

Avenue Supermarts

Estimate changes



TP change



Rating change



Bloomberg	DMART IN
Equity Shares (m)	648
M.Cap.(INRb)/(USDb)	2095.5 / 27.1
52-Week Range (INR)	5900 / 2830
1, 6, 12 Rel. Per (%)	-11/-23/5
12M Avg Val (INR M)	2058

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	309.8	480.6	590.7
EBITDA	25.0	40.8	52.7
Adj. PAT	14.9	25.5	33.1
EBITDA Margin (%)	8.1	8.5	8.9
Adj. EPS (INR)	23.0	39.4	51.1
EPS Gr. (%)	35.7	70.9	29.8
BV/Sh. (INR)	219.2	260.0	313.1

Ratios

Net D:E	-0.2	-0.1	-0.1
RoE (%)	11.5	17.1	18.5
RoCE (%)	11.4	16.2	17.1
Payout (%)	0	0	0

Valuations

P/E (x)	140.6	82.3	63.4
EV/EBITDA (x)	84.1	51.7	40.2
EV/Sales (X)	6.8	4.4	3.6
Div. Yield (%)	0	0	0
FCF Yield (%)	-0.5	-0.4	0.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	75.0	75.0	75.0
DII	6.8	6.7	6.6
FII	8.8	9.4	10.2
Others	9.4	8.8	8.3

FII Includes depository receipts

CMP: INR3,235

TP: INR3,500 (+8%)

Neutral

Healthy recovery overshadowed by market conditions

- Avenue Supermarts (DMART)'s EBITDA grew 21% YoY driven by aggressive store expansion (21 stores in 4QFY22) and healthy cost optimization, following a weak SSSG that softened revenue growth.
- Despite the stock correcting more than 35% since its peak, the valuation remains expensive. Further, management commentary remains mixed as it points to robust recovery in Mar'22 but raises concerns of a shift in ecommerce along with an adverse impact of inflation-led consumption. We factor in FY22-24E EBITDA/PAT CAGR of 45%/49% (on consol. basis) with a strong 17% footprint CAGR, **but maintain our Neutral rating on the stock with a TP of INR3,500.**

Aggressive store additions and cost management amid soft LTL growth

- DMART's Consol./Standalone revenue grew 19%/18% YoY to INR87.9b/INR86.1b (9% below our pre-quarter estimate), respectively, propelled by strong store additions partly offset by Omicron-led, nine-day loss of sale.
- Store additions of 21 were strong, and above expectation of 11 store additions, reaching 284 stores. It added 50 stores in FY22 v/s 40 estimated as per management guidance due to delayed openings during COVID. While FY22 SSSG was at 16.7%, we estimate a mid-single digit SSS decline for 4QFY22, adversely impacted by Omicron-led mini-lockdown.
- Consolidated gross margin at 15% saw a minor 20bp improvement YoY. Management mentioned that inflation benefited the margin, which was partly offset by the COVID-led unfavorable revenue mix.
- EBITDA margin for 4QFY22 has improved 10bp despite the Omicron impact and aggressive store additions, as per sq.ft. expenditure dipped 9%. Subsequently, EBITDA grew 20.7% YoY to INR7.4b (4% above est.).
- PAT stood at INR4.3b, up 3% YoY (8% miss), adversely impacted by lower other income. PAT margin was at 4.9% (-70bp YoY).

Key highlights from the management commentary

- Mar'22 indicated a robust recovery with a satisfactory LTL growth v/s Mar'21.
- However, its performance was hit by weak discretionary (non-FMCG) segment adversely impacted by Omicron as the recovery took 40-50 days, after restrictions were lifted.
- Management indicated that it was hard to estimate whether there was a secular change due to ecommerce shift or the impact of inflation or owing to significantly higher COVID-related adverse economic impact.
- DMART Ready doubled its revenue in FY22 and increased presence in seven more cities from five earlier, but post-Omicron, the ecommerce business has slowed down.

