

Electronics Mart India Limited

IPO DESK

October 3, 2022

About Company

Electronics Mart India Ltd, was founded in 1980, and is the 4th largest consumer durable and electronics retailer in the country, in FY2020, in terms of revenue. The company is concentrated in the states of Telangana and Andhra Pradesh. Their revenue has grown at a CAGR of 25.60% from FY15 to FY20. The company aims at further strengthening its presence in the Southern part of India, before venturing out to more states across the country. The company had 99 stores spread across 31 cities and has a retail business area of 0.99 million sq ft, as on 15 August, 2021, and as of today has 112 stores. Out of the 99 stores, 8 stores are owned by the company, 85 stores are under a long-term lease and 6 stores are partly leased and partly owned. Despite the pandemic, the company managed to open 22 new stores in FY21.

Objects of the Offer:

The company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

- Funding of capital expenditure for expansion and opening of stores and warehouses.
- Funding incremental working capital requirements.
- Repayment / prepayment, in full or part, of all or certain borrowings availed by the Company.
- General Corporate Purposes.

Rationale

Operation flexible business model to create long term sustainable footprint

The company uses a hybrid ownership/lease rental business model. The company has a flexible strategy of owning or leasing the premises depending on availability, cost, and other factors in order to maximize their profitability, maintain operational flexibility, and ensure that their stores continue to be located in densely populated neighborhoods and residential locations. As on August 31, 2022, they had 100 MBOs which were operative, having at an average store area of 10,876 sq. ft. per store. They have also adopted a model of comprehensive display of products to provide large number of options to prospective customers across brands and price range. Partial investment in refurbishment of the locations has allowed the management to keep the rentals and other subsequent annual hikes low.

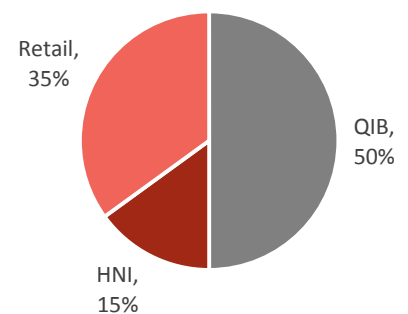
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Issue	
Open	Close
Tuesday	Friday
04-Oct-22	07-Oct-22

Issue Size	
Fresh Issue	500.00 cr
Offer for Sale	0.00 cr
Total Issue	500.00 cr

Per Equity Share	
Price Band	Face Value
Rs.56 - Rs 59	Rs 10
Minimum Shares	254 Qty

NET OFFER STRUCTURE



Source: Dalal & Broacha Research

The 4th largest consumer durable and electronics retailer in India with a leadership position in South India

As of August 31, 2022, the company operated and managed 112 stores across 36 cities and metropolitan agglomerations, totaling 1.12 million square feet of retail space. that ended on June 30, 2022, and for the fiscal year 2022, They are the top income earner in the Southern region as of the FY 2021, dominating the states of Telangana and Andhra Pradesh. They are also India's fourth-largest and one of the country's fastest-growing retailers of consumer electronics and durables.

Increased market presence and geographic reach with cluster-based expansion

The company's expansion and increased market presence is based on their cluster-based approach, wherein they expand the network in a particular market, until they reach substantial depth & scale. In the process of opening new stores, emphasis on identifying 'growth pockets', by taking into account various factors, including population density, proximity and performance of competitors, customer accessibility, potential growth of the local population and economy, estimated on the basis of expected sales potential, and store site characteristics is given.

Conclusion

Electronics Mart India Ltd (EMIL) is a consumer durable and electronics retailer in India operating mainly in Andhra Pradesh and Telangana region. The company has 6000+ SKUs across 70+ brands. Current Organized Retail Market (as of 2022) was Rs. 7.2 trillion which grew at ~11.4% CAGR between FY17-22. The revenue CAGR for EMIL between FY16-21 was 17.9% (faster than the industry). The Organized Retail Market is expected to grow at 17-19% between FY22-27 (which makes up for better prospects for the future growth of the company). Currently the company has 112 stores across 36 cities (concentrated in densely populated regions) and the company plans to open a total of 58 stores till FY25 (from the IPO proceeds) which includes expansion in NCR region (to open 26 stores and 1 warehouse) and open roughly 20 stores per year after that. This is in line with their strategy to expand in clusters till they reach substantial scale. The business is seasonal in nature with Q1 and Q3 being the strong quarters and the key players/peers in the industry are Reliance Retail, Croma, Vijay Sales and Aditya Vision. Amongst the peers, EMIL has one of the highest sales per store and operating margins which makes it attractive compared to peers. At the upper price band of 59, EMIL is coming at FY22 PE of 17x (FY22: 11.2x EV/EBITDA and 0.75x EV/Sales) while Aditya Vision (listed peer) trades at ~49.7x FY22 EPS. With the store opening guidance, we believe the company will grow at least in line with the industry (17-19%). We believe the IPO is attractively priced with decent growth expectations, hence we recommend to **Subscribe** to the issue.

Disclaimer

Sources of the reports taken from: Red Herring Prospectus, Various other websites, etc.

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