

Retail Equity Research

FSN E-Commerce Ventures Ltd

E-Retail/ E-Commerce

BSE CODE: 543384

NSE CODE: NYKAA

Bloomberg CODE: NYKAA:IN

SENSEX: 74,503

BUY

12 Months Investment Period Rating as per Mid Cap

 CMP Rs. 162 TARGET Rs. 186 RETURN 15% 
 (Closing: 29-05-24)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Operating leverage to drive margins

FSN E-Commerce Ventures Pvt Ltd (Nykaa) is a consumer technology platform provider that distributes beauty, fitness, healthcare, skincare and haircare products via online portals and physical stores. It has three operating segments: Beauty and personal care (BPC), fashion and others, which include Nykaa Man, Superstore and international business.

- In Q4FY24, Nykaa's consolidated revenue increased 28.1% YoY to Rs. 1,668cr, driven by strong growth in all its business verticals.
- EBITDA rose 32.0% YoY to Rs. 93cr, while margins improved to 5.6%, owing to cost optimisation and scale efficiency.
- The company expects significant growth in the BPC and fashion segments, supported by its ongoing cost optimisation and scale efficiency efforts. The expansion of retail space, brand partnerships and synergies from mergers should further enhance Nykaa's profitability. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 186 based on 5x FY26E P/S.

Stellar revenue growth; thriving margins

In Q4FY24, Nykaa's revenue grew 28.1% YoY to Rs. 1,668cr, driven by robust performance in all its segments. The BPC segment witnessed a 24.0% YoY growth, reaching Rs. 1,389cr, fuelled by strong performance in categories, such as colour cosmetics, skincare, haircare, fragrances and bath and body care. The growth was further supported by an increase in customer acquisition, the addition of new brands and healthy performance of owned brands. The fashion segment grew 27.0% YoY to Rs. 133cr, driven by substantial growth in core and emerging categories. Other segments also showed notable growth, rising 89.8% YoY to Rs. 146cr. Additionally, the gross merchandise value surged to Rs. 3,217cr, up 32.0% YoY, with net sales value reaching Rs. 1,649cr, marking a 28.0% YoY growth. As a result, EBITDA improved 32.0% YoY to Rs. 93cr, while margins rose by 20bps YoY to 5.6%, owing to cost optimisation. The reported profit after tax increased 298.7% YoY to Rs. 9cr, driven by robust revenue growth and scale efficiencies.

Concall highlights

- In Q4FY24, the total number of stores reached 187 across 68 cities compared to 145 stores across 60 cities in Q4FY23, with a retail space exceeding 1.7 lakh sq ft.
- The number of annual unique transacting customers in the BPC segment grew 18.0% YoY to 11.7 million and that in the fashion segment increased over 20.0% YoY to 3 million.

Strategic business restructuring drive

The Board has approved the consolidation of Nykaa Fashion Ltd's western wear and accessories business unit into the parent company. Additionally, the merger of Illumina Media Ltd with Nykaa Fashion has been approved. The restructuring aims to integrate the owned brand, content creation and events businesses into a single entity to improve operational efficiency across its entities. These actions are pending necessary approvals.

Valuation

Nykaa has demonstrated strong Q4FY24 earnings performance. We anticipate significant and profitable growth in the BPC and fashion segments. The company's ongoing cost optimisation and scale efficiency efforts are expected to further enhance its profitability in the upcoming quarters. Additionally, expansion in the form of new stores, partnerships with globally renowned brands, investments in technological capabilities and synergies should positively impact its earnings performance. Therefore, we reiterate our BUY rating, with a revised target price of Rs. 186, based on 5x FY26E P/S.

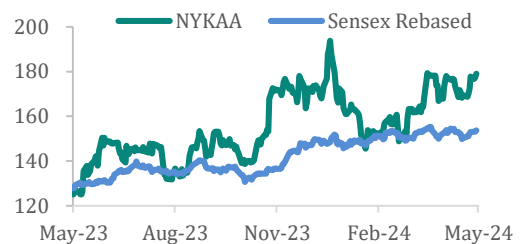
Company Data

| | |
|--------------------------|------------|
| Market Cap (cr) | Rs. 46,159 |
| Enterprise Value (cr) | Rs. 45,006 |
| Outstanding Shares (cr) | 286 |
| Free Float | 47.0% |
| Dividend Yield | 0.0% |
| 52 week high | Rs. 195 |
| 52 week low | Rs. 124 |
| 6m average volume (lacs) | 73.1 |
| Beta | 0.9 |
| Face value | Rs. 1 |

