

# D2C Brands

## Disrupting the next decade of shopping

October 2020



# Direct to Consumer Brands: A \$100 Bn addressable market

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India, one of the largest retail markets in the world, is projected to surpass \$1.7 Tn by 2025. India expects its e-tail market to lead the shift to organized retail in the next five years. This trend is similar to that of China, where e-tail constitutes more than two-thirds of the organized retail share which is 45% of the total market. India's rise in online shopping is fueled by the 639 Mn strong internet population, growing at 24%. India added 80 Mn shoppers in the last three years alone to reach 130 Mn today. The COVID-19 pandemic has further accelerated online adoption amidst the temporary closure of physical retail stores and the growing wariness for public places. On this backdrop, online spending in India is expected to grow at a CAGR of 35%+ from \$39 Bn today to \$200 Bn over the next 5 years, supported by internet and payment infrastructure developments.

India is also witnessing an evolution in consumer types. Women, the new class of consumer, now have the final say in more than half of the household decisions and they now form almost half of the online shoppers. Consumption trends are also evolving, and large pockets of product and price white spaces remain untapped by industry incumbents. New-age consumers seeking niche and customized products are underserved by traditional players.

The internet ecosystem and evolving consumer needs have made new business models viable and have led to the emergence of the direct-to-consumer (D2C) distribution channel. Companies leveraging the D2C channel invariably have an emotional connect with their consumers, fostered by a unique brand identity and a clear value proposition. D2C brands are characterized by their agile DNA, innovative marketing, efficient operational processes and effective use of technology. With access to customer data, D2C brands leverage consumption insights, work on a feedback-led model and rapidly develop products to ensure that the evolving customer needs are addressed. Even though globally D2C brands have demonstrated mixed results, some notable companies, e.g. Warby Parker, Allbirds, Away, Fenty Beauty and Perfect Diary, have created significant value for their shareholders by establishing themselves as the clear brand-of-choice for a plethora of consumers.

Indian D2C brands operate in a brand starved 'neo-consumerist' population and have the benefit

of learnings from the mistakes of global counterparts. Today, India is witnessing the rise of D2C brands across categories and is estimated to become a USD 100 Bn addressable market by 2025. The space has seen increasing funding activity in earlier stages. D2C brands such as Lenskart, Licious, Zivame, Boat, Wow Skin Science, Healthkart, Mamaearth, MyGlamm, Sugar, Incnut, Country Delight, Atomberg, Lifelong, among others, are occupying niches, and creating aspirational brands and extraordinary value in their respective sectors.

We expect high levels of funding activity in this space, increasing with passage of time, as more successful D2C outcomes will validate the hypothesis for newer capital deployment. There will be elevated investor interest in high quality companies with good growth and focus on capital efficiency. We anticipate robust consolidation activity in the next 3-4 years, either as roll-ups or incumbents buying new-age D2C companies. Our estimate is that IPO timelines may be 3-5 years away in this sector. D2C companies will ride the next wave of value creation in e-commerce for all stakeholders and the ecosystem as a whole.

This report aims to cover the key drivers and success factors for the rise of D2C brands in India. We deep dive into three segments – beauty and personal care, food & beverage and fashion – and explore how D2C brands are occupying the white spaces and creating value. While the narrative unfolds, we are strong proponent of D2C brands leading the next wave of value creation in the consumer sector and hope this report offers insights for investors, brands, corporates, entrepreneurs and all stakeholders alike, as it aims to outline the Indian take on the D2C space.

Best regards

Pankaj Naik, Karan Sharma  
*Co-heads of Digital and Technology Investment Banking*  
*Aventus Capital*

# What we do and where we stand today

## Investment Banking

**173** M&A Transactions

**214** PE Transactions

**71** Cross Border Transactions



Consistently awarded by VC Circle and TiE

## Wealth Management

AUM  
**USD 3.9 Bn**

**1000** Number of Families and Corporate Treasuries serviced



Euromoney Private Banking And Wealth Management Survey 2020  
**4<sup>th</sup>** Best Private Banking Services Overall

## Asset Management

AUM  
**USD 1 Bn**

**3** Specialized Strategies



Aventus Absolute Return Fund is:  
Best Indian Hedge Fund, Eureka Hedge Awards Singapore, 2019  
Best Single Country Fund, 18th HFM AsiaHedge Awards Hong Kong 2019

## Credit Solutions

**USD 200 Mn+** Book size within 3 years of operation

**A+** Crisil Rating

**0** NPA

**100+** Years of top management experience

# Industry leading Digital & Tech practice with deep domain expertise & track record

## Key statistics of Digital & Tech practice

- 100+** Deals worth ~\$7 Bn in value in 6 years  
38 transactions in past 24 months, 9 transactions post COVID-19 lockdown

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- 25+** Deal closures of \$100 Mn+ value  
Ola, Swiggy, Dream 11, Lenskart, Eruditus, Pharmeasy, Delhivery, BookMyShow and Gaana among others

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- 25+** New investors introduced to the Indian digital ecosystem  
Carlyle, Chan-Zuckerberg Initiative, Falcon Edge, FTV Capital, Goldman Sachs, Harmony Venture, Leads Illuminate, Stripes Group, Valiant, TPG, Ward Ferry etc.

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- ~60%** Market share\* amongst Investment Banks  
Consistently maintained the market share in number of deals for the last 5 years

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- 30+** Member dedicated team  
With more than 100 years of IB experience of the leadership team


























































## Long-standing relationships with market leading clients

|   |   |   |  |   |
|---|---|---|--|---|
| <br><b>SWIGGY</b><br>\$1,500 Mn / 5 rounds     | <br><b>OLA</b><br>Undisclosed / 3 transactions | <br><b>lenskart</b><br>\$465 Mn / 5 rounds   | <br><b>DELHIVERY</b><br>\$435 Mn / 4 rounds                       | <br><b>NYKAA</b><br>Undisclosed / 3 rounds |
| <br><b>dailyhunt</b><br>Undisclosed / 5 rounds | <br><b>PharmEasy</b><br>\$270 Mn / 2 rounds    | <br><b>bookmyshow</b><br>\$230 Mn / 4 rounds | <br><b>ERUDITUS</b><br>EXECUTIVE EDUCATION<br>\$153 Mn / 2 rounds | <br><b>ACKO</b><br>\$145 Mn / 2 rounds     |

\*Market share based on volume of deals






















































































# Deep track record of transaction closures across Consumer internet, SaaS and Enterprise with 9 deal closures since COVID-19 lockdown

|  |   |  |   |  |  |   |
|--|---|--|---|--|--|---|
|  <p>Private Equity</p>  <p>USD 30 Mn<br/>Advisor to: Onsitego<br/>Sep 2020</p>     |  <p>Private Equity</p>  <p>USD 60 Mn<br/>Advisor to: Acko<br/>Sep 2020</p>        |  <p>Private Equity</p>  <p>USD 225 Mn<br/>Advisor to: Dream 11<br/>Sep 2020</p>               |  <p>Private Equity</p>  <p>USD 160 Mn<br/>Process Advisor to:<br/>Unacademy, Sep 2020</p> |  <p>Private Equity</p>  <p>USD 113 Mn<br/>Advisor to: Eruditus<br/>Sep 2020</p>          |  <p>Private Equity</p>  <p>USD 220 Mn<br/>Advisor to: Pharmeasy<br/>Jul 2020</p> |  <p>Private Equity</p>  <p>Undisclosed<br/>Advisor to: Nykaa<br/>Apr 2020</p>         |
|  <p>Private Equity</p>  <p>Undisclosed<br/>Advisor to: Dailyhunt<br/>Apr 2020</p>  |  <p>Private Equity</p>  <p>USD 50 Mn<br/>Advisor to: Vivriti<br/>Mar 2020</p>     |  <p>Private Equity</p>  <p>USD 26 Mn<br/>Advisor to: Vogo<br/>Feb 2020</p>                    |  <p>Secondary transaction for investors</p> <p>Undisclosed<br/>Advisor to shareholders<br/>Dec 2019</p>  |  <p>Has acquired</p>  <p>USD 215 Mn+<br/>Advisor to shareholders<br/>Nov 2019</p>        |  <p>Acquired by</p>  <p>\$40 Mn<br/>Advisor to: ElasticRun<br/>Oct 2019</p>      |  <p>Strategic Investment</p>  <p>Undisclosed<br/>Advisor to: Zeta<br/>Jul 2019</p>    |
|  <p>Private Equity</p>  <p>USD 50 Mn<br/>Advisor to: Zenoti<br/>Apr 2019</p>        |  <p>Strategic Sale</p>  <p>USD 70 Mn<br/>Advisor to: Wibmo<br/>Apr 2019</p>       |  <p>Private Equity</p> <p>Binny Bansal</p>  <p>USD 65 Mn<br/>Advisor to: Acko<br/>Mar 2019</p> |  <p>Private Equity</p>  <p>USD 40 Mn<br/>Advisor to: Eruditus<br/>Jan 2019</p>            |  <p>Private Equity</p>  <p>USD 1,000 Mn<br/>Advisor to: Swiggy<br/>Dec 2018</p>          |  <p>Strategic Sale to</p>  <p>Undisclosed<br/>Advisor to: Mettl<br/>Oct 2018</p> |  <p>Private Equity</p>  <p>USD 100 Mn<br/>Advisor to: BookmyShow<br/>Jul 2018</p>     |
|  <p>Has acquired</p>  <p>USD 29 Mn<br/>Advisor to: OfBusiness<br/>Jul 2018</p> |  <p>Private Equity</p>  <p>USD 210 Mn<br/>Advisor to: Swiggy<br/>Jun 2018</p> |  <p>Private Equity</p>  <p>USD 115 Mn<br/>Advisor to: Gaana<br/>Feb 2018</p>               |  <p>Private Equity</p>  <p>USD 40 Mn<br/>Advisor to: MSwipe<br/>Aug, 2017</p>         |  <p>Strategic sale to</p>  <p>Undisclosed<br/>Advisor to: SVG Media<br/>Apr 2017</p> |  <p>Private Equity</p>  <p>USD 50 Mn<br/>Advisor to: Byju's<br/>Sep 2016</p> |  <p>Private Equity</p>  <p>USD 20 Mn<br/>Advisor to: Lendingkart<br/>Jun 2016</p> |

Transactions closed since COVID-19 induced lockdown

# Strong portfolio of marquee clients advised across E-commerce, D2C and Consumer sectors

|   |  |   |   |   |  |   |
|---|--|---|---|---|--|---|
| <br>Acquired by<br> <br>USD 270 Mn<br>Advisor to: Eastern<br>Sep 2020   | <br>Private Equity<br> <br> <br>USD 220 Mn<br>Advisor to: Pharmeasy<br>Jul 2020   | <br>Private Equity<br><br>Undisclosed<br>Advisor to: Nykaa<br>Apr 2020        | <br>Private Equity<br><br>USD 275 Mn<br>Advisor to: Lenskart<br>Dec 2019  | <br>Secondary stake sale<br><br>Undisclosed<br>Advisor to: Nykaa<br>Dec 2019  | <br>Acquired by<br><br>USD 45 Mn<br>Advisor to: Enamor<br>Sep 2019   | <br>Majority stake acquired by<br><br>USD 65 Mn<br>Advisor to: VKL Beverages<br>Jul 2019  |
| <br>Secondary stake sale for investors<br><br>Undisclosed<br>Advisor to: Big Basket<br>May 2019   | <br>Private Equity<br><br>Undisclosed<br>Advisor to: Nykaa<br>Apr 2019   | <br>Private Equity<br><br>USD 11 Mn+<br>Advisor to: Raw Pressery<br>Jan 2019  | <br>Has acquired<br><br>USD 600 Mn+<br>Advisor to: Zydus Wellness<br>Jan 2019   | <br>Private Equity<br> <br>USD 32 Mn<br>Advisor to: Sapphire Foods<br>Dec 2018   | <br>Private Equity<br> <br>USD 70Mn<br>Advisor to: Livspace<br>Sep 2018   | <br>Private Equity<br> <br> <br>USD 35 Mn<br>Advisor to: Pharmeasy<br>Sep 2018 |
| <br>Private Equity<br> <br><br>USD 85 Mn<br>Advisor to: Lenskart<br>Apr 2018 | <br>Private Equity<br><br>USD 120 Mn+<br>Advisor to: Dixcy<br>Jul 2017   | <br>Has acquired<br><br>USD 70 Mn<br>Advisor to: Jabong<br>Aug 2016           | <br>Private Equity<br><br>USD 140 Mn<br>Advisor to: W / Aurelia<br>Aug 2016   | <br>Private Equity<br> <br>  <br>USD 30 Mn<br>Advisor to: BlueStone<br>Jul 2016 | <br>Private Equity<br> <br>  <br>USD 90 Mn<br>Advisor to: Lenskart<br>May 2016 | <br>Private Equity<br> <br>USD 40 Mn<br>Advisor to: Zivame<br>Sep 2015   |
| <br>Private Equity<br> <br>USD 100 Mn<br>Advisor to: Pepperfry<br>Jul 2015   | <br>Private Equity<br>  <br> <br>USD 16 Mn<br>Advisor to: FirstCry<br>Jul 2015 | <br>Private Equity<br><br>USD 100 Mn<br>Advisor to: Shopclues<br>Feb 2015 | <br>Private Equity<br> <br>USD 36 Mn<br>Advisor to: FirstCry<br>Feb 2015 | <br>Acquired by<br><br>Undisclosed<br>Advisor to: Kancor<br>Nov 2014  | <br>Private Equity<br><br>Undisclosed<br>Advisor to: Nilon's<br>Jun 2014   | <br>Private Equity<br> <br>USD 50 Mn<br>Advisor to: Sula<br>May 2014   |

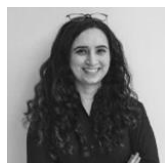
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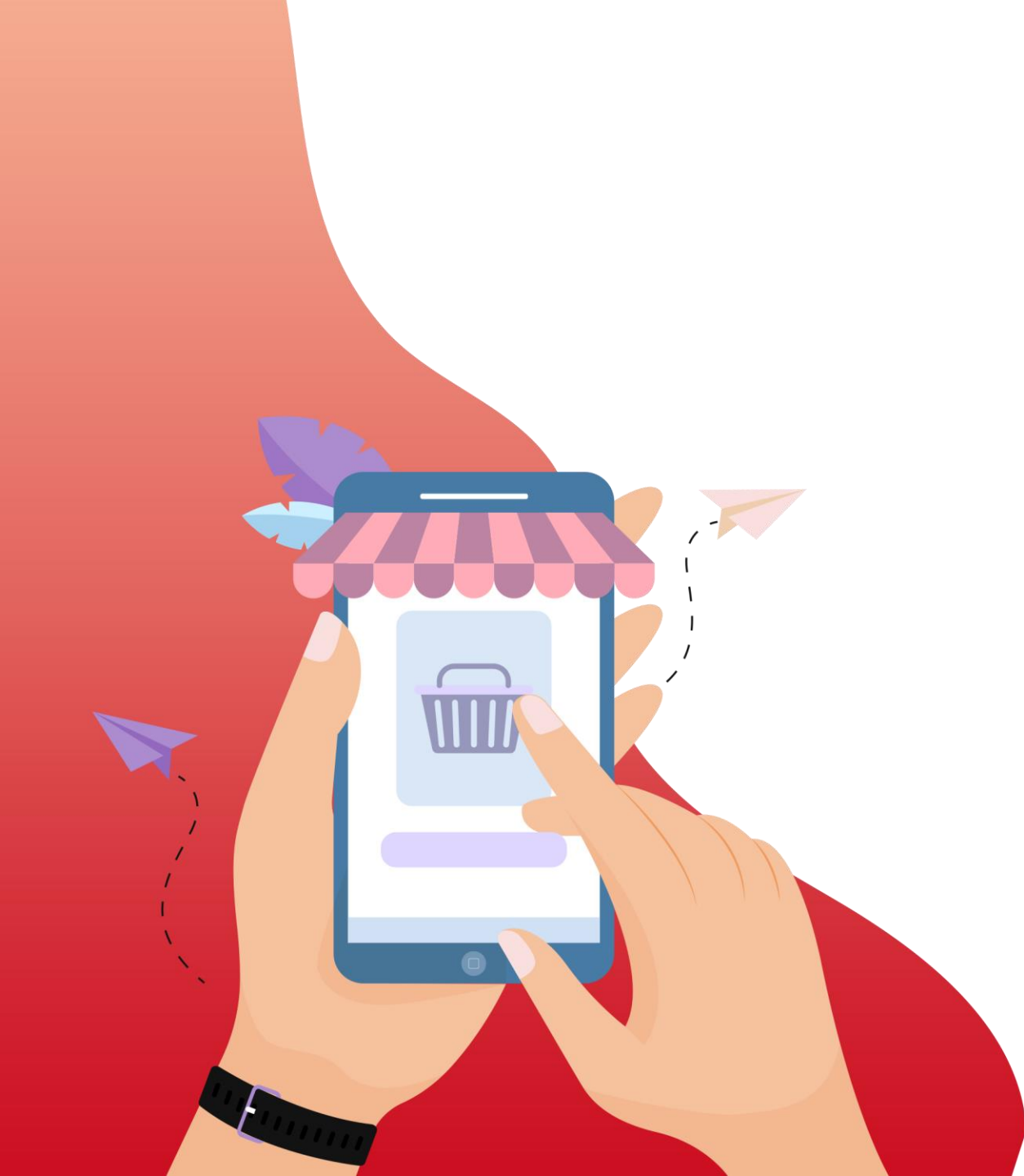


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01.

# Introduction







# Direct-to-consumer (D2C) brands

# Strong momentum witnessed globally; \$100 Bn India addressable market by 2025



## Global factsheet

**\$31 Bn+** Funding    **1,600+** Transactions

**20+** Unicorns    **240+** M&As



## India factsheet

**600+** Brands launched    **16** Brands with \$50 Mn+ ARR

**2.5x** Projected growth of online shoppers in 5 years    **45** Brands with \$15 Mn+ ARR

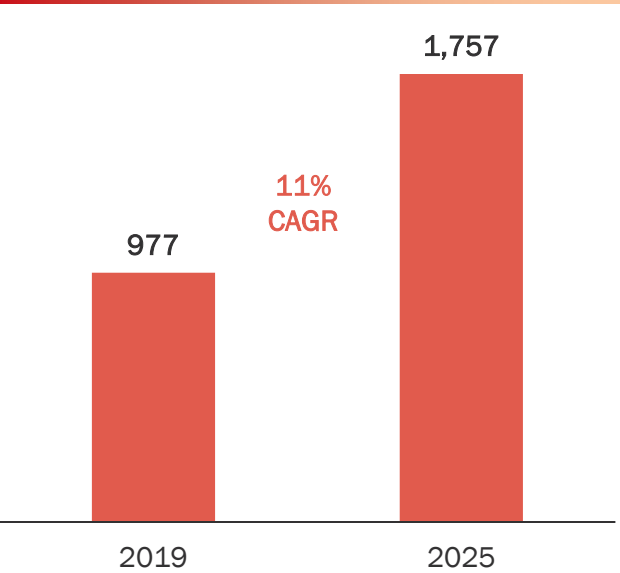


Note: Data for 2016 to 2020 YTD, Transactions refer to funding rounds, ARR denotes Annualised Runrate  
Source: Tracxn, Aventus research

# Indian retail market is large and unorganized; e-commerce is driving the penetration of organized retail

Robust growth in organized retail led by increasing online retail penetration presents a massive opportunity for brands in India

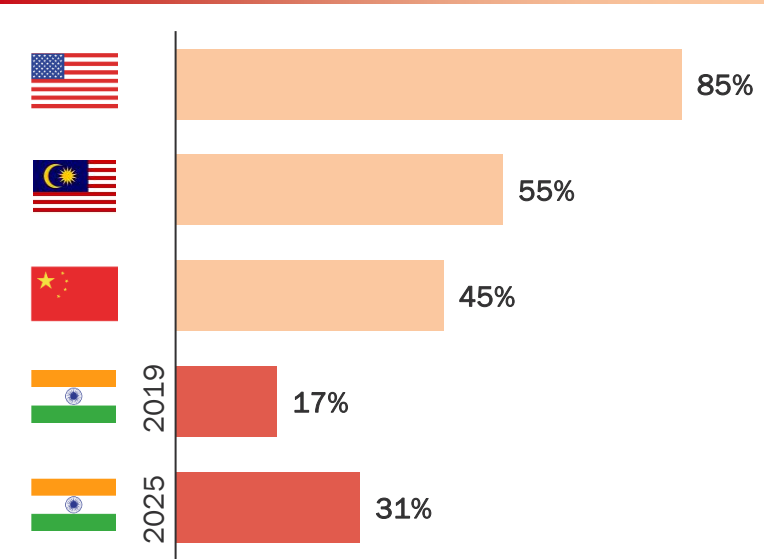
**Indian retail market size**  
(\$Bn)



**Huge retail opportunity**

India is the 5<sup>th</sup> largest retail market globally

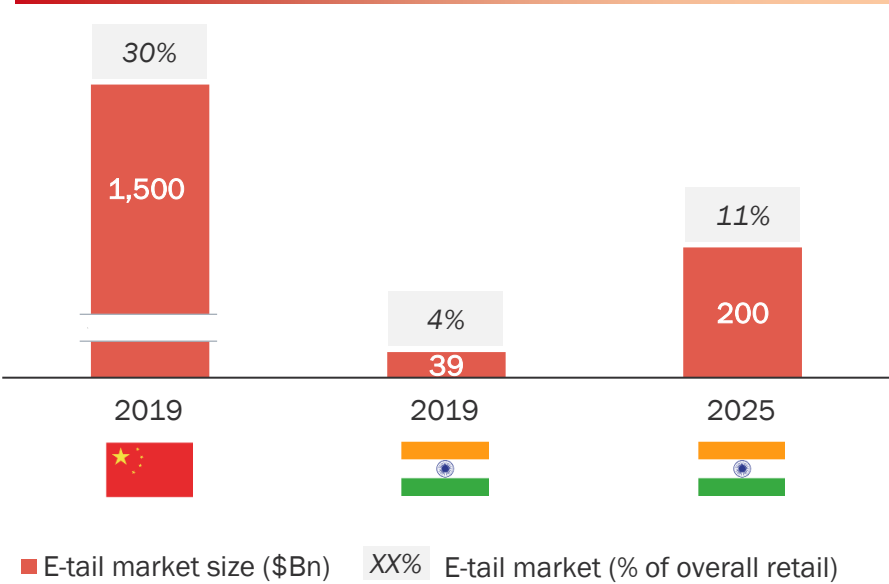
**Organized retail penetration**  
(% of overall retail)



**Largely unorganized market**

High rentals and low number of malls and shopping complex are constraints to organized retail penetration

**E-tail market size**  
(\$Bn)






**E-tail is India's organized retail**

India e-tail to mimic China trend of high e-tail penetration due to sluggish growth in retail mall space (0.8 malls per million people in India vs 36 in USA) and high rental costs (20-25% of sales in India and China vs. 10-15% in USA)

Source: Deloitte and the Retailers Association of India report "Unravelling the Indian Consumer February 2019", Avendus estimates

# Visible green shoots of increasing brand adoption; untapped white space offers significant headroom for brand creation

Low brand penetration and high customer reach provide a significant headroom to scale up a brand

| Brand  | Product   | Time taken to achieve INR 100 crores (\$13 Mn) revenue |
|--|---|--|
| Incumbents have created brand outcomes by leveraging product white space and well-developed distribution |   |  |
| <br>DS Group             |  Pulse candy (2015)      | 6 months   |
|                          |  Coke Zero (2014)        | 8 months   |
|                          |  Silk chocolate (2010)   | 8 months   |
| New market entrants have also demonstrated ability to scale in a short timespan                          |   |  |
| <br>B9 Beverages      |  Bira 91 beer (2015)   | <24 months   |
| <br>Vini Cosmetics    |  Fogg deodorant (2010) | <24 months   |

Traditional players are focused on their portfolio brands; the ecosystem is not witnessing active brand launches from most of the incumbents

Traditional players are focused on their portfolio brands



Focus on existing brands

Launch more products SKUs and variations under existing brands



Fewer brand launches

New brand launches by large players have been few and far between

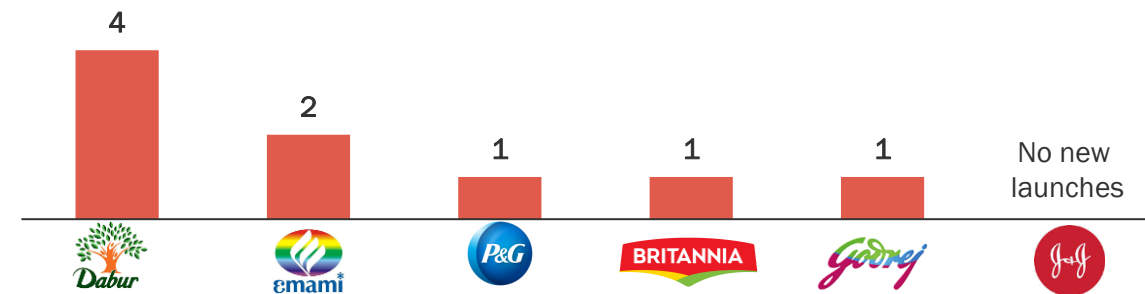


Inorganic growth

Reliance on inorganic growth for enhancing brand portfolio

Few brands introduced by the incumbents in the last few years

Brands launched by FMCG companies in the last 5 years (#)<sup>1</sup>



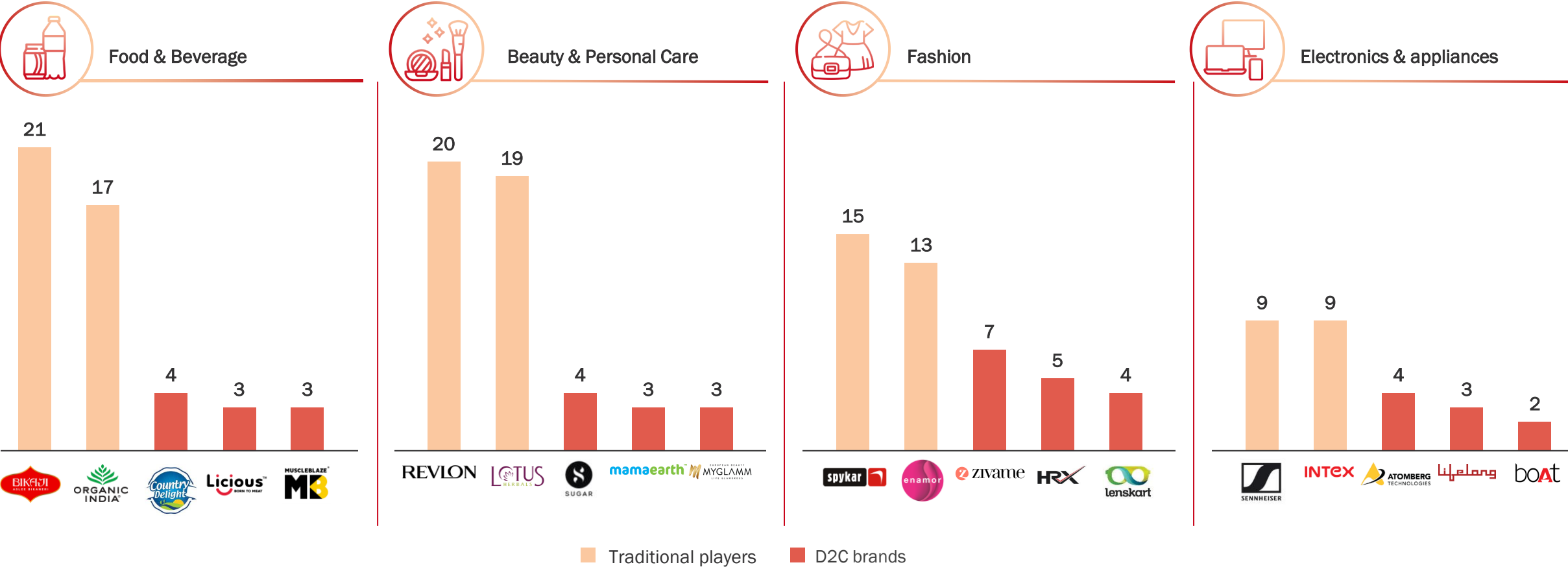
Note: 1 – Own brands introduced in the market (does not include acquisitions)

Source: Company filings, Public disclosures, Avendus research

# Direct-to-consumer brands have been quick to capitalize on the product and price white space, witnessing rapid acceleration of scale

D2C brands refer to businesses that have: (i) majority of their revenue or customer acquisition from direct to consumer online channels; OR (ii) started with an online-first distribution before going omnichannel

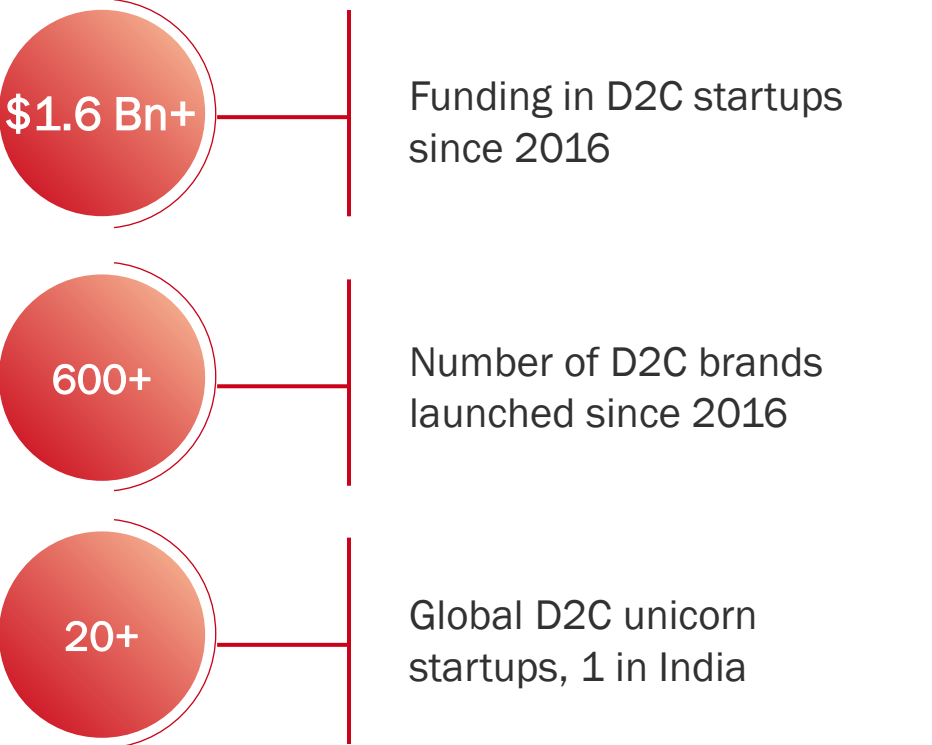
Years taken to reach INR 100 crores (\$13 Mn) revenue in India



Source: Company filings, public disclosure, Aventus research

# Ramp up in D2C brand activity demonstrates potential for large value creation

## Strong growth momentum in India



## D2C ecosystem is at an inflection point of rapid growth in India



Source: Tracxn, Talkwalkers report on "Social media statistics in India", CB Insights, Avendus research



# Consumer trends, product-market fit and ecosystem support have set the stage for D2C business models

01.

## An unsatiated consumer

- Underserved new-age consumers; incumbents are not catering to niche requirements
- Customers seeking personal connect with brands; receptive to experimentation
- Consumers habituated to quick solutions and convenience; looking for similar experience while shopping online

02.

## Women as a separate new class of consumers

- Women now constitute 44% of online shoppers, up from 10% four years ago
- Increase in online spends by women; final say in majority of purchasing decisions<sup>1</sup>
- Emerging outcomes across women-focused categories like beauty, hygiene, fashion

03.

## Room for product innovation












- Product and price white spaces enabling emergence of new players
- Quick R&D and launch of products addressing customer needs
- Keeping the brand relevant by continuous innovation in product and marketing

04.

