

## Avenue Supermarts

### Continue to focus on providing value to consumer

We attended analyst meet hosted by DMart which provided depth on current demand trends and company's strategy to build on fast growing e-commerce/QCom segment. Management said, (1) with strategy reset (building capabilities), the GM&A category saw sequential improvement, (2) with 341 pick-up locations, DMart ready format is present in 23 cities, (3) despite opening large stores, ~43K Sq.ft area, sales reached to pre Covid levels at Rs32,941/per sq.ft. That said, with 9.9% SSSG in FY24, bills cut grew 17.5% YoY. DMart expect to deliver gross margins ~14-15% and any increase in margins would be passed to consumer keeping its promise of EDLP. Though business indicators remain healthy, the company aims to remain relevant to customers by delivering value through operational efficiencies, quality products and competitive prices. Management retained its store opening target of ~45 stores in FY25 and believes it has steadily progressed on its e-commerce model and have no plans to push into Q-Com segment. With balanced narrative we retain our earnings and maintain ADD with TP of Rs5.428 (implying 75x FY26E EPS).

#### Revived strategy and building capability saw rebound in GM & A category

We note in the past the contribution from GM&A category has declined steadily from 28% to 23% over FY19-23. Despite lower contribution from GM&A, DMart's gross margins declined just 20bp. Reasons for weak demand in apparel can be attributed to, (1) elevated food inflation impacted discretionary spends, (2) many retailers jumped into value-fashion priced >Rs1000 segment, (3) consumer behavior altered with frequent changes in fast fashion quotient, and (4) price ruled over quality of merchandise. Based on these trends, DMart built internal capabilities to revive the business which has started showing up in the revenue momentum. With rest, management remained confident on rebuilding GM & A growth.

#### Store expansion remain the single most focus area for the management

Over the pandemic impacted years FY20-23, DMART aggressively expanded its store base by 148. Though finding large land parcels at right locations remain a key challenge for expanding store base, opening 40 new stores every year pose challenging, though it's key focus area for the management. Management said, with current demand pattern it can have 1200-1400 stores. Even region like MMR, where DMART has meaningful presence, can hold 100 stores.

#### Remain committed to build e-commerce business over Q-Commerce

Management remains committed to build on DMart ready e-commerce business now expanded to 23 cities with clear focus on increasing consumer basket value. DMart ready will continue to focus on home delivery in large towns, with a focus on faster growth and improved delivery time (85% deliveries in 24 hours). Though MMR continue to be largest contributor to the total sales, Pune and Bangalore have started to perform better.

#### Our view

We reckon D'Mart growth story revolves around, (1) healthy SSSG, (2) store expansion, and (3) offering great value through EDLP driving store footfall. We note, its cluster based expansion strategy focuses on store size optimization and improvement sale/sq ft. Moreover the disruption created by Q-Com players restricted to metros not impacting DMart's footfall as the consumer prefer value over convenience. Further we highlight DMart's cost led approach remains key driver for value seeking consumers, yet Q-Com players' focus on customers who seek time/convenience and not necessarily price sensitive. We retain ADD rating with TP Rs5,428 (implying 75x FY26E EPS). Risk: growth might impacted by availability and cost of real estate.

### Financial and valuation summary

YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenues	3,03,525	4,18,333	4,95,330	6,20,338	7,41,145
EBITDA	25,015	36,594	40,994	55,707	68,729
EBITDA margin (%)	8.2	8.7	8.3	9.0	9.3
Adj. Net profit	16,162	25,564	26,949	37,634	47,097
Adj. EPS (Rs)	24.8	39.3	41.4	57.8	72.4
EPS growth (%)	38.7	58.2	5.4	39.6	25.1
PE (x)	202.0	127.7	121.1	86.7	69.3
EV/EBITDA (x)	125.1	85.2	76.2	55.9	45.1
PBV (x)	23.4	19.8	16.9	14.2	11.8
RoE (%)	12.3	16.8	15.1	17.8	18.6
RoCE (%)	12.5	17.1	15.2	18.0	18.7

