

## Leading in active ingredient-based BPC market

Consumer Goods ▶ Company Update ▶ April 22, 2024

TARGET PRICE (Rs): 500

Honasa, in a journey to gain scale in the Indian Beauty market, has built 'The Derma Co' — their second profitable brand, with ARR of Rs5bn+. The Derma Co, launched in 2020, offers science-backed products powered by active ingredients. It leads the market, sized at Rs20bn, with ~20% share. As the trend of products with active ingredients spreads, we see large traditional category incumbents joining in, further increasing the TAM. We also expect innovations extending actives from face care currently to others, like hair and color cosmetics. With enhanced execution, the brand used Mamaearth's playbook to not only scale fast, but profitably too. We expect the brand to see 50% revenue CAGR over FY23-26E, with steady improvement in profitability. Maintain BUY with Mar-25E TP of Rs500/share, based on 6x EV/sales.

## Honasa Consumer: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	9,435	14,927	19,291	23,565	28,288
EBITDA	115	228	1,375	2,304	3,310
Adj. PAT	157	119	1,057	1,646	2,359
Adj. EPS (Rs)	0.5	0.4	3.3	5.1	7.3
EBITDA margin (%)	1.2	1.5	7.1	9.8	11.7
EBITDA growth (%)	(57.9)	98.6	504.2	67.6	43.7
Adj. EPS growth (%)	0.0	(28.0)	747.3	55.7	43.4
RoE (%)	(3.0)	1.8	12.6	14.2	17.4
RoIC (%)	2.1	(0.2)	26.5	42.9	61.2
P/E (x)	711.1	987.9	116.6	74.9	52.2
EV/EBITDA (x)	942.8	505.3	84.8	50.0	34.1
P/B (x)	15.8	19.4	11.4	9.9	8.3
FCFF yield (%)	0.4	(0.5)	0.9	1.3	2.0

Source: Company, Emkay Research

## The Derma Co is a Rs5bn ARR brand, developing the active ingredients space

After building a sizable ingredients-based, toxin-free *Mamaearth* brand, Honasa Consumer has been quick to build an active ingredient-backed skincare brand – The Derma Co, which has achieved the feat of Rs5bn annual revenue run rate (ARR), based on net sales realization. Active ingredients-based personal care products have gained relevance in the Western world, but Indian consumers lag in adoption. Unlike expectations of mainstream brands building a portfolio and driving active ingredient trends in India, players like Honasa and Beminimalist are leading the march.

## Active ingredient-based market to see a steady expansion in India

We estimate at ~Rs20bn the size of the active ingredient-based skin care products segment (fastest growing BPC segment, though on a low base), where Honasa Consumer under the brand 'The Derma Co' has a leadership position with ~20% share. Minimalist is the second player in the category and continues to drive the active ingredient trends. Looking at the success of the first two brands, now global players like Unilever and L'Oréal are launching their active ingredient-based products, under base brand offerings (e.g. Lakme and Ponds seeing action from Unilever), which is likely to develop the market opportunity further. Additionally, we see opportunities in other personal care segments like hair care and color cosmetics. For The Derma Co, we expect an accelerated focus on offline channels, where the focus has been limited. For the brand, we assess hero products such as face serum, sunscreen, face wash, and moisturizers.

## House of brands to address broader market prospects, BUY on execution

Honasa has created a playbook to help scale newer brands faster, which is likely to drive profitability in the business. The Derma Co is gaining scale fast with EBITDA margin in the low-single digits, unlike any other active brands. We do see some cannibalization, but active ingredient-based products are likely to enhance overall category consumption. We maintain a BUY recommendation and Mar-25E TP of Rs500/share at 6x EV/sales.

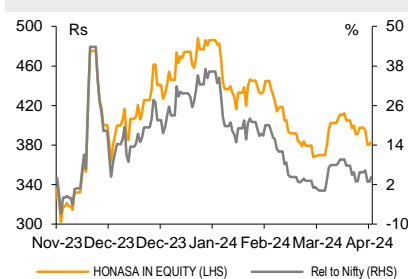
Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	30.6
CMP (18-Apr-24) (Rs)	383.0

Stock Data	HONASA
52-week High (Rs)	511
52-week Low (Rs)	256
Shares outstanding (mn)	324.2
Market-cap (Rs bn)	124
Market-cap (USD mn)	1,486
Net-debt, FY24E (Rs mn)	-6,577
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	297.3
ADTV-3M (USD mn)	3.6
Free float (%)	49.5
Nifty-50	21,996
INR/USD	83.5
<b>Shareholding, Mar-24</b>	
Promoters (%)	35.1
FPIs/MFs (%)	12.2/15.9

