

FSN E-Commerce Ventures (Nykaa)

Fashionably beautiful to behold



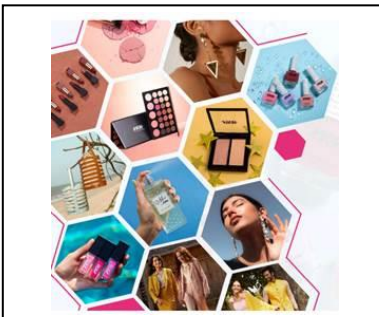
**Leadership in Beauty
to drive growth in
Fashion**

**Advertising and
owned brands enable
margin accretion**

**Initiate with a BUY and
TP of INR 2,480,
implying 27% upside**

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Nykaa is the largest specialty retailer in the country with leadership in Beauty and Personal Care (BPC) and a burgeoning Fashion segment. Enhanced digital penetration, increasing disposable income and greater awareness through social media are expected to drive rapid growth of this industry. We are excited about the company's aggressive omni-channel strategy that would provide touch and feel experience along with organic customer acquisition. We trust Nykaa has built durable moats by becoming a reliable partner for brands as well as shoppers.

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FSN E-Commerce (Nykaa)

Fashionably Beautiful to Behold

Nykaa is a unique player with PAT level profitability while logging a robust 48.2% FY19-21 CAGR. Going forward, we expect Nykaa to continue strengthening its market leadership in Beauty and Personal Care (BPC) while enhancing market share in the larger Fashion segment. With its focus on 3Cs – Content, Curation and Convenience, Nykaa has become the trusted platform for both customers as well as brands. As of Aug 31, FY21, Nykaa offered 3.1mn SKUs from 4,078 brands with cumulative transacting consumer base of 13.1mn, making Nykaa the largest specialty retail platform in India. Our proprietary analysis of Nykaa's customer engagement metrics and advertising trends of BPC/Fashion brands suggests that Nykaa is likely to become the preferred RoI driven advertising platform for partner brands that will enable robust margin expansion. Furthermore, we foresee the aggressive omnichannel expansion to drive significant brand recall and organic customer acquisition for the company.

We initiate on Nykaa with a 'BUY' rating and Dec'22 TP of INR 2,480, projecting CAGR of 38%/86% for Nykaa in BPC/Fashion GMV over FY21-26, while expecting EBITDA margin to reach 15.4% (7.6% as % of GMV) in FY26. We value Nykaa using DCF valuation approach on a consolidated company basis with 10.5% cost of capital and 6.0% perpetuity growth rate. Key downside risks to our TP include 1) failure of Fashion business to ramp-up, 2) margin dilution due to expansion coming at the cost of premiumisation and lower spends per customer, and 3) a sharp rise in competitive intensity.

Nykaa to strengthen market leadership in BPC with sturdy ramp-up in Fashion: As of FY21, Nykaa holds 37%/1.5% market share of online BPC/Fashion. Strong traffic metrics (220mn visits and 21mn MAUs in BPC) with broadest brand partners (2,644 brands offering 255k+ SKUs) in BPC provide durable moats to the company to sustain its market share. Simultaneously, Fashion would grow as a cross-sell on the BPC consumer base to reach 9% market share by FY41. We expect the company to deliver GMV/Revenue CAGR of 51%/44% over FY21-26 and CAGR of 14%/15% in FY26-41, respectively with EBITDA margin reaching 15.4%/22.6% by FY26/FY41 (7/6%/11.4% as % of GMV).

Brands to see Nykaa as the ideal digital advertising platform: BPC/Fashion brands spend a generous portion of revenue in advertising and are also increasingly preferring digital channels (~20-30% of overall advertising budget). We believe Nykaa's superior consumer engagement metrics with 21mn/16mn MAUs in BPC/Fashion and 13mn+ social media followers position Nykaa as the partner of choice for these brands' advertising needs. Our analysis suggests the company can generate 4.2-4.6% of GMV as advertising revenue, which will be a robust margin expansion driver.

Omnichannel expansion is crucial: We advocate that Nykaa should continue to aggressively expand its retail store network as it helps the company in 1) organic customer acquisition, 2) providing touch and feel experience to online buyers, and 3) also tap on consumers' wallet share that was being spent in-person during travel/outings.

Initiate with a 'BUY' and TP of INR 2,480 per share: We value Nykaa using DCF valuation methodology with explicit forecasts until FY41 to align to the long-term penetration story. Using 10.5% cost of capital and 6.0% perpetuity growth rate, we derive Dec'22 target price of INR 2,480 per share (~27% upside from CMP) and initiate coverage with a 'BUY' rating.

Recommendation and Price Target		Financial Summary					
			(INR mn)				
Current Reco	BUY	Y/E March	FY20A	FY21A	FY22E	FY23E	FY24E
Current Price Target (12M)	2,480	Net Sales	17,675	24,409	40,479	63,750	90,598
Upside (%)	27.0%	Sales Growth (%)	59.0	38.1	65.8	57.5	42.1
		EBITDA	81	1,614	2,095	5,490	10,185
		EBITDA Margin (%)	4.6	6.6	5.2	8.6	11.2
		Adjusted Net Profit	-166	618	939	3,478	7,056
		Diluted EPS (INR)	-0.4	1.3	2.0	7.3	14.7
		Diluted EPS Growth (%)	0.0	0.0	48.7	265.7	102.9
		ROIC (%)	7.9	18.5	22.0	62.1	107.7
		ROE (%)	-6.0	15.2	11.0	25.0	36.6
		P/E (x)	NA	1,462.1	983.4	268.9	132.5
		P/B (x)	259.6	177.5	74.4	58.9	40.4
		EV/EBITDA (x)	1,140.8	571.9	437.6	166.5	89.1
		Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 20/Dec/2021

Key Data – NYKAA IN

Current Market Price	INR1,953
Market cap (bn)	INR923.5/US\$12.2
Free Float	48%
Shares in issue (mn)	472.9
Diluted share (mn)	478.8
3-mon avg daily val (mn)	INR0.0/US\$0.0
52-week range	2,574/1,912
Sensex/Nifty	55,822/16,614
INR/US\$	75.9

Price Performance

%	1M	6M	12M
Absolute	-8.1	0.0	0.0
Relative*	-1.8	0.0	0.0

*To the BSE Sensex

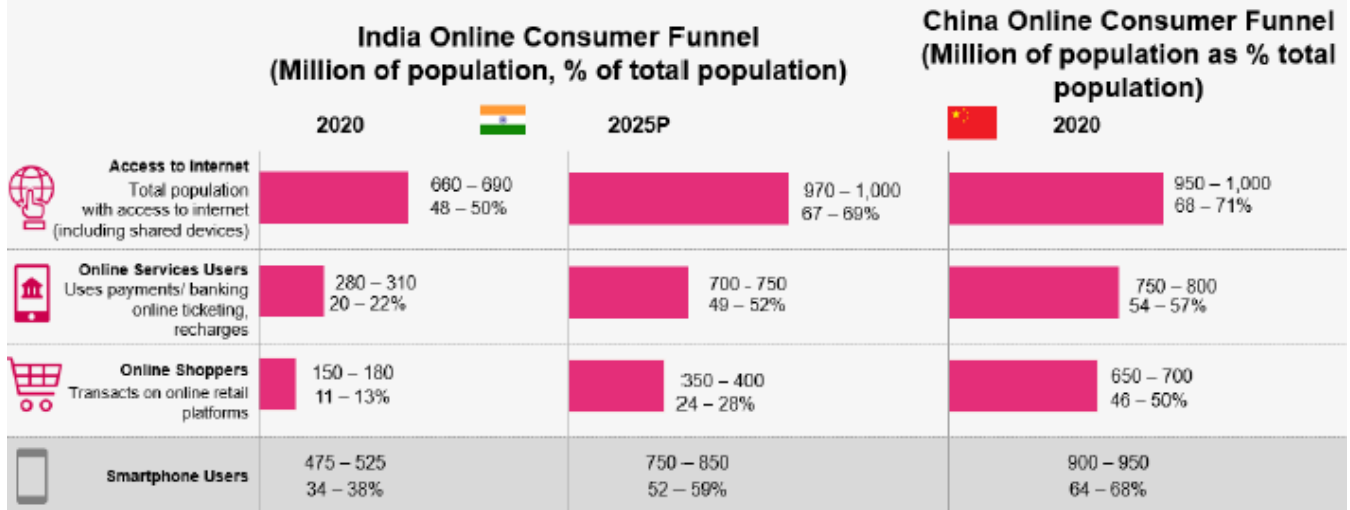
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You can also access our portal: www.jmflresearch.com
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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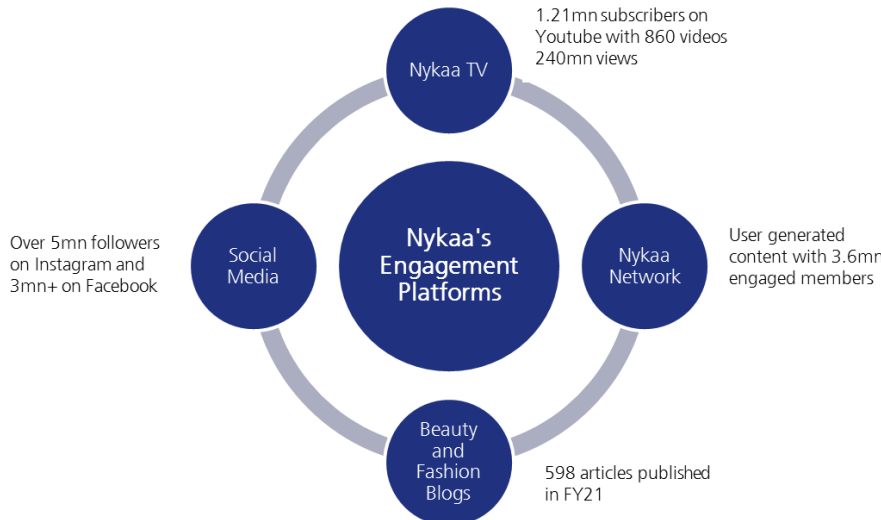
Focus Charts

Exhibit 1. India's Online Shoppers expected to expand significantly to reach ~55% of China by 2025P



Source: Redseer, Company

Exhibit 2. Nykaa's multiple platforms to engage customers



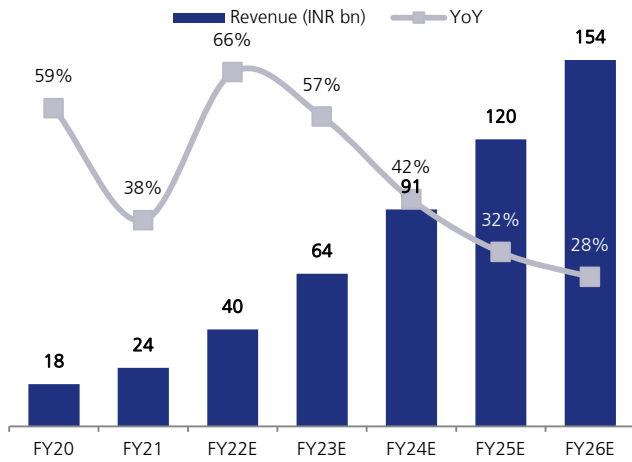
Source: Company, Youtube, Meta

Exhibit 3. Nykaa's Owned Brands enhance customer stickiness



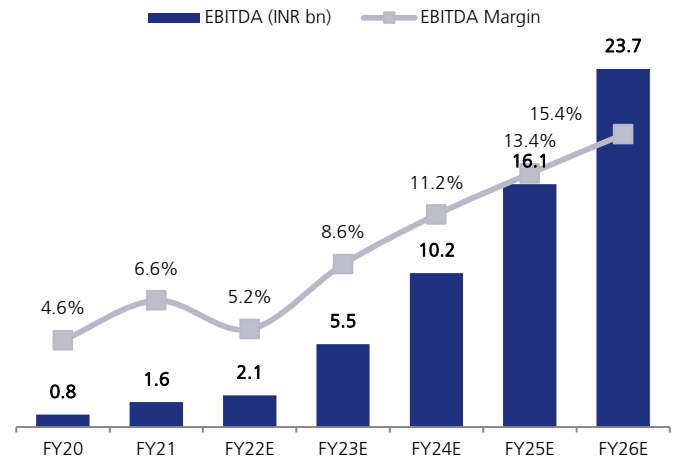
Source: Company

Exhibit 4. We forecast group revenue CAGR of 44% over FY21-26.



