

# FSN E-Commerce Ventures | BUY



## Fashion segment seeks attention

With BPC segment expected to be in focus in festive Q3, Nykaa Fashion garnered majority attention in the current quarter. The segment delivered 32%/17% NSV growth on YoY/QoQ basis while also reaching record contribution margin (as % of NSV) of 4.7%. With Indian market increasingly attractive for BPC brands, BPC segment saw higher discounting by brands with Nykaa also seeing reversal of advertising income on the new platform. Overall, the company reported 25%YoY GMV growth with BPC/Fashion/Others growing at 23%/27%/54%, respectively. Consolidated GMV for Q2FY24 was at INR 29.4bn with INR 15.0/15.1bn in NSV / revenue. Gross Margin declined by 221bps YoY due to base effect due to festive season starting early last year. However, EBITDA Margin expanded by 38bps YoY as employee expenses remained stable while declining ~90bps YoY as % of revenue. The company has delivered growth on transacting customers as well as AOVs and we find operating metrics again turning healthy. We reiterate 'BUY' rating with TP of INR 210 (~42% upside) as we find strong conviction on earlier than expected profitability in Fashion.

- Enhanced confidence in Fashion, driven by robust revenue and margin expansion:** Nykaa Fashion outperformed expectations in 2QFY24 with GMV/NSV growth of 27%/32% YoY. Higher growth of NSV also reflects that the company has been successful in plugging leakages by undertaking line-by-line efforts such as reducing RTOs, minimising returns, churning out abusive customers and pin-codes while increasing cart charges, along with improving assortment and focus on women and premium category. This has resulted in contribution margin (as % of NSV) reaching an all-time high of 4.7%. We expect the segment to turn EBITDA profitable as CM cross 11%. It appears that the segment has turned a corner and is on track to generate incremental value for shareholders.
- BPC growth tad slower due to base effect with margins flat:** BPC has been impacted by the shift in festive season to Q3 this year (as compared to Q2 last year), resulting in GMV growth of 23% YoY. Simultaneously, the segment also saw a decline of 173bps YoY in Gross Margin, while Contribution Margin (as % of NSV) declined by just 20bps YoY. However, the quality of transactions and customer cohorts have improved, indicated by increase in AOV to INR 1,916 (INR 1,872 in Q2FY23) and existing customers contributing to 79% of GMV (75% in Q2FY23). We expect a steep rise in the festive Q3 across GMV as well as margins. We postulate that Nykaa retains its competitive edge as the preferred platform for brand launches, with marketing initiatives to provide brand visibility, along with its premium and sticky customer base. Nykaa's recently commenced 'Nykaaland' saw a participation of 80+ brands, 15k+ attendees and 800+ influencers with 2 new launches.
- Reiterate 'BUY', Dec'24 TP maintained at INR 210:** With Nykaa milking its premium customer base that is willing to deliver high AOVs, we have tweaked our estimates with marginally higher GMV over FY24-28E while retaining EBITDA margin as the company expects to leverage marketing spends. However, we now anticipate Fashion segment to see a faster than anticipated trajectory to breakeven. We reiterate our 'BUY' rating with Dec'24 TP of INR 210. **Key Risks:** Ramp-up in competition and higher marketing needs.

Sachin Dixit  
sachin.dixit@jmfl.com | Tel: (91 22) 66303078

Swapnil Potdukhe  
swapnil.potdukhe@jmfl.com | Tel: (91 22) 62241876

Eksha Modi  
eksha.modi@jmfl.com | Tel: (91 22) 66303054

Atul Borse  
atul.borse@jmfl.com | Tel: (91 22) 66303134

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	210
Upside/(Downside)	42.5%
Previous Price Target	210
Change	0.0%

### Key Data – NYKAA IN

Current Market Price	INR147
Market cap (bn)	INR420.5/US\$5.1
Free Float	48%
Shares in issue (mn)	2,852.4
Diluted share (mn)	2,873.3
3-mon avg daily val (mn)	INR861.7/US\$10.4
52-week range	225/114
Sensex/Nifty	64,959/19,412
INR/US\$	83.2

### Price Performance

%	1M	6M	12M
Absolute	-1.4	13.5	-20.0
Relative*	0.2	6.7	-24.9

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	37,739	51,438	64,789	83,258	106,411
Sales Growth (%)	54.6	36.3	26.0	28.5	27.8
EBITDA	1,633	2,561	4,379	7,383	11,204
EBITDA Margin (%)	4.3	5.0	6.8	8.9	10.5
Adjusted Net Profit	396	232	1,159	3,135	5,749
Diluted EPS (INR)	0.8	0.1	0.4	1.1	2.0
Diluted EPS Growth (%)	-36.5	-90.4	400.1	170.6	83.4
ROIC (%)	8.6	4.6	11.2	24.2	40.6
ROE (%)	4.3	1.7	7.9	18.4	26.2
P/E (x)	174.2	1,822.8	364.5	134.7	73.5
P/B (x)	5.1	30.4	27.9	23.0	17.4
EV/EBITDA (x)	254.2	163.8	95.8	56.4	36.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2023

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.

