

Rating: Subscribe for the listing gain

Issue Offer

Fresh Issue of Equity shares aggregating upto INR 630 Cr and Offer for sale of 41,972,660 Equity shares

Issue Summary

Price Band (INR)	1085-1125
Face Value (INR)	1
Implied Market Cap (INR Cr)	INR 51,335 – 53,204 Cr
Market Lot	12
Issue Opens on	Oct,28, 2021
Issue Close on	Nov,1, 2021
No. of share pre-issue	467,036,850
No. of share post issue	472,924,550
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	75
NIB Portion	15
Retail Portion	10

Book Running Lead Managers

Kotak Mahindra Capital, Morgan Stanley India
Morgan Stanley, BofA Securities
Citigroup Global Markets

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	45.99%	44.43%
Promoters Group	8.23%	8.13%
Public	45.78%	47.44%

Objects of the issue

- Investment of INR 420 million in certain of their subsidiaries, namely, FSN Brands and / or Nykaa Fashion for funding the set-up of new retail stores
- INR 1,560 mn towards repayment or prepayment, of outstanding borrowings availed by the company and one of their subsidiaries, namely, Nykaa E-Retail

The company has a diverse portfolio of beauty, personnel care and fashion products, including its owned manufactured brand products, under its two business verticals – Nykaa and Nykaa Fashion. Founded by former investment banker Falguni Nayar. Nykaa brings brands and keeps users updated with the latest beauty trends, expert advice and videos, to more than 68 Luxe and On-Trend Stores, an ever-growing online community for beauty, and a Beauty Helpline. Nykaa's website which logs 55 million monthly visits, lists over 1,200 brands ranging from makeup, skincare to health supplements, and hair dryers. In India, Nykaa has six warehouses across India, which receives over 13 million orders each month. Nykaa expanded into fashion under Nykaa Fashion and even male grooming, fashion & accessories under Nykaa Man in 2018. FY20, the first full year for Nykaa Fashion saw INR 350mn of revenues, but management expects rapid growth ahead. However, the segment is quite competitive with players like Myntra, Ajio and even brick-and-mortar retailers building online presence.

Key Highlights:

- **Enormous market opportunity:** The company has a diverse portfolio of beauty, personal care and fashion products, including brand products manufactured by the company. As a result, Nykaa has established not only as a lifestyle retail platform, but also as a popular consumer brand. They offer consumers an Omnichannel experience with an endeavor to cater to the consumers preferences and convenience.
- **Influencer network:** The company has a network of over 1,300 influencers and 12.6m followers across leading social media platforms, Nykaa is able to handle widespread product and influencer-led education through creative and entertaining content across video and written formats. Nykaa creates and films the majority of its content in-house through the Nykaa Army. Moreover, it leverages influencers on a large scale through the Nykaa Affiliate Program, enabling external content creators to publish content on their behalf across several digital platforms. Endorsement by well-known influencers further build-up the trust in the platform.
- **Digital supremacy:** The company continues to evolve its proprietary platform not only keeping in mind today's challenges but also factoring in future agility. The in-house data team is able to leverage mass amounts of information to create dynamic hyper-personalized experiences for consumers across their journeys on the platform.

Valuation and View:

At the upper price band of INR 1125, the issue is offered at Mcap/Sales of 21.8x (post issue) to its FY21 sales of INR 24,409 Mn. Company does not have any listed peers. We like the company because of 1) One of India's leading lifestyle focused consumer technology platform.,2) The company is the preferred destination for luxury and prestige products in India for consumers and brands.,3) Resilient, capital efficient business with a combination of strong growth and profitability. **We recommend investors to subscribe for the listing gain and one can also buy at lower levels.**

Details of the Objects

1. Investment in certain of the company subsidiaries, namely, FSN Brands and / or Nykaa Fashion for funding the set-up of new retail stores;
2. Capital expenditure to be incurred by Company and investment in certain of subsidiaries, namely, Nykaa E-Retail, Nykaa Fashion and FSN Brands for funding the set-up of new warehouses;
3. Repayment or prepayment, in full or in part, of certain borrowings availed by company and one of Subsidiaries, namely, Nykaa E-Retail;
4. Expenditure to acquire and retain customers by enhancing the visibility and awareness of brands; and
5. General corporate purposes.

