

# Avenue Supermarts (DMART IN)

Rating: REDUCE | CMP: Rs2,323 | TP: Rs1,695

July 11, 2020

## Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>REDUCE</b>		<b>REDUCE</b>	
<b>Target Price</b>	<b>1,695</b>		<b>1,695</b>	
Sales (Rs. m)	3,36,632	4,24,508	3,36,632	4,24,508
% Chng.	-	-	-	-
EBITDA (Rs. m)	29,965	38,355	29,965	38,355
% Chng.	-	-	-	-
EPS (Rs.)	29.2	36.8	29.2	36.8
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	2,48,702	2,65,829	3,36,632	4,24,508
EBITDA (Rs. m)	21,283	20,087	29,965	38,355
Margin (%)	8.6	7.6	8.9	9.0
PAT (Rs. m)	13,010	12,973	18,946	23,867
EPS (Rs.)	20.1	20.0	29.2	36.8
Gr. (%)	38.9	(0.3)	46.0	26.0
DPS (Rs.)	-	1.2	1.5	1.9
Yield (%)	-	0.1	0.1	0.1
RoE (%)	15.6	11.1	14.4	15.7
RoCE (%)	20.5	13.2	17.9	20.1
EV/Sales (x)	5.9	5.6	4.4	3.5
EV/EBITDA (x)	69.2	73.8	49.7	39.0
PE (x)	115.6	116.0	79.4	63.0
P/BV (x)	13.6	12.3	10.7	9.2

### Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.2,560 / Rs.1,345
Sensex / Nifty	36,594 / 10,768
Market Cap	Rs.1,504bn / \$ 20,002m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.2120.36m

### Shareholding Pattern (%)

Promoter's	74.99
Foreign	10.42
Domestic Institution	5.98
Public & Others	8.61
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.8)	23.7	71.9
Relative	(9.0)	40.6	81.1

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## Resilient model, Covid challenges remain

### Quick Pointers:

- Recovery of 80% of pre-Covid sales in most opened stores, however restrictions and slow sales of Apparel and General merchandise
- General trade and online trade catch up and pose additional challenge
- Store expansion plan suffers (just 2 added in 1QFY21), will impact FY22/23

**D'Mart 1Q21 shows full impact of COVID19 with lower footfalls, higher cost of operations and restrictions on sale of non-essentials. However, being positive at EBITDA and PAT level shows the resilience of business model with little rentals and interest cost. Although recovery of 80%+ of pre-Covid sale in most stores operating without restrictions is positive, revival of traditional trade, rapid shift towards online formats and lower sales of higher margin apparel and general merchandise and costs related to sanitization and social distancing will impact profitability.**

**We believe D'Mart has higher risk of weakness in 1HFY21 given that COVID sensitive clusters of Maharashtra, Gujarat and Telangana are ~63% of total stores and ~75% of sales. D'Mart has strong balance sheet, and would look at sustaining expansion plans, however delay in store opening looks certain, which will impact growth in FY22 as well. We estimate flattish EPS in FY21 and 46% growth in FY22. Although D'Mart is a compelling play on Hypermart segment, valuations at 79.4x FY22 and 63.0x FY23 with current price justification at 8.3% terminal growth (post 2034) force us maintain REDUCE rating (Target price of Rs1695 46x FY23 EPS).**

**Sales and PAT decline 33.7% and 85.2%:** Net Sales decreased 33.7% YoY to Rs 38.33bn (Est Rs37.6bn) due to strong enforcement of store shutdowns, restrictive movement of people in general and strict social distancing rules inside stores reducing footfalls. Gross margins contracted 250bps YoY to 13.7% (Est 12%). EBITDA decreased 81.7% YoY to Rs 1.09bn (Est Rs 1.88bn). EBITDA Margins contracted 750bps to 2.8% (Est 5%) led by gross margin contraction and increase in staff cost (150bps) and other expenses (350bps). Adj. PAT decreased 85.2% YoY to Rs 496mn (Est Rs 1.06bn).

