

24 December 2024

India | Equity Research | Company Update

Vedant Fashions Limited

Branded Apparel

CXO 1x1: Vedant Modi, Chief Revenue Officer

We met Vedant Modi, Chief Revenue Officer, Vedant Fashions. Takeaways: (1) Company plans to reduce wedding-linked seasonality by focusing on festive wear through its recently launched brand ‘Diwas’ and will continue to focus on wedding wear through ‘Manyavar’. (2) Towns with current population of >100k can have Manyavar EBOs with focus on evolving trends in tier II and III towns. (3) It is taking initiatives like having multiple stores in a locality, hiring gig workers to service customers to manage peak capacity. (4) New campaigns are focused on showing the brand as a hero rather than a celebrity. (5) It plans to scale up Mohey EBOs in multiple cities. (6) Negligible dead stock / slow-moving inventory allows it to have ‘no discounting’ which results in better gross margins vs peers. **BUY.**

Optimise seasonality by improving mix of non-wedding demand

Management has a long-term cascading strategy to reduce wedding-linked seasonality. In a financial year, generally Q2 is relatively the weakest quarter which it plans to improve by focusing on festive wear through its recently launched new brand ‘Diwas’ as it does not want to dilute the wedding positioning of ‘Manyavar’ brand. Secondly, focusing on daily causal wear could further help the company reduce seasonality where it currently has very low presence (focus could increase once it has strong positioning in festive wear through ‘Diwas’). Launch of Diwas in E-comm and MBO – the response has been good.

Population of >100k can have a Manyavar store

The company can have its stores in cities with >100k population currently as there is enough demand for the store to perform well with demand for kurta sets, jacket sets, etc. However, in cities with lesser population, consumers prefer to travel to a nearby larger city to buy a sherwani as it requires a store size of ~3,000 sq. ft. Management does see the trend of tier II towns gaining traction and tier III towns (~400 towns) behaving like tier II towns and will continue to evaluate store opening opportunities in these towns. Vedant Fashions has 650 EBOs in 255 cities (including 12 international cities) as of Sep’24.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	13,260	13,675	15,278	18,672
EBITDA	6,578	6,581	7,494	9,188
EBITDA Margin (%)	49.6	48.1	49.0	49.2
Net Profit	4,229	4,142	4,534	5,473
EPS (INR)	17.4	17.1	18.7	22.5
EPS % Chg YoY	37.1	(2.1)	9.5	20.7
P/E (x)	77.9	79.5	72.6	60.2
EV/EBITDA (x)	50.1	50.0	43.9	35.8
RoCE (%)	33.7	26.4	25.8	27.2
RoE (%)	34.1	27.7	26.4	27.4

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Market Data

Market Cap (INR)	330bn
Market Cap (USD)	3,887mn
Bloomberg Code	MANYAVAR IN
Reuters Code	VEDN.BO
52-week Range (INR)	1,512 /886
Free Float (%)	25.0
ADTV-3M (mn) (USD)	4.1

Price Performance (%)	3m	6m	12m
Absolute	5.4	18.2	(1.4)
Relative to Sensex	6.4	11.2	(19.4)

ESG Score	2022	2023	Change
ESG score	56.4	69.8	13.4
Environment	26.3	46.3	20.0
Social	45.9	67.8	21.9
Governance	77.9	82.1	4.2

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

30-10-2024: [Q2FY25 results review](#)  
24-09-2024: [Company Update](#)

### **New franchisee partners require some time to adjust to data-led systems and processes**

The company believes very strongly in its systems and processes which have delivered good results over the last couple of years, and therefore, it is not flexible on these systems and processes for any franchise partners. New franchisee partners require some time to get used to these systems and processes. The goal is to grow along with franchisee partners.

### **Interventions to manage peak capacity**

Given that purchases are clustered during wedding season, it does face capacity constraints. It plans to solve these issues by a) increasing capacity in key markets (e.g.: Commercial Street in Bengaluru where weekend level data over time showed that the store couldn't cross a certain revenue level and therefore it added a new store very close to it to cater to demand), b) other smaller interventions like gig workers to service customers during peak hours in store, c) increasing presence and becoming large in quick commerce platforms.

