

Industry
Bloomberg
BSE CODE

Consum.Staples
DMART IN
540376

Margin expansion surprised positively

RATING	BUY
CMP	1359
Price Target	1650
Potential Upside	21%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	1696/1127
Mkt Capital (Rs Cr)	84670
Free float (%)	19%
Avg. Vol 1M (,000)	371
No. of Shares (Cr)	62
Promoters Pledged %	NA

1QFY20 Result Update

- In 1QFY20, DMART posted mixed set of numbers wherein top line remained below our expectation; Sales (standalone) grew by 26.8% YoY to Rs. 5781 cr. (vs. expect. Rs. 6081 cr.) led by new stores additions and better traction from old stores.
- The company added 8 new stores (making a total stores count to 184 stores) in 1QFY20 as compared to 2 new stores in previous year same quarter. Average revenue per stores improved by 8% YoY and 10% QoQ but it remained flat (up by 1% YoY) in terms of sales per Sq ft.
- Gross margin expanded by 49 bps YoY to 16.1% (vs. expect. 15% YoY), while EBITDA margin improved by 104 bps to 10.3% YoY (vs. expect. 8.8% YoY) led by operational efficiency, gross margin expansion and adoption of new lease accounting. Other expenses declined by 49 bps to 4.2% in which accounting change contributed ~33 bps YoY in Q1FY20.
- Due to change in accounting with respect of lease, Interest cost and depreciation & amort. witnessed an increase of Rs 4.75 cr and 17.96 cr to Rs 16.76 cr and Rs 74.97 cr respectively. PBT was impacted by ~1% to Rs 516 cr.
- PAT stood at Rs. 335 cr. (vs. expect. 299 cr) with PAT growth of 33.8% YoY.

View and Valuation

Dmart's 1QFY20 result remained mixed, sales grew by 26.8% to Rs 5781 cr (vs expect. Rs 6018 cr) while PAT grew by 34% YoY to Rs 335 cr (vs expect. Rs 299 cr). Key positive for the quarter remained expansion in gross and EBITDA margin which improved by 49 bps and 104 bps YoY to 16.1% and 10.3% respectively. Going forward we expect gradual ease in the competitive intensity from e-commerce players considering government's new FDI rules on e-commerce which may improve company's pricing power. We keep track of margin trend closely. At present, we continue to expect contraction in EBITDA margin of company in FY20e and FY21e by 39 and 10 bps to 7.8% and 7.7% respectively. We expect management to be aggressive in new stores addition going forward (keeping view on 8 new stores addition in Q1FY20, although it is spill over from the previous quarters than also number is big respective to company's store addition in Q1). Presently, we have largely kept our sales estimates for FY20e and FY21e same while increased our PAT estimate for FY20e by 4% keeping PAT estimate for FY21e largely unchanged. We continue to value Dmart at 3.9x FY20e EV/sales and maintain our previous target price of Rs 1650 with the BUY recommendation.

Key Risks to our rating and target

- Continued competitive pressure from e-commerce channels.
- Slower pace of new stores addition on the back of delay in approvals.

RESEARCH ANALYST

RAJEEV ANAND

rajeev.anand@narnolia.com
+91-22-62701229

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	11898	15033	20005	26449	31757
EBITDA	981	1353	1633	2056	2438
EBIT	853	1194	1421	1760	2134
PAT	479	806	903	1121	1395
EPS (Rs)	8	13	14	18	22
EPS growth (%)	35%	68%	12%	24%	24%
ROE (%)	12%	17%	16%	17%	17%
ROCE (%)	18%	24%	25%	26%	26%
BV	62	75	90	107	130
EV/Sales (X)	5.3	6.1	3.9	3.2	2.7
P/E (x)	133.7	114.7	86.7	75.6	60.8

The views expressed above accurately reflect the personal views of the authors about the subject companies and its (their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Mixed Performance

