

Avenue Supermarts (AVESUP)

CMP: ₹ 3942

Target: ₹ 4700 (19%)

Target Period: 12 months

BUY

July 10, 2022

Positive surprise on margins enhances performance...

About the stock: Avenue Supermarts (ASL) operates supermarket chain under 'D-Mart' brand with core focus on value retailing. D-Mart, through its proven business model, has been able to maintain consistent profitability and remains an exceptional performer in its peer group.

- D-Mart has progressively improved its return ratios (RoIC: 20%+) despite being capital intensive (follows ownership model)
- Robust store operating metrics (breakeven in 18-24 months of its operations and one of industry best revenue/sq ft: ₹ 30000+)

Q1FY23: Results were a comprehensive beat on the profitability front driven by sustained improvement in product mix (GM & apparel)

- On tepid base, sales up 94% YoY to ₹ 10038 crore (three year CAGR: 20%)
- Recovery in GM & apparel (which yields higher margins) translated into gross margins improving materially by 320 bps YoY to 16.3%. EBITDA grew 350% YoY to ₹ 1008 crore (three-year CAGR: 19%)
- Driven by robust operational performance, it posted more than 6x jump in net profits (on a favourable base) to ₹ 642.9 crore (three-year CAGR: 26%)
- The company added 10 new D-Mart outlets taking the total store count to 294 with total business area now crossing 12 million sq ft

What should investors do? ASL has been a consistent compounder with the stock price increasing at 35% CAGR in the last five years. D-Mart continues to remain India's most profitable low cost retailer, a strong play on India's retail growth story and a key beneficiary of the unorganised to organised segment shift.

- We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value ASL at ₹ 4700 i.e. 5.5x FY24E EV/Sales (previous target price: ₹ 4530)

Key triggers for future price performance:

- We anticipate store addition trajectory to accelerate and bake in 80 incremental store additions (addition of ~ 4.8 mn sq ft) in FY23-24E
- Robust liquidity position and healthy operating cashflows to provide impetus to store addition pace (FY22 cash & investments: ₹ 1500+ crore)
- We model revenue, earnings CAGR of 32%, 48%, respectively, in FY22-24E

Alternate Stock Idea: Apart from ASL, in our retail coverage we also like Trent.

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model positions Trent as a key beneficiary of economy unlock theme
- We have a BUY rating with target price of ₹ 1470/share



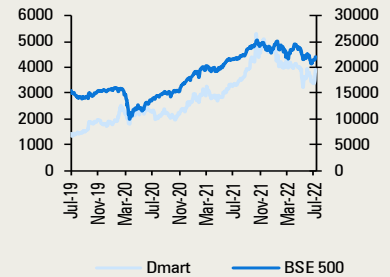
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,55,350.9
Total Debt (FY22) (₹ crore)	-
Cash & Investment (FY22) (₹ crore)	1,575.1
EV (₹ crore)	2,53,775.9
52 Week H / L	5900 / 3185
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	75.0	75.0	75.0	75.0	75.0
FII	10.2	10.0	10.0	9.4	8.3
DII	7.1	6.7	6.7	6.7	6.8
Others	7.8	8.3	8.4	8.8	9.9

Price Chart



Recent event & key risks

- 10 new stores added in Q1FY23

Key Risk: (i) Slower ramp up of store network (ii) Higher inflation could impact demand for GM & apparel

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	20,004.5	24,870.2	24,143.1	30,976.3	21.1%	42,033.5	54,148.8	32.2%
EBITDA	1,633.3	2,128.3	1,743.1	2,498.5	20.6%	3,858.7	5,133.3	43.3%
PAT	902.4	1,301.0	1,099.4	1,492.4	25.5%	2,432.5	3,273.9	48.1%
P/E (x)	272.6	196.3	232.3	171.1		105.0	78.0	
EV/Sales (x)	12.3	10.1	10.5	8.2		6.0	4.7	
EV/EBITDA (x)	150.9	118.4	145.0	101.6		65.9	49.5	
RoCE (%)	23.4	16.4	12.5	15.5		20.6	23.0	
RoE (%)	16.2	11.7	9.0	10.9		15.1	16.9	

