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BRAINBEES SOLUTIONS LIMITED

LONG TERM SUBSCRIBE

IPO Report

05th Aug '24

Snapshot

Company is India's largest multi-channel retailing platform for Mothers', Babies' 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, company sell Mothers', Babies' and Kids' products through its online platform, company-owned modern stores, franchisee-owned modern stores and general trade retail distribution.

VALUATION

Company is bringing the issue at price band of Rs 440-465 per share at p/s multiple of 4x on FY24 basis.
Company is India's largest multi-channel, multi-brand retailing platform for Mothers' , Babies' and Kids' Products . Company's platform has powerful network effects driven by content, brands and data , brand affinity, loyalty and trust of customers in the FirstCry brand, Combination of curating growing home brands and relationships with third-party brands, Company's technology and data driven, personalized customer journey leads to higher customer engagement, full-stack platform with control over manufacturing and supply chain & company has proven and scalable business model.

Hence ,looking after all above we recommend "Long term Subscribe" on issue.

Price Band (Rs./Share)	**440-465**
Opening date of the issue	**06th Aug '2024**
Closing Date of the issue	**08th Aug '2024**
No of shares pre issue	48,33,49,470 Eq Shares
Issue Size	Rs 4057-4193 Cr
Fresh issue	Rs 1666 Cr
Offer for Sale	54,359,733 Equity Shares
Face Value (Rs/ share)	Rs 2/share
Employee Discount	Rs 44/- per share
Bid Lot	32
BIDDING DETAILS	
QIBs (Including Anchor)	75% of the offer (Approx 6,75,92,379 Eq Shares)
Non-Institutional	15% of the offer (Approx 1,35,18,476 Eq Shares)
Retail	10% of the offer (Approx 90,12,317 Eq Shares)
Employee	Rs 3 Cr
Lead managers	Kotak Mahindra Capital, Morgan Stanley India, BofA Securities India, JM Financial, Avendus Capita
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Company is India's largest multi-channel, multi-brand retailing platform for Mothers' , Babies' and Kids' products

Company is India's largest multi-channel retailing platform for Mothers', Babies' and Kids' products, in terms of GMV, for the year Financial Year 2024, according to the RedSeer Report. Company's GMV increased to ₹91,211.28 million in the Financial Year 2024 from ₹72,576.34 million in the Financial Year 2023 and ₹57,994.63 million in the Financial Year 2022. Company's scale in multi-channel retailing in India, along with a large parenting community on company's platform provides it with a variety of advantages, such as a large volume of organically generated content, brand affinity, the opportunity to launch additional home brands, and the potential to improve its margins, as company benefit from economies of scale.

Company's platform has powerful network effects driven by content, brands and data

Company's content-led strategy enables engagement with parents early in their parenting lifecycle through its FirstCry.com parenting platform. Company's customers value the content on its platform and further enhance it by adding their own experiences to the platform. This leads to a virtuous cycle of new customer acquisition and enriched content. Company's FirstCry.com parenting platform features video and written content on a wide range of topics from pre-pregnancy to pregnancy and parenting

Full-stack platform with control over manufacturing and supply chain

During the Financial Year 2024, company leveraged a network of over 900 contract manufacturers across India and overseas for itshome brands, excluding contract manufacturers engaged by Globalbees Brands and its subsidiaries. Company offer products across categories such as apparel, diapers, feeding and nursing and toys under its home brands, which are manufactured by contract manufacturers.

COMPANY BACKGROUND

Company launched the FirstCry platform in India in 2010 with the goal to create a one-stop destination for parenting needs across commerce, content, community engagement, and education. Company named its platform "FirstCry" because a baby's first cry is a special moment for parents, and company aim to make such moments of the parenting journey filled with joy and happiness. Company seek to develop a tangible, emotional, multi-year relationship with parents, especially mothers, with whom company's first engagement begins from their baby's conception (i.e., nine months before birth) and can continue until their child reaches about 12 years of age.
According to the RedSeer Report, childcare is a non-discretionary, essential expense, for which there is perpetual need. Company operate in a retail category with high purchase frequency, in which children outgrow clothing sizes quickly and need consumables such as diapers and other baby products along with other needs that evolve with age. Thus, once parents establish a connection with company , they are likely to start a predictable and frequent transactional journey of about twelve years as their children grow.
Company have expanded internationally in select markets, establishing a presence in UAE and KSA in 2019 and 2022 respectively, where it aim to replicate its India playbook. According to the RedSeer Report, company is the largest specialist online Mothers', Babies' and Kids' Product retail platforms in UAE, in terms of GMV, for the Financial Year 2024. Further, in KSA, company is the largest online-first Mothers', Babies' and Kids' product-focused retail platform, according to the RedSeer Report. After the UAE, company aim to replicate its India playbook in KSA.
Across its platform, company offer products from third-party Indian brands, global brands, and its home brands. Company have created trusted home brands in the Mothers', Babies' and Kids' products categories through its deep insights and understanding of the requirements of company's customers, robust data analytics tools, in-house design and development capabilities and by leveraging the market recognition of the "FirstCry" brand. As a reflection of FirstCry's strong brand recognition and customer trust, BabyHug, one of FirstCry's home brands, is the largest multi-category Mothers', Babies', and Kids' products brand in India in terms of GMV, for the Financial Year 2024, according to the RedSeer Report. Further, company leverage its management team's experience in creating and scaling up company's home brands to help D2C Indian and global brands scale their business in India across direct-to customer channels and modern stores. These brands will benefit from company's expertise in creating and scaling brands and leverage its multi-channel distribution network, sourcing capabilities, supply chain infrastructure, and integrated technology ecosystem.

