

# The Mandhana Retail Ventures Ltd.


**CMP: 172.2**
**Invest in Being Human....**
**BUY**

Nifty	7908
Sensex	25807
Nifty PE	21.36
Sensex PE	20.17

## Stock Data

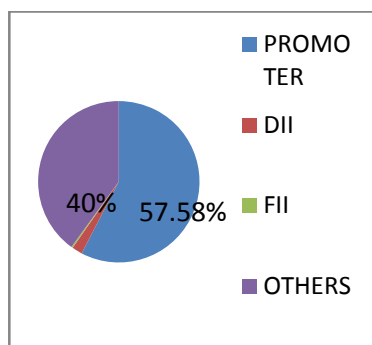
Sector	Other Apparels
BSE Code	540210
NSE Code	TMRVL
FV	10.0
Market Cap (INR cr)	397
Market Cap (US\$ mn)	59
Equity Share Cap.(INR cr)	22.08

## Stock Performance (%)

52-week high/low 165/246

	1M	6M	12M
Absolute (%)	NA	NA	NA

## Shareholding Pattern (%)



## Sensex & Stock Movements

NA

- The Mandhana Retail Ventures Ltd (TMRVL)**, under **young and dynamic** leadership of **Mr. Manish Mandhana**, has signed a global exclusive Trademark Licence Agreement with **Bollywood Superstar Salman Khan's Being Human Foundation** to design, manufacture, retail and distribute men's wear, women's wear, children's wear and accessories under "**Being Human**" trademark until March 2020.
- In December, 2010 **Mandhana Industries Ltd (MIL)** had entered into **global Licence Agreement with "Being Human- The Salman Khan Foundation"** to use the Trademark and Brand logo of "**Being Human**" for all clothes range/ Clothing line.
- However, with a view to **unlock the value of the Retail and Branded business**, MIL **demerged** the Being Human Retail Division to **TMRVL** in which Shareholders of Mandhana received **2 equity shares of TMRVL** for every **3 equity shares held in the Company**.
- TMRVL** currently distributes **Being Human** clothing through **537 retail selling points**. The company's distribution network comprises of **28 company owned exclusive brand outlets, 29 franchisee owned exclusive brand outlets including 4 overseas stores, 253 point of sale in shop-in-shops forming part of the large format stores and multi-brand outlets, 12 distribution partners catering to 220 retailers and 7 online e-commerce selling points**.
- TMRVL** posted an **excellent HIFY17** financial performance **with revenues growing by 22% to Rs. 117 Crs. (Rs. 96 Crs), EBITDA increased by a whopping 65% to Rs. 30 Crs (Rs. 18 Crs), and PAT increased by a whopping 100% to Rs. 18 Crs (Rs. 9Crs)**.  
 For full year **FY16** the company had **revenues of Rs. 218 Crs, EBITDA of Rs. 40Crs and PAT of Rs. 21 Crs** on a equity capital of **Rs. 22 Crs**.
- TMRVL**, at a **CMP of Rs. 172** is trading at a **modest PE of 9.9x** its **FY17E EPS of Rs.17.5** and with **retail story ready to bloom** with a strong growth in topline and the margins, is offering **attractive investment opportunity** with a **price target of Rs. 300** in medium to long term perspective. The **branded and retail business** along with the **huge brand value of India's biggest superstar Salman Khan** should add a **strong value** for the investors and shareholders.
- For our previous report on Mandhana Industries Ltd please visit our website ([http://crutechwebs.com/cs/nvs/module/upload/nvs/company/reports/report\\_33\\_145534\\_3227.pdf](http://crutechwebs.com/cs/nvs/module/upload/nvs/company/reports/report_33_145534_3227.pdf)).

