

15 October 2023

India | Equity Research | Q2FY24 result update

Avenue Supermarts

Consumer Staples & Discretionary

déjà vu

DMart's performance continues to be unimpressive. Revenue growth appears to have been permanently marked down to ~20% CAGR since last two years. LFL growth at 9% in 1HFY24 is healthy but largely driven by outperformance in foods (21% YoY), followed by non-food (19% YoY), while GM and apparel remain weak (11% YoY). We believe the apparel segment (margin accretive) would be a long-gestation turnaround ([report](#)). Consequently, operating profit margin remained under stress. Retail expansion rate has been healthy, but a bulk of store addition (73% of FY24E) is likely in 2H. Geographical expansion continues to be conservative; in 1HFY24, it added ~50% stores only in the top-3 states (vs 42% during FY18-22). That said, we reckon DMart is a platform business, and the downside of this underperformance (in apparels) is limited, while all other strengths of the company remain intact. **HOLD**.

Decent revenue print driven by outperformance in Foods

Revenue / EBITDA / recurring PBT grew 19% / 12% / 12% YoY, respectively. PAT declined 10% YoY to INR 6.6bn due to one-off tax benefit in the base quarter. Retail space grew 12% YoY, while revenue throughput (TTM sales per sq. ft.) remained flat at INR 34,627. We believe this is due to (1) under-recovery in general merchandise and apparel (23% of revenue); grew the slowest (at 11% YoY in 1HFY24) compared to food (21% YoY 1HFY24) and non-food (19% YoY 1HFY24) segments; (2) large size (~45,000-50,000+ sqft) stores added by DMART during FY19-23 (now 63% of total retail area). DMart Ready continued to scale up well with 25% YoY revenue growth, while net loss % declined to 11% (vs 18% in 2QFY23). DMART ready is now available in 22 cities (vs 12 cities in FY22).

On track retail expansion

DMart added 9 stores in the quarter (12 in 1HFY24), taking its total store count to 336 (13.9mn sq. ft.). We expect DMART to add 45 stores p.a. during FY24-25E, implying retail expansion rate at 13-15% YoY. Average size of new stores stands at ~44,444 sq. ft. compared to overall average of 41,369 sq. ft.

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Market Data

Market Cap (INR)	2,561bn
Market Cap (USD)	30,762mn
Bloomberg Code	DMART IN
Reuters Code	AVEU BO
52-week Range (INR)	4,399 / 3,292
Free Float (%)	23.0
ADTV-3M (mn) (USD)	16.8

Price Performance (%)	3m	6m	12m
Absolute	3.0	12.4	(8.7)
Relative to Sensex	1.6	1.7	(26.0)

ESG Disclosure	2021	2022	Change
ESG score	31.8	31.8	-
Environment	2.4	2.4	-
Social	14.1	14.1	-
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.4	0.8
EBITDA	-5.1	-2.3
EPS	-5.6	-1.2

Previous Reports

16-07-2023: [Q1FY24 results review](#)

13-07-2023: [Company update](#)

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	3,03,525	4,18,333	5,03,486	6,14,237
EBITDA	25,015	36,594	42,211	53,200
EBITDA Margin (%)	8.2	8.7	8.4	8.7
Net Profit	16,162	25,564	28,331	35,972
EPS (Rs)	24.9	39.4	43.7	55.5
EPS % Chg YoY	38.7	58.1	10.8	27.0
P/E (x)	157.8	99.8	90.1	70.9
EV/EBITDA (x)	101.6	69.1	59.8	47.3
RoCE (%)	11.8	16.2	15.1	16.3
RoE (%)	12.3	16.8	15.8	17.2

Profitability impacted by weak mix

Gross margin contracted ~53bps YoY to 14%. As highlighted above, a relatively weak mix continued to impact the gross margin print. EBITDA margin was also weak at 8.1% (-48bps YoY). EBITDA and PBT grew 12%/12% YoY. Net profit margin stood at healthy 5.4% (company's long-term guidance is 5-6% – average NPM during FY17-19 stood at 4.7%).

Valuation and risks

We have cut our earnings estimates for FY24E / FY25E by 6%/1%; modelling revenue / EBITDA / PAT CAGR of 21% / 21% / 19% over FY23-25E. We maintain HOLD with a DCF-based revised target price of Rs4,000 (was Rs3,700 earlier). Key downside risks are higher-than-expected competitive intensity in food and non-food segments, slower turnaround of e-commerce operation. Key upside risk is significant improvement the recovery of general merchandise and apparel.