- **Advertising income recovery imminent:** According to the management, the heightened competitive landscape amongst brands has led to an increase in advertising expenditures, subsequently resulting in higher advertising revenue for the company in the current quarter (as compared to Q1) while it is yet to revert to pre ad-tech platform level. As we transition into the festive quarter, we anticipate advertising income to revert with further rise in brand marketing spends on the most dominant BPC platform.
- **Others Segment could reach contribution positive by FY26 but operational profits still some way out:** Contribution margin in Others segment has reached -14.8% (as % of NSV), a sharp improvement over -33.4% in Q2FY23 and the trend suggests a breakeven over the next couple of years. Nykaa's eB2B platform, 'SuperStore', now delivers to ~130k retailers in 770 cities. However, the business requires almost 7x of current scale in order to deliver operating profits and we forecast that to be achieved only by FY29. Management has previously highlighted that the business can generate 12-15% gross margin and 3-5% EBITDA margin at scale.
- **Owned brands growing strongly across distribution channels:** As of Q2FY24, owned brands accounted for 12.2%/13.0% of BPC/Fashion GMV, cumulatively accounting for INR 3.4bn+ GMV. Furthermore, these owned brands are also performing better than 3P brands with 12.2%/13.0% GMV contribution for BPC/Fashion actually driving 13.1%/19.2% NSV contribution. The company is seeing these brands perform well not just on Nykaa platforms but also on 3P platforms and offline with 40%+ sales of owned brands happening offline or on 3P platforms. With the company now having a bouquet of 29 owned brands, we expect Nykaa's house of brands strategy to stay prominent.
- **Cost control remains strong:** While growth for Nykaa has tapered from the heady days at the time of IPO, the company has exhibited strong discipline on expenses too. With marketing costs as % of NSV in BPC stable in 8-8.5% range, the company is now anticipating reduction in Fashion too. Simultaneously, fulfilment cost per order in BPC has decline to INR 107 in Q2FY24 from INR 136 Q1FY24 with Fashion still struggling to deliver a similar reduction. Additionally, we also observe stabilisation in employee expenses, amounting to 9% of revenue (vs. 9.9% of revenue in 2QFY23). Jointly, these factors should lead to expansion in EBITDA margins across segments gradually.

#### Exhibit 1. Nykaa Q2FY24 vis-à-vis JMFe and consensus estimates

Financial Performance (Consol.)	2Q24A	2Q23A	Change (YoY)	1Q24A	Change (QoQ)	Estimate (JMFe)	Variance (vs. JMFe)	Estimate (Cons)	Variance (vs. Cons.)
<b>Total GMV (INR mn)</b>	<b>29,435</b>	<b>23,457</b>	<b>25.5%</b>	<b>26,678</b>	<b>10.3%</b>	<b>28,857</b>	<b>2.0%</b>	<b>29,038</b>	<b>1.4%</b>
BPC	20,016	16,301	22.8%	18,508	8.1%	19,376	3.3%	19,897	0.6%
Fashion	7,628	5,991	27.3%	6,537	16.7%	7,662	-0.4%	7,260	5.1%
Others	1,791	1,165	53.8%	1,633	9.7%	1,819	-1.5%	1,882	-4.8%
<b>NSV</b>	<b>14,983</b>	<b>12,050</b>	<b>24.3%</b>	<b>14,205</b>	<b>5.5%</b>	<b>15,121</b>	<b>-0.9%</b>		
BPC	11,675	9,815	19.0%	11,298	3.3%	11,781	-0.9%		
Fashion	2,321	1,753	32.4%	1,977	17.4%	2,299	1.0%		
Others	986	482	104.6%	930	6.0%	1,041	-5.3%		
<b>Revenue from operations (INR mn)</b>	<b>15,070</b>	<b>12,308</b>	<b>22.4%</b>	<b>14,218</b>	<b>6.0%</b>	<b>15,042</b>	<b>0.2%</b>	<b>15,380</b>	<b>-2.0%</b>
Gross Profit (INR mn)	6,496	5,577	16.5%	6,186	5.0%	6,596	-1.5%	6,780	-4.2%
<b>Gross margin</b>	<b>43.1%</b>	<b>45.3%</b>	<b>-221bp</b>	<b>43.5%</b>	<b>-40bp</b>	<b>43.8%</b>	<b>-74bp</b>	<b>44.1%</b>	<b>-97bp</b>
EBITDA (INR mn)	806	612	31.8%	735	9.8%	844	-4.4%	866	-6.9%
<b>EBITDA margin</b>	<b>5.4%</b>	<b>5.0%</b>	<b>38bp</b>	<b>5.2%</b>	<b>18bp</b>	<b>5.6%</b>	<b>-26bp</b>	<b>5.6%</b>	<b>-28bp</b>
Adjusted EBITDA (INR mn)	834	638	30.8%	763	9.4%	872	-4.3%	NA	NA
<b>Adjusted EBITDA margin</b>	<b>5.5%</b>	<b>5.2%</b>	<b>35bp</b>	<b>5.4%</b>	<b>17bp</b>	<b>5.8%</b>	<b>-26bp</b>	<b>NA</b>	<b>NA</b>
PAT ex-MI and Exceptional (INR mn)	58	41	40.9%	33	77.0%	117	-50.2%	153	-61.7%
Diluted EPS (INR)	0.02	0.09	-76.3%	0.02	2.4%	0.04	-49.9%	0.08	-75.6%

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				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC	10.5%	240	250	270	290	330
	11.0%	210	230	240	260	280
	11.5%	190	200	220	230	250
	12.0%	180	190	190	210	220
	12.5%	160	170	180	190	200
	13.0%	150	160	160	170	180
	13.5%	140	140	150	150	160

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%	20	40	60	80	110	
70%	30	50	70	100	130	
80%	40	60	80	110	150	
90%	50	70	100	130	170	
100%	60	80	110	150	190	

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				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC	12.10%	16	16	17	18	20
	12.60%	14	15	16	16	18
	13.10%	13	13	14	15	16
	13.60%	12	12	13	13	14
	14.10%	11	11	12	12	13
	14.60%	10	10	10	11	11
	15.10%	9	9	10	10	10

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%	3	6	9	12	18	
90%	4	7	10	15	20	
100%	5	8	12	17	23	
110%	6	9	13	19	26	
120%	7	10	15	21	28	

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				
		4.0%	4.5%	5.0%	5.5%	6.0%
WACC	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	13
	14.65%	10	11	11	12	12
	15.15%	9	10	10	10	11
	15.65%	8	9	9	9	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%	-2	2	8	18	32	
90%	-1	3	10	21	37	
100%	0	5	12	24	42	
110%	0	6	14	27	47	
120%	1	7	16	31	52	

