

FSN E-Commerce Ventures | BUY



Tough macro environment ensures that growth comes at a cost

While there have been murmurs of rising competition for Nykaa BPC, company seems to have retained its market share, if not increased it as well. The segment delivered 25%/20% GMV/NSV YoY growth. However, as reflected by 210bps YoY drop in contribution margin (CM), it did require the company to invest heavily. On the other hand, Fashion business delivered another strong quarter with 31% NSV growth along with 510bps improvement in CM on YoY basis. Overall, the company reported 29%/24%YoY GMV/NSV growth with EBITDA margin rising 18bps. Consolidated GMV for Q3FY24 was at INR 36.2bn with INR 17.9bn in revenue. This becomes particularly impressive in light of the tough discretionary environment as evidenced by FMCG results. Growth on transacting customers as well as ordering frequency was a bit subdued with AOVs sustaining at high levels. We reiterate 'BUY' rating with an unchanged TP of INR 210 (~31% upside) as we roll forward to March 2025.

- BPC margins under pressure as brands spend on discounts:** Despite festive season falling in 3Q this year, Nykaa reported a GMV growth of 25% YoY. GMV-NSV conversion dipped 229bps YoY and flat sequentially as brands spend on discounting to drive growth. Simultaneously, gross margin saw a decline of 59bps YoY/ 64bps QoQ, while contribution Margin (as a % of NSV) declined by 210bps YoY / 257bps QoQ, primarily due to lower advertising income and increased marketing expense including Nykaaland. Management has decided to drive strategic focus towards growth with CM expansion playing second fiddle. Our channel checks suggest that the company continues to perform better than the rising competitors and would benefit sharply as/when demand environment improves.
- Fashion continues to be in focus:** Nykaa Fashion has shown a GMV/NSV growth of 40%/31% YoY in 3QFY24. As seen in BPC, GMV-NSV conversion dipped 181bps YoY / 325bps QoQ as brands spend heavily on discounting while also pushing sales ahead. With all variable expenses demonstrating leverage, contribution margin (as % of NSV) reached 6%. Our estimates suggest the segment to reach operating profitability when CM crosses 10% of NSV. Company has also forayed into sneakers market by signing an exclusive deal with Foot Locker (a popular multi brand footwear specialty retailer in US). This segment is gaining share in overall business mix and has a potential to generate incremental value for shareholders with segmental DCF suggesting ~INR 20 share price from this segment.
- Reiterate 'BUY', Mar'25 TP maintained at INR 210:** Considering the tougher demand environment and lower than anticipated ad income, we reduce GMV and revenue by 0.6-1.1% / 0.9-1.4% over FY25-28E, respectively. Though BPC marketing expense would normalise, we still expect it to sustain at relatively higher levels and hence lower EBITDA margin by 40-55bps over FY25-28E. Rolling forward to Mar'25, we retain our TP of INR 210 and reiterate 'BUY' rating and expect the company to be a strong beneficiary of improving discretionary spends. **Key Risks:** Ramp-up in BPC competition and higher marketing expense requirement.
- BPC gross margin dip due to cyclicality of ad income:** BPC ad income dipped by 63/42bps as a % of revenue on YoY/QoQ basis. In comparison, GM dipped 59/64 bps on YoY/QoQ

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	210
Upside/(Downside)	30.9%
Previous Price Target	210
Change	0.0%

Key Data – NYKAA IN

Current Market Price	INR160
Market cap (bn)	INR458.1/US\$5.5
Free Float	47.7%
Shares in issue (mn)	2,852.4
Diluted share (mn)	2,873.3
3-mon avg daily val (mn)	INR1,699.1/US\$20.5
52-week range	196/114
Sensex/Nifty	72,186/21,929
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	-7.5	8.7	16.3
Relative*	-7.7	-1.0	-2.5

* To the BSE Sensex

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.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	37,739	51,438	63,073	81,180	1,04,144
Sales Growth (%)	54.6	36.3	22.6	28.7	28.3
EBITDA	1,633	2,561	3,418	6,071	9,653
EBITDA Margin (%)	4.3	5.0	5.4	7.5	9.3
Adjusted Net Profit	396	232	423	2,057	4,407
Diluted EPS (INR)	0.8	0.1	0.1	0.7	1.5
Diluted EPS Growth (%)	-36.5	-90.4	82.4	386.7	114.3
ROIC (%)	8.6	4.6	5.6	15.1	26.3
ROE (%)	4.3	1.7	3.0	13.1	22.7
P/E (x)	189.6	1,984.0	1,087.9	223.5	104.3
P/B (x)	5.6	33.1	31.8	27.6	21.6
EV/EBITDA (x)	277.0	178.3	134.2	75.5	47.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 06/Feb/2024

basis, suggesting that the dip in BPC gross margin are not due to product level margin decline but rather due to brands lowering ad budgets in light of higher discounting. Hence, we surmise that this GM dip is not structural in nature and should see a sharp recovery when the current cyclicity reverses.

