

**Issue Details**

<b>Promoter</b>	Radhakishan S. Damani; Gopikishan S. Damani; Shrikantadevi R. Damani; Kirandevi G. Damani; Bright Star Investments Pvt. Ltd.; Royal Palm Private Beneficiary Trust; Bottle Palm Private Beneficiary Trust; Mountain Glory Private Beneficiary Trust; Gulmohar Private Beneficiary Trust; Karnikar Private Beneficiary Trust
<b>Issue Type</b>	Book Built Issue
<b>Anchor</b>	Tuesday, March 7, 2017
<b>Offer Opens On</b>	Wednesday, March 8, 2017
<b>Offer Closes On</b>	Friday, March 10, 2017
<b>Face Value</b>	₹. 10 per share
<b>Price Band</b>	₹. 295 – ₹. 299
<b>Bid Lot</b>	50 Equity Shares
<b>Issue Size</b>	₹ 1870 Crores
<b>Peer Comparison</b>	Reliance Retail Ltd., Future Retail Ltd., Trent Ltd., V-Mart Retail Ltd.
<b>Listing</b>	BSE & NSE
<b>Mode of Payment</b>	Mandatory ASBA (No cheques will be accepted)
<b>Registrar</b>	Link Intime India Private Limited

**Issue Structure**

Category	Allocation	Amount (₹.in Crores)
QIB	50%	935
NIB	15%	280.50
Retail	35%	654.50

Avenue Supermarts is an emerging national supermarket chain with over 117 stores & retail space of 3.57 mn sq.ft as on Q3FY17. It operates these stores under its marquee DMart brand which is spread across 45 cities in Maharashtra (59 stores), Gujarat (27), Telangana (13), Karnataka (7), Andhra Pradesh (4), Madhya Pradesh (3), Chattisgarh (1), NCR (1), Daman (1) & Rajasthan (1). The company classifies its product offerings into 3 basic categories i.e. Food (52.8 % & 53.1 % of 9MFY17 & FY16 sales revenue), Non Foods FMCG (19.6 % & 20.6 % of 9MFY17 & FY16 sales revenues) and General Merchandise & Apparel (27.6 % & 26.4 % of 9MFY17 & FY16 sales revenues). It prefers to operate predominantly on an ownership model, including long-term land lease arrangements with lease period exceeding 30 years and property being owned by the company. The guiding philosophy of Avenue Supermart's operations is EveryDay Low Cost (EDLC) & EveryDay Low Price (EDLP), leading it to adopt a cluster approach while opening new stores where store locations are based on adjacencies. This cluster approach is complimented with the company's focus on building an efficient supply chain with its 22 distribution centers & 6 packing centers in Maharashtra, Gujarat, Telangana & Karnataka. On the e-tailing side, it is also experimenting with the click & collect model whereby consumers order online and then pick up their orders at pre-determined locations through its associate company Avenue E-Commerce Limited where it holds a 49.2 % stake.

**Organised Retail - A Structural Growth Story**

It is no surprise that India is seen as one of the key consumer markets globally with Technopak estimating private consumption to stand at USD 1,262 bn as on 2016, comprising 60 % of India's GDP. India is expected to continue this trend with private consumption slated to contribute USD 2 tn which is 58 % to India's GDP by 2020, which would surpass developed economies such as Italy, France & the UK. This impressive growth in GDP & Private Consumption will therefore translate into an increase in merchandise retail market, which Technopak estimates to grow from USD 616 bn in 2016 to USD 960 bn by 2020. Increasing urbanization, a higher increase in urban household income and increasing penetration of organised retail in these urban areas is expected to increase the share of urban areas in the merchandise retail pie from 49 % in FY16 to 52 % in FY20.

Organised Brick & Mortar Retail, which includes Avenue Supermart's Dmart stores, have a sizeable market potential within the urban merchandise retail market as it constituted only 9 % (USD 55 bn) of the total urban retail segment as on 2016. The organised segment, which is largely concentrated in urban India and comprises of brands such as Big Bazaar, Reliance Fresh, DMart, More, Spencer's etc, is slated to grow at an impressive 21 - 22 % CAGR to USD 115 bn or 12 % of urban merchandise retail by 2020. While tough competition exists both with the unorganized segment & within the organised space, we believe that Avenue Supermarts is well positioned to capitalize on this sizeable opportunity with its quality offerings, competitive prices, a deep knowledge of the geographies it operates in and prudent expansion.

