Consumer Discretionary

AMBIT
Acumen at work

September 2024

Meet the Brains behind Beauty Boom

Research Analysts:

Videesha Sheth
+91 22 66233264
videesha.sheth@ambit.co

Sanket Gharat
+91 22 66233012
sanket.gharat@ambit.co

Nihal Mahesh Jham
+91 22 6623 3194
Nihal.Jham@ambit.co

CONTENTS

The Narrative in charts....4

Long way to go, but the only way is up....8

- Economic/demographic indicators sub-optimal, but improving....8
- Domestic trends converging with global....10
- The great Indian consumer story....11

Unlocking high-growth channels/categories in BPC....15

- Regime building to drive increasing market size and new category growth....16
- White spaces have led to new entries....19

Challengers' ascendancy impacting leaders....21

- Operating in a sizable TAM with path to profitability....21
- Path to profitability over time....22
- Digital-first brands have tweaked the manual using innovation and branding....25
- Resultant loss of market share by incumbents....28

New channels facilitating demand & supply....31

- Platforms = Assortment/Brand relationships vs Brand = Identity/innovation....31
- Platform offers better growth longevity than brands....34
- Can't avoid competition, hence watch for companies that stand out....35

Beauty is a good long-term play within discretionary....37

- Beauty is one of the preferred discretionary buckets of consumption....37
- Prefer Honasa>Nykaa....39

COMPANIES

FSN E-Commerce Ventures (NYKAA IN, BUY)....37

Honasa Consumer Ltd (HONASA IN, BUY)....85

Meet the Brains behind Beauty Boom

India's consumer growth depends on macros and demographics. But Beauty (~₹600bn) is a category poised for ~10% growth led by: i) consumer education, ii) rapid trend adoption, (iii) regime building, (iv) rise of digital-first brands and emerging channels bridging gaps between demand and supply, providing better access to products. As competition intensifies, a brand or platform's success will hinge on its ability to capture consumer insights, act on it via innovation/access to sought-out brands and building brand equity. Nykaa and Honasa score well on these parameters. While we prefer 'platform' model over 'brand' model due to scalability led by multiple brands and faster reaction to changing trends, in the listed space we prefer Honasa>Nykaa given the former's favourable valuations (44x/53x FY27 EV/EBITDA on CMP). Initiate Nykaa (26%/50% revenue/EBITDA CAGR over FY24-27) and Honasa with BUY (21%/43% revenue/EBITDA CAGR over FY24-27).

Premiumisation, trend and digital adoption to fuel beauty sector's growth

With FMCG basket likely to see 10-11% growth over the next 5 years vs 15%+ for most discretionary baskets, it is crucial to identify pockets of high growth potential. Amidst this, beauty (40-45% of beauty & personal care - BPC) is likely to post 1.3-1.5x growth in the overall BPC category driven by access to consumer education, faster adoption of global trends, regime-building and rise of new-age brands & platforms. Further, with improvement in digital penetration, online BPC is likely to clock 2-3x growth of overall BPC category.

Innovate.Market.Repeat

Traditionally, incumbent BPC brands have lengthy product development cycles, launch select SKUs that would work at scale and followed mass media marketing, leading to slower innovation. The rise of digital-first brands disrupted this model by emphasizing rapid innovation momentum, specialized products based on consumer insights and omnichannel distribution. This challenged incumbents, partially causing a 30-350bps market share loss. We expect this model to grow TAM from 15% of the BPC sector to 26% in the next 5 years.

Platform>Brand on scalability

Online vertical BPC platforms like Nykaa and Purplle showcase demand generation through consumer education and fulfilling supply with effective merchandising and omnichannel presence. Their success depends on leveraging consumer insights and strong brand associations. Unlike brands, these platforms offer brand diversity and faster scalability by monetizing consumer engagement. Globally, platforms such as Sephora and Ulta Beauty achieved faster growth than legacy brands like L'Oréal and Unilever, proving to be better models vs brand/product companies. Even threat of competition is lower as it favours specialized platforms for customer education, engagement, curation and premium brand positioning.

Initiate BUY on Nykaa (penetration-led growth) and Honasa (share gain)

With emergence of new players either on channel (Nykaa) or brand (Honasa) challenging the traditional approach of FMCG incumbents, scope for revival of multiples re-rating will be subject to the latter's growth revival. We believe both new-age players have runway for growth led by habit evolution, market share gain and margin expansion as brand stickiness has set in. We expect 20-25%/40-45% revenue/EBITDA CAGR over FY24-27 and use DCF valuation to capture the longevity and scalability for the companies. Prefer Honasa>Nykaa given more favourable valuations.

Key Recommendations

FSN E-Commerce Ventures	**BUY**
Target Price: ₹252	Upside: 17%
Honasa Consumer Ltd	**BUY**
Target Price: ₹639	Upside: 18%

Research Analysts

Videesha Sheth
+91 22 66233264
videesha.sheth@ambit.co

Nihal Mahesh Jham
+91 22 6623 3194
Nihal.Jham@ambit.co

Sanket Gharat
+91 22 66233012
sanket.gharat@ambit.co

The Narrative in charts

Exhibit 1: Industry landscape - Trends in India have converged with global ones over time with consumer habits evolving from single basic products to regime formation

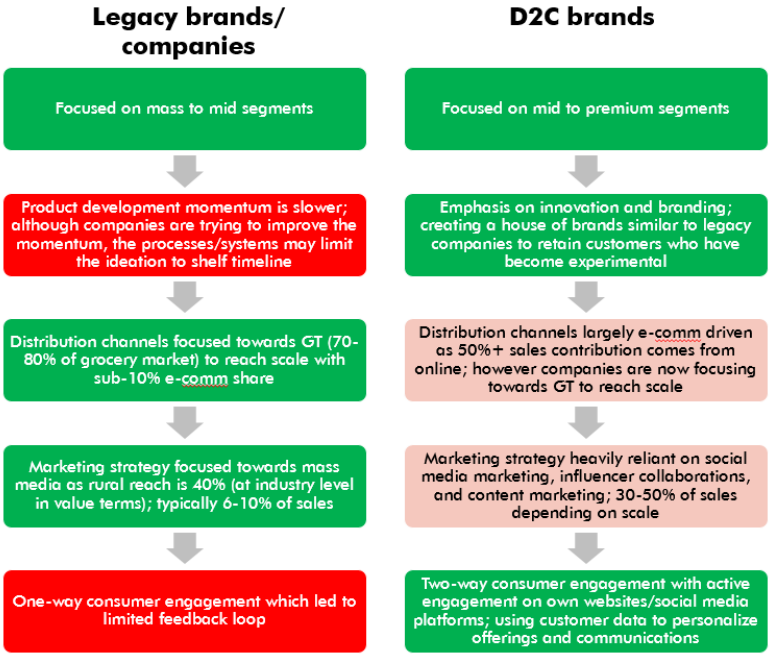
Source: Ambit Capital research; Redseer/PeakV report; Note: While some brands were launched earlier, they gained prominence significantly later than their launch; hence we used the timeline of gaining prominence while bucketing them in respective time phases.

Exhibit 2: Skin care, hair care, colour cosmetics etc. have higher growth potential based on penetration, premiumization and innovation scope

Beauty & Personal Care Categories	Penetration levels	Category size of the total BPC market	Scope of penetration increase	+ Scope to premiumise	+ Scope to innovate/ disrupt	= Scope to grow	Likelihood of MS loss by leader
Bar Soap	100%	20%	◔	◑	◔	◑	◔
Hair Care (Shampoo, Conditioners, Colorant, etc.)	90% for Shampoos & hair oil; sub-20% for conditioner and hair colour	25%	◕	●	◕	◕	◕
Skin Care	HSD	17%	●	●	●	●	●
Oral Care	95%	11%	◑	◑	◑	◑	◑
Men's Grooming (Shaving, Toiletries & Fragrance)	80%+ for shaving	10%	●	◕	◕	◕	◕
Colour Cosmetics	HSD	8%	◕	●	●	●	●
Baby and Child-specific Products	HSD	4%	●	◕	●	◕	◕
Deodorants	3%	4%	◑	◑	◑	◑	◑
Liquid Soap	7%	1%	●	◑	◔	◑	◔
Body Powder		1%	◔	◔	◑	◔	◔
Body Wash/Shower Gel	2%	0%	●	◕	◕	◕	●
Fragrances	MSD	2%	●	●	●	●	◔

Source: Euromonitor, Redseer, Ambit Capital research; Note: LSD/MSD/HSD = Low single digit/mid single digit/high single digit

Exhibit 3: Digital-first brands have identified high-growth categories within BPC and have grown faster vs sector by tweaking strategies followed by legacy BPC companies



Source: Company, Ambit Capital research; Note: Green are the positives, red are the negatives, pink is WIP

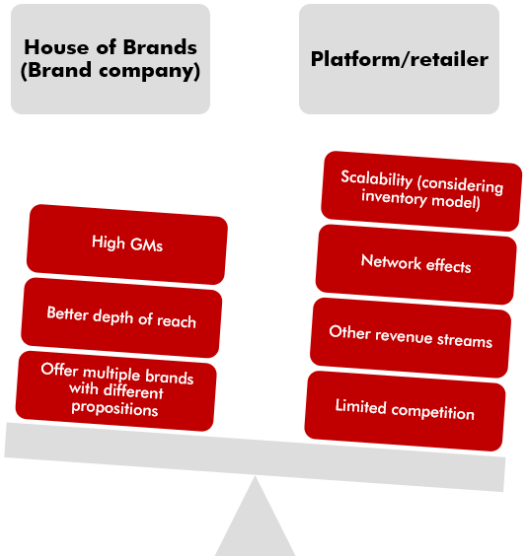
Exhibit 4: Most FMCG-led incumbents lost market share in their key categories; most BPC companies have gained share

	Market share gain/loss		
	CY2011-15	CY2015-20	CY2020-23
Honasa			
Baby and Child-specific Toiletries		480bps	230bps
Shampoos		110bps	170bps
Facial Care		140bps	290bps
Adult Sun Care		0bps	1,960bps
HUL			
Bar Soap	-1,050bps	-191bps	50bps
Body Wash/Shower Gel	911bps	-387bps	-300bps
Eye Make-Up	-444bps	-141bps	-200bps
Facial Make-Up	-65bps	-282bps	-120bps
Lip Products	-437bps	-292bps	-100bps
Nail Products	-685bps	-550bps	-350bps
Shampoos	623bps	310bps	10bps
Toothpaste	-200bps	-74bps	50bps
Body Care	-621bps	-379bps	0bps
Facial Care	-849bps	-873bps	-270bps
L'Oreal India			
Lip Products	58bps	-53bps	220bps
Colourants	-283bps	49bps	560bps
Salon Professional Hair Care	274bps	-166bps	1,160bps
Shampoos	27bps	16bps	100bps
Facial Care	-40bps	-47bps	110bps
Nivea India			
Bar Soap	59bps	16bps	0bps
Deodorant Sprays	441bps	-25bps	-30bps
Men's Toiletries	295bps	-89bps	-10bps
Body Care	763bps	-126bps	-80bps
Facial Care	67bps	32bps	0bps

	Market share gain/loss		
	CY2011-15	CY2015-20	CY2020-23
GCPL			
Bar Soap	-163bps	32bps	-30bps
Colourants	76bps	-139bps	-70bps
Dabur			
Conditioners and Treatments	-408bps	-214bps	-20bps
Shampoos	121bps	16bps	20bps
Toothpaste	-88bps	156bps	10bps
Marico			
Conditioners and Treatments	703bps	-38bps	-130bps
Men's Toiletries	593bps	-88bps	0bps
Himalaya			
Baby and Child-specific Skin Care	855bps	810bps	160bps
Baby and Child-specific Toiletries	1,053bps	636bps	30bps
Shampoos	70bps	82bps	10bps
Facial Care	133bps	186bps	40bps
ITC			
Bar Soap	117bps	-2bps	-20bps
Deodorant Sprays	1,013bps	450bps	60bps
Men's Toiletries	352bps	60bps	-70bps

Source: Euromonitor, Ambit Capital research

Exhibit 5: A retail model offers faster scalability



Source: Ambit Capital research

Exhibit 6: Globally, platforms have more scalability despite being launched later than the brands

Revenue (CY23)			
Platforms	**USD bn**	**Brands**	**USD bn**
Sephora (1970, gained prominence in 1990s)	17	L'Oreal (1909)	38
Ulta Beauty (1990)	11	Estee Lauder* (1946)	10
		Shiseido (1872)	7
		P&G – BPC* (late 1800s)	15
		Unilever - BPC (1957)	12

EBITDA (CY23)			
Platforms	**USD bn/%**	**Brands**	**USD bn/%**
Sephora	1/8%	L'Oreal	8/20%
Ulta Beauty	1/12%	Estee Lauder*	1/10%
		Shiseido	1/10%
		P&G – BPC*	3/19%
		Unilever - BPC	2/19%

*Source: Company, Ambit Capital research. * CY23 ends on 30 June 2023*

Exhibit 7: Threat of competition to specialised vertical platforms is lower on account of product authenticity, consumer stickiness and relevant assortment

Parameter/ Formats	Specialised vertical BPC platforms	Vertical fashion platforms	Horizontal platforms	Offline BPC store chains	Departmental stores	Mom & pop general trade	Brands
Player examples	***Nykaa, Purplle***	***Myntra, Ajio***	***Amazon, Flipkart***	***Sephora, SS Beauty***	***Lifestyle, Shoppers Stop***	***Neighborhood stores***	***Dove, Himalaya, Sugar***
Authenticity	●	◕	◑	●	●	◑	●
Customer loyalty	●	◑	◑	◕	◑	◔	◕
Scale	◕	◑	◑	◑	◑	◔	◕
Assortment	●	◑	◑	◕	◑	◔	◑
TAM/target pop	◕	◕	●	◑	◑	◔	◕
Overall	●	◑	◑	◕	◑	◔	◕

Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 8: Prefer QSR>Jewellery>BPC within our discretionary coverage

Parameters across discretionary consumption categories	QSR	Jewellery	Beauty	Apparel	Footwear	Grocery (leader)	Paint
Category purchase frequency	◕	◑	◕	◕	●	◔	◑
Scope to increase mix of organised/online channel	●	●	◕	●	◑	◔	◔
Incremental growth potential for listed cos. vs overall consumption sector	●	●	●	◕	◕	◔	◔
Entry barriers	◕	●	◑	◔	●	◕	◕
Scope of branded penetration increase	●	◕	◑	◔	○	◔	◔
Scope of premiumisation	●	●	●	●	◕	◑	◑
Competitive landscape	◑	◑	◑	◔	◔	◔	◔
Scope of margin expansion	◕	◑	●	◑	◑	◔	◔
Scope of ROCE expansion	◕	●	●	●	◕	◑	◑
Overall lucrativeness of the sector	◕	◕	◕	◕	◑	◔	◑

Source: Ambit Capital research; Note: Higher the better or more favourable in terms of negative parameters like high unorganised presence and competition
Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

Long way to go, but the only way is up

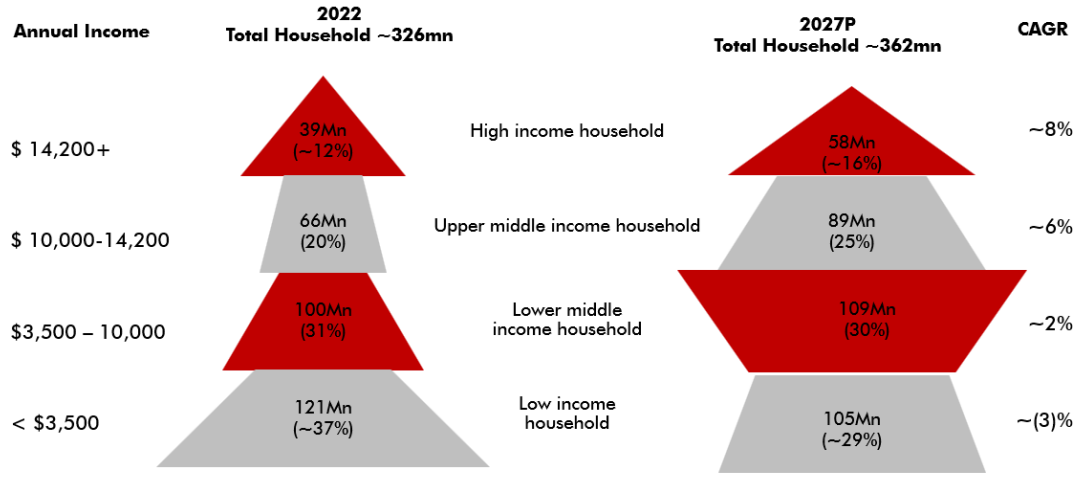
India's multi-decadal growth narrative is fuelled by macro tailwinds such as population dynamics, urbanization, and rising GDP per capita, driving penetration and premiumization-led growth. Ambit's Economy team expects GDP to grow at 6-6.5% YoY over the next two years, with ~10.5% nominal growth. While near-term consumption weakness and slowing government-driven capital formation are challenges, structural changes will lead to rising per capita income. Women's empowerment and increased work force participation are poised to support long-term consumption growth. With a tech-savvy Gen-Z and Millennial cohort rapidly adopting global trends, and e-commerce expanding, India's consumer story is anchored by low category penetration, rising incomes, and premiumization trends. Despite these shifts, value for money across price points remains crucial across all age groups, positioning India to enhance its per capita FMCG consumption, which is currently below peers like Indonesia and China. Amid this, the top 30-35% of households expected to see 7% over the next 5 years would drive rising consumption.

Economic/demographic indicators sub-optimal, but improving

Economy theoretically ready to reap dividends, but subject to affordability

India's GDP growth outlook remains optimistic supported by macro tailwinds of population dynamics (low median age of 28 years, 50-55% millennial and genZ population), urbanization, nuclearization of families, rising income levels, increasing GDP per capita led by strong domestic fundamentals and proactive government policies. Our economy team is building a GDP growth rate of 6-6.5% YoY for the next 2 years with nominal GDP growth at ~10.5% which would have been higher by 50-100bps, if not for muted near term growth. While low affordability/ disposable income pose challenges, the per capita income is bound to grow on the back of structural changes boosting rising income levels.

Exhibit 9: Number of high-income/upper mid income households expected to see 8%/6% CAGR over 2022-2027

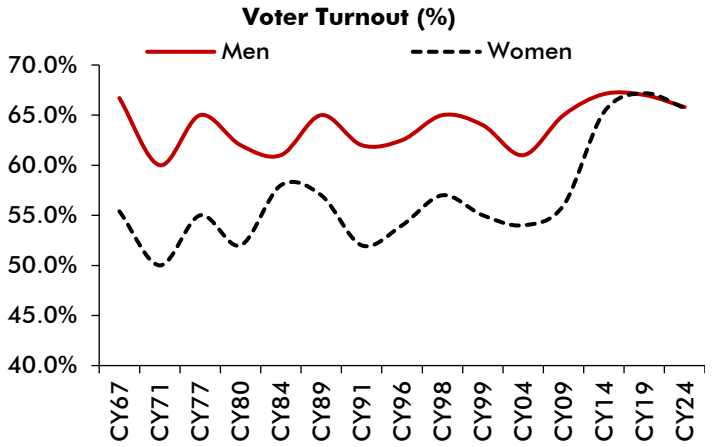


Source: Redseer, Ambit Capital research

Government focus on improving women power

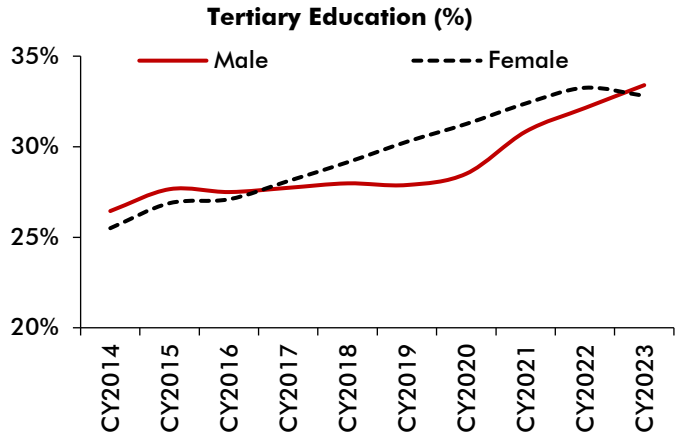
While we are still away from an ideal situation, there are several indicators such as improvement in women's voter turnout and tertiary education rates that suggest a positive shift in the status of women in India. As highlighted by our economist, the government has been and will continue to implement initiatives focused on women's rights, reducing crimes against women, and most importantly, increasing female labour force participation, which remains alarmingly low. With these initiatives and an overall increase in workforce participation, we expect to see a rise in overall consumption in the long term.

Exhibit 10: In CY19 and CY24, voter turnout was nearly equal, with ~66% men and women participating



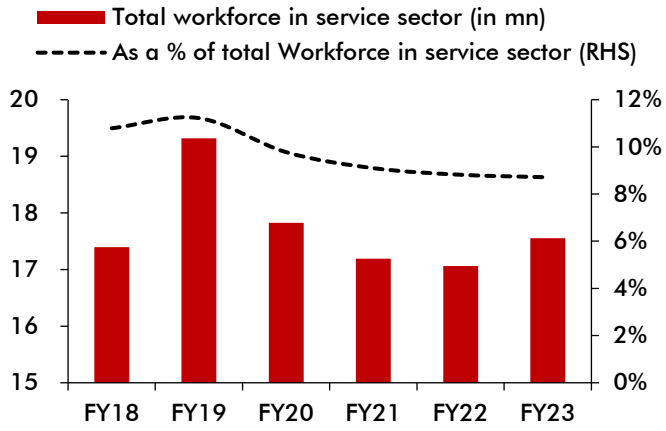
Source: Election Commission, Ambit Capital research

Exhibit 11: Gap between male and female enrolment for tertiary education has been converging at ~33%



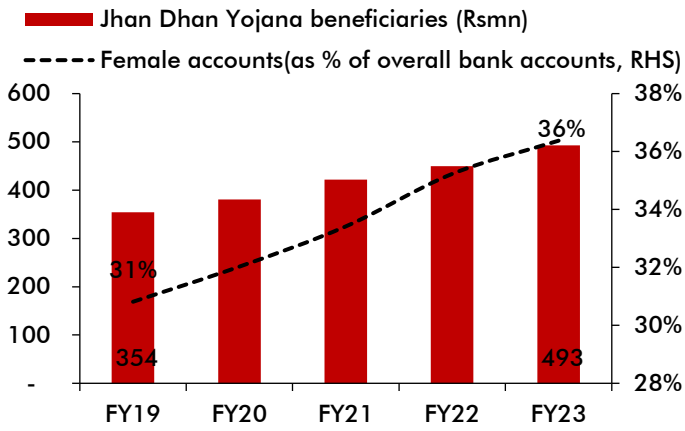
Source: World data bank, Ambit Capital research

Exhibit 12: Overall women workforce participation increased to 32% over FY19-23, but service sector participation is lower



Source: PLFS, Ambit Capital research

Exhibit 13: Women-owned bank accounts under Jan Dhan increased from 31% in FY19 to 36% in FY23

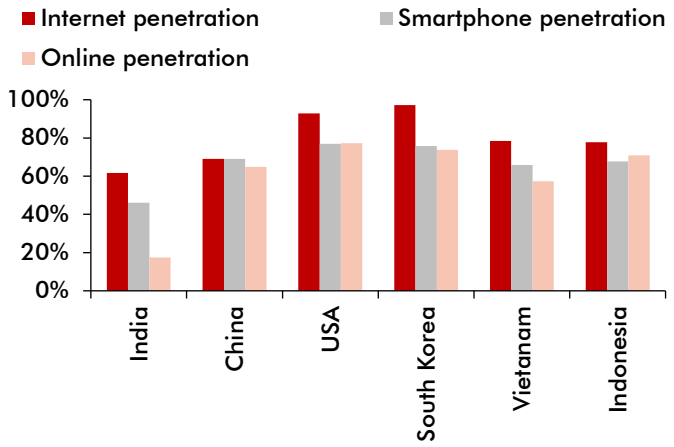


Source: PLFS, Ambit Capital research

Other enablers at play too

India has the largest Gen-Z and millennial cohort globally (refer exhibit 16 and 17), with 708 million individuals. This group is more literate, tech-savvy, and connected than previous generations, leading to faster adoption of global trends. Social media plays a crucial role in raising awareness and aspirations across consumption categories. Additionally, the expansion of e-commerce has democratized access to branded products, especially in smaller towns. E-commerce marketplaces and logistics partners now cover >90% of India's pincodes, enabling consumers in tier 3 and 4 cities to access the same products as those in larger cities. The pandemic-induced reverse migration has further fuelled reduction in time lag of trend adoption in these regions as returning residents influence local consumption patterns.

Exhibit 14: India's smartphone, internet and online penetration for CY23 lags behind peers



Source: Nykaa RHP, Statista/Media Article, Ambit Capital research. Note: (i) Access to internet for China & USA pertains to CY20 & CY22. (ii) Smartphone users for South Korea pertains to CY20. (iii) Online service users for South Korea & Vietnam pertains to CY21 & CY22 respectively.

Exhibit 15: Consumption of categories from online channel to grow 22-30% vs 8-18% overall CAGR

Categories	E-comm retail Size (₹ bn)		% Share of organized Ecommerce		% CAGR (FY23-27)
	FY23	FY27P	FY23	FY27P	
Food and Grocery	1,140	3,303	2%	5%	30%
Apparel & Apparel Accessories	1,123	2,564	21%	24%	23%
Jewellery	335	912	6%	9%	28%
Consumer Electronics	1,522	3,103	30%	35%	20%
Pharmacy & Wellness	114	329	5%	9%	30%
Footwear	152	341	20%	23%	22%

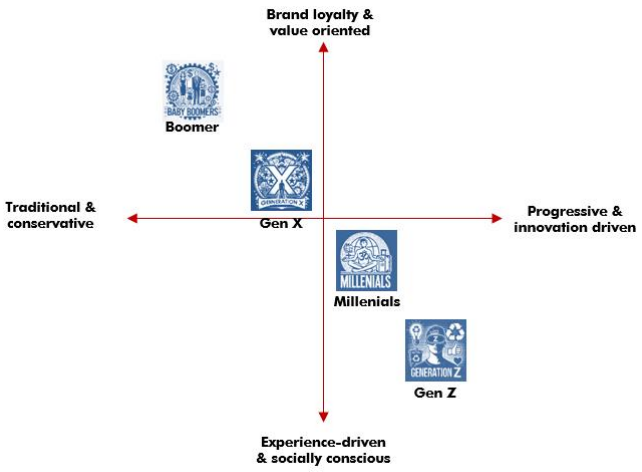
Source: Style Bazaar RHP, Ambit Capital research

Domestic trends converging with global

Consumers are getting more experience-centric and value-for-money focused rather than just value-focused

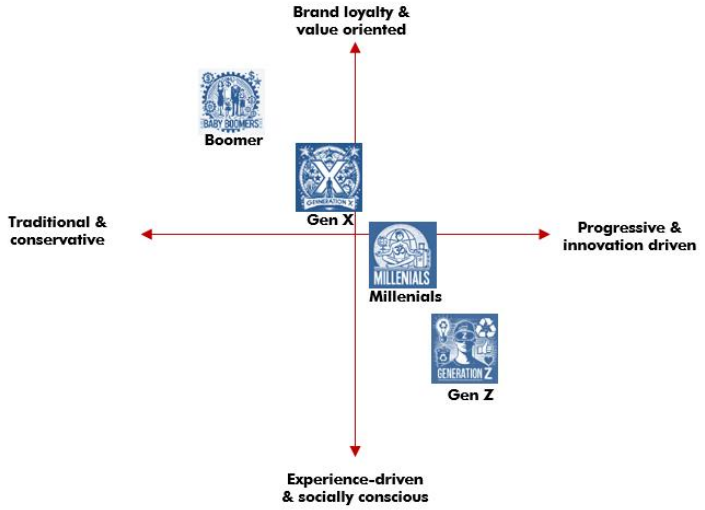
Globally, consumer behaviour has evolved from older generations, like Baby Boomers and Gen-X, who prefer offline shopping, strong brand loyalty, and a focus on product reliability and value for money. As technology advanced, Millennials and Gen-Z shifted towards online shopping, valuing unique experiences, ethical considerations, and innovation over brand loyalty. Social media and influencers play a significant role in their purchasing decisions, making shopping a more interactive and social experience. In India, while these generational shifts are also evident, there remains a stronger focus on value for money across all age groups as affordability remains a key factor in their purchasing decisions.

Exhibit 16: Globally, younger generations lean to online shopping, open to experiments and ethical considerations...



Source: Ambit Capital research

Exhibit 17: ...but value for money quotient is evident within Indian consumers across age groups



Source: Ambit Capital research

Certain parameters where India jumped the trajectory seen globally and is now similar to global trends

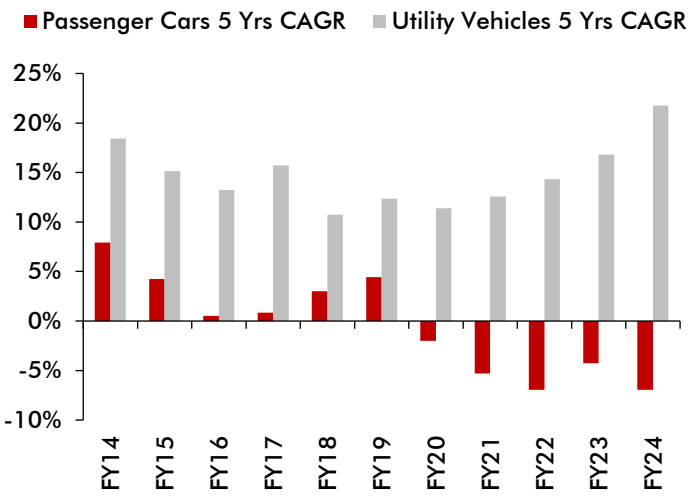
There are a few examples where India's consumption has skipped the typical trend trajectory seen globally and is now similar or near the global trend:

- Digital Payments: India has rapidly adopted digital payments and is now a global leader in this space. The number of digital payment users is expected to double by 2030. India has a robust digital payments system that has transformed the way people transact.
- High-end consumption: Demand is growing for pricier, premium products across many sectors in India, even as the lower end of the market struggles. This is similar to the consumption patterns seen in developed economies.
- Adoption of e-commerce channels: With India's overall e-commerce penetration lagging behind more developed markets, and e-commerce growth rate being the highest globally indicates significant room for future expansion.

Exhibit 18: India has highest digital payment usage globally

Source: Media, Ambit Capital research

Exhibit 19: High-priced utility vehicles saw 5-yr CAGR of 22% in FY24 vs passenger cars which have not recovered to pre-Covid levels yet



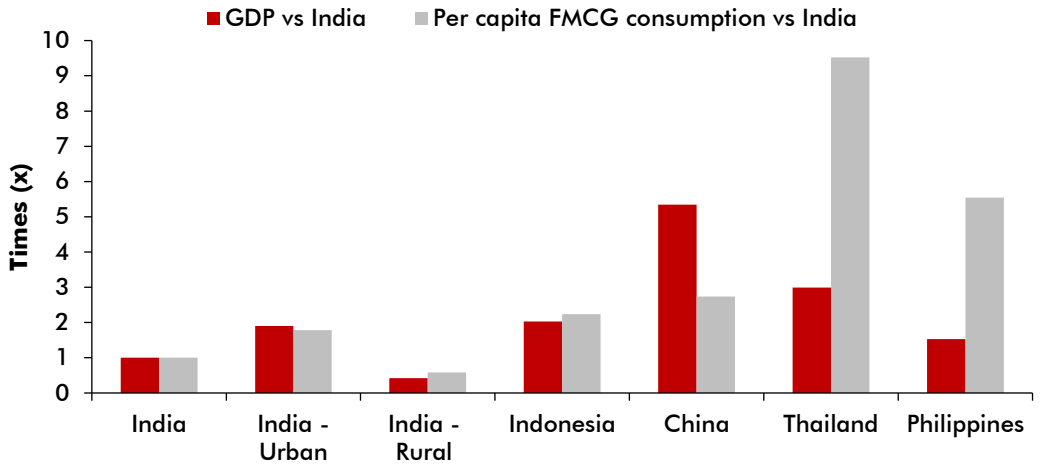
Source: Industry, Ambit Capital research

The great Indian consumer story

Long-term growth rests on structural levers

Key ingredients for India's long-term consumer story rests on structural macro tailwinds such as: (i) favourable population dynamics (one of the lowest median age); (ii) improving urbanization as well as rise of middle India; (iii) government fiscal impulses and rural uplift initiatives; (iv) job and wage growth, etc. Add to that: (i) low penetration across multiple categories and opportunity to premiumise in moderate to highly penetrated categories; (ii) increasing frequency, quality and quantity of consumption; and (ii) changing distribution landscape are cornerstones of long-term growth high penetration categories like home care and personal care. Ideally, the above macro dynamics should help India witness: (i) a multi-decadal consumption story led by improving disposable income; (ii) improving availability and awareness to increase quantity and quality of consumption; (iii) premiumisation as a trend which has just begun should get accelerated. All these should improve India's per capita FMCG consumption, which is one third of China's, half of Indonesia and even lower than Thailand and Philippines.

Exhibit 20: Differential in per capita FMCG consumption is higher than per capita GDP differential

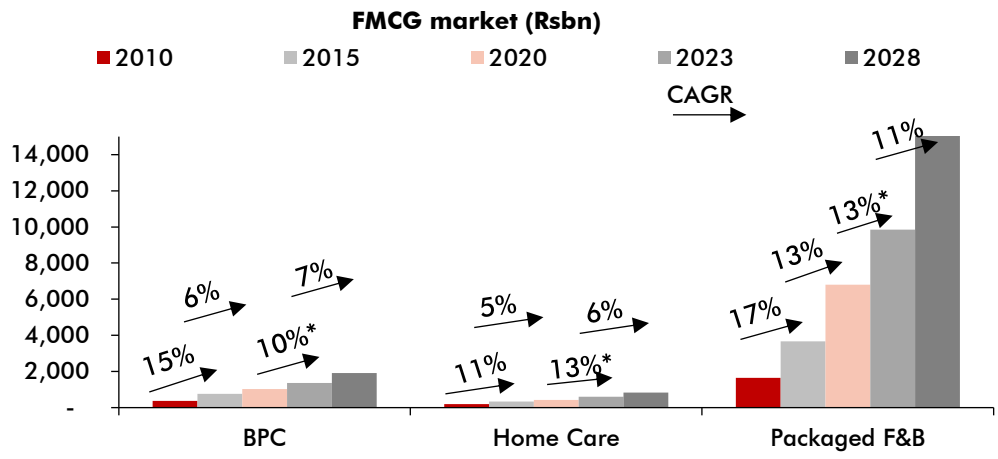


Source: IMF, HUL, Ambit Capital research

Overall growth may be low, hence crucial to identify high-growth pockets

Over the last 13 years, domestic FMCG sector has seen a 14% CAGR. This was driven by F&B followed by BPC and home care on the back of lower branded penetration of F&B driving better volume-led growth. Even going forward, F&B companies have potential to grow faster than home care and BPC companies on account of low penetration across most categories, room to gain market share from fragmented unorganized tail (leaders MS<30% in most categories) and distribution headroom (Britannia reaches 5-6mn outlets vs HUL/Universe of 9mn+/12mn+ outlets).

Exhibit 21: FMCG to post 11% growth over next 5 years led by F&B, followed by BPC

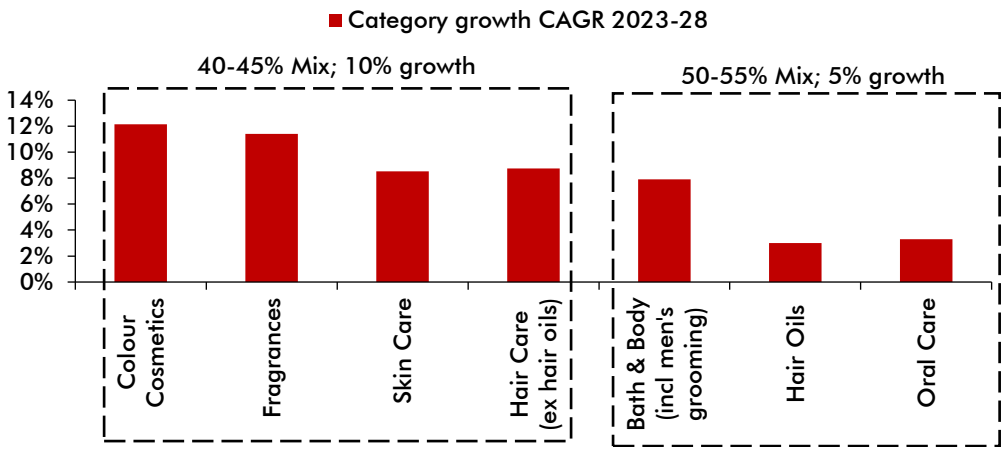


Source: Euromonitor, Ambit Capital research

It is not just F&B which shows higher growth potential, 'beauty' emerges as a category that could see high growth

Besides F&B, India's beauty category (ex-bath & body, hair oils, oral care), making up ~40-45% of BPC, is poised higher growth (10% vs Euromonitor's estimated 7% for BPC) driven by regime-building, faster adoption of global trends, and the rise of new-age brands & platforms. With an unprecedented focus on consumer education and the narrowing time lag between global and domestic trends, beauty is expected to outpace personal care by ~2x, while online BPC could see 2-3x growth relative to the overall category on the back of shift in consumption patterns.

Exhibit 22: Beauty dominated categories to grow 1.3-1.5x of overall BPC growth

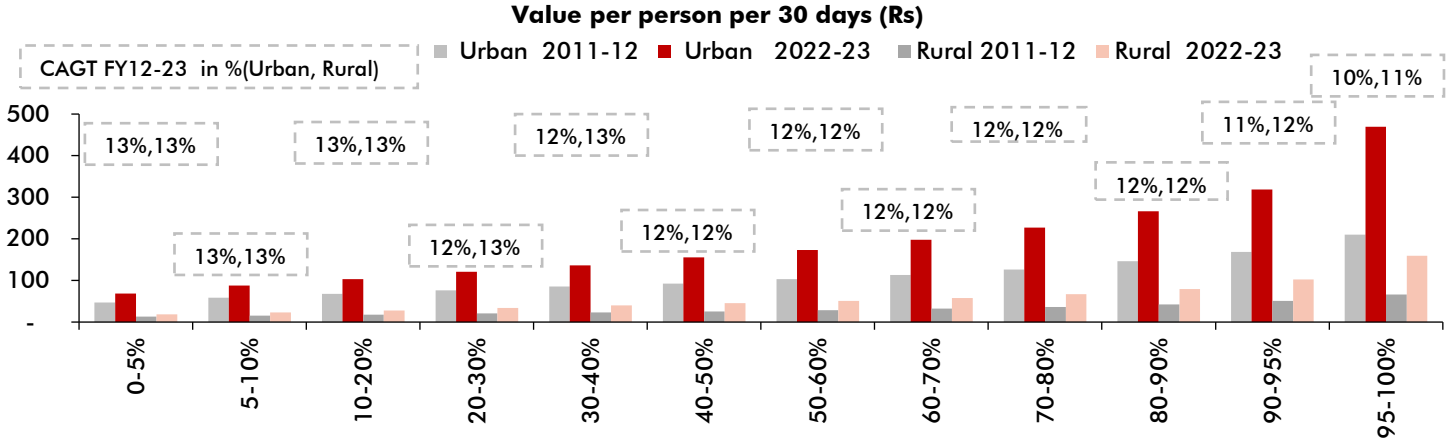


Source: Euromonitor, Ambit Capital research

Overall consumption at household level has improved for the BPC category

The recent Household Consumption Expenditure Survey revealed that monthly per capita consumption expenditure in rural/urban areas grew 40%/33% to ₹2,008/₹3,510 in 2022-23 when adjusted for inflation (without adjusting for inflation, ₹3,773/₹6,459 9%/9% growth vs 6% inflation). Within this, overall BPC category (classified as toilet articles) grew 11-12% CAGR over 2012-2023.

Exhibit 23: BPC consumption has clocked 12-13% CAGR from 2012 to 2023 (Household Consumption Expenditure Survey)



Source: Ministry of Statistics and Programme Implementation, Ambit Capital research

Exhibit 24: Skin cleansing (high penetration)/hair care consumption increased by 7-8%/11-12%; colour cosmetics is becoming an emerging category and spends are equivalent to ~85% of skin cleansing

Fractile	Skin cleansing				Hair Care				Colour cosmetics	
	Urban*	CAGR FY11-23	Rural*	CAGR FY11-23	Urban*	CAGR FY11-23	Rural*	CAGR FY11-23	Urban*	Rural*
0-5%	14	8%	10	8%	14	12%	10	11%	9	7
5-10%	18	8%	12	8%	17	13%	12	12%	12	9
10-20%	21	8%	14	8%	20	12%	14	12%	14	10
20-30%	24	8%	15	7%	23	12%	16	11%	16	12
30-40%	27	8%	16	8%	26	12%	17	12%	18	13
40-50%	30	8%	18	8%	30	12%	19	12%	21	14
50-60%	33	8%	20	7%	33	12%	21	12%	22	15
60-70%	36	8%	22	7%	37	12%	23	12%	25	17
70-80%	42	9%	24	7%	43	12%	26	12%	29	18
80-90%	47	9%	28	8%	51	12%	29	12%	34	20
90-95%	55	9%	32	7%	61	11%	34	12%	40	22
95-100%	77	9%	40	8%	91	11%	41	11%	66	26

*Source: Ministry of Statistics and Programme Implementation, Ambit Capital research. * Represents value per person per 30 days (₹)*

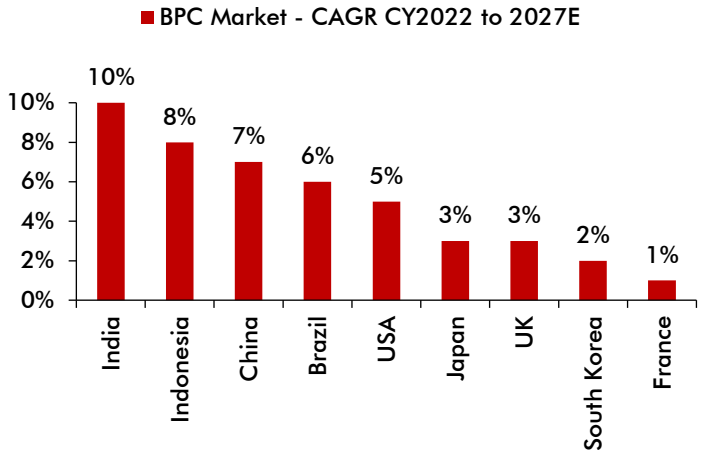
Unlocking high-growth channels/categories in BPC

India BPC consumption is 35-65% of other Asian markets like Vietnam, Indonesia and China and 7% of South Korea. The domestic sector is set to grow (7%/10-11% as per Euromonitor/Redseer) due to rising disposable incomes, increasing awareness of personal grooming, expansion of e-commerce, and demand for specialized products, evolving consumer preferences and digital engagement. Digital-first brands, emerging from shifts in consumer preferences and market dynamics, are capitalizing on niche trends, offering targeted marketing and faster innovation through direct online channels. New-age channels like online platforms (Nykaa, Purplle) are doing the role of demand creation and supply fulfilment. Hence players focusing on innovation, through addressing product, pricing, category, and distribution gaps, are likely to grow faster than the overall sector.

India BPC to outperform globally

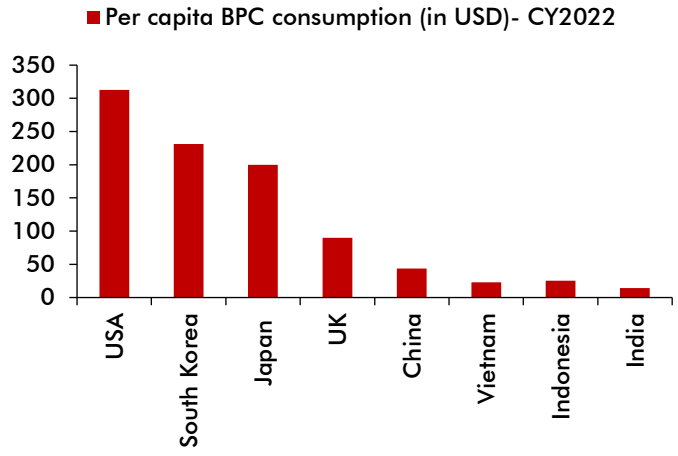
In India, the BPC sector is growing due to rising consumer awareness, increased focus on customer education (led by online platforms) and aided by influencer marketing. Consumers are trading up to premium or masstige products as they seek more effective solutions targeting specific concerns. This shift in demand is pushing brands to innovate, leading to supply-side evolution and the creation of new products. Additionally, the expanding middle class in India is driving higher spending on BPC products, contributing to the sector's overall growth. This can lead to narrowing gap between India's per capita BPC consumption vs other countries (currently India is 35-65% of other Asian markets like Vietnam, Indonesia and China and 7% of South Korea) over the years.

Exhibit 25: As peer Redseer, BPC market in India is likely to see 2-5x growth of other countries over the next 5 years...



Source: Redseer, Ambit Capital research

Exhibit 26: ...with India having one of the lowest per capita BPC levels

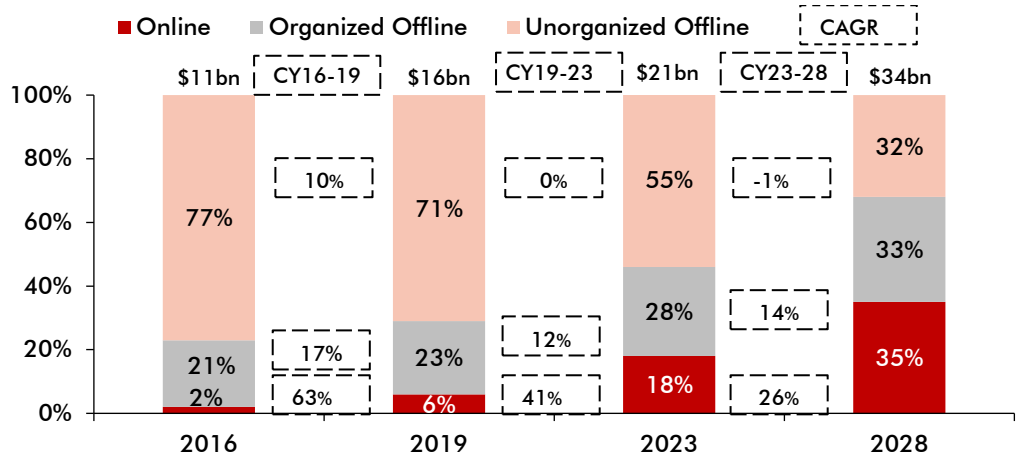


Source: Company, Ambit Capital research

Online channel to outperform in BPC similar to other consumption categories

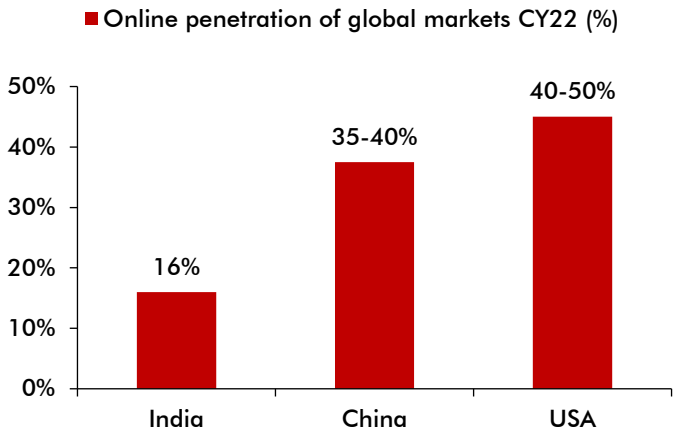
The online BPC market in India, although nascent, is growing rapidly due to superior consumer experiences, efficiencies like lower costs, actionable data and accelerated adoption during Covid. From a 2% market share in 2016, online BPC surged to 18% by 2023. With online channel expected to account for 34% of the BPC market by 2027 (an expected CAGR of 26% over CY23-28), they offer higher growth potential compared to offline channels, which have been slower to adapt emerging categories and innovation. Rising internet penetration and digital payments will further drive online BPC's expansion.

Exhibit 27: Online channel is expected to register 26% CAGR over CY23-28



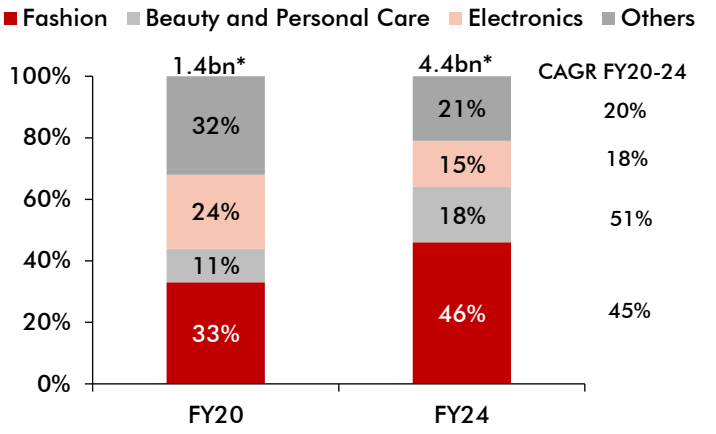
Source: Redseer, Ambit Capital research; Note: Unorganised offline is largely general trade channels; Organised offline stands for modern trade channels like shopping malls/ marts, multi-brand outlets, exclusive brand outlets

Exhibit 28: Online penetration in BPC market lags behind other markets



Source: Redseer, Company, Ambit Capital research

Exhibit 29: BPC shipments clocked 51% CAGR over FY20-24 to ~1mn



*Source: E-comm Express DRHP, Ambit Capital research; Note: also includes returns; *total number of shipments*

Regime building to drive increasing market size and new category growth

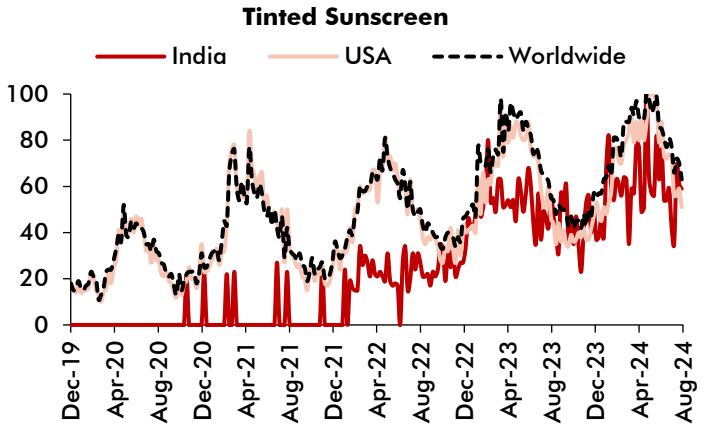
Even in BPC, lag between trends playing out globally vs India is on the verge of diminishing

Consumer behaviour in the BPC industry has evolved significantly, transitioning from basic awareness and generic products to the adoption of specialized, trend-driven offerings. Today, consumers engage in a multi-channel journey: they discover products via influencers, social media, and personal networks, conduct research online, and appreciate the in-store experience for trust and expert advice. The time lag between global trends and their adoption in India has decreased dramatically, reflecting a more informed and trend-conscious consumer base. While initial purchases may occur offline, subsequent transactions often shift online, highlighting the integrated approach of modern BPC consumers.

Exhibit 30: Industry landscape: Trends in India have converged with global trends over time, but of late, time lag has reduced thanks to social media

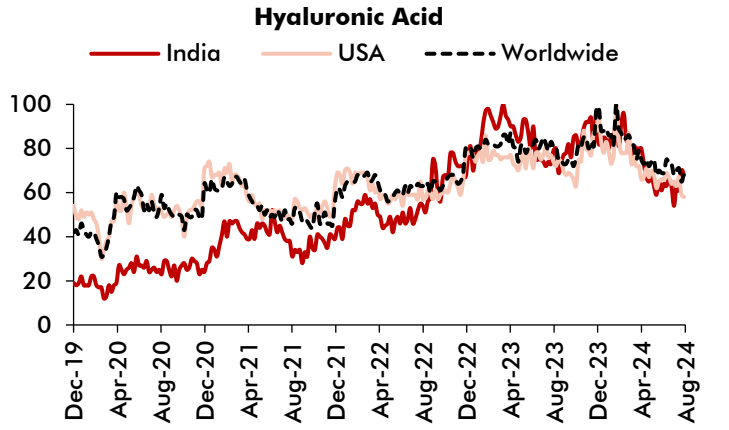
Source: Ambit Capital research; Redseer/PeakV report; Note: While some brands have been launched earlier, they have gained prominence significantly later than their launch, hence we have used the timeline of gaining prominence while bucketing them in respective time phases.

Exhibit 31: As evident from Google Trends, search for trending products by Indians....



Source: Google Trends, Ambit Capital research

Exhibit 32: ....is seeing a narrowing gap vs global searches, implying faster trend adoption

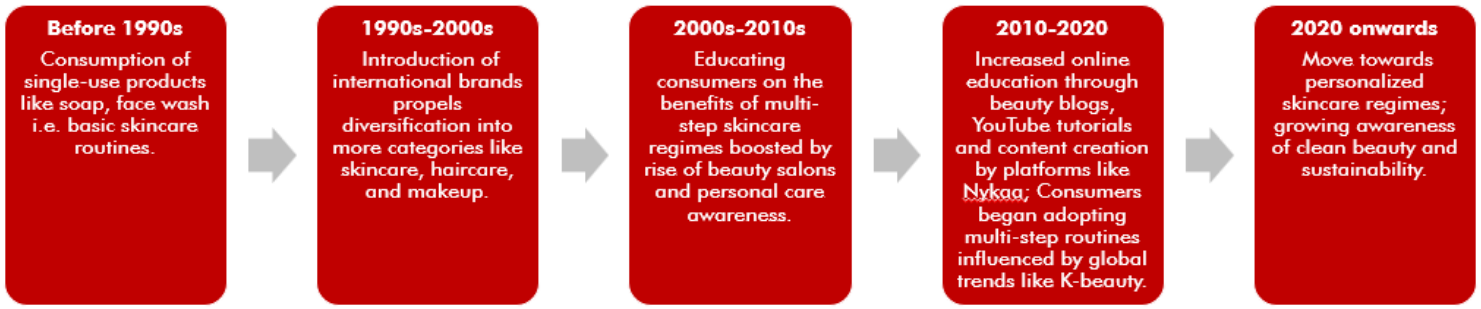


Source: Google Trends, Ambit Capital research

Evolving from select products to beauty regimes

Over the years, consumer behaviour in India's BPC sector has undergone a significant transformation, evolving from the use of simple, essential products to the adoption of comprehensive beauty routines. As stated above, the time lag between global trends and their adoption in India has significantly diminished, driven by increased social media focus and education efforts by beauty brands. As a result, consumers are now moving beyond essentials, embracing multi-step routines inspired by global trends such as Korean and Japanese beauty practices. This shift is expanding the breadth and depth of the BPC category in India, creating vast opportunities for beauty companies. Awareness of beauty techniques and products is now starting at a younger age, leading to early habit formation. As these younger consumers enter the workforce, this will likely contribute to a growing total addressable market (TAM) and sustained high spending.

Exhibit 33: Change in consumer behaviour - From single/basic products to regime formation

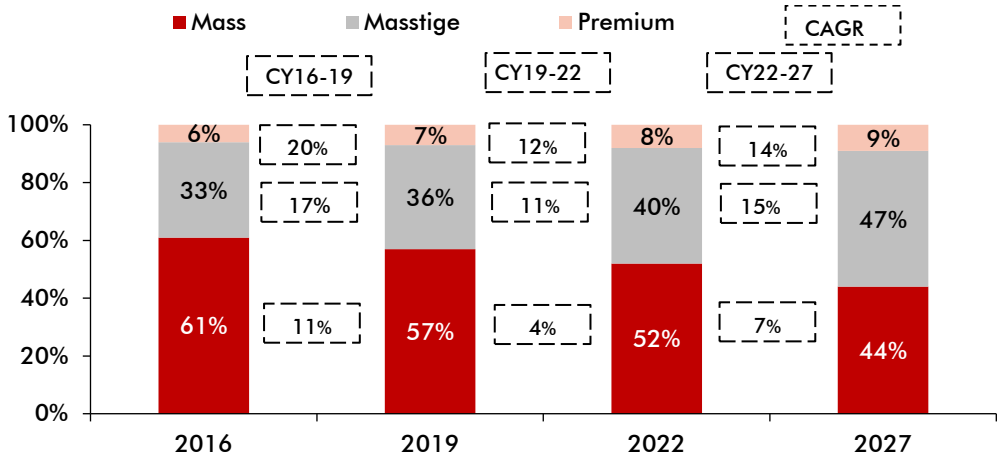


Source: Company, Ambit Capital research

This is also leading to premiumization

The premiumization trend in India's BPC market is not just a passing phase, it reflects a deeper shift in consumer preferences towards quality and value. Further, given the high penetration of the personal care category, the premiumising trend could be amplified there. While incumbent brands continue to dominate the mass category, new-age companies are increasingly focusing on the masstige price point and are introducing high quality products that address consumer's emerging needs and preferences. As the market continues to expand, companies are likely to increase their focus on premium offerings while incumbents also maintaining a presence in the mass and masstige segments to capture a broader consumer base.

Exhibit 34: Premium/masstige expected to see 14%/15% CAGR over 2022-27



Source: Redseer, Ambit Capital research

White spaces have led to new entries

Multiple beauty categories show scope for growth

Given high penetration, most personal care categories show scope to premiumise and innovate/disrupt whereas beauty categories like colour cosmetics and personal care categories like skin care shows scope for penetration as well as premiumisation.

