

Avenue Supermarts

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	DMART IN
Equity Shares (m)	624
M.Cap.(INRb)/(USDb)	1284.9 / 17.5
52-Week Range (INR)	2559 / 1701
1, 6, 12 Rel. Per (%)	-9/-38/2
12M Avg Val (INR M)	1611

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	248.7	253.4	356.9
EBITDA	21.3	18.5	29.4
Adj. PAT	13.0	11.8	18.9
EBITDA Margin (%)	8.6	7.3	8.2
Adj. EPS (INR)	20.1	18.2	29.2
EPS Gr. (%)	38.9	-9.4	60.3
BV/Sh. (INR)	177.5	196.4	226.7

Ratios

Net D:E	-0.3	-0.3	-0.3
RoE (%)	15.6	10.1	14.3
RoCE (%)	15.5	10.1	14.2
Payout (%)	0	0	0

Valuations

P/E (x)	98.8	109.1	68.1
EV/EBITDA (x)	60.5	69.2	43.7
EV/Sales (X)	5.2	5.1	3.6
Div. Yield (%)	0	0	0
FCF Yield (%)	-0.3	0.7	0.1

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	75.0	75.0	80.2
DII	6.1	6.0	4.8
FII	10.3	10.4	6.0
Others	8.6	8.6	9.0

FII Includes depository receipts

CMP: INR1,984 TP: INR2,100 (+6%) Neutral

Gradually on path to recovery

- DMart has witnessed sequential revenue recovery (up 37% QoQ) with consistent MoM growth in 2QFY21. However, numbers are still weak YoY (down 11%) with -12.5% SSSG.
- Gross Margin has improved, but is still down 90bp YoY due to lower mix of the margin-accretive discretionary business.
- DMart added six stores in 2QFY21 despite the economic headwinds. We have marginally tweaked our numbers for FY21E/FY22E, factoring in 2%/41% revenue growth and EBITDA growth of -13%/59%, which reflects gradual recovery from 3QFY21.

Sales recovery continues; Discretionary business still down

- DMart's revenue declined 11% YoY (in-line) to INR53b with SSSG at -12.5%. However, its business is improving MoM with unlock in progress. While FMCG and staples have recovered, discretionary consumption is seeing encouraging trends, though down YoY
- Gross margin has recovered 30bp QoQ as sale of margin-accretive general merchandise and apparel categories are improving. However, it is still down 90bp YoY (50bp below expectation), which has dragged gross profit by 16% YoY to INR7.7b.
- EBITDA, thus, came in at INR3.3b falling 36% YoY (in-line) with margins recovering to 6.2% (+330bp QoQ, -240bp YoY). PAT came in at INR2b, dropping 39% YoY (15% beat), cushioned by other income.

Strong focus on store addition, capex continues

- Overall sales improved MoM during the quarter, as since Aug'20 most stores are operating at pre-COVID operating hours. In Sep'20, sales of FMCG and staples at all stores exceeded YoY. Sales of general merchandise and apparel (discretionary category) is still sluggish at 22.7% of revenue v/s usual contribution of 27.3%, but sales trend is encouraging.
- Stores older than two years recorded 12.5% drop in SSSG. Though footfalls are lower than pre-COVID levels and basket values are higher, both are moving toward pre-COVID levels.
- Capex during 1HFY21 was strong at INR6.5b despite the lockdown (v/s 1HFY20 capex of INR7.7b), which can be attributed to the opening of eight new stores. Of this, six stores were added in 2QFY21.
- Inventory remained stable at INR19b. However, inventory days jumped from 38 to 45 days due to the falling revenues. DMart remains debt free with cash of INR30b, including QIP of INR40b in the last fiscal.

Valuation and view

- We expect DMart to deliver FY20-22E revenue/EBITDA CAGR of 20%/18%. We have factored in -7%/15% SSSG and 15/40 store adds for FY21/22E. Unlike other retailers, grocery retailers catering to essentials have seen swift recovery from COVID-19. We believe the gradual unlocking of the nation would lead to positive sales from 3QFY21, supported by improving sales from the general merchandise and apparel category.

