

Details of the Issue

Price Band	₹ 1085 - ₹ 1125
Issue Size	₹ 5,351 Cr
Opening Date	Oct 28, 2021
Closing Date	Nov 1, 2021
Face Value	₹10
Bid Lot	12
Listing on	BSE, NSE

Objects of the Issue

Investment in subsidiaries
Capex towards Nykaa E-Retail, Nykaa Fashion and FSN Brands
Repayment or prepayment of borrowings
Investments in marketing

Lead Managers

BofA Securities India Limited
Citigroup Global Markets India Private Limited
ICICI Securities Limited
JM Financial Consultants Private Limited
Kotak Mahindra Capital Company Limited
Morgan Stanley India Company Pvt Ltd

Registrar

Link Intime India Private Ltd

Investment Details

No. of shares at cut-off	168
Max. Amount to be paid	₹ 1,89,000

Offer Details

Fresh Issue	₹ 630 cr
OFS	₹ 4,722 cr

Company Background

FSN E-Commerce Ventures Limited ("Nykaa") was incorporated on April 24, 2012. Nykaa is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. They have a diverse portfolio of beauty, personal care and fashion products, including their owned brand products manufactured by them.

Distribution Channels -

- ✓ **Online:** 88.2% of their online GMV came through mobile applications; Nykaa has have one of the highest share of mobile application-led transactions, among the leading online retail platforms in India during FY21
- ✓ **Offline:** Their offline channel comprises of 80 physical stores across 40 cities in India over different store formats as of August 31, 2021. Their physical stores currently exist in 3 formats, Nykaa Luxe, Nykaa On Trend and Nykaa Kiosks

Business Verticals -

- ✓ **Nykaa:** Beauty and personal care
- ✓ **Nykaa Fashion:** Apparel and accessories



Fig. Nykaa platform and its stakeholders

As of August 31, 2021, they offered approximately 3.1 million SKUs from 4,078 national and international brands to consumers across business verticals. In the FY21, the total GMV was ₹40,459.8 million, which grew 50.7% from the FY20. They have entered into manufacturing agreements with several manufacturers in India, for the manufacture of such products which are sold under their owned brands such as "Nykaa Cosmetics", "Nykaa Naturals" and "Kay Beauty". Their owned brands are available on their online and offline channels, as well as for certain brands at third party retailers.

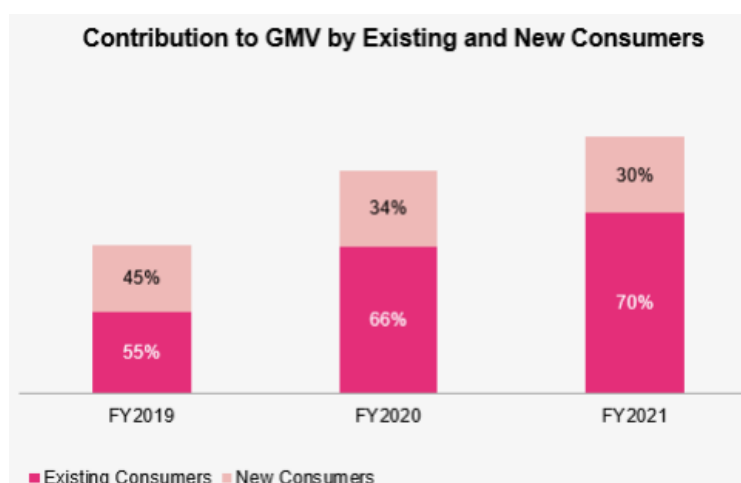
Nykaa Fashion - The average value of orders on Nykaa Fashion mobile application and website was ₹3,977 for the 5 months ended August 31, 2021. The average value of orders on the Nykaa Fashion mobile application and website is the highest among leading online fashion retail platforms in India. Nykaa Fashion also has 7 owned brands. These owned brands are available on their online channel and at one physical store, and at third party retailers for many brands.

Promoters - Falguni Nayar, Sanjay Nayar, Falguni Nayar Family Trust and Sanjay Nayar Family Trust

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Growing New Customer Base -



Strengths & Strategies

Content-first approach to retailing

Nykaa is one of the first online retail platforms in India to drive widespread product and influencer-led education through creative and entertaining content across video and written formats. Their in-house content made by Nykaa Army, captures the latest trends, helps ideate and create beauty regimes and outfits and provides insights on various brands available on their platform.

Examples - Explore, launched in 2020, is their in-app content aggregation hub. It is a “watch and buy” feature that enables a consumer to watch content and shop for the products featured in that content in real-time. Nykaa has created peer-to-peer social community called the Nykaa Network. Nykaa Network is India’s first interactive beauty forum to reach a scale of 3.6 million members as of August 31, 2021, where members can chat with other beauty enthusiasts, ask and answer beauty-related questions, give and seek advice, discover trends and join beauty-centric conversations on topics of their interest.

Deep, symbiotic relationship with brands

The company value their brand relationships, and have a team of brand managers who work closely with brands to strategize and execute growth and brand building strategies. They view themselves as brand custodians and apply a client-servicing mindset to their interactions with brands to ensure they are building long-term strategic relationships.

