

Nysaa Retail (One India Family Mart)

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Retail Channel Check: Rural market yet to recover

Enough space for multiple retailers to flourish

In the backdrop of weak rural market environment (contrary to the urban market condition), we spoke with the management of One India Family Mart – a prominent value fashion retailer in North/East India to gauge the market situation and growth outlook. Key highlights of our interaction are furnished below:

- Rural market is still struggling with footfalls at 30-35% below pre-Covid, given the adverse impact of the pandemic and high inflation. The market, however, hopes to recover in a couple of months.
- Looking at the market opportunity, there is enough space for multiple fashion retailers to thrive across price points. National retailers are growing aggressively but their 2-3x higher price points are catering to a different customer set.
- Online retailing is not a threat yet as the customers still prefer shopping offline and the high delivery cost of INR75/order is difficult to be met with low ticket size and Gross Margin.
- One India Family Mart reached EBITDA breakeven and the recent INR500m funding from GII has paved the way for adding >25 stores annually.
- With INR15m per store annual investment and unwinding of WC, the company plans to fund future investments through internal accruals and debt.

LTL performance still below the pre-Covid level

- Tier 2/3/4 markets are still struggling and hence footfalls are 30-35% less than the pre-Covid level. Tier 4 has been more dented than Tiers 2 and 3. A lead indicator of this is Delhi Metro, which is still operating at 70% of pre-Covid level. The reasons for this are: 1) pandemic effect, and 2) inflation-led low purchasing power.
- Rural demand is expected to take a couple of quarters to recover. We forecast urban recovery to boost rural economic growth. Rural consumers who have seen an adverse income impact due to Covid-19 in the last two years are now: a) reducing their debt levels and 2) recovering the last two-year savings.
- ASP rose 15% to INR200/piece from INR175/piece led by inflation. Though this has insulated RM cost, it exacerbated the already weak demand across the markets.
- **Agnipath scheme effect:** The scheme led to a disruption in the market (store operations in Bihar were disrupted for 15-20 days).
- **Gold/Two-wheeler rural demand improved v/s Apparel demand:** Gold/ Two-wheeler demand is seen as a necessity over Apparel in UP and Bihar as part of the marriage outlay.

Looking at the huge market opportunity, there is space for multiple fashion retailers to thrive across price points

- Reliance Retail is among the most aggressively growing retailers across the northern/eastern regions. However, ASPs of all national retailers at INR600 is 2-3x of regional value retailers. About 40% of the bills of One India Family Mart are below INR500. Thus, there is limited competition from the retailer.

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- Zudio, which is seen as a key contender to the regional value retailers, has larger presence in the Tier 1 region or premium locations in the towns and its product offerings cater to a more urban/young customer set. This is unlike One India Family Mart and other value fashion retailers, which operates in Tier 2-4 locations and have seen limited impact from Zudio's presence.
- Given the massive market opportunity and a shift from unorganized to organized sector, the risk of competition is limited from other regional value retailers as well as national retailers.

Online retailing not a threat as yet

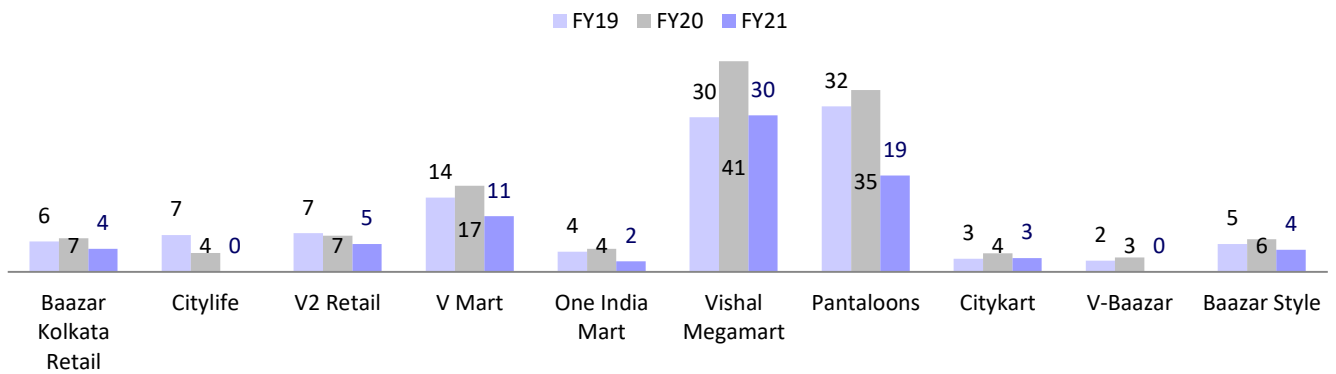
- Most online retailers are unable to match the value offered by regional fashion retailers at the prevalent low ASPs and therefore, they are selling at significant losses to gain share. Further, the customers still prefer to buy offline.
- For an online retailer, at prevalent ticket size of INR300 and low-30% GM, it is difficult to recover the cost of delivering a garment at INR75/order.

