

23 May 2024

India | Equity Research | Q4FY24 results review

## FSN E-Commerce Ventures

Consumer Staples &amp; Discretionary

### Revenue growth accelerates in Q4, but margin visibility remains uncertain

Nykaa grew BPC GMV 30% YoY in Q4FY24 aided by 'Pink Love Sale'. As a result, BPC gross margin declined by 150bps YoY. Advertisement expenses grew 110bps YoY, indicating renewed investments in the core category. Management highlighted that the B2B e-commerce segment has reduced losses despite rapid scale-up (+90% YoY growth in Q4FY24). Management is also bullish on its expansion in GCC, 'Nysaa' and called out that capex cost had peaked in FY23. While the revenue growth trajectory is improving, ad revenue growth (as a proportion of GMV) remains muted. Also, increasing competitive intensity from other channels/players and its potential impact on margin remains unclear at this point. We downgrade to **HOLD** on margin concerns and maintain our DCF based TP of INR 175.

### Results broadly in-line for Q4FY24

Revenue grew 28.1% YoY (down 6.8% QoQ) to INR 17.68bn (I-Sec: INR 17.82bn) driven by continued sales momentum in BPC (+24% YoY), fashion (+27% YoY) and scaling up of eB2B business (others grew 90% YoY). Overall GMV was up 31.6% YoY (down 11.1% QoQ) to INR 32.1bn driven by 30.1%, 26.8% and 67.6% YoY increase in BPC, fashion and others segments (eB2B), respectively. EBITDA was INR 933mn (I-Sec: 904mn), up 32.0% YoY (down 5.6% QoQ). GMV from existing customers: 1) stands at 79% in BPC in FY24 against 78% in FY23 and b) improvement in fashion from 38% in FY23 to 48% in FY24 is a positive development. Overall transacting consumers also grew 17% YoY and 20% YoY for BPC and fashion, respectively. BPC-owned brands continued to outperform with 39% YoY GMV growth while fashion-owned brands grew GMV by 25% YoY. Average order value (AOV) for BPC and fashion businesses stands at INR 1,788 (-0.8% YoY) and INR 4,546 (+6.6% YoY), respectively. Fashion segment contribution margin improved 310bps YoY in Q4FY24 compared to 260bps YoY decline in BPC segment. There was improvement in contribution margin by 720bps YoY in the Others segment.

### Management commentary

Management believes that there were market share gains in Q4FY24, as they grew (+28.1% YoY) at a faster rate than industry in a seasonally weak quarter.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	51,438	63,856	84,746	1,08,405
EBITDA	2,560	3,462	5,957	9,183
EBITDA Margin (%)	5.0	5.4	7.0	8.5
Net Profit	193	323	2,431	3,976
EPS (INR)	0.1	0.1	0.9	1.4
EPS % Chg YoY	(53.2)	67.9	651.7	63.6
P/E (x)	2,653.0	1,580.4	210.2	128.5
EV/EBITDA (x)	200.8	148.6	86.4	56.0
RoCE (%)	3.0	4.1	12.4	19.0
RoE (%)	1.4	2.3	15.7	21.3

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#### Market Data

Market Cap (INR)	512bn
Market Cap (USD)	6,144mn
Bloomberg Code	NYKAA IN
Reuters Code	FSNE BO
52-week Range (INR)	196 /122
Free Float (%)	47.0
ADTV-3M (mn) (USD)	10.4

Price Performance (%)	3m	6m	12m
Absolute	17.6	4.2	41.2
Relative to Sensex	16.2	(8.2)	21.4

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.2)	(2.4)
EBITDA	(1.2)	(2.3)
EPS	(1.8)	(3.6)

#### Previous Reports

07-02-2024: [Q3FY24 results review](#)

07-11-2023: [Q2FY24 results review](#)

Management noted that growth in this quarter was achieved by increasing marketing spends (+50bps YoY as a percentage of NSV) to acquire new customers. It believes that the company can sustain a similar growth rate going forward through a combination of aggressive customer acquisition growth, new launches across categories and improvement in technology.

In the BPC segment, there was strong growth in core categories of skincare and haircare. Management believes that 'stepification', whereby Nykaa educates users through content, helped in generating demand in skincare (serum/sunscreen), haircare and colour cosmetics categories.

In the fashion segment, improved efficiencies (reduction in fulfilment and marketing expenses as a percentage of NSV) and increasing revenue share from existing customers (36% in FY23 to 48% in FY24) led to a 220bps YoY improvement in contribution margin for FY24.

