

Avenue Supermarts Ltd

ADD

CMP Rs2,889

Target Rs3,205

Upside 10.9%

Strong recovery in the quarter but multiple headwinds ahead; keep adding on dips

Result Highlights

- ✓ Revenue growth trajectory continued to improve from the lows of 1QFY21 with 17.9% yoy growth despite operational disruptions starting March 2021, helped by recovery in footfalls and 20 new store openings in FY21 (13 stores opened in 4Q). The online business DMart Ready, now in 4 cities besides MMR region posted a 74% growth.
- ✓ Gross margins improved 120bps yoy to 14.4% led by recovery in sales of high-margin general merchandise which resulted in EBITDA margin improvement of 170bps to 8.4% helped by continuation of strong cost controls.
- ✓ Our calculated revenue per sq ft was up 4% and EBITDA per sq ft up 31% yoy.
- ✓ Positive margin surprise led to strong earnings performance with 51.6% PAT growth.
- ✓ Management highlighted the adverse ongoing impact on operations since late-March with more than 80% of its network facing severe operational constraints, which are expected to continue till the vaccination rate picks up significantly.
- ✓ With no significant supply chain disruptions, there is risk of excess inventory piling up as the company had planned optimistically before the second wave struck.
- ✓ Construction of new stores for FY22 might not see much impact as labor migration has not happened like last year, albeit some delays cannot be ruled out.

Valuation and view - The 4Q performance was a positive surprise especially on the margin front as demand for discretionary goods made a strong recovery and demand momentum continued from 3Q. But given the second wave of the pandemic, there are multiple near-term headwinds for the company to contend with regards to store operations, inventory liquidation and new store construction. In this environment, the company's strong cash-rich balance sheet will not only help it tide over this difficult period, but also help in accelerating its offline and online footprint expansion despite lower throughput and cash flows. We continue to like DMART for its best-in-class execution, lowest cost of retail, aggressive expansion plans, industry leading asset and inventory turnover and high customer conversion and loyalty given its EDLP model, albeit we would have been happier with more and faster growth in its online presence. While near-term risks to FY22 earnings remain, we believe in the scalability of the model and therefore see a long growth runway for the company which should help it sustain premium valuations. We model in revenue/PAT CAGR of 33%/50% over FY21-23E, the highest growth in the large cap consumption space. We assume coverage with an ADD rating with a PT of Rs 3,205 based on 55x FY23E EV/EBITDA, implying 84x FY23 P/E.

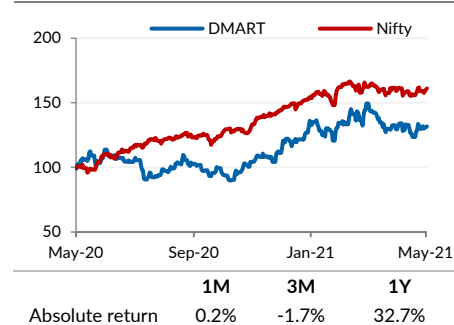
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	73,031	61,935	17.9%	74,327	-1.7%
EBITDA	6,166	4,177	47.6%	6,914	-10.8%
EBITDAM (%)	8.4%	6.7%		9.3%	
Depreciation	946	948	-0.2%	1,003	-5.6%
Interest	103	124	-17.1%	87	18.1%
Other income	526	356	47.7%	492	6.8%
PBT	5,642	3,460	63.1%	6,316	-10.7%
Tax	1,293	591	118.6%	1,614	-19.9%
Adjusted PAT	4,350	2,869	51.6%	4,702	-7.5%
PATM (%)	6.0%	4.6%		6.3%	
EPS (Rs)	6.7	4.6		7.5	

Stock data (as on May 07, 2021)

Nifty:	14,823
52 Week h/l (Rs)	3330 / 1955
Market cap (Rs/USD mn)	1875632 / 25515
Outstanding Shares	648
6m Avg t/o (Rs mn):	1,575
Div yield (%):	N/A
Bloomberg code:	DMART IN
NSE code:	DMART

