

Avenue Supermarts

BSE SENSEX
62,849

S&P CNX
18,635

CMP: INR3,710

TP: INR4,420 (+18%)

Buy

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Stock Info

Bloomberg	DMART IN
Equity Shares (m)	648
M.Cap.(INRb)/(USD\$)	2414.3 / 29.4
52-Week Range (INR)	4606 / 3293
1, 6, 12 Rel. Per (%)	-9/-6/-26
12M Avg Val (INR M)	1400
Free float (%)	25.4

Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	428	531	684
EBITDA	36	46	61
Adj. PAT	24	29	38
EBITDA Margin (%)	8	9	9
Adj. EPS (INR)	37	44	59
EPS Gr. (%)	59	21	34
BV/Sh. (INR)	258	304	365

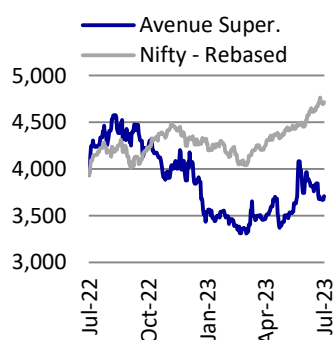
Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	16.0	16.4	18.4
RoCE (%)	15.7	16.1	18.1
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	101.1	83.7	62.5
EV/EBITDA (x)	65.9	52.1	39.2
EV/Sales (X)	5.6	4.5	3.5
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.2	0.2	0.4

Stock Performance (1-year)



Discretionary demand set to improve

Apparels to remain weak, while general merchandise to improve

At its analyst meet, DMART reiterated its strategy of 'Everyday low cost, Everyday low price' across Food, FMCG, GM, Apparels and DMart Ready. Following are the key highlights of the event:

- The company targets to add 40 stores in FY24. The timing is a challenge due to longer cycles of turnaround and issues like the availability of larger stores and inflation-led high property prices.
- In the general merchandise and apparels category (GM&A), general merchandise is mainly impacted by macro factors, but the apparels category is facing both macro factors and increased competitiveness. However, we believe new categories (like Pharma, etc.) should offset the impact.
- The management is optimistic about the e-commerce business and has expressed reasonable clarity that it may not report significant losses. It will focus on the existing 22 cities and big-basket buying through both store pick-up and home delivery channels.
- The gross margin impact from GM&A is cushioned by the strategy of direct procurement from grocery brands.
- Usually 30-35k sqft stores mature in about three years, while larger stores (~45k sqft) mature in four to five years, giving the company potential to grow more.
- We factor in revenue/PAT CAGRs of 26%/27% over FY23-25E on the back of 16%/9% area/revenue productivity. Maintain BUY.

Apparels facing internal and macro issues

Gross merchandise was a macro issue and is now improving, while the Apparels category is facing both macro and internal issues. As competition intensifies in the value category (entry of Zudio, Reliance trends, Max, etc.), the company needs to work more on building the Apparels segment, which will take time to address the gaps. Fashion and aspirational apparel merchandise are not its forte; hence, DMART focuses on entry-level products for normal wear and tear. Large stores provide DMART with the flexibility to experiment with a range of products. It has launched the Pharmacy segment to offset weak apparel sales.

Opportunity to add stores remains intact

The company has all the appropriate resources, ability, systems and technology to run stores. The only issue is real estate availability as DMART has increased the store size and real estate inflation has led to high lease/prices. However, adding 40 stores in a year could not be a difficult target, implying a 12% CAGR in store additions for the next two years. The company is prioritizing North India expansion, along with a few cities in South India. Additionally, from a financial standpoint, it could open stores in both larger and smaller towns, and the store size is not a concern as it is ready to open stores on the basis of availability. But it prefers to open larger stores. In order to gain advantages from operating leverage, the company wants to expand in populated towns.

