

AVENUE SUPERMARTS

New Frontiers: Losing tenacity?

India Equity Research | Retail

Avenue Supermarts (DMart) has held on to its lowest cost retailer USP despite onslaught of online and offline players. The company has achieved this by sticking to its everyday low price (EDLP) strategy—a typical consumer basket is ~10% cheaper than the most expensive seller in our sample space. However, this has come at the cost of 170bps gross margin compression from the peak in Q3FY18. In this note, we also delineate our channel checks at six DMart Ready stores, delve in to store-level economics and present our inferences on the format. In light of increased aggression from offline retail giant as well as Big Basket, entry of Flipkart's SuperMart, Amazon Pantry and pressure on gross margins, we maintain 'REDUCE' with target price of INR1,300.

Standing true to lowest price claim; margin under pressure

We compared DMart Ready's prices with peers in the online retail space for a basket of 27 essential household products and found that 52% are the cheapest at DMart. Also, we conclude that on an aggregate, a typical consumer basket at DMart comes at a ~10% discount (excluding credit card offers) to the most expensive seller. However, with heightening competition, DMart's gross margin has come under pressure (180/170bps dip in Q2FY19/Q3FY19). Further, we believe, the company has optimised its cost items and hence, we see limited scope for margin expansion.

DMart Ready: Volumes to drive profitability

Based on our analysis (channel checks across six stores in Mumbai), we infer that a typical DMart Ready outlet is likely to achieve breakeven if it clocks an order rate of 16 or more per day with a basket value of INR1,500. We also infer that stores which receive 10 or less orders per day for a basket size ranging from INR1,000-1,800 are likely to post negative EBITDA margin.

Outlook and valuation: Valuation a hitch; maintain 'REDUCE'

DMart is a strong play on the retail sector's transition from the unorganised to organised segment. However, in light of margin pressure and rising competitive landscape, we maintain 'REDUCE/SU' with TP of INR1,300 (35x 12-month forward EV/EBITDA). At CMP, the stock trades at 33.8x FY21E EBITDA.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	118,977	150,332	191,290	240,783
Rev. growth (%)	38.6	26.4	27.2	25.9
EBITDA (INR mn)	9,812	13,528	16,523	21,421
Adjusted Profit (INR mn)	4,788	8,063	9,568	12,545
Shares outstanding (mn)	624	624	624	624
Diluted EPS (INR)	8.5	12.9	15.3	20.1
Enterprise Value / EBITDA (x)	67.3	55.1	42.4	33.8
ROAE (%)	17.9	18.9	18.6	20.1

EDELWEISS 4D RATINGS	
Absolute Rating	REDUCE
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: AVEU BO, B: DMART IN)

CMP	: INR 1,465
Target Price	: INR 1,300
52-week range (INR)	: 1,699 / 1,126
Share in issue (mn)	: 624.1
M cap (INR bn/USD mn)	: 915 / 13,236
Avg. Daily Vol.BSE/NSE('000)	: 782.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	81.2	81.2	81.2
MF's, FI's & BK's	3.1	3.1	3.0
FII's	5.9	5.9	5.5
Others	9.8	9.8	10.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	1.1	6.2	6.8
3 months	(8.8)	6.5	(1.2)
12 months	13.9	12.8	(6.0)

Alok Shah

+91 22 6620 3040
alok.shah@edelweissfin.com

Abneesh Roy

+91 22 6620 3141
abneesh.roy@edelweissfin.com

Prateek Barsagade

+91 22 4063 5407
prateek.barsagade@edelweissfin.com

April 15, 2019

Standing true to its lowest price claim; others catching up

One of DMart's key strategic pillars has been focus on meeting consumers' demand at the lowest price throughout the year. The company's EDLP strategy has not just helped it tap a huge population that earlier shopped in the unorganised segment, but also provided the business a loyal customer base. Despite other players' aggression in the organised retail segment (both online as well as offline), product assortment and competitive pricing have helped DMart successfully defend its turf. We compared DMart Ready's prices with peers in the online retail space for a basket of 27 products essential for a household.

