

Retail Equity Research (South India Focus)

# Avenue Supermarts Ltd

## Retail Stores

BSE CODE : 540376 NSE CODE: DMART  
BLOOMBERG CODE: DMART:IN SENSEX : 38,897

**Buy**

12M Investment Period

Rating as per LargeCap

**CMP Rs1,426 TARGET Rs1,578 RETURN 11%** ↑  
(Closing: 15-07-19)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↑

### Robust growth with surprise in margin

Avenue Supermarts Ltd (DMart) owns & operates India's most profitable supermarket, DMart. It provides products like Food, Non-Food (FMCG), General Merchandise & Apparel through 184 stores (total 6.3mn sq. ft).

- DMart maintained a strong revenue growth of 27% YoY and EBITDA margin improved by 100bps YoY to 10.3% in Q1FY20.
- EBITDA margin surprised positively on account of an increase in gross margin by 50bps led by operational efficiencies.
- DMart added 8 stores in Q1FY19, largely a spill-over from the previous quarter but this healthy growth is likely to continue in FY20.
- Board has approved QIP of 2.5cr shares which is Rs3.5bn at CMP. This will lead to faster store additions while diluting EPS by 4%.
- The minimum public share holding of 35% announced in the budget may act as an overhang on the stock price in the medium term.
- Expect strong revenue growth to continue aided by an acceleration in store additions and we factor slight improvement in margin.
- We arrive at a Target of Rs1,578 (Rs1,404 earlier) on a DCF basis implying P/E of 60x on FY21EPS and maintain Buy.

### Strong revenue growth continues...

DMart continued to report strong revenue growth at ~27% YoY aided by consistent growth in new store additions. The company has added 8 new stores in Q1FY19 Vs12 stores QoQ. As per management, the large part of the addition was spill over from the previous quarter (store additions in Q4FY19 was below expectation). However, the addition seems aggressive considering the YoY number of 2 stores. The company is now considering leased stores also to accelerate growth. Any QIP placement of additional shares will also support accelerated store additions. Like-for Like growth in revenue has improved to 17.8% in FY19 from 14.2% in FY18 and higher contributions on account of acceleration in new store will support revenue growth going forward. We expect revenue growth of ~31% CAGR over FY19-21E.

### Margin surges...to normalise in coming quarters

EBITDA margin improved by 100bps to 10.3% in the quarter which is at peak in the last six quarters. EBITDA margin improvement was on account of increase in Gross Margins (GM) and operational efficiency. GM improved to 16.1% from 15.6% YoY, other expenses as a % of sales improved to 4.2% from 4.7% YoY and staff cost as % of sales declined to 1.6% from 1.7% YoY. As per the management, Q1 margins cannot be considered as a reflection for the entire year as in Q1FY19 the EBITDA margins were at 9.3% but had normalised to 8.2% for the full FY19. We assume improvement in GM is very limited due to DMart's 'Every Day Discount' model and assume it to be ~15% for the long-term. Expect EBITDA margin to normalise like in last year to ~8.4% in FY20.

### BOD approval for QIP issuance to accelerate store additions

BOD has recently approved issuance of 2.5cr equity shares (Rs35bn at CMP) through a qualified institutions placement. Though this may lead to dilution in EPS (4%), we believe this could support faster pace of store additions.

### Expect strong PAT growth to sustain...

PAT growth improved strongly to 33.8%YoY in the quarter despite surge in Interest/depreciation cost which has increased by Rs6.7cr/34.6cr. This was largely due to increase of Rs4.75cr/Rs17.9cr on account of implementation of Ind AS 116 from 1QFY20 and higher capex. We expect the acceleration in store additions will be supported by the proposed QIP and internal accruals.

### Valuations

Faster store additions, debt reduction, tail winds from GST, traction in E-com business will continue to support earnings. The requirement of minimum public shareholding of 35% (currently 18.8%) as announced in the budget may act as an overhang in the medium term. We arrive at a target of Rs1,578 (earlier Rs1,404) and maintain Buy.

