

Avenue Supermarts | BUY

Inline quarter, resilient SSSG & mix improvement key positives

Dmart's 4QFY24 earnings print was inline with our forecasts. Revenue growth trajectory of 19.9% with acceleration in sales per store to 7% (higher vs trend in 9M) is a key positive. SSSG growth of 9.9% points to better traction in 2H, which in our view is reasonably strong especially in current challenging operating environment. The drag from newer stores seems to be reducing, resulting in gradual improvement in sales per store. Gross margins expanded on yoy basis (after 5 quarters of yoy decline) aided by better mix (mgmt. highlighted that Q4FY24 saw continued uptick in the contribution from General Merchandise and Apparel). From full year perspective, despite moderation in share of high margin General Merchandise & Apparel (vs pre-covid levels), Dmart was still able to sustain mid-teen GM yet again. Pace of store additions also picked up in 4Q and company closed the year with 365 stores (41 additions inline with our est) which should provide some comfort on concerns around slower network expansion. We continue to like DMart - businesses with such long growth runways are rare, any weakness in the name should be looked as an opportunity to add.

- **Inline quarter; acceleration in sales per store and SSSG performance encouraging in a tough environment:** DMart's 4QFY24 revenue grew 19.9% to INR123.9bn (standalone). EBITDA and net profit grew by c.20% each to INR 9.4bn and INR 6bn respectively – broadly inline with our forecasts. Store count rose 12.7% yoy to 365 with 24 new stores added during the quarter; the company typically witnesses much higher additions in store-counts during 4Q. Interestingly, average store size has reduced further by c.13% in FY24. On a per-store basis, revenue grew 7% yoy – acceleration from c.5-6.5% seen in recent quarters and was key positive during the quarter for us. Same store sales viz. revenue from stores that are two years and older (these form c.78% of the network) grew by 9.9% in FY24, higher vs 1HFY24 growth of 8.6%, indicative of improvement in 2HFY24 and quite resilient performance in current environment, in our view. Footfalls at the stores – while it improved by 3.6% yoy for FY24 (basket size was up marginally by 0.9% yoy), each store on an average is still servicing c.15% less number of customers per store vs FY19 level, but revenue impact has been mitigated through higher basket size (+44% vs FY19). On the balance sheet side, FCFF for FY24 was negative owing to higher working capital (c.8% of sales vs 6.5-7% seen in past 3 years). While core working capital is stable at c.6% of sales, there is sharp increase in other current financial assets (INR 11.3bn vs 3.2bn in FY23) in FY24. Subsidiaries' revenue (mainly DMart Ready) grew 30% yoy with EBITDA turning positive marginally after several quarters.
- **Mix improvement drives gross margin expansion:** EBITDA performance was broadly inline with our expectations. Gross margin was up c.29bps yoy – a function of better mix with uptick in contribution from General Merchandise and Apparel (from 21.3% in 2HFY23 to possibly c.21.5% in 2HFY24). Sequential drop at c.50bps yoy was lower compared to last year when 4Q gross margins fell c.90bps qoq. SG&A grew at a faster pace than topline (+25.5% vs +20%) – a function of higher store additions in 4Q. On a per-store basis, SG&A grew 11.9% vs 7% growth in sales leading to a flattish EBITDA margin at 7.6%.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	4,995
Upside/(Downside)	8.4%
Previous Price Target	4,505
Change	10.9%

Key Data – DMART IN

Current Market Price	INR4,610
Market cap (bn)	INR3,001.4/US\$36.0
Free Float	36%
Shares in issue (mn)	624.1
Diluted share (mn)	648.3
3-mon avg daily val (mn)	INR1,974.5/US\$23.7
52-week range	4,890/3,352
Sensex/Nifty	73,878/22,476
INR/US\$	83.4

