

# Avenue Supermarts (DMART IN)

Rating: REDUCE | CMP: Rs1,843 | TP: Rs1,647

## Valuations leave no room for error

### Quick Pointers:

- Gross margin expanded by 70bps on better revenue mix. EBITDA margins increased 30bps only as cost of retail increased by 40bps YoY
- D'Mart has allotted 1,000 secured redeemable non-convertible debentures aggregating ~Rs1bn on private placement basis.
- OFS and QIP to reduce stake to 75% (81.2% currently) in next 4 months
- Added 5 new stores (13 new stores in 1H) taking the store total to 189.

**D'Mart reported good growth momentum despite slowdown in consumer demand indicating sustained success of its "Everyday Low price" model, although sales and PAT missed our and street estimates. D'Mart growth strategy remains on track led by 1) steady pace of store openings with 13 stores added in 1H (added 21 stores in FY19 and average of 22 stores in past 4 years) 2) scaling up of D'Mart ready model from 58 locations in FY19 3) ramp up in young clusters like Punjab, Tamil Nadu, Rajasthan, NCR and MP and 4) rising sales share of general merchandise and apparel (up 200bps to 28.4% in FY19)**

**1H20 EBITDA margins improved by 90bps on better sales mix, however we estimate EBITDA margins to expand by only 50bps in FY20 on higher spends behind new store infrastructure, spends on expanding online presence and continued focus on passing on value to customers.**

**We expect increased growth momentum in 2H20 led by the upcoming festive season. We have tweaked our numbers (EPS cut of 2.6-2.9%) and estimate 37.3% PAT CAGR over FY19-22. Our estimates don't fully factor in higher online competition and increased spends on supply chain modernization and expansion beyond existing clusters.**

**However, valuations at 66.2x FY21 EPS and 51.5x FY22 EPS factors in the expected growth. We downgrade the stock to reduce with target price of Rs1647 (46x FY22 EPS, Rs1411 Earlier at 46x June 21 EPS). Absolute returns look unlikely in near term post 48% jump in stock price in past 5 months. However sustained growth momentum can provide 20-25% returns over the next 2-2.5 years. OFS and QIP led correction in stock price can provide a good entry point for long term.**

**Adj. PAT up 21.2% to R 3.39bn:** Net Sales at Rs59.5bn, up 22.1%. Gross Margins at 15.1% expanded by 70bps YoY on better revenue mix. EBITDA adjusted for IndAS 116 was at Rs 4.95bn up 27.2% YoY with 30bps margin expansion. Adj. Cost of retail increased by 40bps YoY and 95bps QoQ as other expenses increased by 40bps. Adj. PAT grew by 50% to Rs 3.39bn aided by lower tax at 21.2%. D'Mart added 5 stores during the quarter taking the total stores to 189. D'Mart has allotted 1,000 secured redeemable non-convertible debentures totaling to ~ 1bn on private placement basis.

October 13, 2019

## Q2FY20 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY20E	FY21E
Rating	REDUCE		HOLD	
Target Price	1,647		1,411	
Sales (Rs. m)	251,925	323,131	251,925	323,131
% Chng.	-	-	-	-
EBITDA (Rs. m)	21,803	28,365	21,818	28,533
% Chng.	(0.1)	(0.6)	-	-
EPS (Rs.)	20.4	27.8	20.9	28.6
% Chng.	(2.6)	(2.9)	-	-

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	200,045	251,925	323,131	408,837
EBITDA (Rs. m)	16,333	21,803	28,365	36,651
Margin (%)	8.2	8.7	8.8	9.0
PAT (Rs. m)	9,025	13,234	18,063	23,243
EPS (Rs.)	14.5	20.4	27.8	35.8
Gr. (%)	17.5	41.0	36.5	28.7
DPS (Rs.)	-	-	1.2	1.5
Yield (%)	-	-	0.1	0.1
RoE (%)	17.6	17.1	16.8	18.3
RoCE (%)	24.9	22.4	21.7	23.9
EV/Sales (x)	5.8	4.7	3.7	2.9
EV/EBITDA (x)	70.7	53.9	41.6	32.3
PE (x)	127.5	90.4	66.2	51.5
P/BV (x)	20.6	12.1	10.3	8.7

### Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.1,945 / Rs.1,126
Sensex / Nifty	38,127 / 11,305
Market Cap	Rs.1,150bn / \$ 16,191m
Shares Outstanding	624m
3M Avg. Daily Value	Rs.1994.7m

### Shareholding Pattern (%)

Promoter's	80.21
Foreign	6.03
Domestic Institution	4.80
Public & Others	8.96
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	17.3	25.2	39.0
Relative	14.7	26.7	24.0

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**Exhibit 1: Net Sales up 22.1%; PBT up 21.3% on 30bps margin expansion**

Y/E March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	1HFY20	1HFY19	YoY gr. (%)
<b>Net Sales</b>	59,490	48,725	22.1	57,805	117,295	94,319	24.4
Gross Profit	8,962	6,983	28.3	9,311	18,273	14,104	29.6
% of NS	15.1	14.3	0.7	16.1	15.6	15.0	0.6
Other Expenses	3,808	3,087	23.4	3,352	7,159	5,981	19.7
% of NS	6.4	6.3	0.1	5.8	6.1	6.3	(0.2)
<b>EBITDA</b>	5,154	3,896	32.3	5,959	11,113	8,123	36.8
Margins (%)	8.7	8.0	0.7	10.3	9.5	8.6	0.9
Depreciation	833	444	87.8	750	1,583	847	86.9
Interest	175	101	74.0	168	343	201	70.6
Other Income	89	139	(36.1)	119	208	281	(26.0)
<b>PBT</b>	4,234	3,491	21.3	5,162	9,395	7,356	27.7
Tax	900	1,233	(27.0)	1,800	2,741	2,449	11.9
Tax rate (%)	21.2	35.3	(14.1)	34.9	29.2	33.3	(4.1)
<b>Adjusted PAT</b>	3,335	2,258	47.7	3,362	6,655	4,907	35.6

Source: Company, PL

**Exhibit 2: Added 13 stores in 1HFY20; Cost of retail up 40bps YoY and 94bps QoQ**

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
No. of Stores	157	160	164	176	184	189
Area (mn Sq.ft.)	5.0	5.1	5.2	5.9	6.3	6.5
Sales/Ft	9181	9580	10391	8531	9234	9152
Gross Profit/Ft	1434	1373	1527	1229	1487	1379
EBIDTA/FT	851	766	864	638	952	793
Cost of retail %	6.3	6.3	6.4	6.9	5.8	6.4

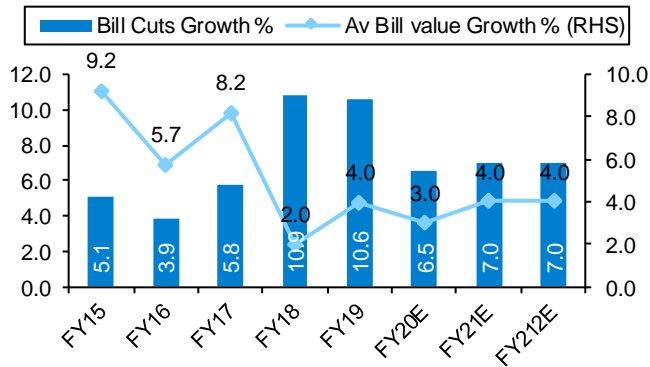
Source: Company, PL

**Exhibit 3: EBIDTA/Ft and Cost of retail likely to improve on healthy SSG**

	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Sales/Ft	28,136	31,120	32,719	35,647	38,742	42,414	46,658
Gross Profit/Ft	3,845	4,475	4,853	5,091	5,585	6,153	6,813
EBIDTA/FT	1,993	2,417	2,738	2,768	3,118	3,462	3,890
Capex/Ft	9,632	8,925	10,103	14,856	16,709	17,647	20,062
Cost of retail %	7.2%	7.0%	6.9%	6.9%	6.8%	6.8%	6.7%
Working Cap/Ft	1,263	1,631	1,723	2,025	2,344	2,480	2,744

