

Avenue Supermarts (AVESUP)

CMP: ₹ 3540

Target: ₹ 3900 (10%)

Target Period: 12 months

HOLD

May 15, 2023

GM, apparel segment yet to witness greenshoots!

About the stock: Avenue Supermarts (ASL) operates a 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: ₹ 30000+)

Q4FY23: D-Mart reported a subdued operational performance with profitability coming below our estimates in Q4FY23. Discretionary non-FMCG business (general merchandise & apparel), which yields better margins continued to perform below expectations.

- Revenue grew 20.6% YoY to ₹ 10594 crore (three-year CAGR: 19%)
- Discretionary product mix continues to be lower compared to pre-Covid levels leading to lower gross margins (down 100 bps YoY to 14.0%). Subsequently, EBITDA margins declined 110 bps YoY to 7.3%
- PAT for the quarter came in at ₹ 589.6 crore (up mere 7% YoY)
- The company added 18 new D-Mart outlets taking the total store count to 324 with total business area now at 13.4 million sq ft

What should investors do? ASL has been a consistent compounder with the stock price increasing at 21% CAGR in the last five years. However, since the last one year, the stock has delivered negative returns owing to revenue trajectory tapering down a bit to 19-20% (vs. 25-30%) and product mix change leading to lower-than expected margins. 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 **HOLD** recommendation on the stock

Target Price and Valuation: We value ASL at ₹ 3900 i.e. 4x FY25E EV/sales

Key triggers for future price performance:

- We anticipate store addition trajectory to accelerate and bake in 80 incremental store additions (addition of ~ 4.4 mn sq ft) in FY24-25E
- Robust liquidity position and healthy operating cashflows to provide impetus to store addition pace (FY23 cash & investments: ₹ 1700+ crore)
- Recovery in GM & apparel segment (~23% of revenues) a critical factor to shore up margins and subsequently improve RoCE

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

- We have a BUY rating with a target price of ₹ 1730/share



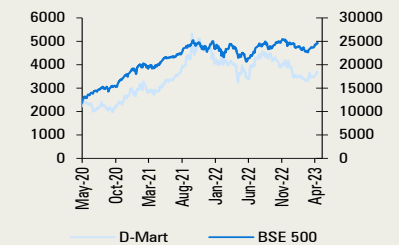
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,29,310.6
Total Debt (FY23) (₹ crore)	-
Cash & Investment (FY23) (₹ crore)	1,727.6
EV (₹ crore)	2,27,583.0
52 Week H / L	4606 / 3185
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	75.0	75.0	74.9	74.9	74.9
FII	8.3	8.6	8.7	8.6	8.2
DII	6.8	6.9	7.1	7.1	7.5
Others	9.9	9.5	9.3	9.3	9.4

Price Chart



Recent event & key risks

- Eighteen new stores added in Q4FY23

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

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23P	4 year CAGR (FY19-23E)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	20,004.5	24,870.2	24,143.1	30,976.3	42,839.6	21.0%	52,411.3	63,624.0	21.9%
EBITDA	1,633.3	2,128.3	1,743.1	2,498.5	3,637.0	22.2%	4,439.2	5,458.9	22.5%
PAT	902.4	1,301.0	1,099.4	1,492.4	2,378.3	27.4%	2,797.5	3,408.1	19.7%
P/E (x)	244.8	176.3	208.6	153.7	96.4		82.0	67.3	
EV/Sales (x)	11.1	9.1	9.4	7.4	5.3		4.3	3.6	
EV/EBITDA (x)	135.5	106.2	130.1	91.1	62.6		51.2	41.5	
RoCE (%)	23.4	16.4	12.5	15.5	19.5		20.2	20.8	
RoE (%)	16.2	11.7	9.0	10.9	14.8		14.8	15.3	