Price Performance

%	1M	6M	12M
Absolute	3.4	26.4	29.8
Relative*	3.9	11.1	7.3

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	308,584	427,054	506,298	602,282	727,250
Sales Growth (%)	28.2%	38.4%	18.6%	19.0%	20.7%
EBITDA	24,985	36,370	41,038	50,643	63,015
EBITDA Margin (%)	8.1%	8.5%	8.1%	8.4%	8.7%
Adjusted Net Profit	15,058	22,397	25,368	31,671	39,777
Diluted EPS (INR)	23.2	34.6	39.0	48.7	61.1
Diluted EPS Growth (%)	38.7%	48.6%	12.8%	24.8%	25.6%
ROIC (%)	12.4%	16.5%	14.5%	15.4%	16.5%
ROE (%)	11.6%	15.1%	14.6%	15.6%	16.7%
P/E (x)	198.3	133.4	118.3	94.7	75.4
P/B (x)	21.8	18.6	16.0	13.7	11.6
EV/EBITDA (x)	128.0	86.9	77.1	62.2	49.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, JM Financial. Note: Valuations as of 03/May/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Considering the long growth runway for the business, we expect the stock to offer double-digit return over the next five years even if one-year forward PE multiple compresses significantly

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EPS - INR	20.1	16.8	23.2	34.6	39.0	48.7	61.1	77.2	95.9	118.4	145.0
EPS growth	40%	-17%	39%	49%	13%	25%	26%	26%	24%	23%	22%
PER at CMP (x)			198	133	118						
Target PER							85	75	65	60	50
EPS	20.1	16.8	23.2	34.6	39.0	48.7	61.1	77.2	95.9	118.4	145.0
Share Px Date	5/4/2024				TP Dates:		March-25	March-26	March-27	March-28	March-29
CMP	4,610				TP - Rs/sh		5,196	5,791	6,236	7,105	7,252
No of years vs today							0.9	1.9	2.9	3.9	4.9
CAGR vs CMP							14%	13%	11%	12%	10%

Source: Company, Bloomberg, JM Financial

Exhibit 2. 4QFY24 result snapshot: Overall performance in-line with forecasts

(INR mn)

	Parent			Consolidated				
	4QFY24	4QFY23	YoY growth	4QFY24 E	% Var	4QFY24	4QFY23	YoY growth
Revenue	123,935	103,371	19.9%	123,935	0.0%	127,266	105,941	20.1%
Gross Profit	16,989	13,870	22.5%	16,731	1.5%	18,394	14,883	23.6%
Gross Profit Margin %	13.7%	13.4%	29 bps	13.5%	21 bps	14.5%	14.0%	40 bps
Staff Cost	2,096	1,609	30.3%	1,947	7.6%	2,410	1,866	29.1%
Other Expenses	5,491	4,439	23.7%	5,422	1.3%	6,547	5,301	23.5%
EBITDA	9,402	7,822	20.2%	9,362	0.4%	9,436	7,715	22.3%
EBITDA margin %	7.6%	7.6%	2 bps	7.6%	3 bps	7.4%	7.3%	13 bps
Depreciation	1,781	1,417	25.7%	1,619	10.0%	2,049	1,641	24.9%
EBIT	7,621	6,405	19.0%	7,743	-1.6%	7,387	6,074	21.6%
Interest Expense	105	126	-16.5%	125	-15.8%	134	155	-13.6%
Financial Other Income	522	419	24.6%	460	13.5%	379	331	14.5%
PBT	8,038	6,698	20.0%	8,078	-0.5%	7,632	6,250	22.1%
Taxes	1,996	1,646	21.3%	2,060	-3.1%	2,001	1,649	21.3%
Reported Net Profit	6,042	5,052	19.6%	6,018	0.4%	5,630	4,601	22.4%
Adjusted Net Profit	6,041	5,072	19.1%	6,018	0.4%	5,630	4,621	21.8%

Source: Company, JM Financial

Exhibit 3. 4QFY24 costs breakdown

	Parent			Consolidated	
% of net sales	4QFY24	4QFY23	4QFY24 E	4QFY24	4QFY23
Cost of Goods Sold	86.3%	86.6%	86.5%	85.5%	86.0%
Staff Cost	1.7%	1.6%	1.6%	1.9%	1.8%
Other Expenses	4.4%	4.3%	4.4%	5.1%	5.0%
Depreciation	1.4%	1.4%	1.3%	1.6%	1.5%