### **A perennial focus on stringent cost controls, operational efficiencies & optimal product assortment help strengthen its brand equity as a value retailer.**

The business model of Avenue Supermart is based on the concept of offering value retailing to its customers using the EDLC / EDLP strategy. It seeks to offer low prices across several product categories & sub-categories on an everyday basis by achieving the lowest possible procurement & operations costs rather than as special promotion limited to certain products or to a particular day, week or any other specific period in the year. Its customer acquisition & retention strategy is targeted at low-middle, middle & aspiring upper-middle income consumers, where getting value for money is the most compelling factor in daily shopping decision-making.

Another key aspect of Avenue Supermart's business model is its product profile. As more than 70 % of the products stocked in the DMart stores are essential products (Food & Non Food FMCG) forming part of basic & not discretionary spending, its business is not materially affected by seasonality or temporarily depressed macro-economic conditions. This is substantiated by the fact that the company has been able to clock ₹ 88.0 bn & ₹ 3.8 bn of revenues & PAT in the first 9 months of FY17, surpassing its FY16 numbers of ₹ 86.1 bn in revenues & ₹ 3.2 bn in profits respectively.

We like the company's approach of driving revenue growth with a demand pull factor of price competency across product categories to its consumers on the back of its strong supplier network, efficient supply chain management & careful product assortment, helping its DMart stores get recognised as a one-stop retail store chain. Increasing footfalls also help its sales of discretionary products represented by its General Merchandise & Apparel segment, which offer higher margins to the company. It is no surprise that Avenue Supermart has been able to register a like for like growth, a measure of revenue growth from same stores which have been operational for at least 24 months at the end of a fiscal, of 26.1 %, 22.4 % & 21.5 % in FY14, FY15 & FY16 respectively

### **Steady footprint expansion using a prudent store acquisition strategy & ownership model**

Avenue Supermart has expanded considerably since its first store launch in Mumbai in 2002 to a network of 118 stores as on January 31st 2017 across 9 states & 1 union territory in India. With Western and Southern India being key markets, the company chose to expand its store network using a cluster based approach, choosing to open new stores within a radius of a few kilometers of its existing stores & distribution centers. Considering its ownership model, where it either directly buys / builds the stores or enters into long term leases, the company looks to be prudent in selecting the location of its stores within these clusters, looking at factors such as population density, customer & vehicular traffic, customer accessibility, potential growth of the local population & economy, payback period estimated on the basis of sales potential etc. In fact the management elaborated that it looks to achieve an average target EBITDA margin of at least 5 % within 2 years of the commencement of size stores which are usually its 10,000 - 50,000 sq.ft. in size. The company has largely kept the layout & design of its stores consistent & predictable to make the shopping experience easier for its customers.

While the ownership model makes the business capital intensive in terms of its investments in land & building, we believe that this model gives the company a long-term competitive advantage in terms of strengthening its brand equity and better understanding of its target markets. It is this potent combination of cost efficiencies & prudent expansion that has enabled Avenue Supermart to grow its total number of bill cuts by 25.9 % from 53.4 mn in FY14 to 84.7 mn & 80.1 mn in FY16 & 9MFY17 on the back of 21.1 % expansion in its stores network during the same period. Average Revenue per sq.ft. also showed an impressive growth from ₹ 15,324 per sq.ft. in FY12 to ₹ 28,136 per sq.ft. in FY16 on an average like for like growth of 20 % over the last 3 fiscals, representing a growing basket size of sales. The company looks to continue its cluster based approach with more than two thirds of its planned expansion of stores to be located in the markets it is already addressing.

### **Strong track record of growth & profitability**

The company boasts of an impressive track record of growth with its top-line expanding at a CAGR of 40.3 % from ₹ 22.2 bn in FY12 to ₹ 86.1 bn in FY16 and bottom-line at a CAGR of 51.6 % from ₹ 604.1 mn in FY12 to ₹ 3,187.6 mn in FY16. On the margin front, it has been able to grow its EBITDA & PAT margins from 6.9 % & 2.7 % respectively in FY12 to 9.0 % & 4.4 % in 9MFY17. This has helped it to clock ROCE & ROE upwards of 20 % in FY16, giving the company strong operating cash flows to pay off its vendors

on time and help fund its store acquisitions. ₹10.8 bn of the IPO proceeds would also go in retire its long term debt, adding further comfort to its balance sheet.

### Recommendation

We believe that the company's philosophy for driving revenue growth and profitability through a customer centric approach of competitive prices and optimal product assortment has helped the company emerge as one of the largest and most profitable retailers in the country. We expect its EDLC philosophy together with its cluster based expansion of stores network to continue to drive sales & operating margins as it looks to scale up its retail business. Avenue Supermarts is perfectly poised to take advantage of the immense potential the domestic retail industry has to offer. Considering India's demographic advantage, high growth potential of organised urban retail, cost efficiencies, prudent expansion, strong return ratios & a strong promoter background, we recommend to **SUBSCRIBE** Avenue Supermarts

## DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-U67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP