

## Early Signs of Recovery in GM&A; Maintain HOLD

Est. Vs. Actual for Q4FY24: Revenue – **INLINE**; EBITDA Margin – **INLINE**; PAT – **INLINE**

### Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue: -1%/0%; EBITDA: 0%/1%; PAT: 0%/2%

### Recommendation Rationale

- Strong store opening (added 24 stores in Q4FY24) aided the company's overall topline growth. On an encouraging note, the high-margin general merchandise and apparel category experienced an uptick which improved gross margins to 14.5% in Q4FY24, up 40bps YoY.
- Though there are initial signs of improvement, we believe D-mart is likely to struggle in improving its overall store matrix in the near term as – a) Demand environment continues to remain weak in the discretionary category and is expected to recover only in H2FY25 and onwards, b) Larger and newer stores have higher gestation periods, thus impacting the overall profitability in the near term, c) Increasing competition from organised players (Reliance, Star Bazaar, Zudio) and online players (Zepto, Blinkit, Instamart) as they penetrate in smaller towns and d) Recent run-up in stock price (up 25% over the last two months) will limit its upside potential in the near term.

**Sector Outlook:** Cautious

**Company Outlook & Guidance:** We recommend a wait-and-watch approach as we look for more sustained improvement in the store matrix and demand recovery triggers. Hence we maintain a HOLD rating on the stock.

**Current Valuation:** 65xMar-26 EPS (65x Dec-25 EPS)

**Current TP:** Rs 4,400/share (Earlier – Rs 4,150/Share)

**Recommendation:** With a 5% downside from the CMP, we maintain our HOLD rating on the stock.

**Financial Performance:** DMART's consolidated revenue in Q4FY24 grew by 20% YoY (19% on a 4-Year CAGR basis) to Rs 12,727 Cr. The growth was largely led by rapid store expansion (added 24 stores in Q4). The management attributed that contribution from General Merchandise and Apparel experienced an uptick which improved the company's gross margins to 14.5%, up 40bps YoY, while EBITDA grew by 22% YoY. EBITDA Margins stood at 7.4% (up 13bps YoY), which was in line with our estimates. The company reported a PAT of Rs 563 Cr, up 22% YoY. In FY24, two-year or older stores (284 stores) grew 9.9% YoY.

**Store addition:** The company added 24 stores in Q4FY24 (41 stores in FY24), the highest in any quarter, and took its store count to 365 stores, up 13% YoY. Its total retail area at the quarter-end stood at 15.5 Mn sq.ft, representing an addition of 1 Mn sq.ft on a QoQ basis.

**Outlook:** We believe D-mart is likely to struggle in improving its overall store matrix in the near term as – a) Demand environment continues to remain weak in the discretionary category and is expected to recover only in H2FY25, b) Larger and newer stores have higher gestation periods, thus impacting the overall profitability in the near term, c) Increasing competition from organised players (Reliance, Star Bazaar, Zudio) and online players (Zepto, Blinkit, Instamart) as they penetrate in smaller towns, and d) Recent run-up in the stock price (up 25% over last two months), limiting its upside potential in the near term.

**Valuation & Recommendation:** We increase our FY26 PAT estimates marginally to factor in stability in demand and store operation matrix. We roll over our estimates to Mar'26 EPS. However, due to the limited upside potential, **we maintain our HOLD rating on the stock with the revised TP to Rs 4,400/share. The TP implies a 5% downside from the CMP.**

### Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	12,727	(6.2)	20.1	12,713	0.1
EBITDA	944	(15.7)	22.3	936	0.9
EBITDA Margin (%)	7.4	-84bps	13bps	7.4	6bps
Net Profit	563	(18.4)	22.4	562	0.2
EPS (Rs)	8.7	(18.4)	21.8	8.6	0.2

Source: Company, Axis Research

(CMP as of 3<sup>rd</sup> May 2024)

CMP (Rs)	4610
Upside /Downside (%)	-5%
High/Low (Rs)	4888/3353
Market cap (Cr)	300010
Avg. daily vol (6M)Shrs ('000).	421
No. of shares (Cr)	65

### Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	74.7	74.7	74.7
FIs	7.7	8.0	8.3
MFs / UTI	7.3	7.2	7.3
Banks / FIs	0.1	0.0	0.0
Others	10.4	10.2	9.8

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24A	FY25E	FY26E
Net Sales	50,789	61,673	75,064
EBIDTA	4,104	5,436	6,682
Adj Net Profit	2,536	3,522	4,412
EPS, Rs	38.6	53.6	67.1
PER, x	119.6	86.1	68.7
EV/EBIDTA, x	73.3	55.0	44.3
ROE, %	13.6	15.9	16.6
ROCE (%)	14.5	17.1	18.0

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1%	0%
EBITDA	0%	1%
PAT	0%	2%

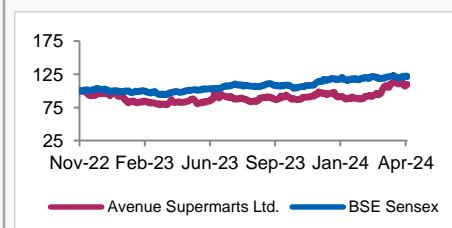
### ESG disclosure Score\*\*

Environmental Disclosure	2.41
Social Disclosure Score	14.08
Governance Disclosure Score	78.59
<b>Total ESG Disclosure Score</b>	<b>31.76</b>
<b>Sector Average</b>	<b>41.61</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies.

