

Vedant Fashions

BSE SENSEX
73,896

S&P CNX
22,443



VEDANT FASHIONS
— LIMITED —

Bloomberg	MANYAVAR IN
Equity Shares (m)	243
M.Cap.(INRb)/(USDb)	224.7 / 2.7
52-Week Range (INR)	1488 / 886
1,6,12 Rel. Per (%)	2/-45/-49
12M Avg Val (INR M)	315

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	13.7	15.9	19.0
EBITDA	6.6	7.9	9.6
Adj. PAT	4.1	5.0	6.1
EBITDA Margin (%)	48.1	49.3	50.2
Adj. EPS (INR)	17.1	20.5	25.2
EPS Gr. (%)	(3.5)	20.1	23.2
BV/Sh. (INR)	64.0	75.9	90.6

Ratios

Net D:E	(0.4)	(0.5)	(0.5)
RoE (%)	27.6	28.4	27.0
RoCE (%)	23.9	24.4	26.2
Payout (%)	49.8	40.0	40.0

Valuations

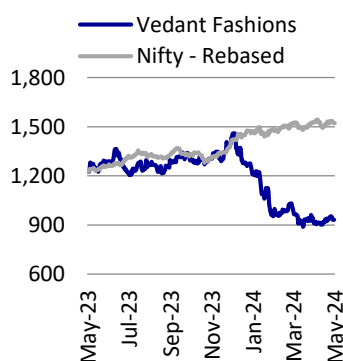
P/E (x)	55.5	46.2	37.5
EV/EBITDA (x)	35.6	29.5	23.9
EV/Sales (X)	17.1	14.5	12.0
Div. Yield (%)	0.9	0.9	1.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	75.0	75.0	84.9
DII	12.6	13.7	9.9
FII	8.1	7.7	3.4
Others	4.3	3.5	1.8

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR925

TP: INR1,010 (+9%)

Neutral

Building optimism

We met with the CEO and CFO of Vedant Fashions, Mr. Ravi Modi and Mr. Rahul Murarka. Management was confident about a demand recovery post-2QFY25 and anticipated higher contributions from the new categories.

Weak performance in the last five quarters; expect recovery from 2QFY25

The business has remained weak in FY24 due to a weak macro environment and a clustering of weddings. However, after five quarters of lackluster demand, we expect 1QFY25 to remain soft due to a fewer weddings. However, demand should pick up from 2QFY25 supported by wedding dates, higher contribution from newer categories, and a low base. The 15% store additions are likely to continue with its current penetration in 255 cities. The company's fundamentals were strong, with a 1% YoY revenue growth in FY24 that led to only 3% YoY decline in PAT. Additionally, the return ratios remained robust, with RoE/RoCE at 28%/53% (pre Ind-AS 116).

Key highlights from the meeting

The company stated that after five quarters of lackluster demand, it will start picking up in 2QFY25 due to wedding dates as per the Hindu and South Indian calendars. Management also stated that although FY17–18 and the Covid era (FY21–22) witnessed a weak wedding season and a muted environment, Manyavar recovered strongly in the following year. Management is confident about its competitive positioning vs. both unorganized and organized players. In addition, it plans to launch a new brand with an ASP range of INR1,000–3,000 that will be available online and through MBOs. Management also anticipates higher growth from the new categories, Mohey and Twamev, which are seeing good traction with increasing contributions from the flagship and new standalone stores. The franchisee owners are satisfied with Vedant Fashions and the company has not seen any reduction in count during FY24.

Valuation and view

- Manyavar has successfully achieved scale within the men's celebration and occasion wear markets, which is difficult to replicate.
- While the company has a healthy runway for growth with footprint additions in Manyavar, coupled with expansions in Mohey (women's celebration wear) and Twamev (premium celebration wear), weak consumption remains a concern.
- The stock has corrected 37% from its 52-week high (in Dec'23) owing to a weaker revenue trajectory. Assuming a recovery in 2HFY25 and building in a 22% PAT CAGR over FY24-FY26, we believe the stock is fairly priced given the slowdown in consumption. Demand recovery and scaling up of emerging brands would remain the key catalysts for the stock.
- The stock is currently trading at 38x on FY26E. We are factoring in 18%/22% revenue/PAT CAGR over FY24-26E. **Reiterate Neutral with a TP of INR1,010, valuing the stock at 40x FY26E P/E.**

