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Aditya Birla Retail expansion to focus on food and groceries business

Aditya Birla Retail plans to add 30-40 supermarkets next year as well as raise funds to restructure its balance sheet

Aditya Birla Retail, which operates supermarkets and hypermarkets under the More brand, had a debt of Rs5,936 crore as on 31 March. Photo: Hemant Mishra/Mint

Mumbai: After nearly four years in maintenance mode, Aditya Birla Retail Ltd (ABRL), which operates supermarkets and hypermarkets under the More brand, is now ready to aggressively expand its food and groceries business, a top company executive said.
The plan is to make the business even bigger than the conglomerate’s near billion dollar (in revenue) apparel business, Aditya Birla Fashion and Retail Ltd in the coming years, said Pranab Barua, business director (retail and apparel) at Aditya Birla Group.

On the cards is a fundraising exercise to restructure the company’s balance sheet, which had a debt of Rs5,936.21 crore as on 31 March. This could entail taking on a partner or even a possible listing, said Barua. The plans mark a break from the past three-four years when the company largely focused on tweaking its model to get it just right, adding maybe a store or two on average every year.

Barua said the opportunity in the food and groceries business“is much bigger than anything we have, much bigger than the apparel business”.

ABRL could add 30-40 supermarkets or even more next year. It operates 487 supermarkets and 19 hypermarkets (stores with area of more than 30,000 sq. ft).

“This is a business of scale, margins will always be low. Make money by scale,” said Barua, who prefers to grow organically because integration takes time.

Over the past three years, Kishore Biyani-led Future Group has been leading the consolidation in the retail space. It has bought Big Apple, Nilgiris, Sangam Direct and, more recently, Heritage Foods Ltd’s retail business.

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Over the past year, India’s food and groceries retail business seems to have matured, with companies discovering models that work for them and, consequently, getting ready to invest.

Earlier this month, even Godrej Nature’s Basket said that it would double its stores in key regions from 30 to 60 in the next year.

Avenue Supermarts, which owns and operates hypermarket and supermarket chain D-Mart, is looking to raise up to Rs1,870 crore through a fresh issue of shares.

On the hypermarket front, ABRL will continue to open one or two on average every year. In 2015-16, ABRL bought five hypermarkets from Jubilant Industries Ltd and Jubilant Agri and Consumer Products Ltd, consolidating its position in the market. (The promoters of HT Media Ltd, which publishes *Mint*, and Jubilant Industries are closely related. There are, however, no promoter cross-holdings.)

ABRL seems “to be moving in the right direction”, said an analyst. “The group has shown a consistent focus on expanding its retail footprint and this can be seen with its fashion business. The food and groceries business had its own initial set of challenges, which now seem to be behind it,” said Anil Talreja, partner at audit and consulting firm Deloitte Haskins and Sells.

In the past three years, ABRL's sales growth of 15-20% a year was driven by more business from existing stores. It also focused on cutting costs.

"We should be profitable at Ebitda level in a year," said Barua. Earnings before interest, taxes, depreciation and amortization is a measure of operating profit.

However, losses on account of the large debt on its balance sheet remain high. ABRL ended FY2016 with a loss of Rs649.42 crore on revenue of Rs3,509.37 crore.

"We will be restructuring the balance sheet," said Barua, who hopes to do this within the next year by raising funds.

"If we can partner with someone to build businesses faster, stronger, we will do it," he said.

However, the partner is unlikely to be a multinational firm as current foreign direct investment policy in multi-brand retail is difficult to work with, he explained.

ABRL plans to spend Rs100-150 crore every year from now on (for the next few years) on new stores.

As part of its renewed focus on food and groceries, in October, the retailer hired Mohit Kampani, a former managing director of Spencer's Retail Ltd, to head the business. It also plans to increase the contribution from private labels (which are more profitable than other brands) to the revenue from 20% currently to 35-40% in the next three years and is also growing its online business, said Barua. Currently, only 5-8% of the revenue comes from online sales. "If we get to anything above 10-15%, it will be huge," he added.