

# Avenue Supermarts

## Profitability continues to disappoint

Revenue grew by 18.1% (four-year CAGR: 19.0%). Sales density remains sub-par vis-a-vis the pre-pandemic level (~INR34.2k/sq ft in Q1FY24 vs INR36.7k/sq ft in Q1FY20; in-line). Lower discretionary purchases vs pre-pandemic levels (general merchandise's contribution trending towards pre-pandemic times though) kept underlying profitability/unit economics weak. Consequently, gross margin pressures continued (14.6%; -125bps YoY; vs HSIE: 15.0%) and EBITDAM declined -133bps YoY to 8.9% (HSIE: 9.6%). Cost and capital allocation discipline remain top-notch. We reduce our EPS estimates by ~5% for FY24 and 3% each for FY25/26 to account for lower sales density and GMs and retain SELL, with a DCF-based TP of INR3,200/sh, implying 55x Sep-25 P/E.

- Q1FY24 highlights:** Revenue grew 18.1% to INR115.8bn (four-year CAGR: 19.0%). Revenue/EBITDA per sq ft came in at INR34.2k/3.06k per sq ft (93/81% of pre-pandemic base). Management highlighted that while general merchandise is inching towards pre-pandemic levels, overall discretionary purchases remain lower and continue to impact the margins. Gross margin came in at 14.6% (-125bps YoY; vs HSIE: 15.0%). EBITDAM at 8.9% was 133bps lower YoY; HSIE: 9.6%. EBITDA growth came in at 2.8% (INR10.37bn vs HSIE: INR 11.11bn). The company added three stores in Q1 (store count: 327). APAT grew 2.3% YoY to INR 6.95bn (7% lower than HSIE's INR7.48bn).
- Outlook:** DMART's margin pressures are likely to remain over the short term as more alternatives (especially in value fashion) have kept apparel sales low. We reduce our EPS estimates (-5.1/-2.8/-2.8% for FY24/25/26 resp) to account for that and maintain our SELL rating on DMART, with a DCF-based TP of INR 3,200/sh (earlier INR3,250/sh), implying 55x Sep-25 P/E (consolidated).

### Quarterly financial summary

(Rs mn)	1Q FY24	1Q FY23	YoY (%)	4Q FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	1,15,844	98,069	18.1	1,03,371	12.1	3,03,525	4,18,333	5,01,768	6,03,343	7,12,331
EBITDA	10,365	10,079	2.8	7,822	32.5	23,552	34,853	44,331	54,265	64,611
APAT	6,954	6,796	2.3	5,052	37.6	16,160	25,564	29,739	36,890	44,311
EPS (Rs)	10.7	10.5	1.8	7.79	37.1	24.9	39.4	45.9	56.9	68.4
P/E (x)						153.0	96.8	83.2	67.1	55.9
EV/EBITDA(x)						104.4	70.5	55.2	44.9	37.5
Core RoCE(%)						13.2	17.2	17.7	19.3	20.3

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	5,01,768	5,08,414	(1.3)	6,03,343	6,06,060	(0.4)	7,12,331	7,17,129	(0.7)
Gross Profit	73,519	75,387	(2.5)	89,533	90,533	(1.1)	1,06,085	1,07,144	(1.0)
Gross Profit Margin (%)	14.7	14.8	(18 bps)	14.8	14.9	(10 bps)	14.9	14.9	(5 bps)
EBITDA	44,331	46,503	(4.7)	54,265	55,706	(2.6)	64,611	66,329	(2.6)
EBITDA margin (%)	8.8	9.1	(31 bps)	9.0	9.2	(20 bps)	9.1	9.2	(18 bps)
APAT	29,739	31,351	(5.1)	36,890	37,943	(2.8)	44,311	45,571	(2.8)
APAT margin (%)	5.9	6.2	(24 bps)	6.1	6.3	(15 bps)	6.2	6.4	(13 bps)
EPS (Rs)	45.9	48.4	(5.1)	56.9	58.5	(2.8)	68.4	70.3	(2.8)

Source: Company, HSIE Research

**SELL**

CMP(as on 14 Jul 2023)	INR 3,839
Target Price	INR 3,200
NIFTY	19,565
KEY CHANGES	OLD
Rating	SELL
Price Target	INR 3,200
EPS %	FY25E
	FY26E
	-2.8
	-2.8

### KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	651
MCap (INR bn) / (\$ mn)	2,498/30,545
6m avg traded value (INR mn)	1,264
52 Week high / low	INR 4,609/3,292

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.6	(0.6)	(2.2)
Relative (%)	0.3	(10.3)	(25.9)

### SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	74.99	74.93
FIs & Local MFs	6.4	6.75
FPIs	8.63	8.18
Public & Others	9.98	10.14
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares, Jun-23 shareholding not filed yet

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