

Rating: HOLD | CMP: Rs1,251 | TP: Rs1,228

EPS cut by 6-4-11.4%, Upgrade to Hold

May 12, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		REDUCE	
Target Price	1,228		1,270	
Sales (Rs. m)	257,953	330,863	256,636	329,396
% Chng.	0.5	0.4		
EBITDA (Rs. m)	22,124	28,935	23,221	32,098
% Chng.	(4.7)	(9.9)		
EPS (Rs.)	20.3	27.3	21.6	30.4
% Chng.	(5.9)	(10.3)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	150,332	200,045	257,953	330,863
EBITDA (Rs. m)	13,528	16,333	22,124	28,935
Margin (%)	9.0	8.2	8.6	8.7
PAT (Rs. m)	7,678	9,025	13,174	17,713
EPS (Rs.)	12.3	14.5	20.3	27.3
Gr. (%)	60.4	17.5	40.4	34.5
DPS (Rs.)	-	-	-	1.0
Yield (%)	-	-	-	0.1
RoE (%)	18.0	17.6	17.0	16.5
RoCE (%)	22.9	25.5	24.2	23.3
EV/Sales (x)	5.2	3.9	3.1	2.4
EV/EBITDA (x)	57.6	47.9	35.7	27.5
PE (x)	101.7	86.5	61.6	45.8
P/BV (x)	16.7	14.0	8.2	7.0

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.1,699 / Rs.1,126
Sensex / Nifty	37,463 / 11,279
Market Cap	Rs.781bn/ \$ 11,176m
Shares Outstanding	624m
3M Avg. Daily Value	Rs.1475.77m

Shareholding Pattern (%)

Promoter's	81.20
Foreign	5.91
Domestic Institution	3.20
Public & Others	9.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.8)	(10.5)	(14.1)
Relative	(15.4)	(16.0)	(19.2)

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Quick Pointers:

- FY19 SSG at 17.8% v/s 14.2% in FY18, 21 store additions (24 in FY18)
- Gross margin declined by 100bps in FY19 on conscious strategy to reduce prices on value proposition; Cost of retail in FY19 declined by 30bps YoY
- Looking at fresh issue of 25mn shares, another 25.6mn shares OFS likely to comply with 75% promoter equity by March 2020

We upgrade D'mart from Reduce to hold as 25% decline in share price in the last 5 months has reduced the froth considerably, although absolute returns might lag due to estimated fresh supply of ~Rs62bn in QIP and OFS. Business strategy based on strong clusters and Everyday low prices model continues to payout with 17.8% SSG and acceleration in bills cut growth/store to 10.6%. Margins have been impacted by higher spends behind new store infrastructure. D'Mart has lowered prices across categories led by benefits from higher economies of scale which reinforces its pole position of a value retailer. D'Mart has growth strategy is place led by gradual acceleration in store openings (added 21 stores in FY17, 24 in FY18 and 21 in FY19) and ramp up of D'Mart ready model.

We however cut our FY20-21 EPS estimates by 5.9% and 10.3% following 1) slower rate of store additions with only 21 stores additions in FY19 2) expected dilution of EPS through equity share issue and 3) moderation of PAT growth to 19.3% in FY19 v/s CAGR of 49% over FY15-18.

We expect profit growth to bounce back from FY20 backed by acceleration in store additions and 40bps margin expansion. We estimate 37.4% PAT CAGR over FY19-21. However, valuations at 47.2x FY21 EPS factors in the expected growth. Upgrade to Hold with a target price of Rs1196.

