

Nykaa (FSN E-Commerce) Notes

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Please go through these sources for detailed info:

Nykaa's Story Listen to SOIC: <https://www.youtube.com/watch?v=Pmgky8DkqWY>

Nykaa RHP: https://www.sebi.gov.in/filings/public-issues/aug-2021/fsn-e-commerce-ventures-limited_51574.html

Nykaa Summarised: <https://forum.valuepickr.com/t/ipo-review-discussion-until-listing/14547/239>

IPO Valuation: <https://forum.valuepickr.com/t/ipo-review-discussion-until-listing/14547/235>

About Category: Beauty Products are those that require consistent advertising to get the Sales. It can not be compared to something like Zomato, where you are hungry you order. You need to constantly push to achieve Sales Growth that is what Nykaa seems to have achieved.

The company was not profitable for 2019, 2020 but made its maiden profit in 2021.

A beauty product sale co. has only 3 major costs.

1. Product cost,
2. Employee Cost (store front + tech stack)
3. Advt. Costs.

So only logical cost reduction is possible on Ad spends (In fact company reduced spends in 2021 by 30 Cr. vis-a-vis 2020 out of total profit of 61 Cr.). So lets check international firms whether there are any scale benefits(no other financials available)

1. ULTA (NASDAQ: ULTA). The average advt.(SGA) expenses for ULTA were at 23-26%. ULTA has saloons as well and operates in matured countries.
2. Sephora is part of LVMH Group and financials are not available separately.

Can the company get scale effect in Ad spend without sales dilution ???

Here's a toy sheet to find out if what would be the likely revenue growth and EPS

Link :

<https://docs.google.com/spreadsheets/d/1gWnjDrCbAQMotlcrUitssX5oVWiaTPPx7PU96Syjr-8/edit?usp=sharing>

Returns on Capital

Aa Desc	≡ 2019	≡ 2020	≡ 2021
<u>Borrowings</u>	225.58	267.48	187.47
<u>Equity</u>	231.03	322.89	490.78
<u>Total Capital</u>	456.61	590.37	678.25
<u>O.P./Capital-ROCE</u>	4.49%	13.73%	23.80%
<u>Incremental Capital required</u>		133.76	87.88
<u>Incremental Equity</u>		91.86	167.89

The company on an average requires 100 Cr. every year (excluding profit) to run the show with growth.

The co. is now raising(Non-OFS) 630 cr. for company's use and is gonna partly pay Borrowings.

Coming to P/E it's around 567.30. Unheard of but what Ms. Nayyar says in her interview as a summary:

Guys, I am gonna give you the whole Online Indian Beauty market, so can't you pay for the growth we will deliver for next 10 years.

Link: <https://economictimes.indiatimes.com/markets/expert-view/enough-left-on-the-table-for-the-investor-while-fixing-nykaa-ipo-pricing-falguni-nayar/articleshow/87258817.cms>

Is it worth it depends on the context, see the Amazon returns graph till 2008

1998-2008 \$4 to \$138 -34 times



Post 2008

2008-2021 \$138 to -\$3376.07 - 24 times - The red mark in both pics is same



Important learnings:

- Peak to peak 1999 to 2007 too 7 years to just recover money
- You never know if any thing in such a long term hits you
- Not every company is AMAZON 😂😂

Scenario 1: Whenever there is Turbulence(Bear Market)

Co. gets Scale effects then no visible effect else gets dumped

Scenario 2: Party Continues (Bull Market)

Co. continues to get re-re-re-rated till

Scenario 3:

Zomato type double/triples and then quiet

What scenario is most likely ????