

RESEARCH

BOB Economics Research | Weekly Wrap

Better macro prints supported markets

V-Mart Retail | Target: Rs 1,560 | -4% | REDUCE

Lockdown exacts severe toll on business

Banking | Credit Tracker

Lockdown mars retail credit growth

SUMMARY

India Economics: Weekly Wrap

Global macro data showed some improvement with US home sales and EU consumer confidence surprising positively. EU announced € 750bn package. South Korea cut policy rate to an all-time low of 0.5%. Global equity markets went up and currencies too gained against DXY. Yields were also higher led by China. In India's case, Q4 GDP growth slipped to 3.1% and FY20 growth was at an eleven year low of 4.2%. RBI minutes will be released this week. With Apr'20 growth trudging lower, we expect another 25bps cut in policy rate.

[Click here for the full report.](#)

V-Mart Retail

V-Mart Retail (VMART) reported a below-expected Q4FY20 as revenue declined 3% YoY to Rs3.3bn and SSSg nosedived 18% due to the lockdown. Operating margins (adj. for Ind-AS 116) contracted 320bps YoY to 2% primarily due to negative operating leverage, inducing a 63% YoY fall in EBITDA and a PBT loss of Rs 25mn. Management has put all store expansion on hold till the demand climate improves. We lower FY21/FY22 EPS 68%/33% and revise our Mar'21 TP to Rs 1,560 (vs. Rs 2,320). Maintain REDUCE.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.65	(4bps)	4bps	(147bps)
India 10Y yield (%)	6.01	2bps	(12bps)	(102bps)
USD/INR	75.62	0.2	0.7	(8.5)
Brent Crude (US\$/bbl)	35.33	0.1	72.7	(45.2)
Dow	25,383	(0.1)	5.3	2.3
Shanghai	2,852	0.2	1.5	(1.6)
Sensex	32,424	0.7	1.0	(18.4)
India FII (US\$ mn)	28 May	MTD	CYTD	FYTD
FII-D	(51.7)	(2,730.8)	(14,074.6)	(4,315.1)
FII-E	263.5	1,559.7	(5,073.8)	1,529.2

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



Banking: Credit Tracker

RBI data on sectoral credit deployment indicates that growth in non-food credit remained sluggish at 7.3% in Apr'20. Retail credit growth decelerated sharply to 12% amid a slower uptick in home loans and credit cards. Industrial credit stayed subdued at <2%. Services segment grew 11% YoY as loans to NBFCs rose 30%, which we believe was largely due to loans advanced under RBI's recent TLTRO schemes. Credit offtake will likely remain weak through FY21 as banks tone down growth expectations and focus on balance sheet conservation.

[Click here](#) for the full report.

WEEKLY WRAP

01 June 2020

Better macro prints supported markets

Global macro data showed some improvement with US home sales and EU consumer confidence surprising positively. EU announced € 750bn package. South Korea cut policy rate to an all-time low of 0.5%. Global equity markets went up and currencies too gained against DXY. Yields were also higher led by China. In India's case, Q4 GDP growth slipped to 3.1% and FY20 growth was at an eleven year low of 4.2%. RBI minutes will be released this week. With Apr'20 growth trudging lower, we expect another 25bps cut in policy rate.

Sameer Narang | Dipanwita Mazumdar
 chief.economist@bankofbaroda.com

Markets

- **Bonds:** Global long-end yields closed higher led by China. Not only China's data surprised positively but political tensions between US and China are escalating over passage of national security law over Hong Kong. US 10Y yield closed a tad lower by 1bps (0.65%). Oil prices rose by 0.6% (US\$ 35/bbl). India's 10Y yield rose by 5bps (6.01%) amidst fiscal concerns with FY20 fiscal deficit at 4.6%. System liquidity surplus was lower at Rs 3.7tn as on 29 May 2020 compared with Rs 4.6tn in the previous week.
- **Currency:** Global currencies gained some strength against US\$. Relaxations in lockdown restrictions, hopes of a COVID-19 vaccine and EU's stimulus program lifted global currencies. DXY and JPY fell by 1.5% and 0.2% respectively. AUD rose the most by 2% followed by EUR which rose by 1.8%. INR appreciated by 0.5% led by FII inflows in the equity segment (US\$ 874mn). Chinese Yuan closed flat and may fall due to escalating political tensions over Hong Kong.
- **Equity:** Global indices ended the week higher. Nikkei surged the most by 7.3% as government lifted restrictions on economic activity. European indices too rose on the back of EU's € 750bn stimulus program. Dow too rose by 3.8%. Sensex rose by 5.7% following global cues. Banking and capital goods stocks advanced the most.
- **Upcoming key events:** In current week, markets will await manufacturing and services PMI data of major economies. Apart from this, US jobs report will also shed light on employment scenario. On the domestic front, India's PMI and RBI minutes too will be released.



REDUCE

TP: Rs 1,560 | ▼ 4%

V-MART RETAIL

Retail

01 June 2020

Lockdown exacts severe toll on business

V-Mart Retail (VMART) reported a below-expected Q4FY20 as revenue declined 3% YoY to Rs 3.3bn and SSSg nosedived 18% due to the lockdown. Operating margins (adj. for Ind-AS 116) contracted 320bps YoY to 2% primarily due to negative operating leverage, inducing a 63% YoY fall in EBITDA and a PBT loss of Rs 25mn. Management has put all store expansion on hold till the demand climate improves. We lower FY21/FY22 EPS 68%/33% and revise our Mar'21 TP to Rs 1,560 (vs. Rs 2,320). Maintain REDUCE.