Source: Company, JM Financial

Exhibit 4. DMart's FCFF was negative in FY24

Rs. Mn	FY23	FY24
Operating profit after tax before working capital changes	29,502	33,896
Working Cap changes	-3,199	-6,438
Reported cash flow from operations	26,303	27,458
Less: Lease related payments	2,196	2,213
	24,106	25,246
Less: Capex	22,065	27,218
FCFF	2,041	-1,972
Cash flow from investing activities	-23,131	-24,682
Cash flow from financing activities	-2,051	-1,476
Net cash balance at year end	16,109	7,449

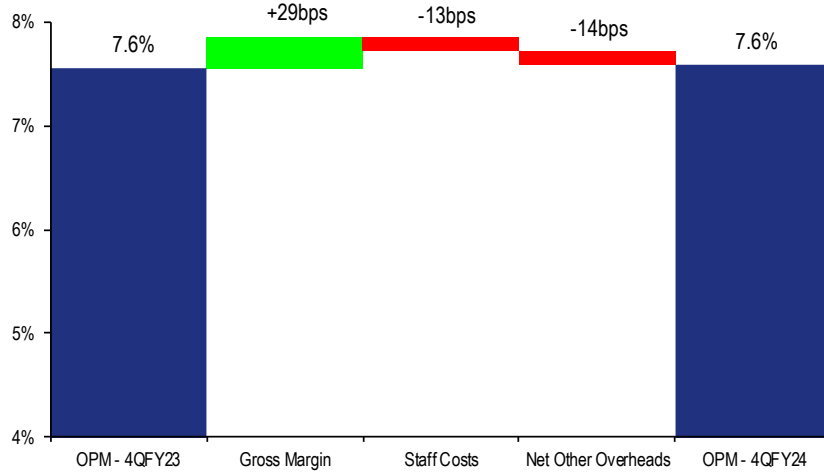
Source: Company, JM Financial

Exhibit 5. Overview of Subsidiaries' net contribution to revenue, EBITDA and net profit

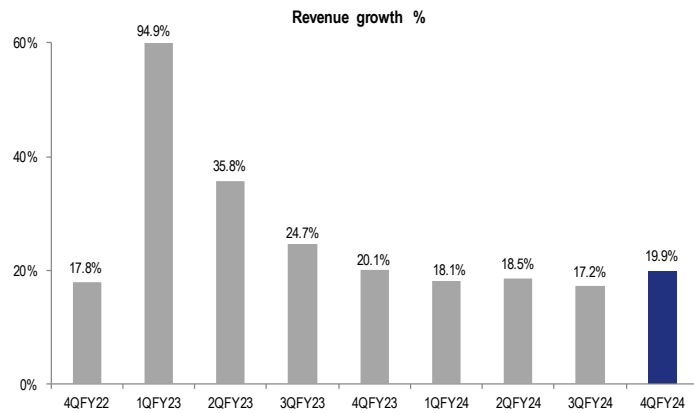
(INR mn)

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Subsidiaries Revenue	1,086	1,514	1,393	1,527	1,804	2,312	2,537	2,645	2,570	2,810	3,167	3,251	3,331
yoy	74%	203%	58%	40%	66%	53%	82%	73%	42%	22%	25%	23%	30%
Subsidiaries EBITDA	-40	30	-16	-17	-27	3	-29	-92	-107	-12	32	-10	34
Subsidiaries PAT	-211	-198	-311	-333	-396	-368	-448	-514	-451	-366	-352	-464	-411

