

Intrinsic Growth Rate Analysis

Introduction to Intrinsic Growth

Intrinsic growth refers to the rate at which a company can grow its operating income organically, without relying on external financing. This is primarily driven by two core elements:

- **Reinvestment Rate:** The proportion of after-tax operating income ($EBIT \times (1-T)$) that is reinvested back into the business through capital expenditures and changes in working capital.
- **Return on Invested Capital (ROIC):** The return generated by the company on its total invested capital (net working capital + net fixed assets).

The formula used to calculate intrinsic growth is:

$$\text{Intrinsic Growth Rate} = \text{Reinvestment Rate} \times \text{ROIC}$$

This metric gives insight into how effectively a company is using its capital to generate future earnings growth.

Invested Capital and ROIC Analysis

As illustrated in **Figure 1.1**, Avenue Supermarts demonstrated highly volatile Return on Invested Capital (ROIC) over the five-year period from FY18 to FY22:

- FY18 shows an **exceptionally high ROIC of 186.13%**, likely due to low invested capital in that year and strong EBIT.
- In FY20, the ROIC drops to **-39.49%**, reflecting a period of inefficient capital deployment.
- A rebound is seen in FY21 with a ROIC of **99.42%**, supported by improved operating margins and stabilized capital investment.
- FY22, however, reports a **negative ROIC (-1.03%)**, suggesting a decline in profitability relative to capital employed.

The fluctuations indicate inconsistent operational efficiency and the effects of expansion costs or external disruptions during the evaluation period.

Calculation of ROIC		Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Current Assets						
Inventories		2,658.0	3,150.0	3,390.0	3,799.0	6,153.0
Trade receivables		1,731.0	1,907.0	1,795.0	2,602.0	3,871.0
Loans n Advances		1,141.0	1,058.0	1,177.0	1,846.0	2,216.0
Other asset items		551.0	414.0	561.0	720.0	661.0
Total Current Assets		6,081.0	6,529.0	6,923.0	8,967.0	12,901.0
Current Liabilities						
Trade Payables		2,160.0	2,394.0	2,137.0	3,379.0	4,164.0
Advance from Customers		16.0	13.0	29.0	41.0	76.0
Other liability items		2,316.0	2,690.0	2,320.0	2,613.0	2,932.0
Total Current Liabilities		4,492.0	5,097.0	4,486.0	6,033.0	7,172.0
# Net Working Capital		1,589.0	1,432.0	2,437.0	2,934.0	5,729.0
Non Current Assets						
Land		586.0	605.0	640.0	644.0	644.0
Building		957.0	2,402.0	2,257.0	2,249.0	2,325.0
Plant Machinery		2,157.0	4,006.0	4,208.0	4,340.0	4,531.0
Equipments		200.0	221.0	241.0	243.0	253.0
Furniture n fittings		72.0	88.0	94.0	99.0	113.0
Vehicles		27.0	47.0	43.0	38.0	32.0
Intangible Assets		468.0	512.0	505.0	476.0	411.0
Other fixed assets		238.0	261.0	293.0	302.0	294.0
Gross Block		4,705.0	8,142.0	8,281.0	8,391.0	8,603.0
Accumulated Depreciation		(973.0)	(1,592.0)	(2,010.0)	(2,533.0)	(3,085.0)
# Net Non Current Assests		3,732.0	6,550.0	6,271.0	5,858.0	5,518.0
# Invested Capital		5,321.0	7,982.0	8,708.0	8,792.0	11,247.0
EBIT		9,904.1	1,073.7	(3,438.4)	8,740.7	(115.6)
# ROIC		186.13%	13.45%	-39.49%	99.42%	-1.03%

Calculation of Reinvestment Rate		Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Net Capex		439.0	376.0	463.0	586.0	465.0
Change in Working Capital			(157.0)	1,005.0	497.0	2,795.0
EBIT		9,904.1	1,073.7	(3,438.4)	8,740.7	(115.6)
Marginal Tax Rate		25.00%	25.00%	25.00%	25.00%	25.00%
EBIT (1-T)		7428.07	805.28	-2578.77	6555.54	-86.70
Reinvestment			219	1468	1083	3260
Reinvestment Rate			27.20%	-56.93%	16.52%	-3760.09%
		4 Year Average				-943.33%
		4 Year Median				-20.20%

Calculation of Growth Rate		Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Reinvestment Rate			27.20%	-56.93%	16.52%	-3760.09%
ROIC			13.45%	-39.49%	99.42%	-1.03%
Intrinsic Growth			3.66%	22.48%	16.42%	38.65%
		4 Year Average				20.30%
		4 Year Median				19.45%

Figure 1.1: Intrinsic Growth Calculation Summary

Reinvestment Rate Trends

The reinvestment rate also reflects similar volatility:

- The **highest reinvestment** occurred in FY23, driven by a large increase in working capital, likely tied to aggressive inventory and receivables growth.
- FY21 records a **negative reinvestment rate (-56.93%)**, indicating disinvestment or reduction in capital assets and working capital.
- The **4-year average reinvestment rate** is **-943.33%**, skewed by the extreme negative in FY23, while the **4-year median** is a more realistic **-20.20%**, still highlighting inconsistent capital allocation.

This inconsistency could be due to the firm's capital-heavy retail expansion strategy, which causes periodic spikes and dips in investment outflows.

Intrinsic Growth Rate Interpretation

The computed **Intrinsic Growth Rate (IGR)** over FY20 to FY24 reflects the combined effect of reinvestment and ROIC:

- The IGR was **positive in FY20 (3.66%), FY21 (22.48%), and FY22 (16.42%)**, suggesting that Avenue Supermarts was able to grow organically during these periods.
- FY23 shows a spike to **38.65%**, but given the unusual negative reinvestment and ROIC in that year, this figure likely represents an outlier or model distortion.
- The **4-year average IGR** is **20.30%**, with a **median of 19.45%**, which aligns with the company's strong brand, efficient operations, and selective expansion strategy.

Conclusion

Figure 1.1 demonstrates that while Avenue Supermarts has the potential for high intrinsic growth, the company's capital deployment has been inconsistent in recent years. This inconsistency in reinvestment and returns has resulted in volatile intrinsic growth trends.

Still, the **overall median intrinsic growth rate of ~19.5%** signals a **healthy organic growth potential**, provided the firm maintains operational efficiency and a disciplined reinvestment strategy. Investors should monitor capital expenditure patterns and working capital movements closely, as they significantly impact the company's intrinsic growth sustainability.