

HSIE Results Daily

Contents

Results Review

- **Avenue Supermarts:** D-MART finally hits the growth phase (after a disappointing 1HFY21). The grocer clocked a healthy 10% topline growth (HSIE: 8.5%). While gross margin delivery was strong (15.1% vs HSIE: 14.8%), its underpinnings remain weak (on the back of lower discounting in staples). Non-essential sales remain weak. EBITDAM expanded 52/256bp YoY/QoQ to 9.3% courtesy strong cost control. (HSIE: 9%). While we increase our FY22/23 EPS estimates by 5-6% resp. to account for marginally higher revenue/sq. ft, we downgrade the stock to Sell (Earlier Reduce) as the recent run-up leaves no room for an investment case (DCF-based TP: 2,160/sh – implying 34x FY23 EV/EBITDA + 2x FY23 sales for e-comm business).

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Avenue Supermarts

Finally hits growth!

D-MART finally hits the growth phase (after a disappointing 1HFY21). The grocer clocked a healthy 10% topline growth (HSIE: 8.5%). While gross margin delivery was strong (15.1% vs HSIE: 14.8%), its underpinnings remain weak (on the back of lower discounting in staples). Non-essential sales remain weak. EBITDAM expanded 52/256bp YoY/QoQ to 9.3% courtesy strong cost control. (HSIE: 9%). While we increase our FY22/23 EPS estimates by 5-6% resp. to account for marginally higher revenue/sq. ft, we downgrade the stock to Sell (Earlier Reduce) as the recent run-up leaves no room for an investment case (DCF-based TP: 2,160/sh – implying 34x FY23 EV/EBITDA + 2x FY23 sales for e-comm business).

- 3QFY21 highlights:** Revenue grew 10.1% to Rs. 74.3bn (HSIE: Rs.73.3bn) as footfalls continued to recover from the wrath of COVID-19. While GM expanded to 11/189bp YoY/QoQ to 15.1% (HSIE: 14.8%), its underpinnings remain weak. We suspect lower discounting levels in staples (200-400bp lower) continue to cushion the adverse margin impact of lower non-essential sales. Management, too, highlighted that recovery in OOH categories remains weak. EBITDAM expanded 52/256bp YoY/QoQ to 9.3%, courtesy strong cost control (HSIE: 9%). DMART added 1 store in 3Q (now: 221 stores). >=2-year-old stores (162) have hit 96% of Dec-19 sales. Non-FMCG supplies remain inconsistent and RM prices are also inching up; hence, inferior sales mix and margin pressure can't be ruled out in the near term.
- Outlook:** While DMART remains best-placed within the peer set to carve out a recovery, it's still not out of the woods. An extended slump in non-essential sales could mean that discounting in staples will be lower, thereby opening up the space for competition. This, coupled with punchy valuations (FY23 P/E: 75x+), leaves no margin of safety/error for the investor and the business. We downgrade the stock to Sell with a DCF-based TP of Rs. 2,160/sh, implying 34x FY23 EV/EBITDA for std biz + 2x sales for e-comm business).

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20P	FY21E	FY22E	FY23E
Net Revenue	74,327	67,519	10.1	52,182	42.4	199,163	246,750	238,962	352,708	352,708
EBITDA	6,914	5,931	16.6	3,249	112.8	16,422	20,385	17,682	30,666	30,666
APAT	4,702	3,943	19.3	2,106	123.3	9,363	13,685	11,687	20,647	25,495
EPS (Rs)	7.3	6.3	15.6	3.25	123.2	15.0	21.6	18.0	31.9	39.4
P/E (x)						197.8	137.3	164.5	93.1	75.4
EV/EBITDA (x)						113.1	90.6	106.9	61.6	47.5
Core RoCE(%)						17.5	18.8	11.7	18.6	19.0

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	238,962	235,426	1.5	352,708	342,577	3.0	438,887	423,674	3.6
Gross Profit	34,810	33,946	2.5	52,874	51,364	2.9	65,806	63,538	3.6
Gross Profit Margin (%)	14.6	14.4	15 bps	15.0	15.0	(0 bps)	15.0	15.0	(0 bps)
EBITDA	17,682	16,775	5.4	30,666	29,329	4.6	38,261	36,408	5.1
EBITDA margin (%)	7.4	7.1	27 bps	8.7	8.6	13 bps	8.7	8.6	12 bps
APAT	11,687	10,994	6.3	20,647	19,622	5.2	25,495	24,085	5.9
APAT margin (%)	4.9	4.7	22 bps	5.9	5.7	13 bps	5.8	5.7	12 bps
EPS (Rs)	18.0	17.0	6.3	31.9	30.3	5.2	39.4	37.2	5.9

Source: Company, HSIE Research

SELL

CMP (as on 09 Jan 2021)	Rs 2,968
Target Price	Rs 2,160
NIFTY	14,347

KEY CHANGES	OLD	NEW
Rating	REDUCE	SELL
Price Target	Rs 1,850	Rs 2,160
	FY22E	FY23E
EPS %	+5.2	+5.9

KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	648
MCap (Rs bn) / (\$ mn)	1,922/26,250
6m avg traded value (Rs mn)	1,681
52 Week high / low	Rs 3,100/1,729

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	43.7	27.9	62.2
Relative (%)	22.3	(6.3)	42.7

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	74.99	74.99
FIs & Local MFs	5.39	6.07
FPIs	10.27	10.09
Public & Others	9.35	8.85
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

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Any holding in stock –No

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