### **New campaigns focused on Manyavar = Groom**

The strategy of new campaign and agency is to create a perception of brand that Manyavar = Groom and create higher brand equity leadership (currently it is the leader in brand equity within its category) by focusing on brand as a hero rather than a celebrity. Earlier, the focus was to create an advertisement where a real-life problem can be solved by a brand.

### **Scale-up Mohey EBOs across cities**

Mohey's first EBO in Bangalore has had good response and management wants to replicate it in multiple cities with a focus on selecting right locations, assortments, etc. In terms of advertisement campaigns, some campaigns have worked but management feels it needs one viral campaign to create that additional excitement around the brand. In terms of management bandwidth, along with chief marketing officer (CMO) it has separate brand managers for each brand (Manyavar, Mohey, Tamev) and similar structuring across all departments, except retail.

### **Negligible dead stock / slow-moving inventory key reason for higher gross margins vs other apparel companies**

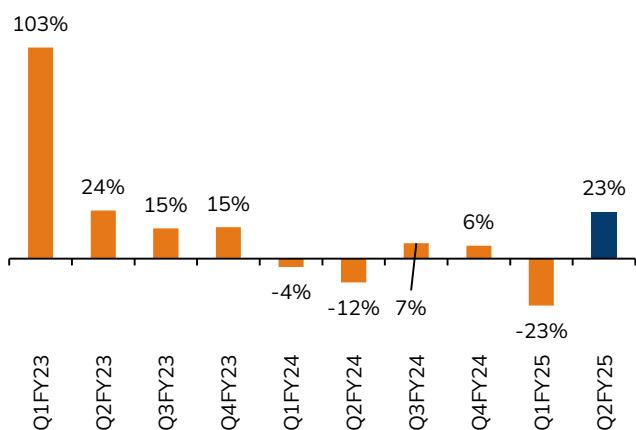
Consensus believes Manyavar's growth is constrained as it is over earning given that it has higher gross margin vs other branded apparel companies. However, management believes that having negligible dead stock / slow-moving inventory allows it to have better gross margin as they do not have to offer discounts on Manyavar products while most apparel companies participate in end of season sale (EOSS) twice every year.

### **Valuation and risks**

Our earnings estimates are unchanged. We model revenue/EBITDA/PAT CAGR of 17%/18%/15%, over FY24-26E. Maintain **BUY** with DCF-based unchanged target price of INR 1,600.

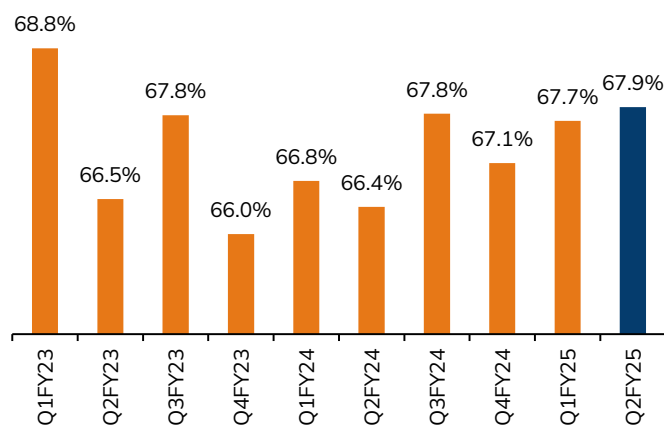
**Downside risks:** 1) Slower-than-expected pick-up in discretionary consumption, 2) rise in competition from organised retailers.

