



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## Avenue Supermarts

14 May 2023

Newer stores and discretionary category continue to drag; structural moats keep us positive

### RESULT UPDATE

Sector: Retail Rating: BUY

CMP: Rs 3,680 Target Price: Rs 4,266

#### Stock Info

Sensex/Nifty	62,027/ 18,314
Bloomberg	DMART IN
Equity shares (mn)	648
52-wk High/Low	Rs 4,606/3,185
Face value	Rs 10
M-Cap	Rs 2,388bn/USD 29bn
3-m Avg value	USD 22.7 mn

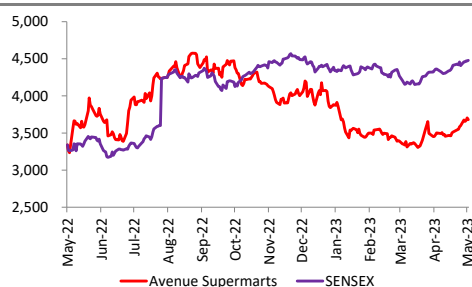
#### Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	4,28,396	5,14,748	6,40,521
PAT	23,783	28,904	36,874
EPS (Rs)	36.7	44.6	56.9
PE (x)	100.3	82.5	64.7
EV/EBITDA (x)	65.1	51.7	40.5
P/BV (x)	14.8	12.6	10.5
EV/Sales	5.5	4.6	3.7
RoE (%)	16.0	16.5	17.7
RoCE (%)	19.2	20.9	22.6
NWC (days)	22	23	22
Net gearing (x)	(0.1)	(0.1)	(0.1)

#### Shareholding Pattern (%)

	Mar 23	Dec 22	Sept 22
Promoter	74.9	75.0	75.0
-Pledged	-	-	-
FII	8.2	8.6	8.7
DII	7.5	7.1	7.0
Others	9.4	9.3	9.3

#### Stock Performance (1-year)



Avenue Supermarts (DMART) reported ~20% YoY revenue growth in 4QFY23, with LFL growth of 11% and 24% for 2H FY23 and FY23 respectively (for stores older than 24 months) and addition of 18 stores. Newer stores continue to impact overall throughput with a continued fall in 4-yr revenue CAGR to 19.7% (above 20% for last 5 quarters). EBITDA margins were down 100bps yoy to 7.6% led by a 90bps gross margin contraction to 13.4% as weaker general merchandise and apparel sales continue to impact margins. Other expenses rose 20bps which was partially offset by 10bps savings in employee costs. PAT came in line with our expectations at Rs 5.05bn, up 8% yoy. While the revenue per sq ft was up 3.1% yoy to Rs 30,857, it remains below the levels seen in 4QFY20 and 4QFY21. EBITDA per sq ft was also weak as expected with a fall of 9.5% yoy to Rs 2,335. Negative operating leverage, large size of newer stores and weak footfalls have all been impacting the revenue throughput and consequently margins. DMART opened 18 new stores during 4QFY23 (40 stores FY23), taking its total store count to 324, covering an area of 13.4mn sq ft.

We build in a revenue/EBITDA/PAT CAGR of 22%/27%/25% respectively led by addition of 45 and 49 stores in FY24 and FY25 with a 5% and 6% increase in revenue per sq ft coupled with a 60bps margin expansion over the period. Despite the weak earnings delivery in the recent past and expectations of a delayed recovery, we maintain our BUY rating as the stock has already witnessed a long time correction, a revenue recovery especially in the general merchandising category looks to be coming closer as inflation is subsiding and the structural opportunity in both the offline and online space remain strong. We marginally cut out price target to Rs 4,266 from Rs 4,334 earlier based on 75x FY25E earnings, implying 47x EV/EBITDA.

