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Initiating coverage

Consumer Staples & Discretionary

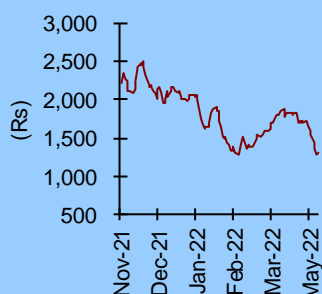
Target price: Rs1,250

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	52.6	52.6	52.4
Institutional investors	7.9	9.2	9.1
MFs and others	1.8	2.5	2.0
FIs/Banks	0.6	0.1	0.1
Insurance	0.2	0.3	0.3
FII	5.4	6.3	6.7
Others	39.5	38.2	38.5

Source: BSE

Price chart



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INDIA

ICICI Securities

FSN E-Commerce Ventures

HOLD

Specialty Beauty & Personal Care player with offline, mass, (bigger) retail aspirations

Rs1,314

FSN E-Commerce Ventures is the parent company of Nykaa, an Indian e-commerce player in the business of beauty, wellness and fashion products. Nykaa presents a combination of: (1) largest beauty and personal care (BPC) business in a growth market (India), (2) good profitability metrics (double-digit EBITDA margin in BPC business) and prudent capital allocation, and (3) omni-channel in the 'true sense' (going online to offline). To add to this, a strong promoter and professional management provide good visibility on growth momentum while extensions such as fashion (initial signs look promising) highlight the brand strength. Its strength of content-driven and inventory-driven models in BPC will continue to be key differentiators – the former is a long-drawn journey and cannot be built by a new entrant just on the strength of capital.

That said, competition will likely intensify from both vertical and horizontal peers. While we expect BPC revenues to grow at a CAGR of 36% over FY21-FY26E, we believe Nykaa's journey could be different – it will have to go more mainstream to drive this growth (tougher decisions about brand stretch along the way). We initiate coverage with a HOLD rating and a TP of Rs1,250.

- **Game ahead may be different:** We expect Nykaa to go more mainstream to chase higher growth rates, which will expose it to competition from horizontal and other e-commerce (mass) players. To put this point across, Nykaa does not offer the best price on a product (in online world) and going mass may require a tweak in its strategy of less discounting. Nykaa (till now) solved two key issues in the Indian BPC space – the authenticity issue (cosmetics has one of the highest counterfeiting) and access issues (good purchasing power with the top cohorts of lower-tier cities; 60% of Nykaa's BPC is from cities other than tier-1). However, the mass products neither have access issues nor major authenticity issues.
- **Multiple avenues to drive growth:** We expect Nykaa to: (1) be aggressive in (brand) acquisitions (use stock as a currency), (2) further strengthen its position (with brands) by expanding in the e-B2B space (as distributor), (3) invest in the nascent male grooming category, and (4) strengthen offline presence and warehousing capabilities. Furthermore, Nykaa is expected to be a big beneficiary of D2C disruption in BPC business where several smaller brands will fight for space on specialty platforms. Improved confidence on success in the fashion segment will also be key.
- **Initiate with HOLD:** We model revenue and EBITDA CAGRs of 40.5% and 63% respectively over FY21-FY26E. We initiate coverage on the stock with a **HOLD** rating and DCF-based target price of Rs1,250. Key risks: (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: Competition in the e-BPC space further weakens.

Market Cap	Rs621bn/US\$8bn	Year to March	FY21	FY22E	FY23E	FY24E
Bloomberg	NYKAA IN	Revenue (Rs mn)	24,409	37,801	56,890	78,437
Shares Outstanding (mn)	474.2	Adj. Net Profit (Rs mn)	618	549	2,644	4,299
52-week Range (Rs)	2493/1125	Dil. Rec. EPS (Rs)	4.1	1.2	5.6	9.1
Free Float (%)	47.4	% Chg YoY	(459.8)	(71.8)	381.1	62.6
FII (%)	5.4	P/E (x)	320.0	1,134.0	235.7	144.9
Daily Volume (US\$'000)	31,099	CEPS (Rs)	8.6	3.0	8.5	13.3
Absolute Return 3m (%)	(20.4)	EV/EBITDA (x)	122.2	356.4	126.8	80.2
Absolute Return 12m (%)	NA	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	(9.0)	RoCE (%)	13.9	6.8	23.9	30.2
Sensex Return 12m (%)	9.7	RoE (%)	12.6	4.7	18.4	23.0

Please refer to important disclosures at the end of this report

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Nykaa – The genesis and evolution till now

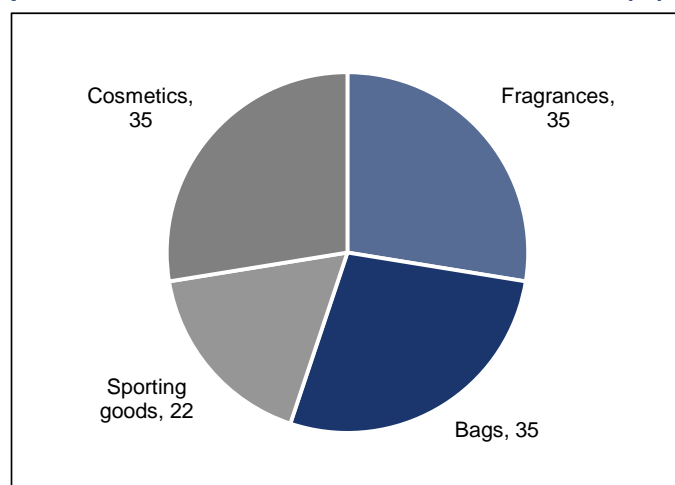
The key question asked about every (new-age) consumer company is “*What problem is it solving?*” Answer to this question gives a glimpse of the ‘right-to-win’ of the company. Nykaa solves two key issues in the BPC space: (1) in its initial days, it focused on solving the ‘authenticity issue’; and (2) as it gained popularity and reach increased, it started solving access issues (discussed below).

Solving authenticity issues

Nykaa offers authenticity assurance on its BPC range, which is possible given its tightly managed inventory (owned) system. Besides brand-attested certificates (authorised retailer) on the product page, Nykaa even delivers physical certificates (highlighting genuineness) along with its premium products. This gives it an edge over most of the (horizontal) marketplaces, which cannot own inventory (directly).

We note that the authenticity issue is quite a concern for the Indian e-commerce industry. In a 2018 survey, it was identified that fragrances and cosmetics are the top categories for counterfeit/fake products sold via e-commerce sites.

Chart 1: Categories where most counterfeit or fake products are received from e-commerce sites (%)



Source: Localcircles

Chart 2: Assurance certificates by brands on Nykaa's product pages



Source: Nykaa.com

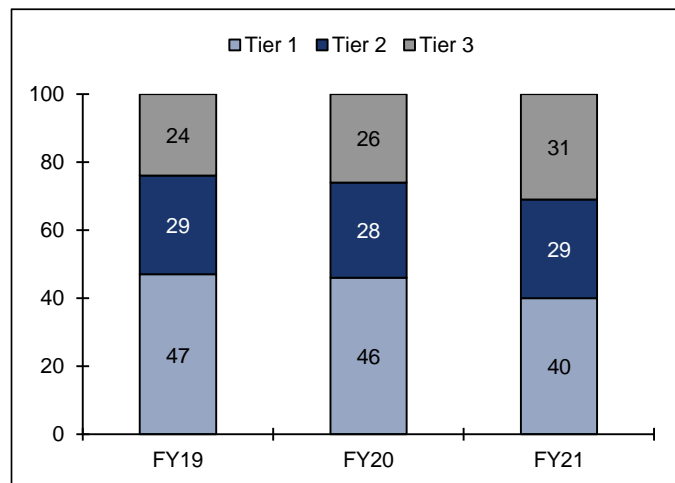
Solving access issues

While demand for premium beauty products may seem more of an urban phenomenon, Nykaa is actually witnessing stronger growth rates from tier-2 and below cities (where it is solving access issues). With India's tier-2 and below cities witnessing increasing aspirations and good wealth levels (at least for the top cohorts), there is growing demand for high-quality lifestyle products.

Interestingly, tiers 2+3 towns contributed more than >60% of the GMV in FY21. We gather that the nature of the basket when compared to the tier 1 and tier 2+3 cities is not materially different (this also ties up with the view other companies highlight).

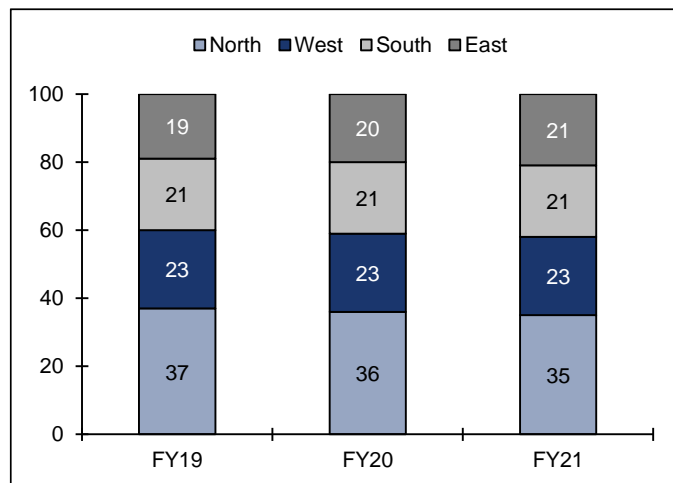
We believe Nykaa has the highest share of premium BPC products compared to other BPC product platforms. While the availability of these premium products is good in urban centres (at good physical outlets), smaller towns most likely don't have a lot of physical outlets retailing them.

Chart 3: Nykaa's BPC GMV contribution (%) by cities (tier-wise)



Source: Company, I-Sec research

Chart 4: Nykaa's fashion GMV contribution (%) by region



Source: Company, I-Sec research

The way ahead

Online beauty and fashion market

Nykaa is already a dominant player in the Indian online BPC market with a 28.6% market share, as per our estimate. Our growth estimates for the (Indian BPC) industry and Nykaa imply that: (1) Nykaa will have a ~33% market share of the online BPC market in FY26E, and (2) Nykaa's market share of the overall BPC market will increase to 7.3% in FY26E from 2.7% in FY21 [see Table 1].

We expect the BPC market in India to grow at a 12% CAGR over FY21-FY26E to reach Rs1.9trn. It was sized at Rs1.1trn in FY21, down from Rs1.3trn in FY20, due to the impact of covid (reduced spending on discretionary items). Prior to 2019, the BPC market had grown at a CAGR of 13% for the preceding three years. Our industry growth estimate implies a 7% CAGR over FY20-FY26E.

Table 1: India BPC market size and growth

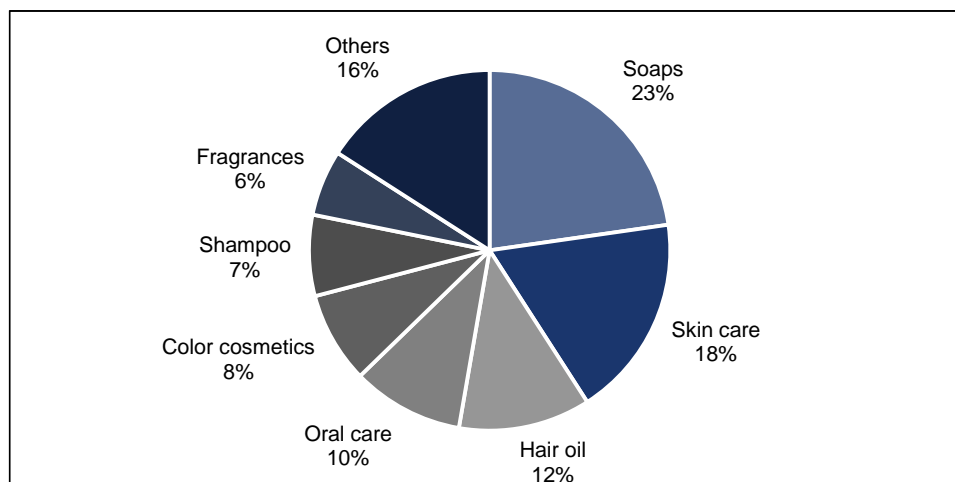
	FY21	FY26E	FY21-26E CAGR (%)
BPC Market (Rs bn)	1,100	1,939	12.0
Online Penetration (%)	8.5	20.0	
Online BPC Market (Rs bn)	94	388	32.9
Nykaa BPC online GMV (Rs bn)	27	127	36.6
Nykaa's share in online (%)	28.6	32.8	
Nykaa's overall GMV (Rs bn)	30	141	
Nykaa's market share of Indian BPC market (%)	2.7	7.3	

Source: I-Sec research; GMV considered here is (approx.) online GMV ex of cancellation and return

We estimate: (1) BPC industry CAGR of 12% over FY21-FY26E, (2) online penetration to increase from 8.5% in FY21 to 20% in FY26E, (3) 36-37% CAGR in Nykaa's online GMV. This implies that Nykaa's market share in the online BPC market would increase from 28.6% in FY21 to 32.8% in FY26E.

Nykaa's market share in the overall BPC market is another lens to look at the growth assumptions. Using the above estimates, we estimate Nykaa to have 7.3% market share in FY26E (of overall BPC market) vs 2.7% in FY21.

We do understand that the entire BPC basket is (probably) not the addressable market for Nykaa given that it includes the entire gambit of products like bar soaps, shampoos (including sachets), hair oils, etc. Nykaa does have these products on its portal – multi-packs of bar soaps, large SKUs of (mass-end) shampoos and hair oils. However, a deeper assortment in the BPC category may be gross margin dilutive for Nykaa.

Chart 5: Break-up of India BPC market

Source: I-Sec research

While these growth rates are achievable, we believe the risks will be different given that there will have to be a tweak in the strategy. The competition ahead will be of a different nature (discussed below) as Nykaa will have to go more mainstream to drive growth.

