Honasa Consumer

Digital-first brands seek offline wings for scale-up/profit

Consumer Goods ▸ IPO Note ▸ **October 29, 2023**

Honasa Consumer (Honasa), with its 'house of brands' portfolio, is aptly equipped to capitalize on the swiftly-growing beauty & personal care (BPC) segment in FMCG space. As its flagship brand *Mamaearth* gains scale (revenue ARR: ~Rs14bn), Honasa has the playbook in place for its relatively recently-incubated/acquired brands, which are seeing faster growth. The company has expedited its offline (~35% of revenue now) journey with intent to reach a wider audience, gain predominance and drive scale. With gross margin of more than 70%, the company is looking to improve profitability in the business (EBITDA margin at ~2% for FY23/~6% for Q1FY24) by scaling up operations.

With its upcoming IPO, Honasa aspires to raise Rs16.35-17.01bn, comprising of a ~Rs3.65bn fresh issue and an offer for sale of 41.25mn shares. Based on a Rs308-324/share price band, post-issue implied market-cap would be Rs99bn-104bn. We assess the stock's valuation for three scenarios (considering the upper-end of the band): i) Attractive (EV/sales of 3.5x and EV/EBITDA of 29x for FY26E), if Company doubles revenue in three years and improves OPM to ~12%; ii) Fair (EV/sales of 4.2x and EV/EBITDA of 41.7x for FY26E), if Company sees revenue CAGR of 20% with OPM of 10%; and iii) Expensive (EV/sales of 5.2x and EV/EBITDA of 87x for FY26E), if Company registers revenue CAGR of ~10% and maintains margin at ~6%).

Financial Snapshot (Consolidated)

(Rs mn)	Q1FY24	FY23	FY22	FY21
Revenue from operations	4,645	14,927	9,435	4,600
Revenue growth	48.8%	58.2%	105.1%	319.0%
Gross profit margin	71.0%	70.1%	70.0%	71.2%
EBITDA	293	228	115	(13,340)
EBITDA margin	6.3%	1.5%	1.2%	(290.0%)
Restated PAT	247	(1,510)	144	(13,322)
Net worth	6,383	6,059	7,056	(17,651)
Capital employed	7,084	6,995	7,738	1,560

Source: Honasa Consumer IPO Document

Pure-play BPC companies with better consumer connections to scale faster

In the current fast-evolving world, where consumers are increasingly becoming demanding and are ready to pay a premium for fulfilling their specific needs, perpetual scale-up with generic products is a strenuous task. India has seen the emergence of various consumer cohorts that align with global trends and that are being better serviced by pure-play companies. Targeting multiple cohorts with a wide array of products, Honasa has emerged as a strong BPC player focused on skin care. It has built a positive consumer perception with clean-label products and social initiatives.

Honasa looking to scale-up with its house of brands; offline to add wings

Honasa has evolved from being a single-brand company into a house of brands in the last few years, having built a portfolio of organic & inorganic brands. *Mamaearth* has been charting its successful journey of online to offline (ARR: Rs14bn), which has become a playbook for its other brands, such as *The Derma Co.* (ARR: Rs3bn) and *Aqualogica* (ARR: Rs1.5bn). Interestingly, through such a strategic plan, Honasa has been able to drive faster growth in its acquired brands *Dr. Sheth's* and *BBlunt*. The company's international presence, so far, has limited thrust, but certainly befits the management's aspirations of taking I-beauty (Indian beauty) to the world.

Driving profitability with scale would be key for valuations

With gross margin at 70-75%, Honasa is looking to build profitability with scale. Offline expansion is likely to add wings, thus helping sustain healthy growth for its brand offerings. Given expanding retention rates, the need for CAC gradually tapers. Additional benefits can be expected in marketing spends (for *Mamaearth*, spends have started moderating) and freight costs (with expected slow growth in online volume). Honasa's production being fully outsourced, EBITDA flow to earnings is likely to be smooth.

Issue Details	HONASA
Price Band (Rs)	308-324
Issue Opens	31-Oct-2023
Issue Closes	2-Nov-2023
Issue Size (mn shares)	52.48-53
Issue Size (Rs bn)	16.35-17.01
Shares o/s pre-issue (mn)	310.48
Shares o/s post-issue (mn)	321.74
Post issue market cap (Rs bn)	99.28-104.25

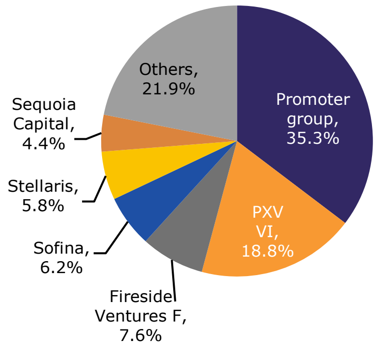
Issue Structure	
QIBs	75%
Non-Institutional Category	15%
Retail	10%

Objects of the issue

a) **Fresh issue of Rs3.65bn**
~Rs1.82bn for advertisement spends, ~Rs206mn for EBO-related capex and ~Rs260mn for expansion of the salon network under BBlunt

b) **Offer for sale of 41.25mn shares**

Shareholding pattern (%) Post issue



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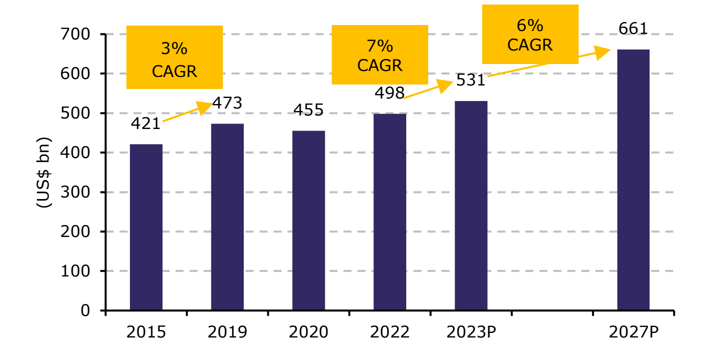
Pure-play players to drive the BPC market

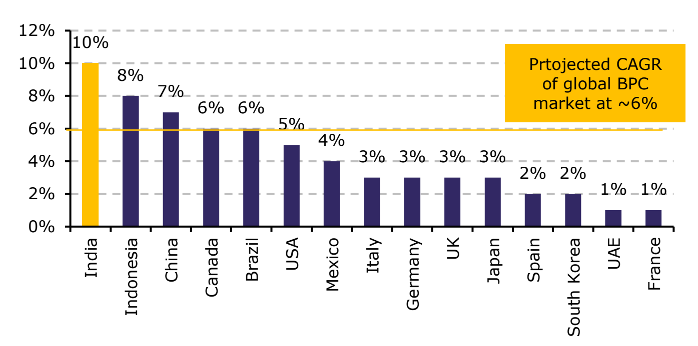
Beauty and personal care (BPC) is the most interesting segment in FMCG, which addresses the discretionary needs of consumers and is a healthy margin business. Traditionally, large FMCG conglomerates have been ruling the market with a strong market share. However, in the last decade, we have seen the mushrooming of multiple pure-play incumbents, evolving by addressing nascent consumer cohort needs. Unlike traditional players looking to address a wider consumer base with broader distribution, pure-play companies have evolved with an opportunity to reach a consumer base with a dedicated supply channel.

