

Avenue Supermarts

Estimate changes

TP change

Rating change



Bloomberg	DMART IN
Equity Shares (m)	648
M.Cap.(INRb)/(USDb)	2561.2 / 30.8
52-Week Range (INR)	4399 / 3292
1, 6, 12 Rel. Per (%)	5/2/-25
12M Avg Val (INR M)	1347

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	428	522	671
EBITDA	36	43	60
Adj. PAT	24	27	38
EBITDA Margin (%)	8	8	9
Adj. EPS (INR)	37	42	58
EPS Gr. (%)	59	14	39
BV/Sh. (INR)	258	302	363

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	16.0	15.5	18.2
RoCE (%)	15.7	15.3	17.9
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	107.0	94.0	67.5
EV/EBITDA (x)	69.8	58.6	42.5
EV/Sales (X)	5.9	4.9	3.8
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.2	0.2	0.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	74.7	74.9	75.0
DII	7.7	7.5	6.9
FII	8.2	8.2	8.6
Others	9.5	9.4	9.5

FII Includes depository receipts

CMP: INR3,936 TP: INR4,500 (+14%)
Buy

Healthy LFL indicates signs of recovery

Demand revival in GM&A category remains a key monitorable

- Avenue Supermarts (DMART)'s consolidated/standalone revenue grew 18.7%/18.5 YoY in 2QFY24. Revenue growth was mainly led by 11% YoY store additions. However, revenue/sqft that remained a laggard has seen a recovery and improved 6% YoY during the quarter.. This indicated higher contribution from the larger-sized stores.
- Consolidated EBITDA margin for the quarter contracted 40bp YoY to 8% due to mix-led lower gross margin (reduced share of General Merchandise & Apparel (GM&A)) and higher opex.
- The reducing gap between revenue/store and revenue/sqft implied that share of larger-format stores improved and this remained a key positive. Further, robust store additions (72% footprint additions over FY20-23), healthy cost efficiencies and a recovery in discretionary demand (with the onset of festive season) are likely to drive growth. We have cut our FY24E PAT by 4.6% due to slower recovery in 1HFY24E but expect gradual improvement from 2HFY24E factoring in revenue/PAT CAGR of 25%/26% over FY23-25. Subsequently, we assign a 42x EV/EBITDA multiple on an FY25E basis to arrive at our TP of INR4,500. **Reiterate BUY.**

Consolidated EBITDA up 12.7% YoY (11% miss) due to lower GM

- DMART's consolidated revenue grew 18.7% YoY to INR126.2b (in line). Standalone revenue for 2QFY24 rose ~19% YoY to INR123.1b (in line vs. INR127.7b estimated) driven by 11% YoY store additions and 7% YoY revenue/store growth to INR1,485m (annualized).
 - Standalone revenue grew 6% sequentially, which was evenly distributed within footprint additions and improved throughput.
 - Standalone revenue/sqft grew 6% YoY to INR35,935/sqft indicating signs of maturity for larger stores being added recently.
- Consolidated gross margin contracted 40bp YoY and stood at 14.7% (30bp miss) primarily due to lower sales contribution from the high-margin GM&A segment. As a result, gross profit increased 15% YoY to INR18.5b (6% miss). Standalone margin contracted 50bp YoY to 14%.
- Employee cost/other expenses grew 19.1%/17.9% YoY to INR2.2b/INR6.2b during 2QFY24.
- Consolidated EBITDA rose 12.7% YoY to INR10b (11% miss) due to lower gross margin and higher opex. EBITDA margin contracted 40bp (60bp miss) and stood at 8% in 2QFY24.
- Consolidated PBT grew 13.9% YoY to INR8.5b (12% miss). Reported PAT declined 9% YoY mainly on account of lower taxes in 2QFY23, as a result of the reversal of tax related to the previous period.

Key highlights

- Share of revenue from the GM&A segment contracted to 23.21% in 1HFY24 from 24.75% in 1HFY23, indicating a continued weakness within this category.
- Bill cuts at 147m during 1HFY24 were higher by 36% YoY, while Average Bill Value declined ~13% YoY to INR1,625.
- LFL growth of stores operational for 24 months as of 1HFY24 stood at 8.6%.

