

Retail and Consumer Quarterly Newsletter Q3 FY 2018

April 2018





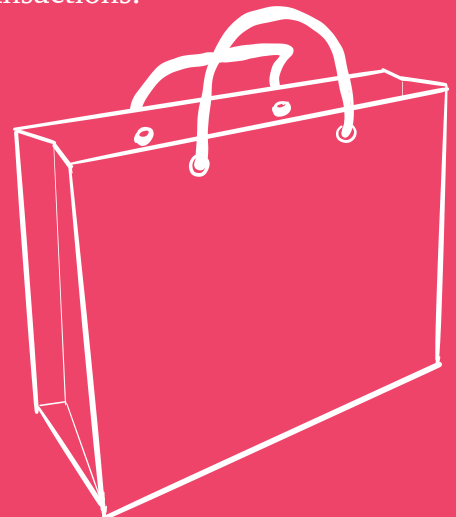
Contents

Introduction	3
Thought leadership for the quarter	4
Women's apparel: Growing into the largest segment in the apparel market	4
Transactions in Q3 FY18 in the retail and consumer space	9
Deal round-up	9
Sector round-up	11
Key announced transactions	12
Trading multiples for public companies	14



Introduction

PwC's Retail and Consumer practice takes immense pleasure in presenting the seventh edition of its newsletter. This quarter, we have highlighted how the women's apparel segment has been growing in India. The Indian apparel market is the fastest growing among the top ten apparel markets in the world, and the women's apparel segment is slated to become the biggest in the apparel market in India. The segment has various national and regional players across the pricing spectrum and has evinced interest from several private equity (PE) funds, which has facilitated this growth. The second part of the newsletter highlights the deal activity in the quarter compared to that in previous quarters, along with our insights into the future of consumer and retail transactions.



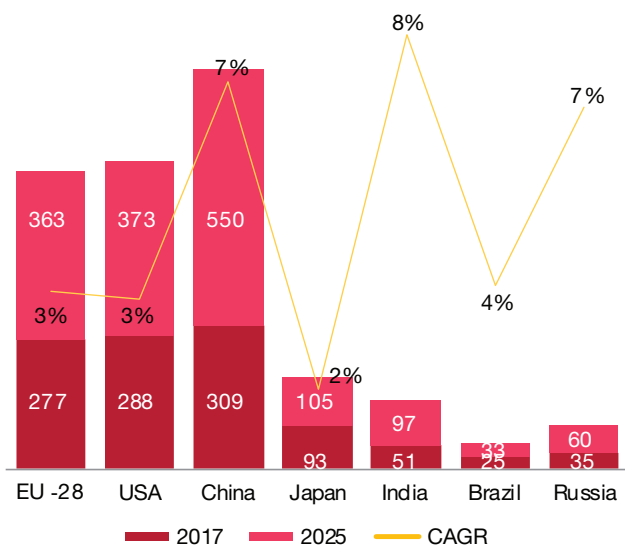
Thought leadership for the quarter

Women's apparel: Growing into the largest segment in the apparel market

Since 2015, India has enjoyed the position of the fifth largest market for textile and apparel products in the world, preceded only by developed nations like the USA and countries in the European Union.

The apparel market in India is currently growing at a CAGR of 8%, which is the highest among the top ten countries by apparel market size, and is expected to reach 97 billion USD by 2025.

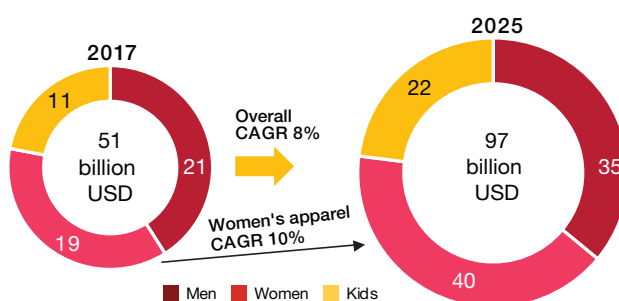
Apparel market size of the top eight countries



Note: Values in billion USD | Source: DRHP, TCNS Clothing, February 2018

As the apparel market grows in size, women's apparel is emerging as the dominant segment—a characteristic of mature markets like the USA and UK, where the ratio of women's wear to men's wear is approximately 2:1.

Indian apparel market size

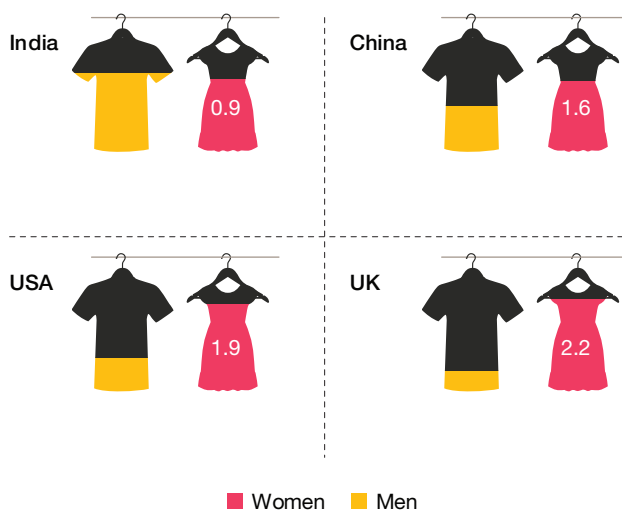


Note: Values in billion USD | Source: DRHP, TCNS Clothing, February 2018

Women's apparel currently constitutes a low 37% share of the overall apparel market, valued at 19 billion USD. However, it is expected to outpace men's wear and occupy a majority 41% market share by 2025, growing at a faster rate than the overall apparel market at a CAGR of 10%.

