

## Focused regional player in consumer durable retail...

**About the Company:** Electronics Mart India (EMIL) is the fourth largest and one of the fastest growing consumer durables and electronics retailers in India.

- EMIL is the largest regional organised player in the southern region in revenue terms with dominance in Telangana and Andhra Pradesh
- The company registered a healthy revenue CAGR of ~17.9% in FY16-21. EMIL has remained profitable even during the pandemic while its EBITDA margin has been in the range of 6-7% over FY20-22

### Key triggers/Highlights:

- EMIL is a focused regional consumer durable retailer with major presence in Andhra Pradesh (14 cities), Telangana (20 cities) and NCR (two cities). It has 112 stores across 36 cities with a retail area of 1.12 million square feet
- The company employs a mix of ownership and lease rental model for its retail store network. Out of total 112 stores under operation, 11 are owned, 93 are under long-term lease rental model and eight are partly owned and partly leased
- The product portfolio comprises large appliances, which contribute ~ 54% of revenues while mobiles contribute ~ 31% and small appliances and other products contribute 15% of total revenues
- EMIL is currently associated with more than 70 electronic brands and has a long-standing relationship of more than 15 years with a certain number of brands which operate in product categories such as large appliances, mobiles, small appliances, IT and others

**What should investors do?** Given that the company makes upfront payment to suppliers (creditor days: ~2) coupled with superior growth prospects, EMIL's higher working capital requirements (incremental working capital: ₹ 590 crore in FY23-24) would restrict FCF generation in the next two years. However, capital infusion worth ₹ 500 crore (fresh issue) would assist in financing working capital requirements to the tune of ₹ 220 crore and also boost store additions by opening of 60 stores over the next three years (capex: ₹ 111 crore in FY23-25). D/E ratio is also expected to improve from 1.0x to ~0.5x by FY23E. EMIL generates steady RoCE of ~19%. **At upper price band, EML is valued at 0.6x EV/sales and 22x P/E of FY22. We assign a SUBSCRIBE rating as valuations appear reasonable considering the company's strong and sustainable growth prospects and continued focus on maintaining balance of revenue growth with consistent margins in line with industry peers.**

### Key risk & concerns

- Regional concentration of stores in Andhra Pradesh and Telangana
- Increased competition from e-commerce players
- Company's application for certain trademarks are yet to be granted



### IPO Details

Issue Details	
Issue Opens	October 4, 2022
Issue Closes	October 7, 2022
Issue Size	~ ₹ 500 crore
Issue Type	Fresh Issue
Price Band	₹ 56 - ₹ 59
No of shares	~ 8.47 crore
Market Lot	254 shares
Face Value	10.0
QIB (%)	50.0
Non-Institutional (%)	15.0
Retail (%)	35.0

### Shareholding pattern (%)

	Pre-offer	Post-offer
Promoter	100.0	78.0
Public	-	22.0
Total	100.0	100.0

### Objects of the issue

	₹ crore
Funding of capital expenditure for expansion and opening of stores and warehouses	111.4
Funding incremental working capital requirements	220.0
Repayment / prepayment, in full or part, of all or certain loans	55.0
General Corporate Purposes	
<b>Fresh issue</b>	<b>500.0</b>
<b>Offer for sale</b>	<b>Nil</b>

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	Q1FY23
Net Sales	3,172.5	3,201.9	4,349.3	1,408.4
EBITDA	227.7	204.0	292.0	97.0
PAT	81.6	58.6	103.9	40.7
Diluted EPS	2.1	1.5	2.7	1.1
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	0.6	
RoCE (%)	19.2	14.6	18.9	
RoE (%)	18.8	11.9	17.4	

## Company Background

The company was originally formed as a sole proprietorship under the name of 'M/s Bajaj Electronics' at Hyderabad in 1980 and was converted into a partnership firm under the name of 'M/s Bajaj Electronics' (Bajaj Electronics) pursuant to partnership deed dated March 25, 2011. Bajaj Electronics was thereafter converted into public limited company under the Companies Act, 2013 with the name Electronics Mart India Ltd (EMIL) pursuant to certificate of incorporation issued by Central Registration Centre, Registrar of Companies dated September 10, 2018.

EMIL started its business operations by setting up the first consumer durable and electronic retail store in Hyderabad. Further, it opened stores to deepen the reach in the Hyderabad market and also gradually opened stores in Tier-II and Tier-III cities in Telangana and Andhra Pradesh. As of FY21, EMIL is the largest player in the southern region in revenue terms with dominance in Telangana and Andhra Pradesh.