Table 1: Price comparison table – DMart dominates pricing

Products	SKU	DMart Ready	RelianceSMART.in	Big Basket	Amazon Pantry	Easy Day	Cheapest
Staples							
Aashirvaad Atta - Whole Wheat	10 kg	355	339	365	388	344	RelianceSMART.in
Rice (Kolam - Private Label)	5 kg	286	260	338	379	310	RelianceSMART.in
Rice (India Gate - Rozaana Basmati)	1 kg	91	72	86	79	88	RelianceSMART.in
Tur Dal (Basic - Private Label)	1 kg	90	160	92	97	99	DMart Ready
Moong Dal (Basic - Private Label)	1 kg	99	90	99	97	110	RelianceSMART.in
Fortune Sunlite Refined Sunflower Oil	1 L	99	99	104	90	112	Amazon Pantry
Tata Salt	1 kg	17	17	18	17	19	DMart Ready
Sugar (Basic - Private Label/Basic)	1 kg	42	47	45	41	36	Easy Day
Sub Total		1,079	1,084	1,147	1,188	1,118	DMart Ready
Personal and home care							
Santoor Sandal and Turmeric Soap	150 gms	37	45	37	NA	45	DMart Ready
Lux Soap Rose	150 gms	31	40	36	31	37	DMart Ready
Dove Shampoo - Daily Shine	340 ml	180	250	168	210	210	Big Basket
Parachute Coconut Oil - Advansed	175 ml	89	95	95	95	85	Easy Day
Colgate Active Salt Toothpaste	100 gm	38	49	49	49	55	DMart Ready
Tide Plus	1 kg	95	102	90	102	102	Big Basket
Surf Excel Matic Top Load	1 kg	210	225	225	225	235	DMart Ready
Vim Dishwash Bar	125 gms	9	14	9	14	10	DMart Ready
Harpic Power Plus	500 ml	76	82	80	74	NA	Amazon Pantry
Sub Total		764	902	788	800	779	DMart Ready
Discretionary							
Haldiram Aloo Bhujia	150 gms	31	35	35	34	44	DMart Ready
Cadbury Bournvita	500 gms	185	204	198	191	217	DMart Ready
Britannia Good Day Cashew Cookies	200 gms	33	40	34	34	30	Easy Day
Tropicana Mixed Fruit Delight	1 L	59	100	81	NA	99	DMart Ready
Amul Butter	100 gms	43	46	45	NA	46	DMart Ready
Gowardhan Paneer	200 gms	65	85	74	NA	NA	DMart Ready
Maggi Tomato Ketchup	500 gms	91	100	95	83	97	Amazon Pantry
Maggi Masala Noodles	70 gms	11	12	12	9	12	Amazon Pantry
Brooke Bond Red Label	500 gms	195	215	209	205	215	DMart Ready
Nescafe Classic	100 gms	245	275	267	250	275	DMart Ready
Sub Total		958	1,112	1,049	807	1,035	DMart Ready
Total		2,801	3,097	2,984	2,794	2,932	DMart Ready

Source: Edelweiss research

Our finding—DMart continues to be the leader in terms of pricing across staples, personal & home care and discretionary items – we are not factoring in credit card linked offers / promos run by different online / offline retailers.

- Of the 27 products, only 52% are the cheapest at DMart (14 items), followed by 15% at Reliance SMART (4 items).
- Compared to peers, the staples basket at DMart costs ~9% less, personal & home care costs ~15% less and discretionary items are ~14% cheaper than the most expensive platform in our sample space in the respective sub-categories.

On an aggregate, a typical consumer basket at DMart comes at a ~10% discount to the most expensive seller. Moreover, among the 27 items, we found that offline businesses (like DMart) sell products at cheaper rates compared to online platforms such as Big Basket and Amazon Pantry. We believe, though competition from online players persists, its intensity has moderated in comparison to earlier quarters. **Additionally, while we perceive the new rules pertaining to FDI in e-commerce to be sentimentally positive for offline retailers – it seems online players have adjusted themselves to the change in regulations and thus have aligned their operational structure accordingly.**

We also compared DMart with Big Basket in terms of choices and product variety. We sampled the two platforms across essential categories to compare the listing count for different categories and the number of companies covered (we have considered the company count and not brand count).

DMart’s core strategy is to offer limited SKUs and brands which are high selling for them which helps them achieve higher inventory turns for a selected product assortment thereby enables it to manage its working capital and provide discounts throughout the year. Big Basket, on the other hand, has a wider offering across categories.

Table 2: Listing comparison – Big Basket offering a wider variety

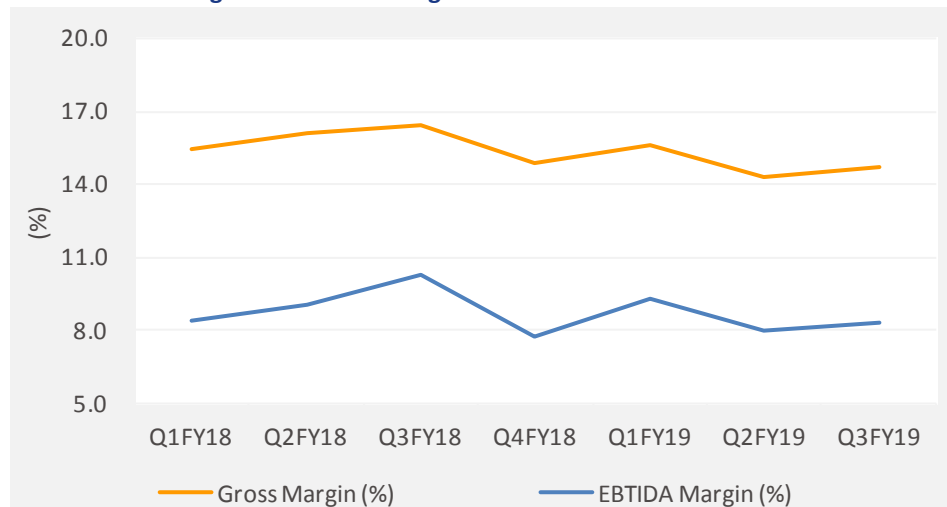
Product	D-Mart		Big Basket	
	Listing	Companies covered	Listing	Brands covered
Atta (Wheat/Multi-grain)	6	3	114	10+
Edible Oil	60	18	316	20+
Soap	53	13	700+	15+
Rice	50	8	209	10+
Paneer	3	2	24	10+
Shampoo	45	11	698	20+
Detergents	49	9	113	12
Biscuits	70	12	346	15+

Source: Company, Edelweiss research

Limited headroom to build additional cost efficiencies

Given the intense competition from Reliance Retail, Big Bazaar, Big Basket, etc., DMart’s gross margin has been under pressure as it continues to follow the EDLP strategy. **Management has reiterated its stance on pricing and we believe the business will continue to do so in the foreseeable future.**

However, the crucial piece will be pressure on gross margin—the company’s EBITDA margin moves in tandem with gross margin. In Q3FY19, DMart’s gross profit and EBITDA grew ~19% and ~7.5% YoY respectively, despite revenue jumping ~33% YoY, indicating that focus on EDLP was leading to margin erosion. We believe, DMart has already optimised its other operating costs, leaving limited headroom for EBITDA margin expansion through productivity gains (refer to Fig. 1).

