

Avenue Supermarts

SELL

Sales velocity near peak

While D-MART posted healthy growth in 3Q, the pace of growth has come off consistently over 9MFY20 courtesy 1. A heavier base, 2. Ever-heightening competitive intensity. What is more worrying is the dip in the anchor variable - sales velocity (revenue per sq. ft) over the last 9m partly due to larger-sized stores. This certainly warrants a closer look to assess how close is D-MART to its peak on throughput, cost and working capital efficiencies.

HIGHLIGHTS FOR THE QUARTER

- **Growth remains healthy, but pace comes off:** Revenue grew 23.9% YoY to Rs 67.5bn (1% lower than est). Bulk of the growth was SSSG-led (est: SSSG 13.5%).
- **Store expansion picks up, stores getting bigger:** D-MART added 7/20 stores in 3Q/9MFY20 (vs. 4/9 stores in 3Q/9MFY19). Consequently, we too revise our estimates of store adds upwards to 32 (27 earlier). Stores are getting bigger too. The incremental store size is as high as 52k sq.ft vs company avg of ~34k.
- **Sales velocity seems nearing peak:** Revenue per sq. ft has consistently dipped over 9MFY20 (-2.6% to ~36.2k sq ft) - largely a function of bigger store sizes. However, even on a per store basis, throughput seems to have just about mimicked inflation at Rs 1.38bn/store. (up 3.6/5% over 3Q/9MFY20). Assuming, this growth comes from bill sizes as basket volume doesn't change materially over a short

Financial Summary

(Rs mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	67,519	59,490	13.5	51,510	31.1	150,089	199,163	251,353	313,344	384,907
EBITDA	5,931	4,963	19.5	5,733	3.4	13,373	16,422	22,335	27,943	34,742
APAT	3,943	3,144	25.4	3,637	8.4	7,847	9,363	14,590	18,300	23,098
EPS (Rs)	6.3	5.0	24.7	4.10	53.3	12.6	15.0	23.4	29.3	37.0
P/E (x)						149.3	125.1	80.3	64.0	50.7
EV/EBITDA (x)						87.5	71.6	52.7	42.1	33.6
Core RoCE(%)						19.4	17.5	21.3	21.7	22.7

Source: Company, HDFC sec Inst Research

span, bill cuts per store may have remained largely at FY19 levels. (~1mn bill cuts/store).

- **Meanwhile, cost of retailing inching up:** Gross margins improved 31bp to 15% (HDFC est: 15.2%), while LTL EBITDA margins improved 16bp only to 8.7% (in-line), implying that cost of retailing is gradually inching up (even for the standalone operations; it's up 33bp in 9MFY20). We believe cost of retailing for consolidated operations would be even higher as D-MART Ready remains in investment mode.

STANCE

We remain sellers on the counter as we believe 1) D-MART's throughput, cost and working capital efficiencies are near peak. 2) Cost of retailing is inching up. 3) Well capitalized e-grocers/online biggies (Amazon /Flipkart) are getting price-war-ready as can be seen from the significant bump up in their authorized capital. (This could increase cost of retailing in general for the industry over the medium to long term as offline retailers may be arm-twisted into taking fulfillment cost on their books – not factored in). We largely maintain our estimates/TP and we bake Revenue/EBITDA/LTL APAT CAGR of 26/30/30% CAGR over FY19-22 and currently have a DCF-based TP of Rs. 1,250/sh, implying 24x Dec-21 EV/EBITDA. Stock currently trades at 42/34x FY21/F22 EV/EBITDA.

INDUSTRY	RETAIL
CMP (as on 10 Jan 2020)	Rs 1,877
Target Price	Rs 1,250

Nifty	12,257
Sensex	41,600

KEY STOCK DATA

Bloomberg	DMART IN
No. of Shares (mn)	628
MCap (Rs bn)/(US\$ mn)	1,178/16,600
6m avg traded value (Rs mn)	1,128

STOCK PERFORMANCE (%)

52 Week high / low	Rs 2,011 / 1,226		
	3M	6M	12M
Absolute (%)	3.1	39.0	18.2
Relative (%)	(6.8)	31.1	3.0

SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	79.73	80.21
FIs & Local MFs	4.72	4.8
FPIs	6.21	6.03
Public & Others	9.34	8.96
Pledged Shares	0.00	0.00

