

## Avenue Supermarts

14 May 2023

### 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

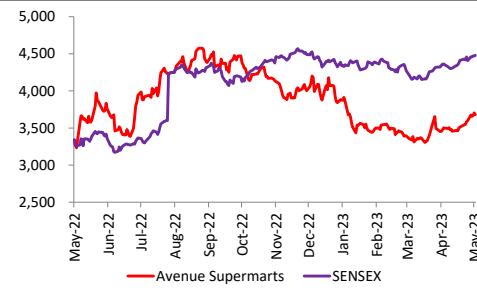
#### Financial Snapshot (Rs mn)

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)



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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 33-34 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

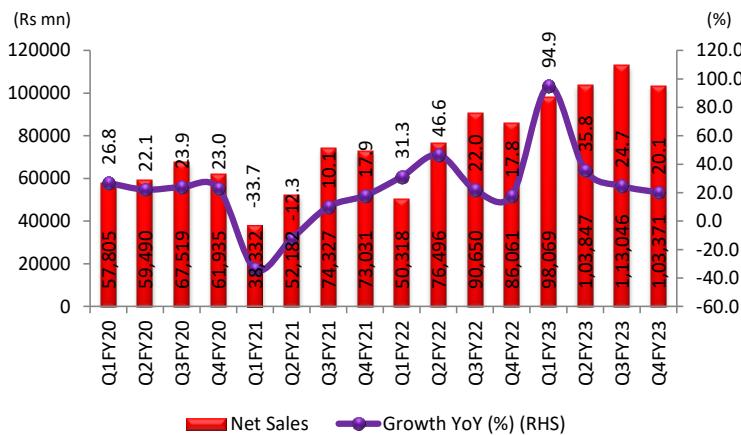
(Rs mn)	New estimates		Old estimates		Variance	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	514,748	640,521	525,528	643,167	-2%	0%
EBITDA	45,813	58,287	47,321	59,200	-3%	-2%
EPS	44.6	56.9	48.1	60.3	-7%	-6%

Source: Company, Systematix Institutional Research

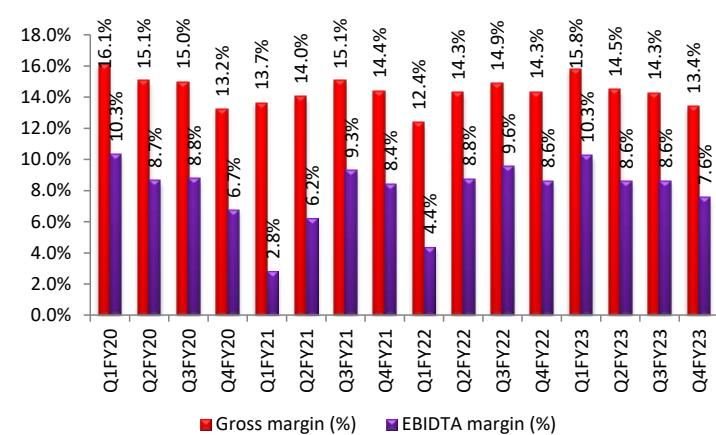
#### Exhibit 2: Quarterly performance

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>

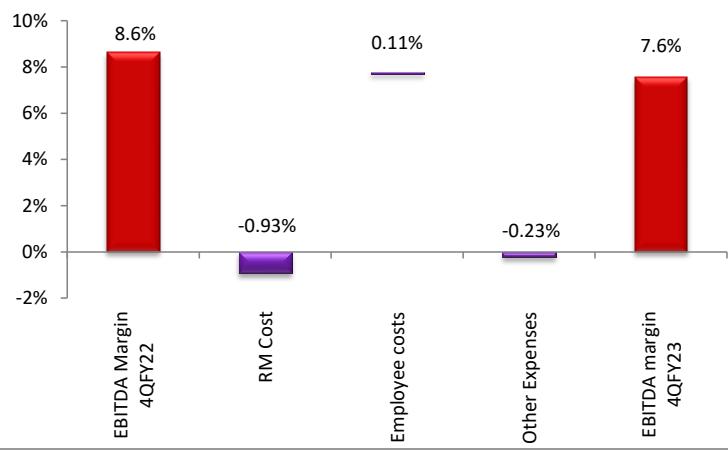
Source: Company, Systematix Institutional Research

