

31 January 2022

Vedant Fashions (India)

IPO OFS – High valuation backed by higher return ratios

Issue Price: Rs.824-866

Category leader in Indian wedding, celebration wear, all-India.

Established brands: Manyavar, Mohey, Manthan, Twamev, Mebaz. In FY20, Manyavar brought 82% to sales to customers. Brands comprise a diverse range of attire and accessories, of creations for various members of the wedding entourage, besides personalisations for bride and groom. A one-stop shop with a wide product range for all celebrations; aspirational yet value-for-money.

Omni-channel network, all-India presence. The company has all-India multi-channel operations with ~90% of sales to customers (FY21) through its exclusive-brand outlets (EBOs). It operates through 546 EBOs, 145 large-format stores (LFS) and 825 multi-brand outlets (MBOs). E-comm brought ~4% to its sales to customers in H1 FY22. Almost 300 of its EBOs are franchisees. It has lease agreements or a franchise model for its EBOs. This asset-light model helps it grow without burdening its balance sheet. Ahead, it plans to double its footprint over the next few years, from 1.2m sq.ft. now.

Tech-based supply-chain network. Production is in-house and through third parties. Its entire supply chain and inventory management is system-driven and algorithmically managed at every stage in its supply and distribution chain. Its algorithm-based inventory-management system provides it with a real-time view of store stock and the ability to effectively monitor and manage stock levels at EBOs, minimizing dead stock and leading to better margins.

Financials. Over FY16-20, it reported ~16%/27%/27% revenue/EBITDA/PAT CAGRs. FY20 gross was at 72.6%. RoCE/RoE stood at 30.5%/24.3% in FY20. Since FY18, it has been net cash.

Valuation. At Rs866, the high of the issue price band, the stock is valued at ~52x EV/EBITDA and ~92x P/E on FY20 figures. The company's category advantage, industry-leading margins and return-ratios are positives. **Risks:** Mounting competition in men's celebration wear from ABFRL, Reliance, etc, keen competition in women's celebration wear, slow-down in consumption.

Key financials (YE Mar)	FY17	FY18	FY19	FY20	FY21
Sales (Rs m)	5,994	7,581	8,007	9,155	5,648
Net profit (Rs m)	1,060	1,479	1,764	2,366	1,329
EPS (Rs)	8.9	6.4	7.0	9.4	5.4
PE (x)	96.8	135.4	122.9	91.7	161.7
EV / EBITDA (x)	121.4	90.2	61.7	52.4	84.6
PBV (x)	63.8	29.8	23.8	19.7	19.3
RoE (%)	37.7	28.6	22.2	24.3	12.3
RoCE (%)	30.7	24.3	18.4	30.5	7.9
Dividend yield (%)	-	-	-	0.5	-
Net debt / equity (x)	0.2	-0.2	-0.3	-0.4	-0.4

Source: Company, Ace Equity

Key data

IPO issue date	4th – 8th Feb'22
Face value Rs	1
Lot size – retail	17 shares
Issue price Rs	824-866
IPO issue size-OFS	Rs.29,965m to Rs.31,492m
No. of shares	OFS: 36.4m equity shares
QIB	Up to 50%
Retail	35%
Non-institutional	15%

Shareholding pattern (%)	Pre-IPO	Post-IPO
Promoter	92.4	84.9
Non-promoter group	7.6	15.1
Total	100.0	100.0

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
Net revenues (Rs m)	5,994	7,581	8,007	9,155	5,648
<i>Growth (%)</i>	18.9	26.5	5.6	14.3	-38.3
Direct costs	1,337	2,431	2,226	2,512	1,463
SG&A	2,922	2,833	2,423	2,706	1,754
EBITDA	1,735	2,317	3,358	3,938	2,431
<i>EBITDA margins (%)</i>	<i>29.0</i>	<i>30.6</i>	<i>41.9</i>	<i>43.0</i>	<i>43.0</i>
- Depreciation	76	97	643	887	955
Other income	29	105	191	324	602
Interest expenses	51	60	196	256	258
PBT	1,638	2,265	2,709	3,118	1,819
<i>Effective tax rate (%)</i>	<i>35.3</i>	<i>34.7</i>	<i>34.9</i>	<i>-24.1</i>	<i>26.9</i>
+ Associates / (minorities)	-	-	-	-	-
Net income	1,060	1,479	1,764	2,366	1,329
Adjusted income	1,060	1,479	1,764	2,366	1,329
WANS	119	231	250	250	248
FDEPS (Rs / sh)	8.9	6.4	7.0	9.4	5.4
<i>FDEPS growth (%)</i>	<i>17.6</i>	<i>(28.5)</i>	<i>10.1</i>	<i>34.1</i>	<i>(43.3)</i>
<i>Gross margins (%)</i>	<i>77.7</i>	<i>67.9</i>	<i>72.2</i>	<i>72.6</i>	<i>74.1</i>

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
PBT	1,638	2,265	2,709	3,118	1,819
+ Non-cash items	119	63	660	871	652
Oper. prof. before WC	1,757	2,327	3,369	3,989	2,472
- Incr. / (decr.) in WC	-751	-1,085	-67	-804	399
Others incl. taxes	-637	-719	-954	-750	-345
Operating cash-flow	368	524	2,348	2,434	2,526
- Capex (tang. + intang.)	-220	-1,465	-73	-184	151
Free cash-flow	148	-942	2,276	2,250	2,677
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	-8	-	-604	-1,084
+ Equity raised	1	2,250	-	-	-
+ Debt raised	-50	1	-1	-0	-
- Fin investments	4	-1,353	-1,597	-881	-1,146
- Misc. (CFI + CFF)	(107)	16	(668)	(698)	(469)
Net cash-flow	-4	-35	10	67	-23

Source: Company, Ace Equity

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
Share capital	119	231	250	250	248
Net worth	3,293	7,050	8,828	10,660	10,914
Total debt	535	127	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	-94	10	1,927	2,502	2,235
Capital employed	3,733	7,186	10,754	13,162	13,150
Net tangible assets	1,415	1,491	2,700	3,278	2,829
Net intangible assets	-	1,514	1,516	1,631	1,603
Goodwill	-	157	157	157	157
CWIP (tang. & intang.)	47	7	25	3	4
Investments (strategic)	-	-	252	460	800
Investments (financial)	-	1,382	1,692	3,549	4,556
Current assets (ex cash)	3,350	4,768	5,649	6,632	6,221
Cash	12	50	1,194	199	71
Current liabilities	1,090	2,199	2,430	2,747	3,091
Working capital	2,260	2,569	3,219	3,885	3,130
Capital deployed	3,733	7,171	10,754	13,162	13,150
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
P/E (x)	96.8	135.4	122.9	91.7	161.7
EV / EBITDA (x)	121.4	90.2	61.7	52.4	84.6
EV / Sales (x)	35.2	27.6	25.9	22.5	36.4
P/B (x)	63.8	29.8	23.8	19.7	19.3
RoE (%)	37.7	28.6	22.2	24.3	12.3
RoCE (%) - after tax	30.7	24.3	18.4	30.5	7.9
Gross margin	25.2	22.6	19.4	33.7	9.1
DPS (Rs / sh)	-	-	-	4.0	-
Dividend yield (%)	-	-	-	0.5	-
Dividend payout (%) - incl. DDT	-	-	-	42.3	-
Net debt / equity (x)	0.2	-0.2	-0.3	-0.4	-0.4
Receivables (days)	115	152	152	148	233
Inventory (days)	59	43	41	48	65
Payables (days)	21	21	26	20	32
CFO : PAT %	34.7	35.4	133.1	102.9	190.1

Source: Company, Ace Equity

Issue details

1. **Opens:** 4th Feb'22
2. **Closes:** 8th Feb'22
3. **Issue details:** Offer for Sale of 36.36m equity shares
4. **Issue size:** Rs29,965m to Rs31,492m
5. **Price band:** Rs824 to Rs866 a share
6. **Lot size:** 17 shares

Objective

- The offer comprises an offer for sale of 36.36m shares (at the upper price of the band, Rs31,492m). The Ravi Modi Family Trust, Kedaara Capital AIF-I and Rhine Holdings will be selling shares in the OFS.
- The company will not receive any of the OFS proceeds. However, the listing would enhance its visibility and brand image, and shareholders obtain greater liquidity.

Valuation

At the top of its price band (Rs866 a share), the issue is priced at ~52x EV/EBITDA and ~92x P/E on FY20 figures (as FY21 was hit by Covid-19). The consumer retail sector quotes at an average EV/EBITDA of 19.9x/17x FY23e/FY24e, and average P/Es of 56.4x/38.9x.

Fig 5 – Peer comparison

(Rs m)		FY 21					
Company	M-cap	Net sales	EBITDA	PAT	EPS (Rs)	RoE (%)	CMP (Rs)
Page Industries	4,73,210	28,330	5,266	3,406	305.4	40.0	42,430
Trent	3,66,700	25,930	1,719	(1,462)	(4.1)	(6.1)	1,028
Bata India	2,65,280	17,085	1,622	(893)	(6.9)	(5.1)	2,065
ABFRL	2,62,170	51,811	5,943	(6,496)	(7.1)	(34.5)	294
TCNS Clothing	44,490	6,355	24	(564)	(9.2)	(8.9)	725

Source: Bloomberg, Company

Indian celebration-wear market leader

Diverse portfolio of brands catering to aspirations of the entire family

Vedant Fashions was the largest company in India in men's Indian wedding and celebration wear in terms of revenue, EBITDA and PAT in FY20. Its brand *Manyavar* is a category leader in branded Indian wedding and celebration wear, with all-India operations. It has established a multi-channel network and introduced brands by identifying gaps in the under-served and high-growth Indian wedding and celebration wear category. Its products are at various price points, enabling it to be aspirational and value-for-money to Indian consumers. Its brands comprise a range of attires and accessories, with creations for members of the wedding entourage, besides bride and groom personalisations.

Fig 6 – Vedant Fashions' brand portfolio

Brand	Year	Brand positioning	Price spectrum	Distribution channel
Manyavar	1999*	Men's and boys' flagship brand	Mid-premium	EBOs, MBOs, LFS, e-commerce
Mohey	2015	Women's flagship brand	Mid-premium	EBOs, e-commerce
Mebaz	2017**	Men's, women's and kids' brands for the South Indian market	Mid-premium to Premium	EBOs
Manthan	2018^	Men's value brand	Value	MBOs, LFS, e-commerce
Twamev	2019	Men's premium brand	Premium	EBOs

Source: Company

* Manyavar commenced operations through a predecessor entity in 1999

** Mebaz commenced operations in 2002 and was acquired by the Company in FY18

^ Large scale operations commenced following a refreshed launch in 2018

The company has a hybrid model of home-grown and acquired brands. It has three distinctive brands in men's Indian wedding and celebration wear, Manyavar, Twamev and Manthan, each catering to a different segment. It caters to women's and regional Indian wedding and celebration wear through Mohey and Mebaz respectively.

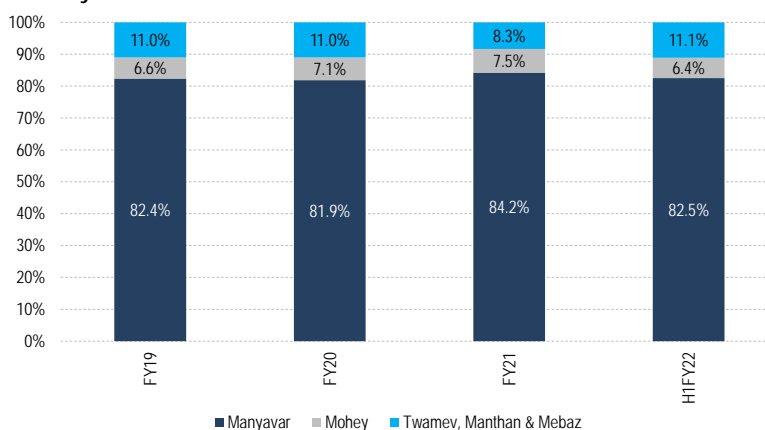
- **Manyavar**, its flagship brand, is in the mid-premium Indian wedding and celebration-wear price-range with a comprehensive product range.
- **Twamev**, its premium brand in men's Indian wedding and celebration wear, is priced between Manyavar and other luxury boutique brands.
- **Manthan** is its value brand offering of men's Indian wedding and celebration wear. Following a refreshed launch in 2018, products are sold primarily through MBOs, LFSs and online platforms. Management expects to cater to the sizable number of mid-market weddings and other celebrations through this brand.
- **Mohey** is its mid-premium flagship women's brand, launched in 2015, is the largest brand (by number of stores, FY20) across India, focusing on women's Indian wedding and celebration wear. It offers a range of attires (lehengas, sarees, gowns), aiming to establish a leading position as Manyavar in men's Indian wedding and celebration wear.
- **Mebaz** is an established one-stop shop, heritage brand with a strong legacy, acquired in FY18. In FY21, it was strong in Andhra Pradesh and Telangana.

Fig 7 – Product Range

Brand	Product Portfolio
Manyavar	Kurtas, Indo-westerns, Sherwanis, jackets and accessories. Kids' wear – kurta and jacket sets, Indo-westerns, accessories
Mohey	Lehengas, sarees, gowns and accessories
Mebaz	Mens'-wear – kurtas, Indo-westerns, Sherwanis, jackets, suits and accessories. Womens'-wear – lehengas, sarees, stitched suits and kurtis. Kids'-wear – lehengas, gowns, frocks, kurtas, suits and accessories.
Manthan	Kurtas
Twamev	Kurta sets, Sherwanis, Indo-westerns, suits and accessories.

Source: Company

Fig 8 – Manyavar contributes over 80% to sales to customers



Source: Company

Large and growing Indian wedding and celebration wear market driven by increased spending

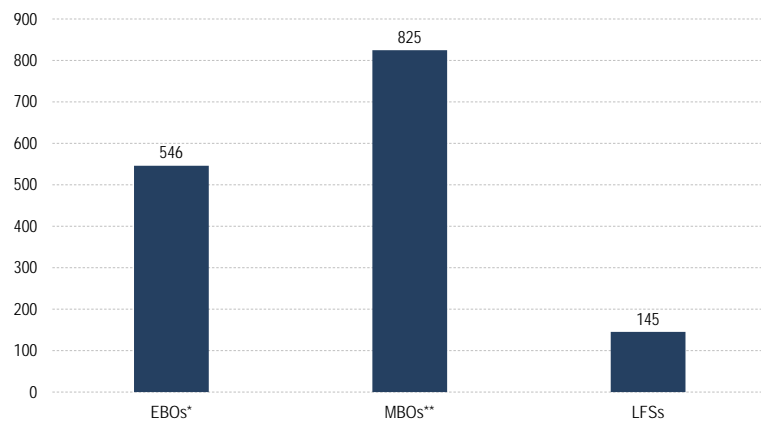
In urban agglomerations, elaborate multi-day, multi-event wedding celebrations have been increasing. The appetite for celebration wear at occasions preceding and following the wedding ceremony has been growing, extending not only to bride, groom and immediate family members but also to close friends and relatives. Indian wedding and celebration wear has been trending also for festivals (Diwali, Navratri, Rakhi, Eid, Durga Puja, etc.) and other occasions (birthday parties, wedding-anniversary celebrations, etc.).

Indian wedding and celebration wear is less price-sensitive than casual wear. Moreover, the branded market is expected to grow 18-20% over FY20-25, on the increase in available branded Indian wedding and celebration wear, as well as several regional brands offering consistent quality, attractive and contemporary designs, uniform pricing and enhanced customer experiences. For men's and women's wear, the branded section grows at different rates.

Differentiated business model, combining strengths of retailing with branded consumer play

Given its season-agnostic designs and aspirational-brand appeal, the company prices its creations consistently across India. It does not offer end-of-season sales or discounts for its Manyavar brand. Its retail strategy is focused on delivering a consumer-centric experience and it consistently endeavours to launch on-trend designs throughout the year. Its sales are primarily channelled through EBOs, enabling it to collect secondary-sales data, which it utilises to analyse consumer-buying behaviour.

Fig 9 – Vedant Fashions' retail touch points (H1 FY22)

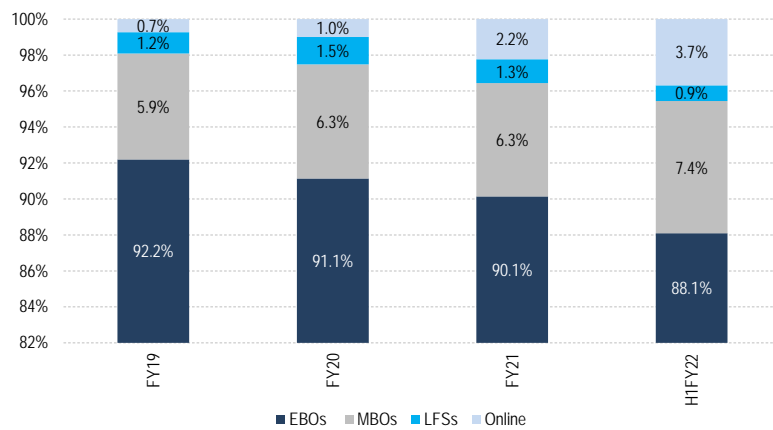


Source: Company

* Including 58 SiS and 11 overseas EBOs across the US, Canada and the UAE

** Including SiS

Fig 10 – EBOs contribute ~90% to sales to customers

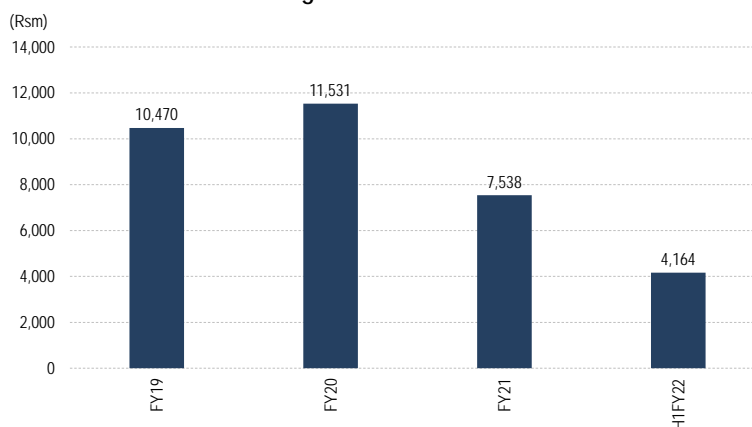


Source: Company

The company has an asset-light model. Its EBOs are predominantly operated by franchisees across India. In H1 FY22, ~88% of its sales to customers was generated by EBOs, +7% by MBOs and shop-in-shops, ~1% by LFS and ~4% by e-commerce. In H1 FY22 it had over 300 franchisees. In H1 FY22, ~45% of its sales to customers was generated by its franchisee-owned EBOs in tier-1 cities, ~39% from tier-2, ~13% from tier-3 cities and the balance ~3% from its franchisee-owned EBOs internationally.

