

FSN E-Commerce Fashion Ventures Limited

“Nykaa”



FSN E-Commerce Fashion Ventures Limited

Issue Opens On
October 28, 2021

Issue Closes On
November 1, 2021

Price Band (INR)
1,085-1,125

Issue Size (INR Mn)
53,520

Rating
SUBSCRIBE

FSN E-Commerce Fashion or “Nykaa” is a multi-brand beauty, personal care and fashion platform. Nykaa is founded and promoted by Falguni Nair, a former managing director at Kotak Mahindra Capital Company. The brand name Nykaa is derived from the Sanskrit word nayaka, meaning ‘one in the spotlight’. In 2015, Nykaa expanded from online only to an Omni channel company and began selling products apart from Beauty. Going forward, Nykaa has plans to foray into international market and expand its presence in Middle East and Europe. Nykaa also plans to open more retail stores, setting up warehouses and reduce its borrowings which augurs well for the company in long term.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	4,77,94,882
Net offer (# shares)	4,77,94,882
Price band (INR)	1,085-1,125
Post issue MCAP (INR Mn)	5,32,290

Source: IPO Prospectus

Issue	# Shares	INR in Mn	%
QIB	3,39,71,162	38,218	75%
HNI	67,94,232	7,644	15%
Retail	45,29,488	5,096	10%
Employee	2,50,000	2,562	-
Net Offer	4,77,94,882	53,520	100%

Source: IPO Prospectus

Indicative Timetable

Offer Closing Date	November 1, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 8 th Nov 2021
Initiation of Refunds	On or about 9 th Nov 2021
Credit of Equity Shares to Demat accounts	On or about 10 th Nov 2021
Commencement of Trading of Equity shares on NSE	On or about 11 th Nov 2021

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose

Investment in Subsidiaries, namely, FSN Brands and / or Nykaa Fashion for set-up of new retail stores (INR 420Mn)

Capital expenditure to be incurred in Subsidiaries, namely, Nykaa E-Retail, Nykaa Fashion and FSN Brands for set-up of new warehouses (INR 420 Mn)

Expenditure to acquire and retain customers by enhancing the visibility and awareness of our brands (INR 2,340 Mn)

Repayment or prepayment, in full or in part, of certain borrowings availed by Nykaa and its Subsidiary Nykaa E-Retail (INR 1,560 Mn)

General corporate purposes [●]

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	54.22%	52.54%
Others	45.78%	47.46%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Mn)	FY19	FY20	FY21	Q1FY21	Q1FY22
Gross Merchandise Value (GMV)	16,501	26,849	40,460	4,338	14,696
Revenue	11,114	17,675	24,409	2,886	8,170
EBITDA	205	810	1,614	(453)	269
EBITDA Margin (%)	1.8%	4.6%	6.6%	-15.7%	3.3%
PAT	(245)	(166)	619	(545)	35
PAT Margin (%)	(2.2%)	(0.9%)	2.5%	(18.9%)	0.4%

Source: IPO Prospectus

Company Overview

FSN E-Commerce Ventures Limited or “Nykaa“, incorporated in 2012, is a multi-brand beauty, personal care and fashion platform. Nykaa is founded and promoted by Falguni Nair, a former managing director at Kotak Mahindra Capital Company. The brand name Nykaa is derived from the Sanskrit word nayaka, meaning ‘one in the spotlight’. In 2015, Nykaa expanded from online only to an Omni channel company and began selling products apart from Beauty.

In 2018, the company launched Nykaa man, India's first multi-brand ecommerce store for men's grooming. The company expanded into fashion by launching Nykaa Design Studio, which was renamed to Nykaa Fashion. In 2020, Nykaa launched Nykaa PRO. It is a premium membership program that provides users special access to professional beauty products and offers via the Nykaa App. In Dec 2020, Nykaa Fashion launched its first store in Delhi, making the fashion business Omni channel.

