Avenue Supermarts Limited

March 22, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed CP issue	20	**CARE A1+**	**Reaffirmed**
Total	**20 (Rupees Twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation to the short-term instrument of Avenue Supermarts Ltd (ASL) continues to derive strength from the established track record of ASL in organised retail industry, experienced promoters and management, high operating efficiency of stores with optimal product assortment and strong financial risk profile with adequate liquidity. The favourable liquidity profile is characterised by lean working capital cycle attributed to an efficient inventory management. CARE notes that the company has successfully raised Rs.1870 crore from Initial Public Offer (IPO) in March 2017. The money raised through IPO has been partially utilized to repay/prepay existing debt and partially towards setting up of new stores. However, stiff competitive landscape in the value retail segment and continuous expansion plans of the company will be the long-term credit risks. The ability of ASL to maintain its operating margins in the backdrop of the new stores opened which need a gestation period, is the key rating sensitivity. Any significant debt funded capital expenditure impacting the capital structure is a key rating monitor able

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of promoters and management

ASL, incorporated in 2000, is promoted by Mr. Radhakishan Damani, a renowned equity market investor. Mr. Ignatius Navil Noronha is ASL's Chief Executive Officer and Managing Director, and has more than a decade's experience in the retail business operations. He is supported by qualified professionals to manage the operations.

Track record of robust operational performance over the years

Over FY12-17, total income from operations has grown at a CAGR of about 39.31% to Rs.11,904 crore in FY17 with older stores getting matured and new stores being added. During FY12-9MFY18, the number of stores increased from 55 stores in FY12 to about 141 stores as on December 31, 2017, reflecting a CAGR of about 20.71%. Lower priced products along with strong procurement have led to increase in average revenue per store for the company over these years.

Healthy profitability margin

ASL demonstrated strong operational performance backed by increase in overall sales per store and control over the fixed cost despite addition of retail space on a y-o-y basis which resulted in growth in PBILDT margin over the period. The PBILDT margin improved to 8.31% in FY17 from 7.88% in FY16.

Lean working capital cycle and adequate liquidity

The efficient inventory management resulted into relatively lower cash blocked in the inventory. The average utilization of working capital limits was less than 20% in past 12 months (refers to the period March 2017 to February 2018). The

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

liquidity is primarily driven by gross cash accruals, which grew by 46.11% from Rs.425 crore in FY16 to Rs.621 crore in FY17.

Benefits derived out of asset-heavy model

ASL's cost of expansion is moderately higher vis-à-vis other players as ASL primarily operates on owned model for its stores vis-à-vis lease model followed by majority of other retailers. With healthy growth in the operations from the portfolio of stores combined with ownership nature and no variable outflow in the form of lease payments as compared with other retailers, the time taken to achieve break-even at operational level remains lower for ASL.

Comfortable capital structure despite debt funded expansion plans

The capital structure of the company continues to remain comfortable and has improved with overall gearing at 0.39x as on March 31, 2017 compared to overall gearing at 0.78x as on March 31, 2016. During FY16-17 period, the company has added 21 new stores and as on December 2017, the total store count stands at 141. The company has raised Rs.1870 crore through IPO issue in March 2017 wherein Rs.1080 crore was planned towards repayment of NCD's and term loan and rest towards construction of new stores and general corporate purpose. As on December 2017, the company has already utilized Rs.864 crore towards repayment of NCDs and term loan and Rs.465.70 crore towards new stores construction and general corporate purpose expenses.

Key Rating Weaknesses

Geographical concentration risk

The stores of ASL are mainly concentrated in West and South India with majority of stores in Maharashtra (60), Gujarat (29), Andhra Pradesh & Telangana (20), and Karnataka (11) as on March 31, 2017. The continuous addition of new stores and replication of similar store revenues in newer geographies remains the key monitorable.

Competitive nature of the industry

The competition intensity may increase from the existing retailers and new entrants, both organized and un-organized, mainly with respect to the new locations. The company's online presence, though small, may face stiff competition from existing players which are aggressively competing for capturing market share.

Analytical approach:
Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Service Sector Companies
Financial ratios – Non-Financial Sector
Rating Methodology – Organized Retail Companies

About the Company

Avenue Supermarts Limited is a Mumbai-based company, which owns and operates D-Mart stores. D-Mart is an emerging national supermarket chain that offers customers a range of home and personal products under one roof. The Company offers a wide range of products with a focus on Foods, Non-Foods (FMCG) and General Merchandise & Apparel product categories. Each D-Mart store stocks home utility products, including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and others. The Company offers its products under various categories, such as bed and bath, dairy and frozen, fruits and vegetables, crockery, toys and games, kids apparel, ladies garments, apparel for men, home and personal care, daily essentials, grocery and staples.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	8592.09	11904.37
PBILDT	675.02	989.18
PAT	318.19	483.42
Overall gearing (times)	0.78	0.39
Interest coverage (times)	7.40	8.12

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Arunava Paul
Tel: 6754 3667
Email: arunava.paul@careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper (Proposed)	-	-	-	20.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper (Proposed)	ST	20.00	CARE A1+	CARE A1+ (15-March-2018)	1)CARE A1+ (12-Apr-16)	-	1)CARE A1+ (22-Oct-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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