

Equity Research Report: DMART

Business Overview

Avenue Supermarts Limited, operating under the DMart brand, is a prominent Indian retail company established in 2000. It specializes in organized retail, offering a broad assortment of products including food, FMCG, apparel, and household essentials. With around 365 stores across several states such as Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Karnataka, Telangana, and Chhattisgarh, DMart emphasizes providing high-quality products at consistently low prices through its EDLC/EDLP strategy. Its strengths lie in a strong supply chain, extensive store network, and a customer-focused approach that combines value and convenience. The company targets middle-income, value-conscious consumers and maintains a leading position in the organized grocery retail segment. DMart continues to expand its footprint, enhance digital channels, and invest in sustainable infrastructure to sustain growth amid industry trends like e-commerce integration and rising consumer demand for quality and affordability.

Market Position

Key financials for DMart in FY 2024 show a strong revenue growth of 18.56% to nearly 51,000 crore, driven by store expansion and higher sales per retail area. Despite rising costs, gross profit remained healthy at over 7,100 crore, though margins slightly compressed from 14.4% to 14.1%. Operating profit increased by 12.3% to approximately 3,380 crore, with operating margins declining marginally. Net profit grew by 6.61% to around 2,536 crore, reflecting margin pressures but steady earnings growth. Earnings per share rose by 6.69% to nearly 39 rupees, supported by a slight reduction in diluted shares. The company's balance sheet remains robust, with total assets of over 21,000 crore, high liquidity indicated by a current ratio of 3.23, and minimal leverage. Capital expenditures and operating cash flows demonstrate ongoing investments and healthy core profitability, positioning DMart for sustained growth.

Operating Results

The valuation of DMart reflects its strong revenue growth driven by store expansion and higher sales per retail area, supported by a solid asset base of over 21,000 crore and high liquidity indicated by a current ratio of 3.23. Despite rising costs leading to margin compression, the company maintains healthy profitability with a net profit of 2,536 crore and steady earnings growth, evidenced by a 6.69% increase in EPS. Its low leverage, with a debt-equity ratio of 0.02 and stable long-term debt, underscores financial stability. The significant increase in shareholders' equity to nearly 18,700 crore highlights strong retained earnings and capital reserves. Overall, DMart's robust asset position, consistent revenue growth, and prudent financial management suggest a resilient valuation outlook, though margin pressures warrant attention for sustained profitability.

Summarization

| FY (crore mn) | 2024 | 2023 | 2022 | 2021 | 2020 |
|--------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 50,788.83 | 42,839.56 | 30,976.27 | 24,143.06 | 24,870.20 |
| Net Income | 2,536.17 | 2,378.51 | 1,492.55 | 1,099.49 | 1,301.08 |
| EBIT | 3,379.86 | 3,004.59 | 2,007.82 | 1,333.56 | 1,756.78 |
| EBIT Margin | 6.65 | 7.01 | 6.48 | 5.52 | 7.06 |
| Net Income Margin | 4.99 | 5.55 | 4.82 | 4.55 | 5.23 |
| Effective Tax Rate | 26.74 | 22.28 | 27.70 | 25.89 | 25.43 |
| Interest Coverage | 7,510.80 | 6,131.82 | 3,718.19 | 2,260.27 | 1,722.33 |
| EBITDA | 4,115.71 | 3,647.97 | 2,509.20 | 1,748.38 | 2,130.91 |
| EPS | 38.93 | 36.49 | 22.86 | 16.85 | 20.55 |
| Shares | 65.15 | 65.18 | 65.29 | 65.26 | 63.30 |

FinRobot

Team9 - UOA

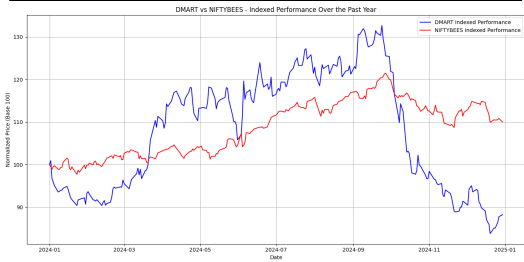
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Report date: 2024-07-13