| Shareholding (%) | Q2FY24 | Q3FY24 | Q4FY24 |
|-------------------|--------|--------|--------|
| Promoters | 52.3 | 52.2 | 52.2 |
| FII's | 9.8 | 10.7 | 10.3 |
| MFs/Insti | 14.3 | 15.3 | 17.2 |
| Public | 23.4 | 21.8 | 20.2 |
| Others | 0.2 | 0.1 | 0.1 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoters' pledge | 0.0 | 0.0 | 0.0 |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | 10.6% | -2.0% | 34.5% |
| Absolute Sensex | 3.1% | 14.3% | 22.1% |
| Relative Return* | 7.5% | -16.3% | 12.4% |

*over or under performance to benchmark index



| Consolidated (cr) | FY24A | FY25E | FY26E |
|-------------------|--------|-------|--------|
| Sales | 6,386 | 8,167 | 10,581 |
| Growth (%) | 24.1 | 27.9 | 29.6 |
| EBITDA | 346 | 571 | 904 |
| EBITDA Margin (%) | 5.4 | 7.0 | 8.5 |
| Adj. PAT | 32 | 194 | 395 |
| Growth (%) | 67.5 | 500.3 | 103.7 |
| Adj. EPS | 0.1 | 0.7 | 1.4 |
| Growth (%) | 67.3 | 500.3 | 103.7 |
| P/E | 1433.1 | 238.7 | 117.2 |
| P/B | 36.6 | 31.8 | 25.0 |
| EV/EBITDA | 134.9 | 82.1 | 52.2 |
| ROE (%) | 2.6 | 13.3 | 21.3 |
| D/E | 0.5 | 0.6 | 0.6 |

Quarterly Financials (Consolidated)

Profit & Loss Account

| Rs. cr | Q4FY24 | Q4FY23 | YoY Growth (%) | Q3FY24 | QoQ Growth (%) | FY24 | FY23 | YoY Growth (%) |
|---------------------------------|------------|------------|----------------|------------|----------------|------------|------------|----------------|
| Revenue | 1,668 | 1,302 | 28.1 | 1,789 | (6.8) | 6,386 | 5,144 | 24.1 |
| EBITDA | 93 | 71 | 32.0 | 99 | (5.6) | 346 | 256 | 35.2 |
| EBITDA margins | 5.6 | 5.4 | 20bps | 5.5 | 10bps | 5.4 | 5.0 | 40bps |
| Depreciation | 60 | 53 | 12.5 | 58 | 2.8 | 224 | 173 | 29.4 |
| EBIT | 34 | 18 | 90.5 | 41 | (17.5) | 122 | 83 | 47.3 |
| Interest | 21 | 19 | 12.6 | 22 | (3.2) | 83 | 75 | 11.0 |
| Other Income | 7 | 10 | (27.5) | 8 | (6.9) | 30 | 30 | (0.9) |
| Exceptional Items | - | - | - | - | - | - | - | - |
| Share of profit from Associate | - | - | - | - | - | - | - | - |
| PBT | 20 | 9 | 126.7 | 26 | (26.2) | 69 | 38 | 79.8 |
| Tax | 10 | 4 | 125.7 | 8 | 19.0 | 25 | 14 | 86.5 |
| Reported PAT | 9 | 2 | 298.7 | 17 | (46.6) | 40 | 21 | 89.6 |
| Minority Interest | 2 | (0) | n.m. | 1 | 68.8 | 7 | 2 | 340.5 |
| PAT att. to shareholders | 7 | 2 | 187.4 | 16 | (57.2) | 32 | 19 | 67.5 |
| Adjustments | - | - | - | - | - | - | - | - |
| Adj. PAT | 7 | 2 | 187.4 | 16 | (57.2) | 32 | 19 | 67.5 |
| No. of shares | 286 | 285 | 0.1 | 286 | 0.0 | 286 | 285 | 0.1 |
| Adj. EPS (Rs.) | 0.0 | 0.0 | 187.1 | 0.1 | (57.2) | 0.1 | 0.1 | 67.3 |

