

Avenue Supermarts

HOLD

Expect second half to be more robust

Summary

Avenue Supermarts (DMART) reported below expected result on EBITDA and PAT front. This was largely due to higher than expected other expense and effective tax rate. Expansion in gross margin and healthy store addition rate were the key positives in the result. DMART is on track to achieve its FY20E aggressive guidance on store addition with no signs of slowdown. We expect DMART to add 27 stores in FY20E. Miss in EBITDA and PAT estimates is more of accounting-miss than structural. We continue to maintain our thesis on DMART as a secular play on value migration in India. Huge scope of penetration and superior business model should help DMART to win market share. At current price, the valuation is expensive and trading at 40x FY21E EBITDA and 58x FY21E EPS. Due to high valuation, we have downgraded our rating to HOLD with a TP of Rs1,838.

Key Highlights and Investment Rationale

- Revenue in line with our estimate:** Revenue stood at Rs 59bn (+22%/+3% YoY/QoQ) in line with our estimates. During the quarter DMART added 5 stores (13 stores in 1HFY20). Store addition rate is in-line with company guidance of adding higher number of stores as compared to FY19. We expect 27 stores to be added in FY20E. Revenue per sq ft declined 4%YoY to Rs 9,295 (-2% QoQ).
- Gross margin rises, higher other expenses lead to below than expected EBITDA:** Gross margin witnessed second consecutive quarter of improvement to 15.1% (+73bp YoY). This is in line with our estimates. EBITDA came below our expectations primarily due to higher other expenses. On comparable basis, EBITDA stood at Rs4.7bn (+22% YoY) and PAT at Rs 3.1bn (+39% YoY). Higher than expected tax rate lead to miss in PAT estimates. Effective tax rate stood at 22% (vs our expectation of 19%).
- Expensive valuation is the only concern; downgraded to HOLD**
 We value the stock at 40x FY21E EBITDA with a TP of Rs 1838. The stock is trading at 40x FY21E EBITDA and 58x FY21E EPS. Due to expensive valuation we have downgraded our rating to HOLD.

Q2FY20 Result Review

TP	Rs1,838
CMP	Rs1,843
Potential upside / downside	+0%
Previous Rating	ACCUMULATE

V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	21.8	31.4
Consensus	20.6	27.1
% difference	5.8	15.7

Shareholding Pattern (%)

Promoters	81.2
FII	5.5
DII	3.3
Public	10.0

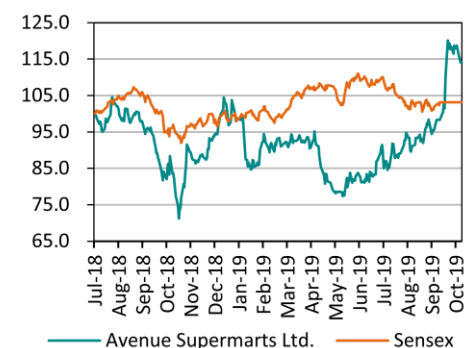
Price Performance (%)

	-1m	-3m	-12m
Absolute	17.5	36.5	33.9
Rel to Sensex	14.9	37.6	24.2

Key Stock Data

Bloomberg / Reuters	DMART IN/AVEU.BO
Sector	Retail
Shares o/s (mn)	624
Market cap. (Rs mn)	1,150,344
Market cap. (US\$ mn)	16,609
3-m daily average value (Rs mn)	605.2
52-week high / low	Rs1,944 / 1,127
Sensex / Nifty	38,127 / 11,305

Relative to Sensex (%)



Financial snapshot

Year	FY17	FY18	FY19	FY20E	FY21E
Revenue	118,811	150,112	199,163	242,420	324,212
EBITDA	9,637	13,374	16,422	20,437	28,439
EBITDA (%)	8.1	8.9	8.2	8.4	8.8
Adj. PAT	4,826	7,847	9,364	13,607	19,592
EPS (Rs)	8.6	12.6	15.0	21.8	31.4
EPS Growth (%)	51.8	46.3	19.3	45.3	44.0
PE (x)	213.2	145.7	122.1	84.0	58.4
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	105.9	85.3	69.8	55.9	39.9
RoE (%)	18.0	18.5	18.3	21.7	24.7
RoCE (%)	22.1	23.8	26.2	26.8	31.1

