

Essentials back on growth trajectory; discretionary category recovery gaining gradual traction

Avenue Supermarts' results were a mixed bag with lower-than-expected revenue performance but a beat on EBITDA for Q2FY21. Nonetheless, the management's commentary had a positive bias with the scenario moving towards normalcy. Despite 95% of stores resuming operations, stringent measures by local authorities had an impact on working hours. By August, most stores started operating at pre-Covid operating hours. Withstanding challenges, D-Mart's core 'Food & FMCG' segment (currently ~77% of sales) has reverted to the growth path with positive trajectory seen across all stores in September. Discretionary categories (GM & apparels) are currently laggards owing to subdued demand but are gradually picking pace (revenue contribution: 22.7% vs. 27.3%; implied de-growth 26% YoY). In the first half of FY21, the company incurred capex worth ₹ 651 crore (vs. ₹ 768 crore in H1FY20) and added eight new stores (vs. 13 additions in H1FY20). It has also shut two stores and converted them to fulfilment centres (FC) to scale up its e-commerce business ('D-Mart Ready'). Further, it has expanded its e-commerce operations in select pin codes of Pune. Trends indicate enhanced focus on e-commerce owing to change in industry dynamics with grocery e-commerce industry gaining significant traction during the pandemic.

Store addition to accelerate to pre-Covid level from FY22E with improvement in demand scenario

Revenue for the quarter de-grew 11% YoY to ₹ 5306.2 crore (up 37% QoQ; I-direct estimate: ₹ 5511 crore). Footfalls are witnessing an improvement with average basket value reducing MoM (indicating business operations trending towards normalcy). In September, SSSG was at (-) 12.5% (for two year and older stores). Gross margins fell 90 bps YoY to 14.5% owing to decline in share of GM & apparel. Further, owing to negative operating leverage, EBITDA margins contracted 240 bps YoY to 6.2% (up 330 bps QoQ). In H1FY21, the company added six stores (net basis) taking total store count to 220. The company continued to add larger format stores in FY21 (~65000 sq ft vs. average 36000 sq ft). Store addition pace is expected to be subdued in FY21E but we expect the company to make up for the same in FY22E. We bake in 86 incremental stores in FY21-23E.

Valuation & Outlook

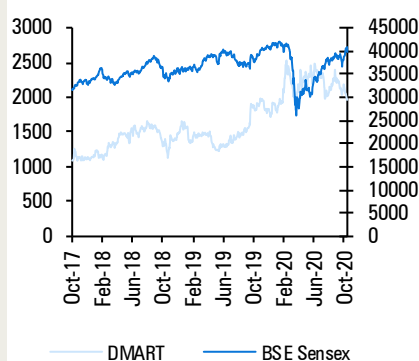
Over the years, D-Mart has proven to be a resilient business model generating superior RoIC of 23% and healthy fixed asset turnover ratio of 4.1x. Of the total QIP proceeds (₹ 4078 crore), the company has utilised ₹ 1213 crore mainly towards retirement in total debt (~₹ 700 crore). Robust liquidity position expected to provide impetus to store addition pace (mainly from FY22E onwards). Near term headwinds may have negative impact on the performance in FY21E but we remain structurally positive on the company and its long term growth prospects. We build in revenue and earnings CAGR of 19% and 24%, respectively, in FY20-23E. The stock price has corrected ~15% since our last update. Hence, we upgrade our rating from HOLD to **BUY** with a revised target price of ₹ 2300 (38.0x FY23E EV/EBITDA, previous TP: ₹ 2360).

D Mart

Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	1,28,258.5
Total Debt (FY20) (₹ crore)	3.7
Cash & Investment (FY20) (₹ crore)	3,261.8
EV (₹ crore)	1,25,000.4
52 Week H / L	2559 / 1701
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

Price Chart



Key Highlights

- Food and FMCG revenues for D-Mart witnessed growth across all stores in September 2020
- Upgrade from HOLD to BUY rating with revised target price of ₹ 2300 (38x FY23E EV/EBITDA)

