

3rd October 2022

Electronic Mart India LTd-SUBSCRIBE

Investment Thesis

Electronic Mart India Ltd. (EMIL) is the 4th largest and one of the fastest growing consumer durable and electronics retailers in India and as per FY21, EMIL is the largest regional organized player in the Southern region in revenue terms with dominance in states like Telangana and Andhra Pradesh. The Issuer commenced its business operations in 1980 and is a growing consumer durable & electronics retailer in India with revenue CAGR of 18% from FY16 to FY21. Its offering includes more than 6,000 SKUs across product categories from more than 70 consumer durable and electronic brands. EMIL operates 112 stores, out of which, 11 stores are owned, 93 stores are under the long-term lease rental model and 8 stores are partly owned and partly leased as of Aug 31, 2022 as lease rental stores are mostly located in Tier-II and Tier-III cities due to spaces over there are much cheaper and easily negotiable while in Tier-I cities negotiation at a prime location becomes difficult. The minimum lease duration for lease rental stores is 15 years. The Company operates through three channels- retail, wholesale, and e-commerce. Issue details and object of the issue; Electronic Mart IPO (fresh Issue of Rs 500 crore) opens on 4th Oct and closes on 7th Oct '22 with a price band of 56-59 per share. The objects of the offer include repayment of borrowings (Rs 55 crore), funding working capital (Rs 220 crore), and development and expansion (111 crores). As of August 31, 2022, the company's core competency lies in understanding the aspirants and demands of its customers and meeting their demand concept of value retailing. EMIL has extended its store network from 59 in FY19 to 112 stores in FY22 with CAGR growth of 24%. Despite the recent Covid pandemic, while its retail business area grew from 0.65 million sq. ft. in FY19 to 1.12 million sq. ft. in FY21. Its total bill cuts, increased from 1.49 million in FY20 and 1.45 million in FY21 to 1.81 million in FY22 respectively. For the three month period ended June 30, 2022 bill cuts stood at 0.55 million. It has reported same store growth rate of (0.70)%, (9.80)% and 23.37% for FY20, FY21 and FY22, respectively, EMIL has a consistent track record of revenue growth and profitability. EMIL has one of the highest EBITDA margins in comparison to peer companies. EMIL has strategically located its logistics & warehousing facilities backed by stringent inventory using IT Systems. This helps EMIL fulfill its commitment to timely delivery at competitive prices. For this EMIL has 9 large warehouses with an average area of 28,114 sq. ft. Out of these 9 warehouses, 6 are located in Hyderabad to cater Telangana region, 1 Warehouse is in Vijayawada to cater Andhra Pradesh region & rest 2 are located in NCR. The inventory management systems of all stores are synchronized with distribution centers and offices, allowing EMIL to control inventories effectively across all of its stores.

Revenue from business Verticals

EMIL is the fastest growing consumer durable business & electronics retailer with a consistent track record of growth and industry leading profitability from FY16 to FY21 EMIL's revenue grew at a CAGR of 17.90%.

Financial Table (Rs. Mn.)	FY20	FY21	FY22	Q1FY23
Revenue from Operations	31,724.77	32,018.76	43,493.16	14,084.45
EBITDA	2,276.41	2,038.81	2,919.38	970.42
Profit After Tax	816.08	586.21	1,038.91	406.58
ROCE	20.28	14.35	18.87	6.95
ROE	18.84	11.92	17.42	6.37
EPS	2.72	1.95	3.46	1.36

IPO Details

Issue Open Date	October 4 th , 2022
Issue Close Date	October 7 th , 2022
Price Band (Rs.)	Rs. 56 –Rs. 59
Issue Size (Rs in Cr)*	Rs. 500 Cr.
Issue Size (Shares)*	8,92,85,714
Market Lot	254 Shares
Listing Exchanges	NSE & BSE
Face Value (Rs.)	Rs. 10 per Share

* At highest price band

Key Details

Fresh Issue	Rs. 500 Cr.
Issue Type	Book Building
Offer For Sale	-
Book Running Lead Manager	AanadRathi, IIFL Securities, JM Financials
Issue structure	QIB: 50%, NII: 15%, Retail: 35%
Credit of Shares to Demat Account	October 13 th , 2022
Issue Listing Date	October 17 th , 2022

* At highest price band

EMIL aims to continue to expand its store network through existing clusters to increase its market share in the Telangana, and Andhra Pradesh markets. 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. EMI generates bulk of its revenue 88% from Telangana while revenue from Andhra Pradesh formed 12% mix as on FY22. Low employee Cost is one of the most important factors in EMIL business. In terms of percentage of sales EMILs employee cost stands at 1.9% which is following Reliance Retail's 0.9% in FY22. Company operates with a total of 2091 employees. The key USP behind low employee cost is that all the brands across the MBOs are managed by that particular brand's sales person leads to in-depth knowledge of the products which helps them to sell the product to the customer. The company's strong promoter background and an experienced senior management team have helped them to offer high standards of customer service and a pleasant shopping experience at their stores. The company's Board and senior management have a proven track record and an understanding of the retail business