Arun Baid

research@bobcaps.in

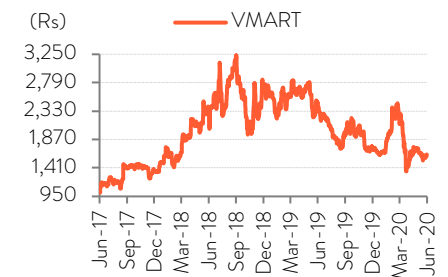
Lockdown hits revenue growth: VMART's revenue declined 3.4% YoY with same-store sales growth (SSSg) down 18%. Management stated that growth had been robust for the quarter before the lockdown began with SSSg of 8%. Due to Covid-19, the company has put all store expansion plans on hold until demand improves. Management believes consumers may downtrade due to the fall in incomes even as store visits in the near term will be restricted to customers with urgent requirements, thus adversely affecting sales.

Margins contract 320bps: VMART's operating margins (adj. for Ind-AS 116) declined 320bps YoY to 2% due to higher employee expense (+150bps YoY) and other expense (+125bps YoY). Consequently, EBITDA plunged 63% and the company reported a PBT loss of Rs 25mn (vs. Rs 125mn profit YoY). Given margin pressure on account of lower sales, the company intends to reduce employee cost by ~25% for a period of three months from May, which may be extended if required, and is also renegotiating rentals with store landlords.

Maintain REDUCE: We cut EPS estimates for FY21/FY22 sharply by 68%/33% due to Covid-19 headwinds and slower expansion plans, yielding a reduced Mar'21 TP of Rs 1,560. Our target P/E multiple remains unchanged at 30x FY22E EPS.

Ticker/Price	VMART IN/Rs 1,625
Market cap	US\$ 390.9mn
Shares o/s	18mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	52%/23%/25%

Source: NSE

STOCK PERFORMANCE**KEY FINANCIALS**

Y/E 31 Mar	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Total revenue (Rs mn)	12,224	14,337	16,620	14,622	21,872
EBITDA (Rs mn)	1,332	1,336	2,138	2,021	3,020
Adj. net profit (Rs mn)	768	724	493	357	942
Adj. EPS (Rs)	42.3	39.9	27.2	19.7	51.9
Adj. EPS growth (%)	101.0	(5.8)	(31.8)	(27.6)	163.7
Adj. ROAE (%)	24.9	19.1	11.4	7.5	17.5
Adj. P/E (x)	38.4	40.8	59.8	82.6	31.3
EV/EBITDA (x)	22.0	21.8	13.6	14.4	9.6

Source: Company, BOBCAPS Research | *As per Ind-AS 116



BANKING

| Credit Tracker

| 01 June 2020

Lockdown mars retail credit growth

RBI data on sectoral credit deployment indicates that growth in non-food credit remained sluggish at 7.3% in Apr'20. Retail credit growth decelerated sharply to 12% amid a slower uptick in home loans and credit cards. Industrial credit stayed subdued at <2%. Services segment grew 11% YoY as loans to NBFCs rose 30%, which we believe was largely due to loans advanced under RBI's recent TLTRO schemes. Credit offtake will likely remain weak through FY21 as banks tone down growth expectations and focus on balance sheet conservation.

Vikesh Mehta

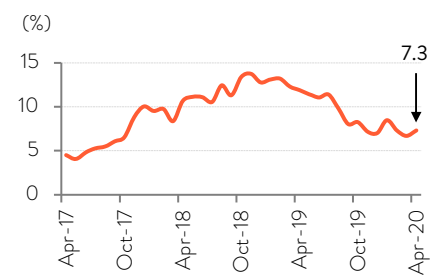
research@bobcaps.in

Retail credit slows: Retail credit growth that had held at an average of 16% over the past 12 months plummeted to 12% YoY in Apr'20 amid the lockdown, while registering its sharpest MoM decline since Jul'13 at -2.5%. Home loans, a vital segment, slowed to 14% vs. 16% in Mar'20 and an average of 18% YoY for the last 12 months. Growth in credit card outstanding plunged to 5% YoY vs. ~27% on average over the last 12 months amid repayments and a lack of spends. Consumer durable/vehicle loan growth slipped to 43.7%/8.6% YoY vs. 47.9%/9.6% in Mar'20. Ex-retail segment, non-food credit grew 5.6%.

Industrial credit remains sluggish: Industrial credit grew a meagre 1.7% YoY in April given declines or flattish growth across heavyweight sectors such as textiles (-4.6% YoY), infrastructure (-0.9%) and basic metals (-0.3%). Chemicals/cement, however, grew by 8.8%/6.4% YoY vs. 6.5%/6.2% YoY in Mar'20. Loans to MSMEs declined 3.2% YoY while those to large industries were up 2.7% in Apr'20.

Services segment rises 11% YoY: Credit to the services segment (28% of gross bank credit) grew 11% YoY vs. 7% in Mar'20, amid 30% YoY growth in loans to NBFCs – this was largely due to refinance/loans advanced under the recent targeted longer-term repo operations (TLTRO) to select NBFCs, in our view. On the other hand, growth in the agriculture segment slowed to 4% vs. 5% YoY in Mar'20.

Bleak outlook for FY21: We expect credit growth to remain lacklustre throughout FY21 as the impact of Covid-19 unravels. Further, banks are likely to tone down their growth expectations, especially in the unsecured lending space which has been a key driver in the recent past, and focus more on balance sheet conservation.

NON-FOOD CREDIT GROWTH


Source: RBI, BOBCAPS Research



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 May 2020, out of 92 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 55 have BUY ratings, 20 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.