



NYKAA

NYKAA – IPO NOTE (FSN E-COMMERCE VENTURES LIMITED)

IPO DETAILS	
KSL Recommendation	MUST SUBSCRIBE FOR LISTING GAINS AND FOR THE LONG TERM
Offer Opens	October 28, 2021
Offer closes	November 1, 2021
Price Band	INR 1,085 – INR 1,125
Issue size (in Cr)	INR 5,250 Cr
Listing	BSE / NSE
Basis of Allotment Date	November 8, 2021
Initiation of Refunds	November 9, 2021
Credit of Shares in Demat A/c	November 10, 2021
IPO Listing Date	November 11, 2021
IPO Registrar	Link Intime India Private Limited
Company Promoters	Falguni Nayar, Sanjay Nayar, Falguni Nayar Family Trust And Sanjay Nayar Family Trust are the company promoters
Competitive Strengths	1) One of India's leading specialty beauty and personal care companies. 2) Major brands offering their products on Nykaa's platform for sale. 3) Capital efficient business with strong growth and profitability 4) Company's advanced technology platform

- Derived from the Sanskrit word, 'Nayaka' means an actress or one in the spotlight. Formed in 2012, Nykaa has become the largest specialty beauty and personal care (BPC) platform in India in terms of value of products sold.
- Nykaa has extensive BPC offerings, primarily across make-up, skincare, haircare, bath, and body segments.
- Nykaa Fashion was launched in 2018 as a separate app / website and has a wide assortment of offerings across price points. While fashion for Nykaa is scaling up well, it needs to be seen if its success in beauty products can be replicated here.
- Nykaa's GMV / revenues / EBITDA have grown at 2.5x / 2x / 8x over FY19-FY21. The company has also turned PAT positive in FY21 helped by lower marketing costs due to COVID-induced lockdowns.
- The company has a large market opportunity aggregating INR 10.6 Tn (USD 152 Bn) in the growing beauty, personal care and fashion industry by the calendar year 2025 in India.
- The Indian beauty and personal care market is estimated to grow to approximately INR 2 Tn (USD 28 Bn) by the calendar year 2025 from INR 1.1 Tn (USD 16 Bn) in the calendar year 2020.
- The Indian fashion market is estimated to grow to approximately INR 8.7 Tn (USD 124 Bn) by the calendar year 2025 from INR 3.8 Tn (USD 54 Bn) in the calendar year 2020.

FINANCIAL PERFORMANCE.....

Particulars (INR Cr)	FY19	FY20	FY21
Equity Share Capital	14.24	14.55	15.6
Networth as stated	230.56	322.15	489.94
Revenue from Operations	1,111.39	1,767.53	2,440.90
EBITDA	20.51	81.06	161.43
Profit / Loss Before Tax	(31.72)	(12.43)	75.34
Net Profit / Loss Before Tax	(24.54)	(16.34)	61.95
EPS – Basic (INR)	(0.58)	(0.38)	1.33
RONW (%) as stated	(10.63)%	(5.16)%	8.35%
Net Asset Value (INR)	5.45	7.29	10.56

Source: Company, Moneycontrol.com, KSL Research, DRHP

Note: Ratios are computed after considering impact of share sub-division as per board meeting dated July 15, 2021, Conversion of OCRPS etc.

Company Snapshot

- FSN E-Commerce Ventures (Nykaa) was incorporated in 2012 and has, since, seen rapid growth over the years, to become the largest specialty beauty & personal care platform in India, based on products sold in FY21.
- It has two major divisions – beauty & personal care (comprising 84% of GMV sales in FY21) and fashion (comprising 16% of GMV sales in FY21).
- The company clocked a GMV of INR 40 Bn in FY21 which translates into revenues of INR 24.4 Bn, EBITDA of INR 1.6 Bn (EBITDA margin of 6.6%) and PAT of INR 618 Mn.
- In its beauty & personal care segment, Nykaa has an extensive offering of 197,195 SKUs from 2,476 brands, primarily across the make-up, skincare, hair-care, bath & body, fragrance, grooming appliances, personal-care, and health & wellness categories.
- Nykaa's own brands include 'Nykaa Cosmetics', 'Nykaa Naturals' and 'Kay Beauty'.
- In 2014, the company opened its first physical store at T3 international airport, New Delhi. As of March 2021, the company had 73 stores in 38 cities, including one store for Fashion. It operates its stores under three formats – Nykaa Luxe, Nykaa On Trend and Nykaa Kiosks.
- The company's operations primarily follow an inventory-led model in its beauty & personal care division which helps in validating authenticity of products coupled with ensuring availability and timely delivery.
- In 2018, the company launched 'Nykaa Fashion' as a curated and managed marketplace. As of March 2021, Nykaa Fashion houses 1,350 brands and over 1.8m SKUs with fashion products across four consumer divisions – women, men, kids and home. Nykaa clocked the highest average order value (AOV) among leading online fashion retail platforms in India, in FY21.
- Nykaa Fashion has six owned brands, which are available at Nykaa's online and physical store, along with MBOs.