Valuation and view

- DMART's strong growth in footprint and cost optimization measures led to healthy 21% EBITDA growth even amid the Omicron wave.
- However, for the first time, the management deliberated whether the current quarter's soft performance was due to any secular shift in ecommerce.
- We factor in an FY22-24E EBITDA/PAT CAGR of 45%/49% (on a consol. basis), strong 17% CAGR in footprint and an annual SSSG of 15% (9% above pre-COVID), to garner 2x PEG.
- However, we are cognizant of the prominence of new age grocery model and its rich valuation. **Hence, we maintain our Neutral rating with a TP of INR3,500 assigning 42x EV/EBITDA on FY24E basis.**

Consolidated - Quarterly Earnings

Y/E March	FY21				FY22				FY21	FY22
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue	38,832	53,062	75,420	74,117	51,831	77,889	92,178	87,865	2,41,431	3,09,763
YoY Change (%)	-33.2	-11.4	10.8	18.5	33.5	46.8	22.2	18.5	-2.9	28.3
Total Expenditure	37,714	49,767	68,529	67,990	49,589	71,204	83,513	80,472	2,24,000	2,84,778
EBITDA	1,118	3,295	6,891	6,127	2,242	6,686	8,665	7,393	17,431	24,985
Change YoY (%)	-81.3	-36.3	15.5	46.8	100.6	102.9	25.7	20.7	-18.1	43.3
Depreciation	948	1,007	1,137	1,050	1,074	1,160	1,283	1,463	4,142	4,981
Interest	88	93	113	123	108	124	140	166	417	538
Other Income	506	522	453	481	315	275	260	326	1,962	1,175
PBT	588	2,717	6,094	5,436	1,374	5,677	7,502	6,089	14,835	20,641
Tax	187	732	1,625	1,297	420	1,499	1,976	1,821	3,840	5,717
Rate (%)	31.8	26.9	26.7	23.9	30.6	26.4	26.3	29.9	25.9	27.7
Reported PAT	401	1,985	4,470	4,139	954	4,178	5,525	4,268	10,994	14,924
Adj PAT	401	1,985	4,470	4,139	954	4,178	5,525	4,268	10,994	14,924
YoY Change (%)	-87.6	-38.5	16.4	53	137.9	110.4	23.6	3	-15	36

Performance for the quarter**Store additions were strong and above our expectation**

- **DMART added 21 stores, much ahead of our expectation of 11 stores, reaching 284 stores as of 4QFY22.**
- For FY22, it **added 50 stores**, against company guidance/our estimate of 40 store additions.
- The record store openings were primarily due to delayed openings in the previous year led by COVID-19.
- Store size in the last three years is about 50k sq.ft. which is 50% higher since FY18. This is in-line with company strategy of adding larger-size stores.

SSSG remained weak in 4QFY22:

- While FY22 SSSG was at 16.7%, we estimate a mid-single digit SSS decline for 4QFY22
- This was adversely impacted by loss of nine days sale due to Omicron and slower growth in the discretionary segment
- The revenue growth was offset by growth in employee costs and other expenses which rose 18%/19.3% YoY, respectively. This was mainly on account of strong store additions, as **per sq.ft. expenditure dipped 9% comparatively.**

- EBITDA margin for 4QFY22 has improved 10bp despite the Omicron impact and aggressive store additions. The impact of lower revenue mix of margin accretive discretionary category was offset by inflation that has aided in managing costs and delivering value to the customer

Management commentary

Management first time acknowledged the risk of grocery ecommerce

- **Weak performance in 4QFY22:** The reason for weaker growth is muted discretionary non-FMCG segment impacted by Omicron. Recovery took 40-50 days after restrictions were lifted.
- Management indicated that it was hard to estimate whether there was a secular change due to ecommerce shift or the impact of inflation or owing to significantly higher COVID-related adverse economic impact
- The management would require two more quarters of normalized business to give a qualitative interpretation.