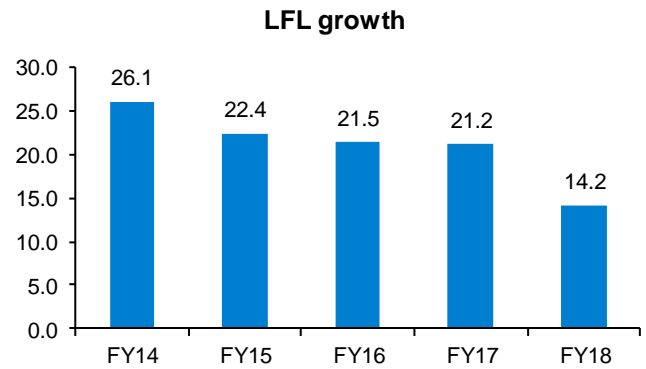
Source: Company, PL

**Exhibit 4: Bill Cuts increased by 23.9% to 134.4mn in FY18**



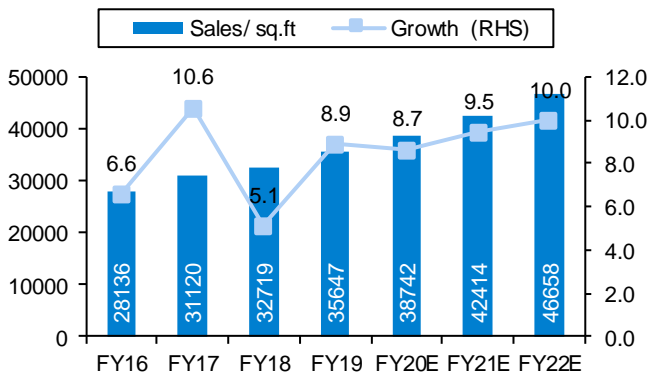
Source: Company, PL

**Exhibit 5: LTL growth at 14.2% in FY18**



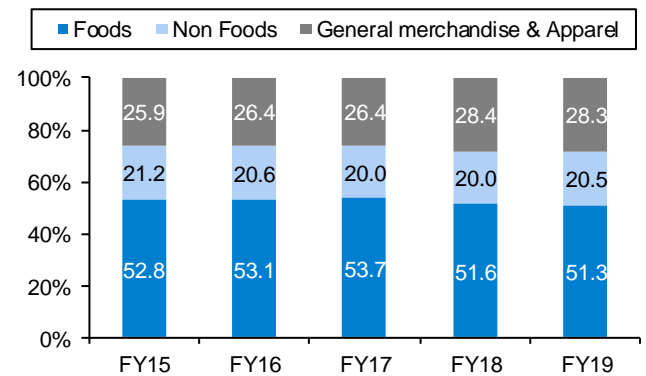
Source: Company, PL

**Exhibit 6: Sales/Sq. ft. increased to Rs 43,104**



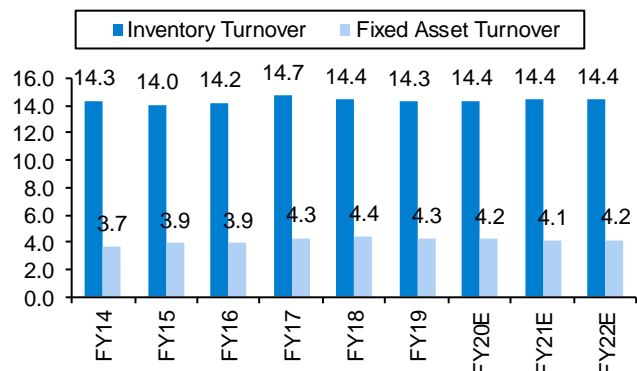
Source: Company, PL

**Exhibit 7: Foods continue to remain the highest contributor**



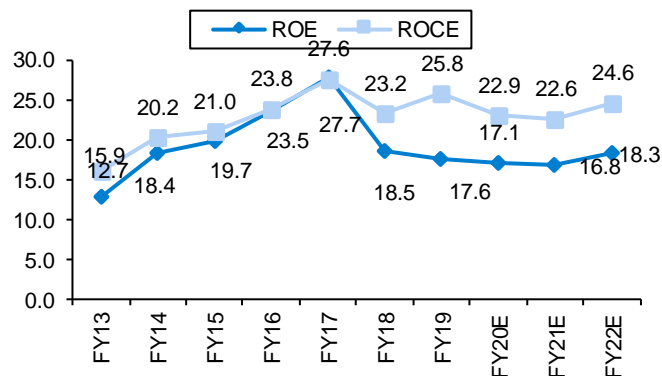
Source: Company, PL

Exhibit 8: FA turnover likely to increase further



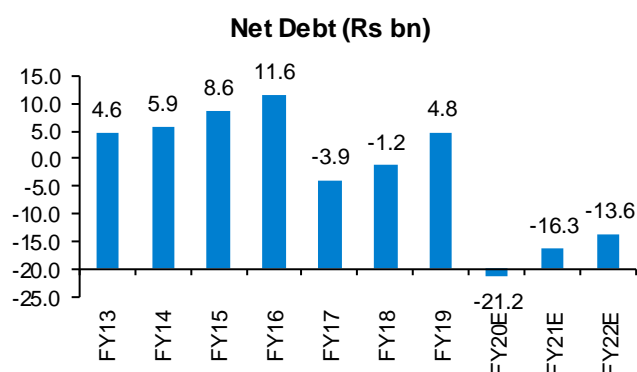
Source: Company, PL

Exhibit 9: Return ratios to improve sharply



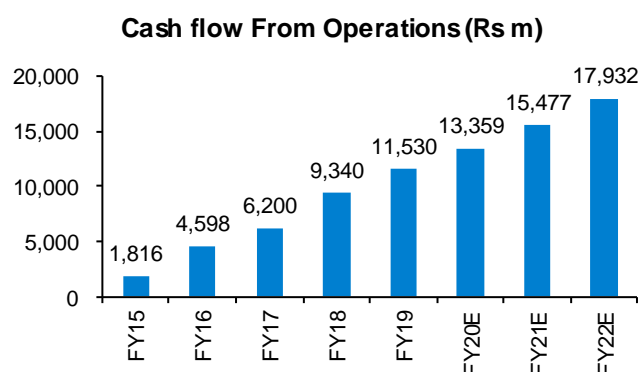
Source: Company, PL

Exhibit 10: Net cash positive from FY17



Source: Company, PL

Exhibit 11: CFO to increase at 15.9% CAGR over FY19-21



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>200,045</b>	<b>251,925</b>	<b>323,131</b>	<b>408,837</b>
YoY gr. (%)	33.1	25.9	28.3	26.5
Cost of Goods Sold	170,008	212,876	272,722	344,650
Gross Profit	30,037	39,048	50,408	64,187
Margin (%)	15.0	15.5	15.6	15.7
Employee Cost	3,554	4,535	5,978	7,563
Other Expenses	10,150	12,710	16,066	19,973
<b>EBITDA</b>	<b>16,333</b>	<b>21,803</b>	<b>28,365</b>	<b>36,651</b>
YoY gr. (%)	20.7	33.5	30.1	29.2
Margin (%)	8.2	8.7	8.8	9.0
Depreciation and Amortization	2,125	3,295	4,265	5,255
<b>EBIT</b>	<b>14,208</b>	<b>18,508</b>	<b>24,100</b>	<b>31,396</b>
Margin (%)	7.1	7.3	7.5	7.7
Net Interest	472	765	342	380
Other Income	484	428	1,044	898
<b>Profit Before Tax</b>	<b>14,219</b>	<b>18,171</b>	<b>24,802</b>	<b>31,914</b>