EMIL has expanded business operations based on high potential locations and created a market presence in the Tier-I and Tier-II cities in Andhra Pradesh, Telangana and NCR. The company has been steadily increasing its market reach and currently covers 14 cities in Andhra Pradesh, 20 cities in Telangana and two cities in the NCR region with total of 112 retail stores. The company has consistently increased the retail business area over last three financial years from 0.76 million square feet in FY20 to 1.12 million sq. ft. as on August 31, 2022.

EMIL operates its business activities across three channels of retail, wholesale and e-commerce with retail channel commanding a dominant revenue share of 91% of total revenues while wholesale channel contributes around 2% and e-commerce channel contributes ~ 1% of total revenues.

As of August 31, 2022, out of 112 stores, 100 are multi brand outlets (MBOs) and 12 are exclusive brand outlets (EBOs). EMIL operates 89 MBOs under the name "Bajaj Electronics" in Andhra and Telangana, eight MBO under the name of "Electronics Mart" in the NCR region, two specialised stores under the name "Kitchen Stories", which caters to the kitchen specific demands of its customers and one specialised store format under the name "Audio & Beyond" focusing on high end home audio and home automation solutions.

### Exhibit 1: Revenue indicator

	FY20	FY21E	FY22E	Q1FY23
Revenue (₹ crore)	3172.48	3201.9	4349.3	1408.4
Stores	71.0	93.0	103.0	112.0
Opening	12.0	22.0	10.0	9.0
<b>Sq ft. (mn)</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>
<b>Avg store size</b>	<b>10704.2</b>	<b>10107.5</b>	<b>10097.1</b>	<b>10000.0</b>
Revenue/sq ft.	41743.2	34062.8	41820.2	12575.0
Revenue/store	44.7	34.4	42.2	12.6
SSSG (%)	-0.7	-9.8	23.3	

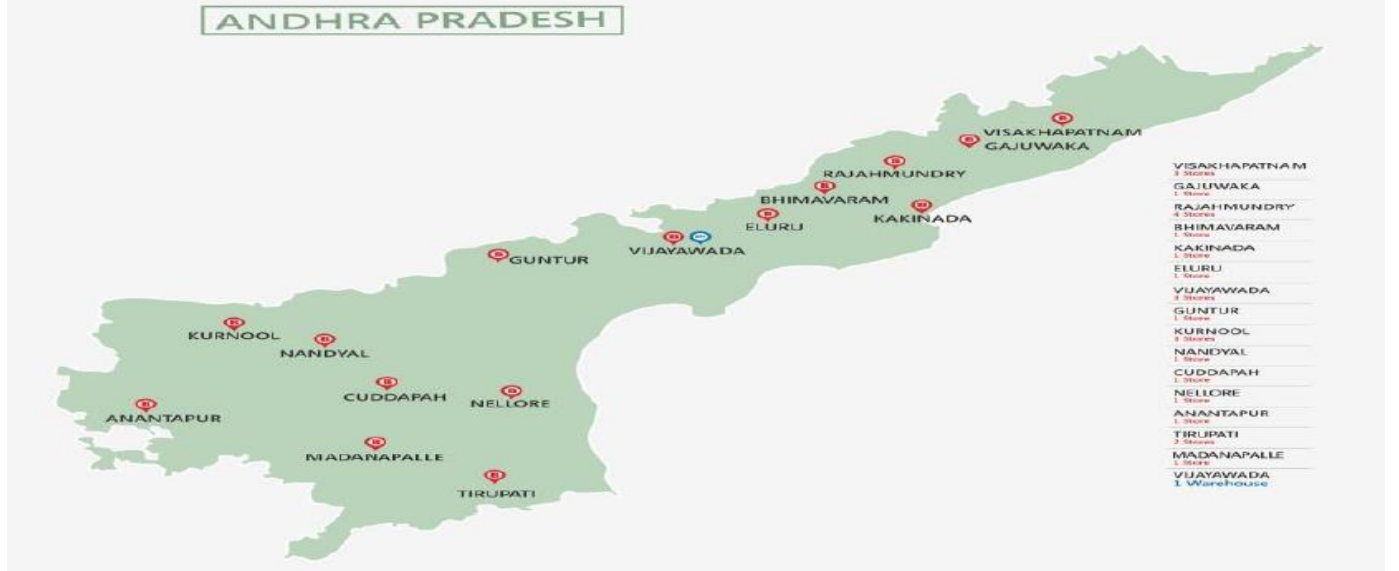
Source: RHP, ICICI Direct Research

### Exhibit 2: Product wise revenue share break up (₹ crore)

Product categories	FY20	FY21E	FY22E	YTDFY23
Large appliances	1664	1650	2048	706
% to sales	52.5	51.5	47.1	50.1
Mobiles	1017.7	1031	1395.2	403.7
% to sales	32.1	32.2	32.1	28.7
Small appliances	295	347	619	202
% to sales	9.3	10.8	14.2	14.3

