Initiating Coverage

Nykaa

A Beauty, Personal Care and Fashion e-tailer
Mirror, mirror, on the wall, is Nykaa a platform at all?

When a buzzword (platforms) emerges that affords (GOLD)LY valuations, investors and businesses tend to tie themselves in a knot to claim a credible association of their business with the term. Hence, many online businesses are termed as platforms, but not all are. This note is an attempt to help investors understand where we believe Nykaa (India’s go-to BPC e-tailer + fledging fashion marketplace) fits in. In our view, Nykaa has the potential to be a hybrid, but as of now (85% of NSV - inventory-led), it shares more characteristics with a busy, efficient, linear online pipeline than a platform. Additionally, Nykaa’s TAM seems to be oversold as well. Hence, valuation stencils must be realigned accordingly. Sales/EBITDA/PAT CAGRs of 35/65/113% over FY22-25E and a full recovery in return profile by FY25 is built in (From 5 to 15% over FY22-25). We initiate coverage with a SELL recommendation and DCF-based target price of INR 800/sh (implying 81x Sep-24 EV/EBITDA/5x Sept-24 EV/sales).

- **Nykaa—more an efficient online pipeline than a platform:** A platform’s capability to layer on new revenue streams at low incremental production costs aid its scaling process. This ability is absent in online pipeline businesses. Most platforms over CY17-21 (1) grew at 30-120% CAGR (vs. 19-50% CAGR for online pipelines, despite a smaller base); (2) sported a negative to 15x asset turn (vs. 4-6x for online pipelines); and (3) clocked an EBITDAM expansion of 5-95pp (vs. -5 to 5 pp for online pipelines). Nykaa clocked 50% CAGR over FY19-22; its EBITDAM expanded ~250bp and it has a linear asset turn profile (from 2.7x to 1.9x over FY19-22)—all akin to an online pipeline.

- **Ad income provides non-linearity in monetization but will be closely contended for:** Absence of a potent competitor in BPC e-tailing ensured Nykaa remains over-indexed in BPC ad budgets (accounts for 10-12% of Nykaa’s BPC NSV; INR3bn+). This is likely to change with more deep-pocketed e-tailers (AJIO, Myntra, and TATA Cliq Palette) wanting their pound of BPC-related ad income. The INR3bn+ ad income also means BPC product margins just about profitable now. (FY22: -1% on NSV) and that its profitability (FY22 EBITDAM: INR1.63bn) seems overly reliant on ad income.

- **Total addressable market (TAM) seems oversold:** CMP implies Nykaa’s BPC AUTC would hit 40%+ (122mn AUTC) of the relevant TAM by FY42. On an NSV basis, this translates to half the relevant BPC TAM (in AUTC)—a bit fetched! Especially against the backdrop of (1) increasing competition in the beauty category; (2) thinning population density beyond the top-30 districts. We bake in 25/79mn BPC AUTC for Nykaa by FY27/42, implying 19/26% of relevant TAM (~140/300mn AUTC) and 25/33% value share in BPC by FY42.

- **Financials:** Expect Nykaa to clock 31/49/115% (overall: 35%) revenue CAGR for BPC/fashion/other segments (INR 75.3/10.8/6.4bn) respectively over FY22-25. AUTC will remain the anchor growth variable across segments. EBITDAM is expected to expand by ~370bps to 8% by FY25 as (1) BPC product margins improve from -1% to 5.6%, courtesy (1) higher private labels; (2) scale-led operating efficiencies; and (3) fashion losses ebb (building in a breakeven in FY26). RoE/RoCE likely to more than fully recovery by FY25 (built-in: 21/15%).

- **Valuation and outlook:** Nykaa is an efficient online business; its success in part is due to the absence of potent competitors (this is gradually changing). Ex-ad income, lack of non-linear monetization levers forces us to realign our valuation compass somewhere between a linear business and a pure platform. Hence, we initiate coverage with a SELL recommendation and DCF-based TP of INR 800/sh (implying 81x Sep-24 EV/EBITDA/5x Sept-24 EV/sales).

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**SHAREHOLDING PATTERN (%)**

<table>
<thead>
<tr>
<th>Jun-22</th>
<th>Sep-22</th>
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<tbody>
<tr>
<td>Promoters</td>
<td>52.41</td>
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<tr>
<td>FIs &amp; Local MFs</td>
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<td>FPIs</td>
<td>6.54</td>
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<tr>
<td>Public &amp; Others</td>
<td>39.04</td>
</tr>
<tr>
<td>Locked-in Shares</td>
<td></td>
</tr>
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</table>

Source: BSE

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## Financial summary (INR mn)

### Profit and Loss Statement

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
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<tbody>
<tr>
<td>GMV</td>
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<td>69,332</td>
<td>98,700</td>
<td>1,37,726</td>
<td>1,87,834</td>
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<tr>
<td>NSV</td>
<td>23,380</td>
<td>37,118</td>
<td>51,337</td>
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<td>Net Sales</td>
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<td>37,739</td>
<td>51,426</td>
<td>69,757</td>
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<td>EBITDA</td>
<td>1,567</td>
<td>1,633</td>
<td>3,043</td>
<td>4,612</td>
<td>7,386</td>
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<td>EBITDAM (%)</td>
<td>6.4</td>
<td>4.3</td>
<td>5.9</td>
<td>6.6</td>
<td>8.0</td>
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<tr>
<td>APAT</td>
<td>616</td>
<td>413</td>
<td>1,209</td>
<td>2,020</td>
<td>3,978</td>
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<td>APATM (%)</td>
<td>2.5</td>
<td>1.1</td>
<td>2.4</td>
<td>2.9</td>
<td>4.3</td>
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<tr>
<td>Dil. EPS (Rs/sh)</td>
<td>1.3</td>
<td>0.9</td>
<td>2.6</td>
<td>4.3</td>
<td>8.4</td>
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### Balance Sheet

<table>
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<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
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<tbody>
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<td>13,399</td>
<td>14,608</td>
<td>16,628</td>
<td>20,607</td>
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<td>Debt</td>
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<td>3,330</td>
<td>3,330</td>
<td>3,330</td>
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<tr>
<td>Other non-current Liabilities</td>
<td>2,558</td>
<td>5,563</td>
<td>7,417</td>
<td>9,271</td>
<td>11,126</td>
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<tr>
<td>Total Liabilities</td>
<td>9,332</td>
<td>22,292</td>
<td>25,356</td>
<td>29,230</td>
<td>35,063</td>
</tr>
<tr>
<td>Net Block (incl C-WIP)</td>
<td>940</td>
<td>2,129</td>
<td>2,467</td>
<td>2,714</td>
<td>2,883</td>
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<tr>
<td>Working Capital (ex-cash &amp; Eq)</td>
<td>3,627</td>
<td>13,151</td>
<td>8,390</td>
<td>9,700</td>
<td>11,172</td>
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<tr>
<td>Cash &amp; Equivalents</td>
<td>2,490</td>
<td>2,670</td>
<td>8,390</td>
<td>8,942</td>
<td>11,367</td>
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<tr>
<td>Total Assets</td>
<td>9,332</td>
<td>22,292</td>
<td>25,356</td>
<td>29,230</td>
<td>35,063</td>
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### Cash Flow Statement

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<tr>
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<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash from Operations</td>
<td>1,498</td>
<td>(3,540)</td>
<td>7,501</td>
<td>2,624</td>
<td>4,576</td>
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<tr>
<td>Cash from Investing</td>
<td>(1,297)</td>
<td>(6,028)</td>
<td>(479)</td>
<td>(298)</td>
<td>(246)</td>
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<tr>
<td>Cash from Financing</td>
<td>(377)</td>
<td>9,270</td>
<td>(641)</td>
<td>(850)</td>
<td>(1,061)</td>
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<tr>
<td>FCFF</td>
<td>1,062</td>
<td>(4,988)</td>
<td>6,631</td>
<td>1,709</td>
<td>3,612</td>
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### Key Ratios

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<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
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</thead>
<tbody>
<tr>
<td>P/E (x)</td>
<td>866.7</td>
<td>1,294.1</td>
<td>441.8</td>
<td>264.5</td>
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<td>P/B (x)</td>
<td>109.1</td>
<td>40.6</td>
<td>37.2</td>
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<td>EV/EBITDA (x)</td>
<td>347.4</td>
<td>333.4</td>
<td>178.9</td>
<td>118.0</td>
<td>73.7</td>
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<td>ROE (%)</td>
<td>15.2</td>
<td>4.5</td>
<td>8.6</td>
<td>12.9</td>
<td>21.4</td>
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<tr>
<td>RoIC (%)</td>
<td>12.3</td>
<td>4.4</td>
<td>7.7</td>
<td>11.8</td>
<td>19.3</td>
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<td>ROCE (%)</td>
<td>10.5</td>
<td>5.2</td>
<td>7.2</td>
<td>9.7</td>
<td>14.8</td>
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### KPIs

#### BPC

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<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>AoV</td>
<td>1,963</td>
<td>1,864</td>
<td>1,814</td>
<td>1,868</td>
<td>1,924</td>
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<tr>
<td>AUTC</td>
<td>5.6</td>
<td>8.4</td>
<td>11.0</td>
<td>14.1</td>
<td>17.6</td>
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<tr>
<td>Orders</td>
<td>17.1</td>
<td>27.0</td>
<td>35.3</td>
<td>45.5</td>
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#### Fashion

<table>
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<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>AoV</td>
<td>2,739</td>
<td>3,420</td>
<td>3,659</td>
<td>3,733</td>
<td>3,807</td>
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<tr>
<td>AUTC</td>
<td>0.6</td>
<td>1.8</td>
<td>2.6</td>
<td>3.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Orders</td>
<td>2.4</td>
<td>5.2</td>
<td>7.8</td>
<td>11.0</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research
Focus Charts

While Nykaa has scaled well...

...Its likely to remain a pre-dominantly inventory-led model for the foreseeable future

...Ergo, its ability to scale isn't as non-linear as one might think. Pure-play platforms have scaled faster in top-line/profitability (despite being larger) than online pipeline counterparts, while the latter exhibit a more linear journey

...Nykaa’s unit economics seems ad income reliant currently (BPC Product margins is yet to hit profitability)

<table>
<thead>
<tr>
<th>FY22 Indicative Unit Economics (Per Order, INR)</th>
<th>BPC</th>
<th>Fashion</th>
</tr>
</thead>
<tbody>
<tr>
<td>AoV</td>
<td>1,864</td>
<td>3,420</td>
</tr>
<tr>
<td>NSV</td>
<td>1,121</td>
<td>1,104</td>
</tr>
<tr>
<td>Revenue (on product)</td>
<td>1,121</td>
<td>600</td>
</tr>
<tr>
<td>GM (on products)</td>
<td>33</td>
<td>78</td>
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<tr>
<td>A&amp;P Expenses</td>
<td>108</td>
<td>302</td>
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<tr>
<td>FFC expenses</td>
<td>120</td>
<td>121</td>
</tr>
<tr>
<td>Ad/Shipping Income</td>
<td>134</td>
<td>26</td>
</tr>
<tr>
<td>Contribution</td>
<td>277</td>
<td>68</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>91</td>
<td>125</td>
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<tr>
<td>Other expenses</td>
<td>68</td>
<td>75</td>
</tr>
<tr>
<td>EBITDA</td>
<td>118</td>
<td>(131)</td>
</tr>
<tr>
<td>EBITDAM (% on NSV)</td>
<td>10.5</td>
<td>(11.9)</td>
</tr>
<tr>
<td>EBITDAM (on product)</td>
<td>(16)</td>
<td>(158)</td>
</tr>
<tr>
<td>Product EBITDAM (% on NSV)</td>
<td>(1.4)</td>
<td>(14.3)</td>
</tr>
</tbody>
</table>

...ad income could get split as peers scale up the tech stack for their respective lifestyle (BPC & Fashion) platforms

<table>
<thead>
<tr>
<th>FY21-22 equity funds raised; INR mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nykaa</td>
</tr>
<tr>
<td>Myntra Group</td>
</tr>
<tr>
<td>Reliance Retail</td>
</tr>
</tbody>
</table>

Source: Companiies, HSIE Research; Note: Intangible asset under development (FY22) used as proxy to showcase investment aggression
TAM seems oversold if one slices it by HH income and population density; we bake in 26/33% share in BPC AUTC/NSV; while price suggests Nykaa owns 40% of the relevant TAM/50%+ by NSV…A bit of a stretch, we think!