Margin (%)	7.1	7.2	7.7	7.8
Total Tax	5,195	4,937	6,739	8,671
Effective tax rate (%)	36.5	27.2	27.2	27.2
<b>Profit after tax</b>	<b>9,025</b>	<b>13,234</b>	<b>18,063</b>	<b>23,243</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>9,025</b>	<b>13,234</b>	<b>18,063</b>	<b>23,243</b>
YoY gr. (%)	17.5	46.6	36.5	28.7
Margin (%)	4.5	5.3	5.6	5.7
Extra Ord. Income / (Exp)	(13)	7	7	7
<b>Reported PAT</b>	<b>9,011</b>	<b>13,241</b>	<b>18,070</b>	<b>23,250</b>
YoY gr. (%)	11.8	46.9	36.5	28.7
Margin (%)	4.5	5.3	5.6	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,011	13,241	18,070	23,250
<b>Equity Shares O/s (m)</b>	<b>624</b>	<b>649</b>	<b>649</b>	<b>649</b>
<b>EPS (Rs)</b>	<b>14.5</b>	<b>20.4</b>	<b>27.8</b>	<b>35.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>52,397</b>	<b>69,738</b>	<b>92,321</b>	<b>117,151</b>
Tangibles	51,799	69,050	91,530	116,242
Intangibles	598	688	791	909
<b>Acc: Dep / Amortization</b>	<b>9,176</b>	<b>12,477</b>	<b>16,748</b>	<b>22,010</b>
Tangibles	8,877	12,097	16,273	21,425
Intangibles	298	381	476	585
<b>Net fixed assets</b>	<b>43,221</b>	<b>57,261</b>	<b>75,573</b>	<b>95,141</b>
Tangibles	42,921	56,954	75,257	94,817
Intangibles	300	307	315	325
Capital Work In Progress	3,768	2,500	2,500	2,500
Goodwill	783	783	783	783
Non-Current Investments	317	354	405	477
Net Deferred tax assets	(631)	(994)	(1,490)	(2,128)
Other Non-Current Assets	1,140	1,466	1,701	1,981
<b>Current Assets</b>				
Investments	165	182	200	220
Inventories	16,087	20,650	25,850	32,707
Trade receivables	644	828	1,018	1,232
Cash & Bank Balance	2,191	24,351	20,265	17,574
Other Current Assets	1,149	1,512	1,939	2,453
