

14 August 2024

India | Equity Research | Q1FY25 results review

## FSN E-Commerce Ventures

Consumer Staples &amp; Discretionary

### Beauty fires again, fashion growth slows as profitability in limelight

Nykaa's core beauty business strengthened, as management focused on improving mix (luxury fragrances GMV grew 74% YoY) and reinvested to accelerate growth (marketing spends up ~60bps YoY, transacting consumers up 21% YoY). Ad revenues grew ~44% YoY in Q1FY25, which we believe is a key positive for the stock. Fashion NSV grew 17% YoY despite a smaller base, as Nykaa focused on profitability and reduced performance marketing spends (fashion MAUV -5% YoY, ad spends -110bps YoY and EBITDA margin +500bps YoY). We believe management is trying to focus only on acquiring high-quality consumers in fashion (AUTC up 19.2% YoY and AOV up 4.4% YoY). However, at this rate, meeting their growth guidance of 2–3x fashion NSV in three years may be a challenge. Maintain **ADD**.

### Q1FY25 performance

Revenue grew 22.8% YoY/4.7% QoQ to INR 17.46bn, in-line with our estimates driven by continued sales momentum in beauty (+22.7% YoY) and fashion (+21.3% YoY). Overall GMV was up 24.5% YoY/3.2% QoQ to INR 33.2bn driven by 27.7% and 14.5% YoY increase in beauty and fashion segments, respectively. EBITDA was at INR 961mn, against I-Sec's estimate 1,015mn, up 30.8% YoY/3% QoQ. EBITDA margin was at 5.5% (down 9bps QoQ/up 33bps YoY).

Total number of orders grew 25.3%/13.3% YoY for beauty/fashion. Average unique transacting consumers also grew 20.2%/19.2% YoY for beauty/fashion. Average order value (AOV) for beauty and fashion businesses was at INR 1,788 (flattish YoY) and INR 4,237 (+4.4% YoY), respectively.

### Management commentary

Management has stated that beauty retail EBITDA remains at a healthy level; any improvement will be invested in customer acquisition and retention. Marketing expenses for beauty retail are expected to be ~ 8–9% of NSV. The company has expanded its beauty retail stores to 200 and increased its warehouse count to 44, aiming to deliver to 70–80% of major cities and 50% of other cities on the same day or the next day. In the beauty retail segment, management has maintained its strategy of expanding into new categories, while deepening its presence in existing categories.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	63,856	84,746	1,08,405	1,36,792
EBITDA	3,462	5,957	9,183	12,851
EBITDA Margin (%)	5.4	7.0	8.5	9.4
Net Profit	323	2,328	4,035	6,654
EPS (Rs)	0.1	0.8	1.4	2.3
EPS % Chg YoY	67.9	619.9	73.3	64.9
P/E (x)	1,652.0	229.5	132.4	80.3
EV/EBITDA (x)	155.6	90.3	58.3	41.3
RoCE (%)	4.0	11.8	19.0	23.7
RoE (%)	2.4	16.7	23.5	29.6

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### Market Data

Market Cap (INR)	535bn
Market Cap (USD)	6,376mn
Bloomberg Code	NYKAA IN
Reuters Code	FSNE BO
52-week Range (INR)	204 /130
Free Float (%)	47.0
ADTV-3M (mn) (USD)	17.0

Price Performance (%)	3m	6m	12m
Absolute	10.9	26.6	28.1
Relative to Sensex	2.4	16.2	7.2

### Previous Reports

17-06-2024: [Company Update](#)

14-06-2024: [Company Update](#)

In new categories, it is focusing on the perfume segment, while in existing categories like skin care, hair care and cosmetics, the company is creating sub-categories by raising customer awareness through its digital advertisement campaign 'Stepification'. As a result, perfume GMV grew by 74% YoY, and there has been GMV growth in sub-categories of haircare, skincare and cosmetics.

In the fashion segment, revenue grew, with ~ 500bps YoY EBITDA margin improvement due to reduced leakages and increased services-related income/fees. The company has also launched the 'stay stylish' digital campaign. In the eb2b superstore, GMV growth was 72% YoY, driven by an increase in transacting retailers. Contribution margin improvement was ~520bps due to favourable sales mix, reduced fulfilment costs and lower packaging cost per order.

In owned-brands, Dot & Key is at ~INR 7.5bn GMV run rate (Q1FY25 annualised). KAY, Nykd and Kica were some of the other brands that experienced healthy GMV growth. The company acquired an additional 39% stake in Dot and key for a total consideration of INR 2.6bn and a majority stake in earth rhythm ~INR 445mn. Management mentioned that discounts were provided due to soft demand across categories due to lack of festivities but expects discounts to moderate in Q3 and Q4 with demand to pick up during the festive season.

