Analyst: Raj Bardhan Kumar Singh Vol:- IPO/2016/03/06/1.0 06th March 2017

D-Mart
AVENUE Supermarket Limited

IPO of Avenue Supermarkets, the company that operates the supermarket chain D-Mart. The 61-year-old Damani is one of the biggest names in the Indian stock market and ranked 98th in the Forbes India Rich List 2015, with a net worth of $1.15 billion.

D-Mart is an emerging national supermarket chain, with a focus on value-retailing. IN Fiscal 2016 D-Mart was one of the largest and the most profitable F&G retailer in India. D-Mart offers a wide range of products with a focus on the Foods, Non-Foods (FMCG) and General Merchandise & Apparel product categories.
It opened its first store in Mumbai, Maharashtra in 2002. . As of January 31, 2017, it had 118 stores with Retail Business Area of 3.59 million sq.ft, located across 45 cities in Maharashtra (59), Gujarat (27), Telangana (13), Karnataka (7), Andhra Pradesh (4), Madhya Pradesh (3), Chhattisgarh (1) and NCR (1) Daman (1) and Rajasthan (2). At the end of the nine months period ended December 31, 2016 and Fiscals 2016, 2015 and 2014, it had 117, 110, 89 and 75 stores with Retail Business Area of 3.57million sq. ft., 3.33 million sq. ft., 2.66 million sq. ft. and 2.14 million sq. ft.,also 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 its 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%).

Classification of products under the following categories:

- **Foods:** This category includes staples, groceries, fruits & vegetables, snacks & processed foods, dairy & frozen products, beverages and confectionery. In Fiscals 2014, 2015 and 2016, this category constituted 53.28%, 52.84% and 53.06% , respectively of our Revenue from Sales.
- **Non-Foods (FMCG):** This category includes home care products, personal care and toileteries and other over the counter products. In Fiscals 2014, 2015 and 2016, this category constituted 21.49%, 21.22% and 20.58%,respectively of our Revenue from Sales.
- **General Merchandise & Apparel**: This category includes bed & bath products, home appliances, furniture, crockery, utensils, plastic goods, garments and footwear. In Fiscals 2014, 2015 and 2016, this category constituted 25.23%,25.94% and 26.36%, respectively of our Revenue from Sales.

Its stores are supported by IT and operational management systems specific to its business needs. These systems streamline many of its functions including procurement, sales, supply chain and inventory control processes and daily produce updated information to support its business. As a result, D-Mart is able to procure its merchandise from its distribution centres or directly from its suppliers and manage inventory levels efficiently to better respond to its customers changing preferences and needs.

Peers:

Its major competitor includes Big Bazaar, Reliance Retail, Spencer's, Hyper city and Star bazaar as well as the traditional retail stores and others. D-Mart's majorly competing areas include food, FMGC, general merchandise & apparel product categories and also in non-branded clothes etc.

Price Band	**Rs. 295 - 299 per Equity Share**
Issues Open	**Wednesday, Mar 08, 2017**
Issue Close	**Friday, Mar 10, 2017**
Issue Type	**100% Book Built Issue IPO**
Bid Lot	**50 Equity share and multiple thereafter**
Maximum Bid amount for Retail	**Rs, 2 Lacs**
Total Issue size	**62,541,806 Equity Shares**
Offer Size	**1870 Cr.**
QIB*	**Up to 50% of Equity Share**
NIB*	**atleast 15% of Equity Share**
Retail Individual Bidders	**atleast 35% Equity Share**
Mode of Payment	**ASBA Mandatory (No cheque will be accepted)**
Book Running Lead Managers	**Axis Capital, Edelweiss, HDFC, INGA, I-Sec, JM Financial, Motilal and SBICAP**
Face Value	**Rs. 10 per Equity Share**
Listing At	**NSE, BSE**
Registrar	**Link Intime India Private Limited.**

Objects of the Issue:

The net proceeds of the IPO are proposed to be used as set forth below:

1. Repayment or prepayment of a portion of loans and redemption or earlier redemption of NCDs availed by the Company;
2. Construction and purchase of fit outs for new stores;
3. General corporate purposes.