- Others Segment could reach contribution positive by FY27 but operational profits still some way out:** Others segment has been growing strongly with GMV/NSV growth of 39%/ 66% YoY. GMV-NSV conversion improved in this segment as the company plugged leakage. CM in Others segment reached -9.2% (as a % of NSV), improvement of 336bps over Q3FY23 and the trend suggests a breakeven over the next couple of years. Nykaa's eB2B platform, 'SuperStore', has been outperforming the growth of the overall Others segment and now delivers to 146k retailers in 950+ cities. With investments in GCC expected to be parked under this segment, we anticipate it could be a long journey before the segment reaches operating profitability.
- Owned brands continue to grow:** As of Q3FY24, owned brands accounted for 13.3%/11.5% of BPC/Fashion GMV, cumulatively accounting for INR 4.3bn+ in GMV. Interestingly, owned brands account for 14.1%/16.8% of BPC/Fashion NSV, suggesting relatively lower discounting or returns. Out of the total 27 owned brands, 3 in BPC and 2 in Fashion have crossed INR 1bn GMV on annualised basis. The company is seeing these brands perform well not just on Nykaa platforms but also on 3P platforms and offline with 34%/46% sales of BPC/Fashion owned brands happening on 3P platforms.
- Omnichannel presence in beauty:** Besides online, Nykaa has now expanded its reach in offline retail to 64 cities with 174 stores (94 in non-metros / 80 in metros) as compared to 135 stores a year before. Retail stores contribute around 9% to overall BPC GMV with INR 4k+ GMV per sqft. Retail stores have a portfolio of 85+ premium beauty brands which contribute to 65%+ of their GMV. The company expects to reach 100 cities with ~250 stores in a few years. This could turn out to be a good strategy to safeguard the company against headwinds in online industry, though this is too early to say as retail is still at a nascent stage.
- Other developments expected in future:** 1) Nykaa parent company is infusing additional equity into Nykaa Fashion Limited to be utilised for repayment of loans given by the company, 2) Consolidation of the Athleisure and Lingerie business of Nykaa Fashion Limited, into parent company, and 3) Demerger of eB2B business 'superstore by Nykaa' from FSN Distribution to Nykaa E-Retail Ltd to consolidate online beauty business in single entity. We do not see any of these having a material impact and are largely attempting to simplify corporate structure.

Exhibit 1. Nykaa Q3FY24 vis-à-vis JMFe and consensus estimates

Financial Performance (Consol.)	3Q24A	3Q23A	Change (YoY)	2Q24A	Change (QoQ)	Estimate (JMFe)	Variance (vs. JMFe)	Estimate (Cons)	Variance (vs. Cons.)
Total GMV (INR mn)	36,195	27,965	29.4%	29,435	23.0%	36,295	-0.3%	35,211	2.8%
BPC	23,697	19,014	24.6%	20,016	18.4%	23,820	-0.5%	23,739	-0.2%
Fashion	10,125	7,244	39.8%	7,628	32.7%	10,064	0.6%	9,328	8.5%
Others	2,373	1,707	39.0%	1,791	32.5%	2,411	-1.6%	2,144	10.7%
NSV	17,866	14,401	24.1%	14,983	19.2%	17,921	-0.3%		
BPC	13,805	11,513	19.9%	11,675	18.2%	13,816	-0.1%		
Fashion	2,752	2,100	31.0%	2,321	18.6%	2,768	-0.6%		
Others	1,309	788	66.1%	986	32.8%	1,338	-2.2%		
Revenue from operations (INR mn)	17,888	14,628	22.3%	15,070	18.7%	17,993	-0.6%	17,901	-0.1%
Gross Profit (INR mn)	7,607	6,347	19.9%	6,496	17.1%	7,754	-1.9%	7,805	-2.5%
Gross margin	42.5%	43.4%	-86bp	43.1%	-58bp	43.1%	-56bp	43.6%	-107bp
EBITDA (INR mn)	988	782	26.4%	806	22.5%	1,169	-15.5%	1,160	-14.9%
EBITDA margin	5.5%	5.3%	18bp	5.4%	17bp	6.5%	-97bp	6.5%	-96bp
Adjusted EBITDA (INR mn)	988	802	23.2%	833	18.6%	1,195	-17.4%	NA	NA
Adjusted EBITDA margin	5.5%	5.5%	4bp	5.5%	bp	6.6%	-112bp	NA	NA
PAT ex-MI and Exceptional (INR mn)	162	82	97.7%	58	176.9%	410	-60.5%	326	-50.3%
Diluted EPS (INR)	0.06	0.03	99.1%	0.02	176.9%	0.14	-60.5%	0.19	-70.0%

Source: Company, JM Financial, Bloomberg

Exhibit 2. Sensitivity of BPC TP to TGR and WACC

Sensitivity of Equity Value to WACC and Terminal growth rate
Terminal Growth Rate

WACC	Terminal Growth Rate					
	5.0%	5.5%	6.0%	6.5%	7.0%	
10.5%	223	237	255	277	306	
11.0%	200	212	226	243	264	
11.5%	182	191	202	215	231	
12.0%	166	173	182	193	205	
12.5%	152	158	165	174	184	
13.0%	140	145	151	158	166	
13.5%	129	133	138	144	150	

Source: Company, JM Financial

Exhibit 3. BPC TP sensitivity to JMFe growth and margin

Revenue Growth (% of JMFe)

EBITDA Margin (% of JMFe)	Revenue Growth (% of JMFe)					
	60%	70%	80%	90%	100%	
60%	15	29	46	68	96	
70%	23	39	59	85	118	
80%	31	49	72	102	139	
90%	39	60	86	119	161	
100%	47	70	99	136	182	

Source: Company, JM Financial

Exhibit 4. Sensitivity of Fashion TP to TGR and WACC

Sensitivity of Equity Value to WACC and Terminal growth rate
Terminal Growth Rate

WACC	Terminal Growth Rate					
	4.0%	4.5%	5.0%	5.5%	6.0%	
11.00%	24	25	26	28	30	
11.50%	22	23	24	25	27	
12.00%	20	20	21	22	24	
12.50%	18	19	19	20	21	
13.00%	16	17	18	18	19	
13.50%	15	16	16	17	18	
14.00%	14	14	15	15	16	

Source: Company, JM Financial

Exhibit 5. Fashion TP sensitivity to JMFe growth and margin

Revenue Growth (% of JMFe)

EBITDA Margin (% of JMFe)	Revenue Growth (% of JMFe)					
	80%	90%	100%	110%	120%	
80%	6	10	15	21	29	
90%	7	12	17	24	33	
100%	9	13	19	27	37	
110%	10	15	22	30	42	
120%	12	17	24	34	46	

Source: Company, JM Financial

Exhibit 6. Sensitivity of Others TP to TGR and WACC

Sensitivity of Equity Value to WACC and Terminal growth rate
Terminal Growth Rate

