

IPO Note

October 03, 2022

Electronics Mart India Limited





Issue Snapshot:

Issue Open: Oct 04 – Oct 07, 2022

Price Band: Rs. 56 –59

*Issue Size: Rs 500.0 cr

Reservation for:

QIB	upto	50% eq sh
Non Institutional	atleast	15% eq sh
((including 1/3 rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 21.27 (June 30, 2022)

Bid size: - 254 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	300.0 cr
*Post issue Equity:	Rs.	384.7 cr

Listing: BSE & NSE

Book Running Lead Managers: Anand Rathi Advisors Limited, IIFL Securities Limited, JM Financial Limited

Sponsor Bank: ICICI Bank and HDFC Bank

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	100.00	77.97
Public	0.00	22.03
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Electronics Mart India Limited (EMIL) is the 4th largest and one of the fastest growing consumer durables and electronics retailers in India and as of Financial Year 2021, it is the largest regional organised player in the southern region in revenue terms with dominance in the states of Telangana and Andhra Pradesh and has been one of the fastest growing consumer durable & electronics retailers in India with a revenue CAGR of 17.90% from Financial Year 2016 to Financial Year 2021. EMIL has consistently demonstrated profitability with a robust operating performance. It offers a diversified range of products with focus on large appliances (air conditioners, televisions, washing machines and refrigerators), mobiles and small appliances, IT and others. Its offering includes more than 6,000 SKUs across product categories from more than 70 consumer durable and electronic brands.

The Company's business model is a mix of ownership and lease rental model, as it focusses to secure retail spaces which ensures high visibility and easy accessibility to customers. Under the ownership model, it owns the underlying property including the land and building and in lease rental model, it enters into a long-term lease arrangement with the property owner(s). As of August 31, 2022, out of the total 112 stores EMIL operate, 11 stores are owned, 93 stores are under long-term lease rental model and eight stores are partly owned and partly leased. It has expanded its 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. Between April 1, 2021 and August 31, 2022, the Company has set up four stores in Andhra Pradesh, eight stores in Telangana and eight stores in NCR.

EMIL operate its business activities across three channels of retail, wholesale and e-commerce.

Retail: With the object of providing comprehensive electronic solutions, EMIL has set up diverse consumer durable and electronic retail stores arraying multifarious as well as specialized electronic products. As of August 31, 2022, out of 112 stores, 100 stores are Multi Brand Outlets ("MBOs") and 12 stores are Exclusive Brand Outlets ("EBOs"). It 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 specialized 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.

Wholesale: EMIL is also engaged in the wholesale business of consumer durables, where it supplies products to single shop retailers in Andhra Pradesh and Telangana regions.

E-Commerce: In 2017, EMIL diversified its operations by venturing into the e-commerce space through its website. Its e-commerce website currently functions as a catalogue for the products it retails at its stores. The Company further expanded its e-commerce operations in 2019 by associating with the largest domestic and international players of the e-commerce market thereby expanding its business reach from brick-and-mortar retail stores to e-commerce platforms.

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. It classifies the products offered by its consumer durable and electronic retail stores under the following categories:

Large appliances: This category includes refrigerators, televisions, air conditioners and washing machines. It retail large appliance products from leading brands including LG, Panasonic, Philips, Sony, Godrej, IFB, Daikin, Symphony and Voltas among others.



Mobiles: This category includes mobile phones, tablets, smart watches and fitness trackers. It retails mobiles from leading brands including Oppo, One Plus and Vivo among others.

Small appliances, IT and others: This category includes items that typically compliment the above-mentioned products, laptops, personal computers, printers, cables, screen guards, headphones, bluetooth speakers, coolers, geysers, ceiling fans, personal care devices and kitchen appliances such as kitchen hobs, chimneys, water purifiers and other allied appliances. It retail small appliances, IT and other products from leading brands including Dell, Sony, AO Smith, Ariston Thermo, Butterfly, Miele, Preethi, Havells, Kaff, Orient, Liebherr and Franke Faber among others.

In order to make EMIL's products affordable and to expand its market reach, it offers a number of financing solutions to its customers. It has entered into arrangements with its financing partners which allows it to offer financing solutions in the form of low cost or zero cost EMIs to the customers.

Objects of Issue:

The Issue is being undertaken to meet the objects thereof, as set forth herein, and to realize the benefits of listing of Equity Shares on the Stock Exchanges, including the enhancement of the Company's brand name and creation of a public market for Equity Shares in India.

The Net Proceeds from the Issue are proposed to be utilized by EMIL for the following objects:

Fresh Issue

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

Utilisation of Net Proceeds and schedule of implementation and deployment

Particulars Rs Mn.	Amount to be funded from the Net Proceeds	Estimated amount to be utilized from Net Proceeds		
		FY 2023	FY 2024	FY 2025
Funding of capital expenditure for expansion and opening of stores and warehouses	1,114.41	234.55	469.26	410.60
Funding incremental working capital requirements	2,200.00	1,000.00	1,200.00	*
Repayment / prepayment, in full or part, of all or certain borrowings availed by EMIL	550.00	550	*	*
General corporate purposes	*	*	*	
Total	*	*	*	

Competitive Strengths

4th largest consumer durable and electronics retailer in India with a leadership position in South India: As of August 31, 2022, EMIL operates and manage 112 stores with a retail business area of 1.12 million sq. ft., located across 36 cities/urban agglomerates. As of Financial Year 2021, it is the largest player in the Southern region in revenue terms with dominance in the states of Telangana and Andhra Pradesh. It is the 4th largest and one of the fastest growing consumer durable and electronics retailer in India. It has built a history of collaboration with reputed electronic brands that has helped EMIL to expand its service offerings. The Company 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. It continues to strengthen these relationships by entering into long-term contracts and through strategic alliances with them. EMIL's strong focus on understanding and delivering on customer needs, operating a non-conflicting business model and investing in relationships to create value for its customers has helped it to maintain and grow its key relationships over the years. EMIL's steady brand presence and widespread customer outreach coupled with reduced cost of business operations enables it to achieve a diverse as well as stable customer base and earn better margins to achieve cost competitiveness in the consumer durable retail market.

One of the fastest growing consumer durable and electronics retailer with consistent track record of growth and industry leading profitability: EMIL have been one of the fastest growing consumer durable and electronics retailer in India with Revenue CAGR of 17.90% from Financial Year 2016 to Financial Year 2021. The Company's core competency lies in understanding the aspirations and demands of its customers and meeting their demand with its concept of value retailing. With more than three decades of experience



and successful growth, EMIL has grown steadily in the recent years and expanded its store network from 71 in Financial Year 2020 to 112 stores as of August 31, 2022. It has a consistent track record of revenue growth and profitability. Despite the ongoing Covid pandemic and its stores being non-operational & partially operational during different phases of the lockdown its revenue from operations grew at a compounded annual growth rate (CAGR) of 17.09% from Rs. 31,724.77 million in Financial Year 2020 to Rs. 43,493.16 million in Financial Year 2022. It has generated strong cash flows from its operations which has enabled it to further invest in its business. EMIL's liquidity position enables it to consistently pay its suppliers on or before the due date, allowing it to benefit from supplier discounts. The Company follows an efficient hierarchy structure, crafted with the sole intention of reducing bottlenecks and multiple reporting heads, which enables it to market and sell its products in a timely and coordinated manner. Its local market knowledge, supply chain efficiencies and effective inventory management has also enabled to attain higher cost competitiveness and consistent profitability.

Increasing market presence and geographic reach with cluster-based expansion: EMIL's business has grown steadily in the recent years, primarily through expansion of its store network. As of August 31, 2022, it operates 112 stores in 36 cities/urban agglomerates of which 104 stores are concentrated in Andhra Pradesh and Telangana and eight stores in NCR. It started its business operations by setting up its first consumer durable and electronic retail store in Hyderabad. It opened stores to deepen its reach in the Hyderabad market and gradually opened stores in Tier-II and Tier-III cities in Telangana and Andhra Pradesh. As of Financial Year 2021, EMIL is the largest player in the Southern region in revenue terms with dominance in the states of Telangana and Andhra Pradesh. It had the second highest operating margin amongst its peers in Fiscal Year 2021.

