

Retail Equity Research

Avenue Supermarts Ltd

Retail Stores

BSE CODE: 540376

NSE CODE: DMART

Bloomberg CODE: DMART:IN

SENSEX: 40,432

Hold

12M Investment period

Rating as per Large Cap

CMP Rs. 2,096

TARGET Rs. 2,200

RETURN 5% ↑

(Closing: 19-10-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Witnessing faster recovery in margins...

Avenue Supermarts Ltd (DMart) owns & operates India's most profitable supermarket, DMart. It provides products like Food, Non-Food (FMCG), General Merchandise & Apparel through 220 stores (total 8.2mn sq. ft).

- We upgrade DMart to Hold rating (from Reduce) factoring gradual recovery from Covid-led impact and correction in price.
- Q2FY20 revenue de-grew by ~12% YoY and PAT de-grew by 36.9%YoY.
- Gross/EBITDA/PAT margins declined YoY by 90bps/250bps/160bps to 14%/6.2%/4.0% but improved QoQ by 30bps/340bps/270bps.
- Witnessed MoM improvement in sales, with relaxation in restrictions but footfall is still lower than pre-Covid levels.
- FMCG & staples demand remains robust while non-FMCG sales were lower (22.7% of total revenue Vs 27.3% YoY) but has seen significant improvement in QoQ supporting faster recovery in margins.
- DMart added 6 stores in Q1FY21 (Vs 5 YoY), but closed 2 stores in Mumbai and converted into fulfilment centers for E-Com business. Store additions is likely to accelerate given recent QIP of Rs.4,098cr.
- Expect revenue/PAT to grow at 15%/18% CAGR, value DMart on a DCF basis to arrive at a target of Rs2,200 implying P/E of 75x on FY22EPS.

Covid-19 impact continued but witnessing MoM recovery

Revenue de-grew by 12% YoY on account of Covid-19 led disruption in the industry. However, with more relaxation in restrictions, the business has seen MoM improvement as the revenue de-growth was 34% YoY in Q1FY21. The company continued to focus on new store additions and has added 6 new stores (Vs 5 YoY). We expect the store addition is likely to accelerate given recent QIP of Rs4,098cr. DMart is now considering leased stores also to accelerate growth. DMart, improved its focus on E-Com business by penetrating more in Mumbai and expanded in selected cities in Pune, however still contributes only 1.7% of the total revenue. We expect revenue growth to decline by ~3% in FY21E, but expect 15% CAGR over FY20-22E.

Witnessing faster recovery in margins

Gross margin/EBITDA margin declined by 90bps/250bps YoY to 14%/6.2% YoY but has improved sequentially from 13.7%/2.8%. The impact was mainly due to lower sales and lower non-FMCG Mix on account of the Covid led disruption resulting lower discretionary demand. General Merchandise & Apparel business contribution was 22.7% of total revenue Vs 27.3% YoY. Now, with more relaxation in restrictions and the resultant improvement in footfall, non-FMCG sales has witnessed significant improvement from last quarter which is aiding faster recovery in margins. DMart's 'Every Day Discount' model will support rapid improvement in footfall, post relaxation in restrictions, however, expect some pressure due to increasing competition.

PAT margin improves sequentially

PAT de-grew by ~37%YoY (Vs de-growth of 85%YoY in 1QFY21) due to lower sales & margins. Going forward, gradual improvement in margins, 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. Expect PAT to grow at 17% CAGR over FY20-22E.

Valuation & Outlook

With further relaxations in the economy, we believe gradual recovery in topline & margins. We upgrade our rating to Hold (from Reduce) with a new target of Rs2,200 (from Rs.2,100) on a DCF basis implying P/E of 75x on FY22 EPS.

