Narnolia
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AVENUE SUPERMARTS LIMITED

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8th Mar 2017

IPO Note

Issue Detail	
Type	100% Book Building
Issue Size	Rs.1865 Crore
Offer Price	*Rs (295 - 299)/Equity Share
Min App Size	50 Shares
Issue Open	8-Mar-17
Issue Close	10-Mar-17
Shares Offer	6.23Cr
Face Value	Rs 10
Lead Mgrs	Axis Capital Ltd, Edelweiss Capital Ltd, HDFC Bank Ltd
Listing	BSE, NSE
Registrar	Karvy Computershare Pvt Ltd
Market Cap (Post Issue)	18655.7

No of shares (Post & Pre Issue)	
No of Shares (Pre Issue)	561,542,680
Offer for Sale	
Fresh Issue made	62393631
No of Shares (Post Issue)	623936311

Bid allocation pattern	
QIB	50%
Non-Institutional	15%
Retail	35%

Company Overview

Avenue Supermarts (ASL) operates stores under 'D-Mart' brand, which is an emerging national supermarket chain. Company offer a wide range of products with a focus on the Foods, Non-Foods (FMCG) and General Merchandise & Apparel product categories.

DMart opened its first store in Mumbai in 2002 and has since expanded its retail network to 118 stores as of January 31, 2017 with a retail footprint of 3.59mn sqft across 45 cities and 9 states and one Union Territory. Company plan to deepen store network in southern and western India and gradually expand network in other parts of India pursuant to cluster-focused expansion strategy.

For Fiscal 2016, Maharastra contributed a majority of Revenue from Sales (62.57%) followed by Gujarat (18.83%), Telangana (10.15%), Karnataka (6.14%) Andhra Pradesh (1.03%), Madhya Pradesh (0.85%) and Chattisgarh (0.43%).

Company operate predominantly on an ownership model rather than on a rental model. Company open new stores using a cluster approach on the basis of adjacencies and focusing on an efficient supply chain, targeting densely-populated residential areas with a majority of lower-middle, middle and aspiring upper-middle class consumers

Company Strategies

> Company has benefitted from in-depth understanding of local needs and ability to respond quickly to changing consumer preferences. This has been achieved in part due to our advanced IT systems

> Company business is consumer-driven . The strong promoter background and an experienced senior management team have helped to offer high standards of customer service and a pleasant shopping experience at stores

> Company has a wide network of vendors and suppliers across the country. The company's sustained efforts to improve its strong supplier network, has led to an efficient supply and sale cycle. The stores are supported by an appropriate combination of supplies from its distribution centres located within a specified distance . ASL has 22 delivery centres and six packing centres, which streamline and consolidate administrative and logistics functions.

> Company operates on an ownership model rather than on a rental model resulting in minimising rental costs. It generally enters into a long term lease arrangements, where the lease period is usually more than 30 years and the building is owned by the company.

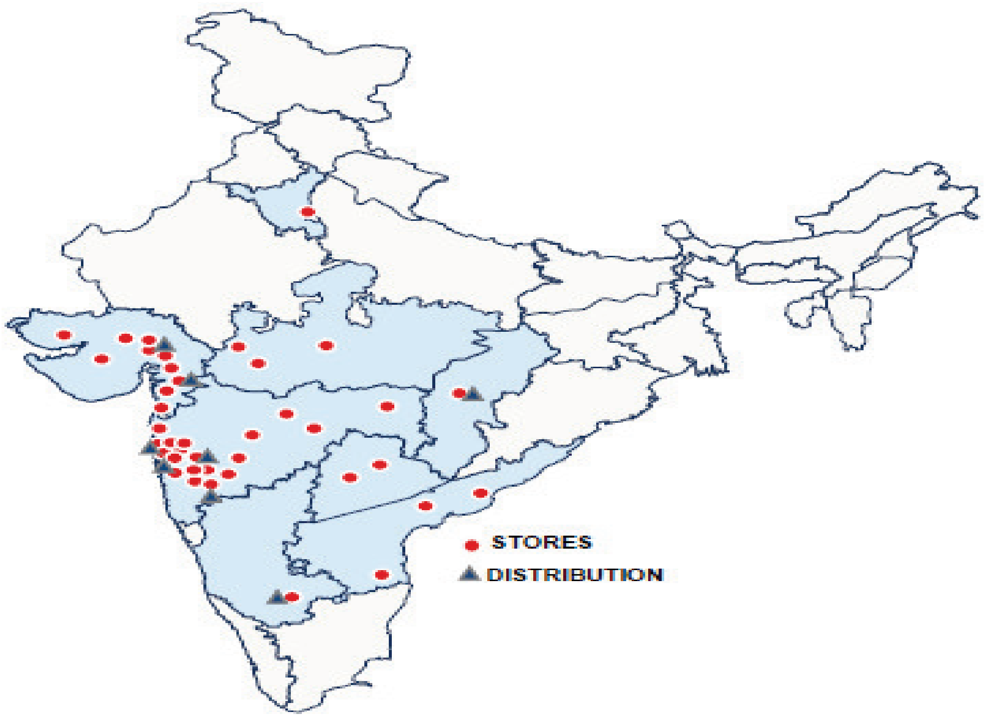
Objectives of the Issue:

Particulars	Amount
Repayment or prepayment of a portion of loans and redemption or earlier redemption of NCDs availed by the Company	Rs. 1080 Cr.
Construction and purchase of fit outs for new stores	Rs 366 Cr
General corporate purposes	

Recommendation

D-Mart has NPM of 4.4% for FY17E which will further increase after debt repayment out of IPO proceeds. With ROE of 20 and P/B of 8.5 times FY17E , The company is cheaply valued compared to its listed peers. None of the other listed supermarket/ retailers are having such light Balance sheet with better Net Profit margins. D Mart has a well executed Business Model and is attractively placed in Retailing where the story in India is sustainable growth for longer term. We recommended SUBSCRIBE

Company Presence In India



Competitive Risks

> One of the key strengths has been ASL's ability to offer its customers value retailing, daily low prices and, consequently, greater daily savings. Company is unable to continue to offer daily low prices pursuant to EDLC/EDLP pricing strategy, company risk losing distinct advantage and a substantial portion of customers which will adversely affect business, financial condition and results of operations. Further, in case of shortages, suppliers may increase prices of products beyond control due to which company may lose competitive advantage.

> The company currently function on a low inventory level model . It typically maintains inventory levels that are sufficient for a few days of operation.Company has inability to maintain an optimal level of inventory in stores may impact operations adversely.

> For the nine months period ended December 31, 2016, Maharashtra and Gujarat together contributed 76.9% of total revenue. Furthermore, as of January 31, 2017, 19 out of 22 distribution centres are located in Maharashtra and Gujarat. Any adverse development that affects the performance of the stores or distribution centres in these two states could have a material adverse effect on the business, financial condition and results of operations.

> Company has inability to promptly identify changing consumer preferences. Customer preferences in the markets where the company operates are difficult to predict while changes in those preferences or the introduction of new products by competitors could put its products at a competitive disadvantage.

AVENUE SUPERMARTS LIMITED

Financials Snap Shot

INCOME STATEMENT

	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Revenue (Net)	3,340.9	4,686.5	6,439.4	8,588.1
Other Income	14.3	15.8	18.3	18.0
Total Revenue	**3,355.1**	**4,702.3**	**6,457.7**	**8,606.1**
Purchase of stock-in-trade	2,937.9	4,086.5	5,648.5	7,439.9
Changes in inventory stock in trade	-80.5	-102.1	-161.3	-132.1
Other Operational Costs	127.4	181.1	233.4	308.6
Employee Benefits Expense	68.7	87.3	134.1	148.6
Other expenses	72.3	91.9	125.8	159.6
Total Expenses	**3,125.8**	**4,344.7**	**5,980.4**	**7,924.6**
EBITDA	**215.0**	**341.8**	**459.0**	**663.5**
Depreciation	45.8	57.0	81.5	98.4
EBIT	**169.2**	**284.8**	**377.5**	**565.1**
Finance Costs	42.6	55.7	72.4	90.8
Profit before Tax	**140.9**	**244.9**	**323.3**	**492.2**
Current tax (MAT)	40.2	77.1	106.5	162.1
MAT credit entitlement	7.0	6.4	4.4	9.4
Total tax expense	47.2	83.5	110.9	171.5
Exceptional Item	0.0	0.0	0.0	0.0
PROFIT AFTER TAX	**93.7**	**161.4**	**212.4**	**320.7**

