

Electronics Mart India Ltd.

Recommendation	SUBSCRIBE		BACKGROUND																																																								
Price Band	Rs. 56-59		EMI (Electronics Mart India) is the 4th largest consumer durable and electronics retailer in India. It is the largest player in the Southern region with dominance in the states of Telangana and Andhra Pradesh. Its offering includes more than 6,000 SKUs across product categories from more than 70 consumer durable and electronic brands. EMI operates through 112 retail stores across 36 cities with a retail business area of 1.12 million sq. ft. EMI has been one of the fastest growing consumer durable & electronics retailers in India with revenue CAGR of 26% over FY15-20 (pre-covid).																																																								
Bidding Date	04 – 07 Oct																																																										
BRLM	Anand Rathi, IIFL Securities, JM Financial																																																										
Registrar	KFin Technologies Ltd																																																										
Sector	Retail																																																										
Minimum Retail Application																																																											
Number of Shares	254																																																										
Min. Application Money	Rs.14,986																																																										
Discount to retail	N.A																																																										
Payment Mode	ASBA																																																										
Financials (Rs Cr)	FY21	FY22	Details and Objects of the Issue <ul style="list-style-type: none"> The total issue size is Rs. 500 Cr constituting fresh issue of up to 8.47 Cr equity shares. The offer shall constitute 22% of the post-offer paid-up equity capital of the company. EMI shall utilise the proceeds from the fresh issue for funding working capital requirements, opening of stores/warehouses and repayment of debt. 																																																								
Total Income	3202	4349																																																									
EBITDA	204	292																																																									
Adjusted PAT	59	104																																																									
Valuations	Upper Band																																																										
Market Cap (Rs Cr)	2,270																																																										
EPS	2.7																																																										
P/E Ratio	21.8																																																										
EV/ EBITDA	9.7																																																										
Enterprise Value (Rs Cr)	2,832																																																										
Post Issue Shareholding Pattern																																																											
Promoters	78.0%																																																										
Public	22.0%																																																										
Offer structure for different categories																																																											
QIB (Including Mutual Fund)	50%																																																										
Non-Institutional Investors	15%																																																										
Retail	35%																																																										
Post Issue Equity (Rs. in Cr)	384.75																																																										
Issue Size (Rs in Cr)	500																																																										
Face Value (Rs)	10																																																										
Financials (Rs Cr) <table border="1"> <thead> <tr> <th></th> <th>FY20</th> <th>FY21</th> <th>FY22</th> </tr> </thead> <tbody> <tr> <td>Net Revenues</td> <td>3172</td> <td>3202</td> <td>4349</td> </tr> <tr> <td>Growth</td> <td>12%</td> <td>1%</td> <td>36%</td> </tr> <tr> <td>EBIDTA</td> <td>228</td> <td>204</td> <td>292</td> </tr> <tr> <td>EBITDA Margins</td> <td>7.2%</td> <td>6.4%</td> <td>6.7%</td> </tr> <tr> <td>PBT</td> <td>112</td> <td>80</td> <td>140</td> </tr> <tr> <td>Growth</td> <td>40%</td> <td>-29%</td> <td>75%</td> </tr> <tr> <td>Adjusted PAT</td> <td>82</td> <td>59</td> <td>104</td> </tr> <tr> <td>EPS</td> <td>2.1</td> <td>1.5</td> <td>2.7</td> </tr> <tr> <td>ROE</td> <td>18.8%</td> <td>11.9%</td> <td>17.4%</td> </tr> <tr> <td>ROCE</td> <td>14.1%</td> <td>10.4%</td> <td>12.9%</td> </tr> <tr> <td>EV/Sales</td> <td>0.9</td> <td>0.9</td> <td>0.7</td> </tr> <tr> <td>EV/EBITDA</td> <td>11.9</td> <td>13.6</td> <td>9.7</td> </tr> <tr> <td>P/E</td> <td>27.8</td> <td>38.7</td> <td>21.8</td> </tr> </tbody> </table>					FY20	FY21	FY22	Net Revenues	3172	3202	4349	Growth	12%	1%	36%	EBIDTA	228	204	292	EBITDA Margins	7.2%	6.4%	6.7%	PBT	112	80	140	Growth	40%	-29%	75%	Adjusted PAT	82	59	104	EPS	2.1	1.5	2.7	ROE	18.8%	11.9%	17.4%	ROCE	14.1%	10.4%	12.9%	EV/Sales	0.9	0.9	0.7	EV/EBITDA	11.9	13.6	9.7	P/E	27.8	38.7	21.8
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Source: Company data, NBRR																																																											

