

ELECTRONICS MART INDIA LIMITED

...100% rise in stock price since our coverage initiation



Electronics Mart (EMIL) had a strong quarter despite a curtailed summer better than expected. Revenues were up 20% YoY for Q1FY24. Q1 being a seasonally strong quarter for larger appliance category (contributed 49% to sales) like coolers and AC in particular have grown 30% YoY despite curtailed summer due to rains in the North while it remained better in Southern India. Management expects Delhi / NCR stores to achieve break even by the financial year end as the demand trend remains positive across the segments it caters and remains on track. It contributed ₹~750 bn across the 13 stores operating in Delhi/NCR region. SSG stood at 13.6% for Q1FY24. Margins during Q1FY24 stood at 7.7% (+80bps YoY) largely contributed due to sales of higher margins ACs as fixed cost remained in line with expectation. Management reiterated its margin guidance to be in the range of 6.5% to 7% with revenues growing at ~20% YoY. PAT in Q1FY24 was up 48% YoY. 6 new stores were added during Q1FY24 across the regions and we expect 23-25 stores by next financial year. Management highlighted that the scope to expand around the Delhi/ NCR remains quite large with adjoining areas providing ample opportunities.

Overall, the company endeavours to ramp up its store performance with various initiatives. EMIL with its approach provides strong growth visibility ahead with stable margins and return ratios. EMIL's cluster-focused expansion strategy will help the company to build depth and scale in its targeted geographies. EMIL's plan to build its presence in the NCR region will provide diversification benefits from its current concentrated presence in South-India. Considering the FY23 performance we have tweaked our estimates accordingly and remain positive ahead. The company valuations have been reasonable compared to competition and we maintain Buy on the stock with a revised PT of ₹141.

Q1FY24 Result Summary

Revenues were up 20% YoY for Q1FY24. Q1 being a seasonally strong quarter for larger appliance category (contributed 49% to sales, grew 11.9% YoY) like coolers and AC in particular have grown 30% YoY (June remained strong) despite curtailed summer due to rains in the North while it remained better in Southern India. Revenue contribution from large appliance/ Mobiles/ small appliances, IT and others stood at 49%/37%13%. Gross margins were a tad higher due to plugging leakages across costs that are directly proportional to the sales revenues, credit card charges, cashbacks and NBFC charges so it tried to plugin and re-negotiated terms with these NBFCs banks.

Key Financials	FY21	FY22	FY23	FY24E	FY25E
Total Sales (₹ mn)	32,019	43,493	54,457	66,054	77,745
EBITDA Margins (%)	6.4	6.7	6.2	6.9	7.1
PAT Margins (%)	1.8	2.4	2.3	2.6	2.8
EPS (₹)	2.0	3.5	3.2	4.4	5.6
P/E(x)	61.9	34.9	37.9	27.5	21.8
P/BV (x)	7.4	6.1	3.9	5.8	4.6
EV/EBITDA (x)	20.3	14.3	15.4	11.8	9.7
RoE (%)	12.7	19.1	13.8	17.1	23.6
RoCE (%)	14.2	18.8	13.3	22.8	24.1

Rating	BUY
Current Market Price (₹)	121
12 M Price Target (₹)	141
Potential upside (%)	17

Stock Data

Sector :	Consumer
FV (₹) :	10
Total Market Cap (₹ bn) :	47
Free Float Market Cap (₹ bn) :	10
52-Week High / Low (₹)	126 / 62
9M Avg. Dly Traded Volume (in lakh)	12
BSE Code / NSE Symbol	543626 / EMIL
Bloomberg :	EMIL IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	77.97	77.97	77.97	-
FPIs	3.44	3.38	3.11	-
MFs	9.88	8.79	7.65	-
Insurance	0.65	1.03	0.98	-
Others	8.06	8.83	10.29	-