Nykaa launched 'Nysaa' in Q4FY24 for the GCC market. Management believes that GCC's market size (BPC – USD 30bn) offers headroom for high growth. Nysaa's e-commerce platform was launched in Jan'24 and its first offline store was opened in Mar'24 in Dubai.

Management believes that quick-commerce platforms will not help in demand generation for the BPC segment. However, they believe that the quick-commerce platform can be used to sell basic SKUs with a limited assortment for the BPC segment.

### Valuation

We downgrade to **HOLD** (from ADD) on the stock maintaining our DCF-based target price of INR 175. Key risks: on the downside: (1) chasing growth at elevated levels can be dilutive of gross margin, (2) success in fashion business can be difficult given higher competition in the category. On the upside: (1) Competition in the e-BPC space further weakens.

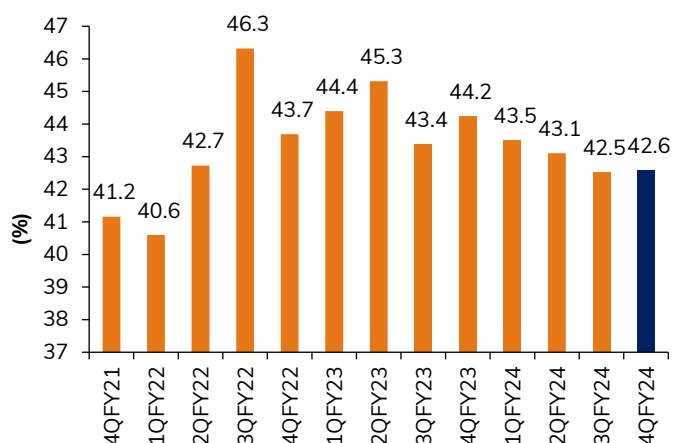
**Exhibit 1: Q4FY24 result review**

INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Net Revenues</b>	<b>16,680</b>	<b>13,017</b>	<b>28</b>	<b>17,888</b>	<b>(7)</b>
COGS	(9,577)	(7,259)	32	(10,281)	(7)
<b>Gross profit</b>	<b>7,102</b>	<b>5,758</b>	<b>23</b>	<b>7,607</b>	<b>(7)</b>
Staff cost	(1,421)	(1,273)	12	(1,479)	(4)
Other opex	(4,749)	(3,778)	26	(5,140)	(8)
<b>EBITDA</b>	<b>933</b>	<b>707</b>	<b>32</b>	<b>988</b>	<b>(6)</b>
Other income	71	97	(27)	76	(7)
Finance cost	(211)	(188)	13	(218)	(3)
D&A	(596)	(530)	12	(580)	3
<b>PBT</b>	<b>196</b>	<b>86</b>	<b>127</b>	<b>265</b>	<b>(26)</b>
Tax	(98)	(44)	126	(83)	19
<b>PAT before MI</b>	<b>97</b>	<b>43</b>	<b>128</b>	<b>182</b>	<b>(47)</b>
Minority Interest	28	19	51	20	37
<b>Recurring PAT</b>	<b>69</b>	<b>24</b>	<b>187</b>	<b>162</b>	<b>(57)</b>
Exceptional items	-	-	-	-	-
<b>Reported PAT</b>	<b>69</b>	<b>24</b>	<b>187</b>	<b>162</b>	<b>(57)</b>
<b>Costs as a % of sales</b>					
COGS	57.4	55.8	165 bps	57.5	-6 bps
<b>Gross margin (%)</b>	<b>42.6</b>	<b>44.2</b>	<b>-166 bps</b>	<b>42.5</b>	<b>5 bps</b>
Staff cost	8.5	9.8	-127 bps	8.3	24 bps
Other opex	28.5	29.0	-56 bps	28.7	-27 bps
<b>EBITDA margin (%)</b>	<b>5.6</b>	<b>5.4</b>	<b>16 bps</b>	<b>5.5</b>	<b>7 bps</b>
Income tax rate (%)	50.2	50.5	-24 bps	31.2	1906 bps
<b>GMV (INR mn)</b>					
BPC	21,197	16,289	30	23,697	(11)
Fashion	8,422	6,641	27	10,125	(17)
Others	2,554	1,524	68	2,373	8
<b>AOV (INR)</b>					
-BPC	1,788	1,803	(1)	2,024	(12)
-Fashion	4,546	4,266	7	4,681	(3)
-Others	3,966	3,368	18	4,027	(2)
<b>Orders (mn)</b>					
-BPC	11.1	8.8	26	11.1	-
-Fashion	1.7	1.4	21	2.0	(15)
-Others	0.6	0.4	50	0.6	-
<b>Annual Unique Transacting Customers</b>					
-BPC	11.7	10.0	17	11.1	5
-Fashion	3.0	2.5	20	2.9	3
-Others	0.7	0.5	40	0.6	17
<b>NSV (INR mn)</b>					
-BPC	12,712	10,238	24	13,805	(8)
-Fashion	2,324	1,859	25	2,752	(16)
-Others	1,453	807	80	1,309	11
<b>Revenue from operation (Rs mn)</b>					
BPC	13,887	11,200	24	15,045	(8)
Fashion	1,334	1,050	27	1,526	(13)
Others	1,458	768	90	1,318	11

