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INDIA | CONSUMER | INITIATING COVERAGE

JM FINANCIAL

Avenue Supermarts Limited

BUY, and don't sell if it ain't broke

Impeccable store economics - 20%+ IRR

Several years of strong LFL growth still ahead

Initiate BUY with TP of INR 1,675 - 28% upside

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Indian organised retail is a multi-decade growth opportunity. DMart stores' impeccable unit-economics position it well to profitably capitalise on the same.

Three reasons to read this report:
1. *Deep-dive into DMart's single-store economics.*
2. *Decoding how DMart's financials would have looked had it adopted the conventional retail model of leasing stores.*
3. *Our take on whether there is still money to be made at 78x one-year forward PE.*

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AVENUE SUPERMARTS LIMITED (DMART IN)

BUY, and don't sell if it ain't broke

We launch coverage on DMart, the best-in-class Food & Grocery (F&G) retailer in India with a BUY rating. We see 28% upside on the stock; our DCF-based target price works out to INR 1,675 per share.

The attractiveness of DMart's operating model stems from the significantly higher level of throughput that its stores generate - nearly 2-3x what other retailers clock on an average, which helps justify its choice of owning the stores (including the cost of land on which they are built), and the discounts ('Every Day Low Price' instead of festivals or seasons related limited period discounts) that it pampers its shoppers with – the latter being one of the key drivers of footfalls and conversions for DMart, in our view. Our analysis of the unit-economics of a representative DMart store suggests that the IRR it generates is in excess of 20% over a 20-year lifespan, without even considering terminal value or asset-release at the end of the period; a typical DMart store gets to a mid-teens ROIC by its 4th year of operations, comfortably scaling up to c.50% by the 10th year, as per our workings. We estimate the company's FY21E blended post-tax ROIC to be c.25%.

Let's deal with the valuation argument upfront - is there money to be made at 78x 12M forward PE?

It is interesting to note that an investor who bought Titan 10-11 years ago when it was trading at twice (42x) its then 5-year average PER (c.20x) has still made a return of 25% p.a. on the stock. Notably, even if the stock was bought at a 100x forward PE at that time, the return would still have been 15.6% p.a. An above-average EPS CAGR of 23.4% over the last 10 years is what drove Titan's strong stock performance notwithstanding its rich valuation, in our view. We see a similar growth trajectory panning out for DMart, which, as per our workings, is well-poised to compound earnings at c.25% p.a. over the next 10 years. DMart stores' impressive unit-economics make a compelling investment case. Our analysis of the network's age-profile suggests that DMart's LFL growth can sustain in the high-teens range over the next several years.

Long growth runway in place; our target price of INR 1,675/share presents a 28% upside vs CMP:

Our framework for analysing the potential for F&G retail in India suggests that there could be opportunity for 1,500 large-format F&G stores in India; as such, there is a long runway for store growth in the country and DMart's impeccable store-economics model makes it best-placed to take advantage of this opportunity, in our view. DMart's network currently comprises 141 stores only (Dec'17). We forecast 27%, 29% and 35% revenue, EBITDA and net profit CAGR, respectively, over FY17-22E and value the stock at INR 1,675 per share (DCF-based). Near-term valuation multiples are undoubtedly rich (46x one-year forward EV-EBITDA, 78x PE) but then, a cashflow-backed earning compounder rarely fails on delivery.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	INR 1,675
Upside/(Downside)	27.7%
Previous Price Target	NA
Change	NA

Key Data – DMART IN	
Current Market Price	INR 1,312
Market cap (bn)	INR 826.8/US$ 12.7
Free Float	41%
Shares in issue (mn)	624.1
Diluted share (mn)	624.1
3-mon avg daily val (mn)	INR 982.2/US$ 15.1
52-week range	1,387/615
Sensex/Nifty	32,969/10,114
INR/US$	65.2

Price Performance

%	1M	6M	12M
Absolute	-1.7	26.9	110.7
Relative*	1.9	20.4	87.9

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	85,655	118,746	154,493	195,457	247,497
Sales growth (%)	33.3%	38.6%	30.1%	26.5%	26.6%
EBITDA	6,636	9,812	13,684	17,625	22,386
EBITDA (%)	7.7%	8.3%	8.9%	9.0%	9.0%
Adjusted net profit	3,203	4,803	8,002	10,515	13,389
EPS (INR)	5.7	7.7	12.8	16.8	21.5
EPS growth (%)	50.3%	34.9%	66.6%	31.4%	27.3%
ROIC (%)	15.3%	17.8%	21.0%	22.7%	23.7%
ROE (%)	23.6%	17.9%	18.9%	21.0%	22.9%
PE (x)	230.0	170.5	102.3	77.9	61.2
Price/Book Value (x)	48.5	21.3	17.6	15.2	13.0
EV/EBITDA (x)	112.7	83.0	59.3	46.2	36.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.3%	0.4%

Source: Company data, JM Financial. Note: Valuations as of 28/Mar/2018

Note: Pending FY18 Final Accounts, we have not yet incorporated GST related accounting changes in our model. Estimated FY18E, FY19E, FY20E revenue under GST would be INR149bn, INR187bn and INR236bn. There is no material impact on absolute EBITDA but % margin under GST accounting would be higher at 9.2%, 9.4% and 9.5% respectively.

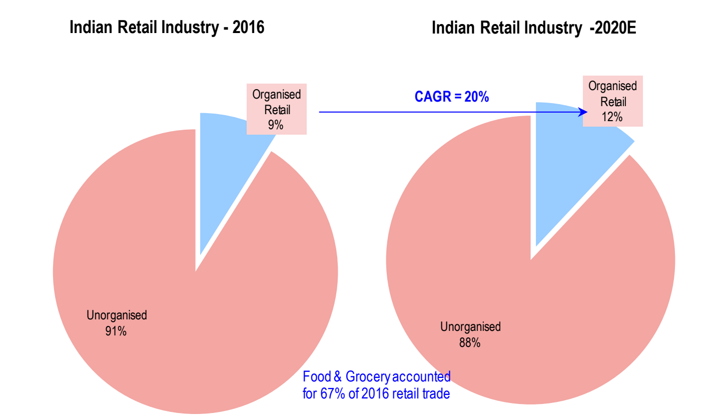
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Richard Liu
Richard.Liu@jmfl.com
Tel: (91 22) 6630 3064

Vicky Punjabi
Vicky.Punjabi@jmfl.com
Tel: (91 22) 6630 3065

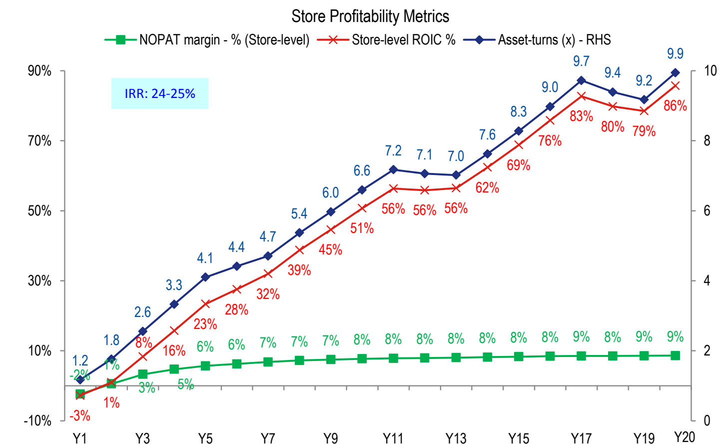
Key charts

Exhibit 1. Organised retail in India is a multi-decade growth opportunity…



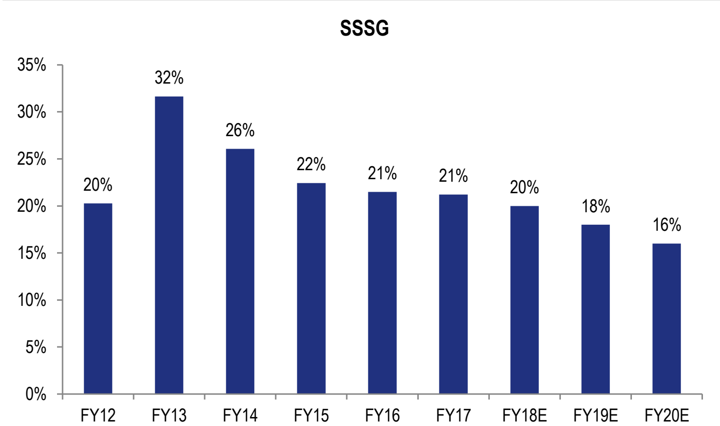
Source: Avenue Supermarts Ltd IPO Prospectus, JM Financial

Exhibit 2. …and DMart's best-in-class store-economics make it best-placed to leverage the opportunity…



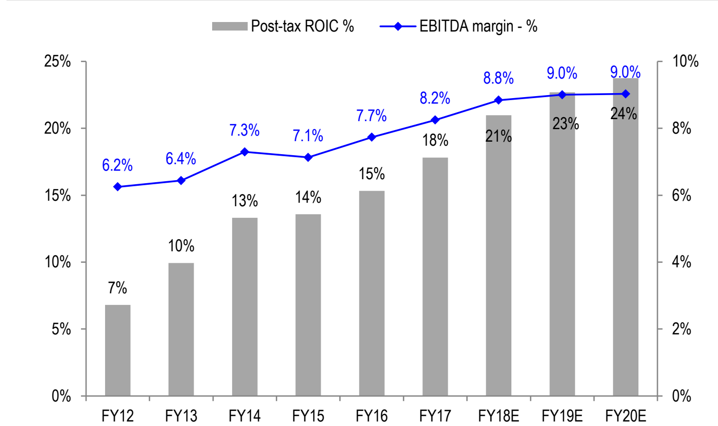
Source: Company, JM Financial

Exhibit 3. …as evident from its strong pace of growth…



Source: Company, JM Financial

Exhibit 4. …alongside consistent improvement in profitability and return-ratios

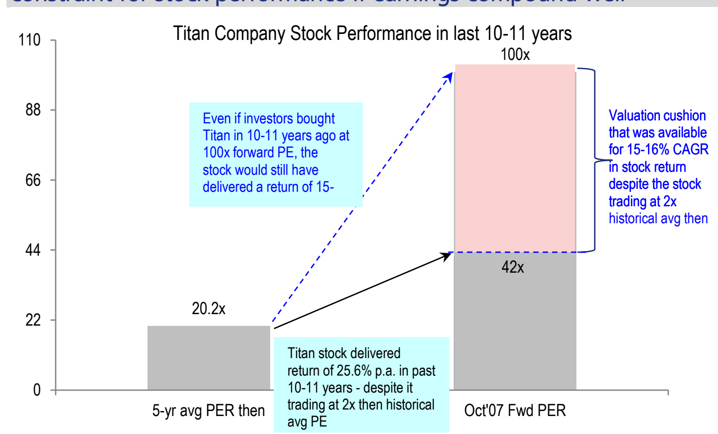


Source: Company, JM Financial

Exhibit 5. Valuation is undoubtedly rich…

Source: Company, Bloomberg, JM Financial

Exhibit 6. …but history suggests premium multiple need not be a constraint for stock performance if earnings compound well

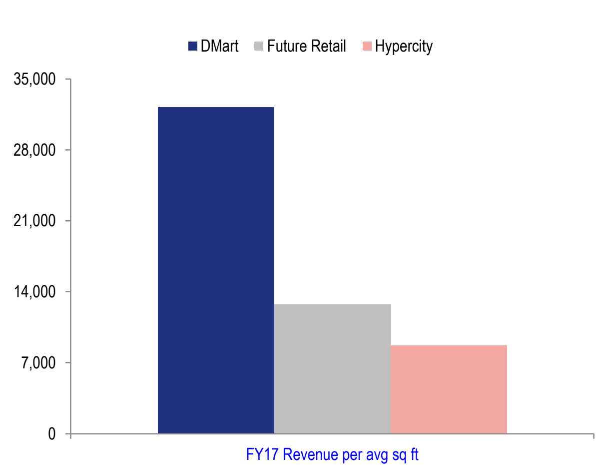


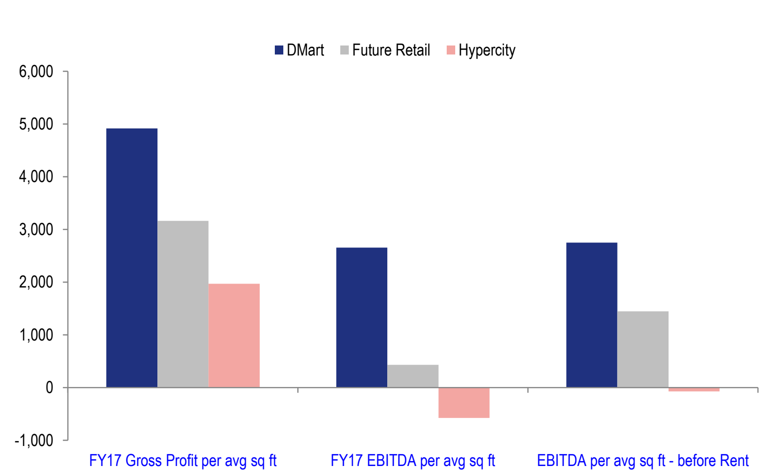
Source: Company, Bloomberg, JM Financial

DMart's impressive unit-economics make a compelling investment case

- The attractiveness of DMart's operating model is driven by the significantly high level of throughput that its stores generates, which is nearly 2-3x what other retailers clock. The high store throughput does help justify the cost of ownership of the stores (including the cost of land on which they are built), and the higher discounts ('Every Day Low Price' instead of festivals or seasons related limited period discounts) that its shoppers enjoy. The other factor is the consistent focus on operational efficiencies by the management team, the benefits of which are ploughed back to offer the most attractive pricing for its customers. Given that a typical middle-class Indian shopper is most concerned about 'value-for-money' (many quick dip-stick surveys confirm this fact), DMart's pricing-focused value proposition is indeed working well for the business.

