

March 21, 2023

Company Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	4,699		4,675	
Sales (Rs. m)	5,46,423	6,84,215	5,46,423	6,84,215
% Chng.	-	-	-	-
EBITDA (Rs. m)	47,143	59,406	47,143	59,406
% Chng.	-	-	-	-
EPS (Rs.)	45.5	58.6	45.5	58.9
% Chng.	-	(0.4)	-	-

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	37,973
EPS (Rs.)	23.0	38.2	45.5	58.6
Gr. (%)	35.8	66.0	19.0	28.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	11.5	16.6	16.7	18.1
RoCE (%)	15.5	20.8	22.3	23.9
EV/Sales (x)	7.0	5.0	4.0	3.2
EV/EBITDA (x)	86.9	57.7	46.0	36.5
PE (x)	145.7	87.8	73.8	57.3
P/BV (x)	15.9	13.5	11.4	9.5

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.4,609 / Rs.3,185
Sensex / Nifty	58,075 / 17,108
Market Cap	Rs.2,175bn/ \$ 26,310m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.1319.11m

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	(4.8)	(22.1)	(18.0)
Relative	(0.5)	(20.2)	(19.1)

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“Ready” for a long drive

Avenue Supermart (DMART IN) has corrected by 27% from 52-week high due to concerns on 1) slow post covid recovery in sales parameters 2) deterioration in sales mix 3) effectiveness of D'Mart to face onslaught of online retail on brick & mortar modern trade and 4) sustainability of growth & profitability metrics. We believe that the deterioration in sales parameters is a result of 3x increase in stores within emerging clusters and 100% increase in number of stores with <2 years' vintage, which will correct over time.

We remain positive on D'Mart Ready as it has increased city presence to 22, reduced delivery time to 1 day with reduction in delivery charges (Flat Rs49 as against 3% earlier). We believe attractive prices and far better consumer proposition than Big Basket (largest online retailer) will enable D'Mart Ready to turn EBITDA positive by FY25 and PAT positive by FY27. We believe D'Mart has a huge growth runway ahead given low probability of heightened competition in modern trade, 1500+ store potential in existing clusters (current stores 306) and fast scale up in D'Mart Ready. We estimate 25% PAT CAGR over FY23-27 and retain 'BUY' with DCF based target price of Rs4699 (Rs4675 earlier).

Slower post covid recovery in sales parameters: D'Mart has seen slow post covid recovery in past 12-24 months. The company reported sales/sq. ft. of Rs35.7k in FY19 which dropped to ~27k in FY21/22. Bills/store is likely to be lower by 31% in FY23 over FY19 levels. Average bill value has increased by 70% from Rs1163 to Rs1973 in FY23, aided by less frequency but larger bill value and also inflation in consumer products. This is partly because number of stores with <2 years' vintage is 90 as against 45 in pre covid times, since it takes ~2 years for stores to mature. Also stores in emerging clusters have increased from 24 pre covid to 71+. We believe these factors are transitory and will even out as we go along.

Channel check - Renewed thrust in Apparel: D'Mart sales mix saw decline in share of General merchandise and apparel from 28.3% pre covid to 23.4% in FY22 (24.8% in 1H23). Our channel check suggests that 1) Grocery segment continues to see increased consumer traction with packed stores given “Everyday Low prices” in inflationary environment 2) Bed, Bath and Utensils shelf space has been reduced for Bed sheets, Towels, Curtains, Blankets and Towels. 3) Apparel and Footwear has been given higher shelf space allocation with considerable increase in merchandise for women, children wear and footwear. We believe these steps will start reflecting in gradual reversal of sales mix.

D'Mart Ready - Getting its act together: D'Mart Ready has expanded to more than 22 cities in 3Q23 from just 5 cities in FY21. The company is finding a right balance with 1) No Free Delivery and flat Rs49 (Earlier 3%) charges for Home delivery and free pick up from D'Mart Ready outlets 2) Delivery time - D'Mart has reduced it to 0-1 days from 2-3 days amid store penetration and improving supply chain, Orders received before 12 pm are delivered on same day in some catchments, while others will get delivered on next day and 3) Zero difference in prices between D'Mart Ready and D'Mart stores. Our analysis suggest that D'Mart remains highly competitive with slight edge over Jio Mart, while it has huge pricing advantage over largest online player Big Basket.

Why is market skeptical on D'Mart

D'Mart stock has corrected by 27% from 52-week high as investors are getting concerned on 1) slower post covid recovery in sales parameters 2) deterioration in sales mix 3) impact of rising online retail on brick and mortar modern trade and 4) sustainability of growth and profitability metrics. We address some of these issues in our analysis which includes multiple channel checks across D'Mart Hypermart and D'Mart Ready along with comparison with other players in MT/online retail.

Slower post covid recovery in sales parameters

D'Mart has seen slower than expected post covid recovery in past 12-24 months. The company reported sales/sq. ft. of Rs35.7k in FY19, which dropped to ~27k in FY21/22 and is yet to reach earlier levels.

- Bills/store and Average Bill Value contrasting:** While absolute bills continue to grow, led by higher sales and store expansion but they are likely to be lower by 31% in FY23 (est 29% decline ex of D'Mart Ready). Average bill value has increased by 59% from Rs1237 in FY20 to Rs1973 in FY23, aided by less frequency but bill value has increased due to inflation in consumer products. While we expected bills/store to increase and average bill value to come down, there seems to be some structural change in the scenario. Bills per store would have grown by 5.7% for 1H23 (Includes D'Mart Ready), we are factoring in 3.7% growth over FY22-27 as against 5.9% over past 5 years pre-covid.

Exhibit 1: Bills/stores is 31% lower than FY19 levels while Avg bill value is higher by 59%

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
D'Mart Bills (mn)	85	109	134	172	201	152	181	237	282	332	388	449
<i>Growth</i>	26.1%	28.1%	23.9%	28.0%	16.9%	-24.4%	19.1%	30.8%	19.2%	17.7%	16.6%	15.9%
Number of Stores	110	131	155	176	214	234	284	329	379	429	481	536
Addition	21	21	24	21	38	20	50	45	50	50	52	55
Bills/Store/Day	2467	2575	2847	2824	1859	1915	1972	2041	2123	2208	2296	2388
<i>Growth</i>	3.9%	5.8%	4.4%	10.6%	-0.8%	-34.2%	3.0%	3.0%	3.5%	4.0%	4.0%	4.0%
Average Bill Value (Rs)	1097	1119	1163	1237	1588	1711	1973	2072	2186	2306	2427	2555
<i>Growth</i>	5.7%	8.2%	2.0%	4.0%	6.4%	28.4%	7.7%	15.3%	5.0%	5.5%	5.5%	5.3%

Source: Company, PL

Exhibit 2: Sales/sq. ft. likely to reach pre covid levels by FY24 only

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Sales/ft.	26388	28136	31120	32719	35647	32879	27306	27454	33327	35396	38412	41686	45175
<i>Growth %</i>	12.7	6.6	10.6	5.1	8.9	-7.8	-17.0	0.5	21.4	6.2	8.5	8.5	8.4
Sales/store	785	863	987	1051	1209	1275	1078	1196	1420	1544	1694	1858	2034
<i>Growth (%)</i>	14.8	9.9	14.5	6.5	15.0	5.5	-15.5	11.0	18.8	8.7	9.7	9.7	9.5

Source: Company, PL

- Accelerated store openings, higher share of non-mature stores:** D'Mart has seen significant addition in store openings from 22 pre-covid to current levels of 35+/yr and has added 18 stores in 1H23. As stores take 2-3 years to reach maturity, the ratio of non-matured stores has risen. The proportion of stores with <3-year vintage is 67% higher and that of <2 years is 111% higher than pre covid levels.

