

Retail Research	IPO Note
Sector: Retail	Price Band (Rs): 74 - 78
09th December 2024	Recommendation: Subscribe for Long term

Vishal Mega Mart Ltd

Company Overview:

Vishal Mega Mart Ltd is one of the fastest growing offline-first diversified retailers in India offering a diverse range of products through its portfolio of own brands and third-party brands across three major categories namely, (i) Apparel, (ii) General merchandise and (iii) FMCG. The company has a pan-India presence comprising a network of 645 stores, its website and a mobile application (as of Sep'24).

Key Highlights:

1. One stop destination for middle and lower-middle income group:

The company serves middle and lower-middle income group of Indian population through a diverse portfolio of quality, affordable and branded products, fulfilling their daily and aspirational needs. The total addressable market for aspirational retail in India is Rs 68-72 tn (US\$ 820-870 bn) for CY23 and is expected to be Rs 104-112 tn (US\$ 1,250-1,350 bn) by CY28, growing at a CAGR of 9%.

2. Consumer-centric approach aids in loyal customer base:

The company has adopted a consumer centric approach to maximise variety, affordability, quality and convenience for the consumers which has helped build consumer trust and appeal as well as a large consumer base. The number of registered customers under the company's loyalty program has increased from 86.1 mn as of Mar'22 to 133.8 mn customers as of Sep'24.

3. Diverse and growing portfolio of Own Brands across product categories:

The company has a diverse and growing portfolio of own brands across the apparel, general merchandise and fast-moving consumer goods product categories. During FY24, 19 own brands of the company recorded sales of >Rs 100 cr each, with 6 of its own brands recording sales of >Rs 500 cr each. Company's own brands constituted 70.2%/70.5%/71.8%/72.86% to FY22/FY23/FY24/1HFY25 revenues respectively. Its own brand revenues have grown at a CAGR of 27.7% over FY22-24.

4. Pan-India presence with a track record of successful store growth:

As of Sep'24, the company has a pan-India network of 645 stores across 33 Tier 1 cities and 381 Tier 2 cities and beyond. It is ranked among the two-leading offline-first diversified retailers in India based on the number of cities present as of Mar'24. The average floor area ranges ~18,000 sq. ft. and all the stores are operated on a leasehold basis. The average payback per store for new stores opened in FY23 was 19 months which is the shortest store payback period among the leading offline-first diversified retailers in India.

Valuation: At the upper price band of Rs 78, Vishal Mega Mart is valued at FY24 P/E multiple of 76.1x on post issue capital. The company is scaling its presence across product categories and stores throughout India and has a track record of profitable growth. Its Revenue/EBITDA/PAT has grown at a CAGR of 26.3%/24.6%/50.9% respectively over FY22-24 period. The company makes relatively better EBITDA margin and similar PAT margin as compared to its major peer Dmart (Avenue Supermarts). We recommend investors to subscribe to the issue at cut-off price for long term.

Issue Details	
Date of Opening	11 th December 2024
Date of Closing	13 th December 2024
Price Band (Rs)	74 - 78
Offer for sale (Rs cr)	8,000
Fresh Issue (Rs cr)	-
Issue Size (Rs cr)	8,000
No. of shares	1,02,56,41,026 (@ upper price band)
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	33,365 – 35,168
BRLMs	Kotak Mahindra Capital Company Ltd, ICICI Securities Ltd, Intensive Fiscal Services Pvt Ltd, Jefferies India Pvt Ltd, J.P. Morgan India Pvt Ltd, Morgan Stanley India Company Pvt Ltd
Registrar	KFin Technologies Ltd
Bid Lot	190 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NII shares	15%

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	4,45,31,18,981	98.8
Public & Others	5,56,00,512	1.2
Total	4,50,87,19,493	100.0

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	3,37,20,37,900	74.8
Public & Others	1,13,66,81,593	25.2
Total	4,50,87,19,493	100.0

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	3,42,74,77,955	76.0
Public & Others	1,08,12,41,538	24.0
Total	4,50,87,19,493	100.0

Source: RHP, SSL Research

Key Financials

Rs cr	FY22	FY23	FY24	1HFY25
Revenue from operations	5,588.5	7,586.0	8,911.9	5,032.5
EBITDA	803.7	1,020.5	1,248.6	668.0
PAT	202.8	321.3	461.9	254.1
EBITDA Margin (%)	14.4	13.5	14.0	13.3
PAT Margin (%)	3.6	4.2	5.2	5.0
ROE (%)	4.2	6.2	8.2	-
ROCE (%)	8.7	11.2	13.6	-
PE (x)*	173.4	109.5	76.1	-

