beyond Powered by NIRMAL BANG a relationship beyond broking

Vishal Mega Mart Ltd.

11th December, 2024

IPO NOTE

Recommendation	Subscribe
Price Band	Rs.74-Rs.78
Bidding Date	11th – 13th Dec, 2024
Book Running Lead Manager	Kotak , Intensive,JP Morgan,Icici,Jefferies,Morgan Stanley
Registrar	KFin Tech Limited
Sector	Retail

Minimum Retail Application- Detail At Cut off Price	
Number of Shares	190
Minimum Application Money	Rs. 14,820
Discount to retail	0

Consolidated Financials (Rs Cr)	FY23	FY24
Total Income	7,586	8,912
EBITDA	1021	1249
PAT	321	462

Valuations (FY25A)	UpperBand
Market Cap (Rs Cr)	35,168
Adj EPS	1.13
PE	69x
EV/ EBITDA	26x
Enterprise Value (Rs Cr)	34507

Post Issue Shareholding Pattern	
Promoters	76.0%
Public/Other	24%

Offer structure for different categories	
QIB	50%
Non-Institutional	35%
Retail	15%
Post Issue Equity (Rs. in cr)	4508.7
Issue Size (Rs in cr)	8000
Face Value (Rs)	1

Kavita Vempalli
Sr Research Analyst
(+91 22 6273 8034)
kavita.vempalli@nirmalbang.com

BACKGROUND

Vishal Mega Mart Limited (VMML) is a prominent player in India's retail sector operating over 645 stores across India offering a variety of apparel and FMCG products catering primarily to the middle and lower middle income consumers. Unlike competitors like DMart, which focuses heavily on FMCG, VMML derives over 50% of its revenue from in-house brands, enabling competitive pricing strategies. Co's strengths position it well within the rapidly expanding Indian retail market, allowing it to capitalize on emerging opportunities while effectively serving its target consumers.

Objects and Details of the Issue:

Book built issue of Rs 8,000.00 cr, entirely an offer for sale of 102.6 cr shares.

Investment Rationale

Focus in non-Metro markets– VMML focuses on affordability and quality which resonates well with its price-sensitive consumers. Unlike many competitors that primarily target metropolitan areas, VMML strategically focuses on smaller cities and rural markets.

Asset-Light Business Model: By leasing distribution centers and stores rather than owning them outright, the Co minimizes capex. This asset-light approach allows the Co to focus on operational efficiency and flexibility in scaling its operations.

Robust Supply chain with technology integration: VMML has developed an efficient supply chain that ensures timely product availability and effective inventory management. It also employs technology in its operations, including a mobile app and website for online shopping streamlining smooth inventory control systems.

Good Financial Performance: Revenues of VMML have grown at a CAGR of 26.3% to Rs.8912 cr during FY22-24. Compared to peers, EBIDTA margins of the Co are better at 14% against 9% of Dmart and 8% of Reliance Retail. Same Store Sales growth also is ahead than peers at 14%.

Valuations: VMML is one of the largest organized retail players having large presence in tier-2 and tier-3 Indian towns in India. Aggressive store expansion plans with thrust for both online and offline channels bodes well for the company to drive same store sales growth in the coming years. At the upper price band, the stock is available at 26x its annualized FY2025 EV/ EBIDTA, which is at a discount to close peers and large retailers in the value retail space and thus we recommend 'Subscribe' to the issue.

Financials	FY22	FY23	FY24	H1FY25
Net Revenues	5,589	7,586	8,912	5,033
Growth (%)	-	35.7%	17.5%	19.3%
EBITDA	804	1,021	1,249	668
EBITDA Margin (%)	14.4%	13.5%	14.0%	13.3%
Adjusted PAT	203	321	462	254
EPS	0.45	0.71	1.02	0.56
ROCE	8.7%	11.2%	13.6%	13.9%
EV/Sales	6.3	4.6	3.9	3.4
EV/EBITDA	43.7	34.5	28.1	25.8
P/E	173.4	109.5	76.1	69.2

**Valuations are annualized for H1FY25.*

Company Background

Vishal Mega Mart serves as a one-stop destination for lower and middle income groups in India. It offers a diverse range of merchandise through its portfolio of in-house and third-party brands. The product offerings span three key categories: apparel, general merchandise and FMCG. The Company operates 645 stores along with a mobile application and website for convenient shopping. Maximum stores are in UP and Karnataka Co sells apparels through its own private labels, thus enjoying high gross margins.