Exhibit 3: Stores with vintage of <3 year and < 2 year are 74% and 111% higher than pre covid levels

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Total Stores	110	131	155	176	214	234	284	329	379	429	481	536
Stores < 3 years	48	56	66	66	83	79	108	115	145	145	152	157
% of Total	43.6	42.7	42.6	37.5	38.8	33.8	38.0	35.0	38.3	33.8	31.6	29.3
Stores < 2 Years	35	42	45	45	59	58	70	95	95	100	102	107
% of Total	31.8	32.1	29.0	25.6	27.6	24.8	24.6	28.9	25.1	23.3	21.2	20.0

Source: Company, PL

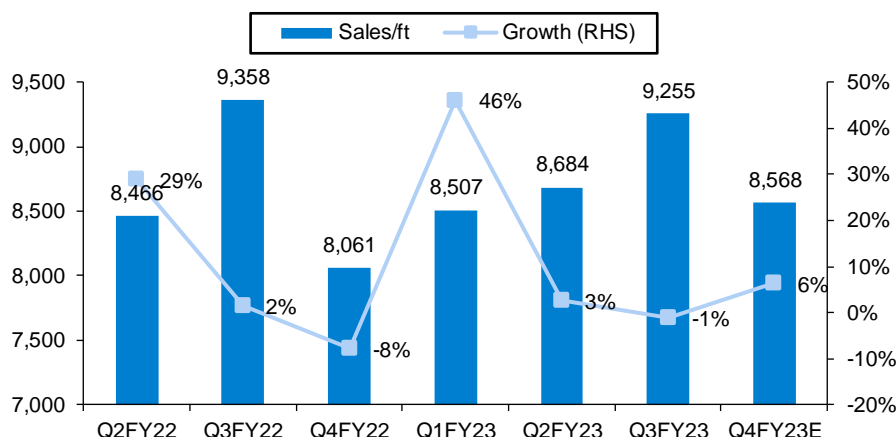
Exhibit 4: Emerging clusters stores are 23.5% of total in 1H23 versus 13.6% pre covid

Stores	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	1HFY23E
Total Stores	89	110	131	155	176	214	234	284	302
Addition	14	21	21	24	21	38	20	50	18
Mature Clusters (Top 5 States)	87	106	120	133	152	174	185	219	231
Addition	12	19	14	13	19	22	11	34	12
<i>% of Total</i>	<i>85.7</i>	<i>90.5</i>	<i>66.7</i>	<i>54.2</i>	<i>90.5</i>	<i>57.9</i>	<i>55.0</i>	<i>68.0</i>	<i>66.7</i>
Total States	7	7	11	12	12	12	12	12	12
Stores in Emerging Clusters	2	4	11	22	24	40	49	65	71
<i>% of Total</i>	<i>2.2</i>	<i>3.6</i>	<i>8.4</i>	<i>14.2</i>	<i>13.6</i>	<i>18.7</i>	<i>20.9</i>	<i>22.9</i>	<i>23.5</i>
Emerging Cluster Addition	2	2	7	11	2	16	9	16	6
<i>% of Total</i>	<i>14.3</i>	<i>9.5</i>	<i>33.3</i>	<i>45.8</i>	<i>9.5</i>	<i>42.1</i>	<i>45.0</i>	<i>32.0</i>	<i>33.3</i>

Source: Company, PL

- **Increased share of emerging clusters:** D'Mart follows cluster based approach as it provides better economies of scale and control over overheads and profitability in a low margin industry.
 - D'Mart has 12 clusters which have 5 mature clusters like Maharashtra, Gujarat, Andhra Pradesh, Telangana and Karnataka. Madhya Pradesh and Tamil Nadu are other scaled up clusters.
 - D'Mart added 5 new clusters (NCR, Punjab, Tamil Nadu, Rajasthan and Daman) during FY16-18, but had just 24 stores in these clusters pre covid. While total number of stores since FY19 have grown from 176 to 302 (1HFY23), number of stores in emerging cluster have grown by 2x from 24 to 71.
 - During this expansion in new clusters D'Mart has gone in many Tier 2/3 cities like Mohali, Mandi Gobindgarh, Surajgarh, Chappadi village, Burhanpur, Rajnandgaon etc. while some of these cities have good purchasing power, but they have low population and their bills cut/store is likely to be at a level than national average.

However, D'Mart has started adding more stores in mature clusters and the proportion is now stabilizing at ~67%. We believe stabilization of store addition in mature clusters will prevent further erosion in bills cuts over coming years. As number of bill cuts is down by a sharp 31%, we are skeptical about full recovery. But we expect sales/ft. to reach earlier levels by FY24, as benefits of past 3 years of expansion, stabilization in new clusters etc. starts paying off.

Exhibit 5: Sales/ft. showed a 1% decline YoY in Q3FY23


Source: Company, PL

Deterioration in sales mix is temporary

D'Mart sales mix chiefly comprises Food, Non-food FMCG and General Merchandise and Apparel. Like all Hypermart, D'Mart has been aiming for increase in sales proportion of General Merchandise and Apparel. D'Mart has seen decline in sales of General Merchandise and Apparel which has impacted GM post covid.

- We have done reverse calculation which suggest that D'Mart made a gross margin of 15.9% in FY18 which coincided with 200bps jump in the share of Gen Merchandise and apparel to 28.4%.
- We estimate that D'Mart makes ~20% GM in General Merchandise and Apparel, 15% in food and 9-9.5% in non- food FMCG. Food and Non-Food FMCG were more than 72% of sales even in best year for General Merchandise. This is due to highly competitive prices as D'Mart follows principle of "everyday low prices".
- Share of Food and Non-Food FMCG increased to 77.1% in FY21 and 76.6% in FY22 (down 50bps) as covid related store restrictions, higher growth in food and grocery centric D'Mart Ready impacted sale of other segments.

Exhibit 6: General Merchandise and Apparel on a comeback?

Sales Mix	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	1H23
Foods	53.3%	52.8%	53.1%	53.7%	51.6%	51.3%	52.4%	57.4%	56.9%	54.8%
Non Foods	21.5%	21.2%	20.6%	20.0%	20.0%	20.5%	20.3%	19.7%	19.7%	20.5%
General Merchandise & Apparel	25.2%	25.9%	26.4%	26.4%	28.4%	28.3%	27.3%	22.9%	23.4%	24.8%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross Margins	14.9%	14.8%	14.9%	15.3%	15.9%	15.0%	15.1%	14.9%	14.8%	15.3%
Foods	15.0%	14.6%	14.6%	15.0%	15.5%	15.0%	15.0%	15.0%	14.9%	15.4%
Non Food	10.0%	9.0%	9.0%	9.5%	9.5%	9.0%	9.0%	9.0%	9.0%	9.5%
General Merchandise & Apparel	19.0%	20.0%	20.0%	20.2%	21.0%	19.5%	19.7%	19.6%	19.5%	20.0%

Source: Company, PL

Channel check - Renewed push for apparel and footwear

Although D’Mart saw an increase in share of General Merchandise and Apparel by 140bps during 1HFY23, 3Q23 saw higher growth in Food and FMCG given peak inflation period and some postponement of purchases by consumers in General Merchandise and Apparel. We conducted channel check in D’Mart stores to gauge store strategy, given this change in sales mix. Following are the takeaways:

- **Grocery** segment continues to see increased consumer traction with packed stores which reinforced our confidence in “Everyday Low Cost – Everyday Low price” strategy of the company.
- **Bed & Bath and Utensils** have seen decline in store area and shelf allocation. This is more so in segments like Bed sheets, Towels, Curtains, Blankets etc. where the number of SKU’s have been reduced.
- **Apparel and Footwear** have seen higher shelf allocation. We noted that area for the same has been increased by 25-30%.
 - There is considerable increase in merchandise for women and children wear. We note that women ethnic wear and children wear are some of the fastest growing categories that offer huge scope for growth.
 - Footwear has also seen higher shelf space. As focus has been on mass segment, we could see Relaxo, Bata, Lotto and a lot of other local/regional brands.

