

# Vishal Mega-Mart- An Overview

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## Abstract

In the background of high consumerism and income of the urban consumers, in recent year, a number of companies have expressed their interest towards retail sector outlets. As a result, numbers of shopping malls have started their operations in metro and urban areas. Pantaloon, big bazaar, Vishal Mega Mart, Reliance Fresh are the best known examples of retail sector outlets in India.

Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. Some of the key features of retailing include:

- Selling directly to customers without having any intermediaries
- Selling in smaller units / quantities, breaking the bulk
- Present in neighborhood or in the location which is quite convenient to the customers.
- Very high in numbers
- Recognized by their service levels
- Fitting any size and or location

The objective of this article is to study the Marketing Mix and Shareholding pattern of Vishal Mega-Mart, a renowned name in Retail Industry of India.

**Keywords:** Retail, Consumerism, Manufacturing, Individual, Selling, Marketing-Mix, Shareholding.

## 1. Introduction

Last few years India has witnesses' radical changes in the developing of shopping centers leaving behind the traditional high street shops. Indian real estate developers picked up models from the west, changed them to suit the Indian context to arrive at a rapidly growing number of home-grown malls. Indigenous factors such as availability of physical space, population densities and city planning and socio economic parameters have contributed to this mall surge in the Indian

market.

Although the primary purpose of a mall is to cater to the retail requirements of its clientele; entertainment and food courts are sometimes attached to provide a complete shopping, eating and entertainment experience.

In India, the first operational mall was opened in Mumbai in 1999. In the same year, Ansal Plaza was started in New Delhi. Over the past six years, those first malls have grown into 6 million square feet of operational shopping mall space in Mumbai, Delhi, Bangalore and Hyderabad. Big developers like Unitech, DLF, TDI, Ansals, Omaxe and Parsvanath, Aerens and BPTP have already realized the potential of these malls. To offer something new to the customers, developers have been experimenting with different retail formats like specialty stores, hypermarket, convenience stores and supermarket. New malls are coming up in tier II and tier III cities. Compared to the large cities, organized retailing in small towns is growing at a staggering rate of 50 to 55 per cent. More than 700 new malls are being planned all over India. In this competitive environment, Vishal Mega Mart has also created a space and image in the mind of customers.

## 2. About Vishal Mega-Mart

Vishal Retail Ltd. (Figure-1) has a strong presence in manufacturing and retailing of readymade garments (apparels); retailing of non-apparels and a large variety of FMCG products. The jewel in Vishal Group's crown is its flagship company Vishal Retail Ltd., a company engaged in Hyper market stores with an average area of 25,000 to 30,000 sq. ft. through an impressive chain of 172 fully integrated stores in spread over the area of more than 24,00,000 sq. ft. in around 129 cities across India in 24 states. The turnover of the company for 09-10 was 1105 Crore. Maintaining the highest standards in quality and design, these stores have come to offer the finest fashion garments at down-to-earth price structure. It also has 29 warehouses located in 9 key cities in India covering over 1,053,066 sq. ft area.

It started as a retailer of ready-made apparels in Kolkata in 2001. At the time of incorporation, the registered office of the Company was situated at 4, R. N. Mukharjee Road, Kolkata 700 001. In 2003, it acquired the manufacturing facilities from Vishal Fashions Private Limited and M/s Vishal Apparels. It follows the concept of value retail in India. In other words, their business approach is to sell quality goods at reasonable prices by either manufacturing them self or directly procuring from manufacturers (primarily from small and medium size vendors and manufacturers). It facilitates one-stop-shop convenience for their customers and to cater to the needs of the entire family. Mr. Ram Chandra Agarwal, CMD, Vishal Retail Ltd. has been ranked as the 28th most pitiful person in the Indian retail industry. The saga of Vishal Group dates back to 2001 when its directors foresaw the emerging potentials in the retail industry which is indeed the largest sector in the global economy. Imbibing its innovative concepts and techniques the Group identified the vast scope of growth in retailing for the common man. Shareholders, No. of shares & Shareholding pattern (Figure-2) are as follows:

Name of Shareholders & Number of Shares % of shareholding

1. Unicon Marketing Private Limited	315,000	49.53
2. Ricon Commodities Private Limited	300,000	47.17
3. Mr. Ram Chandra Agarwal	12,010	1.89
4. Mrs. Uma Agarwal	9,010	1.42
Total	636,020	100.00

Up till now metros have been at the center of all the organized retail action. As this market is now saturating, VMM is moving towards tier-2 and tier-3 cities because here the opportunities for growth are high. Real estate prices in these cities are comparatively low and resources are easily available so the cost of operation is less. Also Tier-2 and tier-3 cities have large base of middle class customers who are educated and have rising disposable Income.

## 3. Positioning & establishment of Vishal Mega-Mart

VMM has established itself in the first quadrant of Organization Value and Customer Value Matrix (Figure-3). The key features that have shaped in establishing of brand includes: -

- It facilitates one-stop-shop convenience for their customers and to cater to the needs of the entire family.
- Maintaining the highest standards in quality and design, these stores have come to offer the finest fashion garments at down-to-earth price structure.
- VMM's business approach is to sell quality goods at reasonable prices.
- It follows the concept of value retail in India.
- VMM target middle class as it is the largest consumer base in India.

#### 4. Marketing-Mix of Vishal Mega-Mart

7P Marketing Mix is more useful for services industries and knowledge intensive industries. Successful marketing depends on number of key issues. The seven keys issues are explained as:

##### 4.1 Product

VMM offers a wide range of products which range from apparels, food, farm products, furniture, child care, toys, etc. Products of all the major brands are available at VMM. Also, there are many in house brands promoted by VMM. Vishal Mega-mart sold over 300,000 pairs of jeans, 50,000 DVD-players and 25,000 microwave-ovens. In all, the fashion, electronics and travel segments made up about 70% of sales. Last year, these categories made up only about 60%.

##### 4.1.1 In-house manufacturing help sustain margin

Vishal Retail operates two manufacturing facilities with a capacity of 1.5 mn pieces each. The Gurgaon manufacturing facility began operations in 2004 and currently operates at 80% utilization. The Dehradun facility, currently operating at 40% utilization, commenced operations in September, 2007. The company also makes FMCG products, like napkins, farsans, ketch-ups, etc., through a bakery in Gurgaon. The in-house manufactured products enable improvement in operating margin. In FY 06, the products manufactured by company contributed 9.7% to sales. This contribution is decreasing every year due to inclusion of other categories in the product mix. We expect the share of manufactured products (Figure-4) to reduce further due to further addition in categories going forward.

##### 4.1.2 Changing product mix

Vishal Retail commenced operations with the retailing of readymade apparels for kids, women and men. Gradually, it expanded its product portfolio to include non-apparels and FMCG products. With over 100,000 SKUs, apparel (63.2% in FY07) is the largest contributor to sales. However this mix is expected to change with the increase in the variety of products. We expect the share of apparels to reduce to 50% over the next two years. Consequently the share of non-apparels and FMCG (Figure-5) collectively is expected to increase to 50%. The change in the product mix will enable the company to reduce seasonality, attract more footfalls and maintain margins.

##### 4.2 Price

They work on the model of economics of scale. Their pricing objective is to get "Maximum Market Share". The various techniques used at Vishal Mega-mart are: -

- Value Pricing (EDLP - Every Day Low Pricing): Vishal Mega-mart promises consumers the lowest available price without coupon clipping, waiting for discount promotions, or comparison shopping.
- Promotional Pricing: Vishal Mega-mart offers financing at low interest rate. The concept of psychological discounting (Rs. 99, Rs. 49, etc.) is used as promotional tool. Vishal Mega-mart also caters on Special Event Pricing (Close to Diwali, Holi, Raksha- Bandhan and Durga Pooja).
- Differentiated Pricing: Time pricing i.e. difference in rate based on peak and non-peak hours or days of shopping is also a pricing technique used in Indian retail, which is aggressively used by Vishal Mega-mart.
- Bundling: Selling combo-packs and offering discount to customers. The combo-packs add value to customer.