Source: Company, JM Financial

Exhibit 5. ...with operating profitability reaching 15.4% in FY26



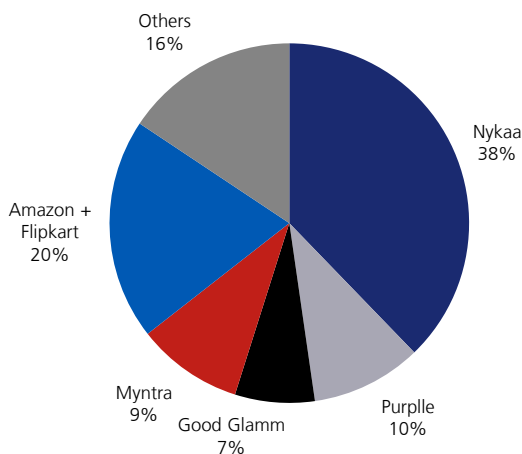
Source: Company, JM Financial

Exhibit 6. Key DCF assumptions

WACC	10.5%
Revenue CAGR (FY21-26)	44.5%
Revenue CAGR (FY26-31)	20.9%
Revenue CAGR (FY31-41)	11.8%
EBITDA CAGR (FY21-26)	71.2%
EBITDA CAGR (FY26-31)	25.7%
EBITDA CAGR (FY31-41)	13.9%
Tax Rate	25.2%
FCFF CAGR (2021-2041F)	27.5%
NPV of cash flow (2021-2041F)	438,678
Perpetual growth (%)	6.0%
Implied Exit FCF multiple (X)	22.2x
Terminal value (INR mn)	740,767
Enterprise value (INR mn)	1,179,445
Terminal value as % of Enterprise Value	63%
Net debt (INR mn, Mar'23E)	-6,513
Minority Interest (INR mn, Mar'23E)	13
Equity value (INR mn)	1,185,944
Number of shares outstanding (diluted, million)	478.8
Equity value per share (INR)	2,480

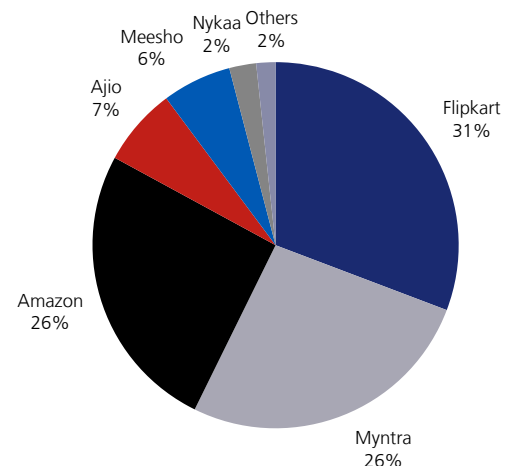
Source: JM Financial

Exhibit 7. Online BPC Market is largely dominated by verticals



Source: JM Financial

Exhibit 8. While Fashion has horizontals commanding 55%+ share



Source: JM Financial

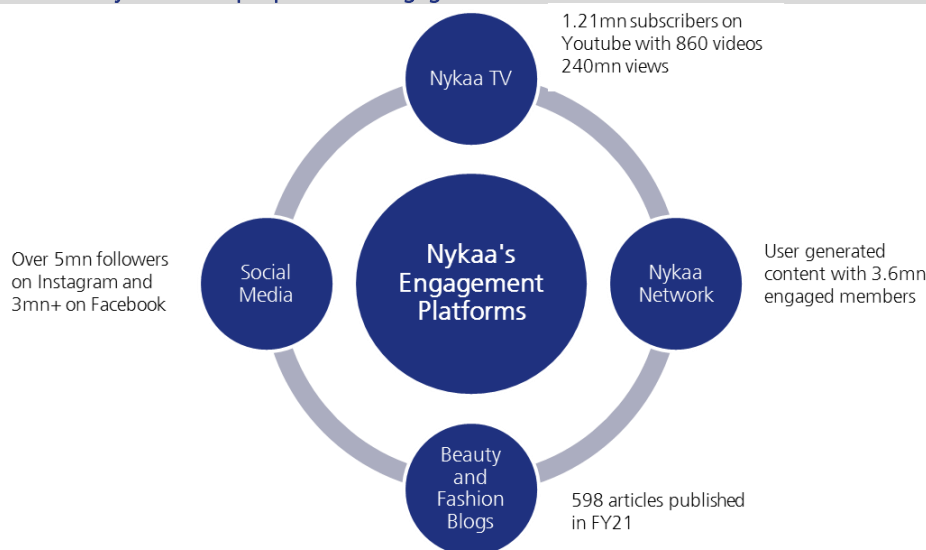
Investment Thesis

1. Nykaa at the forefront of perfecting the "Art of Retail"
2. Omnichannel enhancing stickiness of digital-first consumers while facilitating access to physical-only consumers too
3. Multiple Delivery Models to optimise take-rates and inventory
4. House of Brands enable strong customer stickiness with margin expansion
5. Nykaa to emerge as the RoI-driven advertising platform for partner brands
6. Large addressable market with decadal growth opportunity driven by online penetration
7. Management with proven track record of delivering profitable growth

1. Nykaa at the forefront of perfecting the "Art of Retail"

- **Alleviating Customer and Brand pain-points:** Nykaa has identified and overcome crucial consumer pain-points – trust and availability of desired SKUs in BPC and selection of the latest season designs in Fashion – thereby democratising beauty and fashion while making the platform independent of discounting as the primary consumer pitch. Global BPC luxury brands such as Estee Lauder and Huda Beauty find Nykaa to be the partner of choice for accessing consumers nationwide without making investments in distribution. Simultaneously, while fashion brands have multiple platforms available to sell discounted products, Nykaa is the only platform with scale that enables them to sell their full-priced products. For the five months ending Aug'21, 16.1% of Fashion GMV was sold at full-price (<10% discount) with average order value (AOV) significantly higher than peers at INR 3,257 in 2Q FY22.
- **Content-led platform creates robust engagement metrics:** Right from day zero, Nykaa focused on understanding the needs and desires of its consumer base. A primary reason for lower online penetration in BPC was the need for trials as most beauty products cannot be returned after opening or usage. Hence, the company developed a content-led platform that educates the consumers on the right usage of the products via text / video content while also building a strong community on social media. In 2QFY22, the company attracted average monthly unique visitors (MAUs) of 21 mn (62% YoY growth) and 16 mn (328% YoY growth) in BPC and Fashion, respectively.

Exhibit 9. Nykaa's multiple platforms engage customers



Source: Company

- **Curated assortment driven by tech-led consumer insights:** Nykaa leverages its proprietary tech platform with machine learning capabilities to provide a customised experience to every consumer basis their purchase and research history. Across both

BPC and Fashion verticals, the company exercises strong control over the listed assortment and ensures that it is highly curated to cater to the consumers' appetite. As of Aug'21, Nykaa has over 3.1 million SKUs listed from 4,078 brands across BPC and Fashion. In BPC, Nykaa continues to add newer product categories that drive customer engagement and loyalty.

2. Omnichannel enhancing stickiness of digital-first consumers while enabling access to physical-only consumers too

Within two years of launch, Nykaa decided to take the omni-channel route to deliver touch and feel experience to consumers. With over 70% of Nykaa's BPC GMV coming from makeup and skincare, it was important for consumers to be able to try the products first-hand, prior to making the purchase decision.

Exhibit 10. Three store formats complementing each other and creating a wide consumer funnel



Source: Company

However, in addition to providing the trial experience to buyers, Nykaa also leveraged these stores for brand building and organic customer acquisition. The company opened these stores in 3 formats: 1) Nykaa Luxe (sells only luxury brands and located in premium locations), 2) Nykaa On Trend (sells fastest-moving SKUs on the online platform), and 3) Nykaa Kiosk (sells owned brands). By opening stores in premium locations of the city, Nykaa not only built customer trust but also pulled itself into the aspirational category – a strong differentiation factor compared to its peers' offline play. Additionally, having a physical presence also enabled Nykaa to gain incremental wallet share of their consumers.

Finally, the company also used fungible inventory across online and physical stores to enable a seamless O2O (online to offline) experience to consumers. This not only helped optimise inventory days but also reduced delivery/return times for consumers. As of 16 Dec'21, Nykaa has 95 stores across 47 cities in India.

3. Multiple delivery models to optimise take-rates and inventory

- **Distribution Agreements:** For most of its BPC business, Nykaa operates through distribution agreements with the brands. As part of these distribution agreements, the company is required to maintain enough inventory to meet a certain period of sales. For overseas brands, Nykaa also has the right to import and sell the specified products in India.

Upon receiving an order, the company uses its partner delivery companies to deliver the product directly to the customer from its warehouse. In this inventory-led model, the company recognises revenue as the value of products sold, adjusted for taxes, discounts, rebates and returns. As the company buys and sells products in this agreement, there is an opportunity for higher buy-sell margins with luxury brands and cosmetics category operating at higher margins than mass-market brands or personal care category.

- **Marketplace and Just in Time (JIT) Agreements:** For the Fashion vertical in particular, the Company enters into a mix of marketplace and JIT agreements. These agreements allow a 3rd party seller to display and list its products on Nykaa platform while

undertaking that the listing is accurate and complete in all respects. The sellers are also expected to keep their listed products in stock at all times.

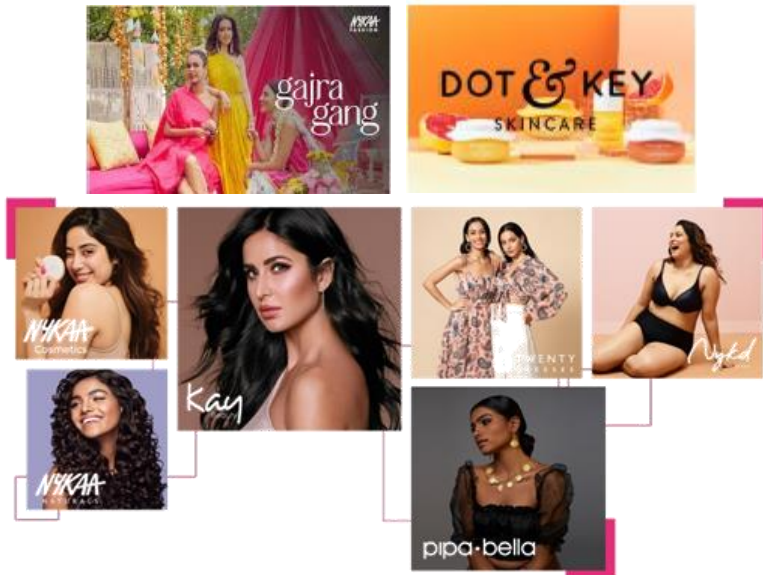
Upon receiving an order, in a marketplace agreement, the seller ships the product directly to the customer using the company's partner delivery companies; while, in a JIT agreement, the company acquires the product from the vendor and then ships it to the customer. These asset light agreements enable the company to avoid inventory risk and help it remain nimble to adapt the product catalogue to current trends without worrying about inventory obsolescence. In this model, the company earns revenue through commissions that it charges to the third party sellers.

4. House of Brands can enable strong customer stickiness with margin expansion

Nykaa has crafted a portfolio of 15 owned brands. The company has a loyal customer base, who trust it and are willing to experiment with the company's owned brands too. This trust not only enhances customer stickiness but is also a strong margin expansion driver for the company. Across BPC and Fashion categories, manufacturer brands operate at 60-70% gross margins that are significantly higher than Nykaa's take-rates across partner brands. The manufacturing is outsourced to third-party vendors under a loan and license agreement wherein the product is manufactured as per the company's specifications and requirements. The company procures raw materials, ingredients for the products and packaging materials, and the finished products are stored at the warehouses.

When an order is received, the company can ship the finished products directly to the customer using the partner delivery companies. Just as in distribution agreements, the company recognises revenue as the value of products sold, adjusted for discounts, rebates, incentives and returns. An added advantage of the owned brands portfolio is that it is margin accretive as it delivers higher gross margin to the company.

Exhibit 11. Nykaa's Owned Brands



Source: Company

5. Nykaa to emerge as the Rol-driven advertising platform for partner brands

BPC and Fashion brands tend to have significant advertising budget (20-30% and 30-40% of Revenue for BPC and Fashion, respectively) that is distributed across traditional and digital channels with digital channels accounting for 25-30% of the overall advertising budget on average.

With over 335 million quarterly visits across BPC and Fashion and 21mn/16mn MAUs in 2QFY22, Nykaa platform receives significant share of eyeballs among the high intent buyers (37% GMV market share of online portals in BPC in FY21). Driven by these

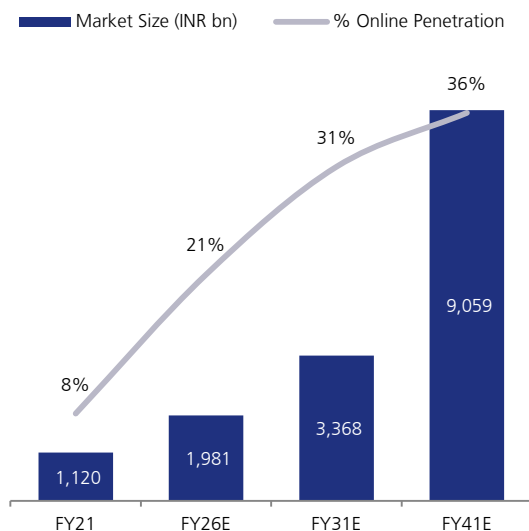
metrics, in FY21, the company generated 4.8% of total GMV in advertising revenue. Our estimates suggest that this was largely from BPC brands as Nykaa’s Fashion business was pretty nascent during this period. We postulate Nykaa to continue being the go-to platform for BPC brands while also gaining small portion of digital advertising budgets from Fashion brands thanks to its curated collection, which attract buyers willing to purchase the latest season designs at full prices.

