

Value Retailing + Execution Finesse = DMART

We are initiating coverage on Avenue Supermart Limited (DMART) with a **BUY** recommendation and a Target Price of Rs 3,100 which implies 16% upside from the current levels. DMART's strong execution capability with a stellar execution track record, places it on top of the list among all Food & Grocery (F&G) retail players. Tested business model with consistency in providing highest discounts on a profitable basis helps DMART to outperform competition. The company has ramped up its store expansion and its cluster based expansion aids in trimming costs and supporting margins. DMART has delivered strong growth with a CAGR of ~36%/40%/47% in Revenue/EBITDA/PAT respectively, over FY12-20. We expect the company to deliver healthy growth over FY20-23E with a CAGR of ~23%/24%/25% in Revenue/EBITDA/PAT respectively on account of 1) Value retailing (consistency in providing discounts) remains the primary moat 2) Low cost of operation (majority of the stores are company owned) 3) Continuous store expansion through a cluster based approach 4) healthy SSSG and balance sheet with no liquidity constraints, 5) Superior Return ratios despite heavy investment in assets. At CMP, the stock trades at **41x EV/EBITDA** on FY23E earnings (**3-year avg EV/EBITDA is 54x**), which we believe is attractive given the strong revenue growth over FY20-23E with large headroom for expansion going ahead.

OUR INVESTMENT THESIS IS BASED ON THE FOLLOWING PREMISES

Value retailing remains the primary moat

DMART's strategy is to offer lower prices on products on a daily basis (EDPL/EDLC), rather occasionally. The company targets lower-middle, middle, and aspiring upper-middle-income consumers for whom value for money plays an important role. Despite larger revenue dominated by food and grocery business (52% of revenue) coupled with thin margins (8.6% EBITDA margin), DMART provides lowest cost offerings to customers consistently, in turn gaining loyalty, a key factor for driving footfalls. DMART has maintained the lowest execution cost aided by a cluster-based expansion strategy, lowest operation cost among peers by outsourcing ~80% employees and minimal rental cost (owns the majority of stores) and optimum working capital with the timely payment of payables reaping higher cash discounts. With a higher share of food and grocery in revenue, it has witnessed a higher number of bill cuts per year, which has risen at a CAGR of ~25% over FY13-20 to 20.1 cr cuts suggesting good new customer traction. Average bill size has also expanded significantly over the same period. Consequently, DMART has been able to drive improvement in Revenue per square feet consistently for the last few years from Rs. 26,388 in FY15 to Rs. 35,647 in FY19 with FY20 impacted by COVID.

Large headroom for expansion with focus on D-Mart Ready

The company has a strong presence in southern and western regions which majorly contribute to the revenues. DMART has established an extensive cluster-based distribution network comprising of 220 stores and ~225 DMART Ready stores as of Q2FY21. The cluster-based approach has reduced the distribution and inventory cost for the company in turn bettering margins. We expect the company to add ~100 stores till FY23E with ~80% of the stores in the existing clusters and ~20% would be new clusters for which it successfully raised Rs. 4,000cr through QIP in FY20.

Strong Balance Sheet and Return Ratios

Despite capital intensive strategy, the company has maintained high ROE and ROCE in comparison to the industry. The company has maintained healthy operating cash flows, asset turns (~5x) and EBITDA Margins over the years making it a capital efficient business. It has sustained an average ROE and post tax ROCE at 15%+/13% respectively which are expected to be maintained going forward given strong execution capabilities. Balance sheet remains strong and comfortable with Net Debt/EBITDA and Net Debt/Equity of -0.05x/ -0.01x respectively in FY20.

Robust long-term growth outlook – Initiate with **BUY**

Initiate coverage with **BUY** rating on the stock and a target price of Rs 3100 (48x FY23E EV/EBITDA). We believe DMART is well placed in the domestic retail industry given its strong execution capabilities, disciplined EDLP/EDLC strategy, lower cost of operation and streamlined distribution network aiding DMART to penetrate into newer markets. At CMP, stock trades at **41x EV/EBITDA** which we believe is attractive given the strong revenue growth and large headroom for expansion going ahead.

Key Financials (Consolidated)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
Net Sales	24,870	26,146	34,904	45,781
EBITDA	2,128	1,968	3,018	4,055
Net Profit	1,301	1,252	1,900	2,555
EPS (Rs.)	20.5	19.8	30.0	40.4
PER (x)	101.2	133.5	87.9	65.4
EV/EBITDA (x)	61.8	84.7	55.1	40.9
P/BV (x)	11.9	13.5	11.7	10.0
ROE (%)	12%	10%	13%	15%

Source: Company, Axis Research

(CMP as of Dec 21, 2020)

CMP (Rs)	2,675
Upside /Downside (%)	16%
High/Low (Rs)	2,752/ 1,736
Market cap (Cr)	1,70,922
Avg. daily vol. (6m) Shrs.	3,71,070
No. of shares (Cr)	64.8

Shareholding (%)

	Sep-20	Jun-20	Mar-20
Promoter	75.0	75.0	75.0
FII's	10.3	10.4	9.6
MFs / UTI	5.4	5.3	5.7
Banks /FIs	0.0	0.0	0.0
Others	9.4	9.3	9.7

Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
Net Sales	26,146	34,904	45,781
EBITDA	1,968	3,018	4,055
Net Profit	1,252	1,900	2,555
EPS (Rs)	19.8	30.0	40.4
PER (x)	133.5	87.9	65.4
EV/EBITDA (x)	84.7	55.1	40.9
RoE (%)	0.1	0.1	0.2
Debt/Equity (x)	(0)	(0)	(0)

Key Drivers (%)

Y/E Dec	FY21E	FY22E	FY23E
Revenue Growth	5.1	33.5	31.2
EBITDA Margin	7.5	8.6	8.9
PAT Growth	(3.8)	51.8	34.4

Axis vs Consensus

EPS Estimates	FY21E	2022E	2023E
Axis	19.8	30.0	40.4
Consensus	16.4	29.1	38.8
Mean Consensus TP (12M)			2,215

Relative performance



Source: Capitaline, Axis Securities

Gaurav Uttrani

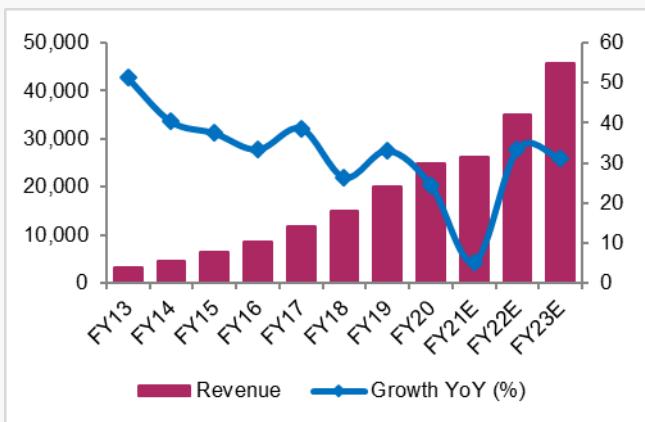
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Story in charts

Exhibit 1: Revenue expected to register CAGR of ~23% over FY20-23E



Source: Company, Axis Securities

Exhibit 2: ~100 store addition till FY23E with focus on large format stores

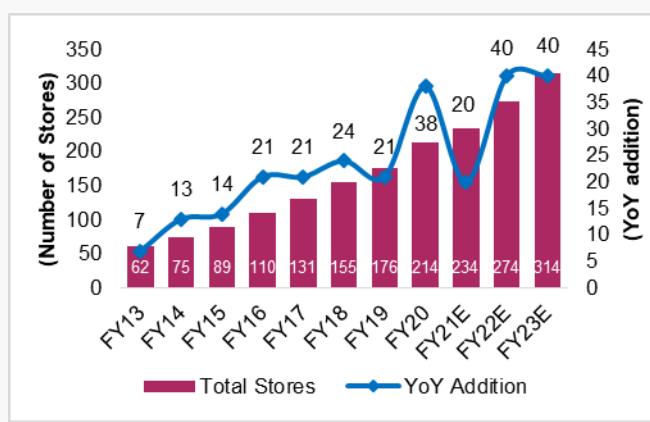
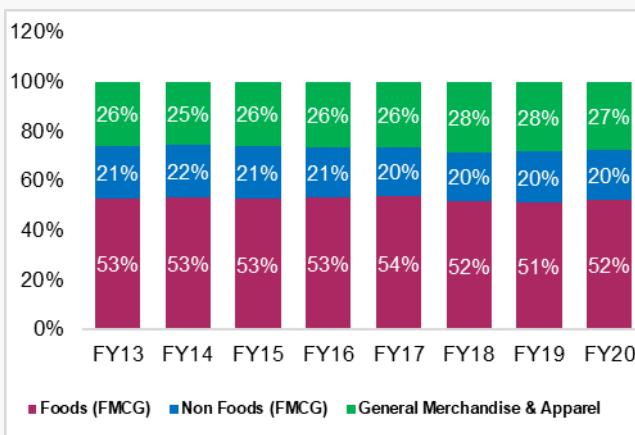


Exhibit 3: Revenue contribution segment wise



Source: Company, Axis Securities

Exhibit 4: Bill cut registered CAGR of ~21% from FY20-23E to 20.1 cr

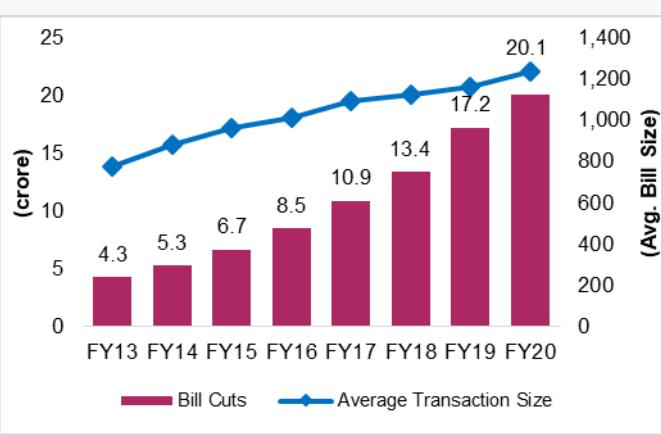
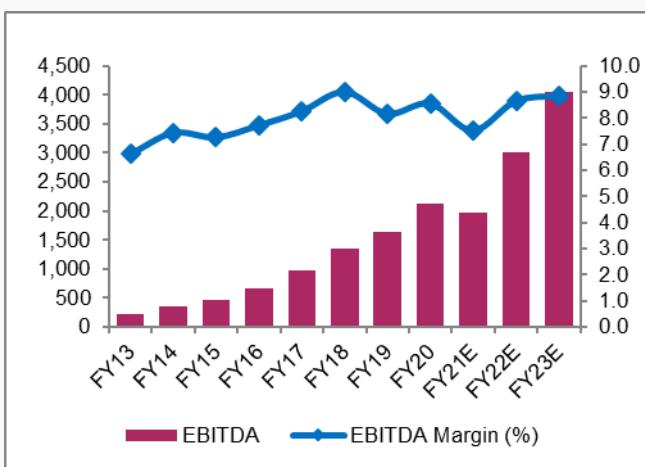


Exhibit 5: EBITDA to post CAGR of ~24% over FY20-23E



Source: Company, Axis Securities

Exhibit 6: PAT to post CAGR of ~25% over FY20-23E

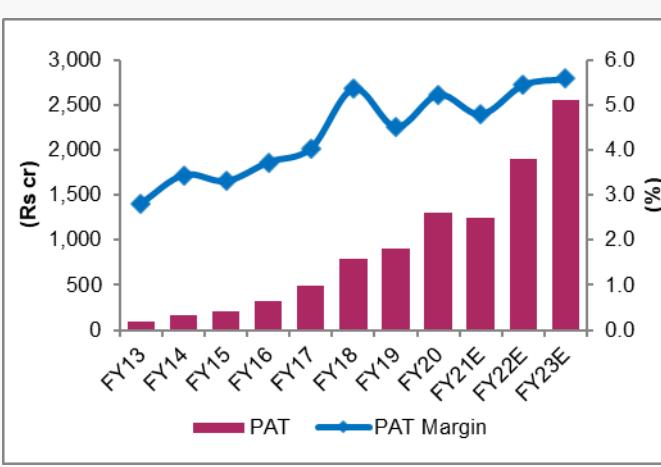


Exhibit 7: Better capital management stable at 21 days from past few years

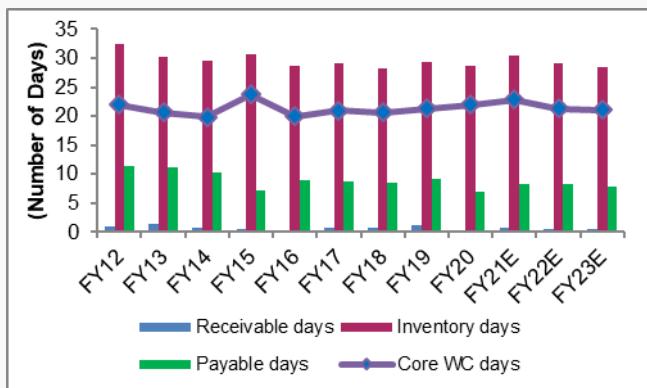
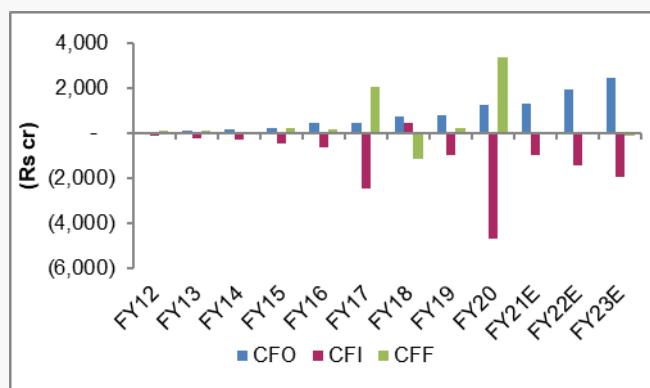


Exhibit 8: Healthy Cash flows over the years



Source: Company, Axis Securities

Exhibit 9: Healthy Return Ratios to sustain over FY20-23E

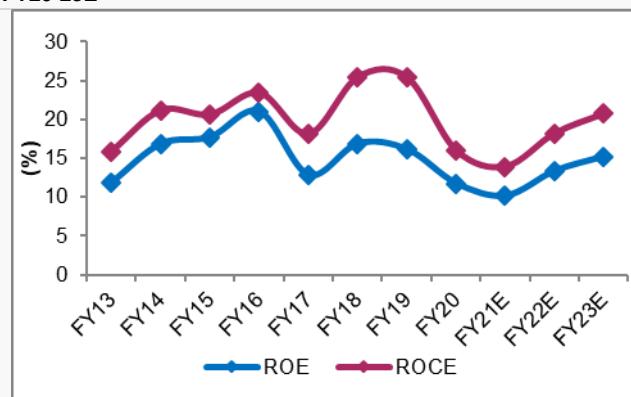
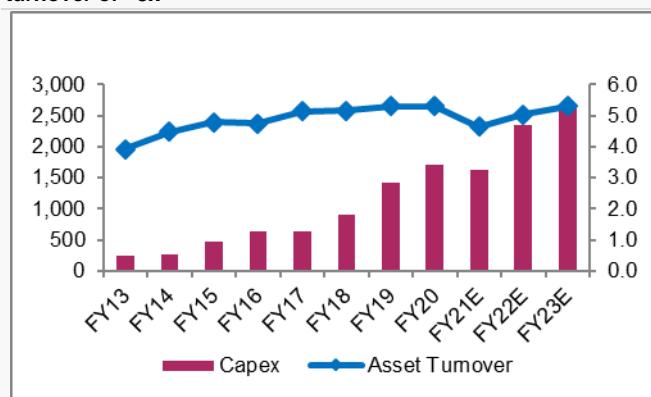


Exhibit 10: Continuous CAPEX undertaken with steady asset turnover of ~5x



Source: Company, Axis Securities

Exhibit 11: 12MFWD EV_EBITDA CHART (x)

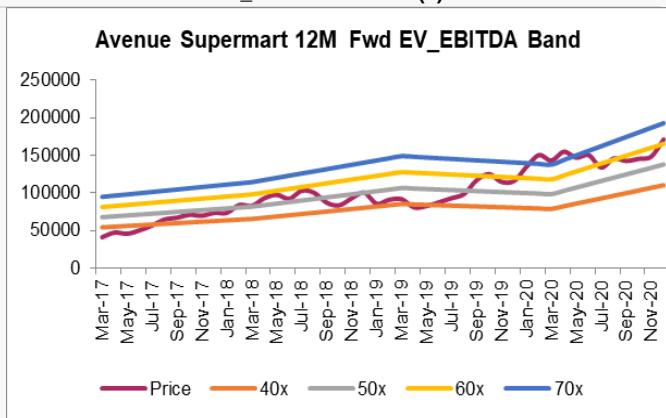
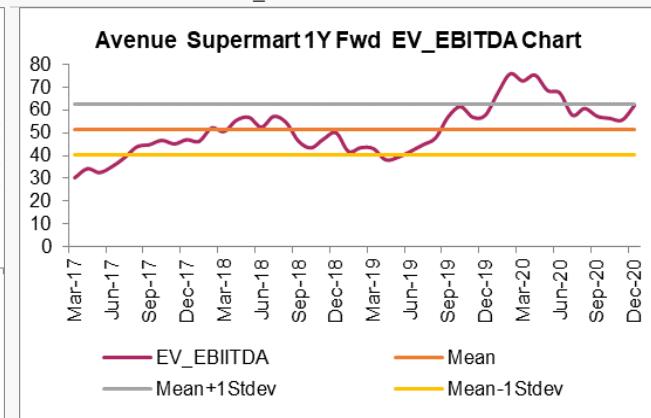


Exhibit 12: 12MFWD EV_EBITDA BAND CHART



Source: Company, Axis Securities

Key Investment Arguments

Boringly consistent across all odds

DMART's long gestation period for expansion makes it the sole retailer to successfully master grocery retail business (52% revenue contribution) in India. It efficiently operates through 220 stores (Q2FY21) with an average ROCE and SSSG of ~20% and ~21% over FY12-20. DMART is categorized as a hybrid supermarket (average store size: 36,000 sq. ft) allowing it to place a higher share of FMCG products (~52% of revenue) driving footfalls with higher margin general merchandising products.