Source: Company; IDBI Capital Research

Exhibit 1: Actual vs. Estimates

(Rs mn)

DMART	Actual	IDBI Estimate	% variation IDBI
Revenue	59,490	58,181	2.3
EBITDA	5,154	5,554	(7.2)
Margin	8.7	9.5	
APAT	3,335	4,034	(17.3)

Source: Company; IDBI Capital Research

Exhibit 2: Quarterly Snapshot (comparable basis)

(Rs mn)

Financial Snapshot	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Revenues	59,490	48,725	22.1	57,805	2.91
COGS	50,528	41,742	21.0	48,494	4.2
Gross profit	8,962	6,983	28.3	9,311	(3.8)
Gross Margin (%)	15.1	14.3	73 bps	16.1	(104) bps
Employee expenses	1,044	842	24.0	942	10.8
% of net sales	1.8	1.7	3 bps	1.6	13 bps
Other Expenses	3,181	2,245	41.7	2,409	32.0
% of net sales	5.3	4.6	74 bps	4.2	118 bps
EBITDA	4,736	3,896	21.6	5,959	(20.5)
EBITDA Margin (%)	8.0	8.0	(4) bps	10.3	(235) bps
Depreciation	664	444	49.6	750	(11.5)
EBIT	4,073	3,453	18.0	5,210	(21.8)
Other Income	89	139	(36.1)	119	(25.8)
Interest Expenses	124	101	23.0	168	(26.0)
PBT	4,037	3,491	15.7	5,162	(21.8)
Taxes	900	1,233		1,808	
Adjusted PAT	3,138	2,257	39.0	3,353	(6.4)
Extra-ordinary items	0	0		0	
Reported PAT	3,138	2,257	39.0	3,353	(99)
Diluted EPS (Rs)	5.0	3.6	39.0	5.4	(6.4)

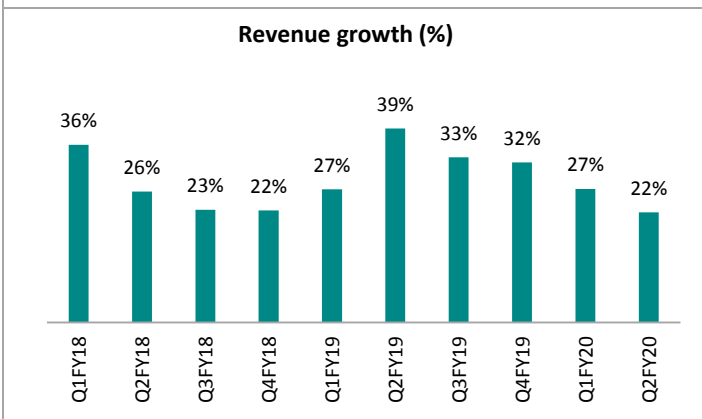
Source: Company; IDBI Capital Research

Exhibit 3: Quarterly Snapshot (reported)

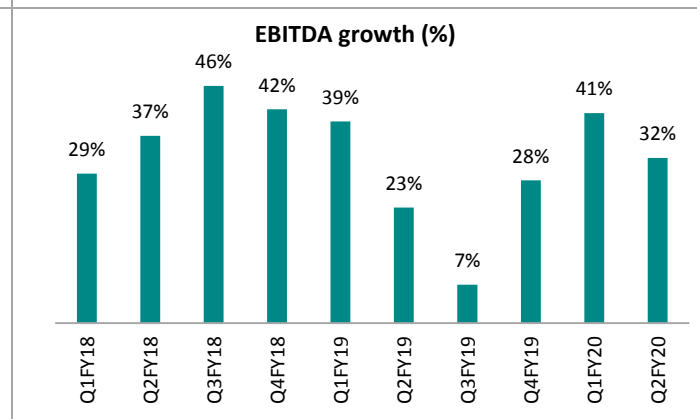
(Rs mn)