This trend is led by an increase in the number of working women and the emergence of several big branded players in this segment.

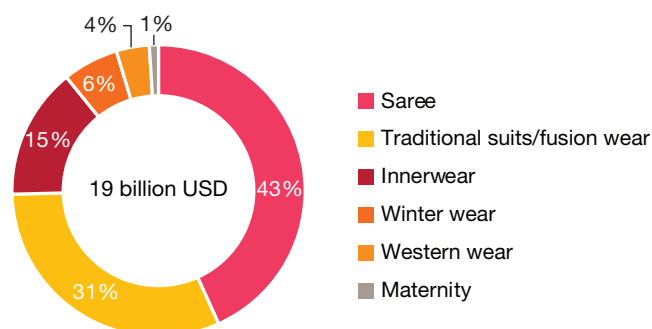
Ratio of women's apparel to men's apparel



Source: PwC analysis, February 2018

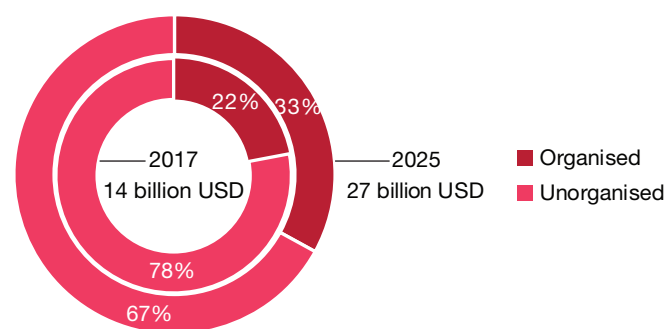
A closer look at the women's apparel market

