



St. Xavier's College (Autonomous), Kolkata  
XAVIER'S FINANCE COMMUNITY



# EQUITY REPORT

# NYKAA





# Company Overview

*Nykaa- FSN E-Commerce Ventures* is an e-commerce platform started by Falguni Nayar in 2012 which provides beauty, wellness, and fashion products through its online and offline portals. Besides this, it manufactures beauty products. Nykaa sells both domestically and globally produced goods. Nykaa Man, India's first multi-brand internet store for men's grooming, was launched in October 2020. Nykaa is slowly setting its foot in the fashion industry too by setting up Nykaa Apparels and Nykaa On Trend.

*NykaaPro* is a premium membership programme that grants customers exclusive access to professional beauty goods and offers through the Nykaa App.

Nykaa Fashion opened its first store in Delhi in December 2020, making the fashion business multichannel; it now has an offline presence through 76 brick-and-mortar stores around the country.



## NYKAA

Nykaa Founder, Falguni Nayar Becomes India's Wealthiest Self-made Billionaire





Nykaa operates with a two-pronged model with an inventory model, having warehouses in Mumbai, New Delhi, Pune, Haryana, Kolkata, and Bangalore; and as an online marketplace for fashion goods. In this way, the income is also segregated into two different heads, one which originates as sales revenue and the other as commission revenue. Nykaa Luxe, Nykaa On Trend, and Nykaa Beauty Kiosks are its three offline shop concepts. The Luxe format includes international premium beauty brands. Products in the Nykaa On Trend format are handpicked by category based on their popularity. In India, Nykaa is the only retailer that sells international brands like e.l.f, Charlotte Tilbury, Tonymoly, Becca, Sigma, Limecrime, Dermalogica, and Murad.

Nykaa Fashion bought the Indian fashion jewellery company Pipa Bella and the Indian skincare brand Dot & Key in 2021.



DOT & KEY  
SKINCARE



Nykaa's initial public offering (IPO) took place on October 28, 2021. The initial public offering (IPO) was oversubscribed 81.78 times, raising Rs 5,352 crore (US\$700 million) at a valuation of Rs 7.4 billion. The money raised from the IPO was used by the company to pay off some of its debt and expand its warehousing facility to more cities.

<b>Ticker</b>	<b>NYKAA</b>
Market Cap	₹ 68,876 Cr.
CMP	1424.10
Price Earning (P/E TTM)	1644.76
Promoters Holding	52.43%
FII Holding	5.98%
DII Holding	3.12%
Retail Holding	38.47%



# Corporate Governance

Promoters holding is decent at 52.32% and has not changed substantially since the company has issued its IPO. FIIs (Foreign Institutional Investors) have increased their holdings by 0.25% in the last quarter of FY 2021-22. There are no red flags in the given segment.

Nykaa's Board Of Directors is highly experienced, with a mix of both Independent and Non-Independent Directors. The board consists of 10 directors, five independent, three executive and two non-executive directors.

The company's Executive Chairperson, Mrs. Falguni Sanjay Nayar is highly experienced and is also the Chief Executive Officer and Managing Director of Nykaa. She had worked in the Kotak Mahindra Group for 20 years and was also the Managing Director of Kotak Investment Banking for almost four years.



<u>Name</u>	<u>Category</u>
Falguni Nayar	Executive Chairperson, Managing Director and Chief Executive Officer
Sanjay Nayar	Non-Executive Director
Anchit Nayar	Executive Director
Adwaita Nayar	Executive Director
Milan Khakhar	Non-Executive and Non- Independent Director
Milind Sarwate	Independent Director
Anita Ramachandran	Independent Director
Pradeep Parameswaran	Independent Director
Alpana Parida	Independent Director
Seshashayee Sridhara	Independent Director



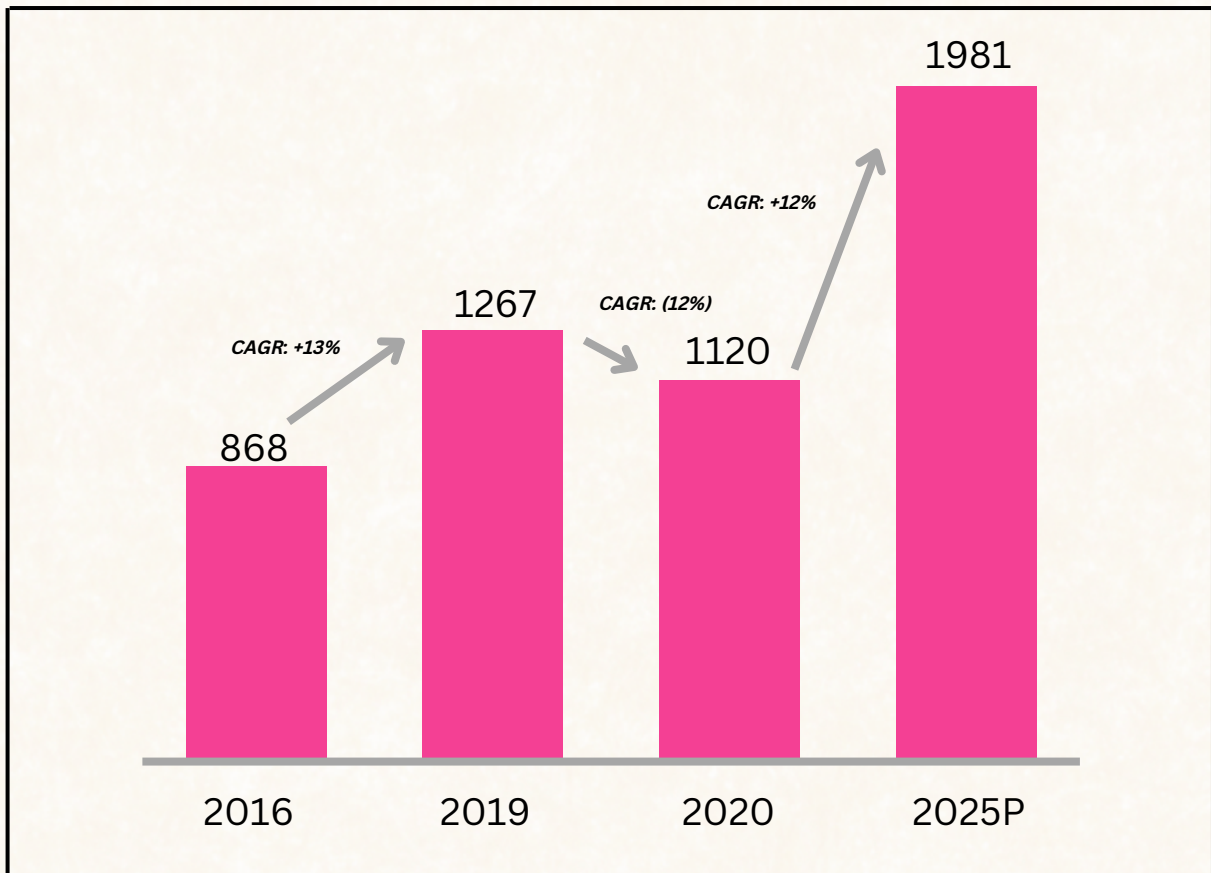
## Industry Overview

In 2022, the Beauty and Personal Care Market in India is estimated to be valued at \$24.53 billion, having grown at a CAGR of 13% from 2016-2019 and then has shown a growth of 12% annually. As per reports, the Beauty and Personal Care Market comprise 4% of the nation's GDP.

