

Avenue Supermarts

Estimate changes



TP change



Rating change



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Bloomberg	DMART IN
Equity Shares (m)	648
M.Cap.(INRb)/(USDb)	2188.8 / 29.3
52-Week Range (INR)	3425 / 1900
1, 6, 12 Rel. Per (%)	5/6/3
12M Avg Val (INR M)	1678

Financials & Valuations (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	241.4	311.7	476.2
EBITDA	17.4	23.5	39.5
Adj. PAT	11.0	14.8	25.0
EBITDA Margin (%)	7.2	7.5	8.3
Adj. EPS (INR)	17.0	22.8	38.7
EPS Gr. (%)	-15.5	34.6	69.3
BV/Sh. (INR)	195.2	218.9	259.1

Ratios

Net D:E	-0.3	-0.2	-0.2
RoE (%)	9.5	11.4	16.8
RoCE (%)	9.4	11.4	16.6
Payout (%)	0	0	0

Valuations

P/E (x)	199.1	148.0	87.4
EV/EBITDA (x)	125.0	92.7	55.3
EV/Sales (X)	9.0	7.0	4.6
Div. Yield (%)	0	0	0
FCF Yield (%)	-0.3	-0.2	-0.2

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	75.0	75.0	75.0
DII	6.6	6.7	6.6
FII	10.2	10.1	9.6
Others	8.3	8.2	8.8
FII Includes depository receipts			

CMP: INR3,379

TP: INR3,220 (-5%)

Neutral

Gross margin disappoints amid a steady revenue recovery

- The revenue recovery in DMART has been much better than that during the previous lockdown, growing 33% YoY (13% below pre-COVID levels). Gross margin declined by 110bp YoY, despite the base quarter having seen a severe impact on the margin accretive Discretionary category due to COVID-19.
- We have largely maintained our estimates and expect a buoyant recovery from 2QFY22 onwards, factoring in 24% revenue/PAT CAGR over FY20-23E. We see a limited upside given the rich valuations. We maintain our Neutral rating.

YoY performance much better in 1QFY22

- Consolidated revenue grew 33.5% YoY to INR51.8b. Standalone revenue stood at INR50.5b, 13% below pre-COVID (1QFY20) levels and 5% below our estimate. Adjusting for 46% footprint additions (54 store additions) in the last eight quarters, LTL revenue is estimated to be 60% of 1QFY20 levels.
- We estimate non-Discretionary (Food and non-Food FMCG, 77% mix)/Discretionary revenues to have recovered to 95%/ 60% of pre-Covid levels (1QFY20), respectively, much better than other Apparel retailers.
- Gross profit grew 23% YoY (29% below pre-COVID levels), but gross margin fell 110bp YoY to 13.1% (est. 15.4%). This is disappointing as the base quarter (1QFY21) saw a severe impact on the margin accretive Discretionary category due to COVID-19.
- EBITDA rose 100.6% YoY to INR2.2b (26% below our estimate and 62% below pre-COVID levels). EBITDA margin improved 140bp YoY to 4.3% (160bp below our estimate).
- PAT rose 137.9% YoY to INR0.9b (45% below our estimate). PAT margin stood at 1.8% (+81bp YoY) due to a weak gross margin.
- DMART added four stores during 1QFY22 v/s our expectation of two stores. Our expectation for FY22 is 30 stores, implying an additional 26 stores over the next nine months.

Recovery in place

- Our channel checks suggest that the non-Discretionary category has seen a healthy recovery to nearly pre-COVID levels once the lockdowns was lifted.
- DMART may target 39 store additions in FY22:** The management had indicated that it will add 59 stores over FY20-22. It has added 20 stores in FY21. It may look to add 39 stores in FY22, implying 35 store additions over the next nine months, provided there are no further restrictions.
- The management indicated that inventory levels are gradually normalizing. It believes that a store needs at least 45 days of unhindered operations to return to pre-COVID sales momentum.
- Revenue for its subsidiary (D-Mart Ready) has grown by ~2x YoY to INR1.5b, (~3% of consolidated revenue), with EBITDA turning profitable at INR30m.

