IPO NOTE

Brainbees Solutions (Firstcry) Limited
Date: 06.08.2024

A route to making money online

Founded in 2010, Brainbees Solutions Ltd. (BSL), operating under the brand "FirstCry," stands as India's largest multi-channel retail platform for mother, baby, and kids' products, in terms of GMV, for the Financial Year 2024, according to the RedSeer Report, with a growing presence in select international markets.

In India, they sell Mothers', Babies' and Kids' products through their online platform, company -owned modern stores, franchisee-owned modern stores and general trade retail distribution.

Since launching FirstCry in India in 2010, their goal has been to create a comprehensive destination for parenting needs, covering commerce, content, community engagement, and education.

The platform features over 1.5 million SKUs from more than 7,500 brands, including popular home brands like BabyHug. FirstCry caters to the parenting journey from conception through the child's early years, offering a blend of retail, content, community engagement, and education.

FirstCry's extensive product range spans various categories including clothing, toys, books, and baby care essentials. Internationally, FirstCry has established a strong presence in the UAE and KSA, where it is recognized as a leading specialist online retailer in these markets.

They also support D2C Indian and global brands in scaling their businesses in India, leveraging their extensive multi-channel distribution network, sourcing capabilities, supply chain infrastructure, and integrated technology ecosystem.

Issue Details

Price Band (in ₹ per share)	440-465
Issue size (in ₹ Crore)	4057.83-4193.73
Fresh Issue (in ₹ Crore)	1666.00
OFS (in ₹ Crore)	2391.83-2527.73
Issue open date	06.08.24
Issue close date	08.08.24
Tentative date of Allotment	09.08.24
Tentative date of Listing	13.08.24
Total number of shares (lakhs)	922.31-901.94
No. of shares for QIBs (75%) (lakhs)	691.16-675.92
No. of shares for NII (15%) (lakhs)	138.23-135.18
No. of shares for S-HNI (1/3rd)(lakhs)	46.08-45.06
No. of shares for B-HNI (2/3rd)(lakhs)	92.16-90.12
No. of shares for retail investors (10%) (lakhs)	92.16-90.12
No of shares for Employee Reservation (lakhs)	0.76-0.71
Minimum order quantity	32
Face value (in ₹)	2.00
Amount for retail investors (1 lot)	14080-14880
Maximum number of shares for Retail investors at Lower Band	448 (14 lots)
Maximum number of shares for Retail investors at Upper Band	416 (13 lots)
Maximum amount for retail investors at lower band - upper band	197120-193440
Minimum number of shares for sHNI (2 Lakhs) at upper band	448 (14 lots)
Maximum number of shares for sHNI (10 Lakhs) at upper band	2144 (67 lots)
Minimum number of shares for bHNI at upper band	2176 (68 lots)
Exchanges to be listed on	BSE, NSE

Promoters

- COMPANY DOES NOT HAVE AN IDENTIFIABLE PROMOTER

Objects of the Offer

- Expenditure by their Company for: (i) setting up new modern stores under the 'BabyHug' brand; and (ii) setting up a warehouse, in India up to Rs.108.10 crores
- Expenditure for lease payments for their existing identified modern stores owned and operated by their Company, in India up to Rs. 93 crores
- Investment in their Subsidiary, Digital Age for (i) setting up new modern stores under the FirstCry brand and other home brands of their Company; and (ii) lease payments for their existing identified modern stores owned and controlled by Digital Age, in India up to 299.60 crores
- Investment in their Subsidiary, FirstCry Trading for overseas expansion up to Rs.155.60 crores.
- Investment in their Subsidiary, Globalbees Brands towards acquisition of additional stake in their step-down Subsidiaries up to 169 crores etc
- Sales and marketing initiatives
- Technology and data science cost including cloud and server hosting related costs; and
- Funding inorganic growth through acquisition and other strategic initiatives and general corporate purposes.

