

Retail Equity Research (South India Focus)

Avenue Supermarts Ltd

Retail Stores

BSE CODE : 540376 NSE CODE: DMART
BLOOMBERG CODE: DMART:IN SENSEX : 36,594

Reduce

12M Investment Period

Rating as per LargeCap

CMP Rs.2,322 TARGET Rs.2,100 RETURN 10% 
(Closing: 10-07-20)

KEY CHANGES:

TARGET

RATING

EARNINGS

Covid-19 impacts growth & margins...

Avenue Supermarts Ltd (DMart) owns & operates India's most profitable supermarket, DMart. It provides products like Food, Non-Food (FMCG), General Merchandise & Apparel through 216 stores (total 8mn sq. ft).

- We downgrade DMart to Reduce rating with new Target of Rs2,100 (Rs2,400 earlier) factoring Covid-led impact on growth and expensive valuation.
- Q1FY20 revenue de-grew by ~34%YoY and PAT de-grew by 85%YoY.
- Gross/EBITDA/PAT margins declined by 240bps/750bps/450bps to 13.7%/2.8%/1.3%.
- Covid-19 led restrictions has significantly impacted the operations of the stores, footfalls, supply chain and new store construction.
- DMart added only 2 stores in Q1FY20, Vs 8 YoY.
- With more relaxation in restrictions, DMart's sales started to recover by 80% or more of pre-Covid sales wherever allowed to operate. DMart's 36% of the stores are in Maharashtra (highest Covid cases).
- However, due to ongoing uncertainties around Covid spread, discretionary consumption (non-FMCG) continues to be under pressure which will negatively impact gross margin.
- We expect new store additions will be significantly lower in FY21 on YoY basis but to ramp up in FY22. The company is using proceeds from recent QIP (Rs.4098cr) for debt reduction and expansion.
- Expect revenue/PAT to grow at 15%/17% CAGR, value DMart on a DCF basis to arrive at a target of Rs2,100 implying P/E of 74x on FY22EPS.

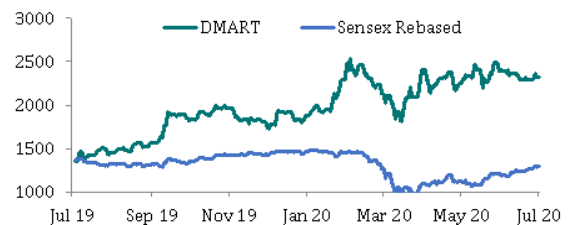
Company Data

Market Cap (cr)	Rs.1,44,912
Enterprise Value (cr)	Rs.1,44824
Outstanding Shares (cr)	64.8
Free Float	19.0%
Dividend Yield	0%
52 week high	Rs.2,559
52 week low	Rs.1,353
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs10

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	79.73	74.99	74.99
FII's	6.21	9.62	9.62
MFs/Insti	4.72	6.56	6.19
Public	9.34	8.86	8.83
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-3.6%	23.7%	69.2%
Absolute Sensex	17.4%	-12.0%	-5.7%
Relative Return*	-21.0%	35.8%	74.9%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	24,675	23,515	32,555
Growth (%)	23.9	-4.7	38.4
EBITDA	2,122	1,397	2,635
EBITDA Margin(%)	8.6	5.9	8.1
PAT Adj.	1,350	917	1,837
Growth (%)	44.2	-32.1	100.3
Adj.EPS	20.8	14.2	28.4
Growth (%)	38.9	-32.1	100.3
P/E	111.4	164.1	81.9
P/B	13.0	12.0	10.4
EV/EBITDA	68.2	103.2	54.7
ROE (%)	16.1	7.9	14.2
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Covid-19 impacts revenue significantly...

Revenue de-grew by 34% YoY on account of lock-down restrictions due to Covid-19. In April, more than half of the stores remained closed. Now, with more relaxation in restrictions, DMart started to recover by more than 80% of pre-Covid sales wherever stores were allowed to operate. The company added only 2 new stores Vs 8 stores YoY. We expect new store additions will be significantly lower in FY21 on a YoY basis but to ramp up in FY22 supported by proceeds of QIP. DMart is now considering leased stores also to accelerate growth. We expect revenue growth to decline to ~15% CAGR over FY20-22E.

