

12th December 2024

Vishal Mega Mart Limited – SUBSCRIBE

Investment Thesis

Vishal Mega Mart IPO is a book built issue of Rs 8,000.00 Cr. The issue is entirely an offer for sale of 102.56 crore shares. Vishal Mega Mart will not receive any proceeds of the Offer for Sale by the Promoter Selling Shareholder. The Promoter Selling Shareholder will be entitled to the entirety of proceeds of the Offer for Sale after deducting its portion of the Offer related expenses and the relevant taxes thereon.

Vishal Mega Mart has demonstrated a robust financial performance, with revenues increasing from Rs.5,588.52 crore in FY22 to Rs.8,911.94 Cr. in FY24, reflecting a CAGR of 26% during this period. EBITDA also rose significantly, from Rs.803.68 crore to Rs.1,248.60 crore, maintaining consistent margins of around 14%.

Vishal Mega Mart operates an asset-light model by leasing all its distribution centers and stores, which minimizes capital expenditure and financial risk. As of September 30, 2024, it had only two franchise-operated stores. This model allows for greater flexibility and scalability in operations.

Vishal Mega Mart engages 781 vendors for manufacturing its own brand products, enabling it to focus on design and branding while outsourcing production. This strategy supports its asset-light approach and enhances operational efficiency.

The Indian retail market is projected to grow at a CAGR of 20% from CY2023 to CY2028, with Tier-2 cities driving much of this growth at approximately 32%. Vishal Mega Mart's strategy includes opening 90-100 stores annually in high-potential locations, particularly in under-served Tier-2 and Tier-3 cities.

Vishal Mega Mart's sales mix is well-balanced across categories: Apparel (44%), FMCG (27%), and General Merchandise (29%). This diversification helps mitigate risks associated with reliance on a single product category.

To enhance operational efficiency, Vishal Mega Mart is implementing the SAP Extended Warehouse Management system across its distribution centers. This initiative aims to improve visibility and control over supply chain logistics through advanced technologies like handheld devices and pick-to-light systems.

Despite modest sales per square foot at Rs. 701 compared to industry benchmarks, the focus on middle and lower-middle-income groups positions the company well within a growing segment of the retail market. Its higher EBITDA margins compared to competitors like DMart highlight its operational efficiency.

With a debt-free status and significant cash reserve, Vishal Mega Mart is well-positioned for future expansions and can leverage its strong financials to explore new opportunities in the rapidly evolving Indian retail landscape.

Financials

Particulars	FY22	FY23	FY24
Total Income (Rs in Cr.)	5,588.5	7,586.0	8,911.9
EBITDA (Rs in Cr.)	803.7	1,020.5	1,248.6
PBT (Rs in Cr.)	269.6	430.5	621.0
PAT (Rs in Cr.)	202.8	321.3	461.9
Adj. EPS (Rs)	0.45	0.71	1.02

IPO Details

Issue Open Date	11 December 2024
Issue Close Date	13 December 2024
Price Band (Rs.)	Rs.74 – Rs. 78
Issue Size*	Rs. 80,000.0 Mn
Issue Size (Shares)	1,025,641,025
Market Lot	190 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 0
Issue Type	Book Building
Book Running Lead Manager	Kotak Mahindra Capital Company Limited, ICICI Securities Limited, Intensive Fiscal Services Private Limited, Jefferies India Private Limited, J.P. Morgan India Private Limited and Morgan Stanley India Company Pvt Ltd
Issue structure	Anchor Investors: 30% QIB: 20% Non Institutional:15% Retail: 35%
Credit of Shares to Demat Account	17 December 2024
Issue Listing Date	18 December 2024

* At highest price band

Key Business Highlights

- Incorporated in 2001, Vishal Mega Mart is a hypermarket chain that offer three major product categories: apparel, general merchandise, and fast-moving consumer goods (FMCG). Apparel: This category consists entirely of Vishal Mega Mart's own brands, covering clothing for men, women, children, and infants. General Merchandise: This category includes both own-brand and third-party brand products, catering to various household and family needs. Fast-Moving Consumer Goods (FMCG): This category encompasses a mix of own-brand and third-party brand products, covering packaged food, staples, and non-food items
- Vishal Mega Mart targets middle and lower-middle-income people, through a Pan India network of 645 Vishal Mega Mart stores (as of September 30, 2024) and their Vishal Mega Mart mobile app and website. As of September 30, 2024, the company has a presence across 414 cities in 28 states and two union territories.
- Vishal Mega Mart relies entirely on a network of contract manufacturers to produce products for its own brands. This approach allows Vishal Mega Mart to maintain an asset-light business model, focusing on design, branding, and retail operations while outsourcing the manufacturing process to specialized vendors. Vishal Mega Mart maintains a large community of vendors for manufacturing its own brand products. As of September 30, 2024, they engaged 781 vendors for this purpose. In the Apparel segment, the company sells 100% ownbrand products, whereas in the FMCG and General Merchandise categories, it offers a mix of own-brand and third-party products.
- As of September 30, 2024, their direct local delivery service, managed by their employees, had 6.77 million registered users and was available in 600 stores across 391 cities in India.

