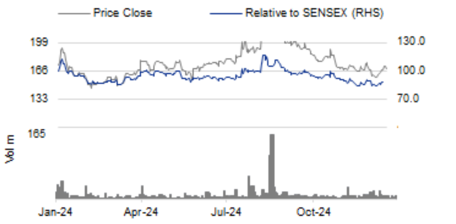
India

REDUCE *(Initiating coverage)*

Consensus ratings*:	Buy 14	Hold 4	Sell 6

Current price:	Rs170
Target price:	Rs103
Previous target:	NA
Up/downside:	-39.4%
EIP Research / Consensus:	-39.2%
Reuters:	
Bloomberg:	NYKAA IN
Market cap:	US$5,645m
	Rs484,658m
Average daily turnover:	US$16.7m
	Rs1430.4m
Current shares o/s:	2,857.9m
Free float:	21.3%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.9	(12.4)	(4.2)
Relative (%)	6.2	(8.7)	(12.5)

Major shareholders	% held
Promoter	52.2
Mirae Asset	4.1
SBI	3.9

FSN Ecommerce

Growth slows; margins expected to shrink

- Revenue growth trajectory plateaus while the EBITDA margin is projected to shrink to 5.1% by FY27F, driven by **rising COGS & competitive pressure**.
- High-margin services underperform, contributing only 13.4% to revenue from operations in FY24. Growth plunged from 113% in FY22 to 18% in FY24.
- Nykaa is heavily reliant on topline expansion while grappling with complexities of achieving sustainable profits. Initiate coverage on it with a REDUCE rating.

Growth plateauing amid rising costs

Nykaa's (FSN Ecommerce) revenue growth is stabilizing after robust increases—55% in FY22, 36% in FY23, and 24% in FY24—with projections of 26% in FY25F and 25% for FY26F-FY27F. The slowdown is driven by plateauing BPC growth (73% of GMV). **Rising COGS due to competition from Tira in the luxury segment, and a shift to lower-margin mass/masstige products are areas of concern**, and the low-margin eB2B segment exacerbates this trend. Fulfillment costs may improve with new warehouses, but rising marketing expenses and competitive pressure are likely to compress the EBITDA margin to 5.1% by FY27F.

Underwhelming performance of services business

The sale of services, particularly marketing support and marketplace services, was once expected to be a high-margin, high-growth driver for Nykaa. Marketing support services, which grew by 92% in FY22, slowed to 36% in FY23, and further dropped to 18% in FY24, highlighting a steady deceleration. Similarly, marketplace services peaked with 188% YoY growth in FY22, but have since stagnated, growing just 19% in FY24. **Combined, these services contribute only 13.4% to revenue from operations. Being a high-margin business, services remain critical for Nykaa's EBITDA margin and overall profitability.**

Owned brands struggle to reduce dependency across verticals

Nykaa's 27 owned brands show progress, but face challenges in both BPC and fashion. In BPC, GMV contribution rose from 11.1% in FY22 to 13.1% in FY24, with 47.7% YoY growth in 2QFY25, yet heavy reliance on third-party brands limits the pricing power. Fashion struggles more, with GMV contribution peaking at 12.9% in FY23, dropping to 12.7% in FY24, and YoY growth stagnating at 1.7% in 2QFY25. Scaling owned brands is critical to reducing the dependency.

Rising costs, profitability risks; initiate coverage with REDUCE rating

Nykaa's improved return ratios and margins in FY24 indicate recovery, but projections of compressed margins, rising costs, and growth plateauing by FY26F-27F highlight business challenges and increased competition. We initiate coverage on the stock with a REDUCE rating and a target price of Rs103. Upside risks: Unexpected efficiency on the expenses front, accelerated luxury goods demand boosting BPC margins, or limited eB2B contribution mitigating margin pressure.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	51,161	63,400	79,851	99,760	124,678
Operating EBITDA (Rsm)	2,560	3,462	4,465	5,396	6,350
Net Profit (Rsm)	248	437	670	652	555
Core EPS (Rs)	0.1	0.2	0.2	0.2	0.2
Core EPS Growth	(90.0%)	75.9%	53.3%	(2.7%)	(14.9%)
FD Core P/E (x)	1,948.14	1,107.48	722.61	742.35	872.17
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	190.13	141.19	109.68	90.93	77.47
P/FCFE (x)	305.70	181.44	384.04	385.58	485.22
Net Gearing	22.4%	34.4%	39.7%	44.9%	51.8%
P/BV (x)	35.09	38.36	36.42	34.72	33.39
ROE	1.8%	3.3%	5.2%	4.8%	3.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Understanding Nykaa & its challenges

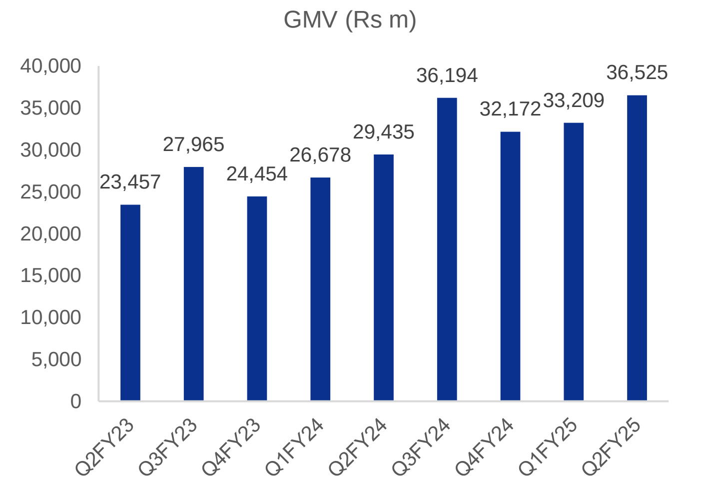
Nykaa has established itself as a pioneer in India's lifestyle and e-commerce space, excelling in beauty and fashion. With a well-defined omni-channel strategy, an expansive product portfolio, and robust market position, the company has captured the imagination of investors and consumers alike. However, **beneath the surface of its growth lies complexities filled with emerging challenges that warrant a cautious outlook**.

Figure 1: Nykaa's journey

SOURCE: INCRED RESEARCH, COMPANY REPORTS

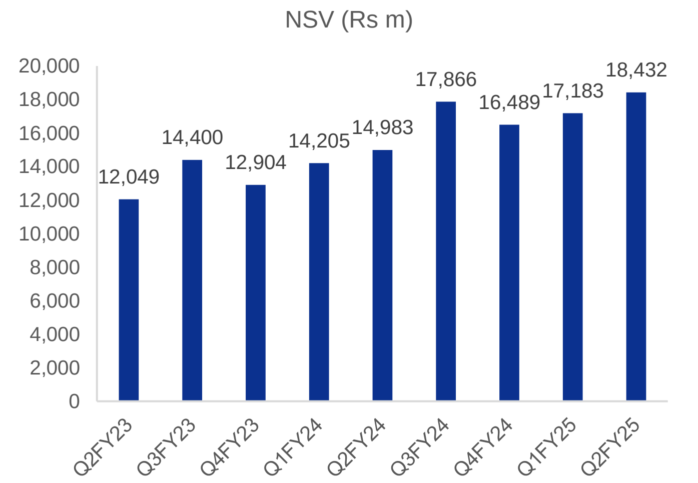
In FY24, Nykaa reported **revenue from operations of Rs63,856m**, reflecting a 24% yoy growth, alongside a gross merchandise value (GMV) of Rs1,24,461m, up 28%. Its gross profit margin remained steady at 42.9%, while EBITDA improved to Rs3,462m, a 35% increase yoy. Yet, the company's profit after tax, although up 90%, amounted to just Rs397m, translating to a wafer-thin margin of 0.6%. **Nykaa remains a business heavily reliant on topline expansion while grappling with the complexities of achieving sustainable profitability.**

Figure 2: Quarterly GMV



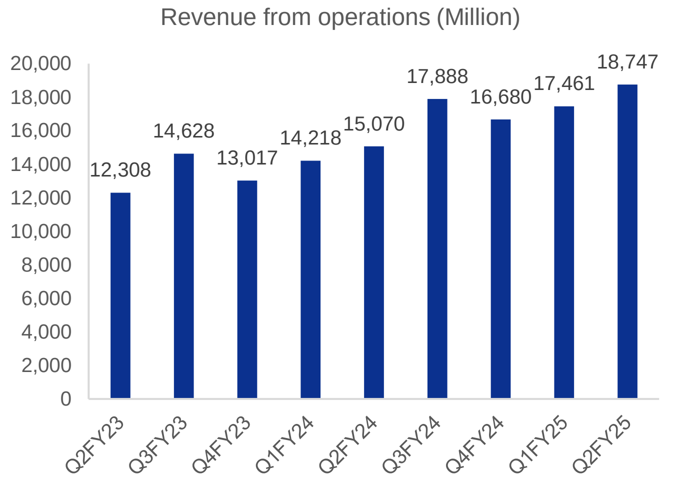
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly NSV



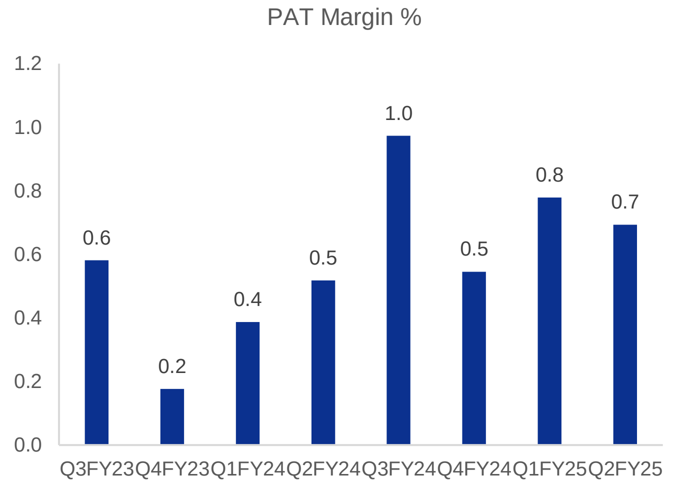
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly revenue from operations



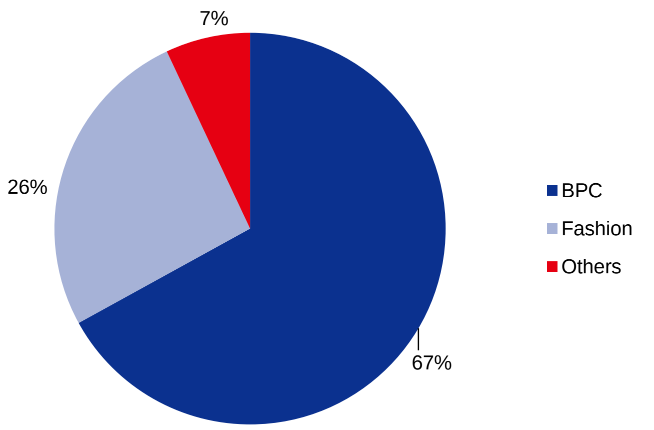
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PAT margin (%)



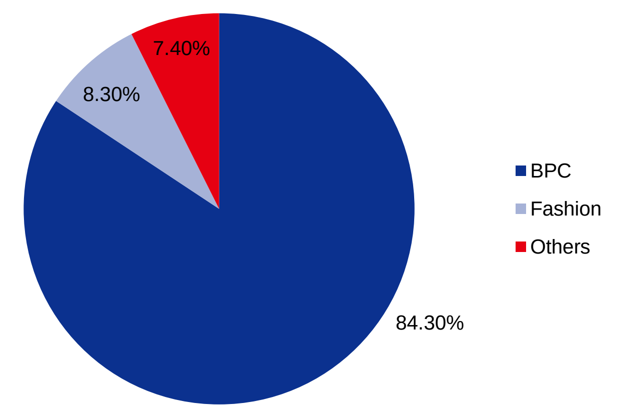
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: GMV distribution in FY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Revenue distribution in FY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Decoding the slowdown in Nykaa's BPC growth

Nykaa's beauty and personal care (BPC) business has been its backbone, contributing **73% to gross merchandise value (GMV) in FY24** and driving the bulk of its revenue from operations. As the cornerstone of Nykaa's growth, this segment has cemented its leadership in the BPC market over the years.

Reporting changes blur BPC's standalone performance ➤

Starting 1QFY25, the inclusion of the eB2B business and the grooming vertical under Nykaa Man has complicated the assessment of BPC's independent performance. While reflecting Nykaa's diversification strategy, this change makes it harder to track how the core business is truly performing.

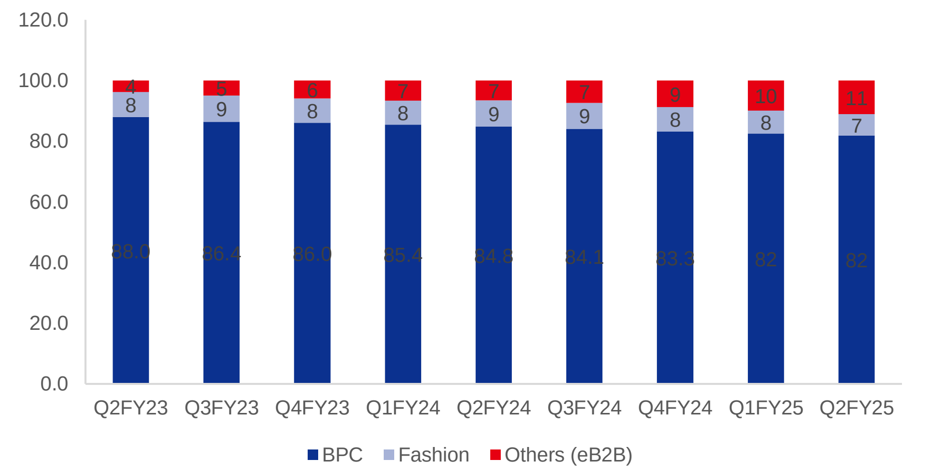
BPC's contribution to revenue sees a decline ➤

Historically contributing around 88% to Nykaa's revenue, BPC business share dropped to 82% in FY25F. Though the decline appears minor, it highlights the faster growth of newer verticals like eB2B and grooming, which are beginning to gain a more significant foothold in the company's revenue mix and also rings an alarm about the growth potential of its core BPC business.

GMV growth inflated by new businesses ➤

While BPC GMV growth remained steady in FY24, signs of moderation became evident. The sharper increase reported in 1QFY25 and 2QFY25 GMV and revenue from operations was also driven by the inclusion of eB2B and grooming businesses. This shift creates a misleading perception of accelerated growth within the BPC segment itself.

Figure 8: Percentage contribution in revenue from operations (projected for 1QFY25 and 2QFY25)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BPC revenue growth slows ➤

The BPC business recorded an estimated revenue of Rs14,401m in 1QFY25, marking a modest 4% growth from the previous quarter. This improved slightly to estimated Rs15,339m in 2QFY25, reflecting a 7% qoq increase. However, while these figures suggest steady progress, the growth rate lags significantly behind the rapid expansion of the Others category, which includes eB2B and grooming, signalling a shift in Nykaa's growth dynamics.

