BUY

Aditya Vision

Better-than-the-best of retail peers; Initiate with BUY

Retail ‣ Initiating Coverage ‣ **December 10, 2023**

TARGET PRICE (Rs): 5,000

Aditya Vision (AVL), a consumer-durable retailer, holds leadership share of over 50% in Bihar/Jharkhand, aided by low penetration so far, curated assortment, competitive pricing, Buy & Win scheme, and impeccable service/consumer trust. AVL has passed the litmus test of scale and is now a well-oiled machine to pursue the 5x expansion opportunity in six states of the Hindi Heartland. SSG should remain above 20% in the near term, led by maturing of new stores and low penetration. AVL's payback period of under 3yrs is 'better-than-the-best' in other retail formats. We expect AVL to post a strong, revenue-led EBITDA CAGR of over 30% during FY23-27E and in the mid-teens over FY27-35E. Maturing of new stores should lead to better asset sweating and allied ROIC gains (1,000bps+ in FY23-27E). Despite better growth prospects, valuation at 35x 1YF is at 35-50% discount to retail peers' and provides scope for re-rating. We initiate coverage on AVL with BUY and Dec-24E TP of Rs5,000 (40x Dec-25 EPS).

Aditya Vision: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	13,222	17,807	23,715	30,829	39,133
EBITDA	1,330	1,602	2,209	2,956	3,841
Adj. PAT	641	768	1,121	1,608	2,218
Adj. EPS (Rs)	53.3	63.9	93.2	133.7	184.4
EBITDA margin (%)	10.1	9.0	9.3	9.6	9.8
EBITDA growth (%)	60.1	20.5	37.9	33.8	30.0
Adj. EPS growth (%)	81.8	19.8	46.0	43.4	38.0
RoE (%)	59.7	45.9	45.8	44.8	42.7
RoIC (%)	31.8	26.1	29.2	33.6	38.2
P/E (x)	61.5	51.4	35.2	24.5	17.8
EV/EBITDA (x)	31.1	26.0	18.9	13.9	10.5
P/B (x)	28.9	19.9	13.5	9.3	6.4
FCFF yield (%)	(0.4)	0.6	1.9	3.4	5.0

Source: Company, Emkay Research

Low penetration to effect industry CAGR of ~15% in Bihar vs. ~10% in India

Consumer durable penetration in India is the lowest in Bihar (over 15% for AC/Ref vs. India avg. of 24-38%). In our view, penetration is low due to inferior power availability and product accessibility. But ease of financing, about 3x CAGR growth in Bihar's per-capita power consumption vs. Pan-India (FY12-22), and higher disposable income with free food-grain schemes have greatly improved accessibility and should drive strong mid-teen industry CAGR in Bihar (vs. ~10% in India). [Note: FY27E/35E penetration estimate for Bihar is conservative; does not even factor in current India-level penetration.]

Foray into remaining Hindi Heartland provides a 5x expansion opportunity

AVL focuses on making in-roads in adjacent regions of UP (East), MP, Chhattisgarh, WB (border regions), along with fortressing the existing Bihar/Jharkhand regions. Combined, the targeted Hindi Heartland has a large population base of ~450mn vs. 170mn for Bihar & Jharkhand jointly; also, the presence of other organized chains is limited in these regions. With broader tailwinds, AVL would leverage its well-oiled business machinery to 5x its FY23 store-count of 105 by FY35E, thus granting confidence for long-term growth.

Best-in-class model: under 3-yr paybacks; even better-than-the-best retailers'

Consumer-durable retail is a unique business model, wherein success is contingent on scale, cost structure and support from OEMs, as gross margin is in the low 10-15% range. AVL stands out on most parameters, as it has crossed the crucial scale barrier, has an asset-light & low-cost model, and has due support from brands, w.r.t. shared employees, marketing costs, and capital expenses for creating new markets. With a payback period of under 3 years, AVL outshines the best retailers across categories (Exhibit 5).

Major valuation gap; apt candidate for rerating, in line with earnings delivery

AVL would clock over 30% EBITDA CAGR during FY23-27E, higher than most best-performing retailers'. Despite better prospects, AVL trades at a steep 35-50% discount to our coverage stocks, which is unwarranted, and delivery per our estimate should lead to its continued re-rating. Given higher concentration in Bihar and entry into new regions, we conservatively value AVL at 40x its Dec-25 EPS; recommend BUY (TP: Rs5,000/sh).

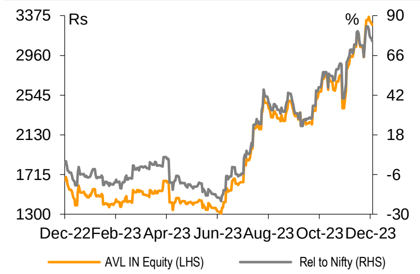
Target Price – 12M	Dec-24
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NR
Upside/(Downside) (%)	52.5
CMP (08-Dec-23) (Rs)	3,279.6

Stock Data	**Ticker**
52-week High (Rs)	3,475
52-week Low (Rs)	1,252
Shares outstanding (mn)	12.0
Market-cap (Rs bn)	39
Market-cap (USD mn)	473
Net-debt, FY24E (Rs mn)	2,237
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	71.1
ADTV-3M (USD mn)	0.9
Free float (%)	15.0
Nifty-50	20,969
INR/USD	83.4
Shareholding, Sep-23	
Promoters (%)	61.2
FPIs/MFs (%)	0.6/4.6

Price Performance

(%)	1M	3M	12M
Absolute	16.4	41.0	107.8
Rel. to Nifty	8.0	33.3	84.4

1-Year share price trend (Rs)



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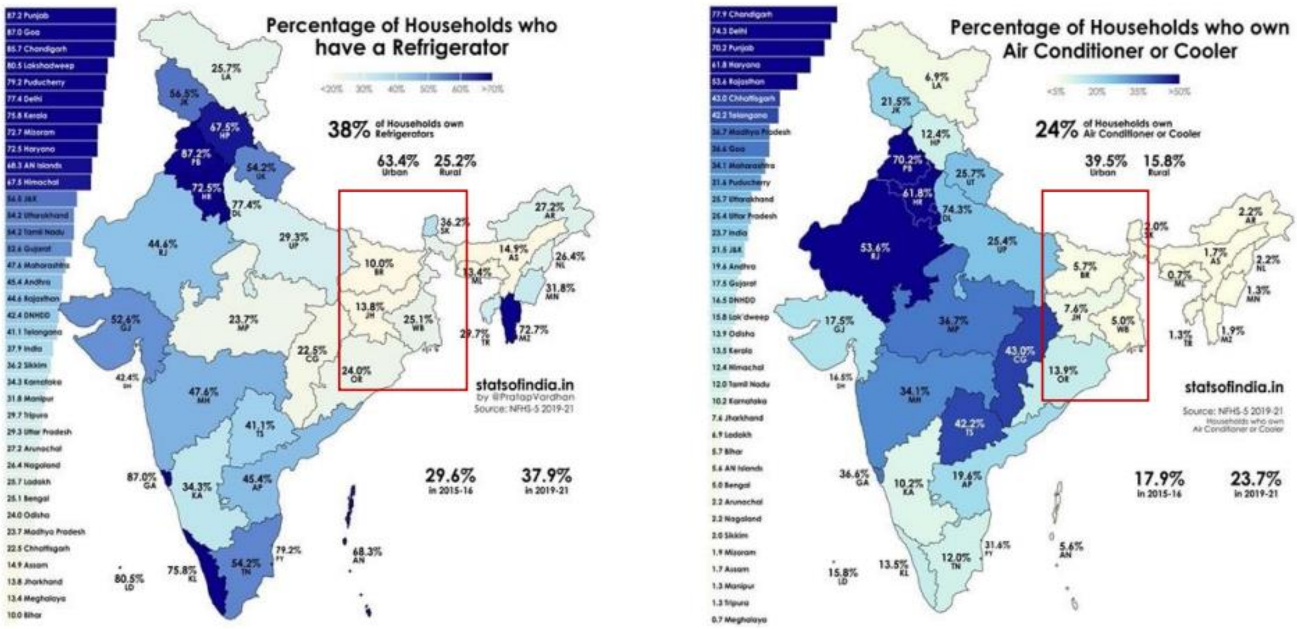
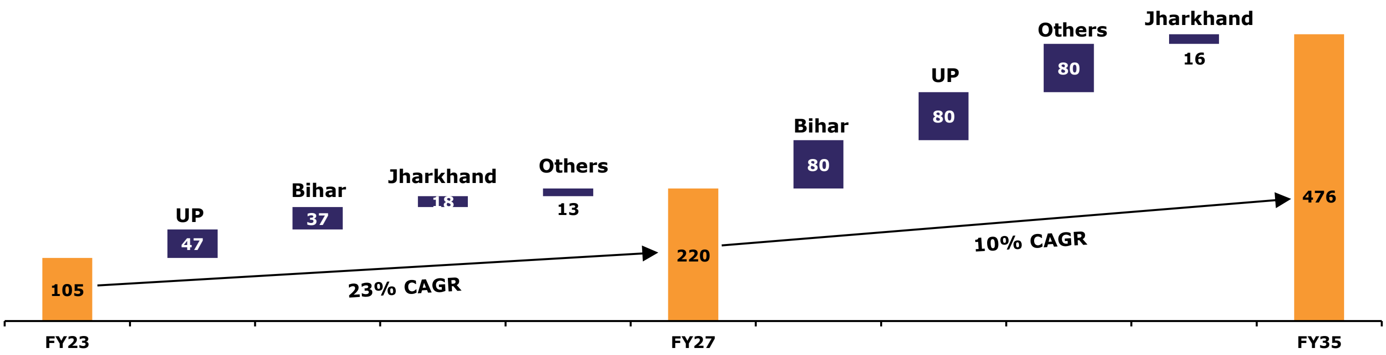
Story in Charts

Exhibit 1: State-wise AC/Ref penetration in India — Penetration is <15% for AC/Ref in AVL's area of operations vs. national avg. of 24-38%, providing medium-term growth visibility; consumer durables in Bihar should grow at >15% over FY23-35E vs. ~10% growth for India



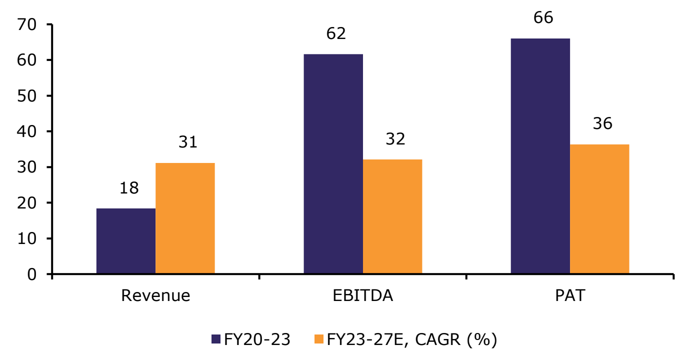
Source: Stats of India (AVL investor PPT), Emkay Research

Exhibit 2: Store count to reach 220 in FY27E — a 23% CAGR from FY23; big entry in Uttar Pradesh, with the potential regions of Chhattisgarh, Madhya Pradesh and West Bengal, offer 5x expansion opportunity and long-term growth over FY23-35E



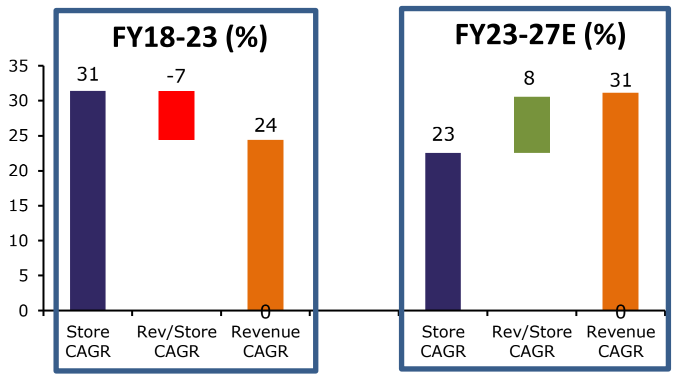
Source: Company, Emkay Research

Exhibit 3: Expect EBITDA/PAT CAGR of 32/36% over FY23-27E, led by topline growth, stable margins, and financial leverage



Source: Company, Emkay Research

Exhibit 4: Expect 31% revenue CAGR, led by 23% store CAGR and >20% SSG; rev/store CAGR is low due to a high mix of new stores



