

Brainbees Solutions

A long term growth story!!!

Summary

Brainbees Solutions (Firstcry) is India's largest multi-channel retailing platform for Mothers', Babies' and Kids' products, with a growing presence in select international markets. In India, the company sells products through their online platform, COCO, FOFO stores and general trade retail distribution. Across their platform, the company offers products from third-party Indian brands, global brands, and their home brands. In FY24 Brainbees Solutions reported net sales/EBITDA/PAT of Rs64bn/Rs705mn/ Rs-3,215mn respectively. At upper price band and diluted equity, IPO is priced at 3.6x EV/Sales on FY24. We believe the company is poised to benefit from 1) higher spending on kids' products, 2) growth in international markets, 3) increasing retail presence and 4) expansion of home brands.

Key Investment Rationale

- India's largest multi-channel, multi-brand retailing platform for Mothers', Babies' and Kids' products:** As per RedSeer report, Brainbees Solutions is India's largest multi-channel retailing platform for Mothers', Babies' and Kids' products in terms of GMV in FY24. The company's scale in multi-channel retailing in India; along with a large parenting community on platform provides 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 margins, as the company benefits from economies of scale.
- A long term growth story aided by brand affinity, loyalty and trust of customers:** We believe the company benefits from the brand affinity which they have built over the years, driving higher customer traffic. Further, leveraging their brand strength, the company has been able to and will continue to add more product and service adjacencies on their platform. Further, the strategy of expanding into select international markets and adjacent categories (such as education) would help to improve the brand visibility.

Issuer	Brainbees Solutions Limited
Transaction Type	Fresh Issue of Equity shares aggregating upto Rs16,660 Mn and Offer for sale of Equity Shares aggregating upto Rs25,277 Mn
Issue Open / Close	06-Aug-2024 / 08-Aug-2024
Type of Offering	Fresh Issue and Offer for Sale
Total Offer Size	Rs. 40,570-41,930Mn
Price Band	Rs.440-465/Sh
Bid Lot	32 Equity Shares and in multiples thereafter
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> • QIB: 75% • NII: 15% • Retail: 10%
Objective	To meet expenditure, marketing initiatives and invest in subsidiary to set up modern stores under Firstcry brand

Share holding pattern (%)

	Pre-Issue	Post-Issue
Promoter	0	0
Public	100	100
Total	100%	100%

Financial Snapshot

(Rs mn)	FY22	FY23	FY24
Revenue	24,013	56,325	64,809
EBITDA	(182)	(3,173)	705
<i>EBITDA Margin(%)</i>	(0.8)	(5.6)	1.1
Adj.PAT	(787)	(5,404)	(3,215)
EPS (Rs)	(2)	(10)	(6)
Dividend Yield (%)	-	-	-
P/E (x)	-	-	-
RoE (%)	(4.5)	(15.5)	(10)
RoCE (%)	(4.9)	(11)	(5)