Apparel category comprises exclusively of own brands with wide product portfolio ranging across t-shirts, shirts, denim, athletic and leisure wear, night wear, innerwear, western wear, formal wear, and ethnic wear for men, women, children, and infants.

General Merchandize category comprises of own as well as third party brand products ranging across home appliances, crockery and utensils, home products and furnishings, toys, stationery, travel products and footwear, among others.

FMCG category comprises of own and third party brand products across the packaged food, staples and non-food categories.

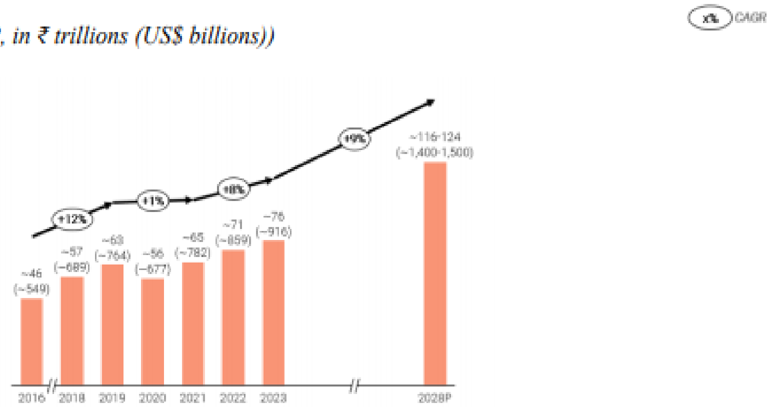
Company has added 69 stores on TTM basis as of 30th Sep’24, taking the total store count to 645. It plans to open 90-100 stores every year for the next couple of years. As seen in the above chart, VMML has high concentration in UP with 111 stores and in Karnataka with 73 stores.

Industry

1. India’s retail opportunity

The Indian retail market has demonstrated strong growth, rebounding post-Covid to reach Rs76 tri (approximately US$916 bn) in CY2023 and growth has been driven by demographic shifts, government initiatives, and changing consumption patterns. A key factor in this expansion has been the rising middle-income segment, whose growing disposable incomes have fueled increased demand for branded products, especially in Tier-2 cities and beyond. These measures have been further supported by advancements in technology, particularly in digital payments and innovations like UPI have simplified transactions, enhanced accessibility to consumer goods, and boosted retail sales.

Overall retail market – India
(CY2016, CY2018-2013 CY2028P, in ₹ trillions (US$ billions))

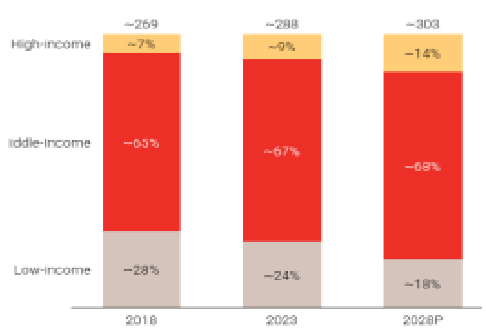


Source(s): Redseer Research and Analysis; Note(s): Conversion rate: 1 US$ = ₹83

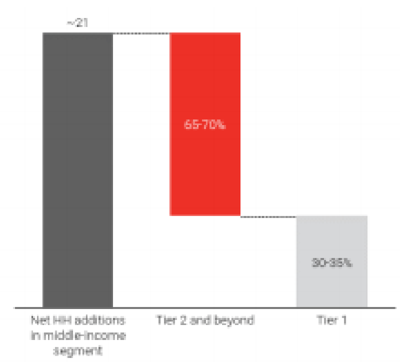
2. Rapid economic growth of Tier-2 cities and beyond

India's economic growth is increasingly fueled by the rise of Tier-2 cities and beyond, supported by industrial decentralization and advancements in technology. Businesses are extending their operations from Tier-1 cities to these underpenetrated markets to tap into their potential and accommodate a more distributed workforce. This shift is driven by lower living costs, stronger family connections, and the growing viability of remote work enabled by technological progress. With greater access to digital platforms, consumers in these regions are becoming more familiar with new products and services, aspiring to adopt higher-tier urban lifestyles.

