

Avenue Supermarts

BUY

Positive surprise; net margins above pre-covid!

Summary

Avenue Supermarts (DMART) 3QFY22 results has been above our estimates. Revenue growth (at 18% 2 year CAGR) is healthy. However, we expect this ratio to be 25%+ post normalization of social distancing norms. Slow pick up in margin-accretive general merchandise and apparel business (vs staples) is a cause for temporary concern from business economics perspective. Store addition rate remain healthy (29 stores YTD). Positive to note that net margins are above pre-covid levels now. We have upgraded our store addition estimates in FY23E to 33 stores. Accordingly; our EPS estimates are revised upward by 11% in FY22E and 2-3% in FY23-24E. We maintain high conviction BUY rating on the stock with TP of Rs 7,155.

Key Highlights and Investment Rationale

Revenue growth tracks well; store addition robust

Standalone revenue grew 22%YoY to Rs 91bn during 3QFY22 (18% 2-year CAGR) driven by normalization in store-operating-days. On per square feet basis; revenue declined 3%YoY. Revenue from subsidiary grew 40%YoY to Rs 1.5bn (c. 1.7% of consol revenue). During 3QFY22 DMART added 17 stores (29 stores YTD) of an average size of 50k sqft.

Gross margin impacted by mix-deterioration; net margin above pre-covid

Gross margin contracted marginally by 22bp to 14.9% (due to mix deterioration) while Net Profit Margin stood at 6.5% (+14bp YoY). EPS grew 24%YoY to Rs 9.04.

High conviction BUY; DMART is creating most-cost-efficient platform business in both online and offline space. We expect DMART to benefit from current inflationary headwinds driven by market share gain from general trade lead by 20-30% discount over MRP. We value DMART as per DCF; our revised TP stands at Rs 7,155 with BUY rating. DMART is our top pick.

TP **Rs 7,155**

CMP **Rs 4,731**

Potential upside/downside 51%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.8)	7.3	59.4
Rel to Sensex	0.8	7.8	36.9

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	27.6	39.8	50.1
Consensus	26.1	40.6	53.1
% difference	5.9	(2.1)	(5.7)

Key Stock Data

Bloomberg/Reuters	DMART IN/AVEU.BO
Sector	Retail
Shares o/s (mn)	648
Market cap. (Rs mn)	30,64,572
3-m daily average value (Rs mn)	236.6
52-week high / low	Rs 5,900 / 2,611
Sensex / Nifty	59,745 / 17,813

Shareholding Pattern (%)

Promoters	75.0
FII	10.0
DII	6.7
Public	8.3

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,46,750	2,37,871	3,23,075	4,40,906	5,47,903
Change (yoy, %)	24	(4)	36	36	24
EBITDA	21,221	17,416	26,864	38,555	48,265
Change (yoy, %)	29	(18)	54	44	25
EBITDA Margin(%)	8.6	7.3	8.3	8.7	8.8
Adj.PAT	13,499	11,652	17,891	25,751	32,425
EPS (Rs)	21.5	18.0	27.6	39.8	50.1
Change (yoy, %)	43.3	(16.3)	53.5	43.9	25.9
PE(x)	220.1	263.0	171.3	119.0	94.5
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	140.0	175.1	113.5	79.0	62.8
RoE (%)	16.1	9.9	13.6	16.7	17.7
RoCE (%)	20.4	11.4	17.0	21.6	23.1

Source: IDBI Capital Research

Exhibit 1: Standalone Quarterly Snapshot

(Rs mn)

