

# Coming into its own

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**Ethnic Wear**

10 July 2023

Elara Securities (India) Private Limited

Image Source: Google

# Ethnic Wear

## Coming into its own

### Brand preference to augment addressable market

India Ethnic Wear, which forms 32% of the apparel market, seems tailored to grow, led by the branded segment. A confluence of tailwinds – Increased penetration in tier II/III cities, rising preference for brands (better quality/style), and improved spending ability given rising incomes – may lead growth. Branded Celebration Wear is set to post an 18-20% CAGR to INR 371bn size in FY25 and Branded Bottom Wear 20.5% CAGR in FY20-25 to INR 243bn size in FY25, as per Vedant Fashions' (MANYAVAR IN) and Go Fashions (GOCOLORS IN) RHP. Such high double-digit growth may offer brand pioneers, MANYAVAR/GOCOLORS huge growth window in existing/new markets, led by brand recall.

### Enough room to accommodate new players...

Ethnic Wear may add INR 600bn in market size through FY20-25, ~40% of which may be from Branded Celebration Wear as per MANYAVAR. Also, Branded Bottomwear may add INR 69.1bn in FY20-25 in market size, as per GOCOLORS. Thus, existing players – MANYAVAR/GOCOLORS and even new entrants have ample room to expand/create niche.

### ...even as large groups with deep pockets make aggressive forays

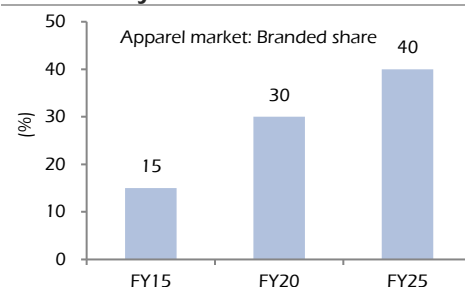
Large conglomerates – Reliance Retail (Ambani Group), Aditya Birla and Fashion Retail (Aditya Birla Group), Titan/Trent (Tata Group) and Ethnix (Raymond Group) – are competing aggressively to gain a slice of India Retail. Ethnic Wear, being at a nascent stage, is an attractive domain with high, double-digit growth potential. We believe strong balance sheets (net debt free) as also an established supply chain network of more than a decade should fuel growth for brand pioneers against the intensifying competition.

### Valuation attractive; MANYAVAR/GOCOLORS – Initiate with BUY

MANYAVAR/GOCOLORS may be in a position to withstand increasing competition and maintain market leadership, led by aggressive store expansion, proven business models with healthy store dynamics and robust supply chain networks.

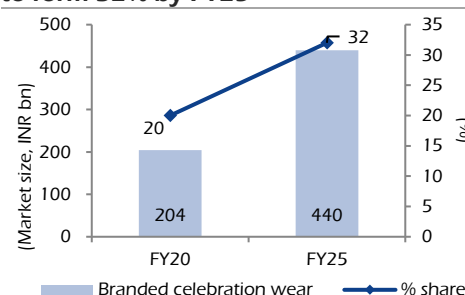
Expect MANYAVAR's/GOCOLORS' revenue CAGRs at 21.1%/25.7% in FY23-25E. Our DCF-based TP for Manyavar is INR 1,670 – Initiate with BUY. Our DCF-based TP for GoColors is INR 1,458 – Initiate with BUY. Downside risks to our growth estimates are slower-than-expected store expansion, lower SSG and adverse impact of competition on growth.

### Apparel market – Branded segment to form 40% by FY25



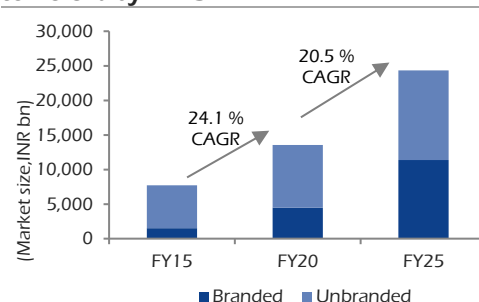
Source: MANYAVAR RHP, Elara Securities Research

### Ethnic Wear – Branded Celebration Wear to form 32% by FY25



Source: MANYAVAR RHP, Elara Securities Research

### Branded Bottomwear penetration to rise to 46.8% by FY25



Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

### Key Financials

Company	Ticker	Rating	Mcap				P/E (x)			P/S (x)			ROE (x)		
			(INR mn)	(INR)	(INR)	(%)	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Vedant Fashions	MANYAVAR IN	BUY	293	1,206	1,670	38%	68.3	55.3	46.7	21.6	17.7	14.7	34.6	34.1	32.3
Go Fashions (India)	GOCOLORS IN	BUY	59	1,097	1,458	33%	71.6	56.6	45.1	8.9	6.9	5.6	17.3	18.3	19.0

Note: Pricing as on 7 July 2023; Source: Company, Elara Securities Estimate

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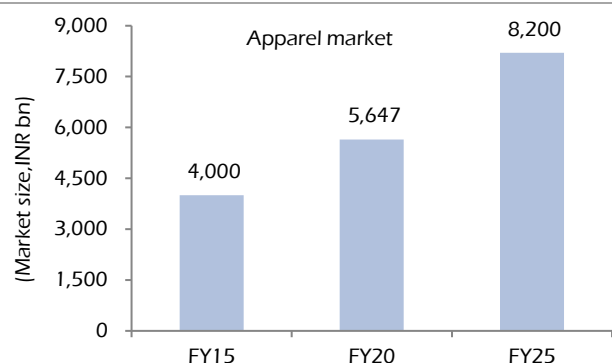
## Apparel market – Brand pivot to drive growth

- ❑ India apparel market to reach INR 8.2tn size by FY25
- ❑ Branded Celebration – 18-20% CAGR likely by FY25
- ❑ Branded Women's Bottomwear – 20.5% CAGR by FY25

### India Apparel: INR 8.2tn size by FY25

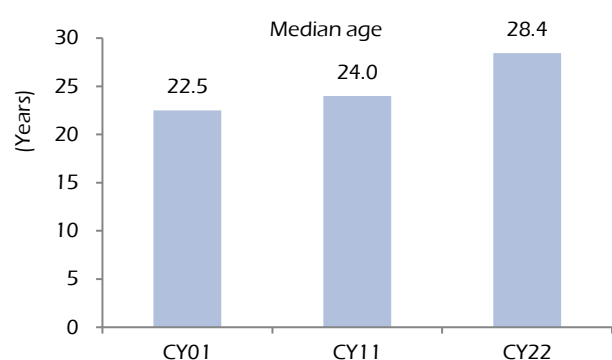
India Apparel market, valued at INR 5,647bn in FY20, posted a CAGR of 7.1% through FY15-20. The size may spike to INR 8,150-8,200bn in FY25 at a CAGR of 7.7% in FY20-25, as per Manyavar RHP. This may be fueled by favorable age demographics, increasing urbanization, rising percentage of women in workforce, increased influence of fashion, lower dependency ratio, retail penetration and e-commerce development.

#### Exhibit 1: Apparel – To reach INR 8.2tn size by FY25



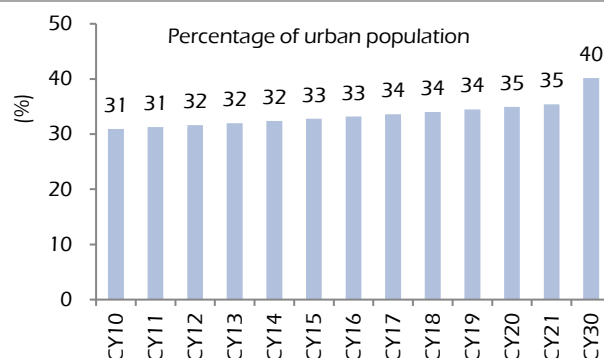
Source: MANYAVAR RHP, Elara Securities Research

#### Exhibit 2: India – Median age apt for rising consumerism



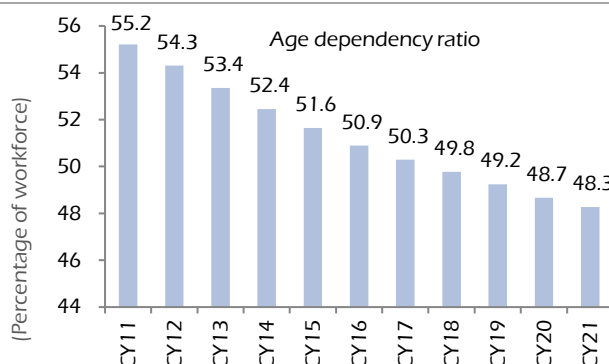
Source: World Bank, Elara Securities Research

#### Exhibit 3: Rapid urbanization to offer more penetration opportunities for brands



Source: World Bank, Elara Securities Research

#### Exhibit 4: Declining 'age dependency ratio' to spike disposable income



Source: World Bank, Elara Securities Research

#### Exhibit 5: Increasing women in workforce to accelerate demand for branded apparels



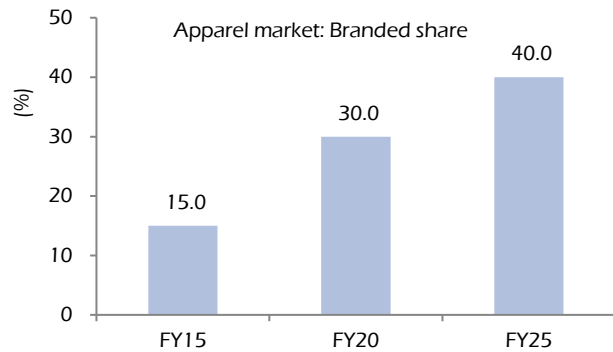
Source: World Bank, Elara Securities Research



## Branded space to form 40% of Apparel market by FY25

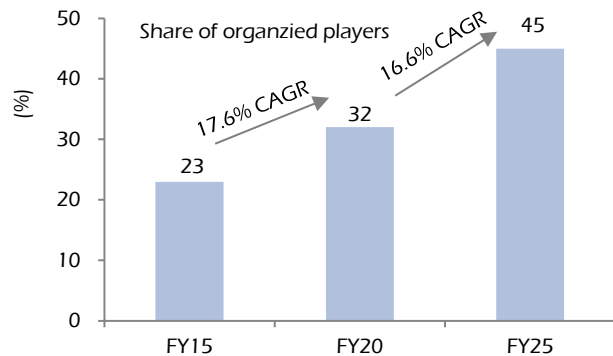
The share of the Branded segment in the overall Apparel market, at 15% in FY15, touched 30% in FY20 and may reach 35-40% in FY25, as per Manyavar RHP. Key tailwinds would be increased preference towards buying better-quality products, improving lifestyle, brand loyalty, shift from unorganized to organized and higher penetration of brands in lower-tier cities.

### Exhibit 6: Branded segment to form 40% of overall apparel market by FY25



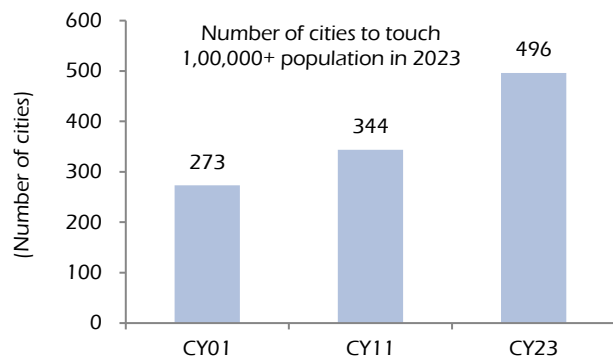
Source: MANYAVAR RHP, Elara Securities Research

### Exhibit 7: Organized share to reach 45% in FY25



Source: MANYAVAR RHP, Elara Securities Research

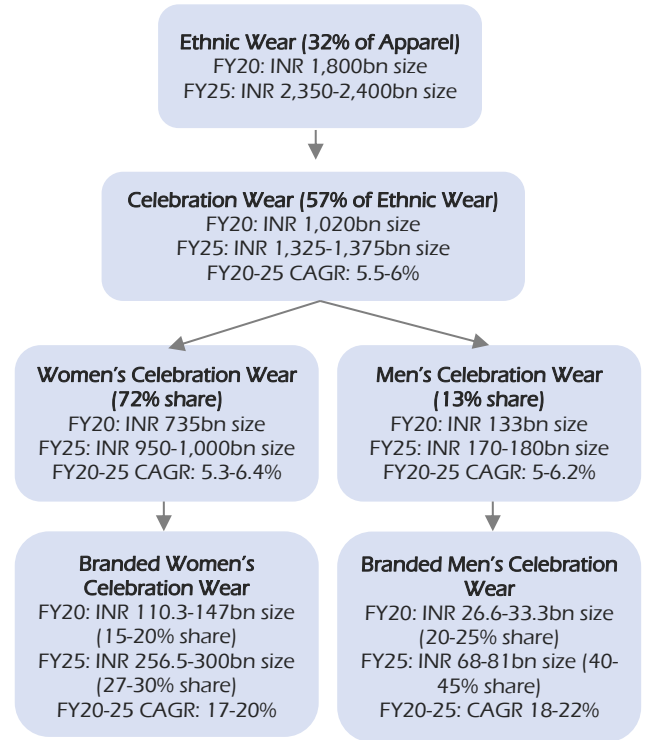
### Exhibit 8: About 500 cities to touch 1,00,000+ population in 2023



Source: Census 2011, World Population Review, Elara Securities Research

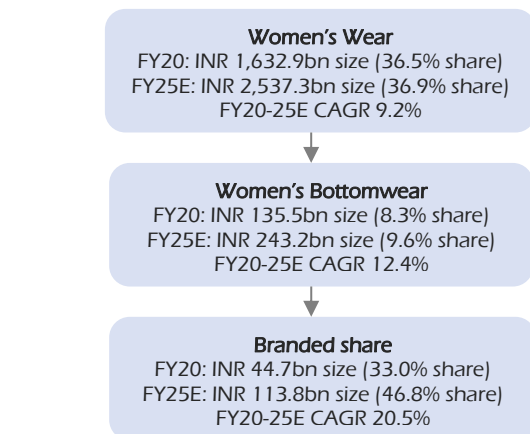
## Ethnic Wear: Growth Trajectory - Chartscape

### Exhibit 9: High double-digit growth in Branded Wear driving Ethnic Wear CAGR of 5.5-6% through FY25



Source: MANYAVAR RHP, Elara Securities Research

### Exhibit 10: Women's Bottomwear CAGR of 12.4%, led by 20.5% Branded Wear CAGR through FY25



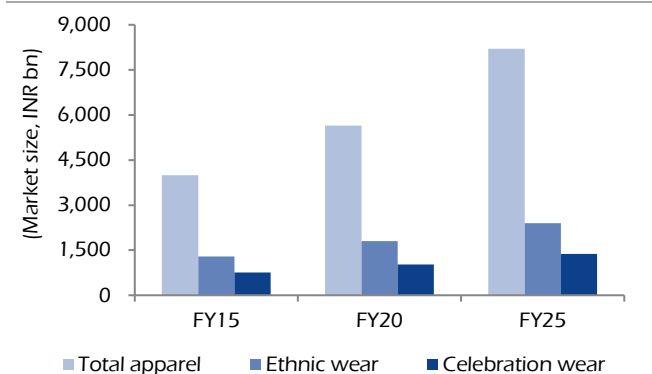
Source: GOCOLORS RHP, Elara Securities Research

## Branded Celebration: 18-20% CAGR likely through FY20-25

Ethnic Wear, which forms ~32% of the overall Apparel category in India, comprises Casual Ethnic Wear and Indian Wedding & Celebration Wear. India Wedding and Celebration Wear forms 57% of overall Ethnic Wear.

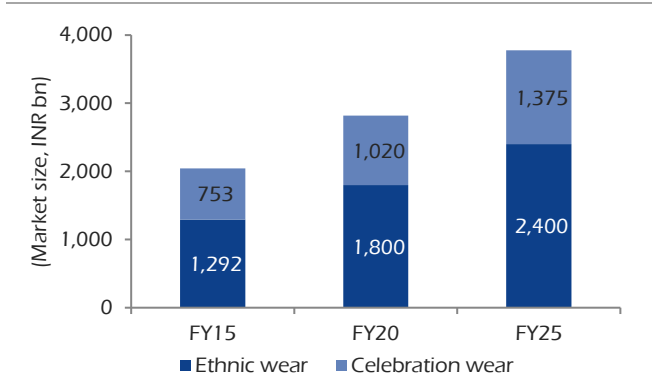
Branded penetration in Celebration Wear increased from 10% in FY15 to 15-20% in FY20 and may spike to 28-32% by FY25, as per Manyavar RHP. Although overall Celebration Wear, as a category, is growing in line with Apparel market at 5.5-6.0% CAGR, it is the Branded segment that has outperformed with double-digit growth. The segment may post an 18-20% CAGR in FY20-25, as per Manyavar RHP.

### Exhibit 11: Apparels – Celebration Wear to form 16.8% by FY25



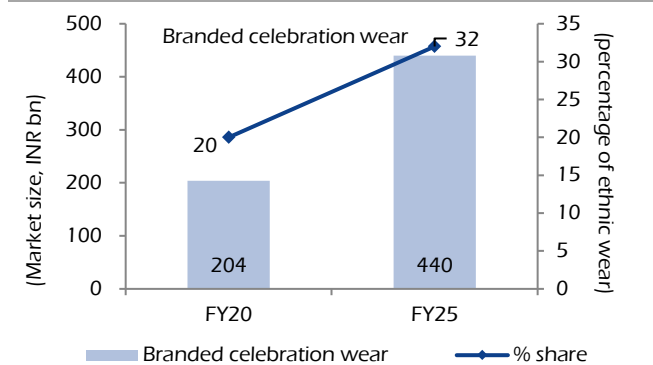
Source: MANYAVAR RHP, Elara Securities Research

### Exhibit 12: Celebration Wear forms >57% of Ethnic Wear



Source: MANYAVAR RHP, Elara Securities Research

### Exhibit 13: Apparels – Branded Celebration Wear to reach 32% share by FY25



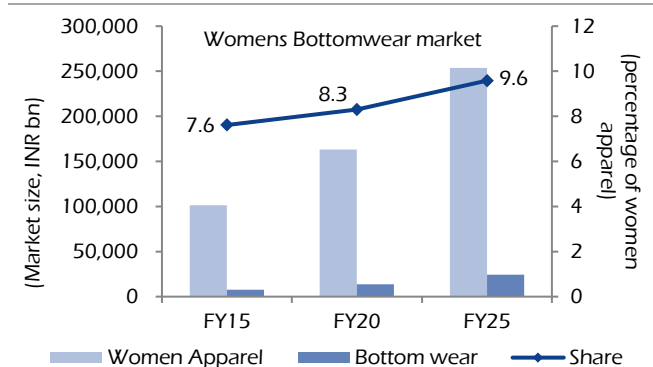
Source: MANYAVAR RHP, Elara Securities Research

## Branded Women's Bottomwear: 20.5% CAGR by FY25

In India, Indian Wear for women forms ~71% of the total Woman Apparel market. Within Indian wear, broader categories include *sarees* and *salwar-kurta-dupatta* (SKD). While *sarees* segment may post a lower CAGR of 6.5%, SKD may post a higher CAGR of 9.4%, in FY20-25, as per GOCOLORS RHP. The 'Mix-n-Match' category may drive SKD CAGR to 13% in FY20-25. Bottomwear is a part of both SKD categories in Indian-/Western-wear.

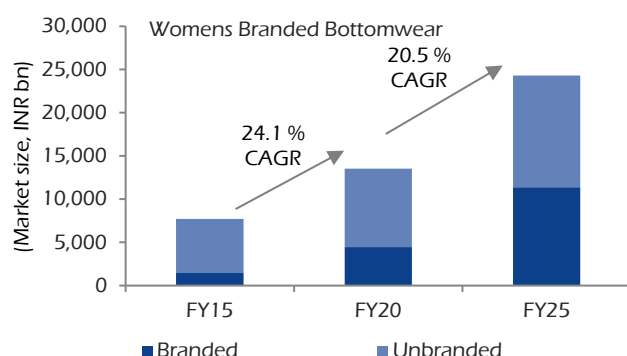
Bottomwear, which formed 7.6% of Women's Apparel market in FY15, may spike to 9.6% in FY25 versus 8.3% in FY20, as per GOCOLORS RHP. Branded Bottomwear formed 19.7% of overall 'Women's Bottomwear' segment in FY15 and may reach 46.8% in FY25 versus 33% in FY20, as per GOCOLORS RHP. This would be led by growth in Fusion Wear, inclination towards more fashionable products and broader outreach. Newer categories in Indian wear/western wear may also drive growth in Women's Apparel segment.

### Exhibit 14: Women's Bottomwear to form 9.6% of overall Women's Apparel Market in FY25



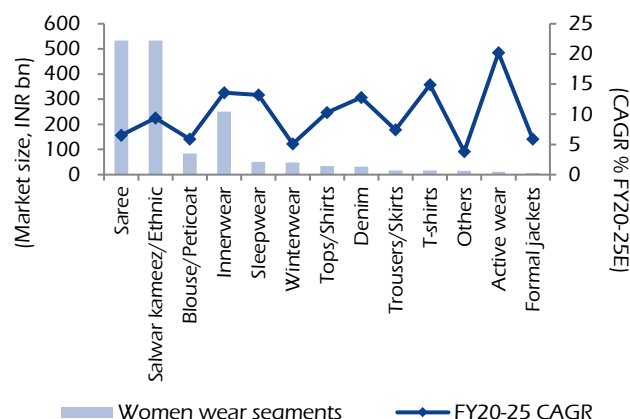
Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

**Exhibit 15: Branded Bottomwear penetration to increase to 46.8% by FY25**



Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

**Exhibit 16: Western Wear to up Women's Wear growth**



Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

**Exhibit 17: Women's Bottomwear – Many brands yet to explore other categories, which may expand market**

Brands	Product category (total number of brands/labels available on Myntra)						
	Leggings/Churidars (22)	Palazzos (305)	Jeggings (175)	Lounge Wear (280)	Pants (112)	Active Wear Tights (236)	Maternity Wear Leggings (18)
GoColour	✓	✓	✓	✓	✓	✓	✓
BIBA	✓	✓					
FAB INDIA	✓	✓		✓	✓		
W	✓	✓					
Aurelia	✓	✓	✓		✓		
Elleven	✓	✓	✓		✓		
LYRA	✓	✓			✓		
STOP							
Melange (Lifestyle)	✓	✓			✓		
Macrowoman						✓	
Dollar Missy	✓			✓	✓		
TAG 7	✓	✓	✓				
RANGMANCH by PANTALOONS	✓	✓			✓		
ANNABELLE by PANTALOONS		✓	✓		✓		
Ajile by PANTALOONS			✓		✓	✓	
Fashion Rack				✓			
Van Heusen				✓	✓	✓	
Twin Birds	✓	✓					

Source: Myntra website, Elara Securities Research

**Exhibit 18: Full expansion yet to reflect in tier1 and below cities**

Brand	Total stores	Top-two cities	Next six cities	Tier 1	Tier 2	Tier 3
<b>Domestic brands</b>						
GoColors	450	95	173	38	62	82
AND	117	28	39	29	13	8
Aurelia	213	36	50	56	39	32
BIBA	346	76	90	90	55	35
Fab India	307	69	90	70	37	41
Forever 21	21	4	9	6	2	0
Global Desi	117	29	39	27	14	8
Soch	131	9	68	24	22	8
W	301	42	51	39	90	79
<b>Foreign brands</b>						
Forever New	40	14	12	9	5	0
H&M	48	17	16	10	5	0
Levis	366	64	67	113	64	58
Marks & Spencer	92	28	35	18	11	0
Vera Moda	49	14	16	16	3	0
Zara	21	10	7	4	0	0

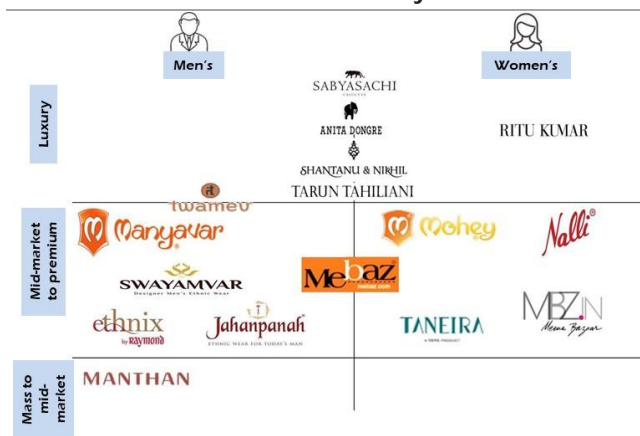
Note: Data as of July 2021; Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

### Enough room for all players despite intensifying competition in nascent Ethnic Wear

Given double-digit growth potential of the Ethnic Wear market as also limited share of the branded players, many large players are entering the fray. Conglomerates such as Tata Group, Reliance Group and ABFRL have already forayed into the space in the past five years, either with own private labels or via strategic acquisitions of established brands.

