

Vedant Fashion (IPO Note)

Vedant Fashions (VFL) is one of the largest company in Indian men's wedding and celebration wear. It commands a dominant position in the conventionally unorganized market. Its core men's brand 'Manyavar' (~83% of VFL's revenues) is a category leader. VFL has a huge run-way of growth in a large opportunity size market of ~Rs 1.3-1.4tn wedding & celebration market. VFL is capitalizing well on its first-mover advantage with launch of new brands across men, women and kids category, price-points, distribution channels and geographic expansion. Mgmt intends to double retail foot-print (1.1mn sqft to ~2.2mn) over next few years.

VFL's strong financial positioning and profitability metrics (gross margin 72-74%, EBITDA margin 42-43%) shall enable it to capture the landscape. There is little to complain on the business positioning or the opportunity size of VFL. VFL's profitability profile is superior to peers except for working capital. However, VFL's rich valuation at 73/58x FY23/24E EPS or 41/33x EV/EBITDA though comparable to peers leaves limited room to err. It reduces the potential for listing gains, if any. Investors with long-term horizon can subscribe. Increase in competitive intensity from large players (Reliance, ABFRL etc) or change in consumer behavior are key risk.

Large & growing Indian wedding & celebration wear market

Indian wedding and celebration wear apparel market stands at ~ Rs 1.02tn as of FY20 (~18% of apparel market) and is likely to grow to Rs 1.3-1.4tn (~5.5-6% CAGR) by FY25. The market is predominantly unorganized and dominated by women – a segment where VFL's journey has begun. Branded segment is expected to grow at a healthy 18-20% CAGR. Consumers are increasingly preferring ready-to-wear vs. tailor-made clothes that they can try-and-buy. Branded wear offers quality, fitment with latest style and fashion. With ~9.5-10mn weddings p.a., the market offers a huge growth opportunity. Multi-day and multi-event functions (mehendi, haldi, sangeet, engagement etc) are now an increasing trend.

Wide portfolio and attractive marketing creates deeper connect

Through a diverse portfolio of five leading brands (Manyavar, Mohey, Meebaz, Twamev and Manthan), VFL is able to cater better to the needs and aspirations of the entire family across the price-spectrum of value to premium segment. VFL's attractive theme-based marketing campaigns ('Pehno apni pehchan', 'Apno wali shaadi', 'Diwali wali feeling', 'Taiyer hokar aaiye', 'Shaadi ka kharcha aadha aadha' etc) around Indian traditions & values has developed deeper emotional connect with consumers.

Unique Asset-light Business Model through franchisee's

VFL's asset-light approach enables it to achieve a high ROCE, primarily due to the nature of sourcing and manufacturing operations, with a substantial majority of sales being generated through franchisee-owned EBOs (~90%). VFL's success of franchisee model is established by the fact that as of Sep'21, 73% of the franchisees operated stores for 3-years or more. Also, ~65% of the sales of EBO's is derived from franchisee's having two or more stores.

Offer details

Fund raise & Mcap	Lower end	Upper end
Price Band (Rs/sh)	824	865
OFS (No of sh in Mn)	36.4	36.4
OFS (Rs Bn)	30.0	31.5
O/s sh (Mn)	242.7	242.7
Implied Mcap (Rs Bn)	200.0	209.9

Shareholding %

Promoters	Pre offer (%)	Post Offer (%)
Promoters	92.5	85.0
Kedaara	7.5	-
Public	-	15.0

Promoter holding break-up %

Promoters	Pre offer (%)	Post Offer (%)
Ravi Modi Family Trust	74.7	67.2
Ravi Modi HUF	16.0	16.0
Shilpi Modi	1.1	1.1
Ravi Modi	0.7	0.7

Objects of the issue

Achieve the benefit of listing of shares on exchanges. Listing will enhance the visibility and brand image and provide liquidity (enable exit) to the selling shareholders

Buy-back History

Date	No of sh (Mn)*	Price (Rs)*	Size (Rs Mn)
Apr-20	2.6	340	880
Jul-21	5.4	495	2,690

* Adj for change in FV from Rs 2 to Rs 1/sh

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Superior financial profile

VFL's strong operating performance is also reflected in its healthy financial profile. VFL delivered a strong 16% revenue and 27% PAT CAGR over FY16-20. We expect it to register 21% revenue and 23% PAT CAGR over FY22-24 driven by store expansion and ~8% SSSG (vs. pre-covid) for EBO's.

Valuation

At Rs866, the high end of the issue price band, the stock is valued at 73/58x FY23/24E EPS or 41/33x EV/EBITDA though comparable to peers leaves limited room to err. The company's category and first-mover advantage, industry-leading margins and return-ratios are positives.

About the Company

- VFL, headquartered in Kolkata was incorporated in 2002 by first generation entrepreneur Ravi Modi. VFL offers Indian wedding and celebration wear for men, women and kids and is one of the largest company in the segment in terms of financial performance as per Crisil. It commands a dominant position in the conventionally unorganized market.
- VFL's core 'Manyavar' brand is a category leader in Men's branded Indian wedding & celebration wear market with pan-India presence. It is aggressively growing its presence in women's segment under 'Mohey' brand.
- It offers one-stop destination with wide product portfolio for every celebratory occasion; aspirational yet value-for-money offering.
- VFL delivers aristocratic & seamless customer experience via aesthetic franchisee-owned EBOs (~90% of FY21 Sales of Customers)

Exhibit 1: Event Timeline – VFL's evolution over the years

Year	Milestone
1999	Brand Manyavar started operations via predecessor entity
2002	Incorporated Vedant Fashions Pvt Ltd
2008	1st EBO in Bhubaneswar
2011	1st International store in Dubai (UAE)
2012	Surpassed >Rs 1Bn EBO revenue
2013	Official Indian Wear Partner of 3 IPL teams
2015	Launched Mohey (Women's Celebration Wear label)
2016	Crossed Rs 5Bn EBO revenue; 1st store in USA
2017	Strategic Acquisition of Mebaz Kedaara Capital invested
2018	<ul style="list-style-type: none"> Launch of Manthan (Value Celebration Wear label) Official Sponsor of 2 IPL teams
2019	Launched Twamev (Men's premium wear brand) Crossed Rs 10Bn EBO revenue and 1mn sqft of EBO presence
2020	Launch of Manyavar mobile app
2021	Celebration Wear Partner in Femina Miss India 2021

Source: Company, DART

Exhibit 2: Offer details

Fund raise & Mcap	Lower end	Upper end
Price Band (Rs/sh)	824	865
OFS (No of sh in Mn)	36.4	36.4
OFS (Rs Bn)	30.0	31.5
O/s sh pre & post IPO (Mn)	242.7	242.7
Implied Mcap (Rs Bn)	200.0	209.9

