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Q1FY22 result review  
and earnings revision

## Consumer Staples & Discretionary

Target price Rs3,000

### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 3.1	↑ 1.1
EBITDA	↓ 1.5	↑ 1.0
PAT	↓ 3.5	↑ 0.6

### Target price revision

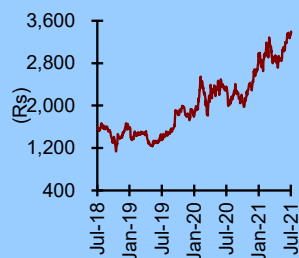
Rs3,000 from Rs2,600

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	75.0	75.0	75.0
Institutional investors	16.8	16.8	16.7
MFs and others	6.1	6.1	6.2
Banks, FI's, Insurance co	0.4	0.4	0.4
FII's	10.3	10.3	10.1
Others	8.2	8.2	8.3

Source: BSE

### Price chart



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# Avenue Supermarts

**REDUCE**

Maintained

Muted 1Q; a beneficiary of consumers seeking value & inflation pass-through in FY21-23e

**Rs3,378**

DMart's 1Q revenue performance was decent in the context of strict operating restrictions. However, a ~130 bps yoy decline in gross margin was concerning given sales mix would have been largely comparable (weak general merchandise); EBITDA margin expansion was led by operating leverage. In FY22 and beyond, we believe, it will benefit from (1) the (consumer) relevance of value for money positioning, which, in our view, may potentially be a stronger competitive advantage in FY22-23E and (2) price-led operating leverage (beneficiary of inflation in staples, FMCG). Recovery in general merchandise and apparel should also be swift (as seen last year as well). Extremely expensive valuations limit our willingness to have a constructive view; stock now trades at 85x P/E and 58x EV/EBITDA on FY2023E. **REDUCE** rating stays (TP Rs3,000).

- **Revenue growth led by better mobility:** Revenue / EBITDA / PAT grew 31% / 103% / 132% YoY respectively. This performance was driven by better mobility compared to the base quarter (1QFY20) even as the restrictions on store operations were more severe this time (store timings had to be curtailed despite the essential classification). We note that in the second wave, restrictions on movement of people for non-essential purposes were softer (compared to same time last year) which aided mobility in general. However, on a sequential basis, the impact of revenue was visible with revenue declining 31% QoQ. Interestingly, management has said that a store needs 45 days of unhindered operational time to get back to pre-Covid sales momentum.
- **Leverage-led margin expansion despite weak GMs:** Gross margin contracted 130bps YoY to 12.4%; on QoQ basis, margins were down 200bps. We note that this was the lowest ever gross margin print. Even as limited sale of general merchandise would have continued to impact margins, the contraction (on YoY basis) is sharp. We believe the benefit of rising staples and FMCG prices is yet to be seen in margins. Nevertheless, EBITDA margin expanded 160bps YoY to 4.4% primarily driven operating leverage benefit.
- **Other highlights:** 1) Opened 4 new stores in Q1 (22 in the last one year) adding retail space of 0.2mn sq. ft.; it now has 238 stores with a retail space of 9.0mn sqft, 2) Construction activity has commenced across all sites, 3) Relaxation of lockdown measures in multiple cities is aiding better footfalls.
- **Valuation and risks:** Our earnings estimates are largely unchanged for FY23E; we now model revenue / EBITDA / PAT CAGR of 35% / 48% / 49% over FY21-23E. Maintain **REDUCE** with DCF-based revised target price of Rs3,000. Key upside risks are fast turnaround of e-commerce operations and lower-than-expected competitive intensity.

Market Cap	Rs2188bn/US\$29.3bn
Reuters/Bloomberg	AVEU.BO/DMART IN
Shares Outstanding (mn)	647.8
52-week Range (Rs)	3328/1900
Free Float (%)	25.0
FII (%)	10.1
Daily Volume (US\$'000)	20,503
Absolute Return 3m (%)	14.6
Absolute Return 12m (%)	45.6
Sensex Return 3m (%)	6.2
Sensex Return 12m (%)	44.1

Year to March	FY20	FY21P	FY22E	FY23E
Net Revenue (Rs mn)	246,750	237,872	318,943	436,341
Net Profit (Rs mn)	13,499	11,653	17,402	25,728
Dil. EPS (Rs)	20.8	18.0	26.9	39.7
% Chg YoY	38.9	(13.7)	49.3	47.8
P/E (x)	162.1	187.8	125.7	85.0
CEPS (Rs)	26.1	23.7	33.8	47.6
EV/EBITDA (x)	103.8	126.5	85.0	58.0
Dividend Yield (%)	-	-	-	-
RoCE (%)	20.8	11.7	16.3	21.4
RoE (%)	16.1	9.9	13.2	16.8