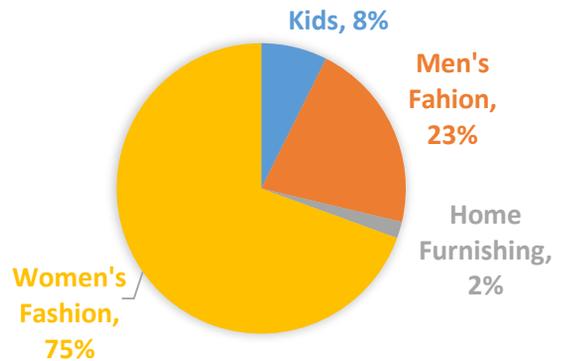
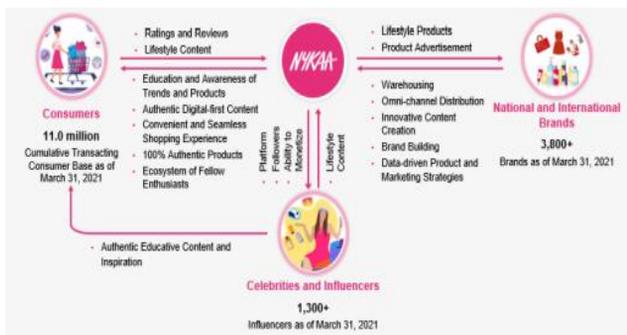
Particulars	Amount (INR Mn)
Gross Proceeds of the Fresh Issue	6,300
(Less) Expenses in relation to the Fresh Issue#	
Net Proceeds*	

All costs, fees and expenses relating to the Offer (other than the listing fees and the fees and expenses of the legal counsel and chartered accountants to the Selling Shareholders) shall be shared amongst company and the Selling Shareholders as set out above.

* To be determined upon finalization of the Offer Price and updated in the Prospectus prior to filing with the RoC.

The Nykaa Lifestyle Platform:

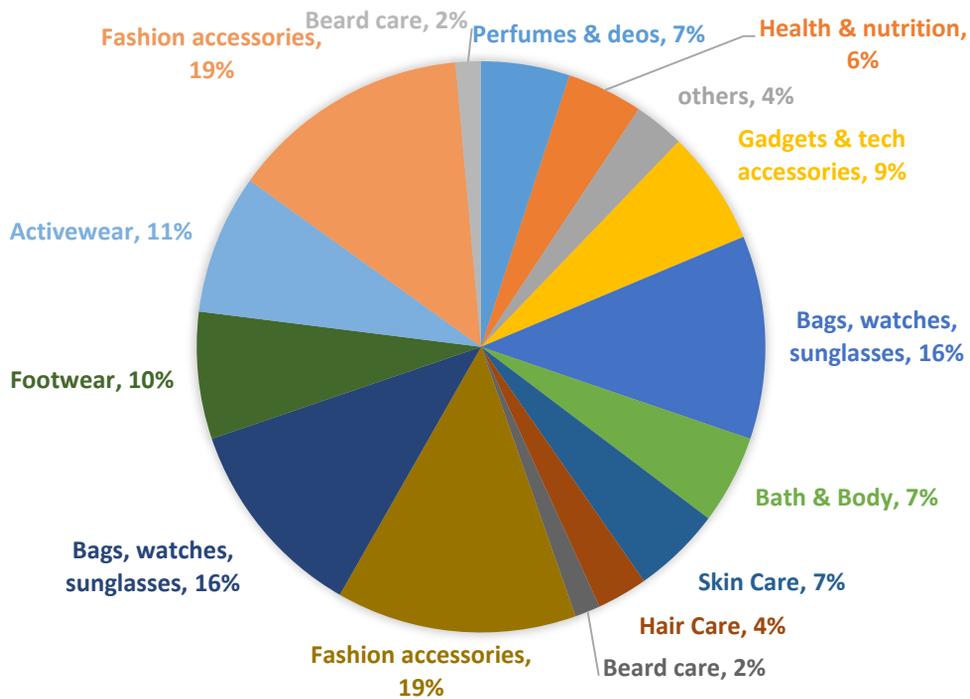
In addition to leveraging the strengths in comprehensive merchandising, brand relationships and delivery experience, the company focus on inspiring and educating consumers via digital content, digital communities and tech-product innovations, which is an integral component of business model.



As of March 31, 2021, we offered approximately 2.0 million SKUs from 3,826 national and international brands to consumers across business verticals.

SKU Split - Nykaa Man

Nykaa Man was launched in 2018 as Nykaa's third vertical e-tail category. Similar to fashion, Nykaa Man business also operates under a separate e-commerce app and website. Nykaa Man offers a large assortment of c.50,000 SKUs across 500+ brands. It is present in several categories ranging from personal care, fashion and accessories to even health & nutrition, gadgets and tech accessories. Its revenue contribution to overall business is currently limited.