Key takeaways of Q4FY23/FY23 results

- As guided by the management in its pre-quarterly update, Avenue Supermarts reported revenue growth of 20.6% YoY to ₹ 10594 crore (three-year CAGR: 19%). The store addition during Q4FY23 was robust as the company added 18 new D-Mart outlets (40 in FY23) taking the total store count to 324 with total business area of 13.4 million sq ft. Average square feet of the new stores added in FY23 is around 47500 (vs. FY22 average of ~41000). D-Mart ready (online business) continues to perform well with revenue growth of 42% YoY to ₹ 257 crore
- Revenue per sq ft in FY23 did witness an improvement YoY (~13% YoY) to ₹ 31096 but continued to remain below pre-Covid levels (FY20: ₹ 35647). We believe new larger stores added over the past two years have never got an opportunity to function in normal circumstances, which is leading to lower throughput per store. Also, the rationale behind opening larger stores was to stock higher discretionary categories such as GM & apparel, which yield better gross margins. However, Covid led disruptions materially impacted the performance of this category, which, in turn, impacted gross margins and RoCE for stores
- Though the business scenario has normalised, the general merchandise and apparel share continues to be lower than pre-Covid level. With the discretionary product mix being impacted, gross margins for the quarter came in below our estimate at 14.0% (I-direct estimate: 14.8%, Q4FY22: 15.0%). **Heightened competitive intensity and inflationary stress is probably curtailing the growth of discretionary products and resulting in the company reporting subdued margin.** Opex also grew at a faster clip (~25%) than the revenue growth (21%). Subsequently EBITDA margins declined 110 bps YoY to 7.3% (I-direct estimate: 7.7%. Absolute EBITDA grew 4% YoY to ₹ 771 crore (I-direct estimate: ₹ 815 crore)
- Higher depreciation expenses (up 12% YoY) further impacted profitability. Ensuuing PBT was at ₹ 624.9 crore (I-direct estimate: ₹ 659.1 crore, up 3% YoY). Lower tax rate of 26% vs. 30% in Q4FY22 enabled ASL to report PAT of ₹ 460 crore during the quarter (up 8% YoY, I-direct estimate: ₹ 493 crore)
- Over the last three years, the company has expanded its square feet addition by an impressive three-year CAGR of ~ 23% with average size of new stores being bigger (~50000+ vs. average 35000 sq ft). However, the revenue trajectory has grown at a slower pace (~20%) resulting in lower sales per store. RoIC improved 436 bps YoY to 21% but still remains below 25-26% levels seen in FY18-19. For H2FY23, the company recorded SSSG of ~11%. We build in similar trajectory of SSSG in FY24/25E. **Going forward, on the back of healthy store addition pace (expect 80 new stores to be added in FY24-25E) and decent SSSG, we expect ASL to register 22% revenue CAGR in FY23-25E.** With margins likely to remain flattish, the EPS growth (~20% CAGR) would primarily be driven by topline growth. On the balance sheet front, company continues to carry healthy cash & investments worth ~₹ 1700 crore. We expect the company to generate cumulative OCF of ₹ 6600 crore, which is sufficient for its capex requirements of ₹ 5400 crore over the next two years

D-Mart- ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	2.4	2.4	2.4
Social	14.1	14.1	14.1
Governance	78.6	78.6	78.6
Overall ESG Score	31.8	31.8	31.8

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	10,594.0	10,587.0	8,786.5	20.6	11,569.1	-8.4	3-year CAGR: 19%. Revenue/sq. ft. at ₹ 7900 (~98% of pre-covid levels)
Raw Material Expenses	9,105.8	9,020.1	7,472.1	21.9	9,851.3	-7.6	
Gross Profit	1,488.2	1,566.9	1,314.4	13.2	1,717.7	-13.4	
Gross Profit Margin	14.0	14.8	15.0	-91 bps	14.8	-80 bps	Gross margins came in below our estimates owing sustained pressure on GM & apparel segment
Employee exp	186.6	190.6	161.3	15.7	192.3	-2.9	
Other Exp	530.1	561.1	413.8	28.1	560.2	-5.4	
EBITDA	771.4	815.2	739.3	4.3	965.3	-20.1	
EBITDA Margin (%)	7.3	7.7	8.4	-113 bps	8.3	-106 bps	Subsequently, EBITDA margins declined 113 bps YoY
Depreciation	164.1	171.5	146.3	12.1	168.1	-2.4	
Other Income	33.1	32.5	32.6	1.5	31.6	4.8	
Interest	15.5	17.1	16.6	-6.6	17.0	-8.5	
Exceptional Income	-	-	-		-		
PBT	624.9	659.1	608.9	2.6	811.8	-23.0	
Tax Outgo	164.9	166.1	182.1	-9.5	222.1	-25.8	
PAT	460.0	493.0	426.8	7.8	589.6	-22.0	