All the players are seeking to create their niche in this nascent market by ensnaring market share sooner than the competition. Large dominant players are establishing own brands or JVs/buying stake in established leading designers to create a brand recall. Depending on price segment, the brands are expanding across all the channels – Exclusive Branded Outlets (EBOs), Multi-Branded Outlets (MBOs), Large Format Stores (LFSs) and online.

### Exhibit 20: Celebration Wear – Key brands



Source: MANYAVAR RHP, Elara Securities Research

### Exhibit 19: Conglomerates' strategy to create niche

Large players	Own brands	Acquisition details		
		Acquired brands	Year	Investment as on FY22 (INR mn)
Aditya Birla Group	Indus Route	Tasva (Tarun Tahiliani)	2021	630
	Akkriti	Sabyasachi (Jan-21)	2021	3,898
	Rang Manch	S&N (Shantanu & Nikhil)	2019	778
	Marigold Lane	Masaba (Jan-22)	2022	900
		Jaypore (Jun-19)	2019	2,298
		TCNS (W, Aurelia, Wishful, Folksong)	2023	16,500
Reliance Group	Project Eve	AK-OK (Anamika Khanna)	2021	NA
	Fusion	Ritu Kumar (Oct-21)	2021	1,820
	Avaasa	Manish Malhotra (Oct-21)	2021	2,536
	Siyahi	Raghavendra Rathore (Jul-18)	2018	310
		Rahul Mishra (Jan-22)	2022	NA
		Abraham and Thakore (May-22)	2022	70
		Satya Paul (Apr-19)	2019	2,930
		Abu Jani Sandeep Khosla (Apr-22)	2022	NA
Tata Group	Taneira	NA	NA	NA
	Bombay Paisley			
	Utsa			
	Vark			
	Zuba			
	Kala by ETA			
	Samoh			
Raymond	Ethnix	NA	NA	NA

Note: Investment value of Masaba and TCNS indicates deal size at the time of announcement. Source: Company Filings, Elara Securities Research



## Ethnic Wear: Key Conglomerates – Ready to reign

### Aditya Birla Group

#### Aditya Birla Fashion and Retail (ABFRL)

ABFRL, the fashion retail arm of Aditya Birla Group, has invested >INR 23bn in the past five years to capture the Ethnic/Celebration Wear market, be it categories such as men and women or kids. It has tied up with various designers to serve luxury, premium and mid-premium Indian diaspora segments.

Besides acquired brands, ABFRL markets its own brands – *Akkriti*, *Indus Route*, *Rangmanch* and *Marigold Lane* – via online/offline channels (Pantaloon). It plans to grow 2-3 of its brands to INR 10bn size each, including *Tasva*. ABFRL turned assertive in the Men's Celebration Wear space recently with *Tasva*, by opening 19 stores in FY23, taking the total count to 51. ABFRL aims to earn INR 50bn revenues by FY27 from the Ethnic Wear segment.

#### Exhibit 21: ABFRL – Ethnic Wear portfolio



Source: ABFRL Filings, Elara Securities Research

### Reliance Group

#### Reliance Retail

Reliance Retail has a long history of catering to casual Ethnic Wear market through its own brands, *Project Eve*, *Fusion*, *Avaasa* and *Syahi* that are marketed offline (Reliance Trends) as also online (AJIO). It launched *Avantra* by Trends format to cater to the *saree* segment.

Reliance Retail turned aggressive in the space recently, with strategic acquisitions/joint ventures with prominent Indian designers such as Manish Malhotra (INR 2.5bn), Ritu Kumar (INR 1.8bn), Satya Paul (INR 2.9bn), Raghavendra Rathore and Anamika Khana to compete in Luxury and Premium Celebration Wear segments.

### TATA Group

#### Trent

The Tata Group operates in the Ethnic Wear category through its company Trent. Trent retails in Ethnic Wear through its Westside stores under the brand *Utsa*. *Utsa* caters to Women Ethnic Wear (casual and work wear).

Trent launched *Utsa* standalone stores as a modern Indian lifestyle format offering ethnic wear, beauty products and accessories. The *Utsa* format reached 17 stores in 11 cities in FY23. The average store size is ~2,000-3,000 sqft.

Trent recently entered celebration Wear with the launch of a *Samoh* store in Lucknow (1,800 sqft). *Samoh* caters to Occasion Wear for men, women and kids. Trent plans to open 10 *Samoh* stores in FY24. Over time, it plans to open 100 stores to mark its entry in the sector.

#### Titan

TATA Group's Titan has invested significantly to capture the Traditional Attire market through its brand *Taniera*. *Taniera* focuses mainly on handloom/woven *sarees*, Kanjivaram *sarees*, bridal wear and sustainable apparel for women with price points spanning INR 1,000-300,000. The brand owned 20 stores in FY22, which increased to 41 in FY23. Titan aims to reach 100 store count in the next three years. The average store size is ~3,000 sqft. Titan is aiming to grow *Taniera* 6x in the next three years, evincing strong value proposition.

### Raymond Group

#### Ethnix by Raymond

Raymond, renowned for its premium suiting and shirting business, ventured into the Ethnic Wear segment with its flagship brand, *Ethnix* by Raymond. Launched in 2019, *Ethnix* by Raymond is a collection of ready-made ensemble solutions for festivities/special occasions. Raymond expanded its portfolio range to address the Celebration market (from suiting to *sherwanj*) and has become a one-stop shop for Ethnic-Wear needs.

*Ethnix* tried to capture attention with its Casual Wear portfolio by introducing short *kurtas*/trousers around the ethnic theme. These can also be worn regularly, and not just during festivals/occasions. The category created in Casual Wear caters to non-festive/wedding occasions.

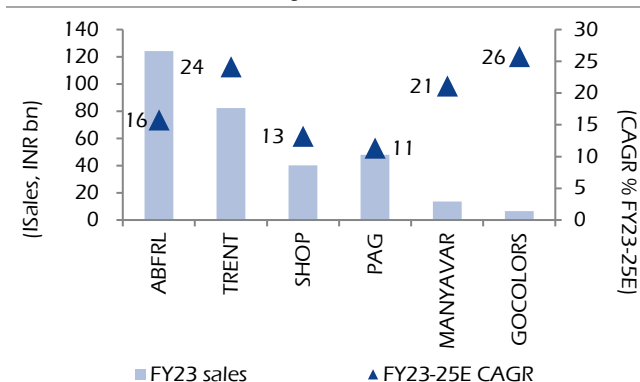
Raymond has leveraged its vast presence in suiting/shirting category via The Raymond Shop (TRS) stores to cross sell *Ethnix* products, by creating an SIS type model in such shops. It is already present in 100+ TRS (The Raymond Shop) stores, 56+ LFSS, large MBO chains and own 61 EBOs in FY23. It plans to touch 150 stores in FY24E and add 100 stores every year thereafter.

**Exhibit 22: Raymond – Store metrics, supply chain**

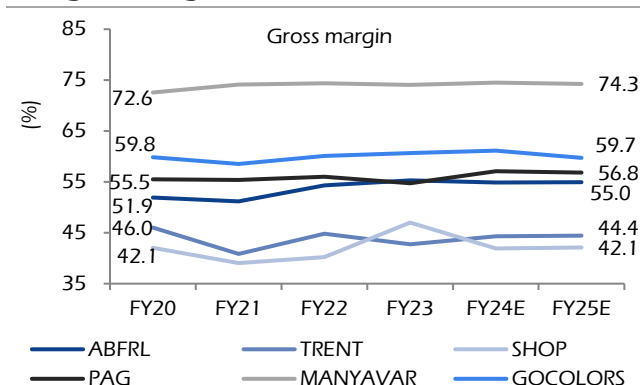
<b>Product positioning</b>	<b>High-end premium to luxury</b>
<b>Expansion strategy</b>	
EBO expansion	Raymond had 61 EBOs in FY23. It aims to add 100 stores each year, going ahead.
Target locations	Expect more stores in top-16 cities from where other competing brands derive >50% revenues.
Channel contribution to sales	80% of total sales from EBOs.
Store model	Currently, store model is COCO-based for brand. Expect more COFO models in future.
<b>Store metrics</b>	
Average store size (sqft)	2,200-2,500 sqft/store
Average size allocated in SIS (sqft)	400-600 sqft/store
Capex (INR/sqft)	INR 2,000-2,500/sqft
Sales (INR/sqft)	Raymond may break-even at INR 9,000-10,000/sqft and is aiming to reach INR 12,000/sqft going ahead.
Inventory per store (INR mn)	INR 2-3mn
Inventory mix in stores	<i>Kurta Bundi</i> : 55% of overall inventory. Groom category: Only two pieces per SKU in store
Employee count	Four in store format and three in malls
Staff/ housekeeping/ electricity expense	7-8% of sales
Rent	INR 250-400/sqft depending on area
<b>Supply chain</b>	
Vendor tie-ups	Exclusive tie-ups with 80-85+ factories, consisting of 18-20+ workers each
Capacity leverage	Current capacities may be leveraged to produce 3x volumes
<b>Brand outreach</b>	
Marketing initiative	Till date, Raymond advertised in cinema halls. From late January, promotions are via digital media, television, exhibitions, road shows.
Ad-spends	May be significantly higher than industry average for the next year as brand is new.

Source: Company, Elara Securities Research

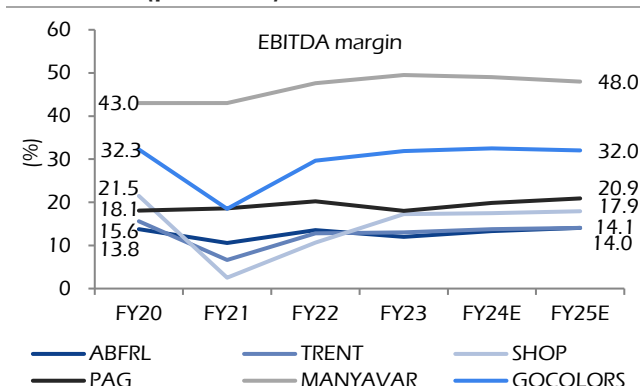
## Financial chart-scape

**Exhibit 23: MANYAVAR/GOCOLORS/Trent – FY23-25E revenue CAGR likely at >20%**

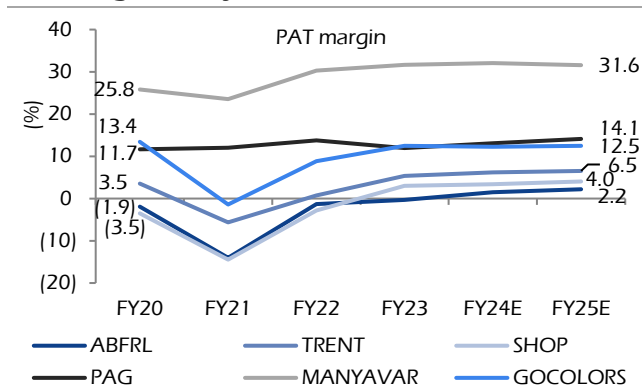
Note: ABFRL, TRENT and SHOP estimates from Bloomberg; Source: Bloomberg, Elara Securities Estimate

**Exhibit 24: No discounting/EBO model aid industry-best gross margin**

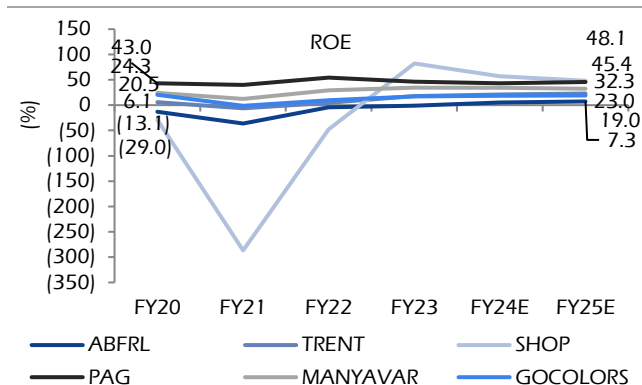
Note: ABFRL, TRENT and SHOP estimates from Bloomberg; Source: Bloomberg, Elara Securities Estimate

**Exhibit 25: Stable EBITDA margin even during turbulence (pandemic)**

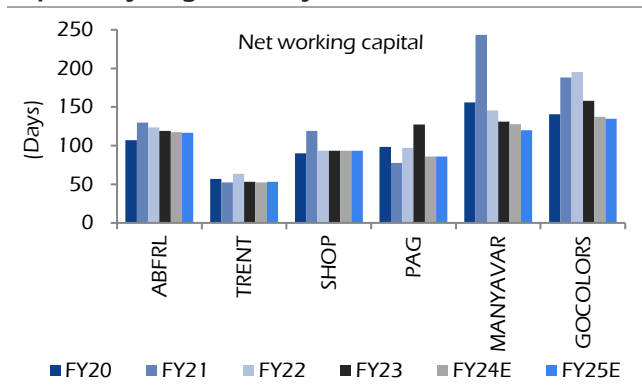
Note: ABFRL, TRENT and SHOP estimates from Bloomberg; Source: Bloomberg, Elara Securities Estimate

**Exhibit 26: MANYAVAR to sustain industry-leading PAT margin, led by franchise-driven EBO model**

Note: ABFRL, TRENT and SHOP estimates from Bloomberg; Source: Bloomberg, Elara Securities Estimate

**Exhibit 27: PAG has industry-leading ROE, followed by MANYAVAR, GOCOLORS and TRENT**

Note: ABFRL, TRENT and SHOP estimates from Bloomberg; Source: Bloomberg, Elara Securities Estimate

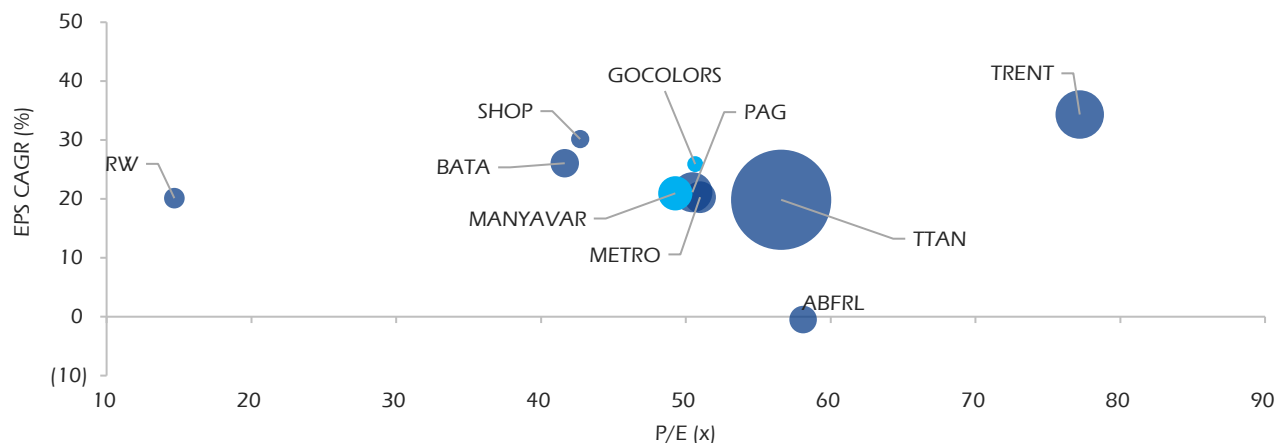
**Exhibit 28: MANYAVAR/GOCOLORS – Net working capital days higher led by EBO model**

Note: ABFRL, TRENT and SHOP estimates from Bloomberg. SHOP inventory estimates not available and numbers used are assumed to be same as FY23

Source: Bloomberg, Elara Securities Estimate

## Valuations

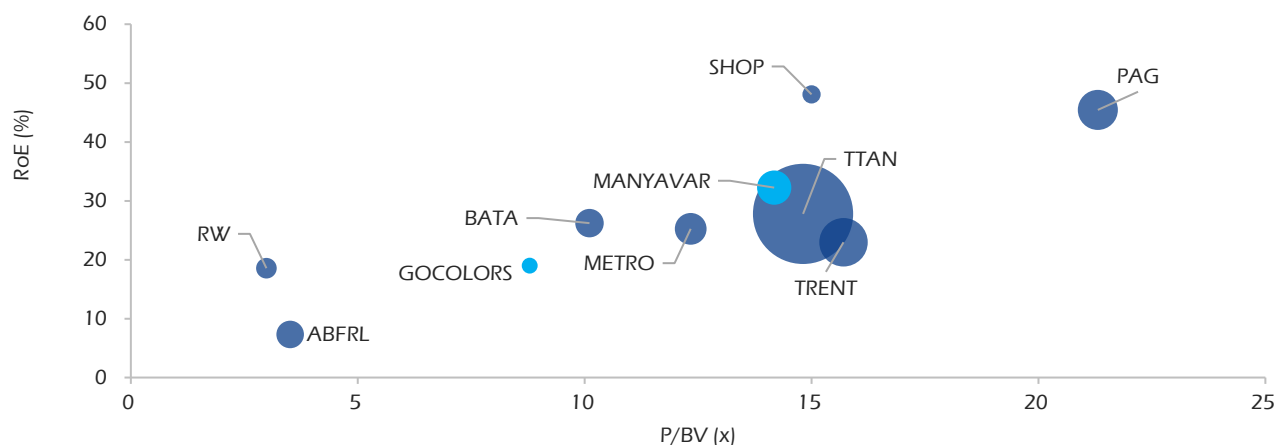
Exhibit 29: Earnings growth versus P/E performance



Note: ABFRL's EPS CAGR for FY19-25E; EPS CAGR for rest of the companies for FY23-25E, Bubble size represents market cap

Source: Company, Elara Securities Estimate

Exhibit 30: ROE versus P/BV ratio



Note: Bubble size represents market cap; Source: Company, Elara Securities Estimate

Exhibit 31: Peer comparison

Company	Ticker	Rating	Mcap (INR bn)	CMP (INR)	TP (INR)	Upside (%)	PAT margin (%)		ROE (%)		P/E (x)		P/S (x)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Page Industries	PAG IN	Accumulate	408	36,561	47,878	31	13.1	14.1	46.4	43.4	61.1	48.6	8.0	6.9
Vedant Fashions	MANYAVAR IN	Buy	293	1,206	1,670	38	32.1	31.6	34.6	34.1	55.3	46.7	17.7	14.7
Go Fashion (India)	GOCOLORS IN	Buy	59	1,097	1,458	33	12.3	12.5	17.3	18.3	56.6	45.1	6.9	5.6
Titan	TTAN IN	NA	2798	3,144	NA	NA	8.6	8.8	30.7	28.6	72.1	59.8	6.2	5.3
Trent	TRENT IN	NA	605	1,703	NA	NA	6.2	6.5	17.9	21.4	96.9	75.4	5.8	4.8
Metro Brands	METRO IN	NA	276	1,014	NA	NA	16.5	17.5	26.0	24.4	64.6	52.9	10.7	9.0
Bata	BATA IN	NA	214	1,667	NA	NA	10.8	11.6	19.9	25.6	50.7	41.8	5.5	4.9
Aditya Birla Fashion & Retail	ABFRL IN	NA	203	214	NA	NA	1.5	2.2	(1.2)	5.2	102.7	58.8	1.4	1.2
Raymond	RW IN	NA	116	1,748	NA	NA	6.3	7.1	20.1	17.9	17.6	15.2	1.2	1.0
Shoppers Stop	SHOP IN	NA	89	815	NA	NA	3.4	4.0	82.3	57.2	56.7	43.5	2.0	1.7

Note: Pricing as on 7 July 2023, for Page Industries TP & Rating as per last published report; Source: Bloomberg, Elara Securities Estimate

Notes



## Vedant Fashions

## Deep moats to cinch leadership

## Branded Celebration Wear – Undisputed leader

Vedant Fashions' (MANYAVAR IN) flagship brand *Manyavar* is a pioneer in Branded Men's Celebration Wear in Ethnic Wear. And leveraging this peerless positioning, expect the brand to beat intensifying competition. Also, its unparalleled store network in tier II/III cities is a decided edge as new entrants still decipher their positioning. As per MANYAVAR RHP, expect 18-20% CAGR in Branded Celebration Wear through to FY20-25 to propel growth.

## New brands to accelerate growth

MANYAVAR is well poised to leverage its strong brand recall and geographic presence by cross-selling *Twamev*/*Mohey* brands in its large flagship stores. *Twamev* caters to affluent clients in men's celebration wear and *Mohey* to Women's Celebration Wear. *Manthan* caters to large online mass segment. Expect new brands to spike their revenue share 170bps in FY23-25E to reach 16.8% in FY25 cumulatively.

## Tailwinds galore – Proven asset-light model put to scale

MANYAVAR's attractive franchise model (ROIC of 18% with pay-back of ~four years to franchisee owner) allows it to expand aggressively led by an asset-light model. Its strong vendor relationships of >two decades with data driven operations offers an edge over competition. Tailwinds – Robust supply chain, focus on design innovation, growth acceleration via penetration/channel expansion and strong store economics – seem promising. Expect FY23-25E revenue CAGR at 21.1%, led by 11.2% CAGR in retail space expansion and FY24E/25E SSSG of 12%/10%.

## Strong balance sheet; expect FY23-25E earnings CAGR at 21%

Expect MANYAVAR to generate an FCF of INR 12.9bn cumulatively in FY23-25E, on higher operating cash flows and minimal capex led by franchise-driven expansion. MANYAVAR's earnings CAGR may be 21.0% in FY23-25E, as revenue growth percolates to its bottomline.

## Valuations

We favor MANYAVAR given its market leadership, wide portfolio of brands, superior profitability, and command on supply chain. Expansion of other brands – *Twamev*, *Mohey* and *Manthan* – may trigger the next leg of growth and boost profitability. Expect MANYAVAR's retail space to grow at 11.3% CAGR over FY23-25E. We initiate with **BUY** – Our DCF-TP is INR 1,670, arrived at by discounting 20-year FCF at 10.2% WACC and 7% terminal growth. At our TP, the stock is valued at 65x FY25E P/E. Key risks include intensifying competition from established large players, challenges on retail expansion and thus, maintaining the store matrix.

