

July 11, 2022

RESULT REPORT Q1 FY23 | Sector: Retail

Avenue Supermarts

Strong growth and margin performance with new stores starting to contribute; maintain BUY

Our view

D-Mart registered better than expected revenue performance implying positive SSSG over pre-covid levels helped by higher inflation-led realizations and contribution of new stores opened in the last couple of years. Gross margins were higher by 340bps YoY to 15.8% driven by higher sales of high margin discretionary items; cost saving measures continue to aid operating margins. Its e-commerce business delivered robust growth of 53% with positive operating profit albeit lower YoY. We continue to believe that long term growth opportunity is intact in grocery retail given its scalable model and low-cost structure which should enable a growth rate of 25% plus for the next decade. Strong margin performance in Q1 despite high margin general merchandise and apparel categories sales still below pre-covid levels indicates strong outlook for FY23. Solid footprint expansion in both offline stores and DMart Ready should drive strong growth rates together with the low-cost structure helping maintain margins in the 9-10% band. Its strong balance sheet, aggressive store expansion, cash generation and solid SSGs boosted by DMart Ready should be key growth enablers for the company and we believe the risks from online retailers should not impact the growth trajectory much. Hence, we think the stock should be able to sustain its premium multiples with stock returns in-line with the solid earnings growth.

Result Highlights

- **Result summary** – Strong performance on both revenue and margin fronts led by full scale uninterrupted operation. Revenue grew 95% YoY (10% above 1QFY20 after adjusting for 60% store addition) helped further by 10 new store openings in 1Q.
- **Margins** - Gross margins improved 340bps/150bps YoY/QoQ driven by scale benefits. Sales of higher margin general merchandise and apparel saw better traction but still below pre-covid levels due to some overhand of covid-led disruption and inflation. EBITDA margin improvement of 170bps QoQ to 10.3% aided by continuation of strong cost controls.
- Our calculated revenue/sqft and EBITDA/sqft stood at Rs 32,419/sqft and Rs 3,332/sqft. Positive operating leverage helped clock best-ever PAT margin of 6.9% displaying strength of DMart's business model.

Valuation

We believe full scale uninterrupted operation and underlying demand and operating efficiency keeps getting better as operations normalize. We increase our EPS estimates by 11-12% for FY23/FY24 to factor in higher margins due to a superior sales mix and operating efficiency. We now model in revenue/PAT CAGR of 34%/52% over FY22-24E, the highest growth in the large cap consumption space and maintain our BUY rating with a revised PT of Rs 4,971 based on 60x FY24E EV/EBITDA, implying 74x FY24 P/E. Key risk would be a higher than expected disruption by online retailers which impact the long-term business prospects for DMart.

Exhibit 1: Actual vs estimate

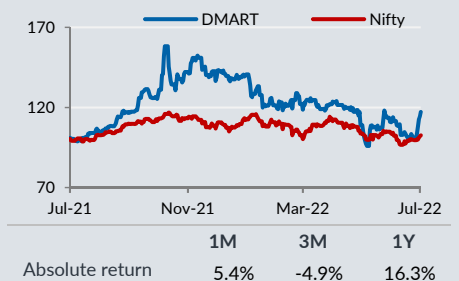
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	98,069	98,069	98068.9	-	-	Better than expected revenue and margin performance led by scale benefits and uninterrupted operations
EBITDA	10,079	8238	9160	22.3	10.0	
EBITDA Margin (%)	10.3	8.4	9.3	187.7	93.7	
Adjusted PAT	6,796	5336	5946	27.4	14.3	

Reco	: BUY
CMP	: Rs 3,942
Target Price	: Rs 4,971
Potential Return	: +26.1%

Stock data (as on July 8, 2022)

Nifty	16,221
52 Week h/l (Rs)	5900 / 3186
Market cap (Rs/USD mn)	2553333 / 32218
Outstanding Shares (mn)	648
6m Avg t/o (Rs mn):	1,941
Div yield (%):	N/A
Bloomberg code:	DMART IN
NSE code:	DMART