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- The company's INR40b equity funding in 4QFY20 has strengthened its balance sheet. DMart had net cash position of INR30b in 2QFY21, which enhances its liquidity in such uncertain times.
- We value DMart at FY22E EV/EBITDA multiple of 45x (72x P/E), with a TP of INR2,100 (v/s INR2,000 earlier). The recent price correction, expectation of swift recovery post COVID-19 and its continued cost/price competitiveness should hold the company in good stead.
- However, growing scale of online retailers with strong sales in recent months and the prominence of players like Amazon and Reliance Retail with deep pockets poses risk of moderation in DMart's growth and return profile, which may in turn restrict re-rating. Thus, we value DMart at ~20% discount to its three-year average EV/EBITDA multiple of 54x, implying 6% upside. We retain our **Neutral** recommendation.

Consolidated - Quarterly Earning

Y/E March	(INR Million)											
	FY20				FY21				FY20	FY21E	FY21E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE	Var (%)	
Revenue	58,146	59,908	68,089	62,559	38,832	53,062	78,282	83,181	248,702	253,357	54,175	-2.1
YoY Change (%)	27.1	22.4	24.4	23.6	-33.2	-11.4	15.0	33.0	24.3	1.9	-9.6	
Total Expenditure	52,178	54,733	62,122	58,386	37,714	49,767	71,370	75,980	227,419	234,831	50,936	-2.3
EBITDA	5,968	5,175	5,967	4,173	1,118	3,295	6,912	7,201	21,283	18,526	3,239	1.7
Change YoY (%)	41.0	-87.6	32.7	12.1	-81.3	-36.3	15.8	72.6	30.3	-13.0	-37.4	
Depreciation	827	919	952	1,046	948	1,007	1,040	1,112	3,744	4,107	999	0.8
Interest	182	190	176	144	88	93	95	98	691	374	75	23.9
Other Income	110	81	61	349	506	522	529	558	600	2,114	135	286.1
PBT	5,069	4,147	4,900	3,333	588	2,717	6,306	6,549	17,448	16,159	2,300	18.1
Tax	1,838	921	1,060	620	187	732	1,703	1,758	4,438	4,379	575	27.2
Rate (%)	36.3	22.2	21.6	18.6	31.8	26.9	27.0	26.8	25.4	27.1	25.0	
Reported PAT	3,230	3,226	3,840	2,713	401	1,985	4,604	4,791	13,009	11,780	1,725	15.1
Adj PAT	3,230	3,226	3,840	2,713	401	1,985	4,604	4,791	13,009	11,780	1,725	15.1
YoY Change (%)	32	185	55	42	-88	-38	20	77	44	-9	-46.5	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Store Adds	8	5	7	18	2	4	3	6	38	15
Total Stores	184	189	196	214	216	220	223	229	214	229
Area Addition (m sq ft)	0.3	0.3	0.5	0.8	0.2	0.2	0.2	0.1	1.9	0.7
Gross Margins (%)	16.4	15.4	15.3	13.6	14.2	14.5	15.1	14.4	15.1	14.6
EBITDA Margins (%)	10.3	8.6	8.8	6.7	2.9	6.2	8.8	8.7	8.6	7.3
PAT Margins (%)	5.6	5.4	5.6	4.3	1.0	3.7	5.9	5.8	5.2	4.6

E: MOFSL Estimates

Other Business Highlights: DMart Ready shows strong growth

- 1HFY21 revenues fell 22% YoY while EBITDA plunged 60% YoY on account of the nationwide lockdown.
- During 2QFY21, DMart Ready's revenue grew ~110% YoY to INR0.9b, driven by rise in home delivery. However, the scale of business remains small and forms merely 2% of the consolidated revenues.
- While DMart added six stores during 2QFY21, it also closed two stores in Mumbai and converted them into fulfillment centers to support its e-commerce

demand in the MMR region. Both these closed stores have a D-Mart store in a vicinity of 4kms to support regional demand.

- DMart Ready has increased its footprint in MMR covering additional pin codes – Mira Road and Kalyan FC.
- DMart Ready is also increasing its delivery reach in select pin codes in Pune city.

