



SPARK 
CAPITAL

INVESTMENT BANKING NEWSLETTER

CONSUMER

JUNE 2018

FROM THE DIRECTOR'S DESK

“ Dear Reader,



Welcome back to the second edition of the consumer newsletter by Spark Capital. As with the inaugural edition, we bring you a flavour of the recent happenings in the consumer space that we believe to be worth noting.

In this edition we take a look at a few macro indicators of consumption health in the economy. There are pockets of high growth within the broader consumer theme but the overall growth for Q4FY18 has been moderate. The inflationary growth we alluded to in our inaugural edition of the newsletter remains firmly in the realms of possibility.

We caught up with Mr. Gautam Saraogi, CEO and Co-founder of Go Colors – India's leading women's bottom-wear brand. He shares Go Colors' inspirational story – one that has brought a great vision and superlative execution together to perform alchemy in the crowded women's apparel space.

We also take a look at the strategic moves playing out in the larger retail space. The blurring of lines across online and offline retail means the fight for India's large retail market is only just beginning to heat up. Even with all the buzz around the Walmart-Flipkart deal we are more excited by a potential partnership between the Future Group and Amazon. Food and grocery will be the next frontier and a Future-Amazon partnership would be extremely formidable.

As always we wrap up with insights from our Institutional Equities desk.

We hope that you will find this newsletter insightful and we look forward to your feedback

We thank Mr. Gautam Saraogi, CEO and Co-founder of Go Colors and our colleagues from the Institutional Equities desk for their valuable inputs

See you in August next! ”

K Ganesh

**Director & Head – Consumer
Investment Banking**

WHAT'S INSIDE?

4

[Analysis](#)

CONSUMPTION OUTLOOK

Insights from high frequency data on economy

5

[Interview](#)

GO COLORS!

THE ART OF DRESSING DOWN

Story of Go Colors' alchemy in the crowded women's apparel space

8

CURRENTS OF CHANGE

[Moves in the retail space - our analysis](#)



Future Group looking to win the larger retail war

9

RECENT CONSUMER DEALS AND DEVELOPMENTS

[News and Announcements](#)



Recent activities and developments across the Indian consumer landscape

13

[Analysis](#)



FROM OUR EQUITIES DESK

Insights from Spark's Institutional Equities Desk



CONSUMPTION OUTLOOK

Spark fact file

Investment Banking



USD 5.6 Bn
Total transaction value till date



USD 3.8 Bn
Capital raised till date



USD 1.8 Bn
M&A transaction value till date



300+
Number of fund relationships globally



USD 500 Mn
Average annual deal closure value for the last 3 years



11
No. of transactions > USD 100 Mn



~USD 1.2 Bn
Current value of transactions being executed



Consumer



~USD 300 Mn
Total transaction value till date

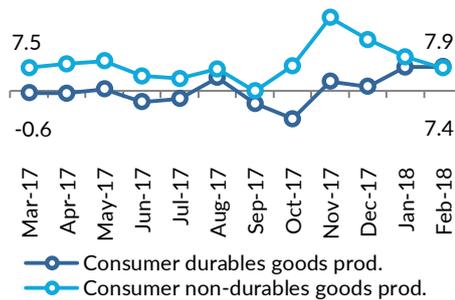


~USD 350 Mn
Current value of transactions being executed

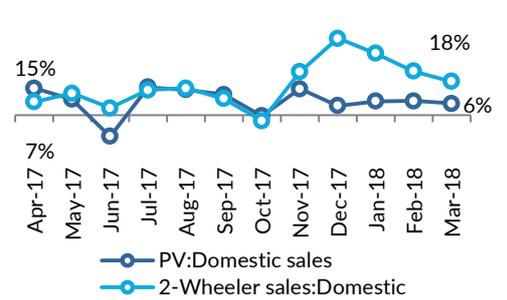
Moderation in consumption growth – but there are pockets of high growth

- ↑ Consumer durable sales has picked up in the quarter while non-durables is down from the peaks of Nov- 2017
- ↓ Passenger vehicles and 2 wheeler sales growth has moderated
- ↑ Credit card outstanding increased by 33% indicating sustained consumer sentiment
- ↑ Domestic air traffic growth continues to remain high
- ↓ Job growth slowed and rural incomes have maintained historic growth rates
- ↓ Core inflation has continued its climb

