

03 April 2024

India | Equity Research | Company Update

Vedant Fashions

Branded Apparel

Higher competitive activity may expand ethnic segment in long term

Competition in wedding-wear segment is increasing at a rapid rate; we estimate ~55% of Vedant’s dominant business area to be exposed to incremental (and material) competition (Tasva and Ethnix) by FY26. Our primary research (store visits) and analysis (~4000 SKU analysis (men sherwani)) indicate: 1) Vedant’s competitive positioning continues to be strong (price/quality/differentiation/data edge), 2) Tasva is competing through premium positioning (30% premium to Manyavar) but largely through COCO stores, 3) Ethnix’s ability to scale through franchise ranks higher (vs Tasva); they also have differentiated (vs. peers) assortment. However, we believe the number of wedding days will play a larger role in Vedant's performance, while competition help to create the category. **ADD**.

55% of Vedant's retail area would be exposed to competition by FY26E

Listing success of Vedant Fashion (VFL: in Q4FY22) has attracted (accelerated) competition in the wedding-wear segment from the organised (branded) players such as Aditya Birla Fashion (launched Tasva brand in partnership with the fashion designer Mr Tarun Tahilani in FY22) and Raymond (launched Ethnix in FY19; but started scaling up aggressively from FY22 onwards).

We note that over the last two financial years (FY23-24), Ethnix and Tasva has added 183 stores combined vs 94 stores added by Manvavar. In fact, over the next two years (FY25-26E), these two brands are likely to add ~200 stores vs. ~95-100 stores addition expected for Manyavar (our estimates).

Consequently, by FY26, we estimate ~55% of Vedant’s total retail area (primarily in cities where it enjoys maximum business) to be exposed to competition by Tasva and Ethnix put together.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	13,260	14,067	16,316	20,115
EBITDA	6,578	6,809	8,060	10,417
EBITDA Margin (%)	49.6	48.4	49.4	51.8
Net Profit	4,229	4,235	5,130	6,605
EPS (INR)	17.4	17.5	21.1	27.2
EPS % Chg YoY	37.1	0.2	21.1	28.7
P/E (x)	54.7	54.6	45.1	35.0
EV/EBITDA (x)	34.7	33.5	28.3	21.9
RoCE (%)	33.7	26.6	26.4	27.7
RoE (%)	34.1	27.4	27.1	28.0

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Market Data	
Market Cap (INR)	232bn
Market Cap (USD)	2,778mn
Bloomberg Code	MANYAVAR IN
Reuters Code	VEDN.BO
52-week Range (INR)	1,488 /886
Free Float (%)	25.0
ADTV-3M (mn) (USD)	4.6

Price Performance (%)	3m	6m	12m
Absolute	(25.3)	(28.8)	(16.3)
Relative to Sensex	(28.1)	(41.1)	(41.6)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.6)	(0.6)
EBITDA	(5.2)	(0.6)
EPS	(5.1)	(0.6)

Previous Reports
26-01-2024: [Q3FY24 results review](#)
31-10-2023: [Q2FY24 results review](#)

Our 5-point observation on top-3 competition in this segment

1. **Franchisee's confidence in Manyavar brand is relatively higher:** Percentage of franchisee operated stores for Manyavar is highest (>90% of total stores) compared to Ethnix (at 80%; bulk of it is FOCO) and Tasva (~10%; rest is COCO). We believe, roping-in franchisee partner at an early stage of the business is relatively challenging and demands evidence of strong business economics (pay-back period of 18-24 months).
2. **On ASP, Tasva is positioned at 30% premium to Manyavar while Ethnix competes on like-to-like:** As per our survey-based estimate in men sherwani segment, we note that Tasva has positioned itself at ~30% premium (at the ASP of INR 27,000) vs. Manyavar at INR 21,040 and Ethnix at INR 21,162.
3. **All these brands are listed on Myntra:** There are in total 68 unique brands selling sherwani online on Myntra platform.

Interestingly, products of Manyavar, Ethnix and Tasva are listed on Myntra; we estimate their ASP on the platform to be at ~10-20% lower compared to its offline offering. Positively, none of these brands offered discount.