**Exhibit 3: Sales grew at 20% YoY**

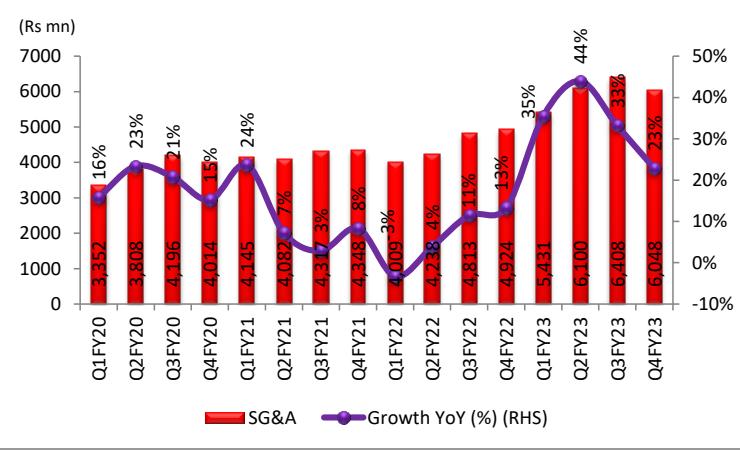
Source: Company, Systematix Institutional Research

**Exhibit 4: Margins still below pre-pandemic levels**

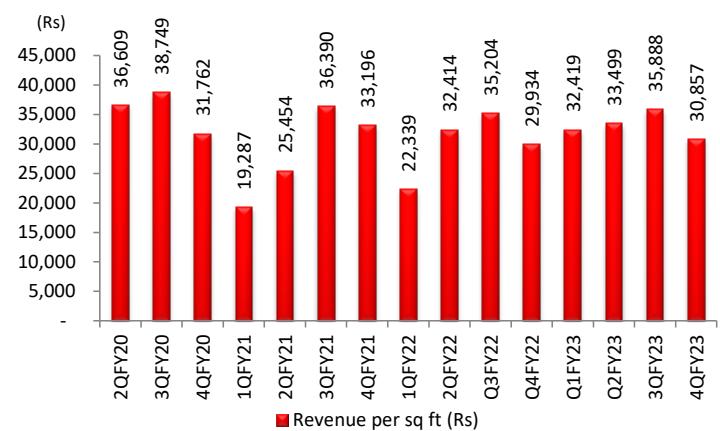
Source: Company, Systematix Institutional Research

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

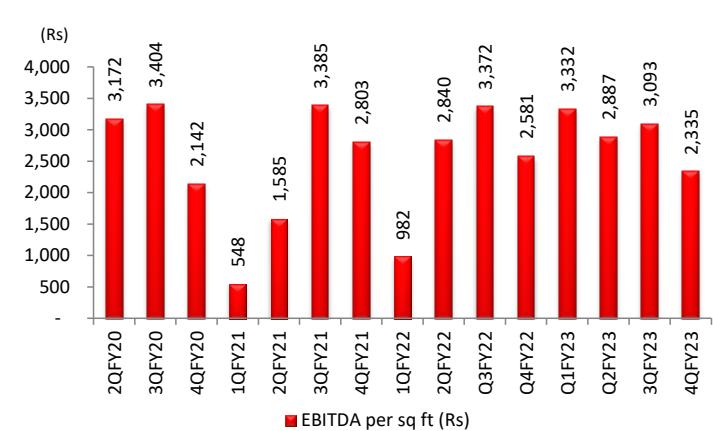
Source: Company, Systematix Institutional Research

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

Source: Company, Systematix Institutional Research

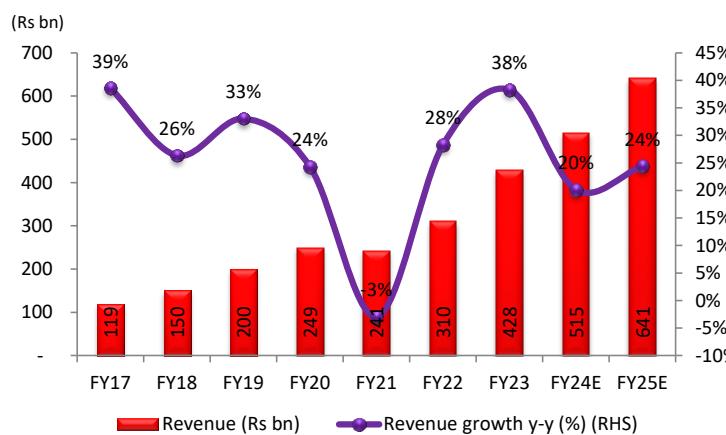
**Exhibit 7: Revenue per sq ft grew 3.5% YoY, and...**

Source: Company, Systematix Institutional Research

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

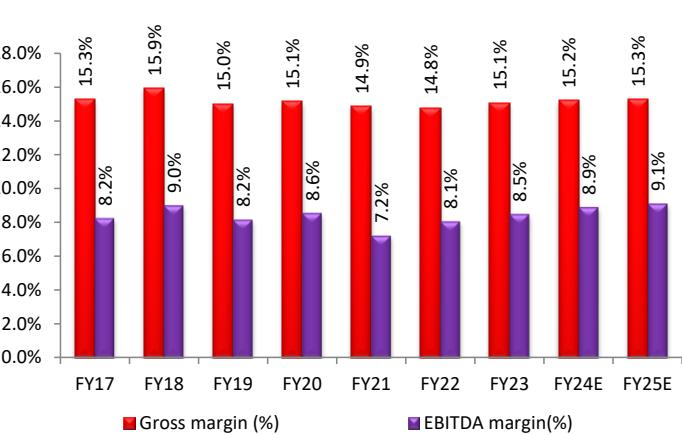
Source: Company, Systematix Institutional Research

