

# FSN E-Commerce Ventures | BUY

## Investments in customer acquisition drive margin miss

In a quarter where consumption names disappointed, Nykaa delivered decent growth numbers with BPC/Fashion delivering 29%/10% YoY growth. Though BPC growth did get a boost from 80% YoY growth in eB2B business, core BPC GMV growth came in at a robust 26%. With customer acquisition remaining prominent, core BPC saw a dip in GMV-NSV conversion while ad expenses also inched up. Overall, the company reported 24.4% YoY growth in revenue to reach INR 18.7bn with EBITDA margin flat sequentially at 5.5%, miss on JMFe by 50bps. Despite the miss, we believe core BPC EBITDA margin continued to improve with 20bps jump YoY while Fashion losses sustained around INR 250mn. We forecast core BPC to sustain EBITDA margin improvement driven by operating leverage while other segments will see peak losses in FY25. We find downside limited with favourable risk-reward making Nykaa the top pick in internet space. Retain 'BUY' with Dec'25 TP of INR 250.

- Core BPC growth steady at mid-twenties:** Nykaa BPC segment has seen 29% YoY GMV growth in 2QFY25, on the back of continued investment in more direct traffic to its platform and stores with new user acquisition rising by 31% YoY. The segment delivered 24% NSV growth. However, our triangulation suggests that core BPC (excluding segment additions announced in June) has delivered 26% / 22% GMV/NSV growth, suggesting sharp dip in GMV-NSV conversion. This was due to 1) sustained discounting, and 2) increase in new user discount coupons. Gross margin improved 40bps YoY due to rising owned brands salience; while contribution Margin declined 120bps YoY mainly due to increased advertising spends for accelerated customer acquisition. Company continues to broaden its network of brands and assortment with focus on categories such as premium fragrance (growing faster than overall beauty) and skincare.
- Macro pain continues in Nykaa Fashion with festive season the only hope:** Nykaa Fashion reported GMV/NSV growth of 10%/14% YoY in 2QFY25 as muted demand environment continued in 2Q as well. Besides this, 2Q has seen fewer wedding dates and festivities further hampering the segment growth. However, strong performance by LBB (marketing income) and higher services related income resulted in better GMV-Revenue conversion with revenue growing 22% YoY. Gross margin demonstrated sharp improvement of 567bps YoY to reach 49.7% whereas decline in fulfilment expenses (leakages optimisation and increased share of land shipments) offset the increase in marketing expenses, led to contribution margin (as % of NSV) improvement of 440bps YoY to reach 9.4%. Management expects fashion outlook in 2H to improve as October has seen some pickup and also festivities and wedding season in 2H are expected to be strong.
- Reiterate 'BUY', Dec'25 TP stable at INR 250:** Despite unfavourable demand environment recently, Nykaa has delivered against the odds to retain margins while delivering growth in mid-twenties. We lower growth in Fashion while factoring in a steeper profitability curve in eB2B driven by sustained improvements. Rolling forward to Dec'25, we retain TP at INR 250 and reiterate 'BUY', expecting Nykaa's investments in H1 to supply robust growth along with sharp margin jump during the festive and wedding season ahead.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	250
Upside/(Downside)	40.6%
Previous Price Target	250
Change	0.0%

### Key Data – NYKAA IN

Current Market Price	INR178
Market cap (bn)	INR508.2/US\$6.0
Free Float	48%
Shares in issue (mn)	2,864.4
Diluted share (mn)	2,873.3
3-mon avg daily val (mn)	INR2,681.8/US\$31.8
52-week range	230/140
Sensex/Nifty	78,675/23,883
INR/US\$	84.4

### Price Performance

%	1M	6M	12M
Absolute	-7.4	4.7	19.7
Relative*	-4.2	-3.3	-0.7

\* To the BSE Sensex

### Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	51,438	63,856	80,469	1,05,233	1,35,408
Sales Growth (%)	36.3	24.1	26.0	30.8	28.7
EBITDA	2,561	3,461	5,155	8,855	13,748
EBITDA Margin (%)	5.0	5.4	6.4	8.4	10.2
Adjusted Net Profit	232	362	1,403	3,741	7,055
Diluted EPS (INR)	0.1	0.1	0.5	1.3	2.5
Diluted EPS Growth (%)	-90.4	56.2	287.8	166.6	88.6
ROIC (%)	4.6	5.3	11.8	22.6	34.8
ROE (%)	1.7	2.7	10.2	22.3	30.7
P/E (x)	2,207.2	1,413.4	364.5	136.7	72.5
P/B (x)	36.8	40.4	35.9	28.1	20.0
EV/EBITDA (x)	199.2	148.0	99.8	57.9	37.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

