

# Electronics Mart India

Consumer Durable | India

IPO | 03 October 2022

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## Largest Southern Electronics Retailer

### About the Company

Electronics Mart India (EMI) is the 4th largest consumer durable and electronics retailer in India. The company offers a slew of products, primarily large appliances like ACs, televisions, washing machines and refrigerators. Its portfolio also includes mobiles, small appliances and other IT products. The company is launching an IPO comprising entirely fresh issues of Rs5bn. The funds will be utilised in opening of stores & warehouses, working capital requirements and repayment of borrowings.

### Massive Footprint in Telangana and Hyderabad

EMI is the largest player in southern India with ~1.12mn sq. ft. of retail space, a strong workforce of 2000+ employees, 112 stores across 36 cities and over 40 years of its legacy. Moreover, it is the largest player in the southern region in terms of revenue with a dominance in the states of Telangana and Andhra Pradesh. The company's offering includes more than 6,000 SKUs across product categories from more than 70 consumer durable and electronic brands.

### Long Standing Relationship with Brands

EMI has a history of collaboration with reputed electronic brands that helped to expand service offerings. The Company is currently associated with more than 70 electronic brands and has a long-standing relationship over last 15 years with several brands which operate in product categories such as large and small appliances, mobiles and others. It enjoys a reputation of trust and reliability with these electronic brands and works closely with them. On account of these relationship, EMI has been able to grow in the market and consistently expand product portfolio. The Long-term contracts help to plan capital expenditure, enhance ability to benefit from increasing economies of scale with stronger purchasing power and a lower overall cost base, thereby maintaining a competitive cost structure to achieve sustainable growth and profitability.

### Hybrid Business Model

Its business model is a mix of ownership and leases rental model. EMI has total 112 stores, of which, 11 are owned by the company, 93 are under a long-term lease rental model, while 8 are partly owned and partly leased.

### Multi-Channel Business

The company has diversified its business activities across Retail, Wholesale and E-Commerce. As of Aug'22, the retail channel includes 88 Multi Brand Outlets and 11 Exclusive Brand Outlets. Through the wholesale business of consumer durables, the company supplies products to single-shop retailers in Andhra Pradesh and Telangana regions. Moreover, the company leverages the e-commerce website as a catalogue for its products at retail stores.

### Financials in Brief

During FY20-22, EMI's revenue and PAT clocked a CAGR of 17% and 13% respectively, while EBITDA margin dipped from 7.2% in FY20 to 6.7% in FY22. The company reported a revenue of Rs43.5bn (up 36% YoY), while EBITDA increased to Rs2.9bn (up 43% YoY) in FY22. PAT for FY22 grew 77% YoY to Rs1.03bn on a low base in FY21 impacted by lock-down and disruption. ROE has expanded to 17.4% in FY22 against 11.9% in FY21, while ROCE has expanded to 12.7% in FY22 from 10% in FY21. The company's average net debt-to-equity ratio stood at ~1.9x over FY20-22.

### Our View

On FY22 financials, the IPO is valued at 11.6x EV/EBITDA, 0.8x EV/sales and 21.8x P/E. Supported by its extensive products portfolio, national outreach, flexible business model and multi-channel business activity, EMI appears to be in a strong position. **In view of competitive pricing, backing by top brands with long standing relationship, wide range of products, easy finance options and healthy expansion plans from IPO money, we recommend 'SUBSCRIBE' to the issue.**

#### IPO Details

|                                   |                   |
|-----------------------------------|-------------------|
| Price Band (Rs)                   | Rs56 - Rs59       |
| Face Value (Rs)                   | 10                |
| Issue Open/Closing Date           | 4-Oct-22/7-Oct-22 |
| Fresh Issues (mn)                 | 84.7              |
| OFS (mn)                          | -                 |
| Total Issue (mn)                  | 84.7              |
| Minimum Bid Qty. (Nos)            | 254               |
| <b>Issue Size (Rs bn)</b>         | <b>5.0</b>        |
| QIB / HNI / Retail                | 50%/15%/35%       |
| <b>Implied Market Cap (Rs bn)</b> | <b>22.7</b>       |

*\*At a higher band*

#### Object of the Issue

- ▶ Funding of Capex for expansion, new stores and warehouses.
- ▶ Funding incremental working capital requirements.
- ▶ Repayment borrowings.

