FIRST LIGHT

01 February 2022

RESEARCH

Dr Reddy's Labs | Target: Rs 4,700 | +11% | HOLD

Stable quarter, US price erosion continues; cut to HOLD

Century Plyboards | Target: Rs 735 | +25% | BUY

Strong quarter but margin disappoints; raise to BUY post correction

BOB Economics Research | Economic Survey

Economic Survey advocates "Agile" approach

Info Edge | Target: Rs 6,780 | +38% | BUY

Impressive growth led by recruitment business

Sun Pharma | Target: Rs 1,045 | +25% | BUY

Broad based growth; steady margins

Daily macro indicators

Indicator	28-Jan	27-Jan	Chg (%)
US 10Y yield (%)	1.77	1.8	(3)
India 10Y yield (%)	6.75	6.75	1
USD/INR	75.04	75.07	0.0
Brent Crude (US$/bbl)	90	89.3	0.8
Dow	34,725	34,161	1.7
Hang Seng	23,550	23,807	(1.1)
Sensex	57,200	57,277	(0.1)
India FII (US$ mn)	**27-Jan**	**25-Jan**	**Chg ($ mn)**
FII-D	0.2	(8.5)	8.7
FII-E	(734.4)	(931.2)	196.8

Source: Bank of Baroda Economics Research

SUMMARY

Dr Reddy's Labs

- Growth in Q3 driven by product launches and higher volumes, partly offset by US price erosion
- Prudent cost management and better product-mix helped to limit reduction in EBITDA margin by 60bps to 22.6% despite headwinds
- We pare FY23/FY24 EBITDA by 4-10% and roll forward to a new TP of Rs 4,700 (vs. Rs 5,500). Downgrade from BUY to HOLD

Click here for the full report.

Century Plyboards

- Q3 revenue/PAT came in at Rs 8.5bn/Rs 0.9bn led by robust price realisations across segments (except plywood)
- EBITDA grew 25% YoY to Rs 1.5bn but margin declined 75bps to 17.9% due to a 230bps increase in RM cost
- We maintain our TP of Rs 735 and upgrade from HOLD to BUY purely on the back of the recent ~17% correction

Click here for the full report.

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India Economics: Economic Survey

This year's Economic Survey has painted a positive picture of growth, supported by central Government's "Barbell strategy and Agile response". Also, given higher revenue collections, there is fiscal space to further improve capex in FY23. Notably, India will need to spend US$ 1.4tn by 2025 in order to become a US$ 5tn economy. Private investment will also have to be crowded in, aided by supply and process reforms. GDP growth estimated at 8-8.5% is higher than our projection of 7.5%.

Click here for the full report.

Info Edge

- Q3 revenue growth of 14.7% QoQ and 48% YoY was INFOE's highest in over a decade, led by its recruitment business
- EBIT margin at 25.4% stood below consensus due to increased other expenses and A&P cost
- We tweak EPS estimates and adjust Zomato and PolicyBazaar valuations, leading to a new TP of Rs 6,780 (vs. Rs 7,700); retain BUY

Click here for the full report.

Sun Pharma

- Strong Q3 with YoY growth across geographies; flat sequential growth in domestic/ROW markets due to lower Covid portfolio contribution
- Margins steady; US price erosion mitigated by new launches and better supply chain management
- We raise FY22-FY24 EBITDA by 4% each and roll forward to a new TP of Rs 1,045 (vs. Rs 955); maintain BUY

Click here for the full report.

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HOLD
TP: Rs 4,700 | ⮝ 11%

DR REDDY'S LABS | Pharmaceuticals | 31 January 2022

Stable quarter, US price erosion continues; cut to HOLD

- **Growth in Q3 driven by product launches and higher volumes, partly offset by US price erosion**
- **Prudent cost management and better product-mix helped to limit reduction in EBITDA margin by 60bps to 22.6% despite headwinds**
- **We pare FY23/FY24 EBITDA by 4-10% and roll forward to a new TP of Rs 4,700 (vs. Rs 5,500). Downgrade from BUY to HOLD**

