

Financial Performance Report: DuPont Analysis of Avenue Supermarts

Introduction to DuPont Analysis

DuPont analysis is a comprehensive financial performance framework that breaks down Return on Equity (ROE) into three key components: net profit margin, asset turnover, and financial leverage (equity multiplier). By decomposing ROE, it allows investors and analysts to understand the underlying drivers of a company's profitability and efficiency in using assets and equity.

Mathematically, the DuPont formula expresses ROE as:

$$\text{ROE} = \text{Net Profit Margin} \times \text{Asset Turnover} \times \text{Equity Multiplier}$$

- **Net Profit Margin** reflects the company's ability to generate profit from revenues.
- **Asset Turnover** measures how efficiently the company uses its assets to generate revenue.
- **Equity Multiplier** indicates the degree of financial leverage, showing how much of assets are financed by equity.

This detailed breakdown aids in pinpointing whether changes in ROE are due to operational efficiency, asset management, or leverage.

Return on Equity (ROE) Trend and Components

Return on Equity (ROE)							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	478.8	806.3	902.5	1,301.1	1,099.5	1,492.6	2,378.5
Average Shareholder Equity	2,681.1	4,255.4	5,128.3	8,333.6	11,631.7	12,930.7	14,878.2
Return on Equity	17.86%	18.95%	17.60%	15.61%	9.45%	11.54%	15.99%

ROE - Dupont Equation							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	478.8	806.3	902.5	1,301.1	1,099.5	1,492.6	2,378.5
Revenue	11,897.7	15,033.2	20,004.5	24,870.2	24,143.1	30,976.3	42,839.6
Net Profit Margin (A)	4.02%	5.36%	4.51%	5.23%	4.55%	4.82%	5.55%
Revenue	11,897.7	15,033.2	20,004.5	24,870.2	24,143.1	30,976.3	42,839.6
Average Total Asset	4,460.4	5,733.8	6,326.9	9,540.8	12,865.6	14,563.0	16,788.6
Asset Turnover Ratio (B)	2.7x	2.6x	3.2x	2.6x	1.9x	2.1x	2.6x
Average Total Asset	4,460.4	5,733.8	6,326.9	9,540.8	12,865.6	14,563.0	16,788.6
Average Shareholder Equity	2,681.1	4,255.4	5,128.3	8,333.6	11,631.7	12,930.7	14,878.2
Equity Multiplier (C)	1.66x	1.35x	1.23x	1.14x	1.11x	1.13x	1.13x
Return on Equity (A*B*C)	17.86%	18.95%	17.60%	15.61%	9.45%	11.54%	15.99%

From the first table, Avenue Supermarts' ROE fluctuated between 9.45% and 18.95% over FY2017–FY2023. Notably, ROE peaked at 18.95% in FY2018 and saw a dip in FY2021 to 9.45%, before recovering to 15.99% in FY2023.

Decomposing ROE using the DuPont method reveals the dynamics behind this trend:

- **Net Profit Margin** steadily improved from 4.02% in FY2017 to 5.55% in FY2023, indicating enhanced profitability on each unit of revenue. The dip in FY2021 to 4.55% corresponds with broader economic challenges but was quickly reversed by FY2023.
- **Asset Turnover Ratio** shows how effectively the company utilized its assets. It ranged from a high of 3.2x in FY2019 to a low of 1.9x in FY2021, reflecting fluctuations in operational efficiency possibly due to expansion and asset base changes. By FY2023, it improved back to 2.6x, signaling better asset utilization.
- **Equity Multiplier** remained relatively stable but trended slightly downward from 1.66x in FY2017 to 1.13x in FY2023, suggesting that Avenue Supermarts has been reducing its financial leverage over time, relying more on equity financing relative to debt.

The interplay of these components explains the movements in ROE: the decline in asset turnover and net margin in FY2021 contributed to the ROE dip, while improved margins and asset utilization in FY2023 drove the recovery.

Return on Assets (ROA) and Operational Efficiency

Return on Asset							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	478.8	806.3	902.5	1,301.1	1,099.5	1,492.6	2,378.5
Average Total Asset	4,460.4	5,733.8	6,326.9	9,540.8	12,865.6	14,563.0	16,788.6
Return on Asset	10.73%	14.06%	14.27%	13.64%	8.55%	10.25%	14.17%

ROA - Dupont Equation							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	478.8	806.3	902.5	1,301.1	1,099.5	1,492.6	2,378.5
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Asset Turnover Ratio (B)	2.7x	2.6x	3.2x	2.6x	1.9x	2.1x	2.6x
Return on Asset (A*B)	10.73%	14.06%	14.27%	13.64%	8.55%	10.25%	14.17%

Return on Assets (ROA), which equals net profit margin multiplied by asset turnover, captures the firm's overall operational efficiency without the impact of leverage.

As shown in the *ROA - Dupont Equation* table, ROA increased from 10.73% in FY2017 to a peak of 14.27% in FY2019, declined to 8.55% in FY2021, and rebounded to 14.17% in FY2023.

This trend confirms the impact of profitability and asset use efficiency on overall company returns, aligning with the fluctuations observed in the ROE.

Interpretation and Strategic Insights

- The gradual increase in net profit margin signals improved cost control, pricing power, or a shift towards higher-margin product segments.
- Fluctuations in asset turnover reflect the company's investment cycle and operational adjustments. The dip around FY2021 may correspond to pandemic-related disruptions or large asset additions not yet fully optimized.
- The reduction in equity multiplier suggests a conservative approach to leverage, potentially lowering financial risk but also limiting ROE enhancement through debt.

Together, these trends indicate that Avenue Supermarts has been improving profitability and operational efficiency while maintaining prudent leverage levels.

Conclusion

The DuPont analysis for Avenue Supermarts over FY2017–FY2023 reveals a company that has steadily improved profitability and asset efficiency, as evidenced by rising net profit margins and recovering asset turnover ratios. The stable and moderate use of financial leverage has provided a balanced capital structure.

The temporary dips in ROE and ROA in FY2021 reflect external challenges but were followed by strong recovery, demonstrating operational resilience.

Overall, the DuPont framework highlights that Avenue Supermarts' improved ROE in recent years is primarily driven by enhanced profitability and asset utilization, rather than increased financial leverage. Investors should continue monitoring these components to assess the sustainability of returns.