

August 4, 2022

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	4,636		4,636	
Sales (Rs. m)	4,37,753	5,49,895	4,37,753	5,49,895
% Chng.	-	-	-	-
EBITDA (Rs. m)	39,882	50,617	39,882	50,617
% Chng.	-	-	-	-
EPS (Rs.)	38.2	49.2	38.2	49.2
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	2,41,431	3,09,763	4,37,753	5,49,895
EBITDA (Rs. m)	17,431	24,985	39,882	50,617
Margin (%)	7.2	8.1	9.1	9.2
PAT (Rs. m)	10,992	14,923	24,725	31,875
EPS (Rs.)	17.0	23.0	38.2	49.2
Gr. (%)	(15.5)	35.8	65.7	28.9
DPS (Rs.)	-	-	-	2.5
Yield (%)	-	-	-	0.1
RoE (%)	9.4	11.5	16.6	18.1
RoCE (%)	11.4	15.5	21.9	23.7
EV/Sales (x)	11.3	8.9	6.3	5.0
EV/EBITDA (x)	156.7	109.8	68.7	54.1
PE (x)	249.8	184.0	111.1	86.1
P/BV (x)	22.5	20.1	17.0	14.3

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.5,900 / Rs.3,185
Sensex / Nifty	58,299 / 17,382
Market Cap	Rs.2,746bn/ \$ 34,553m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.2028.46m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	8.83
Domestic Institution	6.77
Public & Others	9.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	21.3	3.9	18.0
Relative	10.7	4.5	10.0

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Anushka Chhajed

anushkachhajed@plindia.com | 91-22-66322244

Strong growth visibility; BUY for long term

Quick Pointers:

- Aims to accelerate store openings, new stores maturing in just 2 years
- General Merchandise & Apparel share at 22.4% (27/28% pre covid)
- D'Mart Ready extended to 12 cities with sales of Rs16.6bn in FY22, confident of scaling the format with reasonable cash burn

We retain our positive stance on D'Mart post Annual Analyst Interaction given acceleration in store openings, likely increase in General merchandise & Apparel share and scaling up of D'Mart Ready. The levers working in favor of D'Mart are monetization of the new stores in the zero-covid restrictions era, higher average bill value (38% increase over FY20-22) and scope of improvement in bills cuts/store/day which is 32% lower vs FY20.

We remain positive on D'Mart Ready as sales double in FY22 (Rs1.4bn in FY19 to Rs16.6bn in FY22), operations extend to 12 cities and pick-up points increase to 519. Gross margins for D'Mart Ready contracted by 78bps in FY22 vs FY21 and EBITDA loss increased by just 35% as margins improved by 134bps. Mgt seems more confident of the scalability of this format and its ability to curtail cash burn till it becomes profitable. We believe it will take 3-4 years for the business to breakeven at the EBITDA level.

As have been highlighted by us in our previous notes, D'Mart has begun to witness strong rebound in growth with zero covid restrictions and the momentum is expected to sustain. We believe D'Mart has a huge growth runway ahead given low probability of heightened competition in modern trade, 1200+ store potential in existing clusters (current stores 294) and gradual scale up to D'Mart Ready. We estimate 39.7% PAT CAGR over FY22-25 and retain BUY with a DCF based target price of Rs4636 (no change).

E-Commerce sales doubles, expands to 12 cities: D'Mart ready sales increased by 110% backed by strong demand. D'Mart Ready has added 7 new cities to its kitty – Bhopal, Indore, Kolhapur, Nagpur, Surat, Vadodara and Vizag. However, the gross margins contracted by 78bps in FY22 vs FY21 and the losses rose by 76% in FY22 on back of operational costs as the business is still in the scale-up mode. In order to reduce the delivery time, D'Mart plans to increase the number of fulfillment centers which will happen gradually. The opportunity for D'Mart Ready lies more in metro and Tier 1 cities vs Tier 2 & 3 cities. The customer shopping from D'Mart Ready is more affluent than the one coming to the store, hence the company is working towards changing the assortment of goods. D'Mart ready pick up points have been increased to 519 and Mumbai accounts for dominant part of sales.

Store expansion to continue: D'Mart aims to open higher number of stores in any given year vs its previous year. D'Mart has created a team of people to seek suitable properties for expansion and is confident of the team's execution and efficiency.

