

## Gradual return to normalcy; strong festive season drives revenue growth

D-Mart's Q3FY21 results were above our and consensus estimates across all parameters. Driven by healthy surge in festive demand, revenue for Q3 grew 10.8% YoY to ₹ 7542.0 crore (up 42% QoQ; I-direct estimate: ₹ 7340 crore). While 'food and FMCG' category had already reverted to growth path with positive trajectory in September, discretionary consumption also picked up pace in the quarter. Some home usage categories like apparel, footwear and travel are still not completely out of the woods. Post festive season, the momentum decelerated, to a certain extent (owing to night curfews, weekend store closures), as two years and older D-Mart stores (162 out of 221 stores) saw ~4% YoY decline in December 2020. Gross margins improved marginally by 20 bps YoY to 15.5% but expanded 100 bps QoQ owing to recovery in sale of general merchandise. Agile opex management (other expenses & employee cost up 4% & 18% YoY, respectively) resulted in EBITDA margins expanding by 30 bps YoY to 9.1% (up 290 bps QoQ, I-direct estimate: 8.3%). EBITDA grew 15.5% YoY to ₹ 689.1 crore (I-direct estimate: ₹ 606 crore). Key highlight of the quarter was sustained expansion in its e-commerce operations (D-Mart Ready) to newer towns and pin codes.

### Store addition to accelerate from FY22E

Store addition in Q3FY21 stayed muted with opening of one D-Mart store. For YTD FY21, the company added nine stores taking total store count to 221 (net basis) and converted two stores to fulfilment centres (FC) to scale up its e-commerce business (sq ft addition of 0.37 million, adjusting for space leased to AEL during the quarter). Following subdued store addition pace in FY21E, we expect the company to make up for the same in FY22E. We bake in 93 incremental stores in FY21-23E (sq ft addition of ~5.9 million, assuming it continues adding large format stores of ~65000 sq ft). The company has expanded its e-commerce operations with soft launch of D-Mart Ready in select pin codes of Ahmedabad, Bangalore and Hyderabad. Also, in some of its brick & mortar stores the company has leased some part of the space to commence e-commerce activities in new cities. Trends indicate enhanced focus on e-commerce owing to change in industry dynamics with grocery e-commerce industry gaining significant traction during the pandemic.

### Valuation & Outlook

Headwinds such as supply side constraints for non-FMCG segment, increase in raw material prices, store operation restrictions, may have negative impact in the near term but we remain structurally positive on the company and its long term growth prospects. Robust liquidity position (QIP proceeds worth ₹ 4078 crore) is expected to provide impetus to store addition pace (mainly from FY22E onwards). We revise our earnings estimates upwards and bake in revenue and earnings CAGR of 21% and 26%, respectively, in FY20-23E, with RoIC improving to 25% in FY23E. Given the sharp run-up in stock price, we reiterate our **HOLD** rating with a revised target price of ₹ 3130 (50x FY23E EV/EBITDA, previous TP of ₹ 2765).

### Key Financial Summary

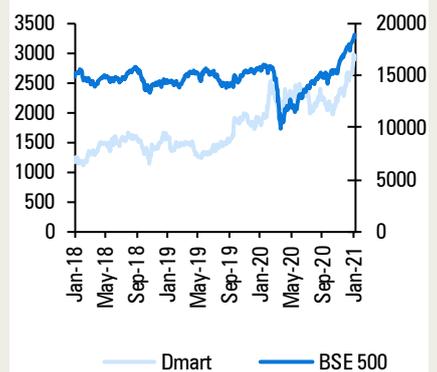
	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	20,004.5	24,870.2	23,972.8	35,227.8	44,415.5	21.3%
EBITDA	1,633.3	2,128.3	1,702.1	3,100.0	3,997.4	23.4%
PAT	902.4	1,301.0	1,093.4	2,039.6	2,597.8	25.9%
P/E (x)	204.7	147.4	175.4	94.0	73.8	
EV/Sales (x)	9.3	7.6	7.8	5.4	4.3	
EV/EBITDA (x)	113.4	88.6	110.6	60.9	47.3	
RoCE (%)	23.4	16.4	12.3	19.4	20.9	
RoE (%)	16.2	11.7	9.0	14.4	15.5	

