



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



EQUITY RESEARCH REPORT

mamaearth[®]
goodness inside

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Company Overview

MamaEarth was founded in September 2016 by Ghazal Alagh and Varun Alagh to make skincare routines a little chic but utmost care. The company has its headquarters in Gurugram, India. Mamaearth is distinguished in the cosmetics industry of India as an online platform that offers natural and toxin free skincare products. Mamaearth has over 250+ employees. Mamaearth mainly deals with baby-care products including toys, apparels, accessories, pregnancy care products, skin and hair care products. The target audience of Mamaearth is the mother's and their babies. Mamaearth products are sold through its own website and other e-commerce websites like Flipkart, Amazon and via offline stores. Interestingly, Mamaearth earns 80% of its revenue from skin and hair care products whereas only 20% of the brand revenue comes from baby products.

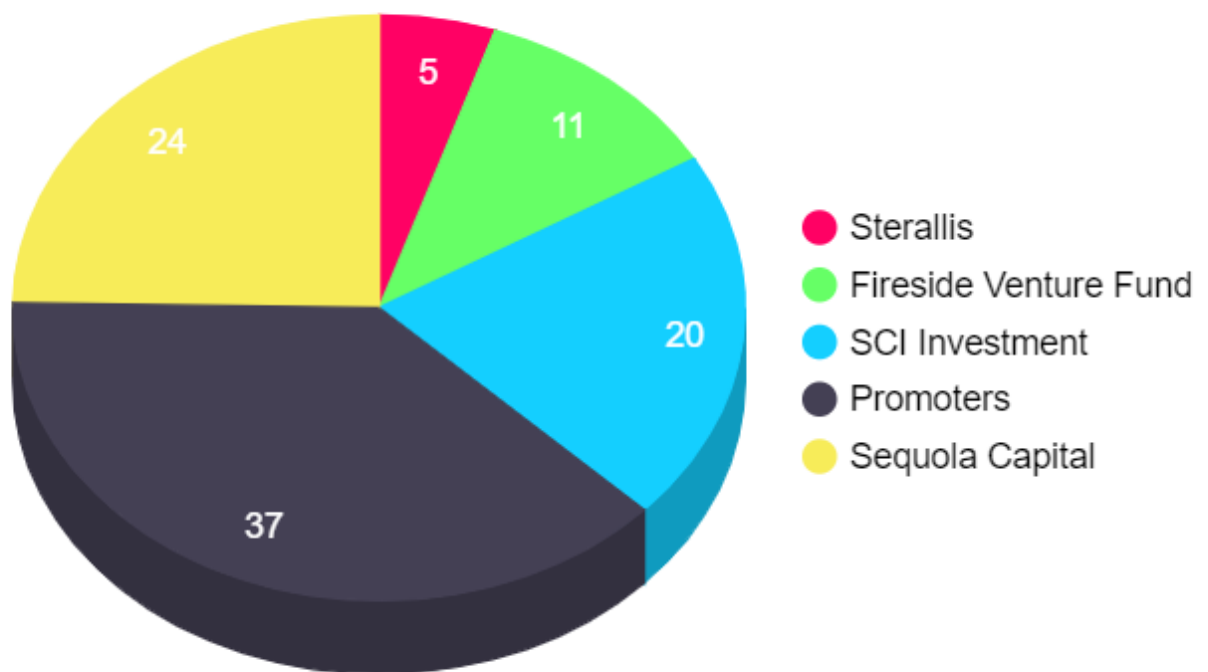


Company Highlights

STARTUP NAME	mamaearth™
FOUNDERS	GHAZAL ALAGH AND VARUN ALAGH
PARENT ORGANIZATION	HONASA CONSUMER PVT. LTD.
HEAD QUARTERS	GURUGRAM,INDIA
SECTOR	BEAUTY & PERSONAL CARE
VALUATION	\$2 BILLION (DECEMBER 2022)
TOTAL FUNDING	\$126 MILLION (TILL JANUARY 2023)
REVENUE	\$117.8 MILLION (Rs 943 CRORES IN FY22)

Corporate Governance

Hosana Consumer Pvt Ltd is the parent company of Mamaearth. The board of Honasa Consumer Limited comprises Ghazal Alagh, Varun Alagh, Ishaan Mittal, Vivek Gambhir, Namita Gupta and Subramaniam Somasundaram.



