

Avenue Supermarts Ltd. (AVEU.BO)

Urban Mass champion; initiate at Buy (on CL)

Buy CL

AVEU.BO 12m Price Target: **Rs1,586.00** Price: **Rs1,028.85** Upside: **54.2%**

Avenue Supermarts (AVEU.BO) is well placed to benefit from tax reforms as grocery market share shifts to the organized sector. While AVEU maintains low prices (with thin gross margins and light working capital), its CROCI remains better than global retail peers. AVEU is set to grow EBIT by 13x in 10 years, aided by this high growth, low margin and high return strategy. We initiate on AVEU at Buy and add it to our Conviction List; our 12-month target price of Rs1,586 implies 53% upside potential, the most in our coverage.

Three reasons why AVEU is on our Conviction List:

1. Profitable supermarket chain focused on efficiency across value chain with lowest prices, costs and inventory. *We expect a 13% CAGR for AVEU sales/sqft in next 3 years, despite already being over 50% higher than nearest competitor.*

2. Beneficiary of recent government reforms on taxation and formalization of the economy as the organized portion of grocery retail share rises to 7.9% in FY20E from 3.8% in FY17. *We forecast a sales CAGR of 33% for AVEU in FY17E-20E and 26% in FY20E-23E.*

3. Winning the online wallet through their own omni-channel offering, which offers neighborhood pick-up points (PUPs) and home delivery for a fee, while offering the lowest consumer prices. *We estimate AVEU could have 415 PUPs by FY20E, up from 41 at present, vastly expanding the reach of the stores.*

The **biggest risk** to our estimates is higher-than-expected competition from e-commerce, especially in winning over the large Urban Mass cohort. Also, at 65X FY19E EPS, **valuation** appears full but in our view does not factor in AVEU's long runway for growth and its robust business model.

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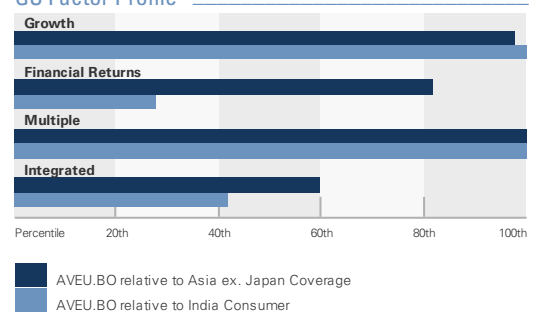
Key Data

Market cap: Rs642.1bn / \$9.9bn
Enterprise value: Rs643.3bn / \$9.9bn
3m ADTV: NA
India
India Consumer
Asia ex. Japan Conviction List

GS Forecast

	3/17	3/18E	3/19E	3/20E
Revenue (Rs mn)	118,977.0	161,489.8	213,648.4	277,215.5
EBITDA (Rs mn)	9,812.4	13,843.8	18,641.6	24,580.8
EPS (Rs)	8.48	11.65	16.38	22.30
P/E (X)	74.3	88.3	62.8	46.1
P/B (X)	9.3	14.6	12.4	10.3
Dividend yield (%)	0.0	0.2	0.3	0.4
Net debt/EBITDA (X)	(0.4)	(0.2)	(0.1)	(0.1)
CROCI (%)	23.6	25.4	26.7	28.2
FCF yield (%)	(0.5)	0.3	0.5	1.0
	6/17	9/17E	12/17E	3/18E
EPS (Rs)	2.80	2.40	3.37	3.08

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Buy

Avenue Supermarts Ltd. (AVEU.BO)

Rating since Sep 26, 2017

Ratios & Valuation

	3/17	3/18E	3/19E	3/20E
P/E (X)	74.3	88.3	62.8	46.1
P/B (X)	9.3	14.6	12.4	10.3
FCF yield (%)	(0.5)	0.3	0.5	1.0
EV/EBITDA (X)	NM	NM	NM	NM
CROCI (%)	23.6	25.4	26.7	28.2
ROE (%)	18.3	17.7	21.4	24.4
Net debt/equity (%)	(9.1)	(5.3)	(3.6)	(5.5)
Interest cover (X)	7.0	8.9	12.1	16.1
Days inventory outst, sales	24.8	23.4	22.3	22.5
Receivable days	0.5	0.5	0.4	0.4
Days payable outstanding	8.2	7.6	7.2	7.3
DuPont ROE (%)	12.8	16.5	19.8	22.3
Turnover (X)	2.0	2.5	2.9	3.3
Leverage (X)	1.5	1.5	1.4	1.4

Growth & Margins (%)

	3/17	3/18E	3/19E	3/20E
Total revenue growth	38.6	35.7	32.3	29.8
EBITDA growth	47.9	41.1	34.7	31.9
EPS growth	NM	37.4	40.6	36.1
DPS growth	NM	NM	40.6	36.1
EBIT margin	7.2	7.6	7.8	8.0
EBITDA margin	8.2	8.6	8.7	8.9
Net income margin	4.1	4.5	4.8	5.0

Price Performance

AVEU.BO (Rs)

India BSE30 Sensex



	3m	6m	12m
Absolute	28.7%	67.0%	—
Rel. to the India BSE30 Sensex	26.8%	55.4%	—

Source: FactSet. Price as of 25 Sep 2017 close.

Income Statement (Rs mn)

	3/17	3/18E	3/19E	3/20E
Total revenue	118,977.0	161,489.8	213,648.4	277,215.5
Cost of goods sold	(100,810.4)	(136,527.6)	(180,602.5)	(234,309.7)
SG&A	(8,354.2)	(11,118.3)	(14,404.3)	(18,325.1)
R&D	0.0	0.0	0.0	0.0
Other operating inc./exp.)	—	—	—	—
EBITDA	9,812.4	13,843.8	18,641.6	24,580.8
Depreciation & amortization	(1,278.2)	(1,595.6)	(1,935.7)	(2,299.7)
EBIT	8,534.2	12,248.3	16,705.9	22,281.1
Net interest inc./exp.)	(934.2)	(1,009.8)	(902.1)	(768.0)
Income/(loss) from associates	—	—	—	—
Pre-tax profit	7,600.0	11,238.5	15,803.8	21,513.0
Provision for taxes	(2,682.9)	(3,967.2)	(5,578.8)	(7,594.2)
Minority interest	—	—	—	—
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	4,917.2	7,271.2	10,225.0	13,918.8
Post-tax exceptionals	(129.2)	—	—	—
Net inc. (post-exceptionals)	4,788.0	7,271.2	10,225.0	13,918.8
EPS (basic, pre-exception) (Rs)	8.71	11.65	16.38	22.30
EPS (diluted, pre-exception) (Rs)	8.71	11.65	16.38	22.30
EPS (basic, post-exception) (Rs)	8.48	11.65	16.38	22.30
EPS (diluted, post-exception) (Rs)	8.48	11.65	16.38	22.30
DPS (Rs)	—	2.33	3.28	4.46
Div. payout ratio (%)	0.0	20.0	20.0	20.0

Balance Sheet (Rs mn)

	3/17	3/18E	3/19E	3/20E
Cash & cash equivalents	18,842.9	17,682.5	17,217.4	18,790.5
Accounts receivable	210.0	199.7	264.1	342.7
Inventory	9,479.0	11,228.9	14,853.9	19,271.1
Other current assets	1,254.1	1,565.0	1,875.8	2,248.9
Total current assets	29,786.1	30,676.0	34,211.2	40,653.2
Net PP&E	26,968.3	32,060.9	37,276.7	42,613.4
Net intangibles	64.4	83.1	97.9	109.9
Total investments	489.0	489.0	489.0	489.0
Other long-term assets	917.4	917.4	917.4	917.4
Total assets	58,225.1	64,226.4	72,992.2	84,782.8
Accounts payable	2,606.6	3,081.8	4,076.6	5,288.9
Short-term debt	5,536.1	5,536.1	5,536.1	5,536.1
Other current liabilities	1,333.2	1,333.2	1,333.2	1,333.2
Total current liabilities	9,475.9	9,951.0	10,945.8	12,158.1
Long-term debt	9,809.2	9,809.2	9,809.2	9,809.2
Other long-term liabilities	520.7	520.7	520.7	520.7
Total long-term liabilities	10,330.0	10,330.0	10,330.0	10,330.0
Total liabilities	19,805.8	20,280.9	21,275.8	22,488.1
Preferred shares	—	—	—	—
Total common equity	38,417.9	43,944.0	51,714.9	62,293.2
Minority interest	1.5	1.5	1.5	1.5
Total liabilities & equity	58,225.1	64,226.4	72,992.2	84,782.8
Gross cash invested (ex cash)	39,619.1	48,653.4	59,646.0	71,864.2
Net debt, adjusted	(3,497.6)	(2,337.2)	(1,872.1)	(3,445.2)
Average capital employed	30,970.5	38,265.0	45,726.3	54,346.9
BVPS (Rs)	68.04	70.41	82.87	99.82

Cash Flow (Rs mn)

	3/17	3/18E	3/19E	3/20E
Net income	7,600.0	11,238.5	15,803.8	21,513.0
D&A add-back	1,278.2	1,595.6	1,935.7	2,299.7
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	(2,696.7)	(1,575.3)	(3,005.5)	(3,656.5)
Other operating cash flow	(1,603.1)	(2,586.2)	(4,197.7)	(6,213.1)
Cash flow from operations	4,578.4	8,672.6	10,536.3	13,943.0
Capital expenditures	(6,450.2)	(6,706.9)	(7,166.3)	(7,648.3)
Acquisitions	—	—	—	—
Divestitures	96.4	—	—	—
Others	14.7	—	—	—
Cash flow from investing	(6,339.1)	(6,706.9)	(7,166.3)	(7,648.3)
Dividends paid (common & pref)	—	(1,745.1)	(2,454.0)	(3,340.5)
Inc/(dec) in debt	3,049.7	—	—	—
Other financing cash flows	17,202.8	(1,381.1)	(1,381.1)	(1,381.1)
Cash flow from financing	20,252.6	(3,126.2)	(3,835.1)	(4,721.6)
Total cash flow	18,491.9	(1,160.4)	(465.1)	1,573.1
Free cash flow	(1,871.7)	1,965.7	3,370.0	6,294.7

Source: Company data, Goldman Sachs Research estimates.

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Investment overview

Avenue Supermarts: Urban Mass champion

We initiate coverage of Avenue Supermarts (AVEU.BO), India's most profitable grocery retailer. AVEU's business model, which is similar to Wal-Mart's (WMT), offers daily low prices while operating at low costs. In our [India Consumer Close-up](#), published June 1, 2016, we identified the Urban Mass cohort as the largest driver of consumer spending in India, and AVEU's low-price strategy positions it squarely on the needs and aspirations of India's Urban Mass.

Most efficient grocery retailer

AVEU is the most efficient retailer in India (not just the most efficient grocery retailer) across metrics including sales throughput, inventory days, EBITDA margins, and cash returns, among others. In fact, even when compared with global grocery peers, AVEU screens significantly above-average on most metrics. With FY17 gross margin of 15%, AVEU operates on thin gross margins, but we forecast an EBITDA margin of 8.9% in FY20, up ~70bps from FY17, as it further streamlines its low cost base and benefits from operating leverage. We believe the wider launch of AVEU's omni-channel platform will further increase its revenue throughput (sales/business area) to Rs44,769/sqft in FY20, compared with Rs31,120 in FY17.

Long growth runway – Organized grocery retail to grow by US\$200 bn in 10 years

Organized retail (both brick and mortar and online) is only 9.0% of the US\$616 bn retail market in India, with organized grocery retail being lower at 3.1% of the US\$413 bn market, in FY16. We believe the simplification of the tax structure and increased government focus on formalization of the economy is likely to lead to an acceleration in the shift toward organized retail as organized retailers can get higher benefits from scale of operations and see a more competitive pricing structure as compared with the unorganized market. In our industry assumptions (Exhibit 60), we assume the organized grocery market grows to 10% of the total grocery retail market by FY22, with a total market value of US\$91 bn. In our base case, we assume AVEU has a market share of 7% of the organized market in FY22 (down from 10% in FY17), primarily as GST leads to a large shift toward the organized industry across multiple models – supermarkets, convenience stores, hypermarkets, and online retail.

Primed to meet online challenge head-on with a profitable omni-channel offering

In our base case, we build in a rapid acceleration in the adoption of online ordering, especially by the Urban Middle cohort (average income of about US\$11,000/annum) – we assume 10% of the Urban Middle grocery spending shift online. We also assume the Urban Middle will prioritize the convenience of ordering online and getting it delivered at home over visiting a store to shop, as the incremental delivery cost (for four orders a month) is only about 0.3% of their monthly income.

However, we believe the Urban Mass cohort (average income of about US\$3,200/annum), will prioritize low prices over the convenience of delivery, and hence

Private label - potential source of further upside

At present, the majority of private label SKUs at DMart are dry groceries, such as sugar, salt, food-grain, lentils, pulses, dry fruits, spices and edible oil – all sold under the brand "DMart Premia." On average, DMart Premia products are priced 10% below equivalent products, whether branded or un-branded. We assume private-label growth is not significantly higher than overall sales growth, but if private label share rises from 15% to 20%, gross margins could rise by 20 bp.

will continue to either visit stores or get regular orders delivered to a pick-up point (PUP), without incremental charges, as the delivery costs (for four orders a month) could be as much as 1.15% of their monthly income.

Distribution and packing centres

As of FY17, AVEU has 23 distribution centres and five packing centres. AVEU's store expansion revolves around these distribution centres in a cluster-based model. We are assuming the total number of distribution centres rises to 35 by FY20, with a total area of 3.7 mn sqft. We believe this cluster-based expansion allows AVEU to keep costs low as they minimize transport and inventory costs, which is a key competitive advantage, especially against e-commerce start-ups.

While AVEU's offering is likely to be largely store-driven in the near term, they are rapidly expanding their capability to offer the option to order online. They are starting with about 41 PUPs in Mumbai, and we expect they will gradually extend this across the cities they are present in, allowing it to offer convenience in addition to low prices. However, unlike some of the other online competitors, AVEU's charges for home delivery are higher as they are not subsidizing delivery costs, both to encourage customers to visit the stores and to ensure margins are not diluted.

Valuation: Focus on near-term multiples misses long-term compounding potential

AVEU's valuation appears stretched on a 12-month horizon, with a FY19 P/E of 66X as compared with our sector average of 40X. However, we believe AVEU can grow EPS at 30% for the next 10-years, so we believe making a decision on near-term earnings could result in missing a long-term compounding opportunity. We base our 12-month target price of Rs1,586 on 28X FY29 discounted EPS (WACC=12%). The 10 year average P/E for our coverage is 28X, and we believe AVEU will grow faster than the 10-year sector average EPS growth of 16%. Our target price implies a multiple of 97X FY19 EPS and 71X FY20 EPS. Our DCF-based implied value is Rs1,956.

Key risks

Slower shift towards organized retail: In our base case, we assume organized grocery retail increases to 7.9% of overall grocery sales by FY20 and to 14.0% by FY25, as compared with 3.1% in FY16. We believe this shift toward organized retail will be driven by a change in the tax structure, which now rewards businesses for being more efficient as well as allowing for a more level playing field between the organized and un-organized competitors. However, if the shift toward organized retail is slower than expected, our sales assumptions for AVEU may turn out to be too aggressive (we are assuming AVEU adds 21 stores per year in FY17-20, while driving average SSSG of 14.3%).

Higher-than-expected capex and costs to drive omni-channel platform: In our base case, we assume that 10% of Urban Middle grocery spending shifts online over the next 10 years, but we believe the Urban Mass will continue to prefer the lower prices offered by brick-and-mortar/omni-channel operators like AVEU. However, if the pure online operators continue to subsidize prices (while operating at losses) and drive sales, AVEU may lose market share. Over the medium term, we believe that the losses are likely to be too large to be sustained and consequently still believe operators offering an omni-channel platform, such as AVEU, are best placed to succeed.

E-commerce sustains its hyper-growth phase leading to slower growth for AVEU:

We assess a scenario of e-commerce hyper growth, in which 20% of Urban Middle grocery spending shifts to e-commerce (Exhibit 60). In this scenario, our FY20 sales could be lower by 4% and our FY27 sales could be lower by as much as 15%.

How AVEU compares with early-stage WMT

We believe that looking at WMT's early-stage growth is a good reference point for assessing our AVEU assumptions, since AVEU is similar to WMT in the following ways:

(1) AVEU's "low price, low cost" business model is similar to WMT's, where AVEU offers the lowest prices to consumers by keeping costs lower than competitors.

(2) Cluster-based expansion – At present AVEU has a significant presence in only four of India's 29 states and has been very disciplined in expanding around distribution centres, which allow them to save costs on the entire value chain from the supplier to the consumer. WMT started with a similar approach, expanding in the southern states in the US before spreading nationally.

(3) Tight control on inventory and efficient supplier/vendor management – AVEU has maintained very tight control on inventory at about 30 days, locking up limited working capital. It is also very disciplined in paying suppliers on the 11th day, faster than the rest of the industry, but bargaining hard on pricing.

(4) Real estate – like WMT, AVEU owns the real estate for most of its stores, which allows them to have lower real estate costs over the longer term. WMT owns real estate for 85% of their stores in the US.

(5) Scale potential – WMT now accounts for about a fourth of the grocery sales in the US, operating from coast to coast. We believe AVEU has similar expansion potential in India, given that their low prices are likely to be appealing to India's largest consuming cohort – the Urban Mass.

However, we note that there are some **differences between AVEU's model and WMT's** early expansion:

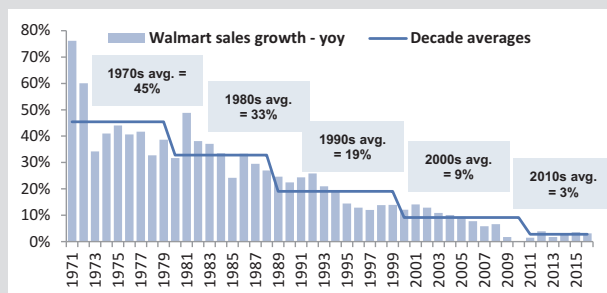
(1) Omni-channel offering to capture the online potential, which is the most obvious difference from WMT's early expansion. The main implication is that AVEU will likely use fewer (and smaller) stores to reach consumers than WMT in its early expansion. We also note that WMT was more of a general merchandise retailer until the mid-1990s, when it entered more aggressively into grocery.

(2) Lower 'car' penetration in India than in the US in the 1970s, with only 9% of households owning a car in India. This means that stores have to be located closer to population clusters than for WMT, to make them more accessible.

(3) Less developed retail eco-system and infrastructure in India than in the US, especially with regard to availability of an educated work-force, availability of warehousing and packing facilities. AVEU faces greater challenges in developing these as they expand, but this could also serve as a competitive moat as AVEU gains scale.

Exhibit 1: We believe AVEU can deliver higher sales growth for a sustained period of time - like WMT did in its early stages
Comparison of WMT's growth in its early stages vs. our forecasts for AVEU

How our AVEU (DMart) assumptions compare with WMT's early stage growth

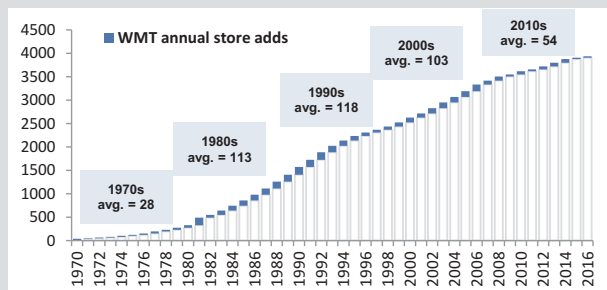
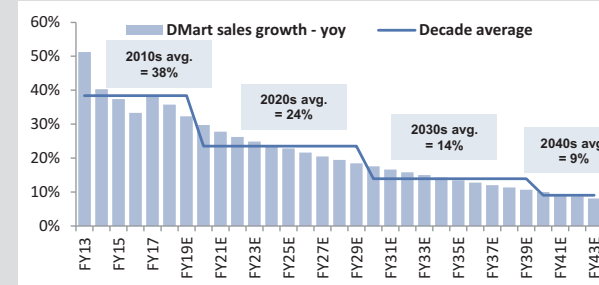


Sales growth

WMT had a similar store footprint as AVEU's current footprint in 1976. Post that sales grew over 20% pa for 17 years.

We assume **AVEU** sales will grow faster than 20% for the next 10 years.

We assume a faster normalization of the sales growth as we feel a large part of India will continue to be rural and an unlikely market for AVEU.

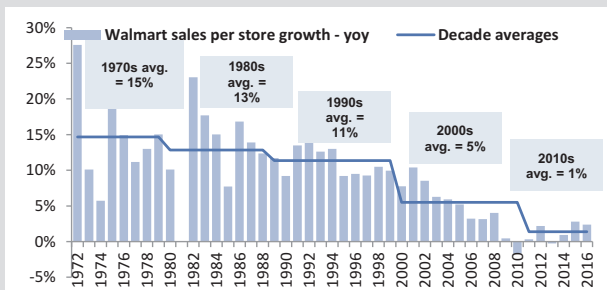
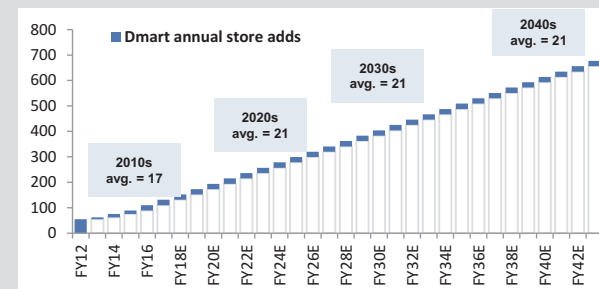


Annual store adds

WMT added over 100 stores per year between 1984-1995, with a peak of 171 stores in 1990.

We assume **AVEU** will add a more modest 21 stores per year for the next 25 years.