Exhibit 1: Q2FY24 result review (standalone)

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Store count (nos)	336	302	34	327	9	336	302	34.0
Retail space (mn sqft)	13.9	12.4	12	13.5	3	13.9	12.4	12.1
Sales throughput (TTM sales / sqft)	34,627	34,673	(0)	34,071	2	34,627	34,673	(0.1)
Net Revenues	1,23,077	1,03,847	19	1,15,844	6	2,38,922	2,01,916	18.3
COGS	(1,05,887)	(88,798)	19	(98,972)	7	(2,04,859)	(1,71,357)	19.6
Gross Profit	17,190	15,049	14	16,873	2	34,063	30,558	11.5
Staff cost	(1,956)	(1,630)	20	(1,775)	10	(3,731)	(3,198)	16.7
Other opex	(5,217)	(4,470)	17	(4,733)	10	(9,949)	(8,333)	19.4
Total expenditure	(1,13,060)	(94,898)	19	(1,05,480)	7	(2,18,539)	(1,82,888)	19.5
EBITDA	10,018	8,949	12	10,365	(3)	20,382	19,028	7.1
Other income	456	438	4	468	(2)	924	807	14.6
Finance cost	(117)	(118)	(1)	(110)		(227)	(234)	(3.2)
D&A	(1,509)	(1,365)	11	(1,406)	7	(2,915)	(2,599)	12.2
PBT	8,848	7,904	12	9,317	(5)	18,165	17,002	6.8
Tax	(2,263)	(599)		(2,363)		(4,626)	(2,900)	
Adj. PAT	6,585	7,305	(10)	6,954	(5)	13,539	14,101	(4.0)
EPS	10.2	11.3	(10)	10.7	(5)	20.9	21.8	(4.0)
% of revenues								
COGS	86.0	85.5	52 bps	85.4	59 bps	85.7	84.9	87 bps
Gross margin	14.0	14.5	-53 bps	14.6	-60 bps	14.3	15.1	-88 bps
Staff cost	1.6	1.6	1 bps	1.5	5 bps	1.6	1.6	-3 bps
Other opex	4.2	4.3	-7 bps	4.1	15 bps	4.2	4.1	3 bps
EBITDA margin	8.1	8.6	-48 bps	8.9	-81 bps	8.5	9.4	-90 bps
Income tax rate (% of PBT)	25.6	7.6	1799 bps	25.4	20 bps	25.5	17.1	840 bps

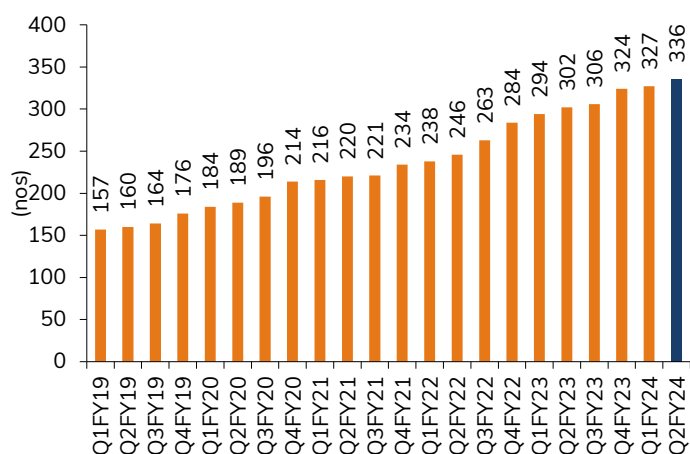
Source: Company data, I-Sec research

Exhibit 2: Q2FY24 subsidiary (primarily e-commerce)

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Net revenues	3,167	2,537	25	2,810	13	5,977	4,849	23
Gross Profit	1,336	1,043	28	1,149	16	2,485	1,938	28
EBITDA	32	(29)	(212)	(12)	(369)	20	(25)	(180)
PBT	(329)	(424)	(22)	(344)	(4)	(673)	(768)	(12)
Adj. PAT	(352)	(448)	(21)	(367)	(4)	(718)	(815)	(12)
% of revenues								
Gross margin	42.2	41.1	108 bps	40.9	129 bps	41.6	40.0	160 bps
EBITDA margin	1.0	-1.1	213 bps	-0.4	143 bps	0.3	-0.5	85 bps

