Avenue Supermarts Limited

A retailer with a growth appetite

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Issue Open: March 08, 2017
Issue Close: March 10, 2017

Avenue Supermarts Ltd (ASL), founded in 2002, is the owner of well established supermarket chain D-Mart. ASL is amongst the largest and the most profitable Food & Grocery retailer in India. It offers wide range of Food and non-food products. ASL operates total 118 stores in 9 states and 1 Union Territory.

Market sentiment moving in favour of organized sector to aid growth: The Indian Retail industry is valued at US$616bn and is mainly dominated by the unorganized sector (accounting for 91% share). Industry reports indicate that the Retail sector is expected to grow at a CAGR of ~12% over FY2016-20E to ~US$960bn, within which, the organized segment is expected to grow at a faster pace than the unorganized segment. The share of organized players is expected to improve from 9% to ~12% in FY2020E, thus benefitting organised players like D-Mart.

Steady footprint expansion: ASL has increased its store count from 45 in FY2011 to 118 in 9MFY2017 with total retail business area of ~3.9mn sq. ft in 45 cities. Further, the company has plans to increase total retail space by 2.1mn sq. ft by 2020, which will support its growth.

Huge potential for growth in F&G: In the modern retail, Food & Grocery (F&G) has lower penetration compared to other categories like apparel & accessories, footwear, jewellery & watches, consumer electronics, etc. Going forward, we expect the penetration in this category to improve, which will benefit the organised players like D-Mart.

Track record of healthy financial performance: ASL has reported revenue CAGR of ~40% over FY2012-16 on the back of (1) same store growth and (2) expansion of its business by adding new stores. On the bottom-line front, the company has reported CAGR of ~52% over FY2012-16 due to good business and gradual improvement in the operating margins. Return on equity has also improved from 9% in FY2012 to 32% in FY2016.

Outlook and Valuation: At the upper end of the price band, the pre-issue P/E works out to be 32.5x its annualised 9MFY2017 earnings, which is lower compared to P/E multiple of its peers i.e. Trent - 73.9x, Shoppers Stop – 123.8x and Future Retail 36.5x. Better RoE profile, promoter's strong background, strategically located stores, intense focus on maintaining lower costs and strong brand perception are the compelling factors indicating that ASL is a long term story that will unfold going ahead. **Thus, we recommend a SUBSCRIBE on this issue.**

Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	9MHFY17
Net Sales	**4,686**	**6,439**	**8,588**	**8,784**
% chg	*40.3*	*37.4*	*33.4*	-
Net Profit	**161**	**212**	**319**	**387**
% chg	*71.9*	*31.2*	*50.6*	
OPM (%)	*7.3*	*7.1*	*7.7*	*8.8*
EPS (₹)	**2.9**	**3.8**	**5.7**	**6.9**
P/E (x)	104.0	79.3	52.7	-
P/BV (x)	17.6	14.0	11.1	-
RoE (%)	25.6	27.0	32.4	-
RoCE (%)	19.4	19.3	22.1	-
EV/Sales (x)	3.7	2.7	2.1	-
EV/EBITDA (x)	50.4	38.1	26.8	-

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹562cr

Fresh issue: ₹1,870 cr

Post Eq. Paid up Capital: ₹624cr

Issue size (amount): ₹1,870cr

Price Band: ₹295-299

Lot Size: 50 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1,8410cr - **₹1,8660cr

