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FIRST LIGHT

15 July 2021

RESEARCH

[Sector Report] Internet

Looking beyond the dream rally - prefer AFFLE

Infosys | Target: Rs 1,860 | +18% | BUY

Strong start to FY22 fortifies growth leadership; upgrade to BUY

BOB Economics Research | WPI

Peak is behind

SUMMARY

Internet

- Rapid increase in India's smartphone and internet penetration shaping new business opportunities backed by structural growth narrative
- Pandemic-led growth inflection captured by 50%+ rerating in Indian internet stocks since Apr'20. Similar large returns unlikely in near-to-mid term
- Initiate with BUY on top pick AFFLE (TP Rs 6,240), HOLD on INMART (TP Rs 7,170) and SELL on JUST (TP Rs 920)

Click here **for the full report.**

Infosys

- INFO's Q1FY22 revenue growth of 4.8% CC QoQ outperformed our estimate of 3.8% CC and street expectations of 3.8% USD
- Decade-high first quarter QoQ growth indicates secular strong demand. FY22 margin guidance of 22-24% looks robust given supply pressures
- We revise FY22/FY23 EPS -4%/+3%, raise target P/E to 29.6x (at par with TCS) and roll to a Jun'22 TP of Rs 1,860 (vs. Rs 1,540). Upgrade to BUY

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.42	5bps	(4bps)	79bps
India 10Y yield (%)	6.20	(2bps)	20bps	38bps
USD/INR	74.50	0.1	(1.9)	1.2
Brent Crude (US$/bbl)	76.49	1.8	5.2	78.3
Dow	34,889	(0.3)	1.2	31.0
Shanghai	3,567	0.5	(0.6)	4.4
Sensex	52,770	0.8	0.6	46.4
India FII (US$ mn)	**12-Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	(68.6)	(72.9)	(3,239.7)	(1,212.5)
FII-E	(65.9)	(350.3)	7,733.8	407.5

Source: Bank of Baroda Economics Research

BOBCAPS Research
researchreport@bobcaps.in

India Economics: WPI

- WPI inflation moderated to 12.1% in Jun'21 from 12.9% in May'21, led by lower food (6.7% in Jun'21 from 8.1% in May'21) and fuel inflation (32.8% in Jun'21 from 37.6% in May'21). On the other hand, manufactured product index rose from 10.8% in May'21 to 10.9% in Jun'21. A higher base along with steady to declining international oil and commodity prices imply WPI inflation has peaked and is likely to edge lower in the coming months. A below normal monsoon and higher oil prices remain risks to our view.

Click here for the full report.

14 July 2021

Looking beyond the dream rally

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- **Initiate with BUY on top pick AFFLE (TP Rs 6,240), HOLD on INMART (TP Rs 7,170) and SELL on JUST (TP Rs 920)**

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

Increased digitisation shaping new opportunities: India's internet economy is booming aided by a surge in smartphone penetration and declining internet costs. India's internet penetration reached 56% in Jan'21 and the country's internet economy is expected to grow from US$ 250bn in 2020 to US$ 335bn in 2025, per TRAI and IBEF respectively. In this report, we evaluate select listed companies that represent a play on the growing digitisation trends, namely Affle India (AFFLE), IndiaMart (INMART) and Just Dial (JUST).

Pandemic-led inflection priced in; fundamentals to govern incremental returns: India's listed internet stocks have rerated 50%+ on average since Apr'20, rallying in the range of 75-240% (110% rise in combined market cap), thus pricing in the pandemic-led inflection in digital adoption and internet penetration. We see little scope for similar large incremental returns in the near-to-medium term and believe stock performance ahead will hinge on business fundamentals, viz. revenue growth recovery, operating margin resilience and earnings growth.

INMART – peak FY21 margin to normalise: While we like INMART for its leadership in online B2B classifieds, strong networking effect and solid financials, growth recovery looks elusive given the challenges faced by its client base. Further, the normalisation of its operating margin as pandemic cost savings retract is likely to weaken EPS growth (15% FY21-FY24E CAGR). Initiate with HOLD and a Jun'22 TP of Rs 7,170.