Game ahead will be different

Firstly, Nykaa is not the cheapest place to buy a BPC product. That was a good thing till now, but will Nykaa have to tweak its strategy to continue the growth momentum?

Table 2: Price comparison on e-commerce sites

Rs	SKU	Nykaa	Bigbasket	JioMart	DMart Ready	Blinkit	
	H&S Anti Hair Fall	650 ml	413	350	449	440	399
	Colgate DC	500 gm	244	182	182	189	202
	Bajaj Almond	475 ml	275	274	NA	275	266
	Himalaya Neem Face Wash	150 ml	153	153	135	135	160
	Dettol Handwash	750 ml	109	94	99.5	94	104
	Nivea Body Lotion	400 ml	329	239	339	289	265
	Fiama Shower Gel	250 ml	153	153	175	NA	185
	Mamaearth Onion shampoo	250 ml	314	314	279	299	318

Current prices; Source: E-commerce sites; Note: Ignored bill-level discounts, if any

The good part of Nykaa's journey is that it was not built on the positioning of discounts or low prices. Amidst a crowded e-commerce market, it tried to differentiate itself by: (1) strong vertical focus, (2) positioning it as a platform of premium beauty brands, (3) robust consumer engagement, including network of (social media) influencers, and (4) guaranteeing product authenticity.

We believe Nykaa is likely to have achieved a good share of the online premium BPC market. We do understand that the premium part of the market will be a high-growth category and, to that extent, it will benefit Nykaa by way of superior growth rates. However, we believe, in order to drive the 35-40% CAGR growth in BPC GMV over the next 5-6 years, Nykaa will have to go more mainstream. As seen in Table 2, Nykaa is not the cheapest place to buy a popular BPC product (compared to other e-commerce companies).

We gather that, even currently, about 60% of Nykaa's BPC is outside of the prestige and luxury brands (meaning more mass/*masstige*). However, we believe Nykaa will have to go further down the value chain in its journey ahead. Now, the risk here is that the price-conscious consumer of India will continue the bargain hunt (look for the best prices on the internet).

Hence, going down the value chain in terms of product assortment (BPC) presents two key risks: (1) the gross margins on these products may firstly be dilutive to Nykaa's current blended level, and (2) Nykaa will have to offer discounts and will therefore be competing with players who have a much bigger scale, implying the competition will not be restricted just to vertical players.

Stock as a currency – we expect Nykaa to look for inorganic opportunities

We believe the consumer sector (as a whole) will see a lot more bolt-ons this decade and Nykaa can also look to ride this trend. We believe some of the large acquisitions (of brands) could be funded by a stock swap. While in this case, the acquisitions may be RoE-dilutive, Nykaa will be able to extract synergistic values from these acquisitions. We note that Nykaa enjoys premium valuations on the back of several key strengths and a favourable growth outlook.

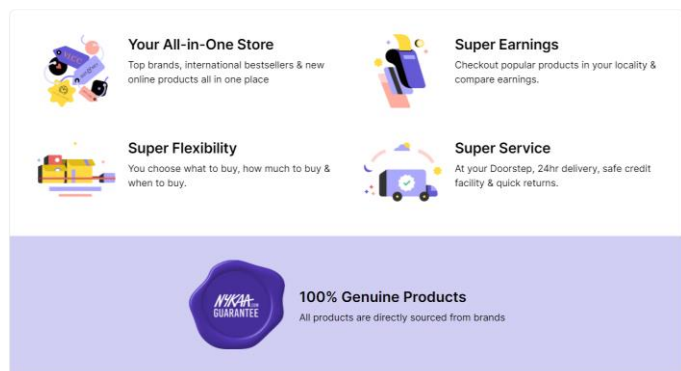
We believe Nykaa does have aspirations to have a good portfolio of in-house brands (not exactly private labels) and third-party brands on its platform. Besides acquiring other brands, Nykaa is developing brands in-house. Nykaa aspires some of these brands to have their own independent journey.

We note, in the BPC category, Nykaa has acquired Dot & Key in Oct'21, which is a D2C brand selling skincare products like serums, face masks, toners and cleaners. In the fashion category, Nykaa acquired 20 Dresses in Mar'19 and Pipa Bella in Mar'21.

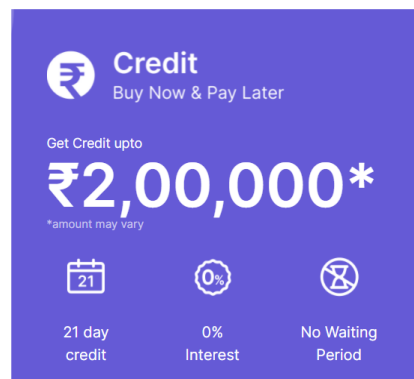
B2B distribution of beauty products

Nykaa has already become a key (also largest for many) e-commerce partner for select BPC brands. It is now setting up its e-B2B store, called *Super Store*. Some of the global brands are looking at Nykaa as a partner in India, taking care of their entire operations including marketing and distribution. We believe scale-up of the e-B2B store will likely further enhance Nykaa's position in the BPC space.

We note that Nykaa has appointed Vikas Gupta (former head of Flipkart's customer, marketing and digital business) as CEO of the B2B business. We note the margin profile of this business will be lower, given that Nykaa will not get the 'retailer margin'. However, the scale-up opportunity is good.

Chart 6: *Super Store by Nykaa*

Source: Superstore.in

Chart 7: Credit available on the *Super Store*

Source: Superstore.in

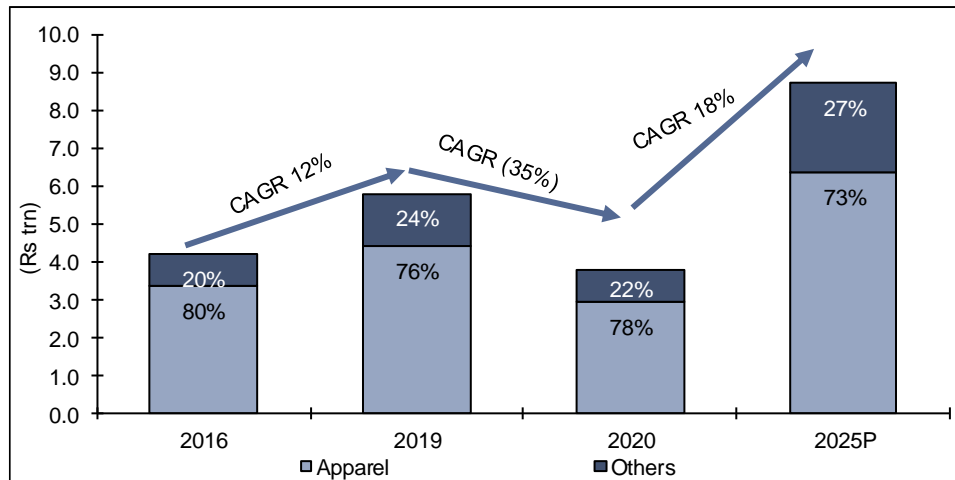
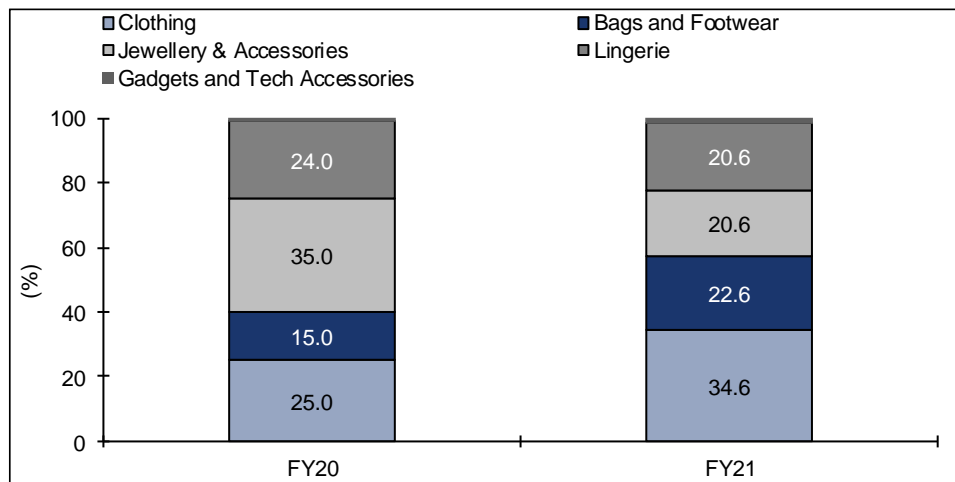
Nykaa Fashion – initial signs look promising

While there is some investor scepticism on scale-up of Nykaa Fashion, the (relatively) new fashion vertical, we like a few things here: (1) Good average order value (AOV). (2) Good share of non-apparel – apparel was just 35% of the GMV in FY21, followed by bags and footwear (23%), and jewellery and accessories (21%). (3) Good traction from new users – we gather that majority of the users on Nykaa Fashion (in FY21) were not the existing beauty platform users. (4) Good (breakeven) unit economics even in the first full year of operations (FY20).

We like Nykaa's strategy of curated fashion. The intent is not to be the place for 'end-of-season' sale products, but rather keep the collection trendier in nature. We believe the extremely price-conscious consumer may not really shop much on Nykaa Fashion, given again that there would be cheaper options in this case. Given that the segment has far quicker change in styles and SKU-specific risks, Nykaa has decided to adopt the marketplace strategy for fashion (except select owned brands).

The India fashion market grew at a 12% CAGR over three years to reach Rs5.8trn in 2019. It declined by 35% in 2020 during the first covid wave, due to reduction in discretionary spending and disruption in supply chain caused by the lockdown. The organised segment has grown at a much faster pace.

For Nykaa Fashion, we expect GMV of Rs127bn in FY26E, from Rs6.7bn in FY21. This would imply that fashion GMV accounts for 44% of overall GMV in FY26E vs 16.5% in FY21.

Chart 8: India fashion market size and growth**Chart 9: Contribution to GMV by categories – Nykaa Fashion**

Competition

In BPC segment, Nykaa competes vertically with players like Purplle, My Glamm and Foxy.

Purplle

Purplle started its business in 2011 as an Indian multi-brand beauty retailer selling cosmetic and wellness products. It opened its first physical retail store at Phoenix Market City Kurla, Mumbai, in Jan'17. It entered the private label space by subsuming the in-house brand *StayQuirky*, which was launched in 2015. Purplle, like Nykaa, also started as an inventory-led model, but it now operates as marketplace model. Purplle has ~7mn monthly active users who sell >50,000 products from >1,000 brands on its website and app.

Purplle recently raised US\$60mn from Premji Invest valuing the brand at US\$630mn. It (Purplle) recorded an all-time high monthly GMV of Rs1bn in Oct'21 as per media reports.

Good Glamm Group (*My Glamm*)

My Glamm is also a direct-to-consumer beauty brand. It has recently announced the formation of Good Glamm Group. The company is following a 'house of brands' strategy by acquiring brands to fill the gaps in its current portfolio. The group has recently acquired various brands including BabyChakra, Moms Co and ScoopWhoop, MissMalini and Sirona to move into categories beyond cosmetics. It also owns influencer management platform Plixxo, which has close to 220,000 influencers onboard.

The group recently raised US\$150mn in a Series D funding round led by Prosus Ventures (Naspers) and Warburg Pincus, valuing the company at US\$1.2bn as per media reports. It expects to close FY22E with revenues of US\$250mn.

Foxy

Foxy is a two-way direct to consumer (D2C) facing platform for brands and influencers. According to its website, the company has over 150 brands with 7,500 influencers. Foxy has a unique offering, with its built-in AI that scans the user's face and determines skin type, hair type and analyses other related characteristics so it can recommend products one might actually need. In Sep'20, EkAnek Networks, the parent company of Foxy, raised Rs400mn led by Alpha Wave Incubation.

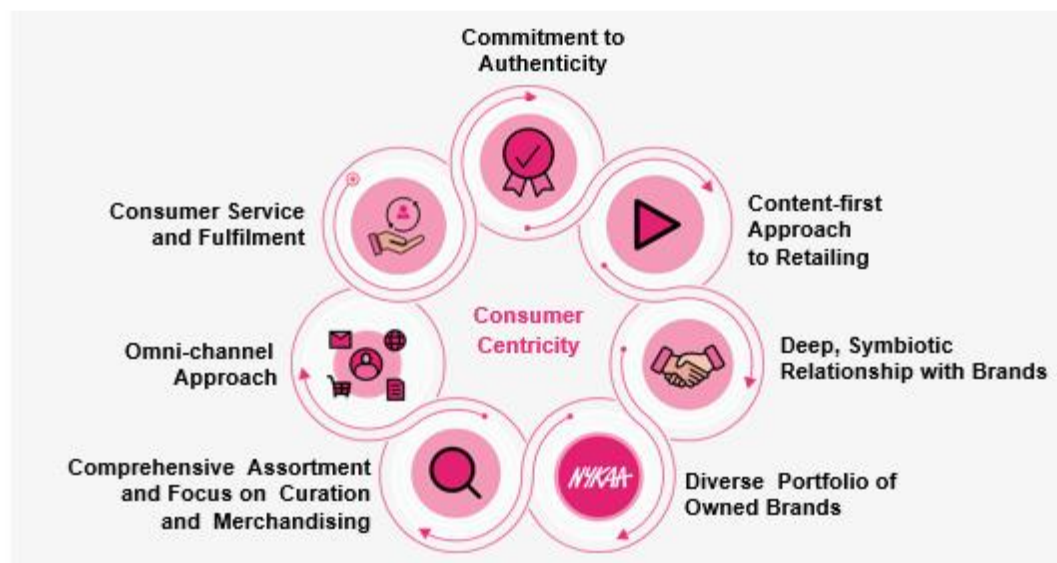
Horizontal competition for Nykaa includes e-commerce players like Amazon, FlipKart, Myntra. We believe, in the journey ahead, Nykaa will go down the value chain in terms of product assortment. It will be competing with players which have a much bigger scale, implying that the competition will not just be restricted to vertical players. Further, large players like Reliance and Tata Group have also expressed their plans to enter the BPC retail space, which will further increase the competitive intensity.

