

Retail Equity Research

Avenue Supermarts Ltd

Retail stores

BSE CODE: 540376

NSE CODE: DMART

Bloomberg CODE: DMART:IN

SENSEX: 49,502

Buy

12Month Investment period Rating as per Large Cap

 CMP Rs.2,853 TARGET Rs.3,130 RETURN 10%
 (Closing: 10-05-21)

KEY CHANGES:
TARGET ↓

RATING ↔

EARNINGS ↓

Strong recovery in the quarter...

Avenue Supermarts Ltd (DMart) owns & operates India's most profitable supermarket, DMart. It provides products like Food, Non-Food (FMCG), General Merchandise & Apparel through 234 stores (total 8.82mn sq. ft).

- We upgrade to Buy rating with a revise Target of Rs.3,130 factoring strong recovery in the quarter and recent correction in stock price.
- For Q4FY21, DMart reported healthy growth in revenue at 18%YoY & strong growth in PAT at 52%YoY (de-growth in first two quarters).
- EBITDA/PAT margins improved by 170/130bps YoY each to 8.4%/6.0% aided by improvement in sales & gross margin.
- Witnessing significant disruptions in operations due to Covid second wave. ~80% of stores are operating fewer hours than they normally do and this may negatively impact on inventory to sales ratio.
- DMart added 22stores in FY21 Vs 38 YoY. Additions are likely to be impacted in the short-term, but do not expect disruptions like last year. QIP of Rs.4,098cr supports additions and boost future sales growth.
- Revenue/PAT to grow at 37%/50% CAGR over FY21-23E, value DMart on DCF basis implying 75x on FY23E EPS.

Healthy recovery in the quarter, but second wave slows growth.

DMart reported healthy revenue growth of 18%YoY Vs. de-growth in the first two quarters. The overall sales was trending very close to pre-covid levels in the quarter and witnessed revival in discretionary products also, but on account of Covid second wave, significant disruptions have been witnessing since March 2021. ~80% of the stores are operating fewer hours than they normally do. The company has added 13 stores in Q4FY21 (22 stores in FY21 Vs 38 in FY20). The store additions are also likely to be impacted by the second wave in the short-term. However, we do not expect disruption like last year. The recent QIP of Rs.4,098cr will support future growth. DMart, improved its focus on E-Com business and has expanded presence in MMR region and commenced servicing 4 new cities, Ahmedabad, Pune, Bangalore and Hyderabad. However, still online-channel contributes only ~1.5% of the total revenue as of FY21 and DMart's approach of controlled acceleration with small trials and reviews likely to continue. Expect standalone revenue CAGR of 37% over FY21-23E.

Margins improved aided by increase in sales & gross margin

EBITDA margin improved by 170bpsYoY to 8.4% aided by improvement in sales and gross margin. Gross margin improved by 120bps YoY. Sales mix has seen a shift towards Grocery & FMCG products. General Merchandise & Apparel mix decreased to 22.9% Vs 27.3% YoY. However, second wave may negatively impact inventory to sales ratio. Reduction in debt and lower tax will support PAT growth. The company has repaid all its long-term debts by using its proceeds from recent QIP issue.

Valuation & Outlook

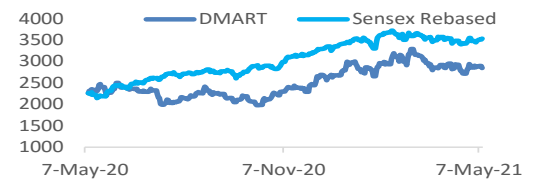
Covid second wave is likely to slow the growth recovery, but do not expect disruptions like last year given ongoing vaccination and better knowledge to tackle the pandemic. We believe, DMart has strong recovery potential given healthy balance sheet. We value DMart on DCF basis to arrive at a revised Target of Rs3,130 implying P/E of 75x on FY23 EPS, and upgrade to Buy factoring recent correction in stock price.