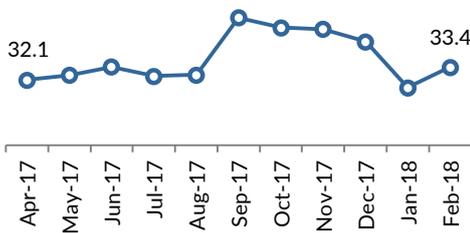
Consumer durables and non durables y-o-y growth



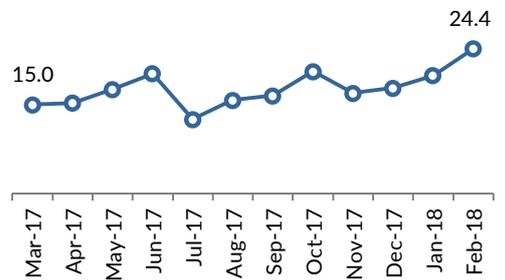
Passenger vehicles and 2 wheeler sales y-o-y growth



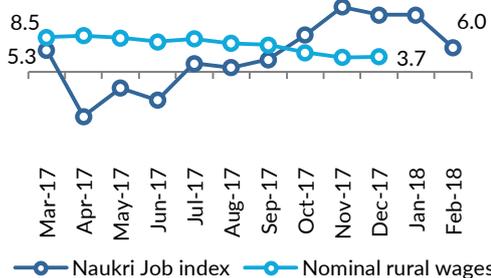
Growth in Credit card outstanding (y-o-y)



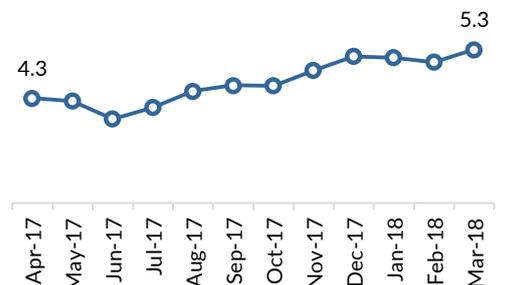
Domestic Air traffic growth (y-o-y)



Naukri Job Index and growth in rural incomes



Core CPI inflation



EXPERT SPEAK

Full Service, Mid-Market I-Bank

- Investment Banking (VC, PE, M&A, IPO, QIP, PIPE)
- Institutional Equities
- Fixed Income Solutions
- Investment Advisory

Knowledge Banking

- Dedicated sector teams with deep domain expertise
- Ability to bring new ideas to the market
 - Wildcraft
 - People Combine
 - Go Colors
 - ID Foods

Relationship Banking

- Long standing relationships with leading consumer sector companies across various segments
- Track record of multiple engagements with existing clients

Deep Distribution

- Extensive reach to over 300 funds across
 - Private Equity
 - Hedge Funds
 - Family Offices
 - Sovereign Funds
 - Corporates

THE ART OF DRESSING DOWN



Gautam Saraogi
Founder & CEO

GO COLORS!

We caught up with the Founder & CEO of Go Colors, Mr. Gautam Saraogi, on the Company's journey, his views on the unique women's bottom-wear market and the opportunities that lie ahead. He shares Go Colors' unique story and what led to their run-away success

1. Your family has historically run a successful garment export business. What drew you away from that to create Go Colors?

Our family has been in the garments export business for over 30 years, supplying to some of the best brands in womenswear globally. We realized that womenswear brands across the globe focus more on top-wear compared to bottom-wear. In a market like India, that gap is further accentuated and we saw that there was a latent opportunity to create a bottom-wear focused brand. That led to the genesis of Go Colors.

We started in 2010 by offering a wide range of leggings and expanded our offering to span the entire spectrum of women's bottom-wear.

2. What is the opportunity you see in the women's bottom-wear segment?

The market for bottom-wear in the womenswear segment is extremely large and is evolving with the changing tastes of consumers. In terms of volume, the bottom-wear segment is at least as large as the top wear segment. An increasing trend that favors the space is the fact that women mix and match the same top-wear with multiple bottom-wear options further increasing the purchase volume.

There is also an unorganized to organized conversion at play in the space. The low ticket sizes of purchases in this segment make it easy for consumers to switch from unorganized players to brands when they see value.

Organized play in bottom wear has lagged that in top-wear and there is a lot of white space out there to be captured. We are very bullish on the opportunity in this space.