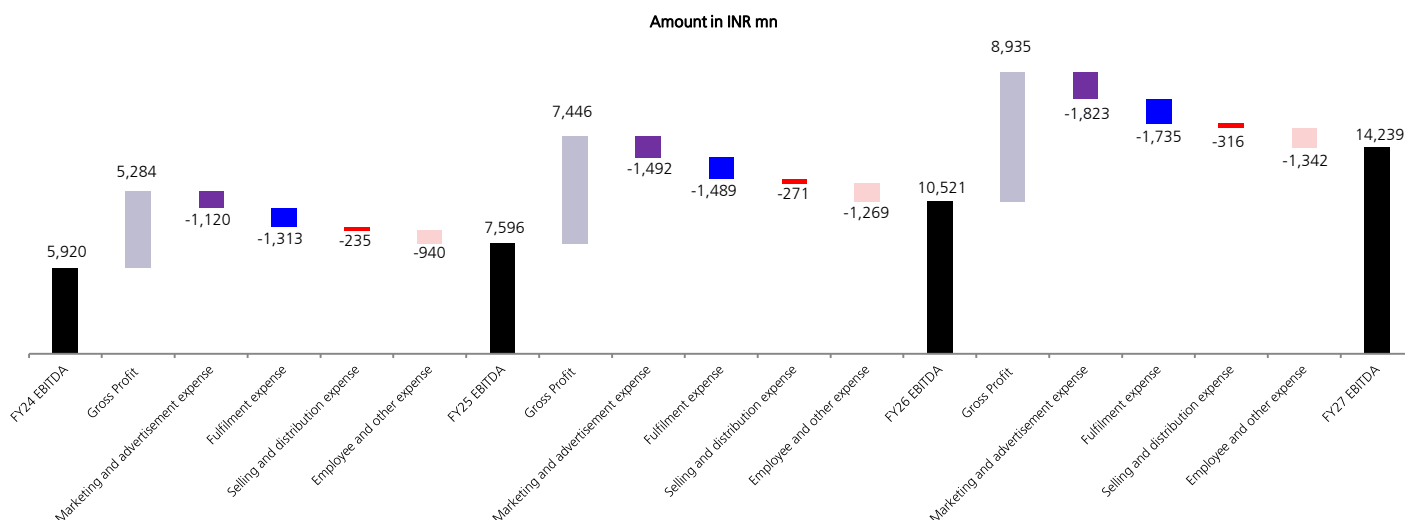
Source: Company data, JM Financial. Note: Valuations as of 12/Nov/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- Superstore growth remains robust but profitability will be gradual:** Nykaa’s eB2B platform, ‘SuperStore’ which is part of BPC from 1QFY25 onwards has seen 80% YoY GMV growth, growing 3x in 2 years with the company reaching 235k retailers in 1,060 cities. GMV growth was driven by 45% growth in orders due to retailer network expansion and 16% growth in AOV due to increasing share of premium brands. Gross margin improved 334bps YoY while contribution margin has improved sharply with 862bps YoY improvement as company is moving from third party warehouses to owned warehouses leading to reduction of fulfilment costs. We expect Superstore business to turn contribution profitable in FY27 with EBITDA profitability anticipated in FY28.
- Owned brands continue to grow on as well as outside Nykaa:** Beauty owned brands have shown strong GMV growth of 48% YoY driven by strong growth in Dot & key and Kay Beauty whereas Fashion owned brands have grown 10% YoY GMV growth inhibited by muted growth of 3P channels (-3% YoY). As 3P fashion marketplaces have struggled for growth, this impact was offset by growth on Nykaa Fashion platform (+20% YoY). With owned brands being a key driver of gross margin expansion, recovery in Fashion owned brands could drive segment EBITDA breakeven in FY26.
- Quick delivery reach expands:** As a result of its store expansion and warehouse localisation strategy, management noted that as of 2Q, 80% orders from top 12 metro cities and 70% orders from top 110 cities are being delivered either the same or the next day. Though management noted that most of the business is not addressable by quick commerce in sustainable and affordable way, few fast moving everyday SKUs are being focused on for quicker deliveries. Nykaa AOVs are 4x of the usual QC platform AOVs ranging between INR 500-650, hence company would not necessarily face the tough unit economics in this business. Management does not expect large capex for setting up dark stores or mini warehouses in the future and the current ramp-up in SDD/NDD has been achieved without any simultaneous increase in costs. We believe the impact will be seen in inventory days (have jumped by 6 days YoY) as same inventory will now be duplicated closer to the customers.
- BPC EBITDA Margin expansion trajectory to sustain despite contribution margin flatlining:** With the management investing into new customer acquisition, any improvement in contribution margin is being reinvested in order to broaden the customer funnel. Hence, BPC contribution margins have dipped by 120bps YoY to 25.2% of NSV. However, with topline growing in mid-twenties and costs below CM unlikely to rise more than mid-teens, Nykaa BPC segment is still destined to see sustained EBITDA margin expansion. Our triangulation of segmental profitability suggests that core BPC EBITDA margin was at 11.0% in FY24 and the resulting operating leverage is likely to result in 13.6% core BPC EBITDA margin in FY27.

Exhibit 1. Journey to FY27 EBITDA: Waterfall chart (in INR mn)



Source: Company, JM Financial

## Exhibit 2. Nykaa Q2FY25 vis-à-vis JMFe and consensus estimates

Financial Performance (Consol.)	1Q25A	1Q24A	Change (YoY)	4Q24A	Change (QoQ)	Estimate (JMFe)	Variance (vs. JMFe)	Estimate (Cons)	Variance (vs. Cons.)
<b>Total GMV (INR mn)</b>	36,525	29,438	24.1%	33,209	10.0%	35,942	1.6%	35,212	3.7%
BPC	27,834	21,559	29.1%	25,429	9.5%	27,040	2.9%	26,057	6.8%
Fashion	8,633	7,872	9.7%	7,741	11.5%	8,832	-2.2%	9,155	-5.7%
Others	58	8	621.2%	39	47.9%	70	-17.3%		
<b>Total NSV (INR mn)</b>	18,432	14,983	23.0%	17,183	7.3%	18,626	-1.0%		
BPC	15,661	12,566	24.6%	14,695	6.6%	15,819	-1.0%		
Fashion	2,714	2,411	12.6%	2,449	10.8%	2,738	-0.9%		
Others	57	6	850.0%	39	46.2%	70	-18.3%		
<b>Revenue from operations (INR mn)</b>	18,747	15,070	24.4%	17,461	7.4%	18,944	-1.0%	18,874	-0.7%
Gross Profit (INR mn)	8,210	6,496	26.4%	7,560	8.6%	8,196	0.2%	8,264	-0.7%
<b>Gross margin</b>	43.8%	43.1%	69bp	43.3%	50bp	43.3%	53bp	43.8%	1bp
EBITDA (INR mn)	1,037	806	28.6%	961	7.8%	1,132	-8.5%	1,148	-9.7%
<b>EBITDA margin</b>	5.5%	5.4%	18bp	5.5%	2bp	6.0%	-45bp	6.1%	-55bp
PAT ex-MI and Exceptional (INR mn)	100	58	71.7%	96	4.1%	245	-59.0%	247	-59.4%
Diluted EPS (INR)	0.03	0.02	71.7%	0.03	4.1%	0.09	-59.0%	0.13	-72.0%

