

# Avenue Supermarts (AVESUP)

CMP: ₹ 4700

Target: ₹ 5260 (12%)

Target Period: 12 months

HOLD

January 10, 2022

## Strong store addition to support revenue growth...

**About the stock:** Avenue Supermarts (ASL) operates supermarket chain under 'D-Mart' brand with a 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/sq ft: ₹ 32000+)

**Q3FY22 Results:** Results were a mixed bag as margins were tad below estimates.

- Reported 22% YoY revenue growth to ₹ 9217.8 crore (two year CAGR: 16%)
- Gross margins declined marginally to 15.4% on account of unfavourable product mix. However, owing to positive operating leverage, EBITDA margins improved 30 bps YoY to 9.4%
- PAT for the quarter grew 24% YoY to ₹ 552.0 crore (two-year CAGR: 20%)
- Store addition trajectory accelerated materially in Q3FY22 as it added 17 new stores taking total store count to 263 spread across 10.3 million sq ft

**What should investors do?** Despite trading at premium valuations, ASL has been a consistent compounder with stock price increasing at 46% CAGR in last three years. D-Mart is India's most profitable low cost retailer and a strong play on India's retail growth story and a key beneficiary of unorganised to organised segment shift

- We maintain **HOLD** rating on the stock with a revised target price

**Target Price and Valuation:** We value ASL at ₹ 5260 i.e. 6.2x FY24E EV/sales

### Key triggers for future price performance:

- We anticipate store addition trajectory to accelerate 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 as on H1FY22)
- We model revenue, earnings CAGR of 31%, 42%, 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 a target price of ₹ 1330/share



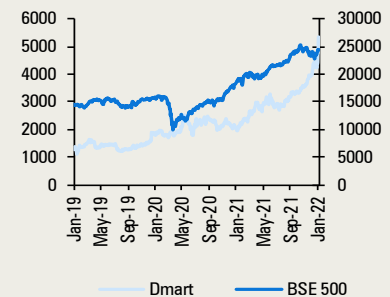
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	3,04,451.9
Total Debt (FY21) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	2,567.4
EV (₹ crore)	3,01,884.5
52 Week H / L	5900 / 1950
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	75.0	75.0	75.0	75.0	75.0
FII	10.1	10.2	10.0	10.0	9.4
DII	6.7	7.1	6.7	6.7	6.7
Others	8.2	7.8	8.3	8.4	8.8

### Price Chart



### Recent event & key risks

- Added 17 new stores in Q3FY22
- Key Risk:** (i) Slower ramp up of store network (ii) Faster recovery in sales of general merchandise

### Research Analyst

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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%	31,048.0	43,334.1	54,638.7	31.3%
EBITDA	1,633.3	2,128.3	1,743.1	21.3%	2,545.6	3,899.6	4,916.9	41.3%
PAT	902.4	1,301.0	1,099.4	28.0%	1,589.7	2,464.7	3,114.2	41.5%
P/E (x)	325.0	234.0	276.9		191.5	123.5	97.8	
EV/Sales (x)	14.7	12.1	12.5		9.7	7.0	5.5	
EV/EBITDA (x)	179.9	141.5	173.2		118.8	77.7	61.6	
RoCE (%)	23.4	16.4	12.5		15.8	20.6	21.8	
RoE (%)	16.2	11.7	9.0		11.5	15.2	16.1	

