

Retail Research	IPO Note
Sector: Retail	Price Band (Rs): 440 - 465
5th August 2024	Recommendation: Subscribe for Long Term

Brainbees Solutions Limited

Company Overview:

Brainbees Solutions Limited is the largest multi-channel retailing platform for mothers, babies, and kids products, with a growing presence in select international markets. The company launched the FirstCry platform, a one-stop destination for parenting needs encompassing commerce, content, community engagement, and education. It offers a wide range of products including apparel, footwear, baby gear, nursery items, diapers, toys, and personal care from Indian third-party brands, global brands, and its own brands. They provide over 1.6 million SKUs from 7,500+ leading Indian and global brands. The company seeks to develop multi-year relationships with mothers, starting from the baby's conception and continuing until the child reaches about 12 years of age.

Key Highlights:

1. India's largest multi-channel, multi-brand retailing platform for mothers, babies and kids products: Brainbees is the largest multi-channel, multi-brand retailing platform in terms of GMV (Gross Merchandise Value). The GMV increased to Rs 9,121 crore in FY24 from Rs 7,257 crore in FY23, registering a 26% YoY growth. The multi-channel approach benefits customers who exhibit a "research online – purchase offline" shopping behavior. The total number of COCO (company-owned and company-operated) stores and FOFO (franchisee-owned, franchisee-operated) stores are 435 and 628 respectively.

2. Strong brand affinity, loyalty and trust in the FirstCry brand: The annual unique transacting customer base grew to 0.91 crore for FY24 from 0.68 crore for FY23. The percentage of GMV from annual unique transacting customers stood at 72.23% as of Mar'24 compared to 72.98% in Mar'23. Strong repeat customer rates demonstrate brand loyalty.

3. Robust data-driven product and sales approach: The company cross-leverages sales information between online platforms and modern stores to identify local preferences at the city and state levels, particularly in fashion merchandise based on geolocation tags. This provides a significant competitive advantage. As of Mar'24, Brainbees operates 1,063 FirstCry and BabyHug modern stores across 533 cities in 28 states and five union territories in India, covering over 2.12 million square feet of retail space.

4. Powerful network effects of the platform: The content-led strategy engages parents early in their parenting journey through the FirstCry.com parenting platform. The FirstCry mobile application in India had been downloaded more than 127 million times as of Mar'24, up from 97 million times in Mar'23 and 70 million times in Mar'22.

Valuation: The company is valued at the FY24 EV/Sales multiple of 3.4x and P/B of 5x on post-issue capital. The company has turned EBITDA positive in FY24 while registering a growth of 15% CAGR over the last 2 years on the revenue front. The company has grown its store count by 50% to 1063 in the last 2 years, breakeven of these stores is expected to contribute to profitability going ahead. The India operation is presently contributing 70% of the total revenue with an EBITDA margin of 8.8% while the international operations are loss-making, so turnaround of this will significantly contribute to profitability going ahead. The company is well placed to cater to the \$120 bn market size of the Child & Mother & Kids care products as it is a pioneer in multi-channel retailing in India. We recommend subscribing to the issue for long-term gains.

Issue Details	
Date of Opening	6 th August 2024
Date of Closing	8 th August 2024
Price Band (Rs)	440 - 465
Offer for sale (Equity shares)	5,43,59,733
Fresh Issue (Rs cr)	1,666
Issue Size (Rs cr)	4,057 – 4,193
No. of shares	9,22,23,369 – 9,01,87,690
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	22,933 – 24,141
BRLMs	Kotak Investment Banking, Morgan Stanley India, BofA Securities, JM Financial, Avendus Capital
Registrar	Link Intime India Private Limited
Bid Lot	32 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%

Objects of Issue	
Estimated utilization from net proceeds (Rs cr)	
Expenditure by the Company for: (i) setting up new modern stores under the BabyHug brand and (ii) setting up a warehouse, in India	108.1
Expenditure for lease payments for the existing identified modern stores owned and operated by the Company, in India	93.1
Investment in the Subsidiary, Digital Age for (i) setting up new modern stores under the FirstCry brand and other home brands of the Company and (ii) lease payments for the existing identified modern stores owned and controlled by Digital Age, in India	299.6
Investment in the Subsidiary, FirstCry Trading for overseas expansion by: (i) setting up new modern stores and (ii) setting up warehouse(s), in KSA	155.6
Investment in the Subsidiary, Globalbees Brands towards acquisition of additional stake in the step-down Subsidiaries	169.0
Sales and marketing initiatives	200.0
Technology and data science cost including cloud and server hosting related costs	57.6
Funding inorganic growth through acquisition and other strategic initiatives and general corporate purposes	-
Total proceeds from fresh issue	1,666