What differentiates Nykaa...

The value proposition

Consumer journey for product selection often includes a significant amount of time spent exploring. Nykaa tries to understand the process of decision-making and provides for the critical moments across the different stages of a consumer's journey on the platform. Through integrations across touchpoints, it targets consumers and designs personalised browsing and purchase experiences to meet their diverse needs. Business model is rooted in value proposition, separating it from the otherwise predominantly transactional e-commerce industry.

Chart 10: Value proposition



Source: Company

Nykaa focuses on 3Cs: content, curation, and convenience. These are the key differentiators for Nykaa among its competitors.

Content

Consumers often require assistance to navigate a fragmented and wide assortment in both beauty and personal care and fashion businesses. These purchase decisions can be simplified in lifestyle commerce through inspirational and educational transmedia content.

Nykaa is one of the first online platforms in India to drive widespread product and influencer-led education through creative and entertaining content in video and written formats. Content captures the latest trends, helps ideate and create beauty regimes and outfits, and provides insights on various brands available on the platform. Nykaa also works closely with brand relationships to create content that amplifies their brand story and subsequently their sales. It creates and films majority of content in-house through the *Nykaa Army*, a team of employees who are beauty and fashion creators. Being mindful of India's diversity, it also creates content across seven languages.

Nykaa utilises several platforms – including Nykaa Affiliate Program – to leverage influencers. These platforms are: Nykaa TV (YouTube Channel), Nykaa Network (peer-to-peer social community), Nykaa Beauty Books, etc. for educational content creation, which helps consumers in their purchase decision.

Company leverages influencers on a large scale through **Nykaa Affiliate Program**. This program enables external content creators to publish content on its behalf, across several digital platforms. It has a network of ~3,055 influencers, including Generation-Z trend setters, mommy bloggers, beauty, fashion and lifestyle bloggers, makeup artists and celebrities. Over the years, it has developed a loyal community of bloggers and content creators who, in most cases, receive a commission for the sales they drive on platform. As a result of brand equity and track record of building digital communities, it is able to successfully attract influencers.

Nykaa TV, YouTube based content platform, had a watch time of 1.3mn hours in FY21 and content posted on Instagram and Facebook (including videos, reels, posts and stories) exceeded over 39,498 posts. It is one of the most influential lifestyle platforms in India with over 13.4mn followers across leading social media platforms. A brief description of some of the content assets is provided below:

- Nykaa TV is a YouTube-based platform aimed at creating educational content with immersive storytelling across beauty and personal care. Nykaa TV is India's leading channel exclusively focused on beauty with over 1.2 million YouTube subscribers.
- Nykaa has created a peer-to-peer social community called the Nykaa Network, India's first interactive beauty forum to reach a scale of more than 3.6mn members who can chat with other beauty enthusiasts, ask and answer beauty-related questions, give and seek advice, discover trends and join beauty-centric conversations on topics of their interest.
- Nykaa Beauty Book and Style Files are beauty and fashion blogs with ~598 articles published during FY21.
- Explore, launched in 2020, is an in-app content aggregation hub. It is a 'watch and buy' feature that enables a consumer to watch content and shop for the products featured in that content in real-time. Such content is uploaded to the mobile application on Explore by influencers and from social media channels. Its discovery algorithms are responsive to consumer preference based on their search and engagement behaviour on the platform. This allows it to tailor a vast content library to appeal to specific consumers. The content is predominantly multi-brand and education-focused, including tutorials on 'how-to', reviews, and product trials. During the five months ended 31st Aug'21, Explore received 4.4mn visits and 9.7mn post views.

Convenience

Nykaa provides convenience to its consumers through: 1) assuring authenticity for its products, 2) lifestyle product portfolio spanning across over 4,078 brands and ~3.1mn SKUs, and 3) access to international brands.

Authenticity: BPC business is predominantly inventory-led. This approach ensures sourcing directly from brands or their authorised distributors in India. It enables guaranteed authenticity of products bought by consumers, an important consideration for them. It also conducts quality checks at warehouses periodically on BPC products.

For fashion offerings, Nykaa operates a managed marketplace and ensures that the sellers it onboards are authorised resellers only. It has also developed systems to monitor and address consumer complaints as part of its ongoing commitment to authenticity.

Lifestyle product portfolio across brands: Nykaa has a lifestyle product portfolio spanning over 4,078 brands and ~3.1mn SKUs, developed to cater to the varying needs of a diverse consumer base through its deep, symbiotic relationship with brands.

Chart 11: Wide assortment of international and Indian brands



Source: Company

Access to international brands: Nykaa has been a partner of choice for international BPC brands in India. It has tailored specific capabilities across marketing, technology, supply chain, fulfilment, and consumer service to create a differentiated omni-channel ecosystem for such brands and consumers. For example, it built a separate Luxe store mode within the Nykaa app for luxury and prestige products on the platform in order to present a differentiated environment to buyers of such products. Further, 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 the consumers. In the case of certain international prestige brands, it understands that physical stores play an important role in brand building, hence its ability to offer an integrated omni-channel retail strategy for these brands is a key strength. As a result of these bespoke services, many global luxury brands such as Charlotte Tilbury, Huda Beauty, Mario Badescu, Pixi, and Tangle Teezer have chosen Nykaa to import, launch and sell their products to consumers in India.

Curation

Nykaa seeks to strike a balance between the breadth and relevance of the assortment of offerings on its platform. As part of its merchandising and curation strategy, it focuses on market fit for products offered, ongoing demand and consumer trends. It

strives to bring in the product collections that fit demand profile and, at the same time, churn out products that are losing relevance. It has a team of curators who work closely with brand relationships to offer consumers latest lifestyle trends.

Consumers influence merchandising strategy by reading and writing reviews, asking questions, viewing and providing ratings, and uploading images on the Nykaa platform.

In addition, the platform has been designed to drive discovery and inspiration for the consumers. Leveraging information across multiple parameters and consumer activity on the platform along with details of attributes against every product, it is able to show the consumer personalised content and products across their shopping journey. Leveraging data science, it developed robust personalisation engines and customised product features, such as customised landing pages, personalised homepages, search and sort algorithms and recommendation engines to power the discovery experience. It also iterates continuously to enhance the user interface with the aim to enable a quality experience for each consumer.

Further, Nykaa has category-relevant filters, which are much better as compared to other online retailers. This provides a better and efficient product discovery journey for the consumer.

Nykaa offers on-demand chat service with beauty, fashion and grooming experts to help increase engagement with consumers while resolving any concerns or technical questions that they may have.

Omni-channel approach

Beauty and personal care consumers prefer to shop across online channels and physical stores as many of the products Nykaa sells often require a 'touch and feel' experience to arrive at a purchase decision, especially in certain higher value and/or complex categories such as fragrances and make-up. In order to provide such an experience, and be physically closer to consumers, Nykaa launched physical stores in 2014. It has since expanded its footprint rapidly. Physical stores cater to the modern-day Indian consumer, by integrating the offline-online experience seamlessly.

Online-offline integration

By giving consumers both physical and digital shopping experiences, Nykaa wants to remain relevant at all the touchpoints of a consumer's journey. Omni-channel offers endless aisle, gift cards and loyalty programs, which has helped it to offer consumers a comprehensive buying experience across online and offline platforms.

Nykaa leverages its omni-channel database of consumers to select store locations, design brand and assortment mix, direct traffic to its stores, plan offline beauty events and marketing campaigns, and create an experiential-based, educational and personalised shopping experience.

Nykaa developed its hyper-local delivery capability in 2020 during the covid-induced lockdown, which allows it to use physical stores as last mile delivery hubs for online orders for select locations. This has helped improve its speed of delivery and optimise inventory by making it more fungible.

Physical stores

As of 31st Mar'21, Nykaa operated 80 physical stores in 40 cities of India across three formats. It plans to increase its physical store footprint to 300 in 100 cities in the medium-term.

- **Nykaa Luxe:** This store format offers a luxury beauty experience. It showcases prestige and luxury international and domestic brands. These stores are ~1,134sqft in size on an average and are present in grade A malls and high streets. Company operates 38 Nykaa Luxe stores across India in cities such as Mumbai, Delhi and Kolkata.

Chart 12: Nykaa Luxe



Source: Company

- **Nykaa On-Trend:** The Nykaa On-Trend stores offer a differentiated experience for consumers with the current bestselling products chosen across beauty and personal care brands. This curation is a selection of products that are trending on online channels based on sales, reviews and ratings. These stores are on an average of 732sqft in size. Company operates 32 Nykaa On-Trend stores across India in cities such as Coimbatore, Chennai and Jaipur.

Chart 13: Nykaa On-Trend



Source: Company Data

- **Nykaa Kiosks:** These are free-standing units usually in the atriums of shopping malls. Company predominantly sells owned brands through these kiosks. It operates nine Nykaa Kiosks across India in cities such as Bengaluru, Indore and Mohali.

Chart 14: Nykaa Kiosk

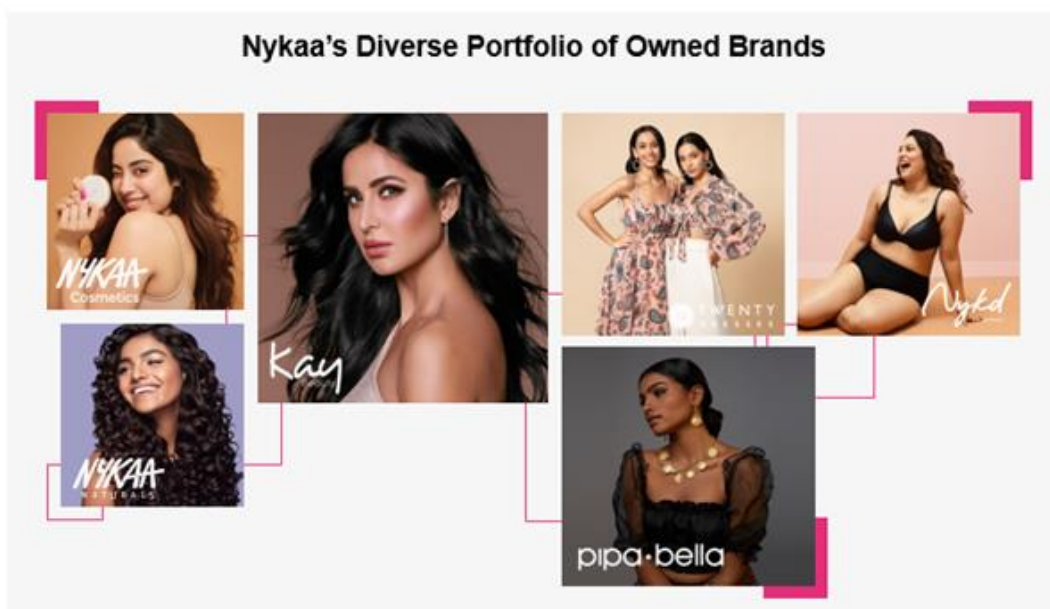


Source: Company

Diverse portfolio of owned brands

Company has crafted a portfolio of 15 owned brands. These brands play a key role in increasing the assortment of products for consumers. Many of the owned brands have a high recall and function as independent brands. Nykaa aspires to create brands that will have their own independent journey rather than just creating private labels of well performing products. The manufacturing for such brands is carried out by third-party vendors. Owned brands contribute >10% to the BPC business.

Chart 15: Owned brands



Source: Company

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 focus on high quality products. Some such owned brands are:

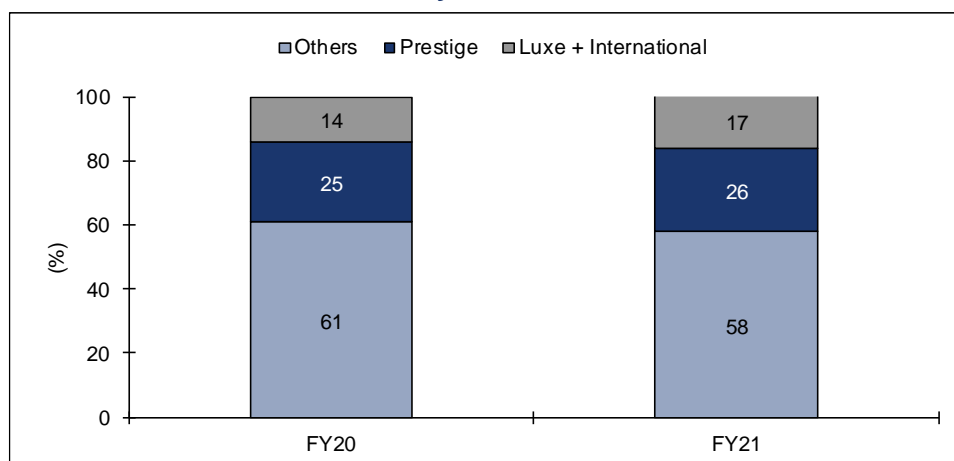
- **Nykaa Cosmetics:** This is a comprehensive makeup and beauty accessories brand present across lip, face, nail, eye and beauty tools.
- **Nykaa Naturals:** Nykaa Naturals is a naturally derived ingredients focused brand for skincare products such as bath and body offerings, masks and haircare.
- **Kay Beauty:** Kay Beauty offers premium-range beauty products across lip, eye, face and nail categories.
- **Twenty Dresses:** This apparel product line includes western wear across dresses, jumpsuits, tops, pants skirts as well as footwear, bags, and accessories.
- **NYKD by Nykaa:** NYKD by Nykaa offers lingerie and includes bras, panties, sleepwear, shapewear and athleisure.
- **Pipa Bella:** Pipa Bella offers on-trend aesthetic jewellery such as earrings, necklaces, bracelets, rings and hair accessories.