**COVID Impact looms large:** Lockdown has resulted into lower footfalls, higher cost of operations and delay in store openings. Although sales have recovered to 80%+ of pre-covid sale in most stores which are allowed to operate without restrictions, some stores are still facing operational issues leading to lower than normal sales. Revival of traditional trade during the lockdown can impact modern trade. near term margin pressure is likely to sustain given lower discretionary consumption in non FMCG category (Higher margin products), sanitization costs and higher employee costs. Slow construction activity will also hurt store opening as D'Mart opened only 2 spillover stores in 1Q.

**Exhibit 1: Net Sales down 33.7%, EBITDA margins contracted to 2.8%, Adj PAT plunged 85.2%**

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY20	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>38,332</b>	<b>57,805</b>	<b>(33.7)</b>	<b>61,935</b>	<b>2,46,750</b>	<b>1,99,163</b>	<b>23.9</b>
Gross Profit	5,234	9,311	(43.8)	8,191	36,591	29,363	24.6
% of NS	13.7	16.1		13.2	14.8	14.7	
Other Expenses	4,145	3,352	23.7	4,014	15,370	12,941	18.8
% of NS	10.8	5.8		6.5	6.2	6.5	
<b>EBITDA</b>	<b>1,089</b>	<b>5,959</b>	<b>(81.7)</b>	<b>4,177</b>	<b>21,221</b>	<b>16,422</b>	<b>29.2</b>
Margins (%)	2.8	10.3		6.7	8.6	8.2	
Depreciation	861	750	14.8	948	3,398	1,988	70.9
Interest	76	168	(55.0)	124	628	472	33.1
Other Income	513	119	330.0	356	633	514	23.2
<b>PBT</b>	<b>666</b>	<b>5,162</b>	<b>(87.1)</b>	<b>3,460</b>	<b>17,829</b>	<b>14,476</b>	<b>23.2</b>
Tax	170	1,808	(90.6)	591	4,330	5,113	(15.3)
Tax rate (%)	25.5	35.0		17.1	24.3	35.3	
<b>Adjusted PAT</b>	<b>496</b>	<b>3,353</b>	<b>(85.2)</b>	<b>2,869</b>	<b>13,499</b>	<b>9,364</b>	<b>44.2</b>

Source: Company, PL

**Exhibit 2: Added 2 stores in 1QFY21; Cost of retail down 500bps YoY and 430bps**

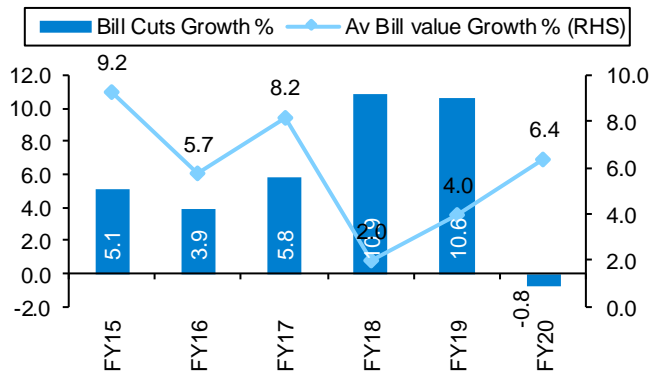
	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
No. of Stores	176	184	189	196	214	216
Area (mn Sq.ft.)	5.9	6.3	6.5	7.0	7.8	8.0
Sales/Ft	8531	9234	9152	9687	7940	4792
Gross Profit/Ft	1229	1487	1379	1453	1050	654
EBIDTA/FT	638	952	793	851	535	136
Cost of retail %	6.9	5.8	6.4	6.2	6.5	10.8

Source: Company, PL

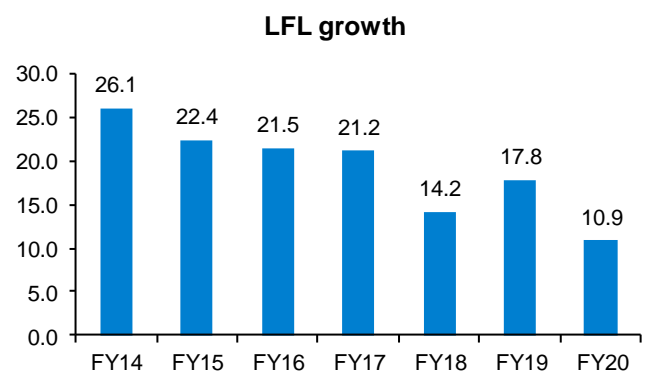
**Exhibit 3: Gross Profit/Ft and EBIDTA/Ft likely to be impacted in FY21 due to COVID-19**