Segments in women's apparel



Source: PwC analysis, February 2018

Women's ethnic apparel market size



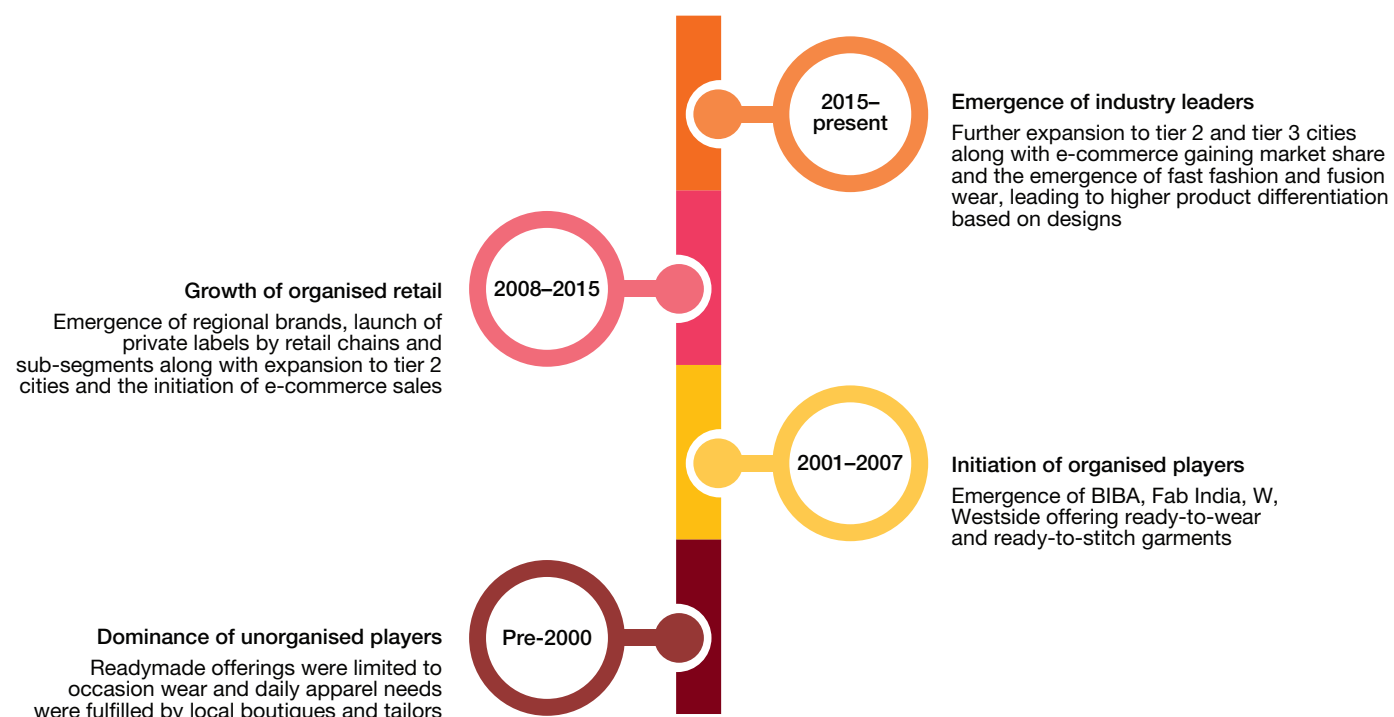
Source: PwC analysis, February 2018

Ethnic wear is the largest segment

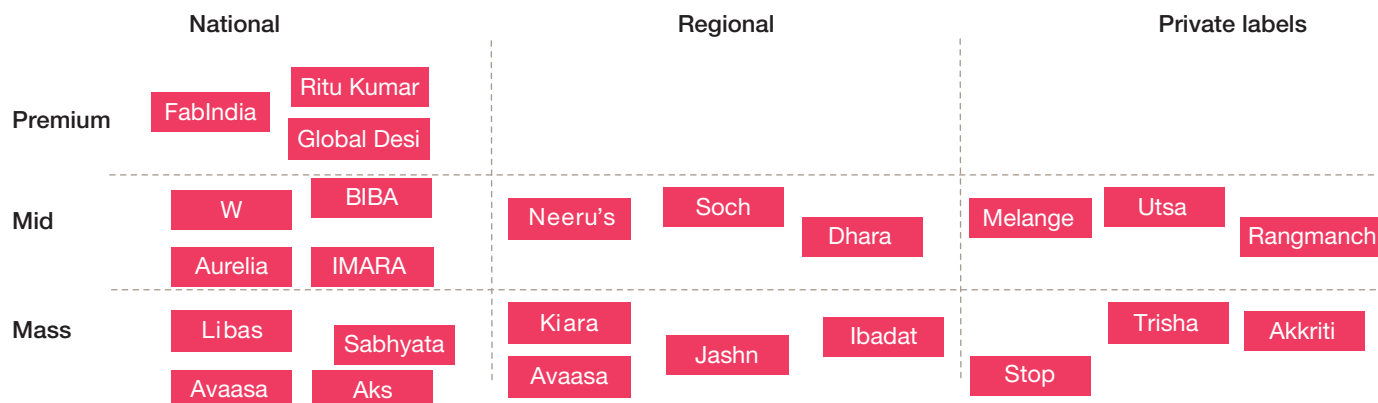
Ethnic wear (including sarees and traditional suits/fusion wear) accounts for a dominant 74% share of the women's apparel market and is valued at 14–16 billion USD. The ethnic wear market is growing at a CAGR of 8% and is expected to reach 27 billion USD by 2025. Interestingly, more than 75% of this is currently unorganised due to the fragmented nature of the industry, differences in preferences and styles across different regions, and the demand for more variety, which makes it difficult to maintain an economically feasible inventory. However, this is slowly changing and organised players are gaining size and share. Organised ethnic wear penetration is expected to reach 33% by 2020.

In contrast to developed markets and other comparable peers, men's wear in India acquired a larger share of the apparel market due to the early entry of big branded players in this segment like Raymond's and owing to a quicker shift from ethnic to Western in the men's wear market. Ethnic wear currently constitutes only 6.6% of the total men's wear market, which is largely restricted to occasion wear (i.e. weddings and festivals), as against 74% for women. However, this resistance towards Western wear in women's apparel has eventually led to the emergence of several big branded domestic players in the ethnic wear segment. These players are expected to drive the growth in organised ethnic apparel for women from 22% in 2017 to 33% by 2025.

Evolution of the women's ethnic wear market



Competitive landscape

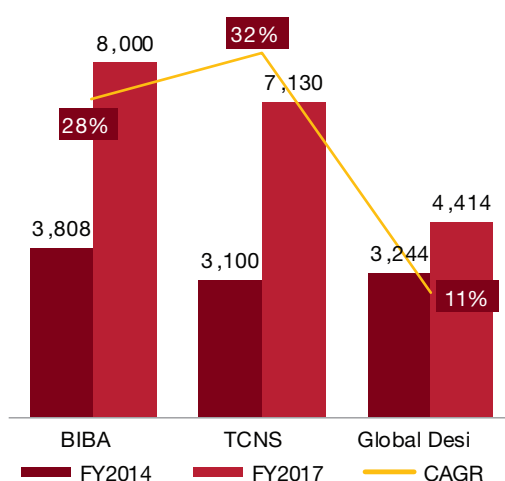


Source: PwC analysis, February 2018

Top players are witnessing sporadic growth in women's ethnic wear

While the overall industry is growing at a CAGR of 8%, many top players like BIBA and TCNS are growing at a 30% CAGR while sustaining their earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins as well. Consequently, this has made the ethnic wear market a lucrative segment, and there has been a surge in investments by PE funds to capitalise on this profitable trend. According to estimates, there have been PE investments amounting to more than INR 20 billion from 2014-2017 and further deals are in the pipeline.