Value and sales growth remains focus areas: D'Mart has guided for 15% gross margins for FY23 and remain in that range of 15-16% going ahead as well. The management has also indicated that D'Mart will not shy away from slashing prices if the competition intensifies. The share of General Merchandise & Apparel rose by 50bps in FY23 to 23.4% but remains below 27-28% of pre-covid levels. Though the share is 23.4% for the whole year, the share was much in the recent quarters.

Bill cuts offer scope for significant improvement: Though bill cuts at 181mn are lower than pre-covid levels of 201mn, the bill value has increased sharply on the other hand. The major reason for this phenomena is change of habit during covid wherein the basket size went up and stayed at elevated levels. Rise in bill value is positive as reduced number of shoppers lowers the spends on AC (less heat), and reduces operational costs. SSG is lower for mature stores as new stores are maturing in 2 years as against earlier period of 3/4 years.

Exhibit 1: Consolidated Revenues grew by 93.7% YoY, EBITDA margins expanded by 572 bps YoY

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	FY22	FY21	YoY gr. (%)
Net Sales	1,00,381	51,831	93.7	87,865	3,09,767	2,41,433	28.3
Gross Profit	16,405	6,794	141.5	13,144	45,793	35,886	27.6
<i>% of NS</i>	<i>16.3</i>	<i>13.1</i>	<i>3.2</i>	<i>15.0</i>	<i>14.8</i>	<i>14.9</i>	<i>(0.1)</i>
Other Expenses	6,323	4,552	38.9	5,751	20,804	18,453	12.7
<i>% of NS</i>	<i>6.3</i>	<i>8.8</i>	<i>(2.5)</i>	<i>6.5</i>	<i>6.7</i>	<i>7.6</i>	<i>(0.9)</i>
EBITDA	10,082	2,242	349.7	7,393	24,989	17,433	43.3
<i>Margins (%)</i>	<i>10.0</i>	<i>4.3</i>	<i>5.7</i>	<i>8.4</i>	<i>8.1</i>	<i>7.2</i>	<i>0.8</i>
Depreciation	1,447	1,074	34.7	1,463	4,981	4,142	20.3
Interest	172	108	58.9	166	538	417	29.1
Other Income	291	315	(7.4)	326	1,175	1,962	(40.1)
PBT	8,754	1,374	537.3	6,089	20,645	14,837	39.2
Tax	2,325	420	453.6	1,821	5,717	3,840	48.9
<i>Tax rate (%)</i>	<i>26.6</i>	<i>30.6</i>	<i>(4.0)</i>	<i>29.9</i>	<i>27.7</i>	<i>25.9</i>	<i>1.8</i>
Adjusted PAT	6,429	954	574.1	4,268	14,930	10,997	35.8

Source: Company, PL

Exhibit 2: Added 10 stores in 1QFY23; Cost of retail reduces by 248bps YoY, 20 bps QoQ

	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
No of Stores	220	221	234	238	246	263	284	294
Area (mn Sq.ft.)	8.2	8.2	8.8	9.0	9.4	10.3	11.5	12.1
Sales/Ft	6364	9098	8280	5585	8138	8801	7484	8105
Gross Profit/Ft	894	1375	1192	690	1164	1310	1073	1282
EBIDTA/FT	396	896	699	246	713	843	645	833
Cost of retail %	8.3	6.4	6.5	8.8	6.4	6.0	6.5	6.3

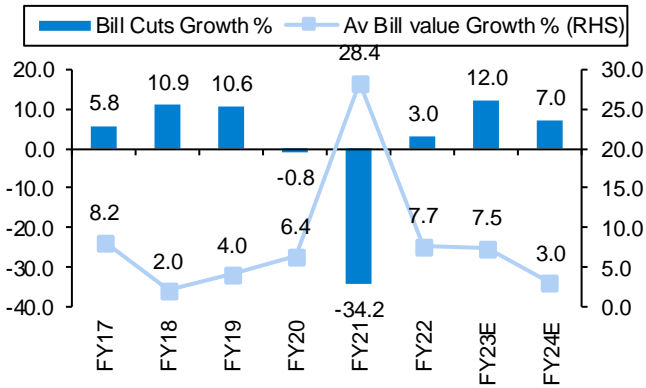
Source: Company, PL

Exhibit 3: Gross Profit/Ft and EBIDTA/Ft to grow in FY23 due to low base in FY22

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales/Ft	32,719	35,647	32,879	27,306	27,454	34,133	36,752
Gross Profit/Ft	4,853	5,091	4,830	4,068	3,982	4,961	5,307
EBIDTA/FT	2,738	2,768	2,729	1,976	2,173	2,954	3,214
Capex/Ft	9,664	9,974	10,338	9,586	9,855	11,754	12,531
Cost of retail %	6.9%	6.9%	6.6%	7.6%	6.7%	6.2%	6.0%
Working Cap/Ft	1,723	1,566	1,927	1,708	1,670	2,009	1,998