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Confident about e-commerce business

At the analyst meet, the management expressed confidence to run the e-commerce business. It targets to expand into the existing 22 cities, with MMR in focus. The focus remains on pickup locations and delivery routes since pick-up locations aid in increasing operating leverage in the e-commerce business. Since the cost of operating the e-commerce business is relatively higher than that of operating a brick-and-mortar store (more manpower involvement and complicated processes), the management's cost-focused approach kept it from venturing deeper into the e-commerce space earlier.

Gross margin improvement

In spite of the reduction in the share of GM&A to 23% in FY23 from 27% in FY20, gross margin declined by only 30bp to 14.5% over the same period as the company has changed its procurement strategy from direct store delivery to DC delivery. Since it is a pass-through status company, inflation does not impact margins much, but it impacts SSSG. With a decline in inflation, SSSG may also decline, which could offset the increase in the propensity for consumption.

Valuation and view

DMART clocked a 19% revenue CAGR over FY20-23, led by 20% footprint additions. Subdued SSSG was mainly due to: 1) the addition of bigger stores over the last couple of years (20% rise in average store size), and 2) weak discretionary demand. However, despite weak SSSG, DMART has managed to protect its EBITDA margin at pre-Covid levels through its strong cost-control measures, unlike most other retailers. We believe SSSG is set to recover in FY24, owing to: 1) easing general inflation along with RM cost reduction that may help in reviving discretionary demand; and 2) larger stores are now in the base and will start contributing to store productivity, with further room to grow footfalls. We factor in revenue/PAT CAGRs of 26%/27% over FY23-25 on the back of 16%/9% growth in footprints/revenue productivity. We value the company at 43x FY25E EV/EBITDA to arrive at a TP of INR4,420. **We reiterate our BUY rating on the stock.**

Exhibit 1: Valuation based on Jun'25 EBITDA

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
EBITDA	June'25 EV/EBITDA	66	43	2,837	4,387
Less Net debt				-21	-33
Total Value				2,858	4,420
Shares o/s (m)				648	
CMP (INR)					3,712
Upside (%)					19

Investor meet highlights

Confident on ecommerce business

- **Strategy:** Currently, the company wants to concentrate on 22 cities and increase its penetration there. Particularly the MMR region, which is outpacing global ecommerce in terms of revenue growth and minimum losses.
- Pickup locations and delivery routes will both coexist since pick-up locations aid in increasing operating leverage in online commerce.
- **High cost business-** Cost of operating ecommerce business is relatively higher than brick and mortar store since more manpower is involved in ecommerce and is more complicated in terms of processes.
- **Well Prepared in online business:** Have become far more confident in the online/DMart Ready business then it was few years back. They explained the worry to lose money in ecommerce space is reduced by around 90%.
- They target to increase in basket size per order as to run the grocery business well in ecom space
- Like others Quick commerce players, they are not targeting 30 minutes delivery while the focus is on the bulk delivery
- Other than MMR, cities like Pune, Hyderabad and Bangalore are doing better without making any impact on B&M store

Exhibit 2: Dmart Ready (INR m)

	FY18	FY19	FY20	FY21	FY22	FY23
DMart Ready revenue	441	1,436	3,540	7,913	16,672	22,020
YoY%		225%	147%	124%	111%	32%
Consol revenue (INRb)	150	200	249	241	310	428
YoY%		33%	24%	-3%	28%	38%
Proportion of Dmart ready					5%	5%
DMart Ready GP					2,041	2,739
margin					12.2	12.4
Consol GP (INRb)	24	30	38	36	46	65
margin	15.9	15.0	15.1	14.9	14.8	15.1
Proportion of Dmart ready					4.5%	4.2%
DMart Ready EBITDA					-396	-763
margin					-2.4	-3.5
Consol EBITDA (INRb)	14	16	21	17	25	36
margin	9.0	8.2	8.6	7.2	8.1	8.5
Proportion of Dmart ready					-1.6%	-2.1%
DMart Ready Loss	-481	-508	-797	-806	-1,421	-1,937
Consol PAT (INRb)	8.1	9.0	13.0	11.0	14.9	23.8
Proportion of Dmart ready	-6%	-6%	-6%	-7%	-10%	-8%
Number of cities						
Cities count	1	1	1	5	9	22