**Revenue growth 20% indicates weak throughput performance:** Standalone revenue growth of 20% YoY, (already disclosed in early April) reflects lower than pre-pandemic level footfalls, as inflation continues to impact demand especially in discretionary non-FMCG categories. LFL growth of 11% and 24% for 2H FY23 and FY23 respectively indicate that older stores are doing well while newer stores continue to remain a drag. While FMCG sales continue to benefit from the high inflation and thereby increased basket values, demand at lower price points for apparel and general merchandise continues to lag. Our calculated revenue per sq ft grew 3.5% YoY to Rs 30.9k but remains 2% below 4QFY20 levels. DMART's retail area grew 16.5% YoY to 13.4mn sqft in 4QFY23. The company opened 18 new stores during the quarter to take the store count to 324 stores. We have factored in 45 and 49 store additions for FY24E and FY25E, respectively, with the average store area slated to rise to 43.3k sq ft from 40.5k sq ft in FY20. We estimate 6.5% CAGR in sales per sq ft should translate into 22% CAGR in sales over FY23-25E.

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Investors are advised to refer disclosures made at the end of the research report.

**Disappointing margin performance on inferior product mix:** Gross margin contracted 93bps YoY to 13.4% (vs 14.3% in 4QFY20), given the inferior product mix due to soft performance in the value GM&A category. EBITDA grew 5.4% YoY, on 105bps decline in EBITDA margin to 7.6%, impacted by complete normalisation of other expenses and negative operating leverage especially from newer stores. EBITDA per sq ft declined 9.5% YoY to Rs 2,335 in 4QFY23 from Rs 2,581 in 4QFY22. Adjusted PAT grew 8.3% YoY to Rs 5bn. A combination of significantly higher store sizes of new stores, which take time to reach stable economics and a soft performance from the high-margin non-staples categories, where demand was impacted by weak footfalls amidst high inflation, impacted the EBITDA margin. We have built in 27% CAGR in EBITDA over FY23-25E, anticipating a gradual uptick in margins towards 9.1% in FY25E vs 8.5% in FY23.

**Update on DMart Ready and foray into pharmacy:** The Company continued its expansion in e-commerce operations in existing 22 cities and cumulatively added 10 new cities in FY23. The company has also piloted its entry into the pharmacy retail business via the shop-in-shop model at one of its stores, which could add another growth lever to the business and store throughput, if successful.

**Strong working capital cycle to be maintained:** DMART is unlikely to compromise on its working capital management. We expect the company to maintain its inventory cycle at 33-24 days and net working capital cycle at 23-24 days. The expected capex of Rs 63bn over FY24-25E would be funded through its operating cash flow of Rs70bn. We estimate RoE/RoCE of 17.7%/22.6% in FY25E respectively.

#### Exhibit 1: Estimates

(Rs mn)	New estimates		Old estimates		Variance	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	514,748	640,521	525,528	643,167	-2%	0%
EBITDA	45,813	58,287	47,321	59,200	-3%	-2%
EPS	44.6	56.9	48.1	60.3	-7%	-6%

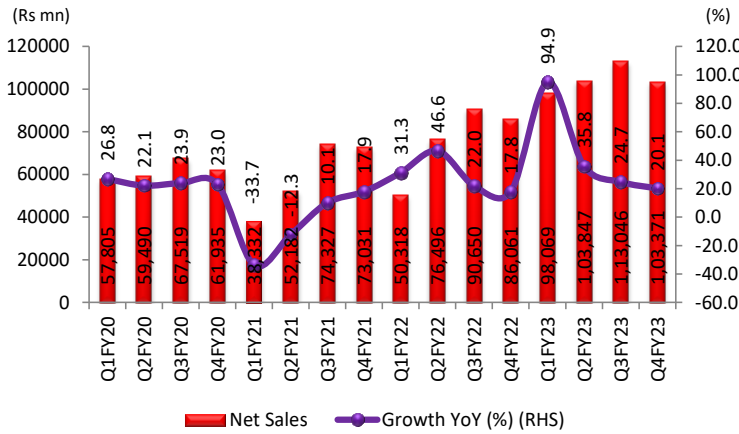
Source: Company, Systematix Institutional Research

