

Testing times ahead; proven business model to withstand storm!

As anticipated, Q1FY21 was a challenging quarter for D-Mart with store closures (more than 50% in April) and restrictions on sale of GM & apparel impacting quarterly numbers. The management in its previous commentary had highlighted significant fall in revenue in April (down ~45% YoY) owing to stringent lockdown measures. Post relaxations in certain states, a gradual recovery was visible (implied de-growth of ~27% YoY in May-June). Revenue for the quarter de-grew 33% YoY (vs. estimate of 31% de-growth) to ₹ 3883.2 crore. The company added two stores in the quarter taking total store count to 216. The average size of the store opened in the quarter (~1 lakh sq ft) was more than 2x higher than the historical average store sizes (~45000-50000 sq ft). An unfavourable product mix led gross margins to decline 220 bps YoY to 14.2%. Furthermore, higher opex led EBITDA margins to decline sharply by 740 bps YoY to 2.9% in Q1FY21. Higher other income and decline in finance cost (owing to recent capital infusion) aided PAT, to a certain extent. Ensuing PAT de-grew 87.6% YoY to ₹ 40.1 crore. High store concentration in the worst hit Covid-19 states (Maharashtra, Gujarat comprise ~53% of total stores), may hamper store operations due to stringent measures by local authorities. Currently, stores are operating at 80% of pre-Covid levels with discretionary spends under pressure.

Unfavourable product mix to impair margins

Restriction on sale of GM & apparel (with superior gross margins) during the quarter impacted gross margins negatively. Ensuing gross margins fell 220 bps YoY to 14.2% (up 60 bps YoY QoQ). We anticipate lower quantum of overall discounting to have negated the impact of unfavourable product mix, to a certain extent. Employee & other expenses grew 22% & 28% YoY to ₹ 311.5 crore & ₹ 128.9 crore, respectively. High cost of operations and subdued sales (negative operating leverage) led EBITDA margins to contract sharply by 740 bps YoY to 2.9%. Absolute EBITDA de-grew 81% YoY to ₹ 111.8 crore. For FY21E, we expect EBITDA to remain under pressure owing to weak footfalls, unfavourable product mix and higher operating expenses (higher sanitation & employee cost). We factor in EBITDA margin contraction of 180 bps YoY to 6.8% in FY21E.

Valuation & Outlook

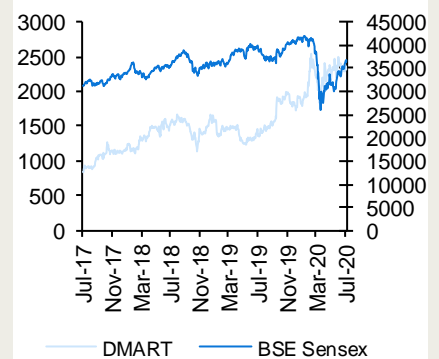
Of the total QIP proceeds (₹ 4078 crore), the company has utilised ₹ 1213 crore mainly towards retirement in total debt (~₹ 700 crore). The near term outlook remains challenging given the uncertain scenario and various limitations on store operations due to strict lockdowns enforced by local authorities (that would impact footfalls). The company continues to have a healthy liquidity position (~₹ 3000 crore) with a strong balance sheet. Over the years, D-Mart has proven to be a resilient business model generating superior RoIC of 23% and healthy fixed asset turnover ratio of 4.1x. We build in revenue and earnings CAGR of 21% and 29%, respectively, in FY20-22E, assuming a strong recovery from H2FY21E onwards. We reiterate our **HOLD** rating with a target price of ₹ 2360 (45x FY22E EV/EBITDA).



Particulars

Particulars	Amount
Market Capitalisation (₹crore)	144,970.9
Total Debt (FY 20) (₹crore)	3.7
Cash & Investment (FY 20) (₹crore)	3,261.8
EV (₹crore)	141,712.9
52 Week H / L	2559 / 1282
Equity Capital (₹crore)	647.8
Face Value (₹)	10.0

Price Chart



Key Highlights

- Sales in stores operating at normal working hours have reached ~80% of pre-Covid levels
- Maintain HOLD rating on stock with target price of ₹ 2360 (45x FY22E EV/EBITDA)