## Key Financials

YE	Revenue	YoY	EBITDA	EBITDA	Adj PAT	YoY	Fully DEPS	RoE	RoCE	P/E	EV/EBITDA
March	(INR mn)	(%)	(INR mn)	margin (%)	(INR mn)	(%)	(INR)	(%)	(%)	(x)	(x)
FY22	10,408	84.3	4,959	47.6	3,149	136.9	13.0	29.0	27.5	93.0	59.0
FY23	13,549	30.2	6,708	49.5	4,291	36.3	17.7	34.6	34.0	68.3	43.6
FY24E	16,517	21.9	8,093	49.0	5,296	23.4	21.8	34.1	32.9	55.3	36.1
FY25E	19,878	20.4	9,532	48.0	6,277	18.5	25.9	32.3	31.1	46.7	30.7

Note: Pricing as on 7 July 2023; Source: Company, Elara Securities Estimate

## Rating: Buy

Target Price: INR 1,670

Upside: 38%

CMP: INR 1,206 (as on 7 July 2023)

## Key data

Bloomberg /Reuters Code	MANYAVAR IN/ VEDN.BO
Current /Dil Shares O/S (mn)	243/243
Mkt Cap (INR bn/USD mn)	293/3,539
Daily Volume (3M NSE Avg)	210,693
Face Value (INR)	1

1 USD= INR 82.7

Note: \*as on 7 July 2023; Source: Bloomberg

## Price &amp; Volume



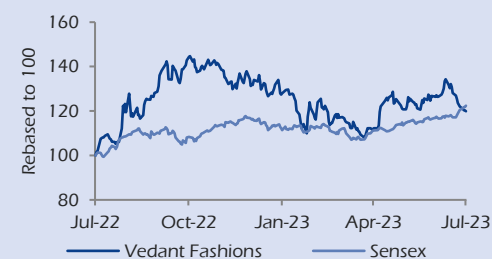
Shareholding (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Promoter	84.9	84.9	84.9	84.9
Institutional Investor	13.3	13.1	13.1	13.3
Other Investor	0.4	0.4	0.4	0.4
General Public	1.4	1.6	1.6	1.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	9.8	8.2	19.8
Vedant Fashions	5.8	(7.2)	16.9
Go Fashion	8.1	(6.2)	10.2
Page Industries	0.3	(12.3)	(16.9)

Source: Bloomberg

## Price performance

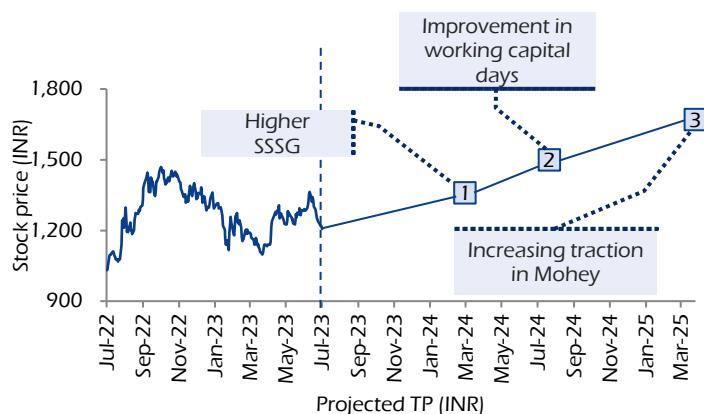


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Elara Securities (India) Private Limited

## Valuation trigger



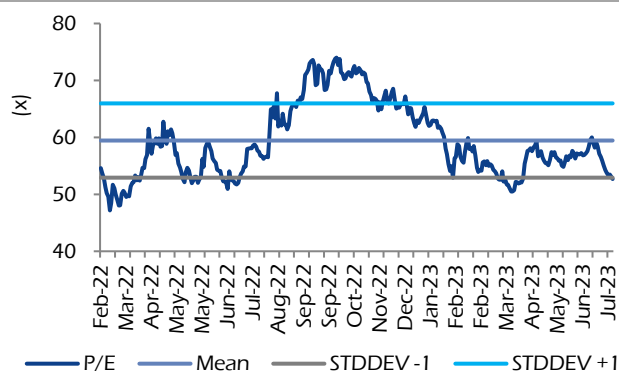
Source: Bloomberg, Elara Securities Estimate

## Valuation overview

Particulars	FY25E
10-year FCF growth (%)	20.1
Next 10-year FCF growth (%)	12.1
WACC (%)	10.2
Terminal growth rate (%)	7
PV of 20 years FCF (INR mn)	112,393
PV of terminal growth (INR mn)	284,877
Total EV (INR mn)	397,270
Net debt (INR mn)	(7,971)
Equity value (INR mn)	405,242
No. of shares	243
Equity value per share (INR)	1,670
CMP (INR)	1,206
Upside (%)	38

Note: Pricing as on 7 July 2023; Source: Elara Securities Estimate

## Valuation driver – One-year forward P/E



Source: Bloomberg, Company, Elara Securities Estimate

## Investment summary

- MANYAVAR to remain market leader, led by strong brand recall, asset light franchise-based EBO expansion and presence across price segments/channels.
- New brands, *Mohey*, *Manthan*, *Twamev* to bridge gaps, enabling growth.
- Strong franchisee dynamics to attract existing franchisee partners and allow MANYAVAR to focus on product/geographic expansion.
- FCF generation to strengthen balance sheet and enable MANYAVAR to remain cash rich, long term.

## Valuation triggers

- Higher SSSG
- Improvement in working capital days
- Increasing traction in *Mohey*

## Key risks

- Intensifying competition from established brands
- Challenges on retail expansion and store economics

## Our assumptions

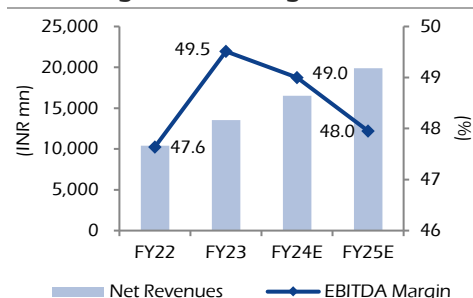
- FY24E/25E SSSG of 12%/10%
- New brands to contribute 16.8% to FY25E sales.
- Gross margin to expand to 74.3% by FY25E from 74% in FY23, led by raw material tailwinds and increasing share of *Mohey*/*Twamev*.
- Net working capital days to decline 10 days through FY23-25E.

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23	FY24E	FY25E
Net Revenues	10,408	13,549	16,517	19,878
<b>EBITDA</b>	<b>4,959</b>	<b>6,708</b>	<b>8,093</b>	<b>9,532</b>
Add:- Non operating Income	499	402	578	696
OPBIDTA	5,458	7,111	8,671	10,227
Less :- Depreciation & Amortization	944	1,038	1,233	1,435
<b>EBIT</b>	<b>4,514</b>	<b>6,073</b>	<b>7,438</b>	<b>8,792</b>
Less:- Interest Expenses	284	315	348	389
<b>PBT</b>	<b>4,230</b>	<b>5,758</b>	<b>7,090</b>	<b>8,404</b>
Less :- Taxes	1,081	1,467	1,794	2,126
<b>Adjusted PAT</b>	<b>3,149</b>	<b>4,291</b>	<b>5,296</b>	<b>6,277</b>
<b>Reported PAT</b>	<b>3,149</b>	<b>4,291</b>	<b>5,296</b>	<b>6,277</b>
Balance Sheet (INR mn)	FY22	FY23	FY24E	FY25E
Share Capital	243	243	243	243
Reserves	10,584	13,756	16,867	21,575
Deferred Tax (Net)	155	190	190	190
Other LT Liabilities	3,270	3,497	4,129	4,677
<b>Total Liabilities</b>	<b>14,252</b>	<b>17,686</b>	<b>21,429</b>	<b>26,686</b>
Gross Block	2,796	2,822	2,853	2,890
Less:- Accumulated Depreciation	475	565	666	777
Net Block	5,147	5,206	5,239	5,262
Add:- Capital work in progress	0	20	115	132
Other LT Assets	2,149	3,049	3,608	4,392
Net Working Capital	6,917	9,311	11,847	16,351
Cash and cash equivalent	39	101	620	548
<b>Total Assets</b>	<b>14,252</b>	<b>17,686</b>	<b>21,429</b>	<b>26,686</b>
Cash Flow Statement (INR mn)	FY22	FY23	FY24E	FY25E
Cash profit adjusted for non cash items	5,050	6,739	8,671	10,227
Add/Less : Working Capital Changes	(450)	(569)	(1,150)	(549)
Operating Cash Flow	3,510	4,698	5,727	7,552
Less:- Capex	109	57	(209)	(131)
Free Cash Flow	3,619	4,755	5,518	7,421
Investing Cash Flow	565	(2,319)	(2,177)	(5,013)
Financing Cash Flow	(4,107)	(2,318)	(3,031)	(2,611)
Net change in Cash	(32)	61	519	(72)
Ratio Analysis	FY22	FY23	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	84.3	30.2	21.9	20.4
EBITDA Growth	104.0	35.3	20.6	17.8
PAT Growth	136.9	36.3	23.4	18.5
EBITDA Margin	47.6	49.5	49.0	48.0
Net Margin	30.3	31.7	32.1	31.6
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.0	0.0	0.0	0.0
ROE (%)	29.0	34.6	34.1	32.3
ROCE (%)	27.5	34.0	32.9	31.1
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR/Share)	13.0	17.7	21.8	25.9
EPS Growth (%)	141.9	36.2	23.4	18.5
DPS (INR/Share)	8.3	5.0	9.0	6.5
P/E Ratio (x)	93.0	68.3	55.3	46.7
EV/EBITDA (x)	59.0	43.6	36.1	30.7
EV/Sales (x)	28.1	21.6	17.7	14.7
BVPS (INR)	44.6	57.7	70.5	89.9
Price/Book (x)	27.0	20.9	17.1	13.4
Dividend Yield (%)	0.7	0.4	0.7	0.5

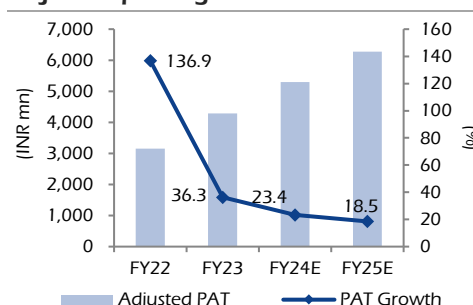
Note: Pricing as on 7 July 2023; Source: Company, Elara Securities Estimate

### Revenue growth & margin trend



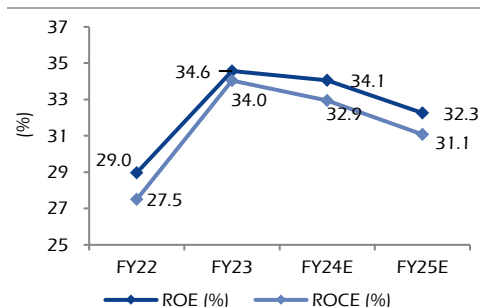
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

## Branded Celebration Wear – Undisputed leader

- ❑ Branded Celebration Wear – Expect FY20-25 CAGR at 18-20%
- ❑ Men's Celebration Wear– Gaining ground
- ❑ Room for more competition

### Branded Celebration Wear: Expect FY20-25 CAGR at 18-20%

India Apparel posted a CAGR of 7% in FY15-20 to reach INR 5,647bn value in FY20. In the next five years, expect the market to see a CAGR of 7.5-8%, to INR 8,150-8,200bn value in FY25, as per MANYAVAR RHP. Within Apparels, Ethnic Wear has a 32% share worth INR 1,800bn.

Celebration Wear, forming 57% of Ethnic Wear market, may see a CAGR of 5.5-5.6% in FY20-25 to INR 1,325-1,375bn size, led by Branded Wear, as per MANYAVAR RHP. The growth may be attributed to the shift to organized brands from unorganized, with consumers increasingly opting for stylish, high-quality celebratory attire.

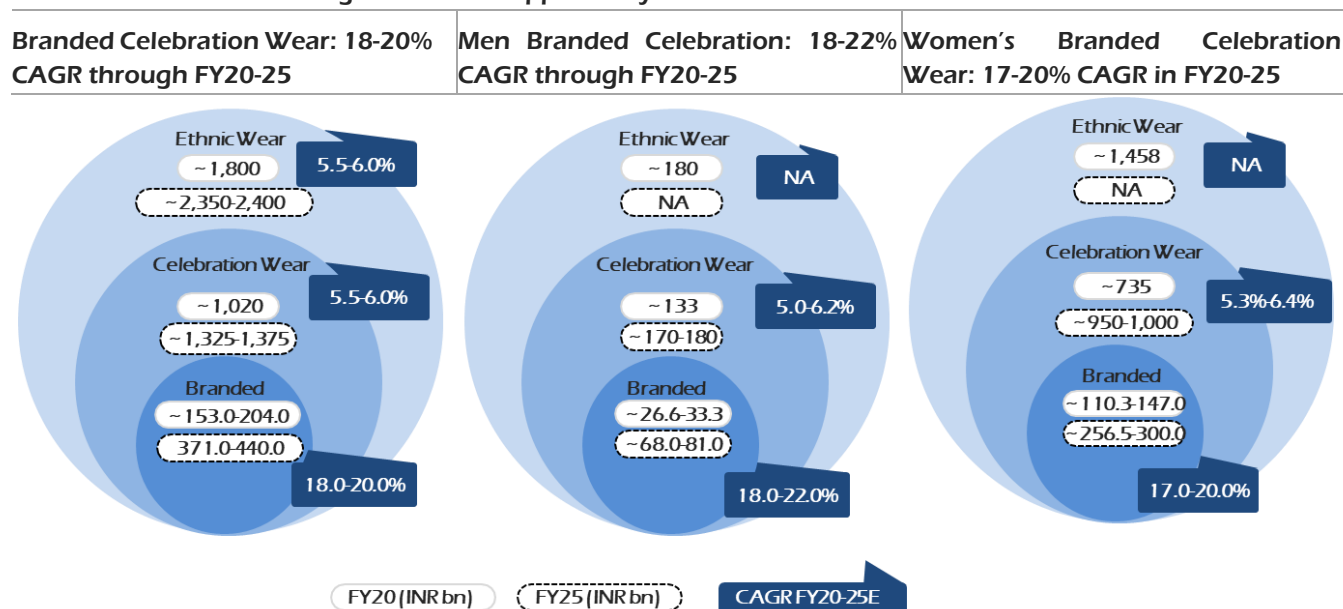
### Men's Celebration Wear – Gaining ground

Men's Branded Celebration Wear may see a substantial CAGR of 18-22% in FY20-25, with market value likely at INR 68-81bn in FY25 from INR 26.6-33.3bn in FY20, as per MANYAVAR RHP. This growth may be led by factors such as changing consumer preference, desire for fashionable clothing and availability of a wide range of options from organized brands.

The dominance of brands such as *Manyavar* is evident, with 6.9% market share in Men's Celebration Wear and 27.5% (at higher band) in Branded Celebration Wear, in FY20. *Manyavar's* success can be attributed to its ability to meet evolving consumer demand, providing high-quality, fashionable options for celebratory occasions.

The shift to organized brands in the Men's Celebration Wear reflects growing consumer preference for superior product quality, brands, and a wider selection of designs. Thus, brands such as *Manyavar* have emerged as key growth drivers. With established presence, expertise in the Celebration Wear Space, widespread network, strong advertisement campaigns, and favorable unit economics, *Manyavar* is well-positioned to capitalize on an expanding market and enhance its market share.

### Exhibit 1: Ethnic wear – Huge window of opportunity



Note: All numbers represent market size; Source: Manyavar RHP, CRISIL, Elara Securities Research

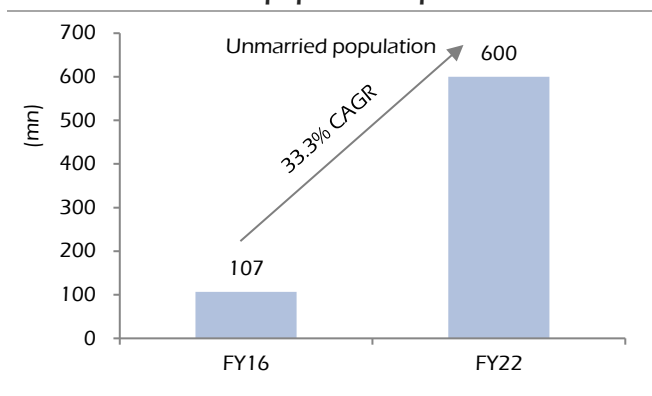
## India Weddings – Exponential growth

MANYAVAR is set to tap the imminent exponential growth in Indian weddings-led ethnic wear market, as active marriage seekers rise and given the brand's favorable positioning vis-a vis the segment.

### Active 'marriage seekers' up

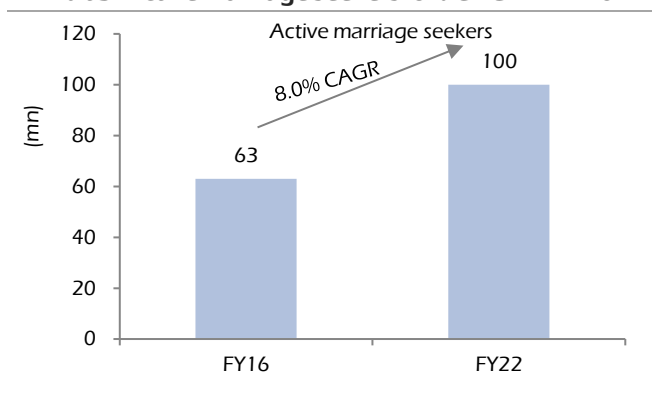
With the median age in India rising to 28.7 years, a significant part of the population may be categorized as active 'marriage seekers'. The rise in the legal marriageable age for girls from 16 to 18 years, and the proposed shift to 21 years, has led to a trend of marrying late in life. The shift has encouraged attaining financial stability/social standing, before marrying. Note that the number of unmarried in India rose from 107mn in 2016 to >600mn 2022. Within this, the number actively seeking marriage has risen to >100mn in 2022 from 63mn in 2016.

**Exhibit 2: Unmarried population up 6x**



Source: matrimony.com, Elara Securities Research

**Exhibit 3: Active marriage seekers: 8% CAGR in FY16-22**



Source: matrimony.com, Elara Securities Research

### Indian weddings extravagant

Indian weddings are morphing into big, extravagant events. And when it comes to related expenses, three considerations are crucial – Number of guests, duration of the celebration, and the families' incomes. These heavily weigh on overall spending.

A main change has been the spike in the number of occasions/rituals. This is prolonging the duration. Also,

the current generation prefers marrying in late twenties, implying higher income/spending capacity versus those who marry in early twenties.

On an average, a single day in an Indian wedding may cost anywhere within INR 1-2mn. Of this, ~5-10% is allocated to the bride/groom's outfits. The spend on clothing/accessories is influenced by the invitee number.

In India, usually, the number of wedding guests range within 250-500, higher versus non-Indian weddings (more intimate with limited, close-knit group).

Overall, such morphing social trends/preferences have led to trailblazing growth for the fat Indian wedding, characterized by increased spending, extended durations, and grand celebrations.

### How Indian weddings differ?

In India, weddings are a major event. Every year, ~11-13mn marriages take place, ~4x higher than in the US (2.3mn annually). With the increasing median age of marriage, this number may spike.

What sets Indian weddings apart is the significant expenditure involved. Despite lower per capita spending versus the US, Indian weddings cost ~1.5x more. This indicates long-term growth potential and resilience of the Indian wedding market, it being a significant/enduring aspect of Indian culture (source: [Indian Wedding Industry White Paper by weddingwishlist.com](https://www.weddingwishlist.com/white-paper))

### Room for more competition

Despite Ethnic Wear being crucial to cultural events, festivals, multi-day weddings, it is at a nascent stage. Intensifying competition from branded/organized players may actually benefit/expand the market via differentiated offerings at price points suitable for varied consumers. Rather than being a worry for MANYAVAR, this may spur innovation, improve product offerings, attract customers.

Product differentiation amid intensifying competition may aid market expansion. As competition intensifies, expect new players to strive to stand out via developing unique features, improving quality or innovating. This may likely lead to a wider variety of choices for consumers and encourage exploration of different options. But expect MANYAVAR to beat the intensifying competition, leveraging its peerless positioning,

### Large players – Vying for share

Large players are actively vying for share due to the lucrative nature of the Ethnic Wear market. Big, deep-pocket players such as Aditya Birla, Reliance, and the Tata Group have emerged as frontrunners, establishing own house of brands. These players have embarked on acquisition sprees or created own private labels to capture market share.



## Exhibit 4: Ethnic Wear – Recent ventures by large conglomerates

Large players	Own brands	Acquisition details		
		Acquired brands	Year	Deal size(INR mn)
Aditya Birla Group	Indus Route	Tasva (Tarun Tahiliani)	2021	630
	Akkriti	Sabyasachi (Jan-21)	2021	3,898
	Rang Manch	S&N (Shantanu & Nikhil)	2019	778
	Marigold Lane	Masaba (Jan-22)	2022	900
		Jaypore (Jun-19)	2019	2298
		TCNS (W, Aurelia, Wishful, Folksong)	2023	16,500
Reliance Group	Project Eve	AK-OK (Anamika Khanna)	2021	NA
	Fusion	Ritu Kumar (Oct-21)	2021	1,820
	Avaasa	Manish Malhotra (Oct-21)	2021	2,536
	Siyahi	Raghavendra Rathore (Jul-18)	2018	310
		Rahul Mishra (Jan-22)	2022	NA
		Abraham and Thakore (May-22)	2022	70
		Satya Paul (Apr-19)	2019	2,930
		Abu Jani Sandeep Khosla (Apr-22)	2022	NA
Tata Group	Taneira	NA	NA	NA
	Bombay Paisley			
	Utsa			
	Vark			
	Zuba			
	Kala by ETA			
	Samoh			
Raymond	Ethnix	NA	NA	NA

Note: Investment value of Masaba and TCNS indicates deal size at the time of announcement. Source: Company Filings, Elara Securities Research

## New brands to accelerate growth

- ❑ Key aces – First-mover edge, poignant advertising campaigns, no discounting model
- ❑ *Mohey* – Capturing larger market
- ❑ *Manthan-Twamev-Mebaz* – New vistas

### Key aces

#### #1: First-mover advantage

India may be influenced by the West but during festivals/celebrations/traditional events, ethnic wear is preferred. *Manyavar* leverages this inclination to glean Branded Men's Ethnic Wear market share, especially in the organized segment. This was not the case a decade ago.

*Manyavar* boldly challenged the dominance of the suiting and shirting category, which had been the erstwhile preference for weddings/special occasions. It disrupted the existing market by offering exclusive celebration wear, successfully carving a niche. Led by innovation and first-mover advantage, *Manyavar* tapped an entirely new addressable market within Apparels.

And despite the potential entry of new competitors, *Manyavar* may continue to lead as the 'original' in Celebration Wear, having a strong database of consumer preference. Thus, new players may not only spike the overall market size but also aid transition from unorganized to organized, without significantly impacting *Manyavar*. Enough room for growth exists in this untapped category with low market penetration. Led by innovative offering, brand recognition, vast growth potential, *Manyavar* may maintain competitive edge.

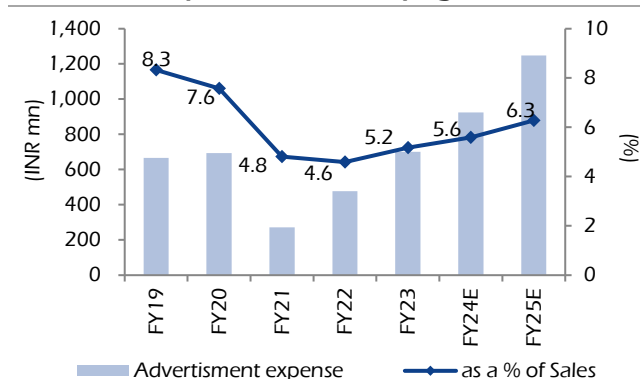
#### #2: Poignant advertising campaigns, another edge

Initially, *Manyavar* adopted a unique approach by exclusively advertising in theaters. Today, various mediums – billboards, television, social media, skywalks, metros, airports and even the Indian Premier League – are being leveraged. This has significantly spiked brand recall for *Manyavar's* Ethnic Wear.

Over time, *Manyavar's* brand recall has been remarkable, led by its impactful advertising campaigns. Catchy taglines steeped in emotional quotient – '*Maan Dene Se Maan Milta Hai*' (Respect Begets Respect), '*Pehno Apni Pehchaan*' (Wear Your Identity), '*Naye Rishte, Naye Vaade*' (New Relationships, New Promises), '*Taiyar Hoka Aaiye*' (Come Dressed for the Occasion), and '*Dulhan Wali Feeling*' (The Feeling of a Bride) have resonated as these are deeply-rooted in Indian culture/values. These campaigns have not only targeted the bride/groom but also families, as also prospective brides/grooms, close friends and relatives.

Through well-thought-out ad strategies, *Manyavar* has successfully captured mind-share, establishing strong brand presence. By connecting on an emotional/cultural level, the brand fostered a quick recall in Ethnic Wear.

**Exhibit 5: A&P spend to rise on campaigns for new brands**



Note: Elara assumption FY23 onwards. Source: Company, Elara Securities Estimate

#### A&P spend to rise

MANYAVAR significantly invested in marketing initially, particularly in 2019. To spike its reach/brand visibility, MANYAVAR enlisted many brand ambassadors. It successfully roped in celebrities such as Anushka Sharma-Virat Kohli for their bride-groom wear line, Amitabh Bachchan for festive wear, Kartik Aaryan for groom's attire, Alia Bhatt for bride/women's wear, and Kiara Advani for bridal attire. By strategically timing such partnerships with ambassadors who were about to tie the knot, MANYAVAR leveraged the buzz surrounding their marriages to extend to its brand/products. This sharp marketing approach allowed it to maximize its brand exposure and generate significant interest.

In 2019, MANYAVAR invested a substantial INR 667mn in advertising. As a proportion of revenue, the advertising budget dipped from 8.3% in 2019 to 4.6%, reflecting the brand's successful establishment/recognition. Moving forward, expect ad spend to remain range-bound within 4-6%, continuing to boost MANYAVAR's brand equity.

MANYAVAR'S aggressive marketing strategy and strategic celebrity endorsements played a crucial role in elevating brand presence, capturing the attention of its target audience. Through well-planned marketing strategy and timely partnerships with influential brand ambassadors, MANYAVAR effectively set itself as a leader in Ethnic Wear.

