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# IPO REPORT

“Subscribe with Caution” to  
**Vedant Fashions**

*‘Expensive Valuation’*

## Salient features of the IPO:

- **Vedant Fashions Limited (VFL)**, incorporated in 2002, offers Indian wedding & celebration wear for men, women & kids.
- The issue is purely OFS through which the company's promoter & existing shareholders will sell 3.64 cr shares
- At the higher price band, OFS size is stood at Rs3,149 cr.
- Since the offer is 100% OFS, the company will not receive any proceed from the IPO.

## Competitive Strengths

- Market leader in Indian celebration wear market with a diverse portfolio of brands catering to the aspiration of the entire family
- Large and growing Indian wedding and celebration wear market driven by an increased spending on such wear
- Differentiated business model combining the strength of retailing with branded consumer play
- Omni-channel network with the seamless integration of offline and online channels
- Technology-based strong supply chain and inventory replenishment system driven by system-wide data analytics, strong presence and longstanding vendor relationships

**Valuation:** At the higher price band of Rs866, the demanded valuation of Rs21,017 cr is derived at P/S of 37.2x on FY21E and 29.2x on FY22E annualized sales. On P/E front, the issue is valued at P/E of 106.8x on FY22 annualized EPS basis.

## Below are few key observations of the issue: (continued in next page)

- India wedding and celebration wear market is large and continuous to consistently grow driven by over 9.5-10 mn wedding taking place each year. There has been significant increase in consumer spending on wedding and celebration wear with a growing consumer appetite for celebration wear at occasions preceding and following the wedding ceremony. Celebration dressing has now become more common trend not only limited to wedding celebrations but also the country wide festivals such as Diwali, Navratri. Furthermore, Indian wedding & celebration wear market is relatively less price-sensitive as compared to the casual wear market. Wedding and celebration wear market of branded products in India is expected to grow ~18-20% over 2020-2025, as per the RHP.
- VFL, incorporated in 2002, is the largest company in India in the men's Indian wedding and celebration wear segment in terms of revenue/PAT in FY20. The company caters to the Indian celebration wear market with diverse portfolio of brands including Manyavar, Mohey, Mebaz, Mathan and Twamev.
- The company commands dominant position in conventionally unorganized market. Flagship brand 'Manyavar' is the category leader in branded Indian wedding & celebration wear market with pan India presence.
- VFL possess multi-brand product portfolio and aspires to provides one-stop destination with wide products range for men, women & kids catering to all celebratory occasions across price points.

Rating	Subscribe with Caution
Price Band	Rs824 - Rs866 per share
Face Value	Rs1 per share
Shares for Fresh Issue	NIL
Shares for OFS	3.64 cr

OFS size at Higher Price Band	Rs3,149 cr
Total Issue Size	Rs3,149 cr
Bidding Date	Feb 04' 2022 - Feb 08' 2022
MCAP at Higher Price Band	Rs21,017 cr
Enterprise Value	

Book Running Lead Manager	Axis Capital Limited, Edelweiss Financial Services Limited, ICICI Securities Limited, IIFL Securities Limited, Kotak Mahindra Capital Company Limited (India) Private Limited
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Registrar	KFin Technologies Private Limited
Industry	Fashion Industry

Retail application money at higher cut-off price per lot	
Number of shares per lot	17
Application Money	Rs14,722 per lot

Allocation Detail	
Qualified Institutional Buyers (QIB)	50%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	35%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoters & promoters group	92.4%	84.9%
Public	7.6%	15.1%
Total	100.0%	100.0%