Chart 1: Gross margin and EBITDA margin move in tandem for DMart

Source: Company, Edelweiss research

Comparing margins of other retailers: Domestic and global

DMart's finger on consumers' pulse and its ability to adapt to changing demands have worked in its favour. It continues to provide essential items to patrons at cheaper rates and the company has not altered its product mix drastically.

Additionally, its bargaining power with suppliers is known to be unparalleled, not just for commercial terms, but also in terms of SKU sizing. DMart has worked with leading suppliers to provide them with SKUs of products having a different grammage/volume, depending on what they feel will resonate with their customers. Some of the SKUs are available exclusively at DMart, which also wins the company a loyal customer base. Also, it passes on benefits of favourable commercial terms to consumers, which squeezes its margin, but boosts SSSG.

Additionally, DMart has maintained consistency in availability of products. Globally too, successful retailers stick to their proven product mix rather than experimenting with new offerings or changing it.

Table 3: Revenue mix for Walmart US—Fairly stable over the past years

Walmart US - Revenue Mix (%)	2016	2017	2018
Grocery	56	56	56
Health and wellness	11	11	11
General merchandise	33	33	33
Dmart - Revenue Mix (%)			
	2016	2017	2018
Foods	53	53	52
Non-Foods (FMCG)	21	20	20
General Merchandise & Apparel	26	27	28

Source: Company, Edelweiss research

Table 4: DMart's performance has been superior to global peers

FY18	India (INR mn)			US (USD mn)		Europe (GBP mn)
	DMart	Spencers	FRL	Walmart US	Kroger	Tesco (UK and ROI)
Revenue	150,332	20,910	184,780	318,477	122,662	44,908
EBITDA	13,528	17	8,323	17,869	4,521	1,053
EBITDA Margin (%)	9.00	0.08	4.50	5.61	3.69	2.34
EBITDAR Margin (%)	9.33	NA	12.11	NA	4.43	NA
No. of stores	155	128	1,035	4,761	2,782	NA
Retail Area (mn sq. ft)	4.9	1.2	14.4	7.0	NA	NA
SSSG (%)	14.2	NA	6.0	2.1	1.9	NA
Revenue per 1000 sq. ft	30.7	17.7	12.8	45.2	-	-
EBITDA per 1000 sq. ft.	2.8	0.0	0.6	2.5	-	-
Revenue per store	969.9	163.4	178.5	66.9	-	-
EBITDA per store	87.3	0.1	8.0	3.8	-	-

Source: Company, Edelweiss research

Note: Financials as on: Walmart - 1 year ending 31 Jan 2018; Tesco - 24 Feb 2018; Kroger - 3 Feb 2018

Compared to global peers as well, DMart leads in terms of EBITDA margin and per store metrics—its EBITDA margin (9.0%) is higher than Walmart (5.6%) and Tesco (2.3%). Similarly, it posted better margin than Spencer's and FRL owing to its strict cost efficiencies. Thus, current levels of EBITDA margins while is amongst the finest, scope of further improvement from hereon might be difficult.

Big Basket giving offline retailers a hard time

While DMart has proven itself in the offline market, Big Basket has positioned itself well in the online ordering segment. **Our channel checks indicate that off take of fresh category products such as fruits, vegetables, etc., is very low in DMart's Ready format. Big Basket, on the other hand, has been performing well in this category owing to its focus on advertising & marketing.** Additionally, Big Basket has its own private brand 'Fresho' under which it sells fruits, vegetables, frozen meat, bread and various other eatables. In addition, it has launched a private brand in the health segment, offering gluten-free snacks, nutrition bars, etc.

Moreover, Big Basket partners with various banks to offer discounts/cash backs to shoppers, which we did not find on DMart Ready's website. This is critical as customers are always scouting for discounts and cashbacks when shopping online. Big Basket has also launched 'bb Star' membership for customers, wherein customers can become members for INR299 for six months (post offer, original price INR599 for six months), which gives them the benefit of free delivery, priority access to delivery slots and a cumulative INR300 cashback - as INR100 cash back on first three orders - in the first three months.

We believe, Big Basket's aggressive marketing of its fresh category and partnerships are likely to take a toll on DMart's online delivery market share. Similarly, the feedback we received during our channel checks was that the DMart Ready format's marketing focus needs to sharpen.

Table 5: Payment linked offers available on Big Basket

Big Basket Tie-ups	
Bank/Platform	Benefits
HSBC Credit Card	10% discount on a minimum purchase of INR1500
DBS	Cashback of INR200 per month per Debit Card
Standard Chartered	BB giftcard of INR500 on shopping of INR5000
Paytm	Cashback of INR50 on a minimum purchase of INR1000
Citi	20% cashback on a minium transaction of INR2000
ICICI Bank	20% off on a minimum of INR500
Kotak Mahindra Bank	10% instant discount on minimum transaction on INR1500
HDFC Debit Card	5% cashback on a minium transaction of INR1500

Source: Company, Edelweiss research

We believe that Big Basket’s aggressive stance towards marketing their fresh category and partnerships is likely to cost DMart in terms of the online delivery market share. Similarly, we also got the feedback during our channel checks that the marketing focus for D-Mart Ready format needs to increase.