## Exhibit 6: Successful ad campaigns creating brand buzz



Source: Company, Elara Securities Estimate






### #3: No discounting model led to stronger brand

Within Apparels, manipulative pricing strategies are usual (enticing discounts to attract consumers). However, this has led to a shift in consumer behavior, creating an expectation of constant discounts even when sustaining them is moot. Thus, brand equity is diluted over time.

To differentiate itself as a premium brand and cater to the affluent consumer segment, MANYAVAR adopted a firm stance of doing away with discounting. It implemented a 'No Discount' policy, refraining from flash sales, flat discounts, clearance events or end-of-season sales. MANYAVAR aims to preserve its brand equity and maintain its position as a premium brand.

Efficient inventory management has played a crucial role in supporting MANYAVAR'S 'No Discount' policy. It has successfully kept the quantity of dead stock <3%, better than the industry average. This disciplined approach to inventory management allows MANYAVAR to sustain its policy with ease, ensuring that discounts are not required to move excess inventory. The brand's commitment to offering quality products without relying on frequent discounts showcases its confidence in the value/desirability of its offerings.

**Exhibit 7: MANYAVAR – Brand portfolio**

Brand	Manyavar	Mohey	Twamev	Manthan	Mebaz
Logo					
About	Category leader in Branded Indian Wedding and Celebration Wear market with pan-India presence. The company's flagship Men's & Kid's brand	<i>Mohey</i> is the largest brand by number of stores with pan-India presence, focusing on Women's Indian Wedding & Celebration Wear.	<i>Twamev</i> is priced between <i>Manyavar</i> and other luxury boutique brands.	<i>Manthan</i> is a value brand offering in Men's Indian Wedding & Celebration Wear	A heritage brand with strong regional presence in Andhra Pradesh and Telangana.
Year of launch	1999	2015	2019	2018	2017
Target group	Men and boys	Women	Men	Men	Men, Women & Kids
Distribution channel	EBOs, MBOs, LFS and e-commerce	EBOs & e-commerce	EBOs	MBOs, LFS & e-commerce	EBOs
Target price segment	Mid-premium Indian wedding & celebration wear.	An emerging brand in women's mid-premium segment.	Premium offering in Men's Indian Wedding & Celebration Wear market	Mid-market weddings & other celebrations	Mid-premium to premium
Product portfolio	<b>Men:</b> Kurta, Indo-western, Sherwani, jacket, accessories <b>Kids:</b> Kurta set, jacket set, Indo-western, accessories	<b>Women:</b> Lehenga, Saree, Gown, Accessories	<b>Men:</b> Kurta set, Sherwani, Indo-western, Suit, Accessories boutique brands	<b>Men:</b> Kurta	<b>Men:</b> Kurta, Indo-western, Sherwani, Jacket, Suit, Accessories <b>Women:</b> Lehenga, Saree, Suit, <b>Kurti Kids:</b> Lehenga, Gown, Frock, Kurta, Suit, Accessories
Key attributes	<ul style="list-style-type: none"> <li>Category leader in Branded Indian Wedding &amp; Celebration Wear market with pan-India presence.</li> <li>Other brands in the category only one-seventh the size of <i>Manyavar</i>.</li> <li>No end of season sales or discounts for <i>Manyavar</i> brand.</li> </ul>	<ul style="list-style-type: none"> <li>Largest brand by number of stores, with pan-India presence focusing on Women's Indian Wedding &amp; Celebration Wear.</li> <li>Benefit from <i>Manyavar</i>'s leadership and pan-India EBO footprint.</li> <li>Celebrity brand ambassador and campaigns such as “#Dulhan Wali Feeling”</li> </ul>	<ul style="list-style-type: none"> <li>Upscale consumer experience</li> <li>Cross-sell premium offering to <i>Manyavar</i> customers</li> </ul>	<ul style="list-style-type: none"> <li>Large blend of product designs at value prices</li> <li>Aims to cater to sizable number of mid-market weddings &amp; other celebrations</li> </ul>	<ul style="list-style-type: none"> <li>South India-focused regional brand, strong presence in Andhra Pradesh and Telangana.</li> <li>One-stop shop for ethnic celebration needs of the entire family</li> <li>Rich heritage brand with strong legacy</li> </ul>

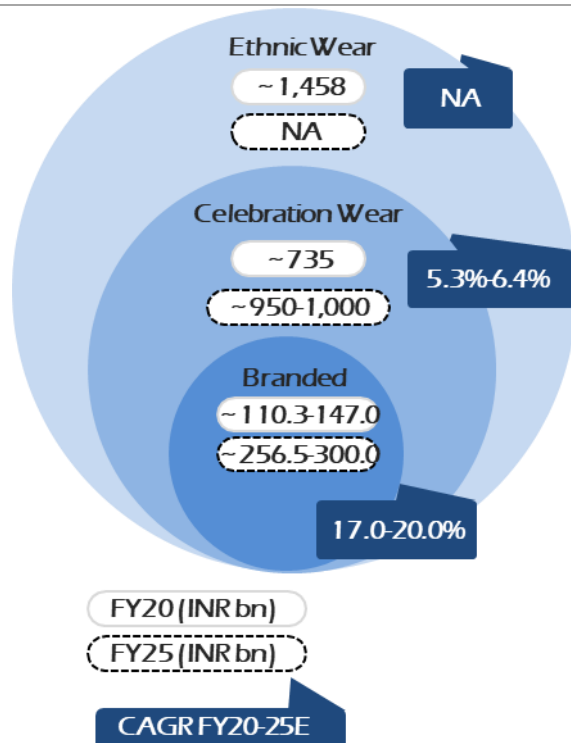
Source: Company, Elara Securities Research

## Mohey – Capturing larger market

### Mohey to outdo Branded Celebration Wear growth

Women's Celebration Ethnic Wear forms 81% of the total Indian Ethnic Wear market. Branded market, forming 15% of the Women's Celebration Wear, may post a higher CAGR of 17-20% to INR 256-300bn size in FY25, as per MANYAVAR RHP. This may be led by higher disposable incomes, preference for innovative designs/combinations in multi-day weddings/dress code celebrations.

**Exhibit 8: Women Branded Celebration – 17-20% CAGR likely through to FY25**



Note: Numbers represent market size; Source: Manyavar RHP, CRISIL, Elara Securities Research

*Mohey*, launched in 2015, quickly established itself as a major player in the Women's Ethnic and Celebration Wear market. With the distinction of being the largest brand in terms of presence in EBO store (through MANYAVAR stores) pan-India, *Mohey* aims to further expand presence. The brand's growth strategy includes strategically opening exclusive *Mohey* stores in clusters where it already holds a dominant position, along with opening larger family stores, housing all brands of the company. *Mohey* also plans to diversify its product mix by introducing accessories/expanding offerings, catering to the evolving customer preference.

*Mohey* derives significant leverage from its parent brand, *Manyavar*, which is very popular in the Men's Ethnic and Celebration Wear market. Through independent advertising campaigns and marketing initiatives, *Mohey* aims to establish itself as a leader in the mid-premium and premium segments. A notable example of this strategy is

the introduction of the 'Man-moh' collection, specifically targeting both brides/grooms. This collection not only increases *Mohey's* brand recognition but also expands its customer base.

**Exhibit 9: Manyavar-Mohey display**



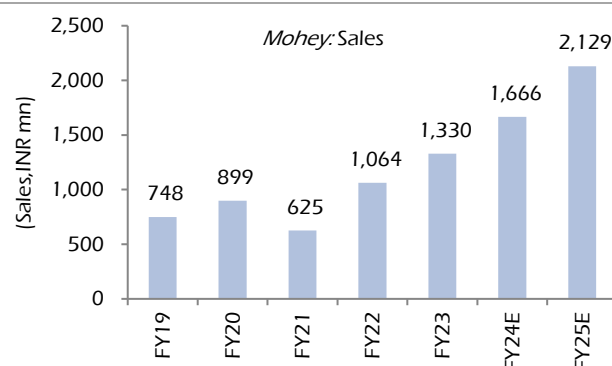
Source: Company, Elara Securities Research

### Mohey – Next leg of growth

*Mohey's* strong geographic presence in the initial years of its business life cycle provides significant growth opportunities. It is well-positioned to drive the next phase of growth for MANYAVAR given management's expertise in the Celebration Wear space, leveraging MANYAVAR'S extensive network, strong brand recall and impactful advertising campaigns.

*Mohey's* strategic approach, coupled with focus on expansion and meeting evolving consumer demands, positions *Mohey* as a key growth driver. Expect *Mohey* to post a 26.5% CAGR against overall CAGR of 21.1%, in FY23-25E given the base effect and focus on increasing *Mohey's* reach. Expect *Mohey* to be available in 130 flagship stores and nine standalone stores by FY25E.

**Exhibit 10: Mohey – FY23-25E CAGR likely at 26.5%**



Source: Elara Securities Estimate

### Mohey – Capturing competitive space

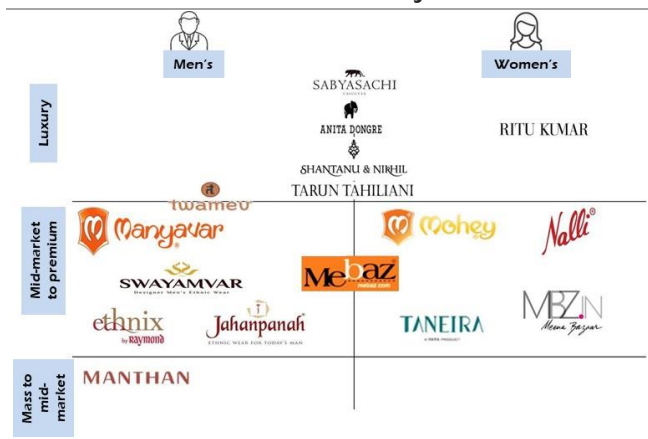
The Women's Celebration Wear market presents a challenging landscape for *Mohey*. Unlike the underpenetrated men's market, the women's segment is highly competitive, with established players such as *Soch*, *Nalli Sarees*, *Neeru's* and *Fab India* dominating the Readymade Ethnic Wear space.



Furthermore, the Women's Celebration Wear market is predominantly unorganized, wherein capturing a loyal customer base is difficult. Consumers in this segment are less likely to exhibit brand loyalty and tend to be more price-sensitive and variety-seeking compared with the men's category.

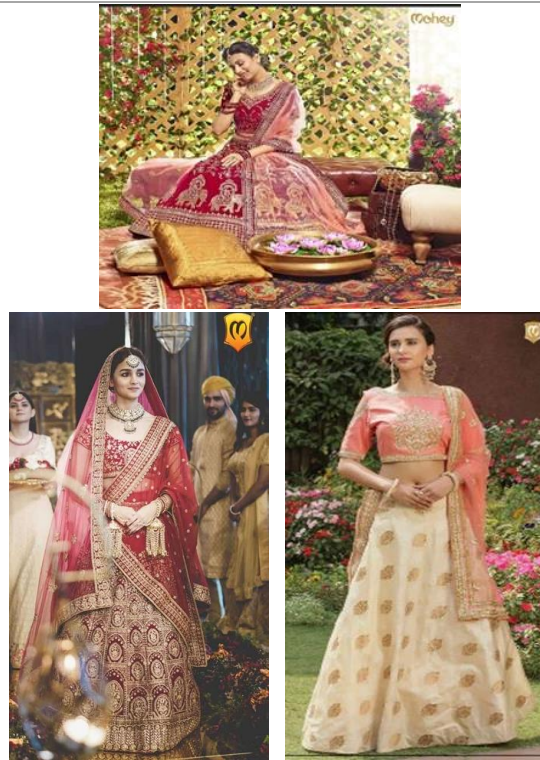
While the journey ahead may be challenging, *Mohey* may gain by leveraging its parent company's expertise, resources, and brand reputation to have the edge. By focusing on product innovation, effective marketing campaigns and building strong customer relationships, *Mohey* may establish its presence in the Women's Celebration Wear market and overcome the obstacles posed by existing players and unorganized market.

Exhibit 11: Celebration Wear – Key brands



Source: MANYAVAR RHP, Elara Securities Research

Exhibit 12: Mohey – Product range



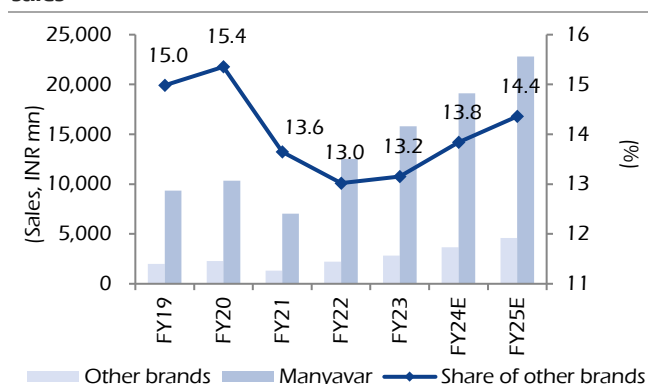
Source: Company, Elara Securities Research

### Manthan-Twamev-Mebaz: New vistas

MANYAVAR introduced two new brands, *Twamev/Manthan* – to cater to premium/mass segments, bridging the gaps in current portfolio. *Twamev* targets the high-end, premium-to-luxury segment, offering exclusive and sophisticated offerings to discerning customers. On the other hand, *Manthan* caters to the value segment to mid-premium range, providing stylish/affordable options for fashion-conscious individuals.

This expansion into different segments allows MANYAVAR to add a new consumer base and address diverse needs/preferences in different income segments. With a portfolio of brands, MANYAVAR is well-positioned to capture a larger market share and further strengthen its foothold in the Apparel industry. Expect new brands to post a CAGR of 27.7% in FY23-25E to INR 4.6bn revenue in FY25E. (Note MANYAVAR does not share brand-wise revenue since FY22.)

**Exhibit 13: New brands to contribute 14.4% to FY25E sales**



Note: Our assumptions from FY22.; Source: Company, Elara Securities Estimate

#### #1: Manthan to address masses

Recognizing the immense potential of the mass market segment, MANYAVAR introduced its brand *Manthan* in 2018. This move aligns with the recent trend among apparel retailers, such as Trent's *Zudio* and ABFRL's *People*, that have launched fast fashion brands to capture the attention of the masses.

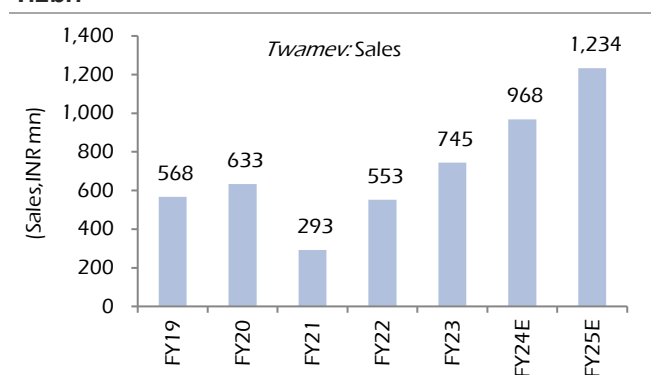
*Manthan* is the value brand offering in Men's Wedding and Celebration Wear. It focuses solely on *kurtas* in the price range of INR 300-2,500, making it an affordable option for a wide range of customers. By targeting the value segment, MANYAVAR aims to capture market share from regional and unorganized players. The value segment would reduce seasonality in the business as non-wedding seasons, as customers prefer affordable fashion options for general festivals/occasions. Although *Manthan* is a newer brand, expect rapid scale-up led by focus on volume and ability to meet the demands of the mass market.

#### #2: Twamev to cater to the affluent

MANYAVAR launched *Twamev* to cater to the affluent, desirous of luxurious designer wear, but either with budget or time constraints. *Twamev* provides high-end premium ready-made products for groom and wedding wear for men. The brand is positioned at a price point of  $\geq$ INR 5,000 for *kurtas*, distinguishing itself as a luxe category brand. *Twamev* offers a diverse range of products – *Kurtas*, *kurta jackets*, *sherwanis*, and Indo-Western outfits, with prices that can go up to INR 70,000.

Currently, *Twamev* products are available in MANYAVAR stores. MANYAVAR plans to open 8-10 *Twamev* stores in FY24 as pilot projects, to understand customer preference and get the store matrix right. By virtue of being a part of groom offering in MANYAVAR showrooms, *Twamev* has gained decent scale, with revenues of INR 745mn in FY23. Expect *Twamev* to post at higher CAGR of 28.7% to INR 1.2bn revenue by FY25E.

**Exhibit 14: Twamev – FY25E revenue likely at INR 1.2bn**



Source: Elara Securities Estimate

#### #3: Mebaz to leverage strong legacy in South

MANYAVAR's acquisition of *Mebaz* in FY18 strategically poised it in the South. *Mebaz*, a regional legacy brand, with strong presence in Andhra Pradesh/Telangana, offers a diverse range of Ethnic Wear products. This acquisition expanded MANYAVAR's portfolio of leading brands, allowing it to provide a comprehensive one-stop-shop experience while retaining 'value for money' proposition. By leveraging *Mebaz*'s established presence and customer base, MANYAVAR aims to strengthen its leadership in South India.

The acquisition of *Mebaz* brings in regional expertise and a loyal customer base to MANYAVAR. With *Mebaz*'s well-established omni-channel network and MANYAVAR's existing infrastructure, the company may enhance its market penetration and extend customer reach in Andhra Pradesh/Telangana. This move aligns with MANYAVAR's growth strategy of catering to the aspirations of the entire family, while offering 'value for money'.

## Tailwinds galore; high growth warrants premium valuations

- ❑ **Robust supply chain: Focus on design innovation, dedicated vendor base, strong data support**
- ❑ **Growth acceleration via penetration/channel expansion; store economics strong**
- ❑ **Financial metrics promising**
- ❑ **Sustainable leadership implies premium valuations– Initiate with BUY**

### Robust supply chain

#### #1: Focus on design innovation

MANYAVAR boasts a team of >40 designers, surpassing the industry average of ~20. This enables creating a diverse range of concept-based, captivating designs, catering to varied choices/preferences across different age groups/ethnic backgrounds.

MANYAVAR operates on a distinctive 52-week design model, rolling out a new design to stores on a weekly basis. This approach takes into account factors such as season, geography, consumer taste and preferences, as determined by the brand's data analytics system. With a dedicated team monitoring the performance metrics of these designs, MANYAVAR makes data-driven decisions on whether to continue or discontinue products, enhancing its inventory management practices and minimizing the presence of dead stock, a common challenge in the Ethnic and Celebration Wear industry.

By adopting the 52-week design model, MANYAVAR ensures a continuous stream of fresh, relevant designs. The brand's agile approach allows it to respond quickly to market trends/consumer demands, staying ahead of the curve. Through this data-driven innovation, MANYAVAR differentiates, combining strategic design releases with efficient inventory management to deliver superior shopping experience and maintain competitive edge.

#### #2: Wide dedicated vendor base

MANYAVAR possesses a wide vendor base that ensures a seamless production process throughout the year. By adopting a continuous innovation strategy with weekly design releases, the brand has developed an algorithmically-managed dynamic vendor management system. This system is designed to streamline every stage of production, from raw material procurement to manufacturing, cutting, sewing, finishing and quality checks. With 90% of the manufacturing outsourced and only 10% handled in-house for experimentation, MANYAVAR has a pilot run approach for newer designs.

In FY22, MANYAVAR established a robust network of >460 registered vendors in >40 cities. This diversified supply chain management strategy eliminates the risk of dependence on a few vendors. Orders can be easily shifted from one vendor to another, ensuring operational flexibility without major disruptions.

Moreover, MANYAVAR leverages this extensive vendor network to achieve economies of scale, maximizing efficiency/cost-effectiveness. MANYAVAR's stable vendor base includes legacy vendors who have been with the company since its inception. These vendors rely solely on MANYAVAR, with their entire order book dedicated to the brand. This mutual dependency reinforces the confidence in the stability/reliability of the vendor base.

#### #3: Strong data support through ARS

MANYAVAR has been at the forefront of optimal inventory management by adopting the ERP-Ginesys system since its inception. With >14 years of data capturing trends in Ethnic and Celebration Wear, the brand has integrated an Automated Replenishment System (ARS) into its Exclusive Brand Outlets (EBOs). This system ensures seamless synchronization between front-end and back-end operations, allowing real-time tracking of inventory at each EBO and providing immediate access to sales data.

Additionally, the brand utilizes business analytical tools and modules, such as the 'Sansar' module for in-house POS (Point of Sales) order management and the 'Wooquer' application for intra-store communication. A warehouse management system is employed to facilitate efficient inventory management at the company's warehouse, and dedicated portals connect with jobbers and vendors for effective communication.

By implementing these system-driven processes and harnessing strong analytical capabilities, MANYAVAR can make data-based decisions and accurately forecast cultural and evolving fashion trends across India. This approach eliminates the need for manual intervention and ensures that the brand stays ahead of the curve, meeting customer demands with the right products at the right time. Sales trends and data analytics play a vital role in inventory management, enabling brand to avoid excess stock and stay attuned to customer needs.

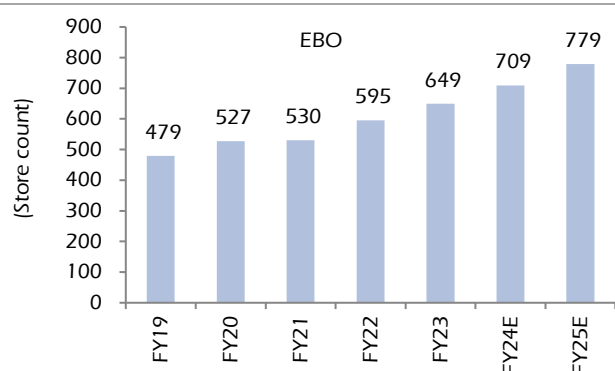
## Growth acceleration via penetration, channel expansion

### #1: EBO-led multi-channel network

MANYAVAR has strategically established a multichannel network through Exclusive Branded Outlets (EBOs), Multi Brand Outlets (MBOs), Shop-in-Shops (SISs), Large Format Stores (LFSs), and an online presence, to expand its reach and cater to diverse customer preferences, pan-India.

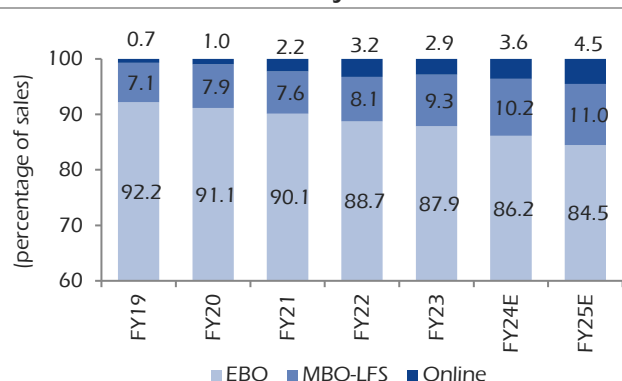
The brand's multichannel approach allows it to tap into the underpenetrated and predominantly unorganized men's segment of the Celebration Wear market. By combining offline-online channels, the brand aims to meet the evolving customer need and further expand presence, solidifying its position as a leader in the industry.

**Exhibit 15: Store expansion to accelerate growth**



Source: Company, Elara Securities Estimate

**Exhibit 16: Revenue share by channel**



Note: Our assumptions from FY22. Source: Company, Elara Securities Estimate

### Expanding in tier II-IV cities

MANYAVAR is actively expanding footprint beyond tier I, to tier II/III cities in the domestic market. The decision to target tier II-IV cities is led by many factors – Rising disposable incomes in such cities, more willingness/affordability to spend on lifestyle/fashion products.

The brand's unique value proposition, offering stylish and authentic ethnic wear, resonates with consumers who seek quality/fashionable attire for special occasions/celebrations. Moreover, aspirations and evolving preferences in tier II-III cities have enabled MANYAVAR to experiment with more design concepts and offer unique products, pan-India. With deeper penetration into these cities, tier II/III cities now contribute >50% to sales, which may spike going forward.