Promoters holding Pre-Issue: 91.4%

Promoters holding Post-Issue: 82.2%

**Calculated on lower price band*

*** Calculated on upper price band*

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	82.2%
Others	17.8%

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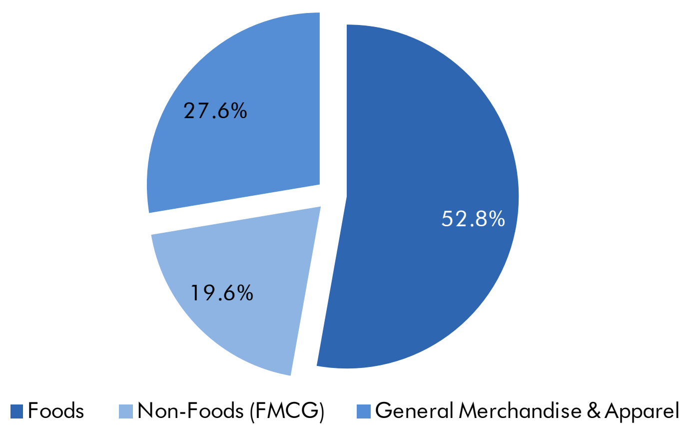
Company background

Incorporated in 2002, Avenue Supermarts Limited (ASL) is a Mumbai based supermarket chain under the name of D-Mart. Company is among the largest and the most profitable F&G retailers in India. Company offers a wide range of products with a focus on the Foods, Non-Foods (FMCG) and General Merchandise & Apparel product categories.

Company has 118 stores with total retail business area of 3.59mn sq. ft in 45 cities spread across 9 states and 1 Union Territory in India. Company also operates distribution centres and packing centres which form the backbone of the supply chain to support its retail store network. Company has 21 distribution centres and six packing centres in Maharashtra, Gujarat, Telangana and Karnataka.

Exhibit 1: Revenue Mix (9MFY2017)



Source: Company, Angel Research

Issue details

The company is raising ₹1,870cr through a fresh issue of equity shares in the price band of ₹295-299. The fresh issue will constitute ~10% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	51,30,25,392	91	51,30,25,392	82
Others	4,85,17,288	9	11,10,59,094	18
	56,15,42,680	100	62,40,84,486	100

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

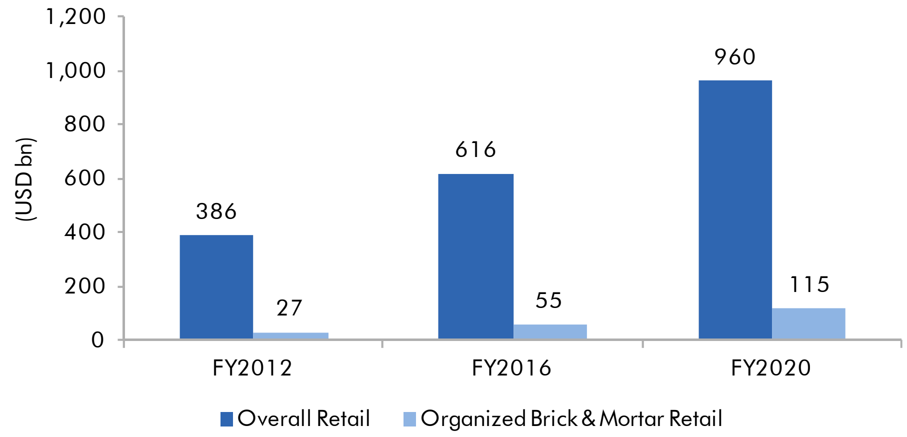
- Repayment or prepayment of a portion of loans and redemption/ earlier redemption of NCDs availed by Company - ₹1,080cr
- Construction and purchase of fit outs for new stores - ₹367cr
- General corporate purpose

Investment Rationale

Market sentiment moving in favour of organized sector to aid growth

The Indian Retail industry is currently valued at US$616bn and is mainly dominated by the unorganized sector (accounting for 91% share). Industry reports indicate that the Retail sector is expected to grow at a CAGR of 12% over FY2016-20E to ~US$960bn, within which, the organized segment is expected to grow at a faster pace than the unorganized segment. The share of organized players is expected to improve from 9% to ~12% in FY2020E, thus benefitting organised players like D-Mart.

