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Price Band: INR 1085-1125

ISSUE SUMMARY

Issue Opens	28-Oct-21
Issue Closes	1-Nov-21
Offer Price (INR per share)	1085-1125
Bid Lot	12 shares
Face Value (INR)	1.0
Pre Issue Shares o/s (mn)	467.3
Offer for Sale (No of sh. mn)	42.0
^*Fresh Issue (No of sh. mn)	5.6
^Post Issue shares o/s (mn)	472.9
^*Issue Size (INR bn)	53.5
QIB	=>75%
Non-institutional	<15%
Retail	<10%

^ Issue Size (@INR1125)

*includes employee reservation of 0.25mn shares @ discount of INR100/sh

POST ISSUE DETAILS

M.Cap @INR1125/sh. (INR bn)	532.0
Shareholding pattern	
Promoters	52.6%
Non-Promoters	47.4%

Leading specialty Beauty and Personal Care (BPC) platform in India: Nykaa is the largest Specialty BPC Platform in India and enjoys the highest Average Order Value (AOV) among its peers. It has the largest luxury BPC platform. It is one of the fastest growing fashion platforms in India based on GMV (Gross Merchandise Value) growth. Fashion started in 2018 and now contributes ~16% to GMV, up from 10% in FY20.

Large market opportunity: The Indian BPC/Fashion market is expected to grow at 12.7%/18% p.a. over CY20-25. The online BPC/Fashion markets are growing at an even faster pace of 60%/25% CAGR over CY16-20. Nykaa enjoys ~35% of the online BPC market. With online BPC/Fashion penetration at just 8%/12% in India, Nykaa is well-placed to lead the online market growth with a proven business model. The company expects contribution of tier 2/3 cities (currently 64%) to go up significantly.

Inventory based business model with omni-channel approach: Nykaa's key strengths lies in its inventory-led business model for BPC segment, which allows it to offer authentication for all its products and ensures availability and efficient distribution. Apart from the online channels, Nykaa also has 80 physical stores across 40 cities which helps in more robust distribution network and seamless experience. As per RedSeer, since FY21, Nykaa has one of the highest shares of mobile application-led transactions among the leading online retail platforms in India. Nykaa has a proprietary technology stack, through which it offers hyper personalized consumer experience.

Financials: Nykaa's GMV/revenue/EBITDA has grown at a 57%/48%/ 181% CAGR over FY19-21, while it turned PAT positive in FY21. EBITDA margins too improved to 6.6% in FY21 with FCF turning positive. It has a capital efficient business model with asset turnover of 3x in FY21.

Issue Size: The INR53.5bn IPO consists of fresh issue of INR6.3bn and OFS of INR47.2bn (from promoters and other investors) which would result in promoter's stake reducing from 54.2% pre-IPO to 52.6% post-IPO. The funds raised will be utilized for setting up new retail stores/warehouses, debt repayment and marketing.

Valuation & View: We like Nykaa given its leadership position in online BPC market, customer centric approach, profitable tech platform and capital efficient business model. The issue is valued at 16.1x FY22 EV/Sales on a post issue and annualized basis, which seems to be similar to other Indian unicorns. We believe Nykaa is rightly placed to tap the high growth digital/online penetration in BPC/Fashion market. We recommend **Subscribe**. Investors with high risk appetite can **Subscribe for Listing Gains** given fancy for unique and first of its kind listing in the e-commerce space.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY19	FY20	FY21	1QFY22
Revenue	11,114	17,675	24,409	8,170
Growth (%)	-	59.0	38.1	183.0
Adj PAT	-246	-166	618	34
Growth (%)	-	-	LTP	LTP
EPS (INR)	-0.5	-0.4	1.3	0.1
RoE (%)*	NA	-5.2	15.2	1.5
EV/Sales (x)*	48.1	30.2	21.8	16.1

*Calculated on annualized and post issue basis, at the upper price band of INR1125;
Source: RHP, MOFSL

Peer Comparison

Exhibit 2: Peer comparison with listed digital platforms

Company	M.Cap. INR Bn	Rev. CAGR FY19-21 (%)	EBITDA CAGR FY19-21 (%)	EBITDA M FY21 (%)	EV/EBITDA FY21 (x)	EV/Esales FY21 (x)	Mcap/Sales FY21 (x)	D/E FY21 (x)
Zomato	1,067	23.2	Loss	-	-	53.1	53.5	0.0
Infoedge	786	0.0	-9.8	25.3	278.5	71.0	71.5	-0.1
Nykaa	532	48.2	180.5	6.6	330.1	21.8	0.0	0.2
India Mart	223	14.9	97.7	49.0	61.0	29.9	33.3	-1.4
Nazara	83	63.4	61.2	9.0	203.3	17.5	18.3	-
Just Dial	70	-13.0	-17.7	23.0	45.4	10.4	10.4	0.0
CarTrade Tech	57	0.5	LTP	5.0	1,134.4	61.0	61.1	-

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 26th October, 2021

^Calculated on annualized and fully diluted basis at upper price band of INR1125

Exhibit 3: Peer comparison with non-listed online BPC players in India

Company	Revenue (INR Mn)		Revenue Growth (%)		EBITDA (INR Mn)		EBITDA Margin (%)	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Nykaa	11,114	17,675	-	59	205	811	1.8	4.6
Purplle	1,004	868	221.8	-13.5	-35	-221	-3.5	-25.5
My glamm	137	439	59.0	221.0	325	-627	-237.2	-142.8