Sustaining Every Day Low Cost (EDLC)/Everyday Low Price (EDLP) strategy is an uphill task for any company as grocery and FMCG products are a low margin business that nibbles capital quickly turning operations unprofitable over the period. Running against the odds DMART has mastered it patiently through gradually expanding stores with the first store in 2002 to just 220 stores in 18 years unlike other players expanding quickly. Despite lower gross margins against other retail players, the company maintains one of the highest EBITDA Margin (8.6% in FY20) in the industry.

To successfully implement the EDLC-EDLP strategy it requires (a) minimization of procurement cost, and (b) efficient supply and operations to achieve low prices on a daily basis. To achieve this company adopted ways such as 1) cluster-based approach, 2) optimal product assortment and strong supplier network, 3) lean cost structures through stringent control on opex, inventory management and payables, 4) majorly owns real estate or operates on long term rental contracts. Through this approach company attained a revenue CAGR of 35% with ~50 bps and ~205 bps expansion in Gross Margins (GMs) and EBITDA Margins respectively over FY12-20. Store expansion, area of operation and sales/sq ft have registered a healthy CAGR of 19%/22%/10% respectively over FY12-20.

Exhibit 13: Excellent performance on all key metrics

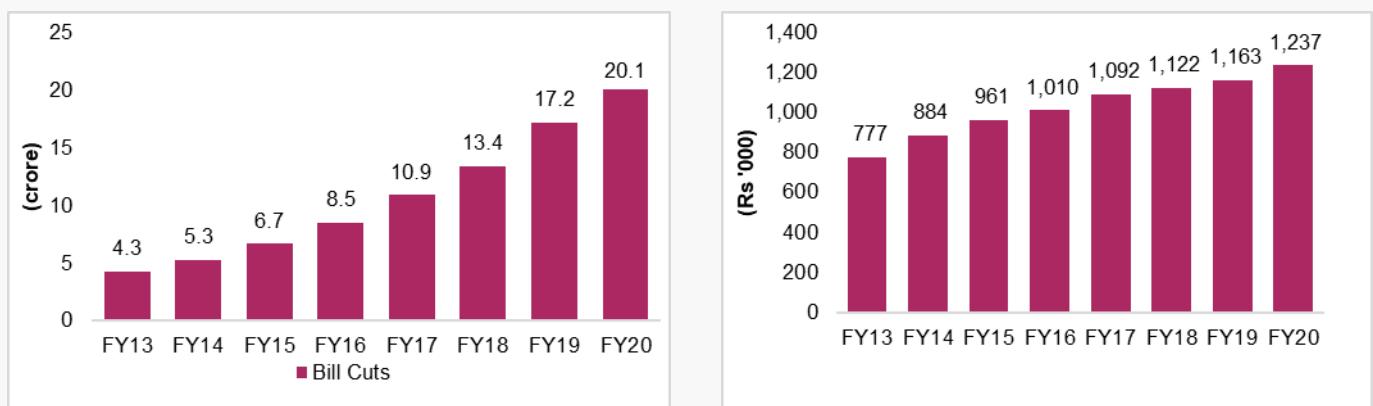
Time Period	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Store Count	89	110	131	155	176	214	234	274	314
Retail Space (mn sq ft)	2.66	3.3	4.06	4.9	5.9	7.8	8.8	10.8	12.8
SSSG (%)	22%	21%	21%	14%	18%	11%	-7%	15%	15%
Revenue (Rs cr)	6,440	8,584	11,898	15,033	20,004	24,870	26,146	34,904	45,781
Bill Cuts (cr)	6.7	8.5	10.9	13.4	17.2	20.1	21.7	25.0	28.7
Ticket Size	961	1,010	1,092	1,122	1,163	1,237	1,204	1,398	1,595
Revenue Mix									
Foods (FMCG)	53%	53%	54%	52%	51%	52%	51%	51%	51%
Non-Foods (FMCG)	21%	21%	20%	20%	20%	20%	20%	20%	20%
General Merchandise & Apparel	26%	26%	26%	28%	28%	27%	29%	29%	30%
Performance									
Gross Margin (%)	14.8	14.9	15.3	15.9	15.0	15.1	14.1	15.2	15.3
EBITDA Margin (%)	7.3	7.7	8.3	9.0	8.2	8.6	7.5	8.6	8.9
ROE (%)	18%	21%	13%	17%	16%	12%	10%	13%	15%
ROCE (post-tax) (%)	14%	15%	12%	17%	16%	12%	10%	14%	16%
Asset Turn (x)	4.8	4.8	5.1	5.2	5.3	5.3	4.7	5.0	5.3

Source: Company, Axis Securities

Value retailing through EDLC-EDLP a core growth strategy

Most of the supermarket/hypermarket chains provide large discounts occasionally and on few items. This turned out to be unsustainable and loss making proposition. Dmart's business model stands strong versus peers as it is based on the concept of offering value retailing to consumers using the EDLC/EDLP strategy. The strategy promotes - offering lower prices on products on a daily basis rather than special promotions offered occasionally on limited product segments. The company is oriented towards lower-middle, middle, and aspiring upper-middle income consumers for whom getting value for money plays an important role in making the daily shopping decisions. The products stocked are largely composed of essential products forming part of the basic lifestyle rather than discretionary products. This allows to maintain consistency in footfalls throughout the year and are least affected by seasonality or remain temporarily depressed due to macroeconomic conditions or events such as the pandemic. Despite revenue share dominated by food and grocery business (52% of revenue) coupled with thin margins (8.6% EBITDA Margin), DMART provides lowest cost offerings to customers regularly, in turn gaining loyalty, a key factor for driving footfalls. With a higher share of food and grocery in revenue, it has witnessed a higher number of bill cuts per year which has risen at a CAGR of ~25% over FY13-20 to 20.1cr cuts suggesting good new customer traction. Average bill size has also expanded significantly over the same period (due to store addition or due to higher per customer basket value). We expect the average bill size to steadily increase going ahead with an increase in bill cuts at a 13% CAGR over FY20-23E to ~28 cr on account of new store additions and healthy traction at the existing stores.

Exhibit 14: Consistent rise in bill cuts with a steady growth in Average Transaction Size

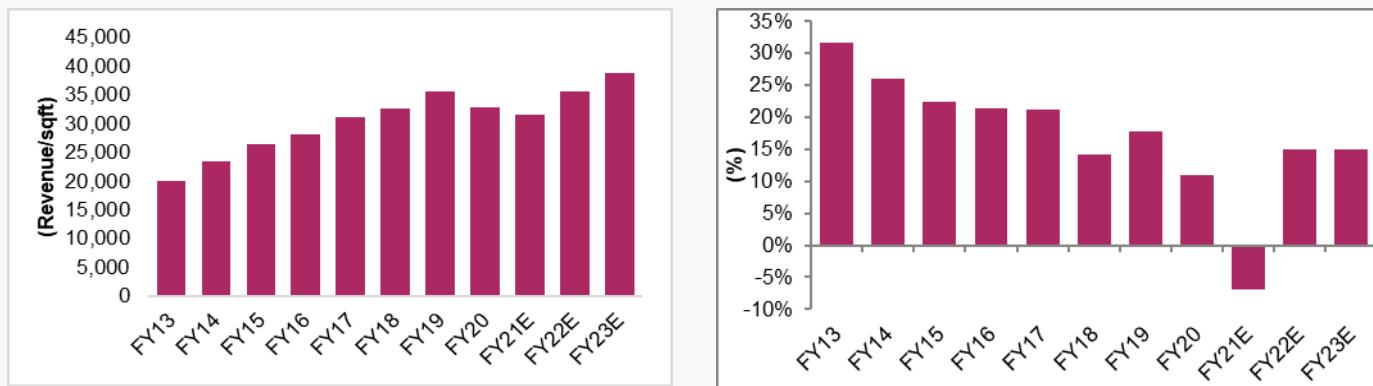


Source: Company, Axis Securities

Consistent growth in Revenue/sqft and SSSG

DMART has been able to drive improvement in Revenue per square feet consistently since last few years from Rs. 26,388 in FY15 to Rs. 35,647 in FY19 and Rs 32,989 in FY20. Over FY12-19, DMART has registered 20%+ SSSG on an average despite various event based disruptions (demonetization & GST) and economic slowdown. Despite new store additions, SSSG number remained high showing better performance of the old stores. DMART considers stores that have completed 24 months of operations to calculate its LTL performance against other retail players who usually take 12 months of operations for LTL performance. DMART reported SSSG of 10.9% in FY20, this lower SSSG was due to a) new stores maturing earlier than a normal period of ~24 months 2) older stores having attained maximum throughput/store and growing moderately in line with inflation rate. We have factored in -7%/15%/15% SSSG in FY21/22/23E and believe, LTL growth should taper down from an average of ~22% CAGR over FY12-19 to ~15% over FY20-23E and beyond on account of the above reasons.

Exhibit 15: Uptick in Revenue/sqft to Rs~35,000 with consistent 20%+ same store growth over the period



Source: Company, Axis Securities

DMART edges over other players in organized grocery retailing in terms providing discounts

We note that DMART's consistency in terms of providing discounts, supports its core principle of "everyday low cost (EDLC)" and "everyday low price (EDLP)". Besides, DMART stores are located in densely populated areas unlike other players where stores are mostly located in malls or away from residential areas, this gives easy access to consumers. Based on a survey of a few essential grocery items across platforms and stores, we could figure out that the number of offering in terms of SKU's and discounts provided on the products in higher by ~5-10% than the other players. Amongst online retailers, JioMart and Big Basket compete strongly by offering products at a similar price or lower than DMART.

Exhibit 16: Essential items on different platforms, clearly portrays higher offering in terms of discounts and SKU's than other players

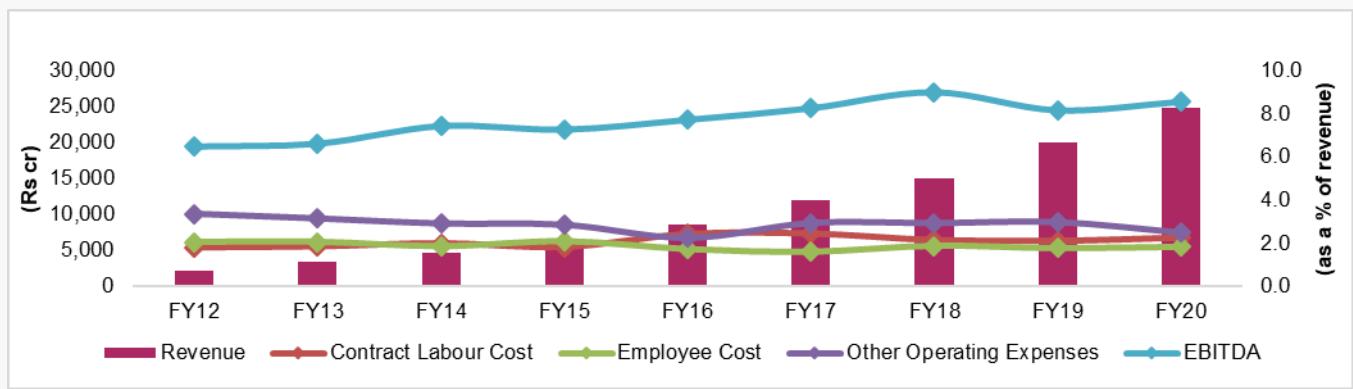
General Merchandise	D-Mart	Jio Mart	Big Basket	Amazon Pantry	Grofers	Star Quik
Dairy Products						
Amul Butter (500 gm)	225	225	231	NA	NA	235
Amul Cheese (1 Kg)	421	421	443	NA	NA	482
Amul Fresh paneer (200 gm)	68	68	73	NA	NA	73
Amul Dahi(400 gm)	37	37	40	NA	NA	40
Pulses (1kg)						
Channa Dal	80	92	100	105	94	96
Moong Dal	125	103	130	155	133	157
Tur Dal	149	140	145	149	123	145
Masoor Dal	90	117	85	128	118	108
Urad Dal	139	120	135	150	160	178
Cooking Oil (1ltr)						
Fortune Refined	126	124	124	124	124	NA
Sunny Refined	126	120	NA	NA	125	NA
Saffola Gold	133	129	142	129	139	149
Saffola Active oil	129	119	144	NA	135	138
Figaro Olive Oil	749	918	712	729	840	925
Fortune Mustard Oil	145	149	149	153	146	177
Flours & Grains						
Ashirvaad Atta (10Kgs)	374	375	377	400	374	402
Nature Fresh Atta (10Kgs)	319	335	NA	349	NA	NA
Fortune Atta (10Kgs)	345	NA	NA	303	303	380
Besan (1Kg)	88	95	91	91	95	NA
Rava (1kg)	40	21	42	58	44	220
Rice & Rice Products						
India Gate Mini Mogra (10 kgs)	350	415	NA	519	339	NA
DawatMini Mogra (5 kgs)	234	NA	255	399	399	NA
Poha (1kg)	54	72	65	74	66	NA
Sugar & Salt						
Tata Salt Iodised (1kg)	19	18	21	18	18	NA
Sugar (1 kg)	44	44	44	50	55	NA
Masala & Spices						
Everest Garam Masala (100 gms)	70	68	68	78	78	77
Everest Chilli Powder (200gms)	73	71	NA	NA	66	80
Everest haldi Powder (200gms)	50	50	49	56	48	59

Source: Company, Axis Securities Prices *Green(> Dmart price), Red(< Dmart price), Yellow (= Dmart price), NA (SKU not available)

Better store economics supported by high operating efficiency and lean cost structures

DMART's core principle of EDLC/EDLP strategy requires strict control on costs in terms of procurement costs, supply and operations, rentals, and employee cost on a daily basis. To provide consumers with the lowest and competitive prices the company needs to ensure it offers sharp/optimal product assortment that is driven by improved understanding and knowledge of local market, consumer's spending patterns, consumer preferences for products thus deciding on new product launches and building in the supply chain efficiencies. Besides, a cluster-based expansion strategy has also led to improvement in operating efficiencies given 1) increased penetration in underserved markets, 2) higher cost efficiency due to economies of scale achieved in the supply chain and inventory management, 3) central procurement system rather than store level procurement, 4) streamlined transportation and distribution system, 5) greater and concentrated brand visibility due to focused implementation of marketing and advertising initiatives.