4Q19 Adj. PAT up 21.4%, FY19 SSG at 17.8%: Net Sales increased 32.1% to Rs 50.3bn. FY19 SSG was at 17.8%. Gross Margins declined 50bps to 14.4% due to conscious strategy to reduce prices across consumer categories. EBITDA increased 27.9% to Rs3.77bn and EBITDA margins declined 20bps. Cost of retail declined by 20bps YoY led by 20bps lower employee cost. However, Cost of retail increased by 50bps QoQ. Adj. PAT grew by 21.4% Rs2.03bn as finance costs decreased by 7.8% even as depreciation increased 33.2% and tax rate increased 290bps. D'Mart added 12 stores in 4Q (21 stores in FY19) taking the total stores to 176. D'Mart added most stores in established clusters and has not added any new cluster. Maharashtra, Gujarat, Karnataka and Telangana have seen most store additions, while most new clusters started in FY18, have seen no additions.

**Exhibit 1: Net Sales up 32.1%; Adj. PAT up 21.4% on 20bps decline in margins**

Y/E March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net Sales	50,334	38,100	32.1	148,829	199,163	150,089	32.7
Gross Profit	7,250	5,668	27.9	22,113	29,363	23,600	24.4
<i>% of NS</i>	<i>14.4</i>	<i>14.9</i>	<i>(0.5)</i>	<i>14.9</i>	<i>14.7</i>	<i>15.7</i>	<i>(1.0)</i>
Other Expenses	3,485	2,723	28.0	9,456	12,941	10,227	26.5
<i>% of NS</i>	<i>6.9</i>	<i>7.1</i>	<i>(0.2)</i>	<i>6.4</i>	<i>6.5</i>	<i>6.8</i>	<i>(0.3)</i>
EBITDA	3,765	2,945	27.9	12,657	16,422	13,373	22.8
<i>Margins (%)</i>	<i>7.5</i>	<i>7.7</i>	<i>(0.2)</i>	<i>8.5</i>	<i>8.2</i>	<i>8.9</i>	<i>(0.7)</i>
Depreciation	619	465	33.2	1,369	1,988	1,547	28.5
Interest	122	132	(7.8)	350	472	594	(20.6)
Other Income	147	149	(1.6)	368	514	726	(29.2)
PBT	3,171	2,497	27.0	11,306	14,476	11,959	21.1
Tax	1,142	826	38.3	3,949	5,113	4,167	22.7
<i>Tax rate (%)</i>	<i>36.0</i>	<i>33.1</i>	<i>2.9</i>	<i>34.9</i>	<i>35.3</i>	<i>34.8</i>	<i>0.5</i>
Adjusted PAT	2,029	1,671	21.4	7,356	9,364	7,792	20.2

Source: Company, PL

Exhibit 2: Added 12 stores in 4QFY19; Cost of retail down 20bps YoY and up 50bps QoQ

	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
No. of Stores	141	155	157	160	164	176
Area (mn Sq.ft.)	4.4	4.9	5.0	5.1	5.2	5.3
Sales/Ft	9,304	7,775	9,181	9,637	10,531	9,504
Gross Profit/Ft	1,525	1,157	1,434	1,381	1,547	1,369
EBIDTA/FT	958	601	851	771	876	711
Cost of retail %	6.1	7.1	6.3	6.3	6.4	6.9

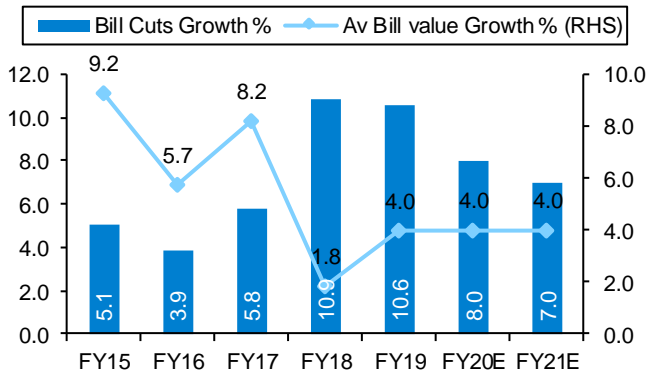
Source: Company, PL

Exhibit 3: EBIDTA/Ft and Cost of retail likely to improve on healthy SSG

	FY16	FY17	FY18	FY19E	FY20E	FY21E
Sales/Ft	28,136	31,120	32,719	35,647	39,669	43,429
Gross Profit/Ft	3,845	4,475	5,145	5,091	5,718	6,341
EBIDTA/FT	1,993	2,417	2,915	2,768	3,164	3,532
Capex/Ft	9,632	8,925	10,103	15,003	14,453	14,443
Cost of retail %	7.2%	7.0%	6.9%	6.9%	6.9%	7.0%
Working Cap/Ft	1,263	1,631	1,723	1,566	2,207	2,328

