

AVENUE SUPERMARTS

Soft SSSG; Competitive intensity key monitorable

India Equity Research | Retail

Avenue Supermart's (Dmart) Q4FY18 revenue, EBITDA and PAT growth of 22.5%, 41.8% and 72.9% YoY came below estimates. As against SSSG run rate of >20% YoY in past few years, SSSG for FY18 stood at 14.2% YoY, an outcome of price cuts post GST and rising competitive intensity from, *inter-alia*, Big Bazaar. Pace of store additions picked up in Q4FY18 – added 14 stores, taking the total store addition to 24 for FY18. Expansion in gross and EBITDA margins continued (up 70bps and 105bps YoY, respectively), an outcome change in product mix (>150bps mix change from low margin foods to high-margin general merchandise) and better efficiencies. Heightened competition, incremental store addition and SSSG run-rate will remain key monitorables. Maintain 'HOLD'.

SSSG softens; store addition gathers pace

FY18 saw SSSG of 14.2% YoY, which was much lower than the historical run-rate of >20%. While GST related MRP cuts partially answers the slower SSSG, rising competitive intensity from FRL, Reliance Retail and online players too would have led to some slow down. Dmart now holds 100% stake in its e-commerce venture which will aid the revenue momentum going ahead. A pleasant surprise was the addition of 14 stores during the quarter versus 10 additions during 9mFY18. However, incremental store expansion hereon is a key monitorable considering that Dmart works on the owned model and getting incremental real estate at reasonable rate being a challenge.

Margin expansion extends

Gross and EBITDA margins saw 70bps and 105bps YoY expansion. Gross margin expansion was aided by the >150bps shift in product mix from low-margin foods to high-margin general merchandise and apparel segment. EBITDA margin expansion was aided by improving efficiencies and leveraging on Dmart's cluster-based model.

Outlook and valuations: Valuation a hitch; maintain 'HOLD'

Dmart is a play on the Indian retail story and we estimate it to post revenue, EBITDA and PAT CAGR of 22.9%, 28.2% and 28.4%, respectively, over FY18-20. On the likelihood of margin expansion potential continuing, we have raised our target multiple from 35x to 40x FY20E EV/EBITDA and pegged our revised TP at INR1,442 (earlier INR1,290). However, we perceive limited upside from current levels and hence maintain 'HOLD/SU'. At CMP, the stock is trading at 41.3x FY20E EV/EBITDA.

Financials

(INR mn)

Year to Mar.	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18E	FY19E	FY20E
Net rev.	38,100	31,106	22.5	40,948	(7.0)	150,332	185,661	226,800
EBITDA	2,945	2,077	41.8	4,217	(30.2)	13,528	17,877	22,225
Adjusted profit	1,671	967	72.9	2,518	(33.6)	8,063	10,663	13,287
Adj Dil. EPS (INR)	2.7	1.5	72.9	4.0	(33.6)	12.9	17.1	21.3
Dilu. P/E (x)						115.1	87.0	69.8
EV / EBITDA (x)						68.3	51.5	41.3
ROAE (%)						18.9	20.5	20.8

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

MARKET DATA (R: , B: DMART IN)

CMP	: INR 1,487
Target Price	: INR 1,442
52-week range (INR)	: 1,535 / 692
Share in issue (mn)	: 624.1
M cap (INR bn/USD mn)	: 928 / 13,886
Avg. Daily Vol.BSE/NSE('000)	: 1,008.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	82.2	82.2	82.2
MF's, FI's & BK's	3.6	3.6	3.5
FII's	3.6	3.6	3.8
Others	10.7	10.7	10.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	1.2	4.8	3.0
3 months	(23.4)	(1.3)	(4.1)
12 months	(9.5)	13.4	7.3

