Avenue Supermarts Limited

December 25, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed CP issue	20.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**20.00 (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 organized retail industry, experienced promoters and management, high operating efficiency of stores with optimal product assortment and strong financial risk profile with sufficient liquidity. The favorable liquidity profile is characterized by lean working capital cycle attributed to an efficient inventory management. The money raised through Initial Public Offering (IPO) in March 2017 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

ASL's total revenue has witnessed a steady increase growing at a CAGR of 35.07% over the period FY13 to FY18 due to low pricing strategy coupled with accelerating store expansion. Total store count doubled from 75 stores in FY13 to 155 stores in FY18. As of H1FY19 the company has 160 stores and retail business area of 5.1 mn sq. feet. ASL has been successful in improving profitability of existing as well as additional new stores along with growing scale of operations indicated by increase in revenue per retail business area over the years.

Consistent and healthy profitability margin

ASL operates on ELC/ELP (everyday low cost/everyday low price) strategy by keeping its procurement and operation costs low resulting in cost leadership for its products and higher sales volumes across its stores. As a result, PBILDT margins improved from 8.31% in FY17 to 9.23% in FY18. Stable product mix over the years, lean cost structure and efficient inventory management have resulted into increase in profitability.

Healthy liquidity position driven by strong cash flows

The liquidity position is comfortable with lean operating cycle, strong current ratio, positive cash flow from operations and healthy cash accruals. The company has available free cash of Rs.556 crore as on March 31st, 2018 and Rs.430 crore as on September 30, 2018 which provides sufficient liquidity. The average utilization of fund based limits was around 20% for the past 12 months ending October 2018 and provides significant liquidity backup.

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 0.09x as on March 31, 2018 compared to overall gearing at 0.39x as on March 31, 2017 on account of significant repayment of long

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

term debt and working capital borrowings thus improving the financial risk profile of the company. ASL had raised Rs.1870 crore through IPO issue in March 2017, wherein, the company has already utilized Rs.899 crore towards repayment of NCDs and term loan and Rs.634 crore towards new stores construction and general corporate purpose expenses.

Key Rating Weaknesses

Geographical concentration risk

The geographical retail footprint of ASL increased with high concentration in South and West India with majority of stores in Maharashtra (62), Gujarat (30), Andhra Pradesh & Telangana (29) and Karnataka (12). 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)	FY17 (A)	FY18 (A)
Total operating income	11904.37	15061.31
PBILDT	989.18	1390.27
PAT	483.42	784.66
Overall gearing (times)	0.39	0.09
Interest coverage (times)	8.12	23.4

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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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	20.00	CARE A1+	-	1)CARE A1+ (22-Mar-18) 2)CARE A1+ (27-Apr-17)	1)CARE A1+ (12-Apr-16)	-

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