## Financials

INR crs	Q2FY17	Q1FY17	Q2FY16	YoY (%)	H1FY17	H1FY16	YoY (%)	FY16
Total Income	62	54	55	13%	117	96	22%	218
EBITDA	14	15	9	56%	30	18	65%	40
PAT	9	9	5	80%	18	9	100%	21
EPS	3.85	1841	1072		8.02	1820		4283
Share Capital	22	0.05	0.05		22	0.05		0.1
Reserves					59.25	51.26		63.58

Source: BSE Published Results

## Company Profile

- **The Mandhana Retail Ventures Ltd (TMRVL)**, under **young and dynamic** leadership of Mr. Manish Mandhana, has signed a global exclusive Trademark Licence Agreement with **Salman Khan's Being Human Foundation** to design, manufacture, retail and distribute men's wear, women's wear and accessories under "**Being Human**" trademark until March 2020.
- In December, 2010 **Mandhana Industries Ltd (MIL)** had entered into **global Licence Agreement with "Being Human- The Salman Khan Foundation"** to use the Trademark and Brand logo of "**Being Human**" for all clothes range/ Clothing line.
- However, with a view to **unlock the value of the Retail and Branded business**, MIL demerged the Being Human Retail Division to **TMRVL** in which Shareholders of Mandhana shall receive **2 equity shares of TMRVL** for every **3 equity shares held in the Company**.



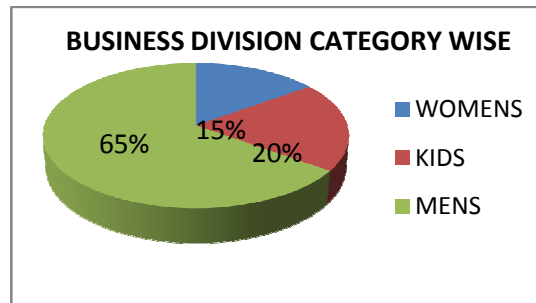
## Demerger of Retail Business – Value Unlocking Exercise

- To **unlock the value of the Company's Branded Retail Operation segment**, the Company decided to demerge its retail business of brand '**Being Human**' ("the Retail Business") into a **separate company** viz. **The Mandhana Retail Ventures Limited ("TMRVL")**, which is now listed.
- Shareholders of Mandhana received **2 equity shares of TMRVL** for every **3 equity shares held in the Company**.
- Equity Share Capital of **TMRVL** will be Rs. 22.08 Crs consisting of 2.2 Cr equity shares of Face value Rs.10 each and that of MIL will be Rs.33.12 Crs consisting of 3.3 Cr equity shares of Face value Rs.10 each.



## Salman Khan & Being Human – The Promising Brand Value

- **TMRVL** with **large scale of economies** is **aggressively expanding the reach** as well as **product range for retail business**. It has also launched kids wear collection for 'Being Human'. It has already added women's wear to its initially launched men's wear.



- **“Being Human”** brand has recorded **staggering growth** in last 5 years with **topline** increasing at a **CAGR of 46%** to **Rs. 218 Crs** in FY16 (Rs.45 Crs in FY12). Being able to sell at premium pricing helps it command an **EBIDTA margin** in excess of **25%**.
- The brand **“Being Human”** has uniqueness in terms of **brand ethos** by powerfully combining the latest trends in **fashion, charity and the well known celebrity Salman Khan**.
- Being Human is a Premium fashion brand with **“top of the mind”** brand recall. It focuses on the age group of 18-30 years old to maximise its value.
- Being Human clothing business has been conferred with various awards by industry platforms for their contribution to the Indian Apparel brand industry- **“The Most Exciting Apparel Brand”**, **“Promising Brand 2015”** (Brand equity-Economic Times), **“Apparel Retailer of the Year-2014”**, etc.

