

Electronics Mart India

On the cusp of sustained growth

IPO opens in the price band of INR 56-59 per share

Electronics Mart India (EMIL), the fourth-largest electronics retailer in India, according to CRISIL, is set to launch an initial public offer (IPO) with fresh share issue of INR 5bn at a price band of INR 56-59 per share. The bid opens on 4 October and closes on 7 October. As per the RHP, proceeds will be used 1) to expand store count and warehouses at INR 1.1bn, 2) incremental working capital needs of INR 2.2bn, 3) to repay loan of INR 550mn, and 4) general corporate purposes.

Consumer durables market size CAGR of 10-12% in FY22-27

India's consumer durables industry comprising large appliances, mobile phones and smaller appliances stands at INR 3.0-3.2tn as on FY22. The industry reported a market size CAGR of ~12% during FY17-20, and it is set to reach 23-25% in FY22. It is set to post a CAGR of 10-12% over FY22-27, taking its market size to INR 4.8-5.3tn in FY27, driven by 1) rising income-led aspirations, increased urbanization & nuclear families, underpenetration of electronics goods and improved financing mechanism.

Promoting growth through store expansion

EMIL opened its first electronics store at Hyderabad in 1980. Today, it has 112 stores across Telangana, Andhra Pradesh, and Delhi-NCR, becoming the fourth-largest in the country. It recently opened its first store in NCR, which is the second-largest consumer durables market in India at INR 150bn in FY22 (Source: CRISIL). In the past three years, there has been rapid rise in store count to 112 in FY22 from 59 in FY19. Management aims to add 58 stores over FY23-26. Mobile phones was the largest category of goods with a 35% revenue share, followed by large appliances at 50% and small appliances & IT products at a 15% share in FY22. EMIL peers include *Reliance Digital* (part of Reliance Retail), *Croma* (part of Tata Group), *Aditya Vision* and *Sathya*.

Our view: recommend **Subscribe**

EMIL would continue to rise at a healthy pace in terms of store expansion, especially in North India, and given the customer shift toward modern format large retailers (as a one-stop shop experience with higher store keeping unit [SKU]) vs a distribution model. Post the IPO, promoter stake would reduce to 77.1% at the lower price band and 78.0% at the upper. At the upper price band, market capitalization after IPO stands at INR 22.7bn. ROE and ROCE stand at 18% and 14%, respectively, in FY22. At the upper price band, it trades at a 18.5x FY22 P/E, which is significantly lower than peer Aditya Vision, which trades at 23.7x FY22 P/E. In our view, the IPO is priced attractively and recommend **Subscribe**.

Recommendation: **Subscribe**

Issue details

Fresh issue of equity (INR bn)	5.0
Offer for sale of up to (INR bn)	NIL
Employee portion (INR mn)	NIL

Issue price

(INR)	At lower price band	At upper price band
Price band	56	59
Bid lot (no)	254	
Employee discount	NIL	

Equity shares

	No of shares
Pre-issue	300,003,000
Post-issue*	384,748,763

Note: *at upper price band

Market capitalization

(INR bn)	At lower price band	At upper price band
Post issue implied	21.6	22.7

IPO dates

Issue opens on:	October 4, 2022
Issue closes on:	October 7, 2022

Shareholding pattern*

(%)	Pre-issue	Post-issue
Promoters	99.98	78.00
Public	0.02	22.00

Note: *at upper price band

Key financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	EPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March	31,725	-	2,276	7.2	895	-	3.0	41.3	14.3	19.8	9.7
FY20	31,725	-	2,276	7.2	895	-	3.0	41.3	14.3	19.8	9.7
FY21	32,019	0.9	2,039	6.4	586	(34.5)	2.0	12.7	11.3	30.2	11.2
FY22	43,493	35.8	2,919	6.7	958	63.4	3.2	17.6	14.4	18.5	8.0

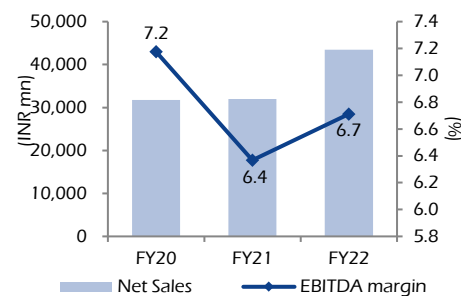
Note: pricing based on upper band at INR 59/share; Source: RHP Elara Securities Research

Financials (YE March)