Utilization of Net Proceeds

The Net Proceeds are proposed to be used in accordance with the details as set forth below:

Particulars	Amount (In Rs. million)
Repayment or prepayment of a portion of loans and redemption or earlier redemption of NCDs availed by our Company	10,800.00
Construction and purchase of fit outs for new stores	3,666.00
General corporate purposes*	*
Total	*

Competitive Strengths:

- Value retailing to a well-defined target consumer base
- Steady footprint expansion using a distinct store acquisition strategy and ownership model.
  Deep knowledge and understanding of optimal product assortment and strong supplier network enabling procurement at predicable and competitive pricing, leading to an overall efficient cycle.
- High operating efficiency and lean cost structures through stringent inventory management using IT systems.
- Strong promoter background and an experienced and entrepreneurial management team with a proven track record and a high degree of employee ownership.
- Strong track record of growth and profitability.

Strategies

- Further strengthen our market position by expanding our store network in existing clusters as well as new clusters.
- Enhancing sales volumes by continuing to prioritize customer satisfaction through optimal product assortment and offering value for money using EDLC/EDLP strategy.
- Continue improving our operating efficiency and supply chain management.
- Preserve our corporate culture and values and continue to focus on training.

Industry

Globally India is seen as one of the key consumer markets from where future growth is likely to emerge. It is estimated that India's consumption expenditure will increase to USD 2,000bn by 2020 and will surpass the consumption expenditure of developed economies like Italy, France and United Kingdom. By 2030, India is expected to rank among the top 5 economies in terms of consumption.

Consumption Growth

Total Private Final Consumption Expenditure (US$ bn)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2020P	Contribution to GDP*
UK	1,792	1,498	1,553	1,672	1,710	1,763	1,933	1,847	1,665	69%
U.S.	10,014	9,847	10,202	10,689	11,050	11,392	11,865	12,271	13,913	68%
Brazil	1,012	1,032	1,330	1,575	1,510	1,519	1,507	1,124	2,350	63%
Italy	1,424	1,325	1,296	1,400	1,276	1,302	1,312	1,108	1,143	63%
India	424	485	553	651	760	877	1,011	1,125	2,000	58%
Germany	2,075	1,963	1,915	2,078	1,970	2,074	2,112	1,813	2,108	57%
Indonesia	309	317	424	494	517	518	509	491	909	56%
France	1,615	1,514	1,486	1,596	1,492	1,560	1,572	1332	1,470	55%
Thailand	156	149	177	196	209	218	211	NA	339	55%
Malaysia	103	99	122	143	156	167	177	160	295	51%
China	1,608	1,809	2,079	2,615	3,019	3,424	3,954	NA	10,024	36%

Source: World Bank, Technopak Research & Analysis
** 2013 Year mentioned is FY; The projections have been arrived at by considering the growth trends for the past five years. Projected values for 2014-20 have been provided in annexure 1.7.1.*

Household Consumption at USD 1,262bn currently accounts for approximately 60% of the Indian GDP. This is much higher than the share of household consumption in China (around 37%) and comparable to that of the UK and US, approximately 65% and 68%, respectively. The decadal annual growth rate of 1995-2005 was around 11% and grew to approximately 15% for 2005-2015. Although household consumption has been growing at a healthy rate, factors such as inflation reduce purchasing power, limiting household spending. The Gross Fixed Capital Formation (GFCF) has grown from contributing 22% of GDP in 1990-1991 to 28-30% of GDP currently. Going forward, projects such as ―Make in India‖ are expected to bring in higher infrastructure investments, boost the manufacturing sector and enhance exports. All of these would result in 101 a lowering share of household spending in the country's GDP. Thus going forward, India is expected to continue the trend with private consumption reaching 58% by 2020 at USD 2tn in absolute terms and will surpass that of developed economies like Italy, France and United Kingdom.

Retail Basket and Consumer Spend Trends in India Retail Consumption Across Key Categories Currently, the food and groceries (F&G) segment constitutes a majority share of the retail market (67%). According to Technopak, F&G will continue to be the largest contributor in the retail market even four years hence with a projected share of 66% in 2020. Apparel and accessories and consumer electronics are the other two key categories which account for 8% and 6% of the total retail market, respectively.