Exhibit 1: Global BPC market size



Source: Redseer, Emkay Research

Exhibit 2: Projected CAGR of BPC category across markets

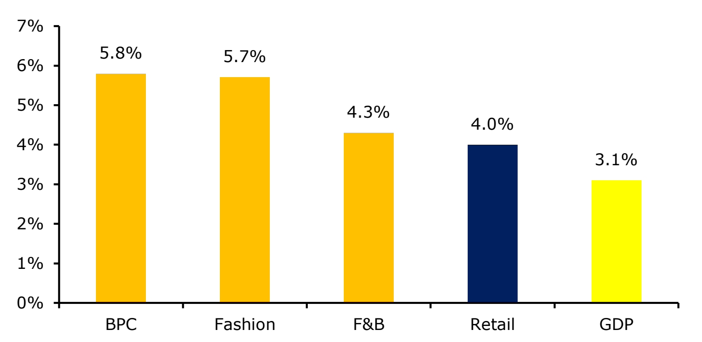


Source: Redseer, Emkay Research

BPC segments to report higher growth globally

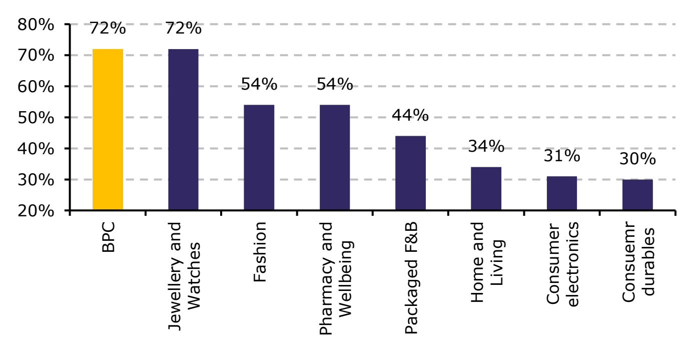
On the back of multiple tailwinds emerging, BPC categories are seeing faster growth across emerging markets. In the retail market, which is likely to rise at ~4% over the next five years (as per Redseer), BPC is likely to grow at a fast pace at ~6%. Key factors responsible for aiding growth are a) increasing awareness and usage by consumers (consumer are increasingly getting educated through the digital medium, supported by the surge in the influencer community), b) consumers are ready to trade-up to premium or masstige products (consumers are open to higher prices and are subject to added benefits), c) supply evolution aligning with evolving consumer needs, and d) rising share of developing markets (growing middle class in emerging markets to aid growth).

Exhibit 3: Projected CAGR over CY22-27P, across consumption categories, retail and global GDP



Source: Redseer, Emkay Research

Exhibit 4: Gross margin across consumption segments (global average for 2022)



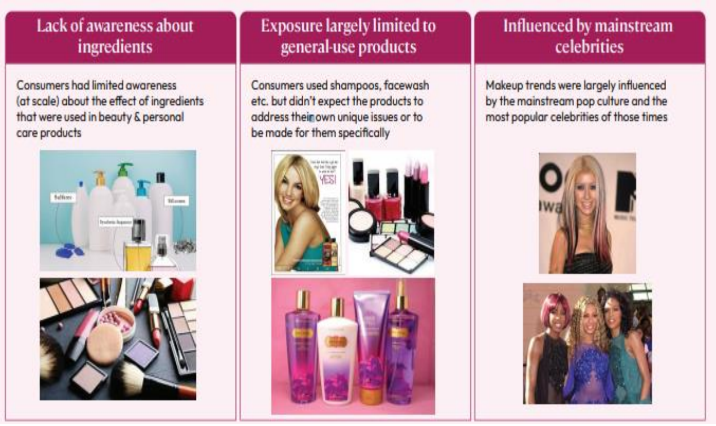
Source: Redseer, Emkay Research

BPC gains global perspective in the last decade

A closer look at the consumption trend and product launch strategy of consumer companies in the period prior to 2010 suggests that thrust is largely on generic products, where the focus was to address a wider audience. Historically, celebrities have been driving fashion trends in the market.

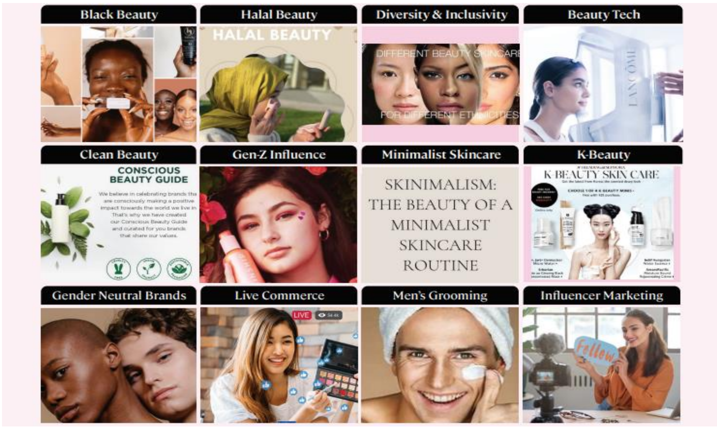
However, in the last decade, the entire BPC market has seen a new perspective, where consumer awareness about ingredients has heightened. Consumers have started looking for customized solutions. Widening digital penetration aided players in understanding consumer needs better and come with faster turnaround with new launches. Social media has increased consumers' awareness levels and amplified the need for BPC products. Moreover, consumer experimentation has paved way for more products and industry participants.

Exhibit 5: Consumer traits in BPC in the early 2000s



Source: Redseer

Exhibit 6: Current BPC trends (2010 onwards)



Source: Redseer

The consumer behavior change can be summed into three buckets:

Growth of the masstige and premium segments is even more pronounced in India where they are growing 2x as fast as the mass market segment

- **Need for clean products, inclusivity and personalization**: Consumers have been quick to differentiate product ingredients, which has created demand for clean and sustainable products (toxin free, vegan, organic etc.). The enhanced focus on inclusivity is a result of heightened awareness about diverse consumer identities, skin tones and genders. Consumers look for products that are made for their skin types and do not cause any side effects. They also expect brands to personalize products for them in a better way.
- **Consumer willingness to pay for value-added products**: Compared to the past, where consumers had a limited budget for BPC needs, in the current time, consumers are okay to stretch spending for dedicated solutions. There is a growing cohort of consumers seeking elevated experiences while minimally stretching their budgets.