##### 4.3 Place

Vishal Mega-mart stores are located in 129 cities with 172 outlets. VMM has presence in almost all the major Indian cities. They are aggressive on their expansion plans (Figure-6).

Vishal Retail targets cities with urban population of 1 million people or above or can be classified as Tier-2 and Tier-3 cities. In Tier-1 cities, the company opens retail outlets on the outskirts, rather than the prime area. Its target market includes people with middle income and lower income levels. This enables the company to overcome competition to some extent due to its first mover advantage (as competitors have relatively less space in tier-2 and tier-3 cities) and helps to lower rental cost. As at 3Q FY08, 78% of the company's 82 stores are in Tier-2 and Tier-3 cities (Figure-7). The company plans to maintain the ratio of Tier-2 and Tier-3 to Tier-1 cities at 80:20.

##### 4.4 Promotion

Advertising has played a crucial role in building of the brand. VMM advertisements are seen in print media, TV, Radio (FM) and road-side bill-boards.

Vishal Mega-mart started many new and innovative cross-sell and up-sell strategies in Indian retail market. The various promotion techniques used at VMM include:

- 5 Din Ki Maha Bachat
- 2 din Ki Maha Loot
- Dhan-teras Dhamaal
- Great Savings
- Vishal Mega Mart Gift Voucher Rs. 1000.
- 25% Off On All Items – Every Month
- Discount Offers At Various Festive occasions
- Grand Winter Sale – 50% & 60% discount for 2 days
- Paise Bachao Aandolan – 9 Din Ki Maha Loot
- Vishal Reward Plus: Consumers can make purchases at any store and accumulate points at a central level. These points are redeemable at any of our stores.
- Cross category promotions are now catching up where discounts are being offered on grocery purchases, redeemable against purchase of apparel and household products.

#### 4.5 People

##### 4.5.1 Strong management with proven execution capability

Vishal Retail has been established by Mr. Ram Chandra Agarwal, a first generation entrepreneur. He has been instrumental in expanding the business from an apparel store in Kolkata to 82 value retail stores with pan- India presence. The management team has a pool of talented professionals with right mix of working experience. Professionals are one of the key assets for any organization. The salient features of staff of VMM are: -

- Monthly, weekly & daily sales targets are communicated to the staff & efforts are made to consistently achieve the set targets.
- Employees are motivated to think out-of-the-box. Retail sector is in growth stage, so staff is empowered to take innovative steps.
- Multiple counters for payment, staff at store to keep baggage and security guards at every gate, makes for a customer-friendly atmosphere.
- VMM motivates & retains store staff & maintains a positive work environment.
- Well-dressed staff improves the overall appearance of store.
- Strong Recruitment Cell, 2,509 employees joined in 2009.
- 8500 employee Strength.

Due to intense competition, the requirement of skilled manpower is increasing. At the same time, the availability of skilled manpower is declining and attrition rates are increasing throughout the industry. We foresee an increase in the employee cost going forward (Figure 7) due to company's efforts to attract and retain the employees. Although employee cost is increasing; still the company's motive is to retain the valuable employees in the company.

#### 4.6 Process

VMM adopted the business model as shown in (Figure-9) to run their activities smoothly. This process includes four steps as follows:

Manufacturing Capacity; Strong Logistics; Products; Retailing

The goods' dispatch and purchasing area has certain salient features which include: -

- Multiple counters with trolleys to carry the items purchased.
- Proper display / posters of the place like (Kids Wear, Grocery, and Stationary etc.).
- Home delivery counters to be started soon.
- Three Layer Security Checks.
- No. of Parallel Billing Counter
- Retail Exchange Software Solution – PRIL

-Integrated With SAP & ERP

#### 4.7 Physical Evidence

It deals with the final deliverable or the display of written facts. This includes the current system and available facilities.