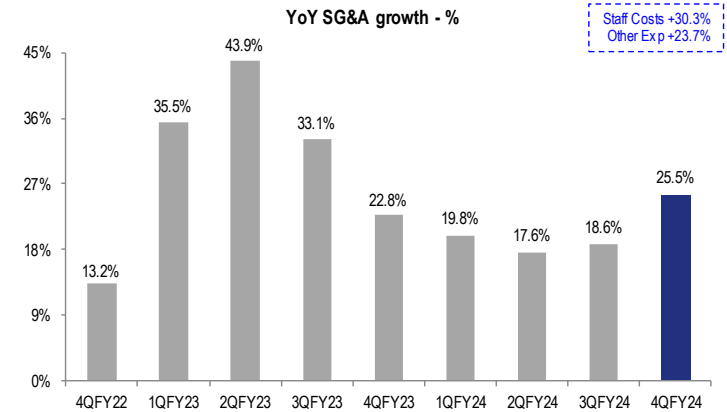
Source: Company, JM Financial

Exhibit 6. 4Q EBITDA margin (Standalone) flattish yoy

Source: Company, JM Financial

Exhibit 7. Revenue grew 20% yoy led by c.13% increase in store-count and c.7% growth in average revenue per-store

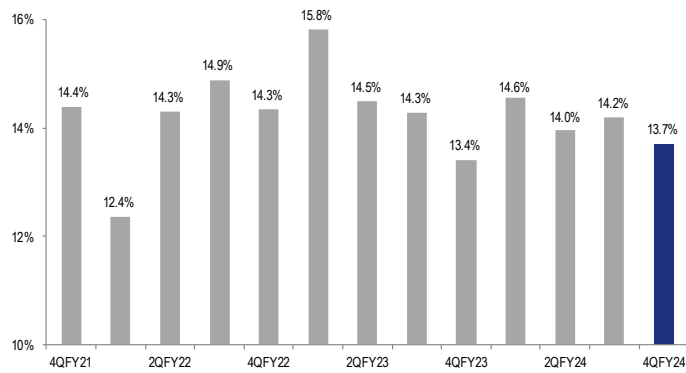
Source: Company, JM Financial

Exhibit 8. SG&A grew higher (1.3x) vs the rate of growth in revenue

Source: Company, JM Financial

Exhibit 9. Gross margin up 29bps yoy, down 49bps qoq

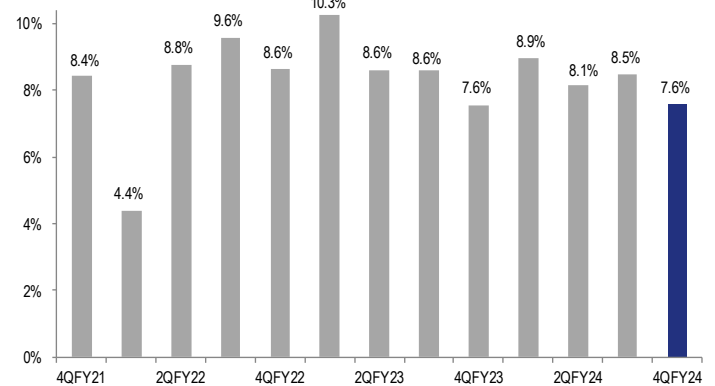
Standalone Gross Margin - %



Source: Company, JM Financial

Exhibit 10. EBITDA margin flattish (+2bps) yoy, down 88bps qoq