Exhibit 17: High operating efficiencies and low fixed cost drives higher operating margins



Source: Company, Axis Securities

Owning Stores reduces rental cost critical for profitability improvement

DMART pre-dominantly operates on an ownership model or on a long-term lease arrangement model rather than a rental model. Typically, the company takes a particular property on lease for a period of more than 20-30 years. This allows it to minimize operating costs thus offering long-term competitive advantages like avoiding escalation in rental expenses thus keeping fixed cost low. DMART's rental costs are just 0.4% (negligible) vs average 5-6% of net revenue for other retail players like Future Retail/Spencer Retail. Despite lower gross margins in comparison to other players in the industry, the company clocks higher EBITDA margins than its peers given tight leash on operating costs. Over the last 2-3 years however, company has shown an inclination towards adding stores on the long-term lease basis to accelerate the pace of store expansion. Even then, leased stores will contribute just about 20%-30% of the total stores. DMART's Fixed asset turnover remained consistently higher than peers at ~5x given its lower operating cost due to negligible rental expenses and higher discounts. The company has maintained a higher ROCE (post-tax) at an average of ~13% over FY12-20.

"So, that has been the mindset of the entire organization but now you will see a slight change in attitude; like for example earlier we used to say we will purchase real estate but now we are saying we will also do long-term lease because we know, if we want to open more than 20 stores, only ownership will not work but at the same time nine years lease is a very short period for us. So, we are seeing long-term lease. Also, we are working hard on ensuring that our real estate teams are well bolstered and today we have a much larger team, we are working on a lot of deals. But point taken, however I will say that we are moving from extreme conservatism to controlled aggression." - (Management meet FY18-19)

Exhibit 18: Lower rental cost against peers

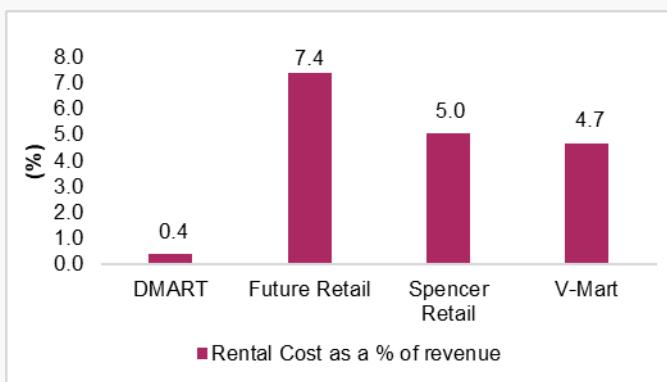
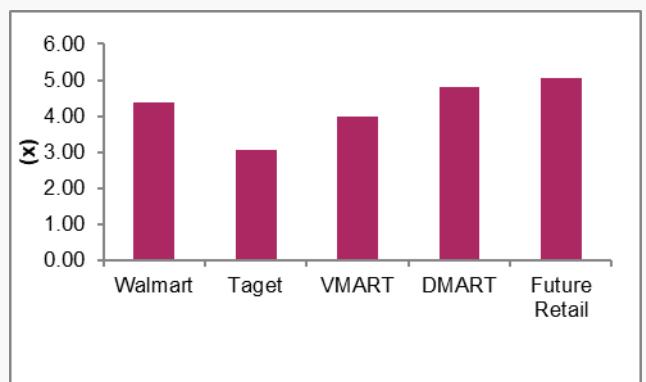


Exhibit 19: Healthy Fixed asset turnover of ~5x

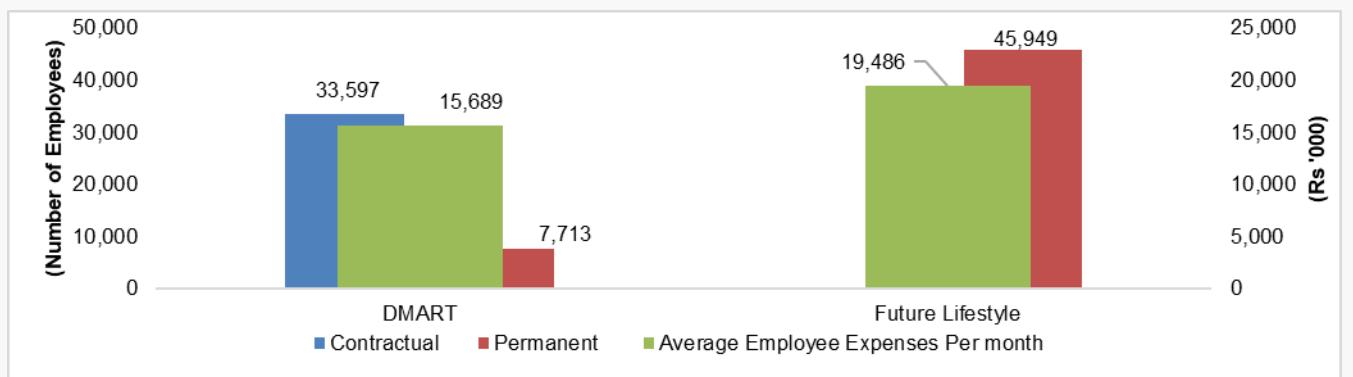


Source: Company, Axis Securities

Lean employee cost structure

DMART's efficiency lies in its ability to attract, hire, train and retain skilled employees and sales personnel. ~80% of the workforce is on contractual basis and ~20% are permanent employee for DMart. The company has been successful in keeping its employee cost under control at just ~4% vs 7% for some of its peers. This strategy to employ majority on contractual basis is owing to the fact that its staff mainly carries out normal day to day jobs such as stocking up of goods, billing, etc. as larger part of the stores cater to grocery items which do not require any major support or assistance. ***The company is focused on one simple strategy of value retailing and does not hire any high paying employees to test and try various strategies to complicate business.*** Rather it hires hard working and committed employees to carry out daily operations efficiently. DMART's monthly average expense on both contractual and permanent employees is lower by 25% than peers like Future Retail's Big Bazaar.

Exhibit 20: Average Employee expenses lower by ~25% compared to its nearest competitor



Source: Company, Axis Securities

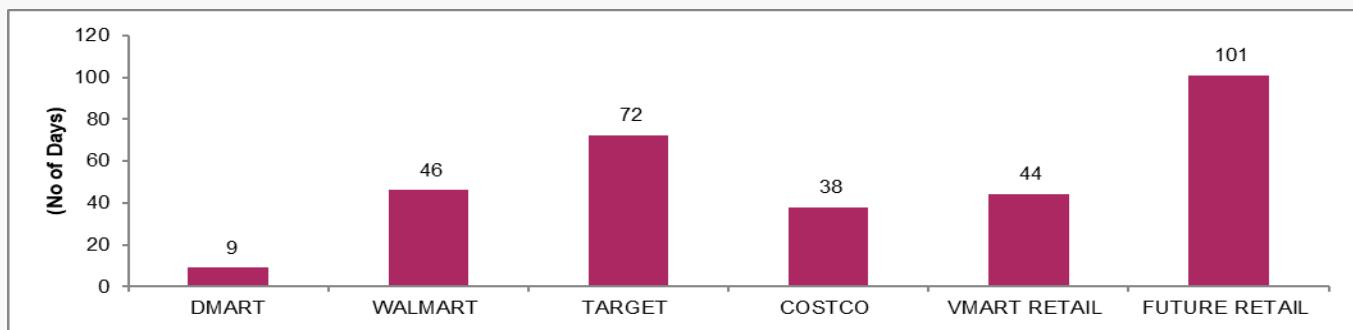
Investment on building strong internal system

DMART's prowess lies more in controlling cost structures rather than revenues, as the segment of food grocery would drive footfalls for any retailer but allows to earn very thin margins. Therefore, DMART has invested more in IT systems and supply chains to streamline the process and incur minimal promotional activities to attract consumers. The company has benefitted from investing early into IT systems which are built with a wide range of data management tools specific to its business and which supports key aspects of the business, including procurement, sales, and inventory control on a daily basis.

Strong supplier network and efficient supply chain management

DMart's operations are largely based on low margin-high volumes, as it consistently provides discounts to attract consumers. Bulk purchase from distributors and suppliers allows DMART to get significant discounts on purchases. Also DMART pays its channel partners promptly and on time thus not needing them to extend credit lines thereby managing working capital needs. DMART's Payable days (9 days) are lowest when compared to both domestic and global peers. The company has expanded its footprint using a cluster-based approach and has strengthened its presence in existing regions by opening new stores within a radius of a few kilometers of existing stores and distribution centers. We believe distribution centers have provided with the benefits of 1) consolidating major administrative functions from individual stores to central distribution centers, 2) Better inventory management with reduced stock shortages in stores due to the use of stock replenishment systems, 3) reduced costs and time by providing centralized procurement, 4) better margins due to efficient supply chain management.

Exhibit 21: Lowest payable days among peers, domestically and globally

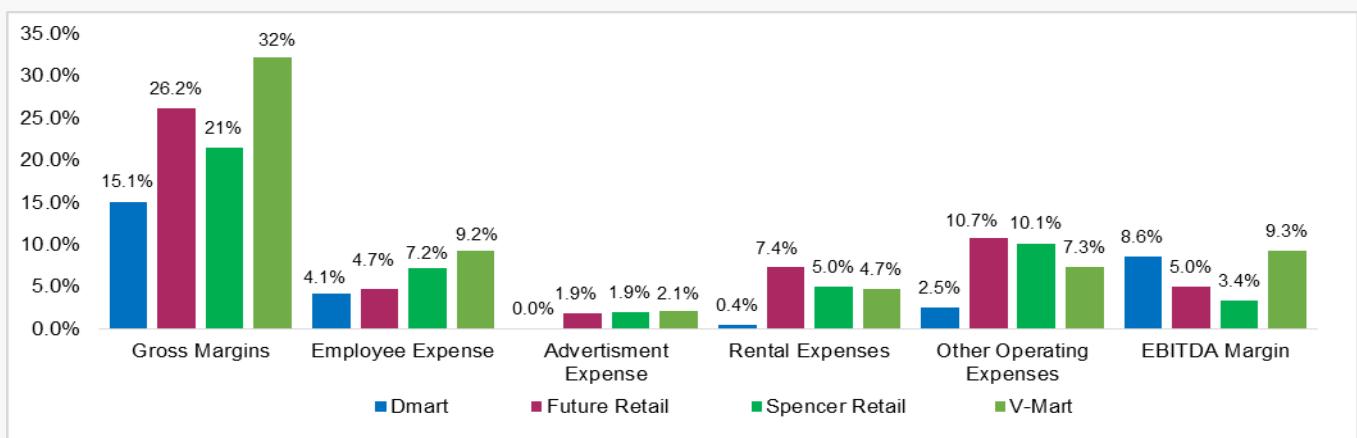


Source: Company, Axis Securities

Better cost structure and margins than peers

DMART incurs 85% of the revenue on COGS and it has been maintaining Gross Margins (GMs) in a tight band of 14-15% over the past decade. Since the company is very disciplined in executing its strategy of EDLC/EDLP, it passes on excess margins if any to consumers, and we therefore expect similar levels of GMs to be maintained going forward unless the company invests heavily on private labels or its product mix witnesses a drastic shift, which we believe is unlikely to take place as a large portion of the company's revenue is derived from food & grocery and non-food FMCG, both of which offer lower GMs, while DMART's presence in private labels having higher GMs remains very low as against peers having relatively higher presence. Despite low GMs, DMART's continued efforts towards controlling operational costs has translated into higher EBITDA Margins that reported a marked improvement by ~200 bps from FY12 to 8.6% in FY20. Cost control measures undertaken are 1) preference for contractual employees (80%) of total employees vs permanent employees which are only 20%. This results in keeping employee costs under check at just 4% of net revenues, 2) negligible rental costs as majority of the stores are company-owned, 3) no major expenditure on advertisement and promotion like other peers 4) controlled other operating expenses.

Exhibit 22: Superior Operating & Profitability Metrics versus peers highlights execution prowess

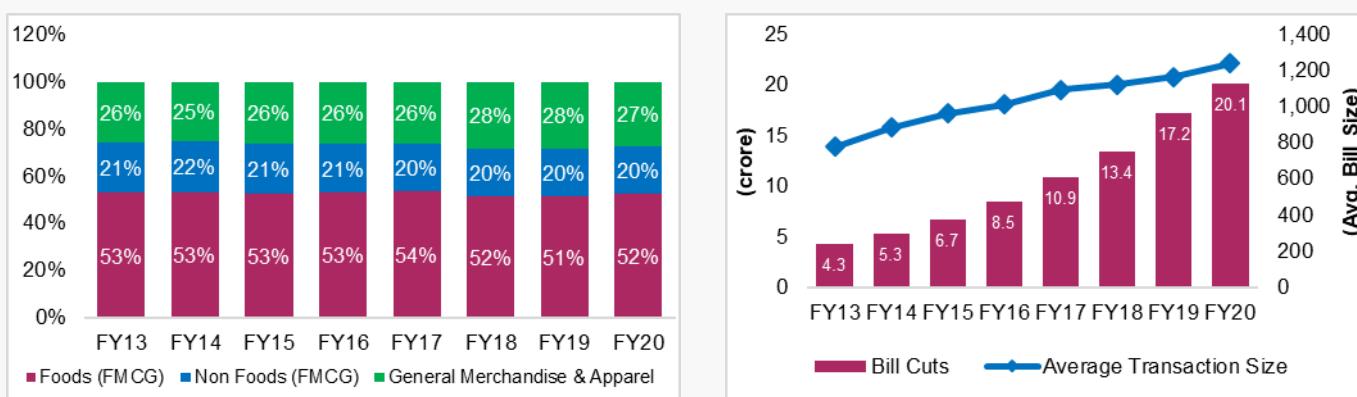


Source: Company, Axis Securities

Strong focus on product assortment

DMART's deep knowledge of the clusters and regions aids in product assortment in each store considering local demands and preferences and it believes in keeping a very sharp assortment and does not offer much of a choice to its consumers to decide about the options available. The company largely focused on middle-class consumers for daily house hold needs by purveying providing groceries (52% of the revenue), non-food FMCG (20% of revenue) and general merchandise & apparel (28% of revenue) at very competitive prices against other retail players and the local players where the stores are located. DMART's tight and relatively concise assortment has helped the company to arrest losses from wastage. In dairy for instance, the company will only offer brands known to the consumers such as Amul, Mother Dairy with a limited number of SKU's against a higher number of SKUs offered by competitors. Selling a few SKU's in large quantities enables bulk buying at favorable prices which the company can pass on to the consumers. Limited number of SKU's do not confuse consumers in choice-making and keep the inventory churning high. With the targeted purchase of daily use items and known brands offering limited SKU's has resulted in higher bill cuts (CAGR ~21% over FY12-20) with a steady rise in average transaction size.

Exhibit 23: Grocery accounts for highest share of revenue which drives footfall, witnessed from higher bill cuts posted at 20cr in FY20



Source: Company, Axis Securities

Under penetrated market opens gates for store expansion

DMART opened its first store in 2002 and spent the next 8 years to start its first 10 stores. It had 110 stores with a retail area of 3.30 mn sq. ft which got doubled to 220 stores with a retail area of 8.2 mn sq.ft in Q2FY21. Initially, store expansion has been slow in order to grab the business model inside out and while expanding, management carefully considers the factors like location, population density, customer traffic and accessibility estimated spending power of the population and payback period, this gradual expansion has benefitted the company which is evident from the fact that they have not witnessed a single store closure to date. In H1FY21 however, they closed 2 stores and converted them into an e-commerce fulfillment center to cater to the growing demand for online shopping in the lockdown phase when people's movement remained restricted and limited. However, management has guided to remain nimble-footed to emerge stronger in the post COVID world where situations remain very dynamic.

