

Rating: HOLD | CMP: Rs1,359 | TP: Rs1,338

Strong performance, Accumulate for long term

Quick Pointers:

- 8 store additions in 1QFY20, due to spillover of FY19
- Gross Margins up 50bps despite stated strategy to reduce prices across consumer categories. 1Q gross margins not a reflection of full year's margin
- Cost of retail declined by 55bps YoY, 113bps QoQ
- OFS and QIP (Approx. Rs62bn), remains an overhang on the stock

D'Mart has sustained strong sales momentum led by Everyday low price model, strong value proposition and clusters based strategy. D'Mart has added 8 stores in 1Q20, however large part of store openings are a spillover of FY19. Though 1Q20 gross margins were higher, we believe it will normalize in the coming quarters. It continues to maintain its growth strategy of gradual acceleration in store openings (added 21 stores in FY17, 24 in FY18 and 21 in FY19) and strong throughput in stores.

We believe benefits of higher store openings in 1Q boosted sales while 40bps margin expansion was led by operating leverage. We estimate 37.4% PAT CAGR over FY19-21. However, valuations at 49.8x FY21 EPS factor in the expected growth. Maintain Hold with a target price of Rs1338 although absolute returns might be back ended due to estimated fresh supply of ~Rs62bn in QIP and OFS by March2020.

1Q20 reports strong sales momentum: Net Sales increased 26.8% to Rs57.8bn. Gross margins at 16.1% increased 50bps on conscious strategy to reduce prices across consumer categories. 1Q gross margins are usually not a reflection of full year's margin. EBITDA increased 41% to Rs5.96bn. Cost of retail declined by 55bps YoY (113bps QoQ) led by 10bps and 50bps decline in employee cost and overheads. Adj. PAT grew at 33.8% to Rs3.35bn as tax rates declined by 14bps despite increase in Interest cost and depreciation by 67.3% and 85.9% and decrease in other income by 16.2%. Adj PAT increased 33.8% to Rs3.35bn.

IND AS Impact on PAT limited, store openings accelerate: Impact of IndAS 116 has led to overstatement of EBITDA by Rs191mn and understatement of PBT by 36.1mn. Ignoring the changes, comparable EBITDA would have grown 36.5% to Rs5.8bn and Adj. PAT would have grown 34.7% to Rs3.38bn. D'Mart added 8 stores in 1Q taking the total stores to 184 stores.

July 14, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	1,338		1,338	
Sales (Rs. m)	257,953	330,863	257,953	330,863
% Chng.	-	-	-	-
EBITDA (Rs. m)	22,124	28,935	22,124	28,935
% Chng.	-	-	-	-
EPS (Rs.)	20.3	27.3	20.3	27.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	150,332	200,045	257,953	330,863
EBITDA (Rs. m)	13,528	16,333	22,124	28,935
Margin (%)	9.0	8.2	8.6	8.7
PAT (Rs. m)	7,678	9,025	13,174	17,713
EPS (Rs.)	12.3	14.5	20.3	27.3
Gr. (%)	60.4	17.5	40.4	34.5
DPS (Rs.)	-	-	-	1.0
Yield (%)	-	-	-	0.1
RoE (%)	18.0	17.6	17.0	16.5
RoCE (%)	22.9	25.5	24.2	23.3
EV/Sales (x)	5.6	4.3	3.3	2.6
EV/EBITDA (x)	62.6	52.1	38.9	29.9
PE (x)	110.5	94.0	67.0	49.8
P/BV (x)	18.2	15.2	8.9	7.6

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.1,699 / Rs.1,126
Sensex / Nifty	38,736 / 11,553
Market Cap	Rs.848bn/ \$ 12,361m
Shares Outstanding	624m
3M Avg. Daily Value	Rs.1368.04m

Shareholding Pattern (%)

Promoter's	82.20
Foreign	5.45
Domestic Institution	3.01
Public & Others	9.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.7	(13.5)	(14.4)
Relative	6.5	(19.6)	(19.2)

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**Exhibit 1: Net Sales up 26.8%; Adj. PAT up 33.8% on 50bps margin expansion**