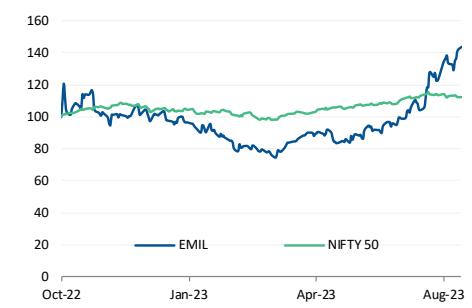
Source: BSE

Price Performance

(%)	1M	3M	6M	9M
EMIL	37.8%	71.8%	63.8%	34.8%
Nifty 50	-0.7%	6.1%	9.4%	4.1%

* To date / current date : August 14, 2023

EMIL vs Nifty 50



Going ahead, we expect 14% gross margins to sustain. Margins during Q1FY24 stood at 7.7% (+80bps YoY) largely contributed due to sales of higher margins ACs and fixed cost remained in line with expectation. Higher business promotions and ads due to new region additions led to lower margins YoY. PAT in Q1FY24 was up 48% YoY. Working capital days stood at 46 days. 6 new stores were added during Q1FY24 across the regions and we expect 23-25 by next financial year.

Exhibit 1: Quarterly performance

(₹ mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ(%)
Net Sales	16,891	14,084	19.9	13,278	27.2
COGS	14,434	12,115	-	11,441	-
Gross Profit	2,457	1,969	24.8	1,837	33.7
<i>Gross margin (%)</i>	<i>14.5</i>	<i>14.0</i>	-	<i>14</i>	-
Employee cost	276	217	27.6	244	13.0
Other Expenditure	881	782	12.7	684	28.9
EBITDA	1,300	970	33.9	909	42.9
<i>Margins (%)</i>	<i>7.7</i>	<i>6.9</i>	<i>80.4</i>	<i>7</i>	-
Depreciation	246	199	23.5	231	6.5
Interest	271	238	13.6	271	-0.2
Other Income	25	18	38.6	55	-54.3
PBT	808	551	46.6	461	75.1
Tax	205	144	42.1	100	104.7
<i>Rate (%)</i>	<i>25</i>	<i>26</i>	-	<i>22</i>	-
Adjusted PAT	603	407	48.2	361	66.9
<i>Pat Margin (%)</i>	<i>3.6</i>	<i>2.9</i>	-	<i>2.7</i>	-
EPS (₹)	1.6	1.36	15.6	0.9	-

Source: LKP Research

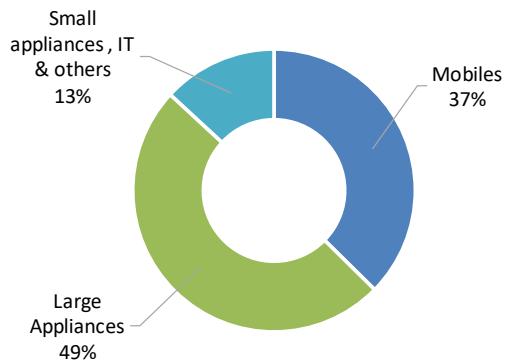
Outlook and Valuation

1) Clear focus on premium products and strong product depth with only Top brands in various categories, 2) Focus on retailing top brands rather than adding private labels to avoid discounting and inventory issues, 3) simple and flat floor and corporate reporting structure, which enables cost controls, quick decision making and higher employee incentives, 4) clear dominance in two states with strong growth potential in the third, which is a much larger market, 5) enjoys superior store metrics than peers, led by higher realisations, higher bill sizes and superior product mix which drive higher store throughputs, 6) robust relationships with top brands in all electronics categories. Considering the Q1FY24 performance, we have tweaked our estimates accordingly and remain positive ahead. The company valuations have been reasonable compared to competition and we maintain Buy on the stock with a revised PT of ₹141.

Key Risks: 1) Intensified aggression by larger players like Croma, Reliance and Vijay Sales, 2) muted demand conditions driving down trading or higher discounting, and 3) brand acceptance issues in the new Delhi/NCR market.