Cluster based store expansions to continue

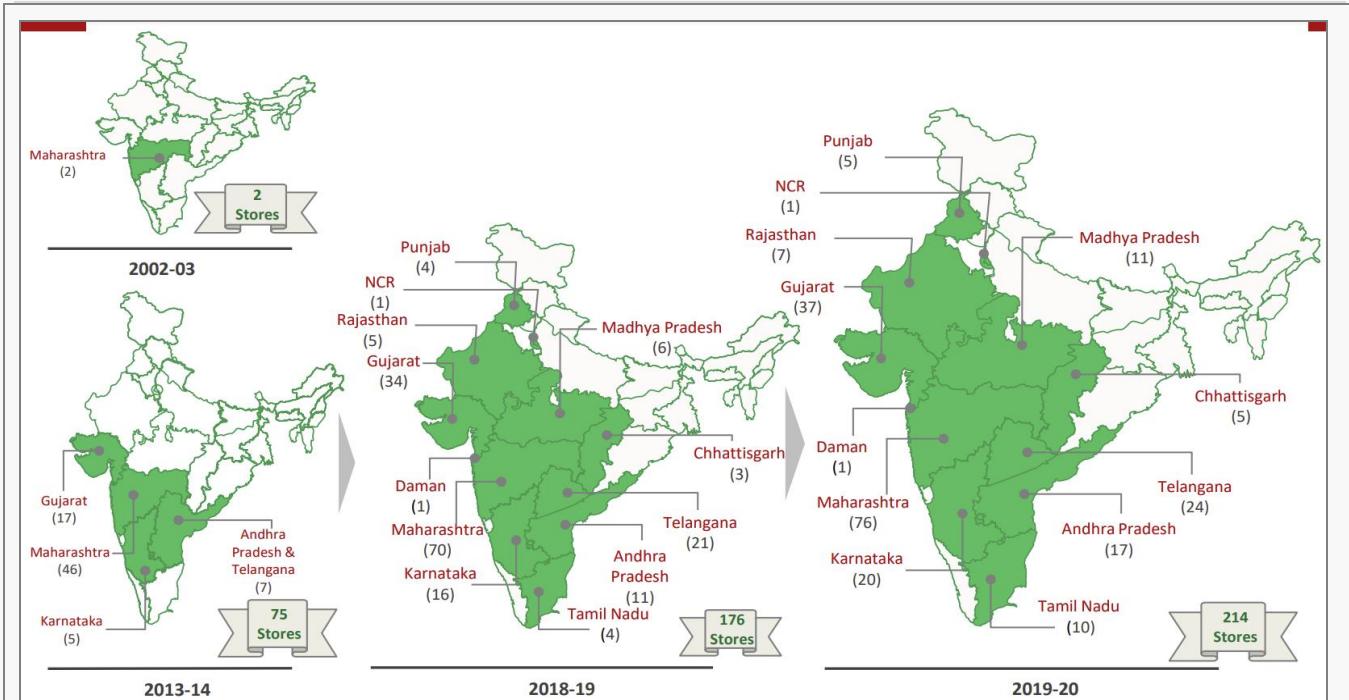
DMART has deepened store network in southern and western India and is gradually expanding network in other parts of India pursuant to cluster-focused expansion strategy. This approach allows the company to create store clusters within a region and help better understand local needs and preferences and tailor its offerings according to the demand. Such clusters aid in increased penetration in new markets with higher cost efficiency due to economies of scale achieved through supply chain and inventory management with concentrated brand visibility due to focused implementation of marketing and advertising initiatives. DMART as on FY20 has 36 distribution centres and 7 packing centres which supports its retail network effectively.

"Given an option, we would like to open stores in states that we already operate in. A lot of people who have heard me before would know this, but for the benefit of people who are hearing it for the first time, our principle has been that given the amount of money to be invested, we would like to invest in states and cities that we already exist in primarily because it gives you better leverage as far as operating leverage is concerned. Your cost structures are far better utilized if you are investing in the same cities and being in the same city you also know the consumer better, so your ability to earn topline and gross margins are significantly better than going to a newer market. That does not mean we do not go to new markets, but it is typically 80-20 or 70-30 principle." - (Management: Analyst Meet FY19-20)

Exhibit 24: DMart follows cluster based approach for store expansion with higher concentration (~87%) of stores in West and South and ~13% in central region

Store Count	2,012	2,013	2,014	2,015	2,016	2,017	2,018	2,019	2,020	State-wise (% of stores)
Maharashtra	34	40	46	50	58	60	62	70	76	36
Gujarat	14	14	17	22	26	29	30	34	37	17
Telangana	4	5	7	9	13	14	19	21	24	11
Karnataka	3	3	5	5	6	11	12	16	20	9
Andhra Pradesh				1	3	6	10	11	17	8
Madhya Pradesh				1	3	5	9	6	11	5
Chhattisgarh				1	1			3	5	2
Rajasthan						3	5	5	7	3
Punjab							3	4	5	2
Tamil Nadu						1	3	4	10	5
NCR						1	1	1	1	0.5
Daman						1	1	1	1	0.5
Total	55	62	75	89	110	131	155	176	214	100

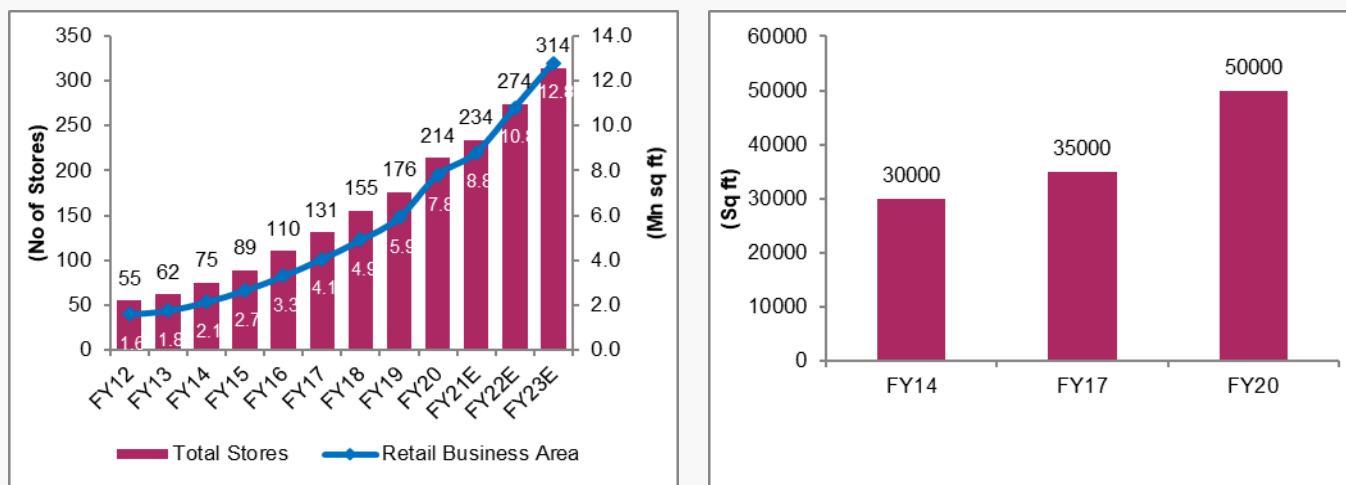
Source: Company, Axis Securities

Exhibit 25: DMart conservative approach of store expansion now covers 12 states only with higher density in western region


Source: Company, Axis Securities

Pace of expansion to accelerate with focus on large format stores

DMART has grown to 220 stores with a retail business area of 8.2 million sq. ft. spread across Maharashtra (76 stores), Gujarat (37), Telangana (24), Karnataka (20), Andhra Pradesh (17), Madhya Pradesh (11), Tamil Nadu (10), Rajasthan (7), Chhattisgarh (5), Punjab (5), Daman (1), and NCR (1). In FY20, DMART added the highest number of stores with a count of 38 stores and the highest in terms of square footage to an absolute value of ~1.9million sq.ft of retail space. This, effectively means the company is focused on opening larger format stores from last two years given 1) maturity and acceptability of the brand is high that stores are attaining maturity much earlier than anticipated i.e reaching the throughput/store of ~35,000/ revenue sq ft in lesser time thus flattening the CAGR growth to a single digit, 2) Large format stores provide a larger display area for high margin products, 3) larger store from a CAPEX point of view requires lesser incremental CAPEX, making more business sense to open larger stores. We expect, DMART to add on an average ~40 stores in FY22-23E barring FY21E taking the total store count to ~315 (~13mn sqft) by FY23E.

Exhibit 26: ex- FY21E impacted by COVID, DMart is expected to add ~40 stores annually in FY22/23E majorly in the large format stores, count expected to reach 310+ stores and retail business area of ~13 mn sq ft.


Source: Company, Axis Securities

Dmart ready next leg of growth

Dmart is addressing e-retail business (DMart Ready) through its subsidiary, Avenue E-Commerce Ltd through which it offers customers the choice to self pick-up their online orders from any of the designated pickup points or get them delivered at their residence (for a nominal delivery charge). In Q2FY21 DMART Ready catered to 98 pin codes in Mumbai, and set up a total of ~225 outlets with an average store size of 200-300sq ft. In FY20, DMART registered revenue of Rs. 354cr with an EBITDA Loss of Rs 41 cr.

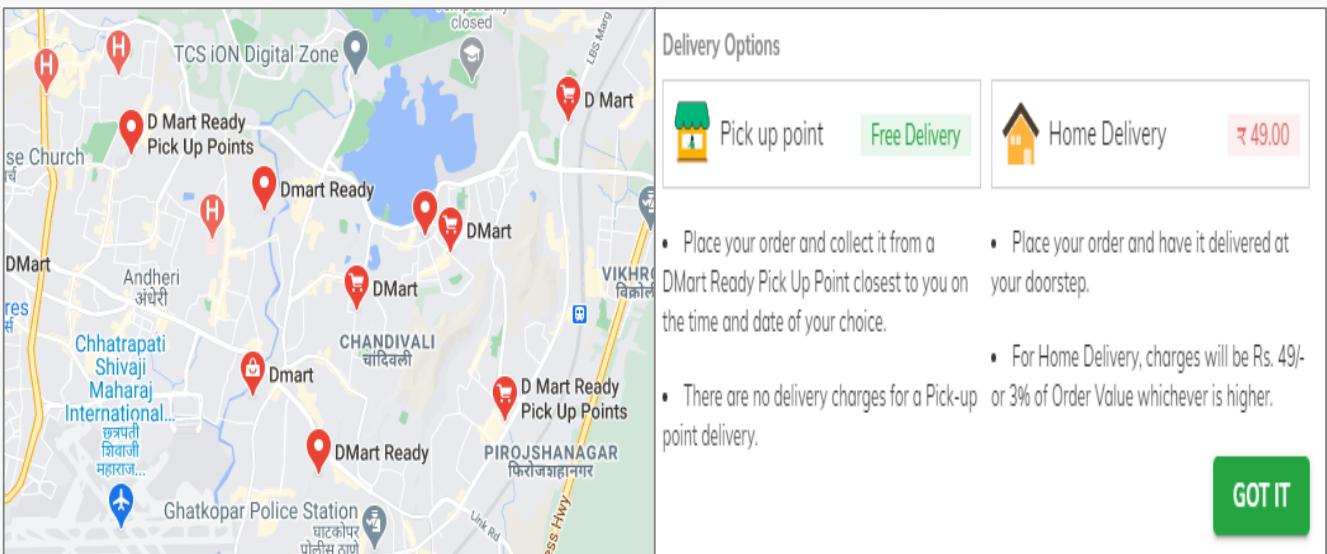
DMart to address 2 main criteria with its DMART Ready model: a) **to provide its consumers with agility and convenience on a day to day purchase basis**, 2) **Widen its reach in regions where it doesn't have presence through Brick & Mortar format owing to high real estate and other cost**. Unlike other online players, DMART wants to expand its e-commerce business gradually analysing every aspect of the online business model so as to get a deeper understanding of the store economics as, in grocery e-retailing attaining break even is difficult given 1) higher revenues from lower margins of products such as grocery and other FMCG products, 2) higher cost of technology and administration, 3) delivery expenses.

"We are not trying to be so mild by saying that e-commerce would not do anything but if you tell me that do I need to put serious money right now and build e-commerce network, we will not do that. We will observe what is going on. We are reasonably agile and we can accelerate if we want to, only if we want to. We are not speaking about our pessimism around e-commerce because of our inability to build e-commerce. I think the fact that we expanded in 200 cities within a span of 15 days or one month and it was from scratch. This indicates that we can do it, we do not want to do it for some other reasons and part of which I explained where brick and mortar and e-commerce running from the same space is not the best way to do it. But if we see that e-commerce is the preferred channel for shoppers and shoppers are changing, we will also do it. But we are again saying that as of today the opportunity is in large towns only for a model like us. Do keep in mind one point that we are not talking about marketplace model. That is a model that we do not want to get into. This is pure grocery e-commerce." (Management: Analyst Meet FY18-19).

Store ramp up and improvement in store economics expected going forward

The company intends to mimic similar model as a Dmart store in case of Dmart Ready its online platform and ensure that the same proposition of EDLP/EDLC is delivered through this model as well. The company is better placed if compared to other players in terms of attaining break even going ahead as 1) most of the DMART Ready stores are in close proximity to the existing DMART stores which reduces the distribution cost for the company compared to other players, 2) lately company has been working on increasing its SKU's and adding general merchandise and apparel items like plastic wares, kitchen utensils, home furnishing, kitchen appliances etc. on its website and at its Ready stores which aid margins and, 3) Online delivery charge of Rs. 49 or 3% of order value whichever is higher is charged to the consumer.

Exhibit 27 : DMart ready stores located close to DMart stores, thus reduces distribution cost



Delivery Options

 Pick up point	 Home Delivery	₹ 49.00
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- Place your order and collect it from a Dmart Ready Pick Up Point closest to you on the time and date of your choice.
- Place your order and have it delivered at your doorstep.
- For Home Delivery, charges will be Rs. 49/-
- There are no delivery charges for a Pick-up point delivery.

GOT IT

Source: Company, Axis Securities

Store economics of DMART Ready

DMART is testing the model and would expand in other cities upon achieving viable store economics. We believe as the company's existing store matures, further addition of new stores going forward could increase revenues and reduce the cost of operation as most of the stores are in close vicinity of the existing DMART stores thus reducing distribution cost. The company also levies a delivery charge that would cover the transportation charges thus aiding in achieving breakeven quickly. We note that EBITDA Losses for DMART Ready have reduced to ~12% of the revenue in FY20 from ~28% and 86% in FY19 & FY18 respectively when stores increased to ~220 in FY20 from 58 stores in FY18, this implies increase in volume and revenue would bring economies of scale going ahead.

Exhibit 28: With older stores maturing and addition of new stores it would increase the revenue and improve store economics, thus aids to achieve breakeven quickly in next 3-4 years

Particulars	FY18	FY19	FY20
Net Revenue	44	144	354
COGS	41	128	318
Gross Profit	3	16	36
Gross Profit Margin (%)	7.4	11.0	10.2
Employee Expenses	13	16	27
Other Expenses	28	40	51
EBITDA	(38)	(40)	(41)
EBITDA Margins (%)	(85.7)	(28.1)	(11.6)
Depreciation	11	11	33
Interest Cost	0	-	7
Other Income	0	1	1
Profit Before Tax	(48)	(51)	(80)
Tax expenses	-	-	-
Profit After Tax	(48)	(51)	(80)
Number of Stores	58	196	225
Total Store area (200-300 sq ft) (mn sq ft)	0.01	0.05	0.06

Per Store Analysis

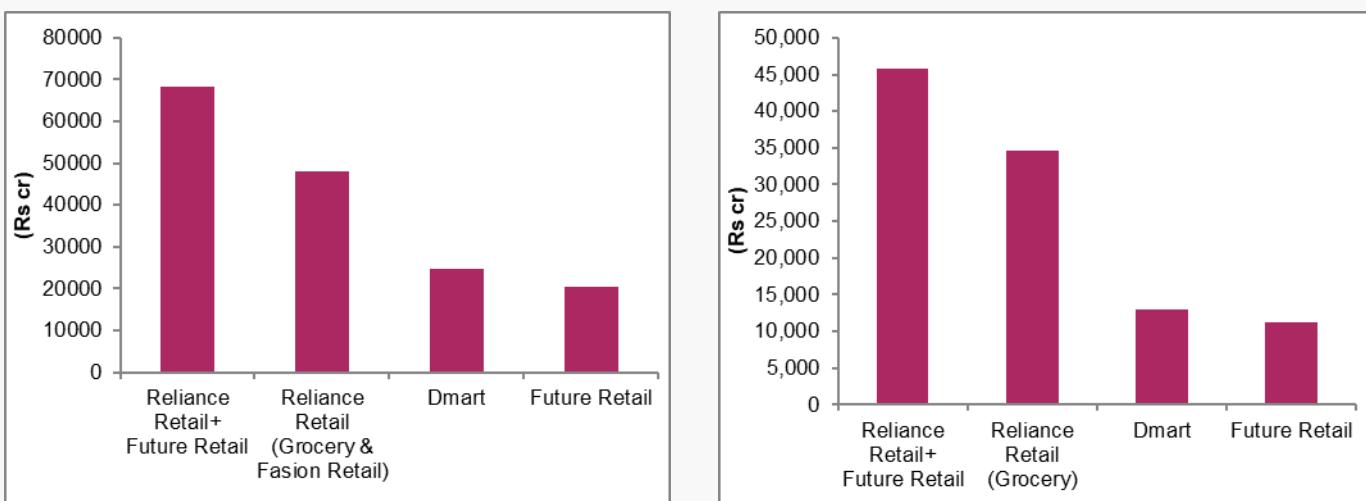
Revenue	0.76	0.73	1.57
Gross Profit	0.06	0.08	0.16
Employee Cost	0.22	0.08	0.12
Other Expenses	0.49	0.20	0.23
EBITDA	(0.65)	(0.21)	(0.18)
PAT	(0.83)	(0.26)	(0.35)

How does recent funding and M&A activity in F&G Retail impact Dmart ?