WACC	Terminal Growth Rate					
	4.0%	4.5%	5.0%	5.5%	6.0%	
12.65%	15	16	17	18	19	
13.15%	14	15	15	16	17	
13.65%	13	13	14	14	15	
14.15%	11	12	12	13	14	
14.65%	10	11	11	12	12	
15.15%	9	10	10	11	11	
15.65%	9	9	9	10	10	

Source: Company, JM Financial

Exhibit 7. Others TP sensitivity to JMFe growth and margin

Revenue Growth (% of JMFe)

EBITDA Margin (% of JMFe)	Revenue Growth (% of JMFe)					
	80%	90%	100%	110%	120%	
80%	-3	2	8	18	34	
90%	-2	3	10	22	39	
100%	-1	4	12	25	44	
110%	0	5	15	28	50	
120%	1	7	17	32	55	

Source: Company, JM Financial

Company Financial Metrics

Exhibit 8. Key Financials

	2QFY22	3QFY23	4QFY23	FY23	1QFY24	2QFY24	3QFY24	Comments
Group GMV (INR mn)	23,457	27,965	24,453	97,433	26,678	29,435	36,194	
BPC	16,301	19,014	16,289	66,491	18,508	20,016	23,697	<ul style="list-style-type: none"> Group GMV grew ~29% YoY (23% QoQ) to INR 36.2 bn, led by growth in BPC at 25%/18.4% YoY/QoQ, Fashion at 40%/33% YoY/QoQ and Others at 39%/33% YoY/QoQ. However, NSV as a % of GMV has dipped significantly (214bps YoY /154bps QoQ), mainly due to heavy brand discounting to increase order volumes.
Fashion	5,991	7,244	6,641	25,696	6,537	7,628	10,125	
Others*	1,165	1,707	1,524	5,245	1,633	1,791	2,373	
Cons. revenue (INR mn)	12,308	14,628	13,017	51,438	14,218	15,070	17,888	
Change (YoY)	39.0%	33.2%	33.7%	36.3%	23.8%	22.4%	22.3%	
Gross profit (INR mn)	5,577	6,347	5,758	22,781	6,186	6,496	7,607	<ul style="list-style-type: none"> Consolidated revenue grew 22.3% YoY (18.7% QoQ) to reach INR 17.9bn, roughly in line with JMFe and street estimates of ~INR 18bn.
Gross margin	45.3%	43.4%	44.2%	44.3%	43.5%	43.1%	42.5%	
Operating profit (EBITDA)	612	782	708	2,561	735	806	988	<ul style="list-style-type: none"> Gross margin declined by 86bps/58bps YoY/QoQ to 42.5% in 3QFY24. On Gross margin level, it was a miss of 56bps /107bps on JMFe/Consensus.. Whereas the decline was largely due to decline of 130bps in BPC segment respectively, Fashion segment margin was roughly flat.
EBITDA margin	5.0%	5.3%	5.4%	5.0%	5.2%	5.4%	5.5%	
Depreciation & amortization	385	507	530	1,733	519	546	580	<ul style="list-style-type: none"> EBITDA margin improved 18bps YoY to 5.5%, but a big miss on JMFe and street estimates of 6.5%.
EBIT	227	275	176	828	215	260	407	
EBIT margin	1.8%	1.9%	1.4%	1.6%	1.5%	1.7%	2.3%	<ul style="list-style-type: none"> On profitability front, there was a strong miss of 60.5%/50.3% on JMFe/Cons. mainly due to lower than expected operating margin. PAT for common stocks stood at INR 162mn.
Net other income	-139	-148	-90	-444	-118	-127	-143	
Exceptionals	0	0	0	0	0	0	0	
Profit before tax	88	127	87	384	97	133	265	
Income tax expense	31	35	44	136	33	40	83	
Share of associate	-5	-7	-20	-39	-10	-15	-8	
Minority Interest	11	3	-1	17	21	20	13	
Reported PAT	57	92	43	248	65	93	182	
Change (YoY)	111.2%	-66.9%	-42.9%	-39.9%	15.2%	63.1%	98.2%	
PAT for common stocks	41	82	25	193	33	58	162	
Change (YoY)	53.9%	-70.5%	-71.2%	-51.4%	-26.1%	40.9%	97.7%	

Source: Company, JM Financial

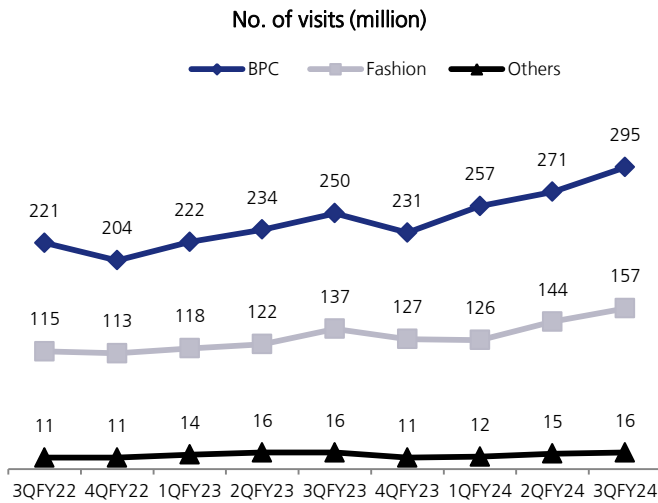
Company Operating Metrics

Exhibit 9. Key Operating Metrics

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
No. of visits (million)									
BPC	221	204	222	234	250	231	257	271	295
Fashion	115	113	118	122	137	127	126	144	157
Others	11	11	14	16	16	11	12	15	16
Monthly average unique visitors (million)									
BPC	20	19	22	22	24	23	25	27	30
Fashion	16	16	16	16	19	17	17	18	19
Others	2	2	3	3	3	2	2	2	3
Orders (million)									
BPC Orders (million)	7.6	6.8	8.1	8.4	9.5	8.8	9.5	10.0	11.1
Fashion Orders (million)	1.4	1.1	1.5	1.4	1.7	1.4	1.5	1.5	2.0
Other Orders (million)	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.6
Average order value (INR)									
BPC AOV (INR)	1,967	1,716	1,780	1,872	1,958	1,803	1,849	1,916	2,024
Fashion AOV (INR)	3,558	3,616	3,732	3,940	3,959	4,266	4,058	4,061	4,681
Others AOV (INR)	2,927	3,084	3,199	3,304	3,709	3,368	3,561	3,541	4,027