Balance Sheet remains strong

- DMart's inventory remained stable at INR19b, though inventory days have increased from 38 days to 45 days due to the fall in revenues.
- Capex during 1HFY21 stood strong at INR6.5b despite the lockdown (1HFY20 capex: INR7.7b), which can be attributed to the opening of eight new stores.
- The company remains debt free with cash of INR30b, which includes QIP of INR40b last fiscal.

Rising scale of grocery players

- Online players are growing significantly – Big Basket's monthly orders in Jul'20 jumped to INR7.2-7.3b i.e. ~INR90b annually, which is 30-50% of top offline grocery retailers. This is 3x v/s last fiscal, 2x v/s Jan'20.
- Seeing very high customer retention with huge number of repeat orders creating customer loyalty in grocery which is typically the slowest to move to online. High margin new categories, increased efficiency measures and end-to-end digitization are aiding profitability. However, the key question is whether this demand will sustain once normalcy resumes.

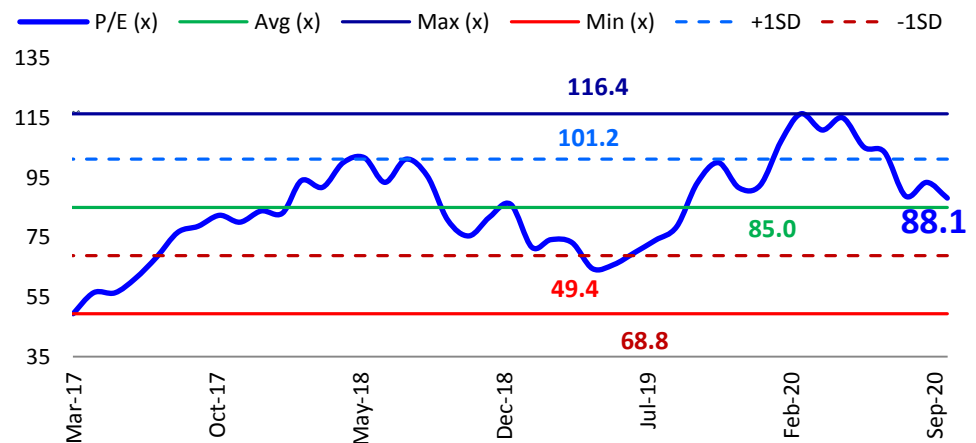
Valuation and view

- The huge growth opportunity in the grocery space coupled with DMart's cost competitiveness provides huge runway for growth. While the pace of growth may moderate due to the high scale, it could still achieve a healthy 20-25% growth.
- Fixed asset turnover of DMart has remained intact, but capex/sqft has increased significantly over the last five years, as we believe new stores may be coming up in locations with higher real estate prices. With SSSG moderating and capex/sqft increasing, RoIC could moderate to high-teens from upwards of 20% previously.
- At its analyst meet in Aug'20, management had indicated adding ~ 59 stores over FY21-22E. DMart is (a) targeting to add 70-80% stores in existing markets given better understanding of the markets and cost efficiency, (b) focusing on larger-sized stores, predominantly in semi-urban and lower tier cities that may have slightly sluggish metrics in the near term, but would bring longer-term growth, operating leverage, premiumization, and therefore, RoIC, and (c) continuously acquiring property (even during last four months of the lockdown).
- We expect DMart to deliver FY20-22E revenue/EBITDA CAGR of 20/18%. We have factored in -7%/15% SSSG and 15/40 store adds for FY21/22E. Thus, we value DMart at FY22E EV/EBITDA multiple of 45x (72x P/E) with TP of INR2,100 (v/s INR2,000 earlier). Maintain **Neutral**.