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

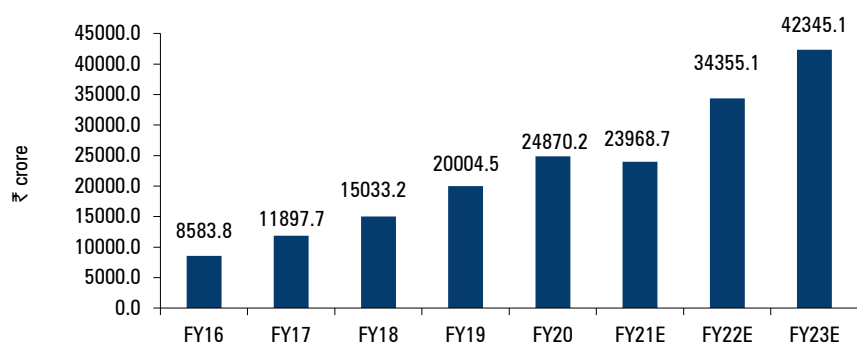
Key Financial Summary

	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	20,004.5	24,870.2	23,968.7	34,355.1	42,345.1	19.4%
EBITDA	1,633.3	2,128.3	1,510.0	3,023.2	3,811.1	21.4%
PAT	902.4	1,301.0	951.8	1,965.1	2,450.6	23.5%
P/E (x)	136.9	98.6	134.8	65.3	52.3	
EV/Sales (x)	6.2	5.0	5.2	3.7	3.0	
EV/EBITDA (x)	75.9	58.7	82.8	41.5	33.0	
RoCE (%)	23.4	16.4	10.8	19.0	20.1	
RoE (%)	16.2	11.7	7.9	14.0	14.9	

Source: ICICI Direct Research, Company

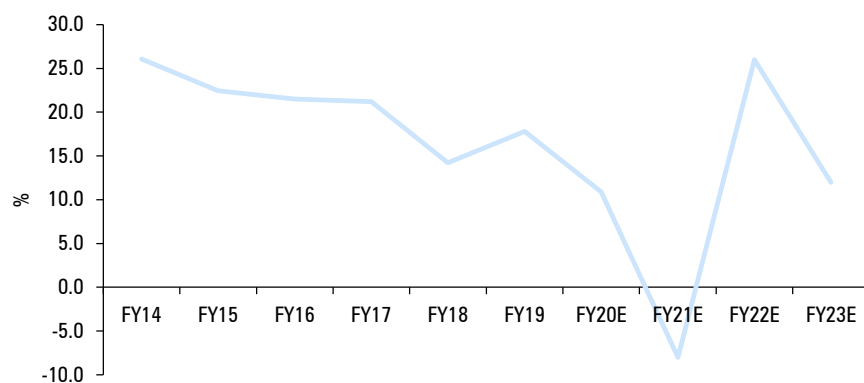
Financial story in charts....