**Note: Pre-issue P/E based on upper price band*

Source: RHP, SSL Research

Risk Factors

- **Reliance on third party manufacturers for own brand products:** The company 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:** 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.
- **Inability to maintain an optimal level of inventory:** 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.
- **Revenue concentration in Uttar Pradesh, Karnataka and Assam:** The company derived 36.3% of its 1HFY25 revenues from Uttar Pradesh, Karnataka and Assam. Any adverse developments in these states may negatively affect company's business performance and cash flows.
- **Seasonality in business operations:** The company experiences seasonal fluctuations in the sale of products across the three product categories with higher sales volumes associated with the festive sale period in the third quarter of financial year. Seasonality in business may contribute to fluctuations in its results of operations.

Growth Strategies

- Expand pan-India store network.
- Drive Same-Store Sales Growth through expansion of portfolio and hyperlocal offering, leveraging technology, enhancing in-store experiences, etc.
- Commitment to consumer centricity - Aspirational, Affordable and Accessible.
- Driving cost efficiencies across operations.

Revenue split – Category wise

Particulars	FY22		FY23		FY24		1HFY25	
	Rs cr	% of total revenue	Rs cr	% of total revenue	Rs cr	% of total revenue	Rs cr	% of total revenue
Apparel	2,518.0	45.1%	3,292.7	43.4%	3,901.3	43.8%	2,244.8	44.6%
FMCG	1,405.7	25.2%	2,032.0	26.8%	2,447.3	27.5%	1,379.9	27.4%
General Merchandise	1,649.3	29.5%	2,238.3	29.5%	2,543.3	28.5%	1,401.4	27.9%

Source: RHP, SSL Research

Revenue split – Channel wise

Particulars	FY22		FY23		FY24		1HFY25	
	Rs cr	% of total revenue	Rs cr	% of total revenue	Rs cr	% of total revenue	Rs cr	% of total revenue
Physical store network	5,572.1	100.0%	7,542.5	99.7%	8,833.1	99.3%	4,974.2	99.0%
Online channel*	0.8	0.0%	20.5	0.3%	58.9	0.7%	52.0	1.0%
Total Revenue	5,572.9	100.0%	7,563.0	100.0%	8,891.9	100.0%	5,026.2	100.0%

*Vishal Mega Mart website and Mobile application

Source: RHP, SSL Research

Physical stores network

Particulars	FY22	FY23	FY24	1HFY25
Stores in Tier-1 cities	167	178	187	194
Stores in Tier-2 cities and beyond	334	379	424	451
Total number of stores	501	557	611	645

Source: RHP, SSL Research

Own Brands Portfolio

The infographic displays the Own Brands Portfolio across three main categories:

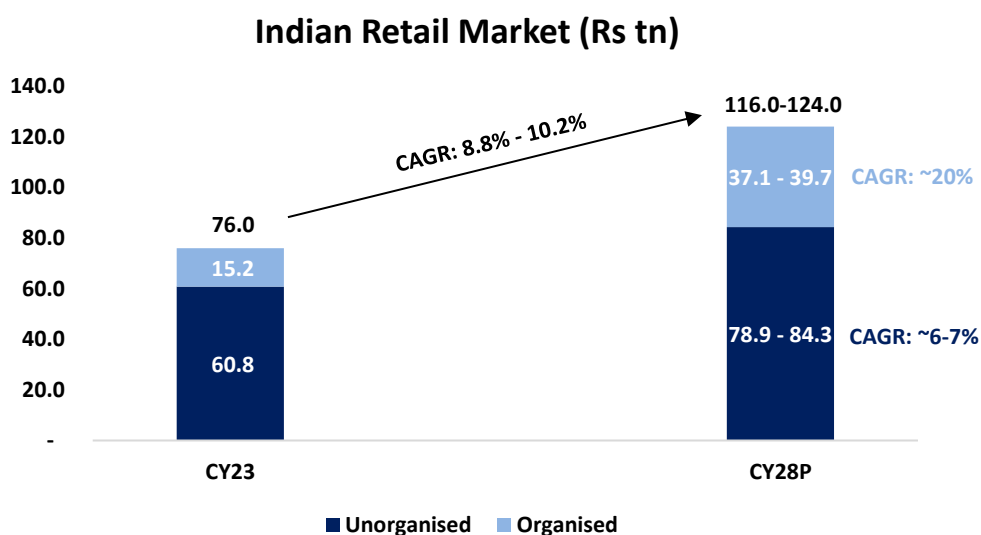
- Apparel:**
 - Women: Classics, Ethnic, Lingerie, Men Formals
 - Kids & Infants: Fashion, Denims, Kids Wear, Men Casuals
 - Men: T-Shirts, Women Casuals, Girls Wear, Infant Wear, Athleisure (#BeUnstoppable)
- General Merchandise:**
 - Home & Kitchen: HOME SELECT (Utensils)
 - Appliances: HOME BEAUTIFUL (Home Furnishing)
 - Travel: HOME FINERY (Crocery), LevelNxt (Travel)
 - Footwear and Lifestyle: #BeUnstoppable, Blackbird
- Fast-Moving Consumer Goods:**
 - Food: full bloom (Packaged food)
 - Personal Care: first crop (Staples), OUTSHINE (Personal care)
 - Household Care: Imli Tree (Savory Products), equalife (Women Hygiene), YELLOW HIPPO (Infant Diapers), HOME SELECT (Disposable Products), HOME PURE (Incense)