Income Statement (INR mn)	FY20	FY21	FY22
Net Sales	31,725	32,019	43,493
EBITDA	2,276	2,039	2,919
Margin (%)	7.2	6.4	6.7
Add:- Non operating Income	65	55	38
Depreciation	508	581	713
EBIT	1,834	1,512	2,244
Less:- Interest Expenses	634	717	846
PBT	1,122	796	1,398
Less :- Taxes	306	209	359
PAT	816	586	1,039
Adjusted PAT	895	586	958
Balance Sheet (INR mn)	FY20	FY21	FY22
Share Capital	3,000	3,000	3,000
Reserves	1,331	1,919	2,965
Net Worth	4,331	4,919	5,965
Loans	5,205	5,479	5,936
Net Deferred Tax Liability	(68)	(116)	(176)
Capital Employed	9,469	10,283	11,725
Gross Block	6,222	7,825	9,652
Less:- Accumulated Depreciation	508	1,089	1,802
Add:- Capital work in progress	24	20	238
Net Fixed Assets	5,739	6,757	8,088
Net Working Capital	2,859	3,176	3,293
Cash & Bank Balance	871	350	344
Application of Funds	9,469	10,283	11,725
Cash Flow Statement (INR mn)	FY20	FY21	FY22
Cash Profit adjusted for non-cash items	2,318	2,099	2,923
Add/Less : Working Capital Changes	(1,530)	(1,258)	(1,332)
Operating Cash Flow before Tax	788	841	1,592
Tax	(428)	(201)	(376)
Operating Cash Flow	360	640	1,216
Less:- Capex	(594)	(544)	(609)
Free Cash Flow	(234)	96	607
Investing Cash Flow	(110)	(55)	(69)
CF from Fin. Activity	706	(561)	(544)
Net Change in Cash	363	(521)	(6)
Ratio Analysis	FY20	FY21	FY22
Income Statement Ratios (%)			
Revenue growth	-	0.9	35.8
EBITDA growth	-	(10.4)	43.2
PAT growth	-	(34.5)	63.4
EBITDA margin	7.2	6.4	6.7
Net margin	2.8	1.8	2.2
Per Share data (INR/Share)			
Diluted EPS	3.0	2.0	3.2
DPS	0.0	0.0	0.0
Book value per share	14.4	16.4	19.9
Payout (incl. Div.Tax) (%)	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0
Valuation (x)			
P/E	19.8	30.2	18.5
EV/EBITDA	9.7	11.2	8.0
EV/Sales	0.7	0.7	0.5
Price/Book value	4.1	3.6	3.0
Return and Liquidity Ratios			
Net debt/Equity (x)	1.0	1.0	0.9
ROE (%)	41.3	12.7	17.6
ROCE (%)	14.3	11.3	14.4

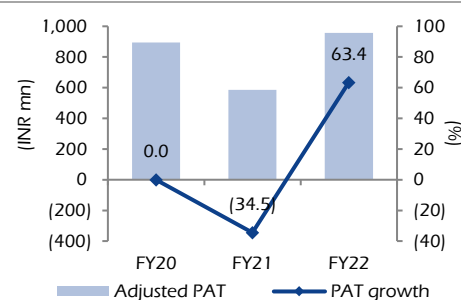
Note: pricing used is upper limit of INR 59; Source: RHP, Elara Securities Research