Source : BSE

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Quarterly Financials (Standalone)

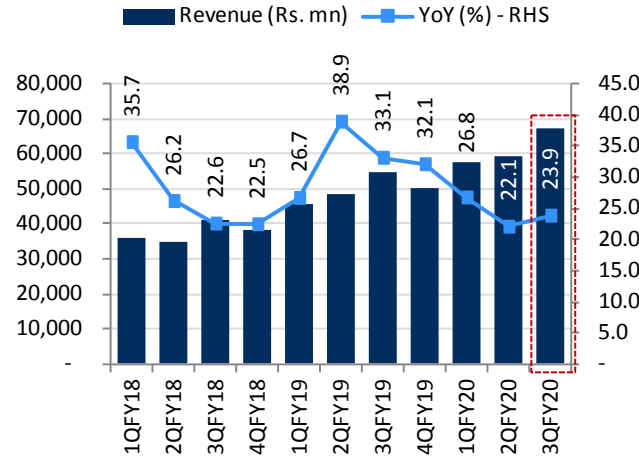
Rs. Mn	3QFY19	2QFY20	3QFY20	YoY (%)	QoQ (%)	3QFY20E	Variance (%)
Net Revenue	54,509	59,490	67,519	23.9	13.5	68,355	(1.2)
Total COGS	46,501	50,528	57,392	23.4	13.6	57,965	(1.0)
Gross Profit	8,009	8,962	10,127	26.4	13.0	10,390	(2.5)
Gross Profit Margin (%)	14.7	15.1	15.0	31 bps	(7 bps)	15.2	(20 bps)
Total Operating expenses	3,476	3,999	4,196	20.7	4.9	4,546	(7.7)
Reported EBITDA	4,533	4,963	5,931	30.8	19.5	5,844	1.5
EBITDA Margin (%)	8.3	8.3	8.8	47 bps	44 bps	8.6	23 bps
Depreciation	522	833	867	66.2	4.0	850	2.0
EBIT	4,012	4,130	5,064	26.2	22.6	4,994	1.4
EBIT Margin (%)	7.4	6.9	7.5	14 bps	56 bps	7.3	19 bps
Finance cost	149	175	160	7.7	(8.6)	180	(10.9)
Other income	86	89	69	(19.7)	(21.7)	90	(23)
PBT	3,949	4,043	4,973	25.9	23.0	4,904	1.4
Exceptional Item							
Tax Expenses	1,378	900	1,031	(25.2)	14.6	1,128	(8.6)
Effective Tax Rate (%)	34.9	22.2	20.7	(1417 bps)	(152 bps)	23.0	(227 bps)
Share of associate earnings	-	-	-	#DIV/0!	#DIV/0!	-	#DIV/0!
EO items							-
PAT	2,571	3,144	3,943	53.3	25.4	3,776	4.4
APAT	2,571	3,144	3,943	53.3	25.4	3,776	4.4
APAT margin (%)	4.7	5.3	5.8	112 bps	55 bps	5.5	31 bps
Operating Expenses (Rs mn)	3476	3999	4196	20.7	4.9	4585	(8.5)
Employee expenses	879	1044	1110	26.2	6.3	1138	(2.4)
Other expenses	2596	2955	3086	18.9	4.4	3448	(10.5)
KPIs							
Store (#)	164	189	196	19.5	3.7	193	1.6
Retail Area (mn. Sq. ft)	5.3	6.5	7.0	31.5	7.2	7.0	-
Revenue per sq. ft (Rs.)	41,139	36,609	38,749	(5.8)	5.8	41,554	(6.8)