<b>Total Assets</b>	<b>70,055</b>	<b>111,036</b>	<b>131,705</b>	<b>156,926</b>
<b>Equity</b>				
Equity Share Capital	6,241	6,491	6,491	6,491
Other Equity	49,634	92,561	109,692	131,768
<b>Total Network</b>	<b>55,875</b>	<b>99,052</b>	<b>116,183</b>	<b>138,259</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,960	1,700	2,500	2,500
Provisions	11	24	55	125
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,042	1,500	1,500	1,500
Trade payables	4,633	5,598	7,282	9,079
Other current liabilities	1,892	2,155	2,681	3,320
<b>Total Equity &amp; Liabilities</b>	<b>70,055</b>	<b>111,036</b>	<b>131,705</b>	<b>156,926</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	14,219	18,171	24,802	31,914
Add. Depreciation	2,125	3,295	4,265	5,255
Add. Interest	472	765	342	380
Less Financial Other Income	484	428	1,044	898
Add. Other	-	-	-	-
Op. profit before WC changes	16,816	22,231	29,408	37,549
Net Changes-WC	(3,434)	(4,441)	(3,929)	(5,534)
Direct tax	(5,195)	(4,937)	(6,739)	(8,671)
<b>Net cash from Op. activities</b>	<b>8,188</b>	<b>12,853</b>	<b>18,741</b>	<b>23,344</b>
Capital expenditures	(14,426)	(16,066)	(22,576)	(24,824)
Interest / Dividend Income	-	-	-	-
Others	503	(10)	(11)	(13)
<b>Net Cash from Invt. activities</b>	<b>(13,923)</b>	<b>(16,076)</b>	<b>(22,588)</b>	<b>(24,837)</b>
Issue of share cap. / premium	172	29,937	-	-
Debt changes	2,609	(3,802)	800	-
Dividend paid	-	-	(939)	(1,174)
Interest paid	(472)	(765)	(342)	(380)
Others	(1)	-	-	-
<b>Net cash from Fin. activities</b>	<b>2,308</b>	<b>25,370</b>	<b>(481)</b>	<b>(1,554)</b>
<b>Net change in cash</b>	<b>(3,427)</b>	<b>22,147</b>	<b>(4,328)</b>	<b>(3,047)</b>
Free Cash Flow	(6,238)	(3,214)	(3,836)	(1,480)