Market and growth rate (2014–2017)



Note: Values in million INR | Source: Company filings, MCA, 2014 and 2017

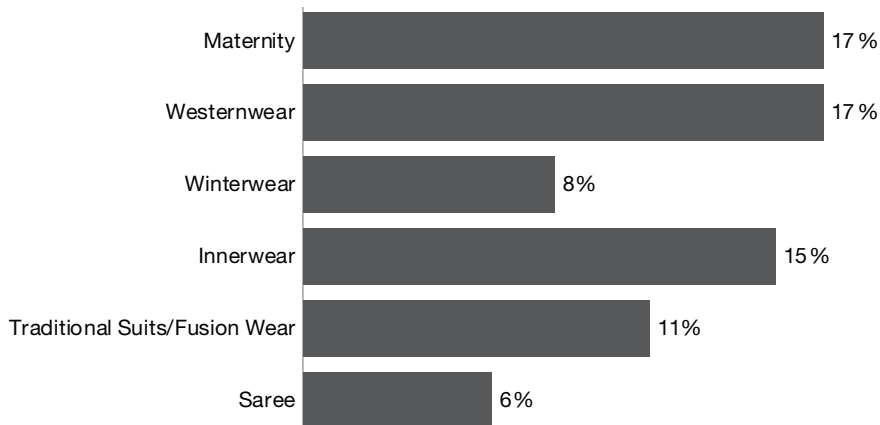
Recent PE investments in ethnic wear brands

Company	Investment (in million USD)
BIBA Apparels Pvt Ltd Faering Capital India Evolving Fund, Warburg Pincus India	51
TCNS Clothing Company Pvt Ltd TA Associates Advisory	140
Ritu Kumar – Ritika Pvt Ltd Everstone	16
House of Anita Dongre Ltd General Atlantic	50
Fab India Overseas Pvt Ltd. PI Opportunities Fund I	109

Source: VCC Edge, February 2018

Key trends

CAGR of segments in women's apparel



Source: PwC analysis, February 2018

Western wear is growing the fastest

Western wear is growing at a CAGR of 17%. The market is valued at around 700 million USD with both global and national players. With more than 40% of the population working and rising urbanisation, the demand for Western wear is going to increase further and it is likely to become one of the top segments by market share in the future.

Rise in demand for brands with higher fashion content

With the rise in disposable income and sophistication of digital and other media, consumers are becoming more aware, fashion conscious and hence demanding more variety and designs. There is a trend towards brand loyalty, where style and design are among the top three considerations for consumers.

Creation of brands online

The e-retail market in India is currently valued at USD 16.3 billion and is expected to grow at a CAGR of 45% from 2017 to 2020. This growth in e-commerce has facilitated the creation of brands online. Several big brands like Jaypore and FabAlley have emerged which sell their products primarily online and are growing at very high rates. It has provided designers and entrepreneurs a platform to sell their products to a nation-wide market without incurring high initial set-up costs. Flipkart-owned e-commerce giant Myntra owns 13 private labels which contribute around one-fourth of its revenue, including several popular brands like Roadster, Dressberry, Anouk and HRX by Hrithik Roshan. Venture capitalists are investing heavily in such businesses to capitalise on this high-growth segment.

Rise in demand for high-fashion brands

Brand	No. of designs
ZARA	588
MANGO	599
W	600
BIBA	644
FabIndia	250

Source: PwC analysis, February 2018

Various factors are fuelling this growth

Rising number of working women

The increasing female workforce and a shift in consumer buying behaviour from need-based purchase to aspirational buying has increased the demand for apparel products, typically in the fusion and Western wear market.

Rising discretionary spending

Rising disposable income is causing an increase in discretionary spending, which is sparking up demand for newer and more sophisticated products. Segments like maternity and innerwear in apparel are growing at a rate of 17% because of this trend.

Initiation of single brand retail

The government's execution of 100% FDI in single brand retail has made India a lucrative market, causing a rise in investments and leading to the entry of several big global players. These developments are driving growth in the apparel market.

Growth in e-commerce

E-commerce has provided both established and new players an opportunity to reduce their store set-up costs and expand faster by gaining access to a nationwide market and better consumer behaviour tracking.

Source: PwC analysis, February 2018



Transactions in Q3 FY18 in the retail and consumer space

Deal round-up

Executive summary

Retail and consumer deals experienced a low in terms of deal value in Q3 FY18 as compared to the previous quarter. Despite this, it had the second highest deal value since Q2 FY16.

In Q3 FY18, 22 deals worth 30,190 million INR were announced in the retail and consumer sector.

Domestic M&A deals saw a massive surge over Q2 FY18, both in terms of volume and value. The Q3 FY18 domestic M&A deal value was 8,491 million INR across a total of six deals.