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

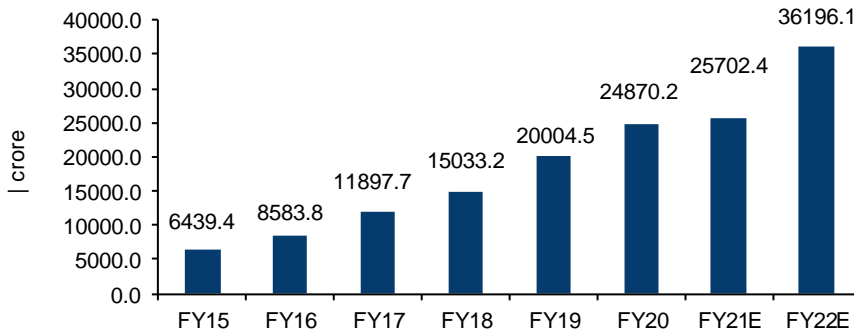
Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	15,033.2	20,004.5	24,870.2	25,702.4	36,196.1	20.6%
EBITDA	1,352.8	1,633.3	2,128.3	1,747.8	3,293.8	24.4%
PAT	787.8	902.4	1,301.0	1,126.2	2,169.3	29.1%
P/E (x)	173.2	154.8	111.4	128.7	66.8	
EV/Sales (x)	9.3	7.0	5.7	5.5	3.9	
EV/EBITDA (x)	103.2	85.8	66.6	81.0	43.1	
RoCE (%)	24.7	23.4	16.4	12.6	20.4	
RoE (%)	17.3	16.2	11.7	9.2	15.1	

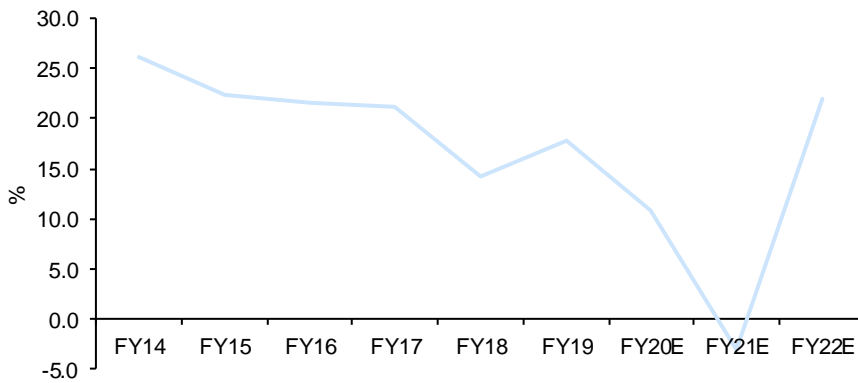
Financial story in charts....