Source: RHP, Tofler, MOFSL

Exhibit 4: Key operating metrics – Beauty & Personal Care

Year ending 31 March (units m)	FY2019	FY2020	FY2021	Q1 FY21	5M FY22
Number of Visits	378.0	574.7	658.9	214.3	369.6
Monthly Average Unique Visitors	9.1	12.2	13.5	19.1	20.3
Annual Unique Transacting Consumers (AUTC)	3.5	5.3	5.6	6.7	7.1
Orders	11.0	17.0	17.1	5.9	10.2
Average Order Value (AOV)	1,433.0	1,448.0	1,963.0	1,837.0	1,886.0
Gross Merchandise Value (GMV)	16,219.2	24,981.4	33,804.1	10,847.8	19,316.3

Source: Company RHP, MOFSL

Exhibit 5: Key operating metrics – Fashion

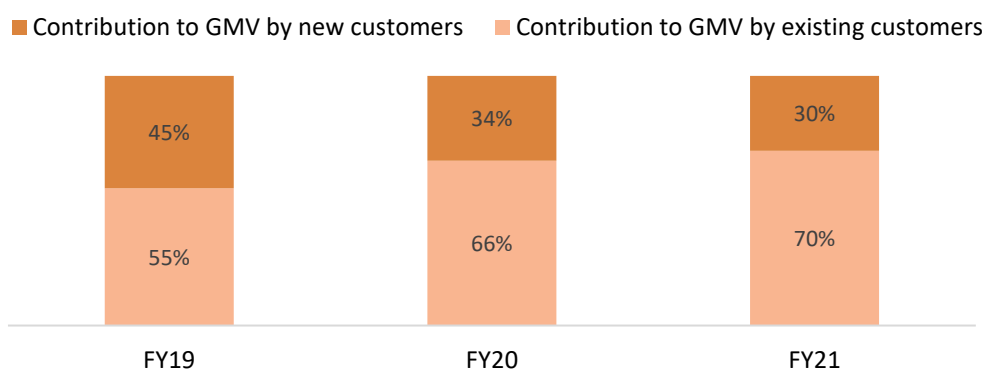
Year ending 31 March (units m)	FY2019	FY2020	FY2021	Q1 FY21	5M FY22
Number of Visits	0.1	37.8	172.1	98.4	177.3
Monthly Average Unique Visitors	-	1.7	5.8	13.4	14.7
Annual Unique Transacting Consumers (AUTC)	-	0.1	0.6	1.0	1.2
Orders	0.4	1.1	2.4	1.2	2.1
Average Order Value (AOV)	655.0	1,604.0	2,739.0	3,170.0	3,197.0
Gross Merchandise Value (GMV)	281.6	1,867.8	6,655.7	3,848.3	6,897.3

Source: Company RHP, MOFSL

About the Company

Incorporated in 2012, Nykaa is a digitally native consumer technology platform, delivering a content-led, life style retail experience to consumers. It has a diverse portfolio of beauty, personal care and fashion products, including own-brand products manufactured by the company. Its business verticals include, (a) **Nykaa**: Beauty and Personal Care and (b) **Nykaa Fashion**: Apparel and Accessories. As of 31st August 2021, Nykaa had ~3.1m SKU offerings from 4,078 national and international brands across business verticals. Its total GMV for FY21 grew at 50.7% YoY and stood at INR40.5b/USD550m, while its revenue grew at 38.1% YoY to INR24.4b/USD334m.

Exhibit 6: Nykaa’s platform experiences a high degree of customer loyalty



Source: RHP, MOFSL

Its online channels include mobile applications, websites, and mobile sites. According to the RedSeer, Nykaa had one of the highest share of mobile application-led transactions, among the leading online retail platforms in India during FY21 and 5MFY22. As of August 31, 2021, cumulative downloads stood at of 55.8 million across all mobile applications and during 5MFY22, 88.2% of online GMV came through mobile applications. The offline channel comprised 80 physical stores across 40 cities in India over three different store formats as of 31st August 2021. Physical stores offer a select offering of products as well as a seamless experience across the physical and digital worlds.