EXPERT SPEAK

Select Consumer Transactions

May 2018

Exclusive Advisor

To



Private Equity Fund Raise

From



Undisclosed

May 2018

Exclusive Advisor

To



Acquisition

By



Undisclosed

January 2018

Exclusive Advisor

To



Private Equity Fund Raise

By



~USD 15 Mn

December 2017

Advisor

To



Private Equity Fund Raise

From

8th EIGHT ROADS™

~USD 10 Mn

3. Go Colors has a strong, loyal and an ever growing customer base. What draws them to Go Colors?

We have always kept the customers' needs central to our product thesis. Our belief is that to attract and retain customers we need to offer value that marries quality, variety and affordability.

All our products offer superior comfort and fit and a lot of work has gone into getting both these parameters absolutely right for each of the geographies we serve. A lot of our customers keep coming back to us because of the high quality of our products.

We also offer one of the widest selection of bottom-wear in the market across product categories spanning ethnic, western and fusion and a large color palette.



4. Apparel business, especially fast growing ones, have traditionally struggled to keep inventories from ballooning. How have you addressed this challenge, especially given that you offer one of the widest product ranges in the market?

From the very beginning of our journey we were acutely aware of the size of the market opportunity and the scale of operations we wanted to reach. Right through our initial days we built systems and process that would enable us to scale seamlessly.

Our back-ground in the apparel industry also helped us anticipate some of the choke points we would face as we continued to grow at a fast clip. Inventory management was always a priority for us and we invested ahead of time in technology to enable us to do this efficiently.



5. One of the factors for Go Colors' runaway success has been its stellar retail story. What is your secret sauce?

Company owned retail is a key component of our distribution strategy. We have been careful not to borrow retail models from other segments as we believe that what works for one segment need not necessarily work for another. We have, over time, developed a model that works for us and are now fairly confident in our ability to execute it.

We have always believed in creating a company with strong business and financial fundamentals. There is no secret to how we go about retail other than sound financial prudence.

We are very careful in our site selection. We focus on being where the customer is but we never take up a site where the potential does not justify the rental costs.



6. Omni channel is increasingly becoming critical for brands. How is Go Colors embracing this new trend?

We are aware of the need and benefits of deploying an omni-channel distribution. But, as with all the initiatives we have driven at Go Colors we will take a well thought out and measured approach to omni-channel. We have taken a few exploratory steps towards understanding how we can make omni-channel work for us. But at this point in time it is still work in progress and not something we will rush into without fully developing a concrete strategy.



7. How do you see competition in the segment? What do you think gives you an edge over competition?

We are still only scratching the surface of the opportunity in the women's bottom-wear space.

EXPERT SPEAK

Select Consumer Transactions

October 2017

Book Running Lead Manger



~USD 74 Mn

September 2017

Advisor



Private Placement of Commercial Paper

Undisclosed

February 2017

Exclusive Advisor



Structured Debt



~USD 83 Mn

February 2016

Exclusive Advisor



Buyout



Undisclosed

There is a long way to go before the category matures to a point where one has to worry about gaining market share at the expense of a competitor. There is a lot of room for competition to evolve in the space. And, we have always believed that good competition is healthy for the segment as a whole.

Our primary target is to delight our customers and always stay in sync with their changing needs. Our focus on women's bottom-wear to the exclusion of all other segments makes it easier for us to stay on top of the challenges unique to this segment and offer solutions to customers that are better from a product and shopping experience perspective.



8. What is your vision for Go Colors for the next 5 years?

We would continue to focus exclusively on the women's bottom-wear category. We want to establish Go Colors as the brand of choice for women customers for all their bottom-wear needs and build an agile organization with the sole purpose of delivering exceptional value to customers day-in and day-out.

We also target to grow at a very rapid pace. We have established a good presence in the southern and western markets. The focus will be to expand into north and east where we are already seeing great response to our product.



Select USD 100 Mn +
Transactions

March 2017

Exclusive Advisor



Private Equity Fund Raise

From



USD 100 Mn

January 2017

Co-Book Running
Lead Manger



IPO

~USD 183 Mn

November 2015

Joint Financial Advisor



Majority Stake Acquisition

By



USD 270 Mn

Sep 2015 Onwards

Exclusive Advisor

To

Select Institutional Buyers

Secondary Stake Acquisition



USD 403 Mn

CURRENTS OF CHANGE



Future Group looking to win the larger retail war

#1

Forget Walmart-Flipkart, Future-Amazon is the one to watch

Future Group is making strategic moves to tighten its grip on organized retail in India

The Walmart-Flipkart deal has hogged all the limelight in the past one month. However, apart from being the single largest deal in e-commerce space, it does little to change dynamics of the behemoth that is the Indian retail space. The deal is a byproduct of Walmart's failure to make inroads into the brick and mortar retail in India. As an alternative, and in part to counter Amazon, it decided to make a play for the much smaller e-commerce market in India (<5% of Indian retail market).

