

Avenue Supermarts Ltd.

Industry Retail
Bloomberg DMART IN
BSE CODE 540376

Price cuts and higher other expenses dented the margin

RATING	ACCUMULATE
CMP	1569
Price Target	1780
Potential Upside	13%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	1696/1063
Mkt Capital (Rs Cr)	97916
Free float (%)	18.8%
Avg. Vol 1M (,000)	595
No. of Shares (Cr)	62
Promoters Pledged %	NA

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Key Highlights -

- Dmart has reported mixed set of numbers for Q3FY19, sales grew by 33% to Rs 5451 cr which remained inline to our estimates while PAT grew by 2% to Rs 257 which was much below than our estimates of Rs 294 cr.
- As expected line, price cut led to gross margin deterioration of 170 bps YoY to 14.7% (inline) while major dent in EBITDA margin came due to spurt in other expenses which went up by 39 bps YoY. EBITDA margin compressed by 199 bps to 8.3% in Q3FY19.
- Dmart is a Mumbai- based company, uses cluster-based approach to grow profitably.
- Dmarts Sales and PAT have grown at the CAGR of 35% and 54% respectively over last 5 years. It has improved its Gross and EBITDA margin by 148 and 256 bps respectively in last 5 years. Dmart has one of the best return ratios among other retail companies.

3Q FY19 Result update-

Dmart sales grew by 33% to Rs 5451 cr while PAT growth remained 2% led by erosion in margins. Gross and EBITDA margin declined by 170 and 199 bps YoY respectively. Dent in margin was due to price cut taken by the company and higher other expenses on the wake of preload of few expenses on infrastructure side (capability building) and people side. Secondly, the company has overspent little more to manage festival season like longer operating hours. Moreover, Other income was declined by 37% to Rs 9 cr while depreciation and interest cost went up by 33% and 36% respectively in Q3FY19. It has added 4 new stores in this quarter.

View and Valuation

Dmart's numbers remained mixed for Q3FY19, sales went up by 33% YoY while PAT growth remained flat (2% YoY) due to shrinkage in margins on the back of price cuts keeping view on heightening competitive intensity from ecommerce players and preload few expenses on infrastructure side (capability building) which in turn increased their other expenses. Going forward, we expect margin to improve QoQ backed by coming down of festivals related cost and secondly curtailment of ecommerce companies on offering deep discount may positively impact the pricing power of Dmart. Presently organized retail is at early stage having 9%(as in FY16)market share in the total retail hence we are optimistic on Dmart growth story. The company has added 4 new stores in Q3FY19 which was lower than what we had expected by 3 stores hence we reduced our yearly new addition number to 24 and reduced our sales estimates by 1%/2% for FY19 and FY20 while looking on margin pressure we had reduced our PAT estimates for FY19/FY20 by 8/5% respectively. We continue to value Dmart at 52 X of EV/EBITDA and recommend ACCUMULATE with the target price of 1780(earlier 1845).

Key Risks to our rating and target

- Continued competitive pressure.

Financials/Valuation	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8584	11898	15033	20015	24536
EBITDA	664	981	1353	1640	2122
EBIT	565	853	1194	1444	1901
PAT	320	479	806	941	1261
EPS (Rs)	6	8	13	15	20
EPS growth (%)	51%	35%	68%	17%	34%
ROE (%)	21%	12%	17%	17%	18%
ROCE (%)	22%	17%	24%	24%	26%
P/B (X)		17	20	17	14
P/E (x)		133.7	114.7	104.1	77.6
EV/EBITDA (x)		64.5	68.1	59.4	45.7

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3Q FY 19 Results**Result Mixed: Sales inline while margins remained dampener.**

