Nykaa

15 September 2021

Pre IPO note

IIFL SECURITIES

Rare case of a profitable e-tailer

Nykaa, a specialised beauty e-tailer, has the perfect combination of growth (44% BPC GMV Cagr over FY19-21) and profitability (6.6% Ebitda margin in FY21) driven by its superior product assortment, content creation and discovery engine. It is now replicating the same model in Fashion. We estimate 37% total revenue Cagr over FY21-26 and an Ebitda of Rs.13.7bn in FY26. Our DCF based SOTP arrives at a 12 month forward market cap of USD9bn (80% from BPC and 20% from Fashion).

A solid business model: Nykaa's business model is driven by creating a moat in the beauty segment by i) offering a wide product range to the consumer (including some exclusive brands), ii) original content creation with ~1300+ influencers and a Youtube channel with 1.3m hours of content and 1.1m subscribers and iii) detailed sort and search capabilities. Due to these benefits available to customers, Nykaa doesn't have to offer discounts (discounts are borne largely by brands) which provides healthy gross margins. A relatively high AOV translates to lower fulfilment costs as a percentage of sales.

18.8m BPC customers by FY26: We estimate the target audience for Nykaa at 35m, defined as the top third (by income) of the urban female customer in the age group of 15-45. The current number of unique annual transacting customers is 5.6m, which we forecast to increase to 18.8m by FY26. We estimate the average spend per customer (GMV less discounts, cancellations and returns) in FY21 at ~Rs4500 growing to ~Rs5750 in FY26 at a Cagr of 5.1%, lower than the per capita industry Cagr of 11% to account for lower spend by new customers. We estimate 33.8% Cagr in GMV for the segment over FY21-26. We estimate that Nykaa will have a market share of 5.4%/10.5% in the overall BPC segment by FY26/41 and 30.2%/33.5% in the online BPC segment over the same period.

7.9m Fashion customers by FY26: Since Nykaa desires to build a profitable fashion business with low discounting, we forecast a lower customer base; less than half that of its BPC segment. We forecast a FY26 GMV shy of USD2bn, a figure which Myntra reached 3 years ago. The strategy for Nykaa in fashion is similar to BPC – wide assortment, curated content, and latest styles, in addition to private labels to boost profitability. Given that we cannot predict the success or otherwise of this novel approach in the fashion business, we estimate that Nykaa will have a market share of only 0.6%/1.7% in the overall fashion segment by FY26/41 and only 2.7%/4.5% in the online fashion segment over the same period.

Margins to increase gradually: We forecast Nykaa's Ebitda margin will increase from 6.6% in FY21 to 11.8% in FY26, driven by gross margin (670 bps) employee cost (305 bps) and other expenses (182 bps). However, we expect an increase in fulfilment costs (211 bps) as average order value normalises post Covid and marketing costs (430 bps) as FY21 is subdued and the fashion business will need support to ramp up. Ramp up in fashion business and operating leverage in BPC can take Ebitda margin up to 21.7% in FY41, per our estimate. Note that all percentages are impacted by accounting of only the marketplace revenue instead of net sales for the Fashion which results in a lower denominator.

1 year forward MCap of Rs671bn: Using a 10% discount rate for BPC segment and 12% for fashion business, we arrive at a market cap of Rs.536bn for BPC and Rs.135bn for Fashion. We estimate Fashion contribution to Ebitda at 10%/34% for FY26/41. Being a capex light, operating leverage business, we estimate FCFF as percentage of NOPLAT at 51%/94% and post-tax ROIC at 45%/112% for FY26/41. Key risks are i) lower gross margins on increasing contribution from mass brands, ii) lower AOV by new customers iii) failure to ramp up fashion business profitably.

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Company snapshot

FSN E-Commerce Ventures (Nykaa) was incorporated in 2012 and has, since, seen rapid growth over the years, to become the largest specialty beauty & personal care platform in India, based on products sold in FY21. It has two major divisions – beauty & personal care (comprising 84% of GMV sales in FY21) and fashion (comprising 16% of GMV sales in FY21). The company clocked a GMV of Rs40bn in FY21 which translates into revenues of Rs24.4bn, EBITDA of Rs1.6bn (EBITDA margin of 6.6%) and PAT of Rs618m.

- FSN E-Commerce Ventures (Nykaa) was incorporated in 2012.
- In its beauty & personal care segment, Nykaa has an extensive offering of 197,195 SKUs from 2,476 brands, primarily across the make-up, skincare, hair-care, bath & body, fragrance, grooming appliances, personal-care, and health & wellness categories.
- Nykaa's own brands include 'Nykaa Cosmetics', 'Nykaa Naturals' and 'Kay Beauty'.
- In 2014, the company opened its first physical store at T3 international airport, New Delhi. As of March 2021, the company had 73 stores in 38 cities, including one store for Fashion. It operates its stores under three formats – Nykaa Luxe, Nykaa On Trend and Nykaa Kiosks.
- The company's operations primarily follow an inventory-led model in its beauty & personal care division which helps in validating authenticity of products coupled with ensuring availability and timely delivery.
- In 2018, the company launched 'Nykaa Fashion' as a curated and managed marketplace. As of March 2021, Nykaa Fashion houses 1,350 brands and over 1.8m SKUs with fashion products across four consumer divisions – women, men, kids and home. Nykaa clocked the highest average order value (AOV) among leading online fashion retail platforms in India, in FY21.
- Nykaa Fashion has six owned brands, which are available at Nykaa's online and physical store, along with MBOs.

Figure 1: Operational details across the beauty & personal care and fashion verticals

BPC	FY19	FY20	FY21
GMV (Rs m)	16,219	24,981	33,804
No of orders (m)	11.0	17.0	17.1
Avg order value (Rs)	1,433	1,448	1,963
No of visits (m)	378	575	659
Monthly avg unique visitors (m)	9.1	12.2	13.5
Annual unique transacting customers (m)	3.5	5.3	5.6
Fashion			
GMV (Rs m)	282	1,868	6,656
No of orders (m)	0.4	1.1	2.4
Avg order value (Rs)	655	1,604	2,739
No of visits (m)	0.1	37.8	172.1
Monthly avg unique visitors (m)	0.03	1.7	5.8
Annual unique transacting customers (m)	-	0.1	0.6

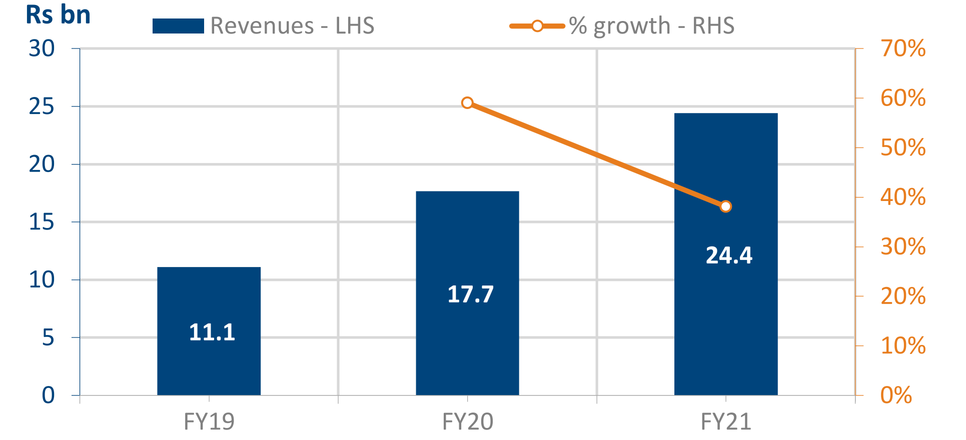
Source: Company, IIFL Research

Figure 2: Timeline of key events

Year	Event
2012	Incorporated as FSN E-Commerce Ventures Private
2014	First physical store opened at T3 International airport, New Delhi
2015	Launched 'Nykaa Cosmetics' – a makeup and beauty accessories brand
2016	Launched 'Nykaa Naturals' – a naturally-derived ingredients focussed skincare brand
2018	Launched 'Nykaa Fashion' – a curated and managed marketplace
2018	Entered into an agreement with Katrina Kaif to launch 'Kay Beauty'
2019	Acquired clothing brand '20 Dresses'
2020	Launched 'Nykd by Nykaa' – an intimate-wear brand
2021	Acquired jewellery brand 'Pipa Bella'

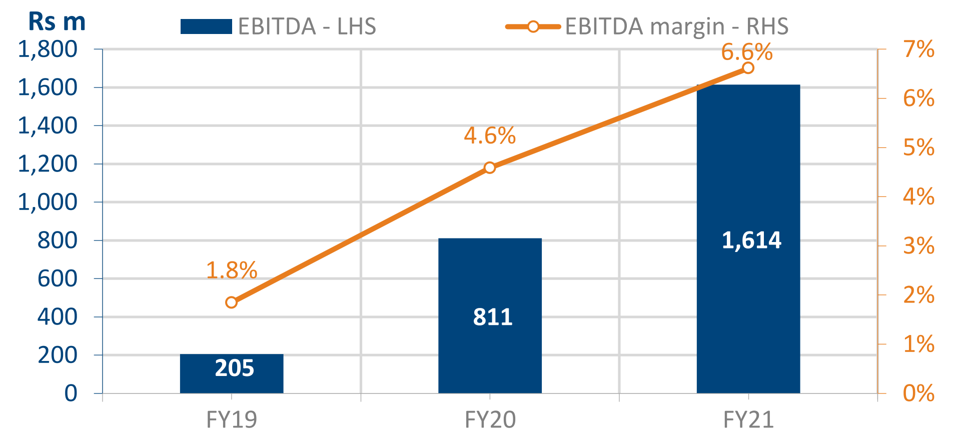
Source: Company, IIFL Research

Figure 3: Revenue and growth trends



Source: Company, IIFL Research

Figure 4: EBITDA and margin trends



Source: Company, IIFL Research

Figure 5: Management snapshot

Name	Designation	Brief Profile
Falguni Nayar	Executive Chairperson, MD and CEO	Falguni Nayar is the founder of the company and holds a PGDM from IIM Ahmedabad. Prior to founding Nykaa, she was associated with Kotak Mahindra Capital Company for 18 years, where she also served as the managing director.
Anchit Nayar	CEO - Beauty Ecommerce	Anchit Nayar has previously served as VP of the investment banking division at Morgan Stanley, New York. He holds a Bachelor's degree from Columbia University.
Adwaita Nayar	CEO - Fashion	Adwaita Nayar has co-founded the company and been involved in areas of marketing, operations and product development. She holds a Master's degree in business administration from Harvard Business School.
Reena Chhabra	CEO - Private Label	Reena Chhabra has been associated with Nykaa since May 2016. Previous employers include Colorbar Cosmetics, HUL, Marico, Kodak India and Eli Lilly Ranbaxy. Ms Chhabra holds a Bachelor's degree in arts from Punjab University.
Nihir Parikh	CEO - Nykaaman	Nihir Parikh has been associated with Nykaa since May 2015. Previous employers include Genentech Inc, USA and GE Healthcare, Pvt. He holds a Master's degree in business administration from INSEAD.
Vikas Gupta	CEO - eB2B (Distribution)	Vikas Gupta has been associated with Nykaa since May 2021. Previous employers include Flipkart Internet Private and Unilever Indonesia. Mr Gupta holds a PGDM from IIM Lucknow.
Arvind Agarwal	CFO	Arvind Agarwal has been associated with Nykaa since June 2020. Previous employers include Amazon Seller Service Pvt, Vodafone India, Tata Teleservices, YOU Telecom, and Adani Port. Mr Agarwal has completed the senior management programme from IIM Ahmedabad.

Source: Company, IIFL Research

Figure 6: Shareholding pattern

Shareholders	No of shares held	Shareholding
Promoters		
Sanjay Nayar Family Trust	120,118,920	25.72%
Falguni Nayar Family Trust	104,305,770	22.33%
Promoter group		
Anchit Nayar Family Trust	14,370,000	3.08%
Adwaita Nayar Family Trust	14,370,000	3.08%
Anchit Nayar	160,080	0.03%
Adwaita Nayar	30,060	0.01%
Total promoter and promoter group	**253,354,830**	**54.25%**
Investor selling shareholders		
TPG Growth IV SF Pte Ltd	16,264,560	3.48%
Lighthouse India Fund III Ltd	14,533,860	3.11%
Lighthouse India III Employee Trust	154,590	0.03%
Yogesh Agencies & Investments Private Ltd	5,538,450	1.19%
J M Financial and Investment Consultancy Services Private Ltd	4,565,610	0.98%
Total investor selling shareholders	**41,057,070**	**8.79%**
Other selling shareholders	**103,309,080**	**22.12%**
Others	69,315,870	14.8%
Total	**467,036,850**	**100.0%**

Source: Company, IIFL Research

Figure 7: Objects of the issue

Details of primary and secondary issuance	
Primary	
Primary issuance (Rs m)	5,250
Funds to be used for	New retail stores, new warehouses, debt repayment, marketing spends and general corporate purposes
Secondary	
No of shares on offer for sale (m)	43,111,670
% of total number of shares	9.2%

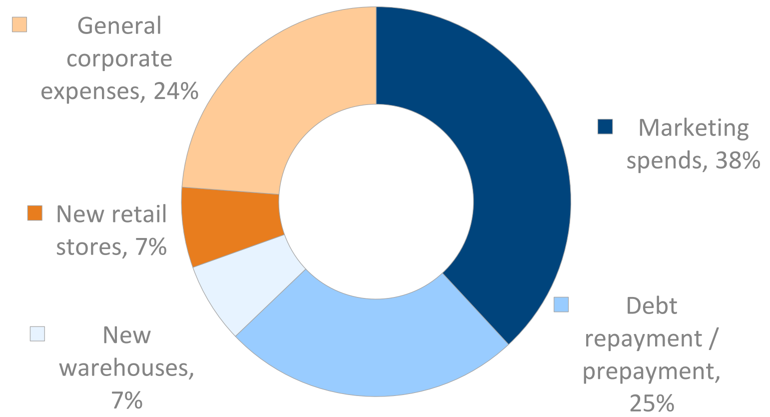
Source: Company, IIFL Research

Figure 8: Details of offer for sale

Selling shareholders	No of shares offered for sale	% of own shareholding	% of total number of shares
Promoter			
Sanjay Nayar Family Trust	4,800,000	4.0%	1.0%
Investing shareholders			
TPG Growth IV SF Pte Ltd	5,421,510	33.3%	1.2%
Lighthouse India Fund III, Ltd	4,844,620	33.3%	1.0%
Lighthouse India III Employee Trust	51,530	33.3%	0.0%
Yogesh Agencies & Investments Private Ltd	2,538,450	45.8%	0.5%
J M Financial and Investment Consultancy Services Private Ltd	914,000	20.0%	0.2%
Total investor selling shareholders	**13,770,110**	**33.5%**	**2.9%**
Other selling shareholders	**24,541,560**	**23.8%**	**5.3%**

Source: Company, IIFL Research

Figure 9: Planned utilisation of primary issuance of Rs5.25bn

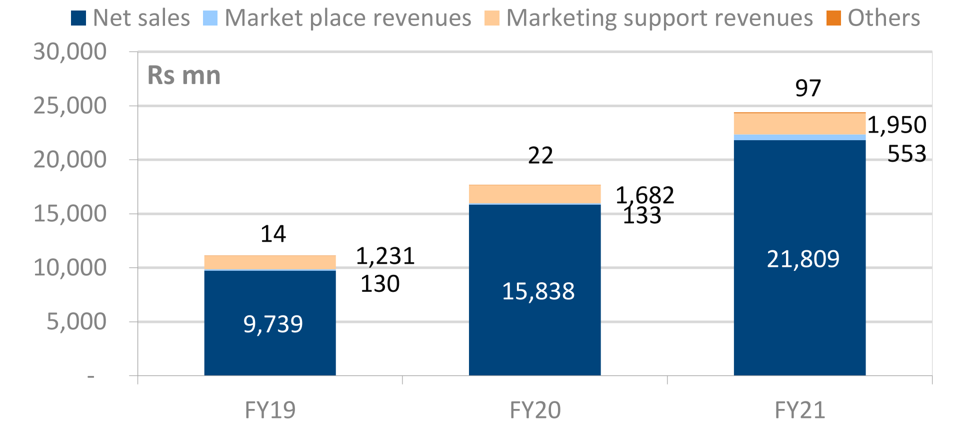


Source: Company, IIFL Research

Total Revenues: 37% Cagr FY21-26ii

The total revenues for FY21 are Rs24.4bn, growing at 38.1% over FY20, despite the Covid impact. Over the past 2 years, revenue Cagr has listed at 48.2%.

Figure 10: Nykaa's overall revenues have clocked a CAGR of 48% over FY19-21



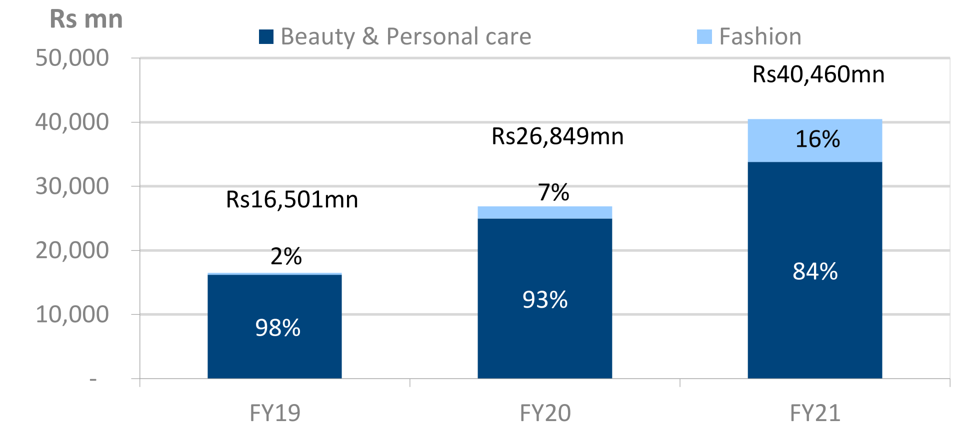
Source: Company, IIFL Research

The main sources of revenues are

- Revenue from sales of products – The BPC division runs on the inventory model (including variants such as sale or return and just-in-time; negligible or nil marketplace sales) which means that the company buys the goods from brands and sells these to consumers. It takes on the cost of working capital and the risk of obsolescence.
- Revenue from marketplace – The fashion division runs largely on the marketplace model (although some part of the business operates on the inventory model). In this model, the company charges only a commission from vendors who list and sell products on the Nykaa platform.
- Revenue from marketing support services – This is the revenue that Nykaa gets for advertising by brands on its platform or for promoting brands in searches.

The company achieved a GMV (gross merchandise value) of Rs40.4bn in FY21 which grew by 50.7% over FY20, recording a Cagr of 56.6% over FY19.

Figure 11: Nykaa's overall GMV grew by ~57% over FY19-21

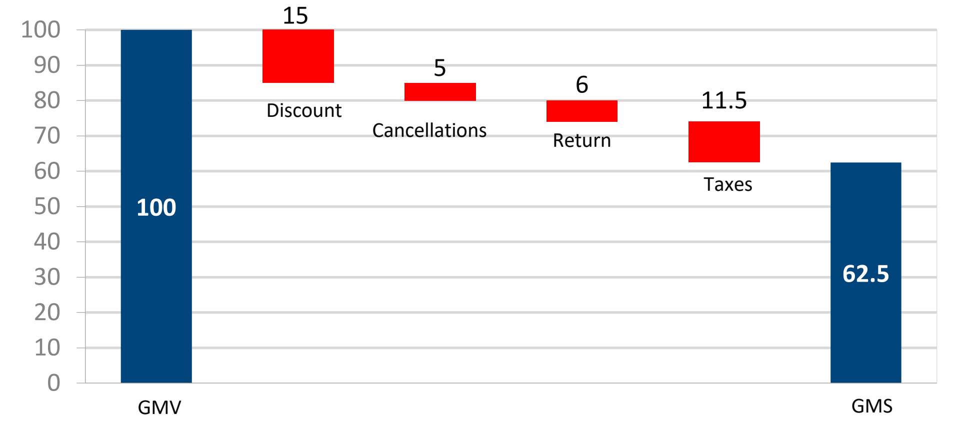


Source: Company, IIFL Research

The GMV includes order cancellations, returns, discounts and taxes; excluding these items we arrive at the 'net sales value' (not to be confused with 'net sales'. The former is a measure of the value of goods sold, whereas the latter is what is recorded in the books. The two are the same when Nykaa sells goods from its own inventory, but different if it records only marketplace commission).

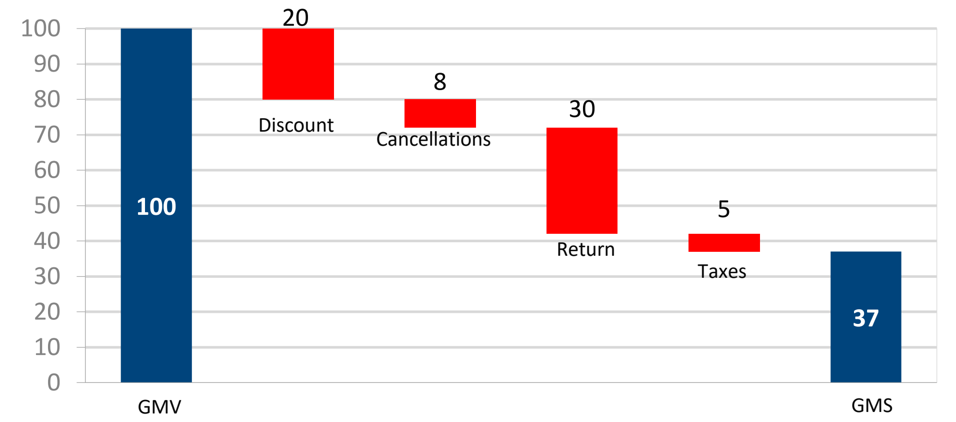
We estimate value of sales less taxes, discounts, returns and cancellations at ~60-65% of GMV for BPC, and at 35-40% for Fashion.

Figure 12:We estimate net sales in beauty & personal care at ~62.5% of GMV for Nykaa



Source: IIFL Research

Figure 13: We estimate net sales in fashion at ~37% of GMV for Nykaa

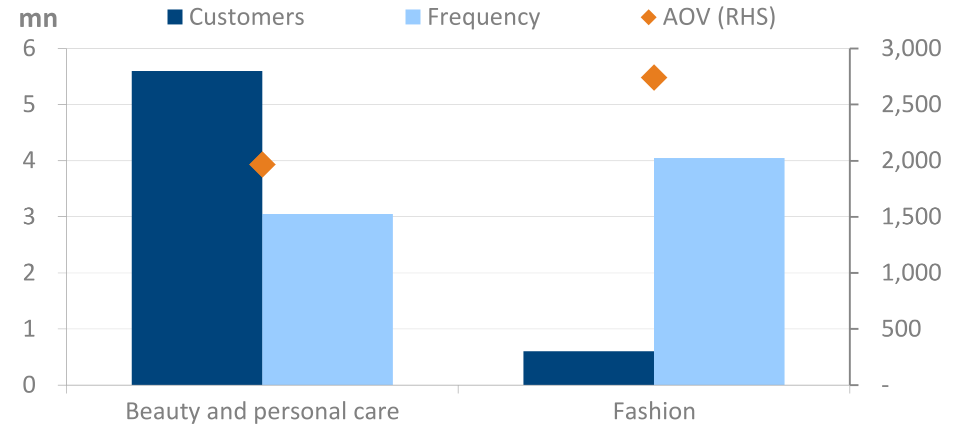


Source: IIFL Research

The GMV is a multiplication of:

- The number of unique transacting customers,
- frequency of purchase, and
- average order value.

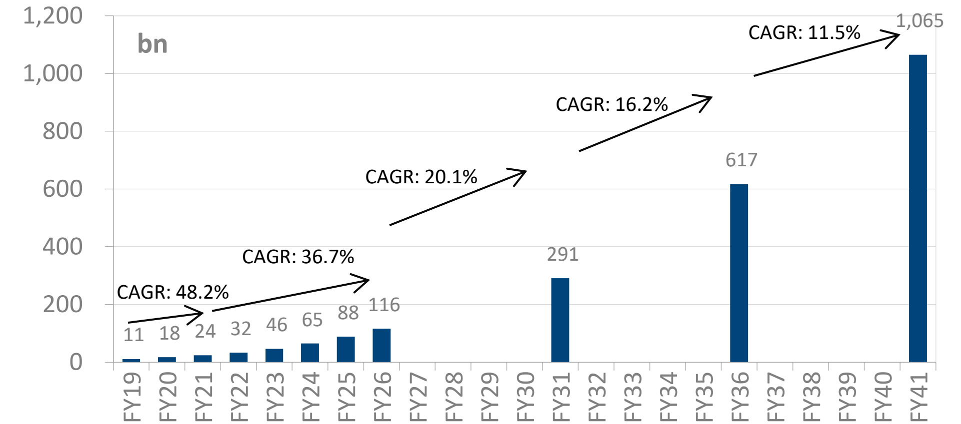
Figure 14:GMV comprises of the number of customers, frequency of ordering and the average order-value



Source: Company, IIFL Research;. Note: the unit of 'mn' pertains only to the number of customers

We forecast overall total revenue Cagr at 36.7% for FY21-26 and at 20.1%/16.2%/11.5% thereafter for FY26-31/31-36/36-41, respectively. In the next two chapters we provide details as to the derivation of these estimates.

Figure 15: We forecast sales Cagr of 20.8% over FY21-41

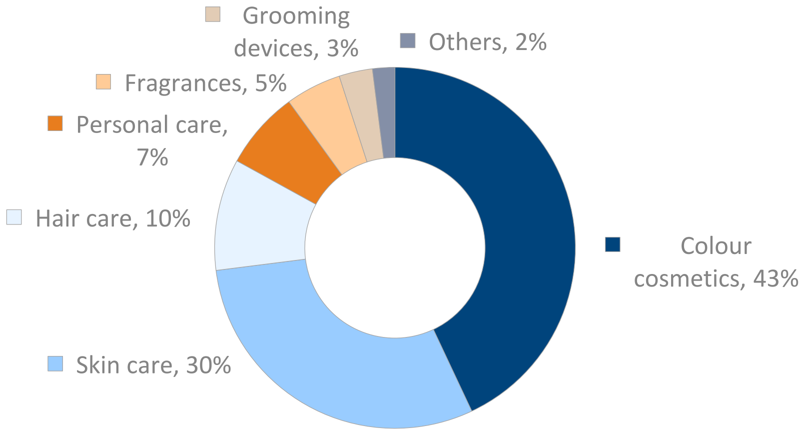


Source: Company, IIFL Research

Beauty and personal care – a 35m customer opportunity

The BPC segment can be broken down into its constituents as below. Per our estimate, Colour cosmetics would be the largest segment, contributing ~40-45% of Nykaa's sales. Skin care and hair care would be the other large segments.

Figure 16: We estimate colour cosmetics, skin care and hair care to be the largest verticals of the BPC segment, for Nykaa



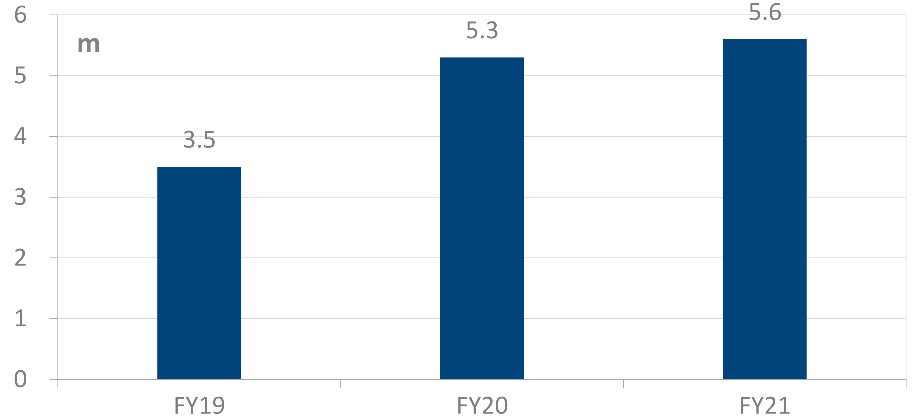
Source: IIFL Research

To understand the growth potential of the BPC segment, we examine its three components, i.e. the number of customers, the order frequency, and the average order-value (AOV).

Number of unique transacting customers

As of FY21, the number unique transacting customers (annual) stand at 5.6m, an increase of 2.1m over FY19.