Source: DART, Company

Exhibit 3: Equity History

Date	New issue/Buyback/Cancellation etc (No of sh in Mn)	Cumulative (No of sh in Mn)	Face Value (Rs)	Issue Price (Rs)	Fund raise (Rs Mn)	Remarks
24-May-02	0.0	0.0	10	10	0	Subscription to MOA
2002-06	2.6	2.6	10	43	113	Cash
16-Dec-06	5.3	7.9	10	-	-	1:2 Bonus issue
2007-10	3.4	11.3	10	50	168	Cash
31-Mar-11	0.6	11.9	10	150	90	Cash
24-Aug-17	0.7	12.5	10	3,439	2,250	Cash to Rhine Holdings (Kedaara)
22-Nov-17	50.0	62.6	2	-	-	FV changed from Rs 10 to Rs2
05-Dec-17	62.6	125.1	2	-	-	1:1 Bonus issue
20-Nov-18	-9.5	115.6	2	-	-	Cancellation of shares held by Rainbow Iron & Steel Suppliers (Promoter holding) on account of the Scheme of Amalgamation
21-Dec-18	9.6	125.2	2	-	-	Issue of shares to holders of Rainbow Iron & Steel Suppliers
28-Apr-20	-1.3	123.9	2	680	-880	Buy back effective price as on date Rs 340
14-Jul-21	-2.7	121.2	2	990	-2,690	Buy back effective price as on date Rs 495
16-Jul-21	121.2	242.4	1	-	-	FV changed from Rs 2 to Rs1
16-Oct-21	0.3	242.7	1	-	-	ESOP

Source: DART, RHP

Key investment rationale

Apparel – a large opportunity size market

Apparel is a basic necessity with rising propensity to spend to look and feel better. The apparel market stood at ~Rs 5.65tn as of FY20 (9% CAGR over FY15-19) and is expected to grow to Rs 8.15-8.2tn by FY25.

Exhibit 4: Overview of Apparel, Ethnic, Wedding and Celebration Wear market in India

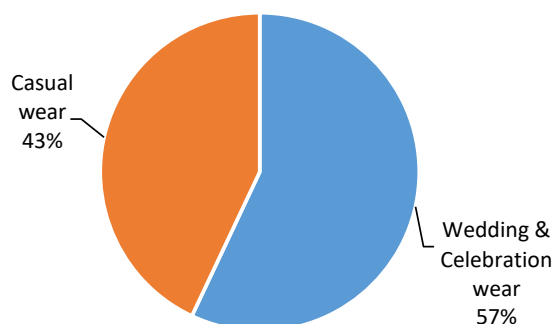
Category	Market Size (Rs Bn)			CAGR	
	FY15	FY20	FY25E	FY15-20	FY20-25
Overall Market Size (Rs Bn)					
Apparel	4,000	5,647	8,150-8,200	7%	7.5-8%
Ethnic Wear	1,292	1,800	2,350-2,400	7%	5.5-6%
Wedding & Celebration Wear	753	1,020	1,325-1,375	6%	5.5-6%
Branded Market Size (Rs Bn)					
Apparel	720	1,694	2,850-3,300	18-19%	12-13%
Ethnic Wear	245	540-630	1,050-1,200	18-19%	12-14%
Wedding & Celebration Wear	75	150-200	370-440	27-29%	18-20%
Branded Penetration %					
Apparel	~18	~30	35-40		
Ethnic Wear	~19	~30-35	45-50		
Wedding & Celebration Wear	~10	15-20	28-32		

Source: DART, RHP

Branded wear offers quality, fitment with latest style and fashion leading to market share gains for them

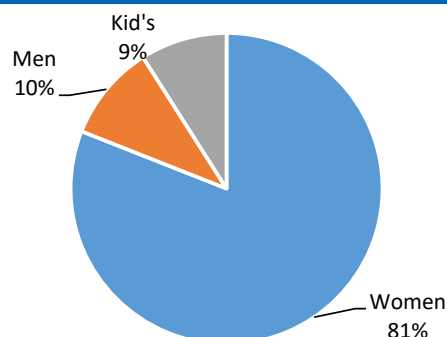
Ethnic wear in India accounts for ~32% of the overall apparel retail market as of FY20. Ethnic apparels can be segmented into casual ethnic wear and Indian wedding and celebration wear. Casual ethnic wear consists of apparel typically seen as regular wear, while wedding and celebration wear is worn during special occasions such as weddings; close-knit family functions such as puja, house warming, etc.; festivals such as Diwali, Eid, Holi, and Rakshabandhan; and other events such as Independence and Republic Day.

Exhibit 5: Overview of Ethnic wear



Source: DART, RHP

Exhibit 6: Overview of Ethnic wear



Source: DART, RHP

Women's ethnic wear at ~81% is the largest segment of the overall market as it has found acceptance in both daily wear and office-wear categories, apart from the wedding and celebration wear category. It includes lehengas, kurtis, sarees and salwar kameez.

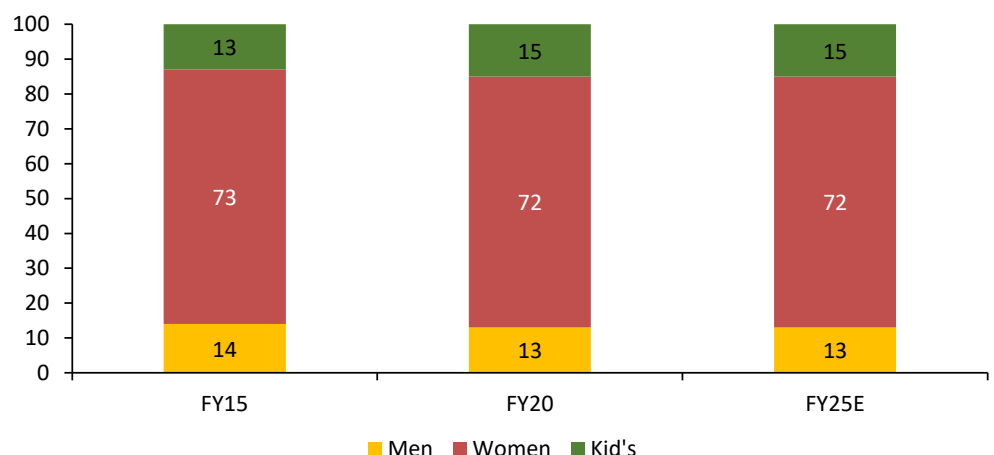
Men's ethnic wear is the second-largest category and has a share of ~10% of the overall ethnic market. It is dominated by the wedding and celebration wear market which accounted for ~80% of men's ethnic wear sales and includes sherwanis, kurta jacket sets, kurta pajama, Indo-western apparel, etc. Acceptance of ethnic wear during festivals and wedding functions is leading to overall growth of the men's ethnic-wear market. Kids' ethnic wear accounts for the remaining 9% of the ethnic apparel market.

Big fat Indian weddings – large & growing market

Indian wedding and celebration wear apparel market stands at ~ Rs 1.02tn as of FY20 (~18% of apparel market) and is likely to grow to Rs 1.3-1.4tn by FY25. The market is predominantly unorganized and dominated by women (~73%) – a segment where VFL's journey has begun.

