A study on Financial Performance evaluation using DuPont Analysis of Avenue Supermarts Ltd.

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Abstract

The purpose of the research is to study the performance evaluation using DuPont analysis of Avenue Supermarts Ltd., (Dmart), an Indian retail corporation that operates a chain of hypermarkets in India, by measuring return on common Shareholders' equity (ROE). The present analysis evaluates how well this company is operating and how profit is earned with respect to sales, total assets, etc. The period of study was from March 2019 to March 2023. This is mainly based on secondary data. Data were obtained from annual financial statements of the company. The study is analyzed using equity multiplier, net profit margin, asset turnover ratio to calculate return on equity.

Key words: Asset turnover ratio, DuPont analysis, Equity multiplier, net profit margin.

1. Introduction

In order to analyze or evaluate the performance of any company, there are various financial ratios. Among them one of the efficient and effective ratios would be Return on Equity (ROE) which is also known as DuPont analysis. DuPont analysis was developed by F. Donaldson Brown, in 1914, who worked for DuPont Corporation. This analysis decomposes the different drivers of return on equity. The decomposition of ROE allows investors and also the company to focus on metrics of financial performance individually to identify strengths and weaknesses.

There are three major financial metrics that drive ROE:

1. Profitability, which is represented by dividing net profit from total sales.
2. Asset usage efficiency, which is measured by asset turnover ratio that is, total sales divided by total assets.
3. Financial leverage, a metric that is measured by equity multiplier, which is equal to total assets divided by total equity.

It is important to calculate ROE using all these components rather than directly using simplified (Net income/Equity) formula. As the following components help in understanding key performance drivers, areas in which company is strong and in which it needs to work on.

The study is conducted using this method to analyze the performance of Avenue Supermarts Ltd., popularly known as Dmart. It is an Indian retail corporation that operates a chain of hypermarkets in

India. It was found by Radhakishan Damani in 2002 when its first store was opened in Powai, Mumbai. As of June 2023, it has 327 stores across Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Karnataka, Telangana, Chhattisgarh, NCR, Tamil Nadu, Punjab and Rajasthan. The company went public in 2017 and has given whopping returns of 530.4% since the listing.

In the era, where retail corporations like Big Bazar, More, etc. were ruling the sector, Dmart has made an amazing break through into this sector. Although there are several studies which have found out the working of this giant mart and performance evaluation using ratio analysis. But this study is done in order to know which factors contribute in its performance.

2. Objectives of the study

The aim of the study is

1. To do a performance evaluation of Avenue Supermarts Ltd., using DuPont analysis
2. To Understand the key drivers of performance.

3. Research Methodology

The secondary data are collected from the Annual Financial Statement of the company. Data are collected from the period of March 2019 to March 2023. The collected data are then organized, analyzed and interpreted by using Excel.

3.1 DuPont analysis's three main calculations/formulas:

DuPont analysis (ROE)= Net profit margin* Asset Turnover* Financial Leverage

Where,

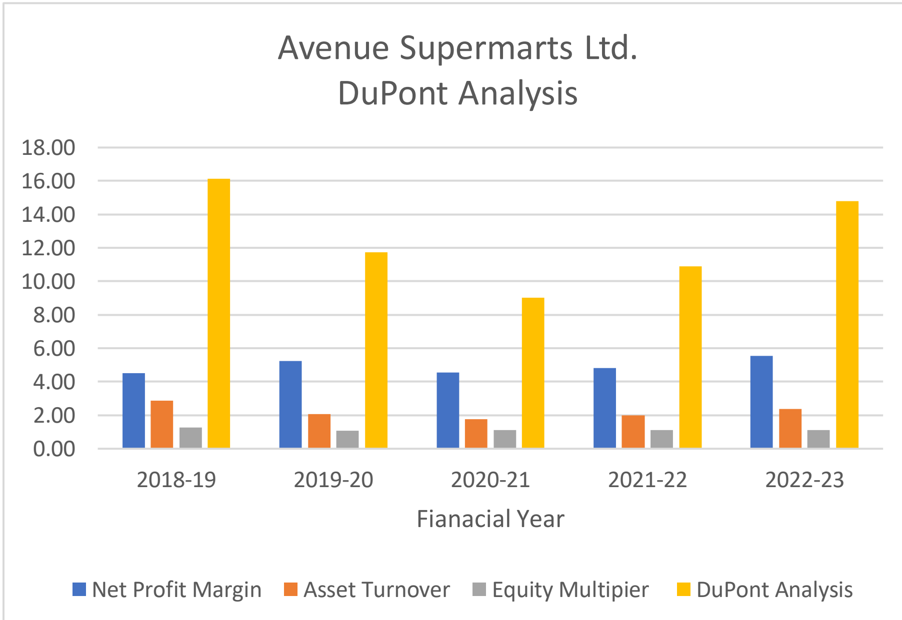
Net Profit Margin = Net profit / Total sales *100

Asset Turnover = Total sales / Total assets

Equity Multiplier (Financial Leverage) = Total Assets / Shareholders' equity

4. Data analysis and Interpretation

Financial Year	Net Profit Margin	Asset Turnover	Equity Multiplier	DuPont Analysis
2018-19	4.51	2.86	1.25	**16.14**
2019-20	5.23	2.06	1.09	**11.74**
2020-21	4.55	1.77	1.12	**9.02**
2021-22	4.82	2.00	1.13	**10.91**
2022-23	5.55	2.37	1.13	**14.79**



Net profit margin:

It is computed as a percentage of sales. Net profit is the profit after tax figure from the statement of profit and loss. The net profit margin of the company is consistent in the range of 4.5% to 5.5%.

The net profit margin is the highest contributor to DuPont when compared to other two metrics. Its "Daily Discounts Daily Savings" offering has pushed the margins lower when compared to other supermarket chains.

Asset Turnover:

It is a ratio describing sales to total assets of the entity. The higher ratio represents better utilization of assets owned by the company. On an average a Dmart store earns an impressive revenue of Rs. 129.11Cr for a year (FY 2022-23).

The asset turnover ratio though has reduced from it's high of 2.86 (FY 2018-19) times still remains healthy at 2.37 (FY 2022-23) times improving from its Covid low of mere 1.77 times (FY 2020-21).

Equity multiplier:

This ratio is similar to debt to equity ratio. But the difference is that, this ratio represents total assets owned by shareholders' equity. Though this ratio can be higher with higher debt, it is not favorable to take debt for purchasing long term assets.

With respect to this company, the ratio is below 1.25 times all the times, which indicates the company is more reliant on equity rather than debt.

5. Conclusion

The study in this paper tried to focus on performance evaluation of one of the largest retail corporations in India, Avenue Supermarts Ltd., using the DuPont analysis. It is observed that Net Profit Margin has the highest contribution and Equity Multiplier has the least contribution towards performance of the company. Company has been utilizing its assets efficiently which could be understood by looking at its Asset turnover ratio. The DuPont analysis was the suitable ratio for evaluation of the company's financial performance, as it was easier to know in which activity the company was better off among the three metrics.

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