Figure 9: Contribution conversion table (projected for 1QFY25 and 2QFY25)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
BPC	86	86	85	85	84	83	82	82
Delta Increase	-2	0	-1	-1	-1	-1	-1	-1
Fashion	9	8	8	9	9	8	8	7
Delta Increase	0	-1	0	1	0	-1	0	-1
Others	5	6	7	7	7	9	10	11
Delta Increase	1	1	1	0	1	1	1	1
Total	100	100	100	100	100	100	100	100

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Contribution conversion table (projected for 1QFY25 and 2QFY25) (Rs m)

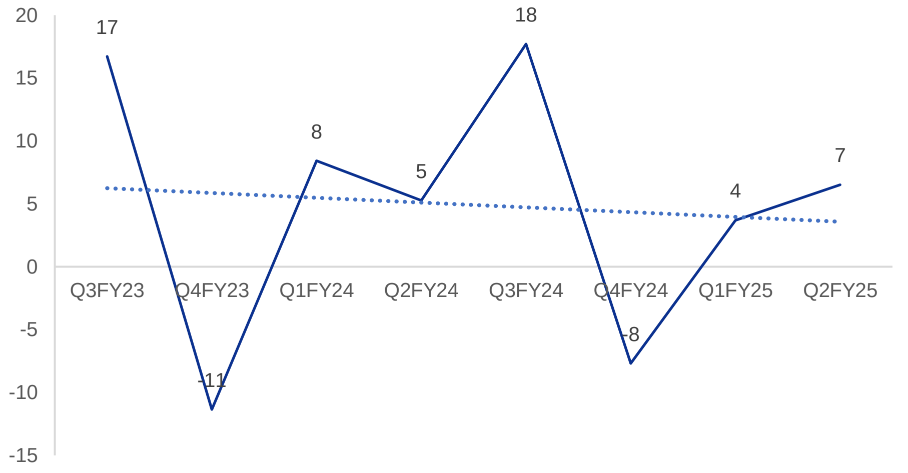
	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
BPC	12,634	11,200	12,142	12,782	15,045	13,887	14,401	15,339
% increase	17	-11	8	5	18	-8	4	7
Fashion	1,275	1,050	1,138	1,305	1,526	1,334	1,339	1,325
% increase	25	-18	8	15	17	-13	0	-1
Others	719	767	938	983	1,317	1,459	1,721	2,082
% increase	54	7	22	5	34	11	18	21

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Slower BPC growth signals maturity concerns

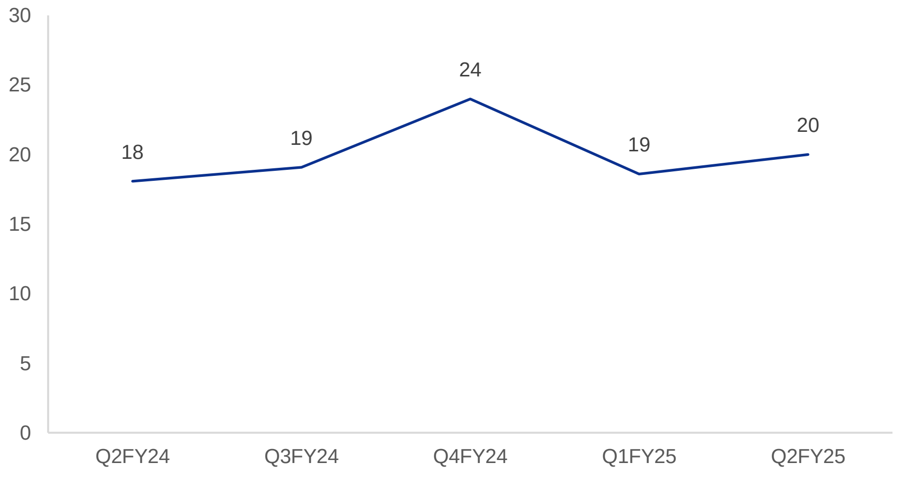
The slower growth in the BPC segment raises concerns about potential maturity and intensified competition. As Nykaa's largest and most profitable vertical, BPC has historically delivered superior margins compared to the lower-margin eB2B business. This divergence underscores a critical shift in the company's revenue and profitability dynamics.

Figure 11: % QoQ increase in BPC revenue (projected for 1QFY25 and 2QFY25)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: % YoY increase in BPC revenue (projected for 1QFY25 and 2QFY25)

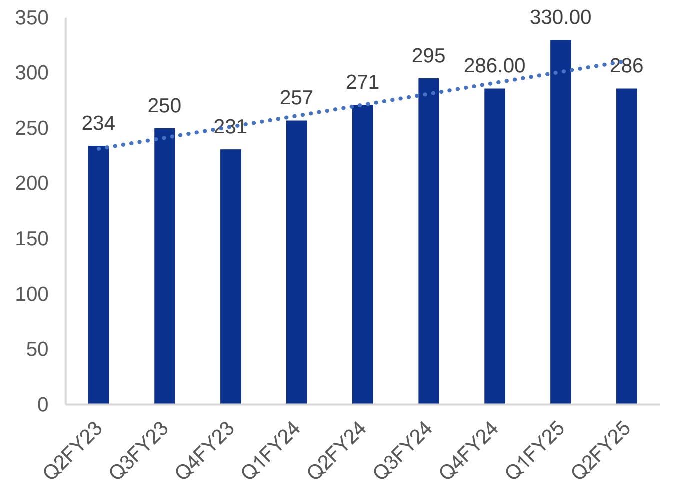


SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

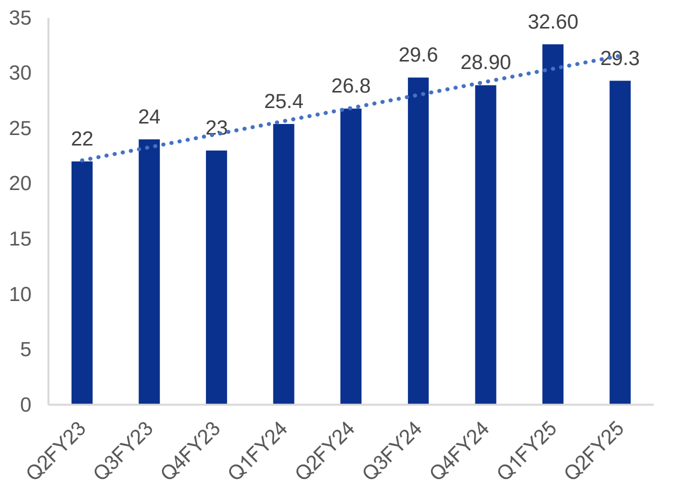
Key operational metrics for BPC business

Figure 13: Number of visits (m)



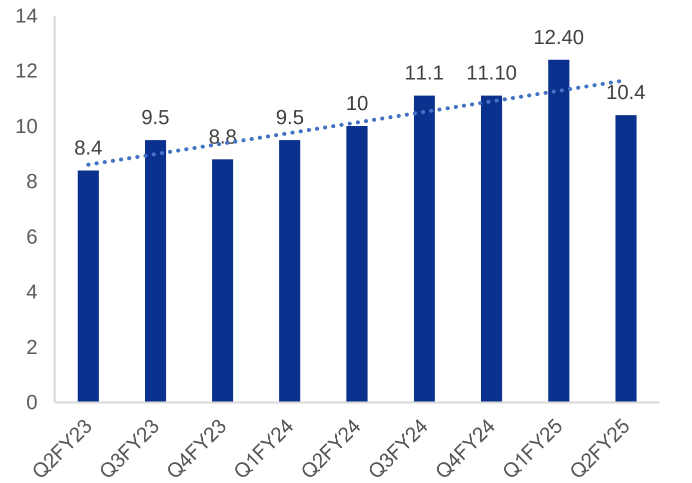
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Monthly average unique visitors (m)



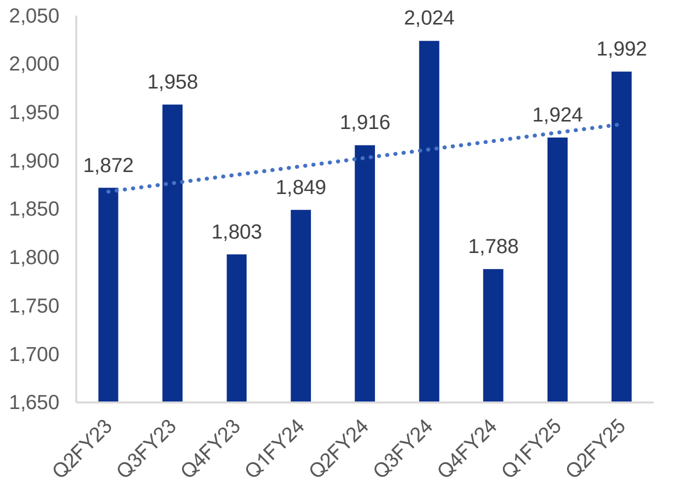
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Orders (m)



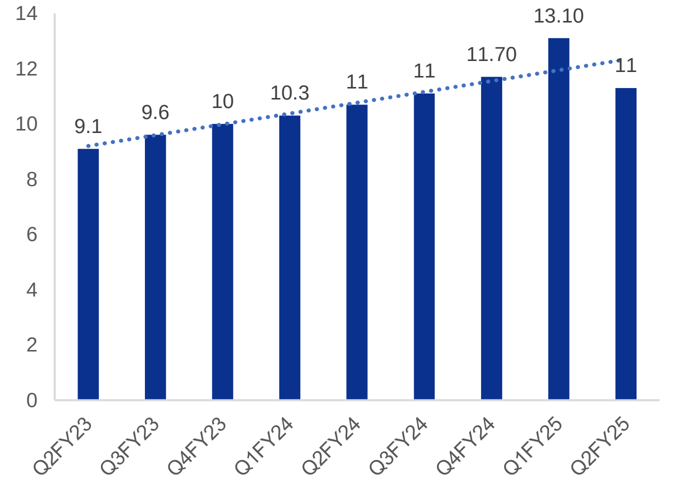
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Average order value or AOV (Rs)



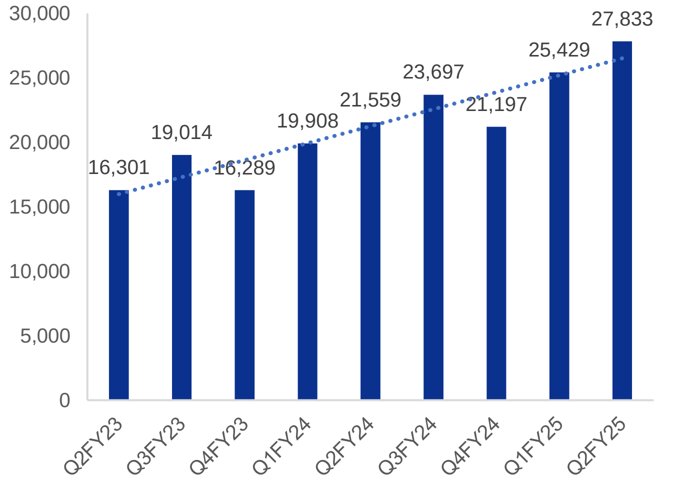
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Annual unique transacting customers (TTM)



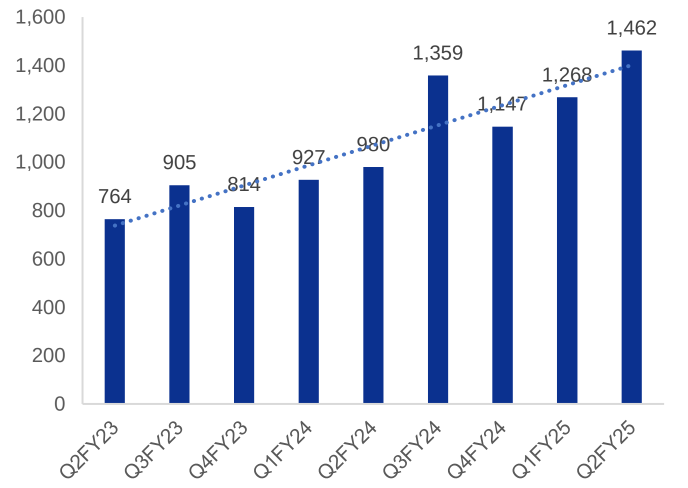
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Gross merchandise value or GMV) (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: Advertisement expenses (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BPC's operational performance & unit metrics

Figure 20: BPC unit economics

Unit Economics (BPC)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
AOV	1,872	1,958	1,803	1,849	1,916	2,024	1,788	1,924	1,992
GMV	16,301	19,014	16,289	19,908	21,559	23,697	21,197	25,429	27,833
Revenue (Rsm)	10,825	12,634	11,200	12,142	12,782	15,045	13,887	15,935	17,029
Revenue as a% of GMV	66	66	69	61	59	63	66	63	61
Orders (m)	8.4	9.5	8.8	9.5	10	11.1	11.1	12.4	10.4
Revenue per order (Rs)	1,289	1,330	1,273	1,278	1,278	1,355	1,251	1,285	1,637
Gross profit (Rsm)	4,676	5,232	4,787	5,111	5,300	6,142	5,764	6,328	6,828
Gross profit per order (Rs)	557	551	544	538	530	553	519	510	657
Fulfilment costs (Rsm)	919	1,215	947	1,022	1,070	1,271	1,160	1,417	1,488
Fulfilment costs per order (Rs)	109	128	108	108	107	115	105	114	143
Marketing and advt. costs (Rsm)	764	905	814	927	980	1,359	1,147	1,268	1,462
MnA cost per order (Rs)	91	95	93	98	98	122	103	102	141
Selling and distribution costs (Rsm)	384	128	146	169	169	224	217	413	439
SnD costs per order (Rs)	46	13	17	18	17	20	20	33	42

SOURCE: INCRED RESEARCH, COMPANY REPORTS

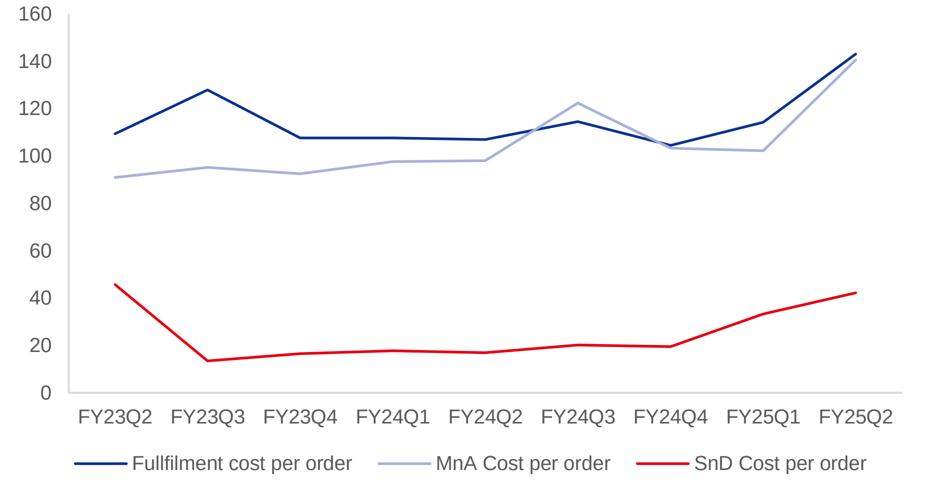
Orders on an upward trajectory ➤

Nykaa's beauty and personal care (BPC) segment has consistently expanded its customer base, as reflected in the rise in the number of orders from 8.4m in 2QFY23 to a peak of 12.4m in 1QFY25. Although there was a slight dip to 10.4 m in 2QFY25, the overall trend highlights strong demand momentum.