### Valuation

We maintain **ADD** on the stock and increase our DCF-based target price to INR 210 (earlier INR 195) as we roll over our valuation.

### Key risks –

On the downside: (1) Chasing growth at elevated levels can be dilutive of gross margin. (2) Success in fashion business can be difficult given higher competition in the category.

On the upside: (1) Competition in the e-BPC space further weakens.

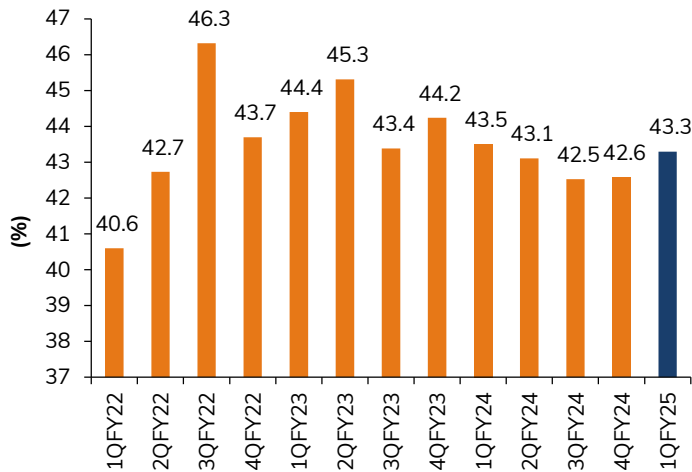
**Exhibit 1: Q1FY25 performance**

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Net Revenues</b>	<b>17,461</b>	<b>14,218</b>	<b>22.8</b>	<b>16,680</b>	<b>4.7</b>
COGS	(9,901)	(8,032)	23.3	(9,577)	3.4
<b>Gross profit</b>	<b>7,560</b>	<b>6,186</b>	<b>22.2</b>	<b>7,102</b>	<b>6.4</b>
Staff cost	(1,559)	(1,386)	12.5	(1,421)	9.7
Other opex	(5,040)	(4,066)	24.0	(4,749)	6.1
<b>EBITDA</b>	<b>961</b>	<b>735</b>	<b>30.8</b>	<b>933</b>	<b>3.0</b>
Other income	73	67	9.1	71	3.8
Finance cost	(213)	(185)	14.9	(211)	0.8
D&A	(601)	(519)	15.7	(596)	0.7
<b>PBT</b>	<b>221</b>	<b>97</b>	<b>127.2</b>	<b>196</b>	<b>12.9</b>
Tax	(78)	(33)	140.3	(98)	(20.2)
<b>PAT before MI</b>	<b>142</b>	<b>65</b>	<b>120.6</b>	<b>97</b>	<b>46.2</b>
Minority Interest	46	32	45.9	28	63.9
<b>Recurring PAT</b>	<b>96</b>	<b>33</b>	<b>191.9</b>	<b>69</b>	<b>39.1</b>
Exceptional items	-	-	-	-	-
<b>Reported PAT</b>	<b>96</b>	<b>33</b>	<b>191.9</b>	<b>69</b>	<b>39.1</b>
<b>Costs as a % of sales</b>					
COGS	56.7	56.5	21 bps	57.4	-72 bps
<b>Gross margin (%)</b>	<b>43.3</b>	<b>43.5</b>	<b>-22 bps</b>	<b>42.6</b>	<b>71 bps</b>
Staff cost	8.9	9.7	-83 bps	8.5	40 bps
Other opex	28.9	28.6	26 bps	28.5	39 bps
<b>EBITDA margin (%)</b>	<b>5.5</b>	<b>5.2</b>	<b>33 bps</b>	<b>5.6</b>	<b>-9 bps</b>
Income tax rate (%)	35.5	33.6	193 bps	50.2	-1472 bps
<b>GMV (INR mn)</b>					
Beauty	25,429	19,908	27.7	23,377	8.8
Fashion	7,741	6,758	14.5	8,760	(11.6)
Others	39	6	550.0	36	8.3
	33209	26672	25	32173	3.2
<b>AOV (INR)</b>					
-Beauty	1,924	1,922	0.10	1,788	8
-Fashion	4,237	4,058	4.41	4,546	(7)
<b>Orders (mn)</b>					
-Beauty	12.4	9.9	25.3	11.1	12
-Fashion	1.7	1.5	13.3	1.7	-
<b>Annual Unique Transacting Customers</b>					
-Beauty	13.1	10.9	20.2	11.7	12
-Fashion	3.1	2.6	19.2	3.0	3
<b>NSV (INR mn)</b>					
-Beauty	14,695	12,121	21	13,979	5
-Fashion	2,449	2,089	17	2,479	(1)
-Others	39	5	680	30	30
<b>Revenue from operation (Rs mn)</b>					
Beauty	15,935	12,984	22.7	15,193	5
Fashion	1,486	1,225	21.3	1,454	2
Others	40	10	300.0	33	21