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Table 1: Trends at a glance

(INR mn)	FY13	FY14	FY15	FY16	FY17	FY18	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenues	33,409	46,865	64,394	85,838	118,977	150,332	35,981	35,083	40,948	38,100
EBITDA	2,150	3,418	4,590	6,636	9,812	13,528	3,032	3,179	4,217	2,945
Gross margins (%)	14.5	15.0	14.8	14.9	15.3	15.9	15.5	16.1	16.4	14.9
EBITDA margins (%)	6.4	7.3	7.1	7.7	8.2	9.0	8.4	9.1	10.3	7.7
Store Count (Nos.)	62	75	89	110	131	155	NA	NA	NA	NA
SSSG (%)	31.6	26.1	22.4	21.5	21.2	14.2	NA	NA	NA	NA

Source: Company, Edelweiss research

Table 2: Store presence across India

States	Store presence (Nos.)					
	FY13	FY14	FY15	FY16	FY17	FY18
Maharashtra	40	46	50	58	60	62
Gujarat	14	17	22	26	29	30
Telangana & AP	5	7	10	16	20	29
Karnataka	3	5	5	6	11	12
MP & Chattisgarh			2	4	5	9
Rajasthan					3	5
Tamil Nadu					1	3
Daman					1	1
NCR					1	1
Punjab						3
Total	62	75	89	110	131	155

Source: Company, Edelweiss research

Outlook and valuations: Valuation a hitch; maintain 'HOLD'

Dmart, one of the few retailers in India with enviable return revenue and earnings growth and return ratios, has sustained robust SSSG (>20%, except FY18) in past few years. In our view, though the SSSG momentum will come off from the >20% mark, it will be in the range of 17-18% YoY over next 2-3 years led by changing consumer shopping habits, consolidation of distribution network (wholesale is consolidating), increased penetration in territories where opportunities are immense and favourable macros. We expect Dmart to: 1) remain beneficiary of favourable rates from FMCG companies considering creditors' payables are a mere 8-10 days; 2) reap leverage benefits once the new stores reach vintage stage; 3) control inventory turnover ratio; and 4) sustain favourable assortment, among others.

Dmart grew its balance sheet by 27.6% CAGR during FY13-16 (excluding the IPO proceeds of INR18.7bn garnered in FY17) as against revenue/PAT CAGR of 36.9%/50.5% during the mentioned period. This highlights the company's fine asset turnover and prudent capital allocation policies. Going forward, we expect revenue, EBITDA and PAT CAGR of 22.9%, 28.2% and 28.4%, respectively over FY18-20. This would still be far superior than balance sheet CAGR of ~20.6% over the said period. Ergo, Dmart is well poised to sustain strong RoE – we expect RoE to improve from 17.9% in FY17 to 20.8% in FY20.

We believe Dmart is a perfect concept stock which will continue to fetch premium valuations. But, juxtaposing it with **Warren Buffet's admonition, an investor should understand that "Price is what you pay, value is what you get"**. Thus, in spite of factoring in strong growth rates, we maintain 'HOLD/SU' with TP of INR1,442 (40x EV/EBITDA multiple) since at current levels with the stock being fairly valued, it offers limited upside.

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	38,100	31,106	22.5	40,948	(7.0)	150,332	185,661	226,800
Raw material costs	32,432	26,697	21.5	34,237	(5.3)	126,356	155,516	189,639
Gross profit	5,668	4,409	28.5	6,711	(15.5)	23,976	30,144	37,161
Employee expenses	724	542	33.7	704	2.8	2,826	3,148	3,847
Other expenses	1,999	1,790	11.6	1,789	11.7	7,174	8,656	10,523
Total expenditure	2,723	2,332	16.8	2,493	9.2	10,447	12,267	14,936
EBITDA	2,945	2,077	41.8	4,217	(30.2)	13,528	17,877	22,225
Depreciation	465	354	31.5	393	18.4	1,590	1,925	2,352
EBIT	2,480	1,724	43.9	3,824	(35.2)	11,938	15,953	19,873
Other income	149	99	51.1	137	9.1	693	628	684
Interest	132	308	(57.1)	110	20.3	595	176	116
Add: Prior period items								
Add: Exceptional items								
Profit before tax	2,497	1,515	64.8	3,851	(35.2)	12,036	16,405	20,441
Provision for taxes	826	548	50.7	1,334	(38.1)	4,158	5,742	7,154
Minority interest	-	-		-		185	-	-
Associate profit share								
Reported net profit	1,671	967	72.9	2,518	(33.6)	8,063	10,663	13,287
Adjusted Profit	1,671	967	72.9	2,518	(33.6)	8,063	10,663	13,287
Diluted shares (mn)	624	624		624		624	624	624
Adjusted Diluted EPS	2.7	1.5	72.9	4.0	(33.6)	12.9	17.1	21.3
Purchases (% of revenue)	85.1	85.8		83.6		84.1	83.8	83.6
Employee cost	1.9	1.7		1.7		1.9	1.7	1.7
Other expenses as % of net revenues	5.2	5.8		4.4		4.8	4.7	4.6
EBITDA	7.7	6.7		10.3		9.0	9.6	9.8
Reported net profit	4.4	3.1		6.1		5.4	5.7	5.9