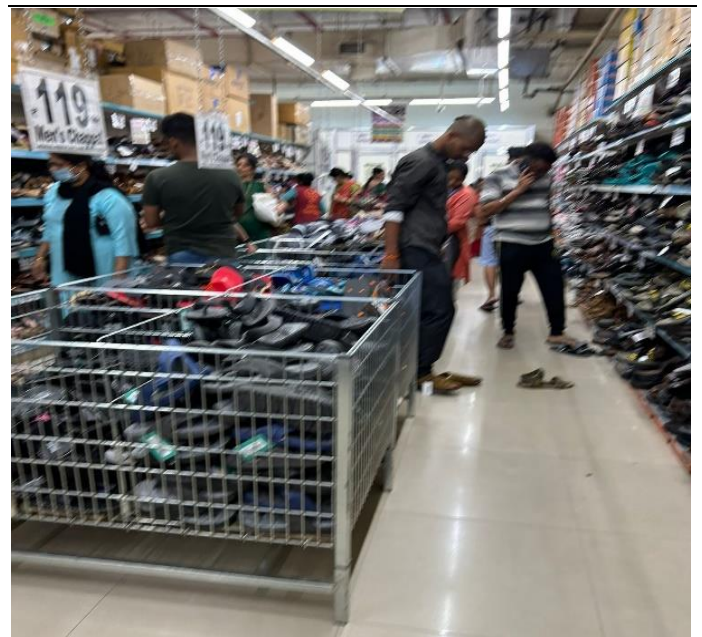
We believe increased focus on Apparel and Footwear in General merchandise will go a long way in improving the sales mix and higher growth and profitability.

Exhibit 7: Women Ethnic wear shelf space up



Source: PL

Exhibit 8: Increased shelf space for Footwear



Source: PL

D'Mart Ready – Getting its act together

D'Mart operates in a highly consolidated industry which has Jio Mart, More, Star Bazaar and a few regional players as key competitors. Modern trade in Food and Grocery retailing is just 7-8% of the total industry and has high entry barriers given focus on value, requirements of tight cost control, supply chain management, high real estate cost, availability and low margins. Given tough competition and high cash burn in initial years, we see low probability of new players entering in brick & mortar food and grocery retailing.

D'Mart has huge scope to increase store numbers

- D'Mart has adopted a cluster based approach in store expansion and has been gradually expanding in various states and geographies. The company has increased its presence from 7 states and 110 stores in 2016 to 12 states and 306 stores in 3QFY23. It increased the number of clusters from 7 in 2016 to 12 in 2018 by entry in Punjab, NCR, Rajasthan, Tamil Nadu and Daman. Number of clusters are stable at 12 since FY18, but the number of stores in emerging clusters expanded from 22 to 71 by FY22.
- D'Mart estimates potentially 1,500 stores (currently 306) in current clusters, given low penetration and high entry barriers. We believe that the actual potential can increase further as D'Mart is not present in many large states and growth in economy will further increase the scope to open more stores.

D'Mart opened its highest ever stores in FY22 (50) and is expected to continue the momentum going ahead with the huge potential that India offers. We note that even if the company adds on an average 60 stores over the next 10 years, it will be just 1000 stores chain, which suggests longevity to growth.

D'Mart Ready – Strong show after a reluctant start

D'Mart has been a reluctant entrant in online retail (D'Mart Ready) given 1) high discounting 2) lack of customer loyalty 3) deep losses and 4) sky high consumer expectations. However, D'Mart Ready has grown into a formidable player as sales of D'Mart Ready have grown from Rs1.4bn in FY19 to Rs16.7bn in FY22. D'Mart first started with D'Mart Ready stores with consumer pick up from stores and later extended it to home delivery format. Sales jump from Rs1.4bn to Rs7.9bn in FY21 and sharp growth during covid enabled D'Mart fine tune its model.

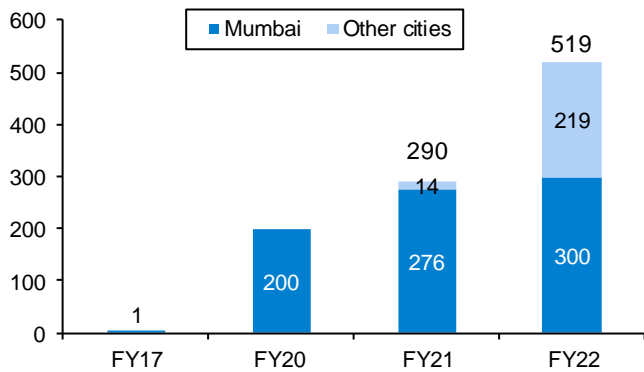
D'Mart Ready has Hub and spoke model

- The company operates D'Mart Ready in cities where the company has stores and infra in place to service online customers. The company typically has one major distribution centres in an area which fulfills all the nearby demand.
- This model aids in managing the costs efficiently and deliver the best price and products to the customers. D'Mart Ready stores are present in low to mid rental real estate catchments. The company is also using D'Mart Ready stores and delivery to cater to premium locations, as higher real estate cost makes it unviable to set up a D'Mart Hypermarket store.

D'Mart Ready expands to 22 cities, faster expansion outside Mumbai

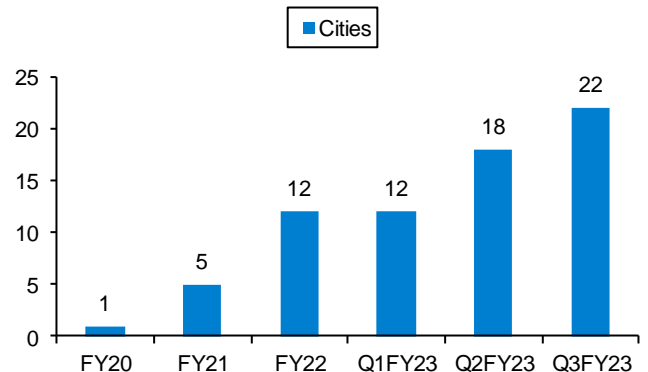
- D'Mart Ready started with 1 city in FY17 in MMR (Mumbai Metropolitan Region) and was only operating in Mumbai and Pune in FY21. By FY20, D'Mart had 200 D'Mart Ready stores and pick up points, which were mainly in Mumbai. By July'21, number of D'Mart Ready stores increased to 290 with 276 being in Mumbai. It scaled upto 519 in Mar'22 with Mumbai accounting for 300 outlets cum delivery points.
- D'Mart expanded to 12 cities by end of FY22 and is currently present in 22 cities. Post 2021, D'Mart Ready expansion has got deeper into Tier2/3 cities with addition ex of Mumbai being 205 ready stores out of addition of 229.

