

Seeing Early Signs of Recovery in GM&A; Maintain HOLD

Est. Vs. Actual for Q3FY24: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**

Changes in Estimates post Q3FY24

FY24E/FY25E: Revenue: -1%/-3%; EBITDA: -7%/-10%; PAT: -8%/-12%

Recommendation Rationale

- The lower salience of the high-margin general merchandise and apparel category impacted the company's overall profitability growth in Q3FY24. However, the company has seen some stability in GM&A post Diwali.
- DMART is likely to struggle in improving its overall store matrix in the near term as – a) Delayed recovery in general merchandise sales has continued to impact the margins over the last several quarters, b) Larger and newer stores have been struggling to improve their store matrix as this stores have higher gestation periods, thus impacting the overall profitability, c) Increasing competition from organised players (Reliance, Star Bazaar, Zudio) and online players (Zepto, Blinkit) as they penetrate in smaller towns.
- We recommend a wait-and-watch approach as we look for improvement in the store matrix and sustained demand recovery triggers.

Sector Outlook: Cautious

Company Outlook & Guidance: We maintain our **HOLD** outlook on the stock as we cut our FY24/FY25 PAT estimates by 8%/12% to factor in near-term challenges.

Current Valuation: 65x Dec-25 EPS (65x FY25 EPS)

Current TP: Rs 4,150/share (Earlier – Rs 4,000/Share)

Recommendation: With an 8% upside from the CMP, we maintain our **HOLD** rating on the stock.

Financial Performance: DMART's consolidated revenue in Q3FY24 grew by 17% YoY (19% on a 4-Year CAGR basis vs. +20% in the last several quarters) to Rs 13,572 Cr. The growth in the non-FMCG segment during festive season was below management estimates. The management attributed that General Merchandise and Apparel has stabilised and trends are encouraging post Diwali; however, we remain cautious and continue to look for sustained sign of recovery. The company's gross margins stood at 14.9%, flat YoY, while EBITDA grew 16% YoY. EBITDA Margins stood at 8.3% (flat YoY) which was below our estimates. It reported PAT of Rs 690 Cr, which was up 17% YoY.

Store addition: The company added 5 stores in Q3FY24 (17 stores in 9MFY24), taking its store count to 341 stores, up 11% YoY. Its total retail area at the quarter-end stood at 14.2 Mn sq.ft, representing an addition of 0.3 Mn sq. ft in Q3FY24.

Outlook: We believe DMART is likely to struggle in improving its overall store matrix in the near term as – a) Delayed recovery in general merchandise sales has been impacting the margins for the last several quarters, b) Larger and newer stores continue to struggle to improve their store matrix as its stores have a higher gestation period, impacting the company's overall profitability, c) Increasing competition from organised players (Reliance, Star Bazaar, Zudio) and online players (Zepto, Blinkit) with their increasing penetration in smaller towns. We recommend a wait-and-watch approach as we look for improvement in the store matrix and demand recovery triggers.

Valuation & Recommendation: We have decreased our FY24/FY25E PAT estimates to factor near-term growth challenges. However, we have rolled over our estimates to Dec'25 (vs. FY25 earlier). Due to the limited upside potential, **we maintain our HOLD rating on the stock with the revised TP to Rs 4,150/share. The TP implies an upside of 8% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	13,572	7.5	17.3	13,651	(0.6)
EBITDA	1,120	11.4	16.0	1,154	(3.0)
EBITDA Margin (%)	8.3	29bps	-9bps	8.5	-20bps
Net Profit	690	10.8	17.1	738	(6.4)
EPS (Rs)	10.6	10.8	16.5	11.3	(6.4)

Source: Company, Axis Research

(CMP as of 12th Jan 2024)

CMP (Rs)	3840
Upside /Downside (%)	8%
High/Low (Rs)	4203/3292
Market cap (Cr)	249,888
Avg. daily vol (6M)Shrs ('000).	381
No. of shares (Cr)	65

