Vedant Fashion Ltd- The Titan of Wedding Retail? – Satwik Jain

Incorporated in 2002, Vedant Fashions Ltd. (VFL) is the only pan India franchisee in the Indian wedding and celebration wear segment in a market having regional players. It offers one stop destination with wide array of offering across its 5 brands – i) Manyavar, ii) Mohey, iii) Mebaz, iv) Manthan, and v) Twamev.

India is a land of festivals that celebrates weddings in glorious ways. VFL benefits from the 3-5 days wedding culture in the country (estimated to have ~1 crore weddings every year) giving it the scope to sell multiple products to a single customer. The shift towards ready-made wear due to quick and enhanced product experience while compared to tailor-made also provides a huge scope for growth.

We are optimistic on Manyavar due to-

1) Optionality through Mohey- Mohey took 5 yrs to reach 90 cr, Manyavar took 9 yrs. Mohey TAM is 10x Manyavar, we feel if the management cracks the women wedding market right, there could be exponential hyper scaling in store
2) Differentiated business model through franchises-royalty on the growth of others
3) High quality forensics- implying shareholder friendliness
4) Performance indicators against leading consumer brands show power of monopoly- best in class growth , ROCE, revenue CAGR

Watch webinar here:- https://youtu.be/FQp--v8y7Ew

Long term view- what happens globally, happens in India

India is at the cusp of multi-year consumption boom with per capita GDP crossing $2000. Historically we have witnessed massive consumption and equity markets boom in countries in the journey from 2000 to $10000/capita.

The Long Term View - What Happens globally, happens in India

South Korea 13 Years

Year	Per-Capita	Growth
1994	**$10,385**	**16.89%**
1993	$8,885	9.33%
1992	$8,127	6.41%
1991	$7,637	15.54%
1990	$6,610	13.63%
1989	$5,817	22.50%
1988	$4,749	33.59%
1987	$3,555	25.39%
1986	$2,835	14.20%
1985	$2,482	2.86%
1984	$2,413	9.75%
1983	$2,1999	10.36%
1982	**$1,993**	**5.79%**

China 15 Years

Year	Per-Capita	Growth
2019	**$10,217**	**2.41%**
2018	$9,997	12.36%
2017	$8,879	8.96%
2016	$8,148	1.00%
2015	$8,067	5.06%
2014	$7,679	8.91%
2013	$7,051	11.62%
2012	$6,317	12.44%
2011	$5,618	23.46%
2010	$4,550	18.74%
2009	$3,832	10.49%
2008	$3,468	28.74%
2007	$2,694	28.33%
2006	$2,009	19.72%
2005	**$1,753**	**16.22%**

Japan 13 Years

Year	Per-Capita	Growth
1981	**$10,360**	**9.48%**
1980	$9,463	3.95%
1979	$9,104	3.21%
1978	$8,821	39.23%
1977	$6,335	21.89%
1976	$5,198	11.19%
1975	$4,674	7.36%
1974	$4,354	9.54%
1973	$3,975	33.96%
1972	$2,967	30.59%
1971	$2,272	10.50%
1970	$2,056	22.05%
1969	**$1,685**	**16.08%**