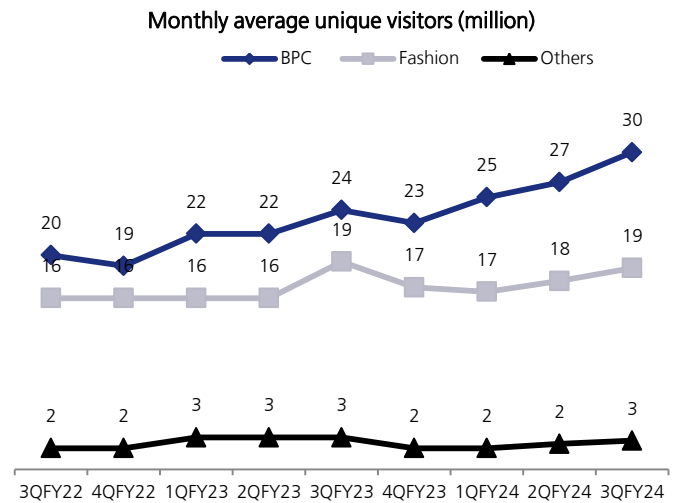
Source: Company, JM Financial

Exhibit 10. Number of visits on Nykaa Platforms



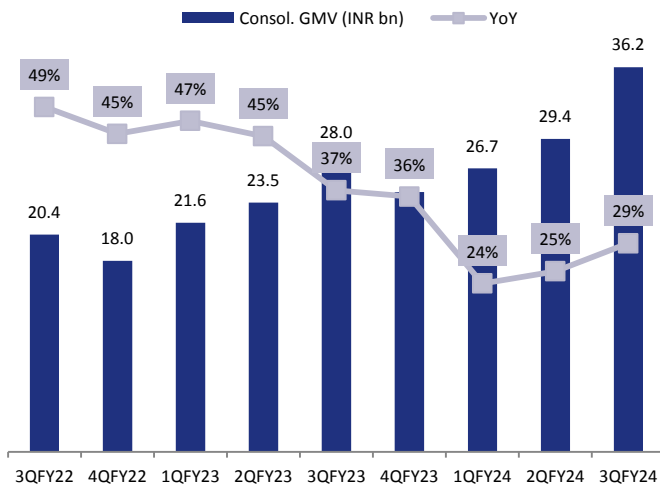
Source: Company, JM Financial

Exhibit 11. Monthly Average Unique Visitors



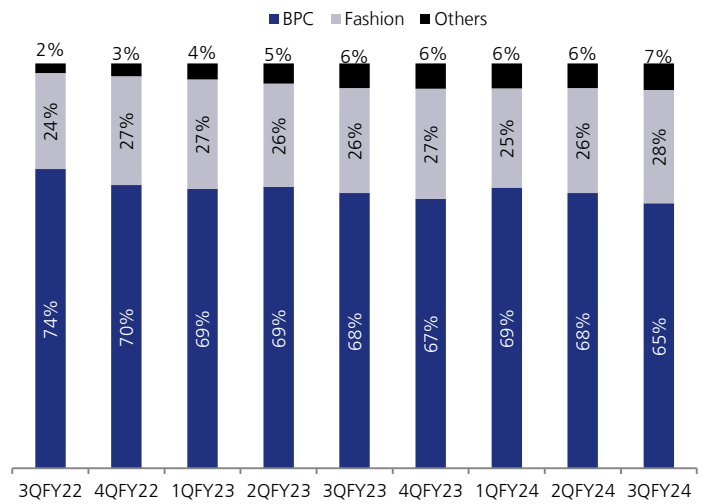
Source: Company, JM Financial

Exhibit 12. Group GMV Trend



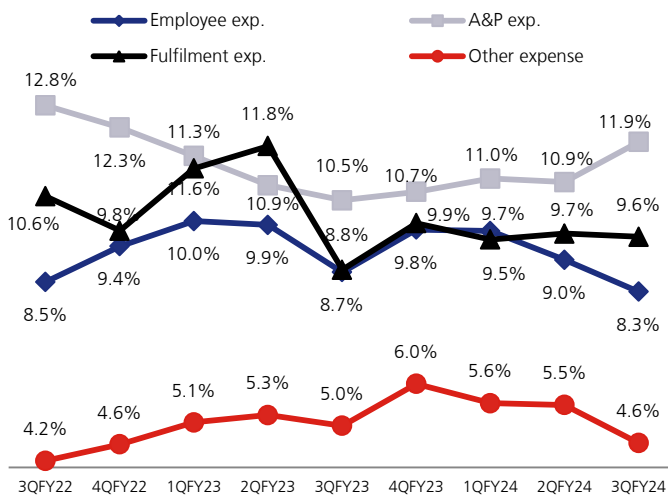
Source: Company, JM Financial

Exhibit 13. Group GMV Share



