



TM

12 July 2021

Avenue Supermarts

Lower operational days, restricted timings hit 1Q sales

RESULT UPDATE

Sector: Retail **Rating:** HOLD
CMP: Rs 3,379 **Target Price:** Rs 3,050

Stock Info

Sensex/Nifty	52,386/ 15,690
Bloomberg	DMART IN
Equity shares (mn)	648
52-wk High/Low	Rs 3,425/1,900
Face value	Rs 10
M-Cap	Rs 2,189bn/\$ 29bn
3-m Avg value	USD 16 Mn

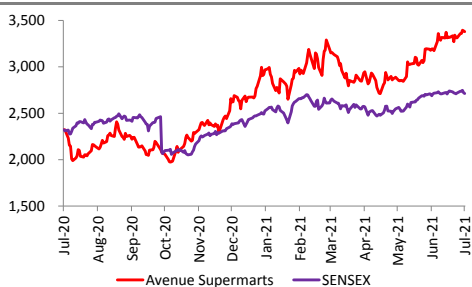
Financial Snapshot (Rs mn)

Y/E Mar	FY22E	FY23E	FY24E
Sales	291,580	407,506	513,509
PAT	13,241	21,869	28,986
EPS (Rs)	20.4	33.8	44.7
PE (x)	165.3	100.1	75.5
EV/EBITDA (x)	100.0	64.0	49.0
P/BV (x)	16.2	13.9	11.8
EV/Sales	7.5	5.4	4.3
RoE (%)	10.3	15.0	16.9
RoCE (%)	12.7	18.9	21.5
NWC (days)	25	23	22
Net gearing (x)	(0.1)	(0.0)	(0.0)

Shareholding Pattern (%)

	Jun 21	Mar 21	Dec 20
Promoter	75.0	75.0	75.0
-Pledged	-	-	-
FII	10.0	10.2	10.1
DII	6.7	6.6	6.7
Others	8.3	8.3	8.2

Stock Performance (1-year)



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Avenue Supermarts (DMART) 1QFY22 revenue grew 31% YoY to Rs 50bn on a weak base (34% decline in 1QFY21). Sales plummeted on account of lower operational days and restricted store timings due to lockdown restrictions. Gross margin contracted 129bps YoY to 12.4% on a weak product mix (lower share of apparel and general merchandise). EBITDA margin expanded 156bps YoY to 4.4% (est. of 5.4%). DMART opened 4 new stores during 1QFY22, taking the total to 238 stores covering an area of 9mn sqft. DMART Ready maintained an impressive sales growth driven by online shopping during the second wave of the pandemic. The near-term demand outlook remains gloomy as sales recovery will depend on the course of the pandemic and mass vaccination. We maintain our FY22-24E estimates and model an EPS CAGR of 38% between FY21-FY24E. We retain our HOLD rating on the stock with a DCF-based target price of Rs 3,050, implying 69x FY24E PER.

Sales recovery impacted by COVID-19-led restrictions: Sales growth of 31% YoY in 1QFY22 was led by a 13% increase in retail area from 8mn sqft to 9mn sqft. Revenue per sqft was up 16% YoY from Rs 19.3k to Rs 22.3k. DMART failed to sustain the strong recovery of 4QFY21 as demand plunged due to the restrictions imposed to combat the spread of the virus. However, the difference in the timings of lockdowns across regions enabled growth over last year - Few cities announced early lockdowns while others postponed imposing restrictions. Despite reduced operational hours, footfalls remained high due to better personal mobility, translating to higher sales than last year. DMART Ready sustained the impressive sales momentum (grew ~200% YoY) led by online shopping. It continued to expand gradually across the MMR region, Ahmedabad, Pune, Bengaluru and Hyderabad. We expect the company to continue to acquire owned as well as leased properties to benefit from the weak real estate market conditions, as it enters new markets with plans to add 30/42/50 stores (70% in its existing markets) in FY22E/23E/24E. At sales per sqft CAGR of 10.2%, we estimate a sales CAGR of 29% between FY21-24E.