Exhibit 7. DMart's revenue and profitability metrics are significantly superior vs peers'





Source: Companies data, JM Financial

Note: Future Retail's sq ft include area allocated for store back-end; accordingly, its revenue and profitability per sq ft in the above table would be slightly understated to that extent.

- Given that DMart does not operate out of 'expensive' locations, its rental costs, had it adopted the conventional retail model of leasing stores akin to what most of its peers follow, would have anyway still been lower vs competitors' and the company may have enjoyed the same efficiencies and still have been able to price its products as attractively even then. Refer later section in this report on our analysis of what DMart's financials would have looked like under the rental model. DMart's store-ownership model, however, helps it to choose the 'best' location since there is no constraint that stores would need to be necessarily set up only in locations that are available on rent at what is deemed to be 'reasonable lease rates'. DMart has, in fact, the flexibility to choose and own any of the locations that it finds suitable for operating stores.

  On the flip side, the other way to look at DMart's ownership model is that since its modus-operandi is to only open stores at less-expensive places, there may not be ready-made malls operating therein (since malls are typically set up in more well-known localities which, by their nature, would mean higher rental costs) and hence DMart needed to necessarily own its stores if it had to operate at these locations.

  Be that as it may, the company's financial performance reports suggest that DMart's choice of owning the stores has worked extremely well for itself. Our conversations with other retailers have also led us to a rather obvious conclusion that in the retail business, it is absolutely important to have stores at one's disposal for a long-enough period of time, as a newly-opened store typically takes some time to mature and reach an optimal level of operations. If a retailer has to give up the store for some reason and move to a new location just when an existing store is maturing, the situation becomes rather sub-optimal as the retailer will land up incubating a new store at a new location all over again, besides losing out on perhaps what could have been the most profitable periods for the erstwhile store that the retailer had been incubating thus far.

In the illustration below, we present our analysis of what the profitability and cash-generation potential of a typical DMart store over a long period of operations look like. This is based on our understanding of the philosophy that DMart follows and the milestones that management seeks to achieve when it decides to open a new store.

We are taking a period of 20 years in our illustration, though the total lifespan of a store could in fact be longer since DMart owns its stores including the land on which they are constructed, and hence can operate the store out of the same location for a prolonged period of time, in our view. It is to be noted, though, that no DMart store has completed 20 years of operations so far since the first DMart store was launched only in 2002.

Analysis of store-economics of a representative DMart outlet

Exhibit 8. DMart – Single-store data (using FY17 financials as base for calculations)

	FY17	FY17
Avg Store Size - Sq ft	31,000	31,000
	Per sq ft (INR)	**Per Store (INR mn)**
Net Sales	**32,137**	**996**
Gross Profit	**4,917**	**152**
Gross Profit margin - %	15.3%	15.3%
Staff Costs	365	11
Contract labour charges	796	25
Electricity and fuel	269	8
Others	232	7
Estimated Store-level SG&A	**1,662**	**52**
Estimated Store-level EBITDA	**3,254**	**101**
Store-level cash margin %	10.1%	10.1%
Capex:	INR per sq ft	INR per store
Land	3,567	111
Buildings and fit-outs	5,145	159
Total Capex	**8,712**	**270**

DMart's INR 32k sales per sq ft is significantly ahead of peers'

Source: Company data, JM Financial

Exhibit 9. The IRR of a representative DMart store is c.25% on an average, as per our analysis (INR mn)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Gross Fixed Asset Turns (x)	1.2	1.8	2.6	3.4	4.2	4.9	5.6													
Revenue	324	486	702	918	1,134	1,323	1,512	1,709	1,880	2,049	2,192	2,324	2,463	2,611	2,768	2,934	3,110	3,297	3,494	3,704
% YoY Growth		50.0%	44.4%	30.8%	23.5%	16.7%	14.3%	13.0%	10.0%	9.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Sales per sq ft	10,454	15,681	22,651	29,620	36,589	42,688	48,786	55,128	60,641	66,099	70,725	74,969	79,467	84,235	89,289	94,647	100,325	106,345	112,726	119,489
Gross profit	43	67	100	134	169	201	234	268	297	326	351	374	399	426	454	484	513	544	577	611
Gross margin	13.3%	13.8%	14.3%	14.6%	14.9%	15.2%	15.5%	15.7%	15.8%	15.9%	16.0%	16.1%	16.2%	16.3%	16.4%	16.5%	16.5%	16.5%	16.5%	16.5%
Staff and Labour costs	29	34	36	37	39	41	42	44	46	48	50	52	54	56	58	60	63	65	68	71
Inflation - %		6.0%	4.5%	4.5%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Others	14	16	17	18	18	19	19	20	21	21	22	23	23	24	25	25	26	27	28	29
		6.0%	3.5%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EBITDA	0	16	47	79	112	141	173	204	231	257	279	300	322	346	371	398	424	452	481	512
EBITDA margin - %	0.1%	3.3%	6.8%	8.6%	9.8%	10.7%	11.4%	11.9%	12.3%	12.5%	12.7%	12.9%	13.1%	13.2%	13.4%	13.6%	13.6%	13.7%	13.8%	13.8%
Depreciation	12	12	12	12	12	14	14	14	14	14	14	17	17	17	17	17	17	21	21	21
EBIT	-12	4	35	67	99	127	158	190	216	242	265	283	305	329	354	381	407	431	460	491
Tax	-4	1	12	23	35	44	55	66	76	85	93	99	107	115	124	133	142	151	161	172
Tax rate - %	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
NOPAT	-8	3	23	43	65	83	103	123	140	158	172	184	198	214	230	248	265	280	299	319
Add: Depreciation	12	12	12	12	12	14	14	14	14	14	14	17	17	17	17	17	17	21	21	21
Less: Capex	270					49						62						79		
Less: NWC	19	10	13	13	13	11	11	12	10	10	9	8	8	9	9	10	10	11	12	12
Free Cash Flow	-285	5	22	43	64	37	106	126	145	162	178	131	207	222	238	255	271	211	308	328
Discount Factor (WACC of 11%)	0.90	0.81	0.73	0.66	0.59	0.53	0.48	0.43	0.39	0.35	0.32	0.29	0.26	0.23	0.21	0.19	0.17	0.15	0.14	0.12
Present Value of FCF	-257	4	16	28	38	20	51	55	57	57	56	37	53	52	50	48	46	32	42	41
IRR		24.6%																		
Net Present Value of a Store at 11% WACC		527																		
ROIC Workings																				
NWC - INR mn	19	29	42	55	68	79	90	102	112	122	131	138	147	156	165	175	185	196	208	221
NWC - % of sales	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Gross Fixed Assets	270	270	270	270	270	319	319	319	319	319	319	381	381	381	381	381	381	460	460	460
Accumulated depreciation	12	24	36	49	61	75	89	104	118	133	147	164	181	198	216	233	250	271	291	312
Net Fixed Assets	258	246	234	221	209	244	230	215	201	187	172	217	200	183	166	148	131	189	168	148
Invested Capital	277	275	275	276	277	323	320	317	313	309	303	356	347	338	331	323	317	386	377	368
Post-tax ROIC	-2.8%	1.0%	8.3%	15.7%	23.4%	27.6%	32.0%	38.7%	44.6%	50.7%	56.3%	55.9%	56.5%	62.4%	68.8%	75.8%	82.7%	79.8%	78.5%	85.7%

Source: JM Financial

10% store-level margin & >25% post-tax ROIC by Year-6 of operation

- As evident from the table above, our store-economics analysis suggests that DMart's model is highly attractive both from the perspective of profitability as well as cashflow generation, notwithstanding the fact that the business has to incur significant sums of capex to buy the land and build the store infrastructure and interiors initially. In contrast, the capex required for opening a new leased-store would be much lower since the retailer would typically incur expenses only on the store interiors and fit-outs.

- We believe a representative DMart store can quite easily generate mid-teens ROIC by the 4th year of its operations which would comfortably scale-up to c.50% by the 10th year.

  The IRR that a representative DMart store can generate over a 20-year period is in excess of 20%, as per our workings, without considering terminal value or release of invested capital at the end of the period. When compared to the cost of capital (11%), this essentially reflects the highly cash-generative nature of DMart's business model.

- As mentioned earlier, the efficiency of DMart's operating model and better profitability are in large part driven by the higher throughput that its stores generate, which in turn is boosted by the 'Every Day Low Price' value-for-money proposition that it provides to the shoppers at its stores; of course, product assortments, choice and selections also have important roles to play in attracting consumers to the stores. By the 7th year of a store's opening, we believe a representative DMart store would typically have a gross fixed asset turn of >5x implying that its revenue would then have scaled up to >5x the initial capital invested in opening the store (including the cost of land on which the store is built).

  Our single-store economics model is based on the following assumptions:

  - Average store size of 31,000 sq ft.
  - Build-out capex of c.INR 8,710 per sq ft (as derived from DMart's FY17 financials) – this includes the cost of land, building and store fit-outs.
  - Gross profit margin in the range of 13-16% - starting at the lower-end and assuming sales-mix gets richer as time progresses.
  - A steady scaling-up of revenue at the store (described in detail below).
  - Given that a store's operation is usually not at its optimum revenue potential in the initial few years, our analysis also assumes that instore overheads and employee related costs are at 80-90% of fully scaled-up level in the initial couple of years of operations.

- The company's management had alluded that, on an average, a representative DMart store clocks an asset-turn of 2x and EBITDA margin of 5% (pre-tax cash basis) by the end of the second year of operation, and most stores reach their maturity by the 8th year of operation beyond which growth gets to a level which is just about 1-1.5% higher vs general rate of inflation in the economy.

  In light of the above, while building the store ramp-up in our single-store model, we have pencilled in an asset-turn of 1.2x in the store's commencement year, 1.8x in Year-2 which steadily ramps-up to c.5.5x by Year-7. It is also important to remember here that DMart's store capex is much higher (3-3.5x) compared to what its competitors incur, since it adopts an ownership model for the stores that it runs and hence needs to buy the land as well as to construct the stores' infrastructure. In that context, a gross asset-turn of c.1x itself in the first year translates into a rather healthy throughput in terms of scale. By the end of the 6th year, we expect a store to generate per sq ft revenue of INR40,000+ which would lift store-level EBITDA margin to 10%+ and ROIC (post-tax) of c.25%, as per our workings.

DMart's LFL growth can possibly sustain in high-teens range over next several years

- We transpose the learnings from our study of DMart's single-store economics to analyse the effect of new store openings on the 'like-for-like' (LFL) or same-store sales growth that the company can clock over a period of time. DMart defines LFL growth to mean the growth in revenue from sales of same stores which have been operational for at least 24 months at the end of a fiscal.
- As per our analysis, revenue growth for a representative DMart store would remain well-above the 20% mark upto the store's 5th year of operation, and then slowly moderate to sub-10% by the 10th year. The high growth phase upto year-5 (50%, 44%, 30%, 23% in years 2, 3, 4 and 5 respectively, as per our estimates) is, of course, driven in large part by the natural scale-up in footfalls and throughput to a more optimum level as the store gains popularity with local residents and nearby shoppers over time.
- Based on growth expectations as outlined above, it seems quite probable, to us, that DMart can continue clocking near-20% LFL growth even until FY20E - which would moderate by FY29E but still be at the mid-teens range. Interestingly, the analysis effectively concludes that LFL growth is a lot dependent on the pace of new store openings. It is important to have new stores growth, if LFL growth is to remain high; this is because of the accelerated growth that new stores witness in the 2nd to 5th/6th year of their operations. On the flipside, however, new stores are typically margin and also ROIC dilutive, albeit for the initial phase only; we believe a DMart store clocks a positive EBIT in year-2 itself and c.15% post-tax ROIC in the 4th year.