Stock performance



Shareholding pattern (As of June'22 end)

Promoter	75.0%
FII+DII	15.6%
Others	9.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,971	4,165

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	38.7	53.3
EPS (Old)	34.6	48.0
% change	11.9	11.0

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	3,09,763	4,34,336	5,59,421
YoY Growth (%)	28.3	40.2	28.8
EBIDTA	24,985	39,525	53,704
Margins (%)	8.1	9.1	9.6
PAT	14,925	25,069	34,497
YoY Growth (%)	35.7	68.0	37.6
ROE	11.5	16.8	19.3
ROCE	15.9	22.0	24.9
EPS	23.0	38.7	53.3
P/E	171.1	101.9	74.0
EV/EBITDA	102.3	64.7	47.6

HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 22 6885 0521



Ankit Mahajan, Associate

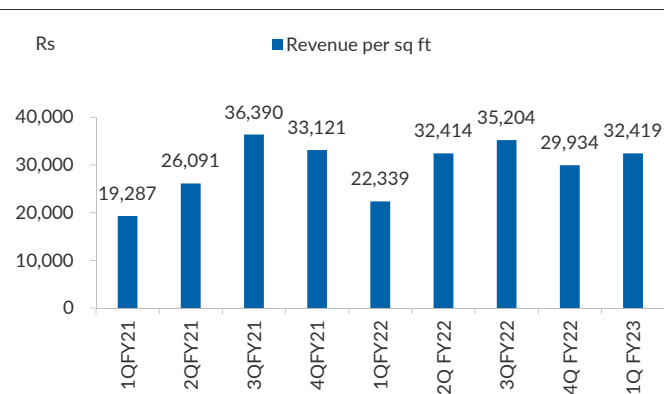
- E-commerce business saw robust revenue growth of 52.7% YoY to Rs 2.3bn with EBITDA of Rs3.5mn vs Rs29.5mn YoY.

Exhibit 2: Quarterly snapshot (Standalone):

Particulars (Rs mn)	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	% yoy	% qoq	FY22	FY21	% yoy
Sales	50,318	76,496	90,650	86,061	98,069	94.9	14.0	3,09,762.7	2,41,430.6	28.3
EBITDA	2,212	6,701	8,682	7,420	10,079	355.6	35.8	24,985.0	17,430.5	43.3
EBITDA Margin %	4.4	8.8	9.6	8.6	10.3	588.1 bps	165.6 bps	8.1	7.2	84.6 bps
Depreciation	927	971	1,080	1,232	1,233	33.0	0.1	4,980.8	4,141.6	20.3
EBIT	1,285.0	5,730.7	7,601.4	6,187.3	8,845.5	588.4	43.0	20,004.2	13,288.9	50.5
EBIT Margin %	2.6	7.5	8.4	7.2	9.0	646.6 bps	183.0 bps	6.5	5.5	95.4 bps
Interest charges	84	90	105	117	117	38.6	(0.1)	537.9	416.5	29.1
Other Income	362	330	323	394	369	1.9	(6.2)	1,174.9	1,962.1	(40.1)
PBT	1,563	5,970	7,820	6,464	9,098	482.1	40.7	20,641	14,835	39.1
Tax	412	1,482	1,962	1,801	2,302	459.2	27.8	5,717.2	3,840.2	48.9
Effective Tax Rate (%)	26.3	24.8	25.1	27.9	25.3			27.7	25.9	
PAT	1,151	4,489	5,858	4,664	6,796	490.3	45.7	14,924	10,994	35.7
PAT Margin %	2.3	5.9	6.5	5.4	6.9	464.2 bps	27.9 bps	4.8	4.6	26.4 bps
EPS (Rs)	1.8	6.9	9.0	7.2	10.5	490.3	45.7	23.0	17.0	35.7