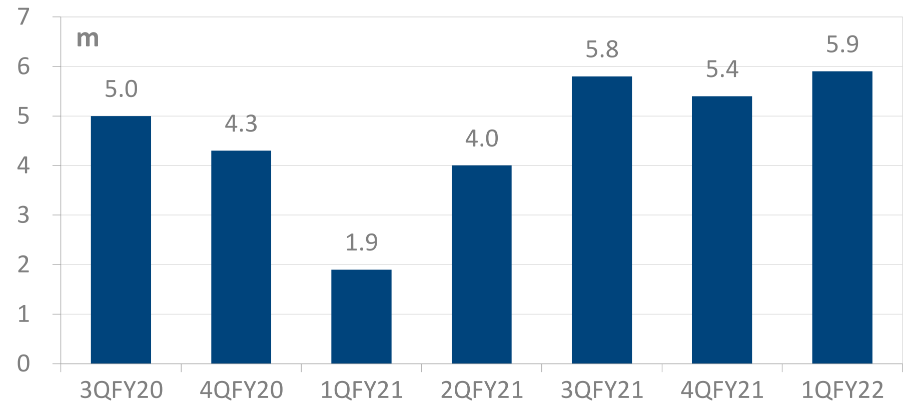
Figure 17: Number of unique transacting customers have steadily risen vs. FY19



Source: Company, IIFL Research

In FY21, number of customers did not increase much, due to Covid. The company has not disclosed the quarterly customer count, but did divulge the number of orders, which seems to have been impacted by Covid. We suspect a similar Covid impact in the number of customers too.

Figure 18: The number of orders in BPC was impacted by Covid-19



Source: Company, IIFL Research

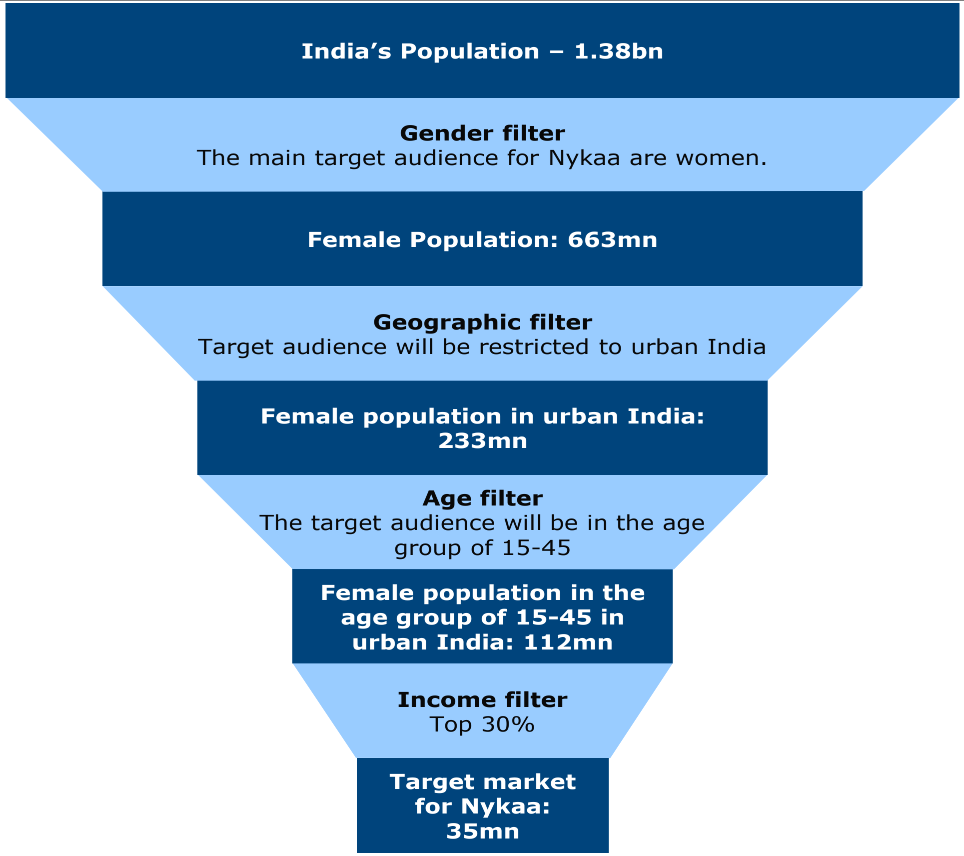
Target audience for Nykaa

We believe that the target market for Nykaa is ~35m customers currently; this will increase over time.

- **Gender filter:** Although Nykaa has male grooming products and, indeed, a separate App 'Nykaa Man' for male grooming products, we believe that for now, the main target audience is women. There are 663m females in India.
- **Geographic filter:** While Nykaa does have a significant small-town salience, we believe that there is hardly any rural salience. We believe that the audience will be restricted to urban India, which has 233m females.
- **Age filter:** Moreover, we believe that the target audience will be in the age group of 15 to 45. There are 112m females in urban India in this age group.
- **Income filter:** We believe that the top ~30% would have the disposable income necessary to be the target customers for Nykaa (for now).

After considering all the aforementioned filters, we estimate that Nykaa's target audience at present is ~35m.

Figure 19: The target market for Nykaa's BPC segment is 35m customers in FY21, per our estimates



Source: IIFL Research

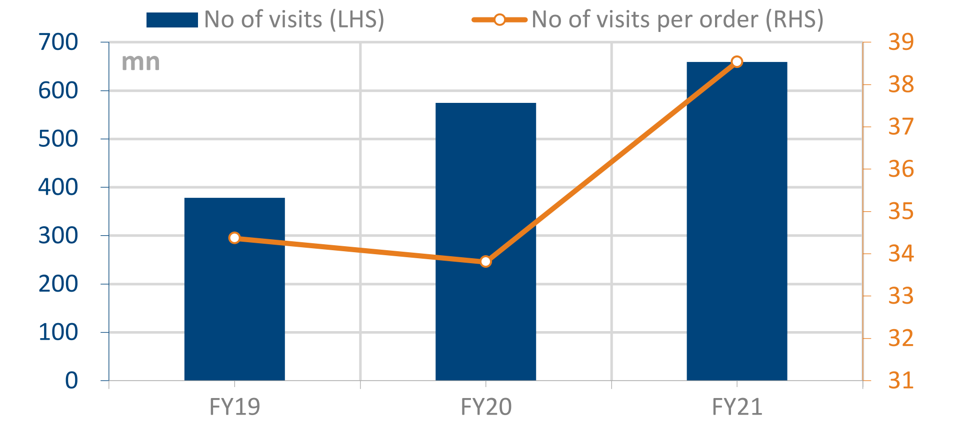
Journey to transaction

- **Downloads:** The first step for a transaction is to download the app (although purchases can be made on the website, 87% of Nykaa's GMV is derived on its app). There are 43.7m app downloads for Nykaa, but only 5.6m customers who transacted at least once in FY21. The number of downloads is 7.8 times the number of customers, which seems quite high. The number (of downloads) is not meaningful as it does not reveal how many people still have the app currently (some past customers / potential customers may have downloaded the app, only to delete it later, and such downloads would still be counted as part of the number of downloads.

- **Visits:** The next step after downloading the app is for the customer to visit the app. In FY21, 659m visits were clocked, a growth of 15% YoY. Moreover, such visits resulted in 17.1m orders, implying 39 visits per order. This, of course, is an average. There would be customers who had visited and did not place any order at all.

  Beauty is a high involvement category, with customers often researching products before buying. Moreover, since Nykaa has launched the 'Explore' function in the app which allows users to view video content on styling, the number of visits per order have slightly increased, which is a positive sign.

Figure 20: Number of visits have clocked a CAGR of 32%, higher than that for the no. of orders at 25% over FY19-21

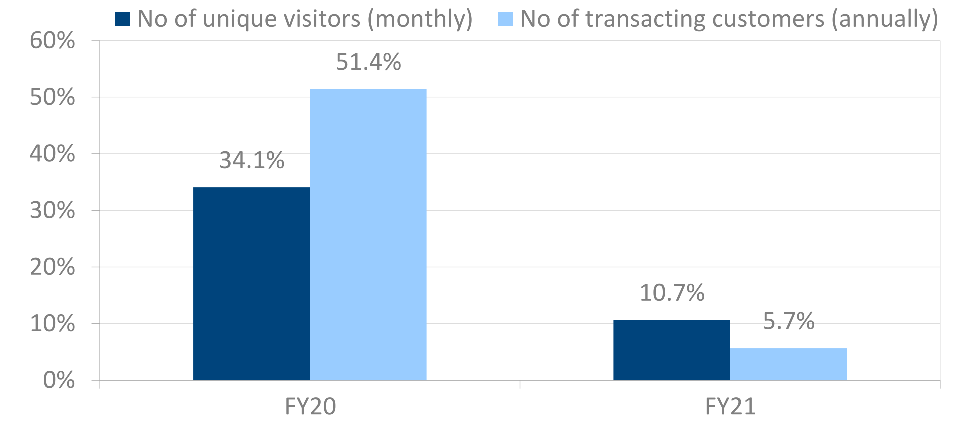


Source: Company, IIFL Research

- **Unique visitors:** While the total number of visits is one metric to track, it is also important that the number of unique visitors goes up and that the visits are not dominated by the same users just visiting more frequently. Nykaa has increased its monthly unique visitors, from 9.1m in FY19 to 12.2m in FY20 and further to 13.5m in FY21.

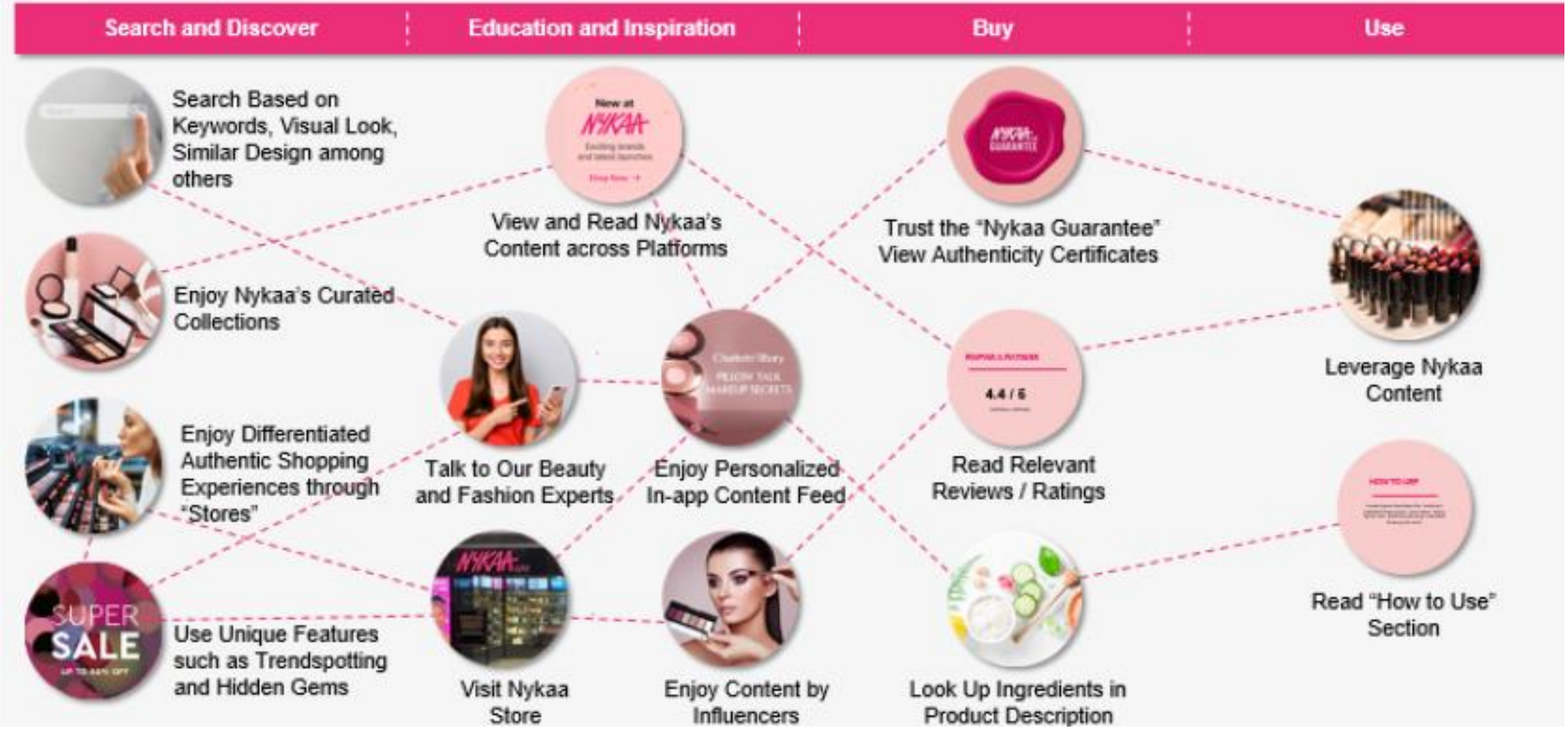
While the number of unique transacting customers in FY20 grew faster than the number of unique visitors, it was the other way round in FY21. This implies that in FY20, Nykaa increased its 'conversion rate' (i.e. converting a visitor into a customer), while it saw the conversion rate dropping in FY21.

Figure 21:No. of transacting customers witnessed higher growth vs. visitors in FY20



Source: Company, IIFL Research

Figure 22:Nykaa's consumer journey



Source: Company, IIFL Research

Growth drivers

While there is an opportunity to grow the number of Nykaa customers by nearly 7x, (target audience of 35m vs 5.6m customers in FY21) Nykaa needs to drive the journey from downloads to visits to transactions. The following are the main growth drivers for Nykaa:

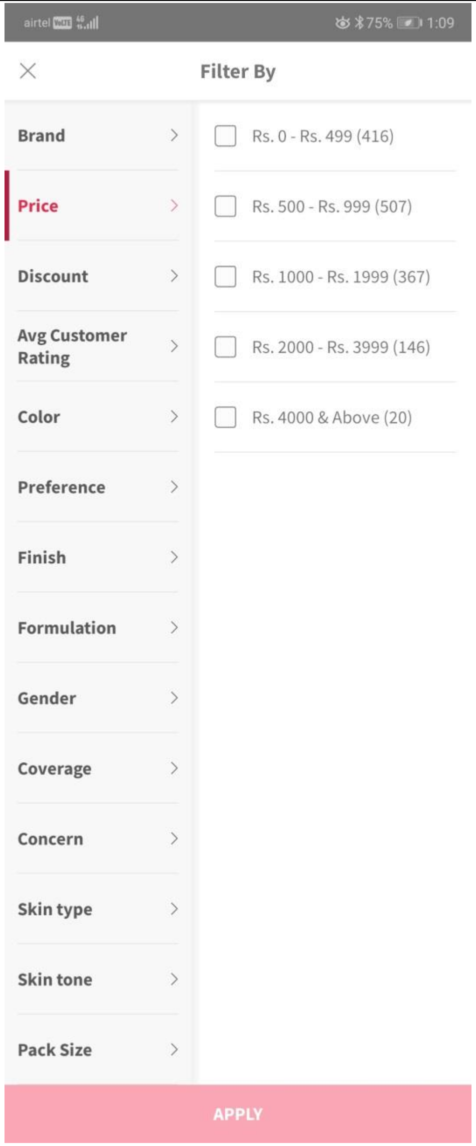
1. **Internet penetration and smartphones are not a constraint and, therefore, are not drivers:**
   In India, there are ~500m smartphone users and ~165m ecommerce shoppers. Compared with these, Nykaa recorded only 5.6m unique annual transacting customers and 13.5m unique monthly visitors. The ~35m target audience for Nykaa is already internet-savvy and is, most likely, an ecommerce shopper on some platform or another.

2. **Niche, premium and numerous brands:**
   The most important driver for a user to come on board the Nykaa platform is the wide variety of brands offered and the ease of discovery. Nykaa has ~0.2m SKUs and ~2,500 brands in the BPC segment which would be the widest choice available in this segment on any platform.

3. **Better search engine:** Being a specialist in the BPC segment, Nykaa can offer much better filters for a product and, therefore, a superior browsing experience. Potential users know this either via word of mouth or expect this given the specialised nature of the platform; therefore, this is one of the reasons why a customer would buy on the Nykaa platform.

   To illustrate our point, see the screenshot presented ahead, which shows that Nykaa has 14 filters for a product like lipstick. Each filter has several options. Wwe counted 132 brands (vs 40 brands in Amazon), 27 colours and 40 preferences, which means Nykaa assigns a mindboggling 278 different values to a lipstick!

Figure 23: Nykaa offers a comprehensive number of filters for a product like lipstick



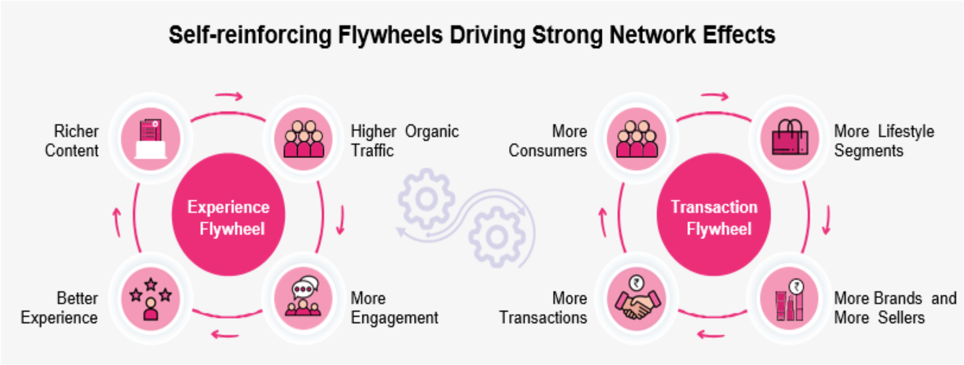
Source: Company, IIFL Research

As compared with this, the filters offered by Amazon are colour, finish and brands, in addition to the usual filters of price, discount, reviews, delivery speed and sellers. Specialised filters such as preference, formulation, gender, coverage, concern, skin type, skin tone and pack size are not available on Amazon.

4. Virtuous cycle of content and traffic

- To build engagement on its platform, Nykaa works with over 1,300 influencers and celebrities, to create content on its platform.
- *Nykaa TV* (a Youtube channel with 1.3m hours of content and 1.1m subscribers as of March 2021) and *Explore* (a feature in the Nykaa app which allows users to watch content and at the same time buy the products featured in that video) prompt viewers to transact, thereby converting users of the app into customers.
- *Nykaa Network* is a peer-to-peer social community with 3.1m members, who can chat with each other, give & seek advice, and discover new trends.

Figure 24: The virtuous cycle of content and traffic, leading to best in class experience and transactions



Source: Company, IIFL Research

5. Omni channel

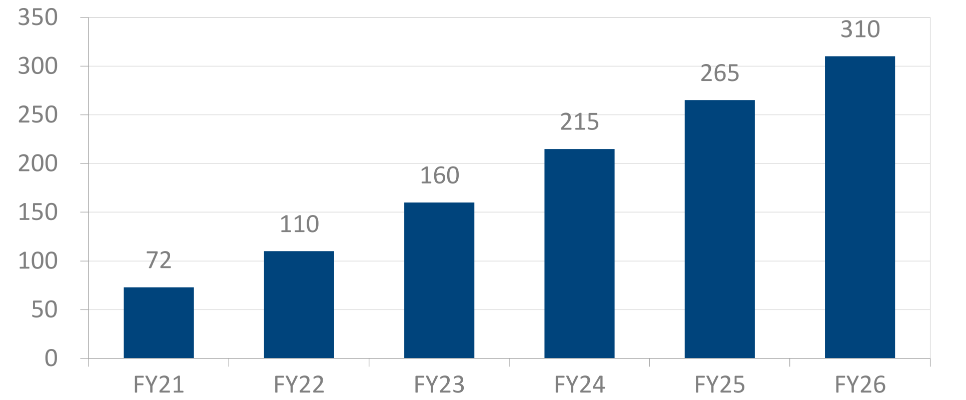
In addition to providing a plethora of benefits, physical stores are a customer recruitment tool. Store frontage is a free advertising space. Footfalls drive brand visibility for consumers who may not, for whatever reason, have interacted with the brand in the digital space.

The below mentioned excerpt (in box) from the DRHP aptly explains the role of the omni channel:

> "Omnichannel model will be beneficial for online BPC platforms. Supplementing their online platforms with a physical retail store presence helps complete consumer experience. The touch and feel, test and try elements become crucial in certain specialized BPC categories. Offline stores play an important role in providing desired experience and help establish a stronger trust among the consumers. An Omnichannel approach helps in providing consumers with a complete shopping journey and retail experience, with consumers able to enjoy the benefits of inventory well informed by hyperlocal patterns. Consumers are likely to be engaged better if attended in-person, which is feasible in offline stores. Together with online content on the platform, engagement in offline stores elevates the consumer experience. This drives more consumers to try out newer brands and categories. Presence across online and offline channels expands the modes of acquiring consumers and increases the likelihood of receiving organic traffic. Retail stores provide added flexibility with respect to logistics while simultaneously increasing delivery options for consumers including hyperlocal delivery, store pick-up. Omnichannel approach aids BPC brands to cater to a much wider audience by catering to unique preferences across diverse consumer preferences."

Nykaa has 72 stores in 38 towns. We believe that this will scale up to 310 stores in the next 5 years.

Figure 25: We believe Nykaa can scale up to 310 stores by FY26



Source: Company, IIFL Research

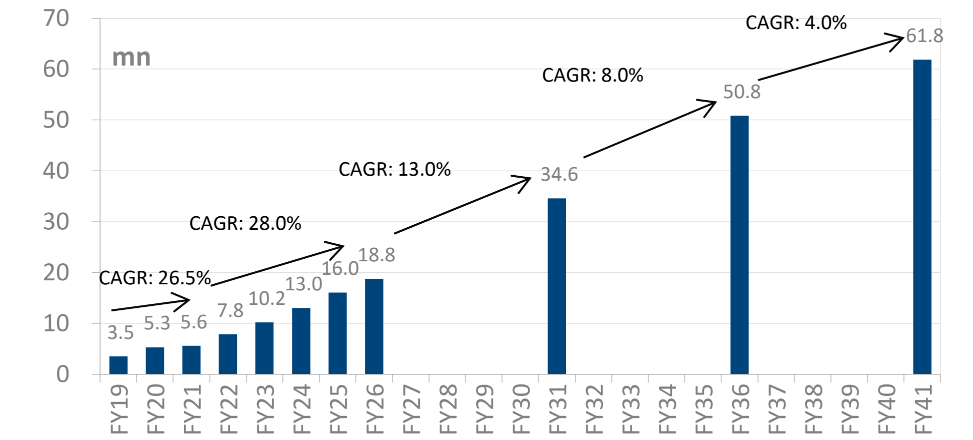
Figure 26: Nykaa's store & warehouse footprint

Source: Company, IIFL Research

Forecasts: 19m customers by FY26

We forecast that the number of annual unique transacting customers in the BPC segment will grow, from 5.6m in FY21 to 18.8m in FY26. The FY26-31/FY31-36/FY36-41 Cagr is projected at 13%/8%/4%, to reach a 61.8m customers by FY41.

Figure 27:We project a healthy CAGR in the annual number of unique transacting customers at Nykaa



Source: Company, IIFL Research

As discussed earlier, the target audience for Nykaa is ~35m currently. We project 55% conversion of the opportunity by FY26 and 100% by FY31. However, by FY31, the target itself would have expanded because:

- Population increase and urbanisation would increase the opportunity by ~23% by FY31 and by ~48% by FY41 (i.e. from 35m currently to ~43m in FY31 and ~52m by FY41).
- A significantly higher number of users would have enough disposable income that can be targeted; so, instead of the top ~30%, Nykaa could target, say, the top 50% by FY31 and the top 70% by FY41 (i.e. 70m by FY31 and 117m by FY41).
- The target of 35m does not include any men; by FY31, there would be some male population, too, which could be targeted – say, 5m by

FY31 and 15m by FY41, thus increasing the total target to 75m by FY31 and 132m by FY41.

Figure 28:Derivation of target audience(m) over time

(million)	FY21	FY31	FY41
Starting point - target audience	35		
Increase due to population		8%	15%
Target audience adj for increased population		38	40
Urban proportion	35%	40%	45%
Target audience adj for increased population & urbanisation		43	52
Percentage of audience targeted by income	31%	50%	70%
Target audience adj for increased population, urbanisation & income		70	117
Target male audience	0	5	15
Total target audience	**35**	**75**	**132**

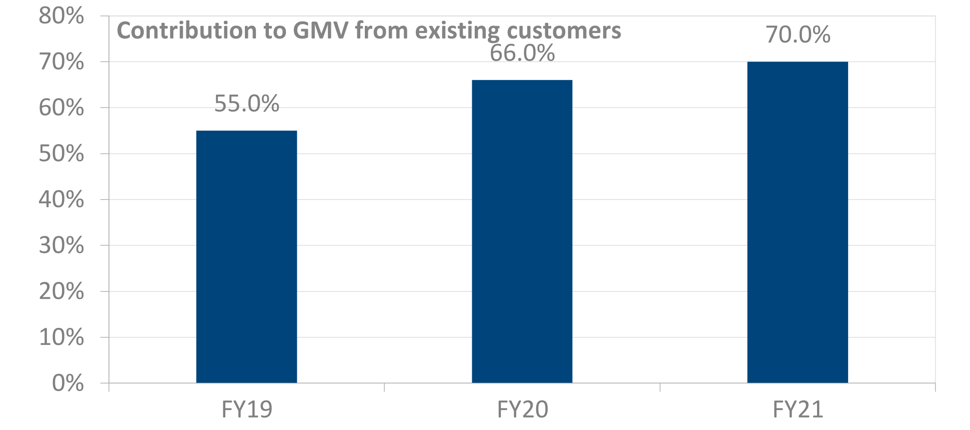
Source: IIFL Research

What is required to get to achieve our forecasts?

- Retention of existing customers
- Acquisition of new customers

In FY21, 70% of the GMV was contributed by existing customers, up from 66% in FY20 and 55% in FY19. The increase in percentage could be on account of: i) slower customer acquisition (especially in FY21 due to Covid), and) increased customer loyalty.

Figure 29: Contribution to GMV from existing customers



Source: Company, IIFL Research

If we make a simplifying assumption that the average spend for new as well as existing customers is the same per year, (thus implying that 70% of the customers are from the previous year, then the required rate of new customer acquisition (gross) would work out as below.

Figure 30: New customers(m) that need to be acquired by Nykaa assuming 70% retention

	FY20	FY21	FY22ii	FY23ii	FY24ii	FY25ii	FY26ii
Number of unique annual transacting customers	5.3	5.6	7.8	10.2	13.0	16.0	18.8
Existing customers (70% retention)	2.3	3.7	3.9	5.5	7.1	9.1	11.2
Customer acquisition (gross)	3.0	1.9	3.9	4.7	5.9	6.9	7.5

Source: Company, IIFL Research

Some part of these gross additions would be lapsed customers coming back to the fold.

Annual spend per customer

Annual spend per customer is a derived by multiplying the number of orders per year by the AOV, and then marking down for discounts, returns and cancellations.

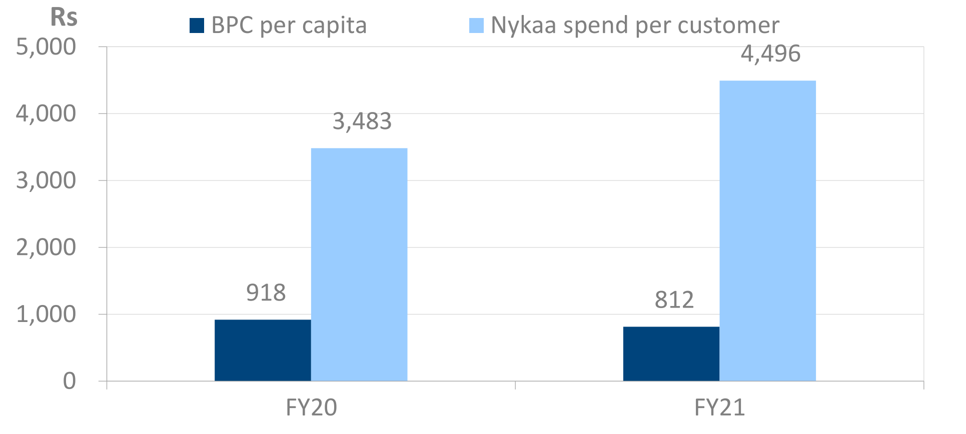
Figure 31: Annual spend per customer in Nykaa's BPC segment was ~Rs4,500 in FY21

	FY19	FY20	FY21
No or orders per customer (mn)	3.1	3.2	3.1
AOV (Rs)	1,433	1,448	1,963
GMV per customer (Rs)	4,504	4,645	5,994
Mark down	75%	75%	75%
Spend per customer (Rs)	3,378	3,483	4,496

Source: Company, IIFL Research

The consumer-spend per year for BPC on Nykaa's platform is ~Rs4,500 for FY21, a growth of 29% YoY, on account of Covid (larger order-sizes). In FY20, the annual customer-spend was largely flat YoY.

Figure 32: Annual consumer spend at Nykaa was ~5.5x of per-capita spend pertaining to the BPC industry



Source: Company, IIFL Research

Nykaa's per-capita spend by customers is higher than the all-India per-capita spend for BPC. As per the DRHP, the FY21 size for the BPC market is Rs1.12trn, which implies a per-capita spend of ~Rs800 vs. Nykaa's spend per customer at ~Rs4,500. The difference needs to be adjusted for:

- Category mix – Over 70% of Nykaa's FY21 sales is from make-up (colour cosmetics), skin care and hair care. These categories make up a much lower component of the overall BPC market. Within the relevant sub-categories, the difference in per-capita spend would be even higher than it appears.
- Female population – While Nykaa would have a significantly high skew towards females, the overall BPC category too is likely to tip towards females. Adjusted for this, the gap in the per-capita spend would be lower than the prima-facie difference.
- A Nykaa customer may be buying products not only for herself but for other family members. Her spend on the app, therefore, is not necessarily 'per capita' and, therefore, not comparable to the overall industry per-capita spend. Adjusted for this, the gap in the per-capita spend would be lower than the prima facie difference.