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



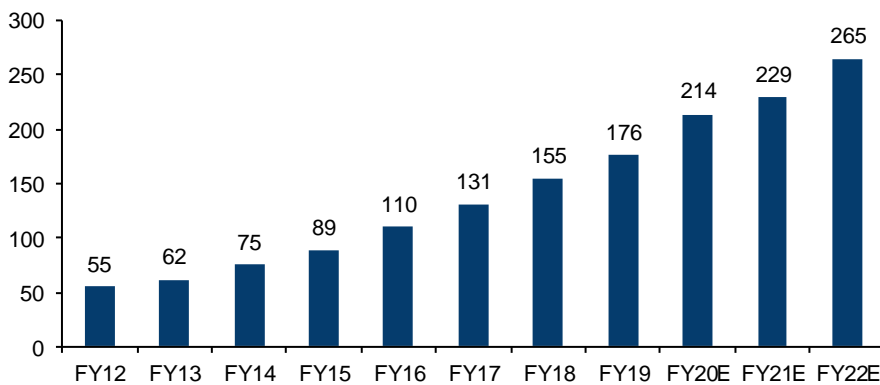
Source: Company, ICICI Direct Research

Exhibit 2: Same store sales growth (SSSG) trend



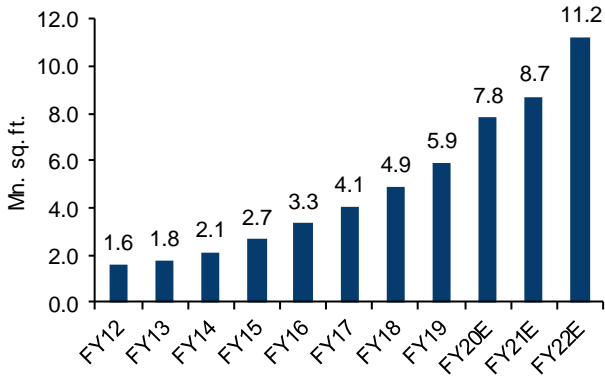
Source: Company, ICICI Direct Research

Exhibit 3: Store addition trend



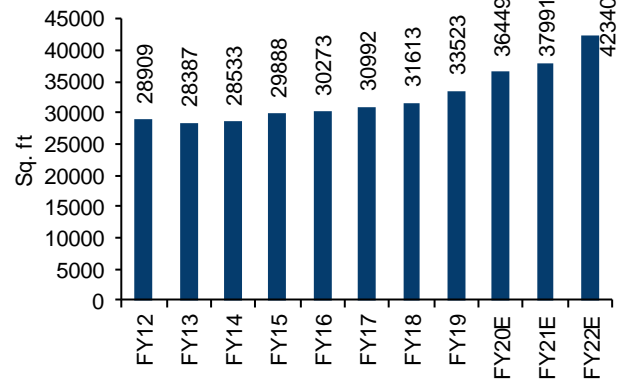
Source: Company, ICICI Direct Research

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



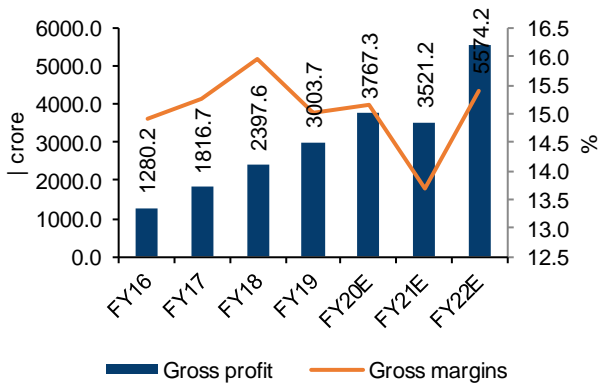
Source: Company, ICICI Direct Research

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



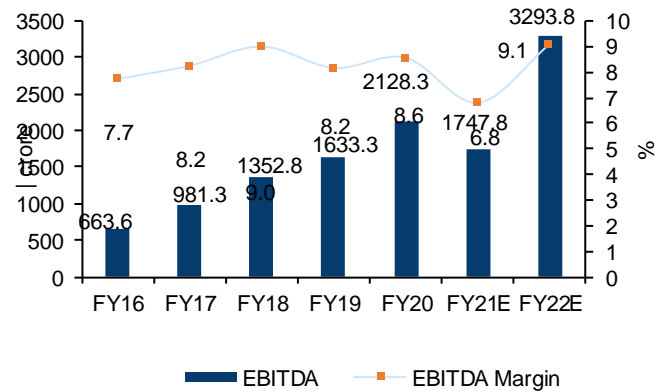
Source: Company, ICICI Direct Research

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



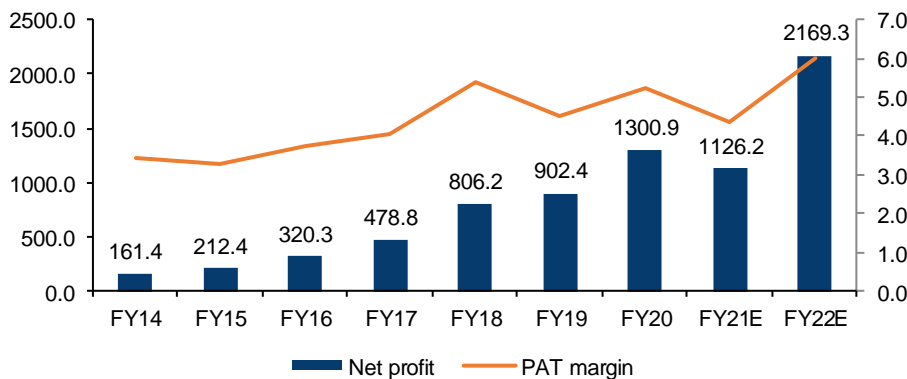
Source: Company, ICICI Direct Research

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	FY20A	FY21E	FY22E
Net Sales	20,004.5	24,870.2	25,702.4	36,196.1
Growth (%)	33.1	24.3	3.3	40.8
Total Raw Material Cost	17,000.8	21,102.9	22,181.2	30,621.9
Gross Margins (%)	15.0	15.1	13.7	15.4
Employee Expenses	355.4	456.1	539.8	687.7
Other Expenses	1,015.0	1,182.9	1,233.7	1,592.6
Total Operating Expenditure	18,371.3	22,741.9	23,954.6	32,902.2
EBITDA	1,633.3	2,128.3	1,747.8	3,293.8
EBITDA Margin	8.2	8.6	6.8	9.1
Interest	47.2	69.1	34.1	41.5
Depreciation	212.5	374.4	397.3	513.6
Other Income	48.4	60.0	189.3	161.3
Exceptional Expense	-	-	-	-
PBT	1,421.9	1,744.8	1,505.7	2,900.1
Total Tax	519.5	443.8	379.4	730.8
Profit After Tax	902.4	1,301.0	1,126.2	2,169.3

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
Profit/(Loss) after taxation	902.4	1,301.0	1,126.2	2,169.3
Add: Depreciation	212.5	374.4	397.3	513.6
Net Increase in Current Assets	-520.0	-525.4	-485.1	-752.1
Net Increase in Current Liabilities	160.0	-4.8	-10.6	172.8
CF from operating activities	755.0	1,145.2	1,027.7	2,103.6
(Inc)/dec in Investments	49.9	-3,119.3	0.0	470.9
(Inc)/dec in Fixed Assets	-1,440.9	-1,700.0	-855.0	-2,441.9
Others	0.0	84.2	0.0	0.0
CF from investing activities	-1,391.0	-4,735.0	-855.0	-1,971.0