Company Data

Market Cap (Rs.cr)	1,41,701
Enterprise Value (Rs.cr)	1,41,889
Outstanding Shares (cr)	647.8
Free Float	19%
Dividend Yield	0.0%
52 week high Rs.	2,559
52 week low Rs.	1,701
6m average volume (cr)	0.00
Beta	0.7
Face value Rs.	10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	75.0	75.0	75.0
FII's	9.6	9.6	10.3
MFs/Insti	6.6	6.2	5.8
Public	8.3	8.3	8.2
Others	0.6	0.5	0.4
Total	100	100	100
Promotor pledge	NIL	NIL	0.0%

Price Performance	3 Month	6 Month	6 Month
Absolute Return	1.7%	-6.8%	11.5%
Absolute Sensex	7.4%	27.6%	3.5%
Relative Return*	-5.6%	-34.4%	8.1%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	24,675	23,830	32,832
Growth (%)	23.9	-3.4	37.8
EBITDA	2,122	1,462	2,723
EBITDA Margin (%)	8.2	8.6	6.1
Adj. PAT	1,350	972	1,889
Growth (%)	44.2	-28.0	94.3
Adj. EPS	20.8	15.0	29.2
Growth (%)	38.9	-28.0	94.3
P/E	100.6	139.6	71.9
P/B	11.8	10.8	9.4
EV/EBITDA	61.6	89.0	47.7
ROE (%)	16.1	8.4	14.5
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	1HFY21	1HFY20	YoY growth %
Sales	5218	5949	-12.3%	3833	36.1%	9051	11730	-22.8%
EBITDA	325	515	-37.0%	109	198.4%	434	1111	-61.0%
EBITDA margins %	6.2%	8.7%	(250bps)	2.8%	340bps	4.8%	9.5%	470bps
Depreciation	90	83	8.5%	86	5.0%	176	158	11.5%
EBIT	235	432	-45.7%	23	929.9%	257	953	-73.0%
Interest	8	18	-54.9%	8	4.8%	15	34	-54.9%
Other Income	56	9	529.9%	51	8.7%	107	21	415.1%
Exceptional Items	0	0	NA	0	NA	0	0	NA
PBT	282	423	-33.3%	67	324.3%	349	940	-62.9%
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	72	90	-20.1%	17	322.7%	89	271	-67.2%
Reported PAT	211	333	-36.9%	50	324.8%	260	669	-61.1%
Adjustments	0	0	NA	0	NA	0	0	NA
Adj PAT	211	333	-36.9%	50	324.8%	260	669	-61.1%
No. of Shares	65	62	3.8%	62	3.8%	62	62	0.0%
Adj EPS (Rs)	3.3	5.3	-39.2%	0.8	324.8%	4.0	10.7	-62.5%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	23,515	32,555	23,830	32,832	1.3%	0.9%
EBITDA	1,397	2,635	1,462	2,723	4.7%	3.4%
Margins (%)	5.9%	8.1%	6.1%	8.3%	(290bps)	(90bps)
Adj. PAT *	917	1,837	972	1,889	6.0%	2.8%
EPS	14	28	15	29	5.7%	2.7%

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	15,009	19,916	24,675	23,830	32,832
% change	26.3	32.7	23.9	-3.4	37.8
EBITDA	1,337	1,642	2,122	1,462	2,723
% change	38.8	22.8	29.2	-31.1	86.3
Depreciation	155	199	340	354	397
EBIT	1,183	1,443	1,782	1,108	2,327
Interest	59	47	63	29	21
Other Income	73	51	63	226	230
PBT	1196	1448	1783	1305	2536
% change	60.1	21.1	23.2	-26.8	94.3
Tax	411.2	511.3	433.0	332.8	646.6
Tax Rate (%)	34.4%	35.3%	24.3%	25.5%	25.5%
Reported PAT	784.7	936.3	1349.9	972.3	1889.2
Adj*	0	0	0	0	0
Adj PAT	784.7	936.3	1349.9	972.3	1889.2
% change	62.6	19.3	44.2	-28.0	94.3
No. of shares (cr)	62.4	62.4	64.8	64.8	64.8
Adj EPS (Rs.)	13	15	21	15	29
% change	46.3	19.3	38.9	-28.0	94.3
DPS (Rs.)	0	0	0	0	0
CEPS (Rs.)	15.1	18.2	26.1	20.5	35.3

