

Avenue Supermarts

BUY

Steady margins; high conviction BUY

Summary

Avenue Supermarts (DMART) 4QFY22 results has been slightly below our estimates. Revenue growth (at 20% 3 year CAGR) is healthy. SSSG at 17% is encouraging. Omicron impacted offtake of high-margin discretionary products. However, recovery in Mar'22 has been strong. Store addition rate stood at strong footing (50 stores in FY22). Gross margin remained resilient (at 14.3%) but shall improve with recovery in non-food portfolio. In E-commerce; revenue more than doubled in FY22. E-commerce as a channel of convenience and offline as a channel of joy will co-exist with their own value proposition to customers. We have toned down our revenue growth assumption while adjusted cost of capital as per revised risk premium in our FCFF model. Our revised TP stands at Rs 4,287. We maintain our high conviction view on DMART with BUY RATING.

Key Highlights and Investment Rationale

- Steady revenue growth with robust store addition:** Standalone revenue grew 18%YoY to Rs86bn during 4QFY22 driven by healthy sales in Mar'22. Revenue from subsidiary grew 67%YoY. On per square feet basis revenue declined 10%YoY in 4QFY22. However, SSSG for FY22 stood at 17%YoY (vs -13%YoY in FY21). During 4QFY22 DMART added 21 stores (50 stores FY22).
- Resilient margins despite low contribution from non-food due to Omicron:** Gross Margin stood at 14.3% (-5bp YoY) while EBIT margin at 7.2% (+4bp YoY). EPS grew 7%YoY to Rs 7.2.
- High conviction BUY:** We have adjusted our revenue growth estimates downwards (to 25% from 30% earlier) during first 10 years on a conservative basis and have adjusted our WACC estimates (to 12.3%) as per revised risk premium. Our revised TP stands at Rs 4,287. We would recommend DMART as high conviction idea from our coverage universe.

TP **Rs 4,287**

CMP **Rs 3,235**

Potential upside/downside 32%

Previous Rating BUY

Price Performance (%)

| | -1m | -3m | -12m |
|---------------|--------|--------|------|
| Absolute | (20.9) | (18.7) | 13.8 |
| Rel to Sensex | (11.4) | (12.3) | 5.5 |

V/s Consensus

| EPS (Rs) | FY23E | FY24E |
|--------------|-------|-------|
| IDBI Capital | 40.3 | 50.5 |
| Consensus | 39.3 | 51.6 |
| % difference | 2.5 | (2.2) |

Key Stock Data

| | |
|---------------------------------|------------------|
| Bloomberg/Reuters | DMART IN/AVEU.BO |
| Sector | Retail |
| Shares o/s (mn) | 648 |
| Market cap. (Rs mn) | 2,095,519 |
| 3-m daily average value (Rs mn) | 236.6 |
| 52-week high / low | Rs 5,900 / 2,830 |
| Sensex / Nifty | 52,794 / 15,782 |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 75.0 |
| FII | 8.8 |
| DII | 6.7 |
| Public | 9.5 |

Financial snapshot

(Rs mn)

| Year | FY20 | FY21 | FY22 | FY23E | FY24E |
|--------------------|----------|----------|----------|----------|----------|
| Revenue | 2,46,750 | 2,37,871 | 3,03,525 | 4,40,906 | 5,47,682 |
| Change (yoy, %) | 24 | (4) | 28 | 45 | 24 |
| EBITDA | 21,221 | 17,416 | 16,624 | 39,182 | 48,786 |
| Change (yoy, %) | 29 | (18) | (5) | 136 | 25 |
| EBITDA Margin(%) | 8.6 | 7.3 | 5.5 | 8.9 | 8.9 |
| Adj.PAT | 13,499 | 11,652 | 7,771 | 26,091 | 32,685 |
| EPS (Rs) | 21.5 | 18.0 | 12.0 | 40.3 | 50.5 |
| Change (yoy, %) | 43.3 | (16.3) | (33.3) | 235.8 | 25.3 |
| PE(x) | 150.7 | 180.1 | 270.1 | 80.4 | 64.2 |
| Dividend Yield (%) | - | - | - | - | - |
| EV/EBITDA (x) | 95.8 | 119.7 | 126.1 | 53.5 | 42.7 |
| RoE (%) | 16.1 | 9.9 | 5.9 | 17.1 | 18.0 |
| RoCE (%) | 20.4 | 11.4 | 9.2 | 21.9 | 23.2 |