Key Metrics

Y/E March	FY19	FY20	FY21
<u>BPC</u>			
GMV (INR Mn)	16,219	24,981	33,804
No. of orders (Mn)	11.0	17.0	17.1
Average Order Value (INR)	1,433	1,448	1,963
Number of Visits (Mn)	378	575	659
Monthly Average Unique Visitors (Mn)	9.1	12.2	13.5
Annual Unique Transacting Customers (Mn)	3.5	5.3	5.6
<u>FASHION</u>			
GMV (INR Mn)	282	1,868	6,656
No. of orders (Mn)	0.4	1.1	2.4
Average Order Value (INR)	655	1,604	2,739
Number of Visits (Mn)	0.1	37.8	172.1
Monthly Average Unique Visitors (Mn)	0.03	1.7	5.8
Annual Unique Transacting Customers (Mn)	-	0.1	0.6

- Despite competition from horizontal e-commerce majors such as Flipkart & Amazon India, Nykaa has been able to carve out a niche for itself with its 'loyal' customer base, backed by focus on content, curation & assortment.
- Starting as a pure-play online e-tailer, Nykaa has also diversified into offline retail and now operates a network of 73 stores across 38 cities.
- In 2018, it entered the fashion category through a separate vertical called Nykaa Fashion, and has seen strong growth there. GMV for the fashion business has already ramped up to INR 15 Bn (USD 200 Mn) on a run-rate basis and accounted for >25% of overall GMV in 1Q-FY22. Another area, where
- Nykaa sets itself apart from other e-commerce majors is its focus on unit economics and profitability. Nykaa achieved EBITDA break-even in FY19, and since then, EBITDA margin expanded to 6.6% in FY21.
- With growing scale, Nykaa also achieved PAT break-even in FY21. Given limited cash burn and asset-light balance sheet, promoter shareholding (54% currently) is higher as dilution has been lower than what is typically seen in other consumer internet plays.

Business Overview

Nykaa is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. The Company has a diverse portfolio of beauty, personal care and fashion products, including our owned brand products manufactured by us. As a result, Nykaa established themselves not only as a lifestyle retail platform, but also as a consumer brand. The Company offers consumers an Omnichannel experience with an endeavor to cater to the consumers' preferences and convenience:

- **Online:** Nykaa's online channels include mobile applications, websites and mobile sites. According to the RedSeer Report which has been exclusively commissioned and paid for by the company in connection with the Offer, Nykaa has one of the highest share of mobile application-led transactions, among the leading online retail platforms in India during FY21 and the five months ended August 31, 2021.
- **Offline:** Nykaa's offline channel are spread over three different store formats. The physical stores offer a select offering of products as well as a seamless experience across the physical and digital worlds.

The Company's lifestyle portfolio spans across beauty, personal care and fashion products. Nykaa believes that consumers have different journeys for different lifestyle needs, and this has led them to build business vertical-specific mobile applications, websites and physical stores. These independent channels allows Nykaa to tailor content and curation optimally for the convenience of consumers and to cater to the different consumer journeys that exist in these business verticals:

- **Nykaa: Beauty and personal care**
- **Nykaa Fashion: Apparel and accessories**

In addition to leveraging the company's strengths in comprehensive merchandising, brand relationships and delivery experience, Nykaa focuses on educating consumers via digital content, digital communities and tech product innovations, which is an integral component of the business model.