DMART Ready:

- Gradual expansion of ecommerce continued. It is now present in 12 cities. Started operations in seven new cities – Bhopal, Indore, Kolhapur, Nagpur, Surat, Vadodara and Vizag and continued expansion in cities where it was present earlier - Mumbai, Ahmedabad, Bangalore, Hyderabad and Pune.
- Top line sales this year more than doubled that of last year.
- Post-Omicron wave, the ecommerce business has slowed down its growth trajectory.

Exhibit 1: Valuation based on FY24E EBITDA

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
EBITDA	FY24 EV/EBITDA	53	42	2,235	3,450
Less Net debt				-32	-50
Total Value				2,267	3,500
Shares o/s (m)				648	
CMP (INR)					3,235
Upside (%)					8

Source: MOFSL, Company

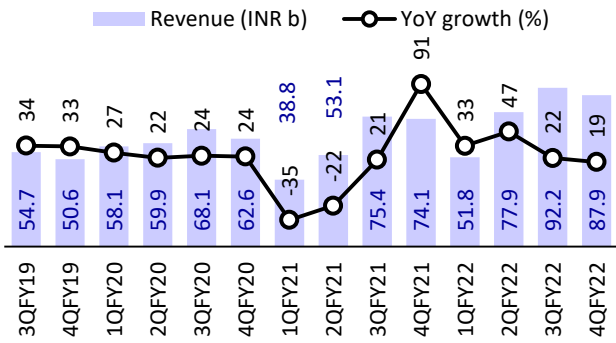
Exhibit 2: Summary of changes to our estimates

	FY23E	FY24E
Revenue (INR b)		
Old	493	596
Actual/New	481	591
Change (%)	-2.5	-1.0
RM cost (INR b)		
Old	403.3	493.5
Actual/New	403.3	493.5
Change (%)	0.0	0.0
Gross Profit (INR b)		
Old	89.5	103.0
Actual/New	77.2	97.2
Change (%)	-13.7	-5.6
Gross margin (%)		
Old	18.2	17.3
Actual/New	16.1	16.5
Change (bp)	-209bps	-81bps
EBITDA (INR b)		
Old	42.8	54.4
Actual/New	40.8	52.7
Change (%)	-4.6	-3.1
EBITDA margin (%)		
Old	8.7	9.1
Actual/New	8.5	8.9
Change (bp)	-18bps	-19bps
Net Profit (INR b)		
Old	26.3	33.7
Actual/New	25.5	33.1
Change (%)	-3.1	-1.7
EPS (INR)		
Old	40.7	52.0
Actual/New	39.4	51.1
Change (%)	-3.1	-1.7