Source: IDBI Capital Research

Exhibit 1: Standalone Quarterly Snapshot

(Rs mn)

| Financial Snapshot | Q4FY22 | Q4FY21 | YoY (%) | Q3FY22 | QoQ (%) | FY22 | FY21 | YoY (%) |
|--------------------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|
| Revenues | 86,061 | 73,030 | 17.8 | 90,650 | -5.06 | 3,03,525 | 2,37,871 | 27.6 |
| COGS | 73,718 | 62,518 | 17.9 | 77,155 | -4.5 | 2,60,527 | 2,03,563 | 28.0 |
| Gross profit | 12,343 | 10,512 | 17.4 | 13,495 | -8.5 | 42,998 | 34,307 | 25.3 |
| <i>Gross Margin (%)</i> | <i>14.3</i> | <i>14.4</i> | <i>-5bps</i> | <i>14.9</i> | <i>-54bps</i> | <i>14.2</i> | <i>14.4</i> | <i>-26bps</i> |
| Employee expenses | 1,430 | 1,243 | 15.0 | 1,414 | 1.2 | 5,482 | 4,951 | 10.7 |
| <i>% of net sales</i> | <i>1.7</i> | <i>1.7</i> | <i>-4bps</i> | <i>1.6</i> | <i>10bps</i> | <i>1.8</i> | <i>2.1</i> | <i>-28bps</i> |
| Other Expenses | 3,493 | 3,104 | 12.5 | 3,399 | 2.8 | 12,501 | 11,940 | 4.7 |
| <i>% of net sales</i> | <i>4.1</i> | <i>4.3</i> | <i>-19bps</i> | <i>3.8</i> | <i>31bps</i> | <i>4.1</i> | <i>5.0</i> | <i>-90bps</i> |
| EBITDA | 7,420 | 6,165 | 20.4 | 8,682 | -14.5 | 25,015 | 17,416 | 43.6 |
| <i>EBITDA Margin (%)</i> | <i>8.6</i> | <i>8.4</i> | <i>18bps</i> | <i>9.6</i> | <i>-96bps</i> | <i>8.2</i> | <i>7.3</i> | <i>92bps</i> |
| Depreciation | 1,232 | 946 | 30.2 | 1,080 | 14.1 | 4,211 | 3,714 | 13.4 |
| EBIT | 6,187 | 5,218 | 18.6 | 7,602 | -18.61 | 20,805 | 13,702 | 51.8 |
| Other Income | 394 | 526 | -25.1 | 323 | 21.8 | 1,409 | 2,089 | -32.6 |
| Interest Expenses | 117 | 103 | 13.3 | 105 | 11.1 | 396 | 345 | 14.8 |
| PBT | 6,464 | 5,641 | 14.6 | 7,820 | -17.3 | 21,817 | 15,447 | 41.2 |
| Taxes | 1,801 | 1,292 | 39.3 | 1,962 | -8.2 | 5,656 | 3,794 | 49.1 |
| Adjusted PAT | 4,663 | 4,349 | 7.2 | 5,858 | -20.4 | 16,162 | 11,652 | 38.7 |
| Extra-ordinary items | 0 | 0 | | 0 | | 0 | 0 | |
| Reported PAT | 4,663 | 4,349 | 7.2 | 5,858 | -20.4 | 16,162 | 11,652 | 38.7 |
| Diluted EPS (Rs) | 7.2 | 6.7 | 7.1 | 9.0 | -20.4 | 24.9 | 18.01 | 38.5 |

