

Aggression picking up in online, Positive!

Dmart reported a healthy recovery with revenue/EBITDA/APAT growth of 10.1/16.6/19.3% YoY. 11/52bps gross/EBITDA margin expansion YoY is enticing despite estimated inferior mix. Meagre one store additions (lowest in 14 quarters) was key negative. Dmart's increased focus on online (Dmart ready) is positive. Inevitable strategic shift by Dmart towards online is positive in our view given the pace of e-commerce growth.

That said, in the near term online shift may impact store/area expansion and thus the growth of B&M stores. Simultaneously, online may take longer to deliver growth and may even pull-down earnings. In this backdrop, Dmart recent run-up of 44/63% in 3M/52-week low and rich-valuation at 93/74x FY22/23E standalone EPS leaves limited room to err. Dmart has historically traded at 87x 1-yr forward earnings. Sell with revised TP of Rs 2,668 @ 70x (vs. 60x earlier) Dec-22E EPS. Increase in target multiple is to factor strategic shift, business recovery/healthy margin and broader market re-rating.

Business recovering.....

Dmart witnessed healthy improvement in business in Q3FY21 with sales and mix trending to usual times except for Covid led behavior changes. Agile opex management and a surge in festival shopping were key earnings driver; but Dec was a weak month. 162 stores that are 2-years or older did 96% sales of Dec-19 in Dec-20 (vs. 87.5% sales for 158 stores of Sep-19 in Sep-20). Restricted store operations in certain cities post Diwali due to night curfews and weekend closure led to significantly larger declines in those stores YoY. Footfalls continue to be lower and basket values are higher than pre-Covid levels. However, both these data-points are trending towards normalcy.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	74,327	67,519	10.1	52,182	42.4
Total Expense	67,413	61,588	9.5	48,933	37.8
EBITDA	6,914	5,931	16.6	3,249	112.8
Depreciation	1,003	867	15.6	904	10.9
EBIT	5,911	5,064	16.7	2,345	152.1
Other Income	492	69	608.9	558	(11.8)
Interest	87	160	(45.6)	79	10.2
EBT	6,316	4,973	27.0	2,824	123.6
Tax	1,614	1,031	56.5	719	124.5
RPAT	4,703	3,943	19.3	2,106	123.3
APAT	4,703	3,943	19.3	2,106	123.3
			(bps)		(bps)
Gross Margin (%)	15.1	15.0	11	14.0	106
EBITDA Margin (%)	9.3	8.8	52	6.2	308
NPM (%)	6.3	5.8	49	4.0	229
Tax Rate (%)	25.5	20.7	482	25.4	10
EBIT Margin (%)	8.0	7.5	45	4.5	346

CMP	Rs 2,968
Target / Downside	Rs 2,668 / 10%
NIFTY	14,347

Script Details

Equity / FV	Rs 6,478mn / Rs 10
Market Cap	Rs 1,922bn
	USD 26bn
52-week High/Low	Rs 3,100/ 1,827
Avg. Volume (no)	714,862
Bloom Code	DMART IN

Price Performance	1M	3M	12M
Absolute (%)	13	44	58
Rel to NIFTY (%)	7	24	40

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	75.0	75.0	75.0
MF/Banks/FIs	6.0	6.1	6.7
FIIIs	10.4	10.3	10.1
Public / Others	8.6	8.6	8.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	176.3	93.3	73.8
EV/EBITDA	114.0	63.4	50.1
ROE (%)	9.3	15.5	17.3
RoACE (%)	7.9	13.9	15.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	233,225	343,284	417,370
EBITDA	16,512	29,577	37,316
PAT	10,905	20,601	26,050
EPS (Rs.)	16.8	31.8	40.2

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Other highlights

.....headwinds persists

- Apparel, laundry, footwear, travel and such relevant out of home usage categories are taking more time to recover.
- Dmart is facing inconsistent supplies from the non-FMCG sector (20% of revenue mix). Raw material prices are also going up. Availability in certain categories is likely to get worse before getting better. This may thus impact both the top-line and margin performance in the near-term.
- Lastly, we are still unsure of the reasons of utilizing the store space of existing stores / closing high-street stores for e-commerce operations. This raises doubt on the growth trajectory of the key brick and mortar stores.