Company Description

D'mart is an emerging national supermarket chain with focus on value retailing. The company has been one of the largest and most profitable F&G retailers in India. It offers a wide range of products with focus on foods, non-foods (FMCG) and general merchandise & apparel product categories. In 2002, D'mart opened its first store in Mumbai. As at December 2017, the company had 155 stores with retail business area of ~4.9mn sq ft.

D'mart operates and manages all its stores. The company operates predominantly on ownership basis (including long-term lease arrangements, where lease period is of more than 30 years and the building is owned by D'mart) instead of rental model. It opens stores using cluster-based approach on the basis of adjacencies and focuses on efficient supply chain that targets densely-populated residential areas with a majority of lower-middle, middle and aspiring upper-middle class consumers. D'mart's distribution and packing centres form the backbone of its supply chain that supports its retail store network.

Investment Theme

D'mart's core MOAT has translated not only into strong revenue growth, but also robust profitability and return ratios. During FY12-17, D'mart sustained consistent SSSG above the 20% print. The company's competitive prices are derived from right product assortment, lower payable days, right location size and cluster-based store expansion, among others. Consequently, a strong SSSG helped D'mart expand gross/EBITDA margins from 14.5%/6.4% in FY13 to 15.9%/9.0% in FY18. We estimate D'mart to post revenue, EBITDA and PAT CAGR of 22.8%, 28.2% and 28.4%, respectively over FY18-20E.

Key Risks

Sustenance of EDLP program and increased competition.

Purchase of real estate at favourable rates and hence the store expansion. This arrangement entails huge initial cash outflow, which may involve taking higher debt. In the scenario where new stores fail to pick up as anticipated, then incremental debt taken for same would need to be serviced from cash flows of other stores, which could impact overall profitability of business.

Revenue concentration in largely from Western India – Maharashtra and Gujarat.

Competition from e-commerce companies.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Total no. of stores	110	131	155	181
New store addition	21	24	26	26
SSSG	21.2	14.2	18.5	18.5
COGS as % of sales	84.7	84.1	83.8	83.6
Staff costs (% of rev)	1.6	1.9	1.7	1.7
Rent exp. as % of sales	0.3	0.3	0.2	0.2
Other general exp. as % of sales	5.1	4.8	4.7	4.6
EBITDA margin	8.2	9.0	9.6	9.8
Tax rate (%)	35.3	34.5	35.0	35.0
Depreciation as % of gross block	4.6	4.6	4.5	4.5
Int. rate on o/standing debt (%)	11.3	8.7	8.7	8.7
Debtor days	0.5	0.7	0.5	0.5
Inventory days	29	30	30	30
Payable day	8	8	9	9
Cash conversion cycle	22	23	22	22
Capex (INR mn)	6,450	7,442	10,779	10,000