Since 2012, Nykaa has raised money through multiple rounds of funding. In March 2020, it raised INR1,000 Mn (US\$13 million) from Steadview Capital, thus making it a unicorn startup valued at INR85 billion (US\$1.1 billion). In October 2020, Bollywood actresses Alia Bhatt and Katrina Kaif invested undisclosed amounts in the company through secondary funding.

Nykaa follows an inventory-based model in Beauty and Personal Care with warehouses in Mumbai, New Delhi, Pune, Haryana, Kolkata and Bangalore and in Fashion it doesn't carry inventory and pushes orders directly to partners. Nykaa's online channels include mobile applications, websites and mobile sites. As of August 31, 2021, the company had cumulative downloads of 55.8 million across all its mobile applications and during the five months ended August 31, 2021, 88.2% of its online GMV came through our mobile applications.

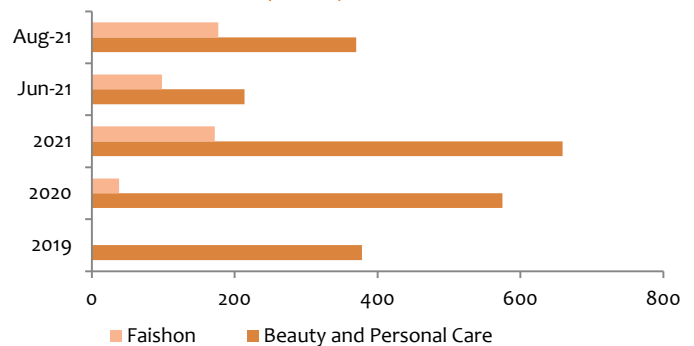
Nykaa's offline channel comprises of 80 physical stores across 40 cities in India over three different store formats, Nykaa Luxe, Nykaa On Trend and Nykaa Kiosks, as of August 31, 2021. As of August 31, 2021, the company offered approximately 3.1 million SKUs from 4,078 national and international brands to its consumers across business verticals.

Gross Merchandise Value (in INR Mn)



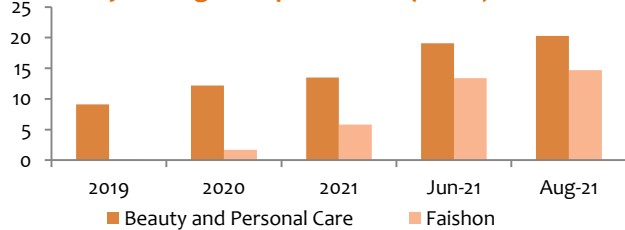
Source: IPO Prospectus, KRChoksey Research

Number of Visits (in Mn)



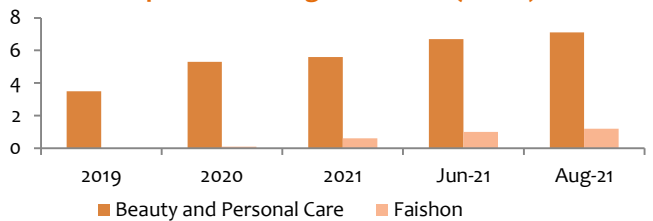
Source: IPO Prospectus, KRChoksey Research

Monthly Average Unique Visitors (in Mn)



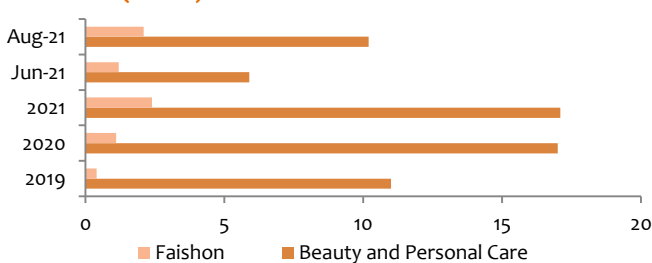
Source: IPO Prospectus, KRChoksey Research

Annual Unique Transacting Customers (in Mn)



