

Avenue Supermarts (AVESUP)

CMP: ₹ 5380

Target: ₹ 5750 (7%)

Target Period: 12 months

HOLD

October 18, 2021

Strong performance; rich valuations limit upside...

About the stock: Avenue Supermarts (ASL) operates the 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 enhanced 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 per sq ft: ₹ 32000+)

Q2FY22 Results: Operating performance better than consensus estimates as EBITDA margins came in higher than anticipated.

- Reported revenue growth of 47% YoY to ₹ 7788.9 crore (up 50% QoQ)
- Gross margins rose 40 bps YoY (180 bps QoQ) to 14.9% on account of better product mix, with EBITDA margins expanding 240 bps YoY to 8.6%
- Healthy operational performance and steady revenue recovery resulted in PAT growth of 110.4% YoY to ₹ 417.8 crore (I-direct estimate: ₹ 363.9 crore)
- Added eight new stores taking the total count to 246 stores (9.4 mn sq ft)

What should investors do? Despite trading at premium valuations, ASL has been a consistent compounder with stock price appreciating at 52% CAGR in last three years. Though we continue to stay structurally positive on it, we believe recent appreciation of stock price (~58% in last three months) factors in most positives.

- We maintain **HOLD** rating on the stock

Target Price and Valuation: We value ASL at ₹ 5750 i.e. 6.5x FY24E EV/Sales

Key triggers for future price performance:

- Inventory increased by ~₹ 500 crore in H1FY22 signalling healthy stocking for the upcoming festive demand.
- CWIP was at a healthy ₹ 1224.6 crore, indicating strong store addition pipeline in FY22E
- We anticipate store addition trajectory to accelerate in H2FY22 and bake in 118 incremental store additions (addition of ~ 7.3 mn sq ft) in FY22-24E
- Robust liquidity position and healthy operating cashflows to provide impetus to store addition pace (cash & investments: ₹ 1737 crore)
- We model revenue, earnings CAGR of 33%, 43% in FY22-24E, respectively

Alternate Stock Idea: Apart from ASL, in our retail coverage we like TTK Prestige

- TTK is expected to capitalise on strong demand driven by capacity addition, new launches and expansion of distribution reach in Tier II/III cities
- We have a BUY rating with target price of ₹ 10675



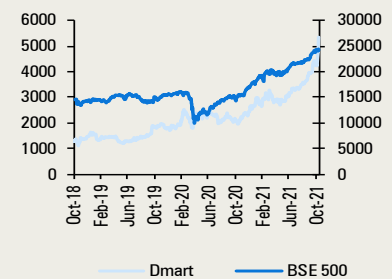
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	3,48,500.3
Total Debt (FY21) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	2,567.4
EV (₹ crore)	3,45,932.9
52 Week H / L	5900 / 1950
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	75.0	75.0	75.0	75.0	75.0
FII	10.3	10.1	10.2	10.0	10.0
DII	6.1	6.7	7.1	6.7	6.7
Others	8.6	8.2	7.8	8.3	8.4

Price Chart



Recent event & key risks

- 8 new stores added in Q2FY22
- Key Risk:** (i) Slower ramp up of store network (ii) Faster recovery in sales of general merchandise

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Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-23E)
Net Sales	20,004.5	24,870.2	24,143.1	23.0%	32,351.7	45,153.7	56,933.0	33.1%
EBITDA	1,633.3	2,128.3	1,743.1	21.3%	2,652.5	4,018.2	5,066.5	42.7%
PAT	902.4	1,301.0	1,099.4	28.0%	1,680.8	2,558.3	3,239.7	43.4%
P/E (x)	372.1	267.9	317.0		207.3	136.2	107.6	
EV/Sales (x)	16.8	13.9	14.3		10.7	7.7	6.1	
EV/EBITDA (x)	205.8	162.2	198.5		130.6	86.3	68.4	
RoCE (%)	23.4	16.4	12.5		16.5	21.2	22.3	
RoE (%)	16.2	11.7	9.0		12.1	15.6	16.5	

