

Retail Equity Research

Avenue Supermarts Ltd.

Retail stores

BSE CODE: 540376

NSE CODE: DMART

Bloomberg CODE: DMART:IN

SENSEX: 71,187

BUY

12 Months Investment Period

Rating as per Large Cap

CMP Rs. 3,749

TARGET Rs. 4,300

RETURN 15% 

(Closing: 18-01-24)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Healthy topline growth, product mix to improve.

Avenue Supermarts Ltd. (DMart) owns & operates India's most profitable supermarket chain, DMart. It provides products like food, non-food (FMCG), general merchandise & apparel through 341 stores (total 14.2mn sq. ft).

- We maintain our BUY rating with a revised target price of Rs. 4,300 owing to healthy revenue growth and store additions.
- Revenue grew by 17%YoY, aided by store additions, however, profitability was lower (gross margin declined by 10bpsYoY to 14.2%) due to inflationary stress on discretionary product demand.
- Operating profit grew by 15%YoY as EBITDA margin declined by 10bps YoY to 8.5% (8.1% QoQ).
- As per management, contribution from high margin segments has stabilized and the trend is encouraging. This along with moderating inflation and healthy store additions will improve earnings growth.
- We reduce our margin assumptions and expect Revenue/PAT to grow at a 22%/20% CAGR over FY23-25E. DMart currently trades at 75x 1Yr Fwd PE. We value DMart on a DCF basis, which implies 63x on FY26 EPS.

Healthy topline growth aided by strong store additions.

DMart reported healthy revenue growth of 17% YoY, aided by strong store additions in recent years. DMart opened 17 new stores in 9MFY24 and 90 stores in the last 2 years, which will aid future growth. Further, DMart is gradually improving its E-Com business channel, 'DMart Ready', currently available in 22 cities which now contributes ~2.5% total revenue. Recently, the company has set up a new subsidiary, Reflect Healthcare and Retail Private Limited, to launch pharmacy shop-in-shops and has opened one in the Mumbai metropolitan region. Pharmacy shop-in-shops are expected to scale up in the future, which, will also boost footfalls. We expect a standalone revenue CAGR of 22% over FY23-25E, supported by healthy store additions.

Margins to recover on expected improvement in product mix.

Gross margin declined to 14.2% from 14.3% YoY (14.0%QoQ) due to a deterioration in the product mix. Due to inflationary pressure, contribution from higher margin segments like general merchandise & apparel business (GM&A) was lower, which impacted margins. However, GM&A contribution has stabilised and trends are encouraging post Diwali as per the company. EBITDA margin declined by 10bps YoY to 8.5% (8.1% QoQ). The discretionary mix is expected to recover, aided by declining inflation, which will improve margins in the coming quarters. Gross margin is expected to be lower in FY24 compared to FY23 due to the deterioration in the product mix but expected to improve in FY25 aided by better discretionary demand supported by lower inflation.

Valuation & Outlook

DMart has strong growth potential given its healthy balance sheet with no debt and strong operational efficiency. Healthy store additions will aid future revenue growth, while moderating inflation will improve discretionary demand and margins. DMart is currently trading at 75x 1Yr Fwd PE. We arrive at a target price of Rs.4,300 by valuing on a DCF basis, which implies 63x on FY26 EPS, maintaining our BUY rating.

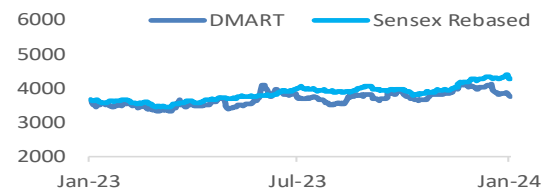
Company Data

Market Cap (Rs.cr)	2,43,959
Enterprise Value (Rs.cr)	2,42,586
Outstanding Shares (cr)	65.1
Free Float (%)	23.0
Dividend Yield (%)	0.0
52 week high (Rs.)	4,203
52 week low (Rs.)	3,293
6m average volume (cr)	0.04
Beta	1.06
Face value Rs.	10

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	74.7	74.7	74.7
FII's	8.2	7.7	8.0
MFs/Institutions	7.7	8.3	8.5
Public	6.5	6.4	6.0
Others	3.0	3.0	2.8
Total	100.0	100.0	100.0
Promoter pledge (%)	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.0%	2.0%	2.7%
Absolute Sensex	8.9%	6.8%	16.6%
Relative Return*	-8.9%	-4.8%	-13.9%