#### Exhibit 2: Quarterly performance

YE March (Rs mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
<b>Net Revenues</b>	<b>103,371</b>	<b>86,061</b>	<b>113,046</b>	<b>20.1</b>	<b>(8.6)</b>
Purchase of traded goods	89,502	73,718	96,893	21.4	(7.6)
(% of sales)	86.6	85.7	85.7		
Employee cost	1,609	1,430	1,675	12.5	(3.9)
(% of sales)	1.6	1.7	1.5		
Others	4,439	3,493	4,733	27.1	(6.2)
(% of sales)	4.3	4.1	4.2		
<b>EBITDA</b>	<b>7,822</b>	<b>7,420</b>	<b>9,745</b>	<b>5.4</b>	<b>(19.7)</b>
<b>EBITDA margin (%)</b>	<b>7.6</b>	<b>8.6</b>	<b>8.6</b>	<b>(105)</b>	<b>(105)</b>
Other income	419	394	405	6.5	3.5
<b>PBIDT</b>	<b>8,241</b>	<b>7,813</b>	<b>10,150</b>	<b>5.5</b>	<b>(18.8)</b>
Depreciation	1,417	1,232	1,418	14.9	(0.1)
Interest	126	117	120	8.1	4.8
<b>PBT</b>	<b>6,698</b>	<b>6,464</b>	<b>8,612</b>	<b>3.6</b>	<b>(22.2)</b>
Tax	1,646	1,801	2,201	(8.6)	(25.2)
ETR (%)	24.6	27.9	25.6		
<b>Adjusted PAT</b>	<b>5,052</b>	<b>4,664</b>	<b>6,411</b>	<b>8.3</b>	<b>(21.2)</b>
PAT margin	4.9	5.4	5.7		
<b>Reported PAT</b>	<b>5,052</b>	<b>4,664</b>	<b>6,411</b>	<b>8.3</b>	<b>(21.2)</b>
No. of shares (mn)	648	648	648		
<b>Adj EPS (Rs)</b>	<b>7.8</b>	<b>7.2</b>	<b>9.9</b>	<b>8.3</b>	<b>(21.2)</b>

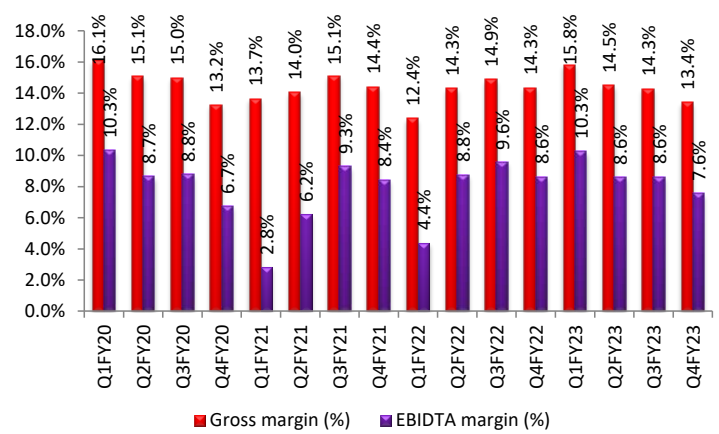
Source: Company, Systematix Institutional Research

Exhibit 3: Sales grew at 20% YoY



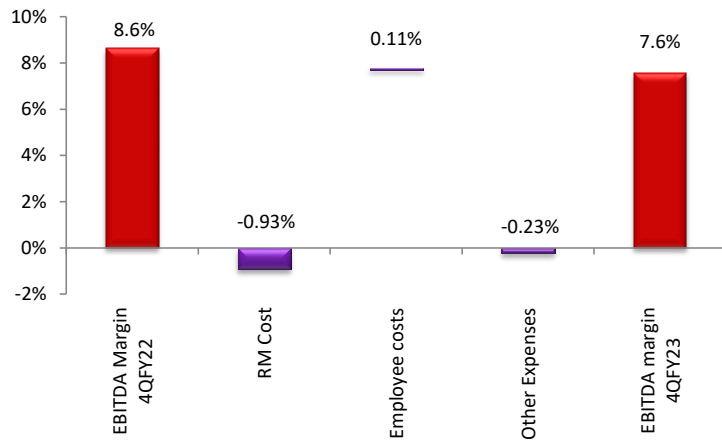
Source: Company, Systematix Institutional Research