Brief Financials

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital	81.47	81.47	81.40
Net Worth	3170.73	3456.25	3527.93
Revenue	6575.08	5731.27	2516.91
EBITDA	70.49	(262.90)	(18.20)
EBITDA Margin (%)	1.09%	(4.67)%	(0.76)%
Contribution Margin	26.69%	21.89%	31.28%
Profit/(Loss) After Tax	(321.50)	(486.05)	(78.68)
EPS (in Rs.)	(6.20)	(9.97)	(1.74)
Net Asset Value (in Rs.)	71.65	78.10	85.12
Total Borrowing	462.72	176.47	90.16
P/E#	NA	NA	NA
P/B#	6.49	NA	NA

** Restated financial numbers # calculated at upper price band*

Profit & Loss Statement

Particulars (In Crores)	FY2024	FY2023	FY2022
INCOME			
Revenue from operations	6480.86	5632.54	2401.29
Other income	94.23	98.74	115.63
Total income	6575.08	5731.28	2516.92
YoY Growth (%)	14.72%	127.71%	-
Cost of materials consumed	557.47	479.52	222.84
Purchases of stock-in-trade	3889.89	3117.18	1754.46
Changes in inventories	-284.16	338.62	-405.15
Employee benefit expenses			
Employee benefits expense	508.42	408.39	246.72
Employee share based payment expens	178.06	361.44	92.13
Other expenses	1560.69	1244.66	508.50
Exceptional net income	0.00	54.37	0.00
EBIDTA	70.49	-262.90	-18.20
EBIDTA Margin (%)	1.09	-4.67	-0.76
Depreciation and amortisation expense	370.87	294.28	110.89
EBIT	-300.38	-557.19	-129.09
EBIT Margin (%)	-4.63	-9.89	-5.38
Finance cost	115.36	71.57	37.68
Loss before tax	-321.52	-530.02	-51.14
Tax expenses			
Current tax	-43.81	-17.21	-12.14
Deferred tax	43.82	61.17	-15.40
Total tax expenses	0.01	43.97	-27.54
Loss for the year	-321.53	-573.99	-23.60
PAT Margin (%)	-4.96	-10.19	-0.98
Earnings per share			
Basic & Diluted (as per FV- Rs.2 per share)	-6.20	-9.97	-1.74

Cashflow Statement

Particulars (In Crores)	FY2024	FY2023	FY2022
Cash generated from operating activities	4.43	-425.73	-106.22
Income tax paid (net of refunds)	-46.50	26.74	-25.51
Net cash generated from operating activities	-42.07	-398.99	-131.73
Net cash used in investing activities	62.94	304.09	-490.58
Net cash used in financing activities	81.47	-50.62	644.38
Net increase/ (decrease) in cash and cash equivalents	102.35	-145.52	22.07
Cash and cash equivalent as at 1 April	259.35	404.87	382.80
Cash and cash equivalent as at year end	361.70	259.35	404.87

