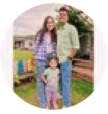

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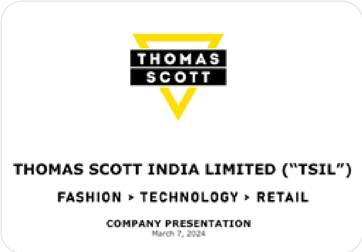
Jun 13 • 26 tweets • 11 min read • Read on X

To sell clothing, apparel and menswear you need not understand fast fashion. All you need to know is some important data and viola! You have cracked the code.

Recently I deep dived a small company which is a proxy play on e-commerce giant Myntra's growth and is designing, manufacturing and doing inventory for them.

Let's understand how Thomas Scott is using Myntra's raw data and scraping it out to ace the game of fast fashion. A long thread ahead 🧵

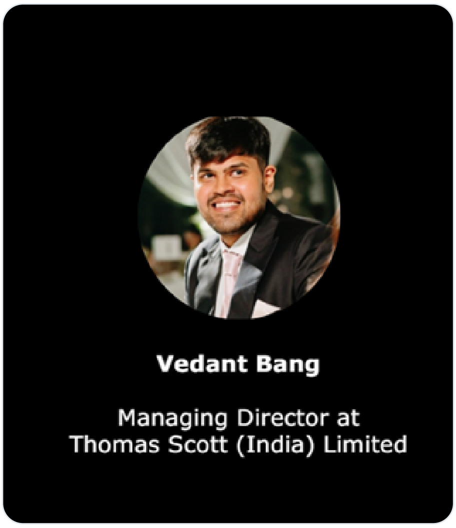


Thomas Scott is fairly old in the business of manufacturing and retailing menswear and it was demerged from Bang Overseas limited.

However things took an interesting turn when Vedant Bang, a 27 year old chap took the center stage and transformed Thomas Scott from a traditional apparel manufacturer into a vertically integrated tech enabled online fashion retailer.

A bit about Vendat Bang and his background before we go into the other details.
Vedant is a Chartered Accountant, a Fellow Actuary and a CFA Charterholder. At just 23, he was already a CA and an Actuary!

He is the second generation entrepreneur and has a knack for data. For the data enthusiast he is, he says that he does not understand fashion but completely understands data. I'll explain this in the post ahead of how Thomas Scott is making the most of the data.



So, Thomas Scott, post demerger was having more than 100 retail stores of its own. However the business did not take off as planned and unfortunately it had to close down its stores.

It is 2015 and Thomas Scott was doing plain vanilla contract manufacturing which is the B2B side of the business with wafer thin margins.

Thomas was not having any retail business.

However it got its breakthrough when Amazon pushed it to launch its brand again via the accelerator program. Amazon insisted on selling the product at a lower price. So, Thomas Scott launched another brand under its retail business: Hammer Smith (Thomas Scott is a premium brand).

Soon, Thomas Scott got access to the raw data dump of Amazon, Ajio and Myntra. This data helped Vedant to understand what is clicking and what is not. The micro markets where there is more demand and less supply. For instance, there was a huge fad of chinos menswear a few years back. Thomas Scott started making chinos and bingo! It was selling like hotcakes.

Any fashion enthusiast who is reading this post might be aware of the recent trend of cargos in menswear. Well, Thomas Scott knows which colour cargos are getting sold the most, which ones are people adding to their wishlist on Myntra and which brands are selling them the most.

Identification of trend is the key to success in fast fashion and Thomas Scott got to know all this because of the data scraping Vedant and his team were doing.

The result of this was extremely high sell through rate for whatever Thomas Scott was manufacturing under its own brand.
Myntra observed this and offered them to do designing, manufacturing and distributing their brands for which they had the licence.