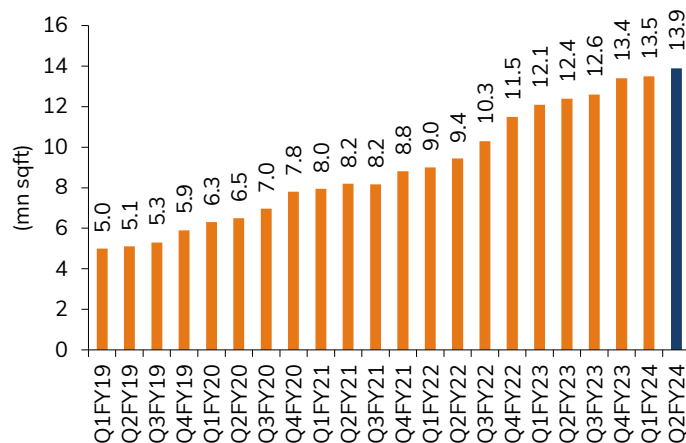
Source: Company data, I-Sec research

Exhibit 3: Store network



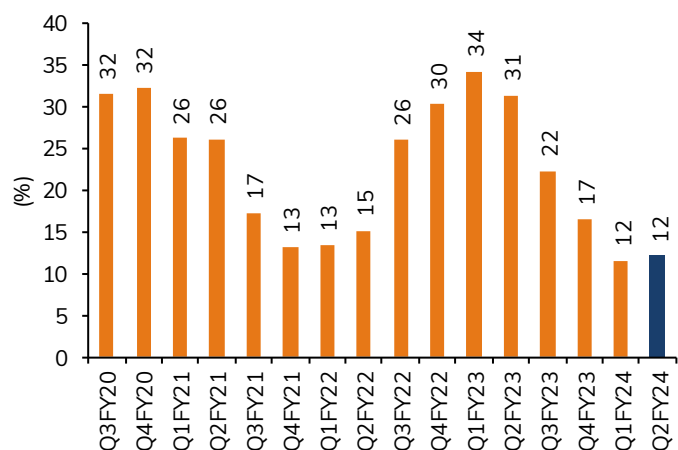
Source: Company data, I-Sec research

Exhibit 4: Retail space



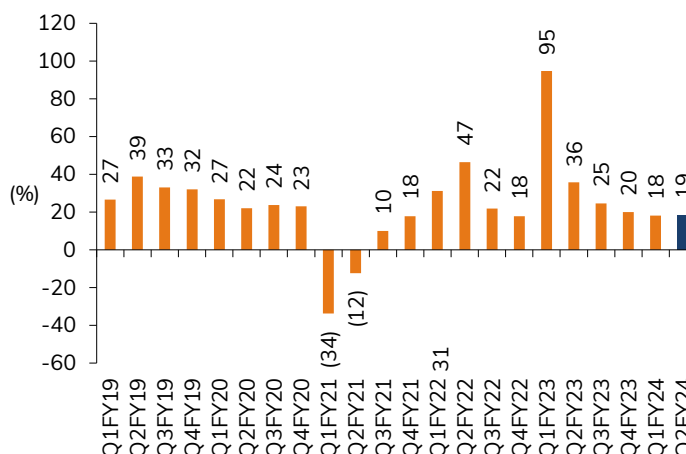
Source: Company data, I-Sec research

Exhibit 5: Retail space growth



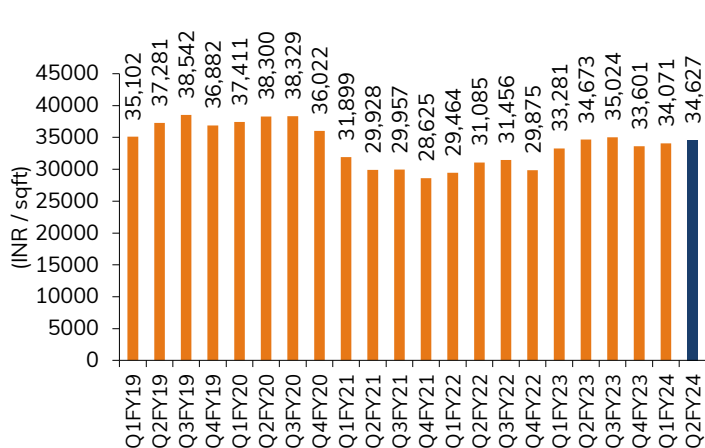
Source: Company data, I-Sec research

Exhibit 6: Revenue growth (YoY)