Balance Sheet

Particulars (In Crores)	FY2024	FY2023	FY2022
Assets			
Non-current assets			
Property, plant and equipment	669.16	421.57	246.08
Capital work-in-progress	0.51	24.53	41.42
Right to use asset	900.88	711.66	324.21
Goodwill	778.15	775.84	641.78
Other intangible assets	1519.77	1624.08	1000.49
Intangible assets under development	0.03	1.96	0.32
Financial assets			
Investment	5.01	0.01	
Other financial asset	94.62	89.12	32.23
Deferred tax asset (net)	189.74	162.79	113.00
Income tax assets (net)	32.50	27.34	13.99
Other non-current assets	266.50	278.04	82.35
Total non- current assets	4456.87	4116.94	2495.87
Current assets			
Inventories	1629.46	1286.00	979.55
Financial assets			
Investments	0.01	0.00	0.00
Trade receivables	218.41	225.13	217.98
Cash and cash equivalent	361.70	259.35	404.87
Bank balances other than cash and cash equivalent	312.09	920.02	1863.31
Loans	36.08	39.08	10.70
Other financial assets	79.19	13.06	12.83
Other current assets	416.58	260.25	212.06
Total Current Assets	3053.52	3002.89	3701.30
Total assets	7510.38	7119.83	6197.16
Equity and liabilities			
Equity			
Equity share capital	81.47	81.47	81.41
Equity component of compulsorily convertible preference s	7.04	7.04	7.04
Other equity	3082.23	3367.75	3439.49
Non-Controlling interests	620.72	743.44	760.10
Total equity	3791.45	4199.69	4288.04
Liabilities			
Non-Current liabilities			
Financial liabilities			
Borrowings	229.46	55.04	51.10
Lease Liabilities	848.28	640.89	262.29
Other financial Liabilities	708.55	681.95	484.42
Provision	24.94	18.75	13.48
Deferred tax liabilities	284.52	301.46	174.54
Other non-current liabilities	54.12	17.21	11.94
Total Non-Current liabilities	2149.86	1715.29	997.78
Current liabilities			
Financial liabilities			
Borrowings	233.26	121.43	39.06
Lease liabilities	111.55	81.75	56.90
Trade payable			
Total outstanding dues of micro and small enterprises	87.49	33.94	11.20
Total outstanding dues of creditors	820.46	703.93	517.71
Other financial liabilities	126.82	115.99	211.78
Other current liabilities	178.25	139.69	65.93
Provisions	5.66	5.00	3.22
Current tax liabilities	5.58	3.11	5.54
Total Current liabilities	1569.07	1204.84	911.35
Total liabilities	3718.93	2920.14	1909.12
Total equity and liabilities	7510.38	7119.83	6197.16

Industry Review

Digital Channels Disrupting Indian Retail Landscape:

- The rise of digital channels is transforming the retail landscape in India, with e-commerce accounting for approximately 7% of the country's retail market in FY2024. Between FY2017 and FY2020, the e-commerce market in India grew at a CAGR of about 26%.
- By FY2024, the market size reached ₹4,880-5,040 billion (approximately US$61-63 billion) and is expected to grow at a CAGR of around 20%, reaching ₹12,480-12,640 billion (approximately US$156-158 billion) by FY2029.
- This growth is driven by increasing internet penetration, higher disposable income, rising urbanization, and greater adoption of online services. The expansion in Tier 2+ cities and the emergence of new e-commerce models like Direct to Consumer (D2C) and value commerce will further propel growth.
- Despite e-commerce penetration being at 7% in FY2024, it remains low compared to China (31-33%), the UK (27-29%), and the USA (15-17%). The COVID-19 pandemic accelerated e-commerce adoption, leading to a spike in new users and increased order frequency among existing shoppers.

India Childcare Market:

- India has one of the highest birth rates globally, with 16.3 births per thousand people in 2022, about 1.5 times that of developed economies. Despite a slight decline in birth rates due to COVID-19, India's birth rate is expected to rebound strongly, reflected in the recent surge in marriages.
- Childcare product spending per capita in India is currently low, at ₹9,280-9,350 in FY2024, but is projected to grow at a CAGR of 13-15% from FY2024 to FY2029, outpacing growth in mature markets like the USA (2-4%) and China (5-7%). This rapid growth is driven by increased awareness of childcare, rising disposable incomes, and changing perceptions of childcare spending as essential.
- The Indian Childcare Products market is estimated to grow at a CAGR of 12-14%, from ₹2,800-2,900 billion (approximately US$35-36 billion) in FY2024 to ₹5,150-5,450 billion (approximately US$64-68 billion) by FY2029. The market comprises both vertical and horizontal players, with a growing preference for Specialty Mothers, Babies, and Kids Retailers offering comprehensive solutions.
- Historically, brand penetration in the childcare market has been low, except for health and food products. Spending on children aged 4 years and below dominates the market, accounting for about 41% in FY2024, expected to rise to 42% by FY2029. Apparel is the largest product segment, making up approximately 68% of the market in FY2024.

UAE Childcare Market:

The UAE Childcare products market is estimated at ₹205-215 billion (approximately US$2.6-2.7 billion) in FY2024 and is projected to grow at a CAGR of 3-5%, reaching approximately ₹240-280 billion (US$3-3.5 billion) by FY2029.