Valuation and view

- DMART clocked 19% revenue CAGR over FY20-23 led by 20% footprint additions. Subdued SSSG was mainly due to: 1) the additions of bigger stores over the last couple of years (20% rise in average store size), and 2) weak discretionary demand (share of discretionary items reduced to 23% in FY23 from 27% in FY20).
- However, despite its weak SSSG, DMART has managed to protect its EBITDA margin at pre-Covid levels through its strong cost-control measures (unlike most other retailers).
- The recovery in revenue/sqft and the reducing gap between revenue/store and revenue/sqft further implied that the share of larger-format stores improved and this remained a key positive. This, along with moderating inflation and onset of the festive season may help in reviving discretionary demand and consequently improve the SSSG trend.
- Recovery within the higher margin category of GM&A, however, remains a key monitorable for margin improvement going forward.
- We have cut our FY24E PAT by 4.6% on slower recovery in 1HFY24E but expect gradual improvement from 2HFY24E factoring in a revenue/PAT CAGR of 25%/26% over FY23-25 aided by 16%/8% growth in footprints/revenue productivity. Subsequently, we assign a 42x EV/EBITDA multiple on an Sep'FY25E basis to arrive at our TP of INR4,500. **We reiterate our BUY rating on the stock.**

Consolidated - Quarterly Earnings

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	Var(%)
Revenue	100.4	106.4	115.7	105.9	118.7	126.2	144.7	132.7	428.4	522.4	131.0	(3.7)
YoY Change (%)	93.7	36.6	25.5	20.6	18.2	18.7	25.1	25.3	38.3	21.9	23.2	
Total Expenditure	90.3	97.5	106.0	98.2	108.3	116.2	131.9	122.5	392.0	478.9	119.8	(3.0)
EBITDA	10.1	8.9	9.7	7.7	10.4	10.0	12.8	10.2	36.4	43.4	11.2	(10.5)
EBITDA margin (%)	10.0	8.4	8.3	7.3	8.7	8.0	8.8	7.7	8.5	8.3	8.6	
Change YoY (%)	349.7	33.4	11.4	4.4	2.7	12.7	32.6	32.6	45.6	19.4	25.9	
Depreciation	1.4	1.6	1.7	1.6	1.6	1.7	1.8	2.0	6.4	7.2	1.9	(6.1)
Interest	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.3	0.7	0.7	0.1	7.0
Other Income	0.3	0.4	0.3	0.3	0.4	0.4	0.5	0.4	1.3	1.7	0.4	
PBT	8.8	7.5	8.1	6.2	9.0	8.5	11.3	8.3	30.6	37.1	9.6	(11.6)
Tax	2.3	0.6	2.2	1.6	2.4	2.3	3.0	2.3	6.8	10.0	2.6	
Rate (%)	26.6	8.3	27.4	26.4	26.6	26.8	27.0	27.6	22.3	27.0	27.0	
Reported PAT	6.4	6.9	5.9	4.6	6.6	6.2	8.2	6.0	23.8	27.1	7.0	(11.4)
Adj PAT	6.4	5.4	5.9	4.6	6.6	6.2	8.2	6.0	22.4	27.1	7.0	(11.4)
YoY Change (%)	574.2	30.4	6.7	7.8	2.5	14.4	39.5	31.2	49.9	21.0	29.1	

E: MOFSL Estimates

Exhibit 2: Valuation based on Sep'25E EBITDA

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
EBITDA	Sep'25 EV/EBITDA	69	42	2,890	4,469
Less Net debt				-20	-31
Total Value				2,910	4,500
Shares o/s (m)				648	
CMP (INR)					3,930
Upside (%)					15

Source: MOFSL, Company

Exhibit 3: Reducing Gap between Rev/Store and Rev/Sqft growth

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (INR b)	76	91	86	98	104	113	103	116	123
YoY growth	47%	22%	18%	95%	36%	25%	20%	18%	19%
Store count	246	263	284	294	302	306	324	327	336
Store adds	8	17	21	10	8	4	18	3	9
YoY growth	12%	19%	21%	24%	23%	16%	14%	11%	11%
Total Area (mn sqft)	9.4	10.3	11.5	12.1	12.4	12.6	13.4	13.5	13.9
YoY growth	15%	26%	31%	34%	31%	22%	17%	12%	12%
Rev/Store (INR m)	1,264	1,425	1,259	1,357	1,394	1,487	1,313	1,424	1,485
YoY growth	32%	6%	-2%	59%	10%	4%	4%	5%	7%
Rev/sq ft	33,169	36,738	31,582	33,244	33,909	36,175	31,807	34,452	35,935
YoY growth	29%	1%	-8%	47%	2%	-2%	1%	4%	6%