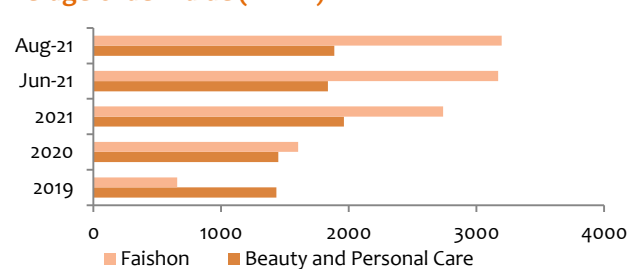
Source: IPO Prospectus, KRChoksey Research

Orders (in Mn)



Source: IPO Prospectus, KRChoksey Research

Average Order Value (in INR)



Source: IPO Prospectus, KRChoksey Research

INDUSTRY OVERVIEW

Indian Retail market was valued at INR 55 trillion in 2020 which is expected to reach INR 91 trillion by 2025. The Retail market grew at a CAGR of 5% over the last four years driven by rising middle class, soaring income levels, increased spending by youth, increasing demand from Tier III & IV cities and rural markets, improvement in infrastructure and entry of new domestic as well as global brands.

The industry was impacted by covid-19 in 2020 but it is expected to bounce back strongly as the impact of pandemic eases and grow at a CAGR of 11% to reach INR 91 trillion in 2025.

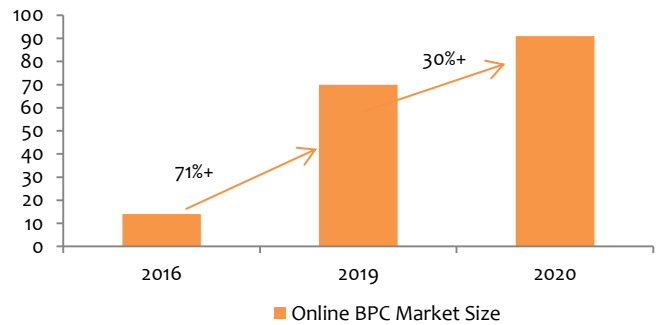
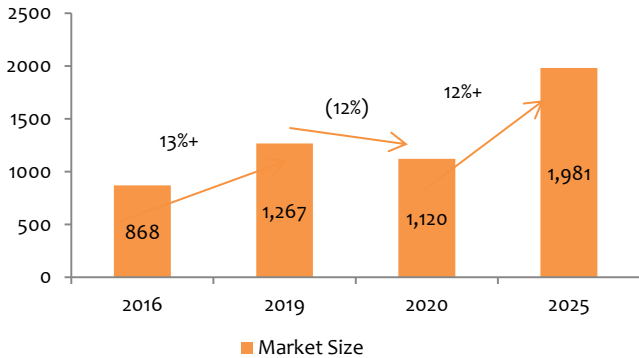
The discretionary (excluding the essential categories like food and grocery and pharma) portion of the retail market was sized at INR 21 trillion in 2019. The discretionary portion saw a sharper decline of 32% in 2020, led by the decline in spending on non-essential products. Discretionary retail is set to make a recovery and register healthy growth in the future years to grow at a CAGR of 17% to reach approximately INR 31 trillion by 2025.

The Beauty and Personal Care (BPC) Market in India was sized at INR 1,267 billion in 2019, growing at a CAGR of 13% in the last 3 years. Though the market fell down to INR 1,120 billion in 2020 as a result of reduced spending during the first covid-19 wave, it is projected to grow at a CAGR of 12% to reach INR 1,981 billion in 2025 implying a CAGR of 7.7% from the pre-covid market in 2019.

Online Beauty and Personal Care market in India has grown at 60% CAGR in last four years. Online channel accounted for 2% of India Beauty and Personal Care in 2016 which increased to 8% of the India Beauty and Personal Care market in 2020.