Y/E March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY19	FY18	YoY gr. (%)
Net Sales	57,805	45,594	26.8	50,334	1,99,163	1,50,089	32.7
Gross Profit	9,311	7,121	30.8	7,250	29,363	23,600	24.4
<i>% of NS</i>	<i>16.1</i>	<i>15.6</i>	<i>0.5</i>	<i>14.4</i>	<i>14.7</i>	<i>15.7</i>	<i>(1.0)</i>
Other Expenses	3,352	2,894	15.8	3,485	12,941	10,227	26.5
<i>% of NS</i>	<i>5.8</i>	<i>6.3</i>	<i>(0.5)</i>	<i>6.9</i>	<i>6.5</i>	<i>6.8</i>	<i>(0.3)</i>
EBITDA	5,959	4,227	41.0	3,765	16,422	13,373	22.8
<i>Margins (%)</i>	<i>10.3</i>	<i>9.3</i>	<i>1.0</i>	<i>7.5</i>	<i>8.2</i>	<i>8.9</i>	<i>(0.7)</i>
Depreciation	750	403	85.9	619	1,988	1,547	28.5
Interest	168	100	67.3	122	472	594	(20.6)
Other Income	119	143	(16.2)	147	514	726	(29.2)
PBT	5,162	3,866	33.5	3,171	14,476	11,959	21.1
Tax	1,808	1,360	33.0	985	5,113	4,167	22.7
<i>Tax rate (%)</i>	<i>35.0</i>	<i>35.2</i>	<i>(0.1)</i>	<i>31.1</i>	<i>35.3</i>	<i>34.8</i>	<i>0.5</i>
Adjusted PAT	3,353	2,506	33.8	2,185	9,364	7,792	20.2

Source: Company, PL

Exhibit 2: Added 8 stores in 1QFY20; Cost of retail down 55bps YoY and 113bps QoQ

	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
No. of Stores	141	155	157	160	164	176
Area (mn Sq.ft.)	4.4	4.9	5.0	5.1	5.2	5.3
Sales/Ft	9,304	7,775	9,181	9,637	10,531	9,504
Gross Profit/Ft	1,525	1,157	1,434	1,381	1,547	1,369
EBIDTA/FT	958	601	851	771	876	711
Cost of retail %	6.1	7.1	6.3	6.3	6.4	6.9

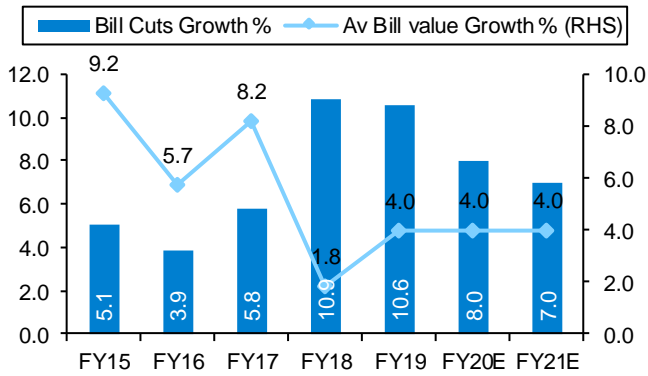
Source: Company, PL

Exhibit 3: EBIDTA/Ft and Cost of retail likely to improve on healthy SSG

	FY16	FY17	FY18	FY19	FY20E	FY21E
Sales/Ft	28,136	31,120	32,719	35,647	39,669	43,429
Gross Profit/Ft	3,845	4,475	5,145	5,091	5,718	6,341
EBIDTA/FT	1,993	2,417	2,915	2,768	3,164	3,532
Capex/Ft	9,632	8,925	10,103	15,003	14,453	14,443
Cost of retail %	7.2%	7.0%	6.9%	6.9%	6.9%	7.0%
Working Cap/Ft	1,263	1,631	1,723	1,566	2,207	2,328