Exhibit 4: Margins still below pre-pandemic levels



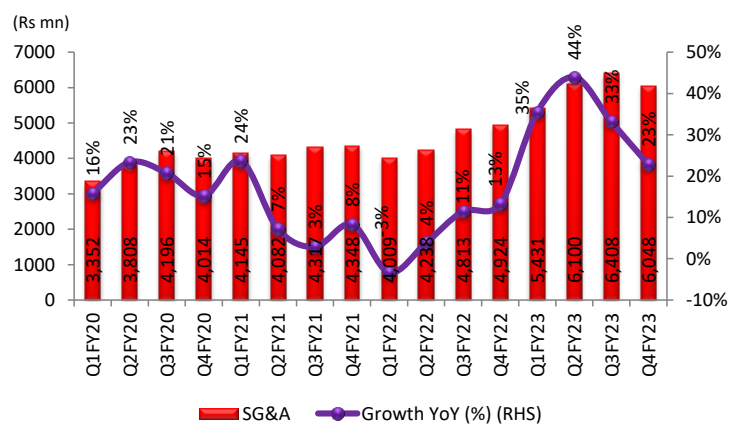
Source: Company, Systematix Institutional Research

Exhibit 5: Margins hit by inferior mix and higher other costs



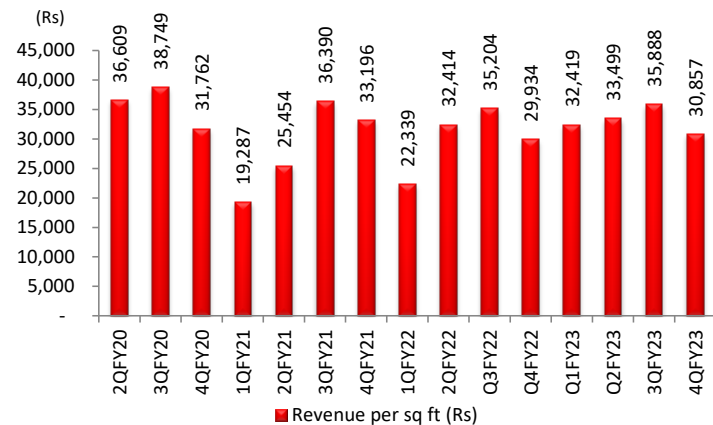
Source: Company, Systematix Institutional Research

Exhibit 6: SG&amp;A declining on QoQ basis, still high on YoY basis



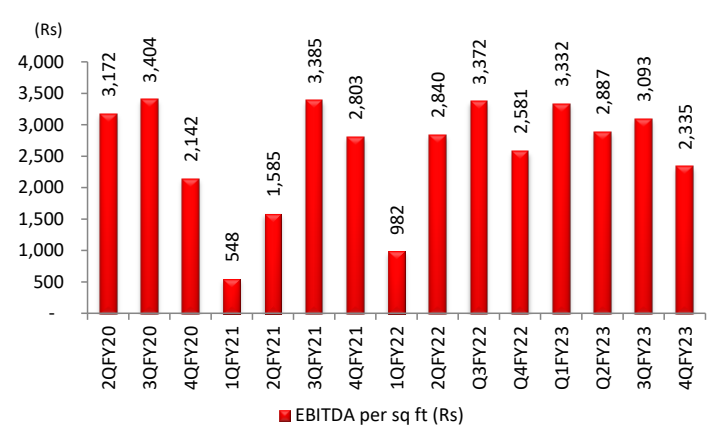
Source: Company, Systematix Institutional Research

Exhibit 7: Revenue per sq ft grew 3.5% YoY, and...