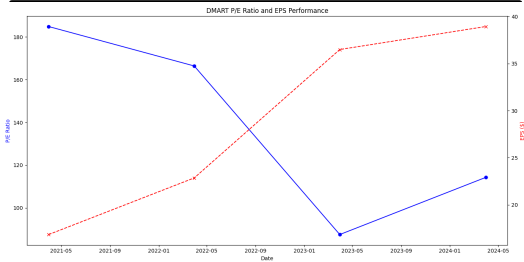
Key data

| | |
|-----------------------|--------------------|
| 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 for Avenue Supermarts Limited highlights three primary areas of concern. The first involves the sustainability of its pricing strategy, which relies heavily on the EDLC/EDLP model. Operating in a highly competitive and price-sensitive retail grocery sector, the company must maintain low prices to retain customers. Rising procurement costs, inflation, or regulatory interventions could threaten its ability to keep prices low, risking margin erosion and loss of customer loyalty. Despite strong brand recognition, operational efficiencies, and cost controls providing some protection, the fundamental risk remains that an inability to sustain low prices could impact revenue growth and market position. The second significant risk pertains to real estate acquisition for new store expansion. Securing prime locations is crucial in the grocery retail industry, where footfall and accessibility directly influence sales. Challenges include limited availability of suitable properties, regulatory approvals, and potential delays in execution. Economic fluctuations can affect property prices and availability, adding to the complexity. The company mitigates this risk through strategic planning, long-term relationships with developers, and geographic diversification. Nonetheless, delays or failures in acquiring appropriate real estate could hinder growth plans and impact financial performance. Operational risks related to inventory management and cyber security form the third key concern. Efficient inventory turnover is vital, with the company maintaining a ratio of around 14.61, indicating effective management but still vulnerable to supply chain disruptions. Inventory shortages or theft can adversely affect sales and profitability. Cyber security threats pose additional risks, potentially leading to operational disruptions, data breaches, or regulatory penalties. The company's investment in robust IT systems and internal controls helps mitigate these threats, but the increasing sophistication of cyber attacks remains a concern. Rapid response capabilities and ongoing security enhancements are essential to managing these operational risks. Overall, while Avenue Supermarts operates in a relatively stable industry with low cyclicality due to the essential nature of its products, its success depends on strategic agility in pricing, real estate acquisition, and operational risk management. The company's strong financial position and focus on efficiency provide some resilience, but external shocks, regulatory changes, or operational disruptions could pose significant challenges. Vigilant risk management and continuous strategic adaptation are critical to sustaining long-term growth and stability.

Competitors Analysis

Competitors analysis for DMart indicates that while the company maintains a steady revenue growth and stable gross margins, it faces challenges in operational efficiency and valuation compared to its peers. Avenue Supermarts, a key competitor, generally reports higher EBITDA margins, reflecting better cost control and higher-margin product offerings, which give it a competitive edge. DMart's EBITDA margins have remained relatively stable over the years, suggesting consistent but not improving operational efficiency. Its valuation, as indicated by EV/EBITDA ratios, has fluctuated and appears somewhat inflated in recent years, possibly due to market expectations of future growth that are not fully supported by current profitability metrics. In contrast, Avenue Supermarts tends to trade at lower EV/EBITDA multiples, implying more conservative market expectations or better valuation of its operational performance. The company's free cash flow conversion rate has shown moderate variability, indicating that while it generates cash, it does not efficiently leverage earnings into liquidity. Competitors with higher free cash flow conversion rates demonstrate superior cash management, which can be advantageous for funding growth initiatives or weathering downturns. DMart's gross margins have remained stable but are lower than some of its more profitable competitors, highlighting potential areas for cost optimization and margin improvement. Return on invested capital has been declining recently, suggesting diminishing efficiency in utilizing capital for generating returns. This trend may be due to increased capital expenditure without corresponding revenue growth or operational inefficiencies, raising concerns about long-term profitability. Although revenue has grown steadily, DMart's pace is modest compared to more aggressive competitors expanding their market share or diversifying offerings. Overall, DMart's financial profile reflects a cautious and stable company with consistent revenue and margins but limited efficiency gains and a valuation that may be somewhat optimistic given its modest profitability and declining ROIC. Its market position appears secure, but the lack of significant margin improvements and efficiency enhancements suggests limited upside unless operational performance improves. The current valuation seems to factor in future growth potential, which may not be fully realized based on current financial metrics, positioning DMart as a company with steady but not exceptional growth prospects in a competitive landscape.