GM&A- Apparel is both internal and macro issue

- Gross merchandise (GM) was a macro issue and now is improving, while Apparel is both macro and internal issue, which will take time to improve.
 - Higher inflation impacted GM&A customers.
 - Out of 23% GM&A share, GM is contributing higher than Apparels.
 - Most of the GM&A are own manufactured/private labels.
- The company needs to work on the Apparel portfolio to drive the business, address the gaps and compete with the rising competition in the value space.
- Fashion and aspirational apparel merchandises are not its forte, as grocery shoppers may not prefer to buy fashion apparels in a grocery setup.
 - On basic wear at better value such as home wear, night wear, etc., they will not create aspirational products in the apparel space.
 - Concentrating on value range of INR500-600
- Through larger stores, the company can experiment a lot of products.
 - They have also ventured in the Pharmacy space, which requires less shelf space and high productivity.
- Many peers in the GM&A space open stores closer to DMART as it generates a lot of traffic.

Opportunity to add stores remains intact

- **Strategy:** For a grocery business, the opportunity lies more in a densely populated town, and hence the company focuses on large and dominant towns of the country.
 - It continues to expand via a cluster-based approach, which helps it increase the operating leverage.
 - Since real estate availability is difficult, it cannot predict the timing of store addition but targets to maintain the past run rate.
 - The basics of DMART business remain the same across Food, FMCG, GM&A, DMart Ready — **'Everyday low cost, Everyday low price'**
- **Store adds**
 - The company is well positioned to open more stores since it has appropriate resources, ability, systems and technology to run stores. The only issue is real estate availability.
 - Adding 60 stores per annum is not a problem, but it is unlikely to happen in FY24 due to real estate availability. However, 40 store addition per year could not be a difficult target.
 - Its 60% stores are in cities with over 500k population and 40% of them are in cities with below 500k population. Earlier, the store count was 32% in smaller towns.
 - Focusing on North India- UP, Delhi-NCR, Punjab, Rajasthan, together with Bangalore and Hyderabad in South.
- **Key factor to determine right store**
 - Important elements are ROIC, gross margins, operating cost, net margins and location to open a store.
 - From a financial standpoint, stores could be opened in both larger and smaller towns. Also, the size is not an issue, DMART is ready to open 10k/30k/50k sqft stores on the basis of availability. But targeting to open larger size store.

- It had opened many stores in smaller towns, which led to lower cost and lower revenue. The business model is the same for small towns.
- **Real estate availability remains an issue**
- The lease rentals and the value of real estate have gone up. Mall rentals are extremely high for operating a grocery store.
- There are two problem: 1) availability of size of property, 2) inflation-led high property prices.
- **Capex per store** is getting higher due to a) larger size store and b) real estate inflation.
- The company is open for both lease or buy.
- It sees more real estate challenges in big towns.
- The process of shortlisting and buying a site is actually a multiplier. Out of 100 stores initially shortlisted, the actual numbers of stores added is in mid-teens or single digits.

Older stores mature later

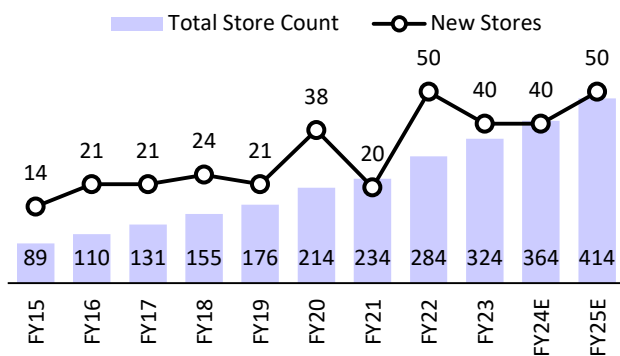
- Usually 30-35k sqft stores mature in about three years, while larger stores (~45k sqft) mature in four to five years. This gives the company longevity and higher potential to grow.
- The contribution of GM&A is high in a new store, but it declined when the store matures. It is because when it opens the store, there are not many peers in the area.
- FMCG share remains higher in mature stores.
- Older store SSSG is near the long term inflation range.