Exhibit 1: We model revenue CAGR of 19% in FY20-23E



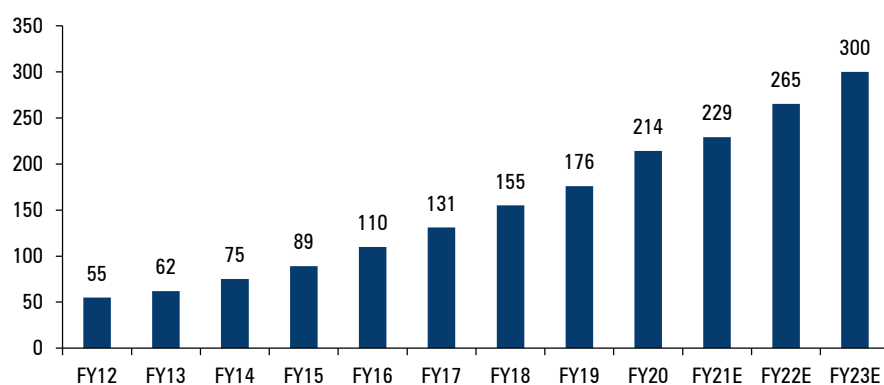
Source: Company, ICICI Direct Research

Exhibit 2: Same store sales growth (SSSG) trend



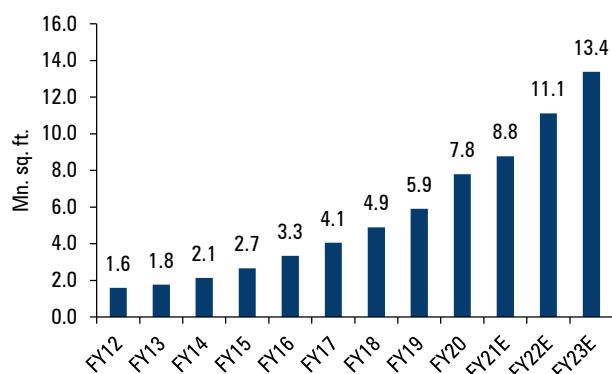
Source: Company, ICICI Direct Research

Exhibit 3: Store addition trend



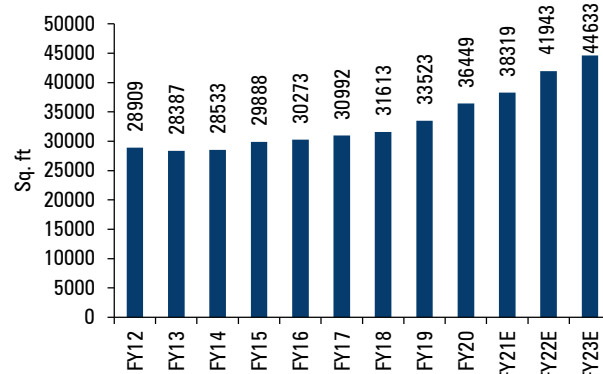
Source: Company, ICICI Direct Research

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



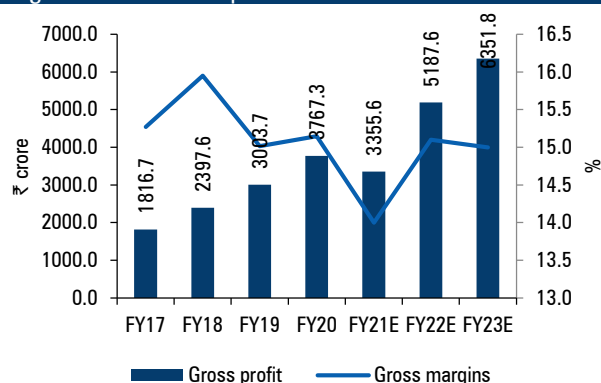
Source: Company, ICICI Direct Research

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



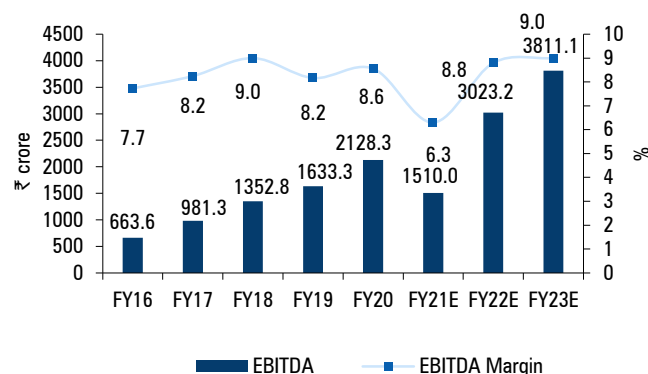
Source: Company, ICICI Direct Research

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



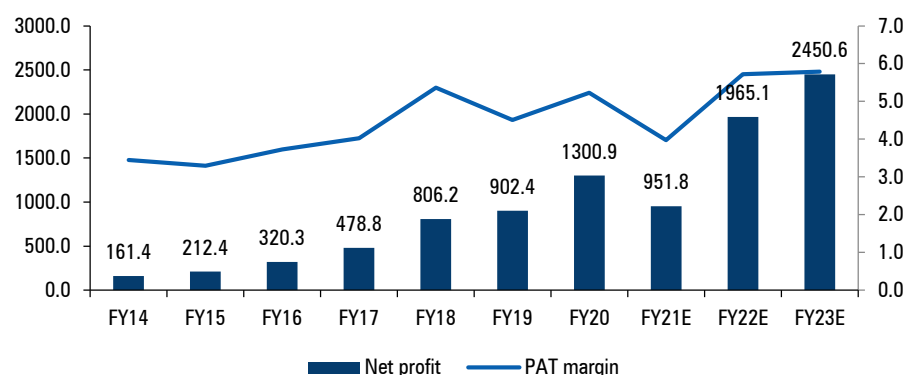
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 8: Expect PAT to grow at 24% CAGR in FY20-23E aided by higher other income



