FIRST LIGHT

09 September 2020

RESEARCH

BOB Economics Research | Monthly Chartbook

India's recovery gathers steam

Info Edge | Target: Rs 1,970 | –41% | SELL

Lower billings a cause for concern

V-Mart Retail | Target: Rs 1,665 | –11% | SELL

Revival hopes pinned on Q3 festive season

SUMMARY

India Economics: Monthly Chartbook

India's manufacturing PMI moved into expansion zone, in-line with other large economies. However, services PMI is still contracting. Apart from FMCG production, railway freight is also now in positive territory. Rural economy is continuing to gain traction as seen in higher tractor sales and kharif sowing. However, with muted tax collections and rising general government fiscal deficit (10.3% of GDP), government capex has seen a deceleration. While yields had cooled down after RBI's announcement of special OMOs and increase in HTM limit, they have inched up again as Q1 contraction and increase in Covid cases imply recovery may be slow which raises the prospect of higher general government borrowings.

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Info Edge

Info Edge (INFOE) posted weak Q1FY21 revenues with a 10% YoY decline, weighed down by a 25% slump in 99acres.com revenues. Operating performance held strong with a 420bps YoY increase in EBIT margin. However, billings and deferred sales declined significantly for Naukri.com and 99acres.com, raising concerns of sharp de-growth in subsequent quarters. We raise our FY21/FY22 EPS estimates by 7%/17% to incorporate the ~Rs 18.8bn QIP. Retain SELL as we roll over to a Jun'21 TP of Rs 1,970 (vs. Rs 1,920).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.72	8bps	15bps	(93bps)
India 10Y yield (%)	5.99	6bps	15bps	(58bps)
USD/INR	73.35	(0.3)	2.1	(2.3)
Brent Crude (US$/bbl)	42.01	(1.5)	(5.4)	(32.9)
Dow	28,133	(0.6)	2.6	4.8
Shanghai	3,293	(1.9)	(1.8)	8.9
Sensex	38,417	0.2	1.0	3.4
India FII (US$ mn)	**4 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	152.3	159.7	(14,930.3)	(5,170.8)
FII-E	(382.8)	(152.1)	4,655.3	11,258.3

Source: Bank of Baroda Economics Research

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V-Mart Retail

Key takeaways from our recent interaction with the V-Mart Retail management (VMART): (1) VMART now has ~90% of its stores operational given the gradual unlocking across the country. However, store timings have reduced in many geographies due to continued restrictions. (2) Footfalls are at 70-75% of normal levels whereas conversion to buying customers is high as only those with immediate requirements are stepping into stores.

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India's recovery gathers steam

India's manufacturing PMI moved into expansion zone, in-line with other large economies. However, services PMI is still contracting. Apart from FMCG production, railway freight is also now in positive territory. Rural economy is continuing to gain traction as seen in higher tractor sales and kharif sowing. However, with muted tax collections and rising general government fiscal deficit (10.3% of GDP), government capex has seen a deceleration. While yields had cooled down after RBI's announcement of special OMOs and increase in HTM limit, they have inched up again as Q1 contraction and increase in Covid cases imply recovery may be slow which raises the prospect of higher general government borrowings.

Consumption to improve gradually: Consumption spending fell by 26.7% and 24.5% in real and nominal terms respectively in Q1FY21 (56% of GDP). RBI's current situation consumer confidence is at lowest level. While a gradual recovery is visible in consumer non-durables (increase of 14% in Jun'20), electronic imports, passenger car sales, tractor sales, google mobility index and E-way bills, a sustained growth path is still some time away. The bright spot remains, uptick in rural India led by higher acreage and improving terms of trade. Even manufacturing PMI has now turned positive while services PMI is still contracting due to localised lockdowns. Capex recovery is weak.

Fiscal deficit rising: General government fiscal deficit (12M basis) has risen to 10.3% of GDP in the wake of subdued revenues. On FYTD basis centre's net tax revenues are down by 40.6% versus 14% increase seen last year led by 33.2% decline in direct tax collections. Centre's capex has slowed from 40.1% in Q1 to 3.9% in Jul'20. Capex by state's is down by 22.7%. With states' tax revenues down by 18.6% in Apr-Jul, market borrowings of states have gathered pace and are up by ~25% in Aug'20.

RBI lends support to 10Y: Underlying inflationary pressures are visible in Aug'20 with rising vegetable (5% MoM increase), crude (4.2%) and gold prices (6.7%). MPC minutes too were hawkish. 10Y yield shot up by 28bps in Aug'20. However, RBI's special OMOs, hike in HTM limit and changing FX intervention strategy led to 22bps decline in yields in early Sep. However, yield curve has steepened again. An enlarged borrowing calendar and higher than target inflation makes us believe that yields are unlikely to decline from here unless RBI announces a large OMO purchase calendar or inflation falls more than our forecast.

Global macros favourable for INR: INR appreciated by by 1.6% in Aug'20 as FII inflows rose to a 17-month high at US$ 5.5bn. Weakeness in US$ (DXY fell by 1.3% in Aug'20) also supported INR. EM currencies too gained by 0.9%. In Sep'20 so far, INR has risen by 0.3%. We expect INR to trade with an appreciating bias in the near term on the back of robust foreign inflows as well as a weakness in US$. Apart from this, lower oil prices are also positive for INR.