Exhibit 35: Skin care, hair care, colour cosmetics etc. have higher growth potential based on penetration, premiumization and innovation scope

Beauty & Personal Care Categories	Penetration levels	Category size of the total BPC market	Scope of penetration increase	+ Scope to premiumise	+ Scope to innovate/disrupt	= Scope to grow	Likelihood of MS loss by leader
Bar Soap	100%	20%					
Hair Care (Shampoo, Conditioners, Colorant, etc)	90% for Shampoos & hair oil; sub-20% for conditioner and hair colour	25%					
Skin Care	HSD	17%					
Oral Care	95%	11%					
Men's Grooming (Shavings, Toiletries & Fragrance)	80%+ for shaving	10%					
Colour Cosmetics	HSD	8%					
Baby and Child-specific Products	HSD	4%					
Deodorants	3%	4%					
Liquid Soap	7%	1%					
Body Powder		1%					
Body Wash/Shower Gel	2%	0%					
Fragrances	MSD	2%					

Source: Euromonitor, Redseer, Ambit Capital research; Note: LSD/MSD/HSD = Low single digit/Mid-single digit/High single digit

Note: - Strong; - Relatively Strong; - Average; - Relatively weak

Which led to the emergence of digital-first genre?

Over the last decade, India has seen: (i) increased penetration of smartphones; (ii) improving affordability of data; (iii) increasing awareness and adoption of online shopping not only within top 25 cities but down to Tier 4/5 cities; (iv) improvement of payment gateways and cash-on-delivery options; (v) revolution in logistics etc. Recognition and exploitation of these macro tailwinds along with several whitespaces like clean beauty, personalized skincare, and niche products tailored to specific concerns, unaddressed by incumbents facilitated birth of a new genre of companies – D2C companies, now known as digital-first as they have expanded to multiple channels. The digital transformation provided these brands with a direct-to-consumer model, allowing them to bypass traditional retail and connect with customers through online platforms. Leveraging data analytics, digital-first brands could offer targeted marketing, personalization, and faster innovation cycles, tapping into a rapidly evolving market.

Exhibit 36: Digital-first companies are specifically targeting high-growth categories

Categories	Expected growth rates	HUVR	GCPL	DABUR	MRCO	L'Oreal	Nivea	Himalaya	Honasa	WoW Sciences	Sugar	Nykaa	Good Glamm
Skin Care	●	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓
Colour Cosmetics	●	✓	✓	×	×	✓	×	×	✓	×	✓	✓	✓
Body Wash/Shower Gel	●	✓	✓	×	×	✓	✓	✓	✓	✓	✓	✓	✓
Hair Care (Shampoo, Conditioners, Colorant, etc.)	◕	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓
Baby and Child-specific Products	◕	✓	✓	✓	✓	×	×	✓	✓	×	×	×	×
Bar Soap	◑	✓	✓	×	×	×	✓	✓	✓	✓	×	✓	×
Oral Care	◑	✓	×	✓	×	×	×	✓	×	×	×	×	×
Men's Grooming (Shavings, Toiletries & Fragrance)	◑	✓	✓	×	×	✓	✓	×	×	×	×	×	×
Hair oil	◑	✓	×	✓	✓	×	×	✓	✓	✓	✓	×	✓
Deodorants	◑	✓	✓	×	✓	✓	✓	×	✓	×	×	✓	✓
Liquid Soap	◑	✓	✓	×	×	×	×	×	×	×	×	×	×
Body Powder	◔	✓	✓	×	×	×	✓	×	×	×	×	×	×

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Challengers' ascendancy impacting leaders

Building a BPC brand traditionally involved launching products after 1-2 years of research, rolling out select SKUs/formats which would have a higher probability of success in the traditional GT channel and mass media advertising. However, this model lagged innovation momentum to address changes in consumer preferences across products ingredients, formats and price points with minimal e-commerce integration and 'why'-driven marketing approach. Hence with the support of rising digital penetration and high gross margins, digital-first brands were born which focused on niche products, innovation, omnichannel strategy, data-driven personalization and relevant brand narrative. Once sustainability questioned, these brands have been able to cause a dent to incumbents in the form of 30-350bps market share loss. We believe the digital-first brand universe can cater to a TAM of ₹199bn; i.e. ~15% of overall BPC market and can scale up to 26% over the next 5 years.

Operating in a sizable TAM with path to profitability

D2C companies' TAM can reach ₹494bn by CY28E

The rise of D2C companies is not a function of mere rising share of online shopping led by changing consumer shopping behaviour and macro tailwinds, but is also amplified by: (i) digital brands' quest to identify niche spaces and satiate emerging consumer needs; (ii) targeted marketing & personalisation; (iii) limited innovation by incumbents, etc. Thus, while TAM of D2C companies could be ~₹199bn (vs BPC industry size of >₹1,300bn; as per Redseer it is higher), we expect this to increase to ₹494bn by CY28E – i.e. by 20% CAGR.

Exhibit 37: Digital first companies can reach a TAM of ₹494bn by CY28E and make up 26% of the BPC sector

Categories (CY23)	Category size (₹ mn)	Assumed % addressable by D2C	D2C's potential TAM (₹ mn)	Comments
Baby and Child-specific Products	59,826	10%	5,983	Digital-first brands largely cater to the premium segment which form 10% of baby/child care FMCG
Bath and Shower	325,291	5%	17,567	Digital-first brands are widely present in categories like body wash and premium soaps
Colour Cosmetics	88,297	25%	27,758	Disruption seen in cosmetics category with digital-first brands offering products at comparable price points/marginal premium vs incumbents. Being an aspirational category, % of consumers drifting towards D2C can be higher
Fragrances	60,498	15%	9,075	Pricing of D2C brands is not very different from mid to premium incumbents brands
Hair Care	231,783	22%	51,742	~30% of the hair colour category operates in the rich crème range; ~90% of the hair oil market is in mid to mass segment; Dove, Tresseme, L'Oreal segment account for ~20% of overall shampoo market which could be target for D2C companies
Men's Grooming	61,460	10%	6,146	Large part of men's grooming is towards basic shaving where right to win for emerging brands is limited
Skin Care	218,993	29%	64,001	Pricing premium between D2C brands and incumbents has marginally corrected from 30-50% to 20-40%. Digital-first brands are leading category creation for serums, masks etc. From an affordability perspective, 25-30% of HH can be consumers of D2C brands
Sun Care	9,392	100%	9,392	Digital-first brands are leading category creation here
Oral Care	152,835	1%	1,528	Less than 5% of market is premium; Very few D2C companies focus on oral care
Depilatories	27,806	10%	2,781	Limited right to win here
Deodorants	53,021	5%	2,651	Majority of deodorant market caters to mass and mid segment
Overall TAM (CY23)			**198,624**	
Scale potential over CY23-28 (₹ bn)			**₹ bn**	
TAM of digital-first companies in CY23			199	
BPC market size in CY23			1,357	
Mix of digital-first brands in overall BPC			*15%*	
Growth over CY23-28E			20%	Assumed 2x of category growth
TAM of digital-first brands in CY28			494	
BPC market size in CY28			1,916	
Potential mix of digital-first brands in overall BPC in CY28			26%	

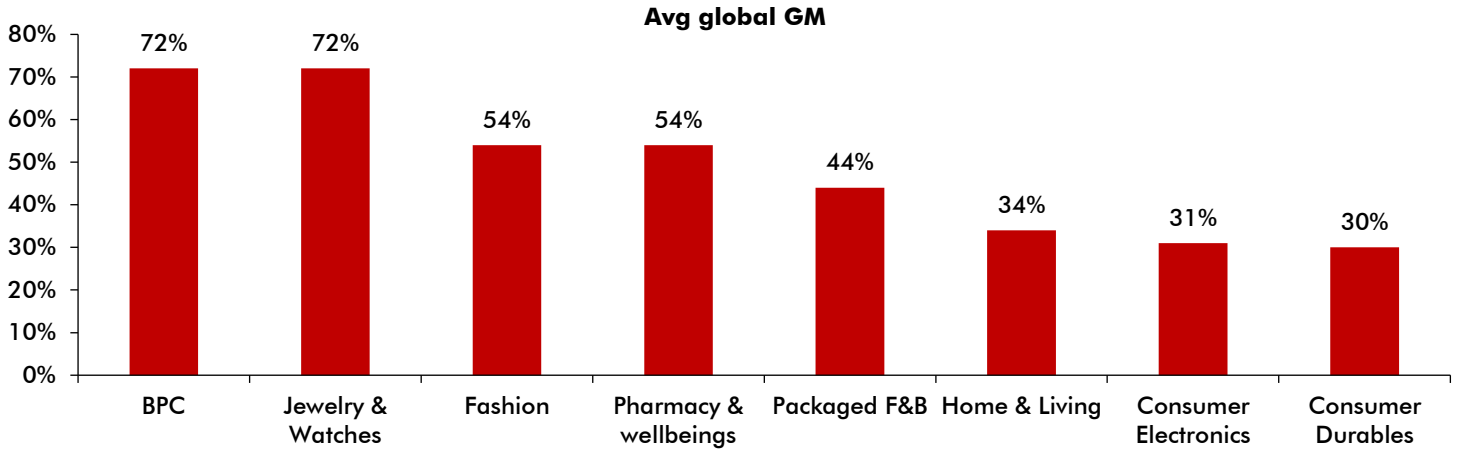
Source: Euromonitor, Ambit Capital research

Path to profitability over time

BPC companies lead in terms of gross margin profiles

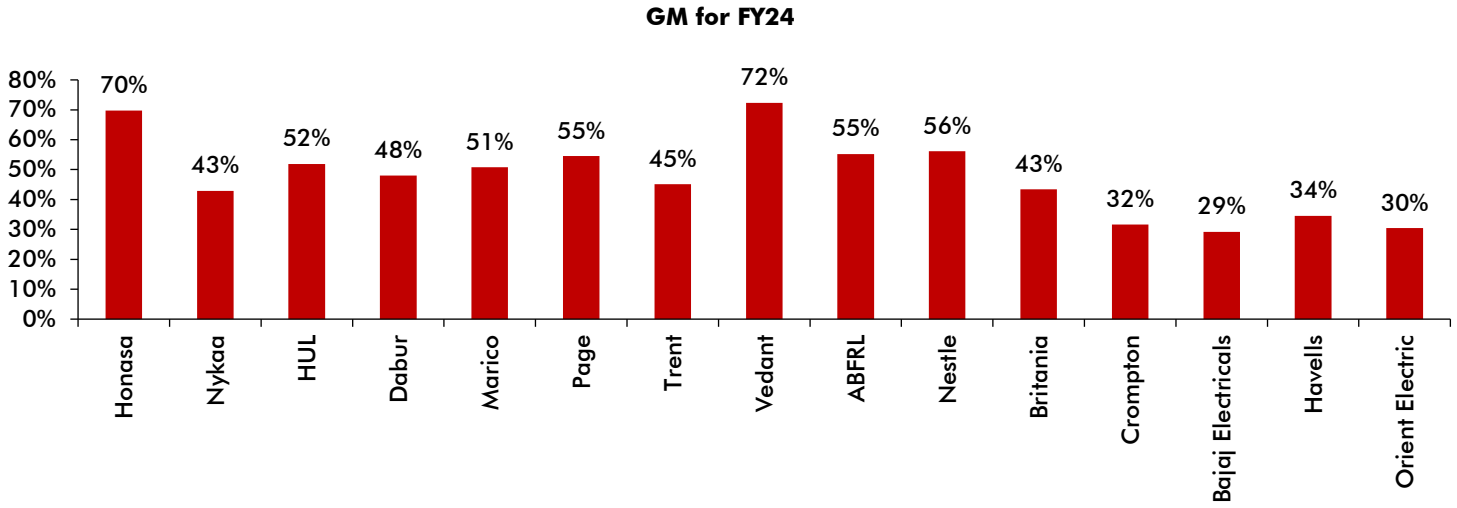
BPC category typically enjoys higher gross margins even compared to other FMCG categories like home care and food & beverage due to several factors. BPC products often command higher prices due to branding, perceived luxury, and consumer willingness to pay more for personal enhancement. Coupled with brand equity, product differentiation (wide range of products tailored to specific skin types, hair types, or beauty routines, etc.) allows companies to have higher pricing power and thus higher gross margins.

Exhibit 38: BPC brands typically have the highest GM among consumer/retail industry globally...



Source: Redseer/PeakV report, Ambit Capital research; Note: GM profile of jewellery industry in India is very different at 18-25% vs global

Exhibit 39: ....a similar trend is visible in India

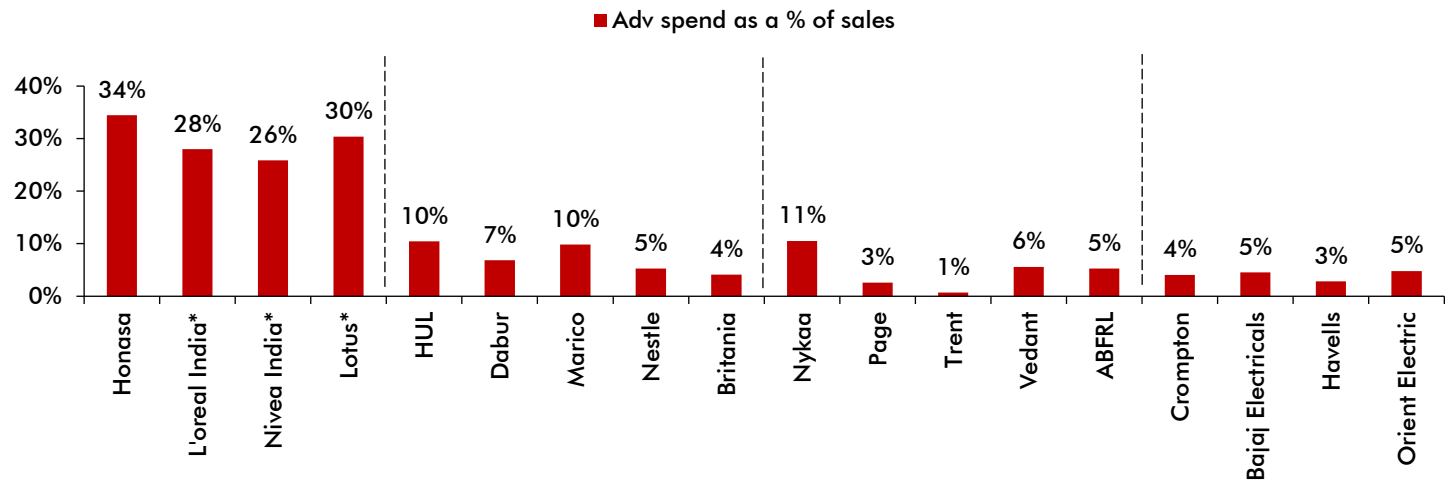


Source: Company, Ambit Capital research; Note: GM profile of jewellery industry in India is very different at 18-25% vs global

High GMs are then reinvested into marketing and brand-building

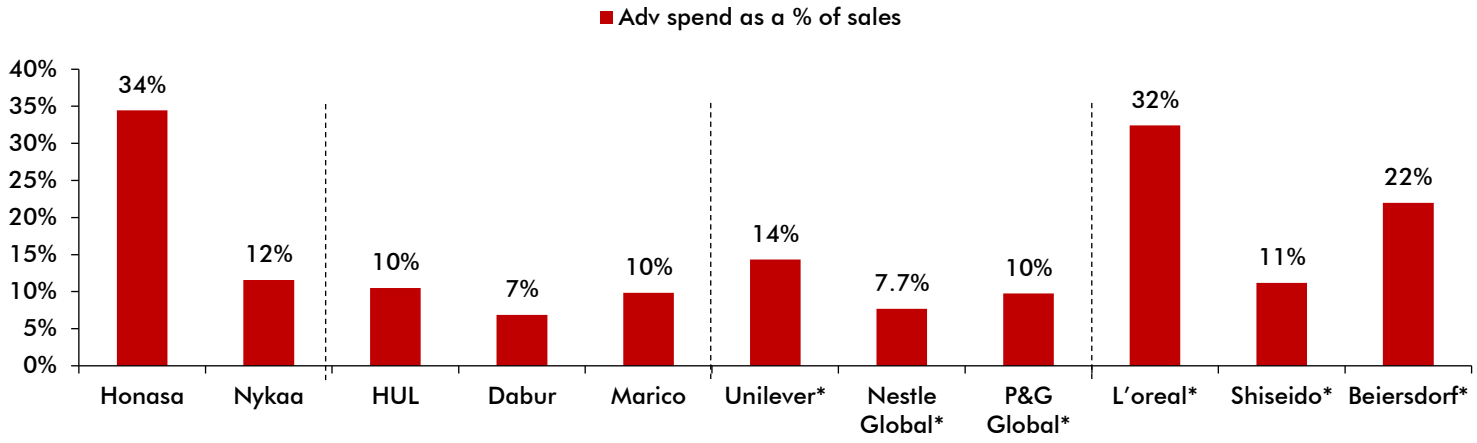
Innovation momentum of FMCG companies is higher versus other consumption categories. Within FMCG, BPC companies typically have higher momentum of new launches which call for spends towards consumer education to create demand investments in educating consumers about the uses and benefits of the products to create demand. To reach the right set of customers for their specialized products and to provide elevated experiences, pure-play brands leverage various marketing channels with a key focus on influencer marketing and providing unique experiences. So, pure-play BPC brands end up spending higher in marketing (in proportion) than FMCG-led BPC brands.

Exhibit 40: FY24 marketing spends as a % of sales is 34%/11% for Honasa/Nykaa



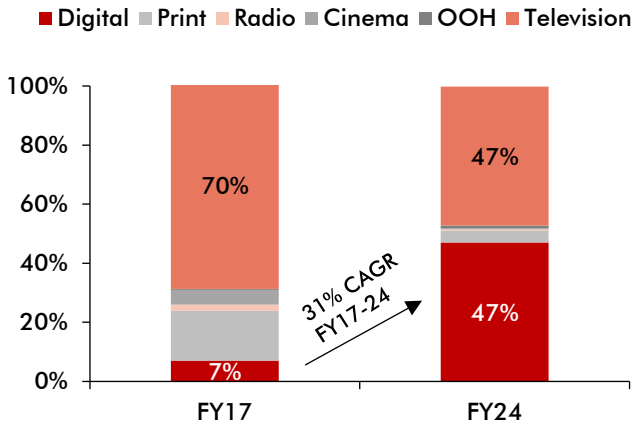
Source: Redseer/PeakV report, Ambit Capital research; Note: GM profile of jewellery industry in India is very different at 18-25% vs global

Exhibit 41: Even globally, BPC companies spend higher on marketing vs FMCG companies



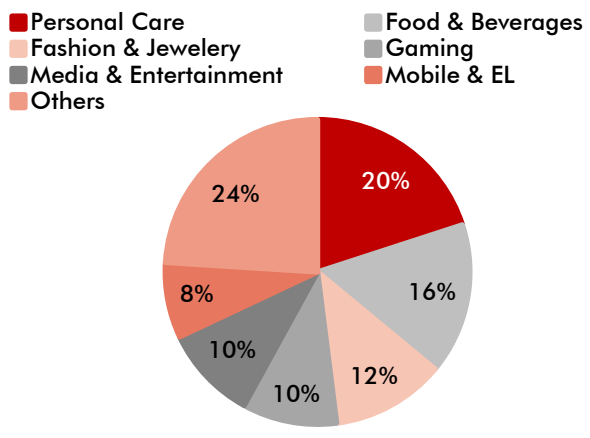
*Source: Company, Ambit Capital research. * Represents CY23*

Exhibit 42: Mix of digital marketing has been increasing for FMCG companies



Source: Company, Ambit Capital research

Exhibit 43: Lifestyle followed by Fashion & Beauty use influencer marketing the most



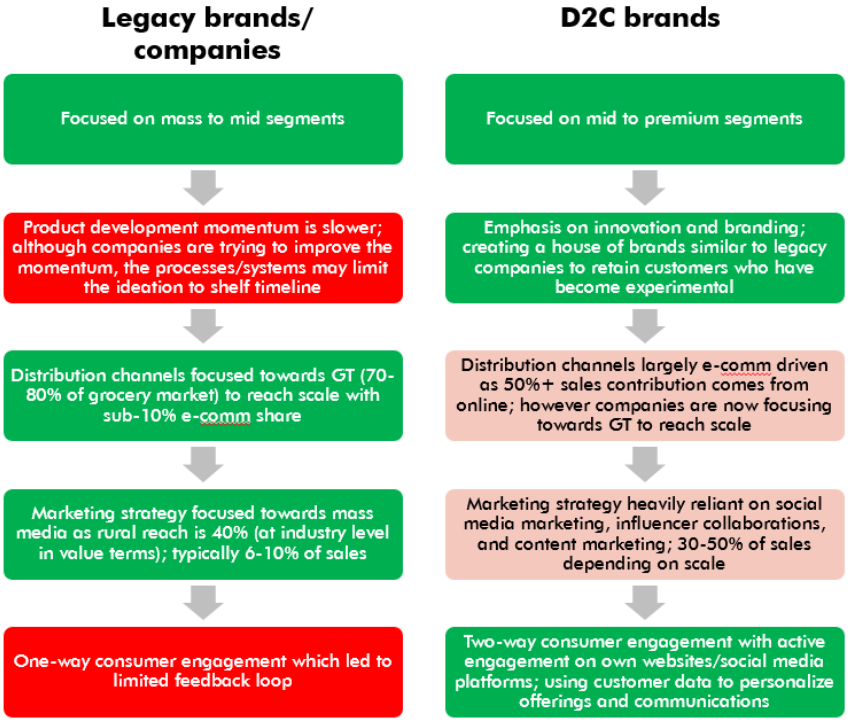
Source: Redseer, Ambit Capital research. As per CY22

Digital-first brands have tweaked the manual using innovation and branding

Earlier the playbook was different vs now

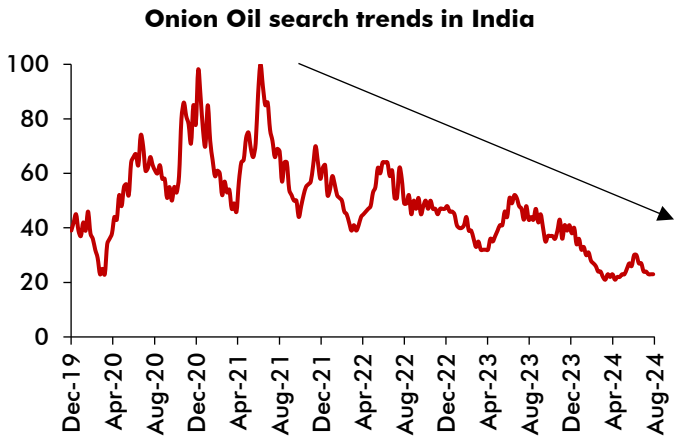
Building a BPC brand once focused on launching core products with traditional ingredients, establishing physical retail presence, and relying on mass media advertising like TV and print. The approach was largely one-way communication, with an emphasis on retail promotions and minimal e-commerce. Today, brand-building emphasizes niche products, innovation, and integration into comprehensive beauty routines. Distribution is omnichannel, with a strong online and D2C presence. Marketing has shifted to a digital-first approach, leveraging social media, influencers, and personalized, data-driven strategies for interactive consumer engagement. Further, with 'virality' of trends, new-age companies have to keep on focusing on new launches to monetize the same. Hence following an asset-light approach (manufacturing and/or formulation) makes sense.

Exhibit 44: Digital-first brands have tweaked strategies followed by legacy companies



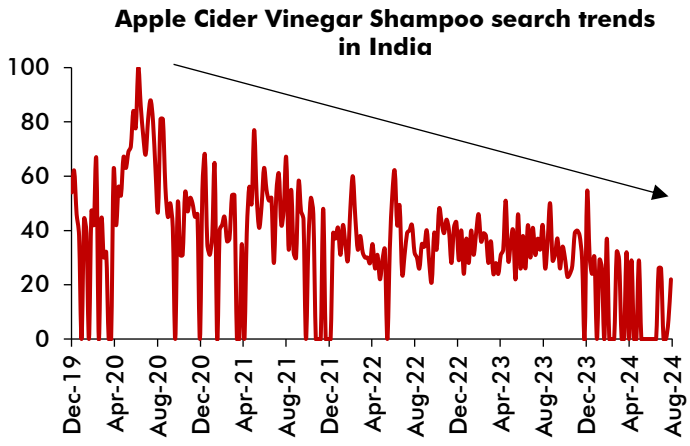
Source: Company, Ambit Capital research; Note: green are the positives, red are the negatives, pink is WIP

Exhibit 45: With rapidly changing consumer interests like onion oil...



Source: Company, Ambit Capital research

Exhibit 46: ...and ACV as evident from Google Search Trends, an asset-light model makes sense



Source: Company, Ambit Capital research

Building a 'Why' brand vs a 'What' brand to drive relatability

Legacy BPC brands are "what" brands, relying on a product-first approach with key SKUs dominating the market. They focus on established product features rather than consumer motivations. In contrast, D2C brands are "why" brands, building narratives around their purpose, offering clean, effective skincare with transparency and innovation. They prioritize emotional and functional connections with consumers, emphasizing why their products matter rather than just what they offer. This allows D2C brands to resonate deeply with modern consumers seeking purpose-driven choices.

Exhibit 47: Both legacy and new brands have created a brand narrative, but very few legacy brands' proposition built on emotional and functional connects

Brand	Proposition
Lux	A premium, indulgent bathing experience at an affordable price. The brand often associates itself with Bollywood celebrities, reinforcing its image of glamour and sophistication.
Dove	Resonating with confidence and self-esteem, offering nourishing products addressing various concerns for skin and hair.
Pears	Stands for mildness/gentleness; using glycerine and natural oils to maintain skin's natural moisture and softness
Lakme	Combines understanding of Indian skin tones and preferences with international cosmetics expertise with an offering of innovative, trendy yet affordable.
L'Oreal	Combines technology with luxury, catering to a wide range of consumers from masstige to premium segments. "Because you're worth it" emphasizes empowerment and self-care.
Maybelline	Bringing catwalk-inspired looks to everyday consumers, promoting bold and expressive looks, making beauty accessible and fun.
Godrej	Quality products at accessible price points
Cinthol	Confidence, freshness, and an active lifestyle
Himalaya	Blend of Ayurveda with modern science to create safe, effective and affordable products
Mamaearth	Honest, natural and safe. Toxin-free, natural, and organic personal care products, with a strong focus on safe and sustainable ingredients
Wow	Health-driven, nature-inspired products free from harsh chemicals
Sugar	Bold, vibrant, and long-lasting makeup products curated for Indian skin tones and climates
mCaffeine	Products infused with coffee and green tea catering to young, urban consumers with a love for caffeine and a preference for energizing and natural products.
Dot & Key	Providing clean, effective skincare with a focus on transparency and innovation,
Nykaa	While primarily an e-commerce platform, Nykaa's own beauty and personal care lines are built around curated, high-quality products and transparency, focusing on what resonates with their customer base.

Source: Company, Ambit Capital research

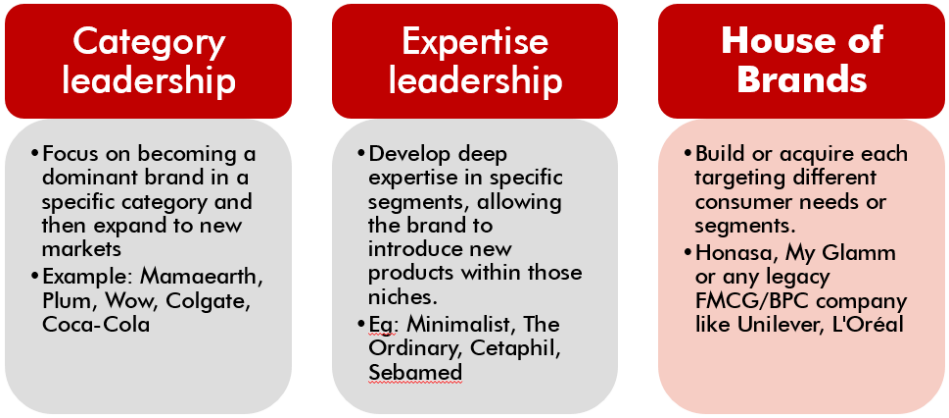
A 'what' brand focuses on the products or services it offers, emphasizing features, specifications, and tangible benefits. It communicates the practical aspects of its offerings and how they fulfill consumer needs. A 'why' brand, on the other hand, centers on the purpose, mission, and values behind the company. It emphasizes the reasons for its existence, often appealing to consumers' emotions and aligning with their personal values or beliefs. This type of branding aims to build a deeper connection with the audience by resonating with their aspirations and ideals.

- *Popularized by Simon Sinek, through his concept of the "Golden Circle", in his book "Start with Why"*

Category leadership, expertise get consumers, house of brands gets scale

To scale up effectively, brands can adopt one of the following strategies - (i) Category Leadership Expansion, (ii) Expertise-Driven Product Line Expansion and (iii) House of Brands Strategy. Of these three, the last one enables brands to diversify their offerings, increase market share and sustain long-term growth.

Exhibit 48: House of Brands is a better strategy for long-term growth



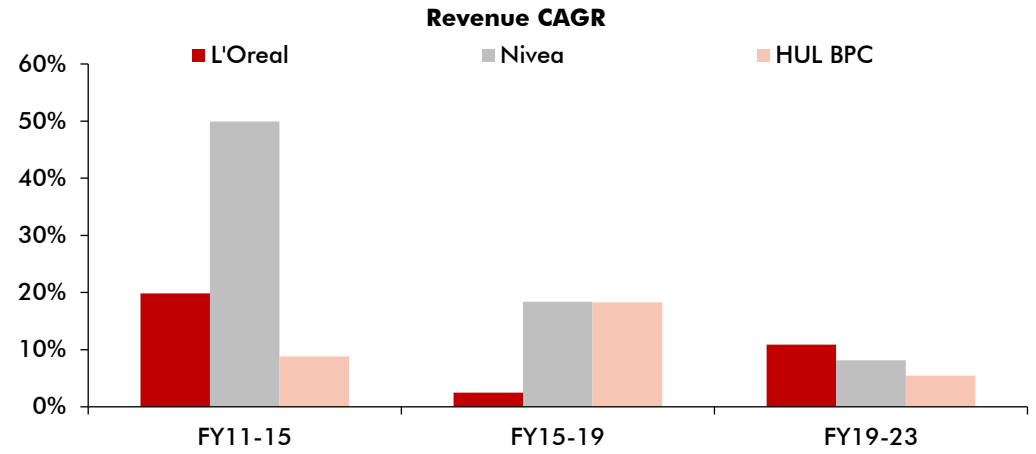
Source: Company, Ambit Capital research

Resultant loss of market share by incumbents

Incumbents lost 30-350bps market share over CY20-23

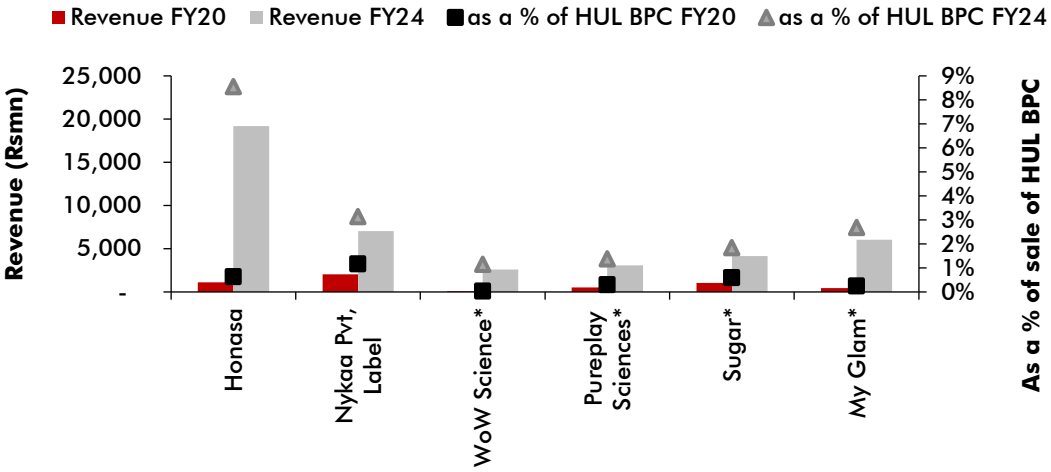
Rise of digital-first led to market leaders losing share in the BPC segment. While part of the market share loss can be attributed to rise of new age companies (from CY15/16 onwards). Brand fatigue, limited innovation as well as rising competition from existing players too led to share loss. Over CY15-23, HUL lost market share across most of its categories except bar soaps, shampoos and toothpaste (gained 10-50bps over CY20-23). L'Oréal was the only incumbent that gained market share across categories on the back of specialised launches. On the other hand, digital-first brands' revenue as a % of HUL BPC segment was sub-1% in FY20 which rose to sub-10% by FY24. Honasa Consumer gained market share across the categories it operates in.

Exhibit 49: Incumbent BPC brands saw growth slowdown over the years; L'Oreal saw the highest growth over FY19-23 on relevant product launch and category expansion



Source: Company, VCC Edge/MCA, Ambit Capital research. Note: HUL's FY11-15 CAGR is for personal care segment (excludes soap). From FY16 reporting changed with BPC (including soaps) being reported as a separate segment.

Exhibit 50: Digital-first brands' revenue as a % of HUL BPC segment was sub-1% in FY20 and rose to sub-10% by FY24



*Source: Company, Ambit Capital research, * represents for FY23*

Exhibit 51: Most FMCG-led incumbents lost market share in their key categories; most BPC companies gained share

	Market share gain/loss		
	CY2011-15	CY2015-20	CY2020-23
Honasa			
Baby and Child-specific Toiletries		480bps	230bps
Shampoos		110bps	170bps
Facial Care		140bps	290bps
Adult Sun Care		0bps	1,960bps
HUL			
Bar Soap	-1,050bps	-191bps	50bps
Body Wash/Shower Gel	911bps	-387bps	-300bps
Eye Make-Up	-444bps	-141bps	-200bps
Facial Make-Up	-65bps	-282bps	-120bps
Lip Products	-437bps	-292bps	-100bps
Nail Products	-685bps	-550bps	-350bps
Shampoos	623bps	310bps	10bps
Toothpaste	-200bps	-74bps	50bps
Body Care	-621bps	-379bps	0bps
Facial Care	-849bps	-873bps	-270bps
L'Oreal India			
Lip Products	58bps	-53bps	220bps
Colourants	-283bps	49bps	560bps
Salon Professional Hair Care	274bps	-166bps	1,160bps
Shampoos	27bps	16bps	100bps
Facial Care	-40bps	-47bps	110bps
Nivea India			
Bar Soap	59bps	16bps	0bps
Deodorant Sprays	441bps	-25bps	-30bps
Men's Toiletries	295bps	-89bps	-10bps
Body Care	763bps	-126bps	-80bps
Facial Care	67bps	32bps	0bps

	Market share gain/loss		
	CY2011-15	CY2015-20	CY2020-23
GCPL			
Bar Soap	-163bps	32bps	-30bps
Colourants	76bps	-139bps	-70bps
Dabur			
Conditioners and Treatments	-408bps	-214bps	-20bps
Shampoos	121bps	16bps	20bps
Toothpaste	-88bps	156bps	10bps
Marico			
Conditioners and Treatments	703bps	-38bps	-130bps
Men's Toiletries	593bps	-88bps	0bps
Himalaya			
Baby and Child-specific Skin Care	855bps	810bps	160bps
Baby and Child-specific Toiletries	1,053bps	636bps	30bps
Shampoos	70bps	82bps	10bps
Facial Care	133bps	186bps	40bps
ITC			
Bar Soap	117bps	-2bps	-20bps
Deodorant Sprays	1,013bps	450bps	60bps
Men's Toiletries	352bps	60bps	-70bps

Source: Euromonitor, Ambit Capital research

New channels facilitating demand & supply

Before the rise of D2C, another significant trend emerged from a channel perspective – the growth of online vertical specialized BPC platforms like Nykaa and Purplle. These platforms serve two keys roles of (i) demand creation by educating the consumer on trends, application, reviews and (ii) supply fulfilment through relevant merchandising and an omnichannel presence. Their success, like any retailer, hinges on effective merchandising, which relies on consumer insights and strong brand associations. Like any successful retailer, the core success factor is dependent on merchandising which is dependent on ability to build on consumer insights and brand associations. Brands on the other hand have more control over their image and consumer experience but are restricted to their portfolio. This makes platforms more competitive and scalable by offering diverse options and monetizing consumer engagement. Even globally, platforms like Sephora and Ulta Beauty have gained scale faster than brands like L'Oréal and Unilever BPC (refer exhibit 57).

Platforms = Assortment/Brand relationships vs Brand = Identity/innovation

Blueprint for platforms relies on assortment, partnerships, content and community

For an e-commerce platform, the focus is on creating a comprehensive digital marketplace. This involves curating a diverse product range, forming strong brand partnerships, and developing an intuitive, user-friendly interface with advanced features like personalized recommendations and filtering options. The goal is to provide a seamless shopping experience and attract a broad customer base through strategic content, influencer collaborations, and community engagement. In contrast, building a brand involves developing a distinct identity and reputation. This includes crafting a unique value proposition, establishing a strong brand voice and image, and fostering direct relationships with customers. The focus is on maintaining brand integrity, creating emotional connections, and differentiating from competitors. While both require strategic planning and execution, the e-commerce platform emphasizes operational and user experience aspects, whereas brand-building centres on identity and customer perception.

Exhibit 52: Playbook for brand; success is dependent on creating an identity and focus on innovation

Source: Ambit Capital research

Exhibit 53: Playbook for a platform; success is dependent on creating merchandising ability and brand relationships

Source: Ambit Capital research

Inventory models may not make sense for all categories, but make sense for BPC

Inventory model bodes well for categories with concentrated brands and where experience and quality are paramount. It allows for better control over brand relationships, product quality and customer experience despite the risks of negotiation, capital investment, and brand management. Conversely, for categories with a long tail of products, massive selection, high standardization, and numerous sellers, a marketplace model is more effective, as it leverages diversity, scale, and lower operational complexity. Hence inventory model for categories like BPC, grocery and electronics makes more sense vs a marketplace model which is suited for categories like apparel.

Exhibit 54: Inventory model has a favourable risk-reward scenario vs marketplace model as it can control the product authenticity, pricing and curation

Parameters/value chain	Inventory Model	Marketplace Model
Sourcing	▪ Products are directly sourced from brands or authorized distributors.	▪ Partner with sellers (brands, third-party sellers) who list their products on the platform.
Inventory Management	▪ Maintains inventory in its own warehouses, hence bear storage costs.	▪ Sellers manage their own inventory.
Quality Control	▪ Can ensure product authenticity and quality through direct sourcing from brands.	▪ Relies on sellers for quality assurance; though platform may set standards but enforcement is decentralized. Hence supply of counterfeit product would lead to dilution of the platform's brand.
Order Fulfilment	▪ Platform manages picking, packing, and shipping from its warehouses.	▪ Sellers handle picking, packing, and shipping directly in some cases but in some the marketplace handles the fulfilment.
Delivery	▪ Platform often uses its own logistics or partners with third-party logistics providers.	▪ Sellers may use their own logistics or third-party logistics providers.
Customer Service	Platform provides end-to-end customer service and handles returns which may entail a hit to the P&L.	▪ Platform provides customer service but returns are often managed by the seller.
Marketing and Promotion	▪ Platform controls promotions and marketing strategies, often leveraging its brand power. ▪ Also offer promotion services to brands (revenue stream).	▪ Marketing efforts may be collaborative with sellers, focusing on platform visibility. ▪ Brands control pricing.
Revenue Model	▪ Profit margins are derived from the difference between wholesale and retail prices.	▪ Platform earns commissions on sales or charges listing fees.
Pricing Control	▪ Platform sets the prices of the products, in some cases platforms+brands decide the pricing.	▪ Sellers set their own prices, leading to variability.
Scalability	▪ Limited by inventory holding capacity and warehouse space.	▪ More scalable as it leverages seller inventory; less capital intensive.
Risk	Higher risk due to inventory holding costs and potential for unsold stock.	▪ Lower risk as inventory is held by sellers.
Customer Experience	▪ Generally more consistent in terms of product availability and delivery times.	▪ Can be variable depending on the seller's reliability and service.
Data and insights	▪ Owns customer data, can leverage insights for targeted marketing and inventory planning	▪ Shares customer data with sellers, which can lead to less control over insights.

Source: Company, Ambit Capital research

In the case of apparel, the inventory model may not make complete sense as fashion industry experiences faster and more frequent changes in trends due to its inherent seasonality, acceptance of fast fashion model, consumer behaviour (returns etc.) and steep levels of fragmentation. The BPC industry, on the other hand, sees slower trend changes.

Horizontal e-com players not really a threat to specialised BPC players

The BPC category favours online vertical players over horizontal platforms due to the need for customer education, engagement, and relationships with key opinion leaders. Vertical platforms offer a wider range of products, tailored search engines, and robust customer interfaces with advanced filter options. Premium brands also prefer these specialized platforms to maintain their exclusive positioning, avoiding association with mass-market brands commonly found on horizontal platforms.

Exhibit 55: Threat of competition to specialised vertical platforms is lower on account of product authenticity, consumer stickiness and relevant assortment

Parameter/ Format	Specialised BPC vertical platforms	Vertical fashion platforms	Horizontal platforms	Offline BPC store chains	Departmental stores	Mom & pop general trade	Brands	Comments
Player examples	*Nykaa, Purplle*	*Myntra, Ajio*	*Amazon, Flipkart*	*Sephora, SS Beauty*	*Lifestyle, Shoppers Stop*	*Neighborhood stores*	*Dove, Himalaya, Sugar*	
Authenticity	●	◕	◑	●	●	◑	●	Vertical BPC Platforms: High authenticity due to direct partnerships with brands. Vertical Fashion Platforms: Good, but some issues persist with third-party sellers. Horizontal Platforms: Lower due to third-party sellers and counterfeit risks. Offline BPC Store Chains: High due to direct sourcing from brands. Departmental Stores: High due to reputable sourcing. Mom & Pop General Trade: While they are serviced by distributors of brands, there are issues with counterfeits. Brands: Highest
Customer loyalty	●	◑	◑	◕	◑	◔	◕	Vertical BPC Platforms: Strong base of loyal customers due to content, curation, assortment of products supported by loyalty programs. Vertical Fashion Platforms & Departmental Stores: Lower loyalty for BPC as assortment is not comprehensive. Horizontal Platforms: Lower loyalty for BPC as assortment is not comprehensive and availability of counterfeit products. Offline BPC Store Chains: Dedicated platform for BPC, hence loyalty would be high, but limited to physical store reach. Mom & Pop General Trade: Restricted to basic needs. Brands: Brand-specific loyalty persists.
Scale	◕	◑	◑	◑	◑	◔	◕	Vertical BPC Platforms: Urban focused. Vertical Fashion Platforms & Horizontal Platforms: Scale of BPC could be restricted due to limited assortment as even brands may prefer to sell on specialised BPC platforms where they benefit from higher traffic. Offline BPC Store Chains: Limited by physical store presence, largely in metro - tier 2 cities. Departmental Stores: Limited by physical store presence, largely in metro - tier 2 cities Mom & Pop General Trade: Limited to local reach. Brands: Scale through channel & geography diversification, focused on their specific products.
Assortment	●	◑	◑	◕	◑	◔	◑	Vertical BPC Platforms: Comprehensive range of beauty products. Vertical Fashion Platforms & Horizontal Platforms: Limited to best-selling/high take-rate brands/SKUs. Offline BPC Store Chains: Good range but limited by store size. Departmental Stores: Limited to specific premium/luxury brands. Mom & Pop General Trade Stores: Limited to mass/masstige brands. Brands: Moderate assortment, focused on their product lines.
TAM/target pop	◕	◕	●	◑	◑	◔	◕	Vertical BPC Platforms: Primarily beauty and personal care consumers. Vertical Fashion Platforms: Primarily fashion consumers but given BPC is ancillary, target population widens. Horizontal Platforms: Reach is wider hence broad target population. Offline BPC Store Chains: Urban, high-income consumers. Departmental Stores: Wide target population but limited by locations, typically urban. Mom & Pop General Trade: Local consumers. Brands: Targeted to their specific consumer base.
Overall	●	◑	◑	◕	◑	◔	◕	

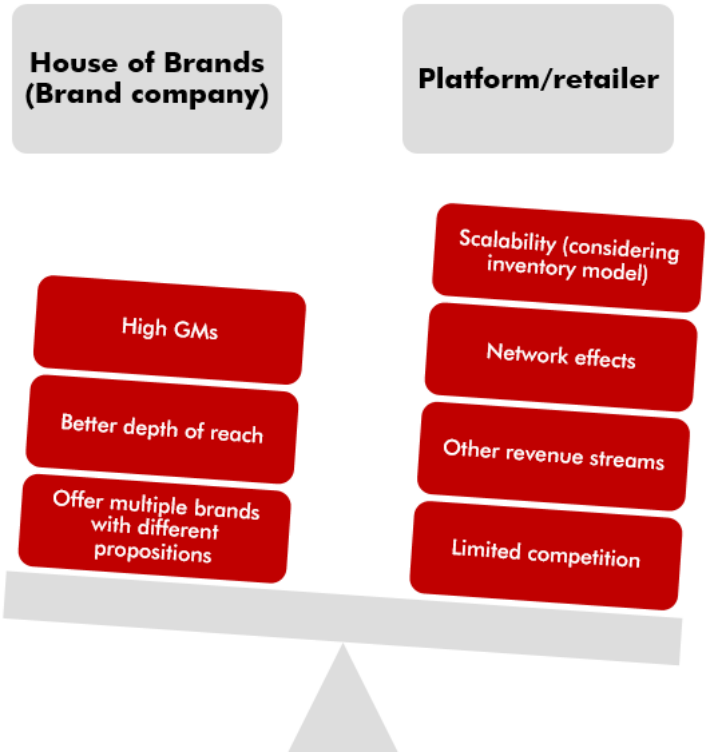
Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Platform offers better growth longevity than brands

Platforms offer faster scalability

BPC platforms excel in offering a wide variety of products, advanced filtering options, and personalized recommendations, making them ideal for capturing diverse customer segments. They focus on building strong customer interfaces and leveraging data to drive engagement and sales. Brands, on the other hand, have more control over their image and customer experience. They can directly influence customer perceptions through curated content, exclusive product offerings, and deeper storytelling. Brands also benefit from building direct relationships with customers, fostering loyalty, and ensuring premium positioning. Hence in terms of scalability in terms of being a channel offering multiple brands to consumer and limited competition, a platform fares better than a brand.

Exhibit 56: A platform model is better due to brand diversity and faster scalability



Source: Ambit Capital research

Exhibit 57: Globally, platforms have more scalability considering they have been launched later than the brands

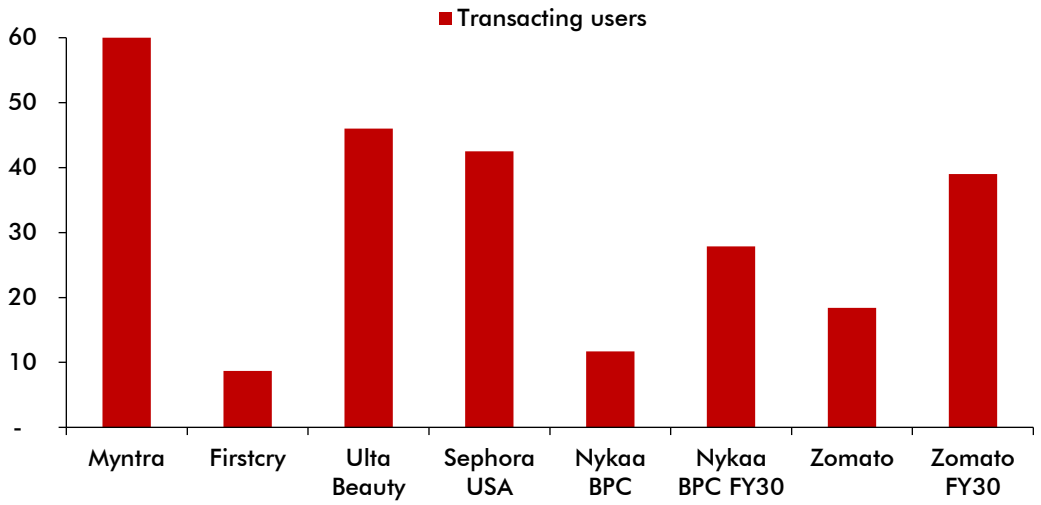
Revenue (CY23)				EBITDA/ EBITDAM % (CY23)			
Platforms	**USD bn**	**Brands**	**USD bn**	**Platforms**	**USD bn**	**Brands**	**USD bn**
Sephora (1970, gained prominence in 1990s)	17	L'Oréal (1909)	38	Sephora	1/8%	L'Oréal	8/20%
Ulta Beauty (1990)	11	Estee Lauder* (1946)	10	Ulta Beauty	1/12%	Estee Lauder*	1/10%
		Shiseido (1872)	7			Shiseido	1/10%
		P&G – BPC* (late 1800s)	15			P&G – BPC*	3/19%
		Unilever - BPC (1957)	12			Unilever - BPC	2/19%

*Source: Company, Ambit Capital research. *CY23 ends on 30 June 2023*

Online penetration will help expanding TAM for platforms

Increased online penetration is expanding the total addressable market (TAM) for BPC platforms. Women now represent 40-45% of online shoppers, up from just 10% five to seven years ago. This shift is driven by rising internet access, improved digital payment infrastructure, and changing shopping habits. As more women embrace online shopping, BPC platforms can tap into this growing demographic, enhancing their reach and market potential.

Exhibit 58: Nykaa's transacting user base (currently 20-25% of Ulta/Sephora) would increase as penetration of online shopping and penetration of newer categories and premiumisation increases in BPC



Source: Company, Ambit Capital research

However, both models should work in the Indian landscape

In the Indian context where penetration of BPC, especially beauty, is lower vs global, there is scope for consumption occasion and premiumization. Both house of brands proposition of offering scalability and differentiated products and platform make sense.

Can't avoid competition, hence watch for companies that stand out

Companies with an innovation funnel and brand equity will stand out

Innovation is always an aspect that differentiates an institution within its universe. In the case of BPC, with the rising frequency of changing trends, a company in this sector will have to be on the treadmill to provide relevant products to the consumer in order to retain existing and on-board new consumers. Hence companies with a strong innovation funnel will have an edge vs the ones that lag. Similarly, with an assortment/product overlap among industry participants, creating a brand narrative backed by relevant products to ensure brand resonance if not loyalty is crucial. Applying the IBAS framework, Nykaa followed by Purplle within the platform model stand out on account of wide customer base, brand strength and preferred platforms for launch of new brands. Within the D2C product-brands model, Honasa, Nykaa and Sugar stand out based on their innovation momentum, addressing product gaps, offline expansion etc.

Exhibit 59: Nykaa stands out on the platform peer set, followed by Purplle

	Nykaa	Purplle	Tira	Tata Palette
Innovation	●	◕	◕	◑
Brand	●	◕	◑	◔
Architecture	◕	◑	◑	◑
Strategic Assets	◕	◑	◑	◔
Total	●	◕	◑	◑

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 60: Honasa followed by Nykaa and Sugar fare well within the D2C peer set

IBAS Score	Honasa Mamaearth	Nykaa private brand	Sugar	Pureplay Plum	The Good Glamm Myglamm	Wow Sciences Wow
Innovation	●	●	●	◑	◑	◕
Brand	●	●	●	◕	◑	◑
Architecture	●	◕	◑	◕	◔	◕
Strategic Assets	●	●	◕	◑	◔	◔
Total	●	●	●	◕	◑	◑

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Beauty is a good long-term play within discretionary

BPC sector emerges as a relatively lucrative category based on rising consumption due to widening & emergence of new segments, scope for premiumisation, higher growth vs overall consumption, market share gain potential and scope for margin/ROCE expansion for emerging players. Within BPC, Nykaa and Honasa stand out. We like Nykaa based on operational proficiency in the BPC segment with effective customer engagement, curated merchandise and brand relationships and fashion business with its niche offering which will aid margin/ROCE expansion. We like Honasa on the back of its innovation funnel, emerging newer brands aiding revenue growth, expanding its digital & offline footprint and strengthening its consumer engagement strategies will aid long-term scalability. We expect 20-25%/45-50% revenue/EBITDA CAGR over FY24-27 and use DCF valuation to capture the longevity and scalability for each company. Initiate both with BUY. While we prefer a platform model over brand on account of growth led by multiple brands, in the listed space we prefer Honasa>Nykaa due to the former's favourable valuations.

Beauty is one of the preferred discretionary buckets of consumption

Bifurcating discretionary (including pseudo discretionary) consumption into sub-categories, we evaluate their growth potential, entry barriers, competitive landscape etc. to rank lucrativeness of each category. BPC sector emerges as a relatively strong category based on rising consumption due to widening & emergence of new segments, scope for premiumisation, higher growth vs overall consumption and scope for margin/ROCE expansion for emerging players. Within our consumer coverage, we prefer GCPL>Nykaa in large-caps, Sapphire>Honasa in mid-caps and Senco within small-caps.

Exhibit 61: Prefer QSR>Jewellery>BPC within our discretionary coverage

Parameters across discretionary consumption categories	QSR	Jewellery	Beauty	Apparel	Footwear	Grocery (leader)	Paint
Category purchase frequency	◕	◑	◕	◕	●	◔	◑
Scope to increase mix of organised/online channel	●	●	◕	●	◑	◔	◔
Incremental growth potential for listed cos. vs overall consumption sector	●	●	●	◕	◕	◔	◔
Entry barriers	◕	●	◑	◔	●	◕	◕
Scope of branded penetration increase	●	◕	◑	◔	○	◔	◔
Scope of premiumisation	●	●	●	●	◕	◑	◑
Competitive landscape	◑	◑	◑	◔	◔	◔	◔
Scope of margin expansion	◕	◑	●	◑	◑	◔	◔
Scope of ROCE expansion	◕	●	●	●	◕	◑	◑
Overall lucrativeness of the sector	◕	◕	◕	◕	◑	◔	◑

Source: Ambit Capital research; Note: higher the better/more favourable in terms of negative parameters like high unorganised, competition
Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

Exhibit 62: Nykaa trades at 6x/5x FY26/27 sales, at a discount to peer discretionary/retail companies that have lower growth rate; reasonable valuations of 5x EV/sales which are at 30-40% discount to large FMCG names

Company Ticker	Mcap ($ mn)	CMP	TP	Rating	CAGR (FY24-27E)			EV/Sales		EV/EBITDA		PE Ratio	
					Sales	EBITDA	PAT	FY26	FY27	FY26	FY27	FY26	FY27
Beauty & Personal Care													
NYKAA IN EQUITY	7,334	216	252	BUY	27%	54%	169%	6	5	72	49	166	98
HONASA IN EQUITY	2,095	542	639	BUY	21%	45%	42%	6	5	57	41	76	54
Jewellery													
TTAN IN EQUITY	39,404	3,727	2,819	SELL	19%	20%	21%	5	4	45	38	64	53
KALYANKJ IN EQUITY	7,861	640	NA	NA	28%	26%	39%	2	2	33	27	54	42
SENCO IN EQUITY	1,150	1,243	1,191	BUY	18%	22%	26%	1	1	19	16	32	27
Apparel													
TRENT IN EQUITY	30,215	7,138	3,195	SELL	35%	37%	29%	11	9	67	52	106	78
PAG IN EQUITY	5,363	40,379	30,907	SELL	13%	16%	17%	8	7	38	33	57	49
MANYAVAR IN EQUITY	3,671	1,269	NA	NR	15%	15%	15%	17	15	36	31	56	47
ABFRL IN EQUITY	3,832	317	253	SELL	15%	24%	NA	2	2	17	15	NA	318
SHOP IN EQUITY	1,070	817	NA	NR	19%	18%	46%	2	2	12	10	63	39
GOCOLORS IN EQUITY	769	1,196	NA	NR	18%	20%	21%	6	5	19	16	53	43
Footwear													
METROBRA IN EQUITY	4,047	1,250	900	SELL	16%	17%	16%	11	9	36	30	65	53
RLXF IN EQUITY	2,463	831	585	SELL	13%	20%	25%	6	5	34	30	62	53
BATA IN EQUITY	2,190	1,431	1,231	SELL	9%	11%	29%	5	4	20	18	45	36
CAMPUS IN EQUITY	1,056	291	240	SELL	14%	22%	33%	5	4	28	23	52	43
FMCG													
BRIT IN EQUITY	17,123	5,970	5,296	SELL	13%	11%	13%	7	6	37	33	53	46
DABUR IN EQUITY	14,040	665	594	UR	10%	13%	14%	8	7	38	34	49	44
GCPL IN EQUITY	18,308	1,503	1,682	BUY	10%	15%	24%	9	8	39	35	54	46
HUVR IN EQUITY	81,100	2,899	2,198	SELL	9%	10%	10%	10	9	40	36	56	50
MRCO IN EQUITY	10,484	680	505	SELL	10%	11%	12%	7	7	35	32	47	42
NEST IN EQUITY	29,111	2,536	2,219	SELL	10%	11%	11%	10	9	42	38	63	56
TATACONS IN EQUITY	14,338	1,204	945	SELL	12%	13%	24%	6	6	38	37	60	52
Paints													
APNT IN EQUITY	37,637	3,295	2,483	SELL	8%	5%	5%	8	7	39	35	57	51
AKZO IN Equity	2,087	3,848	-	NR	NA	NA	NA	4	NA	24	NA	37	NA
BRGR IN EQUITY	8,354	602	446	SELL	10%	8%	10%	5	5	33	30	51	45
PIDI IN EQUITY	19,572	3,231	-	NR	12%	14%	19%	11	9	46	40	66	57
KNPL IN EQUITY	2,965	308	-	NR	8%	9%	-9%	3	2	20	18	31	28
Alcobev													
UBBL IN EQUITY	6,546	2,079	1,253	SELL	11%	31%	39%	5	5	35	181	63	50
UNITDSPR IN equity	13,063	1,508	975	SELL	9%	15%	14%	8	7	41	104	64	56
QSR													
JUBI IN EQUITY	5,232	666	439	SELL	21%	24%	20%	6	5	25	22	83	63
DEVYANI IN Equity	2,712	189	149	SELL	25%	28%	NA	4	4	22	19	94	67
SAPPHIRE IN EQUITY	1,286	339	375	BUY	17%	23%	59%	3	3	17	14	76	52
WESTLIFE IN EQUITY	1,485	799	-	NR	15%	18%	43%	4	4	27	22	86	62
RBA IN EQUITY	633	107	-	NR	18%	33%	NA	2	1	12	9	NA	NA
Others													
DMART IN EQUITY	41,412	5,344	3,386	SELL	21%	24%	26%	5	4	54	45	83	68
ZOMATO IN EQUITY	28,161	268	155	NR	43%	377%	123%	8	6	83	49	90	59

Source: Bloomberg, Ambit Capital research

Exhibit 63: Like most consumer names, domestic BPC companies (brands+retailers) appear expensive vs global BPC companies on the back of higher growth

Company Ticker	Mcap ($mn)	CMP	Rating	CAGR (FY24-27E)			EV/Sales		EV/EBITDA		PE Ratio	
				Sales	EBITDA	PAT	FY26	FY27	FY26	FY27	FY26	FY27
Domestic Co												
NYKAA IN EQUITY	7,334	216	BUY	27%	54%	169%	6	5	72	49	166	98
HONASA IN EQUITY	2,095	542	BUY	21%	45%	42%	6	5	57	41	76	54
Global Co												
ULTA US EQUITY (Ulta Beauty Inc)	17,978	32,044	NR	3%	NA	NA	2	2	10	9	15	14
BBWI US EQUITY (Bath & Body Works Inc)	6,034	2,313	NR	2%	NA	0%	1	1	6	6	8	7
ZAL GR EQUITY (Zalando SE)	6,361	2,024	NR	6%	25%	65%	0	0	6	5	19	15
THG LN EQUITY (THG PLC)	1,025	65	NR	7%	92%	NA	1	1	8	7	NA	NA
RVLV US EQUITY (Revolve Group Inc)	1,516	1,802	NR	7%	37%	30%	1	1	18	14	31	24
4911 JP EQUITY (Shiseido Co Ltd)	8,956	1,880	NR	5%	17%	46%	1	1	10	9	22	19
EL US EQUITY (Estee Lauder Cos Inc)	31,176	7,299	NR	4%	16%	64%	2	2	11	10	22	19
OR FP EQUITY (L'Oreal SA)	226,278	35,522	NR	8%	10%	11%	5	4	19	18	27	25
603605 CH EQUITY (Proya Cosmetics Co Ltd)	4,987	1,055	NR	24%	25%	25%	2	2	13	11	18	15
ULVR LN EQUITY (Unilever PLC)	163,678	5,521	NR	5%	9%	10%	3	3	13	13	19	18
VIPS UN EQUITY (Vipshop Holdings Ltd)	6,796	1,070	NR	0%	3%	6%	0	0	3	3	5	5

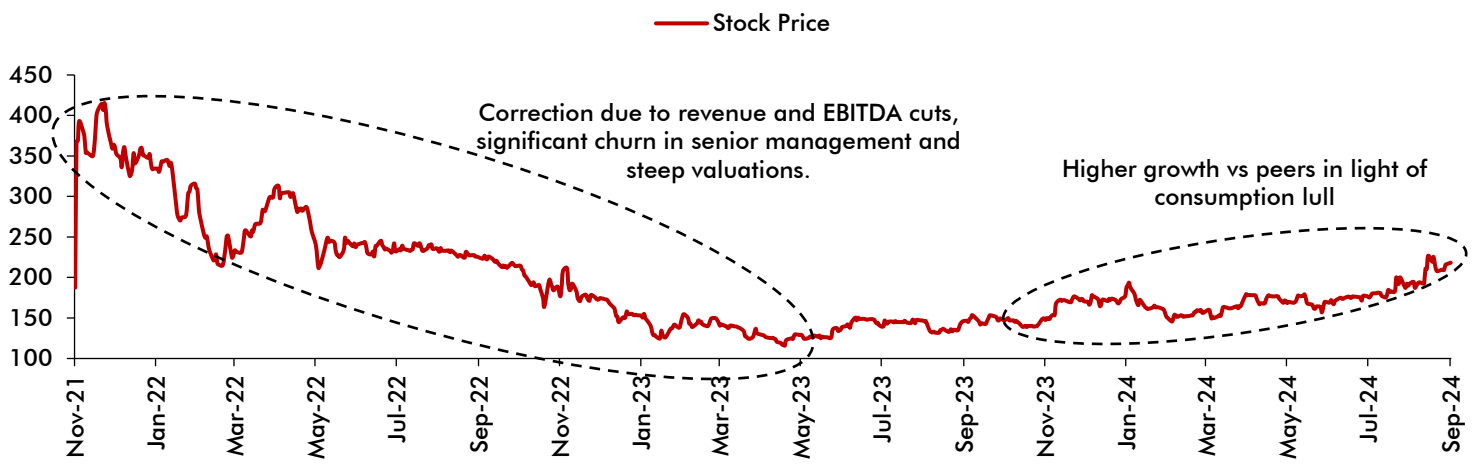
Source: Bloomberg, Ambit Capital research

Prefer Honasa>Nykaa

Nykaa (BUY | CMP ₹216 | TP ₹252)

We expect Nykaa's BPC/Fashion revenue to register 16%/19% CAGR over the next two decades driven by new customer growth, increasing penetration and category expansion. Fashion's market share growth will be gradual due to competitive intensity, with EBITDAM trajectory key to stock performance. We forecast a sales/pre-IND AS 116 EBITDA CAGR of 17%/27% over FY24–44, giving a DCF-based TP of ₹252. At 4.8x FY27 EV/sales, Nykaa trades at a discount to peers (Zomato/Trent/Metro). However, on EV/EBITDA (pre IND AS 116), Nykaa trades at 66x, higher vs discretionary peers on account of its lower EBITDAM base but we believe that with higher EBITDA growth runway, EV/EBITDA multiple should remain higher vs peers. Key risks include slowing revenue growth momentum in either of segments, slower fashion profitability, peer execution in BPC, management churn.