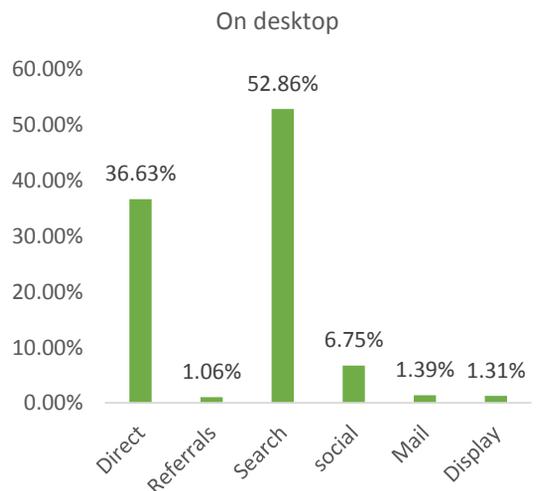
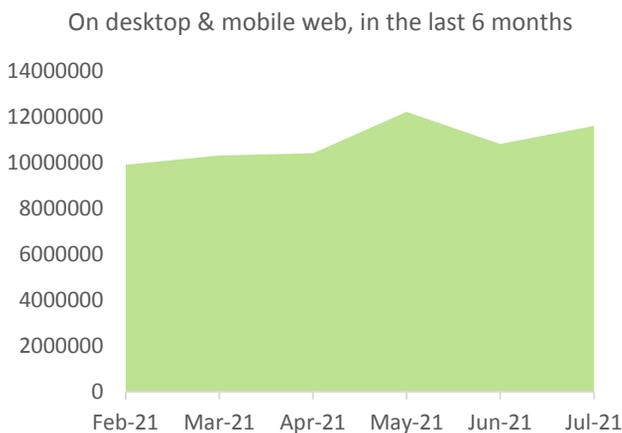


Nykaa Man offers a wide range of SKUs across product categories

Covid accelerated online adoption; recovery to normal in months

First wave of Covid-19 pandemic in 2020 dented demand for personal care, as consumers were confined to their homes. HUL, India’s largest player in personal care reported a ~45% revenue decline in its discretionary categories in 1Q and 25% in 2Q. Colour cosmetics was especially one of the most impacted categories within personal care, given it is dependence on consumer mobility.

As restrictions eased, Covid-19 also accelerated adoption for e-commerce which helped Nykaa recover back to pre-Covid levels fairly quickly and ahead of category.



Services to engage with consumers

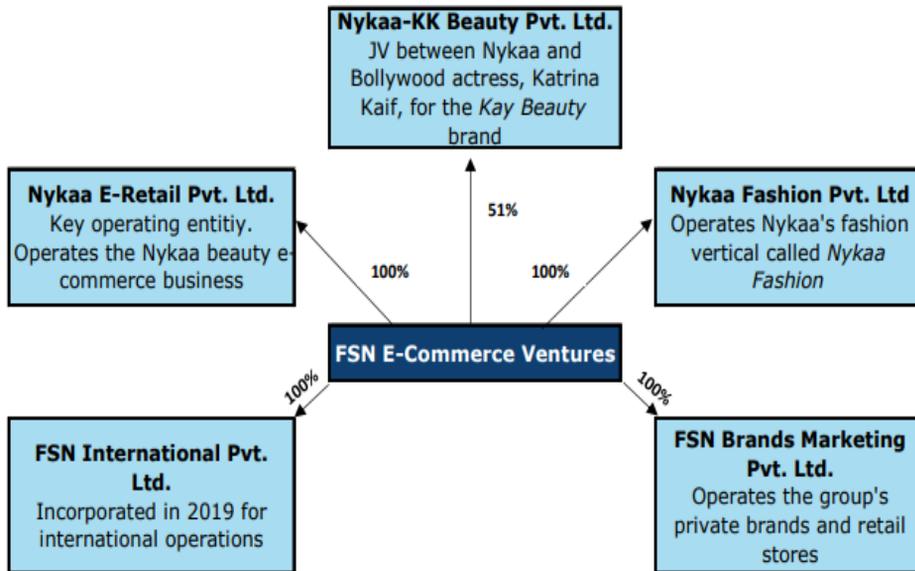
The company also have an array of services to engage with consumers and reward their loyalty. Through Nykaa Prive, consumer loyalty program for beauty and personal care vertical, members enjoy exclusive offers and discounts, complimentary gifts, free shipping and access to exclusive members’ only content. The Prive members also enjoy priority access to consumer service team.

As of March 31, 2021, there were 2.1 million Nykaa Prive members. Consumers can also earn Nykaa reward points by signing up, shopping, writing reviews and answers and referring new consumers to the platform. These rewards points can be redeemed to make purchases on platform.