It is difficult to quantify the aforesaid adjustments, but even so, we believe that despite these adjustments, the per-customer spend on the Nykaa app is much higher than the overall industry-spend. In fact, this is hardly surprising, given that the urban spend would be higher than the rural spending and, within urban, the affluent class that Nykaa targets would have a higher per-capita spend than the urban average.

Average customer spends in the context of increasing customers

As discussed earlier, we are projecting an increase in customers from 5.6m to 18.8m over the next 5 years. In this context, it is pertinent to ponder how the average annual spend per customer will trend. Assuming that Nykaa has first tapped affluent consumers, will such new customers be able to log equivalent or higher spends than existing customers?

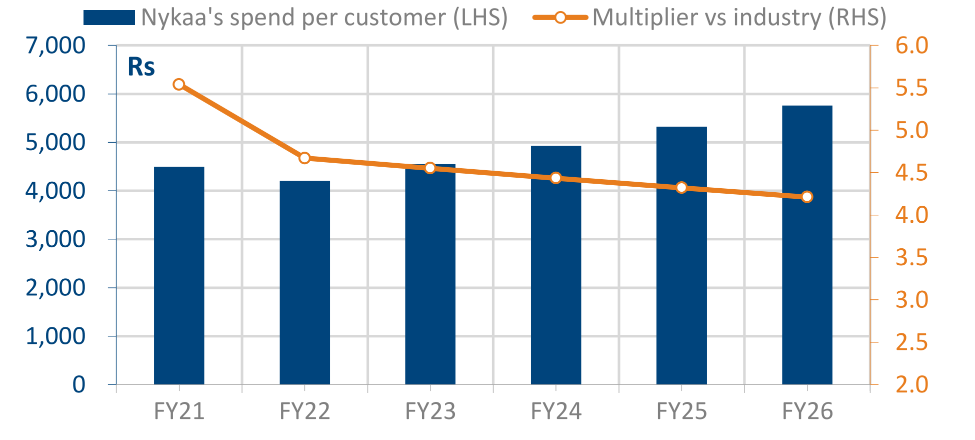
We believe that the average annual spend per customer will grow at a modest 5.1% during FY21-26.

- The estimated 35m target customers of Nykaa would be among the top one-third of the urban households of India. Given that urban spends on BPC would be 1.5-2x that of rural spends, and that the top one-third would spend 1.5-2x that of the urban average, the 35m target consumers of Nykaa would be spending ~3-3.5x that of the national average. Compared with this, Nykaa spends per customer are expected at 4.7x that of the national average (in FY22), and slightly reducing to 4.2x that of the national average by FY26. Note that by then (FY26), Nykaa will have 18.8m customers, just over half its target audience.

- The BPC category, being discretionary in nature, is likely to have a disproportionate effect to income growth. This would play out even more for the top one-third of the urban population.
- Normal price growth of ~3% in BPC products.

The industry is likely to grow at ~12% Cagr FY21-26 (i.e. 11% per capita) while our forecast of the spend-per-customer growth being lower at 5.1% implies that we are in fact assuming lower spending from newer customers.

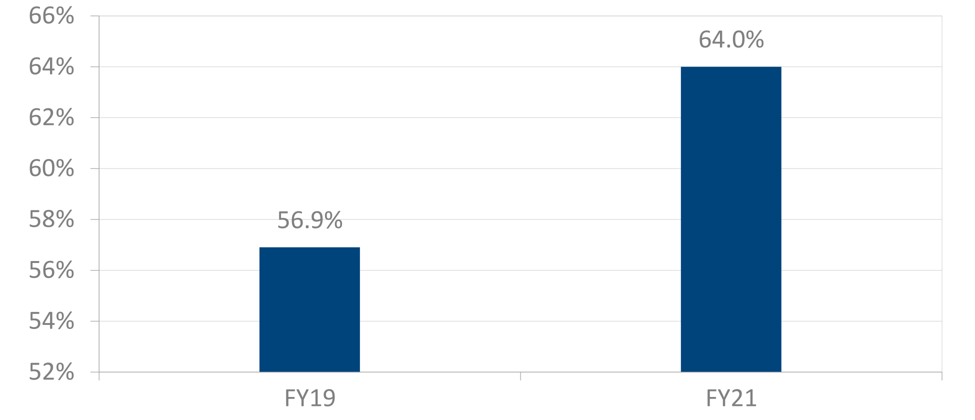
Figure 33: Consumer spend at Nykaa relative to the industry would gradually reduce



Source: Company, IIFL Research

Another reason for our belief that the average spend per customer will maintain and grow (mainly driven by increase in AOV) is that there is already a high salience of smaller towns in the overall sales of the company.

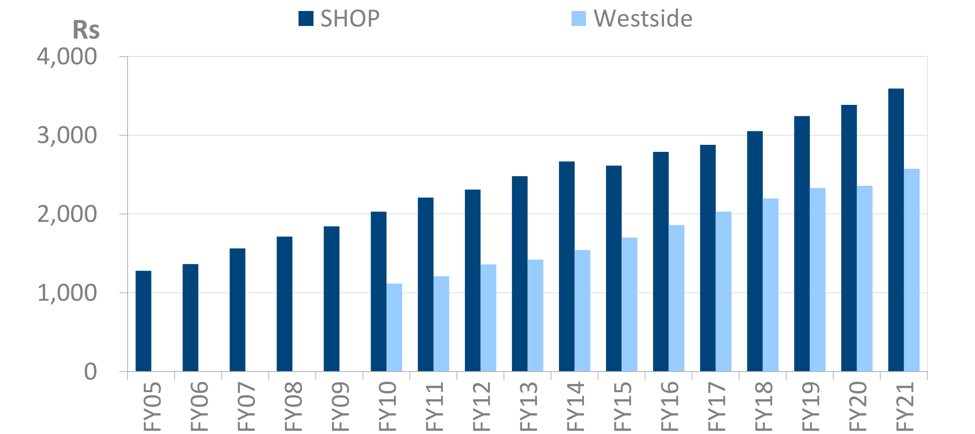
Figure 34: Nykaa' salience of tier 2 and tier 3 towns



Source: Company, IIFL Research. Note: Pertains to overall revenues

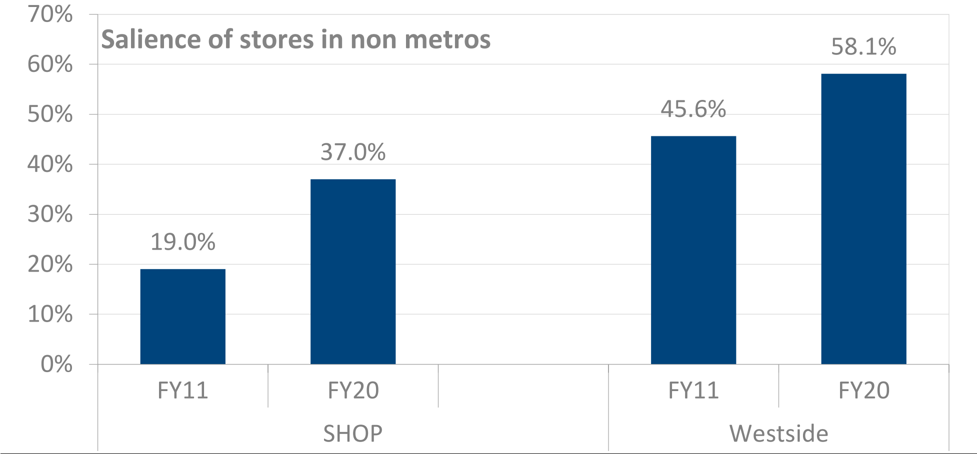
Although not directly comparable, we look at the average transaction size for Shoppers Stop and Westlife over time. Both players have, over the past 10-15 years, increased the salience of non-metro towns and, yet, their overall transaction size has gone up.

Figure 35: Average transaction size for both, Shoppers Stop and Westside, has steadily grown over the years



Source: Company, IIFL Research

Figure 36: Salience of stores in non metros for both, Shoppers Stop (SHOP and Homestop formats) and Westside, has increased over the years

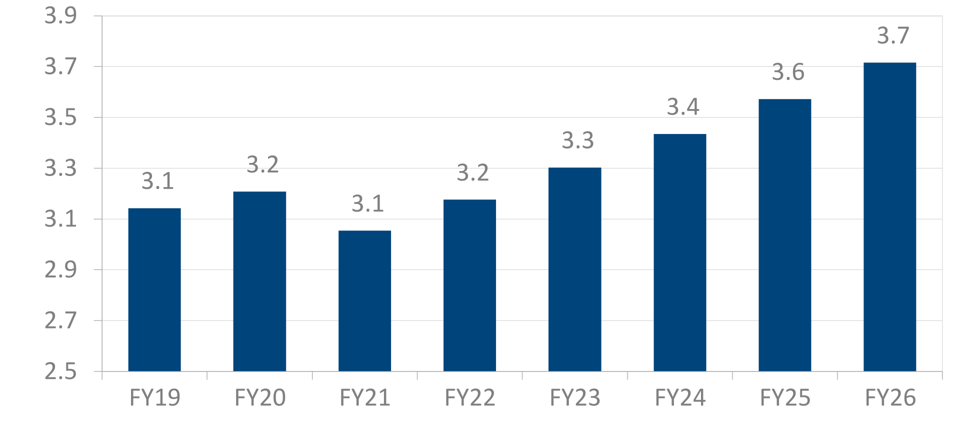


Source: Company, IIIIFL Research; Non metros comprise all cities / towns, excluding Mumbai, Pune, Bengaluru, Hyderabad, Chennai, New Delhi, Noida, Ghaziabad, Gurugram, Kolkata

Frequency of purchase to gradually increase

We have factored-in a modest increase in frequency of purchase, from 3.1x a year in FY21 to 3.7x a year in FY26, and no change thereafter, to account for increased engagement on the platform as well as addition of more personal care products, which entail higher frequency of ordering.

Figure 37: Average orders per year to clock a Cagr of 33% over FY21-26

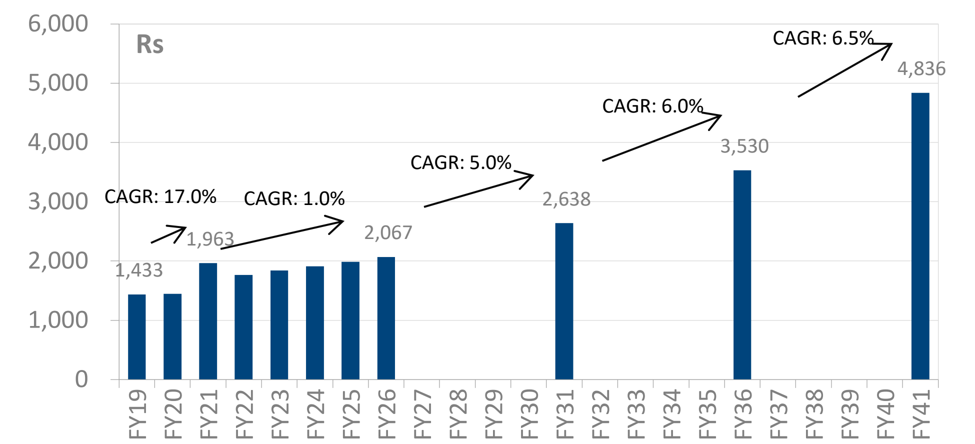


Source: Company, IIFL Research

Average order value

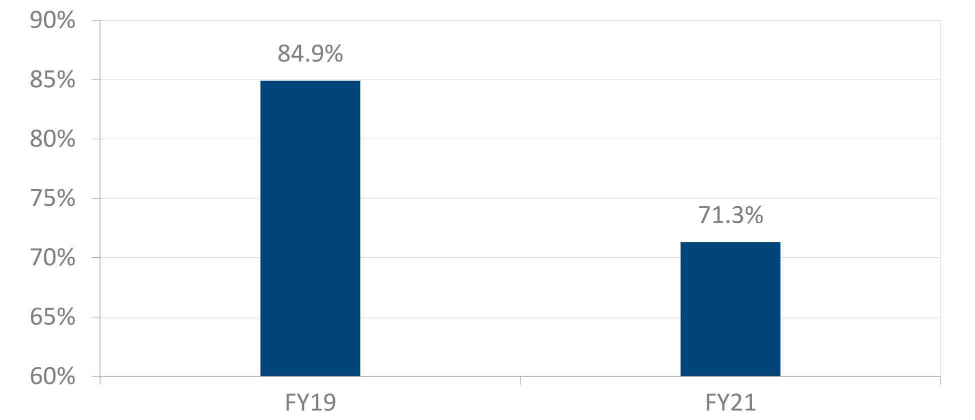
As FY21 has witnessed a spike in AOV (Covid-related), we assume a 10% drop in FY22 and, thereafter, a growth of 4% each year till FY26. The growth in AOV will be subdued on account of significant addition of new customers, who will enter the ecosystem at a lower AOV. Post FY26, as the growth in number of customers slows down and the percentage of new customers reduces consequently, their drag on the AOV will go down. We therefore project a 5%/6%/6.5% Cagr in AOV FY26-31/FY31-36/FY36-41 respectively.

Figure 38: Average-order-value CAGR to increase, as the proportion of new customers reduces



Source: Company, IIFL Research

Figure 39: Salience of top-three categories for Nykaa



Source: Company, IIFL Research.

Growth drivers

All growth drivers that were applicable for customer growth are relevant for increase in annual spend as well. In addition, there would be the following drivers

1. **Increase in categories purchased:**
   A customer may use the app to purchase a particular category, say makeup, but as she gets comfortable with the app, she may buy other categories such as skin care, hair care and so on, resulting in an increase in the annual spend per customer.

   This is actually being witnessed, with the top-3 categories in FY21 accounting for 71% of the sales vs 85% in FY19. Possibly due to Covid, among other reasons, customers have ordered categories that they may otherwise have bought elsewhere via Nykaa. Part of this increase will be sticky, even when the Covid situation normalises.

2. **Premiumisation**
   As the income and aspirations of a customer increase, she would opt for more premium products. Nykaa works with several premium and super premium brands; in fact, many of these brands have paved an entry into India via Nykaa.

3. **Price increases:**
   A price increase of ~3% per annum can be normally expected in FMCG products, over a period of time.

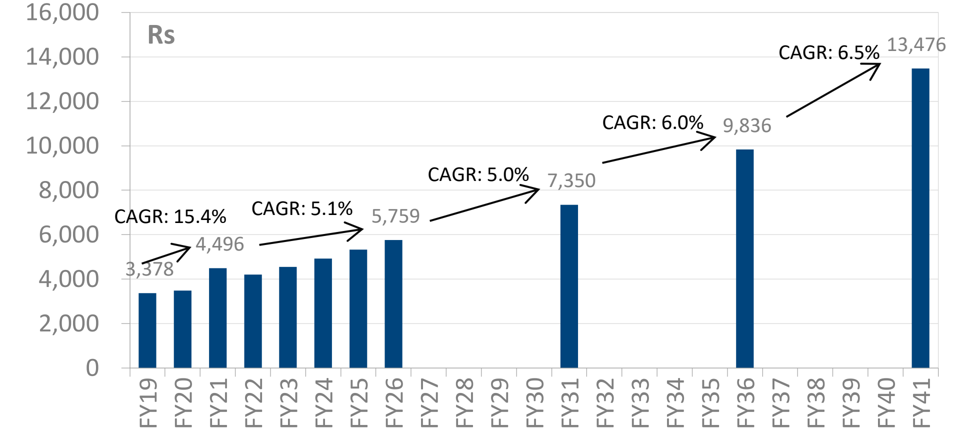
4. **Building loyalty:**
   Nykaa has a loyalty programme for its consumers – Nykaa Private, which had 2.1m members in FY21. Benefits for members include exclusive offers, discounts, complimentary gifts, free shipping, access to exclusive members' only content and priority access to the consumer service team. In addition to the loyalty programme, normal consumers can also earn reward points by signing up, writing reviews and answers, new customer referrals, etc. These rewards can be redeemed to make purchases on the Nykaa platform.

Loyalty points work by:
- weaning market share away from offline and other online platforms;
- increasing frequency of purchase.

Trend in spend per customer
We expect spend per customer to marginally dip in FY22, as AOV falls from a high base (but still remaining at 21% over FY20) and frequency of purchase slightly goes up to revert to FY20 levels. Thereafter, we assume 4% increase in frequency and AOV till FY26, implying an ~8% increase in spend per customer per year.

As customer acquisition decelerates, we expect AOV to rise faster, with lesser drag from new customers. We project 5%/6%/6.5% growth in AOV during FY26-31/FY31-36/FY36-41, respectively. We do not assume any increase in frequency post FY26, so that the increase in customer spending mirrors the increase in AOV.

Figure 40: We forecast spend per customer to clock 5.1% Cagr FY21-26

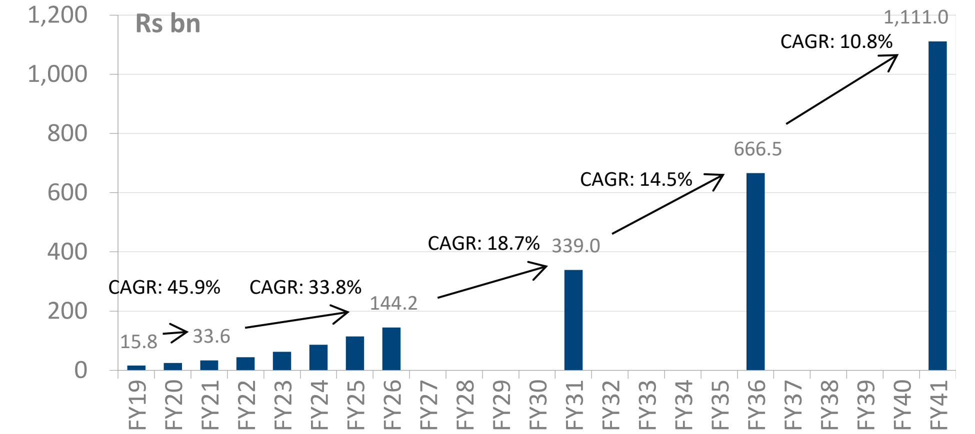


Source: Company, IIFL Research; Note: annual spend is GMV per customer marked down by 25% for returns, discounts and cancellations

Growth in GMV

We forecast GMV Cagr of 34% during FY21-26 and 19%/14%/11% during FY26-31/FY31-36/FY36-41, respectively.

Figure 41: Increase in customers and modest growth in average order value to drive a robust GMV growth

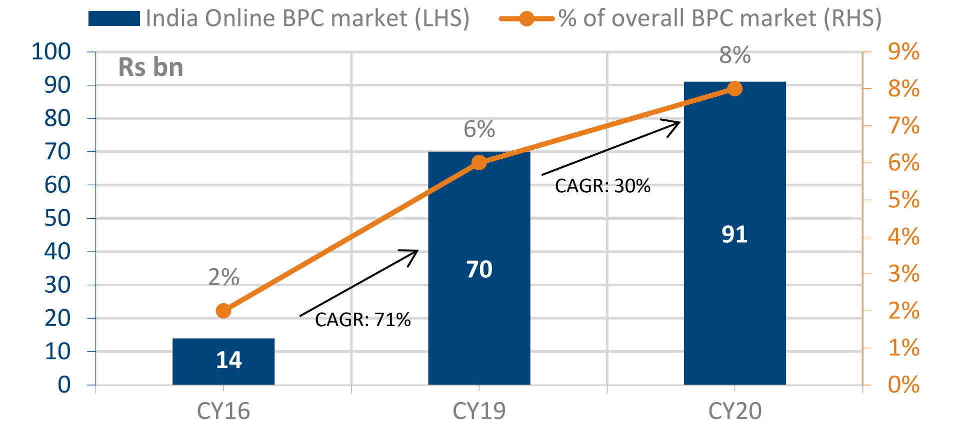


Source: Company, IIFL Research

Market share in overall market and online channel

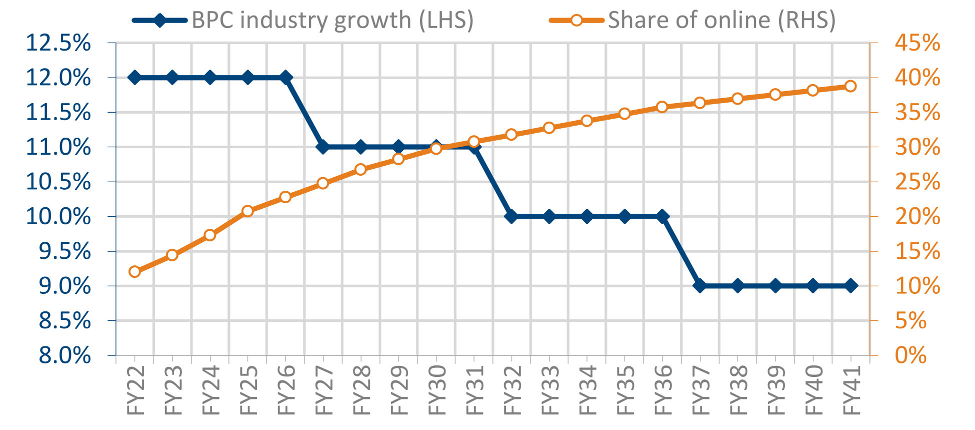
We project overall BPC market Cagr at 10.5% over FY21-41. Online channel contribution, which stands at 8% in FY21, could cross the 30% mark by FY41.

Figure 42: Online contribution within the beauty and personal care industry has been steadily increasing



Source: Company, IIFL Research

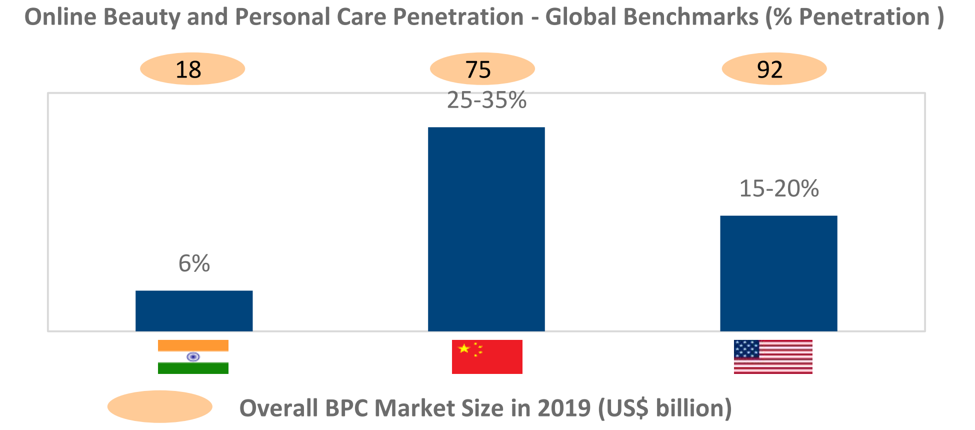
Figure 43: We forecast BPC industry CAGR at 10.5% over FY21-41



Source: IIFL Research

In other countries such as the US and China, online penetration is currently much higher than in India.

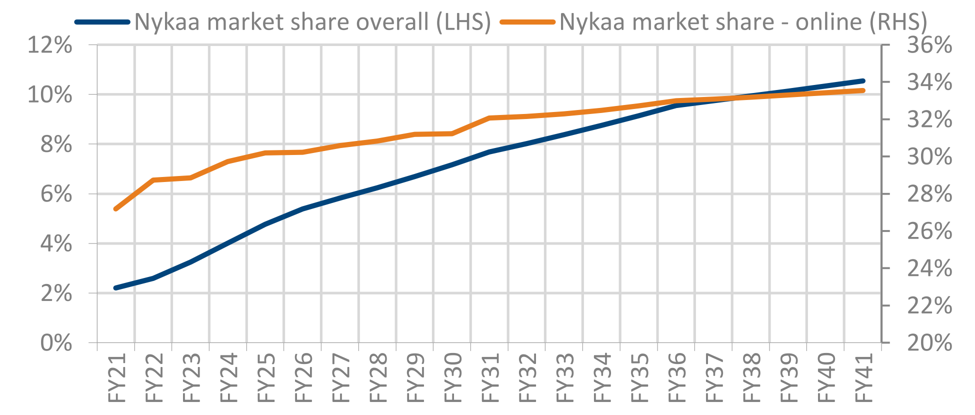
Figure 44: Online contribution in the BPC industry is much higher in the US and China vs. India



Source: Company, IIFL Research

Nykaa commands 2.2% market share in the overall BPC industry and 27.2% in the online channel as of FY21, per our calculations. We project that by FY41, the company's market share in the overall BPC industry could move up to 10.5% and to 33.5% in the online channel.

Figure 45: Nykaa's market share in the overall BPC industry to steadily rise, from 2% in FY21 to 10.5% in FY41

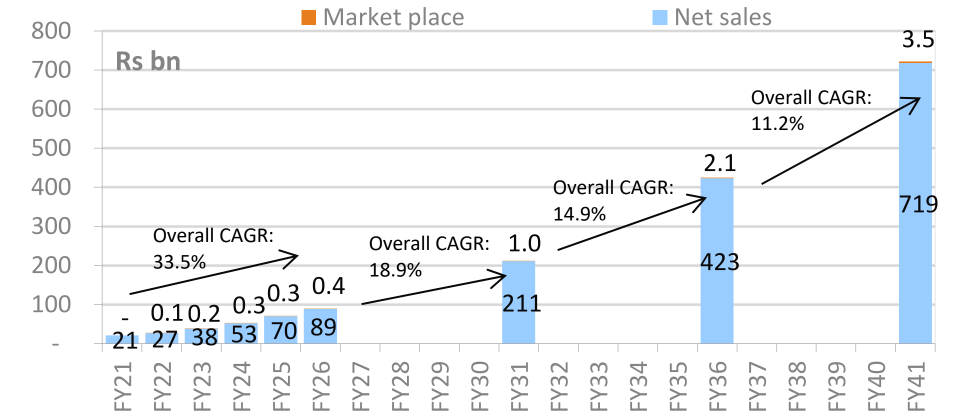


Source: Company, IIFL Research

Revenue booking of sales of products

A predominant part of revenues of Nykaa's BPC vertical is contributed via the inventory model (or its variants 'sale or return' or 'just in time'). We assume a marketplace commission of 15% of GMV and net sales at 62% of GMV.

Figure 46: Inventory model will continue to dominate BPC vertical



Source: Company, IIFL Research

Marketing support revenue

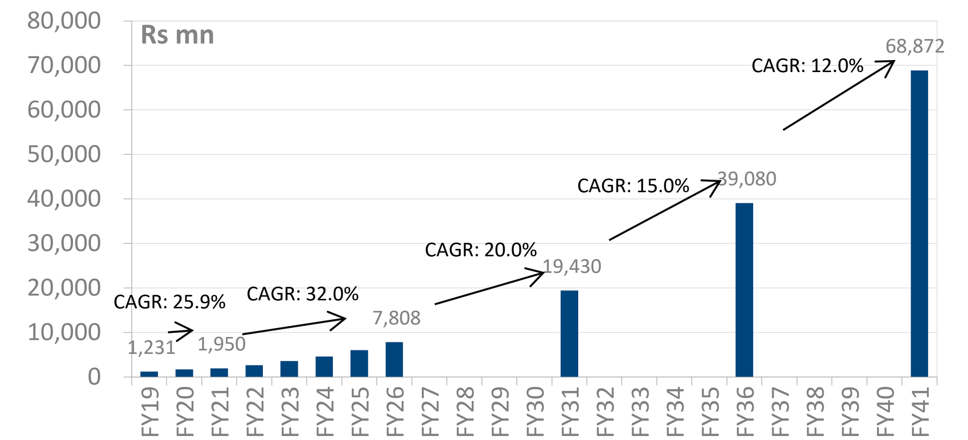
In addition to revenue from sale of products (either via marketplace or inventory model), Nykaa also gets revenues from marketing support. As per the DRHP, "marketing support revenue includes (a) marketing income from visibility services provided by us to various brands at our retail outlets and (b) revenue from advertising services which allow our brand relationships and sellers to place advertisements or show their products in particular areas of our websites and mobile applications at fixed or variable fees".

This is a very important driver of profit margins because there is little-to-nil associated cost.

Growth drivers

- Increased visits and transactions will result in increased rates for advertisement, just as it is in the case of TV (higher viewership = higher add rates).
- Roll out of physical stores will result in greater avenues of display/merchandising-led fees and / or listing fees.
- Currently, contribution from the fashion vertical is negligible (and hence, we have included this stream of revenue in this chapter, which deals with BPC revenues), but as this segment ramps up, there would be some contribution from fashion brands as well. We, however, do not break up our forecasts by vertical.