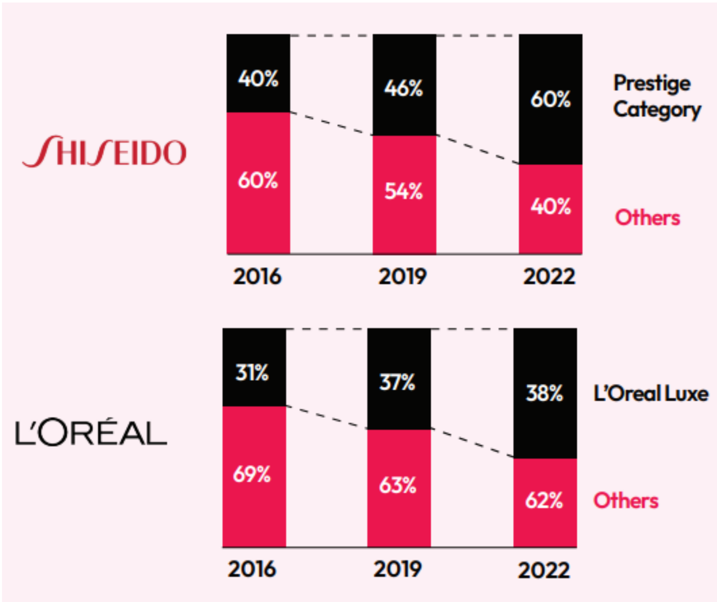
Exhibit 7: Consumer evolution aiding the willingness to pay a premium (change in market share of price segments, projected change over 2022-27)

Premium	+7%	+12%	+10%
Masstige	+7%	+13%	+10%
Mass	+6%	+6%	+6%

- In US & China, masstige and premium is more than 50% of the market
- In India, masstige is growing 2x as fast as the mass market (CAGR-wise)

Source: Redseer

Exhibit 8: Growth in premium categories for large brands (revenue segmented by price segments)

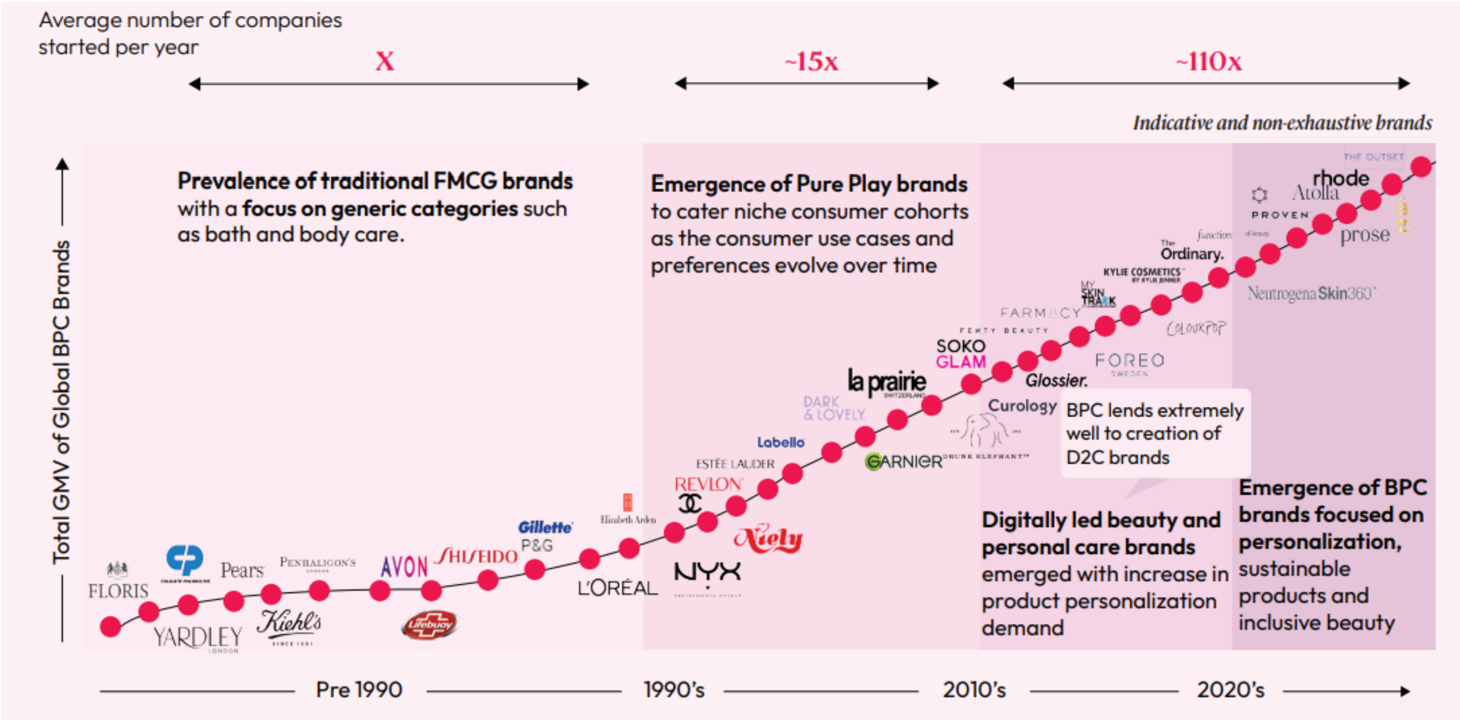


Source: Redseer

- **Product sourcing has seen a shift:** Product push has seen a paradigm shift while sourcing is now omnichannel. The role of influencers has heightened self-validation of ingredients; the urge for clean and green are key factors that are driving consumption.

Evolving consumer behavior has led to the faster evolution of the category. Addressing nascent cohort needs with multiple channels to reach, there has been a sudden surge in BPC participants, primarily pure-play players.

Exhibit 9: BPC brands created during the last several decades



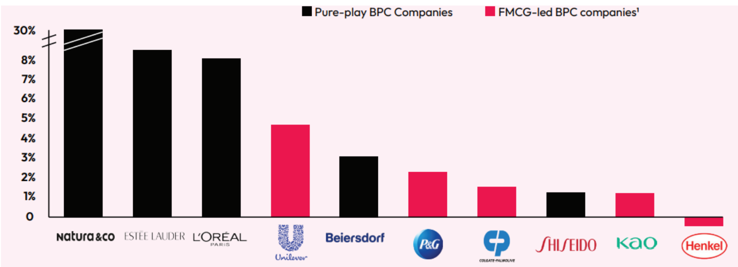
Source: Redseer

Pure-play players driving global BPC growth

Agility and differentiation have been key traits for fast-evolving BPC players in the last decade. This requires focus, where pure-play companies are better positioned. Traditional BPC players have evolved to becoming FMCG behemoths, and now their focus has diversified. Additionally, for large players, addressing a small cohort's need is a dilutive proposition.