Beauty and Personal Care (BPC)

The BPC range is extensive with over 256,149 SKUs from more than 2,644 brands primarily across make-up, skincare, haircare, bath and body, fragrance, grooming appliances, personal care, and health and wellness categories. Portfolio includes domestic brands, international brands, luxury and prestige brands, premium brands, niche and cult brands.

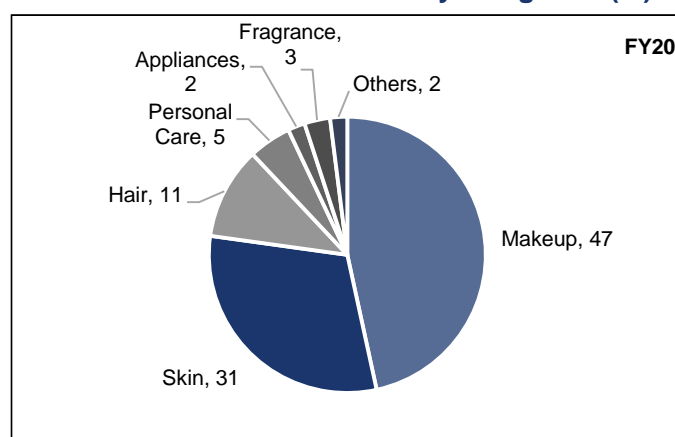
Investing in distribution, marketing, technology and logistics has enabled Nykaa to provide a wide range of offerings to brand relationships, thereby enabling long-term and mutually beneficial relationships. Given a brand's desired positioning, it endeavours to provide customised solutions for the development, promotion and sale of the brand's products on its platform. For online-first brands, it provides them with the ability to rapidly scale by leveraging online platform; for prestige brands, it helps them grow through omni-channel distribution; and for traditional brands, it provides them with the ability to acquire millennial and Gen-Z consumers by leveraging its role as an influencer. As a result, not only domestic prestige brands but also several renowned international brands have chosen Nykaa for their launches into the Indian market.

Mass and *Masstige* brands contribute to ~60% of BPC GMV while Luxe brands contribute in mid-to-high teens.

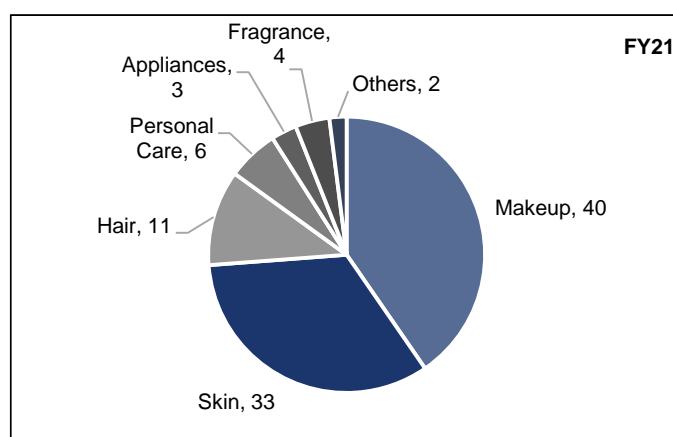
Chart 16: Contribution of GMV by Luxe brands

Source: Company

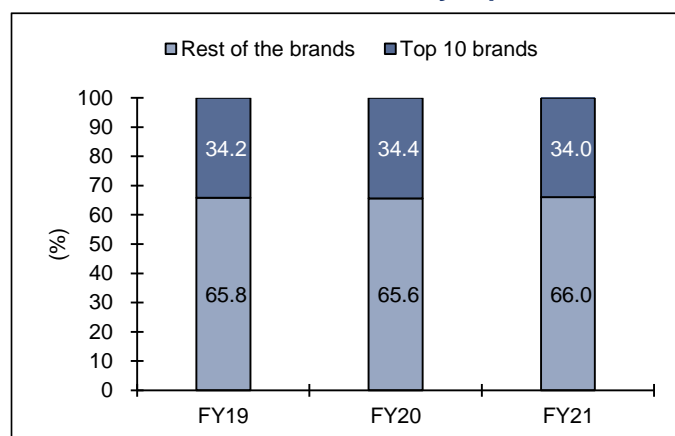
In terms of categories, makeup is the largest contributor to BPC GMV, which did witness a significant decline in contribution in FY21 due to restricted mobility of consumers. One of the biggest positives has been the higher adoption of premium personal care products.

Chart 17: Contribution of GMV by categories (%)

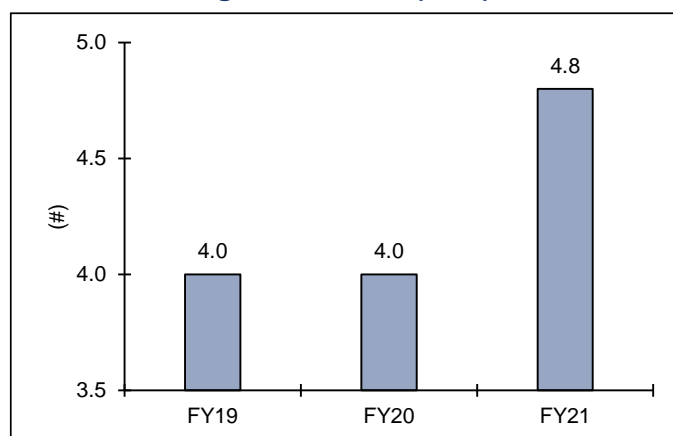
Source: Company data



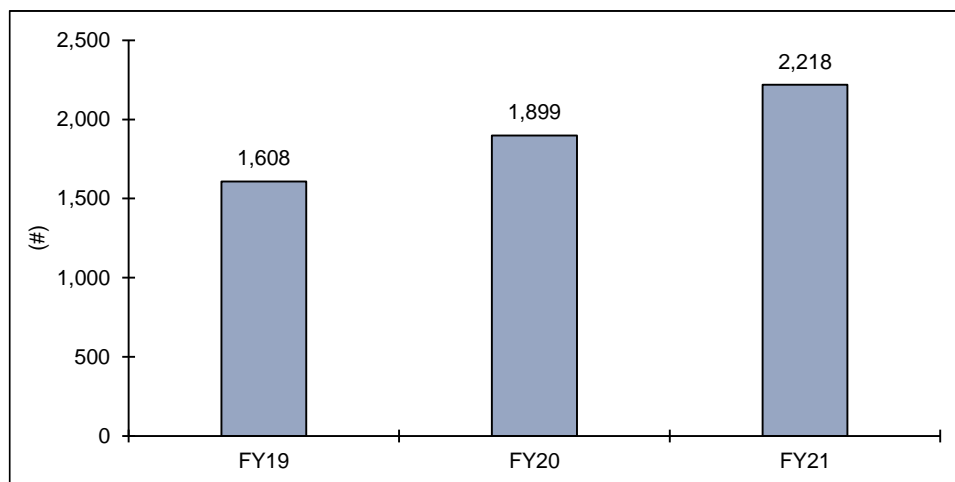
Source: Company data

Chart 18: Contribution of GMV by top 10 brands

Source: Company data

Chart 19: Average basket size (BPC)

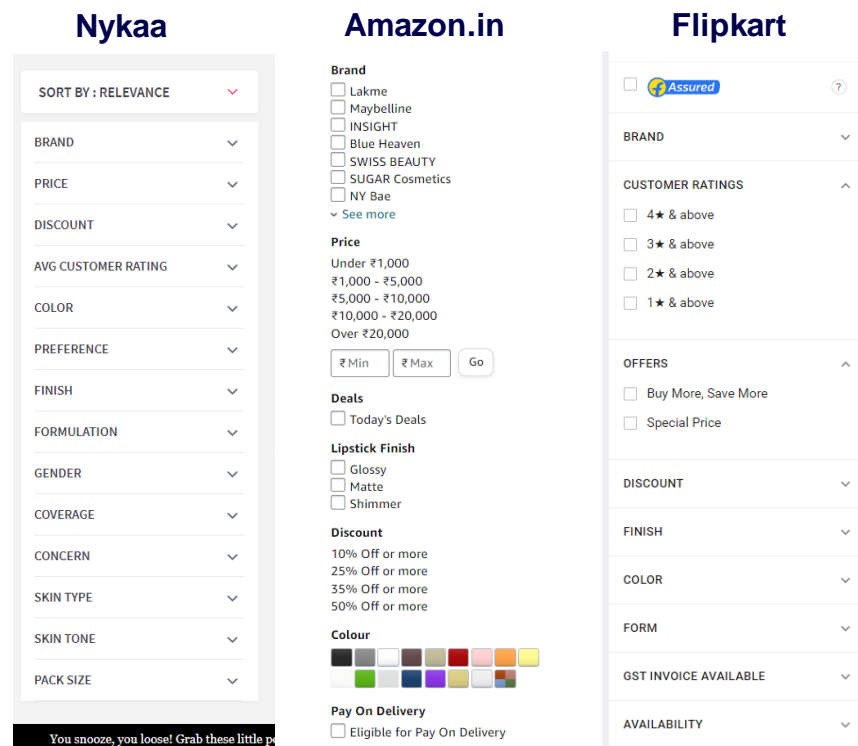
Source: Company data

Chart 20: Active brands (BPC)

Source: Company data

Better product discovery experience

Nykaa provides better product discovery experience through robust personalisation engines and customised product features, such as customised landing pages, personalised homepages, search and sort algorithms and recommendation engines to power the discovery experience. For example, we do find better interface and sorting options provided by Nykaa compared to some of its counterparts in online retail.

Chart 21: Better sorting options

Source: Company

Platform for international brands

Nykaa has steadily built its portfolio of international brands by tailoring specific capabilities across marketing, technology, supply chain, fulfilment, and consumer service to create a differentiated ecosystem for such brands and consumers. For example, it built a separate Luxe store mode within the Nykaa app for luxury and prestige products on its platform in order to present a differentiated environment to buyers of such products. Further, 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 the consumers. In the case of certain international prestige brands, physical stores play an important role in brand building, hence the ability to offer an integrated omni-channel retail strategy to these brands is a key strength for Nykaa.

Nykaa also launched the Global Store, an online channel that enables Indian consumers to buy select BPC products of several prominent brands from accredited overseas retailers. Under this, the brands have to register themselves to be sold in India and products are directly imported by Nykaa based on customer orders. In this process, Nykaa incurs the cost of importing and customs duty on such products.

As a result of these bespoke services, many global luxury brands such as Charlotte Tilbury, Huda Beauty, Mario Badescu, Pixi and Tangle Teezer have chosen Nykaa to import, launch and sell their products to consumers in India.

We believe, there is still a significant opportunity for Nykaa to bring foreign brands for consumers in India.

Chart 22: Global Store



Source: Company

Chart 23: Exclusive foreign brands



Source: Company

Nykaa launched Huda Beauty in India

An imported brand is able to avail of a full suite of offerings provided by Nykaa. The offerings range from regulatory aspects, to pricing & commercial strategy, and omni-channel distribution across both online and its network of owned multi-brand stores. Nykaa's deep understanding of the Indian market and consumer, allows it to tailor a highly localised content and marketing strategy to build brand awareness.

Huda Beauty launched in India with Nykaa in Jan'18. With ~6,000 Liquid Matte Lipsticks sold in 24 hours, Huda Beauty clocked the highest revenue for a brand on its launch day on Nykaa's platform. Huda Beauty continues to be a leading luxury brand and over 300,000 unique customers have purchased Huda Beauty products since launch. The brand is widely distributed across 69 Nykaa stores across tier 1-3 cities. Given the success of this launch, Nykaa and Huda Beauty have expanded their relationship with the launch of Wishful and Kayali, both new skincare and fragrance brands from Huda Beauty.

Nykaa Man

Nykaa launched the Nykaa Man mobile application and website in FY21, thereby customising models and experience for men, along with increasing education and awareness among men on the use of grooming and personal care products.

Male customers were overwhelmed on the main Nykaa app and website due to its positioning towards women. Though most products in Nykaa Man were already available in the main app, 75% of the customers of Nykaa Man were not shopping in the main app. Gadgets and tech accessories contribute nearly a third of sales in the Nykaa Man app.

Fashion

Company launched Nykaa Fashion (its fashion vertical) in 2018, as a curated and managed marketplace. It has a wide assortment of offerings, across price points, to cater to women, men and children of diverse demographics. Nykaa Fashion houses 1,434 brands and over 2.8mn SKUs with fashion products across four consumer segments: women, men, children and home. Nykaa Fashion is more than just an apparel business as it merchandises 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 consumer journeys across the platform. It offers a diverse mix of brands across established national brands, international brands, luxury brands, and emerging labels and designers.

Strong emphasis on curation. Company identifies fashion-forward brands, vetting for style and quality, and further selects styles within these brands to offer. It also places importance on: a) selling full-price products, b) reducing reliance on discounting, and c) selling the latest season's designs. This differentiates Nykaa Fashion from some other fashion / apparel e-commerce players, which are more dependent on selling discounted products and are used as stock liquidation platforms by brands.

In addition, Nykaa uses digital content, personalised mobile application experiences and proprietary recommendation algorithms, to build differentiated style-driven, discovery-led experiences for consumers. This has resulted in 17.42% of the fashion vertical GMV at full-price collections (at 10% or less discounts) for FY21.

Nykaa Fashion also has six owned brands. These brands are available on online channels and at one physical store, and at third-party retailers for many brands.