Valuation and view

- We expect DMART to deliver FY20-23E revenue/PAT CAGR of 24% each, factoring in 30/40 store additions and ~50% SSSG in FY22E/FY23E. Unlike other retailers, grocery retailers like DMART have seen a swift recovery once COVID-related restrictions were lifted and a healthy margin improvement.
- The stock is trading at rich valuations (55.3x FY23E EV/EBIDA and 87.4x FY23E P/E).
- Expensive valuations; risk of a moderation in growth, owing to strong traction for online retailers in a post-COVID world; and the presence of deep pocket players like Amazon and Reliance Retail restricts the near-term upside.
- We value DMART at 52x FY23E EV/EBITDA (which is around its average multiple of ~57x). We retain our Neutral rating and TP of INR3,220 per share.

Consolidated quarterly earnings

(INR m)

Y/E March	FY21				FY22E				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Revenue	38,832	53,062	75,420	74,117	51,831	74,356	94,277	91,235	2,41,431	3,11,699	51,504	0.6
YoY Change (%)	-33.2	-11.4	10.8	18.5	33.5	40.1	25.0	23.1	-2.9	29.1		
Total Expenditure	37,714	49,767	68,529	67,990	49,589	68,729	85,528	84,327	2,24,000	2,88,173	48,474	2.3
EBITDA	1,118	3,295	6,891	6,127	2,242	5,627	8,750	6,908	17,431	23,526	3,030	-26.0
Change YoY (%)	-81.3	-36.3	15.5	46.8	100.6	70.8	27.0	12.7	-18.1	35.0		
Depreciation	948	1,007	1,137	1,050	1,074	1,221	1,301	1,411	4,142	5,007	1,100	-2.4
Interest	88	93	113	123	108	117	120	134	417	479	94	15.7
Other Income	506	522	453	481	315	498	498	681	1,962	1,992	498	-36.8
PBT	588	2,717	6,094	5,436	1,374	4,787	7,827	6,044	14,835	20,032	2,334	-41.1
Tax	187	732	1,625	1,297	420	1,289	2,087	1,442	3,840	5,238	604	-30.5
Rate (%)	31.8	26.9	26.7	23.9	30.6	26.9	26.7	23.9	25.9	26.1	25.9	
Reported PAT	401	1,985	4,470	4,139	954	3,498	5,740	4,602	10,994	14,794	1,730	-44.9
Adj. PAT	401	1,985	4,470	4,139	954	3,498	5,740	4,602	10,994	14,794	1,730	-44.9
YoY Change (%)	-88	-38	16	53	138	76.2	28.4	11	-15	35		

E: MOFSL estimates

Key performance indicators

Y/E March	FY21				FY22E				FY21	FY22E
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE		
Store Additions	2	4	1	13	4	4	6	10	20	30
Total Stores	216	220	221	234	238	238	244	254	234	264
Area Additions (m sq. ft.)	0.2	0.2	-0.0	0.6	0.2	0.2	0.3	0.5	1.0	1.4
Gross Margin (%)	14.2	14.5	15.5	14.8	13.1	14.7	15.6	14.6	14.9	14.7
EBITDA Margin (%)	2.9	6.2	9.1	8.3	4.3	7.6	9.3	7.6	7.2	7.5
PAT Margin (%)	1.0	3.7	5.9	5.6	1.8	4.7	6.1	5.0	4.6	4.7

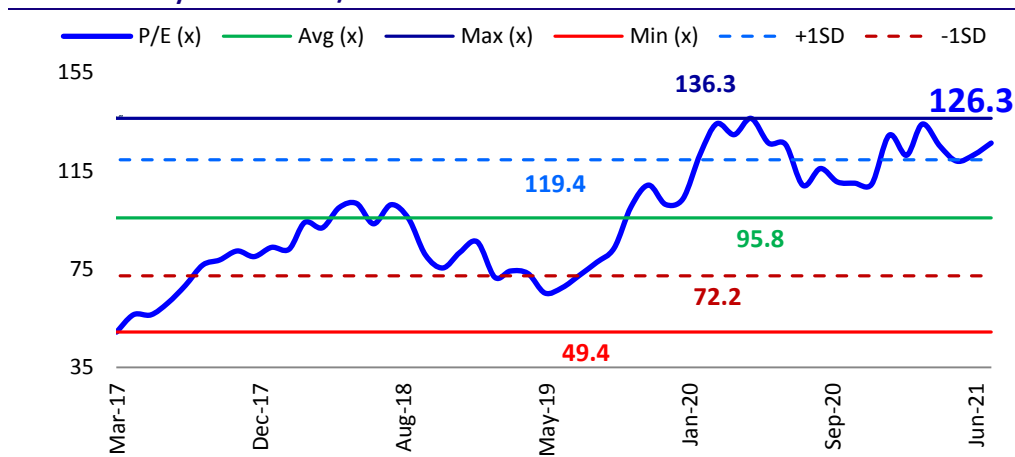
E: MOFSL estimates

Exhibit 1: Valuation based on FY23E EBITDA

	Methodology	Driver (INR b)	Multiple (x)	Fair value (INR b)	Value/share (INR)
EBITDA	FY23E EV/EBITDA	40	52	2,053	3,170
Less Net debt				-32	-50
Total Value				2,086	3,220
Shares o/s (m)				648	
CMP (INR)					3,380
Upside (%)					-5

