

FIRST LIGHT

RESEARCH

V-Mart Retail | Target: Rs 1,630 | -9% | SELL

Tough times ahead – downgrade to SELL

Bajaj Finance | Target: Rs 4,000 | +21% | BUY

Opex control a positive surprise, liquidity buffers strong

Axis Bank | Target: Rs 530 | +19% | BUY

Balance sheet continues to strengthen

SUMMARY

V-Mart Retail

The renewed lockdown in V-Mart Retail's (VMART) key markets of Bihar and UP (56% of total stores) will retard demand recovery. With Covid-19 spreading to tier-2/3 towns where the company has a strong presence, a potential extension of restrictions would derail sales not only in Q2 but also Q3 – seasonally the best quarter for the company due to the festive/marriage period. We trim FY21/ FY22 PAT by 5%/2% and roll to a new Jun'21 TP of Rs 1,630 (vs. Rs 1,560). Current valuations of 35.2x FY22E EPS look rich – cut from REDUCE to SELL.

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

Bajaj Finance

Bajaj Finance (BAF) reported 7% YoY AUM growth in Q1FY21. With opex softening (-11% YoY) and NII growing at 12% YoY, operating profit rose 25% to Rs 30bn. The company reported a decline in moratorium loan share to 16% as of June vs. 27% as of April. Provisioning coverage is 13.7% on the consolidated moratorium book. In our view, BAF is well capitalised and has enough liquidity to weather the secular slowdown. We maintain BUY and increase FY21/FY22 earnings by 5%/4%, rolling over to a new Jun'21 TP of Rs 4,000 (vs. Rs 3,000).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.61	(2bps)	(8bps)	(144bps)
India 10Y yield (%)	5.80	(1bps)	(5bps)	(62bps)
USD/INR	74.92	0.1	1.7	(8.7)
Brent Crude (US\$/bbl)	43.28	0.3	2.6	(31.6)
Dow	26,681	0	3.1	(1.8)
Shanghai	3,314	3.1	11.7	14.8
Sensex	37,419	1.1	7.7	(1.6)
India FII (US\$ mn)	17 Jul	MTD	CYTD	FYTD
FII-D	8.7	37.3 (14,244.7)	(4,485.2)	
FII-E	106.8	(437.5)	(2,879.0)	3,724.0

Source: Bank of Baroda Economics Research

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Axis Bank

Axis Bank's (AXSB) Q1FY21 PAT declined 19% YoY to Rs 11bn owing to weak fee income (-38% YoY/-44% QoQ) and accounting policy changes (~Rs 5bn hit). Moratorium share reduced to 9.7% of loans under phase-2 as approvals were given only after review and the bank focused on collections. Slippages at ~Rs 22bn were largely driven by corporate slippages worth Rs 13.6bn (incl. a single group account worth ~Rs 10bn). We cut FY21-FY22 EPS by 13-20% to reflect weak NIM and fee income, and roll forward to a Sep'21 TP of Rs 530 (vs. Rs 525). BUY.

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

SELL

TP: Rs 1,630 | ▼ 9%

V-MART RETAIL

Retail

21 July 2020

Tough times ahead – downgrade to SELL

The renewed lockdown in V-Mart Retail's (VMART) key markets of Bihar and UP (56% of total stores) will retard demand recovery. With Covid-19 spreading to tier-2/3 towns where the company has a strong presence, a potential extension of restrictions would derail sales not only in Q2 but also Q3 – seasonally the best quarter for the company due to the festive/marriage period. We trim FY21/ FY22 PAT by 5%/2% and roll to a new Jun'21 TP of Rs 1,630 (vs. Rs 1,560). Current valuations of 35.2x FY22E EPS look rich – cut from REDUCE to SELL.

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Lockdown in key markets to derail growth: VMART has 56% of its 266 stores located in Bihar (45 stores) and Uttar Pradesh (103 stores), states which are once again under lockdown. Bihar has announced a complete lockdown from 16-31 July whereas UP is shutting down only on weekends over 12-31 July. As a major chunk of retail sales occur on weekends, this partial lockdown in UP will hurt footfalls and revenues in Q2. Also, reimposition of restrictions in some parts of Assam, Orissa, West Bengal and J&K where the company has a store presence will further erode sales.