Source: Company, ICICI Direct Research

## Key takeaways of Q3FY22 results

- As guided by the management in its pre-quarterly update, Avenue Supermarts (ASL) reported revenue growth of 22% YoY to ₹ 9217.8 crore (two-year CAGR: 16%). The company, during the quarter, added 17 new stores (YTD: 29) taking the total store count to 263 outlets, spread across 10.3 million square feet (sq ft). The company's store addition during the quarter was strong, in line with its target of opening ~40 stores in FY22E. Square feet addition on a YoY basis increased by ~26% YoY. Subsequently, revenue/sq ft was at ₹ 8949 vs. ₹ 9231 in Q3FY21. The average size of the store added during the quarter was ~51000 sq ft vs. ~average store size of 39000 sq ft. D-Mart ready (online business) continues to perform well with revenue growth of 39% YoY to ₹ 153 crore
- The management highlighted that recovery in GM & apparel categories (which yields higher margins) continues to lag that of the FMCG segment. Hence, gross margins for the quarter remained flattish YoY at 15.4% (I-direct estimate: 15.7%). Employee and other expenses increased 16% and 15% to ₹ 162 crore and ₹ 393 crore, respectively, mainly on account of higher new store additions. Owing to positive operating leverage, EBITDA margins improved marginally by 30 bps YoY to 9.4% (I-direct estimate: 9.9%). Absolute EBITDA grew 26% YoY to ₹ 866.5 crore (I-direct estimate: ₹ 914.8 crore)
- Lower other income (down 43% YoY) and higher finance cost (up 23% YoY), resulted in the company reporting PAT growth of 24% YoY to ₹ 552 crore (I-direct estimate: ₹ 601.6 crore)
- Certain non-FMCG categories are being negatively impacted owing to higher inflation. To combat the same, the company has undertaken more efficient procurement strategies, sharper product assortments and keeping overall operating cost lower
- The management indicated that it continues to monitor the current situation, wherein the trend in sales and footfall will depend on any local pandemic related restriction on trade activities. With rise in cases in key states such as Maharashtra (32% of stores) and Gujarat (18% of stores) and restrictions such as shopping complexes allowed to operate at 50% capacity would again lead to dip in footfalls in Q4FY22. Given its resilient business model and healthy balance sheet, we anticipate the company will tide over the current unprecedented scenario

**Exhibit 1: Variance Analysis**

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	9,217.8	9,205.0	7,542.0	22.2	7,788.9	18.3	Revenue/sq. ft. declined by ~3% YoY to ₹ 8949.
Raw Material Expense	7,796.6	7,759.8	6,372.6	22.3	6,625.0	17.7	
Gross Profit	1,421.2	1,445.2	1,169.4	21.5	1,164.0	22.1	
Gross Profit Margin	15.4	15.7	15.5	-9 bps	14.9	47 bps	Gross margins declined QoQ owing to lower share of GM & apparel categories
Employee exp	161.8	163.8	139.3	16.2	146.6	10.4	
Other Exp	392.9	366.6	341.0	15.2	348.8	12.6	
EBITDA	866.5	914.8	689.1	25.7	668.6	29.6	
EBITDA Margin (%)	9.4	9.9	9.1	26 bps	8.6	82 bps	Owing to positive operating leverage, EBITDA margins improved marginally by 26 bps YoY
Depreciation	128.3	124.1	113.7	12.8	116.0	10.6	
Other Income	26.0	26.1	45.3	-42.7	27.5	-5.6	
Interest	14.0	12.9	11.3	23.5	12.4	12.8	
Exceptional Income	-	-	-		-		
PBT	750.2	803.9	609.4	23.1	567.7	32.1	
Tax Outgo	197.6	202.4	162.5	21.6	149.9	31.8	
PAT	552.5	601.6	446.9	23.6	417.8	32.3	

Source: Company, ICICI Direct Research

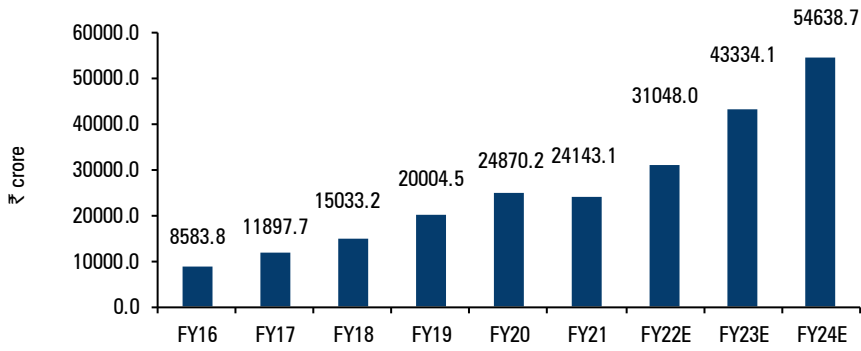
**Exhibit 2: Change in estimates**

(₹ Crore)	FY 22E			FY 23E			FY 24E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	32,351.7	31,048.0	-4.0	45,153.7	43,334.1	-4.0	56,933.7	54,638.7	-4.0
EBITDA	2,652.5	2,545.6	-4.0	4,018.2	3,899.6	-3.0	5,066.5	4,916.9	-3.0
EBITDA Margin (%)	8.2	8.2	0 bps	8.9	9.0	10 bps	8.9	9.0	10 bps
PAT	1,680.8	1,589.7	-5.4	2,558.3	2,464.7	-3.7	3,239.7	3,114.2	-3.9
EPS (₹)	25.9	24.5	-5.4	39.5	38.0	-3.7	50.0	48.1	-3.9

