



THE INDIAN FASHION INDUSTRY IS AT THE THRESHOLD OF A GROWTH REVOLUTION AND IS A BANKABLE ASSURANCE FOR INVESTORS ROUND THE GLOBE. A DETAILED LOOK AT THE THEMES THAT HAVE HITHERTO INFLUENCED INVESTORS AS WELL AS SOME THAT ARE MOST LIKELY TO PLAY OUT IN THE NEAR FUTURE.

INVESTMENT THEMES IN THE INDIAN FASHION INDUSTRY

— By Mohit Jain, Business Head - Transaction Advisory, Wazir Advisors

If one looks from the macro perspective, Indian economy in the recent past has witnessed two major events namely demonetization and GST. The tremors of both were felt from consumers to manufacturers. While, the consumer demand slowed down due to Demonetization, GST pricked the supply chain of manufacturers. However, each industry which got affected has moved on. The same is the case with the Indian fashion industry which is turning a new corner. As a result, there is a renewed sense of optimism among investors also.

Before predicting the themes that are most likely to play out for investors in the Indian fashion industry, it is important to understand the themes that have played out so far. Such themes are as follows:

- **Some Hits, Some Misses:** Any good brand worth mentioning has secured institutional funding. Right from ethnic wear (both men and women) brands to brands focused on kids wear to western wear and even private labels from designers. However, athleisure wear was a trend that emerged last year but nothing much has happened there. We feel that there is no sizeable company in athleisure wear yet that would be of interest for investors. Further, the line-up of global private equity and hedge fund



investors queuing up to write out cheques for vertical e-commerce players in the fashion space is also thinning out as most of the bets in this space did not play out the way investors wanted it to.

- **Private Labels:** Last year was also a year, when many online players realized that if one has to retain margins, they will have to build private labels. While online platforms continued to grow rapidly, they kept investing to strengthen their position in the fashion sphere. Many of the platforms, from Amazon to Myntra, pushed their own private label fashion offerings. They will likely be doubling down on these efforts to expand their portfolio of in-house brands and products.

ONE PROMINENT INVESTMENT AVENUE TO TAKE ADVANTAGE IS THE ECONOMY AND VALUE FASHION RETAIL CHAINS. THESE CHAINS HAVE STORES POSITIONED AS FAMILY SHOPPING DESTINATIONS AND THE FOCUS IS ON FUNCTIONALITY AND AFFORDABILITY RATHER THAN THE BEING A BRAND. THE INVESTORS ARE ALSO BEGINNING TO CAPTURE THIS OPPORTUNITY.



- **Exciting Transactions:** On the transaction side, many interesting and much awaited deals took place. Kedaara invested in the market leader in men's ethnic wear - Manyavar, which for a considerable period of time did not raise funds even after multiple offers. Further, TPG invested in value brand Campus footwear and women's bottom wear. Go Colors raised ₹100 crore from ICICI ventures. On the other hand, Reliance Brands – a house of brands bought L Catterton's 40 percent stake in another house of brands named Genesis Luxury which controls brands like Burberry, Canali, Paul Smith, Armani, Just Cavalli, and Jimmy Choo in India.



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- **Licensing of Foreign Brands:** House of brands like Reliance Brands, Arvind Fashion and even traditional branded houses like Rupa are tying up with more and more international brands. In the light of ongoing competition and enhanced customer expectations, we feel it is going to be immensely difficult to build a brand. Further, it is more expensive to build a brand today than it was 15 years ago. As a result, Indian companies are increasingly realising that it makes much more sense to bring in an international brand in India, which the Indian consumer already recognises.