**Exhibit 17: Share of tier II/III cities increasing**

Sales to customers (%)	FY19	FY20	FY21
Tier I	54.3	53.8	44.2
Tier II	36.0	35.0	42.1
Tier III	8.5	9.7	12.3
International	1.2	1.5	1.4

Source: Manyavar RHP, Elara Securities Research

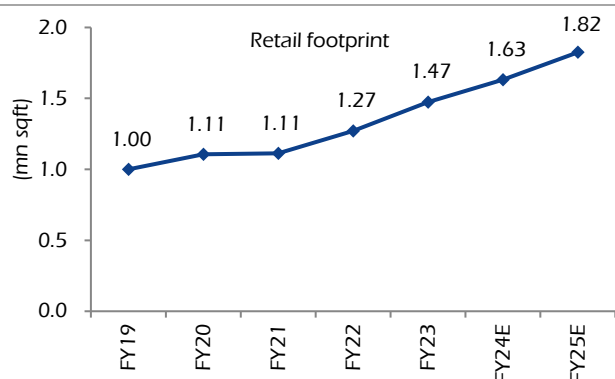
### #2: Brick & Mortar dominance to remain

MANYAVAR's success lies in its strong brick-and-mortar presence, catering to the preferences of Indian consumers who prefer the tactile experience of in-store shopping. With >90% of its revenue generated from traditional stores, the brand recognizes the importance of expanding its physical footprint for continued growth.

Since 2008, MANYAVAR embarked on an aggressive expansion strategy, currently operating 613 EBOs across 235 cities in India and 14 international EBOs. Also, the brand has significant presence in >600 MBOs/100 LFSs.

MANYAVAR's retail footprint spans a total of 1.47mn sqft, with plans to expand 16% annually. By focusing on brick-and-mortar expansion, MANYAVAR aims to meet increasing demand for its products, enhance customer experience, and solidify its position as a leader in the Celebration Wear market.



**Exhibit 18: Retail footprint expansion to fuel visibility**


Source: Company, Elara Securities Estimate

### #3: Online sales share to improve gradually

With increased reliance on screens/digital platforms, brands must establish a strong online presence to capture the attention of the modern-day consumer. The modern consumer often begins the purchase journey by conducting online research/price comparisons, followed by a visit to the physical store for the final purchase. Alternatively, products in-store may be explored first followed by an online purchase.

This seamless integration of online-offline channels has become the norm, led by the widespread use of smartphones/other mobile devices. The competition for consumer screen time has intensified, and brands are employing data analytics to target new audiences with similar habits. Brands that embrace the fusion of digital-physical channels, offering a cohesive/personalized experience across both realms, are poised to thrive in the future and meet evolving customer needs.

In addition to its extensive network of brick-and-mortar stores, MANYAVAR has established a robust online presence across major e-commerce platforms such as Myntra, Ajio, Amazon and Flipkart, as well as through its own flagship website. These online channels are seamlessly integrated with the traditional retail channels and the company's central warehouse, providing consumers with a hassle-free omni-channel experience and ensuring efficient inventory management.

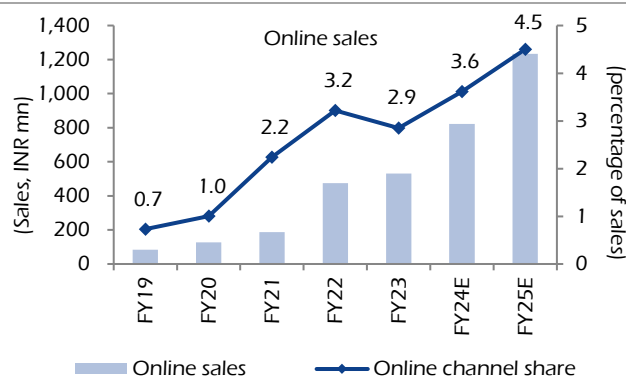
**Exhibit 19: MANYAVAR – Strong presence across channels; 78% SKUs catering to >INR 2,000 segment**

Channel	SKU count	Price (INR)			
		<2,000	<5,000	<10,000	>10,000
Ajio	418	12%	67%	20%	1%
Myntra	1,166	19%	59%	14%	8%
Flipkart	708	41%	59%	0%	0%
Amazon	1,234	18%	66%	15%	1%
Overall	1,234	22%	62%	12%	3%

Source: Elara Securities Research

Consumers can explore the entire range of MANYAVAR's product offerings by scanning Quick Response (QR) codes enabled on catalogues, allowing them to make informed purchasing decisions and have their desired items conveniently delivered to their doorsteps. MANYAVAR has witnessed remarkable growth in online sales, with revenues increasing from INR 83mn in 2019 to INR 442mn in 2022, at a CAGR of 74.7%. Moreover, the share of online sales in the overall revenue mix has also expanded from 0.75% to >3%.

Going forward, MANYAVAR is poised to sustain its online growth trajectory, led by an increase in topline performance. MANYAVAR expects the digital contribution to revenue to surpass 3% and move towards the 5% mark in the coming years. This ongoing digital expansion highlights MANYAVAR's commitment to meeting the evolving needs/preferences of consumers in the online marketplace, ensuring strong presence across various digital platforms.

**Exhibit 20: Online sales mix to rise to 4.5% by FY25E**


Source: Company, Elara Securities Estimate



## Store economics robust

### #1: Focus on FOFO model

MANYAVAR operates EBOs via the franchise route through two primary business models: Company-Owned Franchisee Operated (COFO) and Franchisee-Owned Franchisee Operated (FOFO). Under the COFO model, MANYAVAR offers an 18% margin to the franchisee, while in the FOFO model, higher margin of 29.5% is offered.

Initially, MANYAVAR opted for a combination of Company-Owned Company-Operated (COCO) and COFO models. This approach allowed it to gain valuable insights into store profitability and understand the practical difficulties involved in managing franchises. By closely analyzing the store metrics and gaining a comprehensive understanding of the business, MANYAVAR has been able to refine its operational strategies and make informed decisions regarding its business models.

Currently, FOFO stores account for >90% of the total MANYAVAR stores. This transition towards FOFO aligns with MANYAVAR's objective of streamlining operations, reducing overhead costs, and avoiding day-to-day challenges associated with managing franchises directly. The FOFO model offers many advantages, including higher margin to franchisees, reduced operational complexities for MANYAVAR and the ability to leverage local market expertise and entrepreneurship. By adopting this model, MANYAVAR may focus on its core competencies of product development, marketing, and brand expansion.

### #2: Lucrative economics attracts existing franchisee

MANYAVAR offers strategically-set margin to ensure a balance between returns earned by the franchises under both COFO and FOFO models. However, it maintains a selective approach when it comes to opening new franchises, while providing opportunities to existing franchisees to expand into the company's expanding network.

Impressively, 70% of the franchisees have been operating for three or more years, indicating long-term viability and profitability of the franchise model. More than 60% of the sales to customers are generated by franchisees that operate two or more stores. This highlights the scalability and success of franchisees that expand their operations within the MANYAVAR network.

Our calculations suggest that franchisees of MANYAVAR enjoy an average EBITDA margin of ~6.2%, after adjusting for rent/other expenses. The pay-back period for franchisees is also favorable, at an average of ~3.8 years. These financial metrics contribute to an attractive Return on Invested Capital (ROIC) of 18%, making franchise ownership a lucrative opportunity for entrepreneurs in the Ethnic Wear market.

### Exhibit 21: Franchisees – Store economics favorable

Particulars (for franchisee)	COFO	FOFO
Store size (sqft)	2,200	2,200
Revenue/sqft (INR)	12,000	12,000
Sales per store (INR mn)	26.4	26.4
<b>Gross margin (%)</b>	<b>18.0</b>	<b>29.5</b>
Gross profit	4.8	7.8
Rental-lease cost @ 11.5% of sales	0	3
Employee cost (eight people @INR 20,000)	1.9	1.9
Other expenses @4.5% of sales (INR mn)	1.2	1.2
<b>Store EBITDA (INR mn)</b>	<b>1.6</b>	<b>1.6</b>
Depreciation (INR mn)	0.8	0.8
PBT (INR mn)	1.6	1.6
Tax (%)	25	25
PAT (INR mn)	1.2	1.2
<b>ROIC (%)</b>	<b>18</b>	<b>18</b>
Payback on capex (years)	3.8	3.8
<b>Investment</b>		
Capex investment (INR mn)	7.7	7.7
Security deposit (INR mn)	1.7	1.7
<b>Total investment (INR mn)</b>	<b>9.4</b>	<b>9.4</b>

Source: Elara Securities Research

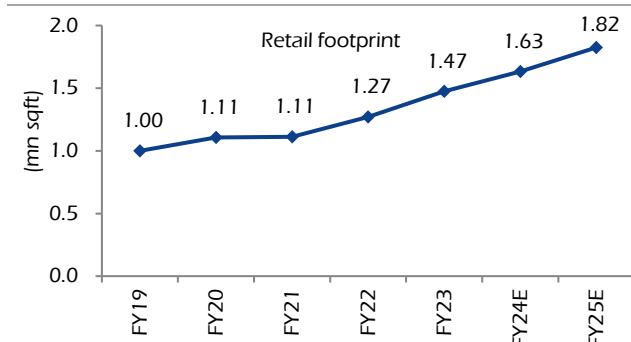
## Financial metrics promising

### #1: Channel growth to aid 21.1% revenue CAGR by FY25E

MANYAVAR's revenue CAGR was 14.1% in FY19-23 to INR 13,549mn revenue despite Covid-led setback in operations. Pandemic hit sales per sqft in MANYAVAR's retail stores, though slightly, thus a modest CAGR of 1.0% in FY19-23. This also provided MANYAVAR with an opportunity to expand footprint.

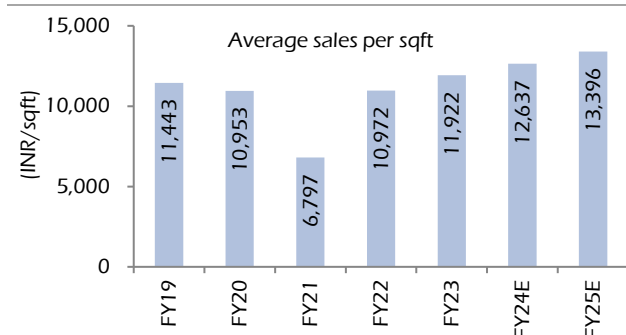
Expect faster CAGR clip of 21.1% in FY23-25E, led by network expansion, larger target market via *Manthan-Twamev-Mohey*, and an increased focus on e-commerce sales. Expect retail area to reach 1.82mn sqft, with increase in revenue per sqft of 6%, by FY25E. Increase in revenue per sqft will also be led by increased focus on higher value segments such as *Mohey/Twamev*.

### Exhibit 22: Retail area to reach 1.82mn sqft in FY25E



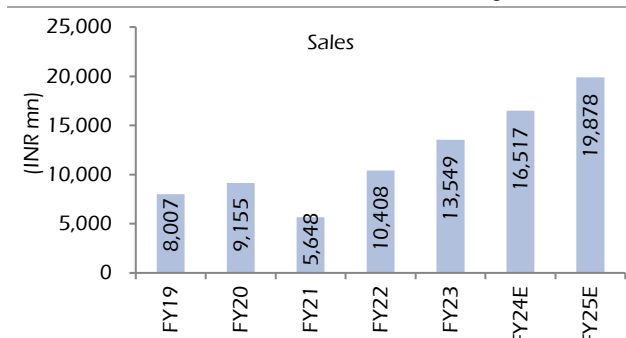
Source: Company, Elara Securities Estimate

### Exhibit 23: Sales/sqft – FY23-25E CAGR 6.0%



Source: Company, Elara Securities Estimate

### Exhibit 24: FY23-25E revenue CAGR likely at 21.1%

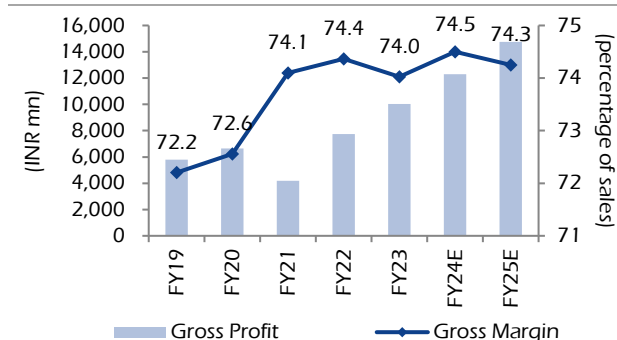


Source: Company, Elara Securities Estimate

### #2: Higher gross margin to continue, EBITDA margin to course correct gradually

MANYAVAR has demonstrated an impressive track record of achieving gross margin above 70% for over five years, to 74% in FY23 from 72.2% in FY19. Expect this trend to continue, with margin at 74.3% in FY25E from 74% in FY23, led by improved revenue mix and raw material tailwinds. Additionally, MANYAVAR's ability to secure large-scale outsourcing orders may provide it with increased bargaining power, enabling favorable terms from its supply chain partners.

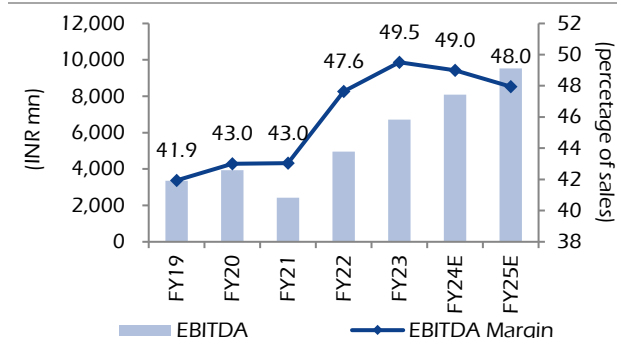
### Exhibit 25: Gross profit margin likely at 74.3% in FY25E, expanding 170bps versus FY19



Source: Company, Elara Securities Estimate

EBITDA margin increased sharply in the past five years to 49.5% in FY23 from 41.9% in FY19. This was led by lower advertisement and promotion spend during Covid. However, expect EBITDA margin to course correct to 48% by FY25E. This decrease can be attributed to increasing employee costs/ad & promotional expenses related to newer in-house brands, *Mohey/Manthan/Twamev* as also rising competition. Although these investments may hit short-term profitability, MANYAVAR's strong gross margin and strategic initiatives may sustain profitability/growth in the Ethnic Wear market.

### Exhibit 26: EBITDA margin likely at 48% by FY25E

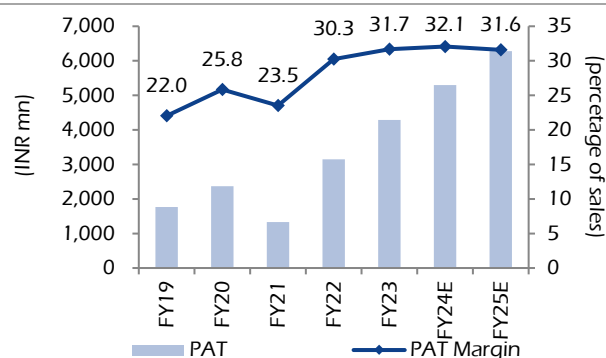


Source: Company, Elara Securities Estimate

Over FY19-23, MANYAVAR's PAT margin improved in-line with EBITDA margin, led by operating leverage on strong demand post COVID. Despite an expected dip of 150bps in EBITDA margin in FY23-25E, expect MANYAVAR's PAT margin to be range-bound at 31.6% in FY23-25E. This is

on account of franchisee-based expansion model, with lower increase in depreciation/interest and higher other income coming in from strong cash position. Expect PAT CAGR at 21.0% to INR 6,277mn PAT in FY25E.

## Exhibit 27: PAT margin to be range-bound

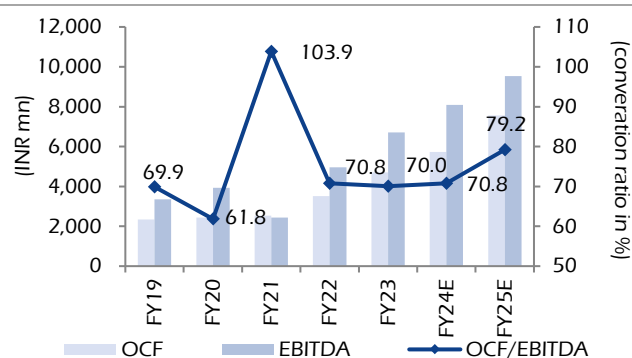


Source: Company, Elara Securities Estimate

## #3: Strong return ratios to sustain with store expansion

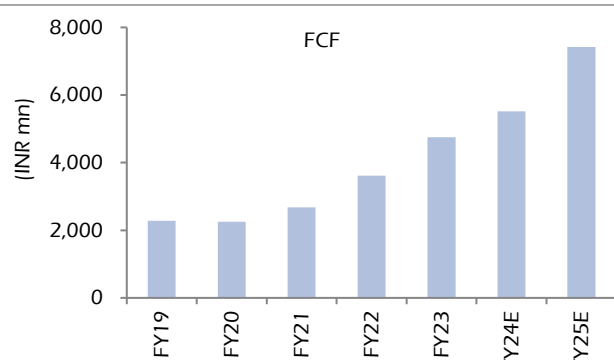
**Strong OCF/EBITDA conversion:** MANYAVAR has robust ability to convert EBITDA into operating cash flow, with a conversion ratio of 70.0% in FY23. This ratio may further improve to 79.2% by FY25E. Such strong conversion capabilities may enhance free cash flow generation to INR 17.5bn in FY23-25E. By efficiently converting EBITDA into operating cash flow, MANYAVAR may ensure healthy financial position and the means to fund growth plans.

## Exhibit 28: Strong OCF/EBITDA conversion ratio of 79% in FY25E



Source: Company, Elara Securities Estimate

## Exhibit 29: Strong FCF to aid store expansion

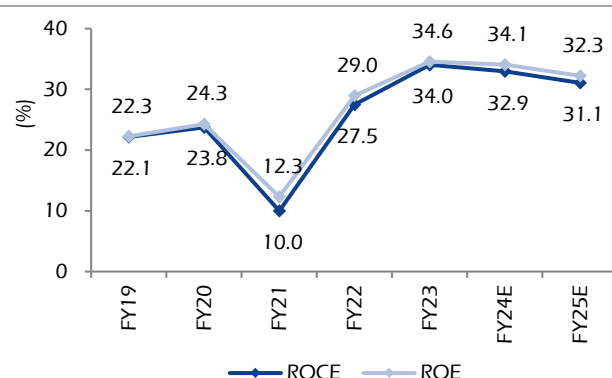


Source: Company, Elara Securities Estimate

## Return ratios may be >30% by FY25E

Since 2019, MANYAVAR has been debt-free and financed its growth via internal accruals. It has consistently delivered an ROE of >22% in the past five years, barring the pandemic year, demonstrating its ability to generate favorable returns for its shareholders. Expect MANYAVAR to achieve an ROE of 34.1%/32.3% in FY24E/25E, respectively, indicating continued ability to generate consistent and attractive returns for its investors.

## Exhibit 30: Higher margin/growth to sustain return ratios at >30%

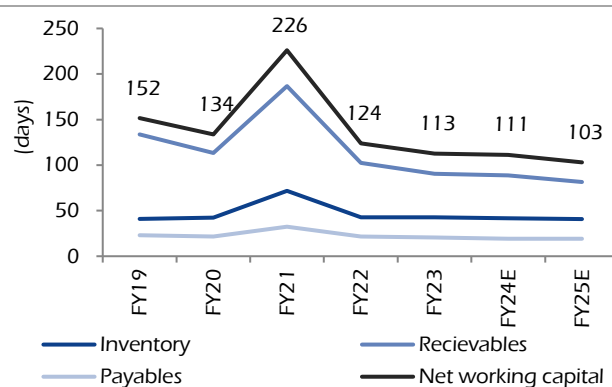


Source: Company, Elara Securities Estimate

## Focus on WC optimization

MANYAVAR caps accumulation of dead stock with consistent focus on maintaining lean inventory through the implementation of Auto Replenishment System. We anticipate a further reduction in inventory by two days, from 43 in FY23 to 41 in FY25E. Moreover, MANYAVAR is making efforts to optimize debtors' days by increasing its share of online sales, with shorter payment holding periods of ~60 days. These initiatives will contribute to enhanced working capital management and overall financial efficiency.

## Exhibit 31: NWC days to trim 10 days in FY23-25E



Note: NWC=Net Working Capital; Source: Company, Elara Securities Estimate

## High growth, sustainable leadership warrant premium valuation

**Initiate with BUY:** MANYAVAR may be well-positioned to withstand increasing competition and maintain its market leadership due to established supply chain network (crucial network of artisans developed over past 20 years) and focus on data-driven business operations.

Per our calculations, it will double its retail space by FY28E versus FY21 (per guidance, retail space to double in next few years – year not mentioned). Focus on new brands such as *Mohey/Twamev* in the premium segment and *Manthan* in the value segment may allow MANYAVAR to cater to larger target audience. This with continuous expansion in flagship brand may drive growth.

Expect revenue/PAT CAGRs of 21.1%/21% in FY23-25E. We prefer MANYAVAR given its market leadership, strong growth, portfolio of brands, superior profitability, strong command in supply chain/customer preferences, and free cash flow generation.

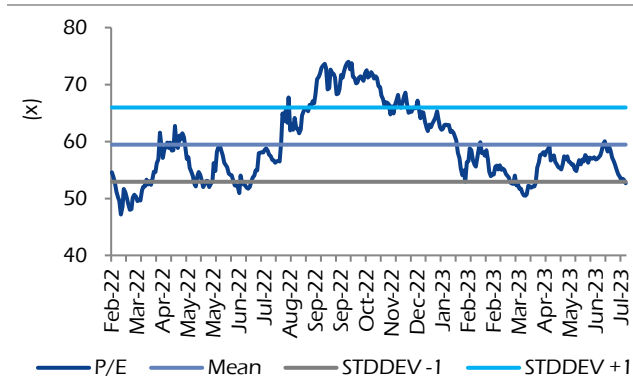
We initiate with BUY with a DCF-TP of INR 1,670, arrived at by discounting 20-year FCF at a WACC of 10.2% and a terminal growth rate of 7%. At our TP, the stock may be valued 65x FY25E P/E.

### Exhibit 32: DCF valuations

Particulars	FY25E
10-year FCF growth (%)	20.1
Next 10-year FCF growth (%)	12.1
WACC (%)	10.2
Terminal growth rate (%)	7
PV of 20 years FCF (INR mn)	112,393
PV of terminal growth (INR mn)	284,877
Total EV (INR mn)	397,270
Net debt (INR mn)	(7,971)
Equity value (INR mn)	405,242
No. of shares	243
Equity value per share (INR)	1,670
CMP (INR)	1,206
Upside (%)	38

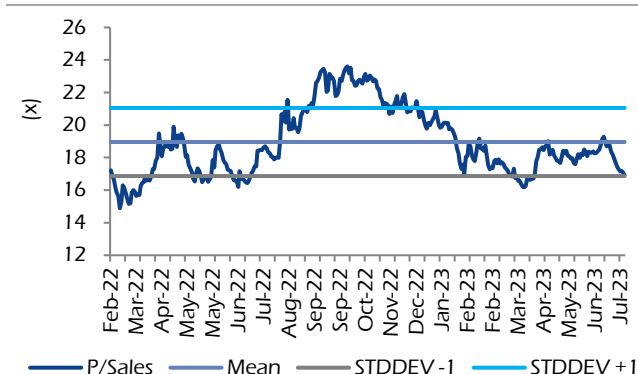
Note: Pricing as on 7 July 2023; Source: Elara Securities Estimate

### Exhibit 33: One-year forward P/E



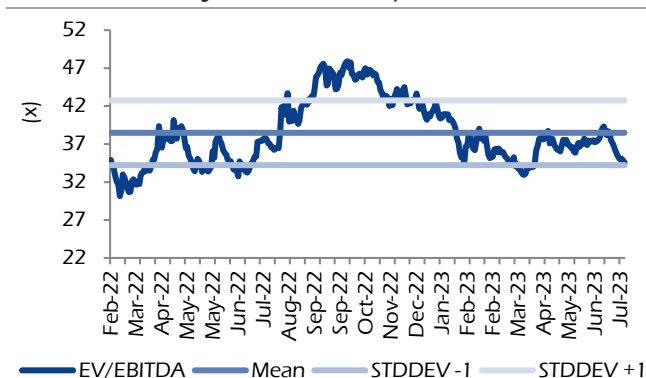
Source: Bloomberg, Company, Elara Securities Estimate

### Exhibit 34: One-year forward P/S



Source: Bloomberg, Company, Elara Securities Estimate

### Exhibit 35: One year forward EV/EBITDA



Source: Bloomberg, Company, Elara Securities Estimate

## Key risks

- Change in consumer preferences and demand weakness could hit growth prospects.
- Increasing competition in the Ethnic Wear market from established business houses such as Raymond, TATA, Reliance and Aditya Birla may risk MANYAVAR's market share/pricing strategy.
- Slowdown in network expansion and difficulty in achieving desired store profitability amid weak demand could impede growth trajectory.
- MANYAVAR's reliance on outsourcing potential caps control over supply chain, which could hit quality, timeliness, and cost-effectiveness.