Change in Estimates

| Year / Rs. cr | Old estimates | | New estimates | | Change (%) | |
|---------------|---------------|-------|---------------|--------|------------|---------|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 7,941 | 9,917 | 8,167 | 10,581 | 2.9 | 6.7 |
| EBITDA | 594 | 917 | 571 | 904 | (3.9) | (1.5) |
| Margins (%) | 7.5 | 9.3 | 7.0 | 8.5 | (50bps) | (80bps) |
| Adj. PAT | 205 | 404 | 194 | 395 | (5.6) | (2.4) |
| Adj. EPS | 0.7 | 1.4 | 0.7 | 1.4 | (5.7) | (2.6) |

PROFIT & LOSS

| Y.E March (Rs. cr) | FY22A | FY23A | FY24A | FY25E | FY26E |
|--|--------------|--------------|--------------|--------------|---------------|
| Revenue | 3,774 | 5,144 | 6,386 | 8,167 | 10,581 |
| % change | 54.6 | 36.3 | 24.1 | 27.9 | 29.6 |
| EBITDA | 163 | 256 | 346 | 571 | 904 |
| % change | 4.2 | 56.8 | 35.2 | 65.0 | 58.2 |
| Depreciation | 96 | 173 | 224 | 230 | 249 |
| EBIT | 67 | 83 | 122 | 341 | 654 |
| Interest | 47 | 75 | 83 | 110 | 149 |
| Other Income | 27 | 30 | 30 | 48 | 62 |
| PBT | 47 | 38 | 69 | 279 | 567 |
| % change | (28.5) | (18.8) | 79.8 | 303.5 | 103.7 |
| Tax | 6 | 14 | 25 | 67 | 136 |
| Tax Rate (%) | 12.7 | 35.4 | 36.7 | 24.0 | 24.0 |
| Reported PAT | 41 | 21 | 40 | 212 | 431 |
| PAT att. to common shareholders | 41 | 19 | 32 | 194 | 395 |
| Adj* | - | - | - | - | - |
| Adj PAT | 41 | 19 | 32 | 194 | 395 |
| % change | (33.3) | (53.1) | 67.5 | 500.3 | 103.7 |
| No. of shares (cr) | 48 | 285 | 286 | 286 | 286 |
| Adj EPS (Rs.) | 0.9 | 0.1 | 0.1 | 0.7 | 1.4 |
| % change | (34.9) | (92.2) | 67.3 | 500.3 | 103.7 |
| DPS (Rs.) | - | - | - | - | - |

CASH FLOW

| Y.E March (Rs. cr) | FY22A | FY23A | FY24A | FY25E | FY26E |
|-------------------------|--------------|--------------|-------------|--------------|--------------|
| Net inc. + Depn. | 137 | 193 | 256 | 424 | 644 |
| Non-cash adj. | (147) | (33) | (102) | 14 | (19) |
| Changes in W.C | (344) | (300) | (154) | (235) | (379) |
| C.F. Operation | (354) | (140) | 0 | 203 | 246 |
| Capital exp. | (94) | (208) | (111) | (270) | (317) |
| Change in inv. | (525) | 330 | (56) | - | - |
| Other invest.CF | 16 | 18 | 157 | (20) | (47) |
| C.F - Investment | (603) | 140 | (10) | (290) | (364) |
| Issue of equity | 873 | 29 | 17 | - | - |
| Issue/repay debt | 146 | 126 | 220 | 191 | 218 |
| Dividends paid | - | - | - | - | - |
| Other finance.CF | (91) | (150) | (193) | (70) | (128) |
| C.F - Finance | 927 | 5 | 44 | 121 | 89 |
| Chg. in cash | (30) | 4 | 34 | 34 | (29) |
| Closing cash | 267 | 149 | 240 | 274 | 245 |