Company Data	
Market Cap (Rs.cr)	1,78,051
Enterprise Value (Rs.cr)	1,76,619
Outstanding Shares (cr)	647.8
Free Float	19%
Dividend Yield	0.0%
52 week high Rs.	3,328
52 week low Rs.	1,900
6m average volume (cr)	0.06
Beta	0.8
Face value Rs.	10

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	75.0	75.0	75.0
FII's	10.3	10.1	10.2
MFs/Insti	5.8	6.7	6.6
Public	8.2	7.8	7.8
Others	0.4	0.4	0.5
Total	100	100	100
Promotor pledge	0.0%	0.0%	0.0%

Price Performance	3 Month	6 Month	6 Month
Absolute Return	-2.7%	18.6%	26.2%
Absolute Sensex	-3.6%	13.6%	56.5%
Relative Return*	0.8%	5.1%	-30.3%

*over or under performance to benchmark index



Standalone (cr)	FY21	FY22E	FY23E
Sales	23,787	33,202	44,338
Growth (%)	-3.6	39.6	33.5
EBITDA	1,742	2,745	3,979
EBITDA Margin (%)	7.3	8.3	9.0
Adj. PAT	1,165	1,895	2,718
Growth (%)	-13.7	62.6	43.4
Adj. EPS	18.0	29.3	42.0
Growth (%)	-13.7	62.6	43.4
P/E	158.6	97.5	68.0
P/B	14.5	12.5	10.5
EV/EBITDA	101.4	63.9	43.8
ROE (%)	9.9	14.3	17.5
D/E	0.0	0.0	0.0

 Vincent Andrews
 Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY growth %
Sales	7,303	6,194	17.9%	7,433	-1.7%	23,787	24,675	-3.6%
EBITDA	617	418	47.6%	691	-10.8%	1,742	2,122	-17.9%
EBITDA margins %	8.4%	6.7%	50bps	9.3%	310bpS	7.3%	8.6%	240bps
Depreciation	95	95	-0.2%	100	-5.6%	371	340	9.3%
EBIT	522	323	61.7%	591	-11.7%	1,370	1,782	-23.1%
Interest	10	12	-17.1%	9	18.1%	34	63	-45.1%
Other Income	53	36	47.7%	49	6.8%	209	63	229.9%
Exceptional Items	0	0	NA	0	NA	0	0	NA
PBT	564	346	63.1%	632	-10.7%	1,545	1,783	-13.4%
Tax	0	0	0.0%	0	0.0%	0	0	0.0%
Share of profit from associates	0	0	0.0%	0	0.0%	0	0	0.0%
Minority interest	129	59	118.6%	161	-19.9%	379	433	-12.4%
Reported PAT	435	287	51.6%	470	-7.5%	1,165	1,350	-13.7%
Adjustments	0	0	NA	0	NA	0	0	NA
Adj PAT	435	287	51.6%	470	-7.5%	1,165	1,350	-13.7%
No. of Shares	65	62	3.8%	62	3.8%	65	65	0.0%
Adj EPS (Rs)	6.7	4.4	51.6%	7.3	-7.5%	18.0	21.2	-15.3%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	35,523	46,534	33,202	44,338	-6.5%	-4.7%
EBITDA	3,007	4,144	2,745	3,979	-8.7%	-4.0%
Margins (%)	8.5%	8.9%	8.3%	9.0%	20bps	20bps
Adj. PAT *	2,122	2,874	1,895	2,718	-10.7%	-5.4%
EPS	33	44	29	42	-11.3%	-4.7%

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21	FY22E	FY23E
Revenue	19,916	24,675	23,787	33,202	44,338
% change	32.7	23.9	-3.6	39.6	33.5
EBITDA	1,642	2,122	1,742	2,745	3,979
% change	22.8	29.2	-17.9	57.6	45.0
Depreciation	199	340	371	410	481
EBIT	1,443	1,782	1,370	2,335	3,498
Interest	47	63	34	24	28
Other Income	51	63	209	232	177
PBT	1448	1783	1545	2544	3648
% change	21.1	23.2	-13.4	64.7	43.4
Tax	511.3	433.0	379.5	648.7	930.2
Tax Rate (%)	35.3%	24.3%	25.5%	25.5%	25.5%
Reported PAT	936.3	1349.9	1165.3	1895.3	2717.5
Adj*	0	0	0	0	0
Adj PAT	936.3	1349.9	1165.3	1895.3	2717.5
% change	19.3	44.2	-13.7	62.6	43.4
No. of shares (cr)	62.4	64.8	64.8	64.8	64.8
Adj EPS (Rs.)	15	21	18	29	42
% change	19.3	38.9	-13.7	62.6	43.4
DPS (Rs.)	0	0	0	0	0
CEPS (Rs.)	18.2	26.1	23.7	35.6	49.4

