

May 24, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	REDUCE		REDUCE	
Target Price	1,658		1,875	
Sales (Rs. m)	2,65,829	3,36,632	2,81,287	3,58,579
% Chng.	(5.5)	(6.1)		
EBITDA (Rs. m)	20,087	29,965	23,787	32,043
% Chng.	(15.6)	(6.5)		
EPS (Rs.)	20.0	29.2	24.1	31.8
% Chng.	(16.8)	(8.1)		

### Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	2,00,045	2,48,702	2,65,829	3,36,632
EBITDA (Rs. m)	16,333	21,283	20,087	29,965
Margin (%)	8.2	8.6	7.6	8.9
PAT (Rs. m)	9,025	13,010	12,973	18,946
EPS (Rs.)	14.5	20.1	20.0	29.2
Gr. (%)	17.5	38.9	(0.3)	46.0
DPS (Rs.)	-	-	1.2	1.5
Yield (%)	-	-	0.1	0.1
RoE (%)	17.6	15.6	11.1	14.4
RoCE (%)	25.5	20.5	13.2	17.9
EV/Sales (x)	7.5	6.1	5.8	4.6
EV/EBITDA (x)	91.8	71.5	76.2	51.3
PE (x)	165.9	119.4	119.8	82.0
P/BV (x)	26.8	14.0	12.7	11.0

### Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.2,560 / Rs.1,267
Sensex / Nifty	30,673 / 9,039
Market Cap	Rs.1,554bn / \$ 20,454m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.2207.13m

### Shareholding Pattern (%)

Promoter's	74.99
Foreign	9.62
Domestic Institution	6.56
Public & Others	8.83
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.7	30.5	84.6
Relative	7.1	71.8	135.4

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## COVID Shadow looms large; Reduce

### Quick Pointers:

- March sales up 11%, April sales decline 45%, 1HMay sales up 17% MoM
- Restrictions on Sale of General Merchandise, higher sanitation cost, employee cost and lower sales to result in sharp decline in 1Q21 EBIDTA.
- Stoppage of construction to impact store openings in FY21.

**We are cutting FY21 and FY22 EPS estimates of D'Mart by 16.8% and 8.1% due to 1) Lockdown impact on footfalls/sales 2) higher cost of operations 3) delay in store openings and safety cost. Although worst seems over given MOM improvement in May sales, expect near term margins to suffer due to higher cost and poor sales mix. D'Mart has achieved more broad based store openings in FY20 as against FY19 as top 4 clusters have just 42% of new openings as against 85% in FY19. We believe D'Mart has higher risk of weakness in 1HFY21 performance given that COVID sensitive clusters of Maharashtra, Gujarat and Telangana are 63% of total stores and ~75% of sales. D'Mart has strong balance sheet, and would look at sustaining expansion plans. We estimate flattish EPS in FY21 and 46% growth in FY22. Although D'Mart is a compelling play on Hypermart segment, valuations at 82x FY22 and 65x FY23 with current price justification at 9% terminal growth looks unappealing. We maintain REDUCE rating with target price of Rs1658 (45x FY23 EPS, Rs1875 Earlier at 45x FY23 EPS). Retain Reduce.**

**Sales up 23%, PAT up 41.4%:** Net Sales increased 23% YoY to Rs 61.9bn (PLe Rs63.3bn) despite COVID-19 led lockdown limiting March sales growth to just 11%. Gross margins contracted 120bps YoY to 13.2% (PLe 14.7%) due to restriction on sales of non- essentials (higher margins) which are ~30% of sales. EBITDA increased 10.9% YoY to Rs 4.2bn (PLe Rs 4.86bn). EBITDA Margins contracted by 70bps to 6.7% (PLe 7.7%) due to GM pressure as cost of retail declined 44bps. Adj. PAT increased 41.4% YoY to Rs 2.87bn (PLe Rs3.14bn) as tax rate more than halved to 17%.

**D'Mart adds 38 stores, large clusters add just 42% stores:** D'Mart added 38 stores in FY20 (18 in 4Q) taking total store count to 214. Store openings were broad based as Gujarat, Maharashtra, Telangana and Karnataka accounted for 42% of store additions as against 85% last year. These 4 key states account for 73% of total stores as against 80% last year.

**Early store maturity impacts LFL sales growth:** LFL growth for FY20 stood at 10.9% as against 17.8% last year. LFL sales growth in older stores is trending down and new stores sales are peaking in around 2 years. While this augurs well for achieving early breakeven in new stores, reported LFL growth might continue to weaken. Total bill cuts during FY20 increased to 201m as against 172m in FY19. While revenue/ft declined by 7.8% to Rs 32,879.