## Price Performance

(%)	1M	3M	12M
Absolute	0.8	(18.1)	-
Rel. to Nifty	1.0	(19.7)	-

## 1-Year share price trend (Rs)



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**Exhibit 1: The Derma Co – Product offering**



Source: Company

**Exhibit 2: The Derma Co – Key solutions and focus on ingredients**

<b>Shop by Concern</b>	<b>Shop by Ingredients</b>
Acne Marks	Niacinamide Range
Acne Scars	Salicylic Range
Acne / Pimple	Vitamin C Range
Pigmentation	AHA-BHA Range
Open Pores	Kojic Range
Hair Care	Hyaluronic Range
Skin Radiance	<a href="#">View All</a>
Dry & Dull Skin	
<a href="#">View All</a>	

Source: Company

**Active ingredient-based personal care market is dominated by Honasa, followed by Beminimalist. Plum and Re'equil are D2C brands active with revenue of Rs800mn-1,000mn.**

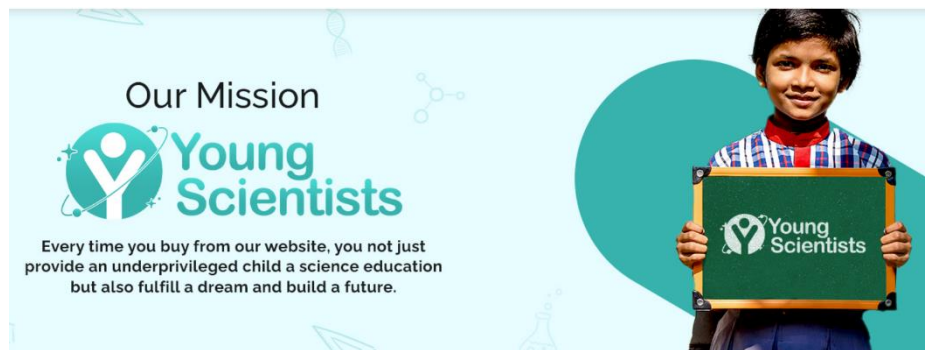
**Exhibit 3: The Derma Co – Key highlights**

Launched in 2020 **derma.co** – Science backed products powered with active ingredients

Range of active ingredients to address skin concerns		
<input type="checkbox"/> Niacinamide	<input type="checkbox"/> Collagen	<b>Foaming face cleansers</b>
<input type="checkbox"/> Salicylic Acid	<input type="checkbox"/> Ceramides	<b>Serums</b>
<input type="checkbox"/> Hyaluronic Acid	<input type="checkbox"/> Retinol	<b>Sunscreen gels</b>
<input type="checkbox"/> Kojic Acid	<input type="checkbox"/> Glutathione	<b>Hair care</b>
<input type="checkbox"/> Vitamin C	<input type="checkbox"/> Vitamin E	
<input type="checkbox"/> AHAs & BHA	<input type="checkbox"/> Alpha Arbutin	
<input type="checkbox"/> + More <input type="checkbox"/>		
Covering serums, cleansers, creams & moisturizers, peeling solution, acne patches and many more		

Source: Company

**Exhibit 4: The Derma Co’s Young Scientist Program**



Source: Company

**Honasa has built its beauty and personal care (BPC) portfolio (covering 70% of the Rs1.5trn TAM), based on its 'House of Brands' strategy.**

**Exhibit 5: BPC category's presence for Honasa**

	Category size (Rs bn)	Penetration (%)	Organized share (%)	Honasa Consumer
Soap	270	90	70	✓
Skin care	205	60	50	✓
Toothpaste	130	75	90	Kids
Male grooming	150	15	90	
Hair Oil	140	95	55	✓
Color Cosmetics	120	30	80	✓
Shampoo	70	50	75	✓
Sanitary pads	70	70	85	
Hair color	60	60	75	✓
Baby care	55	25	75	✓
Deodorant	50	55	90	✓
Fragrance	35	20	60	✓
Toothbrush	25	75	80	
Depilatories	25	10	80	
Talcum powder	15	60	50	Kids
Hand wash	15	40	70	
Hair Conditioner	10	10	90	✓
Shower gel	6	30	90	✓
Intimate hygiene	3	10	100	
Mouth wash	3	15	90	
<b>Total addressable market</b>	<b>1,457</b>	<b>59</b>	<b>73</b>	<b>1,021</b>
In USD (USD1 = Rs83)	18			
% of total addressable market				70%

Source: Emkay Research

**Exhibit 6: Brand-wise category presence**

	Mamaearth	The Derma Co	Aqualogica	Ayuga	BBlunt	Dr. Sheth's
<b>Beauty</b>	✓		✓			
<b>Hair</b>	✓	✓			✓	
<b>Face</b>	✓	✓	✓	✓		✓
<b>Body</b>	✓		✓			✓
<b>Baby Products</b>	✓					
<b>Color cosmetics</b>	✓					

Source: Emkay Research

## Honasa Consumer: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>9,435</b>	<b>14,927</b>	<b>19,291</b>	<b>23,565</b>	<b>28,288</b>
Revenue growth (%)	105.1	58.2	29.2	22.2	20.0
<b>EBITDA</b>	<b>115</b>	<b>228</b>	<b>1,375</b>	<b>2,304</b>	<b>3,310</b>
EBITDA growth (%)	(57.9)	98.6	504.2	67.6	43.7
Depreciation & Amortization	69	250	292	390	472
<b>EBIT</b>	<b>46</b>	<b>(22)</b>	<b>1,083</b>	<b>1,914</b>	<b>2,838</b>
EBIT growth (%)	(82.1)	(148.2)	0.0	76.7	48.3
Other operating income	0	0	0	0	0
Other income	209	225	420	400	450
Financial expense	30	67	85	90	100
<b>PBT</b>	<b>224</b>	<b>137</b>	<b>1,418</b>	<b>2,224</b>	<b>3,188</b>
Extraordinary items	0	(1,547)	0	0	0
Taxes	80	99	362	578	829
Minority interest	13	82	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>157</b>	<b>(1,428)</b>	<b>1,057</b>	<b>1,646</b>	<b>2,359</b>
PAT growth (%)	0.0	(1,008.7)	0.0	55.7	43.4
<b>Adjusted PAT</b>	<b>157</b>	<b>119</b>	<b>1,057</b>	<b>1,646</b>	<b>2,359</b>
<b>Diluted EPS (Rs)</b>	<b>0.5</b>	<b>0.4</b>	<b>3.3</b>	<b>5.1</b>	<b>7.3</b>
Diluted EPS growth (%)	0.0	(28.0)	747.3	55.7	43.4
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EBITDA margin (%)	1.2	1.5	7.1	9.8	11.7
EBIT margin (%)	0.5	(0.1)	5.6	8.1	10.0
Effective tax rate (%)	35.6	72.7	25.5	26.0	26.0
<b>NOPLAT (pre-IndAS)</b>	<b>29</b>	<b>(6)</b>	<b>807</b>	<b>1,416</b>	<b>2,100</b>
Shares outstanding (mn)	291.8	306.6	321.7	321.7	321.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	224	137	1,418	2,224	3,188
Others (non-cash items)	0	0	0	0	0
Taxes paid	(95)	(125)	(362)	(578)	(829)
Change in NWC	222	(969)	356	113	162
<b>Operating cash flow</b>	<b>446</b>	<b>(516)</b>	<b>1,370</b>	<b>1,839</b>	<b>2,643</b>
Capital expenditure	(26)	(117)	(252)	(260)	(254)
Acquisition of business	(4,999)	790	(1,710)	(1,500)	(1,500)
Interest & dividend income	0	0	0	0	0
<b>Investing cash flow</b>	<b>(4,998)</b>	<b>429</b>	<b>(2,267)</b>	<b>(1,805)</b>	<b>(1,749)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	4,812	(130)	3,650	23	9
Payment of lease liabilities	0	0	0	0	0
Interest paid	(4)	(11)	(85)	(90)	(100)
Dividend paid (incl tax)	0	0	0	0	0
Others	0	0	221	264	98
<b>Financing cash flow</b>	<b>4,808</b>	<b>(141)</b>	<b>3,786</b>	<b>197</b>	<b>7</b>
Net chg in Cash	256	(227)	2,890	231	900
OCF	446	(516)	1,370	1,839	2,643
Adj. OCF (w/o NWC chg.)	224	453	1,014	1,726	2,481
FCFF	420	(633)	1,118	1,579	2,389
FCFE	390	(699)	1,033	1,489	2,289
OCF/EBITDA (%)	389.1	(226.5)	99.6	79.8	79.8
FCFE/PAT (%)	247.9	(588.3)	97.7	90.5	97.0
<b>FCFF/NOPLAT (%)</b>	<b>1,428.4</b>	<b>10,524.8</b>	<b>138.5</b>	<b>111.5</b>	<b>113.7</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	0	1,363	3,217	3,217	3,217
Reserves & Surplus	7,056	4,696	7,548	9,194	11,553
<b>Net worth</b>	<b>7,056</b>	<b>6,059</b>	<b>10,766</b>	<b>12,412</b>	<b>14,771</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	86	14	14	57	22