Financial Snapshot	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	90,650	74,327	22.0	76,496	18.50	2,17,464	1,64,841	31.9
COGS	77,155	63,096	22.3	65,557	17.7	1,86,809	1,41,046	32.4
Gross profit	13,495	11,231	20.2	10,939	23.4	30,655	23,795	28.8
<i>Gross Margin (%)</i>	<i>14.9</i>	<i>15.1</i>	<i>-22bps</i>	<i>14.3</i>	<i>59bps</i>	<i>14.1</i>	<i>14.4</i>	<i>-34bps</i>
Employee expenses	1,414	1,268	11.5	1,293	9.3	4,052	3,708	9.3
<i>% of net sales</i>	<i>1.6</i>	<i>1.7</i>	<i>-15bps</i>	<i>1.7</i>	<i>-13bps</i>	<i>1.9</i>	<i>2.2</i>	<i>-39bps</i>
Other Expenses	3,399	3,050	11.5	2,945	15.4	9,007	8,836	1.9
<i>% of net sales</i>	<i>3.8</i>	<i>4.1</i>	<i>-35bps</i>	<i>3.8</i>	<i>-10bps</i>	<i>4.1</i>	<i>5.4</i>	<i>-122bps</i>
EBITDA	8,682	6,914	25.6	6,702	29.6	17,596	11,251	56.4
<i>EBITDA Margin (%)</i>	<i>9.6</i>	<i>9.3</i>	<i>28bps</i>	<i>8.8</i>	<i>82bps</i>	<i>8.1</i>	<i>6.8</i>	<i>127bps</i>
Depreciation	1,080	1,003	7.8	971	11.3	2,978	2,767	7.6
EBIT	7,602	5,911	28.6	5,731	32.64	14,617	8,484	72.3
Other Income	323	492	-34.3	330	-2.1	1,015	1,564	-35.1
Interest Expenses	105	87	20.4	90	16.4	279	242	15.5
PBT	7,820	6,316	23.8	5,971	31.0	15,353	9,806	56.6
Taxes	1,962	1,614	21.6	1,482	32.4	3,855	2,502	54.1
Adjusted PAT	5,858	4,702	24.6	4,489	30.5	11,498	7,304	57.4
Extra-ordinary items	0	0		0		0	0	
Reported PAT	5,858	4,702	24.6	4,489	30.5	11,498	7,304	57.4
Diluted EPS (Rs)	9.0	7.3	24.4	6.9	30.5	17.8	11.29	57.2

Source: Company; IDBI Capital Research

Exhibit 2: Consolidated Quarterly Snapshot

(Rs mn)

Financial Snapshot	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	92,178	75,420	22.2	77,889	18.3	2,21,898	1,67,314	32.6
COGS	77,966	63,726	22.3	66,250	17.7	1,89,253	1,42,392	32.9
Gross profit	14,212	11,694	21.5	11,640	22.1	32,645	24,922	31.0
<i>Gross Margin (%)</i>	<i>15.4</i>	<i>15.5</i>	<i>-9bps</i>	<i>14.9</i>	<i>47bps</i>	<i>15.0</i>	<i>15.1</i>	<i>-11bps</i>
Employee expenses	1,618	1,393	16.2	1,466	10.4	4,549	3,999	13.8
<i>% of net sales</i>	<i>1.8</i>	<i>1.8</i>	<i>-9bps</i>	<i>1.9</i>	<i>-13bps</i>	<i>2.1</i>	<i>2.4</i>	<i>-33bps</i>
Other Expenses	3,929	3,410	15.2	3,488	12.6	10,504	9,619	9.2
<i>% of net sales</i>	<i>4.3</i>	<i>4.5</i>	<i>-26bps</i>	<i>4.5</i>	<i>-22bps</i>	<i>4.8</i>	<i>5.8</i>	<i>-101bps</i>
EBITDA	8,665	6,891	25.7	6,686	29.6	17,592	11,304	55.6
<i>EBITDA Margin (%)</i>	<i>9.4</i>	<i>9.1</i>	<i>26bps</i>	<i>8.6</i>	<i>82bps</i>	<i>8.1</i>	<i>6.9</i>	<i>123bps</i>
Depreciation	1,283	1,137	12.8	1,160	10.6	3,518	3,092	13.8
EBIT	7,382	5,754	28.3	5,526	33.6	14,075	8,212	71.4
Other Income	260	453	-42.7	275	-5.6	849	1,481	-42.7
Interest Expenses	140	113	23.5	124	12.8	372	294	26.4
PBT	7,502	6,094	23.1	5,677	32.1	14,552	9,399	54.8
Taxes	1,976	1,625	21.6	1,499	31.8	3,896	2,543	53.2
Adjusted PAT	5,525	4,470	23.6	4,178	32.3	10,657	6,856	55.4
Extra-ordinary items	0	0		0		0	0	
Reported PAT	5,525	4,470	23.6	4,178	32.3	10,657	6,856	55.4
EPS	8.5	6.9	23.6	6.4	32.3	16.45	10.58	55.4