Source: MOFSL, Company

Exhibit 2: One-year forward P/E band



Source: Bloomberg, MOFSL

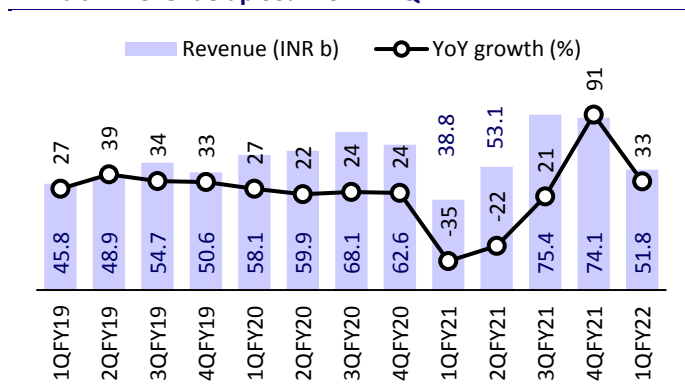
Exhibit 3: Summary of change in estimates

	FY22E	FY23E
Revenue (INR b)		
Old	310	457
Actual/New	312	476
Change (%)	0.5	4.1
EBITDA (INR b)		
Old	24.1	38.1
Actual/New	23.5	39.5
Change (%)	-2.5	3.8
EBITDA margin (%)		
Old	7.8	8.3
Actual/New	7.5	8.3
Change (bp)	-23bp	-2bp
Net Profit (INR b)		
Old	15.4	24.1
Actual/New	14.8	25.0
Change (%)	-3.7	4.1
EPS (INR)		
Old	23.7	37.1
Actual/New	22.8	38.7
Change (%)	-3.7	4.1

