

Sharp revenue recovery post easing of restrictions...

About the stock: Avenue Supermarts (ASL) operates supermarket chain under 'D-Mart' brand with a core focus on value retailing. D-Mart, through its proven business model, has been able to maintain consistent profitability and remains an exceptional performer in its peer group.

- D-Mart has progressively enhanced its return ratios (RoIC: 20%+) despite being capital intensive (follows ownership model)
- Robust store operating metrics (breakeven in 18-24 months of its operations and one of industry best revenue/sq ft: ₹ 32000+)

Analyst Meet highlights: We attended the Avenue Supermarts analyst meet. The key highlights of the same are mentioned below:

- Revenue recovery rate for stores older than two years was 91% in the second half of June 2021 compared to the second half of June 2019
- In states where restrictions were relaxed earlier, stores older than two years have recorded more revenues in the last 15 days of June 2021 compared to the last 15 days of June 2019
- Total 20 stores (net) added in FY21 and four new stores have been further added in Q1FY22 taking total store count to 238 with current total retail space at 9.0 mn sq ft. ASL is planning to add ~ 35-40 new stores in FY22
- The company has been adding larger sized stores recently in the range of 50000-60000 sq ft. However, ASL will open smaller stores in range of 10000-20000 sq ft in cities where quality large retail space availability is difficult
- The company has added three new distribution centres in FY21 (total 39 distribution centres)

What should investors do? Despite trading at premium valuations, ASL has been a consistent compounder with stock price appreciating at 31% CAGR in the last three years

- We continue to remain structurally positive and maintain **HOLD** rating

Target Price and Valuation: We value ASL at ₹ 3720 i.e. 60x FY23E EV/EBITDA

Key triggers for future price performance:

- We anticipate store addition trajectory to accelerate in FY22, FY23E and bake in 80 incremental store additions (addition of ~ 5.0 mn sq. ft)
- Robust liquidity position and healthy operating cashflows to provide impetus to store addition pace
- Expect revenue recovery to pick up pace from H2FY22 onwards and model revenue, earnings CAGR of 21%, 25%, respectively, in FY20-23E
- Will continue generating industry best RoIC of ~23% in FY23E



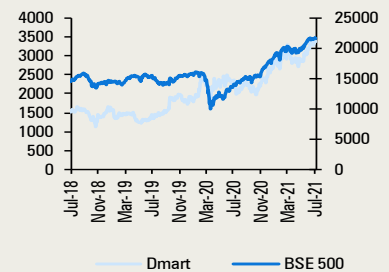
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,19,982.7
Total Debt (FY21) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	2,567.4
EV (₹ crore)	2,17,415.3
52 Week H / L	3425 / 1900
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	75.0	75.0	75.0	75.0	75.0
FII	10.4	10.3	10.1	10.2	10.0
DII	6.5	6.1	6.7	7.1	6.7
Others	8.1	8.6	8.2	7.8	8.3

Price Chart



Recent Event & Key risks

- Expects to add 37 new stores in FY22
- Key Risk:** (i) Slower ramp up of store network (ii) Faster recovery in sale of general merchandise

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Key Financial Summary

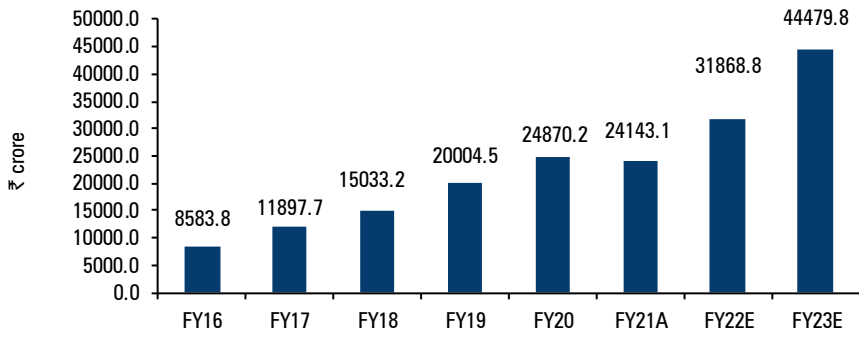
Financials	FY19	FY20	FY21A	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	20,004.5	24,870.2	24,143.1	23.0%	31,868.8	44,479.8	35.7%
EBITDA	1,633.3	2,128.3	1,743.1	21.3%	2,549.5	3,958.7	50.7%
PAT	902.4	1,301.0	1,099.4	28.0%	1,592.2	2,541.0	52.0%
P/E (x)	234.9	169.1	200.1		138.2	86.6	
EV/Sales (x)	10.6	8.7	9.0		6.8	4.9	
EV/EBITDA (x)	130.0	101.8	124.7		85.5	55.2	
RoCE (%)	23.4	16.4	12.5		15.8	21.2	
RoE (%)	16.2	11.7	9.0		11.6	15.6	