Recently, Hosana Consumer strengthened its corporate governance with 50% independent board members. To make sure that the board prioritises the interests of shareholders, independent directors must be appointed to the board. The corporation stated in a news release that it is likely to encourage autonomous decision-making and to balance divergent viewpoints and ideas among board members in the interest of the shareholders.

Business Model

'Green products' are the future of the cosmetics industry. Consumers nowadays are highly aware and conscious. They give a lot of importance to the production process followed when creating the product, preferring organic and natural beauty products with minimal or zero side effects on the skin. Mamaearth took on this opportunity. Leveraging on this demand for organic products, Mamaearth ensured that all its products are natural and free from harmful chemicals. It catapulted itself into the first Indian startup in the beauty industry whose products have the American Made Safe Certification.

The business model of Mamaearth is straightforward and the company formulates products that are later produced by contract manufacturers under the permit of the Mamaearth brand. Mamaearth has an omnichannel presence. It mainly sells its products online through D2C Channels like Amazon, Flipkart, etc., and other offline stores. Almost 90% of the sale of its products comes from online platforms. The brand today is subscribed to by some seven million customers and its D2C platforms serve more than 3,000 Indian towns and cities.

The business model of this company is unique because:

- It's Ability to connect with the target audience
- Superior high-quality products
- Lean innovation cycle



Target Audience

Mamaearth initially targeted mothers and babies by selling pregnancy, baby care, skin and hair care products. Mamaearth is the only company in India that is 'made safe' certified. Mamaearth products are free from harmful chemicals which are banned worldwide. Mamaearth carved a niche for themselves in this segment . When the company started to expand, it targeted the youth by selling chemical-free cosmetic and skin care products like creams and serums, face wash, hair oils, and lotion. The company did not restrict themselves to female customers but also targeted the male customers by offering products like lotions, aftershave, and hair oils.



POSITIONING OF THE COMPANY

Mamaearth as a personal care brand is extremely well-positioned in the market. They're in direct play with Johnson & Johnson (80% market and mainly in hair and skin care), Kimberly Clark (huggies), Procter & Gamble (pampers) and Unilever. Mamaearth directly competes with major players like these and has disrupted the Beauty and Personal Care market in a very short span of time. Here's how the company is holding its place in the market:

1. SEM and SEO-optimised- Nowadays, the majority of companies with websites make sure that the website is SEO-friendly. Additionally, Mamaearth has taken their SEO strategy very seriously. Mamaearth's on-page and off-page methods:

- The website of Mama Earth receives 2 million hits from organic search and 219.2K visitors from paid search, giving it an authority score of 51.
- The website's content is well-optimised for search engines and contains a lot of keywords.
- Backlinks to Mama Earth have increased since September 2021, and this pattern has continued.

2. Becoming a category champion: They have over 200 young moms on board who help in conceptualizing, trying, testing, and formulating the products. Only once the products are fully approved, do they go into manufacturing. They are the first company in Asia to have been certified by Made-Safe – a US-based non-profit organisation that provides a comprehensive human health-focused certification for making non-toxic products.

POSITIONING OF THE COMPANY

3. Thriving in an innovative market: The personal care and cosmetic industry is forecasted to grow multiple folds with diverse consumer preferences. In such a market, inventory in terms of perishability is a major concern for personal care brands, Mamaearth is solving this problem with AI-driven e-commerce forecasting, something that isn't prevalent in the beauty and personal care industry.