*over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Sales	49,616	61,830	72,944
Growth (%)	18.6	24.6	18.0
EBITDA	4,245	5,470	6,594
EBITDA Margin (%)	8.6	8.8	9.0
Adj. PAT	2,812	3,684	4,462
Growth (%)	10.0	31.0	21.1
Adj. EPS	43.2	56.6	68.6
Growth (%)	9.6	31.0	21.1
P/E	86.7	66.2	54.7
P/B	12.1	10.2	8.5
EV/EBITDA	57.0	44.0	36.2
ROE (%)	15.7	17.4	17.7
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs.cr	Q3FY24	Q3FY23	YoY Growth	Q2FY24	QoQ Growth	9MFY24	9MFY23	YoY growth
Sales	13,247	11,305	17.2%	12,308	7.6%	37,139	31,496	17.9%
EBITDA	1,121	974	15.0%	1,002	11.9%	3,159	2,877	9.8%
EBITDA margins	8.5%	8.6%	(50bps)	8.1%	(80bpS)	8.5%	9.1%	40bps
Depreciation	163	142	15.2%	151	8.2%	455	402	13.2%
EBIT	958	833	15.0%	851	12.6%	2,704	2,476	9.2%
Interest	11	12	-8.6%	12	-5.7%	34	35	-5.0%
Other Income	44	41	9.7%	46	-2.6%	137	121	12.9%
Exceptional Items	0	0	NA	0	NA	0	0	NA
PBT	991	861	15.1%	885	12.0%	2,808	2,561	9.6%
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	254	220	15.5%	226	12.4%	717	510	40.5%
Reported PAT	737	641	15.0%	659	11.9%	2,091	2,051	1.9%
Adjustments	0	0	NA	0	NA	0	-141	NA
Adj PAT	737	641	15.0%	659	11.9%	2,091	1,910	9.4%
No. of Shares	65	65	0.1%	65	0.0%	65	65	0.0%
Adj EPS (Rs)	11.4	9.9	15.0%	10.2	11.9%	32.3	29.5	9.4%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	50,506	60,850	49,616	61,830	-1.8%	1.6%
EBITDA	4,352	5,442	4,245	5,470	-2.5%	0.5%
Margins	8.6%	8.9%	8.6%	8.8%	(10bps)	(10bps)
Adj. PAT *	2,861	3,614	2,812	3,684	-1.7%	1.9%
EPS	47.9	61.0	43.4	56.8	-9.4%	-6.8%

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	23,787	30,353	41,833	49,616	61,830	72,944
% change	-3.6	27.6	37.8	18.6	24.6	18.0
EBITDA	1,742	2,502	3,659	4,245	5,470	6,594
% change	-17.9	43.6	46.3	16.0	28.9	20.5
Depreciation	371	421	543	622	729	859
EBIT	1,370	2,080	3,116	3,623	4,741	5,735
Interest	34	40	48	45	41	36
Other Income	209	141	163	198	247	292
PBT	1,545	2,182	3,231	3,776	4,947	5,991
% change	-13.4	41.2	48.1	16.9	31.0	21.1
Tax	379	566	675	964	1,263	1,529
Tax Rate	24.6%	25.9%	20.9%	25.5%	25.5%	25.5%
Reported PAT	1,165	1,616	2,556	2,812	3,684	4,462
Adj*	0	0	0	0	0	0
Adj PAT	1,165	1,616	2,556	2,812	3,684	4,462
% change	-13.7	38.7	58.2	10.0	31.0	21.1
No. of shares (cr)	64.8	64.8	64.8	65.1	65.1	65.1
Adj EPS (Rs.)	18.0	24.9	39.4	43.2	56.6	68.6
% change	-13.7	38.7	58.1	9.6	31.0	21.1
DPS (Rs.)	0	0	0	0	0	0
CEPS (Rs.)	23.7	31.4	47.8	52.8	67.8	81.8