FirstCry's Target Addressable Market and D2C Market Growth

- FirstyCry's current total addressable market is ₹3,865-4,000 billion (approximately US$48-50 billion) in the Financial Year 2024 which is expected to grow at CAGR of 11-13% to approximately ₹6,670-7,070 billion (approximately US$ 83-88 billion) by the Financial Year 2029.
- FirstCry's total addressable market consists of the India Childcare Products market, India Preschool Market, KSA Childcare Products Market, and UAE Childcare Products Market. Out of these, the India Childcare Products Market and the Preschool market is expected to grow at the fastest pace.
- GlobalBees, a D2C roll up platform, operates in the D2C Brands market in India, whose total addressable market is expected to grow from approximately ₹630-640 billion (approximately US$7.9-8 billion) in the Financial Year 2024 to reach ₹2,720-2,760 billion (approximately US$ 34-35 billion) by the Financial Year 2029 growing at a CAGR of 33-35%.

Competitive Environment in India's Childcare Market and FirstCry's Positioning

- FirstCry is India's largest multi-channel retailing platform for mothers', babies', and kids' products by GMV for the financial year ending March 2024, holding a 16-17% market share in the organized Indian childcare products market. As a pioneer in this sector, FirstCry boasts over 2.12 million sq. ft of retail space and 1,063 modern stores across 533 cities in 28 states and five union territories, making it the largest Specialty Mothers, Babies, and Kids' retailer in India as of March 31, 2024.
- Reflecting strong brand recognition and customer trust, BabyHug, a home brand of FirstCry, is the largest multi-category mothers', babies', and kids' products brand in India by GMV for the financial year ending March 2024. It also leads the Asia Pacific region (excluding China) in product assortment as of March 31, 2024. Under BabyHug, CuteWalk, an exclusive sub-brand for babies' and kids' footwear, offers the largest product assortment in this category in India.
- FirstCry primarily competes with organized players in the Indian childcare products market, including horizontal online platforms like Amazon, Flipkart, and Meesho; vertical online platforms like Hopscotch, Myntra, and Ajio; and multi-brand and exclusive retailers like Reliance Trends and Gini & Jony. Notably, there are no other large, organized specialty vertical multi-channel players in this market.

Competitive Strengths of the Company

They are India's largest multi-channel, multi-brand retailing platform for mothers', babies', and kids' products

- FirstCry is India's leading multi-channel retailing platform for mothers', babies', and kids' products by GMV for the financial year 2024, according to the RedSeer Report. Their GMV rose to ₹91,211.28 million in FY 2024 from ₹72,576.34 million in FY 2023 and ₹57,994.63 million in FY 2022.
- Their scale in multi-channel retailing, coupled with a large parenting community, offers numerous advantages, such as organically generated content, strong brand affinity, the ability to launch additional home brands, and improved margins due to economies of scale.
- Their retail model effectively combines the tactile experience of modern stores with the convenience of online shopping, catering to customers who research online and purchase offline.

Their platform benefits from powerful network effects driven by content, brands, and data.

- Their content-led strategy engages parents early through their FirstCry.com parenting platform, featuring video and written content on topics ranging from pre-pregnancy to parenting.
- This content, created by both parents and specialists, attracts new customers and enriches the platform. Inputs from their community help them identify product and pricing gaps, enhancing their offerings. Their FirstCry mobile app has been downloaded over 127 million times as of March 31, 2024.
- Their unique content strategy feeds into the transaction funnel, creating a strong flywheel effect. Increased content consumption and community engagement lead to more customers and transactions, allowing them to expand company's product assortment and brand relationships.
- In FY 2024, customers who interacted on company's parenting community purchased products twice as frequently as those who did not.
- Internationally, they are replicating company's successful India model in KSA, having established a strong presence in the UAE.
- According to the RedSeer Report, they were the largest specialist online retail platform for mothers', babies', and kids' products in the UAE by GMV in FY 2024.

