

Reduce

King of the castle

- Dmart reported a 12% YoY decline in revenues due to intermittent lockdowns, weak general merchandise sales and sluggish footfalls. EBITDA/APAT decline was higher at 37% due to lower gross margin and negative operating leverage. GM were impacted by lower sales of high margin general merchandise and apparel sales (22 vs. 27-28%). Food (52%) and FMCG (20%) categories were the quickest to bounce with sales up on a YoY basis in Sep'20. However, Q2FY21 performance was still a marked improvement over Q1FY21.
- We initiate coverage on Dmart with Reduce rating and TP of Rs 2,063 @ 60x Sep-22E EPS. Our reduce rating is primarily on account of rich-valuations of Dmart and rightly so in back-drop of large addressable opportunity and thus multi-year growth story of company.**
- Dmart has aced the offline retail segment via its execution prowess. Food & Grocery remains the biggest value migration play in retail (low-single digit organized share). Despite the huge opportunity, most players have failed on execution, given wafer-thin margins. It excels on sourcing, logistics and assortment. It is among the few to have profitably mastered the game via its locations and EDLC/EDLP focus, which has created a virtuous network loop.
- But, given the pace of e-commerce growth, it is not too long before it becomes sizeable. We believe time is ripe for players to get the model right before scaling it up. DMart has cracked B&M retailing, but it has stepped cautiously in online retailing. DMart Ready has to ramp-up if it has to replicate its offline success online.

Not yet out of the woods but recovering fast

Dmart reported 12.3% YoY decline in Q2FY21 largely on account of slow recovery in footfalls, local lockdowns and sluggish sales in general merchandise and apparel category. September SSSG came in at -12.5% for stores that have been operating for more than two years. As per Dmart, overall footfalls are below pre-Covid levels and basket sizes are higher. Both these trends are reversing and inching closer to pre-Covid levels.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	52,182	59,490	(12.3)	38,332	36.1
Total Expense	48,933	54,336	(9.9)	37,244	31.4
EBITDA	3,249	5,154	(37.0)	1,089	198.4
Depreciation	904	833	8.5	861	5.0
EBIT	2,345	4,321	(45.7)	228	929.9
Other Income	558	89	529.9	513	8.7
Interest	79	175	(54.9)	76	4.8
EBT	2,824	4,234	(33.3)	666	324.3
Tax	719	900	(20.1)	170	322.7
RPAT	2,106	3,335	(36.9)	496	324.8
APAT	2,106	3,335	(36.9)	496	324.8
			(bps)		(bps)
Gross Margin (%)	14.0	15.1	(102)	13.7	39
EBITDA Margin (%)	6.2	8.7	(244)	2.8	339
NPM (%)	4.0	5.6	(157)	1.3	274
Tax Rate (%)	25.4	21.2	420	25.5	(10)
EBIT Margin (%)	4.5	7.3	(277)	0.6	390

CMP	Rs 2,137
Target / Downside	Rs 2,063 / 3%
NIFTY	11,873

Scrip Details

Equity / FV	Rs 6,478mn / Rs 10
Market Cap	Rs 1,384bn
	USD 19bn
52-week High/Low	Rs 2,560/ 1,700
Avg. Volume (no)	7,31,565
Bloom Code	DMART IN
Price Performance	1M 3M 12M
Absolute (%)	(1) 6 11
Rel to NIFTY (%)	(5) (2) 8

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	75.0	75.0	75.0
MF/Banks/FIs	6.6	6.0	6.1
FII	9.6	10.4	10.3
Public / Others	8.8	8.6	8.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	158.4	71.5	55.0
EV/EBITDA	98.3	47.0	36.1
ROE (%)	7.5	14.9	17.1
RoACE (%)	6.3	13.5	15.7

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	2,27,473	3,42,353	4,18,402
EBITDA	13,727	28,611	37,182
PAT	8,737	19,366	25,177
EPS (Rs.)	13.5	29.9	38.9