Exhibit 7: Nykaa is one of India’s leading Consumer Technology platform

Wide yet Curated Assortment of BPC and Fashion Products

3 MM+ SKUs from 4,000+ Brands⁽¹⁾
13 MM+ Cumulative Transacting Consumer Base⁽¹⁾

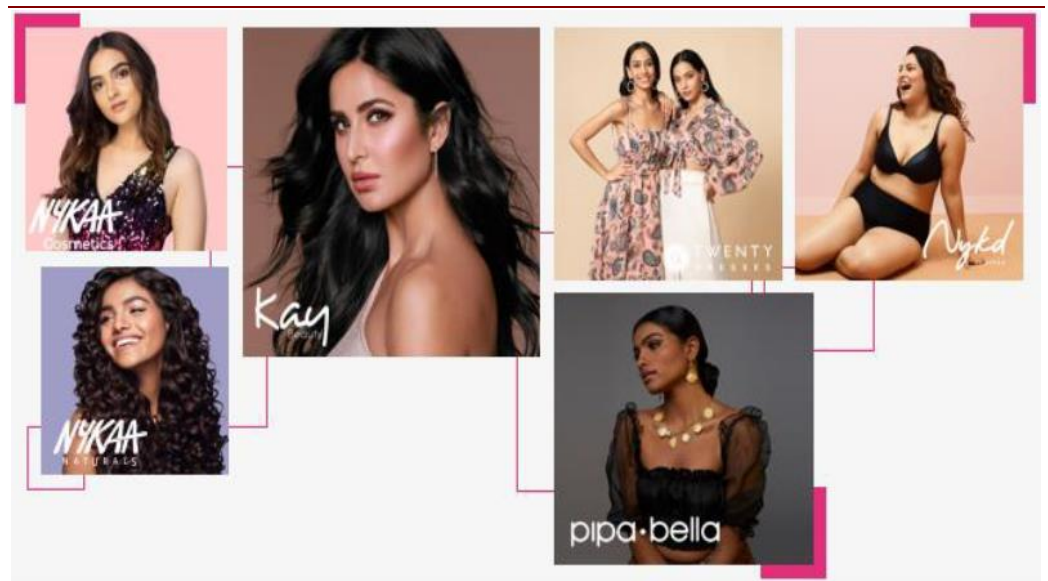
Digitally Native Platform

55 MM+ Cumulative Downloads^(1,2)
~88% of Online GMV from Mobile Apps⁽³⁾

Source: RHP, MOFSL

Nykaa has a portfolio of 13 owned brands, which play a key role in increasing the assortment of products for consumers. The owned brand portfolio is executed by identifying the gaps in the market – across both the requirements of diverse consumers and multiple price points – and building brands to suit these needs, with a focus on high-quality products. Some of these owned brands include, **(a) Nykaa Cosmetics**: a comprehensive make-up and beauty accessories brand, **(b) Nykaa Naturals**: a naturally derived ingredients focused brand for skincare products, **(c) Kay Beauty**: offers premium-range beauty products, **(d) Twenty Dresses**: This Apparel product line includes western wear as well as footwear, bags, and accessories categories, **(e) Nykd by Nykaa**: offers lingerie and **(f) Pipa Bella**: offers on-trend aesthetic jewellery.

Exhibit 8: Nykaa's Portfolio of owned brand



Source: RHP, MOFSL

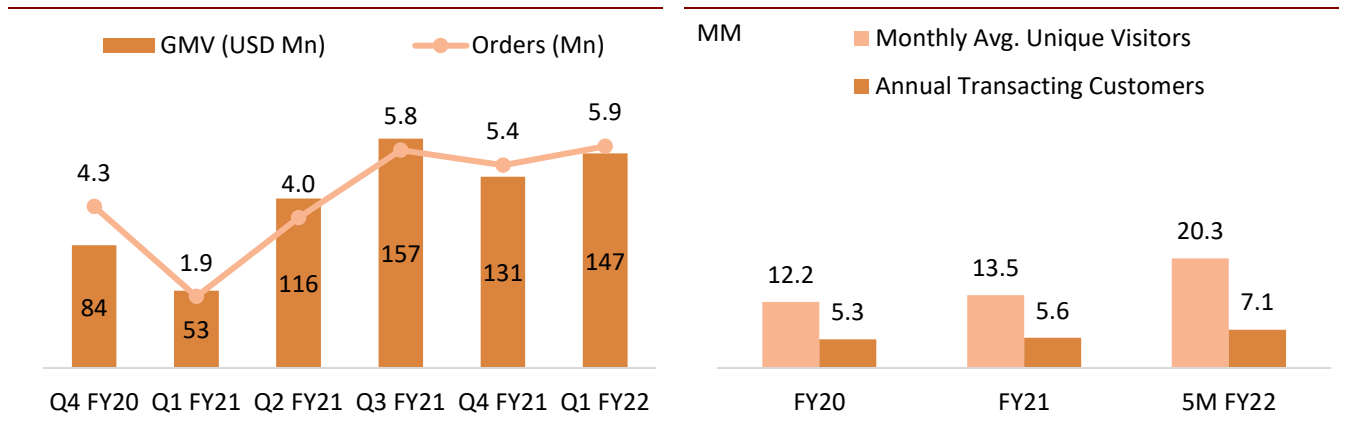
Beauty and personal care

Beauty and personal care offering is extensive with 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 as of August 31, 2021. Portfolio includes domestic brands, international brands, luxury and prestige brands, premium brands, niche and cult brands. Nykaa offers largest Specialty Beauty and Personal Care Platform in India in terms of value of products sold in FY21 and as of 5MFY22. The company also manufacture owned brand BPC products through third party manufacturers.

It has also launched Nykaa Man mobile application and website, thereby customizing model and experience for men, along with increasing education and awareness among men on the use of grooming and personal care products. In FY21, 17.1 million Orders were placed for BPC products with a total GMV of INR33.8bn (35.3% growth YoY). For1QFY22, 5.9 million Orders were placed with a total GMV of INR10.8bn, a 177.6% increase YoY.

For BPC, the business is predominantly inventory led. This ensures sourcing directly from brands or authorized distributors in India to provide guaranteed authenticity for the products purchased.