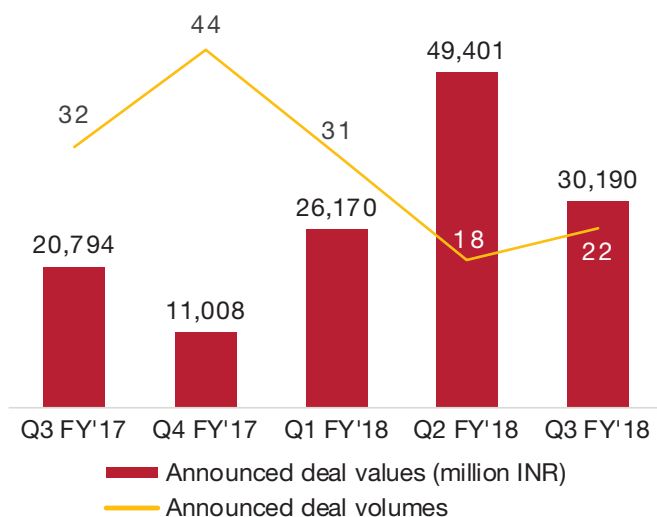
The largest M&A deal this quarter was the inbound acquisition of Havmor Ice Cream by Lotte Confectionery (Korea) for 9,704 million INR.

The largest PE deal in Q3 FY18 was the investment of 3,224 million INR in Impresario Entertainment & Hospitality by L Catterton Asia (Singapore).

This quarter has had a healthy mix of domestic, PE and inbound deals by deal value. PE deals had a 38% share of deal value, followed by inbound deals with a 33% share and domestic deals with a 28% share.

PE deals contributed 64% by deal volume, domestic deals followed with 27% and inbound deals with 9%.

Retail and consumer deal value and volume



Source: VCCEdge, February 2018

Deal value by numbers (Q3 FY18)

30,190
million INR

(39%)

Decrease in deal value versus Q2 FY18

45%

Increase in deal value versus Q3 FY17

Deal volume by numbers (Q3 FY18)

22
deals

22%

Increase in deal volume versus Q2 FY18

(31%)

Decrease in deal volume versus Q3 FY17

Source: VCCEdge, February 2018

Key trends and highlights

Deal value was 39% lower this quarter as compared to Q2 FY18. However, deal volume increased in Q3 FY18 by 22% over Q2 FY18. This was largely driven by the increased deals in food and beverage (F&B).

Comparing this quarter's performance to the previous year—that is, Q3 FY17—we can see that the total deal value has increased by 45%, whereas the deal volume has fallen by 31%.

This quarter experienced 64% of PE deals by volume but only 38% by value, indicating smaller ticket sizes this quarter.

M&A deals, on other hand, indicated the opposite, with 36% of deals by volume and 62% by value in Q3 FY18.

Deals in the retail and consumer sector were largely driven by F&B and apparel and retail, which together accounted for 81% of deals by value and 77% of deals by volume in Q3 FY18.

Q3 FY18 was a mixed bag

Q3 FY18 witnessed a slowdown in deal value compared to Q2 FY18. Inbound deals recorded a 23% decrease in deal value over the previous quarter owing to the international holiday season. Domestic M&A deals in Q3 FY18 have increased 14.5x times by value in comparison to Q2 FY18, though it is 12% lower than the deal value in Q3 FY17. The trend over the last year shows that domestic M&A is on the rise (though Q2 FY18 has proven it is the exception).

Domestic M&A has picked up

This quarter, the number of domestic M&A deals jumped to six, with a value of 8,491 million INR. The largest domestic deal was the acquisition of Hypercity Retail by Future Retail for 6,423 million INR.

Inbound M&A is still going strong

This quarter, there were only two inbound deals with a value of 10,093 million INR. Foreign buyers still believe that India is an attractive market and would provide them with opportunities for growth.