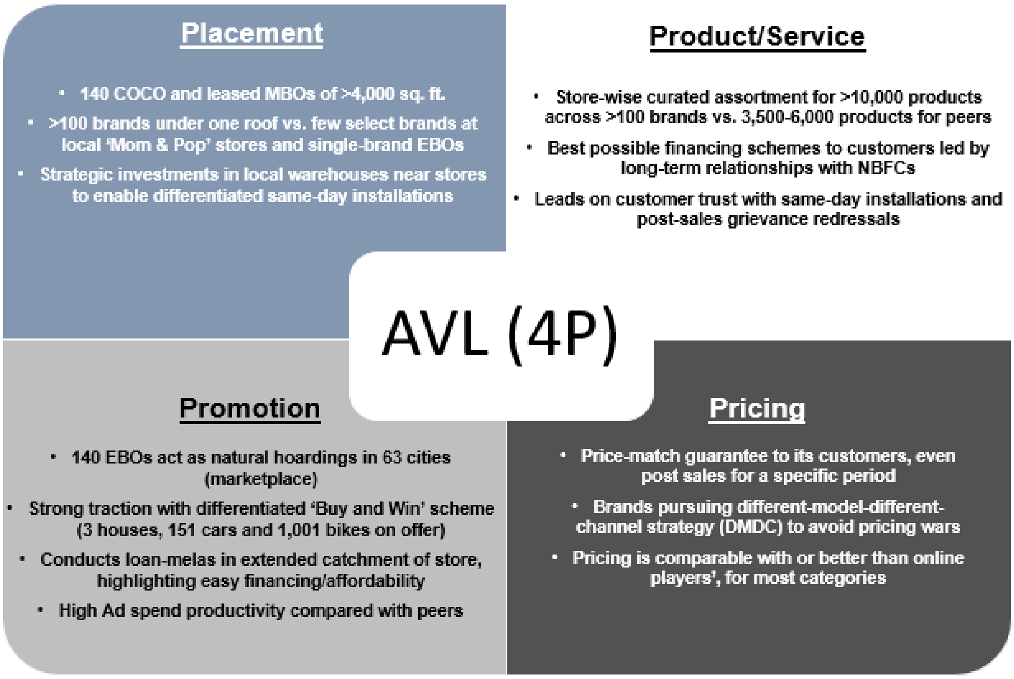
Source: Company, Emkay Research

Exhibit 5: AVL operates at shorter payback periods, even better than the best retailers across all retailing categories

Leading player (mature store metrics, per sqft)	AVL	Jewelry	QSR	Luxury	Grocery	Apparel
Revenue (Rs mn)	45,000	250,000	31,818	180,000	45,000	10,000
Gross margin (%)	***15***	***30***	***75***	***30***	***15***	***55***
EBITDA (Pre-IndAS, %)	***10***	***23***	***16***	***12***	***10***	***11***
Capex (Rs mn)	1,500	11,250	10,909	15,000	11,000	2,500
Working Capital (Rs mn)	7,500	100,000	-955	50,000	3,150	882
Total Investment (Rs mn)	9,000	111,250	9,955	65,000	14,150	3,382
ROIC (Pre-Tax, %)	***50***	***50***	***40***	***30***	***25***	***25***

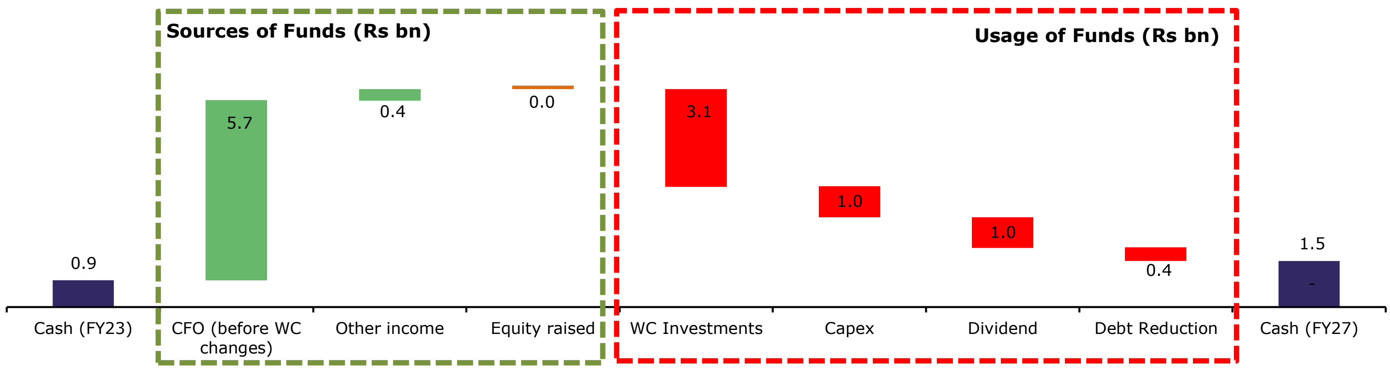
Source: Company, Emkay Research

Exhibit 6: AVL is in a sweet spot, across all aspects of business execution



Source: Emkay Research

Exhibit 7: Robust operating cash flows should be sufficient to meet the growth capital requirement over FY23-27E



Source: Company, Emkay Research

Exhibit 8: Topline growth prospects are much better for AVL than for EMIL; both companies are trading at similar valuations, but AVL deserves a premium

Company	FY23-26E CAGR (%)		FY23	FY26E	1Y Fwd P/E (x)
	Revenue	PAT	ROE (%)		(based on Mar-25E EPS)
AVL	32.6	35.8	47.1	37.8	36
EMIL	16.1	36.3	13.8	17.6	37

Source: Bloomberg Estimates (EMIL), Emkay Research

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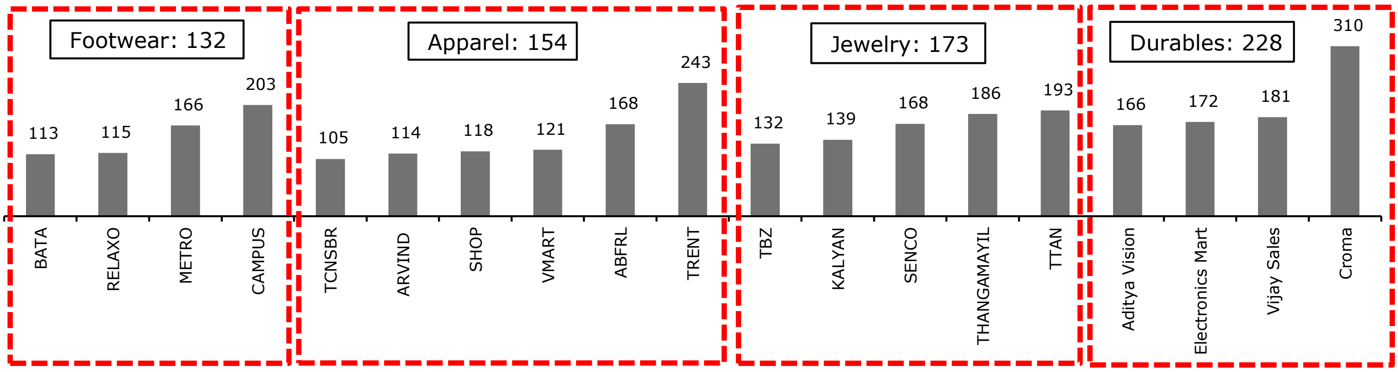
Industry: Higher electrification, household savings, and ease of financing are driving strong organized expansion

Indian consumer-durable retail is seeing encouraging growth trends (9-10% CAGR over FY17-23) and has seen the strongest growth among all retail categories (over FY20), enabled by the Government of India's push on the expansion of electricity distribution, higher disposable incomes with free food grains, and ease of financing (EMI/Zero down payments). Growth is further expected to improve as organized players have identified these tailwinds and the increase in demand is being addressed through accelerated distribution expansion by large organized chains. Further, these large organized chains are better off vs. smaller mom-and-pop players, as larger chains (1) offer a better assortment with all brands under one roof, (2) have attractive loyalty schemes (Buy & Win), and (3) offer unbeatable trust through fair pricing and faster installations/grievance redressals. Even online threat is lower in the category due to higher ticket size, need for touch and feel before purchase, faster installation/after sales, and superior trust.

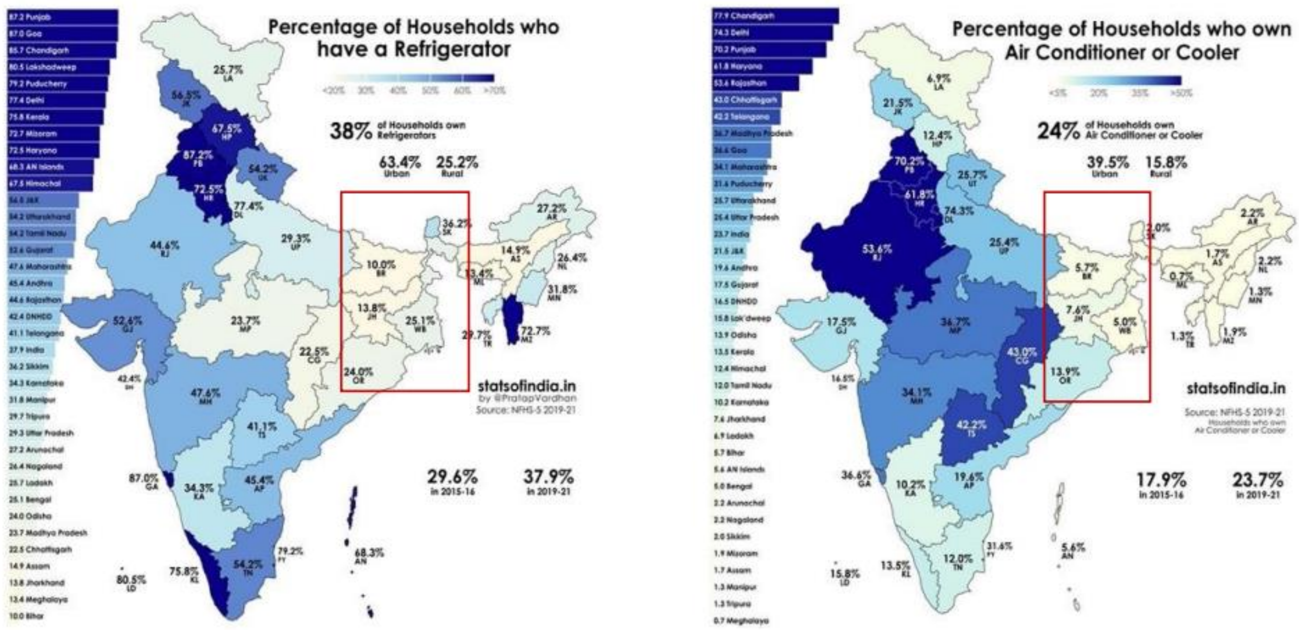
Exhibit 9: Consumer durables have seen stronger growth over pandemic levels compared with other discretionary categories (FY23 revenue over FY20 revenue, %)



Source: Company, MCA, Emkay Research, Note: The chart labels represent the recovery in FY23 revenues, compared to pre-pandemic (FY20) levels

Lower penetration in the east should help the region to grow faster than 9-10% India growth: Among regions, penetration is the lowest in the eastern region (<15% for AC/Ref vs. the national average of 24-38%). The same is reflected in the less-than-fair share of the East in overall consumer-durable sales. North and South India currently lead with a 28-33% share, West is in-between with 25% share, while East has the lowest share at 16%. In our view, lower salience in the East is due to inferior power availability and accessibility. However, ease of financing, increase in per capita power consumption, and higher disposable income with free food-grain schemes have immensely improved the accessibility of consumer durable products.

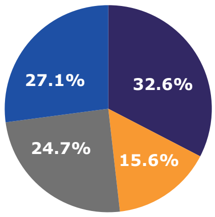
Exhibit 10: State-wise AC/Ref penetration in India — Penetration is <15% for AC/Ref in AVL's area of operations vs. national avg. of 24-38%, providing medium-term growth visibility; consumer durables in Bihar should grow at >15% over FY23-35E vs. ~10% growth for India



Source: Stats of India (AVL investor PPT), Emkay Research

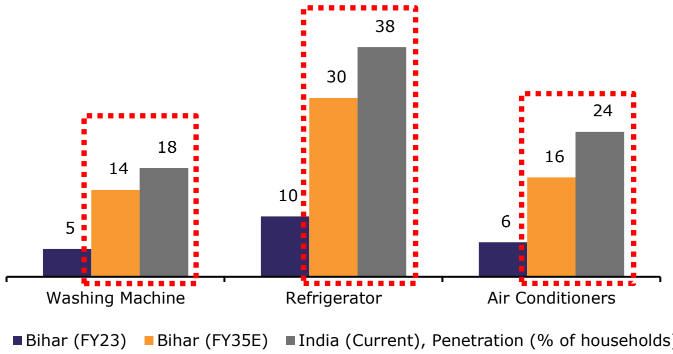
Bihar – Conservative penetration assumptions suggest a 15% industry CAGR in Bihar (vs. 9-10% India CAGR): Despite hot summers, Bihar currently has low penetration for consumer durables (5-10% in Bihar vs. 20-40% for pan-India). The entire ecosystem of brands, retailers, and financiers have identified this tailwind and are working together to make consumer-durable products more accessible in terms of availability as well as financing. Such sincere efforts should drive a gradual gain in the penetration for consumer durables and drive a ~15% industry CAGR (vs. 9-10% CAGR at the pan-India level). We would also like to highlight that our FY27/35E penetration estimates for Bihar do not even factor in current pan-India penetration levels. These tailwinds also reflect in the performance of players like AVL, which holds a majority share in Bihar. AVL has grown strongly at a 24% CAGR over FY18-23 and is investing more to take a higher share of strong demand in the region.