Strategic shift to E-Commerce; Inevitable and positive

- 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. 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.
- 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 in Q2FY21. Further, Dmart soft-launched Ready at select places in Ahmedabad, Bangalore and Hyderabad. It also leased some of the store space for e-commerce operations to subsidiary AEL in this cities.

Exhibit 1: Actual vs. Estimates – Q3FY21

	Actual	Estimate	Variance (%/bps)	Remarks
Revenue (Rs Mn)	74,327	78,040	-4.8	
Gross Profit (Rs Mn)	11,231	11,315	-0.7	
GP Margin (%)	15.1	14.5	61	Gross profit in line with estimates.
EBITDA (Rs Mn)	6,914	6,348	8.9	
EBITDA Margin (%)	9.3	8.1	117	EBITDA/APAT higher than expectations on account of robust costs management.
APAT (Rs Mn)	4,702	4,336	8.5	
APAT Margin (%)	6.3	5.6	77.1	
AEPS (Rs)	7.3	6.7	8.5	

Source: DART, Company

Exhibit 2: Change in estimates

	New			Old			Change			Remarks
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Revenue (Rs Mn)	2,33,225	3,43,284	4,17,370	2,27,473	3,42,353	4,18,402	2.5	0.3	(0.2)	
Gross Profit (Rs Mn)	33,352	51,461	63,610	31,880	50,452	63,750	4.6	2.0	(0.2)	
EBITDA (Rs Mn)	16,512	29,577	37,316	13,727	28,611	37,182	20.3	3.4	0.4	
APAT (Rs Mn)	10,905	20,601	26,050	8,788	19,037	24,475	24.1	8.2	6.4	
AEPS (Rs)	16.8	31.8	40.2	13.6	29.4	37.8	24.0	8.2	6.4	
Margin (%)										
GP Margin (%)	14.3	15.0	15.2	14.0	14.7	15.2	29	25	0	We tweak our estimates to factor in the Q3FY21 performance viz. healthy gross and EBITDA margin performance. Simultaneously we reduce our store expansion assumptions.
EBITDA Margin (%)	7.1	8.6	8.9	6.0	8.4	8.9	105	26	5	
APAT Margin (%)	4.7	6.0	6.2	3.9	5.6	5.8	81	44	39	
Operating KPIs										
Stores (No)	231	261	299	238	278	322	(2.9)	(6.1)	(7.1)	
Store Area (Mn Sq ft)	8.6	9.9	11.7	9.0	10.7	12.7	(4.6)	(7.4)	(8.2)	
Avg Per Sq Ft (Rs)										
Revenue	28,459	37,112	38,703	27,151	34,806	35,675	4.8	6.6	8.5	
Gross Profit	4,070	5,563	5,899	3,805	5,129	5,436	7.0	8.5	8.5	
EBITDA	2,015	3,198	3,460	1,638	2,909	3,170	23.0	9.9	9.2	
Net Profit	1,331	2,227	2,416	1,049	1,935	2,087	26.8	15.1	15.7	

Source: DART, Company

Exhibit 3: Operational Performance

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Chg YoY (%)	Chg QoQ (%)
Store Area (Mn Sq ft)	7.0	7.8	8.0	8.2	8.2	16.7	0.2
Stores (No)	196	214	216	220	221	12.8	0.5
Size/store (Sq ft)	35,714	36,449	36,806	37,045	36,968	3.5	(0.2)
Revenue/Sq Ft (Rs)	10,003	8,370	4,868	6,482	9,109	(8.9)	40.5

Source: DART, Company

Exhibit 4: Standalone Quarterly P&L

Rs Mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Chg YoY (%)	Chg QoQ (%)
Revenue	67,519	61,935	38,332	52,182	74,327	10.1	42.4
COGS	57,392	53,744	33,099	44,851	63,096	9.9	40.7
Gross Profit	10,127	8,191	5,234	7,330	11,231	10.9	53.2
Employee costs	1,110	1,151	1,212	1,228	1,268	14.2	3.2
Other expenses	3,086	2,863	2,933	2,854	3,050	-1.2	6.9
Total Expenses	4,196	4,014	4,145	4,082	4,317	2.9	5.8
EBITDA	5,931	4,177	1,089	3,249	6,914	16.6	112.8
D&A	867	948	861	904	1,003	15.6	10.9
EBIT	5,064	3,228	228	2,345	5,911	16.7	152.1
Finance costs	160	124	76	79	87	(45.6)	10.2
Other income	69	356	513	558	492	608.9	-11.8
PBT	4,973	3,460	666	2,824	6,316	27.0	123.6
Tax expense	1,031	591	170	719	1,614	56.5	124.5
Net profit	3,943	2,869	496	2,106	4,702	19.3	123.3
EPS (Rs)	6.3	4.4	0.8	3.3	7.3	14.9	123.3

Source: DART, Company

Revenue increased by 10% YoYs led by strong performance during festival season of Oct-Nov.