Source: I-Sec research, Company data

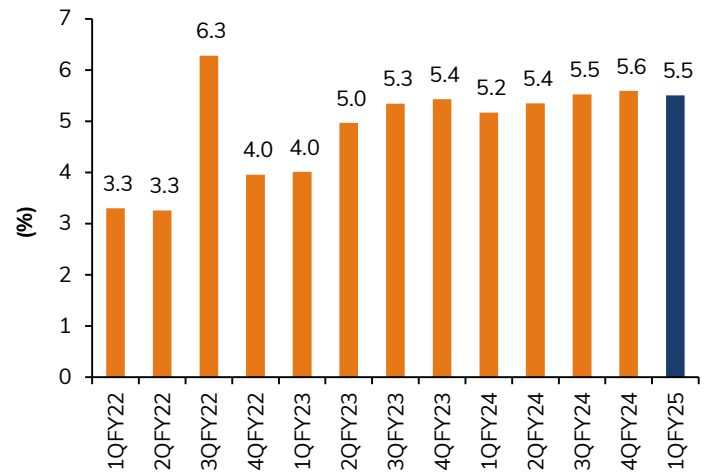
### Consolidated

**Exhibit 2: Gross margin (%)**



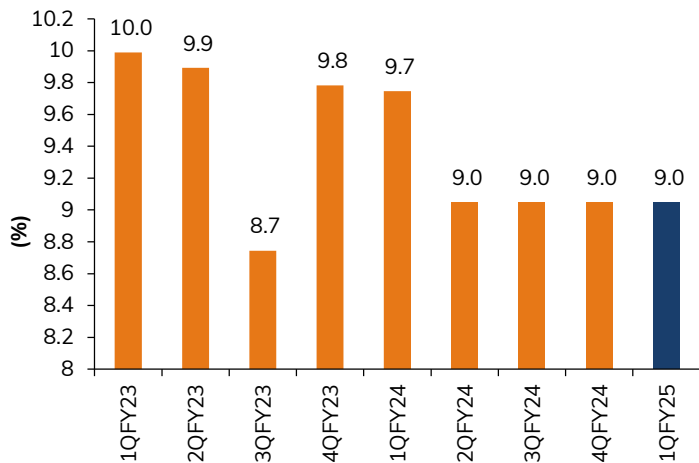
Source: I-Sec research, Company data

**Exhibit 3: EBITDA margin (%)**



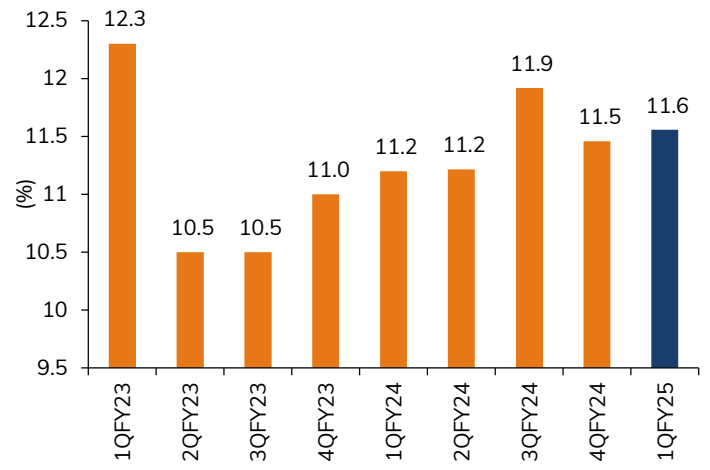
Source: I-Sec research, Company data

**Exhibit 4: Employee cost (%)**



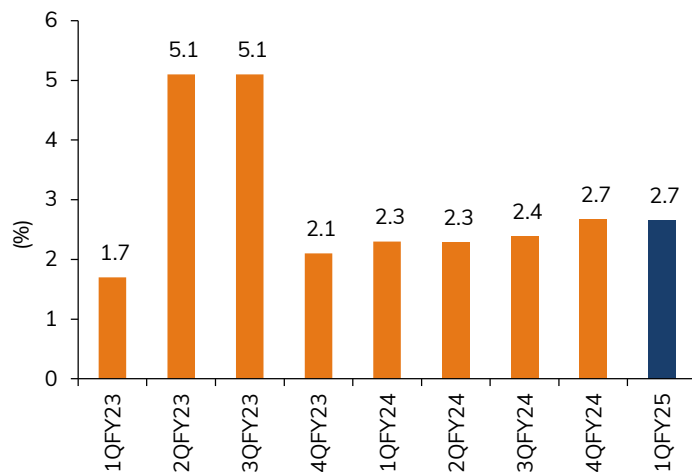
Source: I-Sec research, Company data

