30 July 2024

Company Update | Sector: Retail

Avenue Supermarts

BSE SENSEX	S&P CNX
81,455	24,857

CMP: INR5,027 TP: INR5,500 (+10%) Buy

Bloomberg	DMART IN
Equity Shares (m)	651
M.Cap.(INRb)/(USDb)	3271.4 / 39.1
52-Week Range (INR)	5220 / 3491
1, 6, 12 Rel. Per (%)	3/21/9
12M Avg Val (INR M)	1877
Free float (%)	25.4

Financials & Valuations (INR b)

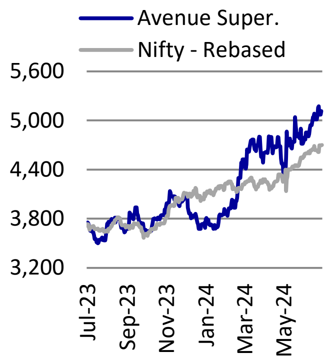
Y/E March	FY24	FY25E	FY26E
Sales	508	612	755
EBITDA	41	52	68
Adj. PAT	25	32	43
EBITDA Margin (%)	8.1	8.5	9.1
Adj. EPS (INR)	39	50	66
EPS Gr. (%)	6	28	33
BV/Sh. (INR)	287	337	404
Ratios			
Net D:E	0.0	0.0	-0.1
RoE (%)	14.6	16.0	17.9
RoCE (%)	14.3	15.7	17.7
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	128.6	100.6	75.5
EV/EBITDA (x)	79.5	62.4	47.4
EV/Sales (X)	6.4	5.3	4.3
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.0	0.1	0.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	74.7	74.7	74.7
DII	8.0	8.6	7.7
FII	9.2	8.3	8.2
Others	8.1	8.5	9.5

FII Includes depository receipts

Stock Performance (1-year)



Pushing for store addition led growth

We attended DMART's analyst meet, wherein the management noted that it continues to follow "Everyday low cost - Everyday low price" across Food, FMCG, GM, Apparel and DMart Ready. Here are the key highlights:

- **Guidance intact:** DMART expects +20%revenue growth while maintaining gross margins of 14.5-15.5%. It expects store additions to account for 10-15% of revenue growth, while the remaining would come from SSSG.
- **Aggressive store addition target:** DMART plans to add 40-60 stores per year over the next three years, with a cluster-based expansion strategy.
- **Recovering, but expect staying below pre-Covid level:** It expects GM&A to be back on track, albeit still below pre-Covid levels (27-28% of sales). The management anticipates a slight rebound to 23% (vs. 22.37% in FY24).
- **No plans to enter quick commerce (QC):** The company does not intend to enter the QC model and plans to continue to follow the existing ecommerce model (DMart Ready).
- **Optimizing ecommerce business:** DMART made a deliberate choice to optimize its e-commerce business model rather than focusing on higher growth in order to increase throughput in the existing city.
- **We estimate a CAGR of 22%/31% in revenue/PAT over FY24-26E, aided by 11%/9% growth in area/revenue. Maintain Buy.**

Opportunity to add stores remain intact

DMART has all the appropriate resources, abilities, systems, and technologies to run stores. The company will continue to add stores in the range of 10-15% despite having a higher base. Currently, the company targets to add 40-60 stores annually over the next three years, though it could increase the store addition target going forward in order to maintain its 10-15% guidance. The majority of stores are added via the cluster approach, and as the cluster widens and the company enters new untapped geographies (UP, Bihar, etc.), it could give room for more store additions. In FY24, DMART added 70% of the new stores in five states (MH/GJ/TL/KA/AP), where it already has 76% of total stores (the cluster approach). DMART could open stores in both larger and smaller towns, with no concern about the store size as it is ready to open stores based on availability, but it prefers to open larger stores.

Witnessing recovery in GM&A but still below pre-Covid level

The gross merchandise & apparel (GM&A) vertical, which has been an issue for the company, has now started recovering for the last 2-3 quarters. Fashion and apparel merchandise are not a forte of DMART; hence, it has taken initiatives (e.g., pricing, hiring new talent, etc.) to solve the issues internally. DMART expects GM&A to get back on track and increase its sales contribution to 23% in FY25 from 22.4% in FY24, albeit still below the pre-Covid level of 27-28%.