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Investment Thesis

- Play on large addressable market opportunity of organized retailing and thus as multi-year compounding growth story
- Mastered the retailing game through its location focus and Every Day Low Cost / Every Day Low Price strategy
- Execution prowess on sourcing, logistics and assortments

Catalyst

- Demand revival to pre-Covid level
- Addition of more categories (electronics/ pharmacy etc)
- Acceleration of Dmart ready

Company Background

DMart was conceived by value investor Mr. Radhakishan Damani in 2000, operating a single store in Maharashtra. With a mission to be the lowest priced retailer in its area of operation, DMart has grown steadily over the years, and operates 220 stores. It follows a cluster-based expansion approach with focus on deepening penetration in the areas already present, before expanding to newer regions.

Risk

- Increased competitive intensity especially from large e-commerce players
- Lack of recovery in demand due to pandemic pushing customers to online purchases and lag in discretionary spending

Event

- Acceleration of store additions

Assumptions

	FY20	FY21E	FY22E	FY23E
Store count (Nos)	214	238	278	322
Retail Area (Mn Sq ft)	7.8	9.0	10.7	12.7
Area/Store (Sq Ft)	36,449	37,630	38,547	39,565
Revenue	2,46,750	2,27,473	3,42,353	4,18,402
Gross Profit	36,591	31,880	50,452	63,750
EBITDA	21,221	13,727	28,611	37,182
Net Profit	13,499	8,737	19,366	25,177
EPS (Rs)	20.8	13.5	29.9	38.9
Avg Per Sq Ft (Rs)				
Revenue	36,022	27,151	34,806	35,675
Gross Profit	5,342	3,805	5,129	5,436
EBITDA	3,098	1,638	2,909	3,170
Net Profit	1,971	1,043	1,969	2,147

Other highlights

GM impacted due to adverse mix

- Loss of sales of higher margin products (general merchandise and apparel) resulted in a 102 bps YoY reduction in gross margin to 14% (+30bps QoQ). YoY revenue decline resulted in negative operating leverage with 2QFY21 EBITDA margin of 6.2% declining 244 bps YoY. We believe margins should see revival in 3QFY21 as revenue improves and general merchandise sales pick-up due to festive demand. Mgmt remains cautiously optimistic

Store expansion to remain healthy in B&M....

- The company added six new stores (and shut two) in Q2FY21 to take the net store count to 220. It has added six stores in H1FY21. We believe the bulk of the store expansion will happen in H2FY21. We estimate 24 store additions for FY21. Store sizes are on the rise; the four new stores added in 2Q averaged 62,500 sqft in size, significantly higher than 37,273 sqft of average store size.

.....with aggression picking up in E-Commerce

- Online channel forms a small part of overall operations and revenues. As Dmart has said earlier, e-commerce expansion will be steady. But, Dmart's improving aggression on ecommerce is visible with launch of fulfilment centres in Mira Road and Kalyan (converted existing stores) and extension of ecommerce in Pune. We are still unsure of the reasons of closing high-street stores. Company has provided customers with an alternate Dmart store in the vicinity (within 4 kms of both the closed stores).

Management commentary

- Sales has been improving MoM; August was better than July and September was better than August.
- Since August, most of the stores are operating at pre-Covid operating hours. Some stores are still operating for longer hours to improve social distancing.
- Two years and older DMart stores (158 out of 220 stores) recovered back to 87.5% during Sep'20 (vs Sep'19).
- Footfalls continue to be significantly lower, but basket values are significantly higher than pre-Covid levels. However, both these data points are trending towards pre-Covid levels.
- FMCG and staples demand remains healthy with Sep'20 sales of all stores exceeding Sep'19 sales. However, general merchandise and apparel (GM&A) did lesser sales during the same period. Discretionary consumption has seen significant improvement QoQ. Share of GM&A was 22.7% in Q2FY21 (vs usual ~27% in FY20).