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

	Actual	IDBI Estimate	% variation IDBI
Revenue	90,650	90,650	0%
EBITDA	8,682	7,524	15%
Margin (%)	9.6	8.3	
APAT	5,858	5,116	14%

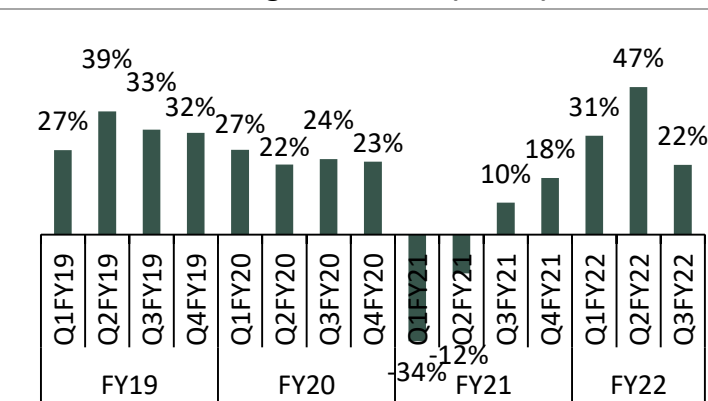
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	3,11,152	3,23,075	3.8%	4,30,447	4,40,906	2.4%	5,34,430	5,47,903	2.5%
EBITDA (Rs mn)	24,283	26,864	10.6%	37,450	38,555	3.0%	46,729	48,265	3.3%
EBITDA margin (%)	7.8%	8.3%		8.7%	8.7%		8.7%	8.8%	
Net profit (Rs mn)	16,078	17,891	11.3%	25,044	25,751	2.8%	31,395	32,425	3.3%
EPS (Rs)	24.8	27.6	11.3%	38.7	39.8	2.8%	48.5	50.1	3.3%

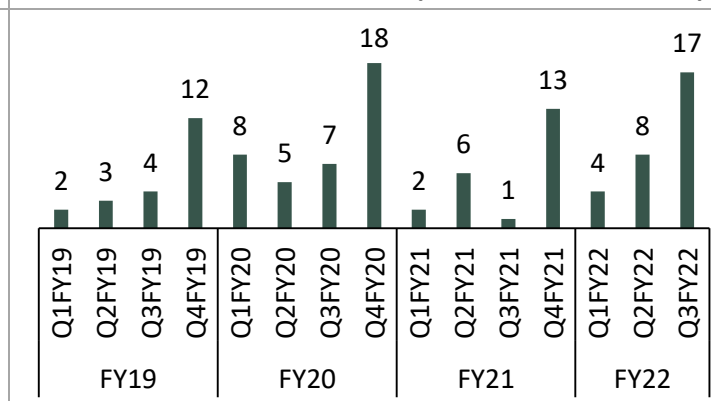
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



Source: Company; IDBI Capital Research

Exhibit 6: Store addition trend (count of stores added)