EMIL's expansion and increased market presence is based on its cluster-based approach, wherein it expands its network in a particular market, till it reaches substantial depth & scale. In the process of opening new stores, EMIL gives emphasis on identifying 'growth pockets', by taking into account various factors, including population density, proximity and performance of competitors, customer and vehicular traffic, customer accessibility, potential growth of the local population and economy, area development potential, future development trends, estimated spending power of the population and local economy and payback period, estimated on the basis of expected sales potential, strategic benefits, and store site characteristics. Such clusters lead to effective penetration in underserved markets and concentrated brand visibility due to focused implementation of marketing and advertising initiatives.

Business model provides operational flexibility to create long term sustainable footprint: EMIL operates with a mix of ownership and lease rental model. In order to optimise its profitability, maintain its operational flexibility and ensure that its stores continue to be located in densely populated neighbourhoods and residential locations, EMIL have a flexible strategy of owning or leasing its premises according to availability, cost and other considerations. Its endeavour is to build reliable long-lasting relationships with the customers residing in a given area, therefore following the store ownership model or long-term lease rental model, ensures permanency and brand recognition in designated areas. Its ability to find suitable locations on high-street areas and shopping hubs at low lease rentals per sq. ft., has resulted in reduced operational costs, which enables it to achieve higher profitability, which in turn allows to offer products at attractive pricing. As on August 31, 2022, 100 MBOs were operative, having at an average store area of 10,876 sq. feet per store. Comprehensive display of products to provide large number of options to prospective customers across brands & price range.

Diversified product offering & optimal product assortment leveraging deep knowledge and understanding of regional markets: EMIL offers its customers a wide product range across multiple categories, brands, price points to ensure that its customers have range of product options to choose from and is able to make the value buy decision. It focusses on providing a competitive product range for the leading brands at its store. It strives to ensure that the latest models & new product launches are available in its stores. Based on its geographic and demographic analysis, it decides the product mix which is to be offered by its stores to cater to its customer preferences, demands and trends. It classifies its products internally into three broad categories viz., large appliances, mobiles, and small appliances, IT and others. This internal Concept Classification is very critical and helpful from the supply chain perspective and ensures the right product reaches the right store and targeted group of customers. EMIL's customised product assortment and comprehensive product portfolio enables it to achieve better visibility, brand recognition, deeper market penetration and increased customer base. It provides a complete and unique shopping experience to its customers, by either showcasing a wide range of electronic products under one roof in its MBO model or providing a specialized brand experience with EBOs.

Strategically located logistics and warehousing facilities backed by stringent inventory management using IT systems: EMIL's strategically located warehousing facilities enable it to fulfil promise of timely delivery at cost competitive prices. It operates through a combination of large centrally located warehousing facilities which are backed by individual storage areas at store level. The company operates nine large warehouses with an average area of 28,114 sq ft. It has six large warehouses in Hyderabad to cater to the Telangana region, one central warehouse in Vijayawada to cater for the Andhra Pradesh region and two warehouses in NCR to cater to the NCR region. Further, the Company also has several individual storage areas of varying sizes to cater to individual stores or a group of stores. Its core strength lies in its ability to effectively manage inventory levels across its large warehouses and individual storage areas and store level display inventory, which is the backbone of the supply chain and supports its consumer durable and electronic retail



store network. Its network of multiple store level storage areas enables to deliver products to its customers within a reasonable time period.

EMIL's robust information technology systems, supplier network and tracking systems enables it to send updates to its customers on the status of their orders on a real time basis along with the contact details of the concerned personnel assigned for the delivery of the products. Further, its stores utilise a computerised inventory management system, which allows to track the inventory level and movement of its SKUs on a daily basis. It has also benefitted from understanding of local needs and ability to respond quickly to changing consumer preferences. This has been achieved in part due to its advanced technology adopted in procurement, sales and inventory management. EMIL uses the ERP and POS systems from leading industry software providers for such functions.

The Company's technological systems have been designed keeping in mind its specific business needs with a wide range of data management tools, which support key aspects of its business, including procurement, sales and inventory management across all its stores on a daily basis. Its technological systems also support its cash management, in-store systems, logistics systems, human resources and other administrative functions. Together with its supply chain management systems, its internal controls enable to minimise occurrence of interruptions such as product shortage and pilferage and helps it to operate efficiently and productively with minimal disruptions in its day-to-day operations.

Robust customer service support, timely delivery & installation support: EMIL have well trained in-house floor managers and section managers' sales teams who they are assigned to and also speak the regional language which helps in establishing connect with the customers. It also strives to achieve customer satisfaction by providing after sales support with the help of its dedicated store-wise customer support team with trained and experienced team members. Its widespread vendor/ supplier network and robust tracking systems, ensure timely delivery of products with limited procurement costs. It continues to make investments in its after-sale support by recruiting skilled workforce and to further enhance its user experience, provide innovative services to its buyers and suppliers and increase the speed and efficiency of its e-commerce platforms and customer support services.

Experienced management team with a proven track record: EMIL's business is consumer driven. Its strong Promoter background and an experienced senior management team has helped it to offer high standards of customer service and a pleasant shopping experience at its stores. Its senior management brings their vision and leadership which has been instrumental in its success. Its experienced management team and trained employees has enabled EMIL to successfully establish a customer-oriented corporate culture, providing a foundation to maintain and enhance its long-term competitiveness. Its employees have been an important factor in its success as the quality and efficiency of the services it provides are dependent on them. EMIL has invested in its employees through regular training programmes to improve skills and service standards, enhance loyalty, reduce attrition rates and increase productivity.

Business Strategy:

Expand reach across select geographies and deepen the footprint in existing markets: EMIL aims to continue to deepen its store network in its existing clusters to increase its market share in the Hyderabad, Telangana, and Andhra Pradesh markets. Its aim is to follow a peripheral and concentric expansion approach pursuant to which, it will look to target contiguous states, to avail new opportunities. It has in the past, expanded its stores through a cluster-based expansion model and intends to continue to do so in the future. It also intends to open stores and build its store network in the NCR region by opening 26 MBOs with the proceeds of the IPO. EMIL intends to continue to identify properties that may be viable retail property spaces at strategic locations and enter into arrangements to lock such properties for its stores. As of August 31, 2022, EMIL has operationalized eight store at NCR and are at various stages of negotiations to enter into arrangements for locking such retail property for its future requirements to open stores.

Increasing its penetration in existing cities with a greater number of stores will enable EMIL to penetrate into new catchment areas within these cities and optimize its infrastructure. It intends to continue focusing on modernization of its stores, improving store infrastructure to provide comprehensive display of products to provide a number of options to prospective customers across brands and price range.

Enhancing sales volumes by continuing to prioritise customer satisfaction through optimal product assortment and offering value for money:

Right mix of product assortments at competitive pricing: EMIL's strategy is to provide customers with a comprehensive range of products at value for money prices and maintain optimal customer service standards. In order to maintain and enhance its competitive position, it will continue to offer its products at competitive prices achieved through low procurement, supply, operational and other costs. It will continue to focus on optimal product assortment keeping in mind the local needs and preferences. It will continue to introduce new products depending on customer needs at one or several of its stores.



Leveraging consumer finance to provide convenience and enhance purchasing ability: EMIL intends to further expand its financing options to make its products accessible to all the customers and consequently widen its customer base and outreach.