We assume a much slower store growth for India for 2 reasons: (1) Early omni-channel adoption will allow AVEU to service customers through delivery centers, rather than full stores and (2) Infrastructure is still limited as compared with the US, even 30 years ago.

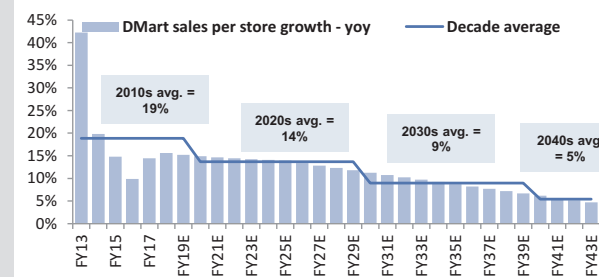


Throughput per store (Sales/store)

WMT averaged double-digit sales/store growth through the 70s, 80s and 90s, led by area addition within stores and higher sales throughput

We assume **AVEU** sales/sqft will grow at 15% pa for the next 10 years, led by higher volumes, improved mix and inflation.

AVEU's omni-channel offering should also optimize sales without increasing the store footprint to the same extent as WMT.



Source: Company data, Goldman Sachs Global Investment Research

Investment positives















We see the following key positives for AVEU:

1. Most efficient grocery retailer

We believe AVEU's high margins (Exhibits 4 and 13) and returns profile makes it one of the most efficient retailers in the world. In India, we believe AVEU can drive high footfalls due to its **Every Day Low Pricing** as shown in Exhibit 2. AVEU's products are priced significantly lower than both brick and mortar and online peers (discussed later in detail). We believe the low price strategy makes AVEU a **favored shopping destination for the Urban Mass cohort** in India, which is more sensitive to pricing. Importantly, the low prices also reflect AVEU's bargaining power with the big consumer product companies like HLL, COLG, etc. where it offer prices lower than Maximum Retail Price (MRP) and still generates ~15% gross margins consistently. While gross margin has remained stable, the benefit of operating leverage has led to EBITDA margin expansion to 8.2% in FY17 from 6.2% in FY12.

Exhibit 2: AVEU's pricing is generally cheaper than competitors across categories

AVEU vs competitor pricing (Sep, 2017)

			Pricing compared with DMart (AVEU)					
Category	Product	SKU	Food Bazar	Local store	Amazon	Bigbasket	Reliance Smart	DMart (AVEU) Price (Rs)
			Home Care					
	Rin Advanced Detergent Powder	1 kg	6%	9%	9%	9%	9%	69
	Surf Excel Easy Wash Detergent Powder	1 kg	8%	8%	6%	8%	8%	104
	Vim Dishwash Bar	125gm	6%	6%	6%	6%	6%	9
	Lizol Disinfectant Surface Cleaner	975ml	0%	7%	-10%	7%	-3%	148
			Personal Care					
	Dove Cream Beauty Bathing Bar	75gm	2%	2%	0%	2%	0%	48
	Fair & Lovely Advanced Multi Vitamin	80gm	5%	5%	-8%	9%	-2%	126
	Clinic Plus Strong & Long Health	340ml	11%	30%	20%	29%	22%	150
	Head & Shoulders Anti-Hairfall	675ml	41%	41%	18%	18%	2%	337
	Dabur Red	200gm	10%	10%	-10%	-5%	7%	82
	Colgate Active Salt	300gm	7%	7%	-9%	18%	15%	114
			Food Products					
	Aashirvaad Superior MP Atta	5kg	8%	19%	22%	5%	16%	185
	Dawat Rozana Basmati	1kg	23%	30%	0%	19%	28%	69
	Tata Salt	1kg	6%	6%	6%	6%	-6%	17
	Saffola Gold Oil	1 Litre	0%	0%	0%	8%	0%	130

Green/Red Fills indicate if competitor's pricing is higher/lower by 5% compared to AVEU

Source: Company data

Besides the low pricing, we believe the other reason for AVEU's success in the Indian market has been its choice of the retail format. **AVEU has stuck to the supermarket format (average store size 30,000 sqft) since its inception in 2002.** For the Indian consumer, we believe this format works better compared to hyper-markets or convenience stores. The hyper-market format works well in western countries where the car ownership is high as it incentivizes the consumer to drive down to the hyper-market and make bulk purchases. The limited car ownership in India (HH ownership: 9% currently) has been a key deterrent in the success of the hyper-market channel.

Why, unlike in the rest of Asia, convenience stores (CVS) may not be the best format for India

India's high population density, with some of the most crowded cities in the world, with low vehicle penetration – seemingly makes it an ideal market for CVS stores.

However, we see some major challenges for CVS in India:

Coffee and cigarettes – In the rest of Asia, cigarettes account for 30%-40% of sales, a revenue source unlikely in India, given the high proportion of loose cigarette sales. Another recent source of revenues for CVS in the rest of Asia has been fast-foods and coffee, which need multiple licenses in India, in addition to being relatively un-affordable to the urban mass population.

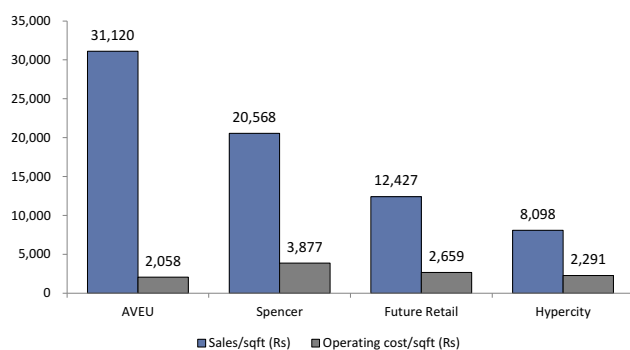
Limited penetration for 'Fun' categories – With a majority of the consumers still in the Urban Mass cohort – discretionary purchases are still limited, leading to demand for more basic categories

Sales productivity – Without cigarettes and higher ticket foods, sales productivity for CVS is unlikely to match that of efficient super-markets like AVEU.

Given its supermarket format and low pricing proposition, AVEU has been able to drive highest sales/sqft for its stores as shown in Exhibit 3, while keeping operating costs the lowest. Besides generating the highest sales throughput, AVEU also generates the highest margins and returns compared to its domestic peers. Its margins have been higher than peers due to: (1) low rent as it owns most of the real estate where its stores are located (Exhibit 5); (2) better employee utilization, with a large number of contract employees, which reduce fixed cost (Exhibit 6); and (3) no exposure to low-margin products like white goods, which take more selling space in the store and attract intense competition from the online channel.

Exhibit 3: AVEU generates significantly higher sales throughput at lower cost than its competitors

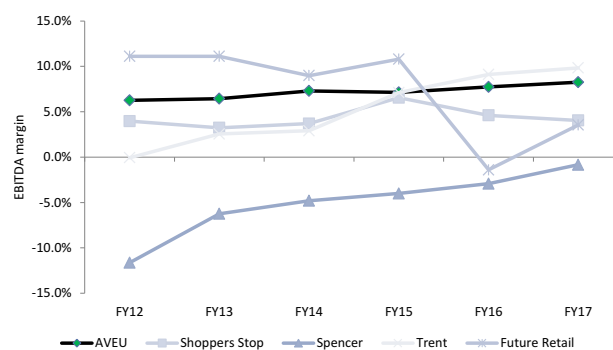
Sales and operating cost per sqft of major retailers in India (FY17)



Source: Company data, Goldman Sachs Global Investment Research

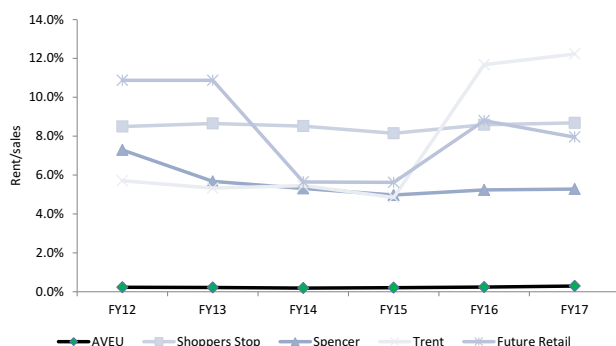
Exhibit 4: ...and it generates consistently higher margins than peers

Indian retailers EBITDA margins



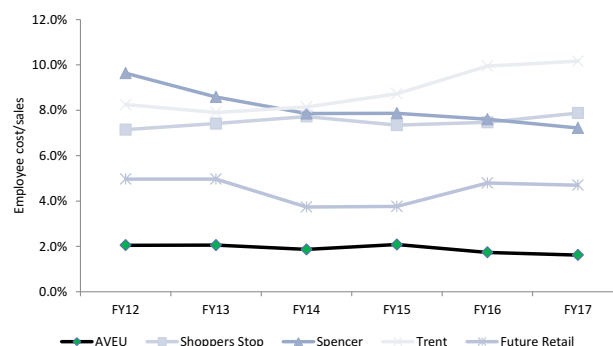
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: AVEU's higher EBITDA margins are a function of lower rentals as it owns the real estate its stores are located on...
Rent as % of sales for Indian retailers



Source: Company data, Goldman Sachs Global Investment Research

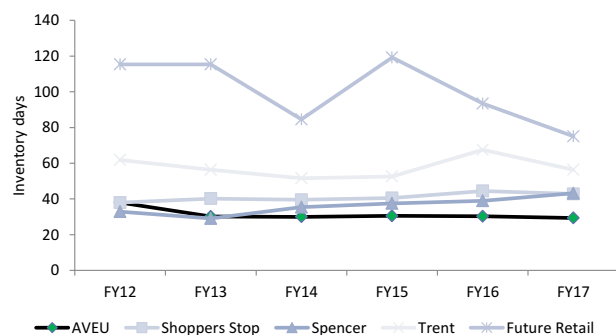
Exhibit 6: ...and significantly higher employee utilization
Employee cost as % of sales for Indian retailers



Source: Company data, Goldman Sachs Global Investment Research

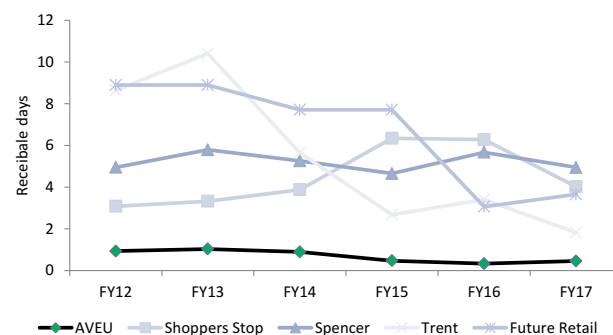
AVEU also runs a tight ship while managing its working capital, especially through its inventory management, which is significantly lower than peers (Exhibit 7). However, AVEU has lower payable days than peers; by offering its creditors (consumer product companies) a better payment cycle (Exhibit 9), it is able to extract higher discounts and thereby price products lower than the competition.

Exhibit 7: AVEU runs a very tight inventory....
Inventory days of Indian retailers



Source: Company data, Goldman Sachs Global Investment Research

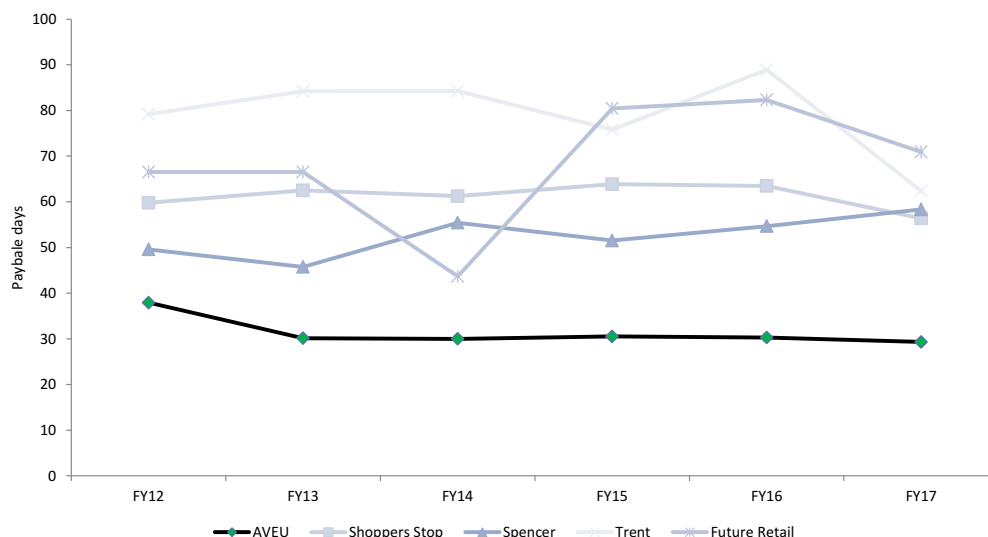
Exhibit 8: ...with almost no receivables
Receivable days of Indian retailers



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: AVEU maintains lower payable days in-lieu by securing lower prices from product companies

Payable days of Indian retailers

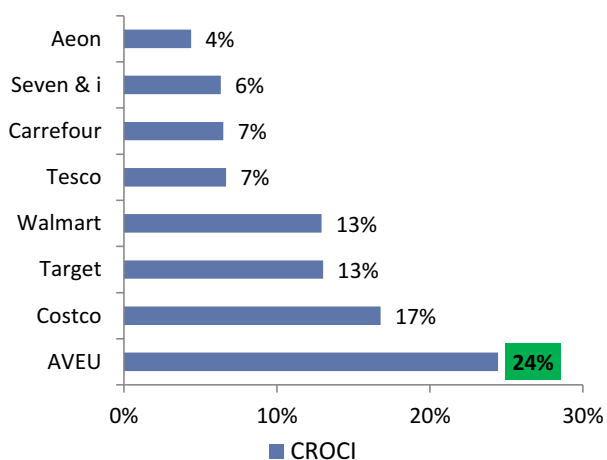


Source: Company data, Goldman Sachs Global Investment Research

We also compare AVEU's operating metrics to its global peers and conclude it generates significantly higher returns (Exhibit 10) due to better inventory management and lower receivable days, leading to better asset turns.

Exhibit 10: AVEU generates significantly higher CROCI than its global peers...

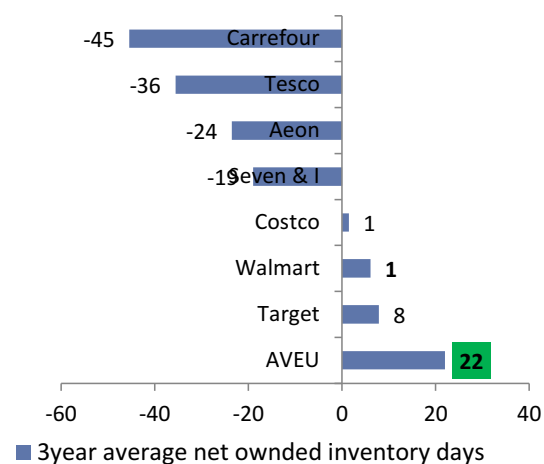
CROCI for AVEU's global peers (C14-16 average)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 11: AVEU's net owned inventory days is higher than global peers as it pays creditors quicker to extract higher discounts

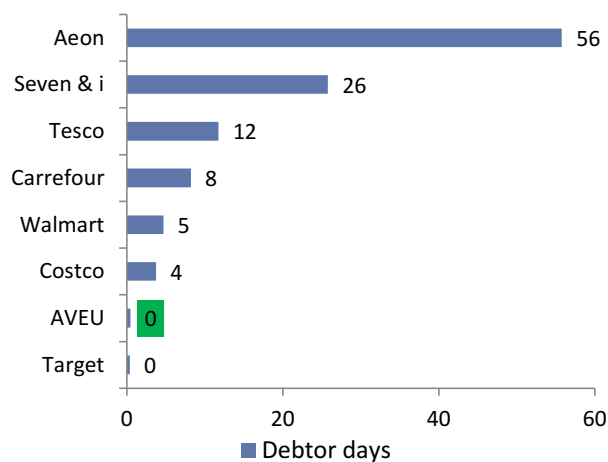
Net owned inventory days for AVEU's global peers (C14-16 average)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 12: ...almost no receivables..

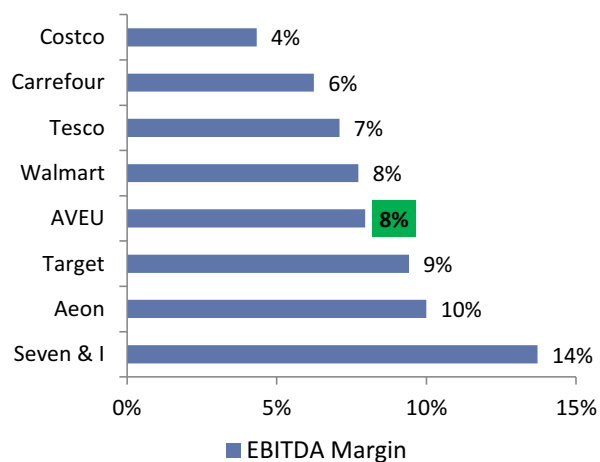
Debtor days for AVEU's global peers (C14-16 average)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 13: ...and high EBITDAR margins

EBITDAR margin for AVEU's global peers (C14-16 average)

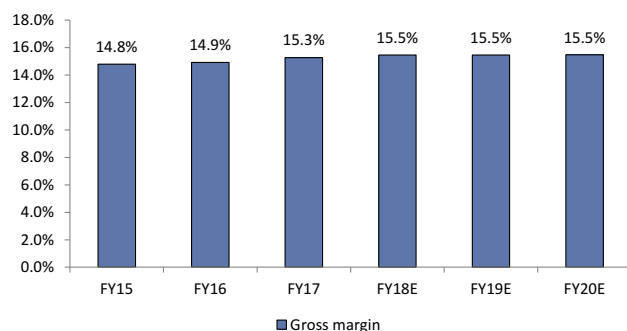


Source: Company data

Going forward, we expect AVEU will broadly maintain its gross margin at similar levels to FY17 as we believe any operational efficiency gains will be re-invested in the business to keep its pricing low, to maintain its “productivity loop,” where lower gross margin drives sales, which levers SG&A, which drives ebit margin higher without undermining value. We believe AVEU EBITDA margin will expand to 8.9% in FY20 from 8.2% in FY17 due to efficiency in employee costs, contract labor and operating leverage. We believe with its growing size AVEU will be able to better negotiate with consumer products companies and extract favorable terms of payments which can further improve its working capital cycle. Also, AVEU has limited exposure to fresh food, where it is tougher to drive economies of scale due to localized sourcing. It has higher exposure to dry-grocery and home/personal care, where there is greater potential for driving scale benefits due to centralized sourcing and distribution.

Exhibit 14: We expect limited GM expansion as AVEU will maintain low prices...

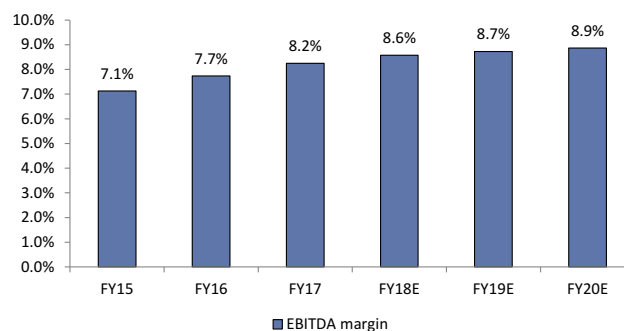
AVEU gross margin



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 15: ...but EBITDA margins to expand by 70bps over three years...

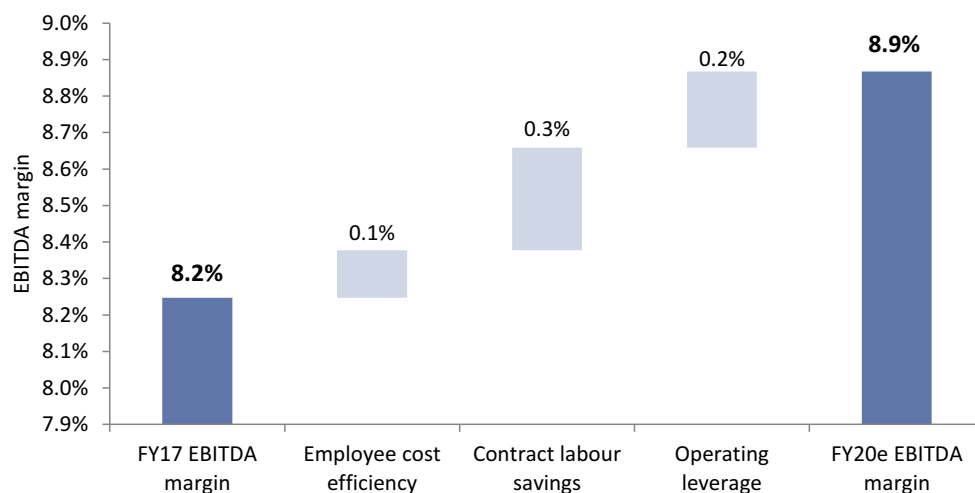
AVEU EBITDA margins



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 16: ...due to employee cost savings and operating leverage

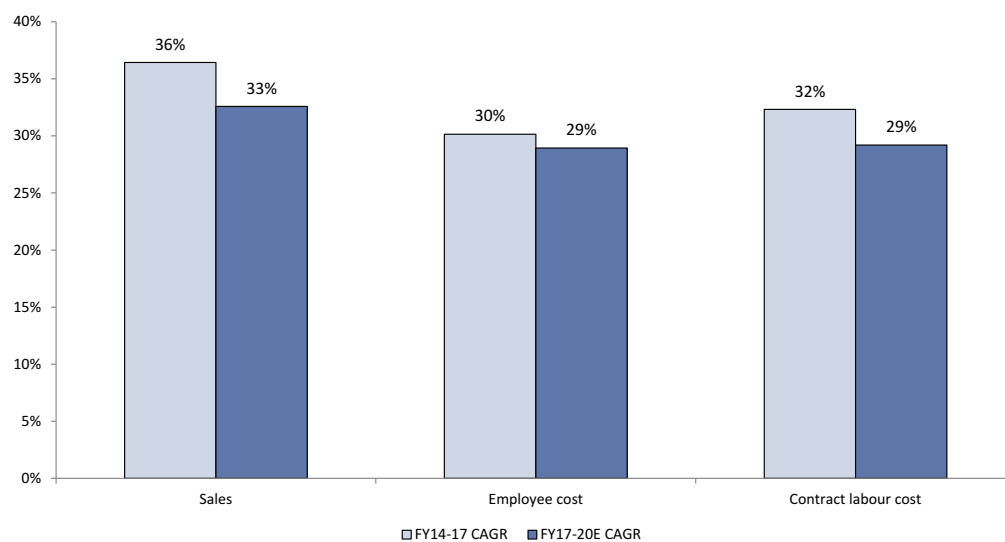
AVEU EBITDA margin walk



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 17: We assume sales growth faster than growth in key costs

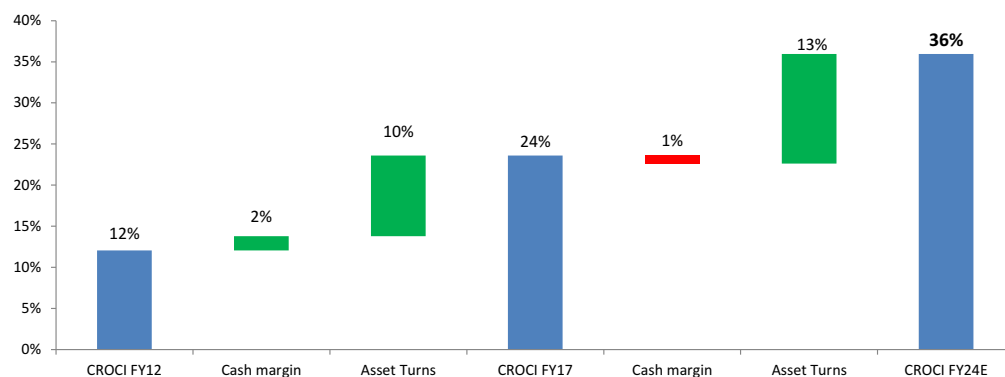
Growth sales and costs



Source: Company data, Goldman Sachs Global Investment Research

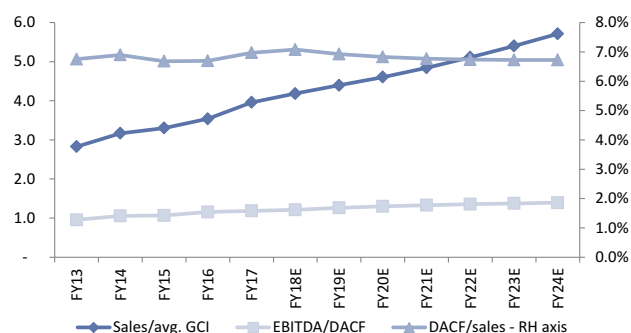
We expect AVEU's CROCI will expand to 36% in FY24 from 24% in FY17 due to higher asset turns due to its focus on increasing sales throughput and a disciplined store opening approach. This will also translate into working capital becoming a significant contributor to capital invested instead of capital being tied to store-related capex (Exhibit 21).

Exhibit 18: We expect CROCI expansion to continue driven by higher asset turns
 AVEU CROCI walk



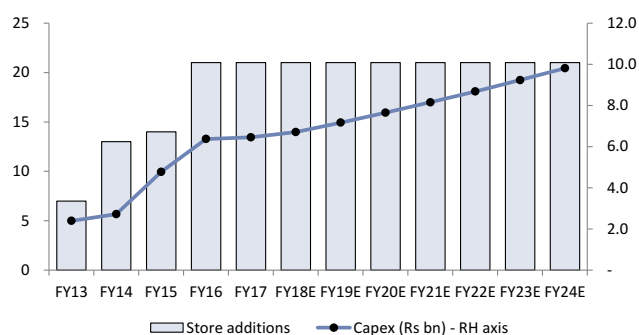
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 19: We expect returns will also expand due to higher cash conversion...
 AVEU returns drivers



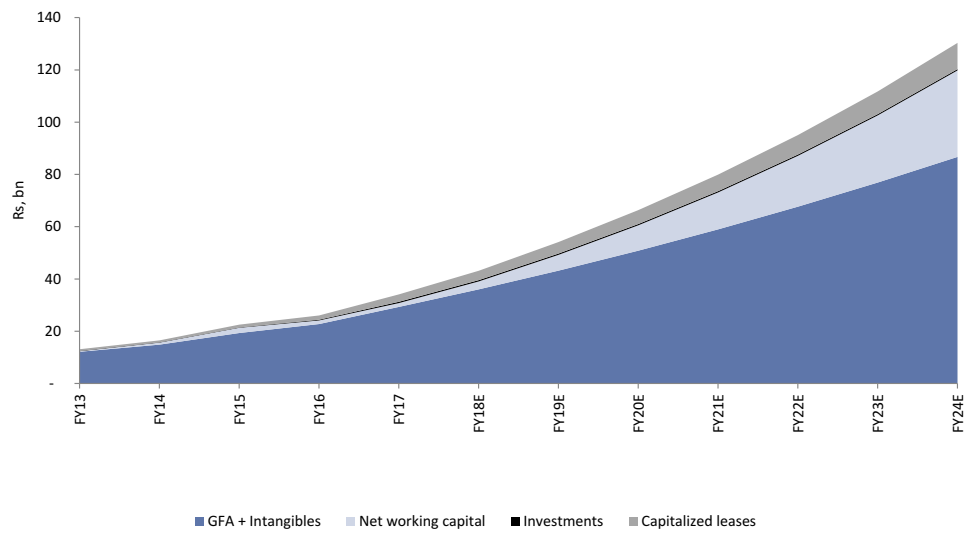
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 20: ...and a disciplined approach toward store opening
 AVEU store addition and capex



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 21: We forecast working capital will become a significant contributor to capital invested due to lower capex
AVEU break up of capital invested



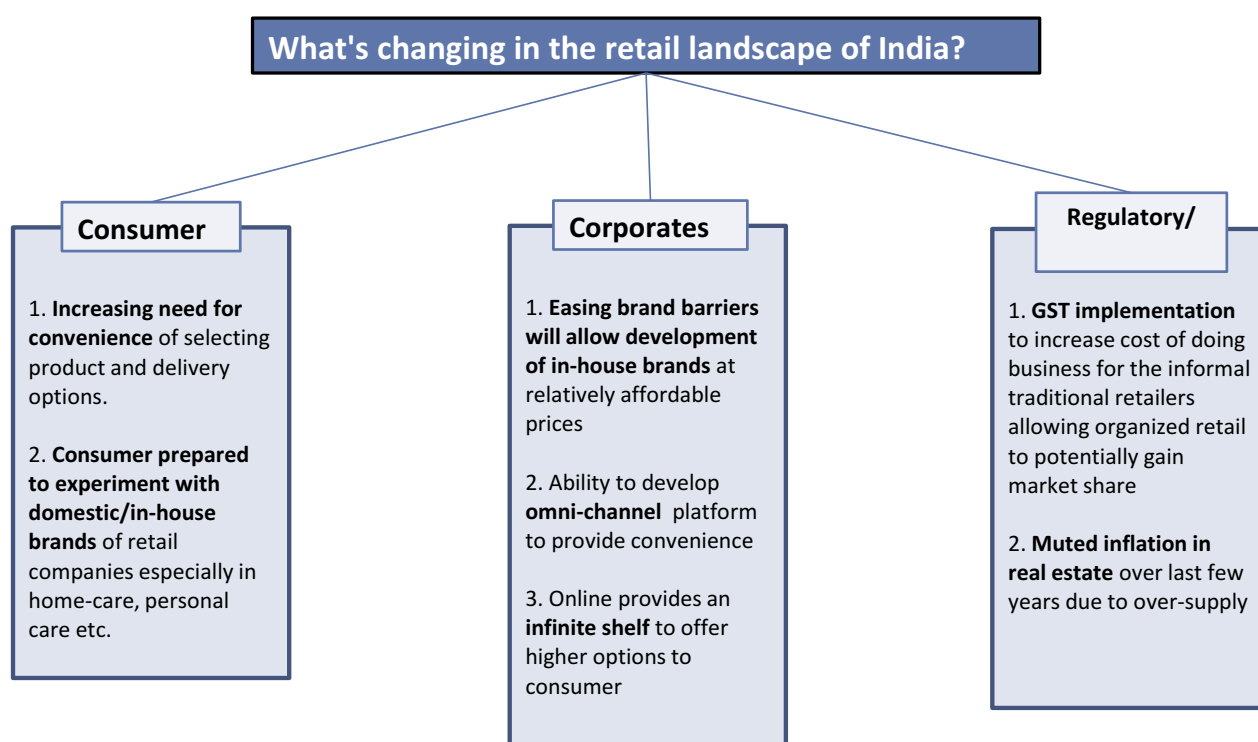
Source: Company data, Goldman Sachs Global Investment Research

2. Long growth runway – Organized grocery retail to grow by US\$200 bn in 10 years

While the Indian retail market is already huge at US\$616bn as of FY16, the organized channel (formal brick & mortar and online) commands only a 9% market share. **Grocery retail is the biggest contributor to the retail market at US\$413bn (FY16), but the share of organized is even smaller at ~3%.** We believe the convoluted tax laws in India have constituted the biggest hindrance to retail companies scaling up operations across the country. However, the passage of GST removes the state level boundaries and allows companies to scale up their operations. Exhibit 22 describes the changes that we believe will drive the development of a formal retail channel in India.

Exhibit 22: Multiple changes in the retail landscape in India augurs well for formal players like AVEU

Changes in the Indian retail industry through the lens of all stakeholders

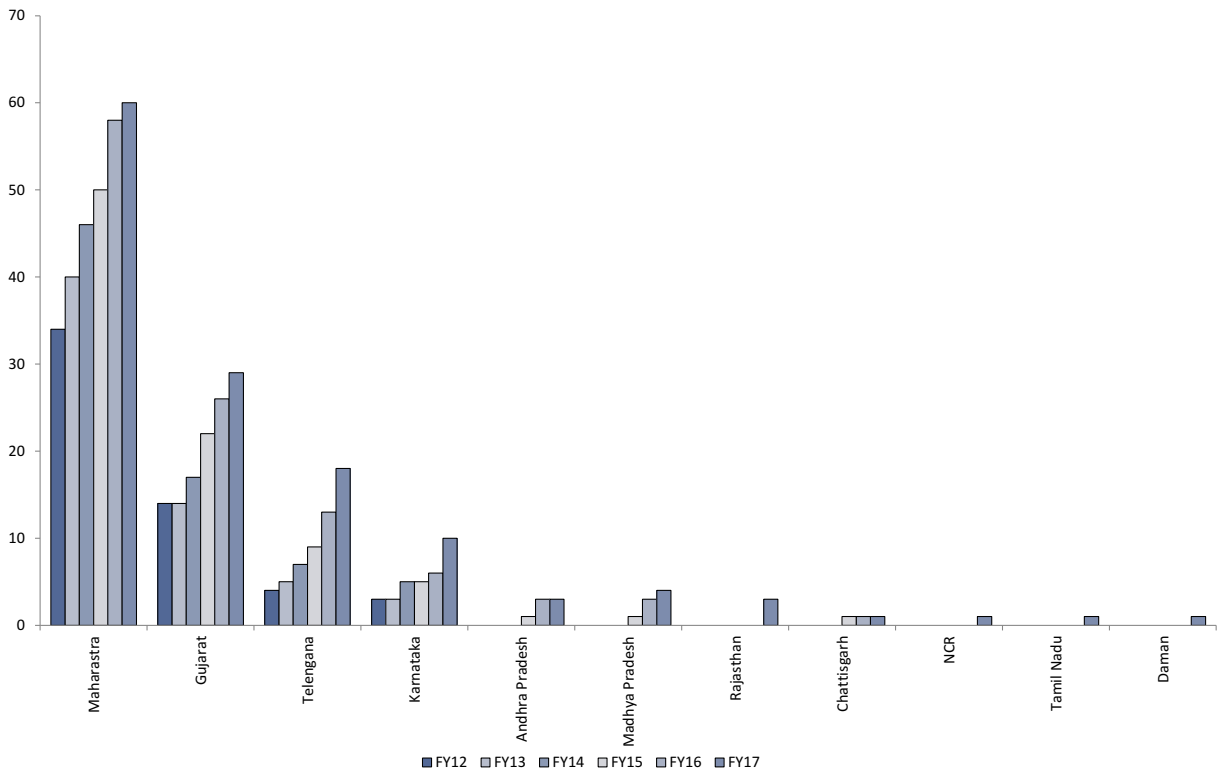


Source: Goldman Sachs Global Investment Research

We believe AVEU is well-positioned to benefit from the pick-up in formal retail in India due to its supermarket format and low pricing compared to other retail players. At end-FY17, AVEU had 131 stores across a handful of states in India. More importantly, 89% of its stores are located in only four states (Exhibits 23-24) where consumers have above-average income levels. We believe AVEU's price positioning places it well to expand in other states in India, especially in the northern states of Haryana and Uttar Pradesh where lower pricing is the biggest driver of consumer footfalls. **We forecast AVEU to add 21 stores per annum until FY43, which translates into 677 stores at end-FY43. This is much lower than the 1,125 Domino's Pizza outlets, 4,715 HDFC Bank (biggest private bank) branches, and 2,020 Maruti (biggest Auto OEM) sales outlets in India currently,** as we believe the pick-up of the omni-channel will lower the

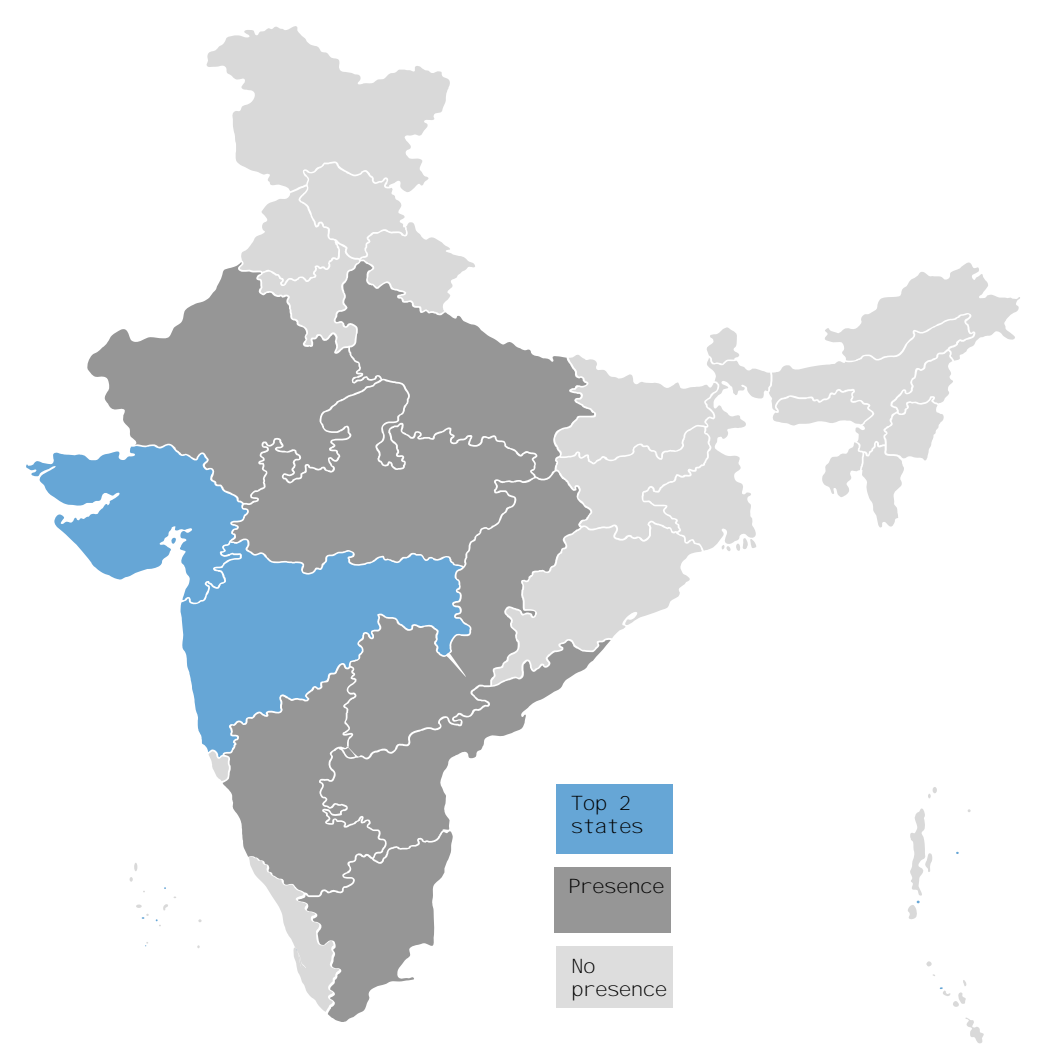
need for brick and mortar stores. Over the same time frame, we forecast sales per store will increase to Rs13bn from ~Rs1bn currently (a CAGR of 11 % FY17-43E).

Exhibit 23: 89% of AVEU's stores are in four of India's 29 states, representing only ~26% of the population
AVEU stores across states



Source: Company data

Exhibit 24: AVEU has significant room to expand, even in existing states
AVEU's presence by state (FY17)



Source: Company data

Exhibit 25: Based on our estimates the urban mass cohort will spend 7.3% of their grocery spend at AVEU

Indian cohort grocery spend and potential AVEU share

Monthly grocery spend by cohort (Rs)	FY17	FY22	FY27	FY32	FY37	FY42
Movers and shakers	33,055	48,741	63,716	78,489	91,333	100,361
Urban Middle	28,243	42,593	56,278	69,868	81,761	90,158
Educated Urban Mass	17,305	28,025	38,441	48,847	58,342	65,470
Urban Mass	10,383	16,815	22,747	28,524	33,716	37,553
Rural landowners	9,575	15,507	21,453	27,770	33,654	38,162
Rural labour	6,089	9,429	12,337	14,991	16,030	13,554

Potential AVEU customer base

Annual grocery spend by cohort (Rs, bn)	FY17	FY22	FY27	FY32	FY37	FY42
Movers and shakers	103	181	274	387	516	645
Urban Middle	4,583	8,588	13,500	19,736	27,098	34,841
Educated Urban Mass	2,605	5,563	9,569	15,043	22,122	30,422
Urban Mass	5,514	12,349	22,041	35,844	54,692	78,267
Rural landowners	5,976	11,303	17,294	24,544	32,454	39,960
Rural labour	8,234	14,382	19,432	23,874	24,961	20,104

Potential online shopping pool

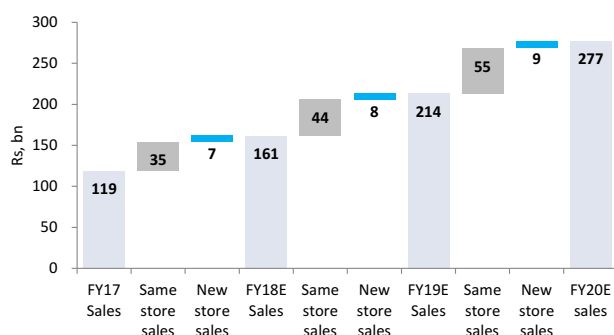
AVEU sales - % of urban grocery spends	0.8%	1.5%	2.5%	3.6%	4.7%	5.6%
AVEU sales - % of urban mass grocery spends	1.2%	2.2%	3.6%	5.0%	6.4%	7.3%
Online sales - % of top-3 urban cohorts spend	0.3%	1.3%	3.2%	6.2%	10.4%	15.1%
Online sales - % of urban cohorts spend	0.2%	0.7%	1.6%	3.1%	4.9%	6.9%

Source: Company data, Goldman Sachs Global Investment Research

We believe store expansion will remain an important driver of sales growth going forward. Over the next three years, we forecast new stores will contribute 15% to incremental sales compared to 23% over the last three years as the base increases and AVEU expands into areas with relatively lower income levels.

Exhibit 26: We expect new stores to contribute 15% of incremental sales in FY18E-20E...

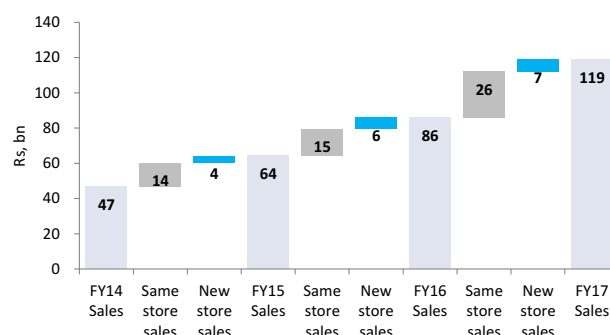
AVEU sales walk (FY17-20E)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 27: ...compared with 23% in FY14-17 as the base of stores increases

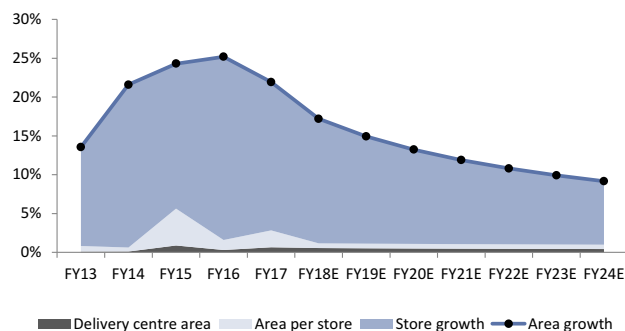
AVEU FY14-17 sales walk



Source: Company data, Goldman Sachs Global Investment Research

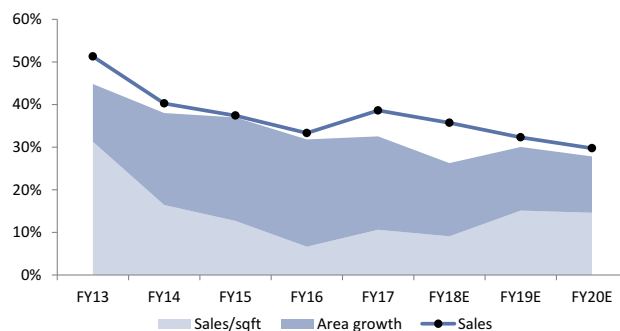
We forecast AVEU will have total selling area of 9.21mn sqft in FY24, up from 4.06mn sqft in FY17, driven by a combination of higher store count, opening of PUPs and adding selling area of existing stores. However, a significant portion of the addition will come from new stores (Exhibit 27). **We also forecast AVEU will maintain its focus on driving sales/sqft, and it will increase to Rs75,047 in FY24 from Rs31,120 in FY17 (CAGR: 13%).**

Exhibit 28: Store growth still the biggest driver of total area growth, with store area increases being modest AVEU space contribution



Source: Company data, Goldman Sachs Global Investment Research

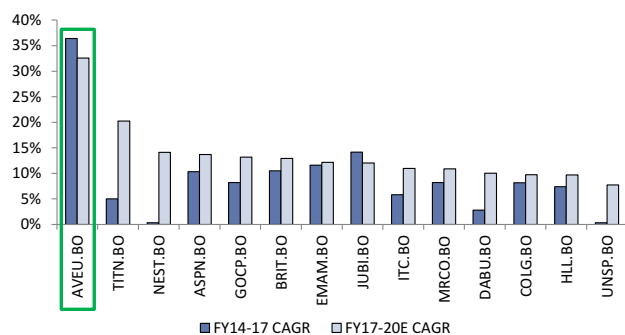
Exhibit 29: We expect sales throughput to become more relevant than area growth AVEU sales growth contributor



Source: Company data, Goldman Sachs Global Investment Research

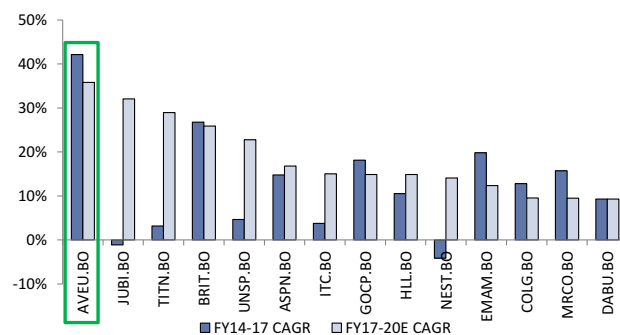
Based on our estimates, AVEU offers sales and EBTIDA CAGR (FY17-20E) of 33% and 36%, respectively, far ahead of our coverage averages at 14% and 19% (Exhibits 30-31).

Exhibit 30: AVEU offers the highest revenue CAGR potential within our coverage group
Consumer coverage group revenue CAGR



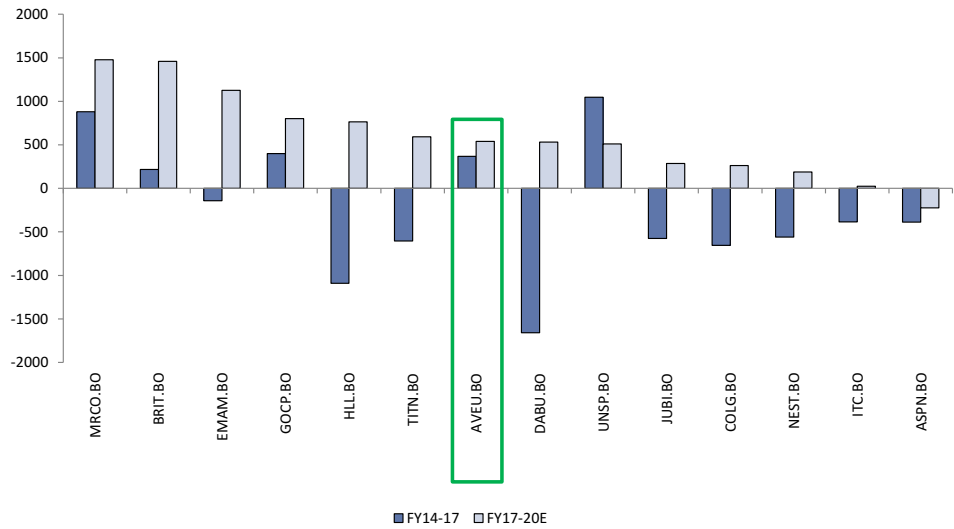
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 31: AVEU also offers the highest EBITDA CAGR potential after growing the fastest in the last three years as well
Consumer coverage group EBITDA CAGR



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 32: AVEU generates stable CROCI and offers 539bps expansion potential over the next three years
Consumer coverage group CROCI expansion (bps)



Source: Company data, Goldman Sachs Global Investment Research

3. Primed to meet online challenge head-on with a profitable omni-channel offering

AVEU has recently launched its online platform, DMart Ready, available both as a web-based platform and a mobile app, in Mumbai. AVEU offers users free pick-ups from 41 PUPs located around Mumbai or home delivery (at additional cost).

At an optimal scale (>50 transactions per PUP point per day), our calculations suggest DMart Ready margins will be similar to those of AVEU's brick and mortar stores, excluding corporate costs (Exhibit 33).

Exhibit 33: Our analysis indicates that delivery through PUPs and chargeable home delivery will be margin-accretive for AVEU
Economics of various omni-channel approaches

The pick-up-point vs home delivery debate - free home delivery is margin dilutive

Pick-up-points are margin accretive at over 25 orders per day

AVEU has been rolling out pick-up-points to offer consumers the convenience of ordering online (or via the mobile app) and taking free deliveries at the pick-up-point. Our analysis suggests that these pick-up-points can be margin accretive as long as they serve over 25 orders per day.

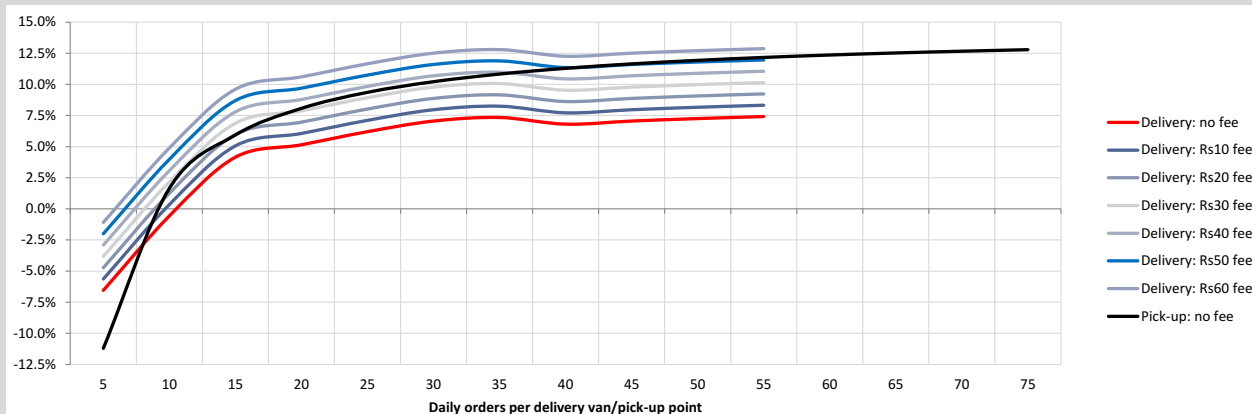
Free home delivery - will always be margin dilutive

Free delivery is margin dilutive (as compared with store margins) and we believe that AVEU is right in charging for delivery. The chart below shows that free delivery can at best earn 7.5% EBITDA margin (before corporate costs), which is lower than AVEU's 8.2% corporate FY17 EBITDA margin.

A Rs50/delivery charge makes delivery accretive

AVEU charges Rs50/delivery, at which charge, home delivery margins are comparable to those of sales through a pick-up-point or in store sales, as long as there are over 20 deliveries per day per van.

Rs, mn unless specified	Store	Pick-up-point	Free delivery	Delivery with fee
Annual sales	1,004	20	20	20
Material: <i>variable</i>	848.2	17.0	17.0	17.0
Warehouse: <i>variable</i>	10.0	0.2	0.2	0.2
Transport: <i>variable</i>	0.0	0.0	1.1	1.1
Employee: <i>semi-fixed</i>	15.6	0.2	0.4	0.4
Rent: <i>fixed</i>	12.6	0.2	0.0	0.0
Utilities and others: <i>fixed</i>	5.4	0.0	0.0	0.0
EBITDA (ex-corporate cost)	112	2	1	2
margin	11.2%	11.9%	7.3%	9.1%
Assumptions				
Daily orders per day (nos)	2,500	50	50	50
Order value (Rs)	1,100	1,100	1,100	1,100
Area (sqft)	30,000	200	0	0
Employees (nos)	130	2	3	3
Min employees	100	2	2	2
Fixed cost (Rs, mn)	12	0	0	0
Employee minutes per order	25.0	15.0	30.0	30.0
Working minutes per day	480	480	480	480
Employee minutes	62,500	750	1,500	1,500
Annual cost/employee	120,000	120,000	120,000	120,000
Rent/sqft	35	100	0	0
Utilities/sqft	15	15	0	0
Transport (per order)	0	0	60	60
Delivery fee (per order)	0	0	0	20



Source: Company data, Goldman Sachs Global Investment Research

We also provide a detailed analysis of potential margin (Exhibit 74-75) accretion to AVEU through: (1) PUPs; (2) free home delivery; and (3) chargeable home delivery. Based on our analysis, we conclude that delivery through PUPs and chargeable home delivery will be margin-accretive to AVEU while free home delivery will act as a drag on its margins. Currently, AVEU charges Rs49/order as a delivery fee irrespective of the bill amount.

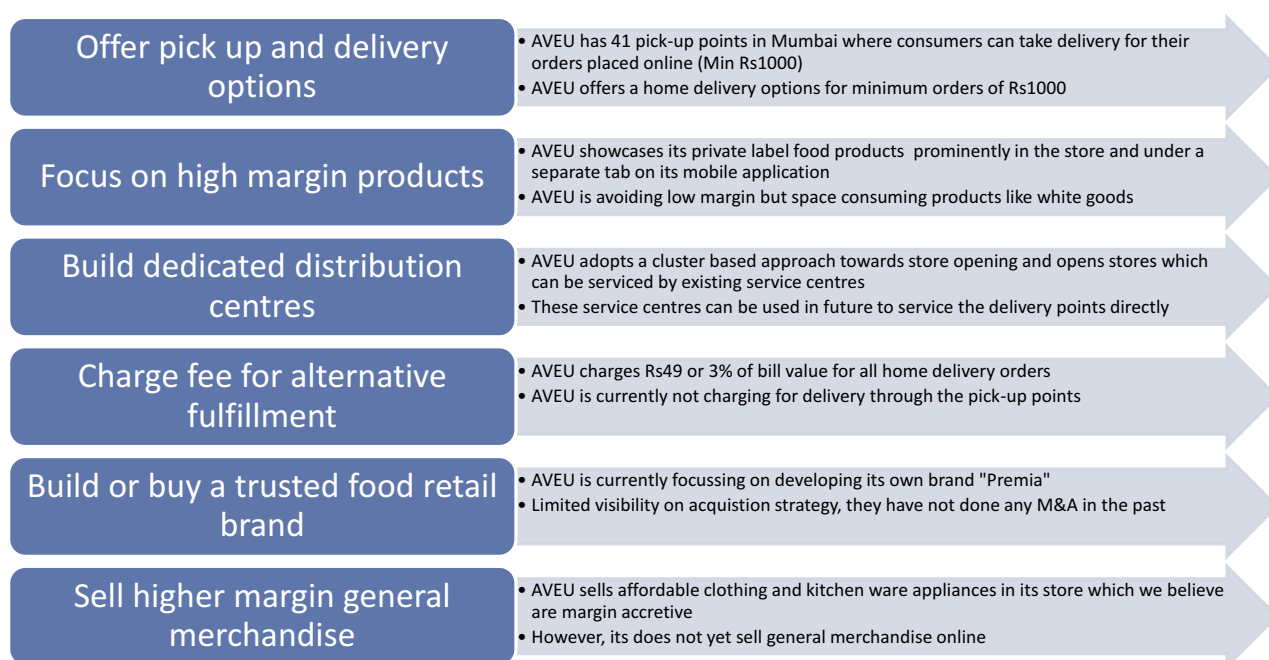
Our US retail team has identified the following parameters (read report [here](#)) for designing an omni-channel approach from scratch:

1. Offer pick-up and delivery options.
2. Focus on high-margin products.
3. Build dedicated distribution centres.
4. Charge a fee for alternative fulfillment.
5. Build/buy a trusted food retail brand.
6. Sell higher margin general merchandise.

As can be seen in Exhibit 34, DMart Ready is making progress on all the parameters.

Exhibit 34: We believe AVEU is making progress across all parameters to be a successful omni-channel retailer

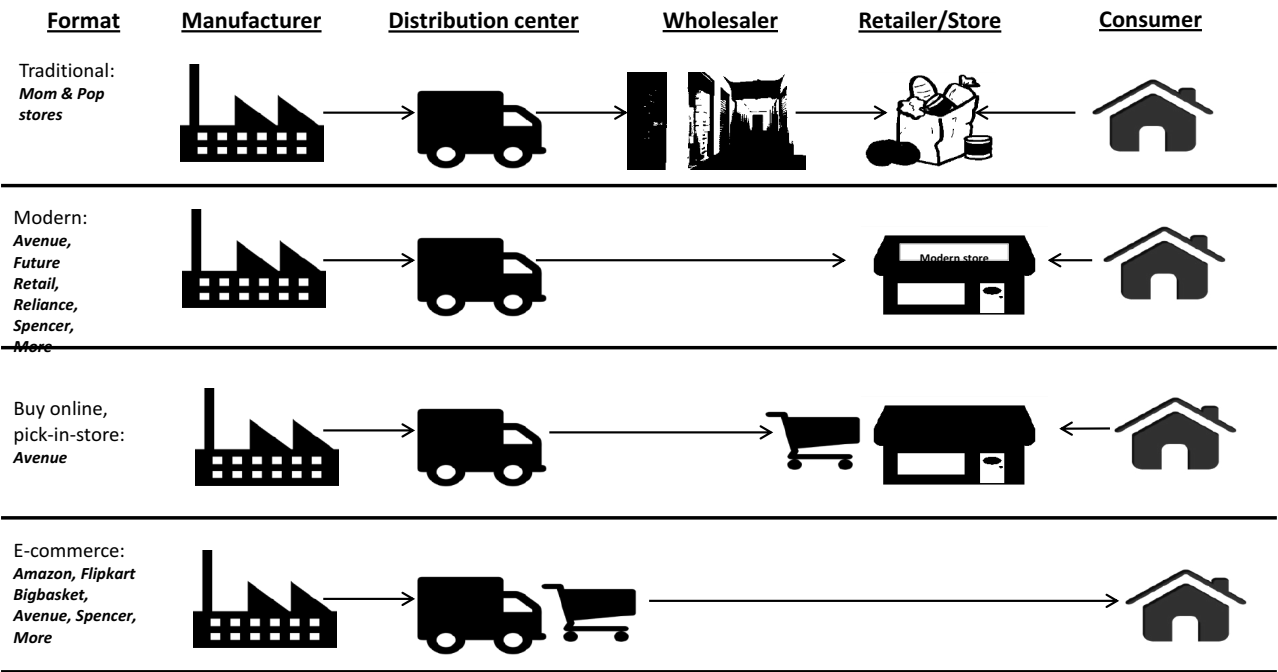
Retail model of the future



Source: Goldman Sachs Global Investment Research

Exhibit 35: AVEU is developing an omni-channel approach, and its prices are relatively low vs. other online players due to the lack of wholesaler/distributor

Movement of products across retail formats in India

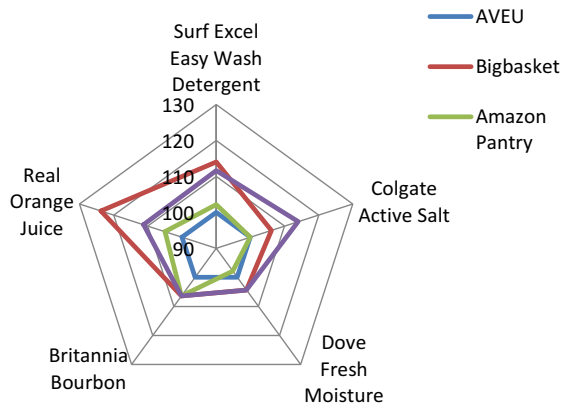


Source: Goldman Sachs Global Investment Research

Currently, AVEU carries its low-price advantage into e-commerce with its products being consistently cheaper than other online competition (Exhibits 36-37).

Exhibit 36: AVEU offers products at a lower price than most retailers in India including Amazon

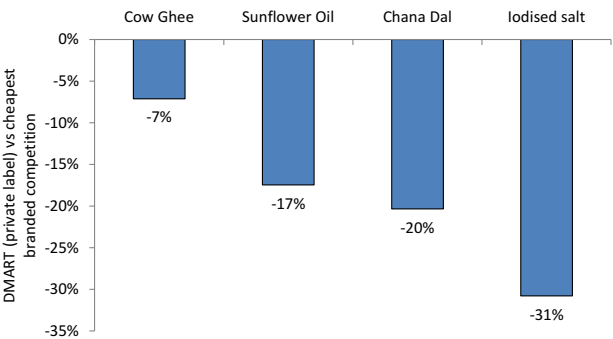
Prices (indexed) of basic necessities across retailers in India



Source: Company data

Exhibit 37: AVEU private label products are significantly cheaper than branded products

Prices of AVEU private label products compared to branded products



Source: Company data

Bigbasket.com and Amazon are the major online competition

As of FY17, the market share for e-commerce India is less than 2% of the overall retail market, with bigbasket.com accounting for 85% of the online grocery market. Going

forward, we believe there will be two major e-commerce operators in the grocery space: Bigbasket.com and Amazon.

Bigbasket.com

Bigbasket.com offers consumers the option to order online (through their portal or their mobile apps) and get the order delivered for a fee. They also offer an express delivery option for certain SKUs (delivery in less than 90 minutes). Bigbasket.com is an inventory-based model, where they procure from suppliers, stock at their managed warehouses and deliver to consumers. In FY16, bigbasket.com made a revenue of Rs5.6 bn, with a loss of Rs2.7 bn. In FY17, bigbasket is targeting revenue of Rs18-20 bn. They currently operate in 21 cities across India. The average ticket size is Rs1,500 (US\$23), 30% of which are fresh fruits and vegetables. The company currently processes almost 40,000 orders per day.

Amazon

Amazon currently offers two grocery services in India, *Amazon Pantry* and *Amazon Now*.

Amazon Pantry is an online supermarket from which consumers can fill their virtual box and secure next-day delivery. For Amazon Prime members, the delivery charge is Rs20/order and for other users it is Rs49/order, if the order size is less than Rs599. There is no delivery charge for orders above Rs599. Amazon Pantry is now available in 34 cities.

Amazon Now was launched in 2016 and is available in four cities, where Amazon has taken on delivery from offline grocery chains like BigBazaar, Spar, and HyperCity. Amazon Now offers scheduled deliveries as standard and express two-hour delivery.

Pick-up vs delivery

We believe there is an additional cost of about 3%-5% of sales for home-delivery as compared with pick-ups from the delivery centre or purchasing from the store, depending on the scale of the operation (Exhibit 74-75). Consequently, we believe consumers that value convenience over incremental cost will use the home delivery option, while price-sensitive consumers will prefer to pick up the order themselves. Amazon and Bigbasket also have the option of express delivery for an additional charge. In our base case, we assume a rapid acceleration in the adoption of online ordering, especially by the Urban Middle cohort (average income of about US\$11,000/p.a.) – we assume 10% of the Urban Middle grocery spending shifts online. We assume the Urban Middle will prioritize the convenience of ordering online and getting it delivered at home over visiting a store to shop, as the incremental delivery cost (for four orders a month) is only about 0.03% of their monthly income.

However, we believe the Urban Mass cohort (average income of about US\$3,200/annum), will prioritize low prices over the convenience of delivery, and hence will continue to either visit stores or get regular orders delivered to a PUP, without incremental charges, as the delivery costs (for four orders a month) could be as much as 1.15% of their monthly income.

A peek into our estimates and assumptions

Sales: We forecast AVEU sales to growth at 36%/32%/30% for FY18E/19E/20E led by 21 new stores each year and average SSSG of 14%. Over the next three years, we forecast bill growth per store of 5.8%, inflation of 4.9% and 3% mix improvement (Exhibit 76).

Margins: We are assuming flattish gross margin in FY17-20E (20 bp increase) but forecast EBITDA margins to rise by 70 bp to 8.9% in FY20E from 8.2% in FY17. The increase in EBITDA margins is primarily a function of operating leverage over fixed costs such as rental, unities and wage/salary costs (Exhibit 77).

Capex: We are building in the same level of annual store expansion (21 stores) in FY17-20E, as seen in FY16 and FY17, but we are also assuming capex to rise to Rs6.7bn/Rs7.2bn/Rs7.6bn in FY18E/FY19E/FY20E vs. Rs6.4bn/Rs6.5bn in FY16/17. The main reason for the higher capex is higher spending on developing the omni-channel platform, including capex for setting up the PUPs.

CROCI: We forecast CROCI to expand to 31.4% in FY20E from 27.6% in FY17, an increase of 380 bp, primarily due to improving asset turns as the sales throughput (sales/sqft) increases to Rs44,769 in FY20E from Rs31,120 in FY17, at a CAGR of 12.9% (Exhibit 80).

Valuation

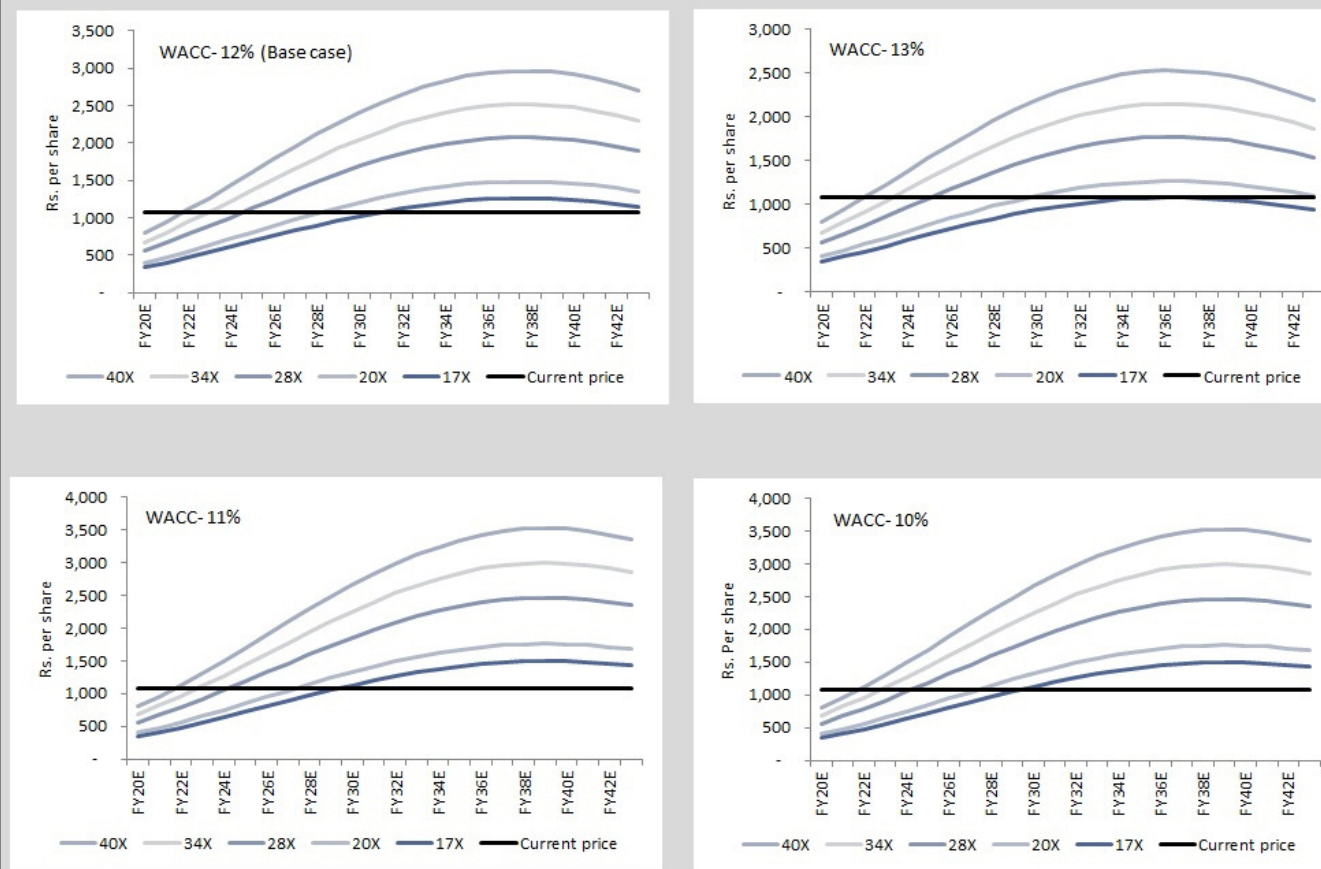
We initiate coverage of AVEU with a Buy rating (on Conviction list) with a 12-month target price of Rs1,586, based on 28X FY29 discounted EPS (WACC: 12%). The 10-year average P/E for our coverage is 28X, and we forecast AVEU will grow faster than the 10-year sector average EPS growth rate of 16%. Our target price implies a multiple of 97X FY19E EPS and 71X FY20E EPS. Our DCF-based value is Rs1,956.

AVEU's valuation appears stretched on a 12-month horizon, with a FY19E P/E of 66X vs. our sector average of 40X. However, we believe this company can grow EPS at 30% for the next 10 years and making a decision on near-term earnings could result in missing a long-term compounding opportunity (Exhibit 38). AVEU is trading at a P/E of 28X/9X in FY22/FY27 (5/10 years out) on non-discounted EPS valuation. On discounted EPS, its P/E valuation is 39X/22X in FY22/FY27.

In periods of sustained high growth, retail stocks have traded at a significant premium to their own history as well as the wider indexes. In 1990-1999, when WMT sales grew at a 21% CAGR, it traded at an average valuation of 24X, a 98% premium to the SPX (Exhibit 70). Similarly, over the same period, Carrefour (CARR.PA) sales grew at a 17% CAGR, and the stock traded at an average multiple of 24X. Jeronimo Martins (JMT.LS) grew at a CAGR of 27% and traded at an average multiple of 22X. We assign a multiple of 28X for AVEU and are building in a sales CAGR of 26% in FY17-27E, which is a 75% premium to the 10-year Nifty average and in line with the 10-year consumer sector average.

Exhibit 38: At our base case P/E multiple of 28X, the current stock price is discounting FY25E EPS

Implied forward valuation at different WACC levels

Although the near term valuations are rich, the stock can still be a long term compunder depending on the high growth period and WACC

Source: Company data, Goldman Sachs Global Investment Research, Datastream

We use a P/E-based methodology to derive our 12-month target price of Rs1,586 (implying 48% upside, the most in our coverage). In addition, Exhibit 39 lays out our DCF, which implies a share value of Rs1,956 (+80% above the current price).

Exhibit 39: Our 12-month target price implies 48% upside; our DCF based value implies 80% upside

AVEU DCF overview

DCF assumptions			
NPV Stage 1 (Rs mn)	14,577	Risk free rate	6.5%
NPV Stage 2 (Rs mn)	698,751	Equity risk premium	5.5%
NPV Stage 3 (Rs mn)	509,720	Beta	1.0
EV (Rs mn)	1,223,048	COE	12.0%
Less net debt (Rs mn)	2,337	COD	6.1%
Equity value (Rs mn)	1,220,711	D/E	0%
Shares (mn)	624	WACC	12.0%
Share value (Rs)	1,956	Terminal Growth rate	4.0%

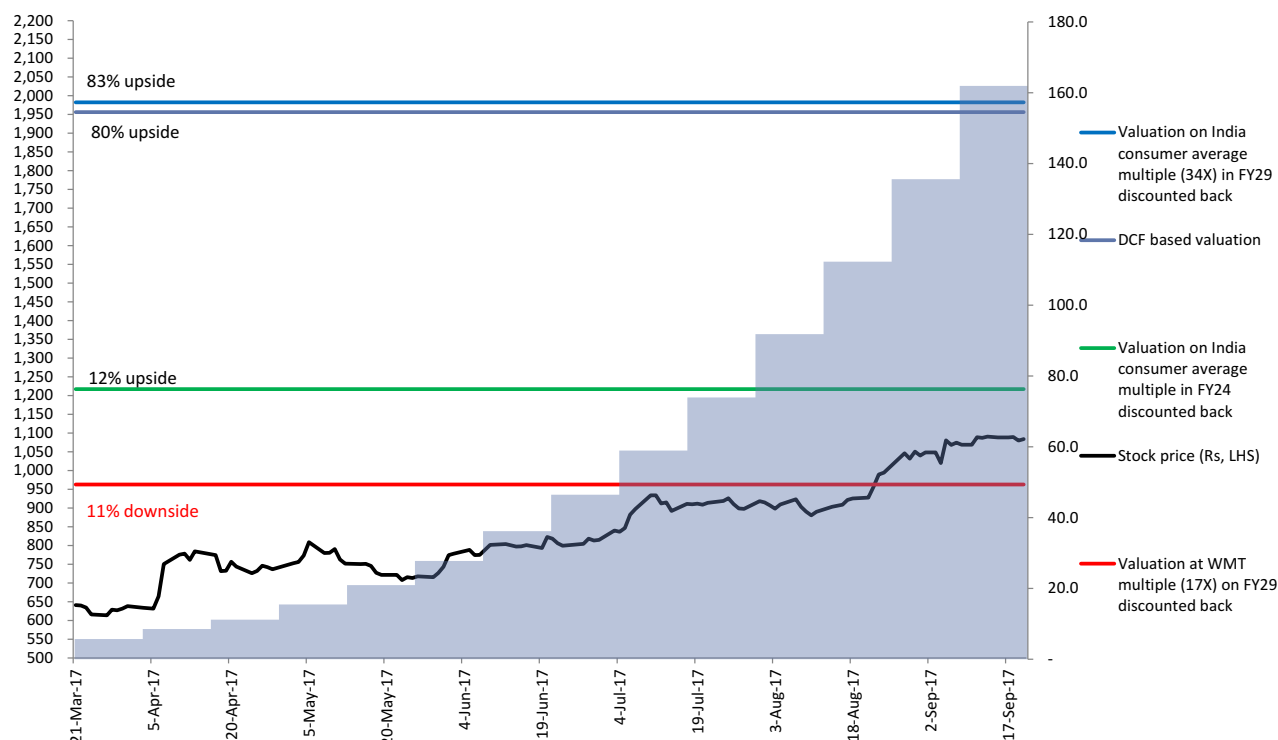
Target price (Rs) calculation			M&A
2029 EPS (Rs)	175.9	Premium	20%
Target multiple	28x	Target multiple	36x
P/E based value	1586	Weight	0%
P/E based weight	100%	M&A value	5,653
DCF based value	1956		
DCF based weight	0%		
Blended target price	1586		
Current price (Rs)	1070		
Upside/downside	48%		

Rs mn	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY30E	FY35E	FY43E
Sales	22,086	33,409	46,865	64,394	85,838	118,977	161,490	213,648	277,215	354,227	447,029	558,316	691,178	2,069,456	4,166,085	9,160,588
yoy		51.3%	40.3%	37.4%	33.3%	38.6%	35.7%	32.3%	29.8%	27.8%	26.2%	24.9%	23.8%	17.5%	13.5%	8.1%
EBIT	1,006	1,692	2,848	3,775	5,652	8,534	12,248	16,706	22,281	29,193	37,697	48,090	60,714	198,745	420,146	973,878
margin	4.6%	5.1%	6.1%	5.9%	6.6%	7.2%	7.6%	7.8%	8.0%	8.2%	8.4%	8.6%	8.8%	9.6%	10.1%	10.6%
Tax rate	31.9%	33.5%	34.1%	34.3%	34.9%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
NOPLAT	684	1,125	1,877	2,480	3,681	5,522	7,925	10,809	14,416	18,888	24,390	31,114	39,282	128,587	271,832	630,094
yoy		64.4%	66.8%	32.1%	48.5%	50.0%	43.5%	36.4%	33.4%	31.0%	29.1%	27.6%	26.3%	18.9%	14.4%	8.7%
D&A	375	458	570	815	984	1,278	1,596	1,936	2,300	2,689	3,104	3,547	4,019	7,551	11,480	19,484
% of sales	1.7%	1.4%	1.2%	1.3%	1.1%	1.1%	1.0%	0.9%	0.8%	0.8%	0.7%	0.6%	0.6%	0.4%	0.3%	0.2%
Change in WC	(577)	(653)	(827)	(1,520)	(685)	(2,697)	(1,575)	(3,005)	(3,657)	(4,425)	(5,329)	(6,229)	(7,415)	(13,096)	(22,197)	(34,151)
% of sales	-2.6%	-2.0%	-1.8%	-2.4%	-0.8%	-2.3%	-1.0%	-1.4%	-1.3%	-1.2%	-1.1%	-1.1%	-1.1%	-0.6%	-0.5%	-0.4%
Capex	(1,833)	(2,394)	(2,717)	(4,774)	(6,370)	(6,450)	(6,707)	(7,166)	(7,648)	(8,154)	(8,682)	(9,235)	(9,811)	(13,520)	(16,560)	(20,284)
% of sales	-8.3%	-7.2%	-5.8%	-7.4%	-7.4%	-5.4%	-4.2%	-3.4%	-2.8%	-2.3%	-1.9%	-1.7%	-1.4%	-0.7%	-0.4%	-0.2%
Free cash flow	(1,351)	(1,464)	(1,097)	(3,000)	(2,390)	(2,347)	1,238	2,573	5,411	8,998	13,483	19,197	26,075	109,522	244,555	595,142
yoy		8.4%	-25.1%	173.4%	-20.3%	-1.8%	-152.7%	107.8%	110.3%	66.3%	49.8%	42.4%	35.8%	20.9%	15.4%	9.2%
Add: Terminal value																7,736,851

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 40: Our DCF-based implied value is 80% above the current share price

AVEU implied share value (Rs/share)



Source: Company data, Goldman Sachs Global Investment Research, Datastream

In Exhibits 41-42, we provide a scenario analysis on share value around volume/pricing growth and mix improvement. As indicated by the outcomes, the share value remains most sensitive to pricing growth followed by mix improvement. The impact of volume

growth is relatively lower as our model assumes higher volumes will also lead to higher employees count (especially contract labor) to service higher orders.

This scenario analysis is for illustrative purposes only, and we understand the eventual outcome may be outside the ranges used in the analysis.

Exhibit 41: Mix improvement has a higher impact on DCF value compared to volume growth

Scenario analysis of impact on DCF value due to change in volume and mix

Mix growth	Volume growth							
		2.8%	3.8%	4.8%	5.8%	6.8%	7.8%	8.8%
	0.0%	-22.2%	-19.8%	-17.4%	-15.0%	-12.5%	-9.9%	-7.3%
	1.0%	-17.7%	-15.2%	-12.7%	-10.1%	-7.4%	-4.8%	-2.0%
	2.0%	-13.1%	-10.5%	-7.8%	-5.1%	-2.3%	0.5%	3.4%
	3.0%	-8.4%	-5.6%	-2.8%	0.0%	2.9%	5.8%	8.8%
	4.0%	-3.6%	-0.7%	2.2%	5.2%	8.2%	11.3%	14.4%
	5.0%	1.3%	4.3%	7.4%	10.5%	13.6%	16.9%	20.1%
	6.0%	6.3%	9.4%	12.6%	15.9%	19.2%	22.5%	26.0%

Mix growth	Volume growth							
		2.8%	3.8%	4.8%	5.8%	6.8%	7.8%	8.8%
	0.0%	-39%	-34%	-30%	-25%	-20%	-15%	-10%
	1.0%	-32%	-27%	-22%	-17%	-12%	-6%	0%
	2.0%	-25%	-20%	-14%	-9%	-3%	3%	10%
	3.0%	-18%	-12%	-6%	0%	6%	13%	20%
	4.0%	-10%	-4%	3%	9%	16%	24%	32%
	5.0%	-2%	5%	12%	19%	27%	35%	43%
	6.0%	7%	14%	22%	30%	38%	47%	56%

Source: Company data, Goldman Sachs Global Investment Research, Datastream

Exhibit 42: Pricing growth has a higher impact on share value compared to mix growth

Impact on DCF value due to change in pricing and mix growth

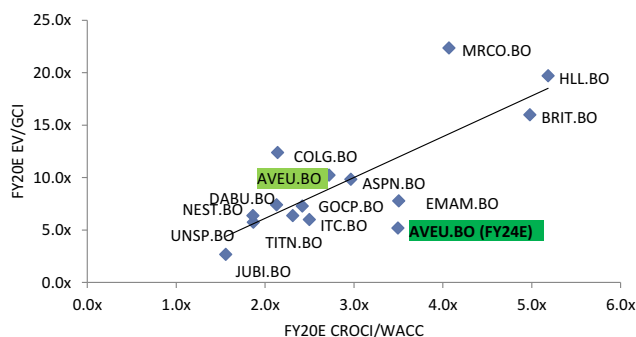
Mix growth	Pricing growth							
		2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
	0.0%	-23.0%	-20.4%	-17.7%	-15.0%	-12.2%	-9.3%	-6.5%
	1.0%	-18.5%	-15.7%	-12.9%	-10.1%	-7.1%	-4.2%	-1.1%
	2.0%	-13.9%	-11.0%	-8.1%	-5.1%	-2.0%	1.1%	4.3%
	3.0%	-9.3%	-6.2%	-3.2%	0.0%	3.2%	6.5%	9.8%
	4.0%	-4.5%	-1.3%	1.9%	5.2%	8.5%	12.0%	15.5%
	5.0%	0.3%	3.6%	7.0%	10.5%	14.0%	17.6%	21.2%
	6.0%	5.3%	8.7%	12.3%	15.9%	19.5%	23.3%	27.1%

Mix growth	Pricing growth							
		2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
	0.0%	-38%	-34%	-30%	-25%	-21%	-16%	-11%
	1.0%	-31%	-27%	-22%	-17%	-12%	-7%	-1%
	2.0%	-24%	-19%	-14%	-9%	-3%	3%	9%
	3.0%	-17%	-11%	-6%	0%	6%	13%	19%
	4.0%	-9%	-3%	3%	9%	16%	23%	31%
	5.0%	-1%	6%	12%	19%	27%	34%	43%
	6.0%	8%	15%	22%	30%	38%	46%	55%

Source: Company data, Goldman Sachs Global Investment Research, Datastream

Exhibit 43: AVEU screens as attractive vs. our coverage group on FY24 estimates

Coverage group EV/GCI vs CROCI/WACC framework



Source: Goldman Sachs Global Investment Research, Datastream

Exhibit 44: AVEU offers 48% upside potential to our 12-month target price, the highest within our coverage group

Coverage comp table

Company Name	Ticker	Rating	Last Close (Rs)	12m Target Price (Rs)	Upside/Downside	Market Cap (\$, mn)	P/E			EV/EBITDA			CAGR (2017-20E)		
							2018	2019	2020	2018	2019	2020	Sales	EBITDA	EPS
Avenue Supermarts Ltd.	AVEU.BO	Buy*	1,070	1,586	48%	10,386	91.8x	65.3x	48.0x	48.3x	35.9x	27.2x	33%	36%	38%
Jubilant Foodworks	JUBI.BO	Buy*	1,393	1,729	24%	1,405	71.7x	48.1x	35.2x	33.8x	26.0x	20.7x	12%	32%	55%
Titan Co.	TITN.BO	Buy	619	733	18%	8,708	47.6x	37.6x	30.4x	34.0x	27.0x	22.0x	20%	29%	28%
Britannia Industries Ltd.	BRIT.BO	Buy	4,332	5,003	15%	8,115	48.5x	37.1x	29.5x	32.5x	24.7x	19.5x	13%	26%	26%
ITC	ITC.BO	Neutral	269	305	13%	50,803	29.6x	26.0x	23.2x	19.9x	17.6x	15.7x	11%	15%	11%
Godrej Consumer Products Ltd.	GOCP.BO	Neutral	936	1,004	7%	10,036	43.6x	36.1x	30.7x	31.5x	26.6x	22.7x	13%	15%	17%
United Spirits	UNSP.BO	Neutral	2,565	2,713	6%	5,943	70.6x	46.4x	36.5x	39.2x	27.8x	22.2x	8%	23%	29%
Emami Ltd.	EMAM.BO	Neutral	1,125	1,184	5%	4,023	38.7x	33.6x	29.6x	30.7x	26.0x	22.3x	12%	12%	15%
Dabur India	DABU.BO	Neutral	310	287	-8%	8,606	39.3x	35.3x	31.8x	35.1x	30.9x	27.5x	10%	9%	10%
Marico	MRCO.BO	Neutral	323	282	-13%	6,638	52.2x	45.3x	39.6x	36.5x	31.3x	27.2x	11%	10%	10%
Asian Paints (India)	ASPN.BO	Neutral	1,230	1,015	-17%	18,486	56.6x	46.8x	39.6x	36.2x	29.4x	24.5x	14%	17%	15%
Hindustan Unilever	HLL.BO	Neutral	1,255	937	-25%	42,349	53.2x	47.2x	42.0x	38.8x	34.3x	30.6x	10%	15%	15%
Nestle India	NEST.BO	Sell	7,144	5,131	-28%	10,835	59.9x	50.0x	42.4x	37.9x	32.2x	27.7x	14%	15%	19%
Colgate Palmolive (India)	COLG.BO	Sell	1,118	785	-30%	4,807	49.8x	43.7x	40.2x	32.2x	28.6x	23.4x	10%	10%	9%
Total/Average					1%	191,140	53.8x	42.8x	35.6x	34.8x	28.5x	23.8x	14%	19%	21%

Company Name	Ticker	Gross Margin				EBITDA Margin				CROCI				Dividend yield	
		2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2018	2019
Avenue Supermarts Ltd.	AVEU.BO	15.3%	15.5%	15.5%	15.5%	8.2%	8.6%	8.7%	8.9%	23.6%	25.4%	26.7%	28.2%	0.2%	0.3%
Jubilant Foodworks	JUBI.BO	69.6%	69.5%	69.6%	69.8%	9.3%	12.0%	13.7%	15.3%	14.3%	15.2%	16.1%	17.1%	0.4%	0.5%
Titan Co.	TITN.BO	25.7%	24.4%	24.4%	24.4%	9.7%	10.8%	11.4%	11.9%	19.5%	23.8%	23.7%	25.4%	0.8%	1.3%
Britannia Industries Ltd.	BRIT.BO	37.2%	37.6%	38.6%	39.2%	13.7%	15.2%	17.3%	19.0%	40.2%	40.1%	48.7%	54.8%	0.8%	1.0%
ITC	ITC.BO	59.0%	60.9%	61.1%	61.3%	35.7%	38.4%	39.2%	39.8%	27.2%	28.5%	27.7%	27.5%	2.2%	2.6%
Godrej Consumer Products Ltd.	GOCP.BO	53.4%	53.3%	53.5%	53.5%	19.7%	19.6%	20.2%	20.7%	18.6%	21.6%	24.2%	26.6%	0.9%	1.0%
United Spirits	UNSP.BO	43.2%	46.9%	47.9%	48.6%	11.2%	12.7%	15.2%	16.6%	15.4%	14.2%	18.7%	20.5%	0.0%	0.0%
Emami Ltd.	EMAM.BO	53.3%	54.1%	55.1%	56.1%	30.0%	29.9%	30.0%	30.1%	27.3%	34.3%	36.3%	38.6%	0.8%	0.9%
Dabur India	DABU.BO	48.1%	48.5%	48.9%	49.0%	19.6%	19.1%	19.2%	19.3%	18.1%	20.6%	21.8%	23.4%	0.8%	0.9%
Marico	MRCO.BO	52.0%	50.2%	50.5%	51.0%	19.5%	18.1%	18.5%	18.8%	30.0%	28.4%	33.3%	44.8%	1.1%	1.2%
Asian Paints (India)	ASPN.BO	38.2%	36.9%	37.0%	37.1%	17.7%	17.4%	18.5%	19.2%	34.9%	37.4%	35.3%	36.7%	0.9%	1.1%
Hindustan Unilever	HLL.BO	45.0%	46.3%	46.6%	46.6%	17.8%	19.5%	20.1%	20.5%	49.4%	54.6%	57.8%	57.0%	1.5%	1.7%
Nestle India	NEST.BO	52.7%	50.0%	50.6%	50.8%	18.5%	17.9%	18.4%	18.9%	18.4%	18.3%	19.3%	20.2%	1.1%	1.3%
Colgate Palmolive (India)	COLG.BO	52.2%	51.6%	51.9%	51.7%	21.7%	21.4%	21.7%	21.6%	20.9%	21.1%	21.0%	23.6%	1.1%	1.0%
Average		46.1%	46.1%	46.5%	46.8%	18.0%	18.6%	19.4%	20.0%	25.6%	27.4%	29.3%	31.7%	0.9%	1.1%

* Indicates stock on Conviction List

Source: Company data, Goldman Sachs Global Investment Research, Datastream

Currently there is limited coverage of AVEU as per Bloomberg with only eight analysts covering the stock. Our sales estimate for FY18-20 are 2%-11% ahead of Bloomberg consensus. Over the longer term, we believe AVEU will be able to drive incremental sales through its PUPs, which we believe the Street could be underestimating given that the model is still developing. Our FY17-20E EBITDA margins are 21-29bps ahead of consensus as we believe AVEU will be able to drive operational efficiencies and drive better employee efficiency (both permanent and contract). As a result, our FY17-20E EBITDA estimates are 4%-14% ahead of consensus.

Exhibit 45: Our FY18-20E EBITDA estimates are 4%-14% ahead of consensus on higher sales and margins
GS vs. consensus

	GS			Cons			GS vs cons		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales	161,490	213,648	277,215	158,666	205,352	250,678	2%	4%	11%
EBITDA	13,844	18,642	24,581	13,263	17,383	21,496	4%	7%	14%
Margin	8.6%	8.7%	8.9%	8.4%	8.5%	8.6%	21	26	29
PAT	7,271	10,225	13,919	7,604	10,283	12,803	-4%	-1%	9%

Source: Goldman Sachs Global Investment Research, Bloomberg

M&A ranking

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign an M&A rank as a means of scoring companies under our rated coverage from 1

to 3, with 1 representing high probability (30%-50%) of the company becoming an acquisition target, 2 representing medium probability (15%-30%) and 3 representing low probability (0%-15%). For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. An M&A rank of 3 is considered immaterial and therefore does not factor into our target price, and may or may not be discussed in research (for more details, see our [coverage initiation note](#) on June 1, 2016).

Qualitative factors include regulation, industry positioning, cost synergies, strategic appeal, and management stance.

Quantitative factors include market cap, ownership, growth potential in terms of EBITDA CAGR, and forward multiple (12M forward EV/EBITDA). Moreover, under our M&A framework for the consumer coverage, we sort companies into three categories that correspond to whether M&A: 1) “can” happen (based on size, ownership and regulatory restriction); 2) “should” happen (industry positioning, growth potential, valuation and synergy potential); or 3) “would” happen (strategic appeal, stated management stance). We also overlay our M&A ranks to assess which companies are most likely to be M&A targets.

For AVEU, we arrive at an overall M&A score of 3, which denotes low probability (0%-15%) of being acquired, consistent with our regional framework of “Can,” “Should” and “Would.” The final rank is an average of the rank for each factor as shown below:

(1) Whether M&A “can happen” based on the average rank of the three metrics below:

- Size: If a company has a market cap greater than US\$10bn, the company ranks low (“3”), else it ranks higher (“2”).
- Ownership: If a company has a free float less than 50%, the company ranks low (“3”), if the free float is more than 75%, it ranks high (“1”); otherwise we rank it as “2.” This assumes that in tightly held companies, takeovers are unlikely.
- Regulation: If a company has any regulatory restrictions on M&A, we rank it low (“3”), if not we rank it high (“1”).

(2) Whether M&A “should happen” based on the average rank for the four metrics below:

- Industry positioning: Companies with a dominant market share in an industry with few players rank high (“1” or “2”) while companies with moderate market share in competitive industries rank lower (“3”).
- Growth potential: We quartile our coverage according to our FY17-20E EBITDA growth expectations and companies are scored according to the quartile in which they place. A first-quartile growth company will rank high (“1”).
- Valuation: We quartile our coverage according to their 12-m EV/EBITDA multiples and companies are scored according to the quartile in which they place. A first-quartile valuation company, i.e. where valuation is inexpensive, will rank high (“1”).

- **Cost synergies:** This is a qualitative metric in which we rank companies according to the potential synergy an acquisition could add to an acquirer from the same industry. This metric is subjective but companies with multiple business lines rank lower as it is more difficult to drive synergies across business lines (for example, Hindustan Unilever Ltd; HLL.BO). Similarly, for dominant players and where upstream/downstream acquisitions are unlikely, we assume it is hard to drive further synergy through acquisitions (for example, ITC Ltd; ITC.BO). We rank companies with higher potential for cost synergy highly ("1" or "2") and those for lower potential lower ("3")

(3) Whether M&A "would happen" based on the average rank for the two metrics below:

- **Strategic appeal:** Under this factor, we rank the multinationals as high ("1") due to the strategic appeal for the parent in increasing their stake. Other companies that rank high are businesses that are strong competitively and operate in a segment with larger players (like Britannia in biscuits).
- **Management stance:** Companies that have seen transactions in the past, such as Hindustan Unilever Ltd (HLL.BO) and United Spirits Ltd (UNSP.BO), rank high ("1" or "2"). Companies in which there is no discussion or where management has denied any intention for M&A rank lower ("3").

Based on our analysis, AVEU is ranked 3 and hence we do not incorporate any M&A based value in our target price methodology.

Exhibit 46: We assign a rank of 3 to AVEU under our M&A framework

Consumer coverage M&A framework

India Consumer- M&A framework												
Ticker	CAN				(+) SHOULD					(+) WOULD		
	Size	Ownership	Regulation	Score (1-3)	Industry positioning	Growth Potential EBITDA CAGR (2017-20e)	Value 12-M forward EV/EBITDA	Cost synergies	Score (1-3)	Strategic appeal	Management stance	Score (1-3)
	Market Cap (\$,mn)	Free Float	M&A restrictions	1 = M&A likely					1 = M&A likely			1 = M&A likely
AVEU.BO	10,600	18%	Yes	3	Moderate player, Competitive	36%	36.3x	Low	3	Moderate	Weak	3
ASPN.BO	18,786	47%	No	2	Dominant, Oligopoly	17%	29.8x	Low	3	Weak	Weak	3
BRIT.BO	8,212	49%	No	2	Dominant, Competitive	26%	24.9x	High	2	Strong	Weak	2
COLG.BO	4,834	49%	No	2	Dominant, Competitive	10%	28.6x	Low	3	Strong	Moderate	2
DABU.BO	8,460	32%	No	2	Moderate player, Competitive	9%	30.3x	Moderate	3	Weak	Weak	3
EMAM.BO	4,043	27%	No	2	Dominant, Competitive	12%	26.1x	Moderate	3	Weak	Weak	3
GOCF.BO	10,021	37%	No	2	Moderate player, Competitive	15%	26.5x	Moderate	3	Weak	Weak	3
HLL.BO	43,152	33%	No	2	Dominant, Competitive	15%	34.8x	Low	3	Strong	Strong	1
ITC.BO	50,098	45%	Yes	3	Dominant, near monopoly	15%	17.3x	Low	2	Weak	Weak	3
JUBL.BO	1,427	51%	Yes	3	Moderate player, Competitive	32%	26.3x	Moderate	2	Weak	Weak	3
MRCO.BO	6,658	40%	No	2	Dominant, Competitive	10%	31.4x	Moderate	3	Weak	Weak	3
NEST.BO	10,962	37%	No	2	Moderate player, Competitive	14%	33.8x	Moderate	3	Strong	Moderate	2
TITN.BO	8,940	47%	Yes	3	Moderate player, Competitive	29%	27.7x	Moderate	2	Weak	Weak	3
UNSP.BO	6,053	41%	No	2	Dominant, Competitive	23%	28.3x	High	2	Strong	Strong	1

Source: Company data, Goldman Sachs Global Investment Research, Datastream

Risks

A. Slower shift toward organized retail

In our base case, we assume organized grocery retail increases to 7.9% of overall grocery sales by FY20 and to 14.0% by FY25, as compared with 3.1% in FY16. We believe this shift toward organized retail will be driven by a change in the tax structure, which now rewards businesses for being more efficient as well as allowing for a more level playing field between the organized and un-organized competitors. However, if the shift toward organized retail is slower than expected, our sales assumptions for AVEU may turn out too aggressive (we are assuming AVEU adds 21 stores per year in FY17-20, while driving average SSSG of 14.3%).

B. Higher-than-expected risk from online channel?

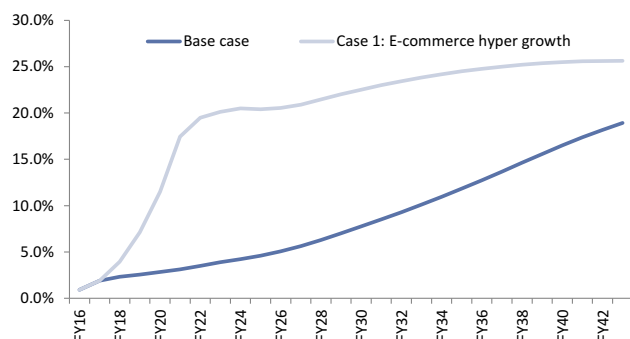
While AVEU is developing its own omni-channel, we see risk from faster-than-expected adoption of online players like Amazon poses a risk to our estimates. We present two scenarios for e-commerce growth and implications for AVEU:

1. Base case: Urban Middle accounts for 10% of grocery spending online in 10 years. We assume the Urban Mass will continue to remain more price sensitive, while the Urban Middle will start shifting spending online as they value convenience over discounts. In this scenario, overall e-commerce market share of organized retail rises to 4.4% in 10 years from 0.9% today. We assume AVEU has a market share of 6.8%.

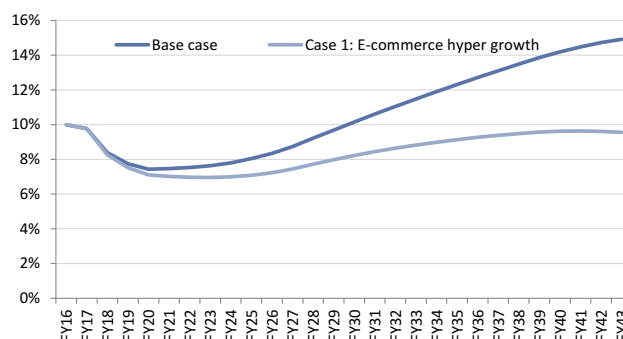
2. Bear case (for AVEU): We assess a scenario of e-commerce hyper growth, in which 20% of Urban Middle grocery spends shift to e-commerce (Exhibit 60). In this scenario, our FY20 sales could be lower by 4% and our FY27 sales could be lower by as much as 15%. The main reason we do not consider this as our base case is that the e-commerce retailers like Amazon and bigbasket.com are still loss-making and have not demonstrated a path to sustained profitability in the grocery market in India, where the supply chain is far less developed than in developed markets. On the other hand, AVEU has demonstrated profitable growth over the past five years.

Exhibit 47: Under our base case, online players will garner ~19% market share of organized grocery retail by FY43E

Scenario analysis of market shares based on grocery market demand supply model



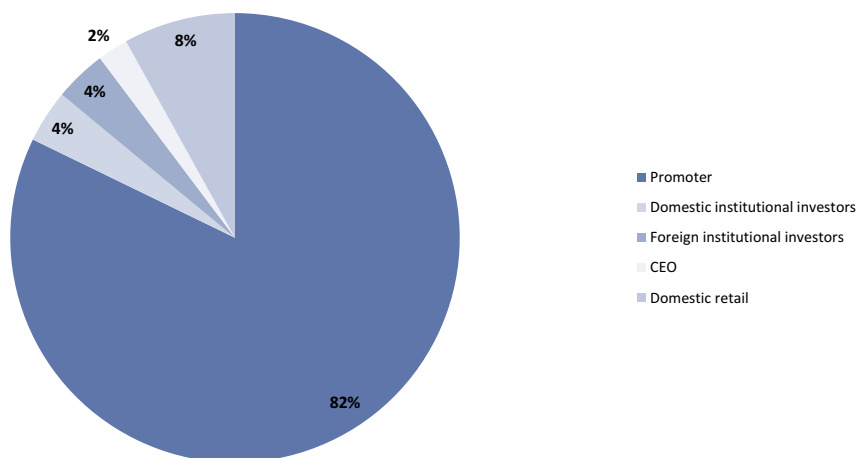
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 48: Under our base case, AVEU will have a 15% market share of the organized grocery market by FY43E


Source: Company data, Goldman Sachs Global Investment Research

C. Promoter selling down stake

The promoters in AVEU hold an ~82% stake in the company. As per Securities and Exchange Board Guidelines, AVEU must have a minimum public shareholding of 25% within three years of listing. If the promoters were to offload their stake at a significant discounted price to the then-existing market price, it would have a negative impact on the stock performance.

Exhibit 49: AVEU promoters need to sell down their stake to less than 75% within three years of the IPO
 AVEU shareholding pattern (June 2017)


Source: Company data

Prices in this report are as of the September 21, 2017 market close unless indicated otherwise.

Appendix

Overview of India's consumer cohorts and retail market

Exhibit 50: AVEU, with its low pricing is best positioned to benefit from the Indian urban mass consumer

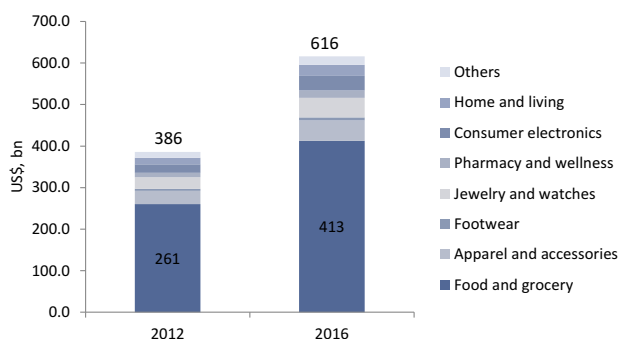
Key cohorts of the Indian consumer

Working population	Average annual income, 2015 (\$)		% of working population	Aggregate income, 2015 (\$bn)
0.43mn	250,000	Movers & Shakers	0.08%	108
10mn	11,439	Govt/SOE employees	2%	114
17mn	11,250	Urban white collar/SME owners	3%	191
32mn	5,385	Educated urban mass	6%	172
97mn	2,500	Urban blue collar/migrant workers	19%	243
120mn	2,159	Rural landowners	23%	259
138mn	810	Rural labourers	27%	112
105mn	432	Rural casual labourers	20%	45
Total: 519mn				Total: \$1.2tn

Source: VII Pay Commission report, Capitaline, Goldman Sachs Global Investment Research

Exhibit 51: Food and grocery are 67% of the US\$616bn retail market, but this is largely unorganized

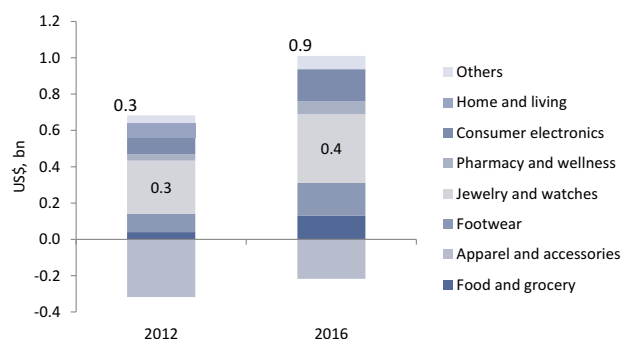
Size of India's retail industry



Source: Euromonitor

Exhibit 52: The organized profit pool is only US\$0.9bn, with jewelry accounting for 43%

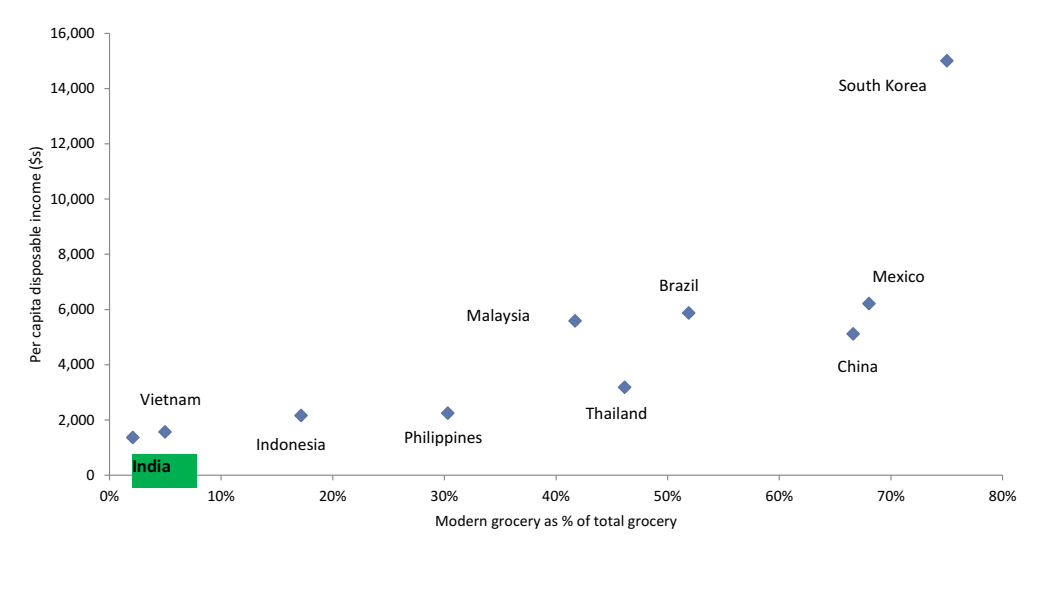
Indian retail industry profit pool



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 53: India’s modern grocery market is in its nascent stage and is likely to develop with growth in per capita disposable income

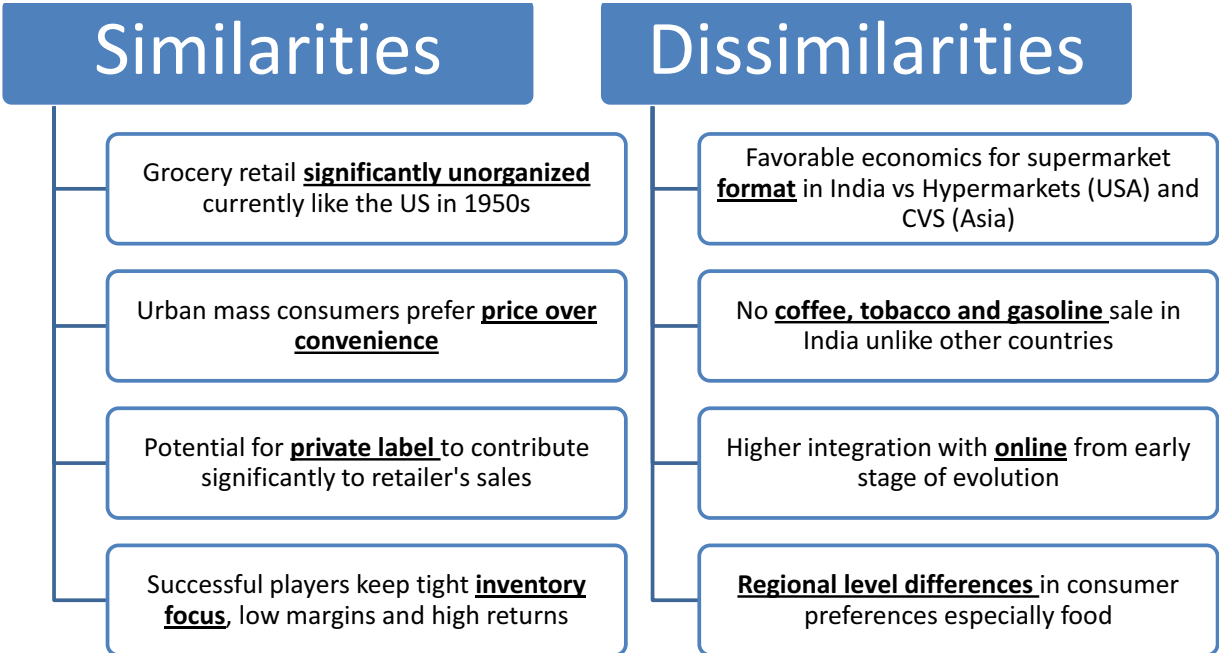
Comparison of per capital disposable income vs modern grocery contribution to grocery retail (C2016)



Source: Euromonitor

Similarities and differences between the Indian retail industry compared to other countries

Exhibit 54: India’s retail market is significantly unorganized - where the urban mass consumer prefers price over convenience
Comparison between Indian retail landscape and other countries like US, Japan, Thailand, Indonesia, etc.