**Exhibit 1: Revenue growth (%)**



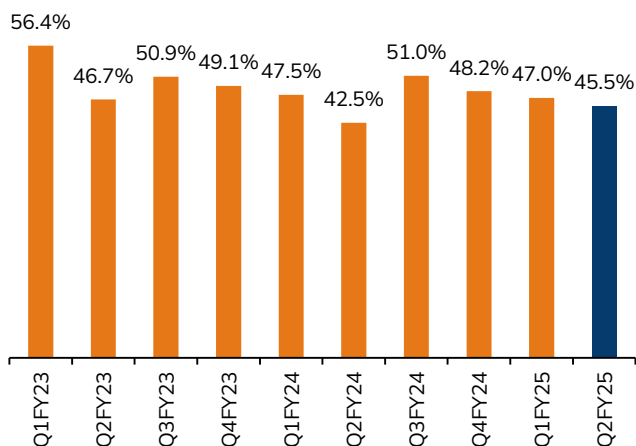
Source: Company data, I-Sec research

**Exhibit 2: Gross margin (%)**



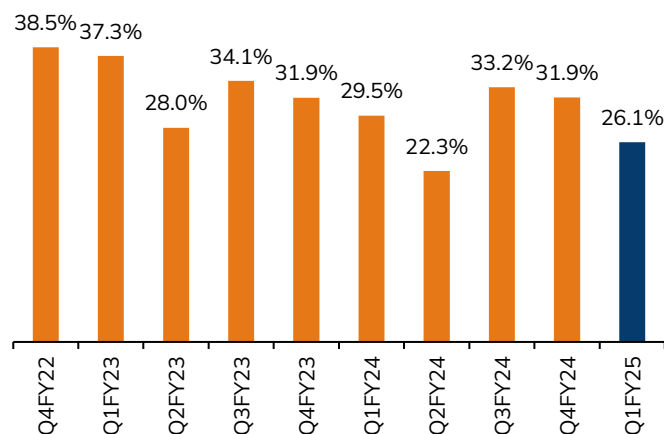
Source: Company data, I-Sec research

**Exhibit 3: EBITDA margin (%)**



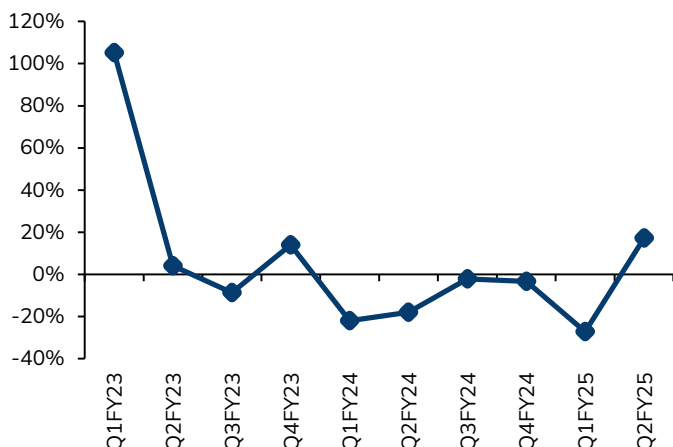
Source: Company data, I-Sec research

**Exhibit 4: Net profit margin (%)**



Source: Company data, I-Sec research

**Exhibit 5: SSSG (%)**



Source: Company data, I-Sec research

**Exhibit 6: Cities and EBOs**



Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	75.0	75.0	75.0
Institutional investors	20.8	20.8	21.0
MFs and others	9.4	9.0	9.7
FIs/Banks, Insurance	2.5	2.3	1.2
FIIIs	8.9	9.5	10.1
Others	4.2	4.2	4.0

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>13,260</b>	<b>13,675</b>	<b>15,278</b>	<b>18,672</b>
Operating Expenses	6,682	7,094	7,784	9,484
<b>EBITDA</b>	<b>6,578</b>	<b>6,581</b>	<b>7,494</b>	<b>9,188</b>
EBITDA Margin (%)	49.6	48.1	49.0	49.2
Depreciation & Amortization	975	1,349	1,604	1,955
EBIT	5,603	5,232	5,889	7,233
Interest expenditure	304	445	611	741
Other Non-operating Income	370	697	766	805
<b>Recurring PBT</b>	<b>5,670</b>	<b>5,484</b>	<b>6,045</b>	<b>7,297</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	1,441	1,342	1,511	1,824
PAT	4,229	4,142	4,534	5,473
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>4,229</b>	<b>4,142</b>	<b>4,534</b>	<b>5,473</b>
<b>Net Income (Adjusted)</b>	<b>4,229</b>	<b>4,142</b>	<b>4,534</b>	<b>5,473</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Total Current Assets</b>	<b>7,143</b>	<b>7,839</b>	<b>7,072</b>	<b>8,400</b>
of which cash & cash eqv.	82	216	554	565
<b>Total Current Liabilities &amp; Provisions</b>	<b>3,962</b>	<b>3,711</b>	<b>3,794</b>	<b>4,008</b>
<b>Net Current Assets</b>	<b>3,181</b>	<b>4,129</b>	<b>3,279</b>	<b>4,392</b>
Investments	7,927	9,577	12,077	14,077
<b>Net Fixed Assets</b>	<b>5,018</b>	<b>6,473</b>	<b>7,037</b>	<b>7,713</b>
ROU Assets	-	-	-	-
Capital Work-in-Progress	20	-	-	-
<b>Total Intangible Assets</b>	<b>159</b>	<b>158</b>	<b>158</b>	<b>158</b>
Other assets	1,342	979	103	103
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>17,646</b>	<b>21,315</b>	<b>22,654</b>	<b>26,443</b>
<b>Liabilities</b>				
<b>Borrowings</b>	-	-	-	-
<b>Deferred Tax Liability</b>	<b>198</b>	<b>220</b>	<b>220</b>	<b>220</b>
provisions	35	46	46	46
other Liabilities	3,462	5,076	4,066	4,567
Equity Share Capital	13,950	15,974	18,323	21,611
Reserves & Surplus	-	-	-	-
<b>Total Net Worth</b>	<b>13,950</b>	<b>15,974</b>	<b>18,323</b>	<b>21,611</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>17,646</b>	<b>21,315</b>	<b>22,654</b>	<b>26,443</b>