Source: I-Sec research, Company data

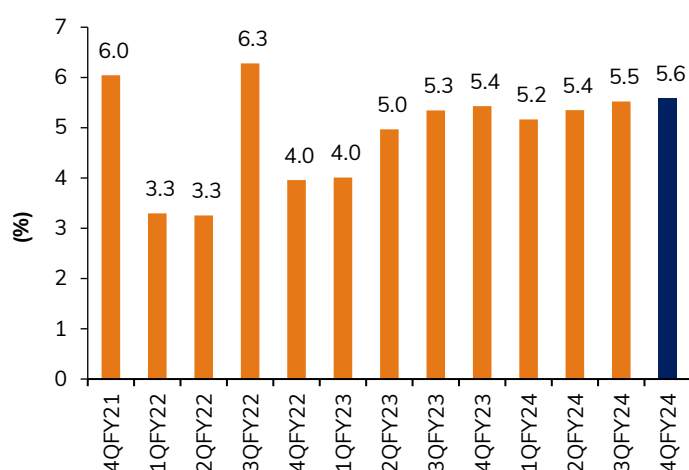
## Consolidated

**Exhibit 2: Gross margin (%)**



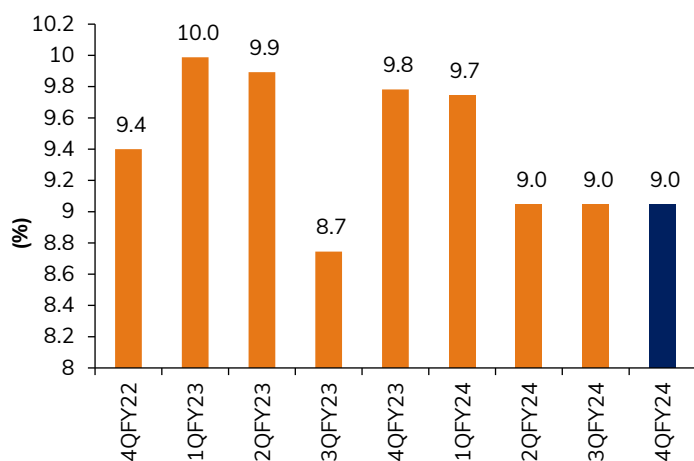
Source: I-Sec research, Company data

**Exhibit 3: EBITDA margin (%)**



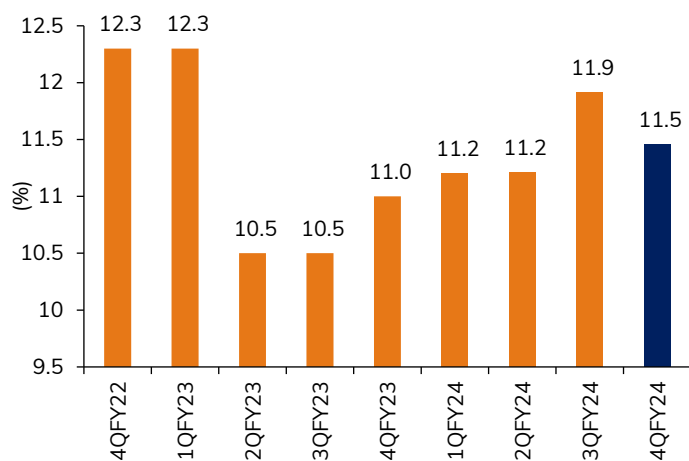
Source: I-Sec research, Company data

**Exhibit 4: Employee cost (%)**



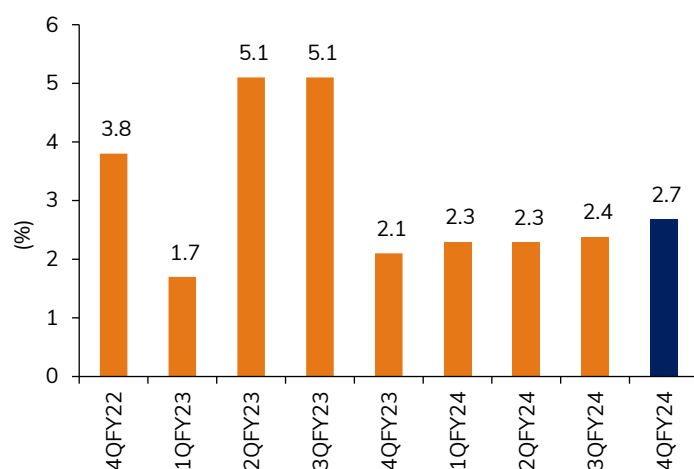
Source: I-Sec research, Company data

**Exhibit 5: Marketing and advertisement expense (%)**



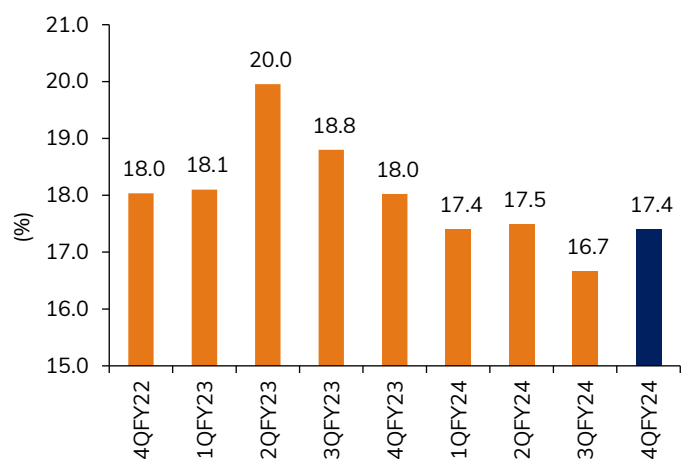
Source: I-Sec research, Company data

**Exhibit 6: Selling and distribution expense (%)**



Source: I-Sec research, Company data