4. Addressing ageless beauty: The market is dominated by consumers who want to delay the process of aging. Mamaearth being a brand that originated with mothercare is integrating natural elements with other chemicals. This is a strong forte that Mamaearth holds over the other brands in the market.

5. Affiliate Marketing via influencers: The corporation hired Shilpa Shetty, an actress whose character places a strong focus on fitness and health. But in 2021 Sara Ali Khan was chosen to be the brand ambassador, giving it a more contemporary vibe.

Additionally, collaborations with mom bloggers and influencers contributed to the brand's perception as a sought-after one. Influencer marketing has increased the brand's overall worth.

SWOT Analysis

Strengths

- Strong Captured Marketing & Promotional Advertisement: Distributions in every corner of the world to keep its prospective market worldwide.
- Pricing Range: All of Mamaearth products are offered to customers at economical rates.
- Product portfolio: - Mamaearth has a very diversified product portfolio with several natural and toxic free products, ranging from baby care to skincare and haircare which help them to cater to various segments of the society. It is Asia's First Made Safe Certified Toxin Free Brand.
- Brand Equity:- Mamaearth through its advertisements has delivered the strong message "hum natural product banate nahi, ped bhi ugate h" which in turn helps them to build memorable and meaningful brand equity.

Weakness

- Less number of Outlets: - Mamaearth has very smaller number of physical outlets which hinders the growth in their market share and questions its presence in offline retailing.
- Production outsourcing:- Mamaearth doesn't have any production house of its own which makes them dependent on third-party manufacturers.
- Net Income: - Mamaearth's actual net income are not matching its evaluated and forecasted net income. The company needs to work on its net sales to increase its effectiveness and earnings.

SWOT Analysis

Opportunities

- Market shift towards natural products: - There has been a significant rise in the demand for natural and ayurvedic products since the COVID-19 has spread its roots and Mamaearth can tap this potential market.
- Expansion in the physical retail:- By expansion in physical retailing Mamaearth can take the advantage of capturing the untapped market.
- Global presence: - Mamaearth with its incredible natural and toxic-free products can help them to enhance the global footprint.
- New trends in consumer behaviours: - Changing consumer habits provide Mamaearth with different opportunities of using cognitive advertisements to influence the consumer.

Threats:

- Competition: With the increase in the trend of natural products various big brands like HUL, P&G, Dabur, etc. are also entering the market which results in high competition among the brands.
- Price of Raw material: - Price of natural and active ingredients are volatile which makes it difficult for Mamaearth to pass on its fluctuating prices to the consumers.
- Climate change: -Subtle changes in the conditions including temperature and precipitation can hugely impact the supply of raw materials.

PESTLE

Political

- High government stability and favourable trade relations support growth and development of Mamaearth in maintaining offshore business affiliations easily and smoothly
- With adequate trade blocs, Mamaearth can make their products and services easily accessible through various channels and distribution agencies for consumer to purchase and benefit from

Economic

- With rising share of tier II and III cities in India's GDP and leading to an increasing trend of spending on personal care and a 10% annual increase in India's BPC (beauty and personal care) market, Mamaearth can tap this \$25 billion+ market with a proper move.
- With 90% of its revenue originating from online platforms, Mamaearth stands to benefit from the 25-30% annual increase in India's online shopper base.

Social

- Mamaearth understands the consumption motivations and social trends that define consumer behaviour so as to forecast spending patterns and purchasing power .
- A higher awareness level amongst consumers about health and wellness demand quality and has translated into consumption decisions and patterns

PESTLE

Technological

- Mamaearth is incorporating technology in the business to increase business efficiency and affectivity.

Environmental

- Mamaearth plans on increasing weightage for the green product line gradually to increase its role in environmental sustainability.
- It is increasingly making use of solar energy, and hydroplanes for purposes of operation management and business processes
- Mamaearth plants trees for every purchase made on their platform and claims to have planted over 4.5 lakh trees till date.