Source: Company, HDFC sec Inst Research

Revenue grew by 23.9% YoY on a high base of 33% growth in 3QFY19

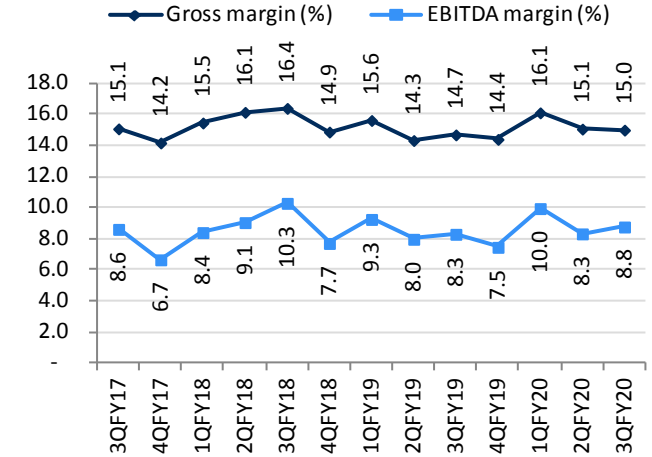
Story in Charts

Revenue and growth



Source: Company, HDFC sec Inst Research

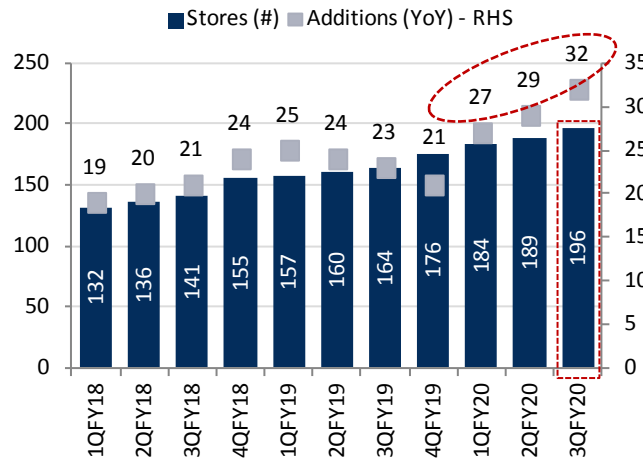
Gross margin and EBITDA margin



Source: Company, HDFC sec Inst Research

Store additions pick up. D-MART added 7/20 stores in 3Q/9MFY20 (vs. 4/9 stores in 3Q/9MFY19).