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Optimizing ecommerce business

The company has decided to optimize its e-commerce business model rather than focusing on higher growth in order to increase throughput in the existing city. It has added only 1 city (Gurgaon) in FY25 so far and targets to expand its existing footprint in 23 cities. The company is optimizing its business model; hence, instead of reducing area service, it closed 232 pickup locations that were farther than 1-2km (573 in FY23 to 341 in FY24). This should increase the operating leverage for the existing stores. Since the cost of operating the ecommerce business is relatively higher compared to brick-and-mortar stores (due to high manpower requirement and complicated processes), the management took a cost-focused approach and avoided venturing deeper into the ecommerce space.

Valuation and view

DMART clocked a 20% revenue CAGR over FY20-24, led by 18% footprint additions. Subdued SSSG was mainly due to: 1) the addition of bigger stores over the last couple of years (20% rise in average store size), and 2) weak discretionary demand (share of discretionary items reduced to 22% in FY24 from 27% in FY20). However, despite its weak SSSG, DMART has managed to protect its EBITDA margin at pre-Covid levels through its strong cost-control measures, unlike most other retailers. The recovery in revenue/sqft and the reducing gap between revenue/store and revenue/sqft further implied that the share of larger-format stores improved, which is positive for DMART. Moreover, moderating inflation and the revival of discretionary demand could improve SSSG. We estimate a CAGR of 22%/31% of revenue/PAT over FY24-26, aided by 11%/9% growth in footprint/revenue productivity. We value the company at 52x EV/EBITDA (83x PE) on FY26E to arrive at a TP of INR5,500. **We reiterate our BUY rating on the stock.**

Exhibit 1: Valuation based on Mar'26E

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
EBITDA	Mar'26 EV/EBITDA	68	52	3,555	5,474
Less Net debt				-17	-26
Total Value				**3,572**	**5,500**
Shares o/s (m)				651	
CMP (INR)					5,027
Upside (%)					**10**

Source: MOFSL, Company

Exhibit 2: Avenue Ecommerce P&L

DMart Ready (INR m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24
DMart ready revenue	**441**	**1,436**	**3,540**	**7,913**	**16,672**	**22,020**	**28,992**
YoY%		225%	147%	124%	111%	32%	32%
Consol revenue (INRb)	150	200	249	241	310	428	508
YoY%		33%	24%	-3%	28%	38%	19%
Proportion of DMart ready				*5%*		*5%*	6%
DMart ready GP					**2,041**	**2,739**	**3,617**
margin					12.2	12.4	12.5
Consol GP (INRb)	24	30	38	36	46	65	75
margin	15.9	15.0	15.1	14.9	14.8	15.1	14.8
Proportion of Dmart ready				*4.5%*		*4.2%*	5%
Dmart ready EBITDA					**-396**	**-763**	**-730**
Margin					-2.4	-3.5	-2.5
Consol EBITDA (INRb)	14	16	21	17	25	36	41
Margin	9.0	8.2	8.6	7.2	8.1	8.5	8.1
Proportion of Dmart ready				*-1.6%*		*-2.1%*	-1.8%
Dmart Ready Loss	**-481**	**-508**	**-797**	**-806**	**-1,421**	**-1,937**	**-1,848**
Consol PAT (INRb)	8.1	9.0	13.0	11.0	14.9	23.8	25.4
Proportion of Dmart ready	*-6%*	*-6%*	*-6%*	*-7%*	*-10%*	*-8%*	*-7%*
Number of cities							
Cities count	1	1	1	5	9	22	23

Investor meet highlights

Guidance

- DMART plans to grow revenue by +20% while maintaining gross margins of 14.5-15.5%. The company plans to pass on any further margin gains to customers.
- About 10-15% of growth will be contributed by store additions and the rest from SSSG.
- Even on the higher base of store addition, the company will continue to grow its store network by 10-15% annually for the next few years.