Source: ICICI Direct Research, Company

### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	1,91,739.9
Total Debt (FY20) (₹ crore)	3.7
Cash & Investment (FY20) (₹ crore)	3,261.8
EV (₹ crore)	1,88,481.9
52 Week H / L	3130 / 1735
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

### Price Performance



### Key Risks

- Lower rollout of stores due to delay in implementation of expansion plans
- Faster turnaround of e-commerce operations

### Research Analyst

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	5814.6	NA	4575.8	27.1	1168.96	397.4	Exit from long credit cycle customers in power brands and discontinuance of loss making emerging brands impacted
Raw Material Expense	4,862.1	NA	3,848.9	26.3	546.5	789.7	
Employee Expenses	100.39	NA	81.27	23.5	95.72	4.9	
Other Expenses	255.29	NA	222.55	14.7	441.56	-42.2	
EBITDA	596.8	NA	423.1	41.0	85.2	600.5	Reported EBITDA and margins higher owing to implementation of Ind-AS 116 Adjusted EBITDA (-) ₹ 60.9 crore. Other expenses include provisions made towards exit of four loss making brands (₹
EBITDA Margin (%)	10.3	NA	9.2	102 bps	7.3	298 bps	
Depreciation	82.7	NA	43.42	90.4	44.1	87.5	
Interest	18.2	NA	10.0	80.8	35.0	-48.2	
Other Income	11.0	NA	13.57	-19.3	0.0	54,650.0	
PBT before Exceptional item	506.9	NA	383.2	32.3	6.1	8,223.0	
Exceptional Item							
PBT	506.9	NA	383.2	32.3	6.1	PL	
Tax Outgo	183.8	NA	138.2		-15.2		Deferred tax asset worth ₹ 49 crore vs. ₹ 6.9 crore
PAT	323.1	NA	245.0	31.9	21.3	PL	Adjusted PAT: (-) ₹ 90 crore

Source: Company, ICICI Direct Research

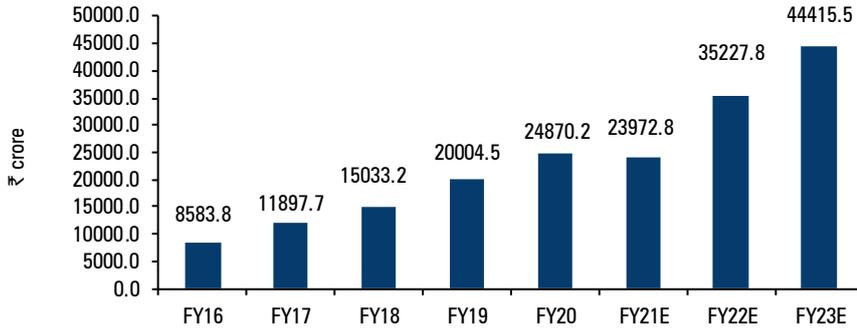
Exhibit 2: Change in estimates

(₹ Crore)	FY 21E			FY 22E			FY 23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	23,968.7	23,972.8	0.0	34,816.7	35,227.8	1.2	43,501.0	44,415.5	2.1
EBITDA	1,510.0	1,702.1	12.7	3,063.9	3,100.0	1.2	3,915.1	3,997.4	2.1
EBITDA Margin (%)	6.3	7.1	80 bps	8.8	8.8	0 bps	9.0	9.0	0 bps
PAT	951.8	1,093.4	14.9	1,995.5	2,039.6	2.2	2,517.4	2,597.8	3.2
EPS (₹)	14.7	16.9	14.9	30.8	31.5	2.2	38.9	40.1	3.2

Source: Company, ICICI Direct Research

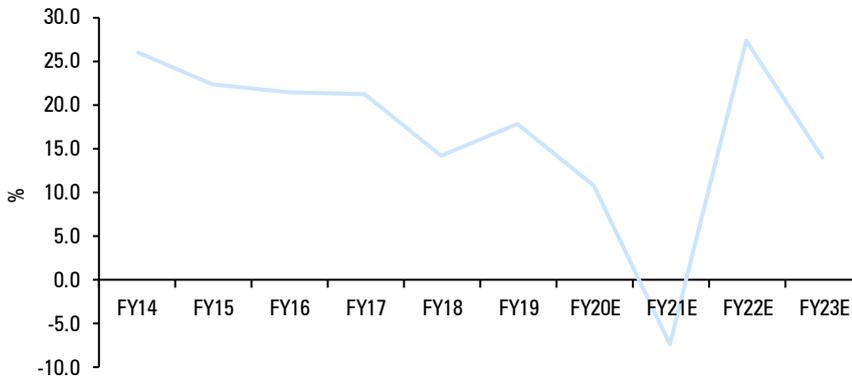
Financial story in charts....