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sales/Ft	32,719	35,647	32,879	32,117	33,208	34,712
Gross Profit/Ft	4,853	5,091	4,830	4,271	4,787	5,036
EBIDTA/FT	2,738	2,768	2,729	2,257	2,749	2,917
Capex/Ft	10,103	14,856	9,603	19,251	12,338	12,832
Cost of retail %	6.9%	6.9%	6.6%	6.7%	6.6%	6.6%
Working Cap/Ft	1,723	1,566	1,927	1,820	1,888	2,001

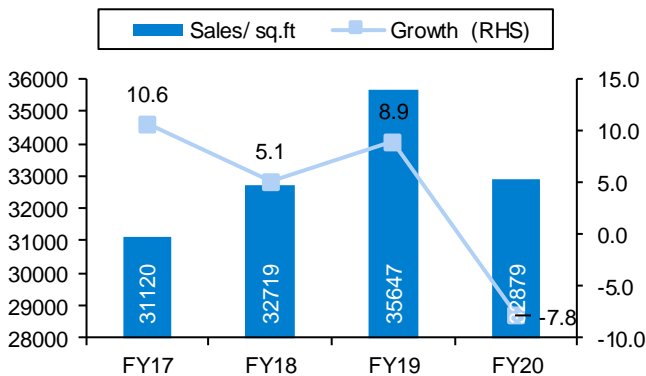
Source: Company, PL

**Exhibit 4: Bill Cuts decreased by 0.8% in FY20**


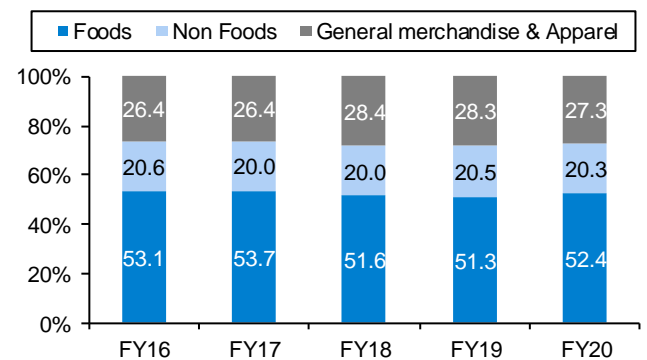
Source: Company, PL

**Exhibit 5: LTL growth at 10.9% in FY20**


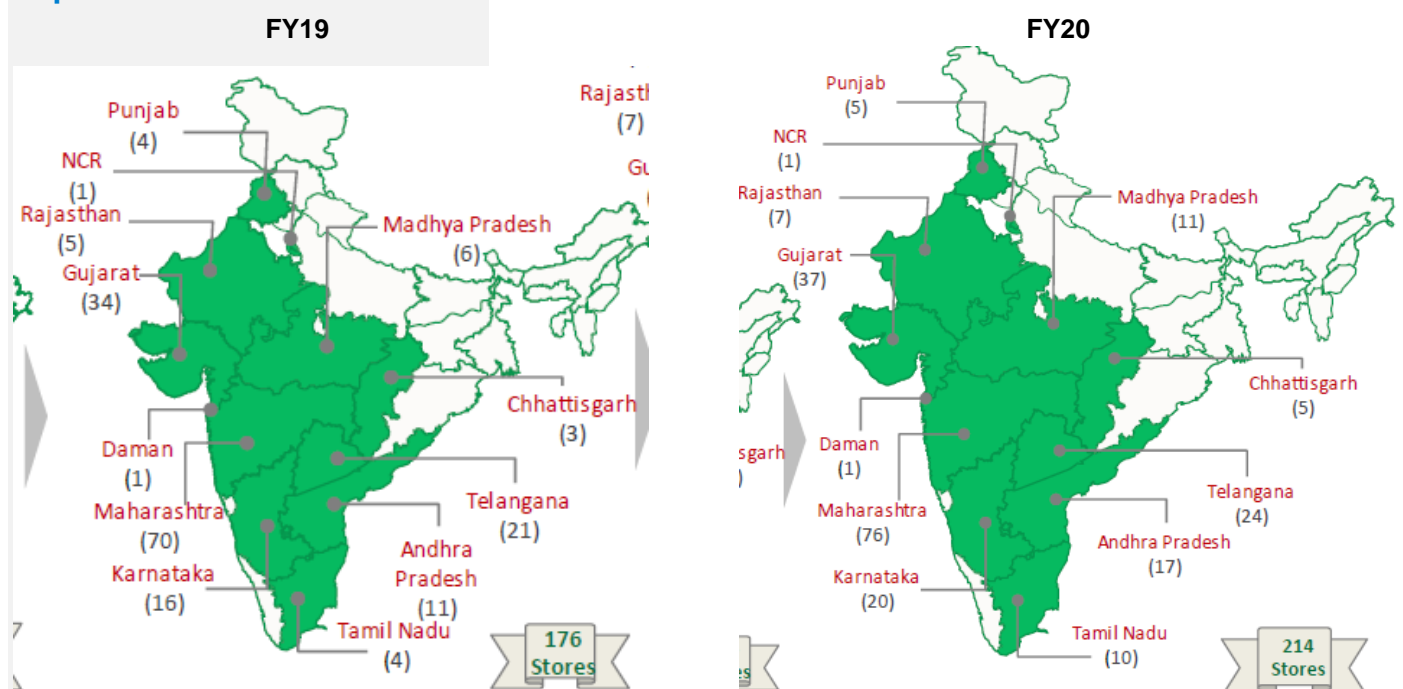
Source: Company, PL

**Exhibit 6: Sales/Sq. ft. decreased to Rs 32,879**


Source: Company, PL

**Exhibit 7: Foods continue to remain highest contributor**


Source: Company, PL

**Top 4 clusters add 42% of stores in FY20 versus 85% in FY19**


## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>2,48,702</b>	<b>2,65,829</b>	<b>3,36,632</b>	<b>4,24,508</b>
YoY gr. (%)	24.3	6.9	26.6	26.1
Cost of Goods Sold	2,11,029	2,27,815	2,84,454	3,58,285
Gross Profit	37,673	38,014	52,178	66,223
Margin (%)	15.1	14.3	15.5	15.6
Employee Cost	4,561	5,317	5,891	7,429
Other Expenses	11,828	12,610	16,322	20,439
<b>EBITDA</b>	<b>21,283</b>	<b>20,087</b>	<b>29,965</b>	<b>38,355</b>
YoY gr. (%)	30.3	(5.6)	49.2	28.0
Margin (%)	8.6	7.6	8.9	9.0
Depreciation and Amortization	3,744	4,379	5,627	6,979
<b>EBIT</b>	<b>17,539</b>	<b>15,708</b>	<b>24,338</b>	<b>31,376</b>
Margin (%)	7.1	5.9	7.2	7.4
Net Interest	691	192	380	380
Other Income	600	1,920	1,507	1,083
<b>Profit Before Tax</b>	<b>17,448</b>	<b>17,437</b>	<b>25,465</b>	<b>32,079</b>
Margin (%)	7.0	6.6	7.6	7.6
Total Tax	4,438	4,464	6,519	8,212
Effective tax rate (%)	25.4	25.6	25.6	25.6
<b>Profit after tax</b>	<b>13,010</b>	<b>12,973</b>	<b>18,946</b>	<b>23,867</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>13,010</b>	<b>12,973</b>	<b>18,946</b>	<b>23,867</b>