Significant margin impact due to lower sales & non-fmcg mix

Gross margin declined by 240bps YoY to 13.7% and EBITDA margin declined by 750bps YoY to 2.8%. The impact was mainly due to lower sales and lower non-FMCG Mix on account of the Covid led lock-down. We expect gradual improvement in margins with more relaxation in restrictions and the resultant improvement in footfall. However, due to continuing uncertainties over Covid spread, we believe, discretionary consumption continues to be under pressure which will negatively impact gross margin. DMart's 'Every Day Discount' model will support rapid improvement in footfall post relaxation in restrictions. Expect EBITDA growth of ~11% CAGR over FY20-22E.

PAT margins impacted... to recover in FY22.

PAT de-grew by 85%YoY due to lower sales and margins. Margins will gradually improve in FY21 and going forward improvement in sales, reduction in debt and lower corporate tax will support PAT growth. The company has repaid all its long-term debts by using its proceeds from recent QIP issue. The effective tax rate was 25.5% Vs 35% YoY. We expect store additions will be supported by the balance proceeds of QIP and internal accruals. Expect PAT to grow at 17% CAGR over FY20-22E.

Valuations

We believe DMart's historical strong growth in earnings to pause in the short-term due to impact from Covid-19 but to recover fast in FY22 supported by faster store additions due to QIP proceeds and reduction in debt. However, due to current expensive valuation, we downgrade our rating to REDUCE. Arrive at a new target of Rs2,100 (earlier Rs2,400) on a DCF basis implying P/E of 74x on FY22 EPS.

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	3833.2	5780.5	-33.7%	6193.5	-38.1%
EBITDA	108.86	595.9	-81.7%	417.7	-73.9%
EBITDA margins	2.8%	10.3%	50bps	6.7%	(10bps)
Depreciation	86.09	75.0	14.8%	94.8	-9.2%
EBIT	22.77	521.0	-95.6%	322.8	-92.9%
Interest	7.55	16.8	-55.0%	12.4	-39.3%
Other Income	51.34	11.9	330.0%	35.6	44.3%
Exceptional Items	0	0.0	NA	0.0	NA
PBT	66.56	516.2	-87.1%	346.0	-80.8%
Tax					
Share of profit from Associate					
Minority Interest	17	180.8	-90.6%	59.1	-71.2%
Reported PAT	49.56	335.3	-85.2%	286.9	-82.7%
Adjustments	0	0.0	NA	0.0	NA
Adj PAT	49.56	335.3	-85.2%	286.9	-82.7%
No. of Shares	64.8	62.4	3.8%	62.4	3.8%
EPS (Rs)	0.8	5.4	-85.8%	4.4	-82.7%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY20E	FY21E
Revenue	30730	39808	23515	32555	-23.5%	-18.2%
EBITDA	2658	3583	1397	2635	-47.4%	-26.5%
Margins (%)	8.6%	9.0%	5.9%	8.1%	(290bps)	(90bps)
Adj. PAT	1797	2480	917	1837	-49.0%	-25.9%
EPS	27.7	38.3	14.7	29.4	-47.0%	-23.2%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	15009	19916	24675	23515	32555
% change	26.3	32.7	23.9	-4.7	38.4
EBITDA	1337	1642	2122	1397	2635
% change	38.8	22.8	29.2	-34.2	88.5
Depreciation	155	199	340	351	355
EBIT	1183	1443	1782	1046	2279
Interest	59	47	63	0	0
Other Income	73	51	63	165	146
PBT	1196	1448	1783	1211	2426
% change	60.1	21.1	23.2	-32.1	100.3
Tax	411	511	433	294	589
Tax Rate (%)	34%	35%	24%	24%	24%
Reported PAT	785	936	1350	917	1837
Adj.*	0	0	0	0	0
Adj. PAT	785	936	1350	917	1837
% change	62.6	19.3	44.2	-32.1	100.3
No. of shares (cr)	62	62	65	65	65
Adj EPS (Rs)	12.6	15.0	20.8	14.2	28.4
% change	46.3	19.3	38.9	-32.1	100.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	939	1135	1690	1268	2192
Non-cash adj.	-19	14	-29	-164	-146
Changes in W.C	-14	-246	-373	83	-470
C.F. Operation	907	903	1287	1186	1575
Capital exp.	-867	-1401	-1678	-991	-1916
Change in inv.	73	51	-3036	455	518
Other invest.CF	-134	-33	12	0	0
C.F - Investment	-928	-1382	-4700	-535	-1398
Issue of equity	0	0	4187	0	0
Issue/repay debt	-1265	172	-657	-4	0
Dividends paid	0	0	0	0	0
Other finance.CF	-59	-108	-147	0	0
C.F - Finance	-1324	63	3384	-4	0
Chg. in cash	-1346	-415	-29	647	177
Closing cash	556	214	92	738	915