Exhibit 3: We model revenue CAGR of 21% in FY20-23E



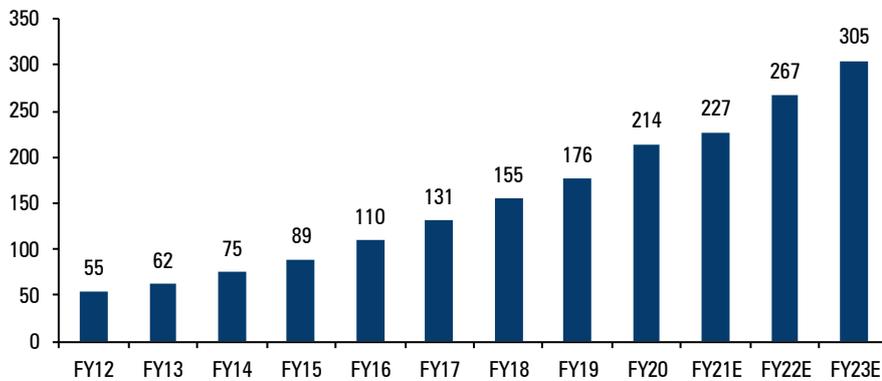
Source: Company, ICICI Direct Research

Exhibit 4: Same store sales growth (SSSG) trend



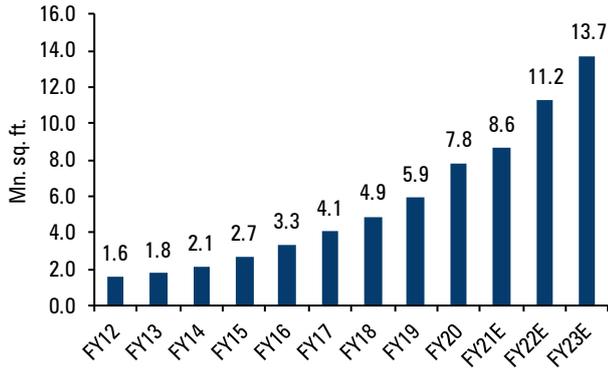
Source: Company, ICICI Direct Research

Exhibit 5: Store addition trend



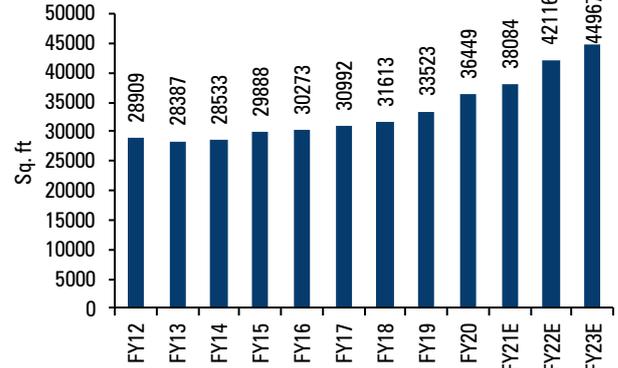
Source: Company, ICICI Direct Research

Exhibit 6: Total carpet area grows at much faster clip...