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	1,537	2,037	3,100	3,434	4,414	5,321
Non-cash adj.	-31	-74	-120	-153	-206	-256
Changes in W.C	-120	-648	-301	-357	-613	-480
C.F. Operation	1,385	1,315	2,678	2,924	3,594	4,585
Capital exp.	-1,968	-2,282	-2,129	-2,565	-2,448	-2,526
Change in inv.	672	925	-185	198	247	292
Other invest.CF	126	39	-166	0	0	0
C.F - Investment	-1,155	-1,292	-2,442	-2,366	-2,200	-2,235
Issue of equity	0	0	16	2	0	0
Issue/repay debt	-104	-81	-100	0	0	0
Dividends paid	0	0	0	0	0	0
Other finance.CF	-36	-39	-48	-45	-41	-36
C.F - Finance	-140	-121	-132	-43	-41	-36
Chg. in cash	90	-98	103	515	1,353	2,315
Closing cash	181	83	187	1,888	3,241	5,556

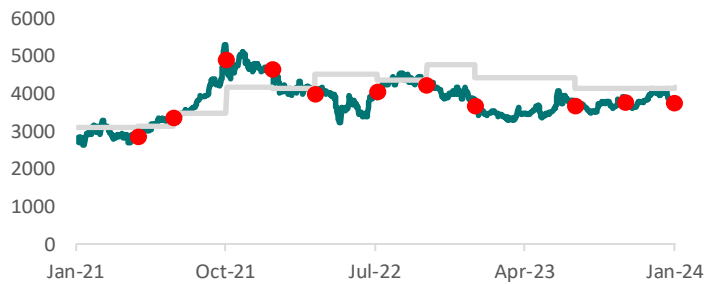
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	1,432	284	1,373	1,888	3,241	5,556
Accounts Receivable	72	231	247	272	339	300
Inventories	2,167	2,587	3,056	3,595	4,415	5,138
Other Cur. Assets	289	249	460	546	680	803
Investments	494	628	1,055	1,055	1,055	1,055
Gross Fixed Assets	7,904	10,428	12,996	16,040	18,487	21,014
Net Fixed Assets	6,620	8,723	10,748	13,170	14,888	16,555
CWIP	1,006	1,073	829	350	350	350
Intangible Assets	9	10	10	10	10	10
Def. Tax (Net)	-52	-65	-79	-79	-79	-79
Other Assets	1,556	1,619	466	476	508	600
Total Assets	13,594	15,339	18,165	21,283	25,408	30,288
Current Liabilities	1,050	1,061	1,287	1,573	1,990	2,386
Provisions	22	33	46	55	68	80
Debt Funds	0	0	0	0	0	0
Other Liabilities	217	321	330	339	348	358
Equity Capital	648	648	648	651	651	651
Reserves & Surplus	11,658	13,276	15,854	18,667	22,351	26,812
Shareholder's Fund	12,305	13,924	16,503	19,317	23,001	27,463
Total Liabilities	13,594	15,339	18,165	21,283	25,408	30,288
BVPS (Rs.)	197	223	264	310	369	440

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	7.3	8.2	8.7	8.6	8.8	9.0
EBIT margin (%)	5.8	6.9	7.4	7.3	7.7	7.9
Net profit mgn.(%)	4.9	5.3	6.1	5.7	6.0	6.1
ROE (%)	9.9	12.3	16.8	15.7	17.4	17.7
ROCE (%)	10.2	12.6	17.1	16.0	17.6	17.8
W.C & Liquidity						
Receivables (days)	0.9	1.8	2.1	1.9	1.8	1.6
Inventory (days)	36.5	33.3	28.8	28.5	27.7	28.1
Payables (days)	9.1	7.7	6.3	7.8	8.6	8.8
Current ratio (x)	3.7	3.1	3.9	3.9	4.2	4.8
Quick ratio (x)	0.2	0.3	0.3	0.6	1.2	2.0
Turnover & Leverage						
Gross asset T.O (x)	3.3	3.3	3.6	3.4	3.6	3.7
Total asset T.O (x)	1.9	2.1	2.5	2.5	2.6	2.6
Int. coverage ratio (x)	39.7	52.5	64.8	80.3	114.9	160.0
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation						
EV/Sales (x)	10.2	8.0	5.8	4.9	3.9	3.3
EV/EBITDA (x)	138.7	97.4	66.3	57.0	44.0	36.2
P/E (x)	208.4	150.3	95.1	86.7	66.2	54.7
P/BV (x)	19.0	16.8	14.2	12.1	10.2	8.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
30-Mar-22	Buy	4,520
21-July-22	Buy	4,380
20-Oct-22	Buy	4,795
17-Jan-23	Buy	4,445
31-July-23	Buy	4,150
01-Nov-23	Buy	4,160
19-Jan-24	Buy	4,300

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/Neutral

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/Neutral:** 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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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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