4. **Discount and offers:** We note that degree of customer incentivisation (through offers/coupons) to attract footfalls has been higher in Ethnix, followed by Tasva. It has been negligible at Manyavar.

Interestingly, other fashion designer led sherwani brands like Kalki (competing strongly with large number of SKUs; 230 – 2x of Manyavar) are operating in this segment by making aggressive discount offers to the extent of up to 50% (24% on weighted average basis). However, they also operate at 78% higher price point vs. Manyavar (at INR 37,579).

5. **Product differentiation:** We liked product differentiation/assortment of Manyavar followed by Tasva and Ethnix. However, we believe Vedant's scale advantage equips it to: 1) offer superior price/quality combination to consumers; and 2) create better assortment at store level due to data advantage; unlike western wear, demand for Indian wear outfit changes every 50-100kms due to change in regional preferences (Bengali wear vs. Punjabi wear etc.).

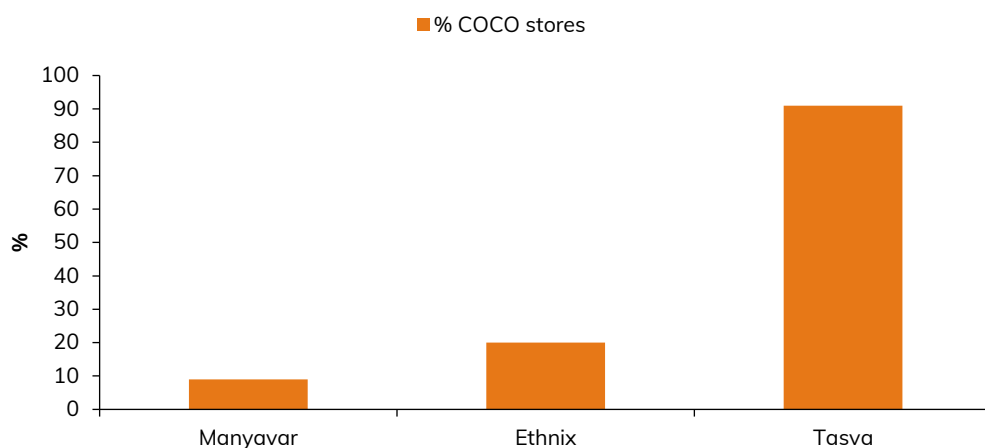
Valuation and risks

We maintain our EPS estimates for FY26E and model revenue, EBITDA and PAT CAGRs of 20%, 24% and 25%, respectively, over FY24E-FY26. We maintain ADD with a DCF-based unchanged target price of INR 1,000. Key downside risks: (1) slower-than-expected pick-up in discretionary consumption and (2) rise in competition from branded retailers.

Exhibit 1: Emerging competition in Men's sherwani; store expansion

Quarter	Tasva [A]	Ethnix [B]	Manyavar [C]	New store [A]	New store [B]	New store [C]	[A] + [B] = [D]	[D] / [C]
Q3FY22	2		566					
Q4FY22	6	27	571					
Q1FY23	12		603					
Q2FY23	21		612					
Q3FY23	32		626					
Q4FY23	51	61	633	45	34	62	79	1.27
Q1FY24	58	75	646	7	14	13	21	1.62
Q2FY24	59	92	653	1	17	7	18	2.57
Q3FY24	67	105	657	8	13	4	21	5.25
Q4FY24E	86	130	665	19	25	8	44	5.50
Total (FY23 + FY24E)				80	103	94	183	1.95
FY25E	136	180	715	50	50	50	100	2.00
FY26E	186	230	760	50	50	45	100	2.22

Source: I-Sec research, Company data, above data =number of stores

Exhibit 2: Business model (FY24E)

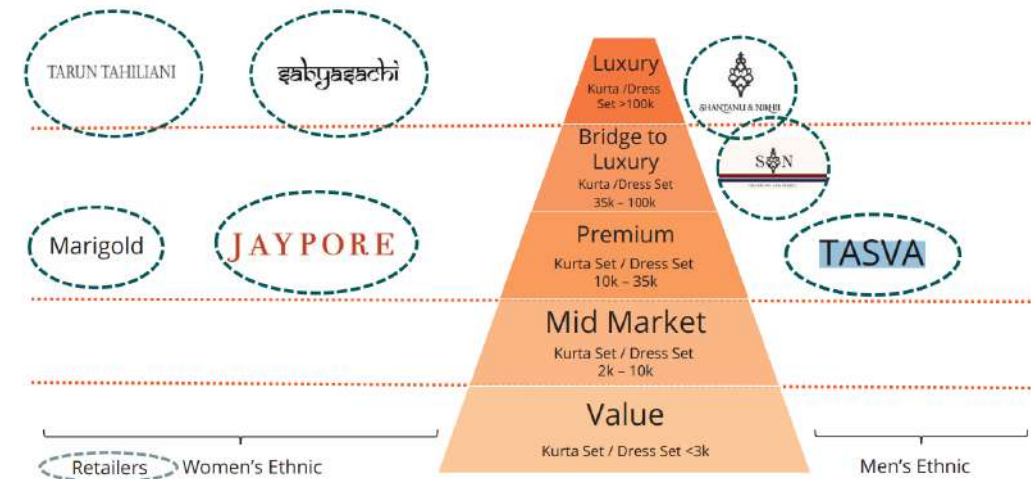
Source: I-Sec research, Company data

Exhibit 3: Emerging competition in Men's sherwani; benchmarking ASP

Platform	Brands	SKUs	ASP (INR)	% discount
Kalki	Kalki	230	37,579	24
Manyavar	Manyavar	146	21,040	0
Tasva	Tasva	93	27,719	0
Myntra	Rohit Bal	26	85,576	0
	Twamev	26	41,384	0
	KALPRAAG	15	28,339	14
	Tasva	59	23,906	1
	MAXENCE	15	23,333	0
	Manyavar	258	18,918	0
	Ethnix by Raymond	4	17,245	0

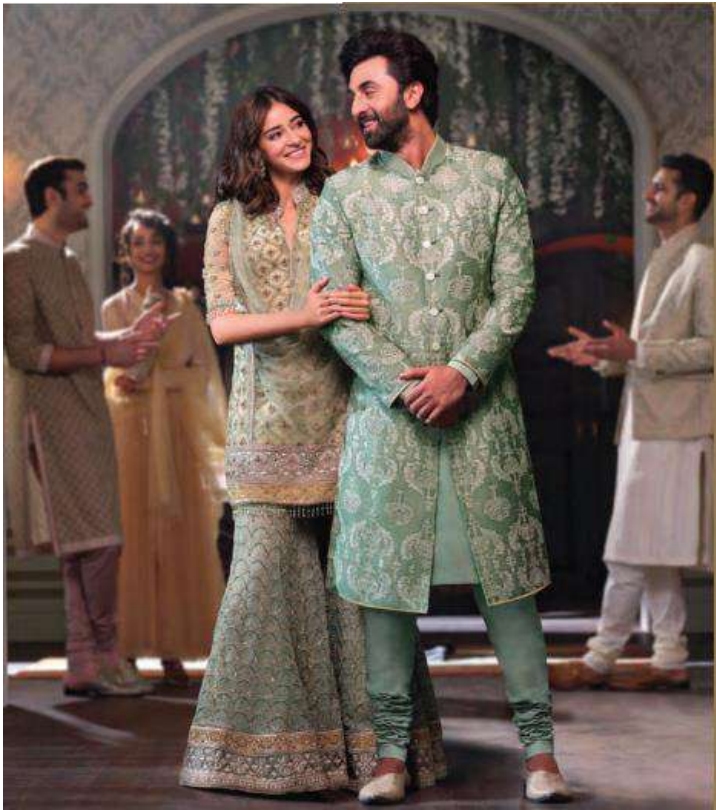
Source: I-Sec research, Company data, *FY23 = 4Y CAGR (FY19-23)