Revenue & margin growth trend



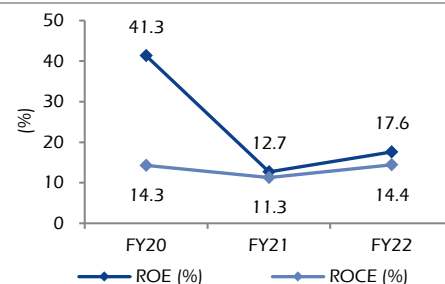
Source RHP, Elara Securities Research

Profit trend



Source RHP, Elara Securities Research

Return ratios



Source RHP, Elara Securities Research

IPO: key takeaways from analyst meet

- Leading modern format retailer: EMIL is the fourth-largest and one of the fastest-growing consumer durables and electronics retailers in India; as on FY21, it became the largest, regional organized firm in South India in revenue terms with dominance in Telangana and Andhra Pradesh
- Presence across formats: EMIL caters to the consumer durables and electronics market across three formats: retail, wholesale (supply to mom-and-pop stores), and eCommerce. This brings out its competitive advantage as it can leverage its businesses across all formats
- Retail strength: As on August 31, 2022, EMIL had 112 stores across 36 cities and urban agglomerates, with a retail business area of 1.12mn sqft. It has increased its presence from 70 stores as on FY20 to 112 stores as on August 31, 2022 (79 in Telangana, 25 in Andhra Pradesh, and eight in NCR). Of 112 stores, 11 are owned by the company, 93 are under long-term lease rental model and eight are partly owned & leased. Since the COVID-19 lockdown (March 2020), EMIL has opened 42 new stores. Of 112 stores, 100 are multi brand outlets (MBO) and 12 are exclusive brand outlets (EBO). It operates 89 MBO under *Bajaj Electronics* in Telangana and Andhra Pradesh, eight MBO under *Electronics Mart* in NCR, two specialized formats under *Kitchen Stories*, and one specialized format under *Audio&Beyond*
- In the next three years, EMIL aims to add 58 stores pan-India, of which 22 would be in Telangana & Andhra Pradesh, and 18 would be in Delhi-NCR
- Revenue mix: As per management, mobile phones contributed 35% of total revenue in FY21. During the same period, TV contributed 17%, washing machines 10%, refrigerators 10%, AC 8%, kitchen appliances 5%, IT hardware products 5%, and others 10%
- Market leaders: The consumer durables and electronics retail industry is mostly dominated by *Reliance Retail*, followed by *Croma*, *Vijay Sales*, *EMIL*, and *Sathya*. Other large firms are *Sargam*, *Girias*, *Aditya Vision*, *Adhishwar*, and *Viveks*. *Reliance Retail*, *Aditya Vision*, *Sathya*, and *EMIL* are among the Top 4 fastest-growing retailers during FY16-21
- Strong basket of OEM: EMIL sells products of up to 70 consumer durables brands across formats. Some leading brands across product categories are: 1) large appliances – *LG*, *Panasonic*, *Philips*, *Sony*, *Godrej*, *Daikin*, *Symphony*, and *Voltas*, 2) mobile phones – *Oppo*, *One Plus*, and *Vivo*, and 3) small appliances, IT & Others – *Dell*, *Sony*, *AO Smith*, *Ariston Thermo*, *Butterfly*, *Miele*, *Preethi*, *Havells*, *Kaff*, *Orient*, *Liebherr* and *Franke Faber*. As per management, 42% of total revenue in Q1FY23 came from two suppliers (*Sony* and *LG*)
- Category penetration in India: As per management, AC has a 17% penetration in India, washing machines 21%, and mobile phones 41%
- Margin: AC contributes the highest margin, up to 20%. TV contributes slightly lower margin than AC, followed by margin of mobile phones
- Capex: In Q1FY23, the company incurred INR 1.45bn capex toward acquisition of land for seven stores in Delhi NCR
- Warehouses: The company has nine warehouses currently, of which six are at Hyderabad. Management says it completes 80% of total deliveries within 24 hours
- Channel financing: Management says EMIL's 50% of total revenue of FY22 came from NBFC financing

Exhibit 1: Electronic retailer peer comparison

	<i>Reliance Retail I</i>	<i>Croma</i>	<i>EMIL</i>	<i>Aditya Vision</i>	<i>Vijay Sales</i>
Stores (no)	300+	195	105	70	121
Revenue (INR bn)	1694	82.1	43.5	9	36.7
Employee cost (% of sales)	0.90	4.2	1.8	3.2	3.4
EBITDA margin (%)	6.10	(1.4)	6.7	7.4	7.4
PAT margin (%)	2.90	(5.4)	2.4	4.1	4.1
Inventory days	46	70	55	92	61
Working capital days	7	(29)	(15)	21	(13)
ROCE (%)	23.5	(17.4)	19.1	31	-
ROE (%)	31.6	94.1	17.4	44.8	99.3

Source: RHP, Elara Securities Research

Exhibit 2: Peer valuation

Company	Ticker	Rating	Market cap (INR mn)	CMP (INR)	Revenue (INR mn)			EBITDA (INR mn)			PAT (INR mn)		
					FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Electronics Mart India					31,725	32,019	43,493	2,276	2,039	2,919	895	586	958
Aditya Vision	AVL IN	Not Rated	569,657	3,648	7,970	7,480	8,991	252	416	662	140	247	366
V-Mart Retail	VMART IN	Not Rated	241,999	4,845	16,616	10,739	16,592	2,138	1,312	2,043	493	-62	116
Shoppers Stop	SHOP IN	Not Rated	518,786	3,326	31,051	16,259	23,424	5,494	534	2,675	(1,409)	(2,752)	(867)
Trent	Trent IN	Not Rated	16,428	172	31,766	20,469	38,792	5,628	2,039	6,327	1,546	(510)	2,496
Avenue Supermarts	DMART IN	Not Rated	54,164	2,031	246,423	237,294	302,582	21,221	17,417	25,015	13,499	11,653	16,162