GM improvement-

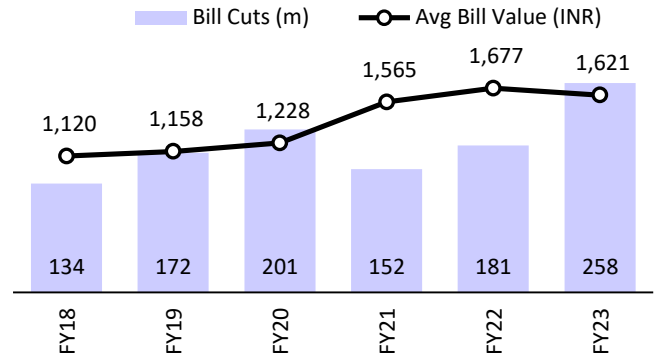
- In spite of the reduction in the share of GM&A to 23% in FY23 from 27% in FY20, gross margins declined by only 30bp to 14.5% in the same period because the company has changed its procurement strategy from direct store delivery to DC delivery, which led to an increase in blended GM.
- For example, earlier it was generating 10% gross margin from HUL, but now it collects and delivers to stores, leading to higher GM.
- Inflation may normalize for the food and FMCG categories, but Apparels may take a couple of quarters to settle.
- Inflation does not impact DMART much as it is pass-through status company. Overall, it is likely to maintain margins or see a few bps impact on margins.
- The decline in inflation could lead to lower SSSG since 77% of business comes from Food and FMCG. Hence, for FY24, we expect subdued SSSG, which could impact the profitability.

Others

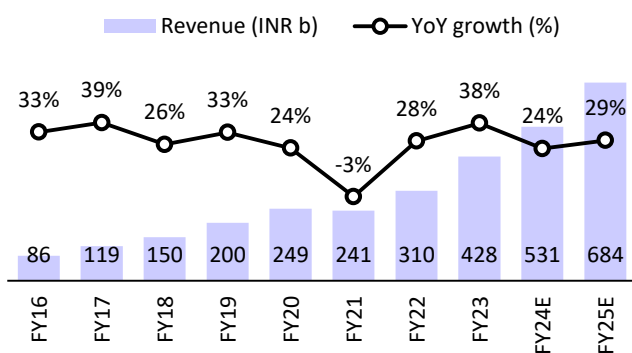
- Cost per sqft has reduced mostly because of the addition of larger stores.
- **Inventory days** have improved due to the increase in food and FMCG business mix, while GM&A mix decreases.
- ROE/ROCE are inching back to the pre-Covid level.
- Private label is building up slowly.
- General trend of premiumization in FMCG will reflect in the basket value over time. Currently MiniMAX stores are on the pilot basis.