Exhibit 9: D'Mart ready post FY21 non Mumbai Centric



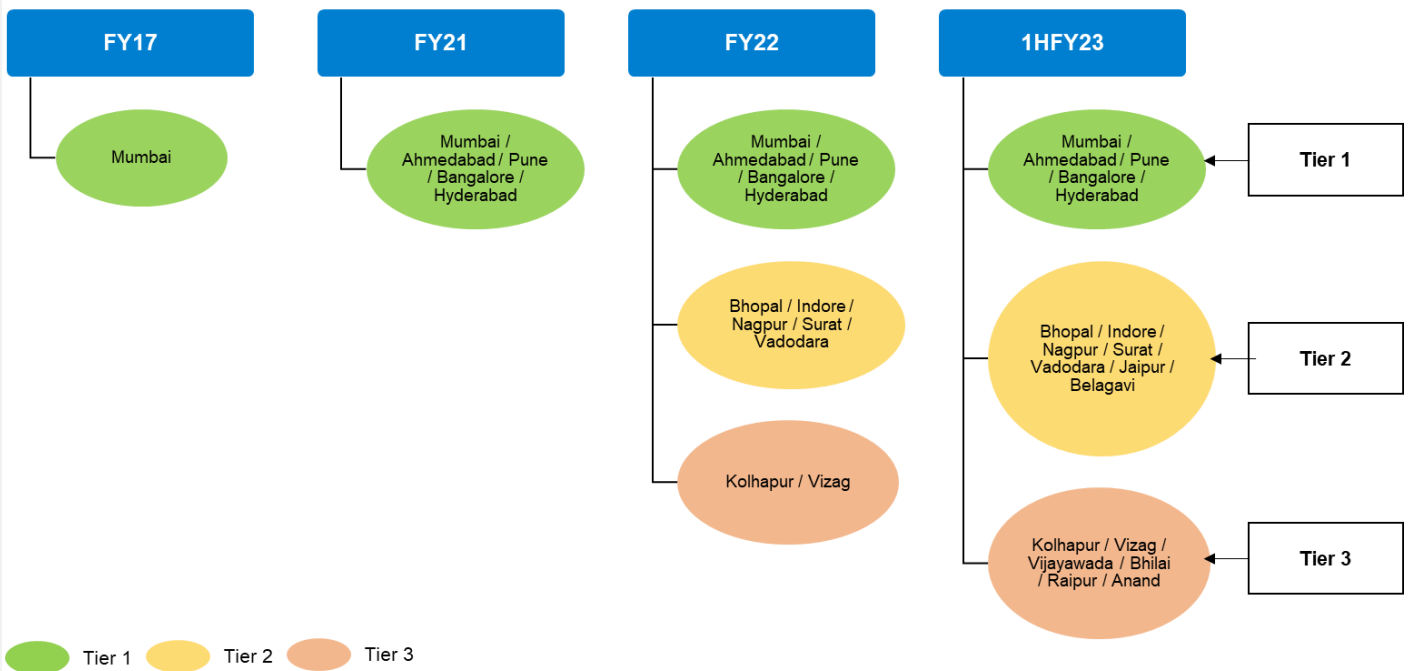
Source: Company, PL

Exhibit 10: Accelerated entry in new cities



Source: Company, PL

Exhibit 11: D'Mart Ready gradually increasing presence in Tier2/3 cities



Source: Company, PL

Competitive parameters, customer service falling in place

D'Mart Ready is clear in its focus to service customers who are looking for bargain deals and not get into instant delivery, free delivery and cash deals which is cash burning and unsustainable in long term.

- The company has not been undertaking even flash sales like Independence Day, Republic day etc. while focusing on proving "Everyday Value".
- It has been gradually improving consumer offers in terms of delivery charges, delivery time, minimum order value and has also started credit card based offers recently.

No Free Delivery: D'Mart Ready started online delivery to stay relevant with increasing competition, however, not at the expense of margins.

- The company started with 3% delivery charge per order. Overtime it changed charges to 3% upto max of Rs49 and now it is Rs49 flat charge.
- This is as against other key online retailers like Big Basket and Jio Mart who offer free delivery on orders above Rs300. However, free store pick-ups from D'Mart Ready stores continue for those who want to avoid delivery fee.

Reduction in delivery time: D'Mart has started setting up dedicated back end distribution centres as it converted 2 stores into DC for D'Mart ready in Mumbai last year. It has been taking steps to improve consumer experience with D'Mart Ready.

- Delivery time for D-mart Ready has reduced to 0-1 days from 2-3 days amid store penetration and improving supply chain.
- Orders received before 12 pm will be delivered on same day, while others will get delivered on next day. This has removed one major disadvantage which D'Mart Ready had over Big Basket and Jio Mart.

Exhibit 12: D'Mart Ready has minimum order along with delivery charges

	D-Mart	Jio Mart	Big Basket	Blinkit
Delivery time	0-1 day	Same day	0-1 day	Same day
Minimum order	Rs. 500	No minimum order	No minimum order	No minimum order
Delivery fees	Rs. 49	Free	Free	Rs 15
Bank offers	Yes	Plenty	Yes	None

Source: Company, PL

- D'Mart Ready has not been giving any credit card/debit card linked schemes in the past like other players who offer plethora of such schemes. However, D'Mart Ready has made small beginning recently with 7% cash back on KMB credit card on orders above Rs4,000. We believe such value based orders can increase the average ticket size and improve competitiveness with other players.

Exhibit 13: D'Mart Ready offered value linked cashback recently



Source: Company, PL

D'Mart Ready channel check – Aiming to crack neighborhood store format

We conducted on ground checks on D'Mart Ready stores in Mumbai.

- D'Mart Ready stores are available in two different sizes, smaller one with around 180 sq. ft. and larger one with around 300 sq. ft.
- Employee size varies from 2-4 depending upon store size.
- Average daily orders are in the range of 33-35, with large stores having average daily orders of 50-55 & small stores having 17-19 orders a day.
- In-store products consist of bedding products, bathing products, utensils, stationary, milk, bread, along with this large size stores include apparel & some electrical appliances.
- Smaller stores have products priced between Rs21-399 and large ones between Rs21-699.
- Stores are located in catchments, which would have reasonable rentals and real estate costs.

Exhibit 14: Average daily orders are 17-55 for Pickup

Particulars	Channel Check	
	Small size store	Large size Store
Size	180 sq. ft.	300 sq. ft.
Employee	2	4
Avg Orders/day	17-19	50-55
In store Products	Bedding products, bathing products, stationary, utensils, milk, bread	Bedding products, bathing products, stationary, utensils, milk, bread, apparels, audio wear, bulbs, dryer
Maximum priced item	Rs 399	Rs 699
Minimum priced item	Rs 21	Rs 21
Property rate per/sq. ft.	Lower Range	Lower Range

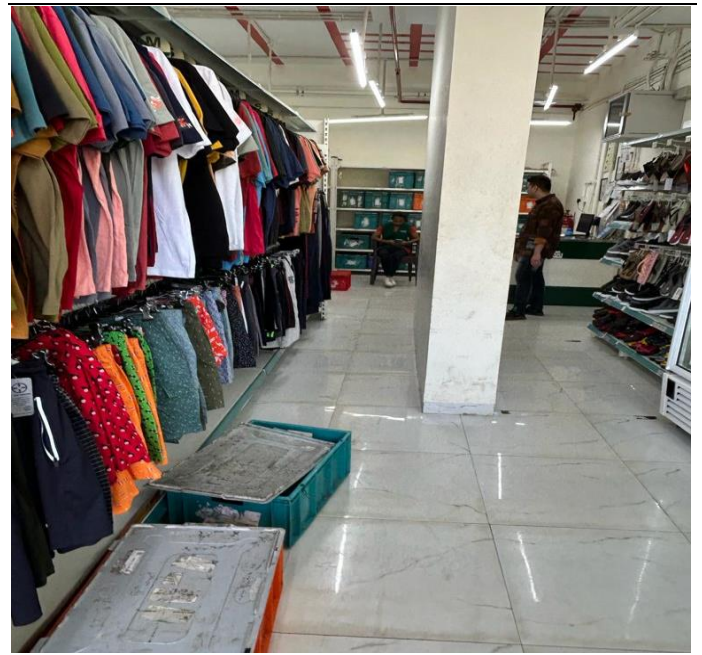
Source: Company, PL

Exhibit 15: Bed linen, bath, utensils, plastic ware etc



Source: Company, PL

Exhibit 16: Large size stores had apparels and footwear too



Source: Company, PL

D'Mart has been aiming at cracking the neighborhood store format which has been Achilles heel for food and grocery industry since failure of Subhiksha. While Jio Mart has been trying to collaborate with nearby stores to enable delivery of merchandise, D'Mart is following a hybrid model of pick up cum select merchandise sales. However, we note that D'Mart Ready pick up stores are moving slowly towards a fair mix of General Merchandise and Apparel which will go a long way in improving financials of this business over coming few years.