Beauty and Personal Care offering

Nykaa's 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. As a result, Nykaa brand has become synonymous with beauty products in India. The Company's portfolio includes domestic brands, international brands, luxury and prestige brands, premium brands, niche and cult brands.

Fashion offering

The Company launched Nykaa Fashion in 2018, as a curated and managed marketplace with an endeavor to inspire consumers to make fashion and lifestyle choices that best suit them. Nykaa has a 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, the company merchandised across several categories including 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 offers a mix of brands across established national brands, international brands, luxury brands, and emerging labels and designers.

Diverse portfolio of owned brands

Nykaa has a portfolio of 15 owned brands. The owned brand portfolio is executed by identifying gaps in the market, both across requirements of diverse consumers and multiple price points, and building brands to suit these needs, with a focus on high quality products. 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 naturally derived ingredients focused brand for skincare products such as bath and body offerings, masks and haircare.
- **Kay Beauty:** offers premium range beauty products across lips, eyes, face and nails categories.
- **Dot & Key:** offers premium skincare products across serums, toners, cleansers and face masks and has recently expanded into nutraceuticals.
- **Twenty Dresses:** The apparel product line includes western wear across dresses, jumpsuits, tops, pants skirts as well as footwear, bags, and accessories.
- **Nykd by Nykaa:** offers lingerie and includes bras, panties, sleepwear, shapewear and athleisure.
- **Pipa Bella:** offers on-trend aesthetic jewelry such as earrings, necklaces, bracelets, rings and hair accessories.
- **RSVP:** offers a wide and premium collection of dresses, jumpsuits, tops and skirts as well as footwear and bags.
- **Gajra Gang:** offers a wide and premium range of kurta sets, ethnic dresses, saree, tops and accessories.

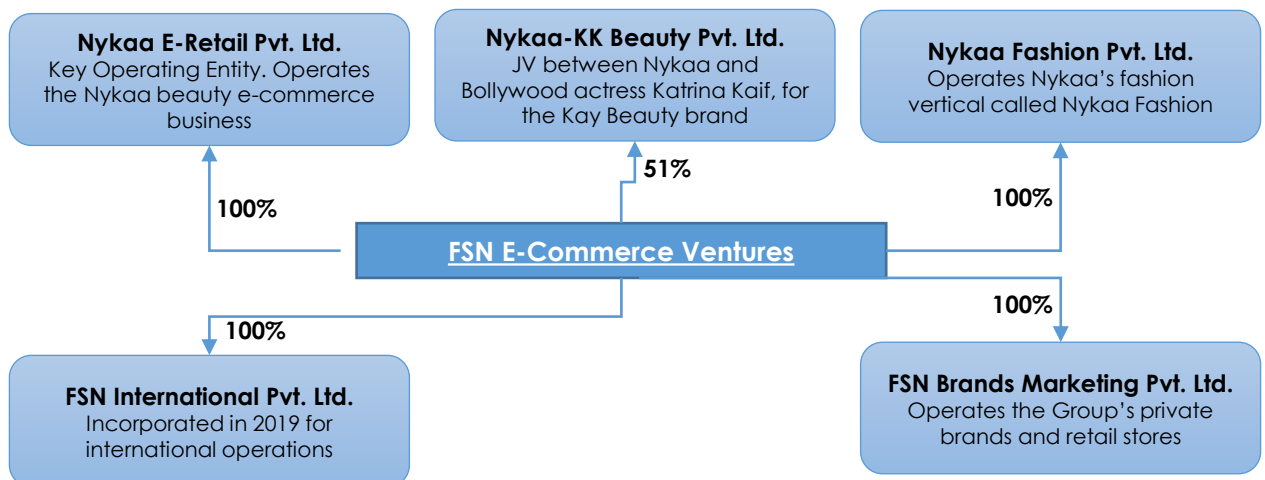
Main Sources of Revenue

Revenue from Sale of Products	Revenue from Marketplace	Revenue from Marketing Support Services
<ul style="list-style-type: none"> The BPC division runs on the inventory model (including variants such as sale or return and just-in-time; negligible or nil marketplace sales) which means that the company buys the goods from these to customers. It takes on the cost of working capital and the risk of obsolescence. 	<ul style="list-style-type: none"> The fashion division runs largely on the marketplace model (although some part of the business operates on the inventory model). In this model, the company charges only a commission from vendors who list and sell products on the Nykaa platform. 	<ul style="list-style-type: none"> This is the revenue that Nykaa gets for advertising by brands on its platform or for promoting brands in searches.

