

# FSN E-commerce Ventures

Rating: **Subscribe** | Price Band: **Rs1,085-1,125**

October 26, 2021

## IPO Note

### IPO Fact Sheet

Opening Date:	October 28, 2021
Closing Date:	November 01, 2021
BRLMs:	Kotak Mahindra Cap, Morgan Stanley, BOFA, JM Financial, ICICI Securities, CITIgroup
Issue Size:	Rs 51.8bn - Rs 53.5 bn
Numbers of Shares:	4,75,72,660-4,77,79,112
Face value:	Rs 1
Bid lot:	12 Shares

### Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	08/11/2021
Refunds/Unblocking ASBA Fund	09/11/2021
Credit of equity shares to DP A/c	10/11/2021
Trading commences	11/11/2021

### Issue Structure

QIB	75%
NIB	15%
Retail	10%

### Issue Details

Pre-issue equity shares	46,73,24,550
Post-issue equity shares*	47,29,24,550
Post-issue Market Cap (Rs Crs)*	Rs 53,204
Post-issue Market Cap (Rs Crs)#	Rs 51,335

\* Upper Band / # Lower Band

### Object of the Issue

Capex for setting new stores and warehouses, Repayment or prepayment of borrowings, Expenditure to enhance the visibility and awareness of the brand

### Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	54.22	52.55
Public	45.78	47.45

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## Ecom Play on BPC and Fashion; Subscribe

**We recommend Subscribe Rating to IPO of FSN E-Commerce Ventures which operates Nykaa, India's largest Omni channel play across Beauty and Fashion segments. Nykaa has revolutionized the art of online retailing of BPC products in India. Nykaa has been able to create strong consumer following and 70% repeat purchase led by 1) Inventory led BPC Model which ensures authenticity and guarantee of quality 2) wide product range offered by Nykaa as against low fill rates, stock outs and limited assortment in physical stores 3) 2mn SKU's, 3826 brands and availability in 24817 pin codes 4) consumer education through 1363 influencers, ~39500 Facebook posts (12.6mn followers) and 1.1mn You tube subscribers 5) Ability to bring global brands like Estee lauder, Huda Beauty, Charlotte Tilbury etc. to Indian consumers 6) private labels like Nykaa Beauty, Nykaa Naturals, Kay Beauty.**

**We believe Nykaa's entry into fashion segment holds promise with focus on 1) premium customers 2) curated and managed marketplace offering over 1.8 million SKUs 3) private labels like NYKD, Pippa Bella, 20 dresses and 4) industry leading AOV of Rs 3977 and ~25% contribution to GMV in 5MFY22.**

**Although we expect lower margins in FY22 (lower ad spend in FY21), we expect steady margin expansion led by scale economies as it has already expanded margins from 1.8% to 6.6% over FY19-21 making it one of the few Ecom players to turn profitable. We believe Nykaa can sustain a CAGR of ~35% in sales, 50% in EBIDTA over coming few years with double digit margins. We believe IPO at 12.6xEV/GMV on FY21 sales and ~4.7xEV/GMV on FY24 sales offers long term value. We assign subscribe rating to the IPO.**

## Key Investment Points

- Nykaa operates in a high potential online BPC/Fashion market with penetration levels of 8%/12% which offers huge headroom for growth.
- Inventory led BPC model with ~2.0 million SKUs from 3,826 national and international brands.
- 60% sales from Tier2/3 cities suggesting wide spread acceptance
- Omni channel play on 80 locations under Nykaa Luxe, On trend and Kiosks
- Increased focus on customer education through vast library of content via blogs, You Tube, Explore (in-app content aggregation hub)
- Growing private label portfolio with Nykaa Beauty, Nykaa Naturals, Kay Beauty, Dot and Key in BPC and NYKD, Pippa Bella, 20 dresses in fashion.
- Platform based lower capital intensity model in USD125bn fashion segment (Nykaa Fashion) with premium positioning has potential to accelerate growth.
- Deep, symbiotic relationship with brands has allowed Nykaa to emerge as a favorable vendor and obtain exclusivity with several brands.

## Nykaa – An E-Com BPC giant in the making

Nykaa is a digitally native consumer technology platform, delivering a content-led lifestyle retail experience to consumers. Nykaa's diverse portfolio of beauty, personal care and fashion products, including owned brand products have allowed it to not only establish itself as a lifestyle retail platform, but also as a popular consumer brand.

Nykaa offers an Omni channel experience through online channels which include mobile applications, websites and mobile sites, which had cumulative downloads of 43.7 mn across all mobile applications and 80 physical stores across 40 cities.

Strengths in comprehensive merchandising, brand relationships, delivery experience and focus on inspiring and educating consumers via digital content & tech-product innovations have allowed Nykaa to differentiate itself from the pack.

Nykaa's online model allows it to offer ~2.0 million SKUs from 3,826 national and international brands to consumers across business verticals, which normally becomes a constraint in physical retail set-up. Further, deep learning from the online platform has enabled Nykaa to 1) Identify gaps, and launch its own label to fill these gaps and 2) Foray into fashion under Nykaa Fashion, a curated & managed marketplace.

### Offer Details

#### Exhibit 1: Offer Details

Offer Period	Opens On: 28th October, 2021 Closes On: 1st November, 2021
Issue Details	Fresh Issue of Rs.6.3bn and Offer for Sale Upto 4,19,72,660 equity shares
Issue Size	Rs 53.5bn
Price Band	Rs1085 – 1125
Bid Lot	12 Shares
QIB	Atleast 75% of net offer
NIB	Upto 15% of net offer
Retail	Upto 10% of net offer
BRLM	Kotak Mahindra Cap, Morgan Stanley, BOFA, JM Financial, ICICI Securities, CITI group
Registrar	Link Intime
Listings	BSE & NSE

Source: Company, PL

#### Exhibit 2: Objects of Offer

Particulars	Amount (Rs Mn)
Investment in FSN Brands and / or Nykaa Fashion for funding the set-up of new retail stores	420
Capital expenditure / Investment in Nykaa E-Retail, FSN Brands and Nykaa Fashion for funding the set-up of new warehouses	420
Repayment or prepayment of outstanding borrowings	1560
Expenditure to enhance the visibility and awareness of brands	2340

Source: Company, PL

## Nykaa focuses on Beauty and Fashion

Nykaa is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. The business operates across Beauty and personal care through the Nykaa brand and across Apparel and accessories through the Nykaa Fashion brand. Being an Omni channel player, both online and offline services are provided by Nykaa.

- **Beauty and Personal Care** is managed through an inventory led model. This approach ensures sourcing directly from brands or their authorized distributors in the country. This ensure authenticity of products is maintained. An inventory led model also ensures availability and timely delivery of products.
- **Fashion Segment** is operated as a curated and managed marketplace with custom-built scalable technology. Such a model lends capital efficiency for the fashion business where trends change quickly. Under the marketplace model, dispatches happen directly from the vendor's warehouse through one of Nykaa's delivery courier partners. This model ensures Nykaa doesn't maintain a large inventory itself thereby ensuring a wide assortment of offerings.