Focus on differentiated customer experience and engagement: Shopping is considered a family activity in many of EMIL's markets. It endeavours to provide a one stop shopping experience. All its stores are air conditioned and aims to provide a pleasant ambience and functional store layout. It intends to improve its customers' shopping experience by improving the checkout time and to continue to undertake periodic renovation of its stores. The Company also aims to engage in "Intelligent Marketing" wherein it can inform its registered customers of the new schemes or offers for specific products based on such customer's previous purchases. It intends to continue to invest in advertisement and branding and continuously improve its customer relationship management, or strategies, and campaigns to analyse and manage customer interactions throughout the customer lifecycle, with the goal of creating a long-term relationship with customers, building customer retention and driving sales. Since, the consumer durable and electronic retail industry is highly competitive in nature, EMIL proposes to make further investments in its marketing initiatives to further imbibe its brand presence amongst its customers.

Technology led effective inventory management & lean operating structure to maintain & improve operating efficiencies: EMIL's business model requires to maintain high levels of operational efficiency on a regular basis. Further, supply chain management is critical to the business. Its supply chain management is critical in reducing operational costs and helping maintain an optimum balance between the level of inventory available and the availability of products at all stores as per customer requirements. This involves planning, sourcing, vendor management, logistics, quality control, pilferage control, replacement and replenishment. The Company intends to further strengthen its internal systems and controls regarding its inventory management to monitor and reduce shrinkage and pilferage. It plans to further improve its operating efficiency and ensure efficient supply chain management, including by (i) investing further in its technological systems to improve its productivity and time management thereby increasing operating efficiency; and (ii) expanding and upgrading EMIL's warehouse to improve the efficiency of its inventory and supply management; (iii) continuing to absorb best industry practices and (iv) supplement current security system, consisting of manual checks and electronic surveillance. To provide a seamless shopping experience to EMIL's customers as they become more digital in their lifestyle, it plans to be equipped for an omni-channel business model as well. It is currently leveraging and shall continue to leverage, technology and analytics to drive its business operations.

Maintaining & forging new relationships with leading brands across existing and new format stores thereby ensuring wider product range: EMIL intends to expand its relationship with existing business partners as well as forge new relations with renowned brands in order to set up and operate increased number of stores including EBOs. It also intends to increase the product range presently available across its MBOs. The Company intends to expand its network and presence among the renowned electronic brands to further diversify its product portfolio and increase the categories of its products to establish brand as a comprehensive and complete dealer and distributor of major electronic brands. Its focus on expanding its EBOs, specialized stores and brand network will enable EMIL to provide specialized and brand centric services which may further establish its brand presence through the quality and diversity of its operations.

Continuous training of manpower: Success of EMIL in the future will depend on its ability to continue to maintain a pool of experienced professionals. It aims at identifying fresh talent, training, grooming them and providing opportunities for growth. It has been successful in building a team of talented professionals and intends to continue placing special emphasis on managing attrition and attracting and retaining its employees. It also provides technical and functional training to its employees and intends to further improve its training programmes to ensure that its employees have the skills to meet its customers' demands and provide quality customer service. It has also adopted an organisation-wide human resource policy which lays emphasis on providing continuous training to its employees and establish definite career growth paths for them. It intends to continue to encourage its employees to be enterprising and help them to 'learn on the job' and grow within its organisation.

Industry:

Review and outlook of the Indian retailing industry

Long-term growth story remains intact despite the pandemic blow

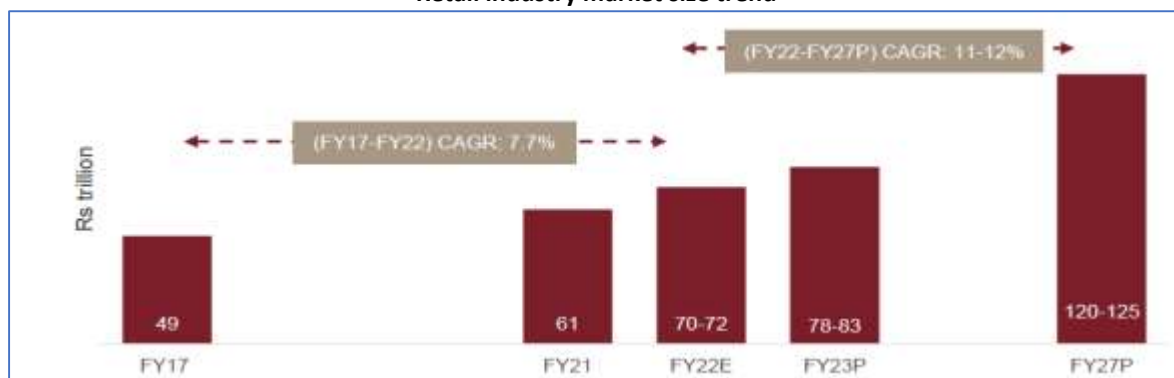
India's retail industry clocked a healthy 7.7% compound annual growth rate (CAGR) between fiscals 2017 and 2022, backed by rising urbanisation, nuclearisation, increased disposable incomes, improving affordability and positive consumer sentiments. Low inflation and interest rates as well as favourable economic growth positively influenced consumer disposable income and consumer sentiment, boosting retail spending.

However, the industry faced a few hurdles along the way. Demonetisation and GST implementation affected the industry in fiscal 2018. In fiscal 2019, favourable monsoon, ironing out of GST/demonetisation issues, healthy GDP growth supported revival of the retail industry.

With the Indian economy caught in crosswinds, GDP grew at a slower pace of 3.7% in fiscal 2020. In a cautious consumer spending scenario, discretionary segments such as gems and jewellery, and apparel were hurt the most, while the impact was lower on non-discretionary segments such as food/groceries, and pharmacy. Thus, overall retail grew at a slightly slower pace of 8.5% in fiscal 2020.

The retail sector contracted in fiscal 2021 in line with the decline in GDP and private final consumption expenditure (PFCE), which grew 1.7% in fiscal 2021. Retail consumption took a hit due to the nationwide lockdown on account of Covid- 19. However, the lockdown's impact varied across essential and non-essential goods. Sale of essentials was allowed and essential products (especially food & grocery) witnessed normal growth. However, non-essential goods were the worst hit in the first quarter due to sales restrictions and witnessed a slow recovery in the second half of the fiscal on account of the pandemic's impact on incomes, jobs, and salaries. As essentials (food & grocery and pharmacy) form around 57% of overall retail, the decline of overall retail was restricted to 2% as essentials witnessed ~10% growth.

Retail industry market size trend



The retail sector is estimated to have grown 15-17% in fiscal 2022 on the low base of fiscal 2021, backed by a revival in discretionary spending amid the waning impact of the pandemic, increased market activity as well as an improvement in macroeconomic factors.

With lockdowns/restrictions imposed in various states owing to Covid-19, consumer confidence was affected in the first half of fiscal 2022. However, the second half witnessed some revival. The third wave during the last quarter of the year had a limited impact on the overall economy and in turn the retail industry. With the third wave of Covid-19 behind EMIL and easing of most pandemic restrictions, CRISIL Research expects full resumption of services activity in fiscal 2023. The uptrend in retail is expected to continue and the segment should grow 12-13% in fiscal 2023. Easing of restrictions, reopening of offices and improving consumer sentiment will drive growth. However, the impact of Russia-Ukraine war on commodity prices and in turn retail prices and the pandemic-led lockdown in China remain key monitorables. Between fiscals 2022 and 2027, CRISIL Research believes growth will accelerate at a 11-12% CAGR, as economic activity picks up and inflation remains in a low to moderate range in the long term. Consumption revival, coupled with economic growth, will boost consumer sentiment and drive discretionary spend. Increased investment by large retailers will further propel retail growth.

Share of organised retail set to expand after pandemic-induced contraction: Organised retail typically means large-scale chain stores that are corporatised, apply modern management techniques and have a relatively higher level of self-service compared with mom-n-pop stores. E-retail is part of organised retail, while traditional retail includes only brick-and-mortar (B&M) outlets. The largest part of organised retail is still with B&M chains.