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Exhibit 1: Valuation based on P/E for FY26E

Valuation	FY26E
EPS	25
PE multiple (x)	40
Target Price (INR)	1,010
CMP (INR)	925
Upside (%)	9%

Source: MOFSL, Company

Key highlights from the meeting**Management confident about the recovery from 2QFY25 onwards**

- Management appears optimistic that demand will rebound beginning in 2QFY25, following five quarters of weak demand.
- This will be on the back of wedding dates as per the Hindu and South Indian calendars (South contributes 40% of sales).
- Management stated that although FY17–18 and the Covid era (FY21–22) witnessed a weak wedding season and a muted environment, Manyavar recovered strongly in the following year. Considering the previous five weak quarters, the company anticipates stronger growth beginning in 2QFY25.

No significant effect of rivalry

- The company has opened more stores in Tier 1 than Tier 2/3 cities, while the impact has mostly been seen in Tier 2 and 3 cities. Hence, the company has grown in Tier 1 irrespective of the competition.
- Further, management estimates that a new brand will take at least four to five years to achieve scale, since improving conversion metrics and liquidation take time. Tasva and Ethnix by Raymond have opened in the last one to two years.
- The company has always encountered competition from unorganized players and is well-equipped to handle it.

Store expansion

- The company continues to target 15% area additions with single-digit SSSG.
- It expects new business (Mohey, Twamev, and Manthan) SSSG to grow higher compared to Manyavar, which could be due to their lower sizes. Further, the area allocation will be higher towards the new businesses.
- The major focus of the company will be to penetrate the current cities (255 cities) and to expand the reach to 300 cities.
- The company has consolidated around 50-60 small-sized stores (of less than 1,000 sqft). It consolidated them into bigger stores of 3,500 sqft.

Introducing a new brand at lower price points

- The company is targeting a mass-market segment with a new brand (name not declared), having an ASP of INR1,000-3,000 (even lower than Manthan).
- The company will initially concentrate just on kurta.
- The distribution chain would not use Manyavar's stores; instead, it will only concentrate on the online and MBO sales.
- It will be more of a festive-wear brand, slightly different than wedding wear (Manthan).
- The company has around 120 SIS and 1,000 MBO, which it will leverage and sell outright.

Mohey segment: 90% of Manyavar's productivity

- The productivity (revenue per sqft) of the Mohey segment is around 90% of Manyavar's productivity. Regarding LFL growth in FY24, the Mohey division has outperformed Manyavar.
- The company has been leveraging the Manyavar store size by allocating 35% of the space for Mohey (vs. 25% last year). It is targeting to take this to 50% going forward.
- The EBO size for Mohey will be 4,000-5,000 sqft (vs. 3,500 sqft for Manyavar). The showcase of Lehanga, etc. will require larger store size.
- Currently, the revenue mix of non-Manyavar brands is 18-20% and the company would take the mix to 30%.
- Mohey's revenue could be in the ballpark range of INR1.5-2.0b.
- The conversion rate is lower than Manyavar due to women's wear, but is improving. The conversion rate would be 70%.
- The company has a different designing team for Mohey.

Twamev segment

- The price points are 2.5x of Manyavar and will continue to remain higher.
- There are two opportunities in Twamev: a) upgrading customers from Manyavar, and b) launching new stores.
- The TAM for Twamev is ~20% of the Manyavar market opportunity.
- The gross margins for Twamev and Mohey are above 65%, but are lower than Manyavar. The company will increase the margins going forward.
- The audience overlap with Manyavar is ~25%.

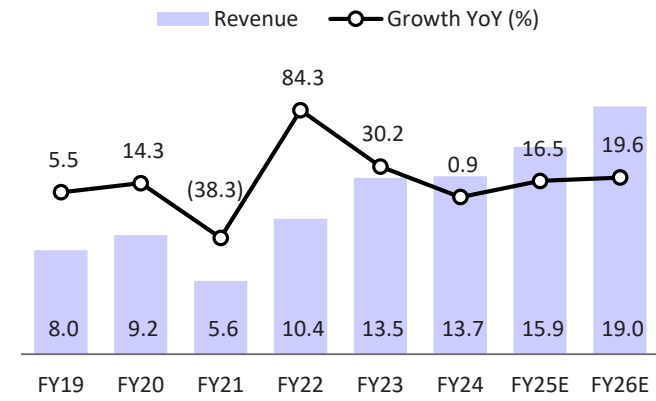
Others

- **Ad spending:** The company continues to spend around 5-6% towards advertising.
- **Acquisition:** The company has not planned any acquisition as yet. But it will be interested if any good opportunity arises.
- The company **does not want to expand the Mebaz** segment and it will be in the South region only.