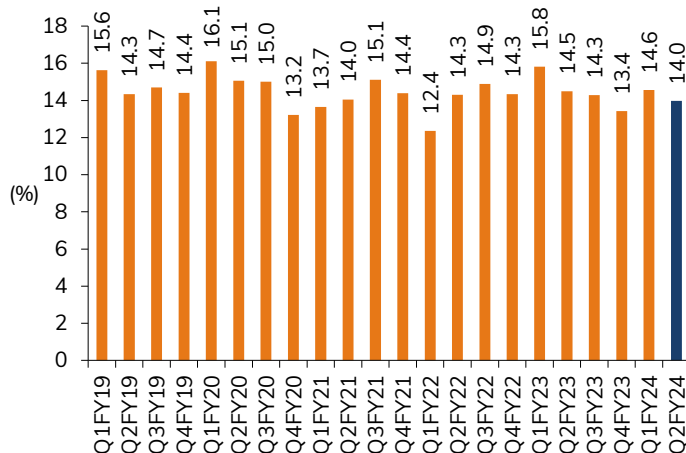
Source: Company data, I-Sec research

Exhibit 7: Revenue throughput (TTM revenue / sqft)

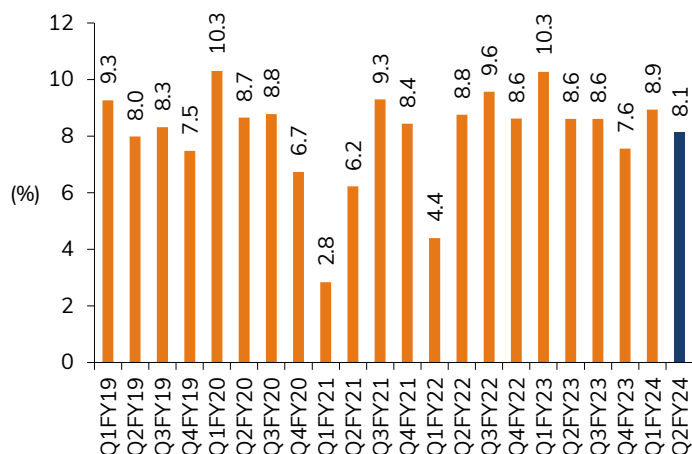


Source: Company data, I-Sec research

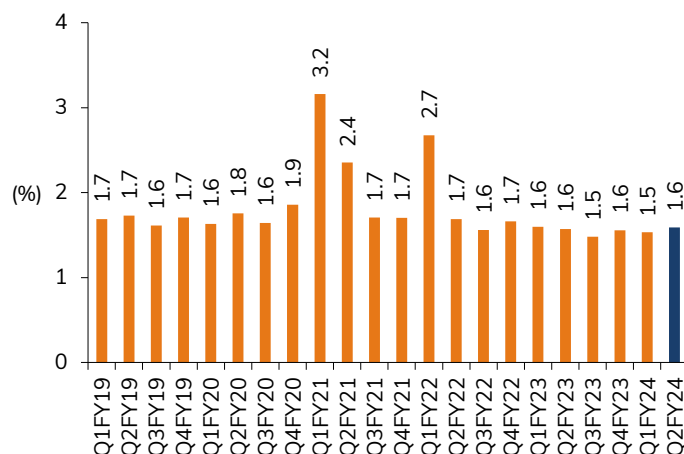
Exhibit 8: Gross margin



Source: Company data, I-Sec research

Exhibit 9: EBITDA margin


Source: Company data, I-Sec research

Exhibit 10: Staff cost as a % of sales


Source: Company data, I-Sec research

Exhibit 11: 1-yr forward PE band


Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	74.9	74.7	74.7
Institutional investors	15.8	16.0	16.0
MFs and others	6.8	6.9	7.3
FIs/Banks	0.1	0.1	0.3
Insurance	0.4	0.5	0.6
FIIIs	8.5	8.5	7.7
Others	9.3	9.3	9.4

Source: Bloomberg

Exhibit 13: Price chart


Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	3,03,525	4,18,333	5,03,486	6,14,237
Operating Expenses	17,983	23,986	28,183	33,908
EBITDA	25,015	36,594	42,211	53,200
EBITDA Margin (%)	8.2	8.7	8.4	8.7
Depreciation & Amortization	4,211	5,433	6,171	7,731
EBIT	20,805	31,161	36,040	45,469
Interest expenditure	396	481	485	485
Other Non-operating Income	1,409	1,631	2,220	2,980
Recurring PBT	21,817	32,312	37,775	47,963
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,656	6,748	9,444	11,991
PAT	16,162	25,564	28,331	35,972
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	16,162	25,564	28,331	35,972
Net Income (Adjusted)	16,162	25,564	28,331	35,972