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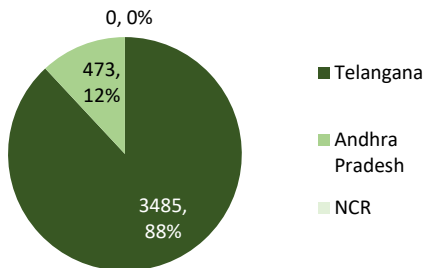
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Company Background & Business Model

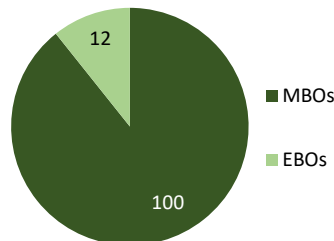
EMI (Electronics Mart India) is the 4th largest consumer durable and electronics retailer in India. It is the largest player in the Southern region in revenue terms with dominance in the states of Telangana and Andhra Pradesh. EMI commenced its business operations in 1980. EMI offers a diversified range of products with focus on large appliances (air conditioners, televisions, washing machines and refrigerators), mobiles and small appliances, IT and others. Its offering includes more than 6,000 SKUs across product categories from more than 70 consumer durable and electronic brands. EMI has been one of the fastest growing consumer durable & electronics retailers in India with revenue CAGR of 26% over FY15-20 (pre-covid).

As on Aug 2022, EMI has 112 stores across 36 cities / urban agglomerates with a retail business area of 1.12 million sq. ft. Out of the total 112 stores, 11 stores are owned, 93 stores are under long-term lease rental model and 8 stores are partly owned and partly leased. Out of 112 stores, 100 stores are Multi Brand Outlets (MBOs) and 12 stores are Exclusive Brand Outlets (EBOs). EMI operates 89 MBOs under the name “Bajaj Electronics” in Telangana & A.P, 8 MBOs under the name “Electronics Mart” in the NCR region and 2 specialized stores under the name “Kitchen Stories” which caters to the kitchen specific demands of customers and 1 specialised store format under the name “Audio&Beyond” focusing on high end home audio and home automation solutions. The 100 MBOs operate at an average store area of 10,876 sq feet per store while 12 EBOs operate at an average store area of 3,061 sq feet per store.

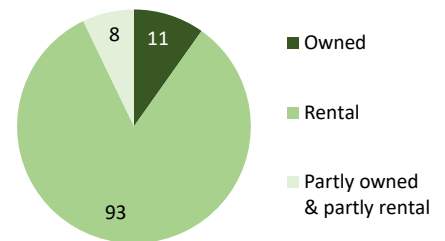
Geographical revenue (Rs Cr) & mix (FY22)



Stores: MBOs vs. EBOs



Stores: Owned vs. Rental



Source: RHP

Financing: EMI offers a number of financing solutions to customers. It has entered into arrangements with multiple financing partners which allows it to offer financing solutions in the form of low cost or zero cost EMIs to its customers.

Seasonality: The business experiences two major seasons, the Indian festival season (Q3) and the summer season (Q1).