Gross margin contracts on a weak product mix: The gross margin contraction of 129bps YoY to 12.4% is attributable to lower sales of apparel and general merchandise. Sales mix witnessed a shift towards grocery and FMCG products as consumers preferred need-based/essential goods. EBITDA grew 103% YoY to Rs 2.2bn as EBITDA margin expanded 156bps to 4.4% driven by the base effect. EBITDA per sqft increased 79% YoY to Rs 982. PBT grew 135% YoY to Rs 1.6bn while adjusted PAT increased 132% to Rs 1.2bn. EBITDA growth in the near-term will be challenging due to lower same-store-sales growth (SSSG), gross margin pressure owing to an adverse product mix and increased cost of operations. We model an EBITDA margin expansion of 146bps between FY21-24E.

Strong working capital cycle to be maintained: Despite the near-term challenges and strong growth aspirations, DMART is unlikely to compromise on its working capital management and should maintain its inventory cycle at 35-36 days and net working capital cycle at 22-23 days. The expected capex of Rs 74bn over FY22E-24E would be largely funded by an operating cash flow of Rs 66bn. We estimate RoE/RoCE of 16.9%/21.5% in FY24E.

Outlook depends on the trajectory of the pandemic and vaccination drive:

Restrictions/lockdowns are gradually being eased across regions, leading to a sharp sales recovery across retailers in Jun'21. The management of DMART believes that stores need ~45 days of unhindered operational time to revert to the pre-COVID sales momentum. The supply chain remains unaffected unlike during the first wave. Inventory is gradually returning to normal levels. Construction activity has commenced at all sites and should accelerate the pace of store openings. The company has administered the first dose of vaccine to ~94% of all eligible employees. Despite a fast recovery after the easing of second-wave led restrictions, the outlook remains blur as a possible third wave may severely impact the demand momentum. Additionally, a protracted vaccination drive may delay the demand recovery due to weak consumer sentiments. Though the sales of essential items will be unhindered, any negative impact on the general merchandise segment will hurt gross margins.

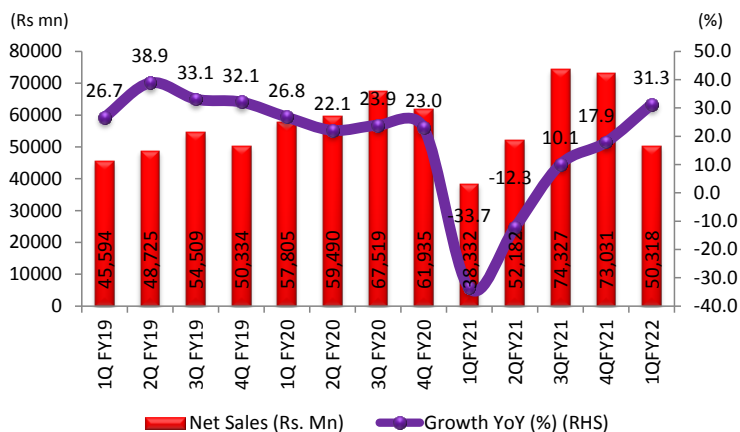
Valuation: We maintain our **HOLD** rating on DMART with a DCF-based target price of Rs 3,050 (unchanged), implying 69x FY24E PER, given the near-term demand weakness, increase in the cost of operations and risk of higher competitive intensity from online grocery platforms. However, the company is well-positioned to navigate this challenging period with its deep discounting model, lower fixed costs, better product mix and strong liquidity position. The strong balance sheet can be used for faster expansion of store network despite the muted demand environment. We estimate EPS CAGR of 38% for FY21-24E. The stock is trading at 76x FY24E PER despite the increased earnings uncertainty.

Exhibit 1: Quarterly performance

YE March (Rs mn)	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)
Net sales	50,318	38,332	73,031		
Other operating income	0.0	0.0	0.0		
Net Revenues	50,318	38,332	73,031	31.3	(31.1)
Purchase of traded goods	44,097	33,099	62,518	33.2	(29.5)
(% of sales)	87.6	86.3	85.6		
Employee cost	1,346	1,212	1,243	11.0	8.2
(% of sales)	2.7	3.2	1.7		
Others	2,663	2,933	3,104	(9.2)	(14.2)
(% of sales)	5.3	7.7	4.3		
EBITDA	2,212	1,089	6,166	103.2	(64.1)
EBITDA margin (%)	4.4	2.8	8.4		
Other income	362	513	526	(29.5)	(31.1)
PBIDT	2,574	1,602	6,692	60.7	(61.5)
Depreciation	927	861	946	7.7	(2.0)
Interest	84	76	103	11.4	(18.3)
PBT	1,563	666	5,642	134.8	(72.3)
Tax	412	170	1,293	142.1	(68.2)
ETR (%)	26.3	25.5	22.9		
Adjusted PAT	1,151	496	4,350	132.3	(73.5)
PAT margin	2.3	1.3	6.0		
Reported PAT	1,151	496	4,350	132.3	(73.5)
No. of shares (mn)	648	648	648		
Adj EPS (Rs)	1.8	0.8	6.7		