## Company description

Vedant Fashions, headquartered in Kolkata, led by founder Mr. Ravi Modi with its flagship brand 'Manyavar', is the largest company in India providing one-stop solution for Indian Wedding and Celebration Wear segment with pan-India presence. Brands 'Twamev'/'Manthan' in Men's segment, and 'Mohey' in the Women's segment were introduced to create dominance in the organized premium and value segments. MANYAVAR operates through a multi-channel network, including EBOs, MBOs, LFS and online platforms, including website (www.manyavar.com) and mobile application. It operates on an asset-light strategy via outsourcing manufacturing operations. Majority of sales are generated through franchisee owned EBOs.

MANYAVAR has a retail footprint of 1.47 mn sqft, covering 633 EBOs spanning 245 cities/towns in India, and 16 EBOs overseas across the US, Canada and the UAE, which are countries with a large Indian diaspora.

### Exhibit 36: Board of Directors

Name	Designation	Education	Experience
Mr. Ravi Modi	Chairman and Managing Director	Degree in Commerce from St. Xavier's College, Calcutta University	He has been associated with MANYAVAR since its inception and has >two decades of experience in the garment industry. He oversees the design and marketing functions and together with the senior management is responsible for implementation of strategy. He has been spotlighted by Forbes India in August 2017, as among 13 business leaders who have built big businesses without relying on external investors.
Ms. Shilpi Modi	Whole-time Director	Degree in Commerce from Allahabad University.	She has been associated with MANYAVAR since its inception and has more than two decades of experience in the garment industry. She handles digital strategy and product lifecycle and together with senior management is responsible for implementation of strategy.
Mr. Sunish Sharma	Nominee Director	B.Com (Hons.) from the University of Delhi, Post Graduate Diploma in Computer Aided Management from IIM-Calcutta and a qualified cost accountant.	He is the Co-CEO and Managing Partner of Kedaara Capital and has extensive private equity investment experience in Business Services and Technology, Healthcare, Financial Services and Consumer Sectors. He has previously worked with McKinsey & Co. for six years and has also worked with General Atlantic Partners Private for eight years, wherein his last held position was Managing Director. He also serves as a Director on the Board of Directors of Spandana Spohorty Financial.
Mr. Manish Mahendra Choksi	Independent Director	Bachelor's in Chemical Engineering – Houston University and an MBA from University of Houston, USA.	He is currently the Non-Executive Director (Vice-Chairman) on Board of Directors of Asian Paints. He has been associated with Asian Paints since 1992, when he held various positions across functional departments. He is also a member of the Board of Directors of Unotech Software Private and Germinait Solutions Private; and an Independent Director on the Board of MSL Driveline Systems. He is also a member of the Global Advisory Board of Chiratae Ventures (formerly known as IDG Ventures India), a technology-focused venture capital firm.
Ms. Abanti Mitra	Independent Director	Post Graduate Diploma in Rural Management from Institute of Rural Management, Anand.	She has prior experience as a manager at ICICI Bank and as a Management Executive at Micro-Credit Ratings International. She is also an Independent Director on the Board of Directors of Spandana Spohorty Financial and Criss Financial.
Mr. Tarun Puri	Independent Director	Bachelor's (Hons.) in ME, BITS, Pilani and a Post Graduate Diploma in Management from IIM- Calcutta	He has worked with the Unilever group of companies and Nike, Inc and his last position was Vice President, Global Sales Lead (Women's) Category Sales at Nike, Inc. He has been associated with Nike since 2007, including being the Managing Director for Nike India Private. Prior to that, he was in Unilever Thai Trading where his role was Regional Vice President, Hair X Brand, South Asia & South East Asia (based out of Thailand).

Source: Company RHP, Elara Securities Research



**Exhibit 37: Management**

Name	Designation	Education	Experience
Mr. Rahul Murarka	Chief Financial Officer	Qualified CA from ICAI and B.Com (Hons.), University of Calcutta	He joined MANYAVAR from December 2013 and has >16 years of experience in Finance, Accounting, Audits, Taxation and Regulatory Compliances. Prior to joining MANYAVAR, he worked with S.R. Batliboi & Co. LLP through January 2005-December 2013 (at the time of resigning, he was a Manager in Assurance Practice).
Mr. Naveen Pareek	Company Secretary and Compliance Officer	Qualified CS from ICSI and B.Com (Hons.), University of Calcutta	He joined MANYAVAR from June 2012 and has >10 years of experience in Legal, Compliance, Finance, Direct Taxation and Secretarial functions.
Mr. Amar Sethia	Chief Product Officer	Completed schooling and attended college in Kolkata.	He has been associated with MANYAVAR since 2002 and is engaged in Product Designing and in developing product vision, strategy, analytics and metrics.
Mr. Siddhartha Saraf	Chief - Strategy & Investments	CFA registered with the CFA Institute, USA and an FRM enrolled with the GARP, USA	He joined MANYAVAR from March 2020 and leads business strategy and investment functions. In the past, he has been associated with Kotak Mahindra Bank as an Associate Vice President-II.
Mr. Ajay Modi	Chief- Supply Chain	BBA – Bangalore University.	He joined MANYAVAR in January 2008 and oversees the entire Supply Chain Process, including Replenishment and Inventory Management.
Mr. S. Arif Raza	Independent Director	BA – University of Delhi, MBA (Marketing), S.P. Jain Center of Management and Retail Next Practice-Executive Program from XLRI.	He joined MANYAVAR in November 2018 and has >10 years of experience in Retail Business Development and Management. In the past, he worked with PVR, Madura Fashion & Lifestyle (a division of the Aditya Birla group) and Nike India Private.
Mr. Sushil Kumar Agarwal	Chief Information Officer	Qualified CA- ICAI, B.Com, Calcutta University and Post Qualification course in Information Systems Audits -ICAI	He joined MANYAVAR in January 2009.
Mr. Vedant Modi	Chief Marketing Officer	B.Sc (Information Management for Business), University College London	He joined MANYAVAR in June 2021.
Ms. Kanchan Banerjee	Chief Human Resources Officer	MBA, Sikkim Manipal University and Executive Diploma (Human Resource Management), XLRI	She joined MANYAVAR in November 2020 and has >10 years' experience in Human Resources. In the past, she has been associated with Vikram Solar as Head – Corporate Human Resources, Trident as Vice President – Talent Management and Separation, Vodafone Mobile Services as Manager – Talent and Operations, Wipro as Manager and Bharti Airtel as Assistant manager – CSD.

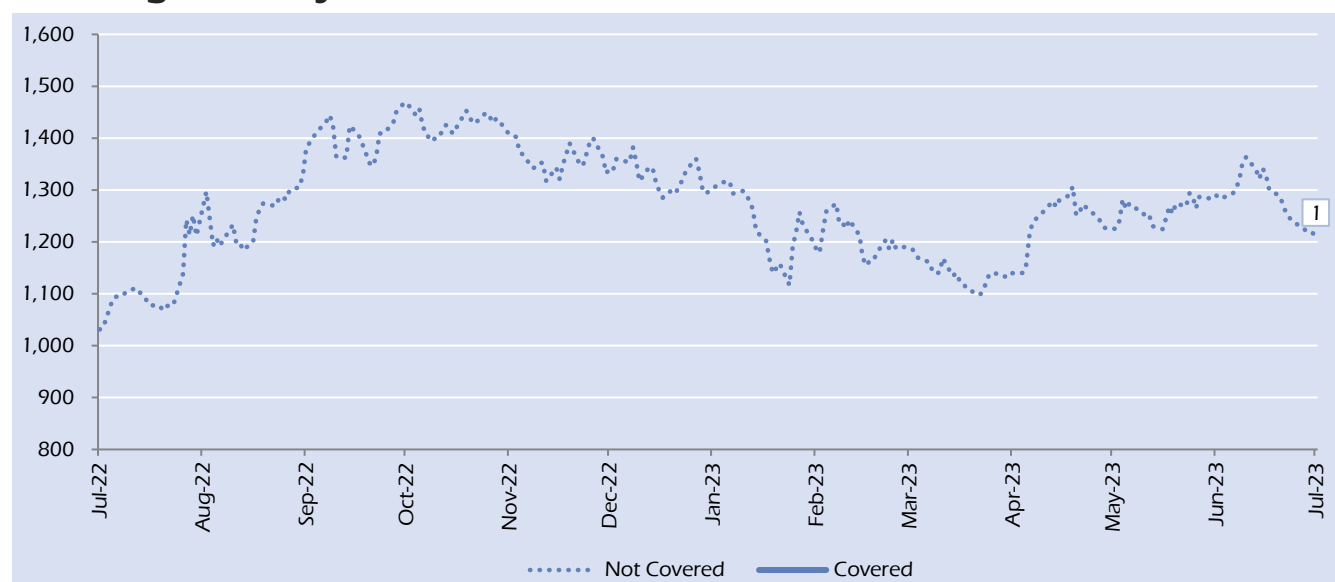
Source: Company RHP, Elara Securities Research

**Exhibit 38: MANYAVAR's journey – Timeline**

Year	Particulars
1999	Launch of brand <i>Manyavar</i> via predecessor entity
2002	Incorporation of Vedant Fashions
2008	First EBO format store of <i>Manyavar</i> in Bhubaneswar.
2010	Hit the 100 <sup>th</sup> store mark with inauguration of a store in Santacruz, Mumbai
2011	Opened first international store in Dubai, UAE
2012	Surpassed INR 1,000mn EBO revenue and hit the 200 <sup>th</sup> store mark with inauguration of India's largest EBO in Karol Bagh, Delhi
2013	Became Official Indian Wear Partner for three IPL teams
2014	Opening of 333 <sup>rd</sup> store, the grandest MANYAVAR store in Mumbai. Film advertisements aired across India making the company a national brand.
2015	Launched Women's Celebration Wear label, <i>Mohey</i> and opened 400 <sup>th</sup> store in Hazratganj, Lucknow
2016	Crossed INR 5,000mn in EBO revenue and launched EBO in the US
2017	Addition of brand <i>Mebaz</i> to accelerate the presence in South India.
2018	Launched <i>Manthan</i> (Value Celebration Wear label) and opened 500 <sup>th</sup> store at Nagpur, Dharampet. Became the Official Sponsor of two IPL teams.
2019	Launched premium men's wear brand, <i>Twamev</i> , opened 600 <sup>th</sup> store in Mysore. Crossed INR 10,000mn EBO revenue and 1 mn sqft. of EBO presence.
2022	Listed on Stock Exchanges in India on 16 February 2022
2023	Crossed 600 <sup>th</sup> EBO store mark and closed the year with 1.27mn sqft presence.

Source: Company, Elara Securities Research

## Coverage History



	Date	Rating	Target Price	Closing Price
1	7-Jul-2023	Buy	INR 1,670	INR 1,206

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

## Go Fashion

ElaraCapital

## Category leadership to sustain

## Branded Bottomwear: Robust revenue CAGR to underpin growth

Go Fashion (GOCOLORS IN), a pioneer in India Branded Bottomwear, solely focuses on the bottomwear category. It has been steadily augmenting its penetration in the category through introducing new fashion-based products. Expect GOCOLORS to post a revenue CAGR of 25.7% against a 20.5% CAGR for the Branded Bottomwear market, in FY23-25E. This may likely improve its market share to 9.2% in FY25E.

## EBO expansion on cards led by healthy store dynamics

GOCOLORS' Exclusive Branded Outlet (EBO) stores, based on company-owned company-operated (COCO) model, generate 35.4% ROCE (post-tax) with a pay-back of 34 months. Expect GOCOLORS to open 120 stores each year over FY23-25E, at a 17.5% CAGR. Expect FY24E/25E SSSG of 14%/12%. Revenue CAGR may be 25.7% led by a 22.1% volume CAGR through to FY23-25E.

## Higher margin to sustain despite competition

GOCOLORS operates at an EBITDA margin (post-IND-AS) of 31.9%, led by a 73% revenue share of EBO and 95% of sales on full price. With rapid EBO expansion in the near term, expect the revenue share from EBOs to spike to 77.3% in FY25E. This may likely improve working capital days efficiency and sustain higher margins in an intensely competitive market. In FY25E, expect EBITDA margin to touch 32% and ROE to improve to 19%.

## FCF generation strong, balance sheet robust

GOCOLORS is net debt free, despite COCO-based EBO expansion. Working capital days are improving, after worsening during COVID as the channel mix improves, tilting to EBO. Expect GOCOLORS to generate FCF of INR 3.5bn cumulatively in FY24E-25E. No leverage, strong FCF generation and robust store dynamics offer strength to the balance sheet despite COCO-based EBO expansion.

## Valuation

Expect GOCOLORS to withstand intensifying competition and maintain its market leadership, led by aggressive store expansion, proven business model and healthy store dynamics. Expect FY23-25E revenue/PAT CAGRs of 25.7%/25.9%. We initiate with **BUY** – Our DCF-TP is INR 1,458, arrived at by discounting 20-year FCF at a WACC of 10.2% and a terminal growth rate of 6%. At our TP, the stock is valued at 60x FY25E P/E. Key risks are single-category exposure, intensifying competition in Branded Bottomwear and volatility in raw material prices.

## Key Financials

YE	Revenue	YoY	EBITDA	EBITDA	Adj. PAT	YoY	Fully DEPS	RoE	RoCE	P/E	EV/EBITDA
March	(INR mn)	(%)	(INR mn)	Margin (%)	(INR mn)	(%)	(INR)	(%)	(%)	(x)	(x)
FY22	4,013	60.1	1,190	29.7	356	(1106.1)	6.6	9.9	10.2	166.5	48.9
FY23	6,653	65.8	2,123	31.9	828	132.6	15.3	17.3	19.9	71.6	27.5
FY24E	8,528	28.2	2,772	32.5	1,046	26.4	19.4	18.3	21.0	56.6	20.8
FY25E	10,520	23.4	3,366	32.0	1,313	25.4	24.3	19.0	21.5	45.1	16.9

Note: Pricing as on 7 July 2023; Source: Company, Elara Securities Estimate

## Rating: Buy

Target Price: INR 1,458

Upside: 33%

CMP: INR 1,097 (as on 7 July 2023)

## Key data

Bloomberg /Reuters Code	GOCOLORS IN/ GOF.S.BO
Current /Dil Shares O/S (mn)	54/54
Mkt Cap (INR bn/USD mn)	59/716
Daily Volume (3M NSE Avg)	173,519
Face Value (INR)	10

1 USD= INR 82.7

Note: \*as on 7 July 2023; Source: Bloomberg

## Price &amp; Volume



Source: Bloomberg

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Promoter	52.8	52.8	52.8	52.8
Institutional Investor	30.7	30.4	33.8	44.3
Other Investor	14.4	14.5	10.9	0.7
General Public	2.2	2.2	2.5	2.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	9.8	8.2	19.8
Go Fashion	8.1	(6.2)	10.2
Vedant Fashions	5.8	(7.2)	16.9
Page Industries	0.3	(12.3)	(16.9)

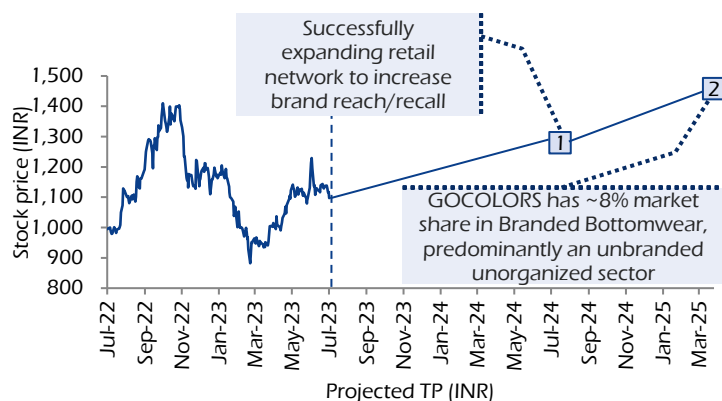
Source: Bloomberg

## Price performance



Source: Bloomberg

## Valuation triggers



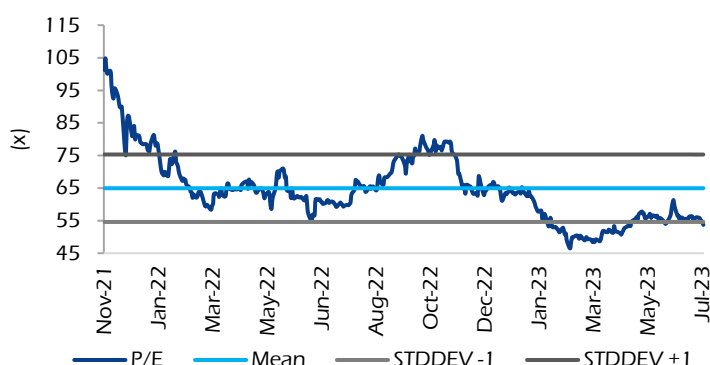
Source: Bloomberg, Elara Securities Estimate

## Valuation overview - DCF-TP of INR 1,458

Particulars	FY25E
Nine-year FCF growth (%)	23.8
Next 10-year FCF growth (%)	11.6
WACC (%)	10.2
Terminal growth rate (%)	6
PV of 20 years FCF (INR mn)	29,509
PV of terminal growth (INR mn)	48,156
Total EV (INR mn)	77,665
Net debt (INR mn)	(1,089)
Equity value (INR mn)	78,754
No. of shares (mn)	54
Equity value per share (INR)	1,458
CMP (INR)	1,097

Note: Pricing as on 7 July 2023; Source: Elara Securities Estimate

## Valuation driver - One-year forward P/E



Source: Bloomberg, Company, Elara Securities Estimate

## Investment summary

- Aggressive expansion through EBOs may enable 77.3% of sales from EBOs by FY25E. Expect growth across large format stores (LFSs), multi-branded outlets (MBOs) and online formats.
- Bottomwear is an essential product with no accompanying seasonality. Diverse bottomwear categories – Ethnic, fusion, denim, athleisure – cater to varying needs of the Indian women.
- Asset-light model – Outsourcing of manufacturing to 81 units and 49 job workers – aids brand reach/expansion.

## Valuation triggers

- Successfully expanding retail network to increase brand reach/recall.
- GOCOLORS has ~8% market share in Branded Bottomwear, predominantly an unbranded unorganized sector.

## Key risks

- Failure to launch new products in the Fashion category may hit ASP growth, thus marring gross margin.
- The trend of women buying top and bottomwear separately may change over time.
- Threat from private labels of big brands with attractive pricing.

## Our assumptions

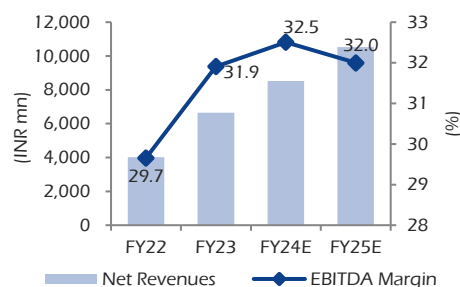
- FY23-25E revenue CAGR at 25.7% on aggressive EBO expansion (annual addition at 120 EBOs till FY25E), pan-India and new product style launches with higher prices to increase ASP.
- PAT CAGR of 25.9% in FY23-25E, led by higher contribution of EBOs in channel mix and focus on improving fashion products' mix in revenue.
- FY24E/25E same store sales growth (SSSG) for EBO at 14%/12%.

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23	FY24E	FY25E
Net Revenues	4,013	6,653	8,528	10,520
<b>EBITDA</b>	<b>1,190</b>	<b>2,123</b>	<b>2,772</b>	<b>3,366</b>
Add:- Non operating Income	208	119	128	158
OPBIDTA	1,398	2,242	2,900	3,524
Less :- Depreciation & Amortization	686	871	1,159	1,383
<b>EBIT</b>	<b>712</b>	<b>1,371</b>	<b>1,741</b>	<b>2,141</b>
Less:- Interest Expenses	233	285	340	384
<b>PBT</b>	<b>479</b>	<b>1,087</b>	<b>1,401</b>	<b>1,757</b>
Less :- Taxes	123	259	354	445
<b>Adjusted PAT</b>	<b>356</b>	<b>828</b>	<b>1,046</b>	<b>1,313</b>
<b>Reported PAT</b>	<b>356</b>	<b>828</b>	<b>1,046</b>	<b>1,313</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	540	540	540	540
Reserves	3,844	4,664	5,711	7,025
Deferred Tax (Net)	(114)	(168)	(168)	(168)
Other LT Liabilities	1,806	2,797	2,937	3,084
<b>Total Liabilities</b>	<b>6,076</b>	<b>7,834</b>	<b>9,020</b>	<b>10,480</b>
Gross Block	991	1,353	1,715	2,070
Less:- Accumulated Depreciation	347	497	686	914
Net Block	2,841	3,937	4,454	4,739
Add:- Capital work in progress	87	74	0	0
Other LT Assets	301	575	664	753
Net Working Capital	1,789	2,376	2,250	2,544
Cash and cash equivalent	1,058	872	1,653	2,444
<b>Total Assets</b>	<b>6,076</b>	<b>7,833</b>	<b>9,020</b>	<b>10,480</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	1,255	2,234	2,772	3,366
Add/Less : Working Capital Changes	(815)	(873)	(423)	(744)
Operating Cash Flow	330	1,037	1,989	2,171
Less:- Capex	(199)	(351)	(287)	(355)
Free Cash Flow	132	687	1,702	1,817
Investing Cash Flow	(584)	(276)	365	(208)
Financing Cash Flow	642	(841)	(1,037)	(1,172)
Net change in Cash	388	(79)	1,316	791
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	60.1	65.8	28.2	23.4
EBITDA Growth	156.8	78.4	30.6	21.4
PAT Growth	(1,106.1)	132.6	26.4	25.4
EBITDA Margin	29.7	31.9	32.5	32.0
Net Margin	8.9	12.4	12.3	12.5
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
ROE	9.9	17.3	18.3	19.0
ROCE - Post tax	10.2	19.9	21.0	21.5
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR/Share)	6.6	15.3	19.4	24.3
EPS Growth (%)	(1,571.5)	132.6	26.4	25.4
DPS (INR/Share)	0.0	0.0	0.0	(0.0)
P/E Ratio (x)	166.5	71.6	56.6	45.1
EV/EBITDA (x)	48.9	27.5	20.8	16.9
EV/Sales (x)	14.5	8.8	6.8	5.4
BVPS (INR)	81.2	96.4	115.7	140.1
Price/Book (x)	13.5	11.4	9.5	7.8

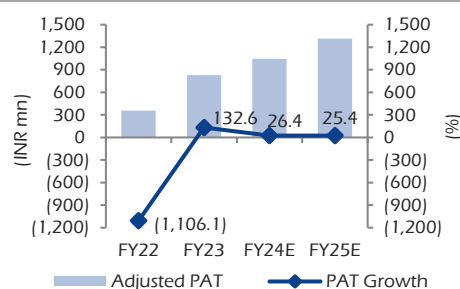
Note: Pricing as on 7 July 2023; Source: Company, Elara Securities Estimate

### Revenue & margin trend



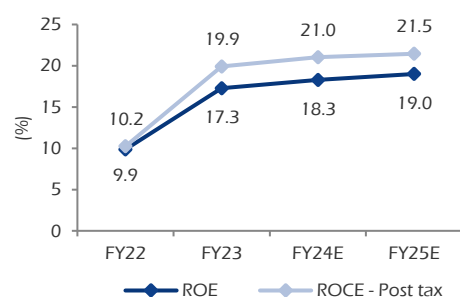
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate



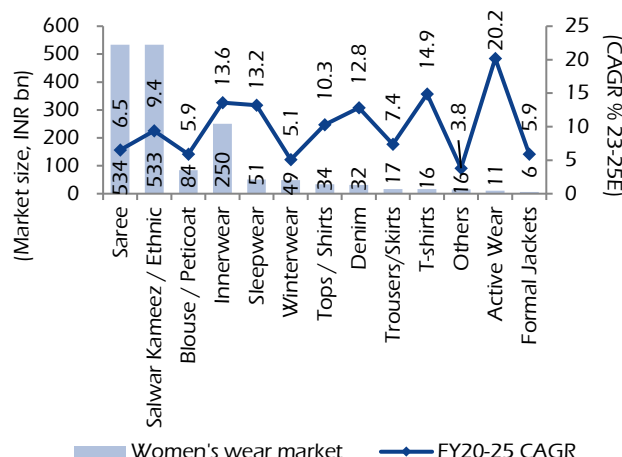
## Branded Bottomwear – Robust revenue to ensure category leadership

- ❑ Bottomwear market to reach INR 243bn size; Branded Bottomwear – FY20-25 CAGR 20.5%
- ❑ Category leader to leverage growth window
- ❑ Expansion spree on cards

### Bottomwear market to reach INR 243bn size

Women's Wear market may post a CAGR of 9.2% in FY20-25 to INR 2,537bn size from INR 1,633bn in FY20, as per GOCOLORS RHP. This may be led by Active Wear (20.2% share), T-shirts (14.9% share), Innerwear (13.6% share), Sleepwear (13.2% share), Denim (12.8% share), and tops/shirts (10.3% share). In Ethnic Wear – comprising 67% of the total market – Salwar-Kameez may see a slightly higher CAGR of 9.4% in FY20-25, while saree/ancillary segments may grow in mid-single-digit, as per GOCOLORS RHP.

