

Stock Note

Vedant Fashions Ltd.

October 23, 2023





Vedant Fashions Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Consumer Discretionary	Rs. 1311	Buy in Rs. 1300-1325 band and add more on dips in Rs. 1160-1185 band	Rs. 1445	Rs. 1555	3-4 quarters

HDFC Scrip Code	MANYAVAR
BSE Code	543463
NSE Code	MANYAVAR
Bloomberg	MANYAVAR IN
CMP (Oct 20, 2023)	1311
Equity Capital (RsCr)	24.3
Face Value (Rs)	1
Equity Share O/S (Cr)	24.3
Market Cap (RsCr)	31818
Book Value (Rs)	58
Avg. 52 Wk Volumes (in '000s)	156
52 Week High	1475
52 Week Low	1058

Share holding Pattern % (Sept, 2023)	
Promoters	75.0
Institutions	21.6
Non Institutions	3.4
Total	100.0



* Refer at the end for explanation on Risk Ratings

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Our Take:

Vedant Fashions Ltd. (VFL) is the largest exclusive Indian wedding and celebration wear player. Over the years, the company has established a strong brand equity in consumer's mind through its flagship brand, Manyavar. VFL 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. VFL's strong brand recall, thanks to its curated marketing strategy with celebrity brand ambassadors and emotional theme based campaigns has created aspirational brand yet value for money. The company has established a multi-channel network through EBOs, MBOs, LFS and online channel to penetrate deeper into the market.

We believe the key growth drivers for the Indian wedding and celebration wear market in India are (1) rising disposal income levels leading to higher discretionary spends (2) urbanization (3) multi-day and multi-event wedding celebrations (4) shift from tailored to ready-to-wear celebration ethnic apparel (5) increased penetration of branded players in tier-II and tier-III markets. Therefore, we expect this to drive the branded ethnic wear market which shall directly benefit the company.

Valuation & Recommendation:

VFL has built robust business model with industry leading margins, return metrics and healthy cash generation, majorly driven by a) asset light model (leading to healthy return ratios), b) no end of season sale/discounts in Manyavar brand (>80% of total sales) c) aspirational value-for-money pricing and d) fully integrated tech-based supply chain network. Going ahead, the company intends to a) double its retail footprint in next few years 2) widen their product offerings to further increase their consumer reach c) scale up the emerging brands via various up-selling and cross selling initiations and d) review potential acquisition opportunities to consolidate their leadership position and expand in regions where they do not have a significant presence. We expect the company to report 17%/16%/18% CAGR growth in revenue, EBITDA and PAT over FY23-25E.

We think the base case fair value of the stock is Rs 1445 (59x FY25E EPS) and the bull case fair value of is Rs 1555 (63x FY25E EPS). Investors can buy the in stock Rs 1300-1325 band (53x FY25E EPS) and add more on dips in Rs 1160-1185 band (47.5x FY25E EPS).



Vedant Fashions Ltd.

Financial Summary

Particulars (in Rs Cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Operating Income	311.6	324.9	-4%	341.6	-9%	565	1,041	1,355	1,560	1,839
EBITDA	148.1	163.0	-9%	167.8	-12%	243	496	671	771	909
APAT	91.9	100.8	-9%	108.8	-16%	133	315	429	497	599
Diluted EPS (Rs)	3.8	4.2	-9%	4.5	-16%	5.4	13.0	17.7	20.5	24.7
RoE-%						12.3	29.0	34.6	32.8	33.6
P/E (x)						245	101	74	64	53
EV/EBITDA						129	63	46	40	34

(Source: Company, HDFC sec)

Key Triggers:

Multi-brand product portfolio

VFL's product portfolio includes men's ethnic and celebration wear items such as Indo-western, *sherwanis*, *kurtas*, jackets and accessories such as *jutti*, *safa*, *mala*, and women's ethnic and celebration wear items such as *lehengas*, *sarees*, stitched suits, gowns and *kurtis*.

VFL offers three distinctive brands in the men's Indian wedding and celebration wear market, each catering to a different segment of the market. Manyavar is the flagship brand, and is in the mid-premium Indian wedding and celebration wear price range with a comprehensive product portfolio. Twamev is a premium brand and it is priced between Manyavar and other luxury boutique brands. Manthan is a value brand offering of men's Indian wedding and celebration wear. Following a refreshed launch in 2018 the company caters to the demands of the sizable number of mid-market weddings and other celebrations through this portfolio of products.

In women's wear, VFL launched a mid-premium brand Mohey in 2015 to cater to and develop a presence in the women's Indian wedding and celebration wear market. Mohey brand offers a range of attires such as *lehengas*, *sarees* and gowns with the vision of establishing a leadership position as Manyavar has done in the men's Indian wedding and celebration wear market.

In order to increase penetration in South India market, VFL acquired Mebaz in FY18. Mebaz has a strong presence in the states of Andhra Pradesh and Telangana.



Vedant Fashions Ltd.

Brands	Year	Target Group	Price Spectrum	Distribution	Product Portfolio												
	1999 ¹	Men, Boys	Mid - Premium	EBOs, MBOs, LFS, E-commerce	Men: Kurta, Indo-western, Sherwani, jacket, accessories Kids: Kurta set, jacket set, Indo-western, accessories												
	2015	Women	Mid - Premium	EBOs & E-commerce	<ul style="list-style-type: none"> ○ Lehenga ○ Saree ○ Gown ○ Accessories 												
	2019	Men, Women's	Premium	EBO's	<table border="0"> <tr> <td>Men's</td> <td>Women's</td> </tr> <tr> <td>○ Kurta set</td> <td>○ Saree</td> </tr> <tr> <td>○ Sherwani</td> <td>○ Lahenga</td> </tr> <tr> <td>○ Indo-western</td> <td>○ Skirt Top</td> </tr> <tr> <td>○ Suit</td> <td>○ Gown</td> </tr> <tr> <td>○ Accessories</td> <td>○ Accessories</td> </tr> </table>	Men's	Women's	○ Kurta set	○ Saree	○ Sherwani	○ Lahenga	○ Indo-western	○ Skirt Top	○ Suit	○ Gown	○ Accessories	○ Accessories
Men's	Women's																
○ Kurta set	○ Saree																
○ Sherwani	○ Lahenga																
○ Indo-western	○ Skirt Top																
○ Suit	○ Gown																
○ Accessories	○ Accessories																
	2017 ²	Men, Women, Kids	Mid - Premium to Premium	EBO's	Men: Kurta, Indo-western, Sherwani, Jacket, Suit, Accessories Women: Lehenga, Saree, Suit, Kurti Kids: Lehenga, Gown, Frock, Kurta, Suit, Accessories												
	2018 ³	Men	Value	MBOs, LFS, E-commerce	<ul style="list-style-type: none"> ○ Kurta 												

(Source: Company, HDFC sec)

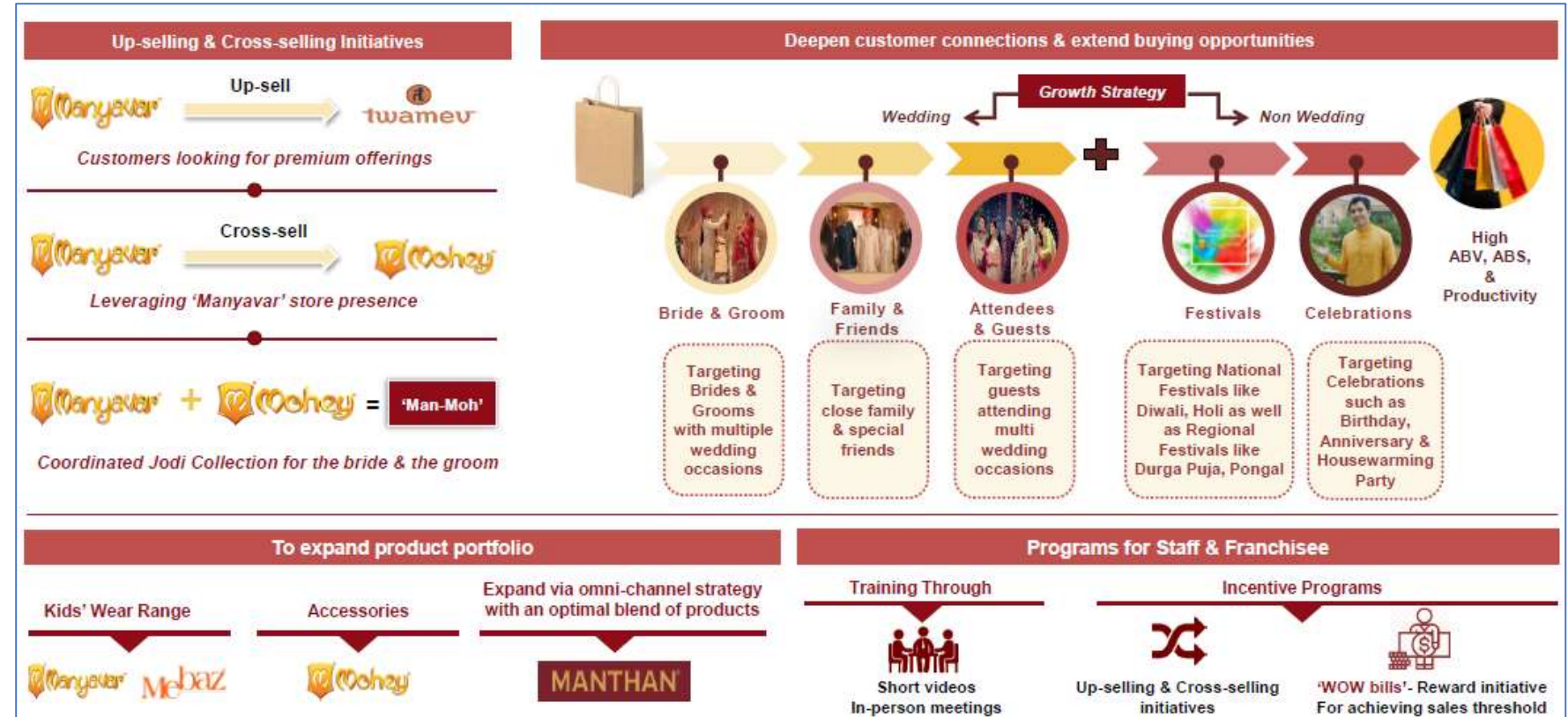
Scaling up emerging brands via more up- and cross-selling

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 plans to increase its focus on widening its product ranges, such as the kids' wear ranges of its Manyavar, Mebaz and Mohey brands.



VFL's up selling and cross selling initiatives



(Source: Company, HDFC sec)

Strong control over the entire supply chain

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, including 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 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 forms an integral part of its purchase and sales machinery.



(Source: Company, HDFC sec)

Expansion of footprint, in and outside India

VFL 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 EBOs. It aims to take 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.

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 taglines 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.

Disciplined approach towards 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.

Industry Overview

Ethnic wear in India accounted for about 32% of the overall apparel retail market in India as of FY20. Women's ethnic wear is the largest segment of the overall market as it has found acceptance in both daily wear and office-wear categories, apart from the Indian wedding and celebration wear category. It includes lehengas, kurtis, sarees and salwar kameez. Men's ethnic wear is the second-largest category and has a share of ~10% of the overall ethnic market. It is dominated by the Indian wedding and celebration wear market and includes



sherwanis, kurta jacket sets, kurta pajama, Indo-western apparel, etc. Acceptance of ethnic wear during festivals and wedding functions is leading to overall growth of the men’s ethnic-wear market.

A large portion of ethnic wear remains unbranded with the branded segment accounting for 30-35% of the overall ethnic-wear retail market. However, the branded segment is growing faster than the unbranded segment due to a superior customer experience, a better merchandise mix, standardised pricing, brand strength and further expansion of players beyond tier-II cities. It is likely to grow well owing to the increasing presence of brands such as Manyavar, Fab India, BIBA and rising disposable incomes.

Branded Indian wedding and celebration wear grew 27-29% from FY15-20. Its share in the overall Indian wedding and celebration wear market increased to 15-20% in FY20, evenly supported by men’s and women’s segments. New players have also entered the market. Titan launched ‘Taneira,’ an ethnic wear brand offering sarees and ready-to-wear blouses. ABFRL acquired 51% of Sabyasachi Couture, formed a strategic partnership with ‘Tarun Tahiliani’ brand through acquisition of a 33.5% stake and entered menswear through its e-commerce brand ‘Jaypore’. Existing players such as VFL have also been expanding their presence by launching new brands. For instance, ‘Mohey’, VFL’s new brand, enables VFL to create offerings across various price points.

Retail market	Particulars	FY15	FY20	FY25P	CAGR FY15-20	CAGR FY20-25
Apparel	Market size (Rs in billion)	4,000	5,647	8,150-8,200	7%	7.5-8%
	Branded penetration	~18%	30%	35-40%	18-19%	12-13%
Ethnic Wear	Market size (Rs in billion)	1,292	1,800	2,350-2,400	7%	5.5-6%
	Branded penetration	~19%	30-35%	45-50%	18-19%	12-14%
Indian wedding and celebration wear	Market size (Rs in billion)	753	1,020	1,325-1,375	6%	5.5-6%
	Branded penetration	~10%	15-20%	28-32%	27-29%	18-20%

(Source: Company, HDFC sec)

Financial Summary:

VFL has clocked revenue CAGR of 14% over FY19-23, primarily driven by increase in EBO retail area over the same period. Going ahead, we expect the company to report 17% CAGR in revenue over FY23-25E.

VFL has maintained gross margin above 70% over FY18-23. 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.



VFL's EBITDA margin stood at 49.5% in FY23. We expect company to maintain its EBITDA margin FY23-25E. PAT is likely to grow at 18% CAGR over FY23-25.

Debtors is the largest component in VFL's working capital which corresponds to inventory for its franchisees. VFL accounts for revenue when it ships products to the franchisee, but it receives cash when it is sold in the store leading to higher receivable days which stood at ~140 days in FY23. However, franchisees pay an upfront deposit to VFL at the time of first inventory purchase.

VFL is a net cash company. With steady cash generation, net cash levels are expected to increase in the medium term.

Key Concerns

Pricing pressure from competitors may restrict the company to increase prices of its products. Increased competitive intensity could impact the revenue growth.

Dependence on third party for manufacturing the products

Any demand slowdown in discretionary spending due to the inflationary environment

Failure to scale up newer brands including Mohey, Twamev and Manthan

Business depends on the organization of weddings, festivals and other ethnic celebrations, and may be affected by seasonal variations/presence of pandemics as well as changes in consumer preferences

About the company

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. At present, VFL is the largest company in India in the men's Indian wedding and celebration wear segment. In addition to *Manyavar*, the company has brands such as *Mohey*, *Twamev*, *Manthan* and *Mebaz*, catering to different sections of the market, in terms of price points and brand positioning.

VFL has a retail footprint (Q1FY24) of 1.56 mn sq. ft. across India (646 EBOs in 248 cities & towns in India) and Overseas (16 EBOs in USA, UAE, Canada & U.K.). It added ~ 85 k sq. ft. net retail area in Q1FY24.