Households split by Income in tier-2 cities and beyond
(CY 2018, CY2023, CY2028P, in %)



City tier split of incremental growth in middle-income segment
(CY2023-2028, in %)



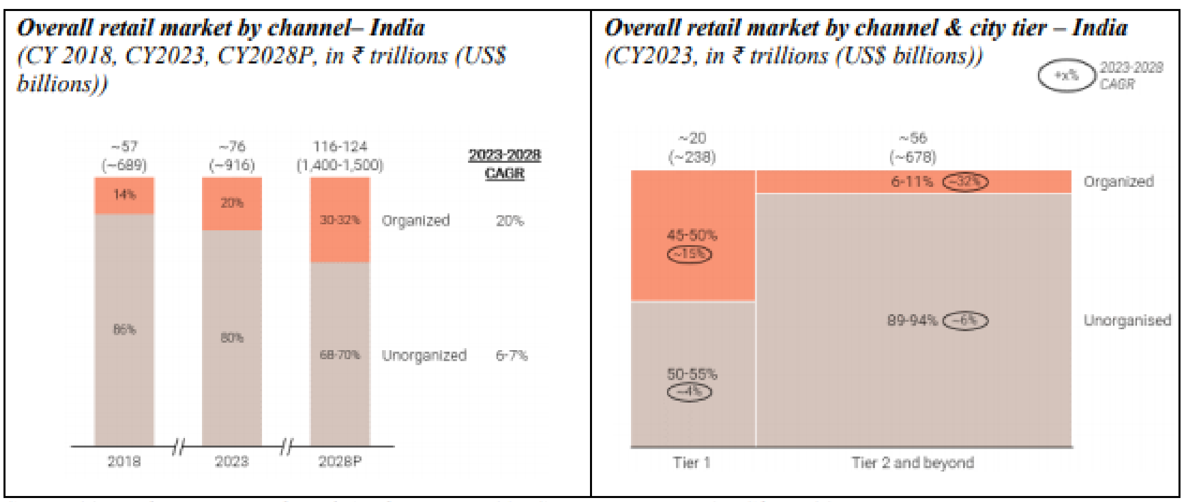
Source: Redseer Research and Analysis; Note: 1. Incomes are calculated based on real wage growth and account for wage inflation

3. Organized Retail in India

India's retail sector is shifting toward greater organization, with Tier-2 cities and beyond driving this transformation. Rising disposable incomes and expanding urbanization are gradually replacing unorganized retail spaces with organized brick-and-mortar stores and online platforms. These two channels are expected to grow synergistically, attracting new consumers and transitioning users from unorganized retail through superior service offerings and operational efficiency. While Tier-2 with a projected growth of approximately 32% CAGR between CY2023 and CY2028, the scope for organized retail expansion is not limited to these regions.

Key drivers for growth

1. Better selection at affordable pricing
2. Superior consumer experience
3. Greater degree of agility versus unorganized retail
4. Investments in retail infrastructure
5. Broad-based shift towards e-commerce



Source(s): Redseer Research and Analysis; Note(s): Conversion rate: 1 US$ = ₹83

Valuation and Recommendation

VMML is one of the largest organized retail players having large presence in tier-2 and tier-3 Indian towns in India. Aggressive store expansion plans with thrust for both online and offline channels bodes well for the company to drive same store sales growth in the coming years. At the upper price band, the stock is available at 26x its annualized FY2025 EV/ EBIDTA, which is at a discount to close peers and large retailers in the value retail space and thus we recommend 'Subscribe' to the issue.