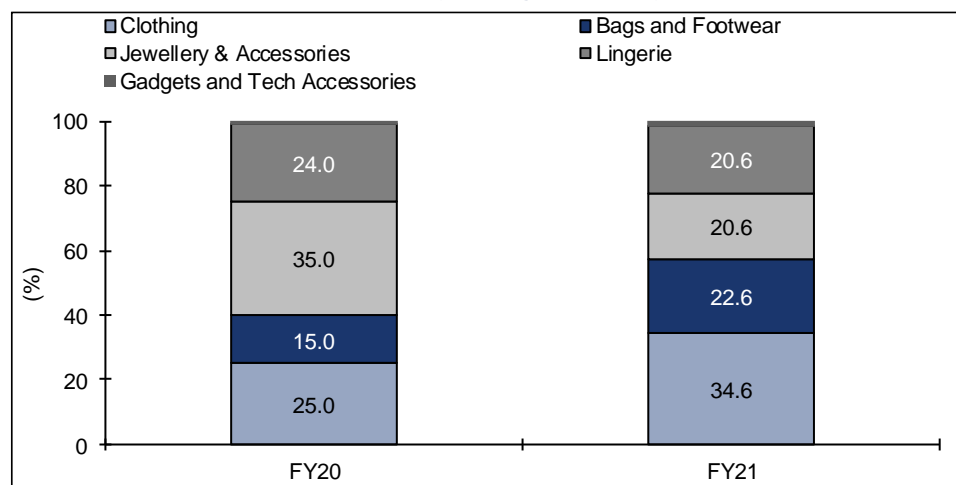
In the fashion business, Nykaa also enables customisation for luxury and made-to-order products. Consumers can work with Nykaa's stylists to identify their customisation requirements and the company works with the brands to deliver such customised products.

Chart 24: Wide assortment of international and Indian brands

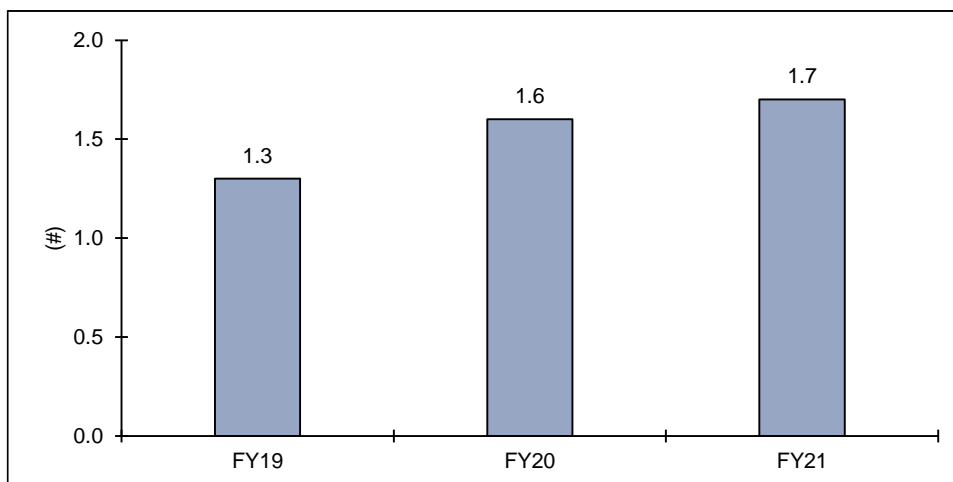


Source: Company

Chart 25: Contribution to GMV by categories – Nykaa Fashion



Source: Company data

Chart 26: Average basket size – Nykaa Fashion

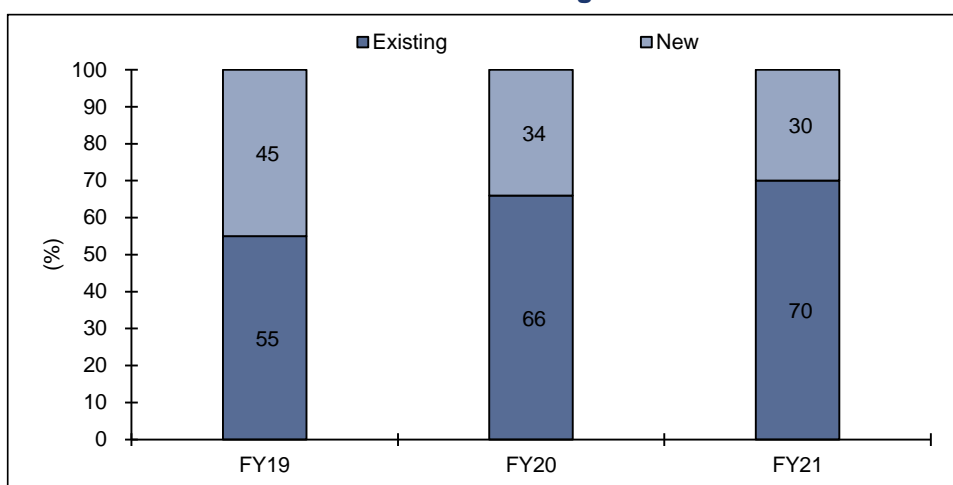
Source: Company data

Traction from existing customers

Nykaa has been witnessing strong traction from its existing customers. Engagement with such customers is driven through reward points and Nykaa Prive program.

Reward points. Customers get 1% of the transaction as reward points, which can be redeemed by them on future transactions.

Nykaa Prive is a customer loyalty program where a customer becomes eligible through spend of Rs7,500 in a span of 365 days and enjoys exclusive offers and priority access. Nykaa also encourages partner brands to give exclusive offers to members of Nykaa Prive. Currently, Nykaa Prive has 2.1mn members.

Chart 27: Contribution to GMV from existing and new customers

Source: Company Data

Logistics and warehousing

Nykaa serves over 26,727 postal areas (defined by PIN codes) covering over 89.2% of the serviceable PIN codes across the country. It has 18 warehouses with a combined storage space of over 665,371 sqft.

Majority (94.1%) of orders were delivered within five days in beauty and personal care vertical and 72% were delivered within five days in fashion vertical, for the quarter ended 31st Mar'21. Nykaa plans to expand its fulfilment centres in order to improve the delivery experience of consumers. Fulfilment of orders is largely done by third-party vendors.

Financial performance

We expect Nykaa to have 33% share of the fast growing online BPC market

To recap, we expect the beauty and personal care (BPC) market in India to grow at a 12% CAGR over FY21-FY26E to reach Rs1.9trn. The BPC market in India was sized at Rs1.1trn in FY21, down from Rs1.3trn in FY20, due to the impact of covid (reduced spending on discretionary items). Prior to 2019, the BPC market had grown at a CAGR of 13% for the preceding three years. Our industry growth estimate implies a 7% CAGR over FY20-FY26E.

We estimate: (1) BPC industry CAGR of 12% over FY21-FY26E, (2) online penetration to increase from 8.5% in FY21 to 20% in FY26E, (3) 36-37% CAGR in Nykaa's online GMV. This implies that Nykaa's market share in the online BPC market would increase from 28.6% in FY21 to 32.8% in FY26E.

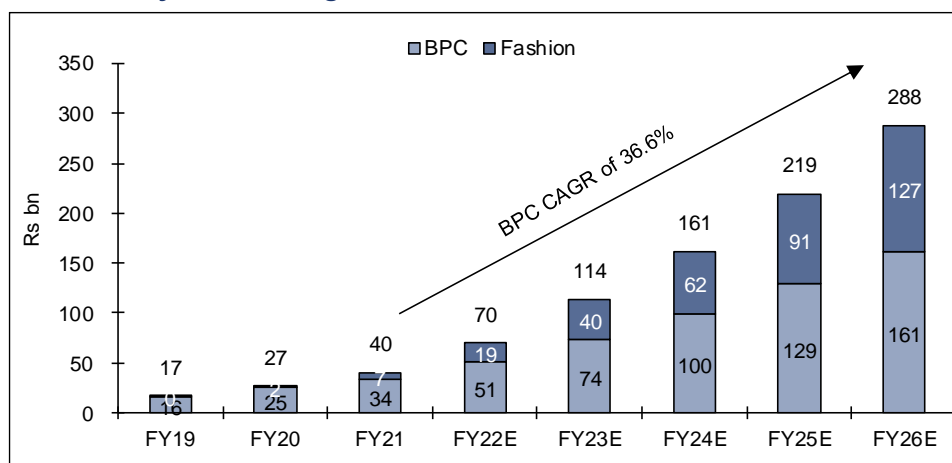
Nykaa's market share in the overall BPC market is another lens to look at the growth assumptions. Using the above estimates, we estimate Nykaa to have 7.3% market share in FY26E (of overall BPC market) vs 2.7% in FY21.

Table 3: India BPC market size and growth

	FY21	FY26E	FY21-26E CAGR (%)
BPC Market (Rs bn)	1,100	1,939	12.0
Online Penetration (%)	8.5	20.0	
Online BPC Market (Rs bn)	94	388	32.9
Nykaa BPC online GMV (Rs bn)	27	127	36.6
Nykaa's share in online (%)	28.6	32.8	
Nykaa's overall GMV (Rs bn)	30	141	
Nykaa's market share of Indian BPC market (%)	2.7	7.3	

Source: I-Sec research; GMV considered here is (approx.) online GMV ex of cancellation and return

Chart 28: Nykaa's GMV growth rate



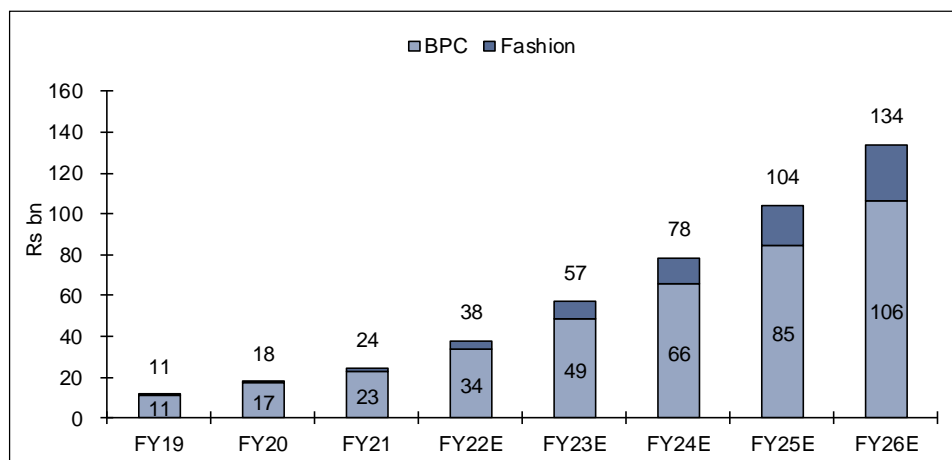
Source: I-Sec research

Expect steady revenue growth ahead

We expect Nykaa's revenues to grow from Rs24bn in FY21 to Rs134bn in FY26E. On a reported basis, ~80% of the revenues in FY26E will be ascribed to the BPC business (inventory-led sales) and the rest to the fashion segment (mainly marketplace model). For the BPC segment, we expect a 36% CAGR over FY21-FY26E.

We note that Nykaa earns 8% of revenue from marketing services. This basically includes revenues from the advertising and banner space on Nykaa's website. This partly explains the gross margin profile of Nykaa, which is high for a typical retailer.

Chart 29: Nykaa's revenue growth rate



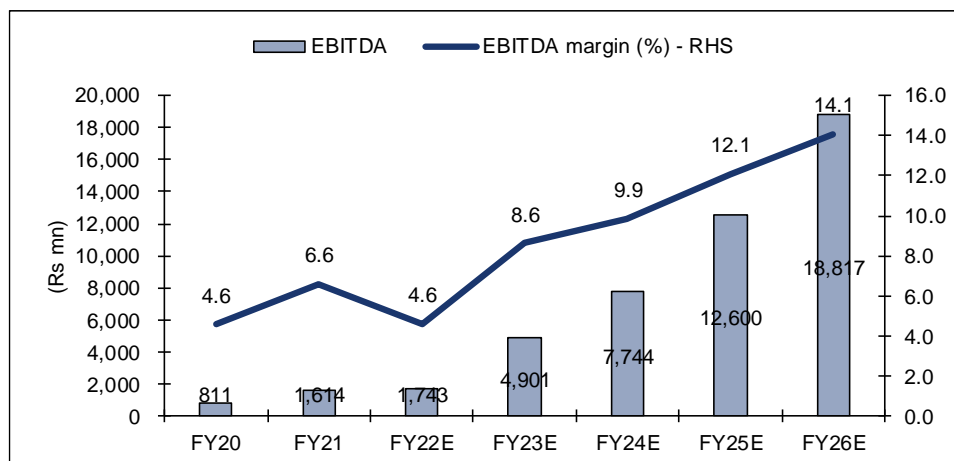
Source: I-Sec research

Margin expansion will be led by a mix of optical and operating leverage

We expect Nykaa's EBITDA margin to improve from 4.6% in FY20 to 14.1% in FY26E. This implies an EBITDA of Rs18.8bn in FY26E from Rs1.6bn in FY21.

Part of the EBITDA margin expansion will be driven by higher gross margins, which is largely optical in nature. We expect reported gross margins to expand from 39% in FY21 to 46.3% in FY26E. We note that FY21 saw a contraction in gross margins from 42.6% in FY20 due to inferior product mix (share of make-up in BPC GMV was down to 40% from 47% in FY20). The expansion in gross margins on a reported basis is optical due to increasing share of fashion business in the overall GMV, which (on a reported basis) has higher gross margins being a market place model.