## Robust supporting ecosystem

- Horizontals make D2C viable: bring shoppers online, aid discovery, enable distribution
- Customer interaction through social media engagement and digital awareness
- Availability of third-party logistics services for transportation and fulfilment

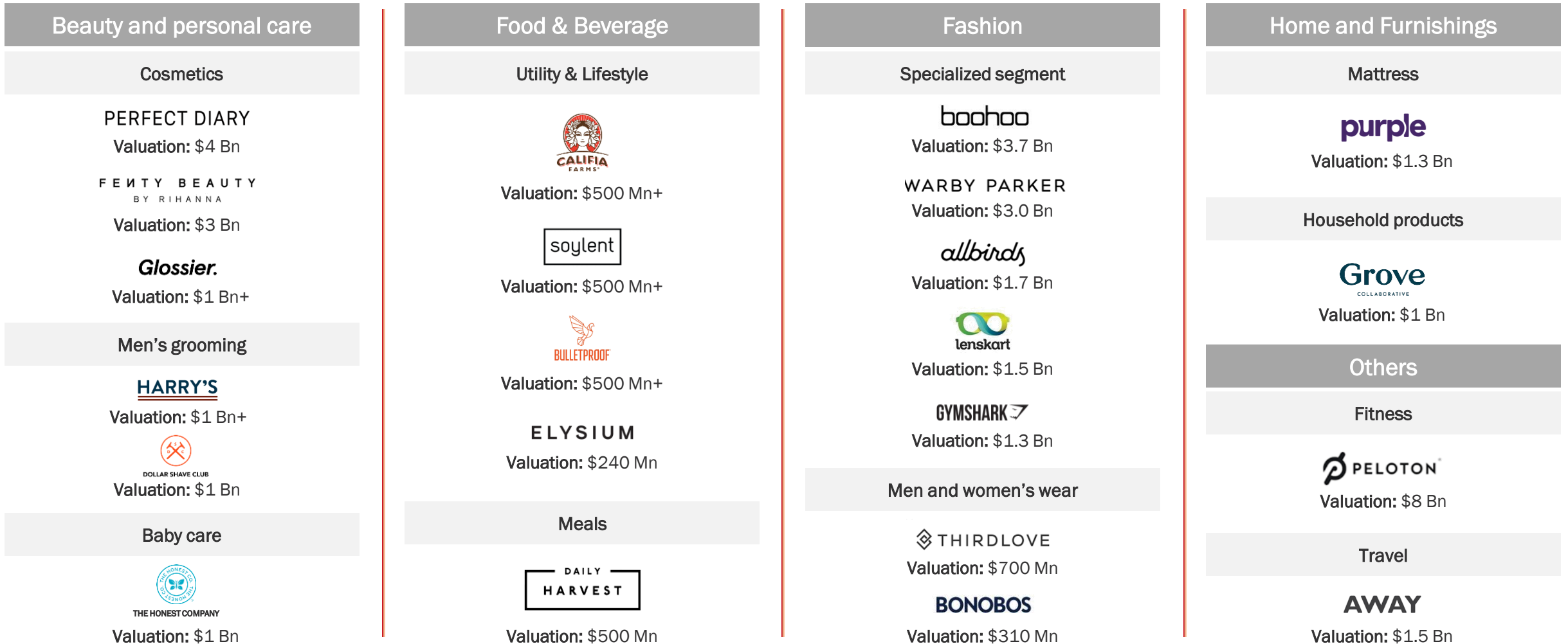
# D2C brands are differentiating through a specialized customer need identification, marketing, technology and operations

|  | Differentiation  |   | Key illustrations  |   |  |
|--|--|---|--|---|--|
| 01.<br>Customer and need identification        | Identification of trends, consumer needs and feedback-led product development by leveraging data and insights              | ▶ |  <p>Offers toxin-free SKUs designed specifically for baby care and mother care</p>              |  <p>Focus on feedback-led development and re-engineering of products</p>                               |  <p>Offers personalized skin care and hair care products based on consumer feedback</p> |
| 02.<br>Innovative marketing and communication  | Digital marketing and storytelling to form emotional connect and attracting right customers to ensure higher repeatability | ▶ |  <p>Leveraging gym trainers as influencers for assisted sales and marketing</p>                 |  <p>360-degree marketing with celebrities, influencers and social media content</p>                    |  <p>Focus on storytelling approach for better targeting and retention</p>               |
| 03.<br>Reduced supply chain complexities       | Operational efficiencies through third-party integrations, outsourcing manufacturing and eliminating middle-men            | ▶ |  <p>Vertically integrated supply chain with omnichannel presence</p>                            |  <p>High quality antibiotic-free meat sourced directly from farmers with efficient cold chain</p>      | <p><b>FABALLEY</b></p> <p>Own manufacturing enabled a very low design-to-shelf timeline of 45-60 days</p>  |
| 04.<br>Technology for control and optimization | State of the art technology for control over demand forecasting, cost optimization, quality control and traceability       | ▶ |  <p>Launched virtual 3D imaging app enabling users to try-on variety of jewelry on the go</p> |  <p>Uses analytics and R&amp;D to offer geography specific products to increase customer loyalty</p> |  <p>Leveraging Qualcomm chipsets to bring noise cancellation to earbuds</p>           |

Source: Avendus research

# Large outcomes have been created globally across categories

Value creation has been driven by factors such as category white spaces, product innovation, focus on brand visibility and subscription-based models



# Unique opportunity for brands to thrive in India, multiple strategies to scale and evolve



## Early stage

### Digital-only distribution

- D2C brands in India leverage a mix of own platform and marketplace distribution
- Own platform to access customer data; marketplace to increase discovery and reduce CAC

### Own platform sells the product as well as the brand



Own the purchase experience



Channel for driving loyalty and retention

### Marketplace distribution can ascertain the product-market fit



Launch minimum viable products



Channel for discovery, customer acquisition



## Mid/Growth stage

### Going offline for further scale

- Offline distribution increases customer reach and expands addressable market
- Increases brand discovery and credibility
- Enables touch-and-feel factor for customers

### However, rapid online adaption is pushing the omnichannel expansion further out

D2C brands have demonstrated the ability to scale without offline expansion as well







Large global outcomes have been created through digital-only distribution








## Expansion stage

### Multiple brand expansion strategies

- 

#### Expansion to adjacent categories

  - Increases target audience, basket size and repeat behavior of the customers
- 

#### Omnichannel expansion

  - Multi-channel distribution – own platform, marketplace and offline
- 

#### House of brands architecture

  - Multiple sub-brands under the parent brand to create targeted propositions
- 

#### International expansion

  - Overseas distribution to North America, Middle East and Southeast Asia

# Success of a D2C brand can be assessed through market fit, adoption and economics

Successful D2C brands leverage a combination of order value, purchase frequency, margins and brand communication



## Average order value

Brands with high order value are more likely to demonstrate better unit economics

- Premium pricing
- Larger basket size per transaction



## Customer repeat

Better repeat rates indicate higher purchaser frequency and/or product-market fit

- High purchase frequency
- Expanding to adjacent categories



## Gross margin

Higher margins enable brands to spend more on marketing and distribution

- Low production cost
- Low logistics and delivery cost



## Brand resonance

Communication of brand identity and proposition establishes customer connect

- Social media engagement
- 360-degree marketing

Basis favourable characteristics, tailwinds and headwinds, the following industries look better positioned to create a higher number of large outcomes



Beauty & Personal Care






































Food & Beverage



Fashion



# Category specific parameters which bode well for D2C brands

|                                       | Beauty & Personal Care  | Food & Beverage   | Fashion  | Electronics  | Home & Furnishings   |
|---------------------------------------|---|---|--|--|--|
| <b>Size of digital market in 2025</b> | \$4 Bn  | \$15 Bn   | \$32 Bn  | \$48 Bn  | \$4 Bn   |
| <b>Gross margin of the category</b>   |  65-75%                                      |  45%-55%  |  45-60%                                       |  20%-40%                                      |  50-60%                                       |
| <b>Purchase frequency</b>             |  Monthly purchase                            |  Weekly purchase                                    |  Once in 3-4 months                           |  Once in 1-2 years                            |  Once in 5-8 years                            |
| <b>Customer repeat behavior</b>       |  High customer repeats for product portfolio |  Taste-specific, high opportunity to create repeats |  Consumers survey multiple brands             |  Consumers survey multiple brands             |  Every sale is a new customer                 |
| <b>Non-discretionary nature</b>       |  Essential products of daily use             |  Essential products of daily use                    |  Necessity with discretion in purchase timing |  Necessity with discretion in purchase timing |  Necessity with discretion in purchase timing |
| <b>Product uniqueness</b>             |  Large opportunity in unaddressed niches    |  Emerging health consciousness, unaddressed        |  Easily replicable designs                   |  Standard specifications                     |  Customer experience innovations             |
| <b>Digital marketing presence</b>     |  High penetration on social media          |  High focus on digital marketing                  |  Some segments use digital marketing        |  High presence                              |  Some segments use digital marketing        |
| <b>Average order value</b>            |  INR 400 – 2,000                           |  INR 400 – 2,000                                  |  INR 300 – 2,500                            |  INR 500 – 5,000*                           |  INR 5k – 100k+                             |

Source: Avendus research

Note: \*While products sell for higher prices, D2C electronics AOV is estimated in the INR 500 -5,000 range

# Industry related external factors relevant for D2C brands

|           | Beauty & Personal Care                 | Food & Beverage                                      | Fashion   | Electronics  | Home & Furnishings                        |   |
|-----------|--|--|---|--|---|---|
| Tailwinds | Sizeable white space in industry       | Multiple untapped, niche categories                  | Multiple untapped, niche categories                 | More prominent price white spaces                          | More prominent price white spaces         | High competing products                   |
|           | Availability of a supporting ecosystem | Plethora of manufacturers and logistics players      | High  | High   | High                                      | High                                      |
|           | Expansion through category adjacencies | Multitude of product categories for brand extensions | Several adjacencies for brand extensions            | Limited adjacencies for brand extensions                   | Few adjacent categories available         | Few adjacent categories available         |
|           | Inventory optimization opportunity     | Fast moving inventory and long shelf-life            | Very fast-moving inventory                          | Slow moving inventory with significant wastage             | Slow moving inventory                     | Ability to make-to-order (JIT production) |
|           | Online market potential                | Promising adoption of e-commerce                     | Promising adoption of e-commerce                    | Promising adoption in e-commerce                           | Sales rapidly migrating online            | High requirement for physical inspection  |
|           | Brand affinity                         | High brand affinity with high repeats                | Frequently repeating preferred brands               | Low due to changing styles every season                    | Mid-low brand affinity                    | Mid-low brand affinity                    |
| Headwinds | High strength of incumbents            | Several large brands with global backers             | Several large brands with global backers            | High brand proliferation                                   | Strong brands with consumer recall        | Few brands with consumer recall           |
|           | Bargaining power in offline ecosystem  | Multi-brand retailers demand high product margins    | Fragmented market; need to ensure right shelf space | Retailers need high margin; Need scale for dedicated space | Retailers open to adding wider assortment | Highly fragmented offline retail market   |

Source: Avendus research

# Beauty & Personal Care is an attractive industry with potential for multiple large outcomes

Global Beauty & Personal Care market is expected to become a \$725 Bn+ market by 2025. D2C brands in this category have flourished on the back of product and price white space, business model innovation and growth capital. While D2C brands might face some execution challenges like revenue stagnation, low retention or high customer acquisition costs, multiple Billion Dollar valuation outcomes have been created across US and China.



### Exciting opportunity for personal care categories like skin care, hair care and body care

- Indian market is dominated by traditional players focused on existing brand portfolio with fewer brand launches
- Customer preference shift is being demonstrated by increase in wallet spend and demand for premiumization
- Product innovation, adoption of digital distribution and inability of incumbents to tap into niche segments present an opportunity for brands
- While traditional distribution channels are cheaper, digital distribution has lowered barriers to entry for newer brands

### Beauty & Personal Care in India is witnessing a wave of D2C brands

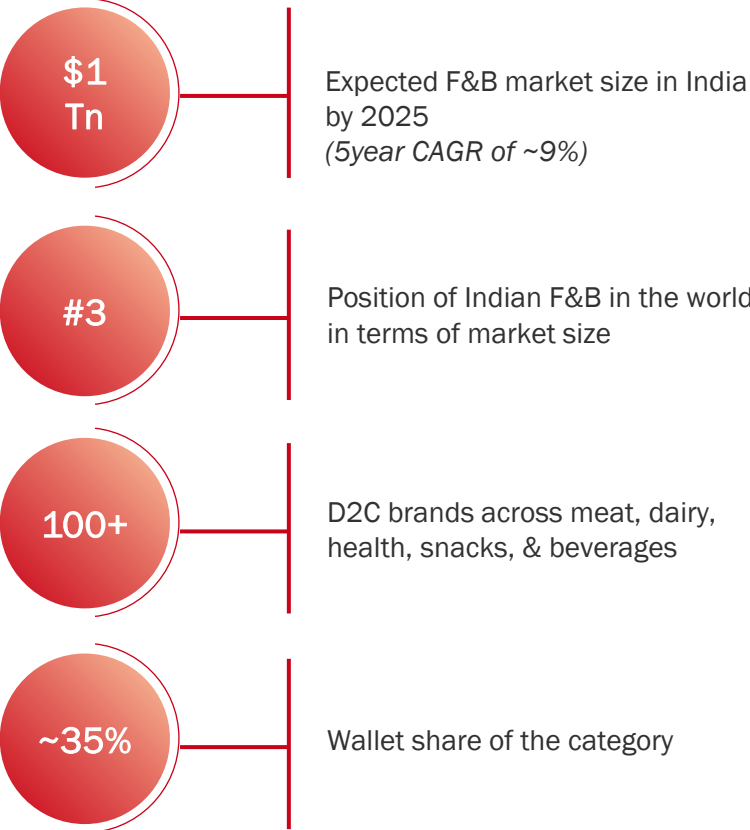
- D2C brands are capitalizing on product and price white space across personal care, cosmetics and men's grooming
- Dedicated efforts towards customer interaction, social media engagement and next-door credibility of influencers
- Personal care products have high product margins with potential for high LTV/CAC ratio

### Explosive value creation can happen in the category

- Successful on the back of clear brand proposition, agile DNA, asset light operations and plug-and-play supply chain
- While own platform gives access to customer data and insights, marketplace distribution gives velocity as well as reduces CAC
- Long-term scalable and sustainable strategy could be omni-channel distribution with a house of brands architecture

# Food & Beverage is the largest retail category in India with D2C brands addressing several white spaces in the market

Global Food & Beverage is a \$12 Tn+ market. High growth in millennial population and a shift in dietary preferences towards organic and plant-based products have led to the growth of D2C brands globally. Incumbents such as Beyond Meat, Nestle, Pepsi, and Coca-Cola are also adding direct to consumer model to their distribution channel. Food & Beverage sector has witnessed multiple \$500 Mn+ outcomes globally.



### Indian Food & Beverage industry is witnessing a consumption-led growth

- Large spend category among Indian consumers, having ~35% wallet share of the annual consumer spend
- Packaged Food industry is growing at a strong rate of 14%+ due to larger shelf life and ease of consumption
- Large FMCG companies have consistently made strategic investments in food brands with the objective of category expansion, increasing depth of portfolio, diversifying business model and geographic expansion
- With increasing disposable income in India, the per capita protein consumption is expected to grow 50% and the per capita milk consumption is expected to grow 58% over the next 5 years

### Food & Beverage market in India is witnessing rapid growth of D2C brands

- Major focus on consumer feedback led product development to create high quality, nutrient rich products
- Traditional players have a B2B DNA enabling brands to tap the white spaces in the market and offer specialized and curated products D2C
- Targeting the large set of new age customers unaddressed by the incumbents

### Several sub-segments in F&B market can potentially create large value

- Meat brands are solving for unhygienic unorganized retail and providing high quality, traceable and reliable fresh meat across format like ready-to-eat, ready-to-cook and specialized cuts
- Milk & Dairy brands are solving for adulterated milk issue, focusing on subscription model with high quality, customer-oriented products
- Health focused brands are sourcing high quality ingredients and using advanced techniques to create healthy snacks

# Largest discretionary spend is on fashion; huge potential for brands having sustainable moats

Globally, an evolved user base has helped brands pursuing unique themes to create large outcomes. Indian Fashion industry is a \$100 Bn+ market. D2C brands are targeting key white spaces in large categories. Fashion has been difficult to crack due to an abundance of unorganized supply. India's shift towards 'branded' fashion, synchronous with D2C brands' prudent execution and an ear to the ground, will help create large, best-in-class outcomes.



### Large global outcomes created by differentiated brands in the Fashion space

- An evolved user base well-versed with online consumption, environment & sustainability consciousness, and experimental approach has helped brands pursuing unique themes create large outcomes
- While high scale has been achieved being online-only, brands globally have validated the omnichannel approach
- Globally, fashion brands have emerged on the back of few 'hero' products; such as AllBirds, Away, Gymshark etc.

### India offers an exciting opportunity to create large D2C brands

- India's large (\$100 Bn+) and majorly unorganized fashion market has provided huge headroom for emergence of new brands
- D2C brands are emerging across all sub-segments of Fashion: eyewear, apparel, footwear, accessories
- D2C is leveraged across the value chain: product design inputs, managing inventory, communication with users

### Large value can be created by top-tier D2C brands

- Brands having sustainable moats, demonstrated agility and cautious execution are most likely to succeed
- Moats could be agile supply chain (lower inventory risk), solving for key user pain points (higher loyalty), or vertical integration (higher profitability), among other factors

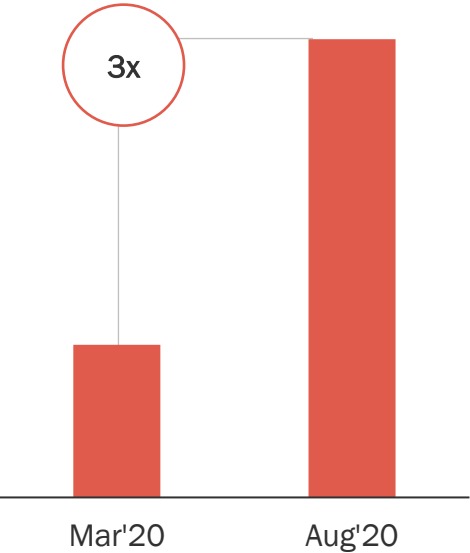


# D2C brands have grown exponentially at the cost of offline retail during COVID-19 crisis

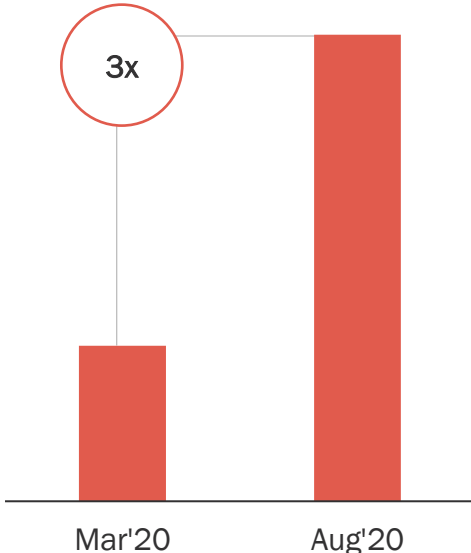
The impact of country-wide lockdowns imposed by the Indian government in response to the pandemic varies across sectors

|                                     | Beauty & Personal Care  | Food & Beverage  | Fashion  |
|-------------------------------------|---|--|--|
| <b>Immediate impact of COVID-19</b> | <ul style="list-style-type: none"> <li>Overall increase in online buying</li> <li>Increase in sales of DIY, at-home and self-care products</li> <li>Rise in sales of personal care and hygiene products</li> </ul>                                      | <ul style="list-style-type: none"> <li>Increased spending on packaged food and beverages</li> <li>Push for newer brands as customers more willing to experiment given the lower preference towards dining out</li> </ul>   | <ul style="list-style-type: none"> <li>Shift towards online buying</li> <li>Growing instances of 'Down trading' where sale of luxury items is declining; while the 'value' segment online has remained strong over the past few months</li> </ul>              |
| <b>State of offline retailing</b>   | <ul style="list-style-type: none"> <li>Mellowed recovery in offline beauty products sale due to regional restrictions</li> <li>Personal care segment is tracking near pre-COVID-19 levels</li> </ul>  | <ul style="list-style-type: none"> <li>Minimal overall impact on grocery store sales due to the essential nature of category</li> <li>Consumers shifting to stores that are more hygienic and less crowded</li> </ul>  | <ul style="list-style-type: none"> <li>Bottoming out of retail sales and lacklustre recovery due to closure of malls</li> <li>Longer term adverse effect due to high amounts of unsold inventory and uncertainty over store reopening</li> </ul>               |
| <b>Impact on D2C companies</b>      | <ul style="list-style-type: none"> <li>Online sales have proven to be resilient despite sales dip in April 2020</li> <li>D2C brands looking at increasing their online footprint to tackle the issues associated with offline shopping</li> </ul>       | <ul style="list-style-type: none"> <li>Convenience of buying fresh, hygienic meat &amp; dairy products online has increased the sales for D2C brands</li> <li>Shift in consumer awareness around immunity and health has triggered customers to order health &amp; wellness products online</li> </ul> | <ul style="list-style-type: none"> <li>Digital channels have been able to recover up to 70% of their pre-COVID-19 sales by August 2020</li> <li>Low traction at physical stores with high-street outlets performing comparatively better than malls</li> </ul> |
| <b>Behavioral shifts</b>            | <ul style="list-style-type: none"> <li>Comfort associated with offline shopping reducing and online channels seeing increased consumer confidence</li> <li>Consumers spending more time in browsing and searching to make informed decisions</li> </ul> | <ul style="list-style-type: none"> <li>Structural shift in consumer behavior with higher acceptability of internet as a channel while shopping for food</li> <li>Shift in preference towards groceries and ready-made foods due to rise in home-cooking and low dine-out spending</li> </ul>           | <ul style="list-style-type: none"> <li>Consumers becoming more open to online channels while buying clothes due to COVID-19</li> </ul>   |

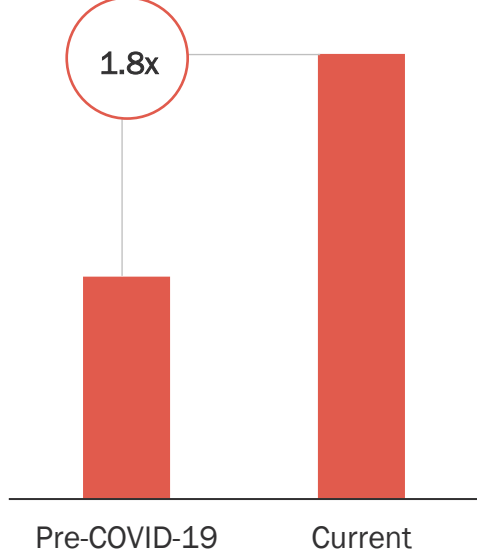
# COVID-19 has accelerated the trajectory of strong growth for leading D2C brands across segments



✓ 3x growth attributable to shift in consumer preference towards hygienic meat/ seafood products



✓ Unprecedented acceleration - 3x growth in 5 months



✓ 1.8x growth driven by increased demand for high quality farm fresh milk during COVID-19

Leading D2C brands in personal care and food spaces have witnessed over 100% growth in scale with respect to pre-COVID-19 levels

# D2C brands are witnessing a high number of subsequent funding rounds and strategic sale to incumbents



## Strategic sale to incumbents

Strategic M&A can happen for acquisition of team & tech capabilities, digital distribution expertise, filling product white space and experimentation with niche categories

| Year | Acquirer               | Company                   | Size (\$Mn) |
|------|------------------------|---------------------------|-------------|
| 2020 | marico                 | Beardo (Men's grooming)   | Undisclosed |
| 2020 | P&G                    | Billie (Personal care)    | Undisclosed |
| 2020 | <b>COTY</b>            | Kylie Cosmetics           | 600         |
| 2020 | PEPSICO                | Be & Cherry (Food)        | 705         |
| 2019 | ESTÉE LAUDER COMPANIES | Have & Be (Skincare)      | 1,700       |
| 2019 | Unilever               | Graze (Snacks)            | 195         |
| 2019 | SHISEIDO               | Drunk Elephant (Skincare) | 845         |
| 2019 | Unilever               | Tatcha (Skincare)         | 500         |
| 2019 | ATKINS                 | Quest Nutrition           | 1,000       |



## Subsequent funding round

D2C brands have received funding from both strategic as well as financial investors globally as well as in India

| Year | Company          | Sector        | Round    | Funding (\$Mn) |
|------|------------------|---------------|----------|----------------|
| 2020 | Ro               | Wellness      | Series C | 200            |
| 2020 | mamaearth™       | Personal Care | Series D | 18             |
| 2019 | lenskart         | Eyewear       | Series G | 235            |
| 2019 | BOLL & BRANCH™   | Bedding       | PE       | 100            |
| 2019 | AWAY             | Luggage       | Series D | 100            |
| 2019 | SUGAR            | Beauty        | Series B | 11             |
| 2019 | <b>Glossier.</b> | Beauty        | Series D | 100            |
| 2019 | THIRDLOVE        | Apparel       | Series B | 55             |
| 2019 | <b>hims</b>      | Wellness      | Series C | 100            |



## Long road to exit through IPO

Indian consumer brands have typically gone for IPO after reaching a level of scale and profitability;

Few IPOs in global landscape, none in India

### US D2C IPO compared to strategic sale<sup>1</sup>

**14** IPO in this space

**200+** M&As/Strategic sale

Scale and profitability expected at the time of IPO

### India Consumer brand IPO benchmarking<sup>2</sup>

**\$87 Mn+** Scale at IPO

**6%+** Net margin at IPO

Note: 1 – Data for US for the last 10 years; 2 – Median data for consumer IPOs in India in the last 5 years, Assumed USD/INR FX of 75

Source: Company filings, Public Disclosures, Aventus research

# Indian D2C Brands Landscape

| Beauty & Personal Care | Food & Beverage                     | Fashion                    | Electronics & Appliances      |
|------------------------|-------------------------------------|----------------------------|-------------------------------|
| <p>Personal Care</p>   | <p>Meat &amp; Meat alternatives</p> | <p>Western wear</p>        | <p>boAt lifelang NOISE</p>    |
| <p>Cosmetics</p>       | <p>Utility and lifestyle</p>        | <p>Ethnic wear</p>         | <p>GIZMORÉ VingaJoy</p>       |
| <p>Men's grooming</p>  | <p>Meals</p>                        | <p>Specialized segment</p> | <p>Home &amp; Furnishings</p> |
|                        |                                     |                            |                               |

Note: The list is representative and is not exhaustive  
 Source: Avendus research

## 2.1. Beauty & Personal Care



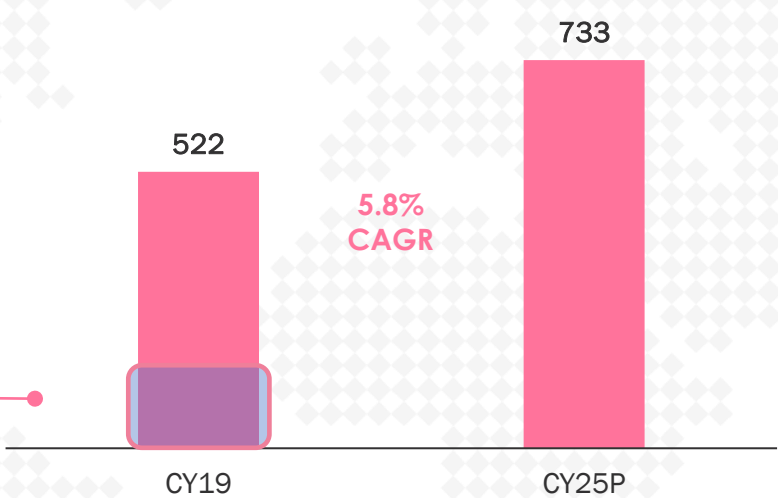
# Global Beauty & Personal Care is a \$500 Bn+ market, with US and China being the largest markets

Brand revenue from Beauty segments<sup>1</sup> (\$Bn)



Top 10 brands across the world command 26% of the market

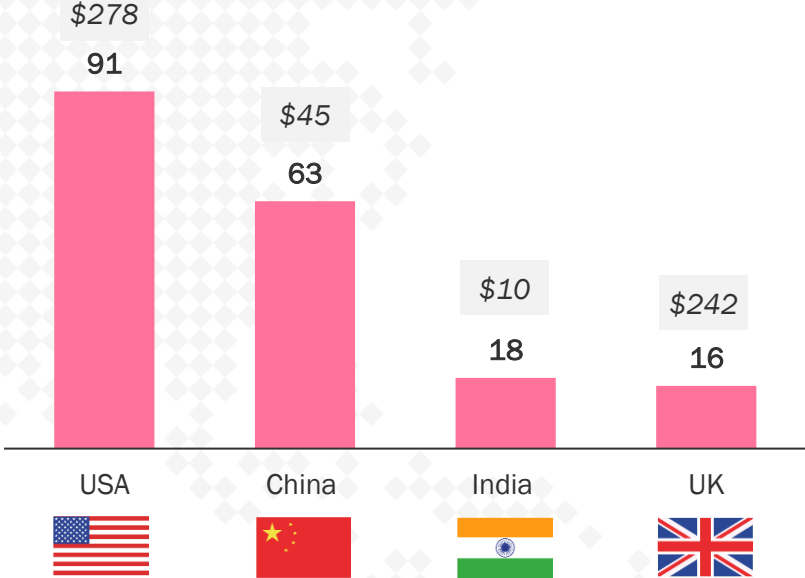
Global Beauty & Personal Care market size (\$Bn)



Global market is estimated to grow at ~6% for the next 5 years

Offline retail holds more than 85% market share of the global Beauty & Personal Care market

Beauty & Personal Care market size (\$Bn)



\$xx Per capita spend on beauty and care

USA has ~18% of the global market share, followed by China with 12% market share

Note: 1 – Brands' net revenue for Beauty & Personal Care in CY19  
 Source: Company filings, public disclosures, Avendus estimates




# D2C beauty brands started to emerge globally 2010 onwards owing to a conducive ecosystem

## Consumption


New generation's preferences and changing consumption patterns

- **Delayed marriages:** Higher spend on discretionary category during bachelor years
- **High content consumption:** Considerable time spent on entertainment, music and content
- **Young spenders in non-Tier I cities:** High affordability but lower access to premium products driving online growth

Rising customer aspirations resulting in popularity of personalized products and celebrity-backed brands enjoying organic virality




The Honest Co. Toxin-free beauty and care products




Fenty Beauty  
BY RIHANNA Celebrity-led brand

## Business model innovation

- **New distribution** channels like online marketplace and online-to-offline
- Relatively **lower investment in supply chain infrastructure** to launch a minimum viable product



DOLLAR SHAVE CLUB Significantly lower blade prices




PERFECT DIARY  
完美日记 Mass-market priced products

## Product


- **Evolving themes** like increasing confidence in organic products, shift to chemical-free products and demand for vegan formulations
- **Simplicity of products** (in terms of limited product offering) combined with high functionality

## Price

- Large **pricing arbitrage** compared to the existing products in the market to gain early traction and user base
- Price gaps that existed between the affordable category and high-end products




Glossier. Started with 4 high functional products




HARRY'S Started with 2 razors & 1 type of blades

## Growth capital

- Availability of **funding**, enabling experimentation in the category and SKU expansion



The Honest Co. Raised \$530 Mn over 7 rounds



HARRY'S Raised \$375 Mn over 7 rounds



# Large outcomes have been created globally on the back of a combination of trends

## Product white space

D2C brands start by tapping into underserved niches like low synthetic chemical products

## Brand visibility







Strong emphasis on brand storytelling and aggressive digital marketing to rapidly acquire mass mindshare

## Subscription models





Low involvement categories where customers don't do repeated pre-purchase research have been successful

## Influencer-backed brands

Celebrity-led brands leveraged an engaged fan audience to inspire credibility and customer aspiration

|  | Virality                       | Valuation | Key differentiators / innovation  |
|--|--------------------------------|-----------|---|
|  <p><b>PERFECT DIARY</b><br/>完美日记<br/>Founded 2017</p>                | \$400 Mn+ revenue in 3 years   | \$4.0 Bn  | <ul style="list-style-type: none"> <li>Low priced color cosmetics with focus on brand storytelling</li> <li>Engaged online community, leveraged influencers &amp; WeChat private traffic to access millennials</li> </ul>   |
|  <p><b>F B</b><br/>FENTY BEAUTY<br/>Fenty Beauty<br/>Founded 2017</p> | \$550 Mn+ revenue in 1.5 years | \$3.0 Bn  | <ul style="list-style-type: none"> <li>Focused on ethnic diversity</li> <li>High SKU variety to build inclusivity for all skin types (40+ shades, a first in the industry)</li> <li>Stradling mid-market price segment with celebrity appeal (Rihanna)</li> </ul>   |
|  <p><b>HARRY'S</b><br/>Founded 2012</p>                               | \$325 Mn revenue in 7 years    | \$1.4 Bn  | <ul style="list-style-type: none"> <li>Simplicity of choice: one type of razor (for \$9) and blade cartridges (for \$1.9); Limited SKUs, cheaper than incumbent</li> <li>Pre-launch digital marketing campaigns, incentives for referral sales and social community build-up</li> </ul>   |
|  <p><b>The Honest Co.</b><br/>Founded 2012</p>                        | \$300 Mn+ revenue in 4 years   | \$1.0 Bn  | <ul style="list-style-type: none"> <li>Clean, toxin-free products across a wide SKU range</li> <li>Safety proposition cemented with the line of baby products</li> <li>Celebrity status leveraged by the Founder (Jessica Alba) to communicate brand story and garner \$10 Mn sales in the first year</li> </ul>                |
|  <p><b>Glossier.</b><br/>Founded 2014</p>                           | \$100 Mn+ revenue in 4 years   | \$1.2 Bn  | <ul style="list-style-type: none"> <li>UGC marketing &amp; product reviews as against big brand celebrities boosting credibility; Loyal online community and engagement</li> <li>Limited products and SKUs, Online skin tone matcher tool and Product co-creation with users from the Founder's blog (1.5 Mn users)</li> </ul>  |
|  <p><b>DOLLAR SHAVE CLUB</b><br/>Founded 2011</p>                   | \$200 Mn+ revenue in 5 years   | \$1.0 Bn  | <ul style="list-style-type: none"> <li>Simplified repeat purchase combined with a white space in pricing</li> <li>Catchy product and packaging along with brands marketing hook</li> <li>Viral digital marketing campaigns by the Founder; Consistent engagement and posts across all social media channels everyday</li> </ul> |

# Euphoria around D2C brands globally is coming face-to-face with certain execution level challenges

|   |   |  |
|---|---|--|
| <p><b>01.</b><br/>Revenue stagnation</p>                    | <ul style="list-style-type: none"> <li>Brands may witness stagnated revenues beyond first level of euphoric growth</li> <li>Chosen niche may not have enough depth or may have high level of consumer education requirements</li> <li>Having a brand which can adapt to other adjacent categories has proven better in the long term</li> </ul>   | <p><b>The Ordinary.</b> Used same branding for all skincare product categories as they expanded</p>  |
| <p><b>02.</b><br/>Low retention</p>                         | <ul style="list-style-type: none"> <li>Brands may find it challenging to maintain a healthy repeat purchase pattern</li> <li>As a category, it experiences high experimentation and switching by customers</li> <li>Strong brand ethos combined with category expansions is needed to keep the brand relevant</li> </ul>  | <p> Branched out from baby care to a larger personal care market</p> <p> Expanded from cosmetics to skincare</p> |
| <p><b>03.</b><br/>High acquisition or distribution cost</p> | <ul style="list-style-type: none"> <li>Typically, it is expensive to acquire customers for own platform due to high performance marketing cost</li> <li>As an alternative brands leverage marketplaces for distribution; while providing fulfilment, payments and product listing services, marketplace charge 25-35% of customer sales as channel commission</li> </ul>  | <p> <b>Digital First Brands</b> 25-35% of the revenue is spent on marketing/channel commissions</p>   |
| <p><b>04.</b><br/>Lack of channel diversification</p>       | <ul style="list-style-type: none"> <li>Over-dependence on direct-to-customer with minimal presence on alternate channels may not be a successful long-term strategy</li> <li>Brands often find it difficult to diversify channels and end up with a skewed channel mix or low bargaining power with marketplaces</li> <li>Keeping a mix of marketing and distribution channels can help cultivate indirect TGs</li> </ul> | <p> ESTD 2012<br/><b>DRUNK ELEPHANT™</b> Started with offline distribution to get first set of customers, then set up online to increase repeats</p>   |