One India Family Mart – coming out of the woods

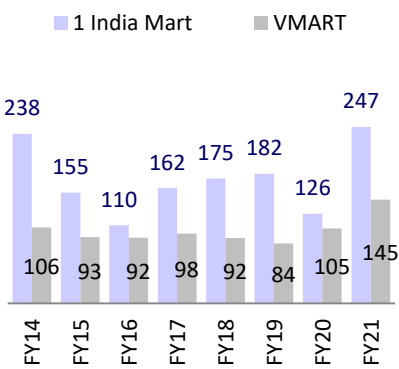
- Nysaa Retail Private Limited, the parent holding company of One India Family Mart, started operations in 2012-13. It has emerged as one of the fastest growing value fashion retailer chain, operating in over 100 stores, having a strong presence across tier 2, 3 & 4 cities.
- In FY22, the company has turned profitable at the EBITDA level and it now targets INR250-300m EBITDA with an EBITDA margin of 6% (Pre IND-AS 116)/ 12-13% (Post IND-AS 116).
- The company has now diversified in states such as UP and Bihar. It is one of the fastest growing brands in value retail.
- Key value proposition of the company: a) fast fashion trends, b) wider category v/s other value retailers – general merchandise share is 26% of sales. It is also building its private brand label with some product exclusivity. The company takes product inspiration from urban/national brands and replicates them at lower price points. It does not have its own design team.

Building blocks for growth

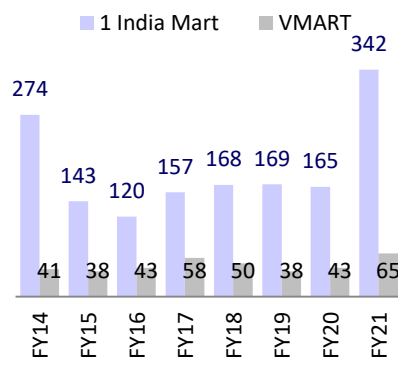
- Management expects to open 25 stores this year through both organic and inorganic means with a typical store size of ~7,500sqft.
- This would require INR500m investment with **~INR15m investment/store including capex and working capital**. This year (FY22) investment is funded by Gulf Islamic Investments, but from the coming fiscal (FY23) it will be funded internally by the mix of debt and equity.
- Management targets to bring the working capital days down to 75-90 days level, which were stretched during Covid-19. It anticipates to bring the working capital days at pre-Covid levels as the festive season begins.
- Presently, 70-80% of the working capital issue is resolved and the rest is likely to be addressed during the festive season.

Exhibit 1: Revenue of value retailers (INR b)

