

4th October 2023

Avenue Supermarts Ltd. (DMART) – BUY

CMP : Rs. 3,858
Target Price : Rs. 4,559
Upside : 18%
Stop Loss : Rs. 3,480

Investment Thesis

- Avenue Supermarts Ltd. (DMart) saw increased growth in Total Bill cuts by 42.5% in FY23 on a Y-o-Y basis and like for like (LFL) growth by 44.9% on a 24-month basis. Additionally, the retail business area as of FY23 stands at 13.4 mn sq.ft. compared to 11.5 mn sq.ft. in FY22.
- As of FY23, DMart has opened 324 stores with 39 stores opened in the calendar year 2023 (YTD) and one location reconverted from a fulfilment centre to a DMart store. The company aspires to maintain a run-rate of 40 store opening each year.
- DMart has been able to leverage its brand image in such a manner that it is able to achieve the same levels of sales and footfalls in new stores of new regions that is comparable to the existing stores in existing regions.
- The company has substantially reduced the inventory days to 28.8 in FY23 from 36.5 to 33.3 in FY21 and FY22, respectively, which reflects the improved efficiencies in the working capital management.
- The fixed asset and inventory turnover ratio levels are positively back to the pre-covid levels of 3.7/14.8, respectively and additionally, from return on net worth perspective, we see the levels coming back to the pre-covid levels – 16.8% which shows just how well the company is performing through its robust business model.
- Currently, DMart is testing a new format called the MiniMax concept which provides a two-way facility of providing in-store purchases and store pickup option.

Financials

- Total Revenue of the company rose to Rs. 41,833 Cr in FY23, up ~38% YoY from FY22 while the PAT/PBT stood at Rs.2,556 Cr/ Rs.3,659 Cr respectively, up ~58%/~46% YoY, respectively. The operating cash stood at Rs.3,113 Cr, up ~52% YoY.

Particulars	FY20	FY21	FY22	FY23	FY24E
Total Income	24,930	24,339	31,094	42,969	56,289
PBIDT	2,188	1,939	2,616	3,766	5,629
PAT	1,301	1,099	1,492	2,378	3,659
Adjusted EPS	19.0	17.1	23.0	36.7	56.3
PE (x)	109.6	168.1	173.6	92.8	81.0
ROE (%)	16.2	10.0	12.4	16.9	18.6

Stock Data

Market Cap (Rs. Crs)	2,51,118
Market Cap (\$ Mn)	30,286.85
Shares O/S (in Mn)	650
Avg. Volume (3 month)	57,818
52-Week Range (Rs.)	4,544 / 3,292

Shareholding Pattern

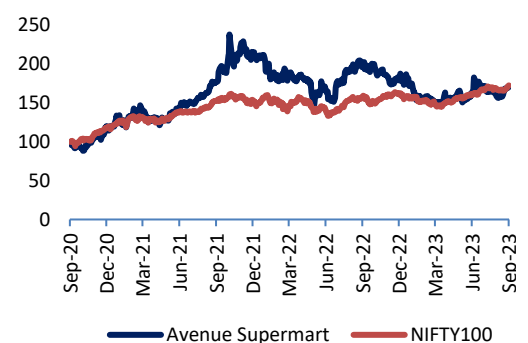
Promoters (%)	74.64
FII's (%)	8.17
Institutions (%)	7.66
Others (incl. body corporate) (%)	9.53

Key Ratios

Div Yield (%)	0.00
TTM PE (x)	105
ROE (%)	16
TTM EPS (Rs.)	36.9

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	8.6	13.7	-14.2
NIFTY100	5.3	-3.8	-23.3



- DMart has seen a positive trend in the days inventory since FY19, where it stood at 29.3 days and is currently at 28.8 days in FY23. Additionally, the days payables have seen an even better down trend from FY19, coming down to 6.3 days in FY23 from 8.3 days in FY19.
- Since FY21, the return on Net worth and return on capital employed has seen a positive reversal and are now standing at 20.1%/16.8%, respectively in FY23, an improvement of 810 bps/590 bps, respectively from FY21.
- The revenue contribution of its 3 categories in FY23 has been – Foods 56.03%, Non-Foods (FMCG) 20.93% and General Merchandise & Apparel 23.04%.