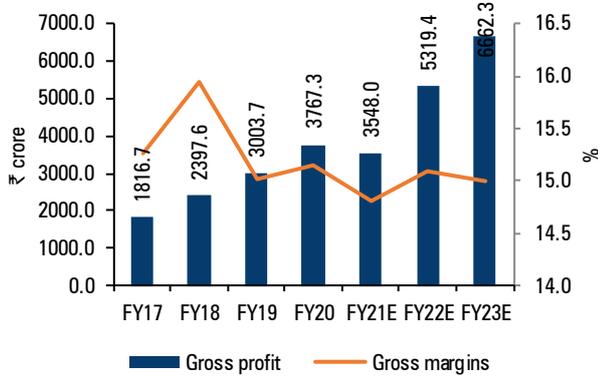
Source: Company, ICICI Direct Research

Exhibit 7: ...with gradual increase in average store size



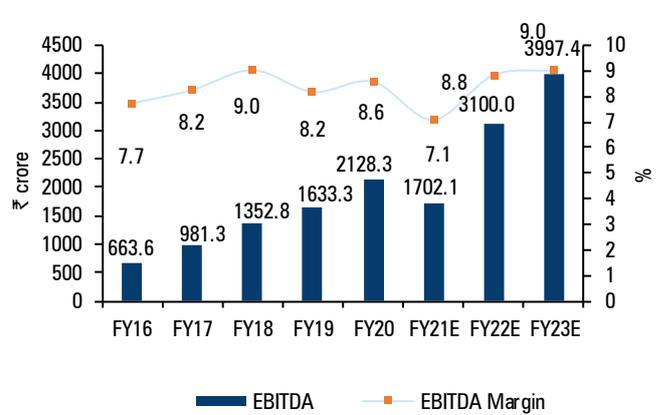
Source: Company, ICICI Direct Research

Exhibit 8: Gross margins expected to decelerate in FY21E owing to unfavourable product mix



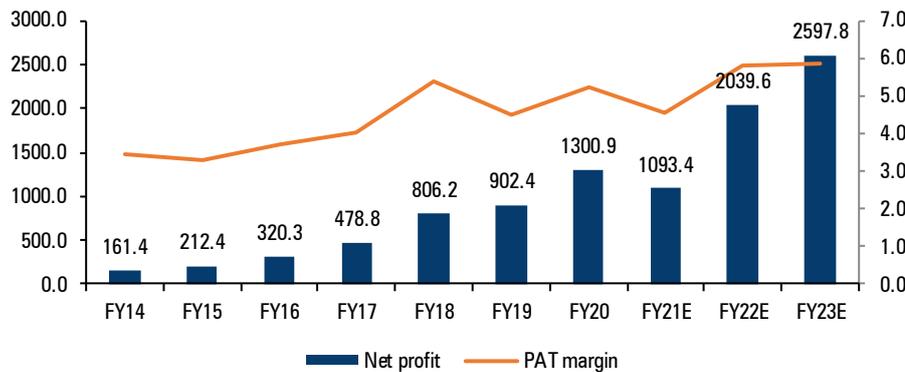
Source: Company, ICICI Direct Research

Exhibit 9: Weak SSSG, higher operating expense to impact margins in FY21E



Source: Company, ICICI Direct Research

Exhibit 10: Expect PAT to grow at 26% CAGR in FY20-23E aided by higher other income



Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 11: Profit & loss statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>24,870.2</b>	<b>23,972.8</b>	<b>35,227.8</b>	<b>44,415.5</b>
Growth (%)	24.3	(3.6)	46.9	26.1
Total Raw Material Cost	21,102.9	20,424.8	29,908.4	37,753.2
Gross Margins (%)	15.1	14.8	15.1	15.0
Employee Expenses	456.1	551.4	669.3	799.5
Other Expenses	1,182.9	1,294.5	1,550.0	1,865.5
Total Operating Expenditure	22,741.9	22,270.7	32,127.7	40,418.1
<b>EBITDA</b>	<b>2,128.3</b>	<b>1,702.1</b>	<b>3,100.0</b>	<b>3,997.4</b>
EBITDA Margin	8.6	7.1	8.8	9.0
Interest	69.1	37.5	41.5	47.4
Depreciation	374.4	409.4	515.7	645.7
Other Income	60.0	206.5	183.9	168.6
Exceptional Expense	-	-	-	-
PBT	1,744.8	1,461.7	2,726.7	3,472.9
Total Tax	443.8	368.4	687.1	875.2
<b>Profit After Tax</b>	<b>1,301.0</b>	<b>1,093.4</b>	<b>2,039.6</b>	<b>2,597.8</b>