Exhibit 1: Standalone Quarterly P&L

Rs Mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Chg YoY (%)	Chg QoQ (%)
Revenue	59,490	67,519	61,935	38,332	52,182	(12.3)	36.1
COGS	50,528	57,392	53,744	33,099	44,851	(11.2)	35.5
Gross Profit	8,962	10,127	8,191	5,234	7,330	(18.2)	40.1
Employee costs	1,044	1,110	1,151	1,212	1,228	17.6	1.3
Other expenses	2,764	3,086	2,863	2,933	2,854	3.3	(2.7)
Total Expenses	3,808	4,196	4,014	4,145	4,082	7.2	(1.5)
EBITDA	5,154	5,931	4,177	1,089	3,249	(37.0)	198.4
D&A	833	867	948	861	904	8.5	5.0
EBIT	4,321	5,064	3,228	228	2,345	(45.7)	929.9
Finance costs	175	160	124	76	79	(54.9)	4.8
Other income	89	69	356	513	558	529.9	8.7
PBT	4,234	4,973	3,460	666	2,824	(33.3)	324.3
Tax expense	900	1,031	591	170	719	(20.1)	322.7
Net profit	3,335	3,943	2,869	496	2,106	(36.9)	324.8
EPS (Rs)	5.3	6.3	4.4	0.8	3.3	(39.2)	324.8

Source: DART, Company

Exhibit 2: Margin Analysis

(% of revenue)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Chg YoY (bps)	Chg QoQ (bps)
COGS	84.9	85.0	86.8	86.3	86.0	102	(39)
Gross Profit	15.1	15.0	13.2	13.7	14.0	(102)	39
Employee costs	1.8	1.6	1.9	3.2	2.4	60	(81)
Other expenses	4.6	4.6	4.6	7.7	5.5	82	(218)
Total Expenses	6.4	6.2	6.5	10.8	7.8	142	(299)
EBITDA	8.7	8.8	6.7	2.8	6.2	(244)	339
EBIT	7.3	7.5	5.2	0.6	4.5	(277)	390
PBT	7.1	7.4	5.6	1.7	5.4	(171)	368
Net profit	5.6	5.8	4.6	1.3	4.0	(157)	274
Tax as % of PBT	21.2	20.7	17.1	25.5	25.4	420	(10)

Source: DART, Company

Revenue declined by 12% YoYs due to low footfalls and sluggish general merchandise and apparel sales

Higher other income on account of Rs 41bn QIP in Feb'20 to comply with minimum public shareholding norms