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	118,977	150,332	185,661	226,800
Materials costs	100,810	126,356	155,516	189,639
Gross profit	18,167	23,976	30,144	37,161
Employee costs	1,925	2,826	3,148	3,847
Rent and lease expenses	354	447	463	566
Other Expenses	6,075	7,174	8,656	10,523
EBITDA	9,812	13,528	17,877	22,225
Depreciation	1,278	1,590	1,925	2,352
EBIT	8,534	11,938	15,953	19,873
Add: Other income	285.58	693.21	628.37	684.06
Less: Interest Expense	1,220	595	176	116
Profit Before Tax	7,600	12,036	16,405	20,441
Less: Provision for Tax	2,683	4,158	5,742	7,154
Reported Profit	4,788	8,063	10,663	13,287
Adjusted Profit	4,788	8,063	10,663	13,287
Shares o /s (mn)	624	624	624	624
Adjusted Basic EPS	7.7	12.9	17.1	21.3
Diluted shares o/s (mn)	565	624	624	624
Adjusted Diluted EPS	8.5	12.9	17.1	21.3
Adjusted Cash EPS	10.7	15.5	20.2	25.1

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Rent and lease expenses	0.3	0.3	0.2	0.2
Materials costs	84.7	84.1	83.8	83.6
Staff costs	1.6	1.9	1.7	1.7
Other expenses	5.1	4.8	4.7	4.6
Interest Expense	1.0	0.4	0.1	0.1
EBITDA margins	8.2	9.0	9.6	9.8
EBIT margins	7.2	7.9	8.6	8.8
Net Profit margins	4.0	5.4	5.7	5.9

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	38.6	26.4	23.5	22.2
EBITDA	47.9	37.9	32.1	24.3
PBT	54.5	58.4	36.3	24.6
Adjusted Profit	49.5	68.4	32.3	24.6
EPS	48.7	52.4	32.3	24.6

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	6,241	6,241	6,241	6,241	
Reserves & Surplus	32,177	40,450	51,113	64,400	
Shareholders' funds	38,418	46,691	57,354	70,641	
Minority Interest	1	6	6	6	
Short term borrowings	1,388	73	73	73	
Long term borrowings	9,809	2,460	1,460	1,060	
Total Borrowings	11,198	2,533	1,533	1,133	
Long Term Liabilities	16	15	15	15	
Def. Tax Liability (net)	505	452	452	452	
Sources of funds	50,138	49,696	59,360	72,247	
Gross Block	30,767	38,267	47,267	57,267	
Net Block	25,440	32,923	37,707	45,355	
Capital work in progress	1,529	1,471	3,250	3,250	
Intangible Assets	64	1,076	783	783	
Total Fixed Assets	27,033	35,471	41,739	49,387	
Non current investments	489	424	424	424	
Cash and Equivalents	18,885	6,284	9,121	12,293	
Inventories	9,479	11,634	12,782	15,587	
Sundry Debtors	210	335	254	311	
Loans & Advances	1,659	1,641	2,266	2,266	
Other Current Assets	471	695	9	9	
Current Assets (ex cash)	11,819	14,305	15,312	18,173	
Trade payable	2,607	3,173	3,622	4,416	
Other Current Liab	5,481	3,614	3,614	3,614	
Total Current Liab	8,087	6,787	7,236	8,031	
Net Curr Assets-ex cash	3,732	7,518	8,076	10,142	
Uses of funds	50,138	49,696	59,360	72,247	
BVPS (INR)	68.0	74.8	91.9	113.2	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	4,788	8,063	10,663	13,287	
Add: Depreciation	1,278	1,590	1,925	2,352	
Interest (Net of Tax)	789	390	115	75	
Others	(2,139)	(487)	(567)	(644)	
Less: Changes in WC	138	3,787	558	2,066	
Operating cash flow	4,578	5,768	11,578	13,004	
Less: Capex	6,450	7,442	10,779	10,000	
Free Cash Flow	(1,872)	(1,674)	799	3,004	

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (X)		EV / Sales (X)		ROAE (%)	
		CY18E	CY19E	CY18E	CY19E	CY18E	CY19E
Avenue Supermarts Limited	13,886	68.3	51.5	6.1	5.0	18.9	20.5
Aditya Birla Fashion and Retail Ltd	1,665	15.7	11.9	1.7	1.4	26.3	30.4
Future Lifestyle Fashions Limited	1,221	15.0	11.7	1.3	1.1	11.8	15.9
Future Retail	4,471	27.2	21.3	1.1	0.9	24.1	25.8
Shoppers Stop	749	15.5	12.5	1.1	1.0	10.8	13.2