Exhibit 1: Valuation based on FY22E EBITDA

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
EBITDA	FY22 EV/EBITDA	29	45	1,319	2,036
Less Net debt				-42	-64
Total Value				1,360	2,100
Shares o/s (m)				648	
CMP (INR)					1,984
Upside (%)					6

Source: MOFSL, Company

Exhibit 2: DMART — one-year forward P/E band

Source: Bloomberg, MOFSL

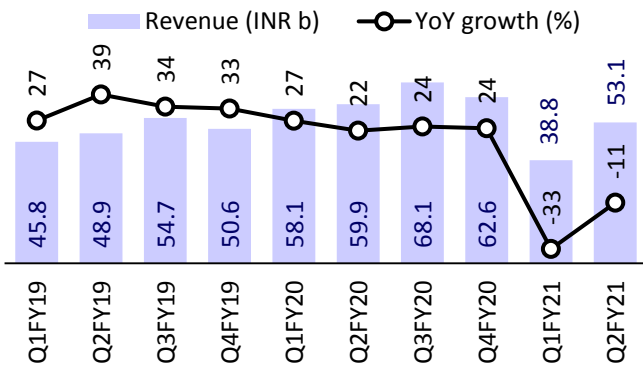
Exhibit 3: Summary of estimate change

	FY21E	FY22E
Revenue (INR b)		
Old	244	345
Actual/New	253	357
Change (%)	3.6	3.4
EBITDA (INR b)		
Old	18.3	28.4
Actual/New	18.5	29.4
Change (%)	1.4	3.5
EBITDA margin (%)		
Old	7.5	8.2
Actual/New	7.3	8.2
Change (bp)	-16bps	1bps
Net Profit (INR b)		
Old	11.2	17.6
Actual/New	11.8	18.9
Change (%)	5.6	7.1
EPS (INR)		
Old	17.2	27.2
Actual/New	18.2	29.2
Change (%)	5.6	7.1