Source: Company, JM Financial

## Company Financial Metrics

### Exhibit 8. Key Financials

	1QFY23	2QFY22	3QFY23	4QFY23	FY23	1QFY24	2QFY24	Comments
<b>Group GMV (INR mn)</b>	<b>21,558</b>	<b>23,457</b>	<b>27,965</b>	<b>24,453</b>	<b>97,433</b>	<b>26,678</b>	<b>29,435</b>	
BPC	14,888	16,301	19,014	16,289	66,491	18,508	20,016	<ul style="list-style-type: none"> <li>Group GMV grew 25.5% YoY (10.3% QoQ) to INR 29.4 bn, led by growth in BPC at 23%/8% YoY/QoQ, Fashion at 27%/17% YoY/QoQ and Others at 54%/10% YoY/QoQ.</li> </ul>
Fashion	5,820	5,991	7,244	6,641	25,696	6,537	7,628	
Others*	850	1,165	1,707	1,524	5,245	1,633	1,791	
<b>Cons. revenue (INR mn)</b>	<b>11,484</b>	<b>12,308</b>	<b>14,628</b>	<b>13,017</b>	<b>51,438</b>	<b>14,218</b>	<b>15,070</b>	
Change (YoY)	40.6%	39.0%	33.2%	33.7%	36.3%	23.8%	22.4%	<ul style="list-style-type: none"> <li>Consolidated revenue grew 22.4% YoY (+6% QoQ) to reach INR 15.07bn, roughly in line with our estimates of INR 15.04bn, however, 2% miss on street estimates.</li> </ul>
Gross profit (INR mn)	5,099	5,577	6,347	5,758	22,781	6,186	6,496	
<b>Gross margin</b>	<b>44.4%</b>	<b>45.3%</b>	<b>43.4%</b>	<b>44.2%</b>	<b>44.3%</b>	<b>43.5%</b>	<b>43.1%</b>	
Operating profit (EBITDA)	460	612	782	708	2,561	735	806	
<b>EBITDA margin</b>	<b>4.0%</b>	<b>5.0%</b>	<b>5.3%</b>	<b>5.4%</b>	<b>5.0%</b>	<b>5.2%</b>	<b>5.4%</b>	<ul style="list-style-type: none"> <li>Gross margin declined by 221bps/40bps YoY/QoQ to 43.1% in 2QFY24. The decline was largely due to decline of 173bps/577bps in BPC/Others segment, whereas Fashion segment margin was roughly flat.</li> </ul>
Depreciation & amortization	310	385	507	530	1,733	519	546	
EBIT	150	227	275	176	828	215	260	
<b>EBIT margin</b>	<b>1.3%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.4%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.7%</b>	<ul style="list-style-type: none"> <li>BPC gross margin YoY was due to the base effect while QoQ appears to have declined due to business mix towards low margin categories.</li> </ul>
Net other income	-67	-139	-148	-90	-444	-118	-127	
Exceptionals	0	0	0	0	0	0	0	
Profit before tax	83	88	127	87	384	97	133	
Income tax expense	27	31	35	44	136	33	40	<ul style="list-style-type: none"> <li>EBITDA margin improved 38bps YoY to 5.4%, a slight miss on JMFe and street estimates of 5.6%. The miss was mainly due to decline in gross margin.</li> </ul>
Share of associate	-7	-5	-7	-20	-39	-10	-15	
Minority Interest	5	11	3	-1	17	21	20	
<b>Reported PAT</b>	<b>56</b>	<b>57</b>	<b>92</b>	<b>43</b>	<b>248</b>	<b>65</b>	<b>93</b>	
Change (YoY)	178.7%	111.2%	-66.9%	-42.9%	-39.9%	15.2%	63.1%	
<b>Adjusted PAT</b>	<b>45</b>	<b>41</b>	<b>82</b>	<b>25</b>	<b>193</b>	<b>33</b>	<b>58</b>	
Change (YoY)	122.2%	53.9%	-70.5%	-71.2%	-51.4%	-26.1%	40.9%	

Source: Company, JM Financial

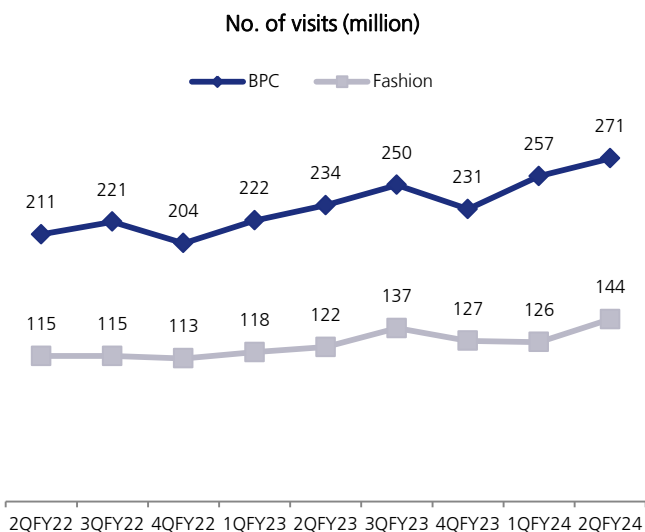
## Company Operating Metrics

### Exhibit 9. Key Operating Metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
<b>No. of visits (million)</b>									
BPC	211	221	204	222	234	250	231	257	271
Fashion	115	115	113	118	122	137	127	126	144
Others	9	11	11	14	16	16	11	12	15
<b>Monthly average unique visitors (million)</b>									
BPC	19	20	19	22	22	24	23	25	27
Fashion	16	16	16	16	16	19	17	17	18
Others	2	2	2	3	3	3	2	2	2
<b>Orders (million)</b>									
BPC Orders (million)	6.1	7.6	6.8	8.1	8.4	9.5	8.8	9.5	10.0
Fashion Orders (million)	1.3	1.4	1.1	1.5	1.4	1.7	1.4	1.5	1.5
Other Orders (million)	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.5
<b>Average order value (INR)</b>									
BPC AOV (INR)	1,910	1,967	1,716	1,780	1,872	1,958	1,803	1,849	1,916
Fashion AOV (INR)	3,242	3,558	3,616	3,732	3,940	3,959	4,266	4,058	4,061
Others AOV (INR)	2,502	2,927	3,084	3,199	3,304	3,709	3,368	3,561	3,541