Exhibit 64: Nykaa's stock price had corrected 60-70% over Nov21-May23 and has rallied 70-80% since then till date



Source: Bloomberg, Ambit Capital research

Exhibit 65: Long-term assumptions expect 16%/24% CAGR in revenue/EBITDA...

Estimates (₹ mn unless specified)	FY24	FY27E	FY34E	FY44E	CAGR			
					FY24-27E	FY27E-34E	FY34E-44E	FY24-44E
Revenue (₹ mn)	63,856	129,246	489,439	1,441,849	26%	21%	11%	17%
GM %	43%	43%	44%	45%	0bps	13bps	15bps	12bps
EBITDA (₹ mn)	3,462	11,725	68,237	289,346	50%	29%	16%	25%
EBITDAM %	5%	9%	14%	20%	122bps	61bps	61bps	70bps
Pre IND AS 116 EBITDA (₹ mn)	2,295	9,412	60,630	274,381	60%	30%	16%	27%
Pre IND AS 116 EBITDAM %	4%	7%	12%	19%	123bps	64bps	66bps	74bps
PAT (₹ mn)	323	5,670	49,240	239,636	160%	36%	17%	39%
ROE	3%	28%	35%	38%	837bps	80bps	31bps	165bps
Pre-tax ROCE (Pre IND)	5%	30%	40%	40%	811bps	128bps	-2bps	164bps
FCF (Pre IND AS 116)	(2,584)	2,516	34,136	175,964	NA	45%	18%	NA

Source: Ambit Capital research

Exhibit 66: ...but we are lower than consensus on margins as we believe EBITDAM improvement in fashion & eB2B segments would be gradual

Consolidated	FY25E			FY26E			FY27E		
₹ mn	Ambit	Consensus	Diff	Ambit	Consensus	Diff	Diff	₹ mn	Ambit
Revenue	78,884	81,278	-3%	101,283	102,983	-2%	129,246	130,157	-1%
EBITDA	5,087	5,469	-7%	7,977	8,658	-8%	11,725	12,651	-7%
EBITDA Margin	6.4%	6.7%	-28bps	7.9%	8.4%	-53bps	9.1%	9.7%	-65bps
PAT	1,333	1,689	-21%	3,149	3,729	-16%	5,670	6,267	-10%

Source: Bloomberg, Ambit Capital research

Exhibit 67: TP of ₹252 implies 17% upside potential

Particulars	₹ mn
PV of FCF	259,454
Terminal Growth rate %	7%
PV of Terminal Value	465,629
Total value of Firm	**725,083**
Total Equity Value	719,410
Number of shares o/s (m)	2,857
Value per share (₹)	252
CMP	216
% Upside/(Downside)	**17%**

Source: Ambit Capital research

Exhibit 68: TP can deviate by 4%/12% for every 50bps change in terminal growth/WACC

₹		Terminal growth				
		6.0%	6.5%	7.0%	7.5%	8.0%
WACC	11.2%	291	312	338	372	416
	11.7%	254	271	290	315	346
	12.2%	225	237	252	270	293
	12.7%	200	210	221	235	252
	13.2%	179	187	196	206	219

Source: Ambit Capital research

Honasa (BUY | CMP ₹533| TP ₹639)

We expect Honasa to outperform FMCG peers on growth, fuelled by consumer insight-led innovation, targeted marketing, expanding reach, and scaling emerging brands. Though current EBITDAM of 7% trails peers due to high ad spending, Mamaearth's 12% EBITDAM is encouraging considering <10 years of existence. We expect a sales/PAT CAGR of 21%/43% over FY24–27, with emerging brands ('The Derma Co' and 'Aqualogica' etc.) growing at 23% CAGR and Mamaearth moderating to 10-11% where even EBITDAM should rise from 7.1% to 12% driven by scale efficiencies. Honasa trades at a 30-40% EV/sales discount to FMCG-led BPC peers at 5.2x FY27 EV/sales. Even from a P/E multiple perspective, FY30 P/E (EBITDAM gap vs incumbents should narrow) for Honasa is 23x vs 34x/32x/32x for HUL/Dabur/GCPL. We initiate coverage on Honasa with a BUY recommendation and a target price of ₹639, implying 5.8x FY27 EV/sales. Prefer Honasa>Nykaa on reasonable valuations.

Exhibit 69: TP of ₹639 implies FY27 EV/sales of 5.8x which is lower than most FMCG peers

Particulars	₹ mn
PV of FCF	95,604
Terminal Growth rate %	6%
Terminal Value	930,927
PV of Terminal Value	98,646
Total value of Firm	**195,250**
Total Equity Value	207,049
Mcap valuation	175,740
% Upside/(Downside)	18%

Source: Ambit Capital research

Exhibit 70: TP can deviate by 3%/6% for every 50bps change in terminal growth/CoE

₹		Terminal growth				
		5.0%	5.5%	6.0%	6.5%	7.0%
CoE	11.9%	720	749	784	825	874
	12.4%	654	678	705	737	775
	12.9%	598	617	**639**	664	693
	13.4%	549	564	582	602	626
	13.9%	506	519	534	550	569

Source: Ambit Capital research

Exhibit 71: Long-term assumptions build in 15%/18% CAGR in revenue/FCF....

Estimates (₹ mn unless specified)	FY24	FY27E	FY34E	FY44E	CAGR			
					FY24-27E	FY27E-34E	FY34E-44E	FY24-44E
Revenue (₹ mn)	19,199	33,610	99,125	330,831	21%	17%	13%	15%
GM %	70%	70%	70%	70%	17bps	0bps	0bps	2bps
EBITDA (₹ mn)	1,371	4,034	18,127	77,893	43%	24%	16%	22%
EBITDAM %	7%	12%	18%	23%	162bps	77bps	47bps	75bps
Pre-IND AS 116 EBITDA (₹ mn)	1,197	3,822	17,906	77,618	47%	25%	16%	23%
Pre-IND AS 116 EBITDAM %	6%	11%	18%	23%	171bps	82bps	49bps	79bps
PAT (₹ mn)	1,118	3,262	15,543	66,882	43%	25%	16%	23%
ROE	13%	20%	23%	28%	222bps	39bps	49bps	70bps
Pre-tax ROCE (Pre IND)	11%	19%	24%	30%	283bps	61bps	57bps	91bps
FCF (Pre-IND AS 116)	2,061	2,878	13,121	56,290	12%	24%	16%	18%

Source: Ambit Capital research

Exhibit 72: ...but despite optically high growth, we expect Honasa to reach HUL's BPC segment's current size only after FY40

	Honasa			Nykaa			HUL - BPC		
	FY24	FY34E	FY44E	FY24	FY34E	FY44E	FY24	FY34E	FY44E
Revenue	19	100	340	64	489	1,442	224	602	1,575
	FY19-24	FY24-34	FY34-44	FY19-24	FY24-34	FY34-44	FY19-24	FY24-34	FY34-44
Revenue CAGR	158%	18%	13%	42%	23%	11%	5%	10%	10%
Growth differential of Honasa vs the respective company				3.8	0.8	1.1	33.2	1.7	1.3
Honasa's revenue as a % of the respective company				30%	20%	24%	9%	17%	22%

Source: Ambit Capital research.

Exhibit 73: We are broadly in line with consensus

Consolidated	FY25E			FY26E			FY27E		
₹ mn	Ambit	Consensus	Diff	Ambit	Consensus	Diff	Ambit	Consensus	Diff
Revenue	23,122	23,023	0%	28,016	28,042	0%	33,610	33,832	-1%
EBITDA	1,960	1,865	5%	2,873	2,985	-4%	4,034	4,158	-3%
EBITDA Margin	8.5%	8.1%	37bps	10.3%	10.6%	-39bps	12.0%	12.3%	-29bps
PAT	1,589	1,532	4%	2,262	2,279	-1%	3,225	3,165	2%

Source: Bloomberg, Ambit Capital research

FSN E-Commerce Ventures (NYKAA IN, BUY)

Valuation Methodology

We value Nykaa using DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 12% and terminal growth of 7% to arrive at a TP of ₹252.

Risks

The key risks to our buy recommendation include:

- Slowing growth momentum in BPC segments.
- Delay in Nykaa Fashion's profitability.
- Better execution by peers in BPC, resulting in stagnant market share.
- Churn in senior management, causing hindrance in execution.

Honasa Consumer Ltd (HONASA IN, BUY)

Valuation Methodology

We value Honasa using DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 13% and terminal growth rate of 6% to arrive at TP of ₹ 639.

Risks

The key risks to our BUY recommendation includes:

- Lower pace of innovative product launches
- Slow pace of offline expansion
- Delay in scale-up of new brands
- Delay in margin expansion

FSN E-Commerce Ventures

BUY

INITIATING COVERAGE | **NYKAA IN EQUITY** | **September 11, 2024**

Beauty and fashion forward

FSN E-commerce Ventures' (Nykaa) continued success as a leading BPC retailer will centre on operational proficiency (6x inventory turns; 13% conversion). So, despite rising competition, we expect sustained leadership and share gain in overall BPC from 5% to 17% over FY24-44. Fashion offers growth potential in a restricted TAM, but profitability, where we are conservative vs guidance, will be crucial to reduce drag at consolidated level. Nykaa trades at 4.8x FY27E EV/sales, 30-40% discount to high-growth peers, but EV/EBITDA of 53x is at a premium due to lower EBITDAM. Reducing drag of non-BPC segments should drive high EBITDA growth, narrowing premium with improving margins. We like Nykaa for market share gain potential in BPC, growth runway for Fashion on a small base and room for margin expansion. Expect 17%/25% revenue/EBITDA CAGR over FY24-44E, with DCF-based TP of ₹252. Risks: Slowing growth in either segment, delay in Fashion profitability, execution by BPC peers and management churn.

Competitive position: MEDIUM | Changes to this position: NEUTRAL

Execution prowess has made Nykaa a brand synonymous to beauty

Nykaa's BPC platform married demand generation (content creation, product authenticity, engagement) with supply fulfilment (merchandising capabilities and online-offline accessibility). This created a sense of loyalty (79% GMV from existing customers), limiting incentive for consumers to move to competition. Category consumption, online penetration and lower impact from rising competition will propel market share gain from 5% to 17% over FY24-44.

Nykaa Fashion – scope for challenger to increase share is limited

Nykaa Fashion's scale will build on differentiation it created through latest season, style-first, underrepresented brands and premium assortment. But given focus on women and premium offerings, scale would be limited. Hence, we build in limited market share gain in the fashion e-com industry (can improve from 3% to 7% over FY24-44) as the DNA is not to grow at any cost.

Being a challenger comes at a cost; margin trajectory to hinge on fashion

After profitable growth in BPC (est. 12-13% EBITDAM), Nykaa aspires to mid-single-digit EBITDAM on NSV in FY27 (+10% EBITDAM on steady-state basis) in fashion. Being a challenger brand, Nykaa would have to continue investing in growth, so our FY27 estimates are at low single digit vs guided mid-single digit.

Valuations on the higher side for revenue and margin upside

We expect 26%/17% revenue CAGR over FY24-27/FY24-44 led by increase in user base as penetration improves, followed by marginal growth in AOVs. EBITDAM should expand 120bps p.a. to 9% on lower drag from fashion/eB2B segments, driving 50% EBITDA CAGR in FY24-27. This should enhance RoE/ROCE profile and lead to positive cash flows.

Key Financials

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	51,438	63,856	78,885	101,283	129,246
Gross profit	22,781	27,392	33,681	43,346	55,442
EBITDA	2,560	3,462	5,087	7,977	11,725
PAT	248	437	1,333	3,150	5,670
EV/sales	12.0	9.6	7.8	6.1	4.8

Source: Company, Ambit Capital research

Consumer Discretionary

Recommendation

Mcap (bn):	₹616/US$7.3
6M ADV (mn):	₹10.2/US$0.1
CMP:	₹216
TP (12 Mths):	₹252
Upside (%):	17

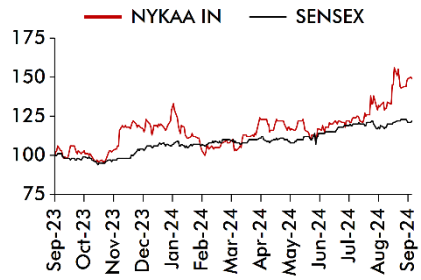
Flags

Accounting:	AMBER
Predictability:	AMBER
Earnings Momentum:	AMBER

Catalysts

- BPC & fashion segments' revenue growth of 20-25% led by 20%/6% order/AOV growth.
- Reduction in Nykaa Fashion's losses from negative 10.3% EBITDAM to negative mid-single digit EBITDAM.

Performance



Source: ICE, Ambit Capital Research

Research Analysts

Videesha Sheth
+91 22 66233264
videesha.sheth@ambit.co

Nihal Mahesh Jham
+91 22 6623 3194
Nihal.Jham@ambit.co

Sanket Gharat
+91 22 66233012
sanket.gharat@ambit.co

The Narrative in Charts

Exhibit 1: We build +95mn users by FY44E (11% CAGR over FY24-44) for Nykaa's BPC platform, which implies 45-50% penetration of the relevant TAM

Nykaa BPC Penetration (mn)	FY24	FY34	FY44	FY24-44E CAGR
No. of households	109	183	249	
- High-income (assuming 3% growth beyond FY28)	41	72	98	
- Upper middle income (assuming 3% growth beyond FY28)	68	111	151	
Relevant population assuming (i) size per household to be 4 and (ii) 2 female per household and (iii) 50% of age group between 15-45 years	109	183	249	
- High-income	41	72	98	
- Upper middle income	68	111	151	
Addressable population	**76**	**140**	**205**	*5%*
- High-income - 100%	41	72	98	
- Upper middle income - 50% gradually increasing to 70% (is a function of affordability and affinity to shop online)	35	68	107	
Factor of affordability and affinity to shop online	*51%*	*61%*	*71%*	
Nykaa BPC consumer base	12	52	97	*11%*
Nykaa's penetration in the relevant TAM	**15%**	**37%**	**47%**	

Source: Redseer, Statista, Ambit Capital research

Exhibit 2: Assuming total/online BPC market posts 10%/14% CAGR over the next 2 decades, our GMV assumptions build 17%/39% market share for Nykaa

Nykaa's market share in BPC (based on GMV)	FY24	FY35	FY44	CAGR FY24-44
Indian BPC market (₹ bn)	1,577	4,719	9,996	10%
Indian e-com BPC market (₹ bn)	313	2,251	5,203	14%
Online mix in BPC	*20%*	*42%*	*43%*	
Nykaa's market share in total BPC market	5%	12%	17%	
Nykaa market share in online channel	27%	29%	39%	

Source: Redseer, Statista, Ambit Capital research

Exhibit 3: We expect Nykaa Fashion to penetrate 27% of relevant TAM by FY44 assuming it grows its transacting user base by 14% CAGR over the next 2 decades

Nykaa Fashion Penetration (mn)	FY24	FY34	FY44	FY24-44E CAGR
No. of households	109	183	249	
- High-income (assuming 3% growth beyond FY28)	41	72	98	
- Upper middle income (assuming 3% growth beyond FY28)	68	111	151	
Relevant population assuming (i) size per household to be 4 and (ii) 2 female per household and (iii) 50% of age group between 15-45 years	109	183	249	
- High-income	41	72	98	
- Upper middle income	68	111	151	
Addressable population	56	107	160	5%
- High-income - 100%	41	72	98	
- Upper middle income - 20% gradually increasing to 40% (is a function of affordability and affinity to shop online)	14	35	62	
Nykaa Fashion consumers	3	17	43	14%
Nykaa's penetration in the relevant TAM	**5%**	**16%**	**27%**	

Source: Redseer, Statista, Ambit Capital research

Exhibit 4: Assuming premium/online fashion market posts 14%/14% CAGR over the next 2 decades, our GMV assumptions build 7% market share for Nykaa in each cohort

Nykaa's market share in Fashion (based on GMV)	FY24	FY35	FY44	CAGR FY24-44
Indian Fashion market size (₹ bn)	**6,366**	**24,791**	**48,644**	11%
Premium fashion (₹ bn)	1,120	7,098	15,035	14%
Mix %	*18%*	*29%*	*31%*	
Nykaa's market share in premium online fashion	3%	4%	7%	
Indian online Fashion market (₹ bn)	1,074	6,683	15,113	14%
Mix%	17%	27%	31%	
Nykaa's market share of online fashion players	3%	5%	7%	

Source: Redseer, Statista, Ambit Capital research

Exhibit 5: Threat of competition to specialised vertical platforms is lower on account of product authenticity, consumer stickiness and relevant assortment

Parameter/ Formats	Specialised vertical BPC platforms	Vertical fashion platforms	Horizontal platforms	Offline BPC store chains	Departmental stores	Mom & pop general trade	Brands
Player examples	*Nykaa, Purplle*	*Myntra, Ajio*	*Amazon, Flipkart*	*Sephora, SS Beauty*	*Lifestyle, Shoppers Stop*	*Neighborhood stores*	*Dove, Himalaya, Sugar*
Authenticity	●	◕	◑	●	●	◑	●
Customer loyalty	●	◑	◑	◕	◑	◔	◕
Scale	◕	◑	◑	◑	◑	◔	◕
Assortment	●	◑	◑	◕	◑	◔	◑
TAM/target pop	◕	◕	●	◑	◑	◔	◕
Overall	●	◑	◑	◕	◑	◔	◕

Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 6: Nykaa (BPC) supersedes peers on assortment and consumer loyalty followed by Purplle

BPC	Nykaa	Purplle	Tira	Tata Palette
Innovation	●	◕	◕	◑
Brand	●	◕	◑	◑
Architecture	◕	◑	◑	◑
Strategic Assets	◕	◑	◑	◔
Total	●	◕	◑	◑

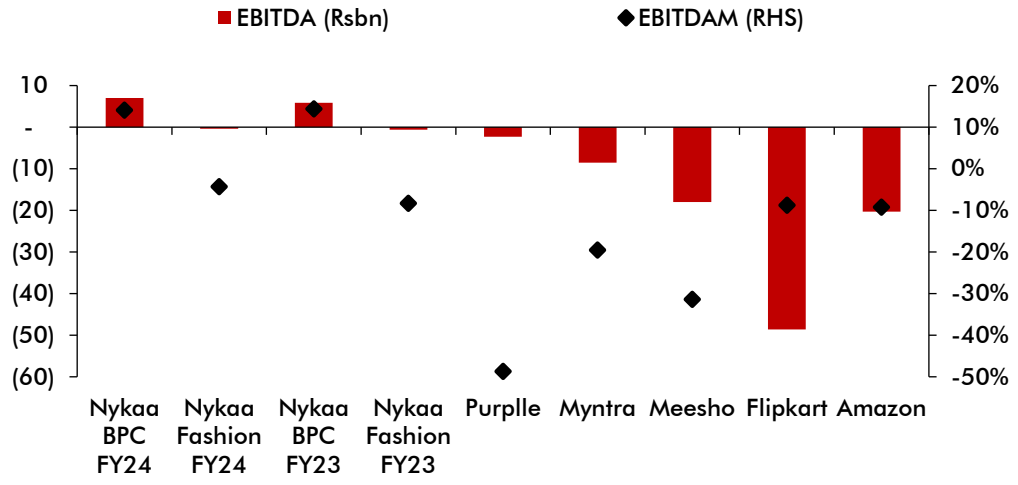
Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 7: It is a challenger in fashion and is trying to differentiate itself through curated assortments

Fashion	Nykaa	Myntra	AJIO	Meesho	Tata Cliq
Innovation	●	●	◕	◕	◑
Brand	◑	●	◕	●	◑
Architecture	◕	●	◑	◕	◑
Strategic Assets	◑	●	●	◕	◑
Total	◕	●	◕	◕	◑

Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 8: Nykaa is one of the few e-commerce players which is profitable at EBITDA level



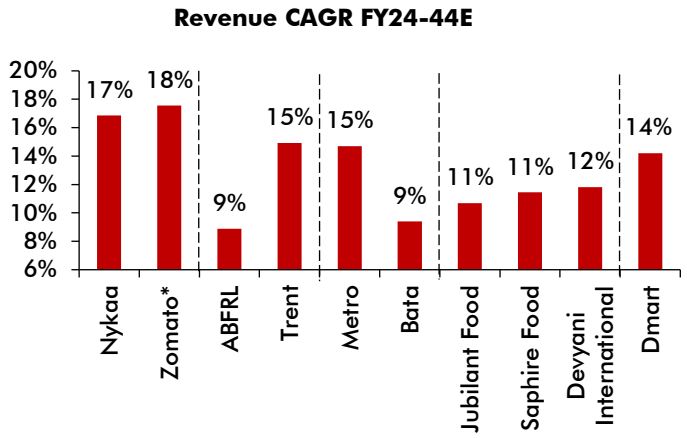
Source: Company, VCC Edge/MCA, Ambit Capital research

Exhibit 9: Long-term assumptions build in 17%/25% CAGR in revenue/EBITDA with margin increasing from 5% to 20%....

Estimates (₹ mn unless specified)	FY24	FY27E	FY34E	FY44E	CAGR			
					FY24-27E	FY27E-34E	FY34E-44E	FY24-44E
Revenue (₹ mn)	63,856	129,246	489,439	1,441,849	26%	21%	11%	17%
GM %	43%	43%	44%	45%	0bps	13bps	15bps	12bps
EBITDA (₹ mn)	3,462	11,725	68,237	289,346	50%	29%	16%	25%
EBITDAM %	5%	9%	14%	20%	122bps	61bps	61bps	70bps
Pre IND AS 116 EBITDA (₹ mn)	2,295	9,412	60,630	274,381	60%	30%	16%	27%
Pre IND AS 116 EBITDAM %	4%	7%	12%	19%	123bps	64bps	66bps	74bps
PAT (₹ mn)	323	5,670	49,240	239,636	160%	36%	17%	39%
ROE	3%	28%	35%	38%	837bps	80bps	31bps	165bps
Pre-tax ROCE (Pre IND)	5%	30%	40%	40%	811bps	128bps	-2bps	164bps
FCF (Pre IND AS 116)	(2,584)	2,516	34,136	175,964	NA	45%	18%	NA

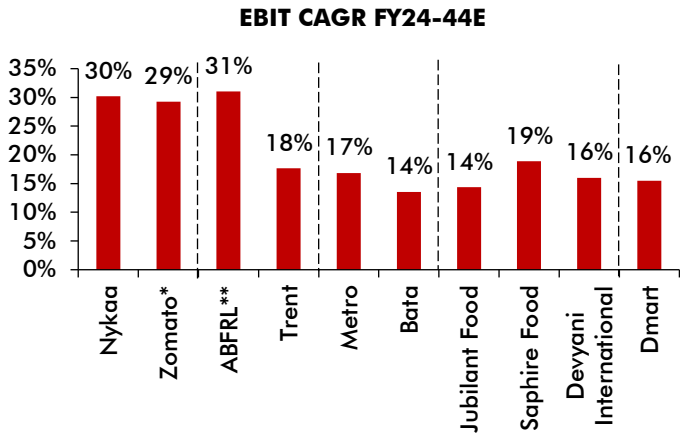
Source: Company, Ambit Capital research

Exhibit 10: Revenue CAGR FY24-44E for Nykaa is at 17%, one of the highest in the peer set



*Source: Company, Ambit Capital research. * FY24-40E*

Exhibit 11: EBIT CAGR in FY24-44E is 30%, one of the highest among discretionary peers

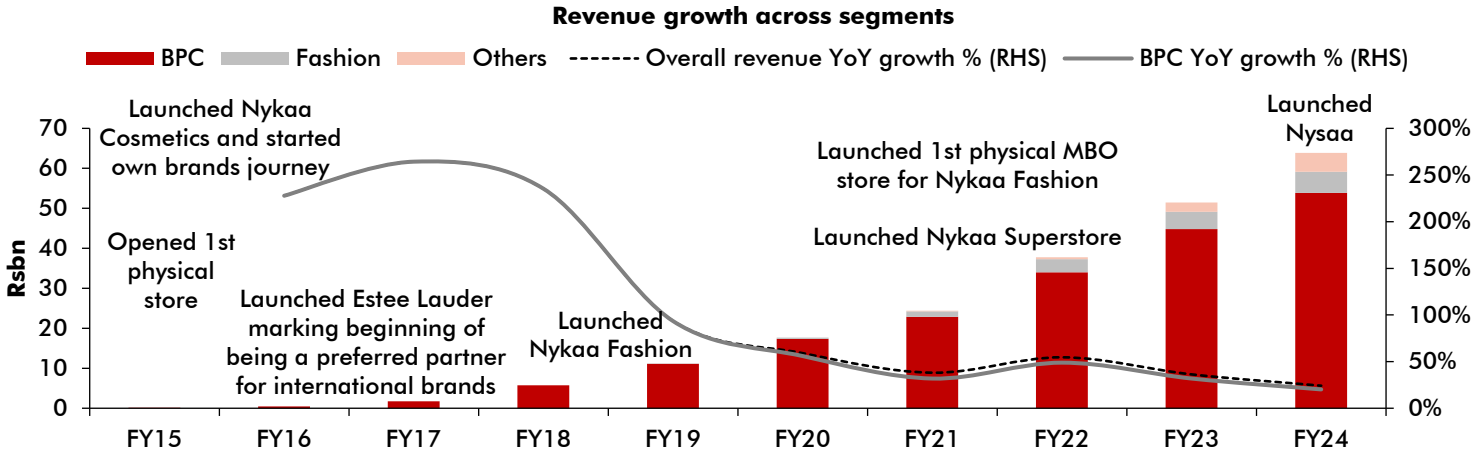


*Source: Company, Ambit Capital research. * FY26-40E, ** FY26-44E*

Leadership in BPC, gradually emerging in fashion

Nykaa's rise in India is closely tied to its strategic use of content, authenticity through inventory model, merchandising, and brand partnerships, where the network effect has been pivotal — more consumers attract more brands, which broadens Nykaa's product offerings and in turn draws in even more consumers. This led to Nykaa's BPC segment clocking 33% revenue CAGR over FY21-24. In 2018, Nykaa expanded into fashion, leveraging its beauty platform's strengths in content and curation while adapting the model to industry dynamics and consumer behavior by adopting a marketplace model instead of an inventory-led one. The fashion segment achieved 54% CAGR over FY21-24, contributing to the company's overall growth of 38% and taking its GMV contribution to 26% in a span of 5 years. In the recent years, Nykaa also entered international markets (GCC) under the 'Nysaa' brand and launched an eB2B channel to tap into the large offline market to gain market share in the BPC market.

Exhibit 12: BPC continues to drive overall revenue growth for the company with incremental growth being fuelled by newer segments like fashion



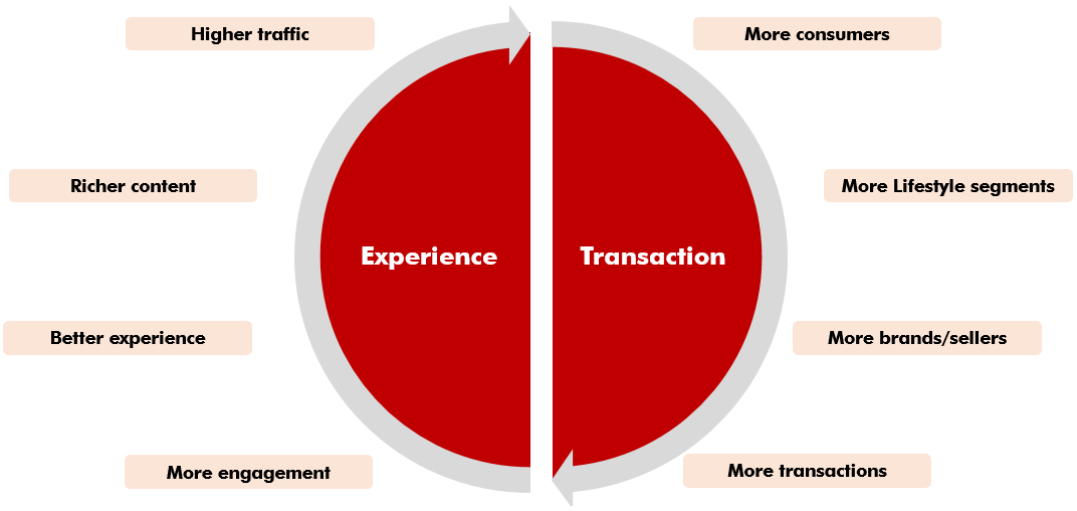
Source: Company, Ambit Capital research

First to market, first to mind in BPC; challenger in fashion

Achieved scale on the back of content to conversion cycle

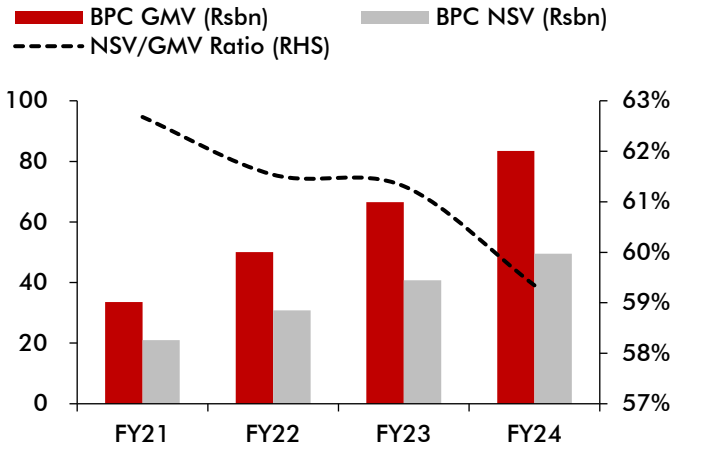
Nykaa's success in India was significantly influenced by its strategic use of content to drive traffic. The platform generated user engagement through high-quality, localized content, including beauty tutorials, product reviews, and influencer collaborations. This content not only attracted potential customers but also encouraged them to spend more time on the site, increasing the likelihood of purchases. Also, Nykaa's effective use of social media and digital marketing campaigns amplified its reach, further driving traffic to the platform. The combination of compelling content and targeted marketing created a feedback loop, continually attracting new visitors and retaining existing customers, which contributed to Nykaa's impressive growth. Nykaa's GMV (Gross Merchandise Value) from existing customers has been increasing every year over the last 5 years in both beauty and fashion. Further, conversion rates (orders to unique visitors) have also been improving in both segments on the back of targeted marketing and right assortment.

Exhibit 13: Nykaa scaled up its revenue 3x over FY21-24 on the back of flywheel of content, brands, merchandising and traffic



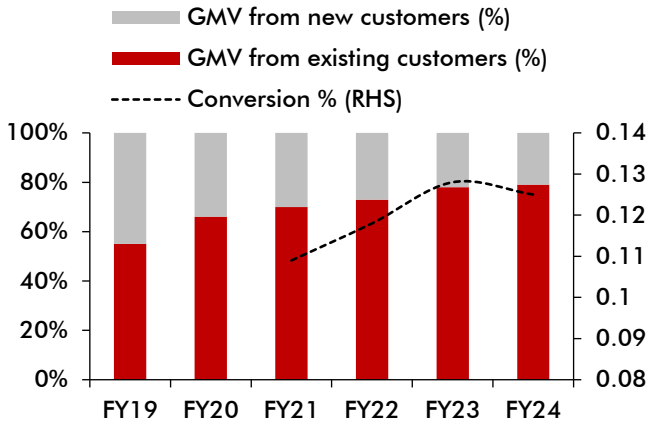
Source: Company, Ambit Capital research

Exhibit 14: Nykaa BPC's GMV/NSV clocked 35%/33% CAGR FY21-24 to ₹83/₹49bn in FY24



Source: Company, Ambit Capital research. Note: GMV = Gross Merchandise Value; NSV = Net Sales Value

Exhibit 15: Nykaa BPC conversion improved from 11% to 12.5% over FY21-24

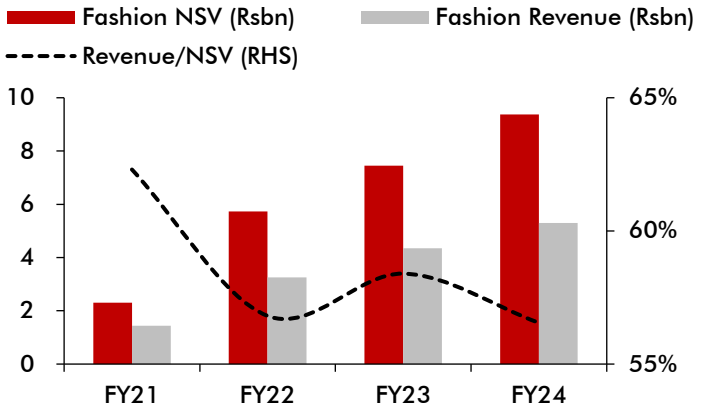


Source: Company, Ambit Capital research. Note: Conversion = Order to unique visitors

Challenger in fashion with a differentiated proposition

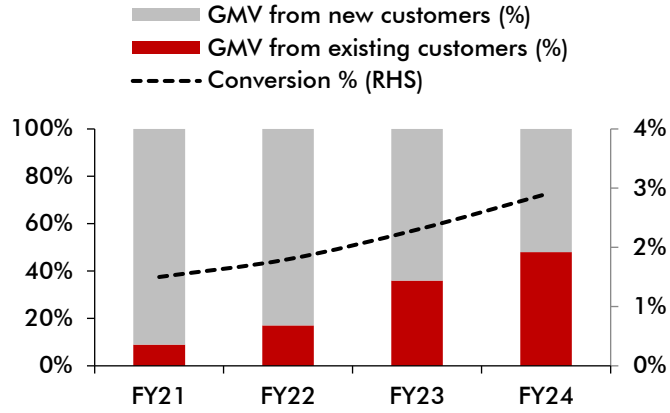
In 2018, Nykaa expanded into fashion, leveraging its beauty business's playbook and customer base. Unlike Nykaa Beauty's inventory-led model, Nykaa Fashion operates primarily as a curated and managed marketplace, allowing for a wider assortment. The platform differentiates itself with a strong focus on product curation, offering fashion-forward brands and full-priced, latest designs rather than discounts. This approach has led to high AOVs, with over ₹4,361 in FY24, increased 13% CAGR over FY22-24. Nykaa Fashion's customer acquisition strategy mirrors that of its beauty segment, emphasizing content and targeted product curation, supported by its own brands.

Exhibit 16: Nykaa Fashion NSV/revenue increased at 60%/54% CAGR FY21-24 to ₹9bn/₹5bn



Source: Company, Ambit Capital research

Exhibit 17: Nykaa Fashion conversion improved from 1.5% to 2.9% over FY21-24

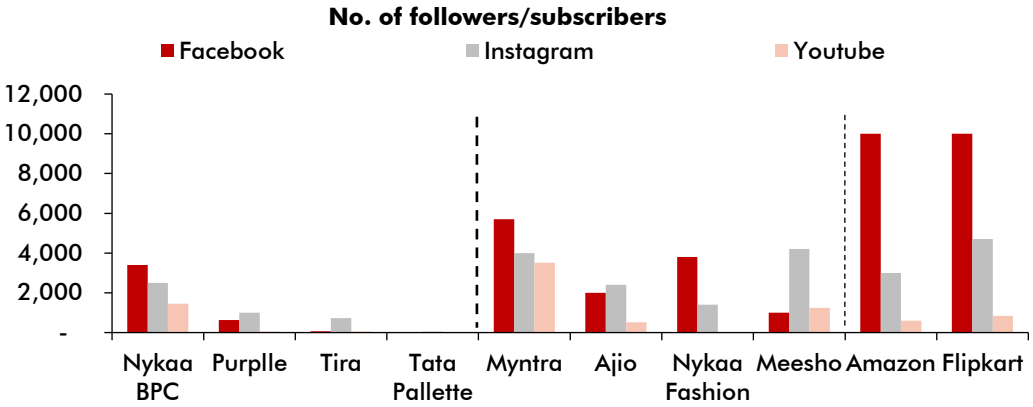


Source: Company, Ambit Capital research

Content is at the heart of the company

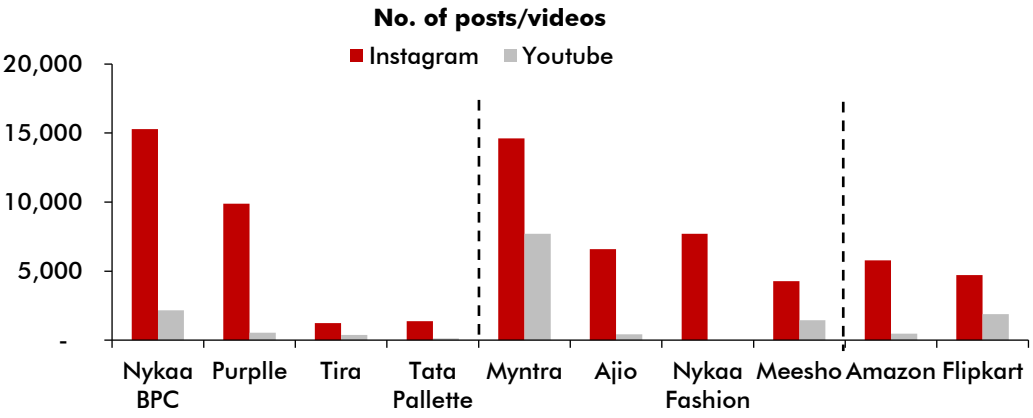
Content is central to Nykaa's strategy, as evidenced by its active social media presence, with a high volume of posts and millions of followers. This engagement not only drives brand visibility but also strengthens customer relationships, making content a key driver of Nykaa's growth and customer retention.

Exhibit 18: The number of followers/subscribers for Nykaa is very high considering it is a vertical platform with a market size...



Source: Social media, Ambit Capital research

Exhibit 19: ....on the back of constant engagement through content

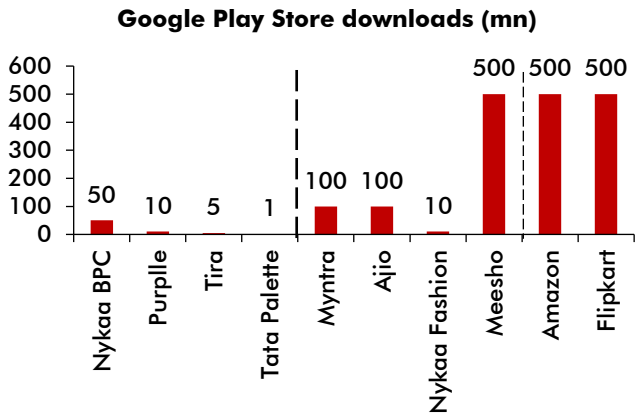


Source: Social media, Ambit Capital research

Competitors have entered, but Nykaa continues to enjoy better recall in BPC

Competition including specialized vertical platforms, fashion platforms and horizontal players have entered or expanded their offerings in the BPC space on account of the rising consumption of the category. Despite this, Nykaa continues to have a wider acceptance and on the back of first-mover advantage coupled with continued momentum of customer engagement in the BPC segment. Being a relatively late entrant in fashion and niche TAM, downloads lag that of peer set.

Exhibit 20: Google Play store downloads stand at 50mn/10mn for Nykaa BPC/ Nykaa Fashion



Source: Google Playstore, Ambit Capital research

Exhibit 21: Google play rating is 4.5 for Nykaa BPC but Fashion app lags

Source: Google Playstore, Ambit Capital research

Betting on execution prowess in BPC

Nykaa's success in the BPC segment is rooted in a synergy between demand creation through content and supply fulfillment through a well-curated mix of brands and products. By leveraging engaging content — tutorials, reviews, and influencer collaborations — Nykaa not only educates and inspires consumers but also drives demand for its offerings. This demand is then met through a strategic selection of brands and products, ensuring that consumer needs get monetized (13% conversion at overall level). Coupled with its strong online presence and expanding offline footprint, Nykaa provides comprehensive accessibility, creating a holistic shopping experience that marries content-driven demand with the right supply mix. Right merchandising also leads to high customer retention, (79% of GMV from repeat buyers). Further, Nykaa was one of the first few e-com players to have a rare combination of scale and profitability, the latter on the back of efficiencies (6x inventory turns).

Focusing on content in the era of information overload

Showcasing relevant content to onboard new and retain existing customers

Nykaa leverages a comprehensive content strategy to attract new consumers and retain existing ones by integrating education, inspiration, and community-building across its platforms. For users, especially new, Nykaa offers tutorials, product reviews, and trend analyses, guiding them through the beauty landscape and converting curiosity into purchases. To retain customers, Nykaa uses personalized content reflecting user preferences and past purchases, ensuring continued engagement. The platform's presence on social media, combined with influencer collaborations, keeps the brand top-of-mind, fostering loyalty. Nykaa's content strategy includes shoppable videos, live streams, and interactive beauty advisory services, which encourage repeat purchases. Additionally, platforms like Nykaa TV, the Nykaa Affiliate Programme, and Nykaa Network create a holistic and personalized experience.

Exhibit 22: Discovery experience/education gamified by Nykaa through Nykaa Play

Source: Company, Ambit Capital research

Regime building to educate, but also leads to rise in consumption

Nykaa is driving the "Stepification of Beauty" by leveraging content and education to generate demand and build comprehensive beauty regimes (refer exhibit 33 in the thematic section of this note). Through detailed tutorials, expert advice, and influencer collaborations, Nykaa educates consumers on multi-step skincare and beauty routines, encouraging them to adopt complete regimes rather than single products. This approach not only expands the market by creating informed consumers but also boosts product sales across various categories, enhancing customer loyalty and engagement by promoting holistic beauty solutions. This strategy effectively increases the overall value per customer by integrating products into daily routines.

Exhibit 23: Stepification of Beauty: Leveraging content & education to expand market through demand generation

Category	Campaign	Aim	Concerns Tackled	Top KOL's who promoted Step-By-Step	Impact Till Date
Hair	HEALTHY HAIR HABITS	Drive category expansion and adoption beyond Shampoo + Conditioner	Damage, Dandruff, Hair Fall and Frizz	Celebs like Rubina Dilaik, Dhanshree Verma Experts like Dr. Jushya Sarin	370 million+ Reach
Skin	NYKAA C·S·M·S	Drive category expansion and adoption beyond Facewash + Moisturiser	Pigmentation, Dryness, Ageing, Acne, Clogged Pores, Dullness	Celebs like Soha Ali Khan Sameera Reddy, Sayani Gupta Skin experts like, Tarini Peshawaria, Dr. Aanchal Panth	300 million+ Reach
Makeup		Drive category expansion and adoption beyond Lipsticks, Foundation	Acne Prone Skin, Dry Skin, Uneven Skin Tone	Key Opinion Leaders like Aashna Hedge, Samaira Sandhu, Shreemayi Reddy & Prabhleen Kaur	157 million+ Reach

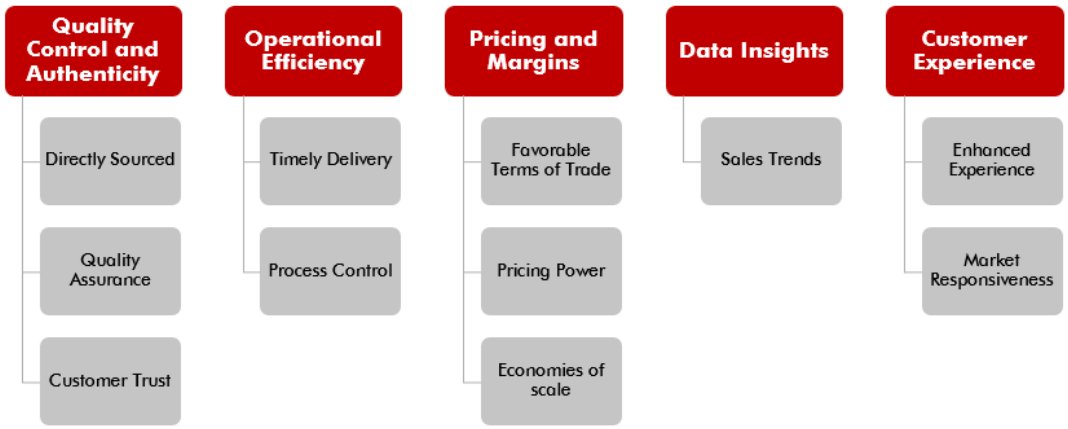
Source: Company, Ambit Capital research

Core retailer DNA by following an inventory-led model

Helps maintain authenticity, favorable terms of trade etc.

High margins in colour cosmetics and personal care products have fueled a counterfeit market in India (10%+ of the total market), making product authenticity crucial for online customers. Despite offering an extensive range of products (200,000 SKUs from more than 3,600 brands as of FY24) across categories such as make-up, skincare, haircare, bath and body, fragrances, grooming appliances, personal care, and health and wellness, Nykaa operates 90% of its BPC segment on an inventory-led model. This strategy addresses the critical need for guaranteed authenticity by sourcing products directly from brands or their authorized distributors. By managing its beauty business predominantly through this model, Nykaa effectively combats the global challenge of counterfeit goods in the BPC market, ensuring customer trust and satisfaction.

Exhibit 24: Upsides in operating an inventory-based model outweigh the downsides like slow moving inventory in case of a BPC platform



Source: Ambit Capital research

Go-to place for a new brand's entry in India or a new domestic brand as well which in turn drives traffic

Resonance with consumers leads to stronger brand relationships

Nykaa's strong brand relationships have been key in driving customer traffic, particularly in India's beauty market, which historically had limited access to international brands due to regulatory challenges and low focus from retailers. By adopting an inventory-led model, Nykaa has engaged directly with international brands since 2016. Nykaa also offers end-to-end services such as licensing, importing, marketing, and pricing strategies to these brands. This comprehensive support has attracted luxury brands, who prefer Nykaa for its premium positioning and customized promotional solutions. Nykaa's omnichannel presence, particularly through its Luxe store format, further enhances its appeal to high-end brands, making it the preferred platform for international and mass beauty brands entering India. The first-mover advantage and large scale have solidified Nykaa as the go-to platform for both brand entry and advertising, as reflected in its extensive brand presence compared to peers.

Exhibit 25: Nykaa has become the go-to platform for global brands not present in India and new domestic brands

Drive customer traffic	End to end servicing	Maintain brand positioning	Access to omnichannel network	First mover advantage and scale
• Limited availability historically • Direct engagement • Relatively premium brand appeal	• Brand support • Localising efforts	• Premium positioning, if need be, through 'Luxe' store • Controlled discounting and packaging	• Physical store network preference • Presence in GT through Superstore	• Nykaa' early entry in the ecosystem with execution, has led to superior brand recall • Large scale/ consumer base of ~12mn

Source: Ambit Capital research

Exclusive brands provide some edge

Despite increasing competition, Nykaa continues to lead in securing exclusive brand partnerships due to its extensive reach and strong market presence. Over the past few months, several brands have chosen to enter India exclusively through Nykaa, reflecting the platform's ability to drive visibility and sales. This exclusivity strategy reinforces Nykaa's position as a preferred partner for premium and international brands, ensuring it remains a top destination for consumers seeking unique and sought-after products in India.

Exhibit 26: Exclusive brands with Nykaa comprise globally renowned brands rather than own brands which is largely the case with peer BPC platforms

Nykaa	Tira	Purplle
Charlotte Tilbury	Kiko Milano	Stay Quirky
Foxtale	Laura Mercier	NYBae
Elemis	Nails our way	Alps Goodness
Hyphen	SKIN 1004	DermDoc
Virtue	Mixsoon	Carmesi
Versed	Patchology	Purplle
Redken	82o E	
Dr. Barbara Strum	Tira	
Isntree	Akind	
Urban Decay	Lady Burgancy	
Niver Sun care range	Mermade Hair	
Agaro	Blessed Moon	
Alan Truman	Allies of Skin	
The Ordinary		
Blue Heaven		
Colour Pop		
Nykaa Cosmetics		
Nykaa Naturals		
Wanderlust		
Moi		

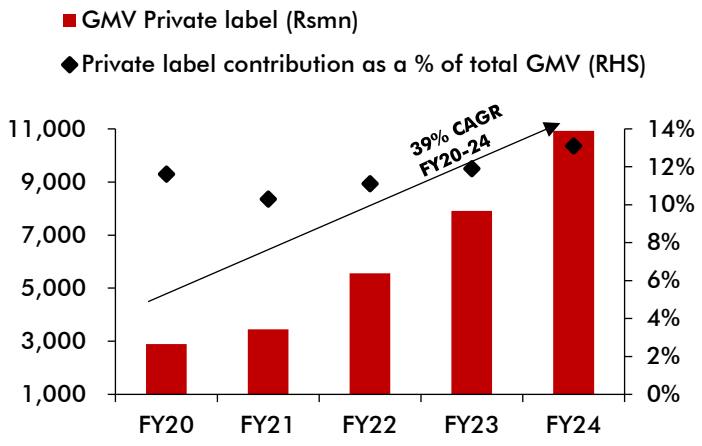
Source: Website, Ambit Capital research. Note: List not exhaustive

Private brand helps in strengthening brand recall

Private brand mix stands at 13% in BPC

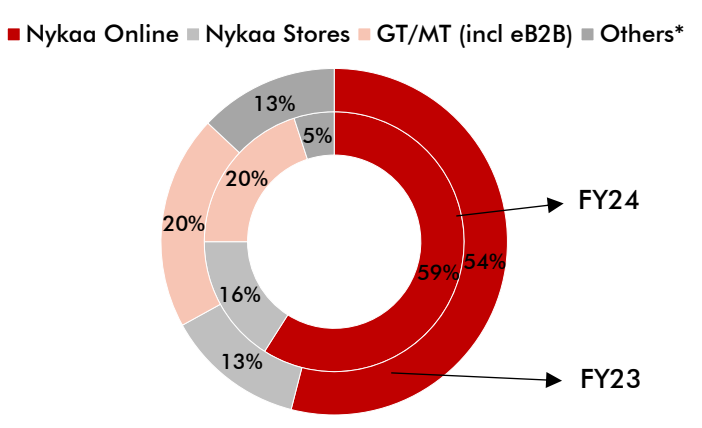
Over the past few years, Nykaa has been identifying gaps in the market, both across requirements of diverse consumers and multiple price points, and of building brands to suit these needs, with a focus on high-quality products. The company already hosts a wide range of products across the spectrum of beauty and personal care. The positioning of these own brands ranges from masstige to premium. Nykaa has a portfolio of multiple owned beauty brands, which is a mix of acquired and organic brands and are available on Nykaa's online channel, its physical stores, as well as at third-party retailers. Many of the owned brands - Dot & Key (₹6bn ARR), Nykaa Cosmetics (₹3bn+ ARR) and Kay Beauty (₹1.5bn ARR) - have a high recall and function as independent brands.

Exhibit 27: Private brands increased at 39% CAGR (FY20-24) to ₹10,927 making up ~13% contribution of total GMV (BPC)



Source: Company, Ambit Capital research

Exhibit 28: Decrease in contribution of 8% from Nykaa online and store offset by higher gain from other online markets



*Source: Company, Ambit Capital research. * Other online marketplaces*

Sticking to masstige + above ensures no dilution of brand

Analyzing pricing across various categories in the BPC segment shows that Nykaa's own brands typically align with mid-range branded products and rarely occupy the extreme ends of the pricing spectrum, either low or high. It has also avoided being present in the lowest price points ensuring that profitability/brand is not diluted.