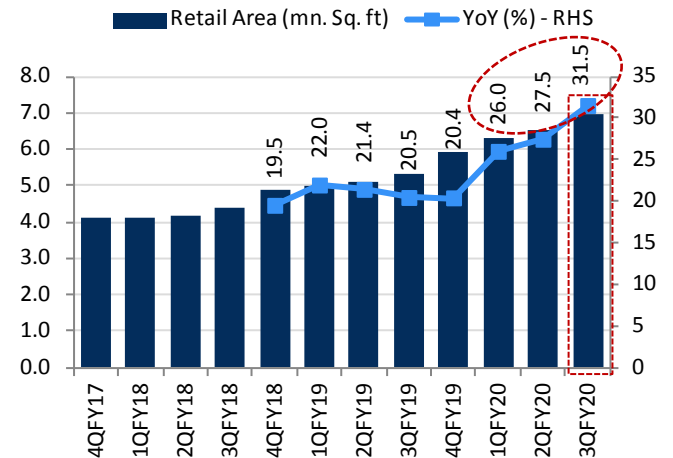
Store adds picking up



Source: Company, HDFC sec Inst Research

Retail space growth higher as store sizes increase

...Space growth higher as avg store size increases



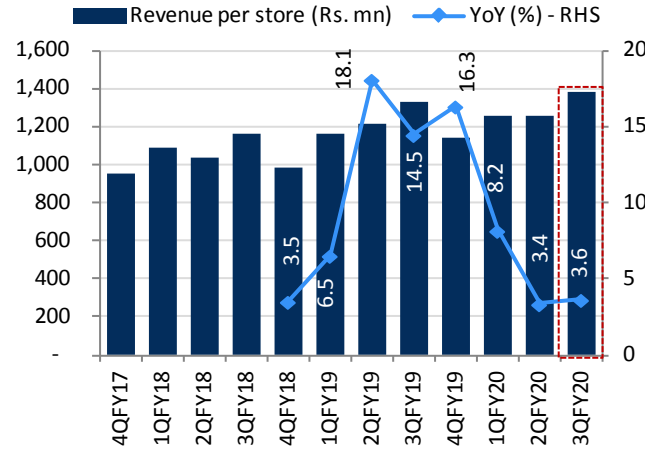
Source: Company, HDFC sec Inst Research

Anchor variable - Sales per sq. ft coming off largely due to higher store sizes

Stores getting bigger with an incremental store size of Rs 52k sq. ft

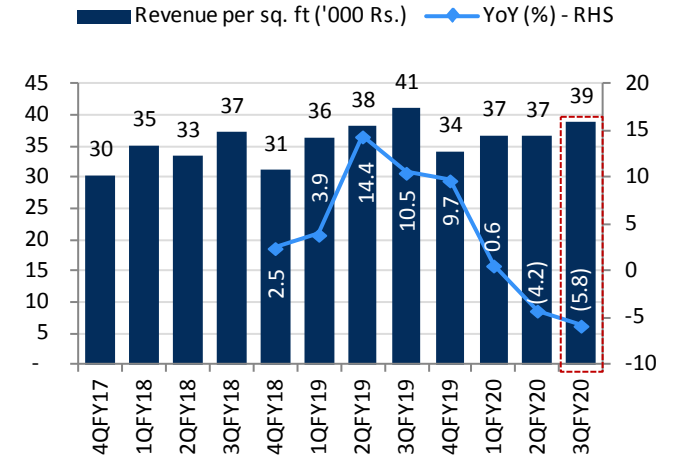
Gross profit & EBITDA per sq ft growth coming off; this could well perhaps be the peak in D-MART's efficiencies