Costs reflect competitive pressure and scaling challenges ➤

- **Fulfillment costs:** Fulfillment costs per order remained steady in FY23 and FY24, averaging around Rs107-115. However, the inclusion of eB2B led to an increase in costs to Rs143 per order in 2QFY25, reflecting the added logistical complexity. Scaling up fulfillment centres/warehouses will be critical for Nykaa to optimize these costs going ahead.
- **Marketing and advertisement costs (MnA):** MnA costs per order were relatively consistent in FY23 and the first two quarters of FY24, hovering around Rs91-98. However, in 3QFY24, MnA costs spiked to Rs122 per order before moderating to Rs103 in 4QFY24. The recent increase to Rs141 in 2QFY25 highlights intensified competition and higher spending on customer acquisition efforts. Nykaa needs to strategically balance this spending to maintain its margins.
- **Selling and distribution costs (SnD)**: SnD costs per order saw a gradual increase, rising from Rs13 in 3QFY23 to Rs42 in 2QFY25. This reflects Nykaa's investments in expanding its distribution network to support higher order volume and brand expansion.

Figure 21: Trends per order (fulfilment, marketing and advertising, selling and distribution) (Rs)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Reliance Retail's Tira emerges as Nykaa's biggest threat

For years, Nykaa's beauty and personal care (BPC) business thrived as the market leader in the luxury segment, bolstered by strong partnerships with top-tier brands and the allure of hefty margins. This segment not only fuelled Nykaa's rapid growth but also distinguished it from competitors in an increasingly crowded space. However, **the entry of Tira, backed by Reliance Retail in 2023, has shifted the dynamics of this landscape**. Reliance Retail, with its deep pockets and aggressive strategies, has directly challenged Nykaa's dominance in the high-margin luxury BPC segment.

Tira targets high-margin luxury market ➤

Tira's focus on the luxury segment, which offers higher margin, directly competes with Nykaa Luxe. **Leveraging partnerships with global beauty brands and advanced in-store technologies like virtual try-ons and skin analyzers**, Tira aims to lure high-spending consumers. As Nykaa Luxe is still in its early stages, Tira could easily capture market share in this lucrative segment.

Reliance Retail's financial power fuels aggressive discounts ➤

Reliance Retail's vast resources allow Tira to offer deep discounts to attract customers, mirroring strategies used to **disrupt telecom and fashion markets with Jio and Ajio**.

Competition intensifies, but market offers room to grow ➤

Despite Tira's entry, the BPC market's growth potential ensures opportunities for multiple players, but the luxury segment now has increased competition. **The online BPC market is growing at 20-25% annually**, compared to 8-10% for the offline segment. Nykaa, with its established omnichannel presence, may not face immediate disruption but needs to innovate to maintain its leadership, or move its focus to low-margin mass and masstige products.

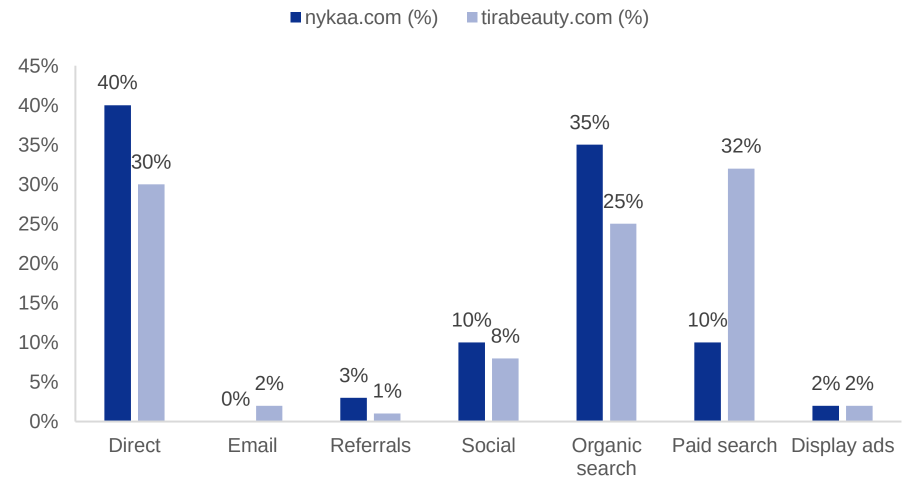
Nykaa's headstart in offline stores offers temporary protection ➤

While Tira is still in the early stages with just one offline store, Nykaa's extensive physical presence and strong customer base provide a temporary moat. However, with Reliance Retail's proven ability to scale quickly, the dynamics could shift rapidly in favour of Tira.

Tira's aggressive marketing threatens Nykaa's luxury stronghold

The paid search activity ratio for Tira is notably higher than that of Nykaa. This reveals a critical aspect of Tira's strategy: Reliance Retail is investing heavily in customer acquisition and marketing to establish Tira's brand presence. By leveraging paid search and digital campaigns, Tira is aggressively targeting the luxury segment—a category that has been the cornerstone of Nykaa's success. With luxury brands being highly sensitive to exclusivity and pricing power, the competition for these partnerships has intensified, directly impacting Nykaa's ability to sustain its edge in this segment.

Figure 22: Traffic source distribution



SOURCE: SIMILARWEB, INCRED RESEARCH ESTIMATES

These numbers align with the challenges we observed earlier. As Nykaa's BPC segment recorded modest growth of just 4% and 7% in 1QFY25 and 2QFY25, respectively, the Others category (eB2B and grooming) surged by 18% and 21% (projected), respectively. This disparity not only underscores the **slower growth trajectory of the core BPC business but also reflects how external pressure, such as Tira's entry, are reshaping the competitive environment**. Tira's focus on the luxury segment—once Nykaa's key differentiator—has fragmented the market, making it harder for Nykaa to maintain its historical growth rate.

Nykaa's omni-channel approach

As Nykaa continues to navigate challenges in its core BPC business, its omni-channel strategy emerges as a robust pillar of growth, blending online and offline experiences seamlessly. With **210 stores spread across 72 cities**, Nykaa now has the largest beauty retail network in India.

Expanding retail footprint drives GMV growth ›

Nykaa's physical retail network has grown by approximately 25% yoy, expanding to over 200,000 sq. ft. of retail space. These stores are more than just a physical presence; they play a critical role in the company's performance**. In 2QFY25, retail stores contributed 8.2% to omni-channel beauty GMV, up from 7.5% in 2QFY24, underscoring their increasing importance in Nykaa's business model.**

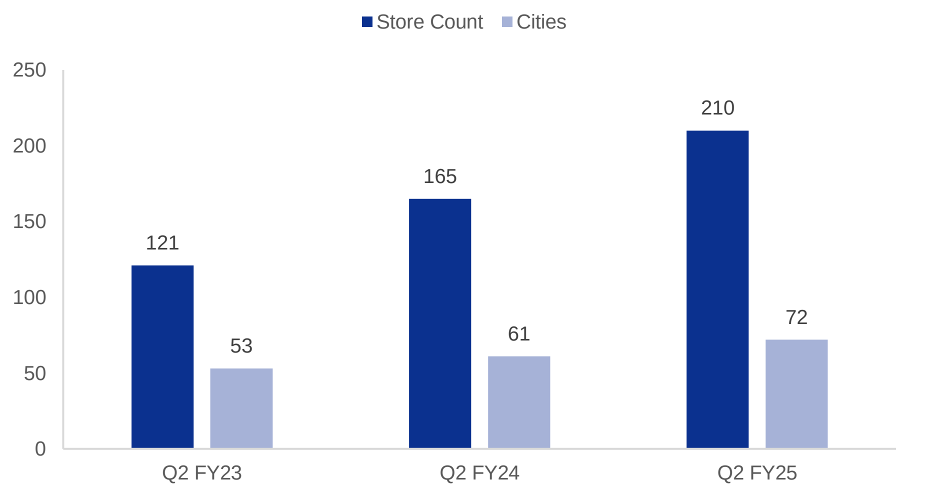
Premium categories thrive on in-store experiences ›

Retail stores are particularly valuable in the premium beauty segment, where customers seek curated brand assortments and in-store consultations. This focus on creating an immersive shopping experience highlights Nykaa's strategic push to retain its edge in high-value categories.

Speedy delivery enhances customer satisfaction ›

Nykaa's enhanced delivery infrastructure further strengthens its omni-channel approach. In the top 110 cities, 70% of beauty orders are delivered on the same day or next day, with this figure rising to 80% in the top 12 cities. This quick delivery not only improves customer satisfaction but also reinforces Nykaa's reputation for convenience and reliability in a competitive market.

Figure 23: Growth in store count and presence

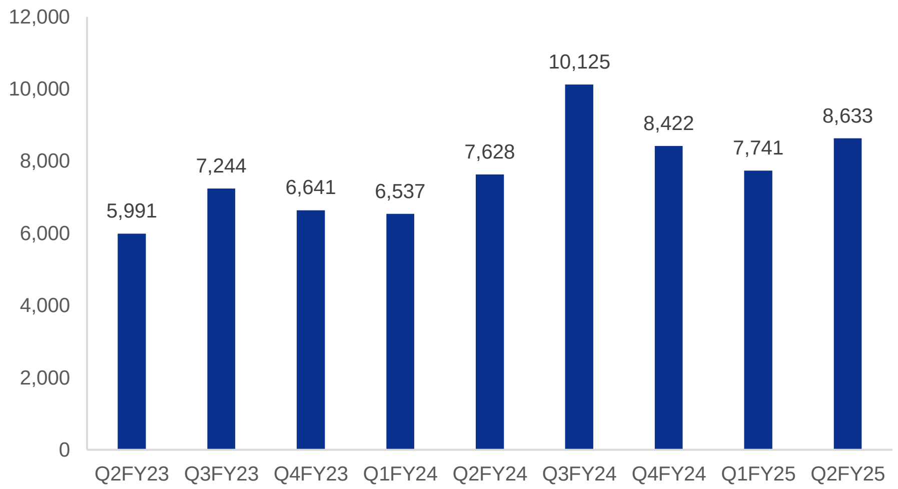


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Nykaa Fashion faces growth challenges amid slowing NSV and rising competition

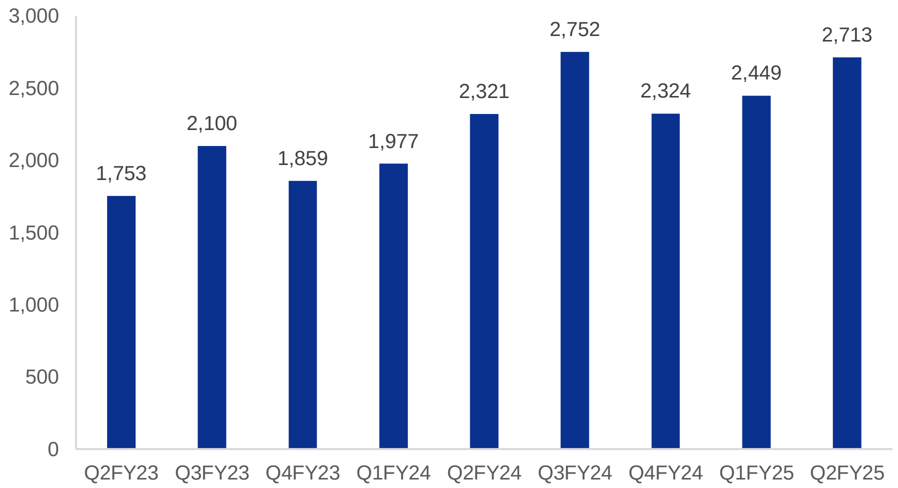
Since its launch in 2018, Nykaa Fashion has rapidly become a key revenue driver for the company, second to the beauty and personal care (BPC) vertical. In FY24, the fashion business achieved Rs32,699m in gross merchandise value (GMV), marking an impressive 27% yoy growth. Revenue mirrored this trajectory, growing by 22% yoy to Rs5,302m, supported by a 10% rise in average order value (AOV) to Rs4,361. These figures reflect Nykaa Fashion's ability to carve out a niche in the premium fashion market, leveraging curated offerings and data-driven strategies. **However, beneath this growth lies an emerging story of slowing momentum and rising challenges.**

Figure 24: Nykaa Fashion's GMV (Rsm)



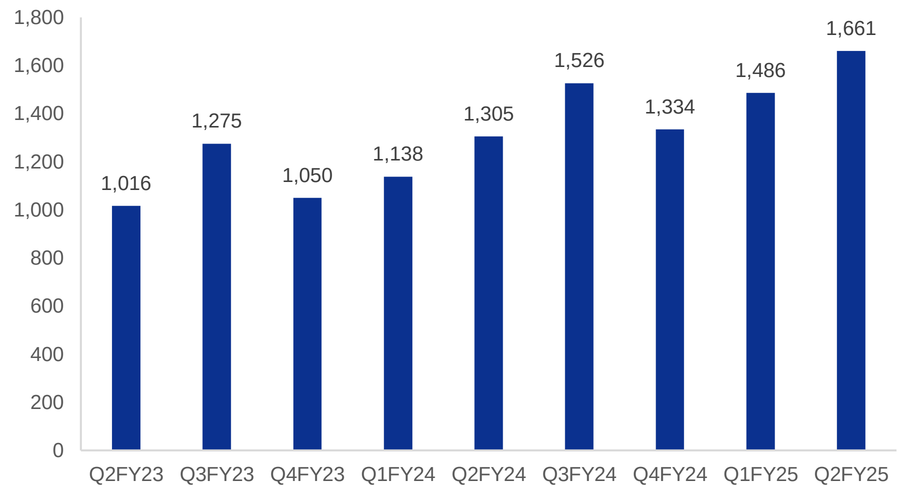
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: Nykaa Fashion's NSV (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: Revenue from operations (Rs m)



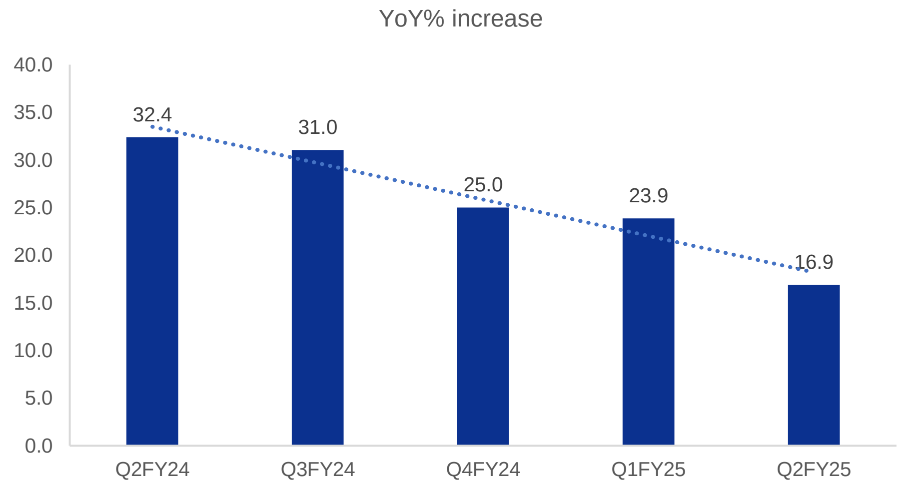
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Slowing NSV growth raises red flags for Nykaa Fashion

While GMV growth appears robust, a closer examination of net sales value (NSV)—a more accurate indicator of actual sales—tells a different story. **NSV growth has consistently decelerated yoy: from 32% in 2QFY24 to 31% in 3QFY24, 25% in 4QFY24, 24% in 1QFY25 and a mere 17% in 2QFY25.**

This steady decline in NSV growth highlights problems in scaling the business, as absolute sales numbers struggle to keep pace with GMV growth. Factors such as category saturation, over-reliance on discounts, and growing competition may be limiting Nykaa Fashion's ability to sustain its revenue growth. These challenges underscore the importance of NSV as a metric, offering a more accurate perspective on the business's profitability and scalability.

