

IPO Flash

August 05, 2024

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Brainbees Solutions Ltd. (FirstCry)

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IPO Details:

Issue opens	Tuesday, August 6, 2024
Issue closes	Thursday, August 8, 2024
Issue size	Rs. 4,058-4,194 crore
Type of issue	Fresh issue of equity shares aggregating 3.58-3.79 crore shares and OFS of 5.44 crore shares based on the upper and lower end of the price band
Offer size	Fresh issue of Rs. 1,666 crore; OFS of Rs. 2,392-2,528 crore
Face value	Rs. 2 per share
Price band	Rs. 440-465
Bid lot	32 shares
QIB portion	Not less than 75% of the Offer
Non-Institutional portion	Not more than 15% of the Offer
Retail portion	Not more than 10% of the Offer

Source: Company RHP

About the IPO

Brainbees Solutions Ltd (FirstCry) is coming out with an initial public offer (IPO) consisting of a fresh issue of equity shares amounting to Rs. 1,666 crore and an offer for sale (OFS) of Rs. 2,392–2,528 crore. **The total issue size is Rs. 4,058-4,194 crore. The price band for the issue is Rs. 440-465 per share.** At the upper and lower price band, fresh equity issuance stands at 3.58–3.79 crore shares and OFS is of 5.44 crore shares.

Offer for sale details

Seller	No. of shares
Corporate Selling shareholders	
SVF Frog (Cayman) Ltd.	2,03,18,050
PI Opportunities Fund-1	86,01,292
NewQuest Asia Investments III Ltd.	41,41,043
TPG Growth V SF Markets Pte. Ltd.	38,99,525
Schroders Capital Private Equity Asia Mauritius II Ltd.	38,02,210
Mahindra & Mahindra Ltd.	28,06,174
Apricot Investments Ltd.	25,23,280
Pratithi Investment Trust	2,24,712
Satyadharma Investments & Trading Co. Pvt. Ltd.	1,97,777
Castle Investment & Industries Pvt. Ltd.	1,53,538
Anchor Partners	94,341
Sage Investment Trust	52,516
Individual Selling Shareholders	75,45,275
Total OFS	5,43,59,733

Source: Company RHP

Shareholding pattern

Shareholder	Pre-issue		Post-issue*		Post-issue^	
	No of shares	Holding (%)	No of shares	Holding (%)	No of shares	Holding (%)
Promoters	0	0.0	0	0.0	0	0.0
Non-Promoter Non-Public	5,39,42,930	11.2	0	0.0	0	0.0
Public	42,94,06,540	88.8	52,12,13,106	100.0	51,91,77,427	100.0
Total	48,33,49,470	100.0	52,12,13,106	100.0	51,91,77,427	100.0

Source: Company RHP (*Lower price band; ^Upper price band)

Objects of the issue

Objects	Rs. crore
Investment in Subsidiary, Digital Age for (i) setting up new modern stores under the FirstCry brand and other home brands and (ii) lease payments for existing identified modern stores owned and controlled by Digital Age in India	300
Sales and marketing initiatives	200
Investment in the subsidiary, Globalbees Brands towards the acquisition of an additional stake in step-down subsidiaries	169
Investment in Subsidiary, FirstCry Trading for overseas expansion by: (i) setting up new modern stores and (ii) setting up warehouse(s) in KSA	156
Expenditure for: (i) setting up new modern stores under the 'BabyHug' brand and (ii) setting up a warehouse in India	108
Expenditure for lease payments for existing identified modern stores owned and operated in India	93
Technology and data science cost including cloud and server hosting-related costs	58
Funding inorganic growth through acquisition and other strategic initiatives and general corporate purposes#	583
Fresh issue size	1,666

Source: Company RHP

Company background

FirstCry is India's largest multi-channel retailing platform for mothers', babies' and kids' products, in terms of GMV, for FY2024, according to the RedSeer Report, with a growing presence in select international markets. Launched in India in 2020, the company's integrated FirstCry platform helps fulfil three essential parenting needs i.e., shopping, parenting community, and education. The company addresses the needs of its customers across various channels: online platform, modern stores, and general trade retail distribution channels in India; and online platforms in UAE and KSA. FirstCry's content-led strategy enables engagement with parents early in their parenting lifecycle through its YouTube channel, FirstCry.com parenting platform. The company owns and operates several pre-schools in India through Edubees Educational Trust and also operates a network of pre-schools in India through its franchisees.

The company offers products in various categories, including apparel, footwear, baby gear, nursery, diapers, toys, and personal care, amongst others. As of March 31, 2024, across its platform, FirstCry offered more than 1.65 million SKUs from 7,580 brands, including third-party Indian brands, global brands, and its home brands (BabyHug, CuteWalk, Pine Kinds, and Babyoye).