Source: MOFSL, Company

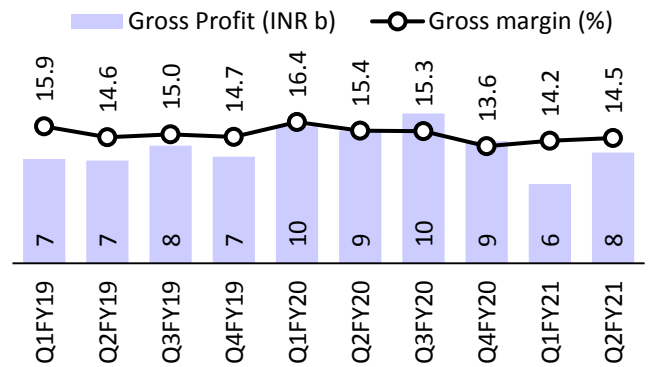
Story in charts

Exhibit 4: Revenue fell 11% YoY



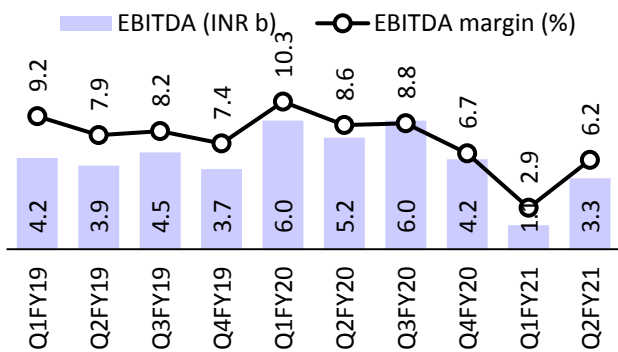
Source: Company, MOFSL

Exhibit 5: Gross margin shrank 90bp YoY



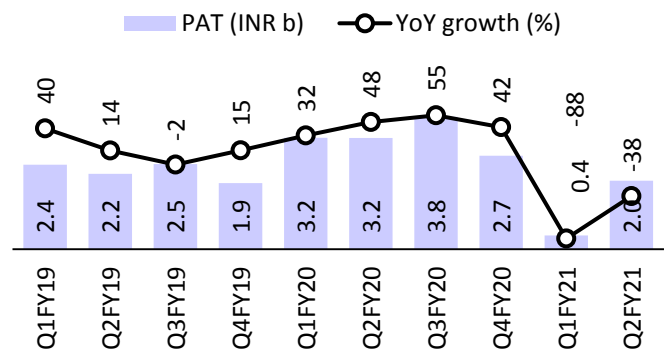
Source: Company, MOFSL

Exhibit 6: EBITDA margin shrank 240bp YoY



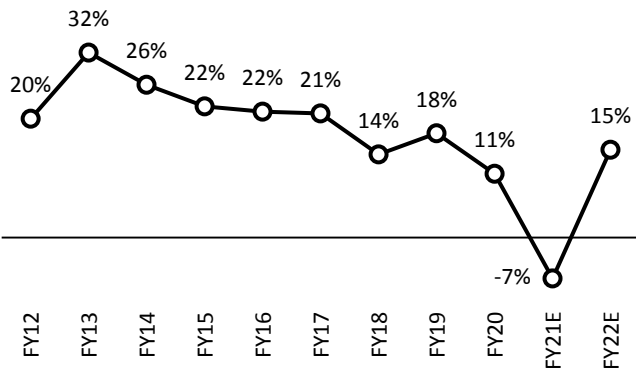
Source: MOFSL, Company

Exhibit 7: PAT fell by 38% YoY



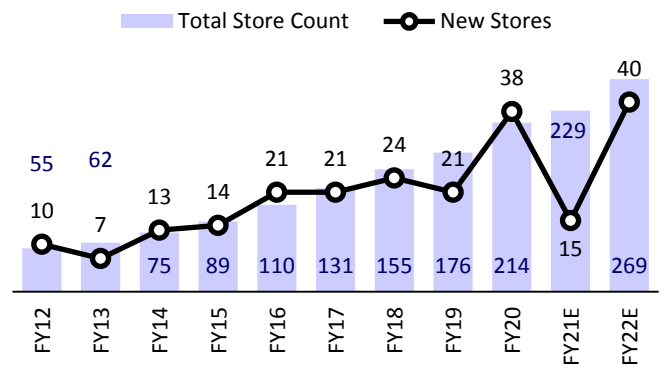
Source: MOFSL, Company

Exhibit 8: SSSG has declined but should recover by FY22E



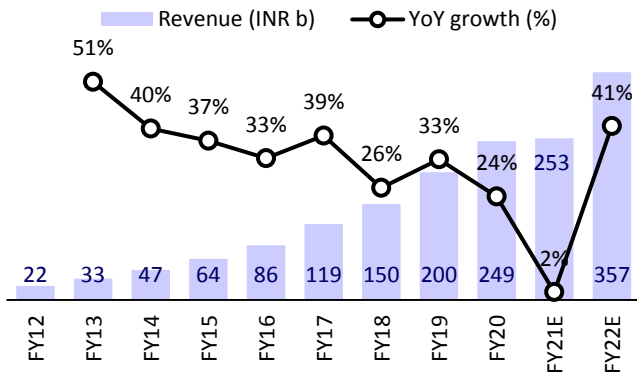
Source: MOFSL, Company

Exhibit 9: Store addition to halt in FY21



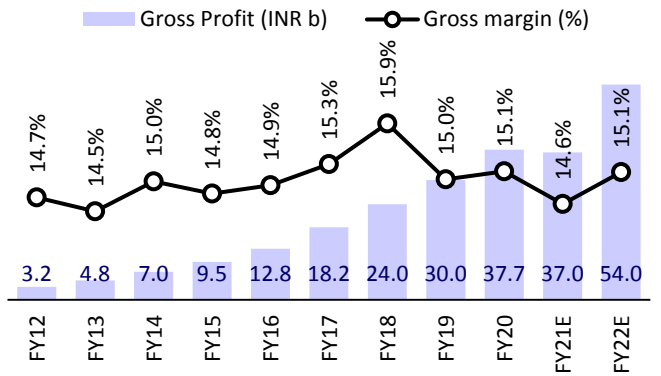
Source: MOFSL, Company

Exhibit 10: Expect 20% consol. revenue CAGR over FY20-22E



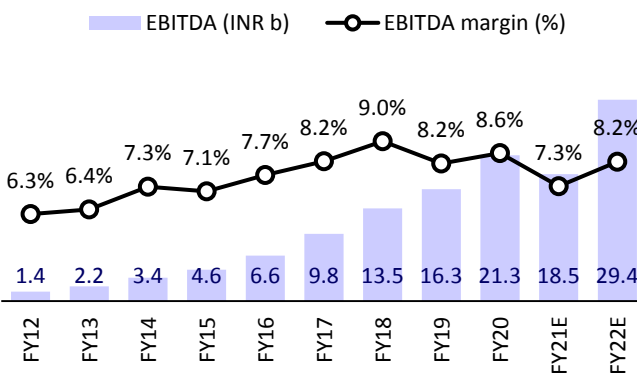
Source: MOFSL, Company

Exhibit 11: Expect gross margin to decline in FY21



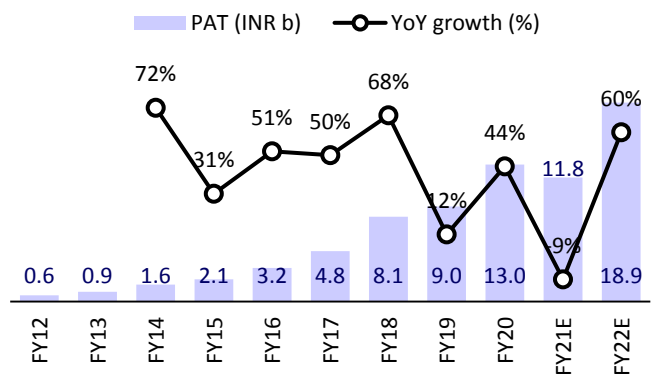
Source: MOFSL, Company

Exhibit 12: Consol. EBITDA margin to recover by FY22E



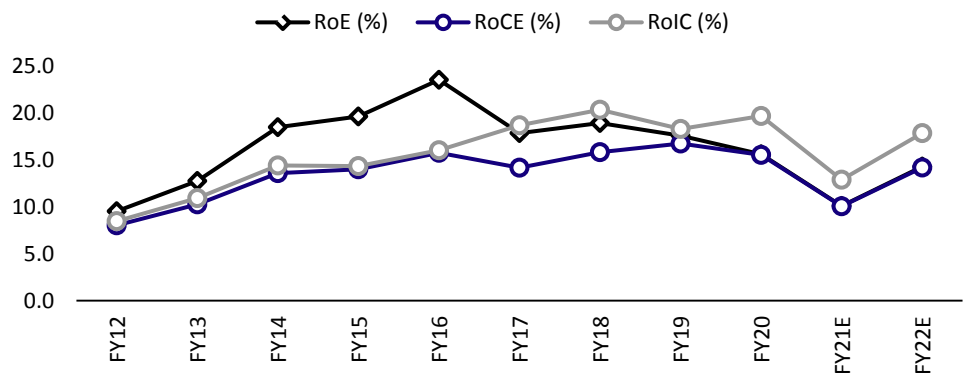
Source: MOFSL, Company

Exhibit 13: Expect 20% consol. PAT CAGR over FY20-22E



Source: MOFSL, Company

Exhibit 14: Return ratios to starting increasing again from FY22E



Source: MOFSL, Company

Financials and Valuation

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	46,865	64,394	85,838	1,18,977	1,50,332	2,00,045	248,702	253,357	356,924
Change (%)	40.3	37.4	33.3	38.6	26.4	33.1	24.3	1.9	40.9
Raw Materials	39,845	54,879	73,035	1,00,810	1,26,356	1,70,008	211,029	216,361	302,906