Fig.1: Offers and Promotions on Big Basket

Freshly baked breads
Brown/White/Multigrain breads
400 gms @ flat ₹15
200 gms @ flat ₹10

Quick Energy Bites by Goodnet
Nutrition Bar & Breakfast Cereals
Starts @ ₹15

Roasted & Gluten free Snacks
Starts @ ₹69

Popular Brands

- Wide Range: **PATANJALI**
- Up to 15% Off: **aer**
- Up to 25% Off: **OLAY**
- Up to 10% Off: **durex**
- Up to 15% Off: **Cadbury**
- Up to 30% Off: **NIVEA**

b star
Save ₹1500
on your Monthly Groceries
paytm Exclusive | **Get ₹200 Cashback**

Source: Company, Edelweiss research

Evaluating store-level economics for DMart Ready

With online shopping gaining prominence, D-Mart has started its own answer to online shopping – DMart Ready. This format will not only compete with established players but also help consumers skip long waiting queues at stores. We understand that till now the company opened >150 DMart Ready outlets across Mumbai.

In order to understand on ground how D-Mart Ready stores are faring, we visited various DMart Ready stores (covered 6 stores in all) in our vicinity to gauge demand, understand its economics and to take a look-and-feel of the store. Key takeaways are:

- Staples is the most commonly ordered category – Dal, rice, edible oil, atta, biscuits and detergents (packaged goods) are the most commonly ordered products.
- Response to fresh is weak with orders containing fruits and vegetables being rare.
- Order frequency in a day and the basket value differed for each store; we have mentioned the same in the table below
- Mom and pop store owners too order frequently from DMart and collect from Ready outlets. They comprise ~20-25% of DMart Ready orders and ~30-35% of value in few of the stores. Shopkeepers typically place large orders, but less than INR10,000 due to the pre-payment requirement. Non-food was the most ordered category by shopkeepers.
- In terms of SKUs, there was not any preferred size/SKU.
- All the Ready stores also sell milk (Govardhan and Prabhat) and dahi (Govardhan yogurt) and have proper refrigeration. Milk and dahi can be bought directly at DMart ready store without having to pre-order.
- Key reasons for selling milk and dahi are their fast-moving nature, high demand and option of returning unsold products.
- We believe, DMart Ready could increase its on-point sales of dairy products if it starts selling those products from early in the morning at around 8-9 a.m. compared to current 12 p.m. as Indian consumers usually buy milk in the morning.
- Some stores also sell non-perishable, low maintenance products such as water bottles, tiffins and other plastic ware. These can be directly bought at store again without having to pre-order.

- We also saw samples of products such as dal, rice, etc., wherein DMart has private label presence, being kept in bottles on shelves for customer sampling. This, we believe, could have been done in a better way as the current approach appeared crude and non-incentivising for customers.
- On an average, we found two-three employees manning DMart Ready stores.
- Orders are shipped directly from the DMart distribution facility/warehouse located in Kanjunmarg to DMart Ready stores.
- DMart Ready stores are only pick-up points; they do not provide delivery service.
- Delivery orders are directly serviced from the distribution facility to the end point.
- The company as of now charges a fixed fee of INR49 for orders ranging from INR1,000-1,600 (INR1,000 minimum threshold). Above INR1600, it charges 3% of the order to the customer.
- We believe, DMart is losing out to players such as Big Basket which does not have any minimum threshold for placing orders.
- Additionally, we got mixed response in terms of advertising for DMart Ready. On the other hand, Big Basket has been ahead in terms of advertising and particularly towards promoting the fresh category (fruits and vegetables; advertisement shows bollywood star Shahrukh Khan eating an apple, etc).
- Employees are well trained and courteous towards customers.

Table 6: Channel check insights

Store	D-Mart retail		
	outlet nearby	Orders per day	Avg. basket size (INR)
Store 1	N	30-35	1500-1800
Store 2	N	4-5	1000-1200
Store 3	N	12-14	1000
Store 4	N	35-45	1300-1500
Store 5	Y	12-15	3000-4000
Store 6	Y	4-5	1000

Source: Edelweiss research

(a) Estimating the EBITDA margin:

Based on our above study, we have estimated the base case EBITDA and EBITDA margin for an average DMart ready store.

We have assumed an average 15 orders per day with a basket size of INR1,500. Our analysis yields a negative EBITDA of INR42,000, with a margin of (0.5%), for an average DMart Ready store for the full year. Like any retailer where leverage play is important, so is the case with even DMart Ready store – a 12.5% cut in fixed cost leads to EBITDA turning positive with the margin growing to 1.2% of the sales.

While DMart as an entity has always been judicious in managing costs, it will need to do so more in DMart Ready given the margin sensitivity. However, with robust order volumes, the business model can deliver healthy operating leverage benefits.