Source:

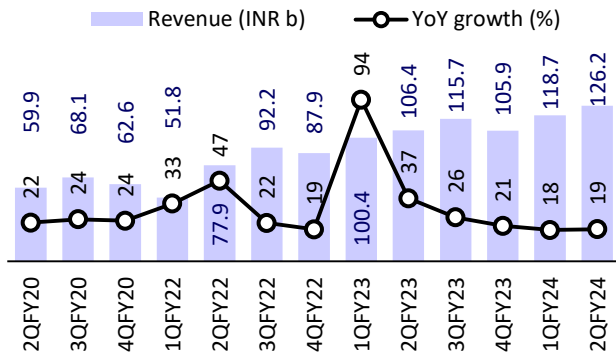
Exhibit 4: Summary of changes to our estimates

	FY24E	FY25E
Revenue (INR b)		
Old	525	684
Actual/New	522	671
Change (%)	-0.6	-1.8
RM cost (INR b)		
Old	446	580
Actual/New	445	569
Change (%)	-0.4	-1.8
Gross Profit (INR b)		
Old	78.9	104.1
Actual/New	77.5	102.2
Change (%)	-1.8	-1.8
Gross margin (%)		
Old	15.0	15.2
Actual/New	14.8	15.2
Change (bp)	-19bps	1bps
EBITDA (INR b)		
Old	45	61
Actual/New	43	60
Change (%)	-4.5	-1.7
EBITDA margin (%)		
Old	8.7	8.9
Actual/New	8.3	8.9
Change (bp)	-34bps	1bps
Net Profit (INR b)		
Old	28	38
Actual/New	27	38
Change (%)	-4.6	-2.0