Categories	2012	2016	2020
Total Retail (US$ bn)	**386**	**616**	**960**
Food and Grocery	67.5%	67%	66%
Apparel & Accessories*	8.25%	8.0%	7.75%
Footwear	1.15%	1.18%	1.20%
Jewellery & Watches	7.3%	7.6%	8.05%
Pharmacy & Wellness	2.8%	2.9%	2.95%
Consumer Electronics	5.2%	5.7%	6.6%
Home & Living	4.15%	4.3%	4.35%
Others	~3.6%	~3.3%	~3.1%
Total	**100%**	**100%**	**100%**

• Accessories includes Bags, Belts, Wallets ;
• Others include Books & Stationery, Toys, Eyewear, Sports Goods, Alcoholic Beverages & Tobacco etc.
1 US$ = INR 67
Source: Technopak Research & Analysis

Potential Profitability Drivers

- **Growth of Private Label**

Organized retail growth is being driven by a rise in disposable income and a youth-dominated demography. Organised retailers have aimed to create a niche for their brand in the Indian market by continuing to invest and grow the private label business. Acceptance of private labels continues to increase across product categories including food and non-food FMCG, apparel and consumer durables.

Growth of private labels is due to higher margins, greater customer loyalty, clear product differentiation and higher bargaining power with suppliers. While globally, the general merchandise retailers operate at a private label mix of around 35%, the corresponding figure for the Indian retail industry currently stands at approximately 20%. Private labels are expected to continue to grow in the Indian retail industry.

- **Optimum Store Size**

General merchandise retailing will succeed by scaling up optimum store sizes along with suitable locations and an appropriate merchandise mix. With increasing experience, retailers in India will also develop a model for optimum store size, a concept mainly applicable to organized retail. This will reduce the store launch time and improve the various success factor of a store such as sales per square feet per day (SSPD) and operational cost.

- **Growth in Food Processing**

The food processing sector in India, accounting for around 32% of the total food industry is currently estimated to be approximately USD83bn, growing at a rate of 8.4%. Processed food has gained shelf space in a majority of retail formats; this is poised to continue to increase in the future. Further, processed food is not restricted to imported segments only but now also includes staples, FMCG, F&V, Dairy and Frozen & Meat categories. Indian retailers are increasingly launching processed foods as private labels

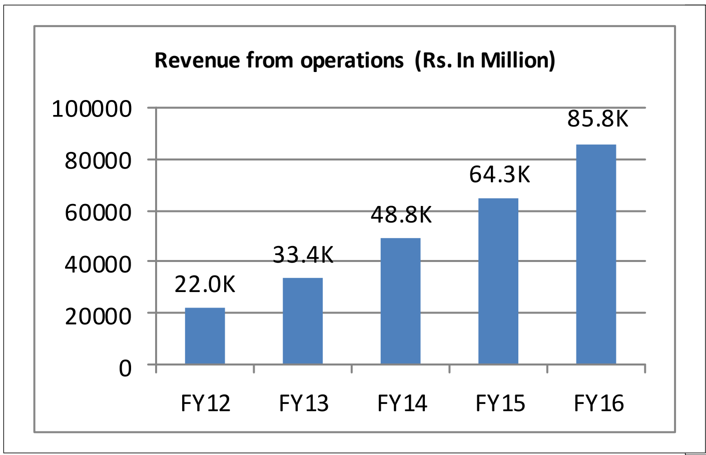
Key Government Initiatives

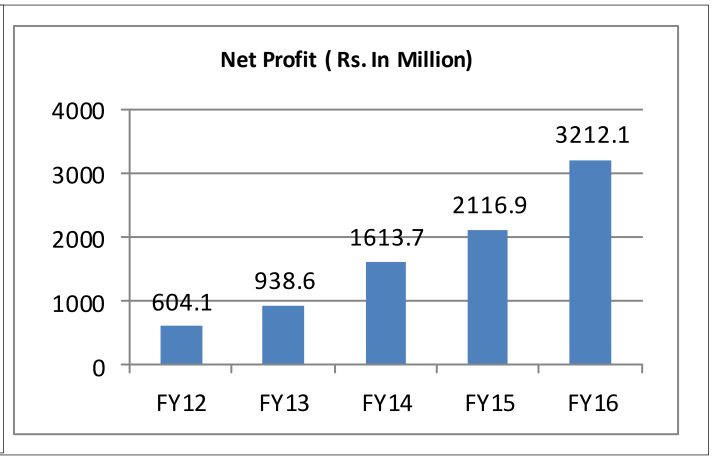
Unified Taxation Regime

GST will remove the indirect tax regime, replacing a large number of indirect taxes and duties levied by the Central Government and State Governments with three types of GST (central, state and integrated GST) and basic customs duty for imports. This will provide for a single, uniform mechanism of levying indirect taxes. It will integrate the country into a common market by introducing a uniform set of rules that will replace the current barriers to inter-state trade. GST will be levied on buyers of goods and services at the point of consumption.
The current indirect tax regime requires businesses to operate warehouses across the country to avoid the central sales tax incidence. Under the GST regime, every interstate transfer will be levied IGST irrespective of the nature of