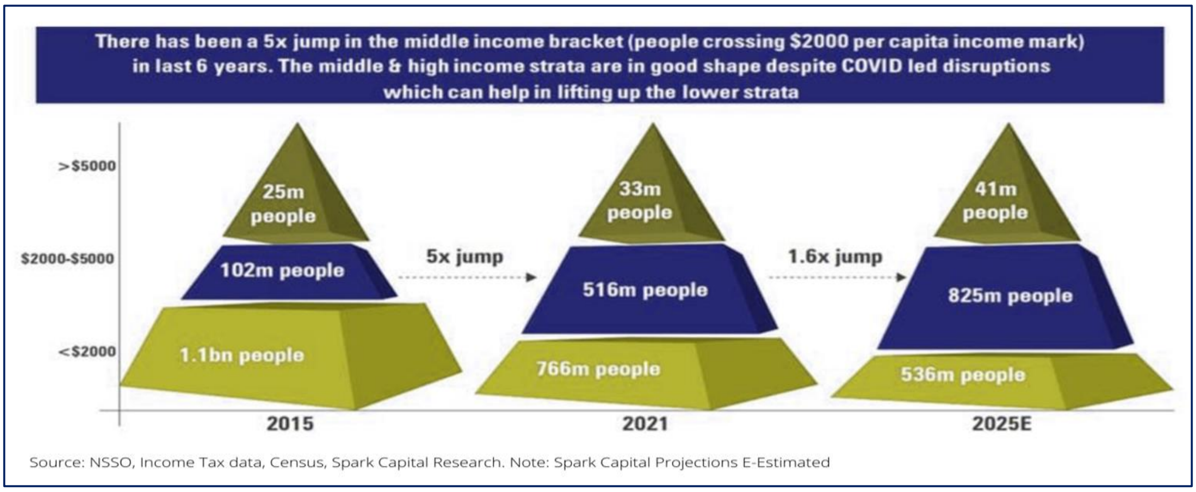
USA 23 Years

Year	Per-Capita	Growth
1978	**$10,565**	**11.77%**
1977	$9,453	10.01%
1976	$8,592	10.14%
1975	$7,801	7.97%
1974	$7,226	7.42%
1973	$6,726	10.38%
1972	$6,094	8.64%
1971	$5,609	7.17%
1970	$5,234	4.01%
1969	$5,032	7.16%
1968	$4,696	8.29%
1967	$4,336	4.59%
1966	$4,146	8.33%
1965	$3,828	7.10%
1964	$3,574	5.91%
1963	$3,575	4.02%
1962	$3,244	5.78%
1961	$3,067	1.96%
1960	**$3,007**	**1.98%**

India last 20 Years

Year	Per-Capita	Growth
2020	**$1,901**	**-9.52%**
2019	$2,101	5.20%
2018	$1,997	0.82%
2017	$1,981	14.32%
2016	$1,733	7.91%
2015	$1,606	2.02%
2014	$1,574	8.57%
2013	$1,450	0.40%
2012	$1,444	-0.98%
2011	$1,458	7.41%
2010	$1,358	23.20%
2009	$1,102	10.36%
2008	$999	-2.90%
2007	$1,028	27.47%
2006	$807	12.85%
2005	$715	13.87%
2004	$628	14.82%
2003	$547	16.08%
2002	$471	4.30%
2001	$452	1.86%
2000	**$443**	**0.30%**

As their needs for "roti,kapda,makaan"are satisfied people increasingly spend on aspirational and discretionary goods, leading to a Lalapalooza effect. My sense is India would take between 18-25 years to reach this figure given our growth rates. We cannot waste this opportunity buying companies growing at 5-10% and should look at blitz scalers with ability to double profits in 3-4 years.



Patterns of successful retailers- "Many ways to reach god, only one way to reach moksha- growth & ROCE"

Retailing is a very tough business given challenges of right product market fit, real estate, store level unit economics. In my view there are only handful of successful retailers due to their focused strategies

- D Mart - ELDP strategy & calibrated expansion
- RELAXO - INR 10 margin strategy targeting flee market crowd
- TRENT - Value migration from Sarojini Nagar to mall at same price point
- Manyavar - cornering both supply and demand side leading to category creation
- Others: METRO SHOES, V MART, ADITYA VISION, JUBILANT FOODWORKS, TANISHQ

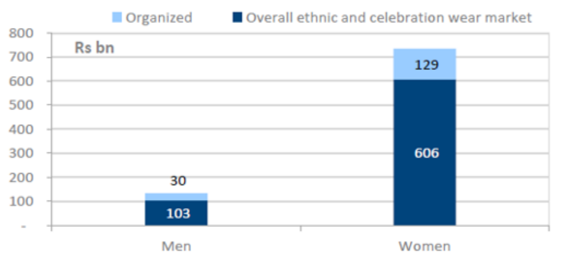
Company background

Founded by the iconic retailer, Mr. Ravi Modi 2002, Vedant Fashions Ltd. (VFL) is the only pan India franchisee in the Indian wedding and celebration wear segment in a market having regional players. It offers a one-stop destination with a wide-spectrum of product offerings for every celebratory occasion through its 5 brands – i) Manyavar, ii) Mohey, iii) Mebaz, iv) Manthan, and v) Twamev catering to different segments in terms of price points. As of FY 22, ~90% of its sales was generated from franchisee owned EBOs and the rest by MBOs, large format stores (LFS) and online platforms.