Surajit Pal | Saad Shaikh
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US price erosion continues: DRRD reported revenue/adj. PAT growth of 8%/15% YoY in Q3FY22, 3%/5% below consensus estimates. US revenue dipped 2% QoQ (in CC) to US$ 248mn due to double-digit price erosion, partially offset by Rx share gains in key drugs such as gVascepa, gCiprodex and gSuboxone as well as four launches. gVascepa garnered 11-12% Rx prescription share for DRRD while gRevlimid in Canada is yet to reach its full potential. Management guided further headroom in growth for both the limited competition generics. The company submitted additional data to the USFDA on gCopaxone and is awaiting a response. We expect no US launch of gCopaxone and gNuvaring in H1FY23 launch date.

Lower Covid contribution slows India growth: Domestic sales declined by 10% QoQ as DRRD's Covid-19 portfolio unperformed the market, growing at a modest 7% YoY. Core portfolio volumes declined as well but derived some benefits from price increases and new brand launches.

Modest EM performance but outlook muted: Revenue grew 5% YoY in Russia on the back of price hikes for existing products, new product launches and a favorable forex rate. Revenue traction also revived in RoW markets (+20% YoY) due to launches and higher base business volumes. Management expects geopolitical turmoil between Russia and Ukraine (two largest markets in CIS) may have a negative impact on DRRD's business from Q4FY22E.

Downgrade to HOLD; TP cut to Rs 4,700: Given modest India growth, a slowing Covid portfolio with a vanishing Sputnik opportunity, potential risk in the CIS-Russia region as well as regulatory uncertainty, we cut our EV/EBITDA multiple to 12.5x (21x implied P/E) from 14x. We also reduce our FY23E/FY24E EBITDA estimates by 4-10%. On rolling valuations over to FY24E, we have a revised TP of Rs 4,700 (from Rs 5,500) and downgrade the stock from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	DRRD IN/Rs 4,219
Market cap	US$ 9.3bn
Free float	73%
3M ADV	US$ 25.4mn
52wk high/low	Rs 5,615/Rs 4,135
Promoter/FPI/DII	27%/29%/16%

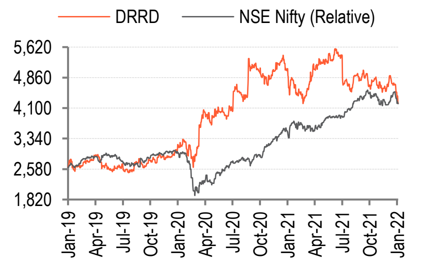
Source: NSE | Price as of 28 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,89,722	2,14,352	2,49,847
EBITDA (Rs mn)	46,052	48,860	58,781
Adj. net profit (Rs mn)	26,716	28,712	35,161
Adj. EPS (Rs)	160.9	173.0	211.8
Consensus EPS (Rs)	160.9	175.2	217.4
Adj. ROAE (%)	17.4	16.2	17.2
Adj. P/E (x)	26.2	24.4	19.9
EV/EBITDA (x)	15.3	14.3	11.8
Adj. EPS growth (%)	(17.4)	7.5	22.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 735 | ⮝ 25%

CENTURY PLYBOARDS | Construction Materials | 31 January 2022

Strong quarter but margin disappoints; raise to BUY post correction

- **Q3 revenue/PAT came in at Rs 8.5bn/Rs 0.9bn led by robust price realisations across segments (except plywood)**
- **EBITDA grew 25% YoY to Rs 1.5bn but margin declined 75bps to 17.9% due to a 230bps increase in RM cost**
- **We maintain our TP of Rs 735 and upgrade from HOLD to BUY purely on the back of the recent ~17% correction**

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Strong growth aided by higher realisations: CPBI reported standalone Q3FY22 revenue growth of 30% YoY to Rs 8.5bn, with plywood/MDF/laminates up 23%/25%/54% despite Q3 typically being a weak quarter due to the festive and marriage season. Volumes in the plywood/MDF/laminate segments grew 15%/7%/ 7% YoY. Realisations increased 33% YoY in MDF and 17% in laminates whereas plywood saw a 6% decline. CPBI took price hikes across segments in the second half of Q3, the benefits of which will be visible in Q4.