With ~9.5-10mn weddings p.a., the market offers a huge growth opportunity. The average expenditure on weddings in urban market ranges from ~Rs 1-2mn for a single-day function, with multi-day and multi-event weddings (mehendi, haldi, sangeet, engagement etc) now an increasing trend. Weddings as a once-in-lifetime event, the bride and groom's outfits tend to become the most prominent yet a small % of overall spend. Consumers are also increasingly preferring ready-to-wear vs. tailor-made clothes that they can try-and-buy. Branded wear offers quality, fitment with latest style and fashion.

Exhibit 7: Indian Wedding & Celebration Wear – Mix (%)



Source: DART, RHP

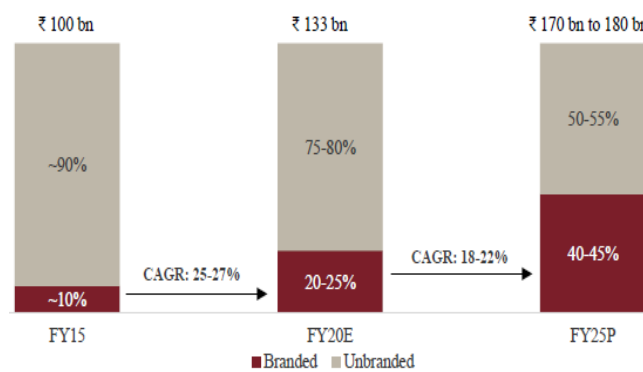
Market largely unbranded with a huge potential for growth

The share of branded apparel retailers within wedding and celebration wear market is currently low at ~15-20%, indicating huge potential for branded players. Players, such as VFL with its brands Manyavar, Mohey, Twamev,

Manthan and Mebaz, and brands such as Nalli's, Jahanpanah, Ritu Kumar, and Neerus command a dominant position due to their broad variety, latest designs, better fitting and trial services and better overall purchase experience.

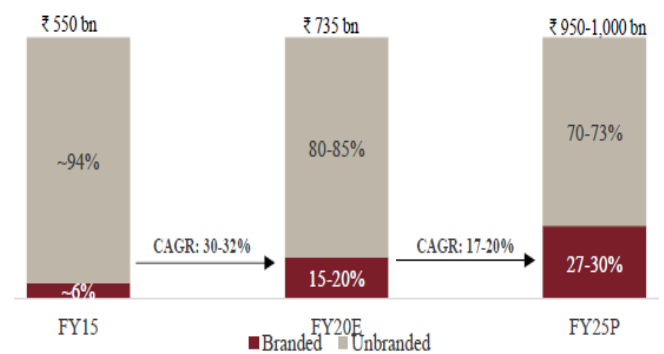
Given low penetration levels, there is huge potential for branded players beyond metros and tier-I cities, along with scope for new brands. The branded market expected to grow at a faster rate due to an increase in availability of various pan-India and regional brands providing consistent quality merchandise with attractive and contemporary designs at uniform pricing along with superior customer experience. Hence, the branded segment is set to grow at a CAGR of 18-20% over FY20-25 and account for 28-32% of the wedding and celebration wear market.

Exhibit 8: Men's wedding and celebration wear apparel retail market size



Source: DART, RHP

Exhibit 9: Women's wedding and celebration wear apparel retail market size



Source: DART, RHP

Branded players to continue to gain market share in the long term

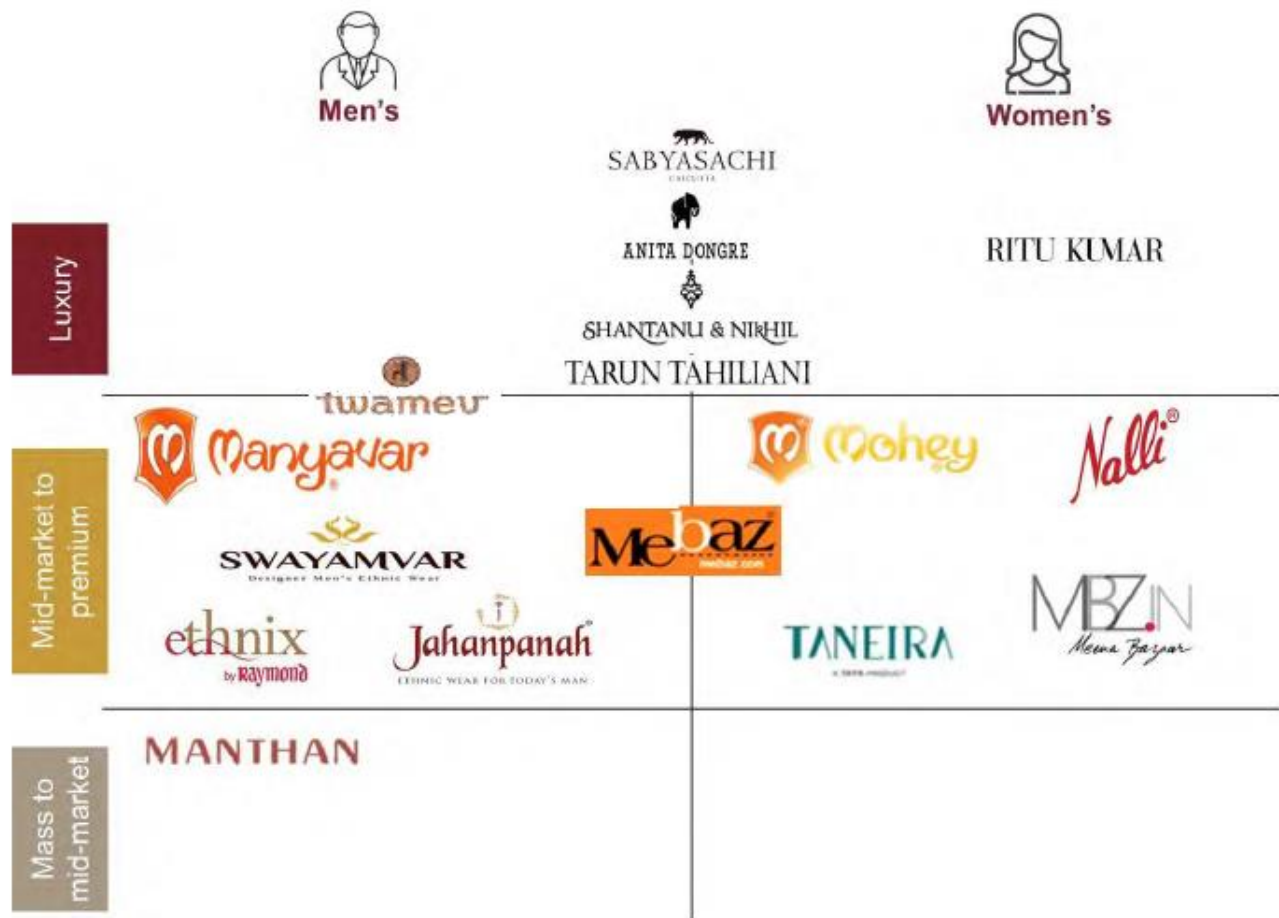
Considering the longer term trends for wedding and celebration wear market, branded players have better recognition, they remain at the edge of fashion trends and give a premium experience to the consumers. Branded players have expanded their footprint beyond tier-II cities. VFL, with their brands Manyavar and Mohey, is also present pan-India with a popular brand portfolio, enabling major brands to gain market share. Brands such as Manyavar, Mebaz, Swayamvar, Jade Blue, Manthan and Twamev have further boosted the market sentiment within men's ethnic wear.