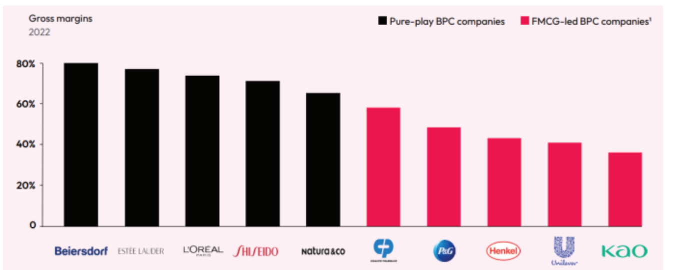
Redseer's analysis of pure-play and FMCG-led BPC players suggests: a) faster growth for pure-play BPC players (addressing cohort needs faster), b) 28 percentage points higher gross margin for pure-play BPC players (by addressing the needs of a small consumer base, who is willing to pay a premium), and c) omni presence of pure-play brands helping reach cohorts better (ecommerce, social commerce, live commerce, D2C websites, VR/AR stores and offline stores).

Exhibit 10: BPC companies' global growth (CAGR over 2017-22)



Source: Redseer

Exhibit 11: Gross margin profile across BPC players



Source: Redseer

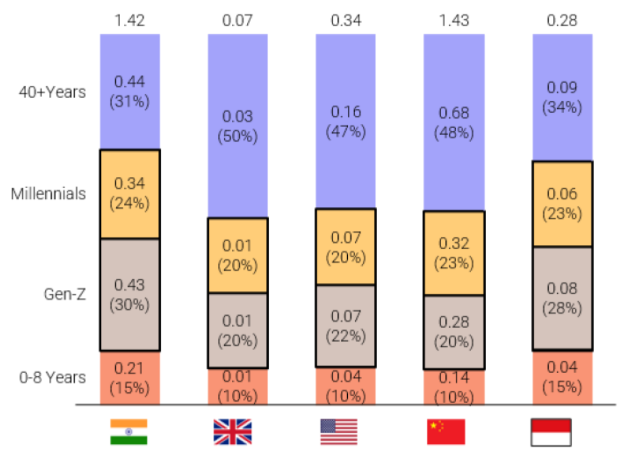
The initiative to drive consumer education led to higher advertising and promotional spends for pure-play players. Addressing small cohorts, they have been viewed as a trendsetter, with the onus on them to drive trend awareness. This is one of the most important reasons for pure-play brands' lower profitability.

Indian BPC market quite nascent, scale up to be faster

From a gross merchandise value perspective, the Indian BPC market is sized at ~USD20bn for 2022. Per capita spending in India is at mere USD14 compared with USD30 in Indonesia and USD38 in China. As per Redseer's estimates, the BPC market is likely to expand at an 11% CAGR over 2022-2027 to USD33bn, with one-third share of the online channel. Growth will be driven from factors like a) rising income levels, b) rapid surge in the middle-class population, c) urbanization, and d) expanding working women participation.

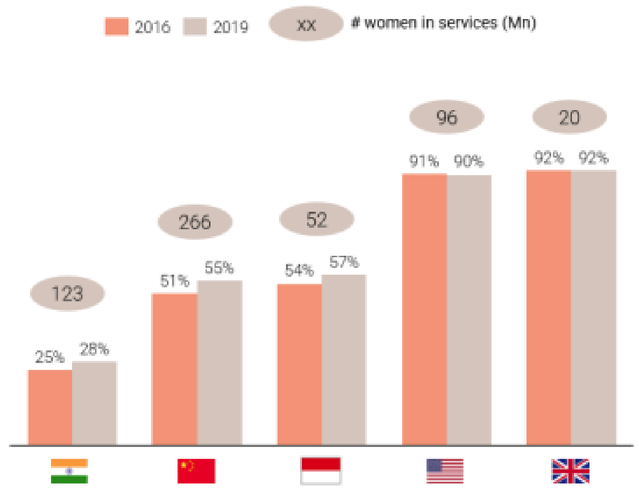
Of the overall market, ~USD3.1bn is concentrated in the online channel, which services ~67mn users (average transacting users). The online BPC market is likely to post a CAGR of ~29% over 2022-2027 to ~USD11.1bn (imply ~34% of the overall market).

Exhibit 12: India is one of the youngest nations (median age of 28 years vs. 38 for China and USA)



