

August 5, 2020

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		REDUCE	
Target Price	2,055		1,695	
Sales (Rs. m)	3,25,366	4,10,762	3,36,632	4,24,508
% Chng.	(3.3)	(3.2)		
EBITDA (Rs. m)	28,668	36,733	29,965	38,355
% Chng.	(4.3)	(4.2)		
EPS (Rs.)	27.8	34.9	29.2	36.8
% Chng.	(5.1)	(5.2)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	2,48,702	2,57,805	3,25,366	4,10,762
EBITDA (Rs. m)	21,283	19,302	28,668	36,733
Margin (%)	8.6	7.5	8.8	8.9
PAT (Rs. m)	13,010	12,407	17,981	22,614
EPS (Rs.)	20.1	19.2	27.8	34.9
Gr. (%)	38.9	(4.6)	44.9	25.8
DPS (Rs.)	-	1.2	1.5	1.9
Yield (%)	-	0.1	0.1	0.1
RoE (%)	15.6	10.6	13.8	15.1
RoCE (%)	20.5	12.6	17.1	19.3
EV/Sales (x)	5.5	5.3	4.3	3.4
EV/EBITDA (x)	64.3	71.4	48.4	37.9
PE (x)	107.7	113.0	77.9	62.0
P/BV (x)	12.6	11.5	10.1	8.7

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.2,560 / Rs.1,400
Sensex / Nifty	37,663 / 11,102
Market Cap	Rs.1,401bn/ \$ 18,702m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.3068.33m

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	(5.5)	(3.8)	45.2
Relative	(9.7)	5.1	41.5

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Setbacks Temporary, Upgrade to Hold

We Upgrade D'Mart to Hold from reduce as we shift from PE multiple to DCF based target price of Rs2055 (Rs1695 earlier, based on 46x FY23 EPS) assuming 7.5% terminal growth. We cut FY21/22/23 EPS estimates by 4.2%, 4.9% and 5.1% respectively given near term issues like 1) shift of demand from Hypermarkets to Kirana and Ecom 2) slow pick-up in apparel and general merchandise 3) setback to Premiumisation as upper middle class cuts store visits 4) volatility due to localized lockdowns from time to time and 5) lower store openings in current year as Covid 19 has hit construction for 4 months. We assume addition of 20/40 stores in FY21/FY22 and decline of 6% in Bills/store/day and 4% in average bill value. D'Mart trades at 62x FY23 EPS.

D'Mart is also experiencing with a convenience store in D'Mart Ready, although it remains confident on sustained scalability of its Brick and Mortar model. We believe D'Mart has a robust model, however fast consumer transition to Ecom by skipping modern trade remains a threat. D'Mart needs to close the loop in Ecom given sustained industry consolidation with Big Basket/Grofers in online and likely emergence of Reliance retail as a formidable hybrid retail model if it acquires Future retail. We estimate 22% PAT CAGR over FY20-23 despite 4.5% PAT decline in FY21. Upgrade to Hold.

1Q21 Sales and PAT decline 33.7% and 85.2%: Net Sales decreased 33.7% YoY to Rs 38.33bn 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%. EBITDA decreased 81.7% YoY to Rs 1.09bn. EBITDA Margins contracted 750bps to 2.8% (Est 5%) led by gross margin contraction and increase in staff cost and other expenses (350bps). Adj. PAT decreased 85.2% YoY to Rs 496mn.

Key Analyst Meet Takeaways: 1) Sales have reached pre-Covid levels for stores operational for 3-4 weeks continuously. 2) Lower middle class continues to purchase from D'Mart while contribution from upper middle class is reduced (less visits) impacting Premiumisation. Fear of spending time in stores, job losses and salary cuts can also be attributed to low pickup. 3) 95% of stores are now allowed to sell General merchandise/ apparel, however sales are tepid. 4) Overall gross margins will be under pressure as discretionary high margin categories are not yet at near pre COVID-19 levels 5) Store openings will be muted in FY21 however will try to achieve FY21/22 store openings on the same level as has been in FY19/20. 6) 220 D'Mart ready stores are operational and sales of pick up are more than Home delivery, it is also testing a small convenience store model alongside 7) There has been shift of demand from Hypermarkets to neighborhood stores and Ecom and the trend will take time to reverse. Ticket size in Ecom/D'Mart ready is similar, although assortment is more premium 8) D'Mart has increased store size as incremental capex is lower and it provides better run rate after maturing, extended CAGR and higher ROIC. 9) D'Mart plans to stick to strategy of opening 70% stores in existing large cluster and 30% stores in new areas.