Exhibit 11: The East currently has less-than-fair share in overall consumer-durable sales, which bodes well for strong growth ahead



Source: EMIL RHP Document, Emkay Research

Exhibit 12: Category-wise penetration to inch up; FY35E penetration does not factor-in current Pan-India levels



Source: Stats of India, Emkay Research

Exhibit 13: Better accessibility and increasing aspirations should drive mid-teens revenue CAGR in Bihar over FY23-35E; realization gains to be driven by premiumization

Volumes (mn)	FY23	FY27E	FY35E	FY23-27E	FY27-35E
Washing Machine	0.17	0.32	0.95	17.1	14.4
Refrigerator	0.40	0.70	1.87	15.2	13.1
Air Conditioner	0.17	0.31	0.92	16.9	14.4
Television	0.40	0.68	1.69	13.9	12.1
Others	0.39	0.67	1.81	14.8	13.2
Total	**1.53**	**2.68**	**7.24**	**15.2**	**13.2**
Realization (Rs)	**FY23**	**FY27E**	**FY35E**	**FY23-27E**	**FY27-35E**
Washing Machine	18,816	20,560	24,571	3.0	2.0
Refrigerator	21,452	23,441	28,015	3.0	2.0
Air Conditioner	37,360	39,647	45,533	2.0	1.6
Television	28,500	29,802	32,594	1.5	1.0
Others	8,500	8,888	9,721	1.5	1.0
Total	**21,480**	**22,950**	**26,289**	**2.2**	**1.5**
Bihar Industry (Rs bn)	**FY23**	**FY27E**	**FY35E**	**FY23-27E**	**FY27-35E**
Washing Machine	3	7	23	19.7	17.0
Refrigerator	9	16	52	17.8	15.6
Air Conditioner	6	12	42	18.7	16.4
Television	11	20	55	15.1	13.4
Others	3	6	18	16.1	14.5
Total	**33**	**62**	**190**	**17.1**	**15.1**

Source: Emkay Research

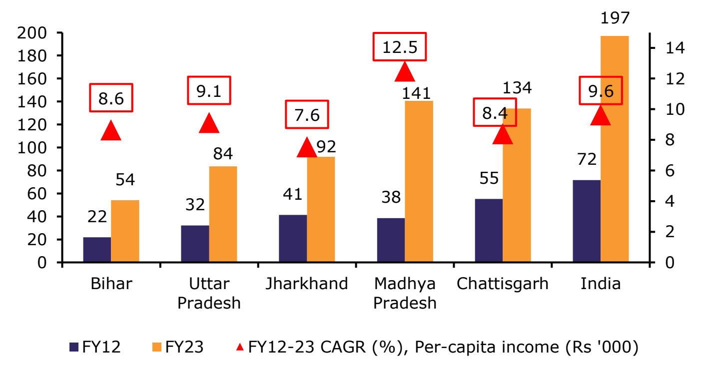
Macro trends in charts: Free food-grain distribution, easy financing, and improved power availability provide confidence for growth continuation: Per capita income in Hindi-heartland regions is lower at Rs50,000-140,000 vs. pan-India level of Rs200,000 (FY23). While incomes in these regions should grow faster to catch up with pan-India levels, but we remain conservative in proposing this as a growth driver due to limited historical precedence. Per capita income of Hindi-heartland regions has grown in line with pan-India levels of 8-10% over FY12-23. However, favorable public policies around free or cheap distribution of food grains, improved availability of power, easy financing, and strong organized expansion have immensely grown the aspirations and accessibility of households in these regions. This reflects in AVL's performance with a 24% revenue CAGR over FY18-23.

[A] Most villages electrified; consumption yet to catch up: Bihar's energy landscape has witnessed remarkable growth, with Bihar emerging as an energy-sufficient state from its erstwhile power-starved status. Reflecting this, Bihar's per capita power consumption has grown from 134 kWh in FY12 to 329 kWh in FY22 (9.4% CAGR vs. 3.6% CAGR for pan-India). Despite this growth, Bihar's per capita consumption is still notably lower compared with India's average of 1,255 kWh and the global average of ~3,500 kWh. Continued improvement in power availability should trigger heightened demand for durables, benefiting players like AVL.

[B] PMGKAY Extension – A catalyst for stronger discretionary spending: Recent extension of the Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY) for an additional five years has far-reaching benefits, offering essential sustenance to 800mn individuals. The initiative, projected to cost Rs2trn annually in subsidies, is poised to enhance the disposable income of marginalized sections, thereby propelling discretionary spending on durables, in our view.

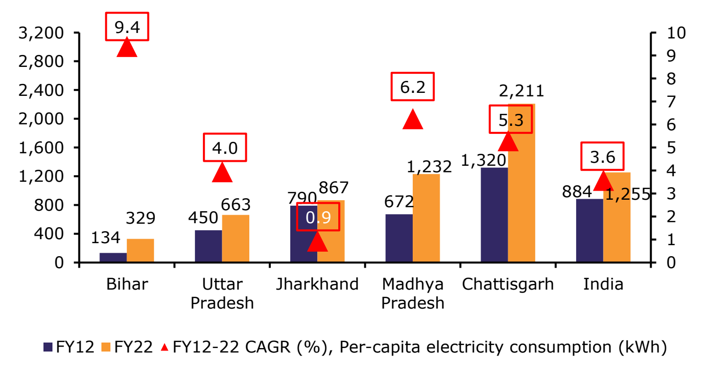
[C] Ease of Financing – Eliminating affordability hurdles: The consumer-durable sector has experienced a notable upsurge, owed largely to enhanced financing avenues. Strategies such as zero-interest EMIs, no cash-downs, credit card discounts, and reduced loan terms have prominently improved the affordability of these products. The synergy between durable brands, retailers, and financing entities has become pivotal in fostering market growth for durables.

Exhibit 14: Per-capita income in the Hindi Heartland has grown in line with the national average, over FY12-23



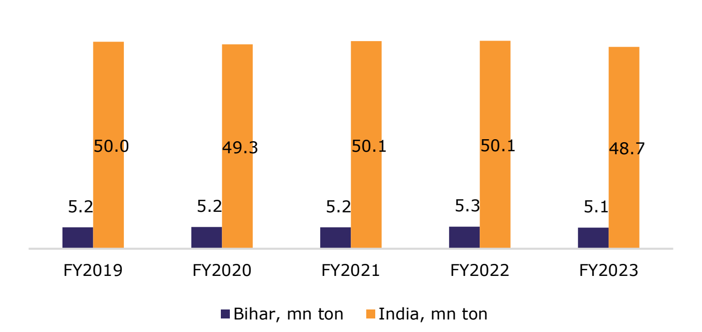
Source: CEIC, Emkay Research

Exhibit 15: Per-capita power consumption in Bihar has clocked ~3x CAGR vs. India; other targeted regions have also grown rapidly



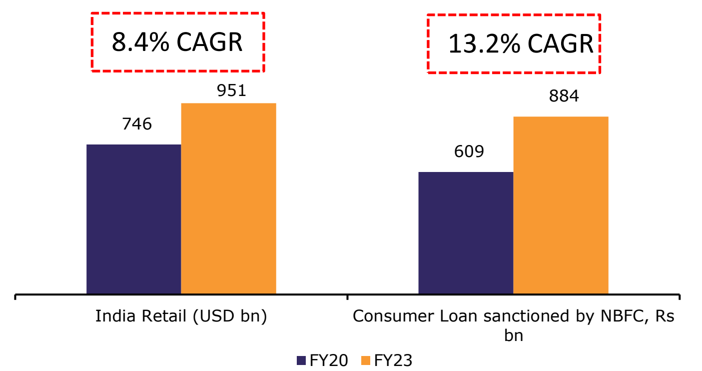
Source: Central Electricity Authority, Emkay Research

Exhibit 16: Free food grains should increase disposable incomes; PMGKAY extension is a catalyst for stronger durable spends



Source: Department of Food and Public Distribution, Emkay Research.
Note- Bihar's FY19-22 data from Bihar Economic Survey

Exhibit 17: Macro consumer loan sanctions grew at a faster clip than India Retail; ease of financing eliminating affordability hurdles



Source: FIDC, Kalyan RHP Document, Emkay Research

AVL moats: Scale, brand support and first-mover advantage drive the shortest paybacks for AVL

AVL's unique business model has a big entry-level barrier and guarantees success: Consumer-durable retail is a unique business model, where success is dependent upon scale, operational cost structure, and relationship/support from OEMs. AVL stands out in most parameters with it crossing the crucial scale barrier, has an asset-light, low-cost model, and gets due support from brands in terms of shared employee, marketing, and capital expenses for creating new markets. Having passed the litmus test, AVL is now in a phase where it can leverage its well-oiled machinery to grow faster. Scale is a significant entry barrier in the industry, as mature leaders enjoy direct sourcing benefits/incentives from OEMs (distributor + retailer margin), only after reaching a certain scale and after a lengthy period of low gross margins. Further, cash-and-carry trade with OEMs guarantees additional margins, but early payments are possible only with a strong balance sheet, again playing to leaders' advantage.

Brand support aids shortest paybacks; support is higher vs. other retail categories: With a low gross-margin profile of the industry (10-15% range across players), the asset-light leased model is fungible only for non-metro retailers due to low-cost structures, while metro retailers have to opt for an ownership model (like Vijay Sales, Electronics Mart-Delhi, and DMART). However, brands in CD retail want partners to flourish and remain supportive in terms of shared marketing, employee, and capital expenses for reinvestment of growth capital in the business by retailers (vs. limited such support for retailers in other categories). Such support lowers the operational costs and capital employed for consumer-durable retailers to an extent and guarantees best-in-class return ratios for players like AVL (refer Exhibit 18).

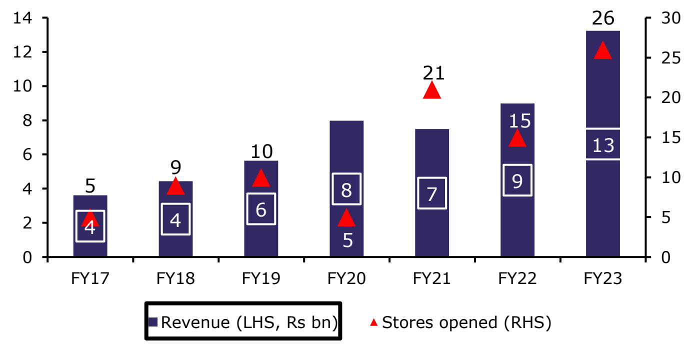
First-mover advantage helps in curated assortment and lower cost structure: AVL has been operating in Hindi-heartland regions for ~25 years. Back-end has long been integrated with best-in-class ERP, making the company more intelligent in terms of consumer preferences in the hyper-local regions. Long-term associations with its customers/vendors, focused strategy for superior consumer experience, and competitive pricing leave limited reasons for AVL's consumers to shift to new entrants in the regions. From operational aspects as well, AVL has advantages in terms of well-oiled training/recruitment engines, attractive lease agreements vs. higher rentals for new entrants, and other operational efficiencies. Full-time involvement of promoters in the business leads to faster decision-making in the business, resulting in better footfall conversion and higher throughputs. These efficiencies have been reflected in Zero store closures and negligible rise of growth capital, since its inception.

