

Report on Vishal Mega Mart IPO.

Vishal Mega Mart, a prominent retail chain in India, is set to launch its Initial Public Offering (IPO) on December 11, 2024, aiming to raise ₹8,000 crore. This offering is structured entirely as an Offer For Sale (OFS) by the promoter, Samayat Services LLP, which currently holds a 96.55% stake in the company. Consequently, all proceeds from the IPO will go directly to the selling shareholder, with no fresh equity being issued and no capital inflow to the company itself.

A) Company Overview

Established in 2001, Vishal Mega Mart has evolved into a leading diversified retailer targeting middle- and lower-middle-income households in India. The company offers a broad spectrum of products across three main categories:

- **Apparel:** Fashionable clothing for women, men, and children.
- **General Merchandise:** Home and kitchen appliances, travel-related products.
- **Fast-Moving Consumer Goods (FMCG):** Personal and household care items.

As of September 30, 2024, Vishal Mega Mart operates 645 stores nationwide, complemented by a mobile application and website, enhancing its omnichannel presence.

B) Vishal Mega Mart: Sourcing, Business Model, and Operations

1. Sourcing of Items

Vishal Mega Mart follows a dual-channel sourcing strategy to ensure a steady supply of quality products:

- **Own Brands:**

The company collaborates with third-party vendors across India to manufacture its own-brand products. These vendors strictly adhere to Vishal Mega Mart's quality specifications and design requirements.

- **Third-Party Brands:**

Vishal Mega Mart procures products from well-known third-party brands through its wholly-owned subsidiary, **Airplaza Retail Holdings Private Limited**.

A robust quality control mechanism ensures that both own-brand and third-party brand products meet Vishal Mega Mart's standards. For own-brand products, a network of pre-approved suppliers provides raw materials.

2. Sales Mix: Own Brands vs. Others

- Vishal Mega Mart generates over **70% of its revenue** from its own brands, which include categories like apparel, general merchandise, and fast-moving consumer goods (FMCG).
- This dominance highlights the company's emphasis on controlling design, manufacturing, and pricing for a significant portion of its product portfolio.

3. Store Ownership and Franchise Model

- Vishal Mega Mart operates a vast network of **645 stores across India** as of September 30, 2024:
 - **643 stores** are company-operated and leased by their Material Subsidiary, **Airplaza Retail Holdings Private Limited**.
 - **2 stores** are operated by franchisees, also on a leasehold basis.

This approach underlines Vishal Mega Mart's preference for maintaining direct control over its retail operations to ensure consistent customer experiences.

4. Business Model Explained

Vishal Mega Mart's business model is crafted to appeal to **middle- and lower-middle-income consumers**. Its focus lies in providing a diverse range of affordable merchandise. Key elements of the business model include:

- **Value Proposition:**
Offering a variety of products for aspirational and daily needs at competitive prices.
- **Emphasis on Own Brands:**
Managing pricing, quality, and design through a product portfolio largely dominated by own brands.
- **Pan-India Store Network:**
Reaching customers across **Tier 1, Tier 2, and smaller cities** with a vast and strategically located store network.
- **Asset-Light Strategy:**
Leasing stores and outsourcing manufacturing to minimize capital expenditure and maintain operational flexibility.

- **Omnichannel Presence:**

Combining physical stores with an online presence via a **website and mobile application**, enhancing customer convenience.

- **Efficient Supply Chain Management:**

Leveraging technology and partnerships to optimize procurement, distribution, and inventory management.

- **Targeted Marketing:**

Using digital platforms and other marketing channels to increase brand awareness, build customer loyalty, and drive sales.

C) Focus on Scalability and Efficiency

By aligning its operations with value-driven strategies, efficient supply chain management, and an omnichannel approach, Vishal Mega Mart positions itself to capture a significant share of India's growing aspirational retail market.

D) Financial Performance

The company's financial trajectory has been robust over recent years:

- **Revenue:** Increased from ₹5,588 crore in FY22 to ₹8,911 crore in FY24.
- **Net Profit:** Rose from ₹202 crore in FY22 to ₹461 crore in FY24.
- **EBITDA Margin:** Maintained a steady margin, standing at 14.01% in FY24.

This consistent growth underscores Vishal Mega Mart's strong market position and operational efficiency.

E) IPO Details and Valuation

- **Issue Size:** ₹8,000 crore, entirely through an OFS by Samayat Services LLP.
- **Price Band:** ₹74 to ₹78 per equity share.
- **Lot Size:** 190 shares.
- **IPO Dates:** Opens on December 11, 2024, and closes on December 13, 2024.
- **Listing:** Shares are proposed to be listed on both the NSE and BSE.

Implications of the Offer For Sale Structure

In an OFS, existing shareholders sell their shares, and the company does not receive any proceeds. For Vishal Mega Mart, this means:

- **No Fresh Capital:** The company will not gain additional funds for expansion or debt reduction.
- **Promoter Exit:** Samayat Services LLP will reduce its stake, potentially impacting the company's future strategic direction.

The IPO is coming at Mcap of 35000 Cr....

Mcap/Sales = 4x..

P/E = 75x

Which looks attractively priced as compared to DMart, which is trading at 92x P/E and Mcap/Sales of 4.94x...

F) Market Position and Competitive Landscape

Vishal Mega Mart caters to value-conscious consumers, competing with major players like Reliance Retail, Tata Group's Trent, and Avenue Supermarts. Its extensive store network and focus on affordability position it well in the organized retail sector, which is expected to grow due to increasing urbanization and consumer demand for quality products.

G) Investor Considerations

Potential investors should weigh the following:

- **Use of Proceeds:** Since the IPO proceeds go to the selling shareholder, the company won't have new funds for growth initiatives.
- **Promoter Stake Reduction:** A significant sell-off by the promoter may raise concerns about their confidence in the company's future prospects.
- **Industry Growth:** The organized retail market in India is projected to expand, offering growth opportunities for established players like Vishal Mega Mart.

H) Conclusion

Vishal Mega Mart's upcoming IPO provides an opportunity to invest in a leading retail chain with a solid financial track record. However, the OFS nature of the offering and the absence of fresh capital infusion are critical factors to consider. Investors should conduct thorough due diligence, evaluating the company's market position, competitive environment, and the implications of the promoter's stake reduction before making investment decisions.