Please refer to important disclosures at the end of this report

**Table 1: Q1FY22 result review (standalone)**

(Rs mn)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Store count (no's)	238	216	22	234	4	234	214	20.0
Retail space (mn sqft)	9.0	8.0	13	8.8	2	8.8	7.8	13.1
Sales throughput (TTM sales / sqft)	29,464	31,899	(8)	28,625	3	28,625	36,022	(20.5)
<b>Net Revenues</b>	<b>50,318</b>	<b>38,332</b>	<b>31</b>	<b>73,031</b>	<b>(31)</b>	<b>237,872</b>	<b>246,750</b>	<b>(3.6)</b>
COGS	(44,097)	(33,099)	33	(62,518)	(29)	(203,563)	(210,159)	(3.1)
<b>Gross Profit</b>	<b>6,221</b>	<b>5,234</b>	<b>19</b>	<b>10,514</b>	<b>(41)</b>	<b>34,309</b>	<b>36,591</b>	<b>(6.2)</b>
Staff cost	(1,346)	(1,212)	11	(1,243)	8	(4,951)	(4,247)	16.6
Other opex	(2,663)	(2,933)	(9)	(3,104)	(14)	(11,940)	(11,122)	7.4
Total expenditure	(48,105)	(37,244)	29	(66,865)	(28)	(220,455)	(225,529)	(2.2)
<b>EBITDA</b>	<b>2,212</b>	<b>1,089</b>	<b>103</b>	<b>6,166</b>	<b>(64)</b>	<b>17,417</b>	<b>21,221</b>	<b>(17.9)</b>
Other income	362	513	(29)	526	(31)	2,089	633	229.9
Finance cost	(84)	(76)	11	(103)	(31)	(345)	(628)	(45.1)
D&A	(927)	(861)	8	(946)	(2)	(3,714)	(3,398)	9.3
<b>PBT</b>	<b>1,563</b>	<b>666</b>	<b>135</b>	<b>5,642</b>	<b>(72)</b>	<b>15,448</b>	<b>17,829</b>	<b>(13.4)</b>
Tax	(412)	(170)		(1,293)		(3,795)	(4,330)	
<b>Adj. PAT</b>	<b>1,151</b>	<b>496</b>	<b>132</b>	<b>4,349</b>	<b>(74)</b>	<b>11,653</b>	<b>13,499</b>	<b>(13.7)</b>
<b>EPS</b>	<b>1.8</b>	<b>0.8</b>	<b>132</b>	<b>6.7</b>	<b>(74)</b>	<b>18.0</b>	<b>21.4</b>	<b>(16.0)</b>
<b>% of revenues</b>								
COGS	87.6	86.3	128 bps	85.6	203 bps	85.6	85.2	40 bps
<b>Gross margin</b>	<b>12.4</b>	<b>13.7</b>	<b>-129 bps</b>	<b>14.4</b>	<b>-204 bps</b>	<b>14.4</b>	<b>14.8</b>	<b>-41 bps</b>
Staff cost	2.7	3.2	-49 bps	1.7	97 bps	2.1	1.7	36 bps
Other opex	5.3	7.7	-236 bps	4.3	104 bps	5.0	4.5	51 bps
<b>EBITDA margin</b>	<b>4.4</b>	<b>2.8</b>	<b>155 bps</b>	<b>8.4</b>	<b>-405 bps</b>	<b>7.3</b>	<b>8.6</b>	<b>-128 bps</b>
Income tax rate (% of PBT)	26.3	25.5	79 bps	22.9	342 bps	24.6	24.3	27 bps

Source: Company data, I-Sec research

**Table 2: Q1FY22 subsidiary (primarily e-commerce)**

(Rs mn)

