

13 November 2024

India | Equity Research | Q2FY25 results review

## FSN E-Commerce Ventures

Consumer Staples &amp; Discretionary

### Seasonality impacts fashion; beauty stable with some bright spots in house of brands

Fashion growth remained subdued (GMV growth 9.7% YoY) in Q2FY25 despite ~28% YoY growth in ad spends given the delayed festive season. Beauty segment continued to grow (GMV growth 29.1% YoY) aided by ~42% YoY growth in ad spends. Management indicated discounting from brands is coming down, which we believe is aiding Nykaa BPC's ad revenue growth (I-Sec est: >20% YoY). House of brands business (beauty) continued to outperform, growing 48% YoY in Q2 aided by strong growth in both Dot & Key and Kay Beauty. Fashion house of brands grew 10% YoY, in line with broader weakness in the segment. Maintain **ADD** given the strong growth outlook in H2FY25 due to delayed festive season and strong wedding season.

### Q2FY25 performance

Revenue grew 7.4% QoQ/24.4% YoY to INR 18.7bn, driven by beauty (+24.3% YoY) and fashion (+21.7% YoY). Overall GMV was up 10% QoQ/24.1% YoY to INR 36.5bn driven by 29.1% and 9.7% YoY increase in beauty and fashion segments, respectively. EBITDA was INR 1bn, in line with our estimate, up 7.8% QoQ/28.6% YoY. EBITDA margin was 5.5% (up 17bps YoY).

Total number of orders grew 24.0%/flattish YoY for beauty/fashion. Annual unique transacting consumers grew 21.2%/7.1% YoY for beauty/fashion. Average order value (AOV) for beauty and fashion businesses was INR 2,038 (+2.31% YoY) and INR 4,464 (+9.92% YoY), respectively.

### Management commentary

According to management, sustained GMV growth in beauty segment was due to investment in customer acquisition, with marketing expenses in beauty segment rising to 9.3% of NSV in Q2FY25 from 8.2% in Q2FY24. This investment contributed 31% YoY increase in customer base and 22% increase in AUTC in beauty segment. Management highlighted "Hot Pink Sale" attracted 23mn unique visitors over 10 days. The fragrance category continues to perform well, growing ~65% YoY, outpacing overall beauty growth. Nykaa has expanded its specialised beauty store to 210, making it the largest in India. In Q2FY25, Nykaa also introduced some exclusive brands on its beauty platform, including Yves Saint Laurent, Kerastase, Eucerin, and Dr. Jart.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	63,856	81,670	1,01,284	1,24,548
EBITDA	3,462	4,858	7,574	10,584
EBITDA Margin (%)	5.4	5.9	7.5	8.5
Net Profit	323	1,640	2,915	5,087
EPS (INR)	0.1	0.6	1.0	1.8
EPS % Chg YoY	67.9	407.2	77.7	74.5
P/E (x)	1,568.6	309.3	174.0	99.7
EV/EBITDA (x)	147.8	105.1	67.3	47.9
RoCE (%)	4.0	8.2	15.0	19.9
RoE (%)	2.4	12.0	18.3	25.6

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### Market Data

Market Cap (INR)	508bn
Market Cap (USD)	6,022mn
Bloomberg Code	NYKAA IN
Reuters Code	FSNE BO
52-week Range (INR)	230 /140
Free Float (%)	48.0
ADTV-3M (mn) (USD)	31.8

Price Performance (%)	3m	6m	12m
Absolute	(8.6)	4.7	19.7
Relative to Sensex	(7.4)	(3.6)	(0.9)

ESG Score	2022	2023	Change
ESG score	50.1	63.9	13.8
Environment	27.4	37.8	10.4
Social	32.3	61.4	29.1
Governance	74.1	79.8	5.7

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	-4%	-6.6%
EBITDA	-18%	-17.5%
EPS	-28%	-27%

### Previous Reports

14-08-2024: [Q1FY25 results review](#)

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

In fashion, GMV grew 10% YoY despite subdued demand, with the expectations for stronger performance in H2FY25 led by festivals and wedding season. Management observed an uptick in demand from Oct' 24. Fashion segment revenue increased 22% YoY, driven by marketing and higher service-related income, with ~307bps YoY improvement in EBITDA margin due to savings in packaging costs. To tap into the growing Indian sneaker and athletic footwear market (expected TAM of USD 6.5bn by 2027), Nykaa launched global sneaker retailer “Foot Locker” on its platform.

