

Softer Q4 performance impacts FY20...

The Q4FY20 results were significantly impacted by the Covid-19 crisis resulting in lower sales and an unfavourable product mix in March. Revenue for the quarter grew 24% YoY to ₹ 6255.9 crore. With closure of stores from mid-March onwards, sales in March grew 11% YoY. The situation worsened in April when more than 50% of stores were not operational while rest were restricted to limited hours. The same translated to revenue de-growth of ~45% YoY in April. With the company having a material presence in worst hit Covid-19 states (Maharashtra, Gujarat constitute ~53% of total stores), this weighed on its performance. Furthermore, restrictions on sales of general merchandise & apparel (27.3% of revenues) led gross margins to decline 110 bps YoY to 13.6% in Q4FY20. Post relaxation in certain states, green shoots were visible with the company reporting 17% MoM growth in the first half of May. Given the unprecedented scenario, the outlook for FY21E appears challenging. EBITDA is expected to remain under pressure owing to weak footfalls, unfavourable product mix and higher operating expenses (higher sanitation cost and employee cost). The recent infusion of funds into the business (₹ 4100 crore) have further strengthened the balance sheet.

Accelerated store addition drives FY20 revenue growth

For FY20, revenue growth marginally tapered down to 24% YoY to ₹ 24870.2 crore. Growth was mainly driven by aggressive store addition pace in FY20. DMart added record 38 stores (1.9 mn sq ft addition) taking total store count to 214 stores spread across 7.8 mn sq ft. The company continued to add larger stores with average sq ft of ~50000 (vs. average run-rate 30000 sq ft.). Same store sales (SSSG) growth dipped to 10.9% vs. 17.8% in FY19. SSSG for matured stores (>five years) slowed down whereas new stores are peaking at faster clip (even before they qualify for 24 months SSSG calculations). EBITDA margins (adjusting for Ind-AS 116) stayed constant YoY at 8.1% in FY20. PAT improved significantly by 44.2% YoY to ₹ 1300.9 crore aided by lower tax rate (25% vs. 36% in FY19). On the balance sheet front, stringent working capital policy (22.5 days) and higher profitability led to increase CFO by ~50% in FY20 (CFO/EBITDA: ~54%).

Valuation & Outlook

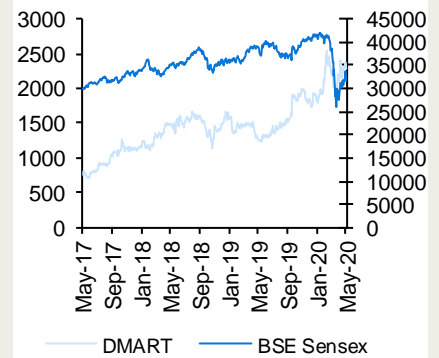
Near term headwinds like lower store throughput, inferior product mix and increased operational cost could lead to a softer revenue and profitability performance in FY21. The company's response to the crisis has been encouraging with execution of initiatives like DMart on Wheels model for large housing societies to counter lower footfall at its stores and expansion of DMart ready model to majority of its stores. DMart has proven to be a resilient business model generating superior RoIC of 23% and healthy fixed asset turnover ratio of 4.1x. Recent capital infusion into the business (~₹ 4100 crore) has enhanced the liquidity position of the company (virtually debt free). We build in revenue and earnings CAGR of 21% and 30%, respectively, in FY20-22E. We reiterate our **HOLD** rating on the stock with a target price of ₹ 2360 (45.0x FY22E EV/EBITDA).



Particulars

Particulars	Amount
Market Capitalisation (₹crore)	142,509.4
Total Debt (FY 20) (₹crore)	3.7
Cash & Investment (FY 20) (₹crore)	3,261.8
EV (₹crore)	139,251.4
52 Week H / L	2559 / 1282
Equity Capital (₹crore)	647.8
Face Value (₹)	10.0

Price Chart:



Key Highlights

- D-Mart has shored up its store addition by adding 38 stores (1.9 million sq ft addition) in FY20 (vs. 21 stores in FY19)
- Maintain HOLD rating on stock with revised target price of ₹ 2360 (45.0x FY22E EV/EBITDA)

