FIRST LIGHT

20 October 2022

RESEARCH

Bajaj Auto | Target: Rs 3,636 | –1% | HOLD

Steady performance in a challenging environment

Polycab India | Target: Rs 3,300 | +22% | BUY

Beat on all fronts

V-Mart Retail | Target: Rs 3,620 | +30% | BUY

LimeRoad deal positive but profitability could suffer

Daily macro indicators

Indicator	17-Oct	18-Oct	Chg (%)
US 10Y yield (%)	4.01	4.01	0bps
India 10Y yield (%)	7.41	7.43	1bps
USD/INR	82.36	82.36	0.0
Brent Crude (US$/bbl)	91.6	90.0	(1.7)
Dow	30,186	30,524	1.1
Hang Seng	16,613	16,915	1.8
Sensex	58,411	58,961	0.9
India FII (US$ mn)	**14-Oct**	**17-Oct**	**Chg ($ mn)**
FII-D	(74.4)	81.8	156.3
FII-E	(62.6)	(22.3)	40.2

Source: Bank of Baroda Economics Research

SUMMARY

Bajaj Auto

- Q2 revenue growth (16%) driven by realisation gains as volumes stayed flat YoY. Costs dented meaningful margin gains (17% vs. 16% YoY)
- Overall volume growth to stay range-bound as challenges to exports continue, especially in African markets
- We see limited positive triggers and assume coverage with HOLD for a TP of Rs 3,636 (17x FY24E EPS)

Click here for the full report.

Polycab India

- Strong performance in wires & cables boosts Q2 topline by 11% YoY to Rs 33bn; exports up 75%
- FMEG distribution realignment exercise to be completed by FY23-end; management maintains long-term margin (FY26) forecast at 10%
- FY23/FY24 EPS raised 8%/4%; on rollover, our TP stands revised up to Rs 3,300 (vs. Rs 3,000) – retain BUY

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BOBCAPS Research
research@bobcaps.in

V-Mart Retail

- Value fashion marketplace LimeRoad.com acquired for Rs 0.7bn in a bid to strengthen online presence
- Management plans to invest Rs 1.5bn to scale up the newly acquired business and make it profitable
- We are not consolidating the business now but expect losses and investments to put pressure on profitability; retain BUY, TP Rs 3,620

Click here for the full report.

HOLD
TP: Rs 3,636 | ∀ 1%

BAJAJ AUTO | Automobiles | 19 October 2022

Steady performance in a challenging environment

- **Q2 revenue growth (16%) driven by realisation gains as volumes stayed flat YoY. Costs dented meaningful margin gains (17% vs. 16% YoY)**
- **Overall volume growth to stay range-bound as challenges to exports continue, especially in African markets**
- **We see limited positive triggers and assume coverage with HOLD for a TP of Rs 3,636 (17x FY24E EPS)**

Milind Raginwar
research@bobcaps.in

Realisation-led revenue growth: BJAUT's Q2FY23 volumes grew 23% QoQ (flat YoY) to 1.15mn units. Revenue growth was a positive surprise at 16% YoY (+28% QoQ) to Rs 102bn, driven entirely by realisations at Rs 88.6k per unit (+16% YoY, +3% QoQ). This was despite a lower share of value-added export market volumes at ~40% vs. 62% in Q1FY23. An improved export mix and favourable currency movement contributed to realisation gains.

Margins rangebound as costs stay inflated: Gross margin contracted 120bps QoQ to 26.6% due to the impact of higher commodity costs (lag effect). EBITDA margin at 17.1% expanded 100bps QoQ. Reported PAT came in at Rs 15.2bn, up 20% YoY and 30% QoQ.

Market share loss in value-added motorcycle segment: BJAUT maintained its market share in the low-end motorcycle segment (180cc), but lost 2-4% share at the higher end. This will affect its performance in the medium term as the low-end segment typically exhibits slower recovery and is less remunerative than premium products which are recovering faster and have an edge in terms of margins.

Challenges in export markets to continue: Management indicated that inventory destocking has been completed in key markets in Q2, implying export volumes in H2FY23 are likely to be better than H1. However, with the blanket ban on motorcycles in Nigeria, adverse currency movement, and a rising inflation/rate cycle, the company expects demand to remain tepid.

HOLD, TP Rs 3,636: We expect BJAUT to report a revenue/EBITDA/PAT CAGR of 11%/14%/11% over FY22-FY25. Our gross margin estimates hovers around 28% given the inflated raw material cost structure, with EBITDA margin in the 16-17% range over our forecast period. Our FY23/FY24/FY25 EPS estimates are at Rs 189/ Rs 213/Rs 239. We see limited growth triggers and little upside at current valuations of214 FY24E EPS. We thus assume coverage with HOLD, valuing BJAUT at 17x FY24E EPS, in line with its long-term (10Y) average, for a TP of Rs 3,636.