**Exhibit 5: Marketing and advertisement expense (%)**



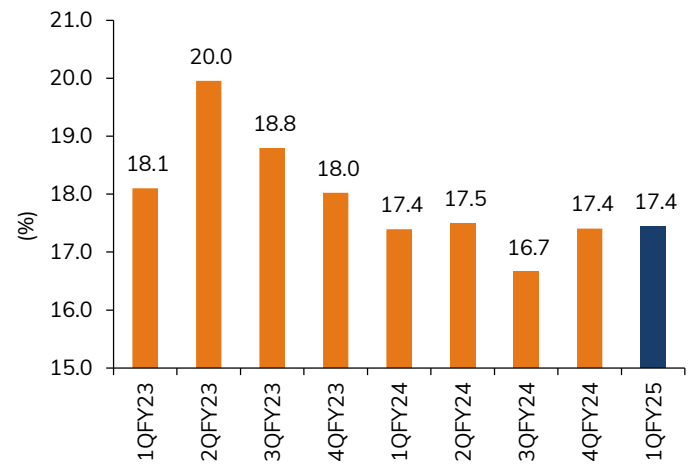
Source: I-Sec research, Company data

**Exhibit 6: Selling and distribution expense (%)**



Source: I-Sec research, Company data

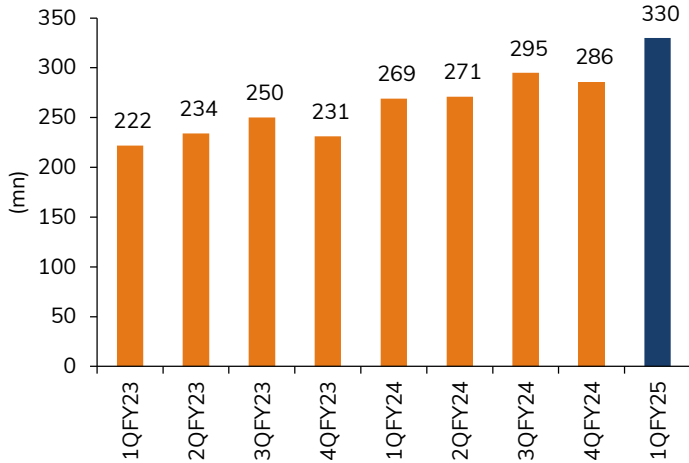
**Exhibit 7: Total opex (%)**



Source: I-Sec research, Company data

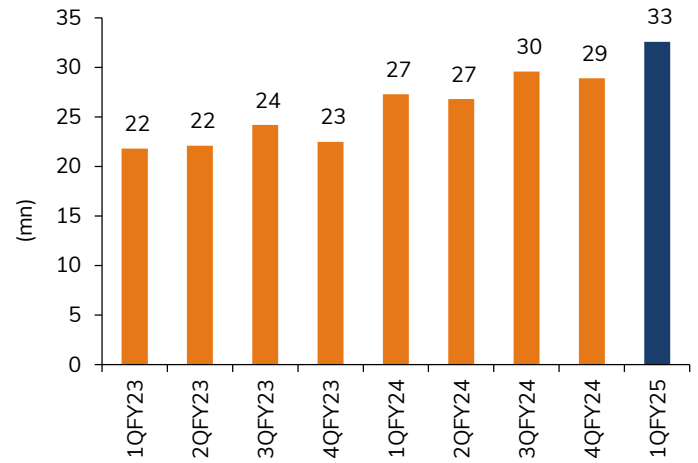
### Beauty segment

Exhibit 8: Number of visits (mn)