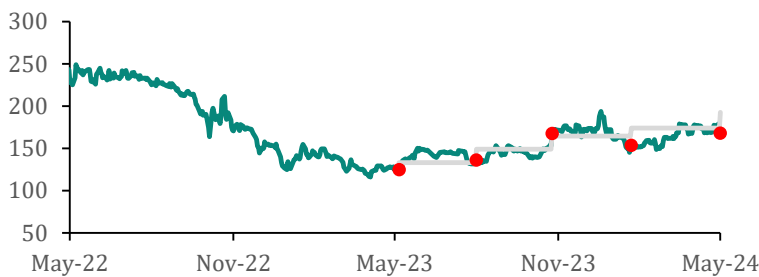
BALANCE SHEET

| Y.E March (Rs. cr) | FY22A | FY23A | FY24A | FY25E | FY26E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 267 | 149 | 240 | 274 | 245 |
| Accounts Receivable | 95 | 164 | 242 | 314 | 413 |
| Inventories | 876 | 1,005 | 1,192 | 1,382 | 1,778 |
| Other Cur. Assets | 690 | 588 | 619 | 703 | 851 |
| Investments | - | - | - | - | - |
| Gross Fixed Assets | 591 | 882 | 993 | 1,262 | 1,580 |
| Net Fixed Assets | 372 | 535 | 491 | 529 | 596 |
| CWIP | 10 | 11 | 12 | 13 | 14 |
| Intangible Assets | 126 | 184 | 195 | 202 | 237 |
| Def. Tax (Net) | 115 | 188 | 269 | 282 | 294 |
| Other Assets | 96 | 127 | 141 | 157 | 183 |
| Total Assets | 2,646 | 2,950 | 3,401 | 3,857 | 4,610 |
| Current Liabilities | 633 | 738 | 1,198 | 1,196 | 1,254 |
| Provisions | 8 | 9 | 10 | 13 | 16 |
| Debt Funds | 333 | 460 | 680 | 871 | 1,089 |
| Other Liabilities | 327 | 351 | 230 | 284 | 328 |
| Equity Capital | 47 | 285 | 286 | 286 | 286 |
| Reserves & Surplus | 1,292 | 1,093 | 977 | 1,170 | 1,565 |
| Shareholder's Fund | 1,340 | 1,378 | 1,262 | 1,456 | 1,850 |
| Minority Interest | 6 | 14 | 19 | 37 | 73 |
| Total Liabilities | 2,646 | 2,950 | 3,401 | 3,857 | 4,610 |
| BVPS (Rs.) | 28 | 5 | 4 | 5 | 6 |

RATIOS

| Y.E March | FY22A | FY23A | FY24A | FY25E | FY26E |
|--------------------------------|-------|---------|---------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 4.3 | 5.0 | 5.4 | 7.0 | 8.5 |
| EBIT margin (%) | 1.8 | 1.6 | 1.9 | 4.2 | 6.2 |
| Net profit mgn.(%) | 1.1 | 0.4 | 0.5 | 2.4 | 3.7 |
| ROE (%) | 3.1 | 1.4 | 2.6 | 13.3 | 21.3 |
| ROCE (%) | 4.0 | 4.5 | 6.2 | 14.4 | 21.7 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 9.1 | 11.6 | 13.8 | 14.1 | 14.2 |
| Inventory (days) | 150.0 | 128.0 | 119.3 | 109.5 | 109.0 |
| Payables (days) | 62.0 | 33.8 | 38.7 | 32.9 | 32.5 |
| Current ratio (x) | 2.0 | 1.6 | 1.2 | 1.3 | 1.4 |
| Quick ratio (x) | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 8.1 | 7.0 | 6.8 | 7.2 | 7.4 |
| Total asset T.O (x) | 1.9 | 1.8 | 2.0 | 2.3 | 2.5 |
| Int. coverage ratio (x) | 1.4 | 1.1 | 1.5 | 3.1 | 4.4 |
| Adj. debt/equity (x) | 0.2 | 0.3 | 0.5 | 0.6 | 0.6 |
| Valuation | | | | | |
| EV/Sales (x) | 3.6 | 6.9 | 7.3 | 5.7 | 4.5 |
| EV/EBITDA (x) | 82.2 | 138.4 | 134.9 | 82.1 | 52.2 |
| P/E (x) | 324.9 | 1,822.9 | 1,433.1 | 238.7 | 117.2 |
| P/BV (x) | 10.0 | 25.5 | 36.6 | 31.8 | 25.0 |

Recommendation Summary (Last 3 Years)



| Dates | Rating | Target |
|-----------|--------|--------|
| 29-May-23 | HOLD | 133 |
| 24-Aug-23 | HOLD | 149 |
| 17-Nov-23 | HOLD | 165 |
| 14-Feb-24 | BUY | 174 |
| 29-May-24 | BUY | 186 |

Source: Bloomberg, Geojit research

Investment Rating Criteria

| Ratings | Large caps | Midcaps | Small Caps |
|-------------------|----------------------------|---------------------------|---------------------------|
| Buy | Upside is above 10% | Upside is above 15% | Upside is above 20% |
| Accumulate | - | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold | Upside is between 0% - 10% | Upside is between 0%-10% | Upside is between 0%-10% |
| Reduce/sell | Downside is more than 0% | Downside is more than 0% | Downside is more than 0% |
| Not rated/Neutral | | | |

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

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