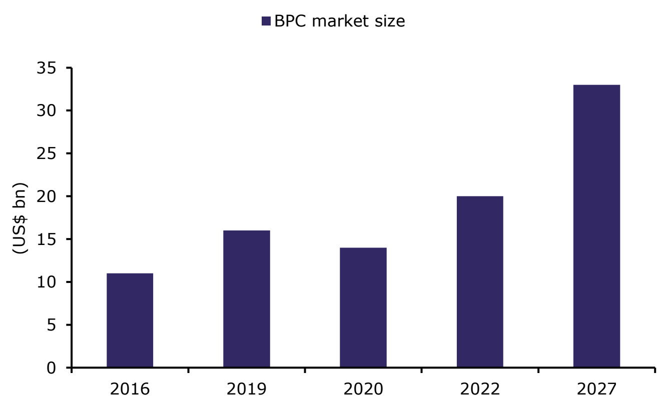
Source: Redseer

Exhibit 13: Share of working women to see expansion



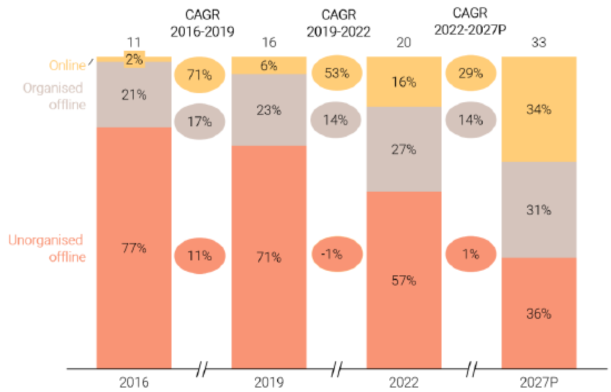
Source: Redseer

Exhibit 14: BPC market size in India



Source: Redseer

Exhibit 15: BPC channel segmentation

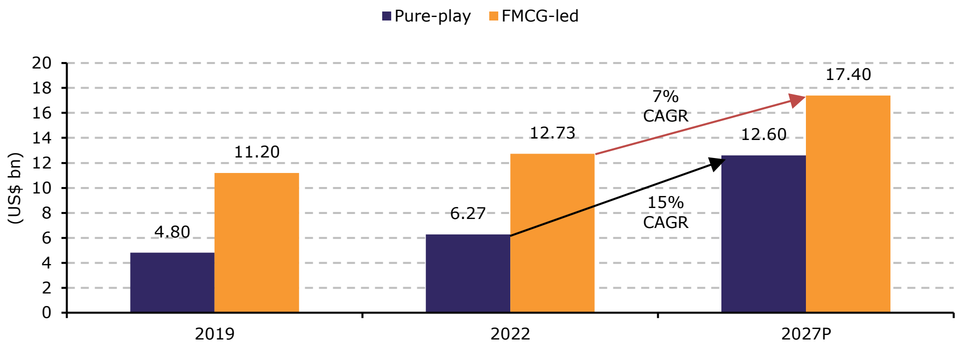


Source: Redseer

Pure-play brand registering 2x sector growth

Traditionally, the Indian BPC market has been dominated by large FMCG players. This was because India is a large yet fragmented market that is significantly unorganised. Now, traditional FMCG players had developed supply chains. And, with technology and emergence of new-age logistics partners, the barriers to entry have lowered and the market has opened for a larger set of players. With pure-play BPC brands gaining prominence, similar patterns are playing out, as seen in the global market. Therefore, strategic advantages that work in other markets also apply to India. Advantages like agility, specificity, innovation, new-age focus, and online orientation are helping the Indian new-age pure-play BPC brands scale fast. Pure-play BPC brands in India are expected to contribute ~42% to the market by 2027 (~USD12.6bn).

Exhibit 16: Indian BPC market split, by type of brand

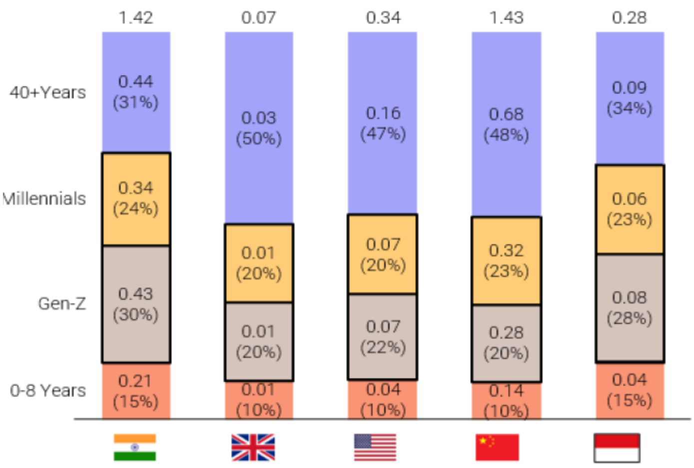


Source: Redseer, Emkay Research

India catching up fast with global trends

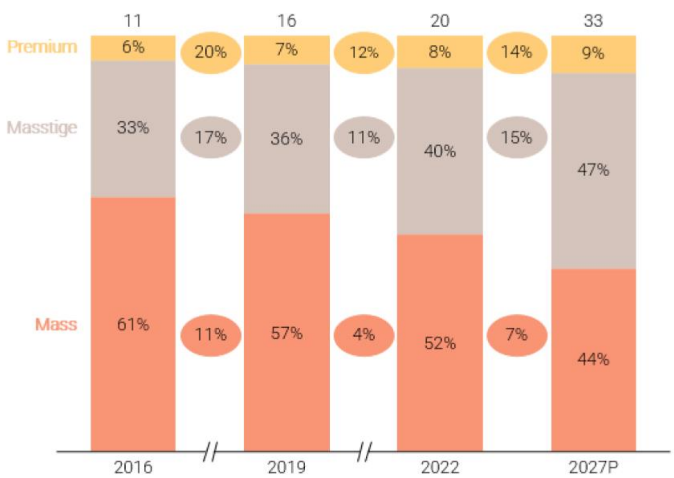
Unlike the lag in catching up with global trends historically, in the last decade, Indian consumers have been evolving in sync with global trends. Wider digital penetration has been a boon, which keeps data flow fast. This has accentuated well with the expansion in affluent and upper middle class. Additionally, rising concentration of millennial and Gen Z consumers has driven the emergence of pure-play players. Consumers have a better sense of key requirements, where pure-play companies have been leveraging the opportunity. The online channel has been a boon for pure-play companies, where players now have access to ~96% of pin codes (Honasa serviced 18,640 pin codes in Q1FY24).

Exhibit 17: India is one of the youngest nations



Source: Redseer

Exhibit 18: Premiumization trend



Source: Redseer

In comparison to other emerging markets like China, India's GDP at USD2,000 now is similar to that of China in 2006. Industry participants are expecting China-like acceleration in India's growth trend on breaching the benchmark per capita level. With rising consumption, companies are expected to be agile to align with evolving consumer trends. In a vertical platform like Nykaa, there has been a surge in the number of consumers buying and the frequency of their transactions.

Exhibit 19: Penetration levels across retail segments to see steady expansion

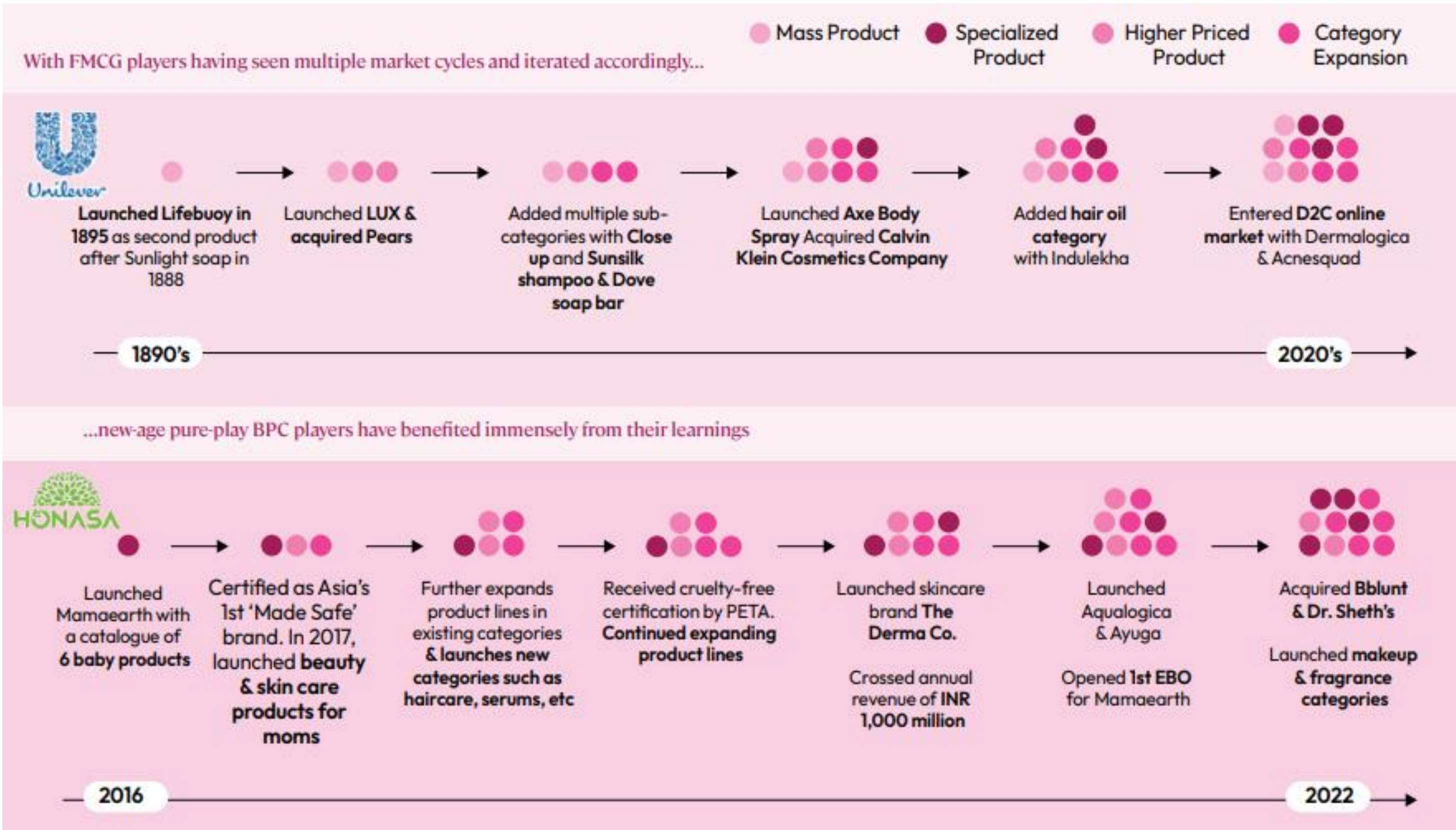
	2016	2021	2022	2026P
Grocery	3%	5%	5-6%	9%
Pharmacy and Wellness	10%	13%	14-16%	25-30%
BPC	23%	33%	42%	65%
Apparel	29%	42%	56%	68%
Electronics	38%	59%	60-62%	>90%