Exhibit 3: Market trend moving toward organised segment

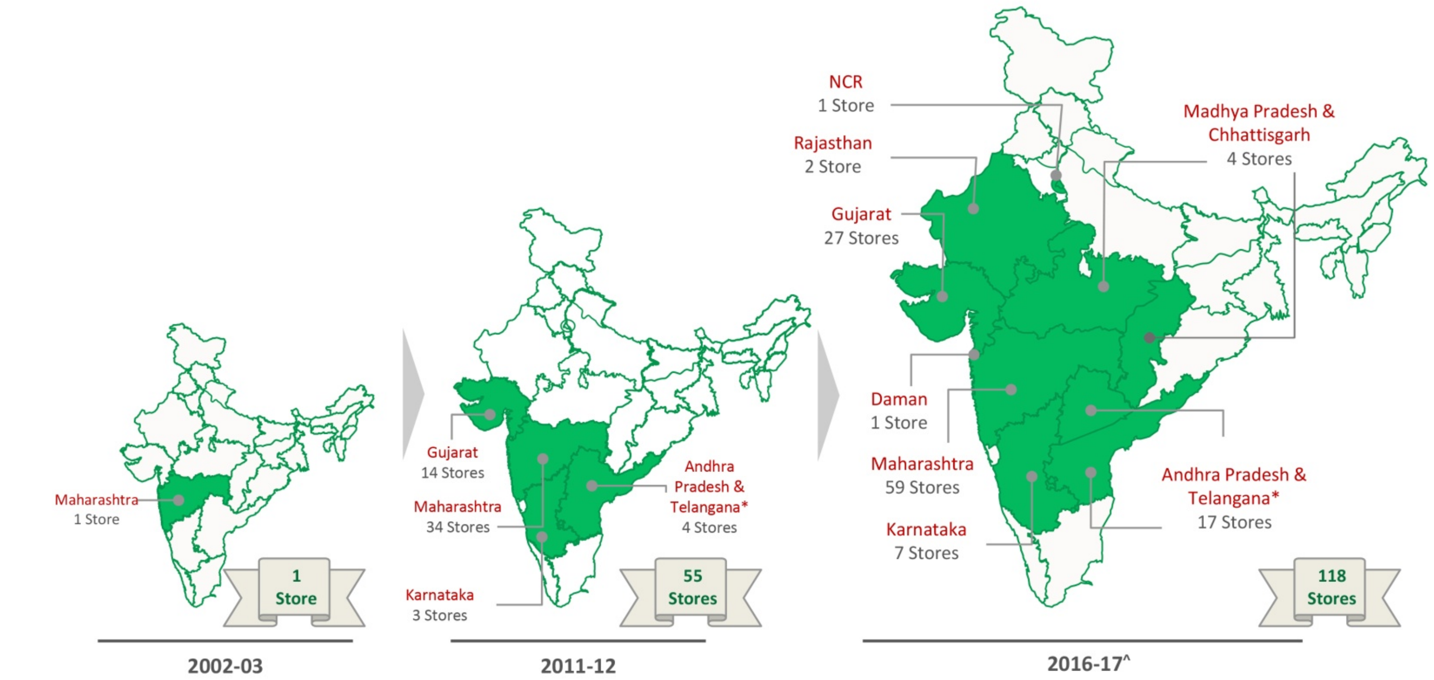


Source: Company, Angel Research

Steady footprint expansion

ASL has increased its store count from 45 in FY2011 to 118 in 9MFY2017, which is around 3.9mn sq. ft total retail business area in 45 cities spread across 9 states and 1 Union Territory. Further, the company has expansion plans to increase their retail space by 2.1mn sq. ft by 2020. Company operates stores in locations where it has the maximum growth possibility. It's strategies such as (1) Medium sized stores instead of large format stores, (2) standalone stores than stores in malls, (3) maximum owned stores than leased stores, (4) focus on urban + rural than only urban, and (5) maintaining profits at the store level, have proved to be very successful for ASL. Company has indicated that it will continue to operate the same strategy for the new stores as well, which gives a strong sense that it will maintain the growth trajectory going ahead.

