

January 14, 2023

## Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>4,675</b>		<b>4,854</b>	
Sales (Rs. m)	5,46,423	6,84,215	5,46,423	6,84,215
% Chng.	-	-	-	-
EBITDA (Rs. m)	47,143	59,406	48,915	61,541
% Chng.	(3.6)	(3.5)	-	-
EPS (Rs.)	45.5	58.9	47.5	61.3
% Chng.	(4.3)	(4.0)	-	-

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	3,09,763	4,35,338	5,46,423	6,84,215
EBITDA (Rs. m)	24,985	37,643	47,143	59,406
Margin (%)	8.1	8.6	8.6	8.7
PAT (Rs. m)	14,923	24,773	29,470	38,126
EPS (Rs.)	23.0	38.2	45.5	58.9
Gr. (%)	35.8	66.0	19.0	29.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	11.5	16.6	16.7	18.1
RoCE (%)	15.5	20.8	22.3	23.9
EV/Sales (x)	8.1	5.7	4.6	3.7
EV/EBITDA (x)	100.0	66.4	53.0	42.1
PE (x)	167.7	101.0	84.9	65.6
P/BV (x)	18.3	15.5	13.1	10.9

### Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.4,609 / Rs.3,185
Sensex / Nifty	60,261 / 17,957
Market Cap	Rs.2,503bn / \$ 30,772m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.1288.4m

### Shareholding Pattern (%)

Promoter's	74.99
Foreign	7.13
Domestic Institution	8.63
Public & Others	9.25
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(6.0)	(0.5)	(9.2)
Relative	(2.4)	(11.6)	(7.7)

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# Avenue Supermarts (DMART IN)

Rating: BUY | CMP: Rs3,864 | TP: Rs4,675

## 3Q margin disappoints, EPS/ Target cut by 4%

### Quick Pointers:

- GM declines 60bps on low throughput in general merchandise and apparel, cost of retail up 50bps YoY
- D'Mart ready expands to 4 new cities, taking total to 22. Starts pilot of Pharmacy shop in shop under Reflect Healthcare and Retail (Subsidiary)

**We cut EPS estimates of D'Mart by 4.2/4.3/4.0% for FY23/24/25 and target price to Rs4675 (Rs4854 earlier) following disappointing margin performance in 3Q23 (106 bps YoY EBITDA margin decline to 8.3%). Mix deterioration due to tepid growth in Apparel and general merchandise impacted margins. Cost of retail also moved up by 50bps YoY as operating leverage failed to benefit in a festival quarter. We believe high inflation has impacted the discretionary spends in 3Q which surprisingly impacted even a deep value retailer like D'Mart. While grocery centric D'Mart Ready ramp up and competition could be other reasons, but we remain confident of the business moat of D'Mart, both in offline and D'Mart ready model.**

**While we cut estimates, our 4Q23 estimates now factor in 28% sales growth, 8% EBITDA margins and 31% PAT growth. Given just 22 store openings in 9M23, we expect addition of 18 stores in 4Q. We estimate 27.8% YoY PAT CAGR over FY23-25 (ex of Rs1407.7mn tax write-back in FY23). We believe D'Mart has a huge runway to grow with 1500+ store potential (current stores 306) in a consolidated market and scale up in D'Mart Ready. Any meaningful correction can be used as a good entry point. Retain Buy.**

**Sales grew by 25.5%; PAT up by 6.7%:** Consol Revenues grew by 25.5% YoY and 8.7% QoQ to Rs115.7bn. Gross margins contracted by 57bps YoY to 14.8% (PLe:15.0%). EBITDA grew by 11.4% YoY to Rs9.7bn (PLe: Rs10.7bn) while margins contracted by 106bps YoY to 8.3%. (PLe:9.2%). Adj PAT grew by 6.7% YoY to Rs5.9bn (PLe: Rs6.8bn). Cost of Retail expanded by 49bps YoY to 6.5%.

**Discretionary non-FMCG continues to remains under stress:** FMCG and staples continued to outperform general merchandise and apparel segments while Discretionary non-FMCG sales did not perform as per expectations. D'Mart added 22 stores in 9MFY23 taking the total store count to 306 with retail business area of 12.6mn sq. ft.

**D'Mart Ready top-line grows at 73.2%:** D'Mart Ready continues to deliver healthy performance. Estimated net subsidiary top-line grew 73.2% YoY and 4.3% QoQ to Rs2.6bn. D'Mart Ready expanded its presence to 22 cities, an addition of 4 cities while deepening its presence in 18 existing cities.

**Pharmacy Shop-in-shop:** D'Mart is in the process of commencing a pharmacy shop-in-shop to complement its brick and mortar business using existing store infrastructure.