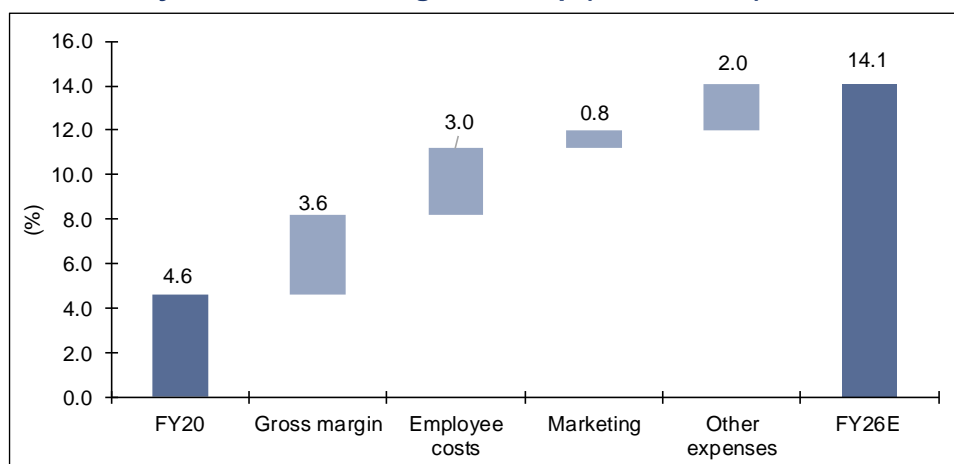
We note that Nykaa had reported an EBITDA margin of 6.6% in FY21. However, this expansion was led by a 450bps cut in marketing spends to 6.9% (of revenue) in FY21 amidst the covid disruption. We expect the marketing spends to normalise going forward and are building it at 10.6% in FY26E (on a much higher base). We believe Nykaa will continue to spend aggressively on marketing in the medium term given its potential (and capabilities) to drive demand for beauty products.

Chart 30: Nykaa's EBITDA (Rs mn) and EBITDA margin (%)

Source: I-Sec research

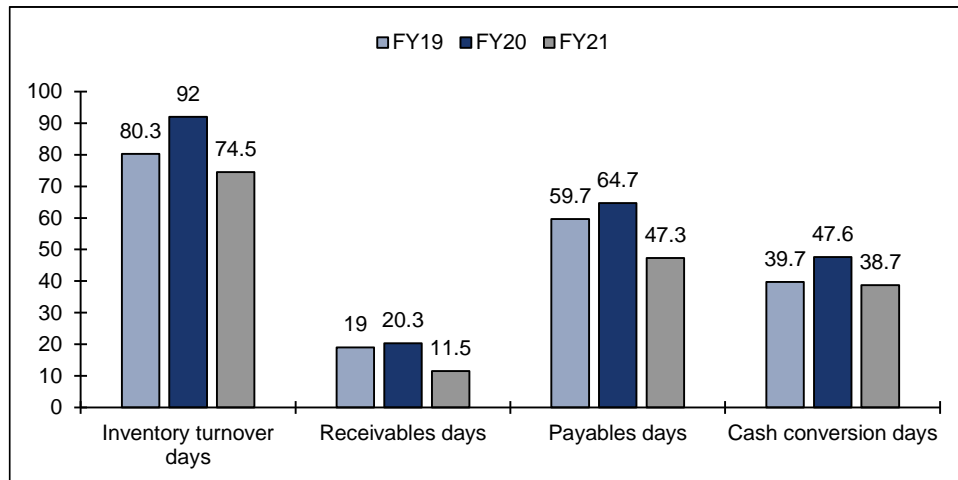
We expect Nykaa to get the highest leverage benefits in employee expenses, which would demonstrate the strength and scalability of the platform. In FY21, employee expenses were 11.6% of revenues, which we expect to reduce to 8.1% in FY26E. Over FY20-FY21, the increase in salaries, wages and bonus was primarily due to an increase in employee headcount to 2,045 from 1,772 as Mar'20.

Of the 2,045 employees, about 50% are engaged in the business operations, followed by business support (18.3%), technology (16.8%) and corporate functions (14.4%). Of the total workforce, 47% are women. Nykaa also engages with contractors and consultants to provide temporary workforce.

Chart 31: Nykaa's EBITDA margin build-up (FY20-FY26E)

Source: I-Sec research

Nykaa' cash conversion days improved by 9 to 39 in FY21 from 48 in FY20. The increase was due to dip in average inventory by 17 days to 75 days in FY21 from 92 in FY20 and average receivable days declined by 9 days to 12 days in FY21 from 20 in FY20.

Chart 32: Nykaa's working capital cycle

Source: I-Sec research

Valuation

We value Nykaa on DCF basis with 12% WACC and 5% terminal growth assumptions. We initiate coverage on the stock with an **HOLD** rating based on a DCF-based target price of Rs1,250, which implies a 5% potential downside.

DCF assumptions

We value Nykaa using DCF based on the following three stages:

- **Stage 1 (FY21E-FY32E):** During this period, we estimate 30% revenue CAGR and 42% EBITDA CAGR
- **Stage 2 (FY32E-FY42E):** During this period, we estimate 14% FCF CAGR
- **Stage 3 (FY43E onwards):** We assume 5% terminal growth rate

Based on these assumptions, we arrive at a target price of Rs1,250.

Table 4: DCF calculations

(Rs mn, year ending Mar 31)

PV of FCF for forecasting period (FY22-FY42)	290,142
PV of terminal cashflow	297,886
EV	588,028
Net debt/(cash)	(4,355)
Equity value	592,283
Number of shares (mn)	474
Target price (Rs/ share) – Rounded-off	1,250

Source: I-Sec research

Table 5: Valuation summary

Company	CMP (Rs)	TP (Rs)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market Cap	
				FY23E	FY24E	FY23E	FY24E		(Rs bn)	(US\$ bn)
Staples										
Bajaj Consumer	148	300	BUY	10	9	7	6	1.9	22	0.3
Britannia	3,279	3,350	HOLD	43	38	31	27	15.2	790	10.3
Colgate	1,602	1,800	ADD	38	34	25	23	7.6	436	5.7
Dabur	501	650	BUY	45	39	36	31	14.6	885	11.5
Emami	428	480	ADD	23	20	19	16	2.8	190	2.5
GCPL	797	1,000	ADD	37	32	28	24	16.9	81	1.1
HUL	2,194	2,450	ADD	54	47	38	33	60.7	5,156	67.0
ITC	258	260	ADD	18	17	14	13	87.0	3,187	41.4
Jyothy Labs	146	180	BUY	21	17	15	13	0.8	54	0.7
Marico	500	550	ADD	44	38	32	27	12.1	647	8.4
Mrs. Bector's Foods	288	380	ADD	23	19	11	9	2.2	17	0.2
Nestle	16,403	19,500	ADD	62	52	41	35	15.8	1,582	20.6
Tata Consumer	738	925	BUY	56	47	34	29	23.6	705	9.2
Varun Beverages	1,091	1,030	HOLD	54	41	26	22	8.7	466	6.1
Discretionary										
Avenue Supermarts	3,231	3,900	BUY	80	61	55	43	22.5	2,096	27.2
Bata	1,679	1,850	HOLD	45	38	33	27	10.0	216	2.8
Burger King India	90	125	ADD	NM	110	30	20	3.8	45	0.6
FSN E-Commerce Ventures	1,314	1,250	HOLD	235	144	126	80	19.5	622	8.1
Go Fashion (India)	975	1,300	BUY	60	46	46	35	1.2	53	0.7
Jubilant Foodworks*	475	720	BUY	53	40	34	27	47.7	314	4.1
Kalyan Jewellers	62	100	BUY	15	12	8	7	1.0	6	0.1
Page Industries	41,649	46,000	ADD	68	56	48	41	11.8	466	6.1
Sapphire Foods	1,020	1,800	BUY	49	34	22	16	2.4	64	0.8
Sheela Foam	3,183	3,900	BUY	51	38	35	27	1.6	155	2.0
Titan	2,092	2,550	BUY	62	49	42	35	47.6	1,856	24.1
United Spirits	821	950	ADD	51	42	33	28	19.1	598	7.8
Westlife Development	425	600	BUY	68	43	31	23	1.2	66	0.9
Paints										
Akzo Nobel	1,761	2,150	ADD	24	20	15	13	0.3	81	1.0
Asian Paints	3,064	3,200	HOLD	73	61	49	41	57.3	2,940	38.2
Berger Paints	656	650	REDUCE	64	54	41	35	6.2	638	8.3
Indigo Paints	1,448	1,650	HOLD	52	40	32	24	1.5	69	0.9
Kansai Nerolac	398	415	HOLD	35	29	22	18	1.5	215	2.8

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Staples										
Bajaj Consumer	1.6	1.5	3	2	10	9	25	26	27	28
Britannia	5.2	4.7	26	21	39	34	60	57	33	37
Colgate	7.7	7.1	32	31	32	29	93	101	111	120
Dabur	7.2	6.5	10	9	39	34	22	23	16	17
Emami	5.3	4.9	8	7	23	20	37	36	44	46
GCPL	6.2	5.6	7	7	33	29	21	22	20	21
HUL	9.0	8.2	10	10	49	42	19	22	15	17
ITC	5.0	4.6	5	5	17	15	27	28	29	30
Jyothy Labs	2.3	2.1	4	3	17	14	18	21	19	22
Marico	6.1	5.5	18	17	40	34	42	47	37	41
Mrs. Bector's Foods	1.5	1.3	3	3	13	11	14	14	15	16
Nestle	9.4	8.4	68	62	53	45	116	124	41	44
Tata Consumer	4.7	4.2	4	4	45	39	8	9	9	10
Varun Beverages	4.9	4.4	9	8	32	26	18	21	18	22
Discretionary										
Avenue Supermarts	4.8	3.8	13	10	67	53	17	19	23	25
Bata	6.1	5.3	10	8	29	25	24	24	34	33
Burger King India	2.3	1.8	6	6	21	15	(0)	5	5	9
FSN E-Commerce Ventures	10.9	7.9	43	33	154	98	18	23	24	30
Go Fashion (India)	8.7	6.9	10	9	31	25	28	30	24	26
Jubilant Foodworks	6.0	5.0	14	11	30	24	29	31	25	28
Kalyan Jewellers	0.7	0.6	2	2	9	8	11	13	11	12
Page Industries	10.3	8.9	36	30	61	51	59	59	40	40
Sapphire Foods	2.7	2.1	6	5	15	12	11	14	18	23
Sheela Foam	4.5	3.9	9	7	39	30	20	21	17	21
Titan	5.4	4.6	16	13	54	43	29	29	32	33
United Spirits	5.6	5.0	10	9	41	35	22	23	28	29
Westlife Development	3.3	2.8	11	9	27	21	18	24	28	35
Paints										
Akzo Nobel	2.0	1.8	6	5	19	16	24	26	25	27
Asian Paints	8.4	7.3	19	16	60	50	27	28	24	26
Berger Paints	6.2	5.4	14	12	51	44	24	24	21	21
Indigo Paints	5.5	4.4	9	7	39	29	17	18	20	21
Kansai Nerolac	2.9	2.5	5	4	27	23	13	15	13	14

Source: Bloomberg, Company data, I-Sec research

*Jubilant Foodworks had last split the face value of its shares from Rs10 to Rs2, therefore target price is adjusted from Rs3,600 to Rs720.

Key risks

- 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 its revenues or maintain profitability.
- Any harm to **brand or reputation** may adversely affect the business, financial condition, cashflows and results of operations.
- Company derives a **significant portion of GMV from top three categories**, and business may be adversely affected if products in these categories do not perform as well as expected.
- **Certain brand vendors account for a significant portion of total GMV of online sales** and, accordingly, any adverse changes to relationships with such brand vendors, which may be out of control, can adversely affect the business, and its financial condition.
- **The sale of owned brand products** subjects the company to unique risks and heightens certain other risks.
- **Own technology infrastructure and that of third-party providers are susceptible to security breaches and cyber attacks**. This could potentially result in damage to operations, employees, consumers, third-party providers, reputation and adversely affect financial condition.
- **Expansion into new product categories and business verticals** and a substantial increase in the number of products offered may expose the company to new challenges and more risks.
- **Seasonality of business** affects quarterly results and places an increased strain on operations.

Financial summary

Table 6: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Net Revenue	11,114	17,675	24,409	37,801	56,890	78,437	1,04,099	1,33,857
Less:								
Cost of goods sold	6,603	10,142	14,878	21,400	31,118	43,007	56,462	71,942
Employee cost	1,173	1,956	2,836	3,969	5,575	7,216	8,953	10,842
Other expenses	3,133	4,767	5,080	10,689	15,296	20,470	26,084	32,256
Total operating expenses	10,909	16,865	22,795	36,058	51,989	70,694	91,499	1,15,041
EBITDA	205	811	1,614	1,743	4,901	7,744	12,600	18,817
Less: D&A	309	595	671	887	1,384	2,003	2,747	3,577
EBIT	(104)	215	943	856	3,517	5,741	9,853	15,240
Less: Gross Interest	263	443	307	399	256	252	275	280
Add: Other Income	50	103	117	231	273	258	369	650
Recurring PBT	(317)	(124)	753	688	3,534	5,747	9,947	15,610
Less: Taxes	(72)	39	134	138	890	1,446	2,504	3,929
Less: Minority Interest	0	(3)	(1)	(1)	(1)	(1)	(1)	(1)
Net Income (Reported)	(245)	(166)	618	549	2,644	4,299	7,442	11,680
Extraordinary items	-	-	-	-	-	-	-	-
Recurring Net Income	(245)	(166)	618	549	2,644	4,299	7,442	11,680

