Management Discussion and Analysis

ECONOMIC OVERVIEW

India's GDP posted 7.1% compound annual growth rate (CAGR) between Fiscal 2012 and Fiscal 2018. In Fiscal 2019, though, GDP growth slowed to 6.8% on account of slower increase in government consumption and broad-based slower growth across some sectors.

The Indian economy started FY 2019-20 on a cautious sentiment, with the overhang of general elections and the muted credit growth scenario. In the first two quarters, the overall demand remained weak, with consumption and investment remaining conservative. However, from the October-December quarter onwards, the situation started improving as the government, along with the central bank, undertook both fiscal and monetary policy measures to revive the economy.

The fourth quarter was expected to be strong, with robust demand and improved credit growth. The sentiment changed towards the last fortnight of March 2020, with the rapidly evolving COVID-19 pandemic. The global socioeconomic situation significantly changed with most countries going into a lockdown including India.

The COVID-19 pandemic and the country-wide lockdown has impacted trade and supply chain, along with manufacturing. Consumption is impacted due to extreme macroeconomic shifts, including a possible rise in unemployment and a steep decline in GDP. Service businesses are rapidly changing business models and enabling technology-based solutions to serve customers. The central government, state governments and all the local authorities have taken several steps to support the economy and ensure the safety of the citizens. Further, the learnings from treating COVID-19 have already reduced mortality significantly over the last few months and there is tremendous and unprecedented speed in finding a vaccine.

Outlook

With the outbreak of COVID-19, the overall growth projections for India has consequently changed. In FY 2020, the country has grown at a rate of 4.2% (Source: International Monetary Fund). The situation is still evolving and uncertainties continue for all businesses and economy.

The short-term outlook remains unpredictable as the spread of the pandemic is still being evaluated in the country, and next steps are being charted out as the situation progresses. However, the strong enablers that characterise the Indian economy – a young working population, a stable government, rising competitiveness and improving index of ease of doing business – are expected to reconform the country's long-term growth trajectory.

INDUSTRY OVERVIEW

Over the years, retailing in India has been one of the most dynamic and fast-paced industries, which has travelled through different phases. In 2019, India's GDP is estimated at ₹141 trillion, of which private consumption constituted 57%. Retail sectors forms around ~80% of private consumption at constant prices. India's GDP growth will therefore translate to an increase in the merchandise retail market, from ₹34 trillion in Fiscal 2014 to ₹66 trillion in Fiscal 2020. (Source: Crisil Research)

Sector growth is primarily driven by rapid urbanisation, changing demographic profile, increasing middle-class disposable incomes, increased digitalisation and technology adoption, evolving preferences, brand awareness and rising discretionary spending. The rising e-commerce wave also significantly contributed to the overall growth of the sector.

Organised Brick & Mortar retail accounted for ~7.5% of total retail market in Fiscal 2019. Overall, organised retail grew ~21% on-year in Fiscal 2019, with B&M retailers registering growth of ~18% on-year.

The current pandemic could significantly alter new store roll out strategy for the industry. Several retail businesses are witnessing extended store closures, lower footfalls and lean demand. Consumers are also focused more on consumption of essentials. Industry growth for the next few years will therefore depend on the severity of the pandemic in the country.

E-Commerce has always been a focus area in the industry. The COVID-19 situation has further amplified the growing importance of this channel. Online grocery is still a relatively under-penetrated segment within E-retail, but has gained significant attention in the last few months as consumers have rapidly adopted online ordering of household grocery and other items. Apart from this, e-retailers continue to focus on existing business segments, such as electronics, apparel and fashion.

Overall, the retail sector faces key threats in the form of economic headwinds such as GDP slowdown due to COVID-19, decreased rural spending and rising commodity prices as well as e-tailing, which have affected the growth of the brick and mortar businesses. Unexpected yet unavoidable situations such as the recent pandemic have also impacted the performance of the retail industry, as people remain indoors and mostly consume essential goods and services. Organisations serving in the industry, thus will need to remain agile and adaptable, to identify these threats and work towards their effective mitigation.

BUSINESS OVERVIEW

Avenue Supermarts Limited (DMart) is a national supermarket chain, with a focus on value-retailing. We offer a wide range of products with a focus on the Foods, Non-Foods (FMCG) and General Merchandise & Apparel product categories.

We launched our first store in 2002 in Mumbai, Maharashtra, and since then have grown to 214 stores with a retail business area of 7.8 million sq. ft. spread across Maharashtra (76 stores), Gujarat (37), Telangana (24), Karnataka (20), Andhra Pradesh (17), Madhya Pradesh (11), Tamil Nadu (10), Rajasthan (7), Chhattisgarh (5), Punjab (5), Daman (1), and NCR (1).

We remain focussed on our strategy of offering our customers good quality products at great value, based on the Everyday Low Cost/Everyday Low Price (EDLC/EDLP) principle.

Our store offerings provide our customers with a distinctive shopping experience, comprising of a wide range of everyday value retail products sold in a modern ambience and with the feel of a large retail mall. We believe our endeavor to facilitate one-stop shop convenience for our customers' everyday shopping needs, along with our competitive pricing due to our local market knowledge, careful product assortment and supply chain efficiencies, has helped us achieve steady growth.

Key performance indicators

Over the years we have seen steady growth in the number of stores and consequently our retail business area.

Financial Year	No. of Stores	Retail business area (in Mn sq. ft.)
FY 2019-20	214	7.8
FY 2018-19	176	5.9
FY 2017-18	155	4.9
FY 2016-17	131	4.1
FY 2015-16	110	3.3

Our operations are ably supported by a network of distribution centres and packing centres. As of March 31, 2020 we had 36 distribution centres and 7 packing centres.

Our total number of bill cuts have increased steadily. Our total number of bill cuts was 20.1 crores in FY2019-20 compared to 17.2 crores during FY2018-19.

Our annualised revenue from sales per retail business area sq. ft. (#) was ₹32,879 in FY2019-20 and ₹35,647 in FY2018-19.

Annualized revenue from sales calculated based on 365 days in a year (on standalone basis) divided by retail business area at the end of the financial year.

Financial performance

(₹ in crore)

Particulars	Standalone			Consolidated		
	FY 2020	FY 2019	Increase/ Decrease	FY 2020	FY 2019	Increase/ Decrease
Net Sales/Income from Operations	24,675.01	19,916.25	23.89%	24,870.20	20,004.52	24.32%
Other Income	63.33	51.41	23.19%	59.99	48.35	24.07%
Finance Cost	62.76	47.15	33.11%	69.12	47.21	46.41%
Profit Before tax	1,782.89	1,447.64	23.16%	1,744.77	1,421.94	22.70%
Profit After Tax	1,349.89	936.35	44.17%	1,300.98	902.46	44.16%
EPS - Basic (in ₹)	21.49	15.00	43.27%	20.71	14.46	43.22%
EPS - Diluted (in ₹)	21.33	14.79	44.22%	20.55	14.26	44.11%

Key financial ratios

Particulars	FY 2020	FY 2019
Operating Profit Margin (%)	7.46%	7.49%
Net Profit Margin (%)	5.46%	4.69%
Interest Coverage Ratio	23.15	31.70
Debtors Turnover	243.47	212.25
Inventory Turnover (Based on sales)	14.16	14.63
Current Ratio	3.18	1.67
Debt Equity Ratio	0.03	0.12
Return on Net Worth	0.16	0.18

Notes

1. Interest Coverage Ratio changes due to higher earning with increase in finance cost
2. Current Ratio has improved due to repayment of current maturity of long term borrowings.
3. Improvement in Debt Equity Ratio is due to increase in equity and repayment of debt.
4. Change in Return on Net Worth is due to increase in equity.

Human capital

Our employees are critical to our business. We internally assess our employees to periodically identify competency gaps and use development inputs (such as skill upgradation training) to address these gaps. We have implemented staff training policies and assessment procedures and intend to continue placing emphasis on attracting and retaining motivated employees.

We plan to continue investing in training programmes and other resources that enhance our employees' skills and productivity. We will continue to help our employees develop understanding of our customer-oriented corporate culture and service quality standards to enable them to continue to meet our customers' changing needs and preferences.

The Company had a total of 9,456 permanent employees and 38,952 employees hired on contractual basis, as on March 31, 2020.

Information Technology (IT)

Our deep understanding of local needs and our ability to adapt quickly to changing consumer preferences has helped our performance driven growth. Our robust IT systems have significantly aided this growth by simplifying complex processes throughout our operations.

Our IT systems are equipped with an array of data management tools specific to our business needs and support key aspects of our business. IT has enabled our cash management systems, in-store systems, logistics systems, human resources, project management, maintenance and other administrative functions. This implementation has contributed positively towards minimising product shortage, pilferage, out of stock situations etc. and has increased overall operational efficiency.

Internal control systems and their adequacy

We have put in place internal control systems and a structured internal audit process vested with the task of safeguarding the assets of the organisation and ensuring reliability and accuracy of the accounting and other operational data. The internal audit department reports to the Audit Committee of the Board of Directors.

Similarly, we maintain a system of monthly review of the business as a key operational control, wherein the performance of units is reviewed and corrective action is initiated. We also have in place a capital expenditure control system for authorising spend on new assets and projects. Accountability is established for implementing the projects on time and within the approved budget.

The Audit Committee and the Senior Management Team are regularly apprised of the internal audit findings and regular updates are provided of the action taken on the internal audit reports. The Audit Committee reviews the quarterly, half yearly and the annual financial statements of the Company. A detailed note on the functioning of the Audit Committee and of the other committees of the Board forms part of the section on corporate governance in the Annual Report.

During the year, we carried out a detailed review of internal financial controls. The findings were satisfactory and suggestions for improvement have been taken up for implementation. Policy guidelines and Standard Operating Procedures (SOPs) continue to be updated where required, to keep pace with business requirements.

Risks and concerns

The Board of Directors review the Company's business risks and formulate strategies to mitigate those risks. The Senior Management team, led by the Managing Director, is responsible for proactively managing risks with appropriate mitigation measures and ensuring their implementation thereof.

Below are some of the other key risks and concerns in our business:

- If we are unable to continue to offer daily low prices pursuant to our EDLC/EDLP pricing strategy, we risk losing our distinct advantage and a substantial portion of our customers, which will adversely affect our business, financial condition and results of operations

- Availability of commercially viable real estate properties at suitable locations for our new stores, timely execution of sale deeds/leave and license registrations and getting regulatory approvals for these properties

- Our ability to attract, hire, train and retain skilled employees
- Our inability to maintain an optimal level of inventory in our stores may impact our operations adversely
- Our continued understanding and prediction of consumers' changing needs and preferences and timely customising of our offerings
- Effective management of our store expansion and operations in newer locations/cities/states
- The outbreak of COVID-19 could materially and adversely affect our business, financial condition and results of operations

Impact of COVID-19

During the last quarter of FY 2020, COVID-19 spread globally and in India. This had an impact on the business operations of the Company. We started our preparation to respond to this crisis from early March. The company implemented various precautionary measures at each workplace to ensure personal safety and business continuity, such as temperature monitoring, frequent use of hand sanitisers, use of face masks, frequent sanitation of frequently touched surfaces etc. Our Corporate Office switched to working with much lower attendance. We also enabled more than 250 key employees across the Company to a Work from Home set-up. This ensured continuity and constant ability to support the business.

We have not announced any lay-offs or salary cuts for our employees. We provided Emergency Leaves to employees to take care of any health issues that they may face. We also extended a temporary Hardship Allowance to our frontline staff to help them tide over this crisis.

The business also rapidly adopted the new guidelines announced by the Central Government and the local authorities that enabled shopping with adequate social distancing and other safety measures. We commenced multiple delivery channels to customers such as Home Delivery (using DMart Ready Online App), bulk deliveries to housing societies, DMart on Wheels for large housing complexes etc. These were temporary measures which were discontinued once our stores were allowed to open for customer shopping (Our subsidiary Avenue E-Commerce Limited continues to provide home delivery / pick up services using our DMart Ready App in selected pin codes of Mumbai City). Some of our stores also operated on a 24/7 basis, thus staggering the crowd, maintaining social distance and allowing customers to shop at their convenience.

Our business operations faced several challenges including:

a) Temporary store closure for operations due to local restrictions

b) Significantly reduced footfall at operational stores

c) Sale of only essential items and temporary stoppage of sale of non-essential items (garments and general merchandise)

d) Reduced employee attendance due to local transport restrictions

e) Temporary stoppage of all our construction activities

f) Disruption in our Supply Chain due to restricted manpower, transportation and material unavailability

CAUTIONARY STATEMENT

Statements in this Annual Report, particularly those which relate to the Management Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations, may constitute 'forward-looking statements' within the meaning of applicable laws and regulations. Actual results may materially differ from those expressed or implied.