Also, with emergence of brands, the propensity to spend on better-quality and branded ethnic wear for important occasions, such as marriages and even festivals, has gone up. Brands such as Manyavar and Mohey have propelled their sales through celebrity advertisements to attract youth.

The branded market is expected to grow at 18-20% CAGR over FY20-25, primarily due an increase in availability and several regional brands offering consistent quality merchandize with attractive and contemporary designs, uniform pricing and an enhanced customer experience.

The wedding and celebration wear is relatively less price-sensitive market compared to casual wear

Key brands predominant in wedding and celebration wear - offerings across segments



Source: DART, RHP

Competitive landscape within the Men's segment

	Celebration wear	Shirts / trousers / western / casual	Innerwear
Domestic brands	<ul style="list-style-type: none"> Manyavar Raymond Ethnix Jahanpanah Mebaz Manthan Twamev Swayamvar 	<ul style="list-style-type: none"> Raymond Arrow Indian Terrain Park Avenue Colors Plus ZOD Peter England Van Heusen Louis Philippe Wills Lifestyle Allen Solly Killer Lawman K-Lounge Provogue US POLO ASSN. Calvin Klein UNLIMITED Z3 Parx Spykar Monte Carlo 	<ul style="list-style-type: none"> Jockey Speedo Frontline Euro Torrido Bumchums VIP Frenchie Feelings Leader
Global brands	<p>Global brands showcase minimal interest to penetrate within the ethnic wear space</p>	<ul style="list-style-type: none"> H&M Marks & Spencer Van Heusen Nike Reebok Tommy Hilfiger 	<ul style="list-style-type: none"> Triumph

Source: DART, RHP

Competitive landscape within the women's segment

	Celebration wear	Casual ethnic / western	Western	Innerwear
Domestic brands	<ul style="list-style-type: none">MoheyNalli Silk SareesNeerusSatya PaulSabyasachiMebaz	<ul style="list-style-type: none">STOPGlobal DesiFabIndiaWBIBARitu KumarHauteCurryWestSidePantaloonLakshitaLabel <ul style="list-style-type: none">ShreeSabhyataShreeEthnicity	<ul style="list-style-type: none">Allen SollyANDFratini WomanBeing HumanIdentitiZink London	<ul style="list-style-type: none">JockeyLovableZivamePretty SecretsCloviaCandyskin
Global brands	Global brands showcase minimal interest to penetrate within the ethnic wear space		<ul style="list-style-type: none">H&MZaraMangoVero ModaMarks & SpencerVan Heusen	<ul style="list-style-type: none">Triumph

Source: DART, RHP

Average spends on wedding of ~Rs 1-2mn in Urban India

Weddings as a once-in-lifetime event, the bride and groom's outfits tend to become the most prominent yet a small % of overall spend. Consumers are also increasingly preferring ready-to-wear vs. tailor-made clothes that they can try-and-buy.

Average expenses on marriages in Urban India ranges from ~Rs 1-2mn for a single-day function

With ~9.5-10mn weddings p.a., the market offers a huge growth opportunity. The average expenditure on weddings in urban market ranges from ~Rs 1-2mn for a single-day function, with multi-day and multi-event weddings (mehendi, haldi, sangeet, engagement etc) now an increasing trend.

Exhibit 10: Average expenses on marriages

Costs aspects	Spend (Rs Mn)
Venue	0.10-0.30
Décor	0.05-0.40
Catering	0.30-0.50
Bride and groom outfits	0.05-0.10
Accommodation	0.05-0.10
Miscellaneous*	0.30-0.50

Source: DART, Company * Miscellaneous includes outfits for family members, photo/videography, gifts, mobility costs etc

VFL- market leader in Wedding & Celebration wear

Diversified brand portfolio across value spectrum for entire family

Manyavar's decades old journey began in 1999 by Ravi Modi when he decided to revamp the men's ethnic wear industry in India. A pioneer in the category, Manyavar was the sole brand exclusively targeting the industry at the time. "Being the catalyst that grew this category, Manyavar has become synonymous with wedding wear and developed the celebration and festive wear category as well.

Through a diverse portfolio of five leading and differentiated brands (Manyavar, Mohey, Meebaz, Twamev and Manthan), VFL is able to cater better to the needs and aspirations of the entire family across the price-spectrum of value to premium segment.

Exhibit 11: Manyavar is the leader in men's wedding and celebration wear

FY20 Revenue range (Rs Bn)	Women's brand	Men's brand
> Rs 7bn	-	Manyavar
>Rs 3bn to < Rs 7bn	Nalli	-
>Rs 1bn to < Rs 3bn	Neeru's Sabyasachi Ritu Kumar Anita Dongre	-
< Rs 1bn	Mebaz Mohey Taneria Shantanu & Nikhil Meer Bazaar	Mebaz Manthan Jahanpanah Ethnix Twamev Swayamvar

Source: DART, RHP

Exhibit 12: VFL's sales to customer's* – brand-wise

Rs Mn	FY19	FY20	FY21	H1FY22
Manyavar	9,354	10,357	7,041	3,900
Mohey	748	899	625	303
Others**	1,254	1,396	696	524
Total	11,356	12,652	8,362	4,727
Mix %				
Manyavar	82.4	81.9	84.2	82.5
Mohey	6.6	7.1	7.5	6.4
Others*	11.0	11.0	8.3	11.1
Total	100.0	100.0	100.0	100.0

Source: DART, RHP ** Others include Twamev, Manthan and Mebaz

* Note – Sales to consumers is including taxes and franchisee commission. VFL's revenue is net of above.