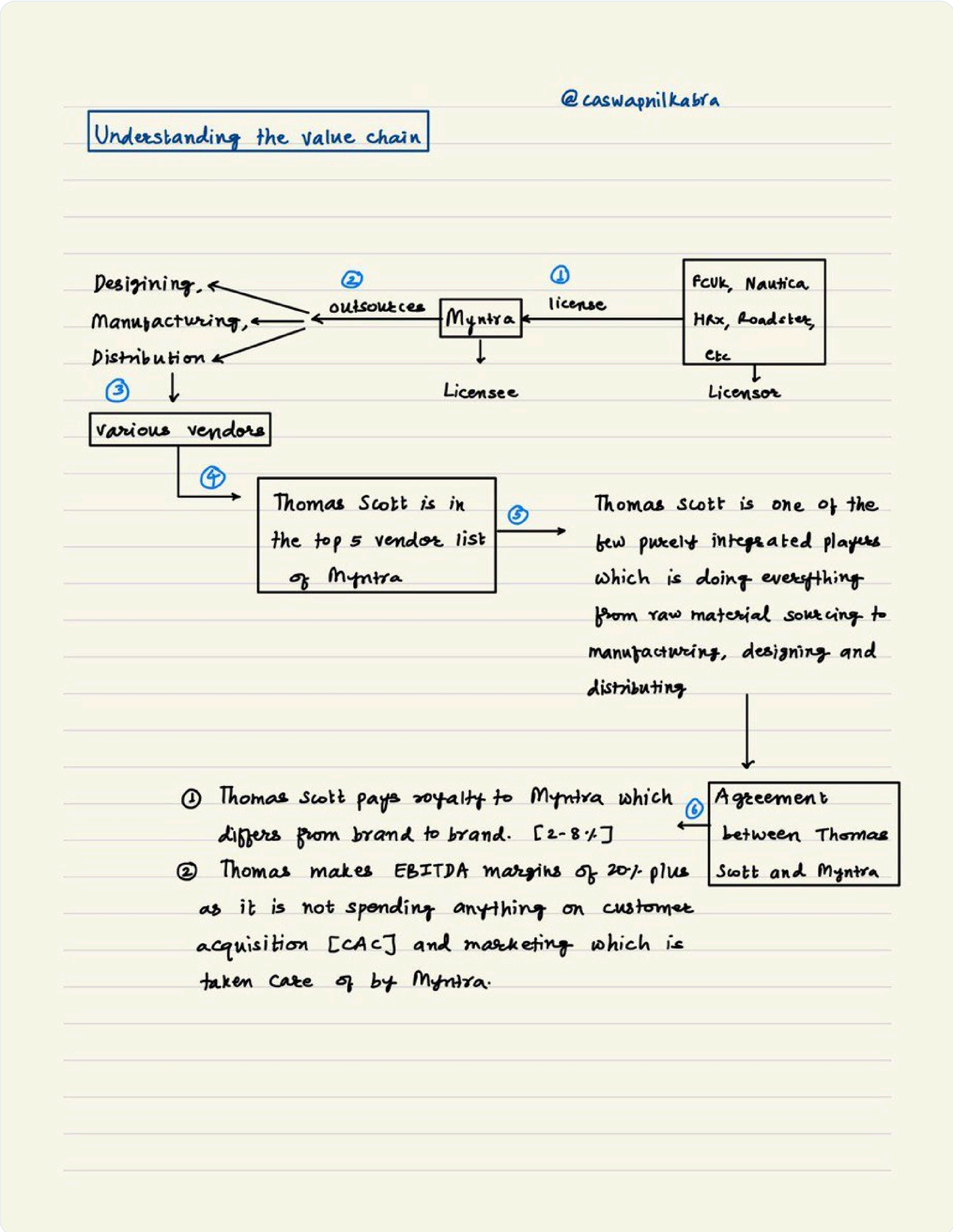
Thus, Myntra wanted to outsource everything and let Thomas Scott take care of the value chain while taking care of customer acquisition and marketing itself, which is its area of expertise.

I tried to explain the entire value chain and where Thomas Scott fits in the larger scheme of things here.

Myntra is an e-commerce platform and there are many brands who gave their license to Myntra. It is upto Myntra as to how to make and sell the product and the brands get their royalty via a license agreement with Myntra.

To design, manufacture and control the inventories for these brands would mean an asset heavy model for

Instead, Myntra considered making this asset light by outsourcing the designing, manufacturing and inventory part to vendors like Thomas Scott and itself concentrating on customer acquisition and marketing.



Now, there are more than 300 Myntra vendors who are doing manufacturing for Myntra and Thomas Scott is one of them.

First things first. It is not easy to be a vendor to Myntra. There are audit verification and standards set by Walmart such as responsible sourcing and quality assurance which are not met by all the factories in India.

retail side of the business.

However, Thomas Scott has found the right balance between manufacturing and staying retail focused. To say, it is purely an integrated player and does everything from designing, sourcing raw material, manufacturing to distributing it to the end customer (B2C).