Source: MOFSL

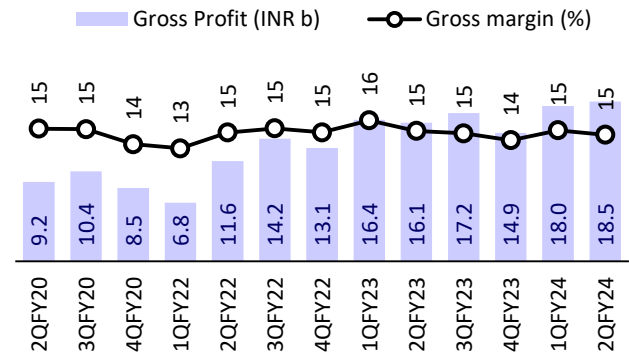
Story in charts

Exhibit 5: Consol. revenue up ~19% YoY led by area additions



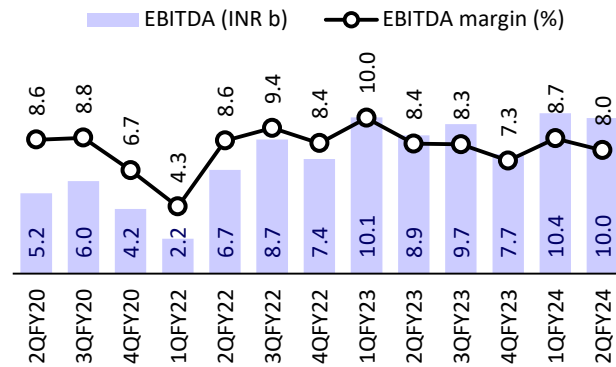
Source: Company, MOFSL

Exhibit 6: GM contracted 40bp YoY due to weak GM&A



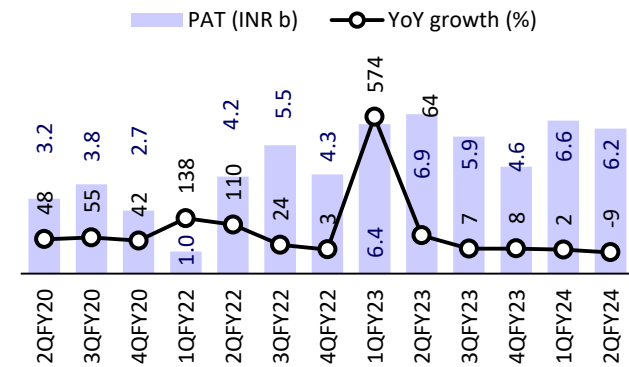
Source: Company, MOFSL

Exhibit 7: EBITDAM contracted 40bp YoY due to weak GM



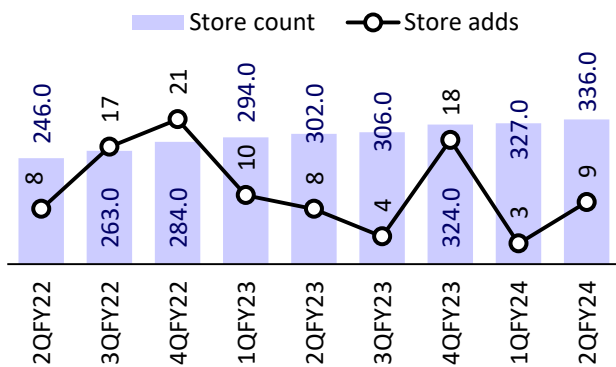
Source: MOFSL, Company

Exhibit 8: Reported PAT declined 9% YoY



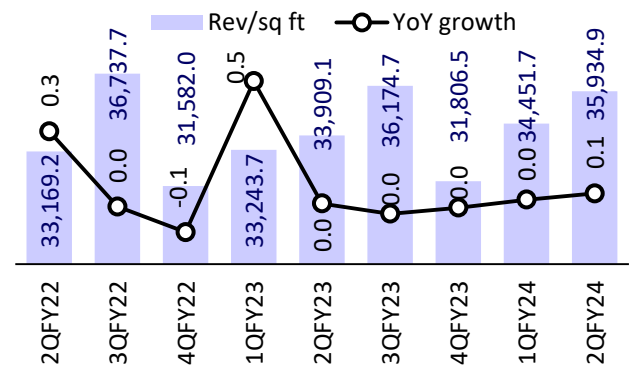
Source: MOFSL, Company

Exhibit 9: Added nine stores in 2QFY24

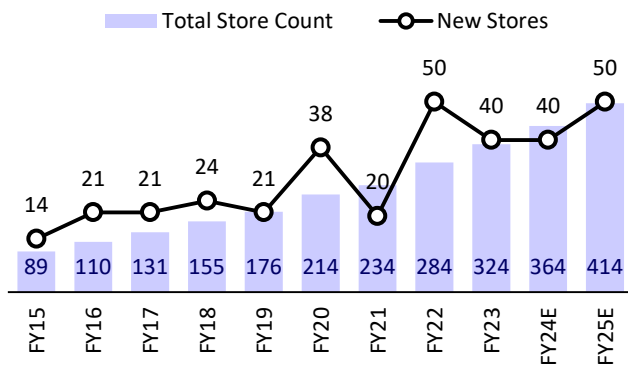


Source: MOFSL, Company

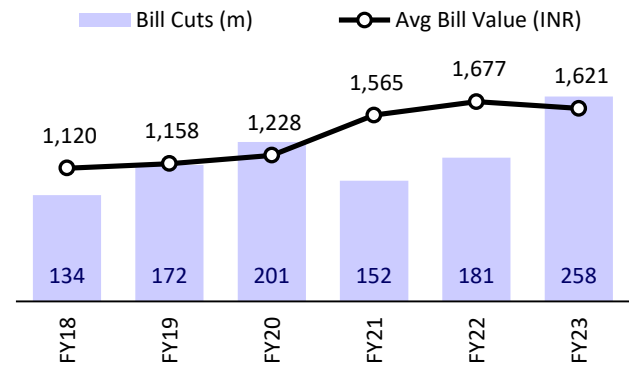
Exhibit 10: Revenue/sqft improved gradually QoQ