**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. (%)
Net Sales	38,332	57,805	(33.7)	61,935	2,46,750	1,99,163	23.9
Gross Profit	5,234	9,311	(43.8)	8,191	36,591	29,363	24.6
<i>% of NS</i>	<i>13.7</i>	<i>16.1</i>		<i>13.2</i>	<i>14.8</i>	<i>14.7</i>	
Other Expenses	4,145	3,352	23.7	4,014	15,370	12,941	18.8
<i>% of NS</i>	<i>10.8</i>	<i>5.8</i>		<i>6.5</i>	<i>6.2</i>	<i>6.5</i>	
EBITDA	1,089	5,959	(81.7)	4,177	21,221	16,422	29.2
<i>Margins (%)</i>	<i>2.8</i>	<i>10.3</i>		<i>6.7</i>	<i>8.6</i>	<i>8.2</i>	
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
PBT	666	5,162	(87.1)	3,460	17,829	14,476	23.2
Tax	170	1,808	(90.6)	591	4,330	5,113	(15.3)
<i>Tax rate (%)</i>	<i>25.5</i>	<i>35.0</i>		<i>17.1</i>	<i>24.3</i>	<i>35.3</i>	
Adjusted PAT	496	3,353	(85.2)	2,869	13,499	9,364	44.2

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

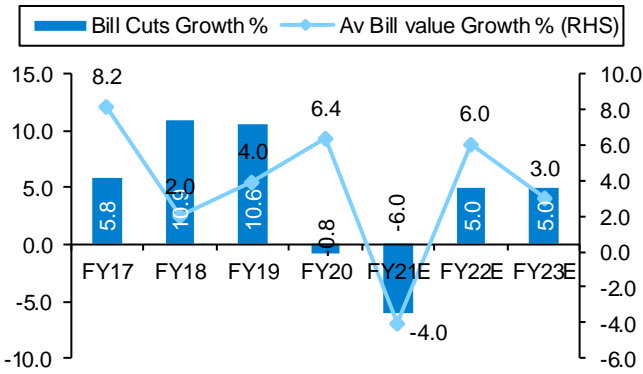
Source: Company, PL

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	31,501	32,394	33,845
Gross Profit/Ft	4,853	5,091	4,830	4,189	4,670	4,910
EBIDTA/FT	2,738	2,768	2,729	2,193	2,654	2,815
Capex/Ft	10,103	14,856	9,603	21,177	12,338	12,832
Cost of retail %	6.9%	6.9%	6.6%	6.8%	6.7%	6.7%
Working Cap/Ft	1,723	1,566	1,927	1,786	1,836	1,951