Source: MOFSL, Company

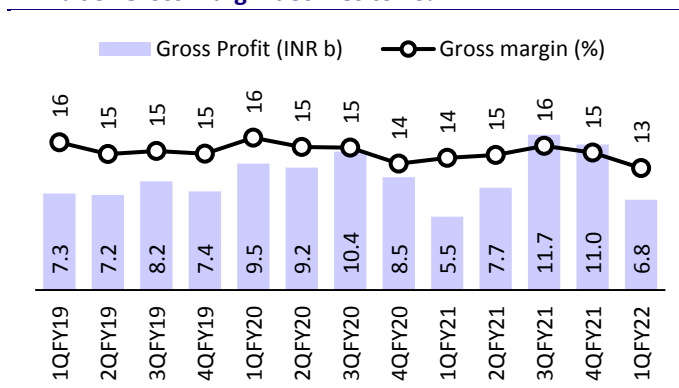
Stories in chart

Exhibit 4: Revenue up 33% YoY in 1QFY22

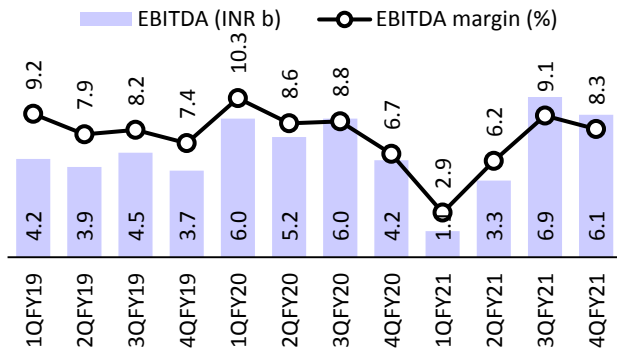


Source: Company, MOFSL

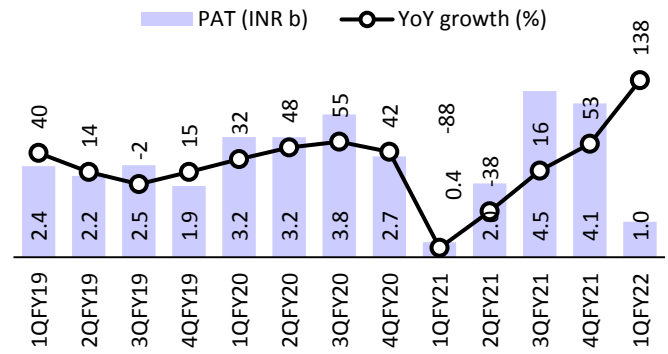
Exhibit 5: Gross margin declines to 13%



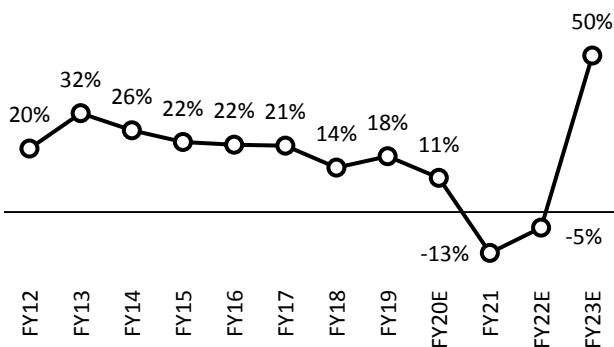
Source: Company, MOFSL

Exhibit 6: EBITDA margin declines sequentially

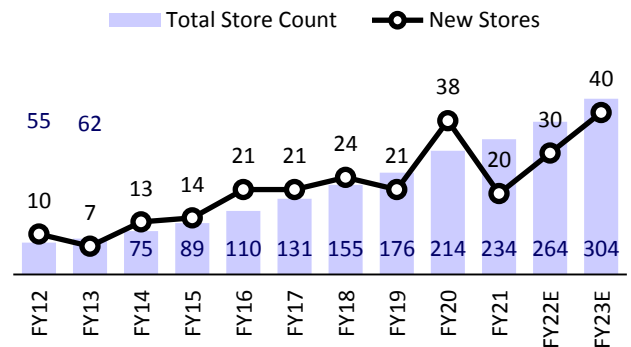
Source: MOFSL, Company

Exhibit 7: PAT grew by 138% YoY in 1QFY22

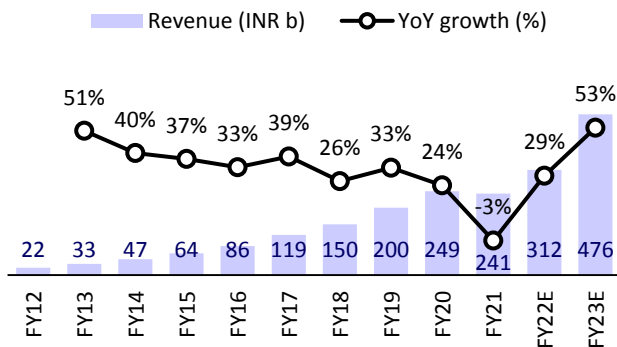
Source: MOFSL, Company

Exhibit 8: SSSG trend

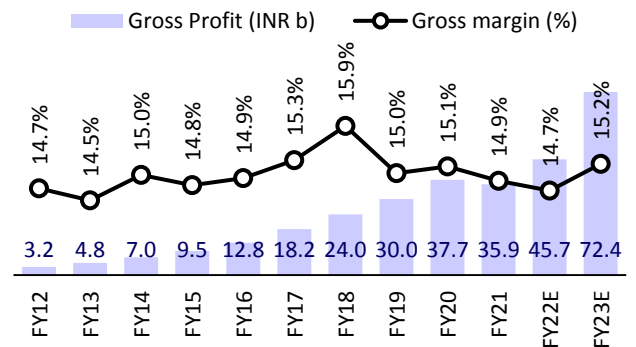
Source: MOFSL, Company

Exhibit 9: Store additions to gather pace

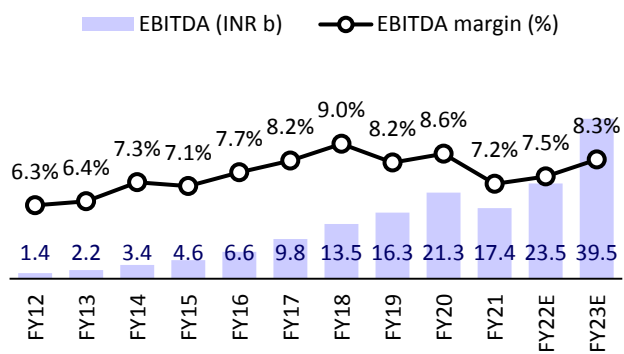
Source: MOFSL, Company

Exhibit 10: Expect 24% consolidated revenue CAGR over FY20-23E

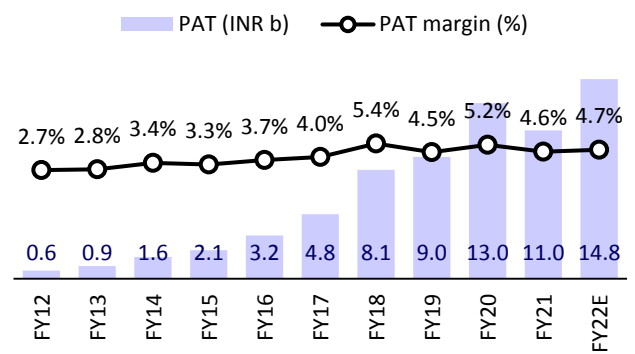
Source: MOFSL, Company

Exhibit 11: Expect gross margin to recover from FY23E onwards

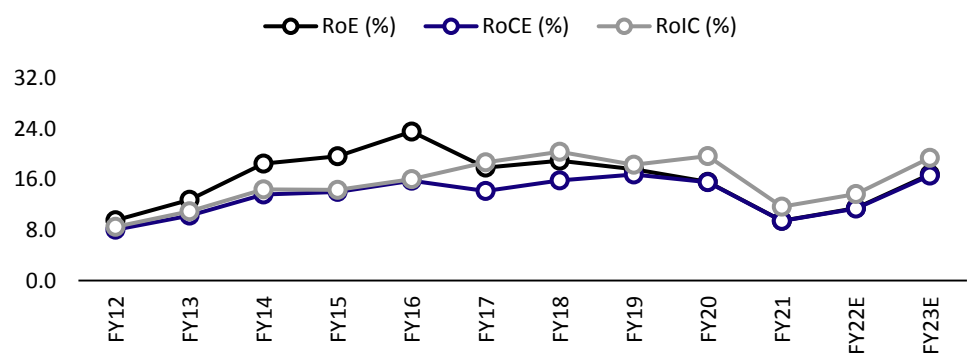
Source: MOFSL, Company

Exhibit 12: Expect EBITDA margin to recover from FY22E

Source: MOFSL, Company

Exhibit 13: Expect 24% PAT CAGR over FY20-23E

Source: MOFSL, Company

Exhibit 14: Return ratios to start increasing again from FY22E

Source: MOFSL, Company

Financials and valuation

Consolidated Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	46,865	64,394	85,838	1,18,977	1,50,332	2,00,045	2,48,702	2,41,431	3,11,699	4,76,231
Change (%)	40.3	37.4	33.3	38.6	26.4	33.1	24.3	-2.9	29.1	52.8