Large opportunity but hardly any winner

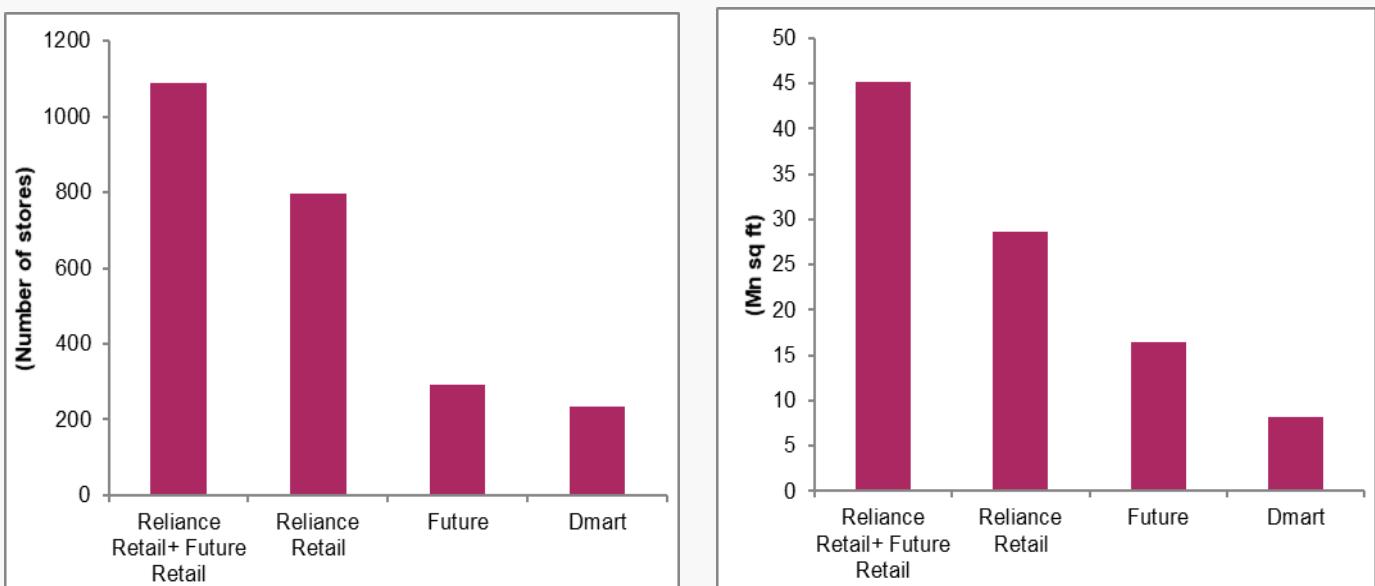
Reliance Industries (RIL) with the largest retail network of ~12,000 stores announced the acquisition of retail assets of Future Retail Limited at ~Rs 24,000 crores which includes 290 large format stores and 990 small stores, which has implications on the industry as it gives RIL wings to grab market share and expand its operations at a fairly quick pace. With this acquisition DMART will become 2nd largest player in terms of revenue and this could impact the company's bargaining power or the company would need to spend more on promotional activities to attract consumers which is minimal at present, thus impacting the margins of the company. This led to ~3% correction in DMART's stock price post the deal announcement in August 2020. Despite the large opportunity in the Indian retail industry with organized retail being just 11-13% of the total industry, hardly any player barring DMart has been able to survive and generate consistent returns due to high operational cost and wafer-thin margins. Therefore, growth in the industry will be captured by large-scale and efficient players that are focused on delivering value propositions to consumers in respect of better prices and convenience. Given the larger size of the industry, DMart could benefit from the shift from unorganized to organized retail, a trend increasingly noticed in metros and tier-1 cities over the past few years.

Exhibit 29: Post acquisition reliance will become larger player in both fashion & lifestyle and grocery retail market



Source: Company, Axis Securities

Exhibit 30: Post acquisition Reliance retail unit will exceed Dmart in terms of number of stores and surface area



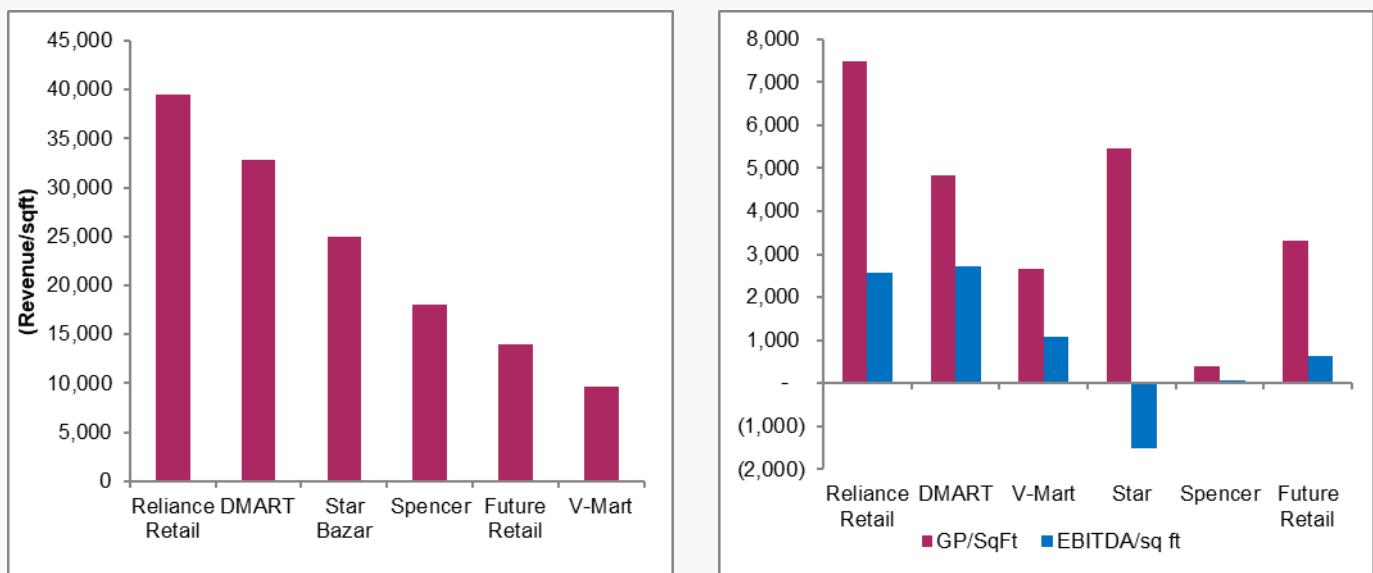
Source: Company, Axis Securities

Huge unpenetrated market allows co-existence of 4-5 big players

Organized retailing accounted for ~11% of the total retail industry and food and grocery accounts for ~19% share in value terms (Rs 1.19 trn of Rs 6.3 trn organized retail market) but forms just ~3.6% of the total organised segment and remains the most under-penetrated segment, with unorganized retailers (such as standalone Kirana stores, cart vendors and wet markets) forming the remaining market. The low organized retail penetration (ORP) possesses a large opportunity for organized retail players with better supply chain and economies of scale. With retail market consolidating post pandemic as small players face liquidity issues and adequate capital to run the operations it creates opportunities for players like DMart and Reliance to grab market share and create higher barriers to entry. Post takeover (Reliance+Future Retail) reliance will become the larger player but we believe it will not adversely impact DMART's operations in terms of low procurement cost. Beside DMART has a proven track record in terms of Revenue and Profitability (CAGR of 37%/47% over FY12-20) and expect similar trend to continue given 1) Large opportunity in grocery retail with just ~4% of organised penetration in total of Rs 1.2 trn food and grocery market, 2) Strong execution capability with proven track record, 3) Steady Gross Margins at ~15% and consistently low operational expenditure at ~7% over the past few years, thus ensuring steady EBITDA margins performance, 4) Well thought out investments in real estate considering areas of high population density, higher per capita income profiles etc. (no store closure till now), 5) streamlined transportation and distribution system.

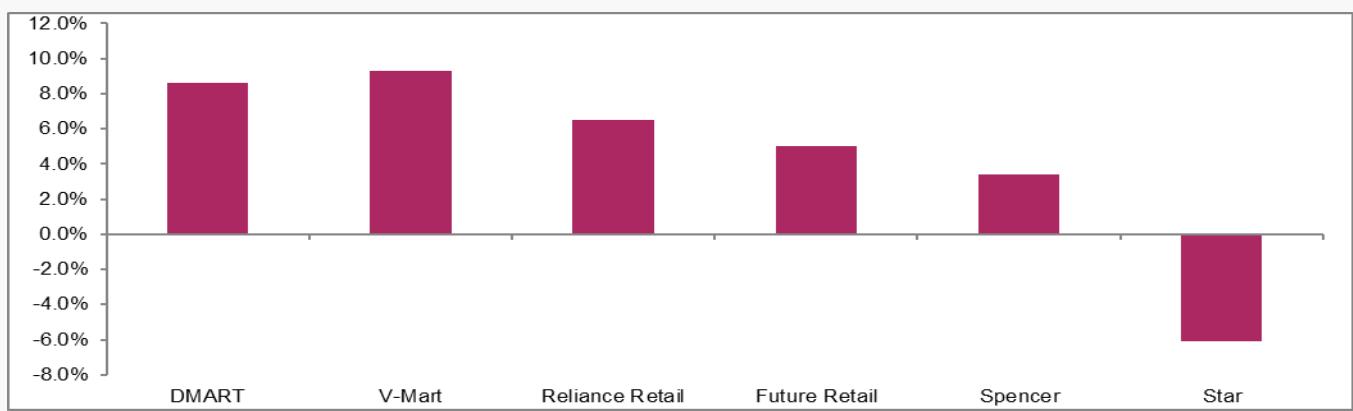
To your other question about competition, we unnecessarily worry and drum beat about competition. Market size is very large. In fact, why do we have to worry? My message even to my competitor is the same thing, "Why worry about each other?" The Pie is big and the pie itself is growing so much. So, there is nothing to worry about competition. If there is anything to worry about, it is about us. We should not get complacent; we should be constantly excited because this business is very tough and very boring. So, how you maintain the excitement and the focus in the business is the key. (Management: Analyst Meet FY18-19.)

Exhibit 31: Revenue/sqft and gross profit/sqft lower than Reliance retail but leads in EBITDA/sqft



Source: Company, Axis Securities

Exhibit 32: High EBITDA margin despite lower gross margins among peers



Source: Company, Axis Securities

Indian Retail Industry overview

What retail industry accounts for?

Indian retail industry accounts for over 25% of India's GDP and ~50% of the private consumption (~57% of the GDP) and around ~8% of the employment. It has emerged as one of the most fast-paced industries due to the entry of several new players. As per CRISIL Research Retail Industry is expected to grow 11.5-12.5% CAGR on account of an increase in economic activity with inflation being low to moderate range. Pent-up demand along with a better economic outlook will boost consumer sentiment and drive up discretionary spending. In FY19 the western region consisting ~20% of the total population accounted for ~28% of the overall retail consumption in the country. Similar is the case with southern region, which comprises five states housing ~20% of the country's population; it accounts for ~29% of the overall retail consumption. The northern region has lower retail consumption, which accounts for 25% of the overall market.

Exhibit 33: Total retail industry expected to post CAGR of ~12% over CY20-24E to ~Rs 104 trn

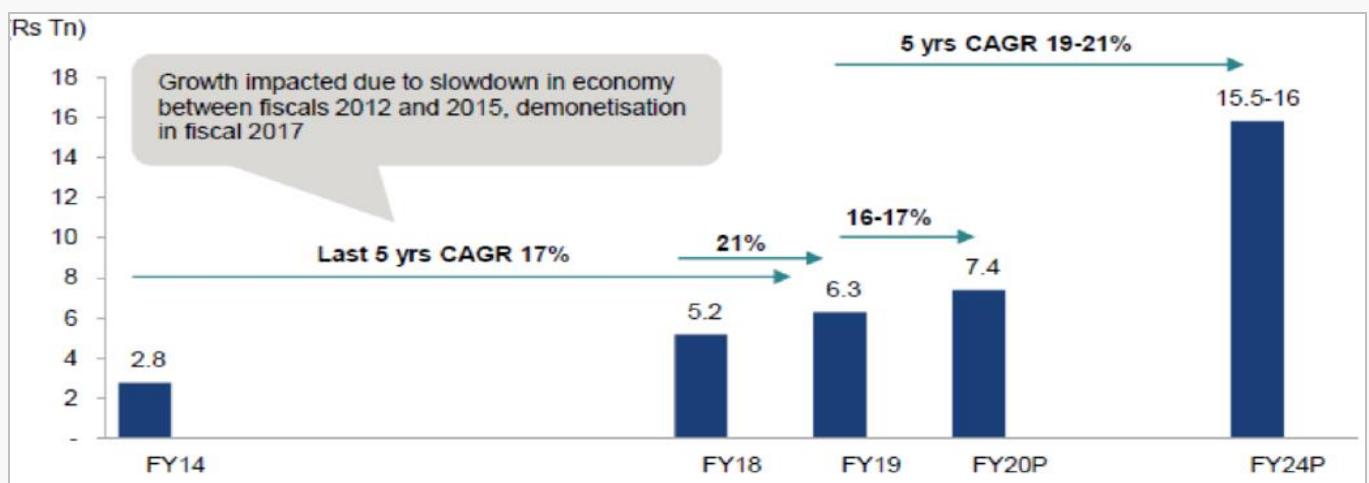


Source: Company QIP Report, Axis Securities

Organised retail pie getting larger:

Organized retailing accounted for ~11% in CY19 of the total retail industry and registered a CAGR of ~30% between FY06-11. However, this segment grew at a relatively slower pace of 16% CAGR from FY13-17 on account of tepid economic growth and declining disposable income from FY12-15. It gained some traction in FY2016 with the segment expanding 17% YoY. However, in FY2017, demonetization impacted the industry thus putting brakes on consumer spending. However, from FY18 the industry growth once again witnessed traction thanks to roll-out of GST that supported organized retailers, as the cost of doing business increased for unorganized retailers and organized retail grew at a rate of ~20% YoY in FY18 followed by ~21% YoY in FY2019 with B&M retailers registering a growth of ~18% YoY. Further, with the economy gaining momentum post COVID and improved consumer spending, organized retailers could clock ~19-21% CAGR over FY19-24E, reaching Rs ~16 trn with a jump of 400bps in share to ~15% of the total retail industry. The organized retail market is expected to grow at ~1.6x the overall retail market given traction of people towards organised retail due to larger offerings on discounted price in comparison to local kiranas.