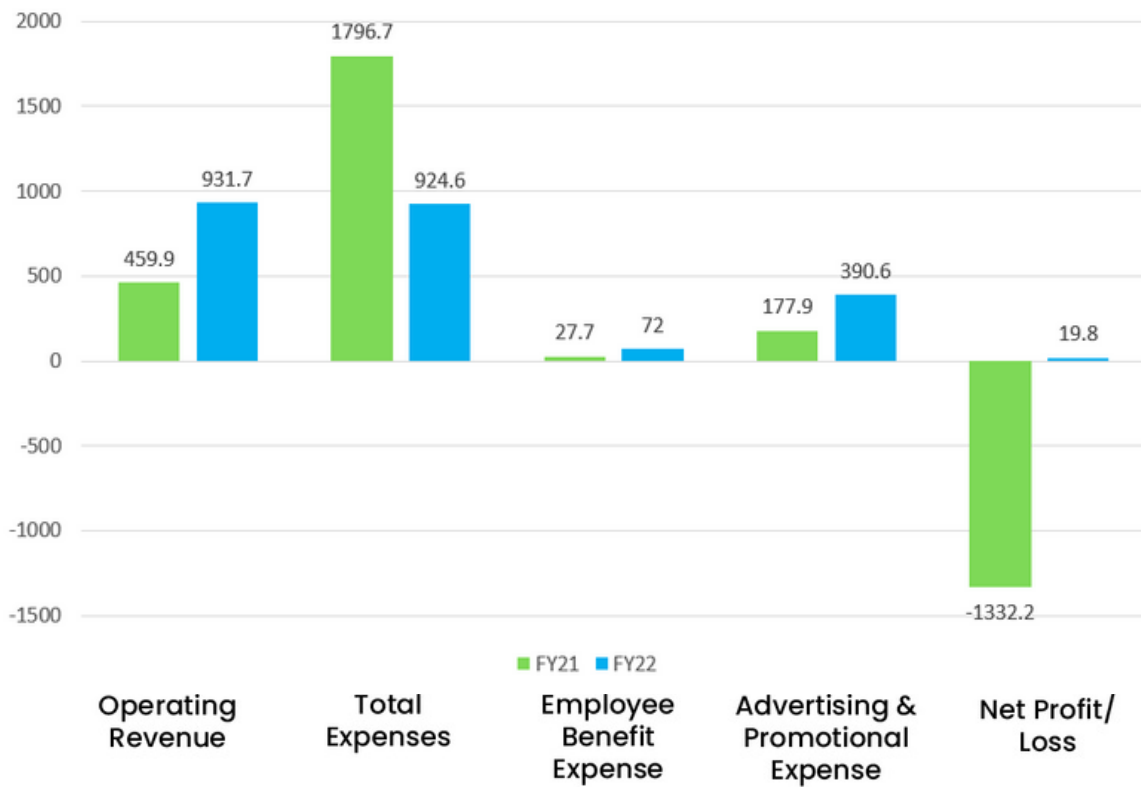
Legal

- Mamaearth ensures that there is no discrimination within the company, and the organisational culture remains toxic free
- It complies with the laws to ensure a certain quality standard and protect consumers from fraudulent marketing claims.