Key highlights of analyst meet

- During FY21, ASL opened 22 new stores (total 234 stores) and converted two stores to fulfilment centres for its e-commerce venture 'Avenue E-Commerce Ltd'. South India dominated the new store addition with 10 new stores. ASL added four stores in Andhra Pradesh (total 21), three in Telangana (total 27), two in Tamil Nadu (total 12) and one in Karnataka (total 21). Gujarat store opening continued with opening of five new stores (total: 42) while in Maharashtra the store count reduced from 76 to 74 owing to conversion of two stores to fulfilment centres
- Share of food revenue grew from 52.4% in FY20 to 57.4% in FY21 while non-food (FMCG) revenue declined from 20.3% in FY20 to 19.7% in FY21. Revenue share of general merchandise declined from 27.3% in FY20 to 22.9% in FY21
- On the gross margin front, the company is targeting a gross margin of 15-16% post normalisation of the current volatile scenario. On competitive intensity, the management indicated that its gross margins can be negatively impacted if the competition is resorting to higher discounting. The management is open to effectively competing with the competition and focus is on running the business in a cost effective manner
- The management indicated that real estate prices were only marginally softer as the company seeks quality real estate. However, deal closures for real estate were happening at a faster pace owing to expectation of further reduction in real estate prices
- The company continues to invest in e-commerce through expansion of D-Mart Ready stores and is gradually expanding its presence outside Mumbai. In the newer cities also, ASL is doing pick-up as well as home delivery model and the delivery is managed by the company itself. The company has capped the maximum delivery charge to ₹ 79 per delivery. Also, ASL has not yet evaluated the franchisee route for opening D-Mart Ready stores
- Non-essential items demand has seen a surge in states that have relaxed restrictions on trade. Also, business of unorganised players has been negatively impacted, which is positive for large organised players like ASL

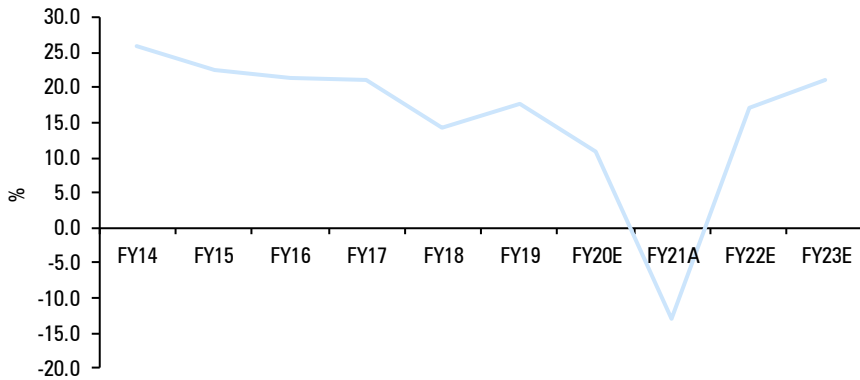
Financial story in charts....