Source: Company, ICICI Direct Research

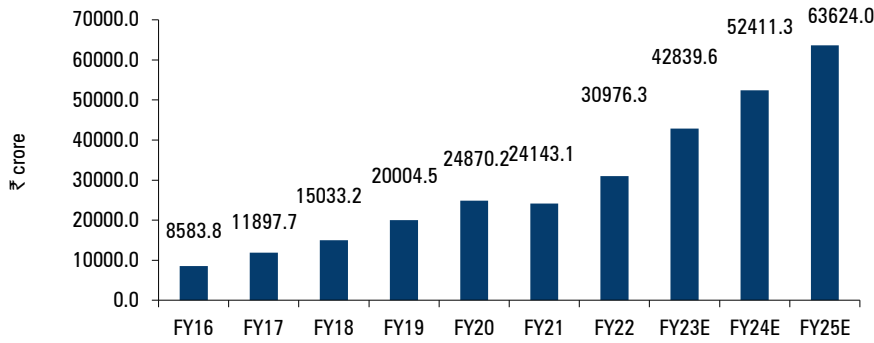
Exhibit 2: Change in estimates

(₹ Crore)	FY 24E			FY 25E		
	Old	New	% Change	Old	New	% Change
Revenue	52,933.7	52,411.3	-1.0	64,303.0	63,624.0	-1.1
EBITDA	4,753.4	4,439.2	-6.6	5,915.3	5,458.9	-7.7
EBITDA Margin (%)	9.0	8.5	-51 bps	9.2	8.6	-62 bps
PAT	3,003.8	2,797.5	-6.9	3,715.6	3,408.1	-8.3
EPS (₹)	46.4	43.2	-6.9	57.4	52.6	-8.3