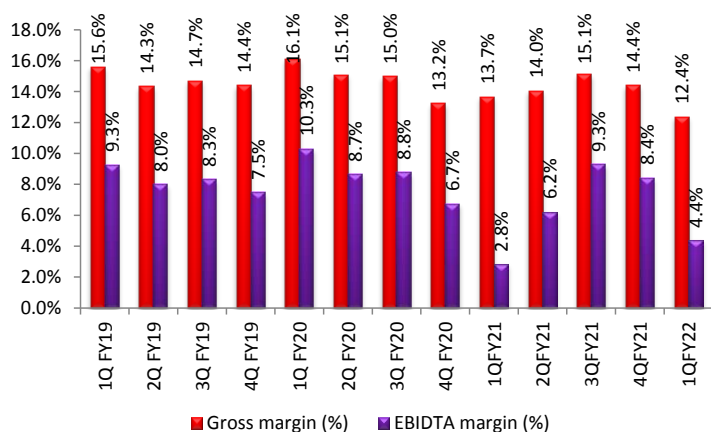
Source: Company, Systematix Institutional Research

Exhibit 2: Revenue growth impacted by restrictions/lockdowns



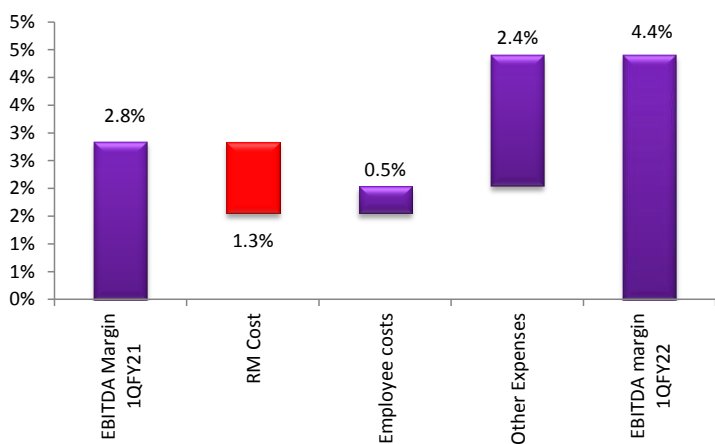
Source: Company, Systematix Institutional Research

Exhibit 3: Gross margin contracts due to a weak product mix



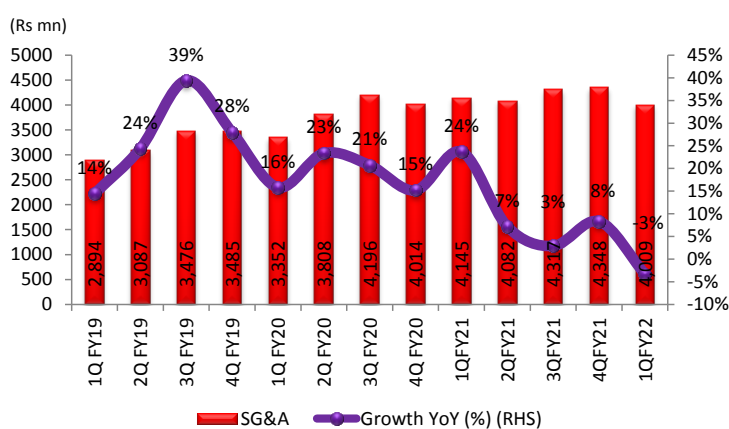
Source: Company, Systematix Institutional Research

