FIRST LIGHT

11 November 2021

RESEARCH

IndiaMart InterMesh | Target: Rs 8,430 | +17% | BUY

Correction offers a good opportunity; upgrade to BUY

V-Mart Retail | Target: Rs 4,430 | +5% | HOLD

Well placed to capture value fashion opportunity; raise to HOLD

Power Grid Corp | Target: Rs 201 | +9% | HOLD

Steady but limited growth drivers

SUMMARY

IndiaMart InterMesh

- Stock looks attractive following ~25% correction from its Oct'21 peak – upgrade from HOLD to BUY with unchanged TP of Rs 8,430
- Transformed sales engine and likely MSME rebound post Covid position INMART for accelerated growth ahead
- Steady progress made on platform enrichment through matchmaking algorithm upgrade and slew of strategic acquisitions

Click here for the full report.

V-Mart Retail

- Q2FY22 revenue grew 93% YoY to Rs 3.4bn, marking 107% recovery vs. pre-Covid (Q2FY20) levels on consolidation of 74 'Unlimited' stores
- EBITDA up 82% to Rs 206mn with margin up 250bps to 6.1% vs. Q2FY20
- Upgrade from SELL to HOLD with rollover to a new Sep'22 TP of Rs 4,430 (vs. Rs 2,080)

Click here for the full report.

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.44	(5bps)	(18bps)	48bps
India 10Y yield (%)	6.29	(1bps)	(2bps)	38bps
USD/INR	74.03	0.0	1.3	0.2
Brent Crude (US$/bbl)	84.78	1.6	2.9	94.4
Dow	36,320	(0.3)	4.5	23.4
Shanghai	3,507	0.2	(2.4)	4.4
Sensex	60,433	(0.2)	0.6	39.6
India FII (US$ mn)	**08-Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(128.5)	(9.5)	(79.8)	1,947.5
FII-E	(140.9)	(91.1)	6,167.5	(1,158.8)

Source: Bloomberg

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Power Grid Corp

- Steady 1.9% YoY growth in Q2 pretax income and appreciable decline in outstanding payments
- Transmission pipeline weak. PWGR pursuing smart meter and distribution-related opportunities but business models yet to evolve
- Retain HOLD with slight change in TP from Rs 196 to Rs 201 driven by revised earnings estimates

Click here for the full report.

BOBCAPS
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BUY

TP: Rs 8,430 | ⮝ 17%

INDIAMART INTERMESH | Technology & Internet | 10 November 2021

Correction offers a good opportunity; upgrade to BUY

- **Stock looks attractive following ~25% correction from its Oct'21 peak – upgrade from HOLD to BUY with unchanged TP of Rs 8,430**
- **Transformed sales engine and likely MSME rebound post Covid position INMART for accelerated growth ahead**
- **Steady progress made on platform enrichment through matchmaking algorithm upgrade and slew of strategic acquisitions**

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Stock correction an opportunity to BUY: Following a stellar 280% upmove in stock price during FY21, INMART has underperformed the Nifty and Nifty IT index in FY22 YTD. In our view, the recent 25% correction from its Oct'21 peak offers a buying opportunity as INMART looks well placed to leverage the expected post Covid rebound at MSMEs. We upgrade the stock from HOLD to BUY with an unchanged Sep'22 TP of Rs 8,430, based on its post pandemic average P/E of 57.3x. The company's leadership position and strong business moats backed by a robust network effect and low digital penetration of MSMEs offer a long growth runway.

Sales transformation aiding growth: Pandemic-led challenges faced by INMART's core client segment (MSMEs) limited its revenue growth over the last six quarters. INMART used this period to transform its sales engine into DSA (direct selling agent) mode, leading to structural margin improvement. Its client acquisition teams in non-metro regions have largely transitioned to the DSA model with ~250 agents across India, raising sales engine efficiency. The transformed sales engine now has three key channels – an in-house sales team (hunter + farmers), DSAs, and online sales – compared to the single in-house (feet-on-street) team pre-pandemic.

Steady progress on enriching platform via AI/ML…: In a fresh effort to enrich its platform, INMART has enhanced its matchmaking algorithm with artificial intelligence and machine learning capabilities, incorporating its rich contextual knowledge. This will increase buyer fulfilment with fewer supplier business enquiries and enrich the user experience on its platform.