Despite falling to INR 1,120 billion in 2020 as a result of lower spending during the first COVID-19 wave, the market is expected to develop at a robust rate with increasing trends in digitization in India because of the affordability of the internet, increased adoption from Tier 2+ cities, the rising popularity of social media, competitively priced online offerings, and growing adoption of online payment platforms. The Beauty and Personal Care Industry is expected to grow at a CAGR of 12% for the upcoming 3 years.



**India Beauty & Personal Care  
Market Size and Growth (₹ billion) :**



Most Beauty and Personal Care companies in the country operate in physical stores and face the challenges of not being able to provide a large range of products through physical stores and there is always a fear of authenticity among the customers, which Nykaa solves using its warehousing model, where it authenticates all the products before sending to the customers and it is easier for them to source luxurious products from its suppliers giving a large choice to the customers.





Another problem is that most brands do not have the capability to reach pan-India and with the online business of Nykaa, it is easier for the company to reach Tier 2 and Tier 3 cities also.

The retail market in India is expected to reach \$2 trillion by 2032 and the e-commerce market will touch \$350 billion by 2030 growing at a CAGR of 23%. India is considered to be the 4th best place for retail in the world. This growth will be brought in by the large retail consumer base in India, increasing urbanisations, changing socio-economic demographics, rising income growth, etc. Not only this the number of online shoppers is expected to reach 500 million by 2030 is a huge rise from a meagre 150 million in 2020.

By combining online platforms with a physical retail presence, an omnichannel approach provides consumers with an extended buying trip and retail experience. Presence across online and physical channels broadens consumer acquisition channels and gives logistical flexibility, while also expanding delivery alternatives for customers.



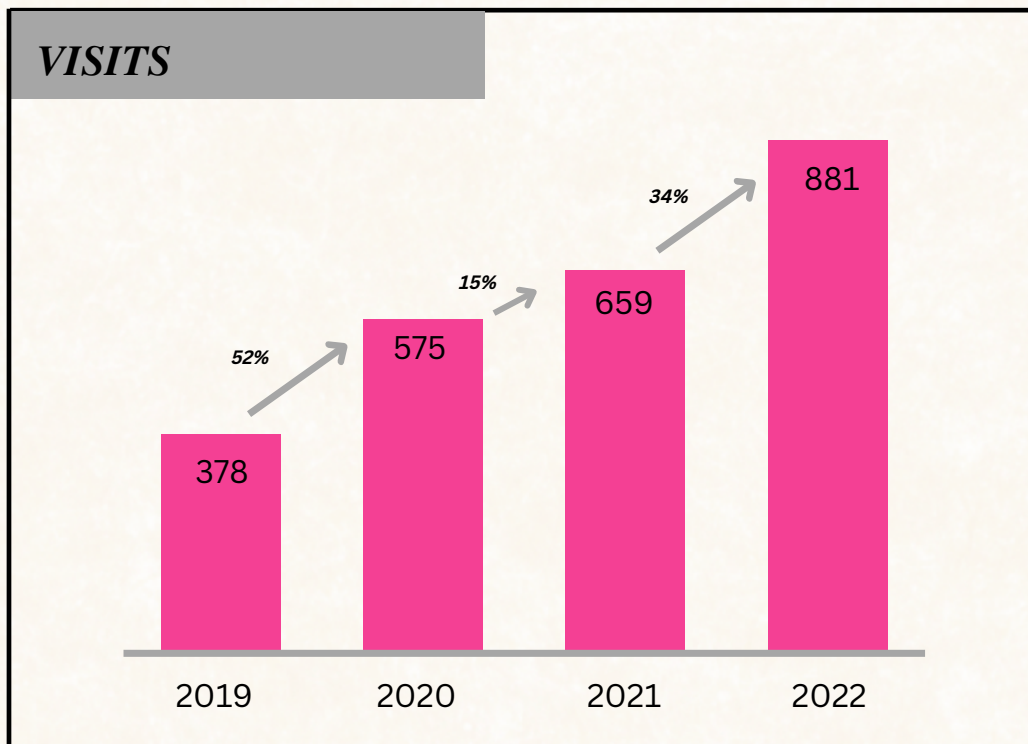
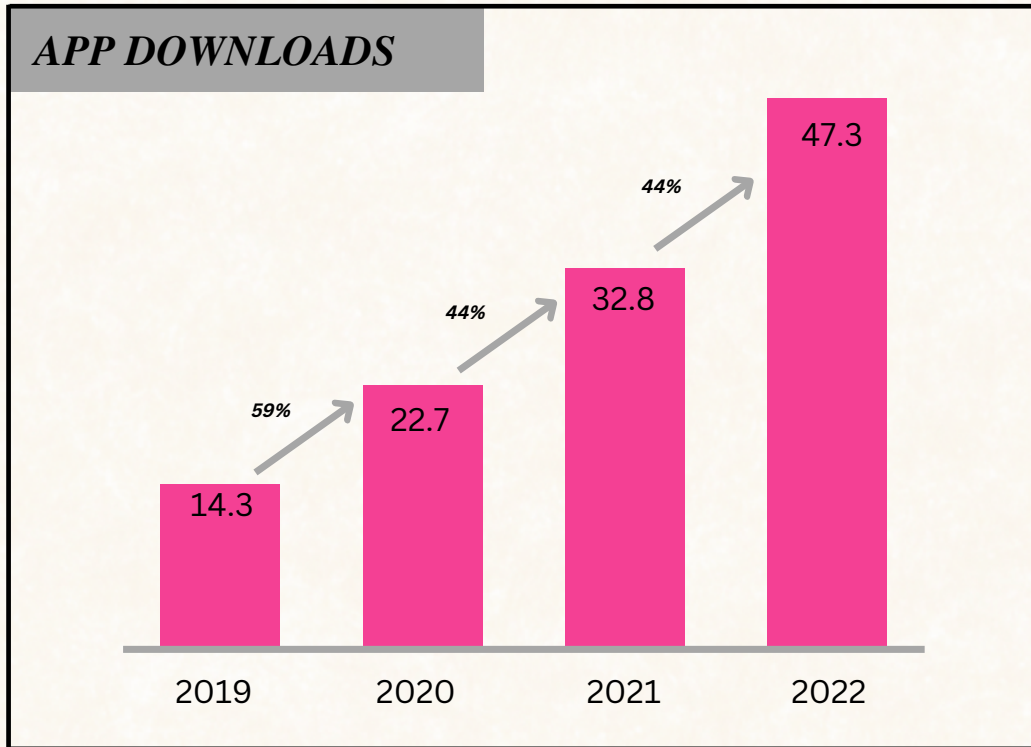
# Business Model

The company has a diverse portfolio of beauty, fashion and personal care products. This diverse portfolio includes products manufactured by Nykaa itself and also other famous brands; which are retailed through an omnichannel model adopted by Nykaa where it operates via online and offline storefronts. This omnichannel approach helps Nykaa directly reach out to consumers and build better relationships with them through the offline front; and provides easy, time-efficient and cheaper service through the online front.