Source: Company, ICICI Direct Research

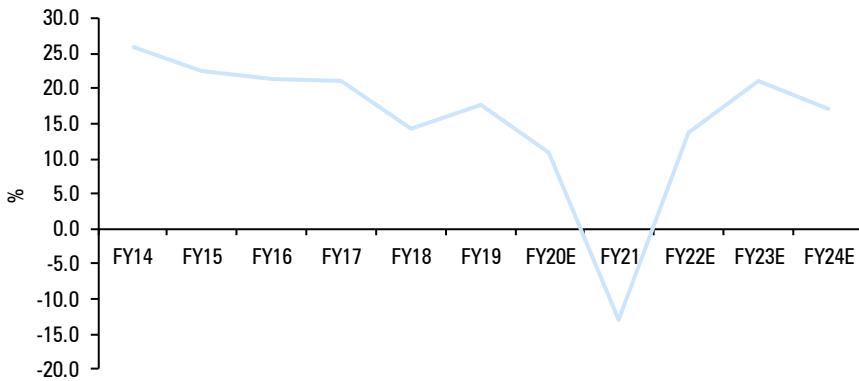
### Financial story in charts

Exhibit 3: Revenue growth trend



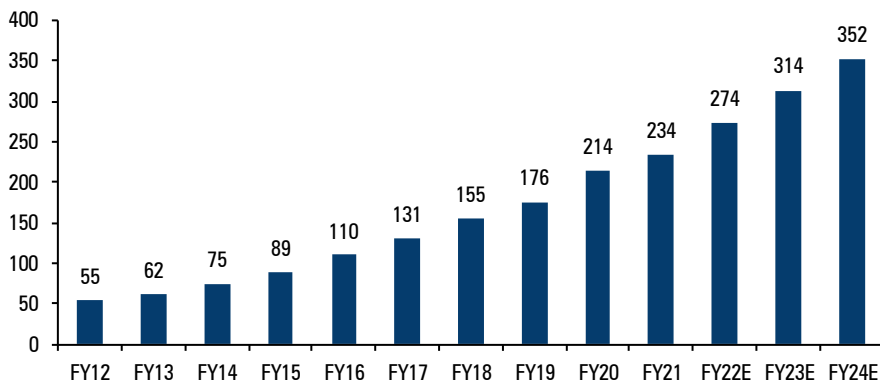
Source: Company, ICICI Direct Research

Exhibit 4: Same stores sales growth (SSSG) trend



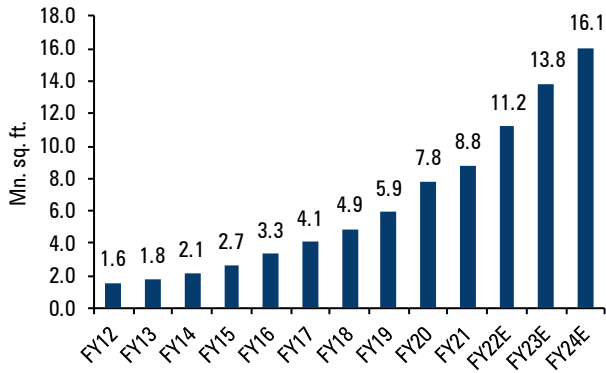
Source: Company, ICICI Direct Research

Exhibit 5: Store addition trend



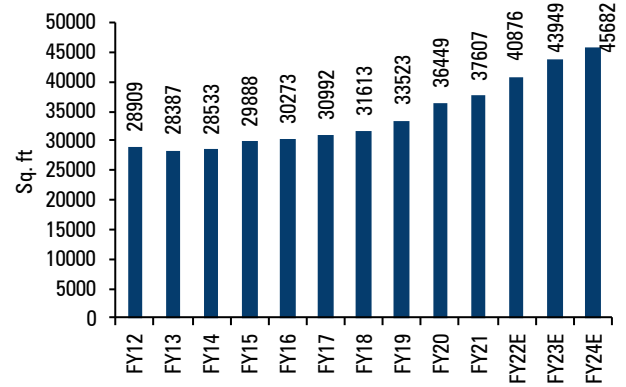
Source: Company, ICICI Direct Research.