## Growing Distribution Network & Wider Penetration to be achieved

- **TMRVL** currently distributes **Being Human** clothing through **537 retail selling points**. The company's distribution network comprises of **28 company owned exclusive brand outlets**, **29 franchisee owned exclusive brand outlets including 4 overseas stores**, **253 point of sale in shop-in-shops forming part of the large format stores and multi-brand outlets**, **12 distribution partners catering to 220 retailers and 7 online e-commerce selling points**. The company targets to achieve **1500 Point of sales by FY2020**.
- The Company enjoys a significant presence in the **Middle East**, where it has strategic alliance with **The Landmark Group** (Revenue- \$6 billion group) and **Europe**, comprising **388 selling points**. The company has plans to roll out a total of **750 selling point over next 2 years**. It is now targeting geographies like the Far East, the US and Africa, geographical pockets with a significant Indian population.
- The company is focused on creating an **Asset Light Business Model** and focused on making this brand available to large number of customers in the **tier 1 and tier 2 cities**. This will lead to **higher Return on capital employed** (FY16 ROCE-29%), **Return on Equity** (FY16 ROE-34%) and **Margin expansion** ( FY16 EBITDA Margin-25%, PAT Margin- 15%).

## Business Strategy

- The company is working on an **Asset-light model** where the products are **manufactured by 3<sup>rd</sup> party manufacturers** thus **reducing input costs leading to margin expansion**.
- The company has signed an **exclusive 3- year deal with Salman Khan's 'Being Human Foundation'** where the superstar will receive **5% Royalty on the Net sales**. This a very **lucrative deal** considering that Salman Khan generally charges about Rs.18-20 Crs for his other endorsements ( we understand this from trade rumours) - **A win-win for both**.
- In today's time advertising slots on print as well as electronic media is **very expensive**. However, since the company already has **Salman Khan as the face of the brand**, **total advertising expense is less than 5% of Sales and brisk sale**.
- The business of the company is highly influenced by the trends and taste of fashion which may change with new designs in the markets. The company has a **very strong in-house design and product development team which focuses on developing new and unique designs for customers in a timely, efficient and a cost effective manner**.
- The management of **TMRVL** is confident that its **volume-led and value-driven strategy will deliver even better returns**.
- We believe this strategy should work quite well compared to the original business model of MIL and should create wealth for all.

## Financial Performance at a glance

	FY15A	FY16A	FY17E	FY18P	FY19P	FY20P
<b>Particulars(Rs. In Crs)</b>						
<b>Total Revenue</b>	173	218	250	312	391	488
<b>EBITDA</b>	44	40	60	78	100	127
<b>PAT</b>	20	21.4	38	47	62	81
<b>EPS</b>	4,040	4,282	17.5	21.2	28.3	36.5
<b>Equity Capital(FV Rs.10)</b>	0.05	0.05	22.08	22.08	22.08	22.08
<b>Networth</b>	42	64	89	136	199	279
<b>Debt</b>	29	7.4	2.1	-	-	-
<b>Book value per share</b>	8,450	12,726	40.5	62	90	126
<b>EBITDA Margins(%)</b>	26	18	25	25	25.5	26
<b>PAT Margins(%)</b>	12	10	15	15	16	16.5
<b>Debt /Equity</b>	0.68	0.12	0.02	-	-	-
<b>P/E x</b>	NA	NA	10.3	8.6	6.4	4.9
<b>P/BV x</b>	NA	NA	4.5	2.9	2	1.4

## Critical Analysis

- In **FY16, Revenue grew by 26% to Rs.218 Crs** (Rs.173 Crs in FY15) on the **back of higher economies of scale and focus on branded products segment, EBITDA** degrew by 10% to Rs.40 Crs(Rs.44 Crs in FY15) due to rising input costs and **PAT** grew by 7% to **Rs.21.4 Crs** (Rs.20 Crs in FY15).

- The company is a **debt-free company**.
- Projections for the next 3 financial year ending FY20 has been made as per **our discussions with the management**. The management has guided that the **company's topline will grow at minimum 25% and the company will be able to clock EBITDA and PAT margins of atleast 25% and 15% respectively in the coming years**.