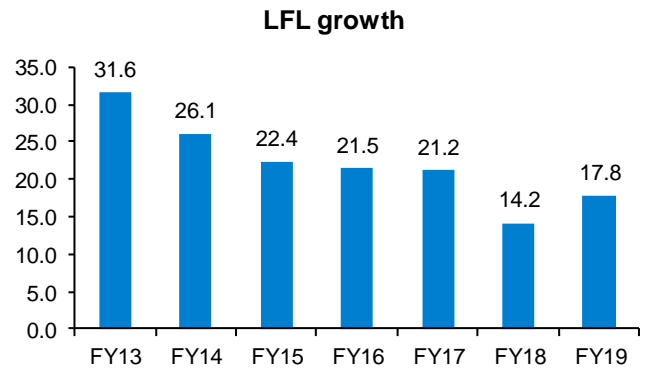
Source: Company, PL

Exhibit 4: Bill Cuts increased by 28% to 172mn in FY19



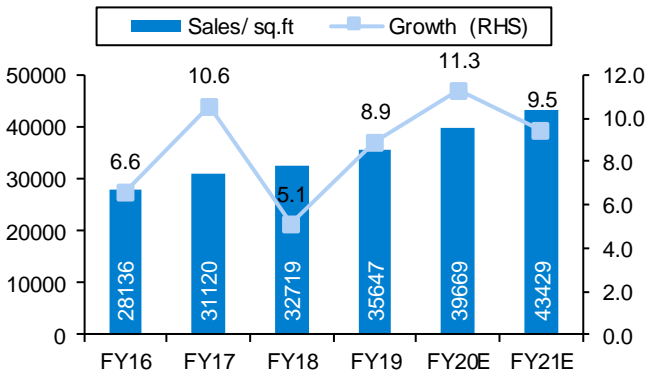
Source: Company, PL

Exhibit 5: LTL growth at 17.8% in FY19



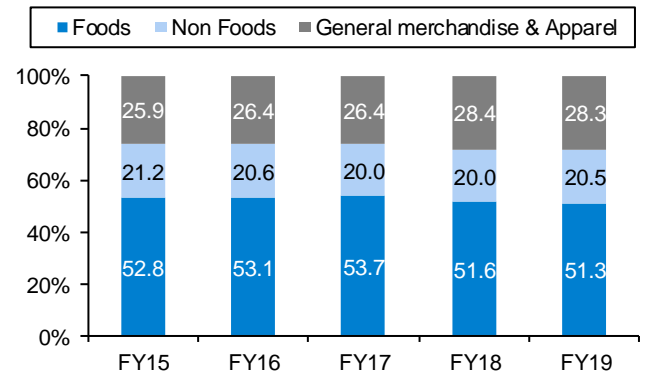
Source: Company, PL