D-MART – Revenue per store, YoY growth



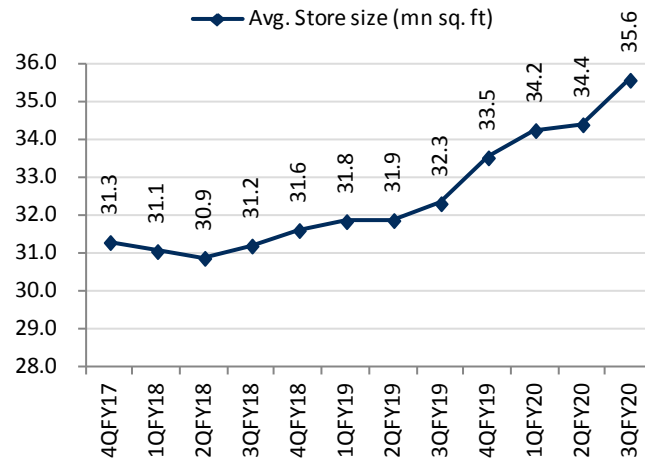
Source: Company, HDFC sec Inst Research

D-MART – Revenue per sq. ft, YoY growth

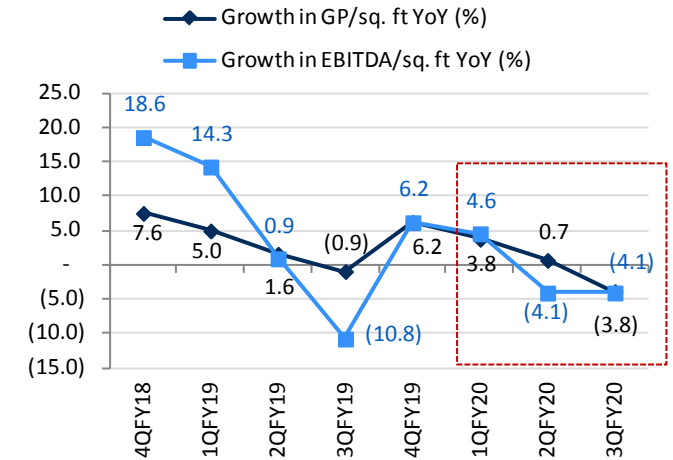


Source: Company, HDFC sec Inst Research

Avg. store sizes inching up



Source: Company, HDFC sec Inst Research



Source: Company, HDFC sec Inst Research

Assumptions

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue									
Net Revenue (Rs. Mn)	46,806	64,335	85,752	118,811	150,089	199,163	251,353	313,344	384,907
YoY (%)	40.4	37.5	33.3	38.6	26.3	32.7	26.2	24.7	22.8
SSSG (%)	26.1	22.4	20.5	21.2	14.2	17.8	12.7	11.9	11.9
Expansion-led growth	11.3	12.3	10.6	14.3	10.6	12.7	12.1	11.4	9.7
Margins (%)									
Gross Margin (%)	14.5	14.5	14.7	15.0	15.7	14.7	15.2	15.1	15.1
EBITDA margin (%)	7.2	7.0	7.7	8.1	8.9	8.2	8.9	8.9	9.0
Key Operating Metrics									
Revenue per sq. ft	23,419	26,388	28,136	31,120	32,719	35,647	38,782	41,059	43,715
GMROF	3,490	3,891	4,211	4,828	5,244	5,418	5,908	6,224	6,624
EBITDA per sq. ft	1,720	1,886	2,192	2,606	2,972	3,030	3,451	3,666	3,950
Sales per store		783	860	984	1,047	1,201	1,325	1,436	1,550
Gross profit/store		114	127	148	165	177	202	218	235
EBITDA/store		55	66	80	94	99	118	128	140
Capital Allocation									
Stores (#)	75	89	110	131	155	176	203	233	263
Additions (#)	13	14	21	21	24	21	27	30	30
Capex (Rs. Mn)	2,692	4,646	6,444	6,532	9,828	14,544	14,712	15,287	15,945
Inventory Days (x)	28	30	28	29	28	29	29	29	29
Receivable Days (x)	1	0	0	1	1	1	1	1	1
Payable Days (x)	10	8	9	8	8	8	8	8	8
WC Days (x)	19	23	20	21	21	22	22	22	22

Source: Company, HDFC sec Inst Research

Estimate change

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	250,548	251,353	(0.3)	311,850	313,344	(0.5)	386,188	384,907	0.3
Gross Profit	38,117	38,239	(0.3)	47,392	47,444	(0.1)	58,668	58,261	0.7
Gross Profit Margin (%)	15.2	15.2	0 bps	15.2	15.1	6 bps	15.2	15.1	6 bps
EBITDA	21,733	22,335	(2.7)	27,365	27,943	(2.1)	34,656	34,742	(0.2)
EBITDA margin (%)	8.7	8.9	(21 bps)	8.8	8.9	(14 bps)	9.0	9.0	(5 bps)
APAT	14,163	14,590	(2.9)	17,851	18,300	(2.5)	23,095	23,098	(0.0)
APAT margin (%)	5.7	5.8	(15 bps)	5.7	5.8	(12 bps)	6.0	6.0	(2 bps)
EPS (Rs)	23	23	(2.9)	29	29	(2.5)	37	37	(0.0)

Source: Company, HDFC sec Inst Research

Peer Comparison

Company	Mcap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core ROCE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Avenue Supermarts	1,178	1,877	SELL	1,250	22.9	28.8	36.4	82.1	65.1	51.5	54.2	43.0	34.3	20.8	21.3	22.3
Titan	1,025	1,154	NEU	1,170	18.1	23.6	29.8	63.8	49.0	38.7	42.5	34.0	27.6	17.5	19.8	21.9
ABFRL	181	233	NEU	250	3.5	4.9	5.4	67.0	48.0	43.5	28.9	23.3	18.4	9.7	12.2	12.5
FRL	176	351	BUY	500	15.7	17.5	19.9	22.3	20.1	17.6	17.1	10.6	9.3	15.2	12.7	11.5
Trent	196	551	NEU	325	6.2	7.7	9.3	88.5	71.2	59.0	58.2	45.3	36.2	8.2	10.4	11.5
Future Lifestyle	82	407	BUY	550	9.3	12.1	16.3	44.0	33.7	24.9	14.4	11.9	9.7	9.4	10.2	12.0
STOP	34	384	NEU	360	9.0	10.5	11.6	42.8	36.6	33.1	11.3	9.8	8.8	10.5	12.3	14.0
TCNS Clothing	37	602	BUY	670	20.8	23.1	26.7	29.0	26.1	22.6	19.4	16.9	14.3	26.4	26.5	27.4
V-MART	30	1,663	BUY	2,150	44.5	51.8	62.5	37.4	32.1	26.6	22.0	18.1	14.5	19.8	18.6	18.4
Arvind Fashions	24	402	BUY	450	-35.2	-7.9	1.0	-11.4	-50.6	407.8	49.0	12.7	9.8	-3.8	3.9	6.4
Thangamayil	5	360	BUY	500	29.1	36.5	44.2	12.4	9.9	8.1	11.1	9.8	8.7	9.1	9.8	10.3