Exhibit 4: Expanding footprint



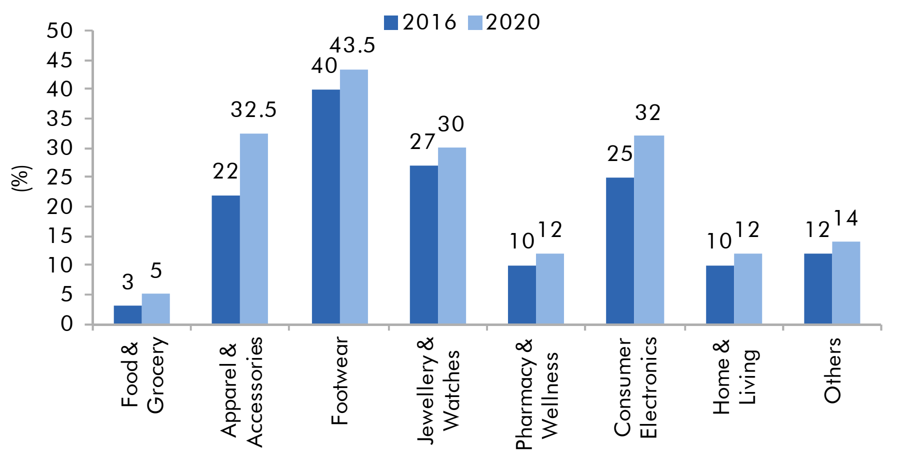
*: Telangana was part of Andhra Pradesh till June 1, 2014
^: As of January 31, 2017

Source: Company, Angel Research

Low penetration provides huge potential for growth in F&G

Currently in the modern retail, Food & Grocery (F&G) has lower penetration compared to other categories like apparel & accessories, footwear, jewellery & watches, consumer electronics, etc. Going forward, we expect the penetration in this category to improve, which in turn will prove beneficial for the big organised players like D-Marts.

Exhibit 5: Modern Retail Penetration Category wise

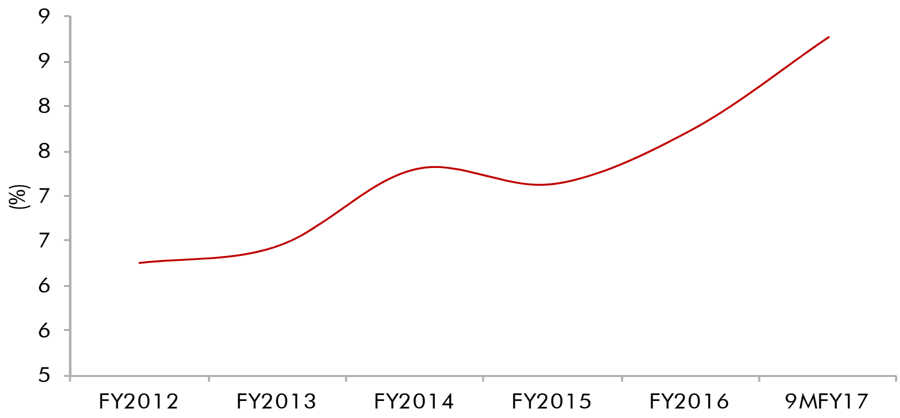


Source: Company, Angel Research

Consistently improving margins in a low margin industry

While growing its business, company has not compromised on its profitability, which can be seen in its healthy operating profit margins over FY2012-16. While it continues to attract consumers by keeping low prices every day, it also maintains lower operating costs every day, which shows that management is involved in the day to day operations and maintains a strong discipline in costs. While margins are not likely to go up from the current levels, focus on strong operational efficiency is likely to keep margins at the current levels, which we think is a comfortable level.