Source: MOFSL

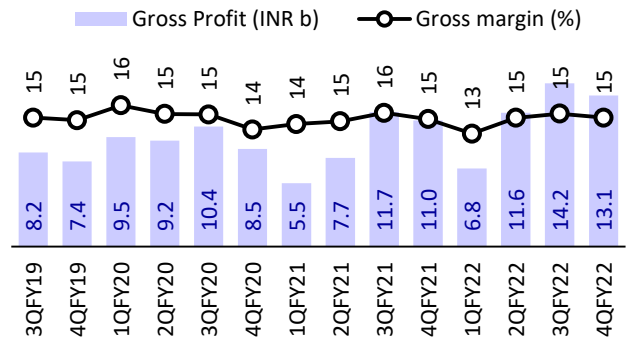
Story in charts

Exhibit 3: Revenue up 19% YoY in 4QFY22



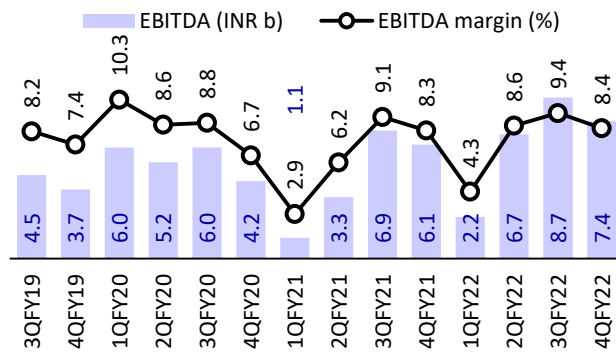
Source: Company, MOFSL

Exhibit 4: Gross margin improves to 15%



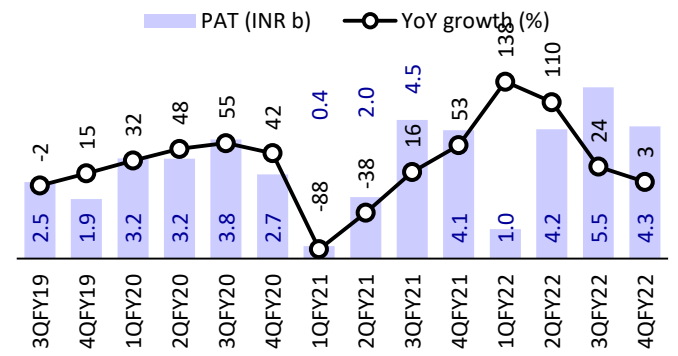
Source: Company, MOFSL

Exhibit 5: EBITDA margin up 10bps YoY



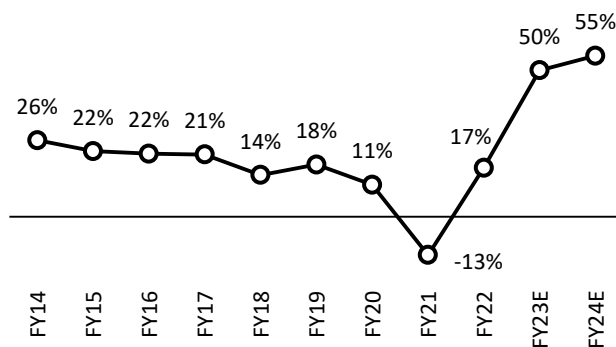
Source: MOFSL, Company

Exhibit 6: PAT grows 3% YoY in 4QFY22



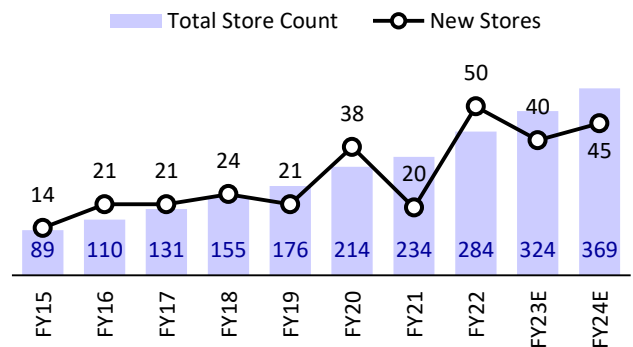
Source: MOFSL, Company

Exhibit 7: SSSG trend (for stores operating for 24 months)