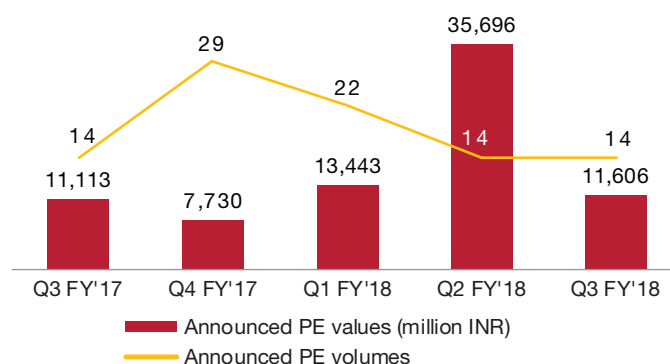
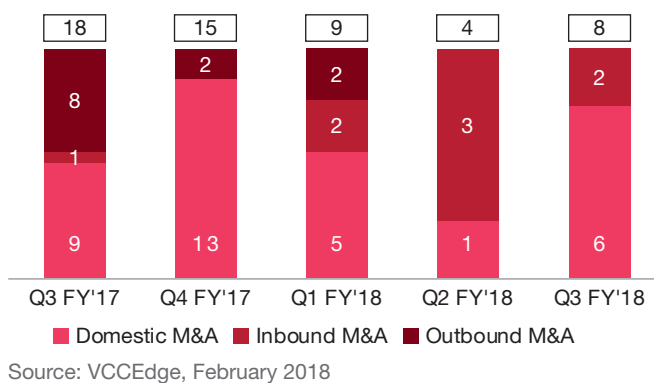
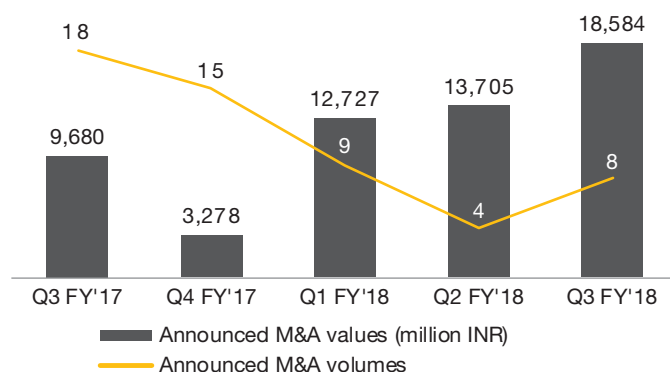
PE deals fall due to smaller ticket sizes

The volume of deals remained at 14 (same as the previous quarter) and constituted 64% of the total deal volume. PE deal value in Q3 FY18 was less than one-third of what it was in Q2 FY18.

While the number of deals remained similar or close to the trend observed over the previous quarters, the value drastically fell to the lowest it has been since the Q4 FY17. This would point to smaller investments made by financial buyers in Indian companies.

IPO activity

The 5,430 million INR IPO of footwear retailer Khadim India Ltd witnessed an overall subscription of 1.89 times on the final day. On day one and two of the IPO, the issue had witnessed a subscription of 18% and 45% respectively. On the last day, the portion of shares reserved for institutional investors was subscribed 2.45 times and those set aside for retail investors and high net-worth individuals (HNIs) were subscribed 2.3 times. Khadim had set a price band of 745–750 INR per share. Proceeds will go towards working capital, paying down loans and corporate expenses.



Sector round-up

Sector snapshot

F&B deals contributed 45% of the total deal volume and 46% to the total deal value. It beat its Q2 FY18 performance by 4% at 14,014 million INR and recorded a 67% rise in volume with a total of 10 deals in Q3 FY18. Sixty-nine percent of the value was attributed to the Havmor-Lotte deal.

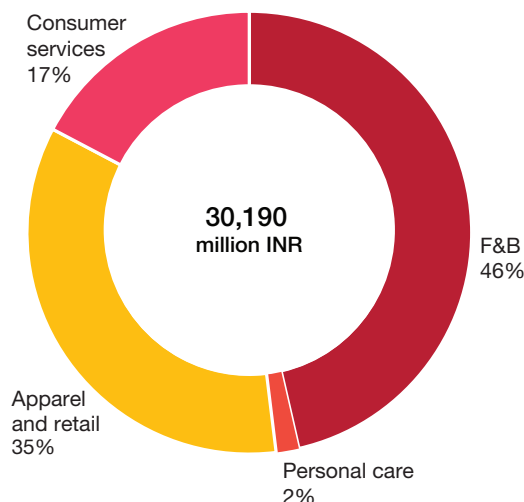
Apparel and retail stood at 10,466 million INR, a decline of 46% over the previous quarter's performance. The segment had seven deals announced in Q3 FY18—one more than in Q2 FY18. It constituted 35% by value and 32% by volume to the total retail and consumer deals this quarter. Sixty-one percent of the deal value in this segment was contributed by the Hypercity-Future Retail transaction.

Deal value in the consumer services segment grew by 81% over the previous quarter, while the number of deals stayed the same. There were three deals totalling 5,211 million INR. Sixty-two percent of that value was contributed by the L Catterton-Impresario deal.

Deals in the personal care segment fell from three in Q2 FY18 to two this quarter. The segment recorded a 96% decrease in deal value over the previous quarter, with investments worth 499 million INR.

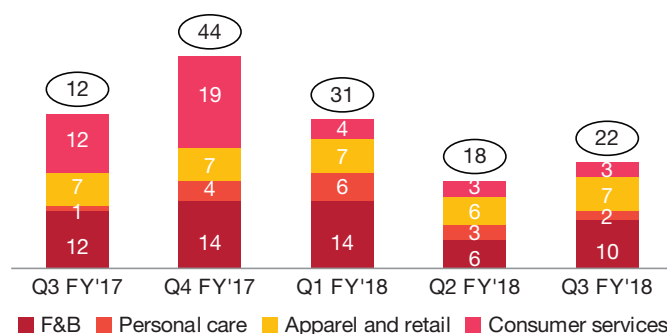
This quarter also saw a private investment in public equity (PIPE) transaction in the apparel and retail space, with an investment of 758 million INR into V2 Retail by the India 2020 Fund.