…and tuck-in acquisitions: We note an increased frequency of tuck-in acquisitions, a critical element of management's vision to transition from a 'buyer-seller' discovery platform to a 'transaction-based' offering for the B2B segment. Since the pandemic began in Apr'20, INMART has announced six acquisitions/ investments complementing its core platform as against three over FY15-FY20. With Rs 24.7bn in cash and cash investments at the end of the Sep'21 quarter, INMART has ample room to further step up its inorganic strategy.

Key changes

Target	Rating
◄ ►	▲

Ticker/Price	INMART IN/Rs 7,213
Market cap	US$ 3.0bn
Free float	42%
3M ADV	US$ 21.2mn
52wk high/low	Rs 9,950/Rs 4,515
Promoter/FPI/DII	50%/28%/23%

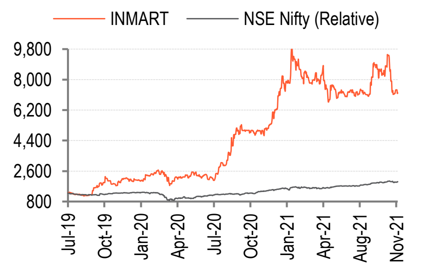
Source: NSE | Price as of 9 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	6,650	7,714	9,817
EBITDA (Rs mn)	3,333	3,584	4,429
Adj. net profit (Rs mn)	2,867	3,472	4,179
Adj. EPS (Rs)	94.5	114.2	137.5
Consensus EPS (Rs)	94.5	112.0	130.4
Adj. ROAE (%)	30.3	19.6	19.8
Adj. P/E (x)	76.3	63.2	52.5
EV/EBITDA (x)	65.8	61.3	49.2
Adj. EPS growth (%)	89.8	20.9	20.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 4,430 | ▲ 5%

V-MART RETAIL | Retail | 10 November 2021

Well placed to capture value fashion opportunity; raise to HOLD

- **Q2FY22 revenue grew 93% YoY to Rs 3.4bn, marking 107% recovery vs. pre-Covid (Q2FY20) levels on consolidation of 74 'Unlimited' stores**
- **EBITDA up 82% to Rs 206mn with margin up 250bps to 6.1% vs. Q2FY20**
- **Upgrade from SELL to HOLD with rollover to a new Sep'22 TP of Rs 4,430 (vs. Rs 2,080)**

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Revenue recovery led by healthy store opening and Unlimited consolidation: VMART's Q2FY22 revenue grew 93% YoY to Rs 3.4bn with a 107% sales recovery over Q2FY20 on consolidation of the 74 acquired 'Unlimited' stores from September. A like-to-like comparison that excludes Unlimited still shows 100% recovery from pre-Covid levels. The acquired outlets give VMART access to six new states in South India, an established warehouse, supply chain logistics, skilled front-end operations and a product development team.

Turnaround at Unlimited: Management intends to gradually move to VMART branded stores following the 'One Nation One Brand' philosophy, with sharper price point offerings, better quality fabric, improved variety and own private labels. The target is to drive up footfalls/volume growth and store productivity over the next 2-3 years.

Operational highlights: Q2 is traditionally a subdued quarter impacted by end-of-season sales and lower margins. However, given the sales rebound and better supply chain management initiatives, VMART posted an EBITDA margin of 6.1% (+250bps vs. Q2FY20) with EBITDA at Rs 206mn (+82% over Q2FY20). Gross margin expanded 190bps YoY (-48bps vs. Q2FY20) to 30.7%, but employee cost/other expenses increased 39%/99% YoY (+6%/-13% vs. Q2FY20). A rental benefit of Rs 83mn (Rs 167mn benefit in Q2FY21) has been netted off from rent expenses.

Poised for recovery; upgrade to HOLD: We expect VMART to deliver healthy earnings growth on the back of aggressive store expansion, mid-to-high single-digit SSSg, superior store economics, geography expansion and a healthy balance sheet. The recent acquisition of 74 Unlimited fashion stores will enable it to cater to India's western and southern markets where it has a minimal presence. Given the improving growth prospects, we upgrade from SELL to HOLD with rollover to a new Sep'22 TP of Rs 4,430 (vs. Rs 2,080). We value the stock at 24x one-year forward EV/EBITDA (vs. 30x FY23E P/E earlier), in line with the five-year median.