Nykaa's eB2B superstore recorded 80% YoY GMV growth, supported by retail expansion, higher AOV, along with 862bps YoY improvement in contribution margin. Its owned beauty brands segment grew 48% YoY, led by strong performance in Dot & Key and Kay Beauty, third party online marketplace contributions to beauty GMV rose from 12% in Q2FY24 to 21% in Q2FY25. Nykaa expanded its product assortment by adding 170 new brands in beauty and 260 in fashion.

Management mentioned discounting remains elevated on horizontal platforms, but expects moderation over coming months. Management also stated that brands are reducing discounts and are against retailer-funded discounting to prevent commoditisation. Management highlighted that its fulfilment capabilities remain strong, with 80% of order volumes delivered on the same or next day in the top 12 cities and 70% in the top 110 cities. Management clarified that due to the need for discovery and assortment width, most beauty categories are not suitable for quick commerce. However, for fast-moving, everyday essentials categories, the quick delivery is important to remain competitive. Therefore, management is focused on building quick delivery capability. Management believes this initiative can be profitable due to high average order values, without diluting margins or requiring significant capital investment. Management stated capital expenditure has been moderate, focusing on stores and technology. Working capital efficiency has improved, with reduction of 2-3 days due to supply-chain enhancements.

### Valuation

We maintain **ADD** on the stock and reduce our DCF-based target price to INR 200 (earlier INR 210) as we cut our earnings estimates by 28.1%/27.0%/22.5% for FY25/26/27E, respectively, and rollover to FY27E.

**Key risks** – Downside: (1) Chasing growth at elevated levels can dilute gross margin. (2) Success in fashion business can be difficult given higher competition in the category. Upside: (1) Competition in e-BPC space weakens further.