Exhibit 4: Margin expansion driven by lower staff and other costs



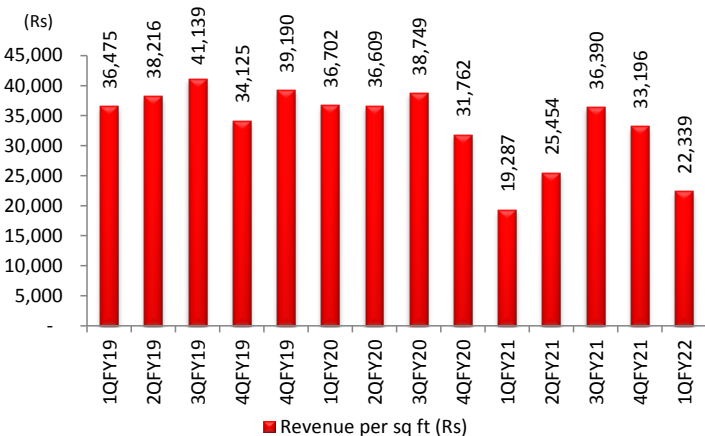
Source: Company, Systematix Institutional Research

Exhibit 5: SG&A declined 3% YoY



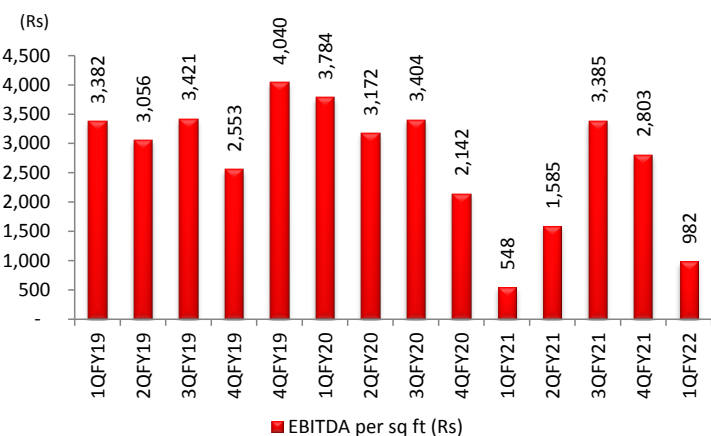
Source: Company, Systematix Institutional Research

Exhibit 6: Revenue per sqft grew 16% YoY...



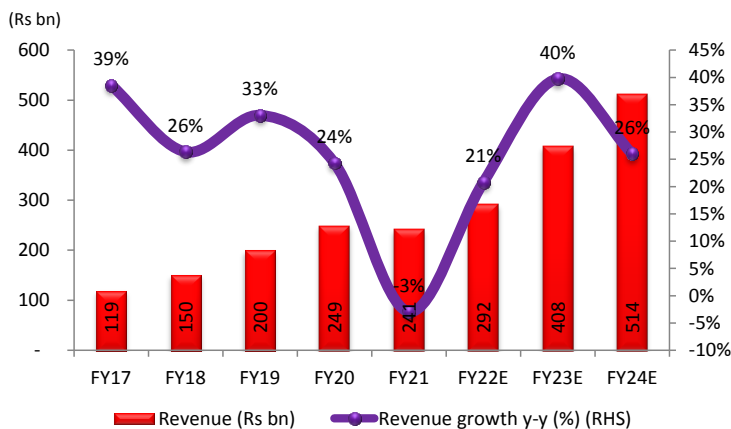
Source: Company, Systematix Institutional Research

Exhibit 7: ...EBITDA per sqft grew 79% YoY in 1QFY22



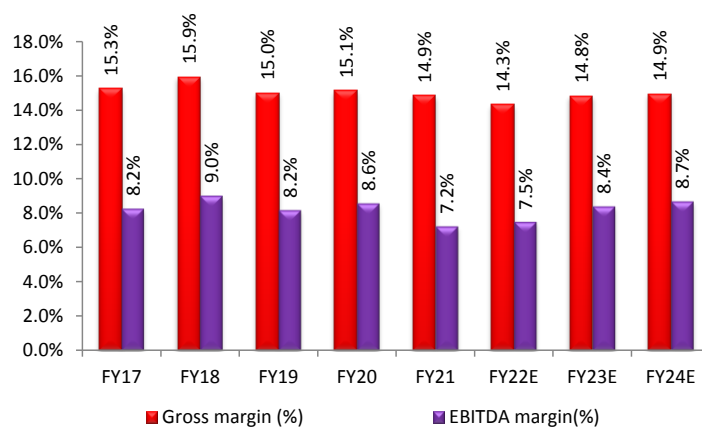
Source: Company, Systematix Institutional Research

Exhibit 8: Expect revenue CAGR of 29% between FY21-24E...