Table 7: Break even seems challenging for a typical DMart Ready store

D-Mart Ready Store	(INR)
Revenue	8,100,000
COGS	7,047,000
Gross Profit	1,053,000
Employee Cost	648,000
Ad spends for D-Mart Ready	36,000
Utilities	36,000
Rent	375,000
Operating expenses	1,095,000
EBITDA	(42,000)
EBITDA Margin (%)	(0.5)

Source: Edelweiss research

(b) Estimating the break even under different scenarios:

We have tried to estimate the variables at play—the order frequency (volume) and order size—for a DMart Ready store to breakeven on an annual basis. Retaining the same assumptions towards fixed cost components such as employee cost, rentals, ad spend and marketing costs (assumed ~0.45% of annual sales and apportioned per store) and utilities for the store, we have undertaken our scenario analysis which will offer an understanding of at what orders per day and order size can a Ready Store achieve break-even.

Table 8: Store-level cost assumptions

Assumptions	Monthly (INR)	Per store	Annual (INR/%)
Gross Margin (A)			13%
Employee Cost (B)	18,000	3	648,000
Utilities and miscellaneous (C)	3,000	1	36,000
Rent expense (D)	31,250	1	375,000
Ad spends for D-Mart Ready	3,000		36,000
Area (sq ft)	250		
Rent Per sq ft	125		

Source: Edelweiss research

Table 9: Break-even scenario for D-Mart Ready format store

D-Mart Ready per store estimates	(INR mn)
Revenue (F=E/A)	8,423,077
COGS (G=F x (1-A))	7,328,077
Gross Profit (E)	1,095,000
Employee Cost (B)	648,000
Utilities (C)	36,000
Ad spends for D-Mart Ready	36,000
Rent (D)	375,000
Operating expenses (E=A+B+C+D)	1,095,000

Source: Edelweiss research

Based on the annual revenue figure needed for breakeven, under given assumptions, in below table, we have estimated the number of orders needed for a DMart Ready store to breakeven.

Table 10: Break-even order value and volume sensitivity

Scenarios	Basket size (INR)	Orders needed per day
Case 1	1,000	23
Case 2	1,200	19
Case 3	1,500	16
Case 4	1,800	13
Case 5	2,000	12
Case 6	2,500	9

Source: Edelweiss research

We can infer that a typical DMart Ready outlet can achieve breakeven if it receives 16 or more orders with a basket size of INR1,500 every day. Similarly, for some **outlets which have typically low order value baskets, for e.g., INR1000, the store will need 23 or more orders per day for a year to breakeven.**

(C) Margin sensitivity at differing basket sizes:

We have also performed margin sensitivity for DMart Ready with respect to the change in order volumes.

Table 11: Margin scenarios for DMart Ready format

Assumption - INR500 basket size

	Orders per day	Revenue	EBITDA	EBITDA Margin (%)
Case 1	10	1,800,000	(861,000)	(47.83)
Case 2	15	2,700,000	(744,000)	(27.56)
Case 3	20	3,600,000	(627,000)	(17.42)
Case 4	25	4,500,000	(510,000)	(11.33)
Case 5	30	5,400,000	(393,000)	(7.28)
Case 6	35	6,300,000	(276,000)	(4.38)

Assumption - INR750 basket size

	Orders per day	Revenue	EBITDA	EBITDA Margin (%)
Case 1	10	2,700,000	(744,000)	(27.56)
Case 2	15	4,050,000	(568,500)	(14.04)
Case 3	20	5,400,000	(393,000)	(7.28)
Case 4	25	6,750,000	(217,500)	(3.22)
Case 5	30	8,100,000	(42,000)	(0.52)
Case 6	35	9,450,000	133,500	1.41

For a basket size of INR500, the store will not breakeven even if it receives 35 orders per day. Similarly, the order frequency needs to be 32 or higher per day for a basket size of INR750 for an outlet to achieve break even. We believe, this could be one of the key reasons for the minimum threshold of INR1,000.

Assumption - INR1,000 basket size

	Orders per day	Revenue	EBITDA	EBITDA Margin (%)
Case 1	10	3,600,000	(627,000)	(17.42)
Case 2	15	5,400,000	(393,000)	(7.28)
Case 3	20	7,200,000	(159,000)	(2.21)
Case 4	25	9,000,000	75,000	0.83
Case 5	30	10,800,000	309,000	2.86
Case 6	35	12,600,000	543,000	4.31

Assumption - INR1,200 basket size

	Orders per day	Revenue	EBITDA	EBITDA Margin (%)
Case 1	10	4,320,000	(533,400)	(12.35)
Case 2	15	6,480,000	(252,600)	(3.90)
Case 3	20	8,640,000	28,200	0.33
Case 4	25	10,800,000	309,000	2.86
Case 5	30	12,960,000	589,800	4.55
Case 6	35	15,120,000	870,600	5.76

Assumption - INR1,500 basket size

	Orders per day	Revenue	EBITDA	EBITDA Margin (%)
Case 1	10	5,400,000	(393,000)	(7.28)
Case 2	15	8,100,000	(42,000)	(0.52)
Case 3	20	10,800,000	309,000	2.86
Case 4	25	13,500,000	660,000	4.89
Case 5	30	16,200,000	1,011,000	6.24
Case 6	35	18,900,000	1,362,000	7.21

Assumption - INR1,800 basket size

	Orders per day	Revenue	EBITDA	EBITDA Margin (%)
Case 1	10	6,480,000	(252,600)	(3.90)
Case 2	15	9,720,000	168,600	1.73
Case 3	20	12,960,000	589,800	4.55
Case 4	25	16,200,000	1,011,000	6.24
Case 5	30	19,440,000	1,432,200	7.37
Case 6	35	22,680,000	1,853,400	8.17

Source: Edelweiss research

We can conclude that stores which receive ~10 or less orders per day of basket size ranging from INR1,000-1,800 post negative margins. Hence, we believe that order volume will be key towards the profitability of the DMart Ready stores.