Source: Company, ICICI Direct Research

Key takeaways of Q2FY22 results

- As guided by the management in its pre-quarterly update, Avenue Supermarts reported revenue growth of 47% YoY to ₹ 7788.9 crore (two year CAGR: 14.0%). Revenue/sq ft was at ₹ 8400 vs. ₹ 9216 in Q2FY20 (~91% of pre-Covid levels). Easing of Covid-19 restrictions have resulted in swift revenue recovery for D-Mart. Two years and older D-Mart stores (187 stores) grew 23.7% in September 2021 compared to September 2020 (on a favourable base). D-Mart ready (online business) continues to gradually expand across regions (soft launch in cities of Vadodara and Surat) and grew 1.6x YoY to ₹ 139.3 crore (Q1FY22: ₹ 152 crore)
- Gross margins were enhanced by 40 bps YoY (180 bps QoQ) to 14.9% on account of better product mix (improved proportion of GM & apparel). Further, owing to positive operating leverage (employee and other expenses as percentage to sales declined 60 bps and 140 bps, respectively) EBITDA margins improved 240 bps YoY to 8.6% (I-direct estimate: 7.4%). Absolute EBITDA grew 103% YoY to ₹ 668.6 crore
- Other income declined 47% YoY to ₹ 27.5 crore on account of utilisation of QIP cash proceeds. Healthy operational performance and steady revenue recovery resulted in PAT growth of 110.4% YoY to ₹ 417.8 crore (I-direct estimate: ₹ 363.9 crore)
- The company has accelerated its capex momentum in H1FY22 undertaking capex worth ₹ 1036 crore vs. ₹ 651 crore in H1FY21. CWIP was at a healthy ₹ 1224.6 crore, which indicates strong store addition pipeline in for FY22E. Inventory increased by ~₹ 500 crore in H1FY22 signalling healthy stocking for the upcoming festive demand
- Operating cashflows declined to ₹ 241.6 crore in H1FY22 (vs. ₹ 502 crore in H1FY21) owing to higher working capital requirements. Also increased capex resulted in negative FCF worth ₹ 795 crore. The company continues to have robust liquidity position with cash & investments worth ₹ 1737 crore (vs. ₹ 2558 crore in FY21). **Strong anticipated festive season and healthy store addition pipeline (~40 stores in FY22) would accelerate revenue growth, going forward**

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	7,788.9	7,799.6	5,306.2	46.8	5,183.2	50.3	Easing of Covid-19 restrictions have resulted in swift revenue recovery for D-Mart.
Raw Material Expense	6,625.0	6,707.7	4,535.6	46.1	4,503.8	47.1	
Gross Profit	1,164.0	1,091.9	770.6	51.0	679.4	71.3	
Gross Profit Margin	14.9	14.0	14.5	42 bps	13.1	184 bps	Enhanced product mix resulted in better GMs
Employee exp	146.6	163.8	131.8	11.3	146.5	0.0	
Other Exp	348.8	351.0	309.4	12.8	308.6	13.0	
EBITDA	668.6	577.2	329.5	102.9	224.3	LP	
EBITDA Margin (%)	8.6	7.4	6.2	237 bps	4.3	426 bps	Owing to positive operating leverage, EBITDA margins improved by ~240 bps YoY
Depreciation	116.0	112.8	100.7	15.2	107.4	8.0	
Other Income	27.5	33.0	52.2	-47.3	31.5	-12.6	
Interest	12.4	11.1	9.3	33.4	10.8	14.1	
Exceptional Income	-	-	-	-	-	-	
PBT	567.7	486.3	271.7	109.0	137.4	313.1	
Tax Outgo	149.9	122.4	73.2	105.0	42.0	257.0	
PAT	417.8	363.9	198.5	110.4	95.4	337.7	