Source: RHP, SSL Research

Industry Overview

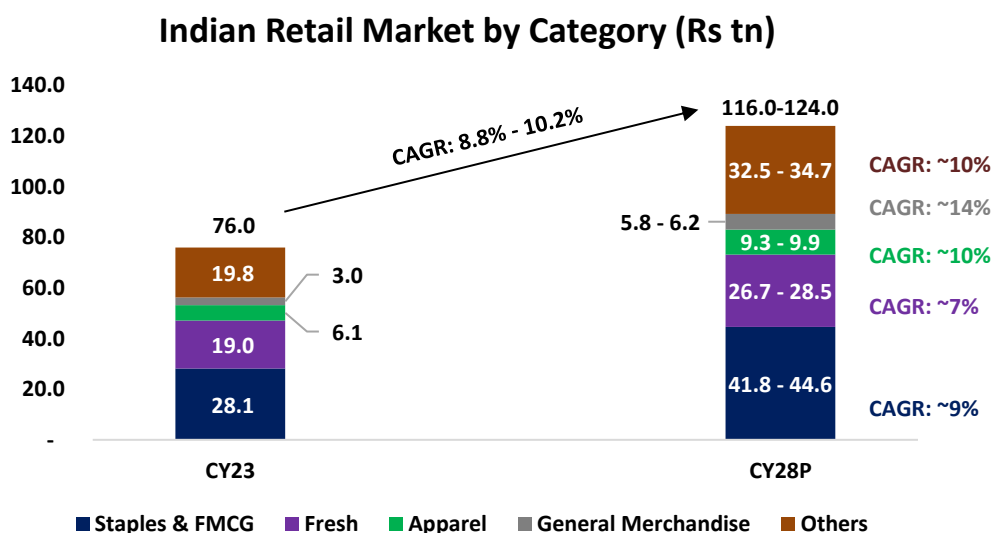
Indian Retail Market:

India's retail landscape is becoming more organized, especially in Tier-2 cities and beyond. As disposable incomes rise and urbanization continues, unorganized retail is being replaced by organized brick-and-mortar stores and online platforms. These channels are expected to grow together, attracting new consumers and converting those from unorganized retail with better service and efficiency. The overall retail market in India is expected to grow at a CAGR of 8.8%-10.2% between the forecast period of CY23-CY28P to reach Rs 116-124 tn from Rs 76 tn in CY23.



Source: RHP, SSL Research

As of CY23, Apparel, Staples & FMCG and General merchandise collectively contributed ~50% of the overall retail market and are projected to continue this trend till CY28P. These categories are characterized by high purchase frequency and widespread demand. With consumers regularly replenishing these items, there is a consistent demand for retailers offering quality at accessible price points, thus driving growth within these segments.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT				
(Rs cr)	FY22	FY23	FY24	1HFY25
Revenue from Operations	5,589	7,586	8,912	5,033
YoY growth (%)	-	35.7%	17.5%	-
Cost Of Revenues (incl Stock Adj)	4,015	5,526	6,446	3,612
Gross Profit	1,574	2,060	2,466	1,420
Gross margin (%)	28.2%	27.2%	27.7%	28.2%
Employee Cost	338	432	505	302
Other Operating Expenses	433	607	713	450
EBITDA	804	1,021	1,249	668
EBITDA margin (%)	14.4%	13.5%	14.0%	13.3%
Other Income	65	33	33	21
Interest Exp.	194	161	144	68
Depreciation	406	461	517	279
PBT	270	431	621	342
Exceptional item	-	-	-	-
Tax	67	109	159	88
PAT	203	321	462	254
PAT margin (%)	3.6%	4.2%	5.2%	5.0%