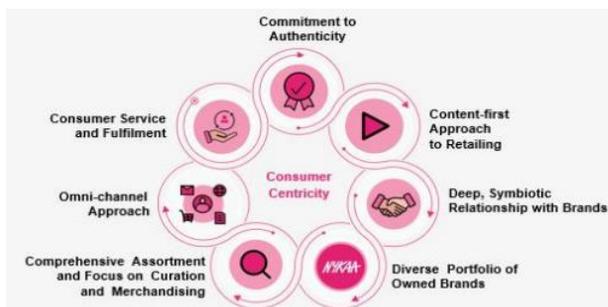
Nykaa Group Corporate Structure

The company owned brand portfolio is executed by identifying gaps in the market, both across requirements of diverse consumers and multiple price points, and building brands to suit these needs, with a focus on high quality products. Some of such owned brands are:



Beauty and Personal care is a nascent and a fast growing category

The company has been built iteratively while innovating for consumer satisfaction as well as optimizing for purchase behaviour. The consumer journey for product selection often includes a significant amount of time spent exploring. The company endeavour to understand the process of decision making and provide for the critical moments across the different stages of a consumer’s journey on platform. Through integrations across touchpoints, Nykaa target consumers and design personalized browsing and purchase experiences to meet the diverse needs of consumers. The company business model is rooted in the value proposition, separating from the otherwise predominantly transactional e-commerce industry:

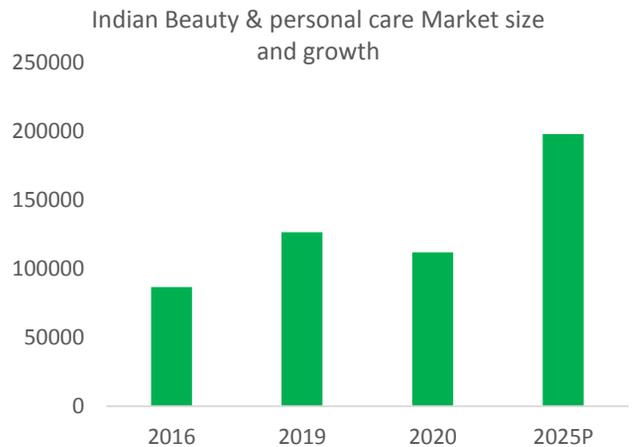
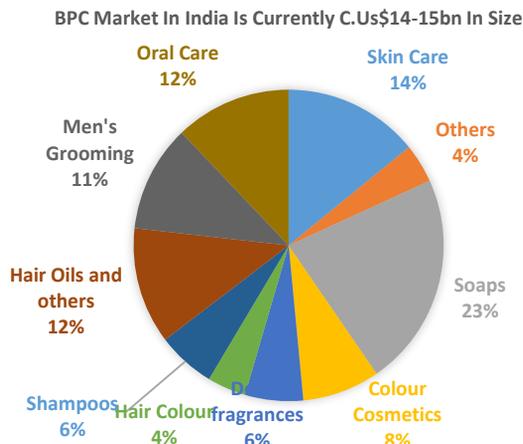


Industry Overview

India beauty and personal care market split

The Beauty and Personal Care Market in India was sized at INR 1,26,700 cr in 2019, growing at a CAGR of 13% in the last 3 years. Though the market fell down to INR 1,12,000 cr in 2020 as a result of reduced spending during the first COVID-19 wave, it is projected to grow at a CAGR of 12% to reach INR 198100 cr in 2025 implying a CAGR of 7.7% from the pre-COVID-19 market in 2019.

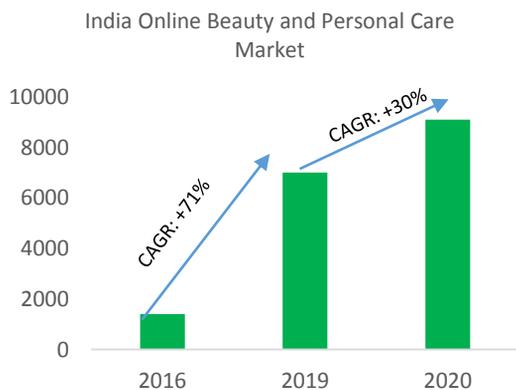
Growth in BPC Spend by Youth: Consumers in the 18-24 years age group are likely to try and explore new BPC categories through social media engagement, become fascinated by ongoing market trends and develop awareness about newer categories, brands and products. Consumers in the more than 35 years age group are mature buyers and big ticket spenders, with less price sensitivity and better awareness.



Source: Company, Aриhant Capital Research

India Online Beauty and Personal Care Market

Online Beauty and Personal Care Market in India has grown at promising 60% CAGR in the last 4 years, penetrating 8% of the India Beauty and Personal Care Market in 2020. Online channel accounted for 2% of the India BPC market in 2016. Following this, the sector grew at a strong 71% CAGR over the next three years to penetrate 6% of the BPC market in 2019, at INR 7000 Cr. The sector further grew at 30% from 2019 to 2020 to reach 9100 cr and penetrate 8% of the overall BPC market. Growing online shopping penetration in Tier 2+ cities, consistent investment for growth of the sector, rising affinity for branded products that are available online with a wide assortment, increasing need for convenient shopping experience, rising adoption of e-commerce by Generation Zs and Millennials who are the key growth enablers in the BPC category and higher consumer trust on products bought online, are the key drivers of growth in the market.