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	75.0%
FII+DII	16.8%
Others	8.2%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	2,41,431	3,15,114	4,33,373
YoY Growth	(2.9)	30.5	37.5
EBIDTA	17,431	24,894	37,703
Margins (%)	7.2	7.9	8.7
PAT	10,995	16,095	24,768
YoY Growth	(15.5)	46.4	53.9
ROE	9.5	12.4	16.5
ROCE	12.8	16.5	21.8
EPS	17.0	24.8	38.2
P/E	170.2	116.3	75.6
EV/EBITDA	106.7	75.0	49.6

HIMANSHU NAYYAR
Lead Analyst

himanshu.nayyar@ysil.in
+91 99209 15754



ANKIT MAHAJAN, Associate

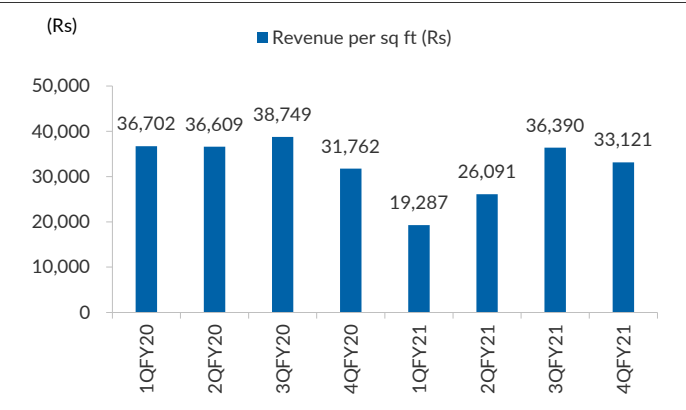
ankit.mahajan@ysil.in

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

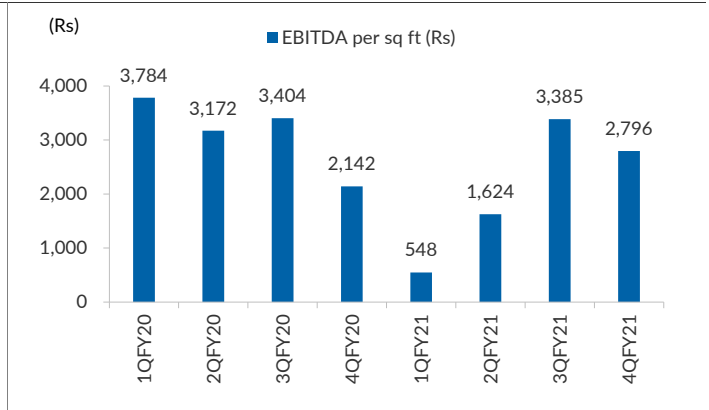
CHARTS

Exhibit 2: Revenue per sq ft picking up gradually



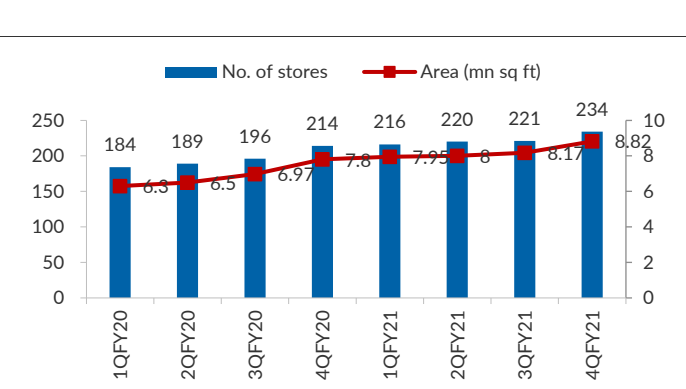