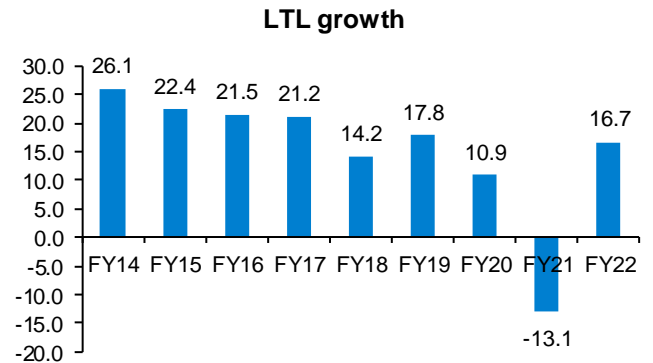
Source: Company, PL

Exhibit 4: Bill Cut est growth for FY23 at 12%



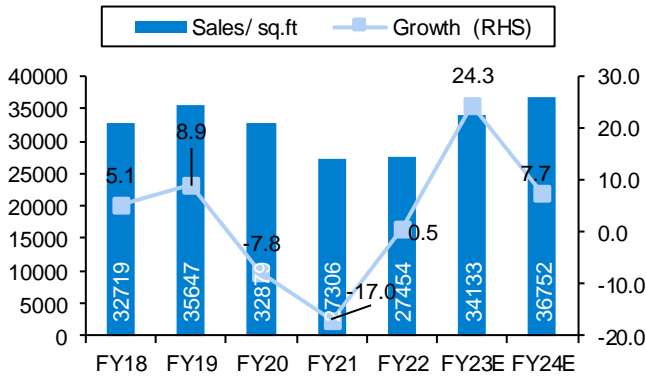
Source: Company, PL

Exhibit 5: LTL growth improved sharply to 16.7% in FY22



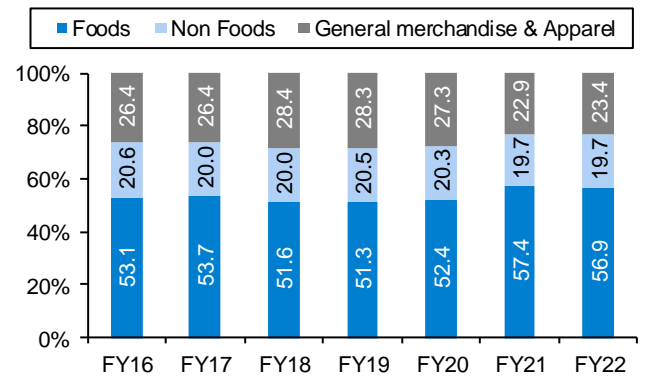
Source: Company, PL

Exhibit 6: Sales/Sq. ft. to reach Rs 36,752 in FY24E



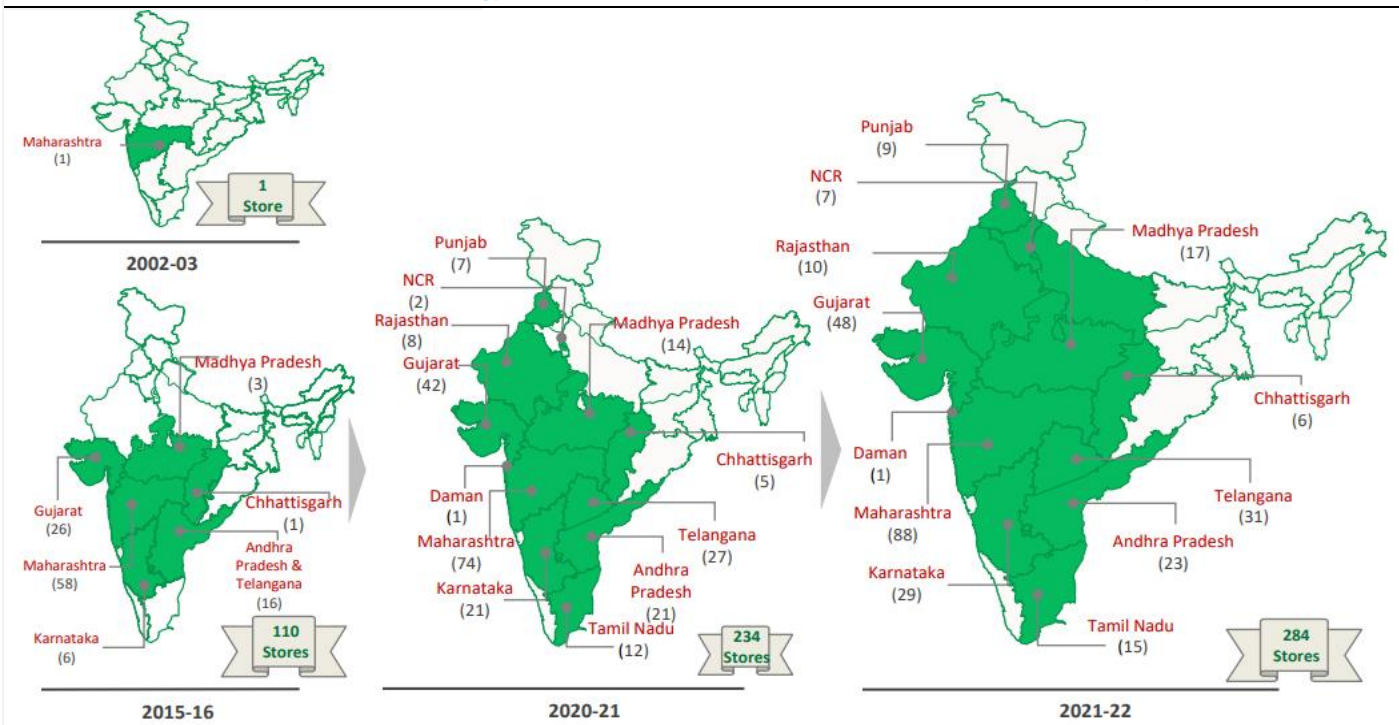
Source: Company, PL

Exhibit 7: Foods continue to remain highest contributor