In Fashion (A tough category) too, right-to-win isn’t clear…we remain generous in our estimates for both segments within the realm of plausibility

We bake in a generous 19/29% decadal CAGR for Nykaa’s BPC/Fashion segment respectively (in terms of AUTC)

Platforms (even post the global tech carnage) command premium valuations vs online pipe-line businesses (Price/Sales)
## Peer valuation

<table>
<thead>
<tr>
<th>Market Cap (USD bn)</th>
<th>EV (bn)</th>
<th>Revenue (USD mn)</th>
<th>EBITDA (USD mn)</th>
<th>EBITDAM (%)</th>
<th>PAT (USD mn)</th>
<th>RoE</th>
<th>RoCE</th>
<th>EV/Sales</th>
<th>EV/EBITDA</th>
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</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>1,036.7</td>
<td>386.1</td>
<td>469.8</td>
<td>514.6</td>
<td>577.4</td>
<td>21.3</td>
<td>33.4</td>
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<td>Alibaba</td>
<td>177.7</td>
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<td>124.8</td>
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<td>7.4</td>
<td>18.9</td>
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<td>Coupang</td>
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<td>18.4</td>
<td>20.7</td>
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<td>-1.5</td>
<td>-0.6</td>
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<td>Shopify</td>
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<td>16.4</td>
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<td>Sea Ltd</td>
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<td>-2.3</td>
<td>-1.2</td>
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<td>17.7</td>
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<td>3.5</td>
<td>4.2</td>
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<td>LV</td>
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<td>77.9</td>
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<td>9.5</td>
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<td>22.6</td>
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<td>116.2</td>
<td>123.3</td>
<td>32.7</td>
<td>46.8</td>
<td>41.8</td>
<td>48.6</td>
</tr>
<tr>
<td>Ocad</td>
<td>4.0</td>
<td>3.0</td>
<td>3.4</td>
<td>3.0</td>
<td>3.5</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.2</td>
<td>-0.0</td>
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<tr>
<td>Meituan</td>
<td>97.8</td>
<td>16.7</td>
<td>27.8</td>
<td>30.6</td>
<td>39.9</td>
<td>-0.5</td>
<td>-3.7</td>
<td>-0.9</td>
<td>1.1</td>
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<td>DoorDash</td>
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<td>2.9</td>
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<td>6.4</td>
<td>7.8</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Wayfair</td>
<td>3.9</td>
<td>14.1</td>
<td>137.1</td>
<td>12.1</td>
<td>12.6</td>
<td>0.4</td>
<td>0.1</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Nykaa</td>
<td>6.6</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Zomato</td>
<td>5.5</td>
<td>0.3</td>
<td>0.5</td>
<td>0.8</td>
<td>1.1</td>
<td>-0.1</td>
<td>-0.2</td>
<td>-0.2</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research
What Nykaa got right

- In a very short time, Nykaa has become the go-to destination for beauty and personal care (BPC) and cosmetics retailing. Founded in 2012 by Mrs. Falguni Nayar, Nykaa successfully addressed two bottlenecks: (1) product authenticity issues via its inventory-led model in a category (BPC) historically plagued with counterfeit products; (2) accessibility issues at both ends (brands and consumers) through broadening of distribution pipe (via its predominant online business model). Its online content-led BPC product discovery certainly aided category building (especially within the more active Genz & Millennial set), in turn aiding its scorching growth.

- The company also houses a fashion marketplace (Nykaa Fashion), which on a low base has achieved encouraging traction. Nykaa recently launched its e-B2B initiative (superstore), which promises meaningful scale, if executed well.

- The online lifestyle retailer has also forayed into improving its offline presence and now has 121 stores in 53 cities (as on Q2FY23). The company also has a suite of own brands, which now account for 11.2/12.1% of GMV in BPC/fashion respectively.

Nykaa’s content-to-commerce flywheel

...has led to a 61% CAGR growth in GMV over FY19-22...

<table>
<thead>
<tr>
<th>Segment-wise GMV split (INR mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY19</td>
</tr>
<tr>
<td>-BPC</td>
</tr>
<tr>
<td>-Fashion</td>
</tr>
<tr>
<td>-Others</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research

...mainstay BPC has clocked 46% CAGR over FY19-22...
In its efforts to broaden the consumer net, Nykaa is increasingly becoming an omni-channel play.

The e-tailer has been consistently improving on its owned brand portfolio too.

...gets reflected in their owned brand GMV growth profiles (For both for BPC & Fashion)

Brand on-boarding and SKU addition has been healthy.
Platforms vs pipelines!

- Not all online businesses are platforms. Platforms are more non-linear in their monetization abilities (Shopify, Pinduoduo, etc.); while online pipelines are more linear (Nykaa BPC, ASOS, Bohoo, etc.).
- It is the non-linear monetization button at scale and low marginal production cost that warrant rich valuations, not the ‘online business’ tag. Hence, despite the recent tech carnage across the globe, platforms continue to command healthier valuations vis-a-vis online pipelines.
- Ex-mature businesses, most platforms over CY17-21 (1) grew at 30-120% CAGR (vs. 7-50% CAGR for online pipelines, despite low base); (2) sported a negative to 15x asset turn (vs. 4-6x for online pipelines), and (3) clocked an EBITDAM expansion of 5-95pp (vs. -5 to 5 pp for online pipelines). Cash flow and return profiles followed suit.
- Nykaa, at best, could graduate to being a hybrid. But currently, with ~85% of NSV operating on an inventory-led model, it shares more characteristics with that of a busy, linear but efficient online pipeline than with a platform.

It’s time to invert!

As is often the case, a buzzword (platforms) emerges that affords (GOD)LY valuations, and investors tend to tie themselves in knots to claim a credible association of their investment with the term. Hence, many online businesses get passed on as platforms, but not all of them are.

However, if one inverts as being in the cash flow business with the product/service being just a vehicle to transport back and forth the quality, quantum and growth of cash flows, then identifying platforms vis-à-vis pipelines from a seemingly disjointed cohort (Refer ‘platforms vs pipelines’) of online businesses gets easier.

Classification - Platforms vs. linear/hybrid businesses

<table>
<thead>
<tr>
<th></th>
<th>Platforms/Hybrid</th>
<th>Pipelines - Online/Hybrid</th>
<th>Linear - Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sea Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pinduoduo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shopify</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coupang</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Google</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amazon</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tencent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Easy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alibaba</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nykaa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zalando</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASOS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bohoo</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ulta Beauty</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Estee Lauder</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proya Cosmetics</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research

What are platforms and why are they so coveted?

- Platforms are primarily matchmaking mechanisms to facilitate a transaction/interaction. They connect consumers/users with merchants/suppliers. The real source of value in a platform is its ability to unleash monetization opportunities at multiple nodes of this core transaction/interaction, fueled by its positive network effects. This value keeps increasing as the interactions keep getting more engaging and broader (i.e., increasing customer Lifetime Value (LTV) for the platform at lower incremental CAC).
- Once a platform achieves critical mass on both the supplier/merchant and consumer sides, the monetization switch can be extremely powerful at scale as there is little-to-no marginal production cost attached to growth.
It is this ability to scale coupled with the powerful monetization switch with little-to-no marginal production cost that make platforms the most coveted business models ever in the history of businesses (E.g., Pinduoduo, Shopify, Etsy, Sea Ltd, etc.)

**Pipelines:** Pipelines, on the other hand (whether online or offline), can be successful but have a more linear value chain and supply-side/capital constraints (thanks to their inventory-led model) that limit their pace of growth (Nykaa’s 1P BPC & eB2B segments, ASOS, Boohoo, DMART, offline apparel retailers, etc.).

Platform businesses scale faster and bigger, courtesy their ability to tap into a larger share of customer lifetime value (as it typically targets a larger TAM or a larger share of the TAM’s wallet)

<table>
<thead>
<tr>
<th>Platforms/Hybrids</th>
<th>Linear - online</th>
<th>Linear - Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon (ex-AWS)</td>
<td>63.2</td>
<td></td>
</tr>
<tr>
<td>Google</td>
<td>28.9</td>
<td></td>
</tr>
<tr>
<td>Meta</td>
<td>28.5</td>
<td></td>
</tr>
<tr>
<td>Alibaba (ex-Cloud)</td>
<td>20.5</td>
<td></td>
</tr>
<tr>
<td>Tencent</td>
<td>19.0</td>
<td></td>
</tr>
<tr>
<td>Pinduoduo</td>
<td>18.2</td>
<td></td>
</tr>
<tr>
<td>Wayfair</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>Sead Ltd</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Shopify</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Farfetch</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Estee Lauder</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Ulta Beauty</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Proya Cosmetics</td>
<td>0.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research, Amazon (ex-AWS) indexed to 100

To add, low required marginal capital and production costs for growth certainly aid in the blitz-scaling process; inventory-led online pipelines might be more efficient than their offline counterparts but are not ‘platforms’ in their scaling potential and their monetization capabilities

<table>
<thead>
<tr>
<th>Platform</th>
<th>Linear - Online</th>
<th>Linear - Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coupang</td>
<td>-23</td>
<td></td>
</tr>
<tr>
<td>Sea Ltd</td>
<td>-1</td>
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<tr>
<td>Pinduoduo</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Alibaba US</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Amazon US</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Tencent</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Shopify</td>
<td>12</td>
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<td>Google</td>
<td>6</td>
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</tr>
<tr>
<td>Meta</td>
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<tr>
<td>Farfetch</td>
<td>6</td>
<td></td>
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<tr>
<td>Estee Lauder</td>
<td>3</td>
<td></td>
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<tr>
<td>Ulta Beauty</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Proya Cosmetics</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>LV</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research, Asset Turnover = Sales/(Capex + WC-ex cash) for core business

Note: All categories highlighted have some overlapping traits of the other. Categorization is done based on the predominant business model currently.
The reduction in operating cost structures (courtesy better-fixed cost absorption on A&P/R&D spends) once the platforms’ monetization button is switched on is significant; in comparison, linear businesses (online/offline) exhibit a more traditional path to profitability.

...hence, across the cohort of online businesses, the biggest swing in profitability has been in platforms, whereas efficient pipelines, while good businesses have witnessed a more linear EBITDAM expansion.

...and the return ratios follow the same trajectory.

Source: Companies, HSIE Research

Source: Company, HSIE Research, For mature biz like Google, Meta, Amazon, Alibaba, and Tencent, we’ve considered the swing over CY16-21, For Nykaa, the period highlighted is from FY19-22.
Platform vs pipelines: CFO scale and growth over CY18-21

Source: Companies, HSIE Research
Shopify — An inkling of the power of a platform!

Let’s look at the case of Shopify (platform) to drive home the point that successful platforms are the ultimate business models:

- Shopify is a leading provider of internet infrastructure for commerce enables merchants to easily display, manage, market and sell their products across a dozen different sales channels, including web and mobile storefronts, physical retail locations, pop-up shops, etc. It exhibits a two-sided network.
  - More consumers lead to more merchants that in turn lead to more consumers.
  - More app partner solutions lead to more merchant monetization tools lead to more merchant partners.

- As merchants grow in scale and become more successful on the platform, they opt for more sophisticated tiers of subscription with a wider array of services/solutions. A variety of merchant solutions are also offered beyond those in subscription to address the broader array of functionalities like accepting payments, shipping and fulfilment, securing WC, etc. To add to this, Shopify also earns through transaction fees, ad revenue, payment processing fees, referral fees, etc. It also aids app developers in building more merchant monetization tools and earns via a revenue share agreement with app partners.

- The success of the platform can be seen in the growth in subscription revenue/merchant and the monthly recurring revenue (MRR) for Shopify. Each grew at 6/36% CAGR over CY17-21.

- Interestingly, these layers of additional revenue streams come at extremely low incremental costs as can be seen in the high and growing incremental gross margins for each segment. More importantly, growth isn’t restricted by capital constraints; hence, the ~23x scale jump over CY15-21 as growth is largely de-linked with the asset base (total asset turns increased from 9x to 15x over CY17-21).

- EBITDAM improved from -7.3% to 6% over CY17-21, despite A&P and R&D expenses per order remaining broadly unchanged.

- The attractiveness of more monetization tools (by app developers and self-developed ones) lures more merchants, which in turn lure more consumers. The rising merchant base in turn attracts more app developers and the flywheel continues to snowball.

Note: There are many such examples of platforms highlighted in the table titled ‘platforms vs pipelines’.
Shopify — An inkling of the power of a platform!

Shopify’s subscription/merchant and MRR grew at 6/36% CAGR over CY17-21…

...as a result subscription & merchant solutions clocked 44/73% CAGR resp over CY17-21…

...with a significant improvement in incremental margins…

...while A&P and R&D spends per order remained largely steady …

...the exponential growth needed little in way of capital…

...ergo, the big swing in return ratios (%)
Pipelines lack non-linear revenue streams: Unlike platforms, pipelines typically lack the ability to build non-linear cash-flow-accrative revenue streams (except perhaps ad income generated from brands if it’s an online pipe). Ad income too is likely to be split among peers as they gain a fair share within the category. Hence, the ability to broaden/increase customer lifetime value (LTV) is limited by (1) a volume-led rise in AoV; (2) an increase in purchase frequency; and (3) increase in higher-GM private labels/own brands.