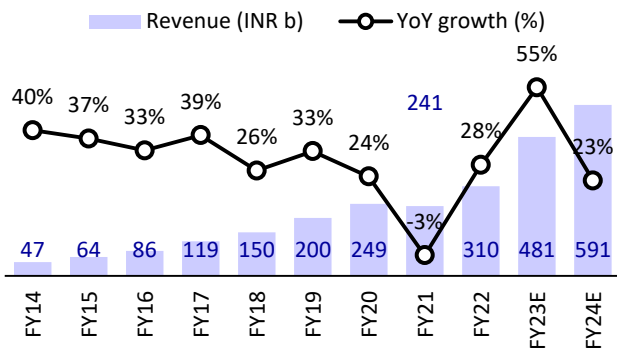
Source: MOFSL, Company

Exhibit 8: Store additions to gain momentum



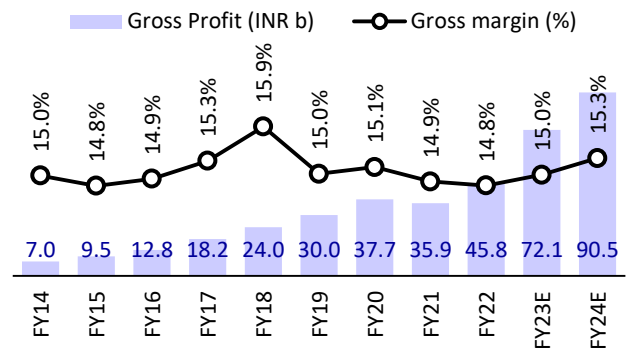
Source: MOFSL, Company

Exhibit 9: Expect 38% consol revenue CAGR over FY22–24E



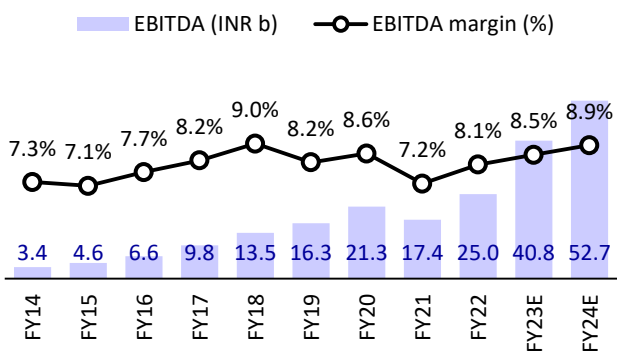
Source: MOFSL, Company

Exhibit 10: Expect gross margin recovery from FY23



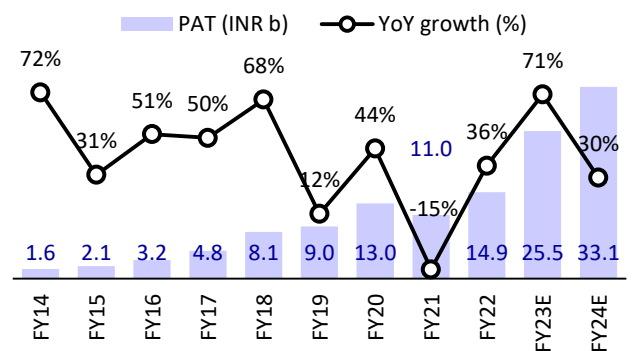
Source: MOFSL, Company

Exhibit 11: Expect EBITDA margin to recover from FY23



Source: MOFSL, Company

Exhibit 12: Expect 49% PAT CAGR over FY22–24E



Source: MOFSL, Company

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	1,18,977	1,50,332	2,00,045	2,48,702	2,41,431	3,09,763	4,80,553	5,90,660
Change (%)	38.6	26.4	33.1	24.3	-2.9	28.3	55.1	22.9
Raw Materials	1,00,810	1,26,356	1,70,008	2,11,029	2,05,547	2,63,974	4,08,490	5,00,148
Gross Profit	18,167	23,976	30,037	37,673	35,884	45,789	72,063	90,513
Margin (%)	15.3	15.9	15.0	15.1	14.9	14.8	15.0	15.3
Employees Cost	1,925	2,826	3,554	4,561	5,366	6,162	9,611	11,223
Other Expenses	6,429	7,622	10,150	11,829	13,088	14,642	21,625	26,580
Total Expenditure	1,09,165	1,36,804	1,83,712	2,27,419	2,24,000	2,84,778	4,39,726	5,37,950
% of Sales	91.8	91.0	91.8	91.4	92.8	91.9	91.5	91.1
EBITDA	9,812	13,528	16,333	21,283	17,431	24,985	40,827	52,710
Margin (%)	8.2	9.0	8.2	8.6	7.2	8.1	8.5	8.9
Depreciation	1,278	1,590	2,125	3,744	4,142	4,981	6,105	8,230
EBIT	8,534	11,938	14,208	17,539	13,289	20,004	34,722	44,480
Int. and Finance Charges	1,220	595	472	691	417	538	645	775
Other Income	286	693	484	600	1,962	1,175	869	1,665
PBT bef. EO Exp.	7,600	12,036	14,219	17,448	14,835	20,641	34,946	45,371
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	7,600	12,036	14,219	17,448	14,835	20,641	34,946	45,371
Total Tax	2,683	4,158	5,195	4,438	3,840	5,717	9,435	12,250
Tax Rate (%)	35.3	34.5	36.5	25.4	25.9	27.7	27.0	27.0
Minority Interest	129	-185	1	1	0	0	0	0
Reported PAT	4,788	8,063	9,024	13,009	10,994	14,924	25,510	33,121
Adjusted PAT	4,788	8,063	9,024	13,009	10,994	14,924	25,510	33,121
Change (%)	49.5	68.4	11.9	44.2	-15.5	35.7	70.9	29.8
Margin (%)	4.0	5.4	4.5	5.2	4.6	4.8	5.3	5.6