Key takeaways of Q1FY23 results

- As guided by the management in its pre-quarterly update, on a favourable base, Avenue Supermarts reported strong revenue growth of 93.7% YoY to ₹ 10038.1 crore (three-year CAGR: 20%). The company added 10 new D-Mart outlets taking the total store count to 294 with total business area now crossing 12 million sq ft. The average size of the store added during the quarter continues to be higher at ~ 60000 sq ft D-Mart ready (online business) continues to perform well with revenue growth of 53% YoY to ₹ 231 crore (I-direct estimate: ₹ 182 crore).
- Over the last three years, the company has expanded its square feet addition by an impressive three-year CAGR of 24% with average size of new stores being bigger (~55000+ vs. average 35000 sq ft). The new larger stores have never got an opportunity to function in normal circumstances over the last two years. Hence, the revenue throughput per sq ft has remained below pre-Covid levels (Q1FY20: ₹ 9200, Q1FY22: ₹ 3405, Q1FY23: ₹ 8300). Also, the rationale behind opening larger stores was to stock higher discretionary categories such as GM & apparel, which yields better gross margins. However, Covid led disruptions materially impacted the performance of this category, which, in turn, impacted gross margins and RoCE for the stores. With the scenario now normalising and with scale kicking in, we expect the trajectory for gross margin and RoCE to improve in the ensuing quarters
- The management highlighted that recovery in GM & apparel categories was encouraging and witnessed better traction than the previous quarter (but still remains below pre-Covid levels). Subsequently, gross margins expanded materially by 320 bps YoY to 16.3% (I-direct estimate: 15.2%, Q1FY20: 16.4%). Employee and other expenses increased 22% and 47% YoY to ₹ 179 crore and ₹ 453 crore, respectively, mainly on account of higher new store additions. Owing to positive operating leverage, EBITDA margins improved 570 bps YoY to 10.0% (I-direct estimate: 8.6%, Q1FY20: 10.3%). On a benign base, absolute EBITDA grew 350% YoY to ₹ 1008.2 crore (I-direct estimate: ₹ 858.9 crore, three-year CAGR: 19%)
- Driven by a robust operational performance, the company recorded more than 6x jump in net profits (on a favourable base) to ₹ 642.9 crore (three-year CAGR: 26%). The management indicated that discretionary contribution mix is getting better but is under certain stress owing to current inflationary pressure. ASL believes it would be able to provide better value to its customers by managing its cost better and providing value for money in an inflationary environment
- We expect the company's RoIC to improve in the current financial year driven by dual triggers of enhanced margins and better store throughput. We broadly maintain our revenue estimates while we revise our earnings estimates upwards by 8% and 6% in FY23E and 24E, respectively, on the back of strong profitability beat in Q1FY23 and recovery in GM & apparel segment. We bake in revenue and earnings CAGR of 32% and 48%, respectively, in FY22-24E with healthy RoIC of 25%

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	10,038.1	9,986.0	5,183.2	93.7	8,786.5	14.2	3-year CAGR: 20%. Revenue/sq. ft. at ₹ 8300 (~90% of pre-covid levels)
Raw Material Expense	8,397.6	8,468.1	4,503.8	86.5	7,472.1	12.4	
Gross Profit	1,640.5	1,517.9	679.4	141.4	1,314.4	24.8	
Gross Profit Margin	16.3	15.2	13.1	323 bps	15.0	138 bps	Enhanced product mix led to improvement in gross margins
Employee exp	179.4	189.7	146.5	22.4	161.3	11.2	
Other Exp	452.9	469.3	308.6	46.7	413.8	9.4	
EBITDA	1,008.2	858.8	224.3	349.6	739.3	36.4	Better than anticipated gross margins and positive operating leverage led to strong beat on the EBITDA front (3-year CAGR: 19%)
EBITDA Margin (%)	10.0	8.6	4.3	572 bps	8.4	163 bps	
Depreciation	144.7	158.0	107.4	34.7	146.3	-1.1	
Other Income	29.1	33.5	31.5	-7.4	32.6	-10.5	
Interest	17.2	16.3	10.8	58.9	16.6	3.5	
Exceptional Income	-	-	-	-	-	-	
PBT	875.4	718.0	137.4	536.9	608.9	43.8	
Tax Outgo	232.5	186.7	42.0	453.6	182.1	27.7	
PAT	642.9	531.3	95.4	573.6	426.8	50.6	3-year CAGR: 26%