**Exhibit 1: Consolidated Revenues grew by 25.5% YoY, EBITDA margins contracted by 106bps YoY**

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
<b>Net Sales</b>	<b>115,691</b>	<b>92,178</b>	<b>25.5</b>	<b>106,383</b>	<b>322,457</b>	<b>221,898</b>	<b>45.3</b>
Gross Profit	17,177	14,212	20.9	16,091	49,675	32,645	52.2
% of NS	14.8	15.4	(0.6)	15.1	15.4	14.7	0.7
<b>Other Expenses</b>	<b>7,525</b>	<b>5,547</b>	<b>35.7</b>	<b>7,171</b>	<b>21,018</b>	<b>15,053</b>	<b>39.6</b>
% of NS	6.5	6.0	0.5	6.7	6.5	6.8	(0.3)
<b>EBITDA</b>	<b>9,653</b>	<b>8,665</b>	<b>11.4</b>	<b>8,920</b>	<b>28,657</b>	<b>17,592</b>	<b>62.9</b>
Margins (%)	8.3	9.4	(1.1)	8.4	8.9	7.9	1.0
Depreciation	1,681	1,283	31.0	1,620	4,748	3,518	35.0
Interest	170	140	21.7	177	519	372	39.6
Other Income	316	260	21.6	356	963	849	13.4
<b>PBT</b>	<b>8,118</b>	<b>7,502</b>	<b>8.2</b>	<b>7,480</b>	<b>24,353</b>	<b>14,552</b>	<b>67.3</b>
Tax	2,221	1,976	12.4	622	5,169	3,896	32.7
Tax rate (%)	27.4	26.3	1.0	8.3	21.2	26.8	(5.5)
<b>Adjusted PAT</b>	<b>5,897</b>	<b>5,526</b>	<b>6.7</b>	<b>6,858</b>	<b>19,186</b>	<b>10,657</b>	<b>80.0</b>

Source: Company, PL

**Exhibit 2: Added 4 stores in 3QFY23; Cost of retail increases by 49bps YoY but reduces 24bps QoQ**

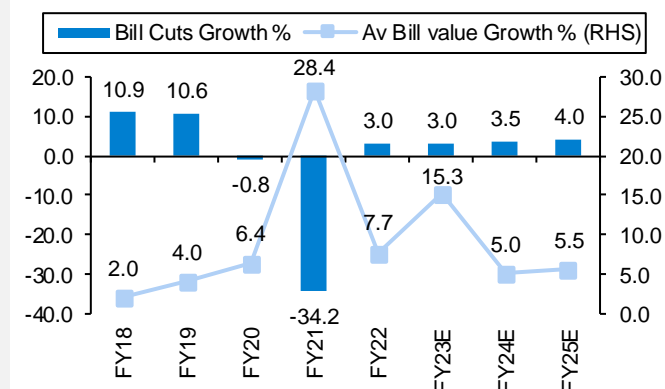
	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
No of Stores	234	238	246	263	284	294	302	306
Area (mn Sq.ft.)	8.8	9.0	9.4	10.3	11.5	12.1	12.4	12.6
Sales/Ft	8280	5585	8138	8801	7484	8105	8375	8972
Gross Profit/Ft	1192	690	1164	1310	1073	1282	1214	1282
EBIDTA/FT	699	246	713	843	645	833	722	773
Cost of retail %	6.5	8.8	6.4	6.0	6.5	6.3	6.7	6.5

Source: Company, PL

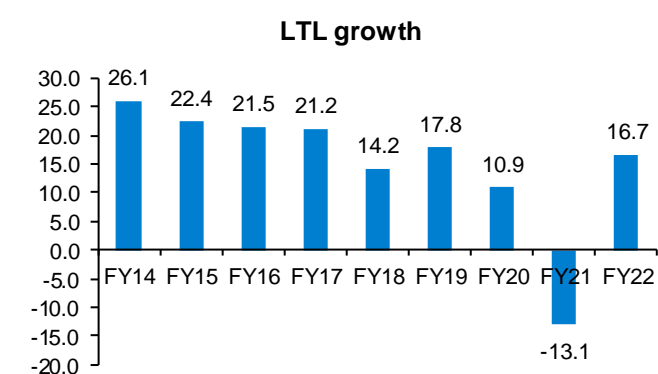
**Exhibit 3: Gross Profit/Ft and EBIDTA/Ft to grow in FY23 due to low base in FY22**