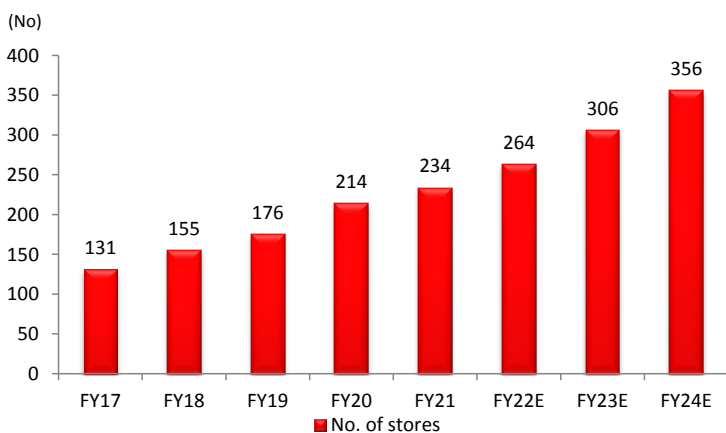
Source: Company, Systematix Institutional Research

Exhibit 9: ...with expansion in gross/EBITDA margins



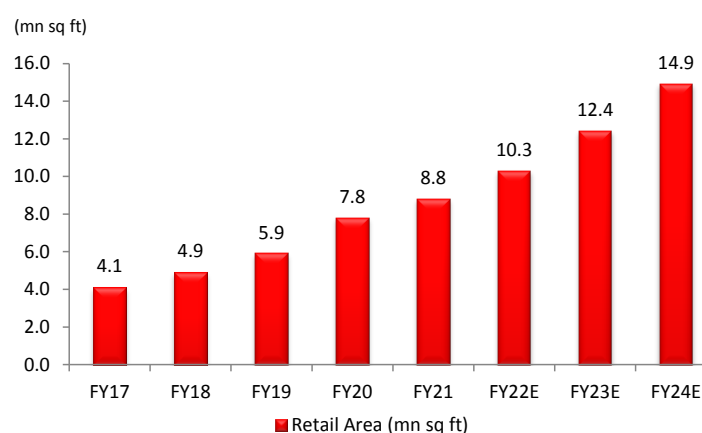
Source: Company, Systematix Institutional Research

Exhibit 10: Store addition pace to be slow in FY22E



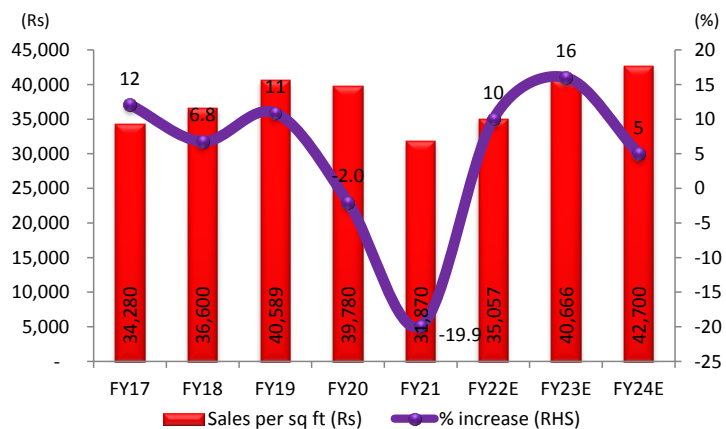
Source: Company, Systematix Institutional Research

Exhibit 11: Expect 19% CAGR in retail area during FY21-24E



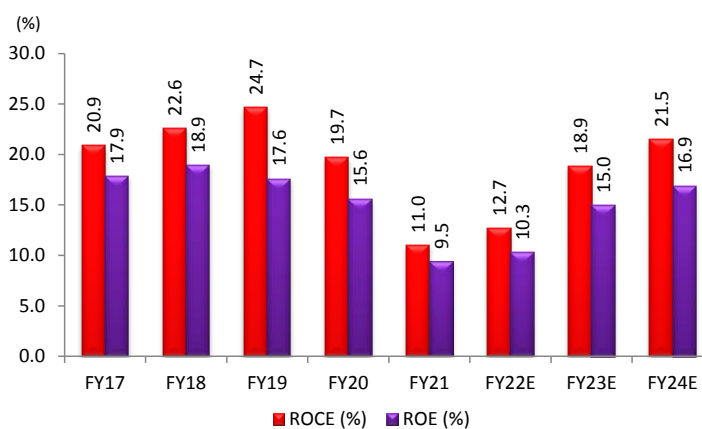
Source: Company, Systematix Institutional Research