Source: Bloomberg, Centrum Broking

#### Company Update

India I Mid Cap

30 July, 2024

#### ADD

Price: Rs5,027

Target Price: Rs5,428

Forecast return: 8%

Institutional Research

#### Market Data

Bloomberg:	DMART IN
52 week H/L:	5,220/3,491
Market cap:	Rs3271.4bn
Shares Outstanding:	650.7mn
Free float:	35.7%
Avg. daily vol. 3mth:	5,53,511

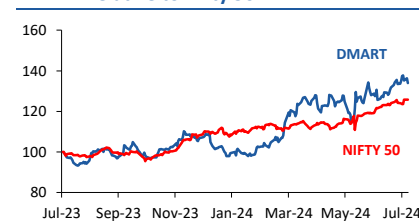
Source: Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	Unchanged

Source: Centrum Broking

#### DMART relative to Nifty 50



Source: Bloomberg

#### Shareholding pattern

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	74.7	74.7	74.7	74.7
FIIs	9.2	8.3	8.0	7.7
DIIIs	8.0	8.6	8.5	8.3
Public/other	8.1	8.4	8.8	9.3

Source: BSE



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Mid Cap

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	6,20,338	6,20,338	0.0	7,41,145	7,41,145	0.0
EBITDA	55,707	55,707	0.0	68,729	68,729	0.0
EBITDA margin	9.0	9.0	0bp	9.3	9.3	0bp
Adj. PAT	37,634	37,634	0.0	47,097	47,097	0.0
Diluted EPS (Rs)	57.8	57.8	0.0	72.4	72.4	0.0

Source: Centrum Broking

### Avenue Supermarts vs Nifty 50

	1m	6m	1 year
DMART IN	6.6	32.5	34.0
NIFTY 50	3.5	14.4	25.8

Source: Bloomberg, Centrum Broking

### Key assumptions

Y/E Mar	FY25E	FY26E
Store addition (x)	50	45
Retail space (mn sqft)	17.1	19.3
Gross Margins (%)	14.6	14.8
EBITDA Margin (%)	9.0	9.3

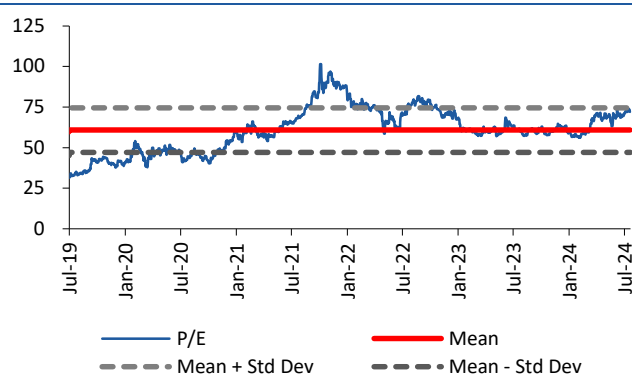
Source: Centrum Broking

### Valuations

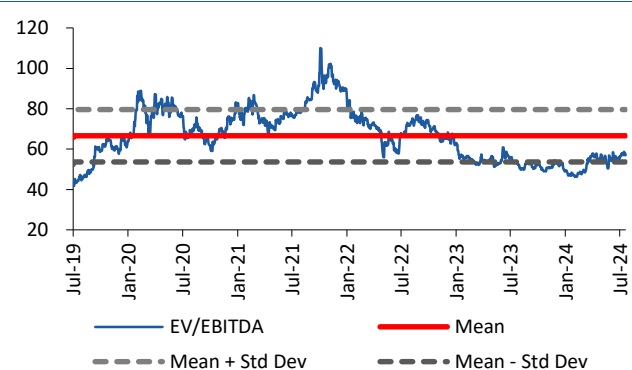
We reckon D'Mart growth story revolves around, (1) healthy SSSG, (2) store expansion, and (3) offering great value through EDLP driving store footfall. We note, its cluster based expansion strategy focuses on store size optimization and improvement sale/sq ft. Moreover the disruption created by Q-Com players restricted to metros not impacting DMart's footfall as the consumer prefer value over convenience. Further we highlight DMart's cost led approach remains key driver for value seeking consumers, yet Q-Com players' focus on customers who seek time/convenience and not necessarily price sensitive. We retain ADD rating with TP Rs5,428 (implying 75x FY26E EPS). Risk: growth might impacted by availability and cost of real estate.