We estimate Nykaa to consistently generate 4.2-4.6% of GMV in advertising revenue over the forecast period, accounting for 8% of group revenue in FY41. With no direct associated costs for advertising, increase in this revenue stream is likely to be a strong margin driver for the company and any incremental revenue can provide a potential upside to EBITDA margin.

6. Large addressable market with decadal growth opportunity driven by online penetration

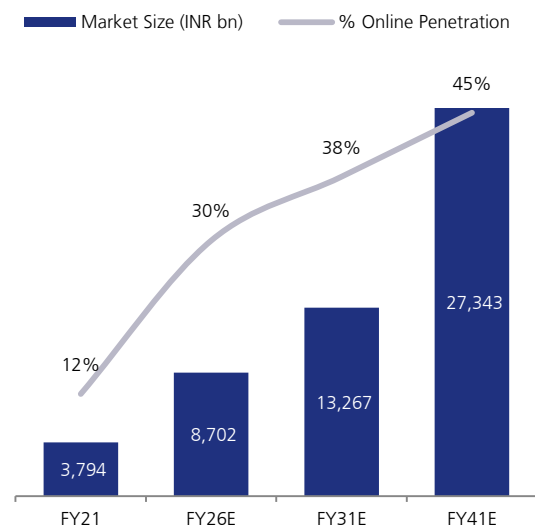
- Nykaa’s addressable market to double in five years:** Beauty and Personal care (BPC) and Fashion market is expected to reach INR 10,683 bn by FY26, growing at 17% CAGR from INR 4,914 bn in FY21. With India’s GDP per capita crossing USD 2,000, the rise in disposable income is expected to drive enhanced beauty penetration in the country with a simultaneous improvement in social media led awareness and access enabled by distribution platforms such as Nykaa. **We expect BPC industry to deliver FY26-41 CAGR of 10.7% while the larger Fashion industry to grow at 7.9% CAGR during the same period.** Overall, Nykaa is expected to have an addressable market of INR 36 trillion by FY41.
- Online continues to outpace the growth in base market:** The online BPC/Fashion market in India has grown at promising 60%/25% CAGR in the last 4 years, penetrating ~8%/12% of overall market as of FY21. These discretionary retail categories tend to have a higher earning / sophisticated customer base and hence see significantly higher online penetration compared to just ~5% seen for the overall retail market. There continues to be significant headroom for growth in online penetration of BPC and Fashion in India with the USA and China having online penetration in BPC/Fashion of 15-20%/30-35% and 25-35%/35-40%, respectively in these segments. By FY41, we forecast India to have 36% online penetration in BPC and 45% in Fashion.

Exhibit 12. BPC to reach INR 8,658bn with 36% online penetration



Source: Company, JM Financial

Exhibit 13. Fashion to reach INR 27,343bn with 45% online penetration



Source: Company, JM Financial

- Challenges in offline BPC/Fashion Markets:** Key consumer challenges in these segments include 1) limited assortment at physical stores, 2) uncertainty of genuine

products, 3) limited knowledge of salespersons, and 4) complicated return processes. Simultaneously, key brand challenges include 1) limited distribution with inability to reach pan-India consumers, 2) inefficient supply chain resulting in margin leakage, and 3) smaller / niche brands struggling to negotiate favourable terms with the distributors. The online segment has emerged has an efficient solution for both consumers and brands.

- **Growth drivers for Online channel:** Both BPC and Fashion online segments are experiencing strong growth driven by 1) increased spending mix from youth population, who have higher digital maturity and spending capacity, 2) democratisation with Tier 2+ markets growing faster due to rising disposable income and lifestyle changes, 3) Men's and kids' segments growing faster than the market, and 4) increasing influence of social media creating awareness of beauty and fashion along with a rise in aspirational and occasion-centric demand.

7. Management with proven track record of delivering profitable growth

Nykaa operates in e-commerce segment where giants such as Amazon (in India) and Flipkart have continued to struggle to breakeven despite decades of operation and opportunity to amortise fixed costs across multiple categories. This has primarily been due to their inability to gain customer loyalty and dependency on discounting. In contrast, Nykaa management had the strategic vision to solve for critical customer pain-points and keep customers on the platform even when they are not transacting and just reading or watching content. Nykaa has been the primary driver of increasing online penetration in BPC vertical in India with ~40% market share. They have continued to take the same approach in Fashion vertical where they are becoming the preferred platform for buyers and brands to sell their latest season designs. Nykaa has evolved into a platform with strong customer/brand loyalty and minimal dependence on discounting.

These strategic choices enabled the company to deliver strong growth while ramping up profitability consistently. Even during COVID impacted FY21, Nykaa delivered GMV growth of 51% despite operating in discretionary categories such as BPC and Fashion. This was driven by the company's diversification into newer categories such as haircare, personal care, fragrances. The company has reached its current scale with only INR 5,777 million of primary money raised prior to the IPO – a testament to the management's ability to grow rapidly yet sustainably. Time and again, Nykaa has made the right strategic choices and the management has shown an immaculate ability to drive consistent business growth without compromising on contribution margins.

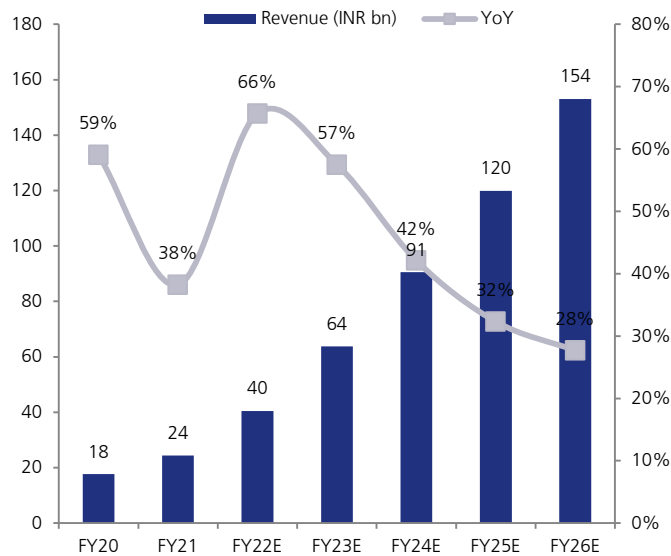
Understanding Nykaa’s Valuation Drivers

Nykaa’s GMV to grow at 51% FY21-26 CAGR followed by 21% FY26-31 CAGR and 11% FY31-41 CAGR

Annual Unique Shoppers: We estimate Nykaa to have 94.5/48.4 million annual unique shoppers in BPC/Fashion by FY41. By FY41, India’s population is expected to be 1.51bn with online transacting user base surpassing China’s current levels of 700mn. Assuming Nykaa’s consumer base would still continue to be female dominated and a 50:50 gender split in India’s online transacting users, Nykaa’s potential user base would be 350mn. We estimate Nykaa’s BPC segment to attract 27% of this user base with 94.5mn users and Fashion segment to overlap ~50% of BPC users.

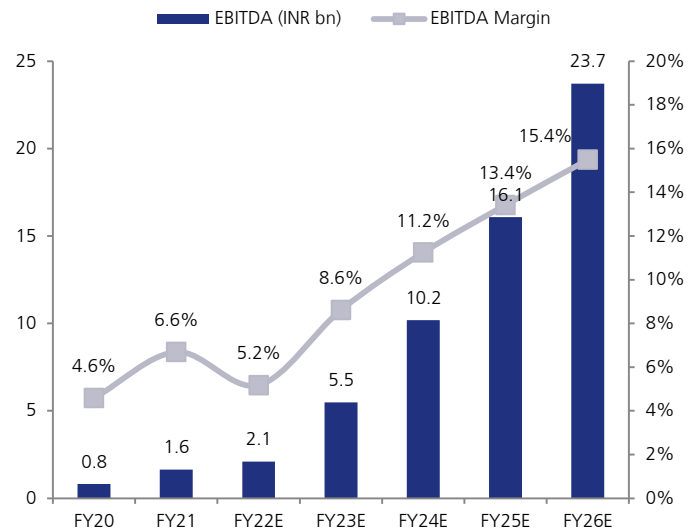
Spend per User: As of 2Q FY22, Nykaa’s BPC customers annually spend INR 6,588 (on MRP basis) on the platform. We expect inflation and premiumisation to increase annual spend per user while expansion of Nykaa’s consumer base to wider population to lower the average spend. We assume 3% inflation related growth further boosted by 1% increase due to premiumisation on a YoY basis until FY41. Simultaneously, expansion of Nykaa’s user base is expected to lead to a decline in blended annual spends to 95% resulting in Nykaa’s BPC users spending ~INR 13,700 annually on the platform in FY41. For Fashion, a similar math with 2% inflation, no premiumisation and no impact of population-related dilution (as 48.4mn is only a small subset of the overall fashion shoppers in the country), results in Nykaa’s Fashion consumers spending INR 22,700 annually on the platform from INR 13,500 in Q2FY22.

Exhibit 14. We forecast group revenue CAGR of 44% over FY21-26..



Source: Company, JM Financial

Exhibit 15. ...with operating profitability reaching 15.4% in FY26



Source: Company, JM Financial

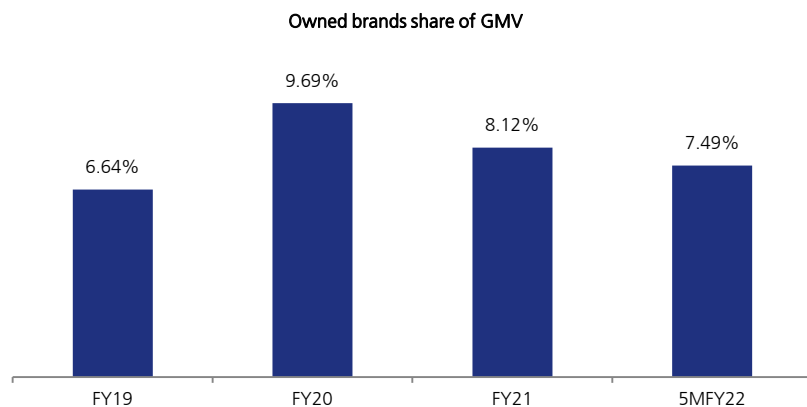
Marginal gross margin improvement expected from higher business share of owned brands

As Nykaa recognises just commission revenue in Fashion vertical while recognising Net Merchandise Value (GMV minus taxes, discounts, refunds and cancellations) as revenue in BPC vertical, we discuss gross margin as % of GMV for a like to like comparison. As of FY21, the company makes 20%/13% gross margin in BPC/Fashion vertical. The reasons for relatively lower gross margin in Fashion vertical include 1) inherently higher discounting and returns in Fashion segment relative to BPC, 2) marketplace model implies inventory holding margin remaining with the reseller meaning lower available take rates, and 3) higher distributor/retailer margin in BPC compared with Fashion.

We estimate gross margin to reach 22%/17% in BPC/Fashion vertical by FY41. The primary driver for this improvement is expected to be incremental business mix coming from Nykaa’s

owned brands, where the company has an opportunity to make 40-50% gross margin even after accounting for extra discounts.

Exhibit 16. Owned brands share of GMV



Source: Company, JM Financial

We forecast lower margin improvement in BPC compared to Fashion due to higher sensitivity of consumers and brands to Nykaa ramping up its owned brands; further, growth might also result in mass brands (where distributor margins are relatively lower) having a higher share of the business mix.

Operating Leverage to drive EBITDA Margin improvement

With Nykaa continuing to grow strongly over the forecast period, we see major cost items such as Advertising and Employee Benefits getting amortised over a larger revenue base and ,while continuing to grow in absolute terms, declining as a % of revenue. Simultaneously, we forecast variable costs such as delivery, packing materials and payment gateway to increase on a per order basis due to inflation and hence see a much lower impact of operating leverage.

Overall, we expect Nykaa's EBITDA margin to improve from 6.6% in FY21 (4.0% as % of GMV) to 22.6% in FY41 (11.4% as % of GMV). We estimate BPC/Fashion EBITDA to reach 8.0%/6.3% of GMV in FY41 with incremental EBITDA contribution coming from advertising revenue.

Advertising revenue to be an incremental margin driver

Nykaa earned >9% of its consolidated revenue during FY19-21 from marketing support services such as display of ads and banners of brands on its platforms. With leading brands continuing to expand their digital ad spends budgets; we expect them to increase their engagement with Nykaa due to its market leading positioning (especially in online BPC), strong traffic trends and optionality to do targeted advertising (due to presence of category specific platforms). Accordingly, we forecast Nykaa to consistently generate 4.2-4.6% of GMV in advertising revenue over the forecast period, accounting for 8% of group revenue in FY41. Increase in this revenue stream is likely to be a strong margin driver for the company and any incremental revenue can provide a potential upside to EBITDA margin. While there will certainly be direct costs that can be attributed to Advertising revenue generation such as digital marketing expense and manpower needed to win and deliver advertising contracts, we are considering advertising as 100% EBITDA margin revenue due to the lack of cost breakdown available to that level of granularity. However, our view is that Advertising revenue could be a maximum of 60-70% EBITDA margin and our assumption results in underestimating BPC/Fashion EBITDA margins as advertising costs are being account there.