Figure 27: YoY % increase in NSV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Competing in a crowded and competitive market

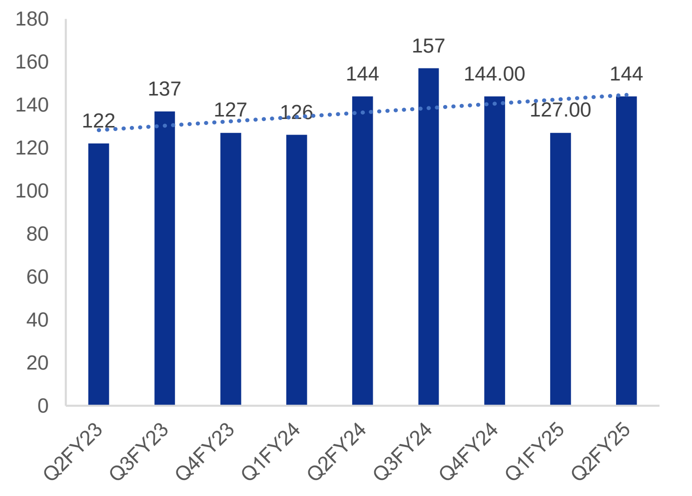
Nykaa Fashion's slowing NSV growth becomes particularly concerning in India's highly competitive e-commerce fashion landscape. Established players like Myntra and Ajio dominate the space with extensive product offerings and aggressive pricing strategies. For Nykaa Fashion, a relatively new entrant, breaking into this market has been an uphill task. **Unlike the BPC vertical, where Nykaa maintains a clear leadership position, the fashion business has yet to establish a similar foothold.**

Shein's relaunch adds to mounting pressure ➤

Competition is set to intensify with Shein's anticipated relaunch in India through a partnership with Reliance Jio. Known for its aggressive pricing and fast-fashion appeal, Shein is expected to disrupt the market further by attracting price-conscious consumers. This development not only exerts pressure on Nykaa Fashion but also challenges the entire ecosystem. To maintain its position, Nykaa will need to double down on its premium offerings and curated strategies while navigating a market that is becoming increasingly saturated and price-sensitive.

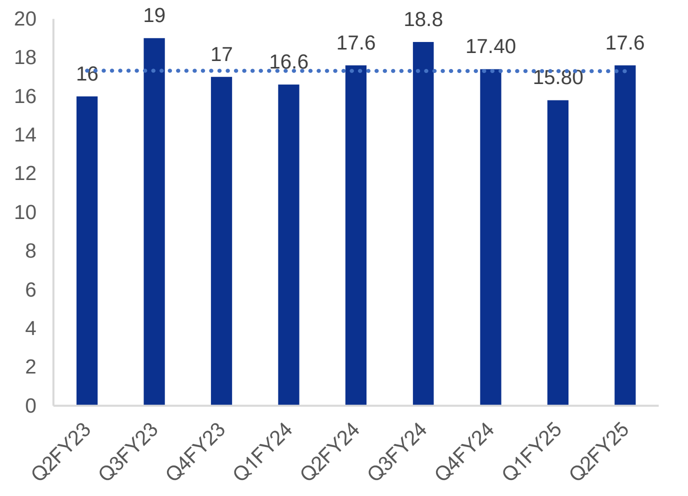
Key operational metrics for Nykaa Fashion

Figure 28: Number of visits (m)



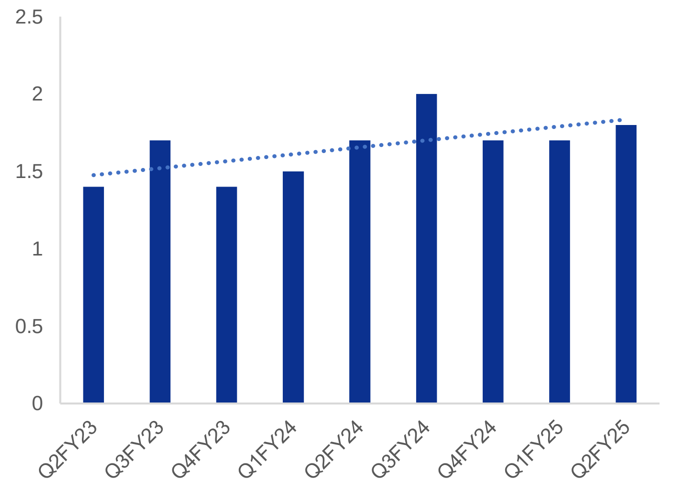
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: Monthly average unique visitors (m)



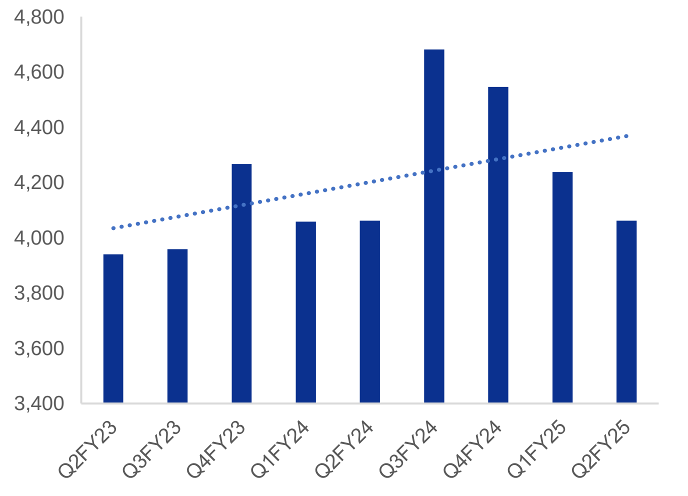
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: Orders (m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

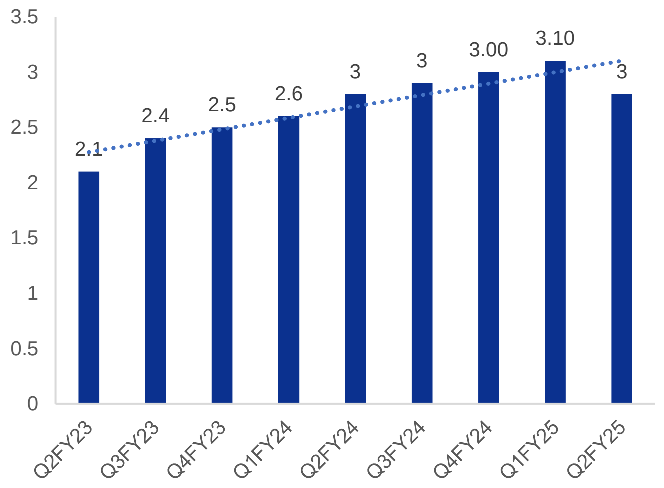
Figure 31: Average order value or AOV (Rs)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

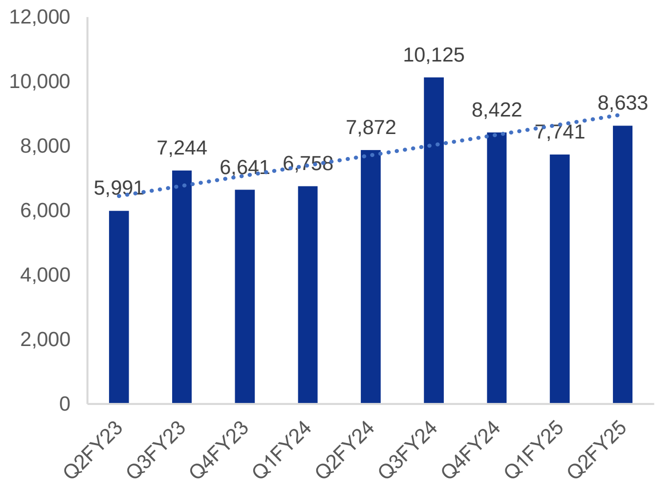
InCred Equities

Figure 32: Annual unique transacting customers (TTM)



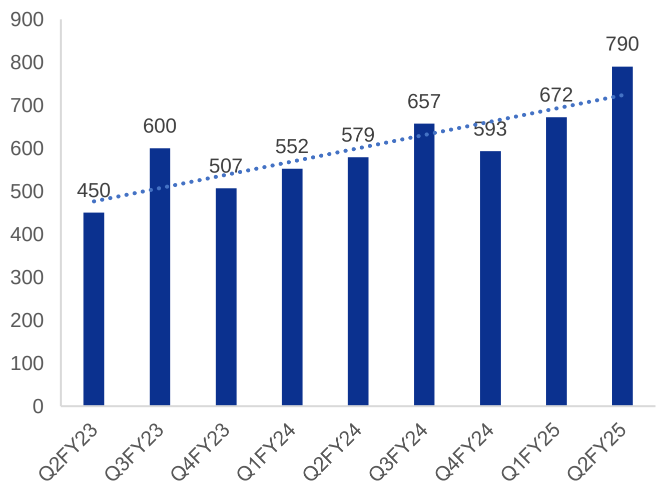
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 33: Gross merchandise value or GMV (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 34: Advertisement expenses (Rs m)



Nykaa Fashion's operational performance & unit metrics

Figure 35: Nykaa Fashion's operational performance

Unit Economics (Nykaa Fashion)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
AOV	3,940	3,959	4,266	4,058	4,061	4,681	4,546	4,237	4,061
GMV	5,991	7,244	6,641	6,537	7,628	10,125	8,422	7,741	8,633
Revenue (Rsm)	1,016	1,275	1,050	1,138	1,305	1,526	1,334	1,486	1,661
Revenue as a % of GMV	17	18	16	17	17	15	16	19	19
Orders (m)	1.4	1.7	1.4	1.5	1.7	2	1.7	1.7	1.8
Revenue per order (Rs)	726	750	750	759	768	763	785	874	923
Gross profit (Rsm)	781	914	803	870	1,001	1,170	1,017	1,210	1,348
Gross profit per order (Rs)	558	538	574	580	589	585	598	712	749
Fulfillment costs (Rsm)	183	248	225	231	277	310	251	237	248
Fulfillment costs per order (Rs)	131	146	161	154	163	155	148	139	138
MnA costs (Rsm)	450	600	507	552	579	657	593	672	790
MnA costs per order (Rs)	321	353	362	368	341	329	349	395	439
SnD costs (Rsm)	108	48	23	35	37	39	41	52	54
SnD costs per order (Rs)	77	28	16	23	22	20	24	31	30

SOURCE: INCRED RESEARCH, COMPANY REPORTS

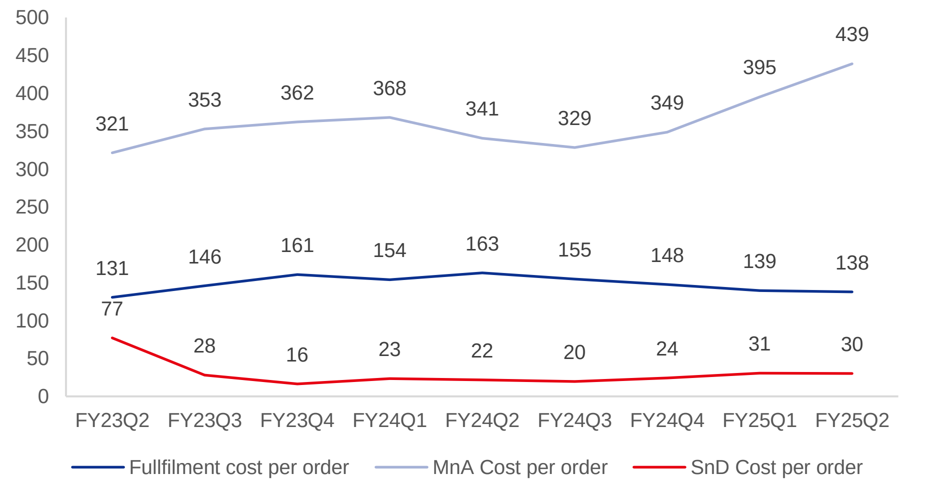
Flat order growth raises concerns

Nykaa's fashion vertical has shown flat growth in order volume over recent quarters. The number of orders remained largely unchanged at around 2m from 2QFY24 through 2QFY25, which indicates stagnation despite increased marketing efforts and an expanding product portfolio. This flat trajectory raises concerns about Nykaa's ability to attract and retain customers in the competitive fashion e-commerce space.

Costs reflect mixed signals and scaling challenges

- **Fulfillment costs:** Fulfillment cost per order has consistently declined, from Rs163 in 2QFY24 to Rs138 in 2QFY25. This improvement is attributed to Nykaa's strategic investment in expanding fulfillment centres/warehouses, which has helped reduce logistical costs and improve operational efficiency.
- **Marketing and advertisement costs (MnA):** MnA costs per order have risen sharply, from Rs321 in 2QFY23 to Rs439 in 2QFY25. This steep increase highlights growing customer acquisition costs as Nykaa battles for market share in the crowded fashion space. The high cost is unsustainable in the long run and indicates a need for greater efficiency in marketing strategies.
- **Selling and distribution costs (SnD)**: SnD costs per order rose gradually, from Rs16 in 4QFY23 to Rs30 in 2QFY25. This reflects Nykaa's ongoing investments in expanding its distribution network to support its fashion segment.

Figure 36: Trends per order (fulfilment, marketing and advertising, selling and distribution) (Rs)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Nykaa's owned brands drive growth

Nykaa's portfolio of 13 beauty and 14 fashion brands reflects its strategic focus on creating high-quality, customer-centric products. In FY24, these owned brands showcased significant growth, steadily contributing to Nykaa's GMV across both verticals. Their diverse offerings have bolstered the company's ability to cater to varied customer needs while reinforcing its market presence.

Beauty brands outperform with impressive GMV growth ➤

In the beauty vertical, owned brands reported a remarkable 39% YoY GMV growth to Rs10,954m, contributing 13.1% to the BPC segment's GMV. Dot & Key emerged as a standout performer, achieving a GMV run rate of over Rs6bn, followed by Kay Beauty, India's first celebrity beauty brand, with a GMV run rate exceeding Rs1.5bn. These results underline Nykaa's ability to scale its beauty brands efficiently and profitably.

Fashion-owned brands face scaling challenges ➤

Nykaa's fashion-owned brands grew by 25% YoY to Rs4,149m in FY24, contributing 12.7% to the fashion vertical's GMV. Leading the charge was Nykd by Nykaa, a lingerie and athleisure brand with a GMV run rate of Rs1.5bn. **While these numbers are encouraging, the fashion vertical lags behind its beauty counterpart in terms of both growth and profitability**, highlighting the challenges of scaling a house of fashion brands in a crowded market.

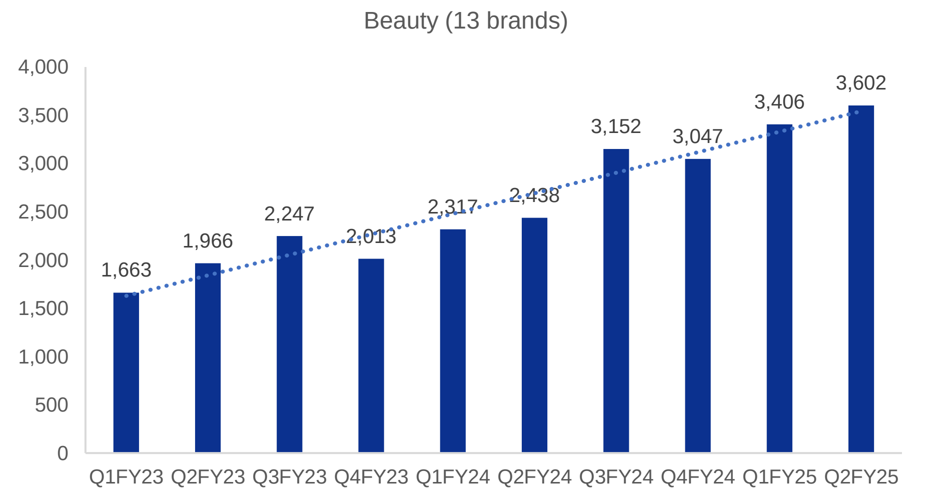
Omni-channel strategy boosts brand visibility ➤

Nykaa's omni-channel strategy has been instrumental in expanding the reach of its owned brands. Dot & Key, for instance, is now available in over 185 Nykaa stores and 800+ third-party retail points, illustrating the success of its blended approach. The integration of online platforms with offline stores has strengthened Nykaa's ability to cater to diverse customer preferences while driving incremental sales.