SELL
TP: Rs 1,970 | ⮟ 41%

INFO EDGE | IT Services | 08 September 2020

Lower billings a cause for concern

Info Edge (INFOE) posted weak Q1FY21 revenues with a 10% YoY decline, weighed down by a 25% slump in 99acres.com revenues. Operating performance held strong with a 420bps YoY increase in EBIT margin. However, billings and deferred sales declined significantly for Naukri.com and 99acres.com, raising concerns of sharp de-growth in subsequent quarters. We raise our FY21/FY22 EPS estimates by 7%/17% to incorporate the ~Rs 18.8bn QIP. Retain SELL as we roll over to a Jun'21 TP of Rs 1,970 (vs. Rs 1,920).

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Slump in real estate segment: INFOE's revenue fell 10% YoY in Q1 (–15% est.), with recruitment solutions and other verticals down 9% and 14% respectively. The number of unique website visitors dropped 17% YoY. The real estate segment plunged 25% YoY due to fewer new listings. Broker listings on 99acres remained suppressed and owner listings are recovering slowly. Jeevansathi was the only segment to show growth. Billings at Naukri/ 99acres fell 44%/71% YoY while deferred revenue dropped 23%/44% YoY.

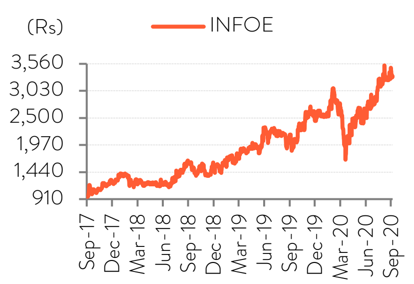
Aggressive cost control: With revenues down across the board, management's aggressive cost control measures helped increase EBIT margins by 420bps YoY to 33%, beating our estimate of a 550bps decline. Advertisement & marketing costs and other expenses reduced by 53% and ~31% YoY respectively. Employee expenses dipped ~7% QoQ due to a pause on salary increments and fresh hiring. Travel and administration costs also declined. In our view, current margins are not sustainable given lower billings and rising costs post-Covid.

Traffic levels recovering: Online traffic started to recover from June, especially for Naukri, led by IT, pharma and telecom services. Jobseekers' traffic is returning to pre-Covid levels and recruiters' traffic has bounced back to 65% of base levels. Traffic at 99acres has been low with slow recovery.

Ticker/Price	INFOE IN/Rs 3,314
Market cap	US$ 5.8bn
Shares o/s	129mn
3M ADV	US$ 18.9mn
52wk high/low	Rs 3,584/Rs 1,581
Promoter/FPI/DII	40%/36%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,982	12,727	11,905	12,913	14,831
EBITDA (Rs mn)	3,414	4,027	3,856	4,072	4,965
Adj. net profit (Rs mn)	3,152	3,290	3,571	4,118	4,819
Adj. EPS (Rs)	24.4	25.5	27.7	31.9	37.4
Adj. EPS growth (%)	15.2	4.4	8.6	15.3	17.0
Adj. ROAE (%)	14.2	13.7	10.1	8.6	9.4
Adj. P/E (x)	135.6	129.9	119.7	103.8	88.7
EV/EBITDA (x)	125.0	106.0	110.4	101.7	80.9

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,665 | ∀ 11%

V-MART RETAIL | Retail | 08 September 2020

Revival hopes pinned on Q3 festive season

Following are key takeaways from our recent interaction with the V-Mart Retail management (VMART):

- VMART now has ~90% of its stores operational given the gradual unlocking across the country. However, store timings have reduced in many geographies due to continued restrictions.
- Footfalls are at 70-75% of normal levels whereas conversion to buying customers is high as only those with immediate requirements are stepping into stores.
- Average selling price is declining but the average bill size has risen 15-20% as customers are purchasing a higher number of items.
- VMART is now seeing some pick-up in non-routine purchases by customers (for items such as trousers), unlike the initial unlock phase where sales mostly comprised regular-use products such as trackpants, t-shirts and shorts.
- Like-to-like store sales are currently ~60% of year-ago levels.
- Rental renegotiations with landlords due to the Covid-19 lockdown/ slowdown should yield savings of Rs 150mn-200mn for the company in FY21. These are one-time savings and will normalise in FY22.
- Employee cost rationalisation should save Rs 150mn-200mn of staff costs in FY21.
- VMART has started purchasing stock for the upcoming festival season in Q3 and is hopeful of better demand during the period with unlocking.
- The company has used only ~15% of its working capital limits so far.
- Management is not planning any net addition to stores in FY21 but will undertake relocation or closure of some underperforming outlets.
- On 5 September, the company passed an enabling resolution to raise up to Rs 5bn as a precautionary measure in case the pandemic continues and the situation worsens, necessitating fund raising. These funds are not intended for M&A activity.

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Ticker/Price	VMART IN/Rs 1,874
Market cap	US$ 460.7mn
Shares o/s	18mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	51%/23%/26%

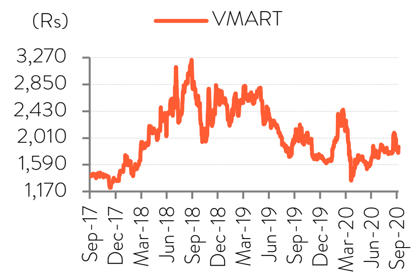
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	13,336	21,158	25,772
EBITDA (Rs mn)	1,719	2,946	3,618
Adj. net profit (Rs mn)	151	901	1,120
Adj. EPS (Rs)	8.3	49.6	61.7
Adj. EPS growth (%)	(69.5)	497.9	24.3
Adj. ROAE (%)	3.2	17.5	18.3
Adj. P/E (x)	225.7	37.7	30.4
EV/EBITDA (x)	19.6	11.3	9.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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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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