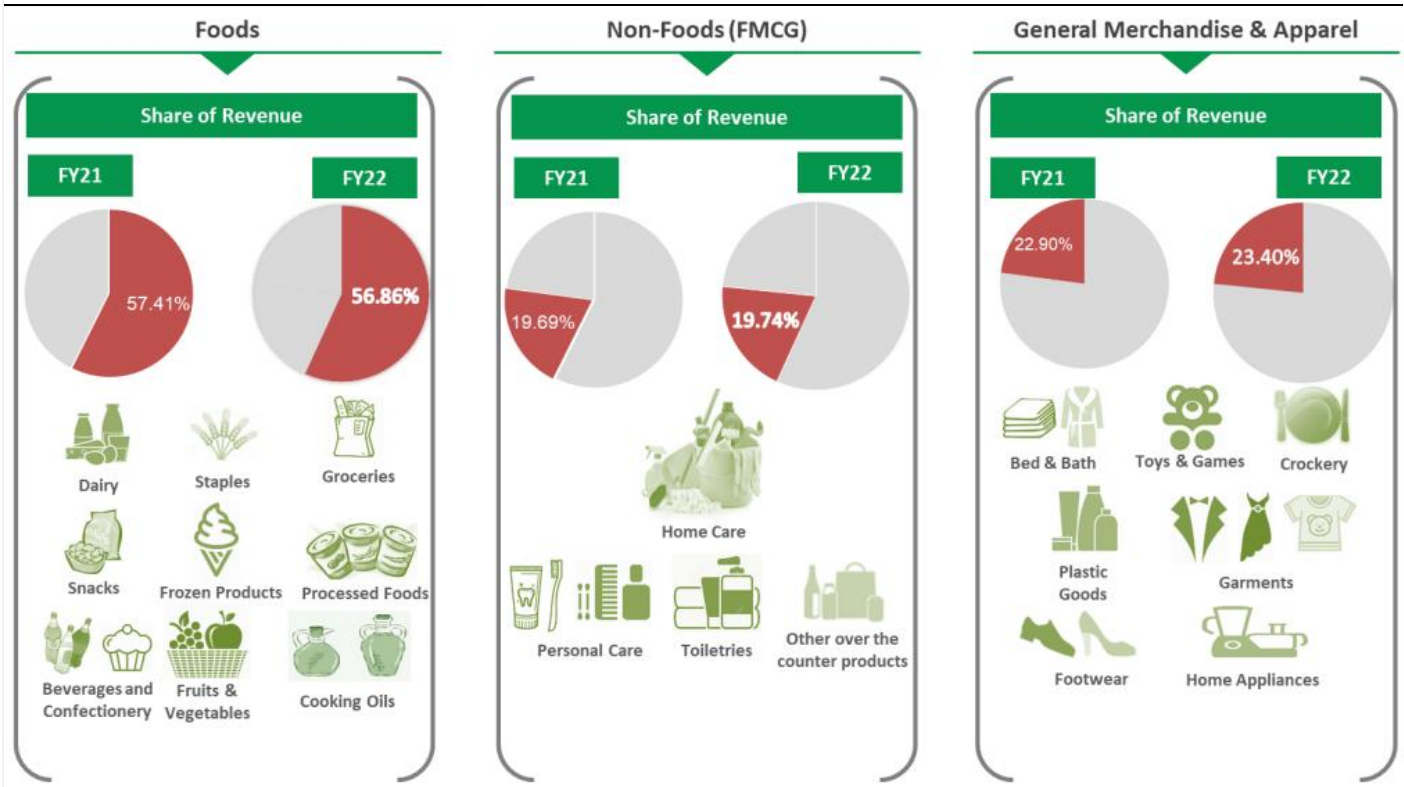


Source: Company, PL

Exhibit 8: Cluster based expansion strategy continues – Addition maximum Ex Maharashtra and Gujarat



Source: Company, PL

Exhibit 9: Share of General Merchandise & Apparel rose by 50bps in FY22 led by opening up of the economy


Source: Company, PL

Exhibit 10: Avenue E-Commerce reports strong numbers with Revenues doubling while losses also rise by 76%