Exhibit 9: Nykaa is India's largest speciality BPC platform



Source: RHP, MOFSL

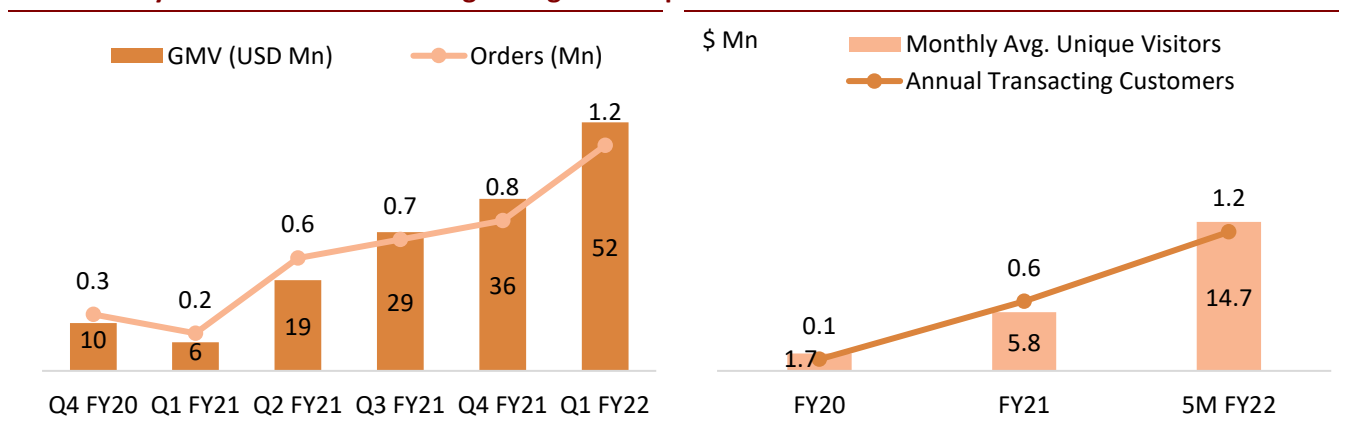
Fashion Offering

Nykaa fashion has wide assortment of offerings, across price points, to cater to women, men and children of diverse demographics. As of August 31, 2021, Nykaa Fashion housed 1,434 brands and 2.8 million SKUs with fashion products across four consumer divisions: women, men, kids and home. Within these consumer divisions, merchandise across several categories including western wear, Indian wear, lingerie, footwear, bags, jewellery, accessories, athleisure, home décor, bath, bed and kitchen in order to cater to the diverse consumers' journeys across platform. It offer a mix of brands across established national brands, international brands, luxury brands, and emerging labels and designers.

The average value of Orders on the Nykaa Fashion mobile application and website is the highest among leading online fashion retail platforms in India. Nykaa Fashion operates predominantly as a managed marketplace and has custom-built scalable technology to support this operating model. Such marketplace model lends capital efficiency for the fashion business where trends change quickly or frequently. Nykaa Fashion also has seven owned brands.

In FY21/1QFY22, 2.4mn/1.2mn orders were placed for fashion products with a total GMV of INR66.6bn/INR38.5bn. Nykaa Fashion is one of the fastest growing fashion platforms in India based on growth in GMV in FY21 and 5MFY22, according to the RedSeer Report.

Exhibit 10: Nykaa is one of the fastest growing fashion platforms in India



Source: RHP, MOFSL

Content-first approach to retailing

Nykaa is one of the first online retail platforms in India to drive widespread product and influencer-led education through creative and entertaining content across the video and written formats. It leverages influencers on a large scale through the Nykaa Affiliate Program, which enables external content creators to publish content on the company’s behalf across multiple digital platforms. As of FY21, the company had a network of 1,363 influencers. In FY21, Nykaa TV, a YouTube-based content platform, had a watch time of 1.3m hours. Moreover, content posted on Instagram and Facebook (including videos, reels, posts, and stories) amounted to 39,498 posts, making Nykaa one of the most influential lifestyle platforms in India with over 12.6m followers across leading social media platforms. Nykaa has developed a loyal community of bloggers and content creators who, in most cases, receive commissions on the sales they drive on the platform.

Synergetic relationships with suppliers and brands

Nykaa has a team of brand managers who work closely with brands to strategize and execute growth and brand-building strategies. It offers brands involvement and integration in several aspects of its brand marketing strategy, from building marketing plans and promotions for products to ensuring the brand’s standards in the supply chain and fulfillment. Nykaa advises brands on pricing and commercial strategies – including discounting, sampling, gifting, and couponing – to meet consumer demand, while respecting the brand’s desired positioning in the market. It also offers brands advertising space in online channels and physical stores.

Fulfilment and operational excellence

As of FY21, Nykaa was serving 24,817 pin codes, covering 86.4% of the serviceable pin codes across the country. It has an allocation engine that helps fulfill orders by utilizing inventory efficiently across warehouses. For the fashion products sold through the marketplace model, Nykaa has integrated its supply chain with the warehouses of various sellers. In 4QFY21, 94%/72% of orders were delivered within five days in the BPC/Fashion vertical. Nykaa manages four models – the inventory, sale or return (SOR), marketplace, and just-in-time inventory models.