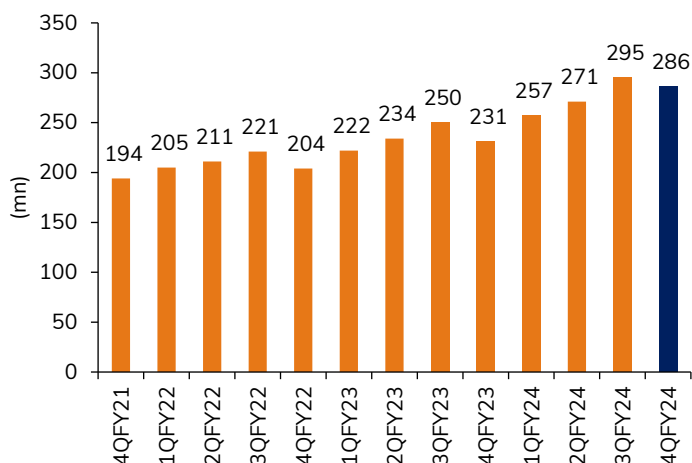
**Exhibit 7: Total opex (%)**



Source: I-Sec research, Company data

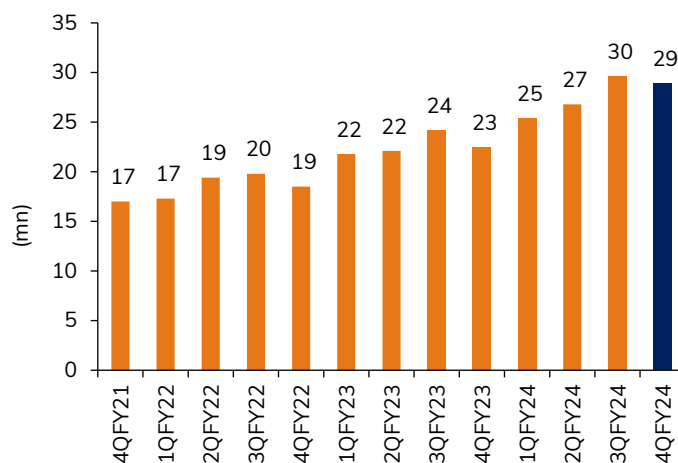
## BPC

**Exhibit 8: Number of visits (mn)**



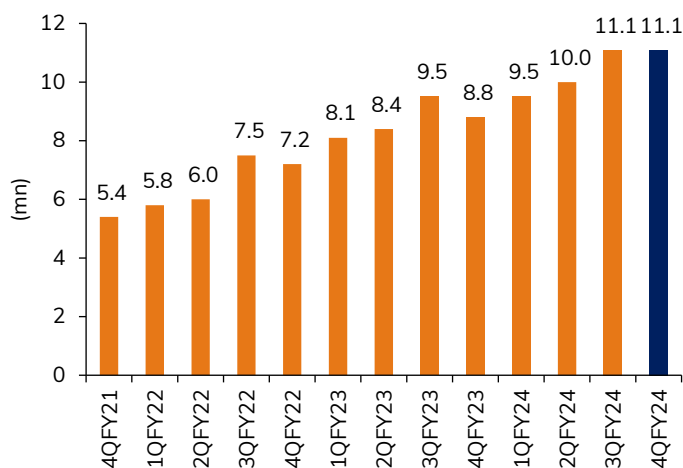
Source: I-Sec research, Company data

**Exhibit 9: Monthly average unique visitors (mn)**



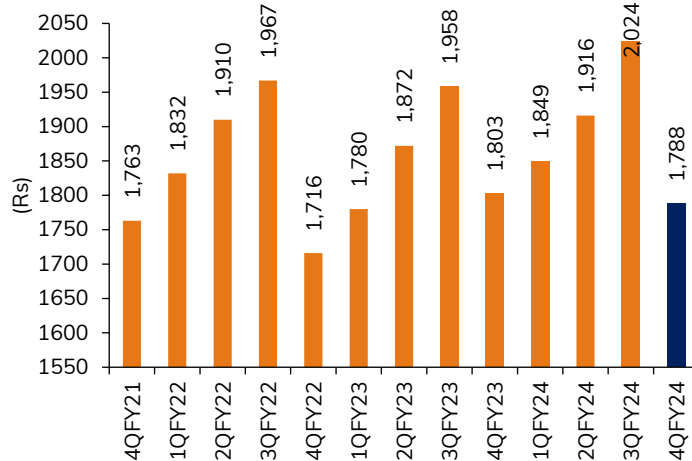
Source: I-Sec research, Company data

**Exhibit 10: Orders (mn)**



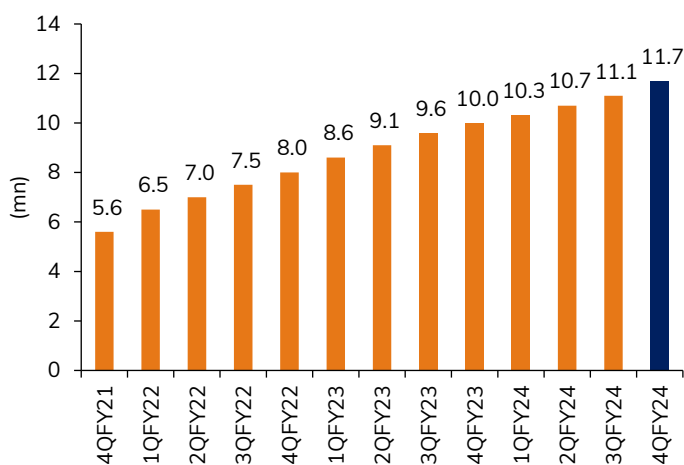
Source: I-Sec research, Company data

**Exhibit 11: AOV (INR)**



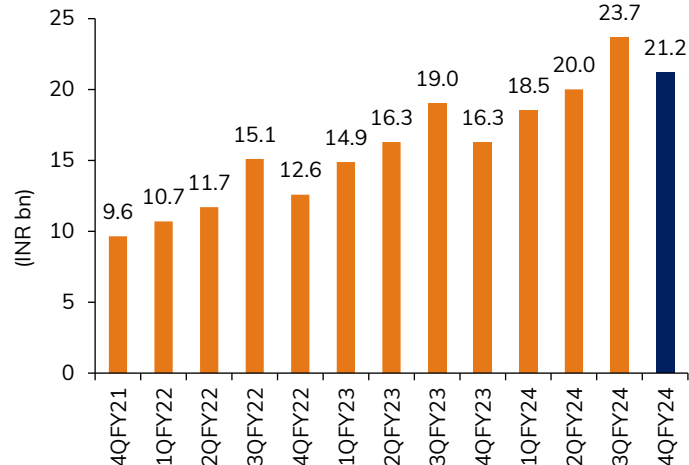
Source: I-Sec research, Company data

