

## Avenue Supermarts Ltd.

3<sup>rd</sup> March, 2017

### Recommendation:

Subscribe

### Rating:



### Issue Summary:

Price band (Rs)	295-299
Face Value (Rs)	10
Market Lot	50 shares
Opens	8 <sup>th</sup> Mar, 2017
Closes	10 <sup>th</sup> Mar, 2017
Fresh Issue (Rs)	1,870 cr
Listing	BSE, NSE

### Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

### Book Running Lead Managers:

➤ Axis Capital
➤ Kotak Mahindra Capital
➤ Edelweiss Capital
➤ HDFC Bank
➤ ICICI Securities

### Registrar

➤ Link intime india Private Ltd

### Company & Business Profile

Avenue Supermarts Ltd. is an emerging national supermarket chain, with focus on value-retailing. According to Technopak agency is one of the largest and the most profitable F&G retailer in India. Company offers wide range of products with focus on the Foods, Non-foods (FMCG) and general merchandise & apparel product categories.

The company opened its 1<sup>st</sup> store in Maharashtra in 2002 and as of Sep, 2016 the company has 112 stores with retail business area of 3.4 million sq. ft located across 41 cities. The company operates through a ownership and long term lease model instead of rental model. As of Sep, 2016 Company has 21 distribution centres and 6 packing centres which form the backbone of its supply chain to support retail store network.

Company's business approach is to retail quality goods at competitive prices. As on FY16 the foods segment constitutes 53% of the revenue share followed by general merchandise and apparel with 26.4% share and non-food (FMCG) at 20.6%. For FY16 Maharashtra contributed a majority of revenue from sales at 62.57% followed by Gujarat at 18.83%.

### Objects of the Issue

The company intends to utilize the issue proceeds for

- Prepayment and early redemption of loans and NCDs
- Construction and purchase of fit-outs for new stores

### Investment Positives

- The company offers value retailing to lower-middle; middle and aspiring upper-middle income customers by offering low prices on everyday basis with customized product assortment keeping in mind the local demands and preferences.
- Company has generated consistent return on equity despite having an ownership and lease model.
- Efficient management of wide network of vendors and suppliers allows it to keep its procurement and operations cost low.
- Company has a strong geographic presence built through strategic expansion and plans to further enhance its market position by penetrating in existing and new clusters.

### Concern

- The business model and pricing strategy of the company requires the company to maintain high level of operational efficiency on a consistent basis. Any deterioration can impact the margins adversely.



## Outlook

India is a consumption led economy with private consumption forming around 60% of the GDP. Several factors continue to drive the economy like growing young & working population, increasing penetration of mobile technology and internet infrastructure, increasing aspirations and affordability, rapidly rising education levels and steady growth of urbanization. The decadal consumption CAGR for FY05-15 stood at 14.7%. Overall Retail forms around 50% of private consumption which is expected to grow at 11.7% CAGR over FY 16-20 while the Organised Brick & Mortar is expected to grow at CAGR of 20.2% over FY16-20. Food & grocery forms the largest share of organised B&M retail with 24% share followed by jewellery and watches at 23% and apparel & accessories at 20%. Low penetration of 3% presently provides huge potential for growth in food & groceries which is expected to increase to 5% by FY20.

States where DMart is present account for ~48% of total retail spend and the retail spending across the states grew in a range of 10% to 14% over FY 12-16. As of Dec, 2016 the company has 117 stores with retail business area of 3.57 mn sq. ft. growing from 75 stores & 2.14 mn sq. ft. in FY14. ASL has witnessed robust CAGR of 27.7% over FY12-16 in total number of bill cuts coupled with improvement in basket size. Like for like growth (24 months) for the company stood at 21.5% for FY16. Sales/sq. ft. increased at 16% CAGR to Rs 28,136 in FY16. Company has witnessed strong revenue CAGR of 40.4% over FY 12-16 with margin expansion. EBITDA margin increased from 6.2% to 8.8% while PAT margin rose from 2.7% to 4.4% over FY12-16 resulting in consistent increase in return on equity & capital employed. We expect the company to continue its growth journey robustly going ahead.

## Valuation

The issue has been offered in a price band of Rs 295-299 per equity share. At the upper price band of Rs 299 the stock is available at P/E of 32.5 (x) based on 9M FY17 annualized EPS. We have “4 star” rating for the issue.

## Peer Group Comparison (Mar, 16)

Company	Sales YoY (%)	EBITDAM (%)	RoNW (%)	D/E (x)
Industry	29.3	7.5	5.2	0.9
Avenue Supermarts Ltd.	33.0	7.4	23.6	0.8

## Financials

Particulars (Rs Cr)	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Total Income	8606	6458	4702	3355	2222
EBITDA	681	477	358	229	152
EBIT	583	396	301	183	114
PBT	492	323	245	141	88
Net Profit	321	212	161	94	60
Net Worth	1520	1199	956	790	682
Cash and Bank balance	35	38	55	62	48
Cash Flow from Operations	447	222	198	127	65
Free Cash flow	-297	-336	-136	-165	-143
Debt to Equity(x)	0.8	0.8	0.7	0.7	0.0
Current Ratio(x)	1.3	1.6	1.4	1.3	1.3
ROCE(%)	24.2	21.4	20.6	15.4	10.8
RONW(%)	23.6	19.7	18.5	12.8	8.9
PBIDTM(%)	7.4	6.8	7.0	6.3	6.3
PATM(%)	3.5	3.0	3.2	2.6	2.5
Adjusted EPS	5.7	3.8	3.0	1.7	0.0
Enterprise Value	1720	1428	1132	1009	486

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