MDF continues to perform well: MDF EBITDA margin expanded 280bps YoY to 30.5% backed by higher capacity utilisation and price hike benefits. Management expects stronger demand traction in the MDF segment going ahead due to (a) higher acceptance of the product in the domestic market and (b) lower imports owing to improved demand in respective geographies and higher shipping costs. As per management, work on MDF expansion at the existing Hoshiarpur unit is in full swing and commissioning is likely by Q2FY23. The MDF project in Andhra Pradesh is set to come online in H2FY24 with a capacity of 950cbm/day at a capex of Rs 6bn.

Well-placed to benefit from demand revival: We expect CPBI's growth momentum to sustain over the near-to-medium term with (a) estimated double-digit growth in plywood and laminates given a pickup in the housing sector alongside a gradual shift from unorganised to organised players, and (b) double-digit growth and better margins in MDF/particle board amid buoyancy in demand for readymade furniture and exports. Overall, we believe EBITDA margin will improve backed by higher MDF contribution, a superior product mix, operating leverage and cost rationalisation.

Valuations reasonable; BUY: Following the recent 17% share price correction, CPBI is trading at a P/E of 28x on FY24E compared to its five-year median of 31.4x. We find valuations reasonable given its strong growth prospects, impressive return ratios and healthy balance sheet. We thus upgrade the stock to BUY from HOLD while retaining our TP at Rs 735, set at an unchanged 35x FY24E P/E multiple.

Key changes

Target	Rating
◄ ►	▲

Ticker/Price	CPBI IN/Rs 589
Market cap	US$ 1.8bn
Free float	27%
3M ADV	US$ 2.4mn
52wk high/low	Rs 713/Rs 255
Promoter/FPI/DII	73%/5%/21%

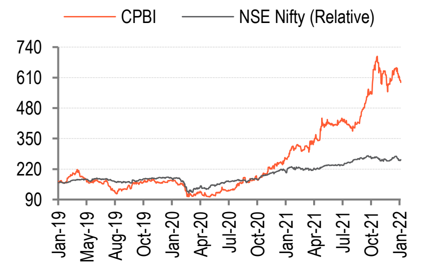
Source: NSE | Price as of 31 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	21,304	26,809	32,627
EBITDA (Rs mn)	3,355	4,992	6,003
Adj. net profit (Rs mn)	1,996	3,035	3,725
Adj. EPS (Rs)	9.0	13.7	16.8
Consensus EPS (Rs)	9.0	12.5	15.7
Adj. ROAE (%)	16.9	21.6	21.6
Adj. P/E (x)	65.6	43.1	35.2
EV/EBITDA (x)	40.2	26.4	21.9
Adj. EPS growth (%)	26.4	52.1	22.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

ECONOMIC SURVEY

31 January 2022

Economic Survey advocates "Agile" approach

Sonal Badhan
Economist

Aditi Gupta
Economist

This year's Economic Survey has painted a positive picture of growth, supported by central Government's "Barbell strategy and Agile response". Also, given higher revenue collections, there is fiscal space to further improve capex in FY23. Notably, India will need to spend US$ 1.4tn by 2025 in order to become a US$ 5tn economy. Private investment will also have to be crowded in, aided by supply and process reforms. GDP growth estimated at 8-8.5% is higher than our projection of 7.5%

Key themes: The latest Economic Survey builds on the "Agile" approach introduced in the previous year and identifies it as the central theme this year. The availability of 80-high-frequency indicators such as e-way bills, digital payments, electricity production etc., form the backbone of this approach. The major features of this framework are: feed-back loops, real time monitoring, flexible response, safety-nets etc., This is complimented by the "Barbell" strategy that protects against unfavourable outcomes by providing safety-nets.

Supply and process reforms: In order to deal with the pandemic, apart from supporting demand, government also relied upon supply side reforms as part of its economic response. These included deregulation of sectors (space, drones, geo-spatial mapping, trade finance factoring) and process reforms (in government procurement, telecommunications sector; removal of legacy issues like retrospective tax; privatization and monetization). Introduction of PLI scheme, liberalised guidelines for OSPs, enhancement of FDI limit in defence sector, and notification of four labour codes, are other key measures identified by the Economic Survey as critical for improvement in overall growth.

