

Summary

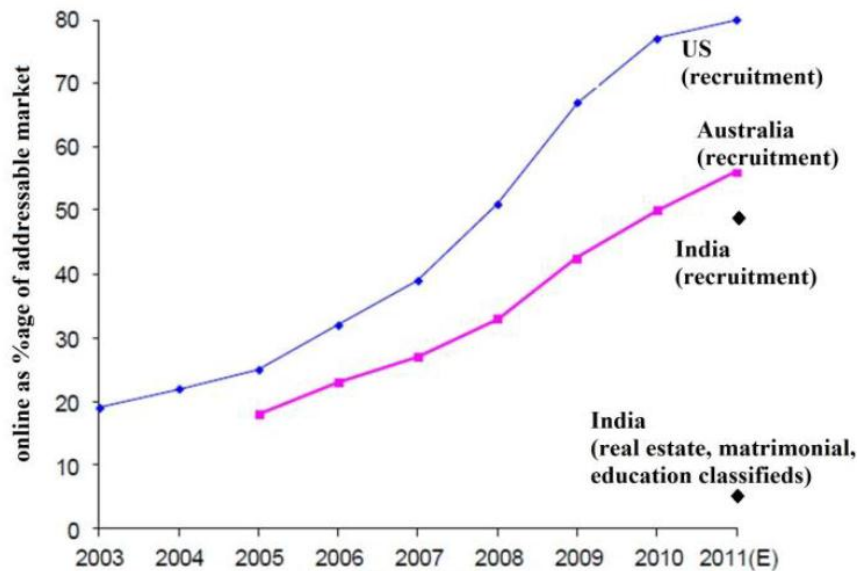
- Info Edge (India): Riding the Internet wave Initiating with OUTPERFORM
- Asia Equity Strategy: Mumbai remains the home of expensive defensives
- GEM Equity Strategy: Déjà vu: 2H 2012 like 2H 2010—call working?
- Focus Asia (4Q 2012): Possible game-changers – which will work where?

Info Edge (India): Riding the Internet wave Initiating with OUTPERFORM. Sagar Rastogi

- Initiate with an OUTPERFORM. We initiate coverage on Info Edge with an **OUTPERFORM rating and a target price of Rs470**, which implies 28% potential upside. The company owns naukri.com, the leader in India's online job board market with a traffic **share of over 60%**. This is an impressive business with an **EBITDA margin of 51%** (FY12), a significantly **negative working capital** cycle (invested capital is negative) and attractive growth potential, driven by strong growth of the Indian economy along with the shift in recruitment spending from print to online.
- Another star on the horizon. Info Edge is also the **No. 1 player in online real estate classifieds (99acres.com, allcheckdeals.com)**. Segment **revenues had a 60% CAGR** over FY10-12, and we expect them to witness a 30% CAGR over FY12-17. Margins should increase after the business achieves critical mass. Like the online job board business, this business is also **highly capital efficient**.
- Improvement in Indian corporate sentiment should be the key near-term catalyst. Currently, naukri.com contributes all the profits for the company. If an improving global liquidity situation and continued pro-business reforms by the Indian government lead to an improvement in the Indian macroeconomic situation, Info Edge could see consensus EPS upgrades. We currently factor in relatively subdued revenue and profit growth for FY13E.
- Valuation. We value Info Edge's businesses using DCF, assuming 13% cost of equity, and 5% growth post 2022. In our view, the stock deserves to trade at a premium to international online job boards, given our expectations of faster growth. The stock's P/E multiple, compared with its own trading history, looks fairly reasonable. A shock to the Indian economy is the key risk to our view.

Year	3/12A	3/13E	3/14E	3/15E
Revenue (Rs mn)	3,918.8	4,691.0	5,737.1	7,101.5
EBITDA (Rs mn)	1,182.6	1,364.1	1,787.0	2,434.8
EBIT (Rs mn)	1,099.4	1,276.2	1,656.9	2,304.6
Net profit (Rs mn)	927.2	1,140.9	1,452.5	1,961.3
EPS (CS adj.) (Rs)	8.49	10.45	13.30	17.96
Change from previous EPS (%)	n.a.			
Consensus EPS (Rs)	n.a.	n.a	n.a	n.a
EPS growth (%)	59.4	23.0	27.4	35.0
P/E (x)	43.1	35.1	27.5	20.4
Dividend yield (%)	0.10	0.14	0.16	0.19
EV/EBITDA (x)	29.9	25.1	18.1	12.2
P/B (x)	7.6	6.3	5.2	4.2
ROE (%)	19.3	19.6	20.6	22.6
Net debt/equity (%)	net cash	net cash	net cash	net cash

Figure 2: Significant potential for growth from structural shift to online, apart from the growth in Indian economy



