

Avenue Supermarts (DMART IN)

Rating: BUY | CMP: Rs3,378 | TP: Rs3,686

July 10, 2021

Q1FY22 Result Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	3,686		3,366	
Sales (Rs. m)	2,89,846	4,08,606	2,89,846	4,08,606
% Chng.	-	-	-	-
EBITDA (Rs. m)	23,781	37,290	23,781	37,290
% Chng.	-	-	-	-
EPS (Rs.)	22.5	36.0	22.5	36.0
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	2,48,702	2,41,431	2,89,846	4,08,606
EBITDA (Rs. m)	21,284	17,431	23,781	37,290
Margin (%)	8.6	7.2	8.2	9.1
PAT (Rs. m)	13,011	10,994	14,557	23,339
EPS (Rs.)	20.1	17.0	22.5	36.0
Gr. (%)	38.9	(15.5)	32.4	60.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	15.6	9.5	11.3	15.8
RoCE (%)	20.5	11.4	14.7	21.1
EV/Sales (x)	8.8	9.0	7.4	5.3
EV/EBITDA (x)	102.7	124.7	90.1	57.8
PE (x)	168.2	199.0	150.3	93.7
P/BV (x)	19.7	18.0	16.0	13.7

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.3,425 / Rs.1,900
Sensex / Nifty	52,386 / 15,690
Market Cap	Rs.2,188bn / \$ 29,314m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.2431.51m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	10.04
Domestic Institution	6.71
Public & Others	8.26
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.7	13.8	45.6
Relative	4.8	6.0	2.1

Amnish Aggarwal

arnishaggarwal@plindia.com | 91-22-66322233

Heet Vora

heetvora@plindia.com | 91-22-66322381

Rashi Vora

rashivora@plindia.com |

Rising Footfalls, Online scalability Positive

Quick Pointers:

- Q1FY22 saw a stronger second wave resulting in loss of more days or higher restriction on number of hours of store operations.
- No significant impact on supply chain during the quarter, Inventory moving towards normal levels.

D'Mart 1Q results depicted impact of a strong second wave with business loss of more days (versus last year) and higher restriction on operating hours /non-essential sales. However, rising footfalls, vaccination drive, 203% sales growth in D'Mart ready and work on new store openings is positive.

Despite near term challenges we remain optimistic about the long term potential of D'Mart on back of 1) Increasing scale and scope D'Mart Ready 2) Extending offerings on D'Mart ready app to include general merchandise, fresh food and vegetable 3) Growth in General merchandise sales over lower base, 4) Everyday low value focus and 5) Steady store expansion plans. We believe bill cuts/store/day will normalize once the lockdown related restrictions minimize however the bill value is expected to remain higher than pre covid levels due to the inflationary environment. With the vaccination drive picking pace and lockdown restrictions easing, we expect D'Mart to emerge stronger in coming quarters. We estimate 42.3% PAT CAGR over FY21-25 and retain BUY with a DCF based target price of Rs3686 (Rs3360 earlier). 3rd covid wave in festival season is a key near term risk.

Sales and PAT increase 33.1% and 132.3%: Net Sales increased 31.3% to Rs 50.31bn on a YoY basis. Gross margins contracted 130bps YoY to 12.4% (Est 13.9%). EBITDA increased 103.2% YoY to Rs 2.21bn (Est Rs 3.32bn). EBITDA Margins increased 160bps to 4.4% (Est 6.6%) due to lower other expenses (920bps). Adj. PAT increased 132.3% YoY to Rs 1.15bn (Est Rs 1.92bn).

COVID Impact looms large: Despite lesser operating hours more customer footfalls were seen this year leading to higher sales compared to the same period last year. Company believes that store needs at least 45 days of unhindered operational time to get back to pre-Covid sales momentum. There was no significant impact on supply chain during the quarter, inventory is gradually moving towards normal levels. The company added 4 new stores this quarter. As construction activity has commenced at all its sites new store additions are expected to accelerate in coming quarters.

Rising E- Com Focus is a positive: Imputed D'Mart ready sales increased 203% YoY and 39% QoQ to Rs1.51b as Covid led to faster than expected change in consumer behaviour for ordering online. The D'Mart Ready business continued its gradual expansion across the MMR region, Ahmedabad, Pune, Bangalore and Hyderabad. With India in midst of 2nd covid wave, a strong and growing network of D'Mart ready stores will be beneficial.

