The stock of Avenue Supermarts (which runs the DMart chain) is a favourite of investors. Its market capitalisation is higher than the combination of the next 10 listed multi-brand retailers.

However, while investor demand has led to the doubling of the stock since its listing, most brokerages are now cautious, barring a few such as Goldman Sachs and HSBC. Of the 15 analysts who track the stock, says Bloomberg, about two-third have a 'sell' or 'hold' rating. Their average target price (estimate of where the share price will go) is Rs1,336; the stock is trading at Rs1,538.

In fact, some have also reduced their target price on the stock, beside tweaking their earnings estimates. On an average, analysts have cut their estimates of earnings per share for FY19 and FY20 by up to five per cent.

After the company's meet with brokerages last Thursday, analysts are pointing to some concerns, even as they continue to believe in the long-term growth prospects of DMart. These relate to the company's same- store sales (SSS) growth, margins, expansion and the new format, DMart Ready. SSS growth (performance of stores in operation for at least a year) moderated from 21 per cent in FY17 to 14 per cent in FY18. Adjusted for price deflation on account of the goods and services tax, it stood at 16 per cent.

ALSO READ: D-Mart operator Avenue Supermarts' m-cap crosses Rs 1-trillion mark

Cannibalisation by new stores was among the reasons. Further, with the higher proportion of sales from mature stores, SSS growth is expected to moderate. The company noted that growth for mature stores is closer to inflation.

Another issue is the margins. Operating profit margins are already at high levels, with a rising proportion of higher margin products, more profitable regions and tax classification, which drove an 80 basis points gain in FY18 to nine per cent. With efficiencies from central procurement already realised, margin gains from operational improvement are limited. Further, with the motto of keeping costs down and passing on the benefits to customers, the margins might not increase from the current levels.

The company added 24 stores in FY18, to take the count to 155. As it wants to add a higher number annually, capital expenditure could rise. Further, given the owned-store model, costs related to buying and developing of stores could increase. A more prudent approach could limit the growth option.

ALSO READ: Street still bets big on DMart; store expansion, new format growth triggers

While the company is banking on the DMart Ready e-commerce model to expand and bring incremental revenues (currently miniscule as compared to the large store format), analysts have some concerns. Says one with a domestic brokerage, "While the low cost model for DMart Ready is good, the lack of options for perishables (vegetables, fruits and dairy products) could be a dampener, as customers who are looking for a single stop for all grocery needs will have to shop at multiple online and offline stores."

Finally, the stock valuation at over 75 times the FY20 estimates, are at a steep premium to peers, even after adjusting for the best-in-class operational performance of Avenue Supermarts. That's because, after growing net profit by 50-60 per cent in each of the past two financial years, analysts expect earnings to increase by 25-30 per cent in each of the next two years. It remains to be seen whether the company will surprise analysts, or the stock adjusts to the expectations.