For Pipe-lines not all variables are equal; AUTC growth is key: Let’s walk through the equation GMV = average selling price (ASP) x number of articles/order x annual unique transacting customers (AUTC) x purchase frequency
1. ASP could typically mimic inflation in the medium to long term.
2. Articles per order and purchase frequencies move linearly, if at all (for any category).

As can be seen with other online (linear) businesses like ASOS and Boohoo (different category), their order frequency and articles per order move linearly, if at all.

For Nykaa, AoV growth did get a one-time bump up in AoV, as it imposed a minimum threshold order value for free delivery during the pandemic. This has begun to mean-revert but still remains higher than pre-pandemic levels. AoV increased from INR 1,448 in FY20 to INR 1,963 in FY21. For Q1/Q2FY23, AoV stood at INR 1,780/1,872.

Nykaa’s purchase frequency also remains broadly steady at 3-3.5x annually. Order frequency is likely to be averaged out as lighter users get added to the customer mix. In BPC, accounting for a typical makeup/skincare routine, we suspect Nykaa might already be well optimised in terms of the number of articles/order (there is a theoretical but limited upside here though).

This leaves us with the key value driver – AUTC (discussed in next chapter).

Ex-Nykaa, growth in AoVs (volume-led) has been lower than platforms, given the lack of non-linear revenue streams

Source: Companies, HSIE Research
Avg. basket size (no. of articles) and order frequency for vertical/category specific businesses don’t change non-linearly

Average basket size (number of articles) seems well-optimised already (estimates; numbers)

In terms of a typical makeup/skincare routine...there is a theoretical upside to number of articles in a basket, but that is likely to average out as lighter users get added to the consumer mix

Given that key inputs of growth (ASP, order frequency, articles/order) are linear; hence, online pipelines have a steadier trajectory in asset sweating vs their non-linear cousins (platforms)
## Platforms vs pipelines

<table>
<thead>
<tr>
<th>Platforms</th>
<th>Description</th>
<th>Revenue Streams</th>
<th>Margin &amp; Cost Structures movement</th>
</tr>
</thead>
</table>
| **Shopify** | -Shopify is a leading provider of essential internet infrastructure for commerce (SaaS). It enables merchants to easily display, manage, market and sell their products across over a dozen different sales channels, including web and mobile storefronts, physical retail locations, pop-up shops, etc.  
-2-side network effects at play:  
More consumers lead to more merchants lead to more consumers  
More app partner solutions lead to more merchant monetization tools lead to more merchant partners | -Tier-wise subscription model (recurring revenue)  
-Merchant solutions such as 1. accepting payments, 2. shipping and fulfilment, and 3. securing working capital for merchants, transaction fees, 4. Referral fees from app partners, 5. Ad revenue  
-Nearly all revenue streams are highly scalable with little-to-reducing incremental service/product-based costs attached  
-Customer LTV can get enhanced via multiple stakeholders within ecosystem (Via Core Solutions, partner apps, etc) | -High GM biz. Subscription/Merchant Solutions have 80/43% GM with strong utility based premiumization options  
-R&D and A&P expenses dictate the EBITDAM swing. Over CY18-21, Shopify’s EBITDAM swung from ~6% to ~7% as the layer of services opted by merchants kept increasing even though R&D/order and A&P/order remained flat |
| **Pinduoduo** | -PDD provides a team purchase model for value-for-money merchandise. Buyers come to our platform to browse, explore and purchase attractive value-for-money merchandise from third-party merchants under the “team purchase” option  
-Active multiple team buyer helps attract farmer merchants to the platform, and the scale of sales volume encourages merchants to offer even more competitive prices/customized products/services to buyers, thus forming a virtuous cycle.  
-Merchant handles fulfilment. | -Online marketing services/others. Primarily to allow merchants to bid for keywords that match product listings appearing in search/browser results on the platform and advertising placements such as ad banners, links, etc  
-Transaction services. PDD charges merchants fees for Transaction-related services that are provided to merchants on our platform.  
-Merchandise sales. Direct Online sales of purchased products (small portion). | -High GM biz; typical of a marketplace  
-R&D and A&P expenses dictate the EBITDAM swing. Over CY19-21, PDD’s EBITDAM swung from ~79% to ~9%.  
-Scale gain has little to no bearing on operating cost structures once network effects kicked in, post the company achieving critical mass at both the farmer merchant and active buyer sides. |
| **Coupang** | Coupang is a hybrid offering both 1P & 3P product e-commerce. 1P dominates the revenue stream. It undertakes fulfilment responsibilities for the majority of the orders it services.  
-Some of its developing business models are Rocket Fresh (Grocery delivery), Coupang Eats (Food Delivery), Coupang Play (Video streaming), Fintech (Payments solutions) | -1P product sales  
-Commission from merchants for 3P services  
-Advertising revenue  
-Revenue from online ordering & delivery  
-Note 3P/ad sales and other cash-flow accretive revenue streams are growing meaningfully faster than 1P sales | Lower GM (courtesy 1P business), EBITDAM swing not as severe (Over CY19-21, EBITDA losses moved from ~10% to ~8%). As 3P & ad revenue rise in the mix, profitability is likely to improve further. |
| **Sea Ltd** | Sea Ltd has three multi-sided marketplace businesses. 1. Digital Entertainment (Garena), 2. E-Commerce, 3. Digital financial services ltd. | -Digital Entertainment: Pre-dominantly, via selling in-game items  
-E-Commerce: Pre-dominantly a marketplace which earns via 1. Paid advertising from sellers, 2. Transaction-based fee and 3. Value added services like fulfilment, logistics, etc  
-Digital financial services: 1. Commissions from 3P merchants, 2. Fees to 3P financial institutions which offer financial products/ lend to consumers on the platform  
-Advertising revenue  
-Subscription revenue  
-Cloud revenue  
-In the DE biz, 1. as Sea publishes more self-developed games, pay channel costs reduce. 2. An increasing layer of services opted by merchants to improve further. | In the DE biz, 1. as Sea publishes more self-developed games, pay channel costs reduce. 2. An increasing layer on in-game purchases means better absorption of amortized licence fees. 3. In E-Comm biz, since it’s a marketplace for pre-dominantly long-tail categories, improving take rates, ergo, increasing ARPU is easier on the consumer side and merchants could opt for more sophisticated services like payment solutions and ad services which have low incremental costs. These are reflected in financials as well. Consol EBITDA losses swung from ~110% in CY18 to ~15% in CY21. |
| **Amazon** | -Amazon consumers through our online and physical stores and focus on selection, price, and convenience. It sells both 1P & 3P products via its app/websites. The company offers programs that enable sellers to grow their businesses and sell their products for a fixed fee, a percentage of sales, per-unit activity fees, interest, or some combination thereof via their seller programs.  
-Amazon also serve enterprises through AWS (Cloud service), which offers a broad set of on-demand technology services. | -1P & 3P product sales  
-Ad revenue  
-Subscription revenue  
-Cloud revenue | 1P business is akin to any typical linear retailer - fulfilment costs, marketing spends, etc.  
-Interestingly, revenue from margin accretive revenue streams such as 3P + ad income  
-AWS has grown from 18% to 42% from CY14-21. Hence, despite, the rising investments in FFC & marketing, EBITDAM improved 600bps over CY14-21. |
<table>
<thead>
<tr>
<th>Platforms</th>
<th>Description</th>
<th>Revenue Streams</th>
<th>Margin &amp; Cost Structures movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Etsy</td>
<td>-Etsy operates two-sided online marketplaces connecting creative artisans and entrepreneurs with thoughtful consumers. It is a seller-aligned business model. It offers sellers a range of seller tools/services that are specifically designed to help creative entrepreneurs generate more sales/scale their businesses. -In addition to the core marketplace, Etsy also houses Reverbe - musical instrument marketplace; Depop - A fashion resale marketplace, and Elo7 - The Brazilian version of Etsy</td>
<td>-Listing fees -Transaction fees -Payment processing fees -Ad revenue -Others</td>
<td>Since all sales are 3P, All revenue streams have little incremental costs attached to them. This gets reflected in the EBITDA swing. With scale, EBITDAM swung from 2.7% in CY17 to 20% in CY21 Since, Etsy operates in a niche (handmade/vintage items), wherein scale of the industry/supply chain may not attract horizontals. It is likely to remain unchallenged by deep-pocketed retailers.</td>
</tr>
<tr>
<td>Farfetch</td>
<td>The Farfetch marketplace is the largest global digital luxury fashion marketplace connecting consumers in more than 50 countries from over 1,400 brands, boutiques and department stores, delivering a unique shopping experience and access to the most extensive selection of luxury at a single destination.</td>
<td>Farfetch operates on a revenue share model wherein it collects commission from sellers for the transaction (75%+ of revenue) -'Fulfilment revenue from sellers' -'1P sales'</td>
<td>While still making losses, the EBITDAM swing over CY18-21 is 10pp (i.e. from -20% to -10%) as fixed cost absorption (marketing spends, FFC, others) improved with scale. -A strong ad revenue lever could meaningfully change the complexion of the P&amp;L, if exercised.</td>
</tr>
<tr>
<td>Wayfair</td>
<td>It's pre-dominantly a multisided platform that works as a furniture and home-goods online drop-shipping marketplace connecting 27mn active customers with 33k+ suppliers. Assortment range: 33mn products. Has ~19mn sq. ft of leased fulfilment space.</td>
<td>-Take rate (commission) on transactions -Ad revenue -Product sales (private labels)</td>
<td>While just about to break even, EBITDAM swing over CY18-21 was -5% to 2%. Path to profitability still not clear due to the nature of category. A logistics mistake could meaningfully cost profitability.</td>
</tr>
<tr>
<td>Alphabet</td>
<td>-It's a multi-sided platform that connects advertisers with users of the google services. (Predominant monetization tool is advertisement revenue) -Also offers enterprises Cloud-based services via Google Cloud/Google Workspace -Other bets: Moonshot projects</td>
<td>-Ad revenue via google services -Subscription revenue on products such as Gmail, YouTube TV, YouTube premium -Product sales - Includes hardware sales like Pixel, Sales of apps and in-app purchases (via Google Play) -Cloud-based revenue -Other bets: Sales of health tech &amp; other internet services</td>
<td>Key costs are R&amp;D and marketing expenses. These have been consistently declining with scale and theoretically could get disconnected from scale as peers increasingly get left behind (Google chooses to remain aggressive on this front). Despite aggressive investments in R&amp;D and marketing, EBITDAM expanded 560bps to 39% in core operations.</td>
</tr>
<tr>
<td>Meta</td>
<td>-It's a multi-sided platform that connects advertisers with users of the Google services. Emerging businesses: Reality Labs which sells augmented and virtual reality products</td>
<td>-Ad revenue -Payment &amp; product sales Flywheel: Stronger user identity, social graph - Stronger user engagement - More targeted ads - Heightened user engagement - Attracts more ad dollars - Leads to FB investing in its algorithm and the cycle repeats</td>
<td>Key costs are R&amp;D which is primarily for platform maintenance and for storing user data which powers FB's flywheel. While R&amp;D expenses have remained broadly steady over CY18-20, its EBITDAM has increased from 40% to 49% for Core operations. This is primarily due to reducing marketing spends in relation to scale. Note: FB has many under-monetized properties like the Insta-reel, WhatsApp marketplace. If they switch these on, they come along with little incremental costs attached.</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research
<table>
<thead>
<tr>
<th>Linear - Online/Hybrid</th>
<th>Description</th>
<th>Revenue Streams</th>
<th>Margin &amp; Cost Structures movement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASOS</strong></td>
<td>- ASOS is an online fashion retailer targeting the 20-somethings. It’s a more linear model with growth tied to the hip with Inventory/IC investments. - They do offer 3P services via their Partner fulfil programme but this is in its infancy. Uses 3P logistic partners predominantly for fulfilment. Revenue: GBP 3.9bn (FY22) GM/EBITDAM: 45.4/8.3% AUTC: 26mn, Order Frequency: 3.5, Visit-Order conversion: 3%, Articles/bill: 3.2</td>
<td>Product sales (Inventory-led model)</td>
<td>Cost structures are more linear in movement with sales Opex over CY17-20 contracted from 43.5% to 39%. EBITDAM expanded 50bps to 4.6%</td>
</tr>
<tr>
<td><strong>Boohoo</strong></td>
<td>Same as ASOS</td>
<td>Product sales (Inventory-led model)</td>
<td>Cost structures are more linear in movement with sales Opex over FY18-21 expanded from 45.5% to 47%. EBITDAM remained steady at 8.5%</td>
</tr>
<tr>
<td><strong>Zalando</strong></td>
<td>Same as ASOS</td>
<td>Product sales (Inventory-led model)</td>
<td>Cost structures are more linear in movement with sales Opex over FY18-21 expanded from 40% to 38%. EBITDAM improved from 4% to 6% over CY18-21</td>
</tr>
<tr>
<td><strong>Nykaa (BPC)</strong></td>
<td>Nykaa is an online BPC and fashion retailer. The company predominantly operates its BPC segment on an inventory-led model, while the fashion vertical is a marketplace. <strong>Only BPC:</strong> GMV: ~INR50bn, Revenue: ~INR33.8bn (FY22) GM/EBITDAM: 40/11% (Product GM/EBITDAM: 33/-1.3%) AUTC: 84mn, Order Frequency: 3.2, Visit-Order conversion: 3.2%, Articles/bill: ~5</td>
<td>Product sales - Inventory-led model Fashion - Product sales - Marketplace Nykaa - eB2B segment - Inventory-led model</td>
<td>BPC: Given the nascenty of the model, cost structure improvement cannot be extrapolated as non-linear in nature (39% to 31%). Costs in BPC are to a significant extent tied to the hip with product revenue. Fulfilment efficiency and tapering marketing costs could add to operating leverage but there is a cap on this movement like any other inventory-led online retailers</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research