Exhibit 4: Ethnic wear brand positioning of ABFRL



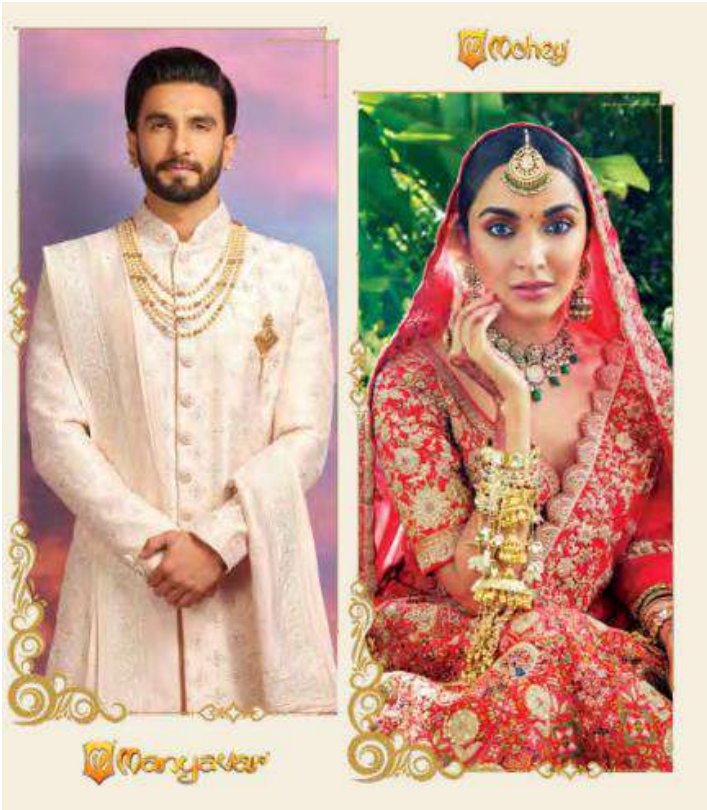
Source: I-Sec research, Company data

Exhibit 5: Brand ambassadors of Tasva

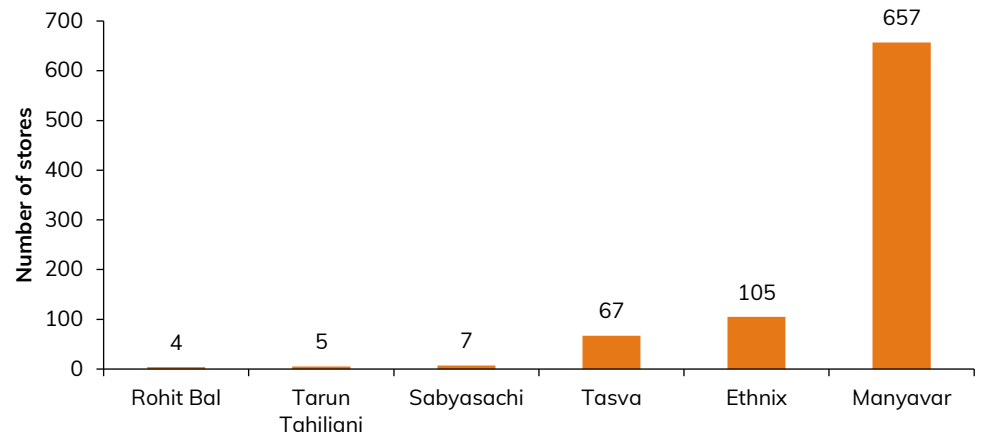


Source: I-Sec Research

Exhibit 6: Brand ambassadors of Manyavar and Mohey



Source: I-Sec Research

Exhibit 7: Emerging competition in Men's Sherwani; number of stores (as on today)


Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	75.0	75.0	75.0
Institutional investors	21.8	21.6	21.5
MFs and others	12.8	11.6	10.3
FIs/Banks, Insurance	2.2	2.5	2.6
FIIIs	6.9	7.4	8.6
Others	3.2	3.5	3.6