Improvement in gross and EBITDA margin YoY/QoQ we believe to be on account of lower shrinkage, mix improvement QoQ and procurement efficiencies led by economies of scale

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

Exhibit 5: Margin Analysis

(% of revenue)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Chg YoY (bps)	Chg QoQ (bps)
COGS	85.0	86.8	86.3	86.0	84.9	(11)	(106)
Gross Profit	15.0	13.2	13.7	14.0	15.1	11	106
Employee costs	1.6	1.9	3.2	2.4	1.7	6	(65)
Other expenses	4.6	4.6	7.7	5.5	4.1	(47)	(137)
Total Expenses	6.2	6.5	10.8	7.8	5.8	(41)	(201)
EBITDA	8.8	6.7	2.8	6.2	9.3	52	308
EBIT	7.5	5.2	0.6	4.5	8.0	45	346
PBT	7.4	5.6	1.7	5.4	8.5	113	309
Net profit	5.8	4.6	1.3	4.0	6.3	49	229
Tax as % of PBT	20.7	17.1	25.5	25.4	25.5	482	10

Source: DART, Company

Exhibit 6: 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	231	261	299
New Stores (Nos)		7	13	14	21	21	24	21	38	17	30	38
Store Area (Mn Sq ft)	1.6	1.8	2.1	2.7	3.3	4.1	4.9	5.9	7.8	8.6	9.9	11.7
Area/Store (Sq Ft)	29,091	29,032	28,000	30,337	30,000	31,298	31,613	33,523	36,449	37,186	37,969	38,990
Inc Area/Store (Sq Ft)		28,571	23,077	42,857	28,571	38,095	33,333	47,619	50,000	46,471	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	2,33,225	3,43,284	4,17,370
Gross Profit	3,246	4,834	7,021	9,522	13,442	17,851	23,600	29,363	36,591	33,352	51,461	63,610
EBITDA	1,380	2,150	3,360	4,540	7,559	9,636	13,373	16,422	21,221	16,512	29,577	37,316
Net Profit	594	930	1,600	2,110	3,860	4,826	7,847	9,363	13,499	10,905	20,601	26,050
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	16.8	31.8	40.2
Margin %												
Gross Profit	14.7	14.5	15.0	14.8	15.7	15.0	15.7	14.7	14.8	14.3	15.0	15.2
EBITDA	6.2	6.5	7.2	7.1	8.8	8.1	8.9	8.2	8.6	7.1	8.6	8.9
Net Profit	2.7	2.8	3.4	3.3	4.5	4.1	5.2	4.7	5.5	4.7	6.0	6.2
Avg Per Sq Ft (Rs)												
Revenue	13,804	19,571	23,949	26,746	28,584	32,111	33,353	36,882	36,022	28,459	37,112	38,703
Gross Profit	2,029	2,844	3,601	3,968	4,481	4,825	5,244	5,438	5,342	4,070	5,563	5,899
EBITDA	863	1,265	1,723	1,892	2,520	2,604	2,972	3,041	3,098	2,015	3,198	3,460
Net Profit	371	547	821	879	1,287	1,304	1,744	1,734	1,971	1,331	2,227	2,416
Growth %												
Store count (Nos)		12.7	21.0	18.7	23.6	19.1	18.3	13.5	21.6	7.9	13.0	14.6
Store Area (Mn Sq ft)		12.5	16.7	28.6	22.2	24.2	19.5	20.4	32.2	10.1	15.4	17.6
Revenue		50.6	40.4	37.5	33.6	38.6	26.3	32.7	23.9	(5.5)	47.2	21.6
Gross Profit		48.9	45.2	35.6	41.2	32.8	32.2	24.4	24.6	(8.9)	54.3	23.6
EBITDA		55.8	56.3	35.1	66.5	27.5	38.8	22.8	29.2	(22.2)	79.1	26.2
Net Profit		56.6	72.0	31.9	82.9	25.0	62.6	19.3	44.2	(19.2)	88.9	26.5
EPS (Rs)		47.3	69.5	31.6	78.0	24.8	46.7	19.3	38.8	(19.2)	88.9	26.5
Avg Per Sq Ft (Rs)												
Revenue		41.8	22.4	11.7	6.9	12.3	3.9	10.6	(2.3)	(21.0)	30.4	4.3
Gross Profit		40.2	26.6	10.2	12.9	7.7	8.7	3.7	(1.8)	(23.8)	36.7	6.0
EBITDA		46.6	36.2	9.8	33.2	3.4	14.1	2.3	1.9	(35.0)	58.7	8.2
Net Profit		47.4	50.0	7.1	46.3	1.4	33.7	(0.6)	13.6	(32.5)	67.4	8.5