“Everyday low Prices” sustain competitive edge

D'Mart follows an “Everyday low pricing model” which has enabled the company to remain competitive at all times. Importance of this model increases in current times of high consumer inflation with need to conserve resources and find bargain deals. Efficient sourcing and inventory management system enables it to pass on cost savings to consumers in form of discounts.

We analyzed prices across some key categories from D'Mart, Jio Mart and Big Basket. **Personal Care** - D'Mart Prices are lower or at par with prices of key products in Jio Mart, while price gap with Big Basket has been higher. **Home Care** – very little price gap between Jio mart and D'Mart. However, prices are significantly lower in D'Mart than Big Basket. **Food, Beverage and Grocery** - D'Mart Ready has huge competitive advantage over Big Basket.

Exhibit 17: Personal and Home care – D'Mart remains price competitive in most products

	Volume	MRP	D'Mart Ready	Jio Mart	D'Mart/Jio	Big Basket	D'Mart/Big Basket
Personal Care & Hygiene							
Lux soap	4*150 gm	330	255	242	5.4%	297	-14%
Glow and lovely cream	110 gm	246	199	206	-3.4%	NA	0%
Parachute coconut oil	300 ml	115	100	100	0.0%	109	-8%
Sunsilk Shampoo	650 ml	645	369	369	0.0%	548	-32%
Colgate strong	200 gm	120	108	111	-2.7%	99	9%
Dettol Handwash	200 ml	99	92	92	0.0%	79	16%
Lifebuoy Handwash	750 ml	199	NA	189	NA	190	0%
Home care							
Ariel detergent (Top load)	1 kg	290	280	NA	NA	290	-3%
Surf Excel liquid detergent	2 L	430	320	320	0%	371	-14%
Freshwrapp	72 mtr	650	479	500	-4%	650	-26%
Vim bar	200 gm * 3	65	59	57	4%	58.5	1%
Lizol	2 L	399	359	359	0%	387.03	-7%

Source: Company, PL

Exhibit 18: Food, Beverages and Grocery – D'Mart has huge advantage over Big Basket

Particulars	Volume	MRP	D'Mart Ready	Jio Mart	D'Mart/Jio	Big Basket	D'Mart/Big Basket
Dairy							
Amul Butter	500 gm	275	265	265	0.0%	275	-4%
Amul cheese slices	100 gm	75	73	73	0.0%	78	-6%
Amul Taaza toned milk	1 L	72	68	69	-1%	72	-6%
Amul fresh cream	1 litre	215	199	197	1%	215	-7%
Packaged food							
Britannia Goodday	600 gms	130	99	99	0.0%	117	-15%
Parle hide and seek	100 gms	30	27	27	0.0%	25.5	6%
Lays	90 gm	50	33	42	-21.4%	41	-20%
Maggi	560 gm	109	90	90	0.0%	109	-17%
Beverages							
Tata Tea	1 kg	550	440	440	0.0%	506	-13%
Horlicks Chocolate Delight	500 gm	249	189	195	-3.1%	249	-24%
Grocery							
Fortune sunflower oil	1 L	189	144	144	0.0%	148	-2.7%
Saffola gold oil	5 L	1170	1069	999	7.0%	1010	5.8%
Borges extra light olive oil	2 L	2600	1250	1450	-13.8%	1,480	-15.5%
Gowardhan ghee	1 L	775	720	775	-7.1%	775	-7.1%
Aashirvaad atta	10 kgs	551	469	469	0.0%	480	-2.3%
India gate basmati rice-classic	1 kgs	218	181	185	-2.2%	215	-15.8%
Dawaat super Basmati rice	5 kgs	970	645	639	0.9%	788	-18.1%
Tata salt	1 kg	28	25	25	0.0%	28	-10.7%

Source: Company, PL

D'Mart Ready - Will Online retail make money?

Online retail falls in the category of new age businesses, which don't have history of profitable operations and generation of cash flows. While fine tuning of D'Mart Ready and last 2-3 years of growth gives assurance regarding scalability, investors have concerns on long term profitability given losses of other competing online retailers in India and elsewhere.

- D'Mart Ready is currently 4.9% of consolidated sales and we expect the same to increase to ~10% by FY27.
- D'Mart Ready GM has improved by 190bps since FY20, but it will remain lower than GM of consolidated business. This will happen as the share of lower margin Food and Grocery will be higher and that of General Merchandise and Apparel will be lower than company average.
- We estimate that D'Mart Ready will drag GM by 20bps in FY23 and this will gradually come down to around 12-14bps, as share of non-food and grocery increases from current level.
- We estimate D'Mart Ready to achieve EBIDTA margins of 1.5% by FY27, which will give a margin drag of 76bps as against 60bps in FY22.
- D'Mart Ready will provide scale and absolute increase in profitability; it will broadly cap the consolidated margins of D'Mart.

Exhibit 19: D'Mart Ready drag on GM likely to peak out by FY23

Gross Margin	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
D'Mart Ready GM	10.3%	13.0%	12.2%	12.0%	13.0%	13.3%	13.5%	13.8%
D'Mart Consol GM	15.2%	14.9%	14.8%	15.3%	15.1%	15.0%	14.9%	14.8%
D'Mart net GM	15.2%	15.0%	15.0%	15.5%	15.3%	15.2%	15.1%	14.9%
Impact of D'Mart Ready	-0.07%	-0.06%	-0.15%	-0.20%	-0.16%	-0.15%	-0.14%	-0.12%

Source: Company, PL

Exhibit 20: D'Mart Ready to scale upto ~10% of sales by FY27, EBIDTA margin drag to move up gradually

EBITDA Impact	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
D'Mart EBITDA	21284	17431	24985	37643	47143	59406	73983	90983
D'Mart Ready EBITDA	-410	-294	-396	-560	-218	198	1011	2035
D'Mart Net EBITDA	21694	17724	25381	38203	47361	59208	72972	88948
D'Mart Consol EBITDA margin	8.6%	7.2%	8.1%	8.7%	8.6%	8.7%	8.8%	8.8%
D'Mart Ready EBITDA %	-1.1%	-0.8%	-0.9%	-0.9%	-0.3%	0.2%	0.9%	1.5%
D'Mart net EBITDA Margin	8.9%	7.6%	8.7%	9.3%	9.3%	9.4%	9.5%	9.6%
Impact of D'Mart Ready	-0.29%	-0.37%	-0.60%	-0.67%	-0.68%	-0.72%	-0.74%	-0.76%
D'Mart Ready % of sales	1.3	3.0	4.9	5.7	6.9	7.9	9.0	9.9

Source: Company, PL

- Comparison of available financials (Media reports) of Big Basket, largest online retailer with D'Mart Ready suggests that:
 - Big Basket has significantly higher gross margins which is partially explained by higher product prices.
 - We also don't rule out superior sales mix with higher proportion of General Merchandise, given longer operating history of Big Basket.