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales/Ft	32,719	35,647	32,879	27,306	27,454	33,327	35,396	38,412
Gross Profit/Ft	4,853	5,091	4,830	4,068	3,982	4,828	5,078	5,474
EBIDTA/FT	2,738	2,768	2,729	1,976	2,173	2,738	2,901	3,168
Capex/Ft	9,664	9,974	10,338	9,586	9,855	10,794	10,883	11,581
Cost of retail %	6.9%	6.9%	6.6%	7.6%	6.7%	6.6%	6.5%	6.3%
Working Cap/Ft	1,723	1,566	1,927	1,708	1,670	1,788	1,669	1,827

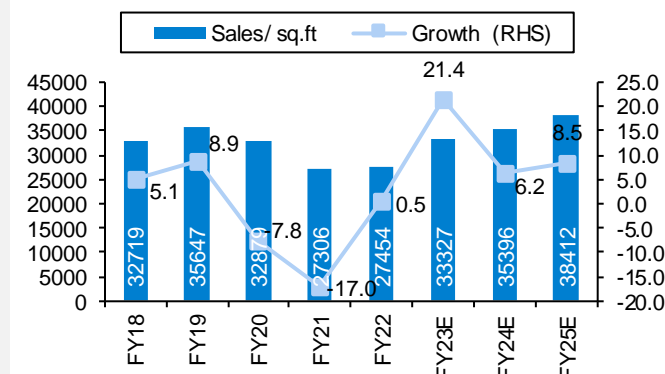
Source: Company, PL

**Exhibit 4: Bill Cut est growth for FY23 at 3%**


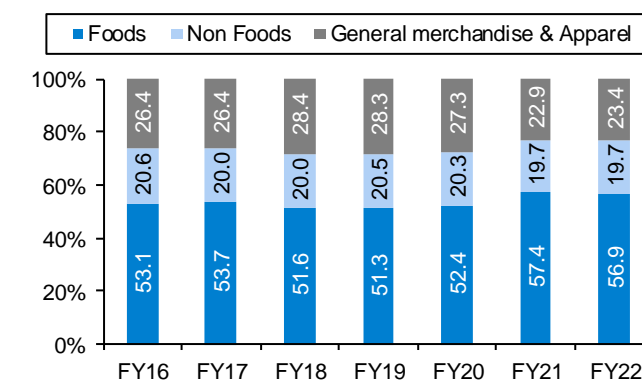
Source: Company, PL

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


Source: Company, PL

**Exhibit 6: Sales/Sq. ft. to reach Rs 38,412 in FY25E**


Source: Company, PL

**Exhibit 7: Foods continue to remain highest contributor**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>3,09,763</b>	<b>4,35,338</b>	<b>5,46,423</b>	<b>6,84,215</b>
YoY gr. (%)	28.3	40.5	25.5	25.2
Cost of Goods Sold	2,63,974	3,68,949	4,63,913	5,81,583
Gross Profit	45,789	66,389	82,510	1,02,632
Margin (%)	14.8	15.3	15.1	15.0
Employee Cost	6,162	7,798	9,754	11,857
Other Expenses	14,642	20,948	25,613	31,369
<b>EBITDA</b>	<b>24,985</b>	<b>37,643</b>	<b>47,143</b>	<b>59,406</b>
YoY gr. (%)	43.3	50.7	25.2	26.0
Margin (%)	8.1	8.6	8.6	8.7
Depreciation and Amortization	4,981	6,621	7,841	9,190
<b>EBIT</b>	<b>20,004</b>	<b>31,022</b>	<b>39,302</b>	<b>50,216</b>
Margin (%)	6.5	7.1	7.2	7.3
Net Interest	538	797	1,038	1,304
Other Income	1,175	1,179	1,346	2,332
<b>Profit Before Tax</b>	<b>20,641</b>	<b>31,404</b>	<b>39,611</b>	<b>51,244</b>
Margin (%)	6.7	7.2	7.2	7.5
Total Tax	5,717	6,632	10,140	13,118
Effective tax rate (%)	27.7	21.1	25.6	25.6
<b>Profit after tax</b>	<b>14,924</b>	<b>24,773</b>	<b>29,470</b>	<b>38,126</b>
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>14,923</b>	<b>24,773</b>	<b>29,470</b>	<b>38,126</b>
YoY gr. (%)	35.8	66.0	19.0	29.4
Margin (%)	4.8	5.7	5.4	5.6
Extra Ord. Income / (Exp)	(50)	-	-	-
<b>Reported PAT</b>	<b>14,872</b>	<b>24,773</b>	<b>29,470</b>	<b>38,126</b>
YoY gr. (%)	35.5	66.6	19.0	29.4
Margin (%)	4.8	5.7	5.4	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14,872	24,773	29,470	38,126
<b>Equity Shares O/s (m)</b>	<b>648</b>	<b>648</b>	<b>648</b>	<b>648</b>
<b>EPS (Rs)</b>	<b>23.0</b>	<b>38.2</b>	<b>45.5</b>	<b>58.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>96,045</b>	<b>1,19,621</b>	<b>1,44,644</b>	<b>1,71,779</b>
Tangibles	95,157	1,18,600	1,43,470	1,70,428
Intangibles	888	1,021	1,174	1,351
<b>Acc: Dep / Amortization</b>	<b>18,114</b>	<b>22,991</b>	<b>28,694</b>	<b>35,323</b>
Tangibles	17,362	22,025	27,481	33,827
Intangibles	752	966	1,213	1,497
<b>Net fixed assets</b>	<b>77,931</b>	<b>96,630</b>	<b>1,15,950</b>	<b>1,36,455</b>