Exhibit 10. As at Mar'17, 38% of DMart's "same-stores" are less than 5 years old which helps lift LFL growth at an overall level

Stores Ageing - FY17	No. of stores	SSSG
>8 years	30	9%
>7 years	7	13%
>6 years	8	14%
>5 years	10	17%
>4 years	7	24%
>3 years	13	31%
>2 years	14	44%
Blended LFL growth - FY17		**21%**
% of "same-stores" <5 yrs in operation	38%	

Source: Company, JM Financial

Exhibit 11. Store-ageing profile in FY20E could still allow DMart to clock high-teens LFL growth, as per our workings

Stores Ageing - FY20E	No. of stores	SSSG
>8 years	55	7%
>7 years	7	13%
>6 years	13	14%
>5 years	14	17%
>4 years	21	24%
>3 years	21	31%
>2 years	14	44%
Blended LFL growth - FY20E		**18%**
% of "same-stores" <5 yrs in operation	39%	

Source: Company, JM Financial

- Our financial forecasts for DMart is premised on a 15-16% CAGR in retail-area under operations over FY18-24E and this is one of the critical parameters to monitor, we believe, to decipher whether LFL growth for the company overall can continue to be in the mid-to-high teens range. Another critical assumption, of course, is that consumer sentiments do not undergo a severe downturn during this period.

- We do note that it could be harder for a retailer to 'buy' an altogether new property to construct a greenfield store than 'leasing' a new store in a ready-to-occupy property; DMart's store-ownership model makes this factor all the more important to monitor, although management has been quoted in recent media reports that the company may be 'willing to forgo owning its stores'.

Rental vs store-ownership model: DMart's ROIC under the rental model would have been over 30%

- DMart's decision to own instead of renting its stores has often been credited as one of the key factors that drove its success. One side of the story is that since retailers typically incur 7-8% or more of their revenue on store rentals, taking rental costs off the P&L has enabled DMart to aggressively discount the merchandise that it sells at its stores and accordingly strengthen its value-proposition to the customers, which has helped it achieve the significantly higher revenue per sq ft vs peers.

  We agree that the argument does have merits, but one must also note that ownership model requires a much higher upfront capital investment to buy land and build the infrastructure to house the stores ('Land' and 'Building' comprises >85% of DMart's gross block, as per FY17 annual report) and that may not be everyone's cup of tea.

  In such a model, the retailer is also committing long-term to a particular retail site – this long-term arrangement works well if the site is good, else it may mean blocking of capital on a sub-par asset; needless to say, the ability to choose a good site is extremely critical in such a case.

  Higher capital investment also means lower ROIC in the business, ceteris parabus.

- Given that there are media reports of DMart's willingness to forego store ownership in order to accelerate store openings, we thought it worthwhile to analyse how the company's financials would have looked in case DMart adopted the more conventional rental approach to store-operations instead of the ownership model that it is currently works on.

Exhibit 12. Summary profit and loss – Ownership vs Rental (INR mn)

	DMART REPORTED FINANCIALS				RENTAL MODEL (ESTIMATED)			
	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17
Revenue	46,865	64,394	85,838	118,977	46,865	64,394	85,838	118,977
Gross Profit	7,021	9,522	12,802	18,167	7,021	9,522	12,802	18,167
GPM	15.0%	14.8%	14.9%	15.3%	15.0%	14.8%	14.9%	15.3%
Staff	873	1,341	1,490	1,925	873	1,341	1,490	1,925
% of revenue	1.9%	2.1%	1.7%	1.6%	1.9%	2.1%	1.7%	1.6%
Rent	88	132	204	354	1,440	1,863	2,450	3,236
% of revenue	0.2%	0.2%	0.2%	0.3%	3.1%	2.9%	2.9%	2.7%
Other Exp	2,642	3,460	4,472	6,075	2,642	3,460	4,472	6,075
% of revenue	5.6%	5.4%	5.2%	5.1%	5.6%	5.4%	5.2%	5.1%
EBITDA	3,418	4,590	6,636	9,812	2,066	2,859	4,390	6,930
% margin	7.3%	7.1%	7.7%	8.2%	4.4%	4.4%	5.1%	5.8%
Dep	570	815	984	1,278	282	367	426	505
EBIT	2,848	3,775	5,652	8,534	1,783	2,492	3,964	6,425
Int	557	724	913	1,220	56	72	91	122
Other Income	158	183	179	286	158	183	179	286
PBT	2,449	3,233	4,918	7,600	1,886	2,603	4,052	6,589
% margin	5.2%	5.0%	5.7%	6.4%	4.0%	4.0%	4.7%	5.5%
Tax	835	1,109	1,715	2,683	643	893	1,413	2,326
ETR	34.1%	34.3%	34.9%	35.3%	34.1%	34.3%	34.9%	35.3%
PAT (before minority/associates)	1,614	2,124	3,203	4,917	1,243	1,710	2,639	4,263
PAT margin %	3.4%	3.3%	3.7%	4.1%	2.7%	2.7%	3.1%	3.6%
					Difference in PAT between rent and ownership			-13.3%

85bps estimated difference in PBT margin vs higher difference of 242bps in EBITDA margin - due to savings in finance charges & lower depr under rental model

Source: Company, JM Financial

- Our short conclusion: Ceteris parabus, post-tax profits under the rental model may have been c.10-15% lower vs what the company actually earned, but the business' ROIC would have been significantly higher than what DMart reported - c.31% vs c.18% reported for the latest financial year.

This is because the total invested capital in the business without the land/building infrastructure would be less than half of DMart's actual capital deployed in the business, as per our workings (see Exhibit below).

On the earnings front, the business' profitability in the case of a rental model would be hit by store-rental costs which would be partly offset by lower depreciation charge.

Not related to ROIC, but the company's interest costs would also be much lower as it may not have needed so much of debt financing had it not invested in land and building infrastructure for its stores. Free cashflow, of course, improves a great deal.

DMart had a net debt of INR 11bn at end-Mar'16 – the year before its initial public offer in which the company raised INR18.7bn of capital; this converted the company's balance sheet into a net-cash one at end-FY17. Against this debt of INR 11bn at end-Mar'16, we estimate there was c.INR 15.8bn of Land & Building that related to store-ownership. In other words, DMart would have had a net-cash positive BS even before its IPO, had it not chosen to own the stores that it operated.

- One critical assumption made by us here is the lease rent payable by DMart if it was to lease its stores. Our workings for the purpose of this exercise are based on rentals of INR 60-70 per sq ft per month on an average (Future Retail's rental costs work out to INR 85 per sq ft per month, as per our calculations from the company's latest annual report). The relatively lower rental costs that we assumed for DMart is based on the kind of localities that DMart has thus far chosen to operate its stores at. Rather than setting up stores based on 'localities' and at well-known premium malls, DMart's philosophy and focus has instead been on offering value to its consumers through attractive pricing of its merchandise.

Exhibit 13. Operating stores on rental model yields lower absolute profit but significantly higher ROIC (INR mn)

	FY14	FY15	FY16	FY17
Invsted Capital as reported	15,582	20,944	27,109	34,886
Land & Bldg excluded (75% of "bldg" excluded; 25% assumed to relate to store interiors / fitouts etc)	9,989	13,131	16,588	20,846
Less: Acc dep on Land & Bldg	936	1,227	772	1,883
Net block to be excluded	9,054	11,904	15,816	18,963
Estimated Invested Capital under the rental model	6,528	9,040	11,293	15,923
Post-tax EBIT as reported	1,877	2,480	3,681	5,522
Estimated Post-tax EBIT under rental model	1,175	1,637	2,582	4,157
ROIC as reported		14%	15%	18%
Estimated ROIC on store-rental model		21%	25%	31%

Source: Company, JM Financial

- We are, however, also cognizant of the fact that availability of quality retail space at the desired localities would have an influence on the company's ownership decision in the future. Given that a typical DMart store requires quite a large area (DMart's stores are c.30,000sq ft in size on an average), it may not be always easy to secure such large retail spaces in locations that are also not very expensive. This factor may have been one of the reasons why other retailers opted for a rental model for their operations. DMart's ability to secure such property deals for itself would be put to test all the more whenever the company would need to expand its operations into an altogether new region (e.g. Eastern India).
- Moreover, rental expenses would have lowered the company's EBITDA margin from 8.2% to 5.8%, as per our estimates. Margin in FY14-15 would have been sub-5% in such a scenario (where DMart rented its stores instead of owning them). We are not sure how secure a retailer would feel to operate at such a low level of margin, especially at the initial stage when start-up and incubation costs would also be quite high and throughput relatively lower. The need to up margin-cushion may, in fact, tempt a retailer to think of ways to push up its gross profit margin profile (c.15% for DMart) – this may have the

effect of diluting the essential value-proposition of 'Every Day Low Price' which we believe is the corner-stone of the high throughput that DMart has been enjoying.

In our view, it is only very deep-pocketed players who would probably be able to toy with the idea of developing a model of this nature; most others will necessarily choose the alternative to 'play safe' with the conventional model of offering a good 'shopping experience' as a key value-proposition. This, in our view, could also be one key reason why no other retailer has so far attempted a model akin to that of DMart's, even though it has been quite evident for some time now that DMart probably enjoys the best store-economics and profitability metrics amongst its retail peers.

How long is the runway for new store opening?

- Given the importance of new store opening in driving LFL growth for the company, as discussed in the earlier section, and also considering the fact that in order to increase penetration of organised retail, retailers would need to open new stores to tap newer sets of customers at newer locations, we believe it may be worthwhile to examine the potential for new store openings to assess the length of the runway available to retailers such as DMart as far as new store openings are concerned.
- DMart's financial data (FY17) indicates that revenue per bill at its stores averages INR1,100 currently. If we take this to be an indication of the size of the shopping basket for a typical family, and assuming an average middle-class family shops for Food & Grocery twice a month at a supermarket/hypermarket, this would mean that DMart is currently catering to the F&G needs of about 4.5mn households every year, assuming these households buy most of their F&G from DMart. This implies that an average DMart store is catering to the annual F&G requirements of approx. 37,500 families / households. See Exhibit below for detailed workings.
- Out of the total 250mn households that are there in the country, the target segment for organised F&G retailers would, in our view, be the urban SEC A to C households, which currently comprises c.18% of the total households in the country. This, as per our workings, pegs the current addressable market for organised F&G retailers at c.45mn households.

  Based on the current number of households serviced per DMart store, and assuming these stores are running at 70-80% capacity level at present, we believe there is a potential for 900 such stores to exist in the country. Compared to this, DMart's current store count is 141 (Dec'17 data), implying a share of c.15% for DMart in terms of number of stores. DMart's current share in total organised F&G retail appears to be in the range of 18-20%, as per our calculations.

  Taking into account the expected growth rate in population/households, alongside the expectation of increased urbanisation and growth in households income, our conservative estimate is that there could be a requirement for 1,500 such stores in next 10 years' time.

  In essence, store growth would be constrained more by DMart's roll-out/execution capability (including its ability to identify the right locations to buy land to build new stores that can be run profitably) than by market opportunities, we believe.

Exhibit 14. Potential exists for 1,500 DMart-type stores in the country in the next 10 years

Total number of households in the country currently - mn	250
% of SEC A to C Urban Households	18%
Target households - mn nos	45
Dmart's average value per bill - INR	1,101
Average shopping bill per household p.a. assuming an avg family shops twice a month - INR	26,434
Dmart's FY17 Revenue (incl consignment sales) - INR mn	119,503
Mn no. of households serviced by Dmart in FY17	4.5
Average no. of Dmart stores in operation through FY17	121
Average no. of households serviced per store (rounded off)	**37,500**
Estd optimum average no. of households a single store can service	50,000
Estd no. of stores required to service the entire target households	**900**
Estd no. of stores that would be required in 10 years' time (rounded off)	**1,520**

Source: Company, Industry data, JM Financial
Note: Store requirement after 10 years computed based on 2% annual growth in number of households and increase in % of urban SEC A-C households to 25% vs 18% at present.

The big valuation debate: Is there money to be made at 78x one-year forward PE?

- **Given DMart's proven execution and profitability track-record, we reckon that the big debate that we are likely to be having with investors may not be so much on DMart's store-economics that we have discussed at length in the earlier sections, but may centre more around the stock's steep near-term valuation multiples.** At the current market price of INR 1,312, DMart is trading at an EV-EBITDA of 46x on a one-year forward basis; one-year forward PER works out to 78x. These multiples are significantly higher compared to our consumer coverage group's (ex-ITC) 30-31x (EV-EBITDA) and 47x (PER) respectively. On FY20 basis, DMart's EV-EBITDA and PER are 36x and 61x respectively. Its valuation premium vs our consumer coverage group's average narrows a tad (37% EV-EBITDA premium based on FY20E financials compared to 49% premium on FY19E basis) when valued using FY20's financials on account of significantly higher growth rate of c.29% in DMart's net profit (FY18-20E) compared to the coverage group's c.16% growth estimate for the same period.

