



FSN E-Commerce Ventures Limited

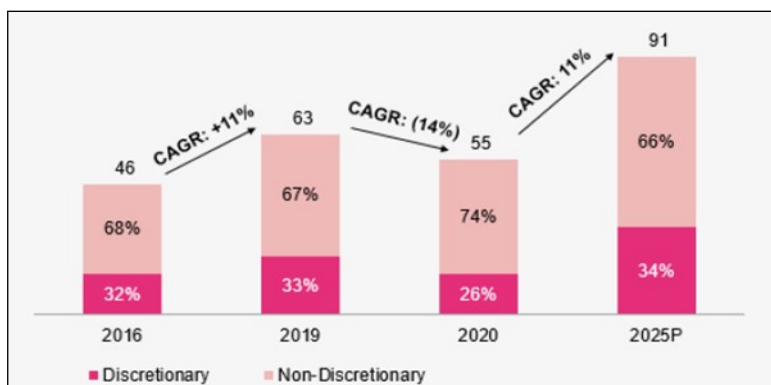
Issue Opens	Thursday, Oct 28, 2021
Issue Closes	Monday, Nov 01, 2021
Price Band (in Rs)	1085 - 1125
Bid Lot	12 shares and multiples thereafter

Overview: Indian Retail Industry

Accounting for 51% of the Private Final Consumption Expenditure, India's retail market was sized at Rs55trn in 2020, reflecting a CAGR of 5% over the last 4 years. This growth was enabled by the rising middle class, soaring income levels, increasing demand from Tier 3-4 cities and rural markets, rise in youth spending, improvement in infrastructure and the entry of new Indian and global brands across the product categories. India's retail sector was impacted by the first wave of Covid-19 in 2020, as both the supply and demand of most consumer goods were adversely affected. Even after the commencement of the lockdown re-opening phase, consumers were apprehensive about stepping out of their homes and going out for shopping. This led to a 14% decline in the retail market size in 2020. The impact of the second wave in 2021 is projected to be relatively limited, due to the localized nature of lockdowns and little disruption on the supply side. Hence, as the pandemic eases out, the retail market is expected to bounce back in the coming years to grow at a CAGR of 11% to reach approx. Rs91trn by 2025.

The Covid-19 waves have turned out as a boon for the internet economy in India. E-commerce penetration in India grew 1.6x from 3% in 2019 to 5% in 2020, with a large headroom ahead as indicated by the higher penetration in the developed markets (e-commerce penetration in the United States and China in 2020 was 12-17% and 25-30%, respectively). Fashion and BPC combined, accounted for 35% of the discretionary retail space in India in 2020.

Exhibit 01: Overall Retail Industry in India (Rs in trn)

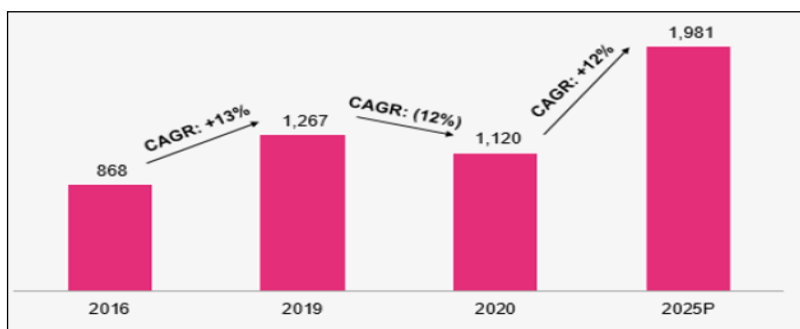


Source: Company RHP

India Beauty and Personal Care Market:

India is projected to become a Rs1,981bn beauty and personal care opportunity by 2025. The Beauty and Personal Care Market in India was sized at Rs1,267bn in 2019, growing at a CAGR of 13% in the last 3 years. Though the market fell down to Rs1,120bn 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 Rs1,981bn in 2025 implying a CAGR of 7.7% from the pre-Covid 19 market in 2019.