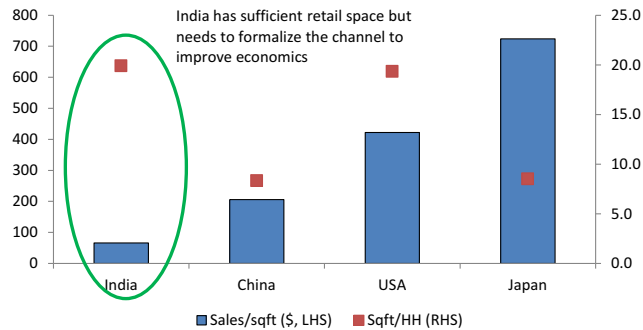
Source: Goldman Sachs Global Investment Research

Exhibit 55: India has considerably more stores due to the unorganized segment...
India vs. other countries’ stores/household (C2016)



Source: Euromonitor

Exhibit 56: ...and needs to formalize the channel to improve store-level economics
India vs other countries sales/sqft and retail space/HH (C2016)

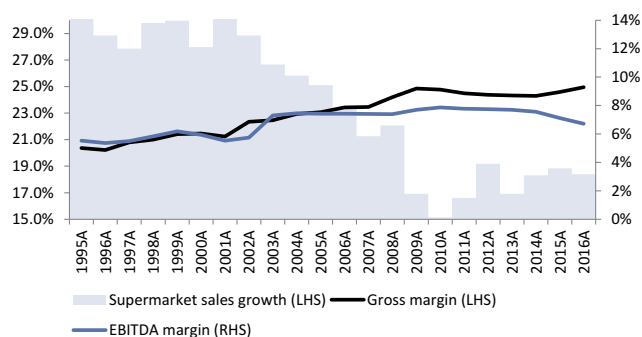


Source: Euromonitor

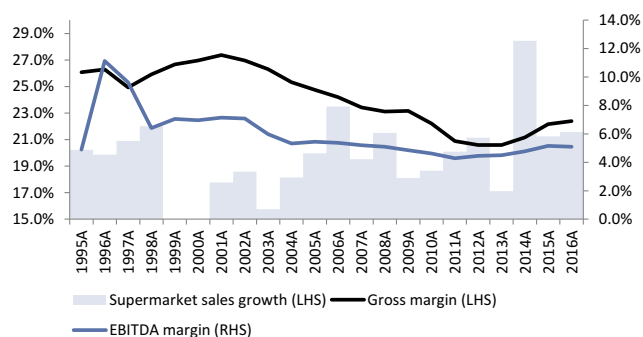
US retail industry development

Exhibit 57: US companies like WMT and ...

WMT sales growth and margins for the last 20 years

**Exhibit 58: ...Kroger has had consistent sales growth and EBITDA margins for a long period of time**

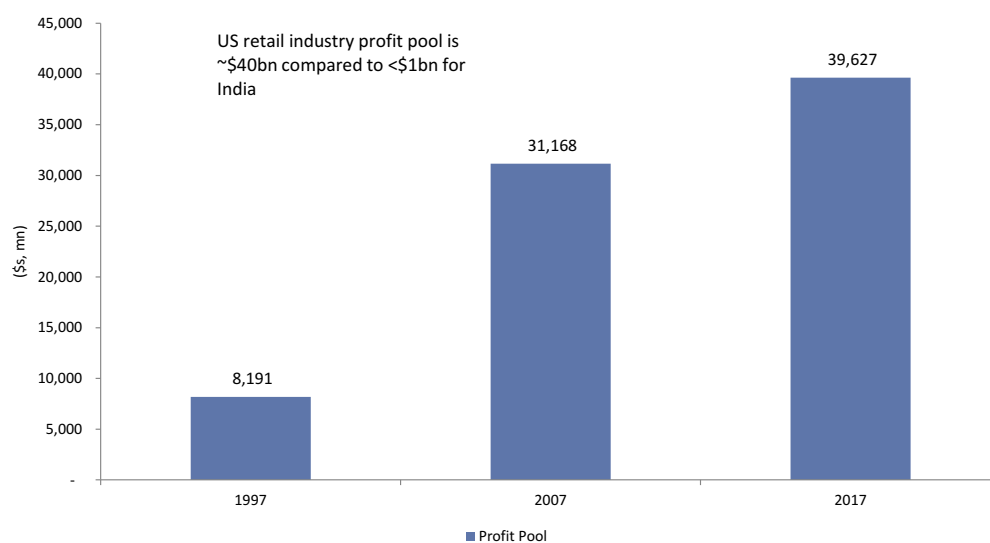
Kroger sales growth and margins for the last 20 years



Source: Company data

Exhibit 59: US discount retail companies have a profit pool of US\$40bn

Profit pool of AVEU's US peers under coverage



Source: Company data, Goldman Sachs Global Investment Research

Indian grocery market outlook

Exhibit 60: We expect the Indian grocery retail market to be US\$3.2bn in FY42 with total organized market increasing to 27% from 4% in FY17

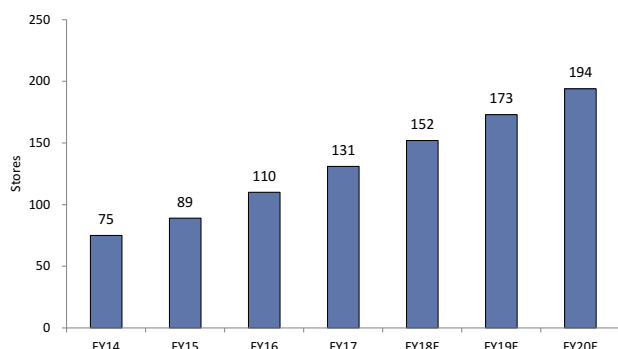
Indian grocery retail market outlook

US\$, bn	FY17	FY22	FY27	FY32	FY37	FY42
Base case: India grocery retail market						
Total market	476	889	1,369	1,964	2,623	3,264
Organized market	18	91	219	389	618	886
D'Mart	2	7	19	43	81	130
E-commerce	0	3	12	36	84	161
Top-5 organized	6	21	53	107	190	297
% of total market						
Organized market	4%	10%	16%	20%	24%	27%
D'Mart	0%	1%	1%	2%	3%	4%
E-commerce	0%	0%	1%	2%	3%	5%
Top-5 organized	1%	2%	4%	5%	7%	9%
% of organized market						
D'Mart	10%	8%	9%	11%	13%	15%
E-commerce	2%	3%	6%	9%	14%	18%
Top-5 organized	33%	23%	24%	28%	31%	34%
Bear case: E-commerce hyper growth						
D'Mart	2	6	16	34	58	85
E-commerce	0	18	46	91	155	227
Top-5 organized	6	19	44	83	135	192
% of total market						
D'Mart	0%	1%	1%	2%	2%	3%
E-commerce	0%	2%	3%	5%	6%	7%
Top-5 organized	1%	2%	3%	4%	5%	6%
% of organized market						
D'Mart	10%	7%	7%	9%	9%	10%
E-commerce	2%	19%	21%	23%	25%	26%
Top-5 organized	32%	21%	20%	21%	22%	22%

Source: Company data, Goldman Sachs Global Investment Research

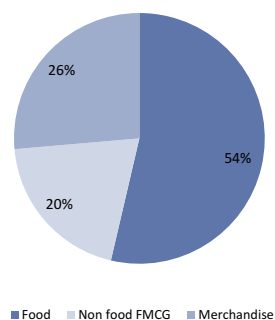
Avenue Supermarts overview

Exhibit 61: AVEU currently has 131 stores across India...
AVEU store count



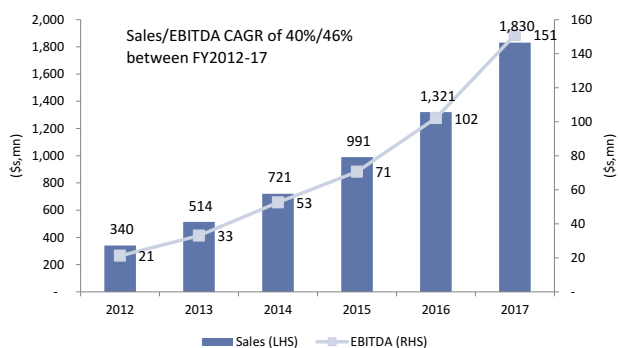
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 62: ...and gets 54% of its revenues from the sale of food products
AVEU revenue contribution



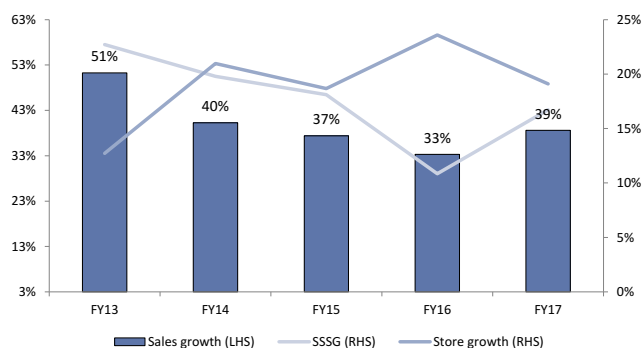
Source: Company data

Exhibit 63: It has delivered strong sales/EBITDA growth over the last five years...
AVEU sales and EBITDA



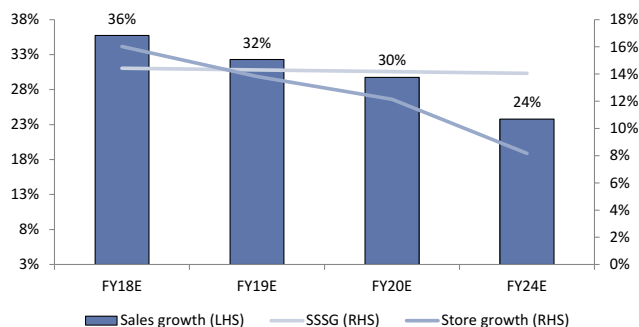
Source: Company data

Exhibit 64: ...driven by a combination of SSSG and store addition
AVEU sales contribution



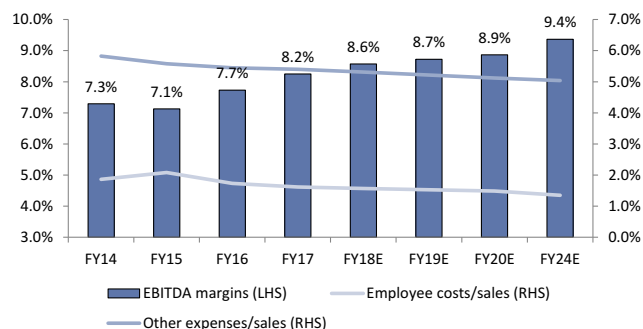
Source: Company data

Exhibit 65: We expect AVEU to maintain its SSSG and store addition trajectory...
AVEU growth trajectory



Source: Company data, Goldman Sachs Global Investment Research

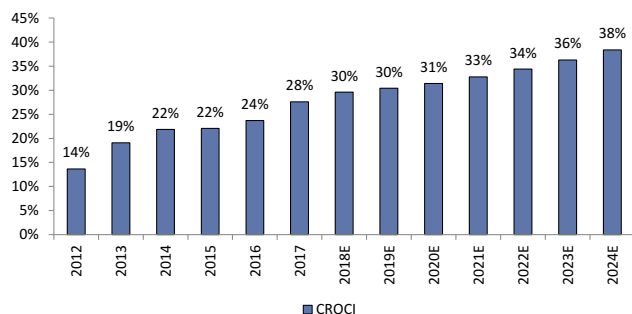
Exhibit 66: ...and we expect margin expansion due to op. leverage...
AVEU EBITDA margin and costs



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 67: ...leading to significant CROCI expansion...

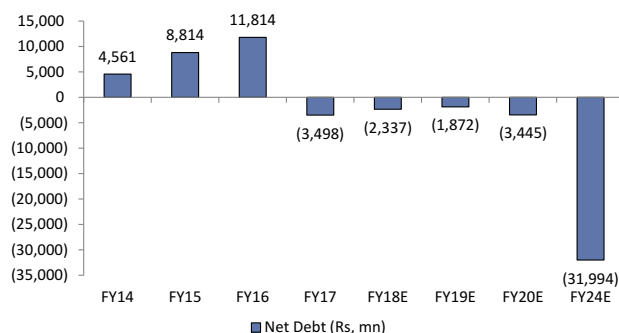
AVEU CROCI trajectory



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 68: ...and allow AVEU to have a significant net cash**position in future**

AVEU net debt trajectory



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 69: All key managerial personnel have several years of experience in their domain

AVEU management team

Name	Designation	Term expires	Experience	Prior roles
Ignatius Navil Noronha	Managing Director & CEO	Jan-21	20 years	Hindustan Unilever Ltd, Key accounts manager (modern trade)
Ramakant Baheti	CFO	Apr-19	19 years	Bright Star, Manager (Finance)
Elvin Machado	Director- Business Development	Jun-18	28 years	Hindustan Unilever Ltd, Branch Operations Manager (East Rural)
Udaya Bhaskar Yarlagadda	COO, Retail	NA	18 years	P&G Hygiene and Health Care Ltd, Director (Customer Business Development)
Narayana Bhaskaran	COO, Supply Chain Management	NA	22 years	TCL India Holding Pvt Ltd and Birla Sun Life Distribution Co Ltd.
Dheeraj Kampani	VP, Buying and Merchandising	NA	15 years	Hindustan Unilever Ltd and Great Wholesale Club Ltd

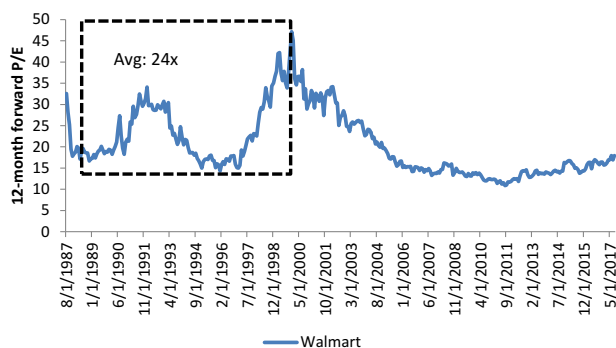
Source: Company data

We note that, unlike managements of most Indian companies, AVEU's management team is entirely made up of professionals outside the founder/promoter family. The promoter family has a board seat (Chairman) but in a non-executive capacity. The core management team has extensive experience working in multinationals such as Hindustan Unilever and Proctor & Gamble and large Indian corporations, which suggests that managers have deep experience of the consumer sector in India, while having a global perspective. The CEO joined the company in 2004 and was appointed CEO in 2007, being in charge for most of the growth over the last 10 years.

Historical valuation of global retailers

Exhibit 70: Global retailers like Wal-Mart...

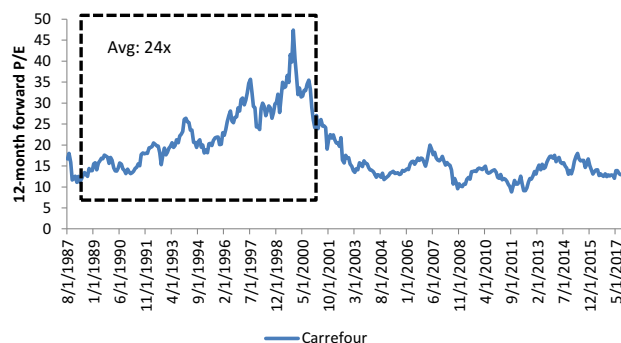
WMT historical valuation



Source: Datastream

Exhibit 71: ...Carrefour...

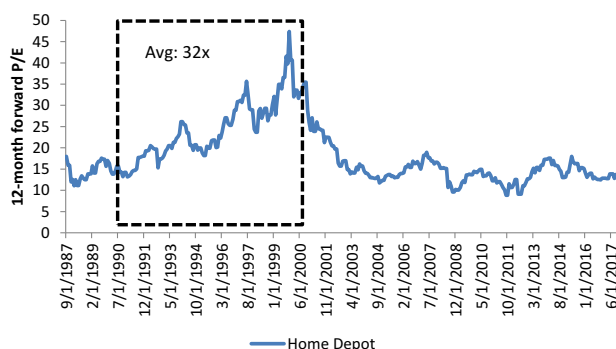
CARR historical valuation



Source: Datastream

Exhibit 72: ...Home Depot...

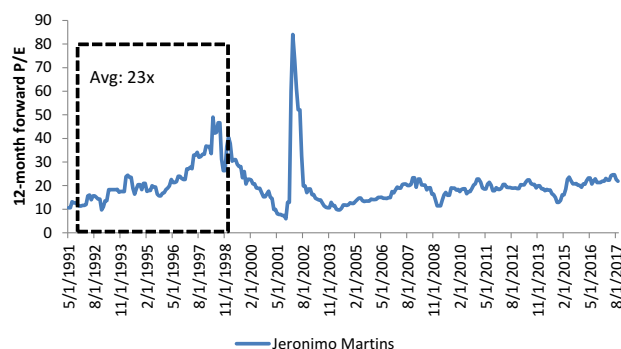
HD historical valuation



Source: Datastream

Exhibit 73: ...and Jeronimo Martins have sustained high valuations for a sustained period of time

JMT historical valuation



Source: Datastream

Margin calculation across omni-channel

Exhibit 74: Delivery through PUPs could be margin-accretive if AVEU achieves scale

Margin calculation for pick up point

Key variables			
Orders/day per pick up point (PUP)	25	50	75
Units/order	15	15	15
A. Labor cost at warehouse			
Sales/ Bill (Rs)	1,097	1,097	1,097
Average units/order	15	15	15
Time taken to load a unit to transport each unit (sec)	90	90	90
Time taken to pick order (mins)	22.5	22.5	22.5
Hourly wage (Rs/hr)	50	50	50
Labour cost to sort an order (Rs)	18.75	18.75	18.75
B. Cost of transport to pick up point (PUP)			
No of orders/delivery	25	50	75
Return distance between warehouse and PUP (kms)	40	40	40
Fuel cost (Assuming Rs15/km)	600	600	600
Time taken for transport (mins) @24km/hr	100	100	100
Labor per transport	2	2	2
Hourly wage (Rs/hr)	50	50	50
Cost of transport (labor + fuel- Rs)	767	767	767
Cost/order (Rs)	31	15	10
C. Cost at pick up point			
Orders/day	25	50	75
Hours/day	8	8	8
Minutes/order	10	10	10
Labor at PUP	1	2	2
Hourly wage (Rs/hr)	50	50	50
Labor cost/day (Rs)	400	800	800
Daily rent at PUP (Rs)	667	667	667
Daily utilities (Rs)	67	67	67
Cost/order (Rent + Labor- Rs)	45	31	20
Total cost per order (Rs) (A+B+C)			
	95	65	49
Cost as % of sale/order	9%	6%	5%
Orders/year	9,125	18,250	27,375
Sales/year (Rs,mn)	10	20	30
COGS @15.4% gross margin (Rs,mn)	8	17	25
Gross Profit (Rs, mn)	2	3	5
Warehousing cost @1% of sales (Rs,mn)	0.1	0.2	0.3
Cost of sale through PUP (Rs, mn)	0.9	1.2	1.4
EBITDA (Rs, mn)	0.6	1.7	3.0
EBITDA margin (excluding corporate costs)	5.8%	8.5%	9.9%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 75: Home delivery could be margin-accretive to AVEU if it achieves scale

EBITDA margin calculation for home delivery

Key variables			
Orders/day per truck	20	25	30
Units/order	15	15	15
A. Labor cost at warehouse			
Sales/ Bill (Rs)	1,097	1,097	1,097
Average units/order	15	15	15
Time taken to load a unit to transport each unit (sec)	90	90	90
Time taken to pick order (mins)	22.5	22.5	22.5
Hourly wage (Rs/hr)	50	50	50
Labour cost to sort an order (Rs)	19	19	19
B. Cost of transport to pick up point (PUP)			
No of orders/delivery	20	25	30
Return distance between warehouse and PUP (kms)	40	40	40
Fuel cost (Assuming Rs15/km)	600	600	600
Time taken for transport (mins) @24km/hr	100	100	100
Labor per transport	1	1	1
Hourly wage (Rs/hr)	50	50	50
Cost of transport (labor + fuel- Rs)	683	683	683
Cost/order (Rs)	34	27	23
C. Cost of delivery			
Orders/day	20	25	30
Hours/day	8	8	8
Minutes/order	30	30	30
Labor/truck + 1 driver	3	3	3
Hourly wage (Rs/hr)	50	50	50
Labor cost/day (Rs)	1,200	1,200	1,200
Aggregate distance for delivery (kms)	20	25	30
Fuel cost (Assuming Rs20/km)	400	500	600
Cost/order (Fuel + Labor- Rs)	80	68	60
Total cost per order (Rs) (A+B+C)			
	133	114	102
Cost as % of sale/order	12%	10%	9%
Orders/year	7,300	9,125	10,950
Sales/year (Rs,mn)	8.0	10.0	12.0
Delivery income (Rs50/order)	0.4	0.5	0.5
COGS @15.4% gross margin (Rs,mn)	<u>6.8</u>	<u>8.5</u>	<u>10.2</u>
Gross Profit (Rs, mn)	1.6	2.0	2.4
Warehousing cost @1% of sales (Rs,mn)	0.1	0.1	0.1
Cost of sale through PUP (Rs, mn)	<u>1.0</u>	<u>1.0</u>	<u>1.1</u>
EBITDA (Rs, mn)	0.5	0.9	1.2
EBITDA margin (excluding corporate costs)	6.8%	8.6%	9.7%

Source: Company data, Goldman Sachs Global Investment Research

AVEU financial overview

Exhibit 76: We forecast stores/sales CAGR of of 11%/28% between FY17 and FY24E

AVEU sales forecast overview

Key assumptions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Volume - bills - per store	27.2%	5.9%	5.1%	3.9%	5.8%	5.8%	5.8%	5.7%	5.7%	5.6%	5.6%	5.5%
Ticket/Mix growth - per store	4.5%	5.7%	2.1%	0.7%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Inflation - per store	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	4.9%	4.9%	4.8%	4.7%	4.6%	4.6%
Sqft/store growth	0.7%	0.5%	4.7%	1.3%	2.4%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
Sales growth	51.3%	40.3%	37.4%	33.3%	38.6%	35.7%	32.3%	29.8%	27.8%	26.2%	24.9%	23.8%
Store growth	12.7%	21.0%	18.7%	23.6%	19.1%	16.0%	13.8%	12.1%	10.8%	9.8%	8.9%	8.2%
Sales/store growth	42.2%	19.8%	14.8%	9.9%	14.5%	15.6%	15.2%	14.9%	14.7%	14.4%	14.3%	14.1%
Diff vs sales growth	-9.1%	-4.6%	1.2%	-2.5%	2.3%	1.6%	1.2%	0.9%	0.7%	0.6%	0.5%	0.4%
Sqft growth	13.5%	21.6%	24.3%	25.2%	21.9%	17.2%	14.9%	13.2%	11.9%	10.8%	9.9%	9.2%
Sales/sqft growth	31.3%	16.4%	12.7%	6.6%	10.6%	9.1%	15.1%	14.6%	14.2%	13.9%	13.6%	13.4%
Diff vs sales growth	2.2%	-1.3%	-2.7%	-0.2%	3.8%	7.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA margin	6.4%	7.3%	7.1%	7.7%	8.2%	8.6%	8.7%	8.9%	9.0%	9.1%	9.2%	9.4%
Fiscal year ended March	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	33,409	46,865	64,394	85,838	118,977	161,490	213,648	277,215	354,227	447,029	558,316	691,178
Stores	62	75	89	110	131	152	173	194	215	236	257	278
yoy	13%	21%	19%	24%	19%	16%	14%	12%	11%	10%	9%	8%
New stores opened	10	7	13	14	21	21	21	21	21	21	21	21
Avg stores	59	69	82	100	121	142	163	184	205	226	247	268
yoy	6%	17%	20%	21%	21%	17%	15%	13%	11%	10%	9%	9%
Store counts												
New stores	7	13	14	21	21	21	21	21	21	21	21	21
1- year old stores	10	7	13	14	21	21	21	21	21	21	21	21
Old stores	45	55	62	75	89	110	131	152	173	194	215	236
Sales/old store	605	725	856	949	1,108	1,268	1,449	1,655	1,887	2,150	2,447	2,782
Sales/1-year old store	457	517	565	597	646	699	755	815	880	949	1,023	1,102
Sales/new store	228	258	282	299	323	349	377	408	440	475	511	551
New store efficiency	40%	38%	36%	35%	33%	31%	29%	27%	25%	24%	23%	21%
1 year old efficiency	80%	76%	72%	69%	65%	61%	57%	54%	51%	48%	45%	43%
New store sales	1,599	3,360	3,953	6,269	6,782	7,334	7,927	8,561	9,240	9,966	10,741	11,569
1-year old store sales	4,569	3,618	7,340	8,359	13,563	14,669	15,853	17,122	18,480	19,931	21,482	23,138
Old store sales	27,241	39,887	53,101	71,210	98,632	139,487	189,868	251,532	326,508	417,132	526,093	656,470
Sqft (mn)	1.76	2.14	2.66	3.33	4.06	4.76	5.47	6.19	6.93	7.68	8.44	9.21
yoy	14%	22%	24%	25%	22%	17%	15%	13%	12%	11%	10%	9%
Sales/sqft (Rs)	20,116	23,419	26,388	28,136	31,120	33,941	39,068	44,769	51,130	58,234	66,174	75,047
yoy	31%	16%	13%	7%	11%	9%	15%	15%	14%	14%	14%	13%
Bills (mn)	43	53	67	85	109	135	164	195	230	268	309	354
yoy	35%	24%	26%	26%	28%	24%	21%	19%	18%	16%	15%	15%
Sales/bill (Rs)	776	878	959	1,014	1,097	1,186	1,282	1,384	1,494	1,611	1,737	1,871
yoy	12%	13%	9%	6%	8%	8%	8%	8%	8%	8%	8%	8%
Bills/avg. store (mn)	0.74	0.78	0.82	0.85	0.90	0.95	1.01	1.07	1.13	1.19	1.26	1.32
yoy	27%	6%	5%	4%	6%	6%	6%	6%	6%	6%	6%	6%
Sales/store (Rs,mn)	571	684	785	863	987	1,141	1,315	1,511	1,732	1,982	2,265	2,584
yoy	42%	20%	15%	10%	14%	16%	15%	15%	15%	14%	14%	14%
Sqft/store (including pick-up poi	28,387	28,533	29,888	30,273	30,992	31,302	31,611	31,918	32,223	32,527	32,829	33,129
yoy	1%	1%	5%	1%	2%	1%	1%	1%	1%	1%	1%	1%
SSSG	31.6%	26.1%	22.4%	21.5%	21.2%							
Calculated SSSG	22.7%	19.8%	18.1%	10.9%	16.7%	14.4%	14.3%	14.2%	14.1%	13.9%	13.8%	13.7%
1-year old store SSSG	42.2%	13.1%	9.2%	5.7%	8.2%	8.2%	8.1%	8.0%	7.9%	7.9%	7.8%	7.7%
New store SSSG	42.2%	13.1%	9.2%	5.7%	8.2%	8.2%	8.1%	8.0%	7.9%	7.9%	7.8%	7.7%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 77: We expect AVEU to grow sales/EBITDA by 28%/31% CAGR in FY17-FY24E

AVEU P&L statement overview

Avenue Supermart Consolidated (Rs millions) Y/E 3/31													
Income Statement	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net Sales	22,086	33,409	46,865	64,394	85,838	118,977	161,490	213,648	277,215	354,227	447,029	558,316	691,178
% yoy		51%	40%	37%	33%	39%	36%	32%	30%	28%	26%	25%	24%
Revenues from operations	22,086	33,409	46,865	64,394	85,838	118,977	161,490	213,648	277,215	354,227	447,029	558,316	691,178
yoy		51.3%	40.3%	37.4%	33.3%	38.6%	35.7%	32.3%	29.8%	27.8%	26.2%	24.9%	23.8%
Purchase of stock in trade	19,568	29,379	40,865	56,485	74,356	103,573	140,565	185,944	241,240	308,222	388,927	485,694	601,204
% of sales	88.6%	87.9%	87.2%	87.7%	86.6%	87.1%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%
Change in inventory of stock in trade	(728)	(805)	(1,021)	(1,613)	(1,321)	(2,762)	(4,037)	(5,341)	(6,930)	(8,856)	(11,176)	(13,958)	(17,279)
% of sales	-3.3%	-2.4%	-2.2%	-2.5%	-1.8%	-2.7%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Cost of materials	18,840	28,574	39,844	54,872	73,035	100,810	136,528	180,602	234,310	299,367	377,751	471,736	583,925
Gross profit	3,246	4,834	7,021	9,522	12,802	18,167	24,962	33,046	42,906	54,861	69,278	86,580	107,253
margin	14.7%	14.5%	15.0%	14.8%	14.9%	15.3%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
yoy		48.9%	45.2%	35.6%	34.4%	41.9%	37.4%	32.4%	29.8%	27.9%	26.3%	25.0%	23.9%
Employee costs	453	687	873	1,341	1,490	1,925	2,536	3,264	4,126	5,140	6,328	7,714	9,323
As a % of Sales	2.1%	2.1%	1.9%	2.1%	1.7%	1.6%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%	1.3%
Other expenses	1,413	1,997	2,729	3,592	4,676	6,429	8,582	11,140	14,199	17,839	22,149	27,230	33,196
As a % of Sales	6.4%	6.0%	5.8%	5.6%	5.4%	5.4%	5.3%	5.2%	5.1%	5.0%	5.0%	4.9%	4.8%
EBITDA	1,380	2,150	3,418	4,590	6,636	9,812	13,844	18,642	24,581	31,882	40,801	51,637	64,734
margin	6.2%	6.4%	7.3%	7.1%	7.7%	8.2%	8.6%	8.7%	8.9%	9.0%	9.1%	9.2%	9.4%
yoy		55.8%	59.0%	34.3%	44.6%	47.9%	41.1%	34.7%	31.9%	29.7%	28.0%	26.6%	25.4%
Depreciation & amortisation	375	458	570	815	984	1,278	1,596	1,936	2,300	2,689	3,104	3,547	4,019
As a % of Sales	1.7%	1.4%	1.2%	1.3%	1.1%	1.1%	1.0%	0.9%	0.8%	0.8%	0.7%	0.6%	0.6%
EBIT	1,006	1,692	2,848	3,775	5,652	8,534	12,248	16,706	22,281	29,193	37,697	48,090	60,714
margin	4.6%	5.1%	6.1%	5.9%	6.6%	7.2%	7.6%	7.8%	8.0%	8.2%	8.4%	8.6%	8.8%
yoy		68.3%	68.3%	32.6%	49.7%	51.0%	43.5%	36.4%	33.4%	31.0%	29.1%	27.6%	26.3%
Other income	138	143	158	183	179	286	371	479	613	779	981	1,226	1,521
% yoy		3%	11%	15%	-2%	59%	30.0%	29.0%	28.0%	27.0%	26.0%	25.0%	24.0%
Finance charges	260	426	557	724	913	1,220	1,381	1,381	1,381	1,381	1,381	1,381	1,381
Exceptional loss/(profit)	0	0	0	0	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit before tax	884	1,409	2,449	3,233	4,918	7,600	11,238	15,804	21,513	28,590	37,297	47,935	60,854
Less: Current tax, FBT	282	472	835	1,109	1,715	2,683	3,967	5,579	7,594	10,093	13,166	16,921	21,482
Tax Rate	31.9%	33.5%	34.1%	34.3%	34.9%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Exceptionals post tax	3	2	(1)	(7)	(1)	(129)							
Minority and associates													
PAT	604	939	1,614	2,117	3,202	4,788	7,271	10,225	13,919	18,498	24,131	31,014	39,372
Margin	2.7%	2.8%	3.4%	3.3%	3.7%	4.0%	4.5%	4.8%	5.0%	5.2%	5.4%	5.6%	5.7%
Growth		55.4%	71.9%	31.2%	51.3%	49.5%	51.9%	40.6%	36.1%	32.9%	30.5%	28.5%	27.0%
Weighted avg diluted shares					562	565	624	624	624	624	624	624	624
Period end outstanding shares						624	624	624	624	624	624	624	624
EPS (diluted)					5.7	8.5	11.7	16.4	22.3	29.6	38.7	49.7	63.1
Growth							37%	41%	36%	33%	30%	29%	27%
EPS (period end)							11.7	16.4	22.3	29.6	38.7	49.7	63.1
Dividend/share		0	0	0	0	0	2	3	4	7	10	14	20
Dividend distribution tax							0	1	1	1	2	3	4
Payout ratio							20%	20%	20%	23%	26%	29%	32%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 78: We expect AVEU will have a significant cash balance of Rs47bn by FY24E

AVEU balance sheet overview

Balance Sheet	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Assets													
Freehold Land	1,465	2,191	2,678	3,487	4,713	6,681	8,940	11,354	13,929	16,675	19,599	22,709	26,013
Leasehold Land	1,594	1,600	1,925	2,533	3,123	3,758	4,487	5,266	6,098	6,984	7,927	8,931	9,998
Building	4,559	5,399	7,120	9,413	11,473	13,548	15,928	18,471	21,185	24,078	27,159	30,436	33,918
Others	1,391	1,682	2,149	2,772	2,550	3,675	4,965	6,344	7,816	9,385	11,056	12,833	14,721
Gross tangible assets	9,009	10,872	13,871	18,205	21,859	27,662	34,320	41,435	49,028	57,122	65,742	74,910	84,650
Less: Accumulated depreciation	(1,236)	(1,656)	(2,190)	(2,964)	(967)	(2,223)	(3,789)	(5,687)	(7,944)	(10,584)	(13,636)	(17,128)	(21,092)
Net Tangible assets	7,773	9,216	11,681	15,241	20,892	25,439	30,532	35,748	41,084	46,539	52,106	57,782	63,558
Gross intangible assets	55	78	98	117	60	102	150	202	257	316	379	446	517
Less: Accumulated ammortization	(37)	(48)	(62)	(77)	(16)	(37)	(67)	(104)	(148)	(196)	(249)	(304)	(360)
Net Intangible assets	18	31	36	40	43	64	83	98	110	120	131	142	157
Capital WIP (Tangible)	849	1,181	888	981	817	1,529	1,529	1,529	1,529	1,529	1,529	1,529	1,529
Non Current Investments	138	159	152	146	275	489	489	489	489	489	489	489	489
Long term loans and advances	355	526	426	802	210	376	376	376	376	376	376	376	376
Other non current assets	0	0	0	2	881	542	542	542	542	542	542	542	542
Current Assets													
Cash	479	616	554	380	351	18,843	17,682	17,217	18,790	22,293	27,988	36,292	47,339
Trade Receivables	56	133	95	71	84	210	200	264	343	438	553	690	855
Inventory	1,957	2,762	3,783	5,396	6,717	9,479	11,229	14,854	19,271	24,622	31,069	38,799	48,026
ST loans and advances	180	295	455	481	10	11	11	11	11	11	11	11	11
Other current assets	103	1	6	8	736	1,243	1,554	1,865	2,238	2,686	3,223	3,706	4,262
Total current assets	2,776	3,807	4,893	6,337	7,897	29,786	30,676	34,211	40,653	50,049	62,843	79,498	100,492
Total assets	11,909	14,921	18,076	23,548	31,016	58,225	64,226	72,992	84,783	99,644	118,015	140,357	167,143
Liabilities													
Short term borrowings	633	624	547	2,056	3,080	5,536	5,536	5,536	5,536	5,536	5,536	5,536	5,536
Trade Payables	644	944	1,226	1,185	1,944	2,607	3,082	4,077	5,289	6,757	8,527	10,648	13,181
Other current liabilities	898	1,346	1,701	531	1,084	1,251	1,251	1,251	1,251	1,251	1,251	1,251	1,251
Short term provisions	28	62	88	178	54	82	82	82	82	82	82	82	82
Current liabilities	2,202	2,975	3,562	3,950	6,163	9,476	9,951	10,946	12,158	13,627	15,396	17,517	20,050
Long term borrowings	2,643	3,712	4,568	7,138	9,085	9,809	9,809	9,809	9,809	9,809	9,809	9,809	9,809
Deferred tax liabilities	130	201	265	305	399	505	505	505	505	505	505	505	505
Other long term liabilities	114	134	125	162	163	16	16	16	16	16	16	16	16
Total liabilities	5,089	7,022	8,521	11,555	15,810	19,806	20,281	21,276	22,488	23,957	25,726	27,847	30,380
Share Capital	5,335	5,441	5,468	5,615	5,615	6,241	6,241	6,241	6,241	6,241	6,241	6,241	6,241
Reserves and surplus	1,482	2,455	4,088	6,377	9,589	32,177	37,703	45,474	56,052	69,445	86,047	106,268	130,521
Minority Interest	3	3	0	1	1	1	1	1	1	1	1	1	1
Total capital and liabilities	11,909	14,921	18,076	23,548	31,016	58,225	64,226	72,992	84,783	99,644	118,015	140,357	167,143

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 79: AVEU's cash flow from operations to grow at 35% CAGR in FY17-24E

AVEU cash flow statement overview

Cash Flow statement	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net Profit before tax after restated adj	887	1,411	2,449	3,226	4,918	7,600	11,238	15,804	21,513	28,590	37,297	47,935	60,854
Depreciation & Ammortisation	375	458	570	815	984	1,278	1,596	1,936	2,300	2,689	3,104	3,547	4,019
Finance Costs	260	426	557	724	913	1,220	1,381	1,381	1,381	1,381	1,381	1,381	1,381
Others	(71)	(41)	(17)	(25)	(154)	(237)	0	0	0	0	0	0	0
CFO before WC changes	1,516	2,291	3,559	4,740	6,662	9,861	14,215	19,121	25,194	32,660	41,782	52,863	66,254
Increase/(Decrease) in payables	198	297	284	(39)	724	662	475	995	1,212	1,468	1,769	2,121	2,532
Increase/(Decrease) in other liabilities	(8)	64	59	162	242	152	0	0	0	0	0	0	0
(Increase)/ Decrease in debtors	(31)	(77)	37	25	(13)	(126)	10	(64)	(79)	(95)	(115)	(138)	(164)
(Increase)/ Decrease in inventory	(728)	(805)	(1,021)	(1,613)	(1,321)	(2,762)	(1,750)	(3,625)	(4,417)	(5,351)	(6,447)	(7,730)	(9,227)
(Increase)/ Decrease in other assets	(71)	(132)	(187)	(55)	(317)	(623)	(311)	(311)	(373)	(448)	(537)	(643)	(556)
WC changes	(577)	(653)	(827)	(1,520)	(685)	(2,697)	(1,575)	(3,005)	(3,657)	(4,425)	(5,329)	(6,229)	(7,415)
Taxes Paid	(285)	(367)	(750)	(1,000)	(1,642)	(2,586)	(3,967)	(5,579)	(7,594)	(10,093)	(13,166)	(16,921)	(21,482)
Cash Flow from operations	654	1,271	1,981	2,220	4,335	4,578	8,673	10,536	13,943	18,143	23,287	29,713	37,358
Investments sold/(purchased)	543	81	7	31	(151)	(23)	0	0	0	0	0	0	0
Divestments	0	5	11	5	20	96	0	0	0	0	0	0	0
Capex	(1,833)	(2,394)	(2,717)	(4,774)	(6,370)	(6,450)	(6,707)	(7,166)	(7,648)	(8,154)	(8,682)	(9,235)	(9,811)
Others	0	(0)	3	0	172	38	0	0	0	0	0	0	0
Cash flow from investment	(1,289)	(2,309)	(2,696)	(4,738)	(6,329)	(6,339)	(6,707)	(7,166)	(7,648)	(8,154)	(8,682)	(9,235)	(9,811)
Equity Issued	358	140	46	326	0	18,406	0	0	0	0	0	0	0
Dividend Paid	0	0	0	0	0	0	(1,745)	(2,454)	(3,341)	(5,105)	(7,529)	(10,793)	(15,119)
Debt raised/(paid)	820	1,454	1,148	2,634	2,898	3,050	0	0	0	0	0	0	0
Interest income	6	3	11	5	0	0	0	0	0	0	0	0	0
Finance Costs	(249)	(422)	(552)	(621)	(934)	(1,203)	(1,381)	(1,381)	(1,381)	(1,381)	(1,381)	(1,381)	(1,381)
Cash flow from finance	935	1,175	652	2,345	1,964	20,253	(3,126)	(3,835)	(4,722)	(6,486)	(8,910)	(12,174)	(16,500)
Net increase/(decrease) in cash	299	137	(62)	(174)	(29)	18,492	(1,160)	(465)	1,573	3,503	5,695	8,304	11,047
Cash at the beginning of the year	479	616	554	380	351	18,843	17,682	17,217	18,790	22,293	27,988	36,292	47,339
Cash at the end of the year	616	554	380	351	18,843	17,682	17,217	18,790	22,293	27,988	36,292	47,339	58,386

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 80: We expect AVEU's CROCI to 36% in FY24E from 24% in FY17

CROCI overview

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Cash flow from operating activities	654	1,271	1,981	2,220	4,335	4,578	8,673	10,536	13,943	18,143	23,287	29,713	37,358
(Increase)/decrease in working capital	(577)	(653)	(827)	(1,520)	(685)	(2,697)	(1,575)	(3,005)	(3,657)	(4,425)	(5,329)	(6,229)	(7,415)
Net interest income/(expense)	(122)	(283)	(398)	(541)	(734)	(934)	(1,010)	(902)	(768)	(603)	(400)	(155)	139
Rent	51	74	88	132	204	354	448	551	665	792	931	1,085	1,254
Marginal tax rate	32%	34%	34%	34%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Debt adjusted cash flow	1,348	2,161	3,129	4,183	5,631	8,109	11,191	14,482	18,527	23,470	29,478	36,744	45,494
yoy		60%	45%	34%	35%	44%	38%	29%	28%	27%	26%	25%	24%
Accounts receivable	56	133	95	71	84	210	200	264	343	438	553	690	855
Inventory	1,957	2,762	3,783	5,396	6,717	9,479	11,229	14,854	19,271	24,622	31,069	38,799	48,026
Other current assets	283	296	461	490	745	1,254	1,565	1,876	2,249	2,696	3,234	3,717	4,273
Gross fixed assets, PP&E	9,858	12,053	14,759	19,186	22,676	29,191	35,849	42,964	50,557	58,651	67,271	76,439	86,179
Gross intangibles	55	78	98	117	60	102	150	202	257	316	379	446	517
Equity method investments													
Investments in securities	138	159	152	146	275	489	489	489	489	489	489	489	489
Accounts payable	644	944	1,226	1,185	1,944	2,607	3,082	4,077	5,289	6,757	8,527	10,648	13,181
Other current liabilities	925	1,408	1,789	709	1,139	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333
Capitalized Leases	407	592	701	1,055	1,631	2,834	3,586	4,407	5,320	6,333	7,451	8,682	10,034
Other GCI adjustments													
GCI	11,186	13,723	17,034	24,565	29,104	39,619	48,653	59,646	71,864	85,455	100,585	117,280	135,858
yoy		23%	24%	44%	18%	36%	23%	23%	20%	19%	16%	17%	16%
CROCI	12.1%	17.4%	20.3%	20.1%	21.0%	23.6%	25.4%	26.7%	28.2%	29.8%	31.7%	33.7%	35.9%
Cash margin	6.1%	6.5%	6.7%	6.5%	6.6%	6.8%	6.9%	6.8%	6.7%	6.6%	6.6%	6.6%	6.6%
Asset turns (x) - RH axis	2.0x	2.7x	3.0x	3.1x	3.2x	3.5x	3.7x	3.9x	4.2x	4.5x	4.8x	5.1x	5.5x

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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