Valuation

- Vishal Mega Mart's core strengths lie in its affordable pricing strategy, expansive presence in tier 2 and tier 3 cities, efficient supply chain management, and asset-light business model. Its strong reliance on private label brands and ability to adapt to market trends bolsters its competitive position in India's retail sector. At the upper priceband of Rs. 78, **Vishal Mega Mart is valued at a FY24 PE multiple of 69x on post-issue capital. we recommend a "Subscribe – Long Term" rating.**

Risk & Concern

- Reliance on third party manufacturers for own brand products which outsources manufacturing of all products under its own brands to third party vendors, primarily under non-exclusive contract manufacturing agreements which exposes to risks such as continuity of supply of products as per company's specifications and requirements, changes in cost of acquisition of products which would affect selling prices and profit margins of products, ability to enter into new agreements or extend existing agreements, delays in production, etc.
- Failure to identify changing consumer preferences is one of the risk which can impact profitability. The demand of company's products may vary over time due to changing consumer preferences, including those relating to trends, fashionability, functionality, design, material, quality, etc. Any failure to identify and effectively respond to changing consumer preferences in a timely manner can reduce demand for products adversely affecting company's financial condition and cash flows.
- An optimal level of inventory helps to maintain a full range of products at stores to respond to consumer demand across channels in a capital-efficient manner. Inability to anticipate or forecast consumer demand and trends accurately may result in either a shortage of products available for sale or excess inventory levels across the stores and distribution centres thus affecting business and cash flows of the company

Graphs & Charts

Figure 1: Number of stores

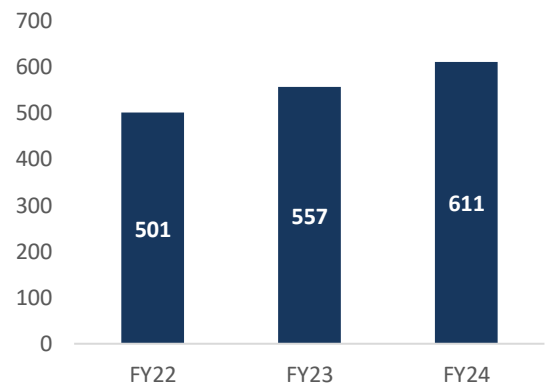


Figure 2: Same store sales growth

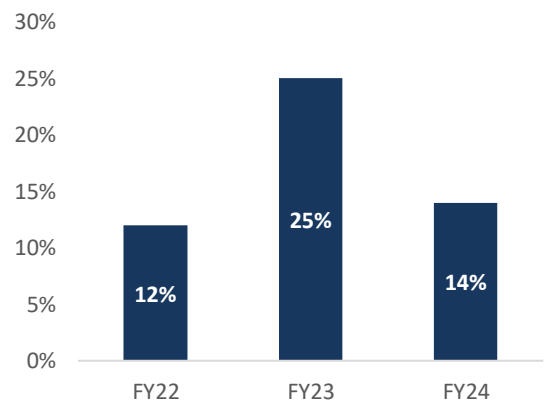


Figure 3: Revenue from Business Segments

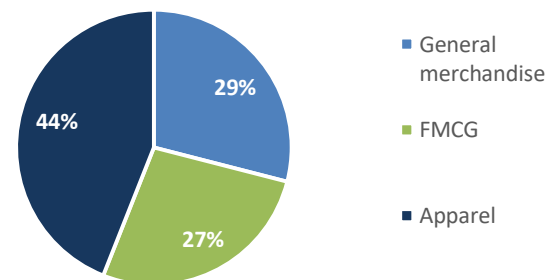
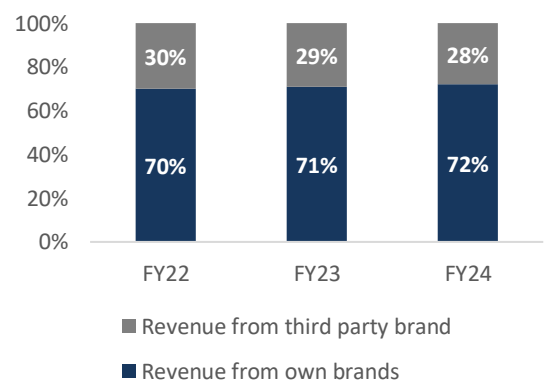


Figure 4: Revenue from own and third party brand



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