GDP growth: Economic Survey pegs India's GDP growth in the range of 8-8.5% for FY23. This will be led by improvement in private investment and capital expenditure. The above estimate is based on certain assumptions including limited or no economic impact of future Covid-19 waves, normal monsoon, easing of global supply chain bottlenecks, orderly withdrawal of global liquidity and range-bound oil prices. However certain caveats apply. While global central banks have been winding down surplus liquidity in a phased and gradual manner, RBI's stance on policy normalisation has been conservative. Further, the assumption of oil prices in the range of US$ 70-75/bbl may not materialise as oil prices are likely to remain elevated at ~US$ 80-85/bbl at least in H1FY23.

BUY

TP: Rs 6,780 | ⮝ 38%

INFO EDGE | Technology & Internet | 31 January 2022

Impressive growth led by recruitment business

- **Q3 revenue growth of 14.7% QoQ and 48% YoY was INFOE's highest in over a decade, led by its recruitment business**
- **EBIT margin at 25.4% stood below consensus due to increased other expenses and A&P cost**
- **We tweak EPS estimates and adjust Zomato and PolicyBazaar valuations, leading to a new TP of Rs 6,780 (vs. Rs 7,700); retain BUY**

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Robust quarterly growth: INFOE's Q3FY22 revenue grew 14.7% QoQ and 48% YoY, outperforming street estimates. Growth was driven by a 16% /10% QoQ rise in revenue from recruitment solutions and other verticals. EBITDA margin at 27.8% was down 240bps QoQ due to higher other expense (+30bps) and A&P cost (+250bps: largely stemming from the matrimony business). INFOE recorded a non-recurring revenue item worth Rs 2.1bn from mark-to-market gains on its PB Fintech investment, which caused PAT to rise 370% YoY.

Record-high billing: Billing increased by a record 58% YoY in Q3 – led by 77% YoY growth in recruitment, followed by 16-17% growth in 99acres and other verticals. On a QoQ basis, billing was up 16% led by Naukri while 99acres declined 10%. Deferred sales grew 58% YoY (11% QoQ) driven by Naukri.

Recruitment vertical drives momentum: Billing increased 80% YoY in recruitment (including the acquired businesses of IIM Jobs, Zwayam and DoSelect). Zwayam and DoSelect are in the process of being integrated with Naukri. Realisations from Naukri have improved over the last six months due to price increases and rollback of discounts for heavy users. While the IT segment is seeing growing momentum, the other verticals are facing delayed demand traction due to the third Covid-19 wave.

Real estate remains sluggish; Shiksha surprises: INFOE's premium real estate listings on 99acres saw good adoption among brokers. The rental segment performed better than resale, new homes and commercial property. Management indicated that Q4 might be impacted due to Omicron. However, INFOE will continue to invest in real estate for the next few years. Q3 billings for education platform Shiksha grew 51% YoY which aided overall revenue growth.

Maintain BUY: Following the Q3 results, we maintain BUY with only minor changes of 1-2% in our FY23-FY24 EPS estimates as we increase revenue growth but lower margin expectations. Upon updating the latest valuations for Zomato and PolicyBazaar and rolling forward to Dec'23E valuations, we arrive at a revised SOTP-based TP of Rs 6,780 for INFOE (vs. Rs 7,700). Retain BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	INFOE IN/Rs 4,901
Market cap	US$ 8.4bn
Free float	62%
3M ADV	US$ 30.2mn
52wk high/low	Rs 7,465/Rs 4,024
Promoter/FPI/DII	38%/38%/24%

