

# Avenue Supermarts

## HOLD

A festive treat!

### Summary

Avenue Supermarts (DMART) 3QFY21 results was better than expectations driven by meaningful recovery during the festive months of Oct-Nov'20. Re-introduction of night-curfew and weekend closure by the government due to COVID concerns impacted business-recovery during Dec'20. DMART added only 1 store during the quarter. DMART-Ready has been launched in select pin codes of Ahmedabad, Bangalore and Hyderabad. We read this as positive-sign; solving for convenience through disruptive business models is not just a trend but a business reality. Strong recovery during festivals is a testimony that DMART'S business is under no risk due to COVID induced change in customer behavior. We upgrade our TP to Rs 3,084 and maintain our HOLD rating on the stock.

### Key Highlights and Investment Rationale

#### ■ Festive season drives revenue growth

Standalone revenue grew 10%YoY to Rs 74bn driven by strong recovery in business during festive months of Oct'20 and Nov'20. However, in the month of Dec'20 overall business of matured-stores (2 year and older) declined to 96% due to night curfews and weekend closure Dmart soft launched DMART Ready in select pincodes of Ahmedabad, Bangalore and Hyderabad. Revenue from Avenue E-com (Consol – standalone) grew 92%YoY to Rs 1093mn.

#### ■ Operating profit margin expands due to better sales mix and lower expenses

Gross margin expands 11bp YoY to 15.1% driven by recovery in non-FMCG portfolio. EBITDA margin rose 56bp YoY to 9.3% due to better management of operating expenses (other expense declined 1%YoY) and operating leverage benefit. DMART added 1 store during 3QFY21. Out of total funds raised in QIP c. 62% remain unutilized.

#### ■ Upgrade target price; maintain HOLD

We have upgraded our valuation multiple to 50x FY23E EV/EBITDA (based on DCF) as we expect DMART's continued outperformance in modern retail. Our revised target price on DMART stands at Rs 3,084 (vs previous TP of Rs2,471). We maintain HOLD rating on the stock.

TP	<b>Rs3,084</b>
CMP	<b>Rs2,968</b>
Potential upside / downside	+4%
Previous Rating	HOLD

#### V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	16.5	31.9	41.0
Consensus	15.8	29.5	39.0
% difference	4.3	8.0	5.2

#### Shareholding Pattern (%)

Promoters	75.0
FII	10.3
DII	5.8
Public	8.9

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	11.7	43.7	62.2
Rel to Sensex	4.7	22.3	42.7

#### Key Stock Data

Bloomberg / Reuters	DMART IN/AVEU.BO
Sector	Retail
Shares o/s (mn)	648
Market cap. (Rs mn)	1,922,304
Market cap. (US\$ mn)	27,755
3-m daily average value (Rs mn)	605.2
52-week high / low	Rs3,095 / 1,736
Sensex / Nifty	48,783 / 14,347

#### Relative to Sensex (%)



#### Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,99,163	2,46,750	2,36,070	3,65,560	4,59,620
EBITDA	16,422	21,221	16,398	30,950	39,781
EBITDA (%)	8.2	8.6	6.9	8.5	8.7
Adj. PAT	9,364	13,499	10,686	20,656	26,557
EPS (Rs)	15.0	21.5	16.5	31.9	41.0
EPS Growth (%)	19.3	43.3	(23.3)	93.3	28.6
PE (x)	197.8	138.1	179.9	93.1	72.4
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	112.9	87.8	117.2	62.1	48.1
RoE (%)	18.3	16.1	9.2	15.6	17.0
RoCE (%)	26.2	20.4	10.6	19.6	21.7