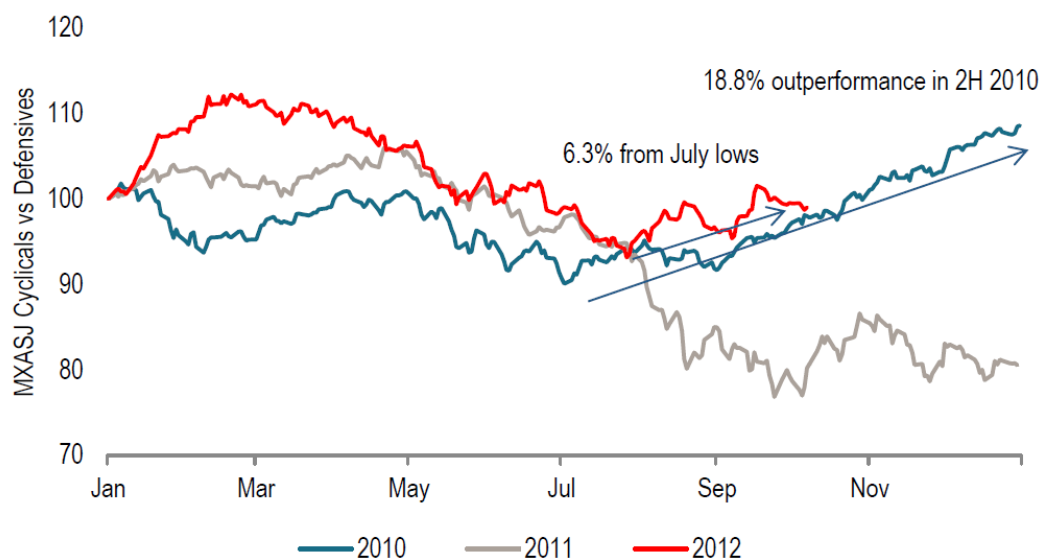
Asia Equity Strategy: Mumbai remains the home of expensive defensives Sakthi Siva

- We visited Indian investors over the past week in Mumbai and Chennai and the common feedback was a barbell approach. That is, investors were sticking with the quality defensives, but adding some cyclicals and public sector banks. Our view though is to [continue switching out of the expensive defensives \(in particular ITC, TCS, Sun Pharma, HDFC Bank and Lupin\) to cheap cyclicals \(Tata Motors, Reliance Industries and Tata Steel\)](#).
- India, one of the few markets where the [cyclicals defensives' valuation gap is bigger than 2008](#). While in Non-Japan Asia, the price-to-book gap between cyclicals and defensives at -0.6x is 81% of the -0.74x seen at the 2008 lows, Figure 1 highlights that in India the current gap at -5x is much bigger than the -3.1x seen at the 2008 lows.
- Bottoming in global growth, domestic policy reforms, potential RBI cut are catalysts for the switch. In Non-Japan Asia, we have been suggesting that a bottoming in global growth could act as a catalyst for the switch from expensive defensives into cyclicals, and we believe last Friday's US job numbers add to that view. But in India, there has been added impetus from domestic policy reforms though investor views were divided on this issue. Another potential catalyst could be an RBI rate cut on 30 October.

GEM Equity Strategy: Déjà vu: 2H 2012 like 2H 2010—call working? Sakthi Siva

- We believe so. In our reports of 14 and 23 August [Déjà vu: 2H 2012 like 2H 2010?](#), we suggested potential upside to markets as 2H 2012 was looking similar to 2H 2010 with supportive central banks and global growth bottoming. Adding to signs of a bottoming in global growth was last Friday's US jobs report showing non-farm payrolls averaging 146k a month versus a low of around 67k in the second quarter (see Figure 3 under Focus charts). The next key datapoints are US retail sales (due on 15 October) and Europe PMI (due on 24 October).
- Further room for cyclicals to outperform defensives. While history is not always an accurate guide to the future, 2H 2010 was associated with a 19% outperformance by cyclicals versus defensives. Given that [so far we have only seen about 6%-7% outperformance, history suggests further room for cyclicals to outperform defensives](#) (see Figure 10).
- We continue to Overweight quality and commodity cyclicals. In non- Japan Asia, the cyclical defensives' price-to-book gap is currently 0.6x book. This is about 81% of the gap seen at the 2008 lows (see Figure 11). We continue to Overweight quality cyclicals (those with a rising ROE trend such as Samsung Electronics and Hyundai Motors) and commodity cyclicals when price-to-book is close to 2008-09 lows (such as CNOOC, Shenhua and ChinaCoal).