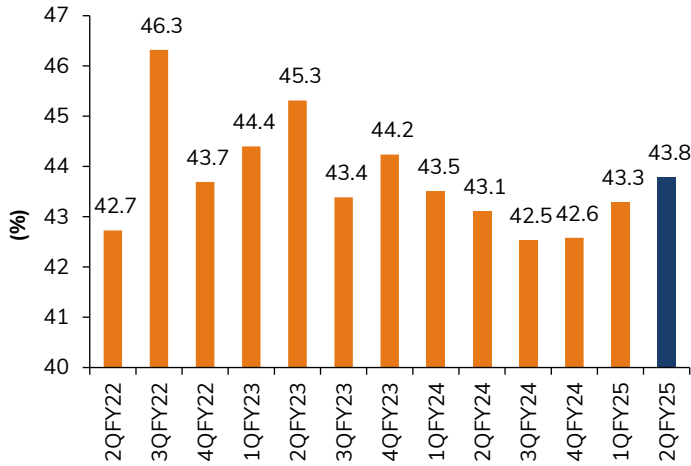
**Exhibit 1: Q2FY25 performance**

INR mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
<b>Net Revenue</b>	<b>18,747</b>	<b>15,070</b>	<b>24.4</b>	<b>17,461</b>	<b>7.4</b>
COGS	(10,537)	(8,574)	22.9	(9,901)	6.4
<b>Gross profit</b>	<b>8,210</b>	<b>6,496</b>	<b>26.4</b>	<b>7,560</b>	<b>8.6</b>
Staff cost	(1,615)	(1,363)	18.5	(1,559)	3.6
Other opex	(5,559)	(4,327)	28.5	(5,040)	10.3
<b>EBITDA</b>	<b>1,037</b>	<b>806</b>	<b>28.6</b>	<b>961</b>	<b>7.8</b>
Other income	55	86	(36.4)	73	(25.6)
Finance cost	(242)	(213)	13.7	(213)	13.7
D&A	(636)	(546)	16.4	(601)	5.9
<b>PBT</b>	<b>213</b>	<b>133</b>	<b>60.4</b>	<b>221</b>	<b>(3.7)</b>
Tax	(78)	(40)	97.1	(78)	(0.3)
<b>PAT before MI</b>	<b>134</b>	<b>93</b>	<b>44.7</b>	<b>142</b>	<b>(5.6)</b>
Minority Interest	34	34	(1.2)	46	(26.1)
<b>Recurring PAT</b>	<b>100</b>	<b>58</b>	<b>71.7</b>	<b>96</b>	<b>4.1</b>
Exceptional items	-	-	-	-	-
<b>Reported PAT</b>	<b>100</b>	<b>58</b>	<b>71.7</b>	<b>96</b>	<b>4.1</b>
<b>Costs as a % of sales</b>					
COGS	56.2	56.9	-69 bps	56.7	-50 bps
<b>Gross margin (%)</b>	<b>43.8</b>	<b>43.1</b>	<b>68 bps</b>	<b>43.3</b>	<b>49 bps</b>
Staff cost	8.6	9.0	-44 bps	8.9	-32 bps
Other opex	29.7	28.7	93 bps	28.9	78 bps
<b>EBITDA margin (%)</b>	<b>5.5</b>	<b>5.4</b>	<b>17 bps</b>	<b>5.5</b>	<b>2 bps</b>
Income tax rate (%)	36.8	29.9	685 bps	35.5	127 bps
<b>GMV (INR mn)</b>					
BPC	27,833	21,559	29.1	25,429	9.5
Fashion	8,633	7,872	9.7	7,741	11.5
Others	59	8	637.5	39	51.3
	<b>36,525</b>	<b>29,439</b>	<b>24.1</b>	<b>33,209</b>	<b>10.0</b>
<b>AOV (INR)</b>					
-BPC	2,038	1,992	2.31	1,924	6
-Fashion	4,464	4,061	9.92	4,237	5
<b>Orders (mn)</b>					
-BPC	12.9	10.4	24.0	12.4	4
-Fashion	1.8	1.8	-	1.7	6
<b>Annual Unique Transacting Customers</b>					
-BPC	13.7	11.3	21.2	13.1	5
-Fashion	3.0	2.8	7.1	3.1	(3)
<b>NSV (INR mn)</b>					
-BPC	15,661	12,566	25	14,695	7
-Fashion	2,713	2,411	13	2,449	11
-Others	58	6	867	39	49
<b>Revenue from operation (INR mn)</b>					
BPC	17,029	13,695	24.3	15,935	7
Fashion	1,661	1,365	21.7	1,486	12
Others	57	10	470.0	40	43