Exhibit 29: Price benchmarking - Across categories, Nykaa's products are priced in between premium and mass

Shampoo (per 100 ml/100gm)			Bodywash/shower gel (per 100 ml/100gm)			Cosmetics - Lipstick (per 1ml/1gm)			Cosmetics - Eyeliner (per 1ml/1gm)		
Brands	Price Point	MRP (₹)	Brands	Price Point	MRP (₹)	Brands	Price Point	MRP (₹)	Brands	Price Point	MRP (₹)
L'Oréal	85-440	116-466	Dove	50-100	100-300	Maybelline	72-666	84-666	Sugar	262-773	282-830
Head & Shoulders	90-113	113-180	Neutrogena	211	230	Sugar	349-434	375-454	Lotus	55-372	72-500
Dove	100-126	152-176	Nykaa	160	200	Honasa - Mamaearth	102-225	105-260	Sugar	262-773	282-830
Sunsilk	85-95	86-95	Pureplay - Plum Goodness	120	158-170	Lakme	30-206	35-206	Nykaa	52-375	65-441
Himalaya	75-80	80-88	mCaffeine	100-110	130-160	Nykaa	151	202	Maybelline	70-267	100-400
Tresemme	80-105	80-150	WoW	100	135-160	Pureplay - Plum Goodness	106-161	118-190	Lakme	374-516	374
Nykaa	96-160	175-200	Honasa - Mamaearth	85-100	100-125	Lotus	54-124	70-165	Pureplay - Plum Goodness	125	125
Honasa - Mamaearth	90-120	122-140	Nivea	95-110	100-110	mCaffeine	89	118	Honasa - Mamaearth	102	114
Lotus	150-158	176-198	Parachute	65	104						
Pureplay - Plum Goodness	120-136	140-200	Lux	45-70	45-100						
mCaffeine	128-156	160-200	Fiama	60-80	60-85						
WoW	80-275	110-150	Himalaya	75-80	75						
Garnier	85	95									

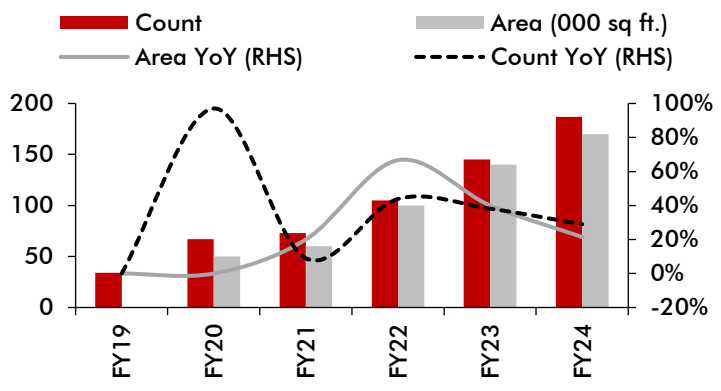
Source: Nykaa Beauty Website, Ambit Capital research

Omnichannel to recruit and retain customers

Going omnichannel for scale, experience and visibility

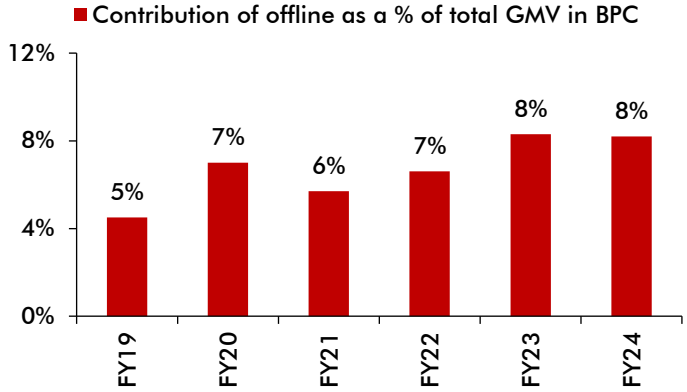
India's retail future will be omnichannel, blending online and offline experiences. This shift is driven by (i) requirement of physical stores for categories like fragrances and certain color cosmetics makeup, where a 'touch and feel' experience is essential, and offline presence leads to consumer recruitment for online channel (ii) 80% of consumption market being offline and (iii) to some extent offline presence is crucial for brand building of Nykaa and for newer brand partners. Nykaa's 187 offline stores contribute 8% of BPC revenues. The company plans to double its store footprint to 400 stores in the next three years, for a holistic shopping experience. Further, the company generates 20% of own brands GMV through the GT/MT channel.

Exhibit 30: Store count totalled to 187 in FY24 covering an area of 170k sq ft



Source: Company, Ambit Capital research

Exhibit 31: Offline channel contribution remains flat YoY at 8% of the total GMV in BPC in FY24



Source: Company, Ambit Capital research

Beauty unit economics and financials

GMV growth led by increase in customer base, frequency and basket size

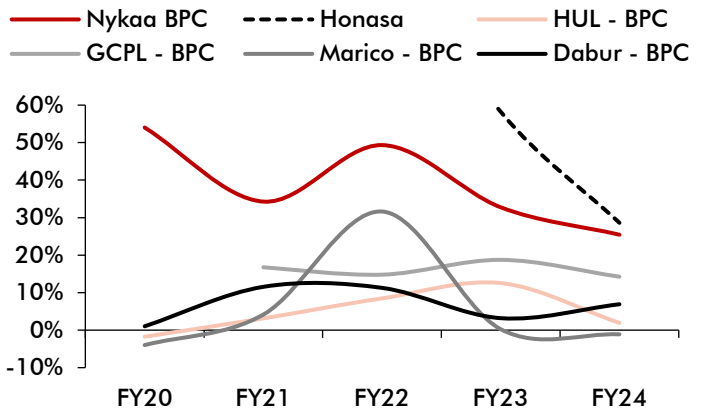
GMV CAGR of 39% was driven by order growth of 31% led by higher order frequency from existing consumers, new consumer recruitment, and AOV growth of 6%. Nykaa's GMV growth has been outperforming traditional FMCG companies on the back of increasing acceptance of online channel, merchandising.

Exhibit 32: GMV/revenue have seen 39%/37% CAGR over FY19-24

P&L & Unit economics (₹ mn) - BPC	FY19	FY20	FY21	FY22	FY23	FY24	FY19-24E	*Comments*
Number of visits (mn)	378	575	659	841	937	1,110	24%	
Annual transacting customers (mn)	3.5	5.3	5.7	8.0	10.0	11.7	27%	GMV CAGR of 39% was primarily driven by order growth of 31% led by higher order frequency from existing consumers, new consumer recruitment, and AOV growth of 6%.
Orders frequency	3.1	3.2	3.0	3.3	3.5	3.6	3%	
Number of orders (mn)	11	17	17	27	35	42	31%	
AOV (₹)	1,433	1,448	1,963	1,857	1,857	1,895	6%	
GMV	16,219	24,981	33,542	50,089	66,491	83,409	39%	
NSV			21,024	30,823	40,765	49,499	33%*	
NSV to GMV (%)	dna	dna	63%	62%	61%	59%		Revenue CAGR lagged GMV CAGR as revenue/GMV ratio has reduced on account of brand-funded discounts to drive consumption.
Revenue	11,110	17,323	22,836	33,997	44,820	53,855	37%	

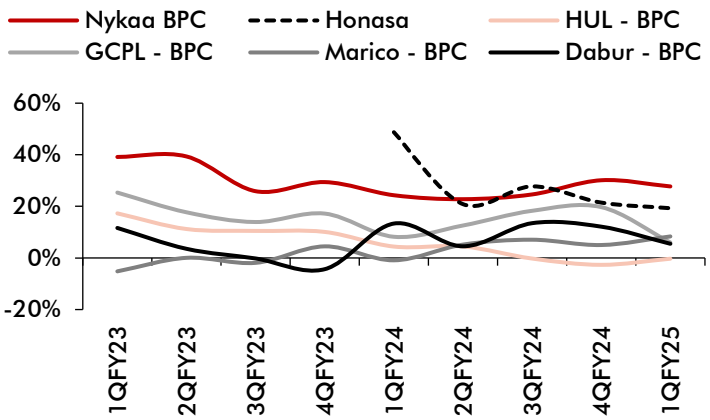
*Source: Company, Ambit Capital research. * FY21-24*

Exhibit 33: Nykaa BPC's GMV YoY growth has surpassed traditional FMCG companies...



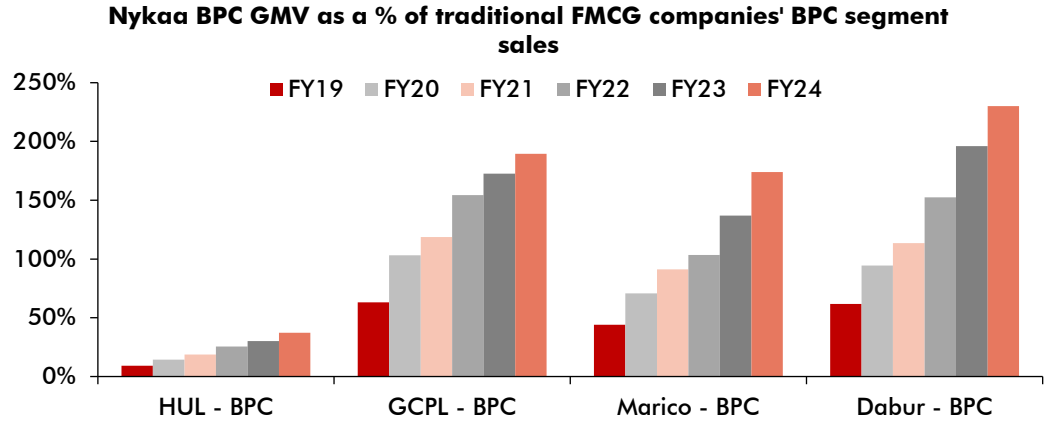
Source: Company, Ambit Capital research

Exhibit 34: ...on an annual and quarterly basis and will continue to do the same in the medium term



Source: Company, Ambit Capital research

Exhibit 35: Nykaa BPC GMV as a % of incumbent FMCG companies has been increasing every year as growth continues to outperform



Source: Company, Ambit Capital research

Margin improvement over FY22-24 will not replicate near term

Contribution margin improved by 378bps over FY22-24 (EBITDAM improvement 486bps based on our estimates) on the back of GM expansion, cost efficiencies and operating leverage. However, EBITDA per unit did not change YoY as revenue per unit was flat YoY on account of brand-funded discounts to drive sales. The BPC margin guidance targets a contribution margin of 25.5% in FY24, with plans to maintain this margin while reinvesting potential gains in growth initiatives rather than margin expansion.

Exhibit 36: BPC P&L – Margins were flat YoY in FY24; to remain stagnant over the medium term as per guidance

₹ mn unless specified	FY22	FY23	FY24
GMV	50,089	66,491	83,409
NSV	30,823	40,765	49,499
Total revenue	33,997	44,820	53,855
GM	13,727	18,907	22,318
as a % of NSV	40%	42%	41%
Fulfilment expenses	3,251	4,315	4,524
as a % of NSV	11%	11%	9%
Marketing and Advertisement expense	2,807	3,268	4,405
as a % of NSV	9%	8%	9%
Selling and Distribution expenses	993	530	779
as a % of NSV	3%	1%	2%
Contribution Profit	6,676	10,794	12,610
as a % of NSV	22%	26%	25%
Fixed expenses (our estimate)	3,904	4,905	5,599
as a % of NSV	19%	16%	14%
EBITDA (our estimate)	2,772	5,889	7,011
as a % of NSV	9%	14%	14%

Source: Company, Ambit Capital research. Note: as per old definition

Exhibit 37: BPC unit economics – EBITDA would have largely remained the same YoY in FY24 as revenue per order is flat

₹ per order	FY22	FY23	FY24
Revenue	1,283	1,288	1,291
GP	518	543	535
Fulfilment expenses	123	124	108
Marketing and Advertisement expense	106	94	106
Selling and Distribution expenses	37	15	19
Contribution Profit	252	310	302
Fixed expenses (our estimate)	147	141	134
EBITDA (our estimate)	105	169	168
% of revenue			
GP	40%	42%	41%
Fulfilment expenses	10%	10%	8%
Marketing and Advertisement expense	9%	7%	8%
Selling and Distribution expenses	3%	1%	1%
Contribution Profit	20%	24%	23%
Fixed expenses (our estimate)	11%	11%	10%
EBITDA (our estimate)	8%	13%	13%

Source: Company, Ambit Capital research. Note: as per old definition

Expanding peer set won't cause market share loss for Nykaa

Nykaa likely to maintain leadership position based on its current proposition

Nykaa is the largest vertical/specialist BPC player in India. Purplle, which is also a specialist BPC player, is a distant second (21% of Nykaa's GMV in FY23). Looking at Nykaa's success in this category has attracted newer platforms from conglomerates like Reliance/Tata who have launched their respective platforms viz. Tira/Tata Cliq Palette. Even Myntra, which is a fashion platform has amped up its play in this category. However, despite entry/scale-up of competition Nykaa remains a leader in this segment and with its scale and strategy appears well-positioned to continue see high growth.

Exhibit 38: Nykaa remains ahead not just in terms of scale, but also better merchandising and customer centricity

	BPC			
	Nykaa	**Purplle**	**Tira**	**Tata Palette**
Established in	2012	2012	2023	2023
Segments/categories present in	Mass to luxury BPC	Mass to premium BPC	Affordable premium to luxury BPC	Masstige to luxury BPC
Operating model - Inventory led/marketplace	Inventory	Marketplace	Inventory	Inventory + Marketplace
Channel mix	Online & Offline (8% sales from stores)	Online & Offline (~10 stores)	Online & Offline (~10 stores)	Online & Offline (<5 stores)
USP/Proposition	Comprehensive yet curated Beauty Destination encompassing both international and Indian brands. It provides customers with detailed product information, user reviews, and beauty advice through its Nykaa Network. Extensive beauty content including tutorials, reviews, and beauty guides	Making BPC more accessible through right product and regional content - Selling BPC products at affordable price points through mix of third party and own brands	Caters to customers looking for high-end, luxury beauty products. It offers a curated selection of premium brands and aims to provide an upscale shopping experience	It leverages Tata Cliq's established retail infrastructure to offer a range of beauty products from both luxury and mass-market brands.
Target consumer	Middle and high income	Middle-income	Middle and high income	Middle and high income
Scale (reach, GMV, user base)	●	◑	New entrant	New entrant
Profitability	●	◔	New entrant	New entrant
Merchandising (brands, product range, exclusivity, curation)	●	◕	◑	◔
Customer Centricity (education, awareness, loyalty, repeats, delivery experience)	●	●	◑	◔

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Ranks ahead due to consumer loyalty

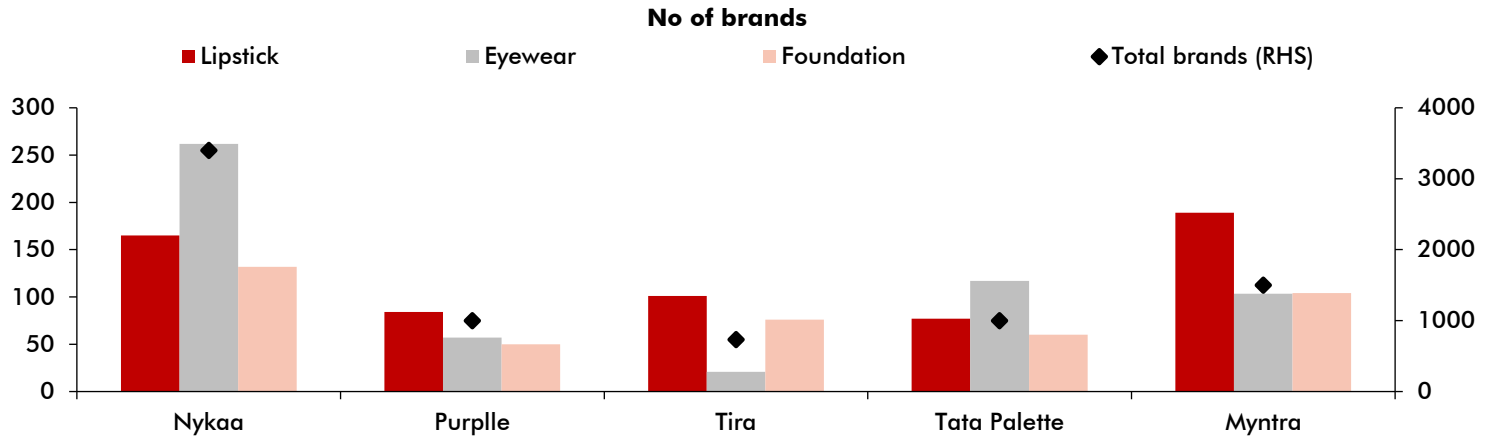
Blend of assortment, technology, brand relationships with some exclusivity, and customer engagement is key to drive Nykaa's long-term customer loyalty and providing a competitive edge. The inclusion of luxury brands boosts average order values and purchase frequency, reinforcing its market share (30%+ in online) and a loyal customer base of 12mn annual transacting customers, with 79% of GMV from repeat buyers. With 60% of GMV from Tier 2/3 cities, Nykaa leads in brand offerings across categories and is poised to sustain its leadership through continuous innovation.

Exhibit 39: Nykaa outscores peers on assortment and consumer loyalty, followed by Purplle; Tira could be a contender to watch

1. BPC	Nykaa	Purplle	Tira	Tata Palette	Comments
Innovation	●	◕	◕	◑	Nykaa pioneered specialised beauty channel. One of its key moats remain being the first platform where new products are launched and exclusive collaborations with international brands. Purplle focuses on affordability and has differentiates itself through focus on private brands (40%+ contribution). Tira: Newer entrant which is trying to differentiate through experiential stores and exclusive product collaborations. Tata Palette is still in early stages.
Brand	●	◕	◑	◔	Nykaa has created and unmatched brand recognition which is synonymous to beauty, through extensive consumer education efforts and a loyal customer base (50mn downloads). Purplle has an established brand resonance in the through its focus on affordable assortment offerings (10mn downloads). Tira is relatively new, but is spending marketing dollars to build brand awareness in metro/tier 1 cities. Tata Palette benefits from Tata's credibility, but is still developing its standalone presence in beauty.
Architecture	◕	◑	◑	◑	Nykaa has a well-established network of suppliers, partnerships with global brands, and a combination of online and offline presence. However, similar to multiple scaled start-ups, attrition has been high. Purplle has also been a preferred partner for brands wanting to go online, especially in tier 2 & below but partnerships are not as extensive as Nykaa's. Tira: Developing network and partnerships, needs time to establish strong architecture, but backing of Reliance who is present in consumer/retail space. Tata Palette: Utilizes Tata's existing infrastructure and networks, but still new in the beauty segment.
Strategic Assets	◕	◑	◑	◔	Nykaa has a range of private brands, exclusive partnerships, and a strong digital presence. Purplle has a growing range of proprietary brands and partnerships, but not as extensive as Nykaa. Tira has the backing of largest Indian conglomerate – Reliance which is not short of resources. Tata Palette has access to Tata's resources and infrastructure provides a strong foundation, but specific strategic assets in beauty have not yet been created.
Total	●	◕	◑	◑	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 40: Nykaa has highest brand offerings across categories vs peers....



Source: Website, Ambit Capital research

Exhibit 41: ...but products per brand are lower, implying better merchandising

Source: Website, Ambit Capital research

Exhibit 42: Threat of competition to specialised vertical platforms is lower on account of product authenticity, consumer stickiness and relevant assortment

Parameter/ Format	Specialised BPC vertical platforms	Vertical fashion platforms	Horizontal platforms	Offline BPC store chains	Departmental stores	Mom & pop general trade	Brands	Comments
Player examples	*Nykaa, Purplle*	*Myntra, Ajio*	*Amazon, Flipkart*	*Sephora, SS Beauty*	*Lifestyle, Shoppers Stop*	*Neighborhood stores*	*Dove, Himalaya, Sugar*	
Authenticity	●	◕	◑	●	●	◑	●	Vertical BPC Platforms: High authenticity due to direct partnerships with brands. Vertical Fashion Platforms: Good, but some issues persist with third-party sellers. Horizontal Platforms: Lower due to third-party sellers and counterfeit risks. Offline BPC Store Chains: High due to direct sourcing from brands. Departmental Stores: High due to reputable sourcing. Mom & Pop General Trade: While they are serviced by distributors of brands, there are issues with counterfeits. Brands: Highest
Customer loyalty	●	◑	◑	◕	◑	◔	◕	Vertical BPC Platforms: Strong base of loyal customers due to content, curation, assortment of products supported by loyalty programs. Vertical Fashion Platforms & Departmental Stores: Lower loyalty for BPC as assortment is not comprehensive. Horizontal Platforms: Lower loyalty for BPC as assortment is not comprehensive and availability of counterfeit products. Offline BPC Store Chains: Dedicated platform for BPC, hence loyalty would be high, but limited to physical store reach. Mom & Pop General Trade: Restricted to basic needs. Brands: Brand-specific loyalty persists.
Scale	◕	◑	◑	◑	◑	◔	◕	Vertical BPC Platforms: Urban focused. Vertical Fashion Platforms & Horizontal Platforms: Scale of BPC could be restricted due to limited assortment as even brands may prefer to sell on specialised BPC platforms where they benefit from higher traffic. Offline BPC Store Chains: Limited by physical store presence, largely in metro - tier 2 cities. Departmental Stores: Limited by physical store presence, largely in metro - tier 2 cities Mom & Pop General Trade: Limited to local reach. Brands: Scale through channel & geography diversification, focused on their specific products.
Assortment	●	◑	◑	◕	◑	◔	◑	Vertical BPC Platforms: Comprehensive range of beauty products. Vertical Fashion Platforms & Horizontal Platforms: Limited to best-selling/high take-rate brands/SKUs. Offline BPC Store Chains: Good range but limited by store size. Departmental Stores: Limited to specific premium/luxury brands. Mom & Pop General Trade Stores: Limited to mass/masstige brands. Brands: Moderate assortment, focused on their product lines.
TAM/target pop	◕	◕	●	◑	◑	◔	◕	Vertical BPC Platforms: Primarily beauty and personal care consumers. Vertical Fashion Platforms: Primarily fashion consumers but given BPC is ancillary, target population widens. Horizontal Platforms: Reach is wider hence broad target population. Offline BPC Store Chains: Urban, high-income consumers. Departmental Stores: Wide target population but limited by locations, typically urban. Mom & Pop General Trade: Local consumers. Brands: Targeted to their specific consumer base.
Overall	●	◑	◑	◕	◑	◔	◕	

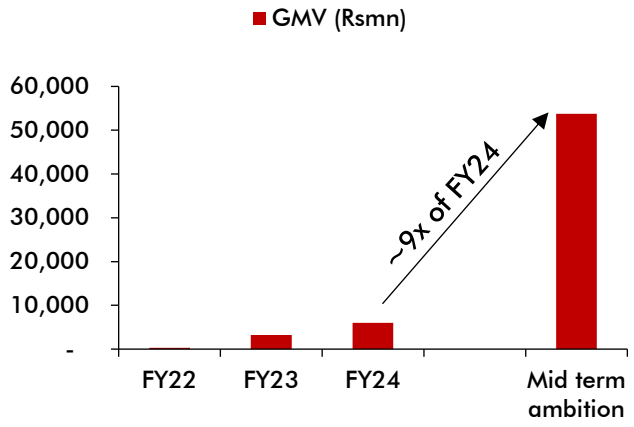
Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Building optionality in BPC

#1 EB2B to aid expansion of TAM, but only to some extent

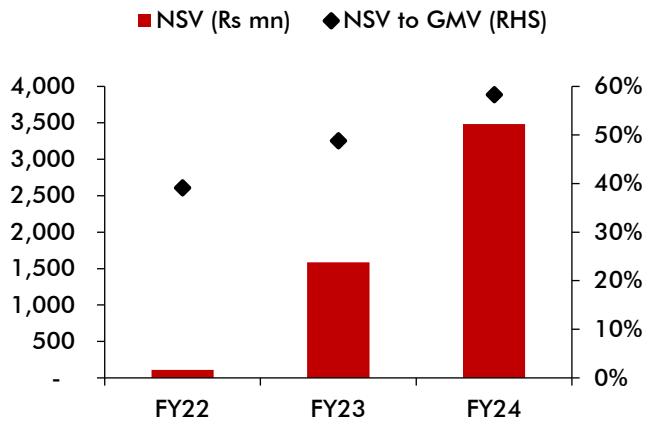
To cater to the mass-end segment (~$5-6bn market size as per the company in 2022), Nykaa has entered the business of servicing small but underserved mom-and-pop stores (~80% of the current market), particularly small beauty centers, pharmacies, and general stores. Launched to bridge the gap between brands and retailers, superstore offers a wide assortment of beauty and personal care products at competitive prices, enabling small retailers to access premium and D2C brands that were previously out of reach. Superstore leverages Nykaa's extensive consumer data to personalize the platform for each retailer, offering recommendations, trade schemes, and best deals tailored to their specific needs. With over 195,000 transacting retailers across 1,000+ cities, the platform has quickly scaled, driven by a 79% year-on-year growth in transacting retailers and a 71% increase in average basket size. The company believes this segment can grow its GMV to 9x with 3-5% EBITDAM over the medium term (not defined). However, this business competes with a well-oiled distribution network that earns relatively thin margins, suggesting a challenging path to scale and profitability.

Exhibit 43: GMV for FY24 increased 84% YoY to ₹5,973 with mid-term ambition of reaching 9x of FY24 GMV



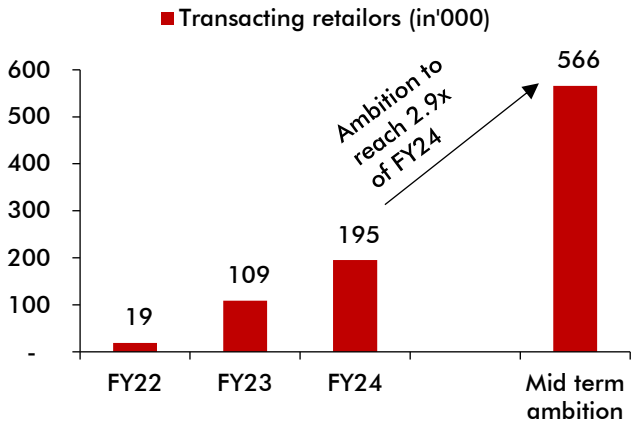
Source: Company, Ambit Capital research

Exhibit 44: NSV for FY24 increased 119% YoY to ₹3,483mn, i.e. 58% of FY24 GMV



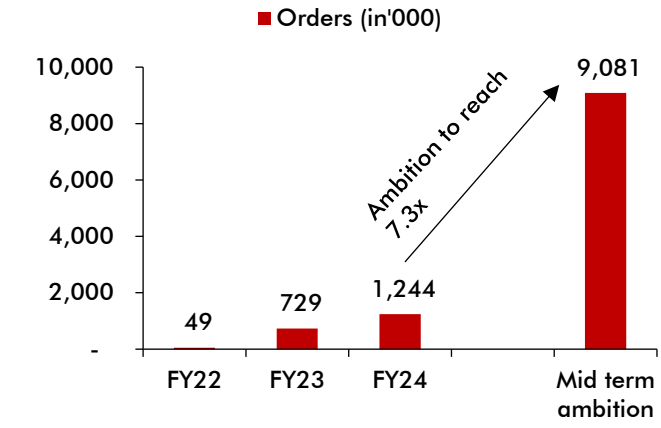
Source: Company, Ambit Capital research

Exhibit 45: Retail outlet count totalled to 195K in FY24 with aspiration to reach 2.9x of FY24 count



Source: Company, Ambit Capital research

Exhibit 46: Total order totalled to 1.2mn in FY24 with aspiration to reach 7.3x of FY24 count



Source: Company, Ambit Capital research

#2 International markets including GCC may be another opportunity to grow

Nykaa entered the GCC market (~USD1.9bn is the prestige beauty retail market in 2023 of which online prestige beauty market is ~USD625mn) in March 2024 by launching its brand "Nysaa," aiming to tap into the region's substantial beauty market, which has an annual spend of USD500+ per capita. The GCC market, valued at around USD30bn, represents a significant opportunity due to its high disposable income and preference for luxury beauty products. Nykaa's entry strategy involved both online and offline channels, with the goal of capturing a 7% share of the GCC prestige beauty market within five years. Nysaa's physical stores have an average order value of USD76, and the brand aims to open 70 stores across the region. This expansion allows Nykaa to leverage its expertise in omnichannel retail while catering to the unique preferences of GCC consumers, ensuring a strong foothold in a high-growth, high-value market.

Niche TAM to restrict scale in fashion; economics key monitorable

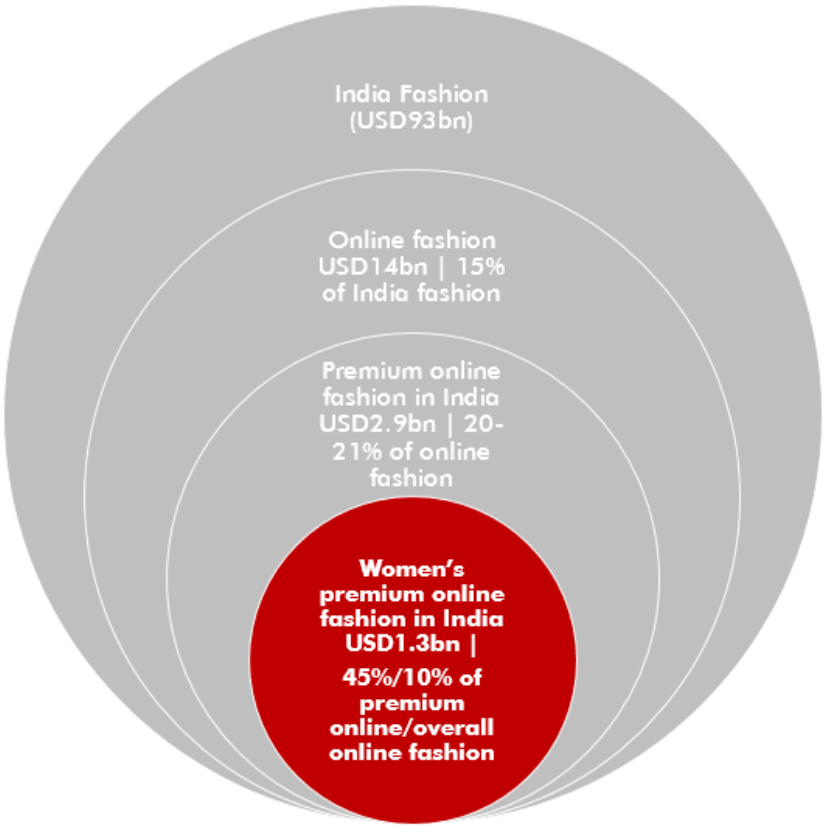
Nykaa Fashion operates in a smaller TAM compared to Nykaa's BPC segment (USD1.3bn vs USD20bn). It was a late entrant to the online fashion game as it began in 2019 vs Myntra which tweaked its focus towards fashion in the early 2010s and Ajio/Tata Cliq in 2016. Nykaa Fashion primarily targets women, leveraging the brand equity, customer base, and expertise developed in its BPC segment. The strategy centers on offering niche, premium, and underrepresented brands, including global and local names. Hence TAM becomes restricted to 10% of the online fashion market. That said, it holds potential for growth on the back of Nykaa's proposition of merchandising heavy on styles/design element to cap discounted sales, focusing of premium offerings to ensure quality of consumer does not have a heavy impact on P&L. However, the concern in this business vertical lies in margins rather than growth as it has been dragging profitability (₹2bn EBITDA loss over FY21-24) at the overall level.

Scale attributable to focus on niche offerings so far

Focus on premium + women makes TAM smaller

Given the assortment is skewed towards women, Nykaa Fashion's TAM is sized at ~USD1.3bn (expected to see 20-25% CAGR over 2023-2030) which is ~10% of India's current online fashion market size. Even compared to the BPC market size of USD20bn, Nykaa Fashion is sub-10% of its BPC TAM.

Exhibit 47: TAM for Nykaa Fashion is USD1.3bn; i.e. 45%/10% of the online premium/overall online fashion market



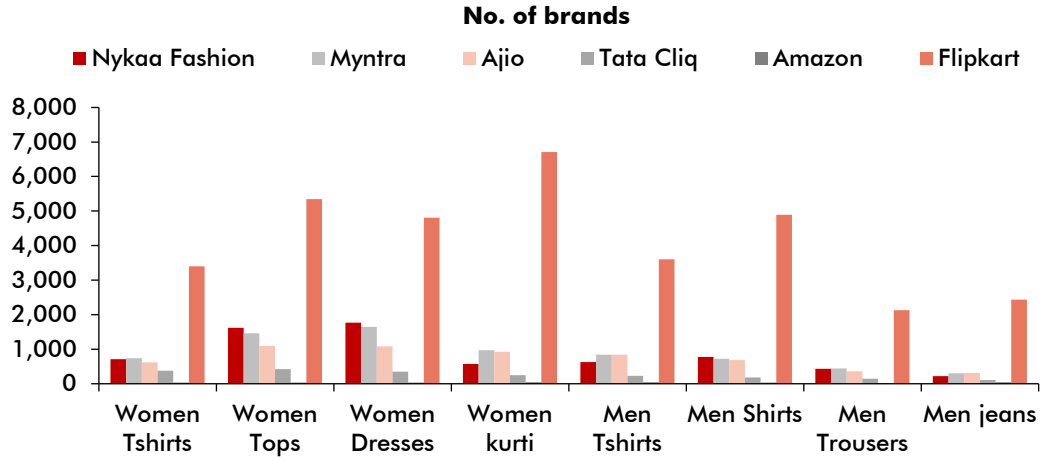
Source: Redseer, Ambit Capital research

Evidently a challenger brand in this segment

Focused on premium to keep a differentiated offering

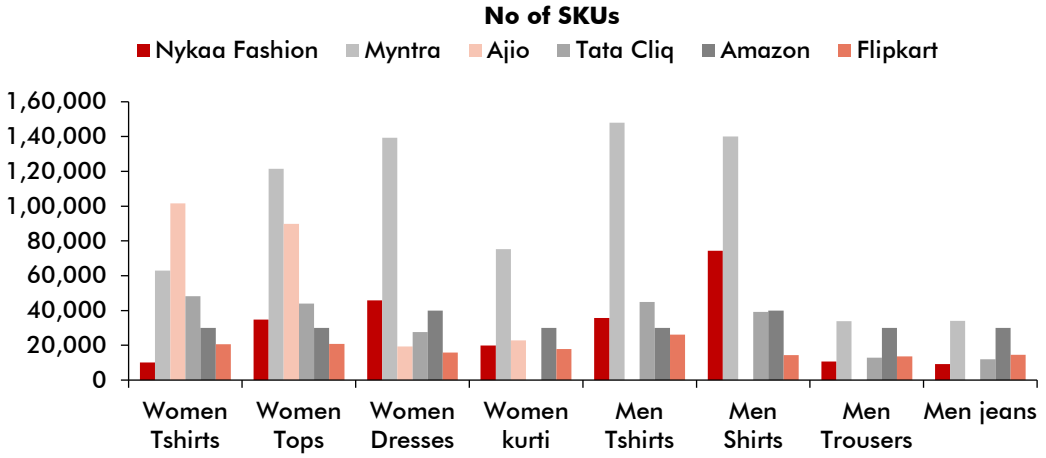
Nykaa launched its fashion business in 2018 and unlike BPC, it primarily follows a market place model (ex-private brands). The reason for choosing the market place model was to offer product width and adjust collection to trends which change quickly or frequently. While it offers categories across women, men, kids and home, the focus is on women. Unlike other marketplaces, unique aspects of Nykaa's fashion segment include (i) emphasis on curation where it identifies fashion-forward brands and products, vetting for style and quality, and further select styles within these brands to offer; (ii) focus on full price sales (as obsolescence is a key concern) in fashion and latest season as evidenced by its AOV of ₹4,361 (Westside's average bill size is ₹2,800-3,000) and (iii) use of digital content, personalised mobile application experiences and proprietary recommendation algorithms to build differentiated style-driven, discovery-led experiences for consumers.

Exhibit 48: Nykaa Fashion has fewer brands vs peers in some women categories



Source: Website, Media/Article, Ambit Capital research

Exhibit 49: Nykaa Fashion has fewer SKUs vs peers, highlighting better curation



Source: Website, Media/Article, Ambit Capital research

Exhibit 50: IBAS framework - Nykaa is a challenger with a differentiated, but niche offering in the online fashion space thus faring well on the IBAS framework, but scale would be restricted vs other ecom players

Fashion	Nykaa	Myntra	AJIO	Meesho	Tata Cliq	Comments
Innovation	●	●	◑	◕	◑	Myntra fares best on account of it being the preferred platform for new brands and personalized shopping experiences. Nykaa Fashion has tried to ensure it stands out in a cluttered market by collaborating with global brands, domestic underrepresented brand and focusing of fashion forward assortment. Meesho, although a late entrant, has an innovative reseller model focused on affordable and accessible fashion.
Brand	◑	●	◕	●	◑	Myntra is a well-established brand with high customer loyalty. Nykaa Fashion leverages on strong association with Nykaa's and has gained traction on its differentiated merchandise. Ajio: Growing brand recognition, leveraging Reliance's backing. Meesho: Rapidly growing brand recall, especially in Tier 2 and Tier 3 cities. Tata Cliq: Tata's affiliation.
Architecture	◕	●	◑	◕	◑	Nykaa Fashion: Developing supplier network and partnerships. Myntra: Extensive supplier network and logistics tie-ups. Ajio: Strong supplier and distribution network as part of Reliance, especially on the luxury brand portfolio. Meesho: Extensive network of small sellers, strong digital infrastructure.
Strategic Assets	◑	●	●	◕	◑	Nykaa Fashion can leverage Nykaa's existing customer base. Myntra benefits from wide range of exclusive partnerships and private brands, market position. Ajio: Extensive range of private brands and exclusive brands though Reliance Retail. Meesho: Unique reseller ecosystem with growth potential in underserved markets. Tata Cliq: Partnerships with high-end brands.
Total	◕	●	◕	◕	◑	

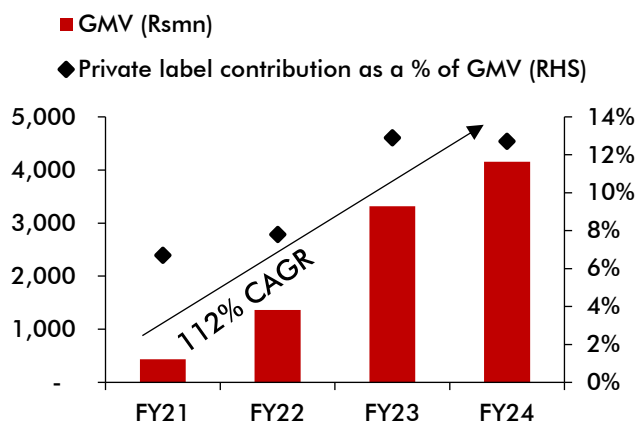
Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Private brand to increase stickiness

Building portfolio of private brands to address gaps/capture high-growth segments

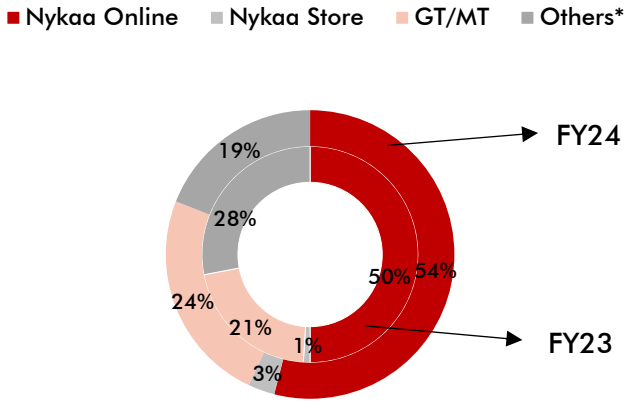
Nykaa has been identifying gaps in the market, both across requirements of diverse consumers (Nykd - women's innerwear has reached ₹1.5bn ARR) and multiple price points (20 Dresses at value premium price points has reached ₹1.5bn ARR), and of building brands to suit these needs, with a focus on high-quality products.

Exhibit 51: GMV in FY24 increased at 112% CAGR FY21-24 to ₹4,153, representing 13% contribution of total GMV



Source: Company, Ambit Capital research

Exhibit 52: Online channel mix for private brand portfolio increased in FY24



*Source: Company, Ambit Capital research. * Includes other online marketplaces*

Financials and unit economics

GMV grew ~5x over FY21-24, albeit on a low base, led by increase in customer base and bill size

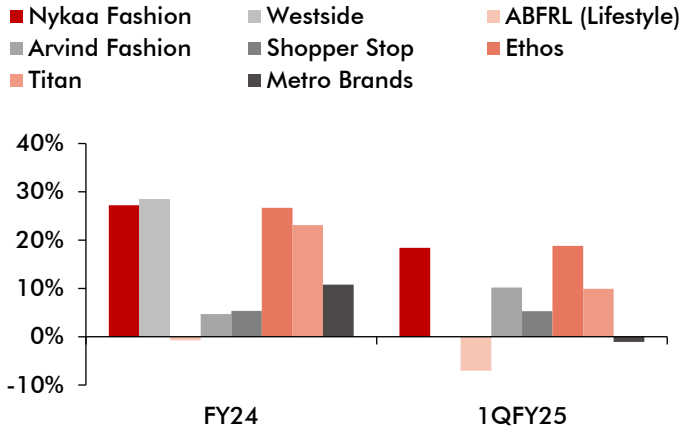
GMV CAGR of 71% driven by 66% new customer recruitment and 17% CAGR in AOV. This growth brings Nykaa Fashion's market share in women's online premium to ~20% (source: 2024 analyst meet PPT). This was on a small base, but with increasing share of repeat purchases and growth in new customers, the growth rate should outperform most discretionary peers.

Exhibit 53: NSV/revenue for fashion have seen 60%/54% CAGR over FY21-24

P&L (₹ mn) - Fashion	FY20	FY21	FY22	FY23	FY24	FY21-24 CAGR	Comments
Number of visits (mn)	38	172	441	504	571	49%	
Annual transacting customers (mn)	0	1	2	3	3	66%	
Orders frequency	11	4	3	2	2	-14%	GMV CAGR of 71% driven by 66% new customer recruitment and 17% CAGR in AOV
Number of orders (mn)	1	2	5	6	7	44%	
AOV (₹)	1,604	2,739	3,400	3,973	4,361	17%	
GMV	1,868	6,530	17,516	25,696	32,699	71%	
NSV		2,308	5,728	7,444	9,376	60%	Revenue CAGR at 54% lags GMV CAGR due to higher discounting, returns vs base year which had Covid in it where discounts and returns were lower
NSV to GMV (%)		35%	33%	29%	29%		
Revenues		1,438	3,254	4,347	5,302	54%	

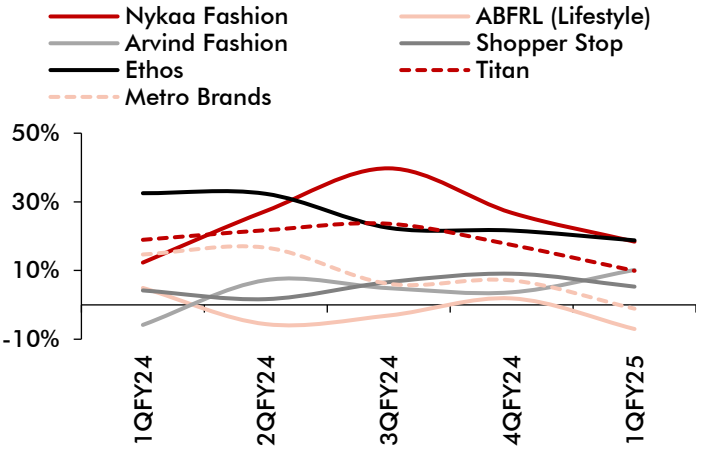
Source: Company, Ambit Capital research

Exhibit 54: Nykaa Fashion's YoY GMV growth has been ahead of most traditional retailers...



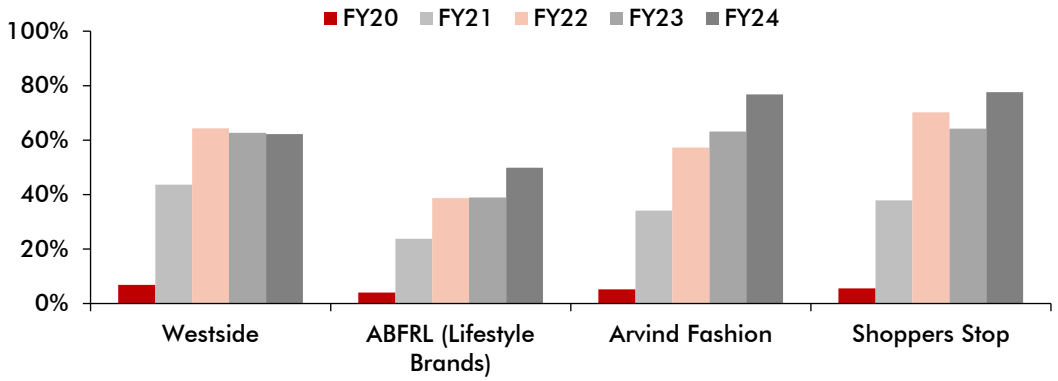
Source: Company, Ambit Capital research

Exhibit 55: .. on adding new customers and increasing share of repeat sales



Source: Company, Ambit Capital research

Exhibit 56: Nykaa Fashion GMV's proportion to established apparel retailers has been increasing YoY



Source: Company, Ambit Capital research

Losses have narrowed over the years

Contribution margin improved ~250bps over FY22-24 (EBITDAM improved ~1350bps based on our estimates) on the back of GM expansion, cost efficiencies and operating leverage. With increasing GMVs and service incomes, margin improvement trajectory should continue. In its recent analyst meet, the company guided for mid-single digit EBITDAM by FY27E on the back of GM improvement and operating efficiencies.

Exhibit 57: Fashion P&L – Reduction in losses driven by scale

P&L & Unit economics (per order) - Fashion	FY22	FY23	FY24
GMV	17,516	25,696	32,699
NSV	5,728	7,444	9,376
Revenues	3,254	4,347	5,302
GM	2,555	3,289	4,058
as a % of NSV	79%	76%	77%
Fulfilment expenses	631	908	1,069
as a % of NSV	11%	12%	11%
Marketing and Advertisement expense	1,568	2,084	2,382
as a % of NSV	27%	28%	25%
Selling and Distribution expenses	155	134	150
as a % of NSV	3%	2%	2%
Contribution Profit	201	163	458
as a % of NSV	4%	2%	5%
Fixed expenses (our estimate)	682	834	919
as a % of NSV	12%	11%	10%
EBITDA (our estimate)	-682	-616	-397
as a % of NSV	**-12%**	**-8%**	**-4%**

Source: Company, Ambit Capital research. Note: as per old definition

Exhibit 58: Fashion unit economics - Reduction in per order losses led by increasing basket size and operating leverage

₹ per order	FY22	FY23	FY24
Revenue	651	725	757
GP	511	548	580
Fulfilment expenses	126	151	153
Marketing and Advertisement expense	314	347	340
Selling and Distribution expenses	31	22	21
Contribution Profit	40	27	65
Employee expenses (our estimate)	130	115	96
EBITDA (our estimate)	-89	-88	-31
As a % of revenue			
GP	79%	76%	77%
Fulfilment expenses	19%	21%	20%
Marketing and Advertisement expense	48%	48%	45%
Selling and Distribution expenses	5%	3%	3%
Contribution Profit	6.2%	3.7%	8.6%
Employee expenses (our estimate)	21%	19%	17%
EBITDA (our estimate)	-21%	-14%	-7%

Source: Company, Ambit Capital research. Note: as per old definition

Drag from non-BPC business to reduce

Nykaa has showcased its focus on profitable growth despite operating in a challenging e-commerce environment where many peers have bene unable to showcase profitability. Over FY19-24, Nykaa's EBITDAM improved by 310bps underpinned by GM expansion and operating efficiencies. However, Nykaa's overall EBITDA which has been led by the beauty segment has been weighed down by losses in the fashion and eB2B segments (refer exhibit 59). The fashion business, in particular, shows a clear path to profitability as it scales up driven by efficiencies and better margin management. Nykaa's working capital management has seen long-term improvement, though it faced short-term increases due to faster payments to suppliers and a rising marketplace model in fashion. With a large part of capex behind (₹4bn over FY22-24) and focus on margin expansion in non-BPC segments, Nykaa's return ratios are set to improve, positioning the company for stronger financial performance and sustained growth in the coming years.

Differentiated platform due to positive unit economics

GM/EBITDAM + operating spends break up

Nykaa's GM movement is a function of (i) ad income, (ii) fashion business which follows a managed marketplace, (iii) own brands and (iv) overall segment mix. Over FY19-24, Nykaa's GM expanded by 230bps due to increase in advertisement revenue, owned brand share, better mix of high margin products but partially offset by increasing mix of eB2B business. EBITDAM improvement of 310bps over FY19-24 is a function of GM improvement and operating leverage.

Exhibit 59: GMs expanded on account of increasing mix of fashion (marketplace model) and rising private brand mix which in turn drove EBITDAM improvement along with oplev

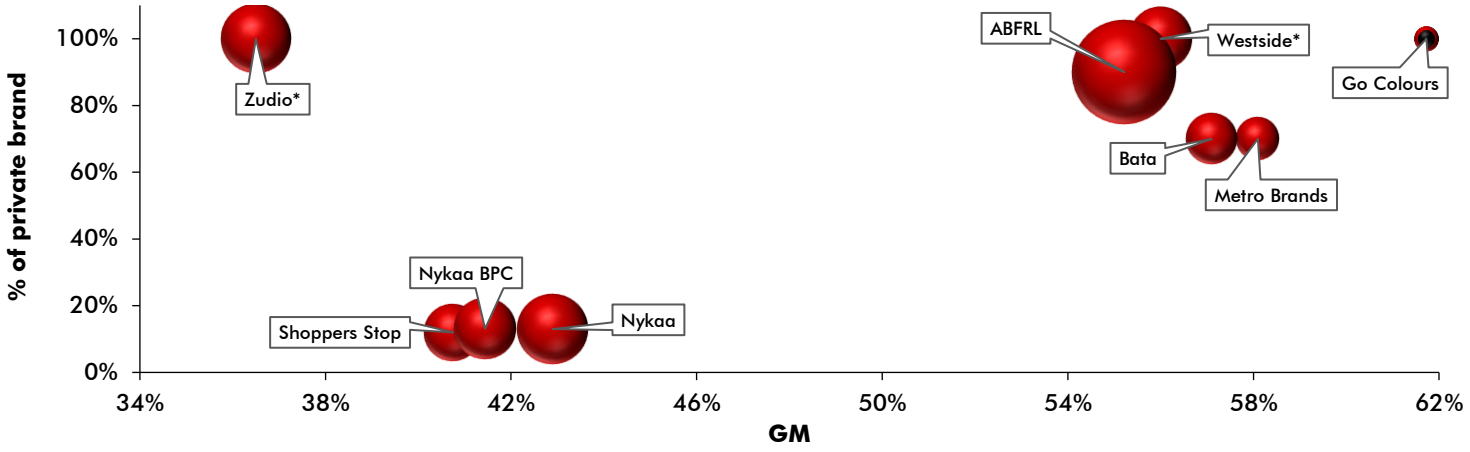
Common-size as a % of sales	FY19	FY20	FY21	FY22	FY23	FY24	*Change over FY19-24*
Revenue (₹ bn)	11	18	24	38	51	64	
Gross Profit	40.6%	42.6%	38.9%	43.6%	44.3%	42.9%	2.3%
Employee Costs	10.6%	11.1%	9.5%	8.7%	9.6%	8.8%	-1.7%
Other Expenses							
Marketing & Advertisement Expenses	12.9%	11.4%	6.9%	12.8%	11.5%	11.6%	-1.3%
Freight Expenses	7.4%	7.4%	6.5%	7.6%	6.5%	6.1%	-1.3%
Packing Materials	1.8%	2.0%	1.8%	2.3%	1.9%	1.2%	-0.6%
Web & Technology Expenses	2.5%	2.0%	1.6%	1.7%	1.9%	1.9%	-0.5%
Outsource Warehouse Manpower Expense	0.0%	0.0%	2.1%	2.2%	2.0%	1.7%	1.7%
Miscellaneous expenses	3.7%	4.2%	4.0%	4.1%	6.1%	6.2%	2.5%
EBITDAM	1.8%	4.6%	6.4%	4.3%	5.0%	5.4%	3.6%
EBITDAM (pre IND AS 116)	0.5%	2.7%	5.2%	3.1%	3.4%	3.6%	3.1%

Source: Company, Ambit Capital research

Fares better vs peers

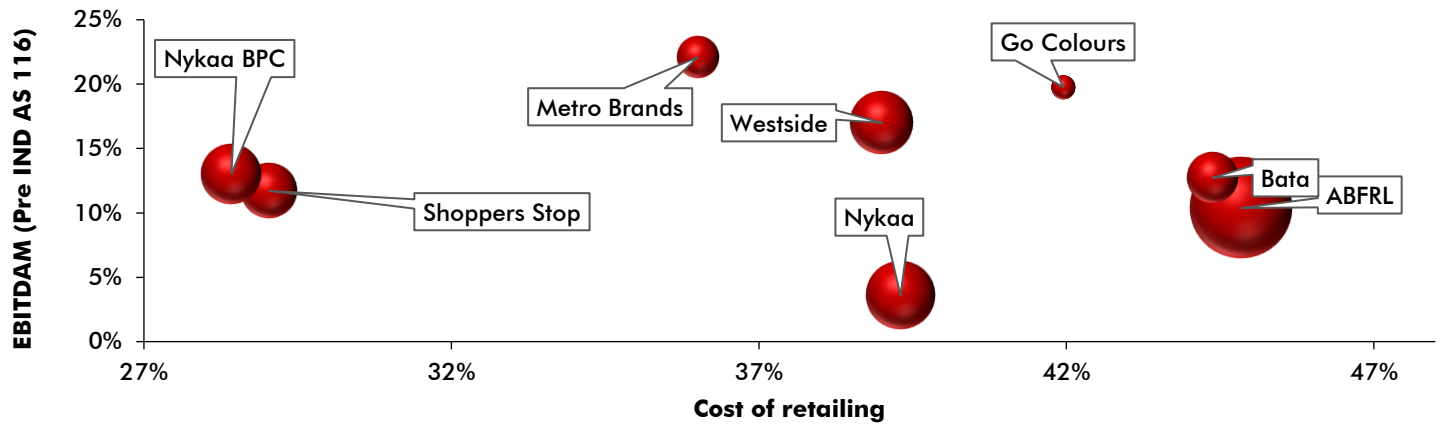
While the BPC category typically enjoys high margins due to its branded nature (see Exhibit 59), Nykaa being a retailer and also having a sub-15% private brand mix, gross margin are on the lower side of the retail spectrum. Despite this, the BPC segment's EBITDAM is high vs the likes of ABFRL, Bata, Shoppers Stop, driven by Nykaa's market leadership and scale, which reduces the need for discounting and ensures strong inventory throughput. However, Nykaa's overall EBITDA is lower because the fashion and other segments are loss-making.

Exhibit 60: Nykaa's GM is on the lower side in the retail spectrum on account of its business model where it operates as a retailer for third-party brands and contribution from private brand is sub-15%



Source: Company, Ambit Capital research

Exhibit 61: Despite lower GMs, EBITDAM for Nykaa BPC is on the higher side (better than peer retailers like Bata, ABFRL, Shoppers Stop) as cost of retailing is lower due to online operations (rental cost is eliminated) and superior inventory turns

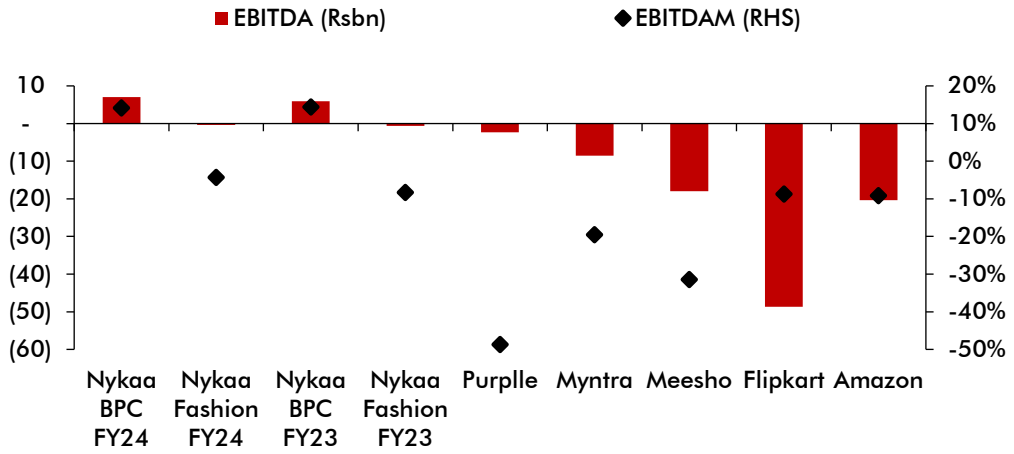


Source: Company, Ambit Capital research

Rare combination of scale + profits in the e-com spectrum

While many e-commerce players in India have been burning cash to acquire customers and drive adoption, Nykaa has been focusing on profitable growth. It is not just due to its presence in high-margin categories of BPC and fashion, but also a function of: (i) Direct procurement from brand owners and authorized distributors, ensuring higher intake margins for 67% of GMV; (ii) Emphasis on premium and luxury price points, which offer better margins and better quality of customers; (iii) Higher AOVs in these categories, covering fulfillment costs effectively which is driven by offering the right assortment; and (iv) Differentiation through content, curation, and assortment, rather than discounting, with active collaboration on brand promotions.

Exhibit 62: Nykaa is one of the few lifestyle e-commerce players which is profitable at EBITDA level

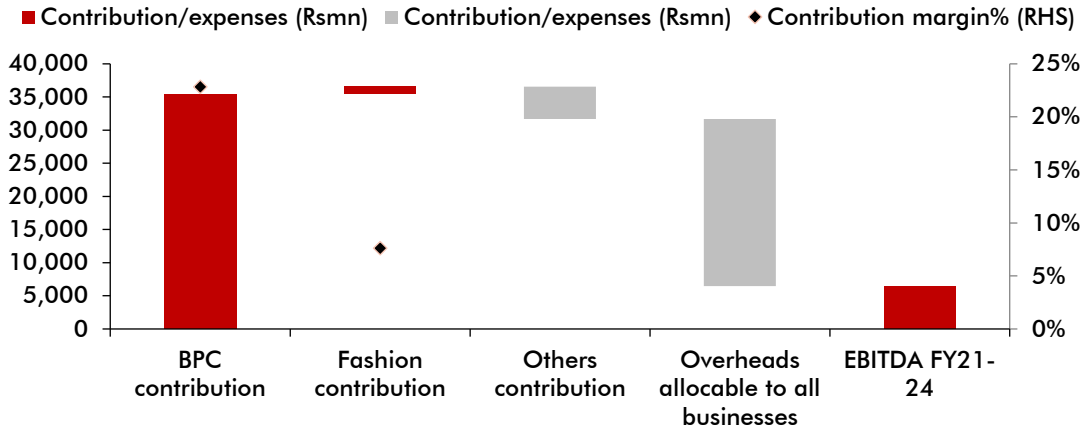


Source: Company, VCC Edge/MCA, Ambit Capital research

Fashion and eB2B will be the primary drivers of margin expansion going forward

Profits generated in the BPC business (₹35bn cumulatively over FY21-24) have been deployed towards growing fashion and others business (primarily eB2B). However, there is a clear path to profitability in the fashion business, primarily driven by scale-led efficiencies, which should drive company-level EBITDAM expansion.