### Peer Comparison – Financial Performance for the year ended 31<sup>st</sup> March 2016

Particulars (Rs in Crs) -FY16	The Mandhana Retail Ventures Ltd(TMRVL)	Kewal Keran Clothing	Aditya Birla Fashion Ltd(ABFL)	Indian Terrain	Zodiac Clothing
Equity Share Capital	22.08	12.33	768.84	7.34	19.52
FV	10	10	10	2	10
Networth	86	320	944	161	262
Debt	7	1,135	1,476	42	71
BVPS	39	259	12	44	134
Total Income	218	408	6,060	325	352
EBITDA	40	97	59	41	3
EBIT	38	93	59	39	(8)
PAT	21	66	(104)	33	(8)
EPS	9.7	53.8	(1)	9	(4)
CMP	172	1,751	130	140	180
Market Cap	380	2,159	9,987	513	20
EBITDA Margin(%)	18%	24%	1%	13%	1%
Net Profit Margin(%)	9.8%	16.2%	-1.7%	10.2%	-2.3%
Price to Book value (P/BV)	4.4	6.8	10.6	3.2	1.3
P/E	17.8	33	(96)	15	(43)
Mcap/Total Income	1.7	5.3	1.6	1.6	0.1
Dividend (%)					
ROCE (%)	29%	6%	2%	19%	-3%
ROE (%)	34%	21%	-11%	21%	-3%
D/E	0.1	3.5	1.6	0.3	0.3

\*Equity share capital of **TMRVL** is taken as the one post demerger i.e Rs.22.08 Crs, hence EPS, Book value will also change.

### Critical Analysis

- It appears that Kewal Kiran Clothing Ltd is the best candidate to be compared with TMRVL.
- Since its inception in FY15, **TMRVL** has clocked the **fastest growing revenue at a rate of 27% compared to its peers**.
- **ROCE** and **ROE** of **TMRVL** is the **highest in the industry at 29% and 34% respectively** which shows **efficient and effective use of capital by the management**.

- **P/E Multiple of TMRVL is 17.8x its FY16 EPS and 9.9x its FY17E EPS**, which is very **reasonable** when compared to its peers. The best Peers of the above Kewal Kiran Clothing is trading at 33x its FY16 EPS and 26x its FY17E EPS.

## Valuation & Recommendation

- At the CMP of Rs.172.2, the stock trades at **17.8x its FY16 EPS of Rs.9.7**. However, we believe that **in FY17E, the company will achieve a PAT of Rs.37-39 Crs on a topline of Rs.245-250 Crs, generating a robust EPS of Rs.17-18, thus trading at a meager PE of 9.9x its FY17E EPS**. Valuing the company at a modest **15x on FY17E EPS, we arrive at short term target Price of Rs.260-70, thus giving an upside potential 52%**.
- We believe, the company will **grow at 25% over the next 3 years** and will post **Revenue of Rs.485-500 Crs in FY20**. The management is confident of achieving a minimum **PAT Margin of 15% in every year, PAT for FY20E comes to around Rs.78-83 Crs, generating a robust EPS of Rs.35-38**. This would give a **3 year forward PE of 4.6x**. Valuing the company at a modest **10x, we would arrive at a Long Term Target Price of Rs.360, thus giving a handsome return of 109%**.
- We recommend to **accumulate TMRVL** at a CMP of Rs. 172 which is now a complete branded retail business which should significantly improve topline, bottomline, margins and valuation of the company in the times to come.
- In the short term the stock price **may fluctuate**, but we believe one can invest gradually in the company and are **advised to buy with medium to long term perspective of 12-18 months**.

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**Method:** We have used peer comparison valuation for the stock

**Rating Scale :** This is a guide to the rating system used by our Research team. Our rating system comprises six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of earnings/ Dividends; Price volatility
Low risk	High predictability / low volatility
Medium risk	Moderate predictability / volatility
High risk	Low predictability / High volatility

### Total expected return matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15%	Over 20%	Over 25%
Accumulate	10% - 15%	15% - 20%	20% - 25%
Hold	0% - 10%	0% - 15%	0% - 20%
Sell	Negative returns	Negative returns	Negative returns
Neutral	NA	NA	NA
Not Rated	NA	NA	NA

**Please Note:** Our recommendations are for a minimum period for one year.

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