Source: I-Sec research, Company data

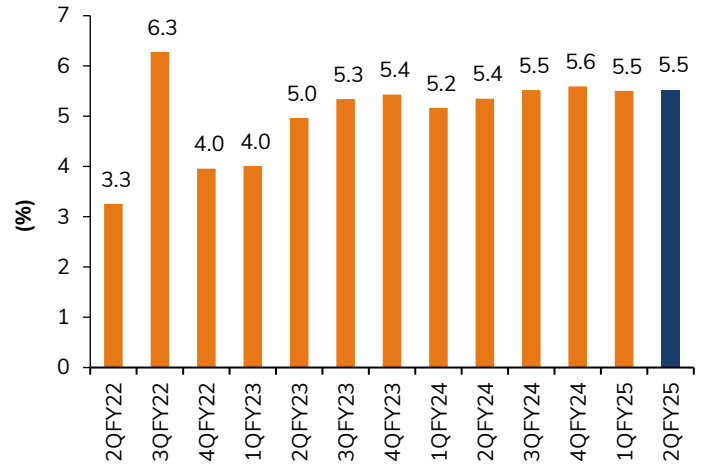
## Consolidated

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



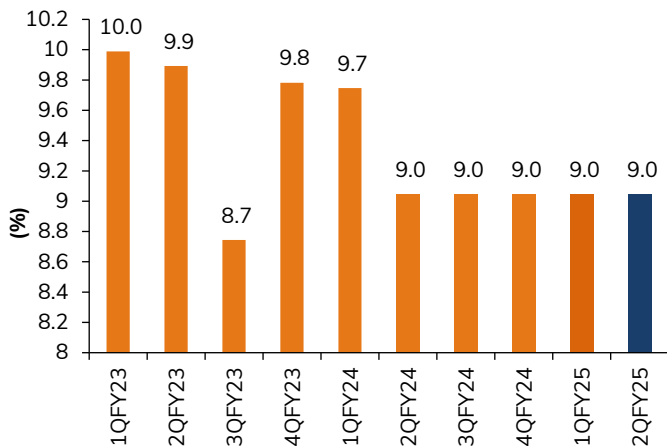
Source: I-Sec research, Company data

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



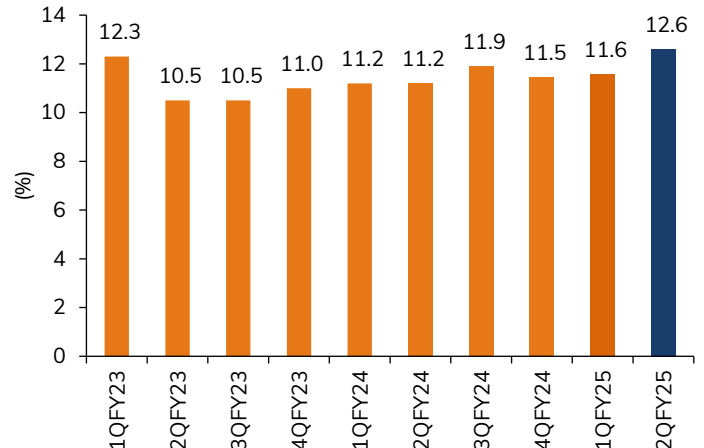
Source: I-Sec research, Company data

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



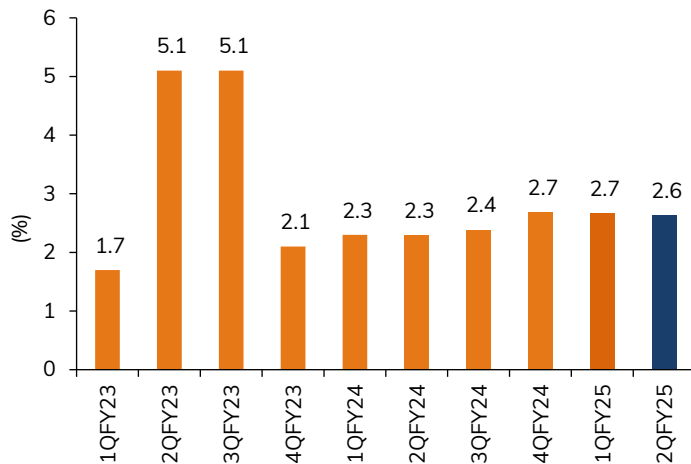
Source: I-Sec research, Company data

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



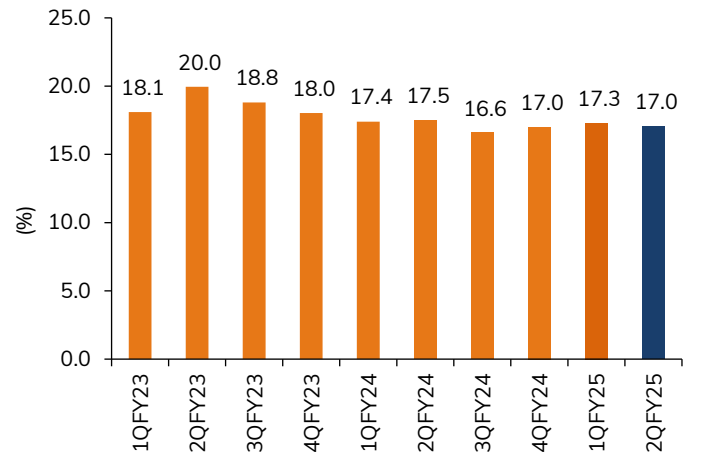
Source: I-Sec research, Company data

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



Source: I-Sec research, Company data

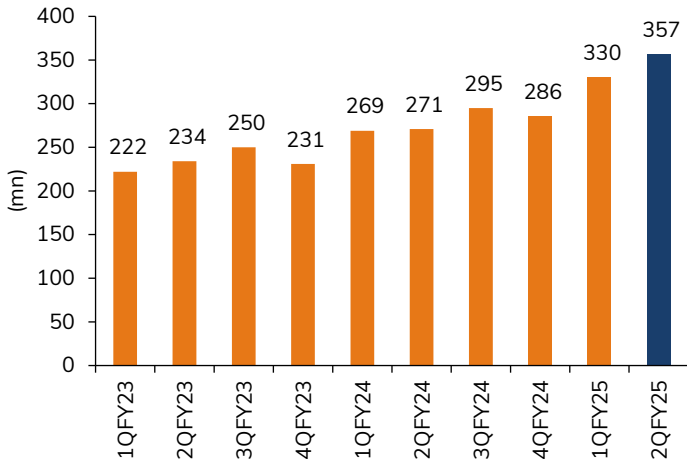
**Exhibit 7: Total opex (%)**



Source: I-Sec research, Company data

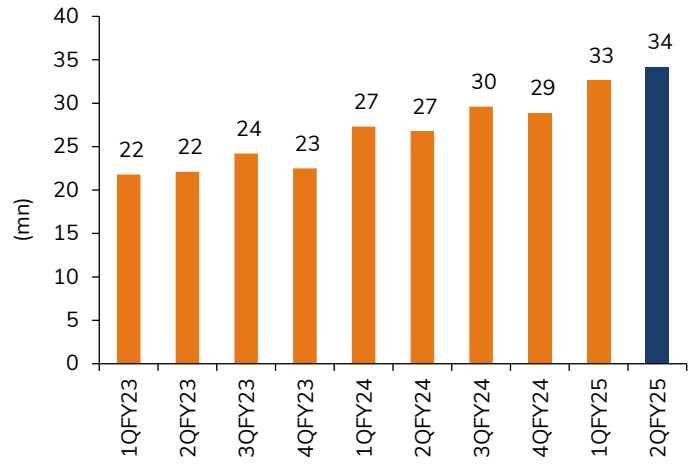
## Beauty segment

Exhibit 8: Number of visits (mn)