Key changes

Target	Rating
▲	▲

Ticker/Price	VMART IN/Rs 4,216
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 1.8mn
52wk high/low	Rs 4,564/Rs 1,950
Promoter/FPI/DII	46%/22%/31%

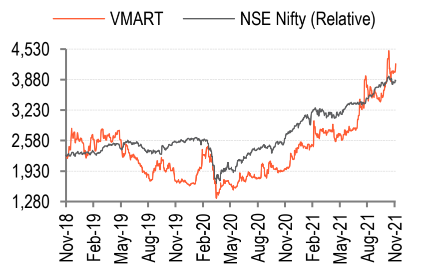
Source: NSE | Price as of 10 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,755	17,820	24,499
EBITDA (Rs mn)	1,192	1,720	3,105
Adj. net profit (Rs mn)	(340)	186	958
Adj. EPS (Rs)	(17.2)	9.5	48.6
Consensus EPS (Rs)	(17.2)	16.5	59.7
Adj. ROAE (%)	(5.3)	2.2	10.8
Adj. P/E (x)	(244.6)	445.8	86.7
EV/EBITDA (x)	69.4	47.1	25.4
Adj. EPS growth (%)	(170.0)	(154.9)	414.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 201 | ⮝ 9%

POWER GRID CORP | Power | 10 November 2021

Steady but limited growth drivers

- **Steady 1.9% YoY growth in Q2 pretax income and appreciable decline in outstanding payments**
- **Transmission pipeline weak. PWGR pursuing smart meter and distribution-related opportunities but business models yet to evolve**
- **Retain HOLD with slight change in TP from Rs 196 to Rs 201 driven by revised earnings estimates**

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Steady quarter: PWGR reported Q2FY22 PAT growth of 9% YoY driven by a drop in effective tax rate. Pretax income was up just 1.9%. Sequentially, core PAT rose 13% QoQ due to lower tax and higher other income (reported PAT fell due to a gain from InvIT sale in Q1FY22). Outstanding payments have declined 23% YoY, indicating improvement in payments from discoms.

Transmission growth opportunities limited: PWGR's management cited potential opportunities worth Rs 250bn primarily for interstate transmission services (ISTS) for the entire industry. Management expects project awards to accelerate in H2FY22 after a slow H1 that dragged the outstanding backlog down sharply to Rs 275bn. The recent policy change is also expected to accelerate the award of transmission projects.

Opportunity from smart meters and distribution network augmentation: Management sees opportunities in smart meter financing, system integration and data analysis, for which the company is in talks with six states. PWGR is also talking to five states for augmentation of their distribution network. However, it is unclear how these contract structures will evolve.

Steady earnings should continue: PWGR owns 40% of India's transmission lines. Transmission is the least risky segment in the power sector due to a secure payment system and low scope for default given discoms' high dependence on the transmission grid.

Valuations low but modest network scale-up a negative: We change our SOTP-based Sep'22 TP from Rs 196 to Rs 201 driven largely by a 7%/6%/9% increase in our FY22/FY23/FY24 net income estimates. We retain our HOLD rating. Key positive stock drivers are special dividends and order wins. Swift opening of the sector to private investment would act as a negative driver.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	PWGR IN/Rs 184
Market cap	US$ 17.3bn
Free float	49%
3M ADV	US$ 30.3mn
52wk high/low	Rs 210/Rs 134
Promoter/FPI/DII	51%/28%/8%

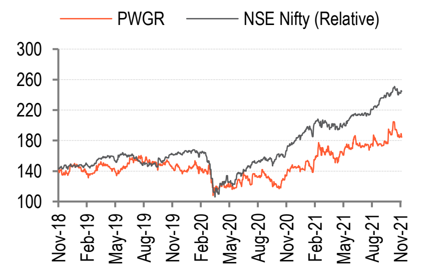
Source: NSE | Price as of 10 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	3,96,398	4,01,331	4,12,780
EBITDA (Rs mn)	3,53,548	3,56,652	3,65,564
Adj. net profit (Rs mn)	1,31,141	1,31,356	1,36,330
Adj. EPS (Rs)	25.1	18.8	19.5
Consensus EPS (Rs)	25.1	19.7	21.2
Adj. ROAE (%)	19.5	17.7	16.8
Adj. P/E (x)	7.4	9.8	9.4
EV/EBITDA (x)	7.3	7.2	6.8
Adj. EPS growth (%)	5.7	(24.9)	3.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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