Exhibit 6: Strong operating margin improvement

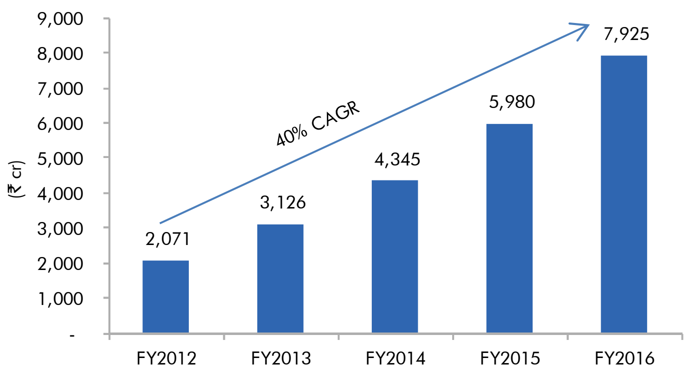


Source: Company, Angel Research

Track record of healthy financial performance

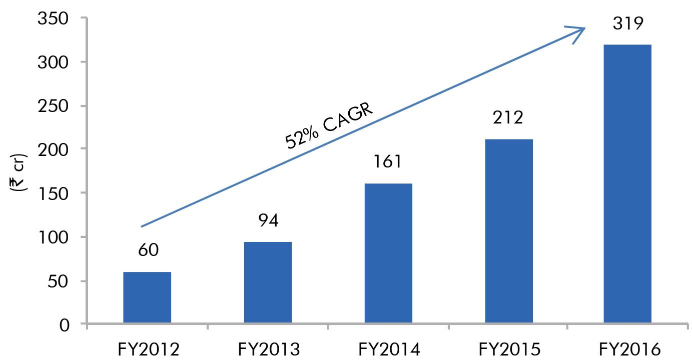
The company has reported revenue CAGR of ~40% over FY2012-16 on the back of strong growth in number of stores and also growth in existing stores. On the bottom-line front, the company has reported CAGR of ~52% over FY2012-16 on the back strong revenue growth and gradual improvement n operating margins. Further, the company has also improved its ROE from 9% in FY2012 to 32% in FY2016.

Exhibit 7: Historical revenue trend



Source: Company, Angel Research

Exhibit 8: Historical PAT trend



Source: Company, Angel Research

Outlook and Valuation

At the upper end of the price band, the pre-issue P/E works out to be 32.5x its annualised 9MFY2017 earnings, which is lower compared to P/E multiple of its peerss i.e. Trent - 73.9x, Shoppers Stop – 123.8x and Future Retail 36.5x. Better RoE profile, promoter's strong background, strategically located stores, intense focus on maintaining lower costs and strong brand perception are the compelling factors indicating that ASL is a long term story that will unfold going ahead. Thus, we recommend a SUBSCRIBE on this issue.

Key risks

Increase in penetration of e-commerce

Increase in penetration of e-commerce in retails could affect the company's profitability

Increase in competition

Due to low entry barrier in business, the company could face increased competition, which would impact the company's profitability

Consolidated Income Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Total operating income	3,341	4,686	6,439	8,588	8,784
% chg	*51.3*	*40.3*	*37.4*	*33.4*	-
Total Expenditure	3,126	4,345	5,980	7,925	8,014
Raw Material	2,857	3,984	5,487	7,308	7,416
Personnel	69	87	134	149	138
Others Expenses	200	273	359	468	461
EBITDA	215	342	459	663	770
% chg	*55.8*	*59.0*	*34.3*	*44.6*	-
(% of Net Sales)	*6.4*	*7.3*	*7.1*	*7.7*	*8.8*
Depreciation& Amortisation	46	57	82	98	92
EBIT	169	285	377	565	678
% chg	*68.3*	*68.3*	*32.5*	*49.7*	-
(% of Net Sales)	*5.1*	*6.1*	*5.9*	*6.6*	*7.7*
Interest & other Charges	43	56	72	91	91
Other Income	14	16	18	18	19
(% of PBT)	*10.1*	*6.5*	*5.6*	*3.7*	*3.2*
Share in profit of Associates	-	-	-	-	-
Recurring PBT	141	245	323	492	606
% chg	*59.9*	*73.8*	*32.0*	*52.2*	
Tax	47	83	111	172	213
PAT (reported)	94	161	212	321	393
% chg	*55.1*	*72.3*	*31.6*	*50.9*	-
(% of Net Sales)	*2.8*	*3.4*	*3.3*	*3.7*	*4.5*
Adj.	0.2	(0.1)	(0.7)	(1.7)	(5.4)
PAT after adj.	94	161	212	319	387
(% of Net Sales)	*2.8*	*3.4*	*3.3*	*3.7*	*4.4*
Basic & Fully Diluted EPS (₹)	1.7	2.9	3.8	5.7	6.9
% chg	*55.4*	*71.9*	*31.2*	*50.6*	-