**Exhibit 12: Annual Unique Transacting Customers (mn)**



Source: I-Sec research, Company data

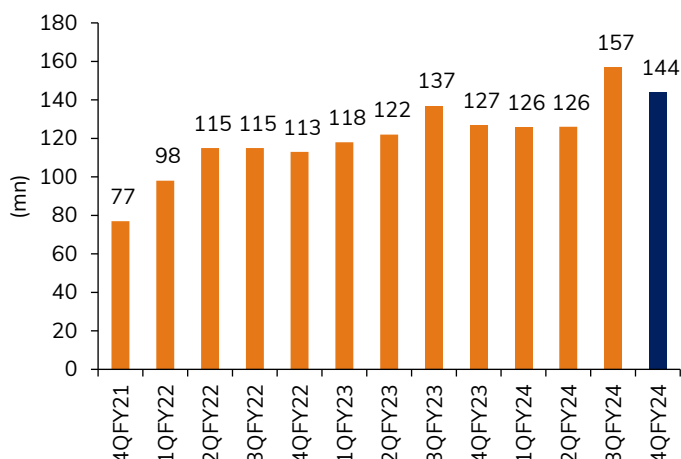
**Exhibit 13: GMV (INR bn)**



Source: I-Sec research, Company data

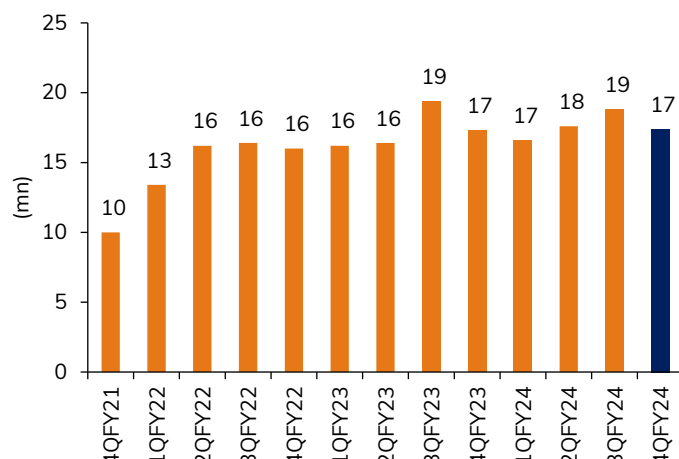
## Fashion

**Exhibit 14: Number of visits (mn)**



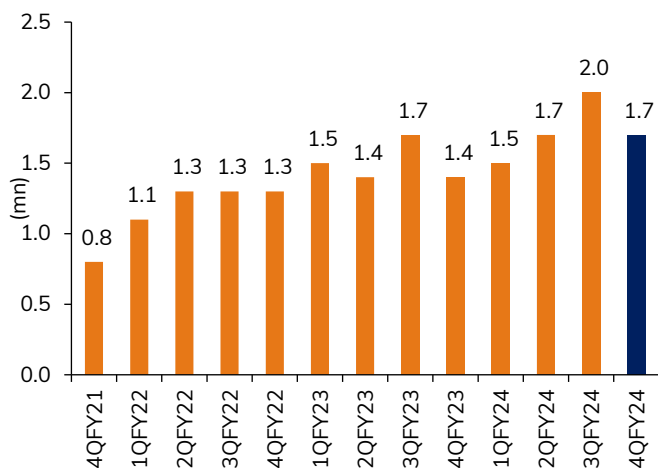
Source: I-Sec research, Company data

**Exhibit 15: Monthly Average Unique Visitors (mn)**



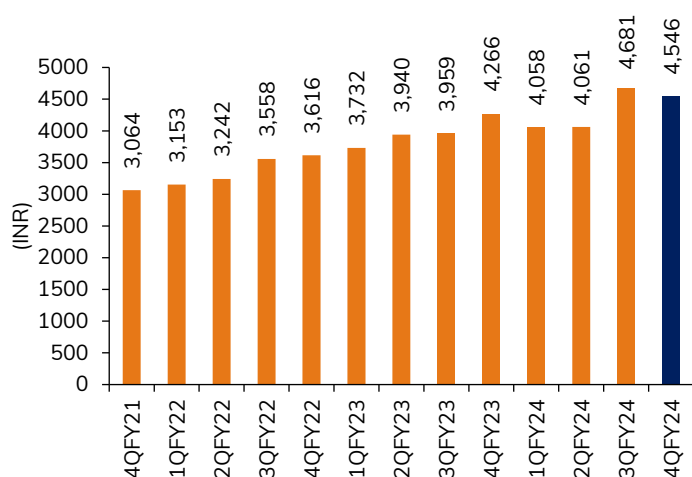
Source: I-Sec research, Company data

**Exhibit 16: Orders (mn)**



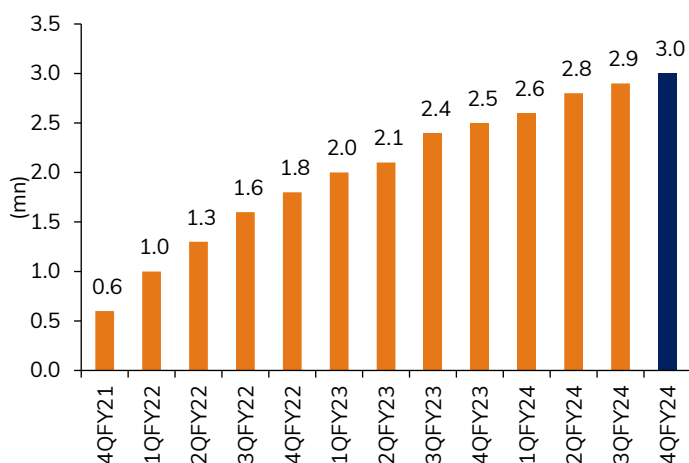
Source: I-Sec research, Company data

**Exhibit 17: AOV (INR)**



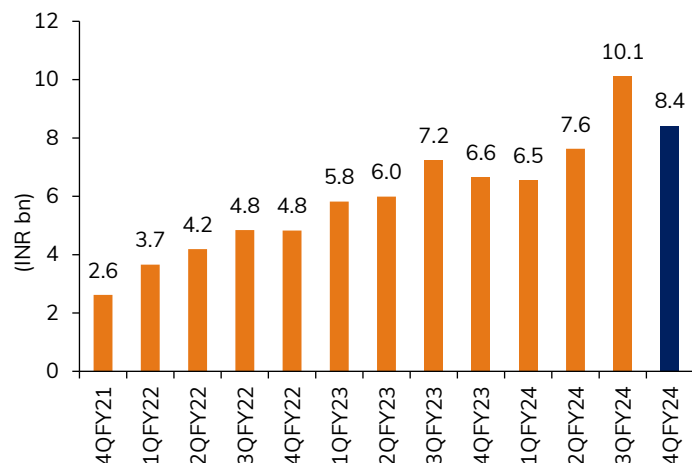