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	0	0.0
Public & Others	48,33,49,470	100.00
Total	48,33,49,470	100.0

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	0	0.0
Public & Others	52,12,13,106	100.0
Total	52,12,13,106	100.0

Source: RHP, SSL Research

Key Financials

	FY22	FY23	FY24
Revenue from operation (Rs cr)	2,401	5,633	6,481
EBITDA (Rs cr)	-18	-317	70
PAT (Rs cr)	-79	-486	-322
EBITDA Margin (%)	-0.8	-5.6	1.1
PAT Margin (%)	-3.3	-8.6	-5.0
ROE (%)	-2.2	-14.1	-10.1
ROCE (%)	-0.4	-14.1	-5.7
PE (x)	-285.6	-46.2	-69.9

Source: RHP, SSL Research

Risk Factors

- **Negative cash flow:** The company has had negative cash flows in the past and may continue to have negative cash flows in future.
- **Customer engagement:** If the company fails to acquire new customers or experiences a decline in engagement with the existing customers, the company may face challenges in maintaining the topline which may result in margin pressure.
- **Negative returns:** The company had reported losses in the past and may continue to do so in the future, which will have negative impact on the return ratios.
- **Relationship with third-party brands:** If the company fails to retain its relationship with the third-party brand or fails to attract new brands in the future, this will significantly impact the revenue of the company.

Growth Strategy

- Grow customer base by continuing to invest in brand, technology, products and membership program.
- Grow offline and online touchpoints to strengthen multi-channel competitive advantage.
- Continue to expand the portfolio of home brands.
- Expand general trade retail distribution of the home brands.
- Further invest in manufacturing of the baby and kids product categories and supply chain capabilities.
- Selective expansion in international markets.
- Expand and grow Globalbees house of brands.

Operating Metrics

Operating Metrics	Unit	FY22	FY23	FY24
Annual Unique Transacting Customers	Cr	0.7	0.8	0.9
Orders	Cr	2.7	3.1	3.6
Average Order Value	Rs	2170.0	2342.0	2544.0
Gross Merchandise Value (GMV)*	Cr	5799.5	7257.6	9121.1
GMV YoY Growth	%	N/A	25.14%	25.68%
Other Operating Metrics				
GMV from Online***	Cr	4,834.7	5,812.6	7,370.0
GMV from Offline**	Cr	964.8	1,445.0	1,751.1
GMV from existing customers***	Cr	4,073.7	5,296.3	6,587.8
GMV from new customers***	Cr	1,725.8	1,961.3	2,533.3
Inventory days	Days	149.0	83.0	92.0
Net working capital days	Number	102.0	50.0	53.0
Total stores**	Number	701.0	904.0	1,063.0
BabyHug COCO Stores**	Number	118.0	224.0	284.0
FirstCry COCO Stores**	Number	8.0	62.0	151.0
FOFO Stores**	Number	575.0	618.0	628.0
Number of brands associated***	Number	6,287.0	7,035.0	7,580.0
Number of SKUs***	Cr	0.1	0.1	0.2
Warehouses and stockists**	Number	67.0	79.0	80.0
Contract manufacturers^	Number	740.0	779.0	982.0
General trade retail touchpoints**	Number	20,397.0	1,18,408.0	1,60,842.0
Cities where the company provide same day deliveries**	Number	32.0	46.0	45.0
Cities where the company provide next day deliveries**	Number	1,035.0	1,053.0	1,043.0
Preschools**	Number	63.0	105.0	208.0
Students enrolled**	Number	3,229.0	5,311.0	9,623.0
Hospital and maternity clinic arrangements	Number	14,245.0	13,633.0	13,316.0
Gift hampers delivered	Cr	1.4	1.6	1.9

* The GMV in the table above (and elsewhere in this Red Herring Prospectus) includes the monetary value of Orders inclusive of taxes and gross of discounts, if any, across the FirstCry website, mobile application and FirstCry modern stores and BabyHug modern stores, including those operated by Digital Age and franchisees, net of order cancellations, gross of franchisee commission, net of shipping and cash on delivery charges and prior to product returns. Accordingly, the GMV numbers do not reconcile directly with the group's revenue from operations and should not be considered representative of the group's revenue from operations.

** For the operations in India. Operations outside India comprise online channel only.

*** For operations in India and outside India.

^ Contract manufactures mentioned in the table above do not include contract manufacturers engaged by Globalbees Brands and its subsidiaries.

