

Company Overview

Electronics Mart India Ltd. (EMIL) began operations in 1980 with its first store in Hyderabad. Since then, they are the largest regional organized player in the South of India in revenue terms with dominance in the states of Telangana and Andhra Pradesh and the 4th largest electronics retailer in India. The company operates its business activities across three channels - retail, wholesale, and e-commerce and offers a diversified range of products with a focus on large appliances (air conditioners, televisions, washing machines, and refrigerators), mobiles and small appliances, IT, and others. Currently, EMIL has 6,000+ SKUs across product categories from more than 70 consumer durable and electronic brands. As on August 31, 2022, EMIL had 112 stores of which 100 stores are Multi Brand Outlets (MBOs) and 12 stores are Exclusive Brand Outlets (EBOs). EMIL's 89 MBOs are under the name "Bajaj Electronics", eight MBOs under the name of "Electronics Mart" in the NCR, two specialized stores under the name "Kitchen Stories" which caters to the kitchen-specific demands of the customers, and one store under the name of "Audio & Beyond". The company is present in 14 cities in Andhra Pradesh, 20 cities in Telangana, and 2 cities in the NCR region having a total retail business area of 1.12 million sq. ft

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ Funding of capital expenditure for expansion and opening of new stores and warehouses.
- ⇒ Funding incremental working capital requirements.
- ⇒ Repayment/prepayment, in full or part, of all or certain borrowings availed by the company.
- ⇒ General Corporate Purposes

Investment Rationale

Strategically located logistics and strong inventory management

The core strength of Electronics Mart India lies in its ability to effectively manage inventory levels across its large warehouses and several individual storage areas. The company's robust IT system and its extensive network of suppliers enable the company to deliver products to customers within a reasonable period. Further, EMIL's strategy of warehousing facilities within the reach of their consumer durable and electronic retail stores allows them to offer cost-competitive prices due to the reduced logistic costs. Currently, the company operates nine large warehouses with an average area of 28,114 sq. ft. with six warehouses located in Hyderabad, one central warehouse in Vijayawada for the Andhra Pradesh region, and two warehouses in the NCR region.

Business model providing operational flexibility

The company aims to build long-lasting relationships with the customers by emphasizing identifying 'growth pockets' i.e., places in major cities where addressable population density is high. This is done by making a partial investment in the refurbishment of the locations which allows the management to keep the rentals & subsequent annual hikes low. EMIL follows a flexible strategy of owning or leasing the premises according to availability, cost, and other considerations. This helps them in reduced operational costs and target higher profitability and thus offer products at competitive pricing. As of August 31, 2022, out of the total 112 stores, 93 retail stores are leased, 11 retail stores are owned and 8 retail stores are partly owned and partly leased by the company.

Valuation and Outlook

The organized market in the consumer durables space is growing rapidly due to changing consumer preferences, expansion of organized Brick & Mortar players, and deeper internet penetration. However, household penetration of consumer durables in India remains much lower than that of many developed and developing nations thus showing significant growth opportunity is available in this segment. Electronics Mart India Ltd aims to continue to increase its store network in its existing clusters to increase its market share in the Hyderabad, Telangana, and Andhra Pradesh markets and also intends to expand its presence in the NCR region by opening 26 MBOs. The company also focuses on expanding its EBOs, specialized stores, and brand network to provide a better brand-centric and specialized service experience to the customer. The total store count grew from 71 in Financial Year 2020 to 112 as on August 31, 2022, while the retail business area grew from 0.76 million sq. ft. to 1.12 million sq. ft. over this period. On the upper end of the price band, the issue is valued at a PE of 17.1x based on FY22 annualized earnings, which we believe is fairly priced. Hence, we recommend a "SUBSCRIBE" rating on this issue for the long term.

Issue Details	
Offer Period	4 th Oct– 7 th Oct, 2022
Price Band	INR.56 to INR.59
Bid Lot	254
Listing	BSE&NSE
Issue Size (no. of shares in mn)	89.29/84.75

Issue Size (INR. in bn)	5
Face Value	10

Issue Structure	
QIB	50%
NIB	15%
Retail	35%

	Anand Rathi Advisors Limited
BRLM	IIFL Securities Limited SBI Capital Markets Limited
	JM Financial Limited

Registrar	KFINTECH
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Particulars	Pre Issue %	Post Issue %
Promoter	99.98%	77.96%
Promoter Group	0.02%	0.01%
Public	-	22.03%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Electronics Mart India Ltd.