Exhibit 1: We model in revenue CAGR of 21% in FY20-23E



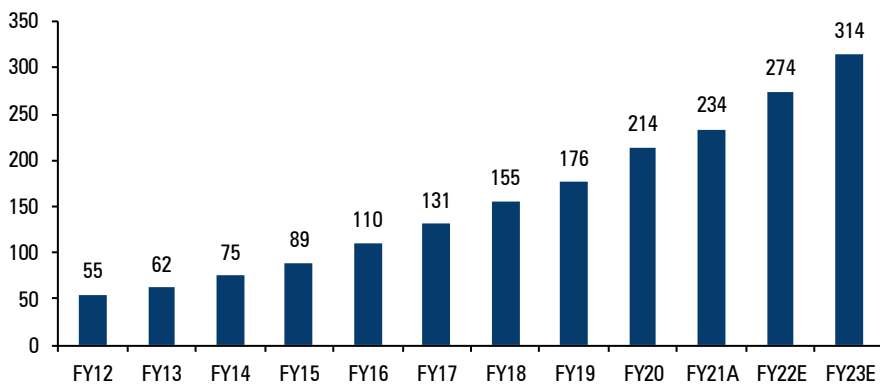
Source: Company, ICICI Direct Research

Exhibit 2: Same store sales growth (SSSG) trend



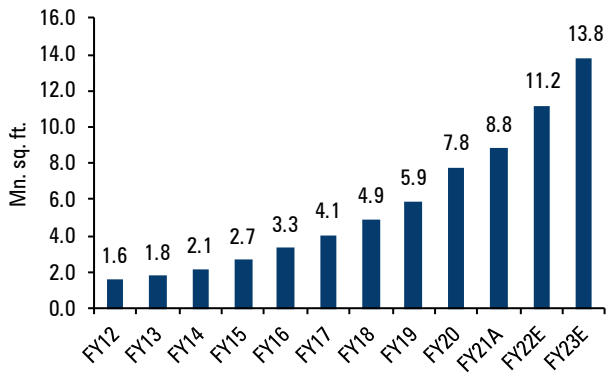
Source: Company, ICICI Direct Research

Exhibit 3: Store addition trend



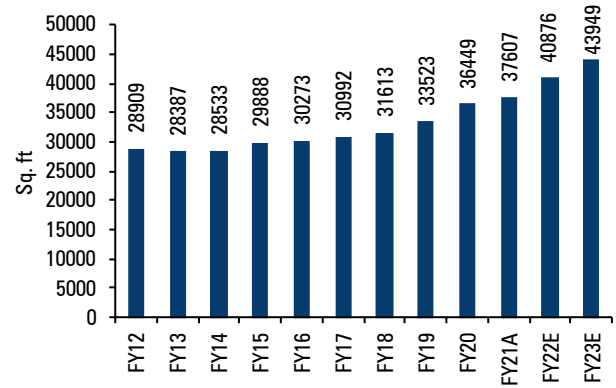
Source: Company, ICICI Direct Research

Exhibit 4: Total carpet area grows at much faster clip...



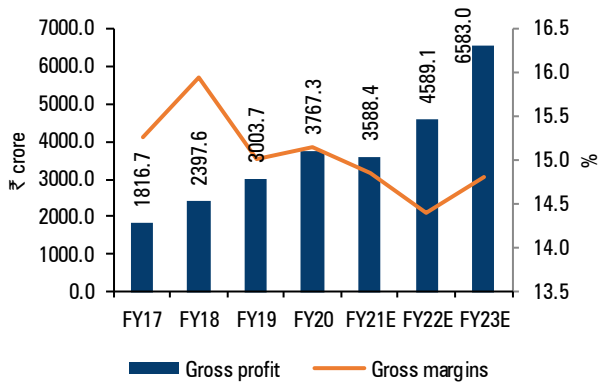
Source: Company, ICICI Direct Research

Exhibit 5: ...with gradual increase in average store size



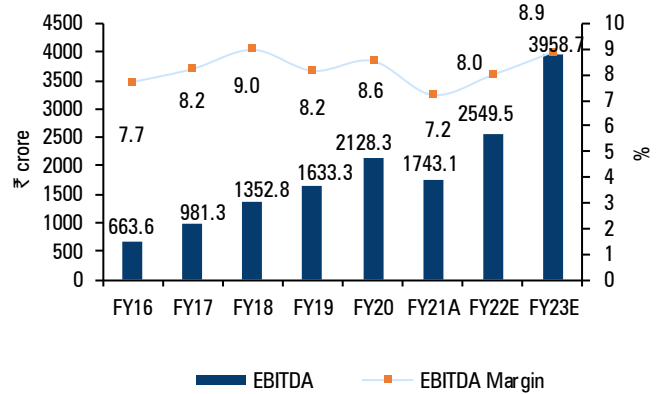
Source: Company, ICICI Direct Research

Exhibit 6: Gross margins trend



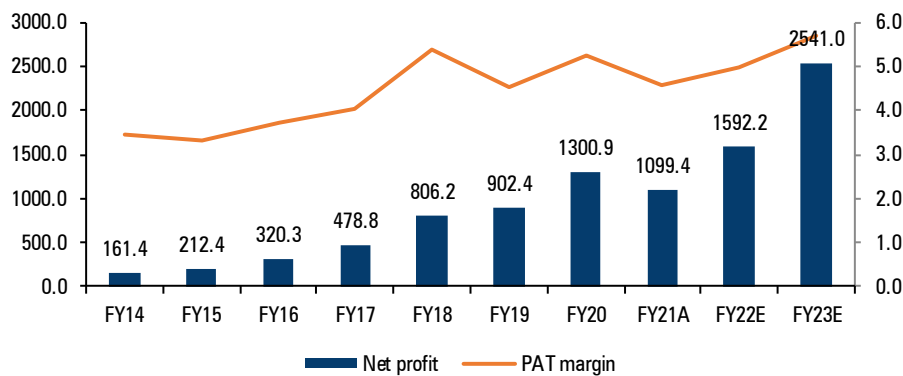
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Expect PAT to grow at 25% CAGR in FY20-23E aided by higher other income