Exhibit 34: Total retail industry expected to post CAGR of ~12% over CY20-24E to ~Rs 104 trn



Source: Company QIP Report, Axis Securities

Organised food and grocery, footwear and consumer durable retail to be the fastest growing segments

Food and Grocery accounts for ~19% share in value terms (Rs 1.19 trn of Rs 6.3 trn organized retail market) but forms just ~3.6% and remains the most under-penetrated segment, with unorganized retailers (such as standalone Kirana stores, cart vendors and wet markets) forming the remaining market. Unorganized retailers have lower fixed cost and are either self-owned or self-managed and compete fiercely with organized retailers by offering customers the convenience of its locational proximity, home delivery and credit being the biggest advantages. The low organized retail penetration (ORP) possesses a large opportunity for organized retail players however, managing the supply chain along with achieving economies of scale remains a challenge due to the perishable nature of products. CRISIL Research estimates the organized food and grocery segment to have grown ~26% YoY in FY2018 followed by ~29% YoY growth in FY2019. Going forward, the organized F&G segment is expected to witness healthy growth aided by new store additions from retailers and consistent growth in like-to-like (LTL) sales on account of increased footfalls due to shift in preference towards organised retail.

Exhibit 35: Food and Grocery accounts for largest share with least penetration compared to other segments

Segments	FY19			FY22P		
	Market size	ORP	Past 3-year CAGR	Market size	ORP	3-year CAGR
				Rs Billion	%	%
Food and grocery	1,192	3.6%	26%	2,535	5.5%	28-30%
Apparel	1,444	24.9%	19%	2,063	31.2%	19-21%
Footwear	257	17.6%	14%	407	18.9%	16-18%
Furniture & Furnishing	124	7.1%	18%	213	9.4%	10-21%
Pharmacy	87	7.6%	15%	137	8.7%	15-17%
Consumer durables, mobile & IT	1,547	56.0%	12%	2,578	62.8%	17-19%
Books and music	50	5.7%	1%	50	5.1%	0-1%
Others	1,654	13.2%	17%	2,148	13.3%	14-16%
Total organised retail	6,354	10.6%	18%	10,923	13%	19-21%

Source: Company QIP Report, Axis Securities

Classification by store size and product category assortment

Hypermarkets: Largest by size, with average store size ranging from 30,000 to 60,000 sq. ft. The focus category assortment can be defined as follows: F&G is 30-35%, Non Food (FMCG) being 15-20% and Others is 45-55%. These hypermarkets include the biggest retailers including EasyDay, Big Bazaar and Spencer's and they differentiate themselves based on wide variety of products and the shopping experience delivered.

Hybrid Supermarkets: These are smaller than hypermarkets but larger than a typical supermarket; average store size is ~20,000 to 30,000 sq. ft. The focus category assortment can be defined as follows: F&G at 45-50%, NonFood (FMCG) at 20-25% and Others at 25-35%. Key retailers in this segment include D'Mart and Q'Mart. They focus on competitive pricing due to scale led efficiencies achieved.

Supermarkets: Their store size ranges from 3,000 to 6,000 sq. ft. and the category assortment is dominated by the F&G segment. The focus category mix can be defined as follows: F&G is at 60-65%, Non Food (FMCG) is 20-25% and Others stands at 10-20%. Key retailers operating in this format include EasyDay, Food Bazaar and Spencer's. These are typically situated in residential areas to provide a convenient outlet for local consumers.

Modern Convenience Stores: These are the smallest formats in organised B&M retail, with an average store size from 1,500 to 2,500 sq. ft. Similar to supermarkets; they have a greater focus on fast moving products, especially in line with specific neighborhood demands. The focus category assortment can be defined as follows: Food & Grocery (F&G) is 65-70%, Non Food FMCG at 20-25% and Others forming 5-15%.

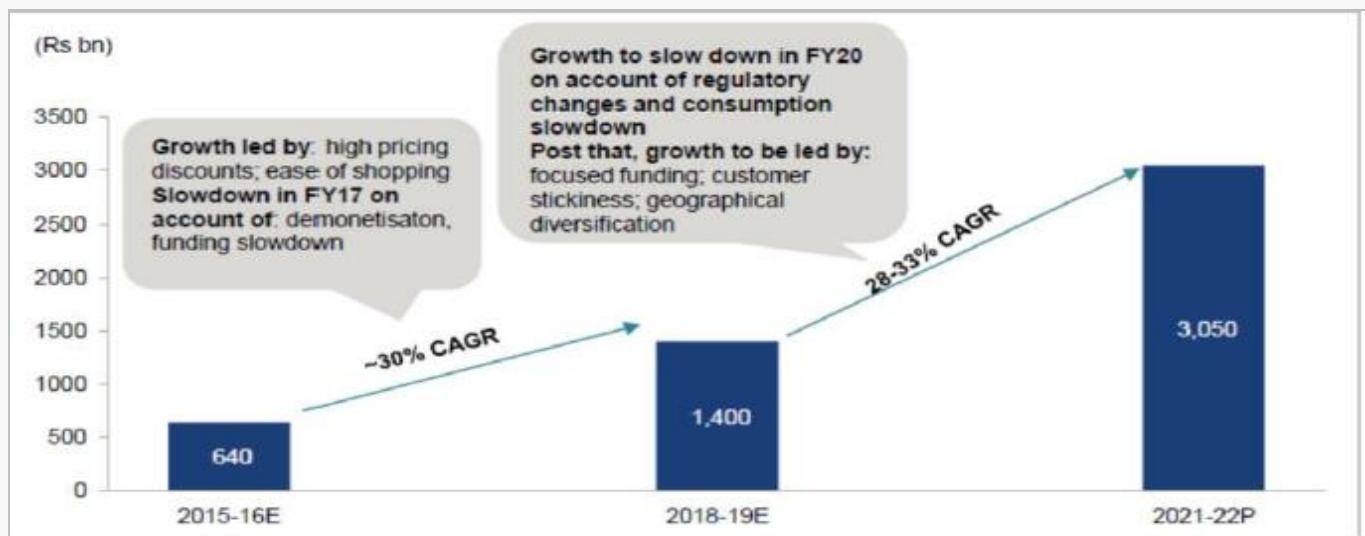
Exhibit 36: Different formats of stores and key players in the Indian retail industry

Type of Format	Average Area of Store (sqft)	Typical products sold	Primary location	Key players/brands
Convenience/ Neighborhood Stores	1000-2000	Grocery	Residential	Local Players
Supermarkets	2000-10000	Food & Grocery	Residential Areas, Malls	More, Food Bazaar, Reliance Fresh
Hypermarkets	75000-150000	Food & Grocery, Apparel, Electronics, Household items & furniture	Malls	Big Bazar, Dmart, Spencer's Hyper, Reliance Smart
Department stores	20000-50000	Clothing, home décor, furniture, appliances, cosmetics	Malls	Pantaloons, Lifestyle, Shoppers Stop, Central

Source: Company QIP Report, Axis Securities

E-RETAIL INDUSTRY IN INDIA

E-Commerce has been a focus area for the industry in the past decade with large global players entering the market to capture under-penetrated Indian retail space. COVID-19 pandemic has further accelerated growth of this channel. Online grocery is still a relatively under-penetrated segment within E-retail, and has caught the attention of all major e-retailers. E-Retail has seen significant investment over the past two years and is expected to be the fastest-growing segment. Apart from this, the continued focus of major e-retailers on existing business segments such as electronics, apparel, and fashion will drive growth. With the omnichannel strategy gaining prominence, the e-retail industry seems set to add incremental growth to the overall organized retailing sector, rather than pose competition to existing retailers. Indian e-commerce sector is set to clock 28-33% CAGR from CY19-22E. With recent policy changes to create a level playing field for all sellers, discounts offered by e-retailer are likely to come down which could result in slower growth in the near term until e-retailers rework their strategies.

Exhibit 37: With omni-channel strategy gaining prominence, the e-retail industry tends to grow fastest in overall organized retailing sector


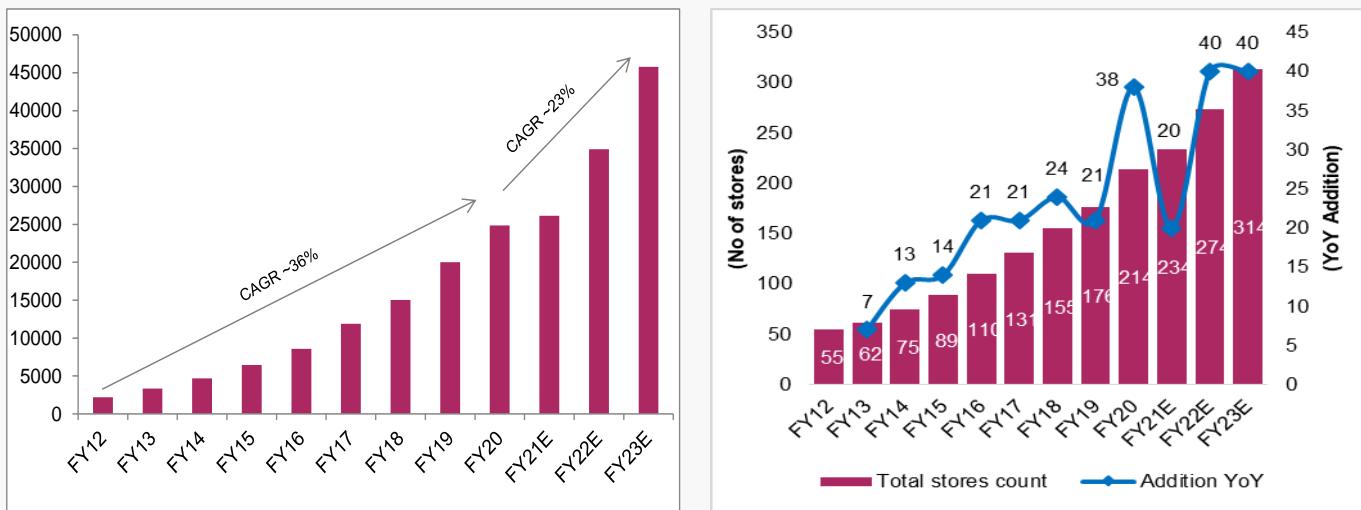
Source: Company QIP Document, Axis Securities

Financial Commentary

Strong revenues growth, expected to post CAGR of ~23% over FY20-23E

DMART posted a healthy revenue CAGR of 35% over the last decade (FY12-20) largely driven by store expansion and strong same-store growth. Its strong focus on EDLP/EDLC strategy has resulted in higher bill cuts at 20.1cr in FY20, a 21.3% CAGR. We do think the average bill size could steadily rise given increase in consumption of discretionary items also with rise in income. This, coupled with the addition of ~100 stores over FY20-23E is expected to drive revenue growth by ~23% CAGR over FY20-23E to Rs. 45,000 cr in FY23E. DMART will continue to expand ~70% of the stores in the existing clusters and the rest 30% new store additions will be in new clusters. In terms of cluster contribution, Maharashtra and Gujarat account for the majority share of stores at ~53% to a total of 113 stores, followed by Telangana and Karnataka at ~20% with 44 stores.

Exhibit 38: Strong 23% CAGR in revenues expected with ~100 store additions of over FY20-23E

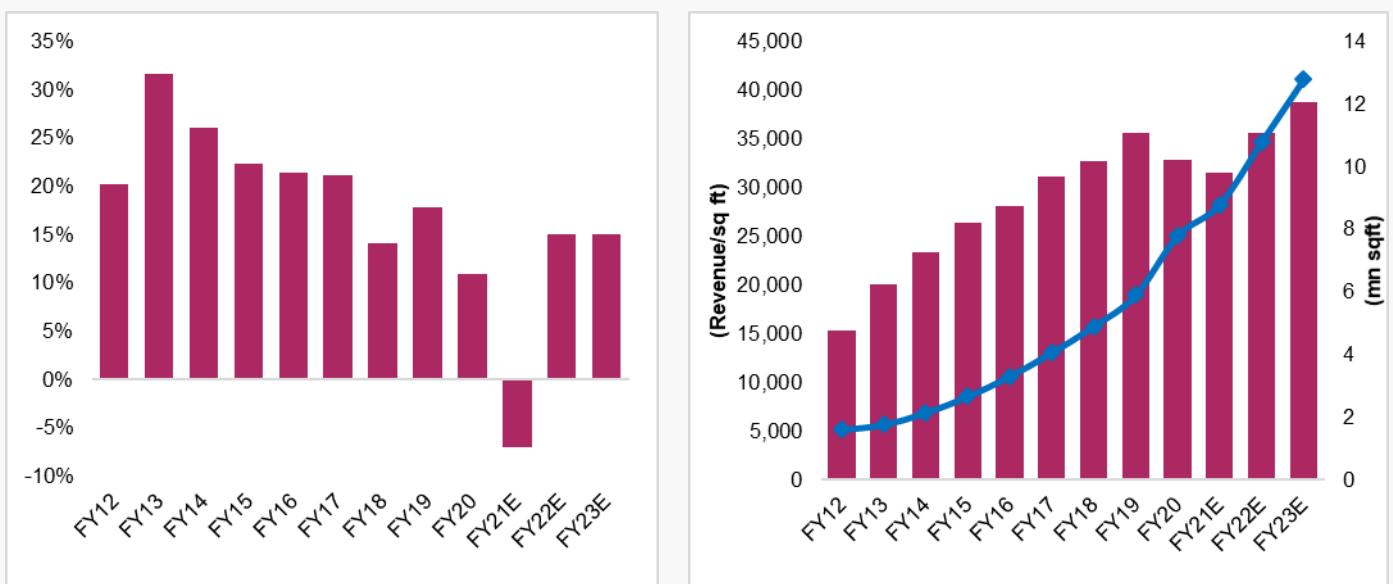


Source: Company, Axis Securities

SSSG growth to moderate over FY22E and beyond

We expect Like – To – Like (LTL) growth to moderate at ~15% over FY22-23E barring FY21E at -7% vs ~21% CAGR during FY12-20 as existing stores attain maturity in terms of footfalls and LTL growth will largely be in line with inflation growth of ~6%.

Exhibit 39: Same store sales growth to moderate at ~15% with steady rise in revenue/sq.ft. over FY20-23E

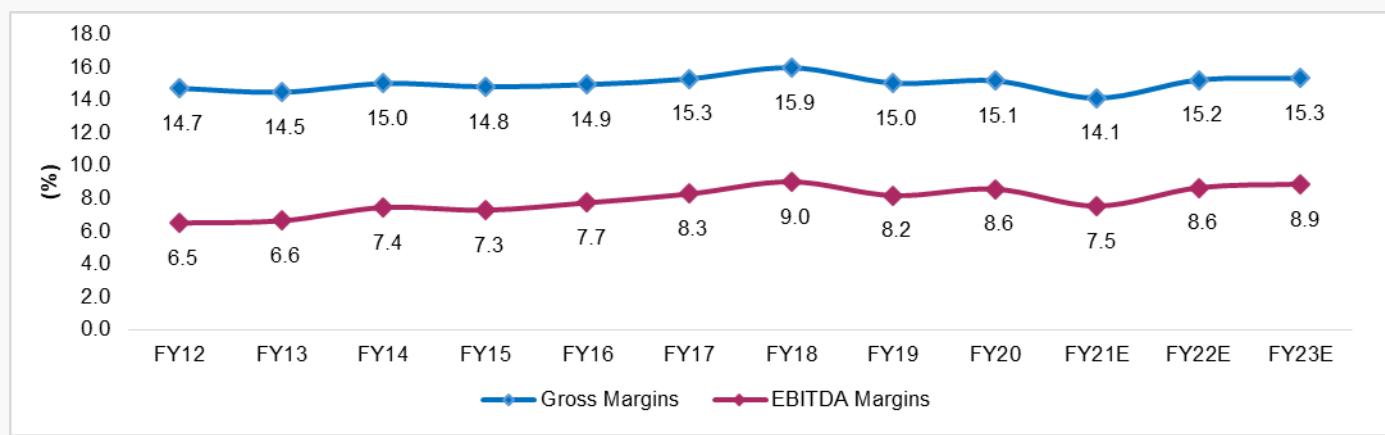


Source: Company, Axis Securities

Margin profiles might improve marginally with EBITDA expected to register CAGR of ~24% over FY20-23E

FY21, owing to the pandemic there has been a sharp impact on sales of non-discretionary products that earn higher margins than low margin earning food & grocery segment. As a result, for FY21E, we expect a drawdown on Gross Margins to the extent of ~105 bps to 14.1%. However, over FY22-23E receding fears of the COVID-19 virus, availability of vaccine, further relaxations of lockdown restriction would lead to higher movement of people (casually) as life limps back to normalcy we expect the business of brick & mortar stores too also an improvement where footfalls is one of the key growth enablers. Over FY22-23E we believe, Gross Margin are likley to sustain at similar levels with slight improvement aided by higher sales of discretionary (non-FMCG and Apparel) items. We expect DMART to report Gross & EBITDA Margin of ~14.1%/7.5% in FY21E while in FY22E and FY23E, EBITDA Margin would get back to 8.6% & 8.9% with an EBITDA CAGR of ~24% over FY20-23E. The expectation of a strong EBITDA growth is on the back of 1) strong revenue growth driven by new store addition and high SSSG, 2) Strong operating leverage owing to scale benefits with the slight scope of improvement on account of further streamlining of cost such as owing fleet for transportation rather hiring on lease etc.