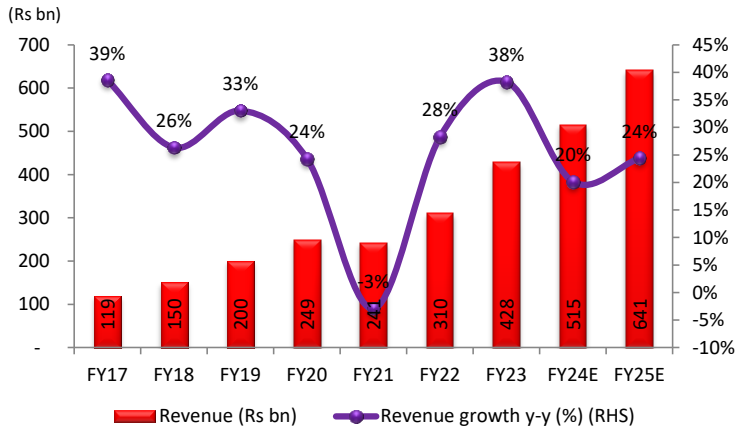


Source: Company, Systematix Institutional Research

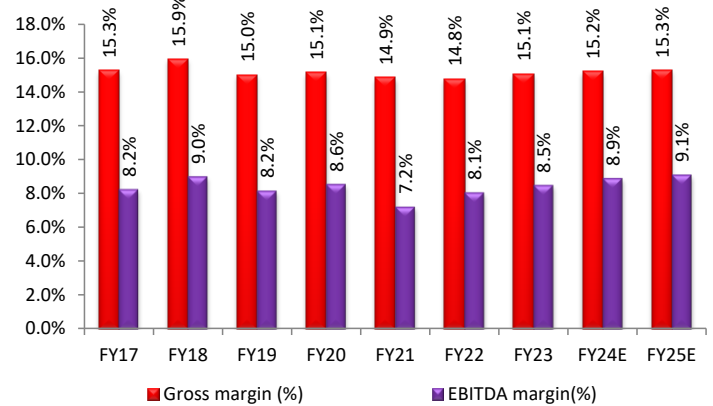
Exhibit 8: ...EBITDA per sq ft declined by 9% YoY in 4QFY23



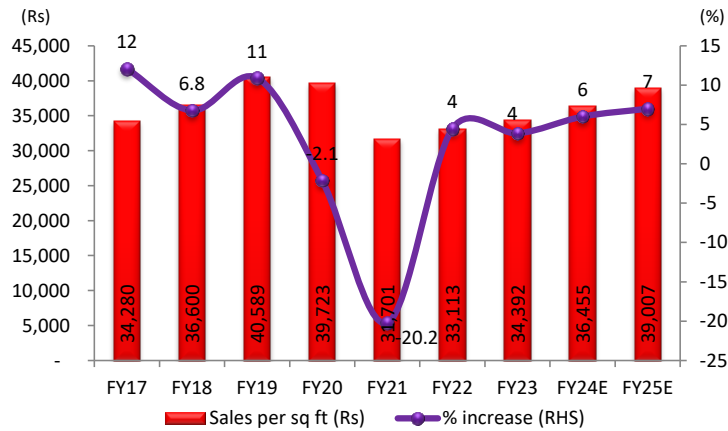
Source: Company, Systematix Institutional Research

**Exhibit 9: Revenue CAGR of 22% over FY23-25E...**

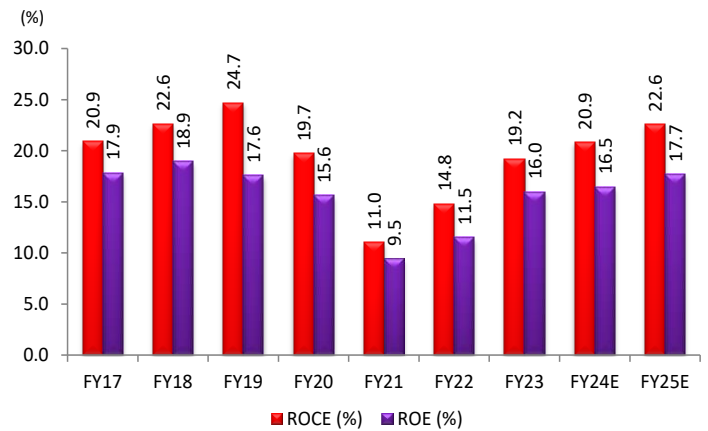
Source: Company, Systematix Institutional Research