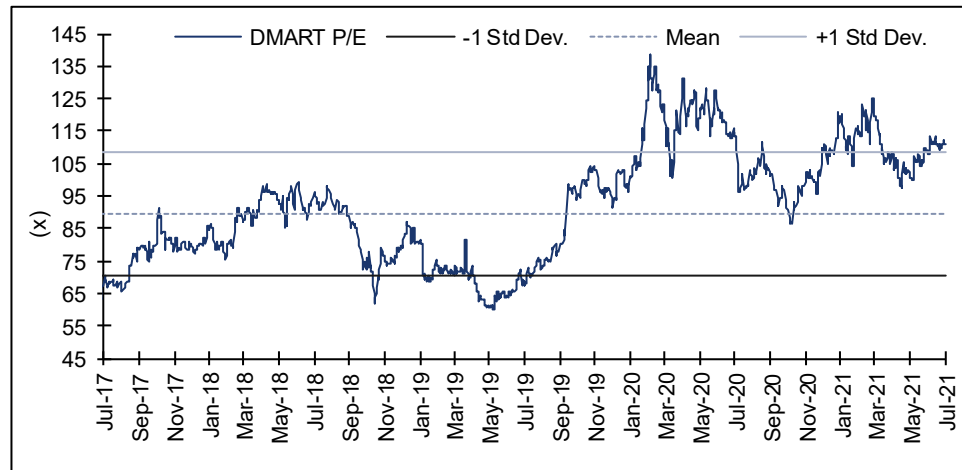
	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net revenues</b>	<b>1,514</b>	<b>500</b>	<b>203</b>	<b>1,086</b>	<b>39</b>	<b>3,559</b>	<b>1,952</b>	<b>82</b>
<b>Gross Profit</b>	<b>573</b>	<b>288</b>	<b>99</b>	<b>448</b>	<b>28</b>	<b>1,575</b>	<b>1,082</b>	<b>46</b>
<b>EBITDA</b>	<b>30</b>	<b>29</b>	<b>2</b>	<b>(40)</b>	<b>(175)</b>	<b>13</b>	<b>62</b>	<b>(79)</b>
<b>PBT</b>	<b>(189)</b>	<b>(78)</b>	<b>143</b>	<b>(207)</b>	<b>(8)</b>	<b>(613)</b>	<b>(381)</b>	<b>61</b>
<b>Adj. PAT</b>	<b>(198)</b>	<b>(95)</b>	<b>109</b>	<b>(211)</b>	<b>(6)</b>	<b>(659)</b>	<b>(489)</b>	<b>35</b>
<b>% of revenues</b>								
<b>Gross margin</b>	<b>37.8</b>	<b>57.7</b>	<b>-1985 bps</b>	<b>41.3</b>	<b>-348 bps</b>	<b>44.3</b>	<b>55.4</b>	<b>-1117 bps</b>
<b>EBITDA margin</b>	<b>2.0</b>	<b>5.8</b>	<b>-388 bps</b>	<b>-3.6</b>	<b>559 bps</b>	<b>0.4</b>	<b>3.2</b>	<b>-280 bps</b>

Source: Company data, I-Sec research

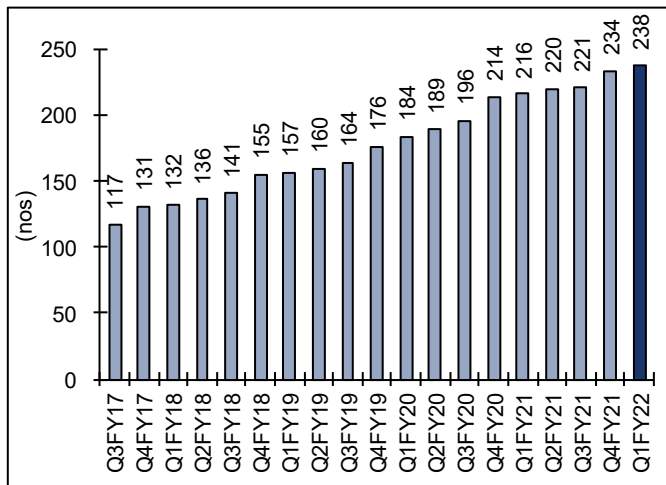
## Key risks

Key upside risks are 1) fast turnaround of e-commerce operations and 2) lower-than-expected competitive intensity.

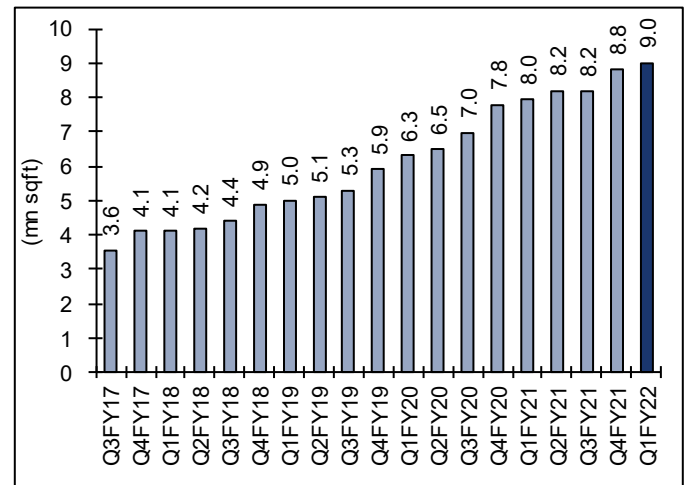
Key downside risks are 1) delay in execution of store expansion plans and 2) higher-than-expected competitive intensity.