Gross Profit	7,020	9,515	12,802	18,167	23,976	30,037	37,673	36,996	54,018
Margin (%)	15.0	14.8	14.9	15.3	15.9	15.0	15.1	14.6	15.1
Employees Cost	873	1,341	1,490	1,925	2,826	3,554	4,561	5,295	7,138
Other Expenses	2,729	3,592	4,676	6,429	7,622	10,150	11,829	13,175	17,489
Total Expenditure	43,448	59,811	79,201	1,09,165	1,36,804	1,83,712	227,419	234,831	327,534
% of Sales	92.7	92.9	92.3	91.8	91.0	91.8	91.4	92.7	91.8
EBITDA	3,417	4,583	6,636	9,812	13,528	16,333	21,283	18,526	29,390
Margin (%)	7.3	7.1	7.7	8.2	9.0	8.2	8.6	7.3	8.2
Depreciation	570	815	984	1,278	1,590	2,125	3,744	4,107	5,117
EBIT	2,847	3,768	5,652	8,534	11,938	14,208	17,539	14,419	24,273
Int. and Finance Charges	557	724	913	1,220	595	472	691	374	374
Other Income	158	183	179	286	693	484	600	2,114	2,007
PBT bef. EO Exp.	2,449	3,226	4,918	7,600	12,036	14,219	17,448	16,159	25,906
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	2,449	3,226	4,918	7,600	12,036	14,219	17,448	16,159	25,906
Total Tax	835	1,109	1,715	2,683	4,158	5,195	4,438	4,379	7,020
Tax Rate (%)	34.1	34.4	34.9	35.3	34.5	36.5	25.4	27.1	27.1
Minority Interest	0	0	1	129	-185	-1	1	0	0
Reported PAT	1,614	2,117	3,202	4,788	8,063	9,025	13,009	11,780	18,885
Adjusted PAT	1,614	2,117	3,202	4,788	8,063	9,025	13,009	11,780	18,885
Change (%)	71.9	31.2	51.3	49.5	68.4	11.9	44.2	-9.4	60.3
Margin (%)	3.4	3.3	3.7	4.0	5.4	4.5	5.2	4.6	5.3

E: MOFSL Estimates

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	5,468	5,615	5,615	6,241	6,241	6,241	6,478	6,478	6,478
Total Reserves	4,088	6,377	9,589	32,177	40,450	49,634	104,320	116,100	134,985