Avenue E-Commerce Limited				Avenue Food Plaza Limited				Align Retail Trades Limited			
Rs Crs	YE Mar 2022	YE Mar 2021	YE Mar 22 / Mar 21	Rs Crs	YE Mar 2022	YE Mar 2021	YE Mar 22 / Mar 21	Rs Crs	YE Mar 2022	YE Mar 2021	YE Mar 22 / Mar 21
Sales	1,667.2	791.3	110.7%	43.3	14.9	190.6%		1,587.1	1,296.2	122.4%	
Tot Inc	1,668.5	793.1	110.4%	43.5	15.1	187.1%		1,587.3	1,296.2	122.5%	
COGS	1,463.1	688.2	112.6%	25.3	10.3	146.1%		1,529.9	1,246.9	122.7%	
GC	12.25%	13.03%	-78 bps	41.61%	31.04%	1057 bps		3.60%	3.80%	-19 bps	
Empl Exp	54.3	35.5	52.9%	1.5	0.0	6157.4%		8.2	5.9	39.5%	
% of Tot Inc	3.26%	4.48%	-122 bps	3.51%	0.16%	335 bps		0.52%	0.45%	6 bps	
Other Exp	189.4	97.0	95.3%	12.7	5.3	141.6%		22.3	18.8	18.8%	
% of Tot Inc	11.35%	12.22%	-87 bps	29.34%	34.85%	-551 bps		1.41%	1.45%	-4 bps	
EBITDA	-39.6	-29.4	34.6%	3.8	-0.7	-660.4%		26.6	24.5	8.7%	
EBITDA %	-2.37%	-3.71%	134 bps	8.68%	-4.50%	1317 bps		1.68%	1.89%	-21 bps	
Fin Costs	18.2	8.9	104.4%	0.0	0.0	3.6%		0.3	0.4	-38.7%	
Dep & Amort	85.7	44.2	93.77%	3.3	2.1	59.7%		3.6	3.5	2.22%	
PBT	-142.1	-80.6	76.2%	0.5	-2.5	-121.2%		23.0	20.7	11.3%	
PBT %	-8.51%	-10.16%	165 bps	1.23%	-16.62%	1785 bps		1.45%	1.59%	-14 bps	
Tax	0.0	0.0	0.0%	0.2	-0.6	-136.4%		5.9	4.9	20.4%	
PAT	-142.1	-80.6	76.2%	0.3	-1.9	-116.2%		17.1	15.8	8.5%	
PAT %	-8.51%	-10.16%	165 bps	0.71%	-12.56%	1327 bps		1.08%	1.22%	-14 bps	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	2,41,431	3,09,763	4,37,753	5,49,895
YoY gr. (%)	(2.9)	28.3	41.3	25.6
Cost of Goods Sold	2,05,547	2,63,974	3,70,777	4,66,311
Gross Profit	35,884	45,789	66,976	83,584
Margin (%)	14.9	14.8	15.3	15.2
Employee Cost	5,366	6,162	7,880	9,623
Other Expenses	13,088	14,642	19,215	23,344
EBITDA	17,431	24,985	39,882	50,617
YoY gr. (%)	(18.1)	43.3	59.6	26.9
Margin (%)	7.2	8.1	9.1	9.2
Depreciation and Amortization	4,142	4,981	7,205	8,396
EBIT	13,289	20,004	32,676	42,221
Margin (%)	5.5	6.5	7.5	7.7
Net Interest	417	538	646	906
Other Income	1,962	1,175	1,202	1,526
Profit Before Tax	14,835	20,641	33,233	42,842