Exhibit 1: Net Sales grew 31.3%, EBITDA margins contracted to 4.4% (QoQ), up 160bps YoY

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	50,318	38,332	31.3	73,031	2,37,872	2,46,750	(3.6)
Gross Profit	6,221	5,234	18.9	10,514	34,309	36,591	(6.2)
% of NS	12.4	13.7	(1.3)	14.4	14.4	14.8	(0.4)
Other Expenses	4,009	4,145	(3.3)	4,348	16,891	15,370	9.9
% of NS	8.0	10.8	(2.8)	6.0	7.1	6.2	0.9
EBITDA	2,212	1,089	103.2	6,166	17,417	21,221	(17.9)
Margins (%)	4.4	2.8	1.6	8.4	7.3	8.6	(1.3)
Depreciation	927	861	7.7	946	3,714	3,398	9.3
Interest	84	76	11.4	103	345	628	(45.1)
Other Income	362	513	(29.5)	526	2,089	633	229.9
PBT	1,563	666	134.8	5,642	15,448	17,829	(13.4)
Tax	412	170	142.1	1,293	3,795	4,330	(12.4)
Tax rate (%)	26.3	25.5	0.8	22.9	24.6	24.3	0.3
Adjusted PAT	1,151	496	132.3	4,350	11,653	13,499	(13.7)

Source: Company, PL

Exhibit 2: Added 4 stores in 1QFY22; Cost of retail down 280bps YoY but up 200bps QoQ

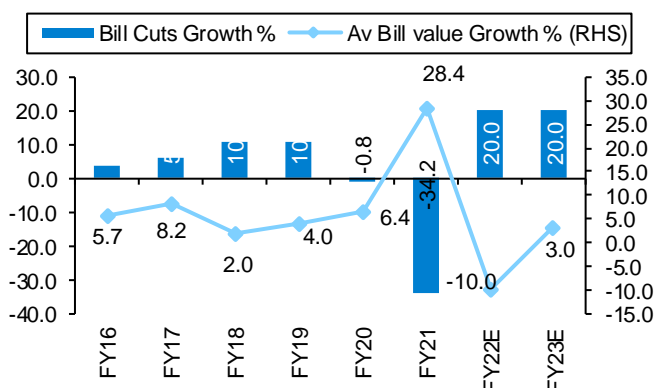
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
No. of Stores	214	216	220	221	234	238
Area (mn Sq.ft.)	7.8	8.0	8.2	8.2	8.8	9.0
Sales/Ft	7940	4792	6364	9098	8280	5585
Gross Profit/Ft	1050	654	894	1375	1192	690
EBIDTA/FT	535	136	396	896	699	246
Cost of retail %	6.5	10.8	7.8	5.8	6.0	8.0

Source: Company, PL

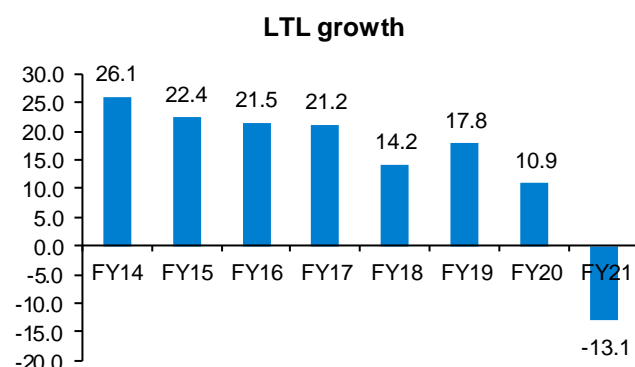
Exhibit 3: Gross Profit/Ft and EBIDTA/Ft likely grow in FY22 over low base in FY21, but still lower than normal average

	FY18	FY19	FY20	FY21	FY22E	FY23E
Sales/Ft	32,719	35,647	32,879	28,814	29,564	34,912
Gross Profit/Ft	4,853	5,091	4,830	4,068	4,241	5,108
EBIDTA/FT	2,738	2,768	2,729	1,976	2,304	3,027
Capex/Ft	9,664	9,974	10,338	9,601	9,657	9,689
Cost of retail %	6.9%	6.9%	6.6%	7.6%	6.9%	6.3%
Working Cap/Ft	1,723	1,566	1,927	1,708	1,156	2,400

Source: Company, PL

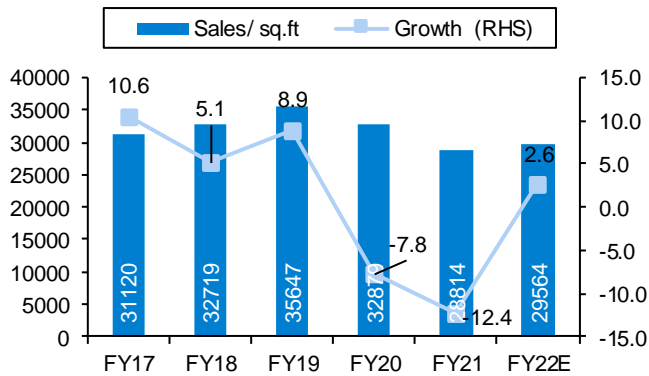
Exhibit 4: Bill Cut decreased 34% in FY21