transfer, thus eliminating the need to operate multiple warehouses across the country. It is expected that the unified tax regime will afford tremendous benefit to retailers on interstate movement and sourcing. Decisions on warehouses will be taken on purely commercial considerations rather than based on tax impact. Retailers will be in a position to better design the movement of goods to the stores deploying hub and spoke methods, making sourcing and supply chain processes more efficient and cost effective. GST will benefit both suppliers and consumers as its introduction will remove cascading effect of the taxation and provide for a common market. GST will be charged at each stage of value addition and the supplier will be able to offset the tax through a tax credit mechanism. Businesses are bound to benefit owing to the free flow of credits, no multiple taxation and lower compliance costs

Graphical Representation of Performance





Management:

Name of board members	Designation
Ramesh S. Damani	Chairman and Independent Director)
Ignatius Navil Noronha	Managing Director
Ramakant Baheti	Chief Financial Officer and Executive Director
Elvin Machado	Executive Director
Manjri Chanda	Non - Executive Director
Chandrashekhar B. Bhave	Independent Director

Summary statement of Balance Sheet

Annexure I-Restated Consolidated Statement of Assets and Liabilities of Avenue Supermarts Limited

₹ in million

Particulars	Notes / Annexures	As at				
		March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
Equity and Liabilities						
Shareholder's Funds						
Share capital	AnnexureV, Note 1	5,615.43	5,615.43	5,467.53	5,440.59	5,335.39
Reserves and surplus	AnnexureV, Note 2	9,588.84	6,376.77	4,088.30	2,454.88	1,481.58
Minority Interest		1.00	0.54	0.10	3.00	3.00
Non-current liabilities						
Long-term borrowings	AnnexureVII	9,084.69	7,137.75	4,568.37	3,711.62	2,643.19
Deferred tax liabilities (Net)	AnnexureV, Note 3	398.65	305.13	265.11	200.98	129.65
Other long term liabilities	Annexure IX	161.72	160.84	124.43	133.86	113.39
Long Term Provisions	AnnexureV, Note 4	1.73	1.29	0.76	0.41	0.12
Current liabilities						
Short-term borrowings	AnnexureVII & VIII	1,296.99	436.86	546.57	623.66	633.33
Trade payables	Annexure V, Note 5					
- Total outstanding dues of micro enterprises and small enterprises		8.04	1.88	4.17	5.64	8.93
- Total outstanding dues of creditors other than micro enterprises and small enterprises		1,910.27	1,183.25	1,221.77	938.21	634.75
Other current liabilities	AnnexureV, Note 6	2,769.98	2,150.33	1,701.34	1,346.03	897.73
Short-term provisions	AnnexureV, Note 7	164.60	178.05	88.03	61.86	27.70
Total		**31,001.94**	**23,548.12**	**18,076.48**	**14,920.74**	**11,908.76**
Assets						
Non Current Assets						
Fixed Assets	AnnexureV, Note 8					
Tangible assets		20,891.77	15,240.88	11,680.67	9,215.81	7,772.94
Intangible assets		43.40	39.93	36.20	30.84	17.73
Capital Work-in-progress (Tangible Assets)		816.87	981.17	887.82	1,181.09	849.36
Total Fixed Assets		**21,752.04**	**16,261.98**	**12,604.69**	**10,427.74**	**8,640.03**
Non Current Investments	AnnexureX	274.75	145.60	152.41	159.48	137.55
Long term loans and advances	AnnexureXII	1,073.61	801.61	425.84	526.24	355.25
Other Non Current Assets	AnnexureV, Note 9	2.99	2.07	0.05	0.05	0.04
Current assets						
Current Investments	AnnexureX	18.56	6.66	2.98	0.12	89.22
Inventories	AnnexureV, Note 10	6,716.88	5,396.09	3,783.29	2,762.25	1,957.36
Trade receivables	AnnexureXI	84.16	70.73	95.44	132.88	56.31
Cash and bank balances	AnnexureV, Note 11	350.99	380.43	554.10	616.17	479.17
Short-term loans and advances	AnnexureXII	723.91	481.42	454.75	294.73	179.88
Other current assets	AnnexureV, Note 12	4.05	1.53	2.93	1.08	13.95
Total		**31,001.94**	**23,548.12**	**18,076.48**	**14,920.74**	**11,908.76**