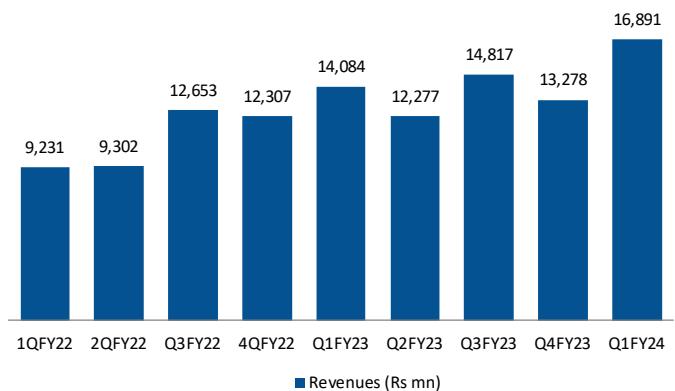
Financials in charts

Exhibit 2: Revenue Split



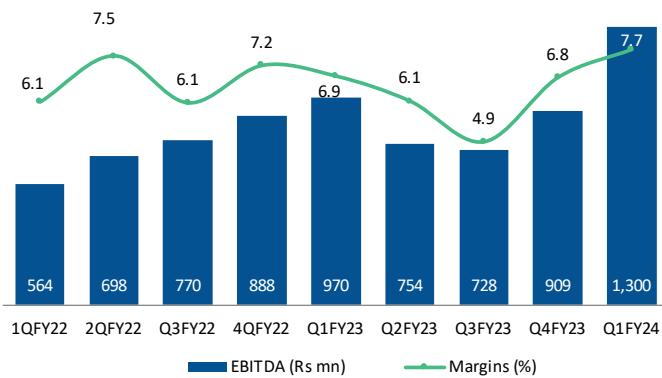
Source: LKP Research

Exhibit 3: Revenues Trend



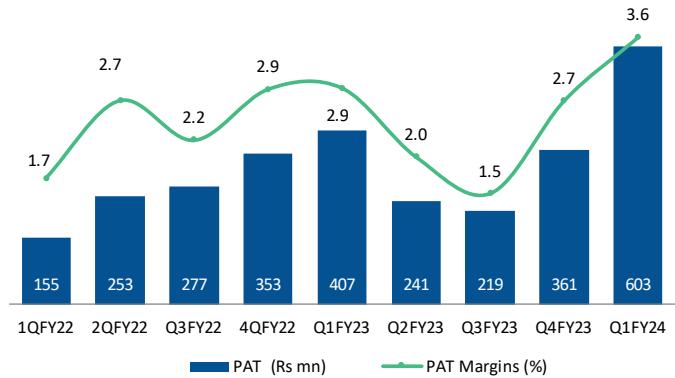
Source: LKP Research

Exhibit 4: EBIDT & Margins



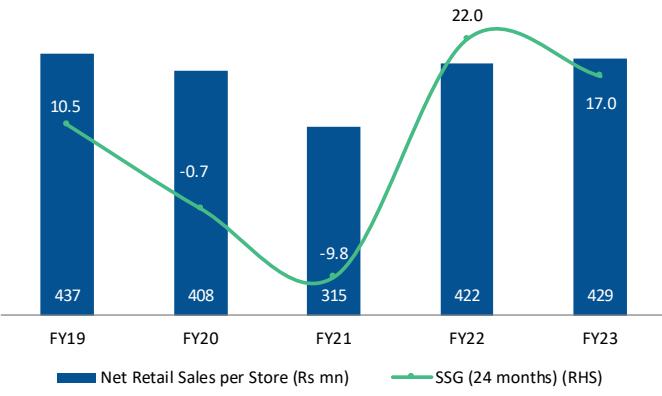
Source: LKP Research

Exhibit 5: PAT & PAT Margins



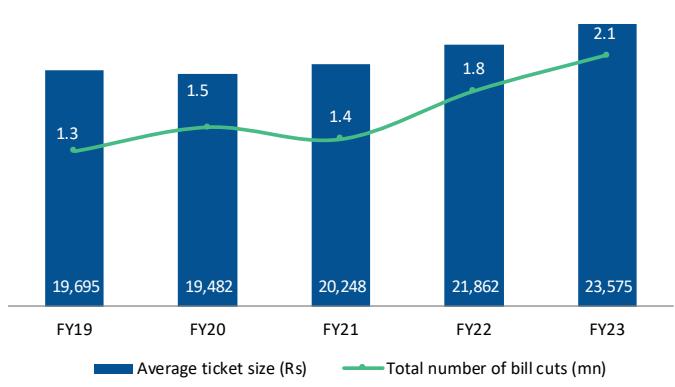
Source: LKP Research

Exhibit 6: Net retail sales per store and SSG growth



Source: LKP Research

Exhibit 7: Bill cuts and average ticket price growing



Source: LKP Research

Q1FY24 Conference Call Highlights

- Demand remains buoyant across the categories it operates and consumer finance has made products more accessible to customers now.
- June remained a strong month for AC sales with similar trend seen for the month of July.
- Q1 being a seasonally strong quarter for larger appliance category (contributed 49% to sales) like coolers and AC in particular have grown 30% YoY despite curtailed summer due to rains in the North while it remained better in Southern India.
- No discounts were given during Q1FY24.
- Consumer finance overall stands at 55% of the business.
- Revenue contribution from large appliance/ Mobiles/ small appliances, IT and others stood at 49%/37%13%.
- SSG stood at 13.6 for Q1FY24
- **Store Additions :** In Q1FY24 EMIL opened 6 new stores and currently has 133 stores, 119 of which are multi-brand stores and 14 are exclusive brand outlets.