Source: Company, ICICI Direct Research

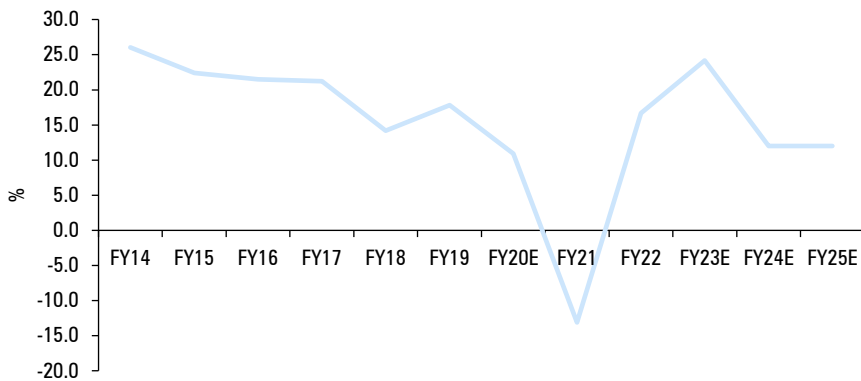
Financial story in charts

Exhibit 3: Revenue growth trend



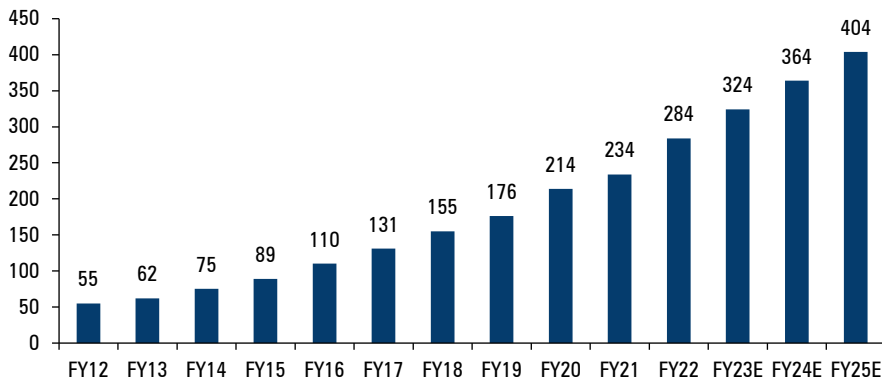
Source: Company, ICICI Direct Research

Exhibit 4: Same stores sales growth (SSSG) trend



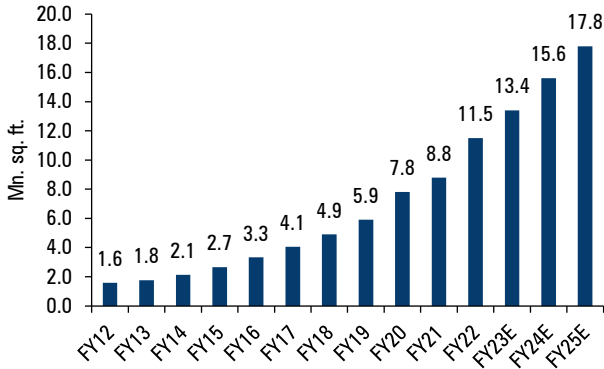
Source: Company, ICICI Direct Research

Exhibit 5: Store addition trend



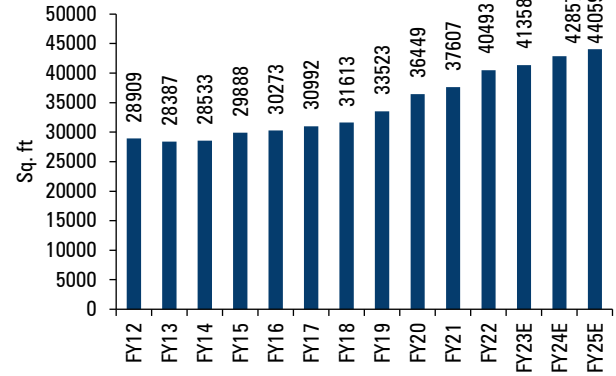
Source: Company, ICICI Direct Research.