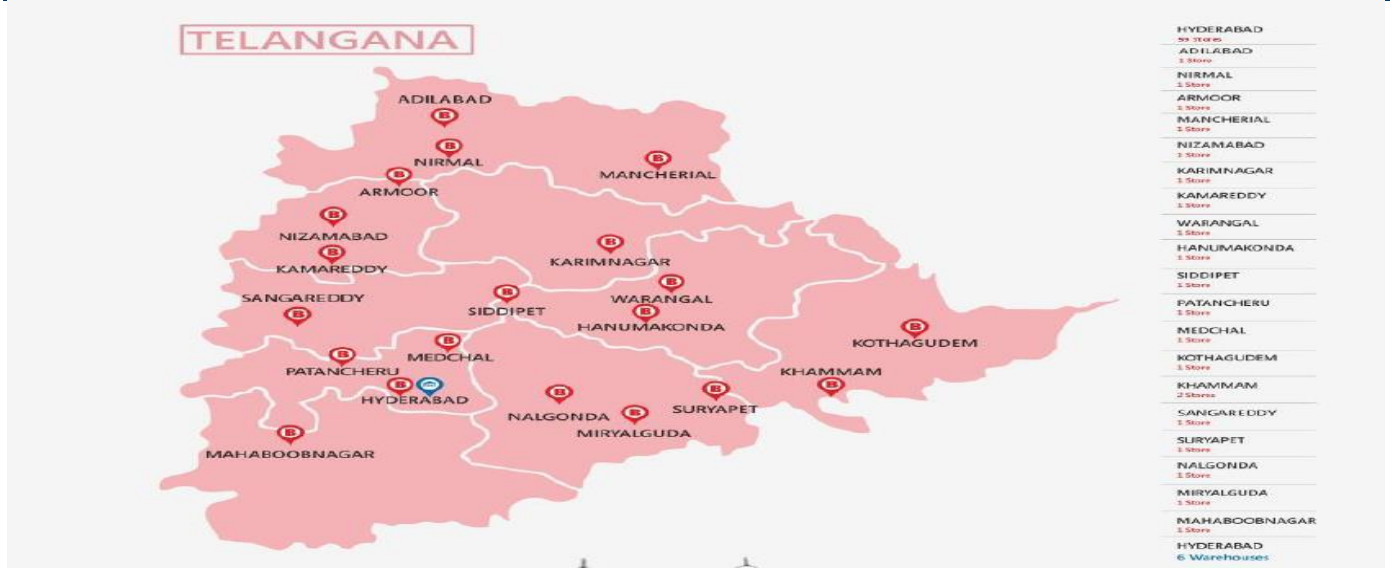
Source: RHP, ICICI Direct Research

Exhibit: 3 EMIL presence in Andhra Pradesh



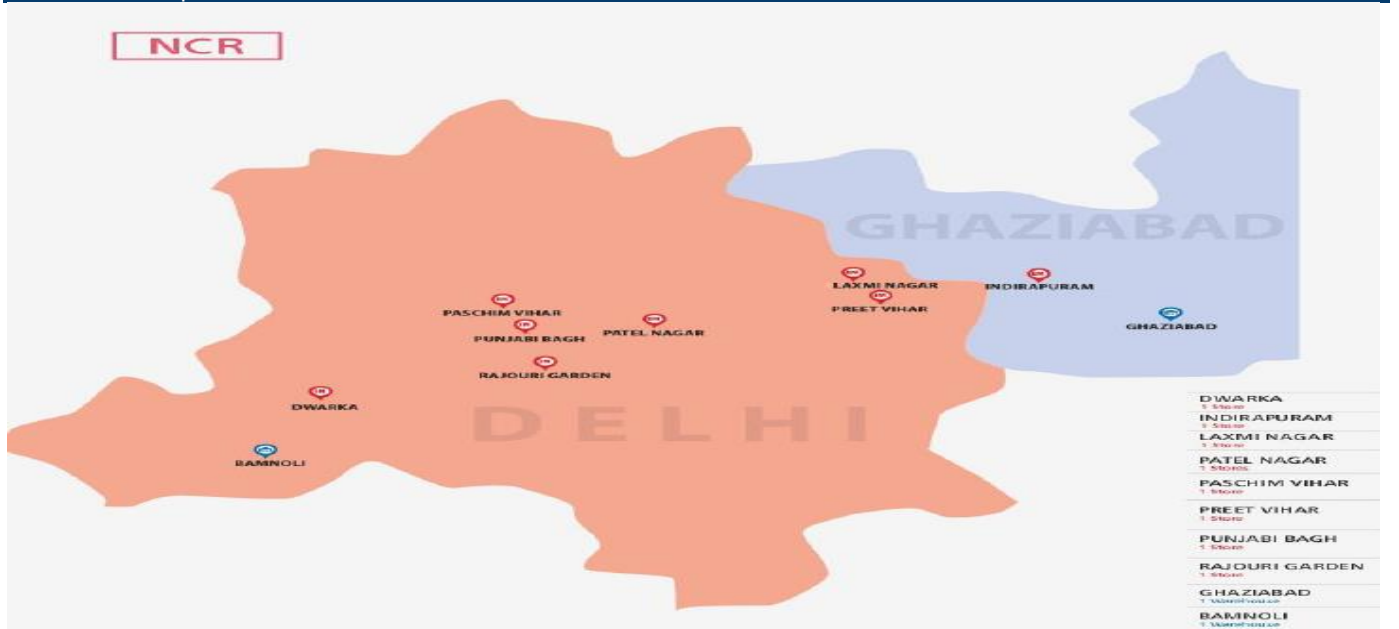
Source: RHP, ICICI Direct Research

Exhibit: 4 EMIL presence in Telangana



Source: RHP, ICICI Direct Research

Exhibit: 5 EMIL presence in NCR



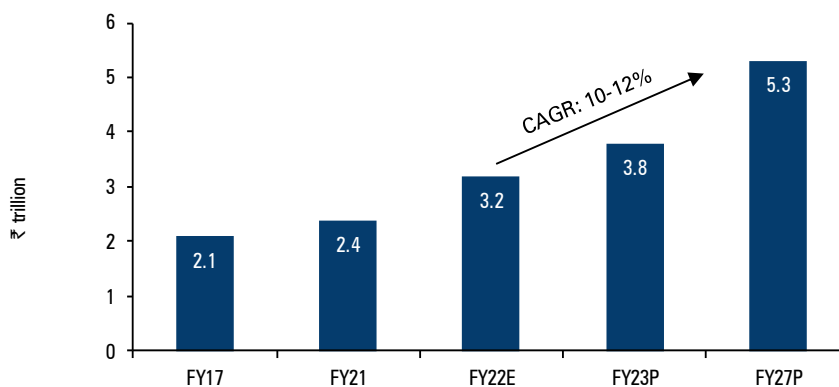
Source: RHP, ICICI Direct Research

## Industry Overview

The consumer durables industry can be broadly classified under two categories like large and small appliances. While large appliances include products like colour televisions (CTVs), refrigerators, washing machines (WMs) and room air conditioners (RACs), small appliances include geysers, kitchen appliances and personal use electronic products. Apart from household appliances, mobile devices form a significant part of the consumer durables and personal devices segment. As per Crisil Research estimates, the size of India's consumer durables industry, including large consumer durables, mobile phones and smaller appliances is ~ ₹ 3.2 trillion in FY22. The industry recorded ~12% CAGR between FY17 and FY20, backed by increasing disposable incomes, lower penetration, a widening product base, competitive pricing, lowering replacement cycles and an expanding product portfolio. However, the industry recorded a decline of 20% in FY21 amid the Covid-19 pandemic.