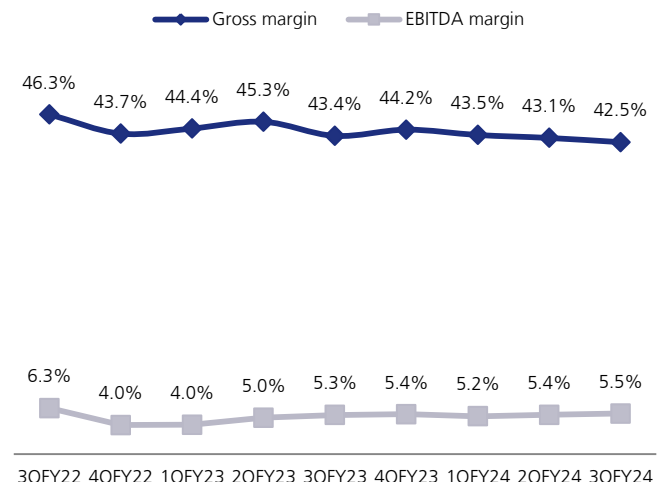
Source: Company, JM Financial

Exhibit 14. Key Operating costs as % of Revenue



Source: Company, JM Financial

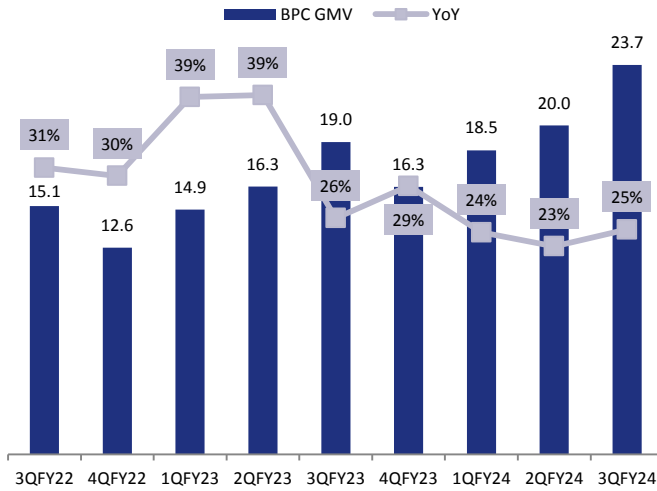
Exhibit 15. Margin Trends



Source: Company, JM Financial

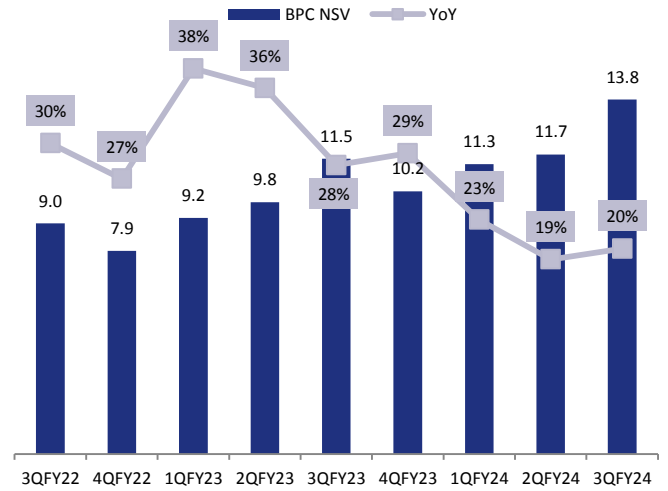
Beauty & Personal Care Operating Metrics

Exhibit 16. GMV trend (INR bn)



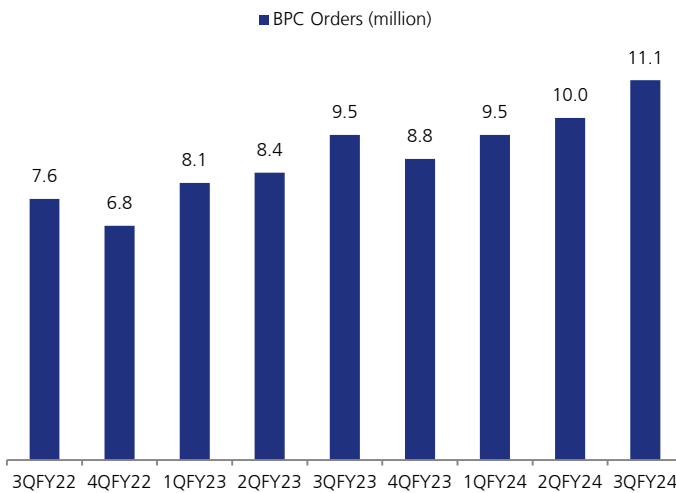
Source: Company, JM Financial

Exhibit 17. NSV trend (INR bn)