Key Business Highlights

- Avenue Supermarts Ltd. (DMart) primarily operates in organized retail, operating supermarkets under the D-Mart brand. DMart offers a variety of products to its customers which are categorized into 3 major categories – Foods, Non-foods, General Merchandise and Apparel.
- DMart has a pan-Bharat presence and additions are made at a run-rate of 40 stores every year. As of FY23, DMart had 324 total stores across Bharat with high penetration in Maharashtra (99) followed by Gujarat (55).

Valuation

DMart, post the Q1FY24 results, is trading at Rs. 3,858 which is a ~15% discount from the 52-week of Rs. 4,544, valuing it at a PE / EBITDA multiple of 102.2x / 64x against the 5-year median of 120.7x / 71.9x, which is reasonable. Additionally, the industry is trading at a PE of 80x signalling a premium valuation for DMART given the company's robust goodwill and position in the industry.

Therefore, considering the above growth opportunity, we ascribe a BUY rating for Avenue Supermarts Ltd. (DMart) with a **target price** of **Rs. 4,559**, translating to an **upside** of **~18%**.

Risk & Concern

- The cost and profitability dynamics of the e-commerce business might diminish the short-term growth and margins as it is costlier to run the e-commerce style of business than it is for brick-and-Mortar model.
- Since DMart works on land acquisition model for setting up stores, there is a risk in acquiring lands successfully owing to the competition in winning the land parcels.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. in Crs)

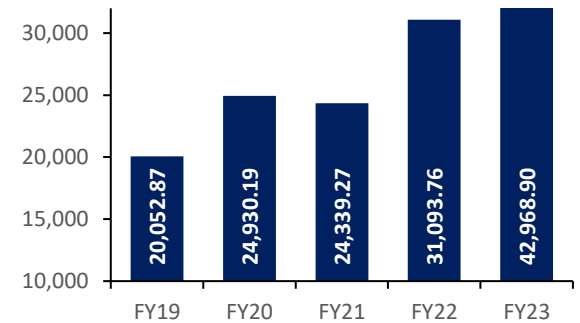


Figure 2: EBITDA & EBITDA Margin Trend

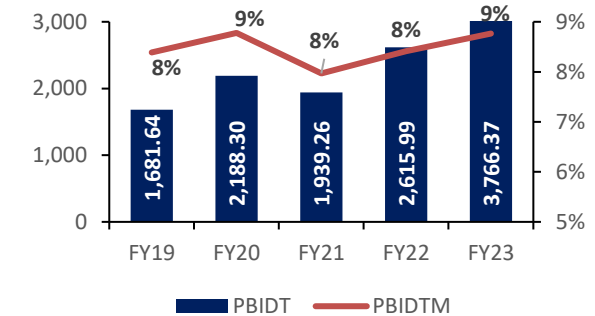


Figure 3: Year-Wise Store Additions

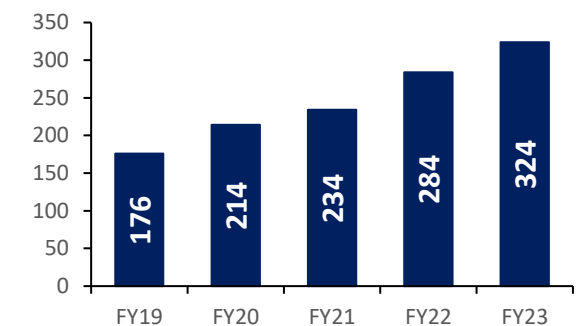
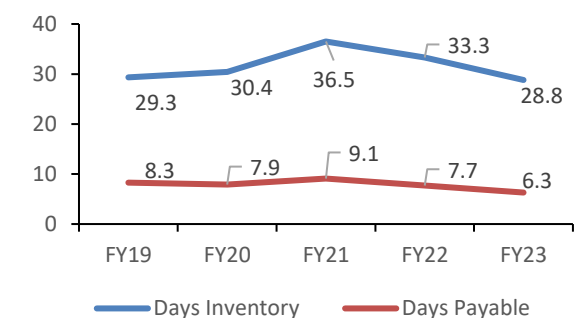


Figure 4: Days and Inventory Payable Trend



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