Example - They advise their brands on pricing and commercial strategies including discounting, sampling, gifting and couponing to meet consumer demand while respecting the brand’s desired positioning in the market.

Diverse portfolio of owned brands

Nykaa has crafted a portfolio of 15 owned brands. Their owned brands play a key role in increasing the assortment of products for their consumers. Many of their owned brands have a high recall and function as independent brands. The manufacturing for such brands is carried out by third party vendors.

Comprehensive assortment and focus on curation and merchandising

Nykaa seeks to strike a balance between the breadth and relevance of the assortment of offerings on their platform. Their lifestyle product portfolio spanned across 4,078 brands and approximately 3.1 million SKUs as of August 31, 2021, developed to cater to the varying needs of their diverse consumer base. As part of their merchandising and curation strategy, they focus on market fit for products offered, ongoing demand and consumer trends.

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The company leverages their Omni-channel database of consumers to select store locations, design brand and assortment mix, direct traffic to their stores, plan offline beauty events and marketing campaigns, and create an experiential based, educational and personalized shopping experience.

As of August 31, 2021, they operated 80 physical stores in 40 cities of India across 3 formats:

- ✓ Nykaa Luxe: The Nykaa Luxe store format offers a luxury beauty experience. The format showcases prestige and luxury international and domestic brands.
- ✓ Nykaa On-Trend: The Nykaa On-Trend stores offer a differentiated experience for the consumers with the current best-selling products chosen across beauty and personal care brands.
- ✓ Nykaa Kiosks: The Nykaa Kiosks are free standing units usually in the atriums of shopping malls. The company predominantly sells their owned brands through these kiosks

Further expand Omni-channel capabilities

Nykaa aims to invest further towards expansion of their physical store network to serve more consumers across the country with their Omni-channel experience. As an extension of their Omni-channel capabilities, they commenced Nykaa PRO, a membership-based program for beauty professionals and makeup artists. They are also conducting trials of SuperStore, an online channel with a separate mobile application for standalone local retailers in India to offer them select beauty and personal care products to offer to their consumers.

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Valuation & Recommendation

Unlike its competitors, Nykaa has taken the conversation away from discounts and liquidation and more towards brand building of their vendors through content about the quality and use of the products, creating a sustainable market place for long term synergistic relationships with the suppliers.

Nykaa also enjoys a healthy average order value (₹ 1,886 for BPC and ₹3,197 for fashion for 5M FY22) - which is almost double than the industry average. This helps keep fulfilment costs to less than 10% of revenues. As existing customers contribute 70% to the GMV, marketing costs also come down on a y-o-y basis, leading to margin expansion of around 200 bps to 6.6% in FY21.

There remains a large untapped market opportunity for organized retail in Tier 2 and 3 cities, which Nykaa is putting more efforts into.

We recommend a subscribe rating to the issue.

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Operating Metrics

Particulars	5MFY22		FY21		FY20		FY19	
	BPC	Fashion	BPC	Fashion	BPC	Fashion	BPC	Fashion
No. of Visits (No. in Cr)	36.96	17.73	65.89	17.21	57.47	3.78	37.80	0.01
Monthly Average Unique Visitors (No. in Cr)	2.03	1.47	1.35	0.58	1.22	0.17	0.91	-
Annual Unique Transacting Consumers(Cr)	0.71	0.12	0.56	0.06	0.53	0.01	0.35	-
Orders (No. in Cr)	1.02	0.21	1.71	0.24	1.70	0.11	1.10	0.04
Average Order Value (AOV)	1,886.00	3,197.00	1,963.00	2,739.00	1,448.00	1,604.00	1,433.00	655.00
Gross Merchandise Value (GMV) (₹ in Cr)	1,931.63	689.73	3,380.00	665.57	2,498.14	186.78	1,621.92	28.16

Financial Snapshot

Particulars	Q1FY22	Q1FY21	FY21	FY20	FY19
Equity Share Capital	15.48	14.7	15.06	14.55	14.24
Reserves	683.41	339.31	474.88	307.6	216.32
Net worth as stated	698.89	354.01	489.94	322.15	230.56
Revenue from Operations	816.99	288.64	2440.9	1767.53	1111.39
EBITDA as stated	26.94	-45.34	161.43	81.06	20.51
EBITDA Margin (%) as stated	3.30%	-15.71%	6.61%	4.59%	1.85%
Profit/Loss Before Tax	3.15	-66.23	75.34	-12.43	-31.72
Net Profit for the period	3.52	-54.51	61.95	-16.34	-24.54
Net Profit (%) as stated	0.43%	-18.88%	2.54%	-0.92%	-2.21%
EPS-Basic (₹)	0.08	-1.23	1.39	-0.39	-0.59
NAV-Basic (₹)	15.47	8.06	11	7.52	5.55

(in Rs cr except per share data)

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NOTES

GEPL CAPITAL Pvt Ltd (formerly known as Gupta Equities Pvt. Ltd.)
Head Office: D-21/22 Dhanraj mahal, CSM Marg, Colaba, Mumbai 400001
Reg. Office : 922-C, P.J. Towers, Dalal Street, Fort, Mumbai 400001

Associate Analyst - Gaurav Hinduja
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