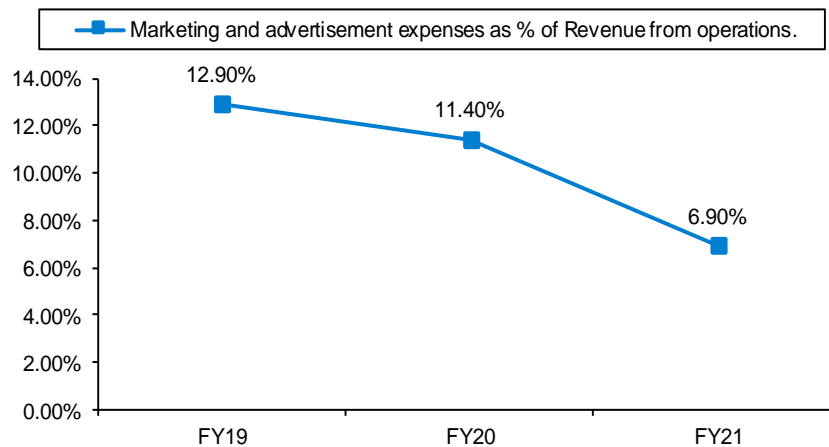
## Nykaa's Revenue Streams

- **Sale of products** – Revenue from transactions where we Nykaa directly sells goods purchased from suppliers or owned brands. Revenue from sale of products is measured on the transaction price, which is the consideration, adjusted for volume discounts, rebates, scheme allowances, price concessions, incentives, and returns, if any, as specified in the contracts with our consumers.
- **Sale of services** – Sale of services consist of (i) marketing support revenue and (ii) income from marketplace services.
  - **Marketing support revenue** includes (a) marketing income from visibility services provided to various brands at the retail outlets and (b) revenue from advertising services which allow brand relationships and sellers to place advertisements or show their products in particular areas of the websites and mobile applications at fixed or variable fees.
  - **Income from marketplace** represents commission fees charged to brand relationships or third party sellers for selling their products through Nykaa's managed marketplace primarily for fashion business. Marketplace commission is recognized on a net basis at the point of delivery of products to the buyers.
- **Other operating revenue** – Other operating revenue consists of (i) logistic services income (shipping and delivery charges) for the delivery of products (ii) Recognition of revenue on expiration of points under the reward points program.

### Efficient Cost management

- Marketing and advertisement expenses on a downtrend:** Marketing and advertisement initiatives help drive new customer acquisition and increase order frequency. Despite gaining prominence as a lifestyle retail platform, cost effectiveness depends on the ability to attract and retain consumers at reasonable marketing expenses. Marketing and advertisement spends declined significantly in FY21 mainly due to an increase in AOV and partially due to muted spend during 1HFY21 which will normalize going forward.

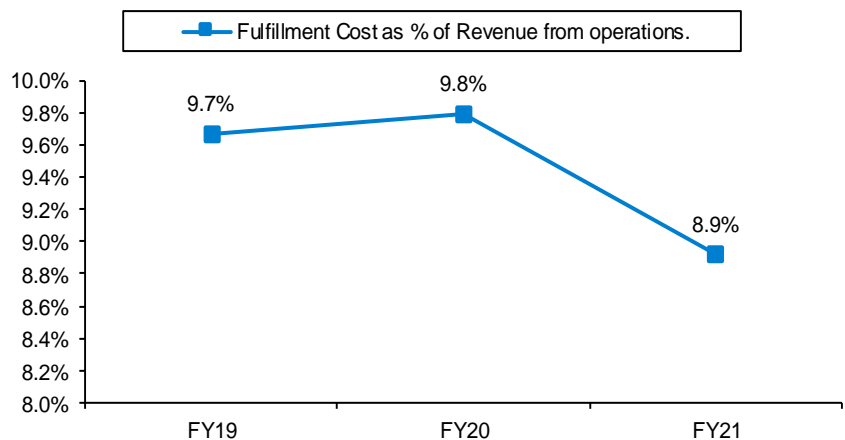
**Exhibit 3: Marketing spends on a declining trend**



Source: Company, PL

- Increased scale reducing fulfillment cost:** Fulfillment costs include freight, packaging costs and payment gateway charges for the products being delivered. Increasing number of orders ensures optimization of fulfillment costs due to improved terms on service fee with delivery partners. This has resulted in fulfillment costs increasing slightly from 9.7% in the FY19 to 9.8% in FY20 and then decreasing to 8.9% in the FY21.

**Exhibit 4: Increased scale helped lower fulfillment cost**

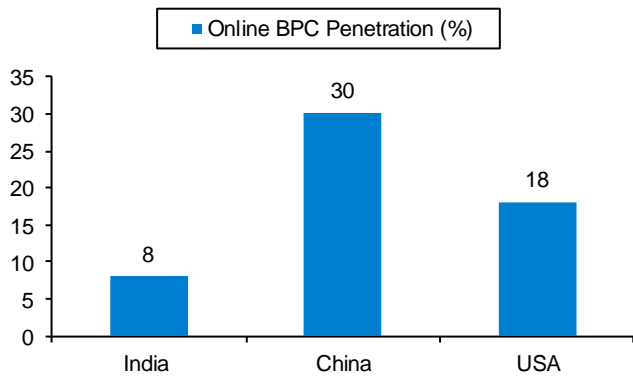


Source: Company, PL

## Key Growth Drivers of Nykaa

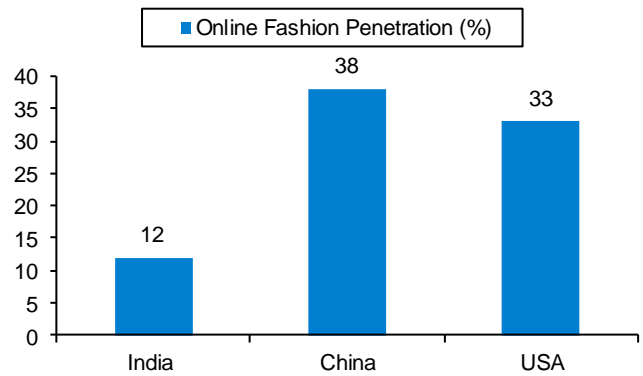
- Strong headroom for growth in Online BPC/Fashion markets:** Online BPC/Fashion markets, which accounts for majority of Nykaa's GMV continue to remain underpenetrated with levels of 8%/12%. With strong CAGR of 12% and 18% expected across BPC and Fashion segments upto FY25, we believe online BPC and Fashion markets will continue to grow at a faster pace due to improving penetration levels on the back of 1) increased digital adoption due to smartphone penetration, 2) inexpensive data pricing and 3) ease of online payments 4) rising adoption of e-commerce by Gen-Z and Millennials and 5) Growing online shopping penetration in Tier 2+ cities. Online BPC/Fashion penetration levels of 30%/38% in China and 18%/33% in USA offers strong headroom for growth.

Exhibit 5: Online BPC penetration remains in single digits



Source: Company, PL

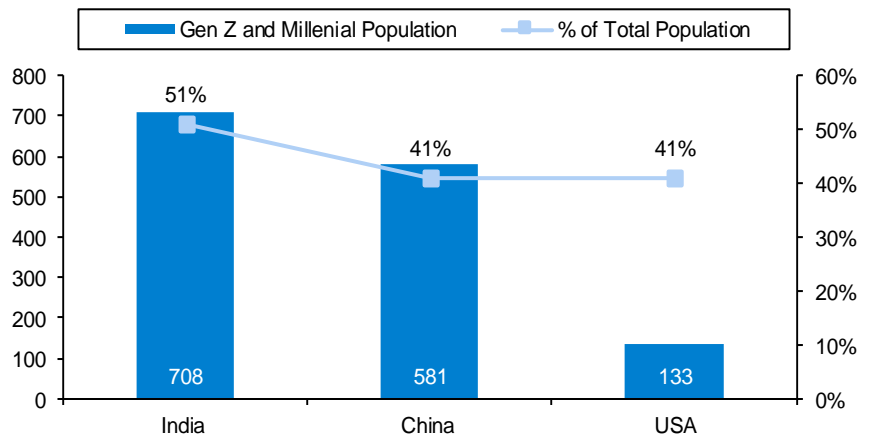
Exhibit 6: Fashion penetration remains at lower levels.



Source: Company, PL

- Increasing Gen –Z and Millennial Population:** India, one of the youngest nations in the world, has 708 mn of Gen-Z (375 mn) and millennials (333 mn) population, accounting for 51% of the Indian population (largest Gen-Z and millennials base globally). Gen-Z and millennials are considered biggest spenders with sophisticated make-up and skin care regime. They buy based on latest trends and are open to experimenting with newer products which bodes well for Nykaa as they offer an array of products cross segments.

Exhibit 7: India boast the largest Gen-Z and Millennials base globally



Source: Company, PL

- **Well positioned to overcome challenges faced by traditional channel:** Traditional physical BPC retail in India fails to address key consumer pain points like 1) Consumers often find their desired products to be out-of-stock at stores 2) Consumers are restricted to choose from limited products due to space constraint in stores 3) Increasing proliferation of counterfeit products, causing consumers to be unsure of the genuineness of the products 4) Prestige brands being sold via exclusive offline brand outlets or high-end multi-brand limiting consumer access.

