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FIRST LIGHT

01 June 2021

RESEARCH

BOB Economics Research | Weekly Wrap

Indian states to begin phased reopening

BOB Economics Research | Q4FY21 GDP

GDP surprises positively

V-Mart | Target: Rs 2,080 | –25% | SELL

Anaemic quarter, near-term outlook remains bleak – SELL

Banking

Lending rates increase marginally in April

SUMMARY

India Economics: Weekly Wrap

US yields fell on the back of lower than estimated home sales and durables goods orders. DXY index was flat with economic sentiment in Europe improving. Oil prices rose by 5%. On the domestic front, our weekly economic tracker shows economic activity picking up, with index at 81 versus 79. Activity should improve further with cases coming down. India's 10Y yields rose as centre's borrowing may increase to compensate the states for GST shortfall. This week, Q4 GDP, FY21 fiscal deficit and RBI policy is awaited.

Click here for the full report.

India Economics: Q4FY21 GDP

India reported FY21 growth of (-) 7.3% compared with AE of (-) 8%. Positive surprise was led by government spending, investments and exports. GVA was also revised upward to (-) 6.2% (AE: -6.5%) on the back of manufacturing and construction. Counter cyclical fiscal policy was visible with government spending rising by 2.9% in FY21. However, consumption and investment were muted in FY21. We expect growth to rebound to 9.7% in FY22 on a low base. Durable growth will be only visible once vaccination rates improve in H2.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,620
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.59	(1bps)	(3bps)	94bps
India 10Y yield (%)	6.00	2bps	(5bps)	24bps
USD/INR	72.45	0.2	3.0	4.2
Brent Crude (US$/bbl)	69.63	0.2	4.8	97.1
Dow	34,529	0.2	1.6	36.0
Shanghai	3,601	(0.2)	4.6	26.2
Sensex	51,423	0.6	5.1	58.6
India FII (US$ mn)	**27 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(130.9)	72.8	(2,319.5)	(292.2)
FII-E	6.1	(21.1)	5,816.0	(1,510.3)

Source: Bank of Baroda Economics Research

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V-Mart Retail

Despite a soft base, V-Mart Retail (VMART) reported weak 6% YoY Q4FY21 revenue growth due to sustained Covid-19 headwinds. Adj. EBITDA margin was flattish at 8.5% and EBITDA grew 7%, but the company reported a PBT loss of Rs 76mn. A resurgent pandemic has hit demand in Q1 though management expects improvement once lockdowns are eased. We cut FY22 PAT by 54% on renewed demand concerns but hike our FY23 estimate by 22% to build in other income from QIP proceeds. Our Mar'22 TP thus rises to Rs 2,080 (vs. Rs 1,850).

Click here **for the full report.**

Banking

As per RBI data on lending and deposit rates, the WALR on fresh rupee loans sanctioned by SCBs inched up to 8.1% in April while that on outstanding loans was stable at 9.2%. Deposit rates held steady at 5.4% for the month but given adequate liquidity in the system, rates of both private and PSBs have declined by 70-75bps over the last 12 months. Spreads for public banks have improved marginally to 3.3% in April but remain ~135bps lower than that of private peers. We expect NIMs of large private players to remain stable in the near term.

Click here **for the full report.**

WEEKLY WRAP

31 May 2021

Indian states to begin phased reopening

Sameer Narang | Sonal Badhan
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US yields fell on the back of lower than estimated home sales and durables goods orders. DXY index was flat with economic sentiment in Europe improving. Oil prices rose by 5%. On the domestic front, our weekly economic tracker shows economic activity picking up, with index at 81 versus 79. Activity should improve further with cases coming down. India's 10Y yields rose as centre's borrowing may increase to compensate the states for GST shortfall. This week, Q4 GDP, FY21 fiscal deficit and RBI policy is awaited.

Markets

- **Bonds:** Global yields closed mixed this week. US 10Y yield fell by 3bps (1.59%) led by lower than estimated US new and pending home sales. Crude prices rose by 4.8% (US$ 69.7/bbl). India's 10Y yield rose by 3bps (6%) on news of higher than planned borrowing by central government. System liquidity surplus rose to Rs 4tn as on 28 May 2021 from Rs 3.7tn in previous week.