Analyst	
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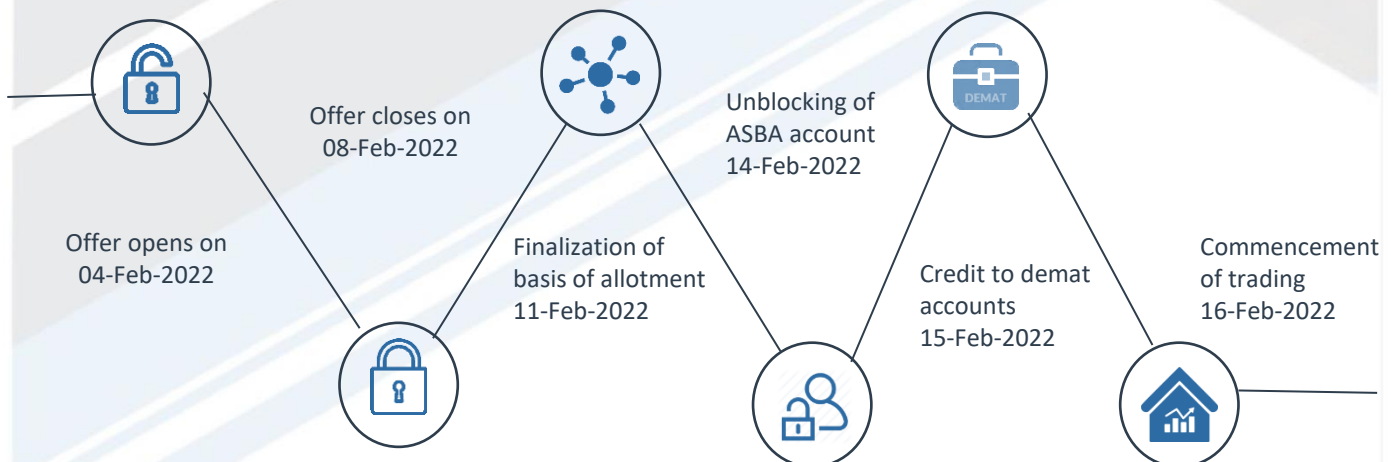
- Manyavar was introduced by 1,999 as Men's and boys flagship brand under the mid premium spectrum. The company launched women flagship brand 'Mohey' in 2015 under the mid-premium segment. The company has acquired the brand 'Mebaz' in 2017 catering to Men, Women and kids for the south Indian market under mid-premium to premium segment. Since 2015, the company has introduced four brands in order to better cater to the needs of customers and aspirations of the entire family yet remain value for money and service the varying financial budgets of the Indian customers.
- In terms of brand wise revenue contribution, Manyavar is the flagship brand of the company accounted for 84% of the FY21 operating revenue followed by Mohey at 7.5%. While balance of 8.3% of FY21 revenue was comprised by remaining three brands namely Manthan, Mebaz and Twamev.
- VFL adopts the assets light model with a substantial majority of sales being generated through the franchise owned exclusion brand outlets (EBO). In FY21 & H1FY22, 90% & 88% of the sales was generated by the EBO. VFL has a network of over 300 franchisees owned EBOs, as of Sep-21. Approximately 73% of franchisees have been operating the store over three or more years while 65% of the sales of franchise owned EBOs is derived from the franchisees having two or more stores.
- By Sep-21, the company comprises a retail footprint of 1.2 million square feet covering 535 EBOs (including 58 shop-in-shops) spanning across 212 cities and towns in India, and 11 EBOs overseas across the United States, Canada and the UAE. During FY21, 44% of the sales was generated by franchisee-owned EBOs from Tier I cities, 42% from Tier 2 cities and 12% from Tier 3 cities and the remaining 1.4% from the international markets.
- To expand the business, company adopts omni channel network of EBOs, multi-brand outlets (MBOs), large format stores (LFS) & Online include website, mobile app & leading e-commerce platforms. Besides 535 EBOs, the company has 825 of MBO and 145 of LFS as of Sep-21. Though the share of MBO/LFS at 7.6% and E-commerce at 2.2% in FY21 sales remained modest as compared to the EBOs.
- As per the mgmt, VFL's business model is driven by the strength of system driven technology infrastructure helping the company to attain operational efficiencies, also reflecting by over 40% EBIDTA margin. As sales are primarily channelled through EBOs, this helps the company to gather secondary sales data which it, through data analytics, utilise for capturing and analysing evolving consumer preferences, purchase trends and understanding of consumer preferences across India. The company highlighted that the entire supply chain and inventory management process is system-driven and algorithmically managed based on data analytics helping the company to effectively monitor the supply chain and inventory level.
- **Financial performance over the reported fiscals has been satisfactory despite significantly loss to business during 2020 due to pandemic induced lockdown. Over FY19-FY21, operating revenue de-grew by a CAGR of -16%. Though with the EBIDTA margin of over 40%, the company was remained able to report profit of Rs132 cr in FY21, showing strong operational efficiencies. OCF margin remained at healthy level of avg.33.5% over FY19-FY21. RoE is expected to improve to 23% in FY22 on the annualized basis, thus returning to historical trend of ~21% over FY19-20.**
- **Since Indian wedding & celebration wear market is relatively less price-sensitive, it gives pricing power to VFL however margin at these levels (>40%) seems challenging to maintain given the competitions from the local retailers, online retailers and non-branded products and building inflationary pressure. Furthermore, business is highly concentrated on wedding & festivals wear and thereby vulnerable to variations in demand.**
- **At the higher price band of Rs866, the demanded valuation of Rs21,017 cr is derived at P/S of 37.2x on FY21E and 29.2x on FY22E annualised sales. There are no listed peers having the same profile of business. Based on our quick estimates, the issue is priced at P/S of 21.2x and P/E of 44.7x on FY24E. Thereby, we view the issue is aggressively priced leaving no margin of safety for investors. Thereby it warrants caution on the valuation front. Furthermore, high level of receivables (avg. ~50% of sales over FY19-FY21) can erode the OCF margin going forward.**