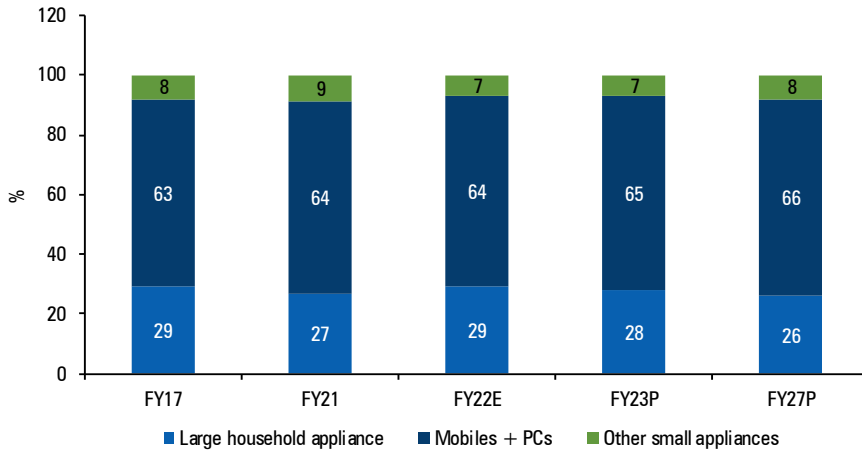
In FY21, the pandemic and the subsequent lockdown hit the industry hard. The online and brick and mortar (B&M) segments were severely impacted in the first quarter of the fiscal. With a staggered unlock, e-retail resumed operations, providing a much-needed breather to the organised industry. B&M stores registered gradual improvement from the second quarter. The consumer durables industry being discretionary in nature was more impacted than essential commodities such as food and medicine. However, work from home and online classes provided an added impetus to growth of consumer durables, especially mobiles and laptops during the pandemic. Moreover, TVs and refrigerators saw better traction amid the increased need for in-house entertainment and more storage for perishable items such as milk, vegetables and grocery. Smaller kitchen appliances such as dishwasher and trimmers witnessed increased demand amid the lockdown. Fans and kitchen appliances, such as mixers/grinders and blenders also showed better resilience compared with other categories of consumer durables. As per Crisil Research estimates, the consumer durables industry is expected to grow at 10-12% CAGR in FY22-27 to reach ~₹ 5.3 trillion.

Exhibit 6: Indian consumer durable industry (value)



Source: RHP, ICICI Direct Research

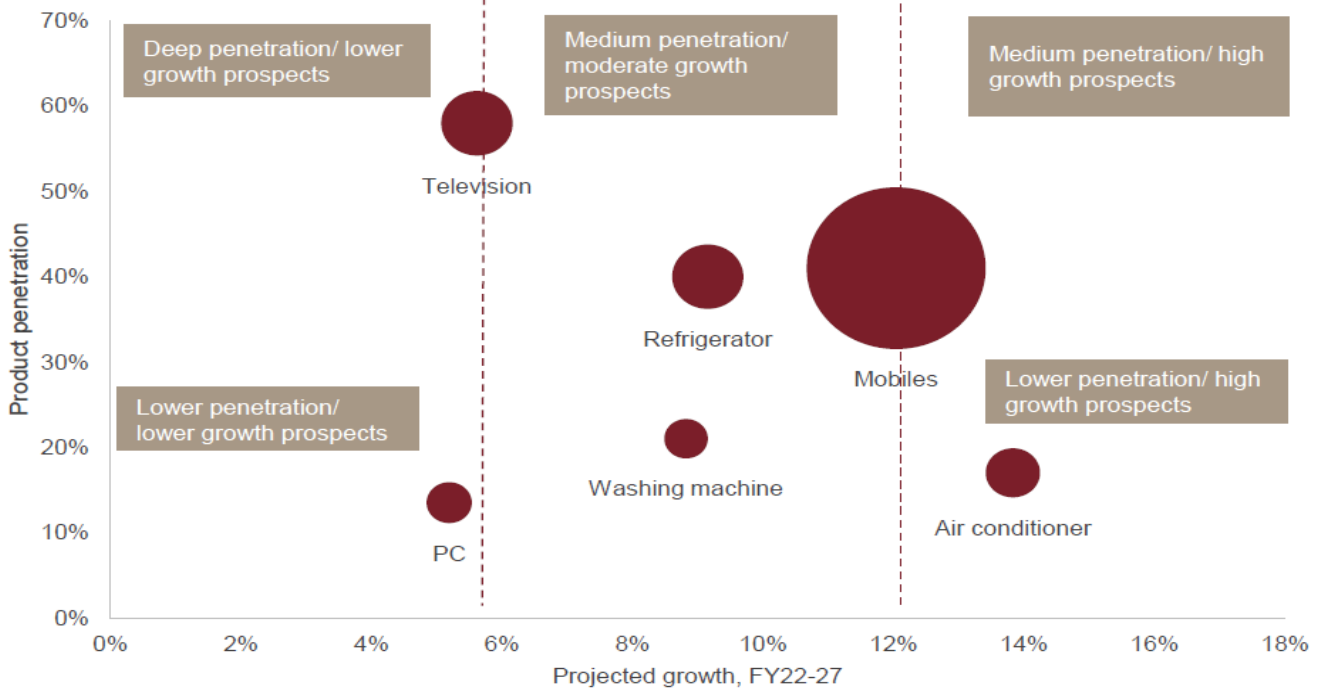
Exhibit 7: Consumer durable industry segment wise market share (%)