Source: Company, ICICI Direct Research

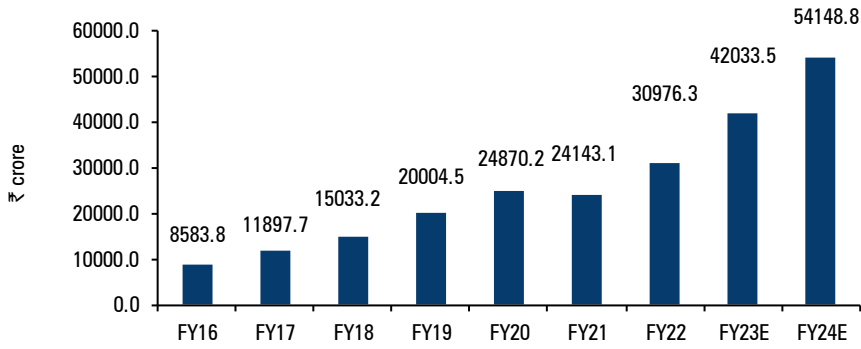
Exhibit 2: Change in estimates

(₹ Crore)	FY 22	FY 23E			FY 24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	30,976.3	42,033.5	42,033.5	0.0	53,170.8	54,148.8	1.8
EBITDA	2,498.5	3,614.5	3,858.7	6.8	4,891.2	5,133.3	4.9
EBITDA Margin (%)	8.1	8.6	9.2	58 bps	9.2	9.5	28 bps
PAT	1,492.4	2,249.8	2,432.5	8.1	3,092.8	3,273.9	5.9
EPS (₹)	23.0	34.7	37.6	8.1	47.7	50.5	5.9