- D'Mart Ready has lower losses at lower loss margin versus Big Basket despite Big Basket having 4x scale which should give better economies of scale.
- Big Basket seems to have higher capex and operating costs as it has higher losses despite significantly higher gross margins than D'Mart Ready.
- Big Basket also operates BB Now (Instant Grocery) and BB Daily which have increased Food and Grocery throughput.
- Big Basket has operationalized much large number of dark stores in key locations, which act as a feeder points and enable low cost delivery.

Exhibit 21: Big Basket has higher operating costs than D'Mart Ready

FY22 (Rs mn)	Big Basket	D'Mart Ready
No of cities	37	12
Sales	71,190	16,672
COGS	58,073	14,631
Gross Profit	13,117	2,042
Gross Margins	18.4%	12.2%
PAT	-8,130	-1,421
PAT Margin	-11.4%	-8.5%

Source: Company, PL

- We anticipate topline from D'Mart Ready to more than triple by FY25 and the business to turn EBITDA positive as well by FY25. We estimate that D'Mart Ready will turn PAT positive by FY27.

Exhibit 22: D'Mart Ready – Fast scale up likely to enable EBIDTA turnaround by FY25 and PAT by FY27

D'Mart Ready	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Sales	12	441	1436	3540	7913	16672	25008	37512	54393	76150	102802
% Growth	0%	3559%	225%	147%	124%	111%	50%	50%	45%	40%	35%
Gross Profit	0	33	158	363	1031	2042	3001	4877	7207	10280	14135
Gross Margin	0.0%	7.4%	11.0%	10.3%	13.0%	12.2%	12.0%	13.0%	13.3%	13.5%	13.8%
EBIDTA	-161	-379	-404	-410	-294	-396	-560	-218	198	1011	2035
EBIDTA Margin	-1330.5%	-85.8%	-28.1%	-11.6%	-3.7%	-2.4%	-2.2%	-0.6%	0.4%	1.3%	2.0%
Adj PAT	-219	-481	-508	-797	-806	-1421	-1689	-1462	-1171	-496	376
PAT Margin	-1812.1%	-108.9%	-35.4%	-22.5%	-10.2%	-8.5%	-6.8%	-3.9%	-2.2%	-0.7%	0.4%

Source: Company, PL

D'Mart to bounce back, 25.0% PAT CAGR over FY23-27

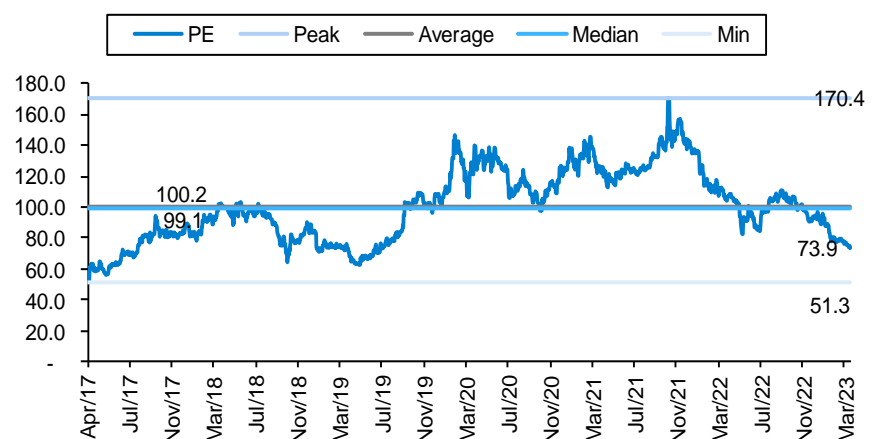
- While D'Mart has seen pressure on sales/store YoY in 3Q due to delay in bounce back in General Merchandise sales post covid and some demand slowdown due to high inflation, we believe this is a temporary situation.
- We expect D'Mart to benefit from ~50% store expansion during last 3 years, as the stores achieve maturity in the coming year.
- Our channel check suggests strong demand for food and grocery in D'Mart Stores. We believe that increase in allocation for Apparel (More in kids and women ethnic wear) and footwear also enable bounce back in General Merchandise and Apparel sales.

- Inflation is positive for D'Mart, 1) it aids in increasing bill value and topline; 2) with everyday low prices, it attracts more customers who are looking for bargain deals.
- Hence, in a high inflationary environment, D'Mart stands to gain share not only from other modern trade stores but also from traditional unorganized stores not able to cope with the rising inflation.
- We expect a revenue CAGR of 24% over FY23-27 with EBIDTA and PAT growth of 24.7% and 25.0%. We expect D'Mart to turn FCF positive in FY23 with steady increase in FCF.

Exhibit 23: D'Mart to sustain 25.0% PAT CAGR over FY23-27

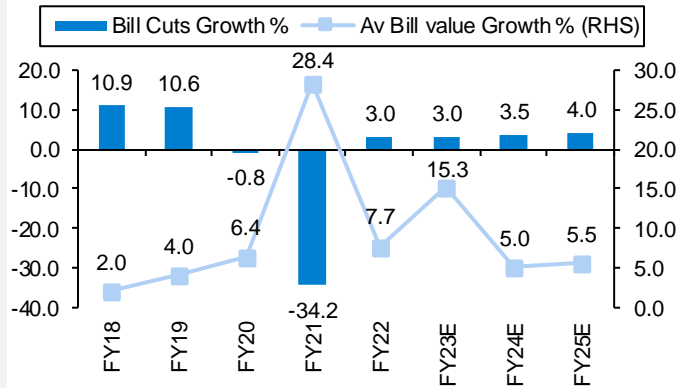
D'Mart Consolidated	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Sales	248702	241431	309763	435338	546423	684215	845490	1034293
% Growth	24.3%	-2.9%	28.3%	40.5%	25.5%	25.2%	23.6%	22.3%
Gross Profit	37673	35884	45789	66389	82510	102632	125978	153075
Gross Margin	15.1%	14.9%	14.8%	15.3%	15.1%	15.0%	14.9%	14.8%
EBIDTA	21284	17431	24985	37643	47143	59406	73983	90983
EBIDTA Margin	8.6%	7.2%	8.1%	8.6%	8.6%	8.7%	8.8%	8.8%
Adj PAT	13011	10992	14926	24773	29470	37973	48240	60573
PAT Margin	5.2%	4.6%	4.8%	5.7%	5.4%	5.5%	5.7%	5.9%
PAT Growth	44.2%	-15.5%	35.8%	66.0%	19.0%	28.9%	27.0%	25.6%
EPS	20	17	23	38	45	59	74	94
ROE	15.6%	9.4%	11.5%	16.6%	16.7%	18.1%	19.3%	20.5%
FCF	-5413	-3342	-6491	3345	12705	17318	27813	38379
Net Cash/Debt	32306	25549	15613	13707	19989	29593	41801	59773