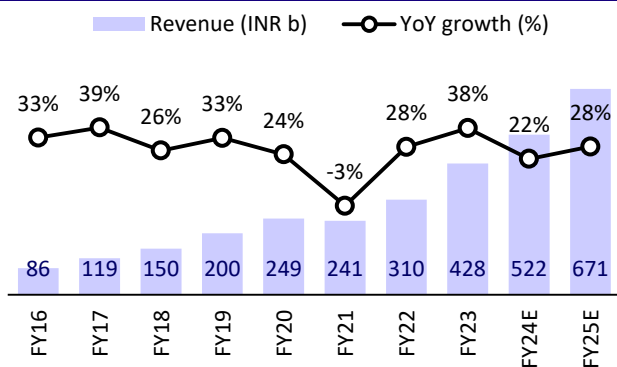
Source: MOFSL, Company

Exhibit 11: Expect store additions to continue

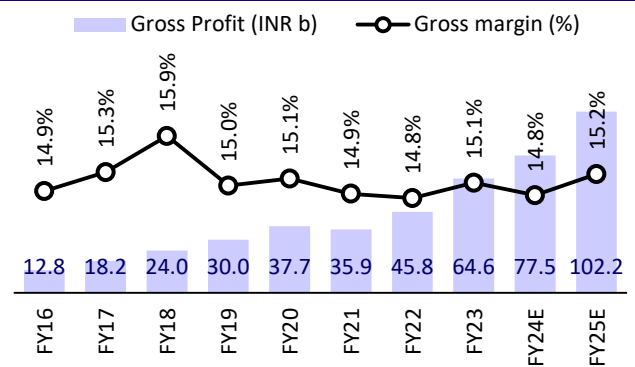
Source: MOFSL, Company

Exhibit 12: Bill cuts improved YoY but ABV declined

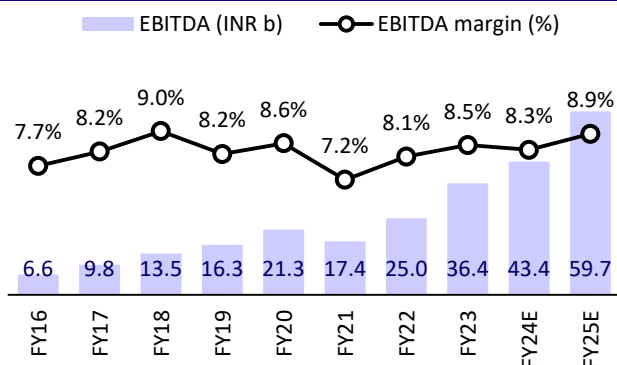
Source: MOFSL, Company

Exhibit 13: Expect 25% consol. revenue CAGR over FY23-25

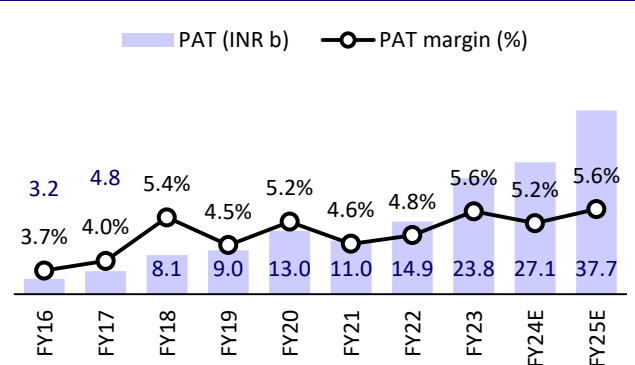
Source: MOFSL, Company

Exhibit 14: GM for FY24E to remain soft

Source: MOFSL, Company

Exhibit 15: Expect 28% EBITDA CAGR over FY23-25

Source: MOFSL, Company

Exhibit 16: Expect 26% PAT CAGR over FY23-25

Source: MOFSL, Company

Financials and valuation

Consolidated - Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	1,50,332	2,00,045	2,48,702	2,41,431	3,09,763	4,28,396	5,22,374	6,71,153
Change (%)	26.4	33.1	24.3	-2.9	28.3	38.3	21.9	28.5
Raw Materials	1,26,356	1,70,008	2,11,029	2,05,547	2,63,974	3,63,840	4,44,886	5,68,929
Gross Profit	23,976	30,037	37,673	35,884	45,789	64,556	77,488	1,02,225
Margin (%)	15.9	15.0	15.1	14.9	14.8	15.1	14.8	15.2
Employees Cost	2,826	3,554	4,561	5,366	6,162	7,470	9,089	11,074
Other Expenses	7,622	10,150	11,829	13,088	14,642	20,716	24,969	31,410
Total Expenditure	1,36,804	1,83,712	2,27,419	2,24,000	2,84,778	3,92,025	4,78,945	6,11,413
% of Sales	91.0	91.8	91.4	92.8	91.9	91.5	91.7	91.1
EBITDA	13,528	16,333	21,283	17,431	24,985	36,370	43,429	59,741
Margin (%)	9.0	8.2	8.6	7.2	8.1	8.5	8.3	8.9
Depreciation	1,590	2,125	3,744	4,142	4,981	6,389	7,242	8,919
EBIT	11,938	14,208	17,539	13,289	20,004	29,982	36,188	50,821
Int. and Finance Charges	595	472	691	417	538	674	742	742
Other Income	693	484	600	1,962	1,175	1,293	1,658	1,591
PBT bef. EO Exp.	12,036	14,219	17,448	14,835	20,641	30,601	37,104	51,671
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	12,036	14,219	17,448	14,835	20,641	30,601	37,104	51,671
Total Tax	4,158	5,195	4,438	3,840	5,717	6,818	10,018	13,951
Tax Rate (%)	34.5	36.5	25.4	25.9	27.7	22.3	27.0	27.0