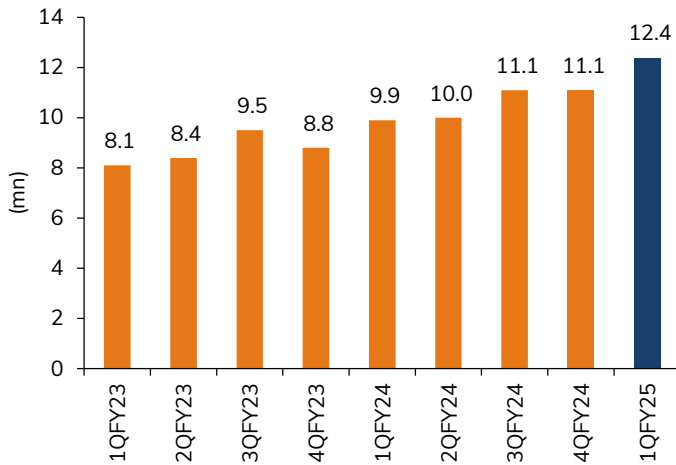
Source: I-Sec research, Company data

Exhibit 9: Monthly average unique visitors (mn)



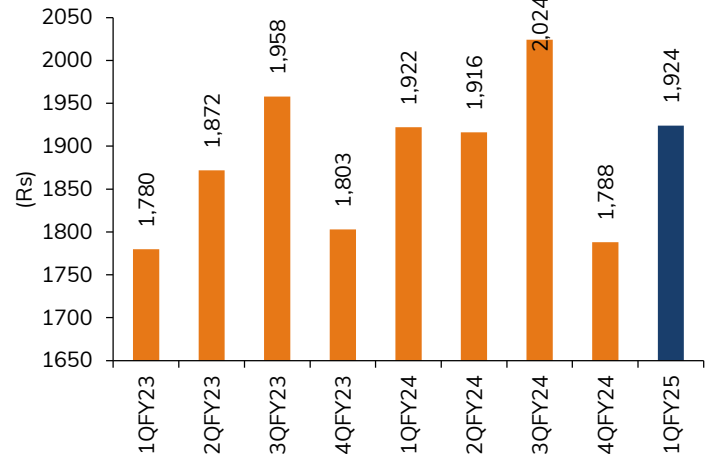
Source: I-Sec research, Company data

Exhibit 10: Orders (mn)



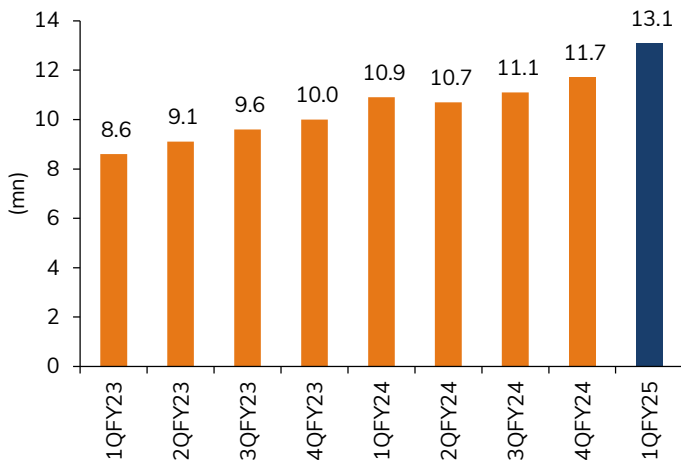
Source: I-Sec research, Company data

Exhibit 11: AOV (INR)



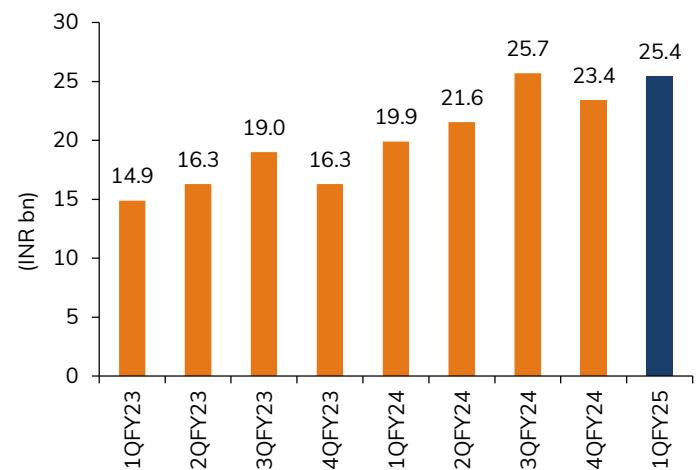
Source: I-Sec research, Company data

Exhibit 12: Annual Unique Transacting Customers (mn)



