

FSN e-Commerce Ventures Ltd. (Nykaa)

SSIS IPO GRADE 4.5/5 (Sound Fundamentals)
26th October, 2021

Rating Overview

Nykaa has a large market opportunity aggregating Rs. 10.6 trillion in the fast-growing beauty, personal care and fashion industry by 2025 in India. The Indian beauty and personal care market is estimated to grow to Rs. 2.0 trillion by 2025 from Rs. 1.1 trillion in 2020. The company provides an omni-channel shopping experience to its customers by providing both online and offline shopping channels. Online channels include mobile apps, websites, and mobile sites while offline channel consists of 80 physical stores spread across 40 cities in India.

The Indian fashion market is estimated to grow to Rs. 8.7 trillion by 2025 from Rs. 3.8 trillion in 2020. The growth is projected to be primarily driven by the market shift towards the organized sector, high growth of e-commerce due to increased internet penetration, growing wallet share for beauty, personal care and fashion products and increased spending leading to subsequent premiumization across categories. Further, compared to other mature e-commerce categories, beauty and personal care and fashion have lower online penetration.

Nykaa is well placed to benefit from growing industry trends given its resilient, capital-efficient business with a combination of strong growth and profitability. Its financial performance has been strong with revenue CAGR of 48.2% over FY19-21. Company's capital turnover ratio has improved from 3.1 times in FY19 to 4.2 times in FY21. Company has focused on capital efficiency and unit economics, while simultaneously building for scale and growth.

Going forward, Nykaa intends to continuously acquire new customers and increase its customer loyalty. It also plans to expand into lifestyle adjacencies and launch new channels. It also aims to explore expansion selectively and prudently into international markets. Given the positive industry prospects and Nykaa's strong foothold, we have a positive view on the company from the long term perspective.

The company operates in a highly competitive industry and failure to compete effectively could have a negative impact on the success of the business. Our overall rating of FSN e-Commerce Ventures is fundamentally sound given its market position, asset quality and product scalability. The ask price is fair and it's a great long term opportunity in the ecommerce sector.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Company Overview

FSN E-commerce Ventures Ltd. (FSNEV) popularly known as "Nykaa" is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. Since its incorporation in 2012, it has invested both capital and creative energy towards designing a differentiated journey of brand discovery for its consumers. FSNEV has a diverse portfolio of beauty, personal care and fashion products, including owned brand products manufactured by it. As a result, the company has been established not only as a lifestyle retail platform but also as a consumer brand. It offers consumers an Omnichannel experience with an endeavour to cater to the consumers' preferences and convenience.

FSNEV's lifestyle portfolio spans beauty, personal care and fashion products. It offers these business verticals: - Nykaa: Beauty and personal care, and - Nykaa Fashion: Apparel and accessories In addition to leveraging its strengths in comprehensive merchandising, brand relationships and delivery experience, the company focuses on educating consumers via digital content, digital communities and tech-product innovations, which is an integral component of its business model.

As of August 31, 2021, it offered approximately 3.1 million SKUs from 4,078 national and international brands to our consumers across business verticals. Compared to other mature e-commerce categories, beauty and personal care and fashion have lower online penetration. FSNEV's beauty and personal care offering is extensive with 256,149 SKUs from 2,644 brands primarily across make-up, skincare, haircare, bath and body, fragrance, grooming appliances, personal care, and health and wellness categories as of August 31, 2021.

The company manufactures owned brand beauty and personal care products through third-party manufacturers contracted by it. FSNEV has entered into manufacturing agreements with several manufacturers in India, for the manufacture of such products which are sold under its owned brands such as "Nykaa Cosmetics", "Nykaa Naturals" and "Kay Beauty". The company's owned brands are available on its online and offline channels, as well as for certain brands at third party retailers.

As of August 31, 2021, Nykaa Fashion housed 1,434 brands and 2.8 million SKUs with fashion products across four consumer divisions: women, men, kids and home. Within these consumer divisions, it merchandises across several categories including western wear, Indian wear, lingerie, footwear, bags, jewellery, accessories, athleisure, home décor, bath, bed and kitchen in order to cater to the diverse consumers' journeys across the platform. It offers a mix of brands across established national brands, international brands, luxury brands, and emerging labels and designers.