Aggressive store additions

- The company targets to add 40-60 stores annually over the next three years.
- It continues to prioritize store additions via the cluster-based strategy.
- The management opens new stores (a split store) around existing stores, which tend to offer higher throughput. This is done in cities like Bangaluru, Mumbai and Hyderabad. This will cannibalize old store sales, but both stores together will generate higher sales.
- The cohort of stores in towns with a population of less than 500k was 21% of total stores in FY24 vs. 21% in FY20.

GM&A – Expected to recover but below pre-Covid level

- The company expects GM&A to get back on track and increase its sales contribution to 23% in FY25 from 22.4% in FY24, albeit still below the pre-Covid level of 27-28%.
- Apparel has been the top-performing category for the last two quarters. As indicated last year, the management solved the internal problem by taking initiatives such as pricing and hiring new employees (70-80% of work done).
- Due to agri food inflation during the year, the contribution of Foods in the mix improved by 90bp YoY to 57%, partly offset by deflation in edible oil. As stores mature, the management expects a higher contribution from the Foods and FMCG segments.
- Company operates pharmacy points at only 7 stores.

DMart Ready – Year of consolidation

- The company's conscious decision to enhance its existing ecommerce business model (DMart Ready) rather than target higher growth has resulted in an increase in throughput in the existing cities.
- The company does not intend to enter QC and plans to follow its existing ecommerce model.
- Instead of reducing area service, the company closed 232 pickup locations that were farther than 1-2km (573 in FY23 to 341 in FY24). This has increased the operational leverage for the existing stores.
- For DMart Ready, assortment is key to improving gross margin. The company will have to make a reasonable divergence from its brick-and-mortar business to improve margins. In terms of opex, DMART has done pretty well.
- In order to combine the MiniMax format with pickup points, experiments are now ongoing. The company now has 23 outlets (added 8 in FY24).
- DMart Ready stores are under lease and not owned.

B&M vs. QC

- The management expects both B&M and QC segments to coexist going forward since the industry size is large.
- In terms of competition, the company does not perceive any fierce rivalry from QC players; however, there may be 1- 1.5% impact on SSSG as a result of customer shifting, but nothing significant that would raise red flags for the business.
- Different customer needs: QC is conveyance, while DMART offers value. The company continues to deliver value. The management believes value should come ahead of convenience.
  - The management explains that QC is preferred in metro cities and B&M is preferred in smaller cities.
- Delivery time of DMart Ready: 40-45% of the total orders are delivered within 12 hours, 86% of the total orders are delivered in 24 hours and the rest are delivered as per customer-preferred time.
- A pickup point (~200 sqft) could not be converted into a dark store by the company because a dark store needs a 5,000–7,000 sqft store.

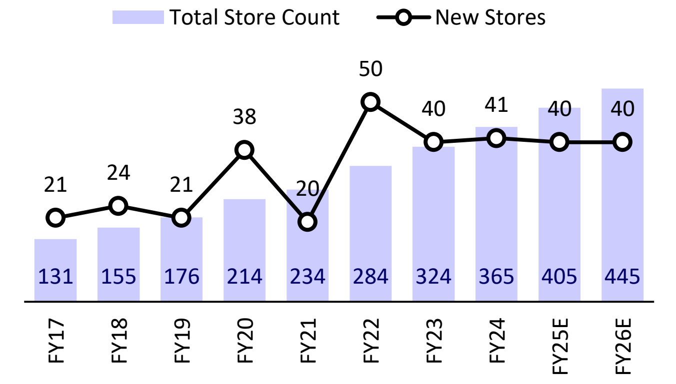
Cost of retailing (CoR)

- The increase in the wage rate led to higher CoR in 1QFY25.