Source Company data, I-Sec research

### Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sept-24
Net Sales	4,745	3,632	2,398	2,679
% growth (YOY)	7.5	6.3	-23.0	22.7
EBITDA	2,420	1,571	1,127	1,220
Margin %	51.0	48.2	47.0	45.5
Other Income	155	241	215	192
Adjusted Net Profit	1,577	1,158	625	669

Source Company data, I-Sec research

### Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>5,670</b>	<b>5,484</b>	<b>6,045</b>	<b>7,297</b>
Working Capital Changes	809	(475)	1,189	(1,103)
Capital Commitments	(46)	(40)	(118)	(145)
<b>Free Cashflow</b>	<b>4,545</b>	<b>4,742</b>	<b>7,820</b>	<b>6,922</b>
<b>Other investing cashflow</b>	<b>(2,233)</b>	<b>(998)</b>	<b>(4,154)</b>	<b>(2,000)</b>
Cashflow from Investing Activities	(2,279)	(1,038)	(4,272)	(2,145)
Issue of Share Capital	15	31	-	0
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(1,065)	(1,453)	(1,101)	(2,726)
Cash flow from Financing Activities	(2,264)	(3,607)	(3,286)	(4,911)
<b>Chg. in Cash &amp; Bank balance</b>	<b>48</b>	<b>137</b>	<b>379</b>	<b>11</b>
Closing cash & balance	38	175	554	565

Source Company data, I-Sec research

### Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	17.4	17.1	18.7	22.5
Adjusted EPS (Diluted)	17.4	17.1	18.7	22.5
Cash EPS	21.4	22.6	25.3	30.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	57.5	65.8	75.5	89.0
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	31.4	3.1	11.7	22.2
EBITDA	36.9	0.0	13.9	22.6
EPS (INR)	37.1	(2.1)	9.5	20.7
<b>Valuation Ratios (x)</b>				
P/E	77.9	79.5	72.6	60.2
P/CEPS	63.3	60.0	53.7	44.3
P/BV	23.6	20.6	18.0	15.2
EV / EBITDA	50.1	50.0	43.9	35.8
P / Sales	24.8	24.1	21.6	17.6
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	66.8	67.2	68.2	67.9
EBITDA Margins (%)	49.6	48.1	49.0	49.2
Effective Tax Rate (%)	25.4	24.5	25.0	25.0
Net Profit Margins (%)	31.9	30.3	29.7	29.3
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	0.0	0.0	0.0
Net Debt / EBITDA (x)	0.0	0.0	(0.1)	(0.1)
Fixed Asset Turnover (x)	2.7	2.4	2.3	2.5
Inventory Turnover Days	54	38	44	46
Receivables Days	148	153	106	110
Payables Days	26	24	24	25
<b>Profitability Ratios</b>				
RoCE (%)	33.7	26.4	25.8	27.2
RoE (%)	34.1	27.7	26.4	27.4
RoIC (%)	35.9	29.9	29.1	30.2

Source Company data, I-Sec research

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