Exhibit 11: A business model encouraging strong network effects

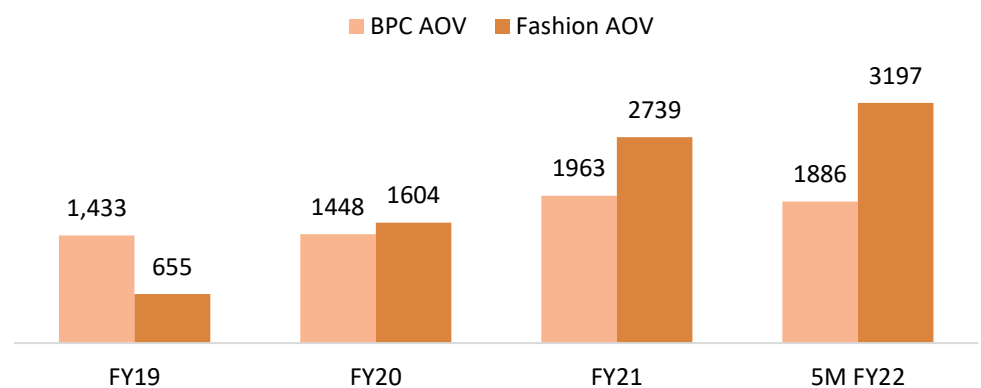


Source: RHP, MOFSL

Preferred destination for luxury and prestige products

According to the RedSeer Report, Nykaa has the highest AOV among the leading online beauty and personal care platforms in India and is the largest luxury beauty and personal care platform in India. Nykaa has tailored specific capabilities across marketing, technology, supply chain, fulfillment, and consumer service to create a differentiated ecosystem for luxury brands and customers. While warehouses generally have segregated areas for such brands, shipments to consumers from such warehouses are also packed in premium packaging to enhance the luxury shopping experience for consumers.

Exhibit 12: Strong growth in AOV (INR)

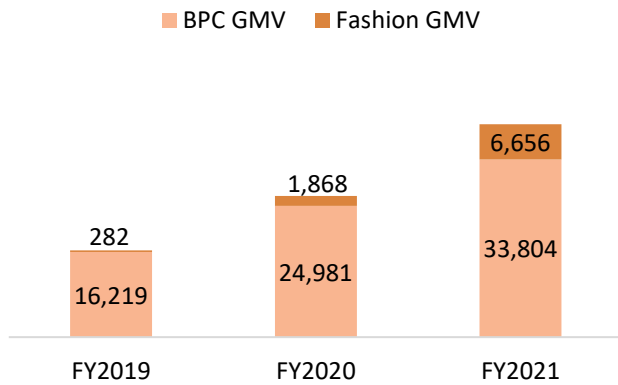


Source: RHP, MOFSL

In the case of certain international prestige brands, physical stores play an important role in brand building; hence, its ability to offer an integrated omni-channel retail strategy to these brands is a key strength. As such, a number of prestigious international brands have chosen Nykaa to import, launch, and sell their products to consumers in India. In the Fashion business, it has also enabled the customization of luxury and made-to-order products wherein consumers could work with stylists to identify their customization requirements. Nykaa works with brands to deliver such customized products.

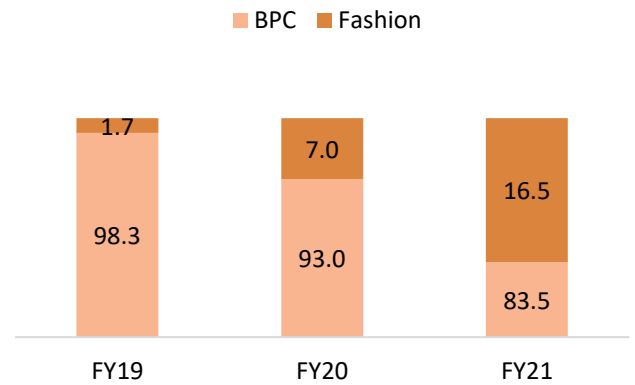
Story in Charts

Exhibit 13: GMV trend improving (INR M)



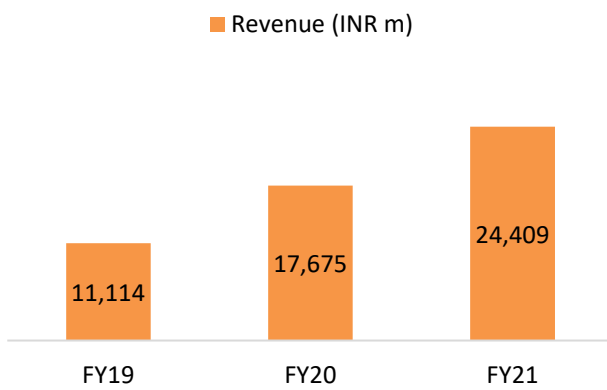
Source: RHP, MOFSL

Exhibit 14: Segments' contribution to GMV (%)