Source: Company, YES Sec – Research

Exhibit 3: Similar trend in EBITDA per sq ft



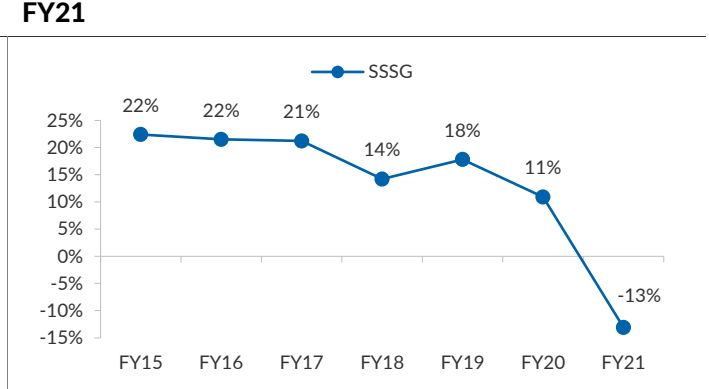
Source: Company, YES Sec – Research

Exhibit 4: Store expansion trajectory



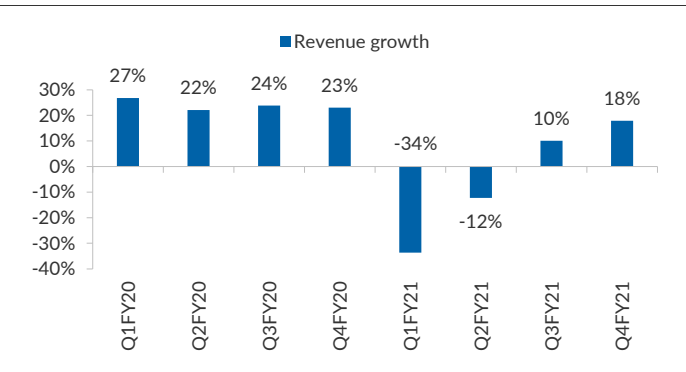
Source: Company, YES Sec – Research

Exhibit 5: SSSG trajectory goes into negative territory in FY21



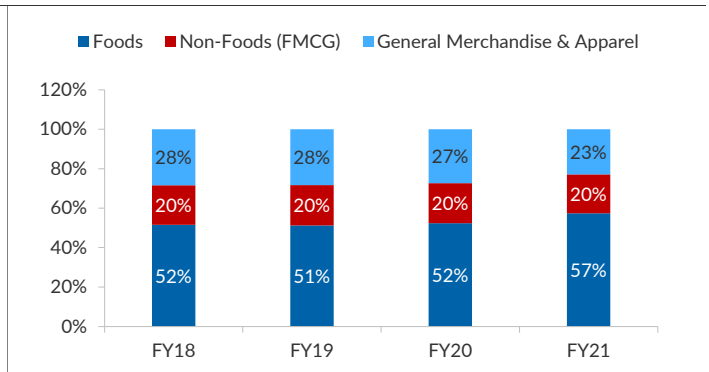
Source: Company, YES Sec – Research

Exhibit 6: Pick-up in revenue growth driven by economic recovery



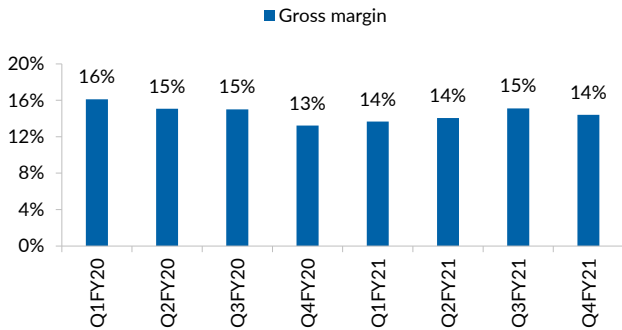
Source: Company, YES Sec – Research

Exhibit 7: Revenue mix shifted towards grocery & FMCG products



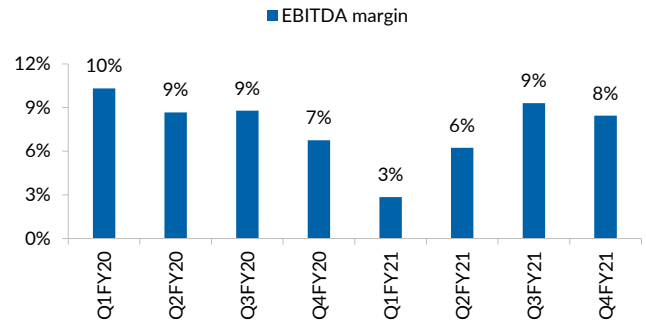
Source: Company, YES Sec – Research

Exhibit 8: Gross margin improved YoY driven by better revenue mix in 4Q