Source: I-Sec research, Company data

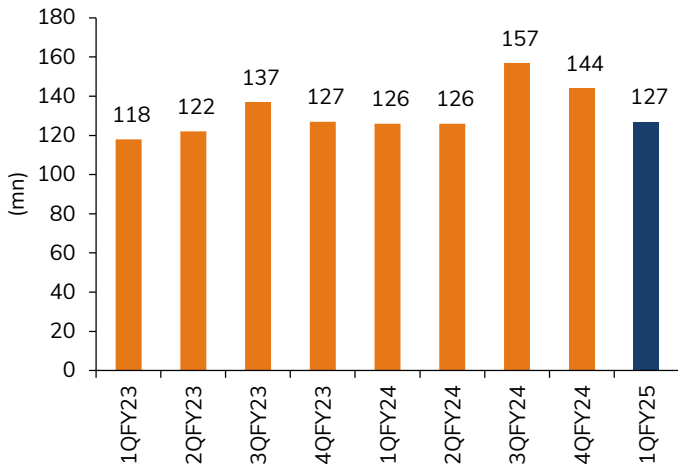
Exhibit 13: GMV (INR)



Source: I-Sec research, Company data

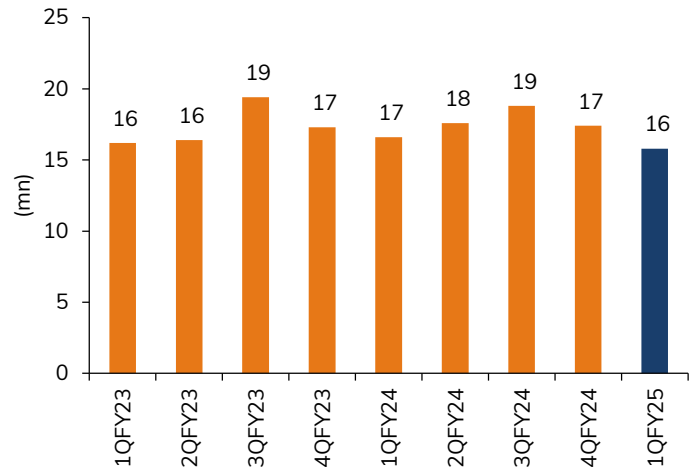
## Fashion segment

**Exhibit 14: Number of visits (mn)**



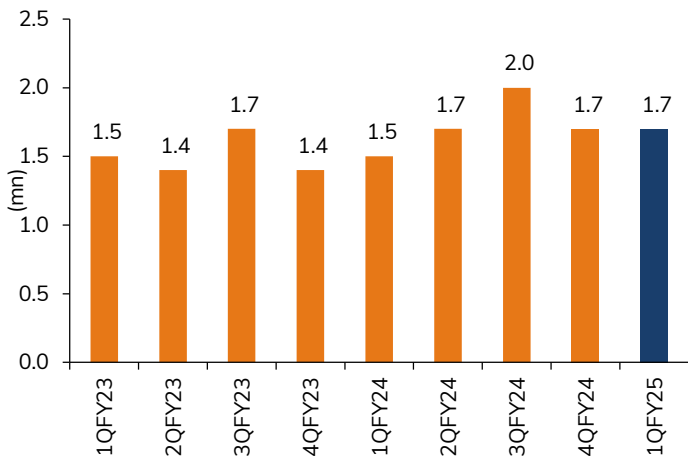
Source:

**Exhibit 15: Monthly Average Unique Visitors (mn)**



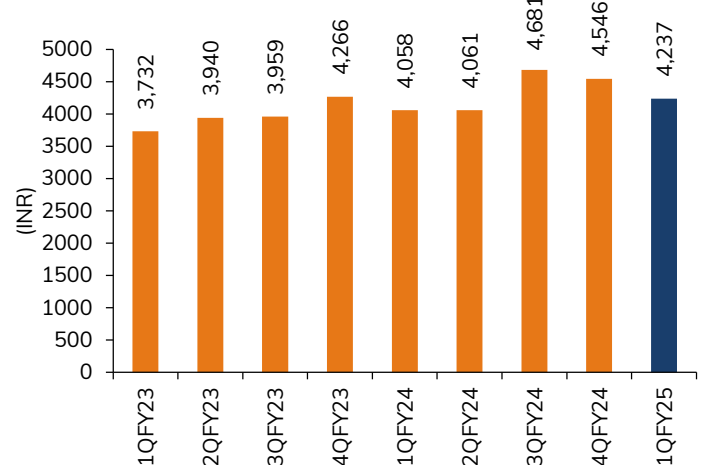
Source:

**Exhibit 16: Orders (mn)**



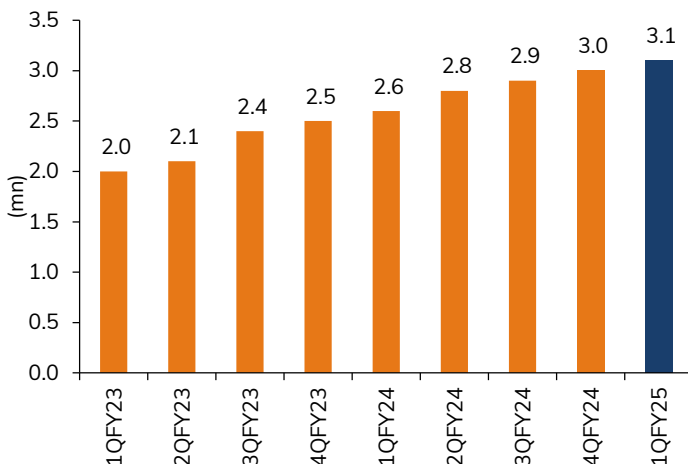
Source: I-Sec research, Company data

**Exhibit 17: AOV (INR)**



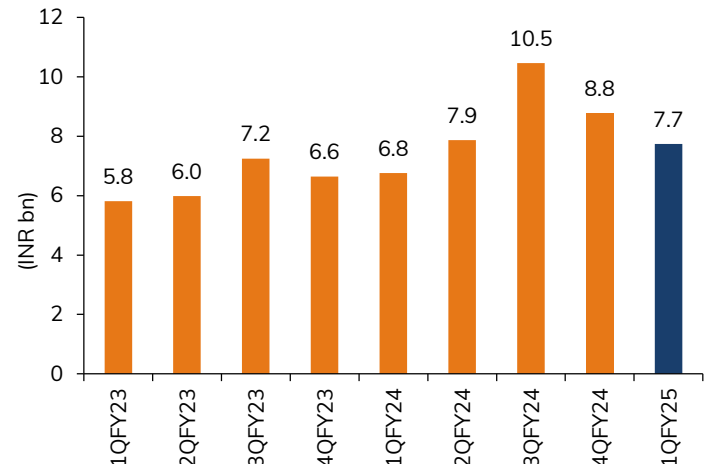
Source: I-Sec research, Company data

**Exhibit 18: Annual Unique Transacting Customers (mn)**



Source: I-Sec research, Company data

**Exhibit 19: GMV (INR bn)**



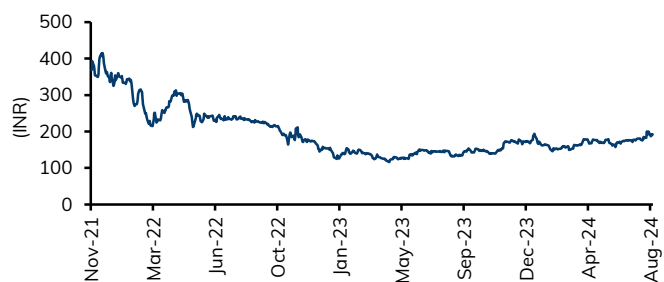
Source: I-Sec research, Company data

### Exhibit 20: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	52.2	52.2	52.2
Institutional investors	25.9	27.5	28.8
MFs and others	10.9	12.3	13.3
FIs/Banks	0.0	0.0	0.0
Insurance	4.1	4.6	4.8
FIIIs	10.9	10.6	10.7
Others	21.9	20.3	19.0

Source: Bloomberg

### Exhibit 21: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 22: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>63,856</b>	<b>84,746</b>	<b>1,08,405</b>	<b>1,36,792</b>
Operating Expenses	60,395	78,789	99,223	1,23,940
<b>EBITDA</b>	<b>3,462</b>	<b>5,957</b>	<b>9,183</b>	<b>12,851</b>
EBITDA Margin (%)	5.4	7.0	8.5	9.4
Depreciation & Amortization	2,242	2,672	3,094	3,580
EBIT	1,219	3,285	6,089	9,271
Interest expenditure	828	967	980	986
Other Non-operating Income	299	945	435	759
<b>Recurring PBT</b>	<b>690</b>	<b>3,263</b>	<b>5,545</b>	<b>9,044</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	253	821	1,396	2,276
PAT	437	2,442	4,149	6,767
Less: Minority Interest	(114)	(114)	(114)	(114)
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>437</b>	<b>2,442</b>	<b>4,149</b>	<b>6,767</b>
<b>Net Income (Adjusted)</b>	<b>323</b>	<b>2,328</b>	<b>4,035</b>	<b>6,654</b>