Source: I-Sec research, Company data

**Exhibit 18: Annual Unique Transacting Customers (mn)**



Source: I-Sec research, Company data

**Exhibit 19: GMV (INR bn)**



Source: I-Sec research, Company data

**Exhibit 20: Shareholding pattern**

%	Sep'23	Dec'23	Mar'24
Promoters	52.3	52.2	52.2
Institutional investors	24.3	25.9	27.5
MFs and others	10.6	10.9	12.3
FIs/Banks	0.1	0.0	0.0
Insurance	3.3	4.1	4.6
FIIIs	10.1	10.9	10.6
Others	23.6	21.9	20.3

Source: Bloomberg

**Exhibit 21: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 22: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>51,438</b>	<b>63,856</b>	<b>84,746</b>	<b>1,08,405</b>
Operating Expenses	48,878	60,395	78,789	99,223
<b>EBITDA</b>	<b>2,560</b>	<b>3,462</b>	<b>5,957</b>	<b>9,183</b>
EBITDA Margin (%)	5.0	5.4	7.0	8.5
Depreciation & Amortization	1,733	2,242	2,632	3,268
EBIT	828	1,219	3,326	5,914
Interest expenditure	746	828	870	884
Other Non-operating Income	302	299	945	435
<b>Recurring PBT</b>	<b>384</b>	<b>690</b>	<b>3,400</b>	<b>5,466</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	136	253	856	1,376
PAT	248	437	2,544	4,090
Less: Minority Interest	(56)	(114)	(114)	(114)
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>248</b>	<b>437</b>	<b>2,544</b>	<b>4,090</b>
<b>Net Income (Adjusted)</b>	<b>193</b>	<b>323</b>	<b>2,431</b>	<b>3,976</b>