Exhibit 13: VFL's key brands and positioning

Brand	Year	Target group	Price spectrum	Distribution	Product Portfolio	Key attributes
Manyavar	1999*	Men, Kids	Mid-premium	EBOs, MBOs, LFS, E-Com	<ul style="list-style-type: none"> Men: Kurta, Indo western, Sherwani, jacket, accessories Kids : Kurta set, jacket set, Indo 	<ul style="list-style-type: none"> Category leader with a pan-India presence No end of season sales or discounts
Twamev	2019	Men	Premium	EBOs	<ul style="list-style-type: none"> Kurta set Sherwani Indo western Suit Accessories 	<ul style="list-style-type: none"> Cross-sell premium offering to Manyavar consumers Priced between Manyavar and luxury boutique offerings
Manthan	2018**	Men	Value	MBOs, LFS, E-Com	<ul style="list-style-type: none"> Kurta 	<ul style="list-style-type: none"> Large blend of product designs at value prices Aims to cater to sizable number of mid-market weddings & other celebrations
Mohey	2015	Women	Mid-premium	EBOs & E-Com	<ul style="list-style-type: none"> Lehenga Saree Gown Accessories 	<ul style="list-style-type: none"> Benefit from Manyavar's leadership position & pan-India EBO foot-print Celebrity brand ambassadors & campaigns
Mebaz	2017	Men, Kids	Mid-premium to Premium	EBOs	<ul style="list-style-type: none"> Men: Kurta, Indo western, Sherwani, Jacket, Suit, Accessories Women: Lehenga, Saree, Suit, Kurti Kids : Lehenga, Gown, Frock, Kurta, Suit, Accessories 	<ul style="list-style-type: none"> South-India focussed strong regional brand with presence in AP & Telangana Rich heritage brand with strong legacy

Source: DART, Company

Unique business model combining asset-light brand play

VFL's asset-light approach enables it to achieve a high ROCE, primarily due to the nature of our sourcing and manufacturing operations, with a substantial majority of our sales being generated through franchisee-owned EBOs (~90%).

VFL's success of franchisee model is established by the fact that as of Sep'21, 73% of the franchisees operated stores for 3-years or more. Also, 65% of the sales by franchisee-owned EBO's is derived from franchisee's have two or more stores.

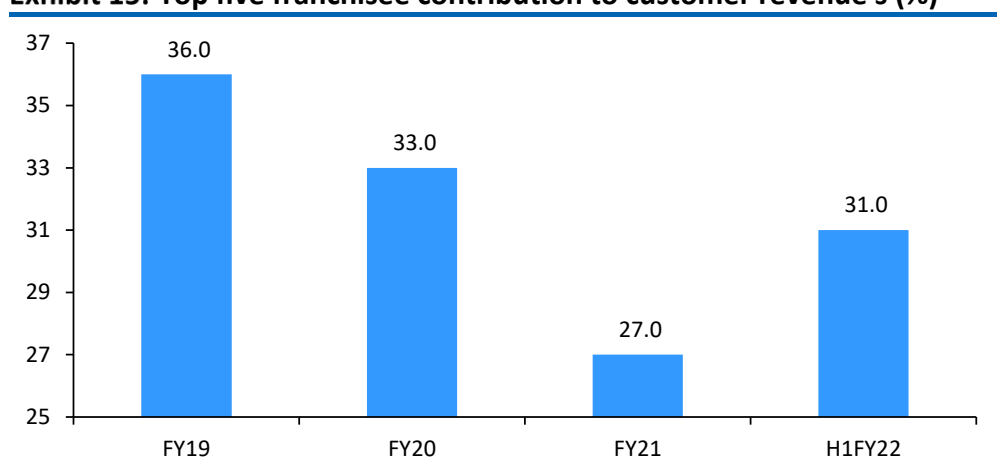
Exhibit 14: VFL's sales to consumer – channel-wise

Rs Mn	FY19	FY20	FY21	H1FY22
EBOs	10,470	11,531	7,538	4,164
MBOs	668	802	527	347
LFS	135	192	111	42
E-commerce	83	127	187	174
Total	11,356	12,652	8,363	4,727
Mix %				
EBOs	92.2	91.1	90.1	88.1
MBOs	5.9	6.3	6.3	7.3
LFS	1.2	1.5	1.3	0.9
E-commerce	0.7	1.0	2.2	3.7
Total	100.0	100.0	100.0	100.0

Source: DART, RHP

Top five franchisees contribute ~1/3rd of Vedant's revenue. Termination of agreement by any of this franchisee could potentially have an adverse effect on business.

Exhibit 15: Top five franchisee contribution to customer revenue's (%)



Source: DART, Company

VFL's EBO network

As of Sep'21 VFL had a retail footprint of 1.2mn sqft through 535 EBOs (incl. 58 shop-in-shops) spanning across 212 cities and towns in India, and 11 EBOs overseas across the USA, Canada and the UAE, countries with a large Indian diaspora.

More importantly, in FY21, >60% of VFL's franchisee-owned EBO revenues were from flagship stores (based on size of retail space). As of Sep'21, VFL had 132 flagship stores across 53 cities in India and 3 cities overseas.

Exhibit 16: EBO foot-print of VFL*

State	No of Cities	No of stores	% of total
40 or more stores			
UP	30	63	13.2
Telangana	6	46	9.6
West Bengal	14	45	9.4
Maharashtra	14	43	9.0
Karnataka	10	40	8.4
Sub-total	74	237	49.7
10-39 stores			
Bihar	21	39	8.2
Delhi	1	21	4.4
Odisha	10	20	4.2
MP	8	19	4.0
Tamilnadu	6	17	3.6
Gujarat	12	17	3.6
Andhra Pradesh	9	15	3.1
Jharkhand	6	15	3.1
Rajasthan	9	15	3.1
Haryana	8	12	2.5
Assam	8	11	2.3
Sub-total	98	201	42.1
<10 stores	24	39	8.2
Total	196	477	100.0

Source: DART, RHP * excluding shop-in-shop franchisees

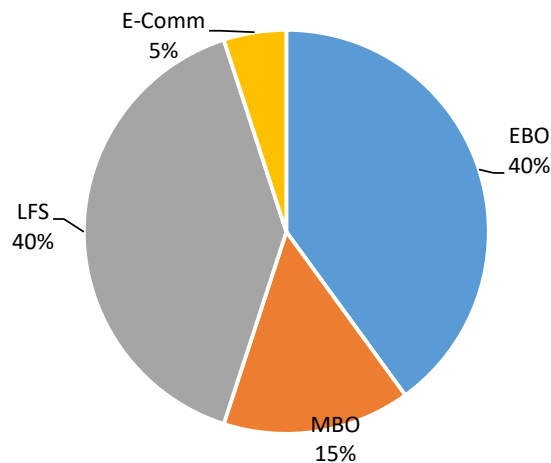
EBO as a distribution channel – key rationale

Branded players choose a sales channel or mix of channels such as exclusive brand outlets (EBOs), multi-brand outlets (MBO), large format stores (LFS) and e-commerce based on their brand positioning, sales strategy, capital availability and business model. Players in the mass to mid segment would typically use sales channels such as LFS and MBO, while those targeting the mid-to-premium segment such as Manyavar, Fab India, or Ritu Kumar focus more on EBO to exclusively sell their apparel and provide consumers with a premium experience. For branded players, EBO is the best strategy to establish a strong brand presence and customer connect.

Wedding and celebration wear has been a dominant EBO driven business as consumers typically want to try high-value apparel before making the final purchase. On the other hand, the e-commerce channel has been gaining prominence due to the ease of buying, lower price points (< ₹1,000), higher internet penetration and a good overall experience, and e-commerce is the preferred channel for casual ethnic wear. Adoption of omni-channel retail by brands has also enhanced the shopping experience of customers by enabling them to try outfits at home before purchasing.