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	1,135	1,690	1,537	2,305	3,199
Non-cash adj.	14	-29	-31	-209	-150
Changes in W.C	-246	-373	-120	-487	-562
C.F. Operation	903	1,287	1,385	1,609	2,487
Capital exp.	-1401	-1678	-1968	-1405	-1922
Change in inv.	51	-3,036	672	1,062	499
Other invest.CF	-33	12	126	0	0
C.F - Investment	-1,382	-4,700	-1,155	-343	-1,423
Issue of equity	0	4187	0	0	0
Issue/repay debt	172	-657	-104	0	0
Dividends paid	0	0	0	0	0
Other finance.CF	-108	-147	-36	-24	-28
C.F - Finance	63	3384	-140	-24	-28
Chg. in cash	-415	-29	90	1,243	1,037
Closing cash	214	92	1432	2675	3711

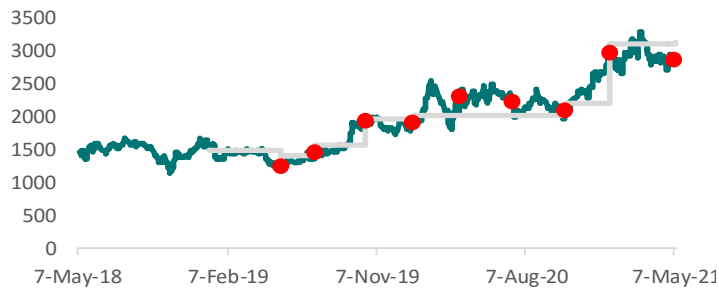
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	214	92	1,432	2,675	3,711
Accounts Receivable	76	49	72	82	97
Inventories	1,576	1,909	2,167	2,721	3,578
Other Cur. Assets	164	242	289	326	435
Investments	230	304	494	494	494
Gross Fixed Assets	4,779	6,620	7,904	9,964	11,886
Net Fixed Assets	4,206	5,708	6,620	8,271	9,712
CWIP	377	362	1,006	350	350
Intangible Assets	10	11	9	9	9
Def Tax (Net)	-64	-48	-52	-52	-52
Other Assets	146	3,407	1,556	767	486
Total Assets	6,934	12,036	13,594	15,642	18,821
Current Liabilities	902	704	1,050	1,166	1,580
Provisions	13	14	22	18	24
Debt Funds	425	4	0	0	0
Other Liabilities	0	179	217	257	298
Equity Capital	624	648	648	648	648
Reserves & Surplus	4,970	10,488	11,658	13,553	16,270
Shareholder's Fund	5,594	11,136	12,305	14,201	16,918
Total Liabilities	6,934	12,036	13,594	15,642	18,821
BVPS (Rs.)	90	178	197	228	271

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	8.2	8.6	7.3	8.3	9.0
EBIT margin (%)	7.2	7.2	5.8	7.0	7.9
Net profit mgn.(%)	4.7	5.5	4.9	5.7	6.1
ROE (%)	18.3	16.1	9.9	14.3	17.5
ROCE (%)	18.0	16.5	10.2	14.5	17.6
W.C & Liquidity					
Receivables (days)	1.0	0.9	0.9	0.8	0.7
Inventory (days)	29.3	30.3	36.5	31.4	30.5
Payables (days)	8.3	7.9	9.1	8.4	8.3
Current ratio (x)	2.2	3.2	3.7	4.9	4.9
Quick ratio (x)	0.1	0.1	1.4	0.1	0.1
Turnover & Leverage					
Gross asset T.O (x)	4.7	4.3	3.3	3.7	4.1
Total asset T.O (x)	3.2	2.6	1.9	2.3	2.6
Int. coverage ratio (x)	30.6	28.4	39.7	98.4	125.9
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	9.0	7.2	7.4	5.3	3.9
EV/EBITDA (x)	108.6	83.9	101.4	63.9	43.8
P/E (x)	190.2	136.9	158.6	97.5	68.0
P/BV (x)	31.9	16.0	14.5	12.5	10.5

Recommendation Summary



Dates	Rating	Target
17-Oct-19	Hold	1,980
13-Jan-20	Hold	2,010
8-Apr-20	Buy	2,010
13-Jul-20	Reduce	2,010
20-Oct-20	Hold	2,200
11-Jan-21	Hold	3,110
11-May-21	Buy	3,130

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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