Valuations	Rs/share
FY26E EPS	72.4
Target Multiple (x)	75
<b>Target Price</b>	<b>5,428</b>

### P/E mean and standard deviation



### EV/EBITDA mean and standard deviation



## DMART FY24 Analyst call KTAs

### Operating Performance:

- DMart added 41 new stores in FY24, increasing the total store count to 365
- The company witnessed a 9.9% like-for-like growth in stores operational for at least 24 months
- DMart Ready expanded to 23 cities, focusing on gradual growth in large towns
- Average delivery time for DMart Ready orders is 24 hours, excluding the hours between 11 PM and 6 AM
- About 29% of DMart stores are now in towns with populations under 5 lakhs up from 21% over the past five years
- Apparel has seen strong recovery supported by merchandise and team efforts

### Outlook:

- DMart plans to open 40-45 stores in FY25, with a target of adding 60-70 stores annually after the next 2-3 years
- Focus remains on cluster-based expansion and strengthening presence in existing markets
- DMart Ready will continue to focus on home delivery in large towns, with a focus on faster growth and improved delivery times
- The company aims to remain relevant to customers by delivering value through operational efficiency, quality products, and competitive prices

### Major challenges:

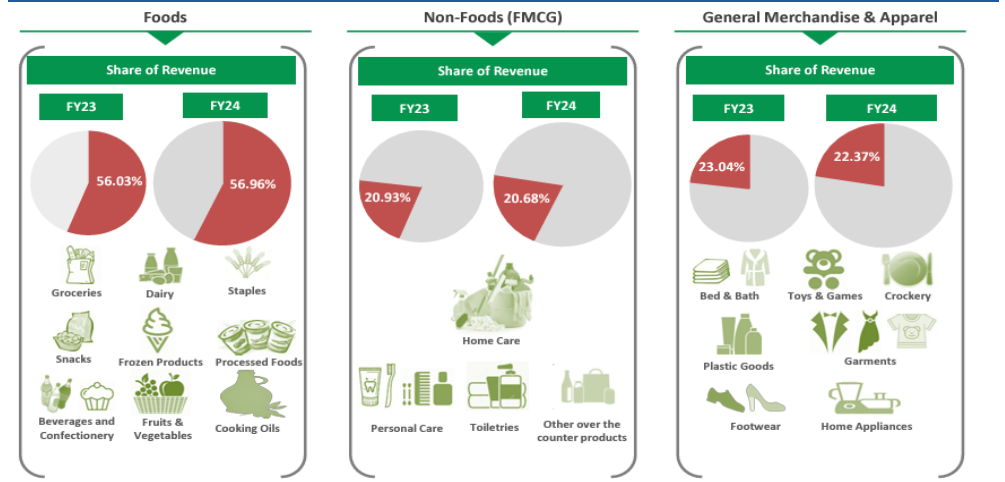
- E-commerce has negative impact of 1-1.5% CAGR on SSSG while management has no intention to push quick commerce at this stage and maintain balance b/w offline and online
- Growth in GM contribution has recovered to pre-COVID levels, but the company does not expect it to return to the earlier 26-28% range
- Maintaining a 15-20% revenue CAGR could become challenging with the current pace of store additions
- Wage inflation and efforts to build capabilities for the future are putting pressure on operational costs
- Private label contribution remains a long-term play and is not expected to significantly impact financials in the near term

### Others:

- DMart emphasized its focus on being a value retailer, consciously choosing not to adopt a discounting-heavy approach like some quick commerce players
- The company believes that larger stores provide better opportunities for future growth and cater to a wider product mix, including non-FMCG items
- DMart is learning from the digital space, particularly in areas like long-tail assortment and customer experimentation
- The company sees potential for growth in the general merchandise segment, while apparel is considered more of a defensive play
- DMart acknowledges the unpredictability of store openings in India, with delays being a frequent occurrence
- Store sizes vary considerably, and the company is actively exploring larger store formats to accommodate a wider assortment