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



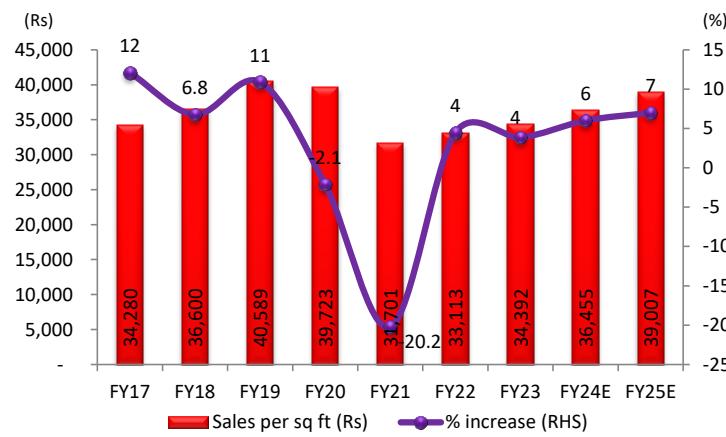
Source: Company, Systematix Institutional Research

Exhibit 10: ...with gradually improving margins



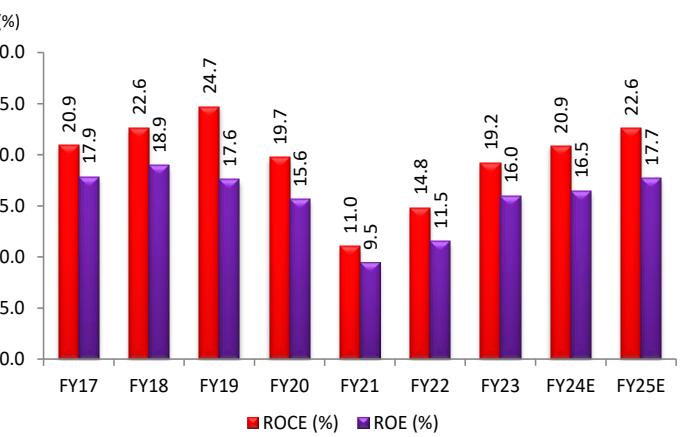
Source: Company, Systematix Institutional Research

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



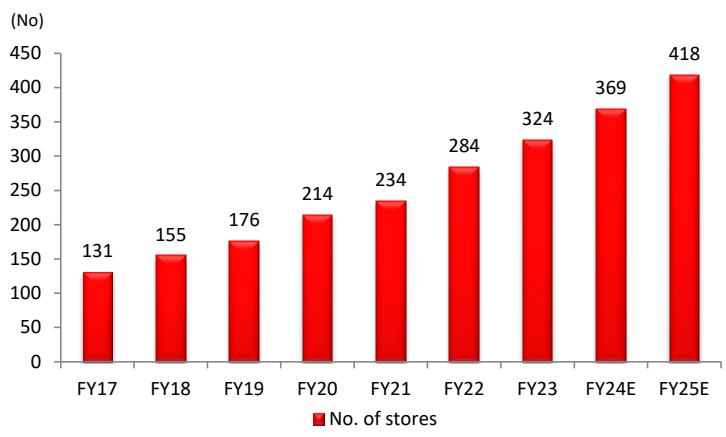
Source: Company, Systematix Institutional Research

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



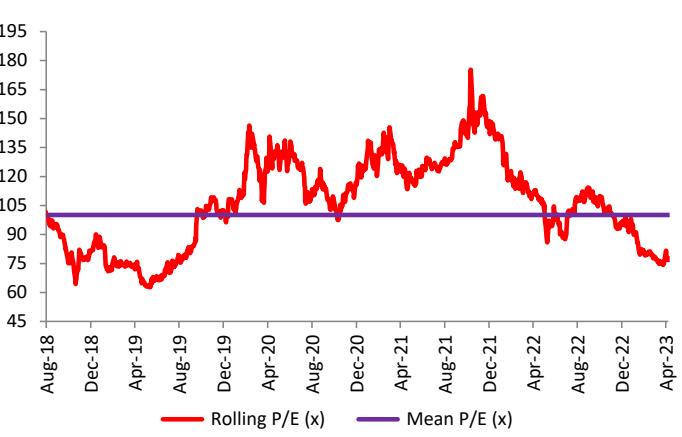
Source: Company, Systematix Institutional Research

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 & 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

### 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

### 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
<b>Closing cash &amp; CE</b>	<b>1,915</b>	<b>951</b>	<b>14,083</b>	<b>16,996</b>	<b>20,278</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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## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

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