Indian Beauty and Personal Care market (in INR Bn)

Indian Online Beauty and Personal Care market (in INR Bn)



Source: IPO Prospectus, KRChoksey Research

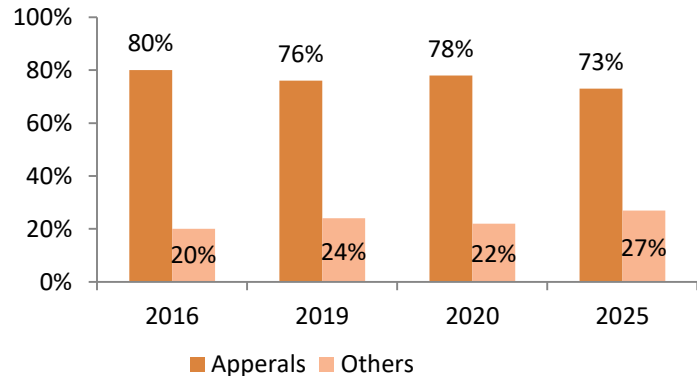
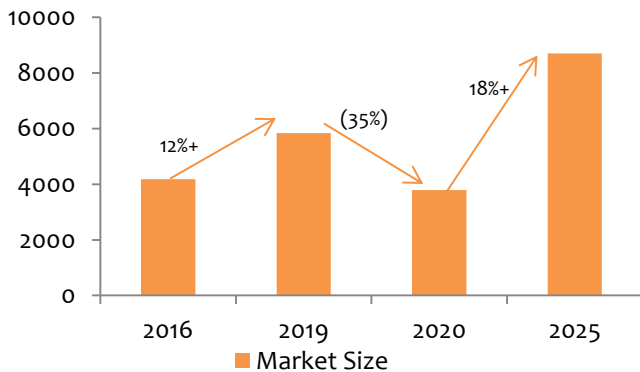
Source: IPO Prospectus, KRChoksey Research

The Indian Fashion market was valued at INR 4,186 billion in 2016, constituting more than 9% of the retail market. The Fashion Market grew at a 12% CAGR over the next three years to reach INR 5,838 billion in 2019. It declined by 35% in 2020 during the first wave of covid-19, driven by the reduction in discretionary spending and disruption in supply chain due to the lockdown.

The Fashion Market in India is projected to recover strongly and grow at 18% CAGR over the next five years to reach INR 8,702 billion by 2025. Apparel are projected to continue driving approximately 73% of the market in 2025. 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.

India Fashion Market size (in INR Bn)

India Fashion Market (Apparel and Others)



Source: IPO Prospectus, KRChoksey Research

Source: IPO Prospectus, KRChoksey Research

INVESTMENT RATIONALE

Large addressable market

Nykaa has a total addressable market across beauty and personal care and fashion of INR 4,914 billion which is expected to grow to INR 10,683 billion (US\$152 billion) by 2025. Nykaa has a large BPC market opportunity of INR 1,120 billion (US\$16 billion) growing at 12% per annum to INR 1,981 billion (US\$28 billion) in 2025. Nykaa’s fashion opportunity of INR 3,794 billion (US\$54 billion) is expected to grow at 18% per annum to INR 8,702 billion (US\$124 billion) in 2025. The growth will be driven by market shift towards the organized sector, high growth of e-commerce due to increased internet penetration, growing wallet share for beauty, personal care and fashion products and increased spending leading to subsequent premiumisation across categories.

Headroom for further penetration in Indian market

India’s online channel accounted for ~8% of BPC market and ~12% of Fashion market in FY21. Though the penetration has improved over the last four years but it is comparatively lower than the developed markets such as the United States (20-25%) and China (35-40%). India has the largest population base of Generation Z and Millennials in the world and are digitally native, spend more time online and are conscious of new lifestyle trends. They are capable of buying lifestyle products on a regular basis as their income grows. The demand from these next generation customer’s will help India increase penetration of online channel in BPC and Fashion market.