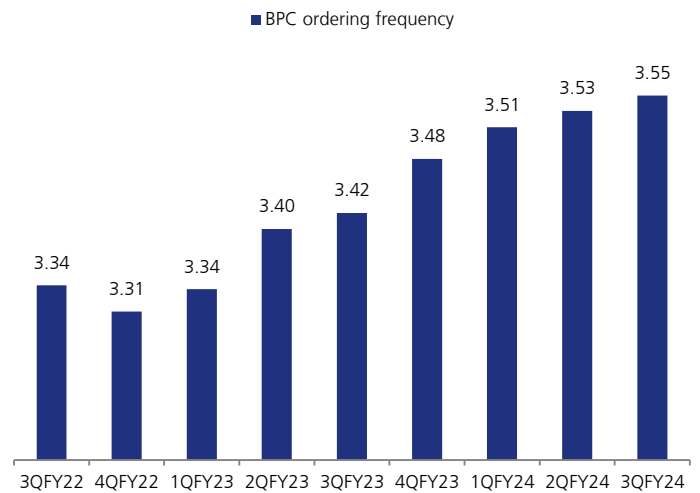
Source: Company, JM Financial

Exhibit 18. Orders trend



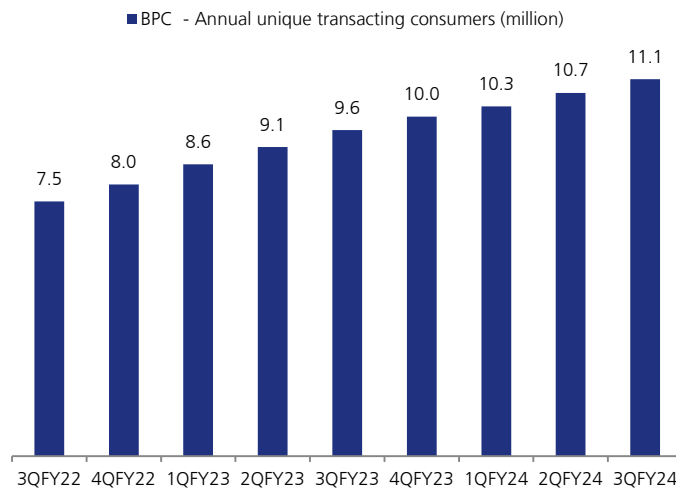
Source: Company, JM Financial

Exhibit 19. Ordering frequency



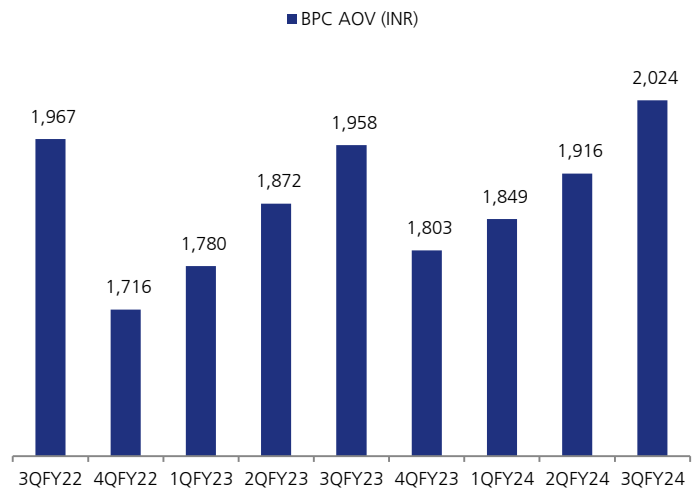
Source: Company, JM Financial

Exhibit 20. Unique transacting consumer trend



Source: Company, JM Financial

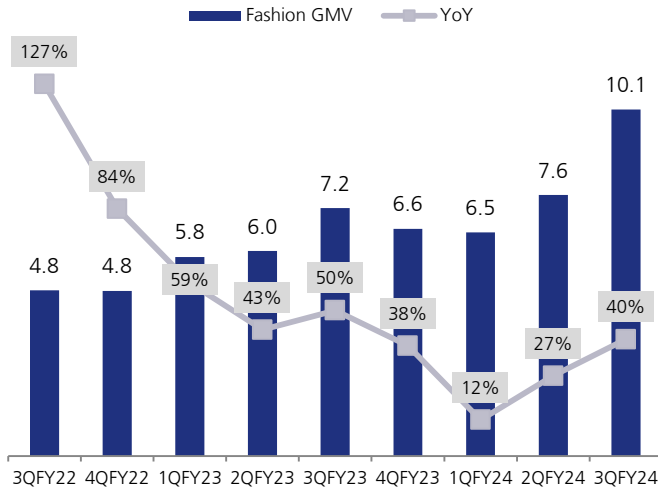
Exhibit 21. Average order value (AOV) Trend



Source: Company, JM Financial

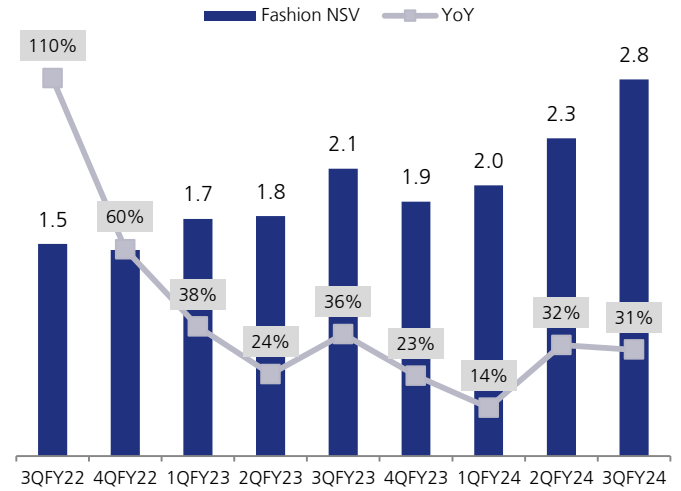
Fashion Operating Metrics

Exhibit 22. GMV trend (INR bn)



Source: Company, JM Financial

Exhibit 23. NSV trend (INR bn)