Source: Company; IDBI Capital Research

Exhibit 2: Consolidated Quarterly Snapshot

(Rs mn)

| Financial Snapshot | Q4FY22 | Q4FY21 | YoY (%) | Q3FY22 | QoQ (%) | FY22 | FY21 | YoY (%) |
|--------------------------|---------------|---------------|--------------|---------------|---------------|-----------------|-----------------|---------------|
| Revenues | 87,865 | 74,110 | 18.6 | 92,178 | -4.7 | 3,09,763 | 2,41,424 | 28.3 |
| COGS | 74,721 | 63,155 | 18.3 | 77,966 | -4.2 | 2,63,974 | 2,05,547 | 28.4 |
| Gross profit | 13,144 | 10,955 | 20.0 | 14,212 | -7.5 | 45,789 | 35,877 | 27.6 |
| <i>Gross Margin (%)</i> | <i>15.0</i> | <i>14.8</i> | <i>18bps</i> | <i>15.4</i> | <i>-46bps</i> | <i>15.1</i> | <i>15.1</i> | <i>0bps</i> |
| Employee expenses | 1,613 | 1,367 | 18.0 | 1,618 | -0.3 | 6,162 | 5,366 | 14.8 |
| <i>% of net sales</i> | <i>1.8</i> | <i>1.8</i> | <i>-1bps</i> | <i>1.8</i> | <i>8bps</i> | <i>2.0</i> | <i>2.3</i> | <i>-23bps</i> |
| Other Expenses | 4,138 | 3,469 | 19.3 | 3,929 | 5.3 | 14,642 | 13,088 | 11.9 |
| <i>% of net sales</i> | <i>4.7</i> | <i>4.7</i> | <i>3bps</i> | <i>4.3</i> | <i>45bps</i> | <i>4.8</i> | <i>5.5</i> | <i>-68bps</i> |
| EBITDA | 7,393 | 6,120 | 20.8 | 8,665 | -14.7 | 24,985 | 17,424 | 43.4 |
| <i>EBITDA Margin (%)</i> | <i>8.4</i> | <i>8.3</i> | <i>16bps</i> | <i>9.4</i> | <i>-99bps</i> | <i>8.2</i> | <i>7.3</i> | <i>91bps</i> |
| Depreciation | 1,463 | 1,050 | 39.4 | 1,283 | 14.1 | 4,981 | 4,142 | 20.3 |
| EBIT | 5,930 | 5,070 | 16.9 | 7,382 | -19.7 | 20,004 | 13,282 | 50.6 |
| Other Income | 326 | 481 | -32.3 | 260 | 25.5 | 1,175 | 1,962 | -40.1 |
| Interest Expenses | 166 | 123 | 35.6 | 140 | 19.2 | 538 | 417 | 29.1 |
| PBT | 6,089 | 5,429 | 12.2 | 7,502 | -18.8 | 20,641 | 14,828 | 39.2 |
| Taxes | 1,821 | 1,297 | 40.4 | 1,976 | -7.8 | 5,717 | 3,840 | 48.9 |
| Adjusted PAT | 4,268 | 4,132 | 3.3 | 5,525 | -22.8 | 14,924 | 10,988 | 35.8 |
| Extra-ordinary items | 0 | 0 | | 0 | | 0 | 0 | |
| Reported PAT | 4,268 | 4,132 | 3.3 | 5,525 | -22.8 | 14,924 | 10,988 | 35.8 |
| EPS | 6.6 | 6.4 | 3.3 | 8.5 | -22.7 | 23.04 | 16.96 | 35.8 |

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

| | Actual | IDBI Estimate | % variation IDBI |
|------------|--------|---------------|---------------------|
| Revenue | 86,061 | 86,061 | 0% |
| EBITDA | 7,420 | 7,372 | 1% |
| Margin (%) | 8.6 | 8.6 | |
| APAT | 4,663 | 4,954 | -6% |