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
ASSETS								
Current Assets, Loans & Advances								
Inventories	2,446	4,453	4,981	8,078	11,378	15,043	19,109	23,471
Sundry debtors	579	984	766	1,450	2,026	2,579	3,137	3,667
Cash and bank balances	119	1,756	2,477	5,213	4,296	5,102	8,942	17,073
Other current assets	630	628	832	915	1,377	1,899	2,520	3,240
Loans and advances	515	333	574	632	951	1,311	1,740	2,237
Total Current Assets	4,290	8,155	9,630	16,288	20,028	25,933	35,447	49,689
Current Liabilities & Provisions								
Current Liabilities	1,818	3,133	3,162	4,845	7,214	9,839	12,915	16,424
Provisions and other liabilities	500	706	1,550	1,705	2,566	3,538	4,695	6,037
Total Current Liabilities & Provisions	2,318	3,839	4,712	6,550	9,780	13,377	17,610	22,461
Net Current Assets	1,972	4,316	4,918	9,738	10,248	12,556	17,837	27,228
Investments	1,383	38	13	13	13	13	13	13
Fixed assets								
Gross block	546	953	1,108	2,166	3,873	6,187	9,206	13,021
Less: Accumulated depreciation	117	251	421	749	1,350	2,346	3,862	6,040
Net Block	429	701	687	1,418	2,523	3,841	5,344	6,981
CWIP	3	8	20	20	20	20	20	20
Right of use assets	859	1,440	1,389	1,903	2,664	3,426	4,187	4,758
Goodwill	107	141	240	240	240	240	240	240
Other non-current assets	685	761	1,041	1,067	1,212	1,376	1,571	1,797
Total Assets	5,439	7,406	8,308	14,399	16,921	21,472	29,211	41,036
LIABILITIES AND SHAREHOLDERS' EQUITY								
Shareholders' fund								
Equity share capital	142	146	151	474	474	474	474	474
Reserves and surplus	2,163	3,076	4,749	11,254	13,897	18,197	25,639	37,319
Total Shareholders Fund	2,306	3,221	4,899	11,728	14,371	18,671	26,113	37,793
Borrowings	2,256	2,675	1,875	858	358	358	358	358
Lease Liability	848	1,450	1,452	1,691	2,012	2,199	2,419	2,474
Minority Interest	5	7	8	8	8	8	8	8
LT Provisions	24	53	73	114	171	236	313	403
Total Liabilities and shareholders' equity	5,439	7,406	8,308	14,399	16,921	21,472	29,211	41,036

Source: Company data, I-Sec research

Table 8: Cashflow statement*(Rs mn, year ending Mar 31)*

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Cashflow from operating activities								
PBT	(317)	(124)	753	688	3,534	5,747	9,947	15,610
Add: Depreciation	309	595	671	327	601	996	1,516	2,178
Add: Interest	263	443	307	170	55	33	33	33
Add: Other Operating activities	32	(24)	172	(232)	(274)	(259)	(370)	(651)
CFO before change in NWC	287	890	1,903	954	3,916	6,516	11,126	17,170
(Inc)/dec in debtors	67	(405)	152	(684)	(576)	(553)	(558)	(530)
(Inc)/dec in inventories	(1,257)	(2,007)	(521)	(3,097)	(3,300)	(3,665)	(4,066)	(4,362)
(Inc)/dec in other current assets	(861)	134	(463)	(167)	(926)	(1,045)	(1,245)	(1,444)
Inc/(dec) in trade payables	569	1,315	21	1,683	2,369	2,625	3,076	3,509
Inc/(dec) in current liabilities/provisions	198	177	537	155	861	972	1,157	1,342
Change in NWC	(1,284)	(786)	(273)	(2,109)	(1,573)	(1,666)	(1,636)	(1,485)
Less: Taxes Paid	-	43	132	138	890	1,446	2,504	3,929
Net Cashflow from Operating Activities	(997)	62	1,498	(1,293)	1,454	3,404	6,987	11,756
Capital Commitments	(350)	(457)	(437)	(1,058)	(1,707)	(2,314)	(3,019)	(3,815)
Free Cashflow	(1,347)	(396)	1,062	(2,352)	(253)	1,090	3,968	7,941
Cashflow from Investing Activities								
Purchase of Investments	(1,271)	606	(897)	-	-	-	-	-
Other non-operating income	1	1	36	231	273	258	369	650
Others	-	-	-	(474)	(704)	(696)	(684)	(481)
Net Cashflow from Investing Activities	(1,270)	606	(861)	(243)	(430)	(438)	(315)	169
Cashflow from Financing Activities								
Increase in reserves	1,340	1,037	1,029	6,279	-	-	-	-
Inc (Dec) in Borrowings	1,426	419	(800)	(1,017)	(500)	-	-	-
Interest Paid	(197)	(298)	(177)	(170)	(55)	(33)	(33)	(33)
Payment of Lease Liability	(211)	(471)	(429)	(321)	(462)	(820)	(1,011)	(1,344)
Dividend paid including tax and others	-	-	-	-	-	-	-	-
Others	-	-	-	559	783	1,007	1,231	1,398
Net Cashflow from Financing Activities (e)	2,357	687	(377)	5,331	(234)	154	187	22
Total Increase / (Decrease) in Cash	(260)	898	(176)	2,736	(917)	806	3,840	8,132
Opening Cash and Bank balance	374	114	1,012	836	3,572	2,655	3,461	7,301
Closing Cash and Bank balance	114	1,012	836	3,572	2,655	3,461	7,301	15,432
Increase / (Decrease) in Cash and Bank balance	(260)	898	(176)	2,736	(917)	806	3,840	8,132

Source: Company data, I-Sec research

Table 9: Key ratios*(year ending Mar 31)*

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Per Share Data (Rs)								
EPS	(1.7)	(1.1)	4.1	1.2	5.6	9.1	15.7	24.6
Cash EPS	0.4	2.9	8.6	3.0	8.5	13.3	21.5	32.2
Dividend per share (DPS)	-	-	-	-	-	-	-	-
Book Value per share (BV)	16.2	22.1	32.5	24.7	30.3	39.4	55.1	79.7
Growth (%)								
Net Sales		59.0	38.1	54.9	50.5	37.9	32.7	28.6
EBITDA		295.2	99.2	8.0	181.1	58.0	62.7	49.3
PAT		(32.3)	NM	(11.2)	381.1	62.6	73.1	56.9
DPS		NM	NM	NM	NM	NM	NM	NM
Valuation Ratios (x)								
P/E	NM	NM	488.2	1,134.0	235.7	144.9	83.7	53.4
P/CEPS	4,492.3	680.1	234.1	433.9	154.7	98.9	61.2	40.8
P/BV	123.9	90.6	61.6	53.1	43.4	33.4	23.9	16.5
EV / EBITDA	1,389.8	359.3	186.7	356.4	126.8	80.2	49.3	33.0
EV / Sales	25.6	16.5	12.3	16.4	10.9	7.9	6.0	4.6
Operating Ratios								
Raw Material / Sales (%)	59.4	57.4	61.0	56.6	54.7	54.8	54.2	53.7
Employee cost / Sales (%)	10.6	11.1	11.6	10.5	9.8	9.2	8.6	8.1
Other exps / Sales (%)	28.2	27.0	20.8	28.3	26.9	26.1	25.1	24.1
Other Income / PBT (%)	(15.7)	(83.0)	15.6	33.5	7.7	4.5	3.7	4.2
Effective Tax Rate (%)	22.6	(31.5)	17.8	20.0	25.2	25.2	25.2	25.2
Working Capital (days)	66.1	57.1	39.3	45.4	39.9	36.4	32.9	29.4
Inventory Turnover (days)	80.3	92.0	74.5	78.0	73.0	70.0	67.0	64.0
Receivables (days)	19.0	20.3	11.5	14.0	13.0	12.0	11.0	10.0
Payables (days)	59.7	64.7	47.3	46.8	46.3	45.8	45.3	44.8
Net D/E (x)	0.3	0.3	(0.1)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Profitability Ratios (%)								
Net Income Margins	(2.2)	(0.9)	2.5	1.5	4.6	5.5	7.1	8.7
RoACE	(2.3)	4.1	14.9	8.8	25.7	34.0	43.3	47.2
RoAE	(21.3)	(6.0)	15.2	6.6	20.3	26.0	33.2	36.6
Dividend Payout	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-
EBITDA Margins	1.8	4.6	6.6	4.6	8.6	9.9	12.1	14.1

Source: Company data, I-Sec research

Appendix 1

FSN (Nykaa) is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. Since incorporation in 2012, it has invested both capital and creative energy towards designing a differentiated journey of brand discovery for consumers. It has a diverse portfolio of beauty, personal care and fashion products, including owned brand products manufactured in-house. As a result, it has established itself not only as a lifestyle retail platform, but also as a popular consumer brand. It offers consumers an omni-channel experience with an endeavour to cater to the consumers' preferences and convenience:

- **Online:** Online channels include mobile applications, websites and mobile sites. As of 31st Aug'21, it had cumulative downloads of over 55.8mn across all mobile applications. 88.2% of online GMV came through mobile applications. It had one of the highest share of mobile application-led transactions, among the leading online retail platforms in India during FY21.
- **Offline:** Offline channel comprises 80 physical stores across 40 cities in India over three different store formats. Physical stores offer a select offering of products as well as a seamless experience across the physical and digital worlds.

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

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

In addition to leveraging its strengths in comprehensive merchandising, brand relationships and delivery experience, the company focuses on inspiring and educating consumers via digital content, digital communities and tech-product innovations, which are integral to the business model.

Chart 33: The Nykaa Lifestyle Platform in India



Source: Company

Appendix 2

Company history

Calendar year	Major events and milestones
2012	Incorporation of FSN E-Commerce Ventures Private Limited.
2014	Opened its first physical store at T3 International Airport, New Delhi.
2015	Hosted the Nykaa.com Femina Beauty Awards.
2015	Launched makeup and beauty accessories brand 'Nykaa Cosmetics'.
2016	Estee Lauder launched on Nykaa's platform.
2016	Launched skincare brand 'Nykaa Naturals' focused on naturally derived ingredients.
2018	Huda Beauty launched exclusively on Nykaa for the first time in India.
2018	Launched 'Nykaa Fashion' as curated and managed marketplace.
2018	Entered into an agreement with Katrina Kaif to launch 'Kay Beauty'.
2019	Launched beauty range 'Masaba by Nykaa' in collaboration with Masaba Gupta.
2019	Collaborated with Vogue India to present 'The Vogue X Nykaa Fashion: Power List 2019'.
2019	Acquired the clothing brand '20 Dresses'.
2020	Launched own intimate wear brand 'Nykd by Nykaa'.
2020	Charlotte Tilbury launched exclusively on Nykaa.
2021	Opened Nykaa Fashion Store in Ambience Mall, New Delhi.
2021	Acquired the jewellery brand 'Pipa Bella'.
2021	Launched first MBO store for Nykaa Fashion.
2021	Launched 'The Global Store'.
2021	Acquired skincare brand, 'Dot & Key'

Source: Company

Appendix 3

Promoters and management profile

Table 10: Board of directors

Name	Designation	Experience	Description
Falguni Nayar	Founder, Executive Chairperson & MD and CEO	~26 years of experience in e-commerce, investment banking and broking	<p>She holds a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad.</p> <p>Prior to founding Nykaa, she was associated with Kotak Mahindra Capital Company for 18 years, where she also served as a managing director. She has also served on the Boards of various companies, including Tata Motors Limited and Aviva Life Insurance Company India Limited. Presently, she serves as an independent director on the Boards of various companies including: Kotak Securities, ACC, and Dabur India.</p>
Sanjay Nayar	Non-Executive Director	~35 years of experience in banking, and private equity	<p>He 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.</p> <p>He was associated with Citibank N.A. for over 23 years, where he also served as the as chief executive officer of the bank in India over six years. He was chief executive officer of KKR India Advisors Private Limited from 2009 to 2020. Presently he serves as a chairman of KKR India and also serves on the Board of various companies, including Indigrid Investment Managers Limited, Max Healthcare Institute Limited, J B Chemicals and Pharmaceuticals Limited and Avendus Capital Private Limited..</p>
Adwaita Nayar	Executive Director		<p>She also serves as the chairperson and chief executive officer of Nykaa Fashion.</p> <p>She co-founded Nykaa 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 where she graduated cum laude and a master's degree in business administration with distinction from the Harvard Business School. Post her academic pursuits, she rejoined FSN Brands in 2017 as chief executive officer in FSN Brands to create and strengthen the offline retail footprint of Nykaa. Since 2018, she has established Nykaa Fashion's business and currently oversees nykaafashion.com as well as many of the company's owned and partner brands.</p>
Anchit Nayar	Executive Director		<p>He also serves as the chairman and chief executive officer of Nykaa E-Retail. He holds a bachelor's degree from Columbia University.</p> <p>Anchit has previously served as 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. He joined FSN Brands in 2018 as the chief executive officer and has overseen the expansion of retail Nykaa stores. He was also the chief marketing officer of the company for the period from 31st May'20 to 12th Jan'21.</p>
Anita Ramachandran	Independent Director	Over 45 years of experience in various sectors including, consultancy, finance, asset management, and manufacturing sector	<p>She holds a bachelor's degree in commerce and a master's degree in management studies from the University of Mumbai.</p> <p>She founded Cerebrus Consultants Private Limited in 1995. She has previously worked with A.F. Ferguson & Co. (a former KPMG network company in India). Presently, she serves as a director on the Board of various companies including: Aditya Birla Housing Finance, Essel Mining & Industries, Grasim Industries, Godrej and Boyce Manufacturing Company, Happiest Minds Technologies, Kotak Mahindra Life Insurance Company, Metropolis Healthcare, Rane (Madras), and Utkarsh Small Finance Bank.</p>
Milan Khakhar	Non-Executive Director	~30 years of experience in natural stones and building material industry sector	<p>He holds a bachelor's degree in commerce and law from the University of Mumbai. He was awarded a merit certificate under the National Scholarship Scheme by the Government of Maharashtra in 1983.</p> <p>Currently he is the chairman and managing director of Solid Stone Company, a BSE-listed entity.</p>
Alpana Parida	Independent Director	~20 years of experience in the retail, luxury, branding and design sector	<p>She holds a bachelor's degree in arts (honours) from the University of Delhi and a postgraduate diploma in management from the Indian Institute of Management, Ahmedabad.</p> <p>She is founder & chief executive officer of Tiivra Ventures Private Limited. She has served as managing director of DMA Yellow Works Limited. She has also been associated with Titan Industries.</p>

Name	Designation	Experience	Description
			Previously, she has also been on the Board of SH Kelkar and Company, and Prime Research and Advisory. Presently she serves as a director on the Board of various companies including Prime Securities, COSMO Films, and Brilloca.
Pradeep Parameswaran	Independent Director	~15 years of experience in engineering, automobile and marketing	He holds a bachelor's degree in engineering (instrumentation) and a master's degree in management studies from the University of Mumbai. He also holds master's in business administration from Vanderbilt University. He is associated with Uber India Technology Private Limited as senior director, RGM Rides – APAC. He was associated with DEN Networks as the chief executive officer, McKinsey & Company, Inc. and Hindustan Unilever.
Seshashayee Sridhara	Independent Director	Experience in product, engineering, data and artificial intelligence, operations, cyber security and compliance	He holds a bachelor's degree in mechanical engineering from Nagpur University. He also serves as a member of the management Board for Allegro.pl. Previously, he was associated with various organisations including TUI Travel Plc, and D-Market Elektronik Hizmetler ve Ticaret AS Kustepe Mah. Mecidiyekoy Yolu Cad (Dogan Online).
Milind Sarwate	Independent Director		He is a chartered accountant from the Institute of Chartered Accountants of India, a cost accountant from the Institute of Cost Accountants of India, and a company secretary from the Institute of Company Secretaries of India. Presently, he serves as an independent director on the Boards of: Mahindra & Mahindra Financial Services, Metropolis Healthcare, SeQuent Scientific, Matrimony.com, Hexaware Technologies, OmniActive Health Technologies, Eternis Fine Chemicals, and WheelsEMI Private Limited.