#### Key Risk

- ▶ Majority of stores are concentrated in Andhra Pradesh and Telangana.
- ▶ Competition from online retailers on competitive prices.
- ▶ Dependent on external suppliers for product requirements.
- ▶ Highly dependent on the brand owners.

| Shareholding (%) | Pre-Issue | Post-Issue |
|------------------|-----------|------------|
| Promoters        | 100.0     | 78.0       |
| Others           | 0.0       | 22.0       |

#### Key Financials

| (Rs mn)                | FY20   | FY21   | FY22   |
|------------------------|--------|--------|--------|
| Revenue                | 31,725 | 32,019 | 43,493 |
| EBITDA                 | 2,276  | 2,039  | 2,919  |
| EBITDA Margin (%)      | 7.2    | 6.4    | 6.7    |
| PAT                    | 816    | 586    | 1,039  |
| PAT Margin (%)         | 2.6    | 1.8    | 2.4    |
| EPS (Rs)               | 2.1    | 1.5    | 2.7    |
| P/E (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    |
| Net Worth              | 4,331  | 4,919  | 5,965  |
| RoE (%)                | 18.8   | 11.9   | 17.4   |
| Gross Debt             | 5,205  | 5,479  | 5,936  |
| Net Block              | 5,712  | 6,730  | 7,844  |
| Net Asset Turnover (x) | 5.6    | 4.8    | 5.5    |

Source: RHP

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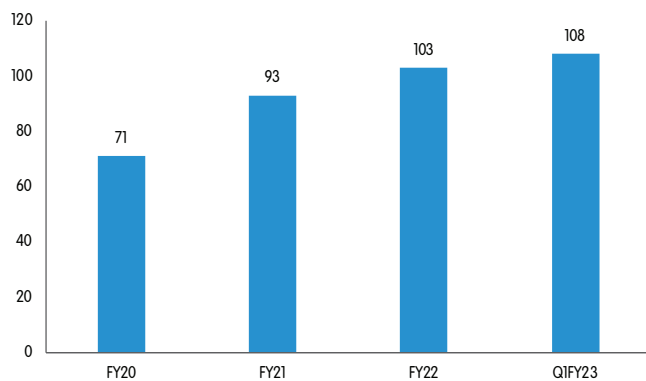
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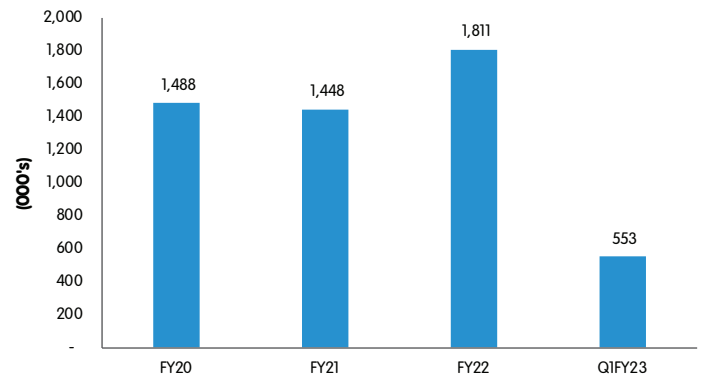
**Exhibit 1: Key Milestone**

| 1980                                     | FY14  | FY16  | FY17   | FY18  |
|--|---|---|--|---|
| Opened first retail store at Lakdikapool | Crossed Rs5bn revenue   | Crossed 10bn revenue  | Forayed into ecommerce <ul style="list-style-type: none"> <li>Awarded 'Outstanding Performer (Air Coolers)' by Voltas</li> </ul> | Crossed Rs20bn revenue <ul style="list-style-type: none"> <li>Opened 50th store in Hyderabad</li> <li>Conversion from a partnership to a public limited company</li> <li>Awarded "Certificate of Recognition" by Samsung</li> </ul> |
|  | FY19  | FY20  | FY21   | FY22  |
|  | association with Amazon and PayTM <ul style="list-style-type: none"> <li>Awarded "Best Business Partner Excellence Award: FY19" and "Best Contribution: FY19" by VIVO</li> <li>Awarded "Remarkable Contribution Award" by Oppo</li> </ul> | Crossed Rs30bn revenue <ul style="list-style-type: none"> <li>Awarded "Best Sales Performance – Across categories – FYFY" by Samsung</li> <li>Awarded "Most Promising Channel partner – dispensers" by Voltas"</li> </ul> | Operational store count reached 100 stores   | Crossed Rs40bn revenue <ul style="list-style-type: none"> <li>Awarded "Best Business Performance Q1-FY22" by Samsung</li> </ul>   |