Fundamental Overview

2 On the financial performance front, for the last three fiscals, on a consolidated basis, FSNEV has posted revenue/ net profit (Loss) of Rs. 1116.38 cr. / Rs. - (24.54) cr. (FY19), Rs. 1777.85 cr. / Rs. - (16.34) cr. (FY20) and Rs. 2452.64 cr. / Rs. 61.95 cr. (FY21). For the first three months ended on June 30, 2021, of FY22 it has earned a net profit of Rs. 3.52 cr. on a revenue of Rs. 821.71 cr.

For the last three fiscals, on a consolidated basis, FSNEV has posted an average EPS of Rs. 0.44 and an average RoNW of 2.82%. The issue is priced at a P/BV of 72.72 based on its NAV of Rs. 15.47 as of June 30, 2021, and at a P/BV of 40.04 based on its post-issue NAV of Rs. 28.10 per share (based on the upper cap of the price band).

If we annualize FY22 earnings and attribute it on fully diluted post issue equity, then the asking price is at a P/E of around 377.51 making it an exorbitantly priced offer.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Millions)			
	30-Jun-21	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	16,314.82	13,019.90	11,244.82	7,756.57
Total Revenue	8,217.14	24,526.37	17,778.50	11,163.82
Profit After Tax	35.22	619.45	(163.40)	(245.39)

Issue Details

To meet its requirements of funds for investment in subsidiaries (Rs. 42.00 cr.), capital expenditure (Rs. 42.00 cr.), repayment/prepayment of certain borrowings (Rs. 156.00 cr.), brand visibility and awareness (Rs. 234.00 cr.) and general corporate purpose, FSNEV is coming out with a maiden IPO for fresh equity issue worth Rs. 630.00 cr. (approx. 5600000 shares) and an offer for sale of 41972660 equity share of Re. 1 each to garner Rs. 5351.92 cr. based on its upper price band. The company has fixed a price band of Rs. 1085 to Rs. 1125 per share and the minimum application is to be made for 12 shares and in multiples thereon, thereafter. The issue opens for subscription on October 28, 2021, and will close on November 01, 2021. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 10.06% of the post issue paid-up capital of the company.

FSNEV has reserved 250000 equity shares for its eligible employees and from the residual portion, it has allocated 75% for QIBs, 15% for HNI and 10% for the Retail category of investors. The company is offering a discount of Rs. 100 per share to eligible employees.

Joint Book Running Lead Managers (BRLMs) to this offer are Kotak Mahindra Capital Co. Ltd., Morgan Stanley India Co. Pvt. Ltd., BofA Securities India Ltd., Citigroup Global Markets India Pvt. Ltd., ICICI Securities Ltd. and JM Financial Ltd. Link Intime India Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, FSNEV raised further equity in the price range of Rs. 9.74 to Rs. 605.96 between February 2020 and September 2021 (based on the face value of Re. 1 per share). It has also issued bonus shares in the ratio of 2 for 1 in July 2021. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. NA, Rs. 6.31, Rs. 7.32, Rs. 8.30, Rs. 9.86, Rs. 10.95, Rs. 11.93, Rs. 15.39, Rs. 21.67, Rs. 29.70, Rs. 33.56, Rs. 56.54, Rs. 76.65 and Rs. 117.67 per share.

Post issue, FSNEV's current paid-up equity capital of Rs.46.73 cr. will stand enhanced to Rs. 47.29 cr. post this IPO. Based on the upper price band, the company is looking for a market cap of Rs. 53204.01 cr. Thus these valuations are also stretched to a large extent.

Application Dates	Oct 28, 2021 – Nov 1, 2021
Issue Type	Book Built Issue IPO
Face Value	₹1 per equity share
IPO Price	₹1085 to ₹1125 per equity share
Market Lot	12 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹1 (Up to ₹5,351.92 Cr)

Issue Timeline

Basis of Allotment Date	Nov 8, 2021
Initiation of Refunds	Nov 9, 2021
Credit of Shares to Demat Account	Nov 9, 2021
IPO Listing Date	Nov 10, 2021

Investment Strategy

Well, this IPO created hype ever since it filed its DRHP and was eagerly awaited. Post Zomato episode, this IPO too created a fancy among primary market investors. However, based on its financial parameters, the issue is fairly priced and hence risk seekers/cash surplus investors may consider investment for a long term reward. Others may play it for listing gains.