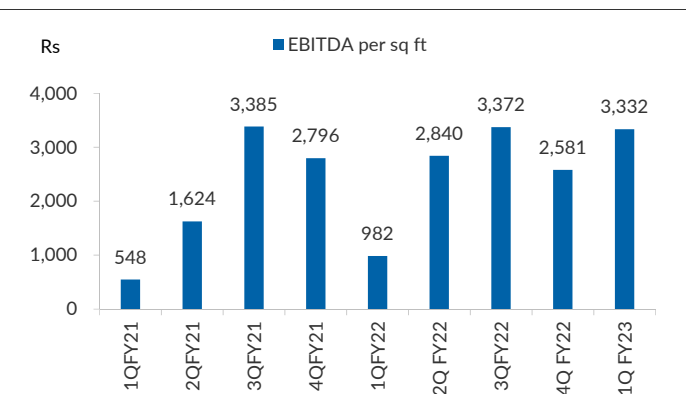
Source: Company, YES Sec

Exhibit 1: Revenue/sqft approaching pre-Covid levels led by uninterrupted operations during Q1



Source: Company, YES Sec

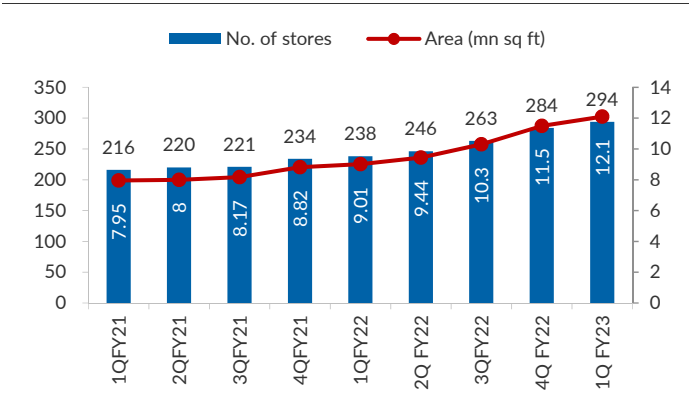
Exhibit 2: EBITDA/sqft further improved given lower cost of retailing and higher GMs



Source: Company, YES Sec

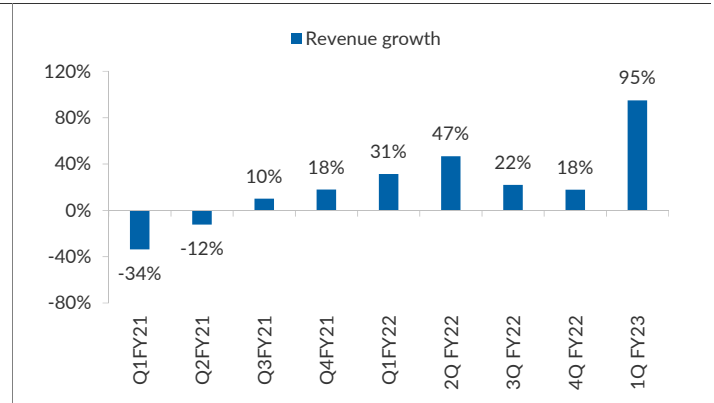
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Exhibit 3: Added 10 stores during Q1, expected to open ~45 stores in FY23



