

Avenue Supermarts –Investment Thesis

- **Scalability/Huge Target Addressable market (TAM):**-D mart has around 200 stores in the country as of January 2020. The number of cities in India with population of 2,00,000 and above are 304 (as per census 2011). Assuming another 100 cities has been added into this bucket by 2021, the number comes out to be 400. Out of these 304 cities, 13 cities are Tier I cities (population of 30,00,000+), 46 cities are Tier II cities (population between 10,00,00-30,00,000) and almost 200 cities are tier III cities(population between 2,50,000-10,00,000). Now, D-mart can put up average of 10 stores in each Tier I city, 3 stores in each tier II city, and 1 store each in each Tier III city. From this calculation, D-mart can have a total of $(13*10+46*3+200*1)=468$ stores as of today (D-Mart has around 36 stores in Mumbai MMR region i.e., Mumbai, Thane, Navi Mumbai. Assuming this number goes up by 15% in 2025 (Population growth and trend change from Kirana to Supermarts), D-Mart Target Addressable market 5 years down the line will be around 550 stores. There is huge runway of growth for Dmart in the years to come!
- **Recent QIP gives huge kickr to the company for growth:**-From FY 14 to FY19 D-mart has opened an average of 20 stores a year due to internal funds constraints and the reluctance of promoters to use large sums of debt. There has been an infusion of Rs 4000 crs in the company post this QIP. The average capex per store of D-mart is around Rs 35 crs. The company has yet not talked about the intentions to use this fund. I believe that FY21-FY25 will see a rapid expansion phase of D-mart stores as the management has really taken a good time to test the waters (200 stores in 20 years)
- **Bargaining power shifting from major FMCG giants to Dmart:**- D-mart is already the largest single point of sales for FMCG giant like Hindustan Unilever, etc .The point that Dmart is able to sell 8-9% cheaper than its biggest competitors(big basket & Amazon with Amazon Pantry and Amazon Now) (Source : Goldman Sachs Report of 2017) proves the bargaining power of Dmart. As Dmart goes on a rapid expansion phase(2.75x the size in 5 years) , the bargaining power will keep shifting further away from FMCG players to D-Mart in a big way which will give a huge competitive advantage to D-Mart.
- **Higher Incremental return on capital:**- D Mart's current ROCE is about 25%, I believe this can significantly move higher as D-mart gathers more purchasing power ,reduce working capital going ahead. I think this business is a deadly combination of Huge growth with higher incremental returns on capital.
- **Valuation**

In crs	FY19	FY25	Assumptions
Sales	20050	123672	No of stores* sales per stores
No of stores	176	550	Assuming average addition of 63 stores per year
Sales per store	114	225	Assuming a 12% Same store sales growth
Ebidta Margin	9%	10%	Assumed 100 bps increase as economies of scale comes through
Ebidta	1805	12367	
Multiple(EV/Ebidta)	30x		There would be net cash in the company but assumed Market Cap same as EV conservatively
EV	371017		
Market Cap	371017		
Number of equity shares	62.78		
Per share price	5910		

I think Avenue Supermarts gives a very high certainty of growth and profitability which reduces risk in the stock investment significantly.

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