**COVID hits April sales by 45%, Margins to take beating:** COVID 19 impacted sales from March due to 1) store closures due to lockdown and restricted working hours for open stores and 2) restriction on sale of Apparel and General merchandise (~30% of sales) 3) disruption in supply chain and 4) 70% absenteeism for store/warehouse level employees.

Mgt expects sharp deterioration in near term margins as 1) COVID 19 scare will impact footfalls due to social distancing norms 2) April sales have declined by 45% even as 1HMay sales are up 17% MOM 3) Higher costs of sanitation, 70% absenteeism and double salary to working front level employees upto 3rd May and lack of higher margin general merchandise sales likely to impact margins in 1QFY21. Due to slowdown in construction activity, store addition will be lower than planned for FY21.

**Exhibit 1: Net Sales up 23.0%, PBT up 9.1%, while PAT up 41.4% due to lower tax rate at 17.1%**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>61,935</b>	<b>50,334</b>	<b>23.0</b>	<b>67,519</b>	<b>2,46,750</b>	<b>1,99,163</b>	<b>23.9</b>
Gross Profit	8,191	7,250	13.0	10,127	36,591	29,363	24.6
<i>% of NS</i>	13.2	14.4	(1.2)	15.0	14.8	14.7	0.1
<b>Other Expenses</b>	<b>4,014</b>	<b>3,485</b>	<b>15.2</b>	<b>4,196</b>	<b>15,370</b>	<b>12,941</b>	<b>18.8</b>
<i>% of NS</i>	6.5	6.9	(0.4)	6.2	6.2	6.5	(0.3)
<b>EBITDA</b>	<b>4,177</b>	<b>3,765</b>	<b>10.9</b>	<b>5,931</b>	<b>21,221</b>	<b>16,422</b>	<b>29.2</b>
<i>Margins (%)</i>	6.7	7.5	(0.7)	8.8	8.6	8.2	0.4
Depreciation	948	619	53.1	867	3,398	1,988	70.9
Interest	124	122	2.2	160	628	472	33.1
Other Income	356	147	142.8	69	633	514	23.2
<b>PBT</b>	<b>3,460</b>	<b>3,171</b>	<b>9.1</b>	<b>4,973</b>	<b>17,829</b>	<b>14,476</b>	<b>23.2</b>
Tax	591	1,142	(48.2)	1,031	4,330	5,113	(15.3)
<i>Tax rate (%)</i>	17.1	36.0	(18.9)	20.7	24.3	35.3	(11.0)
<b>Adjusted PAT</b>	<b>2,869</b>	<b>2,029</b>	<b>41.4</b>	<b>3,943</b>	<b>13,499</b>	<b>9,364</b>	<b>44.2</b>

Source: Company, PL

**Exhibit 2: 18 store additions in 4QFY20; 38 stores in FY20, sales/ sq. ft. impacted due to lockdown**

	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
No of Stores	164	176	184	189	196	214
Area (mn Sq.ft.)	5.2	5.9	6.3	6.5	7.0	7.8
Sales/Ft	10391	8531	9234	9152	9687	7940
Gross Profit/Ft	1527	1229	1487	1379	1453	1050
EBIDTA/FT	864	638	952	793	851	535
Cost of retail %	6.4	6.9	5.8	6.4	6.2	6.5

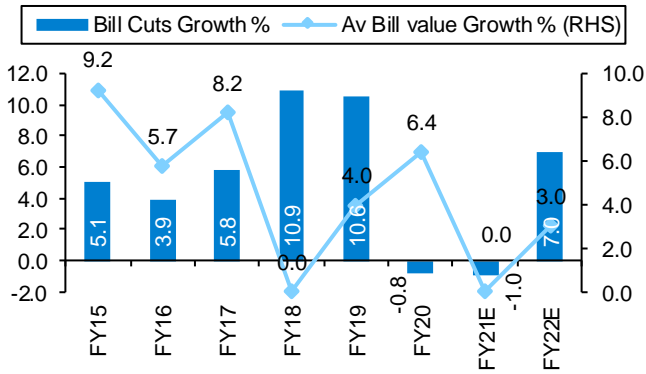
Source: Company, PL

**Exhibit 3: EBIDTA/Ft and Cost of retail likely to be impacted in FY21E on account of COVID 19**

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Sales/Ft	31,120	32,719	35,647	32,879	34,703	37,124
Gross Profit/Ft	4,475	4,853	5,091	4,830	4,841	5,351
EBIDTA/FT	2,417	2,738	2,768	2,729	2,645	3,007
Capex/Ft	8,925	10,103	14,856	9,603	18,908	15,047
Cost of retail %	7.0%	6.9%	6.9%	6.6%	6.8%	6.8%
Working Cap/Ft	1,631	1,723	1,566	1,927	2,062	2,184