Note: CMP* as per upper price band; pricing as on 12 September 2022; Source: RHP, Bloomberg Consensus numbers for Not Rated companies, Elara Securities Research

Exhibit 3: Compared to peers in the retailing industry, EMIL seems to be attractively priced

Company	EBITDA margin (%)			P/E (x)			EV/EBITDA (x)			ROE (%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Electronic Mart India	7.2	6.4	6.7	19.8	30.2	18.5	9.7	11.2	8.0	41.3	12.7	17.6
Aditya Vision	3.2	5.6	7.4	1.7	8.9	23.7	1.7	6.8	14.5	43.1	41.4	44.8
V-Mart Retail	12.9	12.2	12.3	52.3	-	672.3	14.4	43.6	42.0	11.4	(1.0)	1.4
Shoppers Stop	17.7	3.3	11.4	-	-	-	6.8	79.5	26.4	(25.3)	(172.9)	(61.9)
Trent	17.7	10.0	16.3	108.8	-	181.7	33.8	141.6	78.1	7.4	(2.0)	9.5
Avenue Supermarts	8.6	7.3	8.3	101.8	158.9	160.5	66.9	105.7	103.7	16.1	9.9	12.3

Note: *at upper price band of INR 59/share; Source: RHP, Bloomberg numbers for Not Rated companies, Elara Securities Research

About Electronics Mart India

Largest consumer durables in South India, fourth-largest in the country

Electronics Mart India (EMIL) is the fourth-largest and one of the fastest-growing consumer durables and electronics retailers in India. In FY21, it was the largest regional organized firm in South India in revenue terms with dominance in Telangana and Andhra Pradesh. The company has a presence across three formats: retail, wholesale, and eCommerce.

The retailer offers a diversified range of products with a focus on large appliances (air conditioners, televisions, washing machines & refrigerators), mobiles and small appliances, IT and Others. Offering includes 6,000 SKU across product categories from more than 70 consumer durables and electronic brands. *Sony* and *LG* are the top selling brands across EMIL outlets with a revenue contribution of 42% as on FY22. As on August 31, 2022, EMIL had 112 stores across 36 cities and urban agglomerates with a retail business area of 1.12mn sqft.

Product categories

- **Large appliances (50% of business):** Revenue comes from the sale of air conditioners, televisions, washing machines and refrigerators. The segment contributed 50% in FY22 revenue, lower from 56% in FY20. It retails products of brands, such as *LG*, *Panasonic*, *Philips*, *Sony*, *Godrej*, *IFB*, *Daikin*, *Symphony* and *Voltas* among others
- **Mobile phones (34% of business):** This category includes mobile phones, tablets, smart watches, and fitness trackers. Its contribution has been sustained ~34% over FY20-22. EMIL retail mobiles from leading brands, including *Oppe*, *One Plus* and *Vivo* among others
- **Small appliances, IT and Others (15% of business):** This category includes laptops, personal computers, printers, cables, screen guards, headphones, Bluetooth speakers, coolers, geysers, ceiling fans, personal care devices and kitchen appliances, such as kitchen hobs, chimneys, water purifiers and other allied appliances. Category contribution has improved from 10% in FY20 to 15% in FY22. EMIL retail mobiles from leading brands, including *Dell*, *Sony*, *AO Smith*, *Ariston Thermo*, *Butterfly*, *Miele*, *Preethi*, *Havells*, *Kaff*, *Orient*, *Liebherr* and *Franke Faber* among others