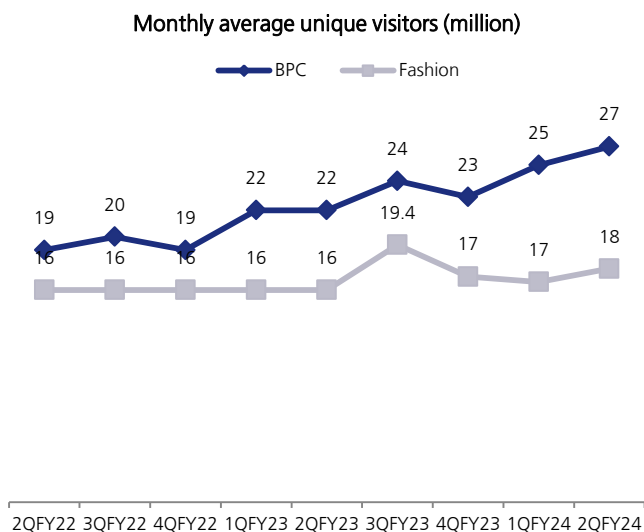
Source: Company, JM Financial

Exhibit 10. Number of visits to Nykaa Platforms



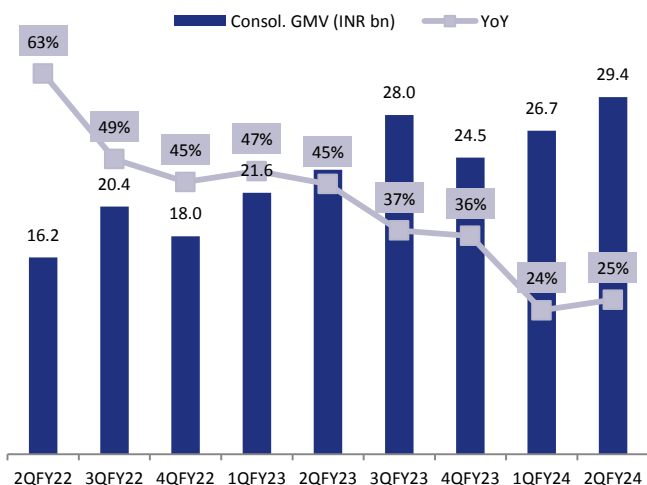
Source: Company, JM Financial

Exhibit 11. Monthly Average Unique Visitors



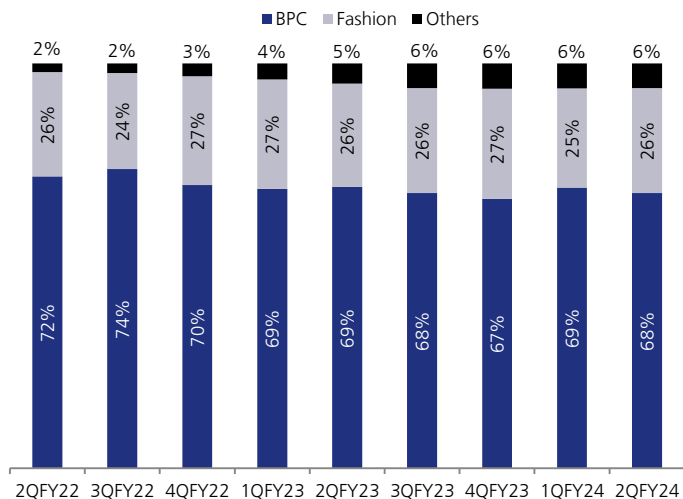
Source: Company, JM Financial

Exhibit 12. Group GMV Trend



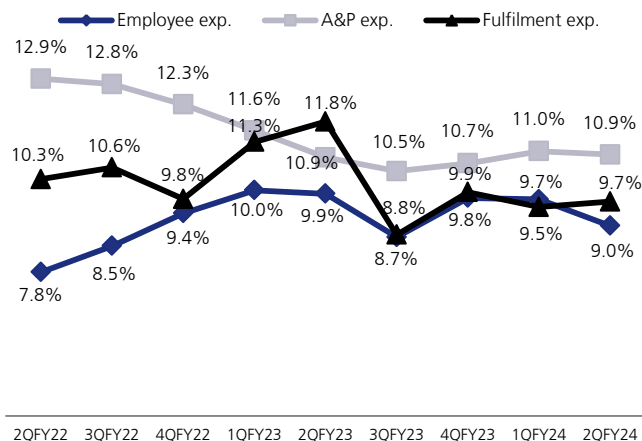
Source: Company, JM Financial

Exhibit 13. Group GMV Share



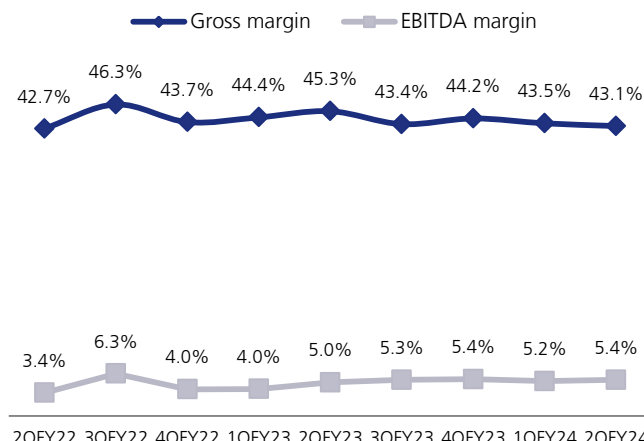
Source: Company, JM Financial

Exhibit 14. Key Operating costs as % of Revenue



Source: Company, JM Financial

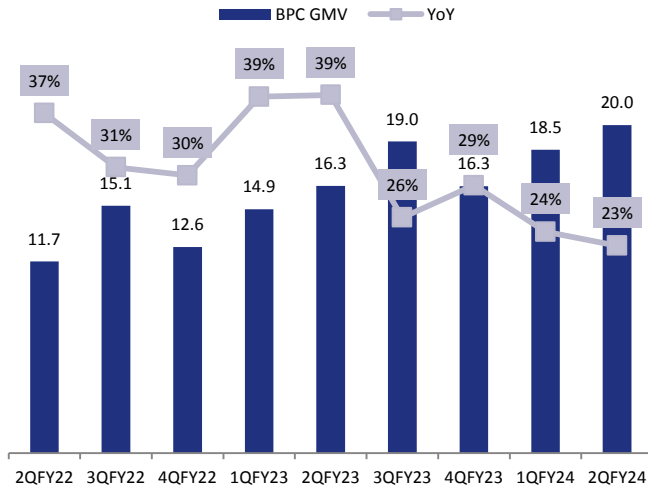
Exhibit 15. Margin Trends



Source: Company, JM Financial

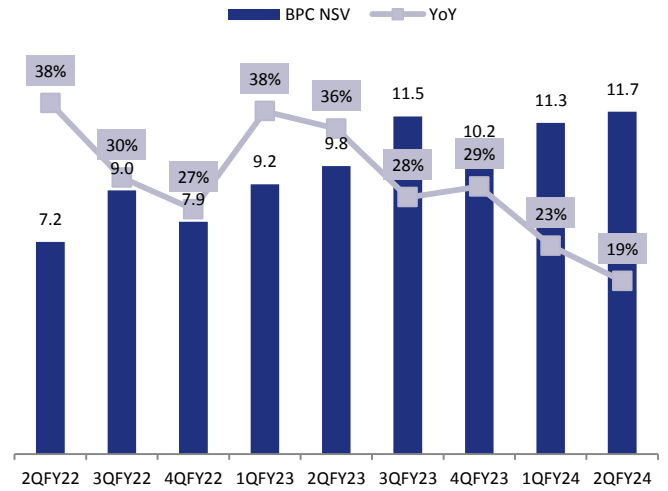
# Beauty & Personal Care Operating Metrics