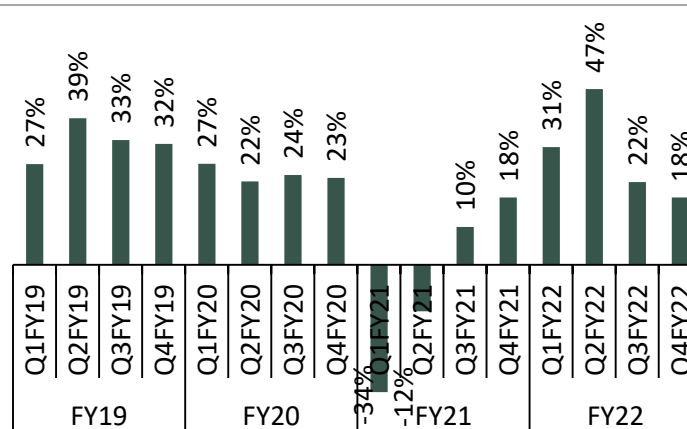
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

| | FY23E | | | FY24E | | |
|--------------------|----------|----------|---------|----------|----------|---------|
| | Old | New | (%) Chg | Old | New | (%) Chg |
| Revenue (Rs mn) | 4,40,906 | 4,40,906 | 0.0% | 5,47,903 | 5,47,682 | 0.0% |
| EBITDA (Rs mn) | 38,555 | 39,182 | 1.6% | 48,265 | 48,786 | 1.1% |
| EBITDA margin (%) | 8.7% | 8.9% | | 8.8% | 8.9% | |
| Net profit (Rs mn) | 25,751 | 26,091 | 1.3% | 32,425 | 32,685 | 0.8% |
| EPS (Rs) | 39.8 | 40.3 | 1.3% | 50.1 | 50.5 | 0.8% |

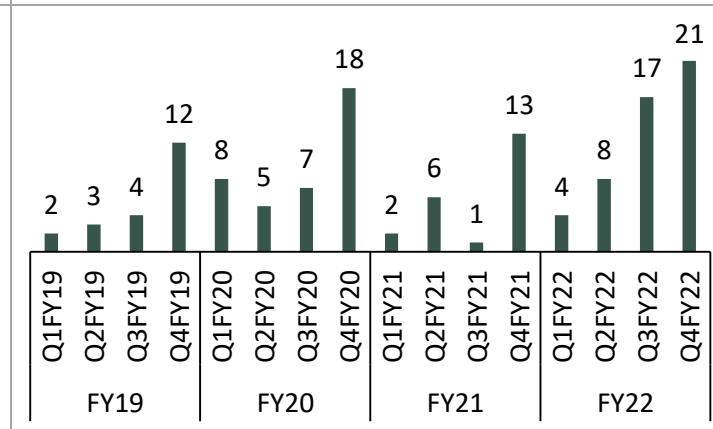
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