- **Online-** The online channel comprises the mobile application and the online website. The online store provides varied services like cosmetics, grooming for men, apparel and accessories in a single place, unlike the offline channel. Here, Nykaa has a unique warehouse system of operation where it stores all the products in warehouses maintained by Nykaa in select cities and currently Nykaa owns 23 warehouses in 11 cities, a 40% YoY growth.



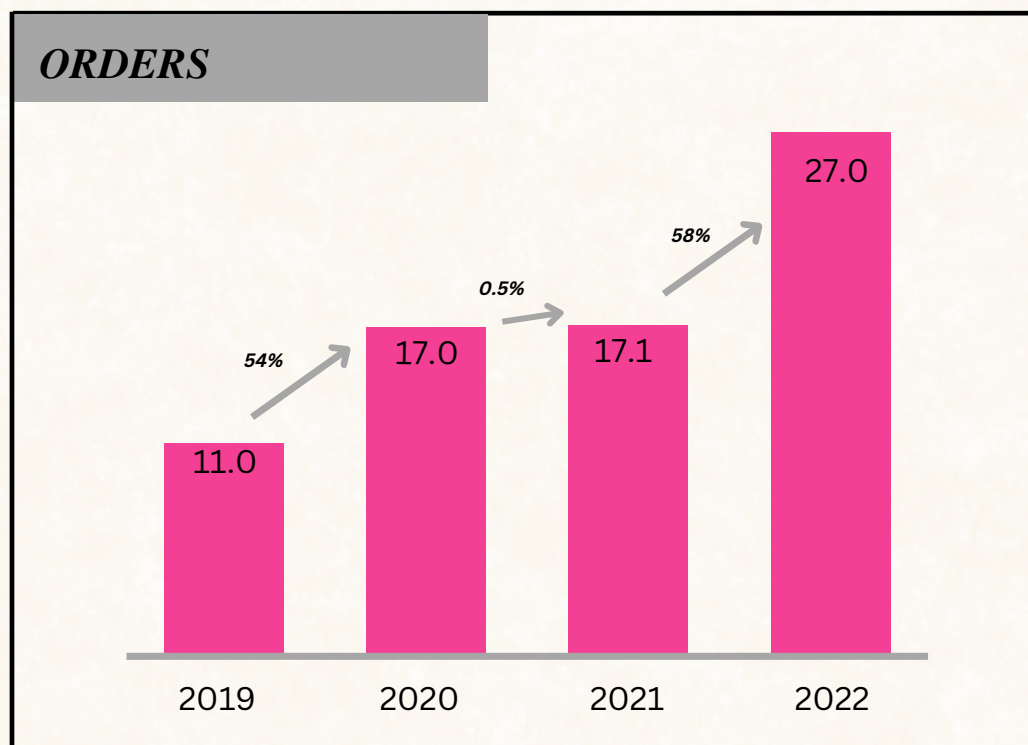
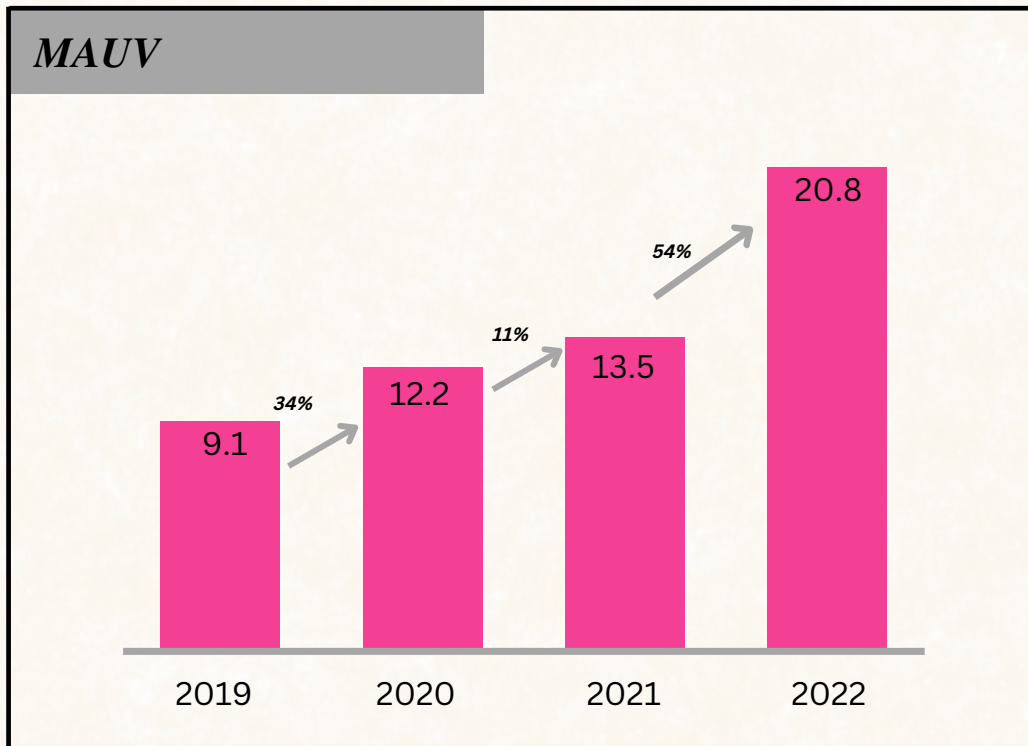
The product is directly picked up from the warehouse and delivered.