Objects of the Issue

Objectives	INR Mn
Investment in some subsidiaries, namely, FSN Brands and/or Nykaa Fashion for funding the set-up of new retail stores	350
Capital expenditure to be incurred by Nykaa and investment in some subsidiaries, namely, Nykaa E-Retail, FSN Brands and Nykaa Fashion for funding the set-up of new warehouses	350
Repayment or prepayment of outstanding borrowings availed by Nykaa and a subsidiary, namely, Nykaa E-Retail	1,300
Expenditure to enhance visibility and awareness of Nykaa brands	2,000
General corporate purposes	1,250
TOTAL	5,250
Secondary – Number of shares on Offer for Sale (OFS)	43,111,670
% of total number of shares	9.2%

NYKAA Group Corporate Structure



BPC / fashion markets offer strong growth potential

India's online Beauty & Personal Care (BPC) market stands at a mere INR 1,120 Bn and is only 8% penetrated, as per Red Seer Report. The online market is estimated to grow at 17.3% CAGR through CY20-25E, propped by factors such as 1) increased digital adoption on smartphone penetration, 2) inexpensive data pricing globally and 3) ease of online payments via UPI. Globally, the online BPC market in the US / China is 18% / 30% penetrated and India too offers significant potential. Nykaa enjoys 37.6% market share (based on GMV) in the online BPC market as of FY21. We expect the company to outperform market averages and approximate 50% share in FY26E, given its competitive strengths. Comparatively, India's online fashion market is INR 450 Bn and 5% penetrated. The market is estimated to grow at 14.1% CAGR by CY25E, aided by changing consumer behavior amidst COVID (online shift visible) as also innovations via AI / ML catalyzing heightened retail experience online. Nykaa currently enjoys a mere 1.5% market share in the fashion segment given the business' nascent nature. However, we estimate this to spike to 6.5% by FY25E.

Social media/influencer marketing – Next new drift

Social media and influencer marketing have immensely aided brand awareness, cost effectively. Nykaa ties up with many social media influencers on long-term contractual basis due to its large-scale offerings. This saves marketing costs for the platform. Such a marketing mode is very important to creating awareness/buzz in tier II/III markets as most such influencers enjoy huge following there. Many brands have reported a phenomenal 200- 300% sales jump, riding on influencer marketing bandwagon. Thus, Nykaa depends heavily on it. However, most recently, social media marketing costs too have spiked substantially. Thus, Nykaa has turned more selective on right influencer fit. Nykaa targets user engagement through video content, which is developed to promote new products to its existing customer base. At present, user engagement in this medium stands at a mere 0.2%. However, it is still significant given the presence of substantial digital audience.

Nykaa platform – Win-win proposition for brands

Many emerging brands have been able to grow sales multi-fold in the past few years, propped by the Nykaa platform, a one-stop hub for consumer product exploration in the BPC space. Brands have also experimented with opting for direct to consumer (D2C). However, many failed to amass customer base scale due to heavy marketing expenses and poor retention. A wide gap exists between commission revenues (take-rates) earned from larger brands versus those from smaller brands. However, smaller brands benefit from leveraging Nykaa's loyal customer base that helps them post strong growth. Larger brands provide lower take-rates to Nykaa, but spend reasonably on advertising and product promotion. To its advantage, Nykaa sieves and retains customer data that may be leveraged to cross sell/up sell products/services.