- Hence, not all online businesses qualify as platforms. As for Nykaa, the lion’s share of the business (~85% of NSV: Nykaa BPC, Nykaa Man, eB2B) operates on an inventory-led model and it shares more characteristics with that of a busy and linear online pipeline (such as ASOS, Boohoo, etc.) than with platforms (like Shopify, Pinduoduo, etc.) which, in our view, should guide the valuation stencil. While Nykaa Fashion is a marketplace, it is still a budding segment targeting a premium customer base. Its right-to-win is not yet established.
Nykaa’s unit economics

**BPC powers Nykaa’s engine:** Nykaa’s BPC unit is the predominant cash cow that powers the business. However, our estimates of segmental unit economics suggest that:

1. The BPC segment (Nykaa’s cash cow), while a go-to-destination for shopping, is (as of today) heavily reliant on ad/shipping income for its profitability/return ratios. Product EBITDAM is estimated to be just about profitable now (FY22: -1.4% of NSV). Of course, this might change as Nykaa scales its (a) own brand portfolio and (b) order density. However, any dip in the ad income could be a negative counter-balancing factor (not factored in). Ad budgets could potentially get split between more players in the medium to long term. We expect Nykaa’s BPC segment to hit 5% product margin and 15% EBITDAM on NSV by FY25.

### Unit economics (BPC segment)

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BPC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg. order value (AoV; INR)</td>
<td>1,963</td>
<td>1,864</td>
<td>1,814</td>
<td>1,850</td>
<td>1,887</td>
</tr>
<tr>
<td>NSV</td>
<td>1,225</td>
<td>1,121</td>
<td>1,124</td>
<td>1,147</td>
<td>1,170</td>
</tr>
<tr>
<td>Revenue (on product)</td>
<td>1,225</td>
<td>1,121</td>
<td>1,124</td>
<td>1,147</td>
<td>1,170</td>
</tr>
<tr>
<td>AoV-NSV conversion (%)</td>
<td>62</td>
<td>60</td>
<td>62</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>Gross profit (on products)</td>
<td>386</td>
<td>371</td>
<td>372</td>
<td>383</td>
<td>393</td>
</tr>
<tr>
<td>GM (on products)</td>
<td>31.5</td>
<td>33.1</td>
<td>33.1</td>
<td>33.4</td>
<td>33.6</td>
</tr>
<tr>
<td>A&amp;P expenses</td>
<td>73</td>
<td>108</td>
<td>100</td>
<td>98</td>
<td>96</td>
</tr>
<tr>
<td>FFC expenses</td>
<td>110</td>
<td>120</td>
<td>96</td>
<td>96</td>
<td>94</td>
</tr>
<tr>
<td>Contribution (on product)</td>
<td>203</td>
<td>143</td>
<td>176</td>
<td>188</td>
<td>204</td>
</tr>
<tr>
<td>As % of NSV</td>
<td>16.6</td>
<td>12.8</td>
<td>15.6</td>
<td>16.4</td>
<td>17.4</td>
</tr>
<tr>
<td>Ad/shipping income</td>
<td>111</td>
<td>134</td>
<td>118</td>
<td>117</td>
<td>117</td>
</tr>
<tr>
<td>Contribution</td>
<td>314</td>
<td>277</td>
<td>294</td>
<td>305</td>
<td>320</td>
</tr>
<tr>
<td>Employee expenses</td>
<td>113</td>
<td>91</td>
<td>84</td>
<td>77</td>
<td>72</td>
</tr>
<tr>
<td>Other expenses</td>
<td>89</td>
<td>68</td>
<td>70</td>
<td>70</td>
<td>72</td>
</tr>
<tr>
<td>EBITDA</td>
<td>112</td>
<td>118</td>
<td>140</td>
<td>158</td>
<td>176</td>
</tr>
<tr>
<td>EBITDAM (% on NSV)</td>
<td>9.1</td>
<td>10.5</td>
<td>12.5</td>
<td>13.7</td>
<td>15.0</td>
</tr>
<tr>
<td>EBITDAM (on product)</td>
<td>1</td>
<td>(16)</td>
<td>22</td>
<td>40</td>
<td>59</td>
</tr>
<tr>
<td>Product EBITDAM (% on NSV)</td>
<td>0.1</td>
<td>(1.4)</td>
<td>2.0</td>
<td>3.5</td>
<td>5.1</td>
</tr>
<tr>
<td>WC (ex-cash)</td>
<td>212</td>
<td>488</td>
<td>238</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capex</td>
<td>26</td>
<td>54</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital employed</td>
<td>238</td>
<td>541</td>
<td>262</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>94</td>
<td>103</td>
<td>125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RoCE (%)</td>
<td>30</td>
<td>14</td>
<td>36</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research

2. In fashion (marketplace), the right-to-win is not yet established. It’s at a nascent stage of its scaling process. Nykaa’s predominant price positioning is premium (Masstige + Premium + Luxe constitute ~75% of assortment on display). Given the positioning, scaling might be restricted (~54% of apparel market is value fashion). However, given that A&P/FFC costs/order are estimated at ~INR293/138 per order (vs <INR100 each for BPC), there are some low-hanging fruits to pluck in terms of efficiencies.

Note: Big corporate houses have stepped up their aggression on fashion & lifestyle segment via their respective horizontal/vertical online offerings. Hence, competitive intensity is likely to keep A&P expenses high. We expect Nykaa Fashion to almost break even in FY26.
### Unit economics (fashion segment)

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Order Value (AoV; INR)</td>
<td>2,739</td>
<td>3,420</td>
<td>3,659</td>
<td>3,733</td>
<td>3,807</td>
</tr>
<tr>
<td>NSV</td>
<td>962</td>
<td>1,104</td>
<td>1,171</td>
<td>1,194</td>
<td>1,218</td>
</tr>
<tr>
<td>Revenue (on product)</td>
<td>576</td>
<td>600</td>
<td>636</td>
<td>651</td>
<td>667</td>
</tr>
<tr>
<td>AoV-NSV conversion (%)</td>
<td>35</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Gross Profit (on products)</td>
<td>377</td>
<td>466</td>
<td>472</td>
<td>477</td>
<td>483</td>
</tr>
<tr>
<td>GM (on products)</td>
<td>65.3</td>
<td>77.6</td>
<td>74.3</td>
<td>73.3</td>
<td>72.3</td>
</tr>
<tr>
<td>A&amp;P Expenses</td>
<td>169</td>
<td>302</td>
<td>272</td>
<td>245</td>
<td>220</td>
</tr>
<tr>
<td>FFC expenses</td>
<td>117</td>
<td>121</td>
<td>140</td>
<td>111</td>
<td>108</td>
</tr>
<tr>
<td>Contribution (on product)</td>
<td>90</td>
<td>42</td>
<td>60</td>
<td>121</td>
<td>155</td>
</tr>
<tr>
<td>As % of NSV</td>
<td>9.4</td>
<td>3.8</td>
<td>5.1</td>
<td>10.1</td>
<td>12.7</td>
</tr>
<tr>
<td>Ad/Shipping Income</td>
<td>23</td>
<td>26</td>
<td>47</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>Contribution</td>
<td>113</td>
<td>68</td>
<td>107</td>
<td>170</td>
<td>206</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>160</td>
<td>125</td>
<td>137</td>
<td>157</td>
<td>177</td>
</tr>
<tr>
<td>Other expenses</td>
<td>62</td>
<td>75</td>
<td>100</td>
<td>128</td>
<td>108</td>
</tr>
<tr>
<td>EBITDA</td>
<td>(109)</td>
<td>(131)</td>
<td>(130)</td>
<td>(115)</td>
<td>(79)</td>
</tr>
<tr>
<td>EBITDAM (% on NSV)</td>
<td>(11.3)</td>
<td>(11.9)</td>
<td>(11.1)</td>
<td>(9.6)</td>
<td>(6.5)</td>
</tr>
<tr>
<td>EBITDAM (on product)</td>
<td>(132)</td>
<td>(158)</td>
<td>(177)</td>
<td>(164)</td>
<td>(130)</td>
</tr>
<tr>
<td>Product EBITDAM (% on NSV)</td>
<td>(13.7)</td>
<td>(14.3)</td>
<td>(15.1)</td>
<td>(13.7)</td>
<td>(10.7)</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research

- In a category as fragmented as fashion (apparel), both in terms of supply and quality, assortment returns can lead to meaningful losses. To illustrate this point, see the below table of apparel focused online retailers (some inventory-led and some marketplaces). One can see that even with scale, the ability to reduce fulfilment (FFC) costs is restricted.

- Also, the A&P expense lever constantly needs to be engaged to gain scale. Historically, online retailers (focused on fashion) have found it tough to rein in this expense.

- Nykaa Fashion might end up being an exception but, for an analyst, forecasting improvement on this variable (A&P expense) is like trying to catch lightning in a bottle.

### Fulfilment cost lever has limited room to wiggle beyond a certain point in fashion; a few have managed to improve upon this through scale

<table>
<thead>
<tr>
<th>FFC Costs (As % of sales)</th>
<th>CY18</th>
<th>CY19</th>
<th>CY20</th>
<th>CY21 (Decrease)/Increase (bps)</th>
<th>AoV (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASOS</td>
<td>26</td>
<td>26</td>
<td>23</td>
<td>22 (-358)</td>
<td>83</td>
</tr>
<tr>
<td>Boohoo</td>
<td>24</td>
<td>23</td>
<td>24</td>
<td>26 (+188)</td>
<td>56</td>
</tr>
<tr>
<td>Zalando</td>
<td>28</td>
<td>27</td>
<td>26</td>
<td>25 (-276)</td>
<td>65</td>
</tr>
<tr>
<td>Nykaa Fashion</td>
<td>-</td>
<td>18</td>
<td>20</td>
<td>19 (+101)</td>
<td>45</td>
</tr>
<tr>
<td>Myntra</td>
<td>11</td>
<td>17</td>
<td>18</td>
<td>18 (+736)</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research
A&P expenses are a stickler too in fragmented categories like fashion…very few have managed to rein this expense in with scale after hitting a certain threshold

<table>
<thead>
<tr>
<th>A&amp;P (As % of sales)</th>
<th>Business Model</th>
<th>CY16</th>
<th>CY17</th>
<th>CY18</th>
<th>CY19</th>
<th>CY20</th>
<th>CY21</th>
<th>Scale gain (CY16-21)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASOS</td>
<td>Inventory-led</td>
<td>5.3</td>
<td>4.5</td>
<td>4.4</td>
<td>4.5</td>
<td>3.7</td>
<td>5.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Boohoo</td>
<td>Inventory-led</td>
<td>-</td>
<td>-</td>
<td>4.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Proya Cosmetics</td>
<td>Inventory-led</td>
<td>37.5</td>
<td>39.2</td>
<td>39.9</td>
<td>43.0</td>
<td>5.1</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Zalando</td>
<td>Inventory-led</td>
<td>10.3</td>
<td>8.1</td>
<td>7.4</td>
<td>8.1</td>
<td>8.3</td>
<td>9.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Etsy</td>
<td>Marketplace</td>
<td>22.5</td>
<td>24.7</td>
<td>26.2</td>
<td>26.3</td>
<td>29.0</td>
<td>28.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Farfetch</td>
<td>Marketplace</td>
<td>-</td>
<td>17.9</td>
<td>16.2</td>
<td>14.8</td>
<td>11.9</td>
<td>12.9</td>
<td>9.3</td>
</tr>
<tr>
<td>Wayfair</td>
<td>Marketplace</td>
<td>12.1</td>
<td>11.6</td>
<td>11.4</td>
<td>12.0</td>
<td>10.0</td>
<td>10.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Ultra Beauty</td>
<td>Inventory-led</td>
<td>5.3</td>
<td>4.5</td>
<td>4.4</td>
<td>4.3</td>
<td>4.6</td>
<td>4.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Estee Lauder</td>
<td>Inventory-led</td>
<td>22.7</td>
<td>24.0</td>
<td>23.1</td>
<td>23.8</td>
<td>22.9</td>
<td>21.9</td>
<td>1.5</td>
</tr>
<tr>
<td>LV</td>
<td>Inventory-led</td>
<td>38.8</td>
<td>38.5</td>
<td>37.9</td>
<td>37.7</td>
<td>37.6</td>
<td>34.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Nykaa</td>
<td>-</td>
<td>12.0</td>
<td>12.9</td>
<td>11.4</td>
<td>6.9</td>
<td>12.7</td>
<td>12.7</td>
<td>6.8</td>
</tr>
<tr>
<td>-BFC</td>
<td>Inventory-led</td>
<td>-</td>
<td>-</td>
<td>12.9</td>
<td>10.9</td>
<td>5.5</td>
<td>8.6</td>
<td>6.1</td>
</tr>
<tr>
<td>-Fashion</td>
<td>Marketplace</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35.8</td>
<td>28.2</td>
<td>48.2</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research
While the majority of platform businesses have corrected, online pipelines have corrected even more. The deciding factor is the non-linear monetization switch that platforms enjoy.