Raw Materials	39,845	54,879	73,035	1,00,810	1,26,356	1,70,008	2,11,029	2,05,547	2,65,980	4,03,858
Gross Profit	7,020	9,515	12,802	18,167	23,976	30,037	37,673	35,884	45,719	72,373
Margin (%)	15.0	14.8	14.9	15.3	15.9	15.0	15.1	14.9	14.7	15.2
Employees Cost	873	1,341	1,490	1,925	2,826	3,554	4,561	5,366	6,608	9,048
Other Expenses	2,729	3,592	4,676	6,429	7,622	10,150	11,829	13,088	15,585	23,812
Total Expenditure	43,448	59,811	79,201	1,09,165	1,36,804	1,83,712	2,27,419	2,24,000	2,88,173	4,36,718
% of Sales	92.7	92.9	92.3	91.8	91.0	91.8	91.4	92.8	92.5	91.7
EBITDA	3,417	4,583	6,636	9,812	13,528	16,333	21,283	17,431	23,526	39,513
Margin (%)	7.3	7.1	7.7	8.2	9.0	8.2	8.6	7.2	7.5	8.3
Depreciation	570	815	984	1,278	1,590	2,125	3,744	4,142	5,007	6,420
EBIT	2,847	3,768	5,652	8,534	11,938	14,208	17,539	13,289	18,519	33,093
Int. and Finance Charges	557	724	913	1,220	595	472	691	417	479	479
Other Income	158	183	179	286	693	484	600	1,962	1,992	1,701
PBT bef. EO Exp.	2,449	3,226	4,918	7,600	12,036	14,219	17,448	14,835	20,032	34,314
EO Items	0	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	14,835	20,032	34,314
Total Tax	835	1,109	1,715	2,683	4,158	5,195	4,438	3,840	5,238	9,265
Tax Rate (%)	34.1	34.4	34.9	35.3	34.5	36.5	25.4	25.9	26.1	27.0
Minority Interest	0	0	1	129	-185	1	1	0	0	0
Reported PAT	1,614	2,117	3,202	4,788	8,063	9,024	13,009	10,994	14,794	25,049
Adjusted PAT	1,614	2,117	3,202	4,788	8,063	9,024	13,009	10,994	14,794	25,049
Change (%)	71.9	31.2	51.3	49.5	68.4	11.9	44.2	-15.5	34.6	69.3
Margin (%)	3.4	3.3	3.7	4.0	5.4	4.5	5.2	4.6	4.7	5.3