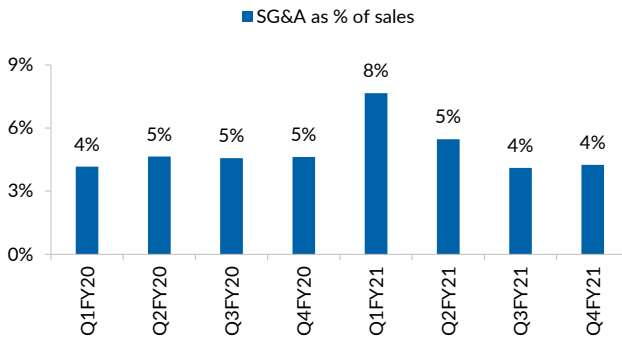
Source: Company, YES Sec – Research

Exhibit 9: EBITDA margin escalated further on the back of lower employee costs & other expenses



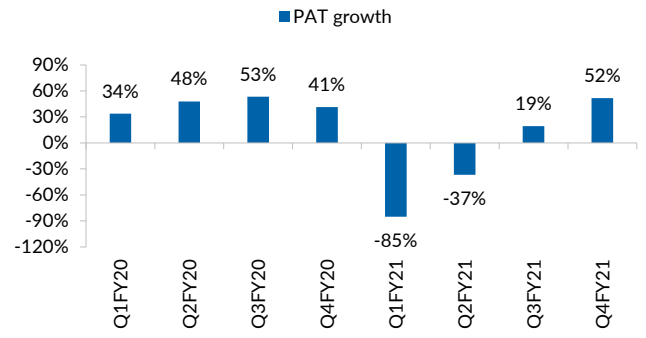
Source: Company, YES Sec – Research

Exhibit 10: Maintained tight control on SG&A expenses



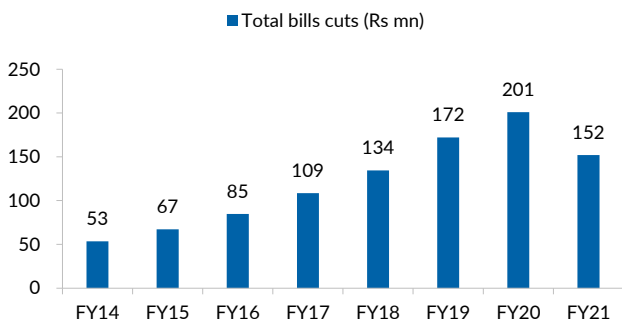
Source: Company, YES Sec – Research

Exhibit 11: ... which helped deliver robust PAT growth



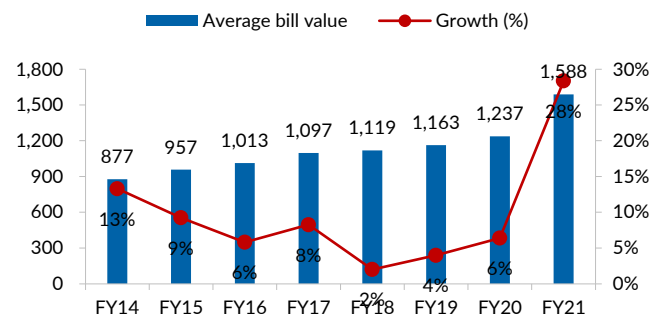
Source: Company, YES Sec – Research

Exhibit 12: Total Bills Cut declined for the first time



Source: Company, YES Sec – Research

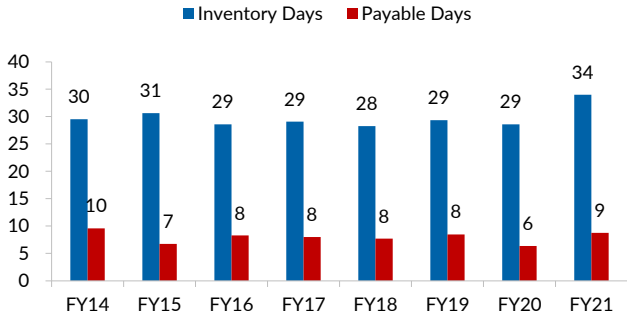
Exhibit 13: ... However, average bill value has seen sharp increase