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	6,241	6,241	6,241	6,478	6,478	6,478	6,478	6,478
Total Reserves	32,177	40,450	49,634	1,04,320	1,15,359	1,30,299	1,55,809	1,88,929
Net Worth	38,418	46,691	55,875	1,10,797	1,21,837	1,36,776	1,62,286	1,95,407
Total Loans	14,973	4,393	4,298	37	0	0	10,000	16,500
Lease Liabilities				2,955	3,927	6,469	4,970	5,268
Deferred Tax Liabilities	505	452	633	474	512	640	640	640
Capital Employed	53,898	51,541	60,811	1,14,268	1,26,281	1,43,890	1,77,900	2,17,819
Gross Block	27,764	37,223	49,352	68,484	83,178	1,10,671	1,44,824	1,87,694
Less: Accum. Deprn.	2,260	4,006	6,131	9,786	13,873	18,854	25,209	33,439
Net Fixed Assets	25,504	33,217	43,221	58,698	69,305	91,818	1,19,615	1,54,255
Right to use assets				7,173	9,602	13,887	11,848	12,634
Capital WIP	1,529	1,471	3,768	3,644	10,196	11,293	10,196	10,196
Total Investments	531	682	165	31,374	30	59	48	38
Curr. Assets, Loans&Adv.	30,629	20,330	22,118	26,264	56,237	50,758	61,046	69,453
Inventory	9,479	11,634	16,087	19,474	22,483	27,427	39,170	47,959
Account Receivables	210	335	644	196	436	669	1,059	1,302
Cash and Bank Balance	18,843	5,602	2,191	1,079	14,456	2,986	1,140	516
Loans and Advances	2,097	2,758	3,197	5,516	18,863	19,677	19,677	19,677
Curr. Liability & Prov.	4,295	4,942	9,246	6,497	10,280	10,838	13,804	16,922
Account Payables	2,607	3,173	4,633	4,335	5,781	5,892	9,238	11,311
Other Current Liabilities	1,605	1,642	4,474	1,996	4,236	4,533	4,085	5,021
Provisions	84	127	139	167	262	413	481	591
Net Current Assets	26,334	15,387	12,872	19,767	45,958	39,920	47,242	52,531
Deferred Tax assets	0	1	2	3	10	17	17	17
Appl. of Funds	53,897	51,541	60,811	1,14,268	1,26,281	1,43,890	1,77,900	2,17,819