Source: RHP, ICICI Direct Research

The mobile phone segment is likely to continue to grow at an accelerated pace due to expected improvement in customer disposable incomes, continuous upgradation in mobile technology, premiumisation trend, shorter product usage cycle and several new launches by manufacturers. Sales of large consumer durables are projected to clock 8-10% CAGR on the back of an expected rise in household incomes, better affordability, changing consumer preferences, shorter replacement cycles, multiple ownership (in case of colour TVs) and lower penetration levels (in the of other appliances like room air conditioners and washing machines). Smaller appliances (microwaves, mixers/ grinders, dishwashers, etc) are expected to continue the steady growth trajectory of 6- 8% CAGR. An expected improvement in the economy, increased urbanisation and changing consumer lifestyles will back demand for smaller appliances.

Exhibit: 8 Market size, penetration, five-year growth potential of consumer durable industry



Source: RHP, ICICI Direct Research

The key growth drivers for the Indian consumer durable industry are favourable demographic changes like increase in the number of nuclear families, rising urbanisation and growing rural connectivity. Further, rising per capita income, improving affordability and multiple ownership of consumer durable products is likely to enhance the demand for consumer durable industry. Improved internet connectivity is expected to boost the demand for smart phones. Other aspects like multiple financing options and ease in availing finance for purchasing consumer durables is expected to support the growth of the consumer durable industry.

## Key strategies

### Expand reach in select geographies, deepen footprint in existing markets

EMIL is aiming to deepen its store network in existing clusters where it currently operates and selectively enter newer markets, which provides long term growth opportunity. The company has a significant presence in Andhra Pradesh, Telangana and is planning to enhance its market share by expanding its store network in these regions. EMIL plans to expand by setting-up new stores in Tier I and Tier II cities in Andhra Pradesh, Telangana and in the NCR region in order to meet the growing demand among consumers within these markets. The company plans to add 58 stores in the next two years of which 26 are to be added in the NCR region and 32 in the southern region with 17 in Andhra Pradesh and 15 in Telangana.

Exhibit 9: Proposed store network expansion (FY23-25E)

Location	Format of Store	Capex per sq. ft. (₹)	Avg store Size	No. of stores to be opened	Total cost (₹ crore)	Cost per store (₹ crore)
Telangana	MBO	2394.0	10000.0	8.0	19.2	2.4
AP	MBO	2394.0	10000.0	14.0	33.5	2.4
NCR	MBO	2370.0	9000.0	26.0	55.5	2.1
Telangana	EBO	3497.0	800.0	7.0	2.0	0.3
AP	EBO	3497.0	800.0	3.0	0.8	0.3
NCR	Warehouse	518.0	10000.0	1.0	0.5	0.5
				<b>59.0</b>	<b>111.4</b>	

Source: RHP, ICICI Direct Research

### Enhancing sales volumes by providing wider product assortment to consumer

EMIL endeavours to enhance its sales volumes by providing a right mix of product assortments at competitive pricing. The company currently has a diversified product offering comprising more than 6,000 SKU across product categories. The company is looking to further widen the product portfolio, which would enable it to enhance customer store experience by providing increased shopping options and become a one stop shop in the consumer durable segments. The company has long standing relationships with many reputed brands. It is planning to leverage the same and introduce new products that may be launched by various brands.

### Leverage consumer finance to enhance purchasing ability of customers

EMIL started offering products with consumer financing options from FY09. The company continues to leverage consumer financing channel as it leads to a lesser sensitivity of customers towards price and enables it to increase the average selling price without much impact on volumes. The company is efficiently utilising the consumer financing channel to boost sales and customer loyalty across stores. Also, EMIL continues to invest in technological integrations with the financing companies to achieve process integrations to reduce the time for realisation of payments. The company also offers consumer financing options via credit and debit card EMI and also with a few fin-tech companies.