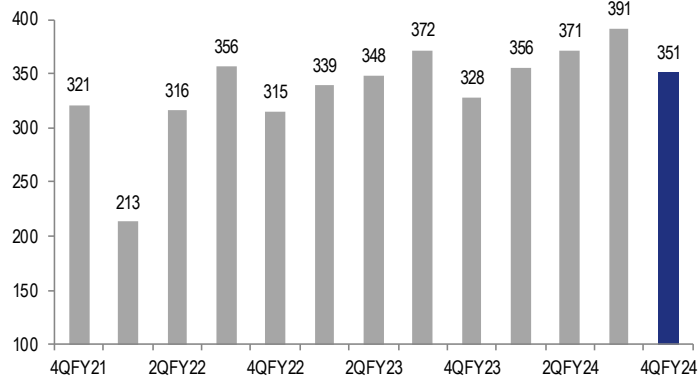
Standalone EBITDA Margin - %



Source: Company, JM Financial

Exhibit 11. Revenue per store grew by 7% yoy

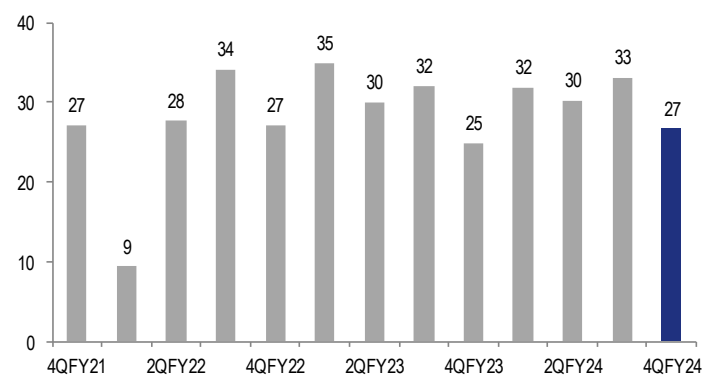
Revenue per store - INR mn



Source: Company, JM Financial

Exhibit 12. EBITDA per store also 7% higher vs year-ago level

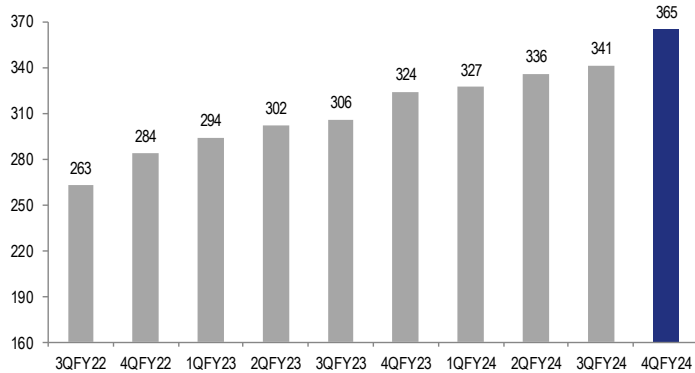
EBITDA per store - INR mn



Source: Company, JM Financial

Exhibit 13. 24 new stores added during Mar-Q taking total to 365

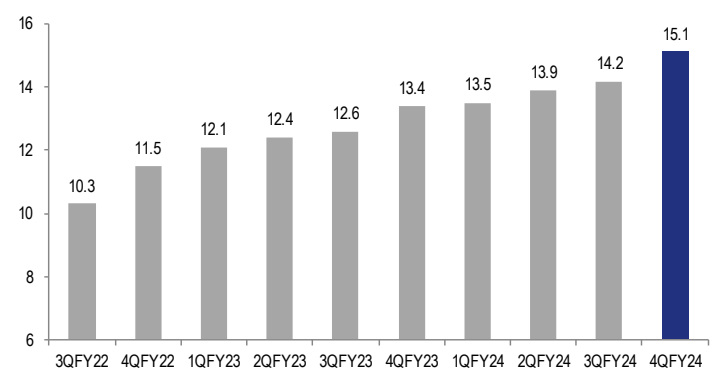
Store count - nos



Source: Company, JM Financial

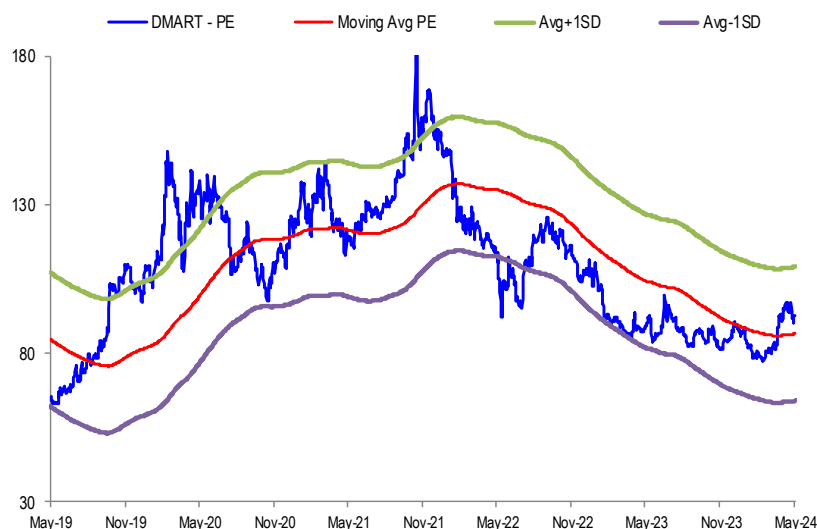
Exhibit 14. Retail business area (sq footage) grew 12.7% yoy