Source: Company

Table 11: Management profile

Name	Designation	Experience	Description
Arvind Agarwal	Chief Financial Officer	~21 years of experience in various fields, including accounting, finance, regulatory and strategic planning	He holds a bachelor's degree in commerce from the Jai Narain Vyas University, Jodhpur. He has completed the senior management programme from the Indian Institute of Management, Ahmedabad. He is an associate member of the Institute of Chartered Accountants of India, and a qualified company secretary from the Institute of Company Secretaries of India. Previously, he was associated with Amazon Seller Service Private Limited, Vodafone India, Tata Teleservices, YOU Telecom, and Adani Ports.
Rajendra Punde	Head - Company Secretary & Legal and Compliance Officer	~17 years of experience in legal, compliance and company secretarial	He holds a bachelor's degree in commerce and law from the University of Mumbai. He is an associate member of the Institute of Company Secretaries of India. Previously, he was associated with Flipkart Internet Private Limited, e-Bay India Private Limited, Bharti Cellular, Bharti Wal-Mart Private Limited, and Asian Paints (India).
Manoj Jaiswal	Chief Officer-Supply Chain of Subsidiary, Nykaa E-Retail Private Limited	~8 years of experience in supply chain management	He holds a bachelor's degree in business administration and a master's in business administration. Previously, he was associated with Seventymm Services Private Limited and Ibibo Web Private Limited.
Nihir Parikh	Chief Executive Officer, Nykaa Man	~11 years of experience in technology and e-commerce sector.	He holds a bachelor's degree in chemical engineering from University of Mumbai and a master's in business administration from INSEAD. Previously, he was associated with Genentech Inc, US, and GE Healthcare Pte. Ltd.
Reena Chhabra	Chief Executive Officer - Private Label Segment - FSN Brands	~23 years of experience in cosmetic industry and e-commerce sector.	She holds a bachelor's degree in arts (general) from Punjab University. Previously, she was associated with Colorbar Cosmetics Private Limited, Hindustan Unilever, Marico Industries, Kodak India, and Eli Lilly Ranbaxy.
Sanjay Suri	Chief Technology Officer, Nykaa E-Retail	~14 years of experience in the technology sector	He holds a bachelor's degree in arts from St. Stephens College, University of Delhi, and master's degree in science in computer science from University of California. Previously, he was associated with TriVium India Software Private Limited, Ibibo Web Private Limited, Oracle India Private Limited, Info Edge (India), and Amazon Software Development Centre (Bangalore) Private Limited.
Shalini Raghavan	Chief Marketing Officer	~15 years of experience in the cosmetic industry, marketing and e-commerce sector	She holds a bachelor's degree in arts in economics from the University of Madras and a postgraduate diploma in management in marketing from Bhavan's SP Jain Institute of Management and Research, Mumbai. Previously, she was associated with L'Oréal India Private Limited, Hindustan Unilever, and Britannia Industries.
Surender Mehta	Group Chief Human Resource Officer	~21 years of experience in the human resource management	He holds a bachelor's degree in business studies from the University of Delhi and a postgraduate diploma in business management from Institute of Management Technology, Ghaziabad. He has completed the advanced management program from Harvard Business School. Previously, he was associated with Vodafone India Services Private Limited as the head of human resource business & India centre, and ITC Hotels Limited. Earlier, he has also served as a director on the Boards of Vodafone India Services Private Limited and Vodafone India Services Private Limited.
Vikas Gupta	Chief Executive Officer, eB2B business	~23 years of experience in marketing sector	He holds a bachelor's degree in mechanical engineering from the University of Delhi and a postgraduate diploma in management from the Indian Institute of Management Society, Lucknow. Previously, he was associated with Flipkart Internet Private Limited and Unilever Indonesia.
Kingshuk Basu	Senior Vice President - Retail Operations, FSN Brands	~18 years of experience in retail operations, marketing, sales and e-commerce sector	He holds a B.Tech in electrical engineering from the Indian Institute of Technology, Kanpur, and master's in business administration from the Michigan State University. Previously he was associated with many companies, including Wellness Forever Medicare Private Limited, Conscious Food Private Limited, Spencer's Retail, Daymon Worldwide.
Gopal Asthana	Chief Business Officer (Fashion)	~22 years of experience in retail & e-commerce sector	He holds a bachelor's degree in electrical engineering from Rani Durgavati Vishwavidyalaya, Jabalpur, and a post graduate in management from the Indian School of Business. He is a member of the Council of Chartered Financial Analysts. He has completed the course on 'Competitive Marketing Strategy & Corporate Development: Mergers and Acquisitions' from the Wharton School, University of Pennsylvania. Previously, he was associated with Future Retail, and Shoppers Stop.

Source: Company

Appendix 4

Key subsidiaries

Nykaa E-Retail Private Limited

Nykaa E-Retail is in the business of selling beauty, hygiene and wellness products through online channels, i.e. its online platforms or websites, and other online applications as well as through offline channels, i.e., stores, stalls, etc.

Nykaa Fashion Private Limited

Nykaa Fashion is in the business of selling and distribution of fashion garments and fashion accessories on online platforms or websites such as through e-commerce, m-commerce, internet and intranet as well as through stalls, etc.

FSN Brands Marketing Private Limited

FSN Brands is in the business of import, purchase, selling and distribution of beauty and wellness, personal care, health care, skincare, hair care and other related products through retail outlets, general trade and modern trade.

Nykaa-KK Beauty Private Limited

Nykaa-KK Beauty is in the business of manufacturing, selling & distribution of 'Kay Beauty' products on the online platforms or websites such as e-commerce, m-commerce, internet as well as through physical stores, stalls, general trade, modern trade, etc.

FSN International Private Limited

FSN International is in the business of selling beauty, wellness, fitness, personal care, health care, skincare, hair care and other related products on / through e-commerce, m-commerce, internet, stores, stalls, etc.

FSN Distribution Private Limited

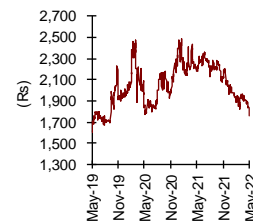
FSN Distribution is in the business of selling beauty, hygiene and wellness products through its distribution network to wholesalers and retailers using online and offline channels of sales.

Dot & Key Wellness Private Limited

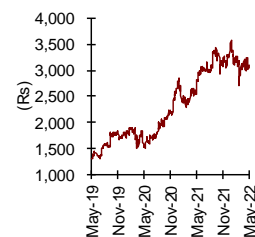
Dot & Key is in the business of manufacturing, marketing, branding and sale of skincare, personal care and nutraceutical products, including serums, toners, cleansers, face masks, face creams and meltables.

Price charts

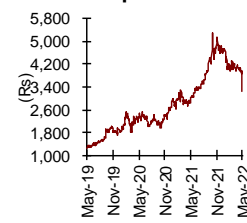
Akzo Nobel



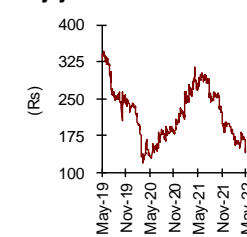
Asian Paints



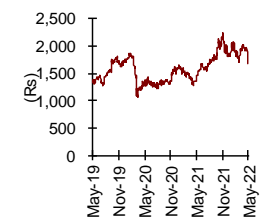
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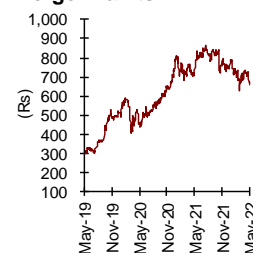
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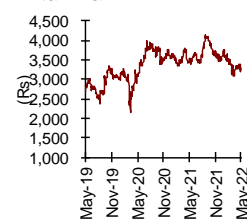
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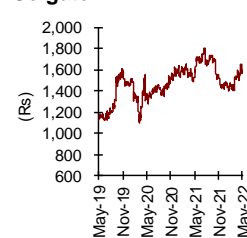
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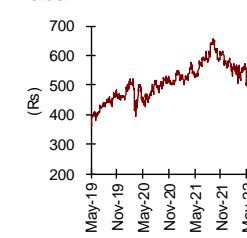
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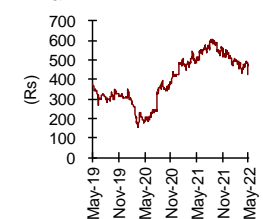
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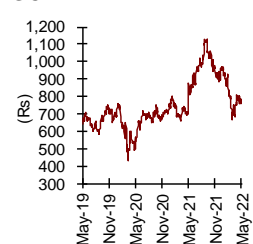
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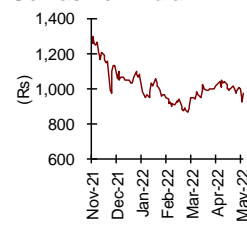
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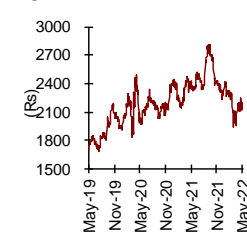
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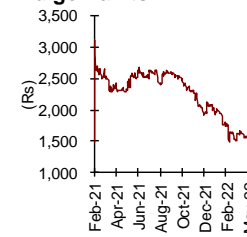
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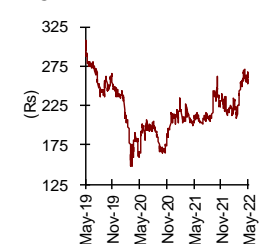
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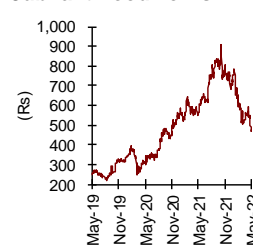
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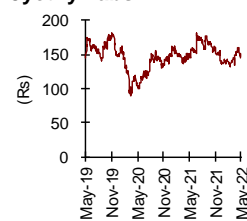
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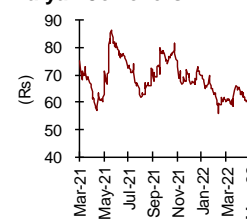
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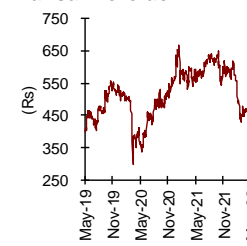
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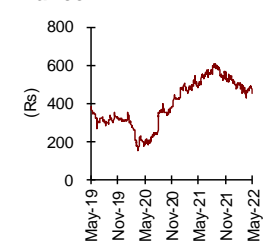
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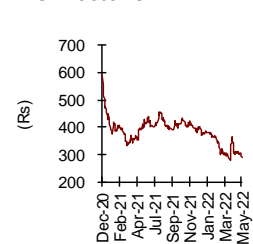
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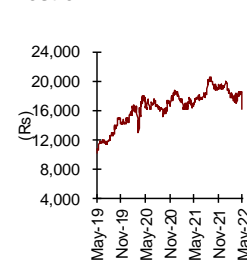
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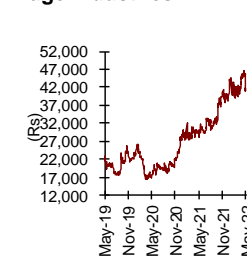
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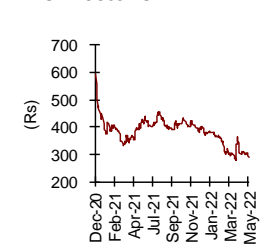
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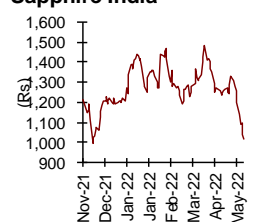
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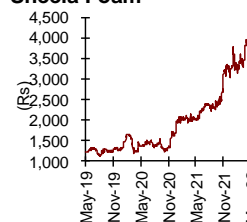
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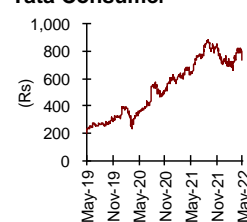
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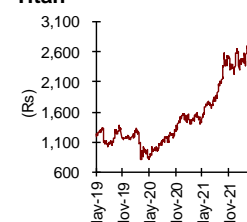
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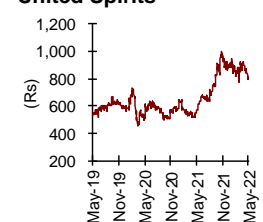
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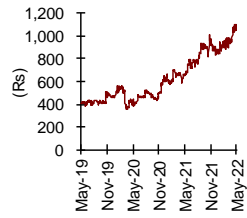
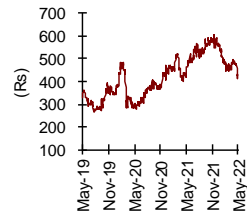


Titan



United Spirits



Varun Beverages**Westlife Development**

Source: Bloomberg

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