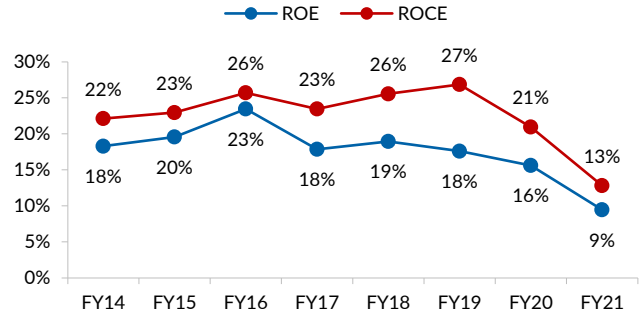
Source: Company, YES Sec – Research

Exhibit 14: Inventory increased due to lower than expected sales especially in late-March

Exhibit 15: ... which impacted return ratios severely



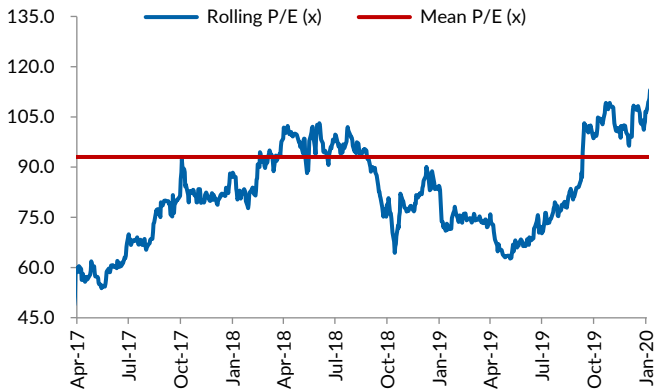
Source: Company, YES Sec - Research



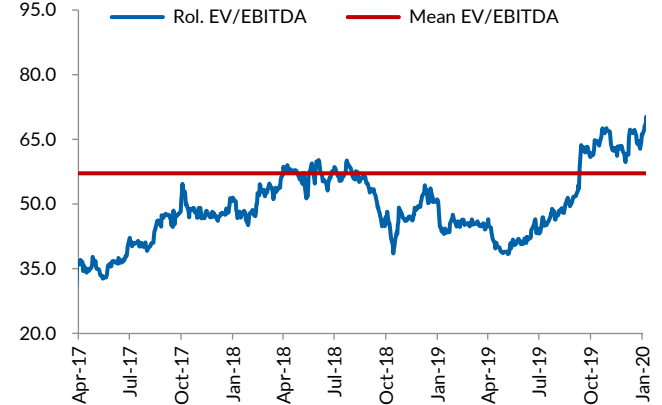
Source: Company, YES Sec - Research

Exhibit 16: Currently trading at 110x one-yr fwd P/E...

Exhibit 17: ... and 71x one-yr fwd EV/EBITDA



Source: Company, YES Sec - Research



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 18: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	6,241	6,478	6,478	6,478	6,478
Reserves	49,634	1,04,320	1,15,359	1,31,454	1,56,222
Net worth	55,875	1,10,797	1,21,837	1,37,932	1,62,700
Debt	4,298	2,248	3,120	3,120	3,120
Deferred tax liab (net)	633	474	512	512	512
Other non current liabilities	18	20	29	32	35
Total liabilities	60,824	1,13,539	1,25,498	1,41,596	1,66,366
Fixed Asset	47,591	55,786	70,586	89,160	1,09,758
Investments	346	312	125	125	125
Other Non-current Assets	1,459	41,337	25,267	27,793	30,571
Net Working Capital	9,242	15,030	15,068	16,621	20,424
Inventories	16,087	19,474	22,483	26,763	34,432
Sundry debtors	644	196	436	479	527
Loans and Advances	1,740	2,582	3,207	3,453	4,749
Sundry creditors	4,633	4,335	5,781	6,907	9,499
Other current liabilities	4,467	2,734	5,039	6,907	9,499
Cash & equivalents	2,185	1,074	14,452	7,897	5,488
Total Assets	60,824	1,13,539	1,25,498	1,41,596	1,66,366