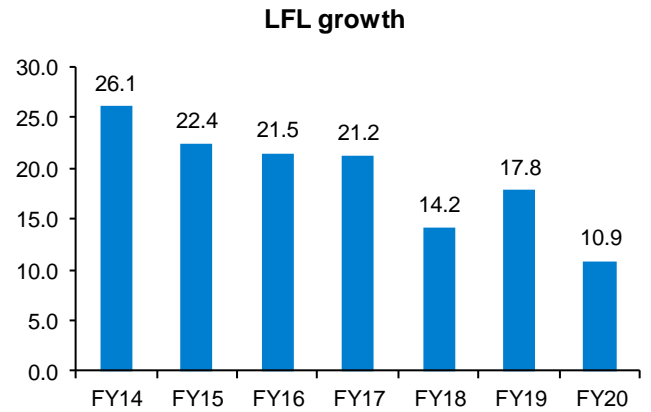
Source: Company, PL

**Exhibit 4: Bill Cuts decreased by 0.8% in FY20**



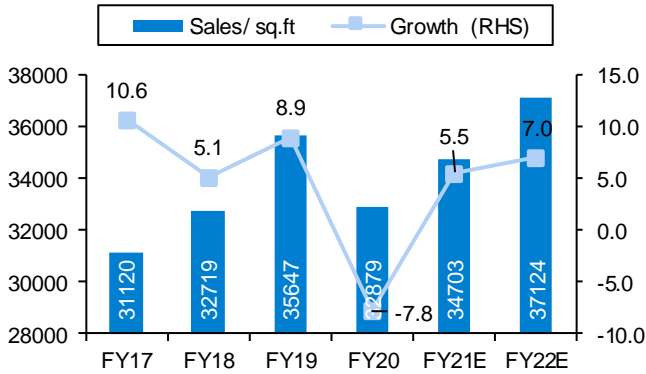
Source: Company, PL

**Exhibit 5: LTL growth at 10.9% in FY20**



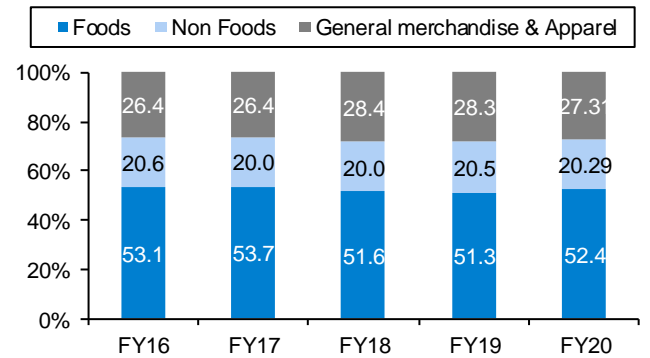
Source: Company, PL

**Exhibit 6: Sales/Sq. ft. decreased to Rs 32,879**



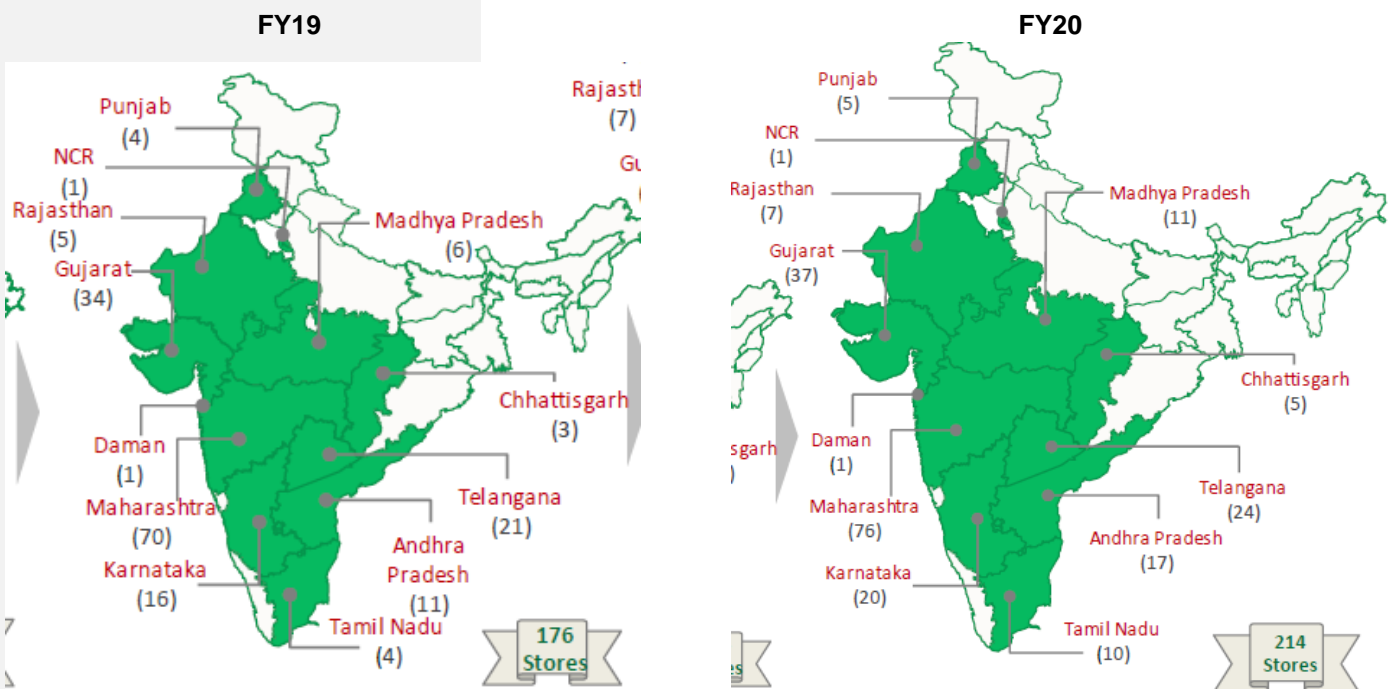
Source: Company, PL

**Exhibit 7: Foods continue to remain highest contributor**



Source: Company, PL

**Top 4 clusters add 42% of stores in FY20 versus 85% in FY19**



## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>2,00,045</b>	<b>2,48,702</b>	<b>2,65,829</b>	<b>3,36,632</b>
YoY gr. (%)	33.1	24.3	6.9	26.6
Cost of Goods Sold	1,70,008	2,11,029	2,27,815	2,84,454
Gross Profit	30,037	37,673	38,014	52,178
Margin (%)	15.0	15.1	14.3	15.5
Employee Cost	3,554	4,561	5,317	5,891
Other Expenses	10,150	11,828	12,610	16,322
<b>EBITDA</b>	<b>16,333</b>	<b>21,283</b>	<b>20,087</b>	<b>29,965</b>
YoY gr. (%)	20.7	30.3	(5.6)	49.2
Margin (%)	8.2	8.6	7.6	8.9
Depreciation and Amortization	2,125	3,744	4,379	5,627
<b>EBIT</b>	<b>14,208</b>	<b>17,539</b>	<b>15,708</b>	<b>24,338</b>
Margin (%)	7.1	7.1	5.9	7.2
Net Interest	472	691	192	380
Other Income	484	600	1,920	1,507
<b>Profit Before Tax</b>	<b>14,219</b>	<b>17,448</b>	<b>17,437</b>	<b>25,465</b>
Margin (%)	7.1	7.0	6.6	7.6
Total Tax	5,195	4,438	4,464	6,519
Effective tax rate (%)	36.5	25.4	25.6	25.6
<b>Profit after tax</b>	<b>9,025</b>	<b>13,010</b>	<b>12,973</b>	<b>18,946</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>9,025</b>	<b>13,010</b>	<b>12,973</b>	<b>18,946</b>