Exhibit 40: Gross/EBITDA Margin growth to continue ex- FY21E, expected EBITDA CAGR ~24% over FY20-23E

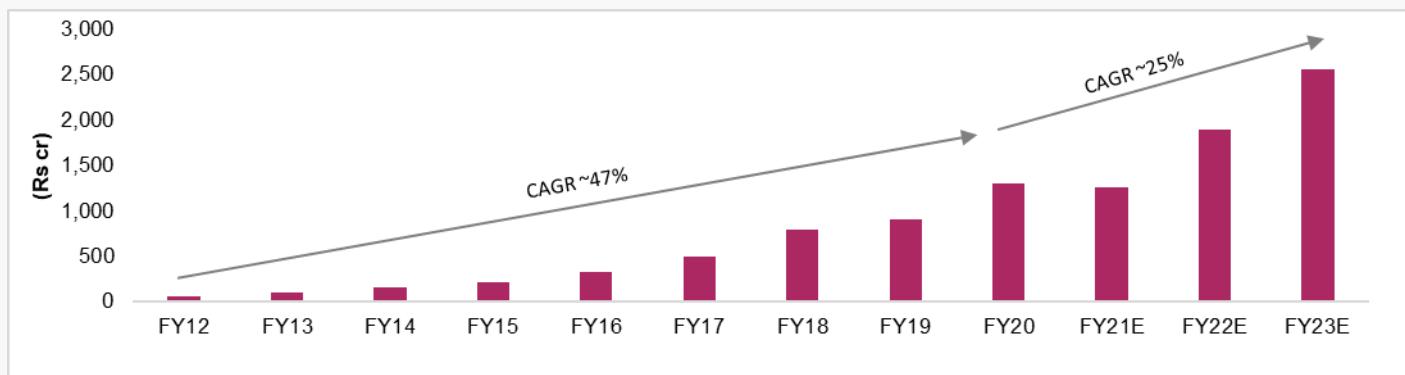


Source: Company, Axis Securities

PAT to post ~25% CAGR over FY20-23E

DMART has cemented a strong position in the western and southern part of the country with its strong execution capability and cluster-based expansion. This has led the company to report robust growth in earnings over the years. The company registered a staggering PAT CAGR of ~47% over FY11-20 with the growth momentum continuing beyond FY21 (FY21 to be a one off impacted by COVID pandemic). However, measured call on store expansion owing to the pandemic and competitive forces we expect DMART to deliver a PAT CAGR of ~25% over FY20-23E, given its (a) continued focus on EDLP/EDLC strategy with cluster-based expansion in the region, (b) continuing store expansion with a major focus in the existing region (~70% of the expansion) and expanding into new clusters (30% of the total store expansion), (c) Experienced management with an eagle eye on cost management and (d) strong proven execution track record on profitable business operations.

Exhibit 41: PAT to post CAGR of ~25% over FY 20-23E



Source: Company, Axis Securities

Superior Return Ratios (RoE/RoCE), Asset Turns despite asset heavy model

DMART operates on a model (asset-heavy) where ~90% of the stores are owned by the company and the rest are operated on long term lease of over 9 years, thus enabling it to focus on improving productivity without worrying about rental expenditure and escalation of the same as some segments take a relatively longer time to pick up and attain breakeven. Despite an asset-heavy structure, the company has been able to sustain a higher asset turn of ~5x led by EDLC/EDLP strategy and amongst lowest operational cost vs peers. Despite having a lower GM/EBITDA Margin and higher capital employed the company has maintained an average ROCE and ROE of ~20% and ~15% over FY12-20 on account of better asset turn. Owing to its focus on value retailing DMART enjoys industry-leading asset turnover of ~4x vs 3x the industry average thus ensuring maintaining superior ROE/ROCE in the industry..

Exhibit 42: Strong Return Ratios over the decade and expected to continue over 20-23E

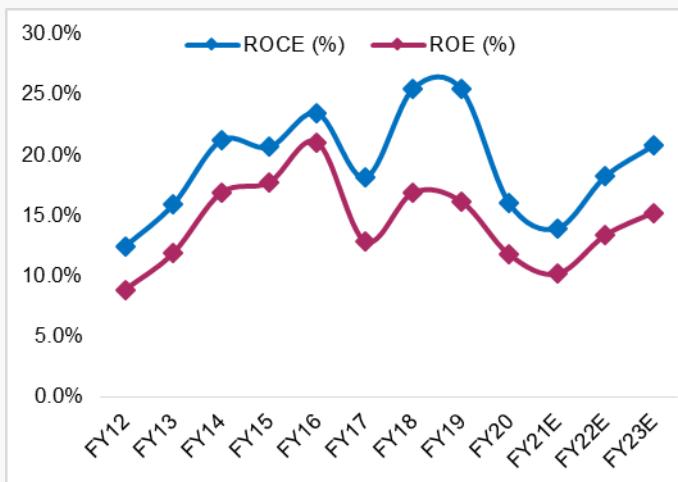
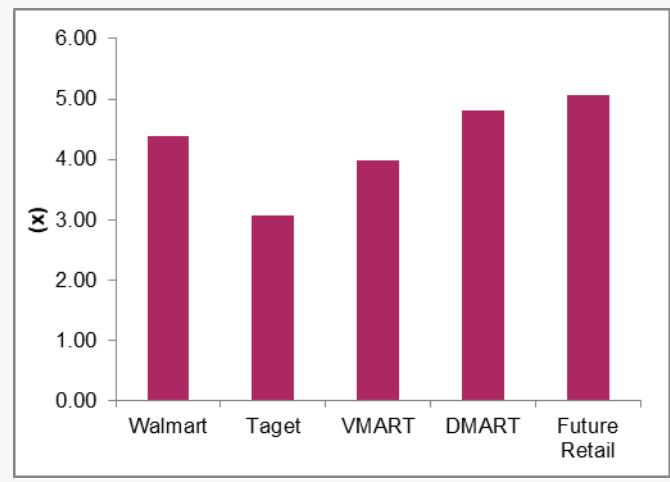


Exhibit 43: Industry leading asset turnover with ~5.0x ahead of global peers and domestically

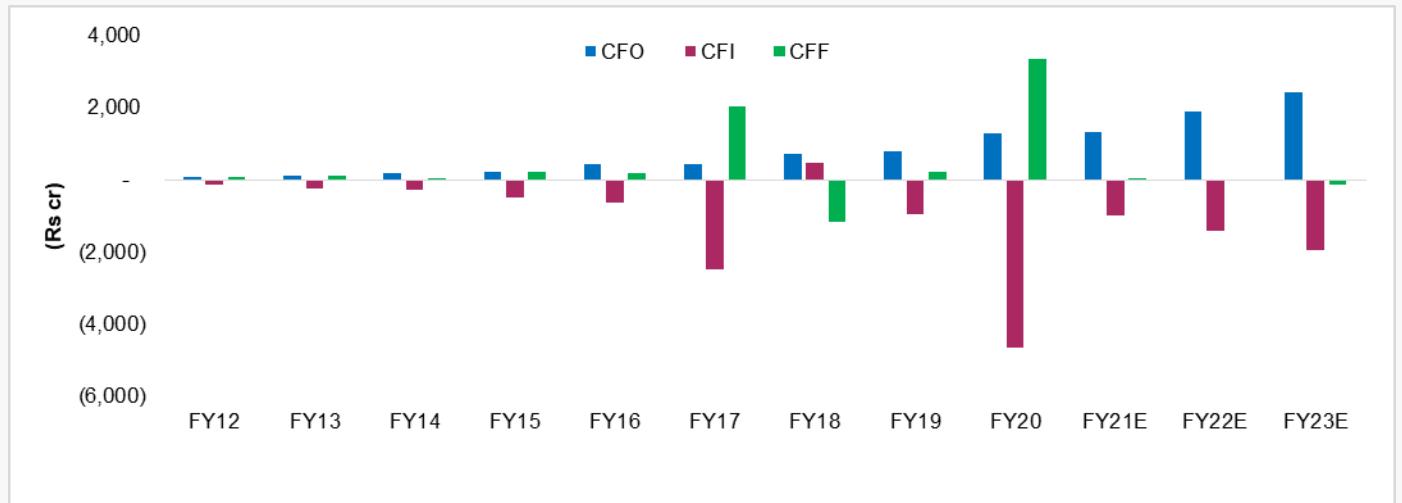


Source: Company, Axis Securities

Healthy cash flows generation, FCF turning positive post FY23E

A well contained and capital-efficient operations have generated healthy cash flows for the company over the years. DMART's average CAPEX over FY12-20 remained at ~Rs 720 cr with the highest Capex in FY20 at Rs.~1700cr and highest store addition at 38 stores. Even though the company is generating positive operating cash flows, FCF remains negative for the company due to significant store expansion largely funded through debt pre IPO. In tandem with the same rate of store expansion and the latest QIP undertaken by the company of Rs 4000 cr, we expect CAPEX intensity to sustain, going forward with positive FCF post FY23E. Due to COVID-19, the company has reduced the number of store addition and we expect it to maintain a similar pace of store expansion from FY22E and add ~100 new stores (additional ~5mn sqft) by FY23E. We note that DMART's CFO registered a CAGR of ~45% over FY12-20 to Rs. 1,280cr in FY20 and believe the company to maintain consistency in generating cash flows at a CAGR of ~24% in CFO over FY20-23E.

Exhibit 44: Healthy Cash Flow generation with high CAPEX undertake over the years

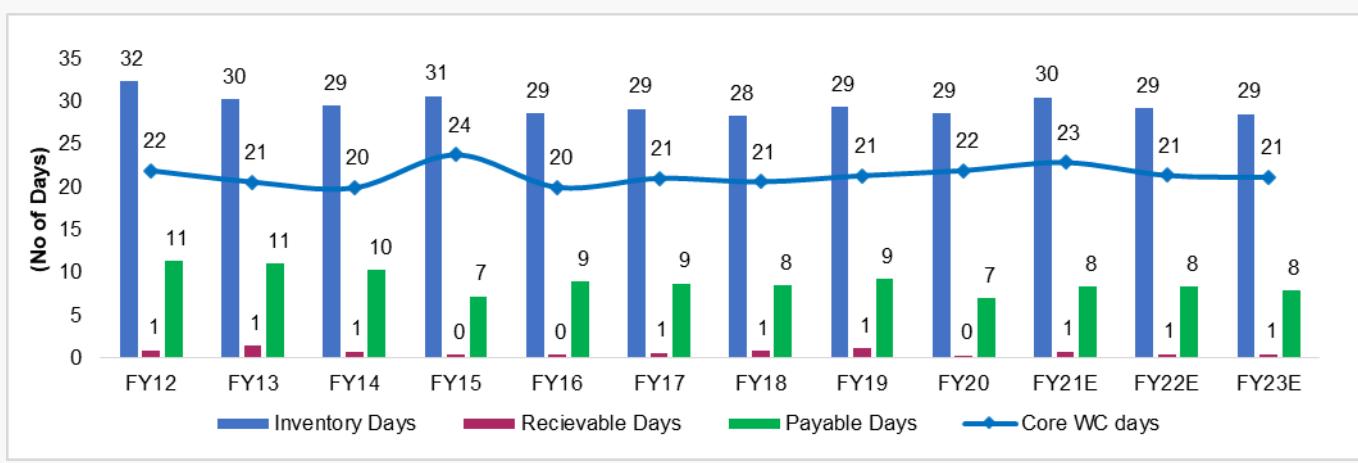


Source: Company, Axis Securities

Working Capital to remain stable

Working capital management is a critical component for grocery retail companies due to frequent turnover, procurement, and optimum stock level maintenance. In the past, many players have failed to sustain business operations due to poor inventory management and credit default with mere focus on rapid expansion and inability to manage inventory levels, thus leading to dis-satisfied customers, in turn, impacting business. DMART's strength has been maintaining a stable working capital. This has been displayed in its record over the past years as the company is well equipped with technology to aid in better inventory management on a center as well as store level. Owing to COVID-19 impact and ensuing disruption caused to supply chains, DMART witnessed inventory build-up for the apparel segment due to lower sales of discretionary items. This would lead to marginally higher inventory in FY21E of 30 days vs an average of 29 days of inventory in the past. However, on the Payables front, days are much lower at an average of 9 days (have trended down further in recent years) as the company prefers to get higher discounts from its suppliers with prompt payments another guiding principal of DMART in conducting business. We forecast stable working capital days going forward on account of better inventory management with timely payment of payables as this reaps better discounts for the company which in turn is passed on to its consumers.

Exhibit 45: Working Capital Days to sustain at similar levels going ahead

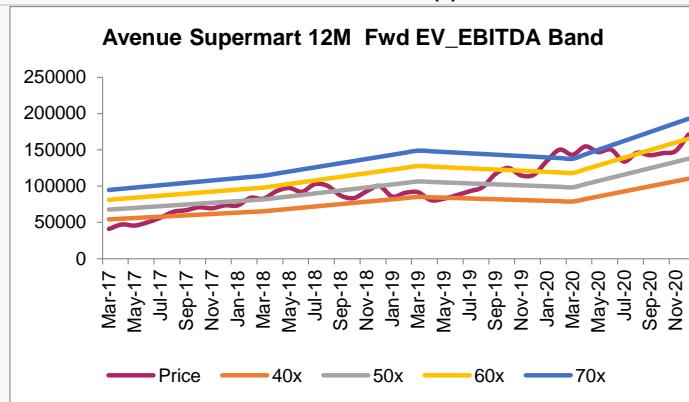


Source: Company, Axis Securities

Valuations and Outlook

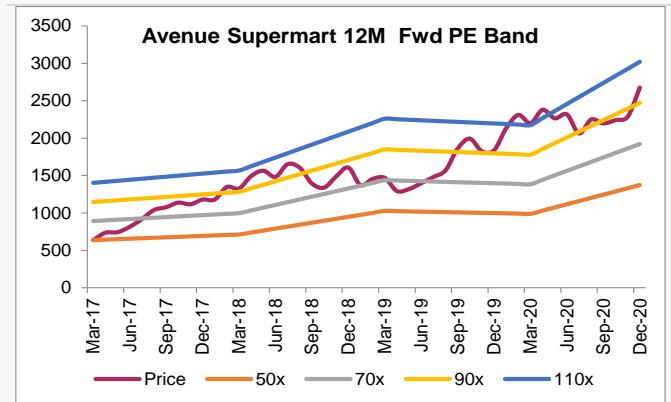
DMART has posted Revenue/EBITDA/PAT CAGR of 35%/40%/47% in FY12-20 way ahead of peers with a steady rise in store counts driven by its cluster based approach to expansion of business operations. We estimate healthy Revenue/EBITDA/PAT CAGR of ~23%/24%/25% over the next three years (FY20-23E) owing to 1) store expansion plans (estimated ~100 stores in next three years) 2) improving consumption trends and 3) consumers preferring modern retail formats which also compliment a family outing. **We initiate coverage on the stock with a BUY rating and Target Price of Rs 3100, our price target is based on a forward EV/EBITDA multiple of 48x, which is supported by earnings CAGR of 25% over FY20-23E.** We are assigning this multiple to DMART given its strong execution capability and track record with sufficiently large headroom for expansion as grocery segment remains the least penetrated segment with a share of just ~3.6% of the total organised market.