Minority Interest	-185	1	1	0	0	0	0	0
Reported PAT	8,063	9,024	13,009	10,994	14,924	23,783	27,086	37,720
Adjusted PAT	8,063	9,024	13,009	10,994	14,924	23,783	27,086	37,720
Change (%)	68.4	11.9	44.2	-15.5	35.7	59.4	13.9	39.3
Margin (%)	5.4	4.5	5.2	4.6	4.8	5.6	5.2	5.6

Consolidated - Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	6,241	6,241	6,478	6,478	6,478	6,483	6,507	6,507
Total Reserves	40,450	49,634	1,04,320	1,15,359	1,30,299	1,54,304	1,82,052	2,19,772
Net Worth	46,691	55,875	1,10,797	1,21,837	1,36,776	1,60,787	1,88,559	2,26,279
Total Loans	4,393	4,298	37	0	0	0	0	0
Lease Liabilities			2,955	3,927	6,469	6,430	6,369	6,961
Deferred Tax Liabilities	452	633	474	512	640	770	770	770
Capital Employed	51,541	60,811	1,14,268	1,26,281	1,43,890	1,67,987	1,95,699	2,34,010
Gross Block	37,223	49,352	68,484	83,178	1,10,486	1,37,381	1,61,784	1,93,108
Less: Accum. Deprn.	4,006	6,131	9,786	13,873	18,669	24,759	32,000	40,919
Net Fixed Assets	33,217	43,221	58,698	69,305	91,817	1,12,622	1,29,783	1,52,189
Right to use assets			7,173	9,602	13,887	15,049	15,563	16,430
Capital WIP	1,471	3,768	3,644	10,196	11,293	8,292	8,292	8,292
Total Investments	682	165	31,374	30	59	2,022	3,267	3,593
Curr. Assets, Loans&Adv.	20,330	22,118	26,264	56,237	50,758	57,327	67,893	87,500
Inventory	11,634	16,087	19,474	22,483	27,427	32,435	41,441	52,996
Account Receivables	335	644	196	436	669	622	776	997
Cash and Bank Balance	5,602	2,191	1,079	14,456	2,986	14,083	15,489	23,319
Loans and Advances	2,758	3,197	5,516	18,863	19,677	10,187	10,187	10,187
Curr. Liability & Prov.	4,942	9,246	6,497	10,280	10,838	13,076	14,336	18,363
Account Payables	3,173	4,633	4,335	5,781	5,892	7,538	9,374	11,987
Other Current Liabilities	1,642	4,474	1,996	4,236	4,533	4,965	4,440	5,705
Provisions	127	139	167	262	413	573	522	671
Net Current Assets	15,387	12,872	19,767	45,958	39,920	44,251	53,557	69,136
Deferred Tax assets	1	2	3	10	17	18	18	18
Appl. of Funds	51,541	60,811	1,14,268	1,26,281	1,43,890	1,67,987	1,95,699	2,34,010