Source: Company; IDBI Capital Research

**Exhibit 1: Standalone Quarterly Snapshot**

(INR m)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
<b>Revenues</b>	<b>74,327</b>	<b>67,519</b>	<b>10.1</b>	<b>52,182</b>	<b>42.44</b>	<b>1,64,841</b>	<b>1,84,815</b>	<b>-10.8</b>
COGS	63,096	57,392	9.9	44,851	40.7	1,41,046	1,56,415	-9.8
Gross profit	11,231	10,127	10.9	7,330	53.2	23,795	28,400	-16.2
<i>Gross Margin (%)</i>	<i>15.1</i>	<i>15.0</i>	<i>11 bps</i>	<i>14.0</i>	<i>106 bps</i>	<i>14.4</i>	<i>15.4</i>	<i>-93 bps</i>
Employee expenses	1,268	1,110	14.2	1,228	3.2	3,708	3,097	19.7
<i>% of net sales</i>	<i>1.7</i>	<i>1.6</i>	<i>6 bps</i>	<i>2.4</i>	<i>-65 bps</i>	<i>2.2</i>	<i>1.7</i>	<i>57 bps</i>
Other Expenses	3,050	3,086	-1.2	2,854	6.9	8,836	8,259	7.0
<i>% of net sales</i>	<i>4.1</i>	<i>4.6</i>	<i>-47 bps</i>	<i>5.5</i>	<i>-137 bps</i>	<i>5.4</i>	<i>4.5</i>	<i>89 bps</i>
<b>EBITDA</b>	<b>6,914</b>	<b>5,931</b>	<b>16.6</b>	<b>3,249</b>	<b>112.8</b>	<b>11,251</b>	<b>17,045</b>	<b>-34.0</b>
<b><i>EBITDA Margin (%)</i></b>	<b><i>9.3</i></b>	<b><i>8.8</i></b>	<b><i>52 bps</i></b>	<b><i>6.2</i></b>	<b><i>308 bps</i></b>	<b><i>6.8</i></b>	<b><i>9.2</i></b>	<b><i>-240 bps</i></b>
Depreciation	1,003	867	15.6	904	10.9	2,767	2,450	13.0
EBIT	5,911	5,064	16.7	2,345	152.07	8,484	14,595	-41.9
Other Income	492	69	608.9	558	-11.8	1,564	277	463.6
Interest Expenses	87	160	-45.6	79	10.2	242	503	-52.0
<b>PBT</b>	<b>6,316</b>	<b>4,973</b>	<b>27.0</b>	<b>2,824</b>	<b>123.6</b>	<b>9,806</b>	<b>14,369</b>	<b>-31.8</b>
Taxes	1,614	1,031	56.5	719	124.5	2,502	3,739	-33.1
<b>Adjusted PAT</b>	<b>4,702</b>	<b>3,943</b>	<b>19.3</b>	<b>2,105</b>	<b>123.3</b>	<b>7,304</b>	<b>10,630</b>	<b>-31.3</b>
Extra-ordinary items	0	0		0		0	0	
Reported PAT	4,702	3,943	19.3	2,105	123.3	7,304	10,630	-31.3
<b>EPS</b>	<b>7.3</b>	<b>6.3</b>	<b>15.7</b>	<b>3.3</b>	<b>123.3</b>	<b>11.29</b>	<b>17.00</b>	<b>-33.6</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Consolidated Quarterly Snapshot**

(INR m)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
<b>Revenues</b>	<b>75,420</b>	<b>68,089</b>	<b>10.8</b>	<b>53,062</b>	<b>42.14</b>	<b>1,67,314</b>	<b>1,86,143</b>	<b>-10.1</b>
COGS	63,726	57,658	10.5	45,356	40.5	1,42,392	1,56,971	-9.3
Gross profit	11,694	10,432	12.1	7,706	51.7	24,922	29,172	-14.6
<i>Gross Margin (%)</i>	<i>15.5</i>	<i>15.3</i>	<i>18 bps</i>	<i>14.5</i>	<i>98 bps</i>	<i>15.1</i>	<i>15.8</i>	<i>-67 bps</i>
Employee expenses	1,393	1,185	17.6	1,318	5.7	3,999	3,300	21.2
<i>% of net sales</i>	<i>1.8</i>	<i>1.7</i>	<i>11 bps</i>	<i>2.5</i>	<i>-64 bps</i>	<i>2.4</i>	<i>1.8</i>	<i>64 bps</i>
Other Expenses	3,410	3,280	4.0	3,094	10.2	9,619	8,762	9.8
<i>% of net sales</i>	<i>4.5</i>	<i>4.8</i>	<i>-30 bps</i>	<i>5.8</i>	<i>-131 bps</i>	<i>5.8</i>	<i>4.7</i>	<i>109 bps</i>
<b>EBITDA</b>	<b>6,891</b>	<b>5,967</b>	<b>15.5</b>	<b>3,295</b>	<b>109.1</b>	<b>11,304</b>	<b>17,110</b>	<b>-33.9</b>
<b><i>EBITDA Margin (%)</i></b>	<b><i>9.1</i></b>	<b><i>8.8</i></b>	<b><i>37 bps</i></b>	<b><i>6.2</i></b>	<b><i>293 bps</i></b>	<b><i>6.9</i></b>	<b><i>9.3</i></b>	<b><i>-240 bps</i></b>
Depreciation	1,137	952	19.4	1,007	12.9	3,092	2,698	14.6
EBIT	5,754	5,015	14.7	2,288	151.52	8,212	14,411	-43.0
Other Income	453	61	646.6	522	-13.1	1,481	251	489.1
Interest Expenses	113	176	-35.8	93	21.9	294	548	-46.3
<b>PBT</b>	<b>6,094</b>	<b>4,900</b>	<b>24.4</b>	<b>2,717</b>	<b>124.3</b>	<b>9,399</b>	<b>14,115</b>	<b>-33.4</b>
Taxes	1,625	1,060	53.4	732	122.1	2,543	3,818	-33.4
<b>Adjusted PAT</b>	<b>4,470</b>	<b>3,840</b>	<b>16.4</b>	<b>1,985</b>	<b>125.1</b>	<b>6,856</b>	<b>10,297</b>	<b>-33.4</b>
Extra-ordinary items	0	0		0		0	0	
Reported PAT	4,470	3,840	16.4	1,985	125.1	6,856	10,297	-33.4
<b>EPS</b>	<b>6.9</b>	<b>6.1</b>	<b>12.8</b>	<b>3.1</b>	<b>125.1</b>	<b>10.58</b>	<b>16.46</b>	<b>-35.7</b>