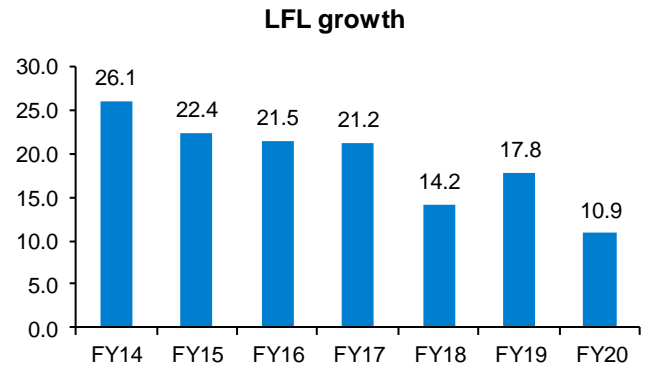
Source: Company, PL

Exhibit 4: Bill Cuts decreased by 0.8% in FY20



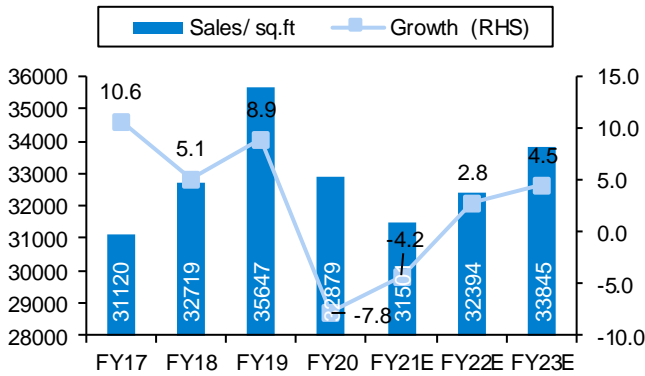
Source: Company, PL

Exhibit 5: LTL growth at 10.9% in FY20



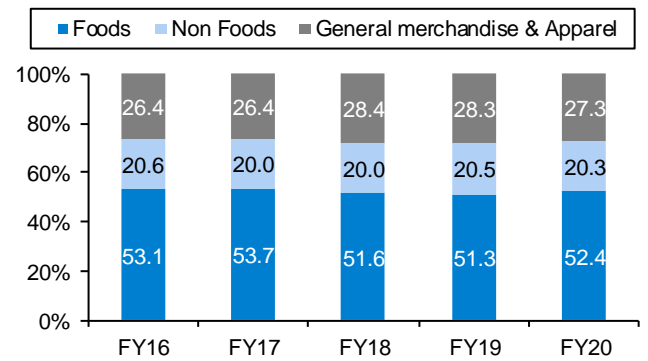
Source: Company, PL

Exhibit 6: Sales/Sq. ft. decreased to Rs 32,879 in FY20



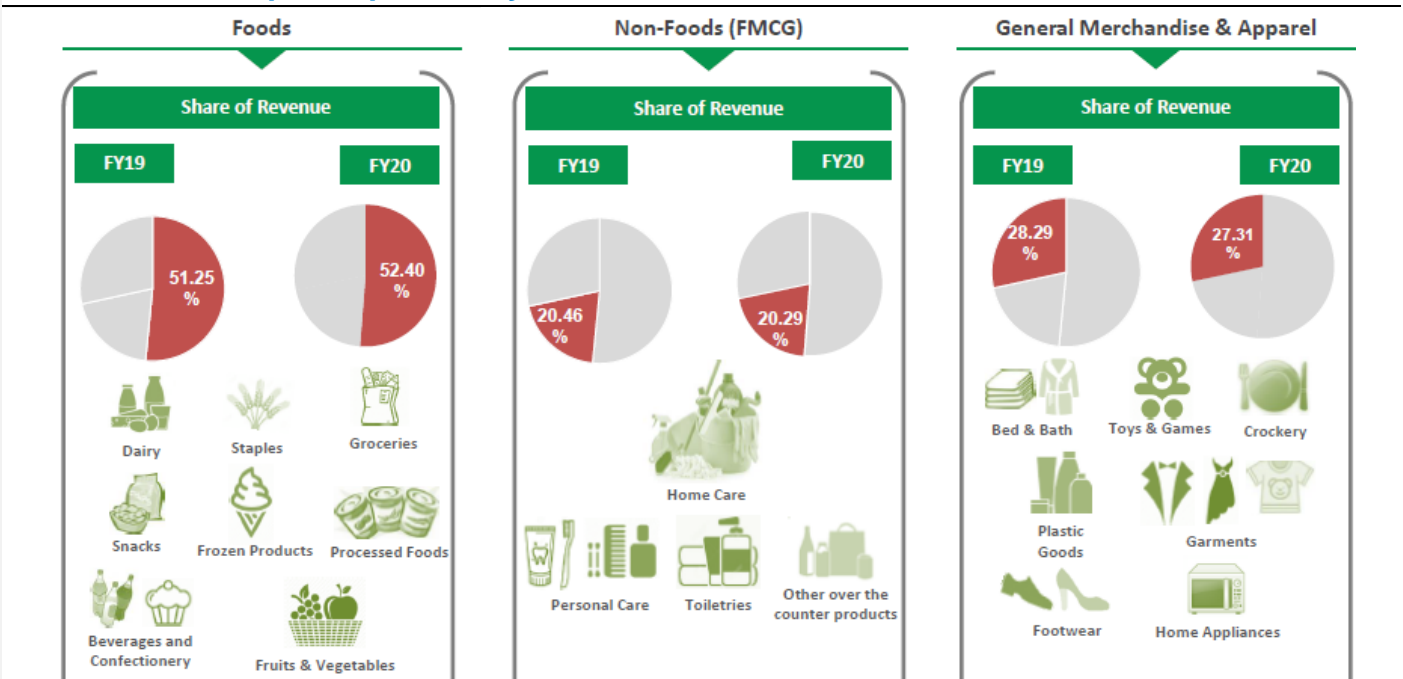
Source: Company, PL

Exhibit 7: Foods continue to remain highest contributor

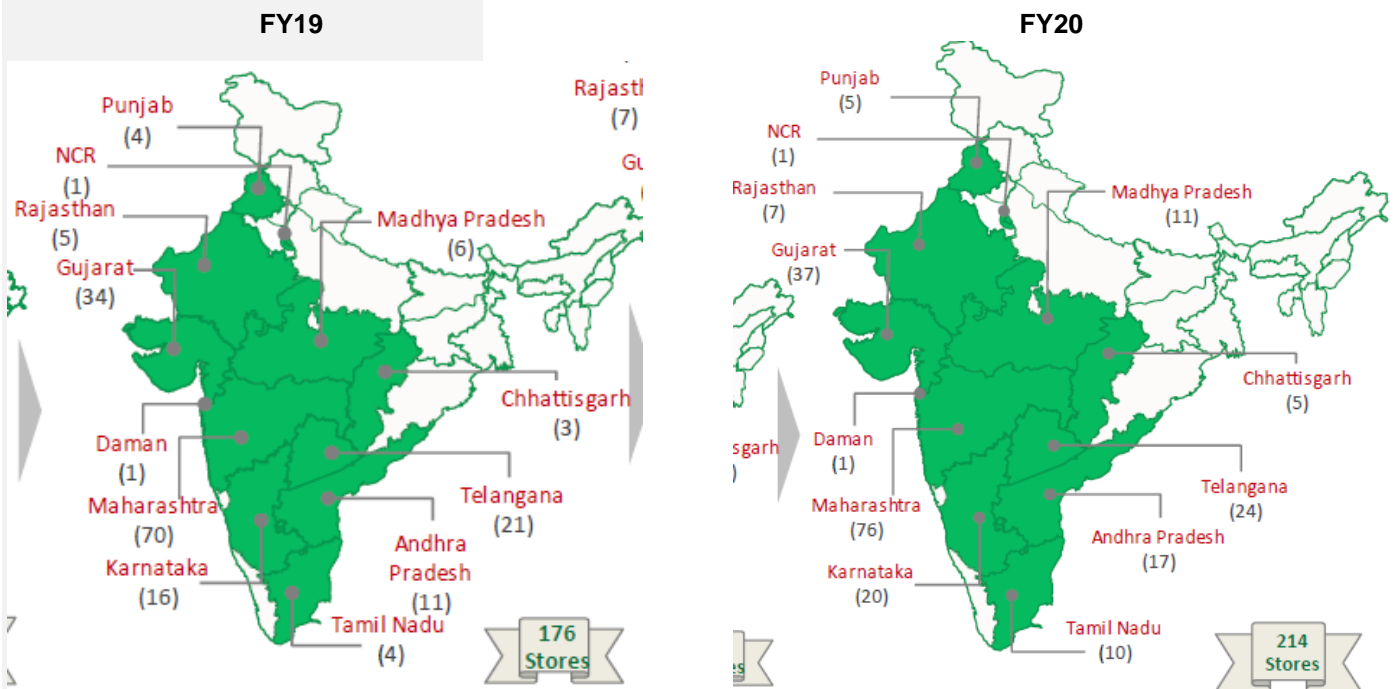


Source: Company, PL

Share of Foods up 115bps as only essential items allowed to be sold in lockdown



Source: Company, PL

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

Align Retail Trades Ltd

Rs Crs	YE 31Mar 2020	YE 31Mar 2019	M20 / M19
Sales	1177.6	920.1	28.0%
Tot Inc	1178.1	920.1	28.0%
COGS	1120.1	882.6	26.9%
GC	4.88%	4.08%	81 bps
Empl Exp	4.8	4.3	11.9%
% of Tot Inc	0.41%	0.47%	-6 bps
Other Exp	15.4	14.1	9.3%
% of Tot Inc	1.31%	1.53%	-22 bps
EBITDA	37.3	19.1	94.9%
EBITDA %	3.17%	2.08%	109 bps
Fin Costs	0.6	1.8	-64.0%
Dep/Amort	4.0	1.8	119.1%
PBT	33.2	15.6	113.1%
PBT %	2.82%	1.69%	113 bps
Tax	8.4	5.5	53.8%
PAT	24.8	10.1	145.3%
PAT %	2.10%	1.10%	101 bps