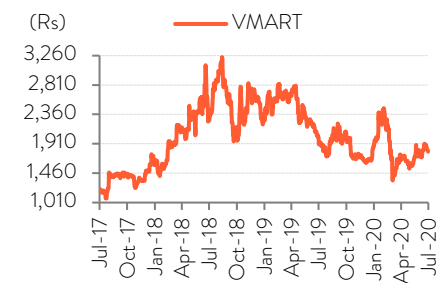
Pandemic impact to undermine seasonally strong Q3: Oct-Dec is seasonally the best quarter for VMART, typically contributing ~55% of full-year EBITDA given festival/marriage spends and the onset of winter. We believe the localised shutdowns will dampen sales not just in Q2 but also in Q3 as state authorities potentially extend restrictions on social gatherings to contain the pandemic.

Downgrade to SELL: The stock is trading at 35.2x FY22E EPS which looks expensive given the demand concerns. We cut our FY21/FY22 PAT estimates by 5%/2% and downgrade the stock from REDUCE to SELL. Rolling valuations forward, we have a revised Jun'21 TP of Rs 1,630, set at an unchanged 30x PER.

Ticker/Price	VMART IN/Rs 1,799
Market cap	US\$ 437.8mn
Shares o/s	18mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	51%/23%/26%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
Total revenue (Rs mn)	14,337	16,620	14,264	21,234	26,178
EBITDA (Rs mn)	1,336	2,138	1,973	2,966	3,688
Adj. net profit (Rs mn)	724	493	339	927	1,158
Adj. EPS (Rs)	39.9	27.2	18.7	51.1	63.8
Adj. EPS growth (%)	(5.8)	(31.8)	(31.3)	173.5	24.9
Adj. ROAE (%)	19.1	11.4	7.1	17.3	18.2
Adj. P/E (x)	45.1	66.2	96.4	35.2	28.2
EV/EBITDA (x)	24.1	15.0	16.4	10.7	8.4

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



BUY

TP: Rs 4,000 | ▲ 21%

BAJAJ FINANCE

| NBFC

| 22 July 2020

Opex control a positive surprise, liquidity buffers strong

Bajaj Finance (BAF) reported 7% YoY AUM growth in Q1FY21. With opex softening (-11% YoY) and NII growing at 12% YoY, operating profit rose 25% to Rs 30bn. The company reported a decline in moratorium loan share to 16% as of June vs. 27% as of April. Provisioning coverage is 13.7% on the consolidated moratorium book. In our view, BAF is well capitalised and has enough liquidity to weather the secular slowdown. We maintain BUY and increase FY21/FY22 earnings by 5%/4%, rolling over to a new Jun'21 TP of Rs 4,000 (vs. Rs 3,000).

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Loan growth slows due to lockdown: AUM grew at a muted 7% YoY to Rs 1.4tn largely owing to a drop in loan volumes (-76% YoY) to 1.8mn. This marks the biggest fall in loan acquisition in the last 26 quarters.

Moratorium loans decline, collections improve: Loans under moratorium dipped to ~16% of AUM in June vs. 27% as of April. Management attributed this to a 50% increase in collection architecture throughput and to customers regularising repayments. The contingency provision against the pandemic is now at 13.7% of the consolidated moratorium book (Rs 217bn).

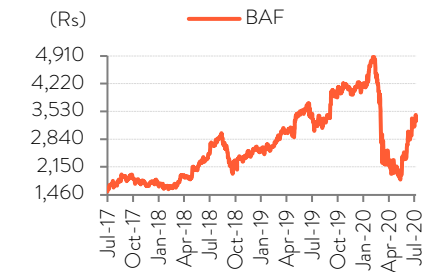
Well capitalised to absorb risks to asset quality: BAF reported provisions of Rs 16.9bn, of which Rs 14.5bn was towards Covid-19. The sharp increase in provisions led to a 20% YoY decline in net profit to Rs 9.6bn. The company remains well capitalised (22.6% tier-1 ratio) and has strong liquidity (Rs 206bn as of Jul'20) to absorb asset quality concerns.