Key changes

Target	Rating
▼	▼

Ticker/Price	BJAUT IN/Rs 3,656
Market cap	US$ 12.7bn
Free float	46%
3M ADV	US$ 19.0mn
52wk high/low	Rs 4,132/Rs 3,027
Promoter/FPI/DII	54%/10%/13%

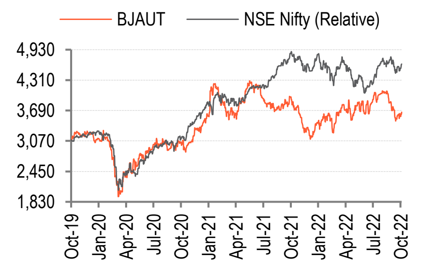
Source: NSE | Price as of 19 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	331,447	365,819	408,286
EBITDA (Rs mn)	52,586	60,039	68,647
Adj. net profit (Rs mn)	47,036	53,905	60,825
Adj. EPS (Rs)	173.4	189.6	213.9
Consensus EPS (Rs)	173.0	199.0	227.0
Adj. ROAE (%)	18.2	19.6	20.3
Adj. P/E (x)	21.1	19.3	17.1
EV/EBITDA (x)	20.2	18.0	15.5
Adj. EPS growth (%)	5.7	16.6	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 3,300 | ⮝ 22%

POLYCAB INDIA | Consumer Durables | 19 October 2022

Beat on all fronts

- **Strong performance in wires & cables boosts Q2 topline by 11% YoY to Rs 33bn; exports up 75%**
- **FMEG distribution realignment exercise to be completed by FY23-end; management maintains long-term margin (FY26) forecast at 10%**
- **FY23/FY24 EPS raised 8%/4%; on rollover, our TP stands revised up to Rs 3,300 (vs. Rs 3,000) – retain BUY**

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Growth led by wires & cables (W&C): Polycab's Q2FY23 revenue at Rs 33.3bn increased 11% YoY (3Y CAGR at 14%), ahead of our/consensus growth estimates by 18%/11%. The outperformance came from the core W&C vertical (+12% YoY) and strong exports (+75% YoY). Robust volume growth in W&C (15%+) cushioned the topline as realisations weakened amidst the recent easing of commodity prices.

Resilient margins: EBITDA margin at 12.8% (+150bps QoQ) was at the upper end of the guided band of 11-13% while gross margin stood at 26.1% (+110bps QoQ). Polycab's timely price revisions (reflecting pricing power) along with strong exports aided margins. Average net working capital days improved to 44 vs. 63 days in Q1FY23 (guided to remain stable in coming quarters), with the cash position at Rs 4.9bn.

FMEG a laggard: Revenue from the fast-moving electrical goods (FMEG) segment dipped 11% YoY to Rs 3.1bn (3Y CAGR at 16%), owing to poor rural demand, seasonality in the fan segment and a distribution rejig undertaken as per the company's Leap strategy. FEMG EBIT margin turned negative (-0.9% vs. +5% in Q2FY22) as the focus on market share continues. Management anticipates that realignment of distribution for the Leap project will draw to a close by FY23-end and thus anticipates a recovery in FEMG EBIT thereafter.

Maintain BUY: Polycab is progressing well towards meeting its long-term Leap target of ~Rs 200bn in revenue by FY26, given multiple growth levers such as moats in the W&C vertical, ramp-up in FEMG, strategic expansion of the B2C business, and a massive opportunity landscape on account of growing consumption, infrastructure development and favourable policy reform. In light of the strong Q2 performance, we raise our FY23/FY24 EPS estimates by 8%/4%. This coupled with rollover to Sep'24E valuations translates to a revised TP of Rs 3,300 (Rs 3,000 earlier). We continue to value the stock at 35x EPS, a 50% premium to the 3Y average – retain BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	POLYCAB IN/Rs 2,707
Market cap	US$ 4.9bn
Free float	32%
3M ADV	US$ 10.0mn
52wk high/low	Rs 2,863/Rs 2,044
Promoter/FPI/DII	68%/6%/9%