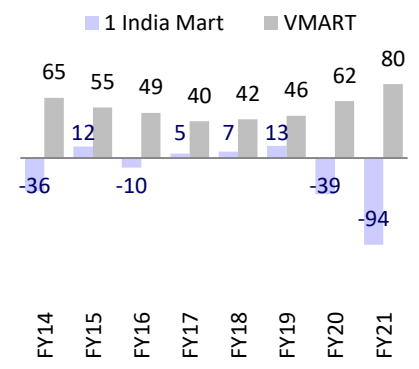
Source: MOFSL, Company

Exhibit 2: Inventory days increased during Covid-19

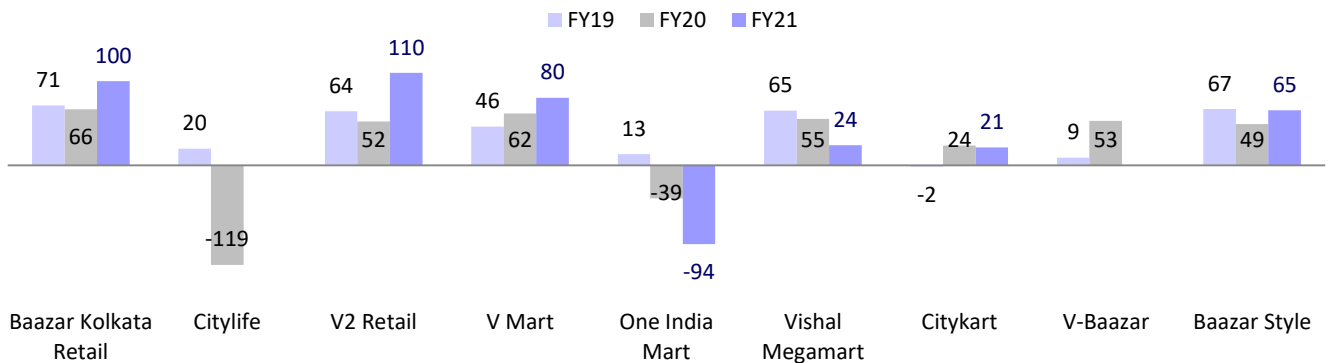
Source: MOFSL, Company

Exhibit 3: Huge jump in payable days for One India Mart

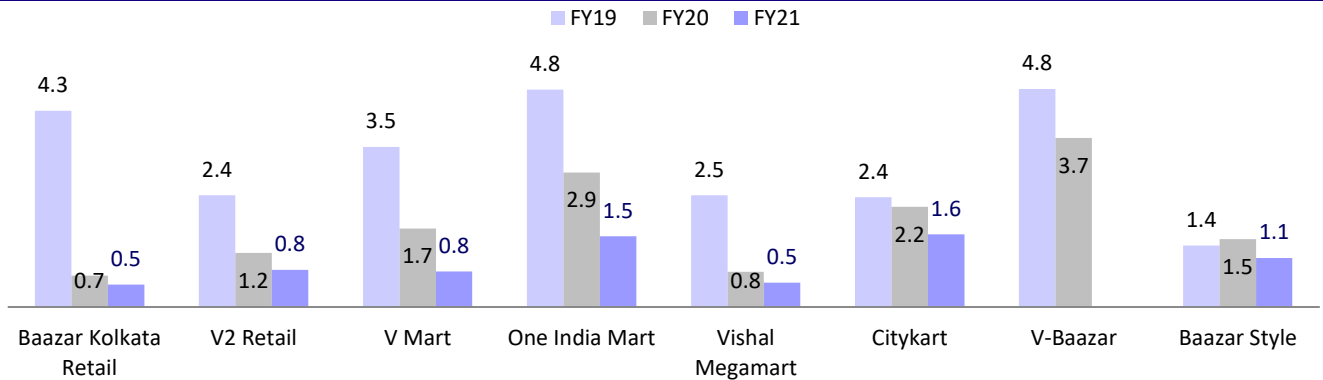
Source: MOFSL, Company

Exhibit 4: Working capital

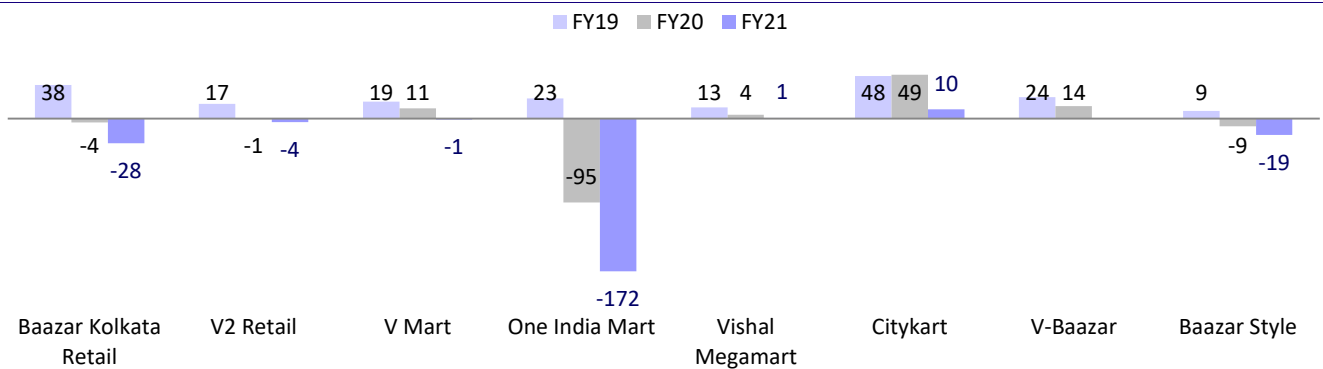
Source: MOFSL, Company

Exhibit 5: Working capital days of value retailers

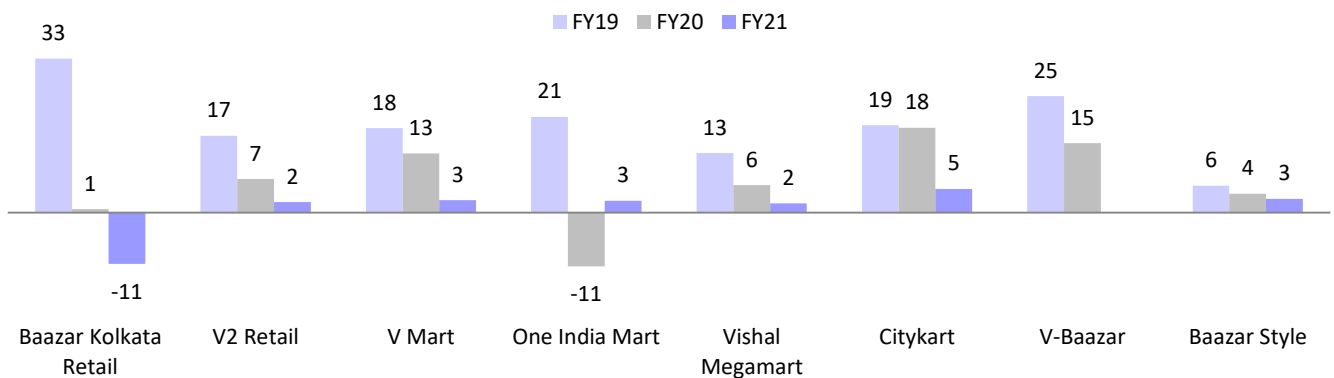
Source: MOFSL, Company

Exhibit 6: Asset turnover ratio of value retailers

Source: MOFSL, Company

Exhibit 7: RoE of value retailers

Source: MOFSL, Company

Exhibit 8: RoCE of value retailers

Source: MOFSL, Company

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