Total Addressable Market Construct- Very similar to Titan

Jewelry market is highly fragmented with 70% organized industry with largest organized player having only 10% market share and 2nd largest player having 5%

Jewellery industry (FY20)	
Overall industry size (Rs bn)	4,800
Organised share	32%
Organised jewellery industry size (Rs bn)	1,536
Titan's jewellery sales (Rs bn)	167
Titan's market share	10.9%
Kalyan's jewellery sales (Rs bn)	78
Kalyan's market share	5.1%



The construct in INR 133 billion Men's wedding wear market is similar. Organized players comprise 20-25% . The Indian women's wedding and celebration wear market is estimated at Rs735bn, with an even lower contribution from organized players, at ~15-20%. VFL with ~1000 cr sales has around 10% of organized market, ie 26x of its next competitor in men's Jahapanah with 40% EBITDA margins where others do not even touch double digits.

Decimating competition- Not the number one, but only one

Despite a large presence in the men's wear space, VFL boasts of sales that are ~1.6x that of the second-largest organized player in wedding and celebration wear – Nalli, which predominantly occupies the larger, women's wear space. Within men's wedding and celebration wear, VFL's sales are 26x that of second-largest player Jahanpanah Clothing. Further, while EBITDA margin of VFL is impressive at ~40%, that of the rest of the players does not even touch the double-digit.

Indian wedding and celebration wear women's brands	Revenue range (FY 20 in ₹ in million)	Indian wedding and celebration wear men's brands
	>7,000	Manyavar
Nalli	>3,000 to <= 7,000	
NEERU'S, SABYASACHI, RITU KUMAR, ANITA DONGRE	>1,000 to <=3,000	
Mebaz, Mohey, TANEIRA, MBZIN, SHANTANU & NIKHIL	<= 1,000	Jahanpanah, Mebaz, ethnix, MANTHAN, twamev, SWAYAMVAR

Company (Rs mn)	Revenues	PAT	ROCE
VFL	9,182	2,366	41%
NSSPL	5,772	266	29%
RPL	2,877	(140)	-5%
NEPL	2,180	50	9%
JCPL	355	2	32%
TCNS	11,490	694	21%
BIBA	7,990	270	12%
SOCH	3,320	20	7%
JLIL	2,552	62	14%

The secret sauce of quality growth- "franchises"- royalty on the growth of others

VFL follows a franchisee-owned franchisee-operated model, wherein the nitty-gritties of handling store operations are taken care of by the franchisee so that VFL can focus on the more complex aspects of branding, assortment, up-to-date designs, new store openings, etc. **This is similar to Titan's approach, wherein 2/3rds of its sales come from stores operated by franchisees.**

Also, both Titan & VFL, via their franchisees, have been able to command extensive town coverage of 231 & 222 cities/towns, respectively, in India.

VFL has two franchisee models:

• One, where VFL bears the rental costs, and margins given to the franchisee are lower, at 18%.

• Two, where the franchisee bears the rental costs, and margins given to the franchisee are higher, at 29.5%.

Typical payback periods of franchises are 3-3.5 years leading to IRR of 20-24% making compelling business propositions. Proof of concept- more than 90% sales are from franchises, 75% franchises are more than 3 years old, 2/3rd franchises operate more than two stores

Optionality- Expanding into adjacencies with everyday festivity wear (Manthan), women(Mohey), HNI Segment (Twamev)

The women wedding wear segment is 10x that of men's with higher margins & ASP. My blue sky scenario is VFL cracking this market

Proof of concept - Mohey took 5 years to reach 90 cr., Manyavar took 9 years.

Management said on con call they will go into hyper-scaling mode once they reach INR 10000/sq feet from Mohey stores, currently they are between 6000-7000

That might be the pivot

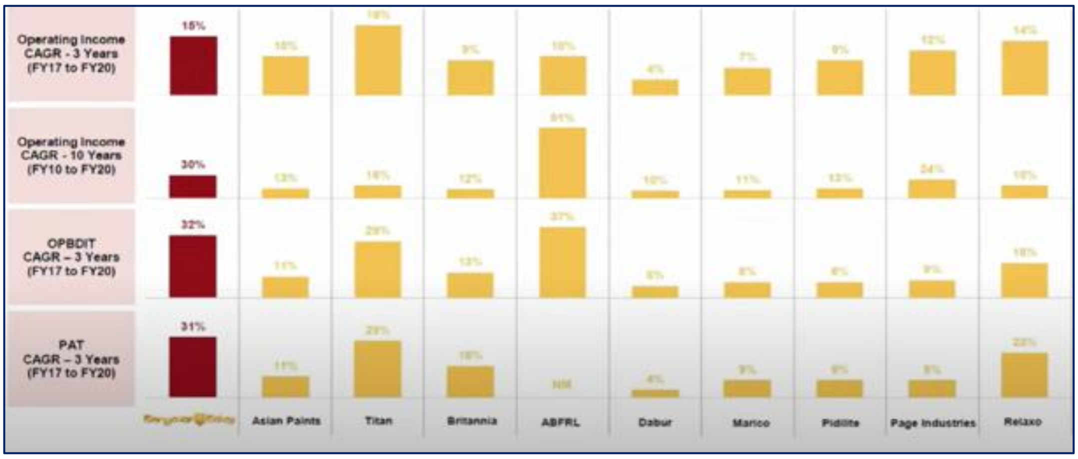
Forensics of very high-quality implying shareholder friendliness