### Relative performance



Source: Ace Equity, Axis Securities

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### Key Risks to our Estimates and TP

- The demand environment continues to remain uncertain and it will impact the overall future performance of the company if demand falters further.

### Change in Estimates

	Old		New		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	62,121	74,740	61,673	75,064	-1%	0%
EBITDA	5,439	6,589	5,436	6,682	0%	1%
PAT	3,516	4,326	3,522	4,412	0%	2%
EPS	54.3	66.9	53.6	67.1	0%	2%

Source: Company, Axis Securities

**Results Review**

<b>Rs Cr</b>	<b>Q4FY23</b>	<b>Q3FY24</b>	<b>Axis Est.</b>	<b>Q4FY24</b>	<b>% Change (YoY)</b>	<b>% Change (QoQ)</b>	<b>Var (%) Axis Sec Est.</b>
<b>Total Revenue</b>	<b>10,594</b>	<b>13,572</b>	<b>12,713</b>	<b>12,727</b>	<b>20.1</b>	<b>(6.2)</b>	<b>0.1</b>
COGS	9,106	11,552	10,870	10,887	19.6	(5.8)	0.2
<b>Gross Profit</b>	<b>1,488</b>	<b>2,020</b>	<b>1,843</b>	<b>1,839</b>	<b>23.6</b>	<b>(8.9)</b>	<b>(0.2)</b>
<b>GM%</b>	<b>14.0</b>	<b>14.9</b>	<b>14.5</b>	<b>14.5</b>	<b>40bps</b>	<b>-43bps</b>	<b>-5bps</b>
<b>Expenditure</b>							
Employee expenses	187	234	224	241	29.1	2.9	7.6
Other Exp	530	666	684	655	23.5	(1.7)	(4.3)
<b>Total Expenditure</b>	<b>9,823</b>	<b>12,453</b>	<b>11,777</b>	<b>11,783</b>	<b>20.0</b>	<b>(5.4)</b>	<b>0.0</b>
<b>EBIDTA</b>	<b>772</b>	<b>1,120</b>	<b>936</b>	<b>944</b>	<b>22.3</b>	<b>(15.7)</b>	<b>0.9</b>
<b>EBITDA Margin (%)</b>	<b>7.3</b>	<b>8.3</b>	<b>7.4</b>	<b>7.4</b>	<b>13bps</b>	<b>-84bps</b>	<b>6bps</b>
Depreciation	164	189	195	205	24.9	8.2	5.1
<b>EBIT</b>	<b>607.4</b>	<b>930.5</b>	<b>740.5</b>	<b>738.7</b>	<b>21.6</b>	<b>(20.6)</b>	<b>(0.2)</b>
Interest	16	15	16	13	(13.6)	(7.8)	(14.6)
Oth. Inc.	33	33	35	38	14.5	15.0	9.6
Exceptional Items	-	-	-	-			#DIV/0!
<b>PBT</b>	<b>625</b>	<b>949</b>	<b>759</b>	<b>763</b>	<b>22.1</b>	<b>(19.6)</b>	<b>0.5</b>
Tax	165	259	197	200	21.3	(22.6)	1.3
Effective Tax Rate(%)	26.4	27.2	26.0	26.2	-17bps	-103bps	21bps
<b>PAT</b>	<b>460</b>	<b>690</b>	<b>562</b>	<b>563</b>	<b>22.4</b>	<b>(18.4)</b>	<b>0.2</b>
<b>PAT Margin (%)</b>	<b>4.34</b>	<b>5.09</b>	<b>4.42</b>	<b>4.42</b>	<b>8bps</b>	<b>-66bps</b>	<b>0bps</b>
EPS (Rs.)	7.1	10.6	8.6	8.7	21.8	(18.4)	0.2