Valuation Methodology

We initiate coverage on Nykaa with a 'BUY' rating, TP of INR 2,480 per share

We value Nykaa using DCF valuation methodology on a consolidated company basis. While there will be inherent differences in the company's BPC and Fashion segment, we postulate strong synergies in the businesses and opportunity to leverage similar capabilities. For most cost items, there is likely to be significant cross-pollination across segments and hence valuing Nykaa on a consolidated basis is our recommended approach.

Our DCF for Nykaa factors in explicit model forecasts till FY41 driven by the factors listed in the previous section. We use discount rate of 10.5% basis 6.0%/5.0% risk-free rate / market risk premium and a beta of 0.9, given Nykaa is a penetration story that might not be overly sensitive to overall market movements. We use terminal growth rate of 6.0%, roughly in line with India's long-term GDP growth forecasts.

Our Dec'22 TP of INR 2,480 per share implies ~27% upside to the CMP, despite the strong listing gains. We initiate coverage on Nykaa with a 'BUY' rating.

Exhibit 17. Key Assumptions

	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY31E	FY41E	CAGR FY21-26	CAGR FY26-31	CAGR FY31-41
Beauty and Personal Care (BPC)												
Market Size (INR bn)	1,230	1,120	1,255	1,407	1,577	1,767	1,981	3,368	9,059	12.1%	11.2%	10.4%
Online Penetration	70	91	144	197	260	336	421	1,044	3,261	35.8%	19.9%	12.1%
% Online	5.7%	8.1%	11.5%	14.0%	16.5%	19.0%	21.3%	31.0%	36.0%	13.1%	9.8%	5.0%
Unique Shoppers (mn)	5.3	5.6	8.4	11.8	15.2	18.5	22.0	44.5	94.5	31.5%	15.1%	7.8%
Order frequency (mn)	3.2x	3.1x	3.3x	3.4x	3.4x	3.5x	3.5x	3.8x	4.3x	2.8%	1.4%	1.3%
AOV (INR)	1,448	1,963	1,924	1,981	2,041	2,102	2,165	2,510	3,213	2.0%	3.0%	2.5%
GMV (INR bn)	25	34	53	78	105	134	167	419	1,290	37.6%	20.2%	11.9%
as a % of GMV												
Revenue (ex Marketing support)	63%	63%	63%	63%	63%	63%	63%	63%	63%	0.00%	0.00%	0.00%
Contribution Margin	8.3%	10.5%	8.2%	9.1%	9.8%	10.6%	11.6%	13.1%	15.1%	0.21%	0.31%	0.20%
EBITDA Margin	-2.6%	0.2%	-0.8%	0.9%	2.0%	2.9%	4.0%	5.8%	8.0%	0.78%	0.36%	0.22%
Fashion												
Market Size (INR bn)	5,838	3,794	4,479	5,288	6,243	7,371	8,702	13,267	27,343	18.1%	8.8%	7.5%
Online Penetration	439	450	800	1,182	1,596	2,061	2,607	4,970	12,294	42.1%	13.8%	9.5%
% Online	7.5%	11.9%	17.9%	22.4%	25.6%	28.0%	30.0%	37.5%	45.0%	18.1%	7.5%	7.5%
Unique Shoppers (mn)	0.1	0.6	1.8	3.8	6.1	8.4	10.9	23.4	48.4	78.6%	16.5%	7.5%
Order frequency (mn)	11.0x	4.0x	3.5x	3.7x	3.8x	3.9x	4.0x	4.5x	5.0x	0.0%	2.4%	1.1%
AOV (INR)	1,604	2,739	3,122	3,185	3,249	3,314	3,380	3,732	4,549	4.3%	2.0%	2.0%
GMV (INR bn)	2	7	19	44	74	109	147	393	1,101	85.8%	21.7%	10.9%
as a % of GMV												
Revenue (ex Marketing Support)	20%	20%	21%	21%	22%	23%	24%	25%	27%	0.74%	0.25%	0.25%
Contribution Margin	1.1%	2.3%	1.7%	2.9%	4.0%	5.0%	5.7%	7.5%	10.3%	0.70%	0.35%	0.28%
EBITDA Margin	-11.6%	-5.8%	-3.9%	-1.6%	-0.1%	1.0%	1.7%	3.5%	6.3%	1.51%	0.35%	0.28%
Marketing support revenue	2	2	3	6	8	11	14	36	101	49.3%	20.3%	10.8%
% of total revenue	9.5%	8.0%	8.0%	8.7%	9.0%	9.3%	9.4%	9.2%	8.4%	0.28%	-0.05%	-0.08%
% of total GMV	6.3%	4.8%	4.5%	4.5%	4.6%	4.6%	4.6%	4.5%	4.2%	-0.04%	-0.03%	-0.03%
Group												
GMV (INR bn)	26.8	40.5	72	122	180	243	314	812	2,391	50.7%	20.9%	11.4%
Revenue (INR bn)	17.7	24.4	40	64	91	120	154	396	1,210	44.5%	20.9%	11.8%
Gross Profit Margin	42.6%	39.0%	41.8%	44.0%	45.3%	46.3%	47.0%	47.6%	47.5%	1.60%	0.11%	-0.01%
EBITDA Margin	4.6%	6.6%	5.2%	8.6%	11.2%	13.4%	15.4%	18.8%	22.6%	1.77%	0.67%	0.38%
EBITDA Margin (as % of GMV)	3.0%	4.0%	2.9%	4.5%	5.7%	6.6%	7.6%	9.2%	11.4%	0.71%	0.32%	0.23%

Source: JM Financial, Company.

Exhibit 18. Key DCF assumptions

WACC	10.5%
Revenue CAGR (FY21-26)	44.5%
Revenue CAGR (FY26-31)	20.9%
Revenue CAGR (FY31-41)	11.8%
EBITDA CAGR (FY21-26)	71.2%
EBITDA CAGR (FY26-31)	25.7%
EBITDA CAGR (FY31-41)	13.9%
Tax Rate	25.2%
FCFF CAGR (2021-2041F)	27.5%
NPV of cash flow (2021-2041F)	438,678
Perpetual growth (%)	6.0%
Implied Exit FCF multiple (X)	22.2x
Terminal value (INR mn)	740,767
Enterprise value (INR mn)	1,179,445
Terminal value as % of Enterprise Value	63%
Net debt (INR mn, Mar'23E)	-6,513
Minority Interest (INR mn, Mar'23E)	13
Equity value (INR mn)	1,185,944
Number of shares outstanding (diluted, million)	478.8
Equity value per share (INR)	2,480

Source: JM Financial

Exhibit 19. Sensitivity of Equity Value to WACC and Terminal Growth Rate

		Terminal Growth Rate				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC	9.75%	2,600	2,800	3,050	3,380	3,820
	10.00%	2,450	2,620	2,830	3,110	3,480
	10.25%	2,310	2,460	2,650	2,880	3,190
	10.50%	2,180	2,320	2,480	2,680	2,940
	10.75%	2,070	2,180	2,330	2,500	2,720
	11.00%	1,960	2,070	2,190	2,340	2,530
	11.25%	1,860	1,960	2,070	2,200	2,360

Source: JM Financial

Exhibit 20. Sensitivity of Equity Value to Margin Expansion and Revenue CAGR

		FY21-41 Revenue CAGR				
		19.6%	20.6%	21.6%	22.6%	23.6%
EBITDA Margin Expansion FY21-FY41	13.0%	1,650	1,890	2,170	2,480	2,830
	14.0%	1,730	1,980	2,270	2,590	2,960
	15.0%	1,810	2,070	2,370	2,710	3,100
	16.0%	1,890	2,160	2,480	2,830	3,240
	17.0%	1,970	2,250	2,580	2,950	3,370
	18.0%	2,050	2,340	2,680	3,070	3,510
	19.0%	2,120	2,430	2,790	3,190	3,640

Source: JM Financial

The reaction to Nykaa's listing is a clear indication that the investors feel confident of the business model with most debates hovering around the potential valuation metrics and its sensitivity to growth or margin expansion. Exhibit 19 provides our target price's sensitivity to these metrics, implying that **revenue growth rate is likely to have a stronger impact on the share price than a similar movement in EBITDA margin**. This also explains the company's higher advertising investments as seen in its recent quarterly results.

Valuation Rationale

While Nykaa's valuation certainly looks steep on absolute basis, we believe it is essential to look at Nykaa fundamentally to understand the drivers of premium

Long growth runaway with opportunity for margin expansion

We believe Nykaa is well-poised to leverage the large, growing opportunity in both BPC and Fashion verticals due to its strong value proposition, market leading positioning and strong balance sheet. The company is also likely to grow at an exponential rate in the near-medium term, has a long runway to growth and remains one of the few digital-first platforms in India to have achieved operating profitability (albeit there is significant room for improvement in the coming years). We therefore believe Nykaa should be valued with a longer term bias.

Asset-light platform with strong cash generation – Nykaa in pole position to consolidate the industry

Most of Nykaa's business is linked to the online platform and even though the company plans to ramp-up its physical store presence, Nykaa only invests in the furniture and fixtures of these stores while leasing the space. Hence, we estimate the company to continue robust cash generation. We believe this cushion of net cash on balance sheet is likely to open strategic opportunities for Nykaa in terms of consolidating the industry by acquiring smaller players and direct to consumer brands.

Comparison with India Tech Listings

Comparing Nykaa with recent India Tech listings including PB Fintech and Zomato that have a similar platform business with a strong penetration opportunity, the company trades at a much deserved premium, both in GMV as well as Revenue (net of COGS) multiple. Considering Nykaa is already cash flow positive while the peers are expected to breakeven during FY24-FY26 period, we believe this premium for Nykaa can continue to sustain.

Exhibit 21. India Tech Valuation Comps

Company	GMV			Revenue (net of COGS)			Reported Revenue			
	in INR Mn	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
Nykaa	72,178	1,22,170	1,79,785	16,920	28,053	41,086	40,479	63,750	90,598	
	13.9x	8.2x	5.6x	59.4x	35.8x	24.5x	24.8x	15.8x	11.1x	
PB Fintech	1,35,052	1,89,341	2,53,151	13,830	20,508	29,220	13,830	20,508	29,220	
	3.6x	2.6x	1.9x	35.2x	23.8x	16.7x	35.2x	23.8x	16.7x	
Zomato	2,17,929	3,20,083	4,37,794	41,687	62,389	85,309	41,687	62,389	85,309	
	5.2x	3.5x	2.6x	27.0x	18.0x	13.2x	27.0x	18.0x	13.2x	
Paytm	1,22,820	2,04,362	3,05,284	44,697	62,468	79,213	44,697	62,468	79,213	
	6.8x	4.1x	2.7x	18.7x	13.4x	10.6x	18.7x	13.4x	10.6x	

Source: JM Financial, Bloomberg. Note: Valuations based on JMFL estimates, as of Dec 20,2021.

Comparison with Global Comps

Exhibit 22. Valuation Comps

Company	MCAp (USD bn)	EV (USD bn)	EV / Revenue (x)			Rev CAGR	EV / EBITDA (x)			EBITDA CAGR	Growth Adj. EV / EBITDA (x)			EPS CAGR
			CY21E/FY22E	CY22E/FY23E	CY23E/FY24E		21-23E	CY21E/FY22E	CY22E/FY23E		CY23E/FY24E	21-23E	CY21E/FY22E	
India Digital-first														
Nykaa	13.1	13.1	24.6x	15.6x	11.0x	49.6%	558.8x	237.0x	137.5x	101.6%	nm	453.0x	241.2x	nm
Zomato	14.0	13.4	24.4x	16.3x	11.9x	43.1%	nm	nm	nm	nm	nm	nm	nm	nm
Policybazaar	6.4	6.2	34.2x	23.1x	16.2x	45.4%	nm	nm	nm	nm	nm	nm	nm	nm
Paytm	11.3	11.0	18.7x	1.3x	10.6x	33.1%	nm	nm	nm	nm	nm	nm	nm	nm
India Retailers														
Dmart	40.0	40.0	10.1x	7.3x	5.7x	33%	124x	83.2x	62.6x	41%	214x	113x	96.1x	49%
ABFRL	3.3	3.8	4.0x	2.9x	2.4x	29%	27x	20.5x	16.3x	29%	nm	172x	68.9x	nm
Global Beauty and Fashion														
Etsy	28.1	29.6	12.9x	10.7x	8.9x	20%	44.1x	37.7x	30.3x	21%	57.8x	56.7x	44.9x	14%
Ulta Beauty	20.6	21.9	2.6x	2.4x	2.2x	8%	14.5x	13.8x	12.6x	7%	22.7x	21.4x	18.9x	9%
Stitch Fix	2.0	1.9	0.9x	0.8x	0.7x	10%	18x	40.3x	18.1x	1%	nm	nm	nm	nm
THG	3.1	3.0	1.0x	0.8x	0.7x	24%	13x	9.4x	7.4x	32%	nm	323.1x	45.0x	nm
Farfetch	11.5	11.0	4.9x	3.8x	3.1x	26%	nm	96.1x	49.7x	nm	nm	nm	nm	nm
Proya Cosmetics	6.3	6.1	8.3x	6.7x	5.4x	24%	50x	39.8x	31.5x	25%	67.5x	53.6x	42.6x	26%
Guangdong Marubi	2.0	1.7	6.1x	5.3x	4.6x	15%	35.3x	26.2x	22.9x	24%	46.2x	36.7x	30.9x	22%
Shanghai Jahwa	4.3	3.8	3.1x	2.7x	2.4x	13%	32x	24x	18.1x	34%	52x	35x	26x	41%
Mean - Digital-first (ex-Nykaa)			25.8x	13.6x	12.9x	41%	nm	nm	nm	nm	nm	nm	nm	nm
Mean - India Retailers			7.0x	5.1x	4.0x	31%	76x	51.8x	39.4x	35%	214x	143x	82.5x	49%
Mean - Global Beauty and Fashion			5.0x	4.2x	3.5x	17%	30x	35.9x	23.8x	21%	49x	88x	34.7x	22%

Source: JM Financial, Bloomberg. Note: 1) * Valuations are based on JMFL estimates, as of Dec 17, 2021. For others, valuations are from Bloomberg. 2) For Indian companies, FY22=CY21 and so on.