Source: Company, PL

Exhibit 5: LTL growth at -13.1% in FY21


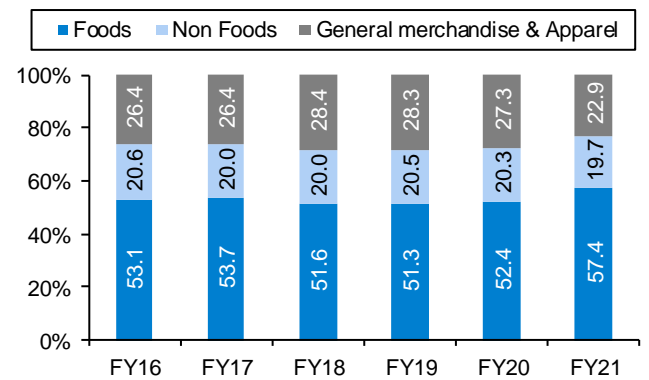
Source: Company, PL

Exhibit 6: Sales/Sq. ft. to reach Rs 34,912 in FY23E



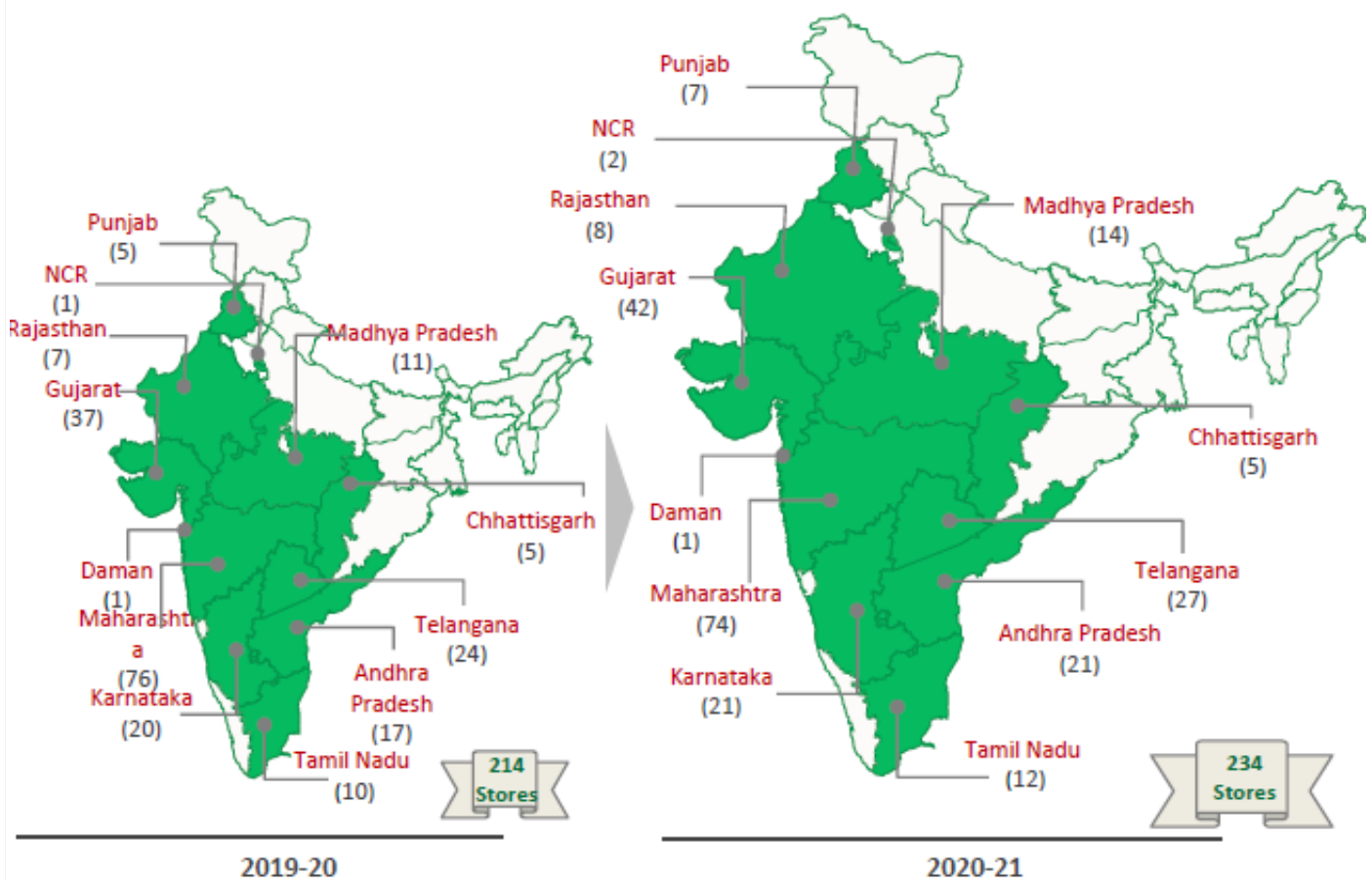
Source: Company, PL

Exhibit 7: Foods continue to remain highest contributor



Source: Company, PL

Exhibit 8: Cluster based expansion strategy continues – Addition maximum Ex Maharashtra and Gujarat



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	2,48,702	2,41,431	2,89,846	4,08,606
YoY gr. (%)	24.3	(2.9)	20.1	41.0
Cost of Goods Sold	2,11,029	2,05,547	2,46,079	3,45,681
Gross Profit	37,673	35,884	43,767	62,925
Margin (%)	15.1	14.9	15.1	15.4
Employee Cost	4,561	5,366	5,217	7,151
Other Expenses	11,828	13,088	14,768	18,485
EBITDA	21,284	17,431	23,781	37,290
YoY gr. (%)	30.3	(18.1)	36.4	56.8
Margin (%)	8.6	7.2	8.2	9.1
Depreciation and Amortization	3,744	4,142	4,519	5,275
EBIT	17,540	13,289	19,262	32,014
Margin (%)	7.1	5.5	6.6	7.8
Net Interest	691	417	601	829
Other Income	600	1,962	904	184
Profit Before Tax	17,448	14,835	19,566	31,369
Margin (%)	7.0	6.1	6.8	7.7
Total Tax	4,438	3,840	5,009	8,031
Effective tax rate (%)	25.4	25.9	25.6	25.6
Profit after tax	13,011	10,994	14,557	23,339
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,011	10,994	14,557	23,339
YoY gr. (%)	44.2	(15.5)	32.4	60.3
Margin (%)	5.2	4.6	5.0	5.7
Extra Ord. Income / (Exp)	(41)	(19)	-	-
Reported PAT	12,970	10,975	14,557	23,339
YoY gr. (%)	43.9	(15.4)	32.6	60.3