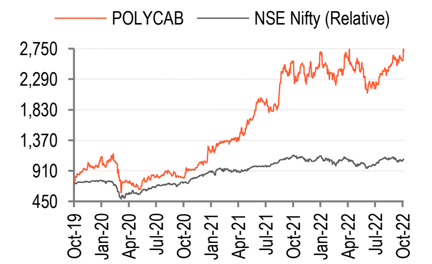
Source: NSE | Price as of 19 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,47,987	1,67,087
EBITDA (Rs mn)	12,652	17,139	20,007
Adj. net profit (Rs mn)	8,365	11,490	13,476
Adj. EPS (Rs)	55.9	76.8	90.1
Consensus EPS (Rs)	55.9	73.1	86.0
Adj. ROAE (%)	16.2	19.1	19.0
Adj. P/E (x)	48.4	35.2	30.0
EV/EBITDA (x)	32.0	23.6	20.2
Adj. EPS growth (%)	(0.2)	37.4	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 3,620 | ⮝ 30%

V-MART RETAIL | Retail | 19 October 2022

LimeRoad deal positive but profitability could suffer

- **Value fashion marketplace LimeRoad.com acquired for Rs 0.7bn in a bid to strengthen online presence**
- **Management plans to invest Rs 1.5bn to scale up the newly acquired business and make it profitable**
- **We are not consolidating the business now but expect losses and investments to put pressure on profitability; retain BUY, TP Rs 3,620**

Ruchitaa Maheshwari
research@bobcaps.in

LimeRoad acquired for Rs 0.7bn: In a bid to strengthen its online presence in tier-2/3 markets, VMART has acquired online value fashion marketplace LimeRoad for Rs 0.7bn. Of this, Rs 311mn will be paid to LimeRoad for settling the company's liabilities. VMART will directly settle the remaining liabilities of Rs 362mn, besides taking over assets worth Rs 146mn. The current CEO and COO of LimeRoad will remain at the helm and run the business as an independent unit under VMART.

About LimeRoad: Founded in 2012, LimeRoad offers unbranded styles and fashion-related content to its 17mn value buyers. The business model is designed to serve a semiurban and rural ('Bharat') client base, with fast web speeds and a light app to ensure a smooth online customer experience. Buyers in the states of Maharashtra, Karnataka, Uttar Pradesh and West Bengal are the top revenue contributors. Women account for 65% of revenue and have a strong presence in the Rs 500-1,000 segment.

LimeRoad financials: Given severe competition from the likes of Flipkart, Amazon and Ajio, the business has been struggling with revenue showing a consistent decline from Rs 1.8bn in FY20 to Rs 693mn in FY22. However, EBITDA loss has reduced to ~Rs 150mn in FY22 from Rs 340mn in FY20.

Sound synergies: VMART plans to invest Rs 1.5bn to help scale up the LimeRoad business and achieve profitability. If executed well, we believe VMART has the potential to become a unique omnichannel value retailer with its offline expertise, product and quality depth and LimeRoad's online consumer and community strengths.

Expect pressure on profitability: We are positive on VMART in the long run but see mounting pressure on financials as (1) the company is undergoing a difficult phase due to weak consumer sentiments and heightened competitive intensity, (2) LimeRoad remains lossmaking at the EBITDA level, and (3) additional investments by VMART over the next two years could impact profitability. Our back-of-the-envelope calculations suggest the deal will dilute VMART's blended FY24E EBITDA by ~15%. For now, we maintain our BUY rating and TP of Rs 3,620, set at 21x FY24E EV/EBITDA vs. the stock's 5Y median multiple of 28x EV/EBITDA.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VMART IN/Rs 2,782
Market cap	US$ 666.0mn
Free float	54%
3M ADV	US$ 1.5mn
52wk high/low	Rs 4,849/Rs 2,407
Promoter/FPI/DII	46%/18%/36%

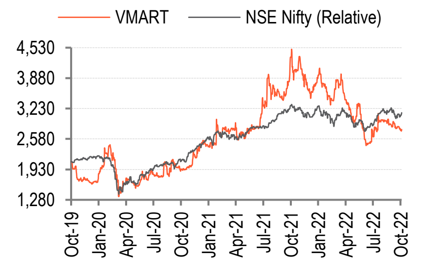
Source: NSE | Price as of 18 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,662	19,490	24,768
EBITDA (Rs mn)	2,043	2,437	3,379
Adj. net profit (Rs mn)	116	281	706
Adj. EPS (Rs)	5.9	14.2	35.8
Consensus EPS (Rs)	5.9	59.2	90.2
Adj. ROAE (%)	1.4	3.3	7.8
Adj. P/E (x)	471.0	195.4	77.6
EV/EBITDA (x)	25.8	21.3	15.7
Adj. EPS growth (%)	(134.3)	141.0	151.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

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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