Private labels

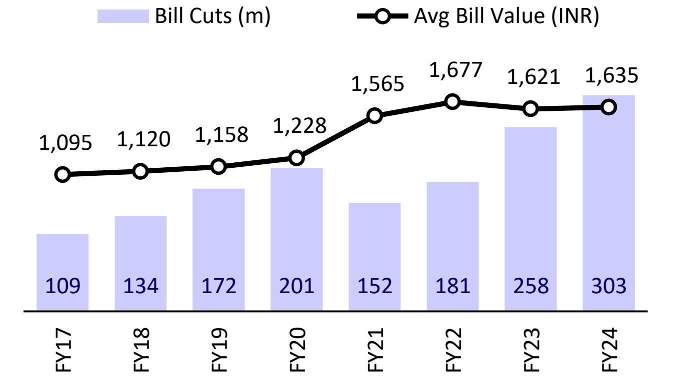
- India's per capita income is USD2,000-3,000, and private labels do well when a country's per capita income reaches USD7,000-8,000.
- The management aims to give a huge discount compared to branded players. It is a long journey for the company in private labels as noted by the management. Currently it's challenging for a company to provide private label goods that are on par with those of branded goods.
- DMart Premia contributes 5-6% of total sales.

Exhibit 3: Expect store adds to continue



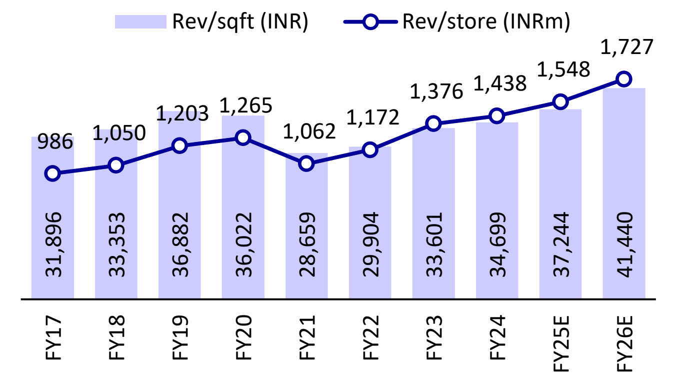
Source: MOFSL, Company

Exhibit 4: Bill cuts improved 18% YoY, while ABV was flat



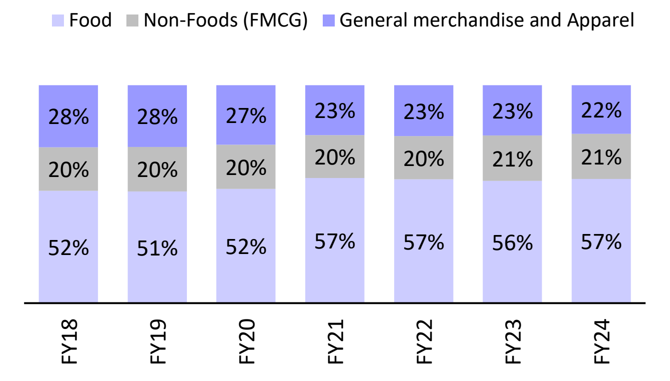
Source: MOFSL, Company

Exhibit 5: Productivity continues to improve



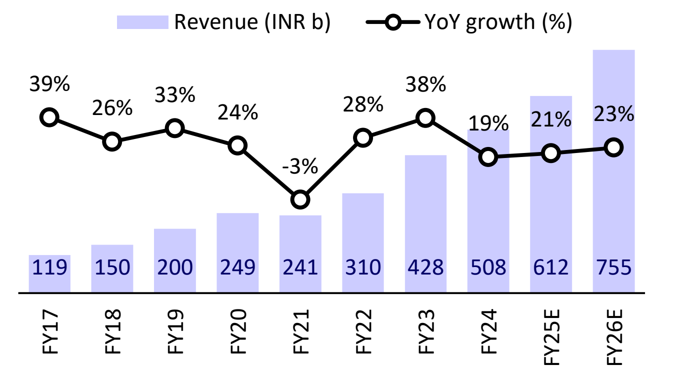
Source: MOFSL, Company

Exhibit 6: GM&A were declining; expects to improve



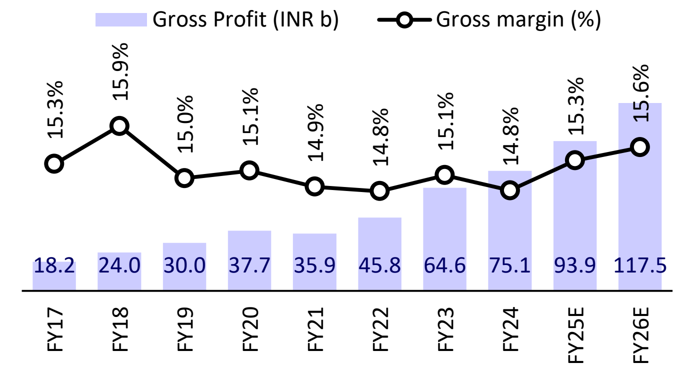
Source: MOFSL, Company

Exhibit 7: Expect 22% consol. revenue CAGR over FY24-26E



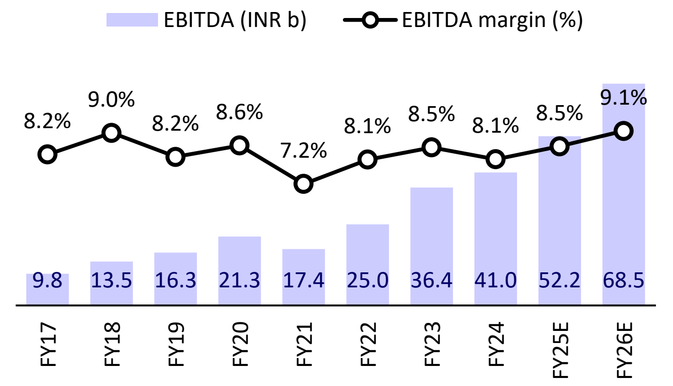
Source: MOFSL, Company

Exhibit 8: Expect 25% gross profit CAGR over FY24-26E