There do not appear to be any obvious synergies for either Walmart or Flipkart. The uniqueness of Indian market makes Walmart's global retail expertise redundant – its own struggles in India are well documented. And for the same reason, Flipkart's success in India does not provide Walmart with a template for a global foray into e-commerce.

On the other hand, India's largest retailer - Future Group, seems to be making strategic moves of substance.

Rumored partnership with Amazon: Future Group is rumored to be in talks with Amazon to sell a minority stake to the e-comm giant. Contrary to the Walmart-Flipkart deal, an alliance between Amazon and Future Group makes a lot more strategic sense. Both players know the Indian market well by now. Both have strengths relevant to the Indian market that each can feed off. And the immediate impact they can have on the 95% piece of Indian retail that is non e-comm, is immense.

Future Group's future for retail in India is firmly rooted in brick and mortar, but has a strong thrust behind Omni channel. Mr. Biyani's Retail 3.0 hinges on a seamless integration between Offline and Online. Who better to assist in that integration than Amazon.

Food and Grocery to be the first target: The segment that would see an immediate impact from an Amazon - Future Group partnership is food and grocery which constitutes 50% of retail spend in India. Amazon's ambitions in food are well known – Its acquisition of Whole Foods, launch of Amazon Pantry in India signal strong intent. Future Group has increased its thrust behind the food and grocery segment – It plans to grow its Easyday format stores to 10,000 from ~1,000 today; Its everyday lowest price campaign is targeted at strengthening its hold on this segment.

The fact that online grocery segment is expected to increase its penetration by 4x by 2021 rivaling the current e-comm market size is also a backdrop against which the most potent retail partnership yet will unfold.

RECENT CONSUMER TRANSACTIONS

Select USD 100 Mn + Transactions

November 2014

Exclusive Advisor

To

SUTHERLAND
GLOBAL SERVICES*

Private Equity Fund Raise

From

TPG
USD 346 Mn

June 2013

Exclusive Advisor

To

CSS
CORP

Leveraged Buyout

By

Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS
USD 270 Mn

March 2013

Exclusive Advisor

To

SUTHERLAND
GLOBAL SERVICES*

Majority Stake Acquisition

In

Apollo
Health Street
USD 182 Mn

March 2012

Exclusive Advisor

To

vasan
healthcare
from a tradition of care

Private Equity Fund Raise

By

GIC
USD 100 Mn

A

Private Equity Transactions

Target	Investor	Amount (~USD Mn)
> USD 100 Mn		
	 SoftBank 	445
		200
		177
		115
< USD 100 Mn		
	 	100
		80
	 	62
	 	62
	 	50
	 	50
	  	40
		39
		37
	HNIs and Family offices	25
	  	20
	  	12
	  	9.5

...

RECENT CONSUMER TRANSACTIONS

Recent Non-Consumer Transactions

May 2018

Book Running Lead Manger

To



QIP

~USD 18 Mn

December 2017

Exclusive Advisor

To



Majority Stake Acquisition

By



Undisclosed

December 2017

Advisor

To



Private Equity Fund Raise

By



~USD 32 Mn

November 2017

Exclusive Advisor

To



51% Acquisition

of



~USD 24 Mn

B M&A Transactions

Target	Investor	Amount (~USD Mn)
 Can't Stop Playing	I-AM Capital	49
	 BUSINESS AS LIST KARG	10



C Capital Market Transactions

Date	Company	Investor	Amount (~USD Mn)
------	---------	----------	------------------

Secondary sale

Jun-18		PREMJI INVEST	250
May -18			124
Feb -18		a LOT can happen over coffee	63
Feb -18			8