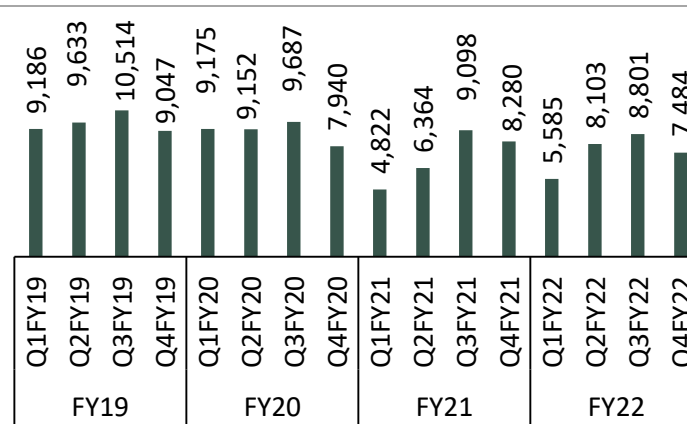
Source: Company; IDBI Capital Research

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



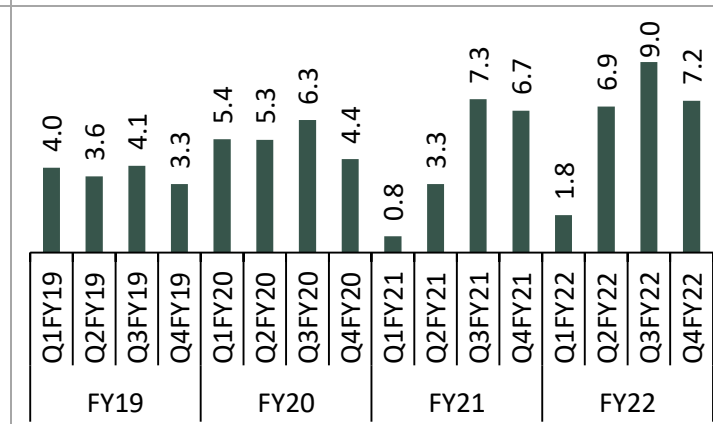
Source: Company; IDBI Capital Research

Exhibit 7: Revenue per square feet trend



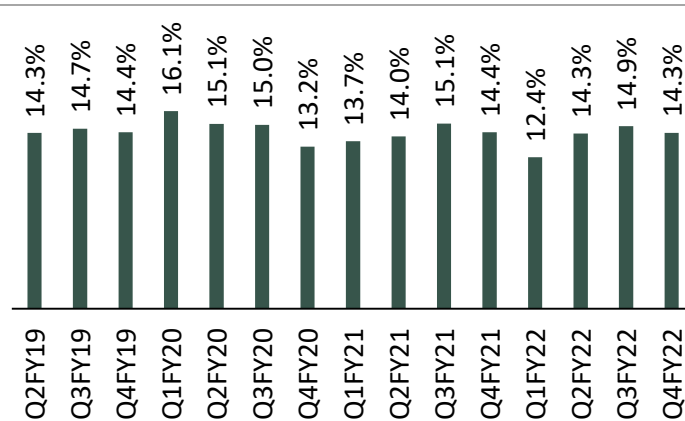
Source: Company; IDBI Capital Research

Exhibit 8: EPS trend



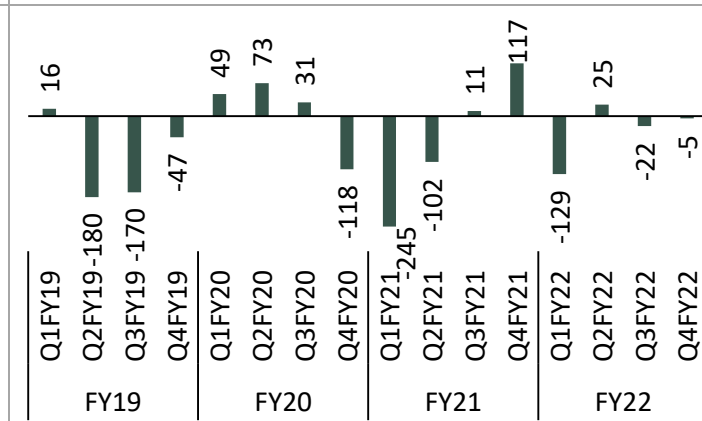
Source: Company; IDBI Capital Research

Exhibit 9: Gross margin trend (%)



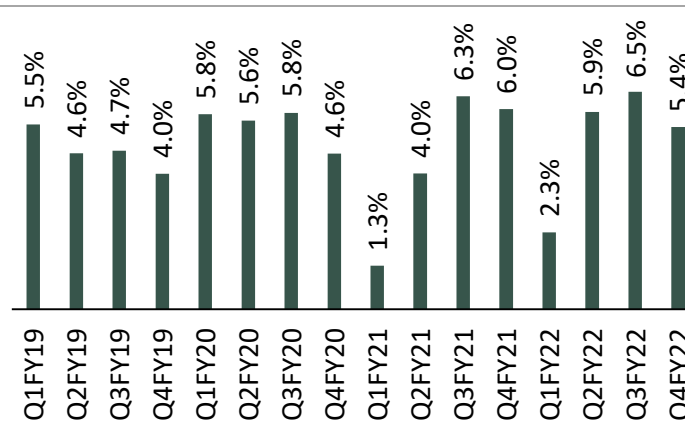
Source: Company; IDBI Capital Research

Exhibit 10: Change in Gross margin (YoY in bp)