Figure 47: Marketing support revenues would witness robust growth

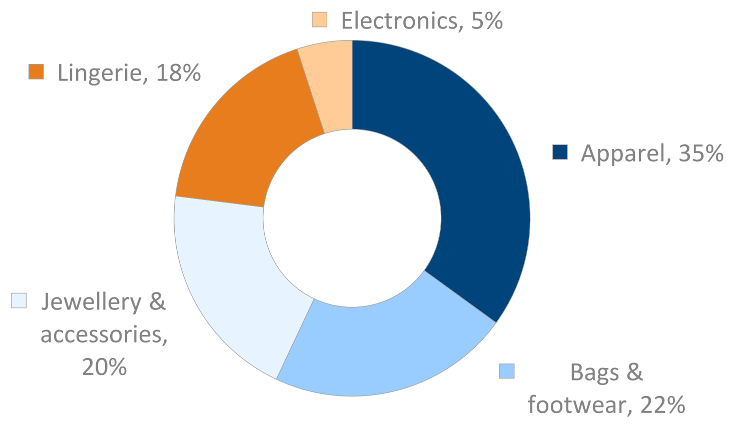


Source: Company, IIFL Research

Fashion – Rs130bn GMV by FY26ii

Fashion, a relatively new business for Nykaa, is seeing rapid growth on a small base. Per our estimate, in the Fashion segment, 'apparel' is the largest category with ~35% sales contribution, followed by bags & footwear at 20-25%, jewellery & accessories as well as lingerie at 17-20% each, and electronics at 3-5%.

Figure 48: Apparel is the largest category within Nykaa's fashion segment



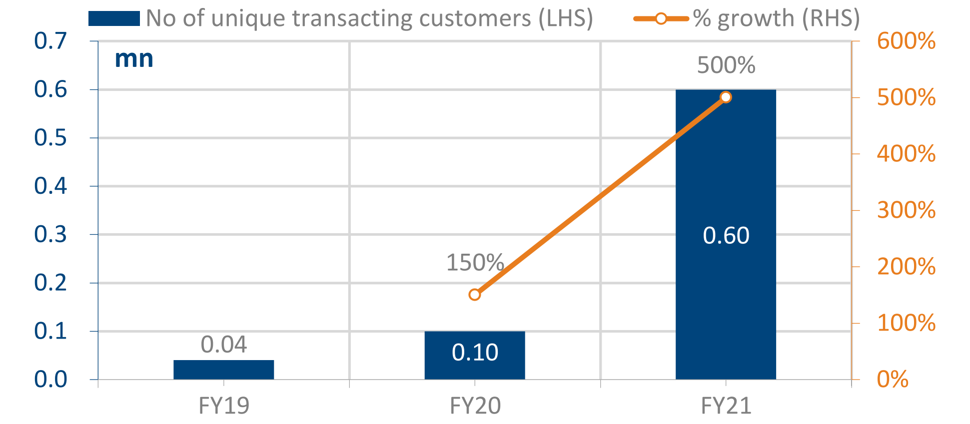
Source: IIFL Research

For its fashion vertical, the company largely follows the marketplace model: it does not carry the inventory and does not record the sales; rather, it charges only marketplace commission, which forms the revenue.

Number of customers

Having only recently entered the 'fashion' segment, the number of unique, annual transacting customers for Nykaa in the segment is low, at 0.6m. Growth though, on a low base, has been high, vs 0.04m customers in FY19.

Figure 49:Number of unique transacting customers witnessed high growth, on a low base



Source: Company, IIFL Research

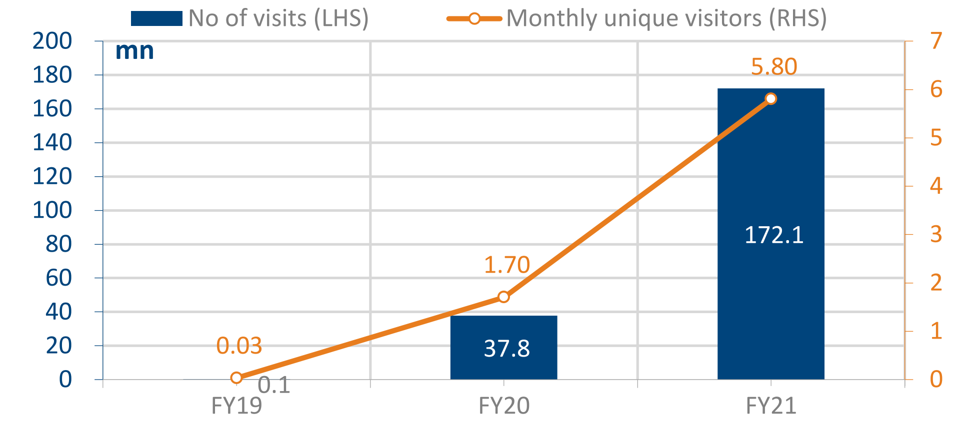
Target audience for Nykaa

Unlike the BPC segment, where we had to clearly define the target audience (the reader will recall that we arrived at a number of 35m), the target audience for the fashion category would be similar to that of other e-commerce websites such as Amazon, Myntra and Flipkart.

However, at least in initial years, users are more likely to be female. If brand Nykaa can hold mainstream appeal in the fashion segment, we will soon see a fair share of the male population as its customers as well.

There are 140m ecommerce shoppers in India. While the number of fashion ecommerce shoppers is not available, a large part of this 140m ecommerce shoppers would also be fashion ecommerce shoppers. Theoretically, each such shopper could be the target audience for Nykaa in the long run.

Figure 50: Number of visits and monthly unique visitors for Nykaa's fashion division has steadily increased



Source: Company, IIFL Research

Growth drivers

Apart from the usual drivers for the shift from offline to online, young population, etc, which are well known, the drivers for customer growth in Nykaa's fashion segment are:

1. **Cross pollination of BPC customers**
   Although Nykaa has launched a separate app for fashion, fashion products are available on the Nykaa app as well, albeit a very limited range. Nykaa has 13.5m monthly unique visitors, to whom fashion products can be cross sold. These visitors may be willing to try the Fashion app too, given the brand affinity.

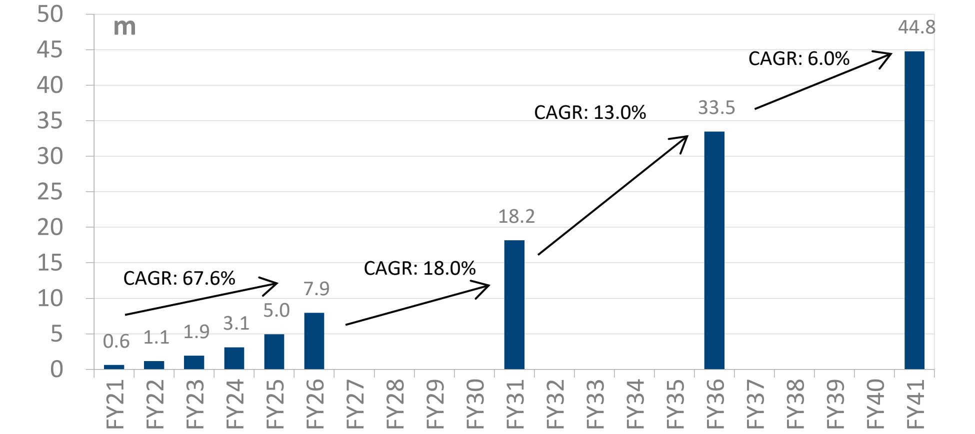
2. **Physical stores**
   Just as its 72 stores in the BPC space, Nykaa plans to open stores for its Fashion category as well. There is already one store in Ambience Mall, New Delhi for this vertical. Physical store frontage is advertisement for the brand. If opened in high footfall areas, it can generate significant brand awareness. Moreover, all the advantages conferred via an omni channel approach to BPC, as mentioned in the previous chapter, apply to Fashion as well.

3. **Curated product offering:** While the company has a wide variety of products, the differentiation is curation. Nykaa offers fashion forward brands with good style and quality, and within these brands highlights select styles. Moreover, they focus on selling the latest season's designs, which results in lower discounting. The company uses digital content, personalized mobile application experiences and proprietary recommendation algorithms, to build differentiated style-driven, discovery-led experiences for consumers.

Forecasts – 7.9m customers by FY26

We forecast that the number of annual unique transacting customers in the fashion segment will grow to 7.9m in FY26 from 0.6m in FY21. The FY26-31, FY31-36 and FY36-41 Cagr is projected at 18%, 13% and 6%, respectively, to reach a customer-count of 44.8m by FY41.

Figure 51: We forecast Nykaa will report a Cagr of 24% over FY21-41 for the annual unique transacting customers

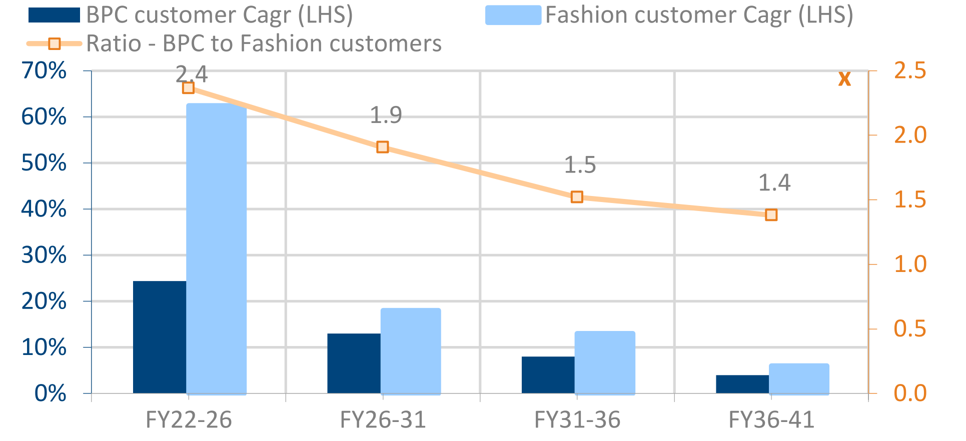


Source: Company, IIFL Research

We are building-in fewer customers for fashion as compared with BPC. By FY26, we project 18.8m BPC customers, but only 7.9m fashion customers. This is despite the fact that the target audience for Nykaa's fashion offering could arguably be larger than that of its BPC offering, on account Nykaa being a late entrant in the fashion vertical, where strong, established players are already present and their preference for lower discounting.

However, we forecast fashion customers to grow at a faster rate than BPC, given the low base. Even so, for FY41, the total number of customers in fashion at 44.8m is lower than that for BPC at 61.8m. Given that the target audience for fashion is likely to be bigger than that for BPC, we are taking a lower uptake for Nykaa's fashion offering vs its BPC offering.

Figure 52: Nykaa – We estimate the fashion segment to clock a faster growth rate than BPC owing to a low base



Source: IIFL Research; Note: Ratio denoted above is for the end of each Cagr year. For example, the ratio for FY22-26 denotes the ratio between BPC customers and fashion customers for the year FY26

Annual spend per customer

Annual spend per customer is derived by multiplying the number of orders per year by the AOV and then marking down for discounts, returns & cancellations.

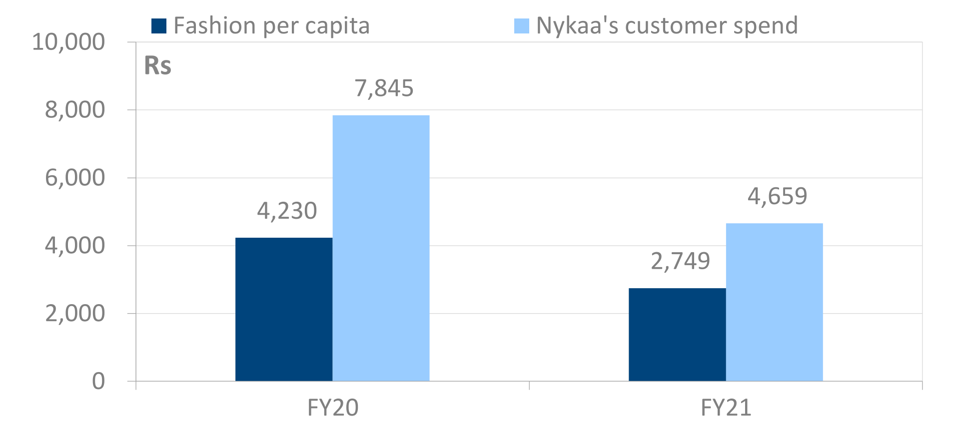
Figure 53:Nykaa's annual spend per customer has decreased YoY in FY21 on a high base

	FY19	FY20	FY21
AOV (Rs)	655	1,604	2,739
GMV per customer (Rs)	7,040	18,678	11,093
GMV mark down	42.0%	42.0%	42.0%
Consumer Spend (Rs)	2,957	7,845	4,659

Source: Company, IIFL Research

The consumer spend per year on Nykaa's platform in FY21 for fashion is Rs4,659, a decline of 41% YoY. FY20 saw an increase in annual customer spend, at 165% YoY.

Figure 54: Nykaa's spend per customer in fashion is higher vs the overall market



Source: Company, IIFL Research

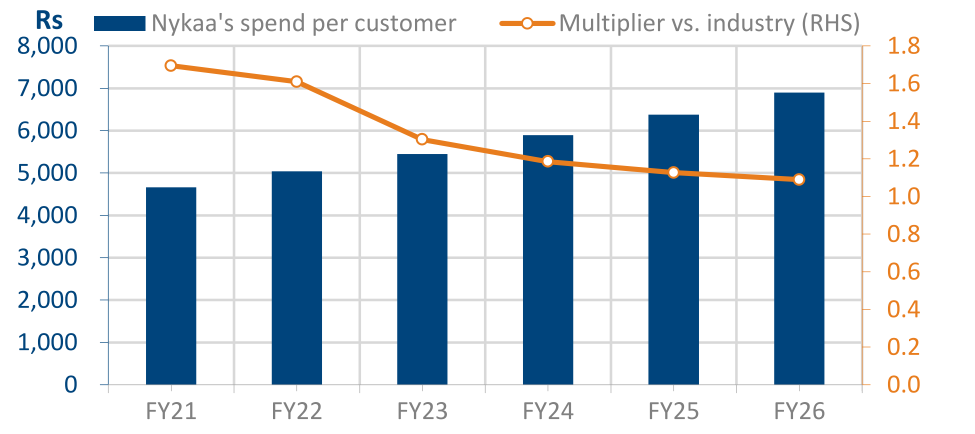
Per capita spend for Nykaa fashion is higher than the overall market. This is not very surprising given that the customer base for Nykaa is very small, and probably with income and expenditure higher than industry average. However, within these customers' overall fashion purchases, Nykaa would probably have a small market share, given much larger and well established retail avenues (both online as well as offline) to shop from.

Average customer spend in the context of increasing customers

We are projecting an increase in customers, from 0.6m to 7.9m over the next 5 years. The number of customers is still too small to impact the average spending adversely (the concern that new customers would not have the same spending power as the existing ones is not applicable for fashion, given that 7.9m is still too small a number).

Even so, to allow for the risk of poor uptake of Nykaa's rather nascent fashion vertical, we calculate a lower average annual spend per customer rate for the company than the overall growth for the industry. On a low base of FY21, we forecast an industry Cagr of 19% over FY21-26 (adjusted for ~1% population growth which is an ~18% increase in per-capita spend). As against this, we increase our average spend per customer by 8% over the same period.

Figure 55:We forecast a lower Cagr for Nykaa's spend per customer in fashion vs. overall industry

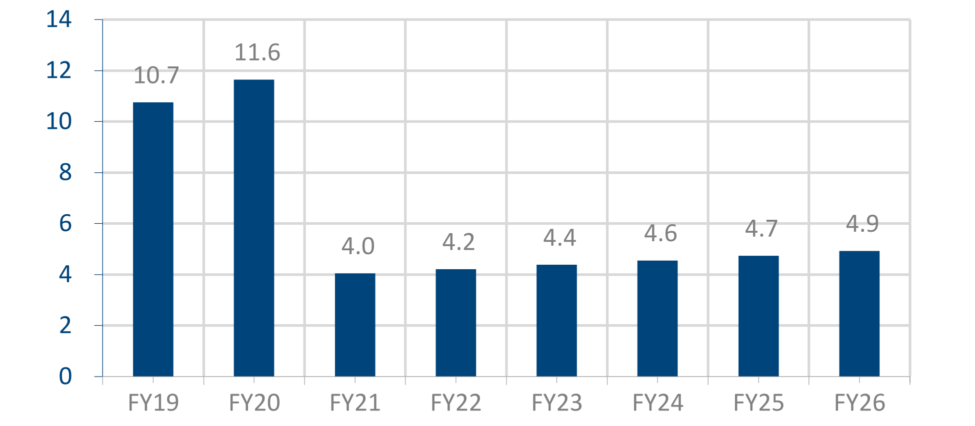


Source: Company, IIFL Research

Frequency of orders to increase

We anticipate an increase in frequency of orders, from 4.0 in FY21 to 4.9 in FY26. Fashion has many subcategories, such as clothing, footwear, bags and lingerie, and consumer shopping cycles for each such category are different. Therefore, frequency of visits has even more leeway to ramp up, though we conservatively retain this level.

Figure 56: We conservatively ramp up frequency of ordering per customer, from 4.0 in FY21 to 4.9 in FY26

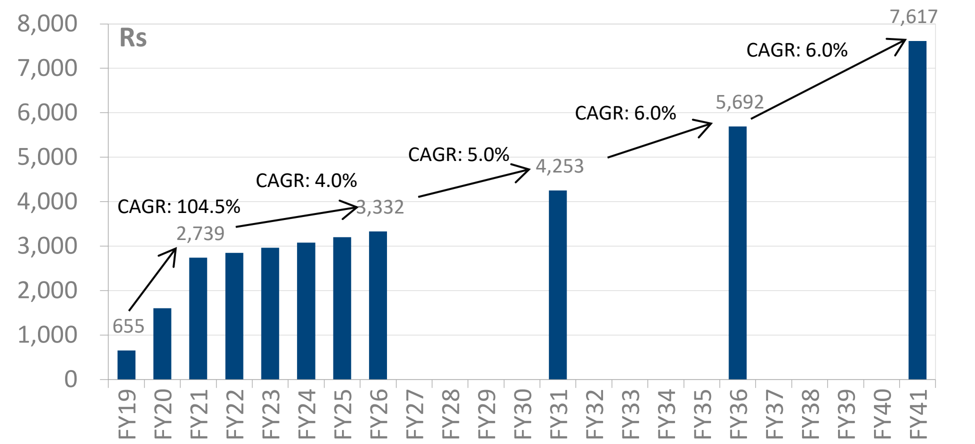


Source: Company, IIFL Research

Average order value

Average order value has increased continuously for Nykaa, from Rs655 in FY19 to Rs2,739 in FY21; we estimate that after deducting cancellations, discounts & returns, the AOV stands at Rs1,150. We believe that this has scope to grow. We take an increase of 4.0% over FY21-26. Once the customer addition percentage moderates, we are expecting the AOV to see a faster increase, as the drag from new customers reduces. We forecast 5.0%/6.0%/6.0% Cagr over FY26-31/31-36/36-41.

Figure 57: We forecast an acceleration in the average order value (AOV) per consumer, as the drag from new customers reduces in future



Source: Company, IIFL Research

Growth drivers

The growth drivers for the Fashion segment will be the same as those for the BPC segment:

- Increase in categories purchased
- Premiumisation
- Price increase
- Loyalty programmes

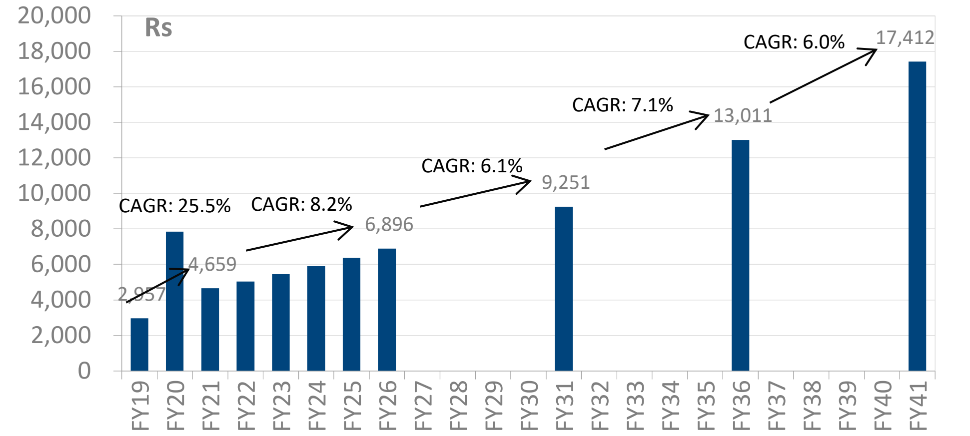
For a discussion on these drivers, please refer to the previous chapter.

Trend in spend per customer

We forecast a 7% increase in spend per customer over FY21-41 (5% from AOV and 2% from the increase in frequency of purchase).

As customer acquisition decelerates, we expect the AOV to rise faster, with lesser drag from new customers. We project 5.0%/6.0%/6.0% Cagr in AOV over FY26-31/FY31-36/FY36-41, respectively. We take 1% Cagr in frequency of orders over FY26-36, and no change thereafter.

Figure 58: We forecast 7% Cagr in spend per customer over FY21-41

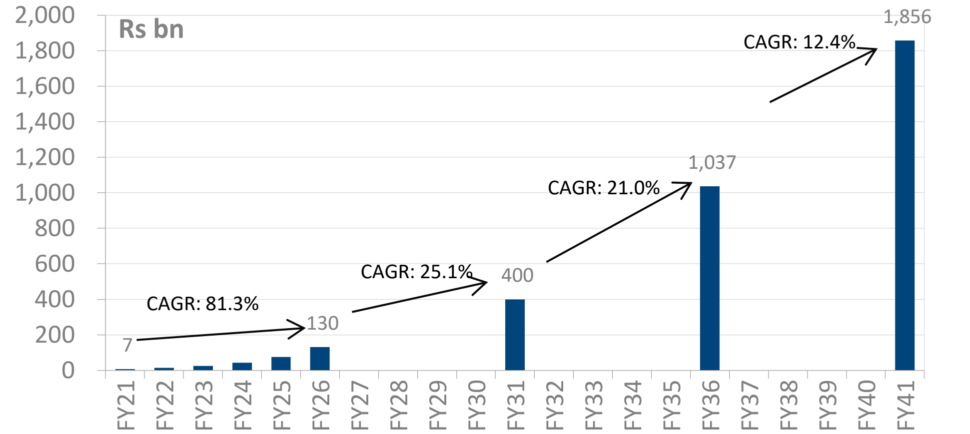


Source: Company, IIFL Research

Growth in GMV

We forecast GMV Cagr of 81.3% over FY21-26 and 25.1%/21.0%/12.4% Cagr over FY26-31/FY31-36/FY36-41.

Figure 59: We forecast GMV Cagr of 32% over FY21-41

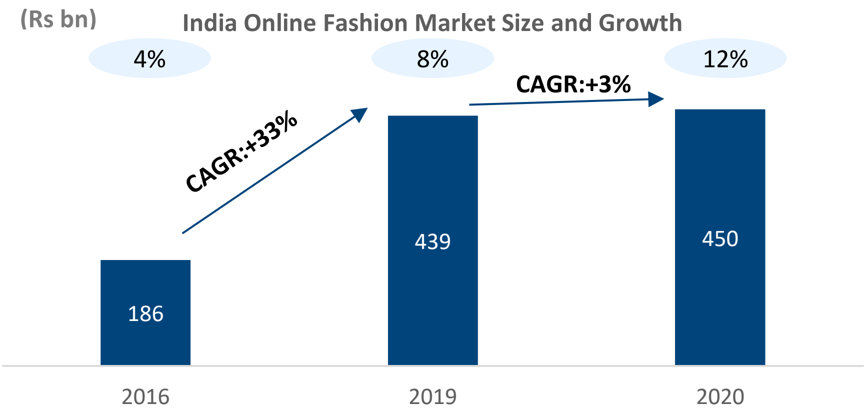


Source: Company, IIFL Research

Market share in overall market and online channel

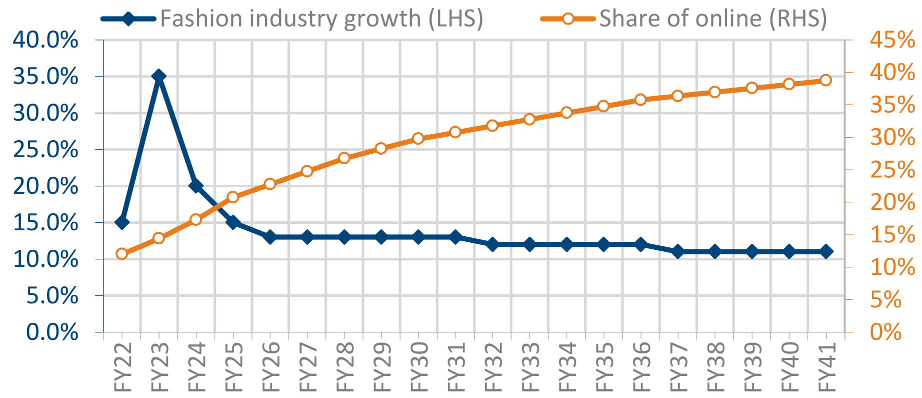
We project overall fashion market Cagr of 14% during FY21-41. Online channel contribution, which stands at 12% in FY21, could cross the 40% mark by FY41.

Figure 60: Online penetration for fashion segment over time recreate



Source: Company, IIFL Research

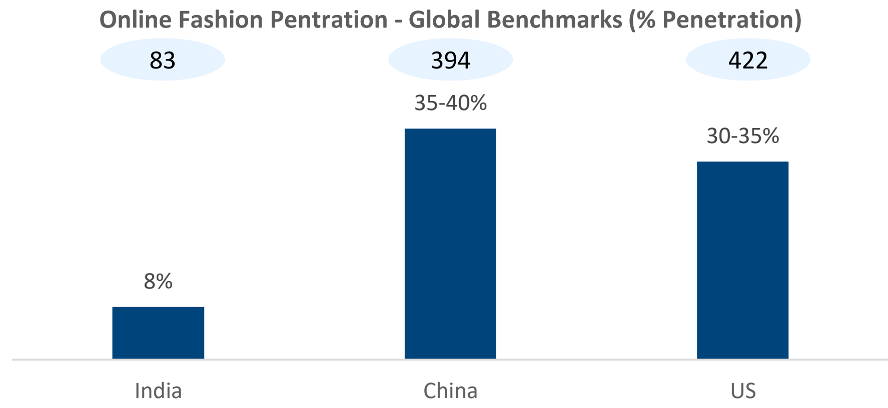
Figure 61: We expect fashion industry Cagr at 14% with contribution of online steadily increasing, from 12% in FY21 to 39% in FY41



Source: IIFL Research

In other countries such as the US and China, online penetration is currently much higher than in India.

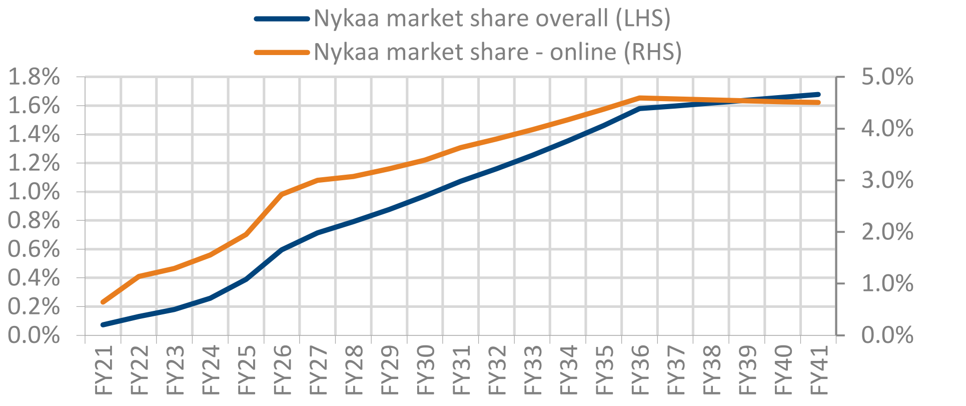
Figure 62: Online penetration of the fashion segment globally is higher than in India recreate



Source: Company, IIFL Research

Nykaa commands 0.1% market share in the overall fashion industry and 0.6% in the online channel as of FY21 per our calculations. As per our projections, by FY41, its market share in the overall fashion industry could move up to 1.7% and to 4.5% in the online channel.