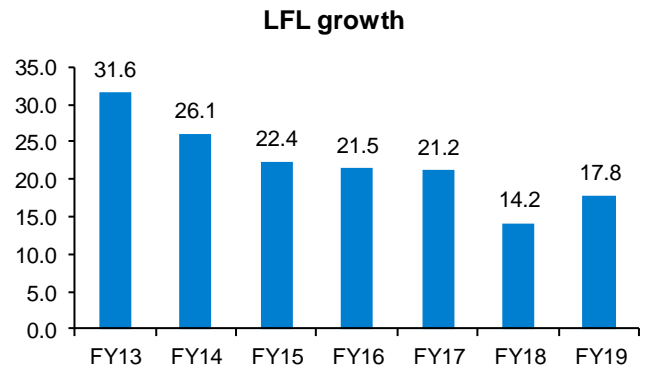
Source: Company, PL

Exhibit 4: Bill Cuts increased by 28% to 172mn in FY19



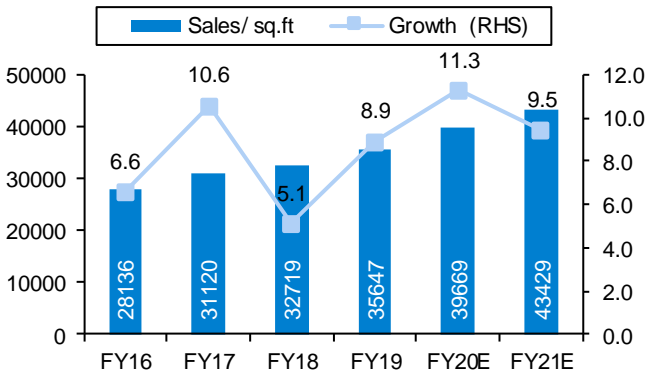
Source: Company, PL

Exhibit 5: LTL growth at 17.8% in FY19



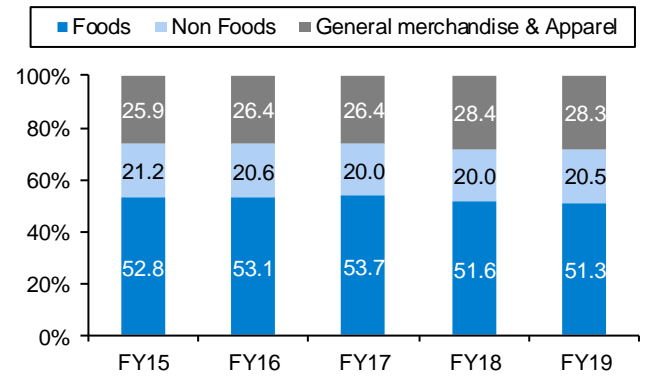
Source: Company, PL

Exhibit 6: Sales/Sq. ft. increased 8.9% in FY19



Source: Company, PL

Exhibit 7: Foods continue to remain the highest contributor



Source: Company, PL

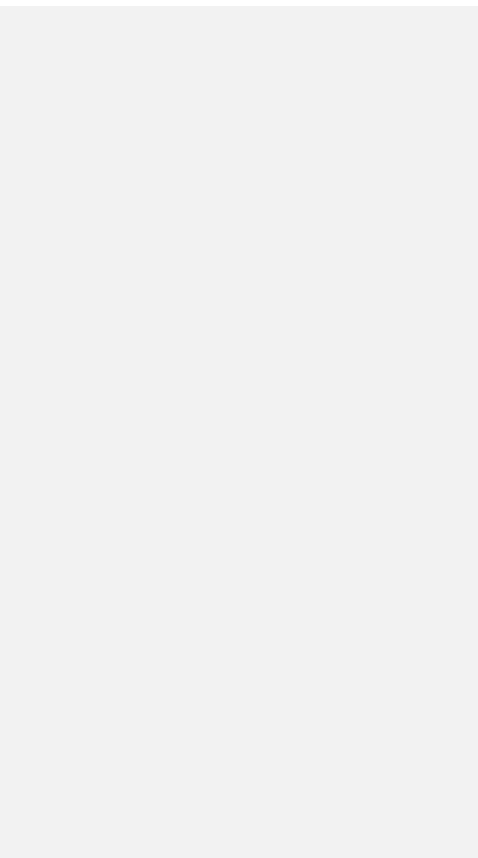
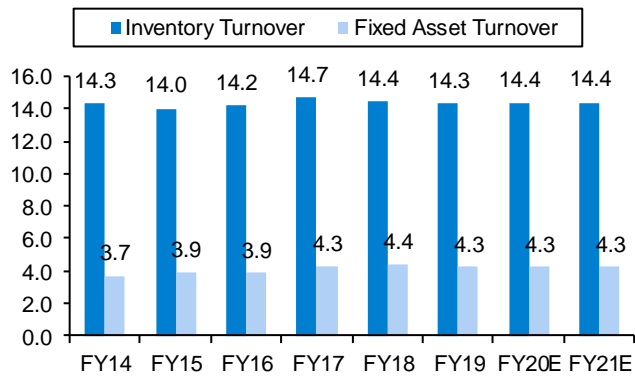
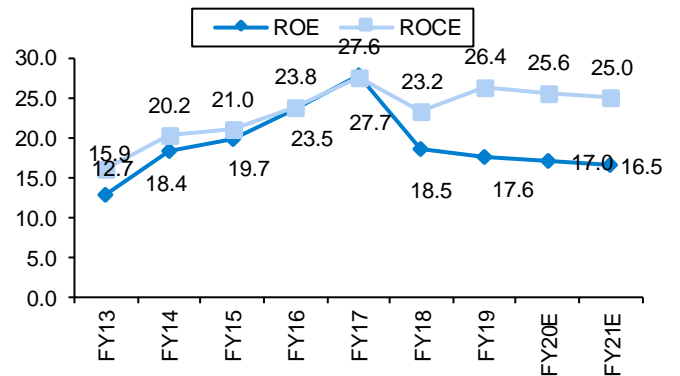