Particulars (FY24)	India multi-channel	International	Globalbees Brands	Others	Inter Company Adjustments	Total
Revenue from operations (Rs cr)	4,579	754	1,209	33	(95)	6,481
Segment-wise revenue from operations as a percentage of the total revenue from operations (%)	70.7	11.6	18.7	0.5	(1.47)	100.0
EBITDA (Rs cr)	404	(140)	2	6	2	274
EBITDA Margin (%)	8.8	(18.5)	0.2	17.5	(2.0)	4.2
Segment Results (Rs cr)	167	(155)	(96)	5	(16)	(96)

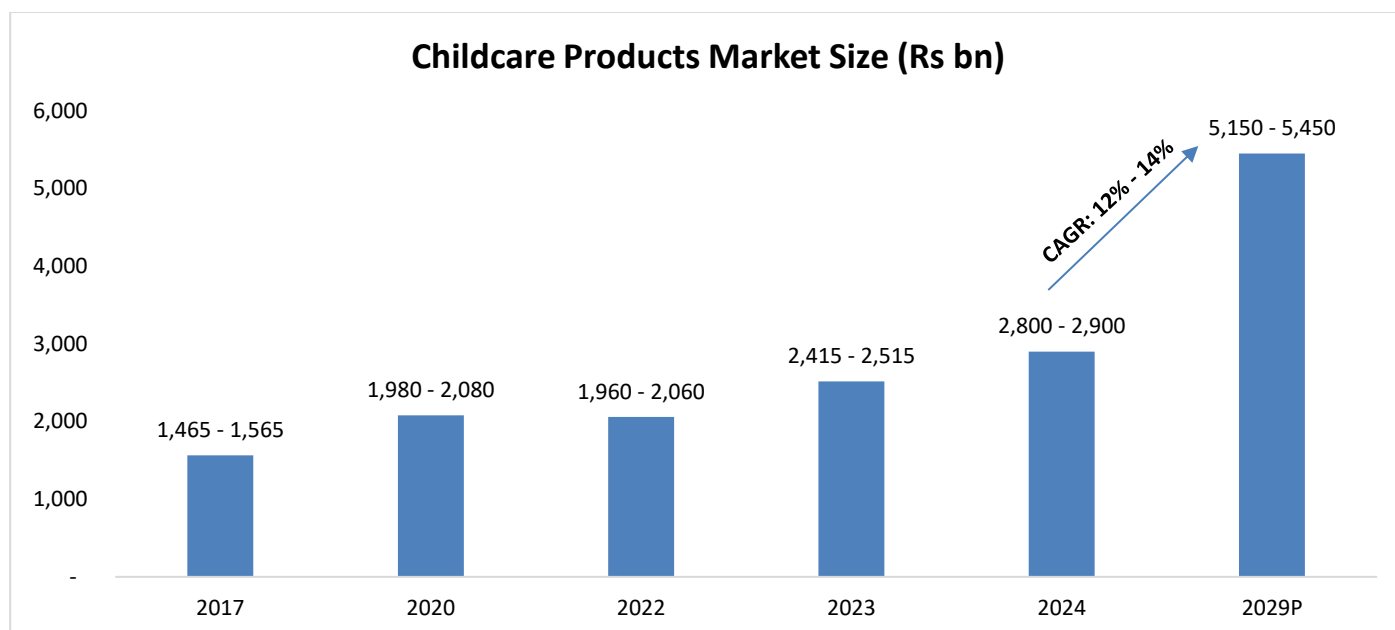
Particulars (FY23)	India multi-channel	International	Globalbees Brands	Others	Inter Company Adjustments	Total
Revenue from operations (Rs cr)	4,281	487	897	23	(56)	5,633
Segment-wise revenue from operations as a percentage of the total revenue from operations (%)	76.0	8.7	15.9	0.4	(1.0)	100.0
EBITDA (Rs cr)	241	(120)	(45)	(3)	1	75
EBITDA Margin (%)	5.6	(24.6)	(5.0)	(13.3)	(2.6)	1.3
Segment Results (Rs cr)	74	(133)	(141)	(4)	(15)	(219)

Industry Overview

Indian childcare market size is estimated to grow at a CAGR of 12% - 14% between FY24 and FY29: The Indian childcare products market grew at a CAGR of 10% pre-COVID-19 to reach Rs 1,980 - 2,080 bn (approximately USD 25 - 26 bn) in the FY20. Between FY21 and FY24, the market experienced a substantial post-COVID-19 rebound and expanded at a CAGR of approximately 19% to reach Rs 2,800 - 2,900 bn (approximately USD 35 - 36 bn) in FY24.