- Most platform businesses trade between 3-5x trailing P/S, while pipeline businesses (online/offline) trade between 0.2-7x trailing P/S (ex-Nykaa). Nykaa is trading at 12x trailing P/S.

**Most platform businesses enjoy better valuation multiples vs their pipeline counterparts (even after the recent tech carnage). This can be attributed to their (1) ability to scale and (2) superior underlying unit economics**
Within the pipeline cohort, Nykaa remains the most expensive name

<table>
<thead>
<tr>
<th>Company</th>
<th>P/S Ratio</th>
<th>Source: Companies, HSIE Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nykaa</td>
<td>6.6</td>
<td>Sep-22</td>
</tr>
<tr>
<td>ASOS</td>
<td>0.1</td>
<td>Sep-22</td>
</tr>
<tr>
<td>Boohoo</td>
<td>0.2</td>
<td>Sep-22</td>
</tr>
<tr>
<td>Zalando</td>
<td>0.4</td>
<td>Sep-22</td>
</tr>
<tr>
<td>Ulta Beauty</td>
<td>1.9</td>
<td>Sep-22</td>
</tr>
<tr>
<td>Proya Cosmetics</td>
<td>6.6</td>
<td>Sep-22</td>
</tr>
<tr>
<td>Nykaa</td>
<td>8.4</td>
<td>Sep-22</td>
</tr>
</tbody>
</table>

Source: Companies, HSIE Research
Price reeks of an oversold TAM!

- While Nykaa remains a preferred destination for BPC and hosts a budding fashion marketplace, valuations reek of an oversold TAM both in BPC and fashion.
- On the Adj. TAM, while we pencil in 26/33% share in BPC AUTC/NSV, CMP suggests 41/51% share in AUTC/NSV by FY42—seems implausible!
- Deep-pocketed retailers (Reliance Retail, Myntra, and Tata group) have been aggressively stitching their BPC offerings, given healthy category unit economics.
- Myntra infused ~INR42bn over FY21-22 to further its growth story; Reliance Retail has invested INR118.4bn towards tech stack building for all its online platform businesses and category building. BPC/fashion are key COGS for both.

Price suggests Nykaa would own half the relevant BPC market by FY42: The CMP suggests Nykaa’s BPC AUTC would hit 41% of the relevant customer base by FY42. On an NSV basis, this translates to 51% of relevant BPC TAM—a bit far-fetched, we believe. Especially against the backdrop of (1) aggressive competition from deep-pocketed players who are all vying for the beauty category; (2) thinning population density beyond a point. Hence, we suspect today’s price reeks of an oversold TAM.

Women population falls off a cliff as one straddles per capita income/population density profiles: If one excludes the universe below INR450k per household income and districts with women population density <300/km², the adjusted TAM falls off a cliff (from ~320mn to ~150mn; as on FY22). This is not to say that Nykaa can’t service districts with population density <300/km². However, these customer acquisitions are likely to be more expensive.

Our proprietary model covering ~600 districts (based on per capita income profile and population density) suggests that even if districts with women population above 300/km² grow at ~4.5% (3x the growth rate of India’s average population), we may still be looking at a relevant adj. TAM of ~186/300mn by FY27/42 resp. Hence, at 47/79mn BPC AUTC by FY27/42, Nykaa would’ve achieved ~19/26% of the relevant market already (built-in). This translates to one-third of the market by NSV—a tall but plausible ask!

Women population with >INR 100k per capita income (PCI)...

...falls precipitously if districts with <300km² are excluded

Source: Companies, HSIE Research

Source: Company, HSIE Research
While we build in one-third market share by FY42 for Nykaa, price suggests Nykaa would capture half of the relevant TAM.

<table>
<thead>
<tr>
<th>In mn</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>FY26</th>
<th>FY27</th>
<th>FY32</th>
<th>FY37</th>
<th>FY42</th>
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<td>215</td>
<td>225</td>
<td>237</td>
<td>248</td>
<td>310</td>
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<td>458</td>
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<tr>
<td>Aged 15-45 (assumed @ 50% mn)</td>
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<td>112</td>
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<td>128</td>
<td>137</td>
<td>186</td>
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<td>298</td>
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<tr>
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<td>54</td>
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<td>64</td>
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<td>75</td>
<td>82</td>
<td>116</td>
<td>153</td>
<td>201</td>
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<td>11</td>
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<td>18</td>
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<td>25</td>
<td>47</td>
<td>64</td>
<td>79</td>
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<tr>
<td>Nykaa’s BPC AUTC (% of Relevant TAM)</td>
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<td>11</td>
<td>13</td>
<td>15</td>
<td>17</td>
<td>19</td>
<td>25</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>Nykaa’s BPC AUTC (% of BPC online shoppers)</td>
<td>16</td>
<td>19</td>
<td>22</td>
<td>25</td>
<td>28</td>
<td>31</td>
<td>40</td>
<td>42</td>
<td>39</td>
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</tbody>
</table>

**Price-implied**
- Nykaa’s BPC AUTC (in mn) | 8    | 11   | 15   | 18   | 23   | 27   | 55   | 82   | 113  |
- Nykaa's BPC AUTC (% of Relevant TAM) | 9    | 11   | 13   | 15   | 18   | 20   | 30   | 35   | 38   |
- Nykaa's BPC AUTC (% of BPC Online shoppers) | 16   | 19   | 23   | 27   | 30   | 33   | 47   | 54   | 56   |

| BPC industry value (INR bn) | 1,237 | 1,488 | 1,679 | 1,869 | 2,081 | 2,306 | 3,602 | 5,112 | 6,638 |
| Total relevant BPC market (INR bn) | 243   | 285   | 331   | 378   | 429   | 487   | 864   | 1,223 | 1,763 |
| Online BPC industry value (INR bn) | 134   | 159   | 189   | 219   | 253   | 292   | 540   | 795   | 1,190 |
| Online BPC (as % BPC market) | 10.8  | 10.7  | 11.2  | 11.7  | 12.2  | 12.7  | 15.0  | 15.6  | 17.9  |
| Online BPC (as % relevant BPC market) | 55    | 56    | 57    | 58    | 59    | 60    | 63    | 65    | 68    |

| Nykaa BPC NSV (INR bn, grossed up for tax) | 34   | 45   | 59   | 77   | 98   | 121  | 260   | 409   | 577   |
| Nykaa BPC NSV (as % of online BPC) | 25   | 28   | 31   | 35   | 39   | 42   | 48    | 51    | 48    |
| Nykaa BPC NSV (as % of relevant BPC TAM) | 14   | 16   | 18   | 21   | 23   | 25   | 30    | 33    | 33    |

**Price-implied**
- Nykaa BPC NSV | 34   | 45   | 61   | 81   | 104  | 131  | 308   | 531   | 827   |
- Nykaa BPC NSV (as % of online BPC) | 25   | 28   | 32   | 37   | 41   | 45   | 57    | 67    | 69    |
- Nykaa BPC NSV (as % of Relevant BPC TAM) | 14   | 16   | 18   | 21   | 24   | 27   | 36    | 43    | 47    |

Source: Companies, HSIE Research

- **Fashion is a tough turf to play on:** Fashion & lifestyle (apparel) remains an extremely fragmented space with no single brand in India clocking > INR20bn/annually. Nykaa’s fashion marketplace (Nykaa Fashion) intends to play on trends/new season assortment instead of being driven by discounts (~65-70% of its assortment caters to masstige and above segments).

- **Limitation of this positioning is:**
  1. One has to resize the TAM downwards meaningfully. We suspect if one eliminates value fashion, sarees and some other select brands that only offer their labels on their respective group/partner websites/apps (Westside, Zara, H&M etc.), then the TAM to play with is likely to be ~20-25% of the total apparel market (in our view, ~INR1/2.6tn currently/FY32 respectively).
  2. Fashion is a browsing/discovery-based category. Hence, engagement (i.e., time spent on app + no. of visits) is disproportionately correlated to purchases and customer lifetime value. A sizeable share of browsing/visits comes from value conscious consumers whom Nykaa Fashion is not likely to cater to in a meaningful way.

- **Positives of this positioning:** It could become a profitable niche marketplace, given the healthy AoVs. However, Nykaa Fashion will have to contend with deep-pocketed players in this segment too. Most F&L apps have their respective premium app fronts too (E.g.: AJIO Luxe, Myntra Luxe, Tata Cliq Luxury, etc.).

- **Note:** (1) Myntra infused INR42bn over FY21-22 to further its growth story. (2) Reliance Retail has invested INR118.4bn towards tech stack building for all its online platform businesses and towards assortment across categories (fashion,
BPC being key categories) over FY20-22. It is tough to consistently compete with a limited wallet with these juggernauts.

While F&L market seems sizeable at INR 4.6tn (growing at 11% CAGR)...

...Nykaa’s fashion positioning eliminates a sizeable share of the market

We’ve built a 13% share each for Nykaa Fashion (AUTC basis) of the potential consumer cohort by FY27/42

<table>
<thead>
<tr>
<th></th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>FY26</th>
<th>FY27</th>
<th>FY32</th>
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<td>-Aged 15-45 (assumed @ 50%; mn)</td>
<td>122</td>
<td>127</td>
<td>132</td>
<td>138</td>
<td>143</td>
<td>149</td>
<td>178</td>
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<td>242</td>
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<td>-Potential Online Fashion shoppers within age 15-45 years (mn)</td>
<td>38</td>
<td>41</td>
<td>45</td>
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<td>52</td>
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<td>2</td>
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<td>5</td>
<td>6</td>
<td>13</td>
<td>15</td>
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Source: Companies, HSIE Research
SKU analysis and channel checks

- Our SKU analysis/channel checks suggest that while horizontalals such as Amazon and Flipkart display a much wider assortment of BPC SKUs, their assortment relevance and product discovery remain cumbersome for consumers.

- While Nykaa remains the preferred destination for BPC, our channel checks suggest Myntra has been aggressively expanding its BPC catalogue over the past 12 months. Within key categories, given its marketplace model, Myntra now houses more SKUs. However, Nykaa seems better curated to optimise revenue/SKU. This arbitrage is gradually reducing as Myntra continues to onboard more relevant brands. Tata Cliq and AJIO have some ground to cover in terms of investment in their tech stack to improve assortment relevance in BPC.

- Pricing differential is minimal across relevant platforms in BPC.

- Interactions across value chain suggest that marketplace can work well for long-tail brands, while for top brands, the inventory model is preferred but preferred sellers can be a plausible alternative for Myntra to compete with Nykaa.

- Myntra’s fulfilment center footprint is denser than Nykaa’s; hence, its ability to deliver basket purchases efficiently is better than Nykaa’s (currently) but Nykaa has been improving on this front too with its regional fulfilment center strategy.

<table>
<thead>
<tr>
<th>Total SKUs</th>
<th>Nykaa BPC</th>
<th>Myntra</th>
<th>Flipkart</th>
<th>Amazon</th>
<th>Tata Cliq</th>
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<td>Makeup</td>
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<td>Flipkart</td>
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## FSN E-Commerce Ventures Ltd (Nykaa): Initiating Coverage

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Source: Companies, HSIE Research

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<tr>
<th>Products</th>
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<th>Ajio</th>
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Source: Companies, HSIE Research
FSN E-Commerce Ventures Ltd (Nykaa): Initiating Coverage

### Compact

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### Eyeliner

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<td>1000</td>
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Source: Companies, HSIE Research
Financial analysis

- We build in a GMV CAGR of 39% over FY22-25 to INR 187.8bn as fashion/other businesses (NykaaMAN, eB2B store) grow on a low base. We build in 30/48/123% GMV CAGR in BPC/fashion/others respectively. From an NSV perspective, we build in 31/47/116% (overall: 37%) CAGR for BPC/fashion/others segments respectively to INR 68.5/18.3/7.6bn.

