

Avenue Supermarts

BSE SENSEX	S&P CNX
36,010	10,795
Bloomberg	DMART IN
Equity Shares (m)	624
M.Cap.(INRb)/(USDb)	979.2 / 13.9
52-Week Range (INR)	1696 / 1063
1, 6, 12 Rel. Per (%)	-1/1/22
12M Avg Val (INR M)	1218
Free float (%)	18.8

CMP: INR1,569 TP: INR1,400 (-11%)
Sell

Margin pressures evident

Rich valuations restricting re-rating

- Revenue growth robust, but no relief on margins:** Revenue grew robustly by 33% YoY to INR54.5b (in-line) in 3QFY19. However, the company continued facing margin pressure (gross margin down 170bp YoY to 14.7% off a high base), mainly due to its focus on price competitiveness. Consequently, EBITDA increased by a modest 7.5% YoY to INR4.5b (5% miss), with the margin contracting 200bp YoY to 8.3%. PAT, too, grew by a marginal 2.1% YoY (8% miss) to INR2.6b due to lower other income (-37% YoY) and higher depreciation/finance cost (+33%/36% YoY).
- Four new stores added in 3QFY19:** DMART added nine new stores in 9MFY19, (four in 3QFY19), taking its store count to 164. The store addition trend appears similar to last year – 10 new stores added in 9MFY18. We, however, note that DMART tends to accelerate store addition toward the fiscal-end (14 new stores added in 4QFY18). In 4QFY19, too, it is likely to add 13-14 new stores.
- Valuations view:** Revenue prospects remain promising (30% CAGR over FY18-21; 22% SSSG), given continued store additions and benefits from its EDLC-EDLP (Everyday low cost-Everyday low price) strategy. However, margin expansion will be restricted by increased price competitiveness by peers (as indicated by channel checks). We expect EBITDA/PAT CAGR of 30%/31% over FY18-21 (FY20 EBITDA estimate raised by 10% led by revised growth and margin estimates). However, valuations appear rich at 73x/54x FY20/21E P/E. We, thus, see limited room for re-rating. Maintain **Sell** with a TP of INR1,400 (prior: INR1,285), ascribing 65x P/E on FY20E (on the back of strong competitive moat).

Financials & Valuations(INR b)

Y/E March	2018	2019E	2020E
Sales	150.3	200.0	258.6
EBITDA	13.5	16.8	22.4
NP	8.1	9.6	13.4
EPS (Rs)	12.9	15.5	21.4
EPS Growth (%)	68.4	19.7	38.6
BV/Share (INR)	74.8	90.3	111.7
P/E (x)	121.4	101.5	73.2
P/BV (x)	21.0	17.4	14.0
EV/EBITDA (x)	72.3	58.0	43.2
RoE (%)	18.9	18.7	21.2
RoCE (%)	15.8	17.8	20.3

Estimate change 
TP change 
Rating change 

Quarterly performance

Y/E March	FY18				FY19E				(INR m)			Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY18	FY19E	FY19E 3QE	
Revenue	35,981	35,083	40,939	38,100	45,594	48,725	54,509	51,136	150,332	199,965	55,267	-1
YoY Change (%)	35.7	26.3	22.6	22.5	26.7	38.9	33.1	34.2	26.4	33.0	35.0	
Total Expenditure	32,949	31,904	36,721	35,155	41,367	44,829	49,976	46,975	136,804	183,148	50,514	-1
EBITDA	3,032	3,179	4,217	2,945	4,227	3,896	4,533	4,161	13,528	16,817	4,753	-5
Margins (%)	8.4	9.1	10.3	7.7	9.3	8.0	8.3	8.1	9.0	8.4	8.6	-28bp
Depreciation	337	351	393	465	403	444	522	586	1,590	1,955	463	13
Interest	243	109	110	132	100	101	149	133	594	483	110	36
Other Income	228	212	137	149	143	139	86	99	693	466	142	-39
PBT	2,680	2,930	3,851	2,497	3,866	3,491	3,949	3,540	12,037	14,845	4,322	-9
Tax	932	1,020	1,334	826	1,360	1,233	1,378	1,225	4,158	5,196	1,526	-10
Rate (%)	34.8	34.8	34.6	33.1	35.2	35.3	34.9	34.6	34.5	35.0	35.3	-42
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	-185	0	0	
Reported PAT	1,748	1,910	2,518	1,671	2,506	2,257	2,571	2,315	8,064	9,650	2,795	-8
Adj PAT	1,748	1,910	2,518	1,671	2,506	2,257	2,571	2,315	8,064	9,650	2,795	-8
YoY Change (%)	47.6	65.2	65.8	72.9	43.4	18.2	2.1	38.5	68.4	19.7	11.0	
Margins (%)	4.9	5.4	6.1	4.4	5.5	4.6	4.7	4.5	5.4	4.8	5.1	-34bp