Considering all above parameters, we assign '**Subscribe with Caution**' rating to the issue.

## About the issue:

- Vedant Fashions Limited (VFL) is coming out with initial public offering of 3.64 cr shares
- The issue is 100% offer-for-sale (OFS).
- Issue price is fixed at Rs824-Rs866 per share.
- At the higher price band of Rs866, OFS size is calculated at Rs3,149 cr. Since the issue is 100% OFS, the company will not receive any proceed from the issue
- Total issue size is stood at Rs3,149 cr.
- Issue will open for subscription on Feb 04' 2022 and close on Feb 08' 2022.
- Post issue, share of promoter and promoter group will reduce to 84.9% from 92.4%.
- Not more than 50% of the net offer shall be available for allocation on a proportional basis to qualified institutional Investors (QIIs).
- Further not less than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not less than 35% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- The OFS comprises sales of up to 1.74 crore shares by Rhine Holdings (selling shareholder), up to 7.23 lakh shares by Kedaara Capital (selling shareholder) and up to 1.81 crore shares by Ravi Modi Trust (promoter).
- Average cost of acquisition of shares for Ravi Modi Family Trust is NIL, while it is Rs166.3 per share for Rhine Holdings and the same at Rs166.3 for the Kedaara Capital Alternative Investments Fund.
- Kedaara Capital AIF is fully exiting from the business through the issue.

## Indicative IPO process time line:



## Company Introduction and Business Overview:

Vedant Fashions Ltd. (VFL) caters to the Indian celebration wear market with diverse portfolio of brands including Manyavar, Mohey, Mebaz, Mathan and Twamev. VFL is the largest company in India in the men's Indian wedding and celebration wear segment in terms of revenue in FY20. It offers a one-stop destinations and wide spectrum of product offering for every celebration occasion. The company's Manyavar brand is a category leader in the branded Indian wedding and celebration wear market with a pan India presence. As per the company, VFL focus on spreading India's vibrant culture, traditions & heritage through aspirational yet value for money brands at a diverse range of price points. The company has established a multi-channel network and introduced brands by identifying gaps in the under-served and high growth Indian wedding and celebration wear category. Through diverse portfolio of leading and differentiated brands, the company remains able to better cater to the needs of customers and aspirations of the entire family yet remain value for money and service the varying financial budgets of the Indian customers.

VFL adopts assets light business model and operating mainly through the franchise owned exclusion brand outlets (EBO). In FY21 & H1FY22, 90% & 88% of the sales was generated by the EBO. As of Sep-21, VFL has a network of over 300 franchisees owned EBOs. Approximately 73% of franchisees have been operating the store over three or more years while 65% of the sales of franchise owned EBOs is derived from the franchisees having two or more stores. The company comprises a retail footprint of 1.2 million square feet covering 535 EBOs (including 58 shop-in-shops) spanning across 212 cities and towns in India, and 11 EBOs overseas across the United States, Canada and the UAE. During FY21, 44% of the sales was generated by franchisee-owned EBOs from Tier I cities, 42% from Tier 2 cities and 12% from Tier 3 cities and the remaining 1.4% from the international markets.

Manyavar was introduced by 1,999 as Men's and boys flagship brand under the mid premium spectrum. The company launched women flagship brand 'Mohey' in 2015 under the mid premium segment. The company has acquired the brand 'Mebaz' in 2017 catering to Men, Women and kids for the south Indian market under mid-premium to premium segment. Since 2015, the company has introduced four brands in order to lead the Indian wedding and celebration wear segment.