Online platforms are able to address these by the use of technology in bringing efficiencies in the supply chain, quality control, access to a wider selection, original content and advice, door-step deliveries and wider geographic reach. BPC is well suited for online because of several characteristics unique to the category including high value density (high value, low volume), low perishability and high channel margins.

- **Exhaustive assortments and increased focus on curation and product discovery:** As discussed earlier, Traditional physical BPC retail in India face constraint on the assortment and inventory they are able to carry. Nykaa due to its Online model is able to differentiate itself by providing ~2.0 million SKUs across 3,826 brands thereby catering to the varying needs of the diverse consumer base.

The merchandising and curation strategy focuses on market fit products, ongoing demand and consumer trends which helps bring product collections that fit demand profile and at the same time churn out the products that are losing relevance.

Product discovery is also an important feature of the platform, where Nykaa leverages consumer activity across multiple parameters allowing it to show consumers personalized content and products across their shopping journey. Leveraging data science, Nykaa has developed robust personalization engines and customized product features, such as customized landing pages, personalized homepages, search and sort algorithms and recommendation engines to power the discovery experience.

- **Commitment to Authenticity:** Nykaa has developed systems and processes to ensure that the products sold on its platform are authentic, and build trust among consumers and brands. Nykaa sources its BPC products directly from brands or their authorized distributors in India allowing it to guarantee authenticity of products bought by consumers. Periodic quality checks are also conducted at warehouses. For fashion offering, it is ensured that the sellers being on-boarded are authorized resellers only.
- **Leveraging vast library of content to ease decision making:** BPC and fashion business are characterized by fragmented and wide assortment which often requires assistance in decision making through inspirational and educational transmedia content. Nykaa drives widespread product and influencer-led education through creative and entertaining content across video and written formats to help consumers with purchase decisions. Nykaa has created a strong content engine, which captures the latest trend in beauty, creates awareness among prospective consumers and allows brands to showcase their products and, in turn, generate revenues.

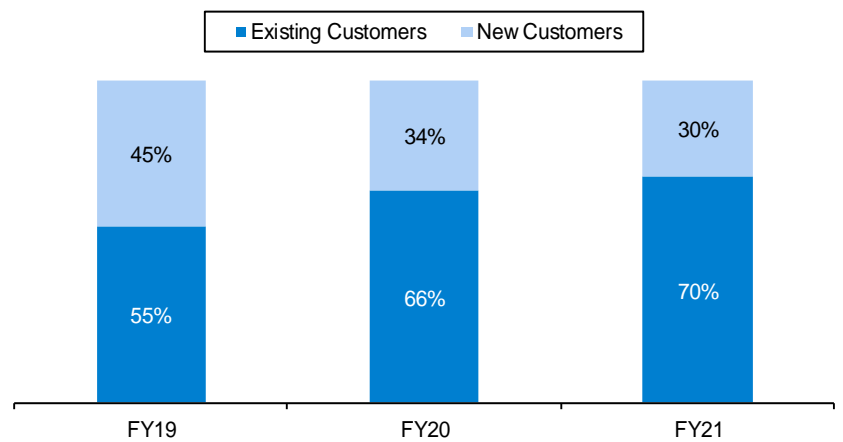
Content generation is undertaken in house through Nykaa Army, a team of employees who are beauty and fashion content creators. Apart from this, Nykaa has collaborated with 1,350+ influencers, through 'Nykaa Affiliate Program'. These influencers create content on Nykaa's behalf on various media platforms, and in turn, are paid a commission for the sales they drive.

Other initiatives include Nykaa TV, a YouTube channel with 1mn+ subscribers, Nykaa Network, a peer-to-peer social community and Nykaa Beauty Book and Style Files, beauty and fashion blogs with 598 articles published.

Nykaa has also launched Explore, an in-app content aggregation hub, that enables consumers to watch content and shop for the products featured in that content in real-time. Discovery algorithms are responsive to consumer preference based on their search and engagement behavior on the platform allowing Nykaa to tailor its vast content library to appeal to specific consumers.

- Sticky Customer Base:** Nykaa's value proposition has been built iteratively while innovating for consumer satisfaction as well as optimizing for purchase behavior. Through integration across touchpoints, Nykaa targets consumers and designs personalized browsing and purchase experiences to meet the diverse needs of consumers resulting in high level of loyalty for platform among consumers.

**Exhibit 8: Contribution to GMV by existing and Non existing customers**



Source: PL

- Omni channel shopping experience:** Beauty and personal care consumers prefer to shop across online channels and physical stores. Many of the products require a 'touch and feel' experience to arrive at a purchase decision and an Omni channel model helps provide superior consumer experience.

Physical stores provide the ability to interact with our consumers in an intimate way, driving engagement, excitement, and education amongst consumers. Nykaa employed 273 beauty and personal care advisors at physical stores, to personalize the offline shopping experience and leveraged their knowledge of product usage and efficacy, to drive product awareness and sales.

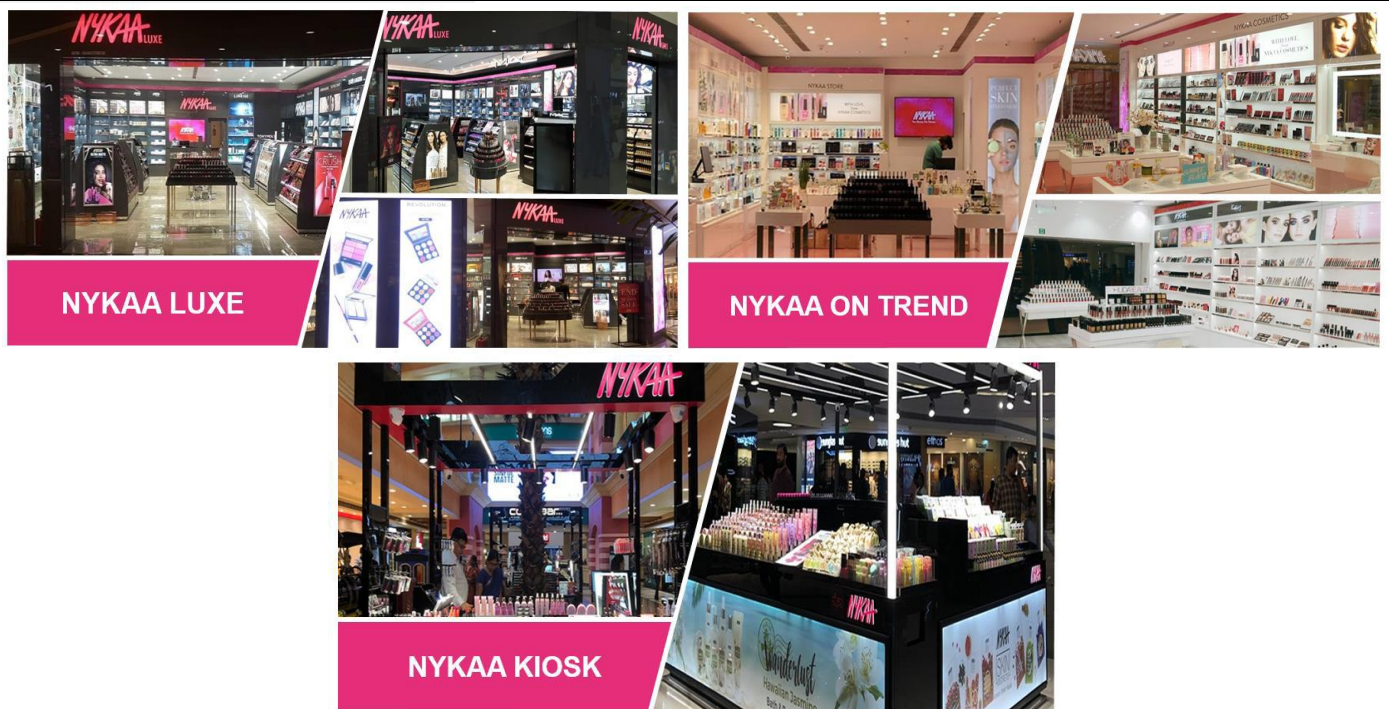
Since its first store in 2014, Nykaa now operates 80 stores in 40 cities across three formats:



- **Nykaa Luxe:** These store format offer luxury beauty experience. The format showcases prestige and luxury international and domestic brands.
- **Nykaa On-Trend:** These stores offer a differentiated experience for consumers with the current best-selling products chosen across beauty and personal care brands.
- **Nykaa Kiosks:** Nykaa Kiosks are free standing units usually in the atriums of shopping malls. They predominantly sell owned brands through these kiosks.

By giving consumers both physical and digital shopping experiences, Nykaa remains relevant at all the touchpoints. It also leverages Omni channel database of consumers to select store locations, design brand and assortment mix, direct traffic to stores, plan offline beauty events and marketing campaign. Physical stores have also helped in developing hyper-local delivery capability which allows using physical stores as last mile delivery hubs for online orders at select locations, improving speed of delivery and optimizing inventory by making it more fungible.

Exhibit 9: Various store formats adopted by Nykaa



Source: Company, PL

- **Deep, symbiotic relationship with brands has allowed Nykaa to emerge as a favorable vendor:** Nykaa’s sticky customer base, content led business model makes it a favored partner for several BPC brands. With a team of brand managers who work closely with brands to strategize and execute growth and brand building strategies as well as experience and in-depth understanding of the assortment of products, supported by consumer insights allows in forecasting trends, and tailor brand specific marketing and commercial strategies. Ability to leverage marketing channels to educate and influence consumers thereby driving effective marketing of brands has resulted in Nykaa emerging as a go-to platform for premium beauty and personal care brands to reach more evolved beauty and personal care consumers with several brands offering Nykaa exclusivity.



**Exhibit 10: Nykaa helped Charlotte Tilbury's offering be more relevant in India**



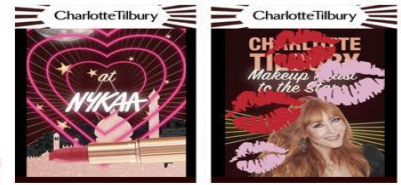
**Charlotte Tilbury - Localizing a Global brand to drive loyalty in a New Market**

With their desire to expand to new markets, Charlotte Tilbury appointed Nykaa as their distributor and retailer in India in 2020\*

Charlotte Tilbury launched on Nykaa in November 2020 with an online popup 'House of Tilbury' - an immersive virtual experience to discover best-selling products and learn about the brand's rich history.

To maximise local consumer relevance, Charlotte Tilbury and Nykaa created an Indian bridal look for the market during the wedding season. Leveraging Nykaa's vast network of celebrities and influencers to build amplification and buzz.

Charlotte Tilbury, through Nykaa has quickly established itself in a new market in a short span of time. On the day of its launch on Nykaa, the brand exceeded the jointly agreed target by over 50% and it continues to grow on our platform.



\*Currently Charlotte Tilbury is only available in India via Nykaa.com and in Nykaa Stores and is subject to the terms of the agreement between the parties.

Source: Company, PL

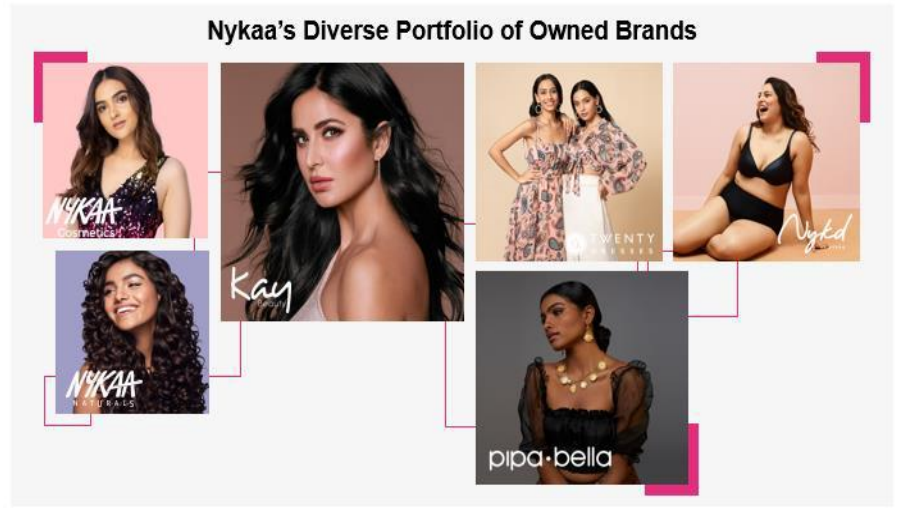
- Supply Chain expertise ensuring fulfilment and operational excellence:** Over the years Nykaa has strengthened its supply chain to successfully run a business dominated by large volumes of inventory. Today, Nykaa serves 24,817 pin codes, covering 86.4% of the serviceable pin codes across the country through 18 warehouses, with a storage space of 582,371 sq. ft. Use of allocation engine ensures efficient utilization of inventory across warehouses. Nykaa has also integrated supply chain with the warehouses of several sellers for fashion products sold through marketplace model. 94% of BPC orders and 72% of fashion orders were delivered within five days in 4QFY21.
- Portfolio of private labels to fill gaps in offerings:** Consumer insights collected by Nykaa enable it to identify gaps in the market and fill them through their owned brands. Many of the owned brands have a high recall and function as independent brands. The manufacturing for such brands is carried out by third party vendors.

Some of such owned brands are:

- Nykaa Cosmetics:** A comprehensive makeup and beauty accessories brand present across lips, face, nails, eyes and beauty tools.
- Nykaa Naturals:** A brand focused on naturally derived ingredients for skincare products such as bath and body offerings, masks and haircare.
- Kay Beauty:** Kay Beauty offers premium range beauty products across lips, eyes, face and nails categories.
- Twenty Dresses:** Apparel product line includes western wear across dresses, jumpsuits, tops, pants skirt as well as footwear, bags, and accessories.
- Nykd by Nykaa:** Nykd by Nykaa offers lingerie and includes bras, panties, sleepwear, shapewear and athleisure.

- **Pipa Bella:** Pipa Bella offers on-trend aesthetic jewelry such as earrings, necklaces, bracelets, rings and hair accessories.

**Exhibit 11: Nykaa's Diverse portfolio of owned brands**



Source: Company, PL

- **Strong Positioning among Luxury and prestige products:** In the recent years, Luxury and prestige products have grown ahead of mass products aided by increased disposable income, rise in aspirational BPC buying and improved access, and increased seeping by youth who prefer these products. There has been a proliferation towards prestige brands which benefits Nykaa, who is well positioned amongst prestige and luxury brands.

Nykaa accounts for the highest AOV among leading online beauty and personal care platforms in India and is the largest luxury beauty and personal care platform in India. A large number of leading luxury and prestige beauty and personal care brands retail with Nykaa, making it the shopping destination of choice in India for their products. Nykaa has tailored specific capabilities across marketing, technology, supply chain, fulfillment, and consumer service to create a differentiated ecosystem for such brands. Nykaa has set up Luxe stores as well as Luxe store mode on the app for luxury and prestige products while also segregating areas for such brands in their warehouses and offering premium packaging for these products to enhance the luxury shopping experience for the consumers.

These bespoke services, has caused several global luxury brands such as Charlotte Tilbury, Huda Beauty, Mario Badescu, Pixi and Tangle Teezer to allow Nykaa to import, launch and sell their products to consumers in India, allowing Nykaa to benefit from the fast growing luxury and prestige segments.

**Exhibit 12: Nykaa launched Huda Beauty in India**

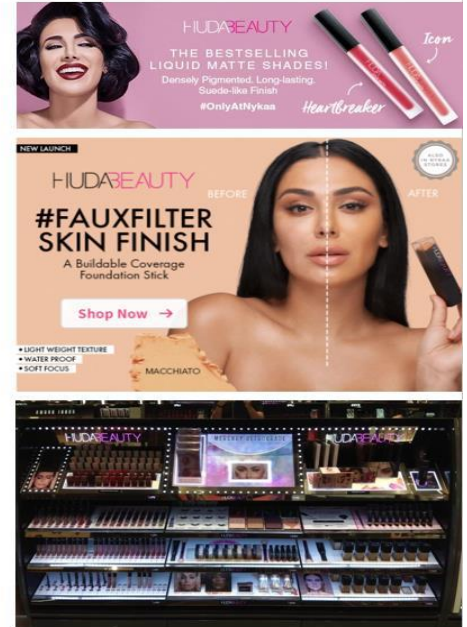


**Nykaa Launches Huda Beauty In India via Nykaa Imports...**

...To cater to India's Gen Z consumers growing desire for emerging, globally renowned brands.