**Chart 1: Mean P/E and standard deviations**

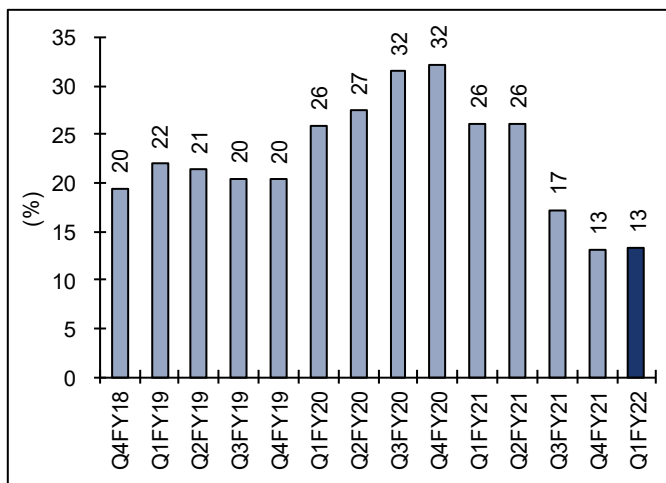
Source: Company data, I-Sec research

**Chart 2: Store network**

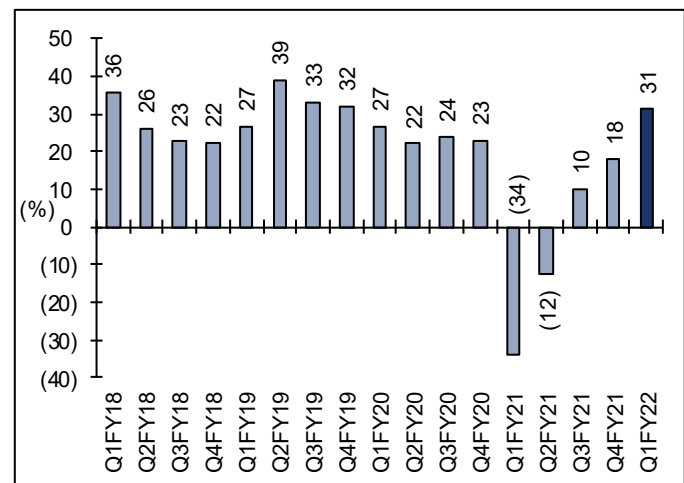
Source: Company data, I-Sec research

**Chart 3: Retail space**

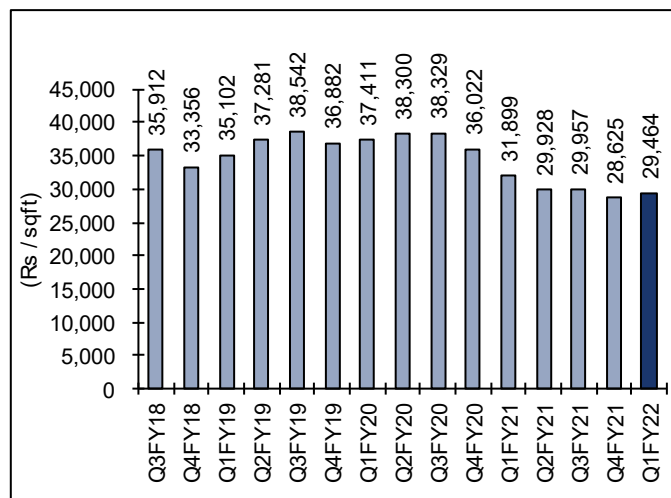
Source: Company data, I-Sec research

**Chart 4: Retail space growth**

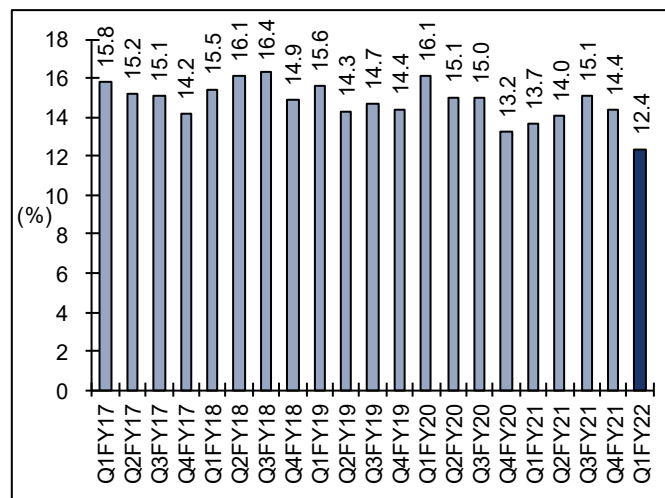
Source: Company data, I-Sec research

**Chart 5: Revenue growth**

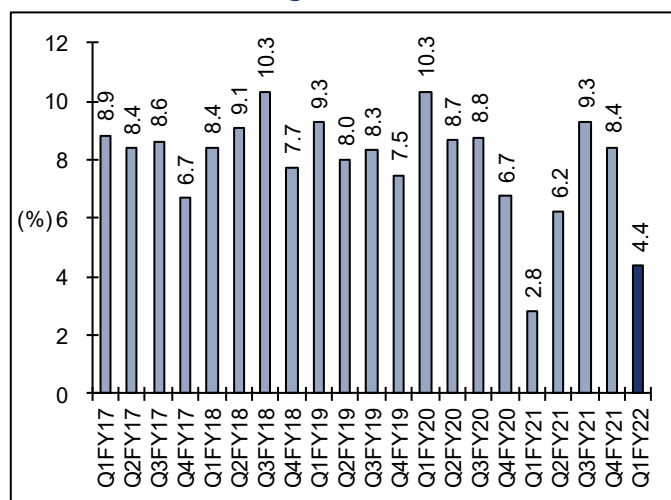
Source: Company data, I-Sec research

**Chart 6: Revenue throughput (TTM revenue / sqft)**

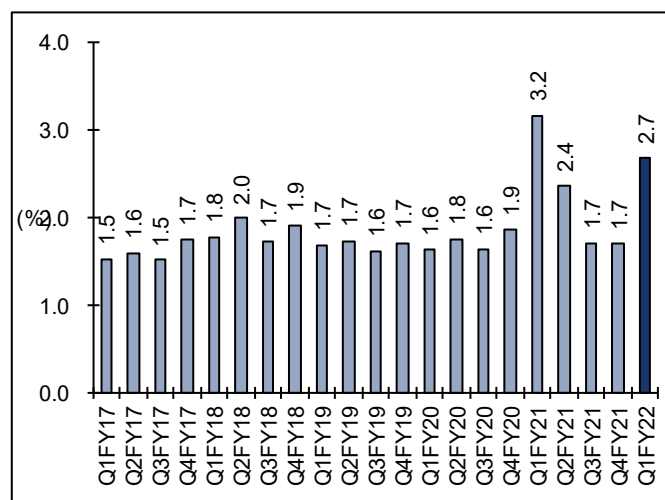
Source: Company data, I-Sec research

**Chart 7: Gross margin**

Source: Company data, I-Sec research

**Chart 8: EBITDA margin**

Source: Company data, I-Sec research

**Chart 9: Staff cost as a % of sales**

Source: Company data, I-Sec research

## Financial summary

Table 3: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Net Revenue</b>	<b>246,750</b>	<b>237,872</b>	<b>318,943</b>	<b>436,341</b>
<b>Operating Expenses</b>	<b>225,529</b>	<b>220,455</b>	<b>293,019</b>	<b>398,357</b>
<b>EBITDA</b>	<b>21,221</b>	<b>17,417</b>	<b>25,924</b>	<b>37,984</b>
% margins	8.6	7.3	8.1	8.7
Depreciation & Amortisation	3,398	3,714	4,511	5,138
Gross Interest	628	345	296	296
Other Income	633	2,089	2,138	1,832
<b>Recurring PBT</b>	<b>17,829</b>	<b>15,448</b>	<b>23,255</b>	<b>34,382</b>
Less: Taxes	4,330	3,795	5,853	8,654
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>13,499</b>	<b>11,653</b>	<b>17,402</b>	<b>25,728</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>13,499</b>	<b>11,653</b>	<b>17,402</b>	<b>25,728</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	20,502	36,714	39,529	44,900