Marketing Initiatives

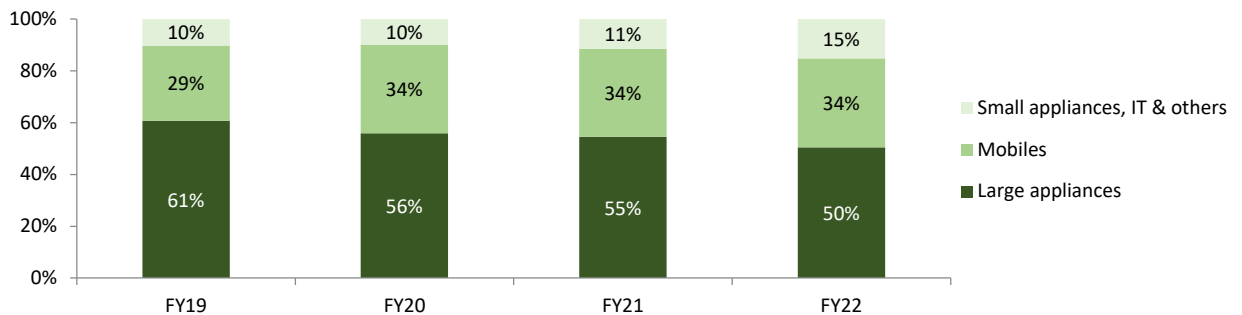
- EMI markets and advertises mostly in prominent media about its products and the prevailing offers on them during the festive and summer seasons to capitalise on the market opportunities.
- EMI organises marketing events during Indian festivals like Dusshera and Diwali by organising a contest under the name ‘India’s Biggest Festive Offer’ in which a customer can win cash prizes up to Rs. 1 crore and small passenger cars. During this contest, EMI provides its customers with offers where they can enter into a lucky draw. EMI often invites a celebrity or a publicly known personality to draw the name of the winner from the dropbox.
- EMI invests in marketing activities specific to certain days / events by advertising its products and stores in multiple channels for a shorter duration.
- It considers its store launches as the most prominent time to capture the attention of prospective customers and to further this strategy, it uses various advertising channels to reach out to them.

Electronics Mart India Ltd.

Product Mix:

1. Large appliances – includes refrigerators, televisions, air conditioners and washing machines. This includes products of leading brands like LG, Panasonic, Philips, Sony, Godrej, IFB, Daikin, Symphony, Voltas and others.
2. Mobiles - includes mobile phones, tablets, smart watches and fitness trackers. This includes products of leading brands such as Oppo, One Plus, Vivo and others.
3. Small appliances, IT and others - includes items that typically compliment the above-mentioned products like laptops, personal computers, printers, cables, screen guards, head phones, bluetooth speakers, coolers, geysers, ceiling fans, personal care devices and kitchen appliances such as kitchen hobs, chimneys, water purifiers and other allied appliances. This includes products of leading brands such as Dell, Sony, AO Smith, Ariston Thermo, Butterfly, Miele, Preethi, Havells, Kaff, Orient, Liebherr, Franke Faber and others.

Category-wise Product Mix



Source: RHP

Investment Rationale

Advantage of 'scale' enables EMI to procure products at competitive rates on the back of leadership position in South India and 4th largest in India

As of Aug 2022, EMI operates and manages 112 stores with retail business area of 1.12 million sq. ft., located across 36 cities/urban centres. With revenue of Rs. 4,349 Cr in FY22, EMI is the largest player in the Southern region with dominance in the states of Telangana and Andhra Pradesh and the 4th largest in India.

EMI is currently associated with more than 70 electronic brands and has a long-standing relationship of more than 15 years with some brands. EMI enjoys reputation of trust and reliability with these electronic brands and works closely with them enabling the company to grow in the domestic market and consistently expand its product portfolio.

EMI's large scale of operations, makes it an important partner for these brands as their sales to EMI as a proportion of their total sales would be significant, especially when compared with smaller retail chains and single store owners. Thus, brands sell their products to EMI at competitive rates (at such a price, that EMI remains relevant in the marketplace and is able to compete in all localities where it operates) and in the process the brands secure themselves of the shelf space in EMIs vast retail presence of 1.12 million sq. ft.