Brand Affinity, Loyalty, and Trust

- Company's brand affinity attracts customer engagement, as evidenced by company's Annual Unique Transacting Customers, which grew to 9.11 million in FY 2024 from 6.86 million in FY 2022.
- Leveraging company's brand strength, they plan to expand company's product and service offerings, further increasing company's customer base and brand visibility.

Combination of Home Brands and Third-Party Relationships

- They offer a wide variety of products from global and domestic brands, mompreneurs, and company's own home brands. This diverse product offering has significantly contributed to company's revenue growth over the past three years.
- They maintain long-term relationships with brands, working with them on mutually beneficial marketing campaigns. Company's home brands, such as BabyHug, Babyoye, Cutewalk, and Pine Kids, are positioned in the mid-to-premium category and play a key role in expanding company's product assortment.

Technology-Driven Personalized Customer Experience

- Company's technology-driven approach provides personalized shopping experiences for busy parents. By analyzing data from customer profiles, interactions, and location, they offer relevant shopping suggestions and parenting content.
- Company's data-driven product and sales approach helps them curate products that fit market demand. They operate 1,063 modern stores across India, with centralized inventory management ensuring efficient merchandise distribution.

Full-Stack Platform with Control Over Manufacturing and Supply Chain

- They leverage a network of over 900 contract manufacturers for company's home brands, excluding those engaged by Globalbees Brands.
- Subsidiaries like Swara Baby, Swara Hygiene, and Solis Hygiene manufacture diapers for company's brands and third-party brands. Controlling the manufacturing process allows them to ensure product quality and improve margins.
- Company's manufacturing and supply chain network, supported by a custom-built technology platform, enables efficient auto-replenishment for company's stores.

Risk Factors

Risk of acquiring new customers pulls cost up:

- Company's business has experienced significant growth in recent years, driven by the acquisition of new customers and the continued engagement of company's existing customers. However, company's marketing strategies for customer acquisition often involve expenditures that may exceed the revenue generated and the number of customers acquired.
- The cost of acquiring new customers through marketing efforts could rise due to increased competition. Company's marketing strategies aim to create awareness of company's online platform, modern stores, and brand, build loyalty, and encourage strong word-of-mouth reviews.
- These strategies include engaging parenting influencers and maintaining an active presence on social media platforms and within company's FirstCry parenting community. They may need to incur sustained advertising and promotional expenditures or offer more incentives than anticipated to attract customers.
- If they fail to adapt company's marketing strategies to evolving trends, or if any of company's marketing efforts do not deliver the expected results, company's business, results of operations, and financial condition could be adversely affected.

Risk of retaining losses in the books:

During the Financial Year 2024, company's total expenses exceeded company's total income, resulting in a loss of ₹(3,215.07) million. This was primarily due to:

- Materials cost (including cost of material consumed, purchase of stock-in-trade, and changes in inventories of stock-in-trade, finished goods, and work in progress) amounting to ₹41,631.96 million.
- Advertising and sales promotion expenses of ₹4,821.82 million, driven by increased advertising aligned with company's sales growth.
- Employee benefits expenses of ₹5,084.21 million.
- Finance costs of ₹1,153.63 million, mainly from interest expense on lease liabilities.
- Depreciation and amortization expenses of ₹3,708.73 million.
- Employee share-based payment expense of ₹1,780.58 million.

In the Financial Year 2023, company's total expenses also surpassed company's total income, leading to a loss of ₹(4,860.56) million. Key factors included:

- Materials cost amounting to ₹39,353.18 million.
- Advertising and sales promotion expenses of ₹4,164.77 million, which increased in line with company's sales growth, including the scale-up of businesses under GlobalBees Brands and the commencement of operations in KSA.
- Employee share-based payment expense of ₹3,614.37 million, primarily due to the vesting of employee stock options granted under company's ESOP Plan.
- Finance costs of ₹715.73 million, mainly due to interest expenses on lease liabilities for company's modern stores and warehouses, and borrowings by company's subsidiaries.
- High materials costs driven by the impact of the Digital Age acquisition, increased purchases of products, and general inflationary trends affecting raw material prices.