Source: Company, ICICI Direct Research

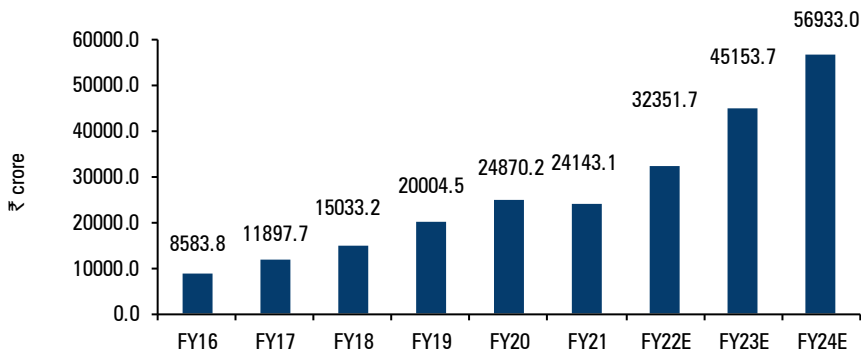
Exhibit 2: Change in estimates

(₹ Crore)	FY 22E			FY 23E			FY 24E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	31,868.8	32,351.7	1.5	44,479.8	45,153.7	1.5	56,933.0
EBITDA	2,549.5	2,652.5	4.0	3,958.7	4,018.2	1.5	5,066.5
EBITDA Margin (%)	8.0	8.2	20 bps	8.9	8.9	0 bps	8.9
PAT	1,592.2	1,680.8	5.6	2,541.0	2,558.3	0.7	3,239.7
EPS (₹)	24.6	25.9	5.6	39.2	39.5	0.7	50.0