There are no exact comps for Nykaa considering the company's presence across BPC and Fashion and long-term penetration potential. We believe Ulta Beauty, The Hut Group (THG) and Farfetch could still be decent long-term benchmarks for the company. We suggest comparing Nykaa to growth-adjusted multiples for these companies, which clearly implies that Nykaa's current EV/Sales or EV/EBITDA multiples are just giving the company credit for faster growth rates and margin expansion potential.

Financial Analysis

We forecast 44% revenue growth for Nykaa over the next five years on the back of strong growth in BPC (38%), Fashion (92%) and Marketing Support (49%) revenues

BPC - Digital penetration and leadership positioning to drive growth

While Nykaa currently dominates the Indian online BPC segment with ~40% share, current digital penetration of 8-10% in India is lower than 20-25%/35-40% in USA/China. With Indian online shopper base expected to grow from 150-180 million in 2020 to 350-400 million by 2025 and per user ordering frequency also likely to increase due to shopper maturity, we see significant headroom for penetration to increase. We also expect Nykaa to broadly maintain its current digital market share despite possibility of increasing competitive intensity from horizontals and D2C brands. This is due to the company's strong value proposition (curated prestige/luxury/foreign brands, authentic products, strong network of influencers, beauty advisors, omni-channel presence, and content-first approach) that would be difficult to replicate and therefore more likely to continue to resonate within millennials/GenZ shoppers. Accordingly, we forecast 38% GMV/Revenue growth in the BPC vertical over FY21-26E.

Exhibit 23. BPC: Revenue forecasts and assumptions

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY31E	FY41E	CAGR FY21-26E	CAGR FY26-31E	CAGR FY31-41E
Orders (mn)	11.0	17.0	17.1	27.7	39.4	51.7	63.8	77.0	166.9	401.6	35.1%	16.7%	9.2%
Unique Shoppers (mn)	3.5	5.3	5.6	8.4	11.8	15.2	18.5	22.0	44.5	94.5	31.5%	15.1%	7.8%
Order frequency (mn)	3.1x	3.2x	3.1x	3.3x	3.4x	3.4x	3.5x	3.5x	3.8x	4.3x	2.8%	1.4%	1.3%
AOV (INR)	1,433	1,448	1,963	1,924	1,981	2,041	2,102	2,165	2,510	3,213	2.0%	3.0%	2.5%
GMV (INR bn)	16	25	34	53	78	105	134	167	419	1,290	37.6%	20.2%	11.9%
Revenue as % of GMV	61%	63%	63%	63%	63%	63%	63%	63%	63%	63%	0.00%	0.00%	0.00%
Revenue (INR bn)	10	16	21	33	49	66	84	104	262	807	37.6%	20.2%	11.9%

Source: Company, JM Financial

Fashion – Huge TAM and cross sell opportunity

Nykaa's Fashion vertical, at present, is at a very nascent stage and there are several large established players such as Amazon, Myntra, Flipkart, Ajo. Nonetheless, digital penetration in Fashion (like BPC) is also currently very low at 12%, the underlying TAM at INR 5,838bn in 2019 was >4.5x of total BPC TAM, customer stickiness to established platforms is fragile (due to comparatively low brand affinity in Fashion) and it is relatively easier to sell owned brands. Further, companies such as Nykaa can transfer their learning/best practices from BPC to Fashion vertical and also exploit cross sell opportunities through universalisation of loyalty programmes (across all their platforms). Nykaa is also unique in its ability to sell latest designs at full prices. Therefore, we believe Nykaa's Fashion vertical can deliver 86%/92% GMV/Revenue CAGR over FY21-26E.

Exhibit 24. Fashion: Revenue forecasts and assumptions

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY31E	FY41E	CAGR FY21-26E	CAGR FY26-31E	CAGR FY31-41E
Orders (mn)	0.4	1.1	2.4	6.0	13.9	22.9	32.8	43.6	105.3	242.0	78.6%	19.3%	8.7%
Unique Shoppers (mn)		0.1	0.6	1.8	3.8	6.1	8.4	10.9	23.4	48.4	78.6%	16.5%	7.5%
Order frequency (mn)		11.0x	4.0x	3.5x	3.7x	3.8x	3.9x	4.0x	4.5x	5.0x	0.0%	2.4%	1.1%
AOV (INR)	655	1,604	2,739	3,122	3,185	3,249	3,314	3,380	3,732	4,549	4.3%	2.0%	2.0%
GMV (INR bn)	0.3	2	7	19	44	74	109	147	393	1,101	85.8%	21.7%	10.9%
Revenue as % of GMV	1%	20%	20%	21%	21%	22%	23%	24%	25%	27%	0.74%	0.25%	0.25%
Revenue (INR bn)	0.004	0.37	1	4	9	16	25	35	98	302	92.2%	22.9%	11.9%

Source: Company, JM Financial

Marketing Support – the silent contributor

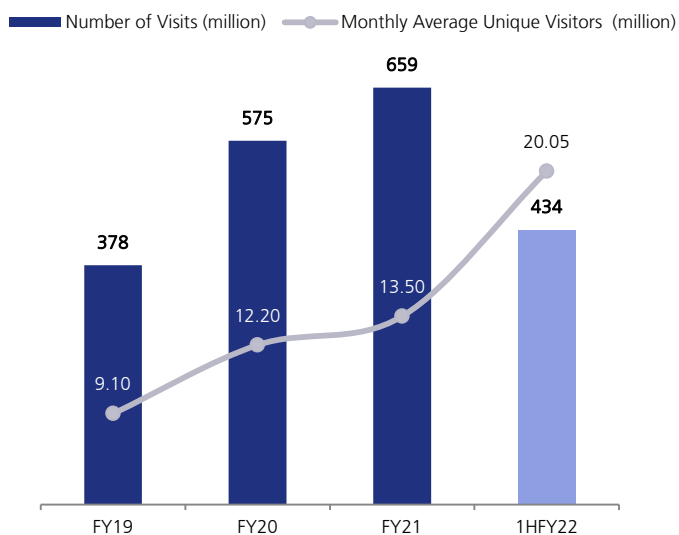
Nykaa earned >9% of its consolidated revenues between FY19-21 from marketing support services such as display of ads and banners of brands on its platforms. With leading brands continuing to expand their digital ad spend budgets; we expect them to increase their engagement with Nykaa due to its market leading positioning (especially in online BPC), strong traffic trends across both verticals (refer exhibits below) and optionality to do targeted advertising (due to presence of category specific platforms). Accordingly, we forecast Nykaa to report 49% revenue CAGR over FY21-26E.

Exhibit 25. Marketing Support revenue forecasts

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY31E	FY41E	CAGR FY21-26E	CAGR FY26-31E	CAGR FY31-41E
Marketing support revenue (INR bn)	1	2	2	3	6	8	11	14	36	101	49.3%	20.2%	10.8%
% of total revenue	11.1%	9.5%	8.0%	8.0%	8.7%	9.0%	9.3%	9.4%	9.2%	8.4%	0.28%	-0.05%	-0.08%
% of total GMV	7.5%	6.3%	4.8%	4.5%	4.5%	4.6%	4.6%	4.6%	4.5%	4.2%	-0.04%	-0.03%	-0.03%

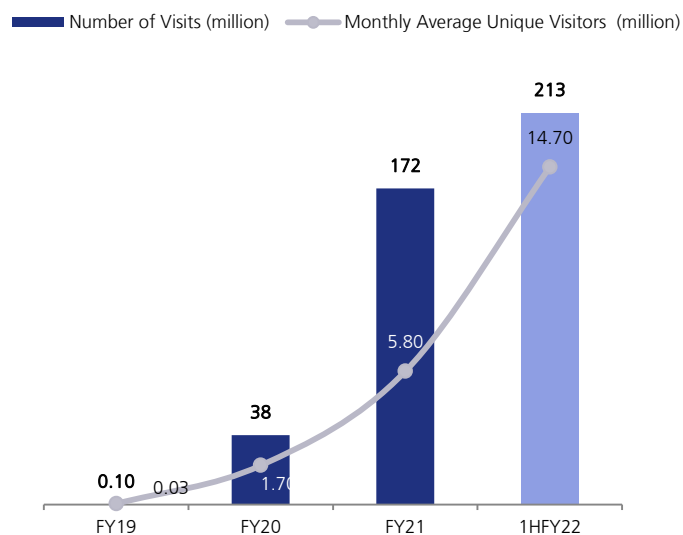
Source: Company, JM Financial

Exhibit 26. Beauty and Fashion Care: Traffic trends



Source: Company, JM Financial

Exhibit 27. Fashion: Traffic trends



Source: Company, JM Financial

Unit economics improvement to be a function of scale efficiencies and contribution from own brands

Our back of the envelope analysis suggests ex-marketing support services revenues; Nykaa's BPC/Fashion verticals would have reported 10.5%/2.3% contribution margin (as a % of GMV in FY21). However, we see near term pressure on unit economics due to a sharp rebound in A&P expenses (which were depressed in FY21 due to Covid-19 related cuts). Thereafter, we expect unit economics to improve for both BPC and Fashion verticals due to an increase in own brands contribution and scale benefits that should lead to lower per unit investment cost. Accordingly, we forecast 110bps/340bps contribution margin improvement for BPC and Fashion verticals, respectively by FY26E. We also anticipate strong operating leverage on fixed costs (employee costs and other expenses) that should further improve its EBITDA to GMV conversion across both verticals (refer below exhibits).

Exhibit 28. BPC - GMV to EBITDA flow

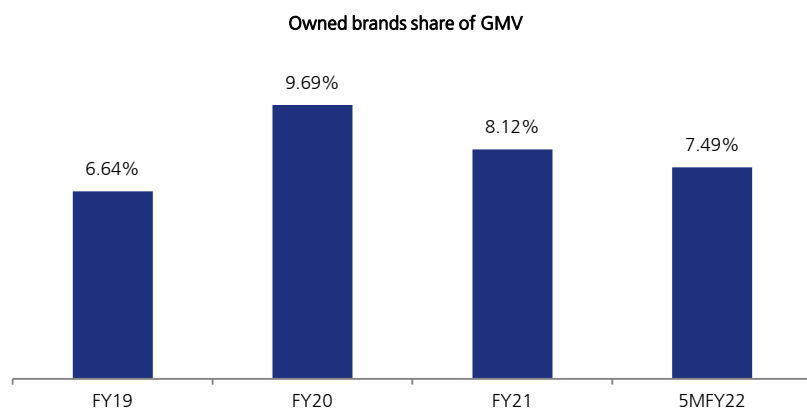
	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY31E	FY41E
GMV	100%	100%	100%	100%	100%	100%	100%	100%
Disc./ canc./ refunds/ taxes	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
Revenue (ex-marketing support)	62.5%	62.5%	62.5%	62.5%	62.5%	62.5%	62.5%	62.5%
COGS	42.6%	41.8%	41.7%	41.6%	41.6%	41.5%	41.2%	40.6%
A&P	3.9%	6.4%	5.9%	5.4%	4.7%	3.9%	3.2%	2.7%
Fulfilment expenses (incl. PG charges)	5.6%	6.1%	5.9%	5.7%	5.6%	5.5%	5.1%	4.2%
Contribution Margin	10.5%	8.2%	9.1%	9.8%	10.6%	11.6%	13.1%	15.1%
Employee Costs	7.1%	6.4%	5.8%	5.5%	5.4%	5.4%	5.2%	5.1%
Other expenses	3.2%	2.6%	2.4%	2.3%	2.2%	2.2%	2.1%	2.0%
EBITDA as % of GMV	0.2%	-0.8%	0.9%	2.0%	2.9%	4.0%	5.8%	8.0%