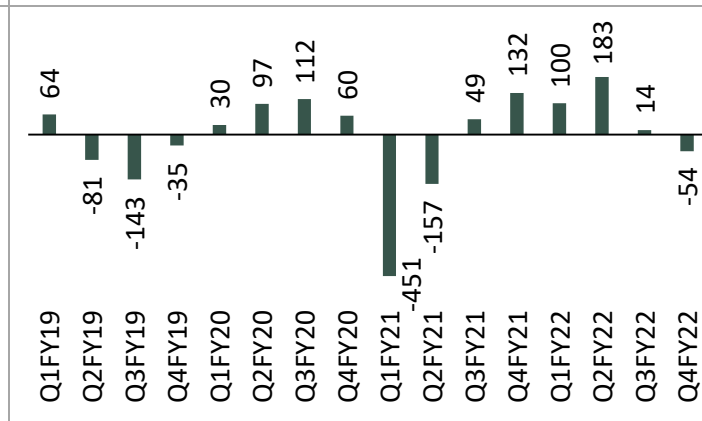
Source: Company; IDBI Capital Research

Exhibit 11: Net Profit margin trend (%)



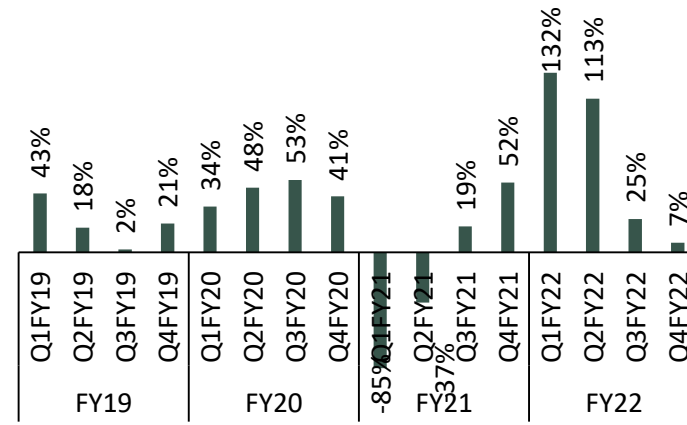
Source: Company; IDBI Capital Research

Exhibit 12: Change in Net Profit margin (YoY in bp)



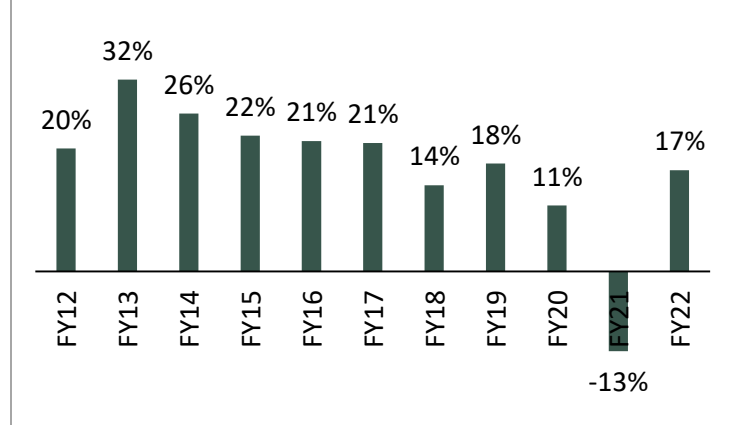
Source: Company; IDBI Capital Research

Exhibit 13: Net Profit growth trend (% YoY)