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24A	FY25E	FY26E
<b>Net sales</b>	<b>42,840</b>	<b>50,789</b>	<b>61,673</b>	<b>75,064</b>
Growth, %	38.3	18.6	21.4	21.7
Raw material expenses	(36,384)	(43,275)	(52,146)	(63,357)
Employee expenses	(747)	(906)	(1,087)	(1,316)
Other Operating expenses	(2,072)	(2,504)	(3,005)	(3,709)
<b>EBITDA (Core)</b>	<b>3,637</b>	<b>4,104</b>	<b>5,436</b>	<b>6,682</b>
Growth, %	45.6	12.8	32.5	22.9
Margin, %	8.5	8.1	8.8	8.9
Depreciation	(639)	(731)	(816)	(899)
<b>EBIT</b>	<b>2,998</b>	<b>3,373</b>	<b>4,620</b>	<b>5,783</b>
Growth, %	49.9	12.5	37.0	25.2
Margin, %	7.0	6.6	7.5	7.7
Other Income	129	146	176	211
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>3,060</b>	<b>3,461</b>	<b>4,735</b>	<b>5,929</b>
Tax provided	(682)	(926)	(1,212)	(1,518)
<b>Profit after tax</b>	<b>2,378</b>	<b>2,536</b>	<b>3,522</b>	<b>4,412</b>
<b>Net Profit</b>	<b>2,378</b>	<b>2,536</b>	<b>3,522</b>	<b>4,412</b>
Growth, %	59.4	6.6	38.9	25.2

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Cash & bank	1,408	2,201	4,091	6,804
Debtors	62	74	89	109
Inventory	3,243	3,845	4,669	5,683
Loans & advances	-	-	-	-
Other current assets	532	532	532	532
Total current assets	5,448	6,855	9,584	13,331
Investments	117	117	117	117
Gross fixed assets	13,807	15,807	17,607	19,407
Less: Depreciation	(2,475)	(3,206)	(4,021)	(4,921)
Add: Capital WIP	829	829	829	829
Net fixed assets	12,161	13,430	14,415	15,315
Non-current assets	380	380	380	380
<b>Total assets</b>	<b>18,106</b>	<b>20,782</b>	<b>24,496</b>	<b>29,143</b>
Current liabilities	1,467	1,607	1,798	2,034
Provisions	-	-	-	-
Total current liabilities	1,467	1,607	1,798	2,034
Non-current liabilities	561	561	561	561
Total liabilities	2,028	2,167	2,359	2,595
Paid-up capital	648	648	648	648
Reserves & surplus	15,431	17,966	21,489	25,900
Shareholders' equity	16,079	18,614	22,137	26,548
<b>Total equity &amp; liabilities</b>	<b>18,106</b>	<b>20,782</b>	<b>24,496</b>	<b>29,143</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,060	3,461	4,735	5,929
Depreciation	639	731	816	899
Chg in working capital	(482)	(474)	(648)	(798)
Total tax paid	(669)	(926)	(1,212)	(1,518)
<b>Cash flow from operating activities</b>	<b>2,548</b>	<b>2,793</b>	<b>3,690</b>	<b>4,513</b>
Capital expenditure	(2,420)	(2,000)	(1,800)	(1,800)
Chg in marketable securities	(196)	-	-	-
<b>Cash flow from investing activities</b>	<b>(1,461)</b>	<b>(2,000)</b>	<b>(1,800)</b>	<b>(1,800)</b>
Free cash flow	1,087	793	1,890	2,713
Equity raised/(repaid)	1	-	-	-
Dividend (incl. tax)	-	-	-	-
<b>Cash flow from financing activities</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net chg in cash	1,089	793	1,890	2,713
Opening cash balance	299	1,408	2,201	4,091
Closing cash balance	1,408	2,201	4,091	6,804