Source: Company, Aриhant Capital Research

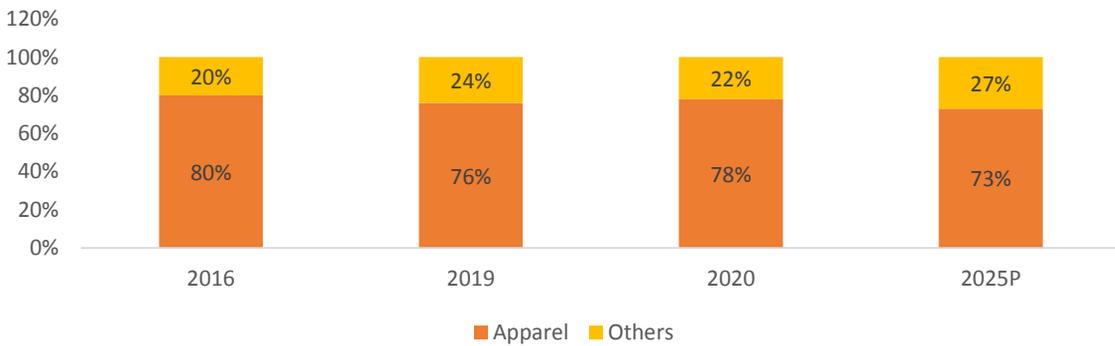
India Fashion Market

India is projected to become INR 8,70,200 cr fashion opportunity by 2025. The size of Fashion Market in India was INR 4,18,600 cr in 2016, constituting more than 9% of the retail market. Apparel accounted for approximately 80% of this market and footwear and accessories combined covered the remaining 20%.

The Fashion Market grew at a 12% CAGR over the next three years to reach INR 5,83,800 in 2019. It declined by 35% in 2020 during the first COVID-19 wave, driven by the reduction in discretionary spending and disruption in supply chain due to the lockdown.

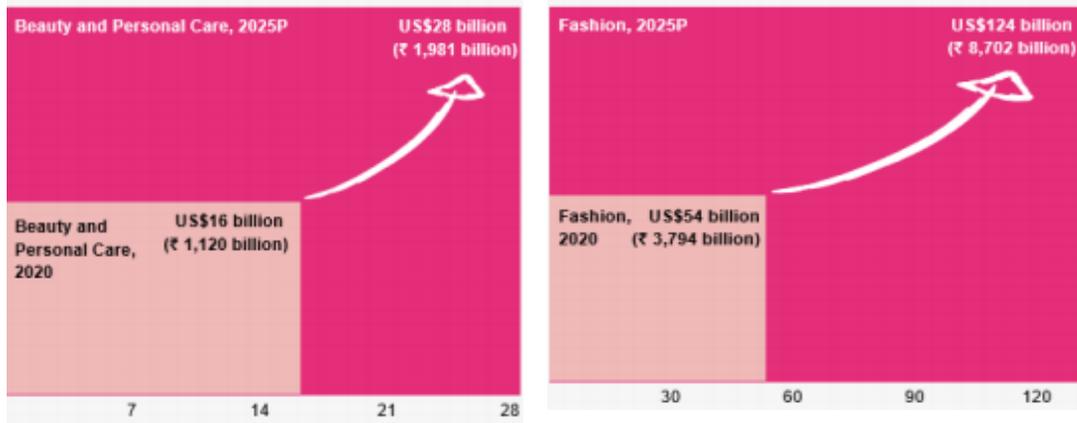
The Fashion Market in India is projected to recover strongly and grow at 18% CAGR over the next five years to reach INR 8,70,200 cr by 2025. Apparel are projected to continue driving approximately 73% of the market in 2025.

India Fashion Market Size and Growth (INR Bn)



Nykaa’s Target Addressable Market and Competition

Nykaa has a large BPC market opportunity of INR 1,120 billion (US\$16 billion) growing at 12% per annum to INR 1,981 billion (US\$28 billion) in 2025. Fashion opportunity of INR 3,794 billion (US\$54 billion) is expected to grow at 18% per annum to INR 8,702 billion (US\$124 billion) in 2025. Nykaa has a total addressable market across beauty and personal care and fashion of INR 10,683 billion (US\$152 billion).