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	4,559	4,873	5,451	5,033	5,781	26.8%	14.8%	15,033	20,005	33.1%
Other Income	14	14	9	15	12	-16.2%	-18.6%	69	48	-30.3%
COGS	3,847	4,174	4,650	4,308	4,849	26.0%	12.6%	12,636	17,001	34.5%
Gross Margin	16%	14%	15%	14%	16%	0.5%	1.7%	16%	15%	-0.9%
Empl. Cost	77	84	88	86	94	22.4%	9.6%	283	355	25.8%
Other Exp.	212	224	260	263	241	13.4%	-8.2%	762	1,015	33.2%
EBITDA	423	390	453	377	596	41.0%	58.3%	1,353	1,633	20.7%
EBITDA Mar.	9%	8%	8%	7%	10%	1.0%	2.8%	9%	8%	-0.8%
Depreciation	40	44	52	62	75	85.9%	21.0%	159	212	33.6%
EBIT	382	345	401	315	521	36.3%	65.6%	1,194	1,421	19.0%
Interest	10	10	15	12	17	67.3%	37.8%	60	47	-20.7%
PBT	387	349	395	317	516	33.5%	62.8%	1,204	1,422	18.1%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	136	123	138	114	181	33.0%	58.4%	416	519	24.9%
PAT	251	226	257	203	335	33.8%	65.3%	806	903	11.9%
PAT Margin	5%	5%	5%	4%	6%	0.3%	1.8%	5%	5%	-0.9%

New store addition remained above than expectations

In 1QFY20, company added 8 new stores (large part of which are a spillover from the previous quarter) (vs. expect. 1 store) bringing its total stores count to 184 stores. Now management is getting more aggressive in new store addition. Considering this we have increased our estimates for total stores count from 21 to 24 for FY20e. In FY19, company added 21 stores (vs. expect. 24 stores). Retail Business Area increase by 26% YoY to 6.3 million sq. ft. across Maharashtra, Gujarat, Daman, Andhra Pradesh, Karnataka, Telangana, Tamil Nadu, Madhya Pradesh, Rajasthan, NCR, Chhattisgarh & Punjab.

Margin expansion surprised positively

Gross margin expanded by 49 bps YoY to 16.1% (vs. expect. 15% YoY), EBITDA margin improved by 104 bps to 10.3% YoY (vs. expect. 8.8% YoY) led by operational efficiency, gross margin expansion and adoption of new lease accounting standards. Other expenses declined by 49 bps to 4.2% in which accounting change contributed ~33 bps in Q1FY20. Management remained cautious about margin outlook. As per the management, Q1 margins are not usually a reflection of the entire year.

Yearly Matrix:

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Bill Cuts (nos. In Cr)	3	4	5	7	8	11	13	17
Retail Business Area (cr sq ft)	0.16	0.18	0.21	0.27	0.33	0.41	0.49	0.59
Revenue per sqft (Rs.)	15,324	20,116	23,419	26,388	28,136	31,120	32,719	35,647
New stores opened in Fiscal	10	7	13	14	21	21	24	21
Cumulative number of stores	55	62	75	89	110	131	155	176

Exhibit: D-Mart Stores

The Company added 8 new stores in 1QFY20 with making the total no. of stores count to 184 stores.

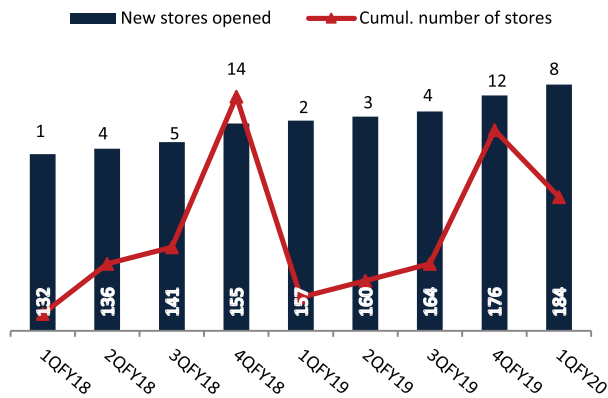


Exhibit: Sales and sales growth

"Sales grew by 26.8% YoY to Rs. 5781 cr led by new store additions and better traction from old stores.."

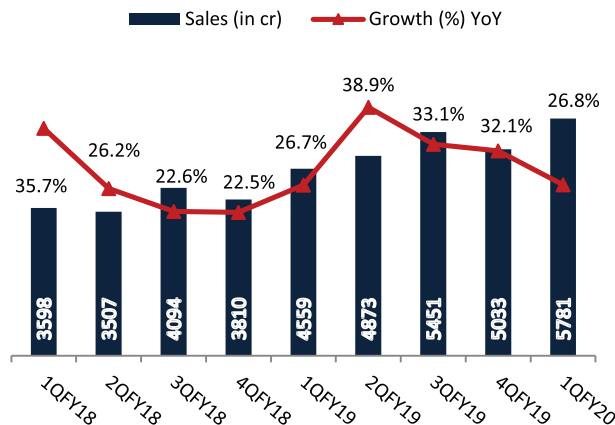


Exhibit: COGS and Other expenses

COGS stood at 83.9% (vs. expect. 85%) while other exp. down by 49 bps YoY led by change in lease ac. & op. efficie.