Maintain BUY: We increase FY21/FY22 earnings estimates by 5%/4% to factor in opex control and raise our TP to Rs 4,000 as we continue to repose confidence in management's ability to make timely course corrections.

Ticker/Price	BAF IN/Rs 3,292
Market cap	US\$ 26.6bn
Shares o/s	602mn
3M ADV	US\$ 446.1mn
52wk high/low	Rs 4,923/Rs 1,783
Promoter/FPI/DII	56%/21%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	97,252	134,972	152,661	168,828	209,523
NII growth (%)	39.5	38.8	13.1	10.6	24.1
Adj. net profit (Rs mn)	39,966	52,637	46,943	72,772	98,046
EPS (Rs)	69.3	87.7	78.2	121.3	163.4
P/E (x)	47.5	37.5	42.1	27.1	20.1
P/BV (x)	9.6	6.1	5.4	4.6	3.8
ROA (%)	3.8	3.6	2.7	3.7	4.1
ROE (%)	22.5	20.2	13.6	18.3	20.8

Source: Company, BOBCAPS Research



BUY

TP: Rs 530 | ▲ 19%

AXIS BANK

| Banking

| 22 July 2020

Balance sheet continues to strengthen

Axis Bank's (AXSB) Q1FY21 PAT declined 19% YoY to Rs 11bn owing to weak fee income (-38% YoY/-44% QoQ) and accounting policy changes (~Rs 5bn hit).

Moratorium share reduced to 9.7% of loans under phase-2 as approvals were given only after review and the bank focused on collections. Slippages at ~Rs 22bn were largely driven by corporate slippages worth Rs 13.6bn (incl. a single group account worth ~Rs 10bn). We cut FY21-FY22 EPS by 13-20% to reflect weak NIM and fee income, and roll forward to a Sep'21 TP of Rs 530 (vs. Rs 525). BUY.

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Moratorium book at ~10% of loans: AXSB's loans under phase-2 of the moratorium declined to 9.7% by value (vs. 25-28% in Q4FY20), with 90% continuing from phase-1. Only customers affected by the crisis were approved moratorium post review by the bank in phase-2. This apart, customer connect and a focus on collections helped lower the moratorium share. Collections under phase-1 were at ~80%/70% levels for the corporate/SME & retail segments in June. About 78% of loans under moratorium are secured while collections from non-moratorium retail customers stood at ~95%.

Prudent NPA recognition and provisioning buffer: Gross slippages stood at Rs 22bn (vs. Rs 39bn in Q4FY20), with ~21% being recognised as NPA on a prudent basis (100% provided) and ~Rs 10bn belonging to a single group (100% provided) being downgraded from the BB- & -below book. The bank made provisions worth ~Rs 10bn on standard assets while PCR improved to 75% (vs. 69% in Q4). Early bucket resolution rates and recoveries from written-off accounts have reached 60-70% and 60-65% of pre-Covid levels respectively.

Loan growth hit marginally, NIM dips 15bps: Loan growth stood at ~13% YoY, and management is cautiously optimistic on growth. NIM declined 15bps QoQ to 3.4% due to the impact of prudence (5bps) and surplus liquidity (9bps).

Ticker/Price	AXSB IN/Rs 446
Market cap	US\$ 15.7bn
Shares o/s	2,620mn
3M ADV	US\$ 227.8mn
52wk high/low	Rs 766/Rs 286
Promoter/FPI/DII	26%/50%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	274,467	321,418	371,348
NII growth (%)	16.6	16.1	8.9	17.1	15.5
Adj. net profit (Rs mn)	46,766	16,272	96,221	125,580	145,158
EPS (Rs)	18.2	6.0	34.1	44.5	51.4
P/E (x)	24.5	73.9	13.1	10.0	8.7
P/BV (x)	1.7	1.5	1.4	1.2	1.1
ROA (%)	0.6	0.2	1.0	1.1	1.2
ROE (%)	7.2	2.1	10.8	12.8	13.3

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)

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