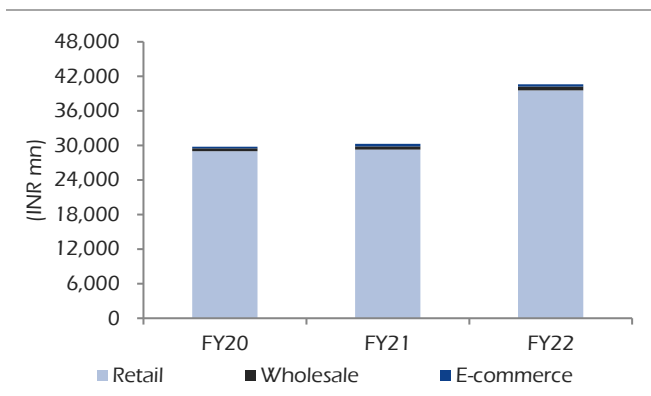
Format categories

- **Retail (97% of business):** During FY20-22, contribution from retail outlets sustains at 97%. As on August 31, 2022, EMIL had 112 stores across 36 cities and urban agglomerates, with a retail business area of 1.12mn sqft. It has increased its presence from 70 stores as on FY20 to 112 as on August 31, 2022 (79 in Telangana, 25 in Andhra Pradesh, and eight in Delhi-NCR). Of 112 stores, 11 are owned by the company, 93 are under long-term lease rental model and eight are partly owned & leased. Of 112 stores, 100 are multi

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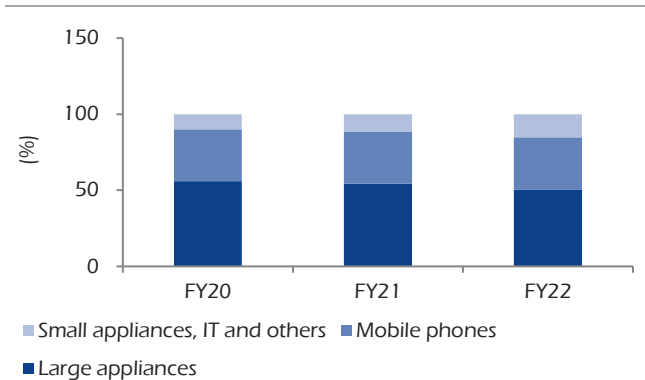
- **Wholesale (2% of business):** EMIL also supply products to single shop retailers in Andhra Pradesh and Telangana
- **eCommerce (1% of business):** In CY17, EMIL diversified into eCommerce through its website, further expanding operations in CY19 by associating with the largest domestic and international firms of the eCommerce market, thereby expanding business reach from brick-and-mortar retail stores to eCommerce platforms

Exhibit 4: Revenue from the retail segment accounts for 97% of overall in FY22



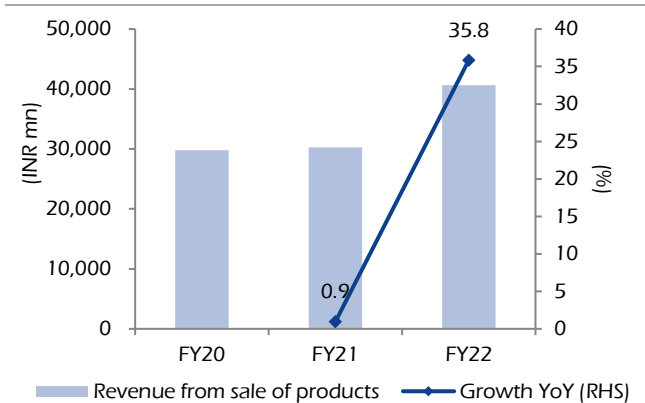
Source: RHP, Elara Securities Research

Exhibit 5: Large consumer appliances forms 50%+ of total revenue in FY22



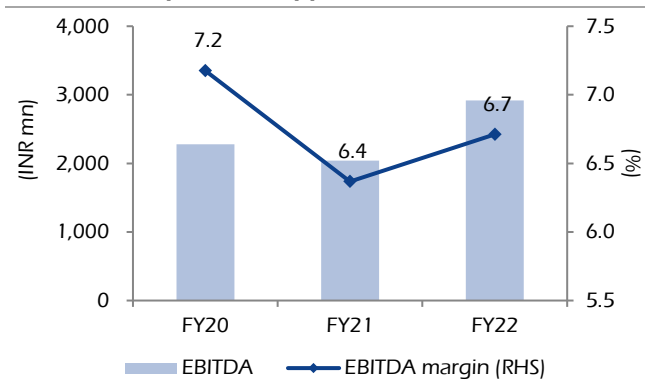
Source: RHP, Elara Securities Research

Exhibit 6: Improving revenue trajectory via same store growth and store expansion