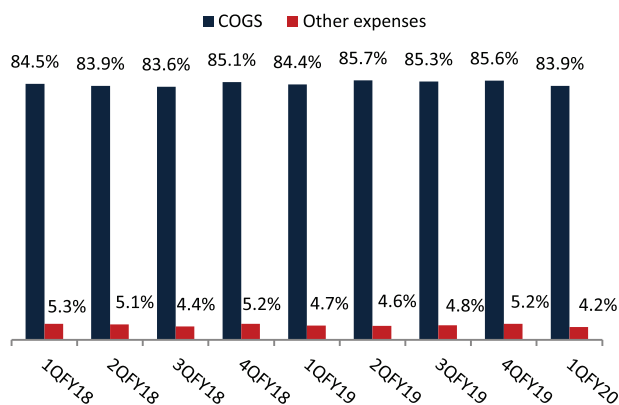


Exhibit: Gross and EBITDA Margin

GM. Improved by 49 bps due to reduction in COGS while EBITDAM improved by 104 bps YoY.

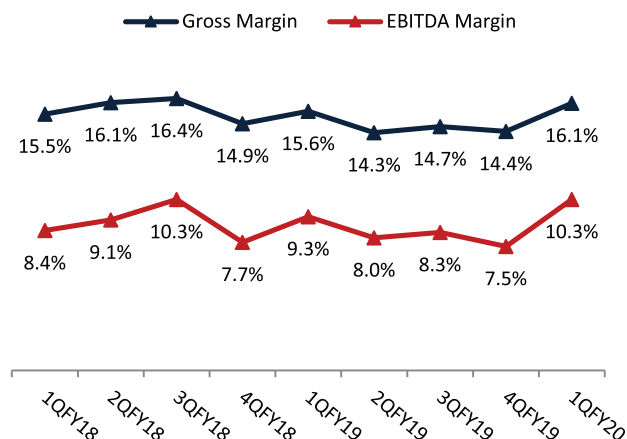
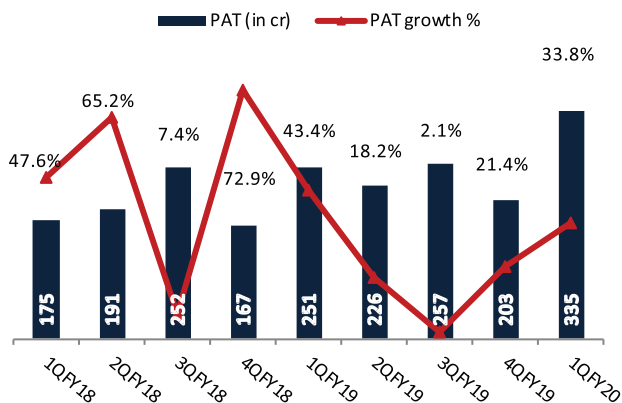


Exhibit: PAT and PAT growth

PAT stood at Rs. 335 cr with a growth of 33.8% YoY (vs. expect Rs. 299 cr).



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	547	562	562	624	624	624	624	624
Reserves	409	638	959	3,218	4,045	4,963	6,087	7,480
Networth	956	1,199	1,520	3,842	4,669	5,587	6,711	8,104
Debt	511	757	1,037	1,120	253	430	476	376
Other Non Current Liab	39	47	56	52	47	65	65	65
Total Capital Employed	1,467	1,957	2,557	4,962	4,922	6,017	7,187	8,479
Net Fixed Assets (incl CWIP)	1,260	1,626	2,175	2,703	3,452	4,681	5,484	6,377
Non Current Investments	15	15	27	49	16	18	18	18
Other Non Current Assets	43	80	109	89	129	146	129	129
Non Current Assets	1,318	1,721	2,312	2,841	3,676	4,923	5,710	6,602
Inventory	378	540	672	948	1,163	1,609	2,131	2,554
Debtors	10	7	8	21	34	64	85	102
Cash & Bank	55	38	35	1,884	560	219	268	326
Other Current Assets	46	49	75	125	215	190	280	426
Current Assets	489	634	790	2,979	1,972	2,083	2,765	3,408
Creditors	123	119	194	261	317	463	614	735
Provisions	9	18	5	8	12	13	17	20
Other Current Liabilities	170	215	288	537	349	447	592	709
Curr Liabilities	356	395	616	944	686	1,227	1,573	1,715
Net Current Assets	133	239	173	2,034	1,286	856	1,193	1,693
Total Assets	1,808	2,355	3,102	5,819	5,648	7,006	8,475	10,010