AFFLE – unique play on digital advertising: AFFLE has gained from the Covid-led digital boom and growth momentum should sustain given a robust portfolio (90% of revenue from digital, Covid-resilient verticals including ecommerce, edtech, fintech, foodtech, healthtech) and marquee clientele (Amazon, Flipkart, Zomato). We forecast a 32% EPS CAGR over FY21-FY24 and initiate with BUY for a Jun'22 TP of Rs 6,240.

JUST – JD Mart holds promise but needs investments to gain scale: In our view, JUST's strategic expansion of its B2B offering via JD Mart carries growth potential but will require heavy investments to scale up. Moreover, financial distress of buyers and suppliers (due to the second Covid wave) signals slow demand recovery. We forecast flat earnings over FY21-FY24 – initiate with SELL and a Jun'22 TP of Rs 920.

Recommendation snapshot

Ticker	Price	Target	Rating
INMART IN	7,227	7,170	HOLD
AFFLE IN	4,431	6,240	BUY
JUST IN	1,068	920	SELL

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

BOBCAPS
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BUY
TP: Rs 1,860 | ▲ 18%

INFOSYS | IT Services | 14 July 2021

Strong start to FY22 fortifies growth leadership; upgrade to BUY

- **INFO's Q1FY22 revenue growth of 4.8% CC QoQ outperformed our estimate of 3.8% CC and street expectations of 3.8% USD**
- **Decade-high first quarter QoQ growth indicates secular strong demand. FY22 margin guidance of 22-24% looks robust given supply pressures**
- **We revise FY22/FY23 EPS -4%/+3%, raise target P/E to 29.6x (at par with TCS) and roll to a Jun'22 TP of Rs 1,860 (vs. Rs 1,540). Upgrade to BUY**

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

Revenue growth surprises: INFO grew 4.7% USD/4.8% CC QoQ in Q1FY22, ahead of our estimates of 4% USD/3.8% CC and marking the best Q1 uptick in the last decade. Growth was broad-based across verticals, geographies and services. Hi-tech and communications led with 7.3%/6.4% QoQ USD growth. Covid-affected verticals of manufacturing/retail/ENU saw robust recovery, rising 5.8%/6.1%/3%. Manufacturing continued to pick up with Q1 being the third quarter of 5%+ QoQ USD growth.

Geography-wise, North America was in the lead, growing 4.8% QoQ. Digital business increased 9.6% QoQ. EBIT margin at 23.7% (est. 22.5%) fell 80bps QoQ owing to compensation hikes. Subcontracting expenses shot up to 8.8% of revenue (from 7.5% in Q4FY21) as demand increased. Travel expenses were stable QoQ.

Healthy deal wins: Deal win TCV at US$ 2.6bn increased 24% QoQ and 49% YoY. INFO bagged 22 large contracts in Q1: (1) 9 in BFSI, (2) 4 each in retail and energy & utilities, (3) 2 in manufacturing, and (4) 1 each in hi-tech, communication and life sciences. Geography-wise, 14 large deals came from North America, 5 from Europe, 2 from RoW and 1 from India. Net new deals made up 30% of TCV vs. 67% in FY21.

Guidance raised: Backed by the head start in Q1FY22, INFO raised FY22 revenue growth guidance from 12-14% to 14-16%, signaling a broad-based demand pick-up and its ability to gain market share. EBIT margin guidance stays at 22-24%.

Supply pressure remains a concern: Management expects attrition to stay elevated for the next couple of quarters due to the shortage of digital talent. INFO will also be giving another round of wage hikes in Q2FY22 (post one cycle in Q4FY21). Amid the sharp rise in demand for digital talent, the company aims to hire 35,000 freshers globally in FY22 (vs. 25,000 earlier). It added ~8,300 employees (net) in Q1. As expected, attrition shot up to 13.9% (vs. 10.9% in Q4FY21), indicating supply pressure.

Upgrade to BUY: The Q1FY22 revenue beat represents a strong start to the year and will fortify INFO's growth leadership amongst large Indian IT services players. We upgrade our rating from ADD to BUY with a revised Jun'22 TP of Rs 1,860.