Electronics Mart India Ltd.
One of the faster growing consumer durable and electronics retailer with consistent track record of growth and profitability

EMI has been one of the fastest growing consumer durable and electronics retailer in India with revenue CAGR of 26% over FY15-20 (pre covid) and CAGR of 18% over FY16-21. EMI has expanded its store network from 59 in FY19 to 112 stores in FY22 (CAGR of 24%), while its retail business area grew from 0.65 million sq. ft. in FY19 to 1.12 million sq. ft. in FY21. During the normal year (non covid) of FY19, the company's same store sales growth was at 10.6% while it was negative during FY20 & 21. EMI has one of the highest EBITDA/operating margins in comparison to peer companies.

Comparative parameters of leading players for FY21

Parameter	Reliance Retail ¹	Croma	Vijay Sales	EMIL	Sathya	Sargam ⁺	Girias	Aditya Vision	Adishwar	Viveks	Average
Revenue (CAGR FY16-21)	48.3%	12.7%	NA**	17.9%	15.6%	11%	5.3%	25.5%	(7.6) %	(20.3) %	12.0%
Revenue (Rs bn)	1316.9	53.5	36.7	32.0	9.9	9.2	7.8	7.5	2.6	1.7	
Type (national/regional)	N	N	N	R(S)	R(S)	R(N)	R(S)	R(E)	R(S)	R(S)	
No. of stores ³	300+ ²	195	121	105	157	15	104	70	70	34	
Per store revenue (Rs Mn)	NA ⁴	274	303	305	61	NM	75	107	36	50	150
Online presence	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	
Own brand	Yes	Yes	Yes	No	No	No	No	No	No	Yes	
Presence across cities	100+	63	20	30+	40+	2	48	38	24	7	
Employee cost (% of sales)	0.9%	5.1%	3.4%	1.9%	4.2%	3.1%	5.6%	3.3%	7.7%	5.6%	4.1%
Operating margin # (%)	6.1%	0.8%	7.4%	6.4%	3.0%	2.8%	3.3%	5.6%	4.2%	0.8%	4.0%
PAT margin (%)	3.5%	(3.8) %	4.1%	1.8%	1.7%	0.7%	1.3%	3.3%	0.2%	(5.2) %	0.8%
Inventory days	36	53	61	59	59	57	68	102	123	67	68.5
Working capital days	10	(140)	(13)	(15)	13	27	89	21	53	(145)	(10)
ROCE	31.8	3.4	NA**	23.9	21.0	16.1	9.7	26.0	5.2	(18.1)	13.2
ROE	24.7	NM	99.3	11.9	30.4	9.5	6.4	43.5	0.9	16.2	27.0

Source: RHP

Some key parameters for FY22

Parameter	Reliance Retail ¹	Croma	EMIL	Aditya Vision
Revenue (Rs bn)	1694.0	82.1	43.5	9.0
Employee cost (% of sales)	0.9%	4.2%	1.8%	3.2%
Operating margin # (%)	6.1%	(1.4) %	6.7%	7.4%
PAT margin (%)	2.9%	(5.4) %	2.4%	4.1%
Inventory days	46	70	55	92
Working capital days	7	(29)	(15)	NA
ROCE	23.5	(17.4)	19.1	31.0
ROE	31.6	94.1	17.4	NA

Source: RHP

Increasing market presence and geographic reach with cluster-based expansion.

EMI adopts an approach wherein it expands its network in a particular market, till it reaches substantial depth & scale. Such clusters lead to effective penetration in underserved markets, optimisation of infrastructure and concentrated brand visibility due to focused implementation of marketing and advertising initiatives. EMI aims to continue to deepen its store network in existing clusters to increase its market share in the Telangana, and Andhra Pradesh markets. EMI generates bulk of its revenue (88%) from Telangana while revenue from Andhra Pradesh formed 12% mix as on FY22. EMI also intends to build store network in the NCR region. During the current year, it has opened 8 stores in NCR and is planning to open another 26 stores with IPO funds.