Exhibit 18: AVL operates at shorter payback periods, even better than the best retailers across all retailing categories

Leading player (mature store metrics, per sqft)	AVL	Jewelry	QSR	Luxury	Grocery	Apparel
Revenue (Rs mn)	45,000	250,000	31,818	180,000	45,000	10,000
Gross Margin (%)	***15***	***30***	***75***	***30***	***15***	***55***
EBITDA (Pre-IndAS, %)	***10***	***23***	***16***	***12***	***10***	***11***
Capex (Rs mn)	1,500	11,250	10,909	15,000	11,000	2,500
Working Capital (Rs mn)	7,500	100,000	-955	50,000	3,150	882
Total Investment (Rs mn)	9,000	111,250	9,955	65,000	14,150	3,382
ROIC (Pre-Tax, %)	***50***	***50***	***40***	***30***	***25***	***25***

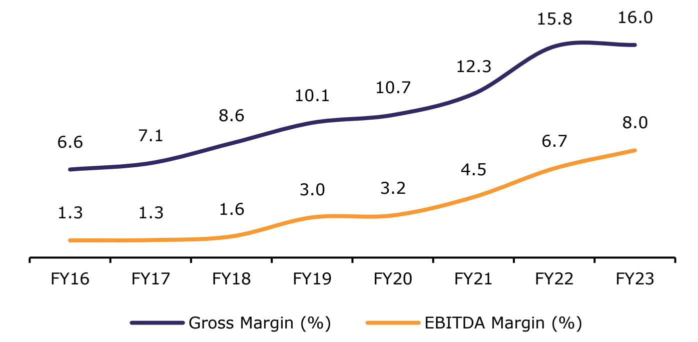
Source: Company, Emkay Research

Exhibit 19: AVL has gained scale with faster expansion and strong SSG over FY17-23



Source: Company, Emkay Research

Exhibit 20: Scale has helped in direct sourcing and early payments, thereby driving strong GM/EBITDA-margin gains over FY16-23



Source: Company, Emkay Research

Unit Metrics – Payback period of <3 years for new stores; maturing of stores in Jharkhand/Uttar Pradesh should drive overall RoIC gains: Based on the blended run-rate explained by AVL, a new store for AVL starts with revenue of Rs60mn in the first year, which near-doubles in the second year, before reaching Rs180mn in the third year. Post this, AVL's stores grow at a normalized SSG run rate of early double digits. AVL invests a total of Rs25-30mn per store (Rs20-23mn inventory + Rs5-6mn capex). With low cost of operations in its regions and brand support, stores typically achieve a store-level breakeven within the first 6-8 months and offer an attractive payback period of <3 years.

Bihar, in our view, is delivering the best RoIC, followed by Jharkhand and Uttar Pradesh. We believe the maturing of stores in Jharkhand/Uttar Pradesh as well as a reduction in new stores (as a % of existing base) should gradually drive the overall portfolio of stores to best-in-class ROICs delivered in Bihar (40-50% for mature stores in Bihar vs. low ROIC in Jharkhand/Uttar Pradesh currently).

Working Capital (WC) is higher for the business, as the category requires larger stores holding a significant amount of high-value inventory. WC requirements also vary during the course of a year, with higher inventory investments, ahead of summer/festive seasons in March /September. AVL's business model is unique, as most brands compensate AVL for existing inventory liquidation to make room for displaying new models at AVL's stores, resulting in gross margin protection for AVL and lower inventory obsolescence risk.

Exhibit 21: AVL's business model guarantees a less than 3-year payback period

Particulars (Rs mn)	Reported	Company Outlook			Store Breakeven
Unit Metrics	**FY23**	**Year-1**	**Year-2**	**Year-3**	**Y1 + Y2+ Y3**
Revenue/Store	144	60	120	180	
Gross Margin (%)	***16.0***	***15.0***	***16.0***	***16.5***	
Employee Cost (% of sales)	2.5	6.0	3.2	2.2	
Rentals (% of sales)	2.0	4.8	2.5	1.8	
Power/Utility (% of sales)	0.5	1.2	0.6	0.4	
Store EBITDA margin (%)	***10.9***	***3.0***	***9.7***	***12.1***	
HO costs (% of sales)	*2.9*				
EBITDA	11.6				
EBITDA margin (%)	***8.0***				
Depreciation	0.7	0.7	0.7	0.7	
EBIT	**10.9**	**1.1**	**11.0**	**21.1**	**33.2**
Working Capital	28.0		22.5		
Capex - Gross Assets	7.5		6.0		
Total Invested Capital	**35.5**		**28.5**		
RoIC (post-tax, %)	***23***				
RoE (%)	***47***				

Source: Company, Emkay Research

AVL is in a sweet spot across all aspects of business execution: AVL, as a consumer-durable retail destination, stands out for its products, services, pricing, and marketing.

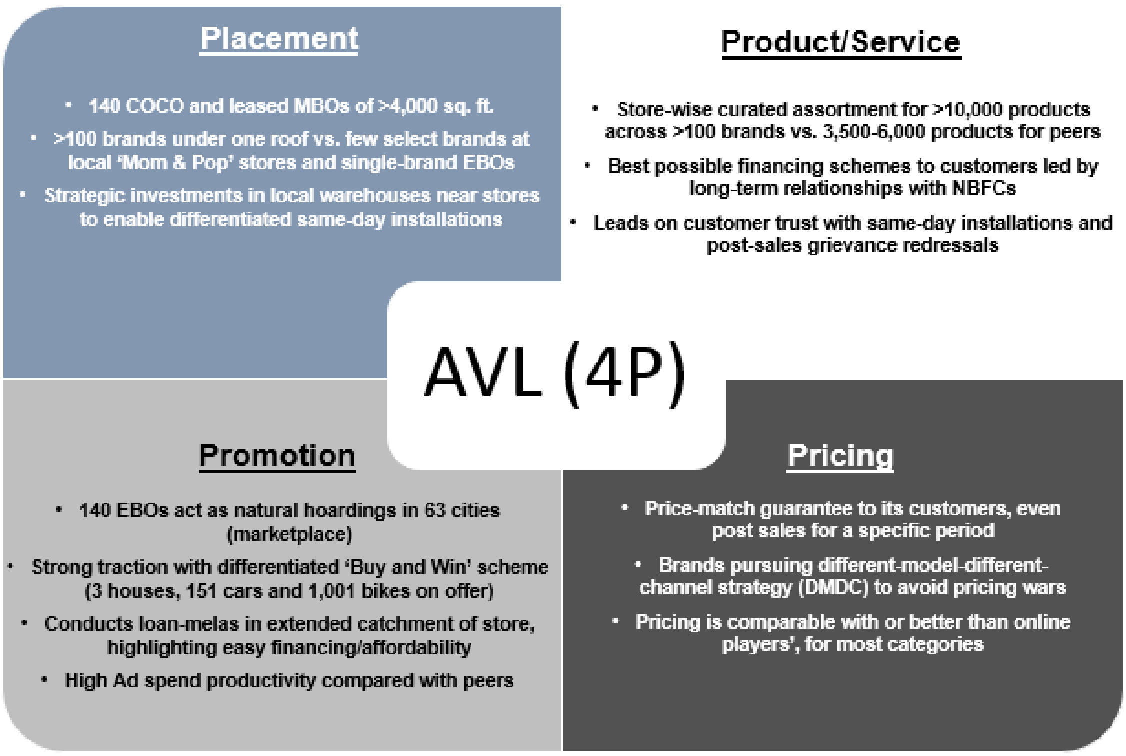
1) **Product:** AVL retails more than 10,000 products of over 100 brands across categories of home appliances, entertainment solutions, kitchen appliances, personal care, and digital gadgets. Merchandise at stores is differentiated with a focus on addressing the needs, tastes, and service capabilities of brands in the local catchment. In addition to a sharply curated assortment of products, which drives premiumization, AVL differentiates itself by offering the best-possible financing schemes to its consumers (~40% of sales) and scores the best-in-service ratings through same-day installations and fast-grievance redressals. AVL has partnered with credible and sizeable partners (such as Bajaj Finserv, HDB, and Paytm) and has invested in dedicated teams at HO/stores for faster grievance redressals and to track post-purchase customer satisfaction levels.

2) **Pricing:** AVL follows a fair pricing model and offers a price-match guarantee for like-to-like product models, even after the purchase of products for a specific period. Compared with online channels, our channel checks suggest comparable or better pricing at AVL, along with a superior trust and service level to consumers. Brands are also trying to position themselves differently with different models for different channels (DMDC), to avoid pricing wars. Encouragingly, from the brands' perspective as well, sincere efforts are in place to ensure abiding of pricing discipline by all participants in the market.

3) **Promotion:** AVL makes extensive efforts in marketing initiatives, such as organizing loan melas in extended catchments of stores (20-25km radius). AVL also spends to highlight its differentiated loyalty reward scheme (Buy and Win), which brings healthy footfalls to its stores. Each customer gets multiple tickets, depending upon the quantum of purchase (one ticket per Rs10,000 spent). The 2023 scheme has on offer 3 houses, 151 cars, and 1,001 bikes for the lucky winners. The company spends ~1% of sales in ad/hospitality, which is lower vs. peers

4) **Placement:** AVL distributes its products largely through the Aditya Vision-branded COCO stores. AVL's stores are >4,000 sq. ft. in size and offer differentiated experiences with >100 brands under one roof (vs. limited brands availability at smaller mom-and-pop stores). Investment in nearby warehouses (vs. far-off centralized warehouse for other organized players) enable AVL to offer faster installations. The company has the widest presence in Bihar/Jharkhand through 97/20 stores in 37/17 districts, respectively. The focus is to leverage its first-mover advantage and penetrate deeper into existing Bihar/Jharkhand/Uttar Pradesh regions and gradually establish its presence in neighboring states of Chhattisgarh, Madhya Pradesh, and West Bengal.

Exhibit 22: AVL is in a sweet spot across all aspects of business execution



Source: Emkay Research

Physical vs. E-Retail: Perceived online risk is exaggerated beyond on-the-ground reality

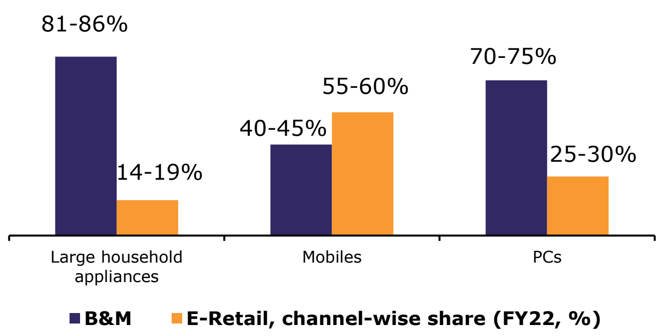
While online players have improved their assortment of consumer-durable products, CRISIL Research (Electronics Mart RHP) suggests that they have not still been able to crack the nut, despite years of operations in the Indian market. The research indicates e-retail share is only in mid-teens for large appliances in FY22, while it is 55-60% for mobiles. On one hand, e-retailers face logistical challenges/costs due to bulky products (large appliances) and consumer resistance for high-ticket purchases; while on the other hand, B&M players offer assisted sales, differentiated 'touch and feel' experience, and hassle-free after-sales installations/grievance redressals. From the financing perspective, retailers partner with leading institutions to offer unique financing schemes at stores, while there are limited financing options available over the online channel (mainly through credit cards). Encouragingly, brands are also pursuing the different-models-for-different-channels (DMDC) strategy to avoid pricing wars across channels and segregate the consumer's profile for each of the channel. In addition, the Government of India is also trying to lay a level-playing field for all players with restrictions over (1) inventory ownerships for online marketplaces, (2) listing of group companies as retailers, and (3) exclusive partnerships.

Industry veterans opine on consumer bias for physical retailers for large appliances: Our interaction with Nilesh Gupta (Director, Vijay Sales) suggests that only a minuscule proportion of consumer-durable shoppers (<5%) shop online for the ease of convenience, while the majority proportion of Indian shoppers are opportunistic of a better pricing and are indifferent of the channel. He believes there is a consumer bias for physical channels, even if physical pricing is 2-3% higher vs. online channels. Consumers prefer online channels when there is a clear pricing difference (10-15%), which is generally in the case of low-ticket mobiles and other smaller appliances. Premium devices still see better traction at offline stores vs. online.