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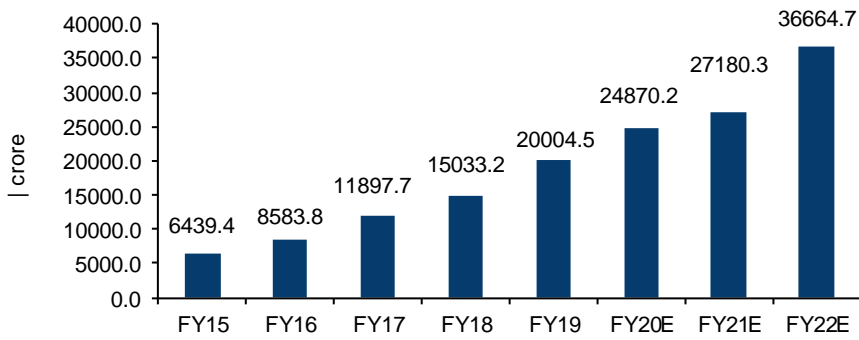
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Key Financial Summary

	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	15,033.2	20,004.5	24,870.2	27,180.3	36,664.7	21.4%
EBITDA	1,352.8	1,633.3	2,128.3	2,065.7	3,336.5	25.2%
PAT	787.8	902.4	1,301.0	1,348.5	2,188.0	29.7%
P/E (x)	170.3	152.1	109.5	105.7	65.1	
EV/Sales (x)	9.1	6.9	5.6	5.1	3.8	
EV/EBITDA (x)	101.4	84.3	65.4	67.3	41.8	
RoCE (%)	24.7	23.4	16.4	14.7	20.2	
RoE (%)	17.3	16.2	11.7	10.9	15.0	

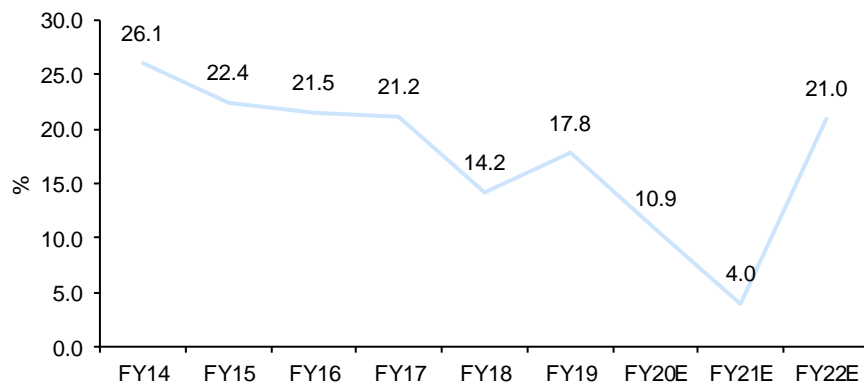
Financial story in charts....