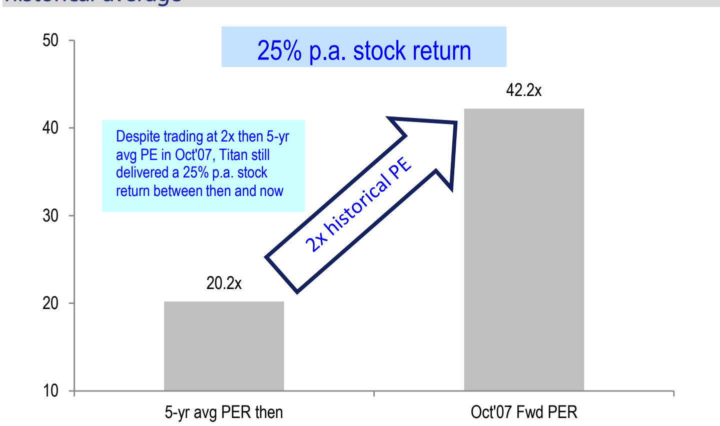
- Therein lies the challenge. DMart is trading at a significantly premium valuation and the stock is more than 4x its Mar'17 initial public offer price of INR 299 a piece.

- When we look at the other stocks in our consumer coverage group, Titan Company (TTAN IN) currently commands the richest multiple in the group (58x one-year forward PER and 40-41x on EV-EBITDA basis). Titan's stock is one where there have been multiple debates on valuations at several points in time; Titan's valuations have looked rich on various occasions in the past but the stock has still delivered one of the best returns for investors in recent times. The stock generated an annual return of 34%, 30% and 33% on 3-year, 5-year and 10-year basis, respectively. Even three years back, the stock was trading at a rich multiple of 50x – 66% higher vs then 5-year average PE of c.30x.

  If we go back to Oct 2007 level, the stock was trading at a pretty rich PE multiple of 42x which is more than twice the then 5-year average of c.20x (note that we chose Oct'07 as the point of reference as we were looking for a time which is long enough in the past and when the stock was trading at what was then considered an 'obscene' multiple compared to its trading history). Even then, however, the stock still delivered a compounded return of 25% between that time and now.

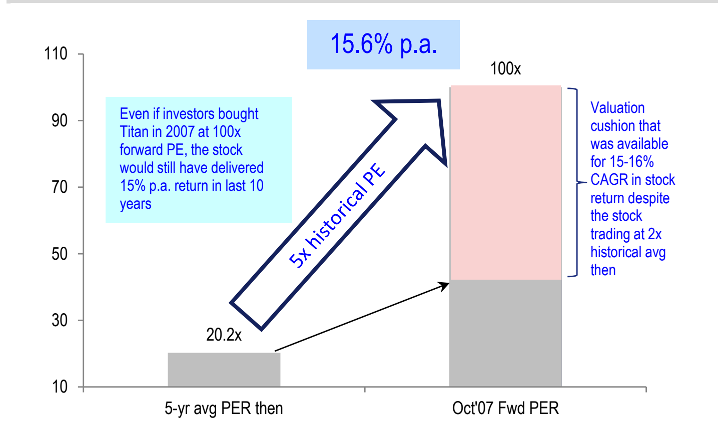
  In fact, had an investor bought Titan at 100x forward PE at that time, the stock would still have delivered a 15% CAGR in this 10-11 years' timeframe to those who held on to the stock. Titan's above-average earning CAGR of 23.4% over the past 10 years is what contributed to the stock's strong performance despite its premium valuation, in our view. We see a similar situation for DMart which we believe is well-poised to deliver 25% earnings CAGR over the next 10 years (FY18-28E).

Exhibit 15. Titan's stock delivered a return of 25% p.a. to investors in the past 10 -11years, despite it quoting at a PER that was 2x then historical average



Source: Company. Bloomberg, JM Financial

Exhibit 16. Had Titan been bought then (2007) even at 100x forward PE, the stock would still have delivered a return of 15-16% CAGR between then and now



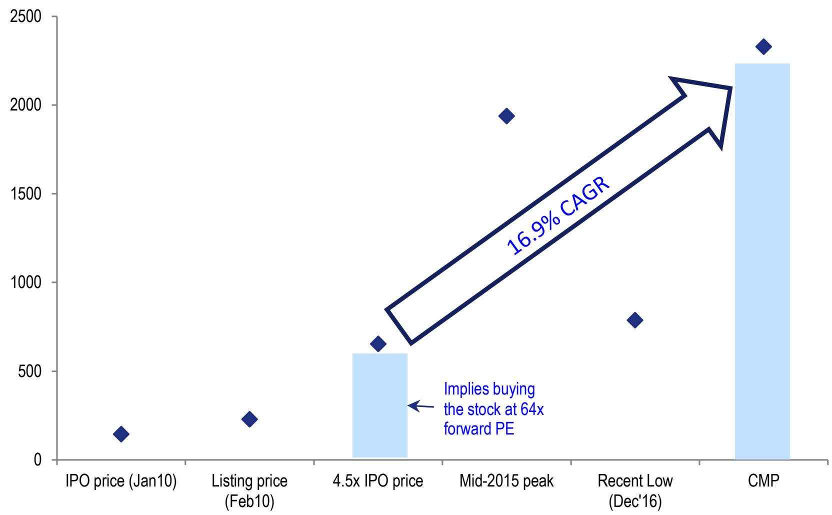
Source: Company, Bloomberg, JM Financial

- While on this subject, the other example that comes to mind is Jubilant Foodworks (JUBI IN), the franchisee of Dominos' Pizza in India. Jubilant did its initial public offering in early-2010 at a price of INR 145/share. The stock rose 58% on the day of its listing to close at INR 229. An investor who bought the stock at that price of INR 229/share and held till today would be earned a compounded stock return of c.33% over the past 8 years.

  Interestingly, even if Jubilant Foodworks was bought 8 years back at 4.5x its IPO offer price i.e. at INR 653 per share (akin to the level at which DMart is trading today vs its IPO price – INR 1,321 vs IPO price of INR 299), the stock would still have delivered a return of c.17% CAGR between then and now. Incidentally, buying the stock at 4.5x the IPO offer price 8 years back would have meant buying at 64x one-year forward PE.

  One must note that such returns have, however, not always been linear and even sound business models have their share of 'downtime' and rough patches, e.g. Jubilant lost more than half its value between mid-2015 and Jan'17 when its business went through a downturn.

Exhibit 17. Jubilant Foodworks' stock delivered a 16.9% p.a. return even if bought at 4.5x the IPO offer price on listing day (at 64x forward PE)



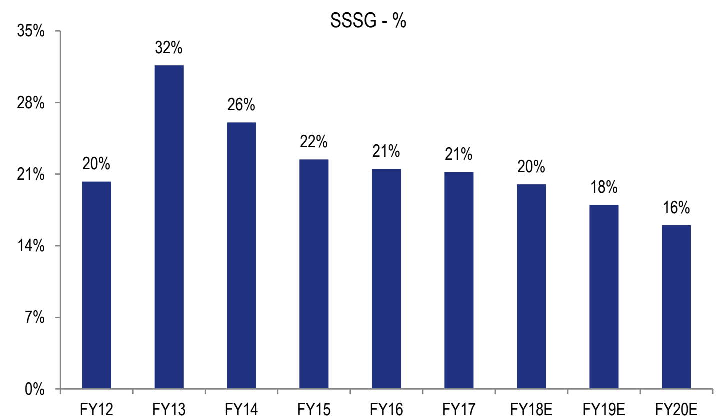
Source: Company, Bloomberg, JM Financial

Summary of Key Financials

Revenue

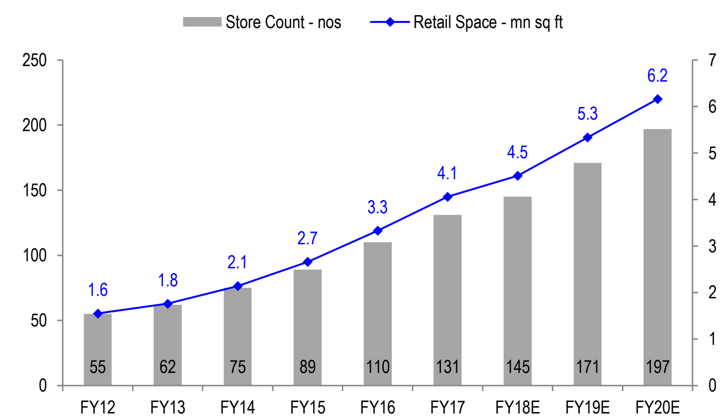
- DMart clocked a strong revenue CAGR of 39.6% over FY12-17 resulting in a 5-fold increase in its revenue-base from INR 22.6bn in FY12 to INR 120bn in FY17. Roughly half of the growth was attributable to the rapid pace of expansion in retail area under operations, which grew 21.2% per annum from 1.6mn (55 stores) to 4.1mn (131 stores) over the same period. The other half of the growth was driven by a healthy LFL growth in same-store sales (note that DMart defines LFL growth as the growth in revenue from sales of same stores which have been operational for at least 24 months at the end of a fiscal) – LFL growth ranged between 21% and 32% during the 5-year period.

Exhibit 18. SSSG is expected to remain in high-teens in near future



Source: Company, JM Financial

Exhibit 19. Pace of store expansion is expected to moderate



Source: Company, JM Financial

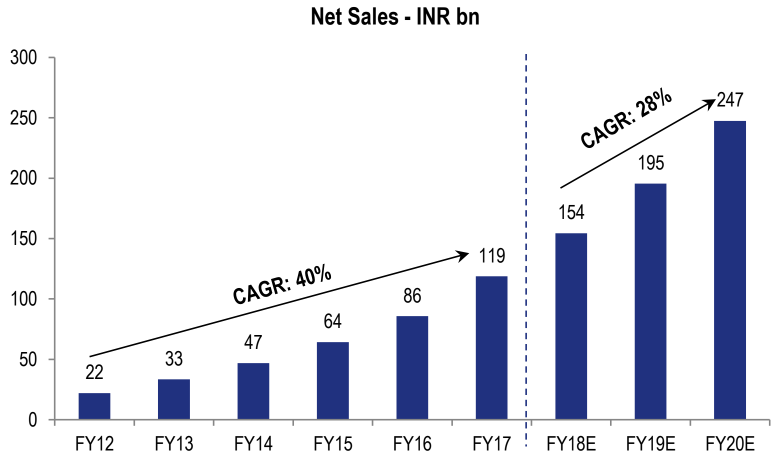
We are building in a moderation in pace of retail expansion over FY17-20E of 14.9% vs 21.2% clocked over FY12-17. This is partially on account of subdued growth of 11.1% expected in FY18E. We expect pace of expansion to pick-up to 18% in FY19E and 15.5% in FY20E.

Compared to 21% growth in retail space reported over FY12-17, we are forecasting a 15% CAGR therein for the next 5 years (FY17-22E); the store expansion forecast for FY18-20E is based on the expansion plan outlined in DMart's IPO prospectus.

On LFL growth, we estimate 20%, 18% and 16% in FY18E, FY19E and FY20E. respectively. Some moderation in LFL growth is attributable to the fall in pace of store expansion as growth rates in older stores would be lower in comparison to newer stores that benefit from a natural scale-up in footfalls and throughput to a more optimum level as the store gains popularity with local residents and nearby shoppers over time.

The above factors are expected to drive 27.7% revenue CAGR over FY17-20E, leading revenue to more than double to INR248bn over this period.