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	4,151.4	-100.4	-110.5
CF from financing activities	294.9	3,478.6	-54.2	-110.5
Net Cash flow	-341.1	-111.1	118.6	22.1
Opening Cash	560.2	219.1	107.9	226.5
Closing Cash	219.1	107.9	226.5	248.5

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet

(Year-end March)	FY19	FY20A	FY21E	FY22E
Equity Capital	624.1	647.8	647.8	647.8
Reserve and Surplus	4,963.4	10,432.0	11,558.2	13,727.4
Total Shareholders funds	5,587.5	11,079.7	12,206.0	14,375.2
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	12,599.7	14,769.0
Gross block	4,857.6	5,969.5	6,824.5	9,266.3
Less: Accum depreciation	583.5	862.1	1,159.0	1,562.0
Net Fixed Assets	4,274.0	5,107.4	5,665.5	7,704.3
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	2,683.0
Inventory	1,608.7	1,947.4	2,323.8	2,975.0
Cash	219.1	107.9	226.5	248.5
Debtors	64.4	19.6	70.4	99.2
Loans & Advances & Other C	174.0	257.7	230.0	265.0
Total Current Assets	2,066.1	2,332.5	2,850.7	3,587.7
Creditors	463.3	433.5	422.5	595.0
Provisions & Other CL	190.2	215.3	215.6	215.9
Total Current Liabilities	653.5	648.7	638.1	810.9
Net Current Assets	1,412.6	1,683.8	2,212.6	2,776.8
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	11,427.2	12,599.7	14,769.0

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

(Year-end March)	FY19	FY20A	FY21E	FY22E
Per share data (₹)				
EPS	14.5	20.1	17.4	33.5
Cash EPS	17.9	25.9	23.5	41.4
BV	89.5	171.0	188.4	221.9
Cash Per Share	3.5	1.7	3.5	3.8
Operating Ratios (%)				
EBITDA margins	8.2	8.6	6.8	9.1
PBT margins	7.1	7.0	5.9	8.0
Net Profit margins	4.5	5.2	4.4	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	9.2	15.1
RoCE	23.4	16.4	12.6	20.4
RoIC	24.3	23.2	17.3	25.6
Valuation Ratios (x)				
P/E	154.8	111.4	128.7	66.8
EV / EBITDA	85.8	66.6	81.0	43.1
EV / Sales	7.0	5.7	5.5	3.9
Market Cap / Revenues	7.0	5.8	5.6	4.0
Price to Book Value	25.0	13.1	11.9	10.1
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	4.1	4.1
Quick Ratio	0.4	0.4	0.5	0.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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