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



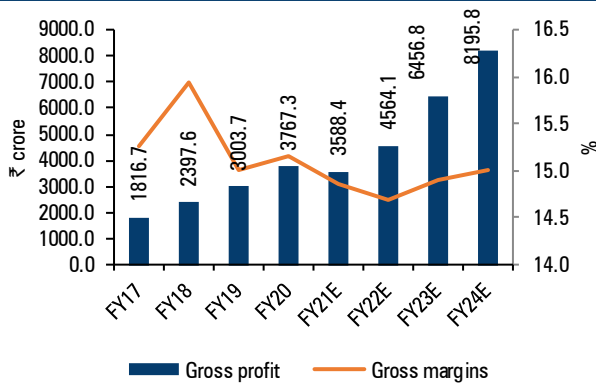
Source: Company, ICICI Direct Research

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



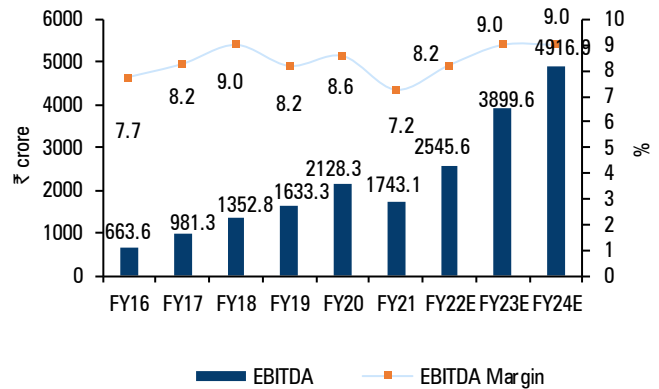
Source: Company, ICICI Direct Research

Exhibit 8: Gross margins trend



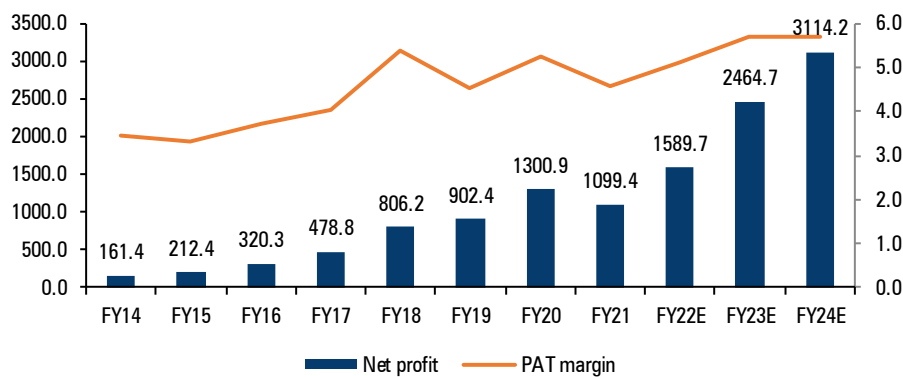
Source: Company, ICICI Direct Research

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)	FY21A	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>24,143.1</b>	<b>31,048.0</b>	<b>43,334.1</b>	<b>54,638.7</b>
Growth (%)	(2.9)	28.6	39.6	26.1
Total Raw Material Cost	20,554.7	26,483.9	36,877.3	46,442.9
Gross Margins (%)	14.9	14.7	14.9	15.0
Employee Expenses	536.6	558.9	736.7	928.9
Other Expenses	1,308.8	1,459.6	1,820.5	2,350.0
Total Operating Expenditure	22,400.0	28,502.4	39,434.5	49,721.7
<b>EBITDA</b>	<b>1,743.1</b>	<b>2,545.6</b>	<b>3,899.6</b>	<b>4,916.9</b>
EBITDA Margin	7.2	8.2	9.0	9.0
Interest	41.7	47.1	55.0	63.2
Depreciation	414.2	491.0	643.7	790.2
Other Income	196.2	117.7	94.2	99.8
Exceptional Expense	-	-	-	-
PBT	1,483.5	2,125.2	3,295.1	4,163.4
Total Tax	384.0	535.6	830.4	1,049.2
<b>Profit After Tax</b>	<b>1,099.4</b>	<b>1,589.7</b>	<b>2,464.7</b>	<b>3,114.2</b>

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	1,589.7	2,464.7	3,114.2
Add: Depreciation	414.2	491.0	643.7	790.2
Net Increase in Current Assets	-551.5	-449.3	-1,042.9	-1,019.9
Net Increase in Current Liabilities	378.8	102.9	269.8	98.6
<b>CF from operating activities</b>	<b>1,340.9</b>	<b>1,734.3</b>	<b>2,335.4</b>	<b>2,983.1</b>
(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
<b>CF from investing activities</b>	<b>94.1</b>	<b>-1,904.6</b>	<b>-2,612.6</b>	<b>-2,444.0</b>
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	-115.0	-158.4	-190.1
<b>CF from financing activities</b>	<b>-97.4</b>	<b>-115.0</b>	<b>-158.4</b>	<b>-190.1</b>
Net Cash flow	1,337.6	-285.3	-435.6	348.9
Opening Cash	107.9	1,445.6	1,160.3	724.6