Exhibit 6: Sales/Sq. ft. increased 8.9% in FY19



Source: Company, PL

Exhibit 7: Foods continue to remain the highest contributor



Source: Company, PL

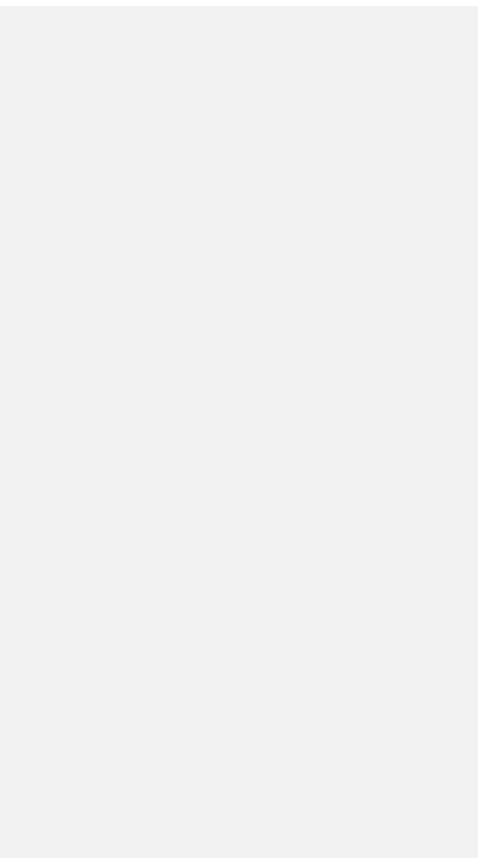
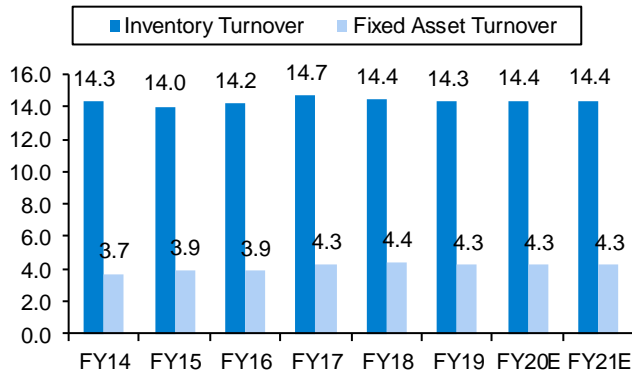
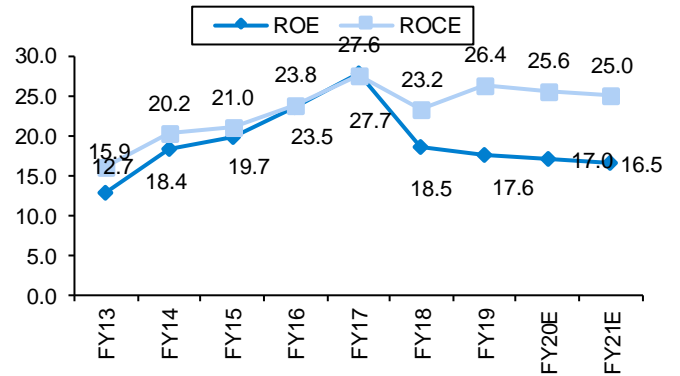