Exhibit 3: Expect store adds to continue

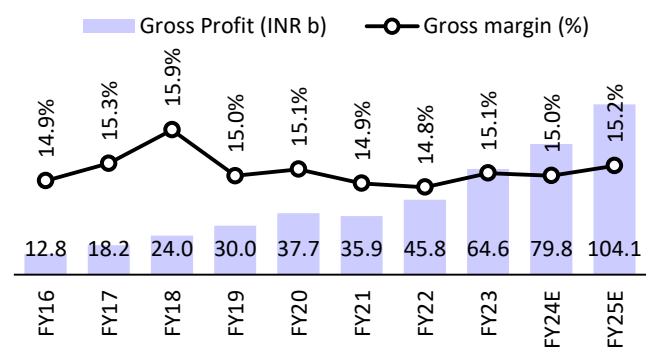
Source: MOFSL, Company

Exhibit 4: Bill cuts improved YoY but ABV declined

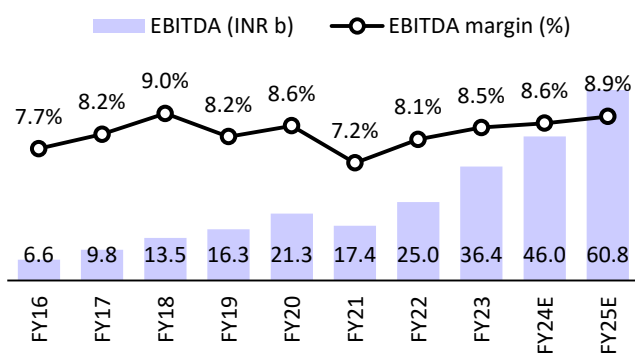
Source: MOFSL, Company

Exhibit 5: Expect 26% consol. revenue CAGR over FY23-25

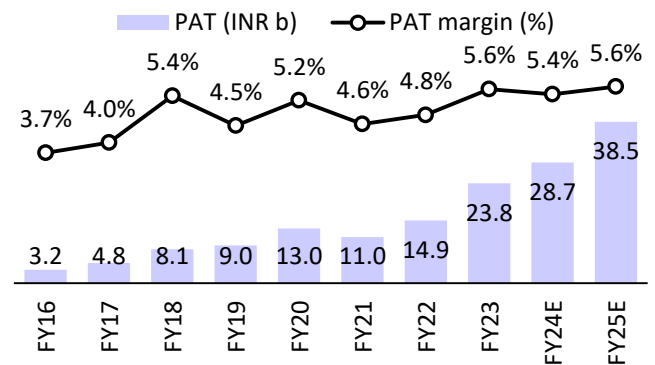
Source: MOFSL, Company

Exhibit 6: Expect 27% Gross Profit CAGR over FY23-25

Source: MOFSL, Company

Exhibit 7: Expect 29% EBITDA CAGR over FY23-25

Source: MOFSL, Company

Exhibit 8: Expect 27% PAT CAGR over FY23-25

Source: MOFSL, Company

Financials and Valuations

Consolidated - Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	1,50,332	2,00,045	2,48,702	2,41,431	3,09,763	4,28,396	5,31,480	6,83,703
Change (%)	26.4	33.1	24.3	-2.9	28.3	38.3	24.1	28.6
Raw Materials	1,26,356	1,70,008	2,11,029	2,05,547	2,63,974	3,63,840	4,51,662	5,79,646
Gross Profit	23,976	30,037	37,673	35,884	45,789	64,556	79,818	1,04,057
Margin (%)	15.9	15.0	15.1	14.9	14.8	15.1	15.0	15.2
Employees Cost	2,826	3,554	4,561	5,366	6,162	7,470	8,610	11,281
Other Expenses	7,622	10,150	11,829	13,088	14,642	20,716	25,245	31,997
Total Expenditure	1,36,804	1,83,712	2,27,419	2,24,000	2,84,778	3,92,025	4,85,517	6,22,925
% of Sales	91.0	91.8	91.4	92.8	91.9	91.5	91.4	91.1
EBITDA	13,528	16,333	21,283	17,431	24,985	36,370	45,963	60,778
Margin (%)	9.0	8.2	8.6	7.2	8.1	8.5	8.6	8.9
Depreciation	1,590	2,125	3,744	4,142	4,981	6,389	7,510	8,912
EBIT	11,938	14,208	17,539	13,289	20,004	29,982	38,453	51,867
Int. and Finance Charges	595	472	691	417	538	674	742	742
Other Income	693	484	600	1,962	1,175	1,293	1,665	1,591
PBT bef. EO Exp.	12,036	14,219	17,448	14,835	20,641	30,601	39,376	52,716
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	12,036	14,219	17,448	14,835	20,641	30,601	39,376	52,716
Total Tax	4,158	5,195	4,438	3,840	5,717	6,818	10,632	14,233
Tax Rate (%)	34.5	36.5	25.4	25.9	27.7	22.3	27.0	27.0
Minority Interest	-185	1	1	0	0	0	0	0
Reported PAT	8,063	9,024	13,009	10,994	14,924	23,783	28,745	38,483
Adjusted PAT	8,063	9,024	13,009	10,994	14,924	23,783	28,745	38,483
Change (%)	68.4	11.9	44.2	-15.5	35.7	59.4	20.9	33.9
Margin (%)	5.4	4.5	5.2	4.6	4.8	5.6	5.4	5.6