Growth in beauty business masks challenges in fashion ➤

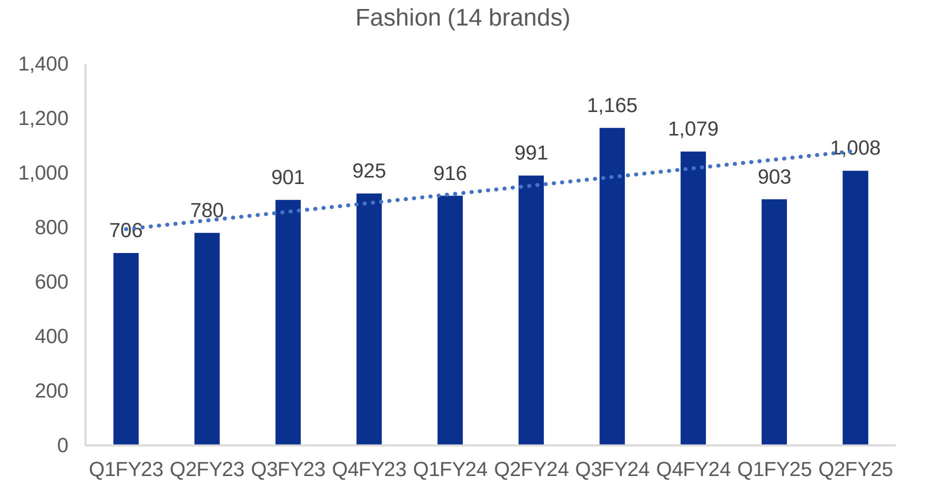
While owned brands are pivotal to Nykaa's growth, their success is skewed towards the beauty vertical. Scaling the fashion house of brands remains a challenge due to intense competition and operational complexities. Addressing these hurdles will be critical for Nykaa to ensure consistent growth and profitability across both segments. Without targeted interventions, the disparity in performance between the two verticals could limit the overall potential of its owned brands portfolio.

Figure 37: GMV of beauty house of brands (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 38: GMV of fashion house of brands (Rs m)

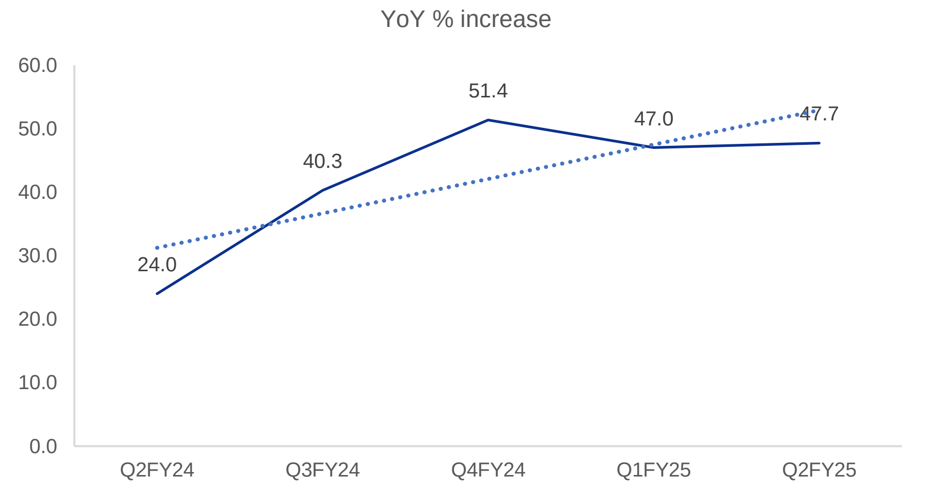


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Owned beauty brands thrive with consistent growth

Nykaa's owned beauty brands have shown remarkable YoY growth, reflecting sustained demand and strong execution. **In 2QFY24, beauty GMV grew by 24.0%, followed by an impressive 40.3% in 3QFY25 and 47.7% in 2QFY25**. These results highlight the success of Nykaa's innovative product launches, loyal customer base, and omni-channel distribution strategy, which have solidified its leadership in the beauty segment.

Figure 39: YoY % increase in beauty house of brands' GMV

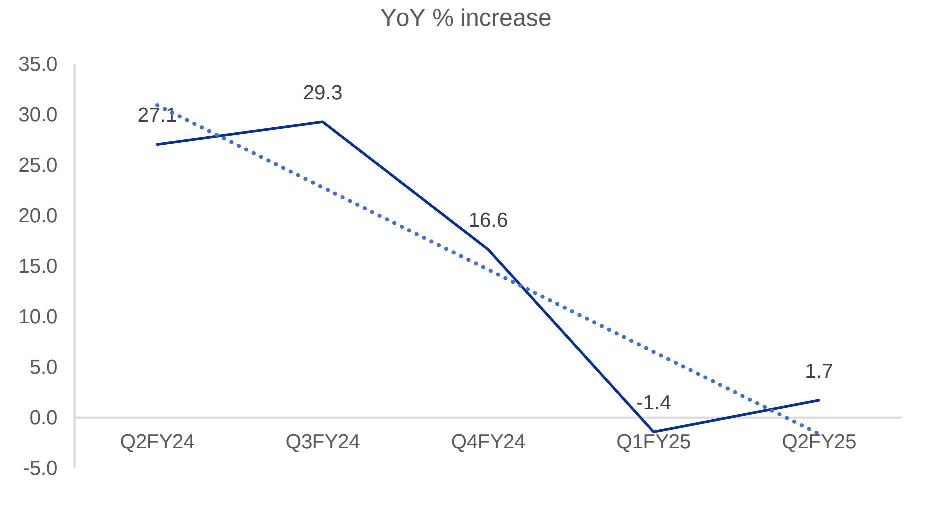


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Owned fashion brands struggle with declining momentum

In stark contrast, the fashion vertical's YoY GMV growth presents a troubling narrative**. While FY24 started strong with 29.7% growth in 1Q and 27.0% in 2Q, subsequent quarters revealed a steady decline. Growth dropped to -1.4% in 1QFY25 and marginally recovered to 1.7% in 2Q**. This downward trend signals mounting challenges in scaling Nykaa's fashion portfolio, despite notable efforts through products like Nykd and strategic partnerships.

Figure 40: YoY % increase in fashion house of brands' GMV

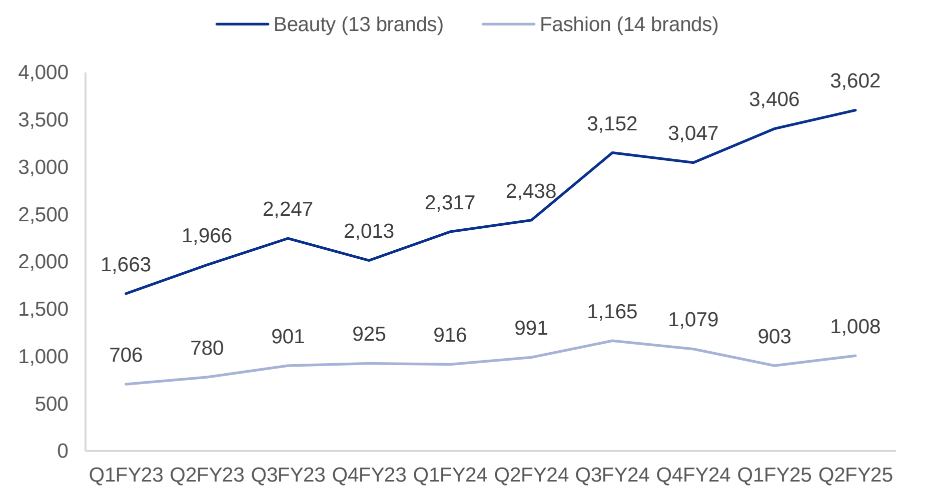


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Divergence highlights challenges in fashion business scalability

The stark divergence between beauty and fashion owned brands raises critical concerns about Nykaa's ability to replicate its beauty vertical's success in the fashion space. The highly competitive fashion e-commerce market, dominated by players like Myntra and Ajio, makes it difficult for Nykaa to carve out a substantial market share.

Figure 41: House of brands' GMV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Premium positioning at odds with fashion consumer trends

Nykaa's premium positioning in the fashion business faces headwinds as consumer preferences increasingly lean toward discounts and fast fashion. This dynamic creates a disconnect between Nykaa's strategy and the broader market trends, amplifying the challenges of scaling its fashion vertical. Addressing this divergence will be crucial for Nykaa to balance growth across both segments and sustain its market leadership.

Figure 42: Nykaa house of brands

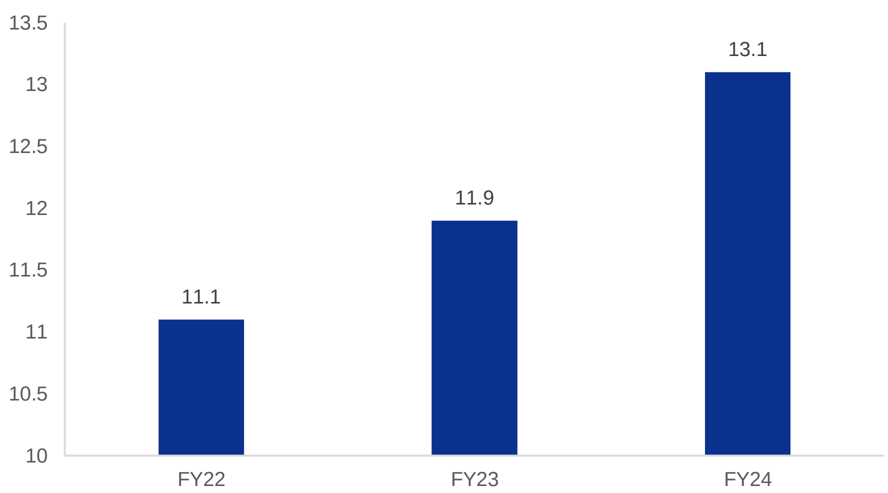
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Success of owned brands essential for pricing power ›

While owned brands give pricing control, a significant portion of Nykaa's GMV still comes from third-party brands. These brands dictate pricing and discount strategy, limiting Nykaa's autonomy. However, Nykaa has exclusive partnerships with international and domestic brands, particularly in luxury and premium segments. This exclusivity gives some pricing power as these products are not available on other platforms.

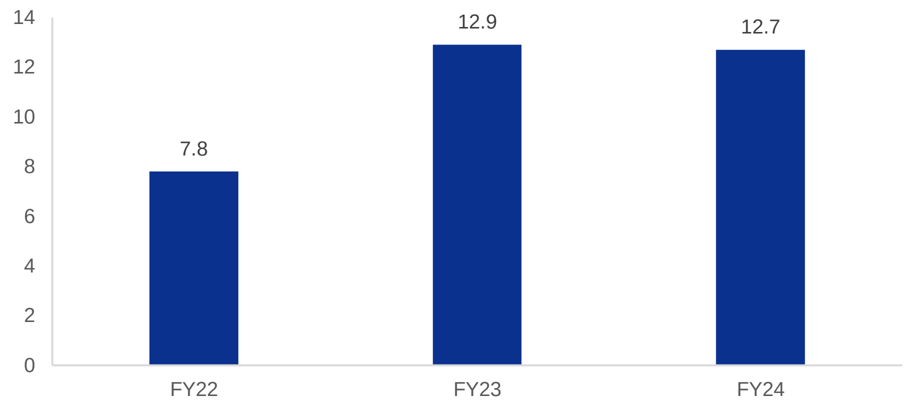
As BPC-owned brands continue to perform well and contributed 13.1% to the BPC vertical's GMV and improving YoY, concerns about the fashion business-owned brands remain following a poor performance in FY24.

Figure 43: Contribution of owned BPC brands to BPC GMV (%)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 44: Contribution of owned fashion brands to fashion business GMV (%)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

SuperStore by Nykaa: A platform with growing potential

Launched in 2021, Nykaa's SuperStore eB2B platform has quickly become a cornerstone of the company's growth strategy. Highlighted as a key driver in the FY24 annual report, the platform's 2QFY25 performance reinforces its position as a vital growth engine.

Record GMV growth reflects the platform's strength ➤

In 2QFY25, SuperStore reported an **impressive 80% yoy GMV growth**, showcasing its ability to create significant value. This growth was fuelled by an expanding retailer base, with the cumulative number of transacting retailers rising by 60% YoY to reach 235,000.

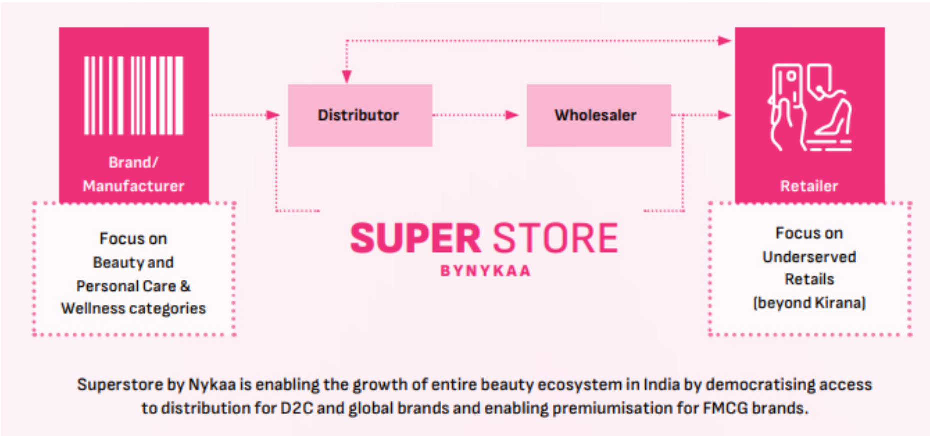
Surge in orders and AOV signals operational excellence ➤

SuperStore's growth story extends beyond GMV, with a 45% YoY increase in orders to 406,000. Additionally, the average order value (AOV) rose by 16% YoY, driven by a higher share of premium and featured brands. These metrics underscore the platform's operational strength and its ability to adapt to the evolving needs of its retailer partners, delivering both scale and value.

SuperStore's role in Nykaa's future growth ➤

SuperStore's remarkable growth trajectory highlights its potential to become a long-term revenue driver for Nykaa. By combining an expanding retailer network with a focus on premium offerings, the platform is well-positioned to tap into the growing eB2B segment, supporting Nykaa's broader strategy of diversification and scalability.