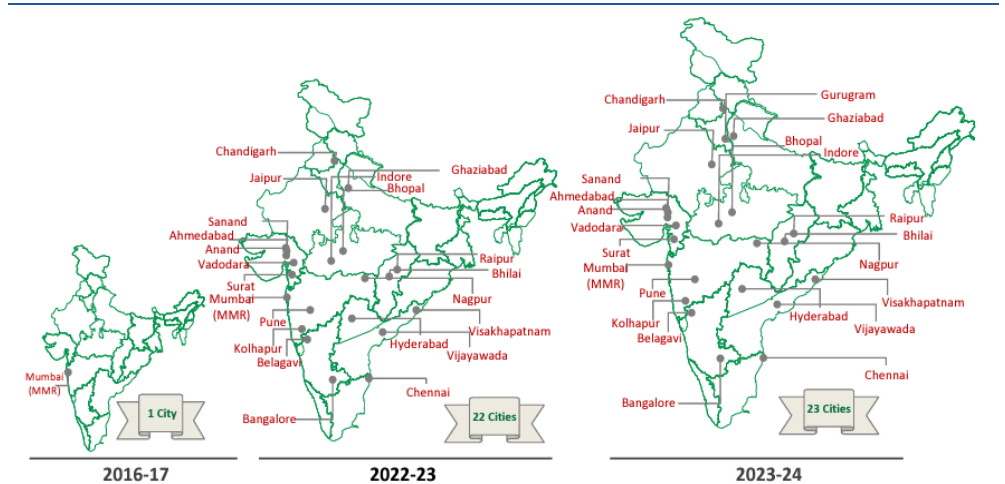
- Management remains committed to balancing offline and online strategies, with no immediate plans to push quick commerce
- The apparel segment is talent-intensive and challenging to drive within a grocery-focused business, so the company continues to focus on the basics in this category