of which cash & cash eqv.	922	14,320	14,189	10,232
Total Current Liabilities & Provisions	6,543	9,937	12,731	17,357
<b>Net Current Assets</b>	<b>13,959</b>	<b>26,777</b>	<b>26,798</b>	<b>27,542</b>
Investments	39,531	23,394	25,974	33,717
Net Fixed Assets	57,189	66,294	81,095	98,336
Capital Work-in-Progress	3,619	10,062	10,062	10,062
<b>Total Assets</b>	<b>114,299</b>	<b>126,527</b>	<b>143,929</b>	<b>169,657</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>2,462</b>	<b>2,955</b>	<b>2,955</b>	<b>2,955</b>
<b>Deferred Tax Liability</b>	<b>482</b>	<b>519</b>	<b>519</b>	<b>519</b>
Minority Interest	-	-	-	-
Equity Share Capital	6,478	6,478	6,478	6,478
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus	1,04,87	1,16,57	1,33,97	1,59,70
	8	5	7	5
Less: Misc. Exp. n.w.o.				
<b>Net Worth</b>	<b>111,355</b>	<b>123,053</b>	<b>140,455</b>	<b>166,183</b>
<b>Total Liabilities</b>	<b>114,299</b>	<b>126,527</b>	<b>143,929</b>	<b>169,657</b>

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Sep 20	Dec 20	Mar 21	Jun 21
<b>Net Revenues</b>	<b>52,182</b>	<b>74,327</b>	<b>73,031</b>	<b>50,318</b>
% growth (YoY)	(12.3)	10.1	17.9	31.3
<b>EBITDA</b>	<b>3,249</b>	<b>6,914</b>	<b>6,166</b>	<b>2,212</b>
Margin (%)	6.2	9.3	8.4	4.4
Other income	558	492	526	362
Extraordinaries (Net)	-	-	-	-
<b>Net profit</b>	<b>2,106</b>	<b>4,702</b>	<b>4,350</b>	<b>1,151</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>16,603</b>	<b>15,058</b>	<b>20,071</b>	<b>29,330</b>
Working Capital Changes	(3,730)	(1,203)	(2,732)	(12,444)
Capital Commitments	(16,831)	(19,699)	(19,313)	(22,379)
<b>Free Cashflow</b>	<b>(3,957)</b>	<b>(5,844)</b>	<b>(1,974)</b>	<b>(5,493)</b>