All values in million unless mentioned otherwise



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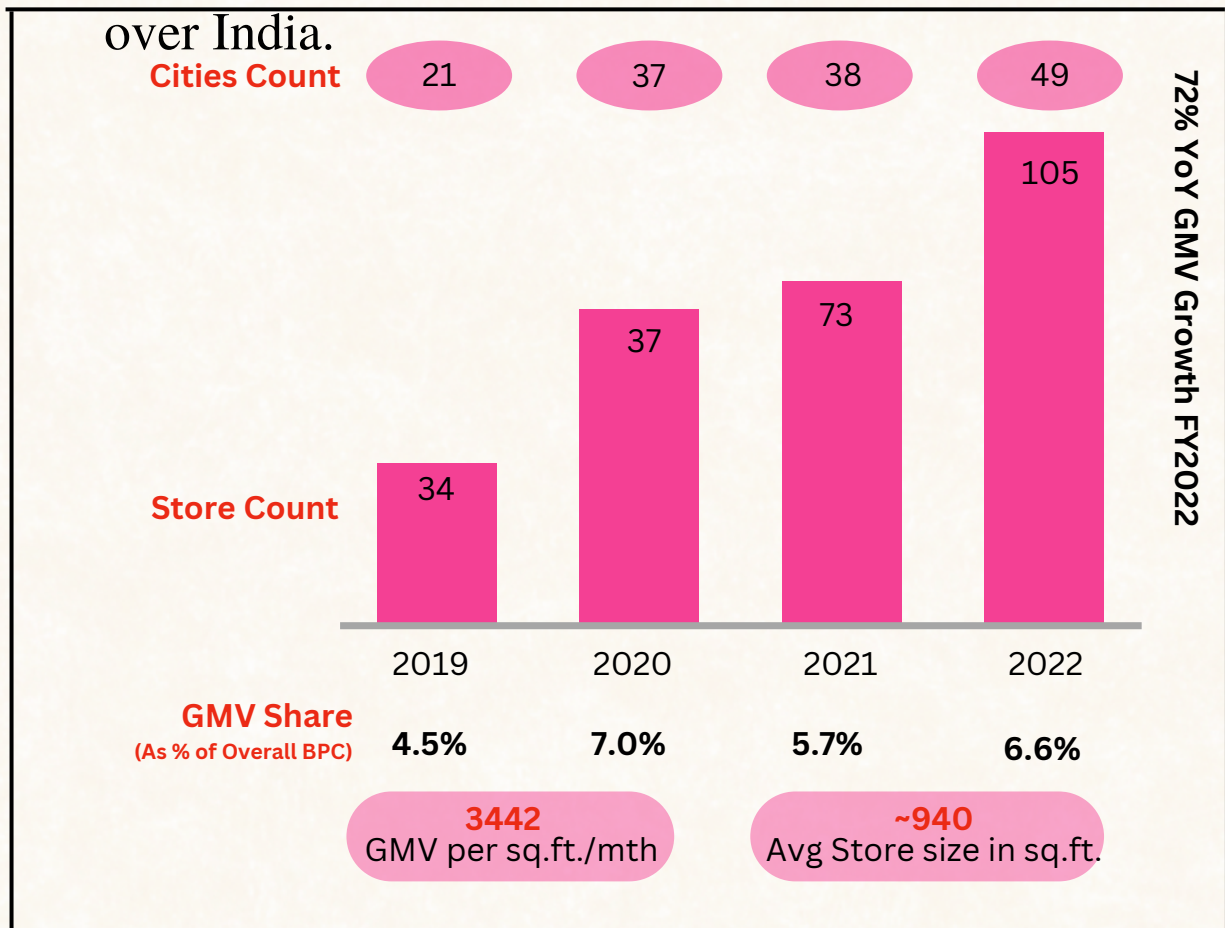


All values in million unless mentioned otherwise



- Offline-** In the offline channel, Nykaa operates three different types of stores where each deals with a certain type and quality of the product. Nykaa Kiosk deals with beauty and personal care products which also includes the in-house products manufactured by Nykaa. Nykaa Luxe deals with only high-end products across cosmetics, fragrance and skincare including Dior, Estee Lauder, Givenchy, etc. Nykaa On Trend deals with fashion products which includes apparels and accessories which are currently in trend. As of March 31, 2022 Nykaa has 105 physical stores across 49 cities all

over India.





# Porter's 5 Force Analysis

## *Power of Customers*

- Nykaa has a wide array of customers both nationally and internationally which lowers the bargaining power of customers and gives Nykaa an upper hand.
- Due to a number of competitors in the Beauty and Personal Care space, the consumers get a lot of other options and the switching cost becomes low making Nykaa a replaceable option.

## *Power of Suppliers*

- Nykaa has limited suppliers from local and international markets, which makes the switching costs high for the company.
- Nykaa's low supplier base is also a result of the strict quality checks and tedious contractual agreements they follow which gives power to the suppliers to hike the prices when they wish.

## *Industry Rivalry*

- There are various home-grown startups that are entering the beauty and personal care market and a number of international brands which offer similar products.
- Nykaa has implemented various strategies and modern brand management techniques like its omnichannel model of business to appeal to its customers. Nykaa's warehouse facility also gives them a competitive advantage over other players in the market but there is stiff competition in the BPC industry.



### *Potential of New Competition*

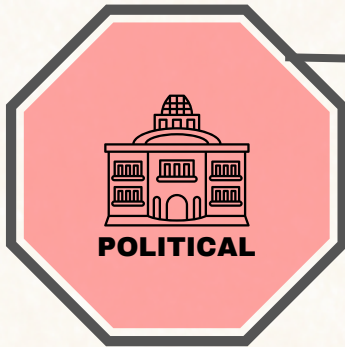
- Access to products, marketing tools and media is very easy in today's digital world which has breached the barrier to entry in the Beauty and Personal Care market but the barrier to scale still remains.
- Any new player entering into the market will require a huge capital to compete against existing companies and taking debts increases financial risks.
- Nykaa's main business revolves around online shopping which is highly dependent on a robust technological infrastructure and for any entrant updated technology is a must which will be hard to afford.
- Companies like Nykaa, Sugar Cosmetics, Lakme, Maybelline, Sephora, M.A.C, etc. have a huge loyal consumer base already which makes it tougher for a new entrant to break into the market.

### *Threat of New Substitutes*

- The threat of shifting to substitutes is low in the case of Nykaa as the Beauty and Personal Care products are sensitive to specific skin types so consumer loyalty is high and shifting to newer substitutes becomes tougher.
- Availability of substitutes is also a problem for the consumers as most of the Cosmetics and Personal Care products are manufactured outside India and are available at select retail stores only which makes it hard for the consumers to find and procure substitutes from the market.



# PESTLE Analysis



- The beauty and personal care industry is not an intensively regulated one but getting approvals from the specific authorities is very important and is a hassle for Nykaa as well

- Since Nykaa's business is spread across borders and it earns in foreign currency as well, any geopolitical issues between countries can affect the revenues of the company. The company is also exposed to foreign currency risks in foreign payables.
- With the post-pandemic boom in digitalisation, more people are accustomed to e-commerce, which is a positive point for Nykaa as it increases its customer base.

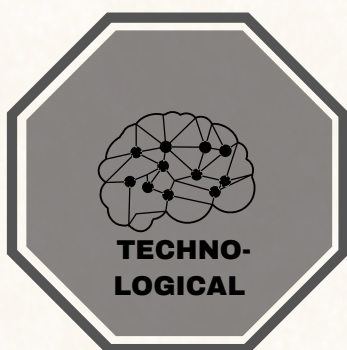


- Nykaa's brilliant marketing technique to tackle the ignorance of people in the beauty and personal care industry is helping the company build a loyal consumer base.
- Nykaa has a YouTube channel where it spreads information about various makeups and their effects on different skin types, Nykaa has collaborated with many fashion influencers to impart such knowledge too. With this more and more people get informed about the products and Nykaa directly





# PESTLE Analysis



- The pandemic has accelerated the technological awareness in the country and the change that would take decades took one year. This tech boom has given the e-commerce sector a push and Nykaa has benefitted from it.
- Nykaa should pay close attention to Research and Development. This will help them to better their technologies and shorten the product life cycle.

The company has a stringent Anti-discrimination and Employee Protection system in place with a proper redressal committee.



- Nykaa should promote eco-friendly products and implement green business practices like the delivery through electric vehicles to gain the trust of stakeholders.
- Nykaa should spend more towards reducing pollution as a part of its Corporate Social Responsibility to show the consumers that the brand cares for Nature.

# SWOT Analysis

**S**


## STRENGTHS

- Offers diverse products across both online and offline storefronts which retain the customers and does not let them leave due to lack of inventory.
- Nykaa has a strong social media presence through its YouTube marketing as well as its collaboration with influencers.
- Nykaa has a wide variety of product lines ranging from apparel to cosmetics, infant care and accessories.
- Nykaa has a large geographical presence due to its online storefront.