Source: Company, PL

Exhibit 24: Multiples expensive but moving below average


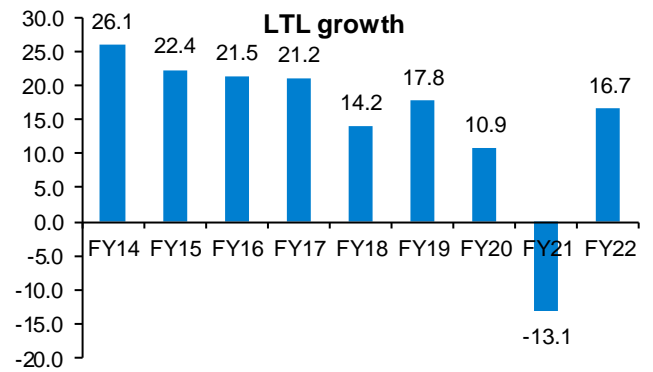
Source: Company, PL

Exhibit 25: Bill Cuts growth for FY23 at 15.3%



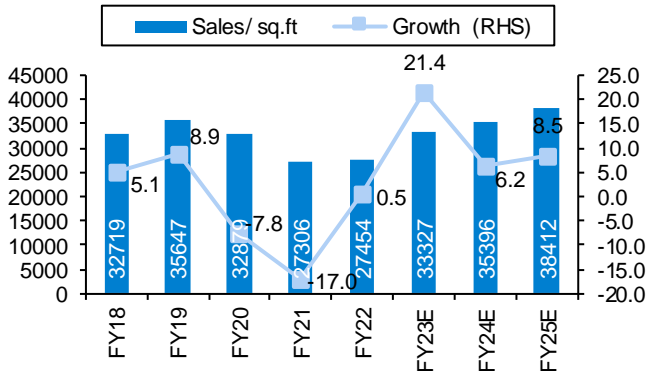
Source: Company, PL

Exhibit 26: LTL growth improved sharply to 16.7% in FY22



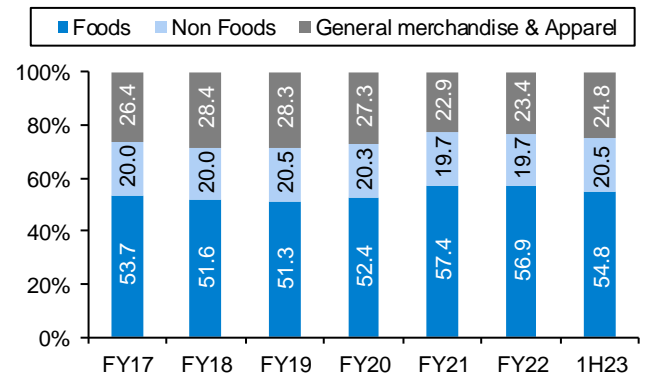
Source: Company, PL

Exhibit 27: Sales/sq. ft. to reach Rs35.4k in FY24E



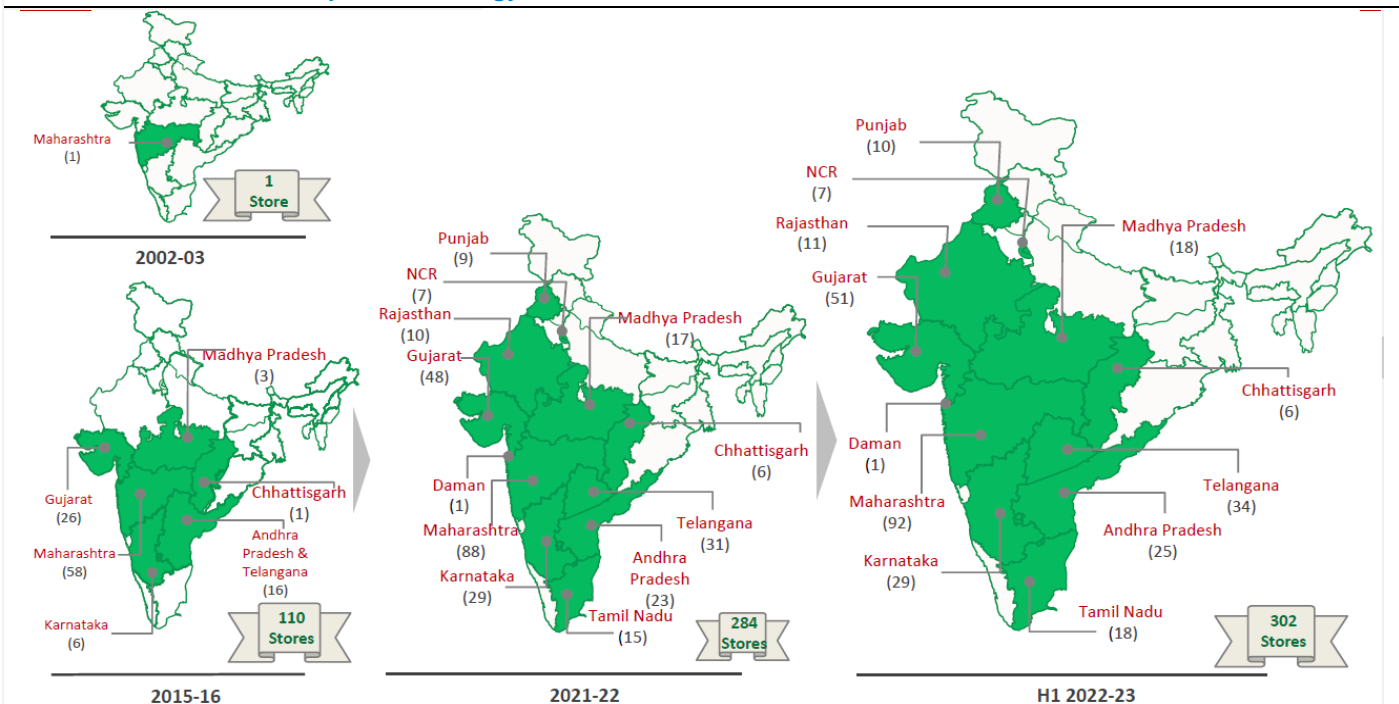
Source: Company, PL

Exhibit 28: Foods continue to remain highest contributor



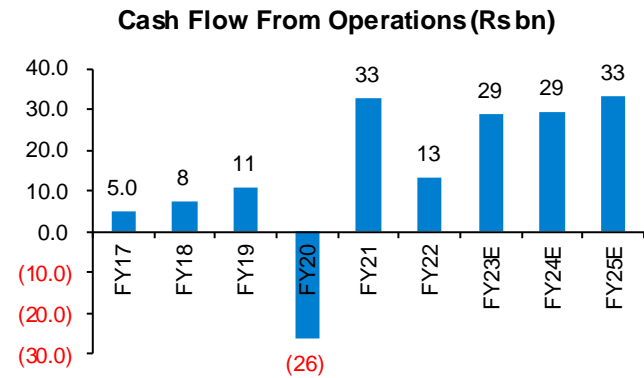
Source: Company, PL

Exhibit 29: Cluster based expansion strategy continues – Broad based Addition across clusters