Exhibit 8: ITO has stabilized, FA turnover to increase further



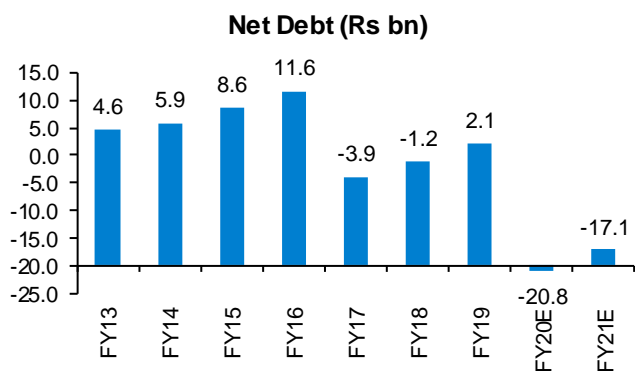
Source: Company, PL

Exhibit 9: Equity dilution to impact ROE marginally



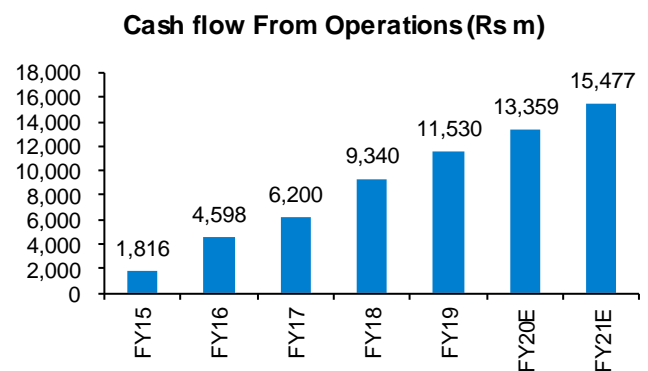
Source: Company, PL

Exhibit 10: Debt likely to increase post debenture issue

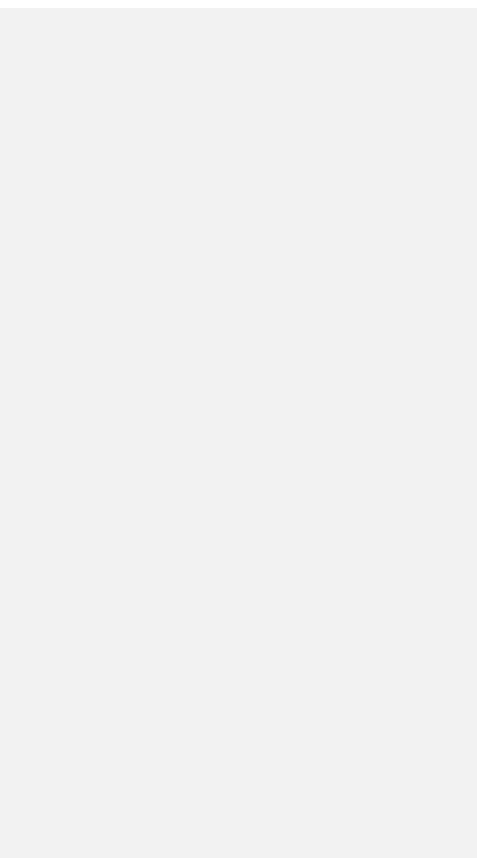


Source: Company, PL

Exhibit 11: CFO to increase at 15.9% CAGR over FY19-21



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	150,332	200,045	257,953	330,863
YoY gr. (%)	26.4	33.1	28.9	28.3
Cost of Goods Sold	126,356	170,008	217,970	278,918
Gross Profit	23,976	30,037	39,983	51,946
Margin (%)	15.9	15.0	15.5	15.7
Employee Cost	2,826	3,554	4,901	6,286
Other Expenses	7,622	10,150	12,957	16,724
EBITDA	13,528	16,333	22,124	28,935
YoY gr. (%)	37.9	20.7	35.5	30.8
Margin (%)	9.0	8.2	8.6	8.7
Depreciation and Amortization	1,590	2,125	2,654	3,306
EBIT	11,938	14,208	19,470	25,629
Margin (%)	7.9	7.1	7.5	7.7
Net Interest	595	472	285	247
Other Income	693	484	1,082	1,868
Profit Before Tax	12,036	14,219	20,268	27,250
Margin (%)	8.0	7.1	7.9	8.2
Total Tax	4,158	5,195	7,094	9,538
Effective tax rate (%)	34.5	36.5	35.0	35.0
Profit after tax	7,878	9,025	13,174	17,713
Minority interest	0	-	-	-
Share Profit from Associate	(200)	-	-	-
Adjusted PAT	7,678	9,025	13,174	17,713
YoY gr. (%)	60.4	17.5	46.0	34.5
Margin (%)	5.1	4.5	5.1	5.4
Extra Ord. Income / (Exp)	380	(13)	-	-
Reported PAT	8,058	9,011	13,174	17,713
YoY gr. (%)	68.0	11.8	46.2	34.5
Margin (%)	5.4	4.5	5.1	5.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,058	9,011	13,174	17,713
Equity Shares O/s (m)	624	624	649	649
EPS (Rs)	12.3	14.5	20.3	27.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	40,307	52,480	67,461	87,831
Tangibles	39,800	51,930	66,829	87,103
Intangibles	507	550	633	727
Acc: Dep / Amortization	7,089	9,259	11,920	15,233
Tangibles	6,877	9,009	11,594	14,820
Intangibles	212	250	326	413
Net fixed assets	33,218	43,221	55,541	72,597
