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India | Equity Research | Company Update

FSN E-Commerce Ventures

Consumer Staples & Discretionary

Analyst day takeaway: Margin outlook clarity surfaces

In our preview note, we had flagged certain questions ([link](#)). Nykaa, in its investor day presentation, has touched upon most of them. Management clarified that it is now focusing on growth in the core BPC segment and will reinvest savings from scale efficiencies to usher growth higher. Hence, medium-term BPC contribution/EBITDA margins will likely stay flattish. Although short of Street's expectations, the sharp profit improvement outlook in fashion/eB2B segments is a positive surprise. Also, the rapid scale up of its global store and some of its owned brands – 'Dot & Key' and 'Nykd' – were definite bright spots in Nykaa's operating performance. We reckon, while material re-rating of Nykaa is contingent on the execution of its ambitions, clarity on growth/margin outlook should benefit the stock. Upgrade to **ADD** from **Hold**.

Investor meeting

On 14 Jun'24 Nykaa hosted its analyst/investor day. The event entailed top management across functions and business segments making detailed presentations outlining their ambition to transform the company into more than just a beauty retailer. The session shed light on many of the questions we highlighted in our earlier note ([link](#)). Below are the answers to our questions –

A glide path of potential EBITDA margin improvement

- **BPC:** The company aims to maintain contribution and EBITDA margins at present levels. Any improvement from scale efficiency is likely to be reinvested for growth.
- **Fashion:** management is guiding for EBITDA breakeven in FY26E, 4–5% EBITDA margin in FY27E and >10% EBITDA margin in steady state. Here, rapid scale up (2.5–3x revenues by FY27E) should boost operating leverage/marketing efficiency.
- **eB2B:** Aims to improve EBITDA margin by 2,000bps by FY26E (3–5% steady state).

Context on entry into the GCC market; potential cash burn there

- BPC market in GCC is worth USD 30bn with >USD 500 per capita spend (highest in the world) and favourable demographics. Estimated investment in FY25 is ~USD 3–5mn. In five years, they aim to open 70 stores and corner ~7% market share.

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Market Data

Market Cap (INR)	489bn
Market Cap (USD)	5,848mn
Bloomberg Code	NYKAA IN
Reuters Code	FSNE BO
52-week Range (INR)	196 /130
Free Float (%)	47.0
ADTV-3M (mn) (USD)	11.3

Price Performance (%)	3m	6m	12m
Absolute	13.1	(3.9)	21.2
Relative to Sensex	7.8	(13.1)	(0.5)

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	51,438	63,856	84,746	1,08,405
EBITDA	2,560	3,462	5,957	9,183
EBITDA Margin (%)	5.0	5.4	7.0	8.5
Net Profit	193	323	2,431	3,976
EPS (Rs)	0.1	0.1	0.9	1.4
EPS % Chg YoY	(53.2)	67.9	651.7	63.6
P/E (x)	2,533.2	1,509.1	200.8	122.7
EV/EBITDA (x)	200.8	148.6	86.4	56.0
RoCE (%)	3.0	4.1	12.4	19.0
RoE (%)	1.4	2.3	15.7	21.3

Previous Reports

14-06-2024: [Company Update](#)

23-05-2024: [Q4FY24 results review](#)

B2B e-commerce working capital requirement and playbook

- In B2B e-commerce, the company buys on credit and sells in cash; however, it is required to hold inventory. Net working capital needed is ~5–10 days of sales. According to management, there is ample headroom for growth; however, they are focused on improving gross margin by driving better quality of orders and optimising costs.

Strategic alternatives to counter the impact of quick-commerce on masstige BPC

- While management believes that the categories the company operates in, are not particularly susceptible to quick-commerce given the aspect of user education and discovery, it has taken steps to improve O2D timelines. The company has implemented an inhouse warehouse management system to hasten delivery timelines, which have shrunk significantly. Management claimed that most of the orders across 19,000 pin codes are now being delivered within 48 hours. They are also looking to introduce express delivery without increasing burn.