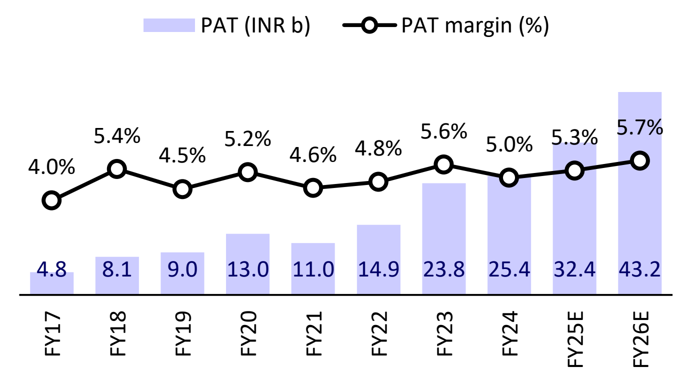
Source: MOFSL, Company

Exhibit 9: Expect 29% EBITDA CAGR over FY24-26E



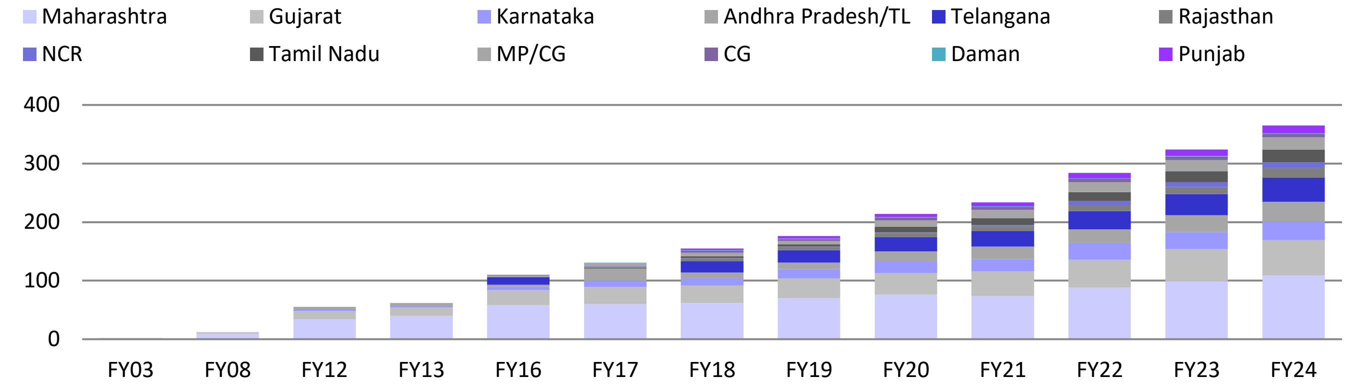
Source: MOFSL, Company

Exhibit 10: Expect 31% PAT CAGR over FY24-26E



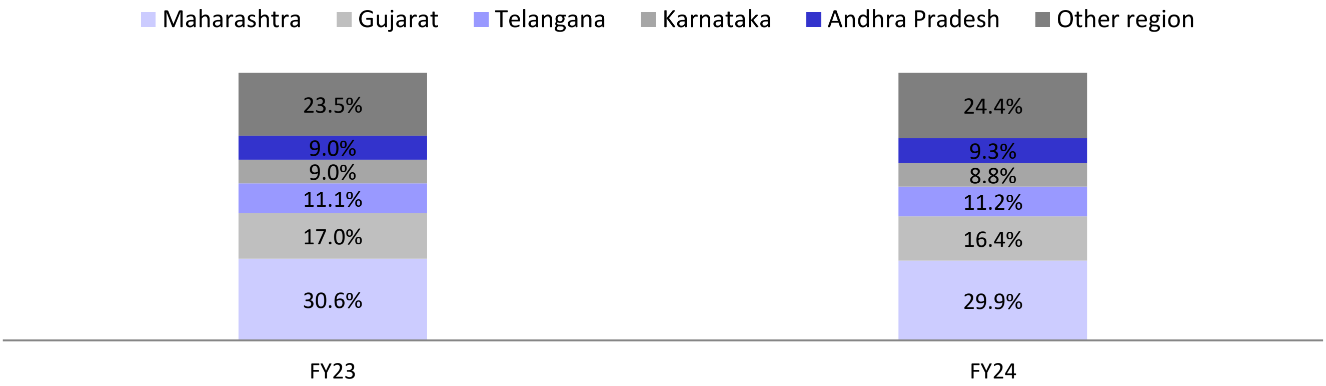
Source: MOFSL, Company

Exhibit 11: Store presence across states



Source: MOFSL, Company

Exhibit 12: Majority of store adds in 5 states in FY24 – following a clustered approach (% of total stores)



Source: MOFSL, Company

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	**2,00,045**	**2,48,702**	**2,41,431**	**3,09,763**	**4,28,396**	**5,07,888**	**6,12,364**	**7,55,162**
Change (%)	33.1	24.3	-2.9	28.3	38.3	18.6	20.6	23.3
Raw Materials	1,70,008	2,11,029	2,05,547	2,63,974	3,63,840	4,32,745	5,18,478	6,37,616
Gross Profit	**30,037**	**37,673**	**35,884**	**45,789**	**64,556**	**75,143**	**93,886**	**1,17,546**
Margin (%)	15.0	15.1	14.9	14.8	15.1	14.8	15.3	15.6
Employees Cost	3,554	4,561	5,366	6,162	7,470	9,061	11,329	13,215
Other Expenses	10,150	11,829	13,088	14,642	20,716	25,044	30,312	35,870
Total Expenditure	**1,83,712**	**2,27,419**	**2,24,000**	**2,84,778**	**3,92,025**	**4,66,851**	**5,60,119**	**6,86,701**