# Indian Beauty & Personal Care market is ripe for growth and brand innovation

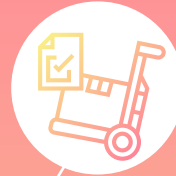
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Increasing wallet share for the category and demand for premium products



Large market opportunity of \$28 Bn by 2025



Dominated by large FMCGs focused on their existing brands

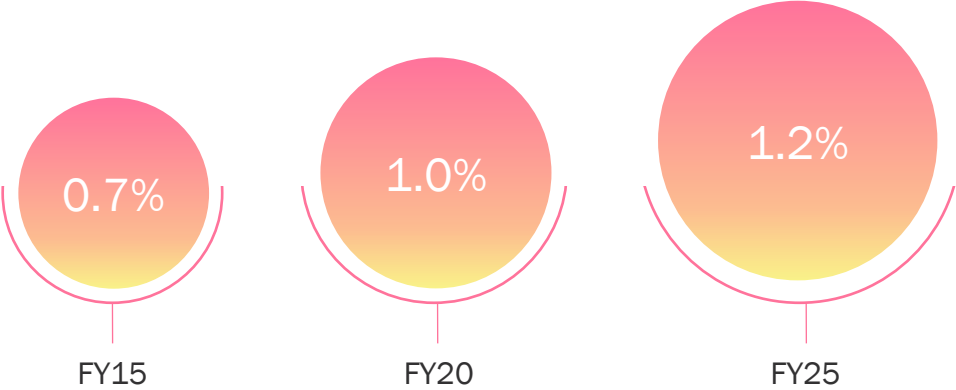



Untapped supply chain and operational efficiencies

# Increasing share of spend on Beauty & Personal Care in India driven by shift of consumer preferences



## Wallet share<sup>1</sup> of Beauty & Personal Care in India



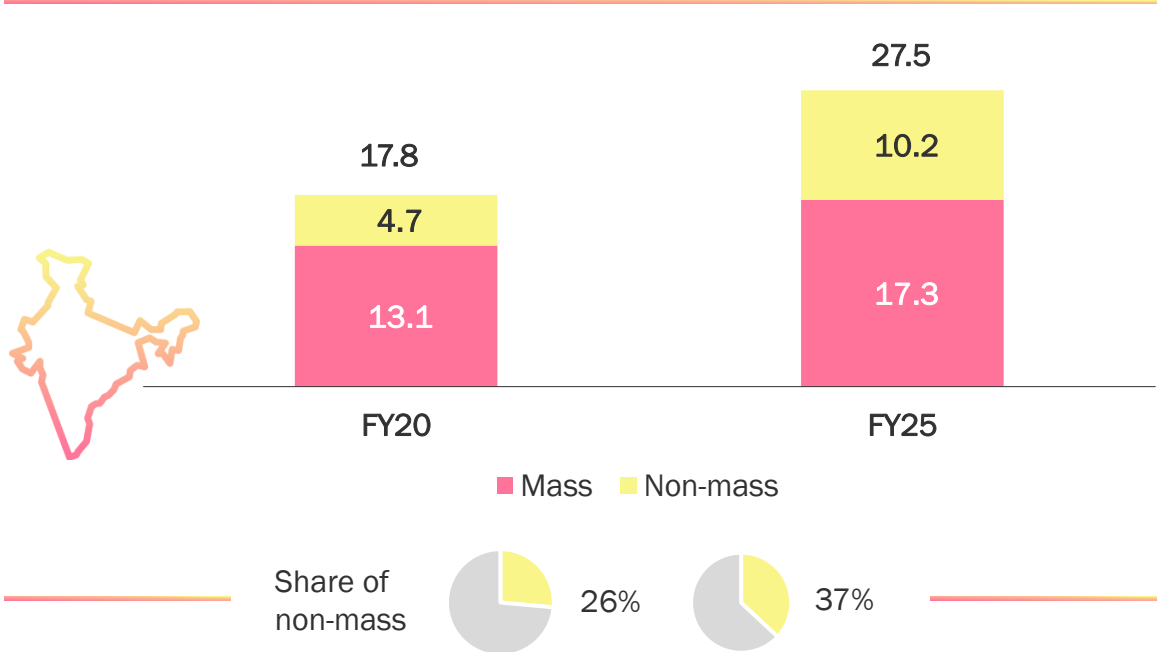
 **1.2%** Wallet share of Beauty & Personal Care in China in CY19

### Increasing wallet share

India's Beauty & Personal Care wallet share in FY25 is expected to be at the China wallet share level today

Note: 1 - Wallet share calculated by computing category spend as % of private consumption  
Source: Avendus estimates

## Mix of mass versus non-mass Beauty & Personal Care segments in India (\$Bn)



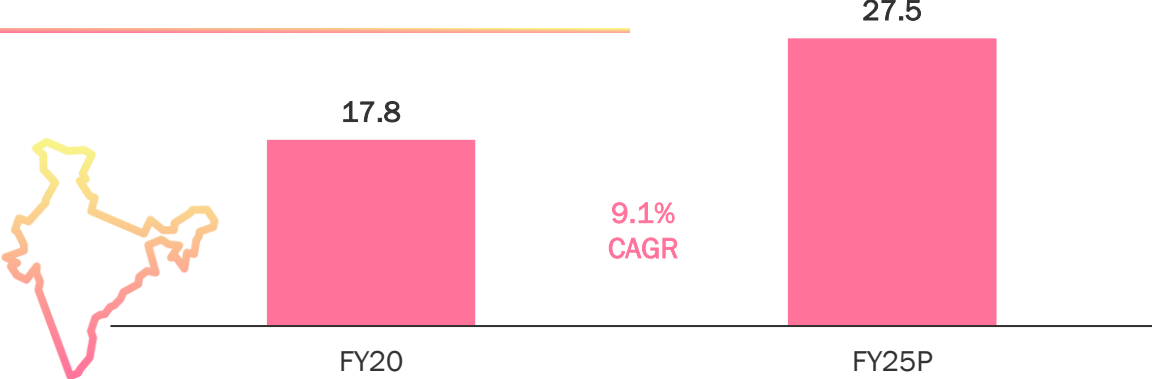
### Increasing Premiumization

While mass category in India will grow at 9.7%, non-mass categories are expected to grow at 19% CAGR

# Beauty & Personal Care in India is an \$18 Bn industry with enough headroom to grow in the next 5 years



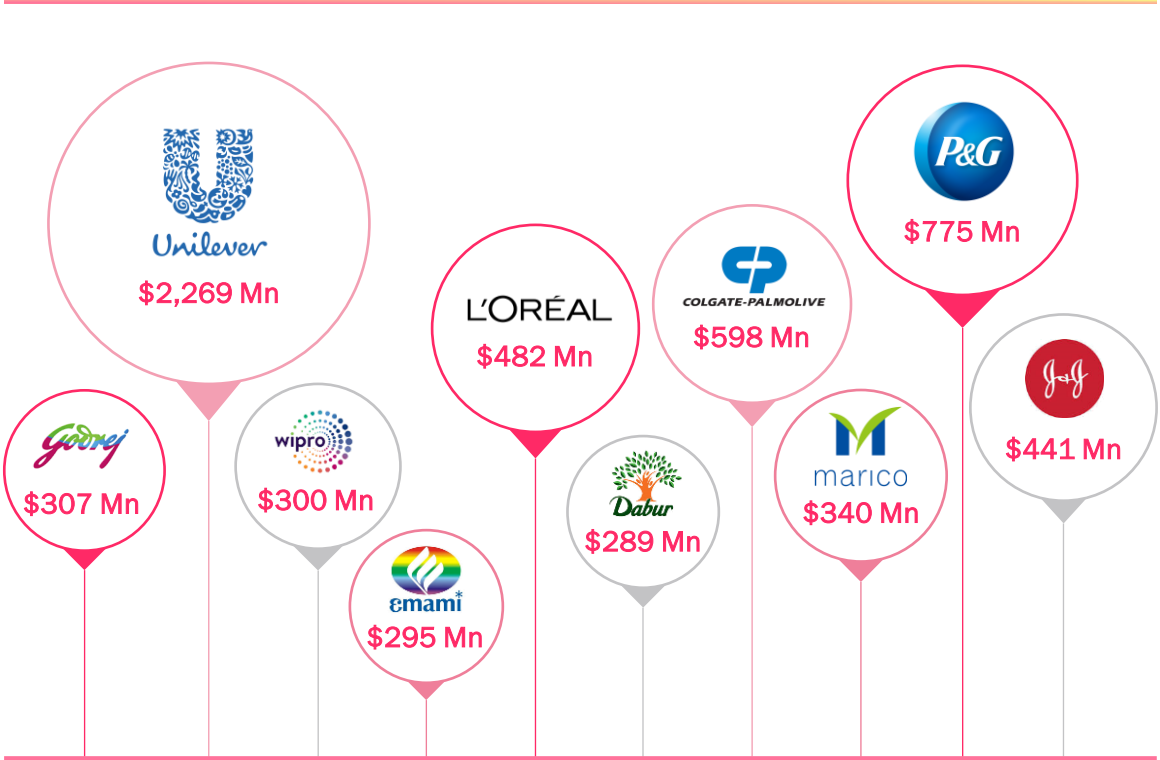
Beauty & Personal Care market in India (\$Bn)



Beauty & Personal Care market in India is estimated to grow 1.7 times in the next 5 years

- 8-9%** Beauty & Personal Care market CAGR for 2014-19
- 15%+** Expected growth of underserved categories (like herbal products, men's grooming)
- 70%** Sales through unorganized retail
- 12 Mn** Retail touchpoints selling FMCG products (relatively easier for FMCGs to get shelf space)

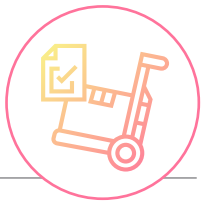
Brand-wise net revenue of Beauty & Personal Care segment in FY20































Top 10 FMCGs in Beauty & Personal Care comprise over 30% of the market (excluding distributor and retailer margin)

Note: Foreign exchange rate used as USD 1 = INR 75  
 Source: Company filings for FY20 and FY19, Broker reports, Aventus research

# Indian Beauty & Personal Care industry is dominated by large FMCG companies



| Company (Beauty segment revenues)   | Brand portfolio  | Brands >\$150 Mn Revenue | Brand launches in last 5 years | Key brand activity in 2018-20   |
|---|--|--------------------------|--------------------------------|---|
| <br>Hindustan Unilever Limited<br>\$2.3 Bn |   <br> <br>CLINIC PLUS+<br>+ 24 more  | 7                        | 7, of which 3 inorganic        | <ul style="list-style-type: none"> <li>Launched the brand Love, Beauty and Planet in India, partnered with Amazon to launch exclusive men's grooming products, introduced Lakmé's natural range owing to demand for natural ingredients</li> <li>Acquired VWash, a female intimate hygiene brand in 2020</li> </ul> |
| <br>P&G<br>\$775 Mn                        |   <br>  <br>+ 2 more | 2                        | 1                              | <ul style="list-style-type: none"> <li>Launched its international brand, Herbal Essences, with online-only distribution</li> <li>Innovation in own brands and online distribution of select SKUs depending upon the product target audience</li> </ul>  |
| <br>ITC Limited<br>\$260 Mn                |  <br>  <br>+ 2 more   | 0                        | 1                              | <ul style="list-style-type: none"> <li>Launched Dermafique, premium skin care brand</li> <li>Focused on introduction of new product range or variants within existing sub-brands</li> </ul>   |
| <br>marico<br>\$340 Mn                     |    <br>+ 9 more  | 1                        | 2, of which 1 inorganic        | <ul style="list-style-type: none"> <li>Launched Keepsafe, a range of premium personal hygiene products</li> <li>Completed acquisition of men's grooming brand Beardo, originally invested in 2017</li> <li>Concentrates on frequent launches of new variants under existing brands</li> </ul>                       |
| L'ORÉAL<br>\$482 Mn   |  <br> <br>+ 10 more  | 2                        | No new launches                | <ul style="list-style-type: none"> <li>Launched exclusive make up collection by designer Sabyasachi through 'Instagram only' route in 2018</li> <li>Re-launched Majirel, professional hair color brand, in 2020</li> </ul>  |

## Fewer brand launches:

New brand launches by large players have been few and far in-between

## Inorganic growth:

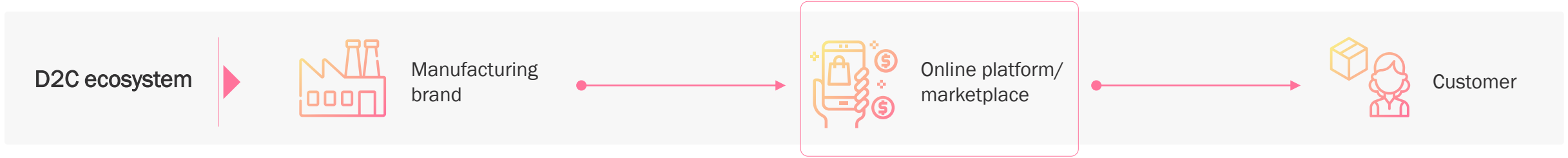
Growing reliance on inorganic channels for enhancing brand portfolio

## Focus on existing brands:

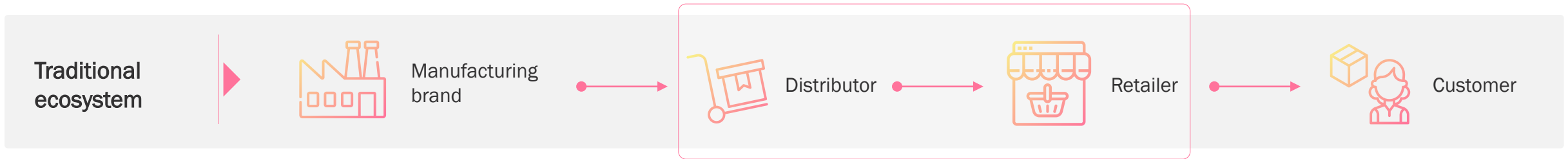
Launching more products and sub-brands under existing brands



# How has the traditional ecosystem been functioning so far?



Marketplace commission and visibility spend of 22-32% | Own platform spend on acquisition and logistics of 25-35%



Combined commission of distributor and retailer of 20-30%

Traditional companies have standard processes across brand, product and operations

## Brand strategy

- Launch 1 brand in 1-2 years through organic or inorganic expansion
- Focus on categories with large markets and huge audience to ensure viability and assured return on investment
- Launch a new brand only if there is comfort of achieving \$65 Mn+ in brand revenue

## Product strategy

- Investment in quarterly or annual activations or variations within the existing brands
- Do not capitalize on early or niche market trends owing to large investment of time, effort and marketing budgets
- Annual or quarterly activations or introduction of variants / SKUs to provide incremental offerings

## Execution strategy

- Multiple departments (like sales, marketing, development) with standard processes and decision-making guidelines
- Template operational procedures like customer surveys, focus group discussion, trials, testing, brand creation and approval at global levels



# Indian Beauty & Personal Care industry is perfectly poised for the growth of D2C players

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Demographic changes and behavioral shifts well positioned to expand market



White space of offerings / ability to create brand affinity



Adaptation of digital distribution and emerging platforms



Low agility of traditional players

# Demographic changes and behavioral shifts to drive market expansion



**01.** Rising number of online beauty shoppers

Number of online beauty shoppers<sup>1</sup>



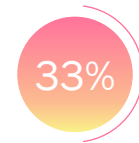
FY20



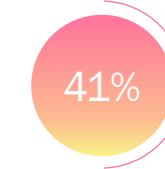
FY25

**02.** Increased spend by mid aged women shoppers  
*Women have started taking dedicated interest in self-care and consumption*

Increase in women borrowers as a proxy<sup>2</sup>



Increase in women borrowers (age 36-50) since Dec-17



Increase in women borrowers (age 50+) since Dec-17

**03.** Higher focus on grooming by men  
*Mid aged men are becoming more conscious of hygiene and wellness*

Expansion of men's grooming market<sup>3</sup>

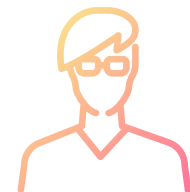


\$3 Bn

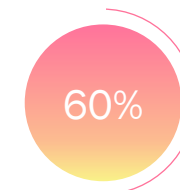
FY20

\$7 Bn

FY25



**04.** Online personal care search driven by brand preference



Top attribute searched<sup>4</sup>  
(% of total searches)

60% of the total searches for online personal care are driven by brand preference

# White space of offerings / ability to create brand affinity



## Product white space

- Consumer demanding new categories, like body scrubs, Vitamin C serums, that are not mainstream in India
- Niche, personalized and targeted products
- Ability to offer a wide range of SKUs

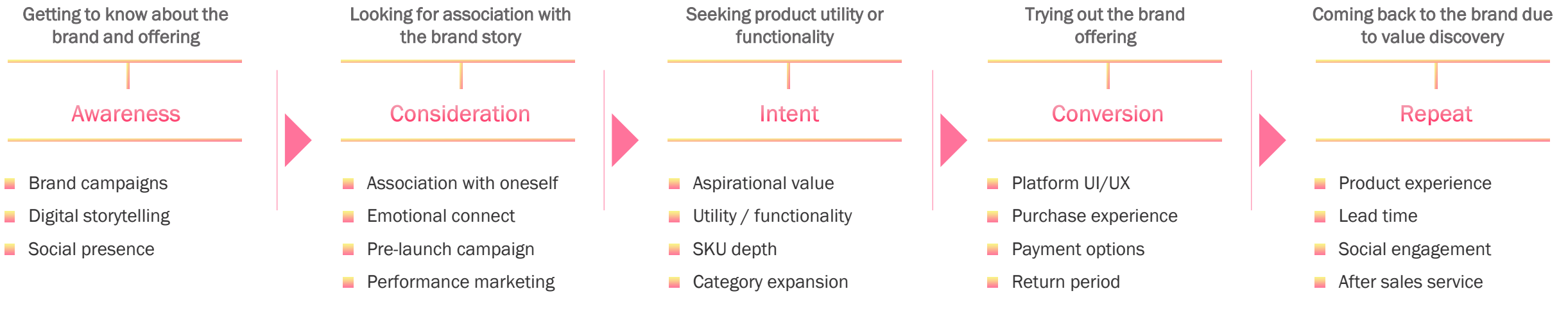
Unproven addressable market size of the white space, hence left **untapped by the existing players**

## Marketing white space

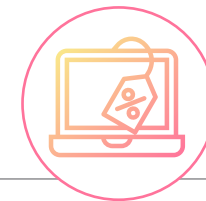
- Lack of direct engagement & feedback channels with customers
- For instance, direct messages on Instagram, v/s write feedback to a corporation
- Attention rapidly moving to newer media channels

**Incumbents have not yet cracked the code of online brand storytelling and digital marketing**

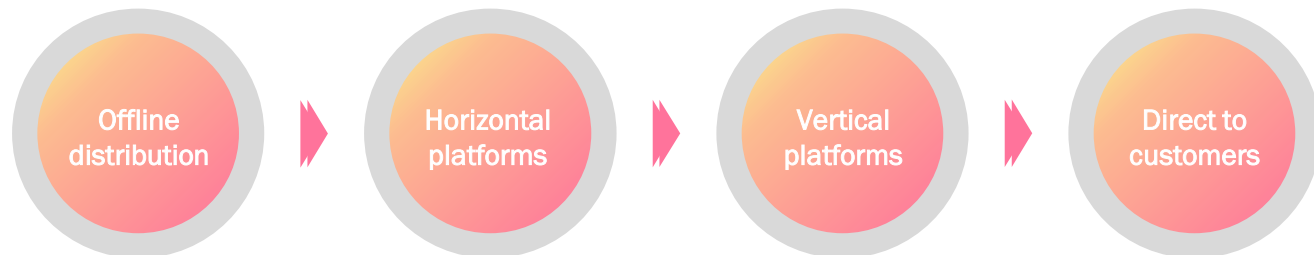
Similar to the offline brand journey, online customers need to traverse the five stages to brand affinity before they become loyal customers..



# Adoption of digital distribution and emergence of new platforms



## Evolution of distribution



Evolution of distribution and **access to multiple channels** and **niche target segments** has made it easier for D2C brands to **focus on market insights and customer need identification** as against operational aspects of distribution

*Barriers to entry in offline trade gave rise to the popularity of online marketplaces*

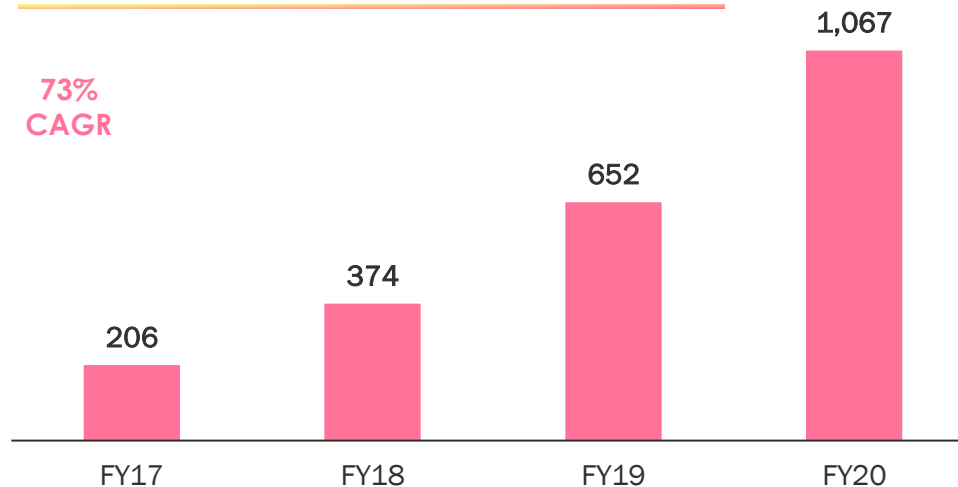
### General trade distribution

- Success in general trade requires a large branding and product awareness spend
- Regional distributors are the gatekeepers to the channel
- Takes time and scale to build distributor relationship and boost sales

### Modern trade distribution

- Long drawn process of getting entry in modern retail
- Competition with traditional players for shelf space
- High sensitivity of retailers to inventory turns

## Online Beauty & Personal Care market size in India<sup>1</sup> (\$Mn)



## Online marketplaces

amazon

NYKAA

purple






Flipkart

paytm mall

Myntra

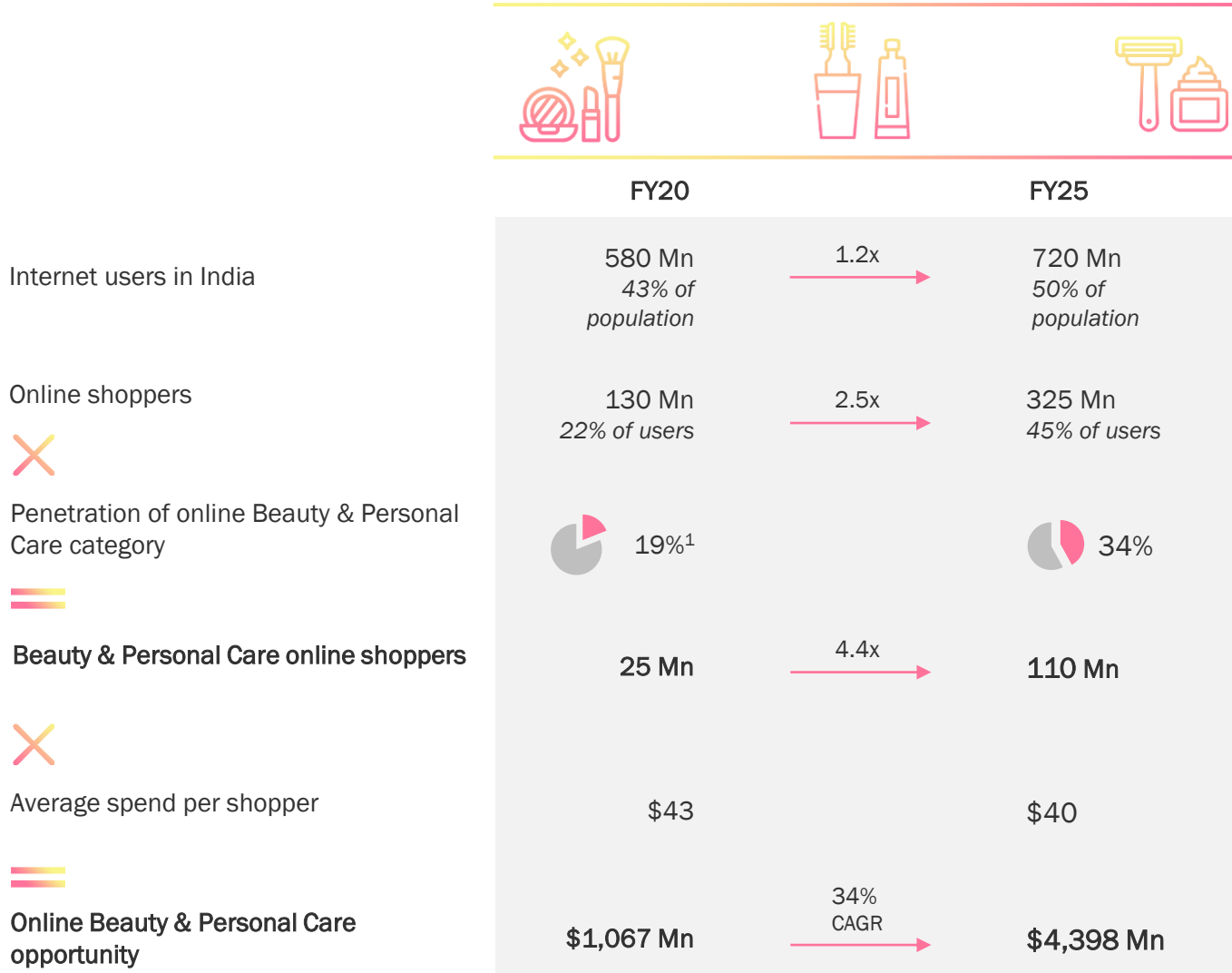
# Inability of larger players to capture the market; VC funding available for D2C brands



| Internal Factors   |  |   |   | External Factors  |
|--|--|---|---|---|
| Organizational agility   | Focus areas and incentive structures   | Areas of expertise  | Brand ethos   | Volume efficiencies   |
| <ul style="list-style-type: none"> <li>Rigidly defined processes</li> <li>Top-down and multi-layered decision-making flows</li> </ul>  | <ul style="list-style-type: none"> <li>New trends are often absorbed within an existing established brand as new brand-building is a mammoth exercise</li> </ul>   | <ul style="list-style-type: none"> <li>Traditional strengths are brand marketing and distribution</li> <li>Low degree of digital expertise and exposure</li> </ul>                | <ul style="list-style-type: none"> <li>A large co-brand ethos is driven as a sum-of-the-parts making it tough to redefine or have a contrasting ethos</li> </ul>  | <ul style="list-style-type: none"> <li>Total addressable market for niche use cases is too small and often uncharted</li> </ul>   |
|  <p>Global HQ<br/>↓<br/>India HQ<br/>↓<br/>Implementation</p>  |  <ul style="list-style-type: none"> <li>Emami's launch of hand sanitizer under existing BoroPlus brand</li> <li>ITC's reuse of Charmis brand to launch skincare products</li> <li>HUL's new natural cosmetics launched under Lakme</li> </ul> |  <p><b>2.8%</b><br/>Average digital sales for top FMCG brands in India</p>                     |  <p>Claims of existing FMCG players to rebrand as "sustainable, toxin-free" products company are difficult to maintain</p> |  <p>Men's skin care market, being sub \$250 Mn in size, has mainly seen indirect participation from FMCG giants through investments in niche players</p> |
| <ul style="list-style-type: none"> <li>Longer timelines in launching new products - usually over 12 months, due to repeated ideations and testing procedures</li> <li>Intrapreneurial culture</li> </ul> | <ul style="list-style-type: none"> <li>More aligned towards growing an existing brand rather than on accountability for new revenue</li> </ul>   | <ul style="list-style-type: none"> <li>Markedly different DNA and marketing approach required</li> <li>Overall digital ad spend constitutes only 20% of total ad spend</li> </ul> | <ul style="list-style-type: none"> <li>Difficult to break away from existing brand image</li> </ul>   | <ul style="list-style-type: none"> <li>The scale is insufficient to move the needle on channel efficiencies</li> <li>Costs of failure are higher for big established players</li> </ul>   |

VC funding is allowing smaller, more agile outlets to explore the white spaces

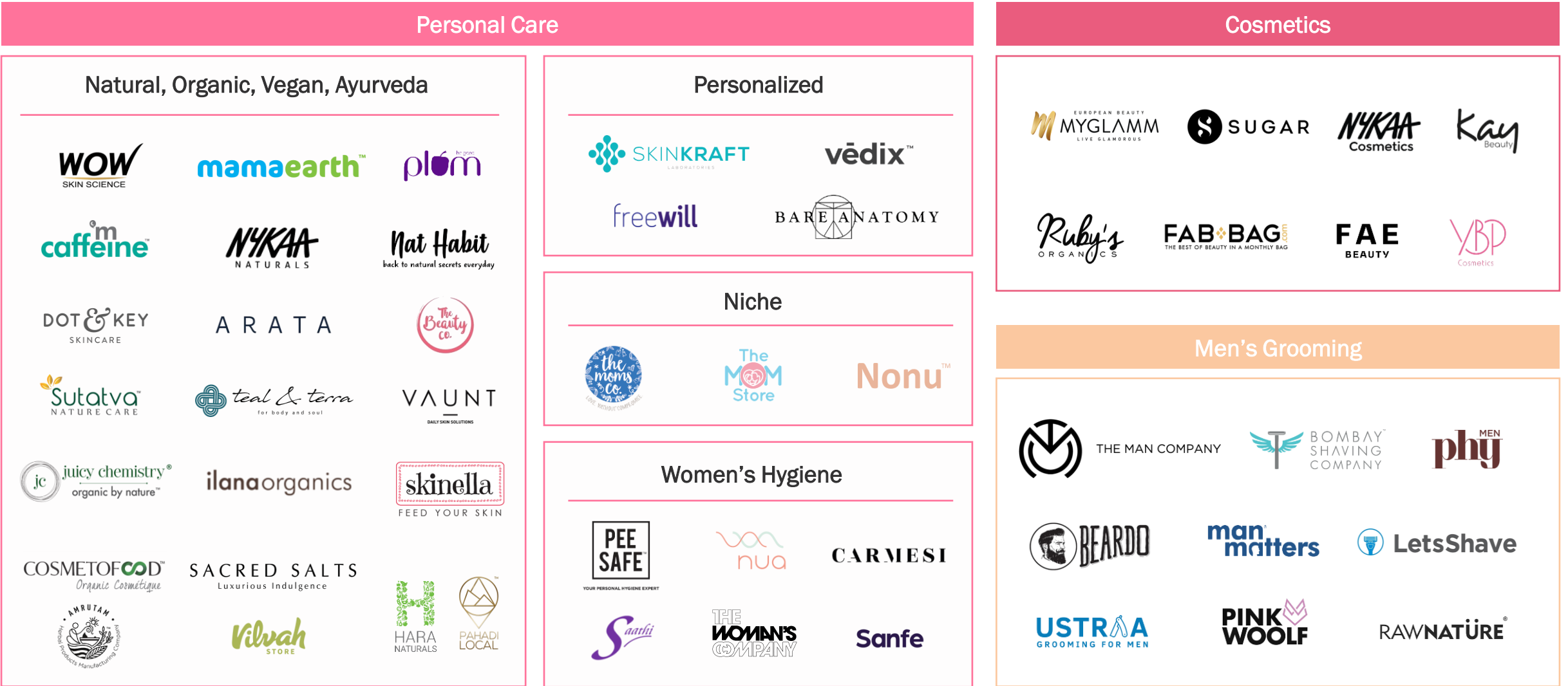
# Online Beauty & Personal Care in India is a \$4.4 Bn opportunity



## Global benchmarks of online penetration in Beauty & Personal Care category

|  |      | Beauty & Personal Care market |   | Online % |  | Online retail |
|--|------|-------------------------------|---|----------|--|---------------|
|  | CY19 | \$91 Bn                       | ✗ | 17%      |  | \$16 Bn       |
|  | CY19 | \$63 Bn                       | ✗ | 19%      |  | \$12 Bn       |
|  | FY20 | \$18 Bn                       | ✗ | 6%       |  | \$1.1 Bn      |
|  | FY25 | \$28 Bn                       | ✗ | 16%      |  | \$4.4 Bn      |

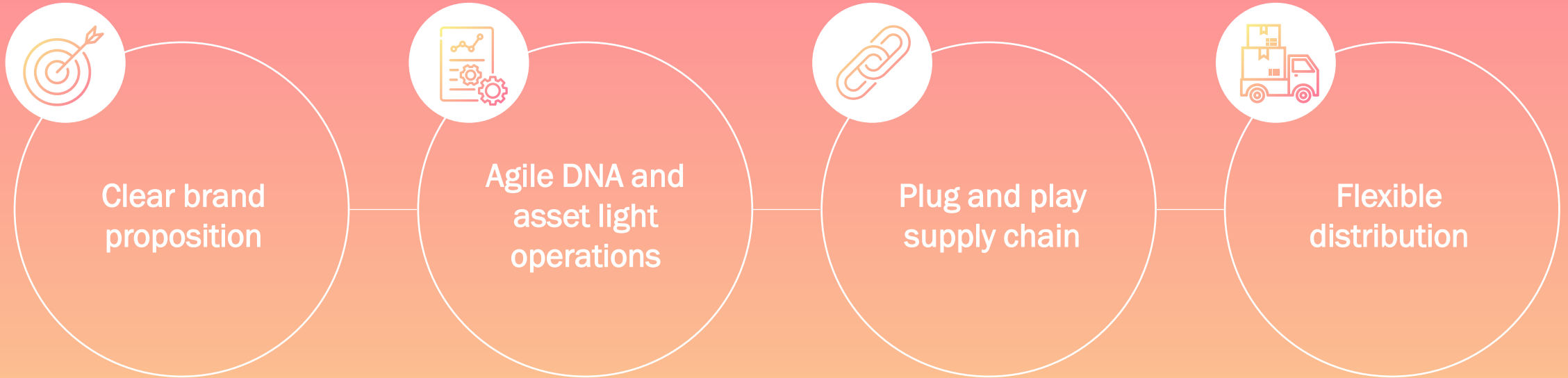
# India D2C Beauty & Personal Care landscape has more than 80 players





# Why are D2C Beauty & Personal Care brands winning the market ?

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# Success factors: New brand proposition

## Bringing something new to the market

01.