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	939	1,135	1,690	1,326	2,286
Non-cash adj.	-19	14	-29	-197	-209
Other adjustments	-14	-246	-373	68	-472
Changes in W.C	907	903	1287	1197	1605
C.F. Operation	-867	-1,401	-1,678	-1,139	-1,806
Capital exp.	73	51	-3036	496	491
Change in inv.	-134	-33	12	0	0
Other invest.CF	-928	-1382	-4700	-644	-1315
C.F - Investment	0	0	4,187	0	0
Issue of equity	-1265	172	-657	-4	0
Issue/repay debt	0	0	0	0	0
Dividends paid	-59	-108	-147	-29	-21
Other finance.CF	-1,324	63	3,384	-33	-21
C.F - Finance	-1346	-415	-29	520	270
Chg. in cash	556	214	92	612	881
Closing cash	0	0	0	0	0

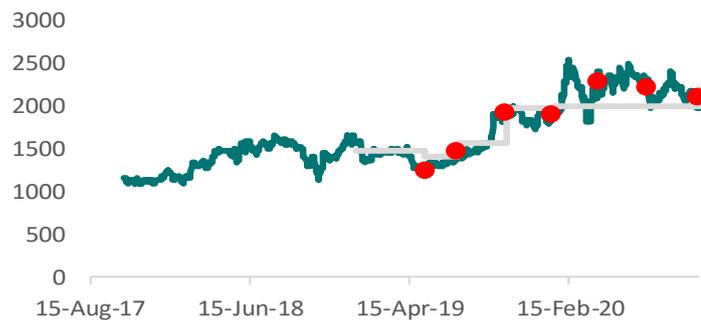
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	556	214	92	612	881
Accounts Receivable	33	76	49	47	65
Inventories	1,147	1,576	1,909	1,850	2,494
Other Cur. Assets	158	164	242	234	322
Investments	198	230	304	304	304
Gross Fixed Assets	3,608	4,779	6,620	7,771	9,577
Net Fixed Assets	3,234	4,206	5,708	6,505	7,914
CWIP	147	377	362	350	350
Intangible Assets	6	10	11	11	11
Def. Tax (Net)	-46	-64	-48	-48	-48
Other Assets	133	146	3,407	3,168	2,907
Total Assets	5,566	6,934	12,036	13,032	15,201
Current Liabilities	658	902	704	702	976
Provisions	12	13	14	14	19
Debt Funds	253	425	4	0	0
Other Liabilities	0	0	179	209	209
Equity Capital	624	624	648	648	648
Reserves & Surplus	4,019	4,970	10,488	11,460	13,349
Shareholder's Fund	4,643	5,594	11,136	12,108	13,997
Total Liabilities	5,566	6,934	12,036	13,033	15,200
BVPS (Rs.)	74	90	178	194	224

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	8.9	8.2	8.6	6.1	8.3
EBIT margin (%)	7.9	7.2	7.2	4.6	7.1
Net profit mgn.(%)	5.2	4.7	5.5	4.1	5.8
ROE (%)	18.5	18.3	16.1	8.4	14.5
ROCE (%)	15.9	18.0	16.5	8.6	14.6
W.C & Liquidity					
Receivables (days)	0.7	1.0	0.9	0.7	0.6
Inventory (days)	30.0	29.3	30.3	33.4	28.3
Payables (days)	8.4	8.3	7.9	8.7	8.2
Current ratio (x)	2.8	2.2	3.2	3.8	3.8
Quick ratio (x)	0.1	0.1	0.1	0.1	0.1
Turnover & Leverage					
Gross asset T.O (x)	4.7	4.7	4.3	3.3	3.8
Total asset T.O (x)	2.7	3.2	2.6	1.9	2.3
Int. coverage ratio (x)	19.9	30.6	28.4	37.8	111.5
Adj. debt/equity (x)	0.1	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.7	6.6	5.3	5.5	4.0
EV/EBITDA (x)	97.6	79.8	61.6	89.0	47.7
P/E (x)	166.7	139.7	100.6	139.6	71.9
P/BV (x)	28.2	23.4	11.8	10.8	9.4

Recommendation Summary



Dates	Rating	Target
5-Jan-19	Hold	1,479
16-May-19	Buy	1,404
16-Jul-19	Buy	1,578
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

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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