

## FSN E-Commerce (Nykaa) LIMITED

Nykaa is a consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. The company has a diverse portfolio of beauty, personal care, and fashion products, including their own brand products manufactured by them. The company has an Omnichannel experience, online and offline with an endeavor to cater to the consumers' preferences and convenience. The different consumer journeys exist in two business verticals, Nykaa- Beauty and personal care and Nykaa fashion – Apparel and accessories. Nykaa provides its customers with a wide variety of products and as of 31st Aug, 2021, Nykaa offered approximately 3.1 million SKUs from 4,078 national and international brands to their consumers.

**Positives:** (a) One of India's leading specialty beauty and personal care companies. (b) Major brands offering their products on Nykaa's platform for sale. (c) Company's advanced technology platform (d) Founder-led company with an experienced management team.

**Investment concerns:** (a) Fail to acquire new consumers in a cost-effective manner. (b) Business depends on the growth of online commerce industry in India & company ability to leverage technology platform. (c) Business incurred losses in past which may impact value of equity shares. (d) Changing digital or business regulation in India.

**Outlook & Valuation:** The IPO is being valued at price/sales of 21.0-21.8x FY2021 revenues of ₹2,441 crore. The company has also posted strong revenue CAGR of 48.2% between FY2019-20 despite the Covid crisis and register a profit in FY2021. While valuations may appear to be expensive on a P/E basis Nykaa is one of the very few profitable Unicorns in India and we believe that the company is well positioned to benefit from the exponential growth in the online beauty and fashion retailing business over the next decade. Hence we believe that that the valuations are justified and hence we recommend **SUBSCRIBE** to the issue.

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	1,111	1,768	2,441
% chg	-	59.0	38.1
<b>Net Profit</b>	-25	-16	62
% chg	-	-33.4	-479.1
EBITDA (%)	1.8	4.6	6.6
<b>EPS (Rs)</b>	(0.5)	(0.3)	1.3
P/E (x)	-	-	848.7
P/BV (x)	228.0	163.2	107.3
ROE (%)	(10.6)	(5.1)	12.6
ROCE (%)	(1.9)	3.0	11.9
EV/Sales	48.1	30.2	21.8

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

## SUBSCRIBE

Issue Open: Oct 28, 2021  
Issue Close: Nov 01, 2021

### Issue Details

Face Value: ₹1

Present Eq. Paid up Capital: ₹46.7 cr

Offer for Sale: ₹4721.92 cr

Fresh issue: ₹630 cr

Post Eq. Paid up Capital: ₹47.3 cr

Issue size (amount): ₹5,351.92 cr

Price Band: ₹1085-1125

Lot Size: 12 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹51,312 cr - \*\* ₹53,204 cr

Promoters holding Pre-Issue: 54.22%

Promoters holding Post-Issue: 52.56%

\* Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

### Post Issue Shareholding Pattern

Promoters	52.6%
Others	47.4%

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## Company background

Company was incorporated as 'FSN E-Commerce Ventures Private Limited' on April 24, 2012. The company was promoted by Falguni Nayar, Sanjay Nayar, Falguni Nayar Family Trust, and Sanjay Nayar Family Trust. It is digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. Company has invested both capital and creative energy towards designing a differentiated journey of brand discovery for its consumers.

## Issue details

The issue comprises of offer for sale of upto ₹4721.92 crore and Fresh issue of ₹630Cr in the price band of ₹1085-1125.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	253,365,357	54.2	248,565,357	52.6
Public	213,959,193	45.8	224,359,193	47.4
<b>Total</b>	<b>467,324,550</b>	<b>100.0</b>	<b>472,924,550</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- Investment of ₹42 Cr in their subsidiaries, namely, FSN Brands and / or Nykaa Fashion for funding the set-up of new retail stores.
- Capital expenditure of ₹42 Cr to be incurred by the company and of their subsidiaries, namely, Nykaa E-Retail, Nykaa Fashion and FSN Brands for funding the set-up of new warehouses.
- Repayment or prepayment of outstanding borrowings availed by company and its Subsidiaries, namely, Nykaa E-Retail amounting to ₹156 Cr.
- Expenditure to acquire and retain customers by enhancing the visibility and awareness of our brands for 234 Cr.
- General corporate purpose.

## Key Management Personnel

**Falguni Nayar** is the Founder, Executive Chairperson & Managing Director and Chief Executive Officer of the company. She has over 26 years of experience in e-commerce, investment banking and broking. Prior to founding the company, she was associated with Kotak Mahindra Capital Co Ltd for 18 years where she also served as a managing director.

**Sanjay Nayar** is a Non-Executive Director of the Company. He has over 35 years of experience in the banking, and private equity. He was associated with Citibank N.A. for over 23 years, where he also served as the as chief executive officer of the bank in India over six years.

**Adwaita Nayar** is an Executive Director of the Company, since July 1, 2021. She also serves as the chairperson 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.