**Exhibit 16. GMV trend (INR bn)**



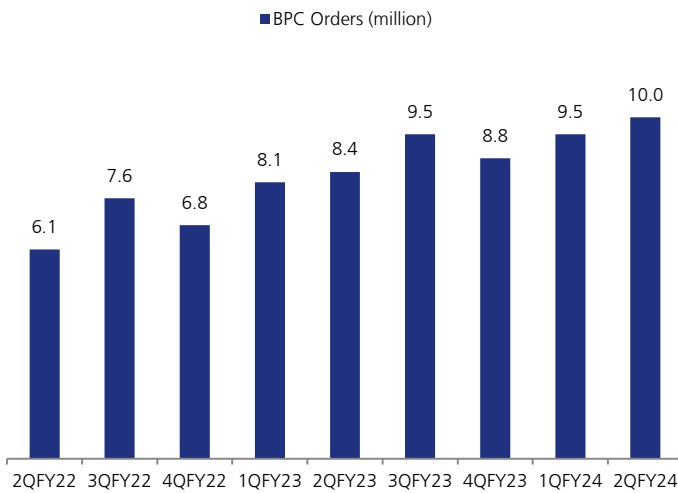
Source: Company, JM Financial

**Exhibit 17. NSV trend (INR bn)**



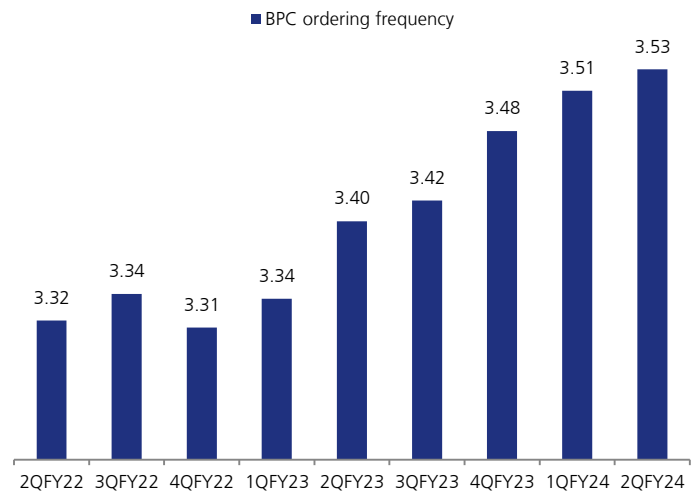
Source: Company, JM Financial

**Exhibit 18. Orders trend**



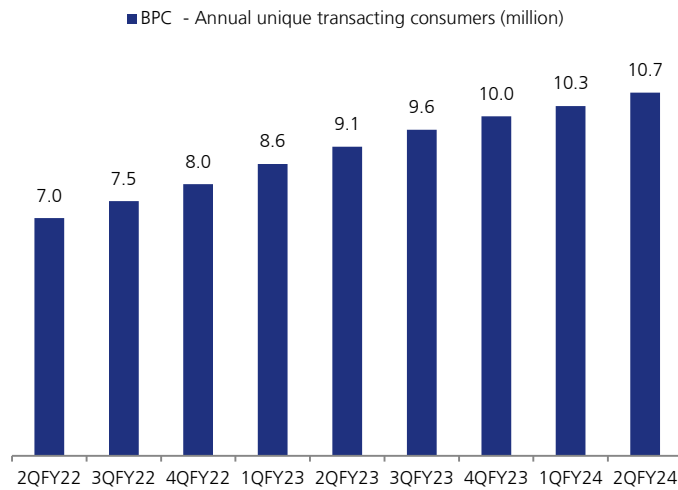
Source: Company, JM Financial

**Exhibit 19. Ordering frequency**



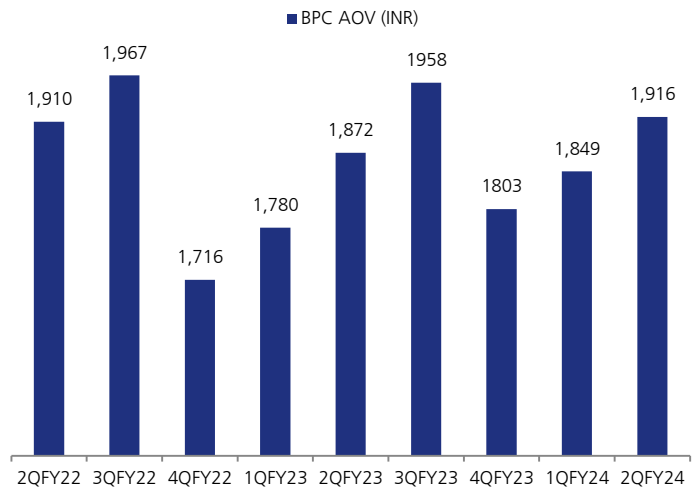
Source: Company, JM Financial

**Exhibit 20. Unique transacting consumer trend**



Source: Company, JM Financial

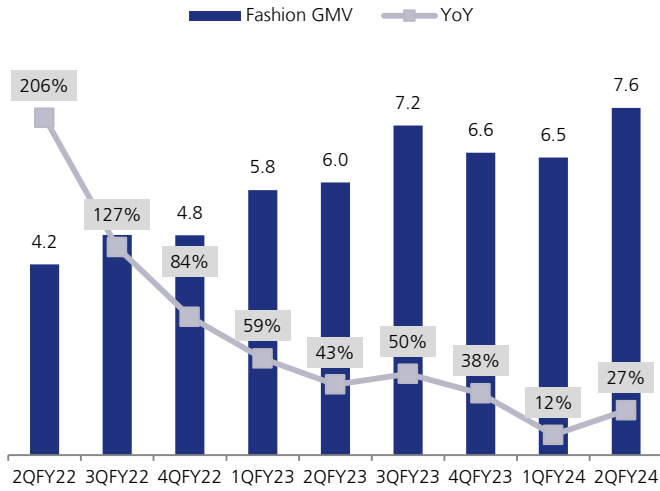
**Exhibit 21. Average order value (AOV) Trend**