Exhibit 20. We expecting a healthy 28% revenue CAGR over FY17-20E (INR bn)

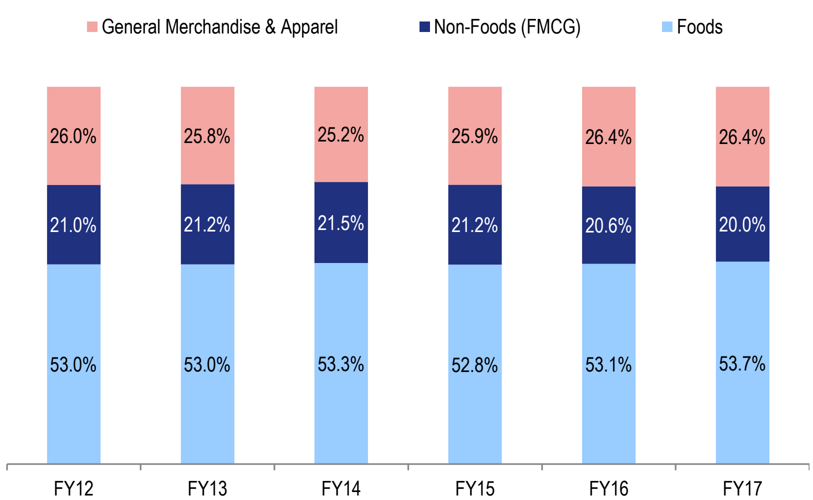


Source: Company, JM Financial

Profitability

- DMart's earnings performance has outpaced its topline by c.8ppt p.a. with EBITDA growth of 48% p.a. over FY12-17. The outperformance was driven by cumulative operating margin expansion of c.200bps over the 5-year period, mainly on account of higher store throughput helping better absorption of SG&A, though there was some element (c.60bps) of gross margin expansion as well. Gross margin expansion was likely a function of slightly improved product mix in older stores.

Exhibit 21. Category-mix at DMart stores hasn't changed much over the years

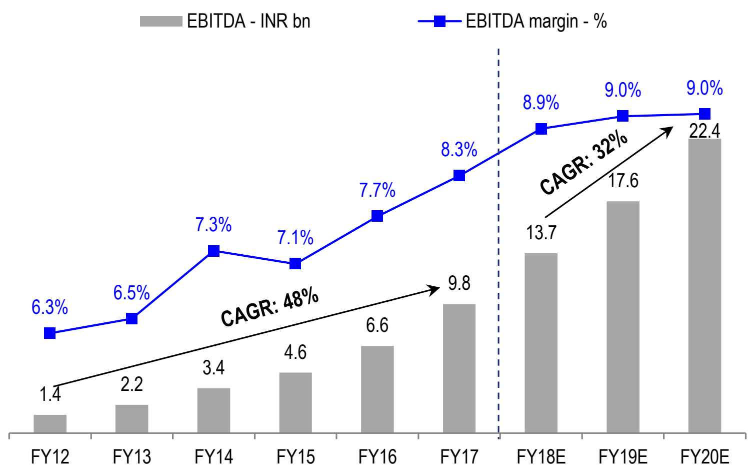


Source: Company, JM Financial

- Net profit growth was significantly higher vs EBITDA at 51.6% CAGR over FY12-17 helped by slower growth in depreciation (27.8% CAGR) and interest expenses (36% CAGR) vs revenue.

  We forecast 31.6% EBITDA CAGR over FY17-20E on revenue CAGR of 27.7%. Higher operating profit flowthrough is expected to be contributed by 78bps cumulative improvement in operating margin over FY17-20E to 9% vs 8.2% in FY17. Margin expansion is led almost equally by gross margin improvement (better product mix) as well as scale-led operating leverage benefit.

Exhibit 22. EBITDA margin to sustain near FY18 levels



Source: Company, JM Financial

Note: Pending FY18 Final Accounts, we have not yet incorporated GST related accounting changes in our model. While this has no material impact on absolute EBITDA, % margin under GST accounting would be higher at 9.2%, 9.4% and 9.5% respectively

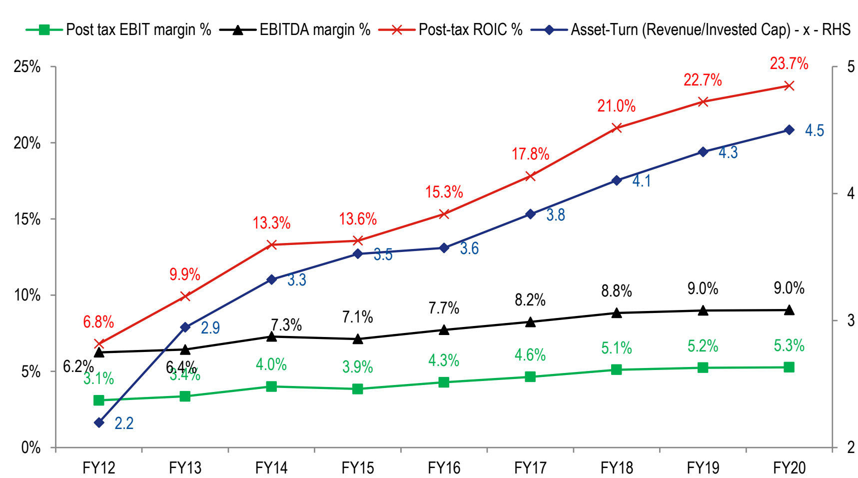
- Adjusted net profit is estimated to grow at 40.7% CAGR over FY17-20E (growth was c.60% YoY in 9MFY18) to INR13.4bn in FY20E. We forecast EPS of INR12.8, INR16.8 and INR21.5 for FY18E, FY19E and FY20E respectively.

Return-ratios

- DMart's focus on delivering healthy returns on its capital-investment is quite visible over the past 5 years – post-tax ROIC has steadily improved every year from a mere 6.8% in FY12 to 17.8% in FY17 despite the aggressive ramp-up in retail area under operation, which grew at 21% per annum. DMart's revenue per sq ft has doubled INR 16,000 in FY12 to INR 32,340 in FY17 – the significantly higher throughput per sq ft has driven higher asset-turns – 3.8x in FY17 vs 2.2x in FY12. Higher throughput has also helped operating margin expansion (explained above). ROEs are also higher now at 17.9% (FY17) vs 8.8% in FY12 but have dropped from peak levels of 23.6% reported in FY16 on account of recent equity dilution through IPO (Mar'17).

  We expect both ROIC and ROE to scale-up to c.23% by FY20E aided by higher asset turns as well as a slight improvement in operating margin.

Exhibit 23. ROIC & its components



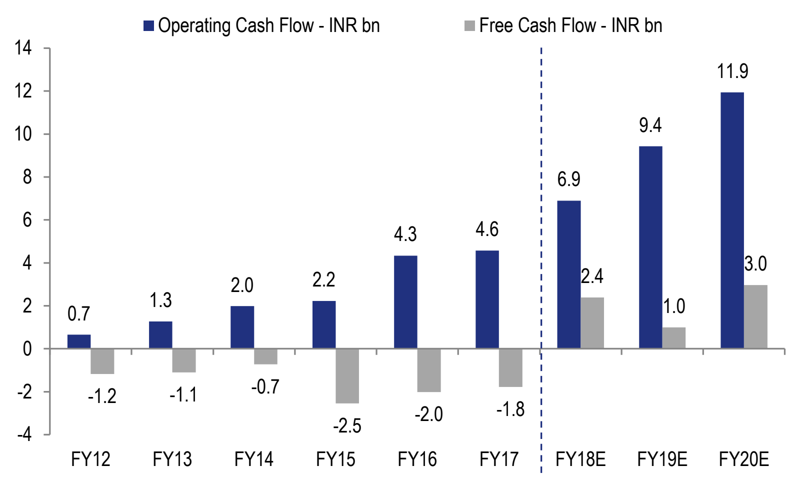
Source: Company, JM Financial

Cash

- DMart has generated positive operating cashflows (OCF) in each of the past 5 years – this stood at INR 4.6bn in FY17 – 7x that of FY12's OCF of INR 654mn. Free Cash Flow (FCFF) has, however, been negative every year on account of the high pace of store expansion which necessitated higher spends on capex more so since the company chose to own most of the stores that it operates. This led to a sharp spike in net debt from INR3.1bn in FY12 to INR 11.4bn in FY16. However, the proceeds of INR 18.7bn from the IPO in Mar'17 has helped the company turn its BS into a net cash positive one; DMart had a net cash balance of INR 4.1bn at the end of Mar'17.

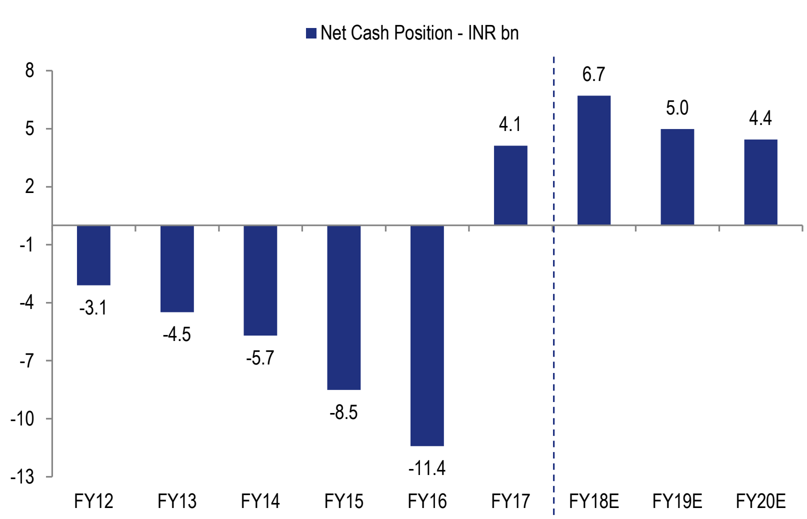
  Given the relatively slower pace of space expansion in FY18 (11% YoY growth vs 21% CAGR over FY12-17), we expect DMart to report a healthy INR 2.3bn in FCFF in FY18; we expect FCFF to remain positive henceforth, although FY19E would be lower vs FY18E on account of an expected pick up in the pace of store expansion.

Exhibit 24. Expecting DMart to be FCFF positive going forward (INR bn)



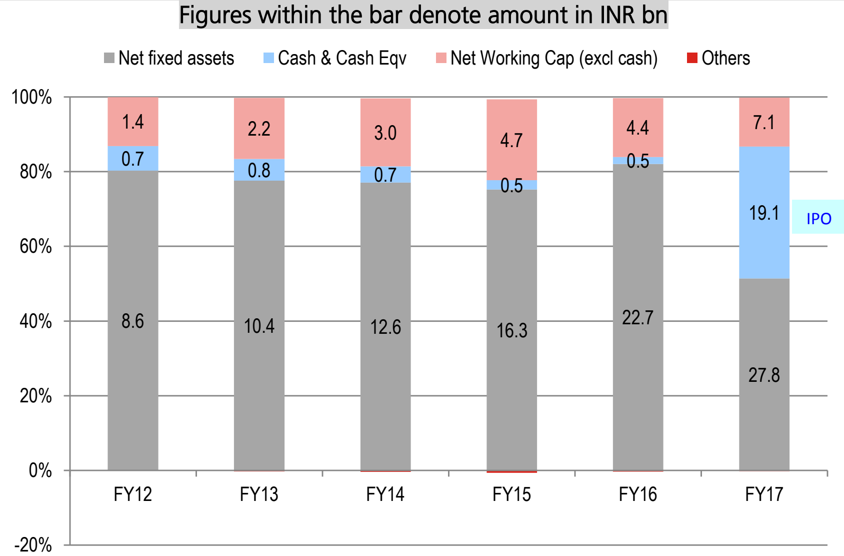
Source: Company, JM Financial

Exhibit 25. DMart's BS has now turned into a net-cash one (INR bn)



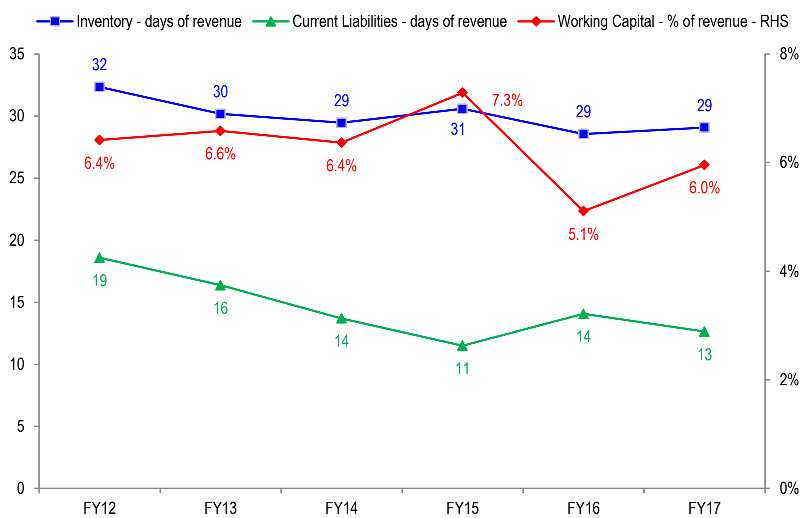
Source: Company, JM Financial

Exhibit 26. Components of Balance Sheet (INR bn)



Source: Company, JM Financial

Exhibit 27. Working capital trend



Source: Company, JM Financial

Valuation and target price

- DMart stock is presently trading at c.46x NTM EV/EBITDA and c.78x NTM earnings; Valuations are undoubtedly rich when compared to our consumer coverage group's average multiple of 30x EV/EBITDA (ex-ITC) and 46x EPS. Headline valuations, however, ignore the underlying growth potential, in our view; compared to our coverage group's estimated FY17-20E earnings CAGR of 15-16%, we estimate DMart's EPS to grow at c.35% p.a. over the next 5 years.