Q3 FY18



Source: VCCEdge, February 2018

Deal volume



Source: VCCEdge, February 2018









Key announced transactions

Top M&A/PE deals in the quarter

Target	Acquirer	Target industry	Deal value (million INR)	Stake
Havmor Ice Cream	Lotte Confectionery	F&B	9,704	100%
Hypercity Retail	Future Retail	Apparel and retail	6,423	100%
Impresario Entertainment and Hospitality	L Catterton Asia	Consumer services	3,224	NA
Massive Restaurants	Gaja Capital	Consumer services	1,587	NA
Southern Health Foods	Morgan Stanley PE	F&B	1,546	NA
OCM	Donear Industries	Apparel and retail	967	100%
Chumbak Design	Seedfund, Matrix Partners, Gaja Capital, Narayan Ramachandran	Apparel and retail	847	NA
V2 Retail	India 2020 Fund (PIPE transaction)	Apparel and retail	758	6%



Trading multiples for public companies

	Company name	Price	% of 52 week high	% of 52 week low	Market cap
	F&B				
	ITC Limited	260.5	71%	4%	3,177,997
	Nestlé India Limited	7,693.40	96%	26%	741,765
	Dabur India Limited	321.3	87%	21%	565,900
	Britannia Industries Limited	4,861.40	96%	51%	583,661
	Tata Global Beverages Limited	273.1	83%	94%	172,365
	Manpasand Beverages Limited	381.3	75%	14%	43,645
	Prataap Snacks Limited	1,322.10	94%	20%	31,008
	DFM Foods Limited	1,630.00	78%	45%	16,336
	Mean				
	Median				
	Home and personal care				
	Hindustan Unilever Limited	1,299.10	92%	46%	2,811,956
	Godrej Consumer Products Limited	1,056.00	94%	30%	719,498
	Colgate-Palmolive (India) Limited	1,043.00	89%	8%	283,687
	Emami Limited	1,020.80	72%	3%	231,693
	Procter & Gamble Hygiene and Health Care Limited	9,436.30	95%	41%	306,310
	Gillette India Limited	6,421.40	89%	59%	209,242
	Jyothy Laboratories Limited	359.6	82%	11%	65,365
	Bajaj Corp Limited	465.7	89%	36%	68,692
	Marico Limited	301.1	87%	8%	388,659
	Mean				
	Median				
	Dairy				
	Hatsun Agro Product Limited	726.2	75%	47%	110,507
	Kwality Limited	90.9	54%	12%	21,632
	Parag Milk Foods Limited	278	87%	35%	23,384
	Heritage Foods Limited	757.6	85%	50%	35,152
	Prabhat Dairy Limited	165.7	64%	67%	16,185
	Mean				
	Median				
	Apparel and retail				
	Avenue Supermarts Limited	1,368.30	99%	145%	853,951
	Page Industries Limited	20,535.00	80%	50%	229,045
	Aditya Birla Fashion and Retail Limited	140.8	75%	1%	108,618
	Future Lifestyle Fashions Limited	402.7	94%	87%	76,672
	Trent Limited	349.6	97%	52%	116,164
	Shoppers Stop Limited	540.2	90%	86%	47,508
	Kewal Kiran Clothing Limited	1,566.00	71%	9%	19,301
	Indian Terrain Fashions Limited	189.9	75%	17%	7,205
	Mean				
	Median				
	Consumer services				
	Jubilant FoodWorks Limited	2,108.10	91%	158%	139,105
	Westlife Development Limited	315.7	81%	57%	49,120
	Talwalkars Better Value Fitness Limited	260.6	73%	16%	8,079
	Speciality Restaurants Limited	131.5	67%	80%	6,175
	Mean				
	Median				
	Other retail				
	Titan Company Limited	876.2	93%	99%	777,893
	PC Jeweller Limited	371	62%	90%	146,289
	Bata India Limited	700.3	84%	41%	90,003
	Relaxo Footwears Limited	632.5	87%	44%	76,119
	Mirza International Limited	123.3	67%	47%	14,828
	Gitanjali Gems Limited	12.4	12%	-	1,465
	Liberty Shoes Limited	200.2	65%	22%	3,411
	Khadim India Limited	677.5	91%	5%	12,172
	Mean				
	Median				