Consolidated - Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	6,241	6,241	6,478	6,478	6,478	6,483	6,483	6,483
Total Reserves	40,450	49,634	1,04,320	1,15,359	1,30,299	1,54,304	1,83,049	2,21,532
Net Worth	46,691	55,875	1,10,797	1,21,837	1,36,776	1,60,787	1,89,532	2,28,014
Total Loans	4,393	4,298	37	0	0	0	0	0
Lease Liabilities			2,955	3,927	6,469	6,430	6,443	7,098
Deferred Tax Liabilities	452	633	474	512	640	770	770	770
Capital Employed	51,541	60,811	1,14,268	1,26,281	1,43,890	1,67,987	1,96,746	2,35,883
Gross Block	37,223	49,352	68,484	83,178	1,10,486	1,37,680	1,62,156	1,93,574
Less: Accum. Deprn.	4,006	6,131	9,786	13,873	18,669	25,058	32,567	41,479
Net Fixed Assets	33,217	43,221	58,698	69,305	91,817	1,12,622	1,29,589	1,52,094
Right to use assets			7,173	9,602	13,887	15,049	15,634	16,592
Capital WIP	1,471	3,768	3,644	10,196	11,293	8,292	8,292	8,292
Total Investments	682	165	31,374	30	59	2,022	1,618	1,294
Curr. Assets, Loans&Adv.	20,330	22,118	26,264	56,237	50,758	57,327	71,012	92,111
Inventory	11,634	16,087	19,474	22,483	27,427	32,435	42,073	53,994
Account Receivables	335	644	196	436	669	622	790	1,016
Cash and Bank Balance	5,602	2,191	1,079	14,456	2,986	14,083	17,963	26,913
Loans and Advances	2,758	3,197	5,516	18,863	19,677	10,187	10,187	10,187
Curr. Liability & Prov.	4,942	9,246	6,497	10,280	10,838	13,076	14,566	18,708
Account Payables	3,173	4,633	4,335	5,781	5,892	7,538	9,517	12,213
Other Current Liabilities	1,642	4,474	1,996	4,236	4,533	4,965	4,518	5,811
Provisions	127	139	167	262	413	573	531	684
Net Current Assets	15,387	12,872	19,767	45,958	39,920	44,251	56,447	73,402
Deferred Tax assets	1	2	3	10	17	18	18	18
Appl. of Funds	51,541	60,811	1,14,268	1,26,281	1,43,890	1,67,987	1,96,746	2,35,883