	3QFY18	4QFY18	1QFY19	Q2FY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	4,094	3,810	4,559	4,873	5,451	33.1%	11.9%	11,898	15,033	26.4%
Other Income	14	15	14	14	9	-36.7%	-37.7%	29	69	142.7%
COGS	3,423	3,243	3,847	4,174	4,650	35.9%	11.4%	10,081	12,636	25.3%
Gross Margin	16%	15%	16%	14%	15%	-1.7%	0.4%	15%	16%	0.7%
Employ. Ex.	70	72	77	84	88	24.9%	4.4%	193	283	46.8%
Other Ex.	179	200	212	224	260	45.1%	15.7%	643	762	18.5%
EBITDA	422	294	423	390	453	7.5%	16.3%	981	1,353	37.9%
EBITDA Marg.	10%	8%	9%	8%	8%	-2.0%	0.3%	8%	9%	0.8%
Depreciation	39	47	40	44	52	32.8%	17.6%	128	159	24.4%
EBIT	382	248	382	345	401	4.9%	16.2%	853	1,194	39.9%
Interest	11	13	10	10	15	35.9%	47.7%	122	60	-51.2%
PBT	385	250	387	349	395	2.5%	13.1%	760	1,204	58.4%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	133	83	136	123	138	3.3%	11.8%	268	416	55.0%
PAT	252	167	251	226	257	2.1%	13.9%	479	806	68.4%
PAT Margin	6%	4%	5%	5%	5%	-1.4%	0.1%	4%	5%	1.3%

Gross margin declined on back of price cuts & increased operating expenses

Gross margin declined by 170 bps YoY to 14.7% on account of price cuts by company in various product segments due to competitive pricing by peers. However the company managed a considerable improvement in its sales growth by cutting down prices. As per management, EBITDA margin may not be sustainable as company plans to prioritize price competitiveness v/s margin improvements. Its operating expenses has inched up on account of developing company's infrastructure. Moreover, there was overspent in festive season, for sustaining longer operating hours. Although, company maintained its employee expenses to sales % in line with previous period to 1.6% but due to increase in operating expenses & reduced prices, EBITDA margins dipped by 199bps YoY to 8.3% in the quarter.

New store addition remained below than our expectations

The Company opened 4 new stores in this quarter, bringing its total store count to 164 stores. Considering company's guidance of adding around 25-30 new stores in FY19e we were assuming 7 stores addition in Q3FY19 and at least 15 in Q4FY19. Now considering short fall of 3 stores we had changed our total number of new stores count to 24 for FY19e similar to the last year. New stores addition will be our key monitorable going forwards. The company has also increased its Retail Business space by 0.2 million sq. ft. to 5.3 million sq. ft. Previously company followed ownership model. But now, the company is open for lease based model to aggressively ramp up their new stores addition.

Exhibit: D-Mart Stores

The company has opened 4 new stores in current quarter which led total store count to 164 stores.

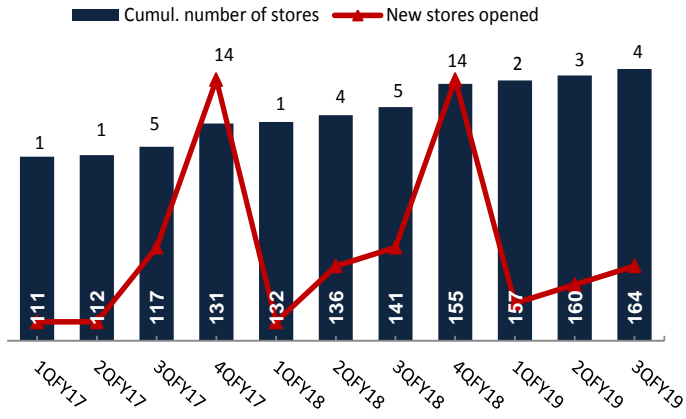


Exhibit: Sales and sales growth

Sales grew by 33% YoY led company's strategy of competitive pricing.

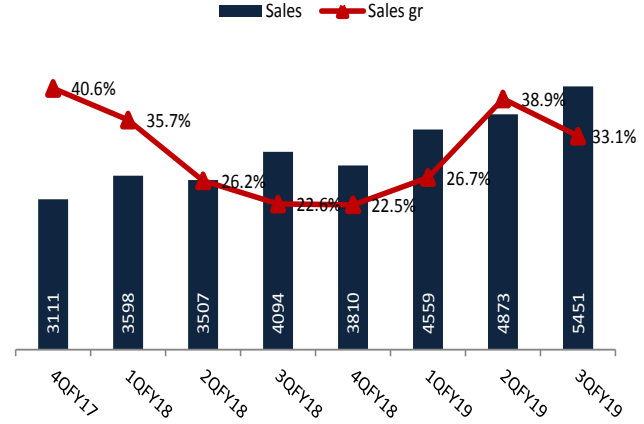


Exhibit: COGS and Other expenses

COGS went up by 170 bps while other expenses increased by 39 bps YoY.