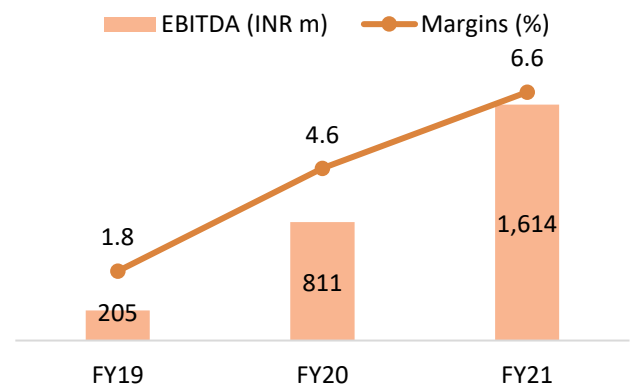
Source: RHP, MOFSL

Exhibit 15: Robust revenue growth of 48% CAGR over FY19-21



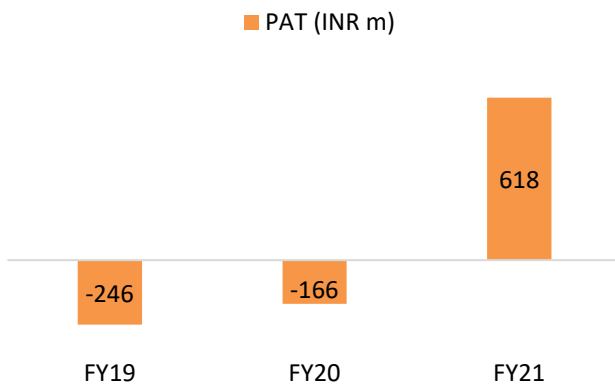
Source: RHP, MOFSL

Exhibit 16: EBITDA margins continuously improving



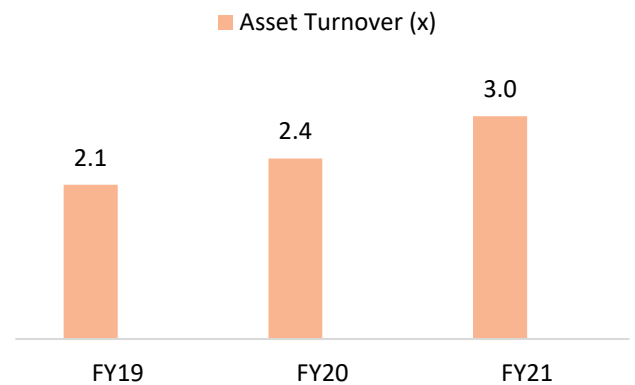
Source: RHP, MOFSL

Exhibit 17: PAT turned profitable in FY21



Source: RHP, MOFSL

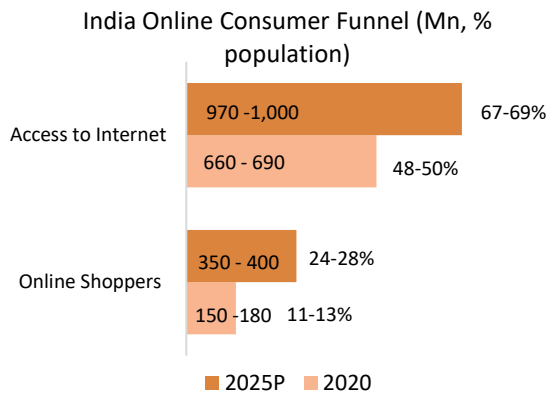
Exhibit 18: Asset turnover healthy



Source: RHP, MOFSL

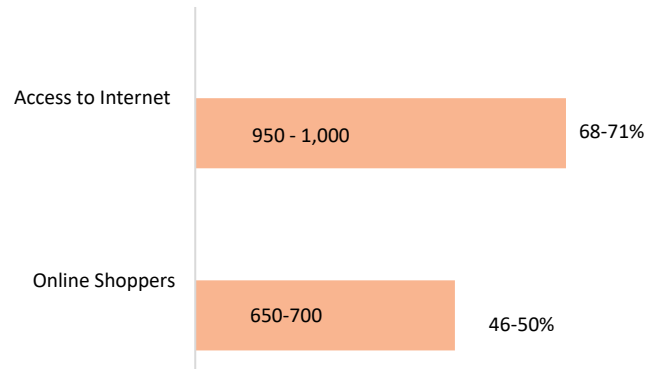
Industry in Charts

Exhibit 19: Online consumer funnel – India



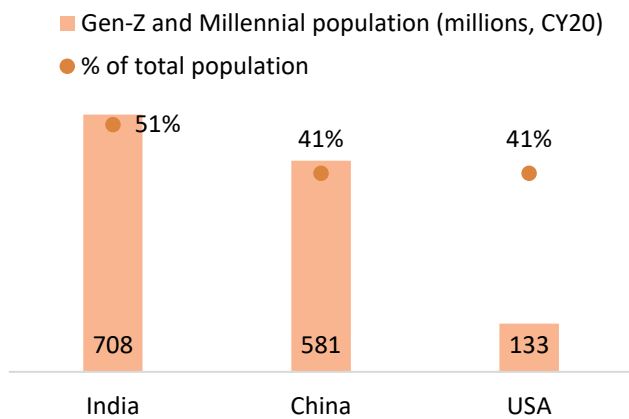
Source: RHP, MOFSL

Exhibit 20: Online consumer funnel – China (2020)



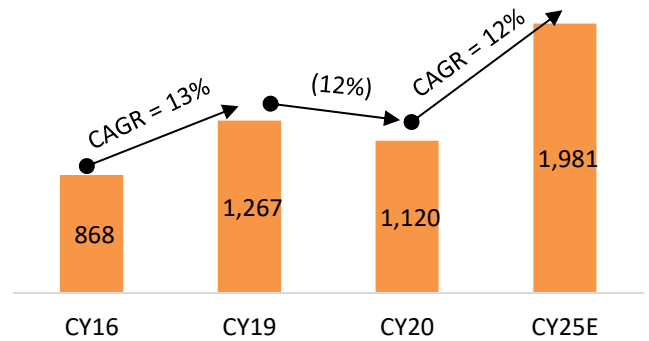
Source: RHP, MOFSL

Exhibit 21: India has the largest population base of Gen-Z and Millennials in the world



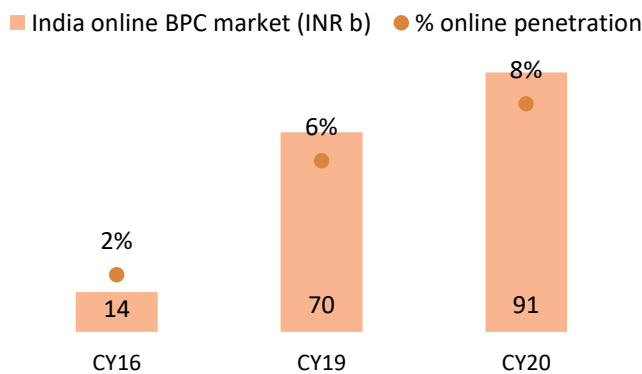
Source: RHP, MOFSL

Exhibit 22: India’s BPC market size (INR b)