  As discussed in earlier sections, we believe DMart is a key beneficiary of the decadal growth opportunity in Food & Grocery retailing, which has a mere 3% organised sector penetration – this provides DMart with an prolonged high-growth phase – we expect its revenue and profit to be respectively at least 9x and 13x their current size in ten years' time. In this context, relative valuation multiple based on near-term earnings probably under-estimate the intrinsic value and growth potential of the business.

- We prefer to use DCF as the methodology for valuation in this case as it better captures the growth potential through a longer lifecycle as well as the profitability potential inherent in its efficient business model. Our DCF analysis yields an intrinsic value of INR 1,673 per share on the stock – this value when compared to the 12M forward earnings yields a 'fair valuation multiple' of 46x on EV-EBITDA and 77x on PE basis. Our price target implies 28% upside from current level which is almost entirely driven by growth in earnings, which we estimate to be 31% in FY19E and 27% in FY20E. Given high inherent growth potential, we do not expect any significant de-rating for the stock notwithstanding the steep headline multiples that the stock is currently trading at.

- As discussed earlier, Titan Company (TTAN IN) has delivered strong return for shareholders even when bought at relatively steep multiple compared to trading history; Titan's valuations have in fact looked rich at most occasions in the past but the stock has still managed to deliver one of the best returns for investors in recent times. The stock generated an annual return of 34%, 30% and 33% on 3-year, 5-year and 10-year basis. Titan's above-average earnings CAGR of 23.4% over the last 10 years is what contributed to the stock's strong performance despite its premium valuation, in our view.

  On similar lines, DMart's strong earnings growth trajectory (we estimate 25% earnings CAGR over the next decade) would, in our view, enable it to boost shareholder return even from current level where headline valuations look undoubtedly steep on near-term earnings.

- Our DCF analysis is based on following assumptions:

  a) FCFF CAGR of 28% over the explicit forecast period covering FY18-35E, followed by 9% FCFF CAGR during the fade phase (FY35-45E).

  b) Weighted average cost of capital of 11%.

  c) Terminal growth rate of 6%, which we believe is reasonable for the business, considering the growth opportunity that the F&G retailing space presents in India.

Our DCF-based target price works out to INR 1,675 implying 28% upside

	FY17	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	CAGR
Explicit Forecast																				FY18-35
EBIT	8,534	12,165	15,785	20,116	25,455	32,250	40,635	51,264	64,874	78,141	93,992	112,712	131,967	154,017	179,212	208,484	234,041	262,712	294,841	**20.6%**
Tax Rate	35.3%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	**5,522**	**7,911**	**10,266**	**13,082**	**16,555**	**20,973**	**26,427**	**33,339**	**42,191**	**50,819**	**61,128**	**73,303**	**85,825**	**100,165**	**116,550**	**135,587**	**152,208**	**170,855**	**191,750**	**20.6%**
Depreciation	1,278	1,519	1,840	2,270	2,758	3,347	4,058	4,917	5,890	6,951	8,125	9,407	10,790	12,263	13,884	15,556	17,273	19,204	21,370	
Change in net working capital	-2,699	-2,665	-2,801	-3,606	-4,275	-5,402	-6,224	-7,753	-9,482	-9,707	-11,309	-13,086	-13,343	-14,836	-16,722	-18,688	-17,235	-19,272	-21,534	
Capex	-6,683	-4,514	-8,431	-8,976	-10,644	-12,913	-15,547	-18,815	-19,946	-22,059	-24,077	-25,921	-27,509	-28,664	-32,705	-29,597	-33,216	-37,207	-41,593	
Free Cash Flow	**-2,582**	**2,252**	**874**	**2,770**	**4,394**	**6,005**	**8,714**	**11,689**	**18,652**	**26,004**	**33,866**	**43,702**	**55,763**	**68,927**	**81,007**	**102,859**	**119,031**	**133,579**	**149,993**	**28.0%**
Discount Factor				0.90	0.81	0.73	0.66	0.59	0.53	0.48	0.43	0.39	0.35	0.32	0.29	0.26	0.23	0.21	0.19	
Discounted FCFF				**2,496**	**3,566**	**4,391**	**5,740**	**6,937**	**9,972**	**12,525**	**14,695**	**17,084**	**19,639**	**21,869**	**23,155**	**26,488**	**27,614**	**27,919**	**28,243**	

Fade Period	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43	FY44	FY45
FCFF	167,631	186,456	206,410	227,408	249,339	272,066	295,427	319,231	343,265	367,294
% growth	11.8%	11.2%	10.7%	10.2%	9.6%	9.1%	8.6%	8.1%	7.5%	7.0%
Discount factor	0.17	0.15	0.14	0.12	0.11	0.10	0.09	0.08	0.07	0.07
Discounted FCFF	**28,436**	**28,495**	**28,418**	**28,206**	**27,862**	**27,389**	**26,793**	**26,083**	**25,267**	**24,357**

Valuation	
PV of explicit forecast	252,334
PV of Fade period	271,304
PV of terminal value	516,359
Enterprise Value	**1,039,998**
Less:	
Net Debt	-4,356
Minority interest	4
Value for equity shareholders	**1,044,349**
No. of shares - mn	624
Target price - INR/share	**1673**

Source: Company, Bloomberg, JM Financial

Exhibit 28. Global valuation comparison

Companies	Currency	CMP	Mkt Cap	CAGR (FY17-20E)			PER		EV/EBITDA		EV/Sales	
		LC	USD mn	Sales	EBITDA	EPS	FY19	FY20	FY19	FY20	FY19	FY20
Avenue Supermart	INR	1,312	12,562	27.7%	31.6%	40.7%	77.9	61.2	46.2	36.4	4.2	3.3
Future Retail	INR	551	4,245	18.5%	35.3%	44.8%	26.1	23.3	23.6	19.3	1.2	1.0
Walmart Inc	USD	89	262,523	2.6%	1.2%	6.1%	17.9	16.9	9.1	8.8	0.6	0.6
Tesco Plc	GBp	206	28,192	3.5%	15.7%	NA	15.4	12.6	6.9	6.2	0.4	0.4
Target Corp	USD	69	37,409	1.9%	-2.8%	4.6%	13.2	12.8	7.2	7.1	0.7	0.6
Walmart De Mexico Sab De Cv	MXN	46	44,437	7.6%	9.6%	4.6%	23.1	21.2	12.7	11.7	1.3	1.2
Sun Art Retail Group	HKD	9	11,097	4.3%	7.4%	7.6%	29.3	27.2	9.7	8.6	0.7	0.6
Shoprite Holdings	ZAr	25,258	12,633	8.8%	9.6%	11.0%	22.8	20.4	13.6	12.0	1.0	0.9
Costco Wholesale Corp	USD	188	82,687	8.0%	9.0%	12.6%	27.5	24.6	13.9	12.8	0.6	0.5
Ramayana Lestari Sentosa	IDR	1,350	696	5.5%	8.9%	6.3%	20.3	18.7	11.5	9.7	1.1	1.0

Source: Companies data, Bloomberg, JM Financial

Key risks

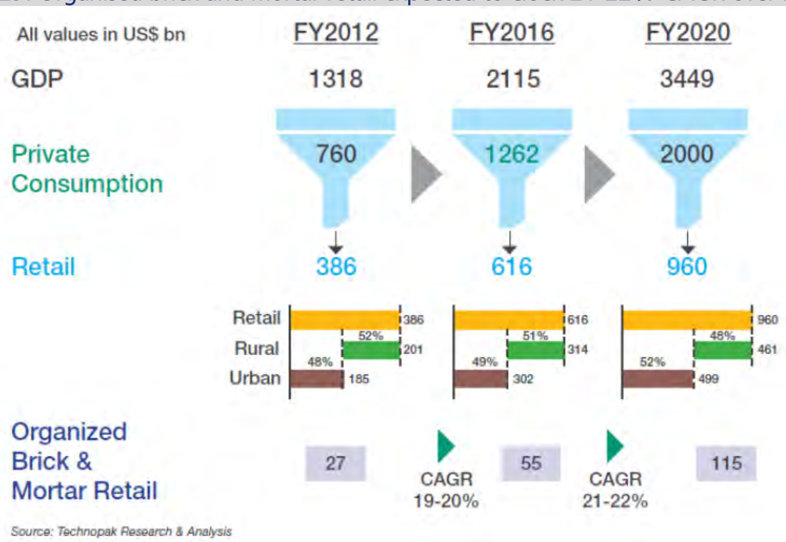
- Lower than expected pace of expansion would adversely impact DMart's reported LFL growth and its longer-term revenue potential: As explained earlier, one of the key contributors of DMart's high LFL growth is that it has a very low proportion of 'matured' stores (more than 50% of its stores as on date are less than 5 years old) – note that revenue growth would be much higher during the initial phase of a store's ramp-up as newly opened stores benefit from a natural scale-up in footfalls and throughput to a more optimum level as they gain popularity with local residents and nearby shoppers over time. A sharper moderation in pace of expansion cf. our estimates would adversely impact the reported LFL growth for the company and its potential for revenue generation over the longer term as well. However, it is interesting to note here that DMart derives c.60% of its revenues from Maharashtra implying a turnover of USD 1bn which compares with an estimated market size of USD 94bn – this pegs its market share at a mere 1.2%. Given this position in Maharashtra itself where DMart has the highest number of stores within its network, we do not think there should be too many constraints on expansion at least from a demand perspective.
- Incremental stores generating much lower revenue throughput: One argument could be that DMart has probably already plucked most of the low-hanging fruits and its newer stores would now only be in areas where the catchment may not be as attractive compared to the ones where the company is already present in. This would imply much lower throughput potential for newer stores, which would adversely impact revenue growth assumptions for the years ahead and consequently, the company's profitability, return-metrics and the stock's valuation. This argument is not entirely invalid, but unlikely to be the case for now, though, as penetration opportunity even within existing clusters with similar catchment appears quite high, in our view.
- Acceleration in pace of expansion without regard to unit-economics: While this definitely has not been DMart's stated as well as practiced philosophy, there is a possibility of DMart being too aggressive on expansion but not pay sufficient attention on store-economics for generating healthy returns. This could be particularly damaging in the case of DMart as the company owns its stores, and damages from unviable stores would be much higher than for retailers who take stores on rent.
- Competitors replicating DMart's EDLP/EDLC strategy: The key factor behind DMart's higher store-throughput is its competitive pricing vs peers' – lower in several categories even when compared to online retailers. This model can theoretically be replicated by a deep-pocketed competitor, which could adversely impact throughput at DMart stores. We note, though, most competitors are already well-aware about DMart's operational model for quite some time now but no one has yet succeeded in replicating the same so far; note that not all large-format retailers in the country are facing funding constraints.
- E-tailers disrupting the market and gaining significant market share from organised brick & mortar retailers: The Indian e-tail market size is presently pegged at USD 12bn but growing at a rapid pace – the market was sub-USD 1bn in 2012. Technopak expects e-tailing to more than treble over next 4 years to USD 38bn. E-tail penetration has, so far, been higher in consumer electronics (15-17%) because of high level of product-standardisation in that segment. The F&G space, on the other hand, had a sub-0.1% e-tail penetration which could be attributable to challenges in establishing a feasible model given that F&G retailers operate at very low margin anyway. However, some e-tailers like Big Basket appear to have overcome some of the initial challenges. Amazon is also in the fray. Consumer preference for online-purchasing is driven in part by the convenience that it offers through its door-step delivery service (mostly for free above a certain ticket size); it is quite possible for e-tailers to gain share in the F&G space if they can offer a value-proposition in a way that is also profitable for them. Given the high under-penetration of organised players in F&G retailing, however, we think there is opportunity for growth for both the formats for now. Importantly, we note that DMart's pricing in various categories are more competitive than e-tailers' (e-commerce players have hitherto mostly used discounts and promotions as a key customer-acquisition strategy) and, to that extent, DMart's value-proposition could continue to remain compelling for middle-class consumers in the country, we believe.

Annexure I: Indian organised grocery retailing is a multi-decade growth opportunity

- **Size of the retail industry in India pegged at USD616bn in 2016** – this constituted c.29% of India's nominal GDP then. Over 2012-16, the industry grew at 12.4% p.a. which is not too different from the growth in nominal GDP (12.6%), thereby maintaining its share in the GDP. As per Technopak, the Indian retail industry is expected to grow at 11.7% per annum over 2016-20 which is a tad lower vs c.13% CAGR forecasted for India's nominal GDP growth; consequently, retail industry's contribution is forecasted to decline to below 28%.