Exhibit 46: 12 M FWD EV_EBITDA CHART (x)



Source: Company, Axis Securities

Exhibit 47: 12 M FWD EV_EBITDA BAND CHART



About The Company

Avenue Supermarts Limited is an India-based company, which owns and operates DMart stores. DMart is a supermarket chain that offers customers a range of home and personal products under one roof. Each DMart store stocks home utility products, including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and others. The Company offers its products under various categories, such as bed and bath, dairy and frozen foods, fruits and vegetables, crockery, toys and games, kids apparel, ladies garments, apparel for men, home and personal care, daily essentials, grocery and staples, and own DMart brands. DMart has presence in locations across Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Karnataka, Telangana and Chhattisgarh with over 11 stores. The Company has multiple stores in cities, such as Mumbai, Ahmedabad, Baroda, Bengaluru, Hyderabad, Pune and Surat.

Segmental Operations

- **Foods:** This category includes staples, groceries, snacks & processed foods, dairy & frozen products, beverages and confectionery. In Fiscals 2017, 2018 and 2019 and and 2020, this category constituted 53.3%, 51.6%, 51.2% and 51.0%, respectively in revenues.
- **Non-Foods (FMCG):** This category includes home care products, personal care and toiletries and other over the counter products. In Fiscals 2017, 2018 and 2019 and and FY20, this category constituted 19.9%, 20.0%, 20.5% and 20.0%, respectively in revenues.
- **General Merchandise & Apparel:** This category includes bed & bath products, toys & games, home appliances, crockery, utensils, plastic goods, garments and footwear. In Fiscals 2017, 2018 and 2019 and FY20 this category constituted 26.8%, 28.4%, 28.3% and 29.0%, respectively in revenues.

Key Risks

- **Inability to pursue its value retailing strategy:** Any strategic shift from value retailing or inability to offer daily low prices pursuant to EDLC/EDLP pricing strategy, the company is at a risk of losing its distinct advantage and a substantial portion of customers, which will adversely affect the business, financial condition and results of operations.
- **Viable Real Estate:** Availability of commercially viable real estate properties at suitable locations for the new stores, timely execution of sale deeds/lease and license registrations and getting regulatory approvals for these properties is critical for maintaining its low cost competitive position in the industry.
- **Slower than expected store expansion:** In the past DMART has been able to aggressively open stores across locations where it had the right to win. However, any slowdown in store expansion due to lack of necessary regulatory approvals or other factors could impact its SSSG thus affecting the business performance.
- **Heating up competition in e-commerce:** Post the outbreak of COVID pandemic, there has been a shift in shopping habits to online channels. Thus far DMART has been slow in ramping up its presence on the online space through its DMART Ready App which currently is loss making. Increase in losses or delay in ramping up e-commerce presence compared to other online marketplaces like Amazon Pantry, Flipkart Supermart, JioMart, Bigbasket etc could dent its overall performance.
- **Competitive threat from JioMart: Acquisition of Future Retail by Reliance Retail** the retail arm of Reliance Industries (RIL) makes it the largest player in F&G Retail with DMART being the 2nd largest player in terms of revenue. Given Reliance's deep pockets and aggression in tapping the huge market opportunity could result in intensifying competition in F&G space to get consumer attention by offering lowest values and thus leading to rising footfalls for respective companies. This could possibly reduce DMARTs bargaining power and hence need to spend on promotional activities thereby impacting its profitability.

Shareholder's Name	% of holding
Promoter & Promoter Group	74.99
Mutual Fund Trustee Limited	5.38
Foreign Portfolio Investors	10.27
Ignatius Navil Noronha	2.03
Other	7.33

*As on Sep'2020

Key Managerial Persons

Name	Details & Experience
Mr. Ramesh Damani <i>Chairman</i>	He is the Chairman and an Independent Director of the company. He holds a graduation degree in commerce from H.R. College of Commerce and Economics from University of Bombay and holds a post-graduation degree in business administration, marketing from California State University, Northridge. He has several years of experience in securities market. Prior to joining DMART, he founded Ramesh S Damani Finance Private Limited, a stock broking company which was registered with the BSE but has subsequently closed the broking business. He is also presently a director on the board Aptech Limited and VIP Industries Limited. He has been a Director of DMART since September 9, 2009.
Mr. Ignatius Navil Noronha <i>Managing Director & CEO</i>	He is the Managing Director and Chief Executive Officer of the Company and holds a graduation degree in Science from S.I.E.S College of Arts, Science and Commerce, Mumbai and a post-graduation degree in marketing management from Narsee Monjee Institute of Management Studies, Mumbai. Prior to joining the Company, he has worked with Hindustan Unilever for 8 years. During this period, he worked in the field of market research, sales and modern trade and at the time of leaving the organization, he was designated as the key account manager – Modern Trade. He has been a Director of DMART since January 2, 2006.
Mr. Elvin Machado <i>Whole Time Director & Group CFO</i>	He is a Whole-time Director of the company and holds a graduation degree in Economics from St. Xavier's College, University of Mumbai. He has several years of experience in sales and marketing. Prior to joining the Company, he has worked with Hindustan Unilever for approximately 18 years and at the time of leaving the organisation, he was designated as the Branch Operations Manager – East (Rural) and he has also worked with Mayo Health Care Private Limited.
Mr. Ramakant Baheti <i>Chief Operating Officer, Retail – West</i>	He is the Whole-time Director and Group Chief Financial Officer of the company and holds a graduation degree in commerce from Maharishi Dayanand Sarswati University, Ajmer. He is a Chartered Accountant and a member of the ICAI. Prior to joining our Company, he was the manager-finance of Bright Star Investments Private Limited. He was also a director of Damani Share and Stock Brokers Private Limited, a stock broking company. He has been a Director of our Company since January 2, 2006.
Mr. Narayanan Bhaskaran <i>Chief Operating Officer, Retail – North and South</i>	He holds graduation degree in Commerce from University of Madras, post-graduation in Human Resource Management from XLRI - Xavier School of Management, Jamshedpur and has completed an Advanced Programme in Supply Chain Management from Indian Institute of Management, Calcutta. He is an associate member of the Institute of Company Secretaries of India. He has over 22 years of experience in corporate secretarial functions, operations and human resource management. Prior to joining the Company, he has worked with TCL India Holdings Private Limited and Birla Sun Life Distribution Company Limited. He joined DMART on May 7, 2008 as Vice President – HR and was involved in human resource management. Presently, he is managing supply chain management, corporate legal functions and staples business.
Mr. Niladri Deb <i>Chief Financial Officer</i>	He holds a graduation degree in commerce and is a chartered accountant and a cost and management accountant. Prior to joining DMART, he has worked with Heinz India Private Limited as Chairman and Managing Director, and prior to that, as the Chief Financial Officer where he held roles across financial controlling, financial planning, treasury and taxation; He joined our Company on May 7, 2018.
Mr. Dheeraj Kampani <i>Vice-president, Buying and Merchandising</i>	He holds a Diploma in International Trade from Bhavan's Rajendra Prasad Institute of Communication and Management and post-graduation degree in Business Management from Nagpur University. He has over 15 years of experience in sales and retail store management. Prior to joining the Company, he has worked with Hindustan Lever and Great Wholesale Club Limited. He joined our Company on May 16, 2005 as Regional Manager - Operations. From the regional positions previously held by him, he was given the responsibility of heading the garment category. Presently, he heads the buying and merchandising function of the Company.
Mr. Hitesh Shah <i>Vice-president, Operations</i>	He holds a graduation degree in Commerce from Gujarat University. He has over 21 years of experience in sales, marketing and retail store management. Prior to joining our Company, he has worked with Hindustan Unilever. He joined our Company on March 5, 2007 as Regional Manager - Purchase and has been involved in merchandising of FMCG in Gujarat and subsequently, he was shifted to operations at circle level. Presently, his functions include day to day operational management of the stores and compliances across the country.

Subsidiary Companies

ALIGN RETAIL TRADES PRIVATE LIMITED (ARTPL) ARTPL, a wholly-owned subsidiary Company incorporated on 22nd September, 2006, is engaged in the business of packing and selling of grocery products, spices, dry fruits, etc. Its revenue from operations for FY 2020 stood at Rs 1,177.62 crore against Rs 920.10 crore in the previous year and the Company posted net profit after tax of Rs 24.81 crore for FY2020 against Rs 10.10 crore for FY 2019.

AVENUE FOOD PLAZA PRIVATE LIMITED (AFPPL)

AFPPL is a wholly-owned subsidiary Company incorporated on 8th June, 2004. It is engaged in the business of operating food stalls at DMart stores. The revenue from operations of the Company for FY2020 stood at Rs 32.41 crore as against Rs 23.59 crore for FY19. The Company reported net profit after tax of Rs 6.29 crore against Rs 5.67 crore for previous year.

AVENUE E-COMMERCE LIMITED (AEL)

AEL, a subsidiary Company incorporated on 11th November, 2014 is engaged in the business of online grocery retail under the brand name "DMart Ready". AEL currently operates its business in selected areas of Mumbai region. AEL allows its customers to order a broad range of grocery and household products through its mobile app DMart online grocery shopping and through the website www.dmart.in. Customers can either self-pick up their online orders from any designated Dmart Ready Pick-Up Points or get them delivered at their door step AEL's revenue from operations for FY 2020 stood at Rs 354.03 crore vis-à-vis Rs 143.59 crore in the FY 2019. The Company registered a loss of Rs 79.71 crore in FY 2020 against the loss of Rs 50.82 crore in FY 2019.

NAHAR SETH & JOGANI DEVELOPERS PRIVATE LIMITED (NSJDPL)

NSJDPL, subsidiary company was incorporated on 21st February, 2014, with main object of, amongst others, development of land and construction. Revenue from operations of the Company for FY 2020 and FY 2019 was Rs 0.75 crore each and the Company earned a net profit after tax of Rs 0.54 crore for FY 2020 against Rs 0.47 crore for FY19.

REFLECT WHOLESALE AND RETAIL PRIVATE LIMITED (RWRPL)

RWRPL, a wholly-owned subsidiary Company was incorporated on 28th May, 2018, to carry on the business of wholesale and retail of goods and products. It is yet to commence its operations.

Name of the Subsidiaries (Rs Lakhs)	Align Retail Trades Private Limited	Avenue Food Plaza Private Limited	Nahar Seth & Jogani Developers Private Limited	Avenue E-Commerce Limited	Reflect Wholesale and Retail Private Limited
Date since when subsidiary was acquired	18.08.2009	18.08.2009	21.02.2014	02.02.2018	28.05.2018
Reporting period for the subsidiary concerned, if different from the holding company's reporting period	Same as of the Holding Company	Same as of the Holding Company	Same as of the Holding Company	Same as of the Holding Company	Same as of the Holding Company
Reporting currency and Exchange rate as on the last date of the relevant Financial Year in the case of foreign subsidiaries	NA	NA	NA	NA	NA
Share capital	380	1	10	21,689	10
Reserves and Surplus	8,075	2,520	285	(17,370)	(1)
Total Assets	9,561	2,959	1,140	14,241	10
Total Liabilities	1,107	438	845	9,923	0
Investments	Nil	966	Nil	502	Nil
Turnover	1,17,762	3,241	75	35,403	Nil
Profit/Loss before taxation	3,321	865	68	(7,971)	(0)
Tax Expense	840	236	14	-	-
Profit/Loss after taxation	2,481	629	54	(7,971)	(0)
Proposed Dividend	Nil	Nil	Nil	Nil	Nil
% of shareholding	100%	100%	90%	99.82%	100%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total Net Sales	24,870	26,146	34,904	45,781
% Change	24.3	5.1	33.5	31.2
Total Raw material Consumption	21,103	22,459	29,598	38,777
Staff costs	456	497	628	819
Other Expenditure	1,183	1,222	1,659	2,130
Total Expenditure	1,639	1,719	2,287	2,950
EBITDA	2,128	1,968	3,018	4,055
% Change	30.3	(7.5)	53.4	34.4
EBITDA Margin %	8.6	7.5	8.6	8.9
Depreciation	374	451	547	685
EBIT	1754	1517	2471	3370
% Change	23.4	(13.5)	62.9	36.4
EBIT Margin %	7.1	5.8	7.1	7.4
Interest	69	78	105	137
Other Income	60	235	175	183
PBT	1744	1674	2540	3415
Tax	444	422	640	861
Tax Rate %	26.0	25.2	25.2	25.2
APAT	1,301	1,252	1,900	2,555
% Change	44.2	(3.8)	51.8	34.4

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Share Capital	648	648	648	648
Reserves & Surplus	10,432	11,684	13,584	16,139
Net Worth	11,080	12,331	14,232	16,786
Total Borrowings	4	150	200	200
Deferred Tax Liability	48	60	80	100
Long Term Provisions	1	1	1	1
Other Long Term Liability	221	200	220	240
Capital Employed	11,354	12,742	14,733	17,327
Gross Block	7,270	8,885	11,221	13,825
Less: Depreciation	975	1,421	1,959	2,631
Net Block	6,295	7,465	9,262	11,195
Other Non Current Assets	294	306	356	406
Investments	3,139	2,750	2,000	1,500
Sundry Debtors	20	57	48	63
Cash & Bank Bal	108	479	935	1,323
Loans & Advances	-	-	-	-
Inventory	1,947	2,179	2,792	3,577
Other Current Assets	273	390	530	690
Total Current Assets	5,487	5,855	6,305	7,152
CurrLiab& Prov	722	884	1,191	1,425
Net Current Assets	4,765	4,972	5,114	5,727
Total Assets	11,354	12,742	14,733	17,327

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	1,744	1,674	2,540	3,415
Depreciation & Amortization	374	451	547	685
Net Finance Interest and other expenses	69	78	105	137
Others	(40)	(235)	(175)	(183)
Chg in Working cap	(377)	(223)	(467)	(755)
Direct tax paid	(492)	(422)	(640)	(861)
Cash flow from operations	1,280	1,323	1,911	2,439
	-	-	-	-
Chg in Gross Block	(1,712)	(1,621)	(2,345)	(2,618)
Chg in Investments	(2,944)	625	925	683
Others				
Cash flow from investing	(4,657)	(996)	(1,420)	(1,935)
	-	-	-	-
Proceeds / (Repayment) of ST Borrowings (Net)	(1,862)	-	-	-
Repayment of LT Borrowings	1,311	147	50	-
Others	(100)	(21)	20	20
Finance Cost paid	(68)	(78)	(105)	(137)
Dividends paid	-	-	-	-
IPO/QIP	4,077	-	-	-
Cash flow from financing	3,358	48	(35)	(117)
Chg in cash	(19)	374	456	387
Cash at start	124	105	479	935
Cash at end	105	479	935	1,323

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Growth (%)				
Net Sales	24.3	5.1	33.5	31.2
EBITDA	30.3	(7.5)	53.4	34.4
APAT	44.2	(3.8)	51.8	34.4
Per Share Data (Rs.)				
Adj. EPS	20.5	19.8	30.0	40.4
BVPS	175	195	225	265
Profitability (%)				
EBITDA Margin	8.6	7.5	8.6	8.9
Adj. PAT Margin	5.2	4.8	5.4	5.6
ROCE	16.0	13.9	18.2	20.7
ROE	11.7	10.2	13.4	15.2
Valuations (X)				
PER	101.2	133.5	87.9	65.4
P/BV	11.9	13.5	11.7	10.0
EV / EBITDA	61.8	84.7	55.1	40.9
EV / Net Sales	5.3	6.4	4.8	3.6
Turnover Days				
Asset Turnover	5.3	4.7	5.0	5.3
Inventory days	29	30	29	29
Debtors days	0	1	1	1
Creditors days	7	8	8	8
Working Capital Days	22	23	21	21
Gearing Ratio				
Debt: Equity (x)				
Net Debt to Equity	(0)	(0)	(0)	(0)

Source: Company, Axis Securities

About the analyst

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Sector: Agrochemical & Consumer sector

Analyst Bio: Gaurav Uttrani is Chartered Accountant (ICAI) with about 2 years of experience in Equity market and research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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