### Exhibit 1: Western Wear to drive Women's Wear growth

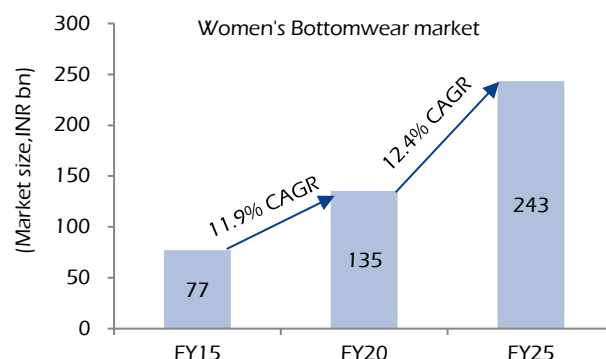


Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

Women's Bottomwear, which includes items such as pants, skirts, leggings, palazzo, *dhoti*, harem, denim, pajamas, *salwar*, *patialas*, lounge pants, capris and shorts, has seen a CAGR of 11.9% in FY15-20 to INR 135.5bn size in FY20. The category constitutes 8.3% of the total Women's Wear market.

Going forward, it may see a CAGR of 12.4% in FY20-25 to INR 243.2bn size, as per GOCOLORS RHP. This higher growth rate may be led by increasing urbanization, westernization, increasing number of working women, rising disposable incomes and changing preference to fashion, brand/quality branded products. Bottomwear may increase its share to 9.6% in the Women's Wear market.

### Exhibit 2: Women's Bottomwear – FY20-25E CAGR 12.4%

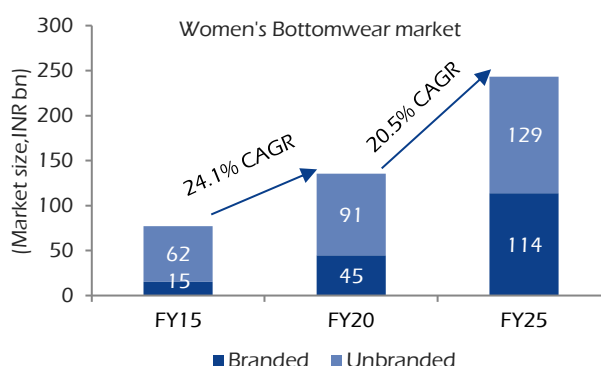


Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

### Branded bottomwear: FY20-25 CAGR 20.5%

The Branded segment forms 33% of Women's Bottomwear market. Earlier, the market was highly unorganized (77% in 2020), with limited brand options having consistent quality. However, as brands increased focus on this category and led by women gaining purchasing power on higher disposable incomes, the trend of 'Mix-n-Match' increased. Consumers are now seeking branded products with consistent quality. Expect Branded Women's Wear to post a CAGR of 20.5% in FY20-25 to INR 113.8bn size, gleaning almost half the market share at 46.8% in FY25, as per GOCOLORS RHP.

### Exhibit 3: Branded Wear to reach INR 114bn size by FY25



Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

## Category leader to tap growth window

### #1: GOCOLORS – Market share to reach 9.2% by FY25

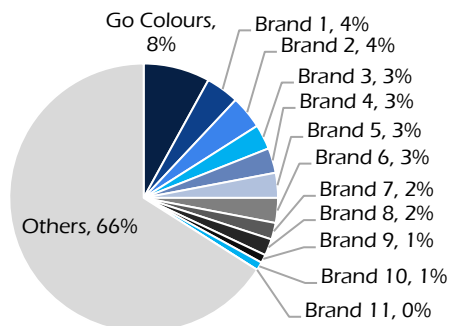
India Bottomwear segment is largely unbranded/unorganized, with many local brands catering to demand. The share of branded players in the Women's Apparel market was 33% in FY20. The Branded Wear segment is fragmented with >40 brands, limited number of large players and many unorganized brands.

Among 40+ brands, only 11 have notable market share within 0.4-4%. GOCOLORS is the only brand with sole focus on the Bottomwear category. Its share is almost double than the second-ranked brand. This instills confidence given GOCOLORS has first-mover advantage, being a category leader in India.

GOCOLORS has the first-mover advantage of entering the Branded Bottomwear segment in 2010 and amassed a market share of 8.8% in FY20. Expect GOCOLORS to grow at higher clip than the branded players, reaching INR 1,052mn revenue by FY25. This may increase its market share 40bps to 9.2% by FY25, as per GOCOLORS RHP.

### Exhibit 4: GOCOLORS – Market share dominance

Branded Women Bottomwear: Market share



Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

### #2: Presence in bottomwear/Mix-n-Match to aid growth

GOCOLORS, being the first to exclusively launch Women's Bottomwear category, has expanded its product portfolio to encompass various styles. Its range includes *chudidars*, leggings, *dhotis*, harem pants, *patialas*, palazzos, pants, trousers and jeggings, catering to varied categories such as ethnic wear, western wear, fusion wear, athleisure, denims, plus sizes, and girls' wear.

Whether for traditional events, casual outings, fitness activities, or everyday wear, GOCOLORS offers a comprehensive collection of bottoms designed to meet different needs. Its portfolio consists of >50 styles available in >120 colors, catering to various age groups/body types. The price range is INR 249-1,599, catering to the 'premium value' customers in the age group of 18-70 years (both women and girls), who want premium yet affordable products.

### Exhibit 5: GOCOLORS – Product range

Styles	Category	Price (INR)
Ethnic Wear	<i>Chudidars</i> , <i>Patiala</i> , <i>Kurti pants</i> , <i>Salwar</i> , <i>Silk pant and dhoti</i>	549-1,049
Fusion wear	Jeggings, Palazzos, Pants and Harem pants	699-1,299
Western wear	Leggings, Cropped Jeggings, Jeans, Cargo Pants, Trousers, Ponte Pants, Track pants, Culottes, Treggings and Shorts	499-1,499
Athleisure	Leggings, Track Pants, Joggers	549-999
Denims	Jeggings, Joggers, Jeans, Denim Palazzos, Pants, Denim Culottes and Capris	1,049-1,499
Lounge wear	Lounge pants, Lounge Knit Pants, Lounge Capris and Lounge Shorts	449-749
Go Plus	<i>Chudidars</i> , Leggings, Jeggings, Pants, Palazzos	599-1,599
Girls wear	Leggings, Jeggings, Palazzos, Pants, Shorts and Harem Pants	225-999

Source: GOCOLORS RHP, Elara Securities Research

A general trend-shift has been seen in the Women's Apparel market, from buying clothing in sets to buying separates. This offers the advantage of using a clothing piece with others in different combinations. Brands such as *Biba* have a separate section on their websites for 'Mix-n-Match', reiterating high consumer interest in this area.

This provides growth opportunities to brands such as *GoColors* that sell bottomwear in all sub-categories (ethnic, western and fusion) since Bottomwear is a core/essential apparel item used with various topwear. There are many bottoms that can be worn with both ethnic/western topwear. Also, the fusion category of Bottomwear has taken over the Women's Apparel market, both in terms of style and comfort (palazzos/*dhotis*). GOCOLORS is well-positioned to capitalize on such growth opportunities in the Branded Bottomwear segment via a wide range of innovative products.

### #3: Core products offer stability, fashion to aid margin

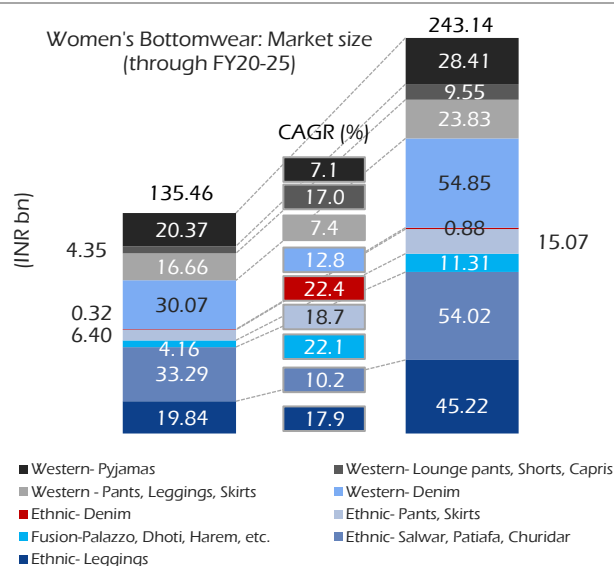
GOCOLORS' sales primarily emanate from core segments – Leggings, *Salwar*, pants and *chudidars*, which form ~50% of total sales. The remaining sales come from fashion/non-core categories of Palazzos, denims, *chudidars*, athleisure and lounge pants. Previously, the sales mix was 60% core and 40% fashion/non-core, indicating a shift in consumer preference to fashion-oriented choices.

GOCOLORS has demonstrated agility in adapting to consumer trends by launching new categories/styles in Bottomwear that cater to the fashion side. While its core product portfolio (basic bottomwear) is an all-season product, there has been a noticeable increase in more fashionable bottomwear options. In the fashion/non-core categories, fusion, ethnic and active may experience high growth in the overall Women's Bottomwear segment, posting CAGRs of 22.1%/22.4%/17% in FY20-25E. This appeals to mid-premium to premium consumers who

appreciate the value proposition of fashion-oriented clothing. By expanding offerings in this category, GOCOLORS may tap the lucrative segment and attract customers seeking trendy/stylish bottomwear options.

While the fashion category generates higher revenue/margin, the core portfolio provides stability to the overall revenue stream, particularly during challenging times. The combination of a strong core and an increasing share from the fashion category may drive margin improvement for GOCOLORS.

#### Exhibit 6: Leggings, active wear, denim and fusion wear likely to drive growth

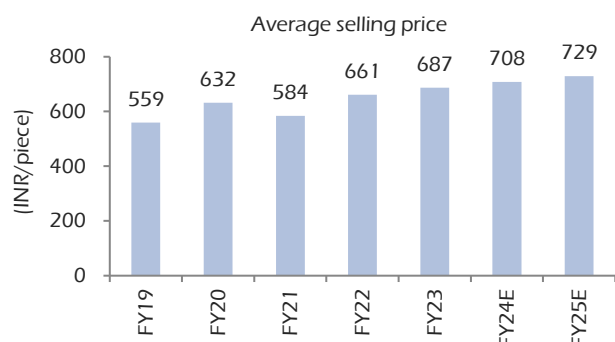


Source: GOCOLORS RHP, Technopak Analysis, Elara Securities Research

GOCOLORS is strategically entering newer categories that cater to the premium segment, offering products at higher price points. Also, it has implemented a gradual and steady increase in price points of its core categories.

Furthermore, gradual price adjustments in core categories offer a sense of comfort to the customers. This approach allows GOCOLORS to incrementally increase prices without causing significant price shocks/resistance from the loyal customer base. Expect average selling price (ASP) to see a CAGR of 3% in FY23-25E to INR 729 apiece.

#### Exhibit 7: FY23-25E ASP CAGR likely at 3%



Source: Company, Elara Securities Estimate

## Expansion spree on cards

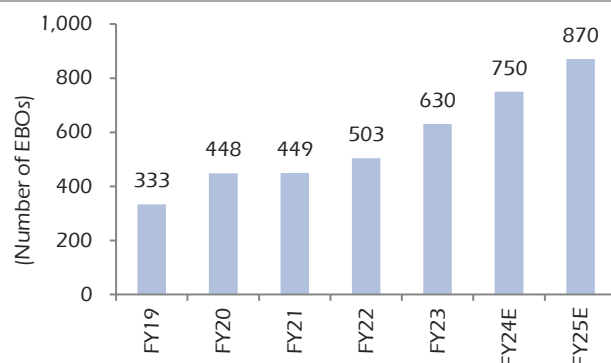
### #1: EBO expansion – 12.2% CAGR by FY20-25E

GOCOLORS follows an EBO-based penetration strategy to create higher visibility/recall for its brand in an otherwise-crowded bottomwear market. The EBO stores are present in highstreets, malls and airports. This also enabled GOCOLORS to undertake line extensions due to better control on shelf space.

GOCOLORS' network of 630 EBOs in 143 cities contributed 73.9% to FY23 revenue. EBO stores are present in highstreets, malls, and airports. GOCOLORS has embarked on an aggressive EBO expansion spree to improve reach in new cities and spike penetration in existing geographies. GOCOLORS follows a cluster-based expansion model for store expansion to meet demand in high-potential markets, with top-eight cities contributing to 56.6% of stores.

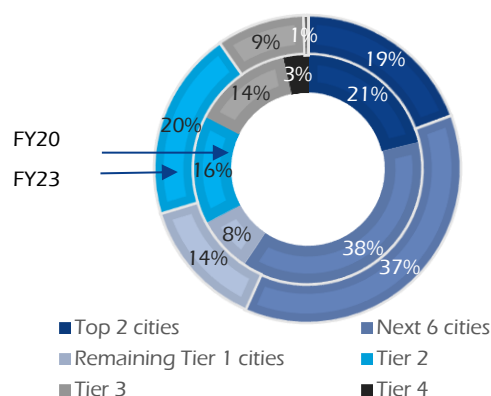
Expect GOCOLORS to open 120 stores in the next four years and 100 stores every year thereafter, resulting in an EBO network growth of 12.2% in FY23-30E.

#### Exhibit 8: Store count to reach 870 by FY25E



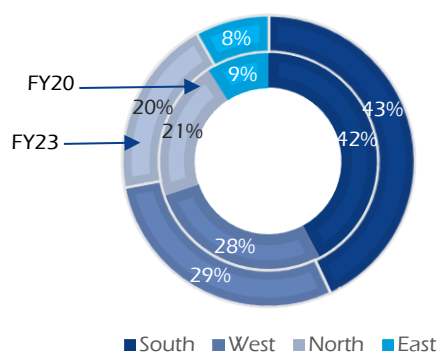
Source: Company, Elara Securities Estimate

#### Exhibit 9: EBOs spread-out throughout city tiers



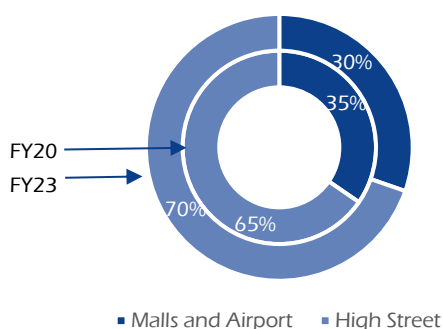
Source: Company, Elara Securities Research

**Exhibit 10: GOCOLORS – South, the dominant market**



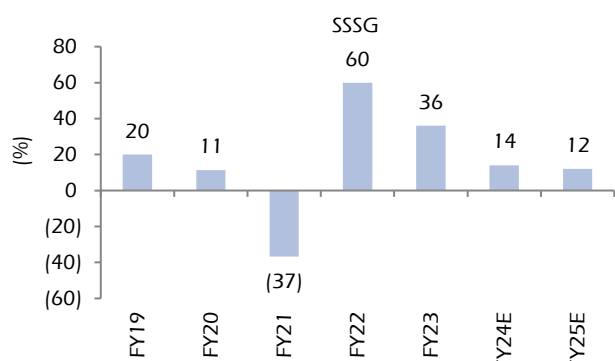
Source: Company, Elara Securities Research

**Exhibit 11: More focused on high-street expansion**



Source: Company, Elara Securities Research

**Exhibit 12: SSSG of 12% expected in FY25E**



Source: Company, Elara Securities Estimate

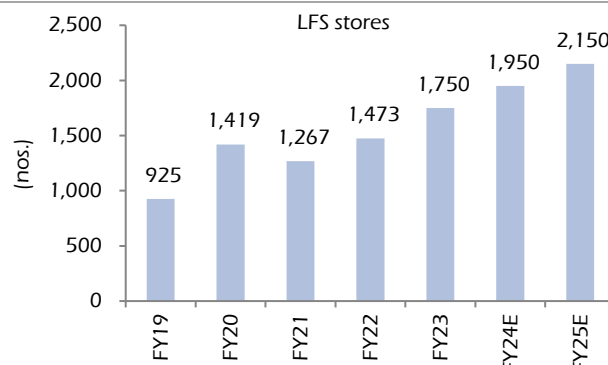
## #2: LFS expansion to enable new geographies

GOCOLORS uses Large Format Stores (LFSs) to expand reach in unexplored cities at a lower capital commitment. Presence in LFS also enables creating brand visibility/recall. This further helps GOCOLORS in expanding EBO network to new geographies with high sales potential/strong brand preference.

Tier II/III cities contribute 51.8% to total LFS stores. However, due to higher debtors days in the format and lower margin, GOCOLORS prefers to expand through EBOs at a higher rate than LFS. GOCOLORS retails its products via 1,740 LFS stores – Reliance Retail, Unlimited,

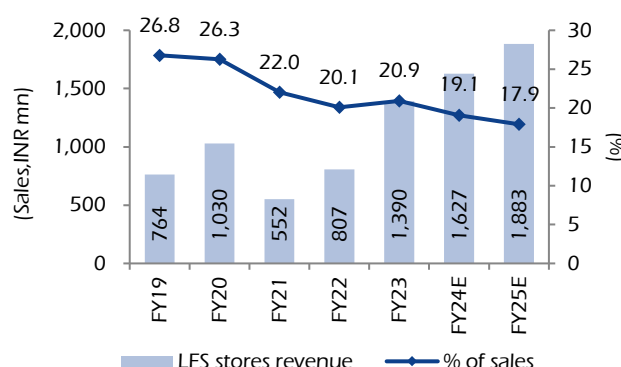
Globus Stores and Spencer's Retail among others. Reliance Retail forms ~80% of the total exposure to LFS stores. LFS contributes 20.9% to GOCOLORS' revenue – Expect this to reduce to 17.9% by FY25E.

**Exhibit 13: LFS count to reach 2,150 by FY25E**



Source: Company, Elara Securities Estimate

**Exhibit 14: LFS share to trim to 17.9% of sales by FY25E**

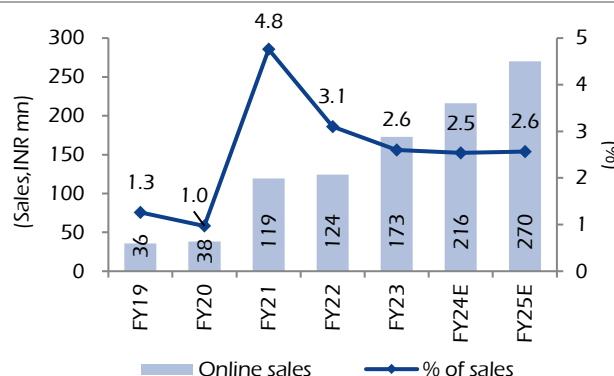


Source: Company, Elara Securities Estimate

## #3: Online e-commerce channel growth higher, may continue to contribute in low single-digit

GOCOLORS primarily operates in the Bottomwear category, with focus on both core/fashion categories. The online channel across the brands is generally a liquidation channel, which is not preferred by GOCOLORS. The company leverages a no discount model and hence, prefers to sell in the offline channel. The sale of products is largely led by brand recall/quality.

**Exhibit 15: Online sales to inch up to 2.6% by FY25E**



Source: Company, Elara Securities Estimate

Exhibit 16: Presence across categories with higher ASPs

Brands	Product category (total number of brands/labels available on Myntra)						
	Leggings/ Chudidars (22)	Palazzos (305)	Jeggings (175)	Lounge wear (280)	Pants (112)	Active wear tights (236)	Maternity wear leggings (18)
GoColour	299-999	550-1,400	799-1,499	550-850	699-1,400	799-999	750-799
BIBA	699-1,799	799-2600					
FAB INDIA	590-799	1,290-2,700		1,099-1,599	590-3,300		
W	599-2,299	999-5,999					
Aurelia	499-1,999	799-2,299	1,299-1,599		799-2,299		
Elleven	499-1,499	699-2,299	1,049-1,799		799-1,699		
LYRA	399-499	649			650-900		
STOP							
Melange (Lifestyle)	599-899	699-1,299			799-1,299		
Macrowoman						799-1,029	
Dollar Missy	569-699			649-749	779		
TAG 7	1,450-2,125	1,499-2,999	1,699-1,799				
Rangmanch by Pantaloons	399-899	799-1,499			799-1,099		
Annabelle by Pantaloons		1,499	999-1,699		999-1,999		
Ajile by Pantaloons			1499		799-1,299	899-1,499	
Fashion Rack				999			
Van Heusen				899-909	949-1,699	1,199-1,509	
Clora Creation	999-1,499	899-1,999					
GRACIT	899-1,049						
JINFO	999-1049	899-1,599					
TSG Bliss	539						
Twin Birds	499-898	599-899					
Fable Street		1,895-2,395	2295		1,795-4,495		
Blush 9							995
MYLO Essentials							1,149

Source: Myntra website, Elara Securities Research



## COCO-led EBO network expansion on the anvil

- ❑ EBO stores on COCO: Margin higher, store dynamics healthy; no discounting aids high margin
- ❑ Supply chain robust – Focus on designing; manufacturing outsourced

### EBO stores on COCO model

#### #1: Margins higher

EBO stores based on the COCO model yield the highest margins as there is no need for an intermediary to sell the products. The company gets the maximum share of its selling price from the EBO format. Under the lease model with smaller store sizes (450-550 sqft), the company is in a position to expand on asset light model.

#### 2# Healthy store dynamics

All of GOCOLORS' EBOs are as per the COCO model. GOCOLORS' EBOs are smaller in size, within 450-550 sqft as the number of SKUs is higher but the styles are limited, which enables it to stack products rather than display for choice.

Each store requires INR 4.2mn as capex, including furnishing cost (INR 2mn), inventory (INR 1.5mn) and security deposit (INR 0.8mn). Rental cost, including other operational cost, is also paid by the company. Per our calculations, payback of the stores is achieved in 34 months, with ROCE (post tax) of 35.4%. Such healthy store dynamics enable aggressive expansion due to low capex requirements with full control on inventory.

#### Exhibit 17: Healthy unit store economics

Particulars	INR mn per store
Revenue	9.0
RM cost	3.6
Rental cost	1.0
Employee cost	1.3
Other expense	0.9
Store operating expense	6.7
Store EBITDA	2.22
EBITDA margin	24.7
Depreciation	0.2
EBIT	2.00
Capital investment	4.2
Capex	2.0
Store deposit	0.8
Inventory	1.5
ROCE post tax (%)	35.4
Payback period	34 months

Source: Company, Elara Securities Research

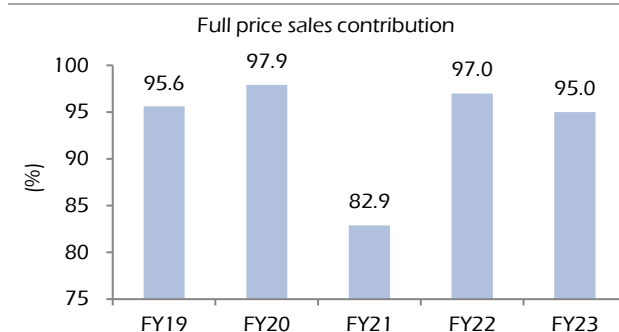
#### #3: No discounting model aids higher margin

Being the only player in this niche category since long, GOCOLORS faced lower competition from other players in Women's Branded Apparel. Its major competitors are Ethnic Wear brands, *W*, *BIBA* and *Fabindia*, western wear brands, *ZARA*, *H&M* and *Levi's*, other denim wear players, and athleisure brands such as *Lux/Jockey*.