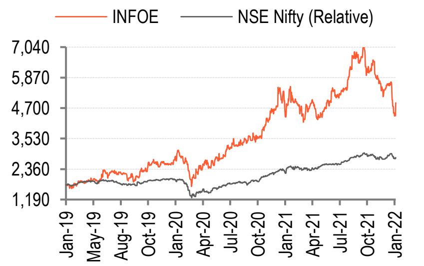
Source: NSE | Price as of 31 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,986	14,524	17,472
EBITDA (Rs mn)	2,772	4,555	5,810
Adj. net profit (Rs mn)	2,739	4,432	5,372
Adj. EPS (Rs)	21.3	34.4	41.8
Consensus EPS (Rs)	21.3	28.5	34.4
Adj. ROAE (%)	7.8	6.0	5.2
Adj. P/E (x)	230.2	142.3	117.4
EV/EBITDA (x)	226.6	137.3	102.6
Adj. EPS growth (%)	(16.7)	61.8	21.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 1,045 | 25%

SUN PHARMA | Pharmaceuticals | 01 February 2022

Broad based growth; steady margins

- **Strong Q3 with YoY growth across geographies; flat sequential growth in domestic/ROW markets due to lower Covid portfolio contribution**
- **Margins steady; US price erosion mitigated by new launches and better supply chain management**
- **We raise FY22-FY24 EBITDA by 4% each and roll forward to a new TP of Rs 1,045 (vs. Rs 955); maintain BUY**

Surajit Pal | Saad Shaikh
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Broad-based growth: SUNP reported a 12% YoY increase in Q3FY22 revenue with growth across segments. The domestic market contributed 41% to the incremental revenue and was up 15% YoY, followed by the ROW market at 12% YoY on a lower base (33% contribution to growth), while US business contributed 21% to the incremental revenue and grew 8% YoY.

Specialty business fuels US growth: US business grew at 10% QoQ to US$ 397mn underpinned by the specialty segment, albeit partly set off by price erosion. SUNP highlighted that patient flow to hospitals is still below pre-Covid levels. Cequa, Levulan, Illumya and absorica were the major contributors of growth in specialty business. Company launched Winlevi in Canada in mid-Nov and expects better traction in Winlevi in Q4 onwards.

Strong momentum continues in domestic business: SUNP's domestic business continued to grow faster than the market in Q3 at 15% YoY (flat QoQ), leading to an increase in overall market share to 8.6%. Growth was backed by improved demand for the non-Covid portfolio, better patient flow to hospitals and increased patient awareness. It witnessed negligible Covid portfolio contribution in the domestic market in Q3.

Steady margin despite rising costs: EBITDA margin for the quarter was stable YoY (-160bps QoQ) at 26.5% despite rising raw material costs and higher travelling and promotional expenses (still below pre-pandemic levels). Gross margin stood at 73.2% (-40bps YoY, -60bps QoQ).

Retain BUY; raise TP to 1,045: We marginally increase our FY22-FY24 revenue estimates by 2% each and EBITDA by 4% each. This coupled with rollover of valuations to FY24 yield a new TP of Rs 1,045 (vs. Rs 955). We continue to value the stock at an unchanged 18x EV/EBITDA multiple at premium of 30% to other large-cap peers such as CIPLA, DRRD, LPC due to high margin specialty presence in developed market of US, Europe and Japan. Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SUNP IN/Rs 835
Market cap	US$ 26.8bn
Free float	45%
3M ADV	US$ 43.6mn
52wk high/low	Rs 871/Rs 562
Promoter/FPI/DII	54%/12%/22%

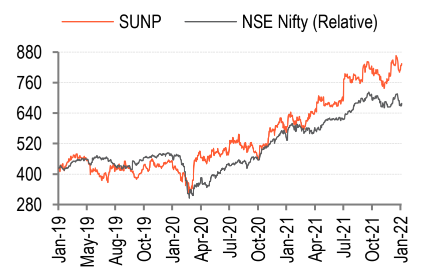
Source: NSE | Price as of 31 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	3,31,395	3,86,007	4,28,780
EBITDA (Rs mn)	85,028	1,04,192	1,15,695
Adj. net profit (Rs mn)	72,189	79,309	90,409
Adj. EPS (Rs)	30.1	33.1	37.7
Consensus EPS (Rs)	30.1	30.5	34.2
Adj. ROAE (%)	14.6	15.0	15.1
Adj. P/E (x)	27.7	25.2	22.1
EV/EBITDA (x)	22.7	18.2	15.9
Adj. EPS growth (%)	80.8	9.9	14.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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