Financial Analysis

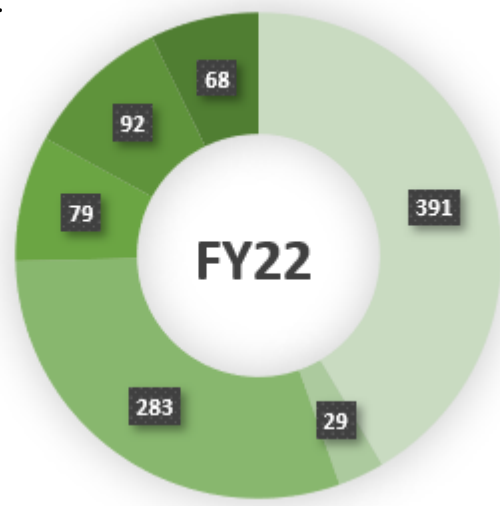
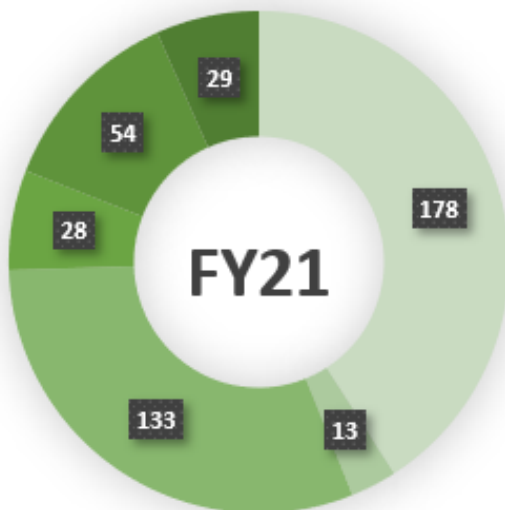
- Mamaearth registered Rs 931.7 Cr in revenue from operations in FY-22. An almost 2x increase from Rs 459.9 cr in FY-21
- Mamaearth posted a profit of INR 19.8 Cr in FY22 as against a loss of INR 1,332 Cr in FY21.
- The reasons behind this massive turnaround are:-
 - 70% of customers gave repeat orders, this number is considered high and good in the FMCG industry.
 - Proliferation and Penetration of other distribution channels both offline and online have also helped in increasing revenue of the company in the previous year. The sales are coming from a 70:30 online:offline distribution model.
 - Economies of scale, slightly inexpensive newer methods and better efficiency have also resulted in cost-cutting which has allowed Mamaearth to finally turn a profit after suffering heavy losses.
- The revenues earned from investments stood at 20.6 crores during the year.
- The EBITDA margin has also massively improved from -280% in FY-21 to 3.89% in FY-22
- This chart clearly demonstrates that Mamaearth has severely cut down on its other expenses which has helped it to truly blossom.
- It has increased its employee size significantly which is evident by the moderate increase in employee benefit expenses.
- Being a B2C brand, it has also spent significantly more in the current financial year on Advertising as well as Transport to attract a newer and wider customer base.

Decline In Expenses Helps Mamearth Turn Profitable



Expenses Breakdown

in Cr.





- Advertisement
- COGS
- Cost freight

- Commission paid to agents
- Employee Benefit Expense
- Others

ROAS (Return On Ads Spend)

The effectiveness of a digital advertising campaign is gauged by the marketing metric known as Return On Advertising Spend (ROAS). ROAS enables e-commerce firms to assess which advertising strategies are effective and determine how to enhance upcoming campaigns. The basic formula to calculate ROAS is:

$$\text{ROAS} = \frac{\text{Total Campaign Revenue}}{\text{Total Campaign Cost}}$$