Source: Company, JM Financial

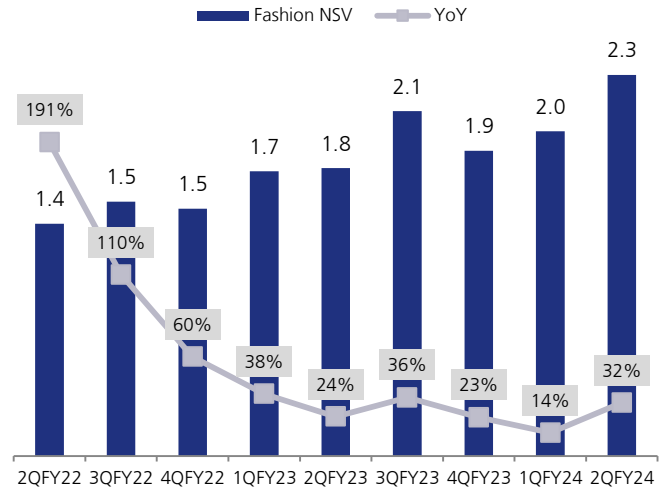
# Fashion Operating Metrics

**Exhibit 22. GMV trend (INR bn)**



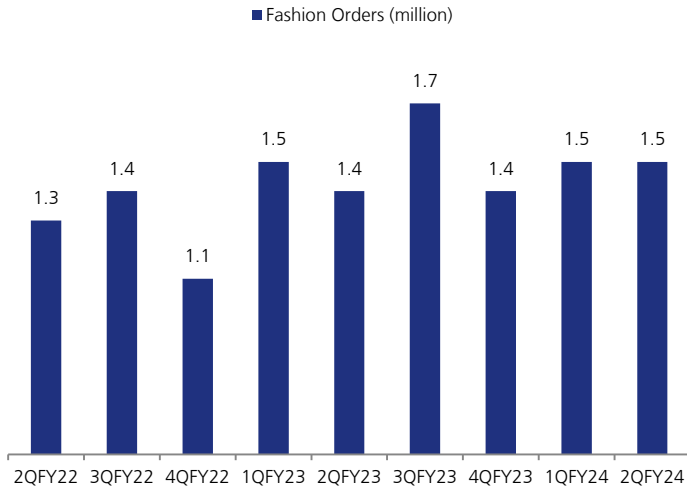
Source: Company, JM Financial

**Exhibit 23. NSV trend (INR bn)**



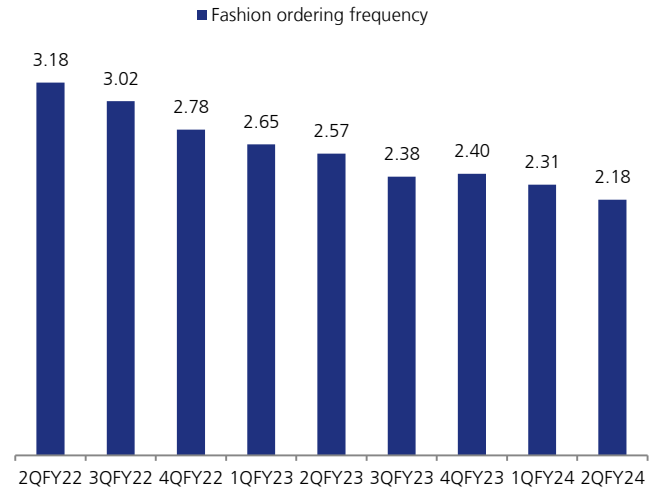
Source: Company, JM Financial

**Exhibit 24. Orders trend**



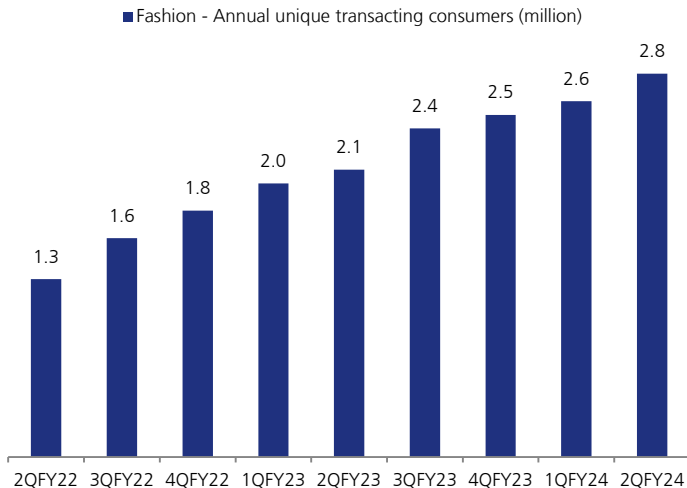
Source: Company, JM Financial

**Exhibit 25. Ordering frequency**



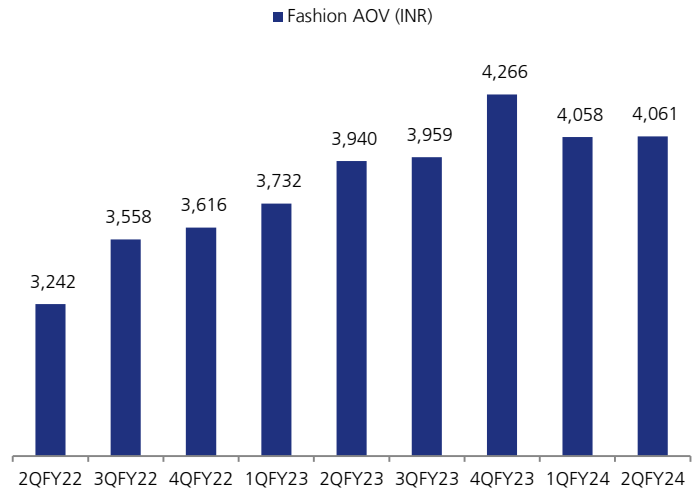
Source: Company, JM Financial

**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 lower growth at improved margins

	Old					New					Change				
	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E	FY25E	FY26E	FY27E	FY28E
Group GMV (INR bn)	121.2	155.6	200.8	255.7	323.6	122.3	157.8	202.3	255.9	322.3	0.9%	1.4%	0.7%	0.1%	-0.4%
Consolidated revenue (INR bn)	64.5	82.7	106.4	135.3	171.4	64.8	83.3	106.4	134.4	169.3	0.4%	0.7%	0.1%	-0.6%	-1.2%
Revenue growth rate (YoY)	25.5%	28.2%	28.6%	27.2%	26.7%	26.0%	28.5%	27.8%	26.3%	26.0%	50bp	36bp	-80bp	-89bp	-75bp
EBITDA margin	6.8%	8.8%	10.4%	11.8%	12.9%	6.8%	8.9%	10.5%	11.9%	12.9%	-6bp	9bp	11bp	5bp	2bp
EBIT margin	3.5%	5.8%	7.8%	9.5%	10.9%	3.5%	5.9%	7.9%	9.5%	10.9%	-2bp	7bp	6bp	-1bp	-3bp
