

Equity Research Report: DMART

Business Overview

Avenue Supermarts Limited, operating under the DMart brand since 2000, is a prominent player in India’s organized retail sector. The company runs a network of around 284 supermarkets across major states, catering to a broad customer base that includes middle-income families and small businesses. DMart’s stores offer a comprehensive selection of groceries, FMCG products, apparel, kitchenware, and home appliances, all positioned around its core promise of everyday low prices. Its strengths lie in a strong supply chain, deep local market understanding, and a value-driven approach that fosters customer loyalty. DMart has responded to industry trends by expanding its store footprint, growing its e-commerce platform DMart Ready, and investing in sustainability. These strategies, combined with operational efficiencies, position the company for continued growth in India’s evolving retail landscape.

Market Position

DMart delivered strong financial performance in FY22, with total revenue rising 28.3 percent year-on-year to INR 30,976.27 crore, fueled by robust store expansion and improved sales efficiency. Gross profit increased by 28 percent, and operating profit surged 50 percent, lifting the operating margin to 7.32 percent. Net profit after tax climbed 35.7 percent to INR 1,492.40 crore, and diluted EPS grew to INR 22.86, reflecting solid earnings momentum. The company maintained a healthy balance sheet, with minimal debt and a debt-equity ratio of 0.03, while shareholders’ equity strengthened to INR 13,677.64 crore. Operating cash flows remained stable, though higher capital expenditure and tax payments led to a modest net cash outflow. Overall, DMart’s financials highlight consistent growth, operational efficiency, and prudent capital management.

Operating Results

DMart’s valuation is underpinned by its strong revenue growth, stable margins, and robust profitability, as evidenced by a 28.3 percent YoY revenue increase and a 35.7 percent rise in net profit for FY22. The company’s disciplined cost control and efficient operations have resulted in improved profitability ratios and a healthy return on net worth. With a minimal debt-equity ratio of 0.03 and shareholders’ equity of INR 13,677.64 crore, DMart’s balance sheet reflects financial strength and low leverage risk. Substantial investments in property and equipment support future expansion, while a current ratio of 3.06 indicates sound liquidity. Despite minor pressure on liquidity, DMart’s consistent earnings growth, prudent asset management, and strong capital structure justify a premium valuation relative to peers in the retail sector.

Summarization

FY (crore mn)	2022	2021	2020
Revenue	30,976.27	24,143.06	24,870.20
Net Income	1,492.55	1,099.49	1,301.08
EBIT	2,007.82	1,333.56	1,756.78
EBIT Margin	6.48	5.52	7.06
Net Income Margin	4.82	4.55	5.23
Effective Tax Rate	27.70	25.89	25.43
Interest Coverage	3,718.19	2,260.27	1,722.33
EBITDA	2,509.20	1,748.38	2,130.91
EPS	22.86	16.85	20.55
Shares	65.29	65.26	63.30

FinRobot

Team9 - UOA

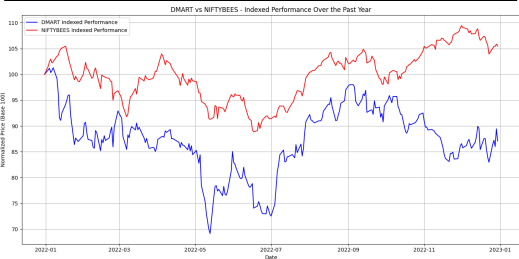
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Report date: 2022-03-31

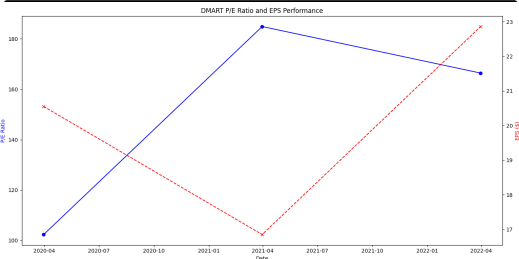
Key data

Rating	Hold (score: 3.04)
Currency	INR
Closing Price	4261.10
Market Cap (Millions)	0.28
52 Week Price Range	3340.00 - 5484.85
BVPS	N/A

Share Performance



PE & EPS



Risk Assessment

Risk Assessment Avenue Supermarts Limited, operating under the DMart brand, faces a range of risks that could impact its business performance and long-term growth. The most significant risk is the potential resurgence of COVID-19 variants. While the retail grocery sector is generally resilient due to the essential nature of its products, pandemic-related disruptions can still cause short-term volatility. Reduced consumer footfall, regulatory restrictions, and operational challenges during health crises can affect sales and profitability. Although DMart's focus on essential goods and its ability to adapt operations provide some protection, the unpredictable nature of new virus strains continues to pose a material threat to business stability and future growth. Another key risk is the company's dependence on its Every Day Low Cost/Every Day Low Price strategy. This approach has been central to DMart's competitive positioning, attracting a loyal customer base and supporting healthy profit margins. However, the grocery retail industry is highly competitive and sensitive to cost pressures. Sustained inflation, supply chain disruptions, or an inability to maintain low prices could erode DMart's margins and market share. While the company benefits from economies of scale, a broad product mix, and strategic locations, any compromise in its pricing strategy could weaken its competitive edge and financial performance. The third major risk involves the complexities of store expansion and inventory management. Rapid growth requires securing suitable real estate, navigating regulatory approvals, and maintaining optimal inventory levels. Delays or missteps in these areas can hinder revenue growth and operational efficiency. DMart's internal controls, strategic site selection, and robust IT systems help manage these risks, and its presence across multiple states reduces reliance on any single market. Nevertheless, expansion and inventory challenges remain significant, especially as consumer preferences and regulatory environments evolve. In summary, while DMart's business model and operational strengths offer some resilience, ongoing vigilance and adaptability are essential to manage the evolving risks in its operating environment.

Competitors Analysis

Competitors Analysis DMart operates in a highly competitive retail landscape, where financial and operational metrics play a crucial role in defining market positioning. When compared to its peers, DMart stands out for its consistent profitability, as reflected in its net profit margin of approximately 4.56% over the trailing 12 months. This margin is relatively robust within the sector, indicating effective cost management and operational efficiency. However, the broader industry context reveals that while DMart's EBITDA margin is stable, it faces ongoing cost pressures and must continually optimize its pricing and supply chain strategies to maintain this edge. Valuation metrics further distinguish DMart from its competitors. The company's high price-to-earnings ratio, at 105.83, signals that investors have strong expectations for future growth, positioning DMart at a premium compared to competitors like Valencia Nutrition, which has a lower P/E ratio of 85.63. This premium valuation suggests confidence in DMart's business model and growth prospects, but it also raises the bar for performance. If DMart's EV/EBITDA ratio has been rising, it could indicate increasing market optimism, but it also means the company must deliver on growth and efficiency to justify such valuations. Cash flow management is another area where DMart's performance is critical. While specific free cash flow conversion rates are not detailed, the company's stable revenue and profitability imply a generally healthy cash flow profile. Maintaining or improving this metric is essential for funding expansion and weathering market fluctuations. Gross margin trends, inferred from DMart's cost structure and pricing power, also remain a key focus; any erosion here could signal rising competition or input costs. Return on invested capital and revenue growth are pivotal for long-term sustainability. Although DMart's recent return on equity has faced challenges, its overall financial stability and resilience in revenue growth support its strong market position. In summary, DMart's competitive advantage lies in its operational efficiency and market confidence, but sustaining its premium valuation will require continued focus on profitability, cash flow, and growth amid a dynamic competitive environment.