YoY gr. (%)	17.5	44.2	(0.3)	46.0
Margin (%)	4.5	5.2	4.9	5.6
Extra Ord. Income / (Exp)	(13)	7	7	7
<b>Reported PAT</b>	<b>9,011</b>	<b>13,017</b>	<b>12,980</b>	<b>18,953</b>
YoY gr. (%)	11.8	44.4	(0.3)	46.0
Margin (%)	4.5	5.2	4.9	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,011	13,017	12,980	18,953
<b>Equity Shares O/s (m)</b>	<b>624</b>	<b>648</b>	<b>648</b>	<b>648</b>
<b>EPS (Rs)</b>	<b>14.5</b>	<b>20.1</b>	<b>20.0</b>	<b>29.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>52,397</b>	<b>64,444</b>	<b>91,216</b>	<b>1,17,199</b>
Tangibles	51,799	63,711	90,373	1,16,229
Intangibles	598	733	843	970
<b>Acc: Dep / Amortization</b>	<b>9,176</b>	<b>12,920</b>	<b>17,305</b>	<b>22,938</b>
Tangibles	8,877	12,472	16,756	22,273
Intangibles	298	448	549	666
<b>Net fixed assets</b>	<b>43,221</b>	<b>51,524</b>	<b>73,911</b>	<b>94,260</b>
Tangibles	42,921	51,239	73,617	93,956
Intangibles	300	285	294	304
Capital Work In Progress	3,768	3,644	2,500	2,500
Goodwill	783	783	783	783
Non-Current Investments	317	354	405	477
Net Deferred tax assets	(631)	(471)	(314)	(85)
Other Non-Current Assets	1,140	10,107	8,952	9,234
<b>Current Assets</b>				
Investments	165	147	161	178
Inventories	16,087	19,474	21,266	26,931
Trade receivables	644	196	838	1,015
Cash & Bank Balance	2,191	31,951	26,457	19,144
Other Current Assets	1,149	1,491	1,595	2,020
<b>Total Assets</b>	<b>70,055</b>	<b>1,20,762</b>	<b>1,38,081</b>	<b>1,58,074</b>
<b>Equity</b>				
Equity Share Capital	6,241	6,478	6,478	6,478
Other Equity	49,634	1,04,320	1,16,319	1,34,300