Good Financial Performance: Revenues of VMML have grown at a CAGR of 26.3% to Rs.8912 cr during FY22-24. Compared to peers, EBIDTA margins of the Co are better at 14% against 9% of Dmart and 8% of Reliance Retail. Same Store Sales growth also is ahead than peers at 14%.

Peer Comparison

FY24 Figures	Avenue Supremarket Ltd	Trent Ltd	Average	Vishal Mart Ltd
Revenue	50,789	12,375	21,443	11,247
CAGR (FY22-24)	28.0%	65.9%	43.3%	26.3%
EBITDA Margin	8.1%	15.5%	12%	11.1%
SSSG %	10%	NA		14%
Asset Turns (x)	2.6	2.1	2.1	1.0
Wkg Cap Days	34	62	56	11
ROCE (%)	18.1%	38.7%	21.8%	13.6%
ROE (%)	3.0%	36.3%	16.5%	8.2%
Debt/Equity	0.1	1.1	1.1	0.0
EV/EBITDA	60.4	130.3	75.8	28.1
P/E	92.1	137.5	115.4	76.1

Source: Company, NBRR

TTM PE

Risks

1. Advent of Quick commerce industry is adversely affecting the retail industry.
2. High inflation reducing the consumer spend.

Financials

Consolidated Nos

P&L (Rs. Cr)	FY22	FY23	FY24	H1FY25
Net Revenue	5,588.5	7,586.0	8,911.9	5032.51
% Growth	*-*	*36%*	*17%*	*19%*
Purchases of stock in trade	4,014.6	5,526.3	6,446.1	3612.224
% of Revenues	*71.8%*	*72.8%*	*72.3%*	*71.8%*
Employee Cost	337.7	431.8	504.7	302.366
% of Revenues	*6.0%*	*5.7%*	*5.7%*	*6.0%*
Other expenses	432.5	607.4	712.6	449.889
% of Revenues	*7.7%*	*8.0%*	*8.0%*	*8.9%*
EBITDA	**803.7**	**1,020.5**	**1,248.6**	**668.0**
EBITDA Margin	***14.4%***	***13.5%***	***14.0%***	***13.3%***
Depreciation	405.6	461.4	517.3	278.87
Other Income	65.3	32.9	33.2	20.903
Interest	193.8	161.4	143.5	68.416
Share of profit of an associate	0	0	0	0
Exceptional item	0	0	0	0
PBT	**269.6**	**430.5**	**621.0**	**341.6**
Tax	66.9	109.3	159.02	87.51
Tax rate	*25%*	*25%*	*26%*	*26%*
Other Comprehensive income	0.0	0.0	0.0	0
Adj. PAT (norm. Tax)	**203**	**321**	**462**	**254**
% Growth		***58%***	***44%***	***30.1%***
EPS (Post Issue)	**0.4**	**0.7**	**1.0**	**0.6**

Balance Sheet (Rs. Cr)	FY22	FY23	FY24	H1FY25
Share Capital	4,503.3	4,506.6	4,508.7	4,508.7
Other Equity	321.9	649.5	1,113.1	1,390.2
Instruments entirely equity in nature	0.0	0.0	0.0	0.0
Networth	**4,825.2**	**5,156.1**	**5,621.8**	**5,898.9**
Total Loans	**497.4**	**133.5**	**0.0**	**0.0**
Lease liabilities	1,292.1	1,328.1	1,483.4	1,409.5
Other non-curr liab.	22.4	25.8	31.0	35.3
Trade payable	1,460.6	1,500.8	1,220.0	2,053.4
Other Current Liab	120.3	144.6	149.8	154.5
Total Equity & Liab.	**8,218.0**	**8,288.9**	**8,506.1**	**9,551.7**
Property, plant and equipment	401.7	463.1	591.8	626.9
Goodwill/investment associates	4,294.8	4,352.2	4,322.0	4,318.9
Other Intangible assets / Right of use	1,117.1	1,145.9	1,307.8	1,229.9
Non Currrent Financial assets	295.5	316.8	307.6	339.8
Other non Curr. assets	7.4	16.0	4.8	5.0
Inventories	1,216.0	1,490.7	1,465.0	1,849.1
cash and cash equivalents	97.2	45.5	87.0	194.5
Bank balances	118.7	123.7	31.9	25.8
Trade receivables(debtor)	2.3	4.2	31.7	29.0
Loan	0.0	0.0	0.0	0.0
Other Current assets	667.4	330.84	356.5	932.846
Total Assets	**8,218.0**	**8,288.9**	**8,506.1**	**9,551.7**