Source: Company, JM Financial, Bloomberg

## Company Financial Metrics

### Exhibit 3. Key Financials

	2QFY24	3QFY24	4QFY24	FY24	1QFY25	2QFY25	Comments
<b>Group GMV* (INR mn)</b>	<b>29,440</b>	<b>36,180</b>	<b>32,174</b>	<b>124,463</b>	<b>33,209</b>	<b>36,525</b>	
BPC	21,559	25,696	23,377	83,409	25,429	27,834	• Consolidated revenue grew 24.4% YoY (+7.4% QoQ) to reach INR 18.8bn, marginally below JMFe/ Cons. of INR 18.9bn by 1% /0.7% resp.
Fashion	7,872	10,465	8,760	32,699	7,741	8,633	
Others	8	18	36	68	39	58	
<b>Cons. revenue (INR mn)</b>	<b>15,070</b>	<b>17,888</b>	<b>16,680</b>	<b>63,856</b>	<b>17,461</b>	<b>18,747</b>	• Gross margin improved by 69bps YoY(+50bps QoQ) to 43.8% in 1QFY25. On Gross margin level, a beat of 53bps on JMFe though in-line with Consensus.
Change (YoY)	22.4%	22.3%	28.1%	24.1%	22.8%	24.4%	
Gross profit (INR mn)	6,496	7,607	7,102	27,392	7,560	8,210	• EBITDA margin improved 18bps YoY to 5.5%, a miss on both JMFe and Cons. by 45bps and 55bps resp.
<b>Gross margin</b>	<b>43.1%</b>	<b>42.5%</b>	<b>42.6%</b>	<b>42.9%</b>	<b>43.3%</b>	<b>43.8%</b>	
Operating profit (EBITDA)	806	988	933	3,462	961	1,037	
<b>EBITDA margin</b>	<b>5.4%</b>	<b>5.5%</b>	<b>5.6%</b>	<b>5.4%</b>	<b>5.5%</b>	<b>5.5%</b>	• Adj. PAT stood at INR 105mn, a miss on JMFe of INR 245mn by 57.1% mainly due to lower than expected treasury income and higher interest cost.
Depreciation & amortization	546	580	596	2,242	601	636	
EBIT	260	407	336	1,219	361	400	
<b>EBIT margin</b>	<b>1.7%</b>	<b>2.3%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>2.1%</b>	
Net other income	-127	-143	-141	-529	-140	-188	
Exceptionals	0	0	0	0	0	0	
Profit before tax	133	265	196	690	221	213	
Income tax expense	40	83	98	253	78	78	
Share of associate	-15	-8	-7	-40	-6	-5	
Minority Interest	20	13	21	75	40	29	
<b>Reported PAT</b>	<b>93</b>	<b>182</b>	<b>97</b>	<b>437</b>	<b>142</b>	<b>134</b>	
Change (YoY)	63.1%	98.2%	124.8%	76.1%	120.6%	44.7%	
<b>PAT for common stocks</b>	<b>58</b>	<b>162</b>	<b>69</b>	<b>323</b>	<b>96</b>	<b>100</b>	
Change (YoY)	40.9%	97.7%	180.8%	67.4%	197.9%	71.7%	

Source: Company, JM Financial. Note: \*as per new segmental reporting

## Company Operating Metrics

### Exhibit 4. Key Operating Metrics

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>No. of visits (million)</b>									
BPC	250	266	242	269	286	311	303	330	357
Fashion	122	137	127	126	144	157	144	127	147
<b>Monthly average unique visitors (million)</b>									
BPC	25	27	25	27	29	33	32	33	34
Fashion	16	19	17	17	18	19	17	16	18
<b>Orders (million)</b>									
BPC Orders (million)	8.7	9.9	9.2	9.9	10.5	11.7	11.7	12.4	12.9
Fashion Orders (million)	1.4	1.7	1.4	1.5	1.5	2.0	1.7	1.7	1.8
<b>Average order value (INR)</b>									
BPC AOV (INR)	1,872	1,958	1,803	1,849	1,916	2,024	1,788	1,924	2,038
Fashion AOV (INR)	3,940	3,959	4,266	4,058	4,061	4,681	4,546	4,237	4,465
Others AOV (INR)	3,304	3,709	3,368	3,561	3,541	4,027	3,966		

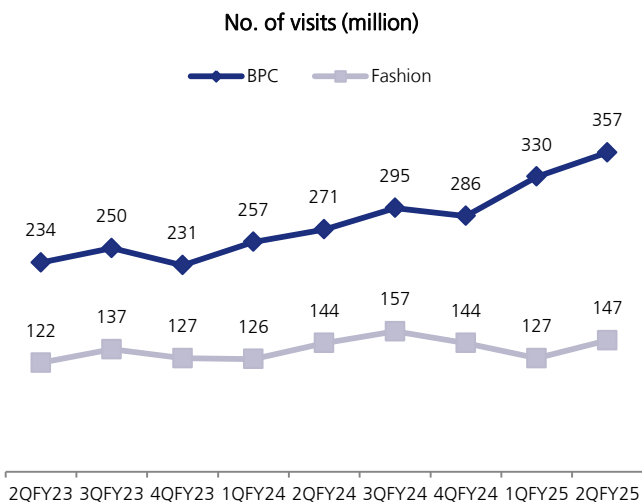
Source: Company, JM Financial.

## Exhibit 5. Quarterly vertical-wise performance

All numbers are in INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
<b>Total GMV</b>	<b>30,981</b>	<b>38,178</b>	<b>34,353</b>	<b>33,209</b>	<b>36,525</b>
BPC	21,559	25,696	23,377	25,429	27,834
Core BPC	20,016	23,695	21,197	23,122	25,242
eB2B+NM BPC	1,543	2,001	2,180	2,307	2,592
Fashion	7,631	10,109	8,422	7,741	8,633
Others	1,791	2,373	2,554	39	58
<b>Total NSV</b>	<b>15,873</b>	<b>19,015</b>	<b>17,756</b>	<b>17,183</b>	<b>18,432</b>
BPC	12,566	14,954	13,979	14,695	15,661
Core BPC	11,675	13,805	12,712	13,356	14,199
eB2B+NM BPC	891	1,149	1,267	1,339	1,462
Fashion	2,321	2,752	2,324	2,449	2,714
Others	986	1,309	1,453	39	57
<b>Revenue</b>	<b>15,070</b>	<b>17,888</b>	<b>16,680</b>	<b>17,461</b>	<b>18,747</b>
BPC	13,695	16,227	15,193	15,935	17,029
Core BPC	12,782	15,045	13,887	14,545	15,495
eB2B+NM BPC	913	1,182	1,306	1,390	1,533
Fashion	1,305	1,526	1,334	1,486	1,661
Others	70	135	152	40	58
<b>Gross Profit</b>	<b>6,497</b>	<b>7,607</b>	<b>7,102</b>	<b>7,560</b>	<b>8,210</b>
BPC	5,427	6,317	5,949	6,328	6,828
Core BPC	5,300	6,142	5,764	6,129	6,579
as % of revenue	41.5%	40.8%	41.5%	42.1%	42.5%
eB2B+NM BPC	127	175	185	199	249
as % of revenue	13.9%	14.8%	14.2%	14.3%	16.3%
Fashion	1,001	1,170	1,017	1,210	1,348
as % of revenue	76.7%	76.7%	76.2%	81.4%	81.2%
Others	69	120	136	22	34
<b>Contribution Profit</b>	<b>3,044</b>	<b>3,331</b>	<b>3,249</b>	<b>3,479</b>	<b>3,695</b>
BPC	2,920	3,122	3,057	3,230	3,439
Core BPC	3,081	3,288	3,240	3,409	3,582
as % of NSV	26.4%	23.8%	25.5%	25.5%	25.2%
eB2B+NM BPC	-161	-166	-183	-179	-143
as % of NSV	-18.1%	-14.4%	-14.4%	-13.6%	-9.8%
Fashion	109	164	132	249	256
as % of NSV	4.7%	6.0%	5.7%	10.2%	9.4%
Others	15	45	60	1	13
<b>EBITDA</b>	<b>807</b>	<b>988</b>	<b>933</b>	<b>961</b>	<b>1,037</b>
BPC	1,106	1,235	1,265	1,255	1,407
Core BPC	1,419	1,566	1,597	1,618	1,745
as % of NSV	12.2%	11.3%	12.6%	12.1%	12.3%
eB2B+NM BPC	-312	-331	-332	-363	-338
as % of NSV	-18.6%	-15.5%	-17.9%	-18.6%	-14.9%
Fashion	-288	-214	-217	-225	-250
as % of NSV	-11.9%	-7.4%	-8.7%	-9.2%	-9.2%
Others	-10	-31	-111	-69	-75