The company reported operating revenue of Rs565 cr in FY21 which de-grew by -16% CAGR over FY19-FY21 as the business performance was impacted by Covid lockdown impact in fiscal 2021. While in FY20, the company sales grew by 14% despite strict lockdown in the last 10 days of the Q4FY20. In the H1FY22, the company reported revenue of Rs350 cr as compared to the Rs72 cr in the same period of previous fiscal. EBITDA margin remained strong in the range of 41-43% over FY19-FY21, reflection strong operating efficiency of the company. Profit margin also maintained at healthy level over 20% in the last three fiscals led by strong EBITDA margin, low depreciation and interest cost. OCF margin and RoE also remained healthy level during FY19-FY21.

### Key Financials

Particulars (Rs cr)	FY19	FY20	FY21	H1FY22	CAGR (FY19-FY21)
Operating Rev.	800.7	915.5	564.8	359.8	-16.0%
EBITDA	335.8	393.8	243.1	160.4	-14.9%
PAT	176.4	236.6	132.9	98.4	
EBITDA Margin (%)	41.9%	43.0%	43.0%	44.6%	
PAT Margin (%)	22.0%	25.8%	23.5%	27.3%	
RoE (%)	20.0%	22.2%	12.2%	22.9%	
RoA (%)	13.4%	14.9%	8.2%	13.6%	
RoIC (%)	19.7%	21.3%	10.0%		
EV	21,081.7	21,240.2	21,220.6	21,249.3	
OCF	234.8	243.4	252.6	60.7	3.7%
OCF margin (%)	29.3%	26.6%	44.7%	16.9%	
Free Cash Flow	-208.3	229.3	180.4	369.0	
Total Debt	183.7	242.7	210.4	236.7	
Net Debt	64.3	222.8	203.3	232.0	
Net Debt to EBITDA (x)	0.2	0.6	0.8	1.4	
Net Debt to Equity (x)	0.1	0.2	0.2	0.3	

Source: Choice Broking Research, RHP





## Competitive strengths:

- Market leader in Indian celebration wear market with a diverse portfolio of brands catering to the aspiration of the entire family
- Large and growing Indian wedding and celebration wear market driven by an increased spending on such wear
- Differentiated business model combining the strength of retailing with branded consumer play
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## Business strategy:

- Expansion of footprint within and outside India
- Scaling up emerging brands through increased up-selling and cross-selling initiatives
- Enhancement of brand appeal through targeted marketing initiatives
- Significant potential and space for growth for emerging brands
- Disciplined approach towards acquisitions



## Risk and concerns:

- Pandemic led business uncertainties can impact business severely
- Business is highly concentrated on Indian wedding and celebration wear and vulnerable to variations in demand
- Risk of increasing competition from the local retailers, online retailers and non-branded products
- Risk of maintaining margin level amid building inflationary pressure in the economy

## Financial statements:

Rs Crore

### Profit & Loss A/c

Particulars	FY19	FY20	FY21	H1FY22
Operating Revenue (OR)	800.7	915.5	564.8	359.8
Gr. (%)		14.3%	-38.3%	401.8%
Raw Materials	(74.2)	(92.9)	(55.5)	(42.0)
Accessories & packing materials	(12.0)	(14.6)	(10.1)	(6.7)
Purchases of stock-in-trade	(136.7)	(168.2)	(70.8)	(58.2)
Changes in inventories of finished goods, WIP and stock-in-trade	0.4	24.5	(10.0)	16.4
Employee expenses	(47.2)	(53.3)	(38.1)	(23.0)
Other Expenses	(195.1)	(217.3)	(137.3)	(85.9)
EBITDA	335.8	393.8	243.1	160.4
Depreciation and Amortization Expenses	(64.3)	(88.7)	(95.5)	(43.1)
EBIT	271.5	305.0	147.5	117.3
Finance Costs	(19.6)	(25.6)	(25.8)	(12.2)
Other Income	19.1	32.4	60.2	27.4
Exceptional items	0.0	0.0	0.0	0.0
PBT	270.9	311.8	181.9	132.5
Tax Expenses	(94.5)	(75.2)	(49.0)	(34.1)
PAT	176.4	236.6	132.9	98.4