### Unique Offering

- Customers looking for a “made-for-me” product addressing a personalized need
- A well performing hero product addressing a niche need cuts through the noise, gives the early traction and credibility



Range of Apple Cider Vinegar products by Wow



Coffee infused range of personal care products



Celebrity-backed premium proposition by MyGlam

### Creating resonance

- Creating brand resonance with emerging consumer trends – toxin free, organic, sustainable products which is not addressed by larger corporations – “I support this cause for my own good”



Toxin-free personal care by Mamaearth



100% vegan proposition by Plum Goodness



Small SKUs, long-lasting cosmetics by Sugar

### Multi-touchpoint, personalised communication

- Extensive use of social media channels to give customers a direct voice to the brand – “my feedback counts”
- Girl-next-door influencer marketing to increase exposure



360 degree digital marketing



New age customer engagement channels



Influencer marketing to reach the right audience

# Success factors: New brand proposition

## Social media and influencer marketing as new channels of D2C engagement (1/2)

01.



Social media has some inherent advantages as a medium which are better suited for D2C commerce



### Freedom in form-factor; visual and video formats

- Effective for products and ingredients that require customer education



### Enables users to give information on their preferences

- Better targeting, enables brands to fulfill personalized needs



### Instrumental in driving brand ethos such as sustainability or organic ingredients

- Allows for deeper connection with customers



### Cost advantages and effective tracking

- Lower cost per impression with better ability to track customers as well as measuring ROIs

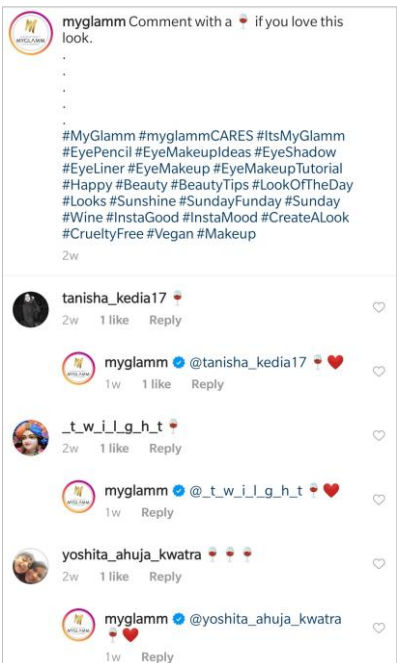
### Characteristics of brands leveraging social media marketing effectively

#### Tutorial-based posts



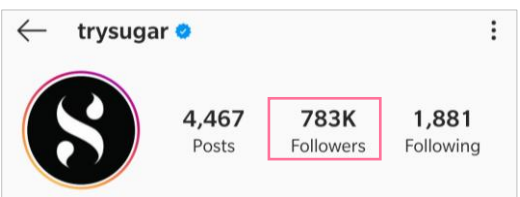
**2%+** Engagement rate on informative posts

#### Direct engagement



**<2hrs** Response time on direct messages

#### Rapid gain in followers



Total since Jun'15; **67K** in Sep'20



Total since Mar'15; **18K** in Sep'20



Total since Dec'16; **63K** in Sep'20

Note: Instagram metrics as on 8-Oct-2020  
Source: Avendus research

# Success factors: New brand proposition

## Social media and influencer marketing as new channels of D2C engagement (2/2)

01.



Influencer marketing is the new buzzword, but returns remain to be evaluated



### Raison d'être

- Indian culture has traditionally been celebrity-led. Influencers bring a friendly perspective, with the authenticity of a real user's experience
- Non-intrusive native advertising – subtler way to introduce products through content that is beneficial for the target audience



### Indian market is fragmented

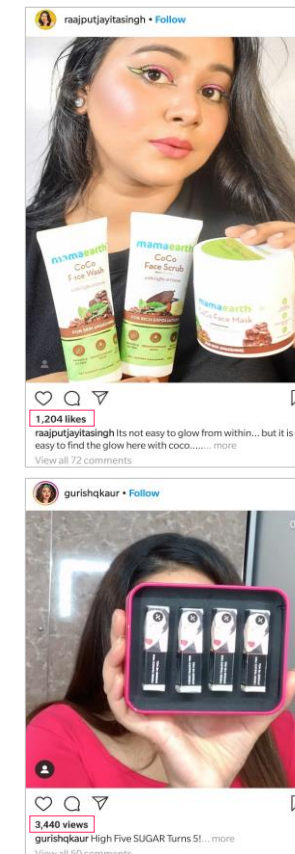
- Influencers with <100K followers manage their own accounts with agencies operating in small niches
- Influencers are paid basis posts as against the more common model of affiliate marketing in US
- Pricing is linked only to follower count and starts from as low as \$25. Metrics like engagement are increasingly gaining importance



### Driver of awareness, not sales

- Influencer marketing is not performance linked and viewed mainly as a medium of awareness
- Forms a small part of overall marketing budget of large brands, but a substantial part of D2C brands

### Increasing focus on influencer marketing to create awareness



34% Instagram influencers have over 20K followers

94% Marketers/strategists launched at least one influencer campaign in 2019

58% Marketers had influencer marketing budget of more than INR 100K in 2019

56% Brands collaborate with influencers with the primary aim to gain visibility

Note: Instagram metrics as on 12-July-2020

Source: HypeAuditor report on State of Influencer Marketing; "India Influence Report" by Zefmo Media; Talkwalker report on State of Influencer Marketing in India

# Success factors: New brand proposition

## Leveraging category price gaps in the India market

01.

D2C brands have made it easier to leap to premium offerings by filling the white space in the category's price spectrum

| Category   | Start of the range offerings  | Value offerings to fill the price gap   | Premium products by traditional cos. at higher prices  |
|--|---|---|--|
| <b>Hair care</b><br><i>Shampoo</i><br>Price for 250mL      | <b>Daily-use shampoo</b><br> Garnier Ultra Blends<br>INR 188<br> Dove Oxygen<br>INR 200                             | <b>Sulphate-free shampoo</b><br> Mamaearth Shampoo<br>INR 349<br> Wow Skin Sciences<br>INR 415                        | <b>Sulphate-free shampoo</b><br> L'Oreal XTenso<br>INR 800<br> L'Oreal EverPure<br>INR 1,295<br> Pantene Gold Series<br>INR 3,817 |
| <b>Cosmetics</b><br><i>Foundation</i><br>Price for 1 unit  | <b>Liquid foundation</b><br> Lakmé Liquid<br>INR 150<br> Maybelline Fit-me<br>INR 500                               | <b>Stick foundation</b><br> Sugar Ace of Face Sticky<br>INR 999  | <b>Stick foundation</b><br> M.A.C. Studio Fix Matte<br>INR 4,000<br> Bobbi Brown Foundation Stick<br>INR 4,000   |
| <b>Men's grooming</b><br><i>Razors</i><br>Price for 1 unit | <b>2-blade and 3-blade razors</b><br> Gillette Presto (2-blade)<br>INR 20<br> Gillette Mach3 (3-blade)<br>INR 200 | <b>5-blade and 6-blade razors</b><br> LetsShave Pro 6 (6-blade)<br>INR 319<br> The Man Company (5-blade)<br>INR 349 | <b>5-blade razors</b><br> Gillette Fusion (5-blade)<br>INR 460<br> Gillette Proglide (5-blade)<br>INR 499  |
| <b>Skin care</b><br><i>Hand cream</i><br>Price for 50mL    | <b>Budget formulations</b><br> Nivea Hand Cream<br>INR 60<br> Vaseline Hand cream<br>INR 249                    | <b>Mid-range offering</b><br> Mcaffeine Hand cream<br>INR 325<br> Plum Hand Cream<br>INR 370                      | <b>Higher end expensive products</b><br> Body Shop Hand Cream<br>INR 658<br> L'Occitane Hand Cream<br>INR 1,250  |



# Success factor: Agile DNA and asset light operations

## Agile DNA and asset light operations across value chain

| Iterative product development  | Asset light manufacturing  | Data driven production & inventory management  | Catalogue discovery   |
|--|--|--|---|
| <ul style="list-style-type: none"> <li>Design process driven by product &amp; functionality white space</li> <li>Development accompanied with customer feedback loop</li> <li>Customer engagement data generating inputs for new products</li> </ul> | <ul style="list-style-type: none"> <li>D2C brands opt for contract manufacturing or toll manufacturing</li> <li>Clear brand specifications and SOPs, leveraging an ecosystem that is already set up and available</li> </ul> | <ul style="list-style-type: none"> <li>Access to rich data helps in forecasting the SKU-wise demand accurately</li> <li>Lower inventory risk - 3-4 weeks of inventory data can guide which SKUs to produce further and which ones to discount</li> </ul> | <ul style="list-style-type: none"> <li>Digital brands have the luxury of displaying the entire product catalogue and leverage SKU depth for purchase conversion</li> <li>Lesser risk of stockout due to absence of storefront and centralized fulfilment</li> </ul> |



## Operations conducive to innovation

- 01. Low cost of failure**  
D2C brands require lower supply chain investment and capital for launching products
- 02. Lower time to market**  
D2C brands can introduce products from ideation stage to distribution-ready in as little as 3-6 weeks
- 03. Continuous experimentation**  
D2C brands strive to consistently identify product white spaces that can garner enough customer demand

### Impact of inventory management<sup>1</sup>

|   |                         |
|---|-------------------------|
| Inventory days for traditional cos.             | ~110 days               |
| Inventory days for D2C brands                   | ~60 days                |
| <i>Assuming 65% gross margin for D2C brands</i> |                         |
| Cost of goods                                   | 35% of sales            |
| Reduction in capital requirements               | 50 days inventory       |
|   | $\frac{50}{365} * 35\%$ |
|   | 4.8% of sales           |

D2C brands may reduce working capital requirement by ~5% of sales by leveraging centralized fulfilment for inventory optimisation

- Lower cost of carrying inventory
- Smaller-batch production



# Success factor: Plug and play supply chain ecosystem

Well developed supply chain ecosystem and B2B services enabling brands to focus more on product and consumer need identification

|  |  |   |  |                        |                    |                        |  |  |  |
|--|--|---|--|------------------------|--------------------|------------------------|--|--|--|
|  | <b>Procurement &amp; manufacturing</b> | Typically 100% self procurement coupled with contract or toll manufacturing   |  | In-house manufacturing | Toll manufacturing | Contract manufacturing |  |  |  |
|  | <b>Distribution</b>                    | Readily available digital distribution pipelines – marketplaces, own website  |  | Own platform           |                    |                        |  |  |  |
|  | <b>Marketing</b>                       | Digital advertising and marketing channels to target only the appropriate audience resulting in higher return on ad spend |  |                        |                    |                        |  |  |  |
|  | <b>Fulfilment</b>                      | Third party logistics (3PL) for fulfilment and doorstep delivery  |  |                        |                    |                        |  |  |  |

# Success factor: Flexible distribution

04.

Flexibility of choosing from a set of options, large outcomes will be created by leveraging a mix of distribution channels

## Online Distribution

Co-existence of own platform and marketplace; Own platform to access customer data and marketplace to reduce CAC



### Own platform



### Online marketplace



Focused brand visibility and proposition communication



Access to customers for retargeting, rich data & insights



Large marketing efforts to generate traffic



Lack of trust in early days

Aggregated demand with higher customer reach

Higher degree of trust in the channel

High product competition from multiple brands

Restrictions on seller-related marketing efforts

## Offline Distribution

Significant investment required to establish distribution; Distributors require scale & retailers look for inventory turns



### Modern trade



### General trade



Association of brand with high credibility



Higher visibility and brand recall



Difficult to get retail shelf space



Higher bargaining power of the retailer

Highest customer reach

Large growth opportunity

High spend on brand and product awareness

Inventory management

# Classic conundrum: Marketplace distribution or own platform?

## Who owns the customer and how do D2C brands continue to gain consumer insights

|                            | Own platform distribution   | Marketplace distribution  |   |
|----------------------------|---|---|---|
| <b>Channel proposition</b> | <ul style="list-style-type: none"> <li>Own the purchase experience</li> <li>Sell the product as well as the brand</li> <li>Channel for driving loyalty and retention</li> </ul> | <ul style="list-style-type: none"> <li>Launch minimum viable products</li> <li>Ascertain product-market fit</li> <li>Channel for discovery and customer acquisition</li> </ul>                  | <b>Key takeaways</b> <ul style="list-style-type: none"> <li>Own platforms drive higher loyalty</li> <li>Marketplaces being search-led platforms, are great for need-based purchases and repeat fulfilment</li> <li>Vertical marketplaces like Nykaa solve for product credibility via verified listings and customer reviews</li> <li>Own platforms offer the advantage of rich insights on demographics and customer engagement</li> <li>Own platform focus is on communication and messaging</li> <li>Marketplace can be leveraged for discovery and visibility</li> <li>Customers have higher trust in marketplaces due to their past experiences, return/refund services and standard policies</li> </ul> |
| <b>Demand</b>              | Paid and organic platform traffic   | Marketplace traffic, wide reach across demographics   |   |
| <b>Discovery</b>           | SKU and catalogue discovery, additional 20-30 seconds for customer education  | Brand and product discovery, competition benchmarking   |   |
| <b>Customer ownership</b>  | Complete ownership and visibility on conversion, repeats; ability to re-target customers  | Customer ownership with the marketplace; Limited access to customer data; however marketplaces have begun to share consumer behaviour insights to help brands strategize their marketing spends |   |
| <b>Branding</b>            | Free rein on marketing, education and building a consistent brand message   | Marketing with restricted bounds, primary purpose is product listing  |   |
| <b>Operations</b>          | Need to build and integrate all the processes related to order fulfilment   | Well-oiled machinery that customers trust for order management, redressal services and delivery (forward and reverse logistics)   |   |

# D2C strategy: Online will give early velocity, omnichannel will create scale and house of brands will help create large outcomes

## Three-pronged strategy to deliver a Billion Dollar valuation outcome

### 01. Early scale and velocity from online sales



Online Beauty & Personal Care shoppers



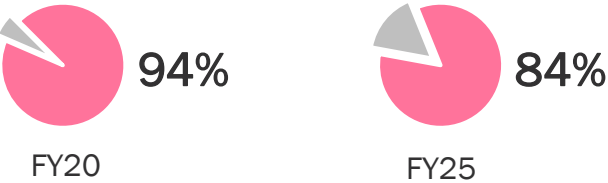
- More than 5x increase in online Beauty & Personal Care shoppers by 2025
- Revenue driven by a number of SKUs, category adjacencies and high repeat
- Mix of own platform and marketplaces can ensure 4 Mn annual customers (spending an average of \$10) to reach the desired scale

### 02. Large addressable omnichannel opportunity

Achievement of topline at various stages



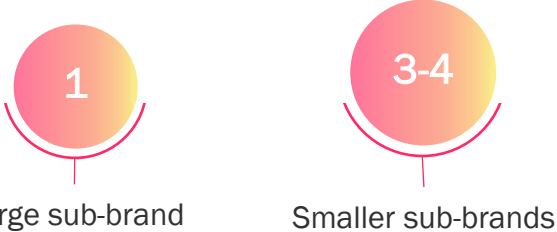
Share of offline retail in India Beauty & Personal Care market



- Beauty & Personal Care market would be dominated by offline retail even in 2025
- Revenue driven by the longtail of new and repeat customers
- Pan-India omnichannel distribution to achieve \$150 Mn+ scale

### 03. Brand architecture: House of brands

Co-existence of sub-brands under the parent brand



- Each brand has its own proposition, target segment and marketing strategy
- Revenue driven by replication of customer insights and analytics across audience sets
- Higher reach due to offerings for multiple target segments without diluting the brand

Digital brands may choose to do steps 2 and 3 sequentially, parallelly or either one to achieve scale

# Favorable economics due to higher average order value and robust product margins

## Illustrative unit economics across channels

| Own platform economics         |     |       |
|--------------------------------|-----|-------|
| Average selling price          | INR | 600   |
| Basket size                    | #   | 1.8   |
| Average order value            | INR | 1,080 |
| Purchase Frequency             | #   | 2.5   |
| Customer sales                 | INR | 2,700 |
| Cost of goods                  | INR | 945   |
| Gross profit                   | INR | 1,755 |
| Gross margin                   |     | 65%   |
| Logistics (INR 65 * 2.5 times) | INR | 163   |
| Pre-marketing contribution     | INR | 1,593 |
| Customer acquisition cost      | INR | 700   |

| Own platform revenue retention |       |     |     |     |                   |
|--------------------------------|-------|-----|-----|-----|-------------------|
| Year                           | Y0    | Y1  | Y2  | Y3  | After Y3          |
| Retention                      | 100%  | 60% | 45% | 30% | Halved every year |
| Contribution                   | 1,593 | 956 | 717 | 478 | 478 <sup>1</sup>  |
| Lifetime value                 | 4,220 |     |     |     |                   |
| LTV / CAC                      | 6.0 x |     |     |     |                   |

| Marketplace economics                 |     |       |
|---------------------------------------|-----|-------|
| Average selling price                 | INR | 600   |
| Basket size                           | #   | 1.5   |
| Average order value                   | INR | 900   |
| Purchase Frequency                    | #   | 2.5   |
| Customer sales                        | INR | 2,250 |
| Cost of goods                         | INR | 788   |
| Gross profit                          | INR | 1,463 |
| Gross margin                          |     | 65%   |
| Pre-marketing contribution            | INR | 1,463 |
| Marketplace commission (28% of sales) | INR | 630   |
| Contribution                          | INR | 833   |

Note: 1 - Using summation of infinite GP i.e.  $Sum = a/(1-r)$  where  $a = 478/2$  and  $r = 0.5$  since retention is reducing to half every year  
Source: Avendus estimates


# Investment case: What are exit alternatives?

## Strategic sale to incumbents stands out

### Why Indian traditional players opted for acquisitions in past

| Acquisition rationale            | 01. Acquire talent and tech capabilities   | 02. Build distribution expertise   | 03. Aid product and/or brand extension   | 04. Experiment in niche categories  |
|----------------------------------|--|--|--|---|
| Factors influencing the decision | <ul style="list-style-type: none"> <li>Founding team</li> <li>Management team</li> <li>Customer data analysis</li> <li>Tech stack</li> </ul> | <ul style="list-style-type: none"> <li>Scale of operations</li> <li>Distribution mix</li> <li>Business growth</li> <li>Customer retention</li> </ul> | <ul style="list-style-type: none"> <li>Target audience</li> <li>Product</li> <li>Price range</li> <li>SKU depth</li> </ul> | <ul style="list-style-type: none"> <li>Potential revenue outcome</li> <li>Unique proposition</li> <li>Financial risk</li> </ul> |

### Precedent transactions of beauty and personal care brands

| Date               | May-20   | Mar-20   | Jan-20   | Nov-19  | Oct-19  | Jan-15  |
|--------------------|--|--|--|---|---|---|
| Acquirer           |                 |                |                 |              |                                |              |
| Target (Valuation) | <br>Undisclosed | <br>Undisclosed | <br>Undisclosed | <br>\$600 Mn | <br>Drunk Elephant - \$ 855 Mn | <br>\$220 Mn |

Source: Company filings, Public disclosures, Aventus research



# Large beauty companies have always acquired good brands – both offline as well as D2C brands



## Global

### Relevant brand acquisitions and strategic investments

| Year | Acquirer     | Company                   | Company Description                | Deal Value |
|------|--------------|---------------------------|------------------------------------|------------|
| 2020 | P&G          | Billie                    | Premium female body care brand     | na         |
| 2020 | Coty         | Kylie Cosmetics           | Celebrity-led cosmetics brand      | \$0.6 Bn   |
| 2019 | Estee Lauder | Have & Be                 | Korean skin care company           | \$1.7 Bn   |
| 2019 | Shiseido     | Drunk Elephant            | Prestige skincare brand            | \$0.8 Bn   |
| 2019 | Unilever     | Tatcha                    | Prestige skincare brand            | \$0.5 Bn   |
| 2018 | P&G          | Walker and Co             | Beauty brand for ethnic diversity  | na         |
| 2017 | Unilever     | Carver Korea              | Korean cosmetics brand             | \$2.7 Bn   |
| 2017 | L'Oréal      | CeraVe, AcneFree and Ambi | Beauty brands                      | \$1.3 Bn   |
| 2017 | Coty         | Younique                  | Social-media-driven cosmetics co.  | \$1.0 Bn   |
| 2016 | Estee Lauder | Too Faced Cosmetics       | Millennial-focused cosmetics brand | \$1.5 Bn   |
| 2016 | Unilever     | Dollar Shave Club         | Men's grooming brand               | \$1.0 Bn   |



## India

### Brand acquisitions

| Year | Acquirer | Company   | Company Description               | EV (\$ Mn) |
|------|----------|-----------|-----------------------------------|------------|
| 2020 | Marico   | Beardo    | Men's grooming brand;             | na         |
| 2020 | HUL      | Vwash     | Feminine hygiene products company | na         |
| 2019 | Emami    | Crème 21  | German personal care brand        | 13         |
| 2015 | Emami    | Kesh King | Hair care brand                   | 220        |
| 2015 | HUL      | Indulekha | Hair care brand                   | 44         |

### Strategic investments to remain agile







| Year | Investor          | Company             | Company Description                   | Stake |
|------|-------------------|---------------------|---------------------------------------|-------|
| 2018 | Emami             | Brillaire           | Professional skin and hair care brand | 26%   |
| 2018 | Colgate-Palmolive | Bombay Shaving Club | Men's grooming brand                  | 24%   |
| 2017 | Emami             | The Man Company     | Men's grooming brand                  | 30%   |

Note: 1 USD = 75 INR

Source: Company filings, Avendus research

# D2C companies in India to watch out for



|                       |   |   |   |   |
|-----------------------|---|---|---|---|
| <b>Proposition</b>    | Unique, innovative and natural ingredient based product range   | Toxin-free natural personal care products   | Premium quality products customized for India at affordable price   | Customized skin and hair care regimen and products  |
| <b>Products</b>       | <b>Hair care</b> - shampoo, conditioner, oil<br><b>Skin Care</b> - face wash, cream, moisturizer<br> | <b>Hair care</b> - shampoo, conditioner, mask<br><b>Skin Care</b> - face care, body care<br><b>Baby care</b><br> | <b>Personal care</b> – lotion, shower gel, oils, cream, mask, scrub, soap<br><b>Cosmetics</b> – makeup, nail polish, brushes, kits, fragrances etc. | <b>Skin care</b> - facial cleansers, moisturizers<br><b>Hair care</b> - Shampoo, Serum, conditioners<br> |
| <b>Distribution</b>   | Primarily through online marketplaces   | Primarily online  | Primarily online  | Online only   |
| <b>Scale</b>          | Aug'20 Revenue ARR: \$90 Mn; 100+ SKUs  | Aug'20 Revenue ARR: \$55 Mn; 200+ SKUs; 4.5 Mn customers  | 1,100+ SKUs, 250+ cities  | Aug'20 Revenue ARR: \$30 Mn+; 0.5 Mn+ SkinKraft and Vedix profiles created  |
| <b>Founded</b>        | 2013  | 2016  | 2015  | 2018 (SkinKraft launched)   |
| <b>Capital raised</b> | Bootstrapped  | \$21.3 Mn   | NA  | \$4.0 Mn  |
| <b>Investors</b>      | Bootstrapped  |   |    |    |
| <b>Founders</b>       | <ul style="list-style-type: none"> <li>■ Manish Chowdhary</li> <li>■ Karan Chowdhary</li> <li>■ Aravind Umapathy Sokke</li> <li>■ Ashwin Sokke</li> </ul>                             | <ul style="list-style-type: none"> <li>■ Varun Alagh</li> <li>■ Ghazal Alagh</li> </ul>   | <ul style="list-style-type: none"> <li>■ Falguni Nayar</li> </ul>   | <ul style="list-style-type: none"> <li>■ Chaitanya Nallan</li> <li>■ Sangram Simha</li> <li>■ Veerendra Shivhare</li> </ul>   |

\*Illustrative products, complete catalogue of brands is much wider; Assumed USD 1 = INR 75  
 Source: Market intelligence, Avendus research, Publications

# D2C companies in India to watch out for












|                       |   |   |   |  |
|-----------------------|---|---|---|--|
| <b>Proposition</b>    | Portfolio of sub-brands across Makeup, Skincare and Personal Care   | Superior color cosmetics at affordable price points   | Caffeine based skin care and hair care products   | 100% vegan products developed with deep ingredient research  |
| <b>Products</b>       | <b>Color cosmetics</b> - lipstick, primer, foundation, eyeliner,<br><b>Skin &amp; Personal care</b> - face & body   | <b>Color cosmetics</b> lipstick, primer, eyeliner, nail paints, moisturizer<br>  | <b>Body care</b> - scrubs, lotions, cream, oil<br><b>Face care</b> - face wash, Scrub, mask, serum<br>                         | <b>Skin Care</b> – scrubs, moisturizers, cleansers<br><b>Hair care</b> - shampoos, conditioners, masks<br><b>Men's grooming</b><br> |
| <b>Distribution</b>   | 50% Online 50% Offline. Offline is 2,000 point of sales across 50 cities of India   | 45% sales from online channel; offline presence in 1,800+ stores  | Online only   | 70% online through own channel and marketplaces; 30% offline   |
| <b>Scale</b>          | Revenue: \$18 Mn+   | Revenue: \$15 Mn  | FY20 Revenue: \$15 Mn; 17 SKUs, 1.5 Mn customers till date  | FY20 revenue: \$10+ Mn; 80+ SKUs   |
| <b>Founded</b>        | 2017  | 2015  | 2016  | 2013   |
| <b>Capital raised</b> | \$30 Mn   | \$13 Mn   | \$5 Mn+   | \$2 Mn   |
| <b>Investors</b>      |  TRIFECTA CAPITAL  Bessemer Venture Partners  L'OCCITANE EN PROVENCE |  A91 Partners  IndiaQuotient  RB Investments |  RPSG VENTURES  AMICUS CAPITAL PARTNERS |  Unilever VENTURES  |
| <b>Founders</b>       |  Darpan Sanghvi  |  Vineeta Singh<br> Kaushik Mukherjee  |  Tarun Sharma<br> Vikas Lachwani        |  Shankar Prasad   |

\*Illustrative products, complete catalogue of brands is much wider; Assumed USD 1 = INR 75  
Source: Market intelligence, Avendus research, Publications

# D2C companies in India to watch out for



|                       |   |  |  |   |
|-----------------------|---|--|--|---|
| <b>Proposition</b>    | Premium men's grooming product  | Premium experiential shaving and grooming brand  | Natural, chemical-free product brand for mothers and babies  | One shop for all hygiene related needs  |
| <b>Products</b>       | <b>Shave</b> - razor, foam, gels, after-shave<br><b>Grooming</b> - beard oil, wax, hair cream<br>  | <b>Shave</b> - razor, cream, foam, brush<br><b>Beard care</b> - oils, kits<br><b>Bath &amp; skin care</b><br>   | <b>Mother care</b> - Anti-stretch marks oil, face cream, serum<br><b>Baby care</b> - baby wash, lotion, face cream, diaper rash cream<br> | <b>Hygiene</b> - Menstrual cups, Sanitary pads, toilet seat sanitizer spray, tampons, hand sanitizers, masks<br> |
| <b>Distribution</b>   | 60% sales through online channels; 1,000+ offline touchpoints (Jul'19)  | Mix of online and offline (retail touchpoints in 6 cities)   | 95% online through own channel and marketplaces  | Mix of online and offline (6,000+ retail touchpoints in 19 cities)  |
| <b>Scale</b>          | FY20 revenue: \$12 Mn   | FY20 Revenue: \$6 Mn+ 45+ SKUs   | FY20 revenue: \$5 Mn+; 30 SKUs; 500K+ customers  | FY20 Revenue: \$4 Mn+   |
| <b>Founded</b>        | 2015  | 2015   | 2017   | 2013  |
| <b>Capital raised</b> | Undisclosed   | \$11 Mn  | \$10 Mn  | \$6.2 Mn  |
| <b>Investors</b>      |    |    |    |    |
| <b>Founders</b>       | <ul style="list-style-type: none"> <li><span style="color: #e67e22;">■</span> Hitesh Dhingra</li> <li><span style="color: #e67e22;">■</span> Bisham Bhateja</li> <li><span style="color: #e67e22;">■</span> Parvesh Bareja</li> </ul> | <ul style="list-style-type: none"> <li><span style="color: #e67e22;">■</span> Shantanu Deshpande</li> </ul>  | <ul style="list-style-type: none"> <li><span style="color: #e67e22;">■</span> Malika Sadani</li> <li><span style="color: #e67e22;">■</span> Mohit Sadani</li> </ul>  | <ul style="list-style-type: none"> <li><span style="color: #e67e22;">■</span> Vikas Bagaria</li> <li><span style="color: #e67e22;">■</span> Srijana Bagaria</li> </ul>                              |

\*Illustrative products, complete catalogue of brands is much wider  
Assumed USD 1 = INR 75

2.2.