**Exhibit 10: ...with gradually improving margins**

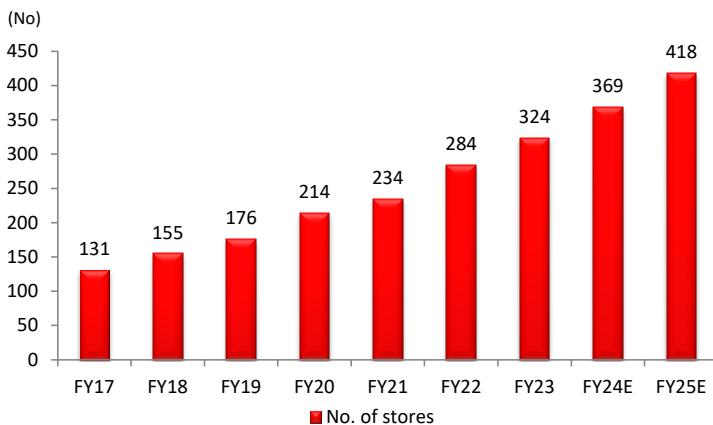
Source: Company, Systematix Institutional Research

**Exhibit 11: 6.5% CAGR in sales per sq ft over next 2 years**

Source: Company, Systematix Institutional Research

**Exhibit 12: RoE/RoCE at 17.7%/22.6% in FY25E**

Source: Company, Systematix Institutional Research

**Exhibit 13: Pace of store additions to accelerate**

Source: Company, Systematix Institutional Research

**Exhibit 14: Currently trades at 80x one-year forward P/E (x)**

Source: Bloomberg, Systematix Institutional Research

## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>2,41,431</b>	<b>3,09,763</b>	<b>4,28,396</b>	<b>5,14,748</b>	<b>6,40,521</b>
Purchase of trad. goods	2,08,556	2,68,918	3,68,848	4,43,198	5,50,848
RM costs/inventories	(3,009)	(4,944)	(5,008)	(6,692)	(8,327)
<b>Gross Profits</b>	<b>35,884</b>	<b>45,789</b>	<b>64,556</b>	<b>78,242</b>	<b>98,000</b>
Employee costs	5,366	6,162	7,470	8,236	10,248
Other expenses	13,088	14,642	20,716	24,193	29,464
<b>Total Expenses</b>	<b>2,24,000</b>	<b>2,84,778</b>	<b>3,92,025</b>	<b>4,68,935</b>	<b>5,82,234</b>
<b>EBITDA</b>	<b>17,431</b>	<b>24,985</b>	<b>36,370</b>	<b>45,813</b>	<b>58,287</b>
Depreciation	4,142	4,981	6,389	7,748	9,607
Other income	1,962	1,175	1,293	1,423	1,565
<b>EBIT</b>	<b>15,251</b>	<b>21,179</b>	<b>31,275</b>	<b>39,487</b>	<b>50,245</b>
Interest cost	417	538	674	742	816
<b>PBT</b>	<b>14,835</b>	<b>20,641</b>	<b>30,601</b>	<b>38,746</b>	<b>49,430</b>
Taxes	3,840	5,717	6,818	9,841	12,555
<b>Adj. PAT</b>	<b>10,994</b>	<b>14,924</b>	<b>23,783</b>	<b>28,904</b>	<b>36,874</b>
Extraordinaries	-	-	-	-	-
<b>Reported PAT</b>	<b>10,994</b>	<b>14,924</b>	<b>23,783</b>	<b>28,904</b>	<b>36,874</b>
No. of shares (mn)	648	648	648	648	648
<b>Adj. EPS</b>	<b>17.0</b>	<b>23.0</b>	<b>36.7</b>	<b>44.6</b>	<b>56.9</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>PBT</b>	<b>14,835</b>	<b>20,641</b>	<b>30,601</b>	<b>38,746</b>	<b>49,430</b>
Add: Depreciation	4,142	4,981	6,389	7,748	9,607
Add: Interest	(1,546)	(637)	674	(681)	(749)
Less: taxes paid	(2,616)	(5,603)	(7,089)	(9,841)	(12,555)
Add: other adjustments	208	166	(1,073)	2,266	1
Less: WC changes	(1,271)	(5,825)	(3,199)	(6,263)	(7,774)
<b>Total OCF</b>	<b>13,751</b>	<b>13,724</b>	<b>26,303</b>	<b>31,974</b>	<b>37,959</b>
OCF w/o WC changes	15,023	19,548	29,502	38,237	45,733
Capital expenditure	(20,294)	(24,104)	(22,065)	(28,742)	(34,427)
Change in investments	9,194	11,209	(1,874)	-	-
Interest/Dividend received	-	-	808	-	-
<b>Total ICF</b>	<b>(11,100)</b>	<b>(12,895)</b>	<b>(23,131)</b>	<b>(28,742)</b>	<b>(34,427)</b>
Free Cash Flows	(6,543)	(10,381)	4,238	3,231	3,532
Share issuances	-	-	155	-	-
Change in borrowings	(377)	-	-	-	-
Dividends	-	-	-	-	-
Interest payment	(61)	(16)	(10)	681	749
Others	(1,357)	(1,777)	(2,196)	(1,000)	(999)
<b>Total FCF</b>	<b>(1,795)</b>	<b>(1,792)</b>	<b>(2,051)</b>	<b>(319)</b>	<b>(250)</b>
<b>Net change in cash</b>	<b>856</b>	<b>(964)</b>	<b>1,120</b>	<b>2,912</b>	<b>3,282</b>
Opening cash & CE	1,059	1,915	2,986	14,083	16,996
Closing cash & CE	1,915	951	14,083	16,996	20,278