The share of organised retail sales in total retail has continued to expand over the past few years. From ~8% in fiscal 2017, the share of organised retail increased to ~12% in fiscal 2020. Countrywide lockdowns and restrictions impacted organised segment more and its share contracted to 10-11% as of fiscal 2022.

Organised retail bounced back in fiscal 2022

On a very low base, organised retail surged at a 30% CAGR between fiscals 2006 and 2013 and slowed down to 16% CAGR between fiscal 2013 and fiscal 2017 amid slow economic growth, especially in fiscal 2015, with demonetisation putting a temporary brake on consumer spending in fiscal 2017.

In the fiscal 2017-2022 period, organised retailing grew at a slower pace of 11.4% CAGR. Increased marketing/aggressive discounts offered by online players and increasing investments by organised retailers in new stores drove growth in fiscal 2018.

Further, GST also drove growth of organised players as it increased the cost of doing business for unorganised players. Thus, organised retail grew ~20% on-year in fiscal 2018. The strong momentum continued into fiscal 2019 with ~21% on-year growth.

With tepid economic growth and consumer sentiment in turn tapering down, growth in organised retail slowed down to ~16% in fiscal 2020.

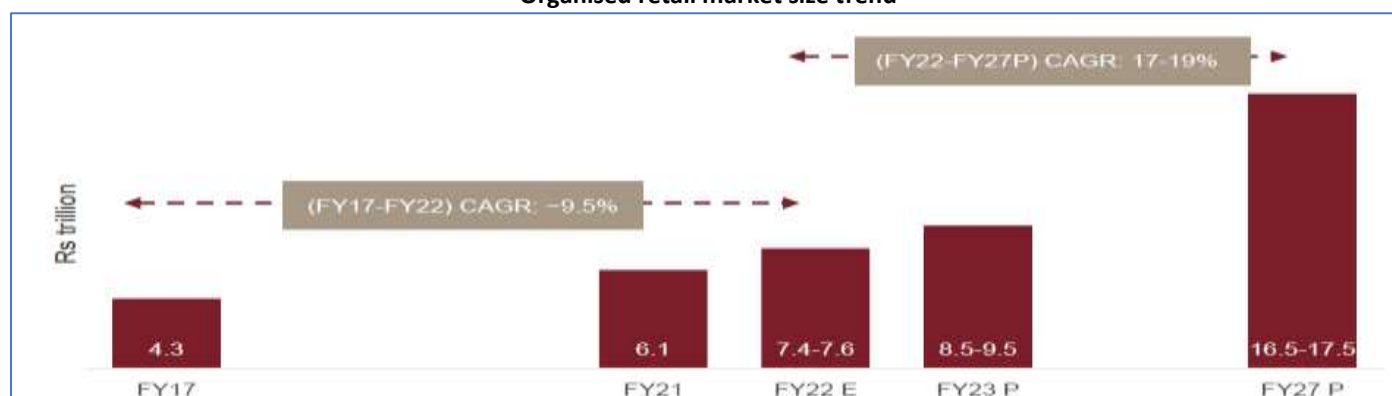
The industry took a beating in fiscal 2021 and contracted 17%. Amid the nationwide lockdown on account of the Covid-19 pandemic, consumption was hit. Non-essential goods were the worst hit due to the impact of sales restrictions following the lockdown in the first quarter of fiscal 2021. Even after the first quarter, mall occupancy was low, which put pressure on organised retail.

However, with the advent of the festive season, consumer sentiments improved, and spurred demand for organised retail. Demand for in-home segments such as consumer durables, mobile and furniture improved during the festive season. However, the decline in the first half of fiscal 2021 weighed on full year growth. The share of non-essentials in organised retail is high at around 80%. and the same de-grew by 23% in fiscal 2021. This impacted the overall organised retail sector and it de-grew ~17% in fiscal 2021.

Temporary store closures, restricted mobility, and curtailed discretionary spending due to the second pandemic wave restricted growth in the first quarter of fiscal 2022. However, the sentiment improved as seen in RBI's consumer confidence survey. Demand recovered from the second quarter as the impact of the second wave abated and vaccinations gathered pace. The sector got the necessary boost during the festive season with both online and offline channels witnessing healthy growth on back of easing of restrictions and increased spends. Though all segments fared well during the festive season, consumer durables, jewellery and fashion drove growth. The sector is estimated to have grown 20-25% in fiscal 2022 on a low base of fiscal 2021, supported by higher discretionary spending and a waning impact of the pandemic. The non-essential segment, which was impacted heavily in fiscal 2021, drove growth in fiscal 2022.

The momentum is expected to continue as normalised market operations, store additions and improved consumer sentiment should drive organised retail growth in fiscal 2023. Easing of restrictions, reopening of offices and higher footfalls at malls will further aid growth. It is expected that the organised retail to grow 17-22% in fiscal 2023. However, the impact of Russia-Ukraine war on commodity prices and in turn retail prices as well as the impact on product availability amid the pandemic lockdown in China remain key monitorables.

Organised retail market size trend





New store rollouts as well as increasing penetration into tier-II and III cities apart from metros and tier-I cities will propel growth in the long term. The government's decision to permit 100% foreign direct investment (FDI) in single-brand retail under the automatic route from 49% earlier and relaxation in sourcing norms will boost growth in the longer term. Further, with the pickup in the macro scenario and improved consumer spending in the longer term, organised retail will see healthy growth. Organised retail is expected to clock 17-19% CAGR over fiscals 2022 to 2027, reaching Rs 16.5-17.5 trillion.

Growth drivers for organised retail industry

CRISIL Research has outlined demand- and supply-side factors that will create value for the organised retailing space.

Demand-side factors (detailed coverage in the economy section)

Rising income levels and increasing disposable incomes: Rising disposable income is the primary enabler for domestic consumption. India's per capita income has been increasing and grew 7.8% on-year in fiscal 2022. It is expected to grow at a 7.5% CAGR in the next five years, propelling retail growth

Favourable demographics: India has one of the largest young populations in the world. As of 2020, 90% of India's population was below 60 years of age compared with 77% for the US and 83% for Brazil. With a younger population, the propensity to spend on the latest discretionary products is higher, driving the potential for increased retail consumption, especially in the organised segment

Growing urbanisation and changing consumer preferences: The Indian population is increasingly shifting to urban areas. The share of population living in urban areas has grown to ~35% in 2020 and is expected to reach nearly 37% by 2025 from ~17% in 1950s. Increased urbanisation and rising disposable income augur well for the retail industry. Moreover, urbanisation provides an additional catalyst to the organised segment which is concentrated in urban areas

Increasing nuclearisation: Amid rising urbanisation, the average family size has been declining. The average household size of the country declined to 4.9 members in 2011 from 5.6 members in 1991. The declining family size translates into higher consumption and retail demand

Increasing brand consciousness: Rising income levels, education and global exposure have contributed to evolution of the middle class. As a result, there has been a gradual shift in the consumption patterns of Indians. Demand for better quality, convenience and a higher value for money have increased demand for branded goods. The willingness to experiment with new products has further augmented spending on health and beauty products, apart from apparel, food and grocery items.

With an increasing exposure to global brands, coupled with increasing aspirations of young consumers, overall brand consciousness is on the rise.