- **Leased/Owned/ POPL :** Out of 133 stores, 111 stores are leased, 11 are owned and 11 are partly owned and partly leased (POPL).
- **Cities present :** Present in 46 cities across 4 states
- **Future store addition plans :** Expect to add 23-25 stores by next year.
- **Delhi/ NCR Store Dynamics:**
 - Operating 13 stores with the new brand name “Electronics Mart” in Delhi/NCR
 - Break Even for stores expected in 12-14 months and Delhi/ NCR stores are on the track for the same.
 - Per store metrics for breakeven stands at ₹250 mn-300mn
- **Others:** Margins expected to be in 6.5-7% range going ahead while revenue to grow at ~20%

Exhibit 8: Profit and Loss Statement - Consolidated

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Total Income	32,019	43,493	54,457	66,054	77,745
Raw material Cost	27,673	37,554	47,050	56,212	66,006
Employee Cost	614	788	940	1,321	1,563
Other expenses	1,692	2,232	3,106	3,963	4,665
Total operating Expenses	29,980	40,574	51,096	61,496	72,233
EBITDA	2,039	2,919	3,361	4,558	5,512
<i>EBITDA Margins(%)</i>	6.4	6.7	6.2	6.9	7.1
Depreciation & Amortisation	581	713	854	1,016	1,209
EBIT	1,457	2,206	2,507	3,542	4,303
Interest	717	846	985	1,428	1,618
Other Income	55	38	110	134	158
Recurring PBT	796	1,398	1,632	2,248	2,842
Add: Extraordinaries	-	-	-	-	-
Add: Share in associates	-	-	-	-	-
PBT	796	1,398	1,632	2,248	2,842
Less: Taxes	209	359	404	556	703
Less: Minority Interest & Share in associates	-	-	-	-	-
Net Income (Reported)	586	1,039	1,228	1,692	2,139
Adjusted Net Income	586	1,039	1,228	1,692	2,139