Our channel checks back the research findings and expert opinions: We also visited several AVL stores to solidify our view on this front. Key findings are as follows:

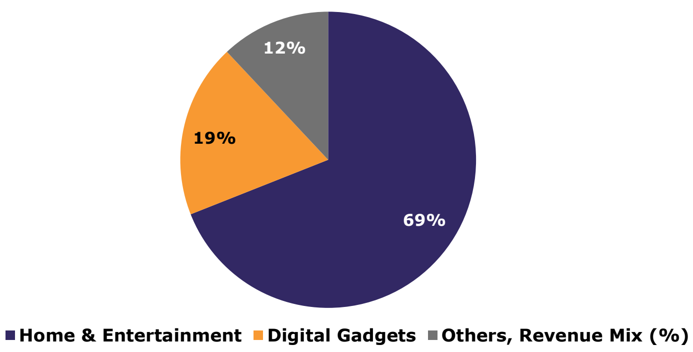
1) There is a limited overlap between SKUs available at AVL stores and online marketplaces. Most of the SKUs at AVL stores are updated versions (1.0 or 2.0) than the online models, limiting price wars.
2) For like-to-like models, AVL offers a price-match guarantee and, in most cases, AVL offers better prices than online prices.
3) Sales staff lay a significant amount of emphasis on financing schemes (no-cost/low-cost EMIs/Zero down payments – select SKUs), same-day installations, and future grievance redressals through a dedicated Aditya Seva helpline.
4) Consumer profile in Bihar/Jharkhand markets is relatively less confident for online purchases, given high-ticket purchases and perceived online risk of delivery of wrong products/associates hassles.
5) A mix of higher disrupted category, i.e. mobile/laptops (digital gadgets), is relatively much lower for AVL at <20%.

Exhibit 23: E-retail mix for large appliances remains much lower for online marketplaces, despite years of operations



Source: Electronics Mart RHP document (CRISIL), Emkay Research

Exhibit 24: Mix of digital gadgets facing relatively higher online disruption; is low at <20% for AVL



Source: Company, Emkay Research

Peer Comparison: AVL scores best on combined topline growth, profitability, and return ratio

AVL comes with a heritage of strong growth performance and has delivered a robust 24% revenue CAGR over FY18-23. AVL commands a relatively superior gross margin, supported by a higher mix of high-margin large appliances (vs. low-margin digital gadgets), increased incentives for investing in virgin markets, and strategic policy of no private labels at its stores. Revenue/store is lower for AVL due to lower per-capita consumption in eastern India (<15% penetration for AC/Ref vs. 24-38% penetration pan-India). However, the same gets adjusted with lower inventory/store due to smaller stores (4,000 sq. ft. vs. ~10,000 sq. ft. for peers), leading to similar stock turnovers vs. peers. Store breakeven is achieved within 6-8 months for AVL, while it is larger for other retailers. RoE is strong at >40% vs. <15% for most peers, led by a better margin, in-line stock turnover, and healthy leverage ratio.

Exhibit 25: Comparison across key parameters for consumer-durable retailers

	AVL	Croma	Vijay Sales	Electronics Mart
Peer Comparison				
Revenue CAGR (FY18-23; %)	**24**	**32**	**17**	**18**
Area of operations	East	Pan-India	West, North & South	South & North
Number of stores	130	350+	130+	124*
Number of cities	63	110+	20+	46
Store size (sqft)	~4,000	~10,000	~10,000	~10,000
Revenue/store (Rs mn)	**150**	**450**	**600**	**400-450**
Gross margin	**15-16%**	**10-12%**	**13-15%**	**13-14%**
PAT margin	**4%-5%**	**-5% to -6%**	**3%-4%**	**2%-3%**
Balance Sheet comparison (Rs mn/store)				
Inventory	28	65	75	60
Receivables	0	5	2	10
Payables	6	35	45	2
Other net assets	3	5	1	22
Working Capital	**25**	**40**	**33**	**90**
DuPont Analysis				
Net Profit Margin	4-5%	-5% to -6%	3-4%	2-3%
IC Turnover	4x	6x	5x	3.5x
Leverage	2.5x	7x	3x	1.5x
ROE	**45%**	**NA**	**50%**	**15%**
Revenue Mix (%)				
Home Appliances/others (%)	**80**	**40**	**55**	**56**
Digital Gadgets mix (%)	**20**	**60**	**45**	**44**
Other operating metrics				
Online mix	Negligible	25%	<5%	<1%
In-house brand	**None**	**Croma**	**Vise**	**None**
Store Breakeven (no. of months)	**6-8**	**12-18**		**12-14**
Number of SKUs	>10,000		>3,500	>6,000

Source: Company, MCA, Credit agency reports, Store locator (Retailer website), Emkay Research

Aditya Vision (AVL) – New growth engines and maturing of stores to drive >30% EBITDA CAGR over FY23-27

Low penetration in East India (vs. national average) is driving faster growth in the region, and AVL has been capitalizing on these tailwinds with a 24% topline CAGR over FY18-23. So far, Bihar has led the majority 80% of store additions and the focus now is to fortress existing regions of Bihar/Jharkhand and repeat Bihar's success in adjacent states of Uttar Pradesh, Chhattisgarh, West Bengal, and Madhya Pradesh. AVL remains firm with its strategy to remain in the Hindi heartland, which guarantees a successful business model and offers long-term opportunity to 5x its FY23 presence by FY35E. In addition to distribution expansion, SSG should also remain best-in-class at >20% over FY23-27E, helped by maturing of new stores, low penetration, and premiumization. Together, we expect new growth engines and maturing of stores to deliver >30% revenue-led EBITDA CAGR for AVL in the near term and mid-teen CAGR over FY27-35E. Foray in new regions should boost growth in the existing regions of Bihar/Jharkhand by 600-700bps. We expect overall revenue CAGR of 31% vs. 24% in Bihar/Jharkhand over FY23-27E. Maturing of stores should also ensure better asset sweating, resulting into healthy gains in its return ratios.

Exhibit 26: New regions should boost growth by 600-700bps in existing regions; we expect 31% revenue CAGR vs. 24% in Bihar/Jharkhand, over FY23-27E

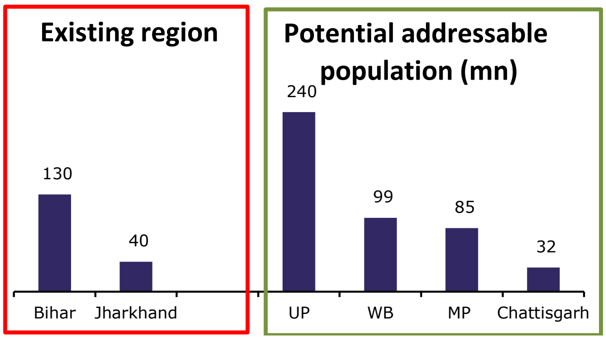
	FY23	FY27E	FY35E	FY23-27E	FY27-35E
[A] Bihar – Avg. no. of stores	**81**	**120**	**198**	**10.5**	**6.5**
AVL - Revenue (Rs bn)	**13**	**28**	**55**	**22.5**	**8.7**
Avg. Rev/store (Rs mn)	157	236	279	10.8	2.1
EBITDA margin (%)	**9**	**10**	**10**		
Invested Capital (Rs bn)	3	4	10		
RoIC (Pre-Tax, %)	**37**	**66**	**54**		
[B] Jharkhand – Avg. stores	**10**	**28**	**44**	**29.4**	**5.8**
AVL - Revenue (Rs bn)	**1**	**5**	**11**	**71.1**	**10.9**
Avg. Rev/store (Rs mn)	54	165	240	32.3	4.8
EBITDA margin (%)	**-8**	**7**	**9**		
Invested Capital (Rs bn)	0	1	2		
RoIC (Pre-Tax, %)	**-12**	**35**	**46**		
[C] Uttar Pradesh – Avg. no. of stores	**2**	**45**	**125**	**134.0**	**13.6**
AVL - Revenue (Rs bn)	**0**	**5**	**28**	**186.6**	**24.1**
Avg. Rev/store (Rs mn)	50	112	228	22.5	9.2
EBITDA margin (%)	**-11**	**4**	**9**		
Invested Capital (Rs bn)	0	1	5		
RoIC (Pre-Tax, %)	**-10**	**12**	**46**		
[D] Others – Avg. no. of stores		**15**	**93**		**26.2**
AVL - Revenue (Rs bn)		**1**	**20**		**44.2**
Avg. Rev/store (Rs mn)		75	218		14.3
EBITDA margin (%)		**-2**	**9**		
Invested Capital (Rs bn)		0	4		
RoIC (Pre-Tax, %)		**-7**	**39**		
Total – Avg. no. of stores	**92**	**208**	**460**	**22.5**	**10.5**
Total Revenue (Rs bn)	**13**	**39**	**114**	**31.2**	**14.4**
Avg. Rev/store (Rs mn)	144	189	249	7.0	3.5
EBITDA (Rs bn)	**1.1**	**3.2**	**10.7**	**32.1**	**16.0**
EBITDA margin (%)	**8.0**	**8.3**	**9.3**		
Invested Capital (Rs bn)	3	7	21	18.3	15.7
RoIC (Pre-Tax, %)	**29**	**44**	**48**		

Source: Company, Emkay Research

Network expansion – New growth engines provide confidence for long-term growth: Low penetration in the East (vs. national average) is driving faster growth in the region and AVL has been capitalizing on these tailwinds with a 30% store-addition CAGR over FY18-23. The focus now is to fortress the existing regions of Bihar/Jharkhand and make in-roads in the adjacent regions of Uttar Pradesh (eastern), Chhattisgarh, Madhya Pradesh, and West Bengal (border regions). New regions have a large population and offer similar growth opportunities, given either low penetration or lower presence of organized chains. We expect AVL to add 115 stores over FY23-27, led by a big entry in Uttar Pradesh, a strengthening of existing ground in Bihar/Jharkhand, and potential entry into Chhattisgarh. Going beyond FY27 as well, the potential remains healthy, with further expansion in Hindi-heartland states like Madhya Pradesh. Together, we see ample scope for AVL to ~5x its FY23 store count of 105 stores by FY35E, providing confidence of continued annual addition of ~30 stores over FY23-35E.

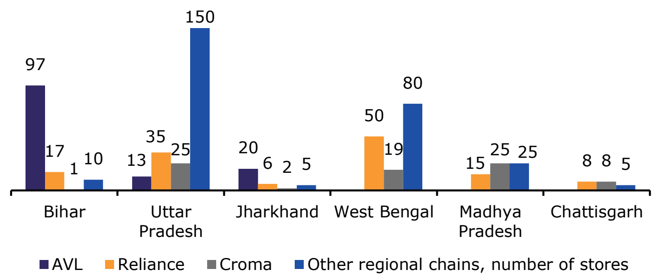
Together, the targeted Hindi-heartland regions have a large population base of ~450mn vs. combined population of 170mn in Bihar/Jharkhand and presence of other organized chains is also limited in states like Chhattisgarh/Madhya Pradesh. While Uttar Pradesh has a higher organized retail chain presence, our checks suggest that the current penetration of competition chains is higher in western Uttar Pradesh, while AVL is pursuing aggressive expansion in underpenetrated eastern Uttar Pradesh.

Exhibit 27: Targeted regions of the Hindi Heartland have a large population of ~450mn vs. 170mn in Bihar/Jharkhand jointly



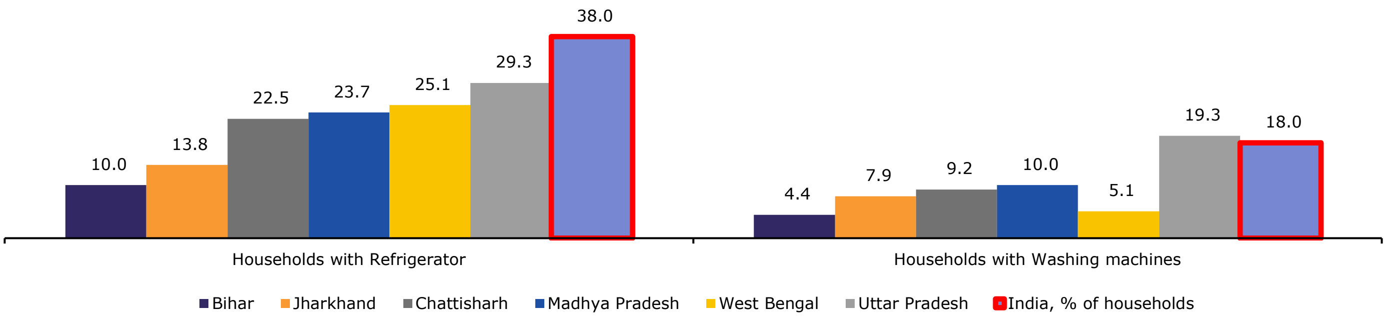
Source: CEIC, India Census, Emkay Research

Exhibit 28: AVL dominates in Bihar; presence of other organized chains is limited in states such as Chhattisgarh, MP and UP (East)