<b>Total debt</b>	<b>596</b>	<b>922</b>	<b>1,143</b>	<b>1,388</b>	<b>1,529</b>
<b>Total liabilities &amp; equity</b>	<b>7,738</b>	<b>6,995</b>	<b>11,923</b>	<b>13,856</b>	<b>16,322</b>
Net tangible fixed assets	565	692	1,372	1,682	1,904
Net intangible assets	2,870	1,833	1,833	1,833	1,833
Net ROU assets	0	0	0	0	0
Capital WIP	0	0	0	0	0
Goodwill	1,733	528	528	528	528
Investments [JV/Associates]	846	790	1,000	1,000	1,000
<b>Cash &amp; equivalents</b>	<b>4,311</b>	<b>3,326</b>	<b>7,720</b>	<b>9,456</b>	<b>11,862</b>
Current assets (ex-cash)	1,759	3,023	3,857	4,820	5,535
Current Liab. & Prov.	2,612	2,669	3,859	4,935	5,812
<b>NWC (ex-cash)</b>	<b>(853)</b>	<b>354</b>	<b>(2)</b>	<b>(115)</b>	<b>(277)</b>
<b>Total assets</b>	<b>7,738</b>	<b>6,995</b>	<b>11,923</b>	<b>13,856</b>	<b>16,322</b>
Net debt	(3,714)	(2,404)	(6,577)	(8,068)	(10,332)
Capital employed	7,738	6,995	11,923	13,856	16,322
<b>Invested capital</b>	<b>2,581</b>	<b>2,879</b>	<b>3,203</b>	<b>3,400</b>	<b>3,460</b>
BVPS (Rs)	24.2	19.8	33.5	38.6	45.9
Net Debt/Equity (x)	(0.5)	(0.4)	(0.6)	(0.7)	(0.7)
Net Debt/EBITDA (x)	(32.4)	(10.6)	(4.8)	(3.5)	(3.1)
Interest coverage (x)	0.1	0.3	0.1	0.0	0.0
<b>RoCE (%)</b>	<b>5.2</b>	<b>2.8</b>	<b>15.9</b>	<b>18.0</b>	<b>21.8</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	711.1	987.9	116.6	74.9	52.2
P/CE(x)	525.8	339.0	97.2	64.4	46.3
P/B (x)	15.8	19.4	11.4	9.9	8.3
EV/Sales (x)	11.5	7.7	6.0	4.9	4.0
EV/EBITDA (x)	942.8	505.3	84.8	50.0	34.1
EV/EBIT(x)	2,523.2	(5,566.0)	114.9	64.3	42.5
EV/IC (x)	44.6	42.5	38.9	36.2	34.9
FCFF yield (%)	0.4	(0.5)	0.9	1.3	2.0
FCFE yield (%)	0.3	(0.6)	0.8	1.1	1.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>DuPont-RoE split</b>					
Net profit margin (%)	1.7	0.8	5.5	7.0	8.3
Total asset turnover (x)	1.9	2.0	2.0	1.8	1.9
Assets/Equity (x)	(0.9)	1.1	1.1	1.1	1.1
<b>RoE (%)</b>	<b>(3.0)</b>	<b>1.8</b>	<b>12.6</b>	<b>14.2</b>	<b>17.4</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	0.3	0.0	4.2	6.0	7.4
IC turnover (x)	6.8	5.5	6.3	7.1	8.2
<b>RoIC (%)</b>	<b>2.1</b>	<b>(0.2)</b>	<b>26.5</b>	<b>42.9</b>	<b>61.2</b>
<b>Operating metrics</b>					
Core NWC days	(27.8)	(21.6)	(21.3)	(27.4)	(29.4)
<b>Total NWC days</b>	<b>(33.0)</b>	<b>8.7</b>	<b>0.0</b>	<b>(1.8)</b>	<b>(3.6)</b>
Fixed asset turnover	5.0	4.5	5.5	5.4	5.6
Opex-to-revenue (%)	68.7	68.5	62.1	60.2	58.3

Source: Company, Emkay Research

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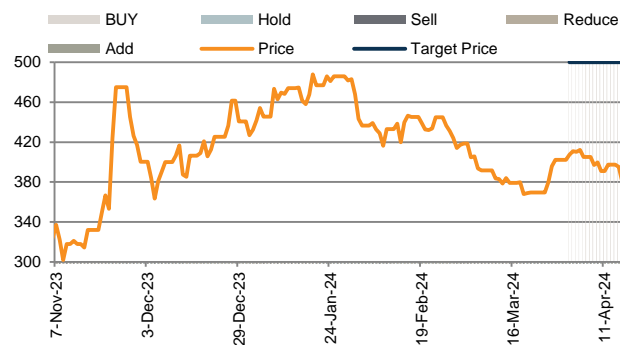
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**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-Apr-24	395	500	Buy	Nitin Gupta
07-Apr-24	405	500	Buy	Nitin Gupta
01-Apr-24	407	500	Buy	Nitin Gupta

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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