Exhibit 3: Key assumptions

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Parameters												
Store count (Nos)	55	62	75	89	110	131	155	176	214	238	278	322
New Stores (Nos)		7	13	14	21	21	24	21	38	24	40	44
Store Area (Mn Sq ft)	1.6	1.8	2.1	2.7	3.3	4.1	4.9	5.9	7.8	9.0	10.7	12.7
Area/Store (Sq Ft)	29,091	29,032	28,000	30,337	30,000	31,298	31,613	33,523	36,449	37,630	38,547	39,565
Inc Area/Store (Sq Ft)		28,571	23,077	42,857	28,571	38,095	33,333	47,619	50,000	48,167	44,000	46,000
Financial Parameters (Rs Mn)												
Revenue	22,086	33,270	46,700	64,190	85,752	1,18,811	1,50,089	1,99,163	2,46,750	2,27,473	3,42,353	4,18,402
Gross Profit	3,246	4,834	7,021	9,522	13,442	17,851	23,600	29,363	36,591	31,880	50,452	63,750
EBITDA	1,380	2,150	3,360	4,540	7,559	9,636	13,373	16,422	21,221	13,727	28,611	37,182
Net Profit	594	930	1,600	2,110	3,860	4,826	7,847	9,363	13,499	8,788	19,037	24,475
YE No of shares (Mn)	506	538	546	547	562	563	624	624	648	648	648	648
EPS (Rs)	1.2	1.7	2.9	3.9	6.9	8.6	12.6	15.0	20.8	13.6	29.4	37.8
Margin %												
Gross Profit	14.7	14.5	15.0	14.8	15.7	15.0	15.7	14.7	14.8	14.0	14.7	15.2
EBITDA	6.2	6.5	7.2	7.1	8.8	8.1	8.9	8.2	8.6	6.0	8.4	8.9
Net Profit	2.7	2.8	3.4	3.3	4.5	4.1	5.2	4.7	5.5	3.9	5.6	5.8
Avg Per Sq Ft (Rs)												
Revenue	13,804	19,571	23,949	26,746	28,584	32,111	33,353	36,882	36,022	27,151	34,806	35,675
Gross Profit	2,029	2,844	3,601	3,968	4,481	4,825	5,244	5,438	5,342	3,805	5,129	5,436
EBITDA	863	1,265	1,723	1,892	2,520	2,604	2,972	3,041	3,098	1,638	2,909	3,170
Net Profit	371	547	821	879	1,287	1,304	1,744	1,734	1,971	1,049	1,935	2,087
Growth %												
Store count (Nos)		12.7	21.0	18.7	23.6	19.1	18.3	13.5	21.6	11.2	16.8	15.8
Store Area (Mn Sq ft)		12.5	16.7	28.6	22.2	24.2	19.5	20.4	32.2	14.8	19.7	18.9
Revenue		50.6	40.4	37.5	33.6	38.6	26.3	32.7	23.9	(7.8)	50.5	22.2
Gross Profit		48.9	45.2	35.6	41.2	32.8	32.2	24.4	24.6	(12.9)	58.3	26.4
EBITDA		55.8	56.3	35.1	66.5	27.5	38.8	22.8	29.2	(35.3)	108.4	30.0
Net Profit		56.6	72.0	31.9	82.9	25.0	62.6	19.3	44.2	(34.9)	116.6	28.6
EPS (Rs)		47.3	69.5	31.6	78.0	24.8	46.7	19.3	38.8	(34.9)	116.6	28.6
Avg Per Sq Ft (Rs)												
Revenue		41.8	22.4	11.7	6.9	12.3	3.9	10.6	(2.3)	(24.6)	28.2	2.5
Gross Profit		40.2	26.6	10.2	12.9	7.7	8.7	3.7	(1.8)	(28.8)	34.8	6.0
EBITDA		46.6	36.2	9.8	33.2	3.4	14.1	2.3	1.9	(47.1)	77.5	9.0
Net Profit		47.4	50.0	7.1	46.3	1.4	33.7	(0.6)	13.6	(46.8)	84.5	7.8

Source: DART, Company

Exhibit 4: State-wise store foot-print of DMart

State	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Maharashtra	34	40	46	50	58	60	62	70	76
Gujarat	14	14	17	22	26	29	30	34	37
Telangana	4	5	7	10	14	14	19	21	24
Karnataka	3	3	5	5	6	11	12	16	20
Andhra Pradesh	-	-	-	-	2	6	10	11	17
Madhya Pradesh	-	-	-	2	4	5	6	6	11
Tamilnadu	-	-	-	-	-	1	3	4	10
Rajasthan	-	-	-	-	-	3	5	5	7
Punjab	-	-	-	-	-	-	3	4	5
Chhattisgarh	-	-	-	-	-	-	3	3	5
NCR	-	-	-	-	-	1	1	1	1
Daman	-	-	-	-	-	1	1	1	1
Total	55	62	75	89	110	131	155	176	214