Figure 10: MSCI Asia ex. Japan cyclicals versus defensives relative price performance—daily in 2010, 2011 and so far in 2012



Focus Asia (4Q 2012): Possible game-changers – which will work where? Robert Prior-Wandesforde

- Some Asian countries are coping much better with the persistent weakness of external demand than others. While, very unusually, the ASEAN tiger cubs have been able to unshackle their domestic economies from exports, the same cannot be said of China and India – which have often been the ones to do so in the past – let alone Taiwan, Korea, Hong Kong and Singapore. The last two are actually teetering on the brink of technical recession. With this in mind, we examine the potency of a number of potential positive and negative game changers on the various economies.
- We make four key points. First, whether as a result of QE or not, [short-term lead indicators suggest export/industrial activity will start to pick up in 4Q](#), representing the start of another mini-cycle. Second, we are [skeptical that China’s easing measures will have any meaningful impact](#), helping explain our sub-consensus growth forecasts. Third, [India’s economic reforms should boost business sentiment in the country and encourage a further RBI rate cut](#). We remain more optimistic than most on the country. Finally, we believe the Philippines offers the best chance of sustained domestic strength as Indonesia, Thailand and Malaysia run into domestic constraints in one form or another.
- [Inflation, although set to move higher in most Asian countries, is unlikely to prevent the continuation of supportive monetary policies in the region](#). Indeed we expect [India, China and Korea to cut their policy rates by 125bps, 75bps and 25bps](#) respectively in coming months. Thailand and the Philippines could hike by the end of next year, but very modestly, while Indonesia presents the biggest risk given overheating pressures there and the associated risks to the rupiah.

Newsflow

- Mayawati who was addressing her first large rally post her Assembly defeat seven months ago, seemed to give a breather to the Congress led UPA saying she could reconsider her opposition to FDI in retail “if it proves to be beneficial for farmers”
- The Congress led government in Maharashtra has taken a decision to abolish Octroi Duty and it will be replaced by local body tax (LBT) in the state
- The government has disbursed about Rs 1.36 tn of agriculture credit to farmers in the first quarter of the current financial year
- [Foodgrains production in 2012-13 will be lower than last year's record output of 257.44 mn tonnes but availability would be sufficient to meet domestic demand](#), Agriculture Minister Sharad Pawar said
- [India has told the US that supply of excess liquidity by the country could increase commodity prices. The US, however, has downplayed the fears saying an appreciating rupee would neutralize the impact](#)
- The RBI has imposed a penalty of Rs 3 mn was imposed on ICICI Bank and Rs 5.5 mn on ING Vysya Bank for violating Know Your Customer norms
- S Visvanathan has been appointed as the Managing Director of State Bank of India

- [Deutsche Bank India has cut the interest rate on domestic term deposits](#) by 10-125 basis points across different maturities
- State Bank of India said it is witnessing early signs of revival in credit growth as mid-corporates have started seeking fresh funds
- The government has asked C Rangarajan, chairman of Prime Minister's Economic Advisory Council, to scrutinize CBM gas price proposals of RIL and Essar Oil
- The three government oil marketing companies- IndianOil, Bharat Petroleum and Hindustan Petroleum- are estimated to have incurred an underrecovery of Rs 420 bn in the second quarter ended September 30 on sale of diesel, kerosene and domestic LPG at government controlled prices, petroleum secretary G C Chaturvedi said
- The power ministry has informed that power companies facing coal crunch will be allowed to sign Fuel Supply Agreements (FSAs) with state-owned miner Coal India Ltd (CIL) even in the absence of legally binding Power Purchase Agreements (PPAs) with distribution companies
- BHEL said it has become eligible for grant of Maharatna status – once a company gets the Maharatna status, its board is not required to take the government's permission for investments up to Rs 50 bn in a joint venture project or wholly-owned subsidiary. For the Navratna PSUs, this limit is Rs10 bn
- A Reliance Industries-led consortium may have to shut key gas producing fields in the KG-D6 block in 2015-16, Oil Secretary G C Chaturvedi said on Tuesday
- Tata Steel said it has achieved best ever quarterly saleable steel production at 1.87 mn tonnes in the July-September period on the back of record production of crude and hot metal
- Miner Vedanta posted a 9% drop in metal mined from its Indian zinc operations in its second quarter, and said that saleable iron ore output plunged 86%, hit by mining bans and monsoon travel restrictions
- Sesa Goa, India's largest private sector iron ore miner, sold only 0.2 mn tonne iron ore in the second quarter ended September 30, 2012. This translates to a drop of 86% as sales in the same quarter last year were 1.6 mn tonnes
- Empowered Group of Ministers (EGoM) on telecom, headed by finance minister P Chidambaram, will seek fresh legal opinion from the Attorney general of India (AG) on the decision that it has taken to impose one-time fee on incumbent telecom operators prospectively from 4.4 Mhz
- Sanofi India Limited (formerly Aventis Pharma Limited) on Tuesday announced the launch of AllStar, its first indigenously manufactured re-usable insulin pen
- Ranbaxy Laboratories has launched the authorized cevimeline hydrochloride capsules, generic version of its parent Daiichi Sankyo's Evoxac in the US
- General Motors India is planning to launch up to eight new car models over the next 5-6 years in India as it looks to increase its share in the domestic auto market
- Voltas, the engineering products and services company, is facing delays in collection of receivables as business activities continue to stay muted in the current uncertain macro-economic environment. This has stretched the working capital cycle to more than 100 days, its management revealed
- Educomp Solutions is looking to raise an additional \$250 mn capital by issuance of international bonds and other long term securities. In a meeting held by the company, the board of directors of the Educomp Solutions have considered and approved this provision, subject to the approval of the shareholders