Source: Company, JM Financial

Exhibit 29. Fashion - GMV to EBITDA flow

	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY31E	FY41E
GMV	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Disc./ canc./ refunds/ taxes/share of sellers	80.0%	79.3%	78.6%	77.8%	77.1%	76.3%	75.1%	72.6%
Revenue (ex-marketing support)	20.0%	20.7%	21.5%	22.2%	23.0%	23.7%	25.0%	27.5%
COGS	7.4%	6.9%	7.2%	7.5%	7.9%	8.2%	8.9%	10.1%
A&P	5.9%	7.8%	7.1%	6.5%	5.9%	5.6%	4.6%	3.6%
Fulfilment expenses (incl. PG charges)	4.5%	4.4%	4.2%	4.2%	4.2%	4.1%	3.9%	3.5%
Contribution Margin	2.3%	1.7%	2.9%	4.0%	5.0%	5.7%	7.5%	10.3%
Employee Costs	6.4%	3.9%	3.2%	2.9%	2.9%	2.8%	2.8%	2.9%
Other expenses	1.7%	1.6%	1.3%	1.2%	1.2%	1.2%	1.1%	1.2%
EBITDA as % of GMV	-5.8%	-3.9%	-1.6%	-0.1%	1.0%	1.7%	3.5%	6.3%

Source: Company, JM Financial

Exhibit 30. Owned brands share of GMV

Source: Company, JM Financial

Key Risks

Downside risks: **1) Slower-than-expected tech penetration in India:** Our growth forecasts factor in growing share of digitally native millennial/GenZ population that would lead to a significant increase in tech-enabled transactions. However, if penetration of tech-enabled transactions in India is slower than expected it could significantly impact Nykaa's ability to quickly scale up and, thereby, report sustainable profits. **2) Sharp rise in competitive intensity:** Nykaa directly competes with several domestic as well as foreign marketplace platforms, physical retail stores and direct-to-consumer brands. Competition can impact Nykaa's business either through technology disruption, exclusive goods and services offerings, pricing pressure, intense marketing and promotional campaigns, strong leverage of their own brands strength or through better relationships with suppliers. **3) Vendor concentration risk:** In FY21, the top 3 vendors of the company accounted for 24.4% of its total GMV, thereby exposing the company to vendor concentration risk. If, for any reason, any one of these vendors were to stop doing business with Nykaa or face business headwinds themselves, it would impact the company's financials significantly. **4) Category concentration risk:** Top 3 categories (makeup, skin care and hair care products) together accounted for 71.3% of Nykaa's total GMV in FY21, thereby exposing it to category concentration risk. The company's operating as well as financial performance could be severely impacted due to significant increase in competitive intensity, inability to manage pricing pressure and disruptions in supply or demand within these categories. **5) Regulatory risks:** The Indian government may change its regulations and policies on the retail industry, e-commerce rules, personal data and social security code. If that happens, Nykaa may have to bear incremental costs of compliance that may have a direct impact on its business operations as well as financial positioning. **6) Relatively a new entrant in Fashion:** Nykaa is relatively a new entrant in the fashion industry, which already has heavily capitalised and well established competition. Therefore the company may have to make substantial investments in building supplier and brand relationships, to improve brand awareness of its own platform and expand business across new products and categories. This may impact the company's ability to turn profitable in this business in the near term.

Upside risks: **1) Sharp rise in transacting users:** The share of working age digitally native millennial/GenZ population continues to grow every year in India. Therefore, tech-enabled transactions penetration could grow at a much faster rate than expected. This, in turn, could lead to faster-than-anticipated rise in transacting user base for Nykaa, thereby significantly lifting volume growth. **2) Private brands:** Nykaa has a portfolio of 15 owned brands that offer higher gross margin. A substantial increase in the mix of these brands in the overall mix through organic/inorganic expansion could lead to a significant upside in profitability. **3) Value accretion from inorganic expansion:** In Sep'21, Nykaa acquired 51% stake in Dot & Key, a D2C beauty brand. Going ahead, we expect the company to continue to make such inorganic expansions given its improved balance sheet. Strong revenue and operating synergies from such expansions could have a positive impact on the profitability trends of the company.

Company Overview

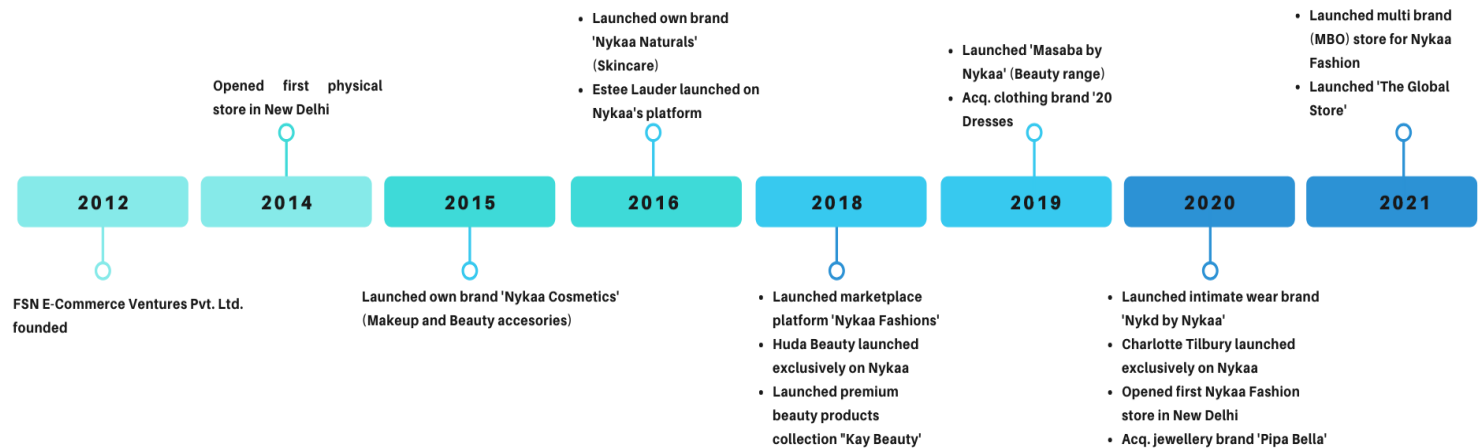
Nykaa started in 2012 with the promise of providing finely curated and authentic assortment of products in beauty and personal care sector and later ventured into the fashion vertical as well. The company focused overcoming the primary pain-points of customers such as 1) authenticity and 2) assortment; thereby becoming a trusted place for consumers to buy not only mass segment products but also high-value luxury products. Additionally, Nykaa decided to establish itself as a platform where curation was the primary value proposition rather than discounting of products. The company would pass on any discounts that the brand is offering but would avoid running highly discounted retailing unilaterally. Most of the prestige and luxury segment brands do not prefer the 'discount' approach and, hence, entered into strategic tie-ups with Nykaa.

Nykaa currently operates across beauty & personal care and fashion segments and has three different platforms namely Nykaa, Nykaa Fashion and Nykaa Man. The company has also taken an omnichannel approach to retailing with 80 (79 for BPC and 1 for Fashion) stores and 20 warehouses as of Aug 31,2021, enabling a seamless online to offline (O2O) integration to serve 26,700+ pincodes (89% of serviceable pincodes) in the country. In FY21, 94.1%/72.0% of the BPC/Fashion orders were delivered within five days.

According to Redseer, Nykaa has one of the highest share of app usage among the leading online retail players in India with 55.8 million app downloads and 88.2% of online GMV coming from mobile applications in FY21. The company generated an overall GMV of INR 40,460 million (51% YoY growth) from 19.5 million orders with 70% GMV contribution from existing consumers.

Nykaa platform has 4,078 brands and 3.1 million SKUs listed ranging from value to aspirational. Additionally, Nykaa has also established a portfolio of 15 owned brands that fulfill gaps in the market and are margin accretive. These brands have established a life even outside the Nykaa platform and are sold via other portals as well.

Exhibit 31. Major events in the company's history



Source: Company, JM Financial

Exhibit 32. Own brands details

Brand Name	Segment	Launched/Acquired	Description
Nykaa Cosmetics	Beauty & Personal Care	2015	Makeup and beauty accessories brand present across lips, face, nails, eyes and beauty tools.
Masaba by Nykaa	Beauty & Personal Care	2019	Trademark license agreement with fashion designer, Masaba Gupta for beauty range featuring lips, nails and fragrances.
Nykaa Naturals	Beauty & Personal Care	2016	Naturally derived ingredients focused brand for skincare products that addresses a variety of skins and skin concerns, such as from acne to anti-ageing.
Wanderlust	Beauty & Personal Care	NA	Bath and body offerings for both men and women.
Skin Secrets	Beauty & Personal Care	NA	Includes a range of masks powered by Korean technology and a blend of Indian natural ingredients.
Nykaa Hair	Beauty & Personal Care	2021	Hair care products featuring natural ingredients.
Kay Beauty	Beauty & Personal Care	2018	Brand jointly developed with Katrina Kaif (Bollywood actor). Premium range beauty products across lips, eyes, face and nails categories.
Dot & Key	Beauty & Personal Care	Sep'21	Brand that provides solutions to skincare problems. Products include serums, toners, cleansers and face masks.
IKWI	Beauty & Personal Care	Sep'21	Nutraceuticals brand.
Twenty Dresses	Fashion	2019	Stylish modern apparel for women. Product line includes western wear across dresses, jumpsuits, tops, pants skirts as well as footwear, bags, and accessories.
Nykd by Nykaa	Fashion	2020	Lingerie brand with focus on quality, technology and competitive pricing. Products include bras, panties, sleepwear, shapewear and athleisure.
Pipa Bella	Fashion	Mar'21	Contemporary and personalised fashion jewellery brand. Products include earrings, necklaces, bracelets, rings and hair accessories.
RSVP	Fashion	Oct'19	Women's western wear brand. Product categories, including dresses, jumpsuits, tops and skirts as well as footwear and bags.
Gajra Gang	Fashion	Aug'21	A niche brand between trendy fast fashion and luxury, Indian wear. Product categories include kurta sets, ethnic dresses, saree, tops and accessories.

Source: Company, JM Financial

Exhibit 33. Physical stores network

Store format	Description	Operational (As of 31 Aug'21)	Average Size (As of 31 Aug'21)	Presence (As of 31 Aug'21)
Nykaa Luxe	Stores that offer a luxury beauty experience. Predominantly showcase prestige and luxury international and domestic brands.	38	1,134 sq. ft.	Grade A malls and high streets in cities such as Mumbai, Delhi and Kolkata
Nykaa On Trend	Stores that offer a differentiated experience with the current best-selling products chosen across beauty and personal care brands.	32	732 sq. ft.	Cities such as Coimbatore, Chennai and Jaipur
Nykaa Kiosk	Free standing units usually in the atriums of shopping malls. Predominantly used to sell owned brands.	9	NA	Cities such as Bengaluru, Indore and Mohali

Source: Company, JM Financial

Exhibit 34. Shareholding Pattern as of 8 Nov'21

Name	Basic Shares (mn)	% Post offer holding
Promoter and Promoter Group	248.57	52.56%
DII's*	15.77	3.33%
Foreign Investors#	122.60	25.92%
Narotam Sekhsaria (Individual)	14.75	3.12%
Sunil Kant Munjal (Individual)	14.14	2.99%
Harindarpal Singh Banga (Individual)	30.48	6.44%
Mala Gaonkar (Individual)	11.39	2.41%
Others^	15.24	3.22%
Total Shares	472.93	100.0%

Source: Company, JM Financial. Note: * includes Mutual funds, AIFs, Financial Institutions, Banks, Insurance Companies and Provident Funds/ Pension Funds. # includes FPIs, Foreign Companies, Steadview Capital, TPG Growth, Fidelity Securities and Kravis Investment Partners. ^ includes Lighthouse India

Exhibit 35. Key Managerial Personnel Stake (ex-Promoters) as on RHP filing date

Key Managerial Personnel	Basic Shares (mn)	ESOPs (mn)
Reena Chhabra	0.210	0.120
Nihir Parikh	0.206	0.120
Sanjay Suri	0.181	0.150
Manoj Jaiswal	0.051	0.060
Arvind Agarwal	0.029	0.120
Gopal Asthana	0.015	0.101
Rajendra Punde		0.039
Shalini Raghavan		0.150
Surender Mehta		0.300
Vikas Gupta		0.285
Kingshuk Basu		0.105
Total	0.691	1.550

Source: Company, JM Financial

Human Resources: As of 31 Aug'21, Nykaa had 2,295 employees, of which 47% were women. In addition, the company had a temporary workforce of 353 employees that consisted of contractors and consultants.