RATIOS

	31 March 2013	31 March 2014	31 March 2015	31 March 2016
EPS	1.5	2.6	3.4	5.1
Book Value Per share	12.7	15.3	19.2	24.4
Valuation(x)				
P/E (Upper Band)	198.8	115.4	87.7	58.1
P/E (Lower Band)	196.2	113.9	86.5	57.3
Price / Book Value	23.6	19.5	15.5	12.3
EV	19026.9	19111.1	19374.4	19658.1
EV/Sales	5.7	4.1	3.0	2.3
EV/EBITDA	88.5	55.9	42.2	29.6
Profitability Ratios				
RoE	12%	17%	18%	21%
RoCE	18%	26%	27%	32%
Liquidity Ratios				
Net Debt/Equity	0.470	0.478	0.595	0.598
Interest Coverage Ratio	4.0	5.1	5.2	6.2
Current Ratio	1.28	1.37	1.60	1.28

	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Share Capital	544.1	546.8	561.5	561.5
Reserves	245.5	408.8	637.7	958.9
Minority Interest	0.3	0.0	0.1	0.1
Net Worth	**789.5**	**955.6**	**1199.2**	**1520.4**
Long-term borrowings	371.2	456.8	713.8	908.5
Deferred tax liabilities	20.1	26.5	30.5	39.9
Other long term liabilities	13.4	12.4	16.1	16.2
Long-term provisions	0.0	0.1	0.1	0.2
Non - current liabilities	**404.7**	**495.9**	**760.5**	**964.7**
Short-term borrowings	62.4	54.7	43.7	129.7
Trade payables	94.4	122.6	118.5	191.8
Other current liabilities	134.6	170.1	215.0	277.0
Short-term provisions	6.2	8.8	17.8	16.5
Current liabilities	**297.5**	**356.2**	**395.0**	**615.0**
Total Liabilities	**1491.8**	**1807.6**	**2354.8**	**3100.1**
Tangible assets	921.6	1168.1	1524.1	2089.2
Intangible assets	3.1	3.6	4.0	4.3
Capital work-in-progress	118.1	88.8	98.1	81.7
Non Current Investments	16.0	15.2	14.8	27.8
Long-term loans and advances	52.6	42.6	80.2	107.4
Non-current assets	**1111.4**	**1318.3**	**1721.1**	**2310.3**
Current investments	0.0	0.3	0.7	1.9
Inventories	276.2	378.3	539.6	671.7
Trade receivables	13.3	9.5	7.1	8.4
Cash and bank balances	61.6	55.4	38.0	35.1
Short-term loans and advances	29.5	45.5	48.1	72.4
Other current assets	0.1	0.3	0.2	0.4
Current assets	**380.7**	**489.3**	**633.7**	**789.9**
TOTAL Assets	**1492.1**	**1807.6**	**2354.8**	**3100.2**

	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Net Profit/(loss) before tax	141.1	244.9	322.6	492.9
Adjustments for:				
Depreciation and Amortisation	45.8	57.0	81.5	98.4
Finance Costs	42.6	55.7	72.4	90.8
Loss on sale/discardment of fixed as	0.5	0.6	1.4	0.8
Expenses on increase of share capit	0.0	0.1	0.1	0.0
Provisions no longer required writte	(0.4)	(0.3)	(0.2)	0.0
Sundry Balances written off	0.7	0.1	0.0	0.0
Interest Income	(0.3)	(1.1)	(0.5)	(0.6)
Profit on Sale of Current Investment	(0.9)	(1.0)	(3.4)	(2.5)
Operating Profit/ (Loss) before Wo	**229.1**	**355.9**	**474.0**	**679.9**
Adjusted for:				
Trade Payables	29.7	28.4	(3.9)	73.3
Provisions	(0.0)	0.2	1.7	1.3
Other Current Liabilities	4.3	6.6	10.9	22.6
Other long term Liabilities	2.0	(0.9)	3.6	0.1
Trade Receivables	(7.7)	3.7	2.5	(1.3)
Inventory	(80.5)	(102.1)	(161.3)	(132.1)
Loans and Advances	(13.3)	(18.5)	(5.4)	(32.1)
other current assets	0.0	(0.2)	0.1	(0.3)
other non-current assets	(0.0)	0.0	(0.2)	(0.1)
Cash generated from/ (used in) ope	**163.8**	**273.2**	**322.0**	**611.3**
Taxes paid	36.7	75.0	100.0	164.1
Net cash generated from/ (used in)	**127.1**	**198.1**	**222.0**	**447.1**
Cash Flow from Investing Activities	**(230.9)**	**(270.2)**	**(473.9)**	**(658.3)**
Net Cash in Financing Activities	**117.5**	**65.2**	**234.5**	**208.2**
Cash and Cash equivalents	13.7	(6.8)	(17.4)	(3.0)
Cash and cash equivalents	47.7	61.4	54.6	37.2
Cash and cash equivalents (Closing E	61.4	54.6	37.2	34.2