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



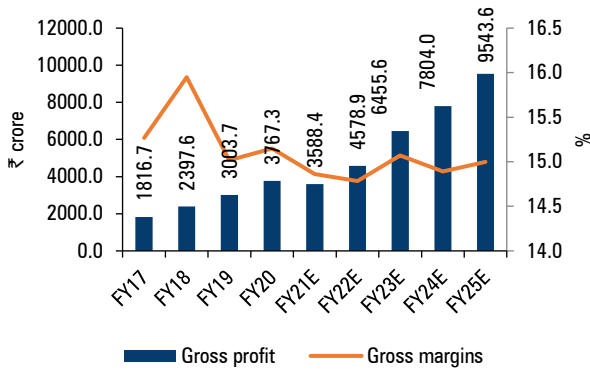
Source: Company, ICICI Direct Research

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



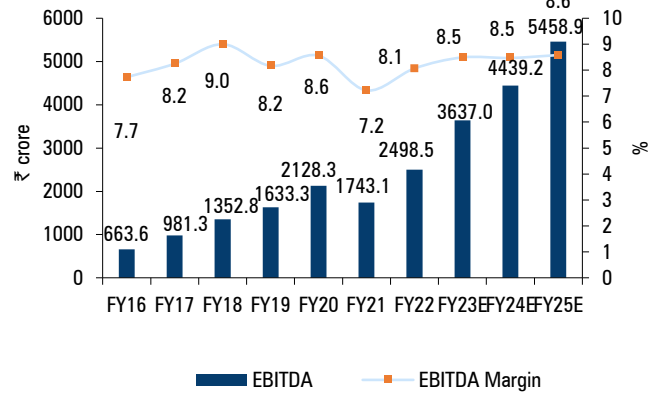
Source: Company, ICICI Direct Research

Exhibit 8: Gross margins trend



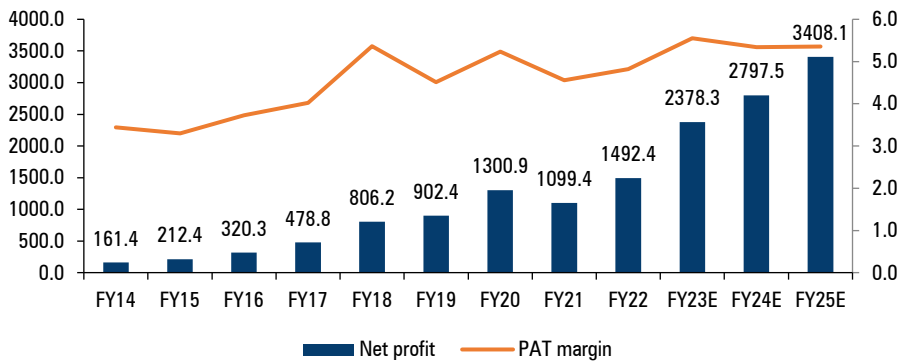
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Net Sales	30,976.3	42,839.6	52,411.3	63,624.0
Growth (%)	28.3	38.3	22.3	21.4
Total Raw Material Cost	26,397.4	36,384.0	44,607.3	54,080.4
Gross Margins (%)	14.8	15.1	14.9	15.0
Employee Expenses	616.2	747.0	891.0	1,145.2
Other Expenses	1,464.2	2,071.6	2,473.8	2,939.4
Total Operating Expenditure	28,477.8	39,202.5	47,972.1	58,165.1
EBITDA	2,498.5	3,637.0	4,439.2	5,458.9
EBITDA Margin	8.1	8.5	8.5	8.6
Interest	53.8	67.4	77.2	88.7
Depreciation	498.1	638.9	759.3	923.6
Other Income	117.5	129.3	137.1	109.7
Exceptional Expense	-	-	-	-
PBT	2,064.1	3,060.1	3,739.9	4,556.2
Total Tax	571.7	681.8	942.5	1,148.2
Profit After Tax	1,492.4	2,378.3	2,797.5	3,408.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/(Loss) after taxation	1,492.4	2,378.3	2,797.5	3,408.1
Add: Depreciation	498.1	638.9	759.3	923.6
Net Increase in Current Assets	-446.3	-701.5	-763.4	-912.6
Net Increase in Current Liabilities	55.9	224.2	252.5	216.2
CF from operating activities	1,600.0	2,539.9	3,045.8	3,635.3
(Inc)/dec in Investments	-155.9	958.4	17.6	14.9
(Inc)/dec in Fixed Assets	-2,410.0	-2,142.0	-2,617.8	-2,750.0
Others	-56.9	-116.2	0.0	0.0
CF from investing activities	-2,622.8	-1,299.8	-2,600.2	-2,735.1
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	0.0	0.0	0.0	0.0
Others	-125.5	-129.2	-186.6	-223.9
CF from financing activities	-125.5	-129.2	-186.6	-223.9
Net Cash flow	-1,148.2	1,110.9	259.0	676.3
Opening Cash	1,445.6	297.4	1,408.3	1,667.3
Closing Cash	297.4	1,408.3	1,667.3	2,343.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	647.8	647.8	647.8	647.8
Reserve and Surplus	13,028.3	15,430.5	18,227.9	21,636.0
Total Shareholders funds	13,676.1	16,078.3	18,875.7	22,283.8
Total Debt	-	-	-	-
Non Current Liabilities	712.0	720.5	720.5	720.5
Source of Funds	14,388.1	16,798.7	19,596.2	23,004.3
Gross block	9,256.4	11,698.5	14,316.3	17,066.3
Less: Accum depreciation	1,485.9	1,972.9	2,545.6	3,245.3
Net Fixed Assets	7,770.5	9,725.6	11,770.7	13,821.0
Capital WIP	1,129.3	829.2	829.2	829.2
Intangible assets	91.9	101.5	101.5	101.5
Investments	1,277.7	319.3	301.7	286.8
Inventory	2,742.7	3,243.5	3,877.0	4,706.4
Cash	297.4	1,408.3	1,667.3	2,343.7
Debtors	66.9	62.2	143.6	174.3
Loans & Advances & Other	328.8	532.2	542.9	553.7
Total Current Assets	3,435.7	5,246.2	6,230.8	7,778.2
Creditors	589.2	753.8	1,005.1	1,220.2
Provisions & Other CL	494.2	553.8	555.0	556.1
Total Current Liabilities	1,083.4	1,307.6	1,560.1	1,776.3
Net Current Assets	2,352.4	3,938.6	4,670.7	6,001.9
LT L& A, Other Assets	1,766.4	1,884.6	1,922.4	1,963.9
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	14,388.1	16,798.7	19,596.2	23,004.2

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	23.0	36.7	43.2	52.6
Cash EPS	30.7	46.6	54.9	66.9
BV	211.1	248.2	291.4	344.0
Cash Per Share	4.6	21.7	25.7	36.2
Operating Ratios (%)				
EBITDA margins	8.1	8.5	8.5	8.6
PBT margins	6.7	7.1	7.1	7.2
Net Profit margins	4.8	5.6	5.3	5.4
Inventory days	32.3	27.6	27.0	27.0
Debtor days	0.8	0.5	1.0	1.0
Creditor days	6.9	6.4	7.0	7.0
Return Ratios (%)				
RoE	10.9	14.8	14.8	15.3
RoCE	15.5	19.5	20.2	20.8
RoIC	16.5	20.9	21.8	23.1
Valuation Ratios (x)				
P/E	153.7	96.4	82.0	67.3
EV / EBITDA	91.1	62.6	51.2	41.5
EV / Sales	7.4	5.3	4.3	3.6
Market Cap / Revenues	7.4	5.4	4.4	3.6
Price to Book Value	16.8	14.3	12.1	10.3
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	2.9	2.9	2.9	3.1
Quick Ratio	0.4	0.5	0.4	0.4

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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