4B's convertible preference shares. 4B is engaged in the business of enabling real estate developers and brokers to communicate with each other. This acquisition bodes well for INFOE's core real estate business.

Ticker/Price	INFOE IN/Rs 5,521
Market cap	US$ 9.8bn
Shares o/s	129mn
3M ADV	US$ 51.9mn
52wk high/low	Rs 5,880/Rs 1,581
Promoter/FPI/DII	40%/36%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,982	12,727	12,486	14,186	16,509
EBITDA (Rs mn)	3,414	4,027	3,817	4,281	5,221
Adj. net profit (Rs mn)	3,152	3,290	3,525	4,236	4,960
Adj. EPS (Rs)	24.4	25.5	27.3	32.8	38.5
Adj. EPS growth (%)	15.2	4.4	7.1	20.2	17.1
Adj. ROAE (%)	14.2	13.7	10.0	8.9	9.7
Adj. P/E (x)	225.9	216.5	202.0	168.1	143.6
EV/EBITDA (x)	208.4	176.6	186.1	163.2	131.4

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

IT SERVICES | Q3FY21 Review | 15 February 2021

Indian IT shows sustained growth resurgence

Q3FY21 sequential revenue growth and margins for the IT services sector have been robust, surpassing our already-optimistic estimates. Cloud and automation remained the key demand drivers alongside cost takeout. BFSI held steady and manufacturing saw a sector-wide pickup. Most companies are confident of double-digit growth in FY22 on the back of robust deal pipelines. Operating margins also ticked up in Q3 despite seasonal headwinds. We remain positive on TCS, HCLT & TECHM among large-caps and LTI & Coforge among mid-caps.

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Gainers and losers: In the wake of Covid-19, enterprises are increasingly focused on cost efficiency and vendor consolidation. The scales have shifted in favour of larger players and those with robust digital capabilities. Cognizant, Capgemini and DXC are some of the global IT majors that have lost market share to their Indian counterparts. TCS, Infosys (INFO) and HCL Tech (HCLT) have emerged as the top gainers among large-caps.

Coforge has gained considerable market share in the travel technology space. HCLT with its large five-year Airbus deal is also emerging as a key player in the travel space. L&T Infotech (LTI) has been able to maintain its edge in competing with bigger rivals, bagging large contracts in the ~US$ 50mn-200mn range. Tech Mahindra (TECHM) has also started gaining traction in the communications space with its US$ 455mn TCV during Q3FY21.

Strong margin expansion: EBIT margin expanded 85bps QoQ on average for our IT services universe in Q3 despite headwinds of salary hikes, rupee appreciation, seasonality and higher costs, to name a few. Apart from INFO and Coforge, all our coverage companies had QoQ margin gains. Mindtree (MTCL) and LTI reported record-high margins. Much of the expansion can be attributed to good growth, high utilisation, lower travel & marketing costs, and higher offshoring. Offshoring, lower facilities cost (as companies adopt hybrid work model for long term) and growth will continue to be margin tailwinds in near future.

Bright growth outlook: HCLT and INFO have upgraded their guidance. Coforge expects FY21 growth to be at least 6% CC and LTI foresees strong traction in Q4FY21. TECHM's management expects large deal wins to accelerate in coming quarters and has one of its best deal pipelines yet. HCLT is confident of a further upswing in bookings. Reiterate BUY on TCS, HCLT & TECHM among large-caps and LTI & Coforge among mid-caps.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	3,190	3,710	BUY
INFO IN	1,310	1,500	ADD
WPRO IN	442	350	SELL
HCLT IN	960	1,150	BUY
TECHM IN	991	1,130	BUY
LTI IN	4,040	4,740	BUY
MPHL IN	1,646	1,550	REDUCE
MTCL IN	1,724	1,850	ADD
PSYS IN	1,795	1,260	SELL
COFORGE IN	2,612	2,800	BUY
ECLX IN	965	950	REDUCE

Price & Target in Rupees

Disclaimer

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)

Rating distribution

As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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