We believe that DMart's Ready format should explore relaxing its criteria of minimum order value of INR1,000 in order to gauge the order volume potential and the benefits thereof.

Table 12: D-Mart Ready reported financials

(INR mn)	FY18	FY17
Revenue	441	12
EBITDA	(379)	(161)
PBT	(481)	(261)

Source: Company, Edelweiss research

Judicious expansion key monitorable

DMart took 14 years to open its first 100 stores; however, the next 50 stores were opened in just two years. We believe, management is eyeing steady expansion, but not at a higher cost. It focuses on developing back-end support (distribution centers, packaging facilities) before opening a standalone store and prefers to expand using the cluster approach. Though 9mFY19 new store opening pace was lower than guidance, we expect momentum to pick up in Q4FY19, similar to the previous fiscal.

While the business is expanding its retail business area, it is pertinent to note that DMart's revenue per 1,000sq ft continues to expand given the strong value proposition at affordable price. Traditionally, the company has always preferred own store model compared to renting or leasing.

With competition intensifying in the retail space, expansion could be a challenge due to burgeoning demand for available properties. Going ahead, we will closely monitor DMart's expansion in new regions, which we believe is crucial for growth.

Table 13: DMart—Trends at a glance

DMart	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenues (INR mn)	35,981	35,083	40,948	38,100	45,594	48,725	54,509
EBITDA (INR mn)	3,032	3,179	4,217	2,945	4,227	3,896	4,533
PAT (INR mn)	1,748	1,910	2,518	1,671	2,506	2,257	2,570
Gross Margin (%)	15.5	16.1	16.4	14.9	15.6	14.3	14.7
EBTIDA Margin (%)	8.4	9.1	10.3	7.7	9.3	8.0	8.3
PAT Margin (%)	4.9	5.4	6.1	4.4	-	5.5	4.6
Store Count	132.0	136.0	141.0	155.0	157.0	160.0	164.0
SSSG (%)	NA	NA	NA	NA	NA	NA	NA
Key Metrics							
Revenue per store (INR mn)	273	262	296	257	292	307	336
EBITDA per store (INR mn)	23.0	23.7	30.5	19.9	27.1	24.6	28.0
Retail Area (mn sq. ft.)	4.1	4.2	4.4	4.9	5.0	5.1	5.3
Area per store (sq. ft)	31,061	30,882	31,206	31,613	31,847	31,875	32,317
Revenue per 1000 sq. ft. (INR mn)	8.8	8.5	9.5	8.2	9.2	9.6	10.5
Revenue/sq. ft. growth YoY (%)	NA	NA	NA	NA	5.0	14.1	10.1
YoY Growth (%)							
Revenue	35.7	26.3	22.6	22.5	26.7	38.9	33.1
EBITDA	29.2	36.5	46.3	41.8	39.4	22.6	7.5
PAT	47.6	65.2	65.8	72.9	43.4	18.2	2.1

Source: Company, Edelweiss research

Company Description

D'mart is an emerging national supermarket chain with focus on value retailing. The company has been one of the largest and most profitable F&G retailers in India. It offers a wide range of products with focus on foods, non-foods (FMCG) and general merchandise & apparel product categories. In 2002, D'mart opened its first store in Mumbai. As at December 2018, the company had 164 stores with retail business area of >5mn sq ft.

D'mart operates and manages all its stores. The company operates predominantly on ownership basis (including long-term lease arrangements, where lease period is of more than 30 years and the building is owned by D'mart) instead of rental model. It opens stores using cluster-based approach on the basis of adjacencies and focuses on efficient supply chain that targets densely-populated residential areas with a majority of lower-middle, middle and aspiring upper-middle class consumers. D'mart's distribution and packing centres form the backbone of its supply chain that supports its retail store network.

Investment Theme

D'mart's core MOAT has translated not only into strong revenue growth, but also robust profitability and return ratios. During FY12-17, D'mart sustained consistent SSSG above the 20% print. The company's competitive prices are derived from right product assortment, lower payable days, right location size and cluster-based store expansion, among others. Consequently, a strong SSSG helped D'mart expand gross/EBITDA margins from 14.5%/6.4% in FY13 to 15.9%/9.0% in FY18. We estimate D'mart to post revenue, EBITDA and PAT CAGR of 25% each over FY18-21E. Increasing competitive intensity from e-commerce giants as well as national players remains a looming threat.

Key Risks

Sustenance of EDLP program and increased competition.

Purchase of real estate at favourable rates and hence the store expansion. This arrangement entails huge initial cash outflow, which may involve taking higher debt. In the scenario where new stores fail to pick up as anticipated, then incremental debt taken for same would need to be serviced from cash flows of other stores, which could impact overall profitability of business.

Revenue concentration in largely from Western India – Maharashtra and Gujarat.