Margin (%)	6.1	6.7	7.6	7.8
Total Tax	3,843	5,717	8,508	10,968
Effective tax rate (%)	25.9	27.7	25.6	25.6
Profit after tax	10,992	14,924	24,725	31,875
Minority interest	-	2	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,992	14,923	24,725	31,875
YoY gr. (%)	(15.5)	35.8	65.7	28.9
Margin (%)	4.6	4.8	5.6	5.8
Extra Ord. Income / (Exp)	(19)	(50)	-	-
Reported PAT	10,973	14,872	24,725	31,875
YoY gr. (%)	(15.4)	35.5	66.3	28.9
Margin (%)	4.5	4.8	5.6	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,973	14,872	24,725	31,875
Equity Shares O/s (m)	648	648	648	648
EPS (Rs)	17.0	23.0	38.2	49.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	74,375	89,940	1,13,764	1,41,694
Tangibles	73,588	89,034	1,12,723	1,40,497
Intangibles	787	905	1,041	1,197
Acc: Dep / Amortization	14,672	18,554	23,444	29,522
Tangibles	14,107	17,880	22,645	28,580
Intangibles	565	674	798	942
Net fixed assets	59,703	77,931	90,320	1,12,172
Tangibles	59,481	77,795	90,078	1,11,917
Intangibles	222	136	243	255
Capital Work In Progress	10,196	11,293	11,519	11,750
Goodwill	783	783	783	783
Non-Current Investments	11,093	12,627	11,311	11,416
Net Deferred tax assets	(512)	(640)	(939)	(1,325)
Other Non-Current Assets	14,165	17,647	20,286	21,961
Current Assets				
Investments	30	59	36	39
Inventories	22,483	27,427	35,110	43,447
Trade receivables	436	669	1,199	1,507
Cash & Bank Balance	14,456	2,986	6,283	13,389
Other Current Assets	1,538	2,030	2,629	3,302
Total Assets	1,36,560	1,54,726	1,81,446	2,22,241
Equity				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,15,359	1,30,299	1,54,960	1,85,215
Total Network	1,21,837	1,36,776	1,61,438	1,91,693
Non-Current Liabilities				
Long Term borrowings	-	-	-	2,000
Provisions	25	49	37	46
Other non current liabilities	3,120	5,072	5,237	6,406
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	1,500
Trade payables	5,781	5,892	7,569	11,866
Other current liabilities	5,276	6,291	6,219	7,398
Total Equity & Liabilities	1,36,560	1,54,726	1,81,446	2,22,240