Source: RHP, Company

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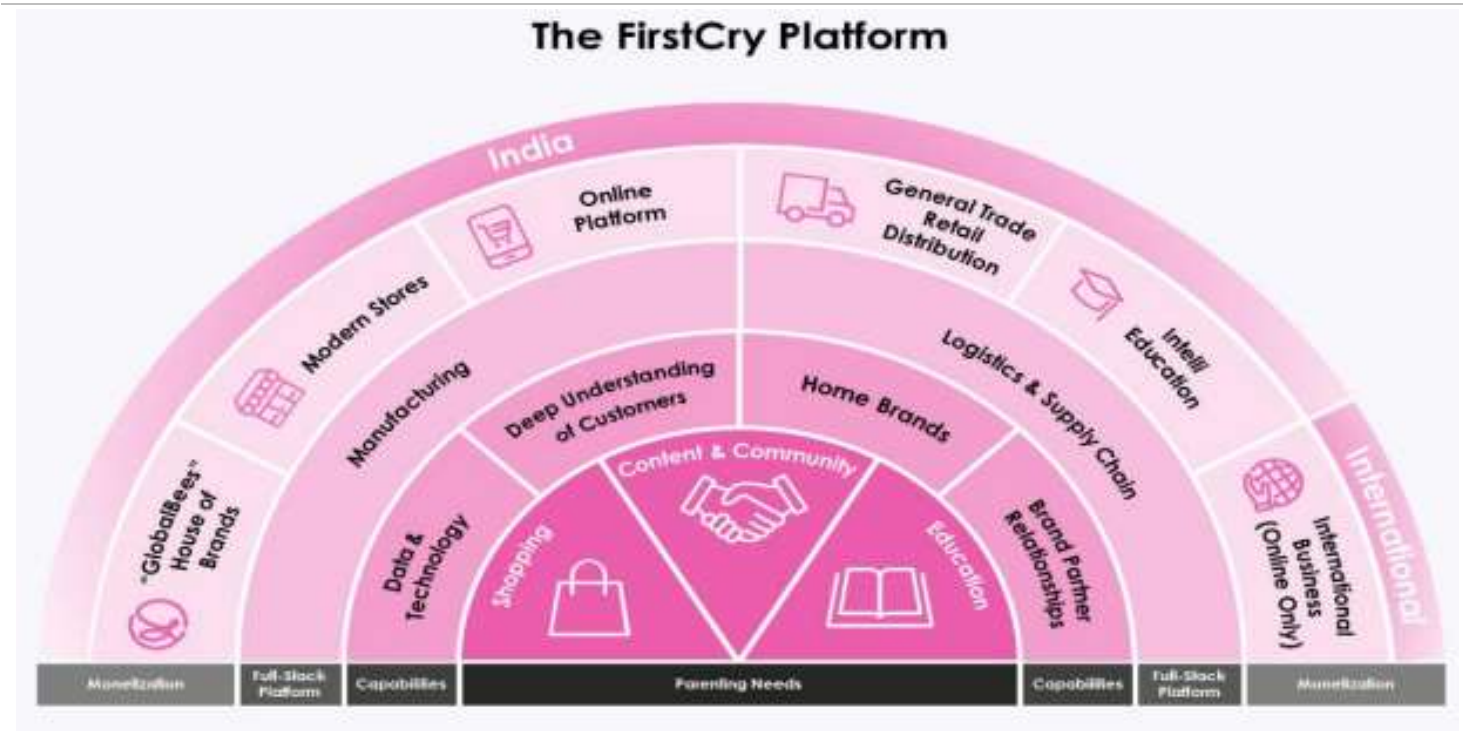
About the Company

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

Across their platform, they offer products from third-party Indian brands, global brands, and their home brands. They have created trusted home brands in the Mothers', Babies' and Kids' products categories through THEIR deep insights and understanding of the requirements of their customers, robust data analytics tools, in-house design and development capabilities and by leveraging the market recognition of the "FirstCry" brand. 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.

Broad description of Products and Applications

Exhibit 1: First Cry Platform



Source: RHP, IDBI Capital Research

Exhibit 2: PAN India First Cry Retail Outlets



Source: RHP, IDBI Capital Research

Exhibit 3: First Cry Retail Outlet



Source: RHP, IDBI Capital Research

Competitive Strength

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

They are 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. Their GMV increased to Rs91,211 mn in the FY24 from Rs72,576 mn in the FY23 and Rs57,994 mn in the FY22. Their scale in multi-channel retailing in India; along with a large parenting community on their platform provides them 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 their margins, as they benefit from economies of scale. Their multi-channel retail model lends itself well to Mothers', Babies' and Kids' products categories, providing a "touch and feel" experience through modern stores and also the convenience of ordering online through their online platform.

- **Brainbees platform has powerful network effects driven by content, brands and data**

The company content-led strategy enables engagement with parents early in their parenting lifecycle through their FirstCry.com parenting platform. Their customers value the content on their platform and further enhance it by adding their own experiences to the platform. The management believes this leads to a virtuous cycle of new customer acquisition and enriched content. Their FirstCry.com parenting platform features video and written content on a wide range of topics from pre-pregnancy to pregnancy and parenting. This content is generated not only by other parents, but also by specialists such as doctors, gynecologists, and nutritionists. Their focus on content and word-of-mouth recommendations from parents about their platform also attracts many customers to their platform organically. The inputs they receive from their content and community platform also helps them identify product and pricing gaps in the Mothers', Babies' and Kids' market. Their FirstCry mobile application in India that had been downloaded more than 127 mn times, 97 mn times and 70 mn times till FY24, 23 and 22, respectively.