Qtr-end Retail Space - mn sq ft



Source: Company, JM Financial

Exhibit 15. DMart one-year forward PE band



Source: Company, Bloomberg, JM Financial

Exhibit 16. Our DCF-based Target Price at INR 4,995/share

(INR mn)

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Explicit Forecast																
Revenue	248,702	241,431	309,763	428,396	507,888	604,174	729,534	880,904	1,055,175	1,256,097	1,487,729	1,742,404	2,037,806	2,357,304	2,698,733	3,079,301
yoy growth	24.3%	-2.9%	28.3%	38.3%	18.6%	19.0%	20.7%	20.7%	19.8%	19.0%	18.4%	17.1%	17.0%	15.7%	14.5%	14.1%
EBITDA Pre Ind-AS 116	20,297	16,087	23,223	34,213	38,825	48,070	59,980	74,874	91,904	112,336	136,626	163,669	195,704	230,592	267,913	310,300
EBITDA margin %	8.2%	6.7%	7.5%	8.0%	7.6%	8.0%	8.2%	8.5%	8.7%	8.9%	9.2%	9.4%	9.6%	9.8%	9.9%	10.1%
Comparable EBIT (Pre Ind As 116)	17,567	13,042	19,669	29,602	33,370	41,598	52,234	65,659	81,125	99,902	122,445	147,570	177,509	210,116	244,964	284,752
Tax Rate	25.4%	25.9%	27.7%	22.3%	26.7%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%
NOPAT	13,099	9,666	14,221	23,007	24,445	30,968	38,887	48,881	60,395	74,374	91,157	109,861	132,150	156,425	182,368	211,989
Depreciation	2,730	3,045	3,554	4,611	5,455	6,472	7,746	9,215	10,780	12,433	14,181	16,099	18,195	20,476	22,949	25,548
Change in net working capital	-3,916	-1,081	-4,888	-4,985	-14,346	-3,400	-7,413	-9,457	-7,690	-13,108	-15,129	-16,657	-14,300	-20,150	-21,547	-24,050
Capex	-15,357	-19,149	-24,569	-22,167	-24,557	-28,924	-37,005	-39,466	-41,804	-44,197	-46,814	-53,335	-55,871	-62,992	-65,889	-68,909
Free Cash Flow	-3,445	-7,519	-11,683	467	-9,002	5,116	2,214	9,173	21,681	29,503	43,395	55,969	80,173	93,759	117,881	144,578
% growth			55.4%	-104.0%	-2028.6%	-156.8%	-56.7%	314.2%	136.3%	36.1%	47.1%	29.0%	43.2%	16.9%	25.7%	22.6%
Discount Factor						1.00	0.93	0.85	0.77	0.70	0.64	0.58	0.53	0.48	0.43	0.39
Discounted FCFF						5,116	2,062	7,764	16,681	20,635	27,592	32,351	42,129	44,788	51,190	57,075
Fade Period																
FCFF	175,060	209,230	246,794	287,241	329,822	373,553	417,238	459,503	498,859	533,779						
% growth	21.1%	19.5%	18.0%	16.4%	14.8%	13.3%	11.7%	10.1%	8.6%	7.0%						
Discount factor	0.36	0.33	0.30	0.27	0.25	0.22	0.20	0.18	0.17	0.15						
Discounted FCFF	62,825	68,260	73,194	77,444	80,839	83,233	84,513	84,611	83,506	81,227						
Valuation																
PV of explicit forecast	307,383															
PV of Fade period	779,652															
PV of terminal value	2,151,436															
Enterprise Value	3,238,471															
Less:																
Net Debt	-11,688															
Minority interest	-5															
Value for equity shareholders	3,250,164															
No. of shares - mn	651															
Target price - INR/share	4995															