Wide range of product offering

In BPC, Nykaa offers 256,149 SKUs from 2,644 brands primarily across make-up, skincare, haircare, bath and body, fragrance, grooming appliances, personal care, and health and wellness categories. Nykaa’s portfolio includes domestic brands, international brands, luxury and prestige brands, premium brands, niche and cult brands. Nykaa manufactures beauty and personal care products through third party manufacturers under owned brands such as “Nykaa Cosmetics”, “Nykaa Naturals” and “Kay Beauty”.

In Fashion, Nykaa offers 2.8 million SKUs from 1,434 brands across four consumer divisions – women, men, children and home. Nykaa Fashion also has seven owned brands which are available on Nykaa’s online channel and at one physical store, and at third party retailers for many brands.

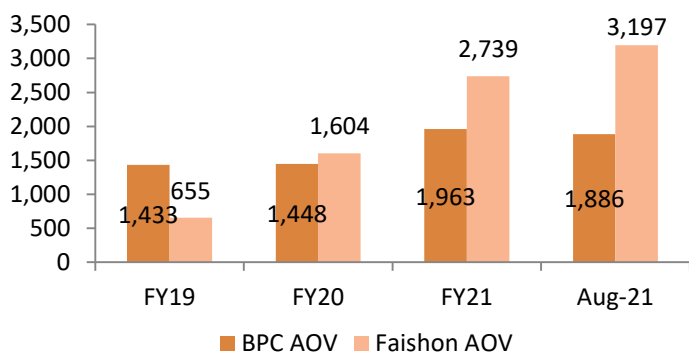
Strong customer base

Nykaa’s strength lies in its ability to retain its customers which resulted in healthy growth in GMV over the years. In FY21, contribution to GMV from existing customers on BPC website and mobile application was 70% as against 55% in FY19. Nykaa offers range of services to its BPC customers through ‘Nykaa Prive’. As of March 2021 there are 2.1 Mn Nykaa Prive members. Through its content led offering Nykaa has managed to increase its monthly average unique visitors in BPC to 20.3 Mn in 5MFY22 from 12.2 Mn in FY20. The annual transacting customers in the BPC segment has also improved from 5.3 Mn in FY20 to 7.1 Mn in 5MFY22.

In the Fashion offering the monthly unique visitors increased to 14.7 Mn in 5MFY22 from just 1.7 Mn in FY20. The annual transacting customers has also improved from 0.1 Mn in FY20 to 1.2 Mn in 5MFY22.

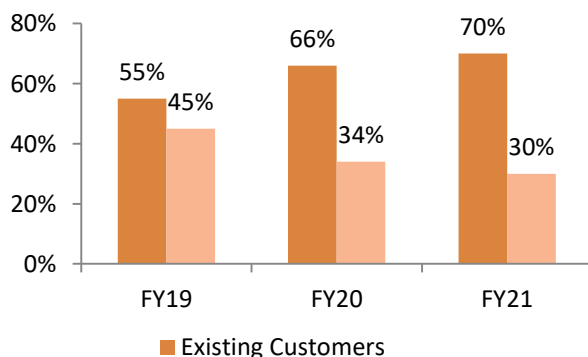
Similarly average order value for both segment has improved over the years. In FY19, Average Order Value (AOV) for BPC was INR 1,443 which increased to 1,886 in 5MFY22 while AOV for Fashion was INR 655 in FY19 which increased to 3,179 in 5MFY22.

Average Order Value (in INR)



Source: IPO Prospectus, KRChoksey Research

Contribution to GMV in BPC (in %)



Source: IPO Prospectus, KRChoksey Research

Influencer led creative and entertaining content

Nykaa is one of the first online retail platforms to drive influencer led education through creative and entertaining content across video and written formats. Nykaa has a network of 3,055 influencers, including Generation Z trend setters, mommy bloggers, beauty, fashion and lifestyle bloggers, makeup artists and celebrities. Nykaa has strong follower base on social media. Nykaa TV, its YouTube based content platform, had a watch time of 1.5 million hours. Nykaa TV is aimed at creating educational content with immersive storytelling across beauty and personal care. These digital contents help Nykaa promote its products and acquire new customers.