Sales mix

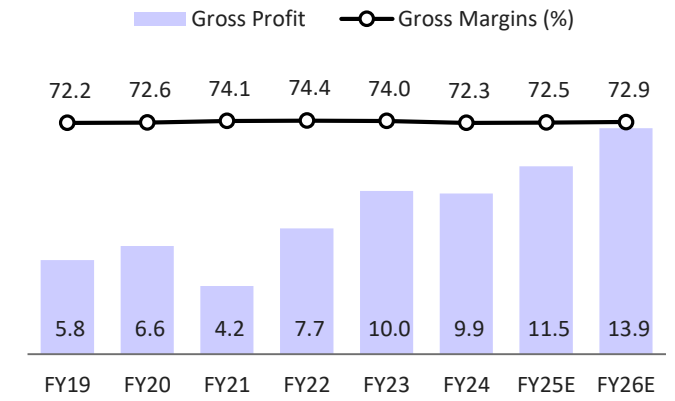
- About 80-85% of the company's business originates directly or indirectly from wedding.
- South contributes 40% of the sales.
- Indo-sherwani was down 30% (due to weak wedding schedule), when the SSS declined 10%.

Exhibit 2: Expect revenue CAGR of 18% over FY24-26



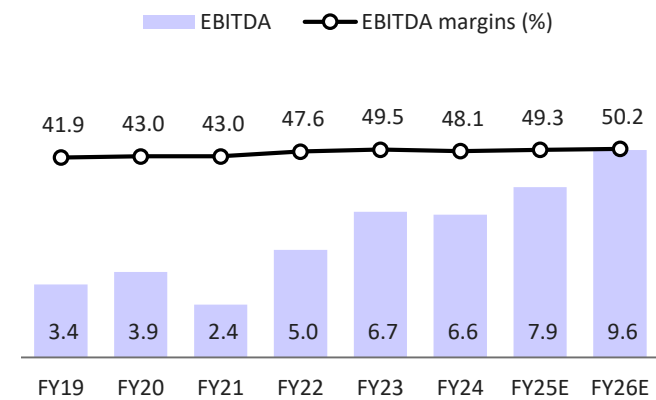
Source: MOFSL, Company

Exhibit 3: Expect GP CAGR of 19% over FY24-26



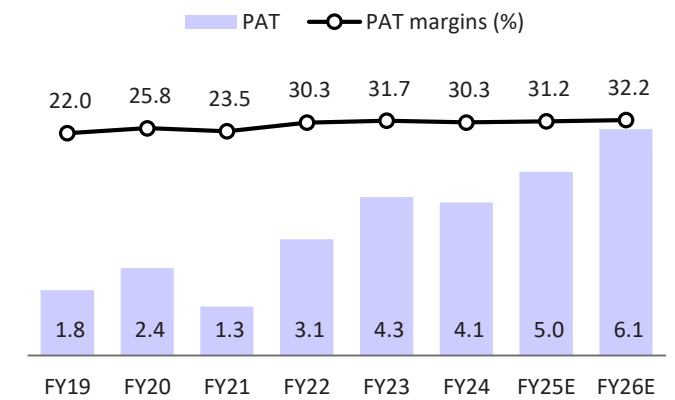
Source: MOFSL, Company

Exhibit 4: Expect EBITDA CAGR of 21% over FY24-26



Source: MOFSL, Company

Exhibit 5: Expect PAT CAGR of 22% over FY24-26



Source: MOFSL, Company

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	8,007	9,155	5,648	10,408	13,549	13,675	15,925	19,047
Change (%)	5.5	14.3	-38.3	84.3	30.2	0.9	16.5	19.6
Raw Materials	2,226	2,512	1,463	2,668	3,519	3,792	4,379	5,162
Gross Profit	5,782	6,643	4,185	7,740	10,030	9,883	11,546	13,885
Margin (%)	72.2	72.6	74.1	74.4	74.0	72.3	72.5	72.9
Gross Profit (Incl Job Work)	5,204	5,981	3,770	6,958	9,127	9,186	10,750	12,952
Margin (%)	65.0	65.3	66.8	66.9	67.4	67.2	67.5	68.0
Employees Cost	472	533	381	575	566	568	669	800
Other Expenses	1,951	2,173	1,373	2,206	2,755	2,735	3,026	3,524
Total Expenditure	4,649	5,218	3,218	5,450	6,841	7,094	8,074	9,485
% of Sales	58.1	57.0	57.0	52.4	50.5	51.9	50.7	49.8
EBITDA	3,358	3,938	2,431	4,959	6,708	6,581	7,851	9,561
Margin (%)	41.9	43.0	43.0	47.6	49.5	48.1	49.3	50.2
Depreciation	643	887	955	944	1,038	1,349	1,608	1,936
EBIT	2,715	3,050	1,475	4,015	5,671	5,232	6,243	7,626
Int. and Finance Charges	196	256	258	284	315	445	637	949
Other Income	191	324	602	499	402	697	1,045	1,515
PBT bef. EO Exp.	2,709	3,118	1,819	4,230	5,758	5,484	6,651	8,192
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	2,709	3,118	1,819	4,230	5,758	5,484	6,651	8,192
Total Tax	945	752	490	1,081	1,467	1,342	1,676	2,064