Avenue ECommerce Ltd

YE 31Mar 2020	YE 31Mar 2019	M20 / M19
354.0	143.6	146.5%
354.6	144.2	145.9%
317.7	127.8	148.7%
10.25%	11.03%	-78 bps
26.6	16.1	65.1%
7.50%	11.20%	-370 bps
50.8	40.1	74.2%
14.35%	27.94%	-820 bps
-41.0	-40.4	49.1%
-11.59%	-28.11%	1112 bps
6.5	0.0	0.0%
32.7	11.1	33.6%
-79.7	-50.8	46.3%
-22.51%	-35.39%	1439 bps
-	-	-
-79.7	-50.8	46.3%
-22.51%	-35.39%	1439 bps

Avenue Food Plaza Ltd

YE 31Mar 2020	YE 31Mar 2019	M20 / M19
32.4	23.6	37.3%
33.4	24.4	36.8%
16.7	10.6	58.4%
48.31%	55.20%	-689 bps
0.0	0.0	-5.9%
0.01%	0.02%	-1 bps
7.2	5.2	37.2%
22.09%	22.11%	-1 bps
8.5	7.8	8.8%
26.20%	33.07%	-687 bps
-	0.0	-100.0%
0.8	0.7	14.2%
8.7	7.9	9.7%
26.70%	33.42%	-672 bps
2.4	2.2	6.8%
6.29	5.7	10.9%
18.84%	24.05%	-520 bps

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,48,702	2,57,805	3,25,366	4,10,762
YoY gr. (%)	24.3	3.7	26.2	26.2
Cost of Goods Sold	2,11,029	2,20,939	2,74,935	3,46,683
Gross Profit	37,673	36,866	50,432	64,079
Margin (%)	15.1	14.3	15.5	15.6
Employee Cost	4,561	5,156	5,694	7,188
Other Expenses	11,828	12,408	16,070	20,158
EBITDA	21,283	19,302	28,668	36,733
YoY gr. (%)	30.3	(9.3)	48.5	28.1
Margin (%)	8.6	7.5	8.8	8.9
Depreciation and Amortization	3,744	4,354	5,602	6,955
EBIT	17,539	14,948	23,066	29,778
Margin (%)	7.1	5.8	7.1	7.2
Net Interest	691	192	380	380
Other Income	600	1,920	1,481	997
Profit Before Tax	17,448	16,676	24,168	30,396
Margin (%)	7.0	6.5	7.4	7.4
Total Tax	4,438	4,269	6,187	7,781
Effective tax rate (%)	25.4	25.6	25.6	25.6
Profit after tax	13,010	12,407	17,981	22,614
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,010	12,407	17,981	22,614
YoY gr. (%)	44.2	(4.6)	44.9	25.8
Margin (%)	5.2	4.8	5.5	5.5
Extra Ord. Income / (Exp)	7	7	7	7
Reported PAT	13,017	12,414	17,987	22,621
YoY gr. (%)	44.4	(4.6)	44.9	25.8
Margin (%)	5.2	4.8	5.5	5.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,017	12,414	17,987	22,621
Equity Shares O/s (m)	648	648	648	648
EPS (Rs)	20.1	19.2	27.8	34.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	64,444	91,216	1,17,199	1,46,252
Tangibles	63,711	90,373	1,16,229	1,45,137
Intangibles	733	843	970	1,115
Acc: Dep / Amortization	12,920	17,280	22,889	29,850
Tangibles	12,472	16,731	22,223	29,051
Intangibles	448	549	666	799
Net fixed assets	51,524	73,936	94,310	1,16,402
Tangibles	51,239	73,642	94,005	1,16,086
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)	(321)	(103)	170
Other Non-Current Assets	10,107	8,952	9,234	9,572
Current Assets				
Investments	147	161	178	195
Inventories	19,474	20,624	26,029	32,861
Trade receivables	196	812	981	1,238
Cash & Bank Balance	31,951	26,353	18,322	11,351
Other Current Assets	1,491	1,547	1,952	2,465
Total Assets	1,20,762	1,37,251	1,56,247	1,79,810
Equity				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,04,320	1,15,753	1,32,769	1,54,159
Total Network	1,10,797	1,22,231	1,39,247	1,60,637
Non-Current Liabilities				
Long Term borrowings	-	2,500	2,500	2,500
Provisions	15	32	66	150
Other non current liabilities	2,211	2,211	2,211	2,211
Current Liabilities				
ST Debt / Current of LT Debt	37	1,500	1,500	1,500
Trade payables	4,335	5,725	7,383	9,096
Other current liabilities	2,886	2,722	3,226	3,877
Total Equity & Liabilities	1,20,762	1,37,251	1,56,247	1,79,810