Source Company data, I-Sec research

### Exhibit 23: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	22,930	26,784	34,859	46,277
of which cash & cash eqv.	2,399	3,105	5,758	10,680
Total Current Liabilities & Provisions	10,687	13,192	16,726	20,919
<b>Net Current Assets</b>	<b>12,243</b>	<b>13,592</b>	<b>18,132</b>	<b>25,359</b>
Investments	343	343	343	343
Net Fixed Assets	2,358	2,731	1,507	98
ROU Assets	2,609	3,188	3,623	4,058
Capital Work-in-Progress	61	61	61	61
Total Intangible Assets	1,952	1,952	1,952	1,952
Long Term Loans & Advances	492	653	836	1,055
Deferred Tax assets	2,690	2,690	2,690	2,690
<b>Total Assets</b>	<b>23,319</b>	<b>25,970</b>	<b>30,115</b>	<b>36,840</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>6,804</b>	<b>6,804</b>	<b>6,804</b>	<b>6,804</b>
<b>Deferred Tax Liability</b>	-	-	-	-
Provisions	102	136	174	219
Other Liabilities	712	712	712	712
Equity Share Capital	2,856	2,856	2,856	2,856
Reserves & Surplus	9,766	12,094	16,129	22,783
<b>Total Net Worth</b>	<b>12,622</b>	<b>14,950</b>	<b>18,985</b>	<b>25,639</b>
Minority Interest	188	188	188	188
<b>Total Liabilities</b>	<b>23,319</b>	<b>25,970</b>	<b>30,115</b>	<b>36,840</b>

Source Company data, I-Sec research

### Exhibit 24: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	15,070	17,888	16,680	17,461
% growth (YoY)	22.4	22.3	28.1	22.8
EBITDA	806	988	933	961
Margin %	5.4	5.5	5.6	5.5
Other Income	86	76	71	73
Extraordinary	-	-	-	-
Adjusted Net Profit	58	162	69	96

Source Company data, I-Sec research

### Exhibit 25: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>3</b>	<b>2,905</b>	<b>4,155</b>	<b>6,345</b>
Working Capital Changes	(2,513)	(991)	(2,283)	(2,777)
Capital Commitments	(1,107)	(847)	(1,030)	(1,231)
<b>Free Cashflow</b>	<b>(1,105)</b>	<b>2,058</b>	<b>3,125</b>	<b>5,114</b>
<b>Other investing cashflow</b>	<b>1,006</b>	<b>399</b>	<b>38</b>	<b>369</b>
Cashflow from Investing Activities	(101)	(449)	(992)	(862)
Issue of Share Capital	172	-	-	-
Interest Cost	(558)	(580)	(583)	(587)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	2,307	739	839	940
Cash flow from Financing Activities	443	(291)	(511)	(561)
<b>Chg. in Cash &amp; Bank balance</b>	<b>344</b>	<b>2,166</b>	<b>2,653</b>	<b>4,923</b>
Closing cash & balance	1,831	4,564	5,758	10,680

Source Company data, I-Sec research

### Exhibit 26: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	0.1	0.8	1.4	2.3
Adjusted EPS (Diluted)	0.1	0.8	1.4	2.3
Cash EPS	0.9	1.8	2.5	3.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	4.4	5.2	6.7	9.0
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	24.1	32.7	27.9	26.2
EBITDA	35.2	72.1	54.1	40.0
EPS (INR)	67.9	619.9	73.3	64.9
<b>Valuation Ratios (x)</b>				
P/E	1,652.0	229.5	132.4	80.3
P/CEPS	208.2	106.8	74.9	52.2
P/BV	42.3	35.7	28.1	20.8
EV / EBITDA	155.6	90.3	58.3	41.3
P / Sales	8.4	6.3	4.9	3.9
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	42.9	43.6	43.8	43.9
EBITDA Margins (%)	5.4	7.0	8.5	9.4
Effective Tax Rate (%)	36.7	25.2	25.2	25.2
Net Profit Margins (%)	0.7	2.9	3.8	4.9
Net Debt / Equity (x)	0.3	0.2	0.1	(0.2)
Net Debt / EBITDA (x)	1.3	0.6	0.1	(0.3)
Fixed Asset Turnover (x)	14.0	15.3	16.7	18.0
Working Capital Days	62	52	47	44
Inventory Turnover Days	75	69	64	62
Receivables Days	15	11	10	8
Payables Days	24	20	19	19
<b>Profitability Ratios</b>				
RoCE (%)	4.0	11.8	19.0	23.7
RoE (%)	2.4	16.7	23.5	29.6
RoIC (%)	4.5	13.6	23.3	32.9

Source Company data, I-Sec research



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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

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