Figure 63: We forecast Nykaa's market share in the overall fashion industry at 1.7% and that in the online fashion vertical at 4.5%, in FY41

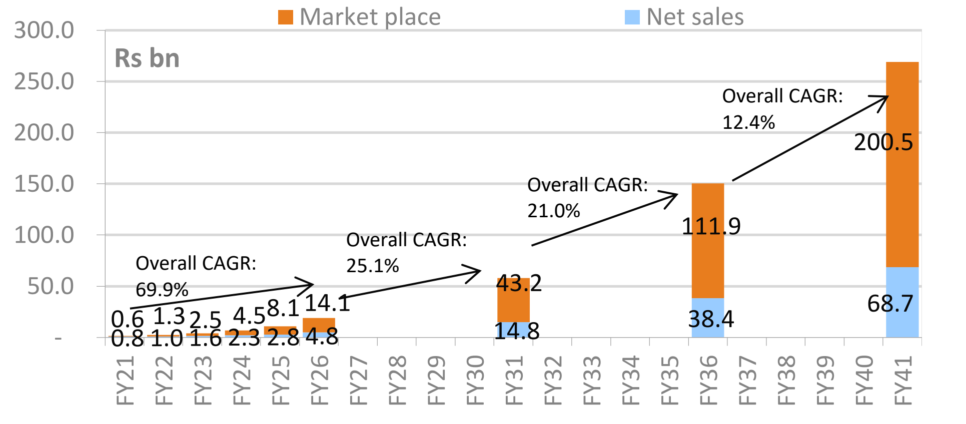


Source: Company, IIFL Research

Revenue booking

A predominant share of revenues of Nykaa's fashion vertical is attained via the marketplace model. We assume marketplace commission at 12% of the GMV and net sales at 37% of the GMV.

Figure 64: We forecast overall fashion revenue Cagr of 30% over FY21-41 for Nykaa



Source: Company, IIFL Research

In addition to this, there would be a small amount of marketing support revenue too which will increase as the fashion vertical sales ramp up. However, we have not split this into a separate parameter; the revenue from the overall marketing support has been shown combined (see the previous chapter).

Costs and margins: 11.8% Ebitda margin in FY26ii

Cost of goods sold (COGS)

Cost of goods pertains to only those products that are sold based on the inventory model; it does not apply to marketplace sales. Therefore, calculating COGS (or its inverse, gross profit) as a percentage of total revenue is meaningless; one needs to look at it as a percentage of net sales.

Further to this reasoning, as a percentage of net sales, COGS stood at 68.2% in FY21, a rise of 419bps over FY20. We are not sure of the reason for the increase, but we suspect product mix may have played a huge part.

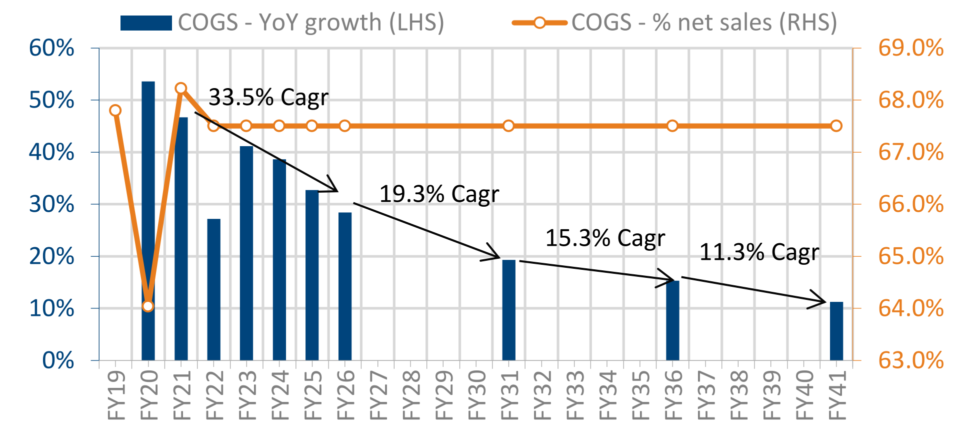
A small percentage of sales happen via the inventory model in the Fashion segment; we believe the COGS percentage for this will also be similar to the BPC segment's.

We forecast COGS, as a percentage of net sales, to be constant at 67.5% over FY21-41.

- As Nykaa becomes a larger percentage of a brand's sales, it will be able to negotiate for a better margin.
- On the other hand, if some of the niche brands that mainly sell via Nykaa are able to scale up and become a part of the mainstream, their dependence on Nykaa will reduce and, accordingly, such brands' bargaining power will also slightly increase.
- As Nykaa expands into more mainstream brands and categories, margins from such avenues are likely to be lower, because trade margins for such brands are generally lower. For example, trade margins for mainstream brands such as *Dove* may be to the tune of ~25% (5% trade margins and ~20% retailer margins, including schemes and promotions) and, therefore, such brands are unlikely to offer Nykaa margins in line with its average gross margin of ~33%.

In our estimation, the FY21 gross-margin dip was on account of lower private-label salience (which is higher in offline stores), lower percentage of foreign brands (especially in the make-up category) that have higher salience, and increased daily-use items that are at a lower margin. Consequently, margin for FY22 will be higher once the basket normalises; thereafter, there will be a gradual reduction from such levels, as the mainstream brand percentage increases. However, we have neither built-in the short-term increase nor the medium/long-term decline in our estimates.

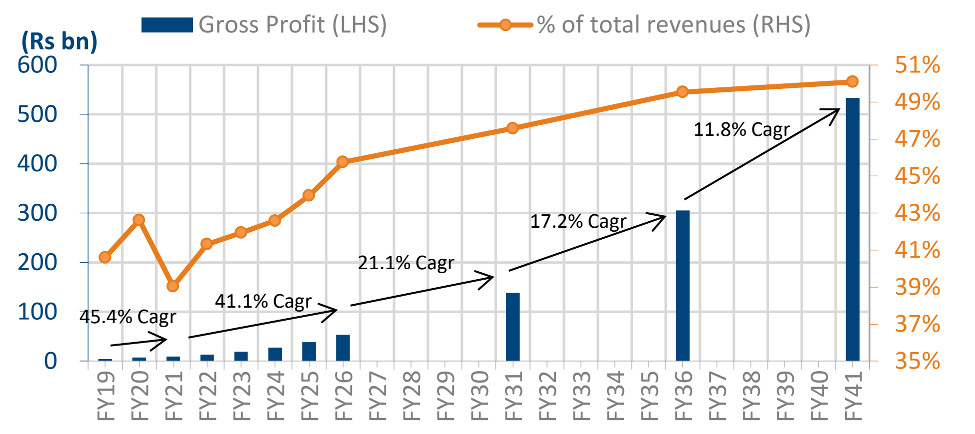
Figure 65:We assume COGS as a % of net sales to remain constant going forward



Source: Company, IIFL Research

However, as a percentage of total revenue, the gross profit (total revenue minus cost) will go up. This is because the fashion segment, which mainly operates on a marketplace model, does not entail much COGS and the marketplace commission flows directly to gross profit.

Figure 66:We build-in gross margin expansion of 670bps over FY21-26



Source: Company, IIFL Research

The company has the following private labels in fashion as well as the BPC space. We estimate that private labels would account for 7-10% of GMV. Margin in private labels would be higher than that for third-party brands and that is one of the reasons why gross margins are on the higher side. We believe that private-label share for Nykaa will remain at the current level.

Figure 67:Key owned brands in the BPC space

Beauty private labels	Description
Nykaa Cosmetics	A comprehensive makeup and beauty accessories brand present across lips, face, nails, eyes and beauty tools.
Nykaa Naturals	Naturally derived ingredients focused brand for skincare products such as bath and body offerings, masks and haircare.
Kay Beauty	Kay Beauty offers premium range beauty products across lips, eyes, face and nails categories.

Source: Company, IIFL Research

Figure 68:Key owned brands in the fashion space

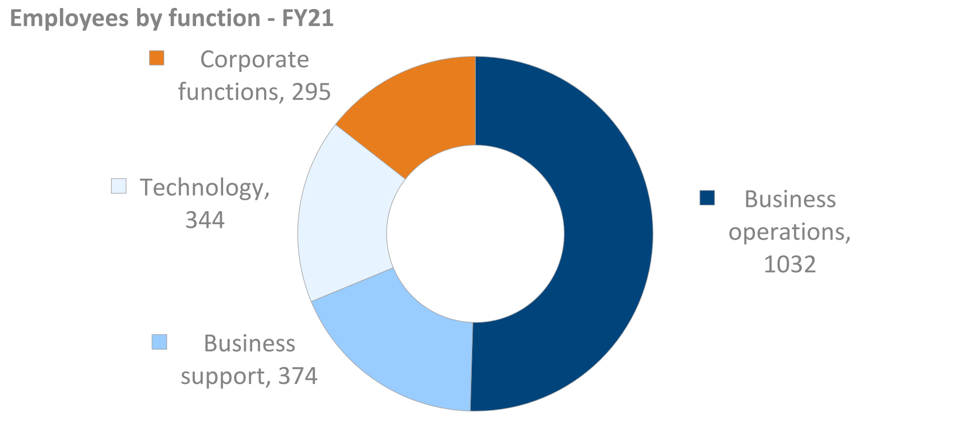
Fashion private labels	Description
Twenty Dresses	The apparel product line includes western wear across dresses, jumpsuits, tops, pants skirts as well as footwear, bags, and accessories.
Nykd by Nykaa	Nykd by Nykaa offers lingerie and includes bras, panties, sleepwear, shapewear and athleisure.
Pipa Bella	Pipa Bella offers on-trend aesthetic jewelry such as earrings, necklaces, bracelets, rings and hair accessories.

Source: Company, IIFL Research

Employee costs

For the past 2 years, Nykaa's employee-cost Cagr stands at 56%. Employee-count stood at 2,045 in FY21. The average cost per employee is Rs1.4m.

Figure 69:Distribution of the number of employees by function, as of FY21

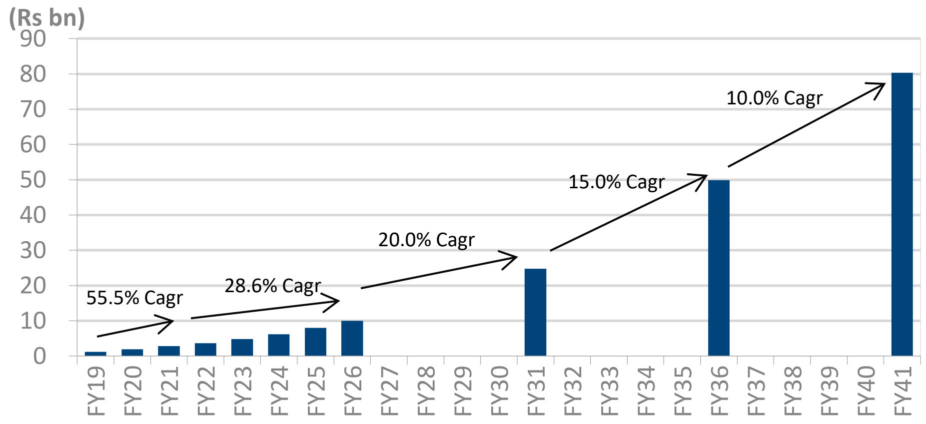


Source: Company, IIFL Research

The company will get leverage in employee costs. An internet business can grow rapidly, without adding physical stores and hence employee-cost growth need not be as high as revenue growth.

We forecast 30% growth for the next 3 years, which we estimate will thereafter drop to 28%/25% in FY25/26, as revenue growth moderates. We build-in 20%/15%/10% employee-cost Cagr over FY26-31/FY31-36/FY36-41, respectively.

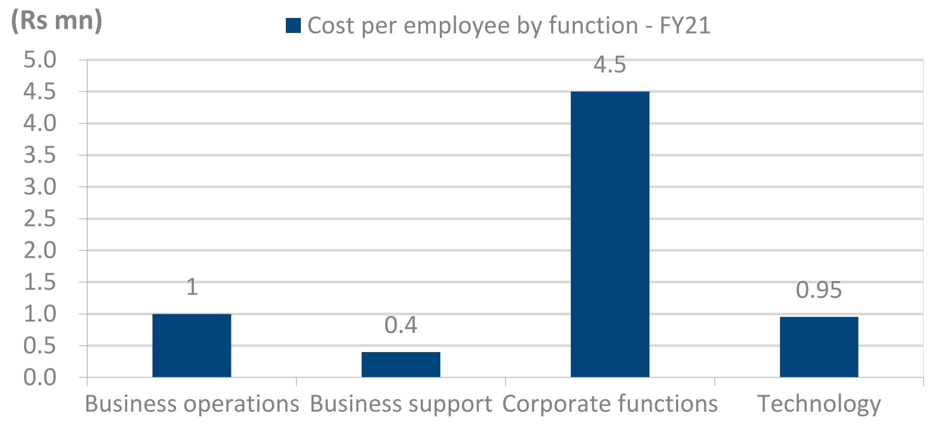
Figure 70:We build in moderation in growth rate of employee costs post FY21



Source: Company, IIFL Research

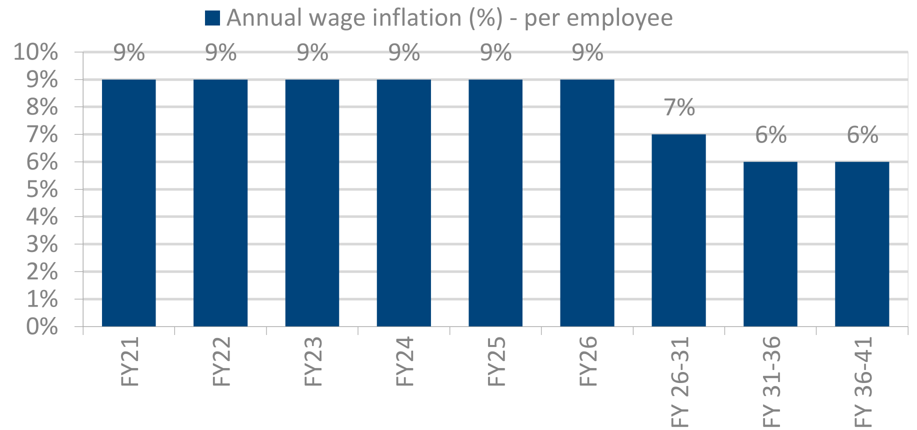
As a sense check, we can do a more detailed modelling of employee costs, assigning average cost per employee by function, inflation in wage costs and growth in number of employees per function. The numbers derived by this detailed modelling are very similar to the YoY growth in employee costs, as projected above.

Figure 71:Our estimates of employee costs by function, in FY21



Source: IIFL Research

Figure 72:We have estimated 9% inflation in wages (per employee) over FY21-26



Source: IIFL Research

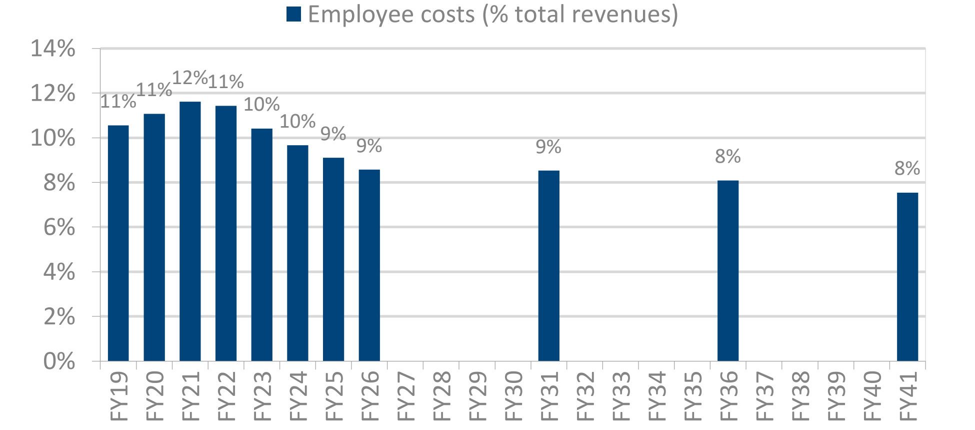
Figure 73:Employee headcount Cagr over different periods, based on function

	FY21-26	FY26-31	FY31-36	FY36-41
Business operations	28.4%	15.0%	10.0%	5.0%
Business support	28.4%	15.0%	10.0%	5.0%
Corporate functions	7.0%	3.0%	3.0%	3.0%
Technology	7.0%	3.0%	3.0%	3.0%
Total	**23.2%**	**13.5%**	**9.4%**	**4.9%**

Source: IIFL Research

As a percentage of total revenues, we estimate employee costs will reduce, from 11.6% in FY21 to 8.6% in FY26.

Figure 74:We expect employee costs as a % of revenues to decline over time

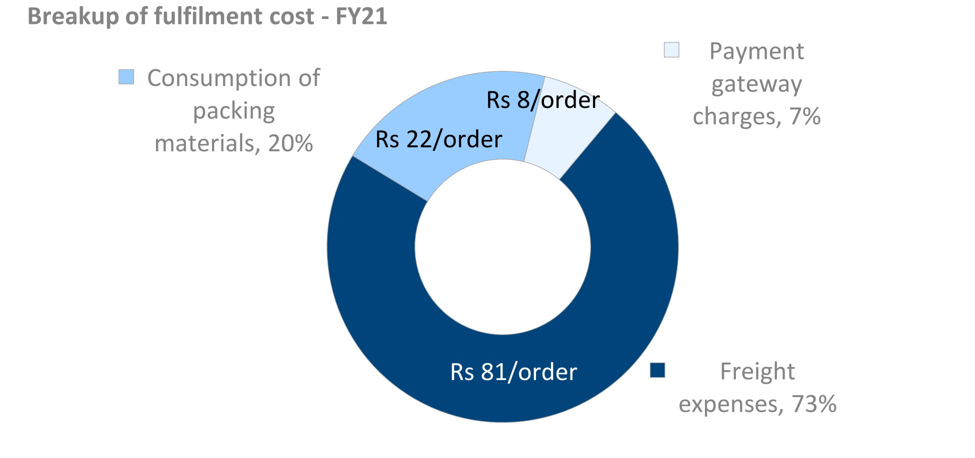


Source: Company, IIFL Research

Fulfilment cost

Fulfilment cost is made up of three parts – costs related to freight, packing material and payment gateway.

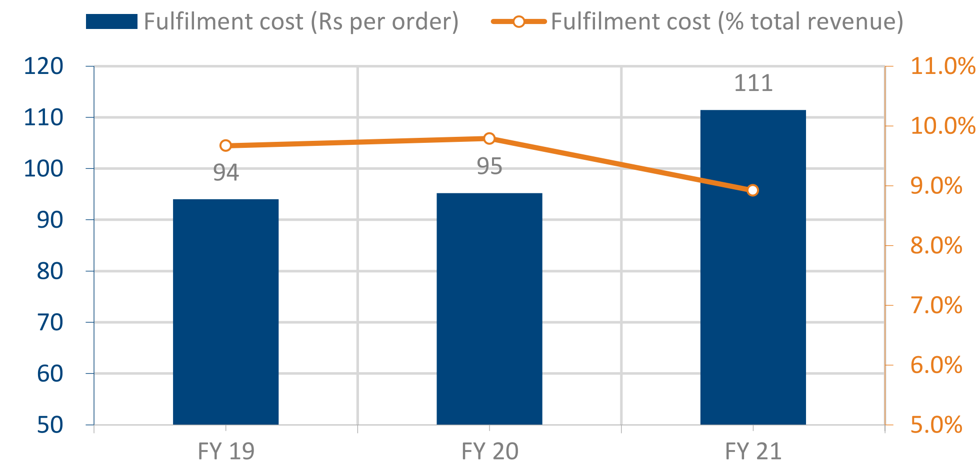
Figure 75: Contribution to fulfilment costs by category and their charges per order



Source: Company, IIFL Research

Fulfilment cost accounted for 8.9% of total revenues in FY21 and Rs111 per order.

Figure 76: Fulfilment cost per order went up in FY21, as freight costs increased

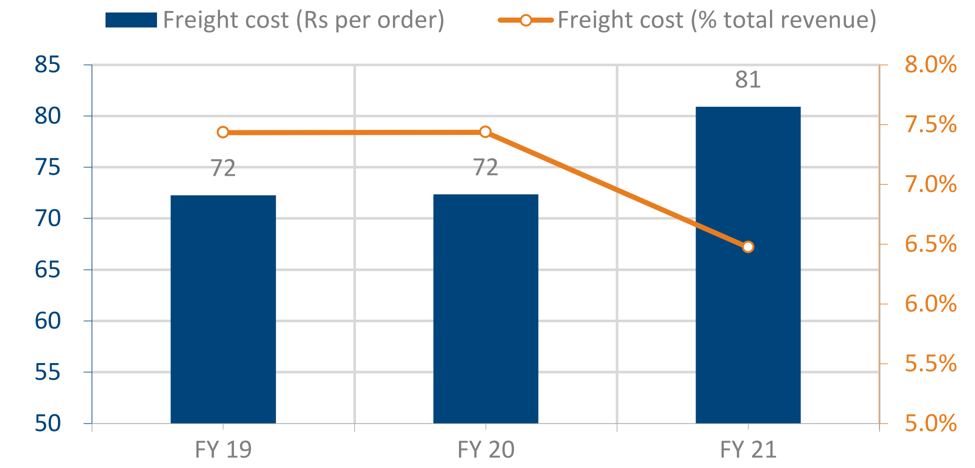


Source: Company, IIFL Research

Freight cost

Freight cost is the largest element of fulfilment cost and stands at 6.5% of revenues or Rs81 per order as of FY21. While freight cost increased by 12% per-order in FY21, as a percentage of revenue, it declined because AOV increased at a faster rate of 35.6% for BPC and 70.8% for Fashion, in FY21.

Figure 77: Freight cost per order decreased as a percentage of revenues in FY21 on account of the larger AOV



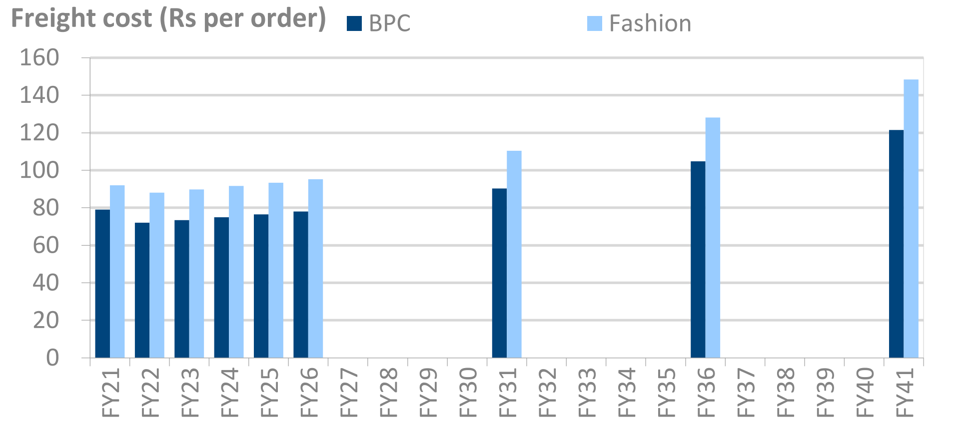
Source: Company, IIFL Research

We model freight cost on a per-order basis – it would not be prudent to model it as a percentage of sales because an increase in AOV would result in reduction in freight as a percentage of revenue and vice versa, but would not significantly change the freight per order (it increase to some extent, to account for the higher weight of a package, but not proportionately).

Moreover, we estimate that freight cost per order for the fashion segment would be higher than the freight cost for the BPC segment on account of higher percentage of returns in the former. We assume freight cost per order of Rs92/88 for Fashion and Rs79/72 for BPC, in FY21/22 and then increase this by 2-3% per year to account for inflation.

We expect freight cost per order to reduce in FY22, given the jump in FY21 (probably due to higher crude prices, Covid-related disruptions and higher weight of the package due to the higher AOV).

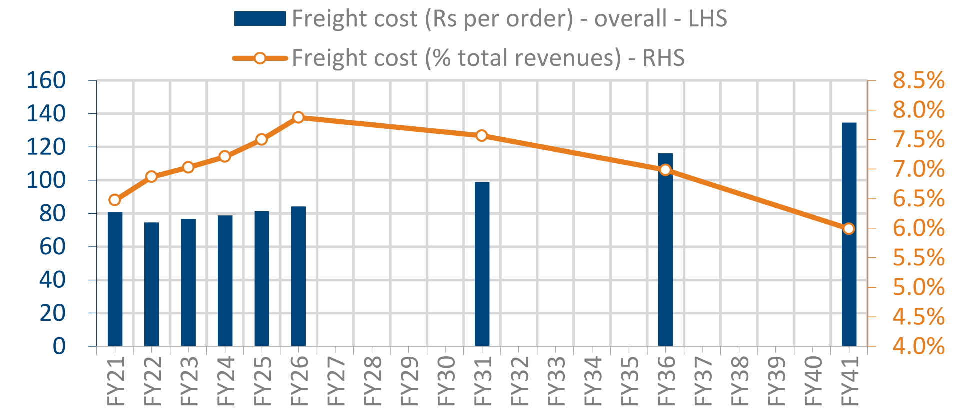
Figure 78: We build-in 2-3% annual increase in freight cost (per order), taking inflation into account



Source: Company, IIFL Research

Overall, freight cost as a percentage of revenue will rise on account of the component of fashion increasing. Note that for fashion, in most cases only marketplace commission is accounted for and freight cost as a percentage of commission (as in the case of fashion) will be higher than freight cost as percentage of net sales (as in the case of BPC).

Figure 79: Freight cost (% revenue) should go up as the fashion business grows

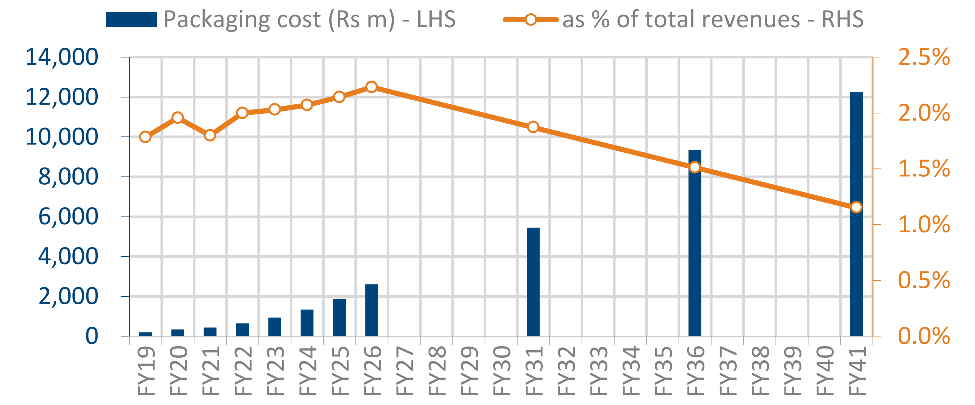


Source: Company, IIFL Research

Packing material cost

For FY21, packing material cost was Rs22 per order which was 1.8% of total revenue. For our forecasts, we build-in an increase of 1% in the cost per order during FY21-26. Unlike in the case of freight cost, we have not assumed different costs per order for the BPC and fashion segments.

Figure 80: Packaging cost (% of revenue) is expected to remain range bound, at 1-2%

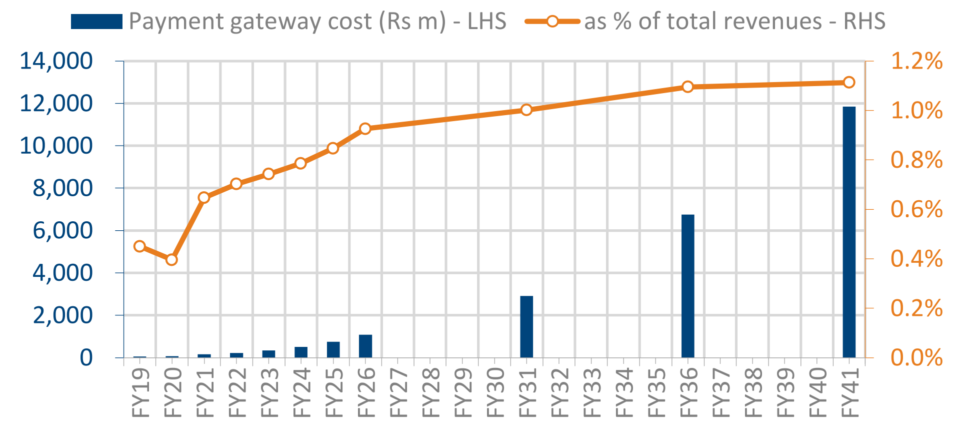


Source: Company, IIFL Research

Payment gateway costs

For FY21, payment gateway costs were 0.7% of sales (and 0.4% of GMV) at Rs8.1 per order. We model this at a constant rate of 0.4% of GMV in the future. As a percentage of total revenue, such costs would slightly increase due to only marketplace commission being booked for the fashion segment.