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	6,478	6,478	6,483	6,483	6,483
Reserves and surplus	1,15,359	1,30,299	1,54,304	1,83,210	2,20,087
<b>Total Equity</b>	<b>1,21,841</b>	<b>1,36,779</b>	<b>1,60,788</b>	<b>1,89,692</b>	<b>2,26,569</b>
Total Debt	-	-	-	-	-
Other long term liabilities	4,468	7,163	7,268	7,268	7,268
<b>Total Liabilities</b>	<b>1,26,309</b>	<b>1,43,941</b>	<b>1,68,056</b>	<b>1,96,960</b>	<b>2,33,837</b>
Net Block	59,385	77,705	97,256	1,14,375	1,39,195
Right to Use assets	9,602	13,887	15,049	17,658	18,659
Other assets	16,765	17,413	5,982	5,982	5,982
CWIP/Other Assets	10,196	11,293	8,292	8,292	8,292
Investments	30	59	2,022	2,022	2,022
Cash	14,456	2,986	14,083	16,996	20,278
Inventories	22,483	27,427	32,435	40,070	49,803
Debtors	436	669	622	747	929
Loans & Advances	3,207	3,288	5,322	6,395	7,958
<b>Current Assets</b>	<b>26,126</b>	<b>31,383</b>	<b>38,379</b>	<b>47,212</b>	<b>58,690</b>
Creditors	5,781	5,892	7,538	9,057	11,257
Other Current Liabilities	4,469	4,893	5,469	6,520	8,023
Current Liabilities	10,251	10,785	13,007	15,577	19,281
Net Working Capital	15,875	20,598	25,372	31,635	39,409
<b>Total Assets</b>	<b>1,26,309</b>	<b>1,43,941</b>	<b>1,68,056</b>	<b>1,96,960</b>	<b>2,33,837</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yoy growth in Revenue	(2.9)	28.3	38.3	20.2	24.4
Yoy growth in EBITDA	(18.1)	43.3	45.6	26.0	27.2
Yoy growth in Net income	(15.5)	35.7	59.4	21.5	27.6
Effective tax rate	25.9	27.7	25.4	25.4	25.4
EBITDA margin	7.2	8.1	8.5	8.9	9.1
PAT margin	4.6	4.8	5.6	5.6	5.8
RoCE	11.0	14.8	19.2	20.9	22.6
RoE	9.5	11.5	16.0	16.5	17.7
Net debt to equity (x)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Inventory days	39	37	32	33	33
Loans & Advances days	5	4	5	5	5
Payable days	10	8	7	7	7
NWC days	26	26	22	23	22
<b>Per share numbers (Rs)</b>					
Reported earnings	17.0	23.0	36.7	44.6	56.9
Dividend	-	-	-	-	-
Free cash	(10.1)	(16.0)	6.5	5.0	5.4
Book Value	188.1	211.1	248.0	292.6	349.5
<b>Valuations (x)</b>					
Price to diluted earnings	216.8	159.7	100.3	82.5	64.7
EV / EBITDA	135.9	95.3	65.1	51.7	40.5
Price to sales	9.9	7.7	5.6	4.6	3.7

Source: Company, Systematix Institutional Research

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