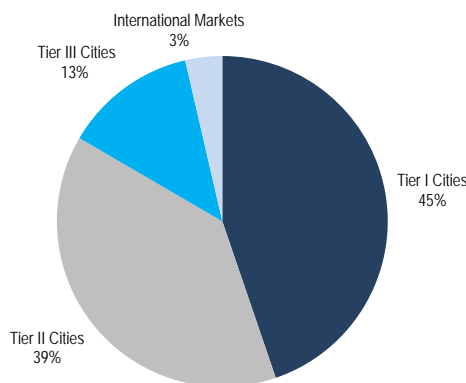
In FY21, over 60% of its franchisee-owned EBOs were flagship stores (based on retail-space size). In H1 FY22, it had 132 flagship stores in 22 states and 53 cities in India and three overseas. While most of its franchisees enter into lease agreements for EBOs, in other cases the company directly enters into lease agreements for EBO premises. In such cases, the commercial terms with its franchisees are modified as the rent towards EBO premises is borne by the company.

Fig 11 – EBO sales to customers grew ~10.1 % over FY19-20



Source: Company

Fig 12 – Tier-I and-II cities are generating more sales for franchisee-owned EBOs



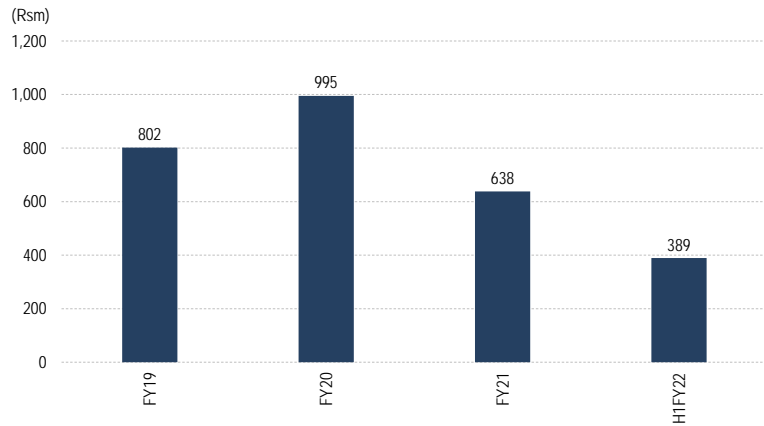
Source: Company Note: Sales here is sales to customers

In H1 FY22, ~73% of its franchisees have operated stores for three or more years, proving the success of its franchisee-based model. 65% of the sales to customers by its franchisee-owned EBOs is derived from franchisees with two or more stores.

The company also sell its products through third-party owned MBOs and SIS (shop-in-shops). It participates in exhibitions across India to display its products and designs. In H1 FY22, its products were sold through 825 MBOs (including SIS) in 27 states and 332 cities across India. It also sells some of its products through LFSs operated by third-party retail entities. Its commercial agreements are on a margin basis, with a uniform maximum retail price of all products fixed by it and applicable all-India.

It supplies its products to LFSs and receives periodic payments for all sales of its products made by LFSs per agreed terms. In H1 FY22, its products were available at 145 LFSs in 20 states and 43 cities across India.

Fig 13 – MBOs and LFSs sales to customers grew ~24.1% over FY19-20

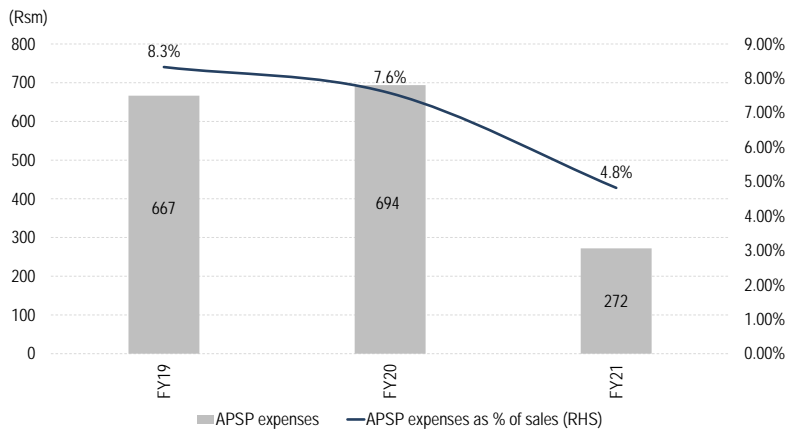


Source: Company

Effective marketing initiatives to connect emotionally with customers

The company has built a strong brand identity through effective advertising with targeted marketing campaigns through a variety of formats such as digital and social media, billboards, multiplexes, etc. It attempts to connect with customers emotionally through subtle messages that customers can relate to. These include value-based messaging themes embedded around traditional Indian society, festivals, events and cultural values, incl. “Diwali Wali Feeling”, “Shaadi Grand Hogi”, “Pehno Apni Pehchan”, “Apno Wali Shaadi” and “Shaadi ka Kharcha Adha Adha”.

Fig 14 – Ad spend; ~8% of sales to customers in FY19-20

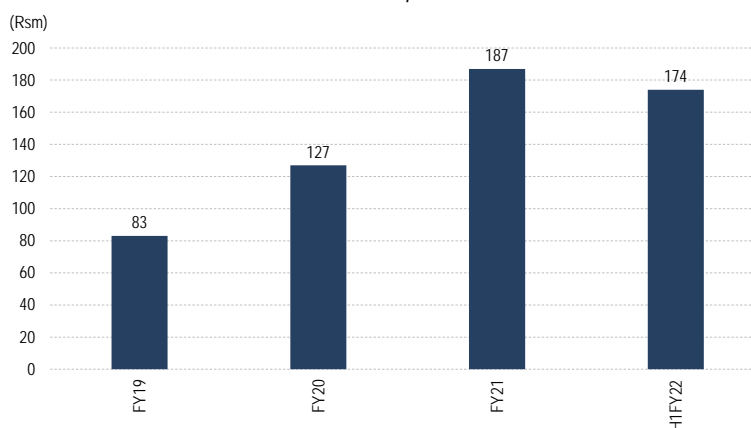


Source: Company

Omni-channel network, seamless integration of its online and offline channels

The company engages with customers via an integrated platform serviced by online and offline channels ensuring its products are available to customers through their preferred mode of retail. In H1 FY22, it had a retail space (EBOs and SIS) of over 1.2m sq.ft. at 212 cities and towns in India and eight internationally, and a retail footprint of 535 EBOs in India (including 58 SIS) and 11 EBOs overseas (the US, Canada and the UAE). Overseas retail store space was over 23,200 sq.ft.

Fig 15 – Online channel sales to customers, a 50% CAGR over FY19-21



Source: Company

It operates through its own website, its mobile application and leading e-commerce platforms. Its products are priced uniformly across India at its online and offline channels. It has a dedicated in-house online sales team that caters to all orders placed through its online channel. Sales to customers from its online channel rose from Rs83m for FY19 to Rs187m in FY21. Also, EBOs can place orders for any products not in stock and requested by customers; as a result, the company can service customers' orders at short notice at the EBOs of their choice.