Source: DART, Company

Exhibit 7: 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

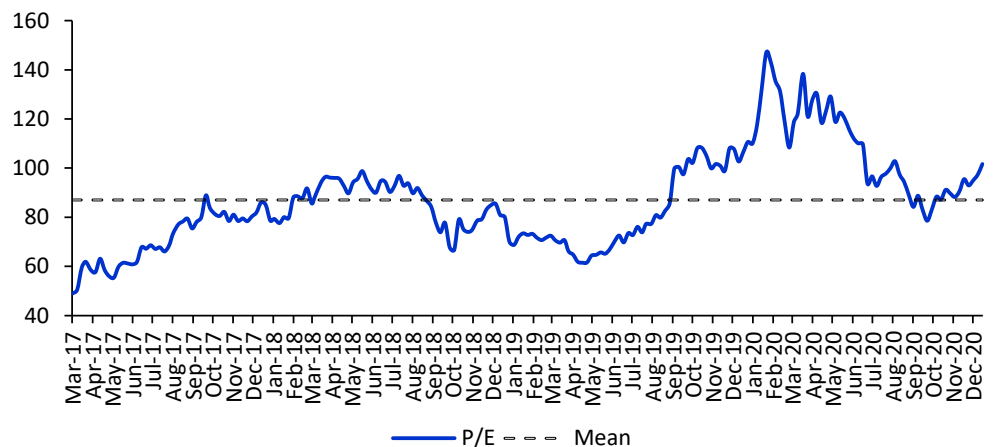
Source: DART, Company

Dmart has historically traded at 87x 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.

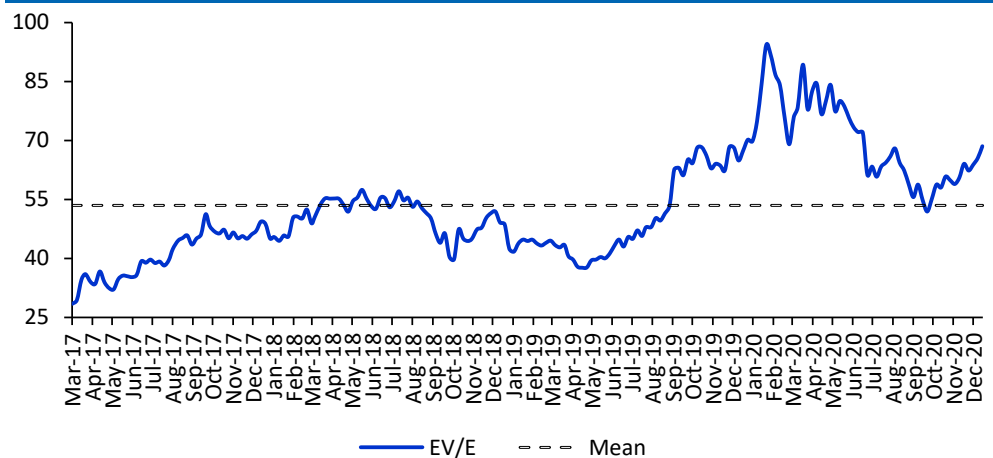
DMart continues to follow cluster-based approach in store expansion with deeper penetration into each states; No new states added during FY19 and FY20