The company's multi-channel retailing platform includes FirstCry's online platform accessible through its mobile application and website, FirstCry modern stores comprising franchisee-owned, franchisee-operated modern stores (FOFO), company-owned and company-operated modern stores (COCO) as well as general trade retail distribution. As of March 31, 2024, the company has a network of 1,063 FirstCry and BabyHug modern stores in 533 cities in 28 states and five union territories across India with over 2.12 million square feet of retail space.

The company established Globalbees Brands Private Limited (Globalbees Brands) in 2021, to create a digital-first platform for helping D2C Indian and global brands grow their business in India across online platforms and modern stores. The company holds a 50.23% stake on a fully diluted basis in Globalbees Brands. Through Globalbees Brands, the company strategically invests in and acquires D2C brands. Globalbees Brands' products (over 218,000 SKUs across 74 brands) are sold on 16 online horizontal and vertical marketplaces (including the FirstCry marketplace). The Globalbees house of brands covers four key categories: home utilities, fashion/lifestyle, appliances, and beauty and personal care/home and personal care.

Leveraging its experience of building the FirstCry platform in India, the company commenced operations in UAE in October 2019 and currently operates as an online platform in the UAE. Further, the company commenced operations in Kingdom of Saudi Arabia (KSA) in August 2022. In UAE and KSA, the company's product basket comprises more than 273,000 SKUs from over 3,600 brands, including global brands, home brands, and third-party Indian brands. After the UAE, the company aims to replicate its India playbook in KSA.

During FY2024, the company had a network of more than 900 contract manufacturers across India and in other countries for its home brands, excluding contract manufacturers engaged by Globalbees Brands and its subsidiaries. As of March 31, 2024, the company's multi-channel retailing platform had an integrated supply chain consisting of 80 warehouses and stockists across 47 cities in India, with a total capacity of 3.18 million sq. ft., supporting its 1,063 modern stores.

Brief profile of directors and top management

- ♦ **Supam Maheshwari (Managing Director and Chief Executive Officer):** He holds a bachelor's degree in engineering (Mechanical) from Delhi College of Engineering, University of Delhi, and a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad. He has been on the company's board since incorporation. He was previously associated with Brainvisa Technologies Private Limited as a president.
- ♦ **Gautam Sharma (Group Chief Financial Officer):** He holds a bachelor's degree in commerce from Gujarati Commerce College, Indore. He joined the company on May 28, 2012. Before joining the company, he worked with Birla Ericsson Optical Limited, Minda Valeo Security Systems Private Limited, Reliance Industries Limited, and Vindhya Telelinks Limited.
- ♦ **Sanket Hattimatur (Executive Director and Chief of Staff):** He holds a bachelor's degree in commerce (Financial Accounting and Auditing) from University of Mumbai. He joined the company on September 9, 2010. Before joining the company, he worked with Brainvisa Technologies Private Limited, Deutsche Bank Group – Global Markets Centre Private Limited and Tata AIG Life Insurance Company Limited.
- ♦ **Prashant Jadhav (Chief Technology Officer):** He holds a bachelor's degree in Arts (Politics) from Shivaji University, Kolhapur. He joined the company on September 9, 2010. Before joining the company, he worked with Brainvisa Technologies Private Limited.
- ♦ **Neelam Jethani (Company Secretary and Compliance Officer):** She holds a bachelor's degree in science from University of Pune and a bachelor's degree in law from Savitribai Phule, Pune University. She joined the company on December 1, 2022. Before joining the company, she worked with Schaeffler India Limited, Persistent Systems Limited, and KPIT Technologies Limited.