Source: Company, HDFC sec Inst Research

Income Statement

Year End March (Rs mn)	FY18	FY19P	FY20E	FY21E	FY22E
Net Revenues	150,089	199,163	250,548	311,850	386,188
Growth (%)	26.3	32.7	25.8	24.5	23.8
Material Expenses	126,489	169,799	212,431	264,458	327,520
Employee Expense	2,766	3,350	4,285	5,275	6,356
Contract Labour Charges	3,161	4,043	4,875	5,857	6,925
Electricity and Fuel Charges	1,201	1,502	1,884	2,330	2,753
Other Expenses	3,099	4,046	5,341	6,564	7,978
EBITDA	13,373	16,422	21,733	27,365	34,656
EBITDA Growth (%)	38.8	22.8	32.3	25.9	26.6
EBITDA Margin (%)	8.9	8.2	8.7	8.8	9.0
Depreciation	1,547	1,988	2,537	3,215	3,849
EBIT	11,827	14,434	19,195	24,151	30,808
Other Income (Including EO Items)	726	514	239	317	683
Interest	594	472	507	612	627
PBT	11,959	14,476	18,927	23,856	30,863
Total Tax	4,112	5,113	4,764	6,005	7,768
PAT before share of associate earnings	7,847	9,363	14,163	17,851	23,095
Share of associate earnings	-	-	-	-	-
RPAT	7,847	9,363	14,163	17,851	23,095
Exceptional Gain/(loss)	-	-	-	-	-
Adjusted PAT	7,847	9,363	14,163	17,851	23,095
APAT Growth (%)	62.6	19.3	51.3	26.0	29.4
Adjusted EPS (Rs)	12.6	15.0	22.7	28.6	37.0
EPS Growth (%)	62.6	19.3	51.3	26.0	29.4

Source: Company, HDFC sec Inst Research

Balance Sheet

Year End March (Rs mn)	FY18	FY19P	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	6,241	6,241	6,241	6,241	6,241
Reserves	40,186	49,704	63,867	81,719	104,814
Total Shareholders Funds	46,427	55,945	70,108	87,959	111,055
Minority Interest	-	-	-	-	-
Long Term Debt	2,460	1,257	2,257	2,757	2,757
Short Term Debt	1,933	5,695	7,695	7,695	7,695
Total Debt	4,393	6,952	9,952	10,452	10,452
Net Deferred Taxes	463	641	641	641	641
Other Non-current Liabilities & Provns	8	8	8	8	8
TOTAL SOURCES OF FUNDS	51,290	63,545	80,708	99,059	122,155
APPLICATION OF FUNDS					
Net Block	32,562	42,342	55,980	66,375	76,772
CWIP	1,471	3,766	3,766	3,766	3,766
Other Non-current Assets	1,295	2,120	2,945	3,770	4,595
Total Non-current Assets	35,327	48,228	62,691	73,910	85,133
Inventories	11,470	15,762	19,829	24,681	30,564
Debtors	334	755	950	1,182	1,464
Other Current Assets	2,912	3,095	3,894	4,846	6,001
Cash & Equivalent	6,082	2,136	1,435	4,510	11,462
Total Current Assets	20,797	21,748	26,108	35,219	49,492
Creditors	3,159	4,583	5,765	7,176	8,886
Other Current Liabilities & Provns	1,676	1,848	2,325	2,894	3,584
Total Current Liabilities	4,834	6,431	8,090	10,070	12,470
Net Current Assets	15,963	15,317	18,017	25,149	37,022
TOTAL APPLICATION OF FUNDS	51,290	63,545	80,708	99,059	122,155