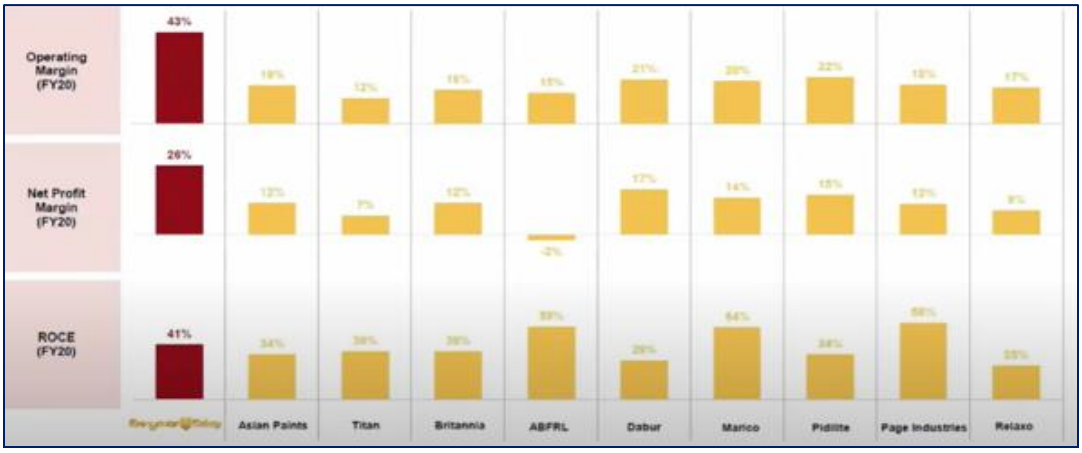
We run a 20 ratio forensics analysis on the accounts of any potential investment along with a 150 key word fraud search to check the background and willing of promoters to share wealth with minority shareholders. We could not find any anomaly there except some minor tax related issues.

Description	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
Sales growth	-38%	14%	6%	26%	19%	
Write off/ provisions/ >6 months receivables	0.80%	0.40%	0.10%	0.10%	0.00%	0.10%
Receivables/Sales	64%	41%	42%	42%	31%	21%
PBT/CFO	71%	134%	157%	442%	444%	162%
Reinvestment rate	35%	39%	92%	533%	58%	28%
Cash yield	35%	23%	4%	29%	80%	2%
Contingent liabilities/ net worth	0.10%	0.10%	0.00%	0.00%	0.40%	0.00%
ROIC	28%	40%	33%	34%	54%	65%
Goodwill/net worth	1%	1%	2%	2%		
Auditor CAGR	-17%	12%	8%	9%		
Misc. expenses/Sales	6%	4%	4%	3%	20%	
Consol/SL						
Sales	104%	100%	101%	100%	100%	100%
Operating profit	1.29029	1.07094	1.06978	1.03633	1.0166	1.01229
PBT	102%	97%	100%	99%	100%	100%
Tax	100%	100%	100%	100%	100%	100%
CFO	100%	101%	99%	101%	100%	100%

Performance indicators against leading consumer brands show power of monopoly- best in class growth, ROCE, revenue CAGR

"There is no capex, there is no fixed expense other than corporate head office salary. Every rupee of working capital can generate an equal rupee of PAT, with 90-95 percent free cash flow. Only Unilever will have a ROCE (return on capital employed) of 100 percent, and we might be the second, and within a year or two, we will be at more than 100 percent."- Ravi Modi to Forbes





If you have any queries (about your portfolio, Generational Capital or investing in general, do reach out to me at satwik@generationalcapital.in

Best regards,
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