Source: Company; IDBI Capital Research

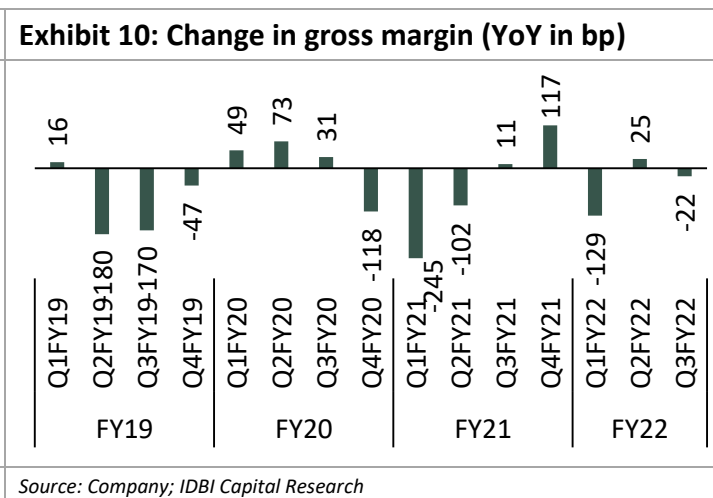
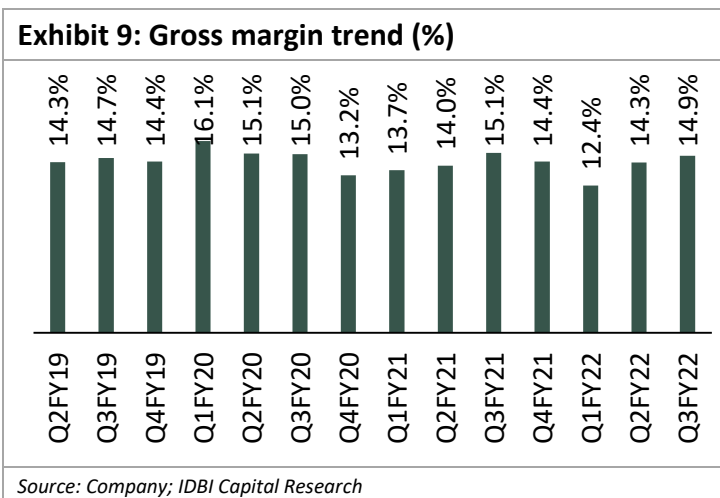
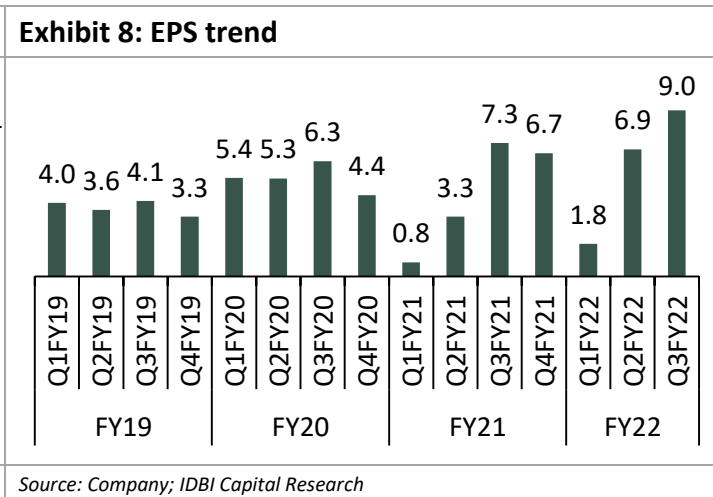
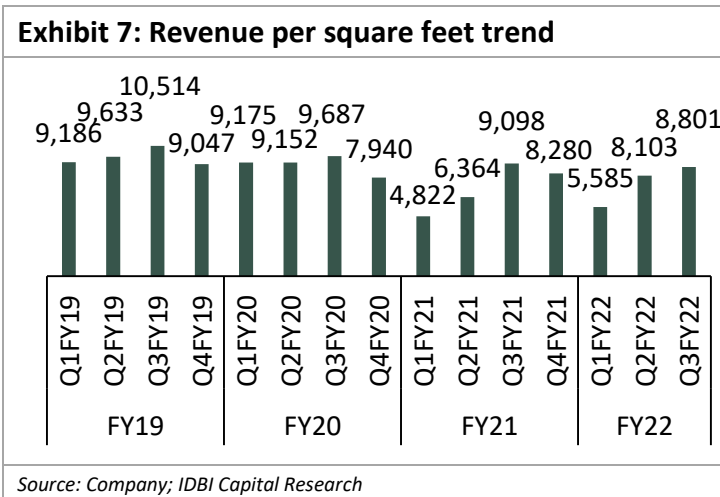