YoY gr. (%)	44.2	(0.3)	46.0	26.0
Margin (%)	5.2	4.9	5.6	5.6
Extra Ord. Income / (Exp)	7	7	7	7
<b>Reported PAT</b>	<b>13,017</b>	<b>12,980</b>	<b>18,953</b>	<b>23,873</b>
YoY gr. (%)	44.4	(0.3)	46.0	26.0
Margin (%)	5.2	4.9	5.6	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,017	12,980	18,953	23,873
<b>Equity Shares O/s (m)</b>	<b>648</b>	<b>648</b>	<b>648</b>	<b>648</b>
<b>EPS (Rs)</b>	<b>20.1</b>	<b>20.0</b>	<b>29.2</b>	<b>36.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>64,444</b>	<b>91,216</b>	<b>1,17,199</b>	<b>1,46,252</b>
Tangibles	63,711	90,373	1,16,229	1,45,137
Intangibles	733	843	970	1,115
<b>Acc: Dep / Amortization</b>	<b>12,920</b>	<b>17,305</b>	<b>22,938</b>	<b>29,924</b>
Tangibles	12,472	16,756	22,273	29,125
Intangibles	448	549	666	799
<b>Net fixed assets</b>	<b>51,524</b>	<b>73,911</b>	<b>94,260</b>	<b>1,16,328</b>
Tangibles	51,239	73,617	93,956	1,16,012
Intangibles	285	294	304	316
Capital Work In Progress	3,644	2,500	2,500	2,500
Goodwill	783	783	783	783
Non-Current Investments	354	405	477	578
Net Deferred tax assets	(471)	(314)	(85)	204
Other Non-Current Assets	10,107	8,952	9,234	9,572
<b>Current Assets</b>				
Investments	147	161	178	195
Inventories	19,474	21,266	26,931	33,961
Trade receivables	196	838	1,015	1,279
Cash & Bank Balance	31,951	26,457	19,144	13,327
Other Current Assets	1,491	1,595	2,020	2,547
<b>Total Assets</b>	<b>1,20,762</b>	<b>1,38,081</b>	<b>1,58,074</b>	<b>1,82,998</b>
<b>Equity</b>				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,04,320	1,16,319	1,34,300	1,56,943
<b>Total Network</b>	<b>1,10,797</b>	<b>1,22,797</b>	<b>1,40,778</b>	<b>1,63,421</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	2,500	2,500	2,500
Provisions	15	32	68	153
Other non current liabilities	2,211	2,211	2,211	2,211
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	37	1,500	1,500	1,500