Structural reforms by the government to spur organised retail growth

GST to spur organised retail growth: The implementation of GST has likely spawned structural changes in the supply chain and logistics networks in India. Companies are expected to have migrated from the current strategy of 'multiple warehousing' to the 'hub-and-spoke' model as tax treatment across India became uniform. Organised retailers, too, are expected to benefit from rationalisation of logistics costs because of flexibility in procurement and seamless movement of goods across states. Besides, GST is also expected to have driven market share gains for organised players, as the tax arbitrage which used to help unorganised players was reduced

New single-brand retail rules to further drive growth in the medium to long term: The government's decision to permit 100% FDI in single-brand retail under the automatic route from 49% earlier, along with relaxation in sourcing norms is further expected to drive growth for organised retail. While FDI approval under the automatic route will reduce the time to commence business, the relaxation of 30% local sourcing norms for the first five years to enable incremental sourcing for global operations will provide sufficient time for new entrants to set up and stabilise their sourcing base. Although this will mean more competition from new and existing players, more foreign retailers, faced with growth headwinds in their key operating geographies, are expected to expand in the domestic market. This could also lead to a sharp focus on, and improvements in supply chain efficiencies, which will benefit the organised retail sector over the medium term

Organised retail penetration to reach 13-15% by fiscal 2027

Organised retail penetration (ORP) is likely to reach ~14% in fiscal 2027 from 10-11% in fiscal 2022. New store rollouts as well as increasing penetration into tier-II and III cities over and above metros and tier-I cities will propel growth in the longer term.

The government's decision to permit 100% foreign direct investment (FDI) in single-brand retail under the automatic route from 49% earlier and relaxation in sourcing norms will boost growth in the longer term. Further, with the pickup in the macro scenario and



improved consumer spending in the longer term, organised retail will see healthy growth. Organised retail is expected to clock 17-19% CAGR over fiscals 2022 to 2027, while overall retail is projected to grow at a slower pace of 11- 12% during the same period. Thus, accelerating the expansion of organised segment.

Consumer durables continues to be one of the leading organised retail verticals

The consumer durables segment is one of the largest contributors to the overall organised retail industry. Backed by the rising traction for electronics, especially mobiles, this segment is expected to continue to dominate the organised retail segment. Moreover, with 54% ORP, a majority of the demand for this segment comes from the organised sector.

The food and grocery segment has expanded its presence in the organised space in fiscal 2021 amid the pandemic. It continued to remain one of the major segments in fiscal 2022. However, its penetration is one of the lowest.

Organised retailers also have a significant presence in apparel (accounting for 18% of organised retail) with an ORP of around 22%. The rising preference for branded clothing, along with players' ability to differentiate (based on colours, fabric, etc), helps organised retailers expand their foothold. Footwear and jewellery (including watches and eye care) are other verticals where organised players have a very strong foothold.

Growth factors for organised B&M retail

Touch and feel of the product: B&M retail provides an opportunity for consumers to touch and feel the product ("try-it-before-you-buy-it"), which is a critical component, at least for high-priced items (say above Rs 20,000). For high-priced items, organised B&M retail remains the preferred mode for consumer purchases

Warranty and service issues: B&M retail provides comfort to consumers in terms of assurance of products' genuineness and a better understanding of warranty and service details

Installation and after-sales services: Installation and after-sales services are much faster and more efficient in the case of purchases from B&M durable retailers

Consumer finance schemes: Easy and instant zero-cost financing options available at the point of sale are also aiding B&M retail outlets in increasing repeat customers

Government's clarification on marketplace model provided respite to B&M retailers

On March 29, 2016, the Department for Promotion of Industry and Internal Trade came up with a clarification on FDI in online marketplaces. The clarification stated that money raised from foreign entities by e-commerce players such as Amazon, Snapdeal, and Flipkart can be used to serve consumers, rather than routing their businesses through their holding companies as a B2B activity. In addition, it stipulated some restrictive conditions for the marketplace model. First, a marketplace will not source more than 25% of its sales from a single vendor. Second, e-commerce entities providing marketplace will not directly or indirectly influence the sales price of goods and services and will maintain a level playing field.

Large consumer durables: B&M retailers to continue to play a significant part

B&M players dominate the large consumer durables category. Tactile experience provides a unique advantage to B&M stores, which online retail cannot match. It is one of the primary reasons for consumers preferring to purchase large durables, particularly higher-value household appliances, through B&M retail outlets.

Moreover, organised B&M players have been able to build a strong connect with customers by providing one-on-one advisory services through in-store personnel and authorised brand personnel. Thus, over the years, these retailers have enhanced the instore shopping experience for customers by providing a wider range of products, latest models, and more attractive product displays with advisory services under one roof.

Further, installation and after-sales services are much faster and more efficient in the case of purchases from B&M retailers. The trust factor plays an important role in after-sales services; unlike in the online format, B&M players give store guarantee in the event of any product issues.

On the finance front, in the B&M format, various consumer finance schemes are available at the point of sale, i.e., the store. The provision of instant zero-cost financing options (EMI) to the customer is another major advantage. In the online format, financing options are limited and mainly through credit cards.



While online retailers have increased their offering of electronic and consumer durable products, they have been finding it difficult to penetrate this segment, especially given the bulkiness of appliances such as refrigerators and washing machines, because of logistical challenges and associated costs. All these features have enabled B&M retail outlets to build a loyal base of customers. Typically, over half of the business for the B&M retail sector is generated from repeat customers.

In the organised large consumer durables segment, ~81% of the sale is through the B&M format (as of fiscal 2022). Although the lockdown during fiscal 2021 and the first half of fiscal 2022 forced many consumers to shift from the B&M to online format for urgent needs, CRISIL Research expects most consumers to revert to B&M stores for large consumer durables in the longer term.

Mobile devices: Online retail to continue to lead the segment

The online channel accelerated in the mobile segment given the standardised products, wider choices, competitive pricing, easy delivery owing to size, exclusive online sale of some brands, flash sales, etc. However, even in the online mobile market, the share of relatively low-value products is significantly higher. For high-value purchases, consumers still prefer retail outlets.

Lockdown in the first half and only a staggered unlock in the second amid an increased need for mobiles, with work from home and online classes, provided an added thrust to online sales of mobiles during fiscal 2021.

Due to strain on household budgets plus anticipation of medical bills on account of Covid-19, in the first quarter of fiscal 2022, most customers migrated towards smartphones costing less than Rs 10,000 as opposed to the costly phones. During the second wave, even the e-commerce players were not allowed to sell non-essential items. This led to lower-than-expected sales in the first quarter. However, pent-up demand provided a push during the festive season.

Online retail continued to dominate the mobile segment in fiscal 2022.

Going forward, sales through online platforms are expected to grow at a slower pace than in the past five years. Earlier, growth was on account of a lower base and demand generated by first-time urban users for lower-priced mobile phones. Higher-priced smartphones will start taking precedence; thus, with a shift towards high-value purchases, consumers will likely prefer to see and touch the products before buying them.

While personal computers have generally been purchased through B&M retail outlets, with increasing internet penetration and consumer awareness, standardised and relatively low-cost products are increasingly being purchased online.

Review and outlook of the consumer durables industry

Consumer durables (or electronic home appliances) are defined as products/ appliances that have a certain utility and/or entertainment value, lengthier life (typically more than three years), and require replacement after a few years. These appliances are of two types – large and small. While large appliances include products such as 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.

CRISIL Research estimates the size of India's consumer durables industry, including large consumer durables, mobile phones and smaller appliances, at Rs 3-3.2 trillion as of fiscal 2022. The industry recorded ~12% CAGR between fiscals 2017 and 2020, 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% on year in fiscal 2021 amid the Covid-19 pandemic.

In fiscal 2021, the pandemic and the subsequent lockdown hit the industry hard. The online and 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. Consumer durables, being discretionary in nature, were 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, in the fiscal. 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, showed better resilience compared with other categories of consumer durables.

Despite these gains, the loss in the first quarter is estimated to have weighed on the overall figures for fiscal 2021, and the industry is estimated to have contracted 20% on-year.

Overall consumer durables market growth over fiscals 2017-2027P



CRISIL Research expects the consumer durables industry to log an accelerated 10-12% CAGR between fiscals 2022 and 2027 to reach Rs 4.8-5.3 trillion.

While the overall industry is pegged to grow 10-12%, dynamics across various product segments are quite different owing to varying penetration, perceived utility and product prices.