- **Currency:** Except JPY and AUD (lower), other global currencies closed higher this week. DXY closed flat. GBP rose by 0.3% amidst expectations of a rate hike in CY22. JPY depreciated sharply by 0.8% as lockdown restrictions are likely to extend further. INR rose by 0.5% to a 2-month high as Covid-19 cases continued to dip. FII inflows were US$ 177mn.

- **Equity:** Global indices ended higher, led by drop in Covid-19 cases globally. Jobless print in US was better than estimated. Shanghai Comp surged by 3.3%, followed by Nikkei (2.9%). Sensex (1.7%) too ended in green led by real estate and tech stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace by 3.7mn this week versus 4mn last week. India added 1.5mn cases versus 2mn WoW. Our weekly economic activity tracker index rose to 81 (100=Feb'20) from 79 last week. Israel has vaccinated 63% of its population (single dose), UK at 57% and US at 50%. India is now at 12%.

- **Upcoming key events:** Markets await manufacturing and services PMI data of major global economies and payroll data of US. On the domestic front, GDP data, fiscal estimates and RBI's policy decision will be key to watch.

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Bank of Baroda

Q4FY21 GDP

31 May 2021

GDP surprises positively

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India reported FY21 growth of (-) 7.3% compared with AE of (-) 8%. Positive surprise was led by government spending, investments and exports. GVA was also revised upward to (-) 6.2% (AE: -6.5%) on the back of manufacturing and construction. Counter cyclical fiscal policy was visible with government spending rising by 2.9% in FY21. However, consumption and investment were muted in FY21. We expect growth to rebound to 9.7% in FY22 on a low base. Durable growth will be only visible once vaccination rates improve in H2.

Q4 growth surprises positively: GDP growth in Q4FY21 surprised positively at 1.6% compared with 0.5% seen in Q3FY21. The upside surprise was due to Centre's spending which rose by 30.7%. Hence, GFCE rose by 28.3% in Q4 (-1% in Q3). Even consumption demand improved to 2.7% in Q4 from (-) 2.8% in Q3 and investment demand increased by 10.9% in Q4 as against 2.6% in Q3. GVA growth was also higher at 3.7% in Q4 as against 1% in Q3. The rebound was led by manufacturing at 6.9% (1.7% in Q3), construction at 14.5% (6.5% in Q3) and public administration and defence at 2.3% (-2.2% in Q3). Contraction in trade, hotels etc. eased.

Counter cyclical fiscal policy: Growth estimate for FY21 now stands at (-) 7.3% compared with earlier estimate of (-) 8%. Private consumption demand remained weak at (-) 9.1% compared with an increase of 5.5% in FY20. Imports were lower by 13.6%. Investment demand too fell by 10.8%. Counter cyclical fiscal policy was visible with higher government spending of 2.9%. Demand for gold too rose. On the supply side, the highlight seems to be positive growth seen in electricity output. Exports outperformed. Nominal GDP fell by 3%.

Outlook for FY22: We expect GDP growth to increase to 9.7% in FY22 led by low base. With global economy recovering ahead of India, exports are likely to fare better. Consumption demand is likely to remain subdued till such time restrictions are in place. A steady increase in vaccination roll-out is the only way to drive consumption higher. Till such time, government spending will be necessary to boost growth as seen in construction activity in the last quarter. We expect states to start removing restrictions from late June or early July as cases come down steadily. Post that, we believe a durable growth recovery will be seen with consumption demand seeing an uptick.

RESULT REVIEW

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SELL
TP: Rs 2,080 | ⮟ 25%

V-MART RETAIL | Retail | 01 June 2021

Anaemic quarter, near-term outlook remains bleak – SELL

Despite a soft base, V-Mart Retail (VMART) reported weak 6% YoY Q4FY21 revenue growth due to sustained Covid-19 headwinds. Adj. EBITDA margin was flattish at 8.5% and EBITDA grew 7%, but the company reported a PBT loss of Rs 76mn. A resurgent pandemic has hit demand in Q1 though management expects improvement once lockdowns are eased. We cut FY22 PAT by 54% on renewed demand concerns but hike our FY23 estimate by 22% to build in other income from QIP proceeds. Our Mar'22 TP thus rises to Rs 2,080 (vs. Rs 1,850).

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Tepid sales growth: Sustained pandemic-led demand headwinds saw VMART report weak revenue growth of 6% YoY in Q4 (+1.5% same-store sales growth or SSSg), despite a soft base quarter (–3.4% YoY decline). FY21 revenue contracted 35% with SSSg down 40% as footfalls waned during the pandemic. Per management, Q1FY22 has been a washout thus far due to lockdowns but demand is likely to revive post unlocking as the company did see some signs of recovery in Q4. VMART maintains its plan of 20-25% area addition every year going ahead.