Strategically located logistics & warehousing facilities backed by stringent inventory management using IT systems

EMI's strategically located warehousing facilities enables it to fulfil its promise of timely delivery at cost competitive prices. EMI operates through a combination of large centrally located warehousing facilities which are backed by individual storage areas at store level. EMI operates 7 large warehouses with an average area of 31,028 sq ft. Further, all stores utilise a computerised inventory management system, which allows EMI to track the inventory level and movement of SKUs on a daily basis. The inventory management systems of all stores are synchronised with distribution centres and offices, allowing EMI to control inventories effectively across all of its stores.

Concerns

Competitive intensity is gradually rising: The principal bases of competition in India in organized retailing of electronics are pricing, range of brands, trust and convenience of locations. EMI's key direct competitors include other organized brick & mortar retailers such as Reliance Retail, Croma, Vijay Sales, Sathya, Sargam, Girias, Aditya Vision, Adishwar, Viveks, etc and unorganized retailers such as local electronic stores. Each of the aforementioned organised retailers of electronics has an established presence in some regions of India and in some cases across India and each is continuing to open additional stores. The increasing competition shall result in shrinkage of catchment area of EMI's stores. Further, the availability of multiple options enhances the bargaining power of the customers, which in turn forces the store operators to resort to aggressive discounting practices affecting the gross margins.

Threat from e-commerce: Emergence of large retailers on online market places in coming years could provide them with some partial scale advantage that large offline retailers enjoy, which can become a threat in the longer term. Also, e-commerce industry has been able to make a dent and capture market share from offline retailers especially in categories such as Mobiles (40%+ share), TVs (25% share), Microwave (40%+share). Mobile phones contributed to 34% of EMI's revenue in FY22. Any further market share gain by e-commerce industry in the mobile category in coming years could thus impact EMI's business prospects.

Regional concentration in Telangana & Andhra Pradesh: EMI generated all its sales from stores in Telangana and Andhra Pradesh. Existing and potential competitors may increase their focus on these states, which could reduce EMI's market share. The concentration of EMI's operations heightens its exposure to adverse developments related to competition, as well as economic, political, demographic or natural calamities.

Electronics Mart India Ltd.
Valuation and Recommendation

Being the 4th largest consumer durable and electronics retailer in India in India and the largest in South India, EMI enjoys favorable terms of pricing/margins from brands due to its scale - this is a key advantage. EMI has demonstrated superior performance among all major consumer durable and electronics retailers in India in terms of growth with revenue CAGR of 26% over FY15-20 (pre-covid) and also managed to deliver respectable ROE of 17.4% during the covid impacted year of FY22. As there is only one listed peer in the consumer durable and electronics retailing industry, namely Aditya Vision, we compare EMI with other listed retail companies as well. We believe EMI is being offered at attractive valuations at PE of 21.8x FY22 & EV/EBITDA of 9.7x FY22. **We recommend subscribing to the issue.**

Listed Retail Players

FY22 Figures	D-Mart (S)	Shoppers Stop	V Mart Retail	Aditya Vision	EMI
Sales	30976	2519	1666	899	4349
Gross Margin	15%	40%	35%	16%	14%
EBITDA	2502	270	204	83	292
Margin	8.1%	10.7%	12.2%	9.2%	6.7%
PBIT	2118	109	87	68	224
Margin	6.8%	4.3%	5.2%	7.6%	5.2%
Asset Turnover	2.2	1.1	1.0	2.8	2.4
ROCE	15%	5%	5%	21%	13%
ROE	12%	Loss	1%	45%	17%
ROCE (FY19/pre-covid)	24%	13%	25%	30%	10%
ROE (FY19/pre-covid)	17%	7%	15%	23%	12%
Wkg Cap Days (ex cash)	49	40	104	55	73
EV/Sales	9.1	3.9	3.9	2.1	0.7
EV/EBITDA	113	37	32	22	10
P/E	190	Loss	479	47	21.8

Source: RHP, NBRR

Electronics Mart India Ltd.