Nykaa – Loyal/premium BPC customer pool favorable

Nykaa continues to focus on customer retention as revenues from existing customers contributed 70% to FY21 revenues (55% in FY19). This bolsters the loyalty factor and brand recall for Nykaa in BPC. Further, this customer base is premium due to higher AOV trend for Nykaa versus competitors. A big untapped opportunity exists for Nykaa to cross sell its new services to this loyal base. The company offers discounts in line with peers for regular/emerging brands; however, strong recall for premium products remains despite low or no discount. This reinforces the view that premium customers are indifferent to discounting and seek: 1) better platform experience and 2) original product guarantee. Some customers may have shifted to other platforms, lured by discounts as BPC customer base is shifty. However, given Nykaa's premium user experience, most have returned. A significant part of the customer base (~80% retention) has been on the platform for ~2-2.5 years, which compensates for the cost of customer acquisition (CAC).

Valuations: Favorable metrics to ensure premium

We expect Nykaa to trade at a big scarcity premium versus global counterparts (average CY23 EV/sales of 2.6x), primarily backed by factors such as: 1) better growth rate, 2) profitable business pre pandemic, 3) visibility for stable take-rates, 4) premium customer base and 5) strong recall for online BPC segment versus other Indian counterparts. Valuation for Nykaa is likely to grow at a CAGR of 20%-25% over the next four years backed by; 1) good execution and successful emerging businesses lines (Nykaa Man and fashion) and 2) improved profitability (backed by success in private labels) should have a multiplier effect on valuation multiples over medium to long term.

INCOME STATEMENT (INR Mn)

Y/E March	FY19	FY20	FY21
Revenue	11,114	17,675	24,409
COGS	6,603	10,142	14,878
Employee Cost	1,173	1,956	2,836
Other Expenses	3,133	4,767	5,080
EBITDA	205	811	1,614
Depreciation	309	595	671
EBIT	(104)	215	943
Interest Expenses	263	443	307
Other Income	50	103	117
Profit Before Tax	(317)	(124)	753
Tax Expenses	(72)	39	134
Profit After Tax	(245)	(163)	619
FDEPS	(1.6)	(1.1)	4.1
BVPS	15	21	33

Balance Sheet (INR Mn)

Y/E March	FY19	FY20	FY21
Equity Capital	142	146	151
Reserves	2,163	3,076	4,749
Net Worth	2,306	3,221	4,899
Total Debt	2,256	2,675	1,875
Other Long Term Liabilities	788	1,355	1,147
Minority Interest	5	7	8
Account Payables	1,818	3,133	3,162
Other Current Liabilities	585	853	1,928
Total Liabilities	7,757	11,245	13,020
Gross Fixed Asset	755	1,261	1,595
Acc. Depreciation	220	432	678
Net Fixed Assets	535	829	917
Capital WIP	3	20	24
Long Term Investments	32	38	13
Others	1,546	2,203	2,436
Inventory	2,446	4,453	4,981
Receivables	579	984	766
Loans and Advances	48	74	54
Other Current Assets	1,097	887	1,352
Cash and Cash Equivalents	1,470	1,756	2,477
Total Assets	7,757	11,245	13,020

YoY Growth

Y/E March (%)		FY20	FY21
Sales		59.0	38.1
EBITDA		295.2	99.2
EBIT		-	337.7
PAT		-	-

Key Ratios

Y/E March (%)	FY19	FY20	FY21
Gross Margin	40.6	42.6	39.0
EBITDA Margin	1.8	4.6	6.6
PAT Margin	(2.2)	(0.9)	2.5
ROE	(10.6)	(5.9)	15.2
ROIC	(3.5)	5.4	12.2
Core ROIC	(2.6)	7.8	18.3

Days

Y/E March (x)	FY19	FY20	FY21
Receivable Days	19	20	11
Inventory Days	135	160	122
Payable Days	60	65	47
Non-Cash WC Days	95	116	86

Cash Flow

Y/E March (INR Mn)	FY19	FY20	FY21
Profit Before Tax	(317)	(124)	753
Depreciation	309	595	671
Others	295	419	479
Tax Paid	-	(43)	(132)
Change in WC	(1,284)	(786)	(273)
Operating Cashflow	(997)	62	1,498
Capex	(349)	(457)	(421)
Change in Investment	(1,271)	606	(897)
Others	-	1	20
Investing Cashflow	(1,620)	149	(1,297)
Change in Debt	1,426	419	(800)
Change in Equity	7	5	6
Others	924	263	417
Financing Cashflow	2,357	687	(377)
Net Change in Cash	(260)	898	(176)

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