Their unique content strategy feeds into the transaction funnel and creates a strong flywheel effect, as they believe that increased content consumption and community engagement leads to increased customers, which in turn leads to more transactions. With more customers and transactions, they continue to increase and curate their product assortment and brand relationships, which further increases the choice for their customers. During the FY24, customers who interacted on their parenting community purchased products two times more frequently than the customers who did not interact on their parenting community.

After the UAE, they aim to replicate their India playbook in KSA. According to the RedSeer Report, they were the largest specialist online Mothers', Babies' and Kids' Product retail platforms in UAE, in terms of GMV, for the FY24. Further, they commenced their operations in KSA in August 2022. They are the largest online-first Mothers', Babies' and Kids' product-focused retail platform in KSA, according to the RedSeer Report. They will continue to leverage the advantages of the established flywheel effects in their business in India and select international markets.

- **Brand affinity, loyalty and trust of customers in the FirstCry brand**

The brand affinity that they have built with their customers attracts them to engage on their platform and increases customer traffic. Their brand affinity is demonstrated by their Annual Unique Transacting Customers' base, which has grown to 9.11 million for the FY24 from 6.86mn for the FY22. Leveraging their brand strength; they have been able to and will continue to add more product and service adjacencies on their platform which they expect would further increase their customer base. Further, they believe that their strategy of expanding into select international markets and adjacent categories (such as education) helps improve the brand visibility. Their customers' brand loyalty is demonstrated by their repeat customers.

They endeavor to provide emotional companionship across the parenting journey from the conception stage until a child reaches about 12 years of age, through their online platform, modern stores, preschools, and parenting community. As part of their customer acquisition efforts, they provide complimentary gift hampers to mothers, who have recently given birth, through their engagements with hospitals and maternity clinics. During the FY 24, 23 and 22, they had arrangements with 13,316, 13,633, and 14,245

hospitals and maternity clinics, respectively. These gift hampers contain curated samples from domestic and international brands and FirstCry coupons, which can be redeemed to purchase products on their platform. Till FY24, they have distributed more than 18.5 million gift hampers across more than 20,000 hospitals in 575 cities. The complimentary gift hamper program has helped them build connections with new parents from the onset of their parenting journey and has contributed to the growth of their customer base.

- **Combination of curating growing home brands and relationships with third-party brands**

Through their online platform and modern stores, they 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 their own home brands. Their diverse product offering across third-party and home brands has significantly contributed to the growth of their revenue from operations in the last three Financial Years. They maintain long term and mutually beneficial relationships with brands. They have a dedicated brand partnerships team that works with brands to build mutually beneficial marketing campaigns that leverage their experience and data to grow the childcare products ecosystem, providing brands with channels for customer acquisition and opportunities for business growth.

Further, they have created their own baby and children product home brands for India and international markets such as BabyHug, Babyoye, Cutewalk and Pine Kids, among others, in the mid to premium category. They believe that their know-how in positioning brands, identifying product and price gaps, designing and development, product assortment and quality differentiates them from other well-known Mothers', Babies' and Kids' products retailers and brands. Their home brands play a key role in increasing the assortment of products for their customers.

- **Their technology and data driven, personalized customer journey leads to higher customer engagement**
Personalized:

The Company believes that being a mother is the busiest job in the world and hence curated customer journeys on their online platform helps mothers save their precious time. These discovery-led customer journeys, coupled with data collected and analyzed from their customers' profiles, historical interactions,

location/catchment data, socio-economic data and their other channels provides a highly personalized tech-enabled shopping experience for busy parents. They provide relevant, moment specific shopping suggestions and parenting content. Parents can create a profile of their children on their platform making the customer shopping journey on their online platform personalized, more efficient and convenient.