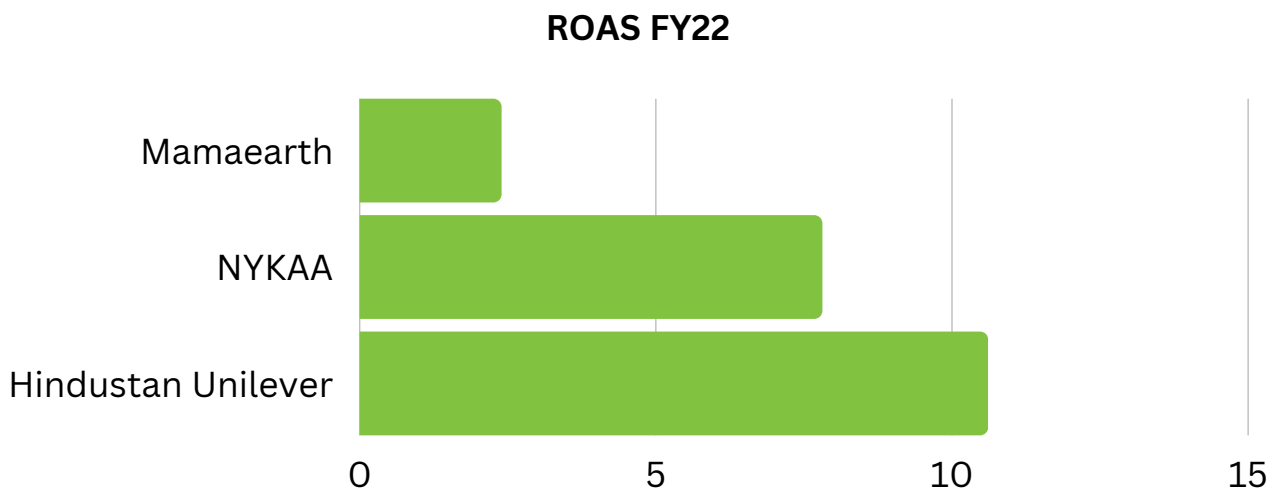
The ROAS of Mamaearth has ranged between 2.4 to 2.6 since FY22. This indicator indicates that the more repeat customer a brand has, the less has to be spent on marketing and advertising. A good ROAS is considered to be 4 but that of Mamaearth is 2.4 which indicates only a few repeat customers.

	FY20	FY21	FY22	H1FY23
SALES	110	460	932	684
Ad Expense	46	178	391	272

(in Rs crore)

ROAS (Return On Ads Spend)

The ROAS of Mamaearth's competitors such as NYKAA stood at 7.8 for FY22 and big boy HINDUSTAN UNILEVER'S at 10.6



Mamaearth when compared to Nykaa and Hindustan Unilever is way behind in terms of ROAS. Mamaearth is demanding a reported valuation of \$3 billion against net profits of Rs 14 crores which is almost 25 times FY22 revenues and 1600 times FY22 Profits(PE), to carry on with a heavy valuation Mamaearth needs to have a ROAS of 272 which is very high. Nykaa did not show growth in the Stock exchange, so people are dicy over its competitors.

VALUATION VS PEERS

ENTERPRISE VALUE AS AT SEPTEMBER 30,2022

PARTICULARS	AMOUNT(in rupees million)
Equity Value**	97542.6
Non-controlling interest	105.40
Lease Liabilities	661.45
Other Financial Liabilities	462.37
Current Borrowings	72.54
Current Lease Liabilities	119.20
Other Financial Liabilities	244.55
Less : Cash and cash Equivalents	(94.70)
Total	99113.41

**EQUITY VALUE HAS BEEN CALCULATED BASED ON THE RECENT FUNDRAISING BY THE COMPANY VALUED AT 1.2BILLION DOLLARS.

VALUATION VS PEERS

EBITDA CALCULATION AS AT SEPTEMBER 30,2022

PARTICULARS	AMOUNT(in rupees million)
Restated Profit before tax	91.28
Add:Depreciation	110.42
Add: Finance Costs	30.66
Total	232.36

$$\begin{aligned} \text{EV/EBITDA} &= 99113.41 / 232.36 \\ &= 426.55 \end{aligned}$$

The enterprise value to Earnings before interest, taxes and depreciation and amortization ratio compares the value of a company to its EBITDA, which means a valuation of 1.2 billion dollars is 426.55 times its EBITDA. Generally, a EV/EBITDA ratio below 10 is considered to be healthy.