And it is in the top 5 list of Myntra vendors! Goes to show how it stood out of all 330 vendors.

Let us now discuss each part of the value chain which Thomas Scott is doing. The designing, the manufacturing and the distribution.

The designing:
Thomas Scott uses the raw data dump of Myntra and extracts crucial information and keywords that are clicking. These are basically micro markets where demand exceeds supply. Vedant himself has written the python code for this and they get the lead of what fashion is doing well and what is not.

Thomas Scott shares, say 10 design ideas (assortment planning) with Myntra team. Out of these ideas, say 5 are finalised. These ideas are then put into implementation by the manufacturing team at Thomas.

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Part I of the value chain ⟶ The designing

Thomas scott

↓ (1)

uses raw data of Myntra, Amazon, Ajio to identify the demand supply gaps

↓ (2)

Using data scraping, some of the micromarkets are identified by Thomas Scott

↓ (3)

Thomas helps in assortment planning and the Myntra team narrows down the target products

keywords such as 'Chinos', 'cargo pants', 'white linen shirt', 'oversized tshirt' are identified using data scraping

↓

Plays a crucial role in fast fashion.

For instance, key words such as 'Cargo pants', 'White linen shirts, 'Oversized tshirt' are identified using data scraping. This plays a crucial role in fast fashion.

Also, what should be designed depends on the availability of raw material. The raw material which is readily available is used to manufacture end products, because it reduces the lead time and helps in leveraging the opportunity in fast fashion. So the raw material is not sourced on make to order basis.

Once the concept of design is finalized, not depending on the type of brand (entry level, mass premium, premium, luxury), the raw material is used

For instance, a white linen shirt for a luxury brand would involve 100% linen. Whereas for entry level it would be 90% cotton and 10% premium. So, the look and feel of the shirt would change as per the brand. This also changes the COGS for every brand.

Plus, the packaging of brands will also differ depending on the segment it caters to.
Thomas makes a blended 65-70% gross margins here as it is catering to more premium and luxury brands like Nautica, FCUK, Mango.

The manufacturing:

Thomas Scott has its own network of raw material suppliers, the biggest being Bang Overseas (though it is now trying to reduce the dependence on it).

Thomas Scott's traditional business was of manufacturing. So this is the main area of expertise.

It has factories and captive capacities in
👉Maharashtra
👉Banglore
👉Kolkata
👉NCR Zone.

Captive capacities are factories not owned by Thomas Scott but they just check the product quality.

Almost 70% of the manufacturing is inhouse and balance is in captive capacities.

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Part II of the value chain → The manufacturing

Thomas scott

Sourcing of raw material → Manufacturing

Only that raw material is ordered which is readily available. It is not sourced on make to order basis.

↓

Infact what to design also depends on what raw material is readily available

↓

This is done to reduce the lead time. In fast fashion, one needs to capture the micromarket as soon as possible because of its very nature

↓

Raw material is sourced from Bang overseas and a couple of other suppliers.

→ Trying to reduce the dependence

Thomas scott's traditional business was of manufacturing. So this is the main area of expertise

↓

It is having factories and captive capacities in

- Maharashtra
- Banglore
- Kolkata
- NCR zone

→ factories are not owned by Thomas Scott but there is quality control.

65-70% → Insource manufacturing
25% → captive factories
5% → Direct buying

The distribution:

Thomas Scott ships its bestsellers at Myntra warehouses and it is then delivered to the buyer. Basically, Myntra bears the cost of delivery which is 22-23 Rupees per unit. This adds to the margins of Thomas Scott.

Myntra stocking the best seller would mean lesser delivery time and better customer satisfaction.
I tried to explain this in the image 👇🏼

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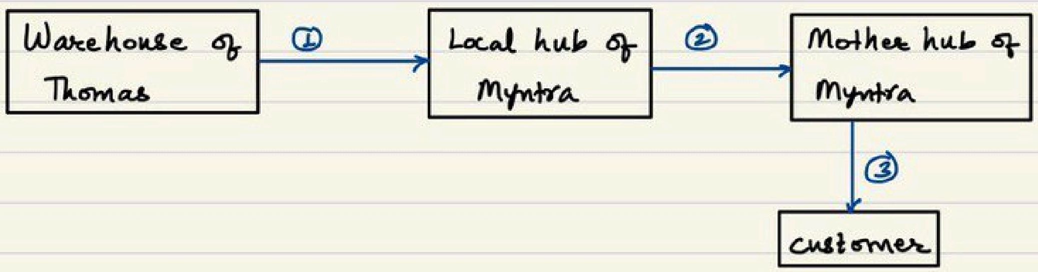
Part III of the value chain → The distribution