Source: Company, ICICI Direct Research

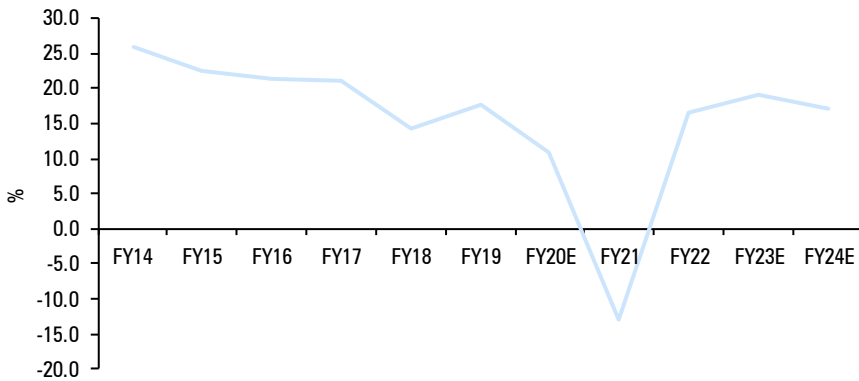
Financial story in charts

Exhibit 3: Revenue growth trend



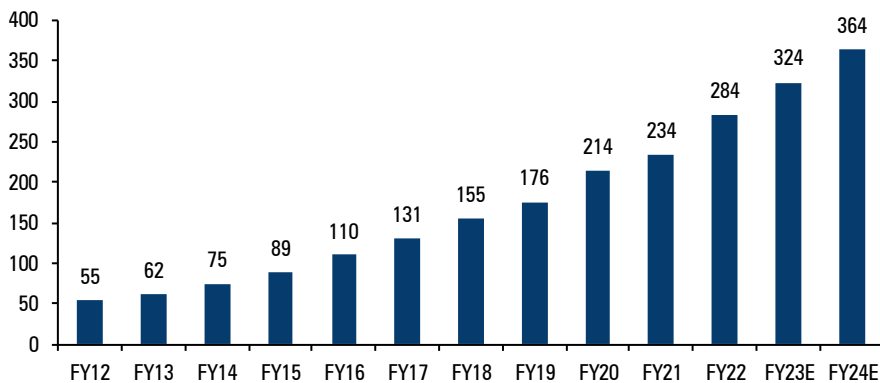
Source: Company, ICICI Direct Research

Exhibit 4: Same stores sales growth (SSSG) trend



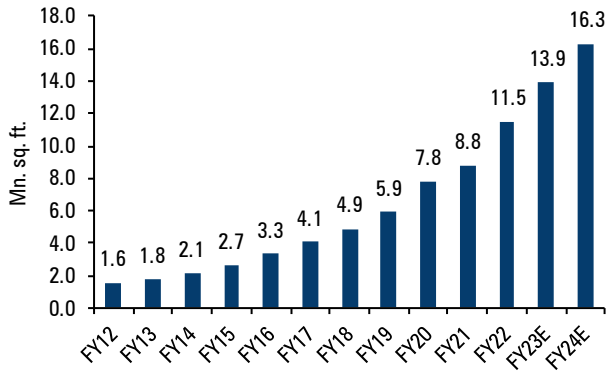
Source: Company, ICICI Direct Research

Exhibit 5: Store addition trend



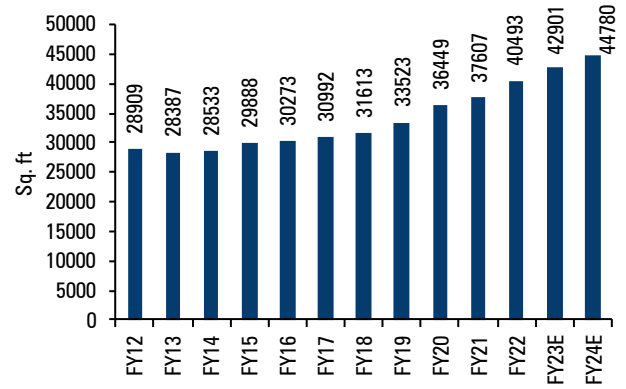
Source: Company, ICICI Direct Research.

Exhibit 6: Total carpet area grows at much faster clip...



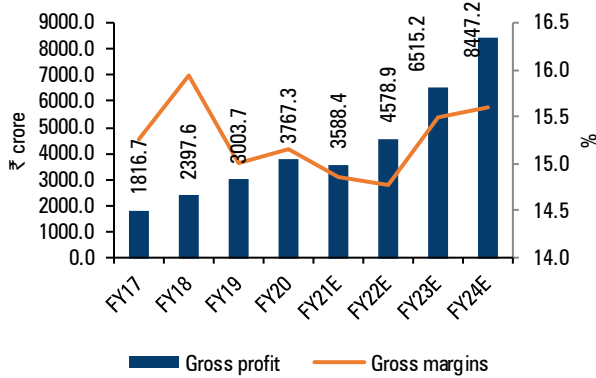
Source: Company, ICICI Direct Research

Exhibit 7: ...with gradual increase in average store size



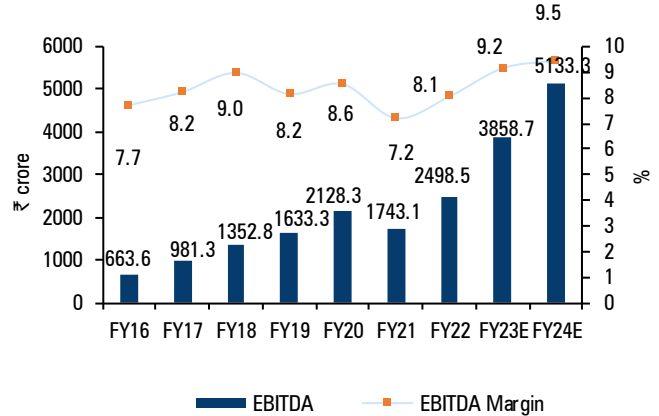
Source: Company, ICICI Direct Research

Exhibit 8: Gross margins trend



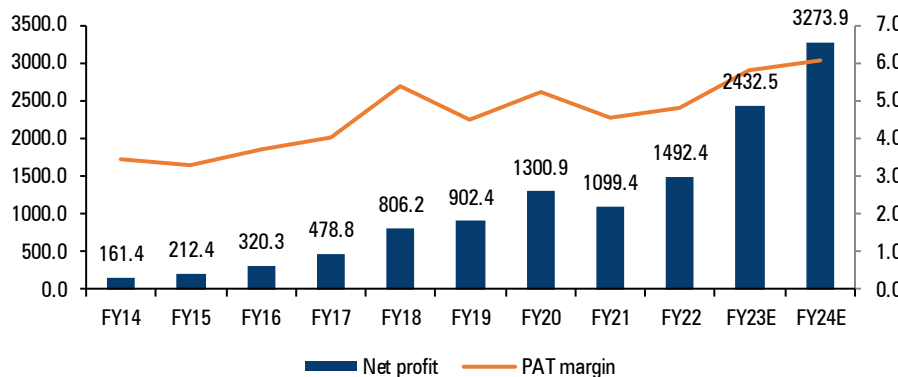
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 10: Net profit trend



Source: Company, ICICI Direct Research.