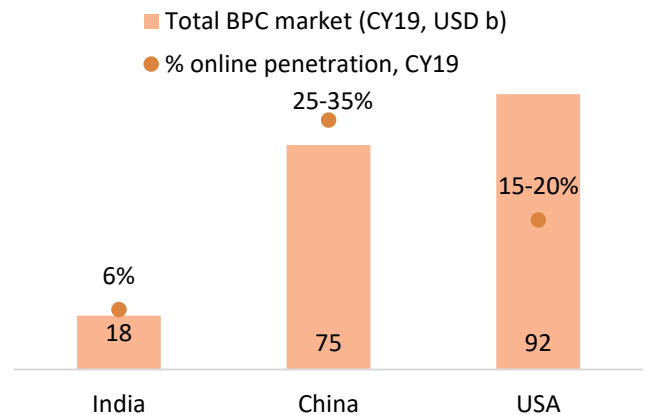
Source: RHP, MOFSL

Exhibit 23: India’s Online BPC sector grew 30% YoY to INR91b (USD125m) in CY20



Source: RHP, MOFSL

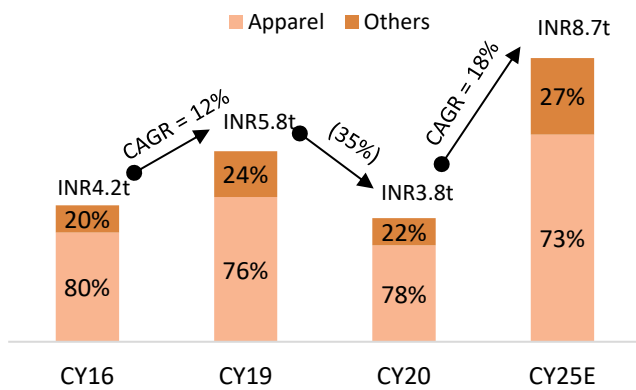
Exhibit 24: Global benchmarks for BPC market size and online penetration



Source: RHP, MOFSL

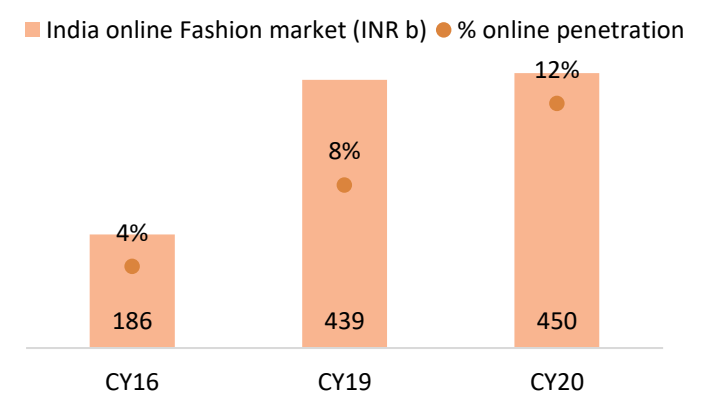
Industry in Charts contd:

Exhibit 25: India's Fashion market to see 18% CAGR over CY20-25E



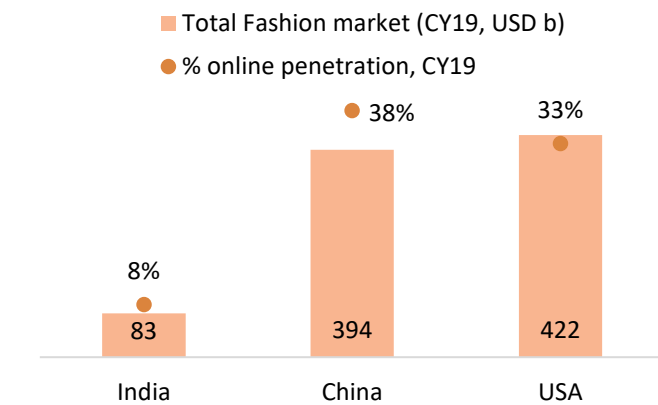
Source: RHP, MOFSL

Exhibit 26: Penetration of online channels in India's Fashion market grew to 12% in CY20 from 4% in CY16



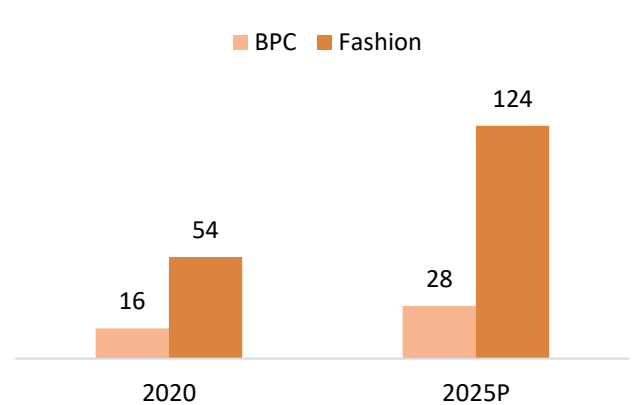
Source: RHP, MOFSL

Exhibit 27: Global benchmarks for Fashion market size and online penetration



Source: RHP, MOFSL

Exhibit 28: Nykaa's addressable market (USD b)