-Infrastructure – Stand Alone Commercial Building

-Clean, Air-conditioned outlet

-Equipment – computer, BCR, Desk etc State of Art

### 5. Valuations of Vishal Mega Mart

Vishal Retail is a retailer in the value segment (Figure-10). The organized retail industry is at a nascent stage in India. Value retailing is the fastest growing model in the retail industry as majority of the population in the country is middle class or lower middle class. Vishal Retail is on an expansion spree since its inception. They expect the retail space to increase to 5.1 mn sq. ft in FY10 from 1.3 mn sq. ft. in FY07, a CAGR of 59% over FY07-FY10E. Its focus on Tier 2 and Tier 3 cities enables it to keep costs under control due to low rentals and first mover advantage in most of the cities. It enjoys better profitability than its peers due to its cost reduction measures such as manufacturing facility, strong logistics and distribution network, ownership of fleet of trucks, sourcing from local suppliers, etc. In spite of aggressive expansion, the revenue of the company is expected to be one-sixth of that of Pantaloon Retail, the leader in retail industry in the country. The company may dilute its equity going forward to fund its expansion plans and new initiatives, which we have not incorporated in our estimates. Taking these into consideration, we value Vishal Retail at a target price of Rs. 1026 based on 18x FY10 PER, giving a potential upside of 46.6%.

### 6. Conclusion

So it can be concluded that Vishal Retail, a value retailer with a focus on Tier 2 and Tier 3 cities, is expanding aggressively. The expansion will boost its retail space to 5.1 million sq ft by FY10 from 1.3 million sq ft in FY07. The company plans to increase its penetration throughout the country over the next few years. We initiate coverage on the company with an OUTPERFORMER rating. The expansion plan of Vishal Retail is very aggressive. We expect the retail space to increase to 5.1 mn sq. ft. by FY10, at a CAGR of 59% over FY07-FY10E. This expansion will increase its reach and provide volume growth, whereby revenue is expected to increase four-fold. The company targets Tier-2 and Tier-3 cities where there is little or no presence of organized retail players. Even in Tier-1 cities, it is present on the outskirts of the city. This enables the company to enjoy first mover advantage and earn better margins than its peers. Also, the rentals in such cities are low.

The company's operating margin is higher than to peers due to owned manufacturing capacity of apparel, higher proportion of apparel in the sales mix (60%), and sale of private labels only in apparels, high share of private labels in the sales mix, efficient supply chain and distribution system and low rentals. We expect the operating margin to increase to 12.49% in FY10 from 11.12% in FY07 despite the ongoing capex.

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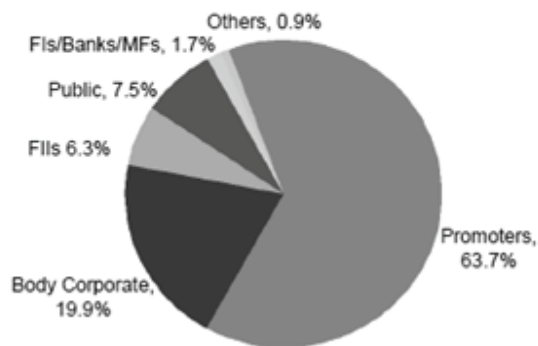
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Table 1. Chosen Brand: Vishal Mega-mart

About VMM	Hypermarket, Chain of Departmental Stores operated in India
Outlets	172 outlets today, Located in 129 cities
Products	Departmental Store, Grocery Store
Parent Group	Vishal Retail Ltd.
Owner	Mr. Ramchandra Agarwal, CMD of Vishal Retail Ltd.
Founded	2001
Headquarter	New Delhi- 110037
Website	<a href="http://www.vishalmegamart.net">www.vishalmegamart.net</a>
Salient Features	VMM is moving towards tier-2 and tier-3 cities, Offers the finest fashion garments at down-to-earth price structure, strong manufacturing set-up with a capacity of 5,000 garment pieces per day in each unit
Tag Line	Manufacturing to Retailing

As on December 31, 2008

Equity Shares Outstanding- 22,398,869



Key Institutional Investors	% Holding
Bennett Coleman & Co Ltd	9.2%
Mathews India Fund	2.3%
Gaja Advisors (Pvt) Ltd.	2.2%
Nomura Asset Management	1.4%
India Discovery Fund	1.2%
ICICI Prudential Tax Plan	1.1%

Figure 1. Shareholding Pattern of Vishal Mega-mart

Source: [vishalmegamart.com](http://vishalmegamart.com)