Forward Strategy

Continued focus on customer acquisition

Nykaa intends to attract new customers on its platform by providing engaging shopping experience. Nykaa's strength lies in its technology and content engine. Nykaa engages with every new visitor on its platform thereby increasing its ability to acquire new customers. Nykaa uses levers of "voice, video and vernacular" to improve its reach and acquire consumers. The company also plans to deepen its existing consumer relationships to enhance the revenues by increasing the wallet share from such consumers. Nykaa believes it can increase purchase frequency and AOV by improving personalization, improved targeting and by continuing to refine its data analytics.

Deepen and broaden brand relationship

Nykaa has strong track record of being brand custodian. As part of its efforts to offer a curated assortment of brands and products to its consumer base, Nykaa will continue to invest in entering into new brand relationships. The company will also continue to nurture its existing brand relationships. Nykaa endeavors to improve sales and hence create value for its brand relationships through improved merchandising, refined marketing and new data driven brand specific experiences.

Invest in owned brand portfolio

The success of owned brand portfolio so far has come from identifying market gaps and building innovative products to address consumer needs by leveraging the marketing and consumer insights. Nykaa aims to increase the product offerings in its current owned brand portfolio across business verticals and add newer long-term focused brands. At the same time, the company intends that its owned brands portfolio will continue to uphold the product quality and authenticity standards that Nykaa stands for.

Further expand Omni channel capabilities

Nykaa aims to invest further towards expansion of its physical store network to serve more consumers across the country with its Omni channel experience. The company will continue to invest in people and infrastructure to build further capabilities for delivering an integrated online-offline shopping experience. As an extension of its Omni channel capabilities, the company commenced Nykaa PRO, a membership-based program for beauty professionals and makeup artists, providing them access to products, offers and classes, including, educational content.

Focused, selective international expansion as well as acquisitions and joint ventures in India

Nykaa has gained experience in India of localizing global trends for specific sub-markets and tastes. As the company grows its consumer base in India, it will also aim to explore expansion selectively and prudently into international markets. Further, its experience in acquisitions and joint ventures has provided it insights and growth opportunities, and Nykaa intends to continue to consider such transactions in India, particularly to supplement its market leading position, product offerings, channels and owned brands as well as expand in other lifestyle adjacencies.

Management

Falguni Nayar, Executive Chairperson & MD and Chief Executive Officer

Falguni holds a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad. She has over 26 years of experience in e-commerce, investment banking and broking. Prior to founding Nykaa, she was associated with Kotak Mahindra Capital Company Limited for 18 years where she also served as a managing director.

Sanjay Nayar, Non-Executive Director

Sanjay holds a bachelor's degree in science in mechanical engineering from the University of Delhi and a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad. He has over 35 years of experience in the banking, and private equity. Presently he serves as a chairman of KKR India and also serves on the board of various companies, including Indigrig Investment Managers Limited, Max Healthcare Institute Limited, J B Chemicals and Pharmaceuticals Limited and Aventus Capital Private Limited.

Adwaita Nayar, Executive Director

Adwaita serves as the chairperson and chief executive officer of Nykaa Fashion. She co-founded our Company and has been involved in the areas of marketing, operations and product development. She holds a bachelor's degree in applied mathematics from the Yale University.

Anchit Nayar, Executive Director

Anchit serves as the chairman and chief executive officer of Nykaa E-Retail. He holds a bachelor's degree from Columbia University. Anchit has previously served as the vice president of the Investment Banking Division at Morgan Stanley, New York. He is currently responsible for the beauty business and also serves as a member of the investor relations team.

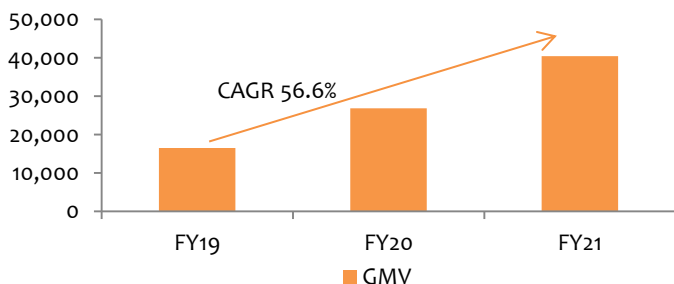
Anita Ramachandran, Independent Director

Anita holds a bachelor's degree in commerce and a master's degree in management studies from the University of Bombay. She has over 45 years of experience as a management consultant.