## Invest in technology to optimise working capital, reduce operational costs

Supply chain management is critical to EMIL's business. Effective supply chain management is critical in reducing operational costs and aids in maintaining an optimum balance between the level of inventory available and the availability of products at all stores as per latest trends and customer requirements. To maintain optimum operational efficiency, EMIL constantly focuses on planning, sourcing, vendor management, logistics, quality control, pilferage control, replacement and replenishment. EMIL intends to further strengthen the internal systems and controls regarding its inventory management to monitor and reduce shrinkage and pilferage. It plans to further improve the operating efficiency and ensure efficient supply chain management by investing further in upgrading and acquiring technological systems to improve productivity. Also, the company plans to expand and upgrade its warehouse to improve the efficiency of inventory and supply management. With improved supply chain management, the company will be able to optimise in-store availability of products, and consequently meet customer demands effectively and thereby improve the overall store revenues.

## Key Risk

### Regional concentration of stores in Andhra Pradesh, Telangana

Majority (~90% of 112 stores) of EMIL's stores are located in Andhra Pradesh and Telangana, which exposes the company to geographical risk. Any adverse development like natural calamity, political unrest, etc, in any of these regions can negatively impact the revenue and profitability of the company. To address the geographical risk, the company has recently opened eight stores in the NCR region and is further looking to expand its presence in the NCR region.

### Increased competition from e-commerce players

EMIL is a brick and mortar retailer in the consumer durables segment. It has a miniscule presence in the e-commerce segment (~2% of total revenues). Increasing competition from online retailers who are able to offer products at competitive prices and are also able to offer a wide range of products may adversely affect the business prospects of the company. Due to various factors like efficient logistics management and strategic tie-ups with brands, online retailers are not only able to offer more discounts but also a wider range of consumer durables. Due to attractive pricing and convenience, online retailing has been witnessing strong growth in recent years and increased competition from them could reduce footfalls and sales in EMIL stores.

### Company's application for certain trademarks yet to be granted

EMIL currently does not own certain trademark or logo (i.e. "Bajaj Electronics", "Electronics Mart", "EMI Electronics Mart India Ltd", "EMIL", and "Electronics Mart India Ltd") under which it currently operates and if third parties, including its current or future competitors are able to circumvent the protection measures that have been put in place for the protection of trademark, logo and intellectual property and other proprietary rights, then its business and reputation can be adversely affected. Further EMIL is currently involved in legal proceedings against Bajaj Electricals who have filed a commercial suit against the company and its promoters, before the Bombay High Court, alleging infringement of its trademark "Bajaj Electricals". In the commercial suit, Bajaj Electricals has prayed for a perpetual order to restrain EMIL and its directors, subsidiaries and other associated persons or entities mentioned therein from infringing and passing off its said registered trademarks by manufacturing, marketing, selling and/or dealing in any products bearing the said trademark or using any name/mark containing the word "Bajaj" for any goods/products or service/ business activity including on any e-commerce/online platform, except for using the trade mark/trading name "Bajaj Electronics" for the electronic retail business/retail stores in Andhra Pradesh and Telangana.

### Non-renewal of store lease agreements

Some of the company's lease agreements have expired and have not been renewed at the time of filing of RHP. The effect of the non-renewal of such leases is that it is possible that the company is asked to vacate the premises from where it currently carries out the business. In the event such leases are not renewed on a timely basis, the company may need to vacate the premises immediately, which may have a material and adverse impact on the business of the company. Further, some lease agreements may have to be renewed at higher lease charges, which can increase the cost and dampen the profitability.



## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
<b>Net Sales</b>	3,172.5	3,201.9	4,349.3	1,408.4
Growth (%)		0.9	35.8	
Total Raw Material Cost	2,702.2	2,767.3	3,755.3	1,211.5
Gross Margins (%)	14.82	13.57	13.66	14.0
Employee Expenses	58.6	61.4	78.8	21.7
% to sales	1.8	1.9	1.8	1.5
Other Expenses	184.0	169.2	223.2	78.2
% to sales	5.8	5.3	5.1	5.6
Total Operating Expenditure	2,944.8	2,997.9	4,057.3	1,311.4
<b>EBITDA</b>	227.7	204.0	292.0	97.0
EBITDA Margin	7.2	6.4	6.7	6.9
Interest	63.4	71.7	84.6	23.8
Depreciation	50.8	58.1	71.3	19.9
Other Income	6.5	5.5	3.8	1.8
Exceptional Expense	(7.9)	-	-	-
PBT	112.1	79.7	139.9	55.1
Total Tax	30.5	21.1	36.0	14.4
<b>Profit After Tax</b>	81.6	58.6	103.9	40.70