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Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	24,870.2	24,143.1	31,868.8	44,479.8
Growth (%)	24.3	(2.9)	32.0	39.6
Total Raw Material Cost	21,102.9	20,554.7	27,279.7	37,896.8
Gross Margins (%)	15.1	14.9	14.4	14.8
Employee Expenses	456.1	536.6	637.4	800.6
Other Expenses	1,182.9	1,308.8	1,402.2	1,823.7
Total Operating Expenditure	22,741.9	22,400.0	29,319.3	40,521.1
EBITDA	2,128.3	1,743.1	2,549.5	3,958.7
EBITDA Margin	8.6	7.2	8.0	8.9
Interest	69.1	41.7	47.1	55.0
Depreciation	374.4	414.2	535.5	641.0
Other Income	60.0	196.2	161.7	134.3
Exceptional Expense	-	-	-	-
PBT	1,744.8	1,483.5	2,128.6	3,397.0
Total Tax	443.8	384.0	536.4	856.1
Profit After Tax	1,301.0	1,099.4	1,592.2	2,541.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Equity Capital	647.8	647.8	647.8	647.8
Reserve and Surplus	10,432.0	11,535.9	13,128.1	15,669.1
Total Shareholders funds	11,079.7	12,183.7	13,775.9	16,316.9
Total Debt	3.7	-	-	-
Non Current Liabilities	343.8	444.7	444.7	444.7
Source of Funds	11,427.2	12,628.5	14,220.6	16,761.6
Gross block	5,930.3	7,051.4	9,643.4	12,446.2
Less: Accum depreciation	822.9	1,112.9	1,498.7	1,971.6
Net Fixed Assets	5,107.4	5,938.5	8,144.8	10,474.6
Capital WIP	364.4	1,019.6	500.0	500.0
Intangible assets	106.8	100.5	100.5	100.5
Investments	3,153.9	1,121.8	954.0	763.8
Inventory	1,947.4	2,248.3	2,706.7	3,655.9
Cash	107.9	1,445.6	1,119.7	728.6
Debtors	19.6	43.6	43.7	121.9
Loans & Advances & Other	257.7	320.7	336.8	353.6
Total Current Assets	2,332.5	4,058.2	4,206.8	4,860.0
Creditors	433.5	578.1	698.5	974.9
Provisions & Other CL	215.3	449.4	449.9	450.4
Total Current Liabilities	648.7	1,027.5	1,148.4	1,425.3
Net Current Assets	1,683.8	3,030.7	3,058.4	3,434.6
LT L& A, Other Assets	1,011.0	1,417.4	1,463.0	1,488.1
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	11,427.2	12,628.5	14,220.6	16,761.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	1,301.0	1,099.4	1,592.2	2,541.0
Add: Depreciation	374.4	414.2	535.5	641.0
Net Increase in Current Assets	-525.4	-551.5	-520.1	-1,069.3
Net Increase in Current Liabilities	-4.8	378.8	120.9	276.9
CF from operating activities	1,145.2	1,340.9	1,728.5	2,389.6
(Inc)/dec in Investments	-3,119.3	2,032.1	167.8	190.2
(Inc)/dec in Fixed Assets	-1,700.0	-2,029.0	-2,072.4	-2,802.8
Others	159.2	91.0	0.0	0.0
CF from investing activities	-4,660.1	94.1	-1,904.6	-2,612.6
Inc / (Dec) in Equity Capital	23.7	0.0	0.0	0.0
Inc / (Dec) in Loan	-696.4	-3.7	0.0	0.0
Others	4,076.4	-93.6	-149.8	-168.0
CF from financing activities	3,403.7	-97.4	-149.8	-168.0
Net Cash flow	-111.2	1,337.6	-325.9	-391.1
Opening Cash	219.1	107.9	1,445.6	1,119.7
Closing Cash	107.9	1,445.5	1,119.7	728.6

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	20.1	17.0	24.6	39.2
Cash EPS	25.9	23.4	32.8	49.1
BV	171.0	188.1	212.7	251.9
Cash Per Share	1.7	22.3	17.3	11.2
Operating Ratios (%)				
EBITDA margins	8.6	7.2	8.0	8.9
PBT margins	7.0	6.1	6.7	7.6
Net Profit margins	5.2	4.6	5.0	5.7
Inventory days	28.6	34.0	31.0	30.0
Debtor days	0.3	0.7	0.5	1.0
Creditor days	6.4	8.7	8.0	8.0
Return Ratios (%)				
RoE	11.7	9.0	11.6	15.6
RoCE	16.4	12.5	15.8	21.2
RoIC	23.2	15.9	18.6	23.3
Valuation Ratios (x)				
P/E	169.1	200.1	138.2	86.6
EV / EBITDA	101.8	124.7	85.5	55.2
EV / Sales	8.7	9.0	6.8	4.9
Market Cap / Revenues	8.8	9.1	6.9	4.9
Price to Book Value	19.9	18.1	16.0	13.5
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	3.4	2.5	2.7	2.9
Quick Ratio	0.4	0.4	0.3	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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