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	24,143.1	30,976.3	42,033.5	54,148.8
Growth (%)	(2.9)	28.3	35.7	28.8
Total Raw Material Cost	20,554.7	26,397.4	35,518.3	45,701.6
Gross Margins (%)	14.9	14.8	15.5	15.6
Employee Expenses	536.6	616.2	798.6	974.7
Other Expenses	1,308.8	1,464.2	1,857.9	2,339.2
Total Operating Expenditure	22,400.0	28,477.8	38,174.8	49,015.5
EBITDA	1,743.1	2,498.5	3,858.7	5,133.3
EBITDA Margin	7.2	8.1	9.2	9.5
Interest	41.7	53.8	64.7	74.4
Depreciation	414.2	498.1	635.9	781.7
Other Income	196.2	117.5	94.0	99.6
Exceptional Expense	-	-	-	-
PBT	1,483.5	2,064.1	3,252.0	4,376.8
Total Tax	384.0	571.7	819.5	1,103.0
Profit After Tax	1,099.4	1,492.4	2,432.5	3,273.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	1,099.4	1,492.4	2,432.5	3,273.9
Add: Depreciation	414.2	498.1	635.9	781.7
Net Increase in Current Assets	-551.5	-446.3	-910.8	-960.2
Net Increase in Current Liabilities	378.8	55.9	217.7	233.2
CF from operating activities	1,340.9	1,600.0	2,375.4	3,328.5
(Inc)/dec in Investments	2,032.1	-155.9	381.5	133.5
(Inc)/dec in Fixed Assets	-2,029.0	-2,410.0	-2,643.1	-2,880.0
Others	91.0	-56.9	0.0	0.0
CF from investing activities	94.1	-2,622.8	-2,261.5	-2,746.5
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-3.7	0.0	0.0	0.0
Others	-93.6	-125.5	-152.8	-183.3
CF from financing activities	-97.4	-125.5	-152.8	-183.3
Net Cash flow	1,337.6	-1,148.2	-38.9	398.8
Opening Cash	107.9	1,445.6	297.4	258.4
Closing Cash	1,445.5	297.4	258.4	657.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	647.8	647.8	647.8	647.8
Reserve and Surplus	11,535.9	13,028.3	15,460.9	18,734.7
Total Shareholders funds	12,183.7	13,676.1	16,108.6	19,382.5
Total Debt	-	-	-	-
Non Current Liabilities	444.7	712.0	712.0	712.0
Source of Funds	12,628.5	14,388.1	16,820.6	20,094.5
Gross block	7,048.4	9,256.4	12,078.8	14,958.8
Less: Accum depreciation	1,109.9	1,485.9	1,969.1	2,567.4
Net Fixed Assets	5,938.5	7,770.5	10,109.7	12,391.4
Capital WIP	1,019.6	1,129.3	950.0	950.0
Intangible assets	100.5	91.9	91.9	91.9
Investments	1,121.8	1,277.7	896.1	762.6
Inventory	2,248.3	2,742.7	3,570.0	4,450.6
Cash	1,445.6	297.4	258.4	657.2
Debtors	43.6	66.9	115.2	148.4
Loans & Advances & Other	320.7	328.8	345.2	352.1
Total Current Assets	4,058.2	3,435.7	4,288.8	5,608.3
Creditors	578.1	589.2	806.1	1,038.5
Provisions & Other CL	449.4	494.2	495.0	495.8
Total Current Liabilities	1,027.5	1,083.4	1,301.1	1,534.3
Net Current Assets	3,030.7	2,352.4	2,987.7	4,074.0
LT L& A, Other Assets	1,417.4	1,766.4	1,785.2	1,824.7
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	12,628.5	14,388.1	16,820.6	20,094.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	17.0	23.0	37.6	50.5
Cash EPS	23.4	30.7	47.4	62.6
BV	188.1	211.1	248.7	299.2
Cash Per Share	22.3	4.6	4.0	10.1
Operating Ratios (%)				
EBITDA margins	7.2	8.1	9.2	9.5
PBT margins	6.1	6.7	7.7	8.1
Net Profit margins	4.6	4.8	5.8	6.0
Inventory days	34.0	32.3	31.0	30.0
Debtor days	0.7	0.8	1.0	1.0
Creditor days	8.7	6.9	7.0	7.0
Return Ratios (%)				
RoE	9.0	10.9	15.1	16.9
RoCE	12.5	15.5	20.6	23.0
RoIC	15.9	17.5	22.2	24.8
Valuation Ratios (x)				
P/E	232.3	171.1	105.0	78.0
EV / EBITDA	145.0	101.6	65.9	49.5
EV / Sales	10.5	8.2	6.0	4.7
Market Cap / Revenues	10.6	8.2	6.1	4.7
Price to Book Value	21.0	18.7	15.9	13.2
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	2.5	2.9	3.1	3.2
Quick Ratio	0.4	0.4	0.4	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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