Tech-based strong supply chain, inventory-replenishment systems led by system-wide data analytics, good processes and long-standing vendor relations

Manufacturing process are cutting, embroidery, stitching and finishing. While it carries out some processes in-house at its factory, a large portion is done by jobbers (also representing third-party manufacturers) with whom it has long-standing relations. However, it retains control of manufacturing by ensuring that various stages of production, incl. design conceptualisation and finalisation, fabric procurement, work allocation, quality control and testing, and review of allocation of job orders are managed by it. Also, it directly procures finished products from third-party manufacturers. Its ~0.26m sq.ft. central warehouse at Kolkata houses all its finished products.

Its entire supply-chain and inventory-management processes are system-driven and algorithmically managed at every stage through data analysis and automation, including materials procurement, warehouse management, store replenishment and new store opening fill. The algorithm-based inventory-management system provides it with a real-time view of store inventory and the ability to effectively monitor and manage stocks at EBOs, minimizing dead stock while providing it with visibility of the products as they are sold at its stores. Sales are managed through a retail ERP module, which provides it with strong forecasting and planning assistance to guide its end-to-end supply chain. For its franchisee-owned EBOs to seamlessly communicate with each other, it has adopted 'Wooqer', a communications module. Similarly, it has developed a digital order system and an independent vendor portal that form an integral part of its purchase and sales machinery.

Other than detailed analysis and research on prevailing fashion trends and consumer tastes and preferences, it also conducts a sell-through analysis on all its popular high-running items, and aims to consistently introduce similar designs. Also, it has a designer team responsible for developing authentic, concept-based, impressionable designs and products catering to the differing

choices and tastes of a wide range of ages and ethnicities, based on market research and trends identified using analytics on daily consumer sales data. Maintaining control over design and manufacturing through streamlined operations helps it ensure a high quality of finished products and thereby increasing repeat customers.

In H1 FY22, it had over 458 vendors on its vendor portal, from whom it regularly sources fabrics and other material, incl. finished goods. All orders placed by it are based on internal demand projections carried out in advance of the estimated delivery date of the final product. It has an extensive sourcing network at more than 41 cities to manage its stocks and support its product-development teams. It has a dedicated quality-assurance team responsible for ensuring compliance with its established quality standards and to ensure that all personnel working in all its departments (ranging from sourcing to sales and marketing) are adequately trained.

Strategy ahead

Expansion of footprint, in and outside India

It focuses on expanding where demand for its products is increasing, and where it can lever its operations to increase market share. Via its cluster-based expansion strategy, it identified several cities and towns in areas where it already operates and new ones where it plans to establish its first EBOs. It aims to double its national footprint in the next few years to ~2.2m sq ft.

It has developed independent growth strategies for each of its brands.

- Expand the Mohey brand footprint (along with the Manyavar brand) by establishing exclusive Mohey stores in clusters where it is dominant.
- Deepen penetration of its Manthan and Manyavar brands by increasing sales volumes through MBOs, LFSs and wholesale & online channels.
- Expand the Manyavar brand footprint by continuing to open EBOs in new areas, cities and markets, and expand its international operations in markets with a large Indian diaspora, strong-rooted Indian traditions and high spending power such as the US, Canada, the UK, the Mid-East, south-east Asia and Australia.

It will continue to increase its online sales through its own website, mobile applications and leading lateral e-commerce portals.

Scaling up emerging brands via more up- and cross-selling

It has leveraged the strong brand recall and its established Manyavar brand to introduce customers to its emerging brands, Twamev and Mohey. As a result, it up-sells its Twamev brand products to its Manyavar customers, who may be looking for a premium offering, or cross-sell its Mohey brand products at its Manyavar stores, thereby increasing in order value and the number of items a customer buys.

It aims to deepen its connection with customers and extend buying opportunities beyond wedding ceremonies to other celebrations. It continues to target an expanded audience beyond the couple, to include the wedding entourage, including the bride and groom's parents, friends and family, for each of whom it has customized and enhanced designs. It continues to expand its audience by introducing further product ranges. It plans to increase its focus on widening its product ranges, such as the kids' wear ranges of its Manyavar, Mebaz and Mohey brands.

Enhanced brand appeal via targeted marketing initiatives

Its established marketing initiatives enhance two factors of growth. First, expanding the addressable market by increasing the trend of dressing in Indian wedding and celebration wear not only at weddings but also at country-wide festivals, regional festivals and other occasions such as birthday parties and wedding-anniversaries, among others. Second, raising the awareness of its brands and creations, in and out of India in existing and potential markets. Its branding processes are aimed at ensuring that its brands have distinctive identities by utilising different brand logos, symbols and tag-lines across its product range and marketing materials. Through its focused marketing campaigns, it aims to establish an emotional bond with customers, and project an underlying core message with shared values through distinctive marketing, advertising and customer engagement steps.

It intends to continue to enhance its products brand recall via targeted marketing initiatives, incl. digital marketing campaigns, television and social

media advertising, e-mail communications, event sponsorships, brand-ambassador content, multiplex cinemas and outdoor advertising. It also uses in-store communications and visuals, store facades and store shutters to advertise its brands.

Significant potential, space for growth of emerging brands

It intends to continue to leverage its in-depth market research, robust technology platform and data analytics to introduce a wider range of products in the market, thereby consolidating its leading position. It has independent growth strategies for its growing brands.

- **Mohey.** Through independent ad campaigns and marketing initiatives, it aims to establish a leading position in women's wedding wear considering the market size and lack of a mid-premium and premium nation-wide brand. It aims to establish its presence in high-demand-product markets determined through research by opening EBOs (with the Manyavar brand), including standalone stores. It continues to increase the range of its product mix to additional products, incl. accessories. It recently introduced a range called 'Man-moh', a 'jodi' collection for the bride and groom with the specific goal of leveraging leadership of the Manyavar brand to rapidly increase the popularity and sales of creations comprising the Mohey brand.
- **Twamev.** With an independent marketing drive, it aims to up-scale its existing Manyavar customer base to a premium offering and expand its consumer base to customers with a preference for premium products. It also aims to widen the product categories offered with a large and more comprehensive merchandise mix.
- **Manthan.** As its value-brand, it aims to increase its footprint with a targeted presence through MBOs and LFSs. It also aims to expand sales through its online channel (including brand website, mobile application and other e-commerce portals) and target new customers through attractive pricing. With a large blend of product designs at good-value prices, it aims to cater to about 5m weddings a year.