**W**


## WEAKNESSES

- Nykaa has been criticised a lot for its poor waste management system by Environmentalists.
- Nykaa does not invest much in Research and Development as compared to its competitors which negatively impacts the company.
- Delivery Charges are very high which pushes many potential customers away.

**O**


## OPPORTUNITIES

- Shifting trends from offline to online will benefit Nykaa a lot.
- The population of India is vast and can be catered to better. With the changing lifestyle of people, Nykaa will be a preferred marketplace for most customers.
- Integrating newer technology with the existing products can help the business grow leaps and bounds.

**T**


## THREATS

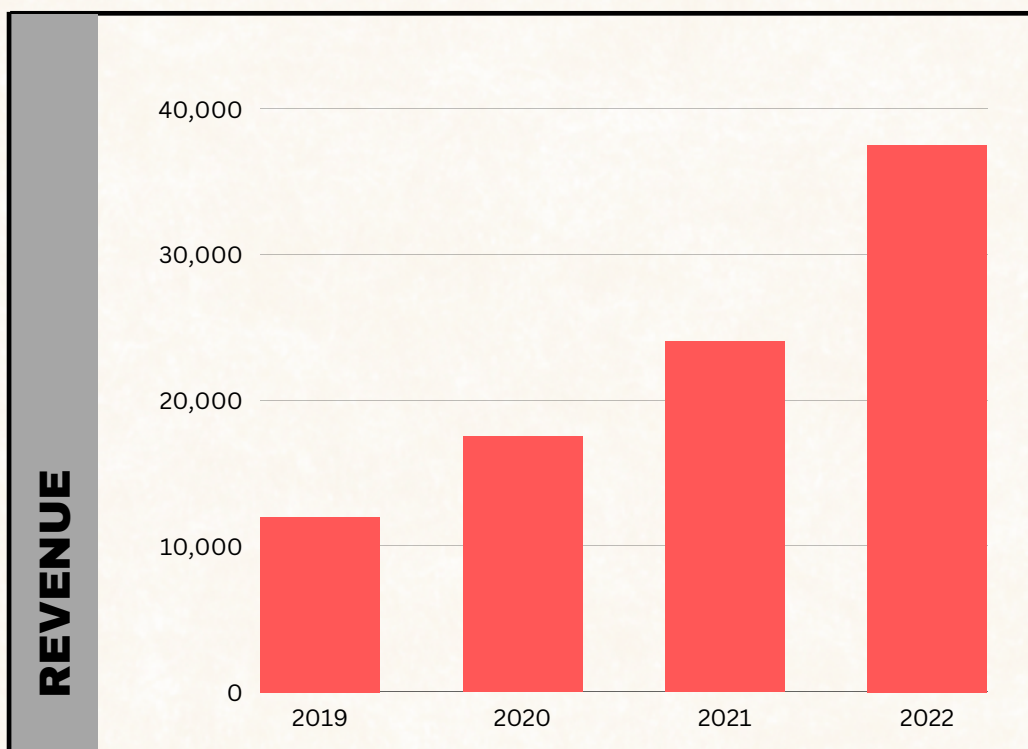
- Increase in the number of competitors in the market would be a huge threat for the company. The government's nationalised online marketplace ONDC would be a big threat to the whole e-commerce industry.
- After the pandemic, the spending habits and the purchasing power of the general public have decreased a lot which will hamper the business in future too.

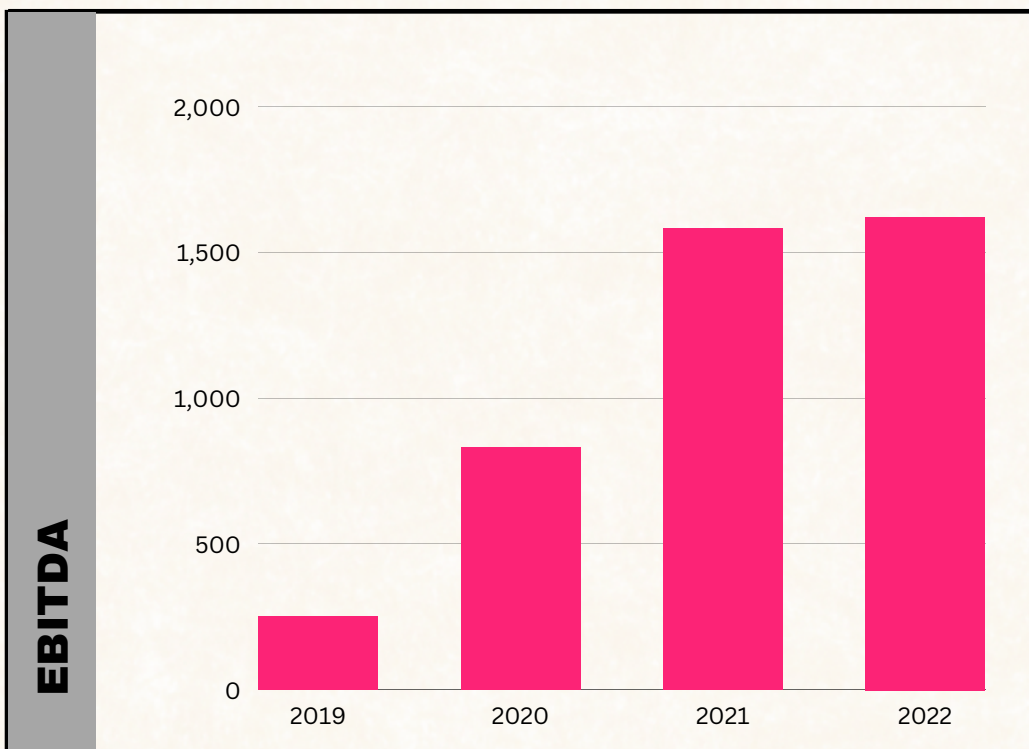
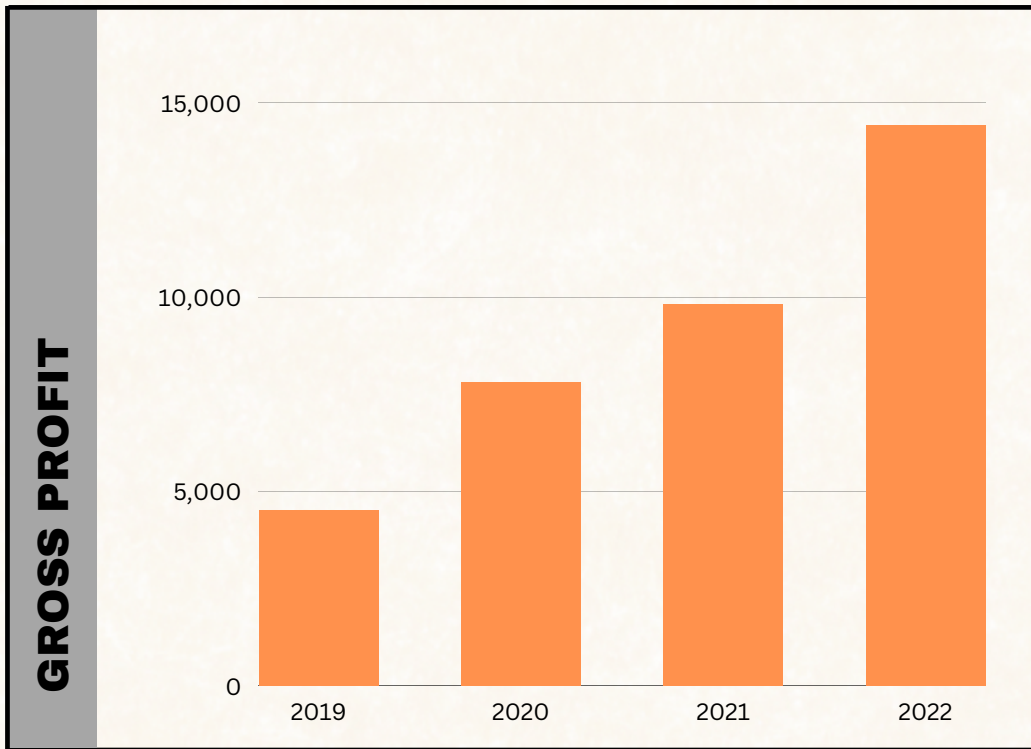