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Operating cash flow	4,578	5,768	11,578	13,004	
Investing cash flow	(24,842)	(7,324)	(9,669)	(9,316)	
Financing cash flow	20,253	(9,261)	(1,176)	(516)	
Net cash Flow	(11)	(10,817)	733	3,173	
Capex	6,450	7,442	10,779	10,000	

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	17.9	18.9	20.5	20.8
ROACE (%)	23.5	25.6	30.7	31.5
Debtors Days	-	1	1	1
Payable Days	8	8	9	9
Cash Conversion Cycle	22	23	22	22
Current Ratio	3.8	3.0	3.4	3.8
Gross Debt/EBITDA	1.1	0.2	0.1	0.1
Gross Debt/Equity	0.3	0.1	-	-
Adjusted Debt/Equity	0.3	0.1	-	-
Net Debt/Equity	(0.2)	(0.1)	(0.1)	(0.2)
Interest Coverage Ratio	7.0	20.0	90.5	171.9

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	3.1	3.0	3.4	3.4
Fixed Asset Turnover	5.1	5.1	5.1	5.4
Equity Turnover	4.4	3.5	3.6	3.5

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	8.5	12.9	17.1	21.3
Y-o-Y growth (%)	48.7	52.4	32.3	24.6
Adjusted Cash EPS (INR)	10.7	15.5	20.2	25.1
Diluted P/E (x)	175.3	115.1	87.0	69.8
P/B (x)	21.9	19.9	16.2	13.1
EV / Sales (x)	7.7	6.1	5.0	4.0
EV / EBITDA (x)	93.8	68.3	51.5	41.2

Additional Data

Directors Data

Ramesh Damani	Chairman	Ignatius Noronha	CEO, MD & Director
Ramakant Baheti	CFO & Whole-Time Director	Elvin Machado	Director
Chandrashekhar Bhav	Director	Manjri Chandak	Director

Auditors - SRBC & Co, LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Noronha Ignatius Navil	2.20	Capital Group Companies Inc	0.36
Hdfc Asset Management Co Ltd	1.24	Vanguard Group	0.32
Axis Asset Management Co Ltd	1.18	Dsp Blackrock Investment Manager	0.20
Nomura	1.01	Fmr Llc	0.14
Icici Prudential Asset Mgmt Co	0.44	Wasatch Advisors Inc	0.12

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
04 Apr 2018	Sandeep Jairam Karmaran	Sell	15000.00
02 Apr 2018	Benny Mathew John	Sell	21768.00
02 Apr 2018	Trevor Raymond Martis	Sell	20000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Fashion and Retail Ltd	BUY	SO	L	Avenue Supermarts Limited	HOLD	SU	H
Future Lifestyle Fashions Limited	BUY	SO	L	Future Retail	BUY	SO	H
Jubilant Foodworks	HOLD	SP	M	Shoppers Stop	BUY	SO	L
Titan Company	BUY	SO	L	TRENT LTD	BUY	SO	H
V-MART Retail	BUY	SO	H	Wonderla Holidays	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Retail

Aditya Birla Fashion and Retail Ltd, Avenue Supermarts Limited, Future Lifestyle Fashions Limited, Future Retail, Jubilant Foodworks, Shoppers Stop, TRENT LTD, Titan Company, V-MART Retail, Wonderla Holidays

Recent Research

Date	Company	Title	Price (INR)	Recos
04-May-18	Trent	Steady quarter; losses in JV key monitorable; <i>Result Update</i>	341	Buy
30-Apr-18	Shoppers Stop	Soft quarter; trajectory well etched out; <i>Result Update</i>	566	Buy
13-Apr-18	Retail	Q4FY18 Preview- Grocery retailers remain on strong wicket; <i>Q4FY18 Result Preview</i>		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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