Outlook and Valuation

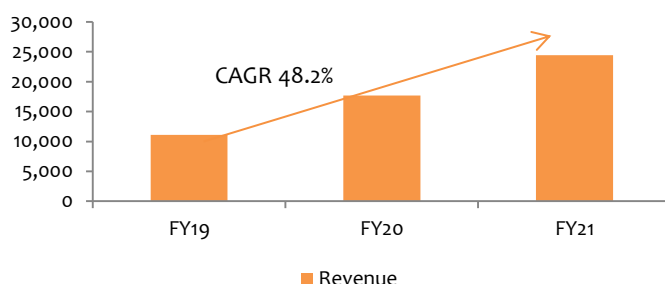
Nykaa's gross merchandise value has grown at a CAGR of more than 56% from INR 16,500 Mn in FY19 to INR 40,460 Mn in FY21. The company's top-line has grown at a CAGR of more than 48% during the same period to reach to INR 24,409 Mn in FY21. The growth has been largely driven by growth in respective industry, increased penetration, growth in loyal customer base, Omni channel presence, strong management pedigree, repeat purchase from existing customers and a strong technology led platform.

Gross merchandise value (in INR Mn)



Source: IPO Prospectus, KRChoksey Research

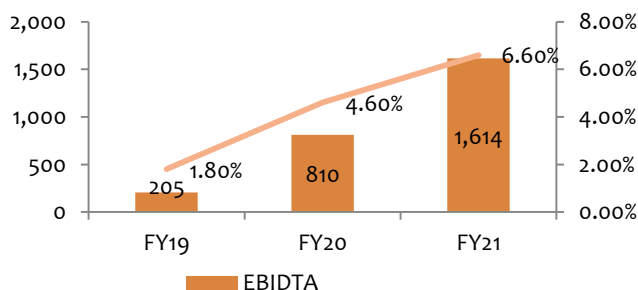
Revenue (in INR Mn)



Source: IPO Prospectus, KRChoksey Research

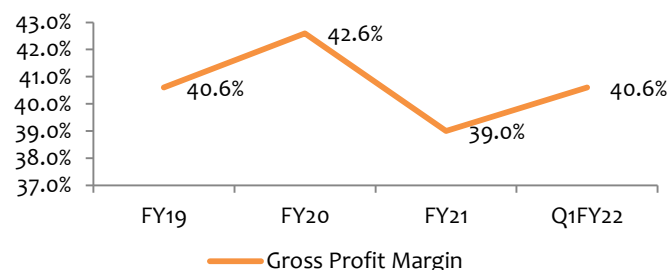
Nykaa has been EBITDA positive for last three years and in FY21 it became profitable. The company had net loss of INR 166 Mn in FY20 which turned positive in FY21 and reached INR 619 Mn. Over the last three years Nykaa managed to improve its EBITDA margin to 6.6% in FY21 from 1.8% in FY19. We expect operating margin to improve with growth in top-line and reduction in debt.

EBITDA and EBITDA Margin (in INR Mn and %)



Source: IPO Prospectus, KRChoksey Research

Gross Profit Margin and Select Operating Expenses (in %)



Source: IPO Prospectus, KRChoksey Research

We expect Nykaa to benefit from prevailing tailwind in the industry, its strong technology led platform, strong relationship with global brands, diverse portfolio of own brands, content first approach, Omni channel presence, loyal customer base, planned expansion in Middle East and Europe, growth in Tier II & III cities and strong management team. Considering the prevailing opportunities, investors should look to invest in Nykaa's IPO for listing gains as well as long term opportunity it presents.