**Exhibit 1: Key Product Categories**



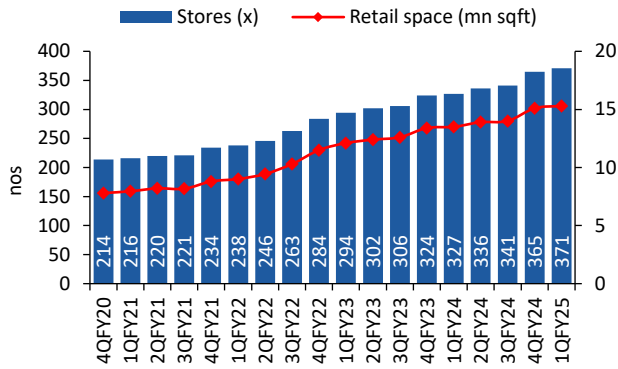
Source: Company

**Exhibit 2: Gradual Expansion of DMart Ready in Large Towns**



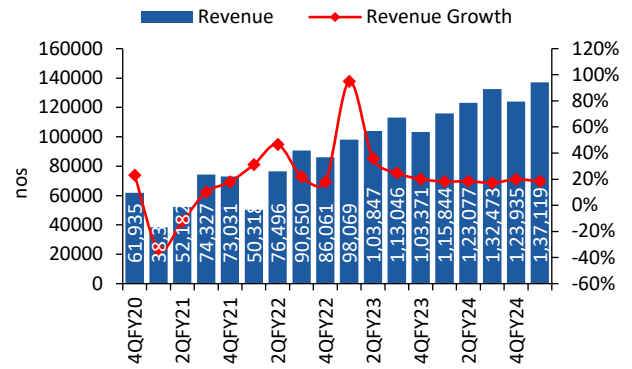
Source: Company

**Exhibit 3: Quarterly store expansion**



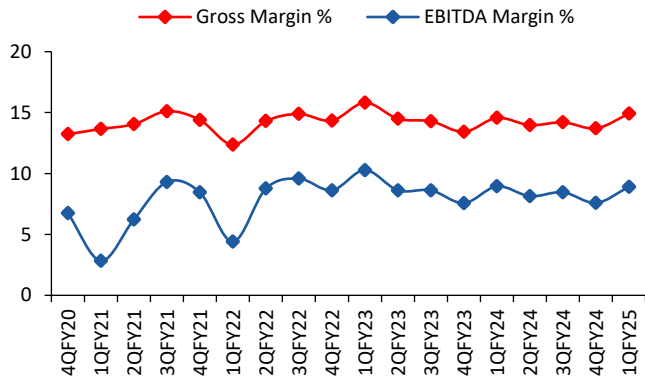
Source: Centrum Broking, Company Data

**Exhibit 4: Quarterly revenue and growth trend**



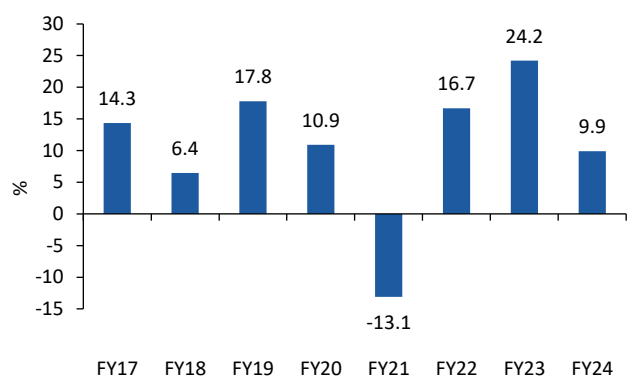
Source: Centrum Broking, Company Data

**Exhibit 5: Gross and EBITDA margin trend**



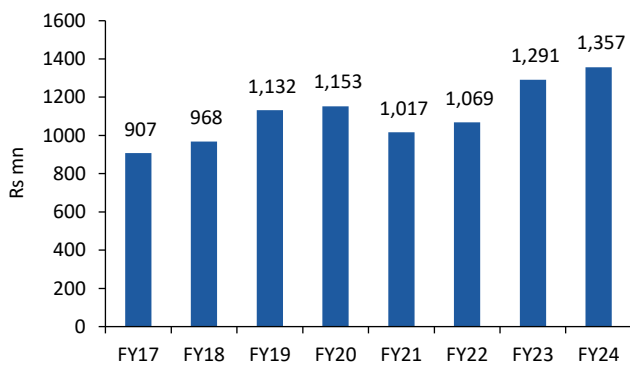
Source: Centrum Broking, Company Data

**Exhibit 6: Gradual recovery in LFL**



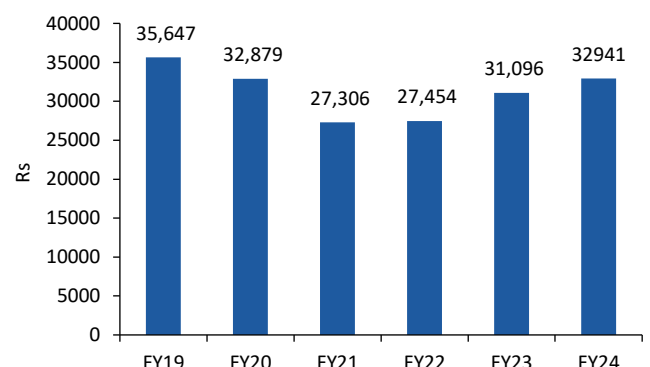
Source: Centrum Broking, Company Data

**Exhibit 7: Rising footfalls help sharp growth in sales / store**



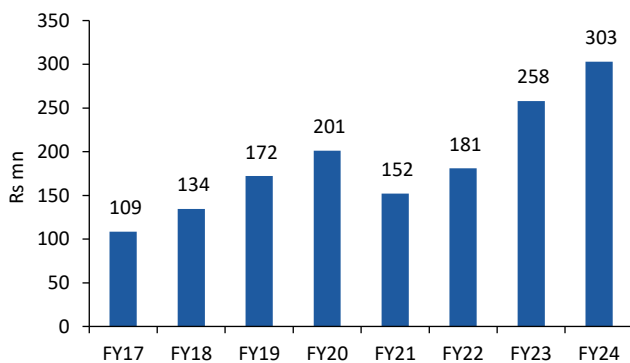
Source: Centrum Broking, Company Data

**Exhibit 8: Recovery in sales / average retail sqft**



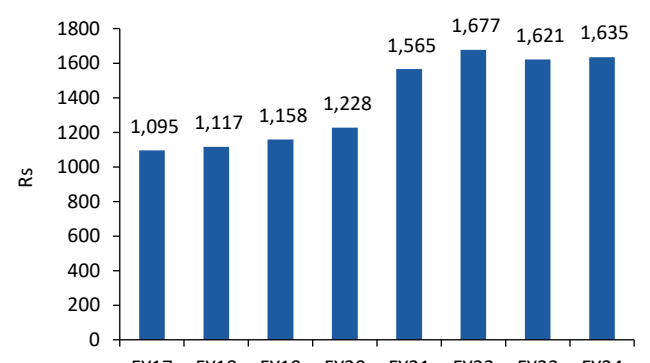
Source: Centrum Broking, Company Data

**Exhibit 9: Bill cuts grows well above pre pandemic level**



Source: Centrum Broking, Company Data

**Exhibit 10: Average bill size improving marginally**



Source: Centrum Broking, Company Data

<b>P&amp;L</b>					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Revenues</b>	<b>3,03,525</b>	<b>4,18,333</b>	<b>4,95,330</b>	<b>6,20,338</b>	<b>7,41,145</b>
Operating Expense	2,60,527	3,57,752	4,25,467	5,29,768	6,31,456
Employee cost	5,482	6,482	7,857	9,429	11,314
Others	12,501	17,505	21,012	25,434	29,646
<b>EBITDA</b>	<b>25,015</b>	<b>36,594</b>	<b>40,994</b>	<b>55,707</b>	<b>68,729</b>
Depreciation & Amortisation	4,211	5,433	6,328	7,211	8,001
<b>EBIT</b>	<b>20,805</b>	<b>31,161</b>	<b>34,666</b>	<b>48,496</b>	<b>60,728</b>