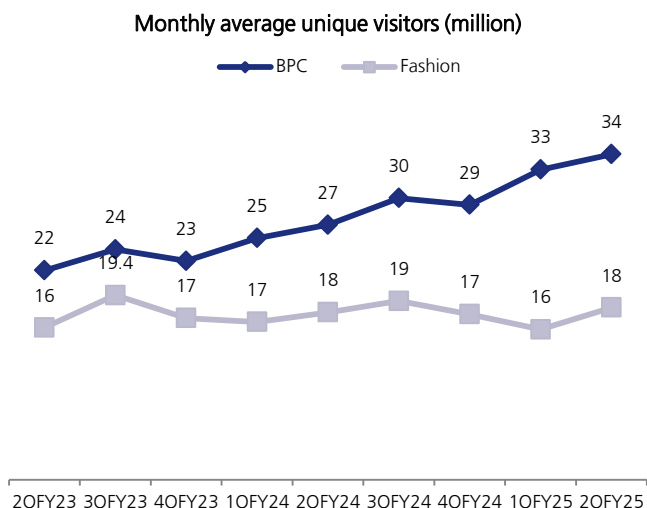
Source: Company, JM Financial. Others includes Nykaa Man Lifestyle and LBB for FY24 quarters.

Exhibit 6. Number of visits on Nykaa Platforms



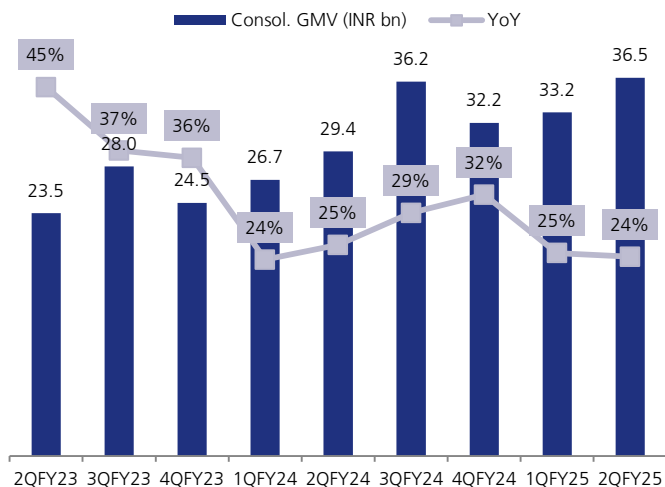
Source: Company, JM Financial

Exhibit 7. Monthly Average Unique Visitors



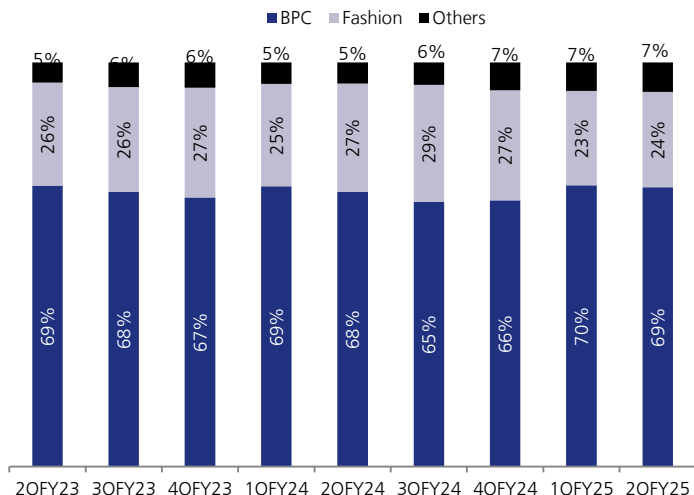
Source: Company, JM Financial

Exhibit 8. Group GMV Trend



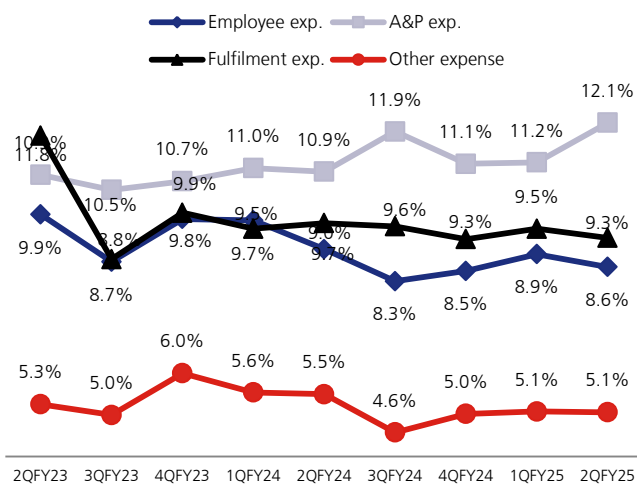
Source: Company, JM Financial

Exhibit 9. Group GMV Share



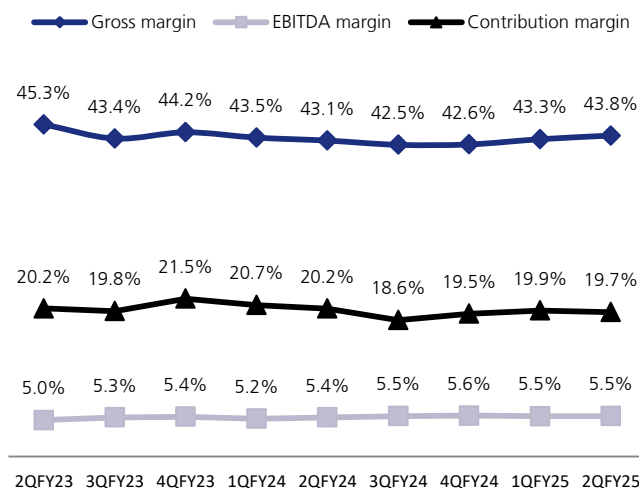
Source: Company, JM Financial. Others includes Nykaa Man Lifestyle and LBB for FY24 quarters.