Competition from e-commerce companies

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.2
Inflation (Avg)	3.6	3.7	4.0	5.9
Repo rate (exit rate)	6.0	6.3	5.8	7.5
USD/INR (Avg)	64.5	70.0	72.0	61.1
Company				
Total no. of stores	155	177	202	227
New store addition	24	22	25	25
SSSG	14.2	18.5	19.0	19.0
COGS as % of sales	84.1	84.7	84.6	84.5
Staff costs (% of rev)	1.9	1.7	1.7	1.7
Rent exp. as % of sales	0.3	0.2	0.2	0.2
Other general exp. as % of sales	4.8	4.7	4.6	4.6
EBITDA margin	9.0	8.6	8.9	8.9
Tax rate (%)	34.5	35.0	34.5	35.0
Depreciation as % of gross block	4.6	4.4	4.3	4.4
Int. rate on o/standing debt (%)	8.7	16.0	14.0	14.0
Debtor days	0.7	0.5	0.5	0.5
Inventory days	30	30	30	30
Payable day	8	9	9	9
Capex (INR mn)	7,442	10,779	10,000	10,000
Cash conversion cycle	23	22	22	22

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	150,332	191,180	240,658	298,104
Materials costs	126,356	161,993	203,527	251,943
Gross profit	23,976	29,187	37,131	46,160
Employee costs	2,826	3,240	4,080	5,057
Rent and lease expenses	447	476	600	744
Other Expenses	7,174	8,957	11,040	13,683
EBITDA	13,528	16,513	21,411	26,677
Depreciation	1,590	1,882	2,274	2,740
EBIT	11,938	14,632	19,137	23,937
Less: Interest Expense	595	485	547	652
Add: Other income	693.21	628.37	722.21	895.18
Profit Before Tax	12,036	14,775	19,312	24,181
Less: Provision for Tax	4,158	5,171	6,663	8,463
Reported Profit	8,063	9,604	12,649	15,717
Adjusted Profit	8,063	9,604	12,649	15,717
Shares o /s (mn)	624	624	624	624
Adjusted Basic EPS	12.9	15.4	20.3	25.2
Diluted shares o/s (mn)	624	624	624	624
Adjusted Diluted EPS	12.9	15.4	20.3	25.2
Adjusted Cash EPS	15.5	18.4	23.9	29.6

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Rent and lease expenses	0.3	0.2	0.2	0.2
Materials costs	84.1	84.7	84.6	84.5
Staff costs	1.9	1.7	1.7	1.7
Other expenses	4.8	4.7	4.6	4.6
Interest Expense	0.4	0.3	0.2	0.2
EBITDA margins	9.0	8.6	8.9	8.9
EBIT margins	7.9	7.7	8.0	8.0
Net Profit margins	5.4	5.0	5.3	5.3

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	26.4	27.2	25.9	23.9
EBITDA	37.9	22.1	29.7	24.6
PBT	58.4	22.8	30.7	25.2
Adjusted Profit	68.4	19.1	31.7	24.3
EPS	52.4	19.1	31.7	24.3

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	6,241	6,241	6,241	6,241	
Reserves & Surplus	40,450	50,053	62,703	78,420	
Shareholders' funds	46,691	56,294	68,944	84,661	
Minority Interest	6	6	6	6	
Long term borrowings	2,460	3,460	4,210	4,960	
Short term borrowings	73	73	73	73	
Total Borrowings	2,533	3,533	4,283	5,033	
Long Term Liabilities	15	15	15	15	
Def. Tax Liability (net)	452	452	452	452	
Sources of funds	49,696	60,300	73,700	90,167	
Gross Block	38,267	47,267	57,267	67,267	
Net Block	32,923	37,750	45,476	52,736	
Capital work in progress	1,471	3,250	3,250	3,250	
Intangible Assets	1,076	783	783	783	
Total Fixed Assets	35,471	41,782	49,509	56,769	
Non current investments	424	424	424	424	
Cash and Equivalents	6,284	9,629	12,788	19,065	
Inventories	11,634	13,314	16,728	20,708	
Sundry Debtors	335	262	330	408	
Loans & Advances	1,641	2,266	2,266	2,266	
Other Current Assets	695	9	9	9	
Current Assets (ex cash)	14,305	15,851	19,333	23,391	
Trade payable	3,173	3,772	4,740	5,867	
Other Current Liab	3,614	3,614	3,614	3,614	
Total Current Liab	6,787	7,387	8,354	9,481	
Net Curr Assets-ex cash	7,518	8,465	10,979	13,910	
Uses of funds	49,696	60,300	73,700	90,167	
BVPS (INR)	74.8	90.2	110.5	135.7	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	8,063	9,604	12,649	15,717	
Add: Depreciation	1,590	1,882	2,274	2,740	
Interest (Net of Tax)	390	315	358	424	
Others	(487)	(459)	(533)	(667)	
Less: Changes in WC	3,787	947	2,514	2,931	
Operating cash flow	5,768	10,396	12,234	15,283	
Less: Capex	7,442	10,779	10,000	10,000	
Free Cash Flow	(1,674)	(384)	2,234	5,283	

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (X)		EV / Sales (X)		ROAE (%)	
		CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Avenue Supermarts Limited	13,236	55.0	42.3	5.1	4.0	18.6	20.2
Aditya Birla Fashion and Retail Ltd	2,532	20.8	17.8	1.9	1.7	26.3	24.8
Future Lifestyle Fashions Limited	1,350	14.9	12.0	1.3	1.0	14.8	17.3
Future Retail	3,072	18.3	15.4	1.0	0.9	19.4	19.1
Shoppers Stop	-	11.0	9.6	0.9	0.8	15.4	16.0
Median	-	18.3	15.4	1.3	1.0	18.6	19.1
AVERAGE	-	24.0	19.4	2.0	1.7	18.9	19.5