Trade payables	4,335	5,934	7,611	9,427
Other current liabilities	2,886	2,784	3,312	3,982
<b>Total Equity &amp; Liabilities</b>	<b>1,20,762</b>	<b>1,38,081</b>	<b>1,58,074</b>	<b>1,82,998</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	17,448	17,437	25,465	32,079
Add. Depreciation	3,744	4,379	5,627	6,979
Add. Interest	691	192	380	380
Less Financial Other Income	600	1,920	1,507	1,083
Add. Other	(6,952)	964	(548)	(642)
Op. profit before WC changes	14,932	22,972	30,924	38,796
Net Changes-WC	(5,788)	(1,163)	(4,381)	(5,734)
Direct tax	(4,438)	(4,464)	(6,519)	(8,212)
<b>Net cash from Op. activities</b>	<b>4,706</b>	<b>17,344</b>	<b>20,025</b>	<b>24,850</b>
Capital expenditures	(11,923)	(25,622)	(25,976)	(29,047)
Interest / Dividend Income	-	-	-	-
Others	25	(8)	(9)	(11)
<b>Net Cash from Inv. activities</b>	<b>(11,898)</b>	<b>(25,630)</b>	<b>(25,985)</b>	<b>(29,057)</b>
Issue of share cap. / premium	41,906	(203)	-	-
Debt changes	(4,261)	3,963	-	-
Dividend paid	-	(777)	(972)	(1,231)
Interest paid	(691)	(192)	(380)	(380)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>36,954</b>	<b>2,790</b>	<b>(1,352)</b>	<b>(1,611)</b>
<b>Net change in cash</b>	<b>29,762</b>	<b>(5,495)</b>	<b>(7,312)</b>	<b>(5,818)</b>
Free Cash Flow	(7,217)	(8,277)	(5,951)	(4,196)

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	20.1	20.0	29.2	36.8
CEPS	25.9	26.8	37.9	47.6
BVPS	171.0	189.6	217.3	252.3
FCF	(11.1)	(12.8)	(9.2)	(6.5)
DPS	-	1.2	1.5	1.9
<b>Return Ratio(%)</b>				
RoCE	20.5	13.2	17.9	20.1
ROIC	19.8	14.1	17.5	18.5
RoE	15.6	11.1	14.4	15.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.1)	(0.1)
Net Working Capital (Days)	23	22	22	22
<b>Valuation(x)</b>				
PER	115.6	116.0	79.4	63.0
P/B	13.6	12.3	10.7	9.2
P/CEPS	89.8	86.7	61.2	48.8
EV/EBITDA	69.2	73.8	49.7	39.0
EV/Sales	5.9	5.6	4.4	3.5
Dividend Yield (%)	-	0.1	0.1	0.1