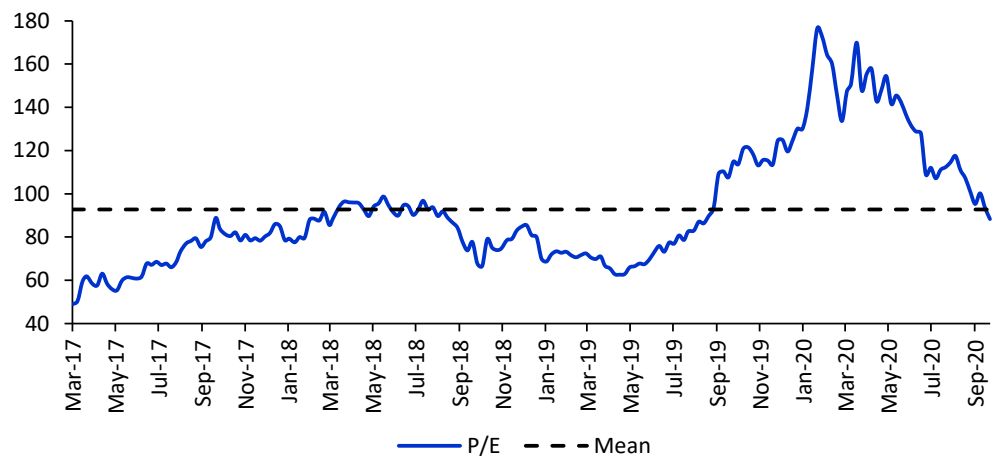
Source: DART, Company

Dmart has historically traded at 92x 1-yr forward PE. We ascribe 60x 1-yr forward PE multiple on account of significantly large addressable market and Dmart's multi-year compound growth story.

We remain cognizant of near-term revenue growth and margin challenges on account of Covid. This is on account of high through-put driven dense brick and mortar format of Dmart.

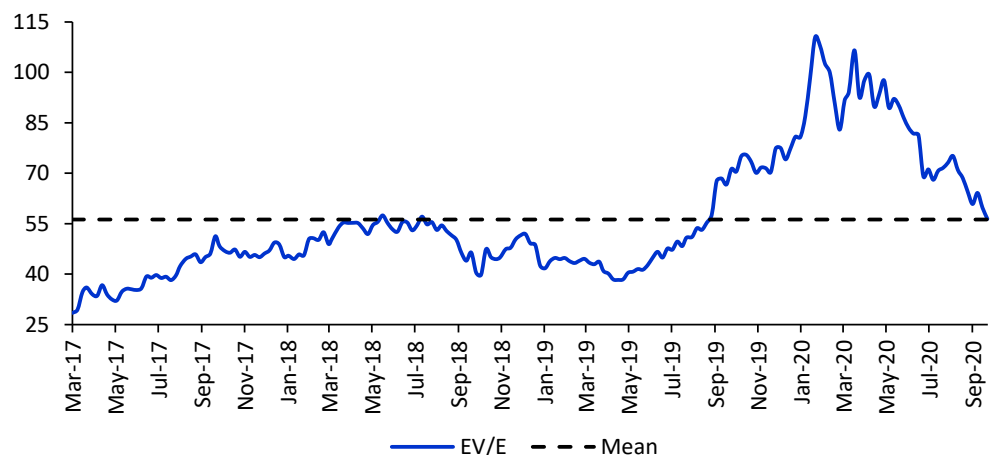
DMart continues to follow cluster-based approach in store expansion with deeper penetration into each states; No new states added during FY19 and FY20

Exhibit 5: Dmart 1-year forward PE multiple



Source: DART, Company

Exhibit 6: Dmart 1-year forward EV/E multiple



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	2,46,750	2,27,473	3,42,353	4,18,402
Total Expense	2,25,529	2,13,745	3,13,742	3,81,220
COGS	2,10,159	1,95,593	2,91,901	3,54,651
Employees Cost	4,247	5,043	5,579	7,113
Other expenses	11,122	13,110	16,262	19,456
EBIDTA	21,221	13,727	28,611	37,182
Depreciation	3,398	3,733	4,525	5,395
EBIT	17,823	9,994	24,086	31,787
Interest	628	328	406	486
Other Income	633	2,059	2,315	2,494
Exc. / E.O. items	0	0	0	0
EBT	17,829	11,725	25,995	33,795
Tax	4,330	2,989	6,629	8,618
RPAT	13,499	8,737	19,366	25,177
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	13,499	8,737	19,366	25,177

