

RESEARCH
BOB Economics Research | Weekly Wrap

US-China trade deal to remain in focus

V-Mart Retail | Target: Rs 2,030 | +2% | REDUCE

Higher expenses drive operating loss

SUMMARY
India Economics: Weekly Wrap

Third consecutive rate cut by US Fed and continuation of accommodative stance by BoJ led to decline in global yields. Manufacturing activity contracted in China, US and Japan. Despite this, S&P 500 surged to an all-time high on the back of corporate earnings and hope of US-China trade deal. Sensex too rose to an all-time high backed by corporate earnings after a tax cut and FII inflows. INR too appreciated. Progress on US-China and RCEP trade deals along with services PMI data will drive markets this week.

[Click here for the full report.](#)
V-Mart Retail

V-Mart Retail (VMART) reported below-expected revenue growth of 20% YoY to Rs 3.1bn in Q2FY20, with SSSg of 1% (volumes -8%). Despite better gross margins YoY, the company had an operating loss of Rs 79mn (adjusted for Ind-AS 116) due to higher other expenses and employee cost. Management retained guidance of ~25% area addition in FY20 but pared its EBITDA margin forecast to 8% from 9%. We cut FY20-FY22 PAT by 6-13% to build in the Q2 miss and roll to an unchanged Sep'20 TP of Rs 2,030. Maintain REDUCE.

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	680
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.71	2bps	8bps	(150bps)
India 10Y yield (%)*	6.66	1bps	0bps	(112bps)
USD/INR	70.81	0.2	0.4	2.3
Brent Crude (US\$/bbl)	61.69	2.4	4.8	(15.3)
Dow	27,347	1.1	2.9	8.2
Shanghai	2,958	1.0	1.8	10.5
Sensex	40,165	0.1	4.9	14.7
India FII (US\$ mn)	31 Oct	MTD	CYTD	FYTD
FII-D	149.2	713.4	4,686.8	4,142.2
FII-E	281.0	2,062.1	10,222.8	3,377.6

Source: Bank of Baroda Economics Research | *7.26% GS 2029

BOBCAPS Research

research@bobcaps.in



WEEKLY WRAP

04 November 2019

US-China trade deal to remain in focus

Third consecutive rate cut by US Fed and continuation of accommodative stance by BoJ led to decline in global yields. Manufacturing activity contracted in China, US and Japan. Despite this, S&P 500 surged to an all-time high on the back of corporate earnings and hope of US-China trade deal. Sensex too rose to an all-time high backed by corporate earnings after a tax cut and FII inflows. INR too appreciated. Progress on US-China and RCEP trade deals along with services PMI data will drive markets this week.

Sameer Narang | Sonal Badhan

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except China, global yields closed lower led by US with 10Y yield declining by 8bps (1.71%) on the back of three consecutive rate cuts by the Fed and soft PMI data. Central banks of Hong Kong and Brazil too reduced rates. Crude prices fell by (-) 0.5% (US\$ 62/bbl) on account of higher US inventories. India's 10Y yield fell by 2bps (6.66%), taking global cues. System liquidity surplus was at Rs 2.7tn as on 01 Nov 2019 vs Rs 1.5tn in the previous week.
- **Currency:** Global currencies ended higher this week led by positive developments in US-China trade deal. DXY fell by (-) 0.6% in the week as US Fed delivered its third rate cut in CY19. GBP appreciated by 0.9% as an extension of Brexit deadline helped allay fears of no-deal Brexit. EUR rose by 0.9% as Euro Area Q3CY19 GDP surprised positively. INR appreciated by 0.1% led by robust FII inflows of US\$ 2.1bn in the week.
- **Equity:** Barring FTSE, other global indices ended the week higher led by progress over US-China trade talks, Fed's rate cut decision and positive US jobs print and corporate earnings. Sensex surged by 2.8% with auto and tech stocks outperforming. In addition, positive earnings and the possible realignment of LTCC and DDT also led to Sensex moving to all-time high.
- **Upcoming key events:** In the current week, markets await policy decisions in UK, Australia, Malaysia and Thailand. Apart from that, services PMIs for Oct'19 and China's trade data is scheduled for release this week. On the domestic front services PMI and corporate earnings will dominate the newsflow.



REDUCE

TP: Rs 2,030 | ▲ 2%

V-MART RETAIL

Retail

04 November 2019

Higher expenses drive operating loss

V-Mart Retail (VMART) reported below-expected revenue growth of 20% YoY to Rs 3.1bn in Q2FY20, with SSSg of 1% (volumes –8%). Despite better gross margins YoY, the company had an operating loss of Rs 79mn (adjusted for Ind-AS 116) due to higher other expenses and employee cost. Management retained guidance of ~25% area addition in FY20 but pared its EBITDA margin forecast to 8% from 9%. We cut FY20-FY22 PAT by 6-13% to build in the Q2 miss and roll to an unchanged Sep’20 TP of Rs 2,030. Maintain REDUCE.

Arun Baid

research@bobcaps.in

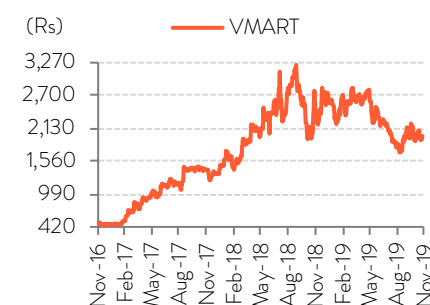
Revenue growth aided by area addition: VMART’s revenue grew 19.9% YoY to Rs 3.1bn, with same-store sales growth (SSSg) of 1% (same-store volumes down 8%). Revenue growth was aided by area addition of ~25% YoY. Management indicated that the Diwali season was average and is hopeful of better demand in the remainder of Q3 led by winter sales and wedding season demand. Guidance of adding 25% more area in FY20 was retained.

Ticker/Price	VMART IN/Rs 1,998
Market cap	US\$ 511.2mn
Shares o/s	18mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 2,901/Rs 1,676
Promoter/FPI/DII	52%/28%/20%

Source: NSE

Operating and net losses: Despite 200bps YoY gross margin improvement, VMART reported an operating loss of Rs 79mn (adj. for Ind-AS 116) and a PBT loss of Rs 155mn due to slower sales and higher employee/other expenditure. Store addition inflated employee cost whereas other expenditure increased due to higher A&P and logistic costs. Lower discounting during end-of-season sales and better fashion sales aided gross margins.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: Given the below-expected Q2 and continued demand headwinds, we scale back PAT estimates for FY20-FY22 by 6-13%. We like VMART for its strong growth potential, but see near-term risks to SSSg and margins from stiffer competition and a tepid demand environment. Rolling valuations forward, we have an unchanged Sep’20 TP of Rs 2,030.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	12,224	14,337	17,995	22,165	27,568
EBITDA (Rs mn)	1,332	1,336	1,451	1,855	2,330
Adj. net profit (Rs mn)	768	724	857	1,085	1,367
Adj. EPS (Rs)	42.4	39.9	47.3	59.9	75.4
Adj. EPS growth (%)	101.0	(5.8)	18.4	26.7	26.0
Adj. ROAE (%)	24.9	19.1	19.0	20.0	20.8
Adj. P/E (x)	47.1	50.1	42.3	33.4	26.5
EV/EBITDA (x)	26.9	26.7	24.6	19.2	15.3

Source: Company, 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 October 2019, out of 79 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 48 have BUY ratings, 18 are rated ADD, 7 are rated REDUCE and 6 are rated SELL. 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.