

1st December 2023

Vedant Fashions Ltd. – BUY

CMP : Rs. 1,363
Target Price : Rs. 1,595
Upside : 17%
Stop Loss : Rs. 1,240 (Closing basis)

Investment Thesis

- VFL is primarily engaged in manufacturing and trading of readymade garments being men's ethnic wear such as sherwanis, indo-western, kurtas, suits etc. and women's ethnic wear such as lehanga, saree, suit, kurti, etc. and related accessories under the brand names – Manyavar, Twamev, Manthan, Mohey and Mebaz. VFL has a PAN India presence across 250 cities and 640 Stores establishing a strong brand presence in the highly underpenetrated and unorganized market.
- VFL has a diversified brand portfolio including homegrown and acquired. In the men's wear, company has brands Manvyavar catering to Mid-premium segment, Twamev - Premium wear and Manthan catering to the Value segment and for Women's category – Mohey for mid-premium segment. Mebaz, acquired in 2018 caters to Men, Women and kids wear with strong focus in the South market
- The company operates on a Technology based supply chain network and has demonstrated strong execution capabilities. VFL has implemented innovative technology initiatives at the front-end and backend of the operations, including procurement, manufacturing, distribution, and supply chain operations.
- VFL operates through an Asset light approach through Franchisee model which is either COFO model (company owned and franchisee operated) accounting for nearly 60% of total EBOs and FOFO (Franchisee owned and Franchisee operated).

Financials

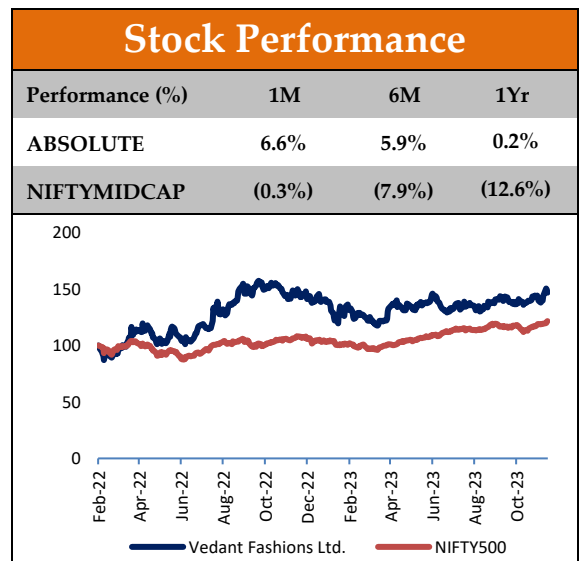
- VFL reported a subdued quarter, due to low number of weddings in H1FY24, although, positive trends are expected post the onset of Navratri. Total sales to customers grew 59% in Q2FY24 as compared to Q2FY20. VFL reported industry-leading gross margins of around 66.6% and healthy PAT margin of 26.5% in H1FY24. The management is confident that the H2 will bring in positive outlook for growth and expect a double-digit growth in FY24.

| Particulars | FY20 | FY21 | FY22 | FY23 | FY24E |
|-----------------------|------|------|-------|-------|-------|
| Revenue (Rs. in Crs) | 916 | 565 | 1,041 | 1,355 | 1,436 |
| EBITDA (Rs. in Crs) | 394 | 243 | 496 | 671 | 603 |
| Adj. PAT (Rs. in Crs) | 237 | 133 | 315 | 429 | 373 |
| Adj. EPS (Rs.) | 9.75 | 5.47 | 12.96 | 17.65 | 17.37 |
| PE Multiple (x) | 144x | 256x | 108x | 79x | 91x |
| RoE (%) | 23% | 12% | 30% | 31% | 27% |

| Stock Data | |
|-----------------------|---------------|
| Market Cap (Rs. Crs) | 33,121 |
| Market Cap (\$ Mn) | 3,973 |
| Shares O/S (in Mn) | 243.0 |
| Avg. Volume (3 month) | 16,80,600 |
| 52-Week Range (Rs.) | 1,448 / 1,058 |

| Shareholding Pattern | |
|----------------------|---------|
| Promoters | 74.99 % |
| FII's | 6.68 % |
| Institutions | 14.88 % |
| Public | 3.46 % |

| Key Ratios | |
|-------------|---------|
| Div Yield | 0.64% |
| TTM PE | 84.9x |
| ROE | 34.0% |
| TTM EPS (₹) | 16.47/- |



- The PAT margin stood at 22.3% and the profit after tax was at Rs. 487 Cr during Q2FY24.
- The e-commerce channel recorded a strong growth with 8% - 10% share in products under Rs. 4,000. VFL witnessed an SSSG growth of 21.3% in Q2FY24 as compared to pre-covid period of Q2FY20.