■ **Centralized inventory management:**

The Company has centralized inventory management covering both their online platform and modern stores, they are able to merchandise their inventory efficiently. Sales information across their online platform and modern stores helps them drive auto replenishment algorithms for their modern stores which coupled with their warehouse and logistics network helps modern stores remain capital efficient (i.e., inventory-lean). Their auto replenishment algorithms cover categories ranging from consumables to complex categories such as baby and kids' fashion.

■ **Full-stack platform with control over manufacturing and supply chain**

The Company in FY24, leveraged a network of over 900 contract manufacturers across India and overseas for their home brands, excluding contract manufacturers engaged by Globalbees Brands and its subsidiaries. In addition, three of their Subsidiaries, Swara Baby, Swara Hygiene and Solis Hygiene, manufacture diapers for their home brands and other third-party diaper brands. They offer products across categories such as apparel, diapers, feeding and nursing and toys under their home brands, which are manufactured by contract manufacturers. They aim to comprehensively address product and pricing gaps in the market. By controlling the manufacturing of these products, they can exercise greater control over product quality, as well as improve their gross margins. They have long-standing relationships of several years with carefully selected manufacturers to develop high-quality products under their home brands. Their in-house developed product lifecycle management system ("PLM") helps manage each stage of the production cycle, thereby providing control on production management with agility. The company onboarded manufacturers also follow their rigorous guidelines specified across categories. The manufacturing is carried out as per their specifications and requirements. With these carefully curated manufacturers and strong quality control processes, they aim to ensure consistency in their product offerings. Their manufacturing and supply chain network coupled with their custom-built technology

platform enables them to follow an auto-replenishment ordering model for their modern stores. This auto-replenishment model is backed by demand forecasting, demand-based inventory management, product assortment and curation, and smart supply chain operations. Till FY24, their multi-channel retailing platform had an integrated supply chain consisting of 80 warehouses and stockiest across 47 cities in India, with a total capacity of 3.18 million sq. ft., supporting 1,063 modern stores and network of 567 distributors and over 1,312 sub-distributors further enabling swift supply to 160,842 retailers general trade/modern trade retailers. The company provided same day delivery in 45 cities and next day delivery in 1,043 cities in India for certain products through their own as well as third party logistics providers.

Strategies:

- **Grow their customer base by continuing to invest in brand, technology, products and their membership program**

The Company have been successful in expanding their Annual Unique Transacting Customers' base over the years (to 9.11 million for the FY24 from 6.86 mn for the FY22) by consistently investing in brand, technology, products and (since June 2021) the FirstCry Club membership program. The company will continue to invest in increasing their brand awareness (by continuing their marketing, business promotion, and FirstCry Club activities) and brand salience (by carefully expanding their assortment of products and SKUs, and maintaining the FirstCry parenting community). They will also further invest in their technology to elevate customer experience, and provide personalized, enjoyable and multi-channel customer journeys. These strategic actions may also help them convert more cross-sell / up-sell opportunities into transactions and enhance relevance for their customers. The company recently expanded their product range into the 6 to 12-years-old age category. They offer such products through their website and through five COCO Stores. Further, to ensure comprehensive curation and assortment of products on their platform, they shall also continue to grow and nurture their network of third party brands.

- **Grow offline and online touchpoints to strengthen their multi- channel competitive advantage**

The company has a multi-channel footprint to serve the customers. As of FY24, they had 1,063 (with 2.12 mn sq. ft. retail space) across India. The FirstCry mobile application in India had been downloaded more than 127 mn times, 97 mn times and 70 mn times as of FY24, 23 and 22, respectively. Also, their relatively recent FirstCry Arabia (UAE and KSA) mobile application had been downloaded more than 4.0 mn times, 2.2 mn times and 1.3 mn times till FY24, 23 and 22, respectively. The company aim to further invest towards the expansion of their modern store network by adding both new stores and newer formats of stores across India and their international markets. The company will also seek to further leverage the synergies between the offline and online channels to create seamless journeys across touch points for their customers and brand partners. They will continue to invest in people, technology and infrastructure to build further capabilities for delivering an integrated multi-channel shopping experience. The company believes their multi-channel business model will enable them to deliver superior operating margins, which in turn will act as a competitive advantage.