Financial Snapshot	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
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COGS	50,528	41,742	21.0	48,494	4.2
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Gross Margin (%)	15.1	14.3	73 bps	16.1	(104) bps
Employee expenses	1,044	842	24.0	942	10.8
% of net sales	1.8	1.7	3 bps	1.6	13 bps
Other Expenses	2,764	2,245	23.1	2,409	14.7
% of net sales	4.6	4.6	4 bps	4.2	48 bps
EBITDA	5,154	3,896	32.3	5,959	(13.5)
EBITDA Margin (%)	8.7	8.0	67 bps	10.3	(165) bps
Depreciation	833	444	87.8	750	11.1
EBIT	4,321	3,453	25.1	5,210	(17.1)
Other Income	89	139	(36.1)	119	(25.8)
Interest Expenses	175	101	74.0	168	4.7
PBT	4,234	3,491	21.3	5,162	(18.0)
Taxes	900	1,233		1,808	
Adjusted PAT	3,335	2,257	47.7	3,353	(0.6)
Extra-ordinary items	0	0		0	
Reported PAT	3,335	2,257	47.7	3,353	(99)
Diluted EPS (Rs)	5.3	3.6	47.7	5.4	(0.6)

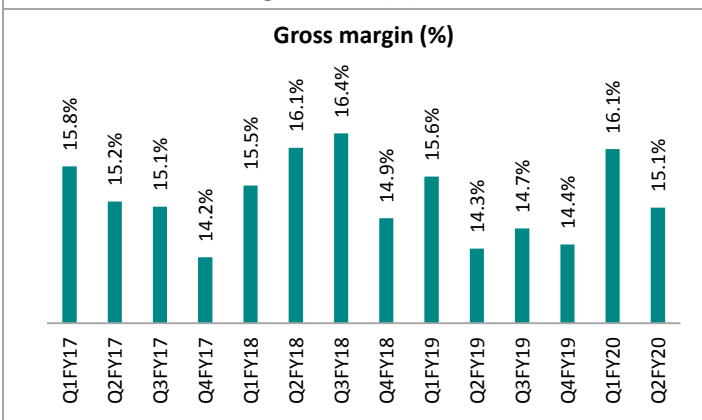
Source: Company; IDBI Capital Research

Exhibit 4: Revenue growth trend (% YoY)


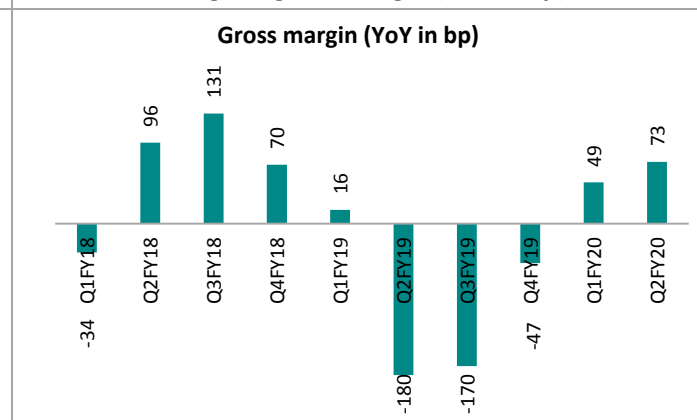
Source: Company; IDBI Capital Research

Exhibit 5: EBITDA growth trend (% YoY)


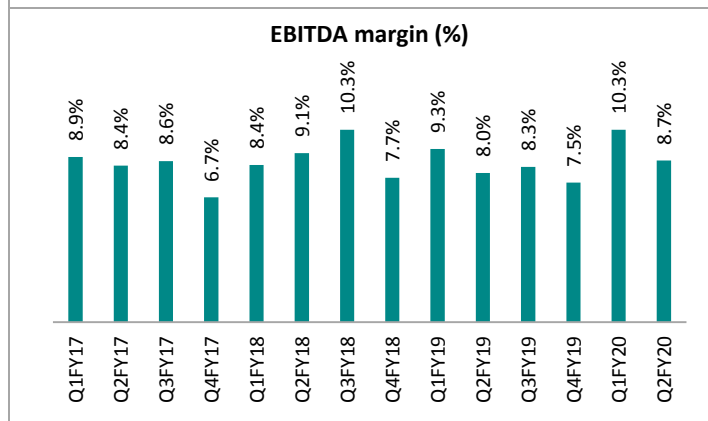
Source: Company; IDBI Capital Research

Exhibit 6: Gross margin trend (%)