Exhibit 63: Cumulative BPC contribution over FY21-24 of ~₹35bn has only translated to ₹6.5bn of EBITDA on account of drag in fashion and others businesses



Source: Company, Ambit Capital research

Exhibit 64: Nykaa Fashion EBITDAM to expand by 1300-1600bps in the next 3 years

Nykaa Fashion	FY24	Commentary - "next" 3 years aspiration
NSV (₹ mn)	9,878	~2.5-3x growth in next 3 yrs
Key ratios (as a % of NSV)		
GM	**44.80%**	**~150-200bps expansion**
Fulfilment expense	11.10%	~100-150bps efficiencies
Marketing expense	25.80%	~550-650bps efficiencies
Contribution margin	4.90%	~800-1000bps expansion
Overhead expense*	14.50%	~500-600bps efficiencies
EBITDAM expansion	10.30%	~1300-1600bps expansion

*Source: Company, Ambit Capital research. * Includes employee and G&A expenses*

Exhibit 65: Nykaa Superstore to expand by ~2000bps by end of FY26

eB2B Store	FY24	Commentary - "Mid-term" aspiration
GMV (₹ mn)	5,973	~9x growth
Retailers	195	~2.9x growth
EBTIDAM	dna*	3-5%
	FY24	**Commentary for FY26 "exit"**
GM (% of net revenue)	12%	~400bps expansion
EBITDAM	dna*	~2000bps expansion

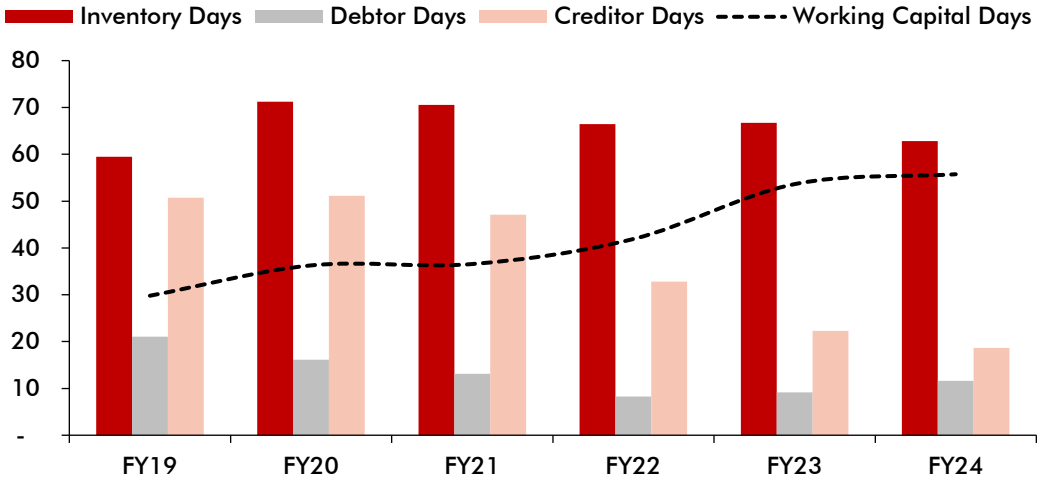
*Source: Company, Ambit Capital research. *data not available*

FCF generation diluted due to non-BPC businesses

Working capital days increased on the back of lower creditor days

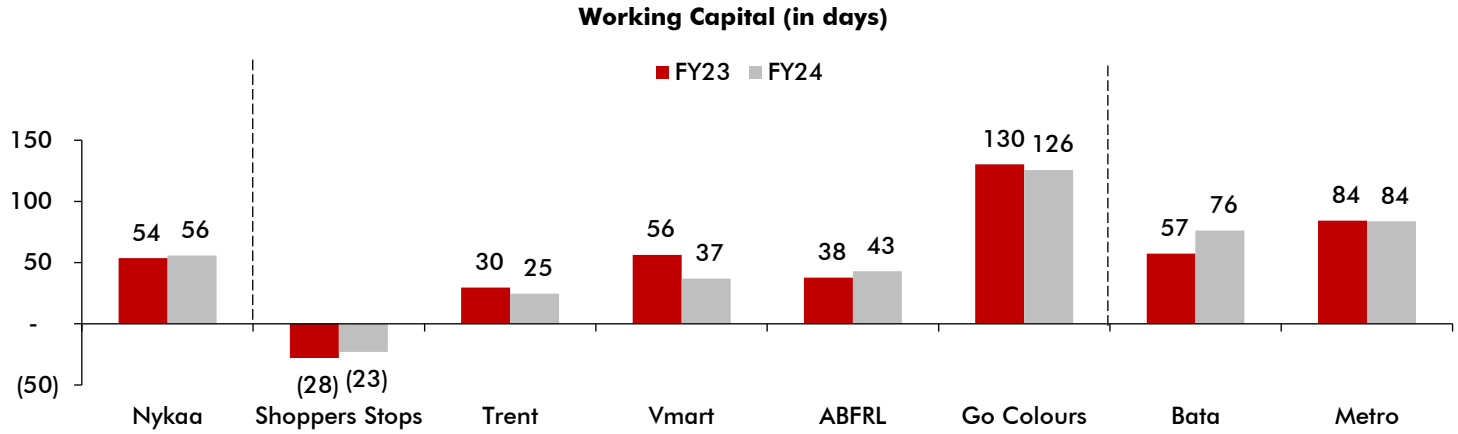
Working capital days improved over FY16-24 from 84 days to 56 days. However, over FY19-24, the cycle went up from 30 days to 56 days on account of faster payment to suppliers/brands in BPC and rising mix of the marketplace model in fashion. Going forward, working capital would see gradual improvement on the back of efficiencies in the eB2B business.

Exhibit 66: Working capital cycle increased due to lower credit period



Source: Company, Ambit Capital research

Exhibit 67: Nykaa's cash conversion cycle is in line with that of retail peers

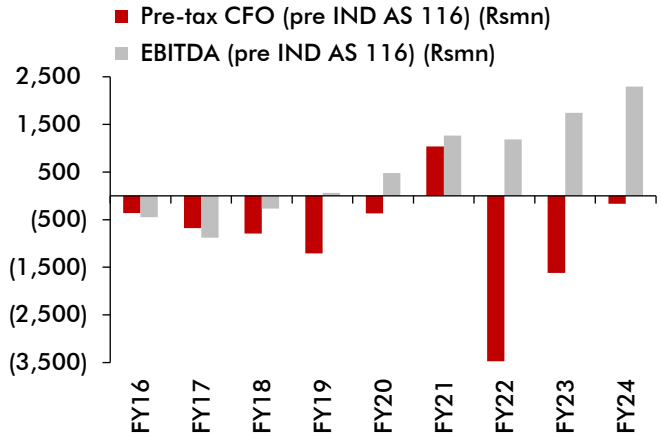


Source: Company, Ambit Capital research.

Return ratios have bottomed out

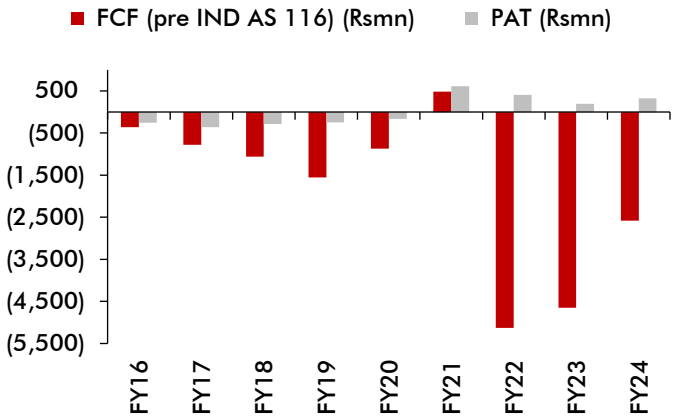
Internal accruals from the BPC segment were utilized to fund the losses of fashion and eB2B segment. The company utilized ₹5bn on capex to expand fulfilment centres and retail stores. This resulted in negligible ROCE of sub-10%. However, with margin expansion trajectory and a large part of capex behind, return ratios will improve.

Exhibit 68: Investments in emerging segments like eB2B dragged CFO



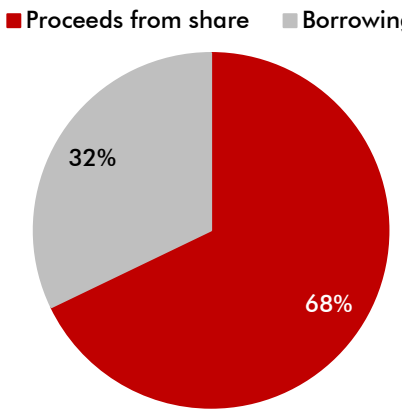
Source: Company, Ambit Capital research.

Exhibit 69: FCF were lower on account of capex on warehousing and retail area expansion



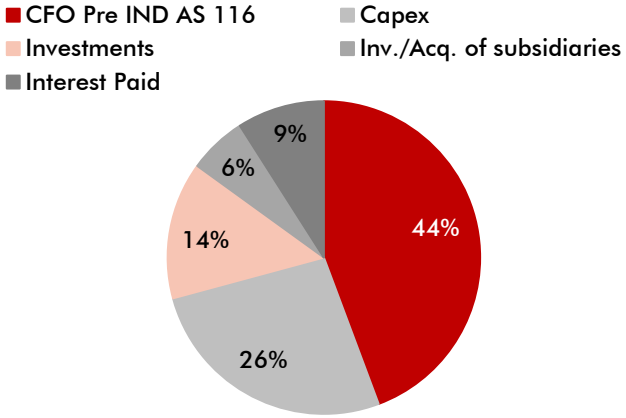
Source: Company, Ambit Capital research.

Exhibit 70: Non-BPC segments diluted CFO; ~68% of the funds were sourced externally through equity over FY19-24...



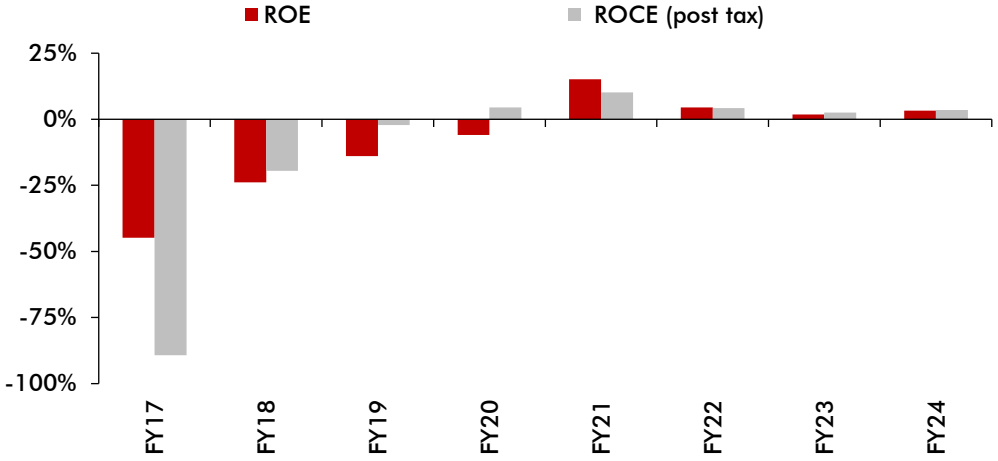
Source: Nykaa RHP/Financials, Ambit Capital research

Exhibit 71: ...which were utilised on CFO, capex and investments



Source: Nykaa RHP/Financials, Ambit Capital research

Exhibit 72: RoE/ROCE were negligible as the company reinvested BPC profits into fashion and other segments, but should improve with increasing margins



Source: Company, Ambit Capital research

High valuation for growth, margin upside

Conviction on Nykaa BPC's 17% revenue CAGR over the next 2 decades stems from new customer growth, increasing penetration and category growth driving market share expansion from traditional channels. We build 19% revenue CAGR in fashion, driven by similar factors but market share gain would be gradual and limited given the high competitive intensity. In the case of the fashion segment, EBITDAM trajectory would be a key monitorable. We build sales/EBITDA CAGR of 17%/25% over FY24–44E, giving us a TP of ₹252. At CMP, Nykaa trades at 4.8x FY27 EV/sales, at a discount to Zomato/Trent/Metro. However on FY27 EV/EBITDA, Nykaa trades at 53x, higher vs discretionary peers on account of its lower EBITDAM base. But we believe that with higher EBITDA growth runway, multiples should remain higher vs peers. Key risks: Delay in the fashion segment's profitability, lower growth in either BPC or fashion segments and execution by peers in BPC resulting in loss of market share.

Initiate BUY with a 17% upside from CMP

Our assumptions build for Nykaa BPC/Fashion will have 47%/27% penetration by FY44E

We expect Nykaa's BPC platform to reach 45-50% penetration of the relevant TAM by FY44, driven by an 11% CAGR in its transacting user base over the next two decades vs 5% increase in target addressable population (50-70% of upper middle income households and 100% of high-income households). Assuming the online BPC market posts a 15% CAGR over the next 2 decades, our GMV assumptions build 39% market share for Nykaa vs 27% in FY24. In the case of fashion, we project 27% penetration of the relevant target addressable population by FY44, assuming a 14% CAGR in transacting users vs 5% increase in target addressable population (20-40% of upper middle income households and 100% of high-income households) and 6% CAGR in online shopper base. Assuming the online fashion market clocks a 14% CAGR over the next 2 decades, our GMV assumptions build 7% market share for Nykaa from the current implied 3%.

Exhibit 73: We build +95mn users by FY44E (11% CAGR over FY24-44) for Nykaa's BPC platform, which implies 45-50% penetration of the relevant TAM

Nykaa BPC Penetration	FY24	FY34	FY44	FY24-44E CAGR
No. of households	109	183	249	
- High-income (assuming 3% growth beyond FY28)	41	72	98	
- Upper middle income (assuming 3% growth beyond FY28)	68	111	151	
Relevant population assuming (i) size per household to be 4 and (ii) 2 female per household and (iii) 50% of age group between 15-45 years	109	183	249	
- High-income	41	72	98	
- Upper middle income	68	111	151	
Addressable population	**76**	**140**	**205**	*5%*
- High-income - 100%	41	72	98	
- Upper middle income - 50% gradually increasing to 70% (is a function of affordability and affinity to shop online)	35	68	107	
Factor of affordability and affinity to shop online	*51%*	*61%*	*71%*	
Nykaa BPC consumer base	12	52	97	*11%*
Nykaa's penetration in the relevant TAM	**15%**	**37%**	**47%**	

Source: Redseer, Statista, Ambit Capital research

Exhibit 74: Assuming total/online BPC market sees a 10%/15% CAGR over the next 2 decades, our GMV assumptions build in 14%/31% market share for Nykaa

Nykaa's market share based on GMV	FY24	FY35	FY44	CAGR FY24-44
Indian BPC market (₹ bn)	1,577	4,719	9,996	10%
Indian e-com BPC market (₹ bn)	313	2,251	5,203	14%
Online mix in BPC	*20%*	*42%*	*43%*	
Nykaa's market share in total BPC market	5%	12%	17%	
Nykaa market share in online channel	27%	29%	39%	

Source: Redseer, Statista, Ambit Capital research

Exhibit 75: We expect Nykaa Fashion to penetrate 27% of relevant TAM by FY44 assuming it grows its transacting user base by 14% CAGR over the next 2 decades

Nykaa Fashion Penetration	FY24	FY34	FY44	FY24-44E CAGR
No. of households	109	183	249	
- High-income (assuming 3% growth beyond FY28)	41	72	98	
- Upper middle income (assuming 3% growth beyond FY28)	68	111	151	
Relevant population assuming (i) size per household to be 4 and (ii) 2 female per household and (iii) 50% of age group between 15-45 years	109	183	249	
- High-income	41	72	98	
- Upper middle income	68	111	151	
Addressable population	56	107	160	5%
- High-income - 100%	41	72	98	
- Upper middle income - 20% gradually increasing to 40% (is a function of affordability and affinity to shop online)	14	35	62	
Nykaa Fashion consumers	3	17	43	14%
Nykaa's penetration in the relevant TAM	**5%**	**16%**	**27%**	

Source: Redseer, Statista, Ambit Capital research

Exhibit 76: Assuming premium/online fashion market posts 14%/14% CAGR over the next 2 decades, our GMV assumptions build 7% market share for Nykaa

Nykaa's market share based on GMV	FY24	FY35	FY44	CAGR FY24-44
Indian Fashion market size (₹ bn)	**6,366**	**24,791**	**48,644**	11%
Premium fashion (₹ bn)	1,120	7,098	15,035	14%
Mix %	*18%*	*29%*	*31%*	
Nykaa's market share in premium fashion	3%	4%	7%	
Indian online Fashion market (₹ bn)	1,074	6,683	15,113	14%
Mix%	17%	27%	31%	
Nykaa's market share of online fashion players	3%	5%	7%	

Source: Redseer, Statista, Ambit Capital research

We build in 17%/25% revenue/EBITDA CAGR over the next 2 decades

We project 26%/17% CAGR in Nykaa's revenue over FY24-27/FY24-44, driven by increase in user base as penetration improves, followed by marginal growth in AOVs. We expect EBITDAM to expand by ~125bps annually over FY24-27E, supported by reduced losses in the fashion and eB2B segments, with positive EBITDAM anticipated in fashion from FY27. Improved margins and controlled capex, focused on store expansion, should enhance RoE/ROCE and lead to positive cash flows over FY24-27. However, we are lower than consensus on margins over FY24-27 as we believe EBITDAM improvement in fashion and eB2B segments would be gradual.

Exhibit 77: Our near-term assumptions over FY24-27E build in 26%/50% growth in revenue/EBITDA and expect RoE/RoCE to improve from 3%/5% to 28%/30%

Estimates (₹ mn unless specified)	FY24	FY25E	FY26E	FY27E	*CAGR over FY24-27E/ avg expansion*	*Comments*
P&L						
Revenue	63,856	78,884	101,283	129,246	*26%*	
GMV mix %						
BPC	67%	67%	66%	66%	*-42bps*	
Fashion	26%	26%	26%	27%	*9bps*	
Others	7%	7%	8%	8%	*33bps*	We build in 26% CAGR in revenue driven by 25%/26% CAGR in BPC/fashion segments. We build in 25% CAGR in BPC revenue driven by 20% growth in AUTC and 5% growth in AOV We build in 26% CAGR in Fashion revenue driven by 21% growth in AUTC and 5% growth in AOV
Revenue (₹ mn)						
BPC	53,855	66,340	83,589	104,444	*25%*	
Fashion	5,302	6,522	8,290	10,623	*26%*	
Others	4,699	6,022	9,405	14,178	*45%*	
Revenue mix %						
BPC	84%	84%	83%	81%	*-118bps*	
Fashion	8%	8%	8%	8%	*-3bps*	
Others	7%	8%	9%	11%	*120bps*	
GM %	43%	43%	43%	43%	*0bps*	
EBITDA	3,462	5,087	7,977	11,725	*50%*	EBITDAM expansion of 130bps p.a. would be driven by reducing losses in fashion and limited losses in eB2B segments. We build in positive EBITDAM in the fashion segment FY27 onwards.
EBITDAM %	5%	6%	8%	9%	*122bps*	
Pre IND AS 116 EBITDA	2,295	3,646	6,126	9,412	*60%*	
Pre IND AS 116 EBITDAM %	4%	5%	6%	7%	*123bps*	
PAT	437	1,333	3,149	5,670	*137%*	
Balance Sheet						
Net debt (excl lease liabilities)	4,405	5,617	5,768	4,007	*-8%*	Improving margins and restricted capex (only towards store expansion) would lead to expansion in RoE/ROCE
ROE	3%	10%	20%	28%	*852bps*	
Pre-tax ROCE	5%	11%	21%	30%	*817bps*	
Cash flow parameters						
CFO	3	2,165	3,772	6,012		Reducing losses in non-BPC segment should result in positive cash flows over FY24-27
CFO Pre IND AS 116	-1,477	724	1,921	3,698		
FCF	-1,105	1,017	2,586	4,830		
FCF Pre IND AS 116	-2,584	-424	735	2,516		

Source: Ambit Capital research

Exhibit 78: Long-term assumptions build in 17%/25% CAGR in revenue/EBITDA with margin increasing from 5% to 20%....

Estimates (₹ mn unless specified)	FY24	FY27E	FY34E	FY44E	CAGR			
					FY24-27E	FY27E-34E	FY34E-44E	FY24-44E
Revenue (₹ mn)	63,856	129,246	489,439	1,441,849	26%	21%	11%	17%
GM %	43%	43%	44%	45%	0bps	13bps	15bps	12bps
EBITDA (₹ mn)	3,462	11,725	68,237	289,346	50%	29%	16%	25%
EBITDAM %	5%	9%	14%	20%	122bps	61bps	61bps	70bps
Pre IND AS 116 EBITDA (₹ mn)	2,295	9,412	60,630	274,381	60%	30%	16%	27%
Pre IND AS 116 EBITDAM %	4%	7%	12%	19%	123bps	64bps	66bps	74bps
PAT (₹ mn)	323	5,670	49,240	239,636	160%	36%	17%	39%
ROE	3%	28%	35%	38%	837bps	80bps	31bps	165bps
Pre-tax ROCE (Pre IND)	5%	30%	40%	40%	811bps	128bps	-2bps	164bps
FCF (Pre IND AS 116)	(2,584)	2,516	34,136	175,964	NA	45%	18%	NA

Source: Ambit Capital research

Exhibit 79: ...but we are lower than consensus on margins as we believe EBITDAM improvement in fashion and eB2B segments would be gradual

Consolidated	FY25E			FY26E			FY27E		
₹ mn	Ambit	Consensus	Diff	Ambit	Consensus	Diff	Ambit	Consensus	Diff
Revenue	78,884	81,278	-3%	101,283	102,983	-2%	129,246	130,157	-1%
EBITDA	5,087	5,469	-7%	7,977	8,658	-8%	11,725	12,651	-7%
EBITDA Margin	6.4%	6.7%	-28bps	7.9%	8.4%	-53bps	9.1%	9.7%	-65bps
PAT	1,333	1,689	-21%	3,149	3,729	-16%	5,670	6,267	-10%

Source: Bloomberg, Ambit Capital research

Nykaa vs Zomato

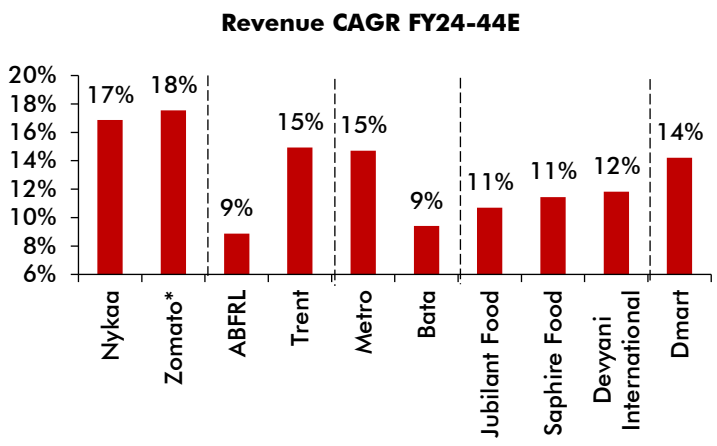
Zomato has a better business model due to operating an asset-light business model (vs inventory model of Nykaa BPC) with potential for high profitability in food delivery business. Quick commerce business of Blinkit offers the next leg of topline growth aiding street's 40%+ revenue growth assumption (28% GMV contribution increasing to 52% over FY24-27). However, the ask from Zomato's CMP hinges on a lot to go right penetration and profitability (ask of ~29% revenue growth) despite amplifying competition from Instamart, Zepto, BBNow and newer entrants like Flipkart Minutes. Further risks include unionization of gig workers, fatigue in convenience-based consumption.

Exhibit 80: Zomato fares better as a business model, but current valuations build optimistic scenario; Nykaa fares better on long-term market share expansion prospects

Parameter	Nykaa (FY27 EV/EBITDA multiple of 50x based on consensus estimates)	Zomato (FY27 EV/EBITDA multiple of 49x based on consensus estimates)
Revenue/EBITDA/PAT CAGR over FY24-27	27% / 54% / 169%	43% / 377% / 123%
Long-term Growth Factors	Growth in BPC and online shopping penetration	Increasing consumption of outside food and delivery frequency. Increasing penetration of quick commerce
Market Leadership	Leader in BPC	Leading share in duopoly market of food delivery and leading share in quick commerce
Revenue streams	Fashion, private brands, eB2B, international business	Food delivery, quick commerce, hyperpure, ticketing
Customer Retention	Sticky consumer due to content and curation	Consumer may be discount-driven due to overlap in restaurant listings
Scope for Market Share Expansion	Potential to capture more share from offline channels	Limited, as already in a duopoly market in food delivery business, hence largely growth largely reliant on expansion of food delivery market. Blinkit business also has restricted TAM and high competition hence market share scope would be limited

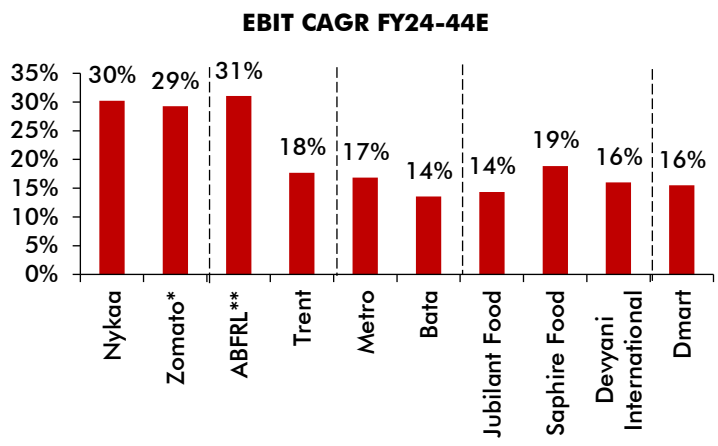
Source: Bloomberg, Ambit Capital research

Exhibit 81: Expect revenue CAGR of 17% for FY24-44E



*Source: Company, Ambit Capital research. * FY24-40E*

Exhibit 82: EBIT CAGR in FY24-44E is at 30%, one of the highest among discretionary peers



*Source: Company, Ambit Capital research. * FY26-40E, ** FY26-44E*

Our DCF-based TP of ₹252 offers upside of 17%

Our TP of ₹252 factors 17% revenue CAGR over FY24-44E along with EBITDAM expansion of ~1400bps due to operating leverage, also resulting in ~40% ROCE. Our TP of ₹252 is based on 12.2% WACC (12.5% CoE and 5% Debt) and terminal value of 7%. Our valuation implies 81% value coming from BPC business and 18% from fashion. Implied FY27 EV/sales is 5.6x (at a discount of 12% to the likes of Metro Brands with lower growth). Implied EV/EBITDA and EV/EBITDA pre IND AS 116 on FY27 are 62x and 77x respectively. While optically the stock may look expensive, Nykaa's FCF yield is higher than peer retailers as the current price underbuilds FCF potential (refer exhibit 83).

Exhibit 83: TP of ₹252 implies 17% upside potential

Particulars	₹ mn
PV of FCF	259,454
Terminal Growth rate %	7%
PV of Terminal Value	465,629
Total value of Firm	**725,083**
Total Equity Value	719,410
Number of shares o/s (m)	2,857
Value per share (₹)	252
CMP	216
% Upside/(Downside)	**17%**

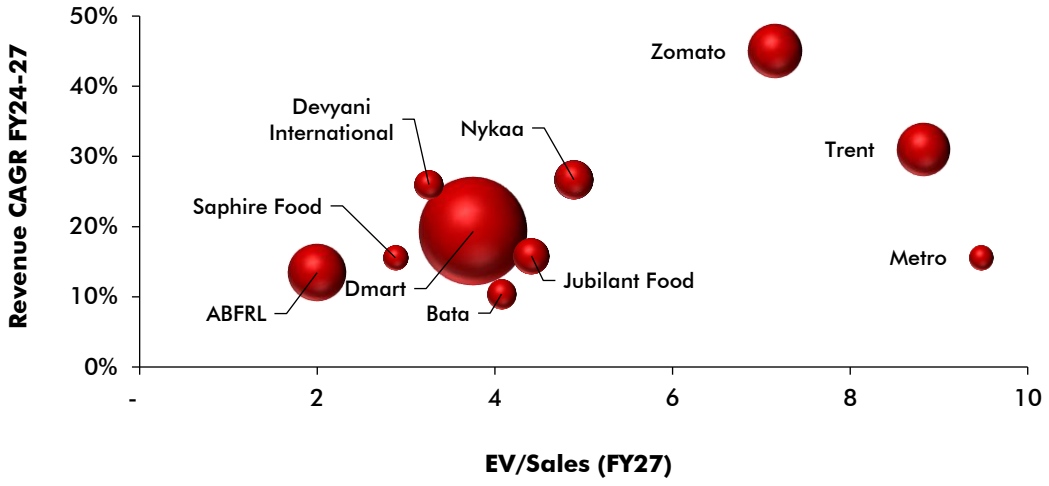
Source: Ambit Capital research

Exhibit 84: TP can deviate by 4%/12% for every 50bps change in terminal growth/WACC

₹		Terminal growth				
		6.0%	6.5%	7.0%	7.5%	8.0%
WACC	11.2%	291	312	338	372	416
	11.7%	254	271	290	315	346
	12.2%	225	237	252	270	293
	12.7%	200	210	221	235	252
	13.2%	179	187	196	206	219

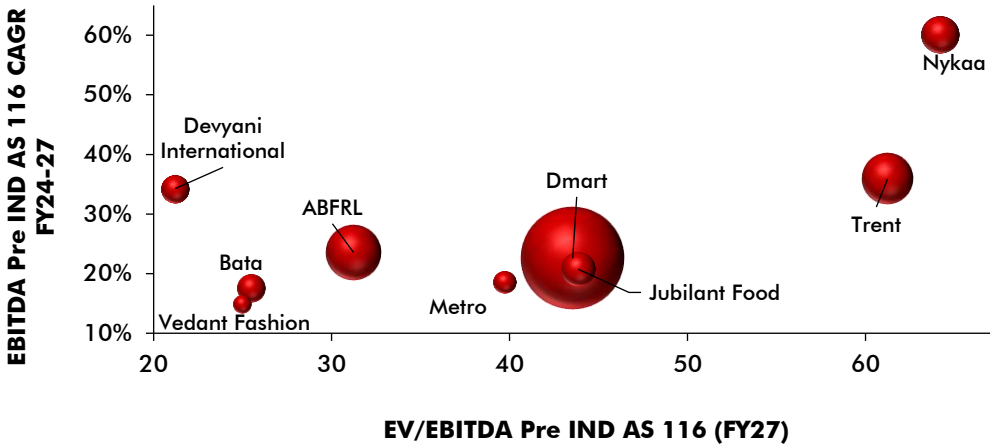
Source: Ambit Capital research

Exhibit 85: Nykaa's FY27 EV/sales is 4.8x (similar EV/NSV multiple), at 35%/45%/50% discount to Zomato/Trent/Metro



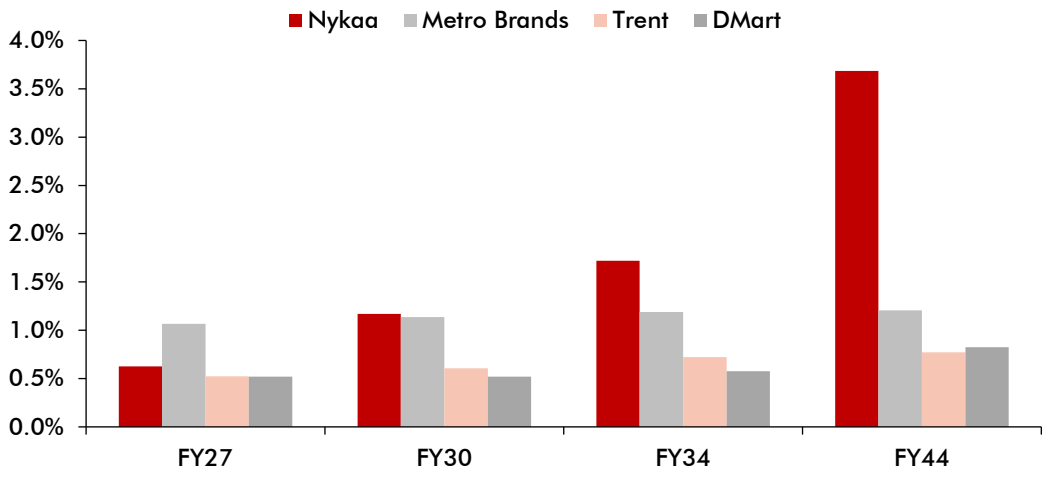
Source: Company, Ambit Capital research. Note: On our estimates; Size of the bubble represents revenue for FY24

Exhibit 86: Nykaa's FY27 EV/EBITDA pre INDAS 116 is 64x on a lower EBITDAM base vs established retailers



Source: Company, Ambit Capital research. Note: Our estimates; size of the bubble represents revenue for FY24

Exhibit 87: Nykaa's FCF yield is higher than peer retailers as current price underbuilds FCF



Source: Company, Ambit Capital research

Nykaa trades at 5x FY27 EV/sales; prefer Sapphire>Nykaa>Senco

After a 50% rally in stock price over the last 6 months, we believe the stock can still offer upside led by profitable growth and ROCE improvement runways that can span the next two decades where we build 17%/30% revenue/EBIT CAGR. We believe there could be upside risk to our margin numbers if the fashion business shows profitability in line with management guidance; we expect low single-digit EBITDAM in FY27 vs management guidance of mid-single-digit exit EBITDAM in FY26. Within our discretionary coverage, we prefer Sapphire (mid-caps) > Nykaa (large-caps)> Senco (mid-caps).

Exhibit 88: Nykaa trades at 6x/5x FY26/27E sales, at a discount to peer discretionary/retail players with lower growth rate

Company Ticker	Mcap ($ mn)	CMP	TP	Rating	CAGR (FY24-27E)			EV/Sales		EV/EBITDA		RoE	
					Sales	EBITDA	PAT	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Beauty & Personal Care													
NYKAA IN EQUITY	**7,334**	**216**	**252**	**BUY**	**27%**	**54%**	**169%**	**6**	**5**	**72**	**49**	**23%**	**29%**
HONASA IN EQUITY	2,095	542	639	BUY	21%	45%	42%	6	5	57	41	17%	20%
Apparel													
TRENT IN EQUITY	30,215	7,138	3,195	Sell	35%	37%	29%	11	9	67	52	34%	33%
PAG IN EQUITY	5,363	40,379	30,907	Sell	13%	16%	17%	8	7	38	33	41%	42%
MANYAVAR IN EQUITY	3,671	1,269	NA	NR	15%	15%	15%	17	15	36	31	26%	28%
ABFRL IN EQUITY	3,832	317	253	Sell	15%	24%	NA	2	2	17	15	-4%	4%
SHOP IN EQUITY	1,070	817	NA	NR	19%	18%	46%	2	2	12	10	33%	36%
GOCOLORS IN EQUITY	769	1,196	NA	NR	18%	20%	21%	6	5	19	16	16%	17%
VMart IN Equity	30,215	7,138	3,195	Sell	35%	37%	29%	11	9	67	52	8%	12%
Footwear													
METROBRA IN EQUITY	4,047	1,250	900	Sell	16%	17%	16%	11	9	36	30	22%	23%
RLXF IN EQUITY	2,463	831	585	Sell	13%	20%	25%	6	5	34	30	15%	16%
BATA IN EQUITY	2,190	1,431	1,231	Sell	9%	11%	29%	5	4	20	18	22%	24%
CAMPUS IN EQUITY	1,056	291	240	Sell	14%	22%	33%	5	4	28	23	19%	19%
Jewellery													
TTAN IN EQUITY	39,404	3,727	2,819	SELL	19%	20%	21%	5	4	45	38	33%	31%
KALYANKJ IN EQUITY	7,861	640	NA	NA	28%	26%	39%	2	2	33	27	22%	23%
SENCO IN EQUITY	1,150	1,243	1,191	BUY	18%	22%	26%	1	1	19	16	17%	18%
QSR													
JUBI IN EQUITY	5,232	666	439	Sell	21%	24%	20%	6	5	25	22	19%	22%
DEVYANI IN Equity	2,712	189	149	Sell	25%	28%	NA	4	4	22	19	18%	21%
SAPPHIRE IN EQUITY	1,286	339	375	Buy	17%	23%	59%	3	3	17	14	9%	12%
Other													
DMART IN EQUITY	41,412	5,344	3,386	Sell	21%	24%	26%	5	4	54	45	17%	18%
ZOMATO IN EQUITY	28,161	268	155	NR	43%	377%	123%	8	6	83	49	11%	14%

Source: Bloomberg, Ambit Capital research

Catalysts and risks

Near-term catalysts

- **GMV growth in BPC and Fashion:** New customer growth, increasing basket sizes, rising penetration and category growth will drive 21%/20% YoY growth in FY25.
- **Lower losses in Fashion and eB2B:** Reduction in losses of fashion segment from 10.3% EBITDAM (on NSV) and eB2B contribution margin of 17.4% (on NSV) in FY23.

Long-term catalysts

- **Increasing online shopper base penetration:** Currently, online shopping penetration in India stands at 15%. A faster shift in consumer preferences towards a broader range of beauty products in India can accelerate the expansion of the beauty category, benefiting Nykaa's growth trajectory.
- **Omnichannel expansion:** Continued growth in Nykaa's omnichannel presence, combining online and offline experiences, can enhance customer engagement and loyalty, driving higher sales and profitability. The company is looking to reach a store count of 400 stores in the next 3 years from <200 currently and expand its Superstore segment.
- **Brand relationships:** Nykaa's ability to maintain and develop new partnerships with both domestic and international brands can strengthen its BPC/fashion product portfolio. This would reinforce/enhance its leadership/market share in the beauty category.

Risks for Nykaa

- **Slowdown in growth momentum:** Any reduction in new customer acquisitions or transacting customers could lead to slower growth. Further, slower momentum of online shopping adoption could impact the long-term growth trajectory.
- **Rising competitive intensity leading to customer retention challenges:** Execution by newer entrants and a decline in customer retention rates in BPC could increase marketing costs and weaken Nykaa's relationships with brands, thereby impacting profitability. Even in fashion, increased competition on the premium fashion segment from giants like Myntra and Ajio could delay Nykaa's market share gain.
- **Non-BPC business drag on profitability:** Prolonged time period to improve fashion and eB2B segments' profitability could drag consolidated profitability and delay RoCE expansion.
- **KMP risk and attrition:** Nykaa is a promoter-driven company. Founder MD & CEO Falguni Nayar followed by CEOs of Nykaa Fashion and Nykaa E-Tail Adwaita Nayar and Anchit Nayar's leadership is crucial. Any changes in the executive team or continuous churn in senior management, as seen in the past, could impact strategic decisions and business stability.

Accounting & Governance checks

Well-known auditor & reasonable audit fees

Nykaa was jointly audited by S.R. Batliboi & Associates LLP and V.C. Shah & Co. until FY22. However, V.C. Shah & Co. resigned as the statutory auditor for FSN E-commerce Ventures, Nykaa E-Retail Pvt. Ltd., and FSN Brand Marketing Pvt. Ltd. Their auditing responsibilities have now been assumed by S.R. Batliboi & Associates LLP, an affiliated firm of EY. The audit fees have increased over the years primarily due to the addition of subsidiaries, with two each in FY21 and FY22 respectively, five in FY23 and one in FY24. The current signing partner of the books of account has also served as the signing partner for other listed companies such as HCL Technologies Ltd & Vodafone Idea Ltd.

Exhibit 89: Auditor remuneration accounts for 0.04% of FY24 revenue

Auditor Remuneration (in ₹ mn)	FY19	FY20	FY21	FY22	FY23	FY24
Audit fees	2	2	8	15	18	19
Taxation matters	1	2	2	2	2	2
Other matters*						2
Total	**2**	**4**	**10**	**16**	**21**	**24**
As a % of revenue	*0.02%*	*0.03%*	*0.04%*	*0.04%*	*0.04%*	*0.04%*

*Source: Company, Ambit Capital research. * Nature unknown*

Related-party transactions

As of FY24, Nykaa operates with 10 direct subsidiaries, 4 indirect subsidiaries, and 1 associate. The company reported negligible total related-party income amounting to ₹1mn for FY24. Related-party expenses accounted for 1% of the total operating expenses in FY24. These expenses primarily comprised remuneration paid to KMP along with sitting fees and commission paid to directors.

Exhibit 90: Related-party income was negligible in FY24

Nature of Income	FY19	FY20	FY21	FY22	FY23	FY24
Share application money received pursuant ESOP	7	-	3	-	-	-
Issuance of OCRPS	-	-	2	-	1	-
Notional interest income on security deposit	1	-	1	1	1	1
Total related income	**8**	**-**	**5**	**1**	**2**	**1**
As a % of total expense	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*

Source: Company, Ambit Capital research

Exhibit 91: Related-party expense is driven by KMP remuneration and is negligible; i.e. 1% of total expenses

Nature of Expense	FY19	FY20	FY21	FY22	FY23	FY24
KMP	53	64	171	177	180	238
Share based payment expenses	4	1	-	-	-	-
Sitting fees	-	0	1	7	7	5
Commission	-	-	3	10	8	7
Rent & maintenance expenses	43	30	31	67	81	67
Interest expenses on lease liabilities	9	3	5	16	13	13
Interest on loan	5	-	-	-	-	-
Total related expense	**115**	**99**	**212**	**277**	**289**	**329**
As a % of total expense	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*

Source: Company, Ambit Capital research

HAWK analysis

Nykaa scores average on accounting and governance checks given (a) it did not consistently generate operating & free cash flow in the past, but cash flow generation would be stable going forward, (b) generates reasonable cash yields (7-8% in FY24), (c) high contingent liabilities at 65% of net worth, (d) low miscellaneous expenses at <1% of revenue. However, depreciation rate was volatile over FY19-24. While Nykaa is audited by a well-known auditor (S.R Batliboi & Associates LLP), there is no stable correlation between audit fee growth and revenue growth as revenue growth is higher than remuneration growth.

Exhibit 92: HAWK analysis

Accounting ratios	FY19	FY20	FY21	FY22	FY23	FY24	Comments
Pre-tax CFO/EBITDA	NA	8%	85%	NA	NA	38%	Consolidated EBITDA and CFO have been negative. However, CFO & EBITDA started showing positive trends
Volatility in depreciation rate (in bps)	2519	776	-171	-2519	-2237	753bps	Depreciation rate has been volatile due to (i) the company following WDV, (ii) changing asset mix and (iii) timing of addition of asset
PFD as % of Debtors outstanding for >6m	NA	NA	NA	NA	NA	NA	-
Cash yield	3%	5%	4%	4%	8%	8%	Cash yields primarily come from the bank deposits and security deposits
Cont Liab. as % of NW	26%	10%	2%	32%	47%	65%	Contingent liability pertains to corporate guarantee (related to the borrowings of the subsidiary co.) and statutory claim against the company
Misc. exps. as % of total revenue	1%	0%	0%	0%	0%	0%	Negligible amount is report under miscellaneous expense
Adv. to related parties / CFO	-	-	-	-	-	-	-
CWIP/Gross Block	0%	1%	1%	3%	0%	1%	Due to acquisition in since FY22, there was an increase in gross block due to which there is a fall in the ratio
Cum. FCF/median revenues	NA	NA	NA	NA	NA	NA	Consolidated pre-IND AS 116 FCF has been negative. The company is still not generating any free cash flow
CAGR in auditor's remn/CAGR in cons. Rev.	0.46	2.63	2.35	1.99	0.95	0.67	Both revenue and auditor remuneration increased from FY19 to FY24, but the ratio has declined due to higher base

Source: Company, VCC Edge/MCA, Ambit Capital research

Contingent liabilities: Corporate guarantees form the major chunk

Nykaa reported contingent liability of ₹6,492mn/₹8,222mn in FY23/FY24 accounting for 47%/65% of the net worth. These primarily include corporate guarantees provided to banks (~99% FY24) and statutory claim against the company. The corporate guarantees to banks are related to borrowings by the subsidiary company (nature unknown).

Exhibit 93: Contingent liability remains high at 47%/65% of net worth in FY23/FY24

Particulars (₹ mn)	FY19	FY20	FY21	FY22	FY23	FY24
Claims against the Company, not acknowledged as debts						
Disputed Indirect tax matters	-	-	15	28	28	27
Disputed Direct tax matters	-	-	74	74	74	74
Service tax demand	294	-	-	-	-	-
Bank guarantees	311	316	12	670	-	-
Corporate guarantees given to banks	-	-	-	3,540	6,390	8120
Total contingent liabilities	**605**	**316**	**101**	**4,312**	**6,492**	**8222**
Networth	2,306	3,221	4,899	13,399	13,780	12622
As a % of networth	*26%*	*10%*	*2%*	*32%*	*47%*	*65%*

Source: Company, Ambit Capital research

KMP and Other Directors remuneration

Compensation for key managerial personnel increased at CAGR of 30% to ₹153mn (FY24) from ₹41mn (FY19). The main factor driving this increase in revenue was higher remuneration paid to Falguni Nayar (which includes remuneration from Nykaa E-Retail Pvt. Ltd.). Ganesh Padmanabhan was appointed as CFO in Feb'23, thus salary paid in FY23 pertains to 2 months only. Remuneration paid to directors other than KMP increased at a CAGR of 50% to ₹97mn (FY24) from ₹13mn (FY19). This increase was primarily due to higher remuneration paid to Adwaita Nayar/Anchit Nayar from Nykaa Fashion Limited/Nykaa E-Retail Limited; i.e. ₹13mn/₹41mn in FY24.

Exhibit 94: KMP and Director remunerations is 36% of PBT in FY24

Remuneration (₹ mn)	Remarks	FY19	FY20	FY21	FY22	FY23	FY24
KMP							
Falguni Nayar	MD, & CEO	28	30	108*	57	68	87
Ganesh Padmanabhan	CFO	-	-	-	-	5	37
Neelabja Chakrabarty	CS (Since Feb'24)	-	-	-	-	-	3
Sujeet Jain	CS (till Feb'24)	-	-	-	-	10	27
Arvind Agarwal	ceased as CFO from Nov'22	-	-	20	75	22	-
Mr. Rajendra Punde	ceased as CS from Feb'23	-	-	5	12	24	-
Sachin Parikh	ceased as CFO from May'20	12	14	2	-	-	-
Pratik Bhujade	ceased as CS from Nov'20	1	1	1	-	-	-
KMP Remunerations		**41**	**45**	**136**	**144**	**129**	**153**
PBT		(317)	(124)	661	473	384	690
as a % of PBT		*-13%*	*-36%*	*21%*	*30%*	*34%*	*22%*
Director other than KMP							
Adwaita Nayar	Executive Director	9	11	17	17	25	43
Anchit Nayar	Executive Director	4	7	19	17	26	43
Milind Sarwate	Independent Director	-	-	-	3	4	4
Anita Ramchandran	Independent Director	-	0	1	4	3	3
Sheshashayee Shridhara	Independent Director	-	-	-	2	2	2
Milan Khakhar	Non-Executive Director	-	-	1	-	1	1
AlPana Parida	Independent Director	-	0	1	4	3	1
Pradeep Parmeshwaran	Independent Director	-	-	-	2	2	1
Yogeshkumar Mahansaria	Independent Director	-	-	1	1	-	-
Remuneration to other than BOD		**13**	**19**	**41**	**50**	**66**	**97**
as a % of PBT		*-4%*	*-15%*	*6%*	*11%*	*17%*	*14%*
KMP & BOD remuneration		**53**	**64**	**177**	**194**	**195**	**250**
as a % of PBT		*-17%*	*-51%*	*27%*	*41%*	*51%*	*36%*

*Source: Company, Ambit Capital research. * Included an ex-gratia amount of ₹ 70mn*

KMP & senior management have seen a churn over the last 3 years

The key managerial personnel are Mrs. Falguni Nayar (MD & CEO since April 2012), Ganesh Padmanabhan, (CFO from February 2023) and Sujeet Jain (CS from February 2023). Over the last three fiscal years, two CFOs and two CSs have resigned.

Exhibit 95: Key managerial personnel and senior management profiles

Name	Designation	With Company Since	Background
KMP			
Falguni Nayar	MD & CEO [FSN E-commerce Ventures]	Apr-12	▪ Education: PGDM from the IIM, Ahmedabad. ▪ Experience: Over 26 years in e-commerce, IB, and broking and 18 years at Kotak Mahindra Capital Company Ltd, where she was MD ▪ Board Memberships: Kotak Securities Ltd., ACC Ltd., Dabur India Ltd., Previously served on boards of Tata Motors Ltd. and Aviva Life Insurance Company India Ltd.
P. Ganesh	CFO	Feb-23	▪ Education: Qualified CA, CS & CMA ▪ Previous Organisation: TAFE Group, Pidilite Industries, Glenmark Pharmaceuticals, Godrej Group
Sujeet Jain	Chief Legal and Regulatory Officer	Feb-23	▪ Education: CS, CMA & LLB ▪ Previous Organisation: Ultratech Cement, Viacom 18, People group
Neelabja Chakrabarthy	CS	Feb-24	▪ Education: B.Com (Hons) from University of Calcutta, LLB from ISBM University, ICWAI and ICSI. ▪ Previous Organisation: TCPL, Tata Sky Ltd., Yes Bank, CRISIL Ltd. The Indian Hotels Co Ltd., The Phoenix Mills Ltd. and Thirdware Solutions Ltd.
Senior Management			
Adwaita Nayar	CEO [Nykaa Fashion]	Jul-21	▪ Education: BSc (Applied Mathematics) from Yale University (Cum Laude) and MBA from Harvard Business School.
Anchit Nayar	CEO [Nykaa E-Retail]	Jul-21	▪ Education: Bachelor's degree from Columbia University. ▪ Experience: Former VP at Morgan Stanley, New York, in the IB Division. Joined FSN Brands in 2018 as CEO, Oversaw the expansion of retail Nykaa stores, Served as CMO of the Company from May 31, 2020, to January 12, 2021.
Nihir Parikh	CEO [Nykaa Fashion.com]	May-15	▪ Education: B.E. Chemical Engineering from the University of Mumbai, MBA from INSEAD. ▪ Experience: Over 11 years of experience in the technology and e-commerce sectors. Previously associated with Genentech Inc, USA, GE Healthcare Pte. Ltd.
Vishal Gupta	CEO [Nykaa Distribution]	Sept-2022	▪ Education: B.Tech in textile engineering from IIT, Delhi and MBA in marketing, finance and business strategy from IIM, Bangalore. ▪ Experience: Over 25 years of experience in the beauty and personal care and the marketing sector. Previous association includes VP of beauty and personal care at Unilever (Russia).
Rajesh Uppalapati	CTO	Nov-22	▪ Education: BE CSE from Osmania University and MSCS from university of Arizona. ▪ Experience: Over 20 years of experience in consumer reach and engagement, product engineering. Past association includes VP of product engineering at Intuit, Director/Head of engineering (Consumer reach and engagement) in Amazon.
Surrender Mehta	CHRO	Dec-20	▪ Education: BBS from the University of Delhi, PGDM-BM from IMT, Ghaziabad, Completed the Advanced Management Program from Harvard Business School. ▪ Experience: Over 21 years of experience in HR management. Previous associations include Vodafone India Services Pvt. Ltd., ITC Hotels Ltd. ▪ Directorship: Previously served as a director on the boards of Vodafone India Services Pvt. Ltd. and Vodafone Global Services Pvt. Ltd..
Manoj Jaiswal	COSC [Nykee E-Retail]	Nov-13	▪ Education: BBA, MBA from the All India Institute of Engineering & Management. ▪ Experience: Over 8 years of experience in supply chain management. Previous associations include Seventymm Services Pvt. Ltd., Ibibo Web Pvt. Ltd.

Source: Company, Ambit Capital research

Board of Directors complies with regulatory requirements

The BOD of Nykaa consists of 10 members – 3 executive directors, 2 non-executive directors, and 5 independent directors. The board members bring expertise from various fields such as investment banking, retail, banking and private equity, consumer products, management consulting, consumer technologies, engineering, automobiles and marketing.

Exhibit 96: Composition of board of directors complies with regulatory requirements

Name	Age	Director Since	Background
Executive Director			
Falguni Nayar	61	Apr-12	▪ Education: PGDM from the IIM, Ahmedabad. ▪ Experience: Over 26 years in e-commerce, IB, and broking and 18 years at Kotak Mahindra Capital Company Ltd., where she was MD ▪ Board Memberships: Kotak Securities Ltd., ACC Ltd., Dabur India Ltd., Previously served on boards of Tata Motors Ltd.and Aviva Life Insurance Company India Ltd.
Adwaita Nayar	33	Jul-21	▪ Education: BSc (Applied Mathematics) from Yale University (Cum Laude) and MBA from Harvard Business School.
Anchit Nayar	33	Jul-21	▪ Education: Bachelor's degree from Columbia University. ▪ Experience: Former VP at Morgan Stanley, New York, in the IB Division. Joined FSN Brands in 2018 as CEO, Oversaw the expansion of retail Nykaa stores, Served as CMO of the Company from May 31, 2020, to January 12, 2021.
Non Executive Director			
Sanjay Nayar	63	Apr-12	▪ Education: He holds a BSME from the University of Delhi and a PGDM from the IIM, Ahmedabad. ▪ Experience: Over 35 years in banking and PE, 23+ years at Citibank N.A., including 6 years as CEO of Citibank India, CEO of KKR India Advisors Pvt. Ltd. from 2009 to 2020. ▪ Board Membership: Indigrid Investment Managers Ltd., Max Healthcare Institute Limited, J B Chemicals and Pharmaceuticals Ltd., Avendus Capital Pvt. Ltd.
Milan Khakhar	63	Sep-15	▪ Education: B.Com LLB from the University of Bombay, Merit certificate recipient under the National Scholarship Scheme by the Government of Maharashtra in 1983. ▪ Experience: Over 30 years of experience in the natural stones and building material industry sector, currently Chairman and MD of Solid Stone Company Limited, a BSE listed entity.
Independent Director			
Milind Sarwate	64	Jul-21	▪ Education: Qualified CA, CMA, CS, B.Com Hons from the University of Bombay, Fulbright-CII fellowship participant at Carnegie Mellon Graduate School of Industrial Administration, U.S.A. ▪ Experience: Over 37 years of post-qualification experience, Held positions in consumer product companies like Godrej Consumer Products Ltd. and Marico Ltd. ▪ Independent directorship: Mahindra & Mahindra Financial Services Ltd., Metropolis Healthcare Ltd., SeQuent Scientific Ltd., Matrimony.com Ltd., Hexaware Technologies Ltd., Asian Paints Ltd., OmniActive Health Technologies Ltd., Eternis Fine Chemicals Ltd., WheelsEMI Pvt. Ltd.
Anita Ramachandran	69	Oct-15	▪ Education: B.Com, MMS from the University of Bombay. ▪ Experience: Over 45 years of experience as a management consultant, Founded Cerebrus Consultants Pvt. Ltd. in 1995, Previously worked with A.F. Ferguson & Co. (formerly part of the KPMG network in India). ▪ Other Directorship: Aditya Birla Housing Finance Ltd., Essel Mining & Industries Ltd., Grasim Industries Ltd., Godrej and Boyce Manufacturing Company Ltd., Happiest Minds Technologies Ltd., Kotak Mahindra Life Insurance Company Limited Ltd., Metropolis Healthcare Ltd., Rane (Madras) Ltd., Utkarsh Small Finance Bank Ltd.
Santosh Desai	62	Jul-24	▪ Education: M.B.A from IIM, Ahmedabad and B.A. (Hons.) from Maharaja Sayajirao University, Vadodara ▪ Experience: CEO & MD, Future Brands Ltd, Founder & Director, Think9 Consumer Technologies Pvt. Ltd. ▪ Board Memberships: D.B. Corp Ltd., FSN Ecommerce Ventures Ltd.
Pradeep Parameswaran	50	Jul-21	▪ Education: BSE (Instrumentation Engineering) from the University of Mumbai, MMS from the University of Mumbai, MBA from Vanderbilt University. ▪ Experience: Over 15 years of experience in engineering, automobile, and marketing sectors, Currently Senior Director, RGM Rides – APAC at Uber India Technology Pvt. Ltd., Former CEO at DEN Networks Ltd., Previous experience includes roles at McKinsey & Company, Inc. and Hindustan Unilever Ltd.
Seshashayee Sridhara	58	Jul-21	▪ Education: BSME from Nagpur University. ▪ Experience: Several years of experience spanning product development, engineering, data and artificial intelligence, operations, cybersecurity, and compliance sectors, Currently serves as a member of the management board for Allegro.pl., Previously associated with TUI Travel Plc, Dogan Online

Source: Company, Ambit Capital research

Exhibit 97: Explanation of flags on first page

Field	Score	Comments
Accounting	AMBER	The company scores average on accounting and governance checks given (a) lack of history of CFO/FCF generation, but cash flow generation would be stable going forward; (b) generates reasonable cash yields; (c) high contingent liabilities at 65% of net worth. However, depreciation rate was volatile over FY19-24.
Predictability	AMBER	Earnings performance is largely predictable but subject to growth in the fashion segment.
Earnings Momentum	AMBER	Street moderated revenue estimates by 2% over the last 1 year but EBITDA estimates by 15-18%. We are building EBITDA CAGR of 50% in FY24-27 on a low base led by operating leverage. Our estimates are lower vs consensus and hence there is some downside risk to consensus numbers if Nykaa Fashion does not deliver on margins.

Source: Company, Ambit Capital research

FSN E-Commerce Ventures (NYKAA IN, BUY)

Valuation Methodology

We value Nykaa using DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 12% and terminal growth of 7% to arrive at a TP of ₹252.

Risks

The key risks to our buy recommendation include:

- Slowing growth momentum in BPC segments.
- Delay in Nykaa Fashion's profitability.
- Better execution by peers in BPC, resulting in stagnant market share.
- Churn in senior management, causing hindrance in execution.