Industry Overview

- ♦ India has one of the highest birth rates globally, with the annual birth rate of India at ~1.5x of developed economies.
- ♦ Childcare products spending per capita in India is currently nascent, at only Rs. 9,280-9,350 in FY2024. It is projected to grow faster than mature markets, at a CAGR of 13-15% over FY2024-FY2029 (compared to 2-4% for USA and 5-7% for China).
- ♦ Childcare products market in India is projected to report a CAGR of 12-14% to reach Rs. 5,150-5,450 billion by FY2029, driven by 1) Increased demand due to rising adoption of childcare products and rising disposable income, 2) Shorter product replacements cycles and higher purchase frequency, 3) Increased penetration across Tier 2+ cities and towns, and 4) Higher prices due to premiumisation.
- ♦ Within the childcare products market in India, the organised segment has reported a 24% CAGR compared to 7% growth for the unorganised segment during FY2020-FY2024, taking its share to ~16% in FY2024. Going ahead, the organized segment is projected to report a CAGR of 19-21% over FY2024-FY2029, increasing the share of the organised market to ~21% by FY2029. Factors contributing to growth include – 1) rapid adoption of e-commerce platforms, 2) rise in penetration of organised retailers beyond Tier 2+ cities and towns, and 3) increasing preference of parents towards branded products.
- ♦ The UAE childcare products market is projected to report a CAGR of 3-5% during FY2024-FY2029 to reach ~Rs. 240-280 billion by FY2029, driven by the acceleration of digitalisation through e-commerce platforms, resumption of schools, and regular activities post COVID-19 lockdown, increasing participation of new childcare-focused, verticalised e-commerce brands, and a shift of customer preference towards trustworthy and branded products.
- ♦ KSA, the largest childcare products market in GCC, is projected to report a CAGR of 3-5% during FY2024-FY2029 to reach Rs. 640-680 billion by FY2029, driven by near-ubiquitous smartphone and internet penetration, a large young population, and the Vision 2030 plan.

Key strengths

- ♦ **India's largest multi-channel, multi-brand retailing platform for mothers', babies' and kids' products:** FirstCry is India's largest multi-channel retailing platform for mothers', babies' and kids' products, in terms of GMV, for FY2024, according to the RedSeer Report. FirstCry's scale in multi-channel retailing in India, along with a large parenting community on its platform provides the company with a variety of advantages, such as a large volume of organically generated content, brand affinity, the opportunity to launch additional home brands, and the potential to improve margins led by economies of scale.
- ♦ **FirstCry.com parenting platform has powerful network effects, driven by content, brands, and data:** FirstCry's content-led strategy enables engagement with parents early in their parenting lifecycle through the FirstCry.com parenting platform. Customers value the content on FirstCry's platform and further enhance it by adding their own experiences to the platform. Its unique content strategy aids in increased content consumption and community engagement leading to increased customers, which in turn leads to more transactions.
- ♦ **Combination of curating growing home brands and relationships with third-party brands:** FirstCry offers customers a variety of products, ranging from products of global and domestic brands for mothers, babies, and kids (such as Medela India Private Limited, Chicco, Mee-Mee, and Funskool (India) Limited), mompreneurs (i.e., mothers who operate home-based businesses) and own home brands. The company has created its own baby and children product home brands for India and international markets such as BabyHug, Babyoye, Cutewalk, and Pine Kids, among others, in the mid-to-premium category. These brands play a key role in increasing the assortment of products for customers.

- ♦ **Full-stack platform with control over manufacturing and supply chain:** During FY2024, FirstCry leveraged a network of over 900 contract manufacturers across India and overseas for its home brands, excluding contract manufacturers engaged by Globalbees Brands and its subsidiaries. The company's in-house developed product lifecycle management system (PLM) helps manage each stage of the production cycle, thereby providing control on production management with agility. FirstCry's manufacturing and supply chain network coupled with its custom-built technology platform enables it to follow an auto-replenishment ordering model for its modern stores.

Key concerns

- ♦ The company does not have exclusive agreements with contract manufacturers, suppliers, and third-party brands. If contract manufacturers or third-party brands terminate their relationship with the company, the quantity and variety of products that are offered through its multi-channel retailing platform may decline and may have an impact on customer purchases.
- ♦ The company significantly depends on franchisees, warehouse operators, logistic partners, distributors, and other such commercial relationships for its product distribution network. Any change in relationships with such entities or adverse conditions that affect such entities could adversely affect the company's operations.

Key financial and operating highlights

- ♦ Revenue grew by 15.1% y-o-y in FY2024 to Rs. 6,481 crore, registering a 64% CAGR over FY2022-FY2024. In FY2024, the contribution to revenue from India multi-channel business, international business, and Globalbees Brands business stood at 70.7%, 11.6%, and 18.7%, respectively.
- ♦ In FY2024, the company's India multi-channel business (excluding education and Globalbees segment) reported 34.1 million orders, registering a 15.2% CAGR over FY2022-FY2024) had 8.7 million annual unique transacting customers (reported a 14% CAGR over FY2022-FY2024), with average order value rising to Rs. 2,226 (4.4% CAGR over FY2022-FY2024).
- ♦ Core India multi-channel business (excluding education and Globalbees segment) grew by 17.1% y-o-y in FY2024 to Rs. 4,579 crore, with adjusted EBITDA margin of 8.8%. The international business reported 54.6% y-o-y revenue growth to Rs. 754 crore, with improving profitability.
- ♦ Gross margin improved by 563 bps y-o-y to 35.8% in FY2024 (rose by 123 bps over FY2022).
- ♦ EBITDA came in at 1.1% versus losses in the previous years. Adjusted EBITDA is adjusted for share-based compensation expenses, salaries, and wages accounted as per Para B55 of Ind-AS 103 and deal-related costs. Adjusted EBITDA margin rose by 290 bps y-o-y to 4.2% in FY2024.
- ♦ Reported loss came in at Rs. 322 crore versus Rs. 486 crore in FY2023.
- ♦ At FY2024-end, the company had a cash and bank balance of Rs. 674 crore.
- ♦ Working capital days improved to 22 days in FY2024 versus 29 days in FY2023 and 59 days in FY2022.