Source: Company, ICICI Direct Research

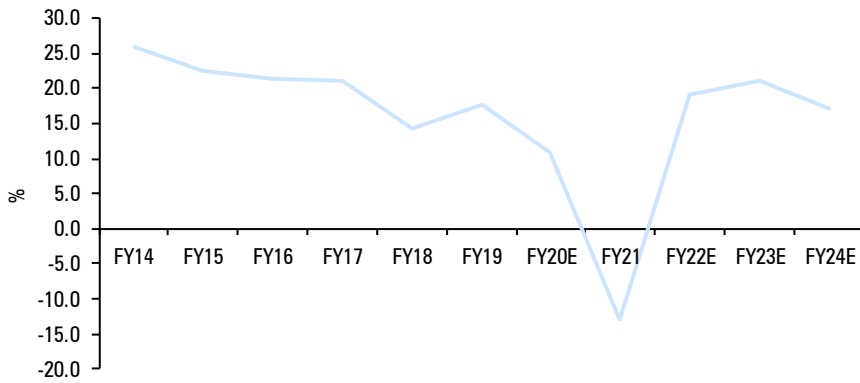
Financial story in charts

Exhibit 3: Revenue growth trend



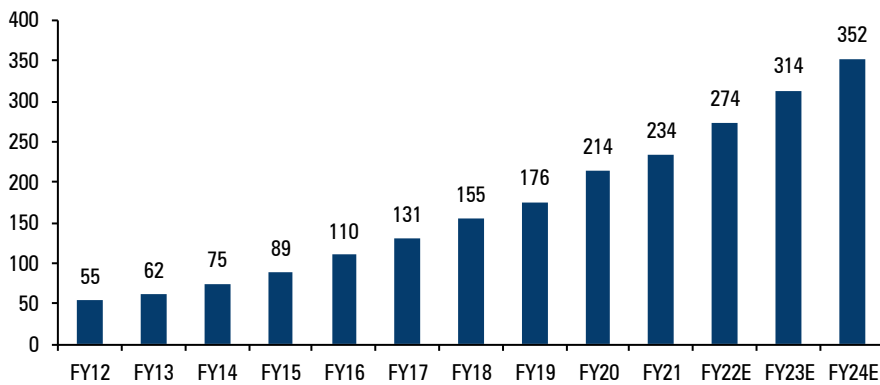
Source: Company, ICICI Direct Research

Exhibit 4: Same stores sales growth (SSSG) trend



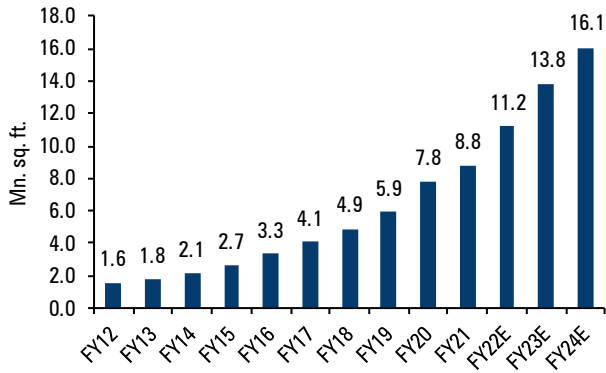
Source: Company, ICICI Direct Research

Exhibit 5: Store addition trend



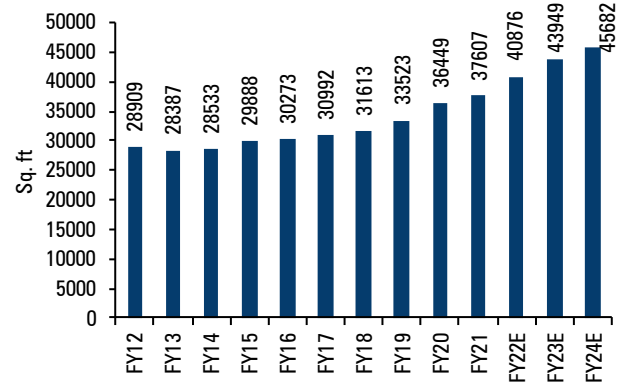
Source: Company, ICICI Direct Research.