Key changes

Target	Rating
▲	▲

Ticker/Price	INFO IN/Rs 1,577
Market cap	US$ 90.0bn
Free float	3,319%
3M ADV	US$ 122.0mn
52wk high/low	Rs 1,591/Rs 795
Promoter/FPI/DII	13%/33%/54%

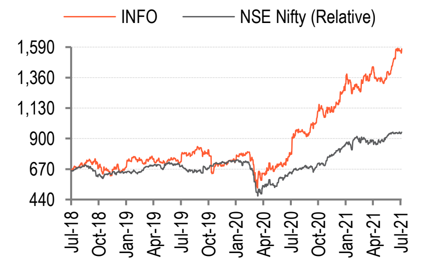
Source: NSE | Price as of 14 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	1,004,730	1,199,373	1,387,005
EBITDA (Rs mn)	279,350	313,806	364,265
Adj. net profit (Rs mn)	193,990	227,918	257,274
Adj. EPS (Rs)	45.5	54.1	61.1
Consensus EPS (Rs)	45.5	52.8	59.5
Adj. ROAE (%)	27.2	29.7	31.5
Adj. P/E (x)	34.6	29.1	25.8
EV/EBITDA (x)	23.4	20.7	18.0
Adj. EPS growth (%)	16.7	19.0	12.9

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

Stock performance



Source: NSE

WHOLESALE INFLATION

14 July 2021

Peak is behind

Sameer Narang | Jahnavi
Sonal Badhan
chief.economist@bankofbaroda.com

WPI inflation moderated to 12.1% in Jun'21 from 12.9% in May'21, led by lower food (6.7% in Jun'21 from 8.1% in May'21) and fuel inflation (32.8% in Jun'21 from 37.6% in May'21). On the other hand, manufactured product index rose from 10.8% in May'21 to 10.9% in Jun'21. A higher base along with steady to declining international oil and commodity prices imply WPI inflation has peaked and is likely to edge lower in the coming months. A below normal monsoon and higher oil prices remain risks to our view.

Food inflation eases: Food inflation moderated to a 3-month low of 6.7% in Jun'21 from 8.1% in May'21 led by drop in fruits and vegetables inflation to 2% in Jun'21 from 4.4% in May'21 and eggs to 29.7% in Jun'21 from 37.4% in May'21. Price increase in fruits dropped to a 5-month low of 5.6% in Jun'21 from 20.2% in May'21. Cereal prices declined by 2.7% in Jun'21 led by paddy (deflation of 2.4% in Jun'21). Pulses continue to see elevated increase at 11.5% in Jun'21. Prices of protein-based items such as egg, milk and fish too dropped to 8.6% in Jun'21 (10.7% in May'21). However, vegetable prices contracted at much slower pace of 0.8% in Jun'21 (-9% in May'21) driven by spike in onion prices (64.3% in Jun'21). A lower than normal monsoon and drop in sowing as of now is a key upside risk to food inflation.

Fuel and power inflation moderates: Fuel and power inflation eased to 32.8% in Jun'21 from 37.6% in May'21. Base effect played a role in this. Mineral oil index cooled off from 81.2% in May'21 to 61.8% in Jun'21. This is in line with trend in international oil prices. After reporting an increase of 111% in May'21, oil prices were up by 80% in Jun'21. The dip in mineral oils inflation was led by ATF (84% in Jun'21 versus 234% in May'21), Naphtha (87% versus 241%), Furnace oil (71% versus 141%), and LPG (31% versus 61%). Electricity index saw a 10% increase versus 5.8% in May'21. We expect fuel inflation to come down in the coming months on the back of base effect and steady international oil prices.

Core inflation hardens, but will soften: Core inflation rose to 10.4% in Jun'21 from 10% in May'21. Manufactured products inflation also picked up to 10.9% from 10.8% in May'21. Of the 22 commodity indices, as many as 14 indices rose at a faster pace in Jun'21 than May'21 led by furniture, textiles and basic metals. Notably, international commodity prices have fallen by 0.6% in Jul'21 over Jun'21 compared with 1.4% increase seen in Jun'21 over May'21. A higher base will also cool down the pace of core inflation. Manufactured products inflation averaged 0.6% in H1FY21 as against 4.9% in H2FY21.

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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

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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