Financials and Valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS (diluted from FY17)	12.9	14.5	20.1	17.0	23.0	36.7	44.4	59.4
Cash EPS (diluted from FY17)	15.5	17.9	26.8	24.3	31.9	48.3	58.1	75.9
BV/Share (diluted from FY17)	74.8	89.5	177.5	195.2	219.2	257.6	303.7	365.4
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	287.3	256.7	184.8	218.7	161.1	101.1	83.7	62.5
Cash P/E	240.0	207.8	138.3	153.1	116.4	76.8	63.9	48.9
P/BV	49.6	41.5	20.9	19.0	16.9	14.4	12.2	10.2
EV/Sales	15.4	11.6	9.7	9.9	7.8	5.6	4.5	3.5
EV/EBITDA	171.1	142.0	111.6	137.3	96.4	65.9	52.1	39.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-2.9	-9.5	-6.6	-10.1	-15.7	6.5	7.9	16.0
Return Ratios (%)								
RoE	18.9	17.6	15.6	9.5	11.5	16.0	16.4	18.4
RoCE	15.8	16.8	15.5	9.4	11.4	15.7	16.1	18.1
RoIC	20.4	18.3	19.7	11.0	12.5	17.1	18.0	20.6
Working Capital Ratios								
Fixed Asset Turnover (x)	4.0	4.1	3.6	2.9	2.8	3.1	3.3	3.5
Asset Turnover (x)	2.9	3.3	2.2	1.9	2.2	2.6	2.7	2.9
Inventory (Days)	34	35	34	40	38	33	34	34
Debtor (Days)	1	1	0	1	1	1	1	1
Creditor (Days)	9	10	7	10	8	8	8	8
Leverage Ratio (x)								
Current Ratio	4.1	2.4	4.0	5.5	4.7	4.4	4.9	4.9
Interest Cover Ratio	20.0	30.1	25.4	31.9	37.2	44.5	51.9	69.9
Net Debt/Equity	0.0	0.0	-0.3	-0.1	0.0	-0.1	-0.1	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	12,036	14,219	17,448	14,835	20,641	30,601	39,376	52,716
Depreciation	1,590	2,125	3,744	4,142	4,981	6,389	7,510	8,912
Interest & Finance Charges	595	472	691	417	538	674	742	742
Direct Taxes Paid	-4,027	-5,018	-4,924	-2,616	-5,603	-7,089	-10,632	-14,233
(Inc)/Dec in WC	-2,427	-3,507	-3,762	-1,271	-5,825	-3,199	-8,316	-8,005
CF from Operations	7,767	8,292	13,197	15,506	14,733	27,376	28,680	40,131
Others	-467	-224	-395	-1,754	-1,009	-1,073	-1,665	-1,591
CF from Operating incl EO	7,300	8,068	12,801	13,751	13,724	26,303	27,015	38,540
(Inc)/Dec in FA	-9,087	-13,970	-17,060	-20,275	-23,895	-22,065	-21,891	-28,185
Free Cash Flow	-1,787	-5,902	-4,259	-6,524	-10,172	4,238	5,124	10,355
(Pur)/Sale of Investments	-247	0	0	7,830	10,500	-1,500	404	324
Others	13,970	4,386	-29,505	1,345	500	434	1,665	1,591
CF from Investments	4,635	-9,584	-46,566	-11,100	-12,895	-23,131	-19,822	-26,271
Issue of Shares	0	0	41,869	0	0	155	0	0
Inc/(Dec) in Debt	-10,791	2,600	-6,615	-1,359	0	0	0	0
Interest Paid	-800	-510	-682	-436	-538	-674	-742	-742
Others	0	0	-998	0	-1,255	-1,533	-2,572	-2,577
CF from Fin. Activity	-11,591	2,090	33,574	-1,795	-1,792	-2,051	-3,313	-3,319
Inc/Dec of Cash	345	574	-190	856	-964	1,120	3,880	8,950
Opening Balance (without bank bal.)	329	674	1,249	1,059	1,915	951	2,072	5,951
Closing Balance	674	1,249	1,059	1,915	951	2,072	5,951	14,901
Other bank balance	4,928	942	20	12,541	2,035	12,012	12,012	12,012
Closing Balance (including bank bal)	5,602	2,191	1,079	14,456	2,986	14,083	17,963	26,913

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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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