<b>Total Network</b>	<b>55,875</b>	<b>1,10,797</b>	<b>1,22,797</b>	<b>1,40,778</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,257	-	2,500	2,500
Provisions	11	15	32	68
Other non current liabilities	-	2,211	2,211	2,211
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,042	37	1,500	1,500
Trade payables	4,633	4,335	5,934	7,611
Other current liabilities	4,595	2,886	2,784	3,312
<b>Total Equity &amp; Liabilities</b>	<b>70,055</b>	<b>1,20,762</b>	<b>1,38,081</b>	<b>1,58,074</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	14,219	17,448	17,437	25,465
Add. Depreciation	2,125	3,744	4,379	5,627
Add. Interest	472	691	192	380
Less Financial Other Income	484	600	1,920	1,507
Add. Other	16	(6,952)	964	(548)
Op. profit before WC changes	16,832	14,932	22,972	30,924
Net Changes-WC	(731)	(5,788)	(1,163)	(4,381)
Direct tax	(5,195)	(4,438)	(4,464)	(6,519)
<b>Net cash from Op. activities</b>	<b>10,907</b>	<b>4,706</b>	<b>17,344</b>	<b>20,025</b>
Capital expenditures	(14,426)	(11,923)	(25,622)	(25,976)
Interest / Dividend Income	-	-	-	-
Others	503	25	(8)	(9)
<b>Net Cash from Inv. activities</b>	<b>(13,923)</b>	<b>(11,898)</b>	<b>(25,630)</b>	<b>(25,985)</b>
Issue of share cap. / premium	172	41,906	(203)	-
Debt changes	(95)	(4,261)	3,963	-
Dividend paid	-	-	(777)	(972)
Interest paid	(472)	(691)	(192)	(380)
Others	(1)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(395)</b>	<b>36,954</b>	<b>2,790</b>	<b>(1,352)</b>
<b>Net change in cash</b>	<b>(3,411)</b>	<b>29,762</b>	<b>(5,495)</b>	<b>(7,312)</b>
Free Cash Flow	(3,519)	(7,217)	(8,277)	(5,951)