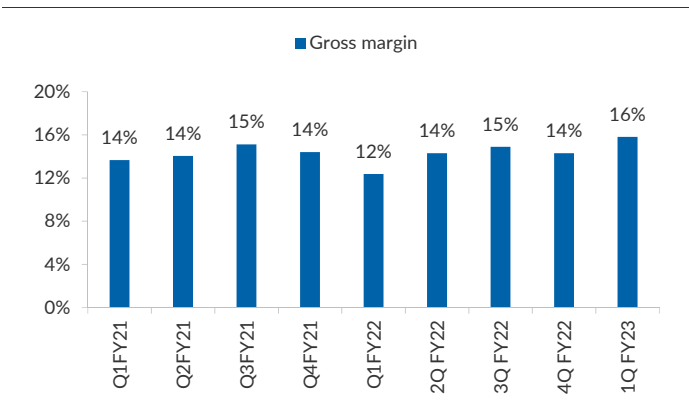
Source: Company, YES Sec

Exhibit 4: Strong revenue growth in Q1 led by full scale uninterrupted operation



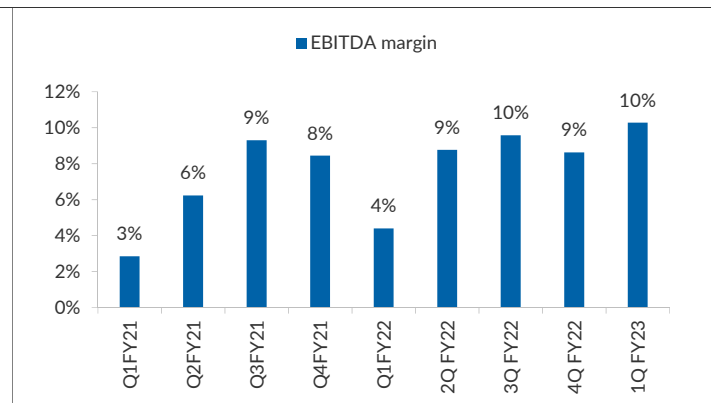
Source: Company, YES Sec

Exhibit 5: Gross margin at 15.8% driven by scale



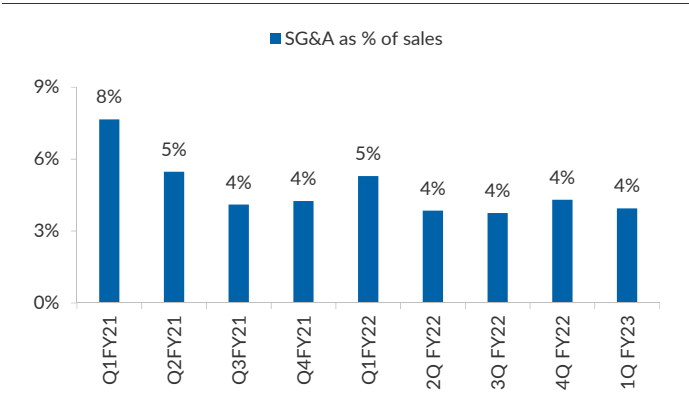
Source: Company, YES Sec

Exhibit 6: EBITDA margin improved helped by lower employee and other expenses



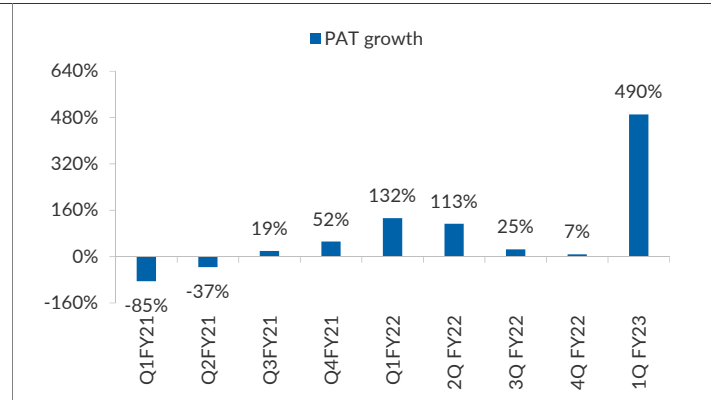
Source: Company, YES Sec

Exhibit 7: Excellent cost control measures continue to aid operating efficiency



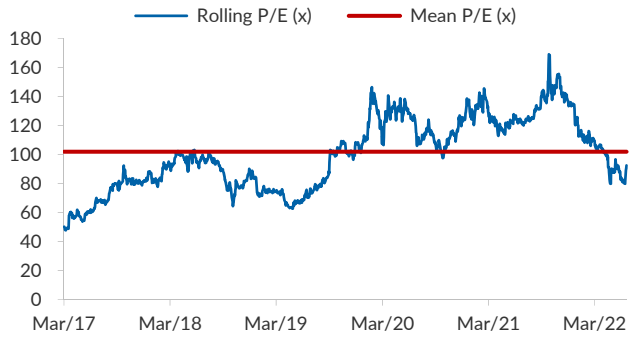
Source: Company, YES Sec

Exhibit 8: Translating to exponential increase in PAT albeit on a low base



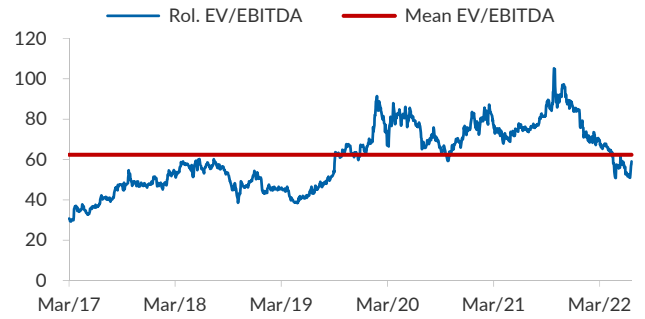
Source: Company, YES Sec

Exhibit 9: Currently trading at 92x one-yr fwd P/E...



Source: Company, YES Sec

Exhibit 10: ... and 59x one-yr fwd EV/EBITDA



Source: Company, YES Sec

FINANCIALS

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	6,478	6,478	6,478	6,478	6,478
Reserves	1,04,320	1,15,359	1,30,299	1,55,368	1,89,865
Net worth	1,10,797	1,21,837	1,36,776	1,61,845	1,96,343
Debt	2,248	3,120	5,072	9,072	11,072
Deferred tax liab (net)	474	512	640	640	640
Other non current liabilities	20	29	53	58	64
Total liabilities	1,13,539	1,25,498	1,42,541	1,71,615	2,08,118
Fixed Asset	55,786	70,586	89,917	1,13,939	1,37,752
Investments	312	125	150	150	150
Other Non-current Assets	41,337	25,267	30,291	33,318	36,648
Net Working Capital	15,030	15,068	19,201	20,564	26,424