Valuation and view

At the upper and lower end of the price band, FirstCry is valued at 3.8x and 3.7x its FY2024 EV/sales, respectively. FirstCry is India's largest multi-channel retail platform for mothers', babies', and kids' products with a growing presence in select international markets. The company is currently a loss-making venture; however, scaling up of the businesses and growth initiatives undertaken by the company will help it to post better results in the coming years.

KEY FINANCIALS

Profit and Loss Statement (Reported)

Rs crore

Particulars	FY2022	FY2023	FY2024
Revenue from operations	2,401.3	5,632.5	6,480.9
y-o-y growth (%)		134.6	15.1
Cost of material	1,572.1	3,935.3	4,163.2
Gross Profit	829.1	1,697.2	2,317.7
Gross margins (%)	34.5	30.1	35.8
Employee expenses	338.8	769.8	686.5
Other expenses	508.5	1,244.7	1,560.7
Total Expenditure	847.4	2,014.5	2,247.2
Operating profit	-18.2	-317.3	70.5
OPM (%)	-0.8	-5.6	1.1
Other income	115.6	98.7	94.2
Finance cost	37.7	71.6	115.4
Depreciation	110.9	294.3	370.9
PBT	-51.1	-584.4	-321.5
Tax expense	27.5	-44.0	0.0
Adjusted PAT	-78.7	-540.4	-321.5
NPM (%)	-3.3	-9.6	-5.0
Exceptional items		-54.4	
Reported PAT	-78.7	-486.1	-321.5

Source: Company RHP

Consolidated Balance Sheet

Rs crore

Particulars	FY2022	FY2023	FY2024
Assets			
Non-current assets	-	-	-
Property, Plant & Equipment (incl. right of use)	570.3	1,133.2	1,570.0
Capital WIP & intangible assets under development	41.7	26.5	0.5
Goodwill and other intangible assets	1,642.3	2,399.9	2,297.9
Financial assets	32.2	89.1	99.6
Deferred tax assets (net)	113.0	162.8	189.7
Other non-current assets	96.3	305.4	299.0
Current assets	-	-	-
Inventories	979.6	1,286.0	1,629.5
Trade receivables	218.0	225.1	218.4
Cash & cash equivalent	404.9	259.4	361.7
Bank balance	1,863.3	920.0	312.1
Loans & Other financial assets	23.5	52.1	115.3
Other current assets	212.1	260.3	416.6
Total Assets	6,197.2	7,119.8	7,510.4
Liabilities			
Equity Capital	81.4	81.5	81.5
Equity component of compulsorily convertible PS	7.0	7.0	7.0
Other reserves	3,439.5	3,367.7	3,082.2
Non-controlling interest	760.1	743.4	620.7
Total equity	4,288.0	4,199.7	3,791.5
Non-current liabilities	-	-	-
Borrowings (incl. lease liabilities)	313.4	695.9	1,077.7
Provisions	13.5	18.8	24.9
Other non-current liabilities	670.9	1,000.6	1,047.2
Current liabilities	-	-	-
Borrowings (incl. lease liabilities)	96.0	203.2	344.8
Trade payables	528.9	737.9	907.9
Other liabilities	283.3	258.8	310.7
Provisions	3.2	5.0	5.7
Total Equity & Liabilities	6,197.2	7,119.8	7,510.4

Source: Company RHP

Cash flow statement

Rs crore

Particulars	FY2022	FY2023	FY2024
Net cash generated from operating activities	-131.7	-399.0	-42.1
Net cash generated from investing activities	-490.6	304.1	62.9
Net cash generated from financing activities	644.4	-50.6	81.5
Net increase/(decrease) in cash and cash equivalent	22.1	-145.5	102.3
Cash at the beginning of the year	382.8	404.9	259.4
Cash and cash equivalent at end of the year	404.9	259.4	361.7

Source: Company RHP

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