PAT (INR bn)	1.1	3.0	5.5	8.9	13.3	1.1	3.1	5.7	9.2	13.6	-2.0%	4.8%	4.5%	3.1%	2.4%
Diluted EPS (INR)	0.4	1.0	1.9	3.1	4.6	0.4	1.1	2.0	3.2	4.7	-2.0%	4.8%	4.5%	3.1%	2.4%

Source: Company, JM Financial

## Valuation Methodology: DCF

### Exhibit 29. Key DCF assumptions

<b>WACC</b>	<b>12.5%</b>
Revenue CAGR (FY23-28)	26.9%
Revenue CAGR (FY28-33)	23.1%
Revenue CAGR (FY33-41)	14.4%
EBITDA CAGR (FY23-28)	53.6%
EBITDA CAGR (FY28-33)	27.8%
EBITDA CAGR (FY33-41)	15.2%
Tax Rate	25.2%
FCFF CAGR (2024-2041F)	59.4%
NPV of cash flow (2023-2041F)	265,077
<b>Perpetual growth (%)</b>	<b>6.0%</b>
Implied Exit FCF multiple (X)	15.4x
Terminal value (INR mn)	350,898
<b>Enterprise value (INR mn)</b>	<b>615,975</b>
Terminal value as % of Enterprise Value	57.0%
Net debt (INR mn, Mar'24E)	4,004
Minority Interest (INR mn, Mar'24E)	282
<b>Equity value (INR mn)</b>	<b>611,690</b>
Number of shares outstanding (diluted, million)	2,873
<b>Equity value per share (INR)</b>	<b>210</b>

Source: JM Financial

### Exhibit 30. 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%	260	270	290	310	340
	11.50%	230	250	260	280	300
	12.00%	210	220	230	250	260
	12.50%	200	200	210	220	240
	13.00%	180	190	190	200	210
	13.50%	170	170	180	190	190
	14.00%	150	160	160	170	180