E-commerce has grown significantly in India in recent years (albeit on lower base) due to wider selection of products, higher discounts, greater convenience of shopping (including door-step delivery) and payment channels (including cash-on-delivery, mobile wallets) along with an increase in internet penetration and discretionary spending.

Exhibit 17: Industry ethnic branded sales by channel (%)



Source: DART, RHP

VFL's growth Strategy – wider, deeper, sharper

We summarize below the growth strategy that VFL looks to drive viz.

- Retail Expansion within and outside India – VFL prima facie looks to go to deeper in existing cities and wider by entering into new cities in existing or new states
- Up-selling and cross-selling initiatives
- Significant potential and space for growth of emerging brands – Manyavar accounts for ~83-84% of the revenues
- Enhancement of brand appeal through targeted marketing initiatives
- Disciplined approach towards acquisitions – strong financials and cash flows provide head-room to VFL for opportunistic acquisitions

Key risk

- **Competition:** Ethnic wear is a large and unorganized market. The segment is witnessing increased consolidation with large well-capitalized business houses and with strong distribution foot-prints.
- ABFRL recently acquired stakes in Tarun Tahilani, Sabyasachi, Jayapore etc.

Exhibit 18: ABFRL's acquisitions in the Ethnic space

Company	Month	Acquisition %	Investments (Rs Mn)	Revenue (Rs Mn)	Price/Sales (x)	Remarks
Tarun Tahilani	Feb-21	34%	670	670	3.0	
Tarun Tahilani*	Feb-21	80%	630	-	NA	New entity for Men's ethnic wear
SabyaSachi	Feb-21	51%	3,887	2,740	2.8	Consideration includes ~Rs 1,000mn of primary issue
Jaypore	Jun-19	100%	1,057	277	3.8	
Shantanu & Nikhil	Jun-19	51%	583	306	3.7	Consideration includes ~Rs 300mn of primary issue
			6,827	3,993		

Source: DART, Company

- Reliance recently acquired stake in Ritu Kumar and Manish Malhortra brands. Reliance also owns stake in Satya Paul, Raghvendra Rathore and Rajesh Pratap.
- This trend is in line with what is observed globally in western wear also, only a few designers still maintain ownership of the brand (e.g. Kors). Most big brands which were once independent are now owned by investors or are housed under a conglomerate instead. E.g., Kering owns Gucci, Yves Saint Laurent, Balenciaga etc, Capri houses Versace, Jimmy Choo while LVMH houses over 75 brands, some of which are famous acquisition like Dior, Bulgari, Fendi.
- We understand that the current retailing of high fashion happens either via multi brands stores like Ensemble, Ogaan and Aza or EBOs of each designer. MBO model is working capital intensive if the brands disconnect with the audience and EBO are very costly to setup and maintain. Further the industry involves challenges with regard to high employee attrition, counterfeits and succession.
- That said we believe the entry of large players shall lead to expansion of the category and shift from Unorganized to Organized market in the medium-term which shall be positive for all the players.
- **Franchisee concentration risk:** Top five franchisees contribute ~1/3rd of Vedant's revenue. Termination of agreement by any of this franchisee could potentially have an adverse effect on business.
- **Location risk:** VFL's warehouse, factory and a majority of jobbers are exclusively based in a single geographical region (Kolkata, West Bengal). These may expose manufacturing processes and supply chain to regional risks.

Valuation snapshot

Exhibit 19: Sensitivity of target price to PE multiple and EPS

	FY22	FY23	FY24
PE (x) ↓ / EPS (Rs) →	10.0	11.9	14.9
40	399	476	598
50	499	594	747
60	599	713	897
70	699	832	1,046

Source: DART

Exhibit 20: Sensitivity of target price to EV/EBITDA multiple (pre-IndAS)

EV/EBITDA (x)	FY22	FY23	FY24
25	428	526	648
30	513	630	776
35	598	734	904
40	683	838	1,031

Source: DART

Exhibit 21: Sensitivity of target price to EV/EBITDA multiple (pre-IndAS)

EV/EBITDA (x)	FY22	FY23	FY24
25	332	415	521
30	176	212	252
35	542	690	854
40	641	791	979

Source: DART

Peer Valuation

Companies	O/s sh (Mn)	CMP (Rs)	Mcap* (Rs Bn)	P/E (x)			EV/EBITDA (x)		
				FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Dmart	648	4,223	2,736	150.3	93.0	71.2	98.9	61.9	47.6
Nykaa	473	1,703	805	988.4	288.5	141.3	401.0	176.0	95.7
Trent	355	1,062	378	190.0	93.5	73.1	62.7	39.8	32.6
ABFRL	938	305	286	na	127.0	69.4	32.7	20.5	16.8
Vedant Fashion **	248	865	214	86.6	72.8	57.9	50.7	41.3	33.5
Vmart	20	3,763	74	346.8	61.7	46.1	39.9	21.5	17.3
Go Fashion	54	1,031	56	149.5	96.1	67.7	43.6	33.4	26.2
TCNS	61	831	51	224.5	41.1	31.0	37.8	18.3	15.1
Arvind Fashion	132	316	42	na	33.3	21.5	16.6	11.4	9.4
Shoppers Stop	109	372	41	na	119.8	51.6	16.1	9.7	8.6

Source: DART, Bloomberg, RHP * Sorted on Mcap ** Upper-end of IPO price band of Rs 865 considered as CMP

VFL's valuation multiple is comparable to peer-group although higher vs. the pure-play brand players like Go Fashion, TCNS, Arvind Fashion etc. VFL enjoys superior profitability matrix compared to this players.

Exhibit 22: Peer Financials overview

	CAGR (FY16-19)		Margin % (FY19)	
	Revenue	EBITDA	Gross %	EBITDA %
Trent	19.1	36.6	51.3	9.3
ABFRL	10.4	13.6	51.6	6.8
Vmart	21.0	28.9	32.3	9.3
Vedant*	16.7	23.2	72.2	35.1
Dmart	32.4	29.5	14.7	8.2
TCNS	33.2	NA	66.0	15.4
Shopper Stop	1.2	7.4	37.2	7.8

Source: DART, Company

Key model assumptions

Exhibit 23: EBO store assumptions

(Nos)	FY19	FY20	FY21	FY22E	FY23E	FY24E	H1FY22
Opening	433	491	540	539	571	631	539
Addition	84	75	33	32	60	80	19
Closed	26	26	34	-	-	-	12
Net	58	49	-1	32	60	80	7
Closing	491	540	539	571	631	711	546

Source: DART, RHP

Exhibit 24: Revenue Break-up

(Rs Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	H1FY22
EBOs	10,470	11,531	7,538	11,769	14,776	17,832	4,164
MBOs	668	802	527	876	1,129	1,265	347
LFS	135	192	111	183	254	292	42
E-commerce	83	127	187	383	498	648	174
Total	11,356	12,652	8,363	13,213	16,657	20,036	4,727
Net Revenue	8,007	9,155	5,648	9,538	11,660	14,025	3,598
Net rev as % of customer sales	70.5	72.4	67.5	72.2	70.0	70.0	76.1
Sales/EBO (Rs Mn)	22.7	22.4	14.0	21.2	24.6	26.6	15.4