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	13,260	14,067	16,316	20,115
Operating Expenses	6,682	7,259	8,256	9,697
EBITDA	6,578	6,809	8,060	10,417
EBITDA Margin (%)	49.6	48.4	49.4	51.8
Depreciation & Amortization	975	1,294	1,387	1,704
EBIT	5,603	5,514	6,673	8,714
Interest expenditure	304	422	485	591
Other Non-operating Income	370	593	652	685
Recurring PBT	5,670	5,685	6,840	8,807
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,441	1,450	1,710	2,202
PAT	4,229	4,235	5,130	6,605
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	4,229	4,235	5,130	6,605
Net Income (Adjusted)	4,229	4,235	5,130	6,605

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	7,143	7,258	7,263	8,787
of which cash & cash eqv.	82	127	175	188
Total Current Liabilities & Provisions	3,962	3,959	4,093	4,321
Net Current Assets	3,181	3,299	3,170	4,467
Investments	7,927	11,277	14,377	21,627
Net Fixed Assets	5,018	5,377	6,634	4,002
ROU Assets	-	-	-	-
Capital Work-in-Progress	20	-	-	-
Total Intangible Assets	159	159	159	159
Other assets	1,342	667	667	667
Deferred Tax assests	-	-	-	-
Total Assets	17,646	20,779	25,006	30,922
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	198	198	198	198
provisions	35	35	35	35
other Liabilities	3,462	3,574	3,884	4,407
Equity Share Capital	13,950	16,972	20,889	26,281
Reserves & Surplus	-	-	-	-
Total Net Worth	13,950	16,972	20,889	26,281
Minority Interest	-	-	-	-
Total Liabilities	17,646	20,779	25,006	30,922

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Mar'23	Jun'23	Sep'23	Dec'23
Net Sales	3,416	3,116	2,183	4,745
% growth (YOY)	15.3	-4.1	-11.6	7.5
EBITDA	1,679	1,482	928	2,420
Margin %	49.1	47.5	42.5	51.0
Other Income	134	150	151	155
Extraordinaries	0	0	0	0
Adjusted Net Profit	1,089	919	487	1,577

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	5,670	5,685	6,840	8,807
Working Capital Changes	809	(73)	177	(1,283)
Capital Commitments	(46)	(110)	(133)	(174)
Free Cashflow	5,919	5,768	7,045	7,443
Other investing cashflow	(2,233)	(2,728)	(3,100)	(7,250)
Cashflow from Investing Activities	(2,279)	(2,838)	(3,233)	(7,424)
Issue of Share Capital	15	-	-	0
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(1,065)	(3,111)	(2,684)	1,035
Cash flow from Financing Activities	(2,264)	(4,325)	(3,898)	(179)
Chg. in Cash & Bank balance	1,422	(1,285)	47	14
Closing cash & balance	1,412	127	175	188

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	17.4	17.5	21.1	27.2
Adjusted EPS (Diluted)	17.4	17.5	21.1	27.2
Cash EPS	21.4	22.8	26.9	34.2
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	57.5	69.9	86.1	108.3
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	31.4	6.1	16.0	23.3
EBITDA	36.9	3.5	18.4	29.2
EPS (INR)	37.1	0.2	21.1	28.7
Valuation Ratios (x)				
P/E	54.7	54.6	45.1	35.0
P/CEPS	44.5	41.8	35.5	27.8
P/BV	16.6	13.6	11.1	8.8
EV / EBITDA	34.7	33.5	28.3	21.9
P / Sales	17.2	16.2	14.0	11.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	66.8	67.0	68.0	70.3
EBITDA Margins (%)	49.6	48.4	49.4	51.8
Effective Tax Rate (%)	25.4	25.5	25.0	25.0
Net Profit Margins (%)	31.9	30.1	31.4	32.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	0.0	0.0	0.0
Net Debt / EBITDA (x)	0.0	0.0	0.0	0.0
Fixed Asset Turnover (x)	2.7	2.7	2.7	3.8
Inventory Turnover Days	54	46	48	50
Receivables Days	148	128	107	110
Payables Days	26	22	23	24
Profitability Ratios				
RoCE (%)	33.7	26.6	26.4	27.7
RoE (%)	34.1	27.4	27.1	28.0
RoIC (%)	35.9	29.4	29.0	29.9

Source Company data, I-Sec research

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