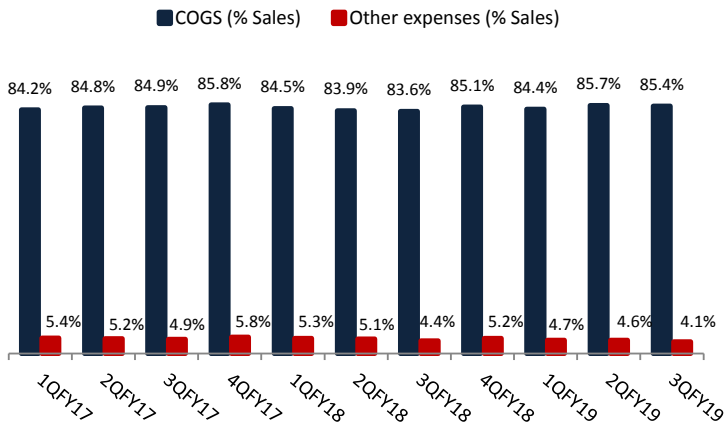


Exhibit: Gross and EBITDA Margin

Price cut led to gross margin deterioration of 170 bps YoY to 14.7%.

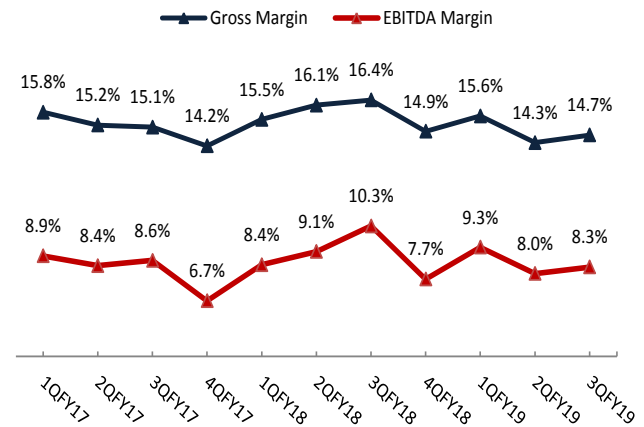
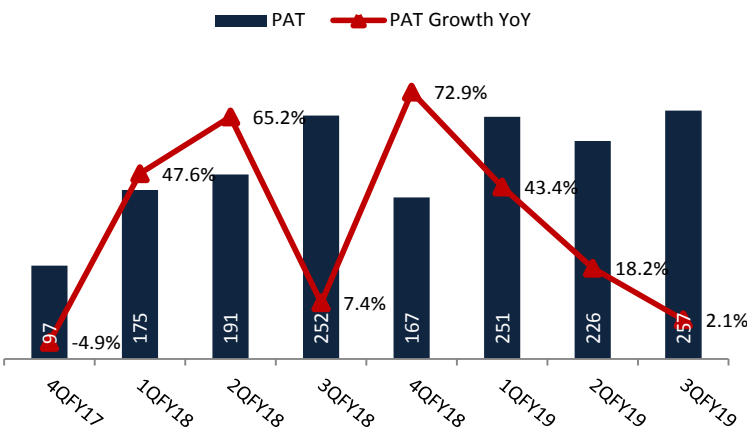


Exhibit: PAT and PAT growth

PAT grew by 2% to Rs 257 which was much below than our estimates of Rs 294 cr.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	544	547	562	562	624	624	624	624
Reserves	245	409	638	959	3,218	4,045	4,986	6,247
Networth	790	956	1,199	1,520	3,842	4,669	5,610	6,871
Debt	434	511	757	1,037	1,120	253	346	346
Other Non Current Liab	34	39	47	56	52	47	47	47
Total Capital Employed	1,223	1,467	1,957	2,557	4,962	4,922	5,956	7,217
Net Fixed Assets (incl CWIP)	1,043	1,260	1,626	2,175	2,703	3,452	4,154	4,830
Non Current Investments	16	15	15	27	49	16	16	16
Other Non Current Assets	53	43	80	109	89	129	129	129
Non Current Assets	1,111	1,318	1,721	2,312	2,841	3,676	4,377	5,053
Inventory	276	378	540	672	948	1,163	1,481	1,815
Debtors	13	10	7	8	21	34	45	55
Cash & Bank	62	55	38	35	1,884	560	689	1,060
Other Current Assets	30	46	49	75	125	215	316	390
Current Assets	381	489	634	790	2,979	1,972	2,530	3,319
Creditors	94	123	119	194	261	317	422	518
Provisions	6	9	18	5	8	12	16	20
Other Current Liabilities	135	170	215	288	537	349	465	570
Curr Liabilities	298	356	395	616	944	686	1,004	1,208
Net Current Assets	83	133	239	173	2,034	1,286	1,526	2,112
Total Assets	1,492	1,808	2,355	3,102	5,819	5,648	6,907	8,373