Exhibit 10. Key Operating costs as % of Revenue



Source: Company, JM Financial

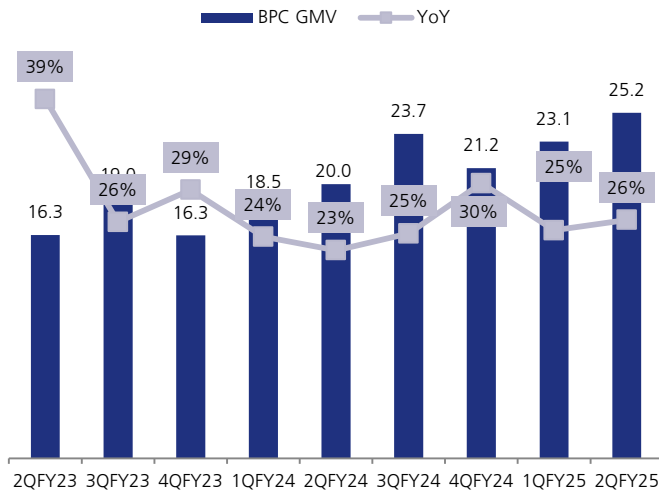
Exhibit 11. Margin Trends



Source: Company, JM Financial

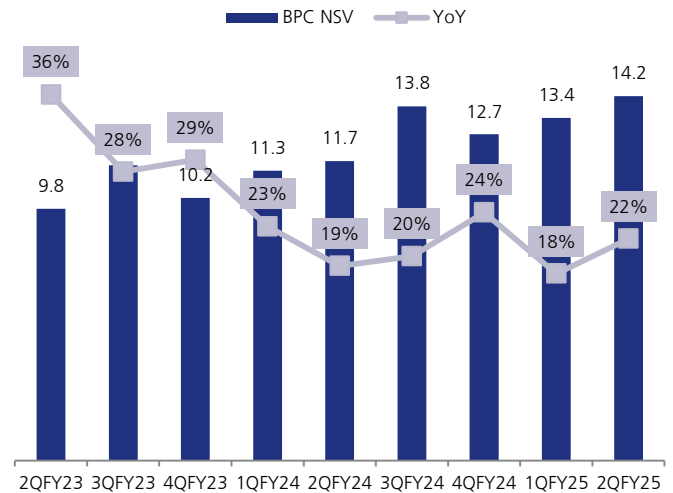
## Beauty & Personal Care Operating Metrics

Exhibit 12. GMV trend (INR bn)



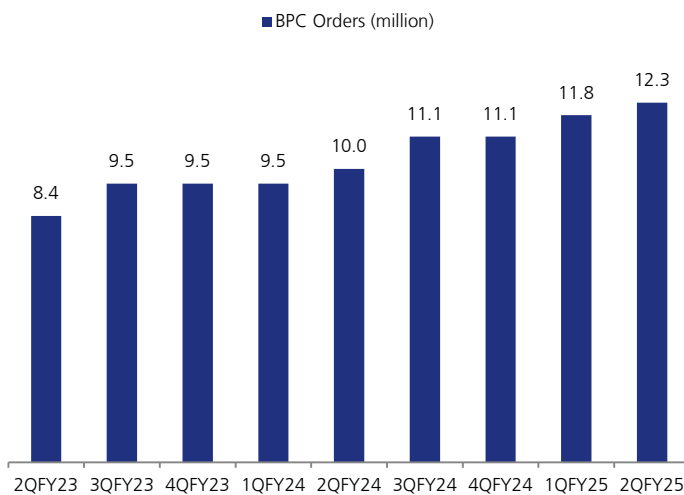
Source: Company, JM Financial

Exhibit 13. NSV trend (INR bn)