Figure 81: Payment gateway cost (% revenue) should go up, as the fashion segment grows



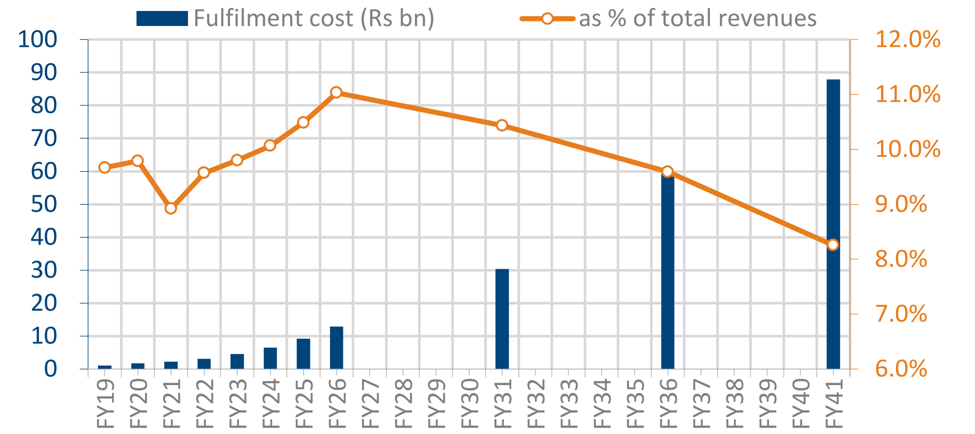
Source: Company, IIFL Research

Total fulfilment costs

Total fulfilment costs as a percentage of total revenue will increase vs FY21, on account of:

- Number of orders in FY22 increasing faster than the overall GMV for FY22, on account of AOV in FY22 declining on a high base of FY21; and
- Denominator effect of booking only marketplace commissions for fashion instead of the full sales value and growth in the fashion segment being faster than in BPC.

Figure 82: We expect fulfilment costs as % of revenues to increase over FY21-26 and moderate thereafter



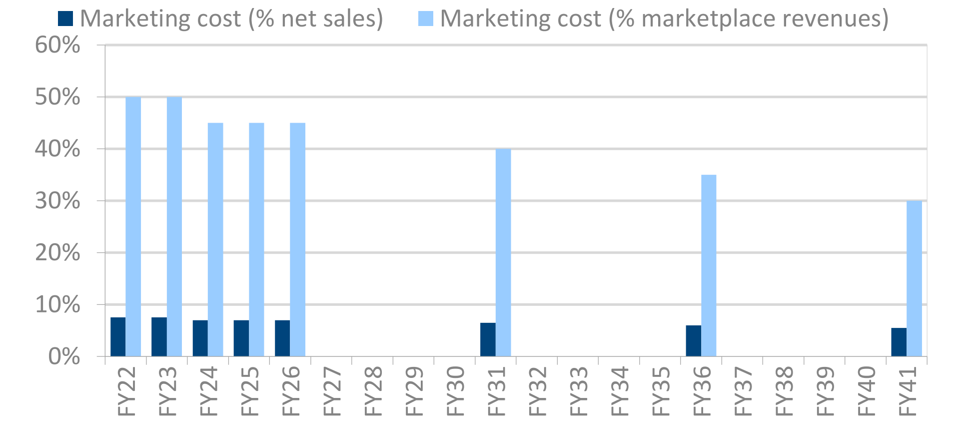
Source: Company, IIFL Research

Marketing & advertisement cost

Marketing cost for FY21 stood at Rs1.7bn, dropping 16% from FY20 on account of Covid. The company has mentioned in the DRHP that marketing cost will rise up from these low levels.

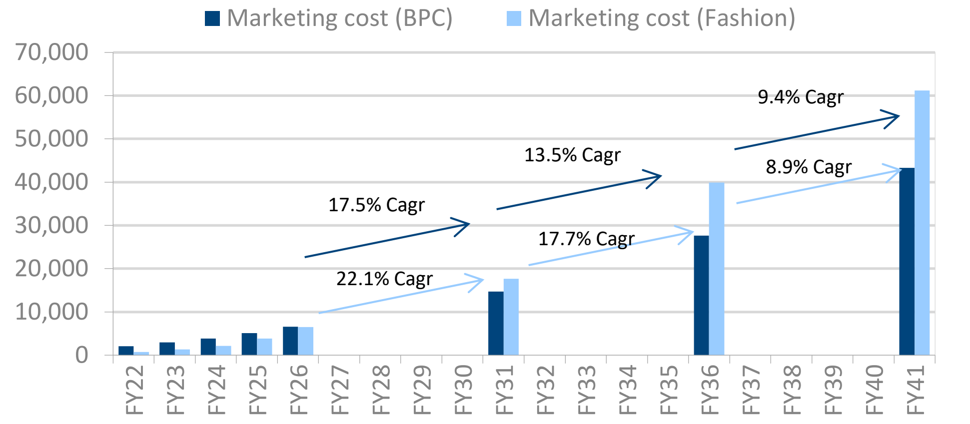
We model-in marketing cost for BPC and fashion separately. For BPC, we forecast marketing cost as a percentage of sales and for fashion as a percentage of marketplace commissions. (Note – some part of fashion sales is via inventory model and some part of BPC sales is via marketplace, but we are ignoring this aspect in projecting marketing costs).

Figure 83: Marketing cost as % of net sales is expected to come down over FY21-41



Source: IIFL Research

Figure 84: We build-in healthy double-digit growth in marketing spends over FY26-31



Source: IIFL Research

For the next few years, as Nykaa would want to maintain high growth in customer additions, it will have to increase the pace of advertising, with not much leverage available. However, when customer addition growth slows down, marketing costs can come off and leverage would be available on this cost item.

Another way to look at this is to calculate the marketing & advertisement costs on a per-customer basis or on per-customer addition (gross, assuming 70% retention of previous year's customers) basis.

Figure 85: We estimate the marketing cost per customer over FY22-41, for the BPC segment

Beauty & Personal Care	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
Number of customers (m)	7.8	10.2	13.0	16.0	18.8	34.6	50.8	61.8
Number of customers added (gross; m)	3.9	4.7	5.9	6.9	7.5	13.2	17.9	20.2
Marketing cost per customer (Rs)	313	329	331	350	376	450	565	714
YoY growth (or Cagr)		5%	0%	6%	7%	4%	5%	5%
Marketing cost per customer added (gross; Rs)	536	631	650	737	868	1,115	1,548	2,142
YoY growth (or Cagr)		18%	3%	13%	18%	5%	7%	7%

Source: IIFL Research

Figure 86: We estimate the marketing cost per customer in FY22-41 for the Fashion segment

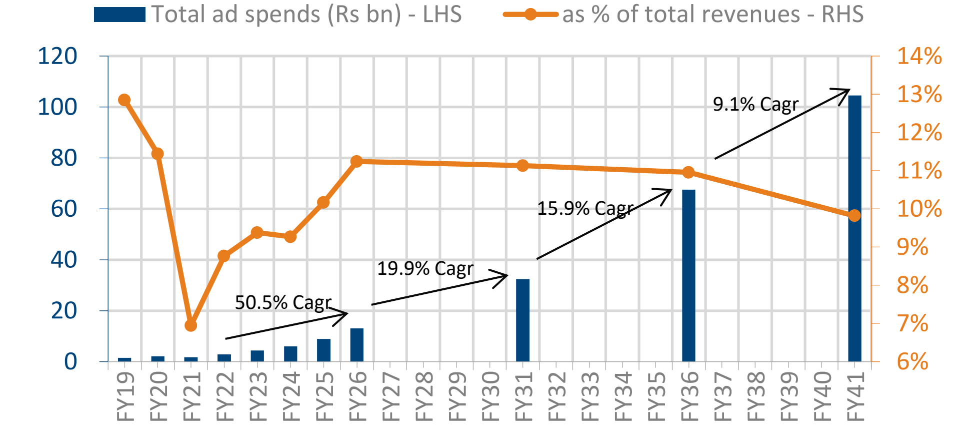
Fashion	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
Number of customers (m)	1.1	1.9	3.1	5.0	7.9	18.2	33.5	44.8
Number of customers added (gross; m)	0.7	1.1	1.7	2.8	4.5	7.4	12.7	15.2
Marketing cost per customer (Rs)	831	875	849	947	1,013	1,055	1,266	1407
YoY growth (or Cagr)		5%	-3%	12%	7%	1%	4%	2%
Marketing cost per customer added (gross; Rs)	1,004	1,181	1,226	1,367	1,463	2,395	3,134	4025
YoY growth (or Cagr)		18%	4%	12%	7%	10%	6%	5%

Source: IIFL Research

As illustrated in the above figures, we have built-in a continuous increase in the cost per customer or the cost per customer added, which would be required, as the industry becomes more competitive and also as advertising rates go up.

On an overall basis, we expect costs related to marketing & ad-spends as a percentage of total revenues to go up, from 6.9% in FY21 to 11.2% in FY26. Note that a significant part of this increase is the 'denominator effect', i.e. only marketplace commission is being booked for fashion products and not the entire sales value.

Figure 87: Growth in ad spends (% revenue) would increase over FY21-26 and slowly taper down thereafter

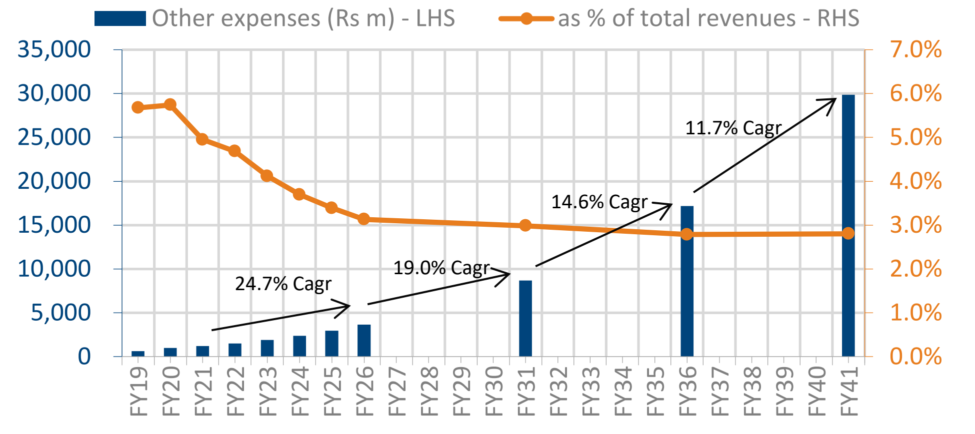


Source: Company, IIFL Research

Other expenses

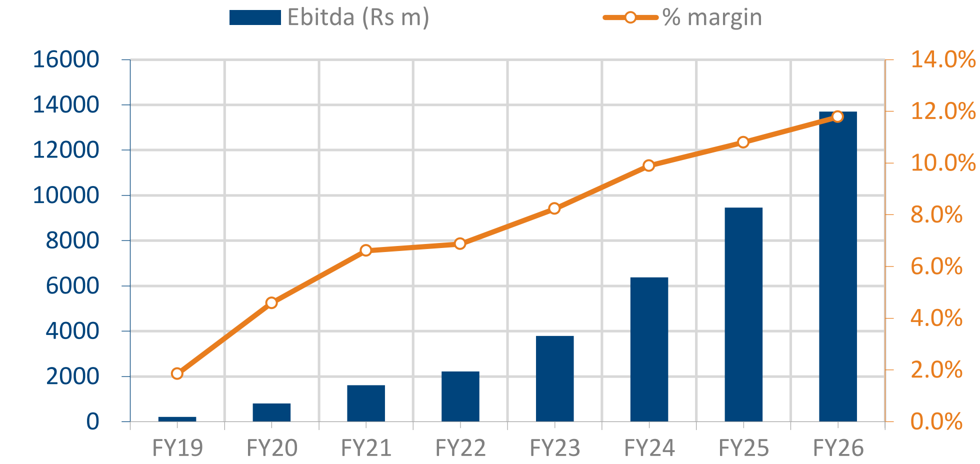
All other miscellaneous expenses like Legal & professional, Rent & maintenance, Rates & taxes, Selling expenses, Beauty advisory, etc. comprised 5.0% of the total revenue for FY21. We model these on a YoY growth basis, assuming them to grow slower than revenues, thereby providing operating leverage.

Figure 88: Other expenses as a % of revenues will come down over FY21-41, on account of operating leverage



Source: Company, IIFL Research

Figure 89: Ebitda margin should expand from 6.6% in FY21 to double-digits by FY25P



Source: Company, IIFL Research

Ebitda margins

Nykaa reported Ebitda margin of 6.6% for FY21, and Ebitda of Rs1.6bn. We estimate that the Ind-AS 116 adjusted Ebitda margin was 4.9%, i.e. a 170-bps adjustment. Unlike retail / QSR companies, where this adjustment is ~8-10%, the adjustment for Nykaa is much lower, similar to FMCG companies'. In case of FMCG companies we do not bother to adjust for IND-AS impact, and we do the same for Nykaa.

We forecast that Nykaa will gradually increase its Ebitda margin from 6.6% in FY21 to 11.8% by FY26, and witness Ebitda Cagr of 53.4%, an increase from Rs1.6bn in FY21 to Rs13.7bn in FY26.

We project a 517bps increase in Ebitda margins over the next 5 years. Some of this increase is the denominator effect, i.e. the fashion segment recording only the marketplace commission and not the full sales.

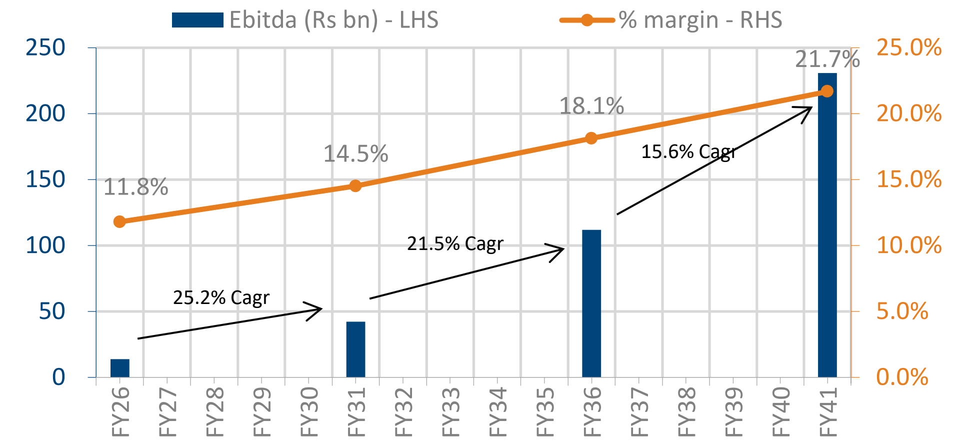
Post FY26

Post FY26, we project significant margin expansion. Ebitda margin for FY26 at 11.8% would increase to 21.7% by FY41. Of course, some part of this would still be the denominator effect, as the fashion segment grows faster than BPC. However, other reasons for margin expansion would be:

- Gross margin increases – however, this is solely on account of the denominator effect.
- Till FY26, the increase in AOV is gradual at 4%, post which however, we have projected an acceleration. The reason for the acceleration is that the new customer addition slows down, and the new-customer effect of pulling down the AOV reduces. A higher AOV means that freight cost as a percentage of sales will reduce.
- Leverage in employee cost and other expenses will still continue post FY26

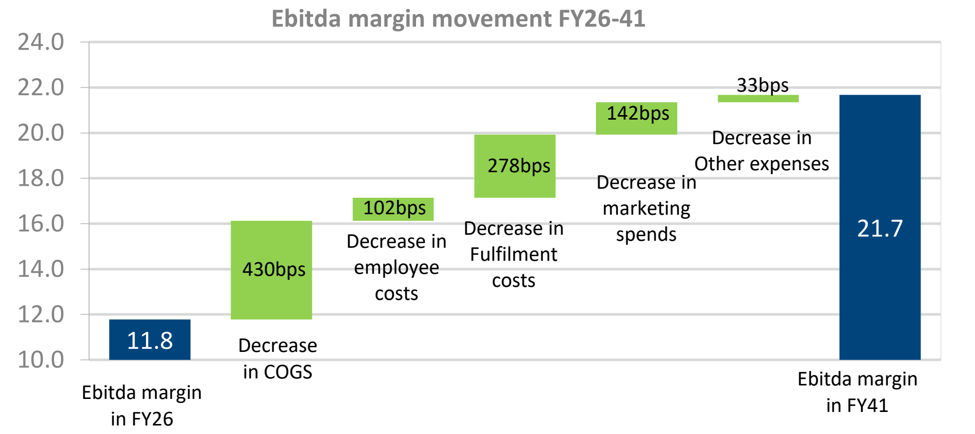
- Leverage in marketing costs that did not play out materially will occur post FY26, as the company builds up a substantial user-base and thereafter, customer acquisition slows down.

Figure 90: Ebitda should continue to deliver healthy double-digit Cagr over FY26-41



Source: IIFL Research

Figure 91: Margin movement across different cost heads over FY26-41

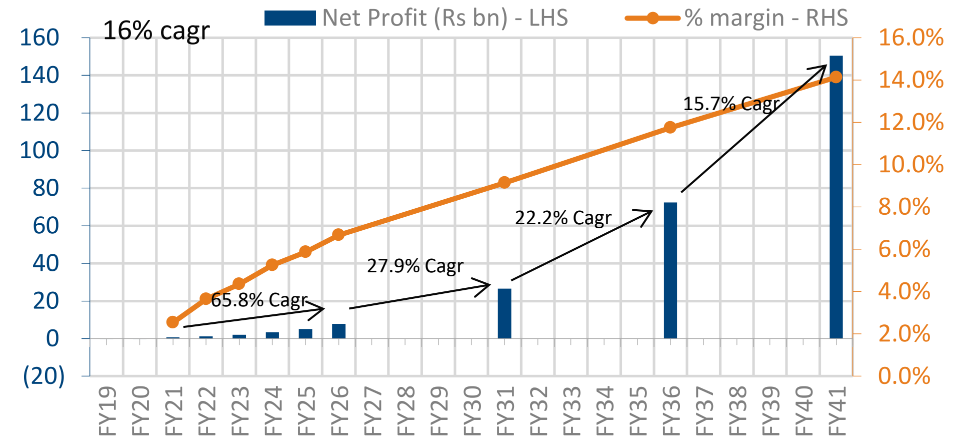


Source: IIFL Research

Net profit

We project a net profit of Rs7.76bn for FY26 vs Rs619m for FY21 and net profit margin to increase, from 2.5% to 6.7% over the same period. Notably, net profit margin in the terminal year (FY41) could go up to 14.1%.

Figure 92: We expect net profit margin to gradually increase over FY21-41



Source: Company, IIFL Research

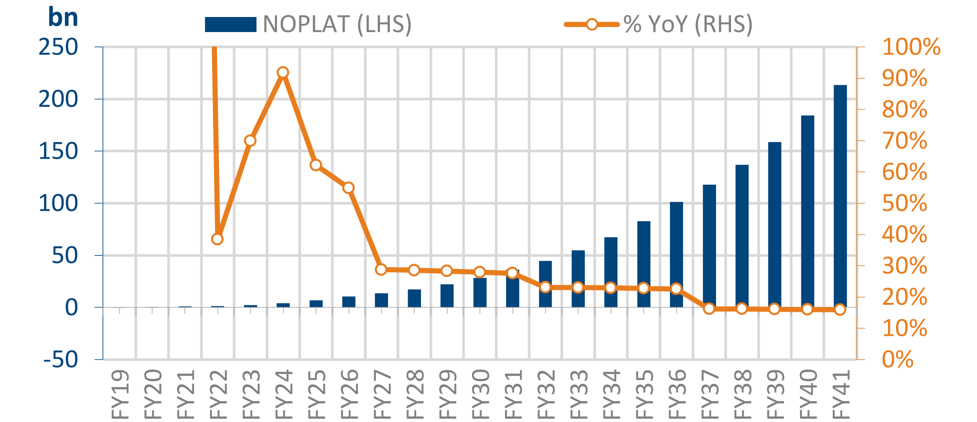
Valuation: Rs.671bn target market cap; 80% from BPC

DCF valuation

To arrive at FCFF, we view each component separately.

NOPLAT
Using a tax rate of 25.2%, on the Ebit adjusted for Ind-AS 116, we arrive at the following NOPLAT figures

Figure 93: NOPLAT adjusted for Ind-AS 116 would witness sharp growth in the early years



Source: Company, IIFL Research

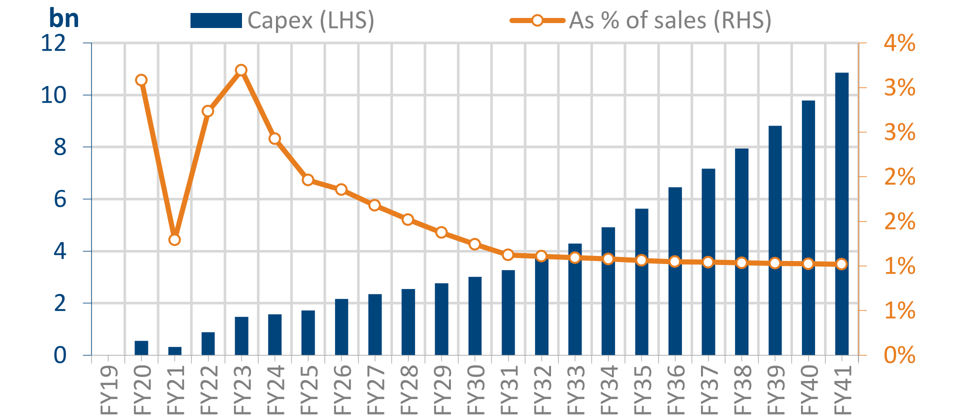
Capex

As Nykaa is an internet-based company, capex is not too high. However, the company is based on an omnichannel model, and we forecast 400 stores by FY26. In addition to the store capex (assumed at Rs7.5m per store), capex would be needed for

- Warehousing
- Technology
- General corporate purposes

The capex will be slightly higher as a percentage of sales to begin with, but will reduce thereafter, as the company slows down store additions; also, as sales growth reduces, investments in new warehouse space will also go down.

Figure 94:Capex will be primarily focussed on new store additions, warehouses and technology investments



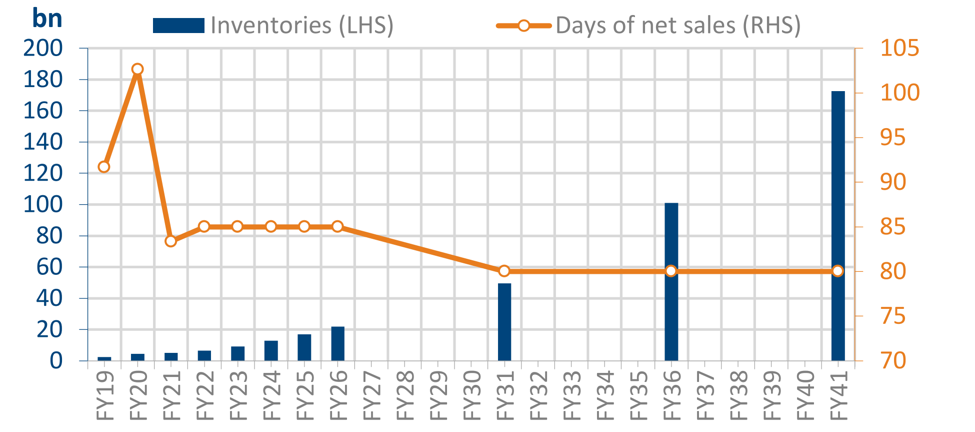
Source: Company, IIFL Research

Change in working capital

We examine the components of working capital separately.

Inventories
Inventories are 83 days of net sales in FY21. Note that in the fashion business, as in most cases, only marketplace commission is booked; there is no inventory that the company carries. We assume inventory of 85 days of net sales for FY22-26, and a slightly lower 80 days thereafter – assuming some efficiencies in the supply chain.

Figure 95:We forecast inventories to stabilise at 85 days of net sales over FY22-26, and at 80 days over FY26-41



Source: Company, IIFL Research

Inventory as a percentage of total revenue would slightly decline even without any change in inventory days, on account of the denominator increasing to the extent of marketplace commissions for Fashion, without having to carry inventory.

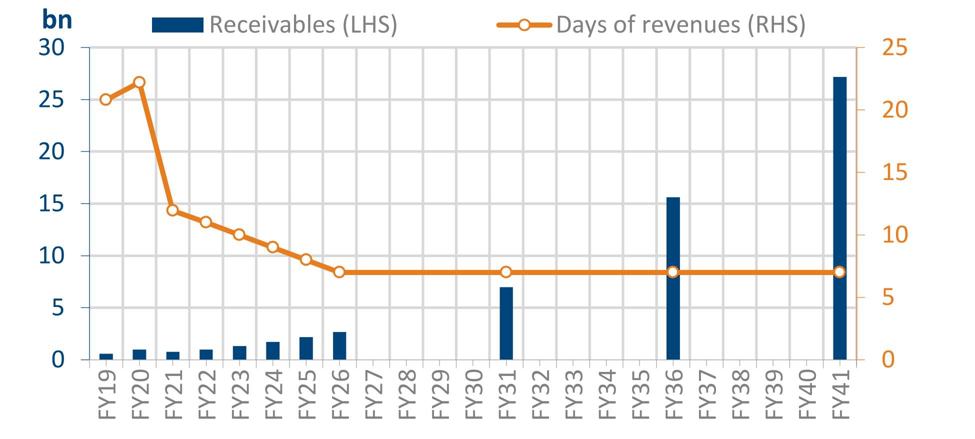
Receivables

Receivable days for FY21 stand at 12, and were even higher at 21/22 days in FY19/20. We measure receivable days using net sales value as the denominator. Net sales value is GMV minus discounts, taxes, returns & cancellations; whether the company books the full value or only the marketplace commission is irrelevant.

Receivable days seem on the higher side, given the miniscule number of B2B sales. Payments via credit/debit cards would be received almost immediately. If there is a COD (cash on delivery) order, that too would be received by the company within a week or so. So it is unclear why receivable days are so high for the company.

Nonetheless, we assume a gradual reduction in the number of days going ahead. Moreover, as digital payments become more commonplace and trust in the brand increases, the component of COD will go down.

Figure 96: We assume gradual reduction in receivable days over FY21-26



Source: Company, IIFL Research

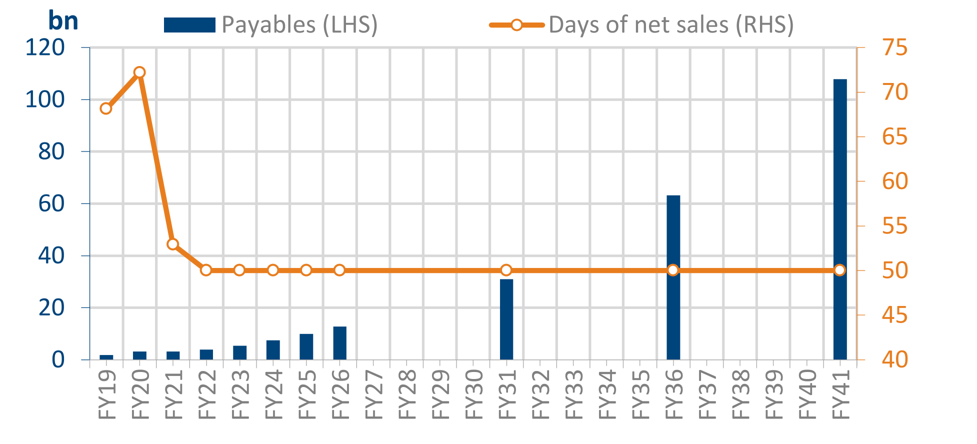
Receivables as a percentage of total revenue would increase slightly, all other factors being equal, due to the increasing component of fashion in the overall business. While receivables would be incurred on the fashion business, only marketplace commission is accounted for in the P&L account and not the full sales.

Payables

Payable days for FY21 stand at 53, and were higher at 68 days and 72 days for FY19 and FY20, respectively. We model-in payable days on net sales basis – we assume that for sales that happen on the marketplace, the company would take its commission and immediately refund the remaining amount to the vendor (we are not certain if this is the case; nevertheless, we make this assumption here).

We keeping payables, as the number of days of net sales, as constant at 50 days. As a percentage of total revenue, these would trend down, as there would be no payables for the fashion business but would entail marketplace commission in the total revenues.

Figure 97: We keep payable days constant at 50, over the forecast period

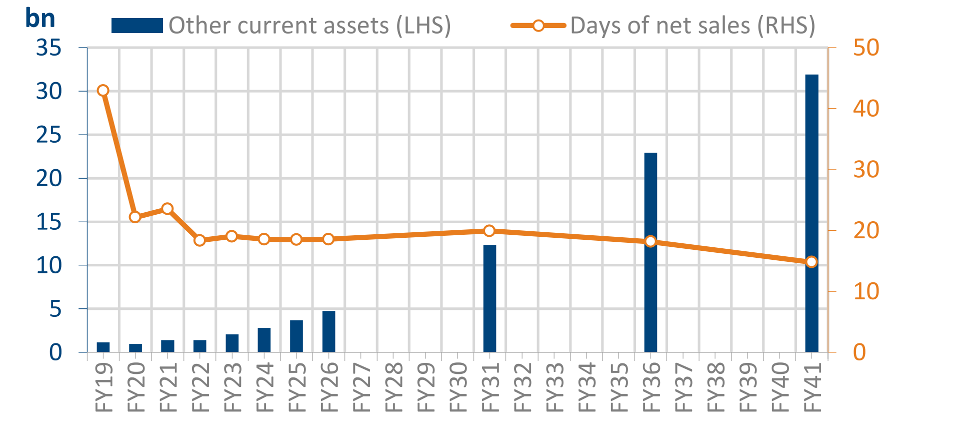


Source: Company, IIFL Research

Other current assets

All other current assets accounted for 24 days of net sales in FY21. We model in ~18 days of sales going forward, and a decline to 15 days.