Exhibit 36. Employee break-up (as of 31 Aug'21)

Function	No. of employees
Business Operations	1,130
Business Support	398
Corporate Functions	307
Technology	460
Total	2,295

Source: Company, JM Financial

Exhibit 37. Board of Directors details

Name	Past Experience
Falguni Nayar Executive Chairperson, MD and CEO	Managing Director - Kotak Mahindra Capital Company Limited. Total 26 years of experience.
Sanjay Nayar Additional Non-Executive Director	CEO (India) Citibank N.A. , Chairman of KKR India. Total 35 years of experience.
Adwaita Nayar Executive Director	na
Anchit Nayar Executive Director	Vice President - Investment Banking Division at Morgan Stanley, New York
Anita Ramachandran Independent Director	Founder - Cerebrus Consultants Pvt Ltd. Total 45 years of experience.
Milan Khakhar Non-Executive Director	Managing Director - Solid Stone Company Ltd. Total 30 years of experience.
Alpana Parida Independent Director	Founder - Tiivra Ventures Pvt Ltd ,Managing Director - DMA Yellow Works Limited, SH Kelkar & Company Ltd. , Prime Research and Advisory Ltd. , Titan Industries Ltd. Total 20 years of experience.
Pradeep Parameswaran Independent Director	Senior Director, RGM Rides – APAC - Uber India Technology Pvt Ltd., CEO - DEN Networks , Principal - McKinsey & Company Inc , Hindustan Unilever Ltd. Total 15 years of experience.
Seshashayee Sridhara Independent Director	SVP Technology - Careem, an UBER company , TUI Travel Plc. and D-Market Elektronik Hizmetler ve Ticaret AS Kustepe Mah. Mecidiyekoy Yolu Cad. Total 6 years of experience.
Milind Sarwate Independent Director	Founder & designated partner of Increate Value Advisors LLP and Increate Social Value Advisors & Resourcers LLP, Promoter director of Increate Foundation, Advisory board for Educo, Godrej Soaps Ltd. and Marico Ltd. Total 37 years of experience.

Source: Company, JM Financial

Exhibit 38. Key Management Personnel details

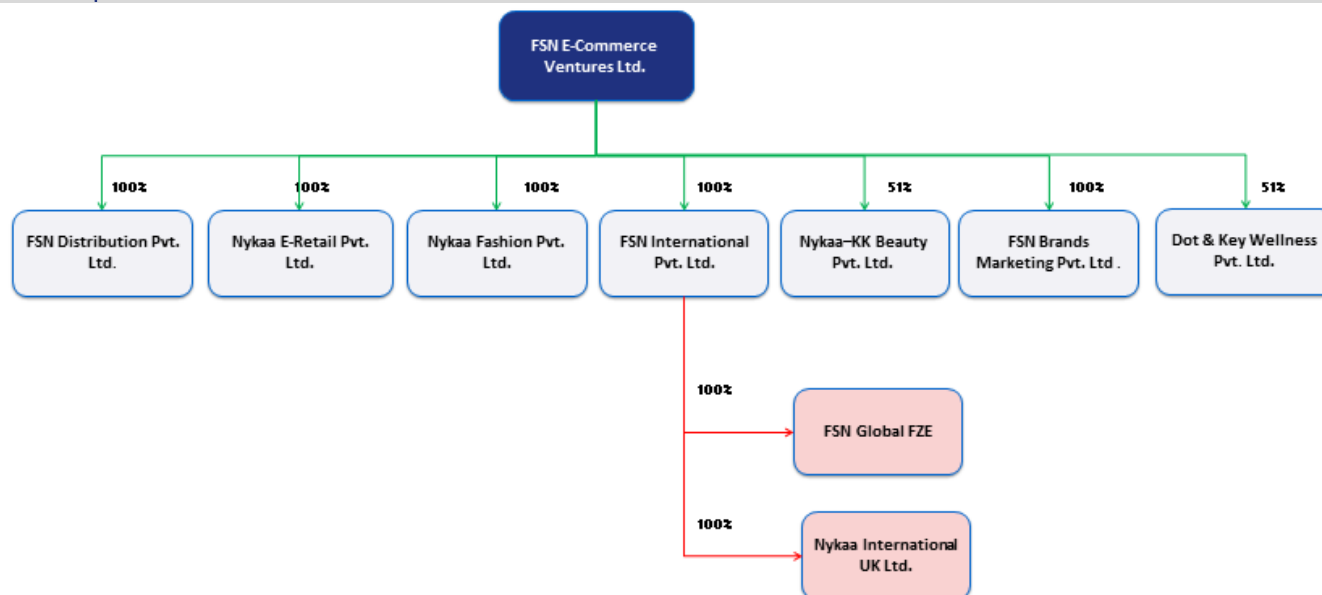
Name	Education	Past Experience	Remuneration (FY21)
Falguni Nayar Executive Chairperson, MD and CEO Joined Nykaa: At inception	Post-graduate diploma in management from the Indian Institute of Management, Ahmedabad	Managing Director - Kotak Mahindra Capital Company Ltd.	INR 108.4mn (incl. ex-gratia of INR 70mn)
Adwaita Nayar Executive Director Joined Nykaa Fashion: 2018 (In earlier stint co-founded Nykaa, later joined FSN Brands in 2017)	Bachelor's degree in applied mathematics from the Yale University, MBA from the Harvard Business School	na	INR 16.97mn from Nykaa Fashion
Anchit Nayar Executive Director Joined FSN Brands: 2018	Bachelor's degree from Columbia University	Vice President - Investment Banking Division at Morgan Stanley, New York	INR 18.60mn from FSN Brands
Arvind Agarwal Chief Financial Officer Joined Nykaa: 1 Jun'20	Bachelor's degree in Commerce from the Jai Narain Vyas University, Jodhpur, Senior Management programme from the Indian Institute of Management, Ahmedabad, Chartered Accountant, Company Secretary	Total 21 years of experience. Amazon Seller Service Pvt. Ltd., Vodafone India Ltd., Tata Teleservices Ltd., YOU Telecom and Adani Port Ltd.	INR 19.8mn
Rajendra Punde Head - CS & Legal and Compliance Officer Joined Nykaa: 22 Oct'20	Bachelor's degree in Commerce and Law from the University of Bombay, Company Secretary	Total 17 years of experience. Flipkart Internet Pvt. Ltd., e-Bay India Pvt. Ltd., Bharti Cellular Ltd., Bharti Wal-Mart Pvt. Ltd. and Asian Paints (India) Ltd.	INR 4.96mn
Manoj Jaiswal Chief Officer - Supply Chain - Nykaa E-Retail Pvt. Ltd. Joined Nykaa: 1 Nov'13	Bachelor's degree in Business Administration and a Master's degree in Business Administration - General from All the Institute of Engineering & Management	Total 8 years of experience. Seventymm Services Pvt. Ltd. and Ibibo Web Pvt. Ltd.	INR 15.24mn
Nihir Parikh CEO - Nykaa Man business arm Joined Nykaa: 6 May'15	Bachelor's degree in Chemical Engineering from University of Mumbai and a Master's degree in business administration from INSEAD	Total 11 years of experience. Genentech Inc, USA, and GE Healthcare Pte. Ltd.	INR 28.29mn
Reena Chhabra CEO - Pvt. label segment - FSN Brands Joined FSN Brands: 9 May'16	Bachelor's degree in Arts (General) from Punjab University	Total 23 years of experience. Colorbar Cosmetics Pvt. Ltd., Hindustan Unilever Ltd. Marico Industries Ltd., Kodak India Ltd., and Eli Lilly Ranbaxy Ltd.	INR 30.62mn
Sanjay Suri Chief Technology Officer Joined Nykaa: 17 Aug'16	Bachelor's degree in Arts from the St. Stephens College, University of Delhi and Master's degree in Science in Computer Science from University of California	Total 14 years of experience. TriVium India Software Pvt. Ltd., Ibibo Web Pvt. Ltd., Oracle India Pvt. Ltd., Info Edge (India) Ltd. and Amazon Software Development Centre (Bangalore) Pvt. Ltd.	INR 23.86mn
Shalini Raghavan Chief Marketing Officer Joined Nykaa: 12 Jan'21	Bachelor's degree in Arts in Economics from the University of Madras and a Post graduate diploma in management in marketing from Bhavan's SP Jain Institute of Management and Research, Mumbai.	Total 15 years of experience. L'Oreal India Pvt. Ltd., Hindustan Unilever Ltd. and Britannia Industries Ltd.	INR 3.85mn
Surender Mehta Group Chief Human Resource Officer Joined Nykaa: 23 Dec'20	Bachelor's degree in Business studies from the University of Delhi and a Post graduate diploma in business management from the Institute of Management Technology, Ghaziabad, Advanced management program from Harvard Business School	Total 21 years of experience. Vodafone India Services Pvt. Ltd., ITC Hotels Ltd., Vodafone Global Services Pvt. Ltd.	INR 7.07mn
Vikas Gupta Chief Executive Officer (eB2B business) Joined Nykaa: 3 May'21	Bachelor's degree in Mechanical Engineering from the University of Delhi and a Post-graduate diploma in management from the Indian Institute of Management Society, Lucknow	Total 23 years of experience. Flipkart Internet Pvt. Ltd. and Unilever Indonesia	na
Kingshuk Basu Senior VP - Retail operations (FSN Brands) Joined FSN Brands: 7 Dec'20	Bachelor's degree in Technology in Electrical Engineering from the Indian Institute of Technology, Kanpur and Master's degree in business administration from the Michigan State University	Total 18 years of experience. Wellness Forever Medicare Pvt. Ltd., Conscious Food Pvt. Ltd., Spencer's Retail Ltd., Daymon Worldwide	INR 2.85mn
Gopal Asthana Chief Business Officer (Fashion) Joined FSN Brands: 11 Nov'19	Bachelor's degree in Electrical Engineering from Rani Durgavati Vishwavidyalaya, Jabalpur and a Post graduate in management from the Indian School of Business, Chartered Financial Analyst	Total 22 years of experience. Future Retail Ltd., Shoppers Stop Ltd.	INR 19.13mn

Source: Company, JM Financial

Exhibit 39. Remuneration details of Executive Directors

Name	Appointment Period	Fixed Pay	Variable Pay	Other Perquisites	Increments and Revisions
Falguni Nayar Executive Chairperson, MD and CEO	12 Feb'21 to 11 Feb'26	INR 50mn	2% of Consol. PBT	Standard perquisites of car, driver, medical, insurance, club membership and other benefits	Based on annual review
Adwaita Nayar Executive Director	From 1 Jul'21 for five years	INR 20mn	0.5% of Consol. PBT	Standard perquisites and benefits as per company policy	Based on annual review
Anchit Nayar Executive Director	From 1 Jul'21 for five years	INR 20mn	0.5% of Consol. PBT	Standard perquisites and benefits as per company policy	Based on annual review

Source: Company, JM Financial

Exhibit 40. Corporate structure

Source: Company

Exhibit 41. Key subsidiary details

Company	Description	Platforms Owned	Outstanding borrowings (as of 30 Jun'21)
Nykaa E-Retail Pvt. Ltd.	Sells beauty, hygiene and wellness products through online as well as offline channels (stores, stalls, etc).	Nykaa.com and NykaaMan.com	INR 1,753mn
FSN Brands Marketing Pvt. Ltd.	Imports, purchases, sells and distributes beauty and wellness, personal care, health care, skin care, hair care and other related products through retail outlets, general trade and modern trade.	na	INR 2,835mn
Nykaa Fashion Pvt. Ltd.	Sells and distributes fashion garments and fashion accessories on online platforms and stalls.	Nykaafashion.com, pipabella.com and twentydresses.com	INR 500mn
FSN International Pvt. Ltd.	Sells beauty, wellness, fitness, personal care, health care, skin care, hair care and other related products on / through e-commerce, mcommerce, internet, stores, stalls, etc.	na	na
FSN Distribution Pvt. Ltd.	Sells beauty, hygiene and wellness products through its distribution network to the wholesalers and retailers using online and offline channels of sales.	na	na
Nykaa-KK Beauty Pvt. Ltd.	Manufactures, sells & distributes of 'Kay Beauty' products on online platforms as well as through physical stores, stalls, general trade and modern trade etc.	na	na
Dot & Key Wellness Pvt. Ltd.	Manufactures, markets, brands and sells skincare and personal care products, including serums, toners, cleansers, face masks and nutraceuticals.	na	INR 43mn
FSN Global FZE	Trades perfumes, cosmetics, beauty, personal care, skin care, hair care, beauty and personal care products and equipment.	na	na
Nykaa International UK Ltd.	Retail sale of cosmetic and toilet articles in specialised stores.	Na	na

Source: Company, JM Financial

Is Nykaa's store expansion strategy a distraction?

Since 2014, Nykaa has turned omnichannel and opened physical retail stores to get closer to customers. Over the past 9 months, it has opened 22 new stores to take the retail store count to 95 across 47 cities in the country and has declared plans to triple the store count to 300 across 100 cities.

On the surface, this seems like a distraction from the digital-first, tech enabled positioning that the company continues to portray. However, it is important to understand the strategic reasons for the company to aggressively pursue store expansion.

Gaining Consumer Trust: Though digital has been gaining traction in India across urban and rural areas, we understand that a majority of the population still feels comfortable transacting on digital platforms when they can connect it to a physical presence as well. The retail footprint provides piece of mind to the customers and, hence, becomes a strong brand-building factor as well.

Touch and Feel Experience: While returns are relatively simple in Fashion, **BPC returns are valid only in case of defects, damages or wrong products delivered.** Hence, the opportunity to try these products becomes critical for a customer to make the purchase decision. Tech innovations such as virtual try-ons work to some extent for certain products but having the opportunity to access a store can be a game-changer for Nykaa's BPC customers.