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	14.5	20.4	27.8	35.8
CEPS	17.9	25.5	34.4	43.9
BVPS	89.5	152.6	179.0	213.0
FCF	(10.0)	(5.0)	(5.9)	(2.3)
DPS	-	-	1.2	1.5
<b>Return Ratio(%)</b>				
RoCE	24.9	22.4	21.7	23.9
ROIC	21.0	21.4	21.7	22.6
RoE	17.6	17.1	16.8	18.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	(0.2)	(0.1)	(0.1)
Net Working Capital (Days)	22	23	22	22
<b>Valuation(x)</b>				
PER	127.5	90.4	66.2	51.5
P/B	20.6	12.1	10.3	8.7
P/CEPS	103.2	72.4	53.6	42.0
EV/EBITDA	70.7	53.9	41.6	32.3
EV/Sales	5.8	4.7	3.7	2.9
Dividend Yield (%)	-	-	0.1	0.1

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>54,509</b>	<b>50,334</b>	<b>57,805</b>	<b>59,490</b>
YoY gr. (%)	33.1	32.1	26.8	22.1
Raw Material Expenses	46,501	43,083	48,494	50,528
Gross Profit	8,009	7,250	9,311	8,962
Margin (%)	14.7	14.4	16.1	15.1
<b>EBITDA</b>	<b>4,533</b>	<b>3,765</b>	<b>5,959</b>	<b>5,154</b>
YoY gr. (%)	7.5	27.9	41.0	32.3
Margin (%)	8.3	7.5	10.3	8.7
Depreciation / Depletion	522	619	750	833
<b>EBIT</b>	<b>4,012</b>	<b>3,146</b>	<b>5,210</b>	<b>4,321</b>
Margin (%)	7.4	6.3	9.0	7.3
Net Interest	149	122	168	175
Other Income	86	147	119	89
<b>Profit before Tax</b>	<b>3,949</b>	<b>3,171</b>	<b>5,161</b>	<b>4,234</b>
Margin (%)	7.2	6.3	8.9	7.1
Total Tax	1,378	1,142	1,808	900
Effective tax rate (%)	34.9	36.0	35.0	21.2
<b>Profit after Tax</b>	<b>2,571</b>	<b>2,029</b>	<b>3,353</b>	<b>3,335</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,571</b>	<b>2,029</b>	<b>3,353</b>	<b>3,335</b>
YoY gr. (%)	2.1	21.4	33.8	47.7
Margin (%)	4.7	4.0	5.8	5.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,571</b>	<b>2,029</b>	<b>3,353</b>	<b>3,335</b>
YoY gr. (%)	2.1	21.4	33.8	47.7
Margin (%)	4.7	4.0	5.8	5.6
Other Comprehensive Income	(1)	(8)	(3)	(25)
<b>Total Comprehensive Income</b>	<b>2,570</b>	<b>2,020</b>	<b>3,350</b>	<b>3,309</b>
Avg. Shares O/s (m)	624	624	624	624
<b>EPS (Rs)</b>	<b>4.1</b>	<b>3.3</b>	<b>5.4</b>	<b>5.3</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	HOLD	1,411	1,885
2	14-Jul-19	Hold	1,338	1,359
3	4-Jul-19	HOLD	1,338	1,433
4	12-Jun-19	HOLD	1,338	1,310
5	12-May-19	HOLD	1,228	1,251
6	5-Apr-19	Reduce	1,270	1,449
7	14-Jan-19	Reduce	1,270	1,572
8	7-Jan-19	Reduce	1,286	1,571
9	14-Oct-18	Reduce	1,286	1,412

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,640	1,749
2	Avenue Supermarts	HOLD	1,411	1,885
3	Britannia Industries	Accumulate	3,307	2,903
4	Colgate Palmolive	Reduce	1,240	1,490
5	Crompton Greaves Consumer Electricals	BUY	300	244
6	Dabur India	Hold	464	434
7	Emami	Accumulate	373	317
8	Future Retail	BUY	477	381
9	GlaxoSmithKline Consumer Healthcare	Hold	8,631	8,456
10	Havells India	Reduce	640	702
11	Hindustan Unilever	Accumulate	1,967	1,962
12	ITC	BUY	344	262
13	Jubilant FoodWorks	BUY	1,688	1,323
14	Kansai Nerolac Paints	Accumulate	507	496
15	Marico	Hold	339	384
16	Nestle India	Hold	12,149	13,710
17	Pidilite Industries	Accumulate	1,429	1,393
18	Titan Company	BUY	1,282	1,296
19	Voltas	Hold	626	674

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

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