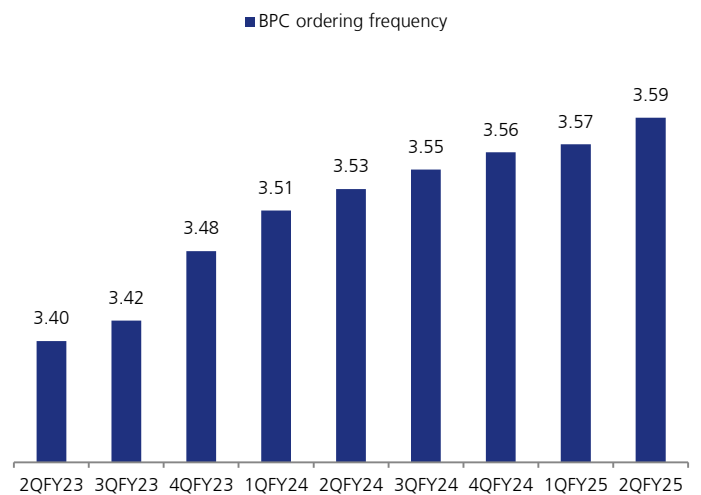
Source: Company, JM Financial

Exhibit 14. Orders trend



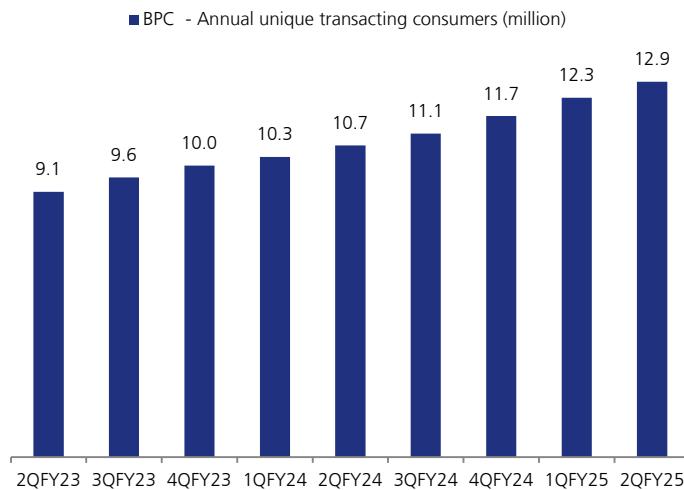
Source: Company, JM Financial

Exhibit 15. Ordering frequency



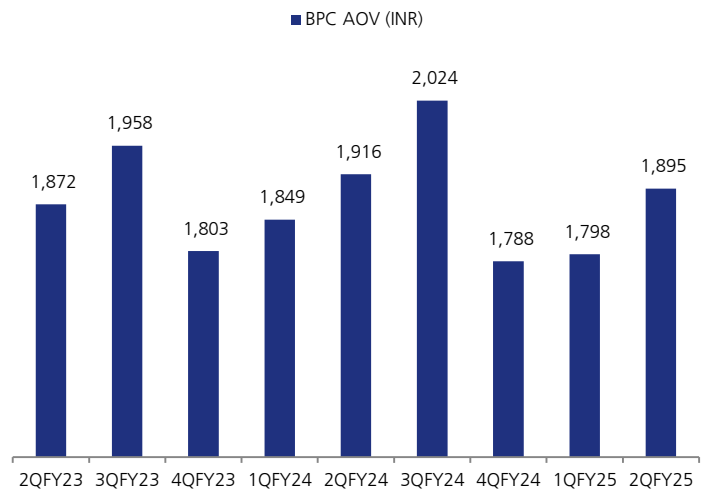
Source: Company, JM Financial

Exhibit 16. Unique transacting consumer trend



Source: Company, JM Financial

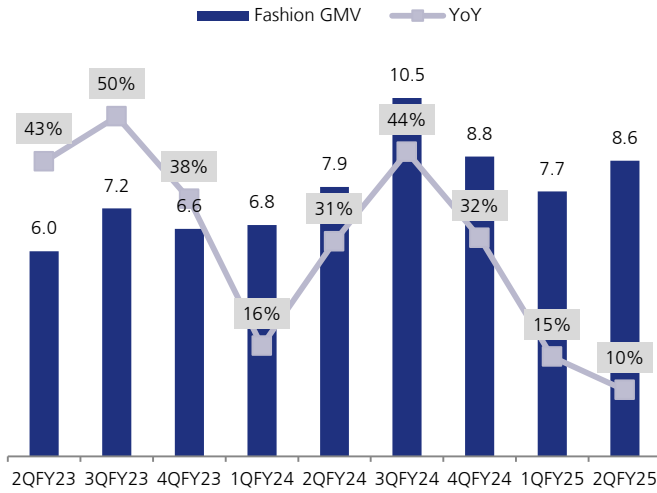
Exhibit 17. Average order value (AOV) Trend



Source: Company, JM Financial

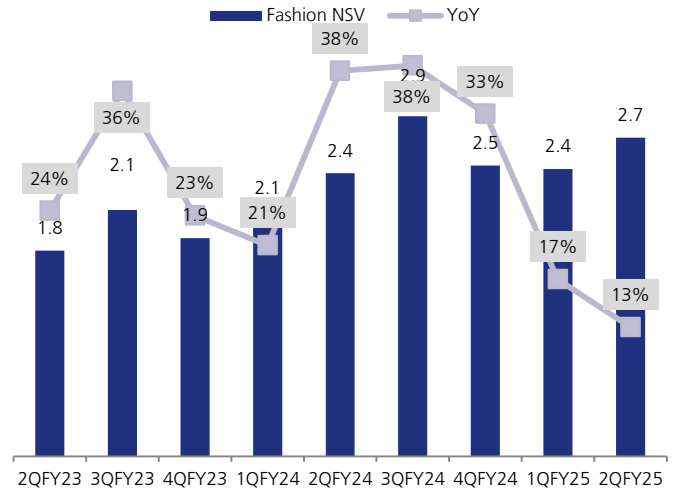
# Fashion Operating Metrics

**Exhibit 18. GMV trend (INR bn)**



Source: Company, JM Financial

**Exhibit 19. NSV trend (INR bn)**



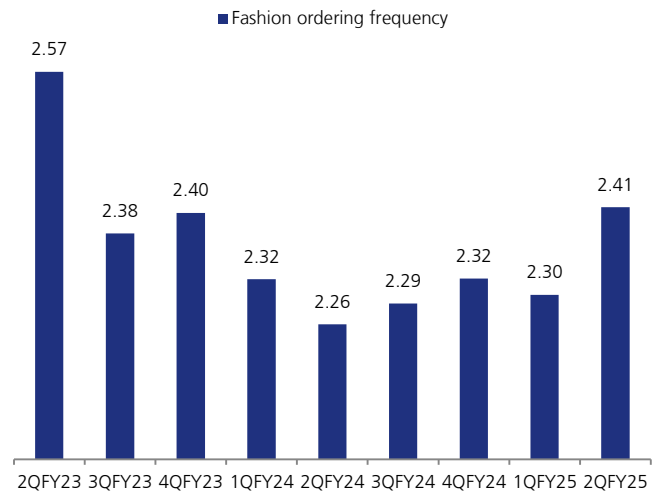
Source: Company, JM Financial

**Exhibit 20. Orders trend**



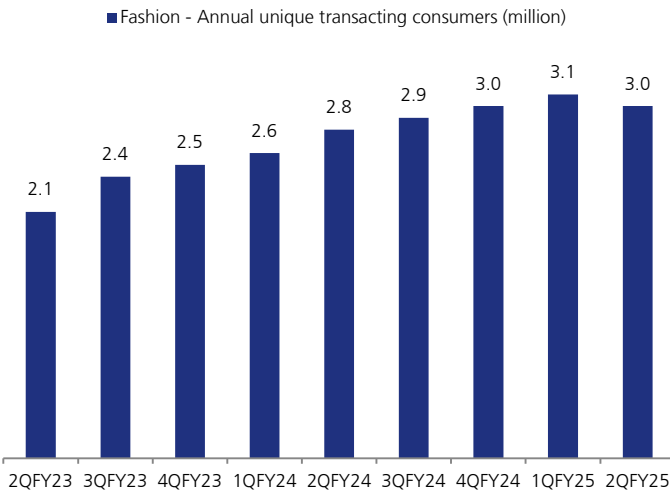
Source: Company, JM Financial

**Exhibit 21. Ordering frequency**



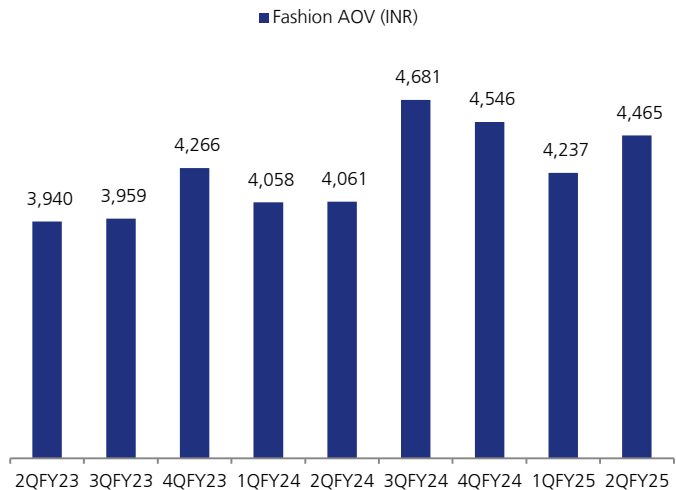
Source: Company, JM Financial

**Exhibit 22. Unique transacting consumer trend**



Source: Company, JM Financial

**Exhibit 23. Average order value (AOV) trend**



Source: Company, JM Financial



## Reiterate BUY; TP unchanged at INR 250

### Exhibit 24. We tweak estimates to account for lower growth in Fashion with steeper profitability curve in eB2B+Others