E: MOSL Estimates

Aliasgar Shakir – Research analyst (Aliasgar.Shakir@motilalosal.com); +91 22 6129 1565

Hafeez Patel – Research analyst (Hafeez.Patel@motilalosal.com); +91 22 6129 1568

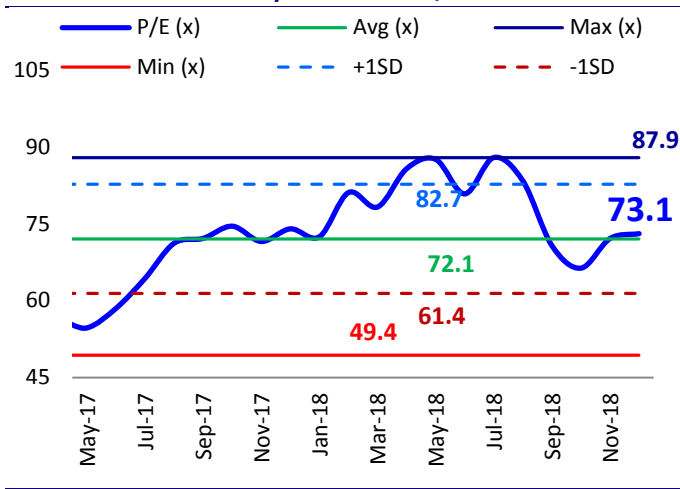
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Exhibit 1: Summary of estimate change

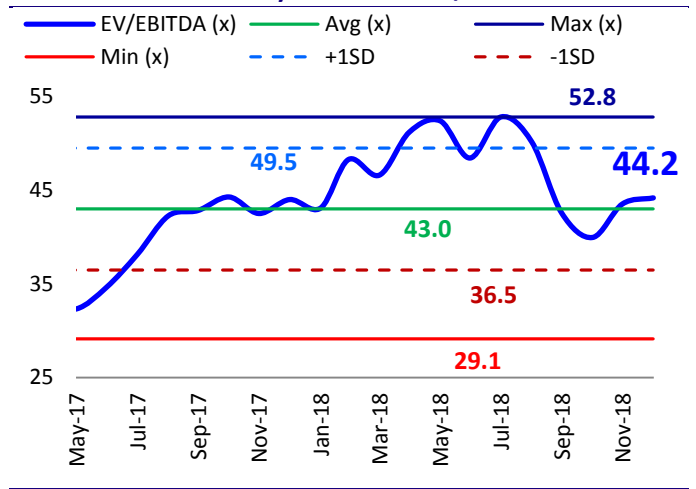
	FY19E	FY20E	FY21E
Revenue (INR b)			
Old	200.9	256.6	323.5
Actual/New	200.0	258.6	331.0
Change (%)	-0.5	0.8	2.3
EBITDA (INR b)			
Old	16.8	20.3	27.8
Actual/New	16.8	22.4	29.5
Change (%)	0.3	10.5	5.9
EBITDA margin (%)			
Old	8.3	7.9	8.6
Actual/New	8.4	8.7	8.9
Change (bp)	6bps	76bps	30bps
Net Profit (INR b)			
Old	9.9	12.4	17.5
Actual/New	9.6	13.4	18.1
Change (%)	-2.4	8.3	3.6
EPS (INR)			
Old	15.8	19.8	28.1
Actual/New	15.5	21.4	29.1
Change (%)	-2.4	8.3	3.6