Source(s): Redseer Research

Nykaa’s Strengths

One of India’s leading lifestyle focused consumer technology platform. experience flywheel further accelerates transaction flywheel. Sizeable volume of content drives increased organic traffic and retention on platform, which in turn drives higher engagement and better experience, helping the company create more content and further drive consumer experience and transactions. The company believe they have gained significant prominence not only as a lifestyle retail platform, but also a leading lifestyle brand and influencer.

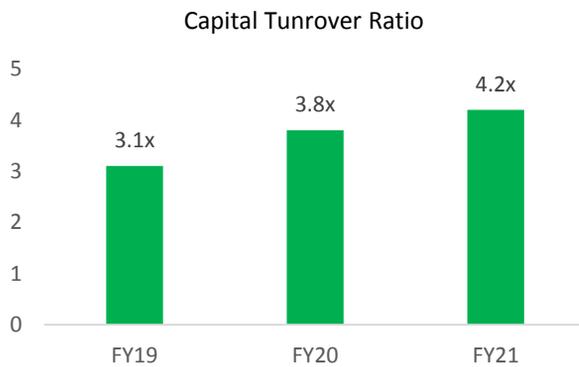
Self-reinforcing Flywheels Driving Strong Network Effects



The company has the highest AOV among the leading online beauty and personal care platforms in India and Nykaa is the largest luxury beauty and personal care platform in India.

Resilient, capital efficient business with a combination of strong growth and profitability:

Founder-led company supported by a professional management team



Growth Strategy

Continue to acquire new consumers and increase consumer loyalty: The company has built consumer base over the years and continue to aim to attract new consumers to the platform by providing an immersive shopping experience.

Deepen and broaden brand relationships

Leveraging on art of retailing to expand into lifestyle adjacencies and launch new channel: The company started as a beauty and personal care platform for women, and have expanded to lifestyle offerings across beauty and personal care, grooming, fashion and home products, for consumers across a variety of demographics.

Further expand Omnichannel capabilities: We aim to invest further towards expansion of physical store network to serve more consumers across the country with the Omnichannel experience. At the same time, the company seek to further leverage the synergies between the offline and online channels to create a seamless journey across touchpoints.

Focused, selective international expansion as well as acquisitions and joint ventures in India: The company has gained experience in India of localizing global trends for specific sub-markets and tastes. As the company grow consumer base in India, the company will also aim to explore expansion selectively and prudently into international markets.

Key Risk Factors

- The company’s business depends on the growth of online commerce industry in India and their ability to effectively respond to changing user behaviour on digital platforms.
- The company has incurred losses in the past, which may adversely impact the company’s business and the value of the Equity Shares.
- There are pending litigations against the Company, Subsidiaries, and certain of their Directors. Any adverse decision in such proceedings may render the company or them liable to liabilities and penalties and may adversely affect their business, results of operations, cash flows and reputation.
- The company has certain contingent liabilities, which, if they materialize, may adversely affect their results of operations, financial condition and cash flows.
- The company derive a significant portion of its GMV from their top three categories, and business may be adversely affected if products in these categories do not perform as well as expected.
- Health epidemics, including the ongoing COVID-19 pandemic, have had, and could in the future have, an adverse effect on their business, operations and the markets and communities in which they and its consumers, suppliers, sellers and advertisers operate.
- The company rely on third-party couriers to provide reliable, timely and satisfactory delivery of orders for consumers.
- The company has issued Equity Shares during the preceding one year at a price that may be below the Offer Price and grants of stock options under their employee stock option plan may result in a charge to its profit and loss account and, to that extent, reduce their profitability and financial condition.
- The company’s Promoters and Promoter Group shall have certain rights post the listing of the Equity Shares.
- The company will not receive any proceeds from the Offer for Sale portion, and the Selling Shareholders shall be entitled to the Offer Proceeds to the extent of the Equity Shares offered by them in the Offer for Sale.

Competitive Strengths

- One of India’s leading lifestyle focused consumer technology platform.
- The company is the preferred destination for luxury and prestige products in India for consumers and brands.
- Resilient, capital efficient business with a combination of strong growth and profitability.
- The company’s proprietary technology stack.
- Founder-led company supported by a professional management team

Retail Destination of Choice in India

Brand Custodians; Client-servicing Mindset

Makeup	Skin	Hair	Bath and Body	Fragrance	Others (1)
					<p>NYKAA Cosmetics On-trend quality beauty products curated for Indian consumers</p> <p>NYKAA NATURALS Naturally derived ingredients focused brand for skincare products</p> <p>Kay Vegan and cruelty free premium beauty products jointly developed with one of India's Bollywood actors</p> <p>DOT & KEY Dermatologically tested and cruelty free solutions to skincare problems</p>