Financials

P&L (Rs. Cr)	FY20	FY21	FY22	Q1FY23
Net Revenue	3172	3202	4349	1408
% Growth	12%	1%	36%	
Raw Materials	2702	2767	3755	1212
% of Revenues	85.2%	86.4%	86.3%	86.0%
Employee Cost	59	61	79	22
% of Revenues	1.8%	1.9%	1.8%	1.5%
Other expenses	184	169	223	78
% of Revenues	5.8%	5.3%	5.1%	5.6%
EBITDA	228	204	292	97
EBITDA Margin	7.2%	6.4%	6.7%	6.9%
Depreciation	51	58	71	20
Other Income	7	5	4	2
Interest	63	72	85	24
PBT before Exceptional	120	80	140	55
Exceptional Item	8	0	0	0
PBT	112	80	140	55
Tax	31	21	36	14
Tax rate	27.3%	26.3%	25.7%	26.2%
PAT	82	59	104	41
% Growth		-28%	77%	
EPS (Post Issue)	2.1	1.5	2.7	1.1

Ratios & Others	FY20	FY21	FY22	Q1FY23
EBITDA Margin (%)	7.2%	6.4%	6.7%	6.9%
PAT Margin (%)	2.6%	1.8%	2.4%	2.9%
ROE (%)	18.8%	11.9%	17.4%	25.5%
ROCE (%)	14.1%	10.4%	12.9%	18.9%

Turnover Ratios	FY20	FY21	FY22	Q1FY23
Debtors Days	10	11	9	
Inventory Days	46	55	52	
Creditor Days	1	1	2	
Asset Turnover (x)	2.4	2.1	2.4	

Valuation Ratios	FY20	FY21	FY22	Q1FY23
Price/Earnings (x)	27.8	38.7	21.8	
EV/EBITDA (x)	11.9	13.6	9.7	
EV/Sales (x)	0.9	0.9	0.7	
Price/BV (x)	5.2	4.6	3.8	-

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY20	FY21	FY22	Q1FY23
Share Capital	300	300	300	300
Reserve & Surplus	133	192	297	338
Networth	433	492	597	638
Total Loans	521	548	594	476
Lease Liabilities	351	420	550	554
Trade payable	7	8	25	25
Other Current Liab	35	52	52	49
Current tax liabilities		2	7	14
Provisions	1	2	1	0
Total Current Liab.	42	62	84	87
Total Equity & Liab.	1,348	1,524	1,825	1,756
Fixed Assets & CWIP	574	676	809	954
Loans	1	1	1	1
Deff & Non current tax i	15	16	23	24
Inventories	402	481	614	473
Other non Curr. assets	36	28	43	35
Cash & Bank	87	35	34	20
Debtors	85	95	108	101
Other Current assets	147	191	192	147
Total Assets	1,348	1,524	1,825	1,756

Cash Flow (Rs. Cr)	FY20	FY21	FY22	Q1FY23
EBITDA	228	204	292	97
Provisions & Others	4	6	10	(1)
Op. profit before WC	232	210	302	96
Change in WC	(153)	(126)	(143)	196
Less: Tax	(43)	(20)	(38)	(9)
CF from operations	36	64	122	283
Addition to assets	(64)	(59)	(68)	(143)
(Purchase)/Sale of invs	(6)	(1)	(0)	(4)
Interest Received	0	0	0	(3)
CF from Investing	(70)	(60)	(68)	(150)
Proceeds	154	38	58	(116)
Repayment	(10)	(10)	(12)	(2)
Payment of Lease Liabil	(11)	(13)	(19)	(6)
Interest Paid	(61)	(70)	(81)	(23)
CF from Financing	71	(56)	(54)	(147)
Net Change in cash	36	(52)	(1)	(15)
Cash at beginning	51	87	35	34
Cash at end	87	35	34	20

Disclosure:

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