Financials - CONSOLIDATED

Income statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**51,438**	**63,856**	**78,884**	**101,283**	**129,246**
-growth (Rev)	36.3%	24.1%	23.5%	28.4%	27.6%
Cost of goods sold	28,657	36,464	45,203	57,937	73,803
Gross profit	**22,781**	**27,392**	**33,681**	**43,346**	**55,442**
Employee expenses	4,917	5,649	6,560	8,001	9,700
Advertising/marketing expenses	5,906	7,392	8,766	10,692	13,235
Frieght expenses	3,318	3,885	4,752	5,979	7,477
Other expenses	15,304	18,282	22,034	27,368	34,017
EBITDA	**2,560**	**3,462**	**5,087**	**7,977**	**11,725**
-growth (EBITDA)	56.9%	35.2%	47.0%	56.8%	47.0%
Depreciation	1,733	2,242	2,519	2,882	3,393
EBIT	**828**	**1,219**	**2,569**	**5,095**	**8,333**
Other income	302	299	356	199	179
EBIT (including other income)	**1,130**	**1,519**	**2,925**	**5,294**	**8,512**
Finance costs	746	828	1,144	1,085	935
Share of profit/loss of associates and JVs	(39)	(40)	-	-	-
Profit before tax	**384**	**690**	**1,781**	**4,209**	**7,577**
Profit before tax (adjusted)	**345**	**651**	**1,781**	**4,209**	**7,577**
Tax	136	253	448	1,059	1,907
PAT	**248**	**437**	**1,333**	**3,149**	**5,670**
Profit after tax (adjusted)	**210**	**397**	**1,333**	**3,149**	**5,670**
Minority interest	17.0	75	-	-	-
Consolidated profit after tax	**193**	**323**	**1,333**	**3,149**	**5,670**
EPS (basic) (₹)	0.1	0.1	0.5	1.1	2.0

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	1,754	1,555	4,104	4,006	3,741
Capital work in progress	20	61	61	61	61
Right of use assets	3,119	2,609	2,058	1,762	2,163
Other intangible assets	2,115	2,518	-	-	-
Intangible assets under development	289	237	237	237	237
Total fixed assets	**7,297**	**6,979**	**6,459**	**6,067**	**6,202**
Non-current investments	381	343	343	343	343
Deferred tax assets (net)	1,878	2,690	2,690	2,690	2,690
Total non-current assets	**9,556**	**10,012**	**9,492**	**9,100**	**9,235**
Inventories	10,051	11,920	13,571	17,251	21,793
Trade receivables	1,635	2,416	2,377	3,022	3,818
Cash and cash equivalents	1,487	2,399	1,187	1,036	1,296
Other current assets	6,770	7,259	8,492	10,685	13,362
Total current assets	**19,944**	**23,994**	**25,627**	**31,994**	**40,269**
Total assets	**29,500**	**34,006**	**35,120**	**41,093**	**49,504**
Share capital	2,852	2,856	2,856	2,856	2,856
Other equity	10,928	9,766	11,099	14,249	19,918
Minority interest	141	188	188	188	188
Total equity	**13,922**	**12,810**	**14,143**	**17,293**	**22,962**
Long-term borrowings	3.6	-	-	-	-
Lease liabilities	3,381	2,891	2,300	1,753	1,785
Total non-current liabilities	**3,385**	**2,891**	**2,300**	**1,753**	**1,785**
Short-term borrowings	4,600	6,804	6,804	6,804	5,304
Trade payables	2,654	3,867	4,106	5,272	6,728
Other current liabilities	4,733	7,445	7,522	9,658	12,324
Short term provisions	207	189	244	314	400
Total current liabilities	**12,193**	**18,305**	**18,677**	**22,048**	**24,756**
Total liabilities	**15,578**	**21,196**	**20,976**	**23,801**	**26,542**
Total equity and liabilities	**29,500**	**34,006**	**35,120**	**41,093**	**49,504**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**384**	**690**	**1,781**	**4,209**	**7,577**
Depreciation	1,733	2,242	2,519	2,882	3,393
Interest income	(219)	(197)	(356)	(199)	(179)
Interest expense	746	828	1,144	1,085	935
Other items	(242)	(131)	(713)	(398)	-
Working capital changes	(3,290)	(2,513)	(2,474)	(3,146)	(3,807)
Taxes	(951)	(1,312)	(448)	(1,059)	(1,907)
Cash flow from operations	**(1,840)**	**(392)**	**1,453**	**3,374**	**6,012**
(Net) capital expenditure	(2,082)	(1,107)	(1,149)	(1,186)	(1,182)
Acq./(disp.) of Investments	3,999	(561)	-	-	-
Interest/dividend Received	181	218	356	199	179
Other items	-	1,349	-	-	-
Cash flow from investments	**2,098**	**(101)**	**(792)**	**(987)**	**(1,003)**
Net short-term borrowings	1,269	2,204	-	-	(1,500)
Net long-term borrowings	(5.6)	(3.6)	-	-	-
Issuance of equity	288	172	-	-	-
Interest paid	(334)	(558)	(1,144)	(1,085)	(935)
Payment of lease liabilities	(1,169)	(1,479)	(1,441)	(1,850)	(2,314)
Other items	-	107	-	-	-
Cash flow from financing	**49**	**443**	**(2,585)**	**(2,935)**	**(4,749)**
Opening cash balance	**372**	**414**	**2,399**	**1,187**	**1,036**
Net change in cash	**307**	**(51)**	**(1,925)**	**(548)**	**260**
Closing cash balance	**679**	**363**	**474**	**639**	**1,296**
Free cash flow to firm	**(3,921)**	**(1,499)**	**304**	**2,188**	**4,830**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	44.3%	42.9%	42.7%	42.8%	42.9%
EBITDA margin	5.0%	5.4%	6.4%	7.9%	9.1%
EBIT margin	1.6%	1.9%	3.3%	5.0%	6.4%
Net profit margin	0.5%	0.7%	1.7%	3.1%	4.4%
Interest cover	1.1	1.5	2.2	4.7	8.9
Net debt/equity	0.2	0.3	0.4	0.3	0.2

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	44.3%	42.9%	42.7%	42.8%	42.9%
EBITDA margin	5.0%	5.4%	6.4%	7.9%	9.1%
EBIT margin	1.6%	1.9%	3.3%	5.0%	6.4%
Net profit margin	0.5%	0.7%	1.7%	3.1%	4.4%
Interest cover	1.1	1.5	2.2	4.7	8.9
Net debt/equity	0.2	0.3	0.4	0.3	0.2
Net debt/EBITDA	1.2	1.3	1.1	0.7	0.3
Working capital turnover	6.8	6.5	7.1	7.5	7.6
Cash conversion days	54	56	55	54	53
Inventory days	67	63	63	62	62
Receivable days	9.2	11.6	11.0	10.9	10.8
Payable days	22	18.6	19.0	19.0	19.0
Gross block turnover	11.4	10.3	10.8	11.9	13.3
pre-tax CFO/EBITDA	(34.7%)	26.6%	37.4%	55.6%	67.5%
pre-tax RoCE	4.0%	5.5%	11.2%	20.8%	29.8%
post-tax RoCE	2.6%	3.5%	8.4%	15.5%	22.3%
pre-tax RoIC	5.3%	7.1%	13.9%	23.8%	33.3%
post-tax RoIC	(127%)	(127%)	(127%)	(127%)	(127%)
ROE (%)	1.8%	3.3%	10.0%	20.3%	28.4%

Source: Ambit Capital research, Company

Valuation parameters

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
PE	3,197	1,909	462	196	109
EV/EBITDA	241	178	121	77	53
EV/EBIT	744	505	240	121	74
EV/sales	12.0	9.6	7.8	6.1	4.8
P/B	44	48	44	36	27

Source: Ambit Capital research, Company

This page has been intionally left blank

Honasa Consumer

BUY

INITIATING COVERAGE | **HONASA IN EQUITY** | **September 11, 2024**

Emerging local BPC powerhouse

Honasa's 'build' DNA is evident in ability to create and scale-up brands like Mamaearth and The DermaCo ground up. This is led by rapid pace of new product launches based on understanding of emerging consumer interests. Product innovation, newer brands, expanding digital & offline footprint and strengthening consumer engagement strategies will aid long-term scalability of this diverse BPC (beauty & personal care) brand player. These will help it outperform FMCG peers on revenue (1.5x vs incumbents over the next 2 decades). In a growth-starved sector, companies like Honasa that showcase growth, despite low base, deserve lower discount to FMCG mammoths. We expect 15%/18% revenue/FCF CAGR over FY24-44 (only ~20% of HUL's BPC scale by exit). TP of ₹639 implies 5.8x FY27 EV/sales (incumbents at 6-9x). Risks: Delay in scale-up of new brands, failure to expand traditional trade & margin expansion delay.

Competitive position: MEDIUM | Changes to this position: NEUTRAL

Evolving into a brand making machine

Honasa, like China's Yatsen, re-defined the BPC industry and challenged traditional giants by engaging customers directly and rapidly launching new products. But Honasa has grown more effectively, becoming India's largest digital-first BPC company with an estimated 1.9% market share in BPC. This is driven by agility (asset light), launching trend-driven products and brand-building capabilities.

Mamaearth's journey to continue; emerging brands poised for growth

Through its success with Mamaearth, Honasa developed a blueprint which positions it for continued growth by executing this template across its emerging brands (now ~35% of revenue) and eventually expanding relevant ones offline. Of emerging brands, we believe The Derma Co., BBlunt and Dr. Sheth's can be grown further.

Plenty of room for operating margins to improve

Being a pure-play BPC company, Honasa enjoys higher GM vs traditional FMCG firms (70% vs 45-55%) given a diverse category portfolio. But EBITDAM of 7% is lower than incumbents' due to A&P spending (35% vs 5-10% for traditional FMCG) and lower scale. With ~20% revenue growth over FY24-27E in the medium term, operating leverage will be at play, facilitating EBITDAM expansion to 12% and RoE/RoCE improvement.

Valuations still attractive for a high-growth company

We expect 15% revenue CAGR over next 2 decades led by offline expansion and ramp-up of newer brands. Revenue would only touch ~20% of HUL's BPC segment by FY44. After 70% rally since listing, Honasa trades at 30-40% discount on FY27 EV/sales vs FMCG-led BPC peers (Honasa's FY30 P/E is 23x vs 34x/32x/32x for HUL/Dabur/GCPL), steep for a high-growth company in a growth-starved sector.

Key Financials

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,928	19,199	23,122	28,016	33,610
Gross margin	70.1%	69.8%	70.3%	70.3%	70.3%
EBITDA	228	1,371	1,960	2,873	4,034
EBITDA margin	1.5%	7.1%	8.5%	10.3%	12.0%
PAT	(1,510)	1,105	1,589	2,262	3,225
EV/sales	11.8	9.1	7.6	6.3	5.2

Source: Company, Ambit Capital research

Consumer Staples

Recommendation

Mcap (bn):	₹176/US$2.1
6M ADV (mn):	₹575/US$6.9
CMP:	₹542
TP (12 Mths):	₹639
Upside (%):	18

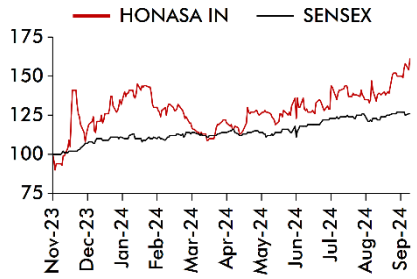
Flags

Accounting:	AMBER
Predictability:	AMBER
Earnings Momentum:	AMBER

Catalysts

- 25%/12% growth in online/offline channel for led by emerging brands/Mamaearth.
- Oplev-led EBITDAM expansion of ~130bps in FY25.

Performance



Source: ICE, Ambit Capital Research

Research Analysts

Videesha Sheth
+91 22 66233264
videesha.sheth@ambit.co

Nihal Mahesh Jham
+91 22 6623 3194
Nihal.Jham@ambit.co

Sanket Gharat
+91 22 66233012
sanket.gharat@ambit.co

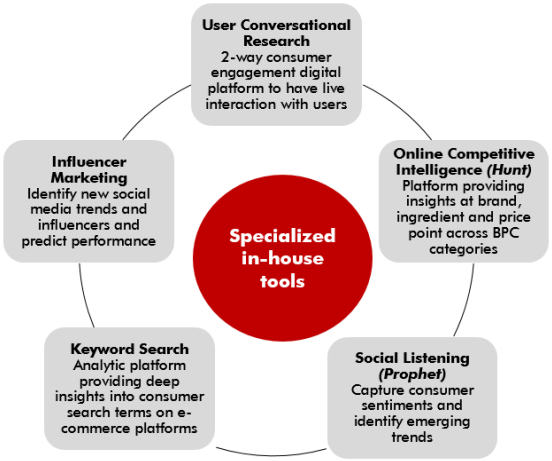
The Narrative in Charts

Exhibit 1: Most legacy brands have been a 'what' brand vs new-age incl. Honasa which focused on being a 'why' brand

What brand	Why brands
Lakme	Dove
Ponds	L'Oreal
Nivea	Mamaearth
Dettol	The Derma Co
Cinthol	Wow Skin Sciences
Vaseline	Forest Essentials
Himalaya	The Body Shop
Maybelline	Dot & Key
Ponds	Sugar
Olay	

Source:Ambit Capital research; Note: In simple terms, 'what' brands have a product-first approach and 'why' brands have an emotional+functional narrative approach

Exhibit 2: The company has developed tools to help identify consumer trends to drive new product launches



Source: Company, Ambit Capital research

Exhibit 3: The pros of third-party manufacturing outweigh the cons in a business model like Honasa where the moat is new product innovation

Parameters	Outsourced manufacturing	In-house manufacturing
Scalability	Easier to scale up production up or down based on demand	More challenging and time-consuming to scale up; requires capacity investment
Focus on Core Competencies	Allows companies to focus on core business activities like innovation and branding	Requires attention to manufacturing details, potentially diverting focus from core activities
Speed to Market	Faster production ramp up due to established supply chains	Slower ramp-up; depends on internal resources and capacity
Quality Control	Quality may vary depending on the amount of direct oversight by the brand	Full control over quality; direct oversight of production
Supply Chain Management	Reduces the complexity of managing procurement supply chain	Requires robust supply chain management; more control over logistics
Confidentiality and IP Protection	Risk of intellectual property exposure may prevail	Better protection of proprietary processes and designs

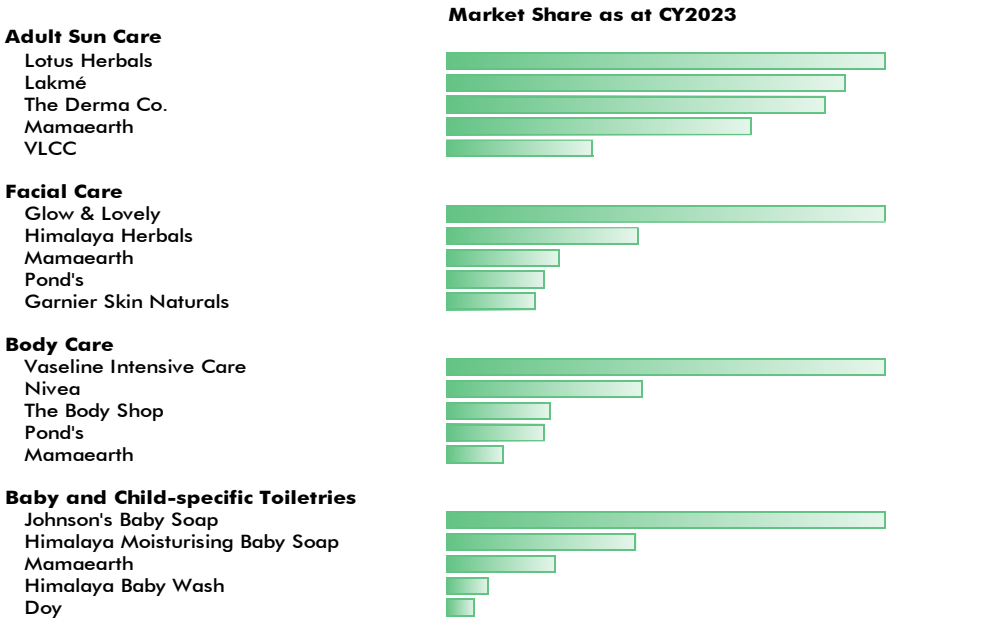
Source: Ambit Capital research; Note: Green signifies the pros, red the downside, pink is based on the level of oversight exercised by the company

Exhibit 4: Within Amazon's top 75 Beauty Products (bestsellers), Honasa has 9 rankings despite being young company vs L'Oréal's 15 and HUL's 9 rankings

Brand	No. of Products	Ranking	Rating of the best product (out of 5)	No. of ratings of the best product (in '000)
L'Oréal	7	1,6,9,11,15,39,44	4.3	20,595
The Dermaco	5	2,30,47,81,99	4.3	20,129
Mamaearth	3	73,90,95	4.1	5,171
Maybelline	3	19,40,66	4.1	15,320
Pears	3	45,53,63	4.4	6,175
Garnier	3	69,85,86	4.4	27,648
Ponds	2	27,89	4.4	51,508
Biolage	2	48,55	4.3	23,325
Dove	2	80,82	4.3	43,823
Indulekha	2	83,93	4.1	59,027
Aqualogica	1	43	4.2	14,042

Source: Amazon, Ambit Capital research; Note: Red= L'Oréal brands, Pink = Honasa brands, Blue = HUL brands

Exhibit 5: Mamaearth ranks between 1-5th in Suncare, Facial Care, Body Care and Baby/Child specific toiletries sub-categories



Source: Euromonitor, Ambit Capital research

Exhibit 6: We believe The Derma Co followed by BBlunt and Dr. Sheth's can be scaled up further over long term; the company will need to put in focused efforts (assortment, branding etc.) towards Staze as it is a late entrant in the category

	The DermaCo.	BBlunt	Dr. Sheth's	Aqualogica	Staze	Comments
TAM	◕	◕	◕	◑	◑	Skin care followed by hair care are large categories
Potential to scale beyond online	◕	◑	◑	◔	●	The DermaCo can be scaled up offline except for mainstream GT
Competitive landscape	◕	◕	◑	◑	○	Competitive intensity is high in masstige colour cosmetics segment
Addressing product gaps	●	◕	◕	◕	◑	Based on innovation momentum and pricing, most of Honasa's brands fare well on this aspect
Right to win	●	◑	◕	◕	◔	Honasa was one of the early entrants in active-based products, but a late entrant in colour cosmetics
Total	◕	◕	◕	◑	◑	

Source: Ambit Capital research; Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

Exhibit 7: Incumbent FMCG companies have expanded EBITDAM over the last decade on the back of GM improvement and operating leverage; Honasa should also improve margins with rising scale

% of sales	Honasa		HUL		NEST		MRCO		DABUR		BRIT		GCPL		TCPL	
Revenue CAGR FY11-24	**104%***		**9%**		**11%**		**9%**		**9%**		**10%**		**11%**		**7%**	
	FY20	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
GM	**67%**	**70%**	**49%**	**52%**	**51%**	**56%**	**48%**	**51%**	**53%**	**48%**	**34%**	**43%**	**53%**	**55%**	**51%**	**44%**
Employee Cost	8%	9%	5%	5%	7%	10%	7%	8%	8%	10%	4%	4%	8%	9%	10%	8%
Ad spends	**42%**	**34%**	**14%**	**10%**	**5%**	**5%**	**11%**	**10%**	**13%**	**7%**	**7%**	**4%**	**12%**	**9%**	**17%**	**6%**
Carriage and Freights	14%	9%	5%	3%	5%	4%	4%	4%	2%	2%	7%	4%	3%	4%	0%	0%
Contract mfg/conversion %	0%	0%	0%	0%	0%	0%	3%	3%	0%	0%	6%	4%	0%	0%	1%	2%
Royalty	0%	0%	1%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other operating expenditure	10%**	10%	10%	7%	15%	13%	9%	5%	10%	10%	5%	8%	12%	12%	13%	12%
EBITDA	**-7%**	**7%**	**14%**	**24%**	**20%**	**24%**	**13%**	**21%**	**20%**	**19%**	**5%**	**19%**	**19%**	**21%**	**10%**	**15%**

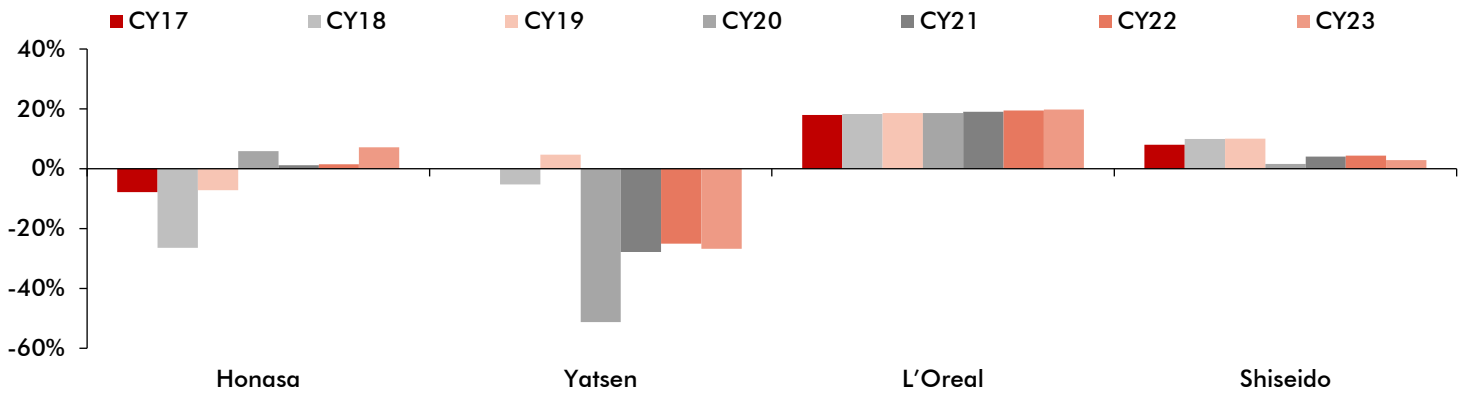
*Source: Company, Ambit Capital research; * FY20-24 CAGR; **other expense does not include change in FV of pref share of ₹4bn, if we consider the change then Other Exp/Adj EBITDA comes to 396%/-397%*

Exhibit 8: Honasa is the only D2C company within BPC to have achieved the combination of scale and profitability

As a % of sales	Honasa		Vellvette Lifestyle (Sugar)		Wow Science		Pureplay (Plum)		Nivea		L'Oreal		Lotus	
	FY20	**FY24**	**FY20**	**FY23**	**FY20**	**FY23**	**FY20**	**FY23**	**FY15**	**FY23**	**FY15**	**FY23**	**FY15**	**FY23**
Revenue (₹ bn)	**1**	**15/19#**	**1**	**4**	**0**	**3**	**1**	**3**	**5**	**14**	**30**	**50**	**3**	**7**
Revenue from operation	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross Profit	**67%**	**70%**	**61%**	**73%**	**53%**	**53%**	**65%**	**60%**	**38%**	**60%**	**72%**	**76%**	**56%**	**51%**
Employee Cost	8%	9%	12%	14%	2%	15%	9%	10%	8%	9%	10%	9%	6%	9%
Advertisement Expense	42%	34%	27%	39%	39%	77%	40%	52%	21%	26%	29%	28%	20%	30%
Selling Commission & Incentive	4%	3%	1%	2%	0%	9%	3%	0%	0%	0%	0%	0%	0%	0%
Other Expenses	406%*	16%	36%	34%	10%	26%	10%	19%	19%	19%	23%	24%	13%	8%
EBITDA	**-393%****	**7%**	**-16%**	**-16%**	**1%**	**-75%**	**3%**	**-20%**	**-10%**	**6%**	**10%**	**16%**	**17%**	**4%**

*Source: Company, VCC Edge/MCA, Ambit Capital research. ** Other expense include change in FV of pref share of ₹4bn, the reason why we have kept it is that numbers of other D2C companies may have some one-time expense; if we ignore the change Other Exp/Adj EBITDA comes to 10%/-7%. # FY23/FY24*

Exhibit 9: Honasa has been able to showcase EBITDAM profitability in a short span of time even in the global context



Source: Company, Ambit Capital research

Exhibit 10: Our near-term assumptions over FY24-27E build in 21% growth in revenue with EBITDAM improvement from 7% to 12% and expect expansion of ~222bps/283bps p.a. in RoE/RoCE

Estimates (₹ mn unless specified)	FY24	FY25E	FY26E	FY27E	*CAGR over FY24-27E/ avg expansion*	Comments
P&L						
Revenue	19,199	23,122	28,016	33,610	*21%*	Revenue growth driven by ~11%/30-35% growth in Mamaearth/emerging brands and ~23%/16% growth in online/offline.
Gross profit	13,392	16,244	19,682	23,612	*21%*	GMs improvement driven by increasing mix of emerging brands which have high GM.
GM %	70%	70%	70%	70%	*17bps*	
EBITDA	1,371	1,960	2,873	4,034	*43%*	EBITDAM driven by operating leverage led by marketing spends.
EBITDAM %	7%	8%	10%	12%	*162bps*	
PAT	1,118	1,607	2,288	3,262	*43%*	
Balance Sheet						
Net debt (net cash)	(4,857)	(6,543)	(8,569)	(11,799)	*34%*	Net cash balance should increase with improving profitability
ROE	13%	14%	17%	20%	*222bps*	Margin expansion along with revenue growth to drive improvement in return ratios
Pre-tax ROCE	11%	12%	16%	19%	*283bps*	
Cash flow parameters						
CFO	2,353	1,642	2,342	3,232	*11%*	Cashflow improvement on the back of profitability improvement.
FCF	2,236	1,323	2,001	3,090	*11%*	

Source: Company, Ambit Capital research

Exhibit 11: Despite high growth, we expect Honasa to reach HUL's BPC segment's current size only after FY40

	Honasa			Nykaa			HUL - BPC		
	FY24	FY34E	FY44E	FY24	FY34E	FY44E	FY24	FY34E	FY44E
Revenue	19	100	340	64	489	1,442	224	602	1,575
CAGR	FY19-24	FY24-34	FY34-44	FY19-24	FY24-34	FY34-44	FY19-24	FY24-34	FY34-44
Revenue CAGR	158%	18%	13%	42%	23%	11%	5%	10%	10%
Growth differential of Honasa vs the respective company				3.8	0.8	1.1	33.2	1.7	1.3
Honasa's revenue as a % of the respective company				30%	20%	24%	9%	17%	22%

Source: Company, Ambit Capital research

Exhibit 12: Within D2C companies, Honasa fares best due to new product launch momentum, brand-building ability and ready infrastructure to scale up multiple brands; this is followed by Nykaa's private label

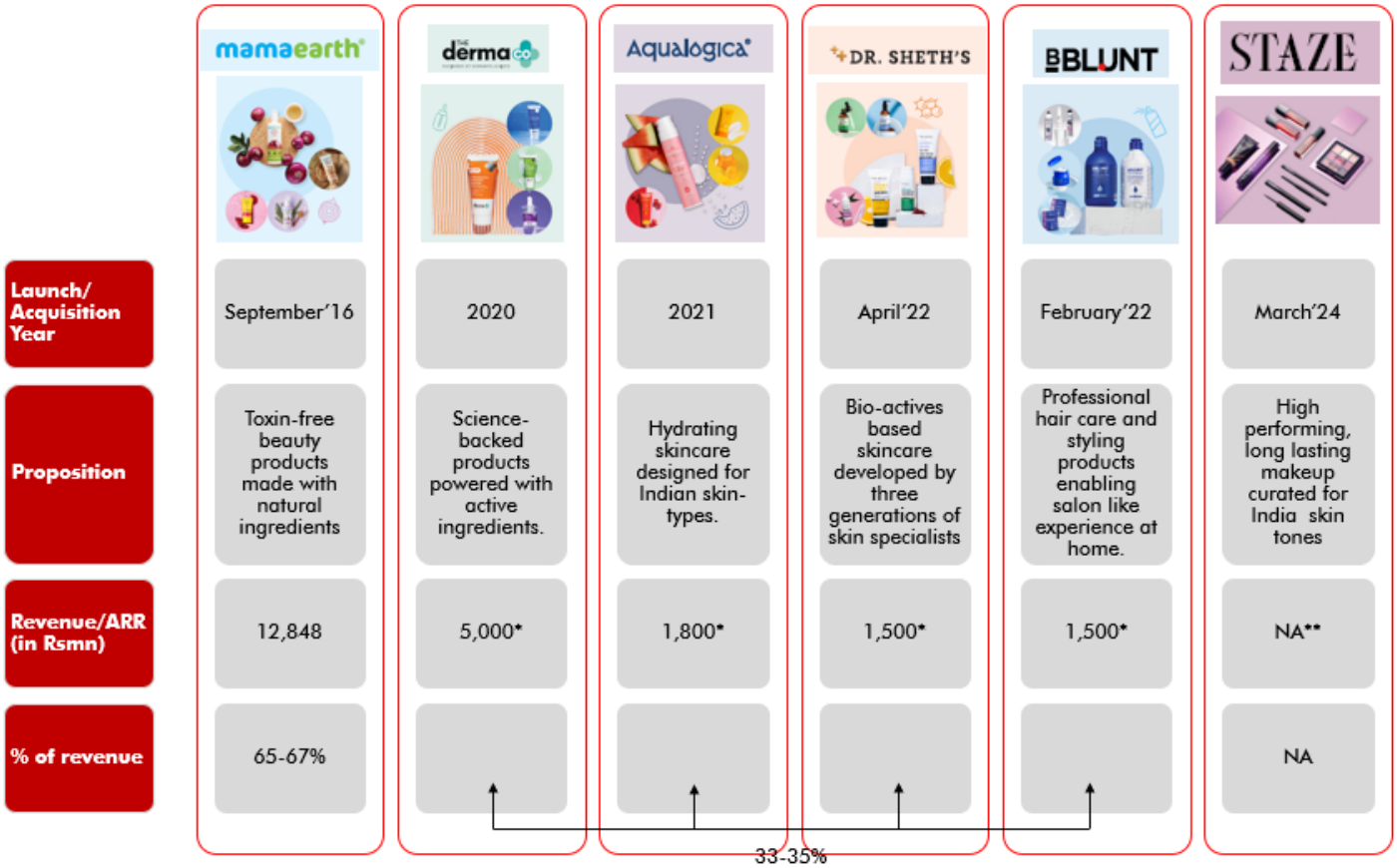
IBAS Score	Honasa - Mamaearth	Nykaa - private label	Sugar	Pureplay Plum Goodness	The Good Glamm -Myglamm	Wow Sciences
Innovation	●	●	●	◑	◑	◕
Brand	●	●	●	◕	◑	◑
Architecture	●	◕	◑	◕	◔	◕
Strategic Assets	●	●	◕	◑	◔	◔
Total	●	●	●	◕	◑	◑

Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Evolving beyond 'a' D2C brand

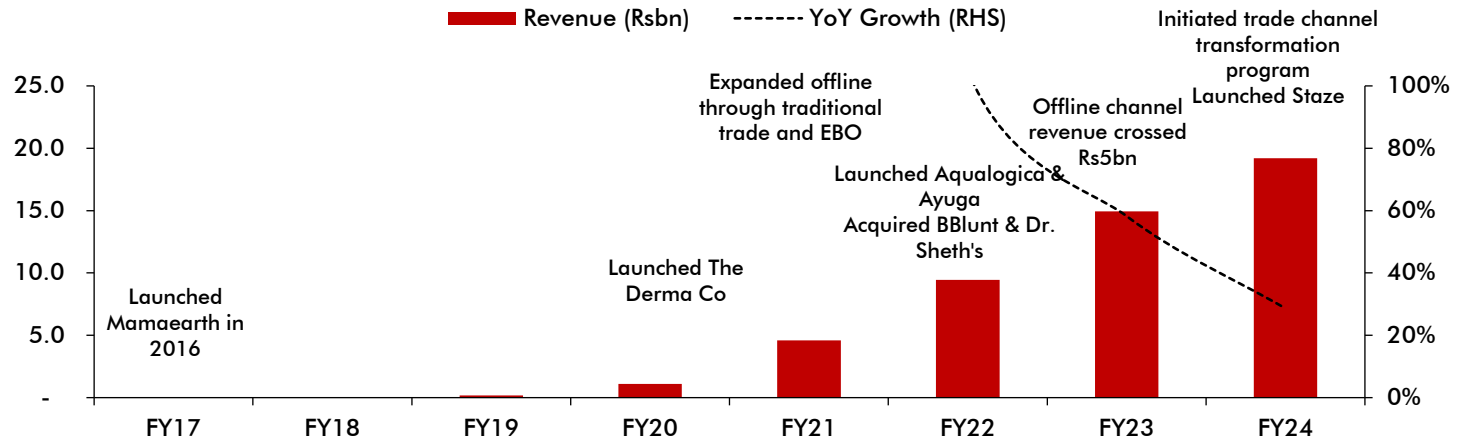
From six products when Varun and Ghazal Alagh incorporated Honasa Consumer Pvt. Ltd. (Honasa) in 2016 to a ₹19bn company (5% of HUL's BPC segment), across online and offline channels, Honasa's growth has been striking (4x over FY21-24). It is now India's largest digital-first/D2C BPC company. Honasa's scale is a function of its flagship Mamaearth brand, but more importantly, creation of a blueprint to reiterate the success of Mamaearth by creation/addition of multiple brands. This blueprint comprises (i) listening to consumer needs in order to identify the right product, format, ingredient and problem and (ii) addressing these by communicating the proposition and ensuring access to the consumer through an omnichannel approach. This allowed Honasa's portfolio to boast six unique brands (excluding Ayuga which would be rolled back) ranging from natural personal care to science-backed skincare and the recently launched color cosmetics. So, the company's market share grew from nothing to 5.4%/1.5% (as per Redseer in CY22) in the online BPC/total BPC market in a short span of 5-6 years.

Exhibit 13: Concentration of flagship brand Mamaearth reduced to ~65% in FY24 vs almost all revenues in FY20 due to growth of emerging brands



*Source: Company, Ambit Capital research. * Represents ARR', ** Staze was launched in March 2024*

Exhibit 14: Expansion of Mamaearth in traditional trade channel and expansion of brand portfolio led to 60% revenue CAGR over FY21-24



Source: Company, Ambit Capital research

More than right place, right time

Building a 'Why' brand vs a 'What' brand

Honasa's expansion strategy hinges on a 'why' brand model, which focuses on emotional and functional connections with consumers rather than merely pushing products. Traditionally, incumbent brands relied on a product-first approach, where a few key SKUs dominate, deeply entrenched in consumers' minds, like Ponds with talcum powder, despite the brands expanding their product portfolio beyond that. Honasa, however, recognized that as a D2C and online-first company, its success depends on more than just product offerings; it requires resonating with consumers at a deeper level. By associating its brands with broader emotional and functional narratives, Honasa expands its market reach and enhances customer loyalty. For example, The Derma Co. extends its range beyond serums to sunscreen, capitalizing on the evolved skincare routines of its consumers. Similarly, BBlunt, initially known for haircare, expanded into hair tools by promoting the idea of salon-like hair at home. This 'why' model allows Honasa to grow by offering consumers a more comprehensive, category-spanning experience.

Exhibit 15: Most legacy brands have been a 'what' brand vs new-age which focused on being a 'why' brand

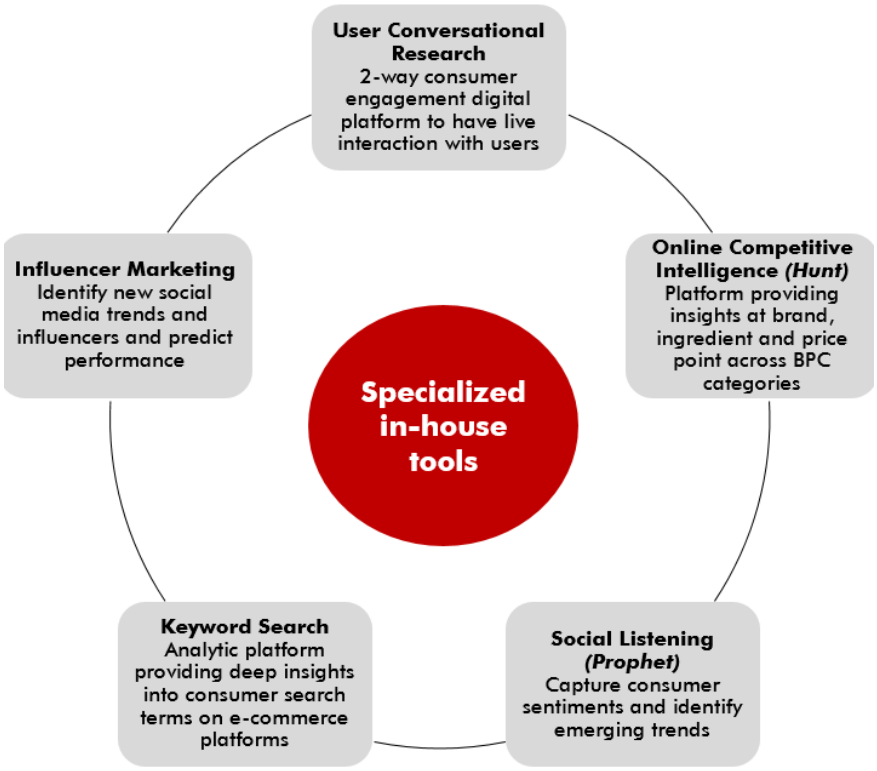
What brand	Why brands
Lakme	Dove
Ponds	L'Oreal
Nivea	Mamaearth
Dettol	The Derma Co
Cinthol	Wow Skin Sciences
Vaseline	Forest Essentials
Himalaya	The Body Shop
Maybelline	Dot & Key
Ponds	Sugar
Olay	

Source: Ambit Capital research

Identifying whitespaces beyond categories

Honasa employs and depends on its in-house capabilities, right from identifying search trends to social media trends globally, to engage with consumers and gain insights into emerging BPC trends in India. These insights are used not just to identify whitespaces in categories, but also in price points, formats, preferred ingredients, problems sought to be addressed by the consumer, media platforms preferred etc. While we believe that established FMCG companies would have similar tools, less baggage for a newer company like Honasa would allow it to help on acting on the identified trends.

Exhibit 16: The company has developed in-house tools that help identify consumer trends to drive new product/brand innovations



Source: Company, Ambit Capital research

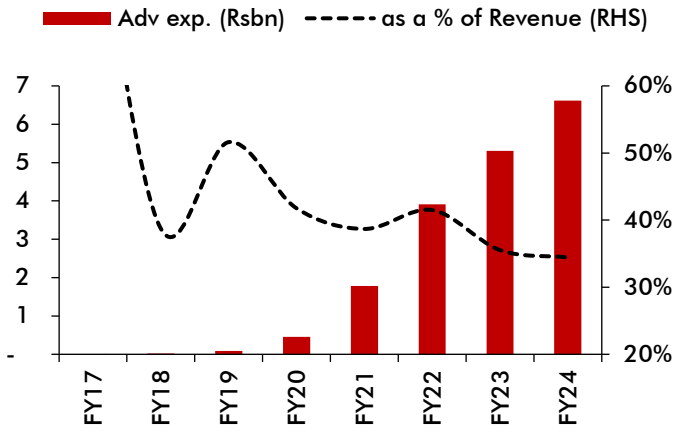
In-house innovation team aids new product development

As of FY24, Honasa's in-house innovation team, led by co-founder and Chief Innovation Officer Ghazal Alagh, comprised 56 members focused on developing new categories, formats, ingredients, and need spaces. The team manages the entire product lifecycle, from ideation and formulation to pricing and positioning, guided by consumer insights. Each potential new launch undergoes internal R&D, testing with multiple partners, resulting in evaluation of prototypes. Typically, 6-7 out of 10 launches are based on internal formulations, which are then outsourced to third party vendors having exclusive manufacturing plants/lines for the company.

Holistic marketing strategy

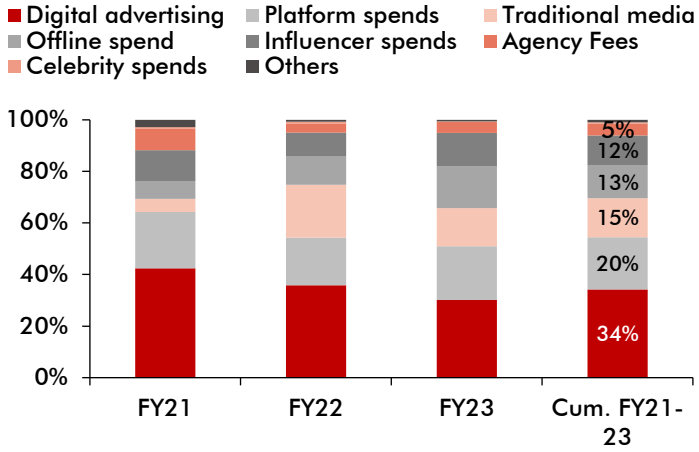
Honasa's marketing strategy targets users across the entire funnel, from awareness to conversion. The company has built a strong influencer community on social media, using in-house tools to engage thousands of influencers (2,700+ influencers collaborated with Honasa in FY24) and boost brand visibility. Customized content is created through an in-house studio and influencer network, focusing on nano-marketing funnels and micro-cohorts for a personalized user experience. By integrating digital and traditional marketing, Honasa ensures a cohesive brand narrative across all customer touchpoints, aiming to create purpose-driven brands and deliver relevant content to its consumers.

Exhibit 17: Marketing spends clocked 55% CAGR over FY21-24 and is higher at 35-40% vs incumbents' <10%



Source: Company, Ambit Capital research

Exhibit 18: Highest ad-spend in FY23 was towards digital advertisements (~30%)



Source: Company, Ambit Capital research

Going anti-industry through third-party manufacturing which ensures new launch momentum

Unlike large FMCG companies where 70% manufacturing happens in-house, Honasa like many D2C companies/brands works on an asset-light model where it outsources its manufacturing function. Owning manufacturing requires higher Minimum Order Quantities (MOQs) to justify costs and hence, room for lesser trial and error. This in turn leads to fewer iterations and increases launch timelines, resulting in lower innovation. In a trend-driven industry, longer turnaround times can be fatal, hence it makes sense for an innovation-centric brand to go asset light. Another example of this is Campus Activewear whose majority manufacturing process takes place through third-party vendors. As of FY24, Honasa works with 37 contract manufacturers with the top 4 accounting for 50% of sourcing. This is similar to what sports brands like Nike and Adidas do where they focus on new products and innovation while outsourcing manufacturing.

Exhibit 19: The pros of third-party manufacturing outweigh the cons in a business model like Honasa where the moat is innovation

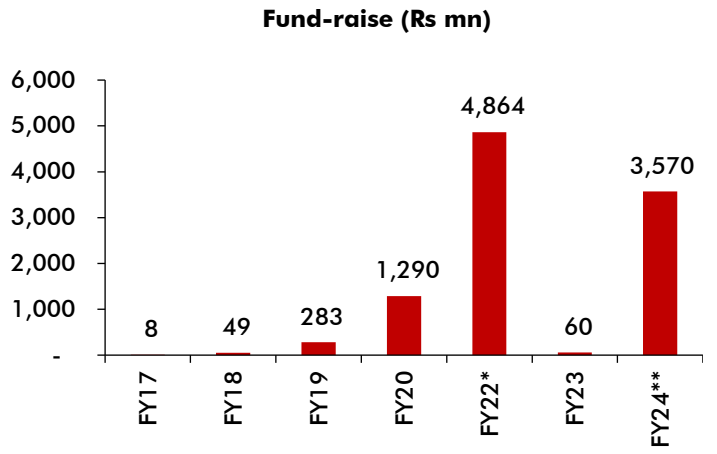
Parameters	Outsourced manufacturing	In-house manufacturing
Scalability	Easier to scale production up or down based on demand	More challenging and time-consuming to scale; requires capacity investment
Focus on Core Competencies	Allows companies to focus on core business activities like innovation and branding	Requires attention to manufacturing details, potentially diverting focus from core activities
Speed to Market	Faster production ramp-up due to established supply chains	Slower ramp-up; depends on internal resources and capacity
Quality Control	Quality may vary depend on the amount of direct oversight by the brand	Full control over quality; direct oversight of production
Supply Chain Management	Reduces the complexity of managing procurement supply chain	Requires robust supply chain management; more control over logistics
Confidentiality and IP Protection	Risk of intellectual property exposure may prevail	Better protection of proprietary processes and designs

Source: Ambit Capital research. Note: Green signifies the pros, red the downside, pink is based on the level of oversight exercised by the company

Fund-raising aided growth

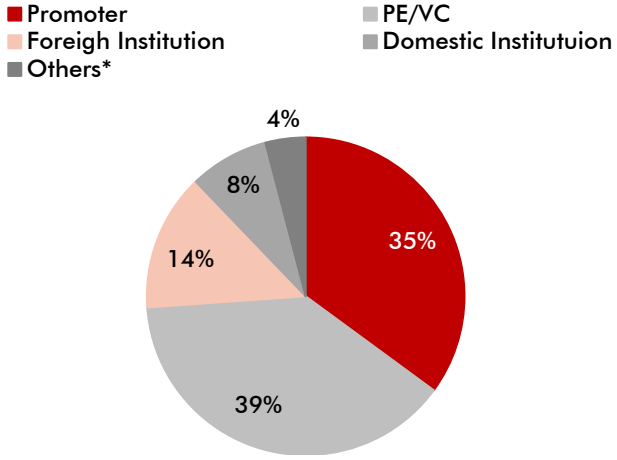
Honasa raised ₹6.5bn before going public to aid the offline expansion of Mamaearth, accelerate growth of The Derma Co and inorganic growth. IPO fund-raise of ₹3.6bn (₹4.9bn cash balance as on FY24) would be utilized for marketing, EBO expansion, salon expansion and strategic front-end or back-end acquisitions.

Exhibit 20: Honasa has had multiple fund-raises, cumulatively raising ₹10bn over FY17-24



*Source: Company, Ambit Capital research. * Funds raised via foreign institution, ** IPO proceeds*

Exhibit 21: Promoter shareholding stood at 35% as of 1QFY25

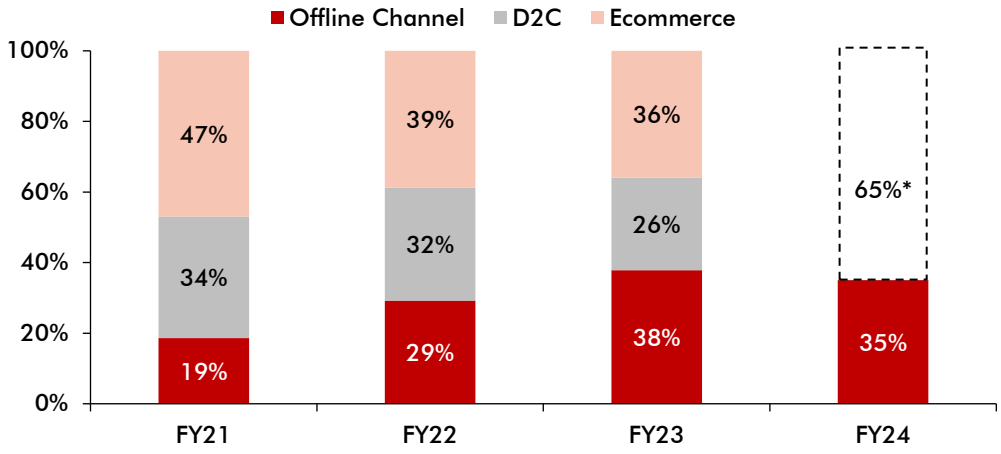


Source: BSE, Ambit Capital research

Diversifying channels to achieve scale

Honasa utilizes an omni-channel distribution strategy, combining online and offline touchpoints. Initially, the company focuses on online channels, including D2C platforms and e-commerce marketplaces, to test product market fit and engage early adopters. As products mature, they are introduced in offline stores to expand reach. Offline presence is a non-negotiable aspect to achieve scale as 80-85% of the BPC market revenue in India comes from offline. Honasa's digital-first approach allows it to incorporate customer feedback and scale up efficiently. Insights from online channels guide offline store expansion and portfolio strategy.

Exhibit 22: Revenue contribution from online/offline market place decreased/increased to 65%/35% in FY24, at 48%/97% CAGR FY21-24



*Source: Company, Ambit Capital research. * Represents online*

Template set for multi-brand expansion

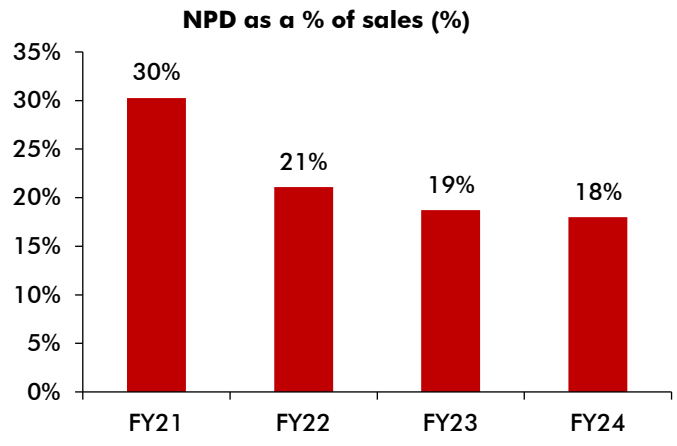
Through its learnings from flagship brand Mamaearth, Honasa was able to create a blueprint to expand brands within its portfolio and build on the success of Mamaearth. This template comprises (i) being heavy and first to market on new product development on the back of consumer insights, (ii) leverage marketing tools to drive awareness about the product/brand, (iii) ensure access to the portfolio through an evolving omni-channel approach and (iv) creation/addition of brands if consumer demand does not fit in the existing portfolio. Hence Honasa's digital-first, agile product brand-building and an asset-light model differ from traditional FMCG's reliance on core products, distribution networks and mass marketing. Even compared with other digital-first BPC companies, Honasa expanded (FY23 revenue was 5x of D2C peers) led by a multi-brand approach, faster identification of trends followed by relevant launches and offline expansion. Growth of most of Honasa's emerging brands, considering they address the product-market fit, would be fueled by execution of this approach.

#1 Innovation through prompt trend identification

Benefiting from the agility and limited risk

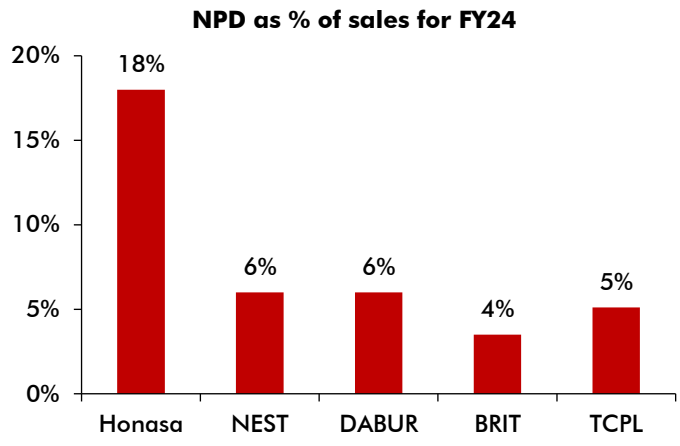
Rapid innovation and giving the consumers a wider assortment to choose from has been one of the underlying reasons for Honasa's success. The company's innovation momentum is supported by its range of tools and capabilities (refer exhibit 15) that enable in understanding preferences of consumers. Further direct engagement with consumers allow in getting a direct feedback where traditional FMCG companies have lacked due to their reliance on trade distribution channel and lower direct to consumer sales mix. This allowed it not just to generate new products for existing brands including the flagship Mamaearth but also add new brands to the portfolio; Staze (color cosmetics) being the latest one. Further, the company need not distinguish between sustainable trend and a fad given, for any new trends, the company can serve only online consumers initially and if the trend sustains, it can double down on the investment.

Exhibit 23: Sales from new product development (NPD) saw 34% CAGR over FY21-24...



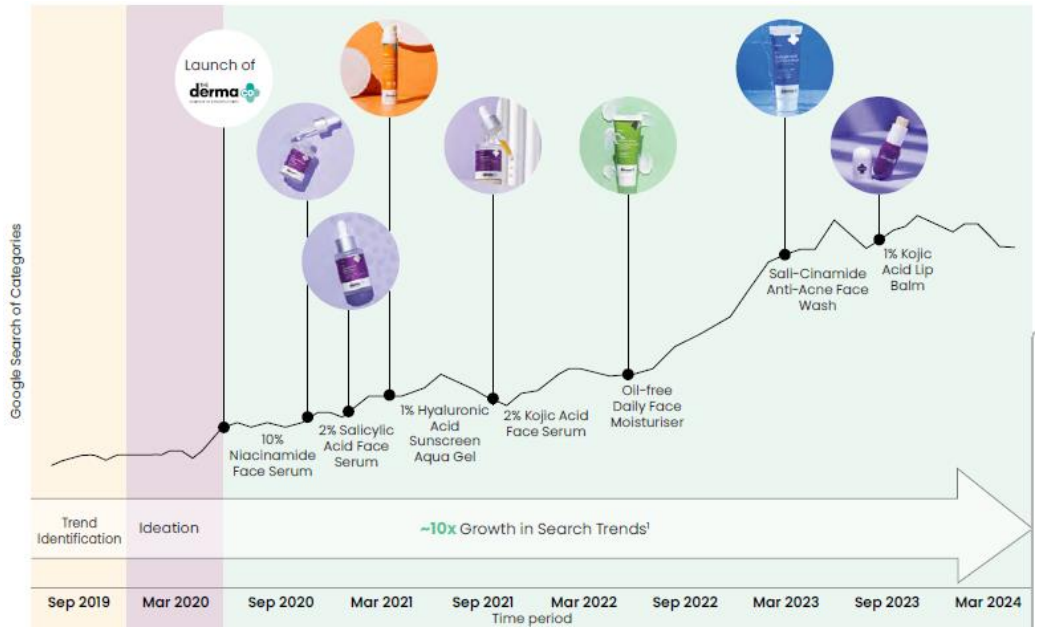
Source: Company, Ambit Capital research

Exhibit 24: ...with NPD revenue contribution being the highest in the industry at 18%



Source: Company, Ambit Capital research.

Exhibit 25: Category development in active space through trend recognition followed by relevant launches



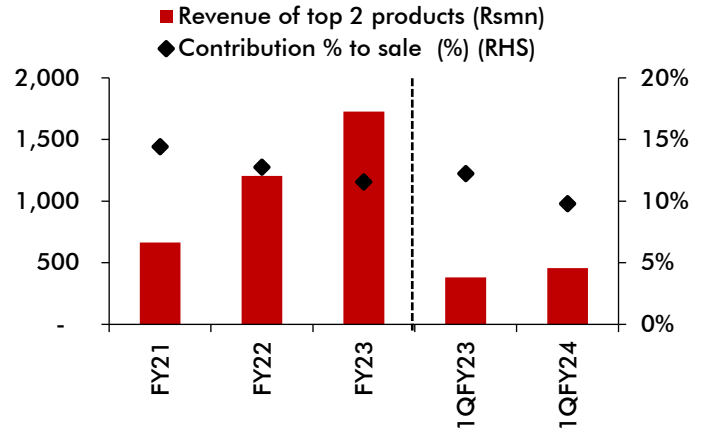
Source: Company, Ambit Capital research

Exhibit 26: Recent hirings in consumer insights team came with relevant experience

Name	Designation	Past Companies
Aditya S	Head - Consumer & Market Insights	▪ **HUL:** Global Consumer & Market Insights, Oral Care ▪ **Dabur:** Market Research manager ▪ **Nielsen:** Senior researcher
Shiraz Ali	Senior Manager -CMI [Consumer & Market Insights]	▪ **Toothsi:** Consumer Insights Lead ▪ **L'Oréal:** Product performance ▪ **Lpsos:** Research Manager (Innovation & Products Testing Solutions) ▪ **Kantar worldpanel:** Senior client service manager

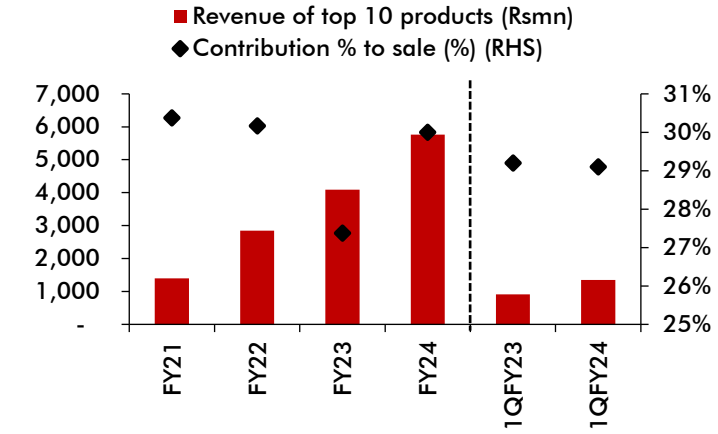
Source: LinkedIn, Ambit Capital research

Exhibit 27: Top 2 products contributed 12% of total sales in FY23 with diversification of brands



Source: Company, Ambit Capital research

Exhibit 28: Top 10 products contributed only ~27%/30% of sales in FY23/24 as saliency of new launches is relatively high



Source: Company, Ambit Capital research

Exhibit 29: Most FMCG-led incumbents lost market share in their key categories; most BPC companies gained share

	Market share gain/loss		
	CY2011-15	CY2015-20	CY2020-23
Honasa			
Baby and Child-specific Toiletries		480bps	230bps
Shampoos		110bps	170bps
Facial Care		140bps	290bps
Adult Sun Care		0bps	1,960bps
HUL			
Bar Soap	-1,050bps	-191bps	50bps
Body Wash/Shower Gel	911bps	-387bps	-300bps
Eye Make-Up	-444bps	-141bps	-200bps
Facial Make-Up	-65bps	-282bps	-120bps
Lip Products	-437bps	-292bps	-100bps
Nail Products	-685bps	-550bps	-350bps
Shampoos	623bps	310bps	10bps
Toothpaste	-200bps	-74bps	50bps
Body Care	-621bps	-379bps	0bps
Facial Care	-849bps	-873bps	-270bps
L'Oreal India			
Lip Products	58bps	-53bps	220bps
Colourants	-283bps	49bps	560bps
Salon Professional Hair Care	274bps	-166bps	1,160bps
Shampoos	27bps	16bps	100bps
Facial Care	-40bps	-47bps	110bps
Nivea India			
Bar Soap	59bps	16bps	0bps
Deodorant Sprays	441bps	-25bps	-30bps
Men's Toiletries	295bps	-89bps	-10bps
Body Care	763bps	-126bps	-80bps
Facial Care	67bps	32bps	0bps

	Market share gain/loss		
	CY2011-15	CY2015-20	CY2020-23
GCPL			
Bar Soap	-163bps	32bps	-30bps
Colourants	76bps	-139bps	-70bps
Dabur			
Conditioners and Treatments	-408bps	-214bps	-20bps
Shampoos	121bps	16bps	20bps
Toothpaste	-88bps	156bps	10bps
Marico			
Conditioners and Treatments	703bps	-38bps	-130bps
Men's Toiletries	593bps	-88bps	0bps
Himalaya			
Baby and Child-specific Skin Care	855bps	810bps	160bps
Baby and Child-specific Toiletries	1,053bps	636bps	30bps
Shampoos	70bps	82bps	10bps
Facial Care	133bps	186bps	40bps
ITC			
Bar Soap	117bps	-2bps	-20bps
Deodorant Sprays	1,013bps	450bps	60bps
Men's Toiletries	352bps	60bps	-70bps

Source: Euromonitor, Ambit Capital research

With category whitespaces identified, it's time to double down

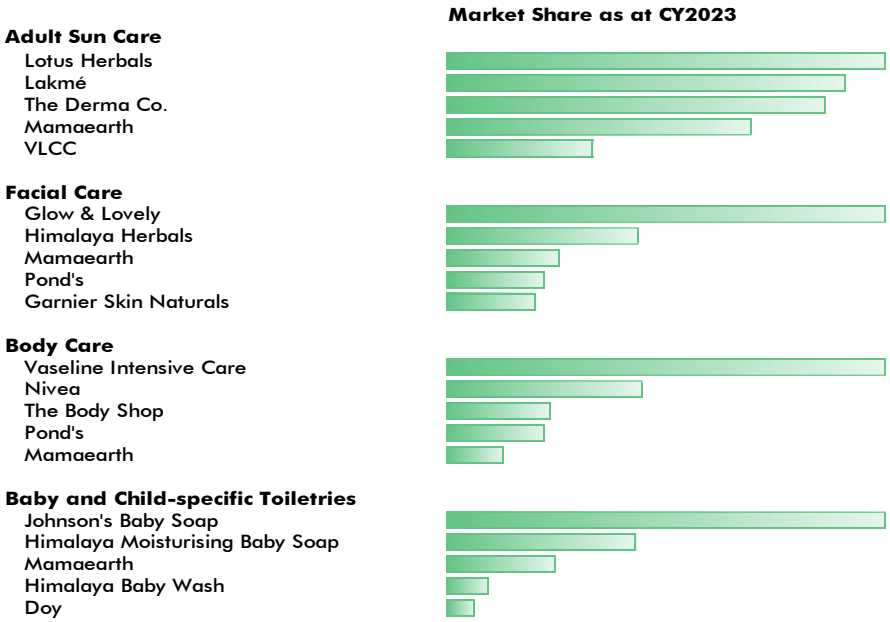
Honasa effectively leveraged its 'natural' and 'toxin-free' positioning to tap into evolving preferences. Starting from baby care to a wide range of categories, including hair care, face care, body care, color cosmetics and fragrances, Mamaearth now offers one of the broadest product portfolios among major BPC brands, both traditional and digital-first. The brand captured market share taking a podium position on multiple online platforms. Going forward, the incremental growth for Honasa is dependent on category growth in categories like sunscreen & serums where it is also a category creator, channel-specific SKU launch, participation in price points where it is absent like prestige and mass+ etc.