Key Business Highlights

EMIL operates its business activities across 3 channels.
RETAIL: As the main objective of providing comprehensive electronic solutions, EMIL has set up diversified consumer durable & electronic retail stores arraying multiple as well as specialized electronics products. As of 31st August, 2022 company operates 112 retail stores including 100 Multi Brand Outlets ("MBOs") and 12 Exclusive Brand Outlets ("EBOs") stores. EMIL operates its 89 MBOs retail stores under the name of "Bajaj Electronics" in Andhra and Telangana, 8 MBOs under the name of "Electronics Mart" in the NCR region, 2 specialized stores under the name "Kitchen Stories" which caters to the kitchen specific demands, and 1 specialized store format under the name "Audio&Beyond" focusing on high-end home audio and home automation solutions. In Q1FY23 EMIL generates 90.65% of its revenue via its Retail Segment only.

WHOLESALE: EMIL is also engaged in the wholesale business of consumer durables where it supplies products to single-shop retailers in Andhra Pradesh and Telangana. In Q1FY23 EMIL generates 1.44% of its revenue via its Wholesale Segment.

E-COMMERCE: In FY17, EMIL diversifies its operations into the e-commerce space through its website which functions as the catalog for the products present in EMIL's retail stores. In FY19 company further expands its network by associating with the largest domestic and international players in the e-commerce market thereby expanding the company's business reach from brick to mortar retail stores to e-commerce platforms. In Q1FY23 EMIL generates 1.10% of its revenue via its E-Commerce Segment and other operating income segment 6.82%.

Valuation

EMIL is the largest player in the southern region in revenue terms with dominance in the state of Telangana and Andhra Pradesh and fastest growing consumer and electronics retail in India with revenue CAGR of 18% from FY16 to FY21. EMIL has reported strong financial performance among all peer group of consumer durable and electronics retailers in India in terms of operating margin, revenue growth and return ratios are consistently improving. Considering PE valuation at upper price band stock is priced at 17.05x as of now we have only one listed consumer and electronics retail company Aditya Vision is trading at PE 32.70x which indicates that the Issue is reasonably priced. EMI is going to be the second company to get listed in the capital market competing with Aditya Visions. If we compare Aditya vision with EMI, EMI is 4x from Aditya Vision in terms of revenue with highest operating profit margins in industry. **We recommend subscribing to the issue.**

Risk & Concern

- Regional concentration in Telangana & Andhra Pradesh.
- Threat from e-commerce.
- Competitive strength is gradually rising.
- Subdued consumer demand and economic activities

Graphs & Charts

Figure 1: Revenue from Operations

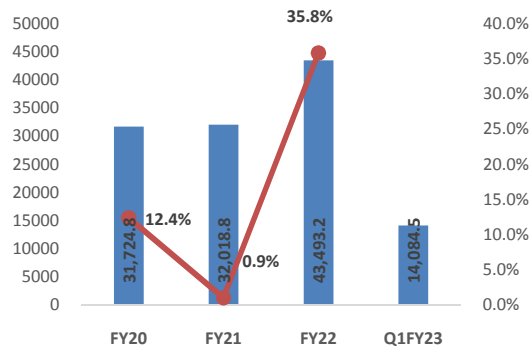


Figure 2: EBITDA & EBITDA Margin

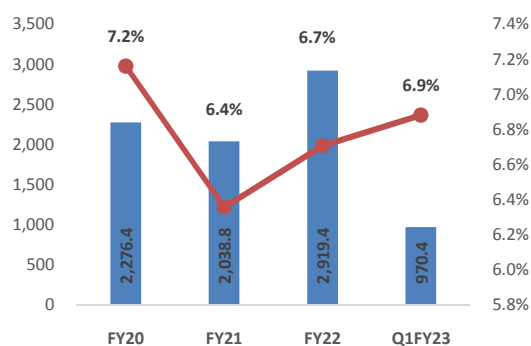


Figure 3: PAT & PAT Margin

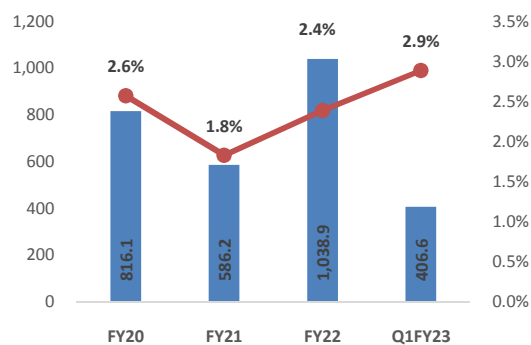
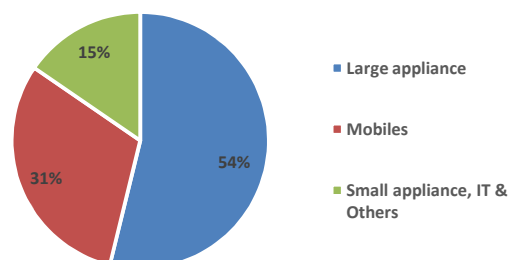


Figure 4: Product Category (Q1 FY23)



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