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The themes that are most likely to play out in 2018 and in the coming years are as follows:

- Exploding Middle Class:** It's a well-established case that Indian retail market is undergoing structural changes over the past few years. With these changes, the tier II, tier III and smaller towns will become the new growth hubs. The same is particularly applicable for the players operating in economy and value fashion segments. As a result, one prominent investment avenue to take advantage is the economy and value fashion retail chains. These chains have stores positioned as family shopping destinations and the focus is on functionality and affordability rather than the being a brand. The investors are also beginning to capture this opportunity. Recently, Carpediem invested US\$ 6.5 million in India Family Mart which operates 38 stores across UP, Bihar and Jharkhand. Further, the public listed V2 retail also announced funding from Lighthouse. We feel there are many sizeable retailers in this space which could be attractive for private equity. One hurdle in this area was the FDI restriction in multi-brand retail but we feel private equity funds as always have figured a way out or it may be the case that the opportunity could be too lucrative to ignore at this stage and they are happy being a minority partner for long.
- Status Spending:** Demand for luxury goods is rising across all emerging markets as the wealthy seek to emulate the brand-driven lifestyles. India is no different. Today, the rich Indians are well-travelled and they do not want to wait for a trip to London/ Paris to do their shopping. The international brands are also responsive of the same and willing to incorporate local taste in their merchandise. However, Indian brands have not really gone global. The large domestic market is no reason to be confined only within the borders as one needs to captivate the global audience as well to stay relevant. It's time to see the Bandhgala's and the Anarkali's at the high streets in Paris and London

TODAY, FASHION AS A CATEGORY SITS AT THE CUSP OF SIGNIFICANT GROWTH AND WILL CONTINUE TO CREATE VALUE FOR INVESTORS. WHILE THE APPETITE TO INVEST IN TRADITIONAL BRANDS MAY CONTINUE TO WANE, THE BRANDS THAT APPEAR TO HAVE UNLOCKED SOME SORT OF INSIGHT INTO WHAT THE MODERN CONSUMER WANTS WILL CONTINUE TO REMAIN INTERESTING TO INVESTORS.

and give competition to the foreign counterparts. Fashion is all about being aspirational and its time home grown talent rises up to the occasion. Based on this theme, going forward we will see huge investments happening in the home grown brands and designers catering to luxury and bridge-to-luxury markets.

- Consolidation and Emergence of Umbrella Brands:** Consolidation is what happens in any market if there are many scattered small and good assets. The same is expected to happen in the Indian fashion industry. Many brands have raised private equity or grown organically in the past 5-7 years to reach a sizeable number. However, these brands individually are still far from going public. The trend to look out for in the coming days would be how brands merge with each other or come under a holding company to create a large asset which can then be taken public. We believe that it is the only way to truly unlock value which has been created over the past few years for PE firms. The PE's are also increasingly looking to consolidate brands under one umbrella to see an eventual exit. As a result, they will either create a holding company and bring various brands under them or have a large company work as an investment vehicle to invest and consolidate brands. The same is also beginning to happen. One such example is of Flipkart, which acquired Myntra and Jabong. Another example is of Arvind, which is unlocking the true value of its brand business by demerging and creating it as a separate entity.

Wazir believes that steady growth in consumption represents a compelling and enduring theme. Today, fashion as a category sits at the cusp of significant growth and will continue to create value for investors. While the appetite to invest in traditional brands may continue to wane, the brands that appear to have unlocked some sort of insight into what the modern consumer wants will continue to remain interesting to investors.