Exhibit 12: Expect 10% CAGR in sales per sq ft over next three years



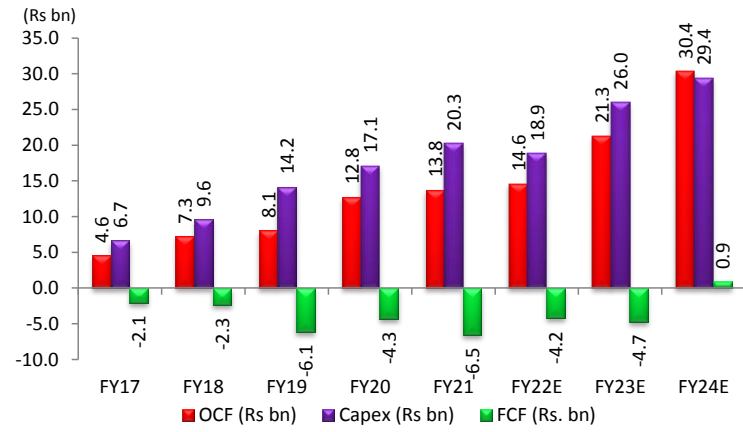
Source: Company, Systematix Institutional Research

Exhibit 13: RoE/RoCE to be 16.9%/21.5% in FY24E



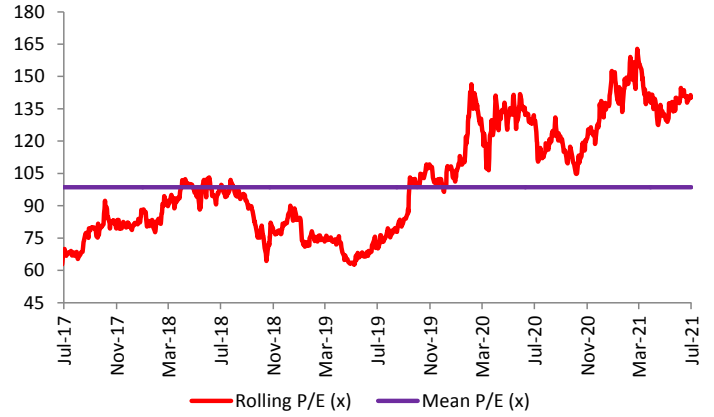
Source: Company, Systematix Institutional Research

Exhibit 14: Higher OCF to be offset by higher capex



Source: Company, Systematix Institutional Research

Exhibit 15: Currently trading at 140x one-yr fwd P/E (x)



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	248,702	241,431	291,580	407,506	513,509
Purchase of trad. goods	214,417	208,556	253,383	352,085	443,158
RM costs/inventories	(3,388)	(3,009)	(3,634)	(5,078)	(6,400)
Gross Profits	37,673	35,884	41,831	60,499	76,750
Employee costs	4,561	5,366	6,415	8,558	10,270
Other expenses	11,829	13,088	13,619	17,811	21,931
Total Expenses	227,419	224,000	269,783	373,376	468,960
EBITDA	21,283	17,431	21,797	34,130	44,549
Depreciation	3,744	4,142	4,886	5,741	6,665
Other income	600	1,962	1,177	1,236	1,261
EBIT	18,139	15,251	18,088	29,625	39,145
Interest cost	691	417	393	401	408
PBT	17,448	14,835	17,695	29,224	38,736
Taxes	4,438	3,840	4,454	7,356	9,750
Adj. PAT	13,010	10,994	13,241	21,869	28,986
Extraordinaries	-	-	-	-	-
Reported PAT	13,010	10,994	13,241	21,869	28,986
No. of shares (mn)	648	648	648	648	648
Adj. EPS	20.1	17.0	20.4	33.8	44.7