Exhibit 30: Honasa entered larger, high-growth categories and avoided low-growth categories or those where right to win cannot be made; in large category market share gain is monitorable

Categories	Expected growth rates	HUVR	GCPL	DABUR	MRCO	L'oreal	Nivea	Himalaya	Honasa	WoW Sciences	Sugar	Nykaa	Good Glamm
Skin Care	●	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓
Colour Cosmetics	●	✓	✓	×	×	✓	×	×	✓	×	✓	✓	✓
Body Wash/Shower Gel	●	✓	✓	×	×	✓	✓	✓	✓	✓	✓	✓	✓
Hair Care (Shampoo, Conditioners, Colorant, etc)	◕	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓
Baby and Child-specific Products	◕	✓	✓	✓	✓	×	×	✓	✓	×	×	×	×
Bar Soap	◔	✓	✓	×	×	×	✓	✓	✓	✓	×	✓	×
Oral Care	◔	✓	×	✓	×	×	×	✓	×	×	×	×	×
Men's Grooming (Shavings, Toiletries & Fragrance)	◑	✓	✓	×	×	✓	✓	×	×	×	×	×	×
Hair oil	◑	✓	×	✓	✓	×	×	✓	✓	✓	✓	×	✓
Deodorants	◑	✓	✓	×	✓	✓	✓	×	✓	×	×	✓	✓
Liquid Soap	◔	✓	✓	×	×	×	×	×	×	×	×	×	×
Body Powder	◔	✓	✓	×	×	×	✓	×	×	×	×	×	×

Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 31: Mamaearth ranks between 1-5th in Suncare, Facial Care, Body Care and Baby/Child specific toiletries sub-categories



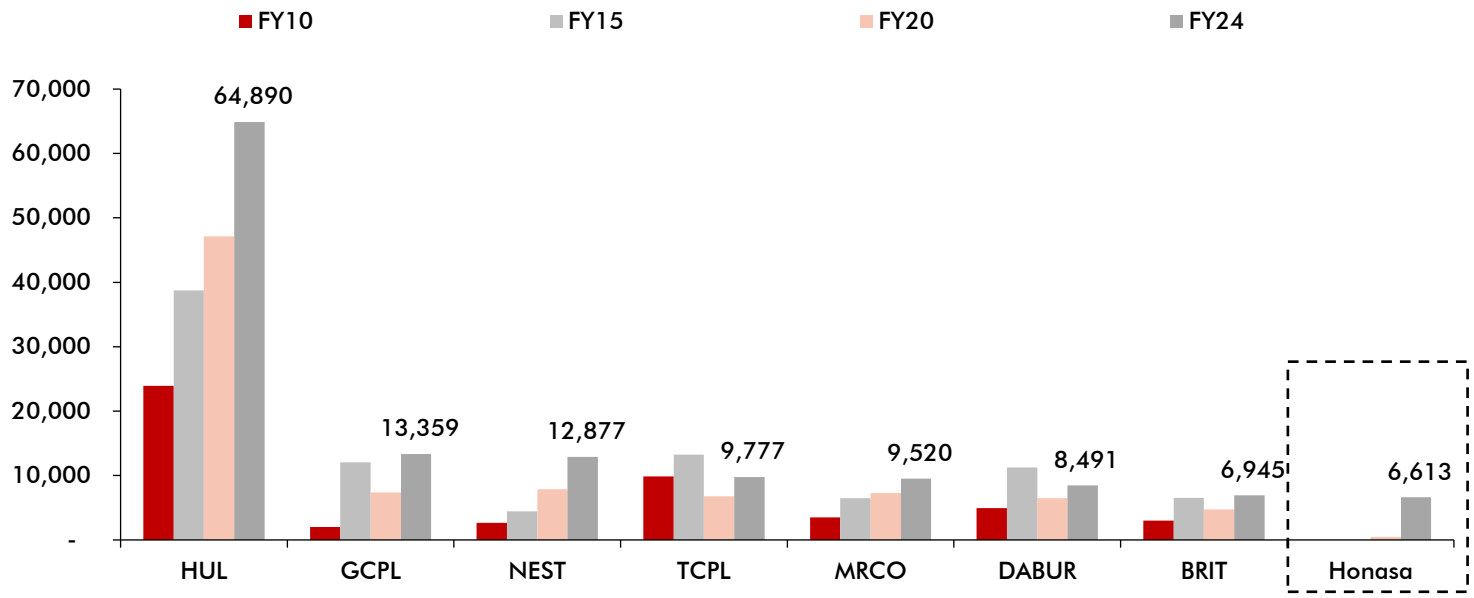
Source: Euromonitor, Ambit Capital research

#2 Awareness about the innovation

Marketing crucial to drive new product launch

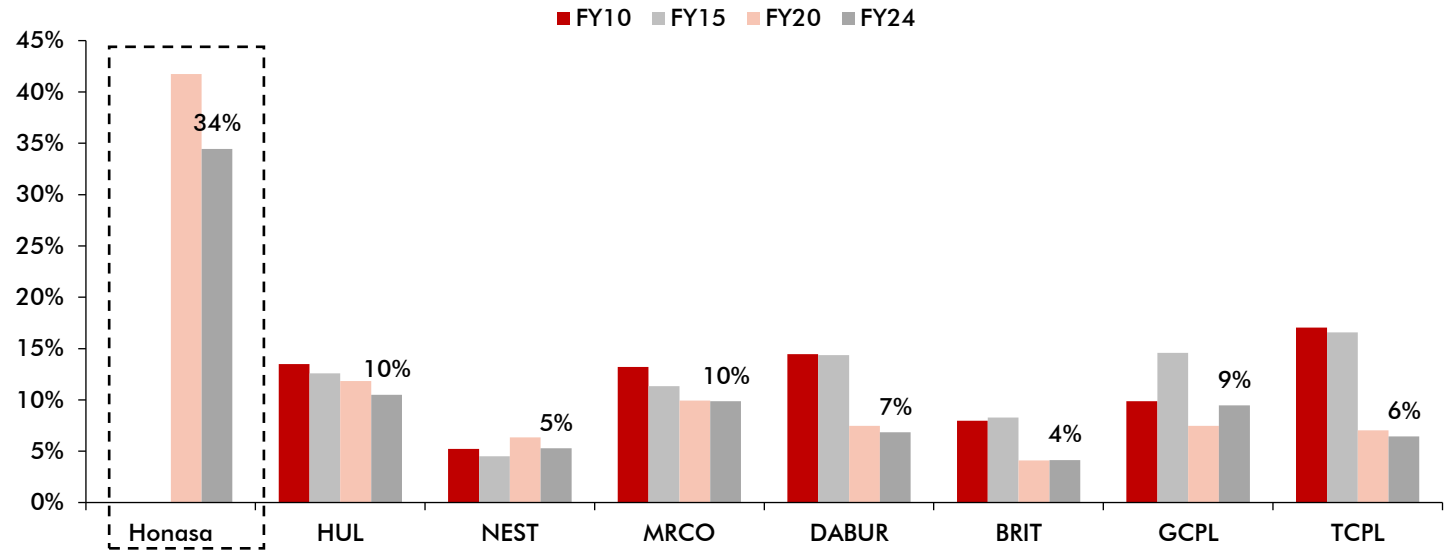
Honasa uses a unified marketing strategy, blending digital and traditional channels with an 'always-on' approach. This strategy ensures consistent user engagement and targets micro-cohorts with personalized experiences. By leveraging a strong influencer network and in-house studio, Honasa creates tailored content, with its Creative Excellence team ensuring effective messaging. Honasa's A&P spends were 34.4% of sales in FY24. To drive growth in emerging brands, continued aggressive A&P investment is crucial for enhancing brand visibility. A significant portion of A&P, including influencer and e-commerce platform spending, is recurring and non-sticky. While the Mamaearth brand's A&P intensity may moderate due to established consumer mindshare, emerging brands will require higher A&P spending to build awareness. Overall A&P levels are expected to remain high similar to global BPC companies (Refer exhibit 59), but would moderate gradually as scale improves.

Exhibit 32: Honasa's ad spends are close to what BRIT does...



Source: Company, Ambit Capital research

Exhibit 33: ...and highest within the FMCG basket on a % of sales basis



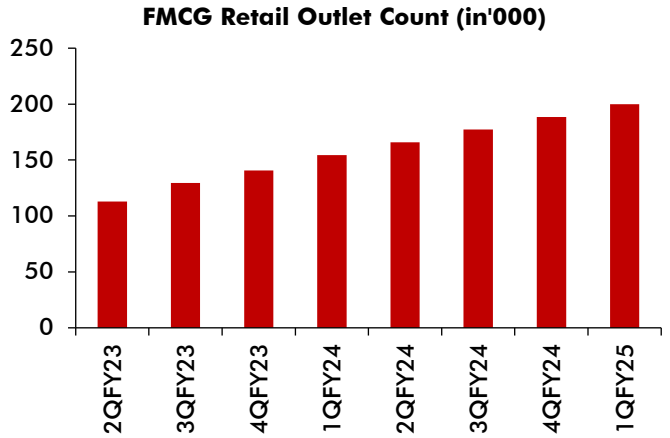
Source: Company, Ambit Capital research

#3 Distinguish from other D2C brands through access

Tapping the offline GT channel

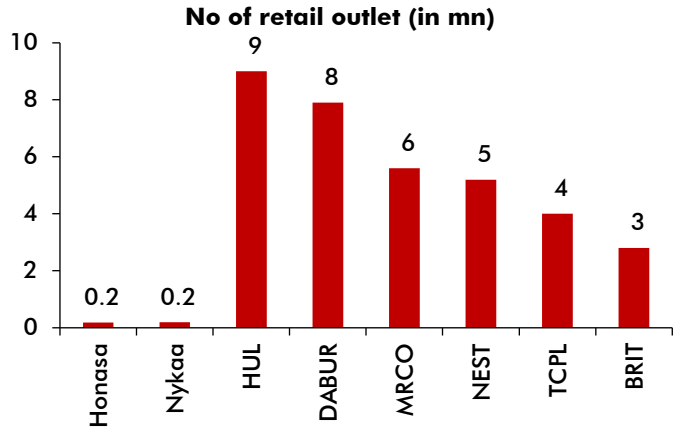
Compared to other digital-first BPC companies, Honasa has attained a rare combination of scale and profitability (refer exhibit 45) led by not just faster identification of trends followed by relevant launches, but also multi-brand approach and offline expansion. Honasa operates across offline channels, including general trade, modern trade and exclusive brand outlets (EBOs), crucial for launching mature brands with established online traction. Offline contribution increased from ~9% in FY20 to ~35% in FY24, with over 56% of volumes from Tier-2+ cities and towns. With outlet reach count being abysmally lower vs peers, there is immense room for distribution-led growth, especially for established brands within the portfolio like Mamaearth. The potential for TAM through GT channel could range between ₹19-20bn vs the current ₹4bn. This is considering current productivity of ₹19K per outlet (60% of FY24 offline sales were from GT) and outlet reach of 1mn in the medium term and is subject to dilution in productivity due to expansion.

Exhibit 34: Honasa's retail outlets increased by 29% YoY to 200,000



Source: Company, Ambit Capital research

Exhibit 35: Mamaearth was one of the first D2C brands to enter traditional trade channel and has a long way to go



Source: Company, Ambit Capital research

Corrective measures being taken on offline channel

The company intends to continue growing business from the offline channel. Given that the sale of BPC products through offline channels tends to be more profitable compared to online channels due to lower customer acquisition costs, expansion into offline channels will help improve the overall margin profile. However, the company would have to increase ground sales force to drive sales, hence profitability in offline could be restricted. More importantly, Honasa initiated 'Project Neev' to enhance its offline distribution capabilities and streamline its supply chain. Outcome of Project Neev is long term by having the right offline GT system as even younger brands would foray into the offline market eventually wherein distributor partners will be ready to onboard new brands of the company eventually. Based on our checks (refer exhibit 37), Honasa is offering higher margins and credit to the distributors, launching relevant SKUs to ramp up its offline channel, willing to take back unsold inventory of 6 months to incentivize FMCG distributors and to minimize mismatch in primaries and secondary sales.

Exhibit 36: Honasa is addressing challenges faced in scaling up offline

Challenge	Honasa's approach
Price parity between online and offline channels	▪ Streamlining pricing to align prices of hero/overlapping SKUs across channels.
Competing with established FMCG players	▪ Focusing on innovative product offerings to differentiate from larger competitors. ▪ Expanding distribution to increase retail presence.
Inventory management challenges	▪ Implementing Project Neev to shift to a direct distributor model for better inventory control. ▪ Implementing DMS for inventory management at offline channel. ▪ Enhancing supply chain efficiency for new product launches.
Investment in on-ground sales force	▪ Investing in an on-ground sales team right till the junior-most level to drive penetration despite short-term margin restrictions. ▪ Improving marketing efficiency to allocate resources effectively.

Source: Company, Ambit Capital research

Exhibit 37: Recent hires for offline were from established FMCG names

Name	Designation	Past Companies
Nischay Bahl	Senior VP - Offline Sales	▪ **The Good Glamm Group:** CBO, Offline ▪ **Reckitt:** Ecommerce, Director ▪ **Britannia:** Zonal sales manager ▪ **Britannia:** Area sales manager
Saurabh Jaiswal	GM - Offline Revenue	▪ **Bajaj Consumer Care:** Senior manager - national sales development ▪ **Hindustan Field Services Pvt. Ltd:** Field manager rural ▪ **Hindustan field services Pvt. Ltd.:** Field manager modern trade

Source: LinkedIn, Ambit Capital research

Exhibit 38: Checks suggest affirmative feedback for Honasa in the GT channel

Challenge	Honasa's approach
Incentive for distributors to onboard Honasa	▪ Higher margins vs peers. Given consumers know and like the brand/products, with time there is scope for high inventory turns and ROI at par with large established FMCG brands. ▪ Honasa gives credit of 30 days to the distributor, whereas large brands give 5-7 days. ▪ Even unsold inventories would be bought back by Honasa for 6 months.
Inventory management	▪ The erstwhile inventory filling issue has stopped due to certain sales people who were pushing sales in order to get high commission payouts from the company and had happened in specific geographies. ▪ Getting stock replenished every third day. ▪ The company would be offering smaller price points of ₹99 specifically for GT and is also looking at the ₹49 price point.
Systems and processes	▪ DMS is getting implemented which will aid inventory and sales tracking. ▪ 12-18 months back, sales persons had a target of covering 50 outlets every week, but now are covering 80-90 outlets every day.
Challenges	▪ Distributors are not facing any challenges from inventory, fulfilment or servicing standpoints. ▪ Total margin at offline channel of 7-7.5% (distributor) + 28-30% (retailer), which is higher than that of large FMCG companies. ▪ Pricing parity is yet to come for certain products but exists for important SKUs. ▪ Gives 40%/50% discount on the online channel (own website), which hampers the offline business.

Source: Ambit Capital research

Implementing systems to make the organization more process-driven

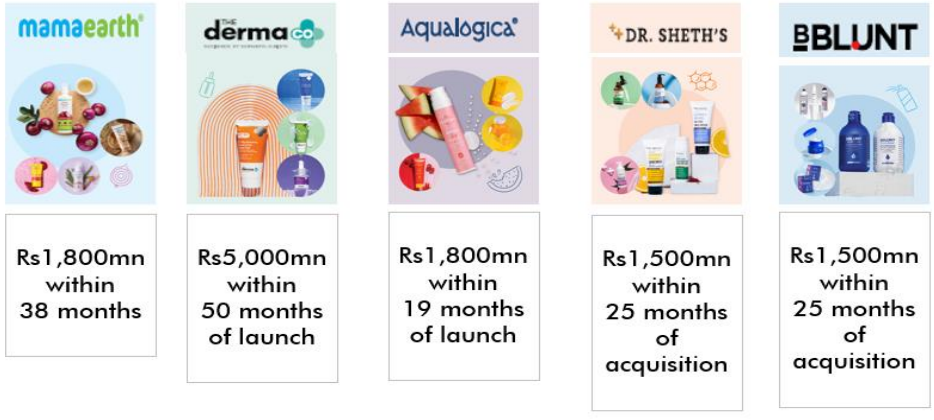
Similar to incumbent FMCG companies, Honasa has implemented a comprehensive infrastructure launched in the recent years. This includes a Distribution Management System (DMS), Order Management System (OMS), and Warehouse Management System (WMS). These systems streamline operations by optimizing product flow, managing orders efficiently, and ensuring smooth warehouse operations. The DMS enhances inventory management and ensures timely delivery across various distribution channels. The OMS, crucial for Honasa's direct-to-consumer model, manages the entire order lifecycle, improving accuracy and customer satisfaction. The WMS oversees storage, picking, packing, and shipping within the warehouse, enabling faster fulfillment and minimizing errors. Together, these systems support Honasa's rapid growth, enabling seamless product distribution and order fulfillment across its expanding portfolio of brands.

#4 Retain consumers

House of Brands approach so as to not lose consumers to shifting preferences

Any BPC company wanting growth longevity has to look beyond one brand. Hence Honasa's adoption of a multi-brand portfolio not just helps mitigate risks associated with changing trends but more importantly ensures cumulative market share gain. For example, Campus as a brand has peaked in its market segment, with growth likely to mirror that of the industry. But with a diverse brand portfolio, a company can avoid brand fatigue and remain adaptable. For example, given active science-backed products trend picked up, the company could capitalize on the trend through The DermaCo.

Exhibit 39: Honasa has scaled up 5 brands and time taken to reach milestone ARR has been reducing



Source: Company, Ambit Capital research

Exhibit 40: We believe The Derma Co followed by BBlunt and Dr. Sheth's can be scaled up further; the company will need to have focused efforts (assortment, branding etc.) towards Staze as it is a late entrant in the category

	The DermaCo.	BBlunt	Dr. Sheth's	Aqualogica	Staze	Comments
TAM						Skin care followed by hair care are large categories
Potential to scale beyond online						The DermaCo can be scaled up offline except for mainstream GT
Competitive landscape						Competitive intensity is high in masstige colour cosmetics segment
Addressing product gaps						Based on innovation momentum and pricing, most of Honasa's brands fare well on this
Right to win						Honasa was one of the early entrants in active-based products, but a late entrant in colour cosmetics
Total						

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

Exhibit 41: Within Amazon's top 75 Beauty Products (bestsellers), Honasa has 9 rankings despite being young company vs L'Oréal's 15 and HUL's 9 rankings

Brand	No. of Products	Ranking	Rating of the best product (out of 5)	No. of ratings of the best product (in '000)
L'Oréal	7	1,6,9,11,15,39,44	4.3	20,595
The Dermaco	5	2,30,47,81,99	4.3	20,129
Minimalist	5	18,28,46,59,61	4.1	15,196
Nivea	4	5,32,35,65	4.3	64,309
Park Avenue	4	56,67,74,100	4.1	6,285
Mamaearth	3	73,90,95	4.1	5,171
Dettol	3	10,12,16	4.5	52,395
Renee	3	17,34,64	4	9,437
Maybelline	3	19,40,66	4.1	15,320
Pears	3	45,53,63	4.4	6,175
Garnier	3	69,85,86	4.4	27,648
Cetaphil	2	3,23	4.3	21,920
Bodywise	2	8,97	4.3	3,838
WishCare	2	21,72	4.1	5,903
deconstruct	2	26,58	4.1	2,028
Ponds	2	27,89	4.4	51,508
Bella Vita	2	31,57	4.3	17,780
Nat Habit	2	33, 75	4.4	8,936
Pilgrim Redensyl	2	37,60	4	5,058
Biolage	2	48,55	4.3	23,325
XML	2	49,52	3.7	13,682
Biotique	2	50,54	4	16,878
Dot & Key	2	62,70	4.3	5,268
Kozicare	2	77,78	3.8	9,455
Dove	2	80,82	4.3	43,823
Indulekha	2	83,93	4.1	59,027
Indus Valley	2	92,96	4.1	20,731
Aqualogica	1	43	4.2	14,042

Source: Amazon, Ambit Capital research. Note: Red= L'Oréal brands, Pink = Honasa brands, Blue = HUL brands

Exhibit 42: Recent hirings for online/emerging segments

Name	Designation	Past Companies
Nilesh Kotalwar	SVP, Online Revenue	▪ **GCPL:** AVP - IT/Business Transformation ▪ **Unilever:** Lead, Organised Trade Center of excellence
ABR Bharadwaj	VP - Growth	▪ **Lenskart:** AVP, Growth ▪ **Snapdeal:** Performance marketing & user growth ▪ **OLA:** Product development ▪ **Snapdeal:** Business Analyst
Awijit Singh	GM E-Commerce	▪ **Snapdeal:** Director, E-commerce ▪ **Position:** Lead - Ecommerce ▪ **Comfort clicks:** Channel Manager - E Commerce ▪ **Accenture:** SEM Manager - D2C

Source: LinkedIn, Ambit Capital research

Operating leverage – Largest lever of margin expansion

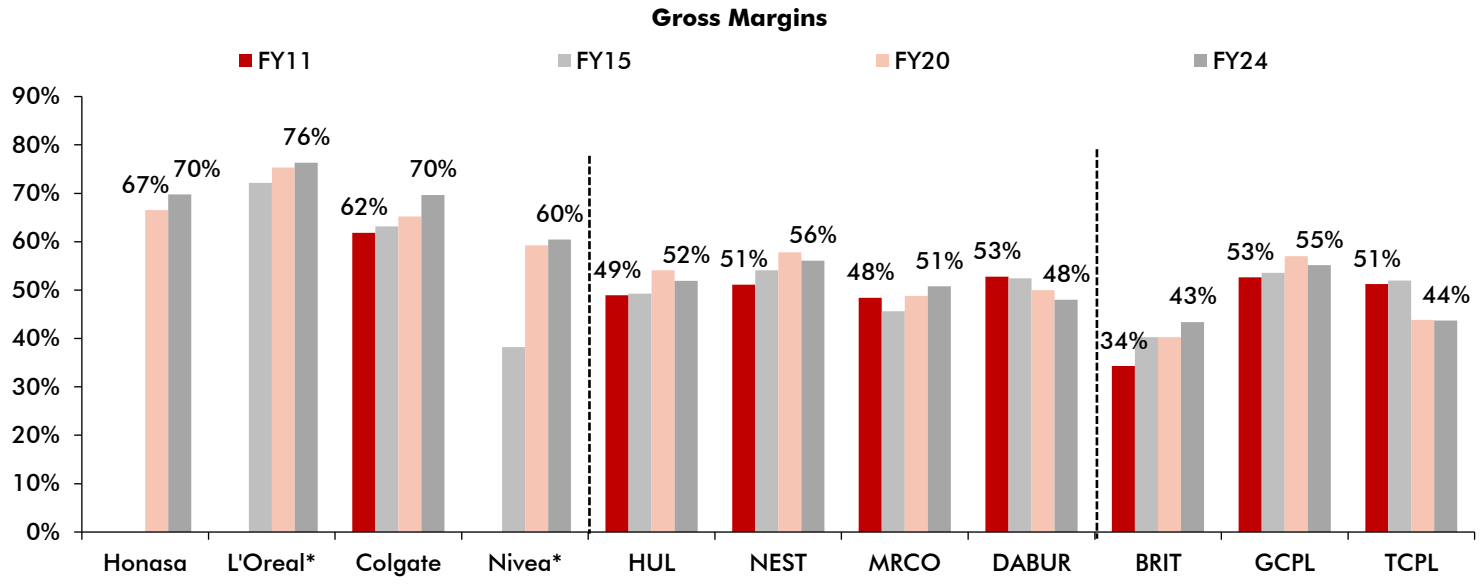
Honasa, being a pure-play BPC company, enjoys higher gross margins (~70%) than traditional FMCG companies (43-56%) which operate in home care and F&B. However, its current EBITDA margin of 7% is lower compared to the 15-24% range of other HPC companies. This is due to significant A&P spending, driven by Honasa's rapid growth - 58%/29% in FY23/FY24 - far outpacing slower-growing FMCG peers and smaller scale. Looking ahead, we expect A&P expenses to shift towards emerging brands while moderating for Mamaearth, which should improve profitability. As Honasa's revenue mix diversifies beyond Mamaearth (currently ~65%), margins should align with those of established FMCG companies. With its asset-light model and negative working capital, ROCEs are also expected to improve as margins increase.

No threat to gross margins

Inherently a high-GM business

Honasa makes GM of 70% on account of the premium nature of its products and the inherent benefit of operating in the BPC category which is largely branded vs FMCG-led BPC companies which make GM of ~55%. We believe that HUL's personal products division (ex-soaps) would be making similar margins despite lower average pricing. We don't see downside risk to the high GM as global BPC companies like L'Oréal and Shiseido have maintained high GM of 70%+ for decades (refer exhibit 58).

Exhibit 43: Pure-play BPC companies have been able to not just retain, but increase GMs over FY11-24



*Source: Company Annual reports, VCC Edge/MCA, Ambit Capital research. * Represents FY23*

Margin expansion + asset light model = RoCE expansion

A&SP key lever to margin expansion

As the company scales up its brands, fixed costs including marketing and administrative expenses will be spread over a larger revenue base, improving profitability. Additionally, the introduction of high-margin products (emerging brand portfolio would have higher GMs) and efficiency improvements in the supply chain may support margin expansion, leading to stronger financial performance over the next few years.

Exhibit 44: Honasa has consistently focused on spending towards branding, employee cost and freight; ad spends reduced from 52% to 34% over FY19-24

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
Revenue (₹ mn)	168	1,098	4,600	9,435	14,927	19,199
Gross Margin	**65%**	**67%**	**71%**	**70%**	**70%**	**70%**
Employee Cost	12%	8%	6%	8%	11%	9%
Advertisement expense	52%	42%	39%	41%	36%	34%
Freight and forwarding charges	16%	14%	12%	10%	10%	9%
Sales commission	2%	4%	3%	3%	3%	3%
Packing materials & other consumables	0%	1%	2%	1%	1%	1%
Other Operating Expenditure	10%	5%	4%	5%	8%	6%
Change fair valuation of pref shares	0%	386%	296%	0%	0%	0%
EBITDAM	**-26%**	**-393%**	**-290%**	**1%**	**2%**	**7%**
Adj. EBITDA*	**-26%**	**-7%**	**6%**	**1%**	**2%**	**7%**

*Source: Company, Ambit Capital research. * Adjusted EBITDAM is without considering change in fair value of preference shares*

Exhibit 45: Incumbent FMCG companies have seen expansion in EBITDAM over the last decade on the back of GM improvement as well as operating leverage

% of sales	Honasa		HUL		NEST		MRCO		DABUR		BRIT		GCPL		TCPL	
Revenue CAGR FY11-24	**104%***		**9%**		**11%**		**9%**		**9%**		**10%**		**11%**		**7%**	
	FY20	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**	**FY11**	**FY24**
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
GM	**67%**	**70%**	**49%**	**52%**	**51%**	**56%**	**48%**	**51%**	**53%**	**48%**	**34%**	**43%**	**53%**	**55%**	**51%**	**44%**
Employee Cost	8%	9%	5%	5%	7%	10%	7%	8%	8%	10%	4%	4%	8%	9%	10%	8%
Ad spends	**42%**	**34%**	**14%**	**10%**	**5%**	**5%**	**11%**	**10%**	**13%**	**7%**	**7%**	**4%**	**12%**	**9%**	**17%**	**6%**
Carriage and Freights	14%	9%	5%	3%	5%	4%	4%	4%	2%	2%	7%	4%	3%	4%	0%	0%
Contract mfg/conversion %	0%	0%	0%	0%	0%	0%	3%	3%	0%	0%	6%	4%	0%	0%	1%	2%
Royalty	0%	0%	1%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other operating expenditure	10%**	10%	10%	7%	15%	13%	9%	5%	10%	10%	5%	8%	12%	12%	13%	12%
EBITDA	**-7%**	**7%**	**14%**	**24%**	**20%**	**24%**	**13%**	**21%**	**20%**	**19%**	**5%**	**19%**	**19%**	**21%**	**10%**	**15%**

*Source: Company, Ambit Capital research; * FY20-24 CAGR; ** other expense does not include change in FV of pref share of ₹4bn, if we consider the change then Other Exp/Adj EBITDA comes to 396%/-397%*

Exhibit 46: Honasa is the only D2C company to have achieved the combination of scale and profitability

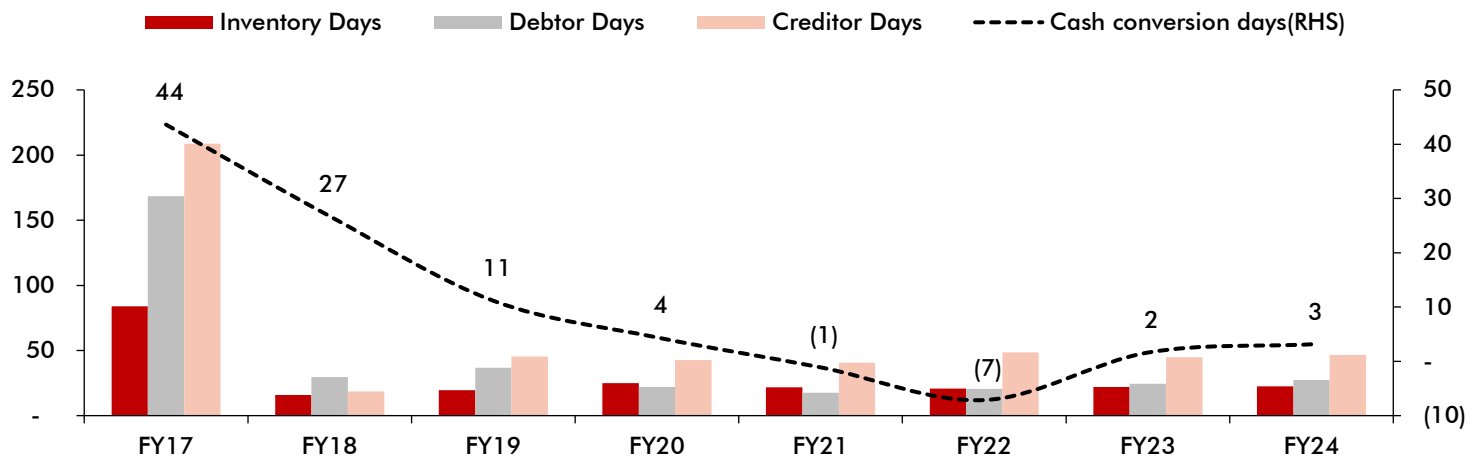
As a % of sales	Honasa		Vellvette Lifestyle (Sugar)		Wow Science		Pureplay (Plum)		Nivea		L'Oreal		Lotus	
	FY20	**FY24**	**FY20**	**FY23**	**FY20**	**FY23**	**FY20**	**FY23**	**FY15**	**FY23**	**FY15**	**FY23**	**FY15**	**FY23**
Revenue (₹ bn)	**1**	**15/19#**	**1**	**4**	**0**	**3**	**1**	**3**	**5**	**14**	**30**	**50**	**3**	**7**
Revenue from operation	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross Profit	**67%**	**70%**	**61%**	**73%**	**53%**	**53%**	**65%**	**60%**	**38%**	**60%**	**72%**	**76%**	**56%**	**51%**
Employee Cost	8%	9%	12%	14%	2%	15%	9%	10%	8%	9%	10%	9%	6%	9%
Advertisement Expense	42%	34%	27%	39%	39%	77%	40%	52%	21%	26%	29%	28%	20%	30%
Selling Commission & Incentive	4%	3%	1%	2%	0%	9%	3%	0%	0%	0%	0%	0%	0%	0%
Other Expenses	406%*	16%	36%	34%	10%	26%	10%	19%	19%	19%	23%	24%	13%	8%
EBITDA	**-393%****	**7%**	**-16%**	**-16%**	**1%**	**-75%**	**3%**	**-20%**	**-10%**	**6%**	**10%**	**16%**	**17%**	**4%**

*Source: Company, VCC Edge/MCA, Ambit Capital research. ** Other expense include change in FV of pref share of ₹4bn, if we ignore the change Other Exp/Adj EBITDA comes to 10%/-7%. # FY23/FY24*

Capital efficient due to lower working capital as well as asset-light model

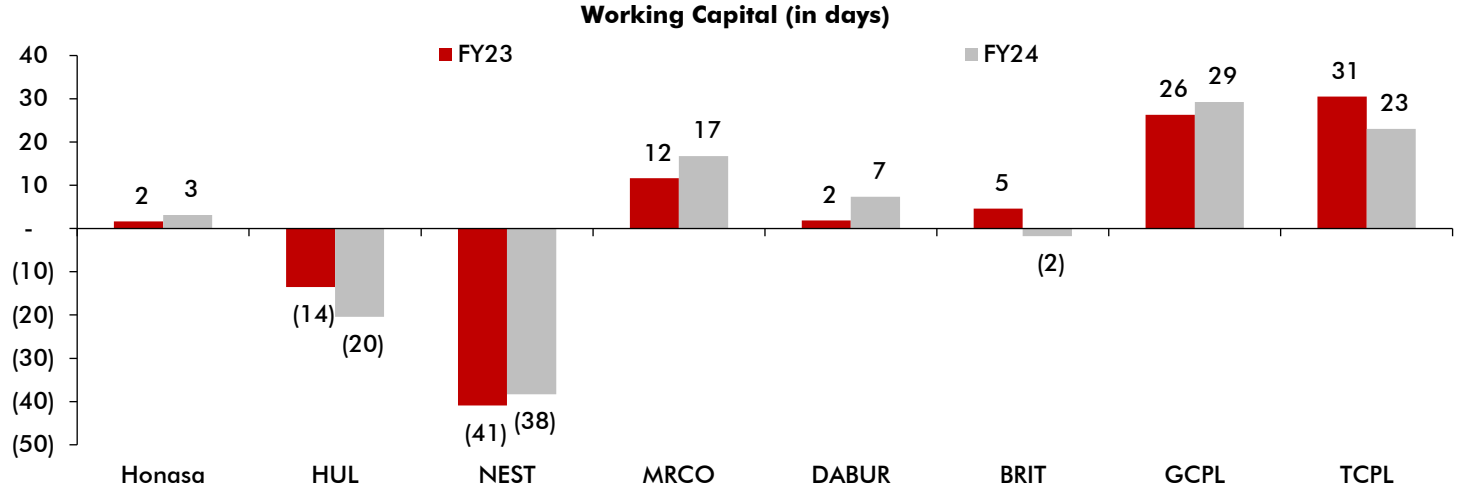
The company operates with an asset-light balance sheet, leveraging 37 third-party contract manufacturers, which results in limited fixed assets. Additionally, Honasa's working capital needs are moderate, with sub-30 days of inventory and receivables, offset by comparable payables. Honasa has demonstrated capital efficiency, raising ₹10bn over FY20-24 of which ₹5bn in net cash on its balance sheet and ₹2.3bn has been invested towards acquisition. The company acquired Momspresso in FY22 for ₹1.2bn and Dr. Sheth's and BBlunt in FY22 for a cumulative outflow of ₹1.9bn. While Momspresso business was impaired in FY23 (₹1.5bn), the company has scaled up Dr Sheth's/BBlunt by 30x/3x ARR in FY24 since their respective acquisitions.

Exhibit 47: Working capital cycle has improved over the years for Honasa



Source: Company, Ambit Capital research

Exhibit 48: Honasa has better cash conversion cycle than some FMCG incumbents, viz Dabur, MRCO etc.



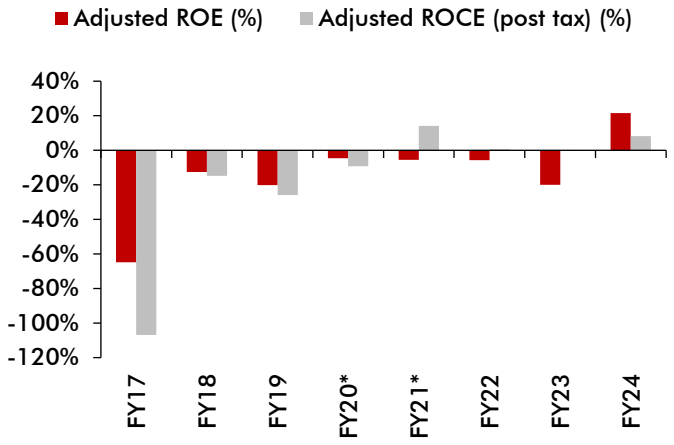
*Source: Company, Ambit Capital research. * Adj EBITDA*

Exhibit 49: Honasa follows an asset light mode as evident from small base of fixed assets

Amount (₹ mn)	FY19	FY20	FY21	FY22	FY23	FY24
Tangible Asset	3	4	11	44	134	200
ROU Asset	-	-	200	532	826	1,243
Goodwill	0	0	-	1,107	1,037	1,017
Intangible Asset	-	-	-	1,733	528	528
Capital Work in Progress	-	-	-	-	-	5
Intangible under development	-	-	-	19	-	-
Total	**3**	**4**	**211**	**3,435**	**2,525**	**2,992**
as % of Total Asset	**1%**	**0%**	**7%**	**33%**	**26%**	**18%**

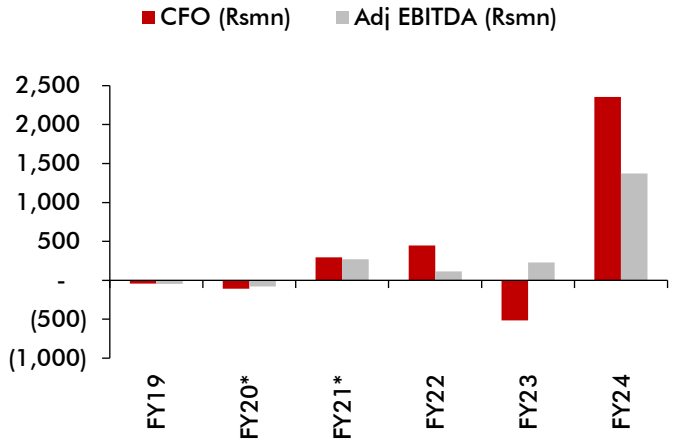
Source: Company, Ambit Capital research

Exhibit 50: RoE/ROCE for FY24 – 13%/8%



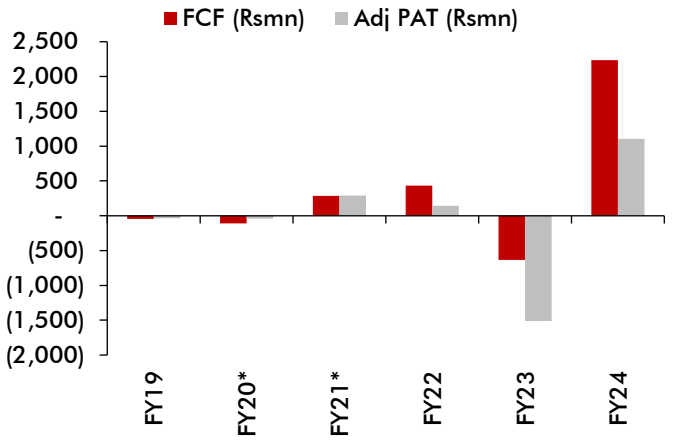
*Source: Company, Ambit Capital research. * We have not considered change in fair value of preference share. Reported ROE for FY 20/21 is -468%/165% and ROCE is -472%/-739%.*

Exhibit 51: Honasa cash conversion has been volatile but CFO started showing a positive trend in FY24 to ₹2,353mn



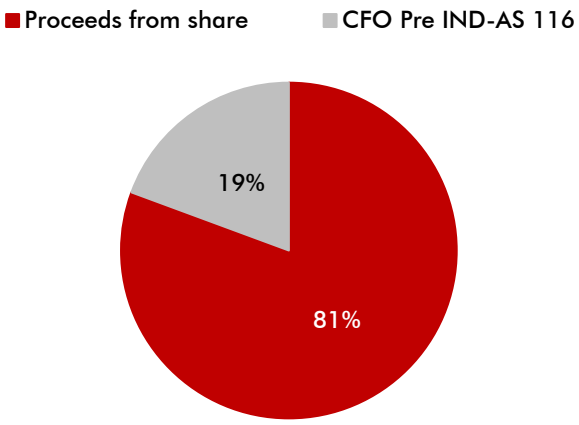
*Source: Company, Ambit Capital research. * We have not considered change in fair value of preference share amounting to ₹4bn/14bn in FY20/21*

Exhibit 52: FCF to PAT conversion has been volatile but Honasa made a cumulative ₹2,165mn over FY19-24



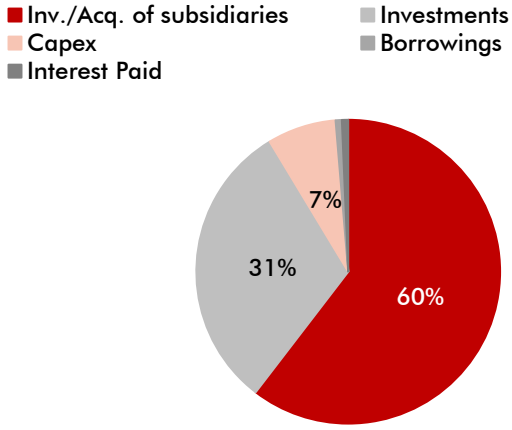
*Source: Company, Ambit Capital research. * We have not considered change in fair value of preference share amounting to ₹4bn/14bn in FY20/21*

Exhibit 53: ~81% of funds were sourced externally through equity over FY19-24...



Source: Company, Ambit Capital research

Exhibit 54: ...which were utilised for funding acquisitions, investments and capex



Source: Company, Ambit Capital research

D2C players globally are redefining template

Every pure-play D2C company, whether in India or globally, aspires to reach the stature of industry giants like L'Oréal and Shiseido, which have evolved over decades. Honasa in India and Yatsen in China are among the fastest-growing D2C players in their respective beauty markets, leveraging their digitally native business models to engage customers directly, gather valuable data on their preferences and make relevant launches based on third-party manufacturing. This approach has allowed them to tweak the traditional beauty industry value chain, offering greater value to consumers. By integrating these capabilities, both companies have successfully launched top-selling products, shortened product development cycles, executed cost-efficient marketing strategies, built strong brand equity, and attracted a wide customer base. These achievements illustrate how D2C companies are redefining the beauty industry template, challenging established norms, and paving the way for future growth.

Exhibit 55: Business model comparison of global companies - D2C companies are expanding through offline channels and legacy companies are leveraging digital marketing to not lose consumers

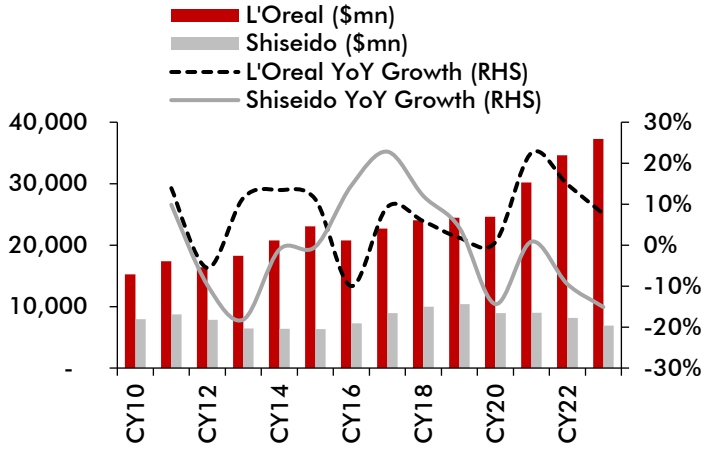
Parameters	Yatsen Holdings	Honasa	L'Oreal	Shiseido
Established in	2016	2016	1909	1872
Place of Origin	China	India	France	Japan
Markets	China	India	Global	Global (120 countries), particularly strong in Japan and China
Product range	Mass, masstige and premium BPC segment	Masstige BPC segment	Emphasis on both mass-market and luxury segments.	Prestige and luxury skincare and makeup
Channel	Started as a purely online brand and later moved into omnichannel retail, balancing between DTC and physical stores	Started as an online D2C brand. 65:35 online: offline mix for FY24. Offline mix includes GT and MT	Retail formats including drugstores, supermarkets, modern retail outlets including, brand EBOs, departmental stores, beauty MBOs, travel retail e-commerce (~20-25% of sales)	Modern retail outlets including, brand EBOs, departmental stores, beauty MBOs, travel retail with 30% from e-commerce
Brand Portfolio	7 brands - Perfect Diary, Little Ondine, and Abby's Choice being the key ones	7 brands, the flagship one being Mamaearth which contributes to 50% of revenue and balance The Derma Co., Aqualogica, etc. contributing to remaining 50%.	30+ brands, key ones being Lancôme, Maybelline, Garnier, Kiehl's, L'Oréal Paris	20+ brands, key ones being Shiseido, NARS, Clé de Peau Beauté, Anessa, Senka
Product development	Developed products based on consumer feedback and trends, allowing for quick product launches and iterations.	Honasa also uses consumer feedback and market insights to develop products, focusing on natural and toxin-free ingredients that appeal to health-conscious consumers.	3% R&D spends; Has made multiple acquisitions over the years including Kiehl's, Urban Decay, and IT Cosmetics, to enhance its portfolio and enter new market segments.	6% R&D spends; Has made acquisitions over the years
Digital and Social Media Marketing	Leveraged Key Opinion Leaders and social media influencers on platforms like WeChat, Douyin (TikTok), and Xiaohongshu to drive brand awareness and sales.	Similarly, Mamaearth has utilized digital platforms and influencers, especially on Instagram and YouTube, to reach its target audience, particularly young, digital-savvy consumers.	L'Oréal has increasingly shifted its marketing focus toward digital media like social media, e-commerce, and online advertising. Traditional media, such as TV commercials and print ads, are still used but play a secondary role, mainly for broad brand awareness.	Shiseido, while also embracing digital marketing, particularly in Asia, balances it with strong traditional media efforts, especially for its luxury brands. It uses print ads in high-end magazines and in-store experiences to maintain its premium image.
Challenges	Faces challenges related to market saturation, intense competition, and profitability in the highly competitive Chinese market. Additionally, it has struggled with maintaining consumer trust due to concerns about product quality.	Sustaining the rapid growth in a competitive Indian market. As it expands, maintaining product quality and consumer trust, along with managing profitability, will be key challenges.	Maintaining its leadership in an increasingly competitive global market, especially with the rise of indie brands and shifting consumer preferences towards clean and ethical beauty.	Competing against Western brands in global markets and maintaining growth in a mature Japanese market.

Source: Company, Ambit Capital research

Legacy gives scale but not necessarily profitability

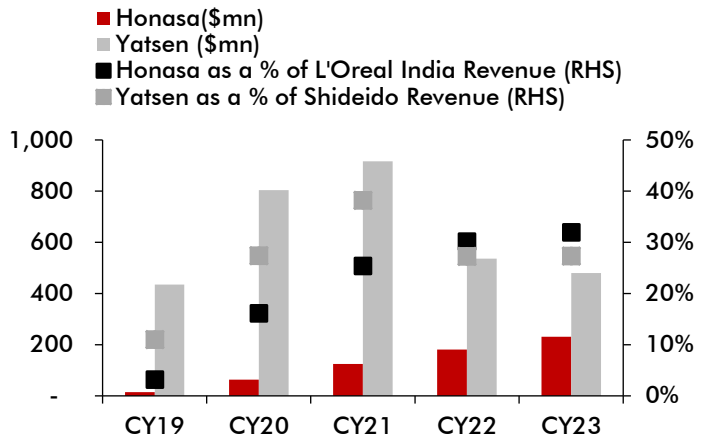
On a small base, both Yatsen and Honasa have expanded to become 30% of L'Oréal India and 27% of Shiseido respectively over less than a decade. This was not just led by growth in their respective flagship products Perfect Diary and Mamaearth but also scaling up of newer brands organically and inorganically.

Exhibit 56: L'Oréal/Shiseido posted 6%*/3%* CAGR over CY10-23 with increasing competitive intensity in their respective markets



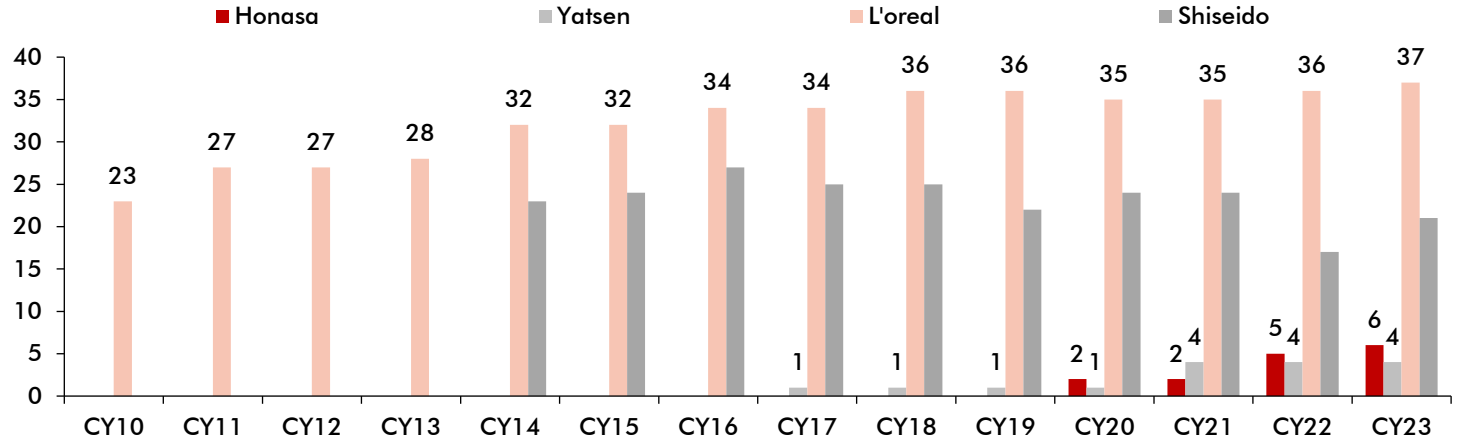
*Source: Company, Ambit Capital research. * CC terms*

Exhibit 57: Honasas revenue as a % of L'oréal has been increasing



Source: Company, Ambit Capital research. CY24 are annualized numbers

Exhibit 58: L'Oréal kept on adding brands to its kitty at a run rate of 1 p.a.; Honasa also intends to scale up using the House of Brands model

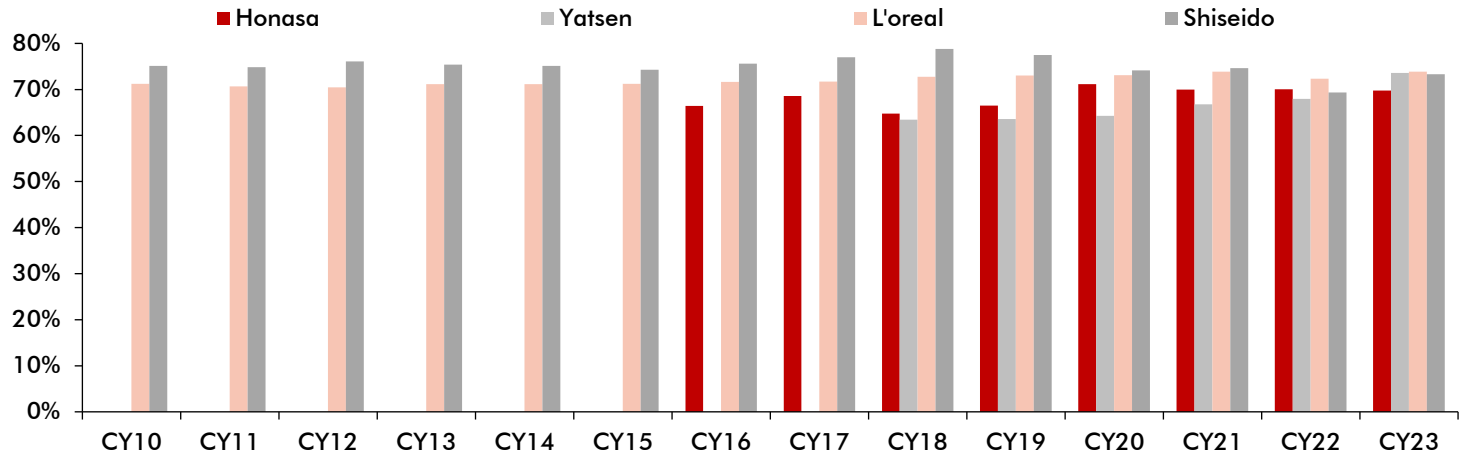


Source: Company, Ambit Capital research

Honasa has showcased profitability in short span of time

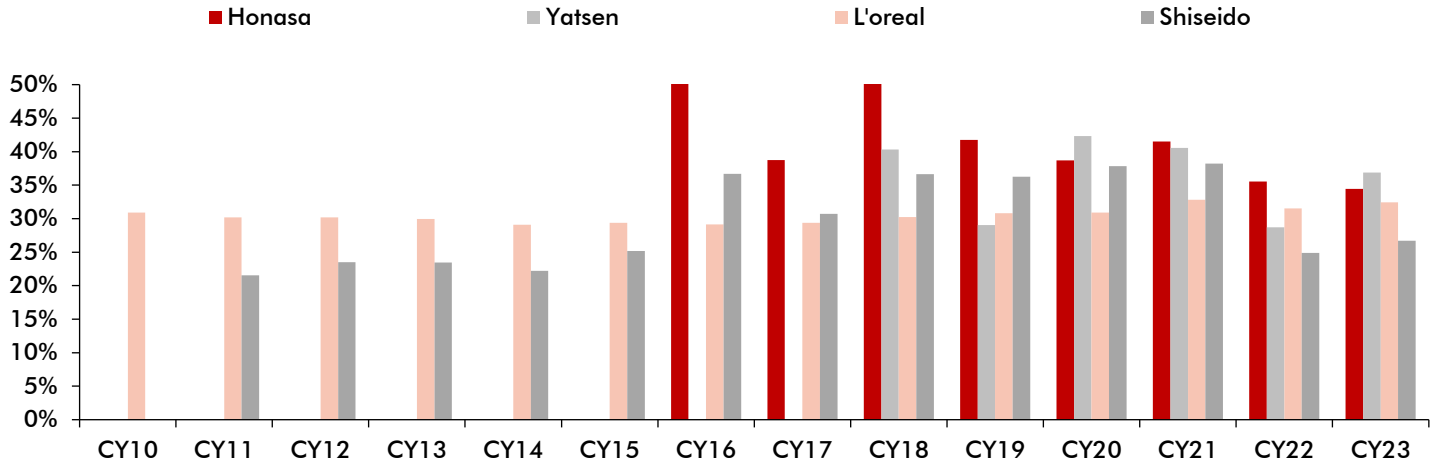
Legacy brands like Shiseido are struggling with profitability at the company level due to losses in newer geographies. However, in legacy markets of Japan/China, they achieved operating profitability of 18%/14% in CY19 (normalized year). Honasa has been able to showcase profitability in a short span of time compared to its Chinese peer Yatsen.