Interest expenses	396	481	443	434	425
Other income	1,409	1,631	1,891	2,117	2,492
<b>PBT</b>	<b>21,817</b>	<b>32,312</b>	<b>36,114</b>	<b>50,179</b>	<b>62,795</b>
Taxes	5,656	6,748	9,165	12,545	15,699
Effective tax rate (%)	25.9	20.9	25.4	25.0	25.0
<b>PAT</b>	<b>16,162</b>	<b>25,564</b>	<b>26,949</b>	<b>37,634</b>	<b>47,097</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>16,162</b>	<b>25,564</b>	<b>26,949</b>	<b>37,634</b>	<b>47,097</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>16,162</b>	<b>25,564</b>	<b>26,949</b>	<b>37,634</b>	<b>47,097</b>
<b>Ratios</b>					
YE Mar	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Growth (%)</b>					
Revenue	27.6	37.8	18.4	25.2	19.5
EBITDA	43.6	46.3	12.0	35.9	23.4
Adj. EPS	38.7	58.2	5.4	39.6	25.1
<b>Margins (%)</b>					
Gross	14.2	14.5	14.1	14.6	14.8
EBITDA	8.2	8.7	8.3	9.0	9.3
EBIT	6.9	7.4	7.0	7.8	8.2
Adjusted PAT	5.3	6.1	5.4	6.1	6.4
<b>Returns (%)</b>					
ROE	12.3	16.8	15.1	17.8	18.6
ROCE	12.5	17.1	15.2	18.0	18.7
ROIC	11.0	15.9	13.5	16.6	18.3
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	3.4	3.7	3.6	3.7	3.7
Debtors	2	2	2	2	1
Inventory	33	29	29	29	30
Creditors	8	6	7	7	8
Net working capital	27	35	31	34	40
<b>Solvency (x)</b>					
Net debt-equity	0.0	(0.1)	0.0	(0.1)	(0.1)
Interest coverage ratio	63.2	76.1	92.6	128.4	161.7
Net debt/EBITDA	(0.1)	(0.4)	(0.1)	(0.3)	(0.5)
<b>Per share (Rs)</b>					
Adjusted EPS	24.8	39.3	41.4	57.8	72.4
BVPS	214.0	253.6	296.3	352.6	424.9
CEPS	31.3	47.6	51.1	68.9	84.7
DPS	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>					
P/E	202.0	127.7	121.1	86.7	69.3
P/BV	23.4	19.8	16.9	14.2	11.8
EV/EBITDA	125.1	85.2	76.2	55.9	45.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