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	74.9	74.7	74.7
FIIs	8.2	8.2	7.7
MFs / UTI	6.8	6.9	7.3
Banks / FIs	0.1	0.1	0.1
Others	10.1	10.3	10.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	51,154	62,121	74,740
EBITDA	4,362	5,439	6,589
Adj Net Profit	2,763	3,516	4,326
EPS, Rs	42.7	54.3	66.9
PER, x	89.9	70.7	57.4
EV/EBITDA, x	56.4	44.9	36.7
ROE, %	14.7	15.7	16.2
ROCE (%)	15.7	16.9	17.5

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-1%	-3%
EBITDA	-7%	-10%
PAT	-8%	-12%

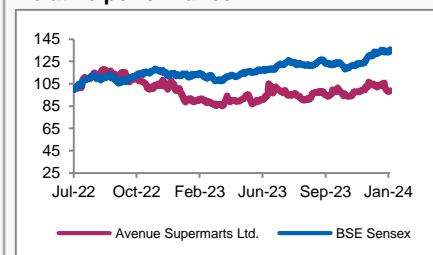
ESG disclosure Score**

Environmental Disclosure	2.41
Social Disclosure Score	14.08
Governance Disclosure Score	78.59
Total ESG Disclosure Score	31.76
Sector Average	41.61

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies.

Relative performance



Source: Ace Equity, Axis Securities

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Key Risks to our Estimates and TP

- The demand environment continues to remain uncertain and it will impact the overall future performance of the company if the demand falters further.

Change in Estimates

	Old		New		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	51,926	63,787	51,154	62,121	-1%	-3%
EBITDA	4,665	6,069	4,362	5,439	-7%	-10%
PAT	3,002	3,999	2,763	3,516	-8%	-12%
EPS	46.4	61.8	42.7	54.3	-8%	-12%

Source: Company, Axis Securities

Results Review

Rs Cr	Q3FY23	Q2FY24	Axis Est.	Q3FY24	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est.
Total Revenue	11,569	12,624	13,651	13,572	17.3	7.5	(0.6)
COGS	9,851	10,772	11,604	11,552	17.3	7.2	(0.4)
Gross Profit	1,718	1,853	2,048	2,020	17.6	9.0	(1.3)
GM%	14.8	14.7	15.0	14.9	4bps	21bps	-12bps
Expenditure							
Employee expenses	192	225	221	234	21.8	4.3	6.0
Other Exp	560	623	672	666	18.9	6.9	(0.9)
Total Expenditure	10,604	11,619	12,497	12,453	17.4	7.2	(0.4)
EBIDTA	965	1,005	1,154	1,120	16.0	11.4	(3.0)
EBITDA Margin (%)	8.3	8.0	8.5	8.3	-9bps	29bps	-20bps
Depreciation	168	174	180	189	12.6	8.6	5.4
EBIT	797.2	830.6	974.8	930.5	16.7	12.0	(4.5)
Interest	17	16	17	15	(14.3)	(6.7)	(13.6)
Oth. Inc.	32	37	39	33	4.3	(10.8)	(15.1)
Exceptional Items	-	-	-	-			#DIV/0!
PBT	812	852	997	949	16.9	11.4	(4.8)
Tax	222	229	259	259	16.4	13.1	(0.2)
Effective Tax Rate(%)	27.4	26.8	26.0	27.2	-12bps	41bps	124bps
PAT	590	623	738	690	17.1	10.8	(6.4)
PAT Margin (%)	5.10	4.94	5.40	5.09	-1bps	15bps	-32bps
EPS (Rs.)	9.1	9.6	11.3	10.6	16.5	10.8	(6.4)