Industry-leading mobile phone segment is likely to continue to provide a major thrust, given the expected improvement in customer disposable incomes, continuous upgradation in mobile technology, premiumisation trend in consumer preference, shorter product usage cycle, and intermittent 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 the case of CTVs) and lower penetration levels (in the case of other appliances such as RACs and WMs). Increasing average temperatures during summer will provide an additional boost to the low-penetrated RAC segment.

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. The small appliances segment is estimated to reach Rs 325-335 billion by fiscal 2027.

Key demand drivers for consumer durables in India

The low penetration of consumer durables suggests higher scope for market growth. Following are the key growth drivers for India's consumer durables industry:

- **Changing demographics** — Increase in the number of nuclear families, rising urbanisation and growing rural connectivity
- **Rising per-capita income** — Improving affordability, growth in rural income and multiple ownership of consumer products
- **Improving power situation** — Improving rural electrification will boost demand for consumer durables
- **Expanding internet connectivity** — Spreading reach of e-commerce will provide an added support to the industry. Internet connectivity will also boost demand for smartphones
- **Changing lifestyles and perception of products** — Changing consumer perception about the utility of products (such as ACs) as utilities rather than luxury items, rising cost of household labour, increase in the number of working women, and better water supply in semi-urban cities have pushed up washing machine sales. The trend is expected to continue
- **Change from one product per family to one product per family member** — Products such as laptops are gradually becoming single-ownership products
- **Growth of multiple sales channels** — Growth of e-commerce, large, organised retailers, and omni-sales channels managed by large organised retailers has increased retailers' reach and visibility
- **Increasing product range and options** — A wide variety of choices at different affordable price points have attracted first-time buyers. This also helps gain repeat customers. A significant share of customers of B&M retail shops are repeat customers, unlike online retail where the repeat customers' proportion is relatively low
- **Multiple financing options** — Easy and flexible financing options have increased buyers' affordability. Easy availability of finance at 0% interest has been a major driver of the consumer durables industry's growth in the past few years. While EMI loans have always been available through banks, overall finance penetration remained low until the entry of NBFCs, due to the absence of EMI finance options at points of sale (retail shops), slower processing time, high interest rates and processing fees.



Large household appliances to sustain momentum over long term

Fiscal 2021 was an aberration for the consumer durables growth story. The year began with a country-wide lockdown, with all physical and online stores halting operations for nearly two months. In fact, the pandemic affected businesses globally as countries shut borders and halted all economic activity.

By the end of the first quarter, though, the government permitted home delivery of discretionary products, which led to the resumption of online retail businesses, providing much-needed breather to the industry. Amid the lockdown, new trends such as work from home and online classes gained momentum, which led to additional demand for consumer durable appliances. Shift towards online education and rise in TV viewership during the lockdown increased the demand for CTVs. Hygiene concerns and unavailability of maids boosted the WM segment. Higher cold storage space requirement supported refrigerator demand. The air-conditioner segment, however, missed the entire summer season of fiscal 2021 due to the nationwide lockdown.

The staggered unlock phase in the second quarter provided another push as B&M stores resumed operations, although on alternate days, and with limited staff. However, owing to fear of infection, customers preferred social distancing, and remained reluctant to venture out. Hence, recovery in the B&M business was gradual.

But the festival season provided a boost to the industry in the third quarter. Pent-up demand and increased requirement for household appliances accelerated sales. With customers learning to live with the virus, store visits increased. Most stores reached 70-80% of their pre-pandemic business in the quarter. As large appliances are primarily bought from B&M stores, the increase in footfall improved demand for consumer durables.

The trend continued in the fourth quarter. Further, exceptionally warmer winters in India during January and February 2021, along with pent up demand, boosted RAC sales.

Despite increased traction in the second half of the year, the significant decline in the first and second quarters impacted overall industry sales for fiscal 2021. CRISIL Research estimates the industry to have shrunk 17% on-year to Rs ~665 billion in the fiscal.

A much severe second wave of Covid-19 exerted further pressure on household appliance sale in the first half of fiscal 2022. Since, first quarter is the peak season for cooling products, such as air conditioners, refrigerators, etc., these products were affected. Also, e-commerce players were not allowed to deliver non-essential goods in a few districts. Moreover, supply chain disruption, along with increase in price of products due to higher commodity prices and logistics cost (substantial components are imported), had some bearing on demand in the fiscal.

However, waning impact of the pandemic, increased pace of vaccinations, normalized market operations, reopening of stores, improvement in consumer sentiment, and pent-up demand provided a boost to the market in the second half of the year. Discounts, schemes, and incentives by players provided additional kickers to demand.

Hence, on a very low base of fiscal 2021, the large appliances segment is estimated to have clocked a healthy growth of 28-30% in fiscal 2022 to Rs 855-860 billion. Price rise during the year also provided a secondary support to the market growth.

Refrigerator segment to grow at healthy pace over the long term

Refrigerators posted double-digit growth in demand during the first quarter of fiscal 2020 owing to high summer temperatures. Absence of BEE revisions and lower raw material prices also kept product prices stable during fiscal 2020. Thus, demand grew 9-10% on-year in the fiscal.

With BEE revisions on January 1, 2020, product prices went up, which impacted demand to some extent in fiscal 2021. Further, outbreak of Covid-19 impacted sales. The nationwide lockdown in the first quarter had significant bearing on demand as this is the most productive season for cooling products, such as refrigerators and ACs. Thus, a significant decline in the first quarter weighed heavily on full year sales despite improving in the second half with the onset of the festive season. Overall, refrigerator sales declined ~20% on-year in the fiscal.

Demand was further affected during the first quarter of fiscal 2022 on account of reimposition of lockdowns/ curbs and restriction on sale of non-essentials in some parts of the country amid the severe second wave. Demand, though, is estimated to have improved during the second half of the fiscal with reopening of markets. Players also introduced offers, such as bundled schemes, extended warranties, and various consumer finance offers, such as cashback on credit cards and easy EMI, to drive demand. Thus, on a low base, higher discretionary spending, no rating revision, and good festive growth helped demand bounce back 28- 30% in fiscal 2022.



Washing machine segment to grow at slightly faster pace over next five years

Demand for WMs grew at 8% CAGR during fiscals 2017 to 2022, led by increase in discretionary spending, expanding electrification, and rising hygiene awareness. WMs, being discretionary in nature, faced purchase deferment in fiscal 2020 amid the slowdown in economic growth. The segment grew in low single digits during the first half. But after a slow first half, players increased their promotional offers and provided various financing schemes, which drove demand in the second half. Hence, in fiscal 2020, the industry grew ~6% on-year.

In fiscal 2021, though, Covid-19 impacted WM sales, especially during the first quarter, wherein sales plunged over 50%. However, with social distancing being a norm, and availability of maids an issue, demand for WMs grew slightly. Further, because of the pandemic, hygiene and washing clothes at high temperature (to kill germs) increased among buyers. Players introduced high temperature wash options in semi-automatic models as well, which was earlier available only in high-end fully automatic WMs. Thus, there was some pent-up demand once lockdowns were lifted. With social distancing in place, sales through online channel gained prominence. Also, WM demand gained traction during the festive season. However, a significant decline in the first quarter weighed heavily on full year sales. CRISIL Research estimates demand to have declined 16% in fiscal 2021.

Lockdowns (partial/ full) and restriction on sale of non-essentials even through online mode in some states impacted demand during the first quarter of fiscal 2022. However, with increasing focus on hygiene and people staying at home, WM saw increased demand, especially during the second half of fiscal 2022. With households looking at products to make life at home more convenient, fully automatic WMs saw higher traction. The segment is estimated to have clocked a sizeable 30-32% growth in fiscal 2022 over a low base owing to higher discretionary spending, pent-up demand, and waning impact of the pandemic

Faster growth projected in the fully automatic segment

In urban areas, consumers prefer fully automatic machines despite higher prices, since they are easier to operate and need minimal manual intervention. Consequently, the share (in volume terms) of fully automatic machines in total washing machine sales is expected to increase to 46-48% in fiscal 2027 from 41-43% in fiscal 2022.