An import brand is able to avail of a full suite of offerings provided by Nykaa. From regulatory aspects, to pricing & commercial strategy, and omnichannel distribution across both online, and its network of owned multi-brand stores. Nykaa's deep understanding of the Indian market and consumer, allows it to tailor a highly localized content and marketing strategy to build brand awareness.

Huda Beauty launched in India with Nykaa in January 2018. With ~6,000 Liquid Matte Lipsticks sold in 24 hours, Huda Beauty clocked the highest revenue for a brand on its launch day on our platform. Huda Beauty continues to be a leading luxury brand and over 300,000 unique customers have purchased a Huda Beauty product since launch. The brand is widely distributed across 69 Nykaa stores across Tier 1-3 cities. Given the success of this launch, Nykaa and Huda Beauty have deepened their relationship with the launch of Wishful and Kayali, both new skincare and fragrance brands from Huda Kattan.



Source: Company, PL

- Replicating learning from BPC to foray into fashion and expanding into lifestyle adjacencies:** Nykaa replicated its learning from BPC segment and leveraged its large beauty customer base to foray into fashion. Unlike the beauty vertical, which operates an inventory led model, Nykaa fashion operates as a curated and managed marketplace offering a wide assortment of offerings, across various price points, to cater to women, men and children of diverse demographics. Nykaa fashion boasts industry leading AOV of Rs 3977 and ~25% contribution to GMV in 5MFY22

Nykaa Fashion offers over 1.8 million SKUs across four consumer divisions: women, men, kids and home. Within these divisions, Nykaa merchandise western wear, Indian wear, lingerie, footwear, bags, jewelry, accessories, athleisure, home décor, bath, bed and kitchen in order to cater to the diverse consumers' journeys across the platform.

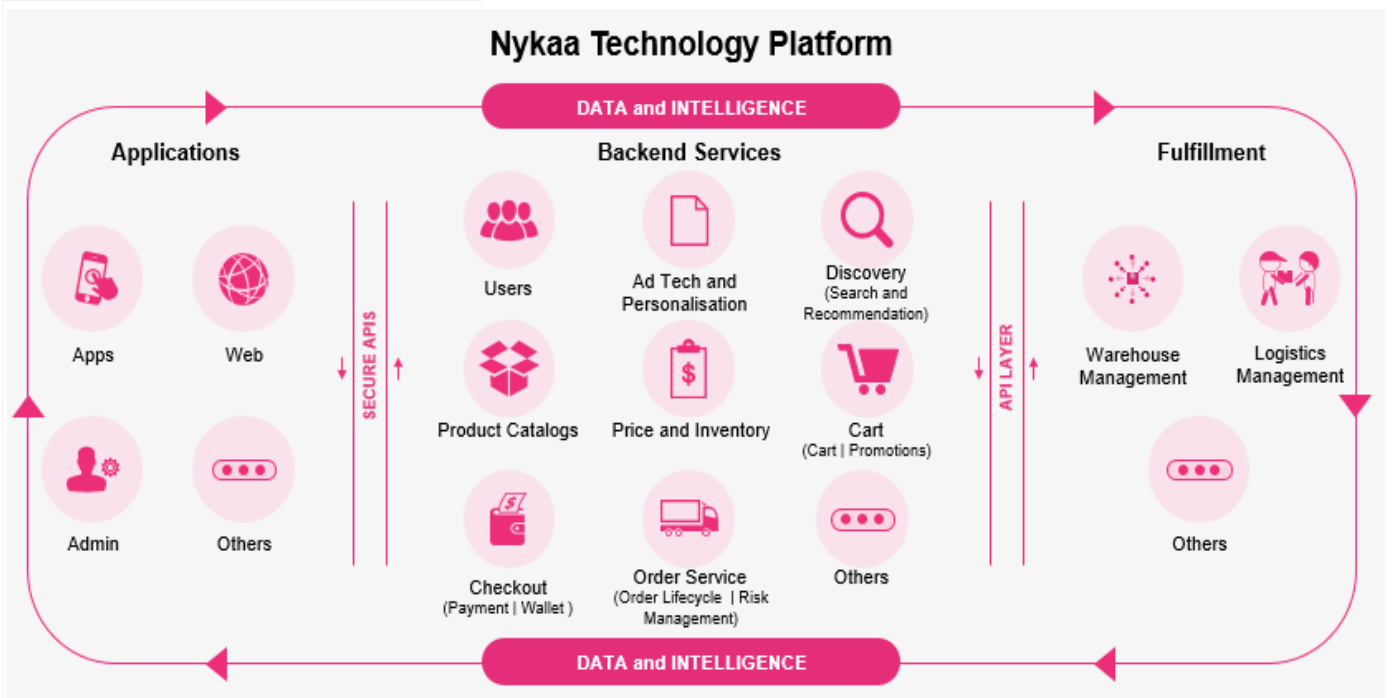
Nykaa identifies fashion-forward brands, vetting them for style and quality, and further select styles within these brands to offer. It also places importance on selling full-price products, reducing reliance on discounting, and selling the latest season's designs. 17.42% of fashion vertical GMV was sold at full-price.

Going forwards Nykaa intends to leverage its understanding and customized execution of multiple categories and sub-categories within lifestyle retail to foray into other lifestyle adjacencies and ensuring that the Nykaa platform becomes the single largest destination for lifestyle needs of diverse consumers.

- Strong Technology Backbone:** Nykaa has invested heavily in building its own platform and continues to evolve it keeping in mind not only today's challenges but also factoring for future agility. The Platform is a proprietary, custom built and component based that connects consumers, brand partners, influencers and internal teams, catering to the needs of different lifestyle businesses, and deliver a comprehensive Omni channel experience. The simple, fault-tolerant, scalable, maintainable and secure manner of building the platform has enabled Nykaa to efficiently launch new businesses or provide richer experiences to users within existing businesses.

Further, strong Data analytics capabilities allows consumption of a large amount of consumer data across multiple parameters and leveraging this information to create dynamic hyper-personalized experiences for consumers.

Exhibit 13: Layout of Nykaa's Technology platform

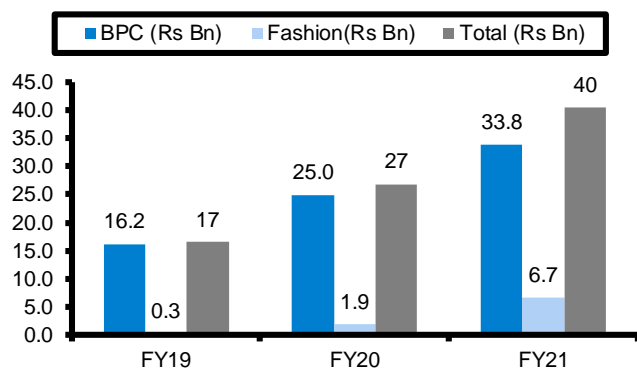


Source: Company, PL

## Analysis of Operating Metrics and Valuations

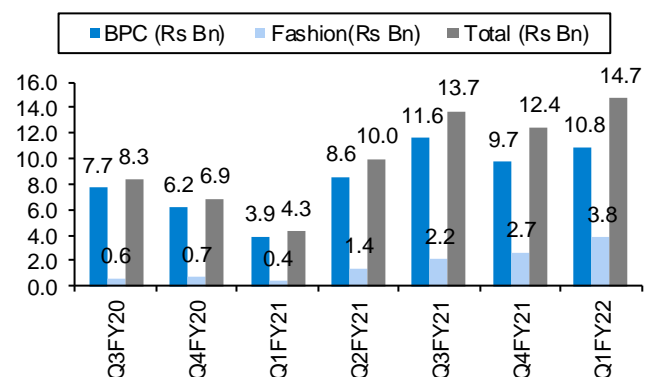
- Positive metrics to ensure profitable run continues:** Nykaa's key operating metrics have improved significantly over the years helping the company turn profitable. Key improvements across operating Metrics include:
  - GMV and number of Orders have grown significantly:** Nykaa has seen a strong ramp-up in its GMV from Rs16.5bn in FY19 to Rs40.5bn in FY21. Despite stores remaining shut during 1Q22, Nykaa recorded its highest GMV at Rs 14.7bn. Sharp increase in GMV portrays strong scaling up opportunity. Number of orders have also increased significantly from 11.4mn in FY19 to 19.5mn in FY21. Total orders for 1Q22 stood at 6.1mn despite the second wave of Covid, translating into annual orders of ~24mn considering 1Q22 run-rate.