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	4,686	6,439	8,584	11,898	15,033	20,005	26,503	31,757
Change (%)	40%	37%	33%	39%	26%	33%	32%	20%
EBITDA	342	459	664	981	1,353	1,633	2,059	2,438
Change (%)	59%	34%	45%	48%	38%	21%	26%	19%
Margin (%)	7%	7%	8%	8%	9%	8%	8%	8%
Depr & Amor.	57	82	98	128	159	212	296	303
EBIT	285	377	565	853	1,194	1,421	1,764	2,134
Int. & other fin. Cost	56	72	91	122	60	47	67	53
Other Income	16	18	18	29	69	48	49	66
EBT	245	323	492	760	1,204	1,422	1,745	2,147
Exp Item	(0)	(1)	-	-	-	-	-	-
Tax	83	111	171	268	416	519	622	753
Minority Int & P/L share of Ass.	-	(0)	(0)	(13)	18	0	-	-
Reported PAT	161	212	320	479	806	903	1,124	1,395
Adjusted PAT	161	212	320	479	806	903	1,124	1,395
Change (%)	72%	31%	51%	50%	68%	12%	24%	24%
Margin(%)	3%	3%	4%	4%	5%	5%	4%	4%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	17%	18%	21%	12%	17%	16%	17%	17%
ROCE	19%	19%	22%	17%	24%	24%	25%	25%
Asset Turnover	3	3	3	2	3	3	3	3
Debtor Days	1	0	0	1	1	1	1	1
Inv Days	29	31	29	29	28	29	29	29
Payable Days	10	7	8	8	8	8	8	8
Int Coverage	5	5	6	7	20	30	26	41
P/E				134	115	87	75	61
Price / Book Value				17	20	14	13	10
EV/EBITDA				64	68	48	41	35
FCF per Share				(3)	(3)	(9)	2	5
Div Yield				0.0%	0.0%	0.0%	0.0%	0.0%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	245	323	492	760	1,204	1,422	1,745	2,147
(inc)/Dec in Working Capital	(83)	(152)	(69)	(270)	(243)	(258)	(283)	(245)
Non Cash Op Exp	57	82	99	129	181	212	296	303
Int Paid (+)	56	72	91	122	60	47	67	53
Tax Paid	(75)	(100)	(164)	(258)	(403)	(519)	(622)	(753)
others	(2)	(3)	(16)	(27)	(68)	-	-	-
CF from Op. Activities	198	222	433	455	730	905	1,202	1,506
(inc)/Dec in FA & CWIP	(271)	(477)	(635)	(635)	(909)	(1,441)	(1,099)	(1,196)
Free Cashflow	(72)	(255)	(202)	(180)	(179)	(536)	103	310
(Pur)/Sale of Inv	1	3	1	8	17	52	(33)	(100)
others	(0)	-	1	(1,854)	1,353	(2)	-	-
CF from Inv. Activities	(270)	(474)	(633)	(2,482)	462	(1,391)	(1,133)	(1,296)
inc/(dec) in NW	5	33	-	1,841	-	(0)	0	-
inc/(dec) in Debt	115	263	290	305	(1,079)	177	46	(100)
Int. Paid	(55)	(62)	(93)	(120)	(80)	(47)	(67)	(53)
Div Paid (inc tax)	-	-	-	-	-	-	-	-
others	1	0	-	-	-	-	-	-
CF from Fin. Activities	65	234	196	2,025	(1,159)	145	(21)	(153)
Inc(Dec) in Cash	(7)	(17)	(3)	(1)	33	(341)	49	57
Add: Opening Balance	61	55	37	34	33	560	219	268
Closing Balance	55	37	34	33	67	219	268	326

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions - including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.