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. Estimates**

(Rs mn)

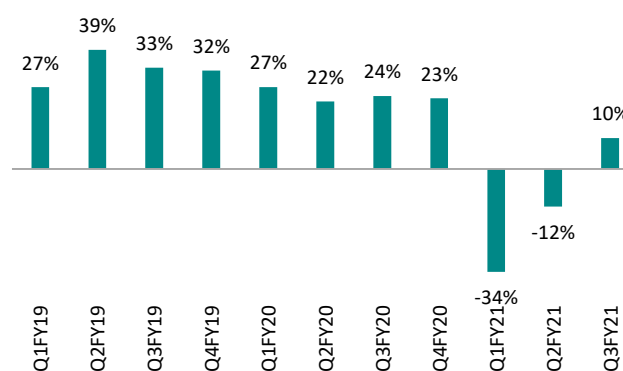
DMART	Actual	IDBI Estimate	% variation IDBI
Revenue	74,327	69,545	6.9
EBITDA	6,914	5,216	32.6
Margin	9.3	7.5	
APAT	4,702	3,572	31.7

Source: Company; IDBI Capital Research

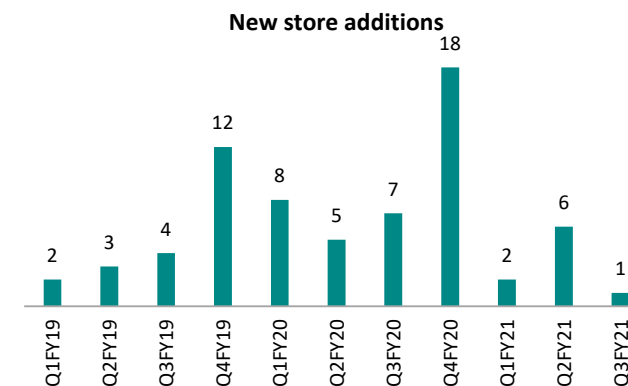
**Exhibit 4: Change in estimates**

	FY21E			FY22E			FY23E		
	New	Old	(%) Chg	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	2,36,070	2,47,961	(4.8)	3,65,560	3,65,560	0.0	4,59,620	4,59,616	0.0
EBITDA (Rs mn)	16,398	17,221	(4.8)	30,950	30,950	0.0	39,781	39,781	0.0
EBITDA margin (%)	6.9	6.9		8.5%	8.5%		8.7%	8.7%	
Net profit (Rs mn)	10,686	11,083	(3.6)	20,656	20,656	0.0	26,557	26,556	0.0
EPS (Rs)	16.5	17.1	(3.6)	31.9	31.9	0.0	41.0	41.0	0.0