Source: RHP, MOFSL

Risk and concerns

- The competitive advantage for Nykaa's strategies to venture into fashion and other adjacent businesses is unclear, particularly amid the intense competition from other players and horizontal marketplaces. The move is especially puzzling given the massive opportunity in the BPC space and Nykaa's dominant position.
- As Nykaa's BPC business grows, its strategy of working with an inventory model could possibly become a hindrance given the large investment in inventory that will be needed.
- Given Nykaa's success, new entrants could pursue the opportunity and enter the market using a similar inventory-led business model, thus eating into the company's market share.
- With a multi-faceted reliance on its technological ability to offer better product discovery and a unique customer journey, Nykaa will be challenged by competition to continually build upon and improve its technology stack to maintain its lead.
- Given the benefits, mentioned earlier, of the omni-channel approach to retailing, Nykaa's store expansion strategy will play a crucial role in strengthening its pole position in a rapidly growing market. It will have to deal with various aspects including identifying optimal locations, negotiating with landlords, ramping up inventory, and identifying the right partners, amongst others – any of which could act as stumbling blocks to its ambitious scale up plans.

Financials

Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	Q1 FY22
Net Sales	11,114	17,675	24,409	8,170
Change (%)	-	59.0	38.1	183.0
Total Expenditure	10,909	16,865	22,795	7,901
% of Sales	98.2	95.4	93.4	96.7
EBITDA	205	811	1,614	269
Margin (%)	1.8	4.6	6.6	3.3
Depreciation	309	595	671	195
EBIT	-104	215	943	74
Int. and Finance Charges	263	443	307	90
Other Income	50	103	117	47
PBT	-317	-124	753	31
Tax	-72	39	134	-4
Tax Rate (%)	22.6	-31.5	17.8	-11.8
Minority Interest	0.2	2.7	1.0	1.1
Reported PAT	-246	-166	618	34
Adjusted PAT	-246	-166	618	34
Change (%)	-	-	LTP	LTP
Margin (%)	-2.2	-0.9	2.5	0.4

Source: Company RHP, MOFSL

Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	Q1 FY22
Share Capital	142	146	151	155
Reserves	2,163	3,076	4,749	6,834
Net Worth	2,306	3,221	4,899	6,989
Minority Interest	5	7	8	9
Debt	3,105	4,126	3,327	4,295
Total Capital Employed	5,415	7,354	8,234	11,294
Net Fixed Assets	1,396	2,270	2,312	2,546
Capital WIP	3	20	24	40
Investments	1,383	38	13	0
Current Assets	4,473	8,410	9,891	12,811
Inventory	2,446	4,453	4,981	5,910
Debtors	579	984	766	757
Cash and Bank Balance	119	1,756	2,477	3,857
Loans and Advances & OCA	1,329	1,216	1,667	2,288
Curr. Liability & Provisions	2,342	3,890	4,785	5,021
Account Payables	1,818	3,133	3,162	3,106
Current Liabilities	499	705	1,441	1,728
Other Long Term Liab. & Provs.	25	53	182	188
Net Current Assets	2,132	4,520	5,106	7,790
Deferred Tax (Net)	501	506	780	917
Appl. of Funds	5,415	7,354	8,234	11,294

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY19	FY20	FY21	Q1 FY22
Basic (INR)				
EPS	-0.5	-0.4	1.3	0.1
Cash EPS	0.1	0.9	2.7	0.5
BV/Share	4.9	6.8	10.4	28.5
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	-2,166.3	-3,203.3	860.2	3,894.9
Cash P/E	8,423.7	1,240.2	412.5	580.5
P/BV	230.8	165.2	108.6	39.5
EV/Sales	48.1	30.2	21.8	16.1
EV/EBITDA	2,608.6	659.3	330.1	488.2
Return Ratios (%)				
RoE	NA	-5.2	15.2	1.5
RoCE	NA	5.7	11.2	4.5
Working Capital Ratios				
Asset Turnover (x)	2.1	2.4	3.0	2.0
Inventory (Days)	80	92	74	66
Debtor (Days)	19	20	11	8
Creditor (Days)	60	65	47	35
Leverage Ratio (x)				
Net Debt/Equity	0.7	0.7	0.2	-0.4

Source: Company RHP, MOFSL

*All ratios calculated on annualised and fully diluted basis at the upper price band of INR1125

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	Q1 FY22
OP/(Loss) before Tax	-317	-124	753	31
Depreciation	309	595	671	195
Finance Cost	263	443	307	90
Income Taxes paid	-	-43	-132	-289
(Inc)/Dec in WC	-1,284	-786	-273	-1,172
CF from Operations	-1,029	85	1,327	-1,145
Others	32	-23	172	5
CF from Operating (Net)	-997	62	1,498	-1,140
(Pur)/Sale of FA	-349	-457	-421	-160
(Pur)/Sale of Investments	-1,268	1,345	-	-
Interest/Dividend received	1	1	36	19
Bank Deposits	-2	-739	-897	602
Others	-0	-	-16	-
CF from Investments	-1,620	149	-1,297	461
Proceeds from borrowings	1,280	88	-501	714
Issue of equity shares	1,340	1,037	1,029	2,035
Interest Paid	-262	-438	-306	-89
Dividend Paid	-	-	-	-
Others	-	-	-599	-
CF from Fin. Activity	2,357	687	-377	2,660
Net Inc/Dec of Cash	-260	898	-176	1,981
Exchange Difference	0	-0	0	2
Opening Balance	374	114	1,012	836
Closing Balance	114	1,012	836	2,818

Source: Company RHP, MOFSL

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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