Source: DART, RHP

Consolidated Income statement

(Rs Mn)	FY16*	FY17*	FY18*	FY19	FY20	FY21	FY22E	FY23E	FY24E	H1FY22
Net Sales	5,043	6,102	7,593	8,007	9,155	5,648	9,538	11,660	14,025	3,598
RM Costs	923	1,388	2,431	2,226	2,512	1,463	2,525	3,119	3,682	905
Gross Profit	4,120	4,715	5,161	5,782	6,643	4,185	7,014	8,541	10,344	2,693
Employees cost	687	843	490	472	533	381	484	564	647	230
Other expenses	1,928	2,080	2,355	1,951	2,173	1,373	2,315	2,828	3,366	859
- Job work	-	-	-	578	663	414	692	845	1,017	314
- Lease costs	-	-	-	311	342	294	372	466	575	210
- S&D*	-	-	-	794	847	359	867	1,108	1,318	291
- Others	1,928	2,080	2,355	269	320	305	384	408	456	45
Total Opex	2,615	2,923	2,845	2,423	2,706	1,754	2,799	3,391	4,013	1,090
EBITDA	1,505	1,792	2,317	3,358	3,938	2,431	4,215	5,150	6,331	1,604
D&A	73	76	97	643	887	955	1,022	1,178	1,352	431
EBIT	1,431	1,716	2,220	2,715	3,050	1,475	3,193	3,971	4,978	1,173
Other income	18	27	105	191	324	602	401	280	321	274
Interest costs	60	28	60	196	256	258	248	269	294	122
PBT	1,390	1,716	2,265	2,709	3,118	1,819	3,345	3,982	5,005	1,325
Tax	489	603	786	945	752	490	870	1,035	1,301	341
RPAT	902	1,113	1,479	1,764	2,366	1,329	2,475	2,947	3,704	984

Source: DART, RHP, MCA * FY16-18 financials are pre-IndAS and from ROC

Common size

(%)	FY16*	FY17*	FY18*	FY19	FY20	FY21	FY22E	FY23E	FY24E	H1FY22
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
RM Costs	18.3	22.7	32.0	27.8	27.4	25.9	26.5	26.8	26.3	25.2
Gross Profit	81.7	77.3	68.0	72.2	72.6	74.1	73.5	73.3	73.8	74.8
Employees cost	13.6	13.8	6.4	5.9	5.8	6.7	5.1	4.8	4.6	6.4
Other expenses	38.2	34.1	31.0	24.4	23.7	24.3	24.3	24.3	24.0	23.9
- Job work	-	-	-	7.2	7.2	7.3	7.3	7.3	7.3	8.7
- Lease costs	-	-	-	3.9	3.7	5.2	3.9	4.0	4.1	5.8
- S&D*	-	-	-	9.9	9.3	6.4	9.1	9.5	9.4	8.1
- Others	38.2	34.1	31.0	3.4	3.5	5.4	4.0	3.5	3.3	1.3
Total Opex	51.9	47.9	37.5	30.3	29.6	31.1	29.3	29.1	28.6	30.3
EBITDA	29.8	29.4	30.5	41.9	43.0	43.0	44.2	44.2	45.1	44.6
D&A	1.5	1.2	1.3	8.0	9.7	16.9	10.7	10.1	9.6	12.0
EBIT	28.4	28.1	29.2	33.9	33.3	26.1	33.5	34.1	35.5	32.6
Other income	0.4	0.4	1.4	2.4	3.5	10.7	4.2	2.4	2.3	7.6
Interest costs	1.2	0.5	0.8	2.5	2.8	4.6	2.6	2.3	2.1	3.4
PBT	27.6	28.1	29.8	33.8	34.1	32.2	35.1	34.2	35.7	36.8
Tax	9.7	9.9	10.3	11.8	8.2	8.7	9.1	8.9	9.3	9.5
RPAT	17.9	18.2	19.5	22.0	25.8	23.5	25.9	25.3	26.4	27.3
Tax as % of PBT	35.2	35.1	34.7	34.9	24.1	26.9	26.0	26.0	26.0	25.7

Change YoY %

(%)	FY17*	FY18*	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	21.0	24.4	5.5	14.3	(38.3)	68.9	22.2	20.3
RM Costs	50.3	75.2	(8.4)	12.9	(41.8)	72.5	23.5	18.0
Gross Profit	14.4	9.5	12.0	14.9	(37.0)	67.6	21.8	21.1
Employees cost	22.7	(41.9)	(3.6)	12.9	(28.5)	27.1	16.4	14.8
Other expenses	7.9	13.2	(17.2)	11.3	(36.8)	68.6	22.2	19.0
- Job work	-	-	-	14.7	(37.5)	66.8	22.2	20.3
- Lease costs	-	-	-	10.2	(14.1)	26.4	25.4	23.3
- S&D*	-	-	-	6.7	(57.6)	141.1	27.8	19.0
- Others	7.9	13.2	(88.6)	19.1	(4.7)	26.1	6.2	11.7
Total Opex	11.8	(2.7)	(14.8)	11.6	(35.2)	59.6	21.2	18.3
EBITDA	19.1	29.3	45.0	17.3	(38.3)	73.4	22.2	22.9
D&A	3.2	27.8	564.9	38.0	7.7	7.0	15.3	14.8
EBIT	19.9	29.3	22.3	12.3	(51.6)	116.4	24.4	25.4
Other income	46.6	287.3	81.4	70.2	85.7	(33.5)	(30.1)	14.8
Interest costs	(53.4)	117.3	224.9	30.4	0.8	(3.8)	8.2	9.5
PBT	23.4	32.0	19.6	15.1	(41.7)	83.9	19.1	25.7
Tax	23.3	30.4	20.3	(20.4)	(34.8)	77.4	19.1	25.7
RPAT	23.5	32.9	19.3	34.1	(43.8)	86.2	19.1	25.7

Consolidated Balance Sheet

Rs Mn	FY16*	FY17*	FY18*	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	119	119	231	250	250	248	248	248	248
Reserves	2,113	3,174	6,819	8,577	10,410	10,666	9,806	11,868	14,313
Shareholders' Funds	2,231	3,293	7,050	8,828	10,660	10,914	10,053	12,116	14,561
Lease Liabilities	-	-	-	1,837	2,427	2,104	2,198	2,403	2,869
Other Non-current liabilities	592	727	860	1,136	1,240	1,349	1,484	1,632	1,795
SOURCES OF FUNDS	2,824	4,020	7,910	11,801	14,328	14,367	13,735	16,151	19,225
PPE	1,059	1,448	1,493	750	817	797	794	767	714
Goodwill & Intangible assets	12	14	1,676	1,684	1,791	1,761	1,761	1,761	1,761
Right to use assets	-	-	-	1,963	2,460	2,035	2,126	2,324	2,775
Other Non-CA	641	452	360	1,359	1,532	1,912	2,173	2,443	2,730
Total Non-CA	1,712	1,913	3,529	5,756	6,601	6,505	6,854	7,296	7,980
Inventories	878	974	894	909	1,209	1,012	1,155	1,412	1,699
Debtors	1,031	1,885	3,166	3,327	3,721	3,612	3,939	4,815	5,792
Other Current Assets	87	133	364	306	637	500	599	763	989
Total Current Assets	1,996	2,991	4,424	4,542	5,566	5,124	5,693	6,990	8,479
Creditors	318	339	434	581	504	499	587	718	864
Other Current Liabilities	583	558	1,042	803	1,084	1,391	1,250	1,453	1,667
Total Current Liabilities	901	897	1,475	1,384	1,588	1,890	1,837	2,171	2,531
Net Current Assets	1,095	2,095	2,949	3,158	3,979	3,234	3,856	4,819	5,948
Cash & Equivalents	17	12	1,432	2,886	3,748	4,627	3,026	4,036	5,297
APPLICATION OF FUNDS	2,824	4,020	7,910	11,801	14,328	14,367	13,735	16,151	19,225