Higher Wallet Share: Even for the most tech-savvy customers, Nykaa can capture a maximum of 60-80% of their wallet share as the remaining goes to in-person purchases at retail stores. By being present in the retail format, Nykaa can extract a higher wallet share from the beauty shoppers.

We also suggest that Nykaa's store economics should be viewed as an extension of its online business similar to how people would not separately evaluate test-drives for an auto dealer/manufacturer. Test drives enable the auto dealer to sell more cars; similarly, retail stores will enable Nykaa to transact an even higher GMV.

Exhibit 42. Nykaa retail store footprint across 47 cities



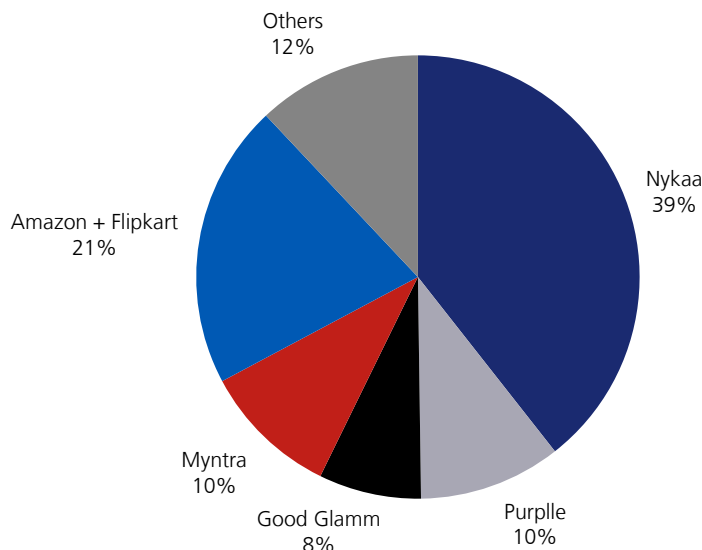
Source: Company

Understanding Competitive Landscape Evolution

Nykaa to continue dominating Beauty and Personal Care Market

Nykaa has gained a strong head-start to become the largest BPC retailer in the country. Curated assortment, engagement-led platform and omnichannel play with an overarching focus on consumer experience is going to keep Nykaa's market share stable around 40% in this segment.

Exhibit 43. Online BPC Market is largely dominated by verticals



Source: JM Financial

We do acknowledge that the strong performance of Nykaa in public markets has attracted investor as well as competitor interest to this segment and we are now seeing incrementally larger fundraising rounds at higher valuations for Nykaa's peers. Both Purpille and Good Glamm Group have seen significant valuation jump while Flipkart group's Myntra has ramped up its BPC play and is looking to onboard brands and products.

Purpille: Purpille was the first beauty focused retailer to launch in India in 2011 and was a strong competitor to Nykaa during the initial years. Since then, Purpille has opted for a private label focused strategy with ~40% of the GMV generated from owned brands with average product costing INR 200-300. The company currently sells 50,000 SKUs from ~1,000 brands with 7mn MAUs. The company has got great investor interest since Nykaa's IPO with valuation jumping 2x to reach USD 630mn in the most recent fundraise led by Kedaara Capital. With over 75% of GMV generated from Tier II and smaller cities, we envisage Purpille to continue taking the private label approach in masstige segment while growing faster in smaller cities.

Good Glamm Group (MYGLAMM): Myglamm was launched as an internet-first brand offering makeup products. The company claims to sell 800+ products across categories including makeup, skincare and personal care. Over the past year, it pivoted to a content-to-commerce model and became Good Glamm group through content platform acquisitions such as ScoopWhoop, MissMalini and POPxo while simultaneously acquiring brands such as St Botanica, The Moms Co. and BabyChakra with strong customer engagement metrics. Good Glamm Group recently became a unicorn with Warburg Pincus and Prosus Ventures investing USD 150mn in the Series D fundraise. We believe the company will continue to use its strong content platform to grow acquired and in-house brands with no major foray into distributing partner brands.

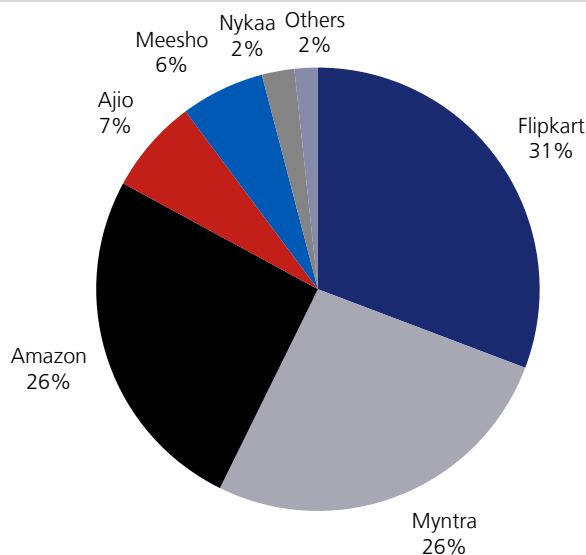
Myntra: Myntra has been one of the strongest fashion platforms in India and with Nykaa foraying into Fashion, Myntra seems to have decided to return the favour by launching its BPC vertical. Myntra generates ~USD 3bn in total annualised GMV but we estimate its BPC vertical accounts for only 6-8% of this GMV with the company partnering with only 650 brands with ~30,000 SKUs, significantly lower than Nykaa. Despite having a larger platform with strong traffic and customer base, we believe Myntra has failed to capitalise on these

strengths with significant management turnover and organisational structure changes since Walmart's acquisition of Flipkart. The company has delivered total GMV CAGR of ~35% since FY18 while most competitors in the core Fashion vertical continued to grow faster. The company has recently appointed a new CEO and it will be interesting to see any changes in Myntra's strategic alignment with Flipkart group.

Nykaa Fashion to make gradual inroads to reach ~10% market share by FY41

Nykaa's Fashion vertical is in a very nascent phase but is delivering strong growth metrics, gaining market share from the incumbents. However, we believe this to continue being a cross-sell story with majority of Nykaa Fashion customers previously being BPC customers too. The current selection offered on the Fashion platform also suggests that the company is looking to cater largely to the female audience with ~70% of the listings.

Exhibit 44. Unlike BPC, Fashion is a crowded market with horizontals commanding 55%+ share



Source: JM Financial

While BPC requires a more specialised retail approach, Fashion is a relatively simpler business to operate online and existing e-commerce strengths play a strong role in this segment. Flipkart group (including Myntra) accounts for ~57% Fashion market share with Myntra catering to metro / tier I cities while Flipkart's distribution and brand strength makes it a popular choice in smaller cities. On similar lines, Amazon also has a relatively strong presence in Fashion with consumers spread across the country. Reliance Group's Ajo and Tata Cliq cater to the similar consumer base as Nykaa's with a focus on quality brands and consumer experience.

Meesho has been a recent entrant in this vertical and the company has been supremely aggressive in scaling on the back on large fundraises from Softbank and Fidelity. Media reports suggest that the company is looking to raise another USD 1bn that might quadruple its valuation within 6 months to USD 8bn. While the social commerce player caters primarily to smaller cities with delivery durations of over 7-10 days, highly competitive pricing and aggressive advertising strategy continue to drive strong GMV and transacting user growth. However, Meesho's market share gains are coming from Flipkart / Amazon's value seeking consumer base and new e-commerce users.

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY20A	FY21A	FY22E	FY23E	FY24E
Net Sales	17,675	24,409	40,479	63,750	90,598
Sales Growth	59.0%	38.1%	65.8%	57.5%	42.1%
Other Operating Income	0	0	0	0	0
Total Revenue	17,675	24,409	40,479	63,750	90,598
Cost of Goods Sold/Op. Exp	10,142	14,878	23,559	35,698	49,512
Personnel Cost	1,956	2,836	4,141	5,906	7,946
Other Expenses	4,767	5,080	10,684	16,656	22,955
EBITDA	811	1,614	2,095	5,490	10,185
EBITDA Margin	4.6%	6.6%	5.2%	8.6%	11.2%
EBITDA Growth	295.2%	99.2%	29.8%	162.1%	85.5%
Depn. & Amort.	595	671	770	841	924
EBIT	215	943	1,325	4,649	9,261
Other Income	-340	-190	-128	5	181
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	-124	753	1,197	4,654	9,443
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	-124	753	1,197	4,654	9,443
Taxes	39	134	257	1,173	2,380
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	3	1	1	4	7
Reported Net Profit	-166	618	939	3,478	7,056
Adjusted Net Profit	-166	618	939	3,478	7,056
Net Margin	-0.9%	2.5%	2.3%	5.5%	7.8%
Diluted Share Cap. (mn)	451.8	463.0	472.8	478.8	478.8
Diluted EPS (INR)	-0.4	1.3	2.0	7.3	14.7
Diluted EPS Growth	0.0%	0.0%	48.7%	265.7%	102.9%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before Tax	-124	753	1,071	4,654	9,443
Depn. & Amort.	595	671	770	841	924
Net Interest Exp. / Inc. (-)	424	204	128	-5	-181
Inc (-) / Dec in WCap.	-786	-273	-850	-1,398	-1,307
Others	-5	274	77	110	147
Taxes Paid	-43	-132	-257	-1,173	-2,380
Operating Cash Flow	62	1,498	939	3,029	6,646
Capex	-457	-421	-1,557	-1,204	-1,323
Free Cash Flow	-395	1,078	-618	1,825	5,323
Inc (-) / Dec in Investments	606	-897	0	0	0
Others	0	20	192	452	704
Investing Cash Flow	149	-1,297	-1,365	-752	-619
Inc / Dec (-) in Capital	1,037	1,029	6,300	0	0
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	88	-1,100	826	949	876
Others	-438	-306	-329	-459	-538
Financing Cash Flow	687	-377	6,797	490	338
Inc / Dec (-) in Cash	898	-176	6,371	2,767	6,365
Opening Cash Balance	114	1,012	836	7,207	9,974
Closing Cash Balance	1,012	836	7,207	9,974	16,339

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY20A	FY21A	FY22E	FY23E	FY24E
Shareholders' Fund	3,221	4,899	12,089	15,676	22,880
Share Capital	146	151	151	151	151
Reserves & Surplus	3,076	4,749	11,939	15,526	22,729
Preference Share Capital	0	0	0	0	0
Minority Interest	7	8	10	13	20
Total Loans	2,675	1,875	1,947	1,947	1,947
Def. Tax Liab. / Assets (-)	-506	-780	-780	-780	-780
Total - Equity & Liab.	5,398	6,002	13,265	16,856	24,067
Net Fixed Assets	2,291	2,335	3,122	3,485	3,884
Gross Fixed Assets	953	1,108	1,501	2,131	2,833
Intangible Assets	129	236	810	797	824
Less: Depn. & Amort.	251	421	601	856	1,186
Capital WIP	1,460	1,413	1,413	1,413	1,413
Investments	782	1,654	1,654	1,654	1,654
Current Assets	7,663	8,003	17,337	25,063	36,748
Inventories	4,453	4,981	6,777	9,780	12,887
Sundry Debtors	984	766	1,109	1,747	2,482
Cash & Bank Balances	1,012	836	7,207	9,974	16,339
Loans & Advances	180	216	358	564	802
Other Current Assets	1,034	1,204	1,885	2,998	4,238
Current Liab. & Prov.	5,338	5,991	8,848	13,345	18,219
Current Liabilities	3,133	3,162	4,732	7,183	9,914
Provisions & Others	2,205	2,828	4,115	6,162	8,305
Net Current Assets	2,325	2,013	8,489	11,717	18,529
Total - Assets	5,398	6,002	13,265	16,856	24,067

Source: Company, JM Financial

Dupont Analysis		FY20A	FY21A	FY22E	FY23E	FY24E
Y/E March						
Net Margin	-0.9%	2.5%	2.3%	5.5%	7.8%	
Asset Turnover (x)	3.4	3.8	3.9	4.0	4.3	
Leverage Factor (x)	1.9	1.6	1.2	1.1	1.1	
RoE	-6.0%	15.2%	11.1%	25.0%	36.6%	

Key Ratios		FY20A	FY21A	FY22E	FY23E	FY24E
Y/E March						
BV/Share (INR)	7.5	11.0	26.2	33.1	48.4	
ROIC	8.0%	18.6%	22.0%	62.3%	107.9%	
ROE	-6.0%	15.2%	11.1%	25.0%	36.6%	
Net Debt/Equity (x)	0.3	-0.1	-0.6	-0.6	-0.7	
P/E (x)	-5,312.3	1,462.1	983.4	268.9	132.5	
P/B (x)	259.6	177.5	74.4	58.9	40.4	
EV/EBITDA (x)	1,140.8	571.9	437.6	166.5	89.1	
EV/Sales (x)	52.3	37.8	22.7	14.3	10.0	
Debtor days	20	11	10	10	10	
Inventory days	92	74	61	56	52	
Creditor days	68	51	45	45	45	

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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