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	31,021	46,750	58,163	74,648
of which cash & cash eqv.	2,843	13,728	17,746	25,425
Total Current Liabilities & Provisions	9,991	12,231	14,652	17,790
Net Current Assets	21,030	34,519	43,511	56,858
Investments	6,284	10,554	10,554	10,554
Net Fixed Assets	75,861	94,744	1,12,197	1,29,129
ROU Assets	11,465	12,836	12,836	12,836
Capital Work-in-Progress	10,731	8,289	8,289	8,289
Total Intangible Assets	-	-	-	-
Long Term Loans & Advances	18,670	9,112	10,967	13,379
Deferred Tax assets	-	-	-	-
Total Assets	1,44,049	1,70,205	1,98,536	2,31,268
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	648	785	785	785
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	6,478	6,483	6,483	6,483
Reserves & Surplus	1,32,763	1,58,543	1,86,874	2,19,605
Total Net Worth	1,39,241	1,65,025	1,93,357	2,26,088
Minority Interest	-	-	-	-
Total Liabilities	1,44,049	1,70,205	1,98,536	2,31,268

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-22	Jun-23	Sep-23
Net Sales	1,13,046	1,03,371	1,15,844	1,23,077
% growth (YOY)	24.7	20.1	18.1	18.5
EBITDA	9,745	7,822	10,365	10,018
Margin %	8.6	7.6	8.9	8.1
Other Income	405	419	468	456
Extraordinaries	-	-	-	-
Adjusted Net Profit	6,411	5,052	6,954	6,585

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	13,152	26,780	25,907	33,089
Working Capital Changes	(3,137)	1,469	(2,424)	(2,884)
Capital Commitments	(24,117)	(23,714)	(23,624)	(24,663)
Free Cashflow	37,269	50,494	49,531	57,752
Other investing cashflow	11,196	(707)	1,034	371
Cashflow from Investing Activities	(12,922)	(24,422)	(22,590)	(24,293)
Issue of Share Capital	-	155	-	-
Interest Cost	(12)	(4)	(485)	(485)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	(3,241)
Others	-	-	-	-
Cash flow from Financing Activities	(1,208)	(1,324)	(485)	(3,727)
Chg. in Cash & Bank balance	(977)	1,034	2,832	5,070
Closing cash & balance	1,866	14,762	20,578	30,495

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	24.9	39.4	43.7	55.5
Adjusted EPS (Diluted)	24.9	39.4	43.7	55.5
Cash EPS	31.4	47.8	53.2	67.4
Dividend per share (DPS)	-	-	-	5.0
Book Value per share (BV)	215.0	254.6	298.3	348.8
Dividend Payout (%)	-	-	-	9.0
Growth (%)				
Net Sales	27.6	37.8	20.4	22.0
EBITDA	43.6	46.3	15.3	26.0
EPS (INR)	38.7	58.1	10.8	27.0
Valuation Ratios (x)				
P/E	157.8	99.8	90.1	70.9
P/CEPS	125.1	82.3	74.0	58.4
P/BV	18.3	15.5	13.2	11.3
EV / EBITDA	101.6	69.1	59.8	47.3
P / Sales	8.4	6.1	5.1	4.2
Dividend Yield (%)	-	-	-	0.1
Operating Ratios				
Gross Profit Margins (%)	14.2	14.5	14.0	14.2
EBITDA Margins (%)	8.2	8.7	8.4	8.7
Effective Tax Rate (%)	25.9	20.9	25.0	25.0
Net Profit Margins (%)	5.3	6.1	5.6	5.9
Net Debt / Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.4)	(0.7)	(0.7)	(0.7)
Fixed Asset Turnover (x)	3.8	4.2	4.1	4.2
Working Capital Days	25	21	20	21
Inventory Turnover Days	36	35	33	32
Receivables Days	3	3	3	3
Payables Days	7	8	7	7
Profitability Ratios				
RoCE (%)	11.8	16.2	15.1	16.3
RoE (%)	12.3	16.8	15.8	17.2
RoIC (%)	12.5	17.1	16.0	17.3

Source Company data, I-Sec research

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