Exhibit 8: ITO has stabilized, FA turnover to increase further



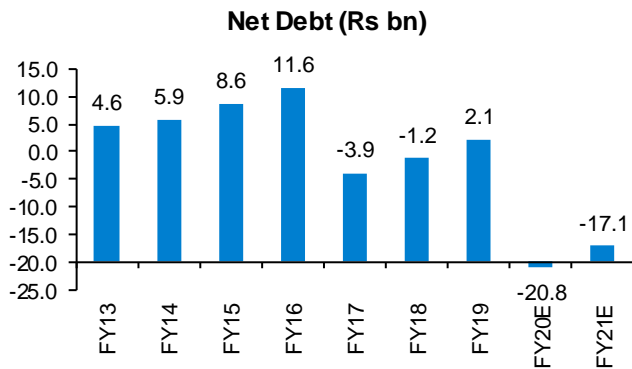
Source: Company, PL

Exhibit 9: Equity dilution to impact ROE marginally



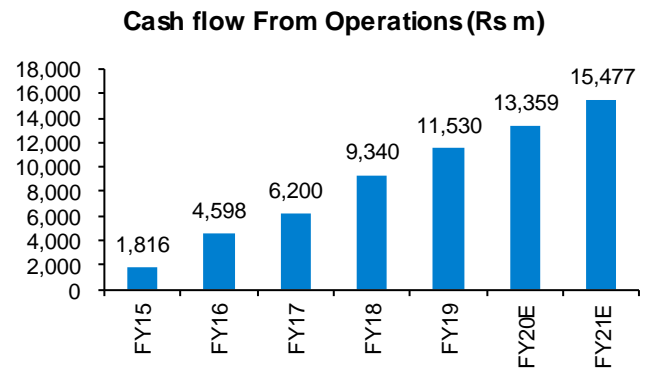
Source: Company, PL

Exhibit 10: Debt likely to increase post debenture issue

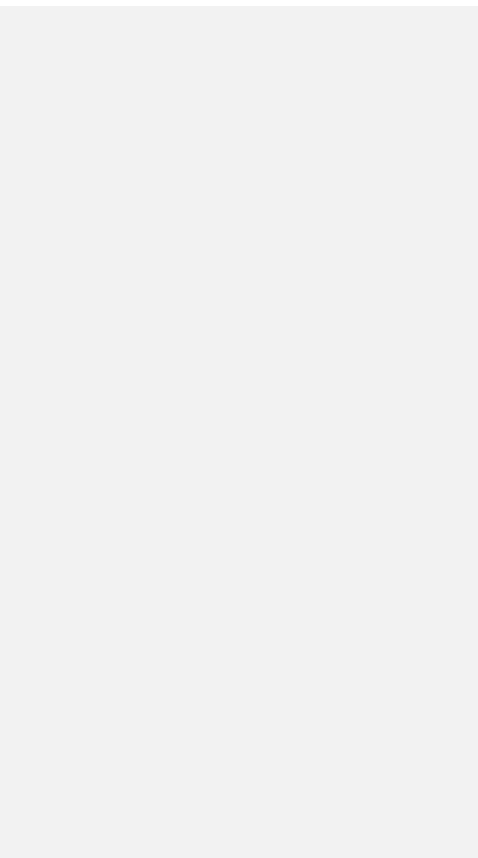


Source: Company, PL

Exhibit 11: CFO to increase at 15.9% CAGR over FY19-21



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	150,332	200,045	257,953	330,863
YoY gr. (%)	26.4	33.1	28.9	28.3
Cost of Goods Sold	126,356	170,008	217,970	278,918
Gross Profit	23,976	30,037	39,983	51,946
Margin (%)	15.9	15.0	15.5	15.7
Employee Cost	2,826	3,554	4,901	6,286
Other Expenses	7,622	10,150	12,957	16,724
EBITDA	13,528	16,333	22,124	28,935
YoY gr. (%)	37.9	20.7	35.5	30.8
Margin (%)	9.0	8.2	8.6	8.7
Depreciation and Amortization	1,590	2,125	2,654	3,306
EBIT	11,938	14,208	19,470	25,629
Margin (%)	7.9	7.1	7.5	7.7
Net Interest	595	472	285	247
Other Income	693	484	1,082	1,868
Profit Before Tax	12,036	14,219	20,268	27,250
Margin (%)	8.0	7.1	7.9	8.2
Total Tax	4,158	5,195	7,094	9,538
Effective tax rate (%)	34.5	36.5	35.0	35.0
Profit after tax	7,878	9,025	13,174	17,713
Minority interest	0	-	-	-
Share Profit from Associate	(200)	-	-	-
Adjusted PAT	7,678	9,025	13,174	17,713
YoY gr. (%)	60.4	17.5	46.0	34.5
Margin (%)	5.1	4.5	5.1	5.4
Extra Ord. Income / (Exp)	380	(13)	-	-
Reported PAT	8,058	9,011	13,174	17,713
YoY gr. (%)	68.0	11.8	46.2	34.5
Margin (%)	5.4	4.5	5.1	5.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,058	9,011	13,174	17,713
Equity Shares O/s (m)	624	624	649	649
EPS (Rs)	12.3	14.5	20.3	27.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	40,307	52,480	67,461	87,831
Tangibles	39,800	51,930	66,829	87,103
Intangibles	507	550	633	727
Acc: Dep / Amortization	7,089	9,259	11,920	15,233
Tangibles	6,877	9,009	11,594	14,820
Intangibles	212	250	326	413
Net fixed assets	33,218	43,221	55,541	72,597