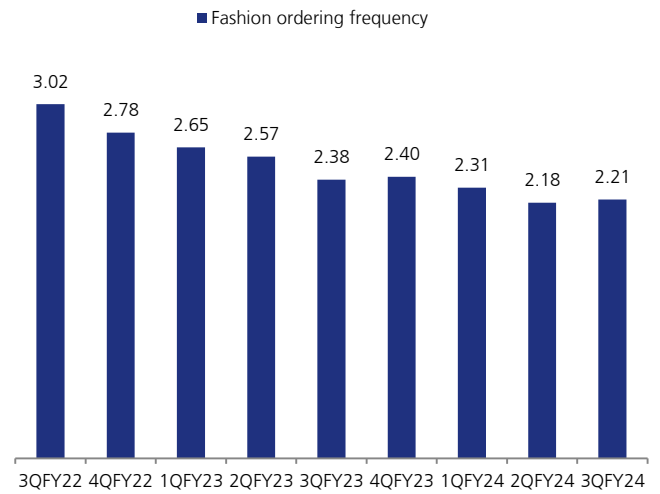
Source: Company, JM Financial

Exhibit 24. Orders trend



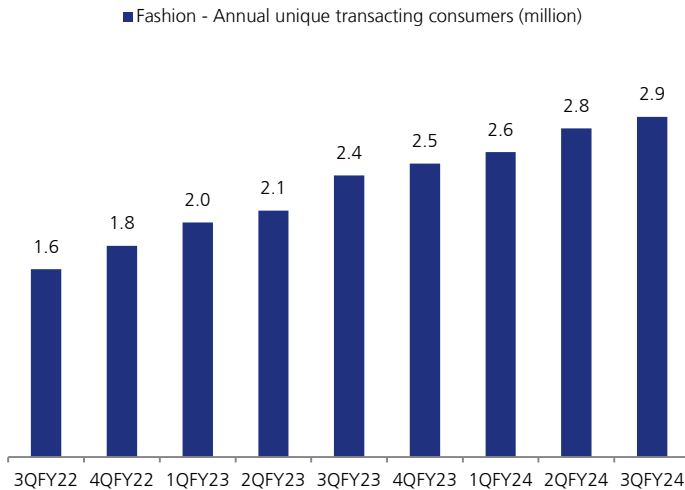
Source: Company, JM Financial

Exhibit 25. Ordering frequency



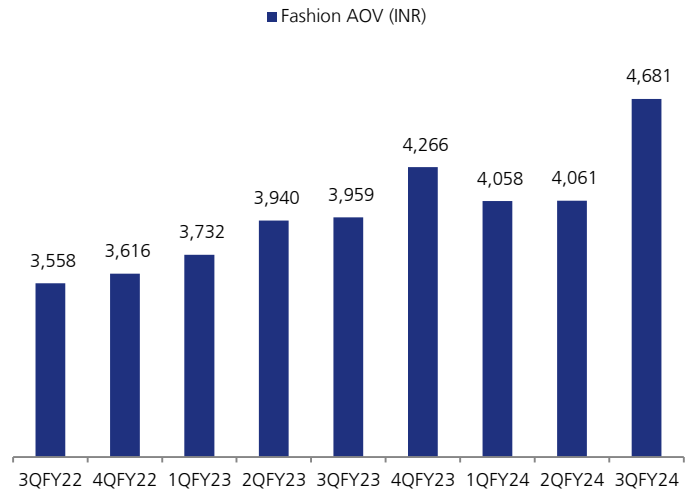
Source: Company, JM Financial

Exhibit 26. Unique transacting consumer trend



Source: Company, JM Financial

Exhibit 27. Average order value (AOV) trend



Source: Company, JM Financial

Reiterate BUY; TP maintained at INR 210

Exhibit 28. We tweak estimates to account for marginally lower growth coming at rising costs

	Old					New					Change				
	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E	FY25E	FY26E	FY27E	FY28E
Group GMV (INR bn)	122.8	158.3	203.3	257.7	325.1	123.0	157.2	201.1	255.1	322.3	0.2%	-0.6%	-1.1%	-1.0%	-0.9%
Consolidated revenue (INR bn)	63.2	81.9	105.5	133.8	169.1	63.1	81.2	104.1	132.0	166.8	-0.3%	-0.9%	-1.3%	-1.4%	-1.4%
Revenue growth rate (YoY)	23.0%	29.5%	28.8%	26.8%	26.4%	22.6%	28.7%	28.3%	26.7%	26.4%	-33bp	-80bp	-53bp	-9bp	1bp
EBITDA margin	5.8%	8.0%	9.8%	11.1%	12.3%	5.4%	7.5%	9.3%	10.6%	11.8%	-38bp	-54bp	-50bp	-48bp	-47bp
EBIT margin	2.6%	5.2%	7.3%	8.9%	10.3%	1.9%	4.4%	6.5%	8.2%	9.6%	-71bp	-86bp	-79bp	-73bp	-67bp
PAT (INR bn)	0.8	2.6	5.1	8.4	12.8	0.4	2.0	4.4	7.5	11.7	-49.8%	-21.5%	-14.2%	-10.6%	-8.6%
Diluted EPS (INR)	0.3	0.9	1.8	2.9	4.4	0.1	0.7	1.5	2.6	4.1	-49.8%	-21.5%	-14.2%	-10.6%	-8.6%

Source: Company, JM Financial

Valuation Methodology: DCF

Exhibit 29. Key DCF assumptions

WACC	12.5%
Revenue CAGR (FY23-28)	26.5%
Revenue CAGR (FY28-33)	24.0%
Revenue CAGR (FY33-41)	15.0%
EBITDA CAGR (FY23-28)	50.4%
EBITDA CAGR (FY28-33)	29.5%
EBITDA CAGR (FY33-41)	15.9%
Tax Rate	35.3%
FCFF CAGR (2024-2041F)	35.6%
NPV of cash flow (2023-2041F)	2,50,300
Perpetual growth (%)	6.0%
Implied Exit FCF multiple (X)	15.4x
Terminal value (INR mn)	3,48,245
Enterprise value (INR mn)	5,98,545
Terminal value as % of Enterprise Value	58.2%
Net debt (INR mn, Mar'24E)	5,087
Minority Interest (INR mn, Mar'24E)	379
Equity value (INR mn)	5,93,079
Number of shares outstanding (diluted, million)	2,873
Equity value per share (INR)	210

Source: JM Financial

Exhibit 30. Sensitivity of Equity Value to WACC and Terminal growth rate

Sensitivity of Equity Value to WACC and Terminal growth rate
Terminal Growth Rate

WACC	Terminal Growth Rate					
	5.0%	5.5%	6.0%	6.5%	7.0%	
11.00%	250	270	280	310	330	
11.50%	230	240	250	270	290	
12.00%	210	220	230	240	260	
12.50%	190	200	210	220	230	
13.00%	170	180	190	200	210	
13.50%	160	170	170	180	190	
14.00%	150	150	160	160	170	

Source: JM Financial, Company

Exhibit 31. Sensitivity of Equity Value to Revenue Growth and EBITDA Margin

EBITDA Margin (% of JMFe)	Revenue Growth (% of JMFe)					
	60%	70%	80%	90%	100%	
60%	20	40	60	80	110	
70%	30	50	70	100	140	
80%	40	60	90	120	160	
90%	50	70	100	140	180	
100%	60	80	110	160	210	