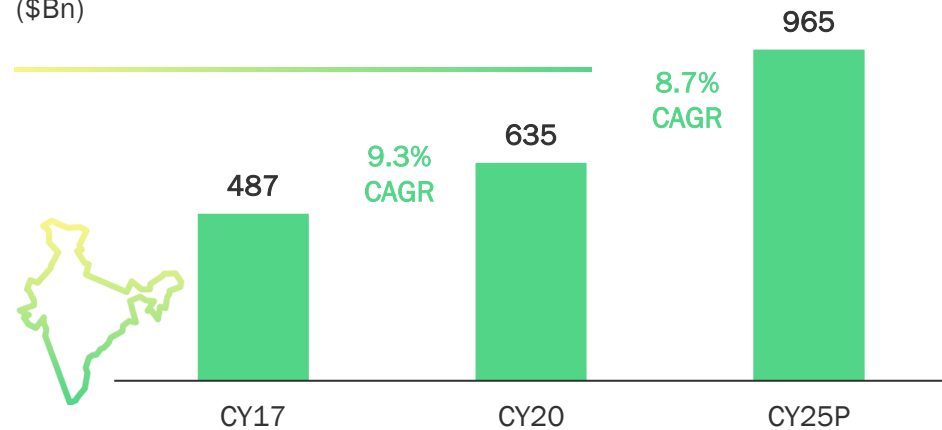
# Food and Beverages



# Global Food & Beverage market is a \$12 Tn+ market with Indian F&B market being the 3<sup>rd</sup> largest in the world

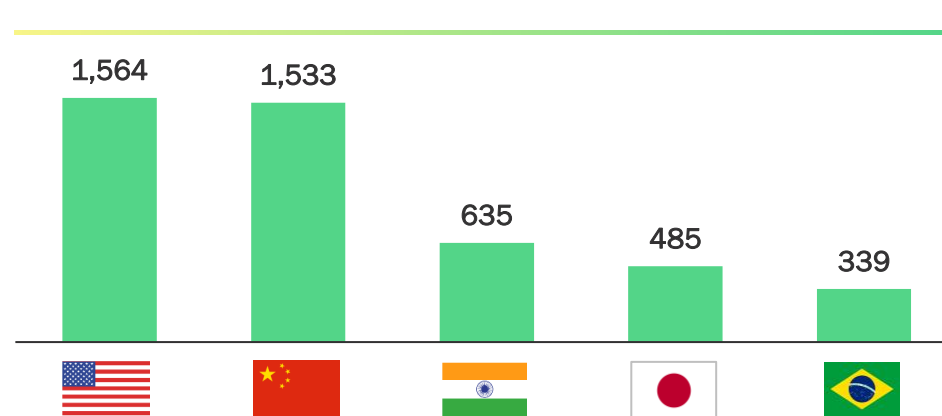
## Indian Food & Beverage market size

(\$Bn)



## Global Food & Beverage market size

(\$Bn)



## Key themes for Indian Food & Beverage spending



### Food & Beverage is a large spend category

- Consumer spending per capita in India stood at ~\$1,400 per annum in 2019 and is growing at a steady rate of 10% y-o-y
- Food & Beverage segment constitutes ~35% of the wallet share of the annual consumer spend



### Strong growth in packaged food industry in India

- Packaged food industry is growing at a strong rate of 14.4% due to larger shelf life and ease of consumption
- Shift in focus towards wellness products driving consumption of ready to eat / ready to cook packaged food products



### COVID-19 influencing consumer purchase behavior

- Smooth shift in purchase behavior of buying online due to established infrastructure of Etail and digital payments in India
- Platforms observing move towards higher average order value (AOV) due to ease of purchase and availability of wide range online



### Rising awareness towards health and supplement foods

- Health and supplement products category is one of the fastest growing segment of Food & Beverage industry globally
- Key geographies of growth include USA, Europe and Japan while emerging economies are also observing higher demand of supplement products



# Global F&B markets have seen significant value creation by D2C brands

## Key growth drivers

### Larger spend category

Commands large wallet share with developed countries spending more than 7.7% of GDP per capita on Food & Beverage

### High organized retail


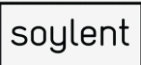



High penetration of organized retail in developed countries such as USA (85%) and China (45%) allows access to a more affluent consumer base

### Newer dietary preferences

High preference of consumers towards organic, plant-based alternate products creating large opportunity for brands in this space

### Growth in millennial population

Target consumer for D2C companies is the millennial population which is growing steadily as 40% of global population is below 24 years of age

|  | Valuation | Funds raised | Revenue               | Key offerings / differentiation  |
|--|-----------|--------------|-----------------------|--|
| <br>CALIFIA FARMS<br>Founded 2010 | \$500 Mn+ | \$340 Mn     | \$129 Mn <sup>1</sup> | <ul style="list-style-type: none"> <li>Offers plant-based beverage including almond milk, coffees and juices with no artificial ingredients</li> <li>Strong focus on R&amp;D and increasing capacity to increase penetration in USA</li> </ul>                             |
| <br>soylent<br>Founded 2013       | \$500 Mn+ | \$72 Mn+     | -                     | <ul style="list-style-type: none"> <li>Offers meal replacement products to provide access to quality nutrition through food system innovation</li> <li>Provides cost effective meals through omni-channel strategy and strategic partnership with Walmart</li> </ul>       |
| <br>BULLETPROOF<br>Founded 2013   | \$500 Mn+ | \$71 Mn      | \$100 Mn <sup>2</sup> | <ul style="list-style-type: none"> <li>Offers products focused on nutrition and supplements such as coffee, energy bars and protein supplements</li> <li>Expanded omni-channel strategy to sell through leading national retailers in USA and Bulletproof Cafés</li> </ul> |
| <br>DAILY HARVEST<br>Founded 2011 | \$500 Mn  | \$50 Mn      | \$125 Mn <sup>3</sup> | <ul style="list-style-type: none"> <li>Offers subscription-based food delivery services intended to provide healthy frozen foods</li> <li>Strong focus on relationships with farmers and building the infrastructure for the supply of frozen products</li> </ul>          |
| <br>ELYSIUM<br>Founded 2014     | \$240 Mn  | \$71 Mn      | -                     | <ul style="list-style-type: none"> <li>Offers advanced health supplements to consumers to boost cellular metabolism and support their health</li> <li>Collaborate with leading scientists to provide supplements to increase NAD+ levels in consumers</li> </ul>           |

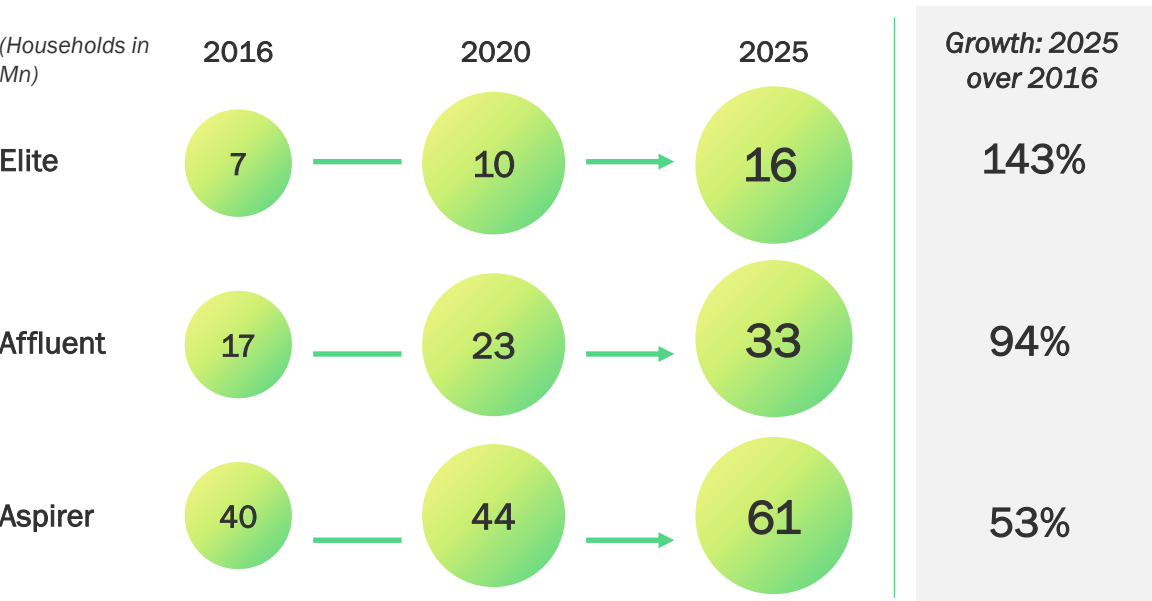
Traditional and offline-first brands have started embracing the D2C model



Source: Pitchbook, Crunchbase, Press releases  
 1. As of 2017 2. As of 2018 3. As of 2019

# Branded packaged food products witnessing steady growth, driven by strong macro-economic tailwinds in India

## Rising affluence in Indian households



Note: Elite (INR 20 lac+), Affluent (INR 10-20 lac), Aspirer (INR 5-10 lac)

### Increasing discretionary spending

With households moving towards higher annual income brackets, discretionary spending is set to increase

### 30% of discretionary spend is on Food & Beverage

F&B spend is set to grow as spending is expected to move away from travel and eating out during COVID-19

Source: MoSPI, BCG Publication – The New India: The Many Facets of a Changing Consumer, Avendus Estimates  
 Note: Total households in India - 267 Mn in 2016, 272 Mn in 2020 and 305 Mn in 2025

## Growth drivers for branded food products

### High consumption of junk food / snacks

- Despite the rising awareness towards health and nutraceutical products, consumers continue consuming junk food and other packaged products due to increasing household income and discretionary spending
- Key categories include chips, savory snacks and beverages among others

### Rise of fast-moving categories

- Large number of brands have emerged offering fast moving products such as mayonnaise, dips, yogurt, condiments and sauces among others



### Emergence of a nuanced market focused on health

- Changing dietary preferences towards organic and vegan meals driving emergence of health & nutrition focused brands across categories including health supplements, protein bars, breakfast cereals and snacks

### Focus on quality

- Rising consumer awareness regarding low nutrition content and quality of unbranded products
- Increased consumption of branded food products due to the associated quality assurance that comes with them

# Several factors creating a large opportunity for F&B D2C brands to flourish in India

## Supply side factors

### Efficient sourcing and supply chain

- Ability of brands to shorten the supply chain by eliminating middle-men and thereby, increase freshness of products
- Implementing cold storage logistics from source to delivery

### Leveraging technology across value chain

- Tech-led approach towards all the processes of value chain including production management, processing automation
- Using advanced techniques such as IoT, RFID etc. to maintain high standards of quality control at all points in supply chain

### Enforcing high standards of quality control

- Focus on eliminating adulteration of raw materials and ingredients with advanced packaging techniques to increase shelf life of products

## Demand side factors

### Increasing e-commerce penetration

- Etail penetration to increase from 4% in 2019 to 11% by 2025
- India has more than 130 Mn online shoppers and is expected to grow at a CAGR of 20% till 2025

### Presence of horizontal players in the market

- Leverage distribution of horizontal players to enhance reach to customers even in cities with no presence
- Access to wider range on their own platform instead of limited range on horizontal players ensures higher footfall

### Consumer behavior shift towards healthy brands

- Shift in dietary preferences of consumers towards healthy, nutritious and tasty food allowing D2C brands to offer products even at a premium price point

## India's Food & Beverage market is very nuanced as compared to its global counterparts

### Low penetration of organized retail

- Organized retail penetration in India is set to increase from 17% in 2019 to 31% in 2025
- Huge headroom for India to grow as USA counterpart has 85% penetration

### Omni-channel drives brand awareness

- Enables a brand to be available at all points of customer purchase convenience
- Consumers have higher affinity towards what is available in store vs brands

### COVID-19 driving growth in RTE/RTC segment

- Change in consumer attitude towards in-home dining as against eating out
- RTC brands set to grow offering quick and healthy meals delivered direct to home

# Food has been a notoriously difficult category to survive in – a combination of favorable factors will lead to sustained success

| Category     | Key factors and characteristics   | Meat and seafood   | Milk and dairy   | Other beverages   | Snacks and health focused                                 |
|--------------|---|--|--|---|---|
| Economics    | Average order value   | ● High   | ● Low  | ● Low   | ● Medium  |
|              | Gross margin  | ● 45% – 55%  | ● 25% – 35%  | ● 55% – 60%   | ● 55% – 60%   |
|              | Frequency of purchase   | ● 2+ times per month   | ● Daily  | ● Not fixed, part of monthly grocery spend                                  | ● Not fixed   |
| Product      | White space of product development not currently focused on by large incumbents   | ● Existing players are in regional plays or frozen meat; Lack of branded fresh meat players in India | ● Premium, farm fresh milk not offered by cooperatives                   | ● Introduction of new categories (cold pressed juices, premium tea, coffee) | ● Not currently addressed by large FMCGs                  |
|              | Product innovation and moat - Uniqueness with appeal to a wide taste palate       | ● Fresh vs, frozen meat, quality-tested products, variety of cuts, SKU depth & traceability          | ● Medium – unadulterated chemical free; A2 milk                          | ● Medium  | ● Meal supplement and nutrient enriched products          |
|              | Price elasticity  | ● Low - Pricing for D2C slightly higher than mass market given high quality                          | ● High - D2C price points much higher for premium milk                   | ● High - D2C price points very high vs mass market products                 | ● Medium - D2C price higher given quality/ingredients     |
| Supply       | Fragmented existing supply chain – Is the company causing some radical disruption | ● Extremely fragmented and unorganized supply ripe for disruption                                    | ● Regional but strong cooperatives with established supply chain         | ● Fragmented supply chain of fresh fruits, exotic tea & coffee              | ● Supply chain fairly established by incumbents           |
|              | Need for innovation   | ● High - current transportation SOPs, storage etc. not up to the mark                                | ● Medium – strong cold storage infrastructure to eliminate preservatives | ● Medium – strong cold storage to eliminate preservatives                   | ● Low   |
| Demand       | Repeat purchase behaviour (cohort %), Visibility of repeat purchase               | ● Good   | ● Good, amenable for subscription plays                                  | ● Low – non-essential item in basket of goods                               | ● Good, amenable for subscription plays                   |
|              | Ability to extend the brand beyond one single product category                    | ● Ability to extend to RTE/RTC   | ● Ability to extend to daily needs, breakfast items                      | ● Low   | ● Ability to extend breakfast items, savory snacks etc.   |
|              | Large enough Target addressable market  | ● Yes - \$40 Bn+   | ● Yes - ~\$150 Bn+   | ● To be tested  | ● To be tested  |
|              | Extension of current Indian consumption habits                                    | ● Protein intake to increase, higher focus on safety standards                                       | ● Extension of current purchase habits                                   | ● Tough to replace existing consumption patterns                            | ● Higher focus on health, fitness and lifestyle products  |
| Distribution | Ability to go omnichannel   | ● Yes  | ● Yes, required but face high competition for cool shelf space           | ● Yes, required but face high competition for shelf space                   | ● Yes, required but face high competition for shelf space |

● High attractiveness    ● Medium attractiveness    ● Low attractiveness

# F&B market can potentially witness large outcomes across segments



## Meat and meat alternatives

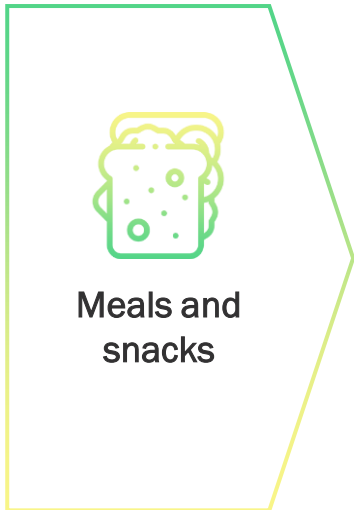
- Meat & Seafood products are majorly sold through unorganized retail in India which is highly unhygienic
- Consumers are more aware and give higher importance to quality, reliability and traceability of products
- Buying experience of fresh meat is poor, even large organized players follow B2B model

## Milk and dairy

- Market largely dominated by co-operatives such as Amul and Mother Dairy but region-focused players have still created significant value such as Gokul, Parag, Nandini, Gowardhan, Warana, Aarey, Hatsun etc.
- With large quantities of milk products in India being adulterated and not following the FSSAI standards, consumers lay stress on quality and nutrition

## Fresh fruits and cereals

- Fresh fruits and cereals are more suitable for a marketplace model as seen globally
- Cereals segment has not seen emergence of large consumer brands except Basmati rice
- Perishability of products and low shelf poses another restriction for scale in this segment



## Snacks and health focused

- Rise of healthier alternatives to savory snacks at reasonable prices attracts health-conscious generation
- Growing health consciousness along with change in lifestyle and dietary intake of consumers likely to fuel growth in consumption of health supplements and protein bars

## Ready to cook

- Large target consumer segment of Millennials who prefer quick and easy meals
- Millennials form 46% of the country's workforce creating a large market opportunity for D2C RTC brands
- Opportunity for D2C brands to grow given lack of presence of many traditional incumbents in this space

## Hot meals (cloud kitchen)

- Cloud Kitchen is a complex category with difficulty to create a large value in the segment
- Sustainable unit economics has not been observed across cloud Kitchen models globally
- House of brands strategy (Rebel Foods) or a platform play (Swiggy / Zomato) can introduce sustainability

# Indian Food & Beverage industry has several segments that are potentially value accretive

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# India D2C Food & Beverage landscape has more than 100 players

## Utility & lifestyle

### Milk & dairy products



### Health & supplements



### Snacks



### Tea



### Coffee



### Juices



## Meat & meat alternatives

### Meat and seafood



### Meat alternatives



## Meals

### Cloud kitchens on demand



### Cloud kitchens subscription



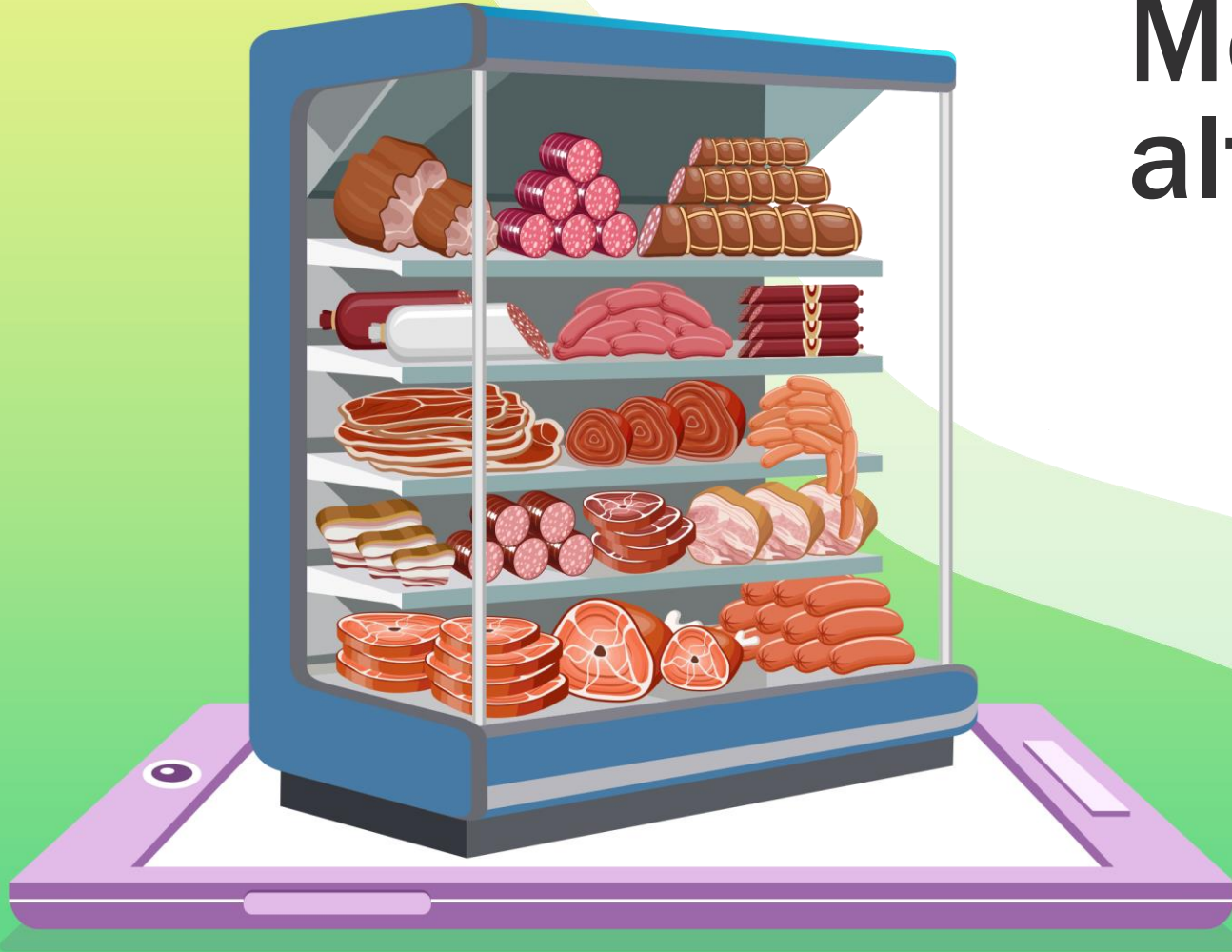
### Instant foods – RTE/RTC



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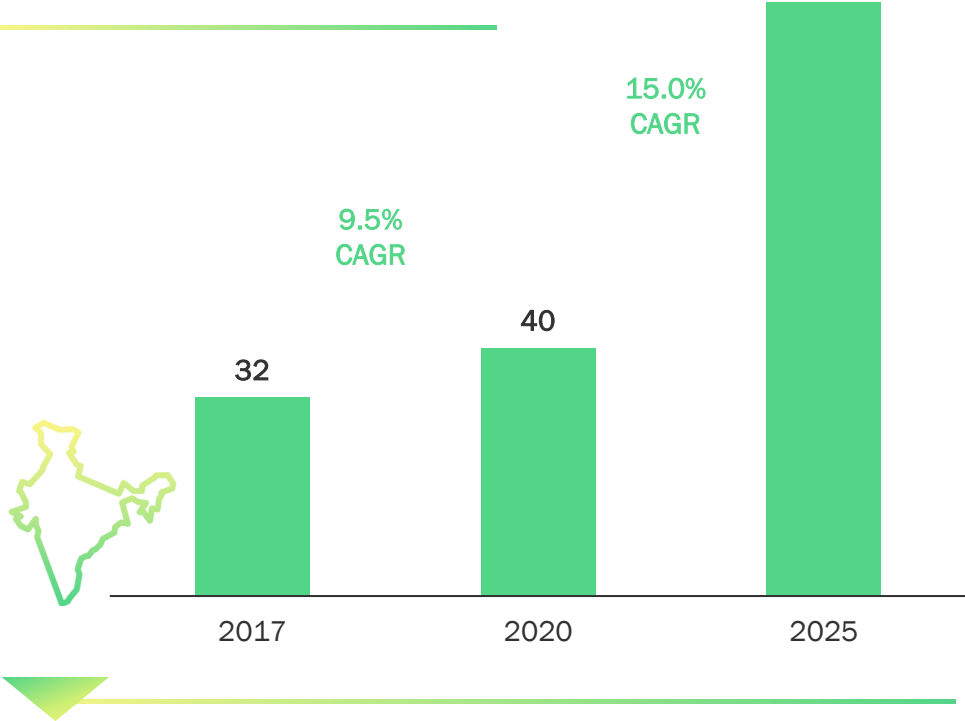
Food and Beverages

# Meat and Meat alternative brands




# Robust growth in meat & seafood market in India

Indian meat & seafood market size (\$Bn)




Global protein demand is expected to grow at 20% between 2018 – 2025; India and China are forecasted to contribute 47% of this growth


## Factors driving high growth of meat & seafood market

- 


**Majority of Indian population is meat consuming population**

  - 71% of Indians over the age of 15 years consume meat
  - 49% men and 43% women consumed meat & seafood at least once a week
- 

**Low protein consumption in India**

  - Indian per capita meat consumption is expected to expand by 50% from 9.4kg/year to 14.1kg/year by 2025
- 

**Rise in disposable income and wallet share**

  - Net Disposable income per capita of India stands at \$1,850 growing at a CAGR of 10% since 2015 ensuring higher wallet share in the segment
- 

**Changing lifestyle and consumer behavior**

  - With increasing urbanization and fast paced lifestyle of millennials, there is a growing demand for convenient, packaged ready to eat / cook meat

Source: RBI statistics, Report by Indian Ministry of Statistics on Household Consumption of Goods and Services in India, 2011-12; FIAL report: Protein Market 2019; Avendus estimates

# D2C segment is deriving large value in today's scenario

## Supply side factors



### Unhygienic unorganized retail

- Unorganized retailers source chemical injected meat which is highly unhygienic and not fresh
- Traditional butchers openly display meat products making them vulnerable to pollutants and insects / flies



### Fragmented supply chain

- Meat market is largely dominated by unorganized retailers which have a very broken supply chain
- Unorganized players have created a fragmented supply chain with lack of standard SOPs, processes, feed and infrastructure including cold storage



### Lack of appropriate packaging

- Unorganized retailers have no standard packaging which reduces the shelf life and quality of meat
- Lack of proper packaging reduces the water content in the products, especially red meat, thereby, deteriorating the appearance of nutrient content of the products



### No adherence to guidelines

- Offline retailers don't adhere to any guidelines introduced by the government bodies
- Out of ~30,000 slaughterhouses in India, allegedly more than 20,000 are not registered with either state or central license and hence don't follow the prescribed guidelines

## Demand side factors



### Rising demand for high quality meat

- Top customer requirements include chemical free, tender, non-chewy fresh meat
- Consumers are more aware and hence, wary about the sourcing of meat including hygiene levels and quality



### Convenience of format & delivery

- Convenience of purchase and delivery are key factors influencing customer preference
- With changing fast-paced lifestyle, consumers prefer doorstep delivery within 24 hours across formats including custom cut, marinated and RTC meat products



### High awareness towards traceability

- Unorganized retail shops do not provide information around where the birds were sourced from, what feed was given, or what condition they were kept in
- With increasing awareness customers are more focused around traceability & transparency



### Consistent product experience

- Customers give high preference to consistent cuts so that while cooking they have the same consistent experience of taste and color
- Indians seek sourcing fresh meat from unorganized retailers to try and ensure consistency in the cuts made by butchers in front of them

# B2B-focused DNA of traditional players creating a large white space for D2C brands to emerge



**Traditional players are region focused**

- Suguna Foods' and Venky's primary operations are focused in southern India and coastal regions
- Primary states of operations include Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, Maharashtra, Orissa, Gujarat, West Bengal and Maharashtra



**Focused on managing existing infrastructure**

- Traditional incumbents are more focused on maintaining their existing infrastructure including hatcheries, farms, feed mills and processing
- Players focus on supply chain management to identify potential suppliers and procure high quality raw materials



**Higher ROI by investing in existing distribution**

- Incumbents focus on strengthening relationships with their distributors, wholesale partners and institutional partners
- Continuously innovate processes to ensure higher yields, increase efficiency and optimize distribution distances



**Difficulty in establishing last mile delivery**

- Time and capital-intensive process of setting up pan-India last mile delivery for D2C channel
- Partnering with 3PLs is difficult given companies don't have collection centers in each city and difficult to set up collection centers with distribution partners



**Lesser consumer centric product development**

- Products are available in standard cuts and formats and are not customized across formats
- Lack of offering wider variety of customization across formats (Raw, RTC, RTE), categories (Meat, Seafood etc.) and moments (breakfast, lunch and snacks)



**Trade oriented and exports focused**

- Focused on exports of frozen meat products to middle eastern and Asian countries including Saudi Arabia, Kuwait, Dubai, Oman, Bahrain, Afghanistan, Qatar, Japan etc.
- Incorporated global standards at par with major international players





**Lack of branding and marketing expertise**

- Not much focus on advertising or brand marketing leading to low awareness of brand and product portfolio among the end consumers
- Apart from market leaders Suguna Foods, Venky's and Godrej Tyson Foods, players haven't been able to create brand recall

# Global fresh meat market is dominated by traditional players with minimal direct-to-consumer play

## Indian meat market has different characteristics vs global markets







|                                     | Global markets  | Indian market  |
|-------------------------------------|---|--|
| Supply Chain                        | <ul style="list-style-type: none"> <li>US market leaders Tyson Foods, JBS and Cargill have established a robust supply chain over the years</li> <li>Established high quality cold storage &amp; distribution centers for efficient supply of fresh/frozen products worldwide</li> </ul>  | <ul style="list-style-type: none"> <li>Highly fragmented supply chain in meat market as 90% of the market is dominated by unorganized players</li> <li>No standardization of infrastructure, cold storage facilities, SOPs, leading to low quality products</li> </ul>   |
| Retail market                       | <ul style="list-style-type: none"> <li>Large retail market with very high penetration of organized retail including US (85%), China (45%)</li> <li>Partnered with Walmart, Costco, Wholefoods to supply meat and beef products through offline channel</li> </ul>   | <ul style="list-style-type: none"> <li>India has a large retail market but has very low penetration of 12% of organized retail</li> <li>Larger incumbents including Venky's and Suguna sell primarily their frozen meat products through MT channel</li> </ul>   |
| Consumer behavior                   | <ul style="list-style-type: none"> <li>Consumers in USA consume frozen meat products in large quantities making companies offer it in wide range</li> <li>Consumers also source their meat product needs from MT channel such as Walmart, Costco, Whole foods etc.</li> </ul>   | <ul style="list-style-type: none"> <li>India is a fresh meat dominated market as consumers prefer buying fresh meat directly from butcher</li> <li>Consumers majorly depend on unorganized retailers creating a white space for D2C brands to offer convenience</li> </ul>   |
| Alternate / plant-based meat brands | <ul style="list-style-type: none"> <li>Alternate meat market is a \$200 Mn market in USA with steady shift in consumer preference towards veganism</li> <li>Leaders Beyond Meat &amp; Impossible foods have strategic partnerships with Burger King and McDonalds</li> <li>Tyson Foods, JBS, Smithfield Foods,, Kellogg Company, Hormel Foods launching plant-based meat lines</li> </ul> | <ul style="list-style-type: none"> <li>Too early for Vegan brands to become sizeable in India as the price point is high compared to the normal meals</li> <li>Taste poses a big challenge as plant-based products need to substitute the same taste with higher nutritional value</li> <li>Adoption of plant-based products is uncertain due to the ingrained consumption of traditional meat &amp; dairy products</li> </ul> |
| Players                             |   |   |

Source: Market research



# Key Indian D2C players creating disruption in Meat and Meat alternatives market



|                       |  |  |  |
|-----------------------|--|--|--|
| <b>Proposition</b>    | Offers high quality fresh meat & seafoods products and value-added products (spreads etc.) with specialised cuts across formats                                | Offers seafood & meat products directly to consumers   | Offer high quality plant-based alternate meat products   |
| <b>Products</b>       | Chicken, mutton, fish & seafood, RTC, spreads, kebabs, eggs and cold cuts<br> | Fish & seafood, chicken, mutton, steaks & fillet and RTC products<br> | Vegetarian Bytz, Proteiz, Proteiz Plus, RTC / RTE meals<br> |
| <b>Distribution</b>   | Online through own platform and EBO stores   | Online through own platform  | Online through own platform, Ecommerce   |
| <b>Scale</b>          | Revenue ARR: \$80 Mn+  | Revenue: NA  | Revenue ARR FY19: \$1 Mn   |
| <b>Founded</b>        | 2015   | 2015   | 2016   |
| <b>Capital raised</b> | Total: \$94 Mn   | Total: \$47 Mn <sup>3</sup>  | Total: Undisclosed   |
| <b>Investors</b>      |   |   |   |
| <b>Founders</b>       | Abhay Hanjura, Vivek Gupta   | Shan Kadavil, Mathew Joseph  | Abhishek Sinha, Deepak Parihar, Shruti Sonali  |

Source: Company data, Pitchbook; Assumed USD/INR FX of 75

Note: 1. Data is from publicly disclosed sources and not independently verified with Fresh to Home due to potentially conflicting assignment

2. Data is from publicly disclosed sources and not independently verified with Gooddot

3. Total funds raised as of Aug-20

2.2.

## Food and Beverages

# Milk and Dairy brands



# Indian Milk and Dairy market has some shortcomings despite India being the largest producer of milk in the world

## Multiple opportunity areas in the Milk and Dairy market in India

|  |  |  |   |
|--|--|--|---|
| <p><b>01.</b> Large volume of adulterated milk in India</p>  | <p><b>02.</b> Lack of quality control and best practices</p>   | <p><b>03.</b> Poor remuneration for farmers</p>  | <p><b>04.</b> Niche set of premium paying customers not focused by incumbents</p>   |
| <ul style="list-style-type: none"> <li>■ Significant quantities of milk and milk products consumed in India do not meet the FSSAI standards</li> <li>■ Adulteration of milk products is done in order to make the production more profitable</li> <li>■ Increased demand for milk products during festival season leads to rampant adulteration</li> </ul> | <ul style="list-style-type: none"> <li>■ 52% of the dairy market in India is unorganized which provides poor quality and unstandardized fodder to the cattle</li> <li>■ Poor dairy farming and animal husbandry practices affect the health of the cattle leading to reduced yield as well quality of milk for the end consumer</li> </ul> | <ul style="list-style-type: none"> <li>■ Dairy farmers across India are paid based on the fat and SNF content of milk in the range of INR 15 to INR 25 per liter</li> <li>■ For every liter of milk sold at a retail price of INR 40-50, farmers are paid INR 20-25 including the subsidy</li> <li>■ Dairy farmers are moving away from the business as daily cost of feeding the cattle is higher than the remuneration they receive</li> </ul> | <ul style="list-style-type: none"> <li>■ Target set of customers willing to buy premium milk such as A2 milk, Camel milk etc. is very small in India</li> <li>■ Premium milk market is ~1% of the total milk market in India which makes it a non-focus area for incumbents and co-operatives</li> <li>■ Poor dairy farming and animal husbandry practices are major concerns only for these customers and do not represent the sentiments of overall consumers in India</li> </ul> |

## D2C brands are trying to address these issues

|  |  |  |  |
|--|--|--|--|
| <ul style="list-style-type: none"> <li>■ D2C brands follow Farm-to-Home model, thereby, eliminating middle-men</li> <li>■ Perform scientific quality testing to check for adulteration at every stage of sourcing</li> </ul> | <ul style="list-style-type: none"> <li>■ D2C brands follow best farming practices such as "Open Housing" to ensure health benefits for cattle and yield high quality milk</li> <li>■ Use advanced packaging techniques to keep the quality of milk intact and increasing the shelf life of milk</li> </ul> | <ul style="list-style-type: none"> <li>■ D2C brands command a 20-30% premium for farm fresh and premium milk products because of higher quality and best practices</li> <li>■ Enables them to pass the benefits of premium pricing to pay 10-20% higher remuneration to dairy farmers than industry standards</li> </ul> | <ul style="list-style-type: none"> <li>■ Key focus area of D2C brands is to address the needs of these unattended premium paying customers and expand market by raising awareness</li> <li>■ D2C brands provide high standards of nutrition, taste and best practices in exchange for a premium price</li> </ul> |
|--|--|--|--|

# Key success factors for D2C brands to succeed in the Milk and Dairy market

## Key factors enabling D2C brands to create large value

01.

### Focus on subscription model

D2C brands follow monthly subscription model to ensure higher frequency of purchase as well as customer lifetime



## Brands implementing the strategy in the market



Brands such as Country Delight and Milk Mantra are serving 200K+ customers each using subscription model

02.

### Category expansion

Milk brands leverage the existing cold chain established for milk distribution to expand into fresh foods segments (yogurt, cottage cheese etc.) and high margin categories (bakery)



Brands such as Country Delight are pivoting to add fresh produce category

03.

### Customer oriented products portfolio

D2C brands focus on millennials who are focused on health as well as taste and hence introduce wide variety of products such as flavored milk, milkshakes and premium milk products



Brands such as Milk Mantra, Aadvik foods offer premium milk, milk shakes and flavoured milk

04.

### Premium pricing

D2C brands price their products by positioning as aspirational products and charging a premium of 20-30% over regular milk aiding the unit economics



Country delight, Milk Mantra, Sarda Farms, Woohoo Doodh price their cow and buffalo milk products at 25%+ premium

# Key Indian D2C players creating disruption in Milk and Dairy market



|                |  |   |
|----------------|--|---|
| Proposition    | Offers subscription service for ordering farm fresh cow and buffalo milk, other dairy products and bakery items  | Offers subscription of farm fresh milk and other dairy products using advanced packaging techniques   |
| Products       | <p>Cow milk, buffalo milk, low fat cow milk, curd, low fat curd, paneer, ghee, white bread, brown bread, white eggs, protein white eggs and protein brown eggs</p>         | <p>Offers pure fresh milk, probiotic curd, paneer, lassis, buttermilk, sweet curd, desserts and milkshakes under 2 brands: Milky Moo and MooShake</p>                          |
| Distribution   | Online through own platform  | Online through own platform and offline   |
| Scale          | Revenue ARR (May'20): \$50 Mn;<br>Households served: 140K+   | Revenue ARR: \$32Mn;<br>Households served: 300K+  |
| Founded        | 2015   | 2009  |
| Capital raised | Total: \$19.6 Mn   | Total: \$25 Mn  |
| Investors      |    |    |
| Founders       | Chakradhar Gade, Nitin Kaushal   | Srikumar Misra, Rashima Misra   |

2.2.