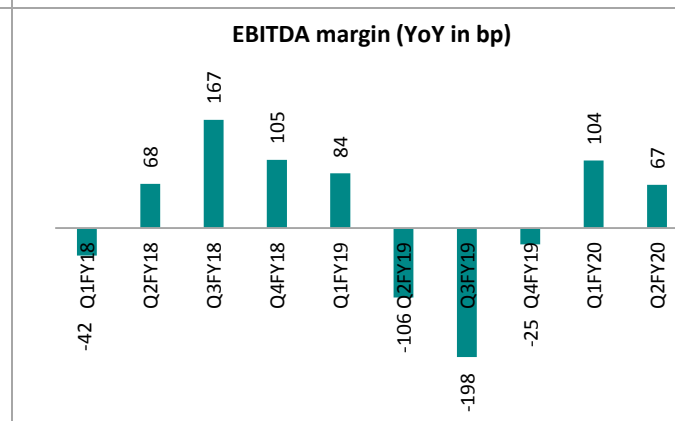
Source: Company; IDBI Capital Research

Exhibit 7: Change in gross margin (YoY in bp)


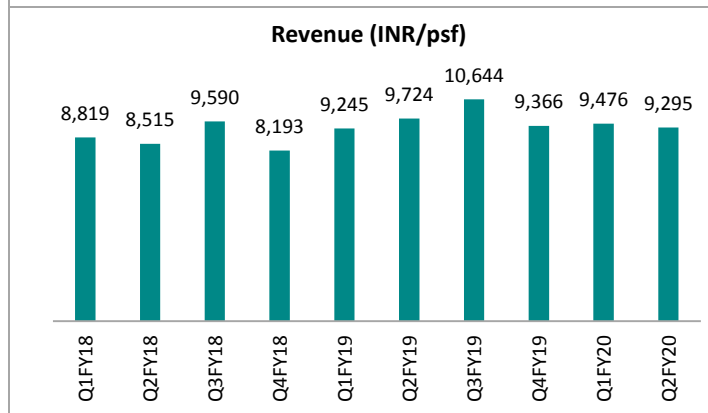
Source: Company; IDBI Capital Research

Exhibit 8: EBITDA margin trend (% YoY)


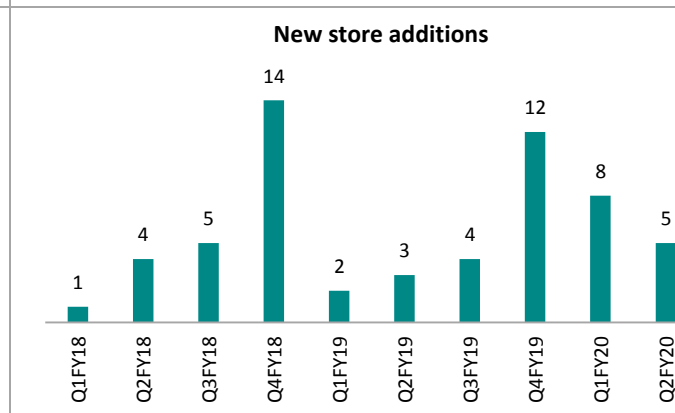
Source: Company; IDBI Capital Research

Exhibit 9: EBITDA margin change (YoY in bp)


Source: Company; IDBI Capital Research

Exhibit 10: Revenue per square feet trend


Source: Company; IDBI Capital Research

Exhibit 11: Store addition trend (count of stores added)