Exhibit 59: GM trajectory has remained the same, at 70%+ for all BPC companies



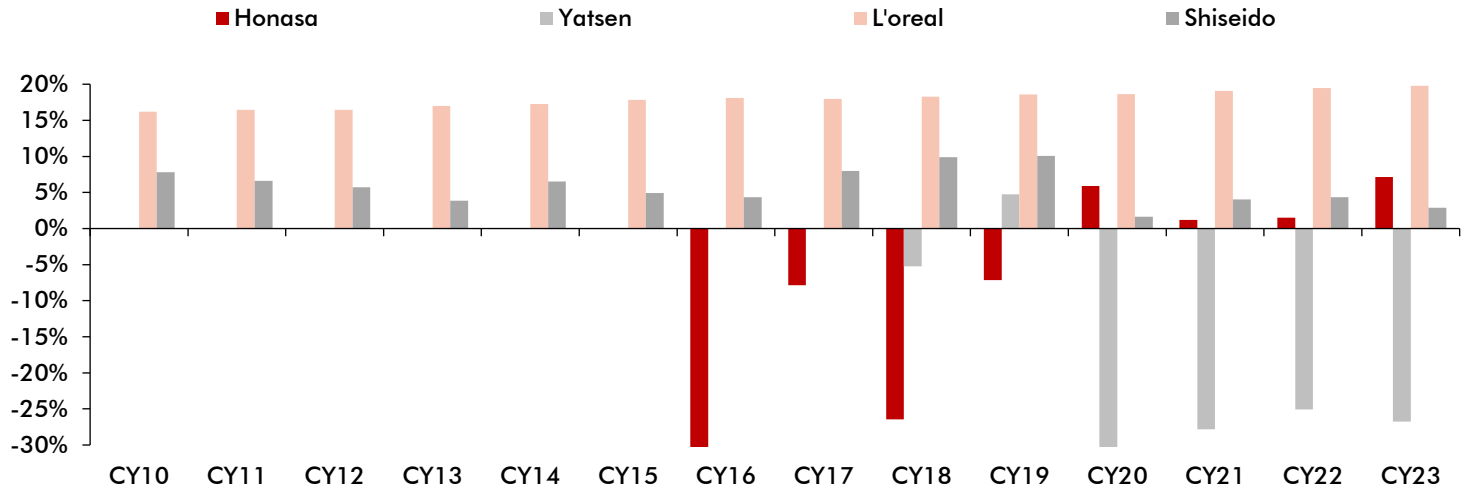
Source: Company, Ambit Capital research

Exhibit 60: Ad-spends as a % of sales for incumbent brands are 20%+ despite being in existence for decades



Source: Company, Ambit Capital research

Exhibit 61: Honasa has been able to showcase EBITDAM profitability in a short span of time



Source: Company, Ambit Capital research

Valuation hasn't topped yet

We believe Honasa would be able to drive higher growth than other FMCG companies on the back of its DNA of consumer insight-led innovation, targeted marketing, expansion of reach and scaling up of emerging brands. We expect sales/PAT CAGR of 21%/43% over FY24–27E. The company's revenue performance would be largely driven by emerging brands registering 30-35% CAGR, while Mamaearth's growth would moderate to 10-11%. We expect EBITDAM to improve from 7.1% in FY24 to 12% in FY27 on the back scale/efficiencies. We believe that despite 70% rally in stock price since listing, there is still some steam left because, at CMP the stock trades at a 30-40% discount on EV/sales vs traditional FMCG-led BPC companies. Even from a P/E perspective, FY30 P/E (EBITDAM gap vs incumbents should narrow) for Honasa is 23x vs 34x/32x/32x for HUL/Dabur/ GCPL). We initiate coverage on Honasa with a BUY and a target price of ₹639, implying 5.8x FY27 EV/sales.

Initiate with BUY; offers 18% upside from CMP

Long-term growth assumptions build 1.5x growth vs HUL's BPC segment

Honasa Consumer has been a notable outlier among digital-first BPC brands in India from the standpoint of scale, profitability, and capital efficiency. It has created a credible franchise in Mamaearth, which is able to play across BPC categories with its natural proposition, and we see a long runway to drive penetration through offline expansion leading to market share gain. Its repeatable brand-building template is evident in the traction seen by new brands - 'The Derma Co', 'Aqualogica', 'Dr. Sheth's' and 'BBlunt', which should also support growth. While Honasa's profitability is currently weaker than peers, it should be seen in the context of substantial investments in ad-spends to drive market-leading growth (17% CAGR over FY24-27E vs 10-12% CAGR for most FMCG companies). The flagship Mamaearth brand already has double-digit EBITDA margins, which we find encouraging. We see a path to steadily improving profitability led by scale benefits and further optimization of channel mix and ad-spends.

Exhibit 62: Our near-term assumptions over FY24-27E build in 21%/43%/43% growth in revenue/EBITDA/PAT and expect expansion of ~220bps/280bps in RoE/RoCE

Estimates (₹ mn unless specified)	FY24	FY25E	FY26E	FY27E	*CAGR over FY24-27E/ avg expansion*	Comments
P&L						
Revenue	19,199	23,122	28,016	33,610	21%	Revenue growth driven by ~11%/30-35% growth in Mamaearth/emerging brands and ~23%/16% growth in online/offline.
Implied market share	1.9%	2.0%	2.2%	2.4%	17bps	Assuming 60% gross-up.
Gross profit	13,392	16,244	19,682	23,612	21%	GMs improvement driven by increasing mix of emerging brands which have high GM.
GM %	70%	70%	70%	70%	17bps	
EBITDA	1,371	1,960	2,873	4,034	43%	EBITDAM largely driven by operating leverage primarily led by marketing spends.
EBITDAM %	7%	8%	10%	12%	162bps	
PAT	1,118	1,607	2,288	3,262	*43%*	
Balance Sheet						
Net debt (net cash)	(4,857)	(6,543)	(8,569)	(11,799)	34%	Net cash balance should increase with improving profitability.
ROE	13%	14%	17%	20%	222bps	Margin expansion along with revenue growth to drive improvement in return ratios.
Pre-tax ROCE	11%	12%	16%	19%	283bps	
Cash flow parameters						
CFO	2,353	1,642	2,342	3,232	*11%*	Cashflow improvement on the back of profitability improvement.
FCF	2,236	1,323	2,001	3,090	*11%*	

Source: Ambit Capital research

Exhibit 63: Long-term assumptions build 15%/18% CAGR in revenue/FCF and EBITDAM of 23% at exit, still lower than HUL/NEST currently…

Estimates (₹ mn unless specified)	FY24	FY27E	FY34E	FY44E	CAGR			
					FY24-27E	FY27E-34E	FY34E-44E	FY24-44E
Revenue (₹ mn)	19,199	33,610	99,125	330,831	21%	17%	13%	15%
Implied market share	1.9%	2.4%	3.3%	5.4%	16bps	12bps	21bps	17bps
GM %	70%	70%	70%	70%	17bps	0bps	0bps	2bps
EBITDA (₹ mn)	1,371	4,034	18,127	77,893	43%	24%	16%	22%
EBITDAM %	7%	12%	18%	23%	162bps	77bps	47bps	75bps
Pre-IND AS 116 EBITDA (₹ mn)	1,197	3,822	17,906	77,618	47%	25%	16%	23%
Pre-IND AS 116 EBITDAM %	6%	11%	18%	23%	171bps	82bps	49bps	79bps
PAT (₹ mn)	1,118	3,262	15,543	66,882	43%	25%	16%	23%
ROE	13%	20%	23%	28%	222bps	39bps	49bps	70bps
Pre-tax ROCE (Pre IND)	11%	19%	24%	30%	283bps	61bps	57bps	91bps
FCF (Pre-IND AS 116)	2,061	2,878	13,121	56,290	12%	24%	16%	18%

Source: Ambit Capital research

Exhibit 64: …but despite optically high growth, we expect Honasa to reach HUL's BPC segment's current size only after FY40

	Honasa			Nykaa			HUL - BPC		
	FY24	FY34E	FY44E	FY24	FY34E	FY44E	FY24	FY34E	FY44E
Revenue	19	100	340	64	489	1,442	224	602	1,575
	FY19-24	FY24-34	FY34-44	FY19-24	FY24-34	FY34-44	FY19-24	FY24-34	FY34-44
Revenue CAGR	158%	18%	13%	42%	23%	11%	5%	10%	10%
Growth differential of Honasa vs the respective company				3.8	0.8	1.1	33.2	1.7	1.3
Honasa's revenue as a % of the respective company				30%	20%	24%	9%	17%	22%

Source: Ambit Capital research.

Exhibit 65: We are broadly in line with consensus

Consolidated	FY25E			FY26E			FY27E		
₹ mn	Ambit	Consensus	Diff	Ambit	Consensus	Diff	Ambit	Consensus	Diff
Revenue	23,122	23,023	0%	28,016	28,042	0%	33,610	33,832	-1%
EBITDA	1,960	1,865	5%	2,873	2,985	-4%	4,034	4,158	-3%
EBITDA Margin	8.5%	8.1%	37bps	10.3%	10.6%	-39bps	12.0%	12.3%	-29bps
PAT	1,589	1,532	4%	2,262	2,279	-1%	3,225	3,165	2%

Source: Bloomberg, Ambit Capital research

Our DCF-based TP of ₹639 offers upside of 18%

Our TP of ₹639 factors (i) 13% WACC, (ii) 15% revenue CAGR over FY24-44E implying Honasa to reach HUL's BPC segment's current scale only after ~2 decades and (iii) 75bps EBITDAM expansion p.a. on operating leverage. We value Honasa Consumer at 5.8x FY27E sales, which is lower than most FMCG peers that trade at 6-9x, implying ~18% potential upside.

Exhibit 66: TP of ₹639 implies FY27 EV/sales of 5.8x which is lower than most FMCG peers

Particulars	₹ mn
PV of FCF	95,604
Terminal Growth rate %	6%
Terminal Value	930,927
PV of Terminal Value	98,646
Total value of Firm	**195,250**
Total Equity Value	207,049
Mcap valuation	175,740
% Upside/(Downside)	18%

Source: Ambit Capital research

Exhibit 67: TP can deviate by 3%/6% for every 50bps change in terminal growth/CoE

₹		Terminal growth				
		5.0%	5.5%	6.0%	6.5%	7.0%
CoE	11.9%	720	749	784	825	874
	12.4%	654	678	705	737	775
	12.9%	598	617	**639**	664	693
	13.4%	549	564	582	602	626
	13.9%	506	519	534	550	569

Source: Ambit Capital research

Exhibit 68: Within D2C companies, Honasa fares the best on the back of new product launch momentum, brand building ability and ready infrastructure to scale multiple brands; this is followed by Nykaa's private label and Sugar Cosmetics

IBAS Score	Honasa - Mamaearth	Nykaa - private label	Sugar Cosmetics	Pureplay Plum Goodness	The Good Glamm -Myglamm	Wow Sciences
Innovation	●	●	●	◑	◑	◕
Brand	●	●	●	◕	◑	◑
Architecture	●	◕	◑	◕	◔	◕
Strategic Assets	●	●	◕	◑	◔	◔
Total	●	●	●	◕	◑	◑

Source: Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Honasa trades at a discount to BPC FMCG peers

Despite the run-up since listing, valuation still leaves room for upside

We like Honasa for its brand-building ability and margin expansion visibility which would lead to 43% earnings growth over FY24-27E. This along with industry-level online channel CAGR of 25% over CY22-27E and reasonable valuation of 5.2x EV/sales which is at 30-40% discount to large FMCG names (at CMP, FY30 P/E for Honasa is 23x vs 32x/31x/32x for HUL/Dabur/ GCPL) give us comfort on valuations. Prefer GCPL>Honasa within our FMCG coverage.

Exhibit 69: Honasa trades at 6x/5x FY26/27 EV/sales, which is at a 30-40% discount to FMCG peers

Company Ticker	Mcap ($ mn)	CMP	TP	Rating	CAGR (FY24-27E)			EV/Sales		EV/EBITDA		PE Ratio	
					Sales	EBITDA	PAT	FY26	FY27	FY26	FY27	FY26	FY27
Beauty & Personal Care													
NYKAA IN EQUITY	7,334	216	252	BUY	27%	54%	169%	6	5	72	49	166	98
HONASA IN EQUITY	**2,095**	**542**	**639**	**BUY**	**21%**	**45%**	**42%**	**6**	**5**	**57**	**41**	**76**	**54**
FMCG													
BRIT IN EQUITY	17,123	5,970	5,296	SELL	13%	11%	13%	7	6	37	33	53	46
DABUR IN EQUITY	14,040	665	594	UR	10%	13%	14%	8	7	38	34	49	44
GCPL IN EQUITY	18,308	1,503	1,682	BUY	10%	15%	24%	9	8	39	35	54	46
HUVR IN EQUITY	81,100	2,899	2,198	SELL	9%	10%	10%	10	9	40	36	56	50
MRCO IN EQUITY	10,484	680	505	SELL	10%	11%	12%	7	7	35	32	47	42
NEST IN EQUITY	29,111	2,536	2,219	SELL	10%	11%	11%	10	9	42	38	63	56
TATACONS IN EQUITY	14,338	1,204	945	SELL	12%	13%	24%	6	6	38	37	60	52
Paints													
APNT IN EQUITY	37,637	3,295	2,483	SELL	8%	5%	5%	8	7	39	35	57	51
BRGR IN EQUITY	8,354	602	446	SELL	10%	8%	10%	5	5	33	30	51	45
Alcobev													
RDCK IN Equity	3,216	2,019	-	NA	15%	25%	36%	5	5	33	28	53	42
UBBL IN EQUITY	6,546	2,079	1,253	SELL	11%	31%	39%	5	5	35	181	63	50
UNITDSPR IN equity	13,063	1,508	975	SELL	9%	15%	14%	8	7	41	104	64	56
Other													
ZOMATO IN EQUITY	28,161	268	155	NR	43%	377%	123%	8	6	83	49	90	59

Source: Bloomberg, Ambit Capital research

Catalysts & risks

Near-term catalysts:

- **Scale-up of Mamaearth in GT channel:** We factor in 11% growth in FY25 for Mamaearth based on expanding distribution network and growth in online marketplaces.
- **Scale-up of emerging brands:** Honasa's growth strategy includes aggressively scaling up its emerging brands like The Derma Co., Aqualogica etc. We factor in emerging brands to grow ~40% in FY25 as these brands scale up on online marketplaces.
- **Expansion of EBITDAM:** As the company expands its brands, we factor in 133bps EBITDAM expansion in FY25 to 8.5% from 7.1% in FY24 to 12% over FY24-27E on the back of increase in mix of high-GM products and operating leverage.

Long-term catalysts

- **Increase in market share:** Product innovation, newer brands, expanding its digital and offline footprint, and enhancing its consumer engagement strategies will aid long-term scalability of a diverse BPC brand company. With a portfolio that resonates with the evolving preferences of younger demographics, and a focus on personalized, natural products, Honasa is well-positioned to capture a larger share of the BPC market in India, outpacing traditional FMCG players. We expect market share expansion of 300-350bps within overall BPC market over the next 2 decades.
- **Addition of new brands in the portfolio:** The addition of new brands to Honasa's portfolio is a strategic move to cater to diverse consumer needs and capture untapped market segments. These new brands will likely focus on emerging trends such as clean beauty, wellness, and men's grooming. By continuously innovating and launching brands that align with current consumer preferences, Honasa is positioned to maintain its competitive edge and ensure sustained growth across its portfolio.
- **Expansion of EBITDAM on the back of operating leverage:** Considering the 7% EBITDAM in FY24 which is lower vs established FMCG companies, Honasa's EBITDAM expansion trajectory will be spread across a longer horizon driven by economies of scale and operational efficiencies. As the company continues to grow, supply chain management, backend/sourcing efficiencies may also see some benefit. Also, increase in mix of high-GM products may lead to some GM expansion. We factor in 23% exit EBITDAM for the company by FY44.

Risks

- **Failure to expand in the offline channel:** Failure or delays in expanding Honasa's offline channel, which accounted for over 35% of revenue in FY24, could hinder profitability due to execution risks and inventory challenges from a higher number of SKUs. These risks are critical to the company's medium to long-term financial performance.
- **Execution/M&A risk:** Honasa intends to increase its brand offerings through organic and inorganic expansion (~35% of proceeds from the IPO being allocated for this). It has already made four acquisitions in the last few years, one of which (Momspresso) had to be reduced after limited success. Further, Ayuga is also being shrunk due to lack of resonance of Ayurveda among consumers.
- **Competition from BPC incumbents, new-age players and marketplaces:** BPC category is characterized by high competition and continuously evolving consumer preferences. Hence, competition comes not just from incumbents accelerating their new launches, but also D2C players and private labels from platforms/marketplaces which have access to consumer insights. There is always the possibility of other players replicating successful products and pricing them below Honasa's price point.

Accounting & governance checks

Well-known auditors, reasonable audit fees

Honasa has been audited by S.R. Batliboi & Associates LLP, an affiliated firm of EY, since FY19. Audit fees increased over the years due to rise in acquisitions, with one acquisition in FY22 and four in FY23. The current signing partner for Honasa's books of account has also been the signing partner for other listed companies like Subex Ltd and Suprajit Engineering Ltd.

Exhibit 70: Auditor remuneration accounted for 0.07% of revenue in FY24

Auditor Remuneration	Amount in ₹ mn					
	FY19	FY20	FY21	FY22	FY23	FY24
Audit fees (incl. subsidiary)	1	1	2	5	7	11*
Other services fees (incl. subsidiary)	-	-	-	0	0	1
Reimbursement of expenses	-	-	0	0	-	1
Total	**1**	**1**	**2**	**5**	**7**	**13**
As a % of revenue	*0.30%*	*0.10%*	*0.05%*	*0.05%*	*0.04%*	*0.07%*

*Source: Company, Ambit Capital research. *Includes limited review fees of ₹3mn*

No significant related-party transactions (RPT)

As of FY24, Honasa had five direct subsidiaries, with one acquired in FY22 and four in FY23. Negligible revenue was received through related-party transactions (RPT) due to a loan given to Fusion Cosmetics, while RPT expenditure accounted for 1.5% of total expenses. Of the total expenses of ₹259mn, 74% (₹193mn) pertains to remuneration paid to key management personnel (KMP) (refer exhibit 74) and sitting fees paid to independent directors. The remaining 26% (~₹66mn) pertains to expenses incurred on behalf of related party and legal & professional charges.

Exhibit 71: Related-party income was negligible in FY24, i.e. 0.06% of revenue

Income (₹ mn)	FY21	FY22	FY23	FY24
Interest income on loan	-	-	2	12
Royalty Income	-	-	-	0
Total income from related parties	**-**	**-**	**2**	**2**
As % of revenue	*0.00%*	*0.00%*	*0.01%*	*0.06%*

Source: Company, Ambit Capital research

Exhibit 72: Related-party expense is driven by KMP remuneration & expense incurred on behalf of related parties

Expense (₹ mn)	FY21	FY22	FY23	FY24
Advertisement expense	-	-	37	-
Legal and professional charges	-	-	9	18
Expense incurred on behalf of related party	-	-	10	46
Reimbursement of expenses	0	0	1	1
KMP Remuneration*	10	19	38	186
Sitting Fees	-	-	7	7
SBP Expense	0	-	2	1
Total expense from related parties	**11**	**19**	**104**	**259**
As % of expenses	*0.1%*	*0.2%*	*0.7%*	*1.5%*

*Source: Company, Ambit Capital research. * Does not include provision made for gratuity and leave benefits but includes cash salary and perquisites including ESOPs*

HAWK analysis

Honasa scores average on accounting and governance checks given (a) it did not consistently generate operating & free cash flow in the past (however cash flow generation would be stable going forward as profitability has set in), but generates stable and reasonable cash yields, (b) low contingent liabilities, (c) low miscellaneous expenses at <1% of revenue.

Exhibit 73: HAWK analysis

Accounting ratios	FY19	FY20	FY21	FY22	FY23	FY24	Comments
Pre-tax CFO/Adjusted EBITDA*	NA	NA	132%	472%	NA	195%	>100% ratio is on account of reducing working capital cycle. However, CFO & EBITDA started showing positive trends
Volatility in depreciation rate (in bps)	1,018	5,133	-5,335	-1938	-1433	-188	Depreciation rate has been volatile due to (i) low asset base due to an asset light approach (ii) the company following WDV, (iii) changing asset mix and (iv) timing of addition of asset
PFD as % of Debtors outstanding for >6m	-	-	4%	5%	6%	12%	There has been rise in the provision of doubtful debt with no history of write off, thus indicating low risk on receivables
Cash yield	4%	3%	7%	5%	7%	6%	Cash yield primarily comes from Investments and deposits with banks
Cont Liab. as % of NW	0%	0%	0%	4%	3%	3%	Contingent liability pertains to bank guarantees
Misc. exp. as % of total revenue	0%	0%	0%	0%	0%	0%	Negligible amount is reported under miscellaneous expense
Adv. to related parties / CFO	0	0	0	0	0	0	-
CWIP/Gross Block	0%	0%	0%	0%	0%	0%	-
Cum. FCF/median revenues	NA	NA	11%	12%	NA	15%	There has been improvement in the ratio on the back of better profitability and shrinking working capital.
CAGR in auditor's remuneration/CAGR in cons. Rev.	0.8	1.3	0.3	0.6	0.6	1.4	Ratio is increasing which is mainly attributable to increase in audit fees which is mainly attributable to increase in acquisition and other services fees (nature unknown)

*Source: Company, Ambit Capital research. *Adjusted EBITDA is considered without considering change in fair value of preference shares for FY20/21.*

Contingent liabilities

Honasa's contingent liability was ₹366mn/₹211mn during FY24/FY23 and accounted for 3%/3% of net worth. This is due to bank guarantees given for performance and laptops taken on lease, with a negligible amount pertaining to demands raised by income tax and service tax authorities. Increase in bank guarantee in FY24 is mainly attributable to ₹140mn to NSE as a regulatory requirement related to its IPO.

Exhibit 74: Contingent liability in FY24 was 3% of net worth

Contingent Liabilities (₹ mn)	FY21	FY22	FY23	FY24
Bank guarantee				
Hewlett Packard Financial Services (India) Pvt Ltd	14	31	49	72
The Deputy General Manager - Canteen Stores Department	-	33	153	153
National stock exchange	-	-	-	140
TLG India Pvt. Ltd	-	215	-	-
Disputed statutory demands pending before the Appellate Authorities	-	9	9	0
Total	**14**	**288**	**211**	**366**
Networth	(17,651)	7,056	6,059	10,953
As a % of networth	*0%*	*4%*	*3%*	*3%*

Source: Company, Ambit Capital research

Civil litigations pending

Honasa is involved in four material civil litigation cases and four direct tax proceedings against it and its subsidiaries. One civil litigation case involves RSM General Trading LLC, which alleges wrongful termination of its agreement on October 17, 2022, and seeks AED45mn (₹1,000mn) in damages. This case is currently being heard in a UAE court. An expert was appointed by the court and in his final report held that termination was in accordance with the agreement but subsequent to FY24, on 16 May 2024, the court has ordered the company to pay ~₹577mn + interest rate at 5% but the company is in the process of filling an appeal. Honasa has received 38 notices from various legal metrology departments for alleged non-compliance with the Legal Metrology Act, 2009, and Packaged Commodities Rules, 2011, regarding declaration and labeling requirements. Honasa has responded to several notices and has not received further communication regarding those responses.

Increase in KMP compensation could be due to ESOPs

Compensation to KMP has increased over the years. Raman Preet Sohi was appointed CFO on July 26, 2022, and Dhanraj Dagar as Company Secretary on May 11, 2022. KMP remuneration excludes provisions for gratuity and leave benefits, which are determined on an actuarial basis for the group as a whole but includes cash salary and perquisites including ESOPs. Directors Varun Alagh and Ghazal Alagh are entitled to receive fixed annual salary of ₹20mn and ₹14.4mn respectively. Increase in KMP remuneration in FY24 by ₹150mn was led by higher remuneration to Raman Preet Sohi which could be attributable to increase in share-based payments.

Exhibit 75: KMP remuneration* increased significantly by 389% YoY to ₹186mn in FY24

Name	Designation	FY20	FY21	FY22	FY23	FY24
Varun Alagh	WTD & CEO	4	6	11	15	20
Ghazal Alagh	WTD & CIO	3	4	7	10	14
Raman Preet Sohi	CFO		-	-	11	147
Dhanraj Dagar	CS		-	-	2	4
Total		**7**	**10**	**19**	**38**	**186**
YoY Growth (%)		141%	57%	81%	103%	389%
PBT		(4,280)	(13,246)	224	137	1,471
% of PBT		*NA*	*NA*	*8%*	*28%*	*13%*

*Source: Company, Ambit Capital research. * Does not include provision made for gratuity and leave benefits but includes cash salary and perquisites including ESOPs*

KMP & senior management

The key managerial personnel include Varun Alagh (WTD & CEO) and Ghazal Alagh (WTD & CIO), who have been with the company since its inception. The remaining five members have relevant experience and were appointed during the last four fiscal years.

Exhibit 76: Key managerial personnel and senior management profiles

Name	Designation	With Company S ince	Background
KMP			
Varun Alagh	WTD & CEO	Sep-16	▪ Education: He holds a B.E.E. from the University of Delhi and PGDBM from XLRI, Jamshedpur. ▪ Past Experience: He has worked with corporations such as HUL Ltd., Diageo India Pvt. Ltd. for over a year and Coca-Cola India Pvt. Ltd.
Ghazal Alagh	WTD & CIO	Sep-16	▪ Education: She holds a BCA from Punjab University, Chandigarh and a certification in software engineering from the academic council of the NIIT Academy, New Delhi.
Raman Preet Sohi	CFO	Apr-20	▪ Education: He holds a B. Com from Punjab University, Chandigarh and a PGDM IB from Symbiosis Institute of Management Studies, Pune. ▪ Past Experience: He has worked with Drums Food International Pvt. Ltd. as the CFO for a period of one year.
Dhanraj Dagar	CS	May-22	▪ Education: He holds a B. Com from Bangalore University and a LLB from Maneklal Nanavati Law College, Gujrat University. ▪ Past Experience: He has worked with Zydus Wellness Ltd. as company secretary and compliance officer. He has also worked with Chirpal Industries Ltd. Narmada Bio-Chem Ltd. Nirma Ltd. as legal manager and DSMax Properties Pvt. Ltd.
Senior Management			
Zairus Master	Chief Business Officer	Aug-21	▪ Responsible: setting and achieving business targets of the Company and provide guidance for different revenue channels ▪ Education: He holds a PGDM from IIM, Lucknow. ▪ Past Experience: He has worked with Bharti Airtel Limited as senior vice president in marketing.
Jayant Chauhan	Chief Product and Technology Officer	Nov-20	▪ Responsible: to formulate a vision for use of technology in the Company and implement new technologies. ▪ Education: He holds a master's degree of technology in mathematics and computing from IIT, Delhi. ▪ Past Experience: He has worked with Policybazaar Group of Companies for a period of over a year where he was last designated as Director in Technology.
Anuja Mishra	Chief Marketing Officer	Mar-22	▪ Responsible: drafting and executing the marketing strategy of the organization. ▪ Education: She holds a B.A. (honours) from University of Delhi and PGDBM from Management Development Institute, Gurgaon. ▪ Past Experience: She has worked with Hewitt Associates India Pvt. Ltd. for a period of year, Nestle India Limited for a period of a year and Pepsico India Holdings Pvt. Ltd. for 10 years and was last designated as associate director in brand marketing flavours.

Source: Company, Ambit Capital research

Board of Directors complies with regulatory requirements

The BOD of Honasa group consists of 6 members, of which 2 are executive directors, 1 is a non-executive director (nominee director) and 3 are independent directors. Honasa has a qualified and reasonably diversified board from various areas of expertise, including consumer discretionary, IT, telecom and consultancy.

Exhibit 77: Composition of board of directors complies with regulatory requirements

Name	Age (years)	Director Since	Period of directorship	Background
Executive Director				
Varun Alagh	40	Sep-16	Retire by rotation	▪ Education: He holds a B.E.E. from the University of Delhi and PGDBM from XLRI, Jamshedpur. ▪ Past Experience: He has worked with corporations such as HUL Ltd., Diageo India Pvt. Ltd. for over a year and Coca-Cola India Pvt. Ltd. ▪ Other Directorship: B:Blunt-Spratt Hairdressing Pvt. Ltd., Bhabani Blunt Hair Dressing Pvt. Ltd., Fusion Cosmeceutics Pvt. Ltd. & Just4Kids Services Pvt. Ltd.
Ghazal Alagh	36	Sep-16	Retire by rotation	▪ Education: She holds a BCA from Punjab University, Chandigarh and a certification in software engineering from the academic council of the NIIT Academy, New Delhi. ▪ Other Directorship: B:Blunt-Spratt Hairdressing Pvt. Ltd., Bhabani Blunt Hair Dressing Pvt. Ltd., Fusion Cosmeceutics Pvt. Ltd. & Just4Kids Services Pvt. Ltd.
Non-Executive Director				
Ishaan Mittal	36	Jan-20	Until such nomination is revoked by Peak XV and Sequoia Capital	▪ Education: He holds a BTech in mechanical engineering from the IIT, Delhi and master's degree in BA from Harvard University, Commonwealth of Massachusetts. ▪ Past Experience: He has worked with the BCG (India) Pvt. Ltd. for a year and is working with Peak XV Partners Advisors India LLP (formerly, Sequoia Capital India LLP) for ~8 years where he is currently working as Managing Director. ▪ Other Directorship: Finova Capital Pvt. Ltd. & Girnar Software Pvt. Ltd.
Independent Director				
Vivek Gambhir	55	Mar-21	Period of 5 years	▪ Education: He holds a B.A and a BSc from the Lafayette College, Pennsylvania. Further, he holds a master's degree in BA from Harvard Business School, Commonwealth of Massachusetts. ▪ Past Experience: He has worked with Bain & Company India Pvt. Ltd. for ~11 years where he was last associated as Partner, and with GCPL for ~11 years where he was last associated as Whole-time Director. He has previously been the co-chair of the CII, National FMCG Committee. ▪ Other Directorship: HOB Ventures Pvt. Ltd., Imagine Marketing Ltd., Kaha Technologies Pvt. Ltd., Metropolis Healthcare Ltd., Samast Technologies Pvt. Ltd.
Subramaniam Somasundaram	62	Feb-22	Period of 5 years	▪ Education: He holds a B. Com from University of Madras and is CA and Cost Accountant. ▪ Past Experience: Previously, he was the CFO for Titan Company Ltd. for a decade. He has worked in the telecom industry for over 11 years as well, as the CFO/CEO for BPL and CFO of the telecom vertical in Essar group. He has also worked earlier with ITC Ltd., VST Industries Ltd. and Mannai Corporation. ▪ Other Directorship: API Holdings Ltd., Avanti Finance Pvt. Ltd., Teamlease Services Ltd., Titan Commodity Trading Ltd., Landmark Retail FZE, Dubai & United Breweries Ltd.
Namita Gupta	46	Jun-22	Period of 5 years	▪ Education: She holds a master's degree of technology in mathematics and computing from the IIT, Delhi. ▪ Past Experience: She has worked with Microsoft and Facebook. ▪ Other Directorship: Airveda Technologies Pvt. Ltd., Zomato Ltd.

Source: Company, Ambit Capital research

Exhibit 78: Explanation of flags on the first page

Field	Score	Comments
Accounting	AMBER	Honasa scores average on accounting and governance checks given (a) it did not generate operating and free cash flow in the past but has started generating cashflow, (b) generates stable and reasonable cash yields, (c) low contingent liabilities, (d) low miscellaneous expenses at <1% of revenue.
Predictability	AMBER	Operational performance is largely predictable but subject to volatility in new launches, store addition (offline channels) and revenue from emerging brands.
Earnings Momentum	AMBER	Consensus cut its FY25 & FY26 revenue/EBITDA estimates by 5%/7% over the last 6 months. We are building in FY24-27E revenue CAGR of 21% and margin expansion of 160bps p.a. driving 43% CAGR in earnings.

Source: Company, Ambit Capital research

Honasa Consumer Ltd (HONASA IN, BUY)

Valuation Methodology

We value Honasa using DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 13% and terminal growth rate of 6% to arrive at TP of ₹ 639.

Risks

The key risks to our BUY recommendation includes:

- Lower pace of innovative product launches
- Slow pace of offline expansion
- Delay in scale-up of new brands
- Delay in margin expansion

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**14,927**	**19,199**	**23,122**	**28,016**	**33,610**
-growth (Rev)	58.2%	28.6%	20.4%	21.2%	20.0%
Cost of goods sold	4,467	5,807	6,878	8,334	9,998
Gross profit	**10,460**	**13,392**	**16,244**	**19,682**	**23,612**
Gross profit growth	58.5%	28.0%	21.3%	21.2%	20.0%
Employee expenses	1,649	1,706	2,035	2,353	2,689
Advertising/marketing expenses	5,303	6,613	7,815	9,185	10,689
Frieght expenses	1,442	1,795	2,151	2,580	3,064
Power/fuel expenses	8.4	14.3	17.2	21	25
Other expenses	8,584	10,315	12,250	14,455	16,889
EBITDA	**228**	**1,371**	**1,960**	**2,873**	**4,034**
-growth (EBITDA)	98.7%	502%	42.9%	46.6%	40.4%
Depreciation	250	306	404	489	550
EBIT	**(22)**	**1,065**	**1,556**	**2,384**	**3,484**
Other income	225	497	687	757	942
EBIT (including other income)	**203**	**1,562**	**2,242**	**3,141**	**4,426**
Finance costs	67	90	120	118	116
Exceptional items	(1,547)	-	-	-	-
Profit before tax	**(1,410)**	**1,471**	**2,123**	**3,023**	**4,310**
Profit before tax (adjusted)	**137**	**1,471**	**2,123**	**3,023**	**4,310**
Tax	99	366	534	761	1,085
PAT	**(1,510)**	**1,105**	**1,589**	**2,262**	**3,225**
Profit after tax (adjusted)	**37**	**1,105**	**1,589**	**2,262**	**3,225**
Minority interest	(82)	(12.5)	(17.9)	(26)	(36)
Consolidated profit after tax	**(1,428)**	**1,118**	**1,607**	**2,288**	**3,262**
EPS (basic) (₹)	(4.7)	3.4	5.0	7.1	10.1
EPS (diluted)	(4.7)	3.4	5.0	7.1	10.1

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	1,699	1,745	1,940	2,091	2,002
Capital work in progress	-	4.6	4.6	4.6	4.6
Right of use assets	826	1,243	1,153	1,067	989
Total fixed assets	**2,525**	**2,992**	**3,097**	**3,163**	**2,995**
Deferred tax assets (net)	(14.1)	(12.9)	(12.9)	(12.9)	(12.9)
Other non-current assets	835	2,027	2,048	2,172	2,328
Total non-current assets	**3,346**	**5,006**	**5,132**	**5,323**	**5,310**
Inventories	1,139	1,228	1,479	1,792	2,150
Current investments	2,600	2,918	2,918	3,209	3,530
Trade receviables	1,277	1,594	1,919	2,249	2,606
Cash and cash equivalents	681	4,857	6,543	8,569	11,799
Other current assets	607	687	734	890	1,067
Total current assets	**6,304**	**11,283**	**13,593**	**16,710**	**21,153**
Total assets	**9,650**	**16,290**	**18,726**	**22,033**	**26,464**
Share capital	19,293	3,242	3,242	3,242	3,242
Other equity	(13,234)	7,710	9,299	11,561	14,786
Total equity	**6,059**	**10,953**	**12,541**	**14,804**	**18,029**
Long-term provisions	61	73	88	107	128
Lease liabilities	886	1,310	1,315	1,329	1,356
Total non-current liabilities	**946**	**1,383**	**1,403**	**1,435**	**1,484**
Short-term borrowings	36	-	-	-	-
Trade payables	1,967	2,941	3,548	4,298	5,157
Other current liabilities	601	951	1,160	1,405	1,686
Short term provisions	40	62	74	90	108
Total current liabilities	**2,645**	**3,954**	**4,782**	**5,794**	**6,951**
Total liabilities	**3,591**	**5,337**	**6,184**	**7,229**	**8,435**
Total equity and liabilities	**9,650**	**16,290**	**18,726**	**22,033**	**26,464**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**(1,410)**	**1,471**	**2,123**	**3,023**	**4,310**
Depreciation	250	306	404	489	550
Interest income	(110)	(254)	(687)	(757)	(942)
Interest expense	67	90	120	118	116
Other items	451	1,511	2,123	3,023	4,310
Working capital changes	(1,048)	1,025	217	230	283
Taxes	(125)	(324)	(534)	(761)	(1,085)
Cash flow from operations	**(516)**	**2,353**	**1,642**	**2,342**	**3,232**
(Net) capital expenditure	(117)	(118)	(319)	(341)	(142)
Acq./(disp.) of Investments	(1,432)	(5,369)	-	(292)	(321)
Interest/dividend Received	2,425	791	687	757	942
Other items	68	(2,355)	(1,661)	(2,464)	(3,385)
Cash flow from investments	**429**	**(4,698)**	**349**	**1.7**	**326**
Net long-term borrowings	(25)	-	-	-	-
Issuance of equity	49	3,633	-	-	-
Interest paid	(11.0)	(7.9)	(120)	(118)	(116)
Payment of lease liabilities	(154)	(257)	(186)	(200)	(212)
Cash flow from financing	**(141)**	**3,369**	**(306)**	**(317)**	**(329)**
Opening cash balance	**304**	**47**	**1,071**	**2,756**	**4,783**
Net change in cash	**(227)**	**1,024**	**1,686**	**2,027**	**3,230**
Closing cash balance	**77**	**1,071**	**2,756**	**4,783**	**8,013**
Free cash flow to firm	**(633)**	**2,235**	**1,323**	**2,001**	**3,090**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	70.1%	69.8%	70.3%	70.3%	70.3%
EBITDA margin	1.5%	7.1%	8.5%	10.3%	12.0%
EBIT margin	(0.1%)	5.5%	6.7%	8.5%	10.4%
Net profit margin	(10.1%)	5.8%	6.9%	8.1%	9.6%
Interest cover	(0.3)	11.8	13.0	20	30
Net debt/equity	(0.5)	(0.7)	(0.8)	(0.8)	(0.9)

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	70.1%	69.8%	70.3%	70.3%	70.3%
EBITDA margin	1.5%	7.1%	8.5%	10.3%	12.0%
EBIT margin	(0.1%)	5.5%	6.7%	8.5%	10.4%
Net profit margin	(10.1%)	5.8%	6.9%	8.1%	9.6%
Interest cover	(0.3)	11.8	13.0	20	30
Net debt/equity	(0.5)	(0.7)	(0.8)	(0.8)	(0.9)
Net debt/EBITDA	(14.3)	(5.7)	(4.8)	(4.1)	(3.8)
Working capital turnover	4.0	2.6	2.6	2.6	2.4
Cash conversion days	11.0	(2.3)	(2.3)	(3.3)	(4.3)
Inventory days	28	23	23	23	23
Receivable days	31	30	30	29	28
Payable days	48	56	56	56	56
Gross block turnover	11.1	9.2	8.2	7.9	8.8
pre-tax CFO/EBITDA	(172%)	195%	111%	108%	107%
pre-tax RoCE	(0.3%)	11.0%	11.8%	15.8%	19.5%
post-tax RoCE	(0.1%)	8.3%	8.9%	11.8%	14.6%
pre-tax RoIC	(0.3%)	13.3%	15.7%	23.8%	34.4%
ROE (%)	(23.0%)	13.0%	13.5%	16.5%	19.6%

Source: Ambit Capital research, Company

Valuation parameters

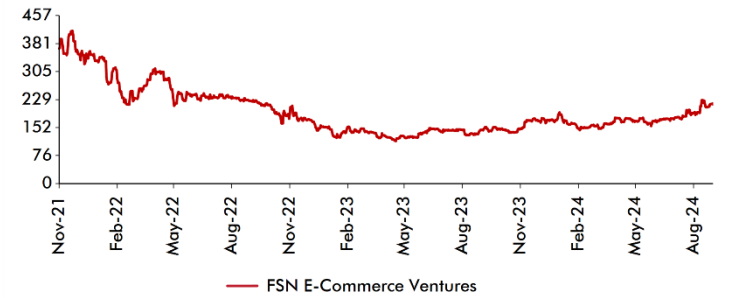
Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
PE	(116)	157	109	77	54
EV/EBITDA	772	128	90	61	44
EV/EBIT	(7,985)	165	113	74	50
EV/sales	11.8	9.1	7.6	6.3	5.2
P/B	29	16.0	14.0	11.9	9.7

Source: Ambit Capital research, Company

Institutional Equities Team

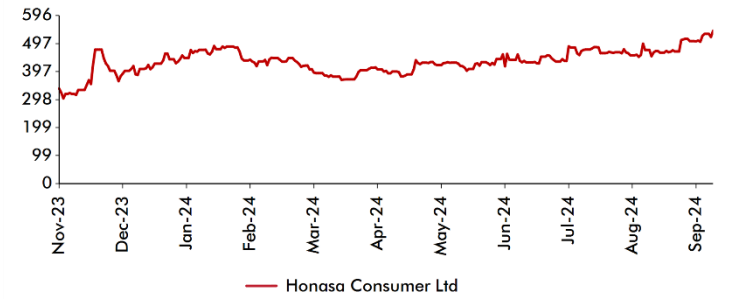
Research Analysts			
Name	**Industry Sectors**	**Desk-Phone**	**E-mail**
Nitin Bhasin – Head of Equities	Strategy / Accounting	(022) 66233241	nitin.bhasin@ambit.co
Ashwin Mehta, CFA - Head of Research	Technology	(022) 66233295	ashwin.mehta@ambit.co
Bharat Arora, CFA	Strategy	(022) 66233278	bharat.arora@ambit.co
Dhruv Jain	Mid-Caps / Logistics / Consumer Durables	(022) 66233177	dhruv.jain@ambit.co
Eashaan Nair	Economy / Strategy	(022) 66233033	eashaan.nair@ambit.co
Gaurav Jhunjhunuwala	Media / Telecom / Oil & Gas	(022) 66233227	gaurav.jhunjhunuwala@ambit.co
Jaiveer Shekhawat	Mid/Small-Caps	(022) 66233021	jaiveer.shekhawat@ambit.co
Jinesh Gandhi	Automobile & Automobile Components	(022) 66233028	jinesh.gandhi@ambit.co
Karan Khanna, CFA	Mid/Small-Caps / Hotels / Real Estate / Aviation	(022) 66233251	karan.khanna@ambit.co
Kumar Saumya	Chemicals	(022) 66233242	kumar.saumya@ambit.co
Kushal Chovatia	Healthcare	(022) 66233062	kushal.chovatia@ambit.co
Moez Chandani	Technology	(022) 66233299	moez.chandani@ambit.co
Moksh Mehta	Technology	(022) 66233101	moksh.mehta@ambit.co
Neeraj Makhijani	Strategy	(022) 66233272	neeraj.makhijani@ambit.co
Nihal Mahesh Jham	Consumer Staples / Consumer Discretionary	(022) 66233194	nihal.jham@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 66233206	pankaj.agarwal@ambit.co
Parth Majithia	Forensic Accounting / ESG / Strategy	(022) 66233149	parth.majithia@ambit.co
Prabal Gandhi	Banking / Financial Services	(022) 66233206	prabal.gandhi@ambit.co
Prakhar Porwal	Metals & Mining / Cement / Power / Utilities	(022) 66233246	prakhar.porwal@ambit.co
Pratik Matkar	Banking / Financial Services	(022) 66233107	pratik.matkar@ambit.co
Prashant Nair, CFA	Healthcare	(022) 66233171	prashant.nair@ambit.co
Raghav Garg, CFA	Banking / Financial Services	(022) 66233206	raghav.garg@ambit.co
Raghvendra Goyal	Automobile & Automobile Components	(022) 66233257	raghvendra.goyal@ambit.co
Rohit Bajaj	Automobile & Automobile Components	(022) 66233119	rohit.bajaj@ambit.co
Sanket Gharat	Consumer Staples / Consumer Discretionary	(022) 66233012	sanket.gharat@ambit.co
Saksham Mongia	Real Estate	(022) 66233145	saksham.mongia@ambit.co
Sanil Jain	Chemicals	(022) 66233145	sanil.jain@ambit.co
Satyadeep Jain, CFA	Metals & Mining / Cement / Power / Utilities	(022) 66233246	satyadeep.jain@ambit.co
Shubham Sandeep Gupta	Media / Telecom / Oil & Gas	(022) 66233209	shubhamsandeep.gupta@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 66233229	sumit.shekhar@ambit.co
Supratim Datta	Banking / Insurance	(022) 66233252	supratim.datta@ambit.co
Tushar Narwal	Banking / Insurance	(022) 66233183	tushar.narwal@ambit.co
Videesha Sheth	Consumer Discretionary / Consumer Staples	(022) 66233264	videesha.sheth@ambit.co
Vinit Powle	Forensic Accounting / ESG / Strategy	(022) 66233149	vinit.powle@ambit.co
Viraj Sanghvi	Capital Goods / Infrastructure	(022) 66233212	viraj.sanghvi@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom / Oil & Gas	(022) 66233261	vivekanand.s@ambit.co
Yash Jain	Mid-Caps / Logistics / Consumer Durables	(022) 66233053	yash.jain@ambit.co
Yogesh Toshaniwal	Banking / Financial Services	(022) 66233206	yogesh.toshaniwal@ambit.co
Sales			
Name	**Regions**	**Desk-Phone**	**E-mail**
Sujay Kamath – MD / Head of Sales	India / APAC / ME	(022) 66233127	sujay.kamath@ambit.co
Pranav Modi – Director	India	(022) 66233102	pranav.modi@ambit.co
Bhavin Shah	India	(022) 66233186	bhavin.shah@ambit.co
Dharmen Shah	India / Asia	(022) 66233289	dharmen.shah@ambit.co
Abhishek Raichura	UK / Europe	(022) 66233287	abhishek.raichura@ambit.co
Pranav Verma	Asia	(022) 66233214	pranav.verma@ambit.co
Anuj Jain	India	(022) 66233008	anuj.jain@ambit.co
Manvi Jain	India / Australia	(022) 66233018	manvi.jain@ambit.co
USA / Canada			
Abhishek Raichura	UK / Europe	(022) 66233287	abhishek.raichura@ambit.co
Sean Rodrigues	Americas	(022) 66233211	sean.rodrigues@ambit.co
Singapore			
Pooja Narayanan	Singapore	+65 9800 3170	pooja.narayanan@ambit.co
Production			
Sajid Merchant	Production	(022) 66233247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 66233183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 66233272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 66233273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 66233265	nikhil.pillai@ambit.co
Amit Tembhurnikar	Database	(022) 66233265	amit.tembhurnikar@ambit.co

FSN E-Commerce Ventures (NYKAA IN, BUY, CMP: ₹ 216)



Source: ICE, Ambit Capital research

Honasa Consumer Ltd (HONASA IN, BUY, CMP: ₹ 542)



Source: ICE, Ambit Capital research

Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark

Investment Rating	Expected return (over 12-month)
BUY	We expect this stock to deliver more than 10% returns over the next12 month
SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.

Note: At certain times the Rating may not be in sync with the description above as the stock prices can be volatile and analysts can take time to react to development.

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital Private Ltd. Ambit Capital Private Ltd. research is disseminated and available primarily electronically, and, in some cases, in printed form. The following Disclosures are being made in compliance with the SEBI (Research Analysts) Regulations, 2014 (herein after referred to as the Regulations) and guidelines issued from time to time

Disclosures

- Ambit Capital Private Limited ("Ambit Capital or Ambit") is a SEBI Registered Research Analyst having registration number INH000000313. Ambit Capital, the Research Entity (RE) as defined in the Regulations, is also engaged in the business of providing Stock broking Services, Depository Participant Services, distribution of Mutual Funds and various financial products. Ambit Capital is a subsidiary company of Ambit Private Limited. The details of associate entities of Ambit Capital are available on its website.
- Ambit Capital makes its best endeavor to ensure that the research analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by Ambit Capital and/or the analyst(s) and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. Ambit Capital and its affiliates/ group entities may or may not subscribe to any and/ or all the views expressed herein and the statements made herein by the research analyst may differ from or be contrary to views held by other businesses within the Ambit group.
- This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report and Ambit Capital or its affiliates shall not be responsible and/ or liable for any direct/consequential loss howsoever directly or indirectly, from any use of this Research Report.
- If this Research Report is received by any client of Ambit Capital or its affiliates, the relationship of Ambit Capital/its affiliate with such client will continue to be governed by the existing terms and conditions in place between Ambit Capital/ such affiliates and the client.
- This Research Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Research Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Research Report in other jurisdictions may be strictly restricted and/ or prohibited by law or contract, and persons into whose possession this Research Report comes should aware of and take note of such restrictions.
- Ambit Capital declares that neither its activities were suspended nor did it default with any stock exchange with whom it is registered since inception. Ambit Capital has not been debarred from doing business by any Stock Exchange, SEBI, Depository or other Regulated Authorities, nor has the certificate of registration been cancelled by SEBI at any point in time.
- A part from the case of Manappuram Finance Ltd. where Ambit Capital settled the matter with SEBI without accepting or denying any guilt, there is no material disciplinary action that has been taken by any regulatory authority impacting research activities of Ambit Capital.
- A graph of daily closing prices of securities is available at www.nseindia.com and www.bseindia.com

Disclosure of financial interest and material conflicts of interest

- Ambit Capital, its associates/group company, Research Analyst(s) or their relative may have any financial interest in the subject company. Ambit Capital and/or its associates/group companies may have actual/beneficial ownership of 1% or more interest in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Ambit Capital and its associate company (ies), may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as an advisor or lender/borrower to such company (ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. However the same shall have no bearing whatsoever on the specific recommendations made by the Analyst(s), as the recommendations made by the Analyst(s) are completely independent of the views of the associates of Ambit Capital even though there might exist an apparent conflict in some of the stocks mentioned in the research report. Ambit Capital and/or its associates/group company may have received any compensation from the subject company in the past 12 months and/or Subject Company is or was a client during twelve months preceding the date of distribution of the research report.
- In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, Ambit Capital or any of its associates/group company or Research Analyst(s) may have:
  - managed or co-managed public offering of securities for the subject company of this research report,
  - received compensation for investment banking or merchant banking or brokerage services from the subject company,
  - received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
  - received any compensation or other benefits from the subject company or third party in connection with the research report.
- Ambit Capital and / or its associates/group company do and seek to do business including investment banking with companies covered in its research reports. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Additional Disclaimer for Canadian Persons

About Ambit Capital:

- Ambit Capital is not registered in the Province of Ontario and /or Province of Québec to trade in securities and/or to provide advice with respect to securities.
- Ambit Capital's head office or principal place of business is located in India.
- All or substantially all of Ambit Capital's assets may be situated outside of Canada.
- It may be difficult for enforcing legal rights against Ambit Capital because of the above.
- Name and address of Ambit Capital's agent for service of process in the Province of Ontario is: Torys LLP, 79 Wellington St. W., 30th Floor, Box 270, TD South Tower, Toronto, Ontario M5K 1N2 Canada.
- Name and address of Ambit Capital's agent for service of process in the Province of Québec is Torys Law Firm LLP, 1 Place Ville Marie, Suite 1919 Montréal, Québec H3B 2C3 Canada.

About Ambit America Inc.:

- Ambit America Inc. is not registered in Canada
- Ambit America Inc. is resident and registered in the United States.
- The name and address of the Agent for service in Quebec is: Lavery, de Billy, L.L.P., Bureau 4000, One Place Ville Marie, Montreal, Quebec, Canada H3B 4M4.
- The name and address of the Agent for service in Toronto is: Sutton Boyce Gilkes Regulatory Consulting Group Inc., 120 Adelaide Street West, Suite 2500, Toronto, ON Canada M5H 1T1.
- A client may have difficulty enforcing legal rights against Ambit America Inc. because it is resident outside of Canada and all substantially all of its assets may be situated outside of Canada.

Additional Disclaimer for Singapore Persons

- Ambit Singapore Pte. Limited is a holder of Capital Market services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to Ambit Singapore Pte. Limited by Monetary Authority of Singapore. In Singapore, Ambit Capital distributes research reports.
- Persons in Singapore should contact either Ambit Capital or Ambit Singapore Pte. Limited in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "Accredited Institutional Investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore. Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform either Ambit Capital or Ambit Singapore Pte. Limited.

Additional Disclaimer for UK Persons

- All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report. This report may not be reproduced, redistributed or copied in whole or in part for any purpose.
- This report is a marketing communication and has been prepared by Ambit Capital Private Ltd. of Mumbai, India ("Ambit Capital"). Ambit is regulated by the Securities and Exchange Board of India and is registered as a Research Entity under the SEBI (Research Analysts) Regulations, 2014. Ambit is an appointed representative of Aldgate Advisors Limited which is authorized and regulated by the Financial Conduct Authority whose registered office is at 16 Charles II Street, London, SW1Y 4NW.

- In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended).
- Neither this report nor any copy or part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform them about, and observe any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities laws, or the law of any such other jurisdictions.
- This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information in this report, or on which this report is based, has been obtained from publicly available sources that Ambit believes to be reliable and accurate. However, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It has also not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties.
- The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member or employee of Ambit accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents.
- The value of any investment made at your discretion based on this Report, or income therefrom, maybe affected by changes in economic, financial and/or political factors and may go down as well as go up and you may not get back the original amount invested. Some securities and/or investments involve substantial risk and are not suitable for all investors.
- Ambit and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Ambit and its affiliates may from time to time render advisory and other services, solicit business to companies referred to in this Report and may receive compensation for the same. Ambit has a restrictive policy relating to personal dealing. Ambit has controls in place to manage the risks related to such. An outline of the general approach taken in relation to conflicts of interest is available upon request.
- Ambit and its affiliates may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.
- Ambit may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report and are not subject to any prohibition on dealing. By accepting this report you agree to be bound by the foregoing limitations. In the normal course of Ambit and its affiliates' business, circumstances may arise that could result in the interests of Ambit conflicting with the interests of clients or one client's interests conflicting with the interest of another client. Ambit makes best efforts to ensure that conflicts are identified, managed and clients' interests are protected. However, clients/potential clients of Ambit should be aware of these possible conflicts of interests and should make informed decisions in relation to Ambit services.

Additional Disclaimer for U.S. Persons

THIS RESEARCH REPORT IS DISTRIBUTED IN THE US TO MAJOR INSTITUTIONAL INVESTORS UNDER REG. 15a-6 AND UNDER A GLOBAL BRAND OF AMBIT AMERICA AND AMBIT CAPITAL PRIVATE LTD.

- The Ambit Capital research report is solely a product of Ambit Capital Private Ltd. and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and/or the independence of research analysts.
- Ambit Capital is the employer of the research analyst(s) who has prepared the research report.
- Any subsequent transactions in securities discussed in the research reports that have been distributed to you by Ambit Capital or Ambit America Inc. ("Ambit America") should be effected through Ambit America.
- Ambit America Inc. does not accept or receive any compensation of any kind directly from US Institutional Investors for the dissemination of the Ambit Capital research reports. However, Ambit Capital Private Ltd. has entered into an agreement with Ambit America Inc. which includes payment for servicing existing clients based out of USA.
- Analyst(s) preparing this report are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Therefore the analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst.
- In the United States, this research report is available for distribution to major U.S. institutional investors, as defined in Rule 15a – 6 under the Securities Exchange Act of 1934. Additionally, this research report is available to a limited number of individuals as Globally Branded research of Ambit America, as defined in FINRA Rule 2241. This research report is distributed in the United States by Ambit America Inc., a U.S. registered broker and dealer and a member of FINRA. Ambit America Inc., a US registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
- This Ambit Capital research report is not intended for any other persons in the USA. All major U.S. institutional investors or persons outside the United States, having received this Ambit Capital research report shall neither distribute the original nor a copy to any other person in the United States. In order to receive any additional information about or to effect a transaction in any security or financial instrument mentioned in this publication that Ambit Capital or Ambit America has distributed to you , please contact a registered representative of Ambit America Inc., by phone at 212-751-4422 or by mail at 485, Madison Avenue,15th Floor, New York, NY 10022. This material should not be construed as a solicitation or recommendation to use Ambit Capital to effect transactions in any security mentioned herein.
- This document does not constitute an offer of, or an invitation by or on behalf of Ambit Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Ambit Capital or its Affiliates consider to be reliable. None of Ambit Capital accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.
- Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have or have had positions, may "beneficially own" as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of the equity securities or may conduct or may have conducted market-making activities or otherwise act or have acted as principal in transactions in any of these securities or instruments referred to herein.
- Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have managed or co-managed a public offering of securities or received compensation for investment banking services or expects to receive opublication may be made available to recipients in the United States directly by Daiwa Capital Markets Hong Kong Limited and in certain cases indirectly by Daiwa Capital Markets America Inc. ("DCMA"), a U.S. Securities and Exchange Commission r intends to seek compensation for investment banking or consulting services or serve or have served as a director or a supervisory board member of a company referred to in this research report.
- As of the date of this research report Ambit America Inc. does not make a market in the security reflected in this research report.

RULE 15a-6 ARRANGEMENT WITH DAIWA

This publication may be made available to recipients in the United States directly by Daiwa Capital Markets Hong Kong Limited and in certain cases indirectly by Daiwa Capital Markets America Inc. ("DCMA"), a U.S. Securities and Exchange Commission registered broker-dealer and FINRA member firm (together "Daiwa"), exclusively to "major U.S. institutional investors", as defined under Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission. U.S. customers to whom Daiwa has made this publication available and that wish to effect transactions in any designated investment discussed in this publication should do so through a qualified salesperson of DCMA. Daiwa does not take responsibility for the contents of this publication. Daiwa has not been involved in producing this publication. Daiwa does not review this publication prior to its publication and has no influence on content and rating. This publication is not an offer to sell or the solicitation of any offer to buy securities by Daiwa. For further disclosures from Daiwa, please see the notice from Daiwa that it furnishes when it makes the publication available.

Analyst(s) Certification

- The analyst(s) authoring this research report hereby certifies that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.
- The analyst (s) has/have not served as an officer, director or employee of the subject company in the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report.
- The analyst(s) does not hold one percent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report.
- Research Analyst views on Subject Company may vary based on fundamental research and technical research. Proprietary trading desk of Ambit Capital or its associates/group companies maintains arm's length distance with the research team as all the activities are segregated from Ambit Capital research activity and therefore it can have an independent views with regards to Subject Company for which research team have expressed their views.

Additional information and disclaimer

Please note registration granted by SEBI and certification from NISM in no way guarantee performance of Ambit Capital Private Ltd. or provide any assurance of returns to Investors/Clients. Ambit Capital research should not be considered as an advertisement or advice, professional or otherwise. Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registered Office Address: Ambit Capital Private Limited, 449, Ambit House, Senapati Bapat Marg, Lower Parel, Mumbai-400013

Compliance Officer & Grievance Officer Details: Manish Dubey, Email id: compliance@ambit.co, Contact Number: 91 22 6860 3252. In case you require any clarification or have any query/concern, kindly write to us at compliance@ambit.co , Website: - www.ambit.co;

Other registration details of Ambit Capital: SEBI Stock Broking registration number INZ000259334 (Trading Member of BSE and NSE); SEBI Depository Participant registration number IN-DP- 682-2022; AMFI registration number ARN 36358.

AMBIT
Acumen at work