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	42,840	51,154	62,121	74,740
Growth, %	38.3	19.4	21.4	20.3
Raw material expenses	(36,384)	(43,297)	(52,497)	(63,128)
Employee expenses	(747)	(896)	(1,076)	(1,291)
Other Operating expenses	(2,072)	(2,599)	(3,109)	(3,732)
EBITDA (Core)	3,637	4,362	5,439	6,589
Growth, %	45.6	19.9	24.7	21.2
Margin, %	8.5	8.5	8.8	8.8
Depreciation	(639)	(732)	(825)	(918)
EBIT	2,998	3,630	4,614	5,671
Growth, %	49.9	21.1	27.1	22.9
Margin, %	7.0	7.1	7.4	7.6
Other Income	129	149	178	214
Non-recurring Items	-	-	-	-
Pre-tax profit	3,060	3,714	4,725	5,815
Tax provided	(682)	(951)	(1,210)	(1,489)
Profit after tax	2,378	2,763	3,516	4,326
Net Profit	2,378	2,763	3,516	4,326
Growth, %	59.4	16.2	27.2	23.1

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Cash & bank	1,408	2,408	4,096	6,588
Debtors	62	74	90	108
Inventory	3,243	3,873	4,703	5,659
Loans & advances	-	-	-	-
Other current assets	532	532	532	532
Total current assets	5,448	7,090	9,624	13,090
Investments	117	117	117	117
Gross fixed assets	13,807	15,807	17,807	19,807
Less: Depreciation	(2,475)	(3,207)	(4,032)	(4,950)
Add: Capital WIP	829	829	829	829
Net fixed assets	12,161	13,429	14,604	15,686
Non-current assets	380	380	380	380
Total assets	18,106	21,016	24,725	29,273
Current liabilities	1,467	1,613	1,806	2,028
Provisions	-	-	-	-
Total current liabilities	1,467	1,613	1,806	2,028
Non-current liabilities	561	561	561	561
Total liabilities	2,028	2,174	2,367	2,589
Paid-up capital	648	648	648	648
Reserves & surplus	15,431	18,194	21,709	26,036
Shareholders' equity	16,079	18,842	22,358	26,684
Total equity & liabilities	18,106	21,016	24,725	29,273

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,060	3,714	4,725	5,815
Depreciation	639	732	825	918
Chg in working capital	(482)	(495)	(653)	(752)
Total tax paid	(669)	(951)	(1,210)	(1,489)
Cash flow from operating activities	2,548	3,000	3,687	4,493
Capital expenditure	(2,420)	(2,000)	(2,000)	(2,000)
Chg in marketable securities	(196)	-	-	-
Cash flow from investing activities	(1,461)	(2,000)	(2,000)	(2,000)
Free cash flow	1,087	1,000	1,687	2,493
Equity raised/(repaid)	1	-	-	-
Dividend (incl. tax)	-	-	-	-
Cash flow from financing activities	1	-	-	-
Net chg in cash	1,089	1,000	1,687	2,493
Opening cash balance	299	1,408	2,408	4,096
Closing cash balance	1,408	2,408	4,096	6,588