Source: Redseer

Game of perception

One distinction we notice with pure-play players is the brand perception they have worked diligently to develop. For example, Mamaearth's promoters have an interesting story about the need for toxin-free baby products for their children; this led to the launch of the Mamaearth brand. With this story, the brand connects well with the consumer base. Additionally, Mamaearth has been associated with the green initiative, like planting a tree with every order worth certain sum. Honasa has done multiple extensions under Mamaearth and now the brand is positioned to address the needs of all-age groups. This in comparison to traditional FMCG players implies chemical-based generic offerings, where product launches are delayed (in an era of fast-shifting trends).

Exhibit 20: Brand journey — Unilever and Honasa



Source: Redseer

Indian pure-play brands have a tough ask to scale in the offline channel. For traditional companies, established general trade reach has been the key moat, which also works as an entry barrier. For pure-play companies, so far, the journey has been on e-commerce, where they operate across vertical platforms (like Nykaa), horizontal platforms (like Amazon) and direct to consumer platforms (own D2C websites). In India, while penetration of interest has been healthy, e-commerce penetration is still in single digits at ~6%.

Honasa: House of brands with a pure-play approach

Mamaearth was the fastest to reach Rs10bn annual revenue in five years, a similar feat achieved by Dove in 18 years

'Honasa' name stands for Honest, Natural and Safe

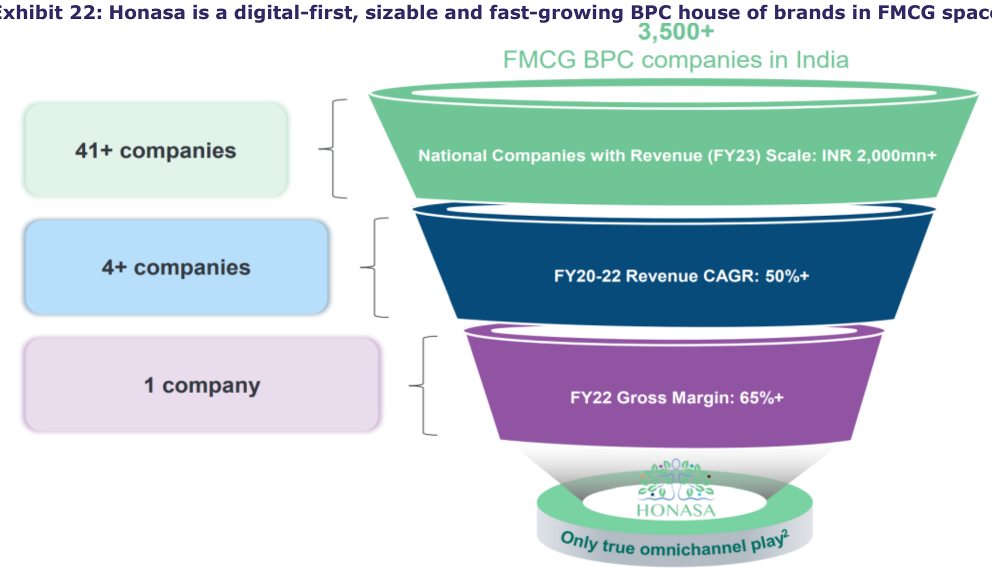
No gender differentiation: Unlike the product range suiting different sexes, the company believes skin types are not materially different; so, the company's thrust has been on propositions like Ayurveda and cleaner, vegan ingredients, etc.

The journey started when founders, Ghazal and Varun Alagh, were unable to find safe toxin-free products for their new-born baby. There came an idea and, in 2016, Mamaearth was born (in Dec-16) and 'Mamaearth for Moms' was also launched. The cofounding couple launched the Mamaearth branded product range for babies in 2016 using the best available ingredients – natural, plant-based or manmade, which are both certified safe as well as effective. The ingredients are procured from the best sources around the world, which are ISO, GMP and non-GMO compliant. In a matter of four years, the company became Asia's first brand to get the MadeSafe certification for its toxin-free products. Started with six products in the baby care range, Mamaearth has now diversified into skin and hair care products across 100 SKUs as well as products designed especially for pregnant women. It has also set up its own D2C platform in 2017 (website as well as an app) and ventured into the offline channel in 2018.

Exhibit 21: Differentiated positioning in a cluttered world aids Mamaearth

Source: Company

Exhibit 22: Honasa is a digital-first, sizable and fast-growing BPC house of brands in FMCG space



Source: Redseer

[1] Defined as BPC products companies with >INR1,000mn revenue from operations in FY23 and >60% revenue from the online channel; [2]True omnichannel play is when a company has at least 15% of the revenue from operations coming from each of the online and offline channels

Since its inception, the company has worked with the primary objective of developing products that address BPC problems faced by consumers. Since launching Mamaearth in 2016, the company has added five new brands to its portfolio, namely The Derma Co., Aqualogica, Ayuga, BBlunt, and Dr. Sheth's, and has built a 'House of Brands' architecture. As of June 30, 2023, its brand portfolio included products in the baby care, face care, body care, hair care, color cosmetics and fragrances segments.