  However, the organised retail trade is still highly under-penetrated and constituted just 9% of the total retail industry in 2016, despite organised retail players' presence in India for more than two decades now. Challenges in drawing up a profitable business model due to expensive store rentals as well as lack of adequate quality real estate spaces for store ramp-up were some of the challenges organised retail players faced in growing their business. This cohort grew at 19.5% CAGR over 2012-16 with just a marginal increase in its share in the total retail pie to 9% vs 7% earlier. Technopak expects organised retail to grow at a rate of c.20% per annum over 2016-20 which would drive organised retail's share to 12% level by 2020.

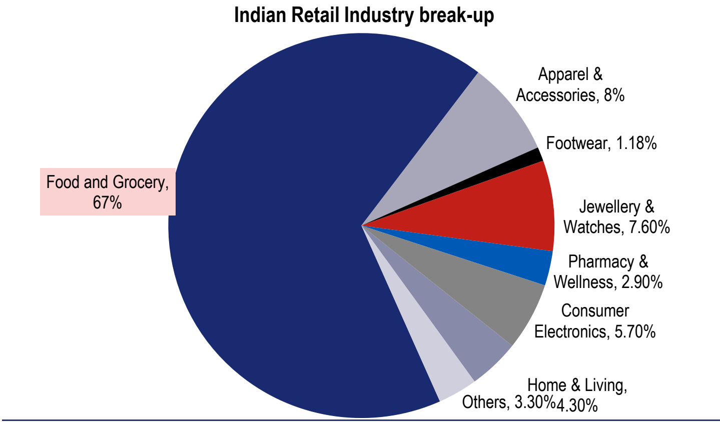
Exhibit 29. Organised brick and mortar retail expected to clock 21-22% CAGR over FY16-20



Source: Avenue Supermarts IPO RHP, JM Financial

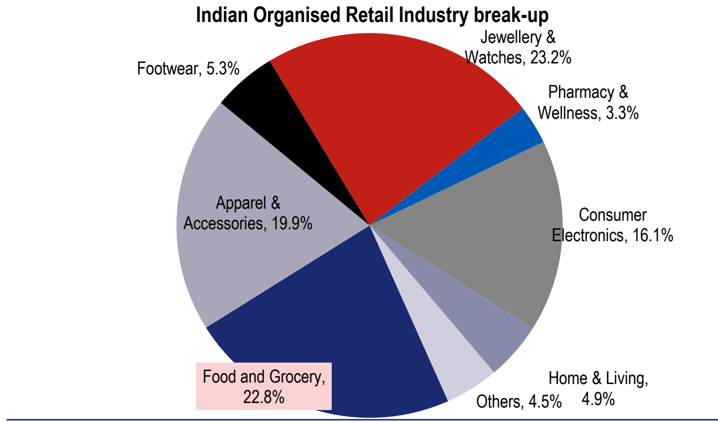
- **The Indian retail industry is broadly divisible into 7 categories which together constitute c.97% of total retail trade.** Food & Grocery (F&G) accounts for bulk of the retail industry with 67% share but this segment (F&G) has an even lower organised penetration of mere 3%. The Food & Grocery trade is pegged at USD 413bn overall and notwithstanding its size, the category is in fact still growing broadly in-line with the overall industry - 12.2% CAGR over 2012-16 vs 12.4% CAGR for the total industry. Apparels, the second largest category, has in fact lagged behind with 11.5% CAGR while Consumer Electronics is the fastest growing category at 15% CAGR with a 5.7% share.

Exhibit 30. F&G retailing constitute 67% of India's retail trade…



Source: Avenue Supermarts IPO RHP, JM Financial

Exhibit 31. …but make up for just 23% of organised retail

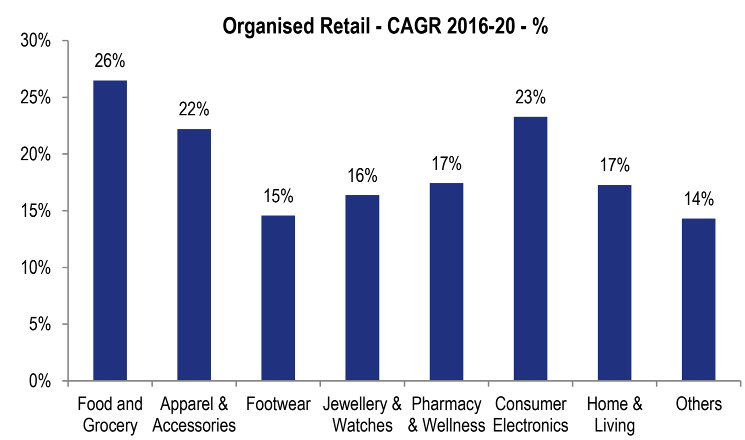


Source: Avenue Supermarts IPO RHP, JM Financial

The organised retail sector is, however, more balanced between categories with both 'Food & Grocery' and 'Jewellery & Watches' almost equal in size with c.23% share each. Notably, just a mere 3% of the total F&G retail trade happens through organised retailers while 27% of Jewellery & Watches retailing is organised. Even more well-penetrated is the organised Footwear category where organised retailers enjoy a 40% share of the overall segment.

- Within the organised retailing space, F&G is expected to grow faster than other categories, considering that it is the biggest retailing category and also the most under-penetrated; organised F&G retailing revenue is estimated to grow 26.5% p.a. followed by Consumer Electronics at 23.3% p.a. Despite such a rapid pace of growth, the share of organised F&G trade will just be 5% of overall F&G retailing by 2020 vs 3% as at the end of 2016.
- One of the key reasons for lower organised penetration in the F&G space was developing a profitable model as this business has an inherently low gross margin profile. Most of the players have subsequently taken measures such as re-aligning of category offerings, space rationalisation and format consolidation to enhance profitability and develop a more feasible model. Post these improvements, penetration of organised retailing within the F&G space is expected to be faster in future.

Exhibit 32. F&G retailing is expected to be the fastest growing segment in organised retail



Source: Avenue Supermarts IPO Prospectus, JM Financial

- Retailers have adopted different formats to drive organised retail penetration and compete with the unorganised mom and pop stores. There are broadly four kinds of formats in F&G retailing – the distinction is largely based on the size of the stores. These includes:

- Hypermarkets: It is the largest format with average store sizes of 30,000 to 60,000 sq ft. Bigger retailers like Big Bazaar, Hypercity are present through these formats. The differentiation here is the large variety of categories and products available for shoppers to choose from and the shopping experience that the hypermarkets offer.
- Hybrid Supermarkets: Average size of these formats range between 20,000 to 30,000 sq ft. Key retailers in this segment include D'Mart and Q'Mart and the focus is on competitive pricing.
- Supermarkets: Store size ranges from 3,000 to 6,000 sq ft and key players include Easy Day, Food Bazaar and Spencer's.
- Modern convenience stores: This is the smallest format with average store sizes of 1,500 to 2,000 sq ft. The focus is on fast moving products and F&G typically constitute 65-70% of the category assortment in these stores. This is also the easiest to ramp-up given the lower space requirement per store.

The modern convenience stores format forms the largest share of F&G retailing (53% in 2016) though as per Technopak, supermarkets are expected to be the preferred route for expansion in future with its share in the organised pie increasing to 43% by 2020 from 40% at the end of 2016.

Annexure II: Business Overview: Best-in-class Food & Grocery retailer

- Avenue Supermarts Ltd operates the DMart chain of supermarkets and hypermarkets in India and sells Food & Grocery products. The company launched its first store in Powai, Mumbai in 2002 and since then, has scaled up its presence to over 140 stores now across Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Karnataka, Telengana, Chattisgarh, Punjab and Rajasthan. It currently has 141 stores (Dec'17) under operations which is spread over 4.4mn sq ft of retail space. The company also runs distribution and packing centres which supply goods to its retail outlets. As at Mar'17, there were 23 distribution centres and 5 packing centres in the states of Maharashtra, Gujarat, Telangana and Karnataka.

  DMart owns most of the stores that it operates – this includes long-term leases with lease period of more than 30 years. The company focusses on a cluster-based expansion approach for efficient utilisation of supply-chain resources and targets densely populated areas with majority of lower-middle, middle and aspiring upper middle-class consumers. The company's current expansion strategy is to deepen its store network in Western and Southern India and gradually expand to other regions pursuant to its cluster-focused expansion strategy.

Exhibit 33. DMart adopts a cluster-based approach for its stores operations

Source: Company, JM Financial. Note: Store split in the above Exhbit was as at Mar'17.

- **Focus is on selling everyday products at competitive prices:** The majority of products sold at DMart stores are everyday-use products that are largely necessities and not discretionary in nature. The business' endeavour is to facilitate one-stop-shop convenience for everyday shopping needs along with competitive pricing which is the credo of its operations. To do this, DMart focuses on minimising its operating costs through:

- Strong focus on product assortment to minimise inventory build-up
- Ownership or long-term lease arrangements for stores
- Direct procurement of goods from vendors and manufacturers
- Efficient logistics and distribution systems

- In essence, DMart's business model is premised on offering value to consumers by using its EDLC (Everyday Low Cost) / EDLP (Everyday Low Price) strategy. The company strives to lower its procurement and operational costs and use the savings obtained therefrom to offer attractive pricing to its customers on a daily basis rather than offering special promotions for certain products or focussed on particular days of the week. This approach has helped DMart in offering groceries at much lower prices than competitors.

  Interestingly, even when compared to E-tailers, who are known for 'discounting' their merchandise to attract customers, DMart's pricing is still lower across most product-segments. This attractive price-proposition is the key reason for the higher throughputs that DMart stores were able to achieve over the past many years, in our view. It is important to note here, that DMart has still successfully enhanced its operating margin over the years (8.2% EBITDA margin in FY17 vs 6.2% five years back; GPM of 15.3% vs 14.7%) despite its lower pricing strategy; superior operational efficiencies and better absorption of fixed costs are what make DMart's operating model attractive, in our view.

Exhibit 34. DMart stores' selling prices are mostly lower than those offered by e-tailers

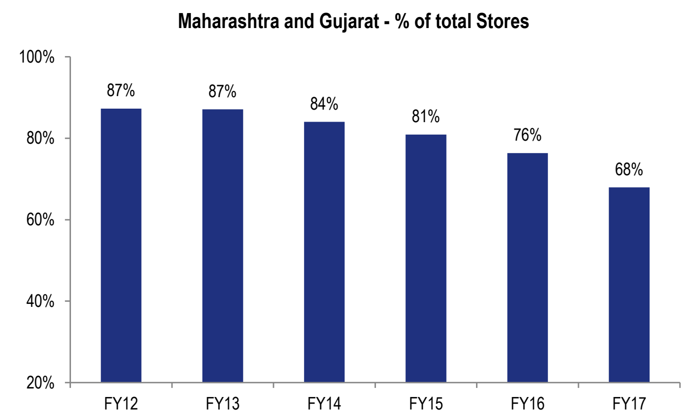
Products		Price - INR					Dmart - % difference		
	SKU	MRP	DMart	Big Basket	Reliance SMart	Amazon	vs Big Basket	vs Reliance	vs Amazon
Detergents									
Wheel - Lemon	1Kg	49	45	49	52	NA	-8.2%	-13.5%	NA
Rin Detergent Powder	1Kg	70	65	67	75	NA	-3.0%	-13.3%	NA
Rin Detergent Powder	2Kg	144	130	144	NA	144	-9.7%	NA	-9.7%
Surf Excel Easywash	1Kg	104	101	101	112	NA	0.0%	-9.8%	NA
Surf Excel Easywash	1.5Kg	168	138	168	187	147	-17.9%	-26.2%	-6.1%
Surf Excel Easywash	4Kg	448	380	448	NA	395	-15.2%	NA	-3.8%
Soaps									
Pears	3x125g	164	140	159	174	164	-11.9%	-19.5%	-14.6%
Dove	75g	48	45	48	48	48	-6.3%	-6.3%	-6.3%
Dove	3x100g	172	157	137	182	162	14.9%	-13.7%	-3.1%
Toothpaste									
Colgate Dental Cream	100g	46	43	45	NA	NA	-3.6%	NA	NA
Colgate Dental Cream	2x200g	168	138	NA	168	151	NA	-17.9%	-8.6%
Packaged Foods									
Maggie Masala Noodles	420g	67	58	63	67	NA	-7.9%	-13.4%	NA
Maggie Masala Noodles	560g	86	76	81	NA	68	-6.2%	NA	11.8%
Saffola Masala Oats	400g	145	125	116	145	NA	7.8%	-13.8%	NA
Saffola Masala Oats Peppy Tomato	400g	145	125	123	145	145	1.4%	-13.8%	-13.8%
Borges Extra Virgin Olive Oil	1 Litre	1,250	625	899	NA	799	-30.5%	NA	-21.8%
Sunfeast Dark Fantasy Biscuits	75g	30	26	26	30	25	2.0%	-13.3%	4.0%
Britannia Good Day Cashew Biscuit	200g	35	29	28	NA	30	3.6%	NA	-2.9%
Parle G Biscuits	800g	60	55	58	60	NA	-5.5%	-8.3%	NA
Aashirvaad Multigrain Atta	1 Kg	56	50	56	54	55	-10.7%	-7.4%	-9.1%
Dairy Products									
Amul Taaza	1 Ltr	62	59	62	62	NA	-4.8%	-4.8%	NA
Go Milk	1Ltr	65	50	65	65	NA	-23.1%	-23.1%	NA
Amul Ghee	1 ltr	470	435	459	490	NA	-5.2%	-11.2%	NA
Amul Ghee	500ml	247	232	NA	NA	237	NA	NA	-2.1%
Health Food Drinks									
Womens Horlicks Caramel	400g	285	266	285	285	271	-6.7%	-6.7%	-1.8%
Bournvita Jar	500g	215	202	215	215	202	-6.0%	-6.0%	0.0%
Beverages									
Pepsi	2.25 Ltr	90	70	90	90	NA	-22.2%	-22.2%	NA