Tangibles	77,795	96,575	1,15,989	1,36,601
Intangibles	136	55	(39)	(146)
Capital Work In Progress	11,293	12,423	13,665	15,032
Goodwill	783	783	783	783
Non-Current Investments	12,627	9,327	15,660	28,673
Net Deferred tax assets	(640)	(923)	(1,279)	(1,741)
Other Non-Current Assets	17,647	21,274	23,833	25,961
<b>Current Assets</b>				
Investments	59	65	72	79
Inventories	27,427	33,037	39,819	49,914
Trade receivables	669	1,193	1,497	1,875
Cash & Bank Balance	2,986	4,380	4,329	1,074
Other Current Assets	2,030	2,615	3,281	4,108
<b>Total Assets</b>	<b>1,54,726</b>	<b>1,83,685</b>	<b>2,21,348</b>	<b>2,67,032</b>
<b>Equity</b>				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,30,299	1,55,071	1,84,542	2,22,667
<b>Total Network</b>	<b>1,36,776</b>	<b>1,61,549</b>	<b>1,91,019</b>	<b>2,29,145</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	49	56	64	75
Other non current liabilities	5,072	6,941	9,040	11,357
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,892	7,491	11,767	14,792
Other current liabilities	6,291	6,718	8,171	9,916
<b>Total Equity &amp; Liabilities</b>	<b>1,54,726</b>	<b>1,83,685</b>	<b>2,21,348</b>	<b>2,67,032</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	20,641	31,404	39,611	51,244
Add. Depreciation	4,981	6,621	7,841	9,190
Add. Interest	538	797	1,038	1,304
Less Financial Other Income	1,175	1,179	1,346	2,332
Add. Other	(2,919)	1,846	(6,428)	(12,352)
Op. profit before WC changes	23,241	40,669	42,061	49,386
Net Changes-WC	(4,132)	(5,391)	(2,524)	(7,150)
Direct tax	(5,717)	(6,632)	(10,140)	(13,118)
<b>Net cash from Op. activities</b>	<b>13,392</b>	<b>28,646</b>	<b>29,397</b>	<b>29,118</b>
Capital expenditures	(24,307)	(26,449)	(28,403)	(31,061)
Interest / Dividend Income	-	-	-	-
Others	(80)	(6)	(7)	(7)
<b>Net Cash from Invt. activities</b>	<b>(24,387)</b>	<b>(26,455)</b>	<b>(28,410)</b>	<b>(31,069)</b>
Issue of share cap. / premium	64	0	-	-
Debt changes	-	-	-	-
Dividend paid	-	-	-	-
Interest paid	(538)	(797)	(1,038)	(1,304)
Others	(2)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(475)</b>	<b>(797)</b>	<b>(1,038)</b>	<b>(1,304)</b>
<b>Net change in cash</b>	<b>(11,470)</b>	<b>1,394</b>	<b>(51)</b>	<b>(3,255)</b>
Free Cash Flow	(10,915)	2,197	993	(1,944)

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	23.0	38.2	45.5	58.9
CEPS	30.7	48.5	57.6	73.0
BVPS	211.1	249.4	294.9	353.7
FCF	(16.8)	3.4	1.5	(3.0)
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	15.5	20.8	22.3	23.9
ROIC	13.2	17.3	18.1	18.9
RoE	11.5	16.6	16.7	18.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Net Working Capital (Days)	26	22	20	20
<b>Valuation(x)</b>				
PER	167.7	101.0	84.9	65.6
P/B	18.3	15.5	13.1	10.9
P/CEPS	125.7	79.7	67.1	52.9
EV/EBITDA	100.0	66.4	53.0	42.1
EV/Sales	8.1	5.7	4.6	3.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