Exhibit 11: EBITDA Margin trend (%)	Exhibit 12: Change in EBITDA margin (YoY in bp)																																																														
<table border="1"> <tr><th>Quarter</th><th>EBITDA Margin (%)</th></tr> <tr><td>Q2FY19</td><td>8.0%</td></tr> <tr><td>Q3FY19</td><td>8.3%</td></tr> <tr><td>Q4FY19</td><td>7.5%</td></tr> <tr><td>Q1FY20</td><td>10.3%</td></tr> <tr><td>Q2FY20</td><td>8.7%</td></tr> <tr><td>Q3FY20</td><td>8.8%</td></tr> <tr><td>Q4FY20</td><td>6.7%</td></tr> <tr><td>Q1FY21</td><td>2.8%</td></tr> <tr><td>Q2FY21</td><td>6.2%</td></tr> <tr><td>Q3FY21</td><td>9.3%</td></tr> <tr><td>Q4FY21</td><td>8.4%</td></tr> <tr><td>Q1FY22</td><td>4.4%</td></tr> <tr><td>Q2FY22</td><td>8.8%</td></tr> <tr><td>Q3FY22</td><td>9.6%</td></tr> </table>	Quarter	EBITDA Margin (%)	Q2FY19	8.0%	Q3FY19	8.3%	Q4FY19	7.5%	Q1FY20	10.3%	Q2FY20	8.7%	Q3FY20	8.8%	Q4FY20	6.7%	Q1FY21	2.8%	Q2FY21	6.2%	Q3FY21	9.3%	Q4FY21	8.4%	Q1FY22	4.4%	Q2FY22	8.8%	Q3FY22	9.6%	<table border="1"> <tr><th>Quarter</th><th>Change in EBITDA margin (YoY in bp)</th></tr> <tr><td>Q1FY19</td><td>84</td></tr> <tr><td>Q2FY19</td><td>-106</td></tr> <tr><td>Q3FY19</td><td>-198</td></tr> <tr><td>Q4FY19</td><td>-25</td></tr> <tr><td>Q1FY20</td><td>104</td></tr> <tr><td>Q2FY20</td><td>67</td></tr> <tr><td>Q3FY20</td><td>47</td></tr> <tr><td>Q4FY20</td><td>-74</td></tr> <tr><td>Q1FY21</td><td>-747</td></tr> <tr><td>Q2FY21</td><td>-244</td></tr> <tr><td>Q3FY21</td><td>52</td></tr> <tr><td>Q4FY21</td><td>170</td></tr> <tr><td>Q1FY22</td><td>156</td></tr> <tr><td>Q2FY22</td><td>253</td></tr> <tr><td>Q3FY22</td><td>28</td></tr> </table>	Quarter	Change in EBITDA margin (YoY in bp)	Q1FY19	84	Q2FY19	-106	Q3FY19	-198	Q4FY19	-25	Q1FY20	104	Q2FY20	67	Q3FY20	47	Q4FY20	-74	Q1FY21	-747	Q2FY21	-244	Q3FY21	52	Q4FY21	170	Q1FY22	156	Q2FY22	253	Q3FY22	28
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Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,99,163	2,46,750	2,37,871	3,23,075	4,40,906	5,47,903
<i>Change (yoy, %)</i>	67.6	23.9	(3.6)	35.8	36.5	24.3
Operating expenses	(1,82,741)	(2,25,529)	(2,20,455)	(2,96,211)	(4,02,351)	(4,99,639)
EBITDA	16,422	21,221	17,416	26,864	38,555	48,265
<i>Change (yoy, %)</i>	70.4	29.2	-17.9	54.2	43.5	25.2
<i>Margin (%)</i>	8.2	8.6	7.3	8.3	8.7	8.8
Depreciation	(1,988)	(3,398)	(3,714)	(3,976)	(4,727)	(5,478)
EBIT	14,434	17,823	13,702	22,888	33,828	42,787
Interest paid	(472)	(628)	(345)	(394)	(455)	(515)
Other income	514	633	2,089	1,362	961	961
Pre-tax profit	14,476	17,829	15,447	23,855	34,335	43,233
Tax	(5,113)	(4,330)	(3,794)	(5,964)	(8,584)	(10,808)
<i>Effective tax rate (%)</i>	35.3	24.3	24.6	25.0	25.0	25.0
Minority Interest	-	-	-	-	-	-
Net profit	9,364	13,499	11,652	17,891	25,751	32,425
Exceptional items	-	-	-	-	-	-
Adjusted net profit	9,364	13,499	11,652	17,891	25,751	32,425
<i>Change (yoy, %)</i>	94.0	44.2	(13.7)	53.5	43.9	25.9
EPS	15.0	21.5	18.0	27.6	39.8	50.1
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-	-	-