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit & loss statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Net Sales	24,870.2	23,968.7	34,355.1	42,345.1
Growth (%)	24.3	(3.6)	43.3	23.3
Total Raw Material Cost	21,102.9	20,613.0	29,167.5	35,993.4
Gross Margins (%)	15.1	14.0	15.1	15.0
Employee Expenses	456.1	551.3	652.7	762.2
Other Expenses	1,182.9	1,294.3	1,511.6	1,778.5
Total Operating Expenditure	22,741.9	22,458.6	31,331.8	38,534.1
EBITDA	2,128.3	1,510.0	3,023.2	3,811.1
EBITDA Margin	8.6	6.3	8.8	9.0
Interest	69.1	30.1	41.5	47.4
Depreciation	374.4	404.7	521.3	644.5
Other Income	60.0	197.2	166.7	157.0
Exceptional Expense	-	-	-	-
PBT	1,744.8	1,272.4	2,627.2	3,276.2
Total Tax	443.8	320.6	662.1	825.6
Profit After Tax	1,301.0	951.8	1,965.1	2,450.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	1,301.0	951.8	1,965.1	2,450.6
Add: Depreciation	374.4	404.7	521.3	644.5
Net Increase in Current Assets	-525.4	-175.8	-767.2	-804.2
Net Increase in Current Liabilities	-4.8	-26.0	176.7	112.8
CF from operating activities	1,145.2	1,154.6	1,895.9	2,403.7
(Inc)/dec in Investments	-3,119.3	0.0	470.9	133.4
(Inc)/dec in Fixed Assets	-1,700.0	-1,023.8	-2,342.6	-2,436.5
Others	159.2	0.0	0.0	0.0
CF from investing activities	-4,660.1	-1,023.8	-1,871.7	-2,303.1
Inc / (Dec) in Equity Capital	23.7	0.0	0.0	0.0
Inc / (Dec) in Loan	-696.4	-3.7	50.0	0.0
Others	4,076.4	-102.2	-111.9	-129.1
CF from financing activities	3,403.7	-105.9	-61.9	-129.1
Net Cash flow	-111.2	25.0	-37.7	-28.5
Opening Cash	219.1	107.9	132.8	95.2
Closing Cash	107.9	132.8	95.2	66.6

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Equity Capital	647.8	647.8	647.8	647.8
Reserve and Surplus	10,432.0	11,383.7	13,348.9	15,799.5
Total Shareholders funds	11,079.7	12,031.5	13,996.6	16,447.2
Total Debt	3.7	-	50.0	50.0
Non Current Liabilities	343.8	343.8	343.8	343.8
Source of Funds	11,427.2	12,375.3	14,390.4	16,841.0
Gross block	5,930.3	6,954.0	9,411.0	11,847.6
Less: Accum depreciation	822.9	1,125.4	1,534.8	2,050.2
Net Fixed Assets	5,107.4	5,828.6	7,876.2	9,797.4
Capital WIP	364.4	364.4	250.0	250.0
Intangible assets	106.8	106.8	106.8	106.8
Investments	3,153.9	3,153.9	2,683.0	2,549.6
Inventory	1,947.4	2,035.7	2,729.6	3,480.4
Cash	107.9	132.8	95.2	66.6
Debtors	19.6	65.7	94.1	116.0
Loans & Advances & Other	257.7	270.5	284.1	298.3
Total Current Assets	2,332.5	2,504.8	3,202.9	3,961.4
Creditors	433.5	407.1	583.6	696.1
Provisions & Other CL	215.3	215.6	215.9	216.2
Total Current Liabilities	648.7	622.7	799.4	912.3
Net Current Assets	1,683.8	1,882.0	2,403.5	3,049.1
LT L& A, Other Assets	1,011.0	1,039.5	1,070.9	1,088.1
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	11,427.2	12,375.3	14,390.4	16,841.0

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	20.1	14.7	30.3	37.8
Cash EPS	25.9	20.9	38.4	47.8
BV	171.0	185.7	216.1	253.9
Cash Per Share	1.7	2.1	1.5	1.0
Operating Ratios (%)				
EBITDA margins	8.6	6.3	8.8	9.0
PBT margins	7.0	5.3	7.6	7.7
Net Profit margins	5.2	4.0	5.7	5.8
Inventory days	28.6	31.0	29.0	30.0
Debtor days	0.3	1.0	1.0	1.0
Creditor days	6.4	6.2	6.2	6.0
Return Ratios (%)				
RoE	11.7	7.9	14.0	14.9
RoCE	16.4	10.8	19.0	20.1
RoIC	23.2	14.9	23.7	23.9
Valuation Ratios (x)				
P/E	98.6	134.8	65.3	52.3
EV / EBITDA	58.7	82.8	41.5	33.0
EV / Sales	5.0	5.2	3.7	3.0
Market Cap / Revenues	5.2	5.4	3.7	3.0
Price to Book Value	11.6	10.7	9.2	7.8
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	3.4	3.8	3.9	4.3
Quick Ratio	0.4	0.5	0.5	0.5

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, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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