% of Sales	91.8	91.4	92.8	91.9	91.5	91.9	91.5	90.9
EBITDA	**16,333**	**21,283**	**17,431**	**24,985**	**36,370**	**41,038**	**52,245**	**68,461**
Margin (%)	8.2	8.6	7.2	8.1	8.5	8.1	8.5	9.1
Depreciation	2,125	3,744	4,142	4,981	6,389	7,308	8,761	10,142
EBIT	**14,208**	**17,539**	**13,289**	**20,004**	**29,982**	**33,730**	**43,484**	**58,319**
Int. and Finance Charges	472	691	417	538	674	581	639	703
Other Income	484	600	1,962	1,175	1,293	1,465	1,591	1,591
PBT bef. EO Exp.	**14,219**	**17,448**	**14,835**	**20,641**	**30,601**	**34,613**	**44,436**	**59,207**
PBT after EO Exp.	**14,219**	**17,448**	**14,835**	**20,641**	**30,601**	**34,613**	**44,436**	**59,207**
Total Tax	5,195	4,438	3,840	5,717	6,818	9,251	11,998	15,986
Tax Rate (%)	36.5	25.4	25.9	27.7	22.3	26.7	27.0	27.0
Minority Interest	1	1	0	0	0	0	0	0
Reported PAT	**9,024**	**13,009**	**10,994**	**14,924**	**23,783**	**25,363**	**32,438**	**43,221**
Adjusted PAT	**9,024**	**13,009**	**10,994**	**14,924**	**23,783**	**25,363**	**32,438**	**43,221**
Change (%)	11.9	44.2	-15.5	35.7	59.4	6.6	27.9	33.2
Margin (%)	4.5	5.2	4.6	4.8	5.6	5.0	5.3	5.7