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
SOURCES OF FUNDS					
Equity Share Capital	544	547	562	562	562
Reserves& Surplus	245	409	638	956	1,344
Shareholders Funds	790	956	1,199	1,518	1,905
Minority Interest	0	0	0	0	0
Total Loans	434	511	757	1,038	1,242
Deferred Tax Liability	20	27	31	40	48
Total Liabilities	1,243	1,494	1,987	2,596	3,195
APPLICATION OF FUNDS					
Net Block	925	1,172	1,528	2,094	2,330
Capital Work-in-Progress	118	89	98	82	206
Investments	16	16	15	27	59
Current Assets	433	532	713	896	1,173
Inventories	276	378	540	672	848
Sundry Debtors	13	10	7	8	41
Cash	62	55	38	35	49
Loans & Advances	82	88	128	180	234
Other Assets	0	0	0	1	1
Current liabilities	249	314	368	502	573
Net Current Assets	185	218	346	394	601
Mis. Exp. not written off	-	-	-	-	-
Total Assets	1,243	1,494	1,987	2,596	3,195

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Profit before tax	141	245	323	493	607
Depreciation	46	57	82	98	92
Change in Working Capital	(65)	(83)	(152)	(69)	(219)
Interest / Dividend (Net)	43	56	72	91	91
Direct taxes paid	37	75	100	164	185
Others	(74)	(152)	(202)	(330)	(376)
Cash Flow from Operations	**127**	**198**	**222**	**447**	**378**
(Inc.)/ Dec. in Fixed Assets	(239)	(272)	(477)	(648)	(466)
(Inc.)/ Dec. in Investments	9	2	4	(10)	(31)
Cash Flow from Investing	**(231)**	**(270)**	**(474)**	**(658)**	**(497)**
Issue of Equity	14	5	33	0	0
Inc./(Dec.) in loans	103	60	201	208	132
Others	0	1	0	1	1
Cash Flow from Financing	**118**	**65**	**234**	**208**	**133**
Inc./(Dec.) in Cash	14	(7)	(17)	(3)	14
Opening Cash balances	**48**	**61**	**55**	**37**	**34**
Closing Cash balances	**61**	**55**	**37**	**34**	**48**

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
Valuation Ratio (x)				
P/E (on FDEPS)	178.9	104.0	79.3	52.7
P/CEPS	120.4	76.9	57.1	40.1
P/BV	21.3	17.6	14.0	11.1
EV/Sales	5.1	3.7	2.7	2.1
EV/EBITDA	79.7	50.4	38.1	26.8
EV / Total Assets	13.8	11.5	8.8	6.8
Per Share Data (₹)				
EPS (Basic)	1.7	2.9	3.8	5.7
EPS (fully diluted)	1.7	2.9	3.8	5.7
Cash EPS	2.5	3.9	5.2	7.5
Book Value	14.1	17.0	21.4	27.0
Returns (%)				
ROCE	13.8	19.4	19.3	22.1
Angel ROIC (Pre-tax)	14.8	20.4	19.8	22.7
ROE	17.8	25.6	27.0	32.4
Turnover ratios (x)				
Inventory / Sales (days)	30	29	31	29
Receivables (days)	10	10	7	8
WC cycle (ex-cash) (days)	21	21	24	21

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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