Tangibles	32,923	42,921	55,235	72,283
Intangibles	294	300	306	314
Capital Work In Progress	1,471	3,768	5,000	5,000
Goodwill	783	783	783	783
Non-Current Investments	414	324	324	324
Net Deferred tax assets	(450)	(633)	(846)	(1,132)
Other Non-Current Assets	876	1,136	1,508	1,754
Current Assets				
Investments	682	165	182	200
Inventories	11,634	16,087	20,636	25,849
Trade receivables	335	644	848	1,042
Cash & Bank Balance	5,602	2,191	22,529	20,614
Other Current Assets	694	1,149	1,419	1,820
Total Assets	56,483	70,057	109,930	131,472
Equity				
Equity Share Capital	6,241	6,241	6,491	6,491
Other Equity	40,450	49,634	92,221	109,152
Total Network	46,691	55,875	98,712	115,643
Non-Current Liabilities				
Long Term borrowings	2,460	1,257	700	2,500
Provisions	7	11	25	57
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,933	3,042	1,000	1,000
Trade payables	3,173	4,633	6,195	7,998
Other current liabilities	1,754	4,595	2,439	3,129
Total Equity & Liabilities	56,482	70,057	109,930	131,472

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	12,036	14,219	20,268	27,250
Add. Depreciation	1,590	2,125	2,654	3,306
Add. Interest	595	472	285	247
Less Financial Other Income	693	484	1,082	1,868
Add. Other	(201)	-	-	-
Op. profit before WC changes	14,021	16,816	23,207	30,803
Net Changes-WC	(1,890)	(731)	(6,188)	(3,643)
Direct tax	(4,158)	(5,195)	(7,094)	(9,538)
Net cash from Op. activities	7,973	10,891	9,925	17,623
Capital expenditures	(9,539)	(14,426)	(16,206)	(20,362)
Interest / Dividend Income	-	-	-	-
Others	(260)	503	(17)	(18)
Net Cash from Inv. activities	(9,799)	(13,923)	(16,223)	(20,380)
Issue of share cap. / premium	220	172	29,664	-
Debt changes	(10,580)	(95)	(2,598)	1,800
Dividend paid	-	-	-	(782)
Interest paid	(595)	(472)	(285)	(247)
Others	-	(1)	-	-
Net cash from Fin. activities	(10,956)	(395)	26,781	771
Net change in cash	(12,782)	(3,427)	20,483	(1,987)
Free Cash Flow	(1,566)	(3,535)	(6,281)	(2,739)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