Figure 45: Nykaa superstore



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Nykaa's services revenue's growth plateaus

Services revenue growth lags expectations ›

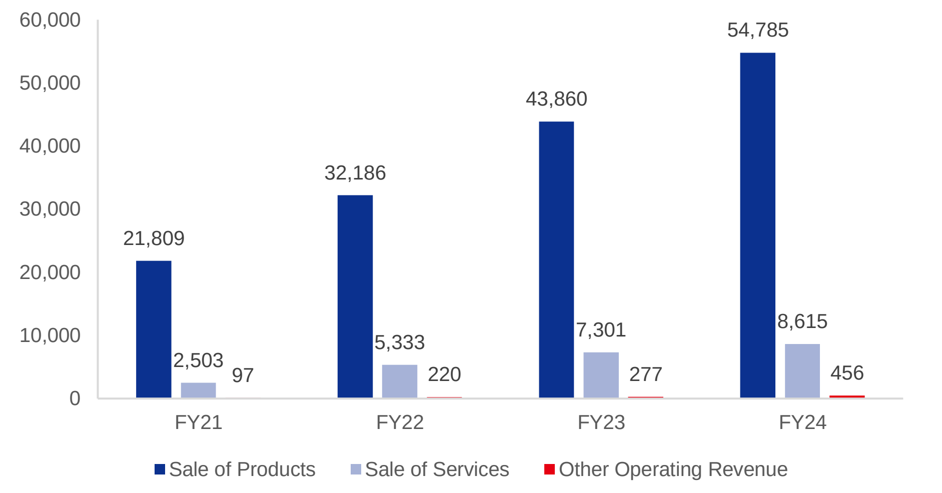
Nykaa's services revenue has seen a declining growth rate in recent years, raising concerns about its ability to offset rising costs. While it grew by 113% in FY22, this growth slowed to 37% in FY23 and further to 18% in FY24. Such a tapering trend highlights challenges in scaling this vertical, which is critical for reducing the company's dependence on product sales.

Declining contribution of services business to total revenue ›

The contribution of services revenue to overall revenue has not kept pace, decreasing from 14% in FY22 and FY23 to 13% in FY24. This stagnation undermines Nykaa's efforts to increase profitability, as a higher share of services revenue could lower its COGS.

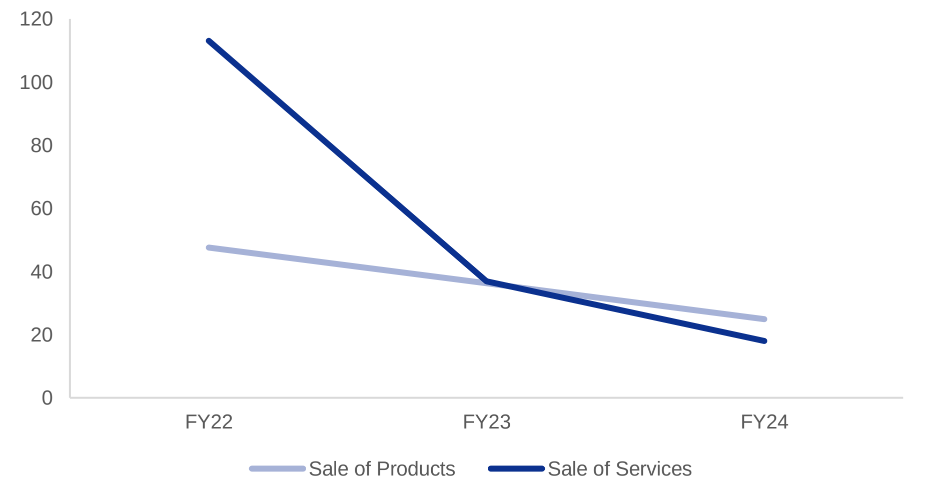
Despite the company's diversification efforts, product sales dominate the revenue mix, contributing 86% in FY24. This reliance on product sales highlights the need for strategic initiatives to scale the services business, which remains critical for sustaining long-term growth and cost efficiency.

Figure 46: Revenue from operations share (Rs m)



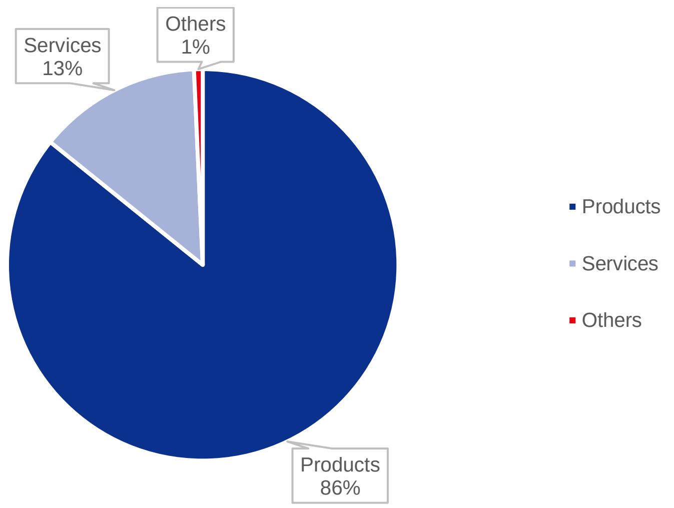
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 47: Percentage increase in revenue from products and services



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 48: Revenue from operations share in FY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

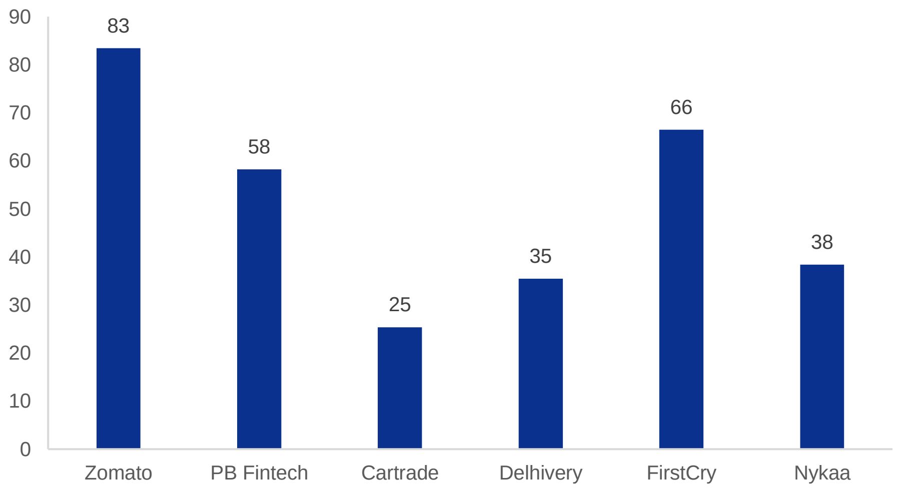
How impressive is the topline growth?

New-age growth benchmarks

For Nykaa, we have projected a 25% revenue growth for FY26F and FY27F. While this appears impressive when juxtaposed with traditional companies, it aligns with the trends observed in new-age businesses. Compared to Zomato's average revenue growth of 83% (FY22-24) and FirstCry's 66%, Nykaa's 38% average in the same period showcases steady but moderate growth within its peer group.

CarTrade, with its 25% growth, underscores that not all new-age companies exhibit stellar trajectories. Nykaa's ability to outperform such peers, while maintaining sustainable growth, makes it a significant player in the sector. However, given the higher benchmarks set by companies like Zomato and FirstCry, Nykaa's growth projections may appear modest in the broader new-age landscape.

Figure 49: Average revenue growth (FY22/23/24) of various companies



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Nykaa's financial analysis

Return ratios reflect recent recovery but face future challenges

Return on net worth improved from 1.8% in FY23 to 3.3% in FY24, driven by an increase in net income. According to our projections, RoNW is expected to improve further in FY25F due to higher profitability. However, it is likely to decline in FY26F and FY27F as profitability moderate. Return on capital employed also improved from 6.2% in FY22 to 7.5% in FY24, reflecting better capital utilization. Projections for FY26F and FY27F suggest a decline in RoCE as rising investments in warehouses and inventory levels outweigh profitability gains.

Margins show limited expansion with future compression likely

Gross profit margin averaged 43% between FY21 and FY24, with a slight decline to 42.9% in FY24. The EBITDA margin improved to 5.4% in FY24 from 5% in FY23. For FY25F, further margin expansion is expected due to operational efficiency. However, by FY26F and FY27F, the EBITDA margin is projected to compress to 5.1%, driven by rising COGS and marketing costs. Net profit margin remains thin at 0.6% in FY24. While some improvement is anticipated in FY25F, they are expected to decline again in FY26F and FY27F due to rising expenses and competitive pressure.

Liquidity metrics show strain as business scales

The company's current ratio declined from 2.0 in FY22 to 1.2 in FY24, signalling tighter liquidity as the business scales operations. This ratio is expected to deteriorate further in FY25F-27F due to higher working capital requirement driven by inventory expansion. The interest coverage ratio improved to 4.2 in FY24, supported by an increase in EBITDA relative to finance costs. However, this ratio is expected to decline in FY26F and FY27F as EBITDA growth slows.

Efficiency ratios highlight operational adjustments

The inventory turnover ratio stabilized at 3.3 times in FY24, after a dip in FY22 and FY23, reflecting better inventory management. However, the trade receivables turnover ratio declined from 47.8 times in FY21 to 31.5 times in FY24, indicating longer collection cycle and potential strain on working capital. Meanwhile, the trade payables turnover ratio increased from 6.28 times in FY21 to 11.8 times in FY24, suggesting improved payment terms with suppliers. This upward trend in payables turnover is expected to continue as Nykaa optimizes cash flow management.

Figure 50: Financial performance

Particulars	Units	FY21	FY22	FY23	FY24
Return on net worth	%	13.6	4.5	1.8	3.3
Return on capital employed	%	17.5	6.2	6.6	7.5
Basic EPS	Rs	1.38	0.15	0.07	0.11
Gross profit margin	%	38.9	43.6	44.3	42.9
EBITDA margin	%	6.4	4.3	5	5.4
Net profit margin	%	2.5	1.1	0.4	0.6
Current ratio	times	1.4	2	1.6	1.2
Interest coverage ratio	times	5.1	3.5	3.4	4.2
Inventory turnover ratio	times	5.5	3.1	3	3.3
Trade receivables turnover ratio	times	47.8	44.1	39.9	31.5
Trade payables turnover ratio	times	6.28	7.4	9.4	11.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Industry outlook: BPC business

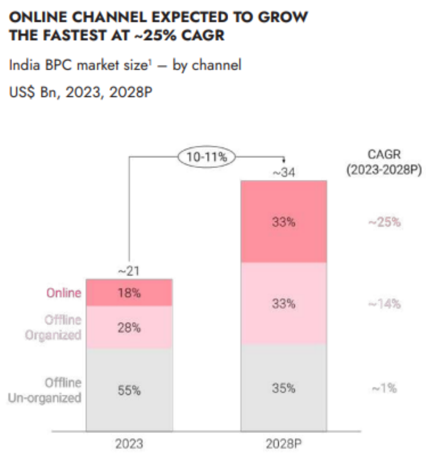
India’s BPC market set to grow at 10-11% CAGR to US$34bn by 2028F

India’s beauty and personal care (BPC) market is experiencing explosive growth, driven by evolving consumer preferences, rising online adoption, and increasing awareness around beauty and self-care. According to RedSeer(Consulting), the market is projected to grow from US$21bn in 2023 to US$34bn by 2028F, achieving a CAGR of 10-11%. This positions India as one of the fastest-growing BPC markets globally, outpacing major economies like China and the US.

Online channels drive the next wave of BPC business expansion

The online channel is emerging as the primary driver **of India’s BPC market, with an expected CAGR of ~25% over 2023-28F**. From accounting for 18% of the market in 2023, the online segment is projected to capture 33% by 2028F, reflecting the growing reliance of Indian consumers on e-commerce platforms. Organized offline retail will also expand at ~14% CAGR, but the rapid digital transformation highlights how e-commerce is reshaping consumer purchasing habits.

Figure 51: BPC market size by channel (growth)

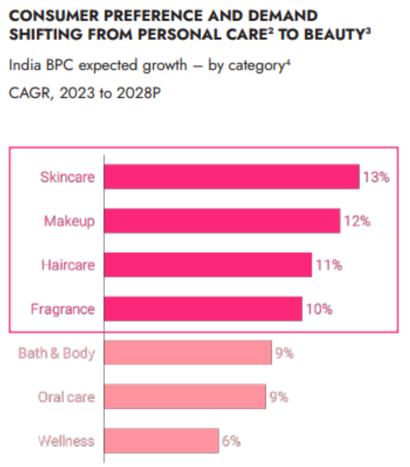


SOURCE: REDSEER REPORTS, INCRED RESEARCH, COMPANY REPORTS

Beauty categories lead consumer spending shift

The growth of India’s BPC market is fuelled by a shift in consumer demand towards beauty-focused categories like skincare, make-up, haircare, and fragrances. With CAGRs of 13%, 12%, 11%, and 10%, respectively, these segments are outpacing traditional categories such as oral care and wellness, capturing a larger share of consumer spending.

Figure 52: Growth by category

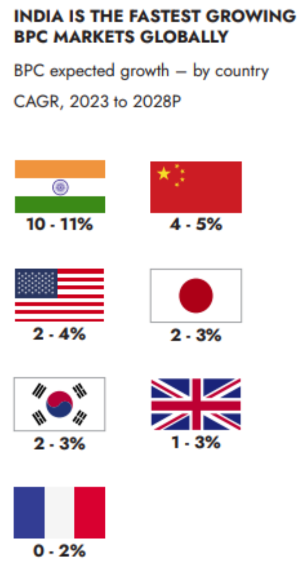


SOURCE: REDSEER REPORTS, INCRED RESEARCH, COMPANY REPORTS

Premiumization and social media drive adoption

This consumer shift reflects a growing focus on self-expression and premiumization, with Indian consumers increasingly favouring curated, high-quality beauty products. Social media and beauty influencers play a significant role in driving this transformation, making beauty products more accessible and desirable across diverse demographics. These trends underscore the dynamic and rapidly evolving nature of India's BPC market.

Figure 53: Expected growth of BPC business



SOURCE: REDSEER REPORTS, INCRED RESEARCH, COMPANY REPORTS

Tier-2 and Tier-3 cities emerge as growth hubs

Smaller cities and towns are becoming vital contributors to the beauty and personal care (BPC) market's growth. **Rising disposable incomes and better access to e-commerce platforms in Tier-2 and Tier-3 cities are driving demand**, creating fresh opportunities for brands to expand beyond traditional urban markets.

Technology revolutionizes beauty shopping experience

Advancements in technology are transforming how consumers interact with beauty brands. Tools like virtual try-ons and artificial intelligence or AI-driven personalized recommendations are making the shopping experience more interactive and tailored to individual preferences. These innovations are reshaping the way consumers discover and purchase beauty products, enhancing engagement and satisfaction.

Clean and natural beauty trends gain traction ➤

Consumers are becoming more informed and conscious about product ingredients, fuelling the demand for clean, natural, and ingredient-focused offerings. This trend reflects a shift toward transparency and efficacy, pushing brands to adopt more sustainable and honest practices to meet consumer expectations.

Social media and micro-trends accelerate product innovation ➤

Fast-moving micro-trends, largely influenced by social media, are reshaping the beauty market. Brands must stay agile and innovative, responding quickly to ever-changing trends to remain competitive in a highly dynamic landscape.

Indian brands adopt omni-channel and youth-centric strategies ➤

Indian brands are redefining their strategies to align with these evolving trends. Many are leveraging omni-channel approaches, combining digital and offline platforms to maximize reach and engagement. Additionally, brands are increasingly targeting Gen Z and millennials, whose preferences are shaping the future of beauty consumption in India, driving innovation and setting new standards for the industry.

Industry outlook: Fashion

India's fashion industry expands with digital growth and reach in Tier-II cities

India's fashion industry is growing rapidly, driven by shifting consumer preferences, digital advancements, and a vibrant retail ecosystem. As the second-largest consumer category, fashion plays a vital role in the economy, with online penetration at 15% and steadily increasing.