BALANCE SHEET				
(Rs cr)	FY22	FY23	FY24	1HFY25
Assets				
Net Block	402	463	592	627
Capital WIP	11	69	38	35
Right of use assets	1,103	1,137	1,300	1,222
Intangible Assets	4,298	4,293	4,292	4,292
Other Non current Assets	303	333	312	345
Current Assets				
Inventories	1,216	1,491	1,465	1,849
Current Investment	417	35	-	467
Trade receivables	2	4	32	29
Cash and Bank Balances	216	169	119	220
Other Current Assets	251	296	356	466
Total Current Assets	2,102	1,995	1,972	3,031
Current Liabilities & Provisions				
Trade payables	1,461	1,501	1,220	2,053
Other current liabilities	105	130	131	134
Short-term provisions	16	15	19	20
Total Current Liabilities	1,581	1,645	1,370	2,208
Net Current Assets	521	350	602	823
Total Assets	6,637	6,644	7,136	7,344
Liabilities				
Share Capital	4,503	4,507	4,509	4,509
Reserves and Surplus	322	650	1,113	1,390
Total Shareholders Funds	4,825	5,156	5,622	5,899
Total Debt	497	133	-	-
Long Term Provisions	22	26	31	35
Lease Liabilities	1,292	1,328	1,483	1,409
Total Liabilities	6,637	6,644	7,136	7,344

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	657	636	830
Cash flow from Investing Activities	27	177	(130)
Cash flow from Financing Activities	(710)	(865)	(658)
Free Cash Flow	499	413	580

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets	2.5%	3.9%	5.4%
Return on Capital Employed	8.7%	11.2%	13.6%
Return on Equity	4.2%	6.2%	8.2%
Margin Analysis			
Gross Margin	28.2%	27.2%	27.7%
EBITDA Margin	14.4%	13.5%	14.0%
Net Profit Margin	3.6%	4.2%	5.2%
Short-Term Liquidity			
Current Ratio (x)	1.3	1.2	1.4
Quick Ratio (x)	0.5	0.3	0.4
Avg. Days Sales Outstanding	-	-	1
Avg. Days Inventory Outstanding	111	98	83
Avg. Days Payables	111	83	58
Fixed asset turnover (x)	13.9	16.4	15.1
Debt-service coverage (x)	0.7	2.0	5.3
Long-Term Solvency			
Total Debt / Equity (x)	0.1	-	-
Interest Coverage Ratio (x)	2.4	3.7	5.3
Valuation Ratios*			
EV/EBITDA (x)	44.1	34.4	28.1
P/E (x)	173.4	109.5	76.1
P/B (x)	7.3	6.8	6.3
EV/Sales (x)	6.3	4.6	3.9
P/Sales (x)	6.3	4.6	3.9

**Valuation ratios are based on pre-issue capital at the upper price band*

Source: RHP, SSL Research

Peer Comparison – FY24

Particulars (Rs cr)	Vishal Mega Mart	Avenue Supermarts	Trent
CMP	78.0	3,835.0	6,946.0
Sales	8,911.9	50,788.8	12,375.1
EBITDA	1,248.6	4,103.8	1,922.1
Net Profit	461.9	2,535.6	1,477.5
Mkt Cap.	35,168.0	2,49,599.0	2,46,892.0
Enterprise Value	35,049.1	2,48,961.0	2,47,093.0
EBITDA Margin (%)	14.0	8.1	15.5
Net Profit Margin (%)	5.2	5.0	11.9
PE (x)	76.1	98.4	166.1
EV/EBITDA (x)	28.1	60.7	128.6
RoE (%)	8.2	13.6	36.3
RoCE (%)	13.6	18.0	27.4
EV/Sales	3.9	4.9	20.0

For Vishal Mega Mart Ltd, the Market Cap, P/E (x), Enterprise Value, EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

CMP of peer companies is as of 09th December, 2024.

Source: RHP, SSL Research

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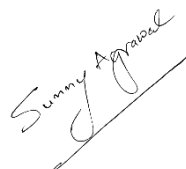
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Harsh Vasa	C.A.	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Ghanshyam Gupta	MBA (Finance)	Research Analyst - Currency Derivatives
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Uday Chandgothia	B.Tech (Mech), MBA (Finance)	Research Associate - Equity Fundamentals
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