Income Statement (Rs in millions)

Particulars(Rs in million)	Q1FY23	FY22	FY21	FY20
Revenue				
Revenue from Operations	14,084	43,493	32,019	31,725
Total Revenue	14,084	43,493	32,019	31,725
Expenses				
Purchases of stock-in-trade	10,710	38,878	28,469	27,762
Change in inventory of Finished goods& Work in Progress	1,405	(1,325)	(796)	(740)
Employee benefit expenses	217	788	614	586
Other expenses	782	2,232	1,692	1,840
Total Operating Expenses	13,114	40,574	29,980	29,448
EBITDA	970	2,919	2,039	2,276
Depreciation and amortisation expense	199	713	581	508
Other income	18	38	55	65
EBIT	789	2,244	1,512	1,834
Finance costs	238	846	717	634
Exceptional Item	-	-	-	(79)
PBT	551	1,398	796	1,122
Current tax	156	419	258	349
Deferred Tax charge	(12)	(61)	(48)	(44)
MAT Credit reversed/(availed)				
Total tax	144	359	209	306
PAT	407	1,039	586	816
Diluted EPS	1	3	2	3

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in million)

Particulars (Rs in million)	Q1FY23	FY22	FY21	FY20
Cash Flow from operating activities	2,830	1,216	640	360
Cash flow from investing activities	(1,503)	(679)	(599)	(703)
Cash flow from financing activities	(1,474)	(544)	(561)	706
Net increase/(decrease) in cash and cash equivalents	(147)	(6)	(521)	363
Cash and cash equivalents at the beginning of the period	344	350	871	508
Cash and cash equivalents at the end of the period	197	344	350	871

Source: RHP, BP Equities Research

Electronics Mart India Ltd.

Balance Sheet (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
Equity and Liabilities				
Share Capital	3,000	3,000	3,000	3,000
Other Equity	3,380	2,965	1,919	1,331
Net worth	6,380	5,965	4,919	4,331
Long-Term Borrowings	1,439	552	621	630
Long-Term Provisions	2	7	21	13
Lease Liabilities	5,267	5,239	4,017	3,366
Deferred tax liabilities	0	0	0	0
Other non-current liabilities	0	0	0	0
Total Non Current Liabilities	6,707	5,797	4,659	4,008
Current Liabilities				
Borrowings	3,321	5,385	4,858	4,576
Lease Liabilities	277	259	182	146
Trade Payables	245	248	76	67
Other Financial Liabilities	368	325	358	240
Short Term Provisions	0	0	0	0
Other current liabilities	122	198	164	110
Current tax liabilities	136	71	18	-
Total Current Liabilities	4,469	6,485	5,657	5,137
Total liabilities	11,176	12,282	10,316	9,145
Total Equity and Liabilities	17,556	18,247	15,235	13,476
Assets				
Property, plant and equipment	4,325	2,795	2,755	2,229
Right-of-use assets	5,041	5,049	3,975	3,482
Capital work in Progress	166	238	20	24
Goodwill on Consolidation	0	0	0	0
Other Intangible assets	6	6	6	3
Investments	0	0	0	0
Loans and Advances	0	0	0	4
Other Financial Assets	320	292	250	190
Deferred tax assets	188	176	116	68
Non-Current tax assets	56	57	48	86
Other non-current assets	34	141	32	172
Total Non current assets	10,135	8,754	7,202	6,259
Inventories	4,733	6,138	4,814	4,018
Investments	0	0	0	0
Trade Receivables	1,011	1,079	954	846
Cash and cash equivalents	197	344	350	871
Other Bank Balances	0	0	0	0
Loans and Advances	14	13	10	9
Other Financial Assets	37	2	2	2
Other current assets	1,429	1,917	1,904	1,471
Total Current Asset	7,421	9,493	8,033	7,217
Total Assets	17,556	18,247	15,235	13,476

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company has a high concentration of business in Telangana and Andhra Pradesh thus exposing them to any adverse developments related to competition, economic, political, demographic, and other changes in these states.
- ⇒ The company's revenue and profitability are heavily reliant on a limited number of brands with the majority of its revenues generated from its top five brands.
- ⇒ The company's revenue from online sales is marginal and there is no assurance that the online sales strategy will be successful in the future.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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