Net Worth	9,556	11,992	15,204	38,418	46,691	55,875	110,797	122,578	141,463
Total Loans	6,408	9,043	11,923	14,973	4,393	4,298	2,992	2,992	2,992
Lease Liabilities							2,955	2,955	2,955
Deferred Tax Liabilities	265	305	399	505	452	633	474	474	474
Capital Employed	16,229	21,340	27,527	53,898	51,541	60,811	114,268	126,049	144,934
Gross Block	13,969	18,321	21,918	27,764	37,223	49,352	65,748	75,873	103,683
Less: Accum. Deprn.	2,252	3,041	983	2,260	4,006	6,131	7,050	11,157	16,274
Net Fixed Assets	11,717	15,281	20,935	25,504	33,217	43,221	58,698	64,716	87,408
Right to use assets							7,173	7,173	7,173
Capital WIP	888	981	817	1,529	1,471	3,768	3,644	3,644	3,644
Total Investments	155	152	293	531	682	165	31,374	31,374	25,099
Curr. Assets, Loans&Adv.	5,316	7,134	8,970	30,629	20,330	22,118	26,264	32,780	37,636
Inventory	3,783	5,396	6,717	9,479	11,634	16,087	19,474	20,747	29,046
Account Receivables	95	71	84	210	335	644	196	201	283
Cash and Bank Balance	554	380	351	18,843	5,602	2,191	1,079	6,316	2,792
Loans and Advances	884	1,287	1,818	2,097	2,758	3,197	5,516	5,516	5,516
Curr. Liability & Prov.	1,847	2,208	3,488	4,295	4,942	9,246	6,497	7,249	9,638
Account Payables	1,226	1,185	1,944	2,607	3,173	4,633	4,335	4,462	6,247
Other Current Liabilities	533	843	1,487	1,605	1,642	4,474	1,996	2,534	3,034
Provisions	89	179	56	84	127	139	167	253	357
Net Current Assets	3,469	4,926	5,482	26,334	15,387	12,872	19,767	25,530	27,998
Deferred Tax assets	0	0	0	0	1	2	3	3	3
Appl. of Funds	16,229	21,340	27,527	53,897	51,541	60,811	114,268	126,049	144,934