Organized retail has been a major growth driver, particularly through large-format stores in urban malls that offer curated merchandise and premium shopping experiences, fostering brand loyalty. Simultaneously, Tier-II and Tier-III cities are emerging as critical contributors to growth, with value-driven store formats bringing high-quality fashion to previously underserved markets, fostering a diverse and inclusive consumer base.

E-commerce revolutionizes India's fashion landscape

E-commerce has transformed the fashion market by offering unparalleled convenience and variety. Digital platforms showcase an extensive range of Indian and international brands, often serving as the exclusive channel for global labels targeting Indian consumers. This shift reflects a broader transformation in shopping behaviour, with consumers increasingly preferring the accessibility and variety provided by online marketplaces.

Online fashion market poised to hit US$50bn by 2030F

India's online fashion market is on track to reach US$50bn by 2030F, growing at an annual rate of 20%, according to RedSeer (a consultancy firm). Currently valued at US$14bn, the segment has seen remarkable expansion, with Bain & Co (a consultancy firm) reporting an impressive 30% annual growth rate since 2019.

This rapid adoption of e-commerce has bridged geographic gaps, democratizing access to diverse styles and brands. Consumers now enjoy the convenience of exploring collections from global and domestic players, supported by enhanced digital infrastructure, targeted marketing, and influencer-driven campaigns.

Digital fashion ecosystem emerges as a growth engine

The online fashion segment has become an essential component of India's overall fashion industry. Rising internet penetration, increasing consumer demand for variety, and a growing preference for digital platforms ensure sustained growth. As the digital ecosystem continues to evolve, the online segment will play a pivotal role in shaping the future of India's fashion market, creating new opportunities for both brands and consumers.

Competitor analysis: BPC

Nykaa, a leader in India's online beauty and personal care (BPC) segment, operates in a highly competitive and rapidly evolving market. The e-commerce penetration in India is currently at **6%** of overall retail (2022), lagging behind mature markets such as the US (**15%**) and significantly lower than China (**27%**). While this indicates untapped potential for growth in India's online retail space, the market is characterized by stiff competition across **luxury**, **mass**, and **masstige** segments.

Luxury segment ➤

The **luxury BPC market** is growing as Indian consumers increasingly embrace premium international beauty brands. However, Nykaa faces strong competition from key players.

- **Tira (Reliance Retail)**: With Reliance Retail's vast offline retail network and curated offerings, Tira is making aggressive moves to dominate the luxury beauty market.
- **Tata CLiQ Palette**: Positioned as a luxury beauty platform, it leverages Tata's premium branding and exclusive partnerships to attract affluent customers.
- **Sephora India (online)**: A global powerhouse in luxury beauty, Sephora India continues to thrive on its curated international portfolio and premium positioning.

Mass segment ➤

The **mass BPC market** is dominated by affordability and convenience, where players focus on capturing everyday consumer needs.

- **Swiggy Instamart, Blinkit, and Zepto**: These quick commerce players are revolutionizing the mass segment with instant delivery services for BPC essentials like shampoos, soaps, and skincare products. Their convenience-first approach targets urban millennials and Gen Z shoppers.
- **Purplle**: Competing strongly in Tier-2 and Tier-3 cities, Purplle offers affordable products and mid-tier options to cater to price-sensitive consumers.
- **Amazon/Flipkart**: With their massive logistics networks and economies of scale, these e-commerce giants dominate the mass market through broad product offerings and competitive pricing.

Masstige segment ➤

The **masstige (mass + prestige)** category bridges the gap between affordability and aspiration, attracting urban, fashion-conscious consumers.

- **Myntra (beauty segment)**: A fashion-first platform that integrates beauty into its ecosystem, Myntra appeals to masstige customers with its seamless shopping experience and focus on trending brands.
- **Tata CLiQ Beauty**: Positioned for aspirational buyers, Tata CLiQ Beauty offers a mix of mid-tier and affordable premium brands.

Competitor analysis: Fashion

Nykaa Fashion, launched in 2018, was a bold step to diversify beyond its stronghold in the beauty and personal care (BPC) segment. However, the Indian online fashion market is dominated by well-established players like Myntra and Ajio, with deep customer loyalty and refined strategies. The competition is set to intensify further with the return of Shein through its partnership with Reliance Retail, threatening to disrupt the fast-fashion segment.

Myntra's dominance challenges Nykaa Fashion's growth ➤

As a pioneer in India's online fashion space, Myntra has solidified its position since its launch in 2007. Offering a vast catalogue ranging from affordable to premium brands, Myntra caters to diverse consumer needs. Advanced personalization tools, AI-driven recommendations, and blockbuster events like the 'End of Reason Sale' (EoRS) have created an unmatched shopping experience, strengthening customer loyalty. Additionally, Myntra's private labels, such as Roadster and HRX, drive high-margin sales, giving it a significant competitive advantage. For Nykaa Fashion, competing with Myntra means facing a well-entrenched market leader with aggressive pricing, supply chain synergies through Flipkart, and unparalleled brand visibility.

Ajio's hybrid strategy and Reliance Retail-backed power ➤

Ajio, Reliance Retail's fashion platform, has quickly established itself as a major player by catering to both budget-conscious and aspirational shoppers. With a mix of affordable fashion and exclusive designer collaborations, Ajio benefits from Reliance Retail's extensive offline network to seamlessly blend online and offline experiences. Private labels and a focus on fast-moving trends have given Ajio an edge in engaging young, urban consumers. Ajio Luxe, its premium segment, directly competes with Nykaa Fashion's luxury ambitions, while Reliance Retail's financial muscle allows for aggressive marketing and customer acquisition, making Ajio a formidable competitor.

Shein's return threatens to reshape the market ➤

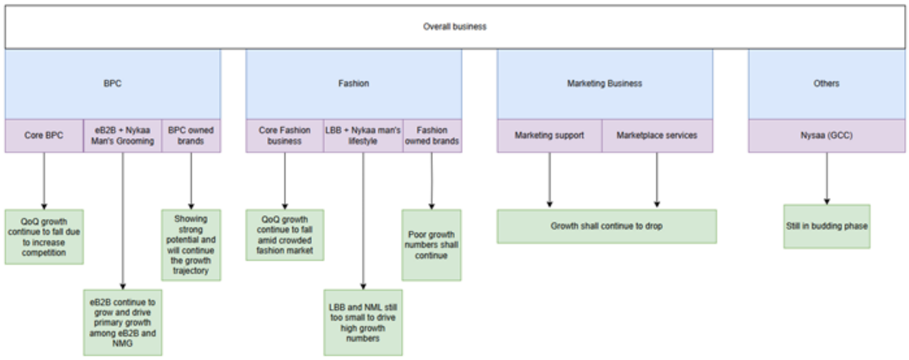
The anticipated re-entry of Shein, in partnership with Reliance Retail, adds another layer of complexity to Nykaa Fashion's competitive landscape. Known for its trendy and affordable fast fashion, Shein is poised to attract price-sensitive yet style-conscious consumers. Its unmatched speed in launching new collections and strong brand recall make it a direct threat to emerging platforms like Nykaa Fashion, which are still solidifying their position in this crowded market.

Navigating a high-stakes fashion battleground ➤

Nykaa Fashion must confront well-established players like Myntra and Ajio, while preparing for the disruptive entry of Shein. Success in this intensely competitive market requires a clear differentiation strategy, stronger operational efficiency, and an unwavering focus on understanding and adapting to consumer needs. Without significant innovation, Nykaa risks losing momentum in a market where only the strongest players thrive.

Investment thesis

Figure 54: Investment thesis diagram

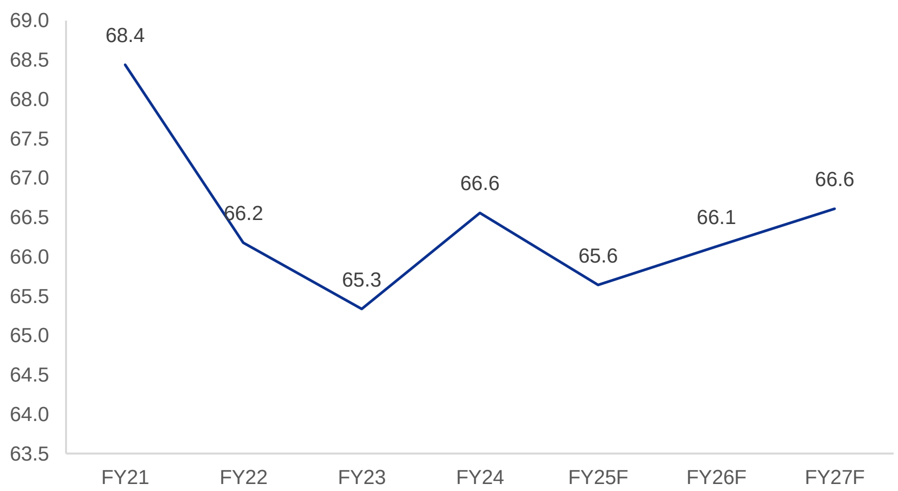


SOURCE: INCRED RESEARCH

Cost of goods sold (COGS): A rising challenge

The largest component of Nykaa's expenses is **COGS**, and this is expected to rise in the coming years. The rising contribution of the **eB2B business**, which operates on lower margin, will lead to a higher proportion of revenue being allocated to COGS. Additionally, as competition from **Tira** intensifies, the luxury segment in Nykaa's BPC vertical will face pressure, shifting the revenue mix toward **mass and masstige products**. These categories inherently have lower margin, further driving up COGS and squeezing overall profitability.

Figure 55: Projected COGS as % of sales of products



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fulfillment and selling expenses: Areas of optimization

Nykaa has been making strides in optimizing **fulfillment expenses**, and we expect these costs to decrease by a few basis points. However, **selling and distribution expenses**, which have shown a slow but steady increase over the last eight quarters, are likely to be a focus area for further optimization. If Nykaa can achieve efficiency here, it could offset some of the margin pressure caused by rising COGS.

Marketing and advertisement expenses: Scaling with competition

Currently constituting **12% of revenue**, marketing and advertisement expenses are expected to rise as Nykaa navigates rising competition in **BPC** and **fashion businesses**. With aggressive marketing required to maintain customer loyalty and drive growth in these competitive verticals, these expenses are unlikely to stabilize in the near future.

Other expenses: Employee benefits and operational costs

Nykaa's **employee benefit expenses** and other operational costs will remain critical to its overall profitability. While optimization is possible, it may not deliver significant margin improvement in the short term.

EBITDA margin: Set to decline further

Nykaa's EBITDA margin currently hovers around **5.5%**, and we expect it to decline further as rising COGS outweighs the improvement in fulfillment and other expenses Marginal savings in operational costs will not be enough to counterbalance the impact of rising competition and the shift in product mix.

Razor-thin PAT margin: A long road to sustainable profitability

With a razor-thin **profit after tax (PAT) margin**, Nykaa's overall profitability remains under pressure. Although the company is projected to achieve **25% revenue growth in FY26F and FY27F**, the realization of meaningful profits will depend on its ability to **optimize expenses** and improve operational efficiency.

BPC business will face slowing core growth despite emerging opportunities

Nykaa's core BPC business, while continuing to contribute a major share of revenue, will face growth challenges due to rising competition. Emerging segments like eB2B will drive incremental growth, but their lower margin will limit overall profitability.

Owned beauty brands will continue to drive growth in the BPC vertical

Nykaa's beauty business-owned brands are expected to maintain their strong performance, supported by flagship brands like Dot & Key and Kay Beauty. With a 39% YoY GMV growth in FY24, these brands will remain critical to Nykaa's growth strategy in the BPC segment.

Plateaued growth outlook of fashion business

Intense competition from established players like Myntra and Ajio, along with the looming entry of Reliance Retail-backed Shein, has further dampened the growth outlook. Although the expansion of online fashion in India—projected to grow at a 20% CAGR to US$50 bn by 2030F—presents opportunities, Nykaa's ability to gain market share in this highly competitive landscape remains uncertain.

Fashion business-owned brands will struggle to post consistent growth

The fashion business-owned brands segment is unlikely to show significant improvement, as past trends indicate weak growth. Addressing consumer preferences and driving consistent demand will be critical to reversing this trend.

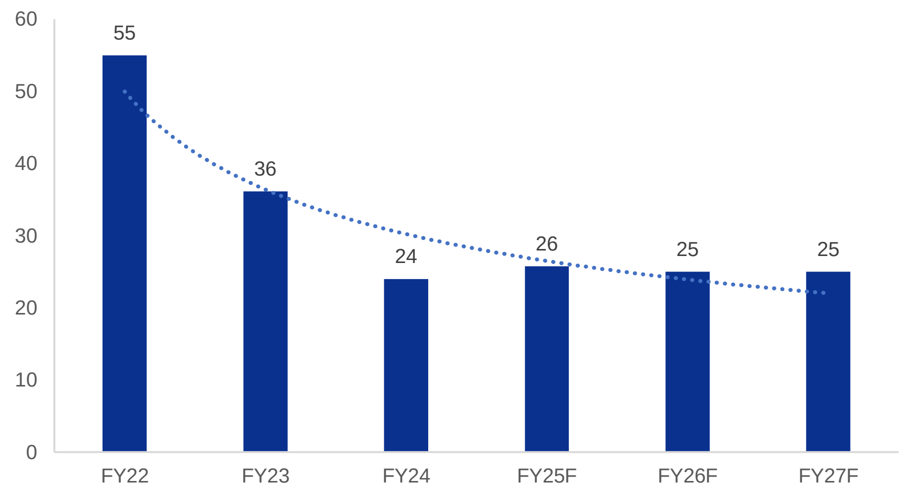
Marketing revenue will see continued weakness across verticals

The marketing business, integrated within BPC and fashion operations, is expected to witness a continuous decline. Both marketing support services and marketplace revenue are likely to remain under pressure, weakening their contribution to overall growth.

Nysaa expansion will show long-term promise but minimal near-term impact

Nykaa's GCC venture, Nysaa, launched in FY24, will continue to hold long-term growth potential. However, its current scale remains small, limiting any significant near-term contribution to revenue and profitability.

Figure 56: % increase in revenue growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Company overview

FSN Ecommerce (Nykaa) has emerged as a leading omni-channel retailer in India, specializing in beauty and personal care (BPC) and fashion segments. Founded in 2012, the company has successfully positioned itself as a one-stop destination for consumers seeking high-quality products across beauty, fashion, and lifestyle categories. With its robust online platform complemented by an expansive offline retail presence of **210 beauty stores** across **72 cities**, Nykaa has firmly established itself as the largest beauty retail network in India. Over the years, the company has expanded its reach into newer geographies, including the GCC region under the brand **NYSAA**, while maintaining its focus on innovation and customer experience.

Nykaa's business is broadly divided into four key verticals: BPC, fashion, eB2B (SuperStore by Nykaa), and its portfolio of owned brands. The core **BPC business** remains the company's flagship segment, contributing significantly to overall revenue, though its growth has slowed in recent quarters due to rising competition. In response, Nykaa has doubled down on its **eB2B platform, SuperStore**, which is rapidly scaling and showing promising growth. In **2QFY25**, SuperStore achieved **80% YoY GMV growth**, highlighting its potential as a compensatory driver for the slowing BPC segment. Meanwhile, the **fashion vertical**, though growing annually at **27% YoY** in FY24, faces challenges in achieving the expected trajectory amidst stiff competition from Myntra and Ajio.

