

# FIRST LIGHT

## 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
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	690
<a href="#">Eicher Motors</a>	Buy	18,100
<a href="#">GAIL</a>	Buy	140
<a href="#">Petronet LNG</a>	Buy	330

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	630
<a href="#">Muthoot Finance</a>	Buy	950
<a href="#">Transport Corp</a>	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

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## 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  
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**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

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**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



Source: NSE

## 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**

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**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



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### 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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