Source: DART, RHP, MCA * FY16-18 financials are pre-IndAS and from ROC

Note

- FY18 includes acquisition of Mebaz (a franchisee partner) by VFL for ~Rs 2bn basis the goodwill and brand value on the balance sheet. It also did fund-raise of Rs 2.25bn from Rhine Holdings (Kedaara group).
- VFL sells inventory to franchisee's and account for it as revenue. Franchisees have the option to return the unsold stock. Thus debtors in our view are quasi-inventory.
- VFL creates provision for return of inventory and it is reflected on the liabilities side and associated cost with the goods likely to return on asset side as 'Right of return assets'.

Consolidated Cash Flows

Rs Mn	FY17*	FY18*	FY19	FY20	FY21	FY22E	FY23E	FY24E
PBT	1,716	2,265	2,709	3,118	1,819	3,345	3,982	5,005
Depreciation	76	97	643	887	955	1,022	1,178	1,352
Interest expense / income	28	60	196	256	258	248	269	294
Working Capital Change	(999)	(854)	(209)	(821)	744	(621)	(963)	(1,130)
Tax Paid	(603)	(786)	(945)	(752)	(490)	(870)	(1,035)	(1,301)
OPERATING CF (a)	217	782	2,394	2,689	3,287	3,124	3,431	4,221
Capex	(465)	(142)	647	(200)	(123)	(150)	(150)	(150)
Free cash flow (FCF)	(248)	640	3,041	2,489	3,164	2,974	3,281	4,071
Chg in Non-CA and liabilities	323	(2,599)	(731)	(176)	(242)	-126	-122	-123
INVESTING CF (b)	(142)	(2,741)	(85)	(376)	(365)	(276)	(272)	(273)
Debt Issuance/(Repaid)	-	1	(1)	(0)	-	-	-	-
Interest Expenses	(28)	(60)	(196)	(256)	(258)	(248)	(269)	(294)
Other	-	-	-	-	-	-	-	-
FCFE	(275)	580	2,844	2,233	2,906	2,726	3,012	3,776
Share Capital Issuance/ (Buy back)	(52)	3,439	14	70	(1,075)	(2,717)	-	-
Dividend paid	-	-	-	(604)	-	(619)	(884)	(1,259)
Change in ROU/Lease Liabilities	-	-	-673	-661	-710	-866	-995	-1,134
FINANCING CF (c)	(80)	3,380	(857)	(1,451)	(2,044)	(4,450)	(2,148)	(2,688)
NET CASH FLOW (a+b+c)	(5)	1,421	1,453	862	879	(1,601)	1,011	1,260
Closing Cash	12	1,433	2,886	3,748	4,627	3,026	4,036	5,296

Source: DART, RHP, MCA * FY16-18 financials are pre-IndAS and from ROC

Key Ratios

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)									
Gross Profit Margin	81.7	77.3	68.0	72.2	72.6	74.1	73.5	73.3	73.8
EBITDA Margin	29.8	29.4	30.5	41.9	43.0	43.0	44.2	44.2	45.1
EBIT Margin	28.4	28.1	29.2	33.9	33.3	26.1	33.5	34.1	35.5
APAT Margin	17.9	18.2	19.5	22.0	25.8	23.5	25.9	25.3	26.4
RoE	40.4	40.3	28.6	22.2	24.3	12.3	23.6	26.6	27.8
RoIC (or Core RoCE)	33.1	32.7	27.7	26.3	30.7	13.6	29.0	32.0	35.2
RoCE	32.9	32.5	24.3	19.9	21.3	8.9	19.7	23.1	24.3
EFFICIENCY									
Tax Rate (%)	35.2	35.1	34.7	34.9	24.1	26.9	26.0	26.0	26.0
Fixed Asset Turnover (x)	4.8	4.2	5.1	10.7	11.2	7.1	12.0	15.2	19.6
Inventory (days)	64	58	43	41	48	65	44	44	44
Receivables (days)	75	113	152	152	148	233	151	151	151
Other current assets (days)	6	8	18	14	25	32	23	24	26
Payables (days)	23	20	21	26	20	32	22	22	22
Other current liabilities (days)	42	33	50	37	43	90	48	45	43
Cash Conversion Cycle (days)	79	125	142	144	159	209	148	151	155
Net Debt/EBITDA (x)	(0.0)	(0.0)	(0.6)	(0.3)	(0.3)	(1.0)	(0.2)	(0.3)	(0.4)
Net D/E (x)	(0.0)	(0.0)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)
Interest Coverage (x)	24.0	61.7	36.7	13.8	11.9	5.7	12.9	14.8	16.9
PER SHARE DATA (Rs)									
EPS	3.8	4.7	6.4	7.0	9.4	5.4	10.0	11.9	14.9
CEPS	7.7	9.5	6.4	7.3	9.8	5.7	10.4	12.4	15.5
Dividend	-	-	-	-	2.4	-	2.5	3.6	5.1
Book Value	9.4	13.9	30.5	35.2	42.6	44.0	40.6	48.9	58.7
VALUATION*									
P/E (x)	227.5	184.3	135.2	122.8	91.6	161.3	86.6	72.8	57.9
P/BV (x)	91.9	62.3	28.4	24.5	20.3	19.6	21.3	17.7	14.7
EV/EBITDA (x)	142.5	119.6	91.9	63.5	54.1	87.2	50.7	41.3	33.5
EV/Revenues (x)	42.5	35.1	28.1	26.6	23.3	37.5	22.4	18.2	15.1
Mcap/Revenues (x)	42.5	35.1	28.2	26.8	23.4	38.0	22.5	18.4	15.3
OCF/EV (%)		0.1	0.4	1.1	1.3	1.6	1.5	1.6	2.0
FCF/EV (%)		-0.1	0.3	1.4	1.2	1.5	1.4	1.6	2.0
Dividend Yield (%)	-	-	-	-	0.3	-	0.3	0.4	0.6

Source: DART, Company; For valuation ratios we have assumed the upper-end of price band viz. Rs 865/sh as CMP

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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