Source: Company Data, PL Research

**Key Financial Metrics**

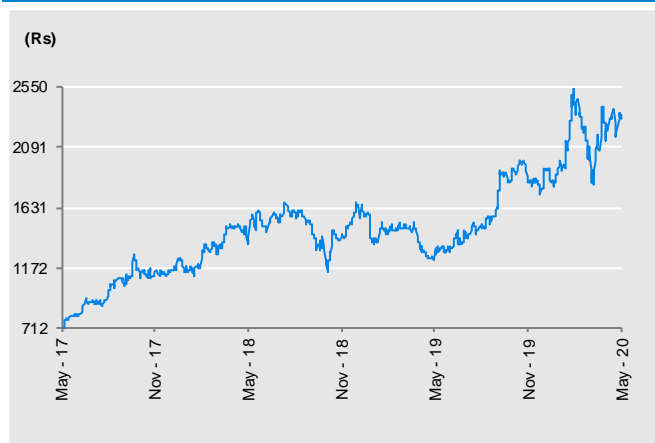
Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	14.5	20.1	20.0	29.2
CEPS	17.9	25.9	26.8	37.9
BVPS	89.5	171.0	189.6	217.3
FCF	(5.6)	(11.1)	(12.8)	(9.2)
DPS	-	-	1.2	1.5
<b>Return Ratio(%)</b>				
RoCE	25.5	20.5	13.2	17.9
ROIC	21.0	19.8	14.1	17.5
RoE	17.6	15.6	11.1	14.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	(0.3)	(0.2)	(0.1)
Net Working Capital (Days)	22	23	22	22
<b>Valuation(x)</b>				
PER	165.9	119.4	119.8	82.0
P/B	26.8	14.0	12.7	11.0
P/CEPS	134.2	92.7	89.5	63.2
EV/EBITDA	91.8	71.5	76.2	51.3
EV/Sales	7.5	6.1	5.8	4.6
Dividend Yield (%)	-	-	0.1	0.1

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>57,805</b>	<b>59,490</b>	<b>67,519</b>	<b>61,935</b>
YoY gr. (%)	26.8	22.1	23.9	23.0
Raw Material Expenses	48,494	50,528	57,392	53,744
Gross Profit	9,311	8,962	10,127	8,191
Margin (%)	16.1	15.1	15.0	13.2
<b>EBITDA</b>	<b>5,959</b>	<b>5,154</b>	<b>5,931</b>	<b>4,177</b>
YoY gr. (%)	41.0	32.3	30.8	10.9
Margin (%)	10.3	8.7	8.8	6.7
Depreciation / Depletion	750	833	867	948
<b>EBIT</b>	<b>5,210</b>	<b>4,321</b>	<b>5,064</b>	<b>3,228</b>
Margin (%)	9.0	7.3	7.5	5.2
Net Interest	168	175	160	124
Other Income	119	89	69	356
<b>Profit before Tax</b>	<b>5,161</b>	<b>4,234</b>	<b>4,973</b>	<b>3,460</b>
Margin (%)	8.9	7.1	7.4	5.6
Total Tax	1,808	900	1,031	591
Effective tax rate (%)	35.0	21.2	20.7	17.1
<b>Profit after Tax</b>	<b>3,353</b>	<b>3,335</b>	<b>3,943</b>	<b>2,869</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,353</b>	<b>3,335</b>	<b>3,943</b>	<b>2,869</b>
YoY gr. (%)	33.8	47.7	53.4	41.4
Margin (%)	5.8	5.6	5.8	4.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,353</b>	<b>3,335</b>	<b>3,943</b>	<b>2,869</b>
YoY gr. (%)	33.8	47.7	53.4	41.4
Margin (%)	5.8	5.6	5.8	4.6
Other Comprehensive Income	(3)	(25)	(14)	5
<b>Total Comprehensive Income</b>	<b>3,350</b>	<b>3,309</b>	<b>3,929</b>	<b>2,874</b>
Avg. Shares O/s (m)	624	624	624	648
<b>EPS (Rs)</b>	<b>5.4</b>	<b>5.3</b>	<b>6.3</b>	<b>4.4</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-20	Reduce	1,875	2,393
2	13-Jan-20	Reduce	1,639	1,877
3	03-Jan-20	Reduce	1,623	1,844
4	13-Oct-19	Reduce	1,647	1,843
5	03-Oct-19	HOLD	1,411	1,885
6	14-Jul-19	Hold	1,338	1,359
7	04-Jul-19	HOLD	1,338	1,433
8	12-Jun-19	HOLD	1,338	1,310

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,687	1,651
2	Avenue Supermarts	Reduce	1,875	2,393
3	Britannia Industries	BUY	3,744	2,837
4	Colgate Palmolive	Reduce	1,206	1,388
5	Crompton Greaves Consumer Electricals	BUY	267	199
6	Dabur India	Hold	431	503
7	Emami	Hold	285	227
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	485	511
11	Hindustan Unilever	Hold	2,017	2,195
12	ITC	BUY	250	189
13	Jubilant FoodWorks	Hold	1,392	1,530
14	Kansai Nerolac Paints	BUY	486	360
15	Marico	Hold	318	284
16	Nestle India	Reduce	13,127	17,462
17	Pidilite Industries	Hold	1,327	1,349
18	Titan Company	Hold	844	892
19	Voltas	Accumulate	553	509

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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