Tangibles	32,923	42,921	55,235	72,283
Intangibles	294	300	306	314
Capital Work In Progress	1,471	3,768	5,000	5,000
Goodwill	783	783	783	783
Non-Current Investments	414	324	324	324
Net Deferred tax assets	(450)	(633)	(846)	(1,132)
Other Non-Current Assets	876	1,136	1,508	1,754
Current Assets				
Investments	682	165	182	200
Inventories	11,634	16,087	20,636	25,849
Trade receivables	335	644	848	1,042
Cash & Bank Balance	5,602	2,191	22,529	20,614
Other Current Assets	694	1,149	1,419	1,820
Total Assets	56,483	70,057	109,930	131,472
Equity				
Equity Share Capital	6,241	6,241	6,491	6,491
Other Equity	40,450	49,634	92,221	109,152
Total Network	46,691	55,875	98,712	115,643
Non-Current Liabilities				
Long Term borrowings	2,460	1,257	700	2,500
Provisions	7	11	25	57
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,933	3,042	1,000	1,000
Trade payables	3,173	4,633	6,195	7,998
Other current liabilities	1,754	4,595	2,439	3,129
Total Equity & Liabilities	56,482	70,057	109,930	131,472

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	12,036	14,219	20,268	27,250
Add. Depreciation	1,590	2,125	2,654	3,306
Add. Interest	595	472	285	247
Less Financial Other Income	693	484	1,082	1,868
Add. Other	(201)	-	-	-
Op. profit before WC changes	14,021	16,816	23,207	30,803
Net Changes-WC	(1,890)	(731)	(6,188)	(3,643)
Direct tax	(4,158)	(5,195)	(7,094)	(9,538)
Net cash from Op. activities	7,973	10,891	9,925	17,623
Capital expenditures	(9,539)	(14,426)	(16,206)	(20,362)
Interest / Dividend Income	-	-	-	-
Others	(260)	503	(17)	(18)
Net Cash from Inv. activities	(9,799)	(13,923)	(16,223)	(20,380)
Issue of share cap. / premium	220	172	29,664	-
Debt changes	(10,580)	(95)	(2,598)	1,800
Dividend paid	-	-	-	(782)
Interest paid	(595)	(472)	(285)	(247)
Others	-	(1)	-	-
Net cash from Fin. activities	(10,956)	(395)	26,781	771
Net change in cash	(12,782)	(3,427)	20,483	(1,987)
Free Cash Flow	(1,566)	(3,535)	(6,281)	(2,739)