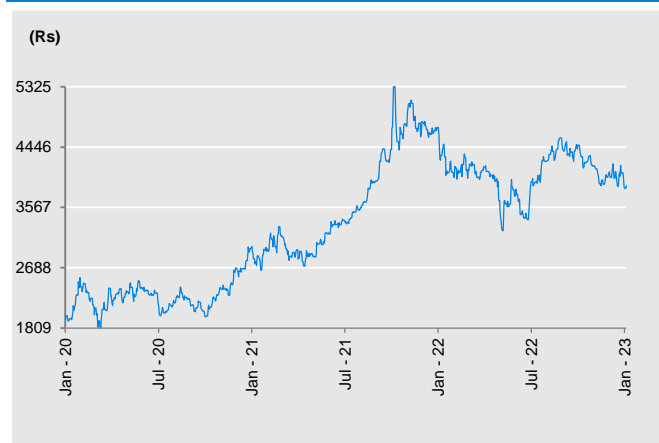
## Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>87,865</b>	<b>1,00,381</b>	<b>1,06,383</b>	<b>1,15,691</b>
YoY gr. (%)	18.5	93.7	36.6	25.5
Raw Material Expenses	74,721	83,976	90,292	98,513
Gross Profit	13,144	16,405	16,091	17,177
Margin (%)	15.0	16.3	15.1	14.8
<b>EBITDA</b>	<b>7,393</b>	<b>10,082</b>	<b>8,920</b>	<b>9,653</b>
YoY gr. (%)	20.7	349.7	33.4	11.4
Margin (%)	8.4	10.0	8.4	8.3
Depreciation / Depletion	1,463	1,447	1,620	1,681
<b>EBIT</b>	<b>5,930</b>	<b>8,635</b>	<b>7,301</b>	<b>7,972</b>
Margin (%)	6.7	8.6	6.9	6.9
Net Interest	166	172	177	170
Other Income	326	291	356	316
<b>Profit before Tax</b>	<b>6,089</b>	<b>8,754</b>	<b>7,480</b>	<b>8,117</b>
Margin (%)	6.9	8.7	7.0	7.0
Total Tax	1,821	2,325	622	2,221
Effective tax rate (%)	29.9	26.6	8.3	27.4
<b>Profit after Tax</b>	<b>4,268</b>	<b>6,429</b>	<b>6,857</b>	<b>5,896</b>
Minority interest	(1)	-	(1)	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4,268</b>	<b>6,429</b>	<b>6,858</b>	<b>5,897</b>
YoY gr. (%)	3.1	574.1	64.1	6.7
Margin (%)	4.9	6.4	6.4	5.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,268</b>	<b>6,429</b>	<b>6,858</b>	<b>5,897</b>
YoY gr. (%)	3.1	574.1	64.1	6.7
Margin (%)	4.9	6.4	6.4	5.1
Other Comprehensive Income	(4)	(13)	(32)	(23)
<b>Total Comprehensive Income</b>	<b>4,264</b>	<b>6,416</b>	<b>6,826</b>	<b>5,874</b>
Avg. Shares O/s (m)	648	648	648	648
<b>EPS (Rs)</b>	<b>6.6</b>	<b>9.9</b>	<b>10.6</b>	<b>9.1</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	4,854	3,843
2	16-Oct-22	BUY	5,121	4,306
3	04-Oct-22	BUY	5,118	4,444
4	30-Sep-22	BUY	5,118	4,387
5	04-Aug-22	BUY	4,636	4,239
6	10-Jul-22	BUY	4,636	3,942
7	07-Jul-22	BUY	4,340	3,851
8	14-May-22	BUY	4,651	3,231
9	08-Apr-22	Accumulate	5,345	4,146

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	2,978
2	Avenue Supermarts	BUY	4,854	3,843
3	Britannia Industries	Hold	4,297	4,359
4	Colgate Palmolive	Hold	1,639	1,517
5	Dabur India	Accumulate	609	553
6	Emami	Accumulate	521	420
7	Hindustan Unilever	Accumulate	2,798	2,580
8	ITC	Accumulate	365	335
9	Jubilant FoodWorks	BUY	610	500
10	Kansai Nerolac Paints	Accumulate	563	419
11	Marico	Hold	531	513
12	Mold-tek Packaging	Hold	940	983
13	Nestle India	Accumulate	20,201	19,890
14	Pidilite Industries	Hold	2,679	2,522
15	Restaurant Brands Asia	Accumulate	156	111
16	Titan Company	Accumulate	2,875	2,538
17	Westlife Foodworld	BUY	854	769

## 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



## **ANALYST CERTIFICATION**

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