Exhibit 8: Dmart 1-year forward PE multiple



Source: DART, Company

Exhibit 9: Dmart 1-year forward EV/E multiple



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	246,750	233,225	343,284	417,370
Total Expense	225,529	216,712	313,707	380,054
COGS	210,159	199,873	291,823	353,760
Employees Cost	4,247	4,842	5,750	6,887
Other expenses	11,122	11,997	16,134	19,408
EBIDTA	21,221	16,512	29,577	37,316
Depreciation	3,398	3,731	4,215	4,934
EBIT	17,823	12,782	25,362	32,382
Interest	628	334	419	499
Other Income	633	2,192	2,708	3,084
Exc. / E.O. items	0	0	0	0
EBT	17,829	14,639	27,652	34,967
Tax	4,330	3,735	7,051	8,916
RPAT	13,499	10,905	20,601	26,050
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	13,499	10,905	20,601	26,050

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	104,878	115,782	136,383	152,277
Net Worth	111,355	122,260	142,860	158,755
Total Debt	2,466	2,793	3,071	3,378
Net Deferred Tax Liability	482	506	531	558
Total Capital Employed	114,303	125,558	146,463	162,691

Applications of Funds

Net Block	50,607	52,691	57,610	64,065
CWIP	3,619	3,710	3,803	3,898
Investments	12,432	13,377	14,402	15,514
Current Assets, Loans & Advances	54,183	62,695	80,684	91,245
Inventories	19,094	18,850	26,804	32,418
Receivables	485	575	846	1,029
Cash and Bank Balances	33,280	41,956	51,005	55,217
Loans and Advances	0	0	0	0
Other Current Assets	1,323	1,314	2,028	2,580
Less: Current Liabilities & Provisions	6,538	6,914	10,036	12,030
Payables	4,460	4,837	6,979	8,314
Other Current Liabilities	2,078	2,077	3,057	3,716
		<i>sub total</i>		
Net Current Assets	47,645	55,781	70,648	79,215
Total Assets	114,303	125,558	146,463	162,691

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	14.8	14.3	15.0	15.2
EBIDTA Margin	8.6	7.1	8.6	8.9
EBIT Margin	7.2	5.5	7.4	7.8
Tax rate	24.3	25.5	25.5	25.5
Net Profit Margin	5.5	4.7	6.0	6.2
(B) As Percentage of Net Sales (%)				
COGS	85.2	85.7	85.0	84.8
Employee	1.7	2.1	1.7	1.7
Other	4.5	5.1	4.7	4.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	28.4	38.3	60.6	64.9
Inventory days	28	30	29	28
Debtors days	1	1	1	1
Average Cost of Debt	18.7	12.7	14.3	15.5
Payable days	7	8	7	7
Working Capital days	70	87	75	69
FA T/O	4.9	4.4	6.0	6.5
(D) Measures of Investment				
AEPS (Rs)	20.8	16.8	31.8	40.2
CEPS (Rs)	26.1	22.6	38.3	47.8
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	171.9	188.7	220.5	245.1
RoANW (%)	16.1	9.3	15.5	17.3
RoACE (%)	15.4	7.9	13.9	15.6
RoAIC (%)	19.4	11.6	21.1	23.8
(E) Valuation Ratios				
CMP (Rs)	2968	2968	2968	2968
P/E	142.4	176.3	93.3	73.8
Mcap (Rs Mn)	1,922,257	1,922,257	1,922,257	1,922,257
Mcap/ Sales	7.8	8.2	5.6	4.6
EV	1,891,443	1,883,094	1,874,324	1,870,418
EV/Sales	7.7	8.1	5.5	4.5
EV/EBITDA	89.1	114.0	63.4	50.1
P/BV	17.3	15.7	13.5	12.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	23.9	(5.5)	47.2	21.6
EBITDA	29.2	(22.2)	79.1	26.2
EBIT	23.5	(28.3)	98.4	27.7
PBT	23.2	(17.9)	88.9	26.5
APAT	44.2	(19.2)	88.9	26.5
EPS	44.2	(19.2)	88.9	26.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	11,589	15,509	19,415	27,129
CFI	(18,466)	(6,462)	(9,947)	(12,262)
CFF	37,070	(371)	(419)	(10,655)
FCFF	(205)	9,590	10,174	15,630
Opening Cash	3,088	33,280	41,956	51,005
Closing Cash	33,280	41,956	51,005	55,217

E – Estimates

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