Compliance Issues:

On March 27, 2021, company's Company issued 1,358,930 new equity shares through a preferential allotment, violating Section 68(8) of the Companies Act, 2013, which restricts issuing similar shares within six months of a buy-back. They filed a suo moto compounding application on February 25, 2022, and paid a fee of ₹0.56 million.

Similarly, Digital Age's directors and company secretary filed a compounding application for a delay in changing a director's designation, with a compounding fee of ₹0.30 million paid.

Firmroots also filed a compounding application for not timely filing a resolution for auditor appointment, resulting in a penalty of ₹0.07 million. While they aim to comply with laws, future non-compliances and penalties cannot be ruled out.

Peer Comparison

There are no listed companies that engage in a business similar to that of company's Company or are of a comparable size to that of company's Company. Accordingly, it is not possible to provide an industry comparison in relation to company's Company.

Our Views

- The IPO of FirstCry represents a compelling investment opportunity, particularly given the expansive Total Addressable Market (TAM) and the company's robust operational framework. Founded in Pune in 2010**, FirstCry has tapped into a significant TAM of $120 billion**, with the Indian child healthcare market alone contributing $66 billion. This expansive market presence underscores the potential for substantial growth.
- The company's revenue breakdown **highlights a strong domestic base, with 77% of its revenue originating from Indian operations**. This includes various segments such as Intelli Education, modern stores, a direct e-commerce platform, and general retail distribution. Additionally, 10% of revenue is generated from its home brand, Global Bees, while the remaining 13% comes from international markets, specifically the UAE and KSA (Kingdom of Saudi Arabia).
- Since its inception, **FirstCry has maintained a multichannel approach**, boasting 127 million online customers, 1,063 stores across 533 cities, and over 1,850 distributors. The company's vertical integration across manufacturing, logistics, and supply chain management—encompassing 982 contract manufacturers and 80 warehouses—enables efficient operations and same-day delivery in 45 cities.
- The gross merchandise value of FirstCry has demonstrated an impressive growth rate of 18.8%, reaching ₹7,582 crores as of FY2024. Notably, the company is a leading online player in the UAE and KSA, having commenced operations in August 2022. Despite this, its international business is currently loss-making, although it is experiencing **a remarkable revenue growth rate of over 1,000% CAGR since inception**. The losses are attributed to front-loaded costs, which are expected to turn around as economies of scale benefit the company.
- The market dynamics further enhance the appeal of FirstCry's IPO. **With an 84% share of the unorganised market and a 16% share in the organised space,** the company is well-positioned to capture a larger segment of the organised market. FirstCry's strong CAGR of 34.2% and consistent gross margins of over 30%, alongside an improving EBITDA margin of 8.8% in Indian multichannel operations and 4.2% on a consolidated basis, suggest a promising future.
- Moreover, the long-standing customer base of FirstCry, with **clients spanning 15-16 years as children grow from pre-birth to 12 years of age**, ensures a continuous stream of business. The average gap of 1 to 1.5 years between siblings means that families return to FirstCry, reinforcing its position in the child care market. This entrenched customer loyalty, combined with substantial market growth potential, makes the IPO an attractive proposition for investors.
- The current fund raise is intended for operational purposes rather than debt reduction.
- FirstCry, a prominent player in the multi-channel retail market for children's and maternal products, showcases impressive customer engagement and operational efficiency through its well-integrated physical and online platforms.
- The company benefits from strong network effects driven by rich user generated and expert content, complemented by its centralized inventory management and supply chain network, which further enhance operational effectiveness.
- However, despite these advantages, FirstCry faces significant challenges. Persistent negative cash flows, driven by working capital issues and substantial investments, alongside regulatory non-compliance and legal troubles, pose risks to its reputation and stability.

We recommend to **SUBSCRIBE** the IPO for **ONLY** long-term gains.

Sources: Company website and red herring prospectus

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