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	6,241	6,478	6,478	6,478	6,483	6,507	6,507	6,507
Total Reserves	49,634	1,04,320	1,15,359	1,30,299	1,54,304	1,80,471	2,12,909	2,56,130
Net Worth	**55,875**	**1,10,797**	**1,21,837**	**1,36,776**	**1,60,787**	**1,86,978**	**2,19,416**	**2,62,637**
Total Loans	4,298	37	0	0	0	0	0	0
Lease Liabilities		2,955	3,927	6,469	6,430	5,922	6,002	6,051
Deferred Tax Liabilities	633	474	512	640	770	919	919	919
Capital Employed	**60,811**	**1,14,268**	**1,26,281**	**1,43,890**	**1,67,987**	**1,93,814**	**2,26,334**	**2,69,603**
Gross Block	49,352	68,484	83,178	1,10,486	1,37,381	1,64,929	1,95,570	2,27,057
Less: Accum. Deprn.	6,131	9,786	13,873	18,669	24,759	31,562	40,322	50,464
Net Fixed Assets	**43,221**	**58,698**	**69,305**	**91,817**	**1,12,622**	**1,33,367**	**1,55,248**	**1,76,593**
Right to use assets		**7,173**	**9,602**	**13,887**	**15,049**	**15,391**	**15,618**	**15,618**
Capital WIP	3,768	3,644	10,196	11,293	8,292	9,352	9,352	9,352
Total Investments	**165**	**31,374**	**30**	**59**	**2,022**	**1,067**	**1,173**	**1,291**
Curr. Assets, Loans&Adv.	**22,118**	**26,264**	**56,237**	**50,758**	**57,327**	**67,156**	**77,549**	**1,03,469**
Inventory	16,087	19,474	22,483	27,427	32,435	39,273	48,297	59,394
Account Receivables	644	196	436	669	622	1,664	2,057	2,536
Cash and Bank Balance	2,191	1,079	14,456	2,986	14,083	6,382	7,358	21,701
Loans and Advances	3,197	5,516	18,863	19,677	10,187	19,837	19,837	19,837
Curr. Liability & Prov.	**9,246**	**6,497**	**10,280**	**10,838**	**13,076**	**17,958**	**17,818**	**21,933**
Account Payables	4,633	4,335	5,781	5,892	7,538	9,848	12,001	14,759
Other Current Liabilities	4,474	1,996	4,236	4,533	4,965	7,407	5,205	6,419
Provisions	139	167	262	413	573	702	612	755
Net Current Assets	**12,872**	**19,767**	**45,958**	**39,920**	**44,251**	**49,198**	**59,730**	**81,537**
Deferred Tax assets	2	3	10	17	18	47	47	47
Appl. of Funds	**60,811**	**1,14,268**	**1,26,281**	**1,43,890**	**1,67,987**	**1,93,814**	**2,26,334**	**2,69,603**