Source: Edelweiss research

Cash flow metrics					
Year to March	FY18	FY19	FY20E	FY21E	
Operating cash flow	5,768	10,396	12,234	15,283	
Financing cash flow	(9,261)	515	203	98	
Investing cash flow	(7,324)	(9,669)	(9,278)	(9,105)	
Net cash Flow	(10,817)	1,241	3,159	6,276	
Capex	7,442	10,779	10,000	10,000	

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	18.9	18.6	20.2	20.5
ROACE (%)	25.6	28.0	29.8	30.5
Inventory Days	30	30	30	30
Debtors Days	1	1	1	1
Payable Days	8	9	9	9
Cash Conversion Cycle	23	22	22	22
Current Ratio	3.0	3.4	3.8	4.5
Gross Debt/EBITDA	0.2	0.2	0.2	0.2
Gross Debt/Equity	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	0.1	0.1	0.1	0.1
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.2)
Interest Coverage Ratio	20.0	30.2	35.0	36.7

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	3.0	3.5	3.6	3.6
Fixed Asset Turnover	5.1	5.3	5.7	6.0
Equity Turnover	3.5	3.7	3.8	3.9

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	12.9	15.4	20.3	25.2
Y-o-Y growth (%)	52.4	19.1	31.7	24.3
Adjusted Cash EPS (INR)	15.5	18.4	23.9	29.6
Diluted P/E (x)	113.4	95.2	72.3	58.2
P/B (x)	19.6	16.2	13.3	10.8
EV / Sales (x)	6.5	5.1	4.0	3.2
EV / EBITDA (x)	67.3	55.0	42.3	33.8

Additional Data

Directors Data

Ramesh Damani	Chairman	Ignatius Noronha	CEO, MD & Director
Ramakant Baheti	Group CFO & Whole-Time Director	Elvin Machado	Director
Chandrashekhar Bhav	Director	Manjri Chandak	Director

Auditors - SRBC & Co, LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Bright Star Investments Ltd	14.22	Noronha Ignatius Navil	2.20
Axis Asset Management Co	1.65	Nomura Holdings	0.74
Blackrock Inc	0.71	Baheti Ramakant	0.50
Vanguard Group	0.37	Icici Prudential Asset Management	0.33
Robeco Luxembourg	0.29	Dsp Investment Managers	0.23

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
24 May 2018	RADHAKISHAN SHIVKISHAN DAMANI	SELL	4730000	1360.20

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
18 Mar 2019	Umesh Ahuja	Sell	22000.00
14 Mar 2019	Kajal Noronha	Sell	299646.00
12 Mar 2019	Kajal Noronha	Sell	78423.00
17 Dec 2018	Ramakant Baheti	Sell	100000.00
05 Dec 2018	Rajan Arora	Sell	20000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Fashion and Retail Ltd	BUY	SO	L	Avenue Supermarts Limited	REDUCE	SU	H
Future Lifestyle Fashions Limited	BUY	SP	L	Future Retail	BUY	SP	H
Jubilant Foodworks	BUY	SP	M	Shoppers Stop	BUY	SP	L
Titan Company	BUY	SO	L	TRENT LTD	BUY	SO	H
V-MART Retail	HOLD	SP	H	Wonderla Holidays	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Retail

Aditya Birla Fashion and Retail Ltd, Avenue Supermarts Limited, Future Lifestyle Fashions Limited, Future Retail, Jubilant Foodworks, Shoppers Stop, TRENT LTD, Titan Company, V-MART Retail, Wonderla Holidays

Recent Research

Date	Company	Title	Price (INR)	Recos
05-Apr-19	Retail	Mixed bag; Q4FY19 result preview		
27-Mar-19	Retail	Launch Pad: IPL & World Cup bonanza for QSRs; Sector Update		
26-Mar-19	Shoppers Stop (Coffee with CEO)	Structural transformation underway; Visit Note	462	Buy

Distribution of Ratings / Market Cap

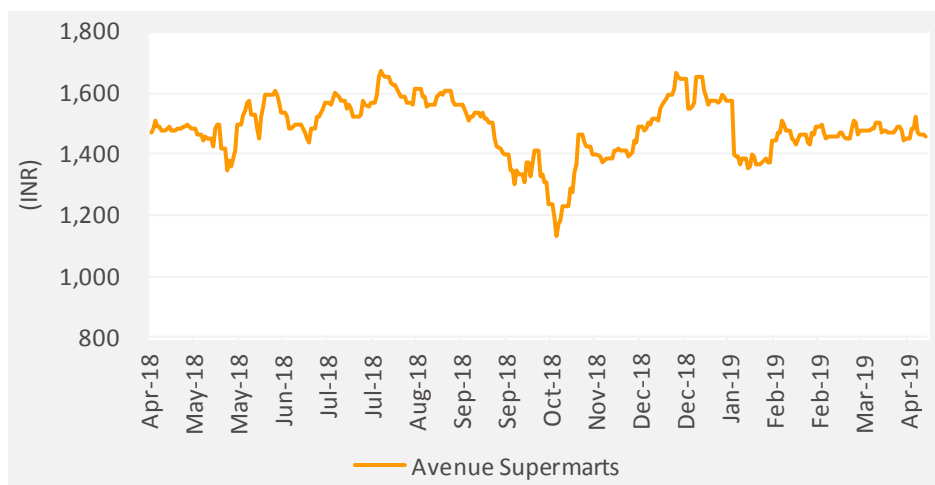
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved