DCF Valuation
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Financial Valuation Report: Avenue Supermart Ltd.

Executive Summary

This report presents a detailed discounted cash flow (DCF) valuation analysis of Avenue Supermart Ltd., incorporating forecasted financials for FY2023 to FY2027, terminal value estimation, and sensitivity analysis around discount rates and terminal growth assumptions. The DCF model estimates an intrinsic equity value per share of INR 375.16 compared to the current market price of INR 420, indicating the stock is trading at approximately a 12% premium to intrinsic value.

Introduction to Discounted Cash Flow (DCF) Valuation

Discounted cash flow (DCF) valuation is a fundamental financial model used to estimate the intrinsic value of a company based on the present value of its expected future free cash flows to the firm (FCFF). This method accounts for the time value of money by discounting future cash flows at the company's weighted average cost of capital (WACC). The DCF approach involves projecting cash flows over a forecast period, estimating a terminal value to capture all subsequent cash flows, and then summing these discounted values to arrive at the total enterprise value.

As shown in the attached table, the analysis projects Avenue Supermarts' EBIT, reinvestment rates, and FCFF from FY2023 through FY2027. Additionally, the sensitivity analysis table evaluates how changes in key assumptions such as WACC and terminal growth rates affect the valuation outcome.

Forecasted Free Cash Flow to Firm (FCFF) Analysis

Calculation of PV of FCFF	Mar-22A	Mar-23F	Feb-24F	Feb-25F	Mar-26F	Mar-27F
EBIT	3127.67	3313.14	3509.61	3717.73	3938.19	4171.73
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
EBIT (1-T)	2345.7525	2484.86	2632.21	2788.30	2953.64	3128.79
Less: Reinvestment Rate	47.00%	48.17%	49.05%	49.71%	50.20%	51.68%
Free Cash Flow to Firm (FCFF)	1243.25	1287.90	1341.18	1402.36	1470.94	1511.83
Mid Year Convention		0.5	1.5	2.5	3.5	4.5
Discounting Factor		0.946	0.846	0.756	0.676	0.605
PV of FCFF		**1217.96**	**1134.31**	**1060.73**	**995.03**	**914.63**

Expected Growth	5.93%
Terminal Growth	5.38%
WACC	11.82%

The table illustrates the forecasted EBIT rising from INR 3,127.67 million in FY22 to INR 4,171.73 million in FY27. After applying a stable tax rate of 25%, EBIT(1-T) increases accordingly from INR 2,345.75 million to INR 3,128.79 million.

The reinvestment rate, which reflects capital expenditures and working capital needs as a percentage of EBIT(1-T), grows steadily from 47.00% to 51.68%, indicating increasing capital intensity as Avenue Supermarts expands.

Consequently, FCFF rises from INR 1,243.25 million in FY22 to INR 1,511.83 million in FY27, demonstrating consistent free cash generation.

Discounting and Present Value of FCFF

Using the WACC of 11.82%, the forecasted FCFF are discounted to their present values using mid-year convention discount factors, which decline from 0.946 in FY23 to 0.605 in FY27, as reflected in the table.

The total present value of the forecasted FCFF sums to INR 8,257.45 million, comprising about 35% of the enterprise value.

Terminal Value Estimation

The terminal value, representing the present value of all FCFF beyond FY27, is calculated using a terminal growth rate of 5.38%. With the FCFF in FY28 projected at INR 1,601.49 million, the terminal value is estimated at INR 24,885.23 million (nominal), discounted to a present value of INR 15,055.07 million.

This terminal value constitutes roughly 65% of the total enterprise value, underscoring its critical impact on the valuation.

Calculation of Terminal Value	
FCFF (n+1)	1601.485265
WACC	11.82%
Terminal Growth Rate	5.38%
Terminal Value	**24885.23**

Enterprise and Equity Valuation

Summing the present values of forecasted FCFF and terminal value, the total value of operating assets equals INR 23,312.52 million. After adjusting for cash balances of INR 1,408.33 million and subtracting debt of INR 340 million, the equity value stands at INR 24,380.85 million.

Dividing by the total shares outstanding (64.99 million), the resulting equity value per share is INR 375.16, as shown in the valuation summary.

Calculation of Equity Value per Share	
PV of FCFF	8257.45
PV of Terminal value	15055.07
Value of Operating Assets	**23312.52**
Add: Cash	1408.33
Less: Debt	340.00
Value of Equity	**24380.85**
No. of Shares	64.99
Equity Value per Share	**375.16**
Share Price	420
Discount/Premium	11.95%
Times	1.12x

Market Price Comparison and Investment Implication

Comparing this intrinsic value to the current market price of INR 420 reveals that Avenue Supermarts' shares trade at a premium of approximately 11.95%, or 1.12 times the intrinsic value.

This premium suggests the market may be pricing in higher growth prospects or strategic advantages not fully captured by the base case DCF assumptions.

Sensitivity Analysis

As illustrated in the sensitivity analysis table, the valuation is highly sensitive to changes in WACC and terminal growth rate assumptions. For example:

- At the base WACC of 11.82% and terminal growth of 5.38%, the terminal value discounted to present is INR 15,055 million.
- Increasing the WACC to 12% reduces terminal value PV significantly, while lowering it to 10% increases it materially.
- Likewise, terminal growth variations from 3% to 7% cause substantial changes in terminal value and overall valuation.

Sensitivity Analysis				
	9.00%	**10.00%**	**11.82%**	**12.00%**
3.00%	392.0	356.5	312.5	309.1
4.00%	441.7	392.0	334.1	329.9
5.38%	555.3	466.2	375.0	368.7
6.00%	640.4	516.2	399.7	392.0
7.00%	888.9	640.4	452.8	441.7

This highlights the importance of carefully selecting discount rates and growth assumptions, as small changes can lead to meaningful differences in estimated equity value.

Conclusion

The DCF valuation indicates an intrinsic equity value of INR 375.16 per share for Avenue Supermarts, below the current market price of INR 420. The company's robust forecasted EBIT growth, tax stability, and increasing reinvestment rates underpin consistent free cash flow growth.

However, the premium at which the stock trades suggests market expectations for more aggressive growth or strategic benefits beyond those reflected in this analysis. Investors should consider the risks and opportunities embedded in the valuation assumptions, especially the sensitivity of terminal value to WACC and growth rate changes.

While Avenue Supermarts demonstrates strong financial prospects, valuation discipline requires caution in interpreting market prices that imply significant optimism beyond base-case forecasts.