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



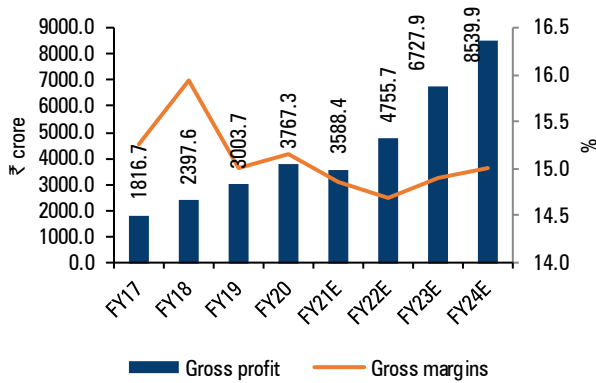
Source: Company, ICICI Direct Research

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



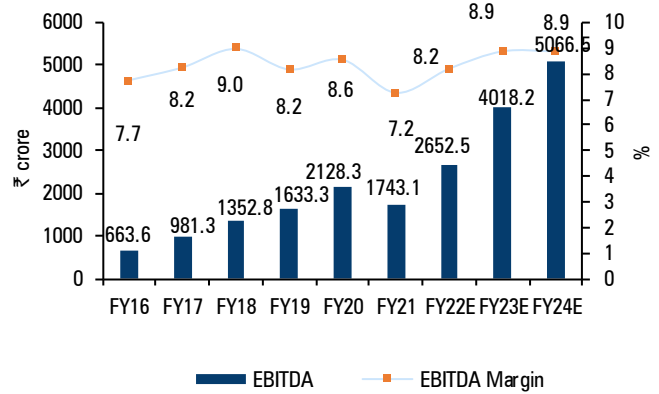
Source: Company, ICICI Direct Research

Exhibit 8: Gross margins trend



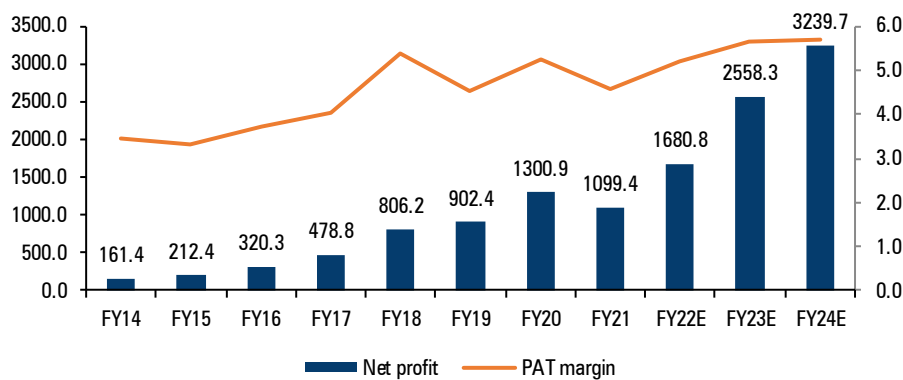
Source: Company, ICICI Direct Research

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)	FY21A	FY22E	FY23E	FY24E
Net Sales	24,143.1	32,351.7	45,153.7	56,933.0
Growth (%)	(2.9)	34.0	39.6	26.1
Total Raw Material Cost	20,554.7	27,596.0	38,425.8	48,393.0
Gross Margins (%)	14.9	14.7	14.9	15.0
Employee Expenses	536.6	582.3	767.6	967.9
Other Expenses	1,308.8	1,520.9	1,942.1	2,505.6
Total Operating Expenditure	22,400.0	29,699.2	41,135.5	51,866.5
EBITDA	1,743.1	2,652.5	4,018.2	5,066.5
EBITDA Margin	7.2	8.2	8.9	8.9
Interest	41.7	47.1	55.0	63.2
Depreciation	414.2	515.3	668.6	805.2
Other Income	196.2	157.0	125.6	133.1
Exceptional Expense	-	-	-	-
PBT	1,483.5	2,247.1	3,420.2	4,331.2
Total Tax	384.0	566.3	861.9	1,091.5
Profit After Tax	1,099.4	1,680.8	2,558.3	3,239.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	1,099.4	1,680.8	2,558.3	3,239.7
Add: Depreciation	414.2	515.3	668.6	805.2
Net Increase in Current Assets	-551.5	-561.8	-1,084.9	-1,060.2
Net Increase in Current Liabilities:	378.8	131.5	281.1	102.7
CF from operating activities	1,340.9	1,765.8	2,423.1	3,087.4
(Inc)/dec in Investments	2,032.1	167.8	190.2	114.1
(Inc)/dec in Fixed Assets	-2,029.0	-2,072.4	-2,802.8	-2,558.2
Others	91.0	0.0	0.0	0.0
CF from investing activities	94.1	-1,904.6	-2,612.6	-2,444.0
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	-120.0	-158.4	-190.1
CF from financing activities	-97.4	-120.0	-158.4	-190.1
Net Cash flow	1,337.6	-258.8	-347.9	453.3
Opening Cash	107.9	1,445.6	1,186.8	838.9
Closing Cash	1,445.5	1,186.8	838.9	1,292.1

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Equity Capital	647.8	647.8	647.8	647.8
Reserve and Surplus	11,535.9	13,216.8	15,775.1	19,014.8
Total Shareholders funds	12,183.7	13,864.5	16,422.9	19,662.6
Total Debt	-	-	-	-
Non Current Liabilities	444.7	444.7	444.7	444.7
Source of Funds	12,628.5	14,309.3	16,867.6	20,107.3
Gross block	7,048.4	9,640.4	12,443.2	15,001.4
Less: Accum depreciation	1,109.9	1,505.2	2,015.4	2,630.4
Net Fixed Assets	5,938.5	8,135.2	10,427.9	12,371.0
Capital WIP	1,019.6	500.0	500.0	500.0
Intangible assets	100.5	100.5	100.5	100.5
Investments	1,121.8	954.0	763.8	649.6
Inventory	2,248.3	2,747.7	3,711.3	4,679.4
Cash	1,445.6	1,186.8	838.9	1,292.1
Debtors	43.6	44.3	123.7	156.0
Loans & Advances & Other	320.7	336.8	353.6	360.7
Total Current Assets	4,058.2	4,315.5	5,027.5	6,488.2
Creditors	578.1	709.1	989.7	1,091.9
Provisions & Other CL	449.4	449.9	450.4	451.0
Total Current Liabilities	1,027.5	1,159.0	1,440.1	1,542.9
Net Current Assets	3,030.7	3,156.5	3,587.3	4,945.4
LT L& A, Other Assets	1,417.4	1,463.0	1,488.1	1,540.8
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	12,628.5	14,309.3	16,867.6	20,107.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	17.0	25.9	39.5	50.0
Cash EPS	23.4	33.9	49.8	62.4
BV	188.1	214.0	253.5	303.5
Cash Per Share	22.3	18.3	13.0	19.9
Operating Ratios (%)				
EBITDA margins	7.2	8.2	8.9	8.9
PBT margins	6.1	6.9	7.6	7.6
Net Profit margins	4.6	5.2	5.7	5.7
Inventory days	34.0	31.0	30.0	30.0
Debtor days	0.7	0.5	1.0	1.0
Creditor days	8.7	8.0	8.0	7.0
Return Ratios (%)				
RoE	9.0	12.1	15.6	16.5
RoCE	12.5	16.5	21.2	22.3
RoIC	15.9	19.6	23.4	24.8
Valuation Ratios (x)				
P/E	317.0	207.3	136.2	107.6
EV / EBITDA	198.5	130.6	86.3	68.4
EV / Sales	14.3	10.7	7.7	6.1
Market Cap / Revenues	14.4	10.8	7.7	6.1
Price to Book Value	28.6	25.1	21.2	17.7
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	2.7	2.9	3.4
Quick Ratio	0.4	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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