Inventories	19,474	22,483	27,427	34,509	44,447
Sundry debtors	196	436	669	736	809
Loans and Advances	2,582	3,207	3,288	4,760	6,131
Sundry creditors	4,335	5,781	5,892	9,520	12,261
Other current liabilities	2,734	5,039	5,927	9,520	12,261
Cash & equivalents	1,074	14,452	2,983	3,645	7,145
Total Assets	1,13,539	1,25,498	1,42,541	1,71,615	2,08,118

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,48,702	2,41,431	3,09,763	4,34,336	5,59,421
Operating profit	21,283	17,431	24,985	39,525	53,704
Depreciation	3,744	4,142	4,981	6,545	8,143
Interest expense	691	417	538	816	996
Other income	600	1,962	1,175	1,351	1,554
Profit before tax	17,448	14,835	20,641	33,514	46,119
Taxes	4,438	3,840	5,717	8,446	11,622
Net profit	13,011	10,995	14,925	25,069	34,497

Source: Company, YES Sec

Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
PBIT	18,139	15,251	21,179	34,330	47,115
Depreciation	3,744	4,142	4,981	6,545	8,143
Tax paid	(4,438)	(3,840)	(5,717)	(8,446)	(11,622)
Working capital Δ	(5,788)	(38)	(4,132)	(1,364)	(5,859)
Other operating items					
Operating cashflow	11,657	15,515	16,311	31,066	37,777
Capital expenditure	(11,939)	(18,942)	(24,312)	(30,567)	(31,956)
Free cash flow	(282)	(3,427)	(8,001)	499	5,821
Equity raised	41,912	45	15	(0)	-
Investments	34	187	(25)	-	-
Debt financing/disposal	(2,050)	872	1,951	4,000	2,000
Interest Paid	(691)	(417)	(538)	(816)	(996)
Dividends paid	-	-	-	-	-
Other items	(40,035)	16,117	(4,872)	(3,022)	(3,324)
Net Δ in cash	(1,112)	13,377	(11,470)	661	3,500