<b>Cashflow from Investing Activities</b>	<b>(46,996)</b>	<b>(11,555)</b>	<b>(14,175)</b>	<b>(14,547)</b>
Issue of Share Capital	37,293	(340)	-	-
Inc (Dec) in Borrowings	(2,669)	(98)	(296)	(296)
Dividend paid	-	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>(287)</b>	<b>897</b>	<b>2,869</b>	<b>2,043</b>
Closing cash & balance	915	1,812	4,681	6,724

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	20.8	18.0	26.9	39.7
Cash EPS	26.1	23.7	33.8	47.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	171.9	190.0	216.8	256.5
<b>Growth (%)</b>				
Net Revenue	23.9	(3.6)	34.1	36.8
EBITDA	29.2	(17.9)	48.8	46.5
PAT	23.5	(23.1)	56.3	53.4
DPS	-	-	-	-
<b>Valuation Ratios (x)</b>				
P/E	162.1	187.8	125.7	85.0
P/CEPS	129.5	142.4	99.8	70.9
P/BV	19.6	17.8	15.6	13.2
EV / EBITDA	103.8	126.5	85.0	58.0
EV / Sales	8.9	9.3	6.9	5.0
<b>Operating Ratios</b>				
Raw Material / Sales (%)	85.2	85.6	85.2	85.1
Employee cost / Sales (%)	1.7	2.1	2.0	1.8
Other opex / Sales (%)	4.5	5.0	4.7	4.4
Other Income / PBT (%)	3.6	13.5	9.2	5.3
Effective Tax Rate (%)	24.3	24.6	25.2	25.2
Working Capital (days)	69.7	42.9	35.1	36.1
Inventory Turnover (days)	28.2	33.3	28.0	28.0
Receivables (days)	0.7	1.1	1.0	1.0
Payables (days)	6.6	8.7	8.0	8.0
Net D/E (x)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Profitability Ratios (%)</b>				
Net Income Margins	5.5	4.9	5.5	5.9
RoACE	20.8	11.7	16.3	21.4
RoAE	16.1	9.9	13.2	16.8
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	8.6	7.3	8.1	8.7

Source: Company data, I-Sec research

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*BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

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