Financials and Valuation

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)									
EPS (diluted from FY17)	3.0	3.8	5.7	7.7	12.9	14.5	20.1	18.2	29.2
Cash EPS (diluted from FY17)	3.9	5.2	7.5	9.7	15.5	17.9	26.8	25.5	38.5
BV/Share (diluted from FY17)	17.5	21.4	27.1	61.6	74.8	89.5	177.5	196.4	226.7
DPS	0.0	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	0.0
Valuation (x)									
P/E				313.2	186.0	137.2	98.8	109.1	68.1
Cash P/E				247.2	155.3	111.1	73.9	77.9	51.6
P/BV				39.0	32.1	22.2	11.2	10.1	8.8
EV/Sales				12.6	10.0	6.2	5.2	5.1	3.6
EV/EBITDA				152.4	110.7	75.9	60.5	69.2	43.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-1.2	-4.1	-3.6	-2.8	-2.9	-9.5	-6.6	5.4	-17.6
Return Ratios (%)									
RoE	18.5	19.6	23.6	17.9	18.9	17.6	15.6	10.1	14.3
RoCE	13.6	14.0	15.8	14.2	15.8	16.8	15.5	10.1	14.2
RoIC	14.4	14.3	16.0	18.7	20.4	18.3	19.7	12.9	17.9
Working Capital Ratios									
Fixed Asset Turnover (x)	3.4	3.5	3.9	4.3	4.0	4.1	3.8	3.3	3.4
Asset Turnover (x)	2.9	3.0	3.1	2.2	2.9	3.3	2.2	2.0	2.5
Inventory (Days)	35	36	34	34	34	35	34	35	35
Debtor (Days)	1	0	0	1	1	1	0	0	0
Creditor (Days)	11	8	10	9	9	10	7	8	8
Leverage Ratio (x)									
Current Ratio	2.9	3.2	2.6	7.1	4.1	2.4	4.0	4.5	3.9
Interest Cover Ratio	5.1	5.2	6.2	7.0	20.0	30.1	25.4	38.6	64.9
Net Debt/Equity	0.6	0.7	0.7	-0.1	0.0	0.0	-0.3	-0.3	-0.2

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	2,449	3,226	4,918	7,600	12,036	14,219	17,448	16,159	25,906
Depreciation	570	815	984	1,278	1,590	2,125	3,744	4,107	5,117
Interest & Finance Charges	557	724	913	1,220	595	472	691	374	374
Direct Taxes Paid	-750	-1,000	-1,642	-2,586	-4,027	-5,018	-4,924	-4,379	-7,020
(Inc)/Dec in WC	-827	-1,520	-685	-2,697	-2,427	-3,507	-3,762	-526	-5,992
CF from Operations	1,998	2,245	4,489	4,815	7,767	8,292	13,197	15,736	18,384
Others	-17	-25	-154	-237	-467	-224	-395	-2,114	-2,007
CF from Operating incl EO	1,981	2,220	4,335	4,578	7,300	8,068	12,801	13,621	16,378
(Inc)/Dec in FA	-2,706	-4,770	-6,350	-6,354	-9,087	-13,970	-17,060	-10,125	-27,810
Free Cash Flow	-724	-2,549	-2,015	-1,775	-1,787	-5,902	-4,259	3,496	-11,432
(Pur)/Sale of Investments	7	31	-151	-229	-247	0	0	0	6,275
Others	8	8	183	244	383	400	-30,426	2,115	2,006
CF from Investments	-2,691	-4,731	-6,318	-6,339	-8,951	-13,570	-47,486	-8,010	-19,530
Issue of Shares	46	326	0	18,406	0	0	41,869	0	0
Inc/(Dec) in Debt	1,148	2,634	2,898	3,050	-10,791	2,600	-6,615	0	0
Interest Paid	-552	-621	-934	-1,203	-800	-510	-682	-374	-374
Dividend Paid	0	0	0	0	0	0	0	0	0
Others	11	5	0	0	0	0	-998	0	0
CF from Fin. Activity	652	2,345	1,964	20,253	-11,591	2,090	33,574	-374	-374
Inc/Dec of Cash	-57	-166	-19	18,492	-13,242	-3,412	-1,111	5,237	-3,526
Opening Balance	614	546	370	351	18,843	5,602	2,191	1,079	6,316
Closing Balance	557	380	351	18,843	5,601	2,190	1,080	6,316	2,790

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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