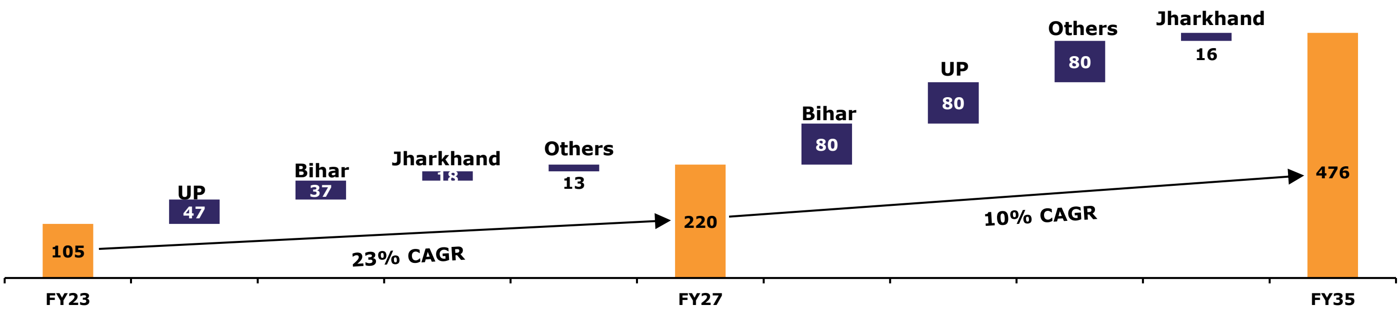
Source: Store locator (Website), Emkay, Regional chains include Great Eastern Trading, Great Eastern Retail, Value Plus, and Lotus Electronics

Exhibit 29: Penetration of Refrigerator/Washing Machines is much lower in the eastern states vs. the India average; penetration catchup to fuel growth and network expansion by organized chains



Source: Stats of India, Emkay Research

Exhibit 30: Store count to reach 220 in FY27E — a 23% CAGR from FY23; big entry in Uttar Pradesh, with the potential regions of Chhattisgarh, Madhya Pradesh and West Bengal, offer 5x expansion opportunity and long-term growth over FY23-35E



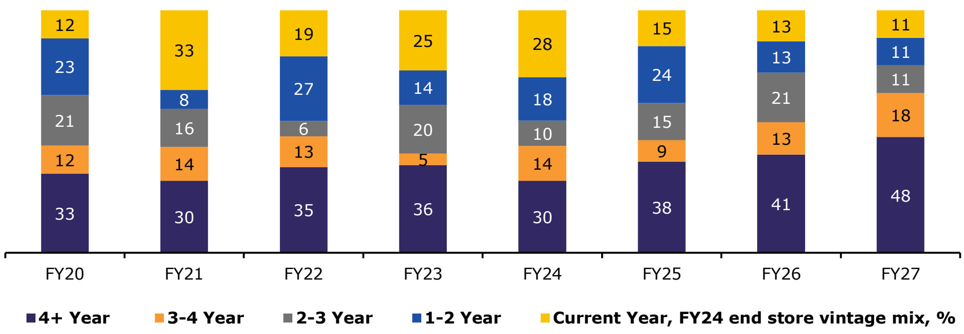
Source: Company, Emkay Research

SSG to remain upwards of 20% in the near term: We expect AVL to deliver a strong SSG CAGR of >20% in the near term, helped by maturing of new stores, under penetration in the area of operations, and premiumization/price hikes. AVL has been aggressive in terms of new store openings in FY24. However, an increase in store vintage towards mature stores from now on should result in a strong SSG profile. Even for mature stores, SSG trends should be encouraging, with low penetration in operations and premiumization, and easy financing availability.

'Buy and Win' scheme is a big differentiator: Capitalizing on these tailwinds, AVL has a differentiated marketing strategy to gain a higher share of available footfalls in the catchments. AVL has a 'Buy and Win' scheme, which brings healthy footfalls to its stores. Each customer gets multiple tickets, depending upon the quantum of purchase (one ticket per Rs10,000 spent – channel check). The 2023 scheme has on offer 3 houses, 151 cars, and 1,001 bikes for the lucky winners.

Loan melas help in marketing easy financing schemes: AVL also organizes loan melas in expanded catchments, highlighting the ease of financing and affordability to consumers. Pricing of products is also comparable with all channels, followed by a price-match guarantee for a specific period after the purchase. In terms of brand trust as well, AVL scores better and generates repeat purchases with differentiated same-day installations and fast grievance redressals through an in-house team of 30 customer care associates (Aditya Seva).

Exhibit 31: Maturing of new stores along with low penetration and premiumization should drive >20% SSG for AVL



Source: Company, Emkay Research

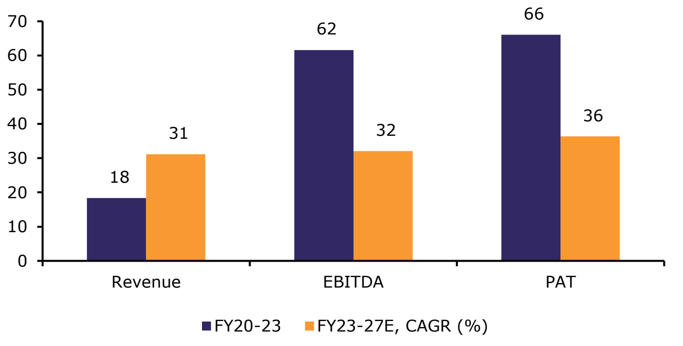
Exhibit 32: AVL's 'Buy and Win' scheme is a big crowd puller (loyalty program) that offers lucky draw prizes annually for purchases made during the year at the store level

Source: Company website, Emkay Research

Financials: Strong 30-35% EBITDA/PAT CAGR, backed by macro tailwinds and regional dominance

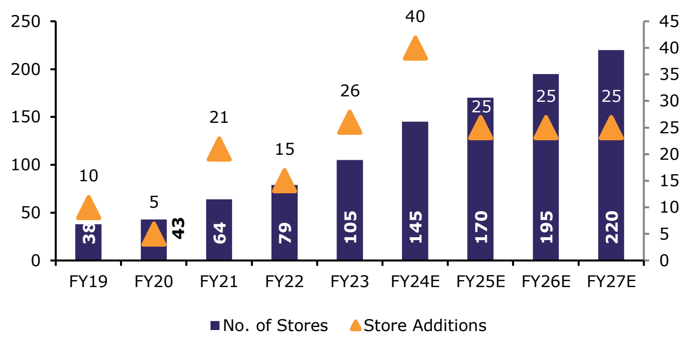
Given the huge under-penetration in East India vs. overall India average, we expect consumer-durable usage to thrust significantly, as living conditions improve and more income is available at consumer discretion. Organized players like AVL are likely to benefit from this shift on the back of robust presence in the region, competitive pricing, 'Buy and Win' scheme, improving accessibility, and strong brand trust. We expect a 30-35% Revenue/EBITDA/PAT CAGR, led by a 23% CAGR in store expansion and >20% SSG, aided by the maturing of new stores. New store openings are high at 30-40% of the existing portfolio in FY23/24 and the maturing of stores should drive high SSG for AVL. However, a high mix of new stores may bring down the growth in avg. rev. per store to 9% due to lower run-rates initially. We expect a 100bps dip in FY24 EBITDA margin, on our conservative gross-margin assumptions of 14.5-15.0%. Beyond FY24, profitability and return ratios will continue to improve with strong SSG levels and better stock turns. Financial leverage will drive a higher PAT CAGR at 36% vs. EBITDA CAGR of 32%.

Exhibit 33: Expect EBITDA/PAT CAGR of 32/36% over FY23-27E, led by topline growth, stable margins and financial leverage



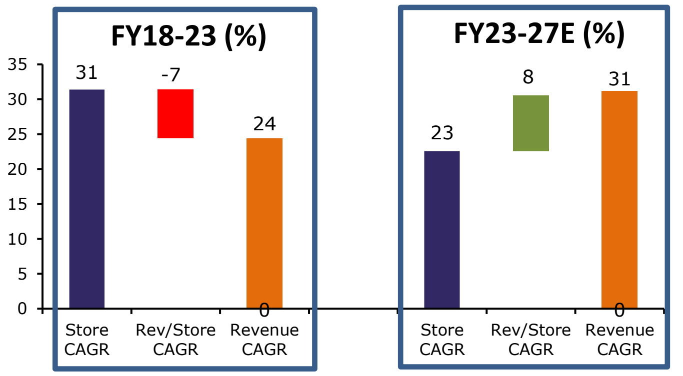
Source: Company, Emkay Research

Exhibit 34: Expect store-count to reach the 220-mark by FY27E (vs 105 in FY23), helped by foray in other Hindi-heartland regions



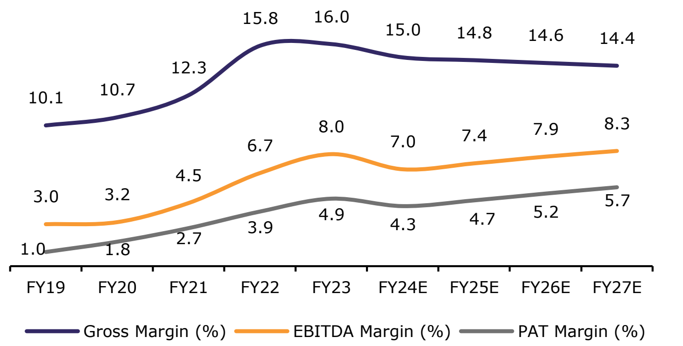
Source: Company, Emkay Research

Exhibit 35: Expect 31% rev CAGR, led by 23% store CAGR and >20% SSG; rev/store CAGR is low due to high mix of new stores



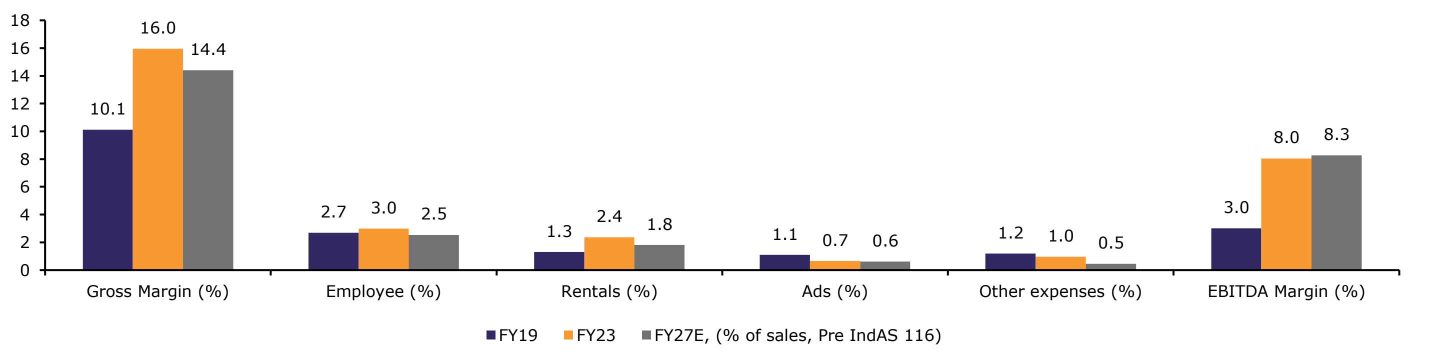
Source: Company, Emkay Research

Exhibit 36: Normalization of gross margin to drive margin dip in FY24; oper. leverage should help recover lost margins by FY27



Source: Company, Emkay Research

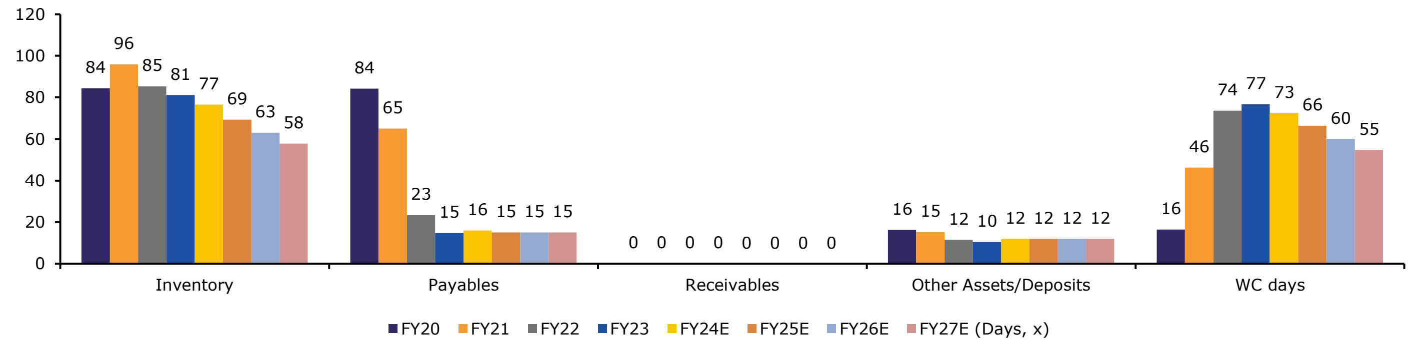
Exhibit 37: We remain conservative on the gross margin front, with expectation of 14.5-15% by FY27E; strong SSG should help to more-than-offset the gross-margin decline



Source: Company, Emkay Research

Expect WC requirements to normalize with maturing of new stores; FCF to improve significantly: Working capital (WC) management remains crucial in consumer-durable retailing, as it forms up to ~80% of invested capital. AVL's business model is unique as most brands compensate AVL for existing inventory liquidation to make room for displaying new models at AVL's stores, resulting in gross margin protection for AVL and lower inventory obsolescence risk. WC requirements also vary during the course of a year, with higher inventory investments, ahead of summer/festive seasons in March/September. Current WC days are higher due to the consolidation of a high mix of new stores (30-40% of the existing store base in FY23/24). While new stores generate one-third of the revenue of mature stores, inventory level at new stores is not materially different from that of mature stores, thereby leading to higher working capital in the near term. However, the maturing of such stores should bring in significant normalization of WC days, and we expect WC to reduce to 55-60 days by FY27 from ~77 days in FY23. With the normalization of WC and scale, we expect FCF to improve significantly with Rs2.6bn FCF generation over FY23-27 vs. negative trends in earlier years.