Exhibit 2: DMART: One-year forward P/E band



Source: Bloomberg, MOSL

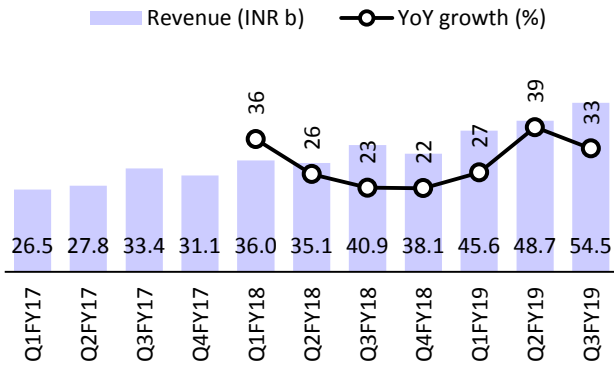
Exhibit 3: DMART: One-year forward EV/EBITDA band



Source: Bloomberg, MOSL

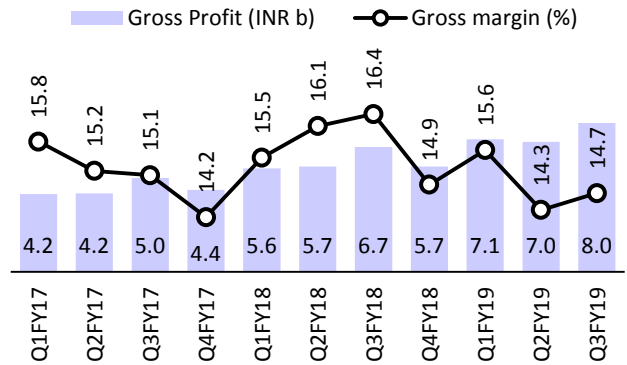
Story in charts

Exhibit 4: Revenue growth remains robust



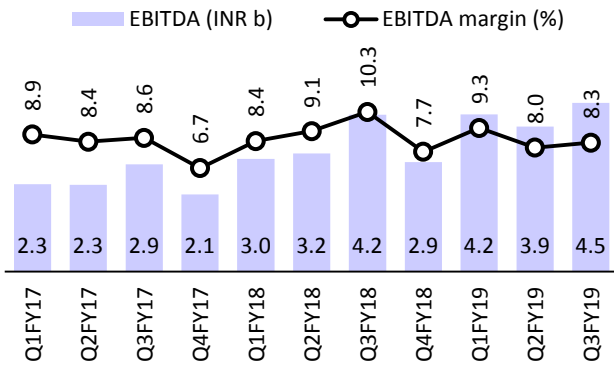
Source: Company, MOSL

Exhibit 5: Gross margin contracts 170bp YoY



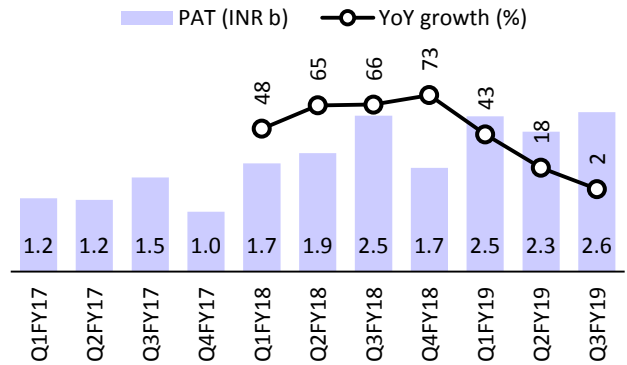
Source: Company, MOSL

Exhibit 6: EBITDA margin contracts 2000bp YoY



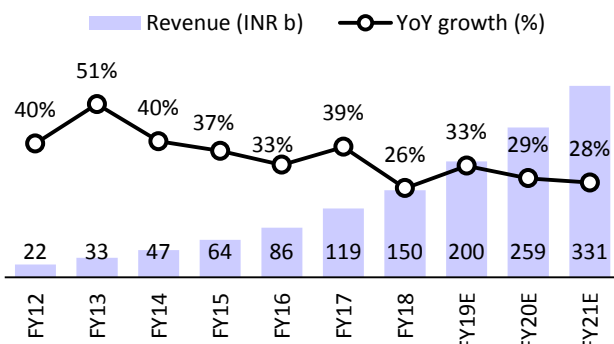