Exhibit 9: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Assets					
Total Current Assets	8,363	10,056	15,128	14,803	16,889
of which cash & cash eqv.	350	344	2,032	837	926
Total Current Liabilities & Provisions	4,837	6,418	7,825	8,128	8,033
Net Current Assets	3,526	3,637	7,303	6,675	8,856
Investments	-	-	-	-	-
Net Fixed Assets	6,736	7,849	8,638	8,626	8,748
Capital Work-in-Progress	20	238	246	253	261
Total Assets	10,283	11,725	16,187	15,554	17,865
Liabilities					
Borrowings	5,479	5,936	7,271	7,843	8,043
Deferred Tax Liability	(116)	(176)	(251)	(276)	(303)
Minority Interest	-	-	-	-	-
Equity Share Capital	3,000	3,000	3,847	3,847	3,847
Face Value per share (₹)	10.0	10.0	10.0	10.0	10.0
Reserves & Surplus	1,919	2,965	7,996	4,139	6,277
Net Worth	4,919	5,965	11,843	7,986	10,125
Total Liabilities	10,283	11,725	16,187	15,554	17,865

Exhibit 10: Key Ratios

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share Data (in ₹)					
AEPS	2.0	3.5	3.2	4.4	5.6
CEPS	1.2	1.1	5.3	2.2	2.4
BVPS	16.4	19.9	30.8	20.8	26.3
DPS	-	-	-	-	-
Growth Ratios (%)					
Total Revenues	0.9	35.8	25.2	21.3	17.7
EBITDA	(10.4)	43.2	15.1	35.6	20.9
PAT	(34.5)	77.2	18.2	37.8	26.4
AEPS	(34.5)	77.2	(7.8)	37.8	26.4
CEPS	(59.8)	(1.8)	360.5	(58.8)	10.7
Valuation Ratios					
P/E	61.9	34.9	37.9	27.5	21.8
P/CEPS	103.7	105.5	22.9	55.6	50.3
P/BV	7.4	6.1	3.9	5.8	4.6
EV / EBITDA	20.3	14.3	15.4	11.8	9.7
EV / Sales	1.3	1.0	1.0	0.8	0.7
Operating Ratio					
Raw Material/Sales (%)	86.4	86.3	86.4	85.1	84.9
SG&A/Sales (%)	5.3	5.1	5.7	6.0	6.0
Effective Tax Rate (%)	26.3	25.7	24.8	24.8	24.8
NWC / Total Assets (%)	30.9	28.1	32.6	37.5	44.4
Inventory Turnover (days)	63.0	60.0	51.8	48.0	48.0
Receivables (days)	11.0	9.0	9.3	9.3	9.3
Payables (days)	1.0	2.0	1.8	1.8	2.3
D/E Ratio (x)	1.1	1.0	0.6	1.0	0.8
Return/Profitability Ratio (%)					
RoCE	14.2	18.8	13.3	22.8	24.1
RoNW	12.7	19.1	13.8	17.1	23.6
Dividend Payout Ratio	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0	0.0
PAT Margins	1.8	2.4	2.3	2.6	2.8
EBITDA Margins	6.4	6.7	6.2	6.9	7.1

Exhibit 11: Cash Flow Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	796	1,398	1,632	2,248	2,842
Depreciation	581	713	854	1,016	1,209
Chng in working capital	(1,258)	(1,386)	(2,870)	(510)	(1,533)
Tax paid	(201)	(376)	(485)	(556)	(703)
Cash flow from operations (a)	2,099	2,923	3,349	4,463	4,934
Free cash flow	1,508	2,245	883	6,276	3,745
Capital expenditure	(591)	(679)	(2,466)	1,813	(1,189)
Chng in investments	-	-	-	-	-
Other investing activities	(8)	-	(540)	-	-
Cash flow from investing (b)	(599)	(679)	(3,007)	1,813	(1,189)
Inc/dec in borrowings	274	457	1,335	572	200
Dividend paid (incl. tax)	-	-	-	-	-
Interest paid	(701)	(810)	(1,022)	(1,428)	(1,618)
Other financing activities	(135)	(137)	(259)	-	-
Cash flow from financing (c)	(561)	(489)	4,700	(6,404)	(1,418)
Net chng in cash (a+b+c)	(521)	(6)	1,688	(1,195)	90
Closing cash & cash equivalents	350	344	2,032	837	926

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