**Exhibit 14: GMV ramp-up supported by increased scale**



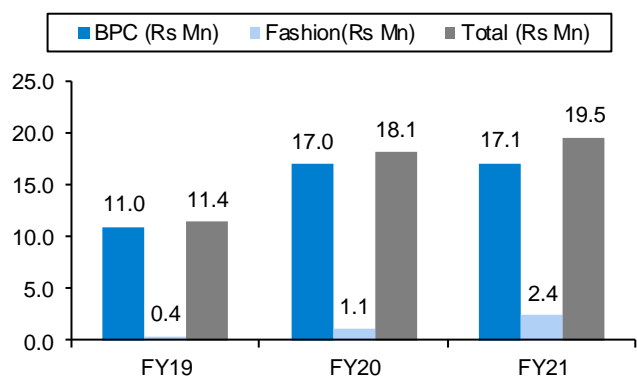
Source: Company, PL

**Exhibit 15: Highest GMV in 1Q22 despite second wave**



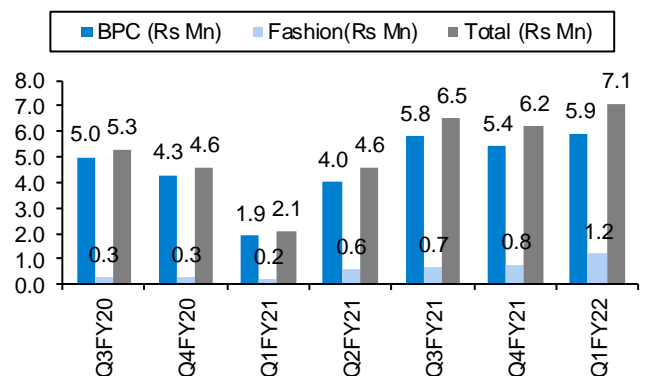
Source: Company, PL

**Exhibit 16: Order book grew at 31% CAGR over FY19-21**



Source: Company, PL

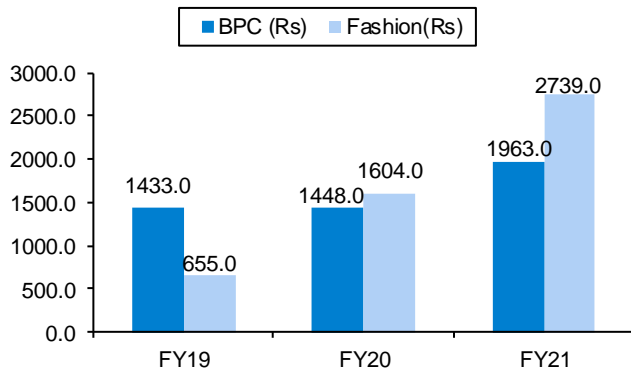
**Exhibit 17: Highest Qtrly orders during 1Q22**



Source: Company, PL

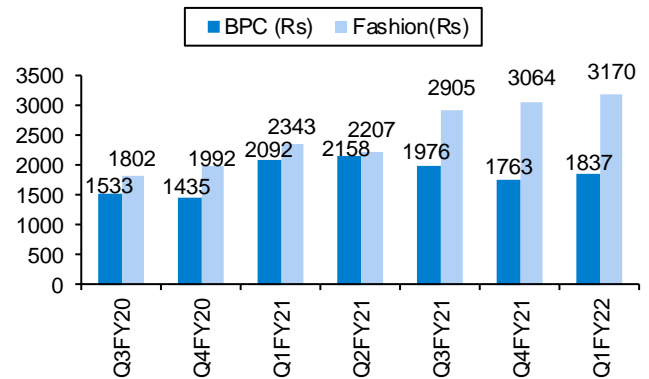
- AOV continues to expand:** Nykaa's BPC AOV has increased from Rs 1433 in FY19 to Rs 1963 in FY21 mainly due to AOV's of ~2100 in 1H21 as threshold for free shipping in BPC was increased due to supply chain disruptions. Once the restrictions eased, AOV's normalized to ~1800 levels for 2HFY21 still above pre covid levels. AOV's for fashion increased from Rs 655 in FY19 to Rs2,739 in FY21 while 5MFY22 AOV stands Rs 3977. Increase in fashion AOV is due to addition in new categories and introduction of new consumer divisions like Men and Kids.

**Exhibit 18: COVID has helped improve AOV's**



Source: Company, PL

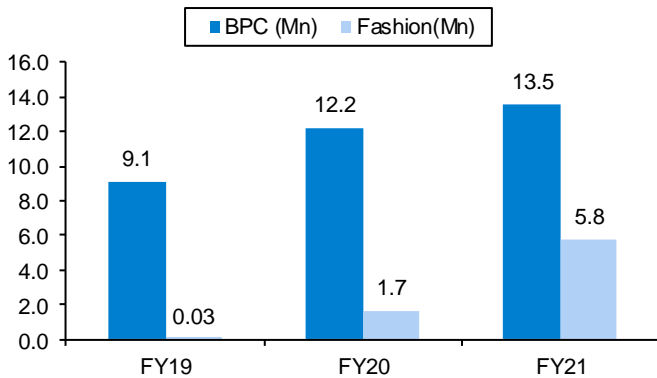
**Exhibit 19: Fashion continues to boost overall AOV**



Source: Company, PL

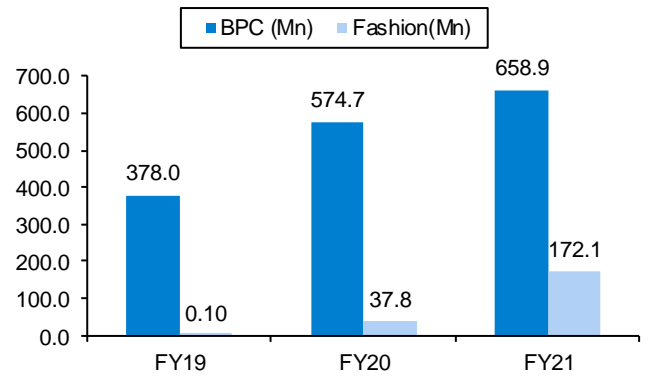
- Increase in monthly average unique visitors and visits on Nykaa's various platforms:** Monthly average unique visitors have been increasing over the years across both BPC and fashion verticals on account of 1) Increased smartphone penetration 2) Drop in data costs 3) Increased trust on online brands 4) Increased acceptance in Tier2+ cities and 5) Ease in making online payments. Increased Average unique customers has translated into higher number of visits on Nykaa's platforms.