Exhibit 19: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	2,00,045	2,48,702	2,41,431	3,15,114	4,33,373
Operating profit	16,333	21,283	17,431	24,894	37,703
Depreciation	2,125	3,744	4,142	5,032	6,381
Interest expense	472	691	417	406	374
Other income	484	600	1,962	2,060	2,163
Profit before tax	14,219	17,448	14,835	21,516	33,111
Taxes	5,195	4,438	3,840	5,422	8,344
Adj. PAT	9,025	13,011	10,995	16,095	24,768
Exceptional loss	-	-	-	-	-
Net profit	9,025	13,011	10,995	16,095	24,768

Exhibit 20: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBIT	14,692	18,139	15,251	21,922	33,485
Depreciation	2,125	3,744	4,142	5,032	6,381
Tax paid	(5,195)	(4,438)	(3,840)	(5,422)	(8,344)
Working capital Δ	(2,591)	(5,788)	(38)	(1,553)	(3,803)
Other operating items					
Operating cashflow	9,031	11,657	15,515	19,979	27,720
Capital expenditure	(14,409)	(11,939)	(18,942)	(23,607)	(26,979)
Free cash flow	(5,378)	(282)	(3,427)	(3,627)	741
Equity raised	159	41,912	45	(0)	-
Investments	499	34	187	-	-
Debt financing/disposal	1,766	(2,050)	872	-	-
Interest Paid	(472)	(691)	(417)	(406)	(374)
Dividends paid	-	-	-	-	-
Other items	16	(40,035)	16,117	(2,522)	(2,775)
Net Δ in cash	(3,411)	(1,112)	13,377	(6,555)	(2,408)

Exhibit 21: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.6	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	3.2	2.6	1.9	2.2	2.5
Financial leverage (x)	1.2	1.1	1.1	1.1	1.1
RoE (%)	17.6	15.6	9.5	12.4	16.5

Exhibit 22: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	33.1	24.3	(2.9)	30.5	37.5
Op profit growth	20.7	30.3	(18.1)	42.8	51.5
EBIT growth	16.3	23.5	(15.9)	43.7	52.7
Net profit growth	11.9	44.2	(15.5)	46.4	53.9
Profitability ratios (%)					
OPM	8.2	8.6	7.2	7.9	8.7
EBIT margin	7.3	7.3	6.3	7.0	7.7
Net profit margin	4.5	5.2	4.6	5.1	5.7
RoCE	26.9	20.9	12.8	16.5	21.8
RoNW	17.6	15.6	9.5	12.4	16.5
RoA	14.3	13.6	8.5	11.0	14.5
Per share ratios					
EPS	14.5	20.1	17.0	24.8	38.2
Dividend per share	-	-	-	-	-
Cash EPS	17.9	25.9	23.4	32.6	48.1
Book value per share	89.5	171.0	188.1	212.9	251.2
Valuation ratios					
P/E	199.8	143.8	170.2	116.3	75.6
P/CEPS	161.7	111.7	123.6	88.6	60.1
P/B	32.3	16.9	15.4	13.6	11.5
EV/EBIDTA	110.5	88.0	106.7	75.0	49.6

Avenue Supermarts Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	36.5	25.4	25.9	25.2	25.2
Liquidity ratios					
Debtor days	1	0	1	1	0
Inventory days	29	29	34	31	29
Creditor days	8	6	9	8	8

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Himanshu Nayyar, Ankit Mahajan

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Email: research@ysil.in | Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.