Ratios & Others	FY22	FY23	FY24	H1FY25A
Debt / Equity	0.1	0.03	0.0	0.0
EBITDA Margin (%)	14.4%	13.5%	14.0%	13.3%
PAT Margin (%)	3.6%	4.2%	5.2%	5.0%
ROE (%)	4.2%	6.2%	8.2%	8.6%
ROCE (%)	8.7%	11.2%	13.6%	13.9%

Turnover Ratios	FY22	FY23	FY24	H1FY25A
Debtors Days	0.2	0.2	1.3	1.1
Inventory Days	79.4	71.7	60.0	67.1
Creditor Days	95.4	72.2	50.0	74.5
Asset Turnover (x)	0.7	0.9	1.0	1.1

Valuation Ratios	FY22	FY23	FY24	H1FY25A
Price/Earnings (x)	173.4	109.5	76.1	69.2
EV/EBITDA (x)	44.3	34.5	28.1	26.2
EV/Sales (x)	6.4	4.6	3.9	3.5
Price/BV (x)	7.3	6.8	6.3	6.0

Source: Company Data, NBRR

Cash Flow (Rs. Cr)	FY22	FY23	FY24	H1FY25
Profit Before Tax	269.6	430.5	621.0	341.6
Provisions & Others	581.2	595.0	626.9	349.2
Op. profit before WC	**850.8**	**1,025.6**	**1,247.8**	**690.9**
Change in WC	-123.8	-265.6	-268.5	405.9
Less: Tax	-70.0	-124.5	-149.7	-105.0
CF from operations	**657.1**	**635.5**	**829.7**	**991.8**
Purchase/Sale of fixed assets	-996.8	-1,102.2	-1,172.0	-997.1
Purchase/Sale of Investments	1,054.0	1,348.1	1,049.3	428.3
Interest, dividend and Redemption	-30.0	-68.5	-10.4	-52.7
CF from Investing	**27.2**	**177.3**	**-133.1**	**-621.5**
Proceeds from Borrowings	22.2	2.2	1.8	0.0
Repayment of non current borrowings	-272.7	-363.9	-133.3	0.0
Repayment of lease liabilities	-266.2	-341.4	-383.1	-194.4
interest & div paid	-193.8	-161.4	-143.5	-68.4
CF from Financing	**-710.5**	**-864.5**	**-658.2**	**-262.8**
Net Change in cash	**-26.2**	**-51.7**	**38.4**	**107.5**
Cash & Bank at beginning	123.4	97.2	45.5	87.0
Cash & Bank at end	97.2	45.5	83.9	194.5

Disclosure:

Research Reports that are published by Nirmal Bang Securities Private Limited (hereinafter referred to as “NBSPL”) are for private circulation only. NBSPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001766. NBSPL is also a registered Stock Broker with National Stock Exchange of India Limited, BSE Limited, Metropolitan Stock Exchange of India Limited, Multi Commodity Exchange of India Limited and , National Commodity and Derivative Exchange Limited in Capital Market , Equity and Commodities derivatives segments and Currency Derivatives Segment.

NBSPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBSPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market since last 20 years. NBSPL, its associates or analyst or his relatives do not hold any financial interest (Except Investment) in the subject company. NBSPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBSPL or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBSPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBSPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company. NBSPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: The research analysts and authors of these reports, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer:

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBSPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Our reports are also available on our website www.nirmalbang.com .
Registration granted by SEBI and certification from NISM in no way guarantee performance of NBSPL or provide any assurance of returns to investors.

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)
B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 6723 8000/8001
Fax. : 022 6723 8010