Thomas Scott → ships the goods to Myntra warehouses and they look at the pickup and further delivery to the end buyer

The bestsellers of TS

[usually it costs Thomas ₹22-23 per unit but now as Myntra has taken the burden to deliver the goods, it results in better margin to Thomas]

Thomas enjoys better terms as it is the top 5 vendor to Myntra

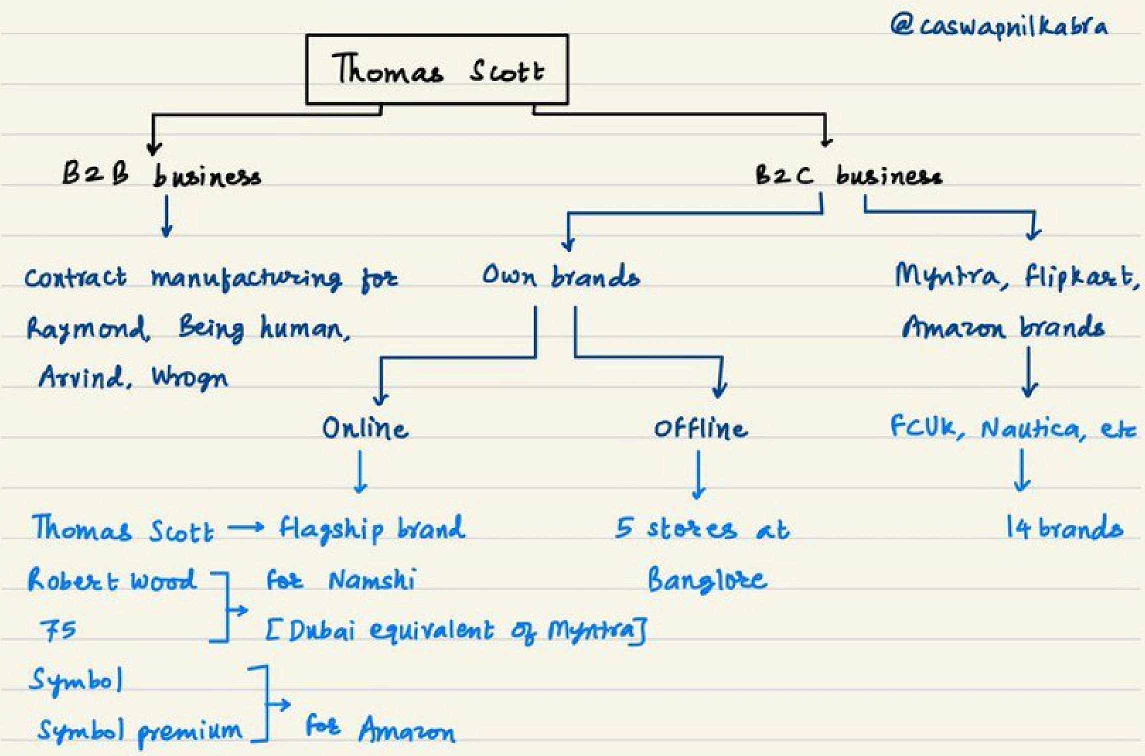


As the best sellers are already stocked at Myntra, delivery time reduces and improves the customer experience.

So, how do Thomas Scott, Myntra and the licensor make money?

1. Myntra pays royalty to the brand (FCUK, Nautica, etc)
2. Thomas Scott pays royalty to Myntra, which again depends on the brand. This ranges from 2-8%. This helps Myntra to cover the cost of customer acquisition and marketing and makes its business an asset light one.
3. Thomas Scott vertically integrates everything and makes 20% kind of EBITDA margins for designing, manufacturing and distributing.

1. B2B business:
This is the traditional business of Thomas Scott. It was a contract manufacturer for Raymond, Arvind, Wrogn, Being Human. This business has wafer thin margins of less than 5%. This is now not an area of focus for Thomas and it is planning to let go of this side to improve its margins and ROCE.
2. B2C business:
Here it is making the goods and selling it to the customer. It has its own brands like Thomas Scott (flagship brand), Robert Wood, 75 (Sold exclusively at Namshi, which is a Myntra equivalent in Dubai), Symbol and Symbol premium (exclusively sold at Amazon). For Myntra and other platforms it has 14 brands like Nautica, FCUK Mango, etc.