Company have no identifiable promoter. Company maintain robust governance practices, which have been critical to supporting the growth of its business. Company's management team is guided by a strong Board, which has included representatives of its significant shareholders, and Independent Directors. Significant strategic decisions have been taken with the guidance and approval of company's Board of Directors, a majority of whom are presently Independent Directors, and after consultation with company's significant shareholders.
Over the last three Financial Years, company's revenue from operations based on its Restated Consolidated Financial Statements has grown to ₹64,808.56 million for the Financial Year 2024 from ₹24,012.88 million for the Financial Year 2022. The growth in company's revenues has been driven by both organic growth and inorganic growth (in particular, the acquisition of Digital Age in May 2022). Revenue from operations based on the Unaudited Pro Forma Consolidated Financial Information (which reflects the acquisition of Digital Age) has grown to ₹52,621.90 million in the Financial Year 2023 from ₹35,975.04 million in the Financial Year 2022.

Company's India Multi-Channel Segment represented 70.66% of company's Revenue from Operations in the Financial Year 2024 (before inter-segment elimination in accordance with company's Restated Consolidated Financial Statements)
Company is the pioneers of multi-channel retailing for Mothers', Babies' and Kids' products in India, according to the RedSeer Report. Company's multi-channel retailing platform includes FirstCry's online platform accessible through its mobile application and website, FirstCry modern stores comprising franchisee-owned, franchisee-operated modern stores ("FOFO"), company-owned and company-operated modern stores ("COCO") as well as general trade retail distribution. As at March 31, 2024, all of company's FirstCry COCO Stores were operated through Digital Age. Company offer products in various categories, including apparel, footwear, baby gear, nursery, diapers, toys and personal care, amongst others. As at March 31, 2024, across its platform, company offer more than 1.65 million SKUs from 7,580 brands, including third-party Indian brands, global brands, and its home brands. Company's FirstCry mobile application in India had been downloaded more than 127 million times, 97 million times and 70 million times as of March 31, 2024, 2023 and 2022, respectively. Further, company have a network of 1,063 FirstCry and BabyHug modern stores in 533 cities in 28 states and five union territories across India with over 2.12 million square feet of retail space, as at March 31, 2024. According to RedSeer Report, company had the largest retail space and Retail Footprint amongst Specialty Mothers, Babies, and Kids' Retailers in India, as at March 31, 2024.

INVESTMENT RATIONALE	
Brand affinity, loyalty and trust of customers in the FirstCry brand	The brand affinity that company have built with company's customers attracts them to engage on its platform and increases customer traffic. Company's brand affinity is demonstrated by its Annual Unique Transacting Customers base, which has grown to 9.11 million for the Financial Year 2024 from 6.86 million for the Financial Year 2022. Leveraging its brand strength, company have been able to and will continue to add more product and service adjacencies on its platform which company expect would further increase its customer base. Further, that company's strategy of expanding into select international markets and adjacent categories (such as education) helps improve company's brand visibility. Company's customers' brand loyalty is demonstrated by its repeat customers.
Combination of curating growing home brands and relationships with third-party brands	Through company's online platform and modern stores, company offer customers a variety of products, ranging from products of global and domestic Mothers', Babies' and Kids' brands (such as Medela India Private Limited, Chicco, Mee-Mee and Funskool (India) Limited), mompreneurs" (i.e., mothers who operate home-based businesses) and its own home brands. Company's diverse product offering across third-party and home brands has significantly contributed to the growth of company's revenue from operations in the last three Financial Years. Company maintain long term and mutually beneficial relationships with brands. Company have a dedicated brand partnerships team that works with brands to build mutually beneficial marketing campaigns that leverage its experience and data to grow the childcare products ecosystem, providing brands with channels for customer acquisition and opportunities for business growth.
Proven and scalable business model	Company's business demonstrated revenue growth from Financial Year 2022 to Financial Year 2024. For the Financial Years 2024, 2023 and 2022, its revenue from operations was ₹64,808.56 million, ₹56,325.39 million, and ₹24,012.88 million, respectively, in accordance with its Restated Consolidated Financial Statements. The revenue from operations, based on the Unaudited Pro Forma Consolidated Financial Information, increased to ₹52,621.90 million in the Financial Year 2023 from ₹35,975.04 million in the Financial Year 2022. Further, company's Gross Margin % was 35.76%, 30.13%, and 34.53% for the Financial Years 2024, 2023 and 2022, respectively. The Gross Margin %, based on the Unaudited Pro Forma Consolidated Financial Information, amounted to 32.92% in the Financial Year 2023 and 33.09% in the Financial Year 2022. Company have focused on capital efficiency while scaling its business. Based on company's Restated Consolidated Financial Statements and for the Financial Years 2024, 2023, and 2022, company's net working capital days were 53 days, 50 days and 102 days respectively. Company's franchisee model is scalable and provides more touch points at limited additional cost, as the costs of setting up and operating the modern stores (in terms of capital expenditure and operating expenditure) are borne by franchisees. Company's fungible inventory between channels provides resilience from demand fluctuation and obsolescence risks.