- **Continue to expand their portfolio of home brands**

Currently the Company believes that the success of their home brands portfolio so far has been as a result of identifying market gaps and building products to address customer needs by leveraging the marketing and customer insights. They aim to further diversify the product offerings through continuous research and review of their current home brand portfolio across their business channels and geographies, by launching innovative products, newer price segments, and also by adding new brands in the long-term.

- **Further invest in manufacturing in the baby and kids' product categories, and supply chain capabilities**

The company proposes to expand their manufacturing capabilities for toys, diapers and baby and kids' apparel categories in India by growing their network of contract manufacturers and increasing the manufacturing capacity of their Subsidiaries. Management also, believe that their expanded manufacturing capabilities will provide them greater control over their product quality and assortment, achieve faster turn-around (design to delivery), ensure supply chain security and increase their gross margins. The company also aims to invest in additional warehouses and last-mile delivery capabilities to provide a better customer experience.

- **Selective expansion in international markets**

The company has gained experience in nurturing and growing the Mothers', Babies' and Kids' products based businesses in India. As they grow their customer base in India, they will also aim to selectively explore international expansion. The company will continue to selectively assess other international markets either via organic or inorganic expansion. The key criteria for their expansion into international markets include favorable demographics, market size and growth potential, benign competition in relevant product categories, and scope of scaling up the business to provide a multi-channel experience to their customers in these countries. According to the RedSeer Report, they were the largest specialist online Mothers', Babies' and Kids' Product retail platforms in UAE, in terms of GMV, for the year ending FY24. Further, they are the largest online-first Mothers', Babies' and Kids' product focused retail platform in KSA, according to the RedSeer Report. After the UAE, they aim to replicate their India playbook in KSA.

- **Expand and Grow Globalbees House of Brands**

The company will continue to assess and expand the portfolio of India and Global D2C brands (other than Mothers', Babies' and Kids brands) in Globalbees house of brands through strategic investments and acquisitions, online platform distribution relationship, brand licensing arrangements and OEM relationships.

Exhibit 4: Key Management

Management	Designation
Mr. Supam Maheshwari	CEO & MD
Mr. Sanket Hattimattur	Executive director and chief of staff
Mr. Paul Davison	Non-Executive director
Mr. Bala C Deshpande	Independent Director
Mr. Gautam Sharma	CFO
Ms Samantha Rego	Company Secretary
Ms. Neelam Jethani	Company Secretary and compliance officer

Source: RHP, IDBI Capital Research

Key Risks

- The operations of the business could be affected and disrupted by other kinds of catastrophic occurrences and similar events.
- The company is exposed to foreign exchange risks, since some of their business is dependent on imports entailing foreign exchange transactions, and for their overseas business in UAE, China and the KSA, in currencies including the Indian Rupee, U.S. Dollar, Dirham, Yuan and SAR. Also, some of their future capital and other expenditures may be denominated in foreign currencies.
- The Company could get affected by increasing inflation in India could cause a rise in the costs of rent, wages, raw materials and other expenses. If the company are unable to increase their revenues sufficiently to offset their increased costs due to inflation, it could have an adverse effect on their business, prospects, financial condition, results of operations and cash flows.
- The business is significantly affected by the ability of the company to provide consistent and quality customer service. The company provides customer support at all stages of their product and service offering, through staff at their modern stores, call centers, emails and web-based support. If the company fail to provide quality customer service, their customers may be less inclined to use their services, or recommend us to new customers, and may channel their demands to their competitors, which could adversely affect their business and results of operations.
- The cost of merchandise returns in a direct-to-customer business is mainly absorbed by the business. This includes cost of delivery, freight and risk of fraud returns that may lead to additional cost and risk exposure with the product sold. In some cases, where the product is a home brand and the returned inventory is not suitable for resale, their overall margins may be further impacted.
- The Company faces risks with respect to fraudulent activities on their mobile app or website and periodically receive complaints from customers who assert they have not received the goods they purchased, that goods they received were fraudulent or that they were contacted by fraudsters to make payments for free gifts, from vendors who may not have received payment for goods that were purchased, or from manufacturers or others who assert that their intellectual property is being infringed.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24
Net sales	24,013	56,325	64,809
<i>Change (yoy, %)</i>		135	15
Operating expenses	(24,195)	(59,498)	(64,104)
EBITDA	(182)	(3,173)	705
<i>Change (yoy, %)</i>		1,643	(122)
<i>Margin (%)</i>	(0.8)	(5.6)	1.1
Depreciation	(1,109)	(2,943)	(3,709)
EBIT	(1,291)	(6,116)	(3,004)
Interest paid	(377)	(716)	(1,154)
Other income	1,156	987	942
Pre-tax profit	(511)	(5,300)	(3,215)
Tax	(275)	440	(0)
<i>Effective tax rate (%)</i>	(53.8)	8.3	(0.0)
Minority Interest	-	-	-
Net profit	(787)	(4,861)	(3,215)
Exceptional items	-	544	-
Adjusted net profit	(787)	(5,404)	(3,215)
<i>Change (yoy, %)</i>		587	(41)
EPS	(1.5)	(10.4)	(6.2)
Dividend per sh	-	-	-
<i>Dividend Payout %</i>	-	-	-