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	17,448	14,835	17,695	29,224	38,736
Add: Depreciation	3,744	4,142	4,886	5,741	6,665
Add: Interest	91	(1,546)	(785)	(836)	(852)
Less: taxes paid	(4,924)	(2,616)	(4,454)	(7,356)	(9,750)
Add: other adjustments	205	208	-	-	-
Less: WC changes	(3,762)	(1,271)	(2,719)	(5,425)	(4,446)
Total OCF	12,801	13,751	14,624	21,349	30,352
OCF w/o WC changes	16,564	15,023	17,343	26,774	34,799
Capital expenditure	(17,122)	(20,294)	(18,853)	(26,040)	(29,436)
Change in investments	(29,444)	9,194	-	-	-
Interest/Dividend received	-	-	-	-	-
Total ICF	(46,566)	(11,100)	(18,853)	(26,040)	(29,436)
Free Cash Flows	(4,320)	(6,543)	(4,229)	(4,691)	917
Share issuances	40,765	-	-	-	-
Change in borrowings	(5,512)	(377)	-	-	-
Dividends	-	-	-	-	-
Interest payment	(682)	(61)	785	836	852
Others	(998)	(1,357)	(1,000)	(1,000)	(1,000)
Total FCF	33,574	(1,795)	(215)	(164)	(148)
Net change in cash	(190)	856	(4,445)	(4,855)	769
Opening cash & CE	1,249	1,059	14,456	10,011	5,156
Closing cash & CE	1,059	1,915	10,011	5,156	5,925

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	6,478	6,478	6,478	6,478	6,478
Reserves and surplus	104,320	115,359	128,601	150,471	179,458
Total Equity	110,802	121,841	135,083	156,951	185,938
Total Debt	37	-	-	-	-
Other long term liabilities	3,448	4,468	4,468	4,468	4,468
Total Liabilities	114,287	126,309	139,550	161,419	190,405
Net Block	51,074	59,385	80,152	101,294	124,874
Right to Use assets	7,173	9,602	9,303	8,990	8,665
Other assets	35,397	16,765	16,765	16,765	16,765
CWIP/Other Assets	3,644	10,196	4,696	5,165	5,682
Investments	147	30	30	30	30
Cash	1,079	14,456	10,011	5,156	5,925
Inventories	19,474	22,483	26,621	35,062	42,310
Debtors	196	436	526	736	927
Loans & Advances	2,582	3,207	3,874	5,414	6,822
Current Assets	22,251	26,126	31,021	41,211	50,059
Creditors	4,335	5,781	7,024	9,760	12,285
Other Current Liabilities	2,143	4,469	5,403	7,432	9,308
Current Liabilities	6,477	10,251	12,427	17,192	21,593
Net Working Capital	15,774	15,875	18,594	24,019	28,466
Total Assets	114,287	126,309	139,550	161,419	190,405

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Yoy growth in Revenue	24.3	(2.9)	20.8	39.8	26.0
Yoy growth in EBITDA	30.3	(18.1)	25.0	56.6	30.5
Yoy growth in Net income	44.2	(15.5)	20.4	65.2	32.5
Effective tax rate	25.4	25.9	25.2	25.2	25.2
EBITDA margin	8.6	7.2	7.5	8.4	8.7
PAT margin	5.2	4.6	4.5	5.4	5.6
RoCE	19.7	11.0	12.7	18.9	21.5
RoE	15.6	9.5	10.3	15.0	16.9
Net debt to equity (x)	(0.0)	(0.1)	(0.1)	(0.0)	(0.0)
Inventory days	33	39	38	36	35
Loans & Advances days	4	5	5	5	5
Payable days	7	10	10	10	10
NWC days	23	26	25	23	22
Per share numbers (Rs)					
Reported earnings	20.1	17.0	20.4	33.8	44.7
Dividend	-	-	-	-	-
Free cash	(6.7)	(10.1)	(6.5)	(7.2)	1.4
Book Value	171.0	188.1	208.5	242.3	287.0
Valuations (x)					
Price to diluted earnings	168.2	199.1	165.3	100.1	75.5
EV / EBITDA	102.8	124.7	100.0	64.0	49.0
Price to sales	8.8	9.1	7.5	5.4	4.3

Source: Company, Systematix Institutional Research

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I, **Ashutosh Joytiraditya, Premal Kamdar**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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