Disciplined approach toward acquisitions

The company's motive behind the acquisition of 'Mebaz' in FY18 was to strengthen its leading position in South India (particularly Andhra Pradesh and Telangana) and complement its omni-channel network. Through acquisitions, it aims to leverage its strong cash position for synergic opportunities and seamlessly integrating acquired brands with its existing brand ecosystems, facilitating an increase in profitability margins and achieving economies of scale. Management's primary focus while reviewing potential acquisition opportunities is to consolidate its leading position, expand in regions where it does not have significant operations, supplement its ability to leverage its manufacturing and supply chain to drive future expansions and further enhance and optimize its omni-channel network through acquiring a relatively established competitor in ethnic and celebration wear. It focuses on opportunities in adjacent categories within Indian wedding and celebration wear, such as kids' apparel and accessories, and on brands not competing with its existing ones, so as to facilitate easier integration and synergies with the target.

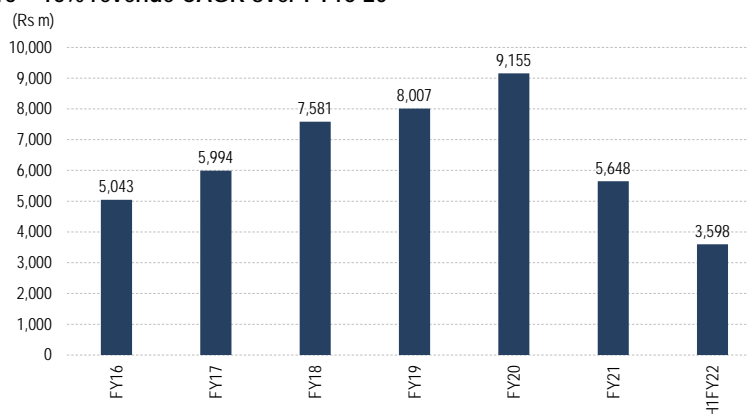
Financials

Good financial performance; Covid'19-hit FY21

16% revenue, 27% PAT CAGRs over FY16-20

Over FY18-20 the revenue CAGR was ~10%, and 16% over FY16-20. Over FY19-21, EBOs accounted for ~91% of sales to customers on average while MBOs and LFS together contributed ~7.5%. Covid-19 curtailed FY21 revenue 38% y/y to Rs5.7bn. Revenue of other apparel retailers in FY21 was down ~41% y/y. In H1 FY22 the company's revenue was Rs3.6bn.

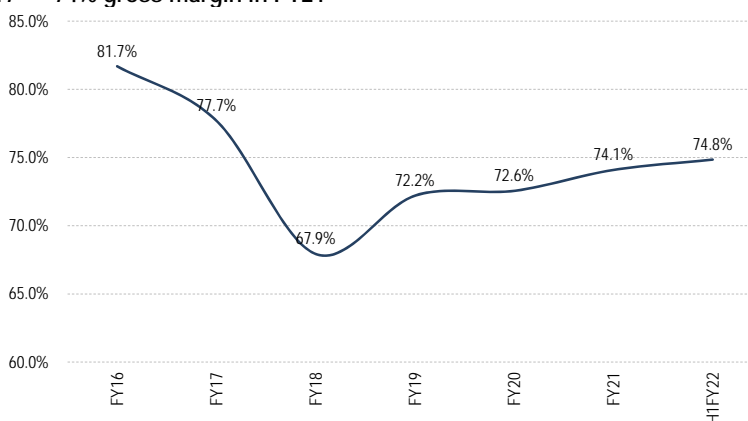
Fig 16 – 16% revenue CAGR over FY16-20



Source: Company, Ace Equity

A 70-72% gross margin was maintained over FY18-20. Covid-19 pushed this up to 74% in FY21 and ~74.8% in H1 FY22. The higher margin stemmed from the greater proportion of full-priced sales as company does not offer any end-of-season sales or discounts for its Manyavar brand.

Fig 17 – ~74% gross margin in FY21

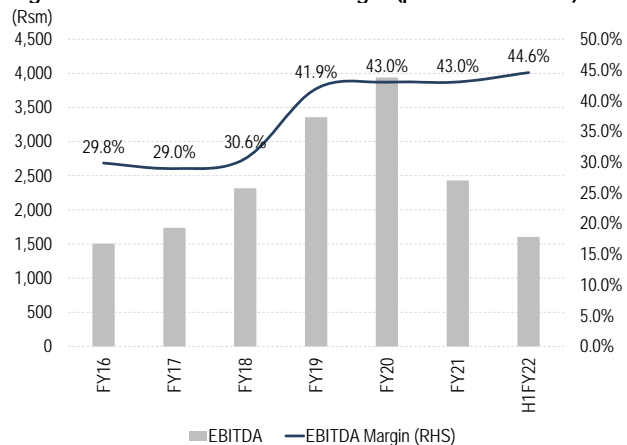


Source: Company, Ace Equity

The reported FY21 EBITDA margin (incl. the IND AS 116 impact) was 43%, the same as in FY20. The adj. EBITDA margin (adjusted for IND AS 116 impact) for FY19 is ~34.2% (as per Ace Equity) vs. reported EBITDA margin of 41.9%.

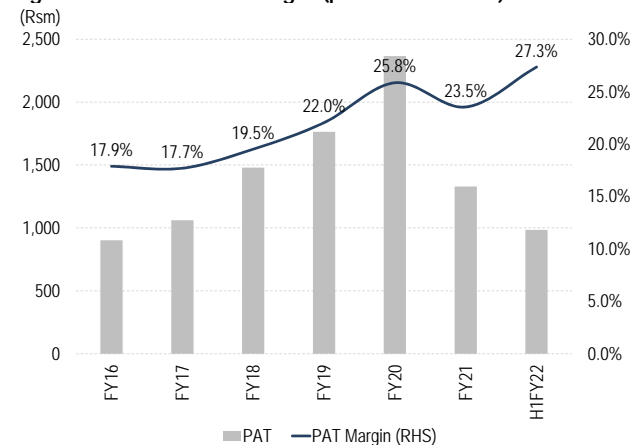
Over FY18-20, the PAT CAGR was ~26.5%, and 27.3% over FY16-20. Covid-19 pulled FY21 PAT down 44% y/y to Rs1.3bn.