**Exhibit 20: Monthly avg unique visitors on a rising trend**



Source: Company, PL

**Exhibit 21: Number of visits significantly increased YoY**



Source: Company, PL

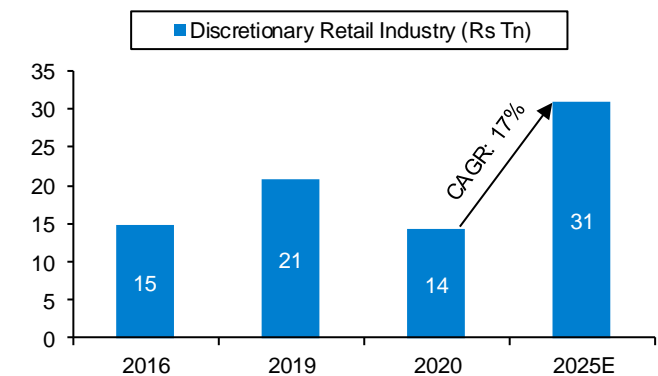
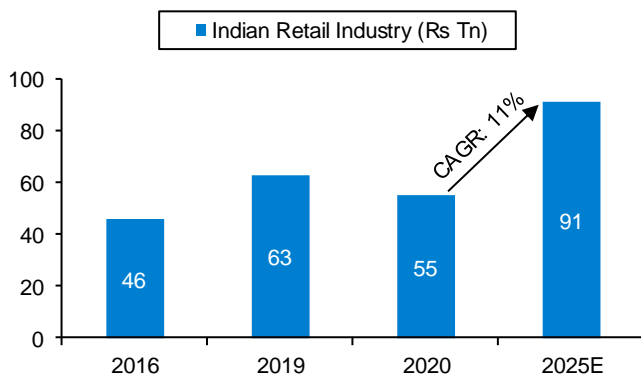


## Industry Snapshot

- Indian Retail Industry** was sized at Rs 63tn in 2019, however the sector was significantly impacted by the first wave of COVID-19 as both the supply and demand were adversely affected leading to 14% decline in the retail market size in 2020. Discretionary portion saw a sharper decline of 32% in 2020, led by the decline in spending on non-essential products. With relatively limited impact due to second wave in 2021. Discretionary retail is set to make a recovery and register healthy growth in the future years to grow at a CAGR of 17% to reach approximately ₹31 trillion by 2025 while overall retail is expected to grow at a CAGR of 11% to reach approximately ₹91 trillion by 2025

Exhibit 22: Indian Retail to grow at 11% CAGR over CY20-25

Exhibit 23: Discretionary Retail to reach Rs31Tn by 2025

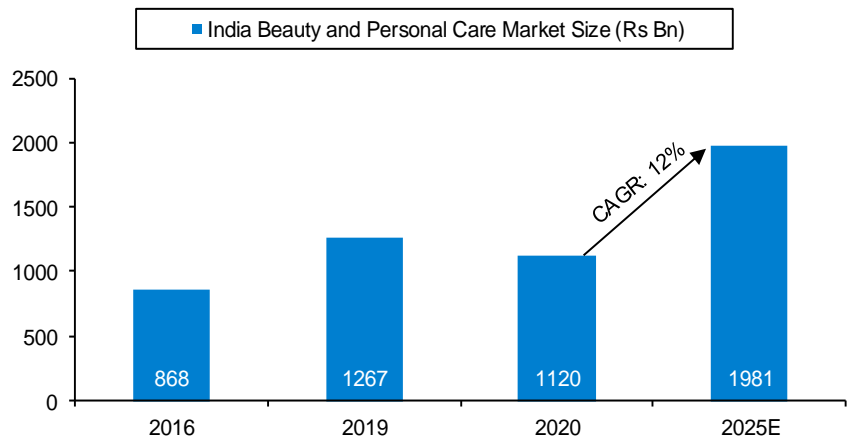


Source: Company, PL

Source: Company, PL

- Indian Beauty and Personal Care Market:** The BPC Market in India was sized at Rs 1,267 bn in 2019, however the market fell to Rs 1,120 bn in 2020 on the back of reduced spending during the first COVID-19 wave. Indian BPC market is projected to grow at a CAGR of 12% to reach Rs 1,981 bn by 2025 (7.7% CAGR from pre-COVID levels) with strong growth drivers in place like
  - Growth in BPC Spend by Youth**, whose buying behavior is different from traditional shoppers with inclination towards prestige products
  - Increasing BPC Spend from Non-Metro Cities** enabled by rising disposable income, aided by an increasing female workforce participation, increasing popularity and growing influence of social media, and lifestyle changes
  - Rise in Popularity of Online Content-led Discovery** providing a significant push to the market as the Gen-Z and millennial consumers, the most active BPC buyers, are also the active consumers of online content on social media platforms.
  - Emergence of the Prestige BPC Segment** aided by increased disposable income, rise in aspirational BPC buying and improved access.
  - Growth of Men's Segment:** Spending on BPC by men was significantly lower than that of women. However, in recent years, men have become more aware and conscious of their looks and hygiene, and have demonstrated a keen interest in BPC categories (beyond shaving) like shower gels, face wash and body lotions.

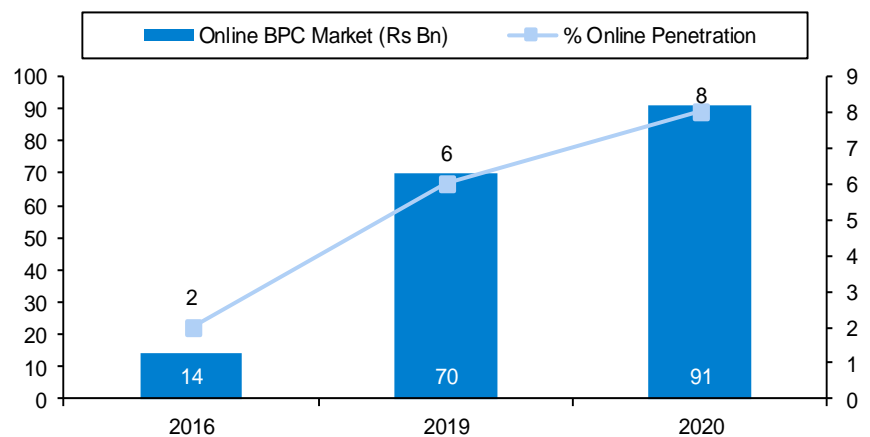
**Exhibit 24: India BPC Mkt to grow at 12% CAGR to reach Rs 1981bn by CY25**



Source: Company, PL

- India Online Beauty and Personal Care:** Indian online BPC market stood at Rs 14bn in 2016 accounting for 2% of the Indian BPC market. However, Online BPC has been gaining prominence over the years due to its ability to resolve challenges faced by consumers and brands with the help of 1) superior application of technology 2) efficient supply chain & quality control and 3) access to a wider selection of products and brands. This has resulted in share gains for online BPC, whose market share increased to 6% in 2019 and 8% in 2020. With growing online shopping penetration in Tier 2+ cities, consistent investment for growth of the sector and rising affinity for branded products available online, market shares for online BPC are expected to expand at faster levels as they are much lower than developed markets like USA (15-20%) and China (25-35%).

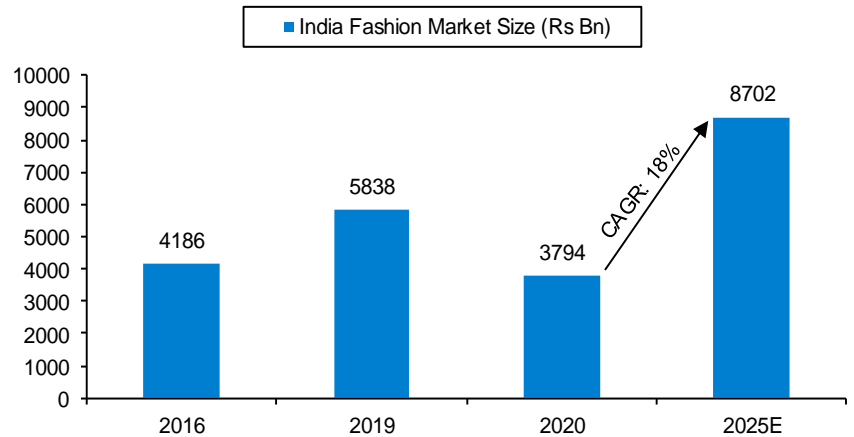
**Exhibit 25: Online BPC continues to remain underpenetrated**



Source: Company, PL

- Indian Fashion Market:** The Fashion Market in India was sized Rs 4,186 bn in 2016, constituting more than 9% of the retail market. Apparel accounted for approximately 80% of this market and footwear and accessories combined covered the remaining 20%. The Fashion Market grew at a 12% CAGR over the next three years to reach Rs 5,838 bn in 2019 but declined 35% in 2020 due to reduction in discretionary spending and disruption in supply chain due to COVID. With lockdown restrictions easing and demand picking up strongly, Fashion market is expected to recover strongly and grow at 18% CAGR over CY20-25 to reach Rs 8,702 bn. Apparel is expected to remain dominant with 73% market share.