- As discussed, in previous chapters, given that the purchase frequency and AoVs don’t change non-linearly, AUTC is likely to remain the anchor growth variable across segments. On the back of this, we build in 35% revenue CAGR over FY22-25 (vs. 50% CAGR over FY19-22). BPC would continue to contribute the lion’s share of incremental growth (75%+; INR41.5bn).

- We build in 28/41% CAGR in AUTC and 29/42% CAGR in orders over FY22-25.

Baking in 39% GMV CAGR over FY20-24…

...with increasing salience of fashion/other businesses in mix

Expect revenue to clock 35% revenue CAGR over FY22-25 (vs. 50% over FY19-22)...

...BPC to continue contributing the lion’s share of incremental revenue build up (75%+; INR41.5bn)

Source: Companies, HSIE Research

Source: Company, HSIE Research
FSN E-Commerce Ventures Ltd (Nykaa): Initiating Coverage

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY19-22</th>
<th>FY19-22</th>
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<tr>
<td>BPC</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>AoV (INR)</td>
<td>1,433</td>
<td>1,448</td>
<td>1,963</td>
<td>1,864</td>
<td>1,814</td>
<td>1,868</td>
<td>1,924</td>
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<td>1</td>
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<tr>
<td>AUTC (mn)</td>
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<td>6</td>
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<td></td>
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<tr>
<td>AoV (INR)</td>
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<td>1,604</td>
<td>2,739</td>
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<td>3,659</td>
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<td>1.8</td>
<td>2.6</td>
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</table>

Source: Companies, HSIE Research

- EBITDAM/Pre-IND AS 116 EBITDAM are expected to expand by ~370bps to 8/6% respectively as (1) BPC product margins improve from -1.4% to 5.6% courtesy higher private labels; (2) scale-led operating efficiencies; (3) fashion losses ebb (building in a break-even in FY26).

**Baking in a 370bps EBITDAM improvement to 8% over FY22-25**

**Nykaa: Segment-wise profitability**

**Fulfilment costs likely to inch down as order density/fulfilment efficiency improves with more FFC additions**

Source: Company, HSIE Research

Source: Company, HSIE Research
Building in 4/10% reduction (CAGR) in A&P costs/order for BPC/fashion

**A&P Costs/Order**

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
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<tbody>
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<td>73</td>
<td>108</td>
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<tr>
<td>Fashion</td>
<td>302</td>
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<td>119</td>
<td>272</td>
<td>245</td>
<td>220</td>
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</tbody>
</table>

Source: Company, HSIE Research

**A&P Costs (As % of NSV)**

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<th></th>
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<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
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</thead>
<tbody>
<tr>
<td>BPC</td>
<td>14</td>
<td>12</td>
<td>6</td>
<td>10</td>
<td>9</td>
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<td>21</td>
<td>18</td>
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Source: Company, HSIE Research

Building a reasonable improvement in cash flow profile for Nykaa over FY22-25

**CFO (INR mn)**

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<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
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<th>FY23</th>
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<tr>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Purple</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
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<td>-</td>
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<td>-</td>
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</tr>
<tr>
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**FCFF (INR mn)**

<table>
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<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
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<tr>
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**FCFF yield (%)**

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<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
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<tr>
<td>Myntra</td>
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Source: Company, HSIE Research

Nykaa’s cash conversion vs peers

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<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
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<tr>
<td>Inventory days</td>
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<td>92</td>
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<td>11</td>
<td>9</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td>44</td>
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<td>90</td>
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<tr>
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<td>(14)</td>
<td>(17)</td>
<td>(15)</td>
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<tr>
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<tr>
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<td></td>
</tr>
<tr>
<td>Inventory days</td>
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<td>67</td>
<td>79</td>
<td></td>
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<tr>
<td>Receivables days</td>
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<td>146</td>
<td>170</td>
<td>250</td>
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<tr>
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<td>122</td>
<td>14</td>
<td></td>
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<tr>
<td>Core CC Cycle</td>
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<td>115</td>
<td>314</td>
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</tr>
<tr>
<td>Myntra</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Inventory days</td>
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<td>69</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>Receivables days</td>
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<td>90</td>
<td>64</td>
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<tr>
<td>Payables days</td>
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<td>95</td>
<td>89</td>
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<tr>
<td>Core CC Cycle</td>
<td>9</td>
<td>72</td>
<td>38</td>
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</table>

Source: Company, HSIE Research
Expect fixed asset turns (x) to rebound to FY20 levels by FY25 post a warehouse addition drive…

…ditto for its return profile

Nykaa’s capital allocation over FY18-22

<table>
<thead>
<tr>
<th>Sources of funds (INR bn)</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>Total</th>
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<tbody>
<tr>
<td>Cash from operations (excl WC change)</td>
<td>(94)</td>
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<td>847</td>
<td>1,771</td>
<td>1,110</td>
<td>3,921</td>
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<td>Other income</td>
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<td>1</td>
<td>36</td>
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<tr>
<td>Total</td>
<td>(94)</td>
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<td>848</td>
<td>1,807</td>
<td>1,275</td>
<td>4,124</td>
</tr>
<tr>
<td>Application of funds (Rs bn)</td>
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<td></td>
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<tr>
<td>Working capital</td>
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<td>405</td>
<td>5,371</td>
<td>8,333</td>
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<td>Capex</td>
<td>144</td>
<td>1,618</td>
<td>(888)</td>
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<td>2,759</td>
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<td>6,383</td>
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<td>Dividend</td>
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<tr>
<td>Borrowings</td>
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Source: Company, HSIE Research
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Source: Company, HSIE Research
Valuation

- Our DCF-based target price of INR 800/sh for Nykaa (implying 126x Sep-23 P/E) assumes: (1) 10-year revenue CAGR: 25%; (2) EBITDA margin expansion of ~1,140bps over FY22-32E; (3) FY23-42 FCFF CAGR: 17% (FY22-32: 21%; FY32-42: 13%); (4) WACC: 10.3%; (5) terminal growth: 6%, 10-year cumulative FCFF/EBITDA conversion of ~73% over FY23-33E.

### DCF valuation (INR mn)

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### Sensitivity Analysis

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<td>PV-Terminal Value</td>
<td>1,44,700</td>
</tr>
<tr>
<td></td>
<td>Enterprise Value (INR mn)</td>
<td>3,71,950</td>
</tr>
<tr>
<td></td>
<td>Equity Value (INR mn)</td>
<td>3,77,010</td>
</tr>
<tr>
<td></td>
<td>Equity value per share (INR)</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td>Sep-24 Implied P/E (x)</td>
<td>126</td>
</tr>
<tr>
<td></td>
<td>Sep-24 Implied EV/EBITDA (x)</td>
<td>114</td>
</tr>
<tr>
<td></td>
<td>Sep-24 Implied EV/Sales (x)</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>Sep-24 Implied EV/NSV (x)</td>
<td>4.6</td>
</tr>
<tr>
<td></td>
<td>Terminal growth rate (%)</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>WACC</td>
<td>10.3</td>
</tr>
<tr>
<td></td>
<td>Terminal FCF multiple (x)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>No. of shares (mn)</td>
<td>471.0</td>
</tr>
<tr>
<td></td>
<td>CMP</td>
<td>1,160</td>
</tr>
<tr>
<td></td>
<td>Upside/(Downside)</td>
<td>(31.0)</td>
</tr>
</tbody>
</table>
Company profile

Nykaa is India’s largest online beauty and cosmetics retailer. It was founded in 2012 by Falguni Nayar. Nykaa has a portfolio of beauty, personal care, and fashion products, including its own brand products and international products. It also launched physical stores in 2014. The two business verticals it focused on are:

Nykaa: BPC
Nykaa Fashion: Apparel and accessories.
Nykaa Others: EB2B, Nykaa Man, and other growth verticals.

Online channel: Its online channels include mobile applications, websites and mobile sites. As of 31 March 2022, Nykaa had cumulative downloads of 72.5mn (47.3 mn in BPC and 25.2 mn in Fashion Verticals) across all mobile applications and, during FY22, 88.9% of online GMV came through mobile applications.

Offline stores: Nykaa opened its first physical store in 2014 and, as of 31 March 2022, has 105 physical stores across 49 cities. Its physical stores currently exist in three formats—Nykaa Luxe, Nykaa On Trend, and Nykaa Kiosks.

- The company initially started with a focus on premium or luxury brands. Nykaa expanded its business by acquiring 20Dresses.com, a private women’s styling platform in May 2019. It launched its first celebrity partnership brand, Kay Beauty. It also acquired the Indian fashion jewelry brand Pipa Bella and the Indian skincare brand Dot & Key in 2021. In 2022, Nykaa acquired an 18.51% stake in skincare beauty brand Earth Rhythm.

### Key Risks

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retaining existing customer and maintaining AOV</td>
<td>The consumer base in BPC market is highly diverse. As a result, the needs and preferences vary. Consumer can be discount-driven, value sensitive, have different preferences and personal requirements, fashion styles or possess a strong preference for luxury high-end products. If the company fails to deliver relevant, engaging products it may fall behind in this important variable which could affect its business.</td>
</tr>
</tbody>
</table>
## Key personnel

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Falguni Nayar</td>
<td>Managing Director &amp; CEO</td>
<td>Mrs. Nayar holds a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad. She has over 26 years of experience in e-commerce, investment banking and broking. Prior to founding Nykaa, she was associated with Kotak Mahindra Capital Company Ltd for 18 years, where she also served as a Managing Director. She has won many awards, including 'EY Entrepreneur of the Year 2019 – Start-up' by Ernst and Young and 'Businessswoman of the Year' at the Economic Times Awards for Corporate Excellence, 2019.</td>
</tr>
<tr>
<td>Anchit Nayar</td>
<td>Executive Director</td>
<td>Mr Nayar is an Executive Director of the Company since 1 July 2021. He also serves as the chairman and chief executive officer of Nykaa E-Retail. He holds a bachelor’s degree from Columbia University. Anchit has previously served as the vice president of the Investment Banking Division at Morgan Stanley, New York. He is currently responsible for the beauty business and also serves as a member of the investor relations team. He joined FSN Brands in 2018 as the chief executive officer and has overseen the expansion of retail Nykaa stores. He was also the chief marketing officer of the Company for the period from May 31, 2020 to January 12, 2021.</td>
</tr>
<tr>
<td>Adwaita Nayar</td>
<td>Executive Director</td>
<td>Ms Nayar is an Executive Director of the company since 1 July 2021. She also serves as the chairman and chief executive officer of Nykaa Fashion. She co-founded the company and has been involved in the areas of marketing, operations and product development. She holds a bachelor’s degree in applied mathematics from the Yale University where she graduated Cum Laude and a master’s degree in business administration with distinction from the Harvard Business School. Post her academic pursuits, she re-joined FSN Brands in the year 2017 as chief executive officer in FSN Brands to create and strengthen the offline retail footprint of ‘Nykaa’. Since 2018, she has established the Nykaa Fashion’s business and currently oversees nykaafashion.com as well as many of the company’s owned &amp; partner brands.</td>
</tr>
<tr>
<td>Arvind Agarwal</td>
<td>CFO</td>
<td>Mr. Agarwal holds a bachelor’s degree in commerce from the Jai Narain Vyas University, Jodhpur. He has completed the senior management programme from the Indian Institute of Management, Ahmedabad. He is an associate member of the Institute of Chartered Accountants of India. He is a qualified company secretary from the Institute of Company Secretaries of India. He has over 21 years of experience in various fields, including accounting, finance, regulatory and strategic planning. Previously, he was associated with Amazon Seller Service Private Limited, Vodafone India Limited, Tata Teleservices Limited, YOU Telecom and Adani Port Limited. He joined the company on 1 June, 2020 as the CFO.</td>
</tr>
<tr>
<td>Nihir Parikh</td>
<td>CEO Nykaa Man</td>
<td>Mr. Parikh holds a bachelor’s degree in chemical engineering from University of Mumbai and a master’s degree in business administration from INSEAD. He has over 11 years of experience in technology and e-commerce sector. Previously, he was associated with Genentech Inc, USA, and GE Healthcare Pte. Ltd. He has been associated with the company since 6 May 2015.</td>
</tr>
<tr>
<td>Reena Chhabra</td>
<td>CEO of Private Label Division</td>
<td>Mrs. Chhabra holds a bachelor’s degree in arts (general) from Punjab University. She has more than 23 years of experience in the cosmetic industry and e-commerce sector. She was previously associated with Colorbar Cosmetics Private Limited, Hindustan Unilever Limited, Marico Industries Limited, Kodak India Limited, and Eli Lilly Ranbaxy Limited. She has been associated with FSN Brands since 9 May 2016.</td>
</tr>
<tr>
<td>Sanjay Suri</td>
<td>CTO, Nykaa E-Retail Pvt. Ltd</td>
<td>Mr. Suri holds a Bachelor of Arts degree in Mathematics (Honours) from St. Stephens College, University of Delhi and a Master of Science degree in Computer Science from University of California. He has over 14 years of experience in the technology sector. Previously, he was associated with TriVium India Software Private Limited, Ibibo Web Private Limited, Oracle India Private Limited, Info Edge (India) Limited and Amazon Software Development Centre (Bangalore) Private Limited. He has been associated with Nykaa since 17 August 2016.</td>
</tr>
<tr>
<td>Shalini Raghavan</td>
<td>Chief Marketing Officer</td>
<td>Mrs. Raghavan holds a bachelor of arts in economics from the University of Madras and a post graduate diploma in management in marketing from Bhavan’s SP Jain Institute of Management and Research, Mumbai. She has over 15 years of experience in the cosmetic industry, marketing and e-commerce. Previously, she was associated with L’Oreal India Private Limited, Hindustan Unilever Limited and Britannia Industries Limited. She has been associated with the Company since 12 January 2021.</td>
</tr>
<tr>
<td>Vikas Gupta</td>
<td>CEO of e-B2B business</td>
<td>Mr. Gupta holds a bachelor’s degree in mechanical engineering from the University of Delhi and a post-graduate diploma in management from the Indian Institute of Management Society, Lucknow. He has over 23 years of experience in marketing sector. Previously, he was associated with Flipkart Internet Private Limited and Unilever Indonesia. He has been associated with Nykaa since 3 May 2021.</td>
</tr>
<tr>
<td>Gopal Asthana</td>
<td>Chief Business Officer of Nykaa Fashion</td>
<td>Mr. Asthana holds a bachelor’s degree in electrical engineering from Rani Durgavati Vishwavidyalaya, Jabalpur and a post-graduate in management from the Indian School of Business. He is a member of the Council of Chartered Financial Analysts. He has completed the course on ‘Competitive Marketing Strategy &amp; Corporate Development: Mergers and Acquisitions’ from the Wharton School, University of Pennsylvania. He has over 22 years of experience in retail and e-commerce. Previously, he has been associated with Future Retail Limited, Shoppers Stop Limited. He has been associated with Nykaa Fashion since 11 November 2019.</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research
Annexure