Figure 98: We forecast other current assets to decline marginally in the long run

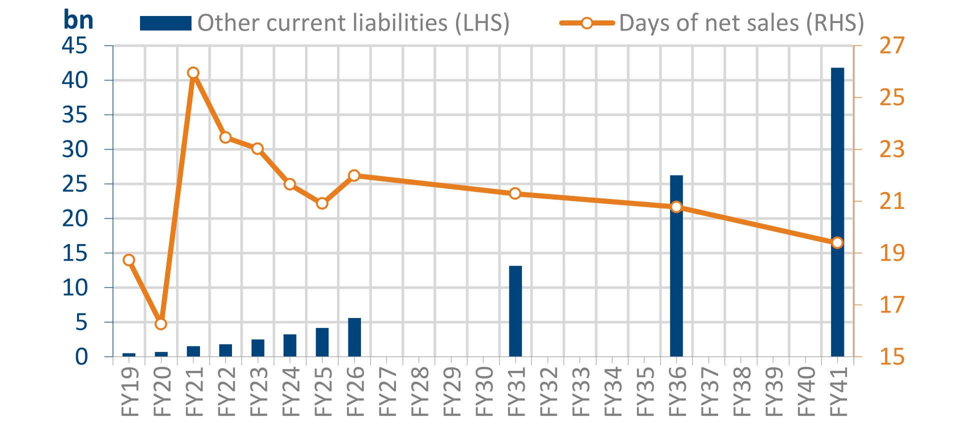


Source: Company, IIFL Research

Other current liabilities

All other current liabilities accounted for 26 days of net sales in FY21. We model these to be steady at ~22 days of net sales, over the forecast period.

Figure 99: We forecast other current liabilities to remain steady at ~22 days of net sales, over the forecast period

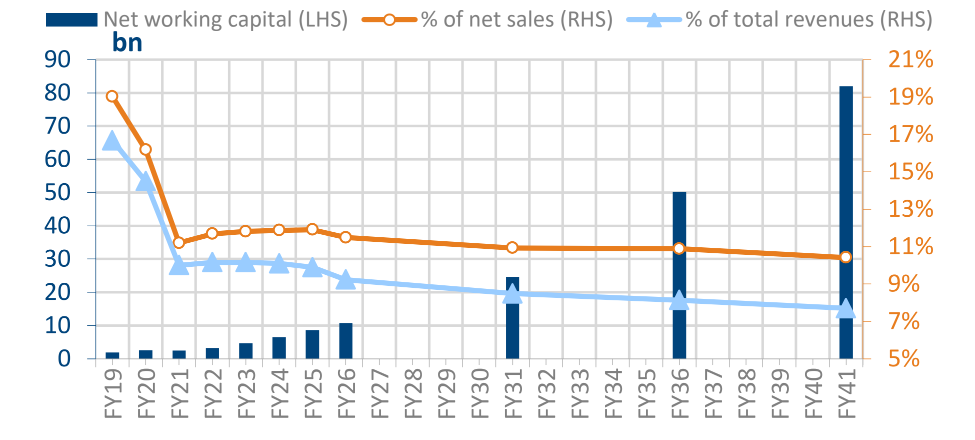


Source: Company, IIFL Research

Net working capital

Net working capital (NWC), a derivation of the above components, stood at Rs2,441m in FY21 which is 42 days of net sales and 39 days of total revenues. NWC gradually declines on account of reduction in receivables and inventory days, in addition to some amount of the 'denominator effect', as explained earlier.

Figure 100: We forecast net working capital to gradually decline on account of receivables and inventories

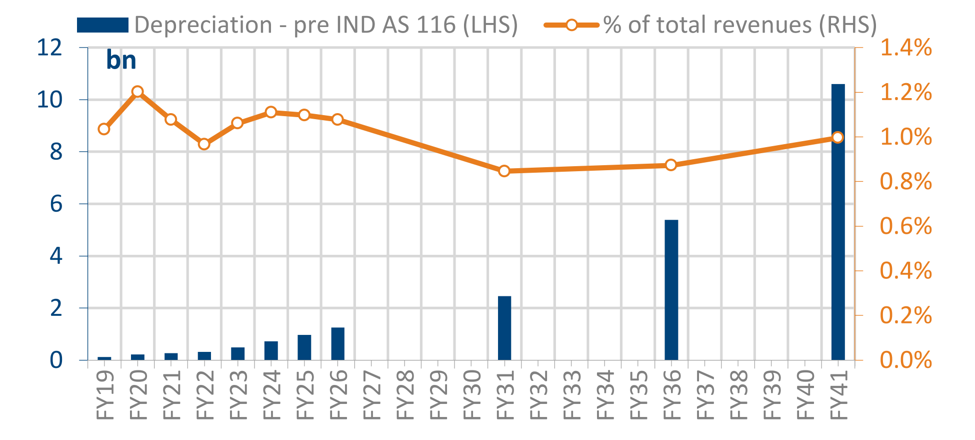


Source: Company, IIFL Research

Depreciation

As Ebit is adjusted for Ind-AS 116, our depreciation forecasts are also based on this. Depreciation is estimated at 15% on gross block.

Figure 101: We forecast depreciation at 15% of gross block



Source: Company, IIFL Research

FCFF

We forecast an FCFF of Rs4bn by FY26. Thereafter, FCFF would clock Cagr of 40.2%/25.3%/17.6% over FY26-31/31-36/36-41, respectively.

Figure 102: We forecast post-tax ROIC of 45% in FY26 and of ~112% by FY41

Rs m	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
NOPLAT	955	1,623	3,113	5,047	7,816	27,087	75,814	159,758
Depreciation	312	488	716	962	1,253	2,460	5,383	10,604
Capex	(882)	(1,471)	(1,565)	(1,721)	(2,159)	(3,265)	(6,458)	(10,854)
Change in working capital	(835)	(1,399)	(1,838)	(2,154)	(2,075)	(3,783)	(6,665)	(7,648)
Change in other assets & liabilities	(284)	(395)	(515)	(656)	(833)	(792)	(1,072)	(1,010)
FCFF	**(734)**	**(1,153)**	**(90)**	**1,479**	**4,002**	**21,707**	**67,002**	**150,850**
FCFF % NOPLAT	**-76.8%**	**-71.0%**	**-2.9%**	**29.3%**	**51.2%**	**80.1%**	**88.4%**	**94.4%**
Post-tax ROIC	**18.4%**	**21.8%**	**29.9%**	**36.6%**	**44.7%**	**70.5%**	**90.3%**	**111.6%**

Source: IIFL Research

DCF valuation of Rs672bn

We use a discounting rate of 10.5% and a terminal growth rate of 5%, to arrive at a one-year forward target market cap of Rs672bn.

Figure 103: Nykaa's DCF valuation (Rs.m) – Sensitivity to WACC and terminal growth

Sensitivity table		WACC				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal growth	4.0%	777,877	679,794	598,665	530,738	473,271
	4.5%	833,967	722,958	632,405	557,465	494,684
	5.0%	902,521	774,754	**672,280**	588,645	519,392
	5.5%	988,213	838,061	720,130	625,496	548,218
	6.0%	1,098,389	917,195	778,614	669,716	582,285

Source: IIFL Research

Separating out fashion business

Fashion business economics

As Nykaa's fashion business is nascent, investors would want clarity on how much the fashion business contributes to the value of the company's total business. Hence, we have separately forecast the business assuming no fashion business (ie only for the BPC business); the difference between the overall forecasts and forecasts for the company's BPC segment have been thus attributed to Nykaa's fashion segment.

The figure below shows the break up between BPC and Fashion, as far as the top-line is concerned.

Figure 104: Nykaa – BPC and Fashion: revenue split

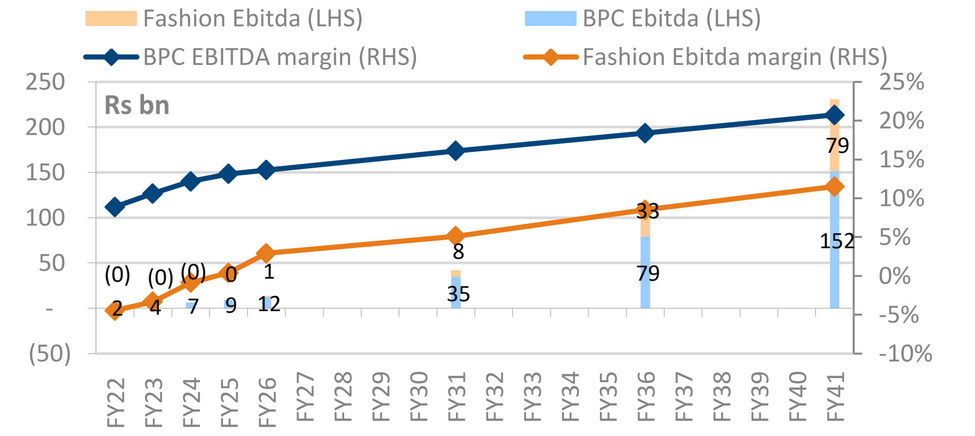
Rs bn	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
Total revenues - BPC	30.3	42.3	58.1	77.0	97.2	231.3	462.2	785.2
YoY growth	24.0%	39.7%	37.4%	32.5%	26.3%	18.9%	14.8%	11.2%
Total revenues - Fashion	5.1	9.4	16.4	28.5	49.6	152.1	393.1	706.0
YoY growth	NM	86.5%	74.3%	73.5%	73.9%	25.1%	20.9%	12.4%
Total revenues - overall	35.3	51.7	74.5	105.5	146.8	383.4	855.3	1,491.2
YoY growth	-27.6%	46.4%	44.1%	41.6%	39.2%	21.2%	17.4%	11.8%
Net sales value - BPC	27.5	38.7	53.5	71.2	90.2	214.7	430.1	730.9
YoY growth	22.9%	40.6%	38.5%	33.1%	26.7%	18.9%	14.9%	11.2%
Net sales value - Fashion	5.1	9.3	16.1	27.9	48.2	148.0	383.5	686.8
YoY growth	NM	83.9%	73.1%	73.1%	73.1%	25.1%	21.0%	12.4%
Net sales value - overall	32.6	48.0	69.6	99.1	138.4	362.7	813.7	1,417.7
YoY growth	-27.2%	47.3%	45.2%	42.3%	39.7%	21.2%	17.5%	11.7%
Marketing - BPC	2.8	3.6	4.5	5.7	6.9	16.6	32.1	54.3
YoY growth	35.2%	30.5%	25.8%	25.9%	21.3%	19.1%	14.1%	11.1%
Marketing - Fashion	-	0.1	0.3	0.7	1.4	4.1	9.6	19.2
YoY growth	NM	NM	160.0%	92.5%	111.2%	24.2%	18.4%	14.9%
Marketing - Overall	2.8	3.7	4.9	6.4	8.3	20.7	41.7	73.5
YoY growth	-32.3%	35.2%	30.5%	30.5%	30.6%	20.0%	15.0%	12.0%

Source: IIFL Research; Note: net sales value refers to GMV minus discounts, returns, cancellations & taxes, notwithstanding whether recorded in the accounts as such or only as marketplace commission; net sales value does not include marketing support revenues Marketing revenue includes other operating revenue.

We estimate that by FY26, Fashion will contribute 10.2% to the total Ebitda of the company; by FY41, this contribution will increase to 34.3%. To enable a comparison, we calculate Ebitda margin for both these segments on the basis of net sales value (as explained in the footnote in the previous table). We expect Fashion to break even in FY25, and clock an Ebitda margin of 2.9% of the fashion net sales value by FY26. Compared with this, BPC Ebitda as a percentage of net sales value would be 13.6% in FY26.

By FY41, these figures would inflate to 20.7%/11.5% for BPC/Fashion, respectively. We keep the margins for fashion lower than BPC's due to Nykaa's strong positioning in the BPC segment and as the nascent Fashion segment is still loss-making. The company does not believe in a discounting model and, therefore, its market share is estimated to be lower for the Fashion segment, at only 4.5% of the online fashion industry by FY41 (vs 33.5% for BPC). Hence, we are confident that the company will be able to make respectable margins. However, we maintain that margins would be lower than those for the BPC segment.

Figure 105: We forecast overall EBITDA margin (on net sales) to reach 16.3% by FY41



Source: IIFL Research; Note Ebitda margin is as a percentage of 'net sales value', which is GMV less discounts, cancellations, returns & taxes; this should not to be confused with 'net sales', which are recorded in the book of accounts only where the company sells its own inventory and not under the marketplace model

Figure 106: Segment-wise costs as a percentage of net sales; EBITDA margin on net sales

	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
Gross profit margin - BPC	42.5%	41.8%	40.9%	40.5%	40.1%	40.2%	39.9%	39.9%
Gross profit margin - Fashion	32.4%	33.9%	34.6%	34.8%	35.3%	35.2%	34.9%	35.2%
Marketing cost - BPC	7.6%	7.6%	7.1%	7.1%	7.1%	6.6%	6.1%	5.6%
Marketing cost - Fashion	14.5%	14.7%	13.5%	13.8%	13.8%	12.3%	10.8%	9.3%
Employee cost - BPC	11.9%	10.3%	9.1%	8.2%	7.8%	7.2%	6.6%	6.0%
Employee cost - Fashion	8.4%	8.7%	8.5%	7.5%	6.1%	6.3%	5.6%	5.3%
Fulfilment cost - BPC	9.1%	9.0%	8.8%	8.7%	8.5%	7.5%	6.3%	5.3%
Fulfilment cost - Fashion	11.4%	11.2%	11.0%	10.9%	10.7%	9.6%	8.3%	7.2%
Other expenses - BPC	5.0%	4.3%	3.8%	3.3%	3.1%	2.8%	2.5%	2.3%
Other expenses - Fashion	2.6%	2.5%	2.3%	2.2%	1.8%	1.9%	1.7%	1.9%
Ebitda - BPC	8.9%	10.6%	12.2%	13.1%	13.6%	16.1%	18.4%	20.7%
Ebitda - Fashion	-4.5%	-3.3%	-0.8%	0.4%	2.9%	5.1%	8.5%	11.5%

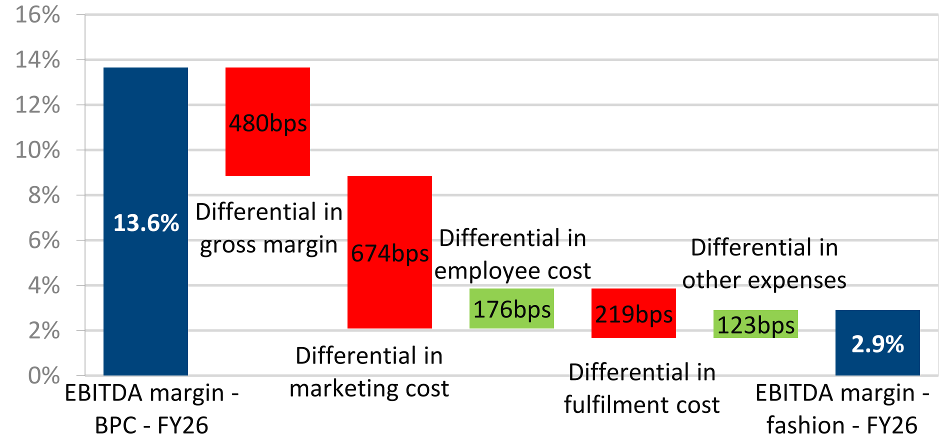
Source: IIFL Research; Note: all percentages given above are the net sales value of the respective division in the denominator; net sales value is GMV minus discounts, returns, cancellations & taxes, notwithstanding whether recorded in the accounts as such or only as marketplace commission

For FY26, the BPC Ebitda margin (as a percentage of net sales value) is 13.6%, at 1,074bps higher than that for Fashion. This is mainly owing to:

- Higher gross margin (which in turn is mainly due to higher marketing support revenue for BPC vs Fashion; for BPC, marketing revenue is assumed at 7% of net sales value and for Fashion, at 3% of net sales value),
- Lower marketing cost (Fashion being in the ramp-up mode would require more marketing), and
- Higher fulfilment costs (higher percentage of returns).

On the other hand, we have assumed lower employee costs (incremental cost for Fashion is lower as there is already a set up in which certain costs are being incurred) and lower other expenses (same reason).

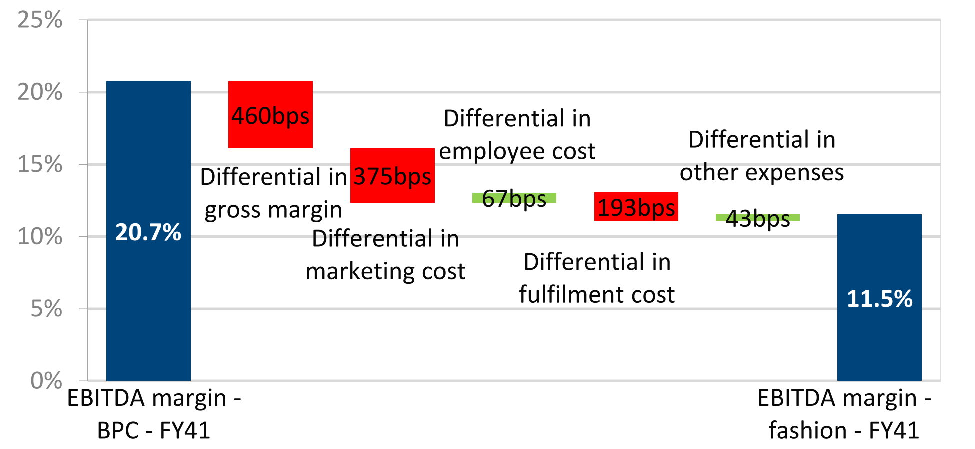
Figure 107: Lower gross margin and higher marketing costs result in lower Ebitda margin in FY26, for the Fashion vertical



Source: IIFL Research

Similarly, the Ebitda margin (as percentage of net sales value) differential between BPC and Fashion for FY41 is 922bps (20.7% vs 11.5%), owing to (see figure below):

Figure 108: Differential between marketing costs of the BPC and Fashion verticals is considerably lower in FY41 vs. FY26



Source: IIFL Research

DCF using SOTP: One year forward market cap of Rs.671bn.

We can separately calculate FCFF for the Beauty and Fashion businesses.

BPC – DCF: 1 year forward market cap of Rs.536bn
We forecast an FCFF of Rs7.3bn by FY26. Thereafter, FCFF Cagr stands at 32.9/20.5/15.5% for FY26-31/31-36/36-41.

Figure 109: We forecast the BPC vertical to post an FCFF of Rs99bn by FY41

Rs m	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
NOPLAT	1,194	2,159	3,651	5,446	7,329	22,840	54,399	106,038
Depreciation	294	409	560	744	957	1,767	3,611	6,730
Capex	(642)	(892)	(1,127)	(1,319)	(1,526)	(2,098)	(3,849)	(6,356)
Change in working capital	(581)	(1,281)	(1,680)	(1,931)	(1,705)	(2,891)	(5,021)	(6,359)
Change in other assets & liabilities	(197)	(272)	(337)	(403)	(467)	(581)	(799)	(792)
FCFF	**68**	**123**	**1,068**	**2,537**	**4,589**	**19,037**	**48,342**	**99,261**
% of NOPLAT	**5.7%**	**5.7%**	**29.3%**	**46.6%**	**62.6%**	**83.4%**	**88.9%**	**93.6%**

Source: IIFL Research

We use a discounting rate of 10% and a terminal growth rate of 5% to arrive at a one-year forward target market cap of Rs536bn. One will recall that while using the DCF methodology to calculate the combined cash-flows earlier in this chapter, we had assumed a discount rate of 10.5%. However, when we discount only the BPC cash-flows, we can assume a discount rate of 10%, as the BPC vertical is an established, profit-making and market-leading business in its sector.

If we do a reverse DCF on HUL, with ~95% FCFF-to-net profit conversion and 12% net profit growth over FY24-41 with a 5% terminal, a WACC of 8.5% is required to justify the current valuation. In light of this, we believe that a 10% discount rate for the BPC business is a fair assumption.

Figure 110: Nykaa – DCF valuation (Rs.m) of the BPC segment: sensitivity to WACC and terminal growth

Sensitivity table		WACC				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth	4.0%	619,217	539,084	473,623	419,365	373,838
	4.5%	668,083	575,992	502,026	441,567	391,424
	5.0%	729,166	621,101	**536,109**	467,805	411,942
	5.5%	807,701	677,488	577,766	499,291	436,190
	6.0%	912,414	749,986	629,837	537,774	465,287

Source: IIFL Research

Fashion - DCF

We forecast negative FCFF of Rs587m in FY26. Thereafter, FCFF Cagr stands at 47.5/22.6% over FY31-36/36-41, respectively.

Figure 111: We forecast the fashion vertical to post an FCFF of Rs51.6bn by FY41

Rs m	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
NOPLAT	(239)	(535)	(538)	(399)	487	4,247	21,415	53,720
Depreciation	18	79	156	219	296	693	1,772	3,874
Capex	(239)	(579)	(438)	(402)	(634)	(1,168)	(2,609)	(4,498)
Change in working capital	(254)	(118)	(158)	(224)	(371)	(891)	(1,645)	(1,289)
Change in other assets & liabilities	(87)	(123)	(179)	(252)	(366)	(211)	(273)	(219)
FCFF	**(801)**	**(1,276)**	**(1,158)**	**(1,058)**	**(587)**	**2,670**	**18,660**	**51,588**
% of NOPLAT	335.6%	238.4%	215.0%	265.4%	-120.5%	62.9%	87.1%	96.0%

Source: IIFL Research

We use a discounting rate of 12% for the Fashion business. Given that the model is new and untested, a higher discount rate is necessary to discount the cash-flows.

Figure 112: Nykaa – DCF valuation (Rs.m) of the fashion segment: sensitivity to WACC and terminal growth

Sensitivity table		WACC				
		11.0%	11.5%	12.0%	12.5%	13.0%
Terminal growth	4.0%	156,900	138,036	122,009	108,288	96,460
	4.5%	166,040	145,359	127,935	113,125	100,439
	5.0%	176,704	153,809	**134,708**	118,607	104,916
	5.5%	189,306	163,667	142,522	124,873	109,990
	6.0%	204,428	175,318	151,639	132,102	115,788

Source: IIFL Research

The overall DCF value using SOTP based methodology comes to Rs670.8bn (Rs536.1bn for BPC and Rs134.7bn for Fashion, assuming a discount rate of 10% for BPC and of 12% for Fashion), which is similar to the DCF at Rs672.3bn (assuming discount rate of 10.5%) for the company as a whole.

Derived EV/Ebitda and price to sales

- At a 1 year forward market cap of Rs.671bn, the implied EV/Ebitda FY23/26 pre Ind AS 116 is 263x/60x and post Ind AS 116 is 185x/51x
- The implied price to sales (total revenue) multiple is 15x/6x FY23/26.
- If we use "net sales value" (GMV less discounts, return, cancellation and taxes) including marketing and other revenue as the denominator instead of total revenue, the price to sales comes to 13x/5x on FY23/26.

Questions

Revenue

- What are the company's top 3 sub categories in the BPC segment and what is their contribution
- How fast can the company ramp up its number of unique annual transacting customers? What could this number be for BPC and Fashion segment respectively 5 years from now i.e. FY26?
- The market size for the BPC industry is Rs1267bn for FY20. However, categories that account for large part of Nykaa's BPC sales such as make up, skin care and hair care would be only a part of the Rs.1267bn number, and within that, Nykaa's share is quite respectable given the e commerce penetration in India. For long term growth, would it be necessary for Nykaa to diversify out of these categories? And in doing so, if they need to go into categories such as toothpaste, detergents, mass market soaps etc, it will be competing with players such as Big Basket and Amazon pantry. What advantage does Nykaa have over these players?
- How does the AOV get impacted as the number of customers in BPC ramps up from 5.6m in FY21 to say 15-20m a few years later? Will the newer customers have the same level of affluence that the current customers have? If not, should we expect a decline in AOV?
- Would marketing revenue mirror growth in GMV or is there some other variable/s that it would be closely correlated to?
- What is the marketplace commission as a percentage of GMV for Fashion business and how will that trend going ahead?
- What percentage of Fashion segment GMV is accounted for using marketplace model vs via own inventory currently? How will this ratio trend in future?
- What sets Nykaa apart in the fashion segment compared to players such as Myntra. Myntra reported a net loss of Rs.7.44bn despite its larger size, possibly due to discounting. In the absence of discounting, what is the unique proposition that Nykaa offers which will enable them to acquire customers.

Costs and margins

- As the company starts diversifying into more categories and mass market brands, how will the gross margins get affected, given that margins for these mass market products/categories will not be as healthy as company's current gross margins
- If customers start buying mass market brands and categories from Nykaa (essentially Nykaa caters to some part of grocery needs) does the frequency of ordering go up but AOV come down? Even with same annual spend per customer, the margins will be adversely impacted if the spends are driven by higher frequency rather than higher AOV.
- Cogs as a percentage of net sales was ~68% in FY19 and in FY21 but was ~64% in FY20. What is the reason for this variation and how would this number evolve in future. This assumes importance in light of the possibility of Nykaa broad basing its category mix within BPC and the possibility of increasing share of daily use items which may not be as lucrative.
- When can Fashion segment break even at Ebitda level and how much cumulative losses will the company bear till the break even is achieved.
- What is the Ebitda margin that the business can achieve over the medium term (say 5 years) and what would be the contribution to this target from different line items of the P&L.
    - Marketing cost in FY21 has been cut due to pandemic and is likely to increase
    - Fulfilment cost is variable per order and unlikely to give much benefit
    - Gross margin may be capped given broad-basing of categories and brands which may be required to maintain healthy revenue growth

Others

- Trade receivables at 21/22 days of net sales value (not to be confused with net sales) FY19/20 seem quite high for the company's business model. Although they have come down to 12 days in FY21, it is still on the higher side. How will this number trend going ahead?

- What is the typical order economics for you in BPC and fashion, how does it differ across tier 1/tier 2/tier 3 cities? At what order value do we break even?
- What is the logic of having separate apps for beauty and fashion verticals? Would it not make sense to have a tab for fashion in the main app, and when the customer clicks on it she is taken to an interface similar to what is available on the fashion app (similar to what Swiggy has done with its "Instamart" tab. This will significantly bring down customer acquisition cost for Fashion vertical, without impacting the customer experience.
- Store economics for the physical stores
    - Revenue and Ebitda per store
    - Capex per store
    - Is the AOV higher or lower vs online
    - Will the stores be franchised or company run
    - Number of orders per store per year

How many stores in beauty and fashion respectively are needed over the next 5 years to have an optimum omni channel play?

Annexure – Nykaa Fashion App comparison across major e-commerce players

We compared the Nykaa Fashion app versus the major e-commerce players operating in the fashion space. While the Nykaa fashion app displays lower results (12k+) compared to other players (30k+) when we look at the “women’s tops” category, one should note that this could possibly be a result of careful curation ensuring that out of fashion styles are excluded from the collection.

While user experience is smooth and similar to other fashion-focused apps like Myntra and AJIO, it is better compared to the Amazon app which has more clutter. The Nykaa app provides all necessary basic filters like brand, size, fit etc but the number of filters are higher on the Myntra app.

Both local and international brands were available on the Nykaa app, with more focus on the low to mid-price range (~10k out of 12k items were under Rs2000), similar to other brands. In terms of discounting, we note that around 75% (9k+) of the listed products in the category were offering at least 10% discount, little lower than that offered by other fashion focused apps as well as Amazon having 80-90% products under some discount. This is unsurprising given the competitive nature of e-retailing.

Overall we felt that the Nykaa fashion app delivers a good user experience, with a carefully curated range of products while providing sufficient variety (across brands, prices and occasions) to go head to head with the major e-commerce players operating in the space.