Source: Company Data, PL Research

Key Financial Metrics

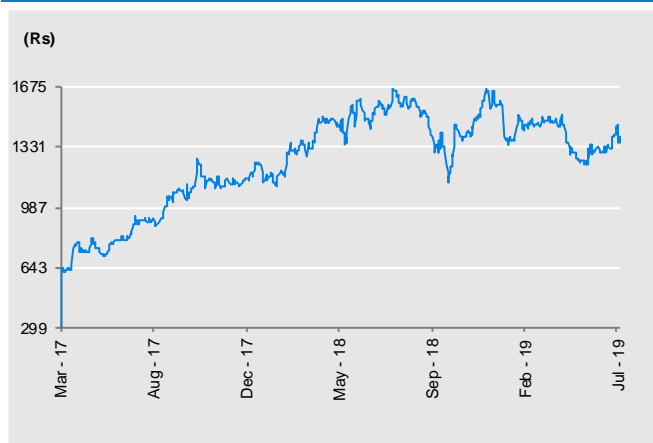
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	12.3	14.5	20.3	27.3
CEPS	14.9	17.9	24.4	32.4
BVPS	74.8	89.5	152.1	178.2
FCF	(2.5)	(5.7)	(9.7)	(4.2)
DPS	-	-	-	1.0
Return Ratio(%)				
RoCE	22.9	25.5	24.2	23.3
ROIC	23.8	21.0	22.3	23.2
RoE	18.0	17.6	17.0	16.5
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.2)	(0.1)
Net Working Capital (Days)	21	22	22	21
Valuation(x)				
PER	110.5	94.0	67.0	49.8
P/B	18.2	15.2	8.9	7.6
P/CEPS	91.5	76.1	55.7	42.0
EV/EBITDA	62.6	52.1	38.9	29.9
EV/Sales	5.6	4.3	3.3	2.6
Dividend Yield (%)	-	-	-	0.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	48,725	54,509	50,334	57,805
YoY gr. (%)	38.9	33.1	32.1	26.8
Raw Material Expenses	41,742	46,501	43,083	48,494
Gross Profit	6,983	8,009	7,250	9,311
Margin (%)	14.3	14.7	14.4	16.1
EBITDA	3,896	4,533	3,765	5,959
YoY gr. (%)	22.6	7.5	27.9	41.0
Margin (%)	8.0	8.3	7.5	10.3
Depreciation / Depletion	444	522	619	750
EBIT	3,453	4,012	3,146	5,210
Margin (%)	7.1	7.4	6.3	9.0
Net Interest	101	149	122	168
Other Income	139	86	147	119
Profit before Tax	3,491	3,949	3,171	5,161
Margin (%)	7.2	7.2	6.3	8.9
Total Tax	1,233	1,378	1,142	1,808
Effective tax rate (%)	35.3	34.9	36.0	35.0
Profit after Tax	2,258	2,571	2,029	3,353
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,258	2,571	2,029	3,353
YoY gr. (%)	18.2	2.1	21.4	33.8
Margin (%)	4.6	4.7	4.0	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,258	2,571	2,029	3,353
YoY gr. (%)	18.2	2.1	21.4	33.8
Margin (%)	4.6	4.7	4.0	5.8
Other Comprehensive Income	(1)	(1)	(8)	(3)
Total Comprehensive Income	2,256	2,570	2,020	3,350
Avg. Shares O/s (m)	624	624	624	624
EPS (Rs)	3.6	4.1	3.3	5.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	HOLD	1,338	1,433
2	12-Jun-19	HOLD	1,338	1,310
3	12-May-19	HOLD	1,228	1,251
4	5-Apr-19	Reduce	1,270	1,449
5	14-Jan-19	Reduce	1,270	1,572
6	7-Jan-19	Reduce	1,286	1,571
7	14-Oct-18	Reduce	1,286	1,412
8	5-Oct-18	Reduce	1,301	1,346
9	30-Jul-18	Reduce	1,285	1,595

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,360
2	Avenue Supermarts	HOLD	1,338	1,433
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,220	1,152
5	Crompton Greaves Consumer Electricals	BUY	284	234
6	Dabur India	Hold	430	403
7	Emami	Accumulate	475	308
8	Future Retail	BUY	554	471
9	GlaxoSmithKline Consumer Healthcare	Hold	7,744	7,805
10	Hindustan Unilever	Hold	1,753	1,794
11	ITC	BUY	369	278
12	Jubilant FoodWorks	BUY	1,541	1,259
13	Kansai Nerolac Paints	Accumulate	464	442
14	Marico	Hold	351	374
15	Nestle India	Accumulate	10,656	11,884
16	Pidilite Industries	Accumulate	1,184	1,227
17	Titan Company	BUY	1,267	1,290
18	Voltas	Accumulate	584	635

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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