Source: Company, Axis Securities

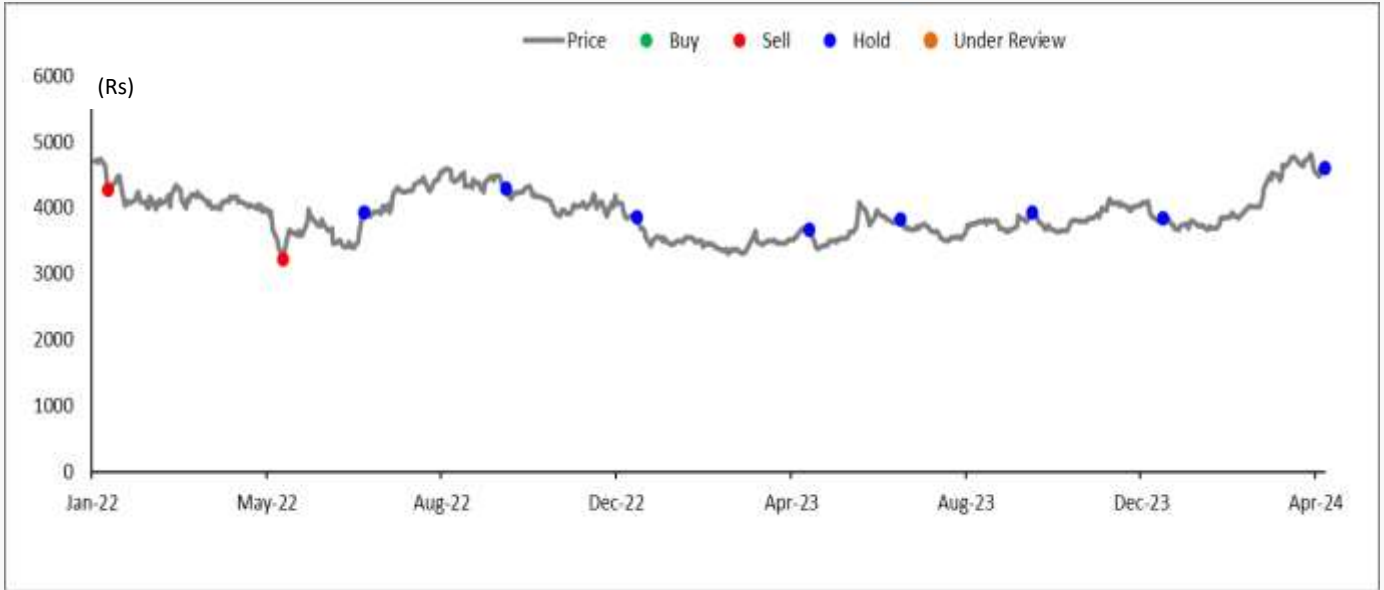
**Ratio Analysis**

(%)

Y/E Mar	FY23	FY24E	FY25E	FY26E
EPS (INR)				
Growth, %	36.8	38.6	53.6	67.1
Book NAV/share (INR)	59.4	4.9	38.9	25.2
FDEPS (INR)	248.5	283.2	336.8	403.9
CEPS (INR)	36.8	38.6	53.6	67.1
CFPS (INR)	46.6	49.7	66.0	80.8
<b>Return ratios</b>	<b>37.4</b>	<b>40.3</b>	<b>53.5</b>	<b>65.5</b>
Return on assets (%)				
Return on equity (%)	14.6	13.3	15.8	16.7
Return on capital employed (%)	14.8	13.6	15.9	16.6
<b>Turnover ratios</b>	<b>15.8</b>	<b>14.5</b>	<b>17.1</b>	<b>18.0</b>
Asset turnover (x)				
Sales/Total assets (x)	3.3	3.4	3.7	4.1
Sales/Net FA (x)	2.6	2.6	2.7	2.8
Working capital/Sales (x)	3.8	4.0	4.4	5.0
Receivable days	0.1	0.1	0.1	0.1
Inventory days	0.5	0.5	0.5	0.5
Payable days	27.6	27.6	27.6	27.6
Working capital days	7.0	7.0	7.0	7.0
<b>Liquidity ratios</b>	<b>20.2</b>	<b>20.4</b>	<b>20.7</b>	<b>20.9</b>
Current ratio (x)				
Quick ratio (x)	3.7	4.3	5.3	6.6
<b>Valuation</b>	<b>1.5</b>	<b>1.9</b>	<b>2.7</b>	<b>3.8</b>
PER (x)				
PEG (x) - y-o-y growth	125.5	119.6	86.1	68.7
Price/Book (x)	2.1	24.2	2.2	2.7
EV/Net sales (x)	18.6	16.3	13.7	11.4
EV/EBITDA (x)	6.9	5.9	4.8	3.9
EV/EBIT (x)	81.6	73.3	55.0	44.3

Source: Company, Axis Securities

## Avenue Supermarts Price Chart and Recommendation History



Date	Reco	TP	Research
12-Jan-22	Sell	3,600	Result Update
13-May-22	Sell	2,900	Result Update
08-Jul-22	HOLD	3,900	Result Update
14-Oct-22	HOLD	4,350	Result Update
13-Jan-23	HOLD	4,000	Result Update
12-May-23	HOLD	4,000	Result Update
14-Jul-23	HOLD	3,870	Result Update
16-Oct-23	HOLD	4,000	Result Update
15-Jan-24	HOLD	4,150	Result Update
05-May-24	HOLD	4,400	Result Update

Source: Axis Securities

**About the analyst****Analyst:** Preeyam Tolia**Contact Details:** preeyam.tolia@axissecurities.in**Sector:** FMCG & Retail**Analyst Bio:** Preeyam Tolia is MBA and CFA Level 1 and part of the Axis Securities Research Team.**About the analyst****Analyst:** Suhanee Shome**Contact Details:** suhanee.shome@axissecurities.in**Sector:** FMCG& Retail**Analyst Bio:** Suhanee Shome is MBA and part of the Axis Securities Research Team..**Disclosures:**

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