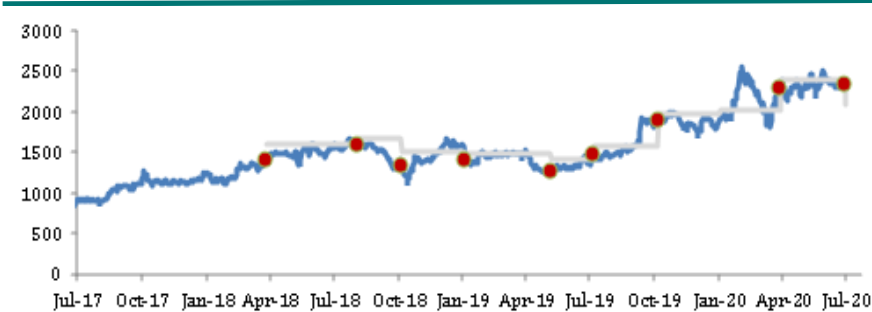
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	556	214	92	738	915
Accounts Receivable	33	76	49	46	64
Inventories	1147	1576	1909	1832	2473
Other Cur. Assets	158	164	242	231	319
Investments	198	230	304	304	304
Gross Fixed Assets	3608	4779	6620	7623	9539
Net Fixed Assets	3234	4206	5708	6359	7920
CWIP	147	377	362	350	350
Intangible Assets	6	10	11	11	11
Def. Tax (Net)	-46	-64	-48	-48	-48
Other Assets	133	146	3407	3116	2745
Total Assets	5566	6934	12036	12940	15054
Current Liabilities	658	902	704	696	967
Provisions	12	13	14	14	19
Debt Funds	253	425	4	0	0
Other Liabilities	0	0	179	179	179
Equity Capital	624	624	648	648	648
Reserves & Surplus	4019	4970	10488	11405	13241
Shareholder's Fund	4643	5594	11136	12052	13889
Total Liabilities	5566	6934	12036	12940	15054
BVPS	74	90	178	193	223

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	8.9	8.2	8.6	5.9	8.1
EBIT margin (%)	7.9	7.2	7.2	4.5	7.0
Net profit mgn.(%)	5.2	4.7	5.5	3.9	5.6
ROE (%)	18.5	18.3	16.1	7.9	14.2
ROCE (%)	15.88	18.02	16.47	7.91	14.16
W.C & Liquidity					
Receivables (days)	0.7	1.0	0.9	0.7	0.6
Inventory (days)	30.0	29.3	30.3	33.5	28.3
Payables (days)	8.4	8.3	7.9	8.7	8.2
Current ratio (x)	2.8	2.2	3.2	4.0	3.8
Quick ratio (x)	0.1	0.1	0.1	0.1	0.1
Turnover &Leverage					
Gross asset T.O (x)	4.7	4.7	4.3	3.3	3.8
Total asset T.O (x)	2.7	3.2	2.6	1.9	2.3
Int. covge. ratio (x)	19.9	30.6	28.4	-	-
Adj. debt/equity (x)	0.05	0.08	0.00	0.00	0.00
Valuation					
EV/Sales (x)	9.6	7.3	5.9	6.1	4.4
EV/EBITDA (x)	108.1	88.4	68.2	103.2	54.7
P/E (x)	184.7	154.8	111.4	164.1	81.9
P/BV (x)	31.3	26.0	13.0	12.0	10.4

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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