<b>Closing Cash</b>	<b>1,445.5</b>	<b>1,160.3</b>	<b>724.6</b>	<b>1,073.6</b>

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	13,125.6	15,590.4	18,704.6
Total Shareholders funds	12,183.7	13,773.4	16,238.1	19,352.3
Total Debt	-	-	-	-
Non Current Liabilities	444.7	444.7	444.7	444.7
<b>Source of Funds</b>	<b>12,628.5</b>	<b>14,218.1</b>	<b>16,682.9</b>	<b>19,797.1</b>
Gross block	7,048.4	9,640.4	12,443.2	15,001.4
Less: Accum depreciation	1,109.9	1,485.9	1,971.2	2,571.3
Net Fixed Assets	5,938.5	8,154.5	10,472.0	12,430.1
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	2,637.0	3,561.7	4,490.8
Cash	1,445.6	1,160.3	724.6	1,073.6
Debtors	43.6	42.5	118.7	149.7
Loans & Advances & Other	320.7	336.8	353.6	360.7
Total Current Assets	4,058.2	4,176.5	4,758.7	6,074.8
Creditors	578.1	680.5	949.8	1,047.9
Provisions & Other CL	449.4	449.9	450.4	451.0
Total Current Liabilities	1,027.5	1,130.4	1,400.2	1,498.9
Net Current Assets	3,030.7	3,046.1	3,358.5	4,576.0
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
<b>Application of Funds</b>	<b>12,628.5</b>	<b>14,218.1</b>	<b>16,682.9</b>	<b>19,797.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	17.0	24.5	38.0	48.1
Cash EPS	23.4	32.1	48.0	60.3
BV	188.1	212.6	250.7	298.8
Cash Per Share	22.3	17.9	11.2	16.6
<b>Operating Ratios (%)</b>				
EBITDA margins	7.2	8.2	9.0	9.0
PBT margins	6.1	6.8	7.6	7.6
Net Profit margins	4.6	5.1	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
<b>Return Ratios (%)</b>				
RoE	9.0	11.5	15.2	16.1
RoCE	12.5	15.8	20.6	21.8
RoIC	15.9	18.6	22.7	24.0
<b>Valuation Ratios (x)</b>				
P/E	276.9	191.5	123.5	97.8
EV / EBITDA	173.2	118.8	77.7	61.6
EV / Sales	12.5	9.7	7.0	5.5
Market Cap / Revenues	12.6	9.8	7.0	5.6
Price to Book Value	25.0	22.1	18.7	15.7
<b>Solvency Ratios</b>				
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	3.3
Quick Ratio	0.4	0.3	0.3	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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