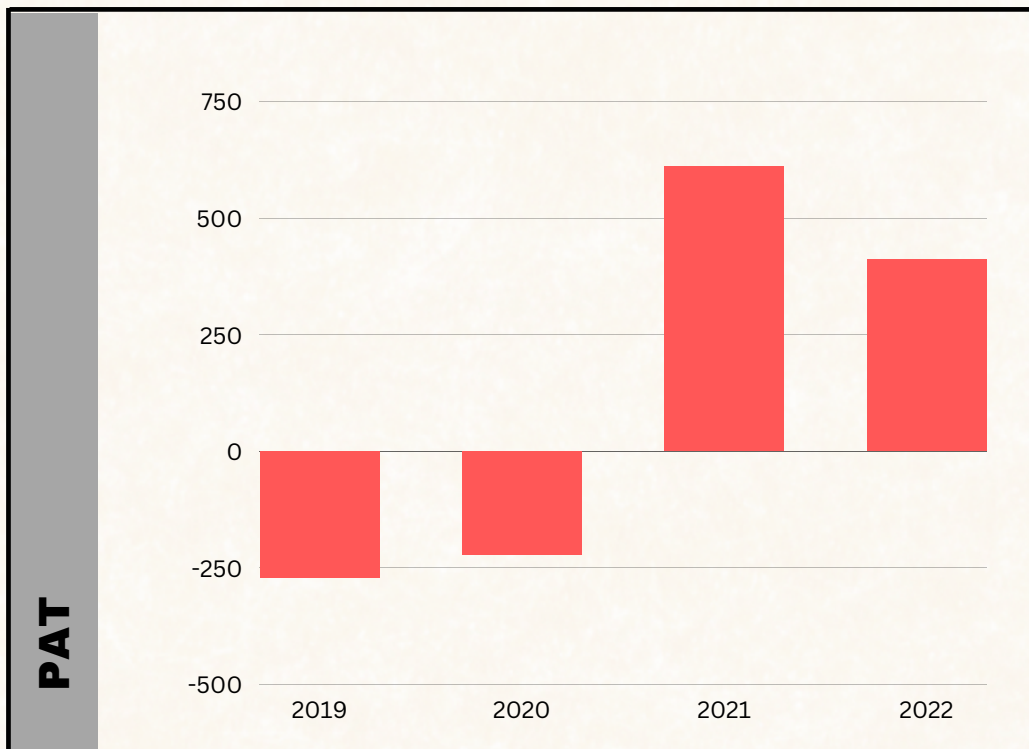
# Financial Analysis

## 1. Revenue Analysis

- The company is a new-age technology-driven startup and unlike other Indian startups, Nykaa is a profitable one. Nykaa's profits turned positive in FY20-21 after the pandemic hit the world and people were forced to use technology to grow.
- Nykaa has shown impressive growth in revenues over the past three years, where it grew at a Compounded Annual Growth Rate of 50% and the profits have shown a 54% CAGR over the past three years.







## 2. Cost Analysis

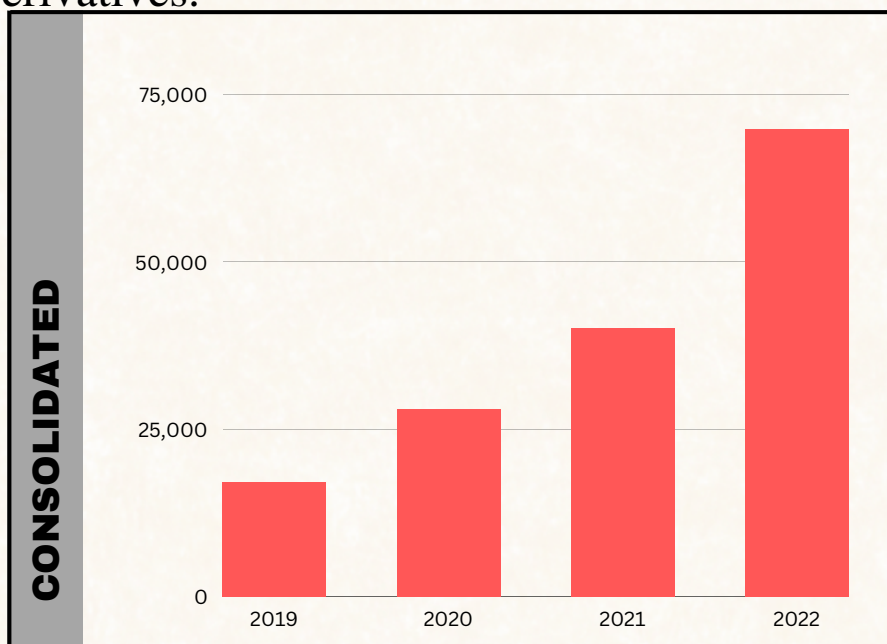
- The company's main expenditure goes in maintaining the inventory and keeping the stock up to date in the inventory. This inventory model helps the company deliver exemplary service to its customers with a very less return percentage.
- Nykaa also spends heavily on marketing knowing the need of the hour. Nykaa's marketing campaigns are one of the most important reasons for such a huge growth in the brand value and revenue growth.