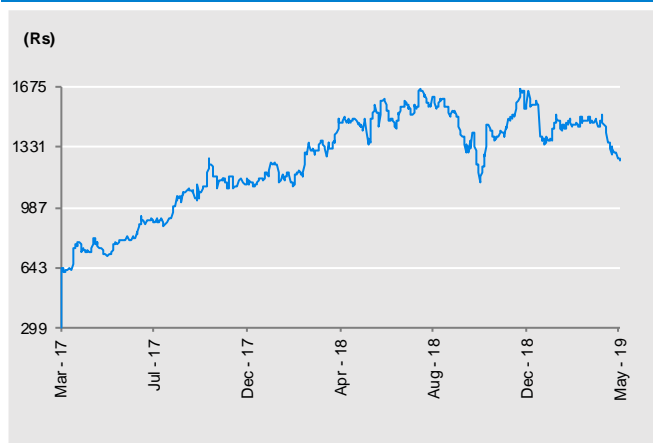
Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	45,594	48,725	54,509	50,334
YoY gr. (%)	26.7	38.9	33.1	32.1
Raw Material Expenses	38,474	41,742	46,501	43,083
Gross Profit	7,121	6,983	8,009	7,250
Margin (%)	15.6	14.3	14.7	14.4
EBITDA	4,227	3,896	4,533	3,765
YoY gr. (%)	43.5	(7.8)	16.3	(16.9)
Margin (%)	9.3	8.0	8.3	7.5
Depreciation / Depletion	403	444	522	619
EBIT	3,824	3,453	4,012	3,146
Margin (%)	8.4	7.1	7.4	6.3
Net Interest	100	101	149	122
Other Income	143	139	86	147
Profit before Tax	3,866	3,491	3,949	3,171
Margin (%)	8.5	7.2	7.2	6.3
Total Tax	1,360	1,233	1,378	1,142
Effective tax rate (%)	35.2	35.3	34.9	36.0
Profit after Tax	2,506	2,258	2,571	2,029
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,506	2,258	2,571	2,029
YoY gr. (%)	43.4	18.2	2.1	21.4
Margin (%)	5.5	4.6	4.7	4.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,506	2,258	2,571	2,029
YoY gr. (%)	43.4	18.2	2.1	21.4
Margin (%)	5.5	4.6	4.7	4.0
Other Comprehensive Income	(2)	(1)	(1)	(8)
Total Comprehensive Income	2,505	2,256	2,570	2,020
Avg. Shares O/s (m)	624	624	624	624
EPS (Rs)	4.0	3.6	4.1	3.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	12.3	14.5	20.3	27.3
CEPS	14.9	17.9	24.4	32.4
BVPS	74.8	89.5	152.1	178.2
FCF	(2.5)	(5.7)	(9.7)	(4.2)
DPS	-	-	-	1.0
Return Ratio(%)				
RoCE	22.9	25.5	24.2	23.3
ROIC	23.8	21.0	22.3	23.2
RoE	18.0	17.6	17.0	16.5
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.2)	(0.1)
Net Working Capital (Days)	21	22	22	21
Valuation(x)				
PER	101.7	86.5	61.6	45.8
P/B	16.7	14.0	8.2	7.0
P/CEPS	84.2	70.0	51.3	38.6
EV/EBITDA	57.6	47.9	35.7	27.5
EV/Sales	5.2	3.9	3.1	2.4
Dividend Yield (%)	-	-	-	0.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Jun-18	Reduce	1,197	1,569
2	10-Jul-18	Reduce	1,197	1,522
3	30-Jul-18	Reduce	1,285	1,595
4	5-Oct-18	Reduce	1,301	1,346
5	14-Oct-18	Reduce	1,286	1,412
6	7-Jan-19	Reduce	1,286	1,571
7	14-Jan-19	Reduce	1,270	1,572
8	5-Apr-19	Reduce	1,270	1,449

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,386
2	Avenue Supermarts	Reduce	1,270	1,449
3	Britannia Industries	Accumulate	3,145	2,783
4	Colgate Palmolive	Hold	1,258	1,227
5	Crompton Greaves Consumer Electricals	BUY	272	232
6	Dabur India	Hold	430	382
7	Emami	Accumulate	484	412
8	Future Retail	BUY	554	446
9	GlaxoSmithKline Consumer Healthcare	Hold	8,139	6,996
10	Hindustan Unilever	Hold	1,764	1,694
11	ITC	BUY	362	295
12	Jubilant FoodWorks	Accumulate	1,458	1,418
13	Kansai Nerolac Paints	Accumulate	464	419
14	Marico	Hold	351	340
15	Nestle India	Accumulate	10,828	10,981
16	Pidilite Industries	Accumulate	1,163	1,287
17	Titan Company	BUY	1,264	1,089
18	Voltas	Accumulate	600	609

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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