Exhibit 02: India Beauty and Personal Care Market Size and Growth (Rs in bn)



Source: Company RHP

SNAPSHOT		
Issue Opens	Thursday, Oct 28, 2021	
Issue Closes	Monday, Nov 01, 2021	
Price Band (Rs)	1085/1125	
Bid Lot	12 shares and multiples thereafter	
Face Value	Rs1	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	6,300
	OFS	47,219
	Total	53,519
*Implied Market Cap (Rs Mn)	532,040	
P/E (based on FY21 Earnings)*	858.89	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs1125

Issue Allocation	
Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
Total	100
Employee Reservation: 250,00 equity shares	

Object of the Offer
<ul style="list-style-type: none"> Investment in certain of the subsidiaries, namely, FSN Brands and / or Nykaa Fashion for funding the set-up of new retail stores Capital expenditure to be incurred by the company and investment in certain of their subsidiaries, viz; Nykaa E-Retail, Nykaa Fashion and FSN Brands for funding the set-up of new warehouses Repayment or prepayment of outstanding borrowings availed by the company and one of the Subsidiaries, namely, Nykaa E-Retail Expenditure to enhance the visibility and awareness of the brands General corporate purposes

Overview: Industry (contd.)

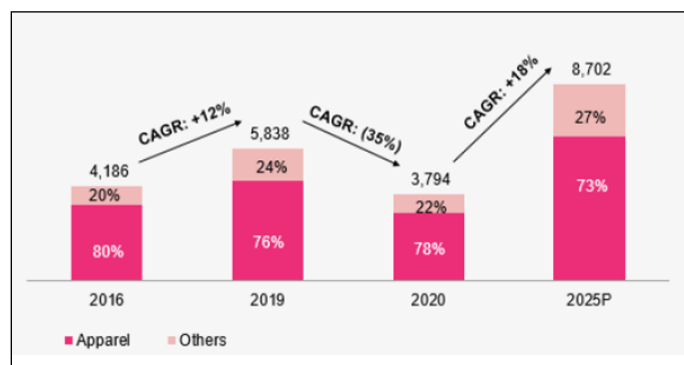
Similar to the overall retail space, India Beauty and Personal Care (BPC) is heavily dominated by the unorganized channel, which primarily includes local grocery shops and departmental stores. With Indian consumers becoming more evolved in their BPC shopping habits, share of unorganized BPC market had reduced to 72% in 2020 from 77% in 2016.

Major growth drivers of the BPC market in India are the following: (i) Growth in BPC spend by youth, (ii) Increasing BPC spend from non-metro cities, (iii) Rise in spend on specialized BPC categories, (iv) Emergence of a sizable prestige BPC segment, (v) Rise in popularity of online content-led discovery and (vi) Growth of men's segment.

India Fashion Market:

The size of Fashion Market in India was Rs4,186bn in 2016, constituting more than 9% of the retail market. Apparel accounted for ~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 Rs5,838bn 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 Rs8,702bn by 2025. Apparel are projected to continue driving ~73% of the market in 2025. The Fashion Market in India is currently dominated by the unorganized channel, majorly comprising of local apparel, footwear and accessories stores. Hence, the current market is underserved as most traditional retailers try to serve broad demographic and are slow in reacting to changing trends. The organized segment has grown at a much faster pace as its share jumped from 29% in 2016 to 37% in 2020.

Exhibit 03: India Fashion Market Size and Growth (Rs in bn)



Source: Company RHP

Major growth drivers of the Fashion Market in India are the following: (i) Growth in fashion spend by youth, (ii) Increasing spend on fashion from Tier 2+ cities, (iii) Rising influence of social media, (iv) Growth of men's and kids' segments, (v) Emergence of occasion-centric demand.