Source: Company Data, PL Research

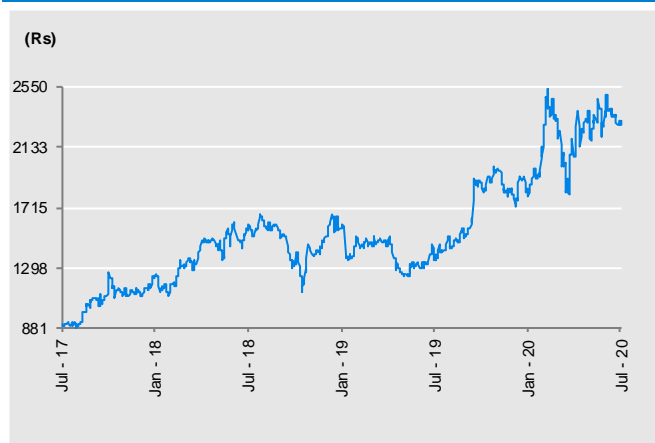
## Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>59,490</b>	<b>67,519</b>	<b>61,935</b>	<b>38,332</b>
YoY gr. (%)	22.1	23.9	23.0	(33.7)
Raw Material Expenses	50,528	57,392	53,744	33,099
Gross Profit	8,962	10,127	8,191	5,234
Margin (%)	15.1	15.0	13.2	13.7
<b>EBITDA</b>	<b>5,154</b>	<b>5,931</b>	<b>4,177</b>	<b>1,089</b>
YoY gr. (%)	32.3	30.8	10.9	(81.7)
Margin (%)	8.7	8.8	6.7	2.8
Depreciation / Depletion	833	867	948	861
<b>EBIT</b>	<b>4,321</b>	<b>5,064</b>	<b>3,228</b>	<b>228</b>
Margin (%)	7.3	7.5	5.2	0.6
Net Interest	175	160	124	76
Other Income	89	69	356	513
<b>Profit before Tax</b>	<b>4,234</b>	<b>4,973</b>	<b>3,460</b>	<b>666</b>
Margin (%)	7.1	7.4	5.6	1.7
Total Tax	900	1,031	591	170
Effective tax rate (%)	21.2	20.7	17.1	25.5
<b>Profit after Tax</b>	<b>3,335</b>	<b>3,943</b>	<b>2,869</b>	<b>496</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,335</b>	<b>3,943</b>	<b>2,869</b>	<b>496</b>
YoY gr. (%)	47.7	53.4	41.4	(85.2)
Margin (%)	5.6	5.8	4.6	1.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,335</b>	<b>3,943</b>	<b>2,869</b>	<b>496</b>
YoY gr. (%)	47.7	53.4	41.4	(85.2)
Margin (%)	5.6	5.8	4.6	1.3
Other Comprehensive Income	(25)	(14)	5	(10)
<b>Total Comprehensive Income</b>	<b>3,309</b>	<b>3,929</b>	<b>2,874</b>	<b>485</b>
Avg. Shares O/s (m)	624	624	648	648
<b>EPS (Rs)</b>	<b>5.3</b>	<b>6.3</b>	<b>4.4</b>	<b>0.8</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Reduce	1,695	2,362
2	24-May-20	Reduce	1,658	2,398
3	11-Apr-20	Reduce	1,875	2,393
4	13-Jan-20	Reduce	1,639	1,877
5	03-Jan-20	Reduce	1,623	1,844
6	13-Oct-19	Reduce	1,647	1,843
7	03-Oct-19	HOLD	1,411	1,885
8	14-Jul-19	Hold	1,338	1,359

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,857	1,746
2	Avenue Supermarts	Reduce	1,695	2,362
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,046	3,678
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	287	241
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	521	598
12	Hindustan Unilever	Hold	2,098	2,154
13	ITC	BUY	262	194
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	337	352
17	Nestle India	Reduce	14,609	16,912
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

## PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

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