Key Milestones

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Incorporation of FSN E-Commerce Ventures Private Limited.</td>
</tr>
<tr>
<td>2014</td>
<td>Opened its first physical store at T3 International Airport, New Delhi.</td>
</tr>
<tr>
<td>2015</td>
<td>Hosted the Nykaa.com Femina Beauty Awards.</td>
</tr>
<tr>
<td></td>
<td>Launched makeup and beauty accessories brand ‘Nykaa Cosmetics’.</td>
</tr>
<tr>
<td>2016</td>
<td>Estee Lauder Launched on Nykaa’s platform.</td>
</tr>
<tr>
<td></td>
<td>Launched naturally derived ingredients focused skincare brand ‘Nykaa Naturals’.</td>
</tr>
<tr>
<td>2018</td>
<td>Huda beauty Launched exclusively on Nykaa for the first time in India.</td>
</tr>
<tr>
<td></td>
<td>Launched ‘Nykaa Fashion’ as curated and managed marketplace.</td>
</tr>
<tr>
<td></td>
<td>Entered into an agreement with Katrina Kaif to launch ‘Kay Beauty’</td>
</tr>
<tr>
<td>2019</td>
<td>Launched beauty range ‘Masaba by Nykaa’ in collaboration with Masaba Gupta.</td>
</tr>
<tr>
<td></td>
<td>Collaborated with Vogue India to present ‘The Vogue x Nykaa Fashion: Power List 2019’</td>
</tr>
<tr>
<td></td>
<td>Acquired the clothing brand ‘20 Dresses’.</td>
</tr>
<tr>
<td>2020</td>
<td>Launched own intimate wear brand ‘Nykd by Nykaa’.</td>
</tr>
<tr>
<td></td>
<td>Charlotte Tilbury Launched exclusively on Nykaa.</td>
</tr>
<tr>
<td>2021</td>
<td>Opened Nykaa Fashion Store in Ambience Mall, New Delhi.</td>
</tr>
<tr>
<td></td>
<td>Acquired the jewellery brand ‘Pipa Bella’.</td>
</tr>
<tr>
<td></td>
<td>Launched first MBO Store for Nykaa Fashion.</td>
</tr>
<tr>
<td></td>
<td>Launched ‘The Global Store’.</td>
</tr>
</tbody>
</table>

Key subsidiaries

<table>
<thead>
<tr>
<th>Subsidiaries</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSN Brands Marketing Private Limited</td>
<td>FSN Brands Marketing Pvt. Ltd. is engaged in beauty and cosmetics products retailing under the brand name Nykaa. It offers body lotions, skin cleansers, hair oils, body scrubs, aloe vera gels for skin, moisturizers, body scrubs, etc. The company was incorporated in 2015 and is based in Mumbai, Maharashtra. FSN Brands Marketing Pvt. Ltd. operates as a wholly-owned subsidiary of FSN E-Commerce Ventures Pvt. Ltd.</td>
</tr>
<tr>
<td>Nykaa E-Retail Private Limited</td>
<td>Nykaa E-Retail Pvt. Ltd. owns and operates an e-commerce platform nykaa.com for providing personal care products. Its products include makeup kits, skincare, hair products, appliances, personal care, natural, mom and baby, wellness, men’s products and fragrances. It offers products of brands like Maybelline, Lakme, L’Oreal, Biotique, The Face Shop, Nivea, Olay, Kay, Neutrogena, Murad, etc. The company was incorporated in 2017 and is based in Mumbai, Maharashtra. Nykaa E-Retail Pvt. Ltd. operates as a subsidiary of FSN E-Commerce Ventures.</td>
</tr>
<tr>
<td>Nykaa-KK Beauty Private Limited</td>
<td>Nykaa-KK Beauty Pvt. Ltd. is engaged in the manufacturing and supplying of personal care products. The company offers products such as makeup, skin products, hair products, personal care, appliances, mom and baby, wellness, fragrance, natural and luxe. It also offers its products using its e-commerce platform. The company was incorporated in 2018 and is based in Mumbai, Maharashtra.</td>
</tr>
<tr>
<td>Nykaa Fashion Private Limited</td>
<td>Nykaa Fashion Pvt. Ltd. owns and operates an apparel retailer platform. It offers western wear, Indian wear, bags, shoes, jewellery, lingerie, accessories, kids, men, and luxe accessories. The company was incorporated in 2019 and it is based in Mumbai, Maharashtra. Nykaa Fashion Pvt. Ltd. operates as a subsidiary of Nykaa E-Retail Pvt. Ltd.</td>
</tr>
<tr>
<td>FSN Distribution Private Limited (w.e.f. 30 July 2021)</td>
<td>It is involved in other wholesale (including specialised wholesale not covered in any one of the previous categories and wholesale in a variety of goods without any particular specialisation).</td>
</tr>
<tr>
<td>FSN International Private Limited</td>
<td>It is involved in non-specialised retail trade in stores.</td>
</tr>
<tr>
<td>Dot and Key Wellness Pvt. Ltd.</td>
<td>Dot and Key Wellness Pvt. Ltd. (formerly known as Dot and Key Wellness LLP) is engaged in the manufacturing and retailing of personal care products. It offers skincare hydrating creams, sunscreen lotions, facial serums, skin hydration creams, etc. It also offers online retailing of its products. The company was founded in 2018 and is based in Kolkata, West Bengal. Dot and Key Wellness Pvt. Ltd. operates as a subsidiary of FSN E-Commerce Ventures Ltd.</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research
## Financials

### Income Statement

<table>
<thead>
<tr>
<th>Year End (March)</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenues</td>
<td>5,560</td>
<td>11,114</td>
<td>17,675</td>
<td>24,409</td>
<td>37,739</td>
<td>51,426</td>
<td>69,757</td>
<td>92,564</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>99.9</td>
<td>59.0</td>
<td>38.1</td>
<td>54.6</td>
<td>36.3</td>
<td>35.6</td>
<td>32.7</td>
<td>32.7</td>
</tr>
<tr>
<td>Material Expenses</td>
<td>3,808</td>
<td>6,603</td>
<td>10,142</td>
<td>14,926</td>
<td>21,300</td>
<td>28,863</td>
<td>38,885</td>
<td>51,285</td>
</tr>
<tr>
<td>A&amp;P Expense</td>
<td>669</td>
<td>1,428</td>
<td>2,022</td>
<td>1,695</td>
<td>4,781</td>
<td>6,495</td>
<td>8,629</td>
<td>11,184</td>
</tr>
<tr>
<td>Fulfilment expenses</td>
<td>493</td>
<td>1,074</td>
<td>1,730</td>
<td>2,177</td>
<td>3,956</td>
<td>4,741</td>
<td>6,083</td>
<td>7,807</td>
</tr>
<tr>
<td>Employee Expense</td>
<td>388</td>
<td>1,173</td>
<td>1,956</td>
<td>2,330</td>
<td>3,259</td>
<td>4,491</td>
<td>6,093</td>
<td>8,050</td>
</tr>
<tr>
<td>Rent Expenses</td>
<td>31</td>
<td>24</td>
<td>66</td>
<td>83</td>
<td>106</td>
<td>145</td>
<td>279</td>
<td>370</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>265</td>
<td>607</td>
<td>949</td>
<td>1,632</td>
<td>2,704</td>
<td>3,649</td>
<td>5,175</td>
<td>6,481</td>
</tr>
<tr>
<td>EBITDA (94)</td>
<td>205</td>
<td>811</td>
<td>1,567</td>
<td>1,633</td>
<td>3,043</td>
<td>4,612</td>
<td>7,386</td>
<td></td>
</tr>
<tr>
<td>EBITDA Growth (%)</td>
<td>(317.3)</td>
<td>295.2</td>
<td>93.3</td>
<td>4.2</td>
<td>86.4</td>
<td>51.6</td>
<td>60.1</td>
<td></td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>(1.7)</td>
<td>1.8</td>
<td>4.6</td>
<td>6.4</td>
<td>4.3</td>
<td>5.9</td>
<td>6.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>57</td>
<td>309</td>
<td>595</td>
<td>716</td>
<td>964</td>
<td>1,281</td>
<td>1,680</td>
<td>1,726</td>
</tr>
<tr>
<td>EBIT (151)</td>
<td>(104)</td>
<td>215</td>
<td>851</td>
<td>668</td>
<td>1,762</td>
<td>2,932</td>
<td>5,660</td>
<td></td>
</tr>
<tr>
<td>Other Income (Including EO Items)</td>
<td>0</td>
<td>50</td>
<td>103</td>
<td>118</td>
<td>270</td>
<td>391</td>
<td>617</td>
<td>717</td>
</tr>
<tr>
<td>Interest</td>
<td>83</td>
<td>263</td>
<td>443</td>
<td>307</td>
<td>465</td>
<td>641</td>
<td>850</td>
<td>1,061</td>
</tr>
<tr>
<td>PBT (234)</td>
<td>(317)</td>
<td>(124)</td>
<td>661</td>
<td>473</td>
<td>1,512</td>
<td>2,699</td>
<td>5,317</td>
<td></td>
</tr>
<tr>
<td>Total Tax (57)</td>
<td>72</td>
<td>39</td>
<td>45</td>
<td>60</td>
<td>302</td>
<td>679</td>
<td>1,338</td>
<td></td>
</tr>
<tr>
<td>PAT before share of associate earnings (177)</td>
<td>(245)</td>
<td>(163)</td>
<td>616</td>
<td>413</td>
<td>1,209</td>
<td>2,020</td>
<td>3,978</td>
<td></td>
</tr>
<tr>
<td>Share of associate earnings (177)</td>
<td>(245)</td>
<td>(163)</td>
<td>616</td>
<td>413</td>
<td>1,209</td>
<td>2,020</td>
<td>3,978</td>
<td></td>
</tr>
<tr>
<td>RPAT (177)</td>
<td>245</td>
<td>163</td>
<td>616</td>
<td>413</td>
<td>1,209</td>
<td>2,020</td>
<td>3,978</td>
<td></td>
</tr>
<tr>
<td>Exceptional Gain/(loss)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted PAT (177)</td>
<td>(245)</td>
<td>(163)</td>
<td>616</td>
<td>413</td>
<td>1,209</td>
<td>2,020</td>
<td>3,978</td>
<td></td>
</tr>
<tr>
<td>APAT Growth (%)</td>
<td>38.6</td>
<td>33.4</td>
<td>(477.3)</td>
<td>(33.0)</td>
<td>192.9</td>
<td>67.0</td>
<td>97.0</td>
<td></td>
</tr>
<tr>
<td>Adjusted EPS (Rs) (0.4)</td>
<td>(0.5)</td>
<td>(0.3)</td>
<td>1.3</td>
<td>0.9</td>
<td>2.6</td>
<td>4.3</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>EPS Growth (%)</td>
<td>38.6</td>
<td>(33.4)</td>
<td>(477.3)</td>
<td>(33.0)</td>
<td>192.9</td>
<td>67.0</td>
<td>97.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research