Source Company data, I-Sec research

### Exhibit 23: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Total Current Assets</b>	<b>19,056</b>	<b>20,471</b>	<b>24,493</b>	<b>30,196</b>
of which cash & cash eqv.	1,487	1,153	756	1,020
<b>Total Current Liabilities &amp; Provisions</b>	<b>6,127</b>	<b>7,566</b>	<b>9,863</b>	<b>12,468</b>
<b>Net Current Assets</b>	<b>12,929</b>	<b>12,905</b>	<b>14,630</b>	<b>17,728</b>
Investments	381	381	381	381
<b>Net Fixed Assets</b>	<b>2,313</b>	<b>2,289</b>	<b>2,254</b>	<b>2,276</b>
ROU Assets	3,119	3,485	4,259	4,840
Capital Work-in-Progress	20	20	20	20
<b>Total Intangible Assets</b>	<b>1,844</b>	<b>1,844</b>	<b>1,844</b>	<b>1,844</b>
Long Term Loans & Advances	435	539	716	916
Deferred Tax assets	1,878	1,878	1,878	1,878
<b>Total Assets</b>	<b>23,372</b>	<b>23,905</b>	<b>26,730</b>	<b>30,838</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>4,604</b>	<b>4,604</b>	<b>4,604</b>	<b>4,604</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Provisions	93	115	153	195
Other Liabilities	1,373	1,373	1,373	1,373
Equity Share Capital	2,852	2,852	2,852	2,852
Reserves & Surplus	10,928	11,251	13,682	17,658
<b>Total Net Worth</b>	<b>13,780</b>	<b>14,103</b>	<b>16,534</b>	<b>20,510</b>
Minority Interest	141	141	141	141
<b>Total Liabilities</b>	<b>23,372</b>	<b>23,905</b>	<b>26,730</b>	<b>30,838</b>

Source Company data, I-Sec research

### Exhibit 24: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Dec-23	Mar-24
<b>Net Sales</b>	<b>14,218</b>	<b>15,070</b>	<b>17,888</b>	<b>16,680</b>
% growth (YOY)	23.8	22.4	22.3	28.1
<b>EBITDA</b>	<b>735</b>	<b>806</b>	<b>988</b>	<b>933</b>
Margin %	5.2	5.4	5.5	5.6
Other Income	67	86	76	71
Extraordinaries	-	-	-	-
<b>Adjusted Net Profit</b>	<b>33</b>	<b>58</b>	<b>162</b>	<b>69</b>

Source Company data, I-Sec research

### Exhibit 25: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>(1,402)</b>	<b>1,190</b>	<b>1,041</b>	<b>2,841</b>
Working Capital Changes	(3,290)	(525)	(2,482)	(3,242)
Capital Commitments	(2,082)	(1,277)	(1,610)	(2,168)
<b>Free Cashflow</b>	<b>(3,484)</b>	<b>(87)</b>	<b>(570)</b>	<b>673</b>
<b>Other investing cashflow</b>	<b>3,477</b>	<b>(44)</b>	<b>208</b>	<b>(103)</b>
Cashflow from Investing Activities	1,396	(1,321)	(1,402)	(2,271)
Issue of Share Capital	288	-	-	-
Interest Cost	(334)	(390)	(392)	(395)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	1,263	807	987	1,121
Cash flow from Financing Activities	49	(204)	(36)	(306)
<b>Chg. in Cash &amp; Bank balance</b>	<b>42</b>	<b>(334)</b>	<b>(397)</b>	<b>264</b>
Closing cash & balance	2,712	1,153	756	1,020

Source Company data, I-Sec research

### Exhibit 26: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	0.1	0.1	0.9	1.4
Adjusted EPS (Diluted)	0.1	0.1	0.9	1.4
Cash EPS	0.7	0.9	1.8	2.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	4.8	4.9	5.8	7.2
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	36.3	24.1	32.7	27.9
EBITDA	56.8	35.2	72.1	54.1
EPS (INR)	(53.2)	67.9	651.7	63.6
<b>Valuation Ratios (x)</b>				
P/E	2,653.0	1,580.4	210.2	128.5
P/CEPS	265.4	199.2	100.9	70.5
P/BV	37.1	36.2	30.9	24.9
EV / EBITDA	200.8	148.6	86.4	56.0
P / Sales	9.9	8.0	6.0	4.7
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	44.3	42.9	43.6	43.8
EBITDA Margins (%)	5.0	5.4	7.0	8.5
Effective Tax Rate (%)	35.4	36.7	25.2	25.2
Net Profit Margins (%)	0.5	0.7	3.0	3.8
Net Debt / Equity (x)	0.2	0.2	0.2	0.2
Net Debt / EBITDA (x)	1.2	1.0	0.6	0.4
Fixed Asset Turnover (x)	17.3	13.7	13.9	13.6
Working Capital Days	94	74	68	63
Inventory Turnover Days	82	75	72	68
Receivables Days	13	12	11	10
Payables Days	22	21	20	19
<b>Profitability Ratios</b>				
RoCE (%)	3.0	4.1	12.4	19.0
RoE (%)	1.4	2.3	15.7	21.3
RoIC (%)	3.4	4.4	13.0	19.8

Source Company data, I-Sec research

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