Source: Company, Bloomberg, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	308,584	427,054	506,298	602,282	727,250
Sales Growth	28.2%	38.4%	18.6%	19.0%	20.7%
Other Operating Income	1,179	1,341	1,590	1,892	2,284
Total Revenue	309,763	428,396	507,888	604,174	729,534
Cost of Goods Sold/Op. Exp.	263,974	363,840	432,745	513,581	619,271
Personnel cost	6,162	7,470	9,061	10,575	12,427
Other expenses	14,642	20,716	25,044	29,376	34,821
EBITDA (Comparable)	23,223	34,213	38,825	48,070	59,980
EBITDA (%)	7.5%	8.0%	7.7%	8.0%	8.2%
EBITDA Growth (%)	44.4%	47.3%	13.5%	23.8%	24.8%
Reported EBITDA	24,985	36,370	41,038	50,643	63,015
Depn & Amort	4,981	6,389	7,308	8,710	10,273
EBIT	20,004	29,982	33,730	41,933	52,742
Other Income	1,175	1,293	1,465	1,307	1,711
Finance Cost	538	674	581	697	1,022
PBT before Excep & Forex	20,641	30,601	34,613	42,542	53,430
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	20,641	30,601	34,613	42,542	53,430
Taxes	5,717	6,818	9,257	10,871	13,653
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-2	-2	-6	0	0
Reported Net profit	14,926	23,785	25,362	31,671	39,777
Adjusted Net Profit	15,058	22,397	25,368	31,671	39,777
Net Margin (%)	4.9%	5.2%	5.0%	5.3%	5.5%
Diluted share capital (mn)	647.8	648.3	650.7	650.7	650.7
Diluted EPS (Rs)	23.2	34.6	39.0	48.7	61.1
Diluted EPS Growth	38.7%	48.6%	12.8%	24.8%	25.6%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (Rs)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	136,776	160,787	186,978	218,650	258,427
Share capital	6,478	6,483	6,507	6,507	6,507
Reserves & Surplus	130,299	154,304	180,471	212,142	251,920
Preference Share Capital					
Minority Interest	3	1	-5	-5	-5
Total Loans	0	0	0	0	0
Def. Tax Liab / Assets (-)	624	752	872	980	1,115
Total - Equity & Liab	137,403	161,540	187,846	219,625	259,537
Net Fixed Assets	101,136	118,499	140,813	162,903	191,647
Gross Fixed Assets	101,425	126,593	150,089	179,014	216,019
Intangible Assets					
Less: Depn. & Amort.	14,740	19,246	24,701	31,173	38,919
Net Lease Assets & Capital WIP	14,451	11,152	15,425	15,062	14,548
Investments	13,783	14,038	4,077	3,058	3,975
Current Assets	33,299	41,904	60,737	72,239	86,269
Inventories	27,427	32,435	39,273	46,470	55,813
Sundry Debtors	669	622	1,664	1,979	2,390
Cash & Bank Balances	951	2,072	3,371	8,630	11,550
Loans & Advances	2,213	4,249	13,633	12,083	13,132
Other Current Assets	2,040	2,527	2,797	3,077	3,384
Current Liab. & Prov.	10,815	12,901	17,782	18,576	22,354
Current Liabilities	9,309	11,649	14,708	17,438	20,998
Provisions & Others	1,506	1,252	3,074	1,137	1,356
Net Current Assets	22,484	29,003	42,955	53,664	63,914
Application of Funds	137,403	161,540	187,846	219,625	259,537