Financials and Valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS (diluted from FY17)	**14.5**	**20.1**	**17.0**	**23.0**	**36.7**	**39.0**	**49.8**	**66.4**
Cash EPS (diluted from FY17)	17.9	25.9	23.4	30.7	46.5	50.2	63.3	82.0
BV/Share (diluted from FY17)	89.5	171.0	188.1	211.1	248.0	287.3	337.2	403.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	346.8	249.7	295.4	217.6	136.7	128.6	100.6	75.5
Cash P/E	280.7	193.9	214.6	163.2	107.7	99.9	79.2	61.1
P/BV	56.0	29.3	26.7	23.7	20.2	17.4	14.9	12.4
EV/Sales	15.7	13.1	13.4	10.5	7.6	6.4	5.3	4.3
EV/EBITDA	191.7	151.2	185.7	130.1	89.1	79.5	62.4	47.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-9.5	-6.6	-10.1	-15.7	6.5	0.4	3.8	24.5
Return Ratios (%)								
RoE	17.6	15.6	9.5	11.5	16.0	14.6	16.0	17.9
RoCE	16.8	15.5	9.4	11.4	15.7	14.3	15.7	17.7
RoIC	18.3	19.7	11.0	12.5	17.1	15.4	16.5	19.1
Working Capital Ratios								
Fixed Asset Turnover (x)	4.1	3.6	2.9	2.8	3.1	3.1	3.1	3.3
Asset Turnover (x)	3.3	2.2	1.9	2.2	2.6	2.6	2.7	2.8
Inventory (Days)	35	34	40	38	33	33	34	34
Debtor (Days)	1	0	1	1	1	1	1	1
Creditor (Days)	10	7	10	8	8	8	8	8
Leverage Ratio (x)								
Current Ratio	2.4	4.0	5.5	4.7	4.4	3.7	4.4	4.7
Interest Cover Ratio	30.1	25.4	31.9	37.2	44.5	58.0	68.0	82.9
Net Debt/Equity	0.0	-0.3	-0.1	0.0	-0.1	0.0	0.0	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	14,219	17,448	14,835	20,641	30,601	34,613	44,436	59,207
Depreciation	2,125	3,744	4,142	4,981	6,389	7,308	8,761	10,142
Interest & Finance Charges	472	691	417	538	674	581	639	703
Direct Taxes Paid	-5,018	-4,924	-2,616	-5,603	-7,089	-7,418	-11,998	-15,986
(Inc)/Dec in WC	-3,507	-3,762	-1,271	-5,825	-3,199	-6,438	-9,556	-7,463
CF from Operations	**8,292**	**13,197**	**15,506**	**14,733**	**27,376**	**28,646**	**32,282**	**46,603**
Others	-224	-395	-1,754	-1,009	-1,073	-1,188	-1,591	-1,591
CF from Operating incl EO	**8,068**	**12,801**	**13,751**	**13,724**	**26,303**	**27,458**	**30,692**	**45,012**
(Inc)/Dec in FA	-13,970	-17,060	-20,275	-23,895	-22,065	-27,218	-28,192	-29,038
Free Cash Flow	**-5,902**	**-4,259**	**-6,524**	**-10,172**	**4,238**	**240**	**2,500**	**15,974**
(Pur)/Sale of Investments	0	0	7,830	10,500	-1,500	-137	-107	-117
Others	4,386	-29,505	1,345	500	434	2,672	1,591	1,591
CF from Investments	**-9,584**	**-46,566**	**-11,100**	**-12,895**	**-23,131**	**-24,683**	**-26,708**	**-27,564**
Issue of Shares	0	41,869	0	0	155	748	0	0
Inc/(Dec) in Debt	2,600	-6,615	-1,359	0	0	0	0	0
Interest Paid	-510	-682	-436	-538	-674	-581	-639	-703
Others	0	-998	0	-1,255	-1,533	-1,643	-2,369	-2,401
CF from Fin. Activity	**2,090**	**33,574**	**-1,795**	**-1,792**	**-2,051**	**-1,476**	**-3,008**	**-3,104**
Inc/Dec of Cash	**574**	**-190**	**856**	**-964**	**1,120**	**1,299**	**976**	**14,343**
Opening Balance (without bank bal.)	674	1,249	1,059	1,915	951	2,072	3,371	4,346
Closing Balance	1,249	1,059	1,915	951	2,072	3,370	4,346	18,690
Other bank balance	942	20	12,541	2,035	12,012	3,012	3,012	3,012
Closing Balance (including bank bal)	**2,191**	**1,079**	**14,456**	**2,986**	**14,083**	**6,382**	**7,358**	**21,701**

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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