GOCOLORS is the only player to be present in all the three categories, offering a range of bottomwear, with >50 products in 120 different colors. Products are priced within INR 249-1,599, catering to the 'premium value' customers in the age group of 18-70 years (both women and girls), who want premium yet affordable products. The products are core/essential to everyday apparels and hence, less vulnerable to changing fashion trends.

GOCOLORS is well poised to command full price sales for its products, led by its EBO-centric model. For online platforms – Myntra, Ajio and Amazon – wherein discounted products are the norm, only <1% of GOCOLORS' products are discounted. The range of discount is 4-40% for GOCOLORS versus competitors' 10-70%. We believe COCO-based EBO model allows GOCOLORS to exercise full control on the inventory.

#### Exhibit 18: Full price sales contribution >95% – FY21, an exception



Source: Company, Elara Securities Research

#### Exhibit 19: Leggings category – <1% GOCOLOUR products on discounts

Percentage of products on discount (%)	Myntra	Flipkart	Nykaa	Tata Cliq
GOCOLOUR	0	1	0	0
BIBA	91	71	92	100
FAB INDIA	12	12	-	-
W	100	46	54	86
Aurelia	50	63	75	100
Elleven	100	22	48	47
LYRA	0	12	-	-
Melange(Lifestyle)	0	32	-	-
Dollar Missy	100	47	-	100
TAG 7	100	100	-	-
Rangmanch by Pantaloons	50	5	-	-
Clara Creation	100	-	-	100
GRACIT	100	100	-	-
JINFO	100	100	-	-
TSG Bliss	100	55	-	-
Twin Birds	0	0	0	-

Source: Elara Securities Research

## Supply chain robust

### #1: Focus on designing

GOCOLORS has a team of ~10 designers who focus on creating designs based on customer feedback/data analytics. The Direct to Consumer (D2C) strategy facilitates designs that are tailored to customer need/fashion trends.

The product development involves research/trend forecasting so as to develop concepts and sample offerings, which are upgraded based on customer feedback. Significant market research is behind developing sizes/fit for Indian Women's Bottomwear. The product design process also factors differing cultures/clothing needs in India, undergoing 44 product cycles.

### #2: Manufacturing outsourced

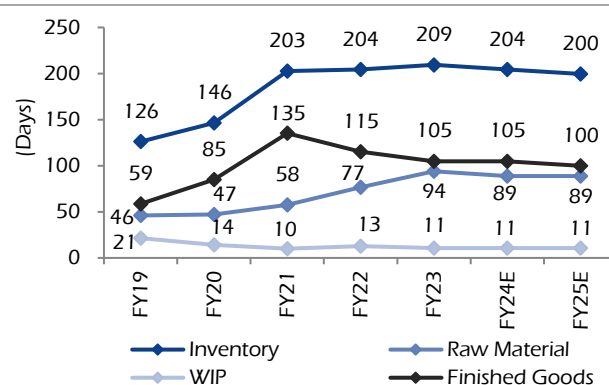
GOCOLORS has outsourced manufacturing to 49 job-work units and 81 suppliers, spread across 11 states and union territories. It does not have long-term agreements with suppliers (traders/intermediaries), which allows flexibility of sourcing as per requirement.

Instead, GOCOLORS increased fabric purchases from mills and weavers, blocking a certain capacity to maintain quality/consistency. This way it can better manage inventory of raw material and reduce costs in inventory. Raw material days are hence increasing given planned sourcing throughout the year.

On the manufacturing front, GOCOLORS provides designs, raw material, and brand logo to job-workers. A periodic inspection of the units ensures productivity/quality.

Outsourcing manufacturing was a conscious decision that has helped GOCOLORS focus on brand building. The management is focused on expanding retail presence, to stay customer centric. GOCOLORS manages its inventory through a warehouse in Tamil Nadu and a recently opened warehouse in Maharashtra.

**Exhibit 20: Total inventory up on higher raw material days**



Note: Days calculated based on COGS; Source: Company, Elara Securities Estimate

## Superior growth, strong cash flows warrant premium valuations

- ❑ FY23-25E revenue CAGR likely at 25.7%; FY25E EBITDA margin to reach 32%
- ❑ Strong cashflow to support store expansion and improve returns
- ❑ Initiate with BUY

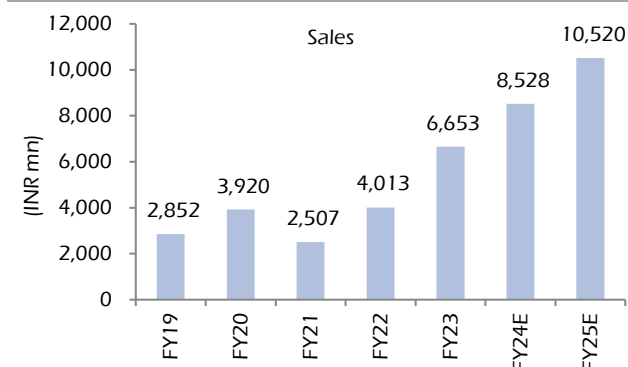
### FY23-25E revenue CAGR at 25.7%

GOCOLORS posted a revenue CAGR of 23.6% in FY19-23, led by store expansion/online sales. During the period, EBO sales CAGR was 27.5% and online sales CAGR 48.1% (though on a smaller base).

Expect FY23-25E revenue CAGR to accelerate to 25.7%, led by faster expansion in the post-pandemic period, resulting in EBO sales CAGR of 28.6%. Expect volumes to drive revenue CAGR to 22.1% in FY23-25E, with ASP likely to see a slight CAGR of 3%. We build in FY24E/25E SSSG of 14%/12%.

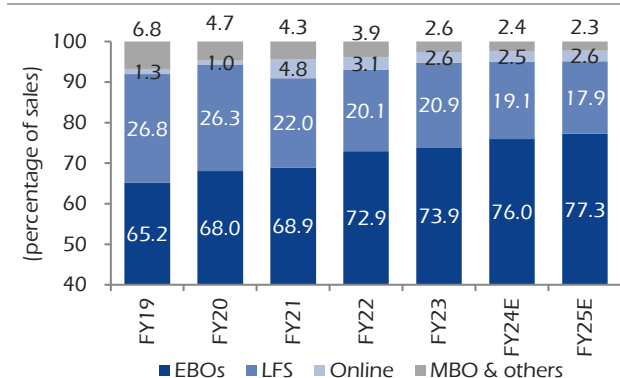
EBO contribution in sales may increase to 77.3% in FY25E from 73.9%/65.2% in FY23/19, respectively.

#### Exhibit 21: Sales CAGR likely at 25.7% in FY23-25E



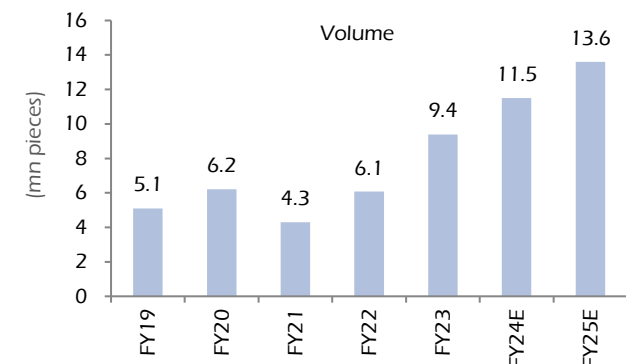
Source: Company, Elara Securities Estimate

#### Exhibit 22: EBO to contribute 77.3% to sales in FY25E



Source: Company, Elara Securities Estimate

### Exhibit 23: FY23-25E volume CAGR likely at 20.4%



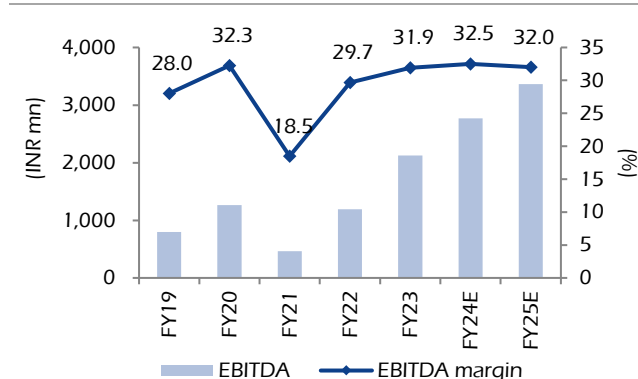
Source: Company, Elara Securities Estimate

### FY25E EBITDA margin to reach 32%

GOCOLORS' EBITDA margin improved 387bps in FY23 to 31.9% from 28% in FY19. This was largely led by operating leverage from strong growth and 100bps gross margin improvement in FY19-23.

Further margin increase may be difficult as operating leverage has played out and competition in the segment is increasing. Expect EBITDA margin to improve to 32.5% in FY24E (led by raw material tailwinds) and decline thereafter to 32% in FY25E. This decrease can be attributed to a strain on gross margin, though partially offset by lower operating costs, including lower A&P spend compared with the industry average. FY23-25E EBITDA CAGR may be 25.9%, led by store expansion.

#### Exhibit 24: FY25E EBITDA CAGR at 25.9%

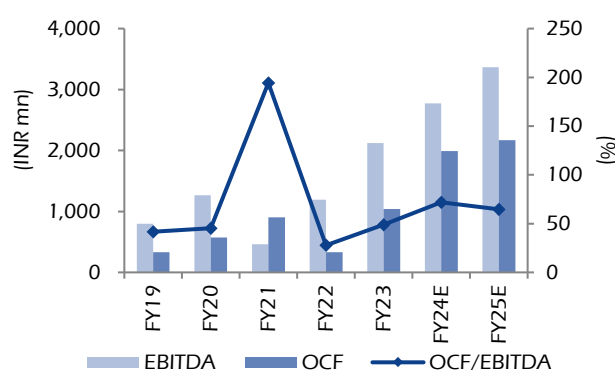


Source: Company, Elara Securities Estimate

## Strong cashflow to prop store expansion, improve returns

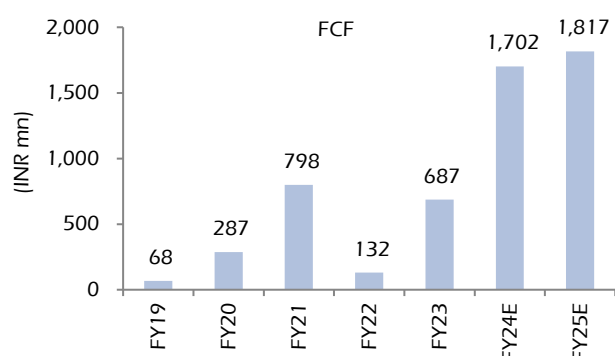
GOCOLORS has robust ability to convert EBITDA into operating cashflow, with a conversion ratio of 48.9% in FY23 (60% on Pre-Ind AS 116 EBITDA). This ratio may further improve to 64.5% by FY25E. Such strong conversion capabilities may enhance GOCOLORS' free cash flow generation, cumulatively amounting to INR 3.5bn in FY24E-25E. This may aid investment in store network expansion and deploying capital to foster innovation in new categories.

### Exhibit 25: OCF/EBITDA conversion ratio may be strong at 64.5% in FY25E



Source: Company, Elara Securities Estimate

### Exhibit 26: Robust FCF to prop store expansion

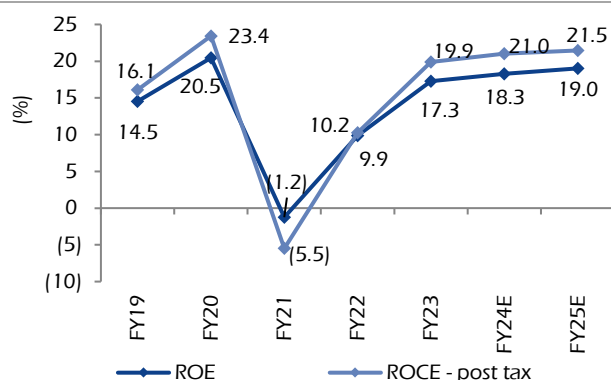


Source: Company, Elara Securities Estimate

Since 2019, GOCOLORS has remained cash surplus and financed all its growth-needs via internal accruals. It has consistently delivered an ROE of >14% in the past six years, barring FY21-22 (pandemic years). Consistent profitability and improvement in operating leverage may improve return ratios further.

Expect GOCOLORS to post an ROE (post-tax) of 18.3%/19% in FY24E/25E, respectively. Post tax, ROCE may be 21.0%/21.5% in FY24E/25E, respectively.

### Exhibit 27: Return ratios to improve further

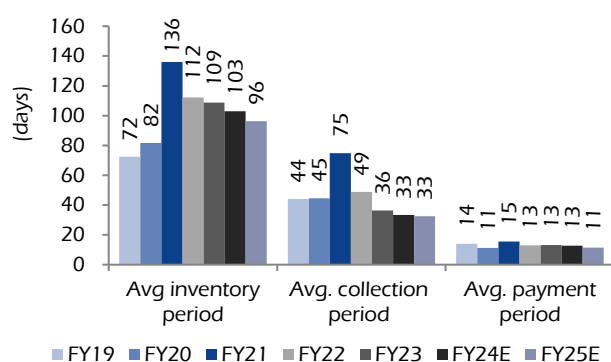


Source: Company, Elara Securities Estimate

With consistent focus on maintaining lean inventory through ARS implementation, GOCOLORS may continue generating positive results, gradually freeing up working capital from inventory, led by channel mix improvement.

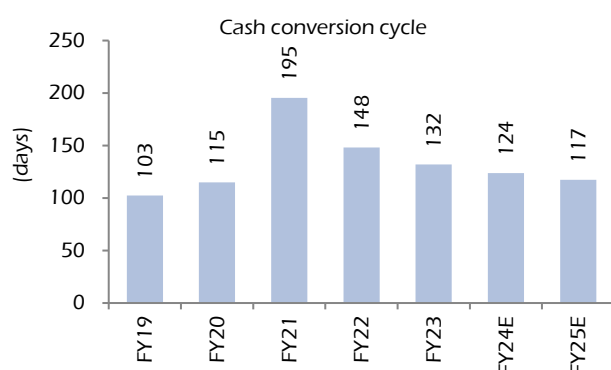
We anticipate a further reduction in inventory days (based on sales) by 13 days – from 109 days in FY23 to 96 days in FY25E. Moreover, GOCOLORS may optimize debtors' days by increasing its share of online sales (typically, these have shorter payment holding periods of ~60 days) and increase EBO sales (payment is instant). These may likely trim cash conversion cycle to 117 days in FY25E from 132 days in FY23.

### Exhibit 28: Debtors and inventory days to reduce



Source: Company, Elara Securities Estimate

### Exhibit 29: NWC days to reduce by 15 in FY25



Source: Company, Elara Securities Estimate

## Strong growth, healthy balance sheet warrant premium valuation

GOCOLORS may be in a position to withstand increasing competition and maintain market leadership, led by aggressive store expansion, proven business model and healthy store dynamics, thus effectively withstanding the competition. GOCOLORS' higher margin and net debt free balance sheet offer room for aggressive EBO expansion. Expect revenue/PAT CAGRs of 25.7%/25.9% in FY23-25E.

**Initiate with BUY** – Our DCF-TP of INR 1,458 is arrived at by discounting 20-year FCF at a WACC of 10.2% and a terminal growth rate of 6%. At our TP, the stock is valued at 60x FY25E P/E.

### Exhibit 30: DCF-TP of INR 1,458

Particulars	FY25E
Nine-year FCF growth (%)	23.8
Next 10-year FCF growth (%)	11.6
WACC (%)	10.2
Terminal growth rate (%)	6
PV of 20 years FCF (INR mn)	29,509
PV of terminal growth (INR mn)	48,156
Total EV (INR mn)	77,665
Net debt (INR mn)	(1,089)
Equity value (INR mn)	78,754
No. of shares (mn)	54
Equity value per share (INR)	1,458
CMP (INR)	1,097

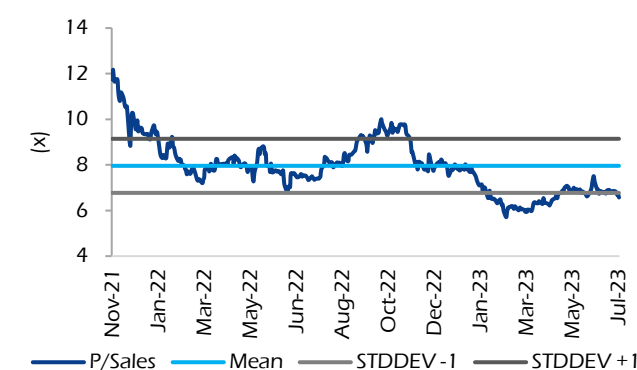
Note: Pricing as on 7 July 2023; Source: Elara Securities Estimate

### Exhibit 31: One-year forward P/E



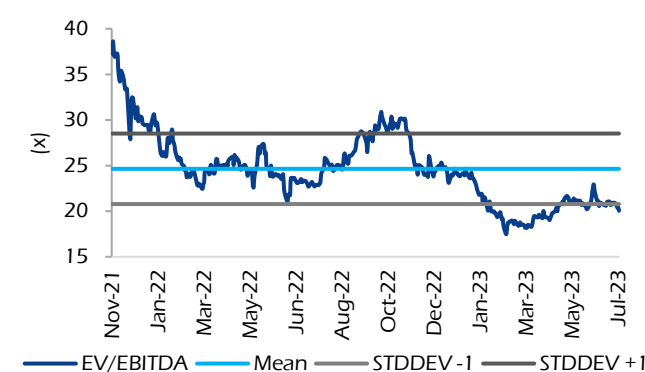
Source: Bloomberg, Company, Elara Securities Estimate

### Exhibit 32: One-year forward P/S



Source: Bloomberg, Company, Elara Securities Estimate

### Exhibit 33: One year forward EV/EBITDA



Source: Bloomberg, Company, Elara Securities Estimate

## Key risks

- Shift in consumer preference from 'Mix-n-Match' to any other category may hit revenue growth.
- Single-category exposure, i.e., only bottomwear poses long-term risk to growth.
- Rising competitive intensity from large brands – *Lux Lyra* and *Elleven* – TCNS may threaten market share.
- Sharp volatility in raw material prices may hit gross margin as demand is elastic.



## Company description

Go Fashion (GOCOLORS IN) was founded in 2010 and is a leading manufacturer/retailer/designer of Women's Bottomwear products. The company sells its products under the brand name, *GoColors*. It is a pioneer in Women's Branded Bottomwear products. Its products are manufactured by 81 suppliers and 49 job workers across 11 states and union territories and are designed by a team of 11 in-house designers. The product categories include bottoms in Ethnic Wear, Western Wear, Fusion Wear, Athleisure, Denims, and Girls' Wear. The Bottomwear styles included in the product portfolio are leggings, palazzos, pants, joggers, denim, and *Chudidars* among others. GOCOLORS has >3,000 SKUs of bottomwear in different styles and >120 colors.

GOCOLORS has 630 EBOs (74% of revenues in FY23) and 1,750 LFSs (21% of revenues in FY23) in 149 cities in India.

## Board of Directors & Management

### Prakash Saraogi – Promoter and Managing Director

Mr. Prakash Saraogi is GOCOLORS' Managing Director (completed 11 years as the MD). Before that, he was Director at Meridian Apparels Pvt. He has 28 years of experience in Garment Manufacturing, and fashion and retail industries. He has a Bachelor's in Chemical Engineering from Anna University, Chennai.

### Gautam Saraogi – Promoter and CEO

Mr. Gautam Saraogi is the Executive Director and Chief Executive Officer of GOCOLORS (completed 11 years as the CEO). He has a degree in Marketing and Marketing Management from LIBA. He has >10 years of experience in Consumer Retail, Marketing, Brand Building and Garment Manufacturing.

### Srinivasan Sridhar – Chairman

Mr. Srinivasan Sridhar is the Chairman and Independent Director of GOCOLORS. He holds a Bachelor's in Science from Bangalore University, a Diploma in Systems Management from University of Bombay, Mumbai, and a Master's in Science from Indian Institute of Technology, Delhi. He has over 38 years of experience in Commercial and Development Banking and is an Associate of the Indian Institute of Bankers.

### Dinesh Gupta – Non-Executive Independent Director

Mr. Dinesh Gupta is a Non-Executive Independent Director. He has completed his higher secondary education from Maharashtra State Board of Secondary and Higher Secondary Education. He has over 37 years of experience in the Transport and Manufacturing industry. At present, he is the Joint Managing Director of Agarwal Packaging Private.

### Rohini Manian – Non-Executive Independent Director

Ms. Rohini Manian is a Non-Executive Independent Director. She has a Bachelor's in Science from Northeastern University, Boston, Massachusetts. She has over eight years of experience in Real Estate and Management space. Previously, she was associated with Radiance Realty Developers India. At present, she is the director of Global Adjustments Services Private.

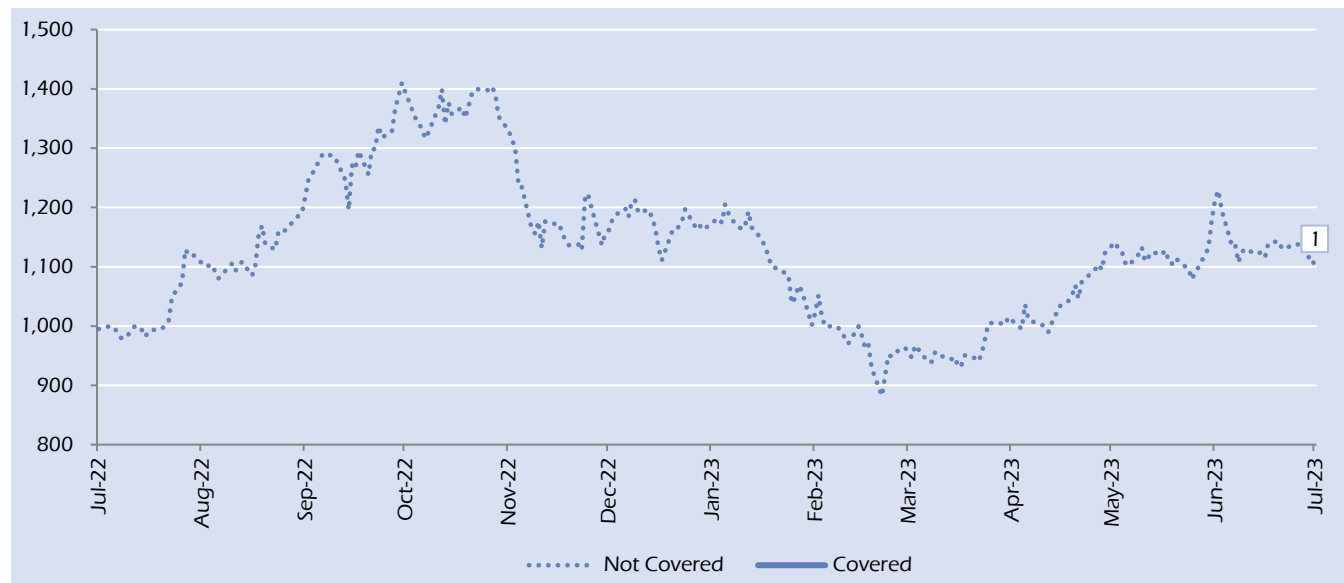
### Rahul Saraogi – Non-Executive Director

Mr. Rahul Saraogi is a Non-Executive Non-Independent Director. He holds a Bachelor's in Science from the University of Pennsylvania, Philadelphia, United States. He is the founder and director of Atyant Capital Advisors Private.

### Ravi Shankar Ganapathy Agraharam – Nominee Director Non-Executive Non-Independent

Mr. Ravi Shankar Ganapathy Agraharam is a Non-Executive Nominee Director, representing M/s. Sequoia Capital India Investments IV, Equity Investor. He holds a Bachelor's in Computer Science and Engineering from Bharathidasan University, Tiruchirappalli and a Post Graduate Diploma in Management from the Indian Institute of Management, Ahmedabad. He has over 15 years of experience in private equity funds.

## Coverage History



	Date	Rating	Target Price	Closing Price
1	7-Jul-2023	Buy	INR 1,458	INR 1,097

## Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

## Acronyms and Abbreviation

Abbreviation	Full form
SSSG	Same Store Sales Growth
ASP	Average Selling Price
A&P	Advertisement and Promotion
EBO	Exclusive Branded Outlet
MBO	Multi-Branded Outlet
LFS	Large Format Store
SIS	Shop in Shops
ARS	Auto Replenishment System
COFO	Company Owned Franchise Operated
FOFO	Franchise Owned Franchise Operated
COCO	Company Owned Company Operated

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