E: MOFSL Estimates

Financials and valuation

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS (diluted from FY17)	12.9	14.5	20.1	17.0	23.0	36.7	41.8	58.2
Cash EPS (diluted from FY17)	15.5	17.9	26.8	24.3	31.9	48.3	55.0	74.7
BV/Share (diluted from FY17)	74.8	89.5	177.5	195.2	219.2	257.6	302.1	362.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	304.2	271.8	195.7	231.6	170.6	107.0	94.0	67.5
Cash P/E	254.1	220.0	146.4	162.0	123.2	81.3	71.4	52.6
P/BV	52.5	43.9	22.1	20.1	17.9	15.3	13.0	10.8
EV/Sales	16.3	12.3	10.2	10.5	8.2	5.9	4.9	3.8
EV/EBITDA	181.2	150.3	118.2	145.4	102.0	69.8	58.6	42.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-2.9	-9.5	-6.6	-10.1	-15.7	6.5	6.6	15.1
Return Ratios (%)								
RoE	18.9	17.6	15.6	9.5	11.5	16.0	15.5	18.2
RoCE	15.8	16.8	15.5	9.4	11.4	15.7	15.3	17.9
RoIC	20.4	18.3	19.7	11.0	12.5	17.1	16.9	20.2
Working Capital Ratios								
Fixed Asset Turnover (x)	4.0	4.1	3.6	2.9	2.8	3.1	3.2	3.5
Asset Turnover (x)	2.9	3.3	2.2	1.9	2.2	2.6	2.7	2.9
Inventory (Days)	34	35	34	40	38	33	34	34
Debtor (Days)	1	1	0	1	1	1	1	1
Creditor (Days)	9	10	7	10	8	8	8	8
Leverage Ratio (x)								
Current Ratio	4.1	2.4	4.0	5.5	4.7	4.4	4.7	4.8
Interest Cover Ratio	20.0	30.1	25.4	31.9	37.2	44.5	48.8	68.5
Net Debt/Equity	0.0	0.0	-0.3	-0.1	0.0	-0.1	-0.1	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	12,036	14,219	17,448	14,835	20,641	30,601	37,104	51,671
Depreciation	1,590	2,125	3,744	4,142	4,981	6,389	7,242	8,919
Interest & Finance Charges	595	472	691	417	538	674	742	742
Direct Taxes Paid	-4,027	-5,018	-4,924	-2,616	-5,603	-7,089	-10,018	-13,951
(Inc)/Dec in WC	-2,427	-3,507	-3,762	-1,271	-5,825	-3,199	-7,901	-7,749
CF from Operations	7,767	8,292	13,197	15,506	14,733	27,376	27,169	39,632
Others	-467	-224	-395	-1,754	-1,009	-1,073	-997	-1,591
CF from Operating incl EO	7,300	8,068	12,801	13,751	13,724	26,303	26,172	38,041
(Inc)/Dec in FA	-9,087	-13,970	-17,060	-20,275	-23,895	-22,065	-21,891	-28,185
Free Cash Flow	-1,787	-5,902	-4,259	-6,524	-10,172	4,238	4,281	9,856
(Pur)/Sale of Investments	-247	0	0	7,830	10,500	-1,500	-1,245	-327
Others	13,970	4,386	-29,505	1,345	500	434	1,658	1,591
CF from Investments	4,635	-9,584	-46,566	-11,100	-12,895	-23,131	-21,478	-26,921
Issue of Shares	0	0	41,869	0	0	155	25	0
Inc/(Dec) in Debt	-10,791	2,600	-6,615	-1,359	0	0	0	0
Interest Paid	-800	-510	-682	-436	-538	-674	-742	-742
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	-998	0	-1,255	-1,533	-2,572	-2,548
CF from Fin. Activity	-11,591	2,090	33,574	-1,795	-1,792	-2,051	-3,289	-3,289
Inc/Dec of Cash	345	574	-190	856	-964	1,120	1,405	7,831
Opening Balance (without bank bal.)	329	674	1,249	1,059	1,915	951	2,072	3,477
Closing Balance	674	1,249	1,059	1,915	951	2,072	3,477	11,307
Other bank balance	4,928	942	20	12,541	2,035	12,012	12,012	12,012
Closing Balance (including bank balance)	5,602	2,191	1,079	14,456	2,986	14,083	15,489	23,319

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NOTES

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UNDER REVIEW	Rating may undergo a change
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