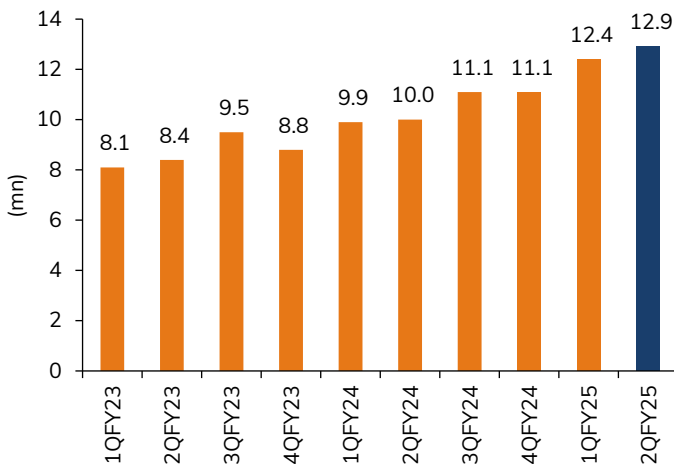
Source: I-Sec research, Company data

Exhibit 9: Monthly average unique visitors (mn)



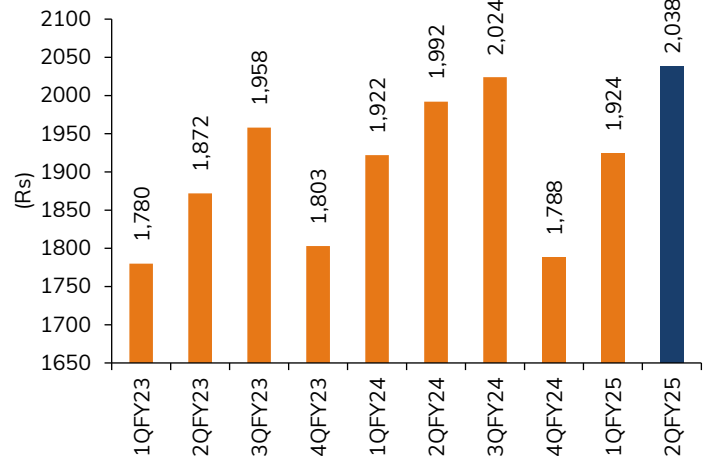
Source: I-Sec research, Company data

Exhibit 10: Orders (mn)



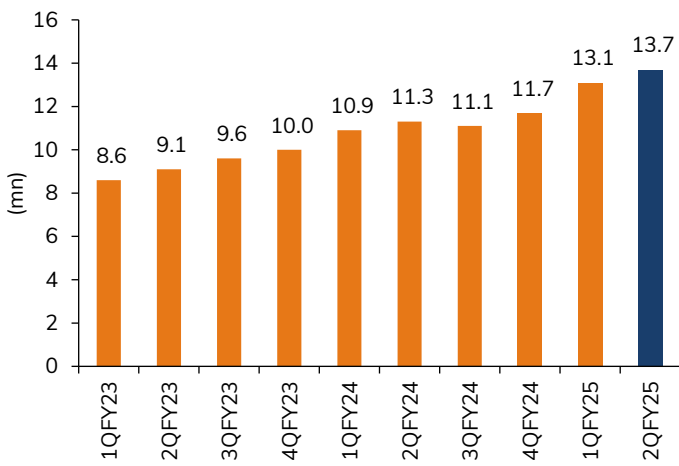
Source: I-Sec research, Company data

Exhibit 11: AOV (INR)