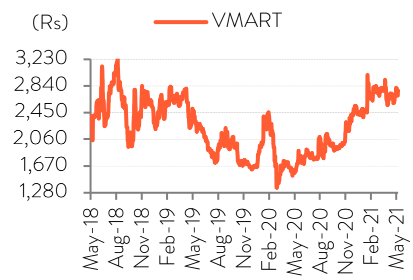
EBITDA improves marginally: Adj. operating margin (ex-rent concession) was up 10bps YoY at 8.5% with employee cost down 95bps and other expenses rising 210bps. Gross margin expanded 125bps YoY due to lower discounting and shrinkage. Management does not foresee any material savings from rent or employee cost going ahead, as seen in FY21.

Maintain SELL: VMART has performed below our expectations in FY21. We cut FY22 PAT estimates by 54% in light of continued pandemic concerns. Our FY23 PAT moves up 22% mainly due to high other income from QIP funds (EBITDA largely unchanged). Maintain SELL with a revised Mar'22 TP of Rs 2,080 (earlier Rs 1,850), based on an unchanged 30x FY23E P/E.

Ticker/Price	VMART IN/Rs 2,766
Market cap	US$ 750.6mn
Shares o/s	20mn
3M ADV	US$ 0.9mn
52wk high/low	Rs 3,129/Rs 1,605
Promoter/FPI/DII	47%/24%/29%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	14,337	16,620	10,755	17,677	25,942
EBITDA (Rs mn)	1,336	2,149	1,192	2,058	3,762
Adj. net profit (Rs mn)	724	485	(340)	414	1,363
Adj. EPS (Rs)	36.7	24.6	(17.2)	21.0	69.2
Adj. EPS growth (%)	(5.8)	(32.9)	(170.0)	(221.9)	229.4
Adj. ROAE (%)	19.1	11.2	(5.3)	4.9	14.6
Adj. P/E (x)	75.3	112.3	(160.5)	131.7	40.0
EV/EBITDA (x)	40.5	25.1	45.4	25.4	13.5

Source: Company, BOBCAPS Research | P – Provisional

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BANKING

31 May 2021

Lending rates increase marginally in April

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As per RBI data on lending and deposit rates, the WALR on fresh rupee loans sanctioned by SCBs inched up to 8.1% in April while that on outstanding loans was stable at 9.2%. Deposit rates held steady at 5.4% for the month but given adequate liquidity in the system, rates of both private and PSBs have declined by 70-75bps over the last 12 months. Spreads for public banks have improved marginally to 3.3% in April but remain ~135bps lower than that of private peers. We expect NIMs of large private players to remain stable in the near term.

PSBs' fresh lending rate rises 30bps: As per latest RBI data, the weighted average lending rate (WALR) on fresh rupee loans sanctioned by scheduled commercial banks (SCB) increased 7bps MoM to 8.1% in Apr'21 led by a ~30bps rise in rates at public sector banks (PSB). Fresh lending rates of public and private banks have reduced by ~55bps and ~40bps respectively since May'20. Over the last 12 months, the median MCLR of banks has declined ~40bps, translating into lower fresh rates. WALR on outstanding loans was largely stable at 9.2% in April.

Term deposit rate broadly steady MoM: SCBs' weighted average domestic term deposit rate was stable at 5.4% in April as rates of both private banks (down 4bps MoM) and PSBs (down 2bps) were largely flat. Private and PSBs have reduced deposit rates by 75bps and 70bps respectively over the last 12 months. Indeed, aggressive cuts by private players over the past few quarters have brought them on par with public sector peers.

PSBs manage to improve spreads: Spreads for private banks were stable in April at 4.6% while PSBs managed a 5bps MoM uptick to 3.3% given a marginal increase in outstanding lending rates coupled with lower term deposit rates. Private players thus continue to maintain a ~135bps lead over PSBs.

NIMs likely to hold steady for now: The median MCLR of SCBs was stable at 7.3% in April. A large chunk of the banking sector's loan portfolio is currently linked to MCLR, where both large/mid-sized private banks and PSBs have cut rates by 30-50bps since Jun'20. We expect NIMs for large private banks under our coverage to remain stable in the near term.

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Recommendation scale: 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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