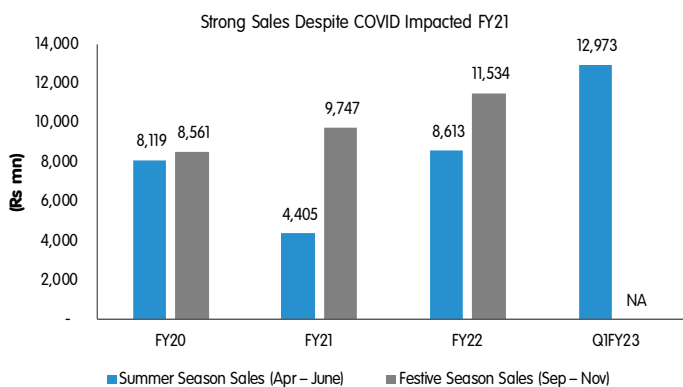
Source: RHP

**Exhibit 2: Retail Footprint of EMI (Nos)**


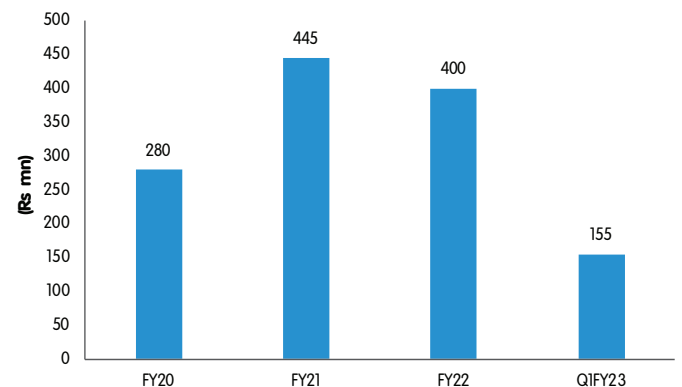
Source: RHP

**Exhibit 3: EMI: Total number of bill cuts (000's)**


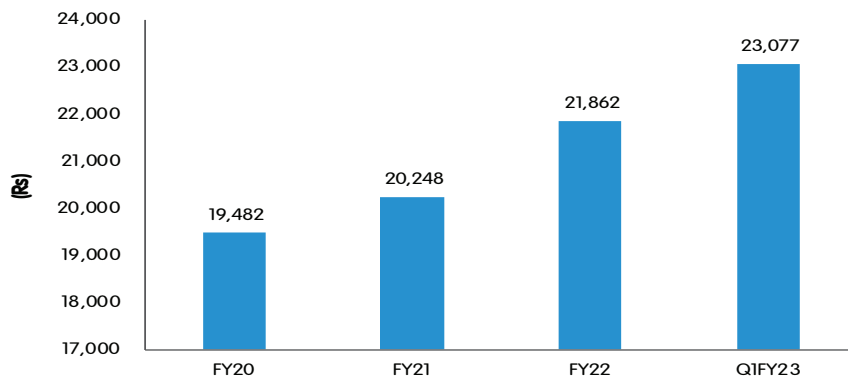
Source: RHP

**Exhibit 4: Summer Season Sales (Apr – June)**


Source: RHP

**Exhibit 5: E-Commerce Sales**


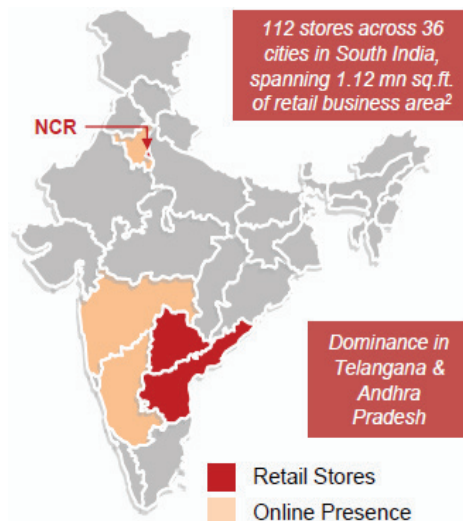
Source: RHP

**Exhibit 6: Avg Ticket Size**


Source: RHP

**Exhibit 7: Retail Outlets**

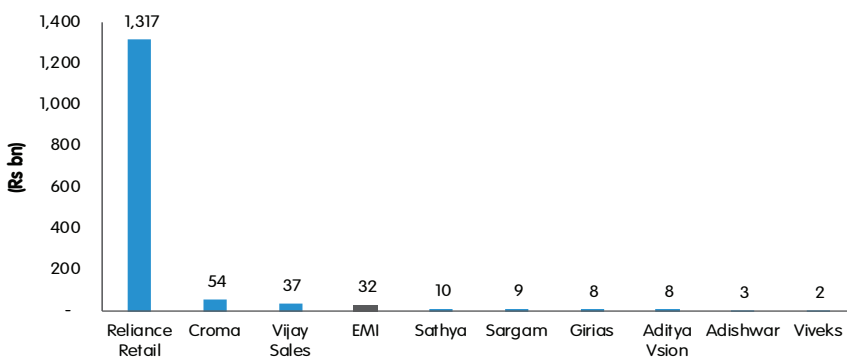

Source: RHP

**Exhibit 8: Expanding into NCR**


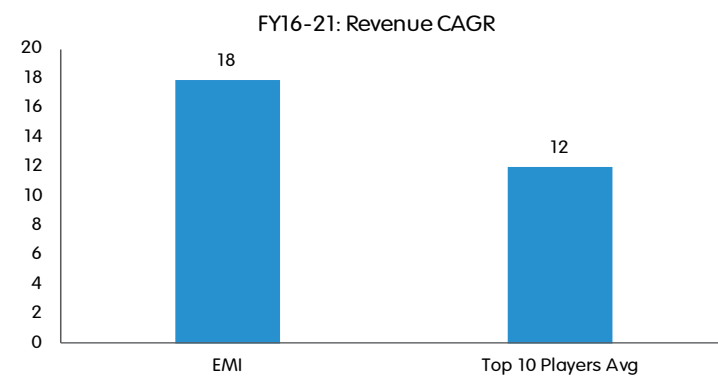
Source: RHP

**Exhibit 9: Brand Outlets of EMI**

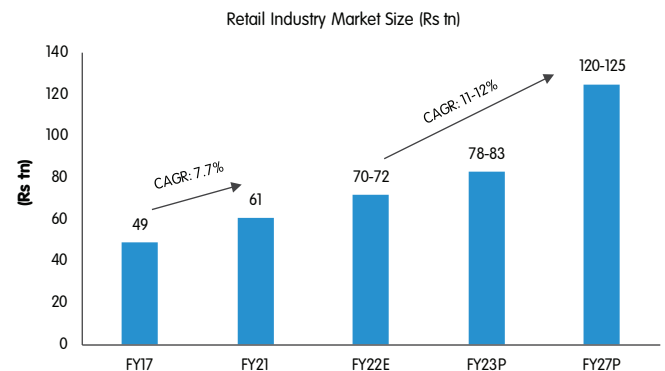

Source: RHP

**Exhibit 10: Revenue of major retailers (FY21)**


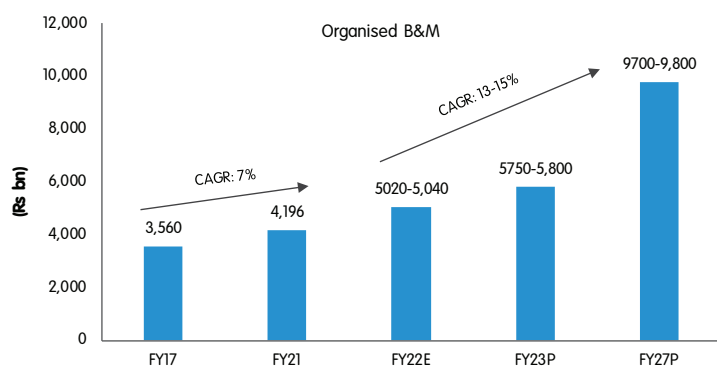
Source: RHP

**Exhibit 11: Outpacing Industry Growth**


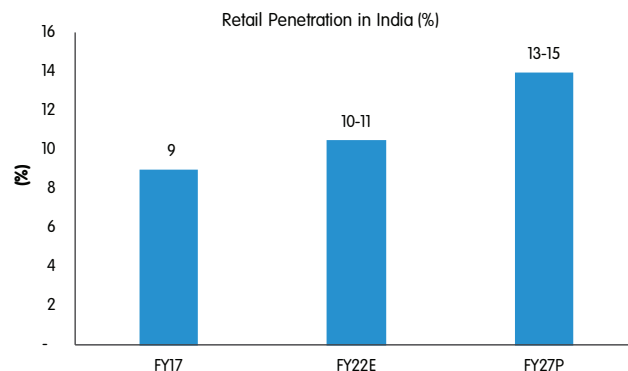
Source: RHP

**Exhibit 12: Retail Industry Market Size**


Source: CRISIL, RHP

**Exhibit 13: Organised Brick & Mortar (B&M) Growing Faster**


Source: CRISIL, RHP

**Exhibit 14: Organised Retail Penetration**


Source: CRISIL, RHP

**Exhibit 15: Consumer Durables Penetration**

|                   | India | US  | Germany | Japan | Australia | China | Brazil |
|-------------------|-------|-----|---------|-------|-----------|-------|--------|
| Colour TV         | 58    | 100 | 98      | 98    | 100       | 98    | 97     |
| Refrigerator      | 40    | 100 | 100     | 99    | 100       | 97    | 99     |
| Mobiles           | 41    | 96  | 99      | 98    | 100       | 98    | 95     |
| Washing Machine   | 21    | 87  | 97      | 98    | 99        | 95    | 68     |
| Air Conditioner   | 17    | 93  | 27      | 95    | 81        | 94    | 21     |
| Personal Computer | 14    | 93  | 93      | 81    | 86        | 61    | 46     |

Source: RHP

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