### Balance Sheet

Particulars	FY19	FY20	FY21	H1FY22
Share Capital	25.0	25.0	24.8	24.2
Reserves and Surplus	857.7	1,041.0	1,066.6	835.1
Lease Liabilities	129.7	169.7	139.7	153.9
Long Term Provisions	1.7	2.3	2.6	3.1
Deferred tax liabilities (net)	9.0	8.1	14.7	16.6
Other long term liabilities	102.9	113.6	117.5	117.4
Short Term Lease Liabilities	54.0	73.1	70.7	82.9
Trades Payables	58.1	50.4	49.9	61.4
Other current liabilities	80.1	108.0	138.7	150.6
Short Term Provisions	0.2	0.4	0.4	0.4
<b>Total Liabilities</b>	<b>1,318.5</b>	<b>1,591.6</b>	<b>1,625.7</b>	<b>1,445.5</b>
Tangible Assets	270.0	327.8	282.9	297.3
Intangible Assets	168.4	179.1	176.1	174.9
Capital Work In Progress	1.4	0.0	0.2	0.7
Investments	59.5	84.7	123.4	101.5
Other Non Current Assets	76.4	68.5	67.8	75.7
Inventory	90.9	120.9	101.2	123.7
Trade Receivables	332.7	372.1	361.2	401.1
Cash and Bank Balances	119.4	19.9	7.1	4.8
Current Investments	169.2	354.9	455.6	200.5
Other Current Assets	30.6	63.7	50.0	65.4
<b>Total Assets</b>	<b>1,318.5</b>	<b>1,591.6</b>	<b>1,625.7</b>	<b>1,445.5</b>

### Cash Flow Statement

Particulars	FY19	FY20	FY21	H1FY22
Cash Flow from Operating Activities	234.8	243.4	252.6	60.7
Cash Flow from Investing Activities	(162.9)	(95.7)	(88.4)	298.6
Purchase of fixed assets and properties	(10.1)	(28.4)	(12.5)	(1.2)
Cash Flow from Financing Activities	(71.0)	(141.0)	(166.5)	(361.6)
Net Cash Flow	1.0	6.7	(2.3)	(2.3)
Opening Balance of Cash	1.2	2.1	8.9	6.6
Closing Balance of Cash	2.1	8.9	6.6	4.2

### Financial Ratios

Particulars	FY19	FY20	FY21	H1FY22
<b>Growth &amp; Margin ratios</b>				
Revenue Growth Rate (%)		14.3%	-38.3%	
EBITDA Growth Rate (%)		17.3%	-38.3%	
EBITDA Margin (%)	41.9%	43.0%	43.0%	44.6%
EBIT Margin (%)	33.9%	33.3%	26.1%	32.6%
Reported PAT Margin (%)	22.0%	25.8%	23.5%	27.3%
<b>Turnover ratios</b>				
TR Turnover Ratio (x)	2.4	2.5	1.6	
AP Turnover Ratio (x)	13.8	18.2	11.3	
FA Turnover Ratio (x)	3.0	2.8	2.0	
TA Turnover Ratio (x)	0.6	0.6	0.3	
WC Turnover Ratio (x)	0.0	1.5	1.5	
<b>Operational ratios</b>				
Current Ratio (x)	3.4	3.5	3.4	2.3
Debt to Equity (x)	0.2	0.2	0.2	0.3
Total Debt (Rs cr)	183.7	242.7	210.4	236.7
Net Debt (Rs cr)	64.3	222.8	203.3	232.0
Net Debt to EBITDA (x)	0.2	0.6	0.8	1.4
Net Debt to Equity (x)	0.1	0.2	0.2	0.3
<b>Return ratios</b>				
RoE (%)	20.0%	22.2%	12.2%	22.9%
RoA (%)	13.4%	14.9%	8.2%	13.6%
RoCE (%)	26.8%	24.6%	12.0%	
RoIC (%)	19.7%	21.3%	10.0%	
EV (Rs cr)	21,081.7	21,240.2	21,220.6	21,249.3
EV/Sales (x)	26.3	23.2	37.6	
EV/EBITDA (x)	62.8	53.9	87.3	
<b>Per share ratios (Rs/sh)</b>				
EPS	7.3	9.8	5.5	
BVPS	36.4	43.9	45.0	
OCF/sh	9.7	10.0	10.4	
FCF/sh	-8.6	9.4	7.4	
<b>Valuation ratios</b>				
P/E (x)	119.1	88.8	158.1	106.8
P/BVPS (x)	23.8	19.7	19.3	24.5
P/S (x)	26.2	23.0	37.2	29.2
EV/EBITDA (x)	62.8	53.9	87.3	66.2

Source: Choice Broking Research, RHP

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