About the Company:

FSN E-Commerce Ventures Limited (Nykaa) is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers. Since their incorporation in 2012, they have invested both capital and creative energy towards designing a differentiated journey of brand discovery for their consumers. They have a diverse portfolio of beauty, personal care and fashion products, including their owned brand products manufactured by them. As a result, they have established themselves not only as a lifestyle retail platform, but also as a popular consumer brand. Nykaa offers consumers an Omni-channel experience with an endeavour to cater to the consumers' preferences and convenience:

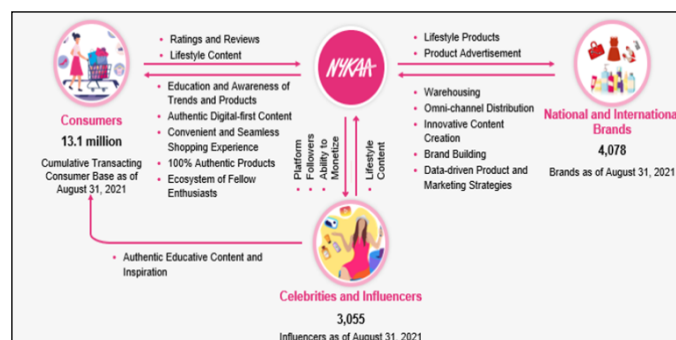
⇒ **Online:** Company's online channels include mobile applications, websites and mobile sites. As of August 31, 2021, they had cumulative downloads of 55.8 million across all their mobile applications and during the 5 months ended August 31, 2021, 88.2% of their online GMV came through their mobile applications. They have one of the highest shares of mobile application-led transactions, among the leading online retail platforms in India during FY21 and the 5 months ended August 31, 2021.

⇒ **Offline:** Their offline channel comprises of 80 physical stores across 40 cities in India over 3 different store formats as of August 31, 2021. Their physical stores offer a select offering of products as well as a seamless experience across the physical and digital worlds.

Their lifestyle portfolio spans across beauty, personal care and fashion products. Consumers have different journeys for different lifestyle needs, and this has led Nykaa to build business vertical-specific mobile applications, websites and physical stores. These independent channels allow them to tailor their content and curation optimally for the convenience of consumers and to cater to the different consumer journeys that exist in these business verticals: (i) Nykaa: Beauty and personal care and (ii) Nykaa Fashion: Apparel and accessories.

In addition to leveraging their strengths in comprehensive merchandising, brand relationships and delivery experience, they focus on inspiring and educating consumers via digital content, digital communities and tech-product innovations, which is an integral component of their business model. The 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, health and wellness categories as of August 31, 2021. As a result, company's brand has become synonymous with beauty products in India. Their portfolio includes domestic brands, international brands, luxury and prestige brands, premium brands, niche and cult brands. The breadth of their portfolio, coupled with their understanding of the needs and preferences of the consumers, enables them to personalize their selection even as they cater to a more diverse base.

Exhibit 04: Nykaa Lifestyle Platform



Source: Company RHP

About the Company (contd.):

Introduced in 2012, the Nykaa mobile application and website grew rapidly over the years to attain a significant market share of online beauty and personal care market in 2021. They are the largest specialty beauty and personal care platform in India in terms of value of products sold in the FY21. The company manufactures owned brand beauty and personal care products through third party manufacturers contracted by them. They have entered into manufacturing agreements with several manufacturers in India, for the manufacture of such products which are sold under their owned brands such as **Nykaa Cosmetics**, **Nykaa Naturals** and **Kay Beauty**. Their owned brands are available on their online and offline channels, as well as for certain brands at third party retailers.

For online-first brands, Nykaa provide them with the ability to rapidly scale by leveraging their online platform; for prestige brands, they help them grow through their Omni-channel distribution; and for traditional brands, they provide them with the ability to acquire Millennial and Generation Z consumers by leveraging the role as an influencer. As a result, several renowned international and domestic prestige brands have chosen them for their launches into the Indian market. Nykaa opened their first physical store in 2014, and has 80 physical stores across 40 cities as of August 31, 2021. Their physical stores currently exist in 3 formats, **Nykaa Luxe**, **Nykaa On Trend** and **Nykaa Kiosks** and are developed to cater to a specific consumer demographic and need of the local market. Nykaa manages their beauty and personal care business predominantly through an inventory led model. This approach ensures sourcing directly from brands or their authorized distributors in the country and allows them to guarantee authenticity of products sold to consumers. Nykaa launched the Nykaa Man mobile application and website, thereby customizing their model and experience for men, along with increasing education and awareness among men on the use of grooming and personal care products. In the FY21, 17.1 million orders were placed on their platform for beauty and personal care products with a total GMV of Rs3,380.41cr, a 35.3% increase over FY20. For the 3 months ended June 30, 2021, 5.9 million orders were placed on their platform for beauty and personal care products with a total GMV of Rs1,084.78cr, a 177.6% increase over the 3 months ended June 30, 2020.