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	20,641	30,601	34,613	42,542	53,430
Depn. & Amort.	4,981	6,389	7,308	8,710	10,273
Net Interest Exp. / Inc. (-)	-637	-619	-883	-609	-689
Inc (-) / Dec in WCap.	-5,825	-3,199	-6,438	-3,400	-7,413
Others	166	220	276	108	135
Taxes Paid	-5,603	-7,089	-7,418	-12,920	-13,570
Operating Cash Flow	13,724	26,303	27,458	34,430	42,167
Capex	-23,895	-22,065	-27,218	-28,924	-37,005
Free Cash Flow	-10,172	4,238	240	5,505	5,161
-Inc/dec in investments	10,500	-1,557	-435	1,019	-917
Other current assets	500	491	2,971	1,307	1,711
Investing Cash Flow	-12,895	-23,131	-24,682	-26,598	-36,212
Inc/(dec) in capital	0	155	748	0	0
Dividend+Tax Thereon	0	0	0	0	0
Inc/dec in loans	0	0	0	0	0
Other assets	-1,792	-2,207	-2,225	-2,572	-3,035
Financing Cash Flow	-1,792	-2,051	-1,476	-2,572	-3,035
Inc / Dec (-) in Cash	-964	1,120	1,300	5,259	2,920
Opening cash balance	1,915	951	2,072	3,371	8,630
Closing cash balance	951	2,071	3,371	8,630	11,550

Source: Company, JM Financial

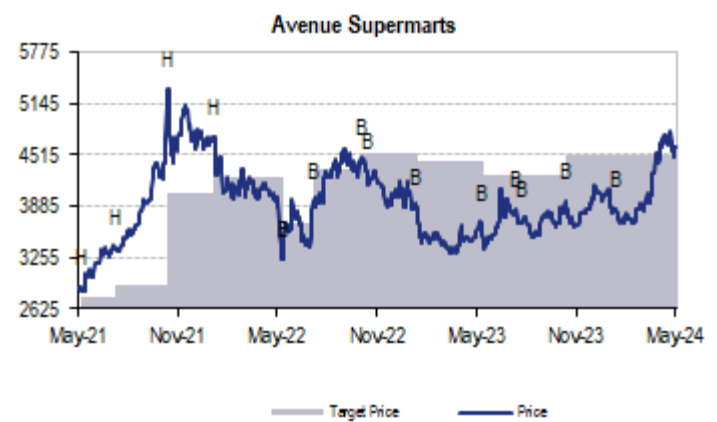
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	4.9%	5.2%	5.0%	5.3%	5.5%
Asset Turnover (x)	2.4	2.9	2.9	3.0	3.0
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	11.6%	15.1%	14.6%	15.6%	16.7%
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	211.1	248.0	287.3	336.0	397.1
ROIC (%)	12.4%	16.5%	14.5%	15.4%	16.5%
ROE (%)	11.6%	15.1%	14.6%	15.6%	16.7%
Net Debt-equity ratio (x)	-0.1	-0.1	0.0	-0.1	-0.1
PER	198.3	133.4	118.3	94.7	75.4
PBV	21.8	18.6	16.0	13.7	11.6
EV/EBITDA	128.0	86.9	77.1	62.2	49.8
EV/Net Sales	9.6	7.0	5.9	5.0	4.1
Debtor days	1	1	1	1	1
Inventory days	32	28	28	28	28
Creditor days	12	11	11	11	11

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
8-Jul-20	Hold	2,060	
11-Jul-20	Hold	2,075	0.7
5-Aug-20	Hold	2,075	0.0
8-Oct-20	Hold	2,075	0.0
17-Oct-20	Hold	2,135	2.9
9-Jan-21	Hold	2,655	24.4
8-May-21	Hold	2,760	4.0
10-Jul-21	Hold	2,905	5.3
16-Oct-21	Hold	4,055	39.6
8-Jan-22	Hold	4,240	4.6
14-May-22	Buy	3,675	-13.3
9-Jul-22	Buy	4,330	17.8
7-Oct-22	Buy	4,540	4.8
15-Oct-22	Buy	4,535	-0.1
14-Jan-23	Buy	4,440	-2.1
13-May-23	Buy	4,255	-4.2
15-Jul-23	Buy	4,255	0.0
26-Jul-23	Buy	4,255	0.0
14-Oct-23	Buy	4,500	5.8
13-Jan-24	Buy	4,505	0.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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