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account					(Rs mn)
Year-end: March	FY18	FY19	FY20E	FY21E	
Net sales	150,112	199,163	242,420	324,212	
<i>growth (%)</i>	26.3	32.7	21.7	33.7	
Operating expenses	(136,738)	(182,741)	(221,983)	(295,773)	
EBITDA	13,374	16,422	20,437	28,439	
<i>growth (%)</i>	38.8	22.8	24.4	39.2	
Depreciation	(1,547)	(1,988)	(2,337)	(2,693)	
EBIT	11,827	14,434	18,100	25,747	
Interest paid	(594)	(472)	(472)	(139)	
Other income	726	514	514	514	
Pre-tax profit	11,959	14,476	18,143	26,122	
Tax	(4,112)	(5,113)	(4,536)	(6,531)	
<i>Effective tax rate (%)</i>	34.4	35.3	25.0	25.0	
Minority Interest	-	-	-	-	
Net profit	7,847	9,364	13,607	19,592	
Exceptional items	-	-	-	-	
Adjusted net profit	7,847	9,364	13,607	19,592	
<i>growth (%)</i>	62.6	19.3	45.3	44.0	
<i>Shares o/s (mn nos)</i>	624	624	624	624	

Cash Flow Statement					(Rs mn)
Year-end: March	FY18	FY19	FY20E	FY21E	
Pre-tax profit	11,959	14,476	18,143	26,122	
Depreciation	1,536	1,988	2,337	2,693	
Tax paid	(4,534)	(3,612)	(4,536)	(6,531)	
Chg in working capital	(3,652)	(2,277)	(2,435)	(4,779)	
Other operating activities	-	-	-	-	
Cash flow from operations (a)	5,309	10,576	13,509	17,505	
Capital expenditure	(8,661)	(14,046)	(10,608)	(8,894)	
Chg in investments	(818)	(843)	-	-	
Other investing activities	(575)	(835)	-	-	
Cash flow from investing (b)	(10,054)	(15,723)	(10,608)	(8,894)	
Equity raised/(repaid)	-	(0)	-	-	
Debt raised/(repaid)	(8,503)	1,716	-	(3,000)	
Dividend (incl. tax)	-	-	-	-	
Chg in minorities	-	-	-	-	
Other financing activities	-	-	-	-	
Cash flow from financing (c)	(8,503)	1,716	-	(3,000)	
Net chg in cash (a+b+c)	(13,248)	(3,432)	2,900	5,612	

Balance Sheet (Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	33,869	45,927	54,198	60,399
Investments	1,458	2,301	2,301	2,301
Other non-curr assets	1,333	1,097	1,097	1,097
Current assets	19,464	20,648	26,982	39,264
Inventories	11,470	15,762	19,195	25,702
Sundry Debtors	334	755	755	919
Cash and Bank	5,565	2,132	5,033	10,644
Total assets	56,125	69,973	84,578	103,061
Shareholders' funds	46,427	55,945	69,552	89,144
Share capital	6,241	6,241	6,241	6,241
Reserves & surplus	40,186	49,704	63,311	82,903
Total Debt	2,533	4,248	4,248	1,248
Secured loans	2,533	4,248	4,248	1,248
Other liabilities	471	649	649	649
Curr Liab & prov	6,694	9,131	10,129	12,021
Current liabilities	6,576	9,004	10,003	11,894
Provisions	118	127	127	127
Total liabilities	9,698	14,028	15,026	13,918
Total equity & liabilities	56,125	69,973	84,578	103,061
Book Value (Rs)	74	90	111	143

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	12.6	15.0	21.8	31.4
Adj. EPS growth (%)	46.3	19.3	45.3	44.0
EBITDA margin (%)	8.9	8.2	8.4	8.8
Pre-tax margin (%)	8.0	7.3	7.5	8.1
ROE (%)	18.5	18.3	21.7	24.7
ROCE (%)	23.8	26.2	26.8	31.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.6	3.2	3.1	3.5
Leverage factor (x)	1.3	1.2	1.2	1.2
Net margin (%)	5.2	4.7	5.6	6.0
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)
Working Capital & Liquidity ratio				
Inventory days	28	29	29	29
Receivable days	1	1	1	1
Payable days	8	9	9	9

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	145.7	122.1	84.0	58.4
Price / Book value (x)	24.6	20.4	16.4	12.8
PCE (x)	121.7	100.7	71.7	51.3
EV / Net sales (x)	7.6	5.8	4.7	3.5
EV / EBITDA (x)	85.3	69.8	55.9	39.9
Dividend Yield (%)	0.0	0.0	0.0	0.0



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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