Source: Company; IDBI Capital Research

Exhibit 14: SSSG (%)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net sales | 1,99,163 | 2,46,750 | 2,37,871 | 3,03,525 | 4,40,906 | 5,47,682 |
| <i>Change (yoy, %)</i> | 67.6 | 23.9 | (3.6) | 27.6 | 45.3 | 24.2 |
| Operating expenses | (1,82,741) | (2,25,529) | (2,20,455) | (2,86,901) | (4,01,724) | (4,98,896) |
| EBITDA | 16,422 | 21,221 | 17,416 | 16,624 | 39,182 | 48,786 |
| <i>Change (yoy, %)</i> | 70.4 | 29.2 | -17.9 | -4.5 | 135.7 | 24.5 |
| <i>Margin (%)</i> | 8.2 | 8.6 | 7.3 | 5.5 | 8.9 | 8.9 |
| Depreciation | (1,988) | (3,398) | (3,714) | (4,211) | (5,046) | (5,797) |
| EBIT | 14,434 | 17,823 | 13,702 | 12,413 | 34,136 | 42,989 |
| Interest paid | (472) | (628) | (345) | (396) | (480) | (541) |
| Other income | 514 | 633 | 2,089 | 1,409 | 1,132 | 1,132 |
| Pre-tax profit | 14,476 | 17,829 | 15,447 | 13,426 | 34,788 | 43,581 |
| Tax | (5,113) | (4,330) | (3,794) | (5,656) | (8,697) | (10,895) |
| <i>Effective tax rate (%)</i> | 35.3 | 24.3 | 24.6 | 42.1 | 25.0 | 25.0 |
| Minority Interest | - | - | - | - | - | - |
| Net profit | 9,364 | 13,499 | 11,652 | 7,771 | 26,091 | 32,685 |
| Exceptional items | - | - | - | - | - | - |
| Adjusted net profit | 9,364 | 13,499 | 11,652 | 7,771 | 26,091 | 32,685 |
| <i>Change (yoy, %)</i> | 94.0 | 44.2 | (13.7) | (33.3) | 235.8 | 25.3 |
| EPS | 15.0 | 21.5 | 18.0 | 12.0 | 40.3 | 50.5 |
| Dividend per sh | - | - | - | - | - | - |
| <i>Dividend Payout %</i> | - | - | - | - | - | - |

Balance Sheet

(Rs mn)

| Year-end: March | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|---------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Shareholders' funds | 55,945 | 1,11,355 | 1,23,053 | 1,39,241 | 1,65,332 | 1,98,018 |
| Share capital | 6,241 | 6,478 | 6,478 | 6,478 | 6,478 | 6,478 |
| Reserves & surplus | 49,704 | 1,04,878 | 1,16,575 | 1,32,763 | 1,58,854 | 1,91,540 |
| Total Debt | 4,248 | 37 | - | - | - | - |
| Other liabilities | 649 | 2,268 | 2,693 | 3,856 | 3,856 | 3,856 |
| Curr Liab & prov | 9,131 | 7,181 | 10,719 | 10,943 | 13,350 | 15,199 |
| Current liabilities | 9,004 | 7,038 | 10,497 | 10,609 | 13,016 | 14,865 |
| Provisions | 127 | 143 | 222 | 334 | 334 | 334 |
| Total liabilities | 14,028 | 9,486 | 13,411 | 14,799 | 17,206 | 19,055 |
| Total equity & liabilities | 69,973 | 1,20,841 | 1,36,464 | 1,54,040 | 1,82,538 | 2,17,072 |
| Net fixed assets | 45,927 | 54,338 | 67,883 | 86,593 | 99,789 | 1,12,389 |
| Investments | 2,301 | 3,038 | 4,938 | 6,284 | 6,284 | 6,284 |
| Other non-curr assets | 1,457 | 33,995 | 24,034 | 27,651 | 27,651 | 27,651 |
| Current assets | 20,286 | 22,923 | 39,609 | 33,511 | 46,903 | 68,934 |
| Inventories | 15,762 | 19,094 | 21,673 | 25,869 | 37,591 | 46,596 |
| Sundry Debtors | 755 | 485 | 721 | 2,309 | 3,354 | 4,166 |
| Cash and Bank | 2,131 | 915 | 14,320 | 2,843 | 3,467 | 15,682 |
| Loans and advances | - | - | - | - | - | - |
| Total assets | 69,973 | 1,20,841 | 1,36,464 | 1,54,040 | 1,82,538 | 2,17,072 |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-tax profit | 14,476 | 17,829 | 15,447 | 13,426 | 34,788 | 43,581 |
| Depreciation | 1,988 | 3,398 | 3,714 | 4,211 | 5,046 | 5,797 |
| Tax paid | (4,935) | (4,815) | (2,561) | (5,528) | (8,697) | (10,895) |
| Chg in working capital | (3,289) | (3,185) | (1,619) | (6,127) | (10,360) | (7,968) |
| Other operating activities | 181 | (353) | (1,127) | (1,221) | 480 | 541 |
| Cash flow from operations (a) | 8,421 | 12,874 | 13,853 | 4,760 | 21,258 | 31,055 |
| Capital expenditure | (13,800) | (16,831) | (19,699) | (22,832) | (17,001) | (17,000) |
| Chg in investments | 3,400 | (30,288) | 8,144 | 9,911 | - | - |
| Other investing activities | 392 | 122 | - | - | - | - |
| Cash flow from investing (b) | (10,007) | (46,996) | (11,555) | (12,922) | (17,001) | (17,000) |
| Equity raised/(repaid) | - | 41,869 | - | - | - | - |
| Debt raised/(repaid) | - | - | - | - | - | - |
| Dividend (incl. tax) | - | - | - | - | - | - |
| Chg in minorities | 9,865 | 13,900 | (2,037) | (815) | - | - |
| Other financing activities | (11,819) | (22,863) | 635 | (393) | (1,624) | (1,841) |
| Cash flow from financing (c) | (1,954) | 32,905 | (1,403) | (1,208) | (1,624) | (1,841) |
| Net chg in cash (a+b+c) | (3,540) | (1,217) | 896 | (9,369) | 2,633 | 12,214 |