Strengths:

- One of India's leading lifestyle focused consumer technology platform
- 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 proprietary technology stack
- Founder-led company supported by a professional Management team

Strategies:

- Continue to acquire new consumers and increase consumer loyalty
- Deepen and broaden the brand relationships
- Leveraging on art of retailing to expand into lifestyle adjacencies and launch new channels
- Further expand Omni-channel capabilities
- Invest in their owned brand portfolio
- Focused, selective international expansion as well as acquisitions and joint ventures in India

Financials:

On the financial performance front, the company has, on a consolidated basis, posted turnover of Rs11,114mn in FY19, Rs17,675mn in FY20 and Rs24,409mn in FY21. Revenues for 3 months ending June, 2021 came in at Rs8170mn, with an Ebitda margin of 3.3% and PAT of Rs35mn. Ebitda margin stood at 1.8%, 4.6%, and 6.6% for FY19, FY20 and FY21 respectively. Net profit/(loss) for FY19, FY20 and FY21 came in at Rs(245)mn, Rs(163)mn and Rs619mn respectively for the period. For the last three fiscals, on a consolidated basis, the company has posted an average EPS of Rs0.44 and an average RoNW of 2.82%. The company has not declared any dividend in the last three and quarter financial year until the filing of this offer documents. It will adopt a prudent dividend policy post listing based on its financial performance and future prospects.

Exhibit 05: Financial Snapshot

Parameters (Rs mn)	FY19	FY20	FY21	3M ending June, 2021
Sales	11,114	17,675	24,409	8,170
EBITDA	205	811	1,614	269
EBITDA Margin %	1.8	4.6	6.6	3.3
PAT	(245)	(163)	619	35
PAT Margin %	(2.2)	(0.9)	2.5	0.4
EPS	(0.6)	(0.4)	1.4	0.1
RoNW (%)	(10.6)	(5.2)	12.6	0.5

Source: Company RHP, Progressive Research

Risks and Concerns:

- 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
- 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 can 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 consumer
- 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 will not receive any proceeds from the OFS portion, and the selling shareholders shall be entitled to the offer proceeds to the extent of the equity shares offered by them in the OFS.

Outlook and Recommendations:

Nykaa is India's leading lifestyle-focused consumer technology platform with a capital-efficient business model. It enjoys a leadership position in the online BPC (beauty and personal care) market with a customer-centric approach. It is a preferred destination for luxury and prestige products in India for consumers and brands. It has a large opportunity in the BPC market that is poised to grow at 12% per annum by 2025 while the fashion market is expected to grow at 18% per annum by 2025. The rise of digital-only brands and the direct-to-customer online channel has introduced innovative and effective ways for brands to sell. Nykaa opened their first physical store in 2014, and has 80 physical stores across 40 cities as of August 31, 2021. It plans to expand into lifestyle adjacencies and launch new channels. It also aims to explore expansion selectively and prudently into international markets. There are no listed companies in India that engage in a business similar to that of the company. Accordingly, it has a unique business proposition amongst its customers and also has an aspirational brand image which augurs well for the company in the long term. There is an underlying risk for high valuations but can be considered for factors such as increasing PAT, positive cash flows, huge growth capabilities and confidence in the company's management. Nykaa is rightly placed to tap the high growth digital/online penetration in BPC/fashion market. At the upper end of the price band, the issue is valued at 21.81x EV/ Sales on FY21 financials. With unique business model and first-movers advantage, Nykaa is likely to get a healthy traction ahead.

One can Subscribe to the IPO from a long term perspective.

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