The above statement should be read with the Basis of Preparation and Significant Accounting Policies appearing in Annexure IV, Notes to the Restated Consolidated Financial Information appearing in Annexure V and Statement of Adjustments to Audited Consolidated Financial Statements appearing in Annexure VI.

Summary statement of Profit & Loss Account

Annexure II-Restated Consolidated Statement of Profit and Loss of Avenue Supermarts Limited

₹ in million

Particulars	Notes / Annexures	For the Year ended				
		March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
Revenue						
Revenue from Operations	AnnexureV, Note 13	85,881.19	64,394.33	46,864.88	33,408.54	22,085.60
Other Income	AnnexureXIII	179.86	182.56	158.37	142.50	138.49
Total Revenue (A)		**86,061.05**	**64,576.89**	**47,023.25**	**33,551.04**	**22,224.09**
Expenses						
Purchase of stock-in-trade		74,398.53	56,484.73	40,865.32	29,379.25	19,567.71
Changes in inventory of stock in trade	AnnexureV, Note 14	(1,320.79)	(1,612.80)	(1,021.04)	(804.89)	(728.14)
Employee benefit expenses	AnnexureV, Note 15	1,486.06	1,340.62	873.37	686.65	453.12
Other Operational Costs	AnnexureV, Note 16	3,086.17	2,333.95	1,810.60	1,273.96	836.51
Finance Costs	AnnexureV, Note 17	908.24	723.61	556.76	425.85	260.19
Depreciation and amortisation	AnnexureV, Note 18	984.29	815.41	570.13	457.86	374.66
Other expenses	AnnexureV, Note 19	1,596.38	1,257.91	918.87	723.48	576.13
Total Expenses (B)		**81,138.88**	**61,343.43**	**44,574.01**	**32,142.16**	**21,340.18**
Profit / (Loss) before Taxation (A-B) (C)		**4,922.17**	**3,233.46**	**2,449.24**	**1,408.88**	**883.91**
Tax Expenses						
Current Tax		1,620.90	1,064.98	770.85	401.50	257.83
Deferred Tax charge		93.98	44.22	64.32	70.48	23.87
Tax in respect of earlier years		1.32	-	(0.18)	-	0.66
Total (D)		1,716.20	1,109.20	834.99	471.98	282.36
Net Profit/(Loss) after taxation (C-D) (E)		**3,205.97**	**2,124.26**	**1,614.25**	**936.90**	**601.55**
Net Profit / (Loss) Before Restatement Adjustments		**3,205.97**	**2,124.26**	**1,614.25**	**936.90**	**601.55**
Material Restatement Adjustments(F)	Annexure VI - A (ii)	6.82	(6.99)	(0.72)	2.50	3.39
Deferred Tax adjustments(G)	Annexure VI - A (iii)	0.46	0.06	0.19	(0.85)	(0.88)
Net Profit/(Loss) before the adjustments on account of changes in accounting policies (E+F+G)		**3,213.25**	**2,117.33**	**1,613.72**	**938.55**	**604.06**
Adjustments on account of changes in accounting policies		-	-	-	-	-
Net Profit/(Loss) before Minority Interest and Share in Net Loss of Associates		3,213.25	2,117.33	1,613.72	938.55	604.06
Minority Interest		0.46	0.44	-	-	-
Share in Net Loss of Associates		0.72	-	-	-	-
Net Profit/(Loss) as Restated		**3,212.07**	**2,116.89**	**1,613.72**	**938.55**	**604.06**

The above statement should be read with the Basis of Preparation and Significant Accounting Policies appearing in Annexure IV, Notes to the Restated Consolidated Financial Information appearing in Annexure V and Statement of Adjustments to Audited Consolidated Financial Statements appearing in Annexure VI.

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