Source: Company, Axis Securities

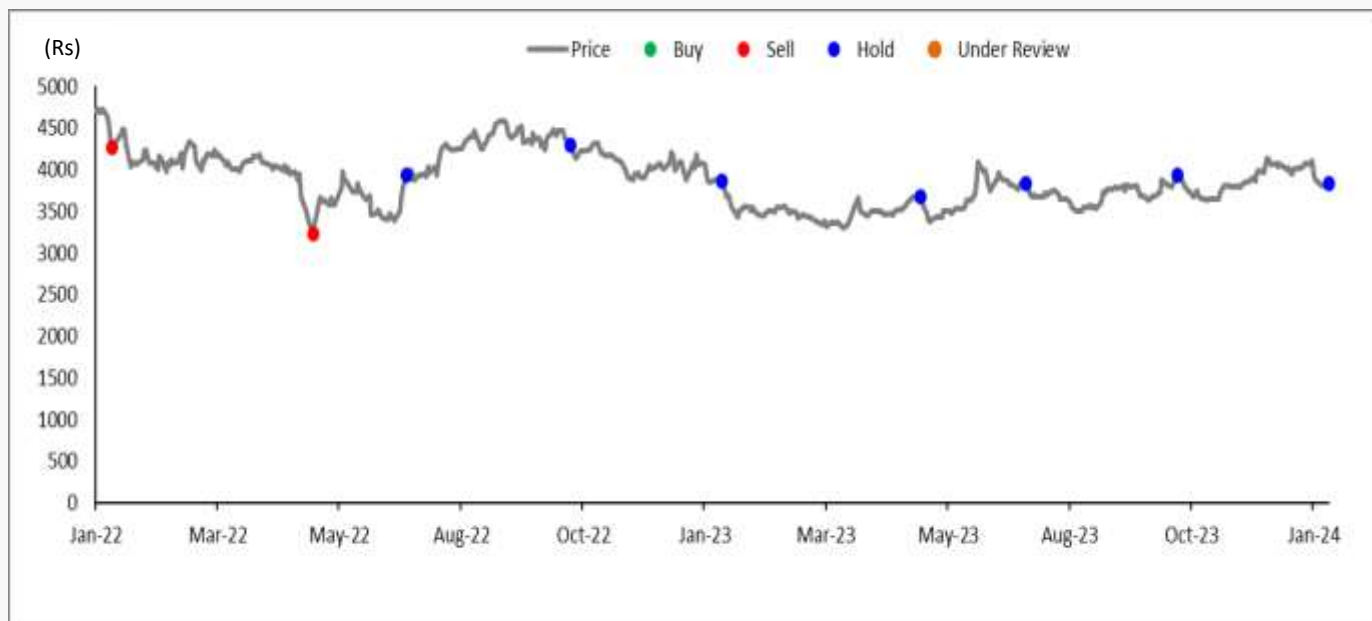
Ratio Analysis

(%)

Y/E Mar	FY23	FY24E	FY25E	FY26E
EPS (INR)				
Growth, %	36.8	42.7	54.3	66.9
Book NAV/share (INR)	59.4	16.2	27.2	23.1
FDEPS (INR)	248.5	291.2	345.6	412.4
CEPS (INR)	36.8	42.7	54.3	66.9
CFPS (INR)	46.6	54.0	67.1	81.1
Return ratios	37.4	44.1	54.2	66.1
Return on assets (%)				
Return on equity (%)	14.6	14.5	15.7	16.3
Return on capital employed (%)	14.8	14.7	15.7	16.2
Turnover ratios	15.8	15.7	16.9	17.5
Asset turnover (x)				
Sales/Total assets (x)	3.3	3.4	3.7	4.0
Sales/Net FA (x)	2.6	2.6	2.7	2.8
Working capital/Sales (x)	3.8	4.0	4.4	4.9
Receivable days	0.1	0.1	0.1	0.1
Inventory days	0.5	0.5	0.5	0.5
Payable days	27.6	27.6	27.6	27.6
Working capital days	7.0	7.0	7.0	7.0
Liquidity ratios	20.2	20.5	20.7	20.9
Current ratio (x)				
Quick ratio (x)	3.7	4.4	5.3	6.5
Valuation	1.5	2.0	2.7	3.7
PER (x)				
PEG (x) - y-o-y growth	104.5	89.9	70.7	57.4
Price/Book (x)	1.8	5.6	2.6	2.5
EV/Net sales (x)	15.5	13.2	11.1	9.3
EV/EBITDA (x)	5.8	4.8	3.9	3.2
EV/EBIT (x)	67.9	56.4	44.9	36.7

Source: Company, Axis Securities

Avenue Supermarts Price Chart and Recommendation History



Date	Reco	TP	Research
12-Jan-22	Sell	3,600	Result Update
13-May-22	Sell	2,900	Result Update
08-Jul-22	HOLD	3,900	Result Update
14-Oct-22	HOLD	4,350	Result Update
13-Jan-23	HOLD	4,000	Result Update
12-May-23	HOLD	4,000	Result Update
14-Jul-23	HOLD	3,870	Result Update
16-Oct-23	HOLD	4,000	Result Update
15-Jan-24	HOLD	4,150	Result Update

Source: Axis Securities

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