Food and Beverages

**Snacks and Health  
focused brands**





# D2C model helps in initial experimentation and innovation while omnichannel helps achieve scale

## D2C brands focusing on innovation and experimentation

### Advanced techniques to create healthy yet tasty products

Packaged food brands focused on preserving taste as well as nutrient content in ingredients through processes such as vacuum drying, advanced cold storage etc.

### Advancement in sourcing and procuring ingredients

D2C brands innovate new products by sourcing highest quality ingredients from best locations such as Oolong tea from Taiwan, White tea from China etc.

### Agility in extending flavours, product lines and categories

Unlike the incumbents, D2C brands can add variety of flavors in small production quantities to gauge consumer behavior and then focus on the best perceived products

### Supplementary value-added services

Health focused D2C brands offer value added services such as online consultation and diet planning enabling consumers to gain better health benefits

### Leverage data for improved targeting and better insights

Subscription model enables D2C brands to get access to a large consumer data which helps understand their behavior and implement target marketing efforts more accurately

## Traditional FMCGs launching D2C lines

### D2C strategy



Launched Snacks.com and Pantryshop.com for D2C delivery of snacks, pantry items, cereals etc.



Launched Heinz to Home service in UK selling sauces, spreads, ice-creams Direct to home



Launched Cokestore.com in Australia and USA to sell coke products D2C



Launched D2C confectionary service (KitKat) in 2019 in UK



Launched 2 D2C brands in 2019 including Joybol (protein smoothie bowl) and Happy Inside (a prebiotic and probiotic cereal)



Leveraging its D2C website and national and local partners to deliver essentials direct to home

COVID-19 influencing traditional brands to focus more on D2C services delivering essential products and services








# Key Indian D2C players creating disruption in snacks and health focused segment (1/2)

HEALTHKART

Yoga Bar

SOULFULL

Happilo  
Delight in every bite.






|                |   |  |  |  |
|----------------|---|--|--|--|
| Proposition    | Offers wide range of authentic and premium health & supplement products   | Offers subscription of protein bars and healthy breakfast cereals & snacks   | Offers healthy breakfast cereals and snacks products made with natural ingredients including millets   | Gourmet healthy snack brand offering large collection of nuts, dried fruits and healthy seeds  |
| Products       | Sports nutrition, Vitamins & supplements, Ayurveda & herbs, health food & drinks and fitness accessories<br> | Muesli, whey protein bars, nuts and seed mix, breakfast protein bars and multigrain energy bars<br> | Ragi Bites snacks, Millet muesli, breakfast oats & flakes and Smoothix (smoothie)<br> | Berries, seeds, nuts, dried fruits, exotic nuts, trail packs and mixes, festive packs and snack packs<br> |
| Distribution   | Online through own platform   | Online through own platform, Ecommerce and offline   | Online through own platform and Ecommerce and Offline through 20K stores across 18 cities  | Online through own platform, Ecommerce and offline   |
| Scale          | Revenue ARR: \$50 Mn+   | Revenue FY20: ~\$13 Mn   | Revenue FY20: \$5 Mn   | Revenue FY19: \$4 Mn   |
| Founded        | 2011  | 2014   | 2011   | 2016   |
| Capital raised | Total: \$86 Mn  | Total: \$11.6 Mn   | Total: \$5.4 Mn (Excluding promoter capital)   | Undisclosed  |
| Investors      |    |    |   | -  |
| Founders       | Sameer Maheshwari, Prashant Tandon  | Anindita Sampath and Suhasini Sampath  | Prashant Parameswaran, Dr KK Narayanan, Rasika Prashant & Amith Sebastian  | Vikas D Nahar  |

Source: Company data, Pitchbook; Assumed USD/INR FX of 75

Note: Data is from publicly disclosed sources and not independently verified with Yogabar

# Key Indian D2C players creating disruption in snacks and health focused segment (2/2)



|                |   |   |
|----------------|---|---|
| Proposition    | Provides plant-based nutrition supplement products along with fitness advice through OzivaTV, Fitness Kundali and Fitness feed  | Offers health products made with herbal ingredients for immunity, weight management etc.  |
| Products       | Women nutrition, men nutrition, Kids nutrition, Skin & Hair nutrition products<br>    | Weight management shots, immunity shots, skin & hair shots and detox shots<br> |
| Distribution   | Online through own platform, Ecommerce and offline  | Online through own platform, Ecommerce  |
| Scale          | Revenue FY20: \$4 Mn  | Revenue FY20: \$0.9 Mn  |
| Founded        | 2016  | 2016  |
| Capital raised | Total: \$5 Mn   | Total: \$2.5 Mn   |
| Investors      |   |    |
| Founders       | Aarti Gill, Mihir Gadani  | Shalabh Gupta   |

2.2.

## Food and Beverages

# Potential exit outcomes for Food & Beverage D2C brands











# F&B segment in India has witnessed some strategic acquisitions in the past

## Reasons for incumbents acquiring brands or making strategic investments

| Acquisition rationale            | 01. Category expansion  | 02. Depth of product portfolio   | 03. Diversifying business model  | 04. Geographic expansion   |
|----------------------------------|---|--|--|--|
| Factors influencing the decision | <ul style="list-style-type: none"> <li>Target audience</li> <li>Product</li> <li>Price range</li> </ul> | <ul style="list-style-type: none"> <li>Brand value of target</li> <li>Taste and quality of products</li> <li>Price spectrum</li> </ul> | <ul style="list-style-type: none"> <li>Customer retention</li> <li>Expertise of team</li> <li>Synergies with existing model</li> </ul> | <ul style="list-style-type: none"> <li>Growth in customer base</li> <li>Supply chain relationships of target in the new geography</li> </ul> |

## Precedent transactions of food & beverage brands in India

| Date               | Sep-20  | Mar-20   | Dec-19   | Jan-19   | Dec-18  | Dec-18   | Oct-18  | Nov-17  |
|--------------------|---|--|--|--|---|--|---|---|
| Acquirer           |                  |                 |                  |                   |                  |                   |                  |                  |
| Target (Valuation) | <br>(\$270 Mn) | <br>(\$25 Mn) | <br>(\$609 Mn) | <br>(\$600 Mn+) | <br>(\$452 Mn) | <br>Undisclosed | <br>(\$159 Mn) | <br>(\$210 Mn) |
| Rationale          | Strengthen product portfolio and geographic expansion   | Strengthen subscription model by increasing user base  | Expand into soya products and refined oils segment   | Strengthen the consumer wellness business  | Diversify business model to add subscription service  | Expanding presence from North-west to pan India  | Expanding into Ready-to-eat category  | Increasing depth of product portfolio of savory snacks  |

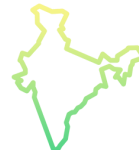
# Larger brands have been active in acquiring offline or D2C F&B brands that create strong consumer affinity



## Global

### Relevant brand acquisitions and strategic investments

| Year | Company                | HQ    | Company description                                  | Acquirer              | Deal value |
|------|------------------------|-------|--|-----------------------|------------|
| 2020 | Be & Cherry            | China | Snacks brand for nuts and baked goods                | Pepsico               | \$705 Mn   |
| 2019 | Keebler                | USA   | Manufacturer of baked snacks                         | Ferrero International | \$1,300 Mn |
| 2019 | Quest Nutrition        | USA   | D2C brand for protein bars                           | Atkins Nutritionals   | \$1,000 Mn |
| 2018 | Amplify Snack Brands   | USA   | House of brands for popcorns, chips and other snacks | Hershey               | \$915 Mn   |
| 2018 | Aspen                  | Peru  | Infant nutrition brand                               | Groupe Lactalis       | \$860 Mn   |
| 2018 | HomeChef               | USA   | Subscription based meal kit delivery service         | Kroger                | \$727 Mn   |
| 2018 | Slimfast               | USA   | Nutritional products for weight management           | Glanbia               | \$350 Mn   |
| 2017 | RB (Franks and French) | UK    | Mustard and red-hot sauce brand                      | McCormick & Company   | \$4,200 Mn |
| 2017 | Weetabix               | UK    | Manufacturer of cereals and protein bars             | Post Holdings         | \$1,793 Mn |
| 2017 | RxBar                  | USA   | D2C brand for protein bars                           | Kellogg               | \$600 Mn   |



## India

### Brand acquisitions, strategic investments and consolidation

| Year | Company              | Company description                       | Investor             | Deal value  |
|------|----------------------|---|----------------------|-------------|
| 2020 | Eastern              | Condiments brand                          | Orkla / MTR          | \$270 Mn    |
| 2019 | DFM Foods (Crax)     | Healthy snack brand                       | Advent International | \$136 Mn    |
| 2019 | Ruchi Soya (Nutrela) | Edible oils brand                         | Patanjali Ayurveda   | \$609 Mn    |
| 2019 | DailyNinja           | Milk delivery service                     | Bigbasket            | \$25 Mn     |
| 2019 | Kraft Heinz          | Consumer wellness business                | Zydus Wellness       | \$600 Mn    |
| 2018 | GSK CH (Horlicks)    | Nutritional supplement for kids and women | HUL                  | \$452 Mn    |
| 2018 | Raincan              | Milk delivery service                     | Bigbasket            | <i>n.a.</i> |
| 2017 | Havmor               | Ice cream brand                           | Lotte                | \$144 Mn    |
| 2017 | Tasty Bite Eatables  | Ready-to-eat brand                        | Mars Inc             | \$151 Mn    |
| 2015 | Aakash Global Snacks | Savoury snacks brand                      | Haldiram             | \$15 Mn     |

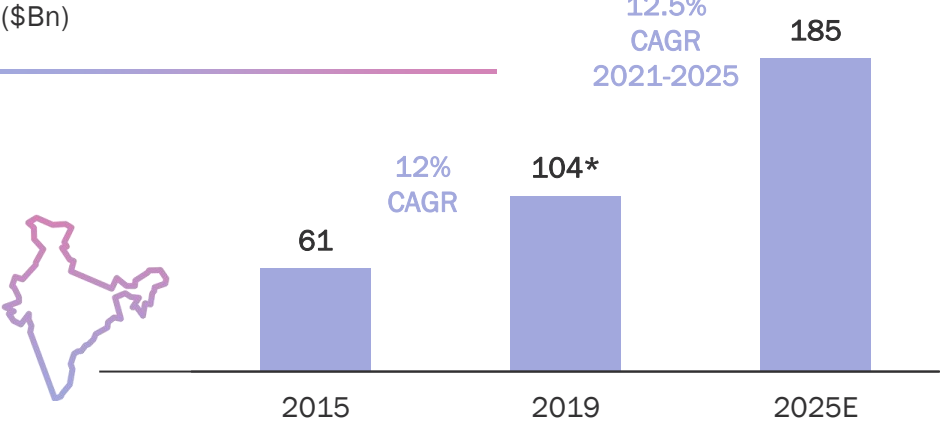


## 2.3. Fashion

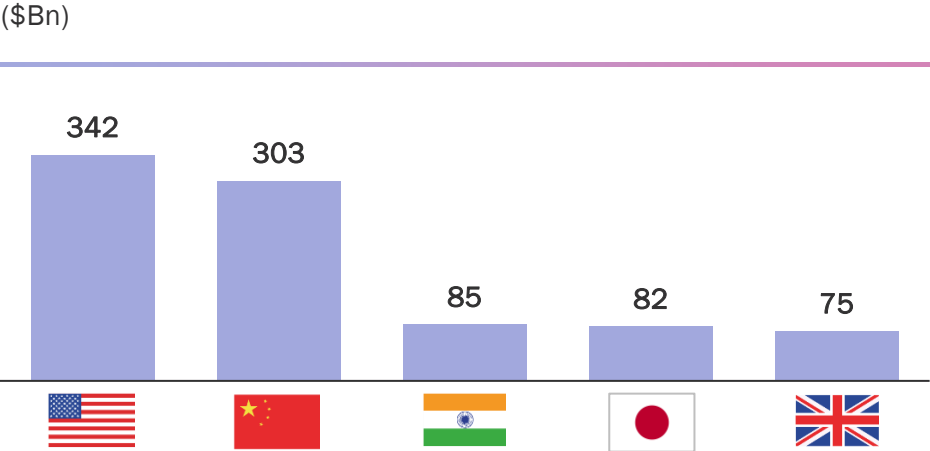


# Indian fashion market is a \$100 Bn+ market growing at 13% annually

## Indian fashion market size



## India is 3<sup>rd</sup> largest apparel market in the world



Note: Fashion comprises of apparel, footwear, accessories, eyewear etc.  
 Source: MoSPI, Avendus estimates \*Due to COVID-19, market size in 2020 remains unchanged

## Key themes for Indian fashion spending



### Fashion is the highest discretionary spend category

- Higher disposable incomes and the need to look and feel good has helped fashion market grow at healthy rate of 12% in 2015-2019 period
- MoSPI data suggests that per capita spend on clothing & footwear has grown 50% from INR 3,683 (FY14) to INR 5,485 (FY18)



### COVID-19 has accelerated the shift to digital channels

- COVID-19 has accelerated consumers' journey to online shopping, made smoother by conveniences such as seamless online payments, expansive logistics and hassle-free return options
- Although, in 2020, there has been reduced expenditure on outer-wear and shift towards comfortable "work from home" wear; the pandemic bodes well for the shift of market (both supply & demand side) to online

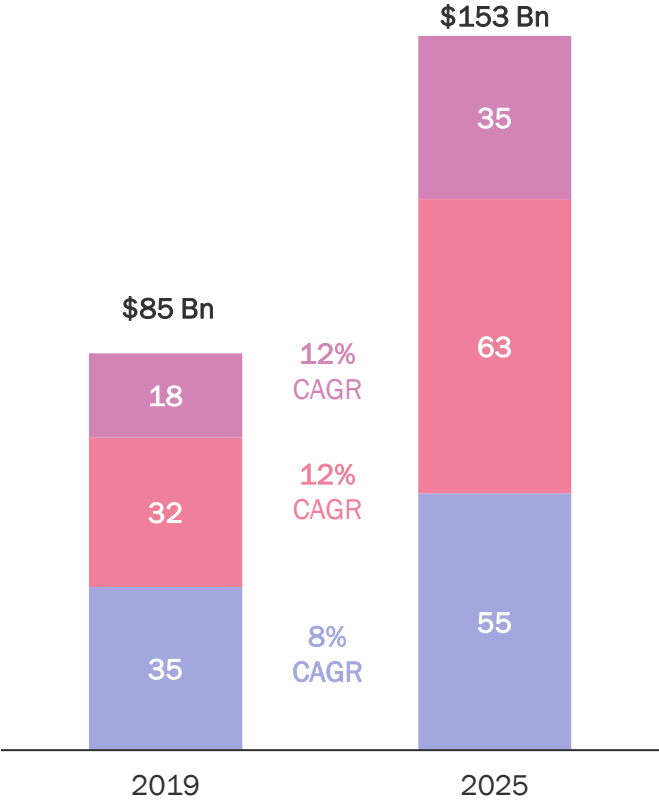


### Surge of fast fashion which will be the mainstay

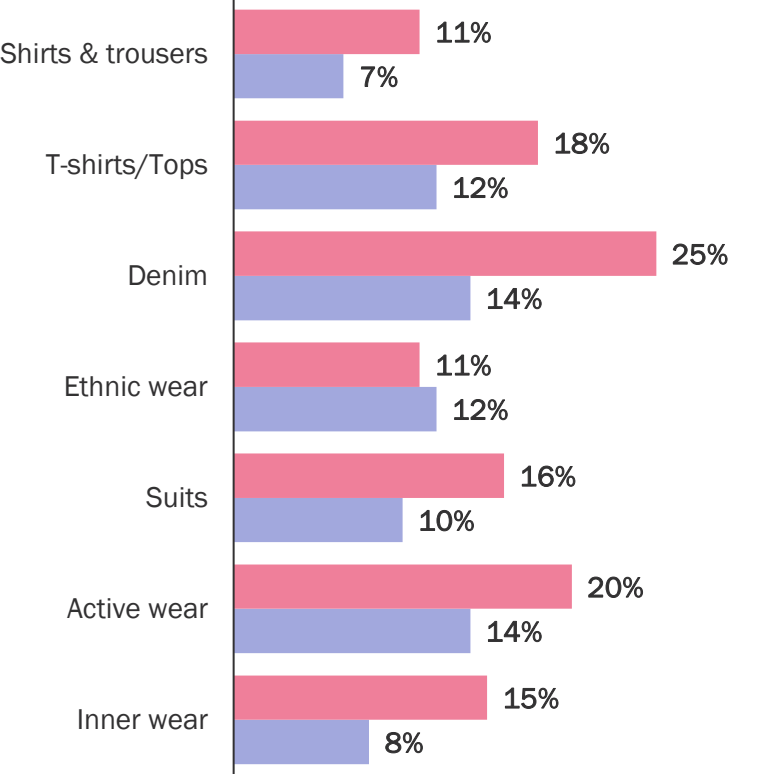
- Availability of low-cost labor, yarn materials and proximity to the world's textile hub (Bangladesh) has caused proliferation of fast fashion in India; Fast fashion has led to consumption of more apparel per capita with reducing shelf lives
- Chinese players like Club Factory, Shein, Romwe had achieved significant traction quickly in Tier-II/III cities with price points as low as \$3; but have since been banned

# Women and kids' brands are relatively underpenetrated, leading to higher growth rates than men's fashion

India apparel market by consumer type (\$Bn)



Growth rates across sub-segments



Men's fashion segment has more brand penetration than women's fashion segment

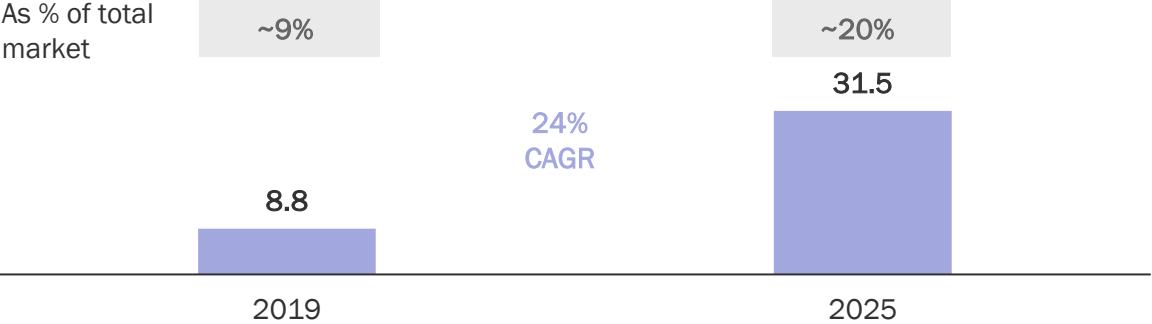


Men (blue square)    Women (red square)    Kids (purple square)

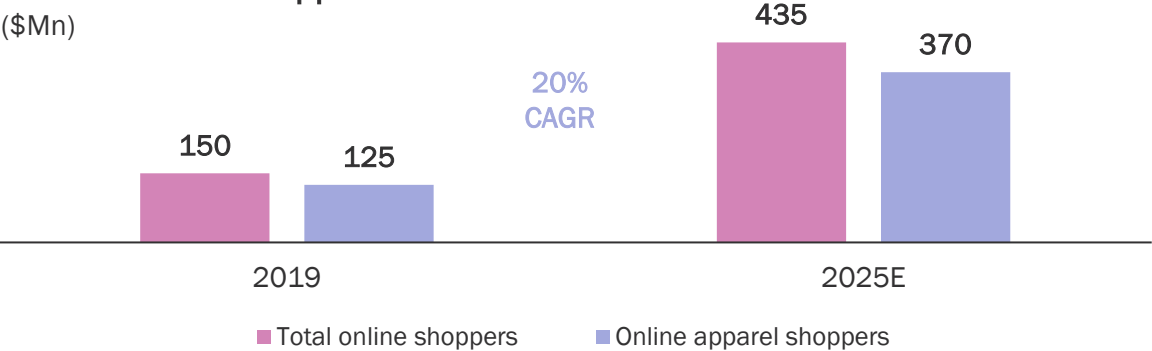
Source: IMAGES Yearbook 2018 Volume XV; PwC, Avendus estimates; Note: CAGR on left hand chart assumes no increase in market in 2020 due to COVID

# India's online fashion market will be a \$32 Bn opportunity by 2025

## India online fashion market (In \$Bn)









## Online fashion shoppers (\$Mn)



India has lost a year of growth in online fashion due to COVID-19 and related economic headwinds; while shift to online is evident, lesser spending power and reduced necessity of new outer-wear has impacted demand

Source: Avendus estimates

## Key growth drivers for online fashion

-  Fashion is the 2<sup>nd</sup> largest category online after electronics
-  Increased smartphone penetration & added comfort with online purchases
-  Strong emergence of online brands tackling white spaces in categories and accessibility of brands across India
-  Convenience of online shopping along with hassle-free returns
-  Covid-19 accelerating the online shopping adoption
-  Few categories lend themselves to create large outcomes only through online channels such as women's innerwear where existing buying experience is sub-optimal

With growth in the online fashion market and the number of shoppers purchasing apparels online, the online spend per shopper is expected to grow from \$70 to \$85 over the next 5 years

# Large D2C outcomes have been created globally based on a combination of trends

## Key trends



### Environmental responsibility & sustainability

- Western markets have an evolved customer base who are willing to pay a premium for ethical conduct of brands
- Many brands have mushroomed around ethical sourcing, carbon footprint and other sustainability factors with an independent agency auditing them on these parameters



### Catering to unmet needs of consumers

- Brands such as Gymshark solving for white space in comfortable, activity specific clothing in the UK market
- Third Love saw an opportunity in lack of perfectly fitting lingerie for women



### Material & product innovation

- Brands focusing on material or product design innovation
- AllBirds built comfortable sneakers using merino wool
- Away Travel built sleek travel suitcases by re-hauling the design





### Fast fashion

- Re-hauling supply chain to produce trendy clothing many times in a year-faster, and in a low-cost manner

|              | Category                          | Scale (\$Mn) | Valuation (\$Mn) |
|--------------|-----------------------------------|--------------|------------------|
| boohoo.com   | House of brands e-tailer          | 1,600        | 3,900            |
| WARBY PARKER | Eyewear                           | 400+         | 3,000            |
| allbirds     | Sneakers                          | 100+         | 1,730            |
| AWAY         | Travel suitcases                  | 200+         | 1,450            |
| lenskart     | Eyewear                           | NA           | 1,450            |
| GYMSHARK     | Activewear                        | 330+         | 1,300            |
| MISSGUIDED   | Women's wear                      | 250+         | 900              |
| THIRDLOVE    | Women's innerwear                 | 150+         | 700              |
| EVERLANE     | Environmentally conscious fashion | 200+         | 500+             |
| BONOBOS      | Men's wear                        | 100+         | 310*             |

# India is very different from western markets; Indian D2C brands have created models suited to the intricacies of the local market

## Indian market has nuanced differences as compared to US market

|                                   |    |    |
|-----------------------------------|---|--|
| <b>Organized vs unorganized</b>   | Apparel industry in the US is concentrated: 50 largest companies account for 70% of total market  | Organized share in apparel market in India is only 45%; users are to embark on the shift to organized first  |
| <b>Online fashion penetration</b> | 31% of total apparel consumption happens online   | Online fashion is only ~9% of total fashion consumption  |
| <b># of websites for apparel</b>  | US consumers use diverse websites for shopping, placing trust for online ordering with multiple brands; E.g. Stitchfix, Farfetch, Bonobos | Only 3 websites (Myntra, Flipkart, Amazon) control ~90% of online fashion market; consumers trust only few platforms with online purchases                               |
| <b>Themes for D2C brands</b>      | US consumers are more evolved & willing to pay a premium for themes such as ethical sourcing, sustainability, and anti-labor abuse        | Themes resonate only with the premium consumers; belly of the market is still to move from unorganized to organized & thus great, yet affordable products are of essence |

## What this means for Indian D2C brands

### Brands need marketplaces for scale

D2C brands need marketplaces for cost-efficient customer acquisition & scale; brands have focused on creating differentiation within marketplaces as against scaling up own channel

### Omnichannel is important for brands' evolution

Despite being successful on marketplaces through persistence & agility; D2C brands go omnichannel to create a lasting identity & brand pull

### Few themes that are emerging in India too

- **Simplicity of SKUs – Do more with less**  
Like the Western counterparts, Indian D2C brands are adopting the Japanese minimalism to create a 'thoughtful wardrobe' with lesser, but subtly innovative and elevated products
- **Using an identified gap to enter the apparel market**  
Apparel is a huge, varied market and it is important to establish oneself in a segment through 'hero' range of products, before expanding into sub-brands or other categories



# Apparel segment has seen a handful of large brands: certain segments are more favorable for success of D2C brands

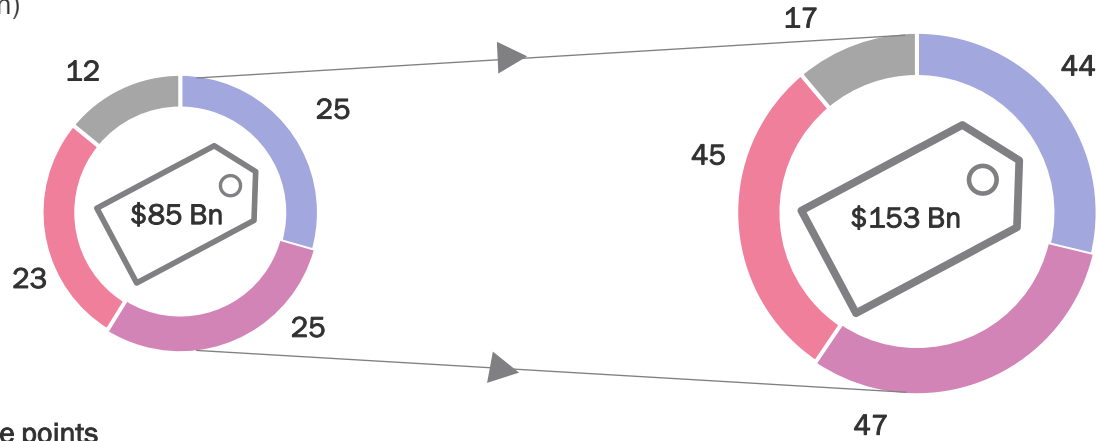
| Category     | Key factor  | Women's Inner wear   | Men's Inner wear   | Unisex Active wear  | Unisex Western-formal                                       | Unisex Western-casual  | Unisex Ethnic wear   |
|--------------|---|--|--|---|---|--|--|
| Economics    | Average Order Value   | ● Medium   | ● Medium   | ● High  | ● Medium  | ● Medium   | ● Medium   |
|              | Gross Margin  | ● 45-50%   | ● 55-60%   | ● 55-60%  | ● 60-65%  | ● 60-65%   | ● 60-65%   |
|              | Purchase frequency for category   | ● Medium   | ● Medium   | ● Medium  | ● High  | ● High   | ● High   |
| Product      | White spaces in the category  | ● High; lack of products with right functionalities at affordable prices | ● Low; basic products; no gap in the market                              | ● High; lack of good quality, affordable activewear                       | ● Medium; lack of good quality formal wear for women        | ● Low; sector is well entrenched at all price points                       | ● Low; sector is well entrenched at all price points                       |
|              | Scope for building sustainable moat through innovation  | ● Evolving category with high scope for innovation                       | ● Low; not much scope for innovation                                     | ● High scope for differentiated innovation                                | ● Quality & design can be a differentiator                  | ● Low; sector is well entrenched at all price points                       | ● Low; sector is well entrenched at all price points                       |
|              | Price elasticity  | ● Low; trust and comfort with a brand is paramount                       | ● High, low functionality makes it price sensitive                       | ● Functionality will be important within affordable ranges                | ● Quality is important; & inherent lack of brands for women | ● High due to variety available at all price points                        | ● High due to variety available at all price points                        |
| Supply       | Complex supply chain; barriers to entry   | ● Complex product; a bra has 30+ components; high barriers to entry      | ● Medium; main barrier is in offline distribution                        | ● High due to technical nature of supply chain                            | ● Low   | ● Low  | ● Low  |
|              | Design Risk   | ● Low, functionality more important than design                          | ● Low; basic products  | ● Low, functionality more important than design                           | ● High  | ● High   | ● High   |
| Demand       | Repeatability of a single brand (Brand pull)  | ● High, trust in brand is important                                      | ● High; men tend to stick to a brand                                     | ● Medium – Functionality most important                                   | ● Medium – brand, design equally important                  | ● Low – purchases are design led   | ● Low – purchases are design led   |
|              | Extending to house of brands  | ● Can have sub-brands for various categories                             | ● Low; basic products  | ● Can have sub-brands for various activities                              | ● Given formal wear is small segment                        | ● High; sub-brands at various price points                                 | ● High; sub-brands at various price points                                 |
|              | Customer's need for variety   | ● Low, products are more functional                                      | ● Low, functional products   | ● Low, functionality is important   | ● High  | ● High   | ● High   |
| Distribution | Ability to create a large scale online (most brands will opt for omni-channel, but online will remain dominant) | ● High; category suffers poor shopping experience offline; online is key | ● Low; lack of unique moat online + well entrenched offline distribution | ● Medium; activity specific technical apparel has moats of selling online | ● Medium; emerging category; target market is online savvy  | ● Low; lack of unique moat online + high competition both online & offline | ● Low; lack of unique moat online + high competition both online & offline |

# D2C brands are priced in the fastest growing segments of the apparel market

D2C brands are optimally positioned to take advantage of consumers' upscaling within the apparel segment

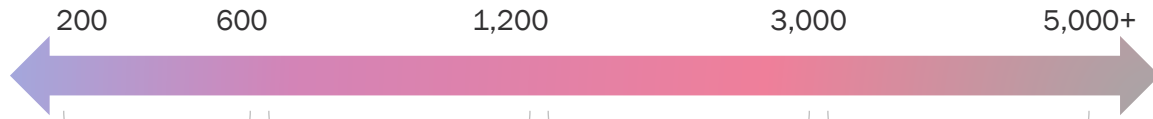
## India apparel market size

(\$Bn)



## Price points

(INR)



! Economy

Tough to create sustainable economics in own channel or marketplace

✓ Value

Value and Premium segments form optimal price range for D2C brands

✓ Premium

! Super premium

Too premium, difficult to get scale online

- Economy segment is largely unorganized, as disposable incomes increase, the market shifts towards value (aspirational) brands seeking higher quality products
- As the economy segment upscales to the value segment, the average price for the value segment would decrease
- This shift is catalyzed by the advent of good quality, trendy and affordable D2C brands selling on marketplaces
- Offline, with its structurally higher costs is unable to cater to the shift from unorganized to organized segments
- Super premium is a small segment and would grow at a lower pace due to economic headwinds caused by COVID-19
- While price points can be lower, online order economics on own website becomes sustainable with a minimum order value of INR 1,500 due to logistics & customer acquisition costs