Date	Company	Amount (~USD Mn)
------	---------	------------------

IPO's

Mar-18		160
--------	--	-----



LATEST NEWS AND ANNOUNCEMENTS

Recent Non-Consumer Transactions

November 2017

Advisor
To
KINARA
VISAGE HOLDINGS & FINANCE PRIVATE LIMITED

Private Equity Fund Raise

From
unitus capital **Open Capital**
GAWA **INRA & INRA**

~USD 15 Mn

September 2017

Advisor
To
intellect
Design for Digital

Rights Issue

USD 31 Mn

July 2017

Exclusive Advisor
To
FIVE STAR

Private Equity Fund Raise

From
SEQUOIA **Morgan Stanley**
NORWEST **VENTURE PARTNERS** **matrix**

~USD 52 Mn

March 2017

Exclusive Advisor
To
CreditAccess
Asia

Private Equity Fund Raise

From
ADB
Asian Development Bank

USD 32 Mn

FMCG

FMCG to benefit – Good monsoon predicted and higher MSP

Rural consumption to drive growth

Nielsen sees a strong high single digit growth for Q1FY19 on the back of a low base from last year which was affected by Demonetization and GST implementation.

Good monsoons and higher MSP for the kharif crop are likely to continue the momentum into the later parts of the year as well

- Retail chain Shoppers Stop has shut down five of its loss-making stores and re-sized a few stores.
- Company has been selling off loss-making businesses and shutting loss-making stores over to lower losses and bring down its debt from INR 237 Cr to 40-50 Cr.
- Recent investment by Amazon.com NV Investment Holdings, a foreign investment of INR 180 Cr has also helped the company prune its debt.

Retail

Shoppers Stop shutting stores

Focus on profitability

GST

Anti-profiteering notices sent to firms for not passing on GST benefits

Enforcement of anti-profiteering a priority for the govt.

- DGS slapped notices on Jubilant FoodWorks, Pyramid Infratech, Honda Motor, Lifestyle International and Hardcastle Restaurants for allegedly not passing on GST benefits to final consumers
- Effective Nov 15, Govt. had slashed rates for some categories from 28% to 18%
- HUL proactively offered INR 1.2 Bn for not being able to pass on GST benefits to customers due to paucity of time and pipeline issues

- Swedish furniture retailer, Ikea is planning to invest INR 3,000 Cr in Maharashtra to set up multi-format stores as well as experience centres.
- Company plans to open 25 stores across the country by 2025. Its first store in Hyderabad is expected to open later this year.
- IKEA's expansion plan received a shot in the arm from recent relaxations in the single-brand retail FDI norms

Single brand retail

Ikea bullish on Indian story, to invest INR 3,000 Cr

Multi-format stores & experience centers to roll out

Beverages

Manpasand's auditor resigns

Deloitte resigns as auditor after Manpasand fails to share key data

- Deloitte Haskins & Sells India has quit as the auditor to Manpasand Beverages, the sole listed company in the beverages sector
- This happened a few days before the declaration of annual results as the Company failed to provide some crucial data to the auditor
- The stock price of the Company has fallen by >60% since the announcement

LATEST NEWS AND ANNOUNCEMENTS

Recent Non-Consumer Transactions

November 2016

Exclusive Advisor



Private Equity Fund Raise

From



USD 68 Mn

June 2016

Exclusive Advisor

To



Private Equity Fund Raise

From



USD 32 Mn

May 2016

Exclusive Advisor

To



Majority Stake Acquisition

By



USD 28 Mn

January 2016

Exclusive Advisor

To



Structured Capital Raise

From



USD 30 Mn

FMCG

GSK looking to sell Horlicks - may have tax hurdles

A potential 40% tax forces GSK to explore structuring solutions

- Horlicks enjoys ~45% market share in the Health food drink category
- The sale plans could cost it ~USD 1.6 Bn in taxes. A 20% LTCG and a 20% DDT are hurdles to the original plan of an outright sale of Horlicks
- The outright sale plan is being shelved in favor of a share-swap between the buyer and the Indian entity holding Horlicks

- Tata Sky is India's largest DTH provider with ~INR 6,000 cr revenue growing at 15%
- 60% of its new customers are from villages paying just INR 200 per month
- In order to strengthen its offering to the premium customers it has tied up with a flurry of OTT players like Netflix, Hotstar, Amazon Prime and also Youtube