Risks and Concerns

- Nykaa has delivered consistent growth in recent past. If the company unable to manage its growth or execute its strategies effectively, the business plan and expansion may not be successful, and its business and prospects may be adversely affected.
- If the company fails to acquire new consumers or fails to do so in a cost-effective manner, it may not be able to increase revenue or maintain profitability.
- Nykaa's business depends on the growth of online commerce industry in India and its ability to effectively respond to changing user behaviour on digital platforms.
- There are pending litigations against the Company, Subsidiaries, and certain of company's Directors. Any adverse decision in such proceedings may render the company or them liable to liabilities and penalties and may adversely affect the business, results of operations, cash flows and reputation.
- If the online commerce industry in India and in particular the online market for beauty and fashion products does not develop and grow, Nykaa's business will not grow and the results of operations, financial condition, cash flows and prospects could be adversely affected. Increasing cost of raw materials and other costs could adversely affect company's profitability.
- Changing regulations in India could lead to new compliance requirements that are uncertain.

Financials:

Income Statement (INR Mn)	FY19	FY20	FY21
Total Revenue from Operations	11,114	17,675	24,409
EBITDA	205	810	1614
EBITDA Margin (%)	1.8%	4.6%	6.6%
Other Income	50	103	117
Depreciation	309	595	671
EBIT	104	215	943
Interest expense	263	443	307
Exceptional Item	0	0	0
PBT	(317)	(124)	753
Tax	(72)	39	134
Share of Profit / MI	0	0	0
PAT	(245)	(166)	619
EPS (INR)	(0.59)	(0.39)	1.39

Cashflow Statement (INR Cr)	FY19	FY20	FY21
Net cash flow from operating activities	(997)	62	1498
Net cash flow used in investing activities	(1620)	149	(1297)
Net cash flow generated from / (used in) in financing activities	2357	687	(377)
Net increase / (decrease) in cash and cash equivalents	(260)	898	(176)
Opening Cash and cash equivalents	374	114	1012
Closing Cash and cash equivalents	114	1012	836

Balance Sheet (INR Cr)	FY19	FY20	FY21
ASSETS			
Property Plant and Equipment	429.0	701.5	686.5
Capital work-in-progress	3.2	7.8	19.7
Other Intangible Assets	106.0	127.4	230.3
Goodwill	1.4	1.4	5.4
Deferred Tax Assets	501.5	506.1	780.4
Investments	32.3	38.0	13.2
Right-of-use Assets	859.3	1439.9	1389.3
Other Non-Current Assets	183.5	267.7	264.8
Inventories	2446.0	4453.4	4980.9
Trade Receivables	579.2	984.3	766.3
Cash & Cash Equivalents	114.1	1011.9	835.8
Bank Balances	5.3	744.3	1640.9
Other Current Financial Assets	515.0	333.1	574.4
Other current assets	1980.8	628.0	832.0
Total Assets	7756.6	11244.8	13019.9
LIABILITIES			
Equity Share Capital	142.4	145.5	150.6
Reserves	2163.2	3076	4748.8
Net Worth	2305.6	3222.5	4899.4
Non-controlling interest	4.7	7.4	8.4
Borrowings - Non Current	1.3	1.5	16.6
Lease Liabilities	763.6	1302.6	1073.9
Provisions	24.5	52.6	73.5
Other non current liabilities	0	0	0
Borrowings - Current	2255.2	2674.0	1858.0
Lease Liabilities	84.6	147.4	378.2
Trade Payables	1817.7	3132.6	3162.1
Other current liabilities – financial	274.6	468.8	850.1
Other current liabilities	224.4	232	344.3
Provisions	0.4	0.7	108.5
Current Tax Liabilities	0	2.7	246.9
Total Current Liabilities	4656.9	6659.3	6948.2
Total Equity and Liabilities	7756.6	11244.8	13019.9

ANALYST CERTIFICATION:

I, Vikrant Kashyap (PFDBM-Finance & IT), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

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