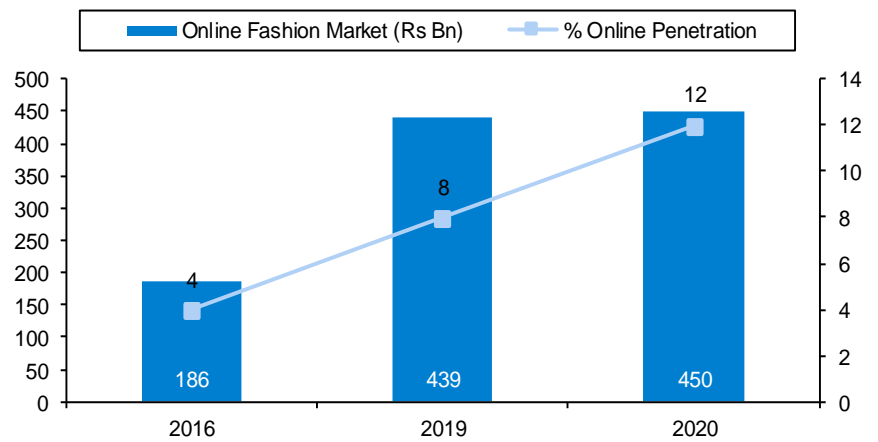
**Exhibit 26: Indian Fashion Mkt expected to grow at 18% CAGR over CY20-25**



Source: Company, PL

- India Online Fashion Market:** Online fashion sector in India has grown at promising 25% CAGR in the last four years, penetrating 12% of the India Fashion Market in 2020. The rapid growth was led by 1) growing online shopper base in Tier 2+ cities 2) digital maturity of Generation Z and Millennial consumers 3) Impact of social media influencers to enable effective product discovery and 4) strong emergence of digital-first brands. With current penetration levels considerably lower than developed countries like USA (30-35%) and China (35-40%), we believe there is a huge runway for growth.

**Exhibit 27: Online Fashion continues to remain underpenetrated**



Source: Company, PL

## Financials

**Exhibit 28: Income Statement (Rs mn)**

Y/e March	2019	2020	2021	1QFY22	1QFY21
<b>Net Sales</b>	<b>11,114</b>	<b>17,675</b>	<b>24,409</b>	<b>8,170</b>	<b>2,886</b>
<i>Change (%)</i>		59.0	38.1	183	
Material Consumed	6,603	10,142	14,878	4,853	2,153
<b>Gross Profit</b>	<b>4,511</b>	<b>7,533</b>	<b>9,531</b>	<b>3,317</b>	<b>733</b>
<i>Gross Margin %</i>	40.6	42.6	39.0	40.6	25.4
Operating expenses	4,306	6,723	7,916	3,047	1,187
<b>EBITDA</b>	<b>205</b>	<b>811</b>	<b>1,614</b>	<b>269</b>	<b>-453</b>
<i>Change (%)</i>		295.4	99.2		
<i>Margin (%)</i>	1.8	4.6	6.6	3.3	-15.7
Depreciation	309	595	671	195	146
Int. and Fin. Ch.	263	443	307	90	87
Other Non-recurring Inc.	50	103	118	47	24
<b>PBT</b>	<b>-317</b>	<b>-124</b>	<b>754</b>	<b>31</b>	<b>-662</b>
<i>Change (%)</i>		-60.9	-706.9		
<i>Margin (%)</i>	-2.9	-0.7	3.1	0.4	-22.9
Tax	-72	39	134	-4	-117
<i>Tax Rate (%)</i>	22.6	-31.5	17.8	-11.8	17.7
<b>Adjusted PAT</b>	<b>-245</b>	<b>-163</b>	<b>620</b>	<b>35</b>	<b>-545</b>
<i>Change (%)</i>		-33.5	-479.5		
<i>Margin (%)</i>	-2.2	-0.9	2.5	0.4	-18.9
<b>Reported PAT</b>	<b>-243</b>	<b>-162</b>	<b>598</b>	<b>35</b>	<b>-545</b>

Source: Company, PL

**Exhibit 29: Balance Sheet (Rs mn)**

<b>Y/e March</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Property, Plant and Equipment	429	701	687
Right of Use Asset	859	1,440	1,389
Goodwill	1	1	5
Intangible Assets	106	127	230
Capital work in progress	3	8	20
Intangible Assets under Development	0	12	4
<b>Financial Assets</b>			
Investments	32	38	13
Loans	56	106	162
Other Non Current Assets	17	39	14
Deferred Tax Asset	501	506	780
Income Tax Asset	110	110	86
<b>Current Assets</b>			
Inventories	2,446	4,453	4,981
<b>Financial Assets</b>			
Investments	1,350	0	0
Trade receivables	579	984	766
Cash and Bank Balances	119	1,756	2,477
Loans	0	0	0
Other Financial Assets	515	333	574
Other Current Assets	630	628	832
<b>Total Assets</b>	<b>7,757</b>	<b>11,245</b>	<b>13,019</b>
<b>Equity</b>			
Equity share Capital	142	146	151
Other Equity	2,161	3,073	4,767
<b>Total Networth</b>	<b>2,303</b>	<b>3,218</b>	<b>4,918</b>
<b>Non-Controlling Interest</b>	<b>5</b>	<b>7</b>	<b>8</b>
<b>Non-Current Liabilities</b>	<b>789</b>	<b>1,357</b>	<b>1,164</b>
<b>Financial Liabilities</b>	<b>765</b>	<b>1,304</b>	<b>1,091</b>
Borrowings	1	2	17
Lease liabilities	764	1,303	1,074
Provision	24	53	73
<b>Current Liabilities</b>	<b>4,657</b>	<b>6,659</b>	<b>6,948</b>
<b>Financial Liabilities</b>	<b>4,432</b>	<b>6,424</b>	<b>6,248</b>
Borrowings	2,255	2,673	1,858
Trade and other Payables	1,818	3,133	3,162
Lease liabilities	85	147	378
Other Financial liabilities	275	471	850
Short term Provisions	0	1	108
Contract Liability	102	149	169
Income Tax Liability	0	3	247
Other Current liabilities	122	83	175
<b>Total Equity and Liabilities</b>	<b>7,755</b>	<b>11,245</b>	<b>13,019</b>

Source: Company, PL

**Exhibit 30: Cash Flow (Rs mn)**

<b>Y/e March</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
OP/(loss) before Tax	-124	754	1,413
Depreciation and Amort.	595	671	811
Interest Paid	443	307	276
Non-Current Adjustments	491	-488	-343
Direct Taxes Paid	-39	-134	-297
Incr in WC	-645	349	-2,191
<b>CF from Operations</b>	<b>721</b>	<b>1,459</b>	<b>-330</b>
Incr in FA	-1,487	-716	-1,022
Pur of Investments	1,345	25	-4,155
<b>CF from Invest.</b>	<b>-142</b>	<b>-691</b>	<b>-5,178</b>
Issue of Shares	1,086	1,082	8,480
Borrowings/(Repayments)	419	-800	-1,560
Interest paid	-443	-307	-276
Others	-4	-23	22
<b>CF from Fin. Activity</b>	<b>1,058</b>	<b>-48</b>	<b>6,667</b>
<b>Incr/Decr of Cash</b>	<b>1,636</b>	<b>720</b>	<b>1,159</b>
Add: Opening Balance	119	1,756	2,477
<b>Closing Balance</b>	<b>1,756</b>	<b>2,476</b>	<b>3,636</b>

Source: Company, PL

**Exhibit 31: Key Ratios**

<b>Y/e March</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Valuation (x)</b>			
EV/GMV	9.8	6.1	4.2
EV/Sales	14.5	9.3	6.9
EV/EBITDA	785.5	203.1	104.6
<b>Return Ratios</b>			
RoE	-21.3	-5.9	15.2
RoCE	-4.7	11.5	26.1
<b>Margins</b>			
Gross Margin (%)	40.6	42.6	39.0
EBITDA Margin (%)	1.8	4.6	6.6

Source: Company, PL



**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,675	3,002
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,852	1,532
7	Crompton Greaves Consumer Electricals	BUY	530	451
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,400	1,286
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,501	19,368
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

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<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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