## Factors affecting pricing of D2C brands



Cost of production & holding inventory



Price positioning as a proxy for quality & aspiration in minds of consumer

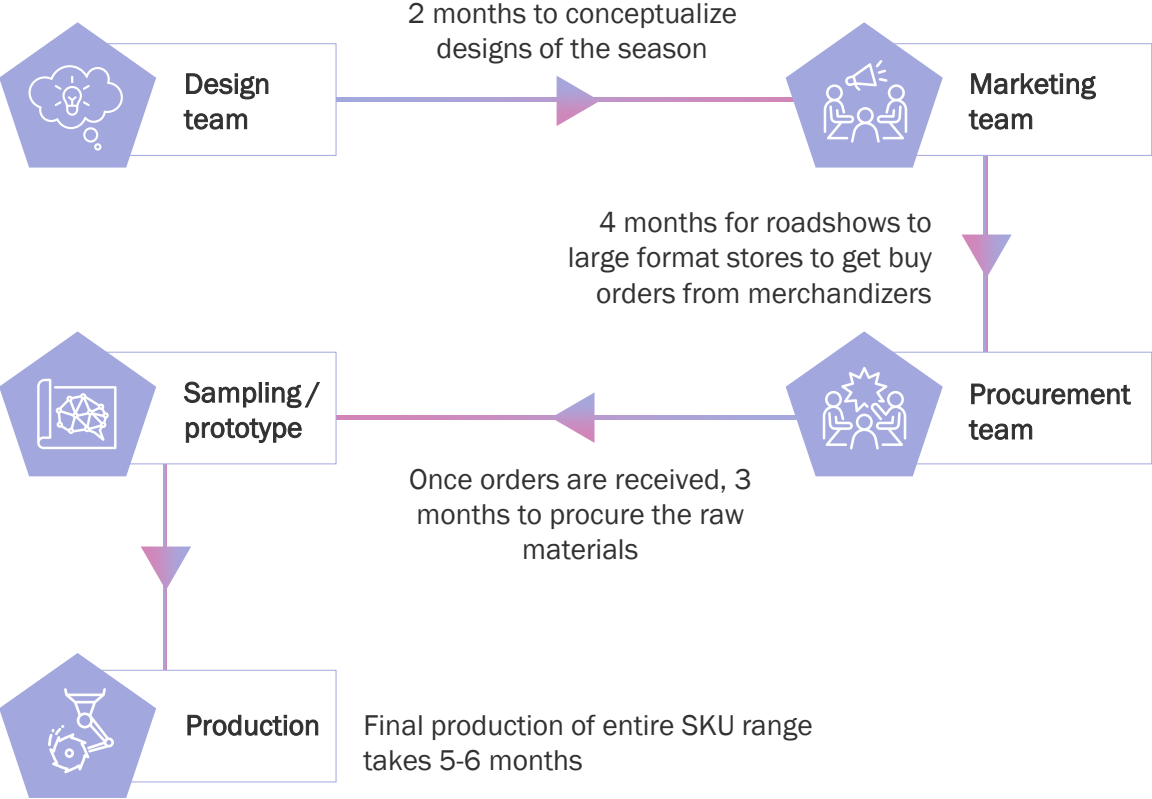


Benchmarking with other brands

# D2C brands have re-engineered the supply chain for agility and to minimize inventory risks

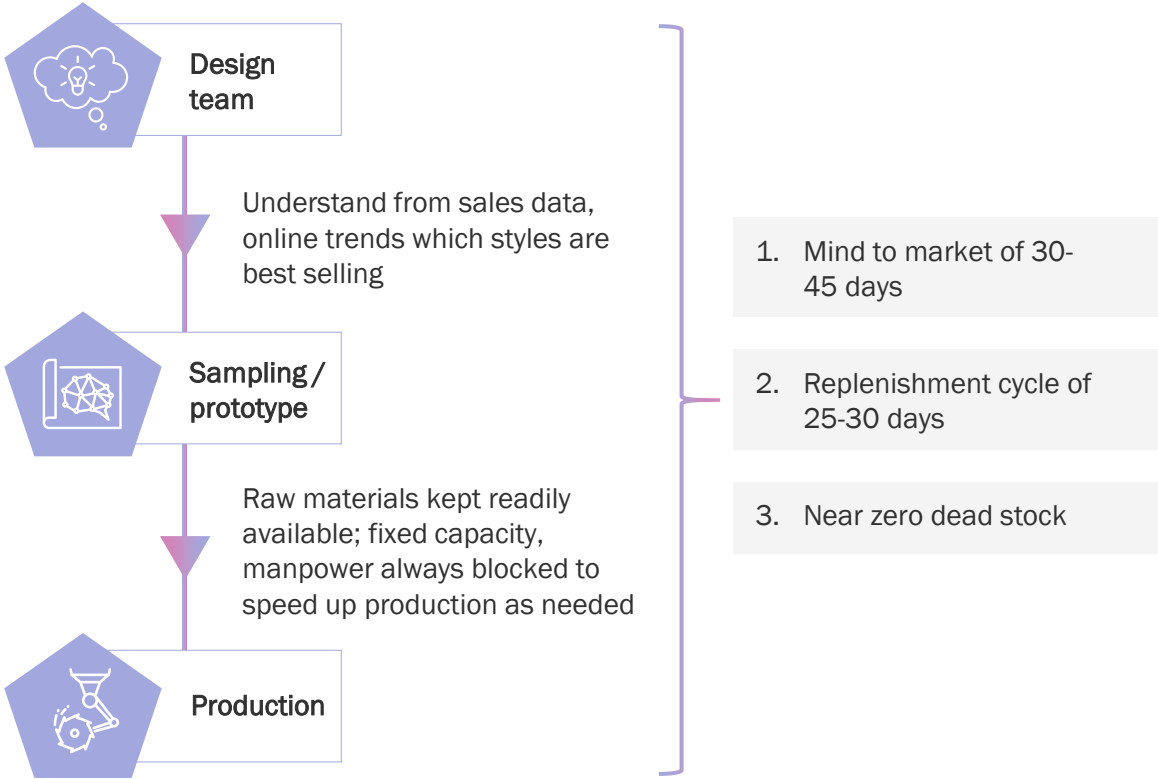
## Traditional supply chain

Traditional brands operate on only 2 seasons in a year; preparation for each season takes ~15-18 months



## Supply chain adopted by newer D2C brands

D2C brands have radically altered supply chain to minimize dead stock and maximize throughput




Tight control over supply chain is key to leveraging D2C strengths – the key being a direct connect with the customer demands

# Prudent mix of own website and marketplace distribution enables both scale and sustainable unit economics


## Drawing the customer towards the brand

- Using own website to convey the brand's story, ethos, values
- Own website offers a wider canvas to explain the unique features of the product



Aristobrat sells exclusively on own website, using it to convey unique positioning of 'Do more with less', simple, elegant wardrobes

- Own website is especially relevant in segments where customer education is needed
- Key categories: activewear, innerwear



Turmswear specializing in nanotechnologies sells only on its website to form a distinct positioning in consumers' minds


- Using social media influencers for a combination of reach and relatability
- Brand ambassadors help in building trust in a new brand



FabAlley used social media influencers to promote inclusivity and embrace body positivity in its #FabFitsAll campaign


## Standing out from the crowd in a marketplace

- While marketplaces are not the best place to build a brand, this channel ensures maximum scalability
- Once a user has bought a brand online, the algorithm personalizes the website to show more variants of the same brand enabling faster growth
- Few brands have created INR 100 Cr+ scale (out of 20k labels)



Campus Sutra started selling on marketplaces in 2013 and today has INR 200Cr yearly sales, with majority from marketplaces; the business model was designed to cater to online demand: right from supply chain to type of inventory sold online

- Data-led product development, with high granularity of variables (neck, sleeve, length, color, design etc.) help create high sell-through



Chase Labs views itself as a 'data' company rather than a 'fashion' company: extensive use of granular data helps create products with maximum sell through

# Unit economics for D2C apparel brands are more favorable on marketplaces

## Western wear brand on own website

|                                   |     |       |   |
|-----------------------------------|-----|-------|---|
| <b>Basket size</b>                | #   | ~2    | 1 |
| Average selling price             | INR | 1,000 |   |
| <b>Average order value</b>        | INR | 2,000 |   |
| Cost of goods                     | INR | 800   |   |
| <b>Gross profit</b>               | INR | 1,200 |   |
| Gross margin (%)                  | %   | 60%   | 3 |
| Logistics                         | INR | 150   |   |
| <b>Pre-marketing contribution</b> | INR | 1,050 |   |
| Customer acquisition cost         | INR | 700   | 3 |
| <b>Pre-marketing contribution</b> | INR | 350   |   |
| Post-marketing CM (%)             | %   | 17.5% |   |

ASP and Basket size varies across categories; AOVs are in ballpark INR 1,500- INR 2,000 range

- 1 Order value and # of units need to be higher for economics on brand’s website to be positive
- 2 Marketplaces continue to focus on discounts, using the parameter in their algorithms to boost up item listings; causing sellers to inflate MRPs
- 3 Logistics & digital marketing are expensive for own brand websites; marketplaces are often more cost effective due to economies of scale

## Western wear brand on marketplace

|                              |     |        |   |
|------------------------------|-----|--------|---|
| <b>Basket size</b>           | #   | 1      | 1 |
| <b>MRP</b>                   | INR | 2,000  |   |
| Average discount             | INR | 50%    | 2 |
| <b>Average selling price</b> | INR | 1,000  | 1 |
| Marketplace commission       | %   | 25-35% |   |
| <b>Net realized value</b>    | INR | 650    |   |
| Cost of goods                | INR | 400    |   |
| <b>Gross profit</b>          | INR | 250    |   |
| Gross margin (%)             | %   | 25%    |   |

Frequency is critical for the lifetime value of an acquired customer on own website and depends heavily on sub-segment attributes<sup>1</sup>

| Segment           | Attributes                  | Annual spend / user on platform               |
|-------------------|-----------------------------|---|
| Men’s lower-wear  | High competition            | INR 7,000<br>(2x orders in a year, 5.2 units) |
| Women formal wear | Nuanced, lesser competition | INR 18,000<br>(7.2 units)                     |

Note 1 – Frequency is as determined on brand’s website

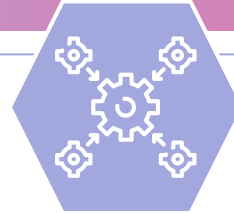
# D2C fashion brands face a unique set of challenges emerging from the sector and the distribution strategies

## Sector challenges



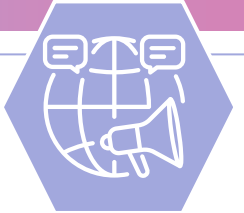
- Apparel market has an over-supply with low barriers of entry, thus creating a defensible moat is difficult
- Designs are copied and reproduced very quickly and in a low-cost manner; thus original styles are unable to extract the requisite premium
- Relatively lower repeat in fashion categories vs. consumables

## Distribution challenges



- Online and offline distribution networks work very differently in terms of order to production timelines with limited cross-synergies increasing complexity for brands
- Conundrum between own platform (building loyalty & stickiness) vs. third party marketplaces (building scale)
- Returns are essential for users to buy online, but a bane for brands due to the high logistics cost

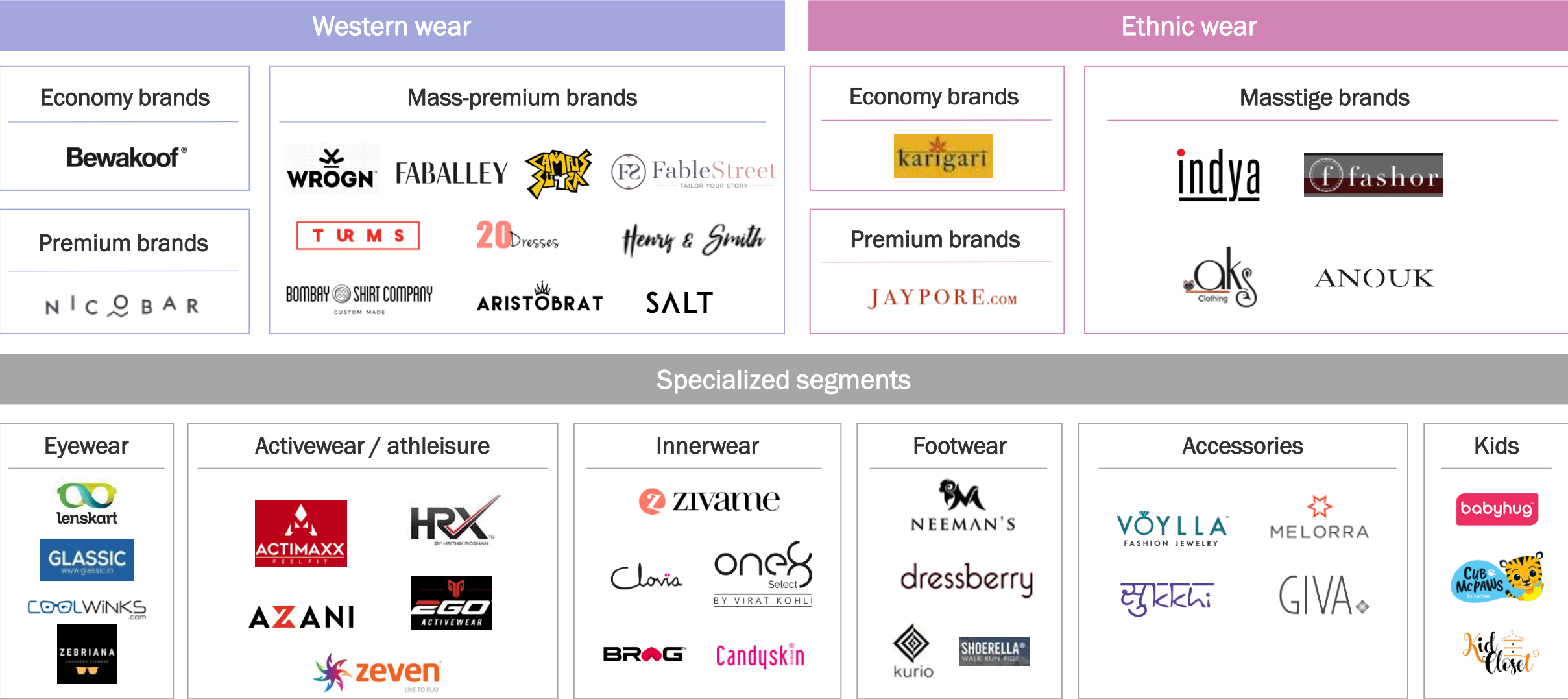
## Marketplace challenges



- Lack of avenues to differentiate and create mindshare on marketplaces
- Threat of private labels from marketplaces; brands are subject to the vagaries of algorithms of marketplaces
- Online price points continue to remain the same due to price benchmarking in consumer minds while costs increase due to labor inflation, raw material price variances



# Indian D2C fashion brands landscape has over a 100 players



Source: Avendus research; Note: the list is representative & not exhaustive

# Fashion has several sub-sectors that distinctly benefit from being D2C

## 01. Eyewear

- Eyewear is a \$9 Bn market opportunity with 80% being unorganized; large potential for D2C brands as market shifts towards organization
- Key gaps exist in the market - lack of sufficient selection available to consumers and poor user experience
- Addressing the gaps while achieving high operational efficiency has helped create disruptive outcomes, like Lenskart



## 02. Women's innerwear

- Poor shopping experience in this category is solved by the D2C approach
- D2C helps in understanding requirements of target segment better and innovating for them
- Women's innerwear has been a hushed category - D2C helps create a community and conversations, where women can freely express their issues, and this has helped achieve high traction for the brands



## 03. Activewear

- One of the fastest growing segments within apparel with the emergence of an ecosystem and conversation around fitness
- Category lends itself well to D2C as customers require more information due to technical functionalities
- Lack of good quality brands operating at affordable prices provides a ripe opportunity for D2C brands
- Active wear now starting to become a distinct category in the average Indian consumer's wardrobe, which wasn't the case a few years back



## 04. Western wear

- Western wear is a \$20 Bn market with the women's market growing at a faster rate
- High growth in the women's western wear segment coupled with lack of quality brands provides opportunity for D2C brands
- However, achieving large scale has proved to be challenging due to plethora of brands online and variety seeking consumers



2.3.

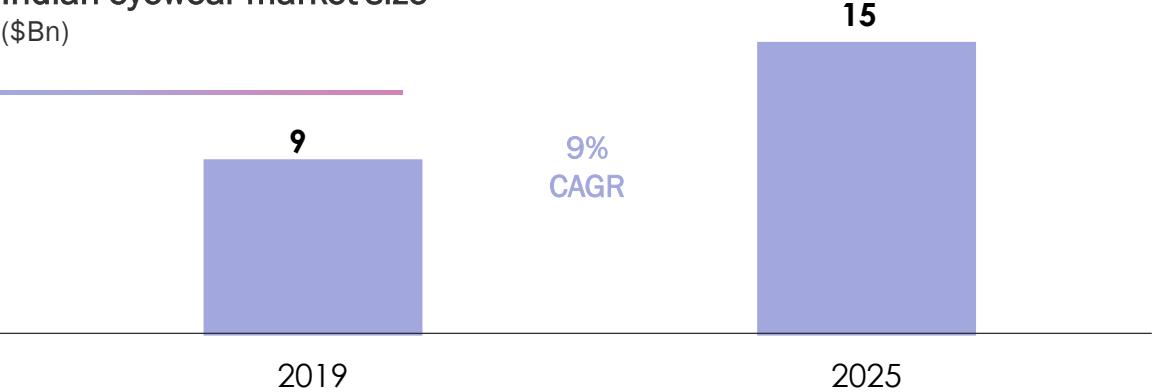
Fashion

# Eyewear








# Eyewear market's shift towards organized provides a large opportunity for D2C brands

Indian eyewear market size (\$Bn)



- **Increasing eye health issues due to more screen time**  
~35% of Indian population need a vision correction
- **Only 20% of the category is organized**  
Organized market growing faster than overall market at 15%
- **Spectacles is the largest sub-segment (73%)**  
Spectacles market growing at same pace as overall market at 9.1% CAGR

## Key gaps / opportunities in the market

-  Lack of trendy and good quality eyewear at affordable prices
-  Category has lacked any technology innovations; E.g. using AR for try-ons
-  Very low depth of inventory – customer must choose from limited set of frames; no customization
-  One of the highest margin categories – mark ups over cost of ~300% exist for some products
-  Limited penetration of organized segment in lower tier towns


# Vertically integrated approach with good order economics are key levers for large outcomes

Eyewear players can leverage a combination of product innovation, vertical integration and brand to create a sustainable, differentiated moat


## 01. Product innovation

- Differentiation created through SKU design and depth
- Unique proposition on the back of variety and value offering
- Trendy and fashionable range is more appealing to the customers

Eyewear players with a large range of products<sup>1</sup>



Zenni: 6,000+ styles



Lenskart: 5,000+ styles

## 02. Vertical integration

- Higher gross margins due to in-house frame and lens manufacturing
- Better consistency due to higher control over supply chain

Vertically integrated players enjoy high product margins<sup>2</sup>



80% product margin





76% product margin

## 03. Brand strength

- Better pricing power compared to peers
- Higher customer retention leveraged by brand loyalty

Brands with strong perception enjoy aspirational value

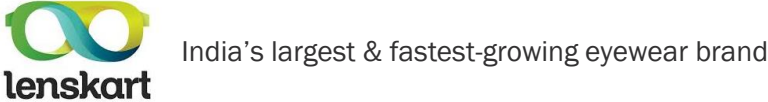




Source: 1 – Company website, 2 - Data as per CY19 Company annual report

# Lenskart is the most successful D2C eyewear brand in India

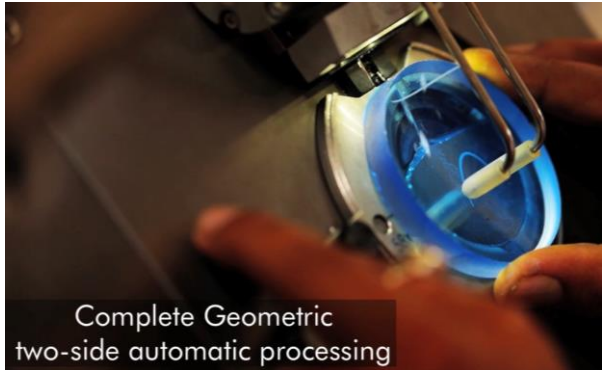
Significant outcomes built on the back of well-developed product, marketing strategy and distribution



|                                    |  |  |
|------------------------------------|--|--|
| Market leader in online eyewear    | <ul style="list-style-type: none"><li>650+ stores across India and Southeast Asia</li><li>Expanding internationally; presence in Southeast Asia and North America</li></ul>  |  |
| Omni-channel approach              | <ul style="list-style-type: none"><li>Multi-channel communication and distribution</li><li>Majority of transactions are online and online influenced</li><li>Strong customer insights and feedback loop</li></ul>  |  |
| Expanding Tech & AI leverage       | <ul style="list-style-type: none"><li>Technology &amp; AI in every layer across supply chain; retail operations including store opening; inventory management etc</li><li>3D virtual try-on technology and AI frame recommendation to enable online buying</li><li>Technology in product – Material design, lenses etc</li></ul> |  |
| Vertically integrated supply chain | <ul style="list-style-type: none"><li>Vertically integrated supply chain with Automated labs for production and operations</li><li>Centralized procurement and fulfilment</li></ul>  |  |
| Large opportunity                  | <ul style="list-style-type: none"><li>Highly fragmented and unorganized market ripe for disruption</li><li>International expansion</li></ul>   |  |



Company-owned or franchisee-owned Lenskart branded stores



Centralized processing with in-house frame and lens manufacturing

2.3.

Fashion

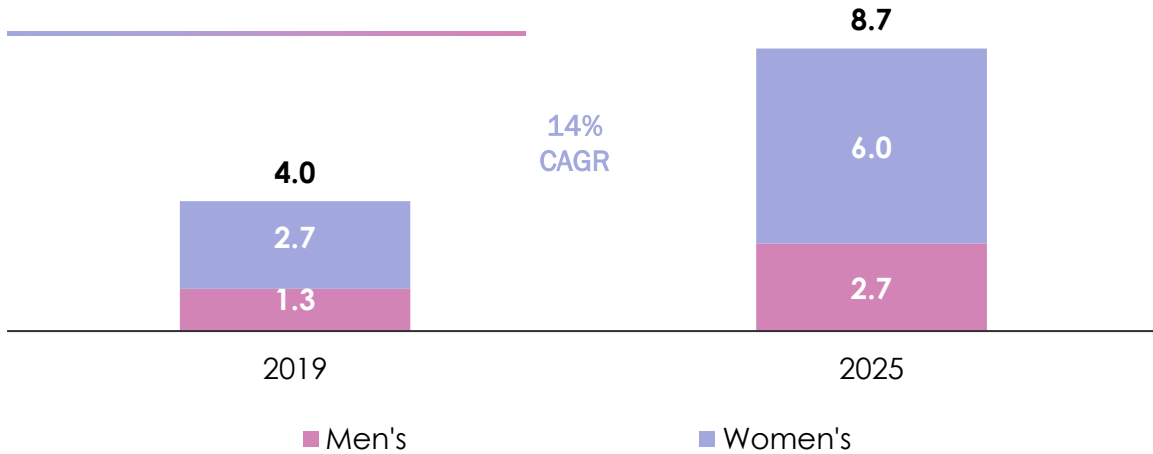
# Women's innerwear





# Women's innerwear market can see disruptive outcomes by D2C brands

## India innerwear market size (\$Bn)



- **Men's segment more organized than women's**  
60% organized for men's segment vs 39% for women's
- **Women's segment is more complex than men's**  
Sizing, fit & inventory complexity make it tougher to crack
- **D2C Women's brand to create large outcomes**  
Complex category with key benefits of being D2C

## Key attributes of women's innerwear category in India enabling large outcomes for D2C brands



### Poor shopping experience in offline stores

- Category is largely sold in trade channel with men behind the counter
- Inability to explore styles or communicate requirements – these are solved in online shopping



### Personalization & user-led innovation critical

- Personalization key for women as inner-wear affects health – D2C enables personalization
- Women's wardrobe is changing & innovative innerwear to enable the outer-wear is needed

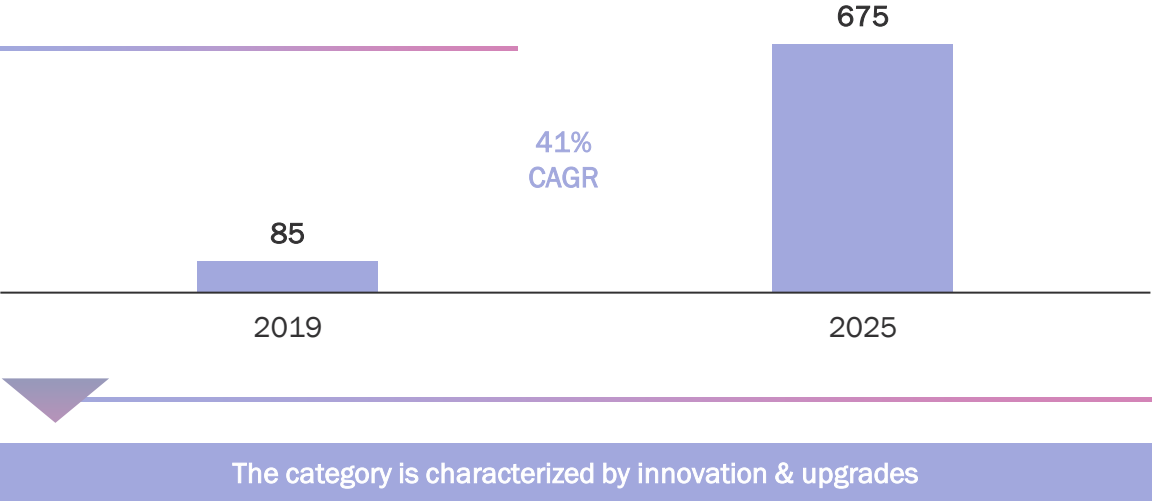


### Lack of avenues to explore / engage in category





- Users need to be educated on their body profiles and suitable inner-wear to prevent health issues
- Previously a hushed category, online enables community creation and product reviews

# The category is dynamic: characterized by market expansion and innovation

Online women’s innerwear market in India (\$Mn)






Products in the sector have become more nuanced and addresses the specific pain points as against being a run-of-mill inner-wear

|   |  |
|---|--|
|  <p><b>Quattro super support bra</b> – provides 4-way support for curvy women</p>       |  <p><b>Saree shapewear</b></p>               |
|  <p><b>Minimizer bra</b> – helps spreading of breast tissue with additional support</p> |  <p><b>Ultra light fitness leggings</b></p> |

Note – Does not include Active wear  
Source: Avendus estimates

Innerwear has expanded to categories beyond lingerie (size in \$Bn)

|   | 2019 | 2025 |
|---|------|------|
|  <p><b>Lingerie</b></p>                                | 2.7  | 5.5  |
|  <p><b>Activewear</b><br/><i>Emerging category</i></p> | 0.2  | 1.1  |
|  <p><b>Shapewear</b><br/><i>Emerging category</i></p>  | 0.1  | 0.6  |

## Huge online engagement due to the privacy requirements

Zivame ‘Fit for all’ campaign



208 Mn+ organic views on YouTube



- 252K Instagram followers
- 140K+ Customer reviews on website
- 70%+ Products are reviewed

# Key success factors for a brand in women's innerwear segment

01.

## Tight control over supply chain and inventory management

Inner wear is one of the toughest segments of apparel market to crack; thus few brands can create large outcomes in the space

- Complexity is due to vast number of sizes owing to a combination of 'band' size & 'cup' size
- 'Fit' remains a complexity for women's wear in overall apparel market & gets magnified for the inner wear category
- Right set of inventory to maximize sales requires monitoring the sell-through rate for each variant of SKU in real-time – this is best implemented by D2C brands
- Historically, brands have only produced in 4-5 sizes and women were forced to adjust within these – opportunity to create inclusive D2C brands which can offer a larger variety of SKUs

02.

## Product design – being at the forefront of innovation

This category is characterized by need for continuous innovation as the outer-wear of women is evolving

- Inner wear innovations need to happen in-tandem with changing outerwear, in addition to other innovations to address consumer pain points
- Innovations also help to stay ahead of the market, especially when there is a threat of copying of designs
- D2C helps to factor in customer comments, reviews, product ratings, in addition to global trends into the design process
- D2C also helps to communicate the new offering / innovation better

03.






## Brand positioning and being customer centric

Brands in this category have failed to scale due to not being customer centric

- Customer centricity is a combination of helping her select the right product for her body type and providing an enjoyable experience while she's on this journey
- Due to intimate nature of products & lack of availability of right products, online penetration in the category has lagged that of other apparel segments
- Trust building and positioning as the one-stop shop for all her inner wear needs is important to scale in this segment

# Key Indian D2C brands in the women's innerwear category



|                |   |   |
|----------------|---|---|
| Proposition    | One stop shop for all women's intimate wear needs   | Full-stack lingerie brand which controls the brand experience from design-to-wardrobe   |
| Products       | Lingerie, active wear, shape wear, sleep wear & accessories   | Innerwear, activewear and nightwear for women   |
| Distribution   | Primarily online through own channel and marketplaces. Offline distribution through 40+ stores  | More than 75% sales through online channels including own website and marketplaces. 100+ offline touch points.  |
| Scale          | FY20: \$40 Mn   | FY19: \$6.7 Mn  |
| Founded        | 2011  | 2012  |
| Capital raised | \$54 Mn   | \$21 Mn   |
| Investors      |   |    |
| Founders       | Amisha Jain (CEO)   | Neha Kant, Pankaj Vermani   |

Source: Company data, Pitchbook; Assumed USD/INR FX of 75

Note: Data is from publicly disclosed sources and not independently verified with Clovia due to potentially conflicting assignment

2.3.

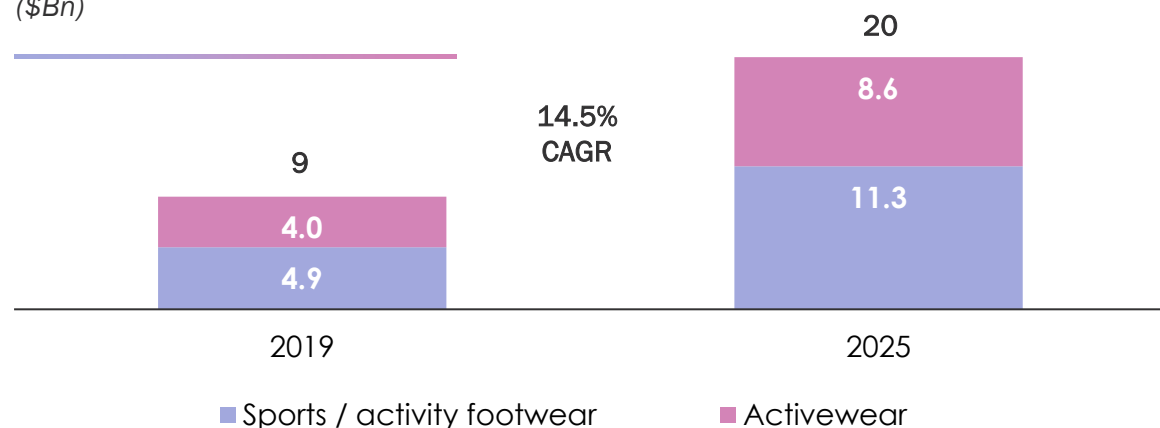
Fashion

# Activewear



# Activewear could be an emerging market best suited for online adoption

India activewear market size (\$Bn)



## Key trends



75% of the market is unorganized; strong tailwinds for brands as consumers shift to branded products



Market divided into performance wear & athleisure  
*Performance wear is technically complex, has higher price points*



Gen Z & millennials largest consumers driving category  
*This TG is more inclined to get more information and try new brands*

### 01. One of the fastest growing segments



### 02. Emergence of ecosystem around fitness

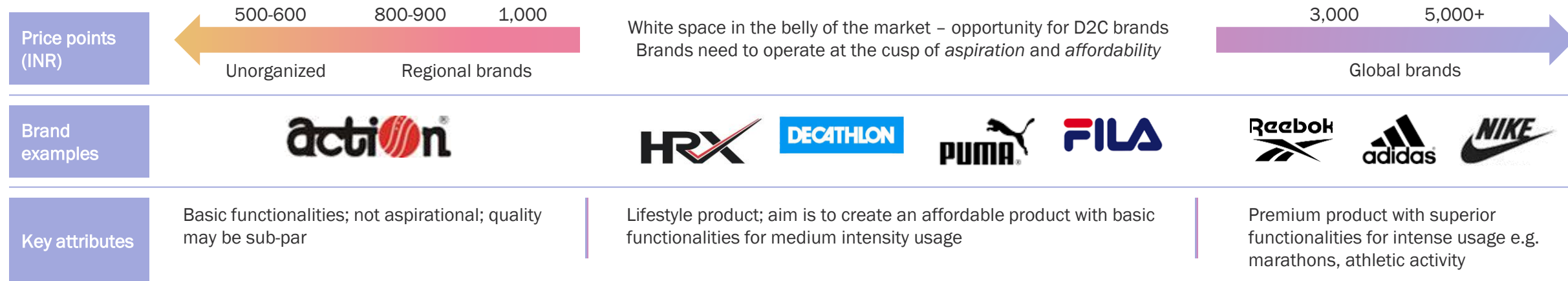
- Startups such as CureFit, Fitternity have made fitness accessible everywhere and to a wider audience
- 30+ workout formats across 12,000 studios with innovative models like pay per class etc.
- These have helped expand the market to include many first-time fitness enthusiasts
- Need for separate clothing for workouts has helped expand activewear market

### 03. High barriers to entry vs other segments

- Performance gear uses numerous technologies such as: lightweight fabric with flat lock seams to make it feel like second skin, quick-dry, moisture-wicking
- Compression technology helps the apparel play a role in muscle recovery
- These R&D based technologies create strong barriers to entry
- However, large part of the market continues to be in athleisure segment

# The category is poised to become more 'branded' & 'online-led'

## Opportunity for D2C brands to create large outcomes in the mid-premium market



## Category characteristics provide advantages to 'online' led sales











| Casual wear                              | Active wear   | Online sales advantage   |
|--|---|--|
| Impulse purchase - No information needed | Involved purchase – high education / information needed | <ul style="list-style-type: none"> <li>Online helps explain product functionalities in detail with videos etc</li> <li>User reviews, ratings are available to make an informed decision</li> <li>Direct access to brand and information helps establish trust</li> </ul> |
| High on design, low on functionality     | High on functionality, low on design                    |  |
| Low usage life – use & throw in few uses | High usage life – longevity of product is important     |  |
| Trust in brand not needed                | High degree of trust in brand is needed                 |  |

## Global brands are doubling down on online sales

| Online revenue as % of total revenue |     |       |     |
|--------------------------------------|-----|-------|-----|
| Global                               |     | India |     |
| NIKE                                 | 14% | PUMA  | 28% |
| lululemon                            | 26% | FILA  | 30% |



# Key success factors employed by D2C brands in activewear

|  |   | Examples   |   |  |
|--|---|--|---|--|
| <p>Identification of the niche and building right product assortment</p> | <p>The sector is large with segments like performance wear, athleisure etc. working differently; thus critical for a D2C brand to define its niche</p>        | <p>Brand</p> <p> </p> <p><b>\$46M</b></p> <p> </p> <p><b>\$300M+</b></p> | <p>Both brands started focusing on active wear since 2012/2013 when global brands were still focused on footwear alone with active wear being an ancillary category; and have achieved impressive scale in record time span</p>               |  |
| <p>Using the right set of technologies</p>                               | <p>Each technology has its own supply chain and upfront investments - D2C brands need to tailor the technologies to their specified activities</p>            | <p> Four-way stretch zeroed down to 9mmHg across posterior glutes and quadriceps femoris provides right level of compression and high degree of flexibility</p>   | <p> UV protection for outdoor sports wear, marathon gear etc.</p>  |  |
| <p>Mapping the physical activity with functionalities of the product</p> | <p>Scale can be achieved with the right assortment and right communication, mapping the physical activity with clear functionalities of the product</p>       | <p> Moisture-wicking materials are made of 'net' fiber (uncomfortable), but essential for high-intensity outdoor sports wear</p>  | <p> Anti-microbial (bacterial, anti-odor protection) to keep products resilient to infections (especially water-based sports)</p>                          |  |
| <p>Clear and consistent brand communication</p>                          | <p>Global brands spend lavishly on marketing – celebrity endorsements, sports sponsorships etc.; clear, consistent communication to be done by D2C brands</p> | <p> HRX is a shining example of brand consistency – it stood for 'fitness', 'shaped body'; thus all banners were around this theme; &amp; never provided an 'outdoor' theme. Celebrity, aspirational theme used</p>   | <p> Gymshark shunned traditional marketing and focused obsessively on social media influencers who were invited to try on and promote their products</p> |  |

# Key D2C brands in the activewear segment



|                |   |   |  |  |
|----------------|---|---|--|--|
| Proposition    | Fitness brand co-created by celebrity Hrithik Roshan, Exceed Entertainment  | Affordable active-wear for men and women  | High-quality performance sports wear for men and women               | ACTIMAXX: Range of active wear that is both comfortable and high on fashion<br>One8: Comfort for the restless; Youth innerwear brand |
| Products       | Active wear, Sports wear, Footwear, Accessories, Audio devices, Wearables, home workout, Sports & fitness equipment | Active and sports-wear including vests, t-shirts, jackets, socks, sweatshirts, shorts, pants, for men and women | Clothing, shoes and accessories for sports and workout               | One8 innerwear: briefs, trunks, vests, loungewear<br>ACTIMAXX: T-shirts , Polos, Shorts  |
| Distribution   | Myntra, Curefit, Flipkart   | Online (MPs mainly) + limited offline presence  | Primarily online, offline distribution through select retail outlets | Online (MPs), developing own trade network   |
| Scale          | FY20 Revenue: \$46 Mn+  | FY20 Revenue: ~\$10Mn   | FY19 Revenue: \$2 Mn   | April 2020 Revenue ARR of \$5 Mn   |
| Founded        | 2013  | 2009  | 2015   | 2016   |
| Capital raised | NA  | \$36 Mn   | Undisclosed  | NA   |
| Investors      |   |   |  | Debt funded  |
| Founders       | Afsar Zaidi, Hrithik Roshan, Kamal Punwani, Sid Shah  | P. V. Gopalakrishna Bachi (MD)  | Siddharth Suchde, Punith Kumar                                       | Nischal Puri   |

Source: Company data, Pitchbook; Assumed USD/INR FX of 75

Note: Data is from publicly disclosed sources and not independently verified with 2GO Activewear

2.3.