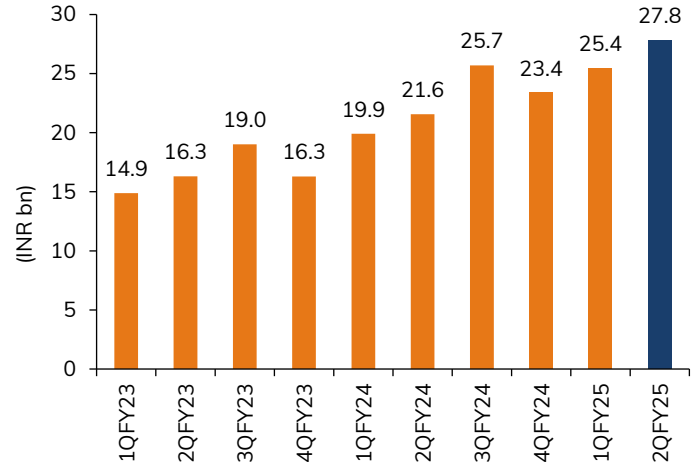
Source: I-Sec research, Company data

Exhibit 12: Annual unique transacting customers (mn)



Source: I-Sec research, Company data

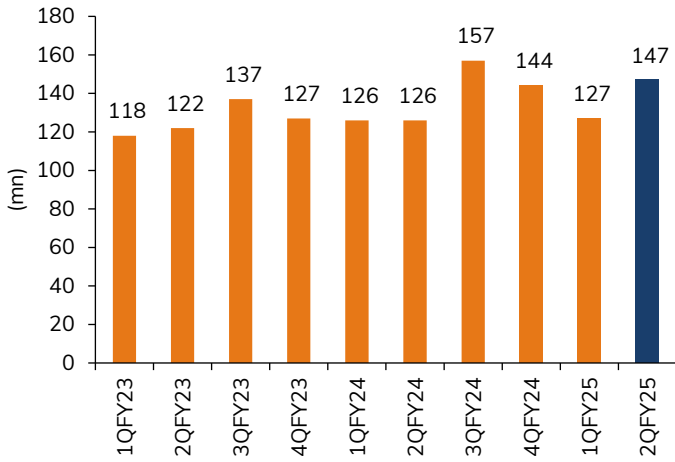
Exhibit 13: GMV (INR bn)



Source: I-Sec research, Company data

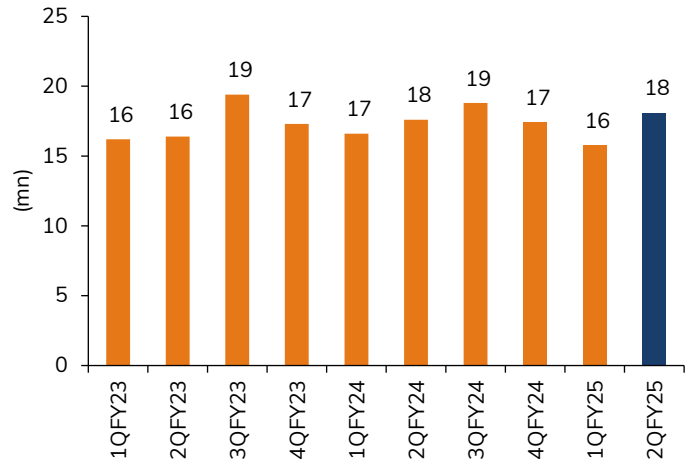
## Fashion segment

Exhibit 14: Number of visits (mn)



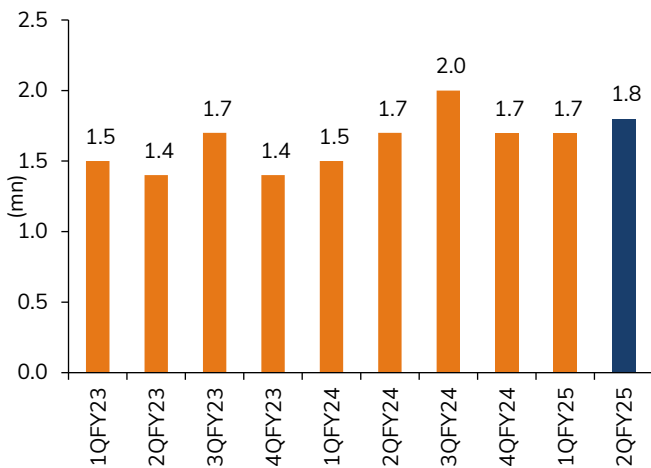
Source: I-Sec research, Company data

Exhibit 15: Monthly average unique visitors (mn)