**Exhibit 1: Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
<b>Total operating income</b>	1,111.4	1,767.5	2,440.9	817.0
% chg	-	59.0	38.1	183.0
<b>Total Expenditure</b>	1,090.9	1,686.5	2,279.5	790.1
Cost of material consumed	0.2	17.3	38.2	22.9
Purchase of traded goods	785.2	1,178.7	1,495.6	550.9
Changes in finished goods and stock-in-trade	-125.2	-181.9	-46.0	-88.5
Employee benefits expense	117.3	195.6	283.6	88.5
Other expenses	313.3	476.7	508.0	216.3
<b>EBITDA</b>	20.5	81.1	161.4	26.9
% chg	-	295.2	99.2	-159.4
(% of Net Sales)	1.8	4.6	6.6	3.3
Depreciation & Amortisation	30.9	59.5	67.1	19.5
<b>EBIT</b>	-10.4	21.5	94.3	7.4
% chg	-	-307.9	337.7	-112.4
(% of Net Sales)	-0.9	1.2	3.9	0.9
Finance costs	26.3	44.3	30.7	9.0
Other Income- Gen	5.0	10.3	11.7	4.7
<b>Recurring PBT</b>	-31.7	-12.4	75.3	3.1
% chg	-	-60.8	-706.1	-104.8
Exceptional item	-	-	-	-
Tax	-7.2	3.9	13.4	-0.4
<b>PAT (reported)</b>	-24.5	-16.3	61.9	3.5
% chg	-	-33.4	-479.1	-106.5
(% of Net Sales)	-2.2	-0.9	2.5	0.4
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	-0.5	-0.3	1.3	0.1

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	14.2	14.6	15.1	15.5
Other equity (Retained Earning)	216.3	307.6	474.9	683.4
<b>Shareholders' Funds</b>	<b>230.6</b>	<b>322.1</b>	<b>489.9</b>	<b>698.9</b>
<b>Non-Cont. Interest</b>	<b>0.5</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>
<b>Total Loans</b>	<b>225.6</b>	<b>267.5</b>	<b>187.5</b>	<b>268.1</b>
Other liabilities	78.8	135.5	114.7	123.8
<b>Total Liabilities</b>	<b>535.5</b>	<b>726.0</b>	<b>793.0</b>	<b>1,091.8</b>
<b>APPLICATION OF FUNDS</b>				
Property, plant and equipment	42.9	70.1	68.7	79.1
Right of use assets	85.9	144.0	138.9	154.2
Capital work in progress	0.3	0.8	2.0	2.1
Goodwill	0.1	0.1	0.5	0.5
Other Intangible assets	10.6	12.7	23.0	20.8
Intangible assets under development	-	1.2	0.4	1.9
Current Assets	564.0	815.5	963.0	1,248.5
Inventories	244.6	445.3	498.1	591.0
Investments	135.0	-	-	-
Trade receivables	57.9	98.4	76.6	75.7
Cash and cash equivalents	11.4	101.2	83.6	281.8
Bank balance other than CCE	0.5	74.4	164.1	103.9
Other financial assets	51.5	33.3	57.4	79.0
Other current assets	63.0	62.8	83.2	117.2
Current Liability	240.2	398.5	509.0	539.7
<b>Net Current Assets</b>	<b>323.8</b>	<b>417.0</b>	<b>454.0</b>	<b>708.8</b>
Other Non-Current Asset	71.7	79.9	105.5	124.4
<b>Total Assets</b>	<b>535.5</b>	<b>726.0</b>	<b>793.0</b>	<b>1,091.8</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
Operating profit before changes	28.7	89.0	190.3	32.2
Net changes in working capital	-128.4	-78.6	-27.3	-117.2
Cash generated from operations	-99.7	10.4	163.0	-85.1
Direct taxes paid (net of refunds)	0.0	-4.3	-13.2	-28.9
<b>Net cash flow from operating activities</b>	<b>-99.7</b>	<b>6.2</b>	<b>149.8</b>	<b>-114.0</b>
Purchase of property, and others	-34.9	-45.7	-42.1	-16.0
Investment deposits	-0.2	-73.9	-89.7	60.2
Others	-126.8	134.5	2.0	1.9
<b>Cash Flow from Investing (B)</b>	<b>-162.0</b>	<b>14.9</b>	<b>-129.7</b>	<b>46.1</b>
Proceeds from issue of equity shares	0.7	0.5	0.6	0.1
Proceeds from securities premium (net)	133.3	103.2	102.3	202.8
Proceeds from share application	-	0.0	-	0.6
Proceeds from borrowings (net)	-0.2	0.0	1.5	-
Proceeds (repayment) of current borrowings	142.7	41.9	-81.5	80.7
Others	-40.9	-76.9	-60.6	-18.2
<b>Cash Flow from Financing</b>	<b>235.7</b>	<b>68.7</b>	<b>-37.7</b>	<b>266.0</b>
Inc./ (Dec.) in Cash	-26.0	89.8	-17.6	198.1
<b>Opening Cash balances</b>	<b>37.4</b>	<b>11.4</b>	<b>101.2</b>	<b>83.6</b>
<b>Exchange effect</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
<b>Closing Cash balances</b>	<b>11.4</b>	<b>101.2</b>	<b>83.6</b>	<b>281.8</b>

Source: Company, Angel Research

### Key Ratios

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	-	-	848.7
P/CEPS	-	-	407.3
P/BV	228.0	163.2	107.3
EV/Sales	48.1	30.2	21.8
EV/EBITDA	2,604.5	658.4	330.2
<b>Per Share Data (Rs)</b>			
EPS (Basic)	(0.5)	(0.3)	1.3
EPS (fully diluted)	(0.5)	(0.3)	1.3
Cash EPS	0.1	0.9	2.8
Book Value	4.9	6.9	10.5
<b>Returns (%)</b>			
ROE	(10.6)	(5.1)	12.6
ROCE	(1.9)	3.0	11.9
<b>Turnover ratios (x)</b>			
Receivables (days)	19.0	20.3	11.5
Inventory (days)	80.3	92.0	74.5
Payables (days)	59.7	64.7	47.3
Working capital cycle (days)	39.7	47.6	38.7

Source: Company, Angel Research

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