Fig 18 – EBITDA and EBITDA margin (post-IND AS 116)



Source: Company, Ace Equity

Fig 19 – PAT and PAT margin (post-IND AS 116)

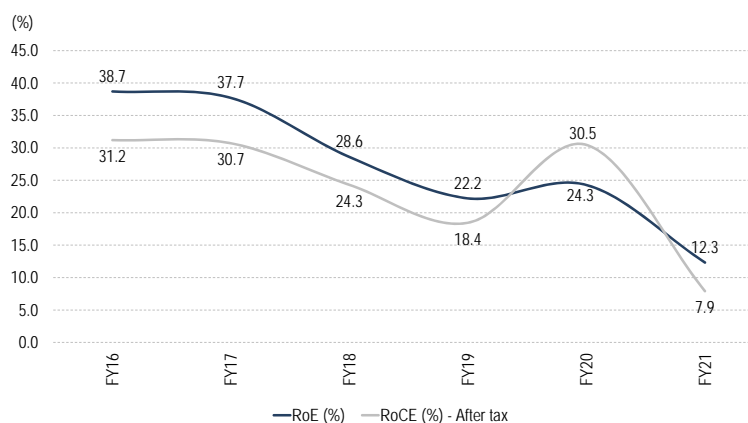


Source: Company, Ace Equity

24.3% RoE, 30.5% RoCE in FY20

The FY20 RoE was 24.3% incl. the IND AS 116 impact; the RoCE, 30.5%. The FY18 RoE was 28.6%; the RoCE, 24.3%.

Fig 20 – Return ratios



Source: Company, Ace Equity

Fig 21 – duPont analysis

	FY16	FY17	FY18	FY19	FY20	FY21
Profit margin (%)	17.9	17.7	19.5	22.0	25.8	23.5
Asset turnover (x)	1.4	1.4	1.1	0.7	0.6	0.4
Equity multiplier (x)	1.6	1.5	1.4	1.4	1.5	1.5
RoE (%)	38.7	37.7	28.6	22.2	24.3	12.3

Source: Company, Ace Equity

Working capital days at ~170 over FY18-19

Working-capital days (on sales) were 176 in FY20, averaging 171 over FY18-19. As Covid-19 curbed sales, days were more in FY21 (267). Inventory days were 48 in FY20, averaging 42 over FY18-19. Receivables days were 148 in FY20, averaging 152 over FY18-19. Payables days were 20 in FY20, averaging 24 in FY18-19.

Fig 22 – Working capital

Days	FY16	FY17	FY18	FY19	FY20	FY21
Receivables	78	115	152	152	148	233
Inventory	62	59	43	41	48	65
Payables days	23	21	21	26	20	32
Net working-capital	117	153	175	167	176	267

Source: Company, Ace Equity

Net cash company, net debt-to-equity in FY21: -0.4x

In FY21 the company had no borrowings. It's been net-cash since FY18.

Fig 23 – Net debt to equity at -0.4x in FY21

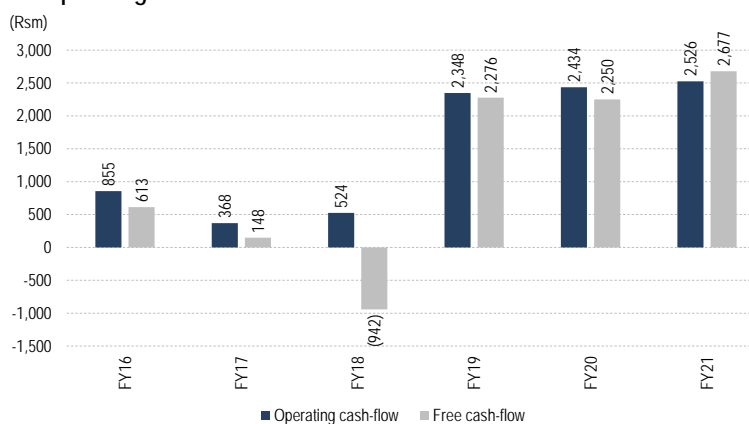
(Rs m)	FY16	FY17	FY18	FY19	FY20	FY21
Net debt / (Net cash & cash equivalents)	201	522	(1,305)	(2,886)	(3,748)	(4,627)
Net debt-to-equity (x)	0.1	0.2	-0.2	-0.3	-0.4	-0.4

Source: Company, Ace Equity

Operating cashflow positive since FY16

Despite lower sales and profit in FY21, operating cash-flow was maintained at Rs2,526m. FY20 and FY19 OCF were respectively Rs2,434m and Rs2,348m. Over FY18-21 cumulative free-cashflow of Rs6,261m was generated (FY18-20: Rs3,584m). In FY21 free-cashflow jumped 19% y/y to Rs2,677m boosted by lower working capital and capex (down 182% y/y from negative Rs184m to positive Rs151m). The company has been operating cashflow positive since FY16 and free-cashflow positive in all years except FY18. FCF/PAT for FY21 was 201%, 95% for FY20, and 129% for FY19.

Fig 24 – Operating cashflows



Source: Company, Ace Equity

Peer comparison

Fig 25 – Peer valuations

Valuation	M.Cap (Rs m)	EV / EBITDA (x)			P/E (x)		
		FY22e	FY23e	FY24e	FY22e	FY23e	FY24e
Page Industries	473,210	64.5	49.7	42.5	96.6	73.2	62.4
Trent	366,700	65.6	43.6	34.8	231.3	110.2	77.0
Aditya Birla Fashion & Retail	262,170	31.4	19.7	16.2	-	121.3	66.3
Lux Industries	80,900	17.1	14.5	12.5	24.1	20.4	17.5
Vmart Retail	74,270	40.3	22.7	17.9	212.7	63.1	43.8
TCNS Clothing	44,490	36.9	17.8	14.7	218.8	40.1	30.2
Arvind Fashions	40,780	16.4	11.2	9.3	-	32.8	21.2
Rupa Company	40,310	15.0	12.9	-	20.6	17.4	-
Shoppers Stop	38,640	15.7	9.5	8.4	-	115.9	49.9
Raymond	50,600	10.1	7.2	6.0	37.1	11.1	8.3
Kewal Kiran	13,830	12.8	9.8	8.0	17.9	14.7	12.6
Go Fashion	51,500	56.5	31.1	21.7	376.5	77.2	43.5