Balance Sheet		(Rs mn)		
Year-end: March	FY22	FY23	FY24	
Shareholders' funds	35,280	34,563	31,707	
Share capital	815	815	815	
Reserves & surplus	34,465	33,748	30,893	
Total Debt	511	550	2,295	
Other liabilities	9,332	16,415	18,955	
Curr Liab & prov	9,248	12,236	15,940	
Current liabilities	9,081	11,998	15,634	
Provisions	167	237	306	
Total liabilities	19,091	29,201	37,189	
Total equity & liabilities	61,972	71,198	75,104	
Net fixed assets	22,543	35,597	38,735	
Investments	-	-	-	
Other non-curr assets	2,416	5,573	5,834	
Current assets	37,013	30,029	30,535	
Inventories	9,796	12,860	16,295	
Sundry Debtors	2,180	2,251	2,184	
Cash and Bank	22,682	11,794	6,738	
Loans and advances	2,356	3,124	5,319	
Total assets	61,972	71,198	75,104	

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24
Pre-tax profit	(511)	(5,300)	(3,215)
Depreciation	-	-	-
Tax paid	395	1,187	(414)
Chg in working capital	(3,018)	(410)	(319)
Other operating activities	-	-	-
Cash flow from operations (a)	(3,134)	(4,524)	(3,949)
Capital expenditure	(22,543)	(13,054)	(3,139)
Chg in investments	-	-	-
Other investing activities	-	-	-
Cash flow from investing (b)	(22,543)	(13,054)	(3,139)
Equity raised/(repaid)	815	(70)	(70)
Debt raised/(repaid)	511	39	1,744
Dividend (incl. tax)	-	-	-
Chg in minorities	7,601	(167)	(1,227)
Other financing activities	38,881	8,310	1,585
Cash flow from financing (c)	47,808	8,112	2,032
Net chg in cash (a+b+c)	22,131	(9,465)	(5,056)

Financial Ratios

Year-end: March	FY22	FY23	FY24
Book Value (Rs)	68	67	61
Adj EPS (Rs)	-1.5	-10.4	-6.2
Adj EPS growth (%)		587	-41
EBITDA margin (%)	-0.8	-5.6	1.1
Pre-tax margin (%)	-2.1	-9.4	-5.0
Net Debt/Equity (x)	-0.6	-0.3	-0.1
ROCE (%)	-5	-11	-5
ROE (%)	-4	-15	-10
DuPont Analysis			
Asset turnover (x)	0.8	0.8	0.9
Leverage factor (%)	1.8	1.9	2.2
Net margin (%)	-3.3	-9.6	-5.0
Working Capital & Liquidity ratio			
Inventory days	149	83	92
Receivable days	33	15	12
Payable days	80	45	52

Source: Company; IDBI Capital Research *-Non-annualized numbers



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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