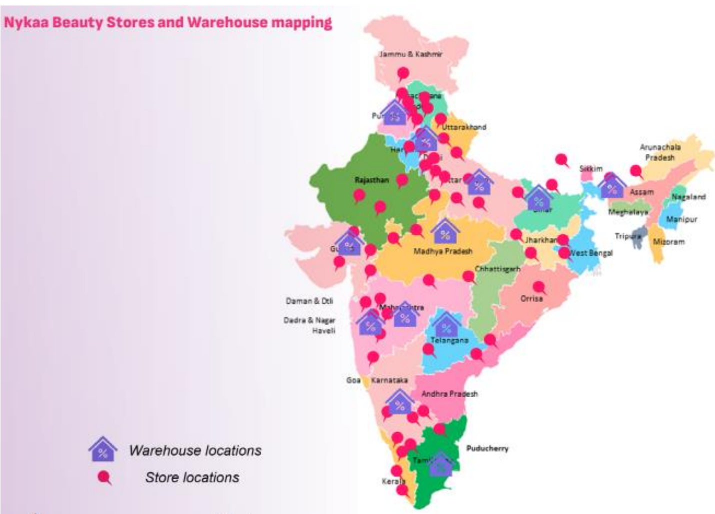
The company's portfolio of **27 owned brands** across beauty and fashion verticals has been a key pillar of growth, contributing meaningfully to its overall GMV. Brands like Dot & Key, Kay Beauty, and Nykd by Nykaa have emerged as standout performers, reflecting Nykaa's capability to create and nurture high-quality, consumer-loved products. Additionally, Nykaa's strategic focus on integrating technology and marketing innovations, such as hyperlocal deliveries and personalized shopping experiences, has strengthened its customer engagement. With India's **BPC and fashion markets projected to grow to US$34bn and US$200bn by 2030F, respectively**, Nykaa is well-positioned to leverage these tailwinds and maintain its leadership in the evolving retail landscape. While the company continues to explore international expansion and scale its new verticals, its commitment to providing a seamless omni-channel experience and addressing diverse consumer needs remains at the core of its strategy.

Figure 57: Store and warehouse details (as of 2QFY25-end)

Store/warehouse	Number
Nykaa on trend	91
Nykaa luxe	73
Nykaa kiosk	46
Warehouses	44

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 58: Location mapping



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 59: Holding, subsidiary and associate companies (including joint ventures) as of Mar 2024-end)

Sr. No.	Name of the Holding/Subsidiary/Associate Companies/Joint Ventures (A)	Indicate Whether Holding/Subsidiary/Associate/Joint Venture	% of Shares Held by Listed Entity
1	Nykaa E-Retail Limited	Direct Subsidiary	100%
2	FSN Brands Marketing Private Limited	Direct Subsidiary	100%
3	Nykaa-KK Beauty Private Limited	Direct Subsidiary	51%
4	Nykaa Fashion Limited	Direct Subsidiary	100%
5	FSN International Limited	Direct Subsidiary	100%
6	FSN Distribution Limited	Direct Subsidiary	100%
7	Dot & Key Wellness Private Limited	Direct Subsidiary	51%
8	Nudge Wellness Private Limited	Direct Subsidiary	60%
9	Earth Rhythm Private Limited	Associate	18.51%
10	Iluminar Media Limited	Direct Subsidiary	100%
11	Nykaa Foundation	Direct Subsidiary	99.99%
12	FSN Global FZE	Step-down Subsidiary	100%
13	Nykaa International UK Limited	Step-down Subsidiary	100%
14	Nessa International Holdings Limited	Step-down Subsidiary	55%
15	Nysaa Beauty LLC	Step-down Subsidiary	55%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 60: Core management team as of Mar 2024-end

Name	Position
Falguni Nayar	Executive Chairperson, Managing Director, and CEO
Adwaita Nayar	Executive Director, Managing Director & CEO – Nykaa Fashion Limited
Anchit Nayar	Executive Director, Managing Director & CEO – Nykaa E-Retail Limited
P. Ganesh	Chief Financial Officer
Vishal Gupta	CEO – Nykaa Distribution
Surender Mehta	Chief Human Resource Officer
Rajesh Uppalapati	Chief Technology Officer
Nihir Parikh ***(resigned in Dec 2024)***	CEO – Nykaa Fashion.com
Manoj Jaiswal	Chief Officer – Supply Chain
Sujeet Jain	Chief Legal and Regulatory Officer

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 61: Board of directors as of Mar 2024-end

Name	Position	Type of Director
Falguni Nayar	Executive Chairperson, Managing Director, and Chief Executive Officer	Executive
Sanjay Nayar	Non-Executive, Non-Independent Director	Non-Executive, Non-Independent
Adwaita Nayar	Executive Director	Executive
Milan Khakhar	Non-Executive, Non-Independent Director	Non-Executive, Non-Independent
Alpana Parida	Independent Director	Independent
Anchit Nayar	Executive Director	Executive
Milind Sarwate	Independent Director	Independent
Anita Ramachandran	Independent Director	Independent
Pradeep Parameswaran	Independent Director	Independent
Seshashaye Sridhara	Independent Director	Independent

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 62: Remuneration of top management personnel in FY24

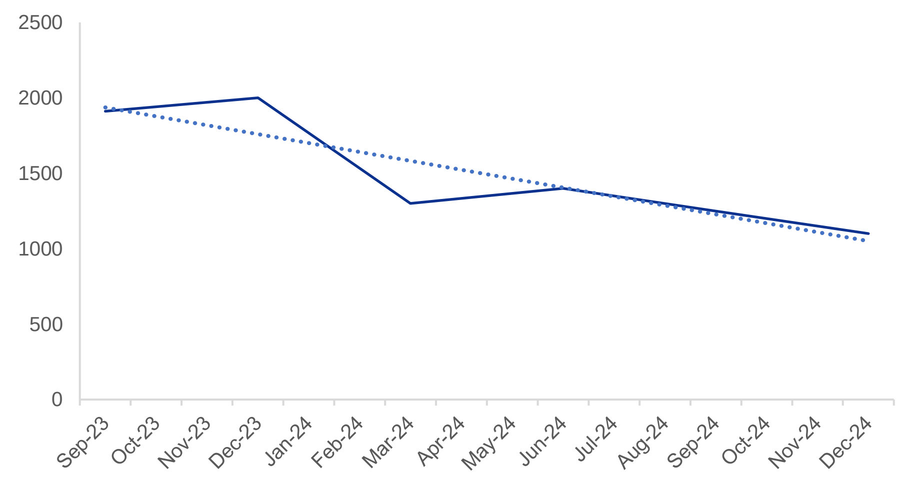
Sr. No.	Name	Designation	Remuneration for FY24 (Rsm)	Percentage Increase/(Decrease) in Remuneration in FY24	Ratio to Median Remuneration (in times)
1	Ms. Anita Ramachandran	Independent Director	2	0	2.5
2	Ms. Alpana Parida	Independent Director	0.5	-50	0.63
3	Mr. Pradeep Parameswaran	Independent Director	0.2	-80	0.25
4	Mr. Seshashaye Sridhara	Independent Director	1	0	1.25
5	Ms. Milind Sarwate	Independent Director	3	0	3.75
6	Mr. Milan Khakhar	Non-Executive Director	-	Not Applicable	Not Applicable
7	Mr. Sanjay Nayar	Non-Executive Director	-	Not Applicable	Not Applicable
8	Ms. Falguni Nayar	Executive Chairperson, Managing Director & CEO	6.61	-46.39	8.26
9	Ms. Adwaita Nayar	Executive Director	29.27	20.5	36.59
10	Mr. Anchit Nayar	Executive Director	1.32	-50	1.65
11	Mr. P. Ganesh	Chief Financial Officer	37.07	Not Applicable	Not Applicable
12	Mr. Sujeet Jain	Chief Legal and Regulatory Officer	26.53	Not Applicable	Not Applicable
13	Mr. Neelabja Chakrabarty	Company Secretary & Compliance Officer	2.68	Not Applicable	Not Applicable

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Valuation

We have used the P/E ratio method to value Nykaa, as it is one of the most appropriate metrics for a new-age company with unpredictable long-term cash flows. Unlike traditional valuation methods such as discounted cash flow or DCF—which requires stable and predictable cash flow projections—or EV/EBITDA, which is more suited for mature or cyclical companies, the P/E ratio effectively captures market expectations for earnings performance in a growth-oriented but volatile environment like Nykaa's.

Figure 63: Historical P/E ratio for Nykaa



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Nykaa's business trajectory, characterized by high growth expectations coupled with operational complexities, makes the P/E method a more practical approach. Nykaa's Return on Capital Employed (RoCE) has remained consistently low in the past few years, which indicates challenges in generating returns on invested capital, further reducing confidence in long-term stability.

From Sep 2023, Nykaa's P/E ratio has shown a marked decline, reflecting investor concerns about the company's growth trajectory. Companies trading at elevated P/E ratios (above 1,000 in this case) are expected to deliver robust and consistent growth. However, Nykaa's performance does not meet these expectations, creating a downward adjustment in its valuation multiple.

Using the historical P/E data, the mean P/E value is around 1,145.49, with a standard deviation of 613.71. To account for ongoing complexities in the business and investor sentiment, we have used 1 standard deviation less than the mean, resulting in a P/E ratio of 531.78. This conservative approach reflects our anticipation that the declining trend in the P/E ratio will continue, driven by challenges in growth and profitability.

Key risks

Better-than-expected improvement in expenses ➤

With a razor-thin PAT margin, any one-time improvement in other expenses, such as operational efficiency, could lead to a notable jump in profitability, challenging our projections.

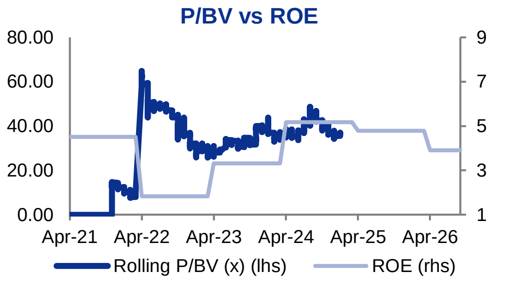
Luxury goods consumption outpaces expectations ➤

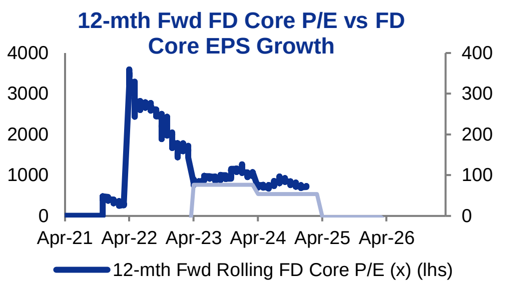
A surge in luxury product demand, coupled with underperformance from key competitors, like Reliance Retail's Tira or Tata Cliq Palette, could strengthen Nykaa's BPC dominance and enhance margins.

eB2B underperformance in the revenue mix ➤

If the eB2B vertical contributes less than expected to overall revenue, Nykaa's profitability may face lower-than-expected pressure, potentially offsetting our concerns about thin margin in this segment.

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	**51,438**	**63,856**	**80,299**	**100,360**	**125,433**
Gross Profit	**22,781**	**27,392**	**34,788**	**42,808**	**52,484**
Operating EBITDA	**2,560**	**3,462**	**4,465**	**5,396**	**6,350**
Depreciation And Amortisation	(1,733)	(2,242)	(2,733)	(3,524)	(4,405)
Operating EBIT	**828**	**1,219**	**1,732**	**1,872**	**1,945**
Financial Income/(Expense)	(746)	(828)	(1,050)	(1,313)	(1,657)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	302	299	377	471	588
Profit Before Tax (pre-EI)	**384**	**690**	**1,058**	**1,030**	**877**
Exceptional Items					
Pre-tax Profit	**384**	**690**	**1,058**	**1,030**	**877**
Taxation	(136)	(253)	(388)	(378)	(321)
Exceptional Income - post-tax					
Profit After Tax	**248**	**437**	**670**	**652**	**555**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**248**	**437**	**670**	**652**	**555**
Recurring Net Profit	248	437	670	652	555
Fully Diluted Recurring Net Profit	**248**	**437**	**670**	**652**	**555**

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	384	690	1,058	1,030	877
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,290)	(2,513)	(2,201)	(2,685)	(3,356)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,928	2,506	2,733	3,524	4,405
Net Interest (Paid)/Received	527	631	802	1,003	1,269
Tax Paid	(951)	(1,312)	(388)	(378)	(321)
Cashflow From Operations	**(1,402)**	**3**	**2,005**	**2,494**	**2,873**
Capex	(2,082)	(1,107)	(1,715)	(1,946)	(2,210)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3,477	1,006	(1,229)	(1,493)	(1,866)
Cash Flow From Investing	**1,396**	**(101)**	**(2,944)**	**(3,439)**	**(4,076)**
Debt Raised/(repaid)	929	2,765	2,200	2,200	2,200
Proceeds From Issue Of Shares	288	172			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(1,169)	(2,495)	(431)	(557)	(712)
Cash Flow From Financing	**49**	**443**	**1,770**	**1,644**	**1,489**
Total Cash Generated	42	344	830	699	286
Free Cashflow To Equity	**922**	**2,667**	**1,261**	**1,256**	**998**
Free Cashflow To Firm	**(753)**	**(927)**	**(1,990)**	**(2,258)**	**(2,859)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	1,487	2,399	3,651	4,865	5,796
Total Debtors	1,635	2,416	3,038	3,797	4,746
Inventories	10,051	11,920	14,990	18,735	23,415
Total Other Current Assets	5,882	6,194	7,789	9,735	12,168
Total Current Assets	**19,056**	**22,929**	**29,468**	**37,133**	**46,125**
Fixed Assets	6,398	6,132	5,064	3,436	1,191
Total Investments	381	343	431	539	674
Intangible Assets	899	848	898	948	998
Total Other Non-Current Assets	2,766	3,754	4,721	5,901	7,375
Total Non-current Assets	**10,444**	**11,077**	**11,114**	**10,823**	**10,238**
Short-term Debt	4,600	6,804	9,008	11,212	13,416
Current Portion of Long-Term Debt					
Total Creditors	2,654	3,867	4,863	6,077	7,596
Other Current Liabilities	4,721	8,118	10,208	12,758	15,946
Total Current Liabilities	**11,975**	**18,789**	**24,079**	**30,048**	**36,957**
Total Long-term Debt	4		(4)	(7)	(11)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**4**		**(4)**	**(7)**	**(11)**
Total Provisions	3,600	2,407	3,027	3,783	4,728
Total Liabilities	**15,578**	**21,196**	**27,102**	**33,824**	**41,675**
Shareholders Equity	13,780	12,622	13,292	13,945	14,500
Minority Interests	141	188	188	188	188
Total Equity	**13,922**	**12,810**	**13,480**	**14,133**	**14,688**

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	36.4%	23.9%	25.9%	24.9%	25.0%
Operating EBITDA Growth	56.8%	35.2%	29.0%	20.9%	17.7%
Operating EBITDA Margin	5.0%	5.5%	5.6%	5.4%	5.1%
Net Cash Per Share (Rs)	(1.09)	(1.54)	(1.87)	(2.22)	(2.66)
BVPS (Rs)	4.83	4.42	4.65	4.88	5.08
Gross Interest Cover	1.11	1.47	1.65	1.43	1.17
Effective Tax Rate	35.4%	36.7%	36.7%	36.7%	36.7%
Net Dividend Payout Ratio					
Accounts Receivables Days	9.16	11.58	12.40	12.43	12.43
Inventory Days	119.78	109.97	107.91	106.94	105.45
Accounts Payables Days	39.96	32.64	35.01	34.69	34.21
ROIC (%)	3.1%	4.7%	6.0%	5.9%	5.5%
ROCE (%)	4.7%	6.4%	8.2%	7.8%	7.3%
Return On Average Assets	2.9%	3.3%	3.9%	3.7%	3.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.