The semi-automatic segment is expected to witness steady demand from semi-urban areas, where buyers are more price sensitive. The huge price differential between semi-automatic and fully automatic machines will help boost sales. Another factor affecting sales is that fully automatic machines require running tap water. As a result, areas facing water shortage are likely to opt for semi-automatic machines. In value terms, the share of the semi-automatic segment in overall sales is likely to dip from 38-40% in fiscal 2022 to 34-46% in fiscal 2027 due to lower realisations and slower growth rate compared with the fully automatic machines.

Room air conditioner segment to outpace other segments in the long run

In India, room air conditioners (RACs) are estimated to penetrate only about 16-18% of households (as of fiscal 2022), which is much lower than ~30% at the global level. Also, if it evaluates domestic penetration of other household appliance segments, RACs rank below televisions, refrigerators and washing machines in order of priority. Low priority for RACs on the purchase list is evident, specifically in rural areas.

RAC segment is characterised by high volatility in demand which gets impacted by slight changes in prices and weather conditions. Between fiscals 2017 and 2022, the RAC segment sales expanded at 7.5% CAGR. Sales slowed in fiscal 2019, owing to events such as demonetisation, hikes in product prices because of rise in raw material prices, and BEE revisions. In fiscal 2020, RAC sales grew in double digits (12%) despite the slowdown, given high summer temperatures, stable product prices and pent-up demand of the previous fiscal. In fiscal 2021, the lockdown during the first quarter is estimated to have shrunk sales by 60-70% on year. The first quarter forms 35-40% of overall sales during the year. Thus, the sales decline weighed heavily on the fiscal's performance. However, increased temperatures during January and February boosted RAC sales restricting the fall. For the entire fiscal 2021, sales contracted 22- 24%.

Lockdowns (partial/ full) and restriction on sale of non-essentials even through online mode in some states had a bearing on the demand in the first quarter of fiscal 2022. Demand improved during the second half of the fiscal with the onset of festivals. Moreover, various offers such as bundled schemes, extended warranties and various consumer finance offers provided an added thrust. On a low base of previous fiscal, demand is estimated to have witnessed a sharp revival and rose 30-32% on-year. Increased appliance prices provided an additional kicker to the market growth.

Mobiles to continue their healthy growth pace

Mobile phones are one of the highest-penetrated products in the consumer durables segment in India, as it has come to be perceived as a necessity, and also due to a wide range of choices and prices. Feature phones dominated the Indian mobile handset industry until the start of this decade, with the share of smartphones being minimal. Introduction of 3G services, followed by the launch of 4G services by Reliance Jio, has changed the situation and paved the way for smartphones. Driven by the fall in data rates, increasing tele-



density, entry of various players in the smartphone market, and feature-laden phones at competitive rates; the smartphone market is fast expanding. On the other hand, the feature phone market is continuously declining.

During fiscal 2021, online classes, work from home and virtual meetings created increased need for smartphones. This accentuated the consumer shift from feature phones to smartphones. The increased need for smartphones is expected to continue going forward.

E-retail segment revived in fiscal 2022, to continue on growth trajectory

Organised retailing has been dominated by the physical format of delivery. Online shopping accounted for less than 1% of the industry at the beginning of the 21st century. However, the scenario changed rapidly, as the ecosystem for e-retailing evolved since the advent of India's largest e-retailer, Flipkart, in 2007. The e-retail industry, which is estimated at Rs 2.3- 2.5 trillion during fiscal 2022, has grown more than thrice since fiscal 2017. The format is estimated to account for 30-35% of the organised retailing market.

E-commerce players gained share in the Indian market via a predatory pricing model. During the initial stages, most e-commerce players provided significant discounts, cash backs, festival sales, clearance sales, etc. to lure customers from the B&M channel.

With reduction in funding in 2016 and 2017, not just discounts, but spending on marketing and discounting shrunk. Moreover, with the regulatory clampdown by the government on the e-commerce sector in 2019, discounts reduced further.

Key Concerns

- Majority of EMIL's stores are presently concentrated in Andhra Pradesh and Telangana. However, it plans to expand into new geographies and may be exposed to significant liability and could lose some or all of its investment in such regions, as a result of which its business, financial condition and results of operations could be adversely affected.
- Competition from online retailers who are able to offer products at competitive prices and are also able to offer wide range of products may adversely affect the business and financial condition, results of operations and cash flows.
- EMIL presently does not own certain trademark or logo (i.e., "BAJAJ ELECTRONICS", "Electronics Mart", "EMI ELECTRONICS MART INDIA LIMITED", "EMIL", and "Electronics Mart India Limited") under which it currently operates and if third parties, including its current or future competitors are able to circumvent its protection measures which are put in place for the protection of trademark, logo and intellectual property and other proprietary rights, its business and reputation would be adversely affected.
- The COVID-19 pandemic and the resulting deterioration of general economic conditions has in the past financial years affected EMIL's business and may continue to materially affect the business, results of operations, financial condition, and / or its cash flows in future periods.
- EMIL stores are concentrated mainly in Telangana and Andhra Pradesh, and it generate majority of its retail sales from its stores in these states. Any adverse developments affecting its operations in these states could have an adverse impact on its revenue and results of operations.
- A large part of revenues is dependent on top five brands. The loss of any of the major brands or a decrease in the supply or volume from such brands, will materially and adversely affect the revenues and profitability.
- There are certain proceedings involving EMIL's, its Promoters which if determined against it may have an adverse effect on the business, cash flows and results of operations.
- Company is dependent on external suppliers for its product requirements. Any delay or failure on the part of the external suppliers to deliver products, may materially and adversely affect the business, profitability and reputation.
- Operates in a competitive industry and EMIL's market share may be adversely impacted in case it does not keep itself apprised of the latest consumer trends and technology and if it fails to compete effectively in the markets in which it operates.
- Business is highly dependent on the brand owners effectively maintaining, promoting or developing their brands and maintaining standard quality products including launching new electronic products at regular intervals.



- While EMIL did not have bad debts as on June 30, 2022 and Fiscal 2022 and the sales returns had decreased in Fiscal 2022, there had been an increase in bad debts written-off and sales return by 144.40% and 9.19%, respectively, in Fiscal 2021 as compared to Fiscal 2020. Such increase in the bad debts written-off and sales returns may affect the profitability.
- Any negative cash flows in the future would adversely affect EMIL's cash flow requirements, which may adversely affect the ability to operate its business and implement its growth plans, thereby affecting the financial condition
- EMIL follow a cluster-based approach while opening new stores. If this approach leads to new store cannibalizing sales of the other existing stores, it may lead to lower revenues, which could have a material adverse effect on its business.
- Inability to promptly identify and respond to changing customer preferences or evolving trends may decrease the demand for EMIL's merchandise among its customers, which may adversely affect the business.
- EMIL being in the retail sector requires significant amount of working capital for a continued growth. Major portion of its working capital is utilized towards inventory. Its inability to meet working capital requirements may have an adverse effect on the results of operations.
- Revenue generated from mobiles segment constitutes majority of EMIL's sales revenue. Any sudden fall in the revenues from the mobiles segment may adversely affect the financial condition and profitability.
- EMIL may in the future face potential liabilities from lawsuits or claims from third parties, should they perceive any deficiency in the products it sells in its stores. It may also face the risk of legal proceedings initiated against the Company which may result in loss of business and reputation.
- Any failure to maintain quality of customer service, products and deal with customer complaints and to further attract and retain customers and maintain consistency in customer service could materially and adversely affect EMIL's business and operating results.
- Business relies on the reliable performance of its information technology systems and any interruption or abnormality in the same may have an adverse impact on the business operations and profitability.
- If EMIL is unable to purchase real estate or enter into long-term leasehold arrangements or enter into rental agreements at locations suitable for new stores or warehouses for its expansion at terms commercially beneficial to it, it may adversely affect expansion and growth plans
- Some of the Company's lease agreements may have certain irregularities because of which it may be unable to effectively enforce its leasehold rights which may have a material and adverse impact on the business of the Company.
- Subsidiaries have incurred losses in some prior periods and may do so in the future, which could have a material adverse effect on the business, prospects, financial condition, cash flows and results of operations.
- Inability to continue to implement EMIL's marketing and advertising initiatives and brand building exercises could adversely affect the business and financial condition.
- Revenue from online sales is marginal and there can be no assurance that the online sales strategy will be successful in the future.
- Retail sales largely depend on the brand reputation and any harm to the brand or reputation may adversely affect the business, financial condition, cash flows and results of operations.
- There have been delays and defaults in payment of statutory dues of the Company. Such delays and defaults may lead to penalties being levied on EMIL.