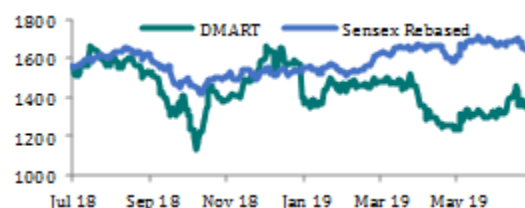
### Company Data

Market Cap (cr)	Rs.88,994
Enterprise Value (cr)	Rs.89,206
Outstanding Shares (cr)	62.4
Free Float	18.8%
Dividend Yield	0%
52 week high	Rs.1696
52 week low	Rs.1,127
6m average volume (cr)	0.06
Beta	1.03
Face value	Rs10

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	81.20	81.2	81.20
FII's	5.49	5.86	5.91
MFs/Insti	3.01	3.1	3.21
Public	10.3	9.85	9.69
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	2.6%	5.9%	-6.7%
Absolute Sensex	-0.6%	7.4%	7.5%
Relative Return*	3.2%	-1.4%	-14.2%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	19,916	26,067	33,943
Growth (%)	32.7	30.9	30.2
EBITDA	1,642	2,184	2,870
EBITDA Margin(%)	8.2	8.4	8.5
PAT Adj.	936	1,220	1,623
Growth (%)	19.3	30.3	33.0
Adj.EPS	15.0	19.5	26.0
Growth (%)	19.3	30.3	33.0
P/E	95.0	73.0	54.8
P/B	13.8	13.1	10.6
EV/EBITDA	54.3	40.8	31.2
ROE (%)	18.3	19.7	21.3
D/E	0.1	0.1	0.1

Vincent Andrews  
Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
<b>Sales</b>	<b>5780.5</b>	<b>4559.4</b>	26.8	<b>5033.4</b>	14.8
<b>EBITDA</b>	<b>595.94</b>	<b>422.7</b>	41.0	<b>376.5</b>	58.3
EBITDA margins	10.3	9.3	100bps	7.5	280bps
Depreciation	74.97	40.3	85.9	61.9	21.0
<b>EBIT</b>	<b>520.97</b>	<b>382.4</b>	36.3	<b>314.6</b>	65.6
Interest	16.76	10.0	67.3	12.2	37.8
Other Income	11.94	14.3	-16.2	14.7	-18.6
Exceptional Items	0	0.0	NA	0.0	NA
<b>PBT</b>	<b>516.15</b>	<b>386.6</b>	33.5	<b>317.1</b>	62.8
Tax					
Share of profit from Associate					
<b>Minority Interest</b>	180.84	136.0	33.0	114.2	58.4
<b>Reported PAT</b>	<b>335.31</b>	<b>250.6</b>	33.8	<b>202.9</b>	65.3
Adjustments	0	0.0	NA	0.0	NA
<b>Adj PAT</b>	<b>335.31</b>	<b>250.6</b>	33.8	<b>202.9</b>	65.3
No. of Shares	62.4	62.4	0.0	62.4	0.0
<b>EPS (Rs)</b>	<b>5.4</b>	<b>4.0</b>	33.8	<b>3.3</b>	65.3

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	25824	33447	26067	33943	0.9	1.5
EBITDA	1993	2603	2184	2870	9.6	10.3
Margins (%)	7.7	7.8	8.4	8.5	70bps	70bps
Adj. PAT	1126	1482	1220	1623	8.3	9.5
EPS	18	23.8	19.5	26.0	8.6	9.3

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Sales</b>	<b>11881</b>	<b>15009</b>	<b>19916</b>	<b>26067</b>	<b>33943</b>
% change	38.6	26.3	32.7	30.9	30.2
<b>EBITDA</b>	<b>964</b>	<b>1337</b>	<b>1642</b>	<b>2184</b>	<b>2870</b>
% change	46.8	38.8	22.8	33.0	31.4
Depreciation	126	155	199	298	381
EBIT	838	1183	1443	1887	2490
Interest	122	59	47	66	65
Other Income	31	73	51	65	85
<b>PBT</b>	<b>747</b>	<b>1196</b>	<b>1448</b>	<b>1886</b>	<b>2509</b>
% change	53.0	60.1	21.1	30.3	33.0
Tax	264	411	511	666	886
Tax Rate (%)	35	34	35	35	35
<b>Reported PAT</b>	<b>483</b>	<b>785</b>	<b>936</b>	<b>1220</b>	<b>1623</b>
Adj.*	0	0	0	0	0
<b>Adj. PAT</b>	<b>483</b>	<b>785</b>	<b>936</b>	<b>1220</b>	<b>1623</b>
% change	51.8	62.6	19.3	30.3	33.0
No. of shares (cr)	62	62	62	62	62
<b>Adj EPS (Rs)</b>	<b>8.6</b>	<b>12.6</b>	<b>15.0</b>	<b>19.5</b>	<b>26.0</b>
% change	51.8	46.3	19.3	30.3	33.0
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

### CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	609	939	1135	1517	2004
Non-cash adj.	105	-152	1	146	-19
Changes in W.C	-264	119	-233	-266	-295
<b>C.F. Operation</b>	<b>449</b>	<b>907</b>	<b>903</b>	<b>1397</b>	<b>1690</b>
Capital exp.	-633	-867	-1401	-1356	-1985
Change in inv.	-21	0	0	0	0
Other invest.CF	5	-134	-33	0	0
<b>C.F - Investment</b>	<b>-624</b>	<b>-928</b>	<b>-1382</b>	<b>-1291</b>	<b>-1900</b>
Issue of equity	1841	0	0	0	0
Issue/repay debt	200	-1265	172	90	60
Dividends paid	0	0	0	0	0
Other finance.CF	189	-59	-47	-66	-65
<b>C.F - Finance</b>	<b>2024</b>	<b>-1324</b>	<b>157</b>	<b>24</b>	<b>-5</b>
Chg. in cash	1849	-1346	-322	131	-216
Closing cash	1881	556	214	344	128

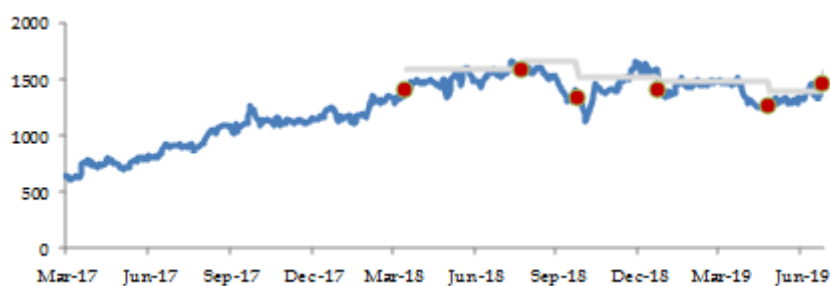
### BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	1881	556	214	344	128
Accounts Receivable	21	33	76	57	74
Inventories	933	1147	1576	2064	2658
Other Cur. Assets	228	158	164	214	279
Investments	64	198	230	230	230
Gross Fixed Assets	2734	3608	4779	6261	8147
Net Fixed Assets	2515	3234	4206	5391	6896
CWIP	153	147	377	250	350
Intangible Assets	6	6	10	10	10
Def. Tax (Net)	-52	-46	-64	-64	-64
Other Assets	0	133	146	0	0
<b>Total Assets</b>	<b>5750</b>	<b>5566</b>	<b>6934</b>	<b>8497</b>	<b>10561</b>
Current Liabilities	387	658	902	1153	1530
Provisions	8	12	13	14	19
Debt Funds	1518	253	425	515	575
Other Liabilities	0	0	0	0	0
Equity Capital	624	624	624	624	624
Reserves & Surplus	3213	4019	4970	6190	7813
Shareholder's Fund	3837	4643	5594	6814	8437
<b>Total Liabilities</b>	<b>5750</b>	<b>5566</b>	<b>6934</b>	<b>8497</b>	<b>10561</b>
BVPS	<b>61</b>	<b>74</b>	<b>90</b>	<b>109</b>	<b>135</b>

### RATIOS

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	8.1	8.9	8.2	8.4	8.5
EBIT margin (%)	7.1	7.9	7.2	7.2	7.3
Net profit mgn.(%)	4.1	5.2	4.7	4.7	4.8
ROE (%)	27.7	18.5	18.3	19.7	21.3
ROCE (%)	9.3	15.9	18.0	19.3	20.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	0.5	0.7	1.0	0.9	0.7
Inventory (days)	28.8	30.0	29.3	30.0	29.9
Payables (days)	8.4	8.4	8.3	8.5	8.4
Current ratio (x)	7.8	2.8	2.2	2.3	2.0
Quick ratio (x)	0.1	0.1	0.1	0.0	0.0
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.9	4.7	4.7	4.7	4.7
Total asset T.O (x)	2.7	2.7	3.2	3.4	3.6
Int. covge. ratio (x)	6.9	19.9	30.6	28.7	38.1
Adj. debt/equity (x)	0.49	0.05	0.08	0.08	0.07
<b>Valuation</b>					
EV/Sales (x)	7.5	5.9	4.5	3.4	2.6
EV/EBITDA (x)	92.0	66.3	54.3	40.8	31.2
P/E (x)	165.9	113.4	95.0	73.0	54.8
P/BV (x)	23.2	19.2	13.8	13.1	10.6

## Recommendation Summary (last 3 years)



Dates	Rating	Target
5th April 2018	Buy	1,590
14th August 2018	Hold	1,662
16th Oct 2018	Accumulate	1,513
15th January 2019	Hold	1,479
16th May 2019	Buy	1,404
16th July 2019	Buy	1,578

Source: Bloomberg, Geojit Research.

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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

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Neutral- The analyst has no investment opinion on the stock under review

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