Brands across Luxury, Prestige and Value Categories

Portfolio of Owned Brands

Update August 2021

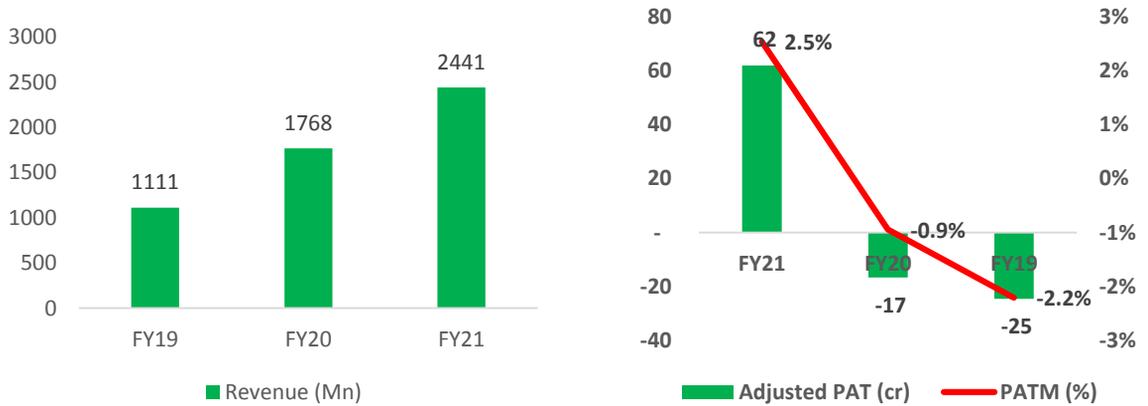
Source: Company, Aриhant Capital Research

- Nykaa has had certain exclusive tie-ups with beauty brands i.e. Huda Beauty for a year or so.
- The company has 3000+ influencers in order to create content in line with demand strategy.
- The company has 80 physical stores across 40 cities and under online company has over 25,000 brands.
- Company believes in delisting brands/pieces under fashion business on a monthly basis while beauty business sees a very low churn rate.

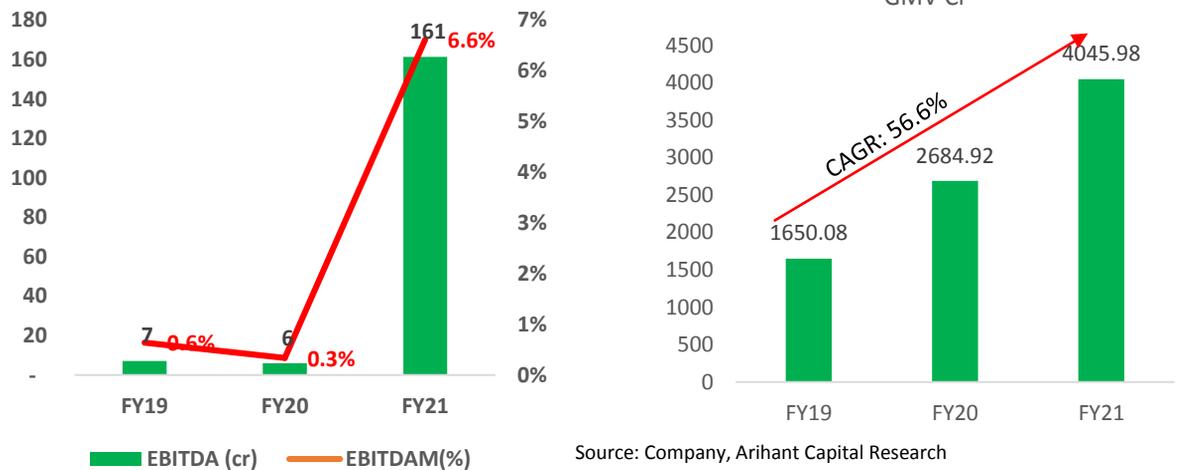
Financial Analysis

Trend in consolidated revenues & PAT

Revenue from operations in the Financial Year 2021 was INR 24,408.96 million, which grew 38.10% from the Financial Year 2020. Restated profit for the year in the Financial Year 2021 was INR 619.45 million, as compared to a restated loss of INR 163.40 million for the Financial Year 2020.