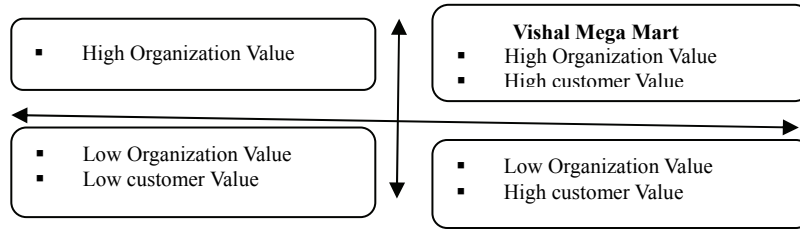


Figure 2. Organization Value & Customer Value Matrix

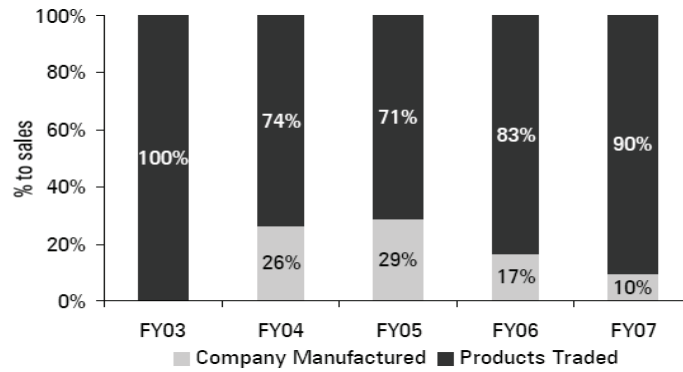


Figure 3. Share of manufactured products

Source: Company, ICICI direct Research

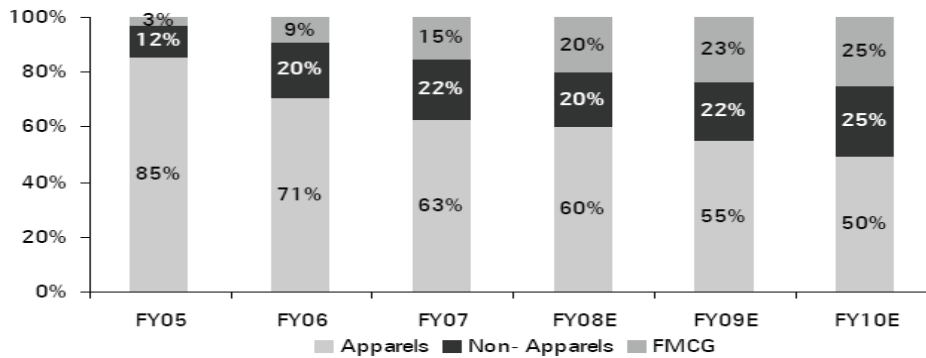


Figure 4. Contribution of non-apparels and FMCG to increase

Source: Company, ICICI direct Research

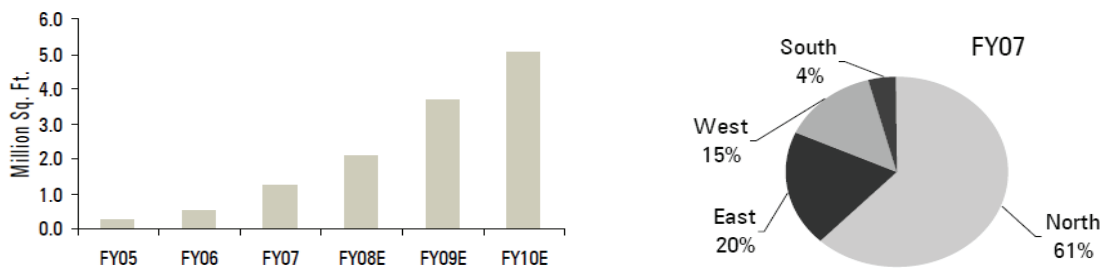


Figure 5. Increasing space with pan India presence

Source: Company, ICICI direct Research

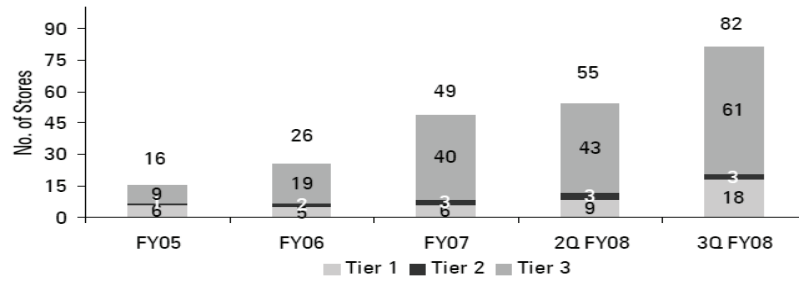


Figure 6. Increasing presence in Tier 3 cities  
Source: Company, ICICI direct Research

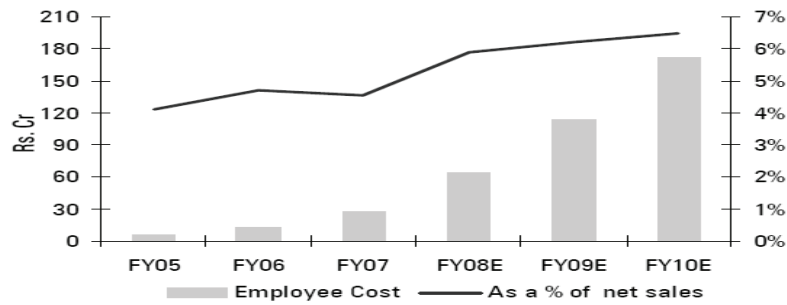


Figure 7. Increasing employee cost