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	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	37,739	51,438	63,073	81,180	1,04,144	
Sales Growth	54.6%	36.3%	22.6%	28.7%	28.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	37,739	51,438	63,073	81,180	1,04,144	
Cost of Goods Sold/Op. Exp	21,300	28,657	35,859	46,208	59,431	
Personnel Cost	3,265	4,917	5,683	6,813	8,049	
Other Expenses	11,542	15,303	18,113	22,087	27,011	
EBITDA	1,633	2,561	3,418	6,071	9,653	
EBITDA Margin	4.3%	5.0%	5.4%	7.5%	9.3%	
EBITDA Growth	4.2%	56.9%	33.5%	77.6%	59.0%	
Depn. & Amort.	964	1,733	2,199	2,524	2,898	
EBIT	668	828	1,219	3,548	6,755	
Other Income	-195	-444	-533	-561	-413	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	473	384	686	2,987	6,342	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	473	384	686	2,987	6,342	
Taxes	60	136	203	753	1,598	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	17	17	61	177	336	
Reported Net Profit	396	232	423	2,057	4,407	
Adjusted Net Profit	396	232	423	2,057	4,407	
Net Margin	1.1%	0.5%	0.7%	2.5%	4.2%	
Diluted Share Cap. (mn)	469.8	2,873.3	2,873.3	2,873.3	2,873.3	
Diluted EPS (INR)	0.8	0.1	0.1	0.7	1.5	
Diluted EPS Growth	-36.5%	-90.4%	82.4%	386.7%	114.3%	
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	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	13,399	13,780	14,344	16,542	21,164	
Share Capital	474	2,852	2,854	2,854	2,854	
Reserves & Surplus	12,925	10,928	11,490	13,688	18,310	
Preference Share Capital	0	0	0	0	0	
Minority Interest	56	141	202	379	716	
Total Loans	3,330	4,604	6,046	6,046	6,046	
Def. Tax Liab. / Assets (-)	-1,130	-1,878	-2,258	-2,258	-2,258	
Total - Equity & Liab.	15,655	16,647	18,334	20,709	25,668	
Net Fixed Assets	5,077	7,297	7,841	9,064	10,329	
Gross Fixed Assets	1,928	3,486	4,669	6,090	7,510	
Intangible Assets	1,115	1,556	1,675	1,703	1,745	
Less: Depn. & Amort.	684	1,173	1,894	2,740	3,686	
Capital WIP	2,718	3,428	3,392	4,011	4,760	
Investments	7,177	4,100	4,273	4,273	4,273	
Current Assets	13,053	16,225	17,647	22,672	31,115	
Inventories	8,756	10,051	11,399	14,055	17,426	
Sundry Debtors	945	1,635	1,902	2,436	3,111	
Cash & Bank Balances	372	414	-544	318	3,533	
Loans & Advances	0	0	0	0	0	
Other Current Assets	2,980	4,125	4,891	5,861	7,045	
Current Liab. & Prov.	9,653	10,975	11,426	15,300	20,049	
Current Liabilities	6,216	6,035	6,186	8,492	11,290	
Provisions & Others	3,437	4,939	5,240	6,808	8,759	
Net Current Assets	3,400	5,251	6,220	7,372	11,065	
Total - Assets	15,655	16,647	18,334	20,709	25,668	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	473	384	686	2,987	6,342	
Depn. & Amort.	964	1,733	2,199	2,524	2,898	
Net Interest Exp. / Inc. (-)	237	527	533	561	413	
Inc (-) / Dec in WCap.	-4,649	-3,290	-1,451	-898	-1,195	
Others	157	195	180	216	255	
Taxes Paid	-722	-951	-343	-753	-1,598	
Operating Cash Flow	-3,540	-1,402	1,804	4,636	7,115	
Capex	-940	-2,082	-1,482	-1,675	-1,694	
Free Cash Flow	-4,479	-3,484	322	2,961	5,421	
Inc (-) / Dec in Investments	-5,251	3,713	-174	0	0	
Others	163	-236	-36	267	475	
Investing Cash Flow	-6,028	1,396	-1,691	-1,408	-1,219	
Inc / Dec (-) in Capital	8,729	288	-39	-75	-40	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	804	95	-538	-1,733	-2,083	
Others	-262	-334	-494	-557	-559	
Financing Cash Flow	9,270	49	-1,071	-2,365	-2,682	
Inc / Dec (-) in Cash	-297	42	-958	863	3,214	
Opening Cash Balance	669	372	414	-544	318	
Closing Cash Balance	372	414	-544	318	3,533	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		1.1%	0.5%	0.7%	2.5%	4.2%
Asset Turnover (x)		2.7	2.5	2.8	3.2	3.5
Leverage Factor (x)		1.5	1.5	1.6	1.6	1.6
RoE		4.3%	1.7%	3.0%	13.3%	23.4%

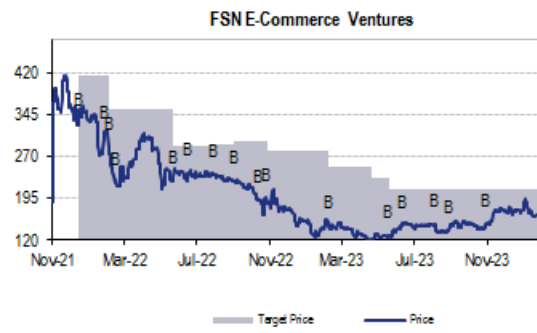
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		28.8	4.8	5.0	5.8	7.4
ROIC		8.6%	4.6%	5.6%	15.1%	26.3%
ROE		4.3%	1.7%	3.0%	13.1%	22.7%
Net Debt/Equity (x)		-0.3	0.0	0.2	0.1	-0.1
P/E (x)		189.6	1,984.0	1,087.9	223.5	104.3
P/B (x)		5.6	33.1	31.8	27.6	21.6
EV/EBITDA (x)		277.0	178.3	134.2	75.5	47.2
EV/Sales (x)		12.0	8.9	7.3	5.6	4.4
Debtor days		9	12	11	11	11
Inventory days		85	71	66	63	61
Creditor days		37	20	20	24	27

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
21-Dec-21	Buy	414	
3-Feb-22	Buy	414	0.0
10-Feb-22	Buy	354	-14.5
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

Recommendation History



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 stocks with market capitalisation in excess of INR 200 billion 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 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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