Exhibit 38: We expect WC days to reduce by ~20, to 55 days over FY23-27E, largely led by the maturing of new stores

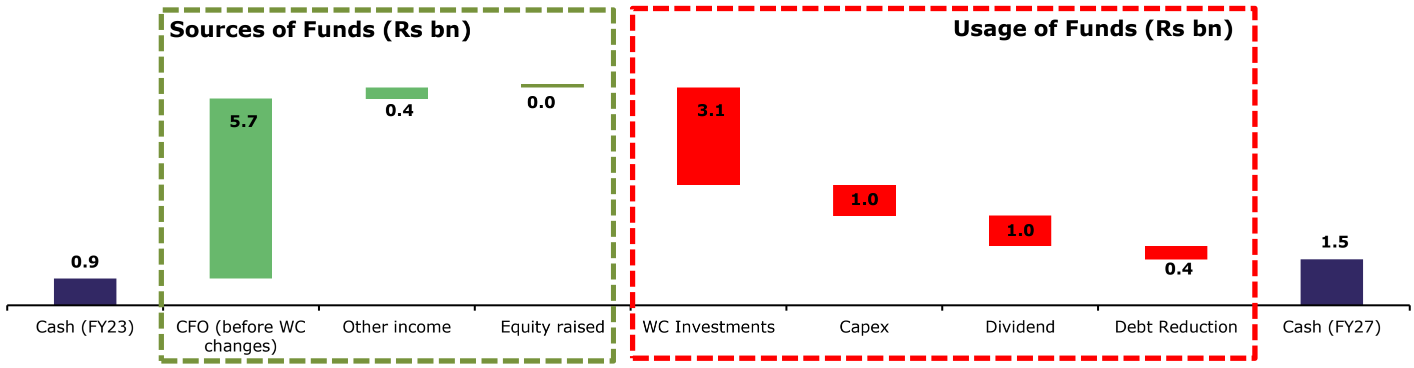


Source: Company, Emkay Research

Growth capital requirement to be fully funded by internal accruals: As AVL expands its presence beyond Bihar to other eastern regions, we expect AVL to open 115 stores from FY23 to FY27 to establish a strong brand presence in new regions as well. Given the COCO model at play, AVL shall require ~Rs4bn for opening these 115 stores (Rs30-35mn for new stores and the rest for maintenance capex). With an attractive profitability and return profile, we expect internal accruals to be sufficient to support the required growth.

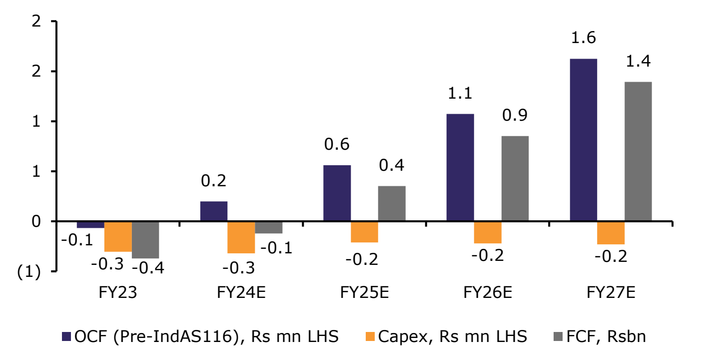
After an initial dip in return ratios in FY24, RoIC for AVL is expected to improve upwards to >30% by FY27, helped by the maturing of new stores. However, we expect RoE to converge with ROIC due to expected reduction in leverage ratio (Debt/Equity) for AVL.

Exhibit 39: Robust operating cash flows should be sufficient to meet the growth capital requirement over FY23-27E



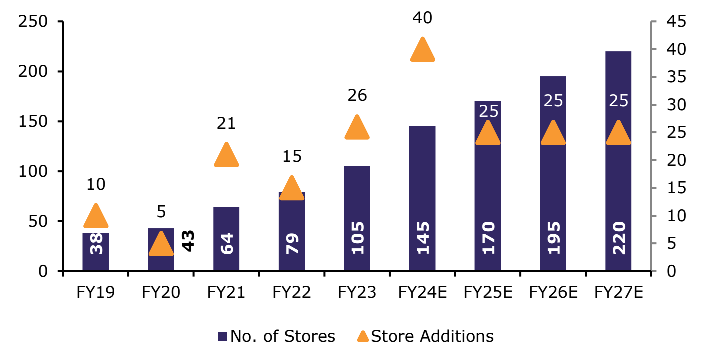
Source: Company, Emkay Research

Exhibit 40: Robust OCF to comfortably meet growth capital needs; FCF generation to improve with maturing of new stores



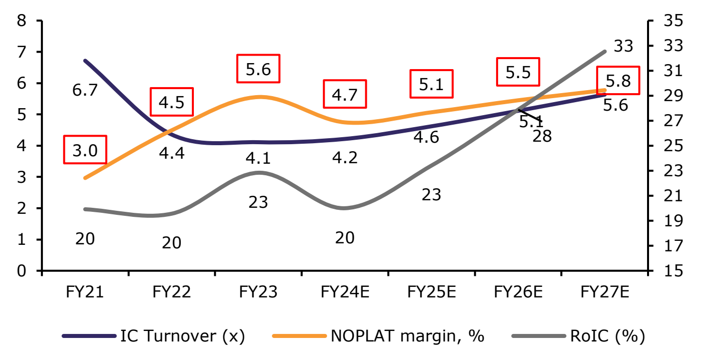
Source: Company, Emkay Research

Exhibit 41: Store-count CAGR to log at ~23% over FY23-27E, to 220 stores in FY27E



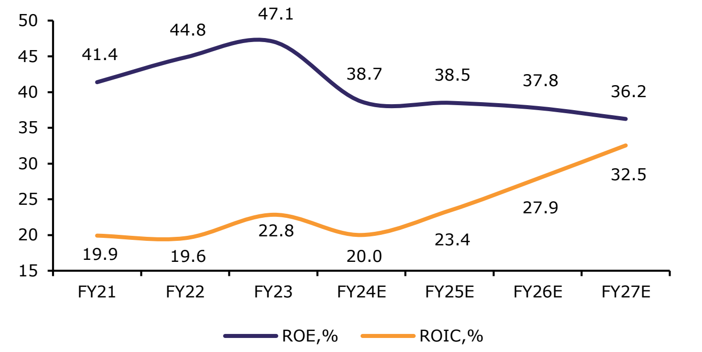
Source: Company, Emkay Research

Exhibit 42: ROIC to improve by ~1,000bps, led by improvement in margin and higher stock turnover



Source: Company, Emkay Research

Exhibit 43: ROE to lower, with deleveraging exercise; ROIC to improve, with higher margin and asset turn



Source: Company, Emkay Research

Valuations: Trading at a steep discount vs. peers; healthy prospects provide scope for re-rating

We expect AVL to deliver a 30%+ Revenue/EBITDA CAGR over FY23-27E, which is better than most of the best-performing retailers. EBITDA CAGR would largely be led by revenue growth, along with our expectation of stable margins. Medium-term prospects are also healthy, with entry into a large Uttar Pradesh market (potential similar to existing Bihar), scope for expansion in existing Bihar/Jharkhand regions, and potential entry into other Hindi heartland regions of Mahya Pradesh/Chhattisgarh, providing confidence for continued network expansion. SSG trends should remain encouraging, as the east is currently under-penetrated and growth trends are healthy with easy financing.

The business has a very attractive payback period (<3 years), which is better than most of the best performers in other retail categories. Shorter payback periods are enabled by attractive gross margins, lower cost of operations in its area of operations, and a good amount of brand support in terms of shared employees, marketing, and capital expenses.

Despite better growth prospects, AVL is trading at a 35-50% discount to our coverage universe. We believe such a steep discount is unwarranted and a continued delivery on our expectations should lead to continued re-rating for AVL. Given higher revenue concentration from eastern markets and entry into new regions, we are conservatively valuing the company at 40x its Dec-25 EPS and recommend a BUY rating on AVL, with a Dec-24 TP of Rs5,000/share.

Exhibit 44: AVL is trading at a 35-50% discount to our coverage universe, despite better growth prospects

Company	Closing Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)*		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	3,635	3,227	Add	3,670	40.4	50.8	63.4	90.0	71.5	57.4	58.7	46.9	38.4
Page Industries	37,336	416	Reduce	39,000	535.7	678.9	818.3	69.7	55.0	45.6	44.5	36.0	30.2
Jubilant FoodWorks	560	369	Sell	380	4.8	7.0	9.0	115.7	80.3	62.5	31.3	25.1	21.1
Devyani International	187	225	Reduce	165	1.2	2.1	3.1	157.9	89.3	60.6	31.5	24.7	19.1
ABFRL	234	222	Reduce	220	-5.1	-3.6	-2.2	-46.0	-64.4	-107.4	16.1	10.7	8.4
Westlife Foodworld	868	135	Buy	1,040	6.6	10.1	15.1	132.1	85.9	57.4	32.4	25.5	20.0
Sapphire Foods	1,435	91	Add	1,550	15.3	25.3	35.2	93.6	56.8	40.8	17.9	13.8	10.8
Go Fashion	1,315	71	Add	1,440	17.2	24.5	32.5	76.5	53.8	40.4	27.9	20.9	16.2
Ethos	1,842	45	Add	2,300	35.5	42.4	52.0	51.9	43.4	35.4	26.0	19.7	15.2
Senco Gold	721	56	Add	800	21.6	27.6	35.0	33.3	26.1	20.6	17.1	13.6	11.0
Varun Beverages	1,067	1,386	Reduce	1,150	15.8	20.0	25.8	67.6	53.4	41.4	39.4	31.7	26.2
Aditya Vision	3,280	39	Buy	5,000	63.9	93.2	133.7	51.4	35.2	24.5	25.8	18.7	14.0

Source: Emkay Research; ****Post-IndAS-116 EBITDA***

Exhibit 45: Comparison of key growth and return parameters across retailers in our coverage universe

Company	EPS growth (%)			RoIC (%)			RoE (%)			FCF/PAT (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	10	26	25	29	32	34	24	24	24	-101	52	51
Jubilant FoodWorks	-21	44	28	18	24	29	13	17	19	-26	77	92
Devyani International	-46	77	47	16	16	20	13	19	22	-23	14	50
Westlife Foodworld	-8	54	50	17	22	29	16	22	27	56	85	100
Sapphire Foods	-8	65	39	10	13	17	7	11	13	-9	37	70
Go Fashion	12	42	33	21	24	26	15	18	19	55	27	32
Ethos	37	19	23	13	13	13	10	10	11	-157	-102	-51
Senco Gold	-6	28	27	12	13	13	12	14	15	-7	-24	-14
Aditya Vision	**20**	**46**	**43**	**20**	**23**	**28**	**39**	**38**	**38**	**-35**	**14**	**37**

Source: Emkay Research

Exhibit 46: Topline growth prospects are much better for AVL compared with EMIL; both companies are trading at similar valuations, but AVL deserves a premium

Company	FY23-26E CAGR (%)		FY23	FY26E	1YF P/E (x)
	Revenue (%)	PAT (%)	ROE (%)		(Mar-25E)
AVL	32.6	35.8	47.1	37.8	36
EMIL	16.1	36.3	13.8	17.6	37

Source: Bloomberg Estimates (EMIL), Emkay Research

Potential upsides

- **Case-1: Faster store additions remain potential upside**: We expect accelerated store additions in FY24, with 40 stores expected to be opened in FY24. Post this, our estimates build in moderation in our annual store addition run-rate to 25-30 stores. A stronger-than-expected traction in new regions has the potential to drive the accelerated pace of store additions in the near term, which shall front-load our growth expectations and drive our re-rating for AVL.
- **Case-2: Expansion of the addressable market:** Our expectations suggest that there will be excess cash generation in the business over the medium term. Entry into more regions (other than the Hindi heartland) or pursuit of other healthy return avenues of growth has the potential to drive the re-rating for AVL.