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Let us now understand the margins for each of these segments at EBITDA level:

1. B2B: Less than 5%

2. B2C (Namshi): 35%. The main reason for the high margin here is cost arbitrage as Namshi sells the products at very high prices in Dubai. However, the working capital here is a bit elongated.

3. B2C (Offline stores): 3 are at breakeven, 1 doing 7% margins and 1 is in loss. Long term margins here would be 15%. Here Thomas will have to do the heavy lifting for marketing and customer acquisition.

4. B2C (Ecommerce brands): Margins here are 20% plus. This is because there is zero cost on marketing.

Directionally, Thomas is focusing on Myntra brands which makes 20% plus margins and trying to descale the B2B business. This would mean better capital utilisation.

Any EBITDA it would get above 15% would go into building its own brand via marketing and launching its own offline stores.

Thomas is looking to increase the terminal value of its business by building its own strong brand.

How is Thomas positioning itself different from others in its own flagship brand?

It has hired a senior manager from Shoppers Stop (Jayakar Shettigar) for this brand building exercise.

Also, through data scraping and identification of micro markets, the products are first launched at Thomas Scott and then for other Myntra brands. This is nothing but front running. (Illegal in the stock market but very much legal here).

Let us see the FY24 revenue wise split.

So, B2B business contributed 6% to the topline and B2C did the heavy lifting of 94%.

In B2C, Thomas Scott's own brands did 40-45% and the balance was via Myntra (38%), Namshi (7-8%).

In FY23, B2B contributed 40% to the topline. Goes to show directionally how Thomas is reducing the exposure of B2B business which is rather gruesome.

With Myntra making its own business model asset light and outsourcing the manufacturing work to vendors, Thomas Scott is in a sweet spot.

Also, Myntra is trying to reduce and consolidate its vendors which currently are at 330. This would mean more wallet share for stronger players like Thomas as it ranks in top 5 vendors in terms of value.
From my scuttlebutt, I found out that in June 2024, Thomas ranked 3rd in the list of vendors.

This also means that Thomas has some good competitive advantage and gets better terms with Myntra vs other vendors

When I dug deep, I got access to the financials of Myntra and it is growing decently.

From my scuttlebutt I got to know that Myntra's Gross Merchandise Value (GMV), which is nothing but the total amount received from customers shopping from Myntra, for menswear is approximately 800cr pm. This makes the total menswear market at approximately 10,000 cr.

2-3 years down the line Myntra's GMV is projected at 15,000cr for menswear. And it plans to outsource manufacturing 50-60% of this to vendors. This translates to 9000cr of Total Addressable Market for vendors like Thomas Scott.

Thomas aims to target 15% of this TAM. Which means it has a strong demand for 1300 odd crores.
Let that sink in! Thomas ended FY24 at just 91cr sales with 38% contribution from Myntra. Here we are talking about a 1300cr opportunity from Myntra in the next 3 years!

Short term outlook:

For FY25, Thomas has good orders from Myntra of 130-140cr. Plus its own brand is also doing well.
With Myntra brands taking the lead, Thomas will try to improve its margins as well.

Thomas earlier had 20 Myntra brands but now it has taken a conscious call of discontinuing 6 brands which were less margin, less ROCE ones.

The result of this is that Q1 sales might take some margin hit as it needs to clear the dead stock of those 6 brands.

Q2 onwards, one may see how Thomas is expanding margins.

Long term outlook:

Thomas Scott will try to scale its own brand. The demand side is already built in with Myntra preferring Thomas. For servicing the huge demand, Thomas would probably raise more funds and bring back the debt equity ratio to 2:1 again. Currently the balance sheet is debt free.

Let's now see the risks here (antithesis):

1. New brands like FCUK, Nautica will not allow Thomas to manufacture the products in captive capacities owing to quality compliances. Thus it needs to scale its in-house manufacturing.

2. Thomas has the inventory risk on its balance sheet. If a product is not getting sold, it will have to offer a discount to clear the stock. However to mitigate this risk, Thomas follows high width, low depth strategies. Meaning which it has small batches of a particular product type. It tries to diversify the styling using information via data scraping.