Source: Company, ICICI Direct Research

### Exhibit 12: Cash flow statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	1,301.0	1,093.4	2,039.6	2,597.8
Add: Depreciation	374.4	409.4	515.7	645.7
Net Increase in Current Assets	-525.4	-176.2	-838.6	-908.3
Net Increase in Current Liabilities:	-4.8	-25.9	191.5	132.0
<b>CF from operating activities</b>	<b>1,145.2</b>	<b>1,300.6</b>	<b>1,908.2</b>	<b>2,467.2</b>
(Inc)/dec in Investments	-3,119.3	0.0	470.9	533.7
(Inc)/dec in Fixed Assets	-1,700.0	-895.7	-2,342.6	-2,592.5
Others	159.2	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-4,660.1</b>	<b>-895.7</b>	<b>-1,871.7</b>	<b>-2,058.8</b>
Inc / (Dec) in Equity Capital	23.7	0.0	0.0	0.0
Inc / (Dec) in Loan	-696.4	-3.7	50.0	0.0
Others	4,076.4	-102.2	-111.9	-129.1
<b>CF from financing activities</b>	<b>3,403.7</b>	<b>-105.9</b>	<b>-61.9</b>	<b>-129.1</b>
Net Cash flow	-111.2	299.0	-25.4	279.3
Opening Cash	219.1	107.9	406.9	381.5
<b>Closing Cash</b>	<b>107.9</b>	<b>406.9</b>	<b>381.5</b>	<b>660.8</b>

Source: Company, ICICI Direct Research

### Exhibit 13: Balance Sheet

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Equity Capital	647.8	647.8	647.8	647.8
Reserve and Surplus	10,432.0	11,525.4	13,565.0	16,162.7
Total Shareholders funds	11,079.7	12,173.1	14,212.7	16,810.5
Total Debt	3.7	-	50.0	50.0
Non Current Liabilities	343.8	343.8	343.8	343.8
<b>Source of Funds</b>	<b>11,427.2</b>	<b>12,516.9</b>	<b>14,606.5</b>	<b>17,204.3</b>
Gross block	5,930.3	6,826.0	9,283.0	11,875.4
Less: Accum depreciation	822.9	1,130.1	1,533.9	2,050.5
Net Fixed Assets	5,107.4	5,695.9	7,749.1	9,825.0
Capital WIP	364.4	364.4	250.0	250.0
Intangible assets	106.8	106.8	106.8	106.8
Investments	3,153.9	3,153.9	2,683.0	2,149.3
Inventory	1,947.4	2,036.0	2,798.9	3,650.6
Cash	107.9	406.9	381.5	660.8
Debtors	19.6	65.7	96.5	121.7
Loans & Advances & Other	257.7	270.5	284.1	298.3
Total Current Assets	2,332.5	2,779.2	3,561.0	4,731.3
Creditors	433.5	407.2	598.4	730.1
Provisions & Other CL	215.3	215.6	215.9	216.2
Total Current Liabilities	648.7	622.8	814.3	946.3
Net Current Assets	1,683.8	2,156.4	2,746.7	3,785.0
LT L& A, Other Assets	1,011.0	1,039.5	1,070.9	1,088.1
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>11,427.2</b>	<b>12,516.9</b>	<b>14,606.5</b>	<b>17,204.2</b>

Source: Company, ICICI Direct Research

### Exhibit 14: Key ratios

(Year-end March)	FY20A	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	20.1	16.9	31.5	40.1
Cash EPS	25.9	23.2	39.4	50.1
BV	171.0	187.9	219.4	259.5
Cash Per Share	1.7	6.3	5.9	10.2
<b>Operating Ratios (%)</b>				
EBITDA margins	8.6	7.1	8.8	9.0
PBT margins	7.0	6.1	7.7	7.8
Net Profit margins	5.2	4.6	5.8	5.8
Inventory days	28.6	31.0	29.0	30.0
Debtor days	0.3	1.0	1.0	1.0
Creditor days	6.4	6.2	6.2	6.0
<b>Return Ratios (%)</b>				
RoE	11.7	9.0	14.4	15.5
RoCE	16.4	12.3	19.4	20.9
RoIC	23.2	17.4	24.7	25.1
<b>Valuation Ratios (x)</b>				
P/E	147.4	175.4	94.0	73.8
EV / EBITDA	88.6	110.6	60.9	47.3
EV / Sales	7.6	7.8	5.4	4.3
Market Cap / Revenues	7.7	8.0	5.4	4.3
Price to Book Value	17.3	15.8	13.5	11.4
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	3.4	3.8	3.9	4.3
Quick Ratio	0.4	0.5	0.5	0.4

Source: Company, ICICI Direct Research

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Sell: <-15%



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