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	3,341	4,686	6,439	8,584	11,898	15,033	20,015	24,536
Change (%)		40%	37%	33%	39%	26%	33%	23%
EBITDA	215	342	459	664	981	1,353	1,640	2,122
Change (%)		59%	34%	45%	48%	38%	21%	29%
Margin (%)	6%	7%	7%	8%	8%	9%	8%	9%
Depr & Amor.	46	57	82	98	128	159	195	221
EBIT	169	285	377	565	853	1,194	1,444	1,901
Int. & other fin. Cost	43	56	72	91	122	60	53	53
Other Income	14	16	18	18	29	69	51	67
EBT	141	245	323	492	760	1,204	1,443	1,915
Exp Item	0	(0)	(1)	-	-	-	-	-
Tax	47	83	111	171	268	416	502	654
Minority Int & P/L share of Ass.	-	-	(0)	(0)	(13)	18	-	-
PAT	94	161	212	320	479	806	941	1,261
Adjusted PAT	94	161	212	320	479	806	941	1,261
Change (%)		72%	31%	51%	50%	68%	17%	34%
Margin(%)	3%	3%	3%	4%	4%	5%	5%	5%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	12%	17%	18%	21%	12%	17%	17%	18%
ROCE	14%	19%	19%	22%	17%	24%	24%	26%
Asset Turnover	2	3	3	3	2	3	3	3
Debtor Days	1	1	0	0	1	1	1	1
Inv Days	30	29	31	29	29	28	27	27
Payable Days	10	10	7	8	8	8	8	8
Int Coverage	4	5	5	6	7	20	27	36
P/E					134	115	104	78
Price / Book Value					17	20	17	14
EV/EBITDA					64	68	59	46
FCF per Share					(3)	(3)	2	7
Div Yield					0%	0%	0%	0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	141	245	323	492	760	1,204	1,443	1,915
(inc)/Dec in Working Capital	(65)	(83)	(152)	(69)	(270)	(243)	(152)	(185)
Non Cash Op Exp	46	57	82	99	129	181	195	221
Int Paid (+)	43	56	72	91	122	60	53	53
Tax Paid	(37)	(75)	(100)	(164)	(258)	(403)	(502)	(654)
others	(1)	(2)	(3)	(16)	(27)	(68)	-	-
CF from Op. Activities	127	198	222	433	455	730	1,037	1,350
(inc)/Dec in FA & CWIP	(238)	(271)	(477)	(635)	(635)	(909)	(897)	(897)
Free Cashflow	(111)	(72)	(255)	(202)	(180)	(179)	140	454
(Pur)/Sale of Inv	7	1	3	1	8	17	(52)	(30)
others	-	(0)	-	1	(1,854)	1,353	-	-
CF from Inv. Activities	(231)	(270)	(474)	(633)	(2,482)	462	(948)	(927)
inc/(dec) in NW	14	5	33	-	1,841	-	-	-
inc/(dec) in Debt	145	115	263	290	305	(1,079)	93	-
Int. Paid	(42)	(55)	(62)	(93)	(120)	(80)	(53)	(53)
Div Paid (inc tax)	-	-	-	-	-	-	-	-
others	0	1	0	-	-	-	-	-
CF from Fin. Activities	118	65	234	196	2,025	(1,159)	40	(53)
Inc(Dec) in Cash	14	(7)	(17)	(3)	(1)	33	129	371
Add: Opening Balance	48	61	55	37	34	33	560	689
Closing Balance	61	55	37	34	33	67	689	1,060

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