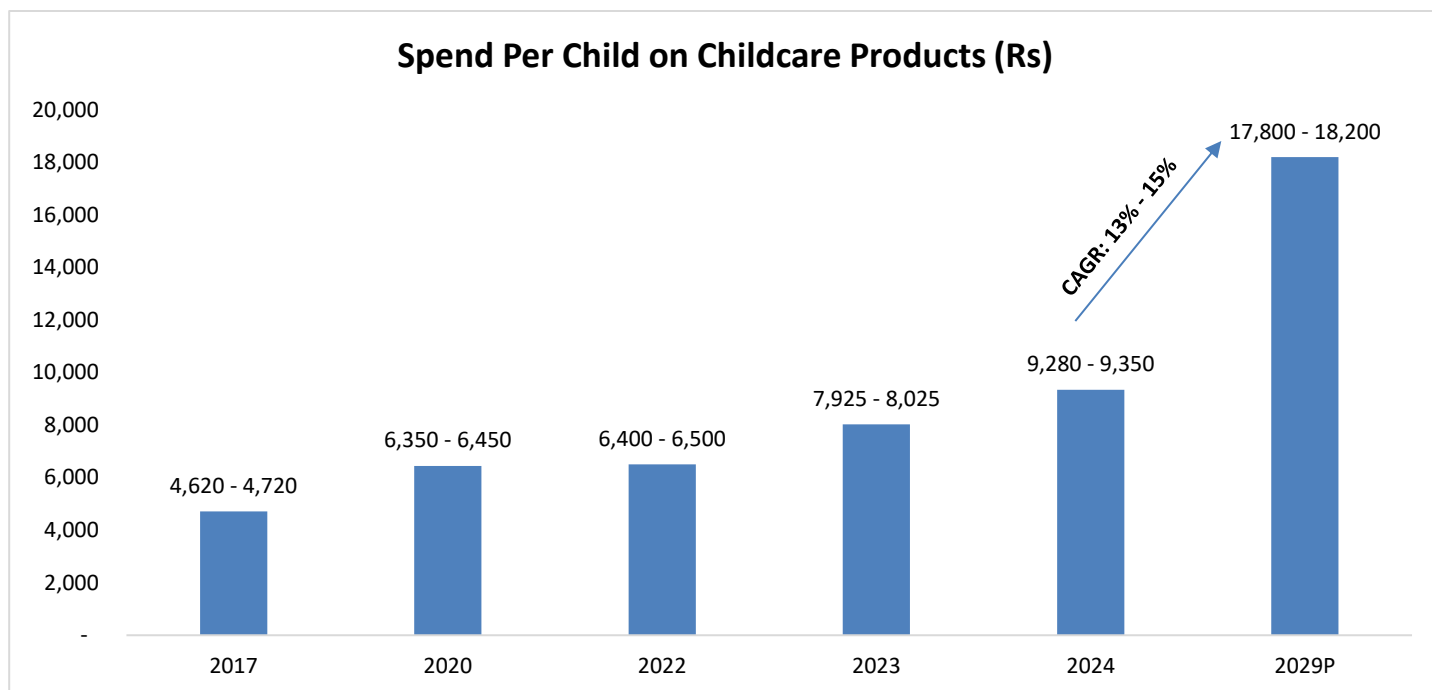
The Childcare Products market in India is projected to grow at a CAGR of 12 - 14% to reach Rs 5,150 - 5,450 bn (approximately USD 64 - 68 bn) by FY29 as parents are increasingly shifting their preferences towards branded Childcare Products, especially in categories like apparel and consumables, basis increase in disposable income and rising concern towards health and safety of children.

The market comprises both vertical and horizontal players, vertical players have single childcare product categories (e.g. apparel) focused value propositions, whereas horizontals operate across childcare product categories. With multiple kids-only exclusive brand outlets (EBOs) in the mid-to-premium and premium segment, there is a market opportunity in the value segment for a kids-only player. Within the organized offline B&M market for childcare products, customer preference is shifting towards Specialty Mothers, Babies and Kids Retailers, which offer a one-stop solution for all children's needs.