Financial Ratios

| Year-end: March | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|---------------------|------|-------|-------|-------|-------|-------|
| Book Value (Rs) | 89.6 | 177.3 | 190.0 | 215.0 | 255.2 | 305.7 |
| Adj EPS (Rs) | 15.0 | 21.5 | 18.0 | 12.0 | 40.3 | 50.5 |
| Adj EPS growth (%) | 74.6 | 43.3 | -16.3 | -33.3 | 235.8 | 25.3 |
| EBITDA margin (%) | 8.2 | 8.6 | 7.3 | 5.5 | 8.9 | 8.9 |
| Pre-tax margin (%) | 7.3 | 7.2 | 6.5 | 4.4 | 7.9 | 8.0 |
| Net Debt/Equity (x) | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | -0.1 |
| ROCE (%) | 26.1 | 20.4 | 11.4 | 9.2 | 21.9 | 23.2 |
| ROE (%) | 19.9 | 16.1 | 9.9 | 5.9 | 17.1 | 18.0 |

DuPont Analysis

| | | | | | | |
|---------------------|-----|-----|-----|-----|-----|-----|
| Asset turnover (x) | 3.1 | 2.7 | 1.9 | 2.1 | 2.6 | 2.8 |
| Leverage factor (x) | 1.4 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net margin (%) | 4.7 | 5.5 | 4.9 | 2.6 | 5.9 | 6.0 |

Working Capital & Liquidity ratio

| | | | | | | |
|-----------------|----|----|----|----|----|----|
| Inventory days | 29 | 28 | 33 | 31 | 31 | 31 |
| Receivable days | 1 | 1 | 1 | 3 | 3 | 3 |
| Payable days | 9 | 7 | 9 | 7 | 7 | 7 |

Valuations

| Year-end: March | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|----------------------|-------|-------|-------|-------|-------|-------|
| PER (x) | 216.0 | 150.7 | 180.1 | 270.1 | 80.4 | 64.2 |
| Price/Book value (x) | 36.1 | 18.3 | 17.1 | 15.1 | 12.7 | 10.6 |
| EV/Net sales (x) | 10.2 | 8.2 | 8.8 | 6.9 | 4.8 | 3.8 |
| EV/EBITDA (x) | 123.3 | 95.8 | 119.7 | 126.1 | 53.5 | 42.7 |
| 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 |
|---------|-------------------|-------------------------|

Key to Ratings Stocks:

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

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