FIRST LIGHT

22 October 2021

RESEARCH

Just Dial | Target: Rs 1,190 | +37% | BUY

Strategic refresh post Reliance takeover awaited

Pharmaceuticals: Q2FY22 Preview

Domestic performance holds the key in Q2FY22

Metals & Mining: Ferrous Chartbook

Supply cuts in China offsetting demand contraction

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.66	2bps	30bps	83bps
India 10Y yield (%)	6.37	(2bps)	21bps	46bps
USD/INR	74.88	0.6	(1.9)	(1.7)
Brent Crude (US$/bbl)	85.82	0.9	13.9	105.7
Dow	35,609	0.4	3.0	26.2
Shanghai	3,587	(0.2)	(0.7)	7.9
Sensex	61,260	(0.7)	3.8	50.5
India FII (US$ mn)	**18-Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(56.9)	(370.3)	(295.2)	1,732.0
FII-E	6.5	503.7	9,033.6	1,707.3

Source: Bloomberg

SUMMARY

Just Dial

- Disappointing Q2 with revenue contracting 6.9% YoY and miss on margins
- EBITDA margin down 16ppt YoY to 10.2% due to wage hikes and pickup in hiring. Employee cost to remain high
- We cut FY22/FY23 EPS by 16-17% on increased spending post RRVL takeover. TP revised to Rs 1,190 (vs. Rs 1,330) – retain BUY

Click here for the full report.

Pharmaceuticals: Q2FY22 Preview

- Expect moderate 5.1% YoY topline growth from our pharma coverage in Q2FY22 on a high base
- EBITDA margin forecast to contract 215bps YoY due to savings reversal and higher A&P spends; PAT to decline 6.4% YoY
- Top picks – SUNP (BUY, TP: Rs 955), ERIS (BUY, TP: Rs 975) and LAURUS (BUY, TP: Rs 715)

Click here for the full report.

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Metals & Mining: Ferrous Chartbook

- Demand deceleration in China offset by sharp production cuts and their extension into Q1CY22
- Higher coking coal prices supporting steel prices but will impact near-term margins of Indian players
- Indian steel margins will ease from the peak and gradually revert to mean in medium term; we prefer TATA and JSP

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BUY
TP: Rs 1,190 | ⮝ 37%

JUST DIAL | Technology & Internet | 21 October 2021

Strategic refresh post Reliance takeover awaited

- **Disappointing Q2 with revenue contracting 6.9% YoY and miss on margins**
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Miss on revenue and margins: JUST's Q2FY22 revenue at Rs 1.6bn declined 7% YoY vs. our estimate of 3.5% growth, while EBITDA margin came in at 10.2% vs. 20.2% expected, shrinking 16ppt YoY. The revenue decline stemmed from weakness in paid suppliers (-4% YoY) and also lower revenue per supplier (-4% YoY), even as traffic picked up modestly (+8% YoY). The miss on margins stemmed from a higher wage bill post increments to employees after a year without wage hikes, and also fresh hiring as JUST augmented its technology team. The company plans to roll out new product initiatives and appoint dedicated heads for each initiative.

Deferred revenue growth a positive: Deferred revenue grew 19.6% YoY (+8.7% QoQ), the highest since the pandemic began, and was the one bright spot in Q2, indicating recovery in coming quarters. Paying suppliers numbered 430,720, 20% below the pre-pandemic Mar'20 quarter, though management is confident of bringing monetisation levels back to normal over a quarter or two.

RRVL stake acquisition completed; strategic refresh awaited: Reliance Retail Ventures (RRVL) now holds 67% stake in JUST and overall promoter group holding now stands at 77.7%. Post-acquisition, RRVL has reshuffled the board of directors and reprioritised capital allocation towards growth initiatives over redistribution to shareholders. Management also hinted at increased spending to fast-track new initiatives such as JD Mart, JD Expert, content enrichment or new category features enabling transactions. However, the company offered limited clarity on a comprehensive strategic plan to unlock synergies with Reliance's digital ecosystem.

Reiterate BUY: We cut our FY22/FY23/FY24 EPS estimates by 17%/16%/7% as we trim operating margin assumptions to factor in increased spending intensity going ahead. However, we maintain BUY as we believe the Reliance Industries' parentage brings in a differentiated advantage and enables new possibilities for JUST. We retain our target one-year forward P/E of 34.4x, a 25% premium to the post pandemic average multiple to account for the strong parent backing. On rollover, we have a revised Sep'22 TP of Rs 1,190 (vs. Rs 1,330) which includes a value of Rs 180/sh for JD Mart. BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JUST IN/Rs 867
Market cap	US$ 715.9mn
Free float	66%
3M ADV	US$ 11.3mn
52wk high/low	Rs 1,138/Rs 531
Promoter/FPI/DII	34%/40%/26%

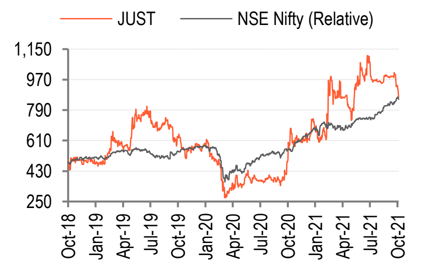
Source: NSE | Price as of 21 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	6,752	6,718	7,801
EBITDA (Rs mn)	1,549	456	1,288
Adj. net profit (Rs mn)	2,142	818	2,261
Adj. EPS (Rs)	33.8	9.9	27.3
Consensus EPS (Rs)	33.8	23.7	40.7
Adj. ROAE (%)	16.8	3.4	6.2
Adj. P/E (x)	25.7	87.8	31.8
EV/EBITDA (x)	35.5	120.9	33.0
Adj. EPS growth (%)	(19.2)	(70.7)	176.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