Key insights – Brand growths: On the back of its better connect with consumer needs, the company has been able to craft & curate a consumer-specific portfolio under Mamaearth, The Derma Co. and Aqualogica. These brands have seen accelerated growth since their launch. Additionally, inorganic brands have seen accelerated growth. For instance, under Honasa, BBlunt grew 150% in Year-one of launch vs. flat sales in the previous five years. Dr. Sheth's grew 20x since its acquisition, and is now registering an annual run-rate of >Rs1bn.

Exhibit 23: Key branded product offerings from Honasa

Source: Company

Key insights - Product pricing: Honasa's products are priced at a 15-20% premium to large brands. The company focuses on the mass premium and masstige segments.

Mamaearth brand has an annual revenue run rate of Rs14bn for FY24 on NSV and Rs20bn+ on consumer price. The Derma Co. on NSV basis has a run rate of ~Rs3bn and the same for Aqualogica is at ~Rs1.5bn

Exhibit 24: Brand contribution and growth trends for Honasa

(Rs mn)	FY21	FY22	FY23E	Q1FY23	Q1FY24
Mamaearth	**4,419**	**8,671**	**11,680**	**2,568**	**3,036**
Revenue contribution	96%	93%	82%	87%	67%
Growth		96%	135%		118%
Other five brands	**181**	**648**	**2,575**	**3,821**	**1,492**
Revenue contribution	4%	7%	18%	13%	33%
Growth		258%	397%		39%

Source: Company, Emkay Research

The Derma Co. created to solve prevailing millennial concerns

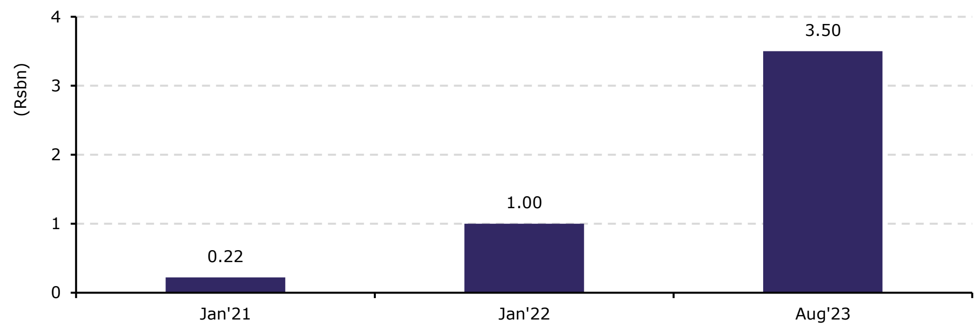
"Through the incubation and scale-up phase, we realized that we have established repeatable playbooks that helped us reach milestones faster than Mamaearth" – Varun Alagh

Consumers are warming up to specialized products and are looking for expert skincare solutions, a segment that The Derma Co. caters to. With this brand, Honasa is looking to democratize clinical formulations and make them accessible to everyone. The Derma Co.'s range, launched in 2020, includes products for pigmentation, acne and open pores, and the company plans to expand the range as well.

The brand took a couple of years to achieve the Rs1bn annual revenue milestone in 2022 – the target achieved by the Mamaearth brand in 32 months. As per media reports (*link*), the brand has ~Rs300mn monthly revenue (41 months since launch), which implies an annual revenue run rate of Rs3.5bn. Though, in a latest media interaction, management noted annual revenue run rate of Rs3bn for the brand.

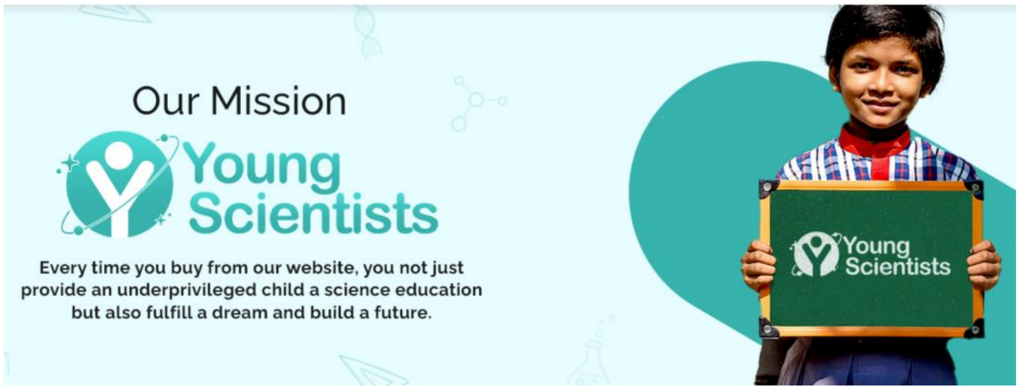
From being a purpose-driven brand, Honasa has associated with a *Young Scientists Program*, wherein children in certain rural parts of India are provided with access to education in science.

Exhibit 25: Annual revenue run rate for *The Derma Co.* brand



Source: Company

Exhibit 26: Young Scientist program



Source: Company

Exhibit 27: The Derma Co. – Product offering

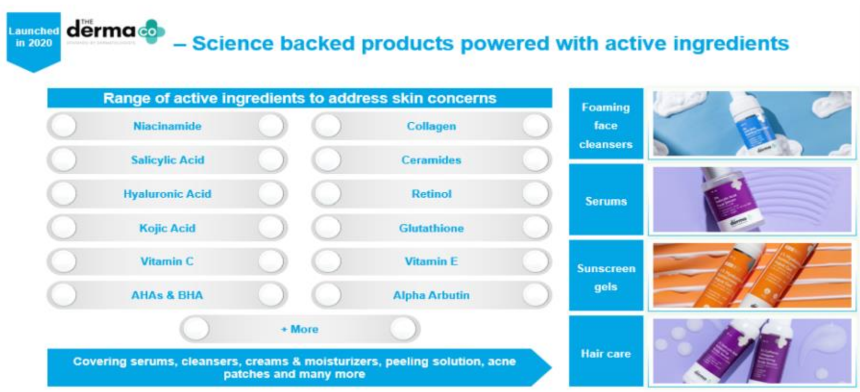
Source: Company

Exhibit 28: The Derma Co. – Key solutions and focus on ingredients

Shop by Concern	Shop by Ingredients
Acne Marks	Niacinamide Range
Acne Scars	Salicylic Range
Acne / Pimple	Vitamin C Range
Pigmentation	AHA-BHA Range
Open Pores	Kojic Range
Hair Care	Hyaluronic Range
Skin Radiance	View All
Dry & Dull Skin	
View All	

Source: Company

Exhibit 29: The Derma Co. – Key highlights



Source: Company

Aqualogica skincare powered by the science of hydration

Aqualogica is a water-based hydration brand with light gel-based textures specifically formulated for Indian skin and climate. Honasa is the first company to launch a brand on the Nobel-prize-winning aquaporins-based approach to hydration. Aqualogica's formulations blend the purity of fruits with the science of actives to develop hydrating products for face and body care. The company has curated four ranges under the brand:

- Hydrate+ (range provides deep hydration to the skin while making it soft and smooth)
- Glow+ (provides a natural glow to the skin by helping fight common issues)
- Radiance+ (designed to improve skin texture by helping fight common issues)
- Clear+ (designed to treat active acne, control excess oil production, and reveal healthy, clear skin)

Exhibit 30: Aqualogica – Key proposition

Source: Company

As per co-founder, Ghazal Alagh, the brand (launched in Nov-21) is already showing great receptivity from consumers. The unisex product range is perfected for skin types by a team of experienced dermatologists, scientists, and skin and beauty experts. Key ingredients used are coconut water, hyaluronic acid, glycerin, niacinamide (minimizes signs of aging), and aloe vera.