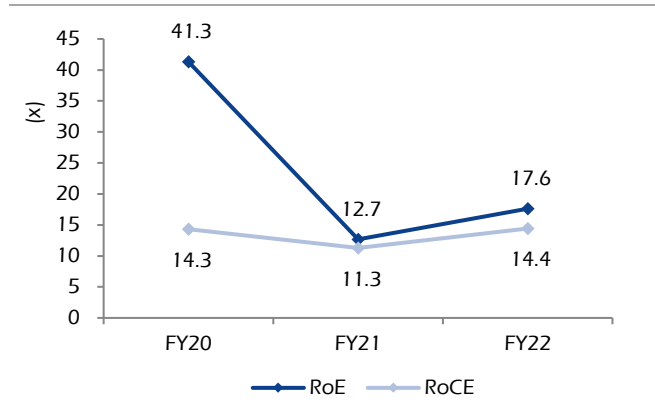
Source: RHP, Elara Securities Research

Exhibit 7: Margin driven by the rise in store per revenue and premium appliances



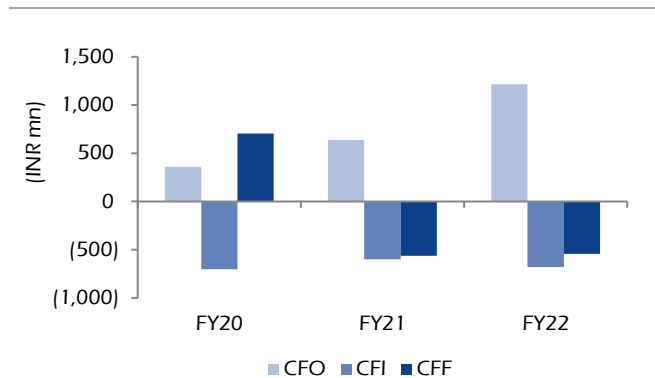
Source: RHP, Elara Securities Research

Exhibit 8: Improving return ratios



Source: RHP, Elara Securities Research

Exhibit 9: FCF doubled YoY in FY22



Source: RHP, Elara Securities Research

About the issue

Electronics Mart India (EMIL) IPO will consist of fresh issue of INR 5.0bn. The bid opens on 4 October and closes on 7 October. According to the RHP, proceeds will be used 1) to pre-pay or scheduled repay INR 550mn for a portion of existing borrowings, 2) funding capital expenditure of INR 1.1bn, 3) funding incremental working capital needs of INR 2.2bn, and 4) general corporate purposes.

Key risks to our call

- Increased competition where *Reliance Retail* is the market leader, followed by *Croma*, a brand of Tata Group
- Ongoing legal proceedings filed by *Bajaj Electricals* for the use of the name, *Bajaj Electronics* outside Telangana and Andhra Pradesh
- The company's inability to compete in North India could affect near- to medium-term growth prospects
- None of the brand names used by the company have received copyrights to date. Any firm in the market could use its name

Exhibit 10: Management team

Board of Directors	Designation
Pavan Kumar Bajaj	Chairman & MD
Karan Bajaj	CEO & WTD
Astha Bajaj	Executive Director & WTD
Anil Rajendra Nath	Independent Director
Mirza Ghulam Muhammad Baig	Independent Director
Jyotsna Angara	Independent Director

Source: RHP, Elara Securities Research

Exhibit 11: Key managerial personnel

KMP	Designation
Premchand Devarakonda	CFO
Giridhar Rao Chilamkurthi	VP - Sales
Rajiv Kumar	Company Secretary & Compliance Officer
Annapurna Devi Kuchibhatla	CTO
Gorantla Suma Reddy	Head – E-commerce
Nammi Ravi Kiran	GM – HR & Admin

Source: RHP, Elara Securities Research

Exhibit 12: Company history

Year	Milestone achieved
1980	Opens first retail store at Lakdikapool, Hyderabad
2014	Crosses INR 5,000mn in net sales
2016	Crosses INR 10,000mn in net sales
2017	Forays into the eCommerce space through its website, www.bajajelectronics.com
2018	Opens 50th store at Hyderabad; crosses INR 20,000mn in net sales; the company incorporation pursuant to its conversion from a partnership firm into a public limited company; launches first Apple IQ store at Attapur, Telangana
2019	Expands operations beyond brick-and-mortar stores in Andhra Pradesh and Telangana by commencing business operations on eCommerce platform in association with <i>Amazon</i> and <i>Paytm</i>
2020	Crosses INR 30,000mn in net sales
2021	Number of operational stores reaches 99 stores comprising 88 multi-brand outlets and 11 exclusive brand outlets
2022	Number of operational stores reaches 105 stores, comprising 93 multi-brand outlets and 12 exclusive brand outlets

Source: Company website, Elara Securities Research

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