Tax Rate (%)	34.9	24.1	26.9	25.6	25.5	24.5	25.2	25.2
Reported PAT	1,764	2,366	1,329	3,149	4,291	4,142	4,975	6,128
Adjusted PAT	1,764	2,366	1,329	3,149	4,291	4,142	4,975	6,128
Change (%)	20.2	34.1	-43.8	136.9	36.3	-3.5	20.1	NA
Margin (%)	22.0	25.8	23.5	30.3	31.7	30.3	31.2	32.2

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	250	250	248	243	243	243	243	243
Total Reserves	8,577	10,410	10,666	10,585	13,756	15,776	18,761	22,438
Net Worth	8,828	10,660	10,914	10,827	13,999	16,019	19,004	22,680
Total Loans	1,837	2,427	2,104	2,787	2,934	4,444	5,140	5,400
Lease Liabilities	1,837	2,427	2,104	2,787	2,934	4,444	5,140	5,400
Deferred Tax Liabilities	90	81	147	168	197	219	219	219
Other Liabilities	1,046	1,160	1,201	1,335	1,539	1,855	1,855	1,855
Capital Employed	11,801	14,328	14,367	15,118	18,669	22,537	26,218	30,154
Gross Block	4,961	5,972	6,345	7,845	8,941	11,719	13,515	15,612
Less: Accum. Deprn.	745	1,062	1,912	2,856	3,894	5,242	6,530	8,466
Net Fixed Assets	4,216	4,909	4,432	4,989	5,047	6,477	6,985	7,146
Other Non-Current	921	836	820	867	882	320	320	320
Capital WIP	25	3	4	1	22	1	1	1
Total Investments	2,287	4,397	5,790	5,608	8,501	10,410	10,410	10,410
Curr. Assets, Loans&Adv.	5,737	5,765	5,195	6,219	7,201	7,875	11,920	16,347
Inventory	909	1,209	1,012	1,430	1,736	1,386	1,614	1,930
Account Receivables	3,327	3,721	3,612	3,967	4,734	5,645	6,108	7,306
Cash and Bank Balance	1,194	199	71	39	100	217	3,560	6,350
Loans and Advances	306	637	500	783	630	627	637	762
Curr. Liability & Prov.	1,384	1,588	1,890	2,580	2,991	2,550	3,422	4,075
Account Payables	581	504	499	730	859	891	1,029	1,213
Other Current Liabilities	801	1,080	1,387	1,845	2,130	1,656	2,389	2,857
Provisions	2	4	4	4	2	3	4	5
Net Current Assets	4,352	4,178	3,305	3,639	4,210	5,325	8,498	12,273
Deferred Tax assets	0	6	16	13	7	4	4	4
Appl. of Funds	11,801	14,328	14,367	15,118	18,669	22,537	26,218	30,154

Financials and valuation

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	7.0	9.4	5.4	13.0	17.7	17.1	20.5	25.2
Cash EPS	9.6	13.0	9.1	16.3	21.3	21.9	26.3	32.2
BV/Share	35.2	42.6	43.6	43.2	55.9	64.0	75.9	90.6
DPS	0.0	0.0	0.0	5.0	9.0	8.5	8.2	10.1
Payout (%)	0.0	0.0	0.0	38.5	50.9	49.8	40.0	40.0
Valuation (x)								
P/E	131.3	97.9	172.5	71.3	52.3	54.2	45.1	36.6
Cash P/E	96.2	71.2	101.4	56.6	43.5	42.2	35.2	28.7
P/BV	26.2	21.7	21.2	21.4	16.5	14.5	12.2	10.2
EV/Sales	29.0	25.5	41.0	21.8	16.8	16.7	14.2	11.7
EV/EBITDA	69.2	59.4	95.2	45.8	33.9	34.8	28.8	23.4
Dividend Yield (%)	0.0	0.0	0.0	0.5	1.0	0.9	0.9	1.1
FCF per share	9.1	9.0	10.8	14.9	19.6	20.0	25.9	26.6
Return Ratios (%)								
RoE	22.3	24.3	12.3	29.0	34.6	27.6	28.4	27.0
RoCE	21.3	21.6	11.6	25.2	29.6	23.9	24.4	26.2
RoIC	24.4	25.7	11.8	33.3	43.3	36.0	38.7	44.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.6	1.5	0.9	1.3	1.5	1.2	1.2	1.2
Asset Turnover (x)	0.7	0.6	0.4	0.7	0.7	0.6	0.6	0.6
Inventory (Days)	149	176	253	196	180	133	135	137
Debtor (Days)	152	148	233	139	128	151	140	140
Creditor (Days)	95	73	124	100	89	86	86	86
Leverage Ratio (x)								
Current Ratio	4.1	3.6	2.7	2.4	2.4	3.1	3.5	4.0
Interest Cover Ratio	13.8	11.9	5.7	14.1	18.0	11.8	9.8	8.0
Net Debt/Equity	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5

Consolidated - Cash Flow Statement								(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
OP/(Loss) before Tax	2,709	3,118	1,819	4,230	5,758	5,484	6,651	8,192	
Depreciation	643	887	955	944	1,038	1,349	1,608	1,936	
Interest & Finance Charges	196	256	258	284	315	454	637	949	
Direct Taxes Paid	-954	-750	-345	-1,090	-1,472	-1,301	-1,676	-2,064	
(Inc)/Dec in WC	-67	-804	399	-450	-569	-498	170	-986	
CF from Operations	2,528	2,707	3,087	3,918	5,070	5,488	7,390	8,027	
Others	-179	-273	-561	-408	-372	-657	-1,045	-1,515	
CF from Operating incl EO	2,348	2,434	2,526	3,510	4,698	4,831	6,345	6,511	
(Inc)/Dec in FA	-73	-184	151	109	57	13	-50	-50	
Free Cash Flow	2,276	2,250	2,677	3,619	4,755	4,844	6,295	6,461	
(Pur)/Sale of Investments	-463	-1,445	-1,424	37	-2,492	-1,149	0	0	
Others	-1,093	672	389	418	116	41	1,045	1,515	
CF from Investments	-1,629	-957	-884	565	-2,319	-1,096	995	1,465	
Issue of Shares	0	0	-1,084	47	15	31	0	0	
Inc/(Dec) in Debt	-127	0	0	0	0	0	0	0	
Interest Paid	-155	-211	-207	-223	-241	-337	-637	-949	
Repayment of loan	0	-604	0	0	0	0	353	0	
Others	-428	-595	-373	-3,928	-2,091	-3,310	-3,713	-4,239	
CF from Fin. Activity	-710	-1,410	-1,665	-4,105	-2,317	-3,616	-3,997	-5,187	
Inc/Dec of Cash	10	67	-23	-30	62	119	3,343	2,789	
Opening Balance	12	21	89	66	36	98	217	3,560	
Closing Balance	21	89	66	36	98	217	3,560	6,350	
Other Bank Balance	1,173	110	5	3	3	0	0	0	
Net Closing Balance	1,194	199	71	39	100	217	3,560	6,350	

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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