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	55,945	1,11,355	1,23,053	1,40,944	1,66,695	1,99,120
Share capital	6,241	6,478	6,478	6,478	6,478	6,478
Reserves & surplus	49,704	1,04,878	1,16,575	1,34,467	1,60,218	1,92,642
Total Debt	4,248	37	-	-	-	-
Other liabilities	649	2,268	2,693	2,693	2,693	2,693
Curr Liab & prov	9,131	7,181	10,719	12,746	15,536	18,047
Current liabilities	9,004	7,038	10,497	12,524	15,314	17,825
Provisions	127	143	222	222	222	222
Total liabilities	14,028	9,486	13,411	15,439	18,229	20,740
Total equity & liabilities	69,973	1,20,841	1,36,464	1,56,415	1,84,987	2,19,954
Net fixed assets	45,927	54,338	67,883	78,951	92,399	1,05,253
Investments	2,301	3,038	4,938	4,938	4,938	4,938
Other non-curr assets	1,457	33,995	24,034	24,034	24,034	24,034
Current assets	20,286	22,923	39,609	48,491	63,615	85,729
Inventories	15,762	19,094	21,673	29,444	40,136	49,760
Sundry Debtors	755	485	721	979	1,336	1,661
Cash and Bank	2,131	915	14,320	15,173	19,248	31,414
Loans and advances	-	-	-	-	-	-
Total assets	69,973	1,20,841	1,36,464	1,56,415	1,84,987	2,19,954

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	14,476	17,829	15,447	23,855	34,335	43,233
Depreciation	1,988	3,398	3,714	3,976	4,727	5,478
Tax paid	(4,935)	(4,815)	(2,561)	(5,964)	(8,584)	(10,808)
Chg in working capital	(3,289)	(3,185)	(1,619)	(6,002)	(8,259)	(7,437)
Other operating activities	181	(353)	(1,127)	394	455	515
Cash flow from operations (a)	8,421	12,874	13,853	16,260	22,674	30,981
Capital expenditure	(13,800)	(16,831)	(19,699)	(14,025)	(17,000)	(17,000)
Chg in investments	3,400	(30,288)	8,144	-	-	-
Other investing activities	392	122	-	-	-	-
Cash flow from investing (b)	(10,007)	(46,996)	(11,555)	(14,025)	(17,000)	(17,000)
Equity raised/(repaid)	-	41,869	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	9,865	13,900	(2,037)	-	-	-
Other financing activities	(11,819)	(22,863)	635	(1,382)	(1,599)	(1,815)
Cash flow from financing (c)	(1,954)	32,905	(1,403)	(1,382)	(1,599)	(1,815)
Net chg in cash (a+b+c)	(3,540)	(1,217)	896	853	4,075	12,166

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	89.6	177.3	190.0	217.6	257.3	307.4
Adj EPS (Rs)	15.0	21.5	18.0	27.6	39.8	50.1
Adj EPS growth (%)	74.6	43.3	-16.3	53.5	43.9	25.9
EBITDA margin (%)	8.2	8.6	7.3	8.3	8.7	8.8
Pre-tax margin (%)	7.3	7.2	6.5	7.4	7.8	7.9
Net Debt/Equity (x)	0.0	0.0	-0.1	-0.1	-0.1	-0.2
ROCE (%)	26.1	20.4	11.4	17.0	21.6	23.1
ROE (%)	19.9	16.1	9.9	13.6	16.7	17.7
DuPont Analysis						
Asset turnover (x)	3.1	2.7	1.9	2.2	2.6	2.7
Leverage factor (x)	1.4	1.1	1.1	1.1	1.1	1.1
Net margin (%)	4.7	5.5	4.9	5.5	5.8	5.9
Working Capital & Liquidity ratio						
Inventory days	29	28	33	33	33	33
Receivable days	1.4	1	1	1	1	1
Payable days	9.2	7	9	9	10	9

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	315.3	220.1	263.0	171.3	119.0	94.5
Price/Book value (x)	52.8	26.7	24.9	21.7	18.4	15.4
EV/Net sales (x)	14.8	12.0	12.8	9.4	6.9	5.5
EV/EBITDA (x)	179.9	140.0	175.1	113.5	79.0	62.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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