Source: Company, HDFC sec Inst Research

Cash Flow Statement

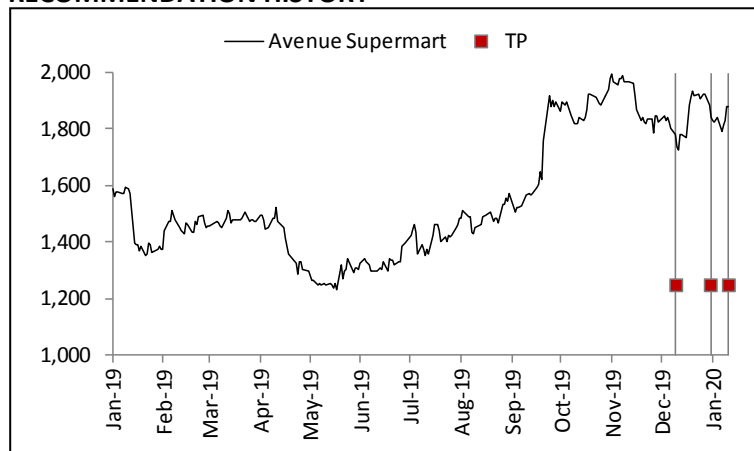
Year End March (Rs mn)	FY18	FY19P	FY20E	FY21E	FY22E
Reported PBT	11,959	14,476	18,927	23,856	30,863
Non-operating & EO Items	(504)	(260)	(239)	(317)	(683)
Interest Expenses	594	472	507	612	627
Depreciation	1,547	1,988	2,537	3,215	3,849
Working Capital Change	(2,401)	(3,213)	(3,401)	(4,057)	(4,920)
Tax Paid	(3,965)	(4,935)	(4,764)	(6,005)	(7,768)
OPERATING CASH FLOW (a)	7,230	8,528	13,568	17,304	21,968
Capex	(9,828)	(14,544)	(17,000)	(14,434)	(15,071)
Free Cash Flow (FCF)	(2,598)	(6,017)	(3,433)	2,869	6,896
Investments	164	101	-	-	-
Non-operating Income	13,989	4,436	239	317	683
INVESTING CASH FLOW (b)	4,325	(10,007)	(16,761)	(14,117)	(14,388)
Debt Issuance/(Repaid)	(11,217)	2,040	2,493	(112)	(627)
FCFE	(13,816)	(3,976)	(940)	2,757	6,269
Share Capital Issuance	-	(0)	-	-	-
Dividend	-	-	-	-	-
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(11,217)	2,040	2,493	(112)	(627)
NET CASH FLOW (a+b+c)	338	561	(701)	3,075	6,952
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	674	1,201	1,435	4,510	11,462

Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19P	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	15.7	14.7	15.2	15.2	15.2
EBITDA Margin	8.9	8.2	8.7	8.8	9.0
EBIT Margin	7.9	7.2	7.7	7.7	8.0
APAT Margin	5.2	4.7	5.7	5.7	6.0
RoE	18.5	18.3	22.5	22.6	23.2
RoIC (or Core RoCE)	19.4	17.5	20.4	20.8	22.5
RoCE	15.7	16.8	20.2	20.4	21.3
EFFICIENCY					
Tax Rate (%)	34.4	35.3	25.2	25.2	25.2
Fixed Asset Turnover (x)	4.2	4.2	3.9	4.0	4.2
Inventory (days)	28	29	29	29	29
Debtors (days)	1	1	1	1	1
Other Current Assets (days)	7	6	6	6	6
Payables (days)	8	8	8	8	8
Other Current Liab & Provns (days)	4	3	3	3	3
Cash Conversion Cycle (days)	24	24	24	24	24
Net D/E (x)	(0.04)	0.09	0.1	0.1	(0.0)
Interest Coverage (x)	19.9	30.6	37.9	39.5	49.1
PER SHARE DATA (Rs)					
EPS	12.6	15.0	22.7	28.6	37.0
CEPS	15.1	18.2	26.8	33.8	43.2
Dividend	-	-	-	-	-
Book Value	74.4	89.6	112.3	140.9	177.9
VALUATION					
P/E (x)	149.3	125.1	82.7	65.6	50.7
P/BV (x)	25.2	20.9	16.7	13.3	10.5
EV/EBITDA (x)	87.5	71.6	54.3	43.0	33.8
EV/Revenues (x)	7.8	5.9	4.7	3.8	3.0
OCF/EV (%)	0.6	0.7	1.1	1.5	1.9
FCF/EV (%)	(0.2)	(0.5)	(0.3)	0.2	0.6
FCFE/Mkt Cap (%)	(1.2)	(0.3)	(0.1)	0.2	0.5
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
9-Dec-19	1,803	SELL	1,250
30-Dec-19	1,926	SELL	1,250
12-Jan-20	1,877	SELL	1,250

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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