Source: CapitalIQ, 19 March 2018

Note: nm indicates non-meaningful

Enterprise value	Revenue	EBITDA	PAT	EPS	EV/sales	EV/EBITDA	P/E	EBITDA %	PAT %
3,048,402	428,036	154,144	102,894	7.66	7.1x	19.8x	30.8x	36.0%	24.0%
713,178	100,096	22,327	12,252	127.3	7.1x	31.9x	60.5x	22.3%	12.2%
562,293	75,423	15,536	12,913	5.58	7.5x	36.2x	44x	20.6%	17.1%
577,478	95,705	14,077	9,515	71.6	6.0x	41x	61.3x	14.7%	9.9%
175,632	68,006	8,700	4,675	6.61	2.6x	20.2x	36.9x	12.8%	6.9%
41,850	8,309	1,606	882	5.08	5.0x	26.1x	51.1x	19.3%	10.6%
29,903	9,888	785	349	14.7	3.0x	38.1x	81.4x	7.9%	3.5%
16,671	4,196	455	194	18	4.0x	36.6x	84.1x	10.9%	4.6%
					5.3x	31.2x	56.3x	18.1%	11.1%
					5.5x	34.1x	55.8x	17.0%	10.3%
2,758,825	331,620	63,280	44,760	17.7	8.3x	43.6x	62.7x	19.1%	13.5%
738,161	97,040	20,417	14,046	16.4	7.6x	36.1x	51.2x	21.0%	14.5%
279,285	41,338	10,521	6,272	21.5	6.8x	26.5x	45.2x	25.5%	15.2%
234,668	24,875	7,683	3,302	12.3	9.4x	30.5x	70.2x	30.9%	13.3%
303,450	24,385	7,027	4,245	130.7	12.4x	43.2x	72.2x	28.8%	17.4%
208,236	17,480	4,417	2,666	78.5	11.9x	47.1x	78.5x	25.3%	15.3%
70,310	16,753	2,410	2,169	7.96	4.2x	29.2x	30.7x	14.4%	12.9%
65,332	7,966	2,642	2,182	12.1	8.2x	24.7x	31.5x	33.2%	27.4%
378,611	61,567	11,738	8,026	5.02	6.2x	32.3x	48.9x	19.1%	13.0%
					8.3x	34.8x	54.6x	24.1%	15.8%
					8.2x	32.3x	51.2x	25.3%	14.5%
119,291	44,456	4,144	1,323	6.35	2.7x	28.8x	83.7x	9.3%	3.0%
37,116	68,718	4,538	1,942	6.94	0.5x	8.2x	11.1x	6.6%	2.8%
24,988	18,650	2,087	966	8.96	1.3x	12.0x	23.7x	11.2%	5.2%
36,094	23,421	1,459	569	-33	1.5x	24.7x	46.5x	6.2%	2.4%
17,987	15,279	1,269	279	3.12	1.2x	14.2x	57.7x	8.3%	1.8%
					1.5x	17.6x	44.5x	8.3%	3.1%
					1.3x	14.2x	46.5x	8.3%	2.8%
850,195	118,977	9,987	4,788	8.2	7.2x	86.2x	161.4x	8.4%	4.0%
226,772	24,419	5,015	3,195	262.7	9.3x	45.2x	71.7x	20.5%	13.1%
127,378	70,339	3,166	265	0.23	1.8x	40.2x	NM	4.5%	0.4%
82,834	38,771	3,805	450	2.82	2.1x	21.8x	169.9x	9.8%	1.2%
118,826	18,339	1,289	849	1.29	6.5x	99.1x	198.6x	7.0%	4.6%
56,335	48,982	1,618	1,864	-	1.2x	35.1x	-	3.3%	3.8%
18,386	4,924	994	853	45.9	3.7x	18.5x	22.6x	20.2%	17.3%
7,084	4,563	515	302	7.3	1.6x	13.8x	23.8x	11.3%	6.6%
					4.2x	45.0x	108.0x	10.6%	6.4%
					2.9x	37.7x	116.6x	9.1%	4.3%
137,833	25,834	2,389	578	9.85	5.3x	57.7x	240.7x	9.3%	2.2%
49,903	10,571	724	21	-0.57	4.7x	68.9x	NM	6.9%	0.2%
11,953	3,065	1,829	753	23.1	3.9x	6.5x	10.4x	59.7%	24.6%
5,480	3,152	-16	-264	-3.4	1.7x	NM	NM	-0.5%	-8.4%
					3.9x	44.4x	125.6x	18.8%	4.7%
					4.3x	57.7x	125.6x	8.1%	1.2%
776,545	153,048	14,706	9,994	10	5.1x	52.9x	78.3x	9.6%	6.5%
144,542	84,744	7,579	4,210	8.95	1.7x	19.1x	33.5x	8.9%	5.0%
84,783	24,743	2,844	1,590	12.7	3.4x	29.8x	56.6x	11.5%	6.4%
77,589	19,787	2,743	1,423	11	3.9x	28.3x	53.5x	13.9%	7.2%
16,755	9,260	1,663	743	5.8	1.8x	9.7x	19.1x	18.0%	8.0%
74,327	183,580	6,957	1,965	10.7	0.4x	10.7x	0.7x	3.8%	1.1%
4,759	4,959	393	64	3.82	1.0x	12.1x	53.4x	7.9%	1.3%
13,023	7,128	743	382	18.9	1.8x	17.5x	30.9x	10.4%	5.4%
					2.4x	22.5x	40.8x	10.5%	5.1%
					1.8x	18.3x	43.5x	10.0%	5.9%

All figures are in million INR unless otherwise mentioned

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