Margin (%)	5.2	4.5	5.0	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,970	10,975	14,557	23,339
Equity Shares O/s (m)	648	648	648	648
EPS (Rs)	20.1	17.0	22.5	36.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	63,210	75,037	79,016	1,00,565
Tangibles	62,519	74,314	78,184	99,608
Intangibles	691	723	832	956
Acc: Dep / Amortization	11,686	15,334	18,614	22,762
Tangibles	11,280	14,833	18,014	22,046
Intangibles	406	501	601	716
Net fixed assets	51,524	59,703	60,401	77,803
Tangibles	51,239	59,481	60,171	77,562
Intangibles	285	222	231	241
Capital Work In Progress	3,644	10,196	10,400	10,608
Goodwill	783	783	783	783
Non-Current Investments	31,227	11,093	629	694
Net Deferred tax assets	(474)	(512)	(688)	(970)
Other Non-Current Assets	10,107	14,165	12,346	13,632
Current Assets				
Investments	147	30	178	195
Inventories	19,474	22,483	18,630	38,920
Trade receivables	196	436	794	1,119
Cash & Bank Balance	1,079	14,456	47,817	35,740
Other Current Assets	1,494	1,538	1,742	2,455
Total Assets	1,20,764	1,36,560	1,55,024	1,83,788
Equity				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,04,320	1,15,359	1,29,852	1,53,191
Total Network	1,10,797	1,21,837	1,36,330	1,59,669
Non-Current Liabilities				
Long Term borrowings	-	-	2,000	2,000
Provisions	15	25	24	31
Other non current liabilities	2,211	3,120	3,931	4,847
Current Liabilities				
ST Debt / Current of LT Debt	37	-	1,507	1,500
Trade payables	4,335	5,781	6,056	9,149
Other current liabilities	2,886	5,276	4,480	5,614
Total Equity & Liabilities	1,20,764	1,36,560	1,55,024	1,83,788