3. Any vendor can have access to the Myntra's raw data dump. However, no one is using it except Thomas. The biggest reason here is that most of the vendors are not fully integrated. They are mostly B2B contract manufacturers, not interested in retail business. For those who are in the retail business, they are focused on their own brands and hence no one except Thomas has used the database of Myntra to pull out such useful information. It is also due to Vedant and the data enthusiast that he is, he wrote the entire python code himself for this.

4. Related party transactions: Thomas Scott has dealings with Bang Overseas (sister concern). It sources its raw material from Bang Overseas and also manufactures some products for it. It is trying to reduce the exposure of these transactions and these are done at arms length.

Thomas Scott is an ill liquid stock and one needs to be careful while trading or investing.

This thread is purely for educational purposes and I intend to keep this open as business evolves.

Take everything written here with a pinch of salt as I am interested in this stock and my views are obviously biased

I am not a SEBI registered investment advisor. Do your own due diligence. Caveat emptor applies.

Due credits to @nikhilinvestor9 for helping me with the research 🙏🏼

• • •

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More from @caswapnilkabra

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Jun 9

'Spoken words fly away, written words stay.' Hello all. As we end the FY24 result season, with so many companies doing concalls, I am trying to compile the guidance given by them for next year(s) to help everyone understand the forward valuations of these companies and to see if the management walks the talk. Do help me in this compilation by adding the companies you track in the comment 👇🏼 A long thread 🧵

1. Vasa Denticity (Dentalkart): Guidance for FY25, Topline growth 70-75% and EBITDA margins may improve further from FY24 levels. Long term guidance of 800-1200cr topline by FY26.

2. Shree OSFM: Guidance for FY25, Topline growth 35-40% without inorganic acquisition. With inorganic acquisition, 60%. Margins will sustain.

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May 29

A thread on Shree OSFM 🧵 covering details via its investor presentation and also the concall highlights: 👉Company has 2500+ vehicles and 3500+ drivers. The business is asset light as company owns just 222 vehicles, which is just 8% of the total fleet. 👉Company is present in Mumbai, Pune, Delhi, Hyderabad, Bangalore, Chennai, Kolkata.

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Sep 4, 2023

A microcap bearing company, with 30% plus EBITDA margins that is doing 4x capex in upcoming two years deserves to be studied. In this thread I will try to deep dive 'SKP Bearing Industries Limited' to understand the triggers that lie ahead 🧵

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Jul 16, 2023

Last month I deep dived a microcap gem which is into fast moving artificial fashion jewellery and has a legacy of 190 years! A long thread ahead 🧵

Gargi by PNGS is the new venture promoted by the promoters of PNG and Sons Limited, which has been a go to brand in Maharashtra since 190 years. Gargi deals in 92.5% certified sterling silver jewellery and brass jewellery, idols and other

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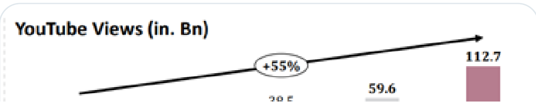
May 17, 2023

You are bored and you start scrolling endlessly shorts content on Youtube. It is the time you realize how addictive it is! No wonder Youtube is promoting this left, right and center. How can this be a wonderful opportunity for companies like Tips Industries, let's dive in 🧵

Tips Industries get its 50% topline from Youtube. Hence, the growth in the Youtube views is bound to aid company in doing better. In FY23, its Youtube views stood at whopping 112.7 Bn. This was at just 59.6 Bn in FY22. A solid growth of more than 100%.



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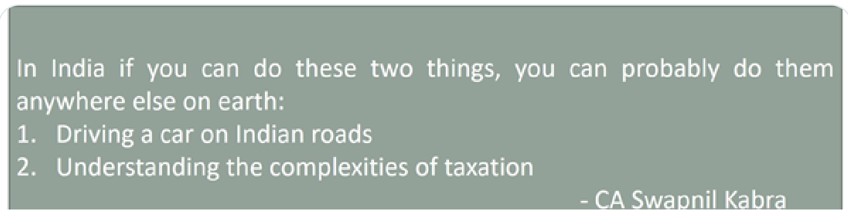
Mar 23, 2023

As we near the March end, I thought of sharing a detailed thread on tax planning in case of equity shares. I tried to keep things as simple and lucid as they can get. Keep a popcorn tub ready. Read on and bookmark for further use 🧵🔖👇

Before we move ahead, (1/n)



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