Trend in Margin



Source: Company, Aриhant Capital Research

Management

Key Person	Description
Falguni Nayar	Falguni Nayar is the Founder, Executive Chairperson & Managing Director and Chief Executive Officer of the company. She has over 26 years of experience in e-commerce, investment banking and broking. Prior to founding the company, she was associated with Kotak Mahindra Capital Co Ltd for 18 years where she also served as a managing director. She has also served on the boards of various companies, including Tata Motors Ltd and Aviva Life Insurance Company India Ltd. Presently, she serves as an independent on the boards of various companies including, Kotak Securities Ltd, ACC Ltd and Dabur India Ltd.
Sanjay Nayar	Sanjay Nayar is an Additional Non-Executive Director of the company. He has over 35 years of experience in the banking, and private equity. He was associated with Citibank N.A. for over 23 years, where he also served as the chief executive officer of the bank in India over 6 years. He was chief executive officer of KKR India Advisors Pvt Ltd from 2009 to 2020. Presently he serves as a chairman of KKR India and also serves on the board of various companies, including Indigrd Investment Managers Ltd, Max Healthcare Institute Ltd, J B Chemicals and Pharmaceuticals Ltd and Aventus Capital Pvt Ltd.
Adwaita Nayar	Adwaita Nayar is the Executive Director of the company, since July 1, 2021. She also serves as the chairperson and chief executive officer of Nykaa Fashion. She co-founded the company and has been involved in the areas of marketing, operations and product development
Anchit Nayar	Anchit Nayar is the Executive Director of the company, since July 1, 2021. He also serves as the chairman and chief executive officer of Nykaa E-Retail.

Comparison with Listed Industry Peers

There are no listed companies in India that engage in a business similar to that of Nykaa

Income Statement (in INR mn)

Year End-March	FY19	FY20	FY21
Revenues	11,114	17,675	24,409
<i>Change (%)</i>	-	59.0%	38.1%
Cost of Goods Sold (COGS)	6603	10142	14878
Gross Profit	4,511	7,533	9,531
Employee costs	1,173	1,956	2,836
Other expenses	3,133	4,767	5,080
Total Expenses	10,909	16,865	22,795
EBITDA	205	811	1,614
EBITDA Margin (%)	1.8%	4.6%	6.6%
Depreciation	309	595	671
EBIT	-104	215	943
EBIT Margin (%)	-0.93%	1.22%	3.86%
Interest	263	443	307
Other Income	50	103	117
PBT	-317	-124	753
Exceptional Items	-	-	-
PBT after exceptional Items	-317	-124	753
Tax	-72	39	134
<i>Rate (%)</i>	22.6%	-31.5%	17.8%
PAT	-245	-163	620
Extraordinary Items	0	0	0
Consolidated PAT	-245	-163	620
<i>Change (%)</i>	-2.2%	-0.9%	2.5%

Cash Flow Statement (in INR mn)

Year End-March	FY19	FY20	FY21
PBT	-317	-124	753
Cash From Operating Activities	-997	62	1,499
Tax	0	-43	-132
Net Cash From Operations	-997	62	1,499
Capex	-349	-457	-421
Cash From Investing	-1,620	149	-1,297
Investments	-1,268	1,345	-
Finance cost paid	0.8	0.5	36.0
Cash From Financing	2,357	687	-377
Net Increase/ Decrease in Cash	-260	898	-176
Cash at the beginning of the year	374	114	1,012
Cash at the end of the year	114	1,012	836

Source: Company, Aриhant Capital Research

Balance Sheet (in INR mn)

Year End-March	FY19	FY20	FY21
Sources of Funds			
Share Capital	142	146	151
Reserves & Surplus	2,163	3,076	4,749
Non controlling interest	4.69	7.38	8.36
Total Equity	2,310	3,229	4,908
Total Loans	2,256	2,675	1,875
Total Non Current	3044.5	4030.68	3022
Total Current Liability	7,757	11,245	13,020
Non-Current assets			
Non-Current assets	1397.6	2289.1	2329.8
Other Non Current Assets	16.7	38.9	13.5
GoodWill	1.43	1.43	5.43
Deferred Tax Assets (Net)	501	506	780
Non-Current Tax Assets (Net)	110.5	110.5	85.6
Total Non-Current assets	2,116	3,090	3,390
Inventories	2,446	4,453	4,981
Trade Receivable	579	984	766
Cash and Bank	114	1,012	836
Bank	5	744	1,641
Other Financial Assets	515	333	574
Other Current Assets	630	628	832
Total Current Assets	5,640	8,155	9,630
Total Assets	7,757	11,245	13,020

Key Ratios

Year End-March	FY19	FY20	FY21
Per share (INR)			
EPS	-0.6	-2.9	1.4
BVPS	16	22	33
Valuation (x)			
P/E	-1906.8	-389.3	809.4
P/BV	69.4	50.7	34.5
EV/EBITDA	162376	165351	170441
Return ratio (%)			
EBIDTA Margin	1.8%	4.6%	6.6%
PAT Margin	-2.2%	-0.9%	2.5%
ROE	-10.6%	-5.1%	12.6%
ROCE	-1.3%	1.9%	7.2%
Leverage Ratio (%)			
Total D/E	1.0	0.8	0.4
Turnover Ratios			
Asset Turnover (x)	1.97	2.17	2.53
Inventory Days	68.09	124.15	115.72
Receivable Days	9.53	16.14	13.09
Payable days	30.14	51.11	47.06

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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