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	6,478	6,478	6,478	6,478
Minority Interest	0	0	0	0
Reserves & Surplus	1,04,878	1,13,614	1,32,981	1,48,002
Net Worth	1,11,355	1,20,092	1,39,458	1,54,479
Total Debt	2,466	2,793	3,071	3,378
Net Deferred Tax Liability	482	506	531	558
Total Capital Employed	1,14,303	1,23,390	1,43,061	1,58,415

Applications of Funds

Net Block	50,607	55,324	62,933	70,712
CWIP	3,619	3,710	3,803	3,898
Investments	12,432	13,377	14,402	15,514
Current Assets, Loans & Advances	54,183	57,723	71,931	80,352
Inventories	19,094	18,385	26,732	32,498
Receivables	485	561	844	1,032
Cash and Bank Balances	33,280	37,495	42,333	44,235
Loans and Advances	0	0	0	0
Other Current Assets	1,323	1,282	2,023	2,587
Less: Current Liabilities & Provisions	6,538	6,743	10,008	12,060
Payables	4,460	4,718	6,960	8,334
Other Current Liabilities	2,078	2,025	3,048	3,725
<i>sub total</i>				
Net Current Assets	47,645	50,979	61,923	68,292
Total Assets	1,14,303	1,23,390	1,43,061	1,58,415

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	14.8	14.0	14.7	15.2
EBIDTA Margin	8.6	6.0	8.4	8.9
EBIT Margin	7.2	4.4	7.0	7.6
Tax rate	24.3	25.5	25.5	25.5
Net Profit Margin	5.5	3.8	5.7	6.0
(B) As Percentage of Net Sales (%)				
COGS	85.2	86.0	85.3	84.8
Employee	1.7	2.2	1.6	1.7
Other	4.5	5.8	4.8	4.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	28.4	30.5	59.3	65.4
Inventory days	28	30	29	28
Debtors days	1	1	1	1
Average Cost of Debt	18.7	12.5	13.9	15.1
Payable days	7	8	7	7
Working Capital days	70	82	66	60
FA T/O	4.9	4.1	5.4	5.9
(D) Measures of Investment				
AEPS (Rs)	20.8	13.5	29.9	38.9
CEPS (Rs)	26.1	19.2	36.9	47.2
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.1
BVPS (Rs)	171.9	185.4	215.3	238.5
RoANW (%)	16.1	7.5	14.9	17.1
RoACE (%)	15.4	6.3	13.5	15.7
RoAIC (%)	19.4	8.9	19.2	22.0
(E) Valuation Ratios				
CMP (Rs)	2137	2137	2137	2137
P/E	102.5	158.4	71.5	55.0
Mcap (Rs Mn)	13,84,284	13,84,284	13,84,284	13,84,284
Mcap/ Sales	5.6	6.1	4.0	3.3
EV	13,53,470	13,49,582	13,45,023	13,43,427
EV/Sales	5.5	5.9	3.9	3.2
EV/EBITDA	63.8	98.3	47.0	36.1
P/BV	12.4	11.5	9.9	9.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	23.9	(7.8)	50.5	22.2
EBITDA	29.2	(35.3)	108.4	30.0
EBIT	23.5	(43.9)	141.0	32.0
PBT	23.2	(34.2)	121.7	30.0
APAT	44.2	(35.3)	121.7	30.0
EPS	44.2	(35.3)	121.7	30.0
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	11,589	13,678	18,191	26,592
CFI	(18,466)	(9,098)	(12,947)	(14,047)
CFF	37,070	(365)	(406)	(10,642)
FCFF	(205)	5,124	5,950	13,308
Opening Cash	3,088	33,280	37,495	42,333
Closing Cash	33,280	37,495	42,333	44,235

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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