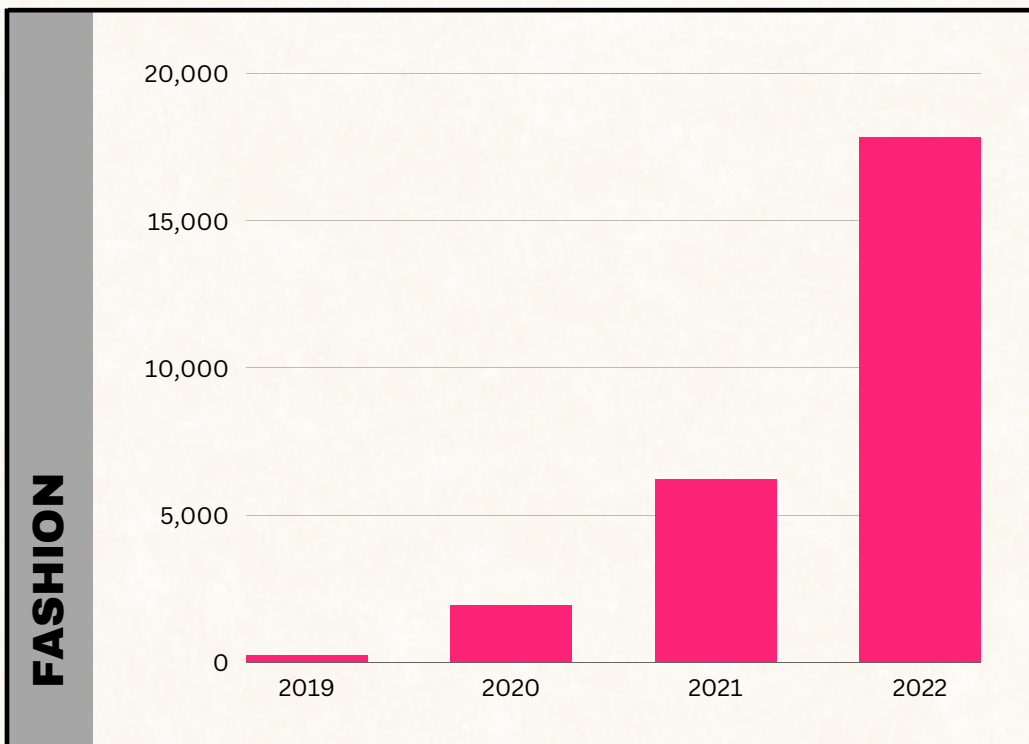
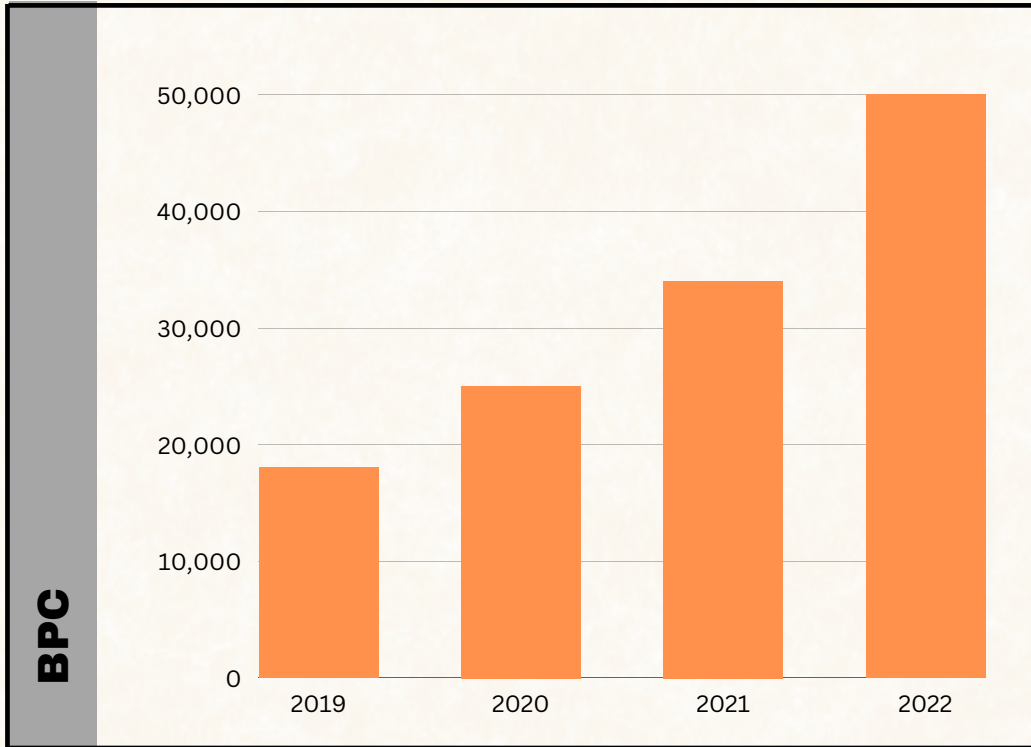


### 3. Risk Analysis

Nykaa has a Risk Management Committee which sets up certain parameters to hedge the risks and minimise the company's losses if they occur.

- **Market Risk-** Market Risk is the risk which can arise from change in values of products and interest rate changes which affects the behaviour of the market. Recently, as the RBI increased the interest rate by 40 basis points, the valuation of all companies have taken a hit.
- **Foreign Currency Risk-** Since Nykaa's business is spread across the borders, so the company also transacts in foreign currencies and with a change in the values of foreign currencies, the company is exposed to risk to a great extent. To tackle this the Risk Management Committee effectively hedges the risk using Currency Derivatives.







## 4. Peer to Peer Analysis

Sl.no	Ratios	Nykaa	Revlon	Estee Lauder	L'oreal	e.l.f Beauty
1	Current Ratio	2	1.25	1.75	0.73	2.97
2	Operating Margin	1.77%	7.56%	20.74 %	19.05 %	7.60%
3	Profit Margin	1.09%	-8.42%	8.53%	14.24 %	5.55%
4	Return on Asset (ttm)	2.12%	4.15%	11.38 %	8.87%	3.80%
5	Return on Equity (ttm)	4.5%	N/A	53.5%	17.5%	7.48%
6	Total Debt/Equity (mrq)	44.04	N/A	110.52	26.7	37.45
7	Price/Sales (ttm)	18.37	0.06	4.92	5.33	3.65
8	Price/Book (mrq)	51.76	N/A	14.13	6.99	4.47
9	PE Ratio (TTM)	1600.1 7	N/A	26.93	38.44	69.10
10	Market Cap	660.23 4B	335.40 8M	88.068 B	169.25 B	1.481B
11	EPS (TTM)	0.87	-3.29	9.15	8.21	0.41





Nykaa has a good *current ratio of 2* which is the highest compared to its peers. L'oreal's current ratio indicates current liabilities are more than the current assets.

Nykaa has the *lowest operating profit margin* of 1.77% while its peers Estee and L'oreal have very high margins of 20.7% and 19.05% respectively. Nykaa also has the *lowest Net profit margin* of 1.09%. *Profitability* is a serious concern for Nykaa and it is way behind its peers.

*Return on assets* and *Return on equity* ratio of Nykaa is also not attractive compared to its peers. Estee Lauder has the highest among all.

All the companies above have a very *high debt-to-equity ratio* with Estee Lauder having the highest

Nykaa also has the *highest price-to-sales* and *price-to-book ratio* which does not indicate valuation comfort.

Estee Lauder has the highest EPS whereas ELF beauty has the lowest

The *PE ratio* of Nykaa is abnormally high (1600) whereas Estee Lauder has the lowest PE (26).