VALUATION VS PEERS

Name of Company	EV/EBITDA Ratio
MamaEarth	426.55
Nykaa	422.78
Godrej Consumers	42.31
Marico	42.06
HUL	36.42

Even though the beauty and skincare industry is expected to grow 12% annually, the current valuation of 1.2 billion dollars also seems abnormally high given that the company recently turned into a profit making one and its enormous spend on marketing. In FY22, the company spent about RS. 391 crores on advertising which translates to 40% of revenue spent on marketing. The company reported a net profit of Rs. 14 crore in FY22. The P/E Ratio works out to roughly 1714x. Mamaearth's P/E ratio is higher than all its competitors in the market, clearly indicating how overvalued the company is.

VALUATION VS PEERS

VALUATION Vs PEERS Price-To-Earnings Ratio	
Mamaearth	1714x
Nykaa	960x
HUL	62x
Godrej COnsumer	57x
Marico	53x
Colgate Palmolive	38x
Emami	23x
Bajaj Consumer Care	18x

Source NSE
*Projected Valuation,

The company gets a major portion of its revenue from a select number of products. Even a small decrease in their top selling products would adversely affect the revenue. Clubbed with huge customer acquisition costs, the valuation cannot be justified. In the recent past, several companies that got listed at an unjustified valuation like Nykaa and Zomato are trading at 50 percent below their trading price. The company is burning cash on promotional activities and uses third parties to manufacture its products which can prove to be detrimental in the long-run.

FUTURE OUTLOOK

Mamaearth's plan was to turn into a brand worth Rs. 500 crore by gaining five million new consumers within the next three years and to launch additional brands under the Honasa umbrella with a focus on fulfilling the requirements of millennial consumers.

Based on our analysis of recent reports, it seems that Mamaearth is actively pursuing an initial public offering (IPO) with the goal of obtaining a valuation of 10 to 12 times its projected earnings. The company is reported to be aiming to raise more than \$300 million in the IPO and is in negotiations with potential bookrunners, including JP Morgan Chase, JM Financial, and Kotak Mahindra Capital.

For Mamaearth to become a household name, it would be essential to extend offline throughout India. The company wants to connect with 40,000 retail locations in 100 Indian cities this year. Currently, approximately 70% of Mamaearth's sales are made online; but, through this growth, the company hopes to increase the percentage of offline sales.

FUTURE OUTLOOK

The Indian beauty and personal care market will increase from \$17.8 billion in 2020 to \$27.5 billion by 2025. It also stated that over that time, there will be a projected increase in online beauty product shoppers from 25 million to 135 million.

The success of Mamaearth's IPO may depend on how it intends to quickly grow into offline sales, though. Indians still shop mostly in physical stores; only 5–6% of purchases are made online. With the aid of influencer marketing and targeted digital funnels, the company also hopes to solidify its brand awareness in the years to come.

SUMMARY:

1. By the conclusion of the fiscal year 2025, the corporation wants to have added more than 5 million additional consumers.
2. They want to double their revenue over the next two years.
3. Mamaearth also makes an attempt to market through influencers on numerous channels. They will increase consumer awareness of the brand.
4. The business may launch an initial public offering before the conclusion of the current fiscal year (2024).
5. Due to the company's healthy growth, Mamaearth will also hire more personnel.

ANALYST'S VIEW

We are slightly negative on our expectations for MamaEarth. As an investor there are major red flags with MamaEarth. The biggest red flag is its valuation of Rs 24,000 Crore, MamaEarth needs tremendous sales in order to justify that valuation for IPO. An extremely high ROAS of 272 in FY22 compared to its peers Nykaa and Unilever is another major problem. Another issue we have is regarding its volatility. It was massively under loss over FY21 but somehow managed to deliver a great turnaround in FY22 without a noticeable change in ROAS. We are not very sure if this was genuine or a fluke phenomenon.

All of that being said, it has brought a fresh breath of air to the market with various expansion plans. Should it continue to remain profitable and carry out its expansion plan successfully then MamaEarth can be a worthwhile investment.

For the time being however, it is a hold from us. We also expect the IPO price to dip after allotment for all of these above reasons.

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