Consolidated Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	5,468	5,615	5,615	6,241	6,241	6,241	6,478	6,478	6,478	6,478
Total Reserves	4,088	6,377	9,589	32,177	40,450	49,634	1,04,320	1,15,359	1,30,153	1,55,203
Net Worth	9,556	11,992	15,204	38,418	46,691	55,875	1,10,797	1,21,837	1,36,631	1,61,680
Total Loans	6,408	9,043	11,923	14,973	4,393	4,298	37	0	37	37
Lease Liabilities							2,955	3,927	3,927	3,927
Deferred Tax Liabilities	265	305	399	505	452	633	474	512	512	512
Capital Employed	16,229	21,340	27,527	53,898	51,541	60,811	1,14,268	1,26,281	1,41,112	1,66,162
Gross Block	13,969	18,321	21,918	27,764	37,223	49,352	65,748	77,401	98,292	1,26,981
Less: Accum. Deprn.	2,252	3,041	983	2,260	4,006	6,131	7,050	8,096	13,103	19,523
Net Fixed Assets	11,717	15,281	20,935	25,504	33,217	43,221	58,698	69,305	85,189	1,07,458
Right to use assets							7,173	9,602	9,602	9,602
Capital WIP	888	981	817	1,529	1,471	3,768	3,644	10,196	10,196	10,196
Total Investments	155	152	293	531	682	165	31,374	11,122	8,898	7,118
Curr. Assets, Loans and Adv.	5,316	7,134	8,970	30,629	20,330	22,118	26,264	45,144	46,553	56,592
Inventory	3,783	5,396	6,717	9,479	11,634	16,087	19,474	22,483	25,505	38,726
Account Receivables	95	71	84	210	335	644	196	436	571	872
Cash and Bank Balance	554	380	351	18,843	5,602	2,191	1,079	14,456	12,708	9,223
Loans and Advances	884	1,287	1,818	2,097	2,758	3,197	5,516	7,770	7,770	7,770
Curr. Liability and Prov.	1,847	2,208	3,488	4,295	4,942	9,246	6,497	10,280	10,515	15,994
Account Payables	1,226	1,185	1,944	2,607	3,173	4,633	4,335	5,781	7,554	11,470
Other Current Liabilities	533	843	1,487	1,605	1,642	4,474	1,996	4,236	2,649	4,048
Provisions	89	179	56	84	127	139	167	262	312	476
Net Current Assets	3,469	4,926	5,482	26,334	15,387	12,872	19,767	34,865	36,038	40,598
Deferred Tax assets	0	0	0	0	1	2	3	10	9	9
Appl. of Funds	16,229	21,340	27,527	53,897	51,541	60,811	1,14,268	1,26,281	1,41,113	1,66,162