Exhibit 1: We model revenue CAGR of 21% in FY20-22E



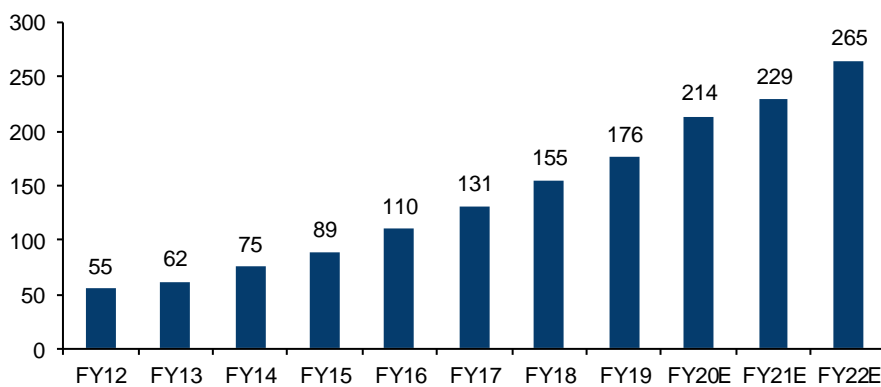
Source: Company, ICICI Direct Research

Exhibit 2: SSSG trend



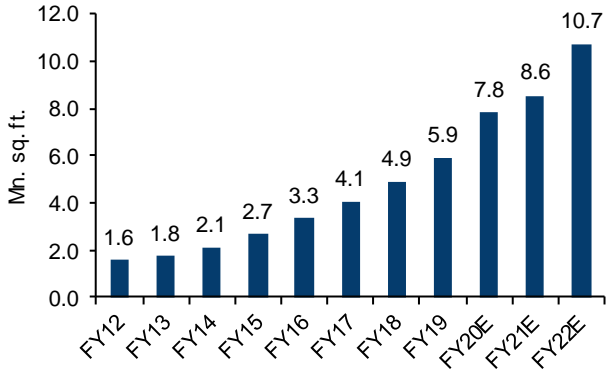
Source: Company, ICICI Direct Research

Exhibit 3: Store addition trend



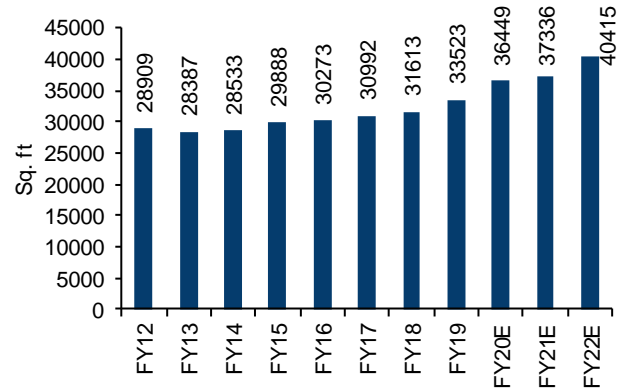
Source: Company, ICICI Direct Research

Exhibit 4: Total carpet area grows at much faster clip...



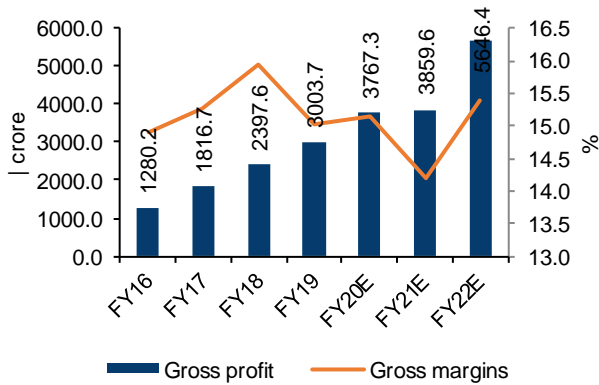
Source: Company, ICICI Direct Research

Exhibit 5: ...with gradual increase in average store size



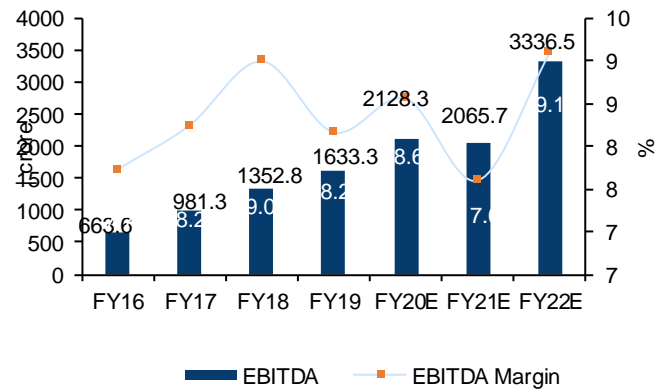
Source: Company, ICICI Direct Research

Exhibit 6: Gross margins expected to decelerate in FY21E owing to unfavourable product mix



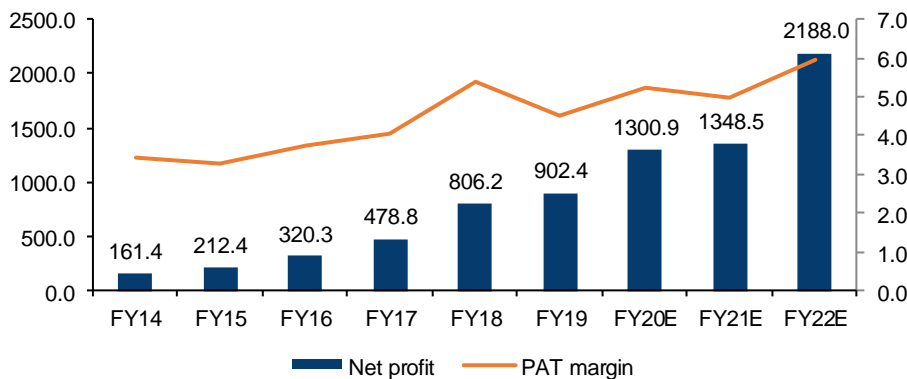
Source: Company, ICICI Direct Research

Exhibit 7: Weak SSSG, higher operating expense to impact margins in FY21E



Source: Company, ICICI Direct Research

Exhibit 8: Expect PAT to grow at 29% CAGR in FY20-22E aided by higher other income



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit & loss statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Net Sales	20,004.5	24,870.2	27,180.3	36,664.7
Growth (%)	33.1	24.3	9.3	34.9
Total Raw Material Cost	17,000.8	21,102.9	23,320.7	31,018.4
Gross Margins (%)	15.0	15.1	14.2	15.4
Employee Expenses	355.4	456.1	543.6	696.6
Other Expenses	1,015.0	1,182.9	1,250.3	1,613.2
Total Operating Expenditure	18,371.3	22,741.9	25,114.6	33,328.2
EBITDA	1,633.3	2,128.3	2,065.7	3,336.5
EBITDA Margin	8.2	8.6	7.6	9.1
Interest	47.2	69.1	36.1	41.5
Depreciation	212.5	374.4	401.0	522.6
Other Income	48.4	60.0	174.3	152.7
Exceptional Expense	-	-	-	-
PBT	1,421.9	1,744.8	1,802.8	2,925.2
Total Tax	519.5	443.8	454.3	737.2
Profit After Tax	902.4	1,301.0	1,348.5	2,188.0