- EMIL purchases inventory in anticipation of sales, and if it fails to manage its inventory effectively during that period, its business and results of operations could be adversely affected.
- Depends on third parties for a major portion of EMIL's transportation needs. Any disruptions may adversely affect the operations, business and financial condition.
- Operations could be adversely affected by strikes, work stoppages, demands for increased wages or any other kind of employee dispute. Such disruptions could lead to loss of business thereby impacting EMIL's revenues significantly.
- Ability to attract customers is dependent on the location of EMIL's stores and any adverse development impairing the success and viability of its stores could adversely affect the business, financial condition and results of operations.
- EMIL may not be able to grow at the same rate as it has done in the previous Financial Years. Any inability on its part to manage its growth or implement strategies effectively could have a material adverse effect on the business, results of operations and financial condition.
- Company's financing costs have increased in recent years. The increase in financing costs may increase the cost of doing business and adversely affect the profitability.
- EMIL has unsecured loans with a total outstanding amount of Rs. 1,340.53 million as of August 31, 2022, that may be recalled by the lenders at any time.
- Business is subject to seasonal and cyclical volatility due to which there may be fluctuation in the sales of products which could lead to higher closing inventory position, which may adversely affect the business.
- Depends on the knowledge and experience of the Promoters and other Key Managerial Personnel for growth. The loss of their services may have a material adverse effect on the business, financial condition and results of operations.
- Any inability or failure on EMIL's part to control its attrition rate or recruit fresh talent may have an adverse effect on its operations and business.
- Business is operating under various laws which require EMIL to obtain approvals from the concerned statutory/regulatory authorities in the ordinary course of business, and if it is unable to obtain these approvals and the renewals, its business operations could be adversely affected thereby impacting revenues and profitability.
- Governmental actions and changes in policy with respect to foreign investment in the Indian retail industry and adverse change in taxes could adversely affect EMIL's business.
- Financial instability in other countries may cause increased volatility in Indian financial markets.
- Changing laws, rules and regulations and legal uncertainties in India may adversely affect EMIL's business and financial performance.
- Business is affected by economic, political and other prevailing conditions in India.
- If there is any change in tax laws or regulations, or their interpretation, such changes may significantly affect EMIL's financial statements for the current and future years, which may have a material adverse effect on financial position, business, results of operations and cash flows.



Profit & Loss

Particulars (Rs in million)	H1FY23	FY22	FY21	FY20
Revenue from operations	14084.5	43493.2	32018.8	31724.8
Other Income	18.0	37.6	54.9	65.4
Total Income	14102.5	43530.7	32073.7	31790.2
Total Expenditure	13114.0	40573.8	29979.9	29448.4
Purchases of stock-in-trade	10710.1	38878.4	28469.1	27762.3
Changes in inventories of stock-in-trade	1405.3	-1324.5	-795.9	-740.1
Employee Benefits Expenses	216.5	788.0	614.3	586.3
Other expenses	782.2	2231.9	1692.4	1839.9
PBIDT	988.4	2956.9	2093.7	2341.8
Interest	238.2	846.1	716.7	633.8
PBDT	750.3	2110.8	1377.0	1708.1
Depreciation and amortization	199.3	713.2	581.4	507.6
Exceptional Item	0.0	0.0	0.0	-78.7
PBT	551.0	1397.6	795.6	1121.8
Tax (incl. DT & FBT)	144.4	358.7	209.4	305.7
Current tax	156.4	419.2	257.7	349.5
Deferred tax benefit	-12.0	-60.5	-48.3	-43.7
PAT	406.6	1038.9	586.2	816.1
EPS (Rs.)	1.4	3.5	2.0	2.7
Face Value	10	10	10	10
OPM (%)	6.9	6.7	6.4	7.2
PATM (%)	2.9	2.4	1.8	2.6

Balance Sheet

Particulars (Rs in million) As at	H1FY23	FY22	FY21	FY20
Non-current assets				
Property, plant and equipment	4,324.9	2,794.7	2,754.7	2,229.4
Capital work-in-progress	165.7	238.4	20.4	24.3
Right-of-use assets	5,040.9	5,049.1	3,975.5	3,482.4
Other Intangible Assets	5.5	5.6	6.4	3.0
Financial assets				
<i>Loans & Advances</i>	0.0	0.0	0.0	4.2
<i>Other financial assets</i>	319.5	292.1	250.1	190.2
Deferred tax assets (net)	188.2	176.3	115.8	67.5
Non-current tax assets	56.5	56.6	47.7	86.3
Other non-current assets	33.7	141.2	31.5	171.6
Total non-current assets	10,135.0	8,754.0	7,202.0	6,258.8
Current assets				
Inventories	4,733.0	6,138.2	4,813.7	4,017.8
Financial assets				
<i>Trade receivables</i>	1,010.8	1,079.3	953.9	846.0
<i>Cash and cash equivalents</i>	197.0	344.0	350.2	870.7
<i>Loans & Advances</i>	13.7	13.1	9.5	9.3
<i>Other financial assets</i>	37.4	1.5	1.7	2.4
Other current assets	1,429.0	1,917.2	1,904.2	1,471.0
Total current assets	7,420.8	9,493.4	8,033.3	7,217.2
Total assets	17,555.8	18,247.4	15,235.3	13,476.0
EQUITY & LIABILITIES				
Equity				
Equity share capital	3,000.0	3,000.0	3,000.0	3,000.0
Other equity	3,379.7	2,965.1	1,919.2	1,330.7
Total equity	6,379.7	5,965.1	4,919.2	4,330.8
Liabilities				
Non-current Liabilities				
Financial Liabilities				
<i>Borrowings</i>	1,438.5	551.6	621.3	629.7
<i>Lease liabilities</i>	5,266.9	5,238.6	4,016.8	3,365.5
Provisions	1.8	7.0	20.5	12.6



Total non-current liabilities	6,707.3	5,797.2	4,658.6	4,007.8
Current liabilities				
Financial liabilities				
<i>Borrowings</i>	3,320.6	5,384.8	4,858.2	4,575.8
<i>Lease liabilities</i>	277.0	258.9	182.5	145.5
<i>Trade payables</i>				
<i>total outstanding dues of micro enterprises and small enterprises</i>	11.9	6.2	0.0	0.0
<i>total outstanding dues of creditors other than micro enterprises and small enterprises</i>	233.4	241.9	75.9	66.6
Other financial liabilities	368.0	324.7	358.2	239.6
Other current liabilities	121.6	198.0	164.4	110.0
Current tax liabilities (net)	136.4	70.6	18.4	0.0
Total current liabilities	4,468.8	6,485.1	5,657.5	5,137.5
Total liabilities	11,176.1	12,282.3	10,316.1	9,145.3
Total equity and liabilities	17,555.8	18,247.4	15,235.3	13,476.0

(Source: RHP)

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