Clarity on RoAS improvement for advertisers on their platforms, and approximate timeline for ad-revenue recovery

- NYKAA is leveraging its database of 12 years and investing in technology to improve their analytics and maximise RoAS for advertisers on their platform. They operate like a SaaS platform, providing brands with online store creation, search engine optimisation, personalisation, marketing and security. Management also anticipates for reduction in discounting and promotion-based brand activations seen in FY24, which should contribute to higher wallet share for ad spends.

Valuation

We upgrade NYKAA to **ADD**, from *Hold*, and revise our DCF-based price target to INR 195 from INR 175, as we roll forward.

Key risks

On the upside: 1) Ad-revenue recovery which would boost profitability. 2) Faster-than-expected profit delivery in fashion vertical.

On the downside: 1) Chasing growth at elevated levels can be dilutive of gross margin. 2) Success in fashion business can be difficult given higher competition in the category. 3) Increase in competitive intensity from other channels (quick commerce) and other players (Tira/Purple) in the BPC segment.

Other noteworthy points from the event

- BPC online market share maintained at >30% and fashion online market share at 15–18%.
- Nykaa-owned brand – ‘Dot & Key’ has now scaled to an annualised GMV run rate of ~INR 6bn in Q4FY24.
- In the fashion segment, Nykaa-owned brand – Nykd – achieved the scale of ~INR 1bn in less than three years.
- CSMS campaign (cleanser, serum, moisturiser, sunscreen) launched in Jun’23 reached 270mn users and aided >65% YoY growth in sunscreen and >35% YoY growth in serum. This is somewhat indicative of the fact that BPC consumption in India is low because of lack of awareness, not availability or affordability. Subsequent campaign launched in hair care and eye makeup have demonstrated faster scale up in reach.
- Depth of customer data by localities, in terms of BPC usage behaviour, has allowed retail stores to break even within the first three years of launch.
- ACV of omni-channel customer is 4–5x. Introduction of services is also scaling up well. Nykaa achieved 1mn consumer makeovers in 187 stores in FY24.
- Nykaa is now India’s largest beauty brand importer/distributor. In FY24, they were 5x of FY21 GMV. By FY28, they aim to ramp this up 3x from current levels. The company now has 39 brands vs. 19 brands in FY21; its plans to ramp up to 80–100 brands by FY28.

Exhibit 1: Shareholding pattern

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

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

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

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

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

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Dec-23	Mar-24
Net Sales	14,218	15,070	17,888	16,680
% growth (YOY)	23.8	22.4	22.3	28.1
EBITDA	735	806	988	933
Margin %	5.2	5.4	5.5	5.6
Other Income	67	86	76	71
Extraordinaries	0	0	0	0
Adjusted Net Profit	33	58	162	69

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

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

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	0.1	0.1	0.9	1.4
Adjusted EPS (Diluted)	0.1	0.1	0.9	1.4
Cash EPS	0.7	0.9	1.8	2.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	4.8	4.9	5.8	7.2
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	36.3	24.1	32.7	27.9
EBITDA	56.8	35.2	72.1	54.1
EPS (INR)	(53.2)	67.9	651.7	63.6
Valuation Ratios (x)				
P/E	2,533.2	1,509.1	200.8	122.7
P/CEPS	253.5	190.2	96.4	67.4
P/BV	35.4	34.6	29.5	23.8
EV / EBITDA	200.8	148.6	86.4	56.0
P / Sales	9.9	8.0	6.0	4.7
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	44.3	42.9	43.6	43.8
EBITDA Margins (%)	5.0	5.4	7.0	8.5
Effective Tax Rate (%)	35.4	36.7	25.2	25.2
Net Profit Margins (%)	0.5	0.7	3.0	3.8
Net Debt / Equity (x)	0.2	0.2	0.2	0.2
Net Debt / EBITDA (x)	1.2	1.0	0.6	0.4
Fixed Asset Turnover (x)	17.3	13.7	13.9	13.6
Working Capital Days	94	74	68	63
Inventory Turnover Days	82	75	72	68
Receivables Days	13	12	11	10
Payables Days	22	21	20	19
Profitability Ratios				
RoCE (%)	3.0	4.1	12.4	19.0
RoE (%)	1.4	2.3	15.7	21.3
RoIC (%)	3.4	4.4	13.0	19.8

Source Company data, I-Sec research

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