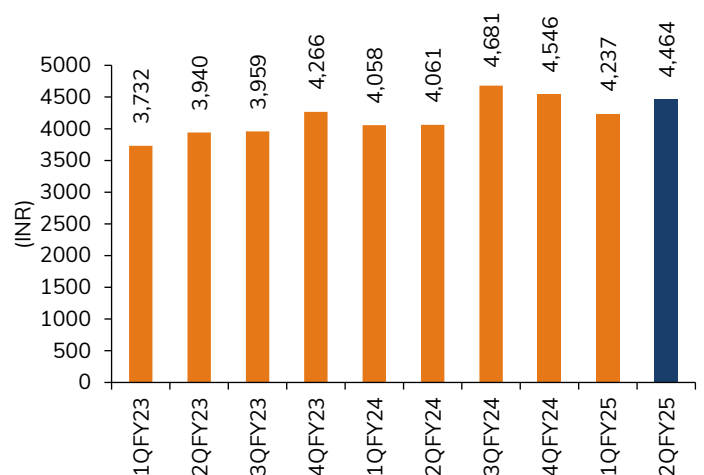
Source: I-Sec research, Company data

Exhibit 16: Orders (mn)



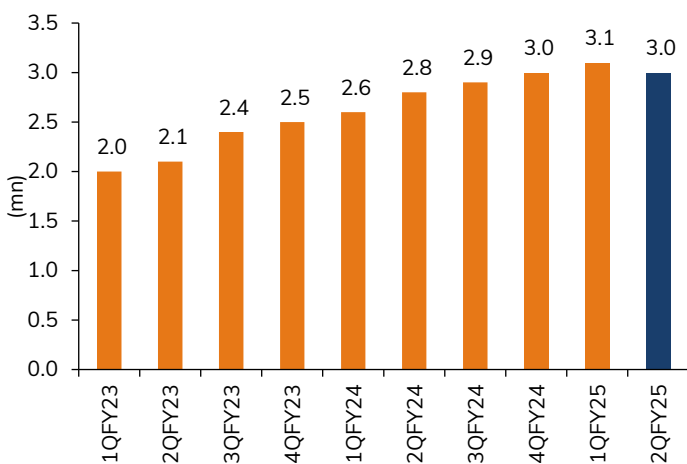
Source: I-Sec research, Company data

Exhibit 17: AOV (INR)



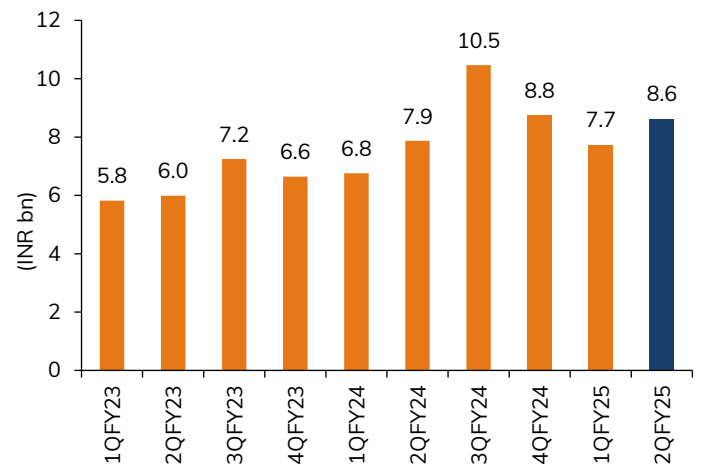
Source: I-Sec research, Company data

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

%	Mar'24	Jun'24	Sep'24
Promoters	52.2	52.2	52.2
Institutional investors	27.5	28.8	32.0
MFs and others	12.3	13.3	17.0
FIs/Banks	0.0	0.0	0.3
Insurance	4.6	4.8	4.6
FII	10.6	10.7	10.1
Others	20.3	19.0	15.8