	Old					New					Change				
	FY25E	FY26E	FY27E	FY28E	FY29E	FY25E	FY26E	FY27E	FY28E	FY29E	FY25E	FY26E	FY27E	FY28E	FY29E
Group GMV (INR bn)	156.3	202.2	260.1	330.6	416.3	154.9	199.9	255.6	323.5	407.0	-0.9%	-1.1%	-1.8%	-2.1%	-2.2%
Consolidated revenue (INR bn)	81.3	106.2	137.0	174.4	220.1	80.5	105.2	135.4	172.5	217.7	-1.0%	-0.9%	-1.2%	-1.1%	-1.1%
Revenue growth rate (YoY)	27.4%	30.6%	29.1%	27.3%	26.2%	26.0%	30.8%	28.7%	27.4%	26.2%	-134bp	21bp	-38bp	6bp	3bp
Consolidated EBITDA (INR bn)	5.2	8.7	13.7	20.4	29.0	5.2	8.9	13.7	20.6	29.2	-1.0%	2.3%	0.4%	1.1%	0.9%
EBITDA margin	6.4%	8.1%	10.0%	11.7%	13.2%	6.4%	8.4%	10.2%	11.9%	13.4%	1bp	27bp	16bp	26bp	26bp
EBIT margin	3.4%	5.4%	7.6%	9.5%	11.2%	3.3%	5.8%	7.8%	9.8%	11.5%	-6bp	34bp	25bp	33bp	32bp
PAT (INR bn)	1.44	3.57	7.01	11.72	18.0	1.38	3.72	7.06	11.81	18.1	-4.2%	4.0%	0.8%	0.7%	0.2%
Diluted EPS (INR)	0.50	1.24	2.44	4.08	6.3	0.48	1.29	2.46	4.11	6.3	-4.2%	4.0%	0.8%	0.7%	0.2%

Source: Company, JM Financial

## Valuation Methodology: DCF

### Exhibit 25. Key DCF assumptions

<b>WACC</b>	<b>12.5%</b>
Revenue CAGR (FY24-29)	27.8%
Revenue CAGR (FY29-34)	19.5%
Revenue CAGR (FY34-41)	13.0%
EBITDA CAGR (FY24-29)	53.2%
EBITDA CAGR (FY29-34)	25.9%
EBITDA CAGR (FY34-41)	14.6%
Tax Rate	25.2%
NPV of cash flow (2024-2041F)	2,97,501
<b>Perpetual growth (%)</b>	<b>6.0%</b>
Implied Exit FCF multiple (X)	15.4x
Terminal value (INR mn)	4,14,052
<b>Enterprise value (INR mn)</b>	<b>7,11,553</b>
Terminal value as % of Enterprise Value	58.2%
Net debt (INR mn, Mar'25E)	6,898
Minority Interest (INR mn, Mar'25E)	595
<b>Equity value (INR mn)</b>	<b>7,04,060</b>
Number of shares outstanding (diluted, million)	2,873
<b>Equity value per share (INR)</b>	<b>250</b>

Source: JM Financial

### Exhibit 26. Sensitivity of Equity Value to WACC and Terminal growth rate

		Terminal Growth Rate				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC	11.00%	300	310	330	360	390
	11.50%	270	280	300	320	340
	12.00%	240	260	270	290	300
	12.50%	220	230	<b>250</b>	260	270
	13.00%	210	210	220	230	250
	13.50%	190	200	210	210	220
	14.00%	180	180	190	200	200

Source: JM Financial, Company

### Exhibit 27. Sensitivity of Equity Value to Revenue Growth and EBITDA Margin

		Revenue Growth (% of JMFe)				
		60%	70%	80%	90%	100%
EBITDA Margin (% of JMFe)	60%	30	50	70	100	140
	70%	50	70	90	120	160
	80%	60	80	110	140	190
	90%	70	90	130	170	220
	100%	80	110	140	190	250

Source: JM Financial, Company

## Key Risks

- **Downside risks:** 1) **Slower-than-expected tech penetration in India:** Slower than expected tech-enabled transactions growth in India 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) **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. The government has also launched Open Network for Digital Commerce (ONDC) to dilute the platforms' strength though we estimate ONDC to not venture into specialised retails such as BPC anytime soon. 4) **Marginal player in Fashion:** Nykaa is the least capitalised player in Fashion where competition either has deep pockets or massive customer base. 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. 5) **Margin dilution from distribution-led businesses:** While we like Nykaa's SuperStore business, there could be margin dilution for the company if growth in that business comes at the cost of growth in Nykaa's core business.
- **Upside risks:** 1) **Sharp rise in transacting users:** Much faster rate than expected tech-enabled transactions penetration in India could lead to sharp rise in transacting user base for Nykaa, thereby significantly lifting volume growth. 2) **Private brands:** Nykaa has several 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) **Fashion vertical gaining significant share of brands' digital advertising:** While Nykaa generates 6%+ of GMV in BPC Ads income, the same number for Fashion is lower than 4% currently, though Fashion brands allocate a higher percentage to advertising expense. If Nykaa does become the go-to platform for online Fashion purchases in India, we see significant upside from ads income. 4) **Value accretion from inorganic expansion:** The company continues to look for inorganic expansion opportunities given its strong balance sheet. Strong revenue and operating synergies from such expansions could have a positive impact on the profitability trends of the company.

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	51,438	63,856	80,469	1,05,233	1,35,408	
Sales Growth	36.3%	24.1%	26.0%	30.8%	28.7%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>51,438</b>	<b>63,856</b>	<b>80,469</b>	<b>1,05,233</b>	<b>1,35,408</b>	
Cost of Goods Sold/Op. Exp	28,657	36,464	45,390	59,499	76,886	
Personnel Cost	4,917	5,649	6,534	7,560	8,689	
Other Expenses	15,303	18,282	23,389	29,318	36,085	
<b>EBITDA</b>	<b>2,561</b>	<b>3,461</b>	<b>5,155</b>	<b>8,855</b>	<b>13,748</b>	
EBITDA Margin	5.0%	5.4%	6.4%	8.4%	10.2%	
EBITDA Growth	56.9%	35.1%	49.0%	71.8%	55.3%	
Depn. & Amort.	1,733	2,242	2,477	2,774	3,162	
EBIT	828	1,219	2,678	6,081	10,586	
Other Income	-444	-529	-543	-511	-199	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	384	690	2,136	5,570	10,387	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	384	690	2,136	5,570	10,387	
Taxes	136	253	538	1,404	2,617	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	17	75	194	426	715	
Reported Net Profit	232	362	1,403	3,741	7,055	
<b>Adjusted Net Profit</b>	<b>232</b>	<b>362</b>	<b>1,403</b>	<b>3,741</b>	<b>7,055</b>	
Net Margin	0.5%	0.6%	1.7%	3.6%	5.2%	
Diluted Share Cap. (mn)	2,873.3	2,873.3	2,873.3	2,873.3	2,873.3	
<b>Diluted EPS (INR)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>1.3</b>	<b>2.5</b>	
Diluted EPS Growth	-90.4%	56.2%	287.8%	166.6%	88.6%	
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