PHARMACEUTICALS | Q2FY22 Preview | 21 October 2021

Domestic performance holds the key in Q2FY22

- **Expect moderate 5.1% YoY topline growth from our pharma coverage in Q2FY22 on a high base**
- **EBITDA margin forecast to contract 215bps YoY due to savings reversal and higher A&P spends; PAT to decline 6.4% YoY**
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Recovery in domestic acute therapies to continue: We expect domestic market growth to be driven by recovery in the acute segment and a higher share of the non-Covid portfolio, especially anti-infectives as patient visits to hospitals and clinics normalise. CIPLA is projected to report a revenue decline of 18% QoQ (+7% YoY) in India business due to lower contribution of the Covid portfolio while Sun Pharma (SUNP)/ Lupin (LPC) could decline 11%/6% QoQ (+16%/15% YoY). Dr Reddy's (DRRD: +22%) is likely to grow the highest YoY, followed by Ajanta Pharma (AJP: +17%).

Launch-led growth in US to be offset by price erosion in base business: US sales are likely to remain weak in Q2 due to a challenging price environment and flattish volume uptake. We expect our pharma coverage to grow 2.6% QoQ in dollar terms (-2.8% YoY), led by Alkem Labs (ALKEM: +13% QoQ) on account of launch of limited competition products (gDuexis) and relatively lower price erosion in its base business. Alembic Pharma (ALPM) and Aurobindo Pharma (ARBP) are forecast to report a 33% and 17% YoY decline in US business respectively. Other regions should see QoQ and YoY growth aided by stable currencies and easing of lockdown restrictions. API business could be flattish due to a high base.

Currencies stable: The average USDINR rate at Rs 74.1 remained flat QoQ (Rs 73.7) as well as YoY (Rs 74.4). Among EM currencies, the ZAR appreciated by 15.2% YoY (-3.1% QoQ) while the RUB and BRL were stable.

Margins to contract: We expect a 215bps YoY contraction in EBITDA margin for our coverage due to a decline in the high-margin Covid portfolio as well as increased sales and promotional expenses. Higher domestic contribution should partially offset margin contraction. The global rise in raw material prices and increase in freight cost need to be closely watched for the upcoming quarters.

Valuation: We roll forward to Sep'23 earnings for our entire pharma universe, resulting in revised target prices and ratings (Fig 4). We reiterate BUY on ARBP (TP: Rs 886) and upgrade SUNP (TP: Rs 955) and DRRD (TP: Rs 5,500) to BUY from ADD. We also realign DIVI (TP: Rs 5,540) and LPC (TP: Rs 1,045) to HOLD from ADD.

Recommendation snapshot

Ticker	Price	Target	Rating
AJP IN	2,216	2,800	BUY
ALKEM IN	3,824	4,250	HOLD
ALPM IN	777	980	BUY
ARBP IN	702	886	BUY
CIPLA IN	906	1,160	BUY
DIVI IN	5,116	5,540	HOLD
DRRD IN	4,754	5,500	BUY
ERIS IN	812	975	BUY
LAURUS IN	599	715	BUY
LPC IN	930	1,045	HOLD
SUNP IN	815	955	BUY

Price & Target in Rupees | Price as of 20 Oct 2021

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METALS & MINING | Ferrous Chartbook | 21 October 2021

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- **Higher coking coal prices supporting steel prices but will impact near-term margins of Indian players**
- **Indian steel margins will ease from the peak and gradually revert to mean in medium term; we prefer TATA and JSP**

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China demand-supply balance supported by large production cuts: The World Steel Association (WSA) has slashed its steel demand forecast for China to -1%/0% (from 3%/1%) in its October assessment. However, production cuts have been even sharper and hence the market has remained in balance, as indicated by flat net exports and inventory trends. Further, winter restrictions extend curtailments into Q1CY22 with at least a 30% YoY cut for ~40% of production in China over 1 January to 15 March 2022.

Ex-China, market tightness to ease gradually: WSA has increased its ex-China demand growth forecast for CY21 to 11.5% (9.3%), raising projections for developed markets. The increased energy prices could pose a risk to some European EAF producers which account for ~40% of the region's production.

Coking coal supply crunch to sustain through early next year: Production disruptions in China, Inner Mongolia, and Australia have escalated tightness in met coal markets. While Australian supply has recovered from maintenance shutdowns, it typically slows during the wet season from November. Increased production in China and restoration of Inner Mongolia exports are key to easing the supply crunch.

Iron ore supply underperforming but demand pullback sharper: According to Rio Tinto, global iron ore majors are on track to deliver only flat supply growth in CY21. Looking into CY22, structural issues persist. While Vale needs to deliver on milestones to ramp up production, Australian suppliers are working through the replacement of legacy volumes.

Steel margins to normalise in medium term: We believe steel margins will soften over the next 6-12 months as steel prices ease to an estimated US$ 650/t by FY23.

Prefer TATA, JSP: With the steel cycle at a peak, we prioritise capital discipline over expansion projects. Accordingly, we are positive on Tata Steel (TATA) and Jindal Steel & Power (JSP) who are now focusing on responsible growth (see **Disciplined capital allocation key to improving payout, 16Aug21**).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	441	555	BUY
JSTL IN	685	795	HOLD
SAIL IN	119	150	HOLD
TATA IN	1,343	1,755	BUY

Price & Target in Rupees | Price as of 20 Oct 2021

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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