Source: JM Financial, Company

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

		Revenue Growth (% of JMFe)				
		60%	70%	80%	90%	100%
EBITDA Margin (% of JMFe)	60%	40	50	70	90	120
	70%	40	60	80	110	140
	80%	50	70	100	130	170
	90%	60	80	110	150	190
	100%	70	90	120	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	64,789	83,258	106,411
Sales Growth	54.6%	36.3%	26.0%	28.5%	27.8%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>37,739</b>	<b>51,438</b>	<b>64,789</b>	<b>83,258</b>	<b>106,411</b>
Cost of Goods Sold/Op. Exp	21,300	28,657	36,352	46,739	59,901
Personnel Cost	3,265	4,917	5,718	6,800	7,986
Other Expenses	11,542	15,303	18,339	22,335	27,321
<b>EBITDA</b>	<b>1,633</b>	<b>2,561</b>	<b>4,379</b>	<b>7,383</b>	<b>11,204</b>
EBITDA Margin	4.3%	5.0%	6.8%	8.9%	10.5%
EBITDA Growth	4.2%	56.9%	71.0%	68.6%	51.7%
Depn. & Amort.	964	1,733	2,128	2,465	2,807
EBIT	668	828	2,251	4,918	8,397
Other Income	-195	-444	-471	-316	-11
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	473	384	1,780	4,602	8,385
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	473	384	1,780	4,602	8,385
Taxes	60	136	480	1,160	2,113
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	17	17	141	307	523
Reported Net Profit	396	232	1,159	3,135	5,749
<b>Adjusted Net Profit</b>	<b>396</b>	<b>232</b>	<b>1,159</b>	<b>3,135</b>	<b>5,749</b>
Net Margin	1.1%	0.5%	1.8%	3.8%	5.4%
Diluted Share Cap. (mn)	469.8	2,873.3	2,873.3	2,873.3	2,873.3
<b>Diluted EPS (INR)</b>	<b>0.8</b>	<b>0.1</b>	<b>0.4</b>	<b>1.1</b>	<b>2.0</b>
Diluted EPS Growth	-36.5%	-90.4%	400.1%	170.6%	83.4%
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	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	473	384	1,780	4,602	8,385
Depn. & Amort.	964	1,733	2,128	2,465	2,807
Net Interest Exp. / Inc. (-)	237	527	471	316	11
Inc (-) / Dec in WCap.	-4,649	-3,290	-524	814	-301
Others	157	195	109	130	153
Taxes Paid	-722	-951	-480	-1,160	-2,113
<b>Operating Cash Flow</b>	<b>-3,539</b>	<b>-1,402</b>	<b>3,484</b>	<b>7,167</b>	<b>8,942</b>
Capex	-940	-2,082	-1,657	-1,475	-1,453
Free Cash Flow	-4,479	-3,484	1,827	5,693	7,489
Inc (-) / Dec in Investments	-5,251	3,713	0	0	0
Others	163	-236	323	497	859
<b>Investing Cash Flow</b>	<b>-6,028</b>	<b>1,396</b>	<b>-1,334</b>	<b>-978</b>	<b>-594</b>
Inc / Dec (-) in Capital	8,729	288	-45	-75	-40
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	804	95	-1,675	-1,851	-2,254
Others	-262	-334	-409	-471	-473
<b>Financing Cash Flow</b>	<b>9,270</b>	<b>49</b>	<b>-2,129</b>	<b>-2,396</b>	<b>-2,768</b>
<b>Inc / Dec (-) in Cash</b>	<b>-297</b>	<b>42</b>	<b>21</b>	<b>3,793</b>	<b>5,580</b>
Opening Cash Balance	669	372	414	435	4,228
Closing Cash Balance	372	414	435	4,228	9,809

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	13,399	13,780	15,003	18,193	24,055
Share Capital	474	2,852	2,852	2,852	2,852
Reserves & Surplus	12,925	10,928	12,150	15,341	21,203
Preference Share Capital	0	0	0	0	0
Minority Interest	56	141	282	589	1,112
Total Loans	3,330	4,604	4,604	4,604	4,604
Def. Tax Liab. / Assets (-)	-1,130	-1,878	-1,878	-1,878	-1,878
<b>Total - Equity &amp; Liab.</b>	<b>15,655</b>	<b>16,647</b>	<b>18,011</b>	<b>21,508</b>	<b>27,893</b>
Net Fixed Assets	5,077	7,297	8,651	9,809	10,991
Gross Fixed Assets	1,929	3,487	4,772	6,015	7,222
Intangible Assets	1,115	1,556	1,725	1,750	1,786
Less: Depn. & Amort.	684	1,173	1,858	2,649	3,519
Capital WIP	2,718	3,428	4,013	4,693	5,502
Investments	7,177	4,100	4,100	4,100	4,100
Current Assets	13,053	16,225	18,762	26,579	37,061
Inventories	8,756	10,051	11,755	14,473	17,892
Sundry Debtors	945	1,635	2,060	2,647	3,383
Cash & Bank Balances	372	414	435	4,228	9,809
Loans & Advances	0	0	0	0	0
Other Current Assets	2,980	4,125	4,512	5,230	5,977
Current Liab. & Prov.	9,653	10,975	13,502	18,979	24,259
Current Liabilities	6,216	6,035	7,245	10,877	13,876
Provisions & Others	3,437	4,939	6,257	8,103	10,383
Net Current Assets	3,400	5,251	5,260	7,599	12,802
<b>Total - Assets</b>	<b>15,655</b>	<b>16,647</b>	<b>18,011</b>	<b>21,508</b>	<b>27,893</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	1.1%	0.5%	1.8%	3.8%	5.4%
Asset Turnover (x)	2.7	2.5	2.8	3.2	3.4
Leverage Factor (x)	1.5	1.5	1.6	1.6	1.5
RoE	4.3%	1.7%	8.1%	18.9%	27.2%

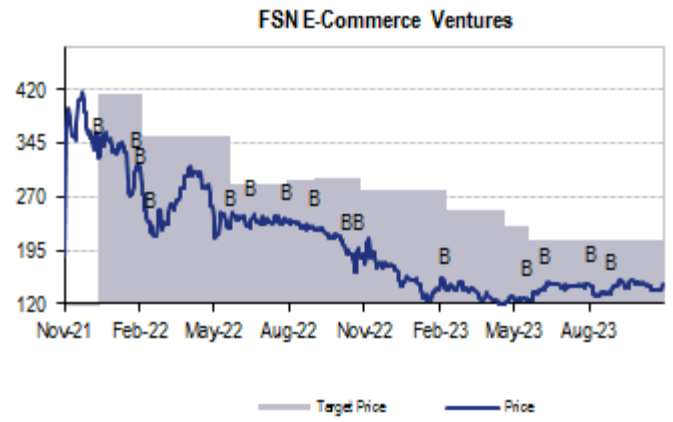
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	28.8	4.8	5.3	6.4	8.4
ROIC	8.6%	4.6%	11.2%	24.2%	40.6%
ROE	4.3%	1.7%	7.9%	18.4%	26.2%
Net Debt/Equity (x)	-0.3	0.0	0.0	-0.2	-0.4
P/E (x)	174.2	1,822.8	364.5	134.7	73.5
P/B (x)	5.1	30.4	27.9	23.0	17.4
EV/EBITDA (x)	254.2	163.8	95.8	56.4	36.7
EV/Sales (x)	11.0	8.2	6.5	5.0	3.9
Debtor days	9	12	12	12	12
Inventory days	85	71	66	63	61
Creditor days	37	20	20	30	33

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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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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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