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	14,835	20,641	33,233	42,842
Add. Depreciation	4,142	4,981	7,205	8,396
Add. Interest	417	538	646	906
Less Financial Other Income	1,962	1,175	1,202	1,526
Add. Other	17,033	(2,911)	(870)	(217)
Op. profit before WC changes	36,425	23,249	40,214	51,927
Net Changes-WC	(37)	(4,132)	(7,917)	(4,346)
Direct tax	(3,843)	(5,717)	(8,508)	(10,968)
Net cash from Op. activities	32,545	13,399	23,790	36,613
Capital expenditures	(18,872)	(24,306)	(19,820)	(30,478)
Interest / Dividend Income	-	-	-	-
Others	91	(30)	24	(4)
Net Cash from Inv. activities	(18,781)	(24,336)	(19,797)	(30,481)
Issue of share cap. / premium	67	64	(64)	-
Debt changes	(37)	-	-	3,500
Dividend paid	-	-	-	(1,619)
Interest paid	(417)	(538)	(646)	(906)
Others	-	(59)	(1)	-
Net cash from Fin. activities	(387)	(533)	(711)	975
Net change in cash	13,377	(11,470)	3,282	7,107
Free Cash Flow	13,673	(10,907)	3,969	6,135

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	17.0	23.0	38.2	49.2
CEPS	23.4	30.7	49.3	62.2
BVPS	188.1	211.1	249.2	295.9
FCF	21.1	(16.8)	6.1	9.5
DPS	-	-	-	2.5
Return Ratio(%)				
RoCE	11.4	15.5	21.9	23.7
ROIC	10.9	13.2	18.7	20.2
RoE	9.4	11.5	16.6	18.1
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	(0.1)
Net Working Capital (Days)	26	26	24	22
Valuation(x)				
PER	249.8	184.0	111.1	86.1
P/B	22.5	20.1	17.0	14.3
P/CEPS	181.5	138.0	86.0	68.2
EV/EBITDA	156.7	109.8	68.7	54.1
EV/Sales	11.3	8.9	6.3	5.0
Dividend Yield (%)	-	-	-	0.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	77,889	92,178	87,865	1,00,381
YoY gr. (%)	46.8	22.2	18.5	93.7
Raw Material Expenses	66,250	77,966	74,721	83,976
Gross Profit	11,640	14,212	13,144	16,405
Margin (%)	14.9	15.4	15.0	16.3
EBITDA	6,686	8,665	7,393	10,082
YoY gr. (%)	102.9	25.7	20.7	349.7
Margin (%)	8.6	9.4	8.4	10.0
Depreciation / Depletion	1,160	1,283	1,463	1,447
EBIT	5,526	7,382	5,930	8,635
Margin (%)	7.1	8.0	6.7	8.6
Net Interest	124	140	166	172
Other Income	275	260	326	291
Profit before Tax	5,677	7,502	6,089	8,754
Margin (%)	7.3	8.1	6.9	8.7
Total Tax	1,499	1,976	1,821	2,325
Effective tax rate (%)	26.4	26.3	29.9	26.6
Profit after Tax	4,178	5,525	4,268	6,429
Minority interest	-	-	(1)	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,178	5,526	4,268	6,429
YoY gr. (%)	110.4	23.6	3.1	574.1
Margin (%)	5.4	6.0	4.9	6.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,178	5,526	4,268	6,429
YoY gr. (%)	110.4	23.6	3.1	574.1
Margin (%)	5.4	6.0	4.9	6.4
Other Comprehensive Income	(26)	(16)	(4)	(13)
Total Comprehensive Income	4,152	5,510	4,264	6,416
Avg. Shares O/s (m)	648	648	648	648
EPS (Rs)	6.4	8.5	6.6	9.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-22	BUY	4,636	3,942
2	07-Jul-22	BUY	4,340	3,851
3	14-May-22	BUY	4,651	3,231
4	08-Apr-22	Accumulate	5,345	4,146
5	10-Jan-22	Accumulate	5,345	4,731
6	06-Jan-22	Accumulate	5,364	4,687
7	16-Oct-21	Accumulate	5,359	5,324
8	06-Oct-21	BUY	4,601	4,219

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	3,942
3	Britannia Industries	UR	-	3,810
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	544
6	Emami	Accumulate	611	452
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	Accumulate	327	308
9	Jubilant FoodWorks	BUY	700	565
10	Kansai Nerolac Paints	Accumulate	558	499
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,721	19,112
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	BUY	2,520	2,014
17	Titan Company	BUY	2,520	2,128
18	Westlife Development	BUY	781	589

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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