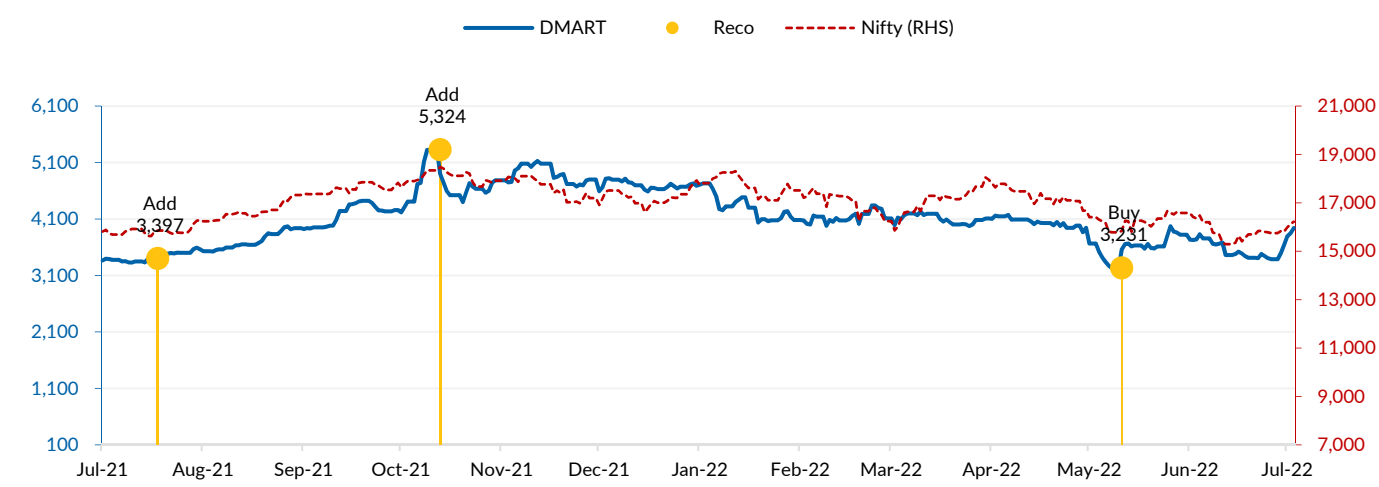
Exhibit 14: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	24.3	(2.9)	28.3	40.2	28.8
Op profit growth	30.3	(18.1)	43.3	58.2	35.9
EBIT growth	23.5	(15.9)	38.9	62.1	37.2
Net profit growth	44.2	(15.5)	35.7	68.0	37.6
Profitability ratios (%)					
OPM	8.6	7.2	8.1	9.1	9.6
EBIT margin	7.3	6.3	6.8	7.9	8.4
Net profit margin	5.2	4.6	4.8	5.8	6.2
RoCE	20.9	12.8	15.9	22.0	24.9
RoNW	15.6	9.5	11.5	16.8	19.3
RoA	13.6	8.5	10.2	14.5	16.3
Per share ratios					
EPS	20.1	17.0	23.0	38.7	53.3
Dividend per share	-	-	-	-	-
Cash EPS	25.9	23.4	30.7	48.8	65.8
Book value per share	171.0	188.1	211.1	249.9	303.1
Valuation ratios					
P/E	196.3	232.2	171.1	101.9	74.0

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
P/CEPS	152.4	168.7	128.3	80.8	59.9
P/B	23.0	21.0	18.7	15.8	13.0
EV/EBIDTA	120.0	145.8	102.3	64.7	47.6
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	25.4	25.9	27.7	25.2	25.2
Liquidity ratios					
Debtor days	0	1	1	1	1
Inventory days	29	34	32	29	29
Creditor days	6	9	7	8	8

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@yasil.in
Website: www.yesinvest.in

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Details of Compliance Officer: Name: Dhanraj Uchil, Email id: compliance@yasil.in, Contact No: +91-22- 6507 8122

Avenue Supermarts

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

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REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

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