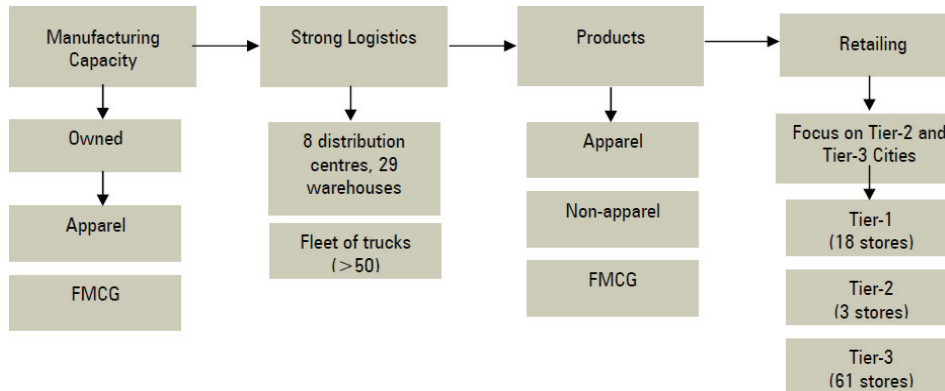


Figure 8. Business Model  
Source: Company, ICICI direct Research

Peer Valuation	Vishal Retail	Pantaloon Retail	Shoppers Stop
Year End	FY10E	FY10E	FY10E
Net Sales (Rs. Cr)	2641.73	12127.30	2287.13
EBITDA Margin (%)	12.87	6.82	6.99
NPM (%)	<b>4.84</b>	<b>2.43</b>	<b>2.38</b>
RONW (%)	<b>26.22</b>	<b>13.25</b>	<b>13.40</b>
ROCE (%)	17.82	6.50	5.80
EPS (Rs)	57.05	19.01	14.38
Mcap (Rs cr)	1568.80	6241.05	1394.00
CMP (Rs.)	<b>700.00</b>	<b>414.00</b>	<b>400.00</b>
P/E (x)	<b>12.27</b>	<b>21.78</b>	<b>27.82</b>
PEG (x)	0.20	0.50	0.24
Mcap/Sales (x)	0.59	0.51	0.61
EV/Sales	1.00	0.62	0.67
EV/EBDITA (x)	8.00	9.00	9.78

Figure 9. Peer Valuation  
Source: ICICI direct Research, Reuters