Potential downsides

- **Case-3: AVL is venturing into new areas of operations, which may require higher-than-expected time and investments**: AVL is venturing out of Bihar/Jharkhand to replicate its success in other Hindi-heartland regions of Uttar Pradesh (Eastern), Chhattisgarh, and Madhya Pradesh. While we are reasonably confident of its long-term success given low penetration in these regions, an increase in organized competition can delay the expected growth or can require more investments.
- **Case-4: Lower support from brands**: AVL receives significant brand support in terms of shared marketing, employee, mark-downs, and capital expenses. Any severe change in the scheme of arrangement between the partners shall lead to increased store payback periods and de-rating for AVL.

Appendix

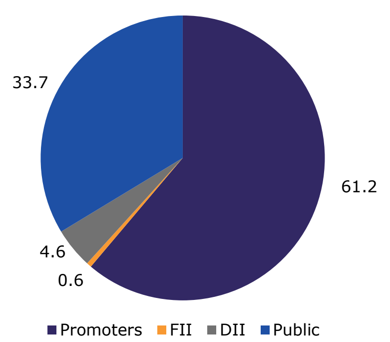
AVL is a modern multi-brand consumer electronics retail chain headquartered in Patna, Bihar. The company is the undisputed leader in the retailing of consumer durables and electronics in Bihar with >50% market share among organized players. The company distributes and retails >10,000 products of >100 prominent Indian and international brands. AVL started with just one retail store in Patna way back in 1999 and has now grown to >130 stores in almost all districts of Bihar and all the major cities of Jharkhand and Uttar Pradesh. AVL was the first in the category to get listed on exchanges in 2016.

Exhibit 47: AVL — Major events and milestones over the years

Year	Description
1999	Started with the first showroom in Patna, Bihar.
2006	Expansion in Patna to increase the share and brand reach in the city.
2014	Foray in other cities of Bihar as economic conditions improved in the state.
2016	Became the first consumer electronic retailer to get listed on BSE.
2021	Reached 75-showroom benchmark, covering all major cities of Bihar.
2022	Started expansion beyond Bihar and scaled to >130 stores in Bihar, Jharkhand, and Uttar Pradesh.

Source: Company, Emkay Research

Exhibit 48: Shareholding pattern (as of Sep-23)



Source: Company, Emkay Research

Exhibit 49: A brief about AVL's management team

Name	Designation	Description
Yashovardhan Sinha	Chairman and Managing Director	Yashovardhan Sinha possesses rich experience in consumer-durable retail and understands the pulse of Hindi-heartland consumers. Our interactions with Mr. Sinha suggest that he is committed to the overall advancement of his venture and leaves office only after the closure of store operations. Being an employee for >20 years with Punjab National Bank, his people-friendly policies have led to limited attrition at the store manager level, since inception.
Nishant Prabhakar	Whole Time Director	Nishant Prabhakar joined Mr. Sinha in 2005 and has been instrumental in ramping up AVL's strong relationships with >100 brands. His vision and strategic management have helped the business to expand from one store in Bihar to a multi-store experience in Bihar and neighboring Hindi-speaking states.
Yosham Vardhan	Additional Whole-Time Director	After successfully advising corporates on cross-border M&A and PE transactions for over nine years at leading law firms in Mumbai, Yosham joined Sinha in early 2021. Leveraging her strong background and eloquence, Yosham has been assisting Sinha in developing, executing, and communicating AVL's cross-functional business strategy. Yosham also handles investor relations for the company.
Aakarsh Singh	Director Retail Expansion	Aakarsh has played a notable part in business development since he joined AVL in 2021. His sincere efforts have helped in accelerating AVL's store expansion, despite challenging operating conditions during the pandemic. Prior to AVL, he had more than 12 years of experience as a legal consultant, advising various financial institutions on structuring loans and debt transactions.
Sunita Sinha	Non-Executive Director	With her background and understanding of policy-making, Sunita Sinha steers the team of directors at AVL to realize the vision and mission of AVL. She independently assesses AVL's performance and strategy to ensure all stakeholders are considered before the needs and wants of the management or board.

Source: Company

Aditya Consumer Marketing

ACML is a related party to AVL with common board members. It is engaged in the business of multi-location Retail Super Market (9to9 Super Market), F&B (Yo! China and Take-Away-Express), Banquet (9to9 Banquets), and Salon & Spa (9to9 Salon & Spa). ACML's business has been stagnant over the past five years and has its goodwill, maintaining its sustenance in Bihar market (majorly Patna and Gaya). The business is very small with a topline of ~Rs970mn and is professionally driven without much involvement of the board, based on our discussion. We do not see this as a threat to dividing management's focus from AVL to ACML.

Exhibit 50: Key financials snapshot for ACML

(Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	752	842	931	937	875	969
EBITDA	116	145	147	22	29	38
EBITDA Margin	15.4%	17.2%	15.7%	2.4%	3.3%	3.9%
PAT	30	37	4	0	1	12
PAT Margin	4.0%	4.4%	0.4%	0.0%	0.2%	1.3%
Debt	101	75	87	118	85	97
Equity	222	258	262	263	264	276
Cash	49	35	31	15	15	89

Source: Company

Aditya Vision: Standalone Financials and Valuations

Profit and Loss

Y/E March (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	**13,222**	**17,807**	**23,715**	**30,829**	**39,133**
Revenue growth (%)	47.1	34.7	33.2	30.0	26.9
EBITDA	**1,330**	**1,602**	**2,209**	**2,956**	**3,841**
EBITDA growth (%)	60.1	20.5	37.9	33.8	30.0
Depreciation & Amortization	204	270	334	387	446
EBIT	**1,126**	**1,332**	**1,874**	**2,568**	**3,395**
EBIT growth (%)	68.0	18.3	40.7	37.0	32.2
Other operating income	0	0	0	0	0
Other income	29	85	92	92	92
Financial expense	295	365	430	457	448
PBT	**860**	**1,052**	**1,536**	**2,203**	**3,039**
Extraordinary items	0	0	0	0	0
Taxes	219	284	415	595	821
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**641**	**768**	**1,121**	**1,608**	**2,218**
PAT growth (%)	81.8	19.8	46.0	43.4	38.0
Adjusted PAT	**641**	**768**	**1,121**	**1,608**	**2,218**
Diluted EPS (Rs)	**53.3**	**63.9**	**93.2**	**133.7**	**184.4**
Diluted EPS growth (%)	81.8	19.8	46.0	43.4	38.0
DPS (Rs)	**7.5**	**12.0**	**16.2**	**21.9**	**29.5**
Dividend payout (%)	**14.1**	**18.8**	**17.4**	**16.4**	**16.0**
EBITDA margin (%)	10.1	9.0	9.3	9.6	9.8
EBIT margin (%)	8.5	7.5	7.9	8.3	8.7
Effective tax rate (%)	25.4	27.0	27.0	27.0	27.0
NOPLAT (pre-IndAS)	**840**	**972**	**1,368**	**1,875**	**2,478**
Shares outstanding (mn)	12.0	12.0	12.0	12.0	12.0

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Share capital	120	120	120	120	120
Reserves & Surplus	1,243	1,866	2,793	4,138	6,001
Net worth	**1,363**	**1,987**	**2,913**	**4,258**	**6,122**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	0	0	0	0	0
Total debt	**2,706**	**3,247**	**3,572**	**3,179**	**2,289**
Total liabilities & equity	**4,069**	**5,234**	**6,485**	**7,437**	**8,410**
Net tangible fixed assets	637	874	979	1,075	1,163
Net intangible assets	0	0	0	0	0
Net ROU assets	(200)	(188)	(158)	(120)	(83)
Capital WIP	0	0	0	0	0
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**852**	**1,009**	**1,351**	**1,409**	**1,463**
Current assets (ex-cash)	3,316	4,318	5,287	6,339	7,475
Current Liab. & Prov.	536	781	975	1,267	1,608
NWC (ex-cash)	**2,780**	**3,538**	**4,313**	**5,072**	**5,867**
Total assets	**4,069**	**5,234**	**6,485**	**7,437**	**8,410**
Net debt	1,854	2,237	2,220	1,769	826
Capital employed	4,069	5,234	6,485	7,437	8,410
Invested capital	**3,217**	**4,224**	**5,134**	**6,028**	**6,947**
BVPS (Rs)	113.3	165.2	242.2	354.0	508.9
Net Debt/Equity (x)	1.4	1.1	0.8	0.4	0.1
Net Debt/EBITDA (x)	1.4	1.4	1.0	0.6	0.2
Interest coverage (x)	0.3	0.3	0.2	0.2	0.1
RoCE (%)	**36.0**	**30.5**	**33.6**	**38.2**	**44.0**

Source: Company, Emkay Research

Cash Flows

Y/E March (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
PBT	860	1,052	1,536	2,203	3,039
Others (non-cash items)	204	270	334	387	446
Taxes paid	(219)	(284)	(415)	(595)	(821)
Change in NWC	(967)	(757)	(775)	(760)	(795)
Operating cash flow	**144**	**561**	**1,019**	**1,601**	**2,226**
Capital expenditure	(306)	(320)	(210)	(221)	(232)
Acquisition of business	1	0	0	0	0
Interest & dividend income	29	85	92	92	92
Investing cash flow	**(275)**	**(235)**	**(118)**	**(129)**	**(140)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	1,141	541	325	(393)	(890)
Payment of lease liabilities	(265)	(362)	(457)	(529)	(602)
Interest paid	(170)	(202)	(232)	(230)	(186)
Dividend paid (incl tax)	0	0	0	0	0
Others	(10)	(144)	(195)	(263)	(355)
Financing cash flow	**695**	**(168)**	**(559)**	**(1,415)**	**(2,033)**
Net chg in Cash	565	158	342	58	54
OCF	144	561	1,019	1,601	2,226
Adj. OCF (w/o NWC chg.)	1,111	1,318	1,794	2,361	3,021
FCFF	(161)	241	809	1,381	1,995
FCFE	(427)	(39)	470	1,015	1,638
OCF/EBITDA (%)	10.9	35.0	46.1	54.2	58.0
FCFE/PAT (%)	(66.6)	(5.1)	42.0	63.1	73.9
FCFF/NOPLAT (%)	**(19.2)**	**24.7**	**59.1**	**73.6**	**80.5**

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E March	FY23	FY24E	FY25E	FY26E	FY27E
P/E (x)	61.5	51.4	35.2	24.5	17.8
P/CE(x)	46.7	38.0	27.1	19.8	14.8
P/B (x)	28.9	19.9	13.5	9.3	6.4
EV/Sales (x)	3.1	2.3	1.8	1.3	1.0
EV/EBITDA (x)	31.1	26.0	18.9	13.9	10.5
EV/EBIT(x)	36.7	31.3	22.2	16.0	11.9
EV/IC (x)	12.8	9.9	8.1	6.8	5.8
FCFF yield (%)	(0.4)	0.6	1.9	3.4	5.0
FCFE yield (%)	(1.1)	(0.1)	1.2	2.6	4.2
Dividend yield (%)	0.2	0.4	0.5	0.7	0.9
DuPont-RoE split					
Net profit margin (%)	4.9	4.3	4.7	5.2	5.7
Total asset turnover (x)	4.1	3.8	4.0	4.4	4.9
Assets/Equity (x)	3.0	2.8	2.4	1.9	1.5
RoE (%)	**59.7**	**45.9**	**45.8**	**44.8**	**42.7**
DuPont-RoIC					
NOPLAT margin (%)	6.3	5.5	5.8	6.1	6.3
IC turnover (x)	5.0	4.8	5.1	5.5	6.0
RoIC (%)	**31.8**	**26.1**	**29.2**	**33.6**	**38.2**
Operating metrics					
Core NWC days	19.5	20.7	18.2	15.8	13.4
Total NWC days	**76.7**	**72.5**	**66.4**	**60.1**	**54.7**
Fixed asset turnover	27.3	23.7	22.8	23.9	25.2
Opex-to-revenue (%)	5.9	6.0	5.5	5.0	4.6

Source: Company, Emkay Research

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