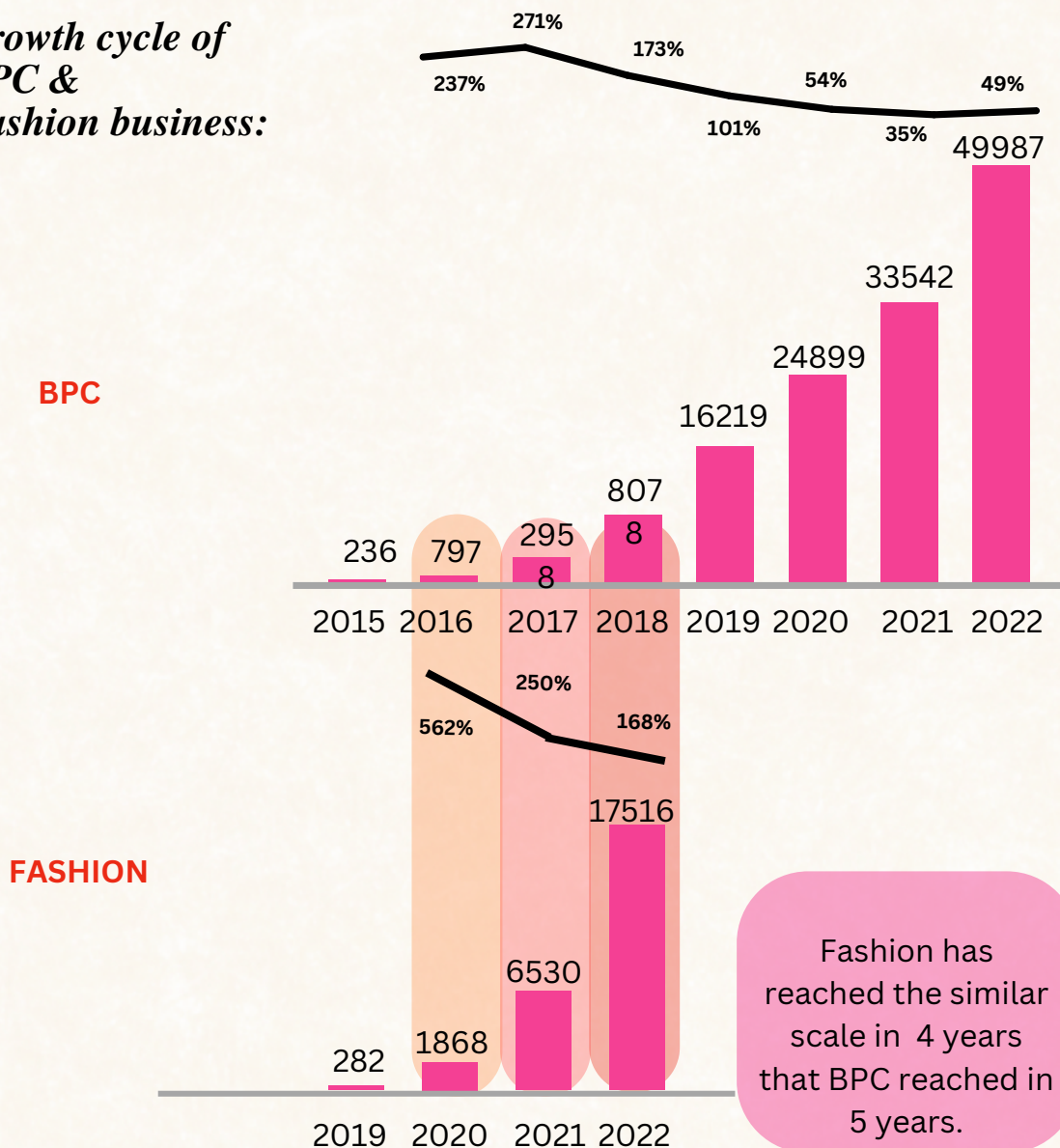
# Recent Developments & Future Outlook

- Nykaa holds a commanding position in the online beauty sector, and its positive EBITDA periphery is an important differentiator. Product differentiation, discovery & authenticity drive high reprises and the content ecosystem is engaging
- Nykaa is going to be aggressive in (brand) accessions (use stock as a currency), and further strengthen its position (with brands) by expanding in the B2B space (as distributor). Likewise, Nykaa is anticipated to be a big beneficiary of D2C dislocation in the BPC business where several lower brands will fight for space on specialty platforms.
- Nykaa has acquired fleck & Key in Oct' 21, which is a D2C brand dealing skincare products like serums, face masks, colours and cleansers. In the fashion order, Nykaa acquired 20 Dresses in Mar '19 and Pipa Bella in Mar' 21.
- On a conservative base, we can anticipate 25% CAGR order growth for Nykaa BPC over FY22- 26E, which will be led by new client additions. Order frequency is anticipated to see a gradual growth as client forces develop. AOV should remain stable in the medium term due to indirect dilution from n



- Nykaa should profit from the adding order frequency and handbasket values and is anticipated to remain in a hyperactive- growth phase in the medium- term as the online BPC and fashion penetration ramps up Nykaa which has a strong presence in the BPC order as well as a growing presence in the fashion order in which BPC request is estimated at US\$ 18bn in 2019 and is anticipated to grow at 8% CAGR to reach Us\$ 28bn in 2025.

**Growth cycle of BPC & Fashion business:**



— YoY Growth %

All values in Rs. million unless mentioned otherwise



- The concern hanging Nykaa's path to profitability until FY21 was led by its BPC business, now unit economics in the fashion business will also be important going forward.
- Nykaa Fashion does have good AOV's but parameters are similar as client accession cost, fulfilment costs, product returns, rates charged to merchandisers etc. will play an important part as the company intends to grow aggressively which formerly has strong players like Myntra, AJIO among others.
- Nykaa has taken great enterprise including Nykaa television, a YouTube channel with >1.2 MN subscribers and Nykaa Network, a peer- to- peer social community. In 2020, it also launched Explore, an in- app content, where consumers can watch content and shop for the products showcased in real time.
- Nykaa has launched "Superstore by Nykaa" in the alternate quarter of the fiscal year 2022. "Superstore by Nykaa " is a one stop B2B platform focussed on beauty and personal care offering 100% authentic products across top brands. Nykaa also launched a new fashion brand "Gajra Gang " in the alternate quarter of 2022.

- They also collaborated with L'Oréal to introduce Modi Face technology which allows them to give a rich, immersive buying experience to their guests. With the new AI- powered virtual pass- on option, guests on Nykaa can now confidently make a choice from the wide range of options- wherever they are, whenever they want.
- The recent market turmoil in tech stocks has also engulfed Nykaa with concerns arising over future growth and profitability. While the company is likely to face newer challenges to tackle and opportunities to explore in a post-COVID world, data trends and Nykaa's strategic choices provide us the confidence to believe that the company is positioned perfectly to sustain its profitable growth trajectory.





## Analyst's View

We maintain a Neutral standpoint for Nykaa. The company enjoys a good market share and brand recognition along with exponential growth opportunities. However, the valuation at the moment might be a matter of concern for investors. The company currently trades at a TTM P/E of 1600, which is higher as compared to the Industry Peers. We believe that the industry is unfolding gradually with new evolving opportunities. Thus, a wise decision would be to wait and watch how the company performs in the upcoming quarters. The company is expected to perform well as it focuses on the Beauty and the Personal Care segment which is rapidly growing in India. Yet again, we need to keep a close watch, if Nykaa is able to tackle the competition without taking a considerable hit on its Profit Margins and is able to come back to sane valuations. The performance in upcoming quarters will reflect, if the high valuation is justified or not.

## References

1. [Nykaa Annual Report 2020-21](#)
2. [Nykaa Earnings Call Q4 FY 21-22](#)
3. [Statista.com](#)
4. [Business Standard](#)