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	17,448	16,676	24,168	30,396
Add. Depreciation	3,744	4,354	5,602	6,955
Add. Interest	691	192	380	380
Less Financial Other Income	600	1,920	1,481	997
Add. Other	(6,952)	971	(537)	(628)
Op. profit before WC changes	14,932	22,193	29,613	37,102
Net Changes-WC	(5,788)	(683)	(4,121)	(5,624)
Direct tax	(4,438)	(4,269)	(6,187)	(7,781)
Net cash from Op. activities	4,706	17,241	19,305	23,697
Capital expenditures	(11,923)	(25,622)	(25,976)	(29,047)
Interest / Dividend Income	-	-	-	-
Others	25	(8)	(9)	(11)
Net Cash from Inv. activities	(11,898)	(25,630)	(25,985)	(29,057)
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	-	-	-	-
Net cash from Fin. activities	36,954	2,790	(1,352)	(1,611)
Net change in cash	29,762	(5,599)	(8,031)	(6,971)
Free Cash Flow	(7,217)	(8,381)	(6,670)	(5,349)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	20.1	19.2	27.8	34.9
CEPS	25.9	25.9	36.4	45.6
BVPS	171.0	188.7	215.0	248.0
FCF	(11.1)	(12.9)	(10.3)	(8.3)
DPS	-	1.2	1.5	1.9
Return Ratio(%)				
RoCE	20.5	12.6	17.1	19.3
ROIC	19.8	13.5	16.7	17.7
RoE	15.6	10.6	13.8	15.1
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.1)	0.0
Net Working Capital (Days)	23	22	22	22
Valuation(x)				
PER	107.7	113.0	77.9	62.0
P/B	12.6	11.5	10.1	8.7
P/CEPS	83.6	83.6	59.4	47.4
EV/EBITDA	64.3	71.4	48.4	37.9
EV/Sales	5.5	5.3	4.3	3.4
Dividend Yield (%)	-	0.1	0.1	0.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	59,490	67,519	61,935	38,332
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
EBITDA	5,154	5,931	4,177	1,089
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
EBIT	4,321	5,064	3,228	228
Margin (%)	7.3	7.5	5.2	0.6
Net Interest	175	160	124	76
Other Income	89	69	356	513
Profit before Tax	4,234	4,973	3,460	666
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
Profit after Tax	3,335	3,943	2,869	496
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,335	3,943	2,869	496
YoY gr. (%)	47.7	53.4	41.4	(85.2)
Margin (%)	5.6	5.8	4.6	1.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,335	3,943	2,869	496
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)
Total Comprehensive Income	3,309	3,929	2,874	485
Avg. Shares O/s (m)	624	624	648	648
EPS (Rs)	5.3	6.3	4.4	0.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-20	Reduce	1,695	2,323
2	08-Jul-20	Reduce	1,695	2,362
3	24-May-20	Reduce	1,658	2,398
4	11-Apr-20	Reduce	1,875	2,393
5	13-Jan-20	Reduce	1,639	1,877
6	03-Jan-20	Reduce	1,623	1,844
7	13-Oct-19	Reduce	1,647	1,843
8	03-Oct-19	HOLD	1,411	1,885

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,344	1,448
6	Crompton Greaves Consumer Electricals	BUY	288	247
7	Dabur India	Hold	469	494
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	524	595
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	355	350
17	Nestle India	Reduce	14,089	17,095
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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