Figure 113: Discount level vs no. of products in the category – Nykaa and Myntra

Discounting	Nykaa (% of products)	Myntra (% of products)
70% and above	5.3%	9.0%
60-70%	11.5%	22.8%
50-60%	43.5%	34.7%
40-50%	18.0%	15.0%
30-40%	8.1%	7.2%
20-30%	8.9%	7.2%
10-20%	4.8%	4.1%
Avg discount (weighted)	**49.7%**	**53.3%**

Source: Company, IIFL Research

Figure 114: Discount level vs no. of products in the category – AJIO

Discounting	AJIO (% of products)
80% and above	0.8%
51-80%	43.7%
41-50%	21.2%
31-40%	11.6%
21-30%	6.5%
0-20%	16.2%
Avg discount (weighted)	**45.9%**

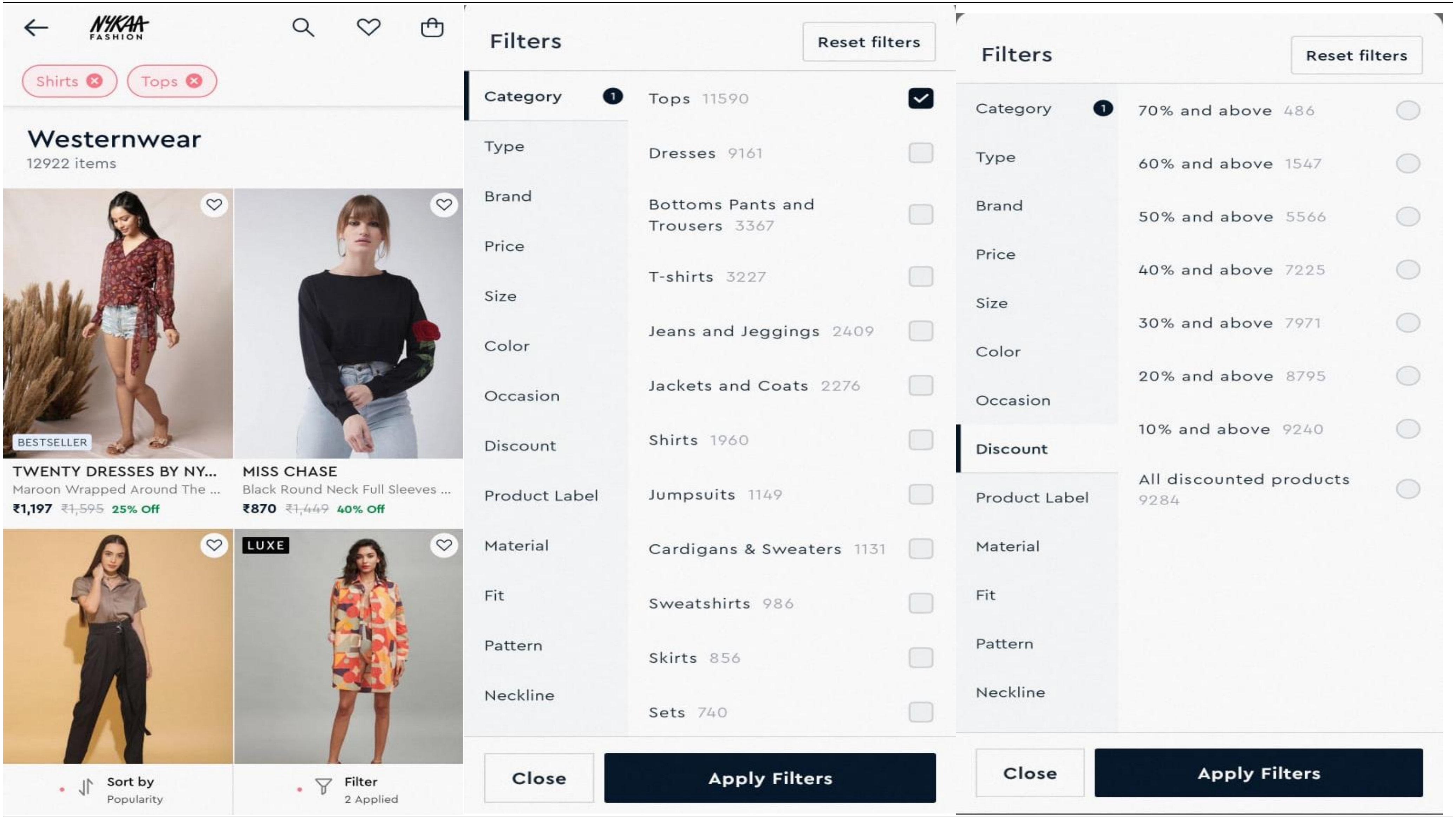
Source: Company, IIFL Research

Figure 115: Comparison of key features across apps with focus on "women's tops" category

	Nykaa	Myntra	Amazon	AJIO
Variety	• 12000+ results • user can sort according to type of top, brand, size, fit, color, pattern, occasion, material and even product label (new on nykaa, editor's pick, hidden gems etc)	• 37000+ results • can sort on the basis of size, color, brand, pattern, fit, occasion as well as addl filters like country of origin, wash care (dry clean, hand wash etc) , characters (like superheroes, barbie etc) and sustainability (eco-friendly products)	• 30000+ results • User can sort using basic filters like size, colour, brands, material and occasion but options are not as numerous compared to myntra and nykaa	• 34000+ results • Filters are basic and similar to those offered by peers - price, brand, occasion, size & fit, pattern etc but lower than myntra and nykaa overall
Price	• Mainly Low to mid end (<Rs 2000) i.e. 10k+ items were available • Both international and local brands available	• Low to mid end focused i.e. 36k+ products sold under Rs2000 • Both Intl and Indian brands available similar to peers	• More unbranded products (including own pvt label) compared to other brands • Similar to other brands in terms of having more products in low to mid-price range	• A lot of smaller and private label brands are available though some international brands are also sold
Discounting	• 9k+ discounted products • Weighted discount – 50% (based on no. of products across each discount band)	• Available on 31.5k+ products indicating higher levels of discounting • Weighted discount – 53%	• Discounting similar to myntra/nykaa with 25000+ products (of 10%+ discount)	• Discounts are available on 30k+ products with more focus on low to mid price range • Weighted discount - 46%
Browsing exp on app	• Addl app needed for fashion (apart from BPC) which could be inconvenient to customers • App interface is neat and user friendly with no clutter	• App interface is decent with more features available than Nykaa • Sizes available are accurate and all encompassing	• Not as seamless as the other two with lots of clutter like discounts, advertisement etc • Difficult to browse through the app given interface is not as simple as nykaa and myntra	• App interface is smooth and neat; designed along similar lines to myntra and nykaa

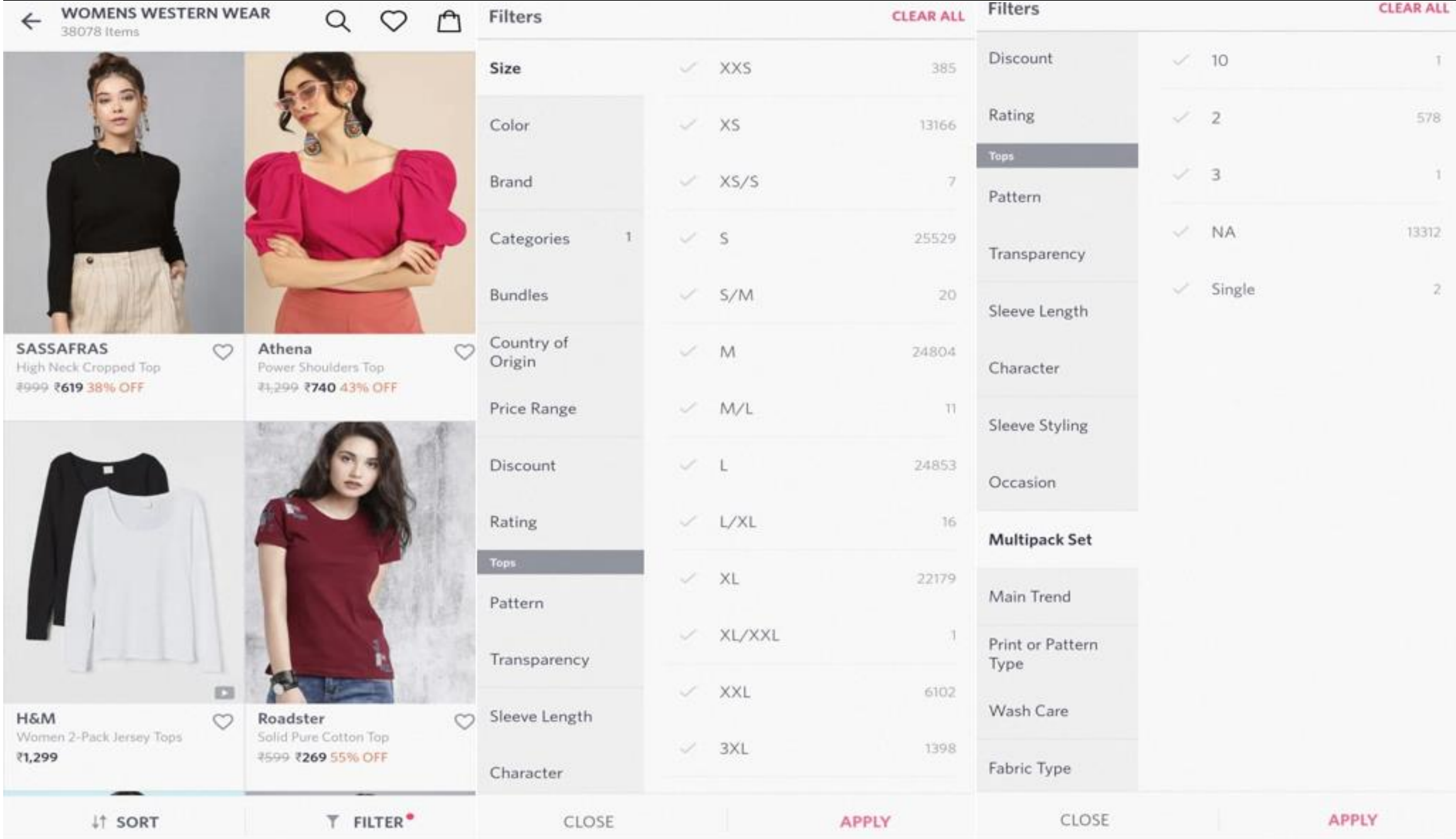
Source: Company, IIFL Research

Figure 116: Nykaa Fashion app – Neat user interface with wide a range of filters and generous discounting available



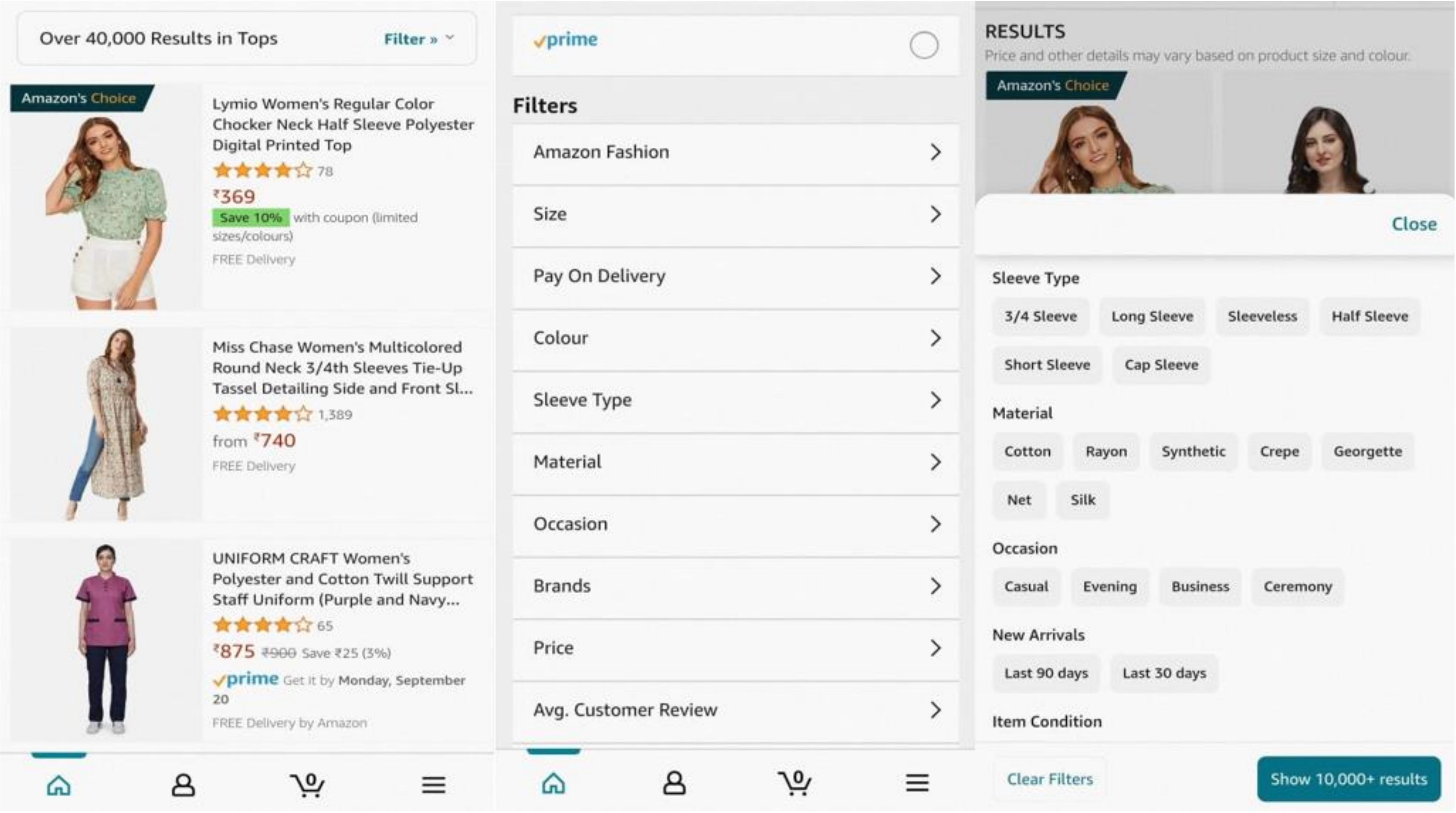
Source: Company, IIFL Research

Figure 117: Myntra app – Great browsing experience given its simple interface with a wide plethora of options to select; discounting on the higher side compared to other apps



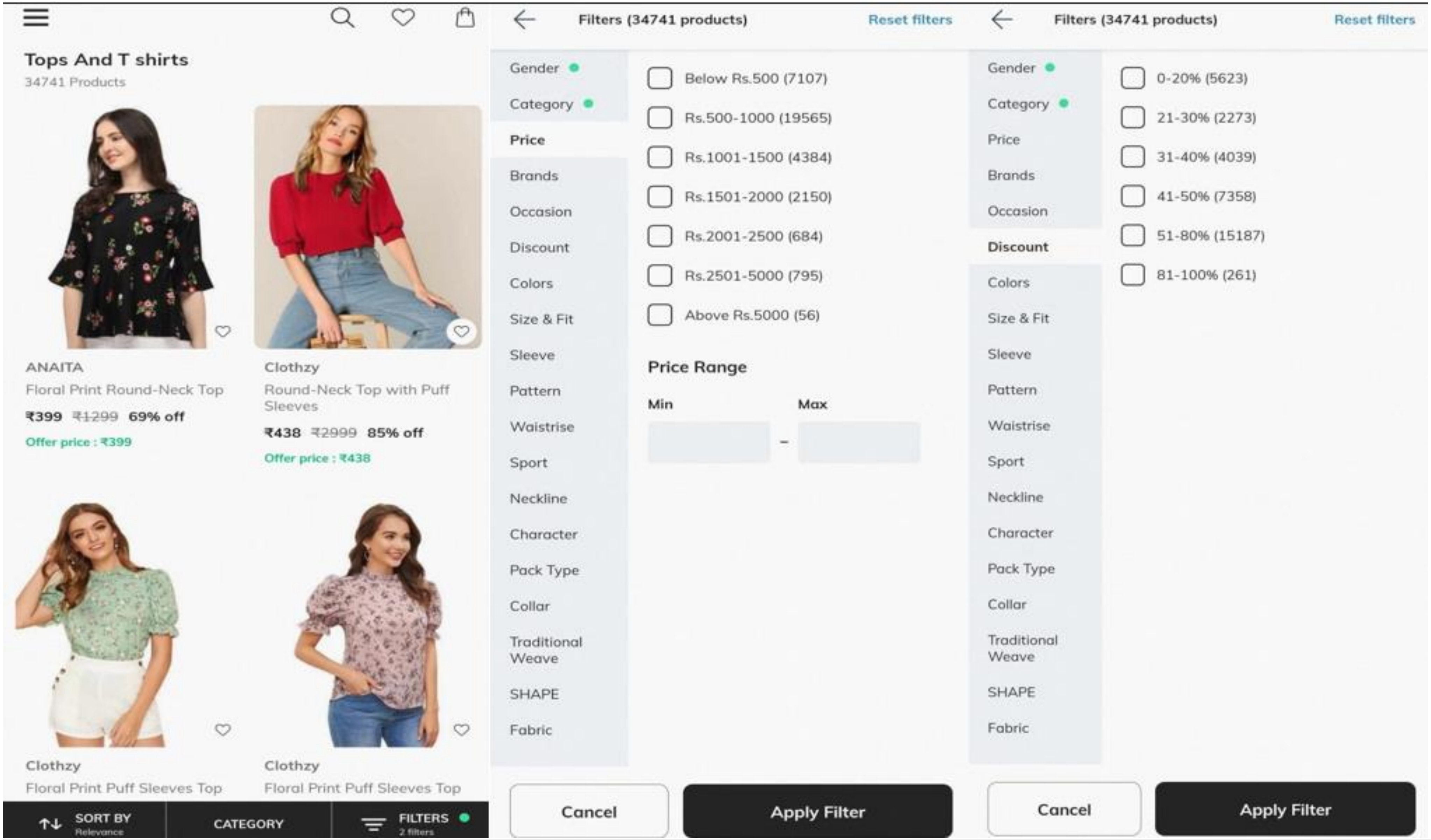
Source: Company, IIFL Research

Figure 118: Amazon app – While browsing experience is not as smooth, it makes up for it with a wide array of clothing choices and great customer service



Source: Company, IIFL Research

Figure 119: AJIO app – Built along similar lines to Myntra and Nykaa, it has a user friendly interface with products spanning all price ranges and having good discounts



Source: Company, IIFL Research

Financial Summary

Figure 120: Revenue details

Rs m	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
BPC											
Number of customers (m)	3.5	5.3	5.6	7.8	10.2	13.0	16.0	18.8	34.6	50.8	61.8
Frequency of order (per year)	3.1	3.2	3.1	3.2	3.3	3.4	3.6	3.7	3.7	3.7	3.7
AOV	1,433	1,448	1,963	1,767	1,837	1,911	1,987	2,067	2,638	3,530	4,836
Overall GMV (including MBOs)	16,219	24,981	33,804	44,342	62,346	86,322	114,889	145,520	346,316	693,776	1,178,851
Annual spend per customer (GMV minus discounts, cancellations and returns)	3,378	3,483	4,496	4,208	4,551	4,923	5,324	5,759	7,350	9,836	13,476
Nykaa market share of total industry	1.0%	1.4%	2.2%	2.6%	3.2%	4.0%	4.8%	5.4%	7.7%	9.6%	10.5%
Nykaa market share of online industry	17.1%	26.1%	27.2%	28.7%	28.9%	29.7%	30.2%	30.2%	32.1%	33.0%	33.5%
Net sales of products	9,739	15,624	21,025	27,028	38,002	52,616	70,028	88,698	211,089	422,875	718,541
Market place commissions	107	-	-	133	187	259	345	437	1,039	2,081	3,537
Fashion											
Number of customers (m)	0.0	0.1	0.6	1.1	1.9	3.1	5.0	7.9		18.2	33.5
Frequency of order (per year)	10.7	11.6	4.0	4.2	4.4	4.6	4.7	4.9		5.2	5.4
AOV	655	1,604	2,739	2,849	2,963	3,081	3,204	3,332	4,253	5,692	7,617
Overall GMV (including MBOs)	282	1,868	6,656	13,678	25,150	43,523	75,319	130,344	399,994	1,036,529	1,856,265
Annual spend per customer (GMV minus discounts, cancellations and returns)	2,957	7,845	4,659	5,039	5,450	5,895	6,376	6,896	9,251	13,011	17,412
Nykaa market share of total industry	0.0%	0.0%	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%	1.1%	1.6%	1.7%
Nykaa market share of online industry	0.0%	0.2%	0.6%	1.1%	1.3%	1.6%	2.0%	2.7%	3.6%	4.6%	4.5%
Net sales of products	-	214	784	1,012	1,582	2,254	2,787	4,823	14,800	38,352	68,682
Market place commissions	23	133	553	1,313	2,505	4,492	8,134	14,077	43,199	111,945	200,477
Overall											
Net sales	9,739	15,838	21,809	28,040	39,583	54,870	72,815	93,521	225,888	461,227	787,223
Marketplace commissions	130	133	553	1,446	2,692	4,751	8,479	14,514	44,238	114,026	204,013
Marketing support revenues	1,231	1,682	1,950	2,633	3,554	4,620	6,006	7,808	19,430	39,080	68,872
Other operating income	14	22	97	136	190	266	372	521	1,297	2,609	4,597
Total revenue	**11,114**	**17,675**	**24,409**	**32,254**	**46,019**	**64,507**	**87,673**	**116,364**	**290,853**	**616,942**	**1,064,706**

Source: Company, IIFL Research

Figure 121: Income statement

Rs m	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
Total revenue	**11,114**	**17,675**	**24,409**	**32,254**	**46,019**	**64,507**	**87,673**	**116,364**	**290,853**	**616,942**	**1,064,706**
yoy growth	**NA**	**59.0%**	**38.1%**	**32.1%**	**42.7%**	**40.2%**	**35.9%**	**32.7%**	**20.1%**	**16.2%**	**11.5%**
Gross profit	4,511	7,533	9,531	13,327	19,301	27,470	38,523	53,238	138,379	305,614	533,330
Gross margin (% total revenue)	40.6%	42.6%	39.0%	41.3%	41.9%	42.6%	43.9%	45.8%	47.6%	49.5%	50.1%
yoy growth	NA	67.0%	26.5%	39.8%	44.8%	42.3%	40.2%	38.2%	21.1%	17.2%	11.8%
Employee benefits expenses	1,173	1,956	2,836	3,687	4,794	6,232	7,977	9,971	24,810	49,903	80,369
% of total revenue	10.6%	11.1%	11.6%	11.4%	10.4%	9.7%	9.1%	8.6%	8.5%	8.1%	7.5%
yoy growth	NA	66.8%	45.0%	30.0%	30.0%	30.0%	28.0%	25.0%	20.0%	15.0%	10.0%
Fulfilment costs	1,074	1,730	2,177	3,086	4,509	6,492	9,195	12,835	30,352	59,172	87,861
% of total revenue	9.7%	9.8%	8.9%	9.6%	9.8%	10.1%	10.5%	11.0%	10.4%	9.6%	8.3%
yoy growth	NA	61.0%	25.8%	41.8%	46.1%	44.0%	41.6%	39.6%	18.8%	14.3%	8.2%
Marketing costs	1,428	2,022	1,695	2,826	4,315	5,979	8,913	13,078	32,378	67,583	104,501
% of total revenue	12.9%	11.4%	6.9%	8.8%	9.4%	9.3%	10.2%	11.2%	11.1%	11.0%	9.8%
yoy growth	NA	41.6%	-16.2%	66.7%	52.7%	38.6%	49.1%	46.7%	19.9%	15.9%	9.1%
Other expenses	631	1,015	1,208	1,511	1,895	2,384	2,972	3,644	8,684	17,192	29,844
% of total revenue	5.7%	5.7%	5.0%	4.7%	4.1%	3.7%	3.4%	3.1%	3.0%	2.8%	2.8%
yoy growth	NA	60.9%	19.1%	25.0%	25.4%	25.8%	24.7%	22.6%	19.0%	14.6%	11.7%
Ebitda	205	811	1,614	2,217	3,788	6,383	9,466	13,709	42,154	111,764	230,755
Ebitda margin (% of total revenue)	**1.8%**	**4.6%**	**6.6%**	**6.9%**	**8.2%**	**9.9%**	**10.8%**	**11.8%**	**14.5%**	**18.1%**	**21.7%**
yoy growth	NA	295.2%	99.2%	37.3%	70.9%	68.5%	48.3%	44.8%	25.2%	21.5%	15.6%
Ebitda (adj for Ind AS 116)	(6)	339	1,185	1,588	2,657	4,875	7,707	11,699	38,658	106,698	224,099
Adj Ebitda margin (% of total revenue)	**-0.1%**	**1.9%**	**4.9%**	**4.9%**	**5.8%**	**7.6%**	**8.8%**	**10.1%**	**13.3%**	**17.3%**	**21.0%**
yoy growth	NA	-5424.3%	249.4%	34.0%	67.3%	83.5%	58.1%	51.8%	0.0%	0.0%	0.0%
Depreciation	309	595	671	758	1,172	1,718	2,309	3,008	5,904	12,919	25,449
Interest	263	443	307	123	174	268	349	434	982	2,533	4,975
Other income	50	103	117	235	235	129	71	103	256	515	757
PBT	(317)	(124)	753	1,570	2,677	4,526	6,879	10,371	35,524	96,828	201,089
Net profit	**(245)**	**(163)**	**619**	**1,175**	**2,003**	**3,387**	**5,148**	**7,760**	**26,582**	**72,456**	**150,475**
Net profit margin	-2.2%	-0.9%	2.5%	3.6%	4.4%	5.3%	5.9%	6.7%	9.1%	11.7%	14.1%
Net profit growth	NA	NM	NM	89.7%	70.5%	69.1%	52.0%	50.8%	27.9%	22.2%	15.7%

Source: Company, IIFL Research

Figure 122: Balance sheet

Rs m	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY31	FY36	FY41
Net fixed assets incl CWIP, ROU and intangibles	1,416	2,329	2,349	3,577	5,935	7,972	9,793	11,968	22,130	47,223	75,038
Other non-current assets	701	760	1,041	1,347	1,770	2,323	3,027	3,923	8,157	13,851	19,147
Inventory	2,446	4,453	4,981	6,530	9,218	12,778	16,957	21,779	49,510	101,091	172,542
Receivables	579	984	766	981	1,314	1,717	2,172	2,655	6,956	15,604	27,189
Cash / Investments	1,470	1,756	2,477	4,986	3,339	2,270	2,500	4,684	13,754	29,730	53,178
Other current assets	1,145	961	1,406	1,408	2,063	2,790	3,685	4,753	12,330	22,945	31,906
Total Assets	**7,757**	**11,245**	**13,020**	**18,829**	**23,639**	**29,849**	**38,133**	**49,761**	**112,836**	**230,444**	**379,000**
Shareholders’ equity	2,310	3,229	4,908	11,039	12,442	14,813	18,674	24,495	52,339	101,863	138,095
Loan funds (incl lease liabilities)	2,256	2,675	1,875	-	-	-	-	-	-	-	-
Lease liabilities	848	1,450	1,452	2,052	3,154	4,104	5,103	6,550	15,829	38,267	90,125
Other non-current liabilities	24	53	73	95	124	161	210	273	549	883	1,127
Payables	1,818	3,133	3,162	3,841	5,422	7,516	9,975	12,811	30,944	63,182	107,839
Other current liabilities	500	705	1,550	1,802	2,497	3,254	4,171	5,633	13,175	26,249	41,814
Total liabilities	**7,757**	**11,245**	**13,020**	**18,829**	**23,639**	**29,849**	**38,133**	**49,761**	**112,836**	**230,444**	**379,000**
Net working capital	1,853	2,561	2,441	3,277	4,676	6,514	8,668	10,744	24,677	50,209	81,984
% of total revenue	16.7%	12.5%	10.2%	8.9%	8.6%	8.7%	8.7%	8.3%	8.5%	6.1%	6.2%
ROIC (post tax)	**NA**	**2.6%**	**16.3%**	**18.4%**	**21.8%**	**29.9%**	**36.6%**	**44.7%**	**70.5%**	**90.3%**	**111.6%**
ROE		**-5.9%**	**15.2%**	**14.7%**	**17.1%**	**24.9%**	**30.7%**	**36.0%**	**53.5%**	**76.6%**	**109.0%**

Source: Company, IIFL Research

Figure 123: Cash flow statement

Rs m	FY20	FY21	FY22	FY23	FY24	FY25	FY26
EBIT	215	943	1,459	2,617	4,665	7,157	10,702
Taxes	(39)	(134)	(395)	(674)	(1,139)	(1,732)	(2,610)
Depreciation	595	671	758	1,172	1,718	2,309	3,008
Change in working capital	(708)	119	(835)	(1,399)	(1,838)	(2,154)	(2,075)
Change in other long term assets and liabilities	(26)	(285)	(284)	(395)	(515)	(656)	(833)
Cash flow from operations	**38**	**1,315**	**702**	**1,321**	**2,891**	**4,925**	**8,191**
Capex	(1,509)	(721)	(1,986)	(3,529)	(3,755)	(4,130)	(5,183)
Change in investments	1,345	25	-	-	-	-	-
Other income	103	117	235	235	129	71	103
Others	(0)	31	-	-	-	-	-
Cash flow from investing activities	**(61)**	**(548)**	**(1,751)**	**(3,295)**	**(3,626)**	**(4,059)**	**(5,080)**
Change in borrowings	419	(801)	(1,875)	-	-	-	-
Change in lease liabilities	602	2	599	1,102	950	999	1,447
Interest costs	(303)	(177)	-	-	-	-	-
Interest payments pertaining to lease liabilities	(140)	(130)	(123)	(174)	(268)	(349)	(434)
Change in equities	1,082	1,059	5,250	-	0	-	(0)
Dividends	-	-	(294)	(601)	(1,016)	(1,287)	(1,940)
Cash flow from financing activities	**1,660**	**(46)**	**3,558**	**327**	**(333)**	**(637)**	**(927)**
Net change in cash	**1,637**	**721**	**2,509**	**(1,647)**	**(1,069)**	**229**	**2,184**

Source: Company, IIFL Research

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SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

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