Source: RHP, SSL Research

Childcare product spending in India is expected to grow at a CAGR of 13% - 15% between FY24 and FY29: Childcare product spending per capita in India is currently nascent, at only Rs 9,280-9,350 in FY24. It is projected to grow faster than those in mature markets, at a CAGR of 13 - 15% from FY24 to FY29 (compared to 2 - 4% for the USA and 5 - 7% for China). The growth in per capita spending on Childcare Products in India is projected to be among the fastest globally. This is driven by increasing awareness of childcare, child health and wellness, rising disposable incomes and shifting customer perceptions that regard spending on childcare products as essential. This change is due to the non-discretionary nature of childcare expenses, for which there is a perpetual need.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
Revenue from Operations	2,401	5,633	6,481
YoY growth (%)	-	134.6	15.1
Cost Of Revenues (incl Stock Adj)	1,572	3,935	4,163
Gross Profit	829	1,697	2,318
Gross margins (%)	34.5	30.1	35.8
Employee Cost	339	770	686
Other Operating Expenses	509	1,245	1,561
EBITDA	(18)	(317)	70
EBITDA margins (%)	-	-	1.1
Other Income	116	99	94
Net Interest Exp.	38	72	115
Depreciation	111	294	371
PBT	(51)	(584)	(322)
Exceptional item/Extraordinary item	0	(54)	0
Tax	28	(44)	0
PAT	(79)	(486)	(322)
PAT margin (%)	-	-	-
EPS	-	-	-

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
Assets			
Net Block	246	422	669
Capital WIP	41	25	1
Intangible Assets	1,000	1,624	1,520
Intangible Assets under development	0	2	0
Right of use assets	324	712	901
Other Non current Assets	883	1,333	1,367
Current Assets			
Inventories	980	1,286	1,629
Trade receivables	218	225	218
Cash and Bank Balances	2,268	1,179	674
Short-term loans and advances	11	39	36
Other Current Assets	225	273	496
Total Current Assets	3,701	3,003	3,054
Current Liabilities & Provisions			
Trade payables	529	738	908
Other current liabilities	283	259	311
Short-term provisions	3	5	6
Total Current Liabilities	815	1,002	1,224
Net Current Assets	2,886	2,001	1,829
Total Assets	5,382	6,118	6,286
Liabilities			
Share Capital	88	89	89
Reserves and Surplus	3,439	3,368	3,082
Total Shareholders Funds	3,528	3,456	3,171
Minority Interest	760	743	621
Total Debt	90	176	463
Long Term Provisions	13	19	25
Lease Liabilities	319	723	960
Other Long Term Liabilities	496	699	763
Net Deferred Tax Liability	175	301	285
Total Liabilities	5,382	6,118	6,286

Cash Flow (Rs)	FY21	FY22	FY23
Cash flow from Operating Activities	(132)	(399)	(42)
Cash flow from Investing Activities	(491)	304	63
Cash flow from Financing Activities	644	(51)	81
Free Cash Flow	(350)	(632)	(383)

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets (%)	(1.3)	(6.8)	(4.3)
Return on Capital Employed (%)	(0.4)	(14.1)	(5.7)
Return on Equity (%)	(2.2)	(14.1)	(10.1)
Margin Analysis			
Gross Margin (%)	34.5	30.1	35.8
EBITDA Margin (%)	-	-	1.1
Net Income Margin (%)	-	-	-
Short-Term Liquidity			
Current Ratio (x)	4.1	2.5	1.9
Quick Ratio (x)	3.0	1.4	0.9
Avg. Days Sales Outstanding	33	15	12
Avg. Days Inventory Outstanding	149	83	92
Avg. Days Payables	80	48	51
Fixed asset turnover (x)	9.8	13.4	9.7
Debt-service coverage (x)	-	-	-
Long-Term Solvency			
Total Debt / Equity (x)	0.0	0.1	0.1
Interest Coverage Ratio (x)	-	-	-
Valuation Ratios			
EV/EBITDA (x)	-	-	315.9
P/E (x)	-	-	(69.9)
P/B (x)	6.4	6.5	7.1
EV/Sales (x)	8.5	3.8	3.4

Source: RHP, SSL Research

Peer Comparison – FY24

(Rs cr)	Brainbees Solutions Limited	FSN E-Commerce Ventures Ltd
CMP (Rs)	465	200
Sales (Rs cr)	6,481	6,386
EBITDA (Rs cr)	70	346
PAT (Rs cr)	(322)	40
Mkt Cap. (Rs cr)	24,142	57,083
Enterprise Value (Rs cr)	22,265	57,523
EBITDA Margin (%)	1.1	5.4
PAT Margin (%)	-	0.6
P/E (x)	-	1427.1
EV/EBITDA (x)	315.9	166.3
EV/Sales (x)	3.4	9.0
RoE (%)	-	2.4
RoCE (%)	-	6.8

The data is based on FY24 financial data.

For Brainbees Solutions Ltd, the Market cap, EV/Sales and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 5th August, 2024.

Source: RHP, SSL Research

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