Avenue Supermarts Limited

April 27, 2017

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned 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 ownership model helps the company on saving variable cost. The company has successfully raised Rs.1870 crore from Initial Public Offer (IPO) in March 2017. The money raised through IPO is proposed to be partially utilized to repay/prepay existing debt and partially towards setting up of new stores. This is further expected to improve the capital structure of the company in medium term.

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 monitorable.

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 FY12-16, total income from operations has grown at a CAGR of about 39.52% to Rs.8600 crore in FY16, with older stores getting matured and new stores being added. During the same period, the number of stores increased from 55 stores in FY12 to about 110 stores in FY16, reflecting a CAGR of about 18.92%.

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 7.88% in FY16 from 6.62% in FY12.

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 18% (excluding CP) in 10 months period ended January, 2017. The liquidity is primarily driven by gross cash accruals, which grew by 43% to Rs.425 crore in FY16.

Benefits derived out of asset-heavy model: Out of 118 operational stores (as on January 31, 2017), the company roughly has 10% stores on lease basis. 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.

Comfortable capital structure despite debt funded expansion plans: The capital structure of the company continues to remain comfortable with overall gearing at 0.78x as on March 31, 2016, although the gearing has deteriorated over the period from 0.56x as on March 31, 2012, due to debt funded store expansion. During the same period, the company has added 55 new stores primarily owned stores. The company has raised Rs.1870 crore through IPO issue in March, 2017.

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

The money raised through IPO proceeds will be utilized to repay/prepay Bank Loan & NCD of Rs.1080 crore, Rs.367 crore will be used towards new stores and the balance for general purpose. This is expected to improve the capital structure in medium term.

Key Rating Weaknesses

Continuous capacity addition in terms of new store addition: The operating margins of the company may be affected on account of continuous new store addition which generally requires some time to break even.

Competitive nature of the industry: The company may face competition from the existing retailers and new entrants, both organized and un-organized, mainly with respect to the new locations.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning outlook to credit ratings
CARE's policy on default recognition
Criteria for short-term instruments
Financial Ratios: Non Financial Sectors
Rating methodology: Retail Companies

About the Company
Avenue Supermarts Ltd. (ASL), previously known as Avenue Supermarts Private Limited, is engaged in organized retail business through its "*DMart*" branded chain of stores. ASL offers value products viz. daily household products, including grocery items, fast-moving consumer goods and apparels, at affordable prices and caters to the mass segment. As on January 31, 2017, ASL had 118 retail stores located across 45 cities in Maharashtra, Gujarat, Karnataka, Andhra Pradesh, Telangana, Madhya Pradesh, Chhattisgarh, NCR, Daman and Rajasthan in India.

The company reported PAT of Rs.318.19 crore on total income of Rs.8,599.63 crore during FY16 (refers to the period April 1 to March 31) as compared to PAT of Rs.211.39 crore on total income of Rs.6,454.40 crore during FY15. In 9MFY17, the company reported a PAT of Rs.385.98 crore on a total income of Rs.8793.38 crore.

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.*

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	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	ST	20	CARE A1+	-	1)CARE A1+ (12-April-16)	-	1)CARE A1+ (22-October-14)

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CIN - L67190MH1993PLC071691