Entertainment

Tata Sky ties up with OTT players to bundle its offering

India's largest DTH player embraces OTT

Consumer Tech

JioMusic and Saavn combine to form a USD 1 Bn digital music platform

Jio expanding digital footprint

- Reliance Jio and Saavn have signed an agreement for a combination of digital music service Saavn and JioMusic to create a global digital media platform
- Reliance has committed to invest up to USD 100 Mn for growth and expansion of the platform into one of the largest streaming services in the world

- ITC's B Natural is an INR 100 cr brand in the fruit juices space (other than mango). It plans to make a major push into the large mango juice market.
- The mango drink space is an INR 7,000 cr market and is dominated by Coke, Pepsico and Parle
- In addition to targeting INR 200 cr through indigenous pulp-based drinks in the fruit juices space B Natural plans to innovate in the mango juice space

Beverages

ITC to enter Mango Drinks

Mango drinks is 3x the market of other juices combined

Omni Channel retail

Mall owners seek revenue share from online sales generated by physical stores

Fall out from an increasing focus on omni channel strategies

- As brands figure out the best way forward for their omni-channel strategies they are facing execution related stumbling blocks.
- The practice of letting customers pick products that not in stock for home delivery (either from the store or the warehouse) has upset mall owners who believe they are losing out on the revenue share
- Mall owners want brands to pay revenue share on sales generated from footfalls from the mall even if they fulfilled through other channels

FROM OUR EQUITIES DESK

Institutional Equities Highlights



236
Stocks under coverage



USD 1.2 Tn
Total market cap of stocks under coverage



INR 260 Bn
Total cash market volume in H1FY18



350+
Number of fund relationships globally



“Go-to” broker for stocks in the mid-market space



THOMSON REUTERS
2017 INDIA ANALYST AWARDS



Institutional Investor

5th position in 2017
All India research team



Consumer



35
Stocks under coverage



~USD 210 Bn
Total market cap of Stocks under coverage

Key snippets from some interesting notes by Spark's Equities Team

1

Q3 FY18 Consumer Sector – Summing it up

The core narrative of 'reducing cost of capital and low inflation' justifying the incessant structural expansion in valuation multiples for the past ~4 years appears to be reversing.

Low base at play : As expected, the low demonetization base helped the growth numbers this quarter. Spark Consumption Coverage (SCC) reported revenue growth of 10.4% y-o-y (highest for the past many quarters) but adjusting for the base effect growth rate comes to ~8.5% which is in line with the past 3 quarters run rate.

GST aided margin expansion : Perhaps fearing the anti-profiteering vigilance, very few managements admitted GST's contribution to margin expansion in 3QFY18. In our opinion, GST benefits along with low base and operating leverage aided margin expansion across. But on an absolute basis, 22 cos out of 29 reported EBIDTA growth higher than revenue growth in the qtr.

Looking ahead, Trend reversal in the offing : Evidently ~4 years of macro tailwinds (low inflation, benign commodity cycle, subdued cost of capital, etc.) are dwindling bringing back the focus on pricing element in the revenue growth. Gross Margin expansion trend is also expected to take a breather for now (excluding GST benefits).

Though we are not modeling multiple de-ratings in arriving at our TPs yet, but structural de-rating continues to be the live and the biggest risk to the sector's coverage recommendations.

2

Spark initiates Coverage of Trent

As we wider our coverage deeper into the Indian retail sector, we conclude that there is no "THE ONE" framework of wealth creation in retail.

Different retailers are trying to attain the ultimate truth (Growth, RoCE and Cashflows) through different WIP templates. While some believe in owning the store (DMart) to remain competitive in the longer run, some believe in aggressive private labels share (Westside) while some are seeing the huge potential at bottom of the pyramid (VMart, V2, etc.).

In a sector plagued by survival bias, Westside has survived & created wealth for its shareholders across multiple cycles over the last two decades. Westside is expected to remain the flagship business of TRENT, expanding its retail network by more than ~50%, revenue growth greater than ~18% CAGR and a margin expansion over of 250bps over the next three years. Recently acquired, value apparel format 'Zudio' is massively expanding its footprint targeting the urban value 'fast fashion' consumer. Zara India to leverage on the Trent's strong retailer tie ups for growth while the supermarket format "STAR" is expected to breakeven in few years.

With these thoughts in the backdrop, we are initiating our coverage on Trent with an ADD rating with a SOTP TP of INR 361.

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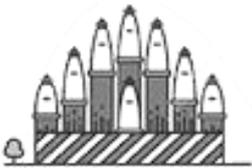
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BENGALURU

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MUMBAI

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