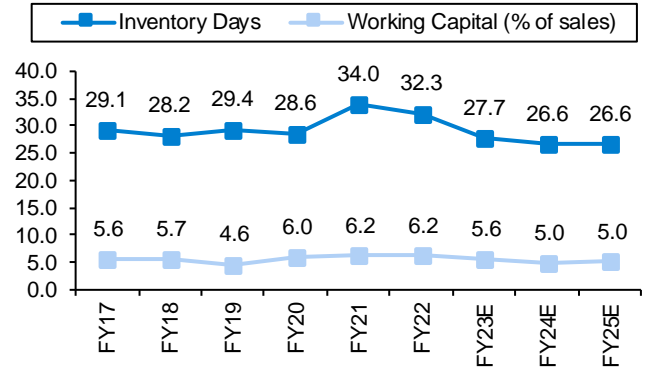
Source: Company, PL

Exhibit 30: CFO to grow by >150% over next 3 years



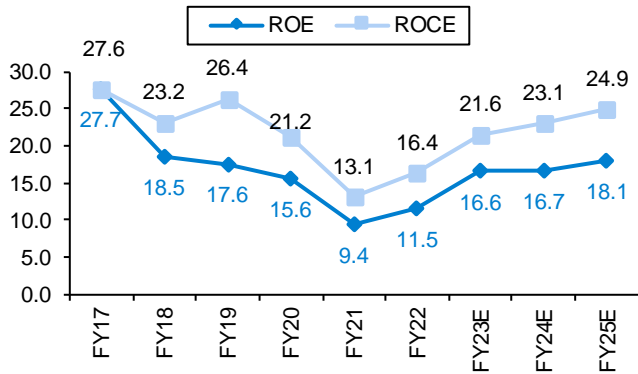
Source: Company, PL

Exhibit 31: Inventory days have started normalizing



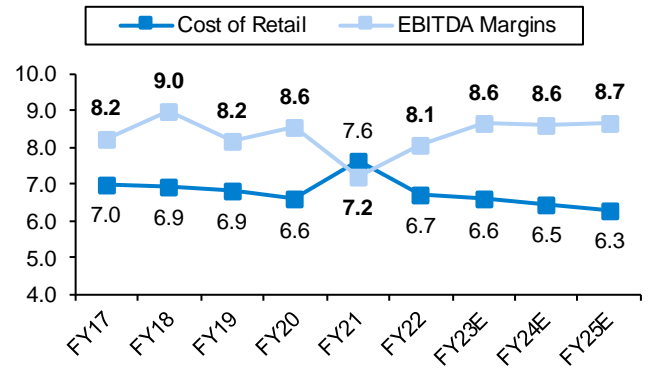
Source: Company, PL

Exhibit 32: ROCE/ ROE to improve steadily over FY23-25



Source: Company, PL

Exhibit 33: EBIDTA margins range bound, COR to soften



Source: Company, PL

Exhibit 34: D'Mart continues store expansion in emerging clusters

Patti Mehna Bathinda

Bathinda, Punjab



Nunna Krishna

Vijayawada, Andhra Pradesh



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	3,09,763	4,35,338	5,46,423	6,84,215
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
EBITDA	24,985	37,643	47,143	59,406
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
EBIT	20,004	31,022	39,302	50,216
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	2,126
Profit Before Tax	20,641	31,404	39,611	51,039
Margin (%)	6.7	7.2	7.2	7.5
Total Tax	5,717	6,632	10,140	13,066
Effective tax rate (%)	27.7	21.1	25.6	25.6
Profit after tax	14,924	24,773	29,470	37,973
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	14,923	24,773	29,470	37,973
YoY gr. (%)	35.8	66.0	19.0	28.9
Margin (%)	4.8	5.7	5.4	5.5
Extra Ord. Income / (Exp)	(50)	-	-	-
Reported PAT	14,872	24,773	29,470	37,973
YoY gr. (%)	35.5	66.6	19.0	28.9
Margin (%)	4.8	5.7	5.4	5.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14,872	24,773	29,470	37,973
Equity Shares O/s (m)	648	648	648	648
EPS (Rs)	23.0	38.2	45.5	58.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	96,045	1,19,621	1,44,644	1,71,779
Tangibles	95,157	1,18,600	1,43,470	1,70,428
Intangibles	888	1,021	1,174	1,351
Acc: Dep / Amortization	18,114	22,991	28,694	35,323
Tangibles	17,362	22,025	27,481	33,827
Intangibles	752	966	1,213	1,497
Net fixed assets	77,931	96,630	1,15,950	1,36,455
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	24,568
Net Deferred tax assets	(640)	(923)	(1,279)	(1,739)
Other Non-Current Assets	17,647	21,274	23,833	25,961
Current Assets				
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	5,025
Other Current Assets	2,030	2,615	3,281	4,108
Total Assets	1,54,726	1,83,685	2,21,348	2,66,877
Equity				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,30,299	1,55,071	1,84,542	2,22,515
Total Network	1,36,776	1,61,549	1,91,019	2,28,992
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	49	56	64	75
Other non current liabilities	5,072	6,941	9,040	11,357
Current Liabilities				
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
Total Equity & Liabilities	1,54,726	1,83,685	2,21,348	2,66,877

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	20,641	31,404	39,611	51,039
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	2,126
Add. Other	(2,919)	1,846	(6,428)	(8,248)
Op. profit before WC changes	23,241	40,669	42,061	53,284
Net Changes-WC	(4,132)	(5,391)	(2,524)	(7,150)
Direct tax	(5,717)	(6,632)	(10,140)	(13,066)
Net cash from Op. activities	13,392	28,646	29,397	33,068
Capital expenditures	(24,307)	(26,449)	(28,403)	(31,061)
Interest / Dividend Income	-	-	-	-
Others	(80)	(6)	(7)	(7)
Net Cash from Inv. activities	(24,387)	(26,455)	(28,410)	(31,069)
Issue of share cap. / premium	64	0	-	-
Debt changes	-	-	-	-
Dividend paid	-	-	-	-
Interest paid	(538)	(797)	(1,038)	(1,304)
Others	(2)	-	-	-
Net cash from Fin. activities	(475)	(797)	(1,038)	(1,304)
Net change in cash	(11,470)	1,394	(51)	696
Free Cash Flow	(10,915)	2,197	993	2,007

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	87,865	1,00,381	1,06,383	1,15,691
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
EBITDA	7,393	10,082	8,920	9,653
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
EBIT	5,930	8,635	7,301	7,972
Margin (%)	6.7	8.6	6.9	6.9
Net Interest	166	172	177	170
Other Income	326	291	356	316
Profit before Tax	6,089	8,754	7,480	8,117
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
Profit after Tax	4,268	6,429	6,857	5,896
Minority interest	(1)	-	(1)	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,268	6,429	6,858	5,897
YoY gr. (%)	3.1	574.1	64.1	6.7
Margin (%)	4.9	6.4	6.4	5.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,268	6,429	6,858	5,897
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)
Total Comprehensive Income	4,264	6,416	6,826	5,874
Avg. Shares O/s (m)	648	648	648	648
EPS (Rs)	6.6	9.9	10.6	9.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	23.0	38.2	45.5	58.6
CEPS	30.7	48.5	57.6	72.8
BVPS	211.1	249.4	294.9	353.5
FCF	(16.8)	3.4	1.5	3.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	15.5	20.8	22.3	23.9
ROIC	13.2	17.3	18.1	19.2
RoE	11.5	16.6	16.7	18.1
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Net Working Capital (Days)	26	22	20	20
Valuation(x)				
PER	145.7	87.8	73.8	57.3
P/B	15.9	13.5	11.4	9.5
P/CEPS	109.3	69.3	58.3	46.1
EV/EBITDA	86.9	57.7	46.0	36.5
EV/Sales	7.0	5.0	4.0	3.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Jan-23	BUY	4,675	3,864
2	06-Jan-23	BUY	4,854	3,843
3	16-Oct-22	BUY	5,121	4,306
4	04-Oct-22	BUY	5,118	4,444
5	30-Sep-22	BUY	5,118	4,387
6	04-Aug-22	BUY	4,636	4,239
7	10-Jul-22	BUY	4,636	3,942
8	07-Jul-22	BUY	4,340	3,851
9	14-May-22	BUY	4,651	3,231
10	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	3,150	2,866
2	Avenue Supermarts	BUY	4,675	3,864
3	Britannia Industries	Hold	4,580	4,573
4	Colgate Palmolive	Hold	1,578	1,459
5	Dabur India	Accumulate	609	554
6	Emami	Accumulate	516	420
7	Hindustan Unilever	Accumulate	2,800	2,650
8	ITC	Accumulate	438	381
9	Jubilant FoodWorks	BUY	567	456
10	Kansai Nerolac Paints	Accumulate	485	416
11	Marico	Hold	532	494
12	Mold-tek Packaging	UR	-	1,063
13	Nestle India	Accumulate	21,021	19,629
14	Pidilite Industries	Hold	2,500	2,315
15	Restaurant Brands Asia	Accumulate	145	107
16	Titan Company	BUY	2,905	2,308
17	Westlife Foodworld	BUY	852	681

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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