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS (diluted from FY17)	7.7	12.9	14.5	20.1	17.0	23.0	39.4	51.1
Cash EPS (diluted from FY17)	9.7	15.5	17.9	26.8	24.3	31.9	50.7	66.3
BV/Share (diluted from FY17)	61.6	74.8	89.5	177.5	195.2	219.2	260.0	313.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	422.3	250.8	224.1	161.3	190.9	140.6	82.3	63.4
Cash P/E	333.3	209.5	181.4	120.7	133.6	101.6	64.0	48.9
P/BV	52.6	43.3	36.2	18.2	16.6	14.8	12.5	10.3
EV/Sales	17.0	13.4	10.1	8.4	8.6	6.8	4.4	3.6
EV/EBITDA	205.6	149.3	123.9	97.2	119.8	84.1	51.7	40.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-2.8	-2.9	-9.5	-6.6	-10.1	-15.7	-15.6	-9.3
Return Ratios (%)								
RoE	17.9	18.9	17.6	15.6	9.5	11.5	17.1	18.5
RoCE	14.2	15.8	16.8	15.5	9.4	11.4	16.2	17.1
RoIC	18.7	20.4	18.3	19.7	11.0	12.5	17.1	17.4
Working Capital Ratios								
Fixed Asset Turnover (x)	4.3	4.0	4.1	3.6	2.9	2.8	3.3	3.1
Asset Turnover (x)	2.2	2.9	3.3	2.2	1.9	2.2	2.7	2.7
Inventory (Days)	34	34	35	34	40	38	35	35
Debtor (Days)	1	1	1	0	1	1	1	1
Creditor (Days)	9	9	10	7	10	8	8	8
Leverage Ratio (x)								
Current Ratio	7.1	4.1	2.4	4.0	5.5	4.7	4.4	4.1
Interest Cover Ratio	7.0	20.0	30.1	25.4	31.9	37.2	53.8	57.4
Net Debt/Equity	-0.1	0.0	0.0	-0.3	-0.1	0.0	0.1	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	7,600	12,036	14,219	17,448	14,835	20,641	34,946	45,371
Depreciation	1,278	1,590	2,125	3,744	4,142	4,981	6,105	8,230
Interest & Finance Charges	1,220	595	472	691	417	538	645	775
Direct Taxes Paid	-2,586	-4,027	-5,018	-4,924	-2,616	-5,603	-9,435	-12,250
(Inc)/Dec in WC	-2,697	-2,427	-3,507	-3,762	-1,271	-5,825	-9,168	-5,913
CF from Operations	4,815	7,767	8,292	13,197	15,506	14,733	23,093	36,212
Others	-237	-467	-224	-395	-1,754	-1,009	-869	-1,665
CF from Operating incl EO	4,578	7,300	8,068	12,801	13,751	13,724	22,223	34,547
(Inc)/Dec in FA	-6,354	-9,087	-13,970	-17,060	-20,275	-23,895	-32,347	-40,584
Free Cash Flow	-1,775	-1,787	-5,902	-4,259	-6,524	-10,172	-10,124	-6,036
(Pur)/Sale of Investments	-229	-247	0	0	7,830	10,500	12	10
Others	-18,259	13,970	4,386	-29,505	1,345	500	869	1,665
CF from Investments	-24,842	4,635	-9,584	-46,566	-11,100	-12,895	-31,466	-38,910
Issue of Shares	18,406	0	0	41,869	0	0	0	0
Inc/(Dec) in Debt	3,050	-10,791	2,600	-6,615	-1,359	0	10,000	6,500
Interest Paid	-1,203	-800	-510	-682	-436	-538	-645	-775
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	0	-998	0	-1,255	-1,959	-1,988
CF from Fin. Activity	20,253	-11,591	2,090	33,574	-1,795	-1,792	7,396	3,737
Inc/Dec of Cash	-11	345	574	-190	856	-964	-1,847	-625
Opening Balance (without bank bal.)	340	329	674	1,249	1,059	1,915	951	-896
Closing Balance	329	674	1,249	1,059	1,915	951	-896	-1,520
Other bank balance	18,514	4,928	942	20	12,541	2,035	2,036	2,036
Closing Balance (including bank bal)	18,843	5,602	2,191	1,079	14,456	2,986	1,140	516

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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