OBJECTS OF OFFER

Offer for Sale

Each Selling Shareholder will be entitled to its respective portion of the proceeds from the Offer for Sale after deducting its respective proportion of Offer related expenses and the relevant taxes thereon.

Fresh Issue

Company proposes to utilize the Net Proceeds towards funding the following objects (collectively, referred to herein as the "Objects"):

1. Expenditure by Company for: (i) setting up new modern stores under the "BabyHug" brand; and (ii) setting up a warehouse, in India;
2. Expenditure for lease payments for company's existing identified modern stores owned and operated by Company, in India;
3. Investment in company's Subsidiary, Digital Age for: (i) setting up new modern stores under the FirstCry brand and other home brands of Company; and (ii) lease payments for company's existing identified modern stores owned and controlled by Digital Age, in India;
4. Investment in Subsidiary, FirstCry Trading for overseas expansion by: (i) setting up new modern stores; and (ii) setting up warehouse(s), in KSA;
5. Investment in company's Subsidiary, Globalbees Brands towards acquisition of additional stake in company's stepdown Subsidiaries;
6. Sales and marketing initiatives;
7. Technology and data science cost including cloud and server hosting related costs; and
8. Funding inorganic growth through acquisition and other strategic initiatives and general corporate purposes.

RISKS

Company have had negative net cash flows in the past and may continue to have negative cash flows in the future

Source:RHP

INDUSTRY OVERVIEW

India Direct to Consumer Brands Market

India's branded products retail opportunity across all categories (including but not limited to Grocery, Fashion, Consumer Electronics, Beauty, and Personal Care) is ₹14.4-16 trillion (approximately US$180-200 billion) as of the Financial Year 2024. Within this branded retail opportunity, emerging and independent Direct to Consumer brands with a digital-first approach to retailing had sales of ₹630-640 billion (approximately US$7.9-8 billion) in the Financial Year 2024 which is expected to grow at a CAGR of approximately 33-35% to reach ₹2,720-2,760 billion (approximately US$34-35 billion) by the Financial Year 2029. As of the Financial Year 2024, only 4-4.4% of the branded e-tailing opportunity has been penetrated by D2C brands, thus presenting a large headroom for growth.

Direct-to-consumer (D2C) are independent brands which are digital-first, have a brand.com and are based out of India. D2C is a model where brands can market, sell, and ship their products directly to the customers without any middlemen involved. Across categories, D2C is one of the fastest-growing channels of purchase as the manufacturer directly reaches the customer and removes the middlemen thereby passing the monetary benefits to the customer. Typically, brands maintain a multi-channel approach to the market, i.e., by maintaining both an online and offline medium to reach the end-user.

Collectively, D2C Brands have grown faster than the overall online retail market. Their share of the e-commerce market has grown from 6-7% in the Financial Year 2020 to 9-11% in the Financial Year 2024, led by a sizable market of mature, urban, and high-income users in India, better infrastructural support for e-commerce, the ability for such brands to have wider reach/accessibility, their agility and rapid pace of innovation, niche product offerings, and effective digital marketing strategies. D2C Brands generated an estimated GMV of approximately ₹630-640 billion (approximately US$ 7.9-8 billion) in the Financial Year 2024 and are projected to continue their growth trajectory and attain ₹2,720-2,760 billion (approximately US$34-35 billion) by the Financial Year 2029,

Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24
Total Revenue (A)	24012.88	56325.39	64808.56
Total Expenditure (B)	24194.89	59498.11	64103.65
EBIDTA	-182.01	-3172.72	704.91
EBIDTA Margin	-0.76	-5.63	1.09
Other Income	1156.28	987.37	942.25
Depreciation	1108.88	2942.83	3708.73
EBIT	-134.61	-5128.18	-2061.57
Interest	376.83	715.73	1153.63
PBT	-511.44	-5843.91	-3215.20
Share of profit in Asso	0.00	0.00	0.00
PBIT	-511.44	-5843.91	-3215.20
Exceptional	0.00	543.68	0.00
PBT	-511.44	-5300.23	-3215.20
Tax	275.41	-439.63	-0.13
PAT	-786.85	-4860.60	-3215.07
NPM	-3.28	-8.63	-4.96
ROE%	-2.04	-12.76	-8.65
EPS	-1.74	-9.97	-6.20
Eq Cap	814.07	814.71	814.71
Net Worth	42,880.41	41,996.92	37,914.53

(Source: RHP)

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