Financials

Income Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	565	1041	1355	1560	1839
Growth (%)	-38%	84%	30%	15%	18%
Operating Expenses	322	545	684	789	931
EBITDA	243	496	671	771	909
Growth (%)	-38%	104%	35%	15%	18%
EBITDA Margin (%)	43.0%	47.6%	49.5%	49.4%	49.4%
Depreciation	96	94	104	108	114
Other Income	60	50	40	47	55
EBIT	208	451	607	709	850
Interest expenses	26	28	31	42	46
PBT	182	423	576	667	805
Tax	49	108	147	170	205
PAT	133	315	429	497	599
Share of Asso./Minority Int.	0	0	0	0	0
Adj. PAT	133	315	429	497	599
Growth (%)	-44%	137%	36%	16%	21%
EPS	5.4	13.0	17.7	20.5	24.7

Balance Sheet

Particulars (in Rs Cr) - As at March	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	25	24	24	24	24
Reserves	1067	1058	1376	1606	1914
Shareholders' Funds	1091	1083	1400	1630	1938
Total Debt	0	0	0	0	0
Net Deferred Taxes	15	17	20	20	20
Other non-curr. liabilities	331	412	447	508	581
Total Sources of Funds	1437	1512	1867	2158	2539
APPLICATION OF FUNDS					
Net Block & Goodwill	459	515	520	529	539
CWIP	0	0	2	2	2
Investments	536	512	787	1037	1347
Other Non-Curr. Assets	111	121	136	156	184
Total Non Current Assets	1106	1148	1446	1724	2072
Inventories	101	143	174	205	247
Debtors	361	397	473	551	655
Cash & Equivalent	7	4	10	27	45
Other Current Assets	50	78	63	73	86
Total Current Assets	520	622	720	856	1033
Creditors	50	73	86	98	116
Other Current Liab & Provisions	139	185	213	244	288
Total Current Liabilities	189	258	299	342	403
Net Current Assets	331	364	421	514	629
Total Application of Funds	1437	1512	1867	2158	2539



Vedant Fashions Ltd.

Cash Flow Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	182	423	576	667	805
Non-operating & EO items	65	82	98	159	167
Interest Expenses	12	20	23	42	46
Depreciation	96	94	104	108	114
Working Capital Change	40	-45	-57	-76	-97
Tax Paid	-34	-109	-147	-170	-205
OPERATING CASH FLOW (a)	253	351	470	581	670
Capex	-13	-2	-4	-5	-5
Free Cash Flow	240	349	465	576	665
Investments	-142	4	-249	-250	-310
Non-operating income	39	42	12	0	0
INVESTING CASH FLOW (b)	-88	56	-232	-255	-315
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-21	-22	-24	-42	-46
FCFE	116	372	204	284	310
Share Capital Issuance	0	5	1	0	0
Dividend	0	0	-121	-267	-291
FINANCING CASH FLOW (c)	-166	-410	-232	-309	-337
NET CASH FLOW (a+b+c)	-2	-3	6	17	18

One-year share price chart



Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	43.0	47.6	49.5	49.4	49.4
EBIT Margin	36.8	43.4	44.8	45.5	46.2
APAT Margin	23.5	30.3	31.7	31.9	32.6
RoE	12.3	29.0	34.6	32.8	33.6
RoCE	18.6	41.5	48.9	46.8	47.7
Solvency Ratio (x)					
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Net D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	5.4	13.0	17.7	20.5	24.7
CEPS	9.2	16.9	21.9	24.9	29.4
BV	44.0	44.6	57.7	67.1	79.8
Dividend	0.0	5.0	9.0	11.0	12.0
Turnover Ratios (days)					
Debtor days	237	133	117	120	120
Inventory days	72	43	43	44	45
Creditors days	32	22	21	22	21
Valuation (X)					
P/E	245	101	74	64	53
P/BV	30	29	23	20	16
EV/EBITDA	129	63	46	40	34
EV / Revenues	56	30	23	20	17

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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