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	13,780	12,622	14,192	18,126	25,443	
Share Capital	2,852	2,856	2,858	2,858	2,858	
Reserves & Surplus	10,928	9,766	11,334	15,269	22,585	
Preference Share Capital	0	0	0	0	0	
Minority Interest	141	188	382	808	1,523	
Total Loans	4,604	6,804	10,014	10,014	10,014	
Def. Tax Liab. / Assets (-)	-1,878	-2,690	-3,174	-3,174	-3,174	
<b>Total - Equity &amp; Liab.</b>	<b>16,647</b>	<b>16,924</b>	<b>21,414</b>	<b>25,775</b>	<b>33,805</b>	
Net Fixed Assets	7,297	6,979	7,227	8,817	10,445	
Gross Fixed Assets	3,486	4,238	5,080	6,608	8,300	
Intangible Assets	1,556	1,715	1,586	1,791	1,914	
Less: Depn. & Amort.	1,173	1,881	2,638	3,530	4,559	
Capital WIP	3,428	2,906	3,199	3,948	4,790	
Investments	4,100	3,817	3,173	3,173	3,173	
Current Assets	16,225	20,520	26,018	33,803	46,339	
Inventories	10,051	11,920	14,403	18,228	22,818	
Sundry Debtors	1,635	2,416	2,879	3,621	4,567	
Cash & Bank Balances	414	758	2,626	4,351	9,665	
Loans & Advances	0	0	0	0	0	
Other Current Assets	4,125	5,426	6,109	7,603	9,289	
Current Liab. & Prov.	10,975	14,392	15,003	20,018	26,151	
Current Liabilities	6,035	6,758	9,196	12,254	16,126	
Provisions & Others	4,939	7,634	5,808	7,765	10,025	
Net Current Assets	5,251	6,128	11,014	13,785	20,187	
<b>Total - Assets</b>	<b>16,647</b>	<b>16,924</b>	<b>21,414</b>	<b>25,775</b>	<b>33,805</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	384	690	2,136	5,570	10,387	
Depn. & Amort.	1,733	2,242	2,477	2,774	3,162	
Net Interest Exp. / Inc. (-)	527	631	543	511	199	
Inc (-) / Dec in WCap.	-3,290	-2,513	-3,779	-1,748	-1,923	
Others	195	264	189	219	252	
Taxes Paid	-951	-1,312	-104	-1,404	-2,617	
<b>Operating Cash Flow</b>	<b>-1,402</b>	<b>3</b>	<b>1,461</b>	<b>5,922</b>	<b>9,460</b>	
Capex	-2,082	-1,107	-1,192	-2,055	-2,102	
Free Cash Flow	-3,484	-1,105	269	3,867	7,358	
Inc (-) / Dec in Investments	3,713	788	644	0	0	
Others	-236	218	-5	518	856	
<b>Investing Cash Flow</b>	<b>1,396</b>	<b>-101</b>	<b>-553</b>	<b>-1,538</b>	<b>-1,246</b>	
Inc / Dec (-) in Capital	288	172	-23	-25	10	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	95	721	1,677	-1,928	-2,251	
Others	-334	-451	-693	-707	-659	
<b>Financing Cash Flow</b>	<b>49</b>	<b>443</b>	<b>960</b>	<b>-2,660</b>	<b>-2,900</b>	
<b>Inc / Dec (-) in Cash</b>	<b>42</b>	<b>344</b>	<b>1,868</b>	<b>1,724</b>	<b>5,314</b>	
Opening Cash Balance	372	414	758	2,626	4,351	
Closing Cash Balance	414	758	2,626	4,351	9,665	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		0.5%	0.6%	1.7%	3.6%	5.2%
Asset Turnover (x)		2.5	2.9	3.2	3.5	3.6
Leverage Factor (x)		1.5	1.7	1.9	1.9	1.7
RoE		1.7%	2.7%	10.5%	23.1%	32.4%

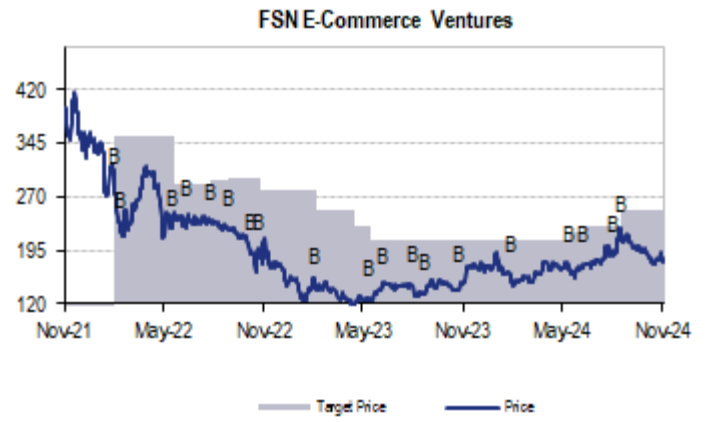
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		4.8	4.4	5.0	6.3	8.9
ROIC		4.6%	5.3%	11.8%	22.6%	34.8%
ROE		1.7%	2.7%	10.2%	22.3%	30.7%
Net Debt/Equity (x)		0.0	0.2	0.3	0.1	-0.1
P/E (x)		2,207.2	1,413.4	364.5	136.7	72.5
P/B (x)		36.8	40.4	35.9	28.1	20.0
EV/EBITDA (x)		199.2	148.0	99.8	57.9	37.0
EV/Sales (x)		9.9	8.0	6.4	4.9	3.8
Debtor days		12	14	13	13	12
Inventory days		71	68	65	63	62
Creditor days		20	23	29	32	34

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
10-Feb-22	Buy	354	
22-Feb-22	Buy	354	0.0
29-May-22	Buy	289	-18.4
24-Jun-22	Buy	289	0.0
6-Aug-22	Buy	292	1.2
8-Sep-22	Buy	297	1.7
18-Oct-22	Buy	297	0.0
2-Nov-22	Buy	281	-5.6
14-Feb-23	Buy	250	-10.9
26-Apr-23	Buy	230	-8.0
25-May-23	Buy	210	-8.7
17-Jun-23	Buy	210	0.0
12-Aug-23	Buy	210	0.0
4-Sep-23	Buy	210	0.0
6-Nov-23	Buy	210	0.0
6-Feb-24	Buy	210	0.0
23-May-24	Buy	220	4.8
18-Jun-24	Buy	230	4.5
14-Aug-24	Buy	230	0.0
28-Aug-24	Buy	250	8.7

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion 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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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