E: MOFSL estimates

Financials and valuation

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)										
EPS (diluted from FY17)	3.0	3.8	5.7	7.7	12.9	14.5	20.1	17.0	22.8	38.7
Cash EPS (diluted from FY17)	3.9	5.2	7.5	9.7	15.5	17.9	26.8	24.3	31.7	50.4
BV/Share (diluted from FY17)	17.5	21.4	27.1	61.6	74.8	89.5	177.5	195.2	218.9	259.1
DPS	0.0	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	0.0
Valuation (x)										
P/E				440.6	261.6	233.8	168.3	199.1	148.0	87.4
Cash P/E				347.7	218.5	189.2	125.9	139.4	106.5	67.0
P/BV				54.9	45.2	37.8	19.0	17.3	15.4	13.0
EV/Sales				17.7	14.0	10.6	8.8	9.0	7.0	4.6
EV/EBITDA				214.6	155.8	129.3	103.0	125.0	92.7	55.3
Dividend Yield (%)	0.0	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	-10.1	-8.5	-10.0
Return Ratios (%)										
RoE	18.5	19.6	23.6	17.9	18.9	17.6	15.6	9.5	11.4	16.8
RoCE	13.6	14.0	15.8	14.2	15.8	16.8	15.5	9.4	11.4	16.6
RoIC	14.4	14.3	16.0	18.7	20.4	18.3	19.7	11.7	13.7	19.4
Working Capital Ratios										
Fixed Asset Turnover (x)	3.4	3.5	3.9	4.3	4.0	4.1	3.8	3.1	3.2	3.8
Asset Turnover (x)	2.9	3.0	3.1	2.2	2.9	3.3	2.2	1.9	2.2	2.9
Inventory (Days)	35	36	34	34	34	35	34	40	35	35
Debtor (Days)	1	0	0	1	1	1	0	1	1	1
Creditor (Days)	11	8	10	9	9	10	7	10	10	10
Leverage Ratio (x)										
Current Ratio	2.9	3.2	2.6	7.1	4.1	2.4	4.0	4.4	4.4	3.5
Interest Coverage Ratio	5.1	5.2	6.2	7.0	20.0	30.1	25.4	31.9	38.7	69.1
Net Debt/Equity	0.6	0.7	0.7	-0.1	0.0	0.0	-0.3	-0.2	-0.1	-0.1

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	2,449	3,226	4,918	7,600	12,036	14,219	17,448	14,835	20,032	34,314
Depreciation	570	815	984	1,278	1,590	2,125	3,744	4,142	5,007	6,420
Interest and Finance Charges	557	724	913	1,220	595	472	691	417	479	479
Direct Taxes Paid	-750	-1,000	-1,642	-2,586	-4,027	-5,018	-4,924	-2,616	-5,238	-9,265
(Inc.)/Dec. in WC	-827	-1,520	-685	-2,697	-2,427	-3,507	-3,762	-1,271	-2,922	-8,044
CF from Operations	1,998	2,245	4,489	4,815	7,767	8,292	13,197	15,506	17,358	23,905
Others	-17	-25	-154	-237	-467	-224	-395	-1,754	-1,992	-1,701
CF from Operating incl. EO	1,981	2,220	4,335	4,578	7,300	8,068	12,801	13,751	15,366	22,204
(Inc.)/Dec. in FA	-2,706	-4,770	-6,350	-6,354	-9,087	-13,970	-17,060	-20,275	-20,891	-28,690
Free Cash Flow	-724	-2,549	-2,015	-1,775	-1,787	-5,902	-4,259	-6,524	-5,524	-6,485
(Pur.)/Sale of Investments	7	31	-151	-229	-247	0	0	7,830	2,224	1,780
Others	8	0	172	-18,259	13,970	4,386	-29,505	1,345	1,992	1,701
CF from Investments	-2,691	-4,739	-6,329	-24,842	4,635	-9,584	-46,566	-11,100	-16,674	-25,210
Issue of Shares	46	326	0	18,406	0	0	41,869	0	0	0
Inc./(Dec.) in Debt	1,148	2,634	2,898	3,050	-10,791	2,600	-6,615	-1,359	37	0
Interest Paid	-552	-621	-934	-1,203	-800	-510	-682	-436	-479	-479
Dividend Paid	0	0	0	0	0	0	0	0	0	0
Others	0	5	0	0	0	0	-998	0	0	0
CF from Fin. Activity	641	2,345	1,964	20,253	-11,591	2,090	33,574	-1,795	-442	-479
Inc./Dec. in Cash	-68	-174	-30	-11	345	574	-190	856	-1,749	-3,484
Opening Balance (without bank bal.)	614	546	370	340	329	674	1,249	1,059	1,915	166
Closing Balance	546	372	340	329	674	1,249	1,059	1,915	166	-3,319
Other bank balance	8	8	11	18,514	4,928	942	20	12,541	12,542	12,542
Closing Balance (including bank balance)	554	380	351	18,843	5,602	2,191	1,079	14,456	12,708	9,223

NOTES

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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