

## Bid for Long Term

Key Data	
Floor Price (Rs)	2049
Face Value (Rs)	10/-
Issue Size (Rs)	3032.52cr
Total offered	1.48 crore shares
Retail	
Issue Opens	February 17, 2020
Issue Closes	February 17, 2020
Offered shares	14,80,000
NSE Code	DMART
BSE Code	540376
52 Week High	2559
52 Week Low	1225.95
Source: BSE, NSE India	

## AVENUE SUPERMARTS LTD

### Company Background:

Avenue Supermarts (ASL) is engaged in the organised retail business through its D-Mart chain of stores. It is a one-stop supermarket chain that aims to offer customers a wide range of basic home and personal products under one roof. Each DMart store stocks home utility products including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, and home appliances, available at competitive prices. DMart' score objective is to offer customers good products at great value.

DMart was started by Mr. Radhakishan Damani and his family to address the growing needs of the Indian family. From the launch of its first store in Powai in 2002, DMart today has a well-established presence in 196 locations across across 11 states and 1 Union Territory . ASL also owns brands such as DMart, DMart Minimax, DMart Premia, D Homes, and Dutch Harbour.

### Issue Details:

The promoter of the company - Mr.Radhakishan S. Damani, Mr. Gopikishan S. Damani, Ms.Shrikantadevi R. Damani and Ms.Kirandevi G. Damani, proposes to sell up to 1.48 Crore equity shares representing 2.28% of the total paid-up equity share capital of the company and face value of Rs. 10/- each. **The floor price has been set at Rs. 2049/- per share.**

### Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on February 14, 2020 for institutional bidders. Retails investors for whom 10% shares have been reserved will get to bid on February 17, 2020.

### Rationales:

#### Avenue Supermarts Ltd: ruling the retail chain segment in country through DMart

DMart is the one of the largest retail chain of hypermarket and supermarket in country with 196 stores across 72 cities as on December 31 ,2019. It is widely known to be a one-stop shopping destination to meet all the household needs of a family offering a wide variety of products including home utility products, foods, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances, Toys & Games, Stationery, Footwear, and a lot more with focus on offering products at lower prices compared with competition. These stores are also designed keeping customer convenience in mind. ASL holds ownership of most of its stores, which is one of the biggest value-creating factors.

#### Store expansion to strengthen pan-India presence

Business has grown rapidly in recent years primarily through expansion of store network from one store in 2002 to 196 stores across 11 states and one union territory in India .D-Mart's Same store growth in FY19 was 17.8%. Currently, ASL's operations are largely concentrated in West and South India. ASL plans of large cluster focused store addition over the next 3 years will benefit to diversify geographic reach of the company. Moreover, ASL plans of expanding store network in Central & North India.

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### Strong IT structure and a large team with focus on best-in-class service

IT systems are used for procurement, sales, and inventory management, which enable DMart to identify and quickly react to changes in customer preferences by adjusting products available, brands carried, stock levels, and pricing in every DMart store while monitoring and managing performance effectively. DMart's workforce has been an important factor in its success since the quality and efficiency of its services are linked to its staff that delivers them to customers. DMart emphasizes on continuous development and invests in its workforce through regular training programs to for improving skills and service standards, enhancing loyalty, reducing attrition rates, and increasing productivity. Further, the company has also initiated to ramp up its online strategy and a platform to support future sales channels.

### Mounting revenues lead to four-fold growth in last five years.

Over the years, Dmart has a successful track record of delivering consistent growth in sales and profits. In the last Five years FY14-FY19, Dmart operating revenues and profitability have grown by a CAGR of 33% and 41% respectively. Further, during the same period, company's operating profit grew by a CAGR of 37%. The company's operating margin has improved from 7.3% in FY14 to 8.2 % in FY19. Strong procurement abilities, lower priced products along with healthy cost control results in robust growth in footfalls. This leads to high inventory turnover and revenue per sq. ft. and translates into industry leading retail store productivity. Aggregate revenue per square foot came at Rs 35,647 in FY2019, is significantly higher than peers.

### Recommendation:

At the floor price of Rs 2049/-, the stock trades at 37.62x its FY19 EV/EBITDA of Rs. 54.46. We believe ASL with its superior business model with Faster store additions to continue its growth momentum with ample retail opportunity in India. **Hence, we recommend to BID for the OFS on a long-term basis.**

## Asit C. Mehta

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