Source: Company, MOSL

Exhibit 7: PAT up by a subdued 2% YoY



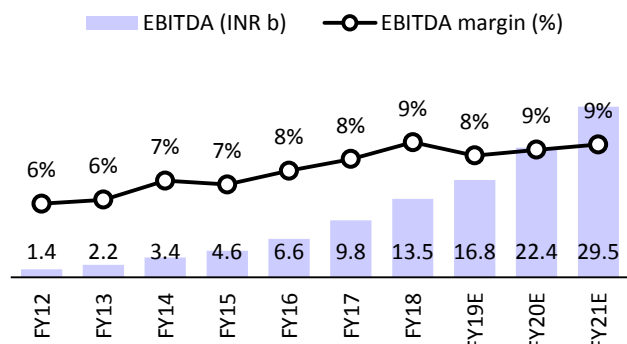
Source: Company, MOSL

Exhibit 8: Expect 30% revenue CAGR over FY18-21



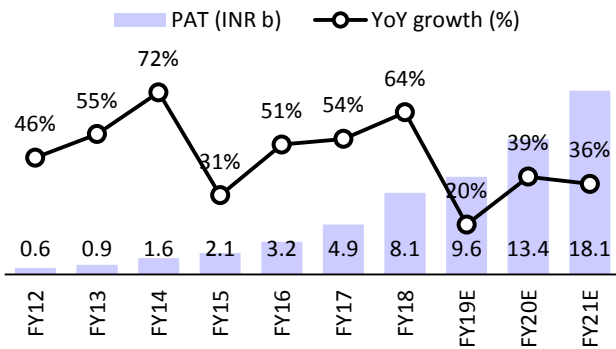
Source: Company, MOSL

Exhibit 9: EBITDA margin to remain steady at 9%



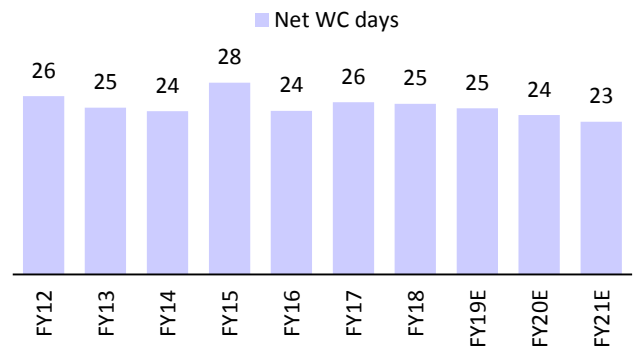
Source: Company, MOSL

Exhibit 10: Expect PAT CAGR of 31% over FY18-21



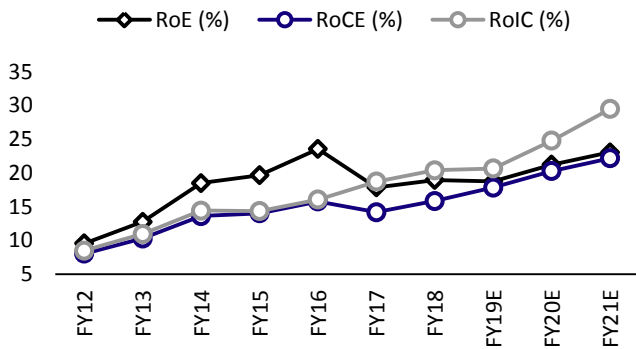
Source: Company, MOSL

Exhibit 11: Net working capital days to remain in the range of 20-25 days over FY18-21



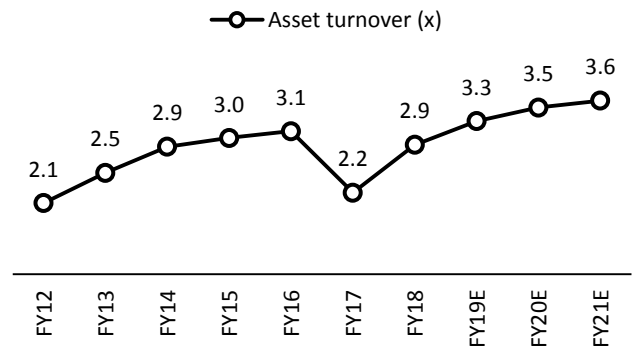
Source: Company, MOSL

Exhibit 12: Return ratios to continue its uptrend



Source: Company, MOSL

Exhibit 13: Rising trend in asset turnover ratios



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	33,409	46,865	64,394	85,838	118,977	150,332	199,965	258,573
Change (%)	51.3	40.3	37.4	33.3	38.6	26.4	33.0	29.3
Raw Materials	28,572	39,845	54,879	73,035	100,810	126,356	170,270	220,046
Gross Margins	4,837	7,020	9,515	12,802	18,167	23,976	29,695	38,527
Margin (%)	14.5	15.0	14.8	14.9	15.3	15.9	14.9	14.9
Employees Cost	687	873	1,341	1,490	1,925	2,826	3,379	4,241
Other Expenses	1,997	2,729	3,592	4,676	6,429	7,622	9,498	11,894
Total Expenditure	31,256	43,448	59,811	79,201	109,165	136,804	183,148	236,180
% of Sales	93.6	92.7	92.9	92.3	91.8	91.0	91.6	91.3
EBITDA	2,153	3,417	4,583	6,636	9,812	13,528	16,817	22,392
Margin (%)	6.4	7.3	7.1	7.7	8.2	9.0	8.4	8.7
Depreciation	458	570	815	984	1,278	1,590	1,955	2,254
EBIT	1,695	2,847	3,768	5,652	8,534	11,938	14,862	20,138
Int. and Finance Charges	426	557	724	913	1,220	595	483	439
Other Income	143	158	183	179	286	693	466	716
PBT bef. EO Exp.	1,411	2,449	3,226	4,918	7,600	12,036	14,845	20,415
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	1,411	2,449	3,226	4,918	7,600	12,036	14,845	20,415
Total Tax	473	835	1,109	1,715	2,683	4,158	5,196	7,043
Tax Rate (%)	33.5	34.1	34.4	34.9	35.3	34.5	35.0	34.5
Minority Interest	0	0	0	1	129	-185	0	0
Reported PAT	939	1,614	2,117	3,202	4,788	8,063	9,649	13,372
Adjusted PAT	939	1,614	2,117	3,202	4,788	8,063	9,650	13,372
Change (%)	55.4	71.9	31.2	51.3	49.5	68.4	19.7	38.6
Margin (%)	2.8	3.4	3.3	3.7	4.0	5.4	4.8	5.2

Consolidated - Balance Sheet

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	5,441	5,468	5,615	5,615	6,241	6,241	6,241	6,241
Total Reserves	2,455	4,088	6,377	9,589	32,177	40,450	50,099	63,471
Net Worth	7,895	9,556	11,992	15,204	38,418	46,691	56,340	69,711
Total Loans	5,261	6,408	9,043	11,923	14,973	4,393	4,393	4,393
Deferred Tax Liabilities	201	265	305	399	505	452	452	452
Capital Employed	13,360	16,229	21,340	27,527	53,898	51,541	61,191	74,562
Gross Block	10,950	13,969	18,321	21,918	27,764	37,041	42,757	49,252
Less: Accum. Deprn.	1,704	2,252	3,041	983	2,260	3,987	5,942	8,196
Net Fixed Assets	9,247	11,717	15,281	20,935	25,504	33,054	36,815	41,056
Capital WIP	1,181	888	981	817	1,529	1,471	1,600	1,551
Total Investments	160	155	152	293	531	845	845	845
Curr. Assets, Loans&Adv.	4,333	5,316	7,134	8,970	30,662	20,330	27,079	37,390
Inventory	2,762	3,783	5,396	6,717	9,479	11,634	14,928	18,086
Account Receivables	133	95	71	84	210	335	329	425
Cash and Bank Balance	616	554	380	351	18,843	5,602	8,823	15,647
Loans and Advances	822	884	1,287	1,818	2,130	2,758	2,999	3,232
Curr. Liability & Prov.	1,561	1,847	2,208	3,488	4,328	4,942	5,932	7,064
Account Payables	944	1,226	1,185	1,944	2,607	3,173	3,732	4,220
Other Current Liabilities	555	533	843	1,487	1,637	1,642	2,000	2,586
Provisions	62	89	179	56	84	127	200	259
Net Current Assets	2,773	3,469	4,926	5,482	26,334	15,387	21,147	30,326
Deferred Tax assets	0	0	0	0	0	1	1	1
Appl. of Funds	13,360	16,229	21,340	27,527	53,897	51,541	61,191	74,562

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS (diluted from FY17)	1.7	3.0	3.8	5.7	7.7	12.9	15.5	21.4
Cash EPS (diluted from FY17)	2.5	3.9	5.2	7.5	9.7	15.5	18.6	25.0
BV/Share (diluted from FY17)	14.5	17.5	21.4	27.1	61.6	74.8	90.3	111.7
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					204.5	121.4	101.5	73.2
Cash P/E					161.4	101.4	84.4	62.7
P/BV					25.5	21.0	17.4	14.0
EV/Sales					8.2	6.5	4.9	3.7
EV/EBITDA					99.4	72.3	58.0	43.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-1.8	-1.2	-4.1	-3.2	-2.8	-2.9	5.2	10.5
Return Ratios (%)								
RoE	12.8	18.5	19.6	23.6	17.9	18.9	18.7	21.2
RoCE	10.3	13.6	14.0	15.8	14.2	15.8	17.8	20.3
RoIC	10.9	14.4	14.3	16.0	18.7	20.4	20.7	24.8
Working Capital Ratios								
Fixed Asset Turnover (x)	3.1	3.4	3.5	3.9	4.3	4.1	4.7	5.2
Asset Turnover (x)	2.5	2.9	3.0	3.1	2.2	2.9	3.3	3.5
Inventory (Days)	35	35	36	34	34	34	32	30
Debtor (Days)	1	1	0	0	1	1	1	1
Creditor (Days)	12	11	8	10	9	9	8	7
Leverage Ratio (x)								
Current Ratio	2.8	2.9	3.2	2.6	7.1	4.1	4.6	5.3
Interest Cover Ratio	4.0	5.1	5.2	6.2	7.0	20.0	NA	NA
Net Debt/Equity	0.6	0.6	0.7	0.7	-0.1	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	1,411	2,449	3,226	4,918	7,600	12,036	14,845	20,415
Depreciation	458	570	815	984	1,278	1,590	1,955	2,254
Interest & Finance Charges	426	557	724	913	1,220	595	483	439
Direct Taxes Paid	-367	-750	-1,000	-1,642	-2,586	-4,027	-5,196	-7,043
(Inc)/Dec in WC	-653	-827	-1,520	-685	-2,697	-2,427	-2,539	-2,354
CF from Operations	1,275	1,998	2,245	4,489	4,815	7,767	9,549	13,711
Others	-4	-17	-25	-154	-237	-467	-466	-716
CF from Operating incl EO	1,271	1,981	2,220	4,335	4,578	7,300	9,082	12,995
(Inc)/Dec in FA	-2,377	-2,706	-4,770	-6,350	-6,354	-9,087	-5,845	-6,447
Free Cash Flow	-1,107	-724	-2,549	-2,015	-1,775	-1,787	3,238	6,548
(Pur)/Sale of Investments	69	7	31	-151	-229	-247	0	0
Others	2	5	8	181	255	383	466	716
CF from Investments	-2,307	-2,694	-4,731	-6,320	-6,328	-8,951	-5,378	-5,731
Issue of Shares	140	46	326	0	18,406	0	0	0
Inc/(Dec) in Debt	1,454	1,148	2,634	2,898	3,050	-10,791	0	0
Interest Paid	-422	-552	-621	-934	-1,203	-800	-483	-439
Dividend Paid	0	0	0	0	0	0	0	0
Others	3	11	5	0	0	0	0	0
CF from Fin. Activity	1,175	652	2,345	1,964	20,253	-11,591	-483	-439
Inc/Dec of Cash	139	-60	-166	-21	18,503	-13,241	3,221	6,824
Opening Balance	477	614	546	370	340	18,843	5,601	8,822
Closing Balance	616	554	380	349	18,843	5,601	8,822	15,647

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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