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Profit Before Tax	112.1	79.7	139.9	55.1
Add: Depreciation	50.8	58.1	71.3	19.9
Add: Finance Cost	63.4	71.7	84.6	23.8
Others	5.7	0.5	-20.8	14.7
Net (Increase)/decrease in WC	-153.0	-126.0	-133.0	195.2
Tax paid	-43.0	-20.0	-20.4	-25.7
<b>CF from operating activities</b>	<b>36.0</b>	<b>64.0</b>	<b>121.6</b>	283.0
(Inc)/dec in Fixed Assets	-64.4	-54.4	-60.9	-141.7
Others	-5.9	-5.5	-6.9	-8.6
<b>CF from investing activities</b>	<b>-70.3</b>	<b>-60.0</b>	<b>-67.8</b>	-150.3
Inc / (Dec) in Equity/preference share	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	143.6	27.9	45.8	-117.7
Others	-73.0	-84.0	-100.2	-29.7
<b>CF from financing activities</b>	<b>70.6</b>	<b>-56.1</b>	<b>-54.4</b>	-147.4
Net Cash flow	36.3	-52.10	-0.6	-14.7
Opening Cash	50.8	87.1	35.0	34.4
<b>Closing Cash</b>	<b>87.1</b>	<b>35.0</b>	<b>34.4</b>	19.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Equity Capital	300.0	300.0	300.0	300.0
Reserve and Surplus	133.1	191.9	296.5	338.0
Total Shareholders funds	433.1	491.9	596.5	638.0
Non Controlling interests	-	-	-	-
Total Debt	520.0	547.9	593.7	476.0
Non Current Liabilities	336.6	401.7	523.9	526.7
<b>Source of Funds</b>	<b>1,289.7</b>	<b>1,441.5</b>	<b>1,714.1</b>	<b>1,640.7</b>
Net Fixed Assets	222.9	275.5	279.5	432.5
Capital WIP	2.4	2.0	23.8	16.6
Intangible assets	0.3	0.6	0.6	0.6
Right of use assets	348.2	397.5	504.9	504.1
Investments & bank balance	-	-	-	-
Inventory	401.8	481.4	613.8	473.2
Cash	87.1	35.0	34.4	19.7
Debtors	84.6	95.4	107.9	101.1
Loans & Advances & Other CA	133.6	173.1	167.4	120.4
Total Current Assets	707.1	784.9	923.5	714.4
Creditors	6.6	7.6	24.8	24.5
Provisions & Other CL	36.2	56.0	60.0	62.8
Total Current Liabilities	42.8	63.6	84.8	87.3
Net Current Assets	664.3	721.3	838.7	627.1
LT L& A, Other Assets	51.6	44.6	66.6	59.8
Other Assets		0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,289.7</b>	<b>1,441.5</b>	<b>1,714.1</b>	<b>1,640.7</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
<b>Per share data (₹)</b>				
Diluted EPS	2.1	1.5	2.7	1.1
Cash EPS	3.4	3.0	4.6	1.6
BV	11.3	12.8	15.5	16.6
Cash Per Share	2.3	0.9	0.9	0.5
<b>Operating Ratios (%)</b>				
EBITDA margins	7.2	6.4	6.7	6.9
PBT margins	3.5	2.5	3.2	3.9
Net Profit margins	2.6	1.8	2.4	2.9
Inventory days	46.2	54.9	51.5	
Debtor days	9.7	10.9	9.1	
Creditor days	0.8	0.9	2.1	
<b>Return Ratios (%)</b>				
RoE	18.8	11.9	17.4	
RoCE	19.2	14.6	18.9	
<b>Valuation Ratios (x)</b>				
P/E	27.8	38.7	21.8	
EV / EBITDA	11.9	13.6	9.7	
EV / Sales	0.9	0.9	0.6	
Market Cap / Revenues	0.7	0.7	0.5	
Price to Book Value	5.2	4.6	3.8	
<b>Solvency Ratios</b>				
Debt / Equity	1.2	1.1	1.0	
Debt/EBITDA	2.3	2.7	2.0	
Current Ratio	16.5	12.3	10.9	
Quick Ratio	7.1	4.8	3.7	

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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