Key Business Highlights

- VFL operates through 669 EBOs which are operated on the basis of lease or franchisee, 145 large format stores (LFS), and 825 multi-brand outlets (MBOs). Almost 300 of its EBOs are franchisees in India and 16 EBOs overseas across the United States, Canada, and the UAE. It has added net 7 / 66 stores in Q2FY24 / FY23, taking the total store count to 649. The total EBO area stands at 1.59 Mn Sq.ft.
- The company generated a high cash conversion ratio of around 83% in FY23, based on operating cash flow over PAT during the period.
- A consistent 15% compound annual growth rate in footprint addition over FY23-25 and 5% SSSG should translate into consolidated revenue/Ebitda CAGRs of 20%/21%.
- VFL expects to launch the Phase 2 of its digital transformation in the next 2- 3 months. It will look to integrate online demand with offline stores to improve offerings and experience.

Valuation

Vedant Fashions currently trades at a PE of 85x as compared to the Industry PE of 60.4x, which indicates that the company is available at reasonable valuations. The ROCE stands at healthy level at 39.8%. Strong product portfolio coupled with excellent execution backed by robust technology, indicates that VFL is well poised for growth going forward.

We are ascribing a **BUY** rating for Vedant Fashions with a **Target Price of Rs. 1,595**, translating in an **upside of 17%**. (Valuing the stock at 96x PE on FY25E EPS of 16.60).

Risk & Concern

- The discretionary spending is witnessing a slowdown due to stressful inflationary environment. A continued ongoing of the same and a delay in demand recovery can pose a threat impacting the business.
- The company has positioned itself as a Women's Celebration brand. Mohey brand can be a new growth driver for Vedant. Any delay in scale up of Mohey can hamper the growth and profitability.
- The Wedding wear market is dominated by unorganized players. Vedant hence, faces intense competition from small unorganized players as well as other branded players such as Raymond (Ethnix) and ABFRL, causing some pressure on the pricing.

Graphs & Charts

Figure 1: Net Sales Trend

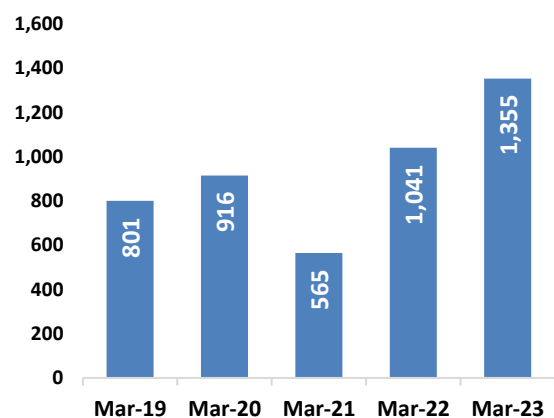


Figure 2: EBITDA & EBITDA Margin Trend

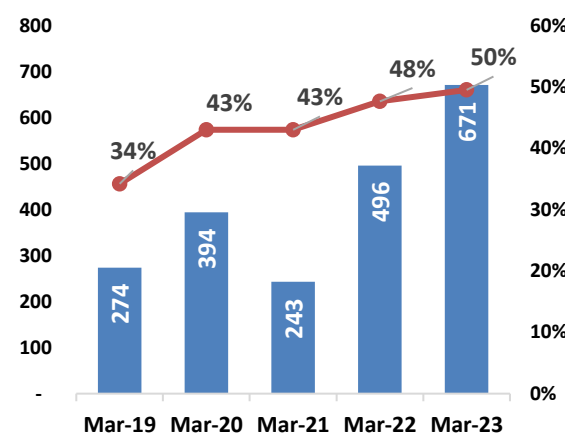


Figure 3: PAT Trend

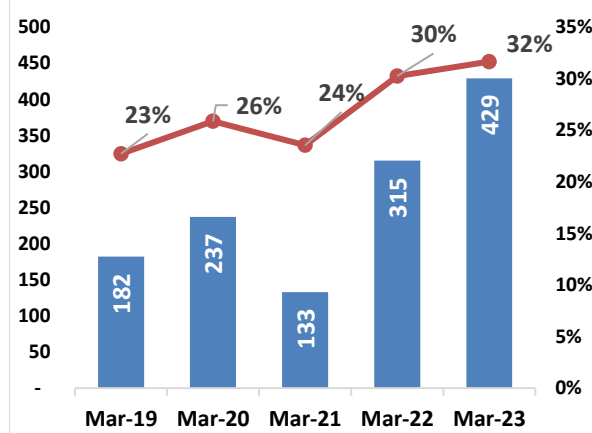
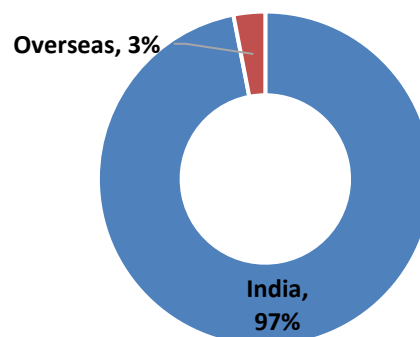


Figure 4: Geography-wise Revenue (FY23)



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