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	17,448	14,835	19,566	31,369
Add. Depreciation	3,744	4,142	4,519	5,275
Add. Interest	691	417	601	829
Less Financial Other Income	600	1,962	904	184
Add. Other	(37,824)	17,033	13,269	(146)
Op. profit before WC changes	(15,940)	36,425	37,955	37,327
Net Changes-WC	(5,789)	(37)	3,136	(17,635)
Direct tax	(4,438)	(3,840)	(5,009)	(8,031)
Net cash from Op. activities	(26,167)	32,548	36,082	11,662
Capital expenditures	(11,923)	(18,872)	(5,422)	(22,885)
Interest / Dividend Income	-	-	-	-
Others	(22)	91	(148)	(18)
Net Cash from Invst. activities	(11,945)	(18,781)	(5,570)	(22,902)
Issue of share cap. / premium	41,953	64	(64)	-
Debt changes	(4,261)	(37)	3,507	(7)
Dividend paid	-	-	-	-
Interest paid	(691)	(417)	(601)	(829)
Others	(1)	-	6	-
Net cash from Fin. activities	37,000	(389)	2,848	(836)
Net change in cash	(1,111)	13,377	33,361	(12,076)
Free Cash Flow	(38,089)	13,675	30,661	(11,222)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	20.1	17.0	22.5	36.0
CEPS	25.9	23.4	29.4	44.2
BVPS	171.0	188.1	210.5	246.5
FCF	(58.8)	21.1	47.3	(17.3)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	20.5	11.4	14.7	21.1
ROIC	14.7	10.9	18.0	21.7
RoE	15.6	9.5	11.3	15.8
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.3)	(0.2)
Net Working Capital (Days)	23	26	17	28
Valuation(x)				
PER	168.2	199.0	150.3	93.7
P/B	19.7	18.0	16.0	13.7
P/CEPS	130.6	144.6	114.7	76.5
EV/EBITDA	102.7	124.7	90.1	57.8
EV/Sales	8.8	9.0	7.4	5.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	52,182	74,327	73,031	50,318
YoY gr. (%)	(12.3)	10.1	17.9	31.3
Raw Material Expenses	44,851	63,096	62,518	44,097
Gross Profit	7,330	11,231	10,514	6,221
Margin (%)	14.0	15.1	14.4	12.4
EBITDA	3,249	6,914	6,166	2,212
YoY gr. (%)	(37.0)	16.6	47.6	103.2
Margin (%)	6.2	9.3	8.4	4.4
Depreciation / Depletion	904	1,003	946	927
EBIT	2,345	5,911	5,220	1,285
Margin (%)	4.5	8.0	7.1	2.6
Net Interest	79	87	103	84
Other Income	558	492	526	362
Profit before Tax	2,824	6,316	5,642	1,563
Margin (%)	5.4	8.5	7.7	3.1
Total Tax	719	1,614	1,293	412
Effective tax rate (%)	25.4	25.5	22.9	26.3
Profit after Tax	2,106	4,703	4,349	1,151
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,106	4,703	4,349	1,151
YoY gr. (%)	(36.9)	19.3	51.6	132.3
Margin (%)	4.0	6.3	6.0	2.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,106	4,703	4,349	1,151
YoY gr. (%)	(36.9)	19.3	51.6	132.3
Margin (%)	4.0	6.3	6.0	2.3
Other Comprehensive Income	(4)	(7)	6	(4)
Total Comprehensive Income	2,102	4,696	4,356	1,147
Avg. Shares O/s (m)	648	648	648	648
EPS (Rs)	3.3	7.3	6.7	1.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-21	BUY	3,366	3,314
2	08-May-21	BUY	3,360	2,896
3	07-Apr-21	BUY	3,195	2,880
4	10-Jan-21	BUY	3,296	2,968
5	07-Jan-21	UR	-	2,915
6	17-Oct-20	BUY	2,316	1,988
7	08-Oct-20	Hold	2,057	2,065
8	05-Aug-20	Hold	2,055	2,163
9	11-Jul-20	Reduce	1,695	2,323

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,136	3,005
2	Avenue Supermarts	BUY	3,366	3,314
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,794	1,690
7	Crompton Greaves Consumer Electricals	BUY	454	450
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Hold	1,066	1,022
12	Hindustan Unilever	BUY	2,562	2,487
13	ITC	BUY	258	202
14	Jubilant FoodWorks	Accumulate	3,371	3,146
15	Kansai Nerolac Paints	Accumulate	620	587
16	Marico	UR	-	520
17	Nestle India	Accumulate	18,450	17,602
18	Pidilite Industries	UR	-	2,179
19	Titan Company	Accumulate	1,869	1,763
20	Voltas	Hold	955	1,015
21	Westlife Development	BUY	572	496

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

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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