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/(Loss) after taxation	902.4	1,301.0	1,348.5	2,188.0
Add: Depreciation	212.5	374.4	401.0	522.6
Net Increase in Current Assets	-520.0	-525.9	-622.3	-654.2
Net Increase in Current Liabilities	160.0	-4.8	13.7	156.2
CF from operating activities	755.0	1,144.7	1,140.9	2,212.6
(Inc)/dec in Investments	49.9	-3,119.3	0.0	157.0
(Inc)/dec in Fixed Assets	-1,440.9	-1,700.0	-862.5	-2,533.7
Others	0.0	-210.3	0.0	0.0
CF from investing activities	-1,391.0	-5,029.6	-862.5	-2,376.7
Inc / (Dec) in Equity Capital	0.0	23.7	0.0	0.0
Inc / (Dec) in Loan	260.9	-696.4	46.3	0.0
Others	34.0	4,446.8	-101.0	-110.0
CF from financing activities	294.9	3,774.1	-54.7	-110.0
Net Cash flow	-341.1	-110.8	223.7	-274.1
Opening Cash	560.2	219.1	107.9	331.5
Closing Cash	219.1	108.3	331.5	57.4

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet

(Year-end March)	FY19	FY20E	FY21E	FY22E
Equity Capital	624.1	647.8	647.8	647.8
Reserve and Surplus	4,963.4	10,432.0	11,780.5	13,968.5
Total Shareholders funds	5,587.5	11,079.7	12,428.2	14,616.3
Total Debt	700.2	3.7	50.0	50.0
Non Current Liabilities	64.6	343.8	343.8	343.8
Source of Funds	6,352.2	11,427.2	12,822.0	15,010.1
Gross block	4,857.6	5,969.5	6,832.0	9,365.6
Less: Accum depreciation	583.5	862.1	1,162.7	1,574.8
Net Fixed Assets	4,274.0	5,107.4	5,669.3	7,790.8
Capital WIP	376.8	364.4	364.4	364.4
Intangible assets	108.2	106.8	106.8	106.8
Investments	34.6	3,153.9	3,153.9	2,996.9
Inventory	1,608.7	1,947.4	2,457.4	3,013.5
Cash	219.1	107.9	331.5	57.4
Debtors	64.4	19.6	74.5	100.5
Loans & Advances & Other C	174.0	258.2	230.0	265.0
Total Current Assets	2,066.1	2,333.0	3,093.4	3,436.4
Creditors	463.3	433.5	446.8	602.7
Provisions & Other CL	190.2	215.3	215.6	215.9
Total Current Liabilities	653.5	648.7	662.4	818.6
Net Current Assets	1,412.6	1,684.3	2,431.0	2,617.8
LT L&A, Other Assets	145.9	1,011.0	1,096.6	1,133.6
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	6,352.2	11,427.7	12,821.9	15,010.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	14.5	20.1	20.8	33.8
Cash EPS	17.9	25.9	27.0	41.8
BV	89.5	171.0	191.9	225.6
Cash Per Share	3.5	1.7	5.1	0.9
Operating Ratios (%)				
EBITDA margins	8.2	8.6	7.6	9.1
PBT margins	7.1	7.0	6.6	8.0
Net Profit margins	4.5	5.2	5.0	6.0
Inventory days	29.4	28.6	33.0	30.0
Debtor days	1.2	0.3	1.0	1.0
Creditor days	8.5	6.4	6.0	6.0
Return Ratios (%)				
RoE	16.2	11.7	10.9	15.0
RoCE	23.4	16.4	14.7	20.2
RoIC	24.3	23.2	20.4	25.5
Valuation Ratios (x)				
P/E	152.1	109.5	105.7	65.1
EV / EBITDA	84.3	65.4	67.3	41.8
EV / Sales	6.9	5.6	5.1	3.8
Market Cap / Revenues	6.9	5.7	5.2	3.9
Price to Book Value	24.6	12.9	11.5	9.8
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Debt/EBITDA	0.4	0.0	0.0	0.0
Current Ratio	2.8	3.4	4.2	4.1
Quick Ratio	0.4	0.4	0.5	0.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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