IFRS 16 Compliance Mini-Analysis:

Avenue Supermarts

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1. Extracted Raw Data

The following key financial data has been extracted from Avenue Supermarts' annual report related to IFRS 16 lease accounting:

Item	Amount (₹ Crores)
Lease Liabilities	692.7
Right-of-Use (ROU) Assets	1,599.4
Depreciation on ROU Assets	186.0
Interest Expense on Lease Liabilities	56.0

2. Before and After IFRS 16 Adjustment Analysis

The following table compares key financial ratios before and after the implementation of IFRS 16:

Financial Ratio	Before IFRS 16	After IFRS 16	Impact
Debt-to-Equity Ratio	Lower (leases off-balance sheet)	Higher (lease liabilities of ₹692.7 cr added)	Increased leverage visibility
EBITDA	Lower (included rent expense)	Higher (rent replaced by depreciation + interest)	Improved by ~₹242 cr (₹186 cr + ₹56 cr)
Net Profit Margin	Baseline	Relatively unchanged (total expense similar)	Minimal impact on bottom line
Return on Assets (ROA)	Higher (lower asset base)	Lower (ROU assets of ₹1,599.4 cr added)	Diluted by increased asset base

3. Detailed Ratio Calculations

Debt-to-Equity Ratio

- **Before IFRS 16:** Operating leases were not capitalized, resulting in lower reported debt
- **After IFRS 16:** Lease liabilities of ₹692.7 cr are now recognized on the balance sheet
- **Impact:** The ratio increases, providing a more transparent view of the company's financial obligations

EBITDA (Earnings Before Interest, Tax, Depreciation & Amortization)

- **Before IFRS 16:** Lease payments were treated as operating expenses (rent), reducing EBITDA

- **After IFRS 16:** Rent expense is replaced by:
  - Depreciation on ROU assets: ₹186.0 cr
  - Interest on lease liabilities: ₹56.0 cr
- **Impact:** EBITDA increases by approximately ₹242 cr as depreciation and interest are excluded from EBITDA calculation
- **Percentage Impact:** Significant improvement in EBITDA metric, enhancing operational performance appearance

Net Profit Margin

- **Before IFRS 16:** Rent expense recognized in operating costs
- **After IFRS 16:** Depreciation (₹186 cr) + Interest (₹56 cr) = ₹242 cr total expense
- **Impact:** Minimal change to net profit as total expense remains similar, though timing of expense recognition may differ

Return on Assets (ROA)

- **Before IFRS 16:** ROU assets not recognized, resulting in lower total assets
- **After IFRS 16:** ROU assets of ₹1,599.4 cr added to balance sheet
- **Impact:** ROA decreases as the denominator (total assets) increases significantly while net income remains relatively stable
- **Calculation Impact:** ROA = Net Income / Total Assets. With assets increasing by ₹1,599.4 cr, the ratio is diluted

4. Summary Report: IFRS 16 Impact on Avenue Supermarts

Understanding IFRS 16

IFRS 16 (International Financial Reporting Standard 16) is an accounting standard that fundamentally changed how companies report leases. Effective from January 1, 2019, it requires lessees to recognize:

- **Right-of-Use (ROU) Assets:** Representing the right to use leased assets over the lease term
- **Lease Liabilities:** Representing the obligation to make lease payments

Previously, under IAS 17, operating leases were kept off-balance sheet, with only rental expenses appearing in the profit and loss statement. IFRS 16 brings transparency by capitalizing most leases on the balance sheet.

Impact on Avenue Supermarts' Financial Statements

Avenue Supermarts (D-Mart), as a retail chain with extensive store operations, is significantly impacted by IFRS 16 due to its large portfolio of leased retail spaces. The key changes include:

Balance Sheet Impact:

- **Assets increased by ₹1,599.4 cr** due to recognition of ROU assets
- **Liabilities increased by ₹692.7 cr** due to recognition of lease obligations
- The balance sheet now reflects the economic reality of lease commitments that were previously disclosed only in footnotes

Profit & Loss Statement Impact:

- **Operating expenses decreased** as rent expense (previously ~₹242 cr) is eliminated
- **Depreciation expense increased by ₹186 cr** from amortization of ROU assets
- **Interest expense increased by ₹56 cr** from unwinding of lease liability discount
- **EBITDA improved significantly** as lease costs are now split between depreciation (below EBITDA) and interest (below EBIT)

Why These Changes Matter for Investors and Analysts

1. Enhanced Comparability:

- IFRS 16 enables better comparison between companies that lease assets versus those that purchase them
- Previously, companies with high operating leases appeared to have stronger balance sheets than those financing asset purchases

2. True Leverage Assessment:

- The Debt-to-Equity ratio now reflects actual financial obligations, including lease commitments
- Investors can better assess Avenue Supermarts' true leverage and financial risk
- Credit rating agencies and lenders have more transparent information for credit decisions

3. EBITDA Inflation Awareness:

- EBITDA increases by approximately ₹242 cr under IFRS 16, but this is an accounting change, not operational improvement

- Analysts must adjust their valuation models and avoid comparing pre-IFRS 16 and post-IFRS 16 EBITDA directly
- EV/EBITDA multiples need recalibration as EBITDA is now higher for lease-intensive businesses

4. Asset Efficiency Metrics:

- ROA decreases due to the ₹1,599.4 cr increase in assets, even though operational performance is unchanged
- Investors should focus on adjusted metrics or understand that ROA is now calculated on a more comprehensive asset base
- Asset turnover ratios are similarly affected and require contextual interpretation

5. Cash Flow Clarity:

- Operating cash flow improves as lease payments are now split between operating (interest) and financing (principal) activities
- This provides clearer insight into the company's cash generation capability
- However, total cash outflow remains the same—only classification changes

6. Sector-Specific Impact:

- Retail companies like Avenue Supermarts are among the most affected by IFRS 16 due to extensive store lease portfolios
- The standard reveals the capital-intensive nature of retail operations that was previously obscured
- Investors can now better assess the sustainability of the business model and capital requirements