LIST OF INVESTMENTS IN THE INDIAN FASHION SPACE IN THE LAST ONE YEAR

- 01.** Noida-based online lingerie brand Clovia raised ₹26 crores from Ivy Cap ventures and new investors including Singularity Ventures and Ravi Dhariwal, former CEO of media house Bennett, Coleman & Co. (April 2017)
- 02.** Online fashion retailer, Yepme raised ₹6 crores from listed garments exporter Gokaldas Export Ltd. The startup will deploy the raised funds towards enhancing its brand building capacities and launching its ethnic wear range. (May 2017)
- 03.** Mumbai based O2O fashion e-commerce platform fund raised ₹15 crores in a funding round led by IIFL Seed Ventures. (June 2017)
- 04.** Aditya Birla Group firm Grasim Industries Ltd. sold its wholly-owned subsidiary Grasim Bhiwani Textiles to Rajendra Synthetics, a part of Donear Group, for an undisclosed amount. (July 2017)
- 05.** FableStreet, a Delhi based premium work-wear brand raised a seed round from angel investors -Kanwaljit Singh (MD, Fireside Ventures), Harmeet Bajaj (founding member, NIFT), Pameela P (Senior Director, Unilever) and Fusiontech Ventures. (July 2017)
- 06.** Delhi Based footwear brand Campus received first institutional round of funding from TPG Growth and Havells group. The investors bought ~20 percent stake by valuing the company ~₹1,500 crores. (August 2017)
- 07.** Amarjothi Spinning Mills Limited acquired 100 percent of RPJ Textiles Limited for ₹20 crores. (August 2017)
- 08.** Kedaara Capital acquired 10 percent stake in ethnic menswear brand Manyavar for ₹450 crores. (August 2017)
- 09.** Mandhana Industries entered into Corporate Insolvency Resolution Process. (September 2017)
- 10.** Reliance Brands, owned by Reliance Industries Limited, has bought out L Catterton Asia's 40 percent stake in Genesis Luxury for an estimated ₹250-300 crores. (September 2017)
- 11.** V2 Retail Ltd, formerly Vishal Retail Ltd raised ₹76 crores (US\$ 12 million) from Lighthouse Advisors (October 2018)
- 12.** Sanjay Lalbhai-led Arvind Ltd, the country's largest textile and branded apparel manufacturer, demerged the branded apparel business Arvind fashion into a separate entity (Nov 2017)
- 13.** The promoters of Donear Group acquired OCM Woolen Mills. This acquisition makes the Donear Group India's largest branded menswear fabric manufacturer. (November 2017)
- 14.** Fashion start-up Universal Sportsbiz received over ₹100 crores for 15 percent stake from existing investor Accel Partners. The transaction valued the company at ₹650 crores post money. USPL's portfolio of the brands include Wrogn, a men's casual wear brand endorsed by Virat Kohli. (November 2017)
- 15.** Jaipur based premium menswear brand Mr. Button has received its pre-series A funding led by Jetty Ventures and Sandeep Daga. (November 2017)
- 16.** Blacksoil Capital invested ₹15 crores in the Chennai based online fashion retailer eShakti.com which is backed by IDG & Ivy Cap Ventures. The company also runs an Indian e-commerce unit under the brand name Zapelle. (December, 2017)
- 17.** The Label Life, an e-commerce lifestyle brand, raised ₹20 crores from Kalpavriksh, a PE fund under Centrum Alternatives. The Label Life provides contemporary fashion accessories and home décor styled by Bollywood celebrities Sussanne Khan, Malaika Arora and Bipasha Basu. (December, 2017)
- 18.** Bangalore based online lingerie seller Buttercup Clothing Private Limited received angel funding from Rajan Anandan and US based angel investor Chandra Chappadi. (January 2018)
- 19.** 1-India Family Mart, which operates 38 value retail stores across UP, Bihar and Jharkhand raised ₹41.5 crores from Carpediem Capital. (Jan 2018)
- 20.** Radix Investments And Leasing Pvt. Ltd. acquired Snowflakes Meditech Private Limited, a retailer for fashion accessories, from Alps Industries Limited for ₹6.1 crores. (January 2018)
- 21.** Undergarments maker Rupa acquired the licence to manufacture and market American clothing (particularly undergarments) brand Fruit of the loom in India. Amazon has the exclusive online selling rights. (Jan 2018)
- 22.** Chennai based Go colours which sells legwear for women raised ₹100 crores from ICICI Venture for store expansion. (January 2018)
- 23.** Noida based Faballey.com, an online women's fashion brand has raised venture debt of ₹5 crores from Trifecta Capital. The company will use this fund to expand its offline presence from 3 stores to 25 stores over the period of next 12 months. (February 2018)
- 24.** Reliance brands pips Firstcry to acquire Mothercare India rights from DLF brands. Mothercare is the latest brand after Mango, Forever 21 and Sephora, among other global labels, to change hands from DLF Brands. (Feb 2018) ●