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>81,670</b>	<b>1,01,284</b>	<b>1,24,548</b>
Operating Expenses	60,395	76,811	93,710	1,13,964
<b>EBITDA</b>	<b>3,462</b>	<b>4,858</b>	<b>7,574</b>	<b>10,584</b>
EBITDA Margin (%)	5.4	5.9	7.5	8.5
Depreciation & Amortization	2,242	2,617	3,029	3,474
EBIT	1,219	2,241	4,545	7,110
Interest expenditure	828	950	960	967
Other Non-operating Income	299	1,052	462	807
<b>Recurring PBT</b>	<b>690</b>	<b>2,344</b>	<b>4,047</b>	<b>6,950</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	253	590	1,019	1,749
PAT	437	1,754	3,029	5,201
Less: Minority Interest	(114)	(114)	(114)	(114)
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>437</b>	<b>1,754</b>	<b>3,029</b>	<b>5,201</b>
<b>Net Income (Adjusted)</b>	<b>323</b>	<b>1,640</b>	<b>2,915</b>	<b>5,087</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	27,163	32,891	41,315
of which cash & cash eqv.	2,399	3,444	4,586	7,532
Total Current Liabilities & Provisions	10,687	13,557	16,674	20,333
<b>Net Current Assets</b>	<b>12,243</b>	<b>13,606</b>	<b>16,217</b>	<b>20,981</b>
Investments	343	343	343	343
Net Fixed Assets	2,358	2,076	1,734	1,313
ROU Assets	2,609	3,069	3,487	3,906
Capital Work-in-Progress	61	61	61	61
Total Intangible Assets	1,952	1,952	1,952	1,952
Long Term Loans & Advances	492	630	781	960
Deferred Tax assets	2,690	2,690	2,690	2,690
<b>Total Assets</b>	<b>23,319</b>	<b>25,158</b>	<b>28,174</b>	<b>33,323</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	131	162	199
Other Liabilities	712	712	712	712
Equity Share Capital	2,856	2,856	2,856	2,856
Reserves & Surplus	9,766	11,406	14,321	19,408
<b>Total Net Worth</b>	<b>12,622</b>	<b>14,262</b>	<b>17,177</b>	<b>22,264</b>
Minority Interest	188	188	188	188
<b>Total Liabilities</b>	<b>23,319</b>	<b>25,158</b>	<b>28,174</b>	<b>33,323</b>

Source Company data, I-Sec research

### Exhibit 24: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	17,888	16,680	17,461	18,747
% growth (YOY)	22.3	28.1	22.8	24.4
EBITDA	988	933	961	1,037
Margin %	5.5	5.6	5.5	5.5
Other Income	76	71	73	55
Extraordinaries	-	-	-	-
Adjusted Net Profit	162	69	96	1,00

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>1,690</b>	<b>2,581</b>	<b>4,241</b>
Working Capital Changes	(2,513)	(615)	(1,796)	(2,206)
Capital Commitments	(1,107)	(817)	(962)	(1,121)
<b>Free Cashflow</b>	<b>(1,105)</b>	<b>874</b>	<b>1,619</b>	<b>3,120</b>
<b>Other investing cashflow</b>	<b>1,006</b>	<b>620</b>	<b>75</b>	<b>426</b>
Cashflow from Investing Activities	(101)	(197)	(887)	(695)
Issue of Share Capital	172	-	-	-
Interest Cost	(558)	(618)	(622)	(625)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	2,307	1,518	1,725	1,932
Cash flow from Financing Activities	443	(448)	(552)	(600)
<b>Chg. in Cash &amp; Bank balance</b>	<b>344</b>	<b>1,045</b>	<b>1,142</b>	<b>2,946</b>
Closing cash & balance	1,831	3,444	4,586	7,532

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	0.6	1.0	1.8
Adjusted EPS (Diluted)	0.1	0.6	1.0	1.8
Cash EPS	0.9	1.5	2.1	3.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	4.4	5.0	6.0	7.8
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	24.1	27.9	24.0	23.0
EBITDA	35.2	40.4	55.9	39.7
EPS (INR)	67.9	407.2	77.7	74.5
<b>Valuation Ratios (x)</b>				
P/E	1,568.6	309.3	174.0	99.7
P/CEPS	197.7	119.1	85.3	59.2
P/BV	40.2	35.6	29.5	22.8
EV / EBITDA	147.8	105.1	67.3	47.9
P / Sales	7.9	6.2	5.0	4.1
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	42.9	44.4	44.7	44.9
EBITDA Margins (%)	5.4	5.9	7.5	8.5
Effective Tax Rate (%)	36.7	25.2	25.2	25.2
Net Profit Margins (%)	0.7	2.1	3.0	4.2
Net Debt / Equity (x)	0.3	0.2	0.1	0.0
Net Debt / EBITDA (x)	1.3	0.7	0.3	(0.1)
Fixed Asset Turnover (x)	16.5	17.6	18.3	18.9
Working Capital Days	62	51	46	43
Inventory Turnover Days	75	68	63	61
Receivables Days	15	14	13	12
Payables Days	24	24	23	23
<b>Profitability Ratios</b>				
RoCE (%)	4.0	8.2	15.0	19.9
RoE (%)	2.4	12.0	18.3	25.6
RoIC (%)	4.5	9.6	18.2	25.8

Source Company data, I-Sec research



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