Source: Dmart, Big Basket and Reliance Smart Websites, JM Financial.
Note: Blue shade in the pricing columns represents the cheapest price for that product

- **Cluster-based expansion approach drives higher efficiencies:** DMart has historically expanded its store footprint using a cluster-based expansion approach. It has focussed on strengthening its presence in the existing regions by opening new stores within a radius of few kilometres of its existing stores and distribution centres. This approach has also helped the company gain a better understanding of the local needs and preferences – this helped it customise the product offerings at the stores to eliminate stock-outs as well as wastages. That apart, a cluster-based expansion strategy also drove efficiencies in costs due to economies of scale achieved in the supply chain and better inventory management. Besides, it has made focused marketing and advertising initiatives possible and aided brand visibility in the clusters where it is present.

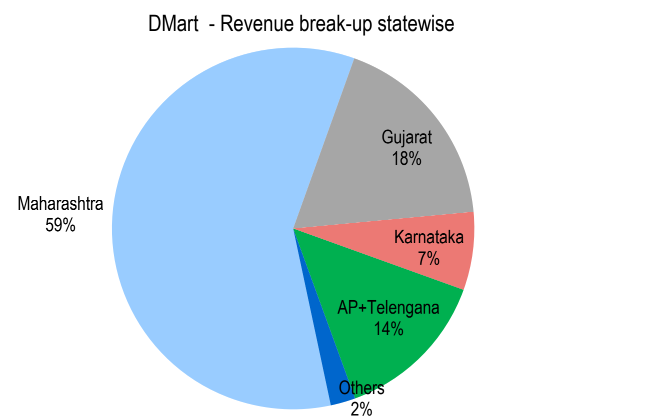
  DMart's cluster-based expansion strategy is quite evident from its present geographical spread – 68% of its stores (as at Mar'17) are located in the states of Maharashtra and Gujarat. Interesting to note here that 54% of its incremental stores which were launched over FY12-17 were in these two states. DMart is now steadily extending its presence to other states like Karnataka, Telangana and Andhra Pradesh and these states are seen to be the next growth drivers for the company.

Exhibit 35. Maharashtra and Gujarat constitutes 68% of total stores



Source: Company, JM Financial

Exhibit 36. Maharashtra accounted for 59% of total revenues



Source: Company, JM Financial. Note: State-wise break-up in chart above based on Apr-Dec'16 revenue.

- **Optimal product assortment, strong supplier network and stringent inventory management have been the other key efficiency drivers:** The knowledge gained about regional preferences through its cluster-focused strategy has helped the business customise the product assortments at its stores in line with local preferences and demand.

  On the supply side, the company's procurement team conducts ongoing research to locate the best sources of supplies in relation to products and prices. DMart has, over the years, established an extensive network of suppliers and endeavours to source products from regions where they are widely available to minimise procurement costs. The company make it a point to pay on-time against supplies; this enables it to obtain prompt-payment discounts from suppliers which the company ploughs back to attract higher footfalls and throughputs at its stores; and higher sales at stores help DMart enlarge its order-size on suppliers which in turn enables it to negotiate for quantity discounts and thereby procure the supplies at lower prices. And the virtuous cycle continues.

  DMart has sophisticated IT systems across its stores and supply chain network to monitor products availability, stock levels and pricing at each store to minimise product shortage and out-of-stock situations and pilferages.

Annexure III: Profiles of key management personnel

Exhibit 37. Brief description of key management personnel

Ignatius Navil Noronha	- Managing Director & CEO - Post-graduation degree in Marketing Management. - Overall 20 years of experience in consumer goods Industry. Prior to joining DMart, he worked with Hindustan Unilever for 8 years during which he worked in the fields of market research, sales and modern trade and at the time of leaving HUL, he was designated as the Key Account Manager - Modern Trade.
Elvin Machado	- Director, Business Development - Holds a graduate degree in Economics. - Responsible for the real estate acquisition. - Has over 28 years' experience in sales and marketing. Prior to joining DMart, he worked with Hindustan Unilever for c.18 years and at the time of leaving HUL, he was designated as the Branch Operations Manager - East (Rural). He also worked with Mayo Health Care Private Limited.
Ramakant Baheti	- Whole-time Director & CFO - Has 19 years' experience in finance. - A qualified Chartered Accountant. - Responsible for formulation and execution of finance and legal strategy.
Udaya Bhaskar Yarlagadda	- Chief Operating Officer, Retail. - Has over 18 years of experience in sales and business development. - Functions include managing store operations, merchandising private labels, marketing and store maintenance. - Graduation degree in Mechanical Engineering and PG diploma from IIM, Calcutta.
Narayanan Bhaskaran	- Chief Operating Officer, Supply Chain Management - Over 22 years of experience in Corporate Secretarial functions, Operations and HR management. - Managing supply chain and legal functions. - PG in Human Resource.
Dheeraj Kampani	- Vice President, Buying and Merchandising. - Over 15 years of experience in sales and retail store management. - Heads buying and merchandising function. - Diploma in International Trade and PG in Business Management.
Hitesh Shah	- Associate Vice President, Operations - Over 21 years of experience in sales, marketing and retail store management. - Role includes operational management of stores and compliances. - Holds a graduation degree in Commerce.

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	**85,655**	**118,746**	**154,493**	**195,457**	**247,497**
Sales Growth	33.3%	38.6%	30.1%	26.5%	26.6%
Other Operating Income	183	231	301	380	482
Total Revenue	**85,838**	**118,977**	**154,794**	**195,838**	**247,978**
Cost of Goods Sold/Op. Exp.	73,035	100,810	130,849	165,349	209,248
Personnel cost	1,490	1,925	2,663	3,414	4,352
Other expenses	4,676	6,429	7,597	9,450	11,992
EBITDA	**6,636**	**9,812**	**13,684**	**17,625**	**22,386**
EBITDA (%)	7.7%	8.3%	8.9%	9.0%	9.0%
EBITDA Growth (%)	44.6%	47.9%	39.5%	28.8%	27.0%
Depn & Amort	984	1,278	1,519	1,840	2,270
EBIT	5,652	8,534	12,165	15,785	20,116
Other Income	179	286	1,123	871	837
Finance Cost	913	1,220	803	343	291
PBT before Excep & Forex	4,918	7,600	12,484	16,313	20,661
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	4,918	7,600	12,484	16,313	20,661
Taxes	1,715	2,683	4,365	5,704	7,224
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	1	130	117	94	48
Reported Net profit	3,202	4,788	8,002	10,515	13,389
Adjusted Net Profit	**3,203**	**4,803**	**8,002**	**10,515**	**13,389**
Net Margin (%)	3.7%	4.0%	5.2%	5.4%	5.4%
Diluted share capital (mn)	561.5	624.1	624.1	624.1	624.1
Diluted EPS (Rs)	**5.7**	**7.7**	**12.8**	**16.8**	**21.5**
Diluted EPS Growth	50.3%	34.9%	66.6%	31.4%	27.3%
Total Dividend + Tax	0	0	0	3,155	4,017
Dividend Per Share (Rs)	0.0	0.0	0.0	4.2	5.3

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	15,204	38,418	46,420	53,780	63,153
Share capital	5,615	6,241	6,241	6,241	6,241
Reserves & Surplus	9,589	32,177	40,179	47,540	56,912
Preference Share Capital					
Minority Interest	1	1	2	3	4
Total Loans	11,923	14,973	4,492	3,818	3,245
Def. Tax Liab / Assets (-)	399	505	713	985	1,329
Total - Equity & Liab	**27,527**	**53,898**	**51,627**	**58,586**	**67,731**
Net Fixed Assets	22,734	27,812	30,807	37,398	44,104
Gross Fixed Assets	22,045	28,016	32,530	40,961	49,936
Intangible Assets					
Less: Depn. & Amort.	973	2,238	3,757	5,597	7,867
Capital WIP	1,662	2,034	2,034	2,034	2,034
Investments	166	18,770	5,674	5,653	5,653
Current Assets	8,080	11,606	20,603	22,188	26,084
Inventories	6,717	9,479	12,723	16,096	20,382
Sundry Debtors	84	210	212	268	340
Cash & Bank Balances	342	329	5,532	3,159	2,035
Loans & Advances	600	1,117	1,548	1,958	2,480
Other Current Assets	337	471	589	707	848
Current Liab. & Prov.	3,453	4,291	5,458	6,653	8,109
Current Liabilities	3,307	4,119	5,219	6,347	7,726
Provisions & Others	146	172	238	305	383
Net Current Assets	4,628	7,315	15,146	15,536	17,975
Application of Funds	**27,527**	**53,898**	**51,627**	**58,586**	**67,731**

Source: Company, JM Financial

Note: Pending FY18 Final Accounts, we have not yet incorporated GST related accounting changes in our model. Estimated FY18, FY19, FY20 revenue under GST would be INR149bn, INR187bn and INR236bn
There is no material impact on absolute EBITDA but % margin under GST accounting would be higher at 9.2%, 9.4% and 9.5% respectively

Cash Flow statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	4,918	7,600	12,484	16,313	20,661
Depn. & Amort.	984	1,278	1,519	1,840	2,270
Net Interest Exp. / Inc. (-)	734	934	-320	-528	-546
Inc (-) / Dec in WCap.	-685	-2,697	-2,665	-2,801	-3,606
Others	25	49	0	0	0
Taxes Paid	-1,642	-2,586	-4,121	-5,394	-6,837
Operating Cash Flow	**4,335**	**4,578**	**6,898**	**9,430**	**11,942**
Capex	-6,350	-6,354	-4,514	-8,431	-8,976
Free Cash Flow	-2,015	-1,775	2,384	999	2,967
-Inc/dec in investments	-151	-229	13,096	22	0
Other current assets	172	-18,259	1,006	778	790
Investing Cash Flow	**-6,329**	**-24,842**	**9,588**	**-7,632**	**-8,185**
Inc/(dec) in capital	0	18,406	0	0	0
Dividend+Tax Thereon	0	0	0	-3,155	-4,017
Inc/dec in loans	2,898	3,050	-10,481	-674	-573
Other assets	-934	-1,203	-803	-343	-291
Financing Cash Flow	**1,964**	**20,253**	**-11,284**	**-4,171**	**-4,881**
Inc / Dec (-) in Cash	-30	-11	5,203	-2,373	-1,124
Opening cash balance	372	340	329	5,532	3,159
Closing cash balance	342	329	5,532	3,159	2,035

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	3.7%	4.0%	5.2%	5.4%	5.4%
Asset Turnover (x)	3.5	2.9	2.9	3.5	3.9
Leverage Factor (x)	1.8	1.5	1.2	1.1	1.1
RoE	23.6%	17.9%	18.9%	21.0%	22.9%
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (Rs)	27.1	61.6	74.4	86.2	101.2
ROIC (%)	15.3%	17.8%	21.0%	22.7%	23.7%
ROE (%)	23.6%	17.9%	18.9%	21.0%	22.9%
Net Debt-equity ratio (x)	0.8	-0.1	-0.1	-0.1	-0.1
PER	230.0	170.5	102.3	77.9	61.2
PBV	48.5	21.3	17.6	15.2	13.0
EV/EBITDA	112.7	83.0	59.3	46.2	36.4
EV/Net Sales	8.7	6.9	5.3	4.2	3.3
Debtor days	0	1	1	1	1
Inventory days	29	29	30	30	30
Creditor days	15	14	14	13	13

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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Sell	Price expected to move downwards by more than 10%

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