### Balance Sheet

<table>
<thead>
<tr>
<th>Year End (March)</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Block</td>
<td>203</td>
<td>535</td>
<td>841</td>
<td>921</td>
<td>2,032</td>
<td>2,370</td>
<td>2,616</td>
<td>2,785</td>
</tr>
<tr>
<td>CWIP</td>
<td>-</td>
<td>3</td>
<td>8</td>
<td>20</td>
<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Other Non-current Assets</td>
<td>57</td>
<td>1,489</td>
<td>2,097</td>
<td>2,274</td>
<td>4,342</td>
<td>6,108</td>
<td>7,875</td>
<td>9,641</td>
</tr>
<tr>
<td>Total Non-current Assets</td>
<td>260</td>
<td>2,028</td>
<td>2,946</td>
<td>3,215</td>
<td>6,471</td>
<td>8,576</td>
<td>10,589</td>
<td>12,524</td>
</tr>
<tr>
<td>Inventories</td>
<td>946</td>
<td>2,446</td>
<td>4,453</td>
<td>4,981</td>
<td>8,756</td>
<td>11,227</td>
<td>14,656</td>
<td>18,941</td>
</tr>
<tr>
<td>Debtors</td>
<td>677</td>
<td>579</td>
<td>984</td>
<td>766</td>
<td>945</td>
<td>1,570</td>
<td>1,919</td>
<td>2,547</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>303</td>
<td>1,202</td>
<td>1,067</td>
<td>1,568</td>
<td>7,617</td>
<td>4,837</td>
<td>5,568</td>
<td>6,070</td>
</tr>
<tr>
<td>Cash &amp; Equivalents</td>
<td>17</td>
<td>1,502</td>
<td>1,794</td>
<td>2,490</td>
<td>2,670</td>
<td>8,390</td>
<td>8,942</td>
<td>11,367</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>1,943</td>
<td>5,729</td>
<td>8,299</td>
<td>9,085</td>
<td>19,989</td>
<td>26,025</td>
<td>31,085</td>
<td>38,924</td>
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<td>787</td>
<td>1,818</td>
<td>3,133</td>
<td>3,162</td>
<td>3,621</td>
<td>4,854</td>
<td>11,371</td>
<td>14,962</td>
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<td>Other Current Liabilities &amp; Provns</td>
<td>455</td>
<td>249</td>
<td>265</td>
<td>526</td>
<td>548</td>
<td>791</td>
<td>1,072</td>
<td>1,423</td>
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<tr>
<td>Total Current Liabilities</td>
<td>1,242</td>
<td>2,067</td>
<td>3,418</td>
<td>3,688</td>
<td>4,168</td>
<td>9,244</td>
<td>12,444</td>
<td>16,386</td>
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<tr>
<td>Net Current Assets</td>
<td>701</td>
<td>3,662</td>
<td>4,881</td>
<td>6,117</td>
<td>15,821</td>
<td>16,780</td>
<td>18,641</td>
<td>22,539</td>
</tr>
<tr>
<td>TOTAL APPLICATION OF FUNDS</td>
<td>960</td>
<td>5,690</td>
<td>7,827</td>
<td>9,332</td>
<td>22,292</td>
<td>25,356</td>
<td>29,230</td>
<td>35,063</td>
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Source: Company, HSIE Research
## Cash Flow Statement

<table>
<thead>
<tr>
<th>Year ending March</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported PBT</td>
<td>(234)</td>
<td>(317)</td>
<td>(124)</td>
<td>753</td>
<td>473</td>
<td>1,512</td>
<td>2,699</td>
<td>5,317</td>
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<tr>
<td>Non-operating &amp; EO Items</td>
<td>0</td>
<td>32</td>
<td>(24)</td>
<td>172</td>
<td>58</td>
<td>(391)</td>
<td>(617)</td>
<td>(717)</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>83</td>
<td>263</td>
<td>443</td>
<td>307</td>
<td>465</td>
<td>641</td>
<td>850</td>
<td>1,061</td>
</tr>
<tr>
<td>Depreciation</td>
<td>57</td>
<td>309</td>
<td>595</td>
<td>671</td>
<td>835</td>
<td>1,281</td>
<td>1,680</td>
<td>1,726</td>
</tr>
<tr>
<td>Working Capital Change</td>
<td>(445)</td>
<td>(1,284)</td>
<td>(786)</td>
<td>(273)</td>
<td>(4,649)</td>
<td>(4,760)</td>
<td>(1,309)</td>
<td>(1,472)</td>
</tr>
<tr>
<td>Tax Paid</td>
<td>-</td>
<td>-</td>
<td>(43)</td>
<td>(132)</td>
<td>(722)</td>
<td>(302)</td>
<td>(679)</td>
<td>(1,336)</td>
</tr>
<tr>
<td>OPERATING CASH FLOW (a)</td>
<td>(539)</td>
<td>(997)</td>
<td>62</td>
<td>1,498</td>
<td>(3,540)</td>
<td>7,501</td>
<td>2,624</td>
<td>4,576</td>
</tr>
<tr>
<td>Capex</td>
<td>(144)</td>
<td>(1,618)</td>
<td>888</td>
<td>(437)</td>
<td>(1,448)</td>
<td>(870)</td>
<td>(915)</td>
<td>(964)</td>
</tr>
<tr>
<td>Free Cash Flow (FCF)</td>
<td>(683)</td>
<td>(2,615)</td>
<td>949</td>
<td>1,062</td>
<td>(4,988)</td>
<td>6,631</td>
<td>1,709</td>
<td>3,612</td>
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<tr>
<td>Investments</td>
<td>-</td>
<td>(2)</td>
<td>(739)</td>
<td>(897)</td>
<td>(4,746)</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Non-operating Income</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>36</td>
<td>166</td>
<td>391</td>
<td>617</td>
<td>717</td>
</tr>
<tr>
<td>INVESTING CASH FLOW (b)</td>
<td>(144)</td>
<td>(1,620)</td>
<td>149</td>
<td>(1,297)</td>
<td>(6,028)</td>
<td>(479)</td>
<td>(298)</td>
<td>(246)</td>
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<td>Debt Issuance/(Repaid)</td>
<td>693</td>
<td>2,562</td>
<td>1,153</td>
<td>46</td>
<td>1,195</td>
<td>(641)</td>
<td>(850)</td>
<td>(1,061)</td>
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<tr>
<td>FCFE</td>
<td>10</td>
<td>(54)</td>
<td>2,103</td>
<td>1,107</td>
<td>(3,703)</td>
<td>5,990</td>
<td>859</td>
<td>2,552</td>
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<td>Share Capital Issuance</td>
<td>-</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>8,727</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Dividend</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Others</td>
<td>-</td>
<td>(211)</td>
<td>(471)</td>
<td>(429)</td>
<td>(652)</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>FINANCING CASH FLOW (c)</td>
<td>693</td>
<td>2,357</td>
<td>687</td>
<td>(377)</td>
<td>9,270</td>
<td>(641)</td>
<td>(850)</td>
<td>(1,061)</td>
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<tr>
<td>NET CASH FLOW (a+b+c)</td>
<td>10</td>
<td>(260)</td>
<td>898</td>
<td>(176)</td>
<td>(297)</td>
<td>6,381</td>
<td>1,476</td>
<td>3,269</td>
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<tr>
<td>EO Items, Others</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing Cash &amp; Equivalents</td>
<td>17</td>
<td>119</td>
<td>1,756</td>
<td>2,477</td>
<td>2,670</td>
<td>8,390</td>
<td>8,942</td>
<td>11,367</td>
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</table>

Source: Company, HSIE Research

## Key Ratios

<table>
<thead>
<tr>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
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<tbody>
<tr>
<td>PROFITABILITY (%)</td>
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<tr>
<td>GPM</td>
<td>31.5</td>
<td>40.6</td>
<td>42.6</td>
<td>38.9</td>
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<td>43.9</td>
<td>44.3</td>
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<td>EBITDA Margin</td>
<td>(1.7)</td>
<td>1.8</td>
<td>4.6</td>
<td>6.4</td>
<td>4.3</td>
<td>5.9</td>
<td>6.6</td>
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<td>EBIT Margin</td>
<td>(2.7)</td>
<td>(0.9)</td>
<td>1.2</td>
<td>3.5</td>
<td>1.8</td>
<td>3.4</td>
<td>4.2</td>
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<td>APAT Margin</td>
<td>(3.2)</td>
<td>(2.2)</td>
<td>(0.9)</td>
<td>2.5</td>
<td>1.1</td>
<td>2.4</td>
<td>2.9</td>
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<td>RoE</td>
<td>(784.4)</td>
<td>(21.9)</td>
<td>(5.9)</td>
<td>15.2</td>
<td>4.5</td>
<td>8.6</td>
<td>12.9</td>
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<td>RoIC (or Core RoCE)</td>
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<td>(3.1)</td>
<td>5.5</td>
<td>12.3</td>
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<td>7.7</td>
<td>11.8</td>
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<td>RoCE</td>
<td>(17.3)</td>
<td>(1.3)</td>
<td>6.2</td>
<td>10.5</td>
<td>5.2</td>
<td>7.2</td>
<td>9.7</td>
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<td>Tax Rate (%)</td>
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<td>22.6</td>
<td>(31.5)</td>
<td>6.8</td>
<td>12.7</td>
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<tr>
<td>Total Asset Turnover (x)</td>
<td>5.9</td>
<td>2.7</td>
<td>2.9</td>
<td>3.6</td>
<td>1.9</td>
<td>3.0</td>
<td>3.4</td>
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<td>Fixed Asset Turnover (x)</td>
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<td>Inventory (days)</td>
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<td>11.1</td>
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<td>5.6</td>
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<td>Cash Conversion Cycle (days)</td>
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<td>70.9</td>
<td>63.7</td>
<td>54.2</td>
<td>127.2</td>
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<td>Net D/E (x)</td>
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<td>0.3</td>
<td>(0.1)</td>
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<td>(0.3)</td>
<td>(0.3)</td>
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<td>Interest Coverage (x)</td>
<td>(1.8)</td>
<td>(0.4)</td>
<td>0.5</td>
<td>2.8</td>
<td>1.4</td>
<td>2.7</td>
<td>3.4</td>
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<td>(0.4)</td>
<td>(0.5)</td>
<td>(0.3)</td>
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<td>2.6</td>
<td>4.3</td>
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<td>1.0</td>
<td>2.9</td>
<td>2.9</td>
<td>5.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Dividend</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Book Value</td>
<td>(0.2)</td>
<td>5.4</td>
<td>7.1</td>
<td>10.6</td>
<td>28.4</td>
<td>31.0</td>
<td>35.3</td>
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<td>P/E (x)</td>
<td>(3,017)</td>
<td>(2,178)</td>
<td>(3,270)</td>
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<td>1,294</td>
<td>442</td>
<td>265</td>
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<tr>
<td>P/BV (x)</td>
<td>(7,292)</td>
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<td>159</td>
<td>107</td>
<td>40</td>
<td>37</td>
<td>32</td>
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<td>EV/EBITDA (x)</td>
<td>(5,668.2)</td>
<td>2,608.3</td>
<td>660.0</td>
<td>341.5</td>
<td>327.7</td>
<td>175.8</td>
<td>116.0</td>
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<td>EV/Revenues (x)</td>
<td>95.2</td>
<td>47.6</td>
<td>29.9</td>
<td>21.7</td>
<td>14.0</td>
<td>10.3</td>
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<td>OCF/EV (%)</td>
<td>(0.1)</td>
<td>(0.2)</td>
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<td>0.3</td>
<td>(0.7)</td>
<td>1.4</td>
<td>0.5</td>
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<tr>
<td>FCF/EV (%)</td>
<td>(0.1)</td>
<td>(0.5)</td>
<td>0.2</td>
<td>0.2</td>
<td>(0.9)</td>
<td>1.2</td>
<td>0.3</td>
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<tr>
<td>FCFE/Mkt Cap (%)</td>
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<td>(0.0)</td>
<td>0.4</td>
<td>0.2</td>
<td>(0.7)</td>
<td>1.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Dividend Yield (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research, NOTE: EBITDAM (%) are on post IND-AS 116 basis
1 Yr Price Movement

Rating Criteria
BUY:    >+15% return potential
ADD:    +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL:   >10% Downside return potential
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