Source: Bloomberg

Fig 26 – Peer financials

	CAGR % (FY15-FY20)			Gross margins (%) FY20	EBITDA margins (%) FY20	RoCE (%)			RoE (%)			Working capital (days)		
	Revenue	EBITDA	PAT			FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Go fashion	53.2	129.2	153.8	66.9	32.3	14.8	12.3	14.7	10.4	13.6	18.4	125	123	141
Page Industries	13.8	10.8	11.9	55.5	18.1	41.2	42.9	40.8	45.9	48.6	43.0	83	96	87
Trent (Consolidated)	8.8	49.5	54.0	46.0	15.5	7.9	8.5	11.9	5.5	6.0	6.0	26	37	34
Aditya Birla Fashion & Retail	9.9	18.6	NM	51.9	14.0	6.3	8.9	10.0	11.5	25.5	(11.5)	12	14	38
Lux Industries	12.9	27.0	31.4	60.5	16.1	15.7	17.5	24.0	27.6	27.1	30.8	169	138	161
Vmart Retail	18.2	27.4	4.7	32.2	12.9	23.2	18.1	19.6	25.2	16.3	11.4	42	46	62
TCNS Clothing	30.7	29.5	21.4	65.0	16.2	26.0	23.9	13.7	27.5	25.0	10.9	98	108	122
Arvind Fashions (FY16-20)	6.2	16.1	NM	44.9	7.1	5.4	6.9	(8.2)	1.4	1.8	(37.8)	38	65	77
Rupa Company	0.0	(3.8)	(1.9)	59.0	11.7	18.5	15.8	12.1	18.4	14.2	11.0	169	200	219
Shoppers Stop	(4.2)	15.5	NM	42.1	15.9	7.6	6.2	12.1	30.9	7.1	(28.9)	(11)	(16)	(26)
Raymond	4.0	3.9	11.7	56.8	8.0	4.4	5.9	3.7	8.1	9.3	2.2	99	100	110
Kewal Kiran	5.3	(0.3)	2.0	59.8	18.0	14.5	14.5	12.6	18.9	19.4	16.7	103	157	146

Source: Company, Bloomberg

Company background, management

Manyavar began with a 150 sq.ft. shop in Kolkata in 1999 when Ravi Modi ventured into a family business and revamped men's ethnic wear. In 2002, he incorporated Vedanta Fashions Pvt. Ltd. (VFPL), and set up its first store in Bhubaneswar in 2008. Given its customer-centric approach and ideology of delivering an enhanced experience to customers, it has command a dominant position in a market, traditionally difficult to break into.

Fig 27 – Key milestones

Year	Event
2010	Inauguration of 100 th EBO, in Santa Cruz, Mumbai
2011	Launch of first international store, in Dubai, the UAE
2013	Inauguration of 300 th EBO, in Quest Mall, Kolkata EBOs in 100 cities
2015	Launch of women's celebration-wear label 'Mohey'
2016	Launch of first store in the USA, in New Jersey Crossed Rs5,000m in EBO revenue
2017	Strategic acquisition of brand 'Mebaz' from New Meena Bazaar International Pvt. Ltd. Investment from Kedaara Capital AIF-1 and Rhine Holdings
2018	Refreshed launch of value celebration wear label, 'Manthan' Inauguration of 600 th store, in Mysuru
2019	Launch of premium men's wear brand, 'Twamev' Crossed Rs10,000m in EBO revenue Crossed 1m sq.ft. in EBOs
2020	Launch of the "Manyavar" mobile application

Source: Company

Fig 28 – Key managerial personnel

Director	Designation	Detail
Ravi Modi	Chairman and Managing Director	Commerce, St. Xavier's College, Calcutta University. Over two decades' experience in the garment industry. Co-founder and trustee of Ashoka University and trustee of the Manas Foundation
Shilpi Modi	Whole-time Director	Commerce, Allahabad University. More than two decades' experience in the garment industry.
Sunish Sharma	Nominee Director	B.Com. (Hons.), University of Delhi and PGDM in Computer-Aided Management, IIM Calcutta. Cost accountant, ICWA. Co-CEO and managing partner of Kedaara Capital. Extensive private equity investment experience in business services and technology, healthcare, financial services and consumer sectors. Also director on the board of directors of Spandana Sphoorty Financial
Manish Mahendra Choksi	Independent Director	Bachelor's in Chemical Engineering, Houston University, and MBA, Houston University, USA. Non-executive director (vice-chairman) on board of directors, Asian Paints. Member, board of directors, Unotech Software Pvt. Ltd. and Germinait Solutions Pvt. Ltd. independent director on the board of MSL Driveline Systems. Also member of the global advisory board of Chiratae Ventures.
Abanti Mitra	Independent Director	PGDM in Rural Management, Institute of Rural Management, Anand. Director, Positron Consulting Services Pvt. Ltd. and independent director on board of directors, Spandana Sphoorty Financial and Criss Financial
Tarun Puri	Independent Director	B.Com. (Hons.) Mechanical Engineering, BITS, Pilani; PGDM, IIM, Calcutta. Previously with the Unilever group of companies and Nike.
Rahul Murarka	CFO	B.Com. (Hons.), University of Calcutta, Chartered Accountant. Previously with S.R. Batliboi & Co. LLP as manager in assurance practice.
Naveen Pareek	Company Secretary, Compliance Officer	B.Com. (Hons.), University of Calcutta. Member, ICSI. Pursuing CA Final Group 2.
Aman Sethia	Chief Product Officer	Attended college in Kolkata. Associated with company since 2002.
Siddhartha Saraf	Chief - Strategy & Investments	CFA, Financial Risk Manager enrolled with the Global Association of Risk Professionals, USA. Previously associated with Kotak Mahindra Bank as associate vice president-II.
Ajay Modi	Chief Supply Chain Officer	Bachelor's in business management, Bengaluru University. Associated with the company since 2008.
S. Arif Raza	Chief of Retail Business Development and Projects	BBA, University of Delhi, MBA (marketing), S.P. Jain Center of Management. Retail next practice, executive program from XLRI. Over 10 years' experience in retail business development and management. Previously worked with PVR, Madura Fashion & Lifestyle (a division of the Aditya Birla group) and Nike India Pvt. Ltd.
Sushil Kumar Agarwal	Chief Information Officer	B.Com., University of Calcutta, Chartered Accountant. Completed the post qualification course in information systems audit conducted by the ICAI
Vedant Modi	Chief Marketing Officer	B.Sc., University College London in Information Management for Business. Appointed in FY22.
Kanchan Banerjee	Chief Human Resources Officer	MBA, Sikkim, Manipal University. Executive diploma in HRM, XLRI. Over 10 years' experience in human resources. Previously associated with Vikram Solar as head, corporate HR, Trident as VP talent management and separation Punjab, Vodafone Mobile Services. as manager talent and operations, Wipro as manager and Bharti Airtel as assistant manager CSD.

Source: Company

Key risks

- **Mounting competition** in men's celebration wear from ABFRL, Reliance, etc.
- **Keener competition in women's** celebration wear, especially from the informal market.
- **Slowdown in consumption** due to further restrictions on account of Covid-19.

Appendix

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