<b>Balance sheet</b>					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Equity share capital	6,478	6,483	6,507	6,507	6,507
Reserves & surplus	1,32,763	1,58,543	1,86,299	2,22,921	2,70,017
Shareholders fund	1,39,241	1,65,025	1,92,806	2,29,428	2,76,524
Minority Interest	0	0	0	0	0
Total debt	0	0	0	0	0
Non Current Liabilities	3,207	3,297	3,151	3,151	3,151
Def tax liab. (net)	648	785	940	940	940
<b>Total liabilities</b>	<b>1,43,097</b>	<b>1,69,107</b>	<b>1,96,898</b>	<b>2,33,519</b>	<b>2,80,616</b>
Gross block	89,320	1,12,139	1,39,122	1,69,501	2,00,550
Less: acc. Depreciation	(13,554)	(17,495)	(23,903)	(31,114)	(39,115)
Net block	75,766	94,644	1,15,219	1,38,387	1,61,435
Capital WIP	10,731	8,289	9,300	8,289	8,289
Net fixed assets	86,593	1,03,033	1,24,690	1,46,776	1,69,824
Non Current Assets	27,651	17,496	19,974	18,861	18,861
Investments	6,284	8,532	10,396	10,396	10,396
Inventories	25,869	30,556	37,234	47,588	56,855
Sundry debtors	2,309	2,466	3,933	1,700	2,031
Cash & Cash Equivalents	2,843	13,728	5,599	14,472	32,233
Loans & advances	1,071	3,185	11,244	11,244	11,244
Other current assets	1,420	3,440	2,592	1,526	1,526
Trade payables	5,312	7,013	9,528	11,897	14,214
Other current liab.	5,297	5,855	8,681	6,589	7,582
Provisions	334	461	555	555	555
Net current assets	22,569	40,045	41,839	57,489	81,539
<b>Total assets</b>	<b>1,43,097</b>	<b>1,69,107</b>	<b>1,96,898</b>	<b>2,33,519</b>	<b>2,80,616</b>
<b>Cashflow</b>					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Profit Before Tax	21,817	32,312	36,114	50,179	62,795
Depreciation & Amortisation	4,211	5,433	6,328	7,211	8,001
Net Interest	396	481	443	434	425
Net Change – WC	(6,483)	(3,015)	(6,490)	(5,663)	(6,289)
Direct taxes	(5,528)	(7,001)	(7,304)	(12,545)	(15,699)
<b>Net cash from operations</b>	<b>13,152</b>	<b>26,780</b>	<b>27,430</b>	<b>37,499</b>	<b>46,742</b>
Capital expenditure	(22,817)	(21,290)	(26,850)	(30,379)	(31,049)
Acquisitions, net	0	0	0	0	0
Investments	0	(1,990)	927	0	0
Others	9,896	(1,141)	80	2,117	2,492
<b>Net cash from investing</b>	<b>(12,922)</b>	<b>(24,422)</b>	<b>(25,842)</b>	<b>(28,262)</b>	<b>(28,557)</b>
<b>FCF</b>	<b>230</b>	<b>2,358</b>	<b>1,588</b>	<b>9,237</b>	<b>18,185</b>
Issue of share capital	0	155	729	0	0
Increase/(decrease) in debt	(1,195)	(1,004)	(1,153)	0	0
Dividend paid	0	0	0	0	0
Interest paid	(12)	(476)	(443)	(434)	(425)
Others	0	0	0	1	1
<b>Net cash from financing</b>	<b>(1,208)</b>	<b>(1,324)</b>	<b>(867)</b>	<b>(433)</b>	<b>(424)</b>
Net change in Cash	(977)	1,034	721	8,804	17,761

Source: Company, Centrum Broking

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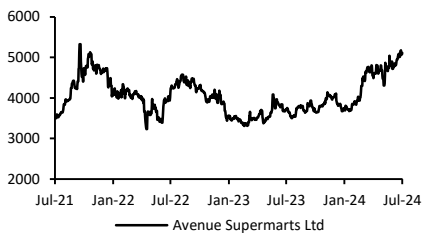
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**Avenue Supermarts**



Source: Bloomberg



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