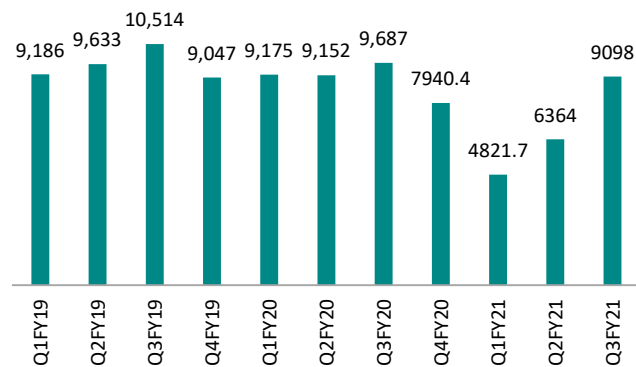
Source: Company; IDBI Capital Research

**Exhibit 5: Revenue growth trend (% YoY)**


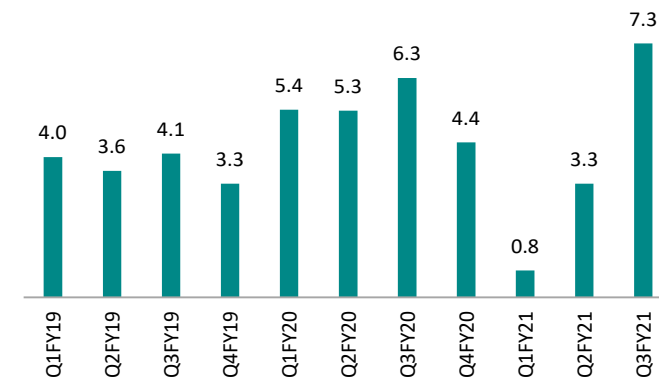
Source: Company; IDBI Capital Research

**Exhibit 6: Store addition trend (count of stores added)**


Source: Company; IDBI Capital Research

**Exhibit 7: Revenue per square feet trend**


Source: Company; IDBI Capital Research

**Exhibit 8: EPS trend**


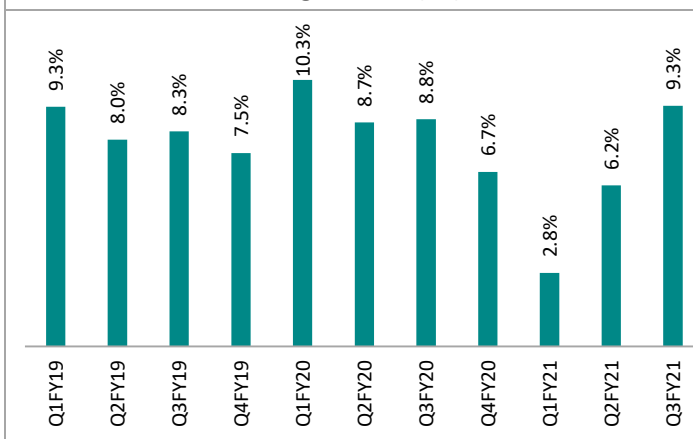
Source: Company; IDBI Capital Research

**Exhibit 9: Gross margin trend (%)**

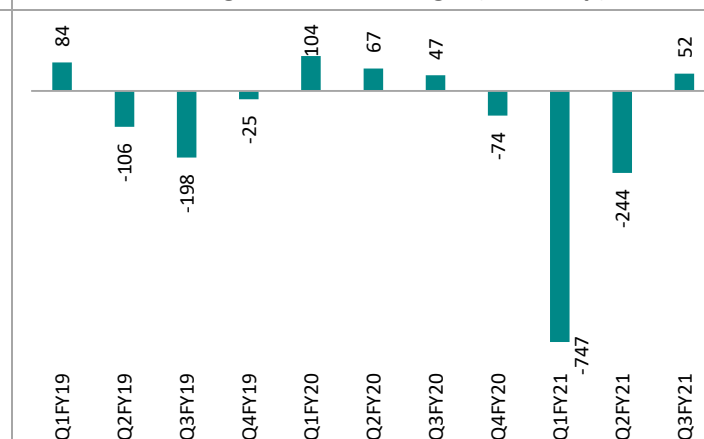

Source: Company; IDBI Capital Research

**Exhibit 10: Change in gross margin (YoY in bp)**


Source: Company; IDBI Capital Research

**Exhibit 11: EBITDA margin trend (%)**


Source: Company; IDBI Capital Research

**Exhibit 12: Change in EBITDA margin (YoY in bp)**


Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>246,750</b>	<b>2,36,070</b>	<b>365,560</b>	<b>4,59,620</b>
<i>growth (%)</i>	23.9	(4.3)	47.4	25.7
Operating expenses	(225,529)	(2,19,672)	(334,610)	(4,19,839)
<b>EBITDA</b>	<b>21,221</b>	<b>16,398</b>	<b>30,950</b>	<b>39,781</b>
<i>growth (%)</i>	29.2	-22.7	79.7	28.5
Depreciation	(3,398)	(3,776)	(4,612)	(5,448)
<b>EBIT</b>	<b>17,823</b>	<b>12,622</b>	<b>26,338</b>	<b>34,334</b>
Interest paid	(628)	(332)	(854)	(982)
Other income	633	2,058	2,058	2,058
<b>Pre-tax profit</b>	<b>17,829</b>	<b>14,348</b>	<b>27,542</b>	<b>35,409</b>
Tax	(4,330)	(3,662)	(6,885)	(8,852)
<i>Effective tax rate (%)</i>	24.3	25.5	25.0	25.0
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>13,499</b>	<b>10,686</b>	<b>20,656</b>	<b>26,557</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>13,499</b>	<b>10,686</b>	<b>20,656</b>	<b>26,557</b>
<i>growth (%)</i>	44.2	(20.8)	93.3	28.6
<i>Shares o/s (mn nos)</i>	628	648	648	648

### Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	17,829	14,348	27,542	35,409
Depreciation	3,398	3,776	4,612	5,448
Tax paid	(4,815)	(3,662)	(6,885)	(8,852)
Chg in working capital	(3,185)	518	(7,882)	(5,785)
Other operating activities	(353)	332	854	982
<b>Cash flow from operations (a)</b>	<b>12,874</b>	<b>15,312</b>	<b>18,240</b>	<b>27,202</b>
Capital expenditure	(16,831)	(13,421)	(17,000)	(17,000)
Chg in investments	(30,288)	-	-	-
Other investing activities	122	-	-	-
<b>Cash flow from investing (b)</b>	<b>(46,996)</b>	<b>(13,421)</b>	<b>(17,000)</b>	<b>(17,000)</b>
Equity raised/(repaid)	41,869	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	-	-	-	-
Chg in minorities	13,900	-	-	-
Other financing activities	(22,863)	(1,214)	(1,893)	(2,177)
<b>Cash flow from financing (c)</b>	<b>32,905</b>	<b>(1,214)</b>	<b>(1,893)</b>	<b>(2,177)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,217)</b>	<b>677</b>	<b>(653)</b>	<b>8,024</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	54,338	64,866	78,293	91,040
Investments	3,038	3,038	3,038	3,038
Other non-curr assets	40,542	40,542	40,542	40,542
<b>Current assets</b>	<b>22,923</b>	22,930	32,483	48,000
Inventories	19,094	18,446	28,397	35,704
Sundry Debtors	485	464	719	904
Cash and Bank	915	1,591	939	8,963
<b>Total assets</b>	<b>120,841</b>	<b>1,31,376</b>	<b>1,54,357</b>	<b>1,82,620</b>
<b>Shareholders' funds</b>	<b>111,355</b>	<b>1,22,041</b>	<b>1,42,698</b>	<b>1,69,255</b>
Share capital	6,478	6,478	6,478	6,478
Reserves & surplus	104,878	1,15,564	1,36,220	1,62,777
<b>Total Debt</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>
Secured loans	37	37	37	37
Other liabilities	2,268	2,268	2,268	2,268
<b>Curr Liab &amp; prov</b>	<b>7,181</b>	<b>7,029</b>	<b>9,354</b>	<b>11,060</b>
Current liabilities	7,038	6,886	9,210	10,917
Provisions	143	143	143	143
<b>Total liabilities</b>	<b>9,486</b>	<b>9,335</b>	<b>11,659</b>	<b>13,366</b>
<b>Total equity &amp; liabilities</b>	<b>120,841</b>	<b>1,31,376</b>	<b>1,54,357</b>	<b>1,82,620</b>
<b>Book Value (Rs)</b>	<b>177</b>	<b>188</b>	<b>220</b>	<b>261</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	21.5	16.5	31.9	41.0
Adj. EPS growth (%)	43.3	-23.3	93.3	28.6
EBITDA margin (%)	8.6	6.9	8.5	8.7
Pre-tax margin (%)	7.2	6.1	7.5	7.7
ROE (%)	16.1	9.2	15.6	17.0
ROCE (%)	20.4	10.6	19.6	21.7
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	2.6	1.9	2.6	2.7
Leverage factor (x)	1.1	1.1	1.1	1.1
Net margin (%)	5.5	4.5	5.7	5.8
Net Debt/Equity (x)	(0.0)	0.0	0.0	-0.1
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	28	29	28	28
Receivable days	1	1	1	1
Payable days	7	7	7	7

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	138.1	179.9	93.1	72.4
Price / Book value (x)	16.7	15.8	13.5	11.4
PCE (x)	110.3	132.9	76.1	60.1
EV / Net sales (x)	7.6	8.1	5.3	4.2
EV / EBITDA (x)	87.8	117.2	62.1	48.1
Dividend Yield (%)	0.0	0.0	0.0	0.0





# Notes

Dealing

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**Key to Ratings Stocks:**

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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