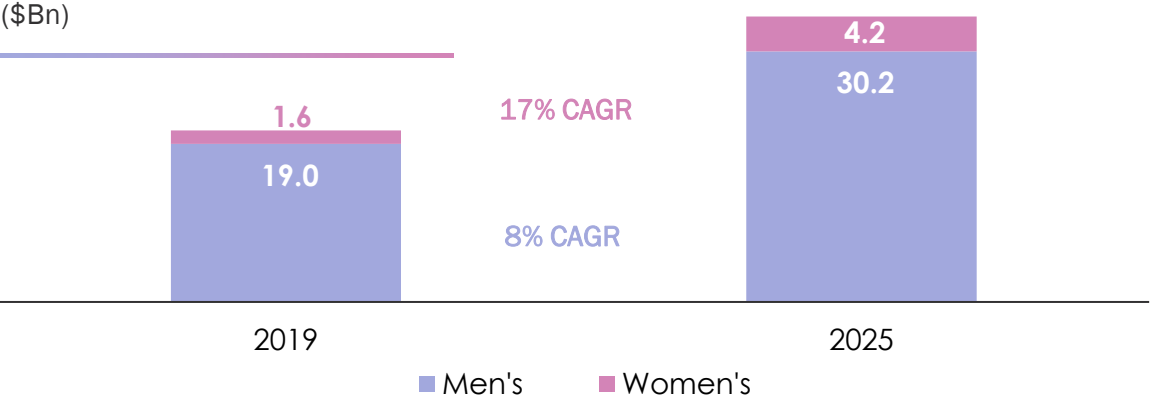
Fashion

**Western wear**

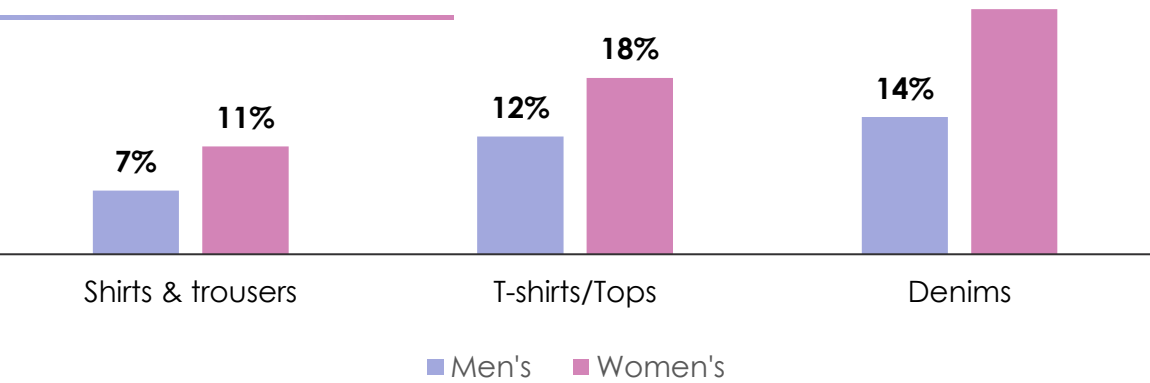


# Western wear is a \$20 Bn market; Lack of brands in women's space provides an opportunity for D2C brands

## Western wear market in India



## Growth rates of key segments



### Men's segment has many more brands than women's

Western wear for men has existed for a far longer period, than for women's; men's brands have extensions for women's, however the styles and SKU depths are not sufficient for women's segment



### Within men's segment, denims are growing fastest (14%)

- Men's shirts & trousers make up \$ 12 Bn (58%) of overall western wear market
- Men's denim-wear, a \$4 Bn market currently expected to grow fastest amongst all men's western wear segments



### High traction online for women's western wear

Women's western wear is growing at 17%; with an under-penetration of brands historically, new brands dedicated to this segment have emerged online

# Despite hyper competition and variety seeking behavior of consumer, a few brands have established their position in the market

## Key challenges for D2C brands to scale specifically in the western wear category



'Fast fashion' and over-supply of apparel makes differentiation challenging



Variety-seeking category from consumer perspective reduces scope for brand loyalty



Lack of technical complexity; category is more 'design-led'



Scale is achieved on marketplaces; brands are exposed to the vagaries of algorithms

## Some brands have found their own unique selling proposition to tackle the problems above



Trendy, high quality clothing at affordable price



Simple design, elegant, long lasting clothes



Innovative technologies











Data driven designs in the complex women's category













Good quality women's formal wear

# Success factors for D2C brands to create a meaningful outcome in the segment

While most D2C brands in the space are relatively smaller currently, key success factors have led to a few brands achieve higher scale than a majority of other brands

| Success factors  | Labels selling online   | Successful D2C brands  |
|--|---|--|
|    | <b>Gain customer trust through quality</b><br>Most labels selling online compromise on fabric quality and look and feel of product to sell at low prices                                    |  <ul style="list-style-type: none"> <li>■ High quality of fabric &amp; look and feel (akin to offline standards) is important to establish customer trust and repeat behavior</li> </ul>  |
|    | <b>Agile supply chain</b><br>Limited supply capacity; most labels are started by traders; inability to scale supply as demand on marketplaces increase                                      |  <ul style="list-style-type: none"> <li>■ Online selling has high demand volatility (~2-3x of normal during sale periods)</li> <li>■ Agile supply chain with capacity buffer built ahead of time is needed to cater to increased volumes</li> </ul> |
|   | <b>Data-driven product design</b><br>Inability to use online data patterns (clicks, add-to-cart etc.) holistically causing very basic insights into product design & risk of dead inventory |  <ul style="list-style-type: none"> <li>■ Product design backed by data-driven insights through analytics of granular data (e.g. sleeve type, neck type, length, color etc.)</li> </ul>  |
|  | <b>Diversification to other channels, categories</b><br>Most labels don't achieve scale online, hence cannot garner enough resources to expand into other channels, categories              |  <ul style="list-style-type: none"> <li>■ While D2C brands start with online sales, due to lower fixed costs &amp; early traction, they de-risk the business by diversifying into other categories &amp; channels</li> </ul>                      |

# Few scaled D2C brands in western wear segment (1/2)

|                | <br>Part of Universal Sportsbiz Pvt Ltd  |    |                              |    |
|----------------|---|--|---|---|
| Proposition    | Celebrity-backed apparel for men and women  | Cutting-edge trendy fashion for millennial women at affordable prices  | Fashion oriented house of brands targeted towards millennials   | Apparel brand focused on providing creative and distinctive fashion at affordable prices  |
| Products       | Wrogn – men’s fashion line co-created with Virat Kohli; Imara – Kareena Kapoor Khan’s women’s ethnic clothing line; Ms.Taken - line of western wear for women endorsed by Kriti Sanon; Single – men’s fashion brand by Aditya Roy Kapur | Complete clothing solutions for women in both western wear (Faballey) and ethnic wear (Indya) categories   | 40K+ SKUs across sweatshirts, shorts, T-shirts, tops, hoodies, denim jeans, athleisure range, caps and bags     | Men’s wear – T-shirts, shirts, vests, jackets, hoodies & sweatshirts; Women wear – Tops, denims, joggers, Accessories, Footwear and Mobile covers                           |
| Distribution   | Online through own website, MPs and offline through own stores, Shoppers Stop etc   | Online (own website, MPs) & offline presence through 30 own stores and 400+ shop-in-shops across India   | Mainly online with offline presence through 500 shop-in-shops. Presence in Middle East and Saudi Arabia as well | Online through own website and app  |
| Scale          | FY19 Revenue: \$31 Mn   | FY20 Revenue: \$24 Mn+   | FY20 Revenue: \$27 Mn   | FY19 Revenue: \$23 Mn   |
| Founded        | 2014  | 2012   | 2013  | 2012  |
| Capital raised | \$53 Mn   | \$14 Mn  | Bootstrapped  | \$11 Mn   |
| Investors      |     |   | NA  |   |
| Founders       | Anjana Reddy  | Shivani Poddar, Tanvi Malik  | Aditya Agarwal, Dhiraj Agarwal, Khushboo Agarwal, Sonal Agarwal   | Prabhkiran Singh, Siddharth Munot   |


Source: Company data, Pitchbook; Assumed USD/INR FX of 75

Note: Data is from publicly disclosed sources and not independently verified with Wrogn, Bewakoof










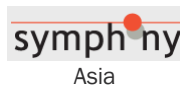


# Few scaled D2C brands in western wear segment (2/2)



|                |   |  |  |
|----------------|---|--|--|
| Proposition    | One-stop destination for all the lifestyle needs of professional women              | India's first nano-technology led apparel brand. Fuse patented nanotech & fabric innovation in every product build at an affordable price  | House of brands using data-driven product creation |
| Products       | Ready-made and made-to-fit work-wear collection for women                           | Men clothing – tees, shirts, chinos, jeans, innerwear, socks, winterwear   | Women's wear, denims and sustainable apparel       |
| Distribution   | Omnichannel presence, started online, has embarked on offline through EBOs          | Online first (own webstore 90% & marketplaces 10%)   | Primarily online through marketplaces              |
| Scale          | Undisclosed   | ~\$5M annual revenue (pre-Covid)   | Undisclosed  |
| Founded        | 2016  | 2017   | 2012   |
| Capital raised | \$3.5 Mn  | \$2.5 Mn   | Bootstrapped                                       |
| Investors      |  | Dr Ranjan Pai, Sujeet Kumar, Angels<br>  | NA   |
| Founders       | Ayushi Gudwani  | Rameswar Misra   | Udayan Bubna, Ananya Bubna                         |

# Other key D2C brands in Accessories segment



|                |   |   |   |
|----------------|---|---|---|
| Proposition    | Offer high quality fine jewelry with exquisite designs with a firm focus on craftsmanship and customer experience   | Fashionable, high quality fine jewelry with western designs for everyday usage by millennial women  | Offer fashionable, affordable, easy to wear, made of quality jewelry for matching with everyday outfits   |
| Products       | Jewelry including rings, earrings, pendants, solitaires, bangles, chains, cufflinks among others  | Necklaces, earrings, bracelets, rings etc. (popular jewellery forms)  | Jewelry for women, men and kids including earrings, rings, bracelets, pendants, bangles among others  |
| Distribution   | Omnichannel with stores in 12 cities  | Online, will open offline stores soon   | Omnichannel, offline stores across 150+ locations   |
| Scale          | FY19 Revenue: \$28 Mn   | F20 Revenue: \$20 Mn+   | FY20 Revenue: \$13 Mn   |
| Founded        | 2011  | 2016  | 2013  |
| Capital raised | \$74 Mn   | \$36 Mn   | \$28.5 Mn   |
| Investors      |       |   |   |
| Founders       | Gaurav Singh Kushwaha   | Saroja Yeramilli  | Vishwas Shringi, Jagriti Shringi  |

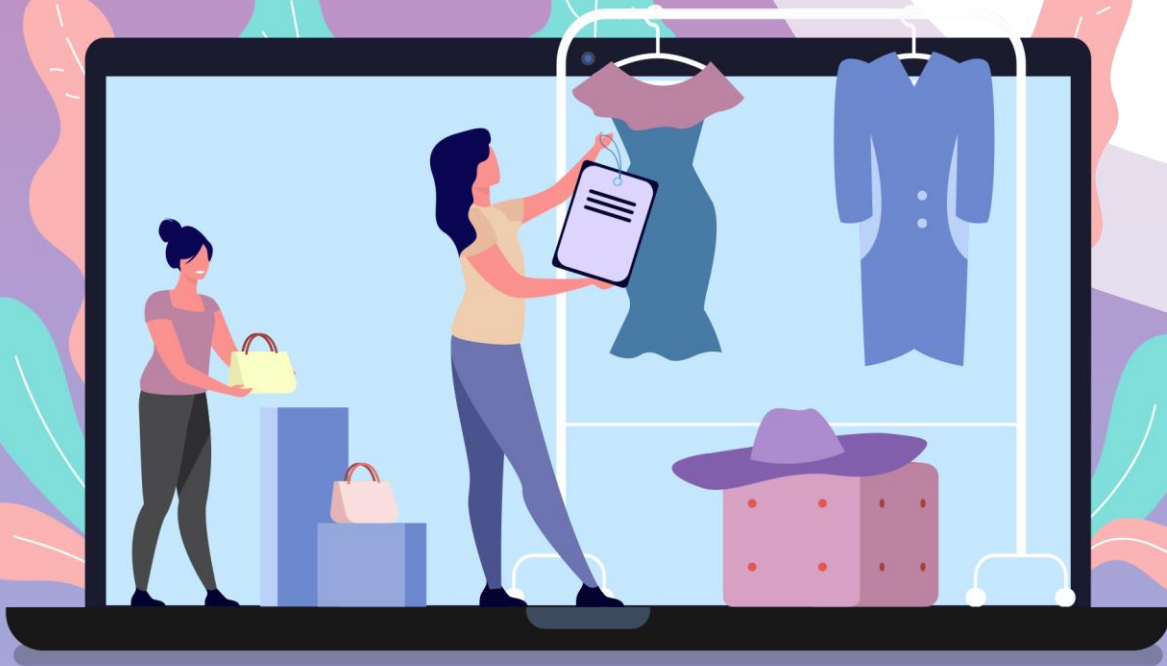
Source: Company data, Pitchbook; Tracxn, Assumed USD/INR FX of 75

Note: Profiles are from public sources and not independently verified for Bluestone and Voylla

2.3.


## Fashion

# Potential exit outcomes for Fashion D2C brands







# Globally, marquee D2C brands have commanded premium valuations

## Companies that have gone public

| Company   | Segment                      | Month  | Market Capitalisation |
|---|------------------------------|--------|-----------------------|
|  boohoo | Clothing, shoes, accessories | Mar-14 | \$5.2 Bn <sup>1</sup> |

## Other large outcomes

| Company   | Segment     | Valuation | Funding raised | Investors   |
|---|-------------|-----------|----------------|---|
| WARBY PARKER  | Eyewear     | \$3.0 Bn  | \$780 Mn       | T. Rowe Price, Wellington, Tiger, General Catalyst, Spark Capital |
|  allbirds   | Footwear    | \$1.7 Bn  | \$103 Mn       | T. Rowe Price, Tiger, Fidelity                                    |
|  lenskart   | Eyewear     | \$1.5 Bn  | \$450 Mn       | Softbank, Kedaara, Epiq, TPG, PremjiInvest, Chiratae, IFC         |
|  AWAY      | Travel gear | \$1.5 Bn  | \$216 Mn       | Lone Pine, Wellington, Global Founders, Baillie Gifford           |
|  GYMSHARK | Activewear  | \$1.3 Bn  | \$271 Mn       | General Atlantic, Inflexion PE, TSG Partners, L Catterton         |

Globally, brands scale to operate as profitable entities (eventual IPO route) or have exited to a retailer as part of vertical integration  
India is yet to see large exit outcomes in the space

# The sector has seen a few M&As; sizeable exits in India are yet to take shape



## Mergers & Acquisitions - Global

| Target       | Acquirer                | Segment            | Year | Valuation |
|--------------|-------------------------|--------------------|------|-----------|
| Reformation  | PERMIRA                 | Women's clothing   | 2019 | NA        |
| ELOQUII      | Walmart                 | Plus-size clothing | 2018 | \$100 Mn  |
| BONOBOS      | Walmart                 | Men's clothing     | 2017 | \$310 Mn  |
| BLUE NILE    | BainCapital             | Jewellery          | 2016 | \$520 Mn  |
| NET-A-PORTER | YOOX NET-A-PORTER GROUP | Luxury fashion     | 2015 | \$2.2 Bn  |



## Strategic transactions - India

| Target         | Investor                | Segment            | Year | Valuation |
|----------------|-------------------------|--------------------|------|-----------|
| zivame         | Reliance Brands Limited | Women's inner-wear | 2020 | Minority  |
| HRX            | MYNTRA                  | Unisex Active wear | 2016 | Majority  |
| EGO ACTIVEWEAR | PEEPUL                  | Unisex Active wear | 2012 | Majority  |

D2C brands prepare for an IPO-based exit, as M&A driven exits are uncertain goalposts; M&As happen at moderate scale (majority <\$1 Bn); in India too, strategic transactions have occurred in relatively early stages of D2C brands

| Acquisition rationale            | Catering to a distinct and growing white space   | High brand value   | Exclusivity to a platform  |
|----------------------------------|--|--|--|
| Factors influencing the decision | <ul style="list-style-type: none"> <li>Unique value proposition</li> <li>Size of addressable market</li> <li>Sustainability of market (non-fad)</li> <li>Defensible moats</li> </ul> | <ul style="list-style-type: none"> <li>Achieving product market fit</li> <li>High brand recall amongst users</li> <li>Business growth</li> <li>Customer retention</li> </ul> | <ul style="list-style-type: none"> <li>Match of the target audience &amp; price positioning</li> <li>Potential to expand into allied categories</li> </ul> |

### 03.

# Key D2C players in other sectors



# Scaled D2C companies in other sectors (1/2)

Significant outcomes built on the back of well-developed product, marketing strategy and distribution



India's #1 parenting eco-system and kids' commerce platform

Dominant position in the segment

- India's largest specialty commerce platform for babies and kids
- India's largest & fastest growing baby and kids products brand
- India's largest parenting community app

Highly curated offerings

- Provides a personalized tech enabled shopping experience for busy moms
- Building a holistic parenting eco-system to cater to all needs of a growing child

Strong omni-channel distribution strategy

- Multi-brand retail to serve large customer base
- Offline channel provides touch and feel experience for high value items
- Personalized experience across all channels

Targeted marketing with minimal spend

- Targets customers at key touch points through its diversified acquisition channels – Parenting Community - an online discussion forum for parents, Hospital deliveries –packages with essentials for newborn



Building a millennial-focused audio products brand

Market leader in earwear

- \$67 Mn annual revenue
- Consumer base of 2 Mn+
- Attained #1 position in earwear<sup>1</sup> within 4 years of launch competing against global players

Filling proposition white space

- Durable and fashionable audio products and accessories
- Product development basis user feedback and in collaboration with designers

Tapping into omni-channel distribution

- Majorly distribute via online marketplaces
- Offline distribution at large format retail chains and multi-brand outlets
- Built brand and community and forayed into distribution through own platform in 2020

Targeted brand communication

- Brand ambassadors include cricketers, young celebrities and singers
- Micro-influencers to promote brand awareness
- Events sponsorships to connect with audience



# Scaled D2C companies in other sectors (2/2)



High functionality-based energy efficient fans



New age technology accessories brand



Challenging the consumer durables space in India



Disrupting sleep solutions in India

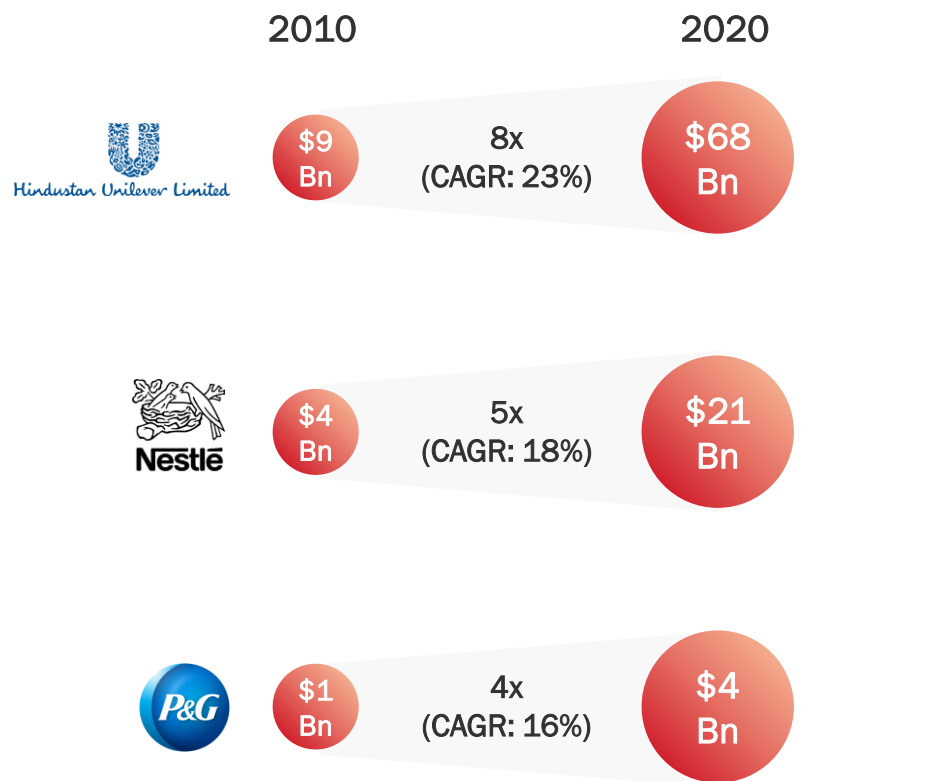
|                      | ATOMBERG TECHNOLOGIES   | NOISE  | Lifelong   | wakefit  |
|----------------------|---|--|--|--|
| Proposition          | <ul style="list-style-type: none"> <li>Innovative offering with focus on service</li> </ul>   | <ul style="list-style-type: none"> <li>Differentiated offering through product design</li> </ul>   | <ul style="list-style-type: none"> <li>Superior offering at affordable price</li> </ul>  | <ul style="list-style-type: none"> <li>Disrupting the industry with new age products</li> </ul>  |
| Unique Selling Point | <ul style="list-style-type: none"> <li>Flagship product range assuring 65% savings in electricity usage by leveraging BLDC technology</li> <li>400+ service centers across key cities in India</li> </ul> | <ul style="list-style-type: none"> <li>In-house design and R&amp;D teams to create Bluetooth earphones, smart wearables and action cameras</li> <li>Customer feedback loop for incorporating features in new as well as existing products</li> </ul> | <ul style="list-style-type: none"> <li>Data driven product development with a very high focus on product functionality</li> <li>Portfolio of products across the home with sharp focus on the Tier I/II/III customers</li> </ul> | <ul style="list-style-type: none"> <li>Research and development on ergonomically beneficial factors in sleep products</li> <li>Focus on high density mattresses with proprietary tech to provide pressure relief and best-in-class products</li> </ul> |
| Growth               | <ul style="list-style-type: none"> <li>\$40 Mn Revenue ARR</li> <li>2.5x y-o-y growth for the last 2 years</li> <li>More than 60k units sold per month</li> </ul>   | <ul style="list-style-type: none"> <li>\$80 Mn Revenue ARR</li> <li>60-80k units sold per month</li> </ul>   | <ul style="list-style-type: none"> <li>\$30 Mn+ Revenue ARR 2-3x y-o-y growth</li> <li>40+ SKUs directed at tier 2 and 3 households</li> </ul>   | <ul style="list-style-type: none"> <li>\$25 Mn+ Revenue ARR</li> <li>More than 3x growth in annual revenue y-o-y</li> <li>8-9k units shipped daily</li> </ul>  |

# 04. Conclusion

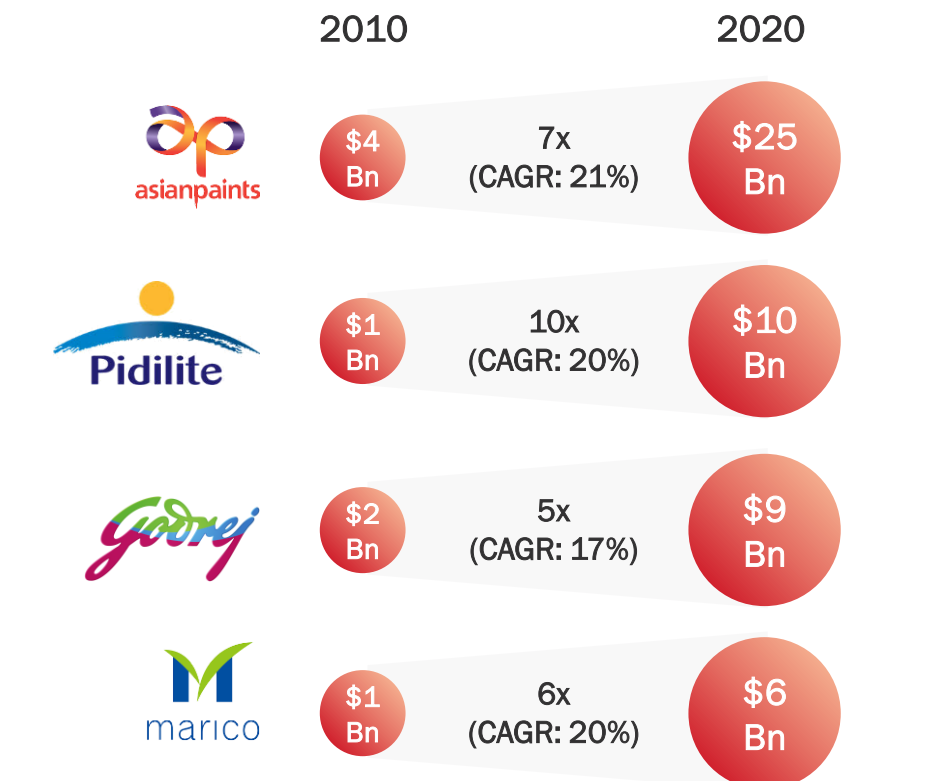


# In a brand starved country, consumer brands have historically created value sustainably for the investors

Historically, brands from MNCs have created tremendous value for investors



Indigenous brands have also seen disproportionate value creation over years



Source: BSE data, Market cap of 2020 as of Sep 4, 2020 and Market cap of 2010 as of Sep 3, 2010  
Assumed 1 USD = INR 75 (constant for negating currency impact)

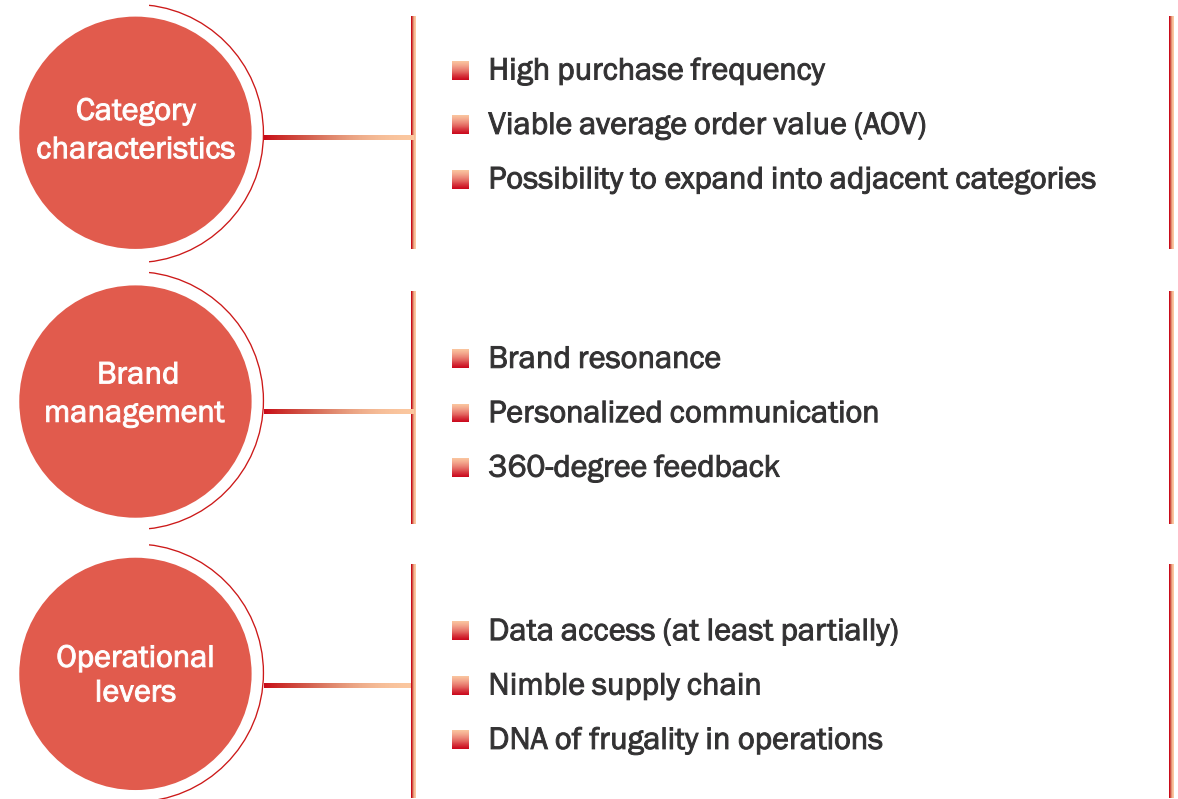
● Denotes Market cap

# The next decade of value creation will be from D2C brands

## D2C companies are well positioned to create value

- **Fighting incumbents through traditional distribution places is difficult**
  - Restricted physical retail space
  - High commission in distribution till the brand reaches large volumes
- **D2C companies will play to their digital strength and will establish themselves as strong contenders**
- **D2C companies will judiciously use own digital platform, large marketplaces and omni-channel strategy as needed, to continue judiciously to grow rapidly**
  - D2C companies have demonstrated their learnings from failures of Western D2C brands and excessive spending on customer acquisition

## Brand and category characteristics to win D2C game



# D2C space is witnessing strong traction and will witness a strong capital raising and M&A activity in coming years

01.

Incumbent consumer companies are still in wait and watch mode

**Domestic and international consumer companies are closely monitoring the emergence of D2C players**

1. Consumer companies are observing the D2C market as the size and scale of the brands is not large enough yet to become a threat to the incumbents
2. Some of the consumer companies have been experimenting with minority stakes and smaller acquisitions and also trying their own experiments
3. However, soon-enough incumbents will be forced to have their own aggressive digital strategies and also will be pushed to acquire some of these companies. Some of these trends are already visible

02.

Strong funding and M&A activity expected in D2C space in the next 3-4 years

**At Avendus, we expect to see a significant funding and M&A activity over the next few years**

1. Given the nature of the business, large funding rounds would probably be limited, but secondary transaction activity will be high
2. This industry has a potential of creating great outcomes with high capital efficiency
3. Mergers & acquisitions, either through roll-up strategy or acquisitions by incumbents are likely to be witnessed over the next 2-3 years

03.

IPO activity expected after 3-4 years

**Inherent characteristics of successful trading companies with high multiples: High RoE and sustainable growth**

1. Historically there have not been too many successful IPO stories in consumer sector because of lack of great success in traditional distribution
2. However, we expect at least 4-5 strong IPO stories with of more than US\$1 Bn market cap outcomes over the next 4-5 years

# Glossary

| Abbreviation | Term   |
|--------------|--|
| AOV          | Average Order Value                          |
| ASP          | Average Selling Price                        |
| Bn           | Billion                                      |
| CAC          | Customer Acquisition Cost                    |
| CAGR         | Compound Annual Growth Rate                  |
| CY           | Calendar Year                                |
| D2C          | Direct to Consumer                           |
| FMCG         | Fast Moving Consumer Goods                   |
| F&B          | Food & Beverage                              |
| FSSAI        | Food Safety and Standards Authority of India |
| FY           | Financial year ending March 31               |
| INR          | Indian National Rupee                        |
| IoT          | Internet of Things                           |

| Abbreviation | Term  |
|--------------|---|
| LTV          | Lifetime Value                                      |
| Mn           | Million   |
| MoSPI        | Ministry of Statistics and Programme Implementation |
| MP           | Marketplace   |
| R&D          | Research & Development                              |
| RFID         | Radio-frequency Identification                      |
| RTE/RTC      | Ready-to-eat / Ready-to-cook                        |
| SKU          | Stock Keeping Unit                                  |
| SOP          | Standard Operating Procedure                        |
| Tn           | Trillion  |
| UK           | United Kingdom                                      |
| US           | United States of America                            |
| USD / INR    | 75  |

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