In Aug-23, within 18 months of the launch, the brand has achieved to scale monthly revenue of Rs125mn, implying an annual revenue run rate of Rs1.5bn. As part of its green initiative, the brand is associated with a 'Fresh Water for All' initiative, wherein it helps enable access to clean drinking water for marginalized communities.

Exhibit 31: Aqualogica – Product offerings

Source: Company

Exhibit 32: Aqualogica – Range and ingredients

Range	Routine	Ingredients	Skin Concern
Glow+	Cleansers	Hyaluronic Acid	Dryness
Hydrate+	Moisturizer & Cream	Vitamin C	Dullness & Uneven Skintone
Radiance+	Sun Protection	Niacinamide	Dark Spot Hyperpigmentation
Clear+	Night Treatments	Coconut Water	Sun Damage
Detan+	Mask	Papaya	Under Eye Care
Illuminate+	Serum	Aloe Vera	Acne
	Toners	Water Melon	
	Lip Care	Green Tea	
	Eye Care	Salicylic Acid	
	Dew Drops		
	Body		

Source: Company

Ayuga brand focuses on leveraging opportunity in Ayurvedic skin care

Launched in Dec-21, the company has positioned the brand to benefit from the vacuum in the mass market segment; in the premium end, players like Kama Ayurveda and Forest Essential already have a strong brand recall. Ayuga aims to make the traditional wisdom of Ayurveda relevant to Indian millennials by curating products in easy-to-use, modern formats that can easily fit into a consumer's daily skin and hair care regime. Ayuga offers products in the face, body and hair care product categories and includes products such as night gel, face serum, sunscreen, shampoo, conditioner, and hair serum.

Key insights – Performance below management expectations: Unlike its other three brands, Ayuga has not seen similar traction with consumers. The company will evaluate the brand's prospects after another six months.

Exhibit 33: Ayuga – Product offering

Source: Company

Exhibit 34: Ayuga – Range, categories and concerns

Range	Categories	Concerns
Bhringkesham Range	Shampoo	Dryness & Dullness
Kumkumadi Range	Conditioners	Dark Spots & Pigmentation
Chandanam Range	Serums & Oils	Skin Radiance
Neembadam Range	Moisturizers & Creams	Skin Brightening
	Cleansers & Exfoliators	Tan Removal
	Masks	Fine Lines & Wrinkles
	Sun Protection	Sun Damage
	Mists & Toners	Hydration
		Acne Control

Source: Company

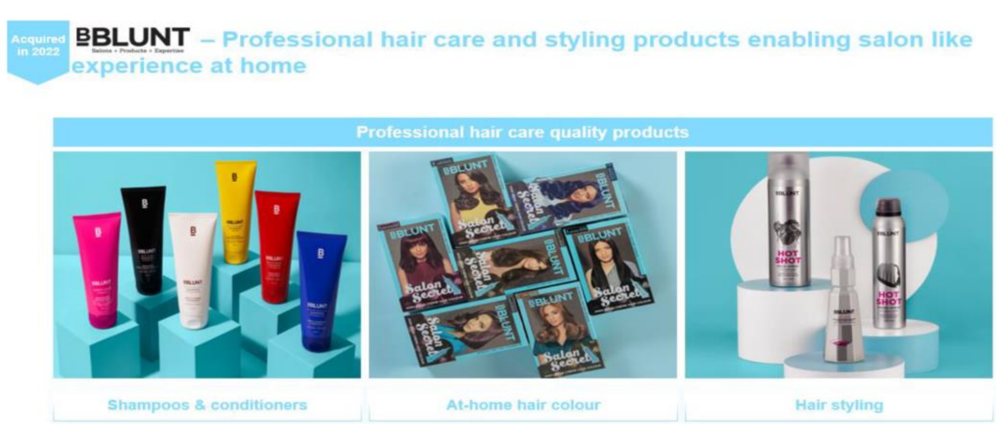
BBlunt, inorganic brand, paves entry into professional hair care and styling products

The company acquired BBlunt's product business in Mar-22 (from Godrej Consumer) with the objective of extending its portfolio to specialized professional hair care and styling segments. For a 100% stake, the company had paid Rs1.37bn, which adjusted for carrying net asset value of Rs995mn (with intangibles of Rs889mn), resulted in goodwill recognition of Rs372mn. BBlunt seeks to replicate a salon-like experience for consumers at home by offering a wide range of products, including shampoos, conditioners, hair serums, hair color, heat protection mist, and hair sprays.

The brand grew 150% YoY compared to flat sales in the previous five years

BBlunt derives its heritage from the BBlunt Salons business, which was launched in 2004. Nearly two decades of experience servicing consumers through the salon business has enabled the brand to develop a product portfolio that is relevant for consumers and caters to their specific hair care and styling needs.

Exhibit 35: BBlunt's brand proposition



Source: Company

Exhibit 36: BBlunt — Financials

(Rs mn)	FY22	FY23	Q1FY23	Q1FY24
Revenue	**10.7**	**195.8**	**55.0**	**45.6**
Growth		nm		-17%
PAT	**-2.2**	**-8.7**	**8.4**	**13.3**
Growth		nm		58%
Margin	-20%	-4%	15%	29%

Source: Company, Emkay Research

*Honasa's i*norganic brand *Dr. Sheth's* offers bio-active-based skincare products

The company acquired Dr. Sheth's in Apr-22 and is operating through its subsidiary, Fusion Cosmeceutics Private Limited (became wholly owned in Dec-22). Acquisition of 65.49% stake in the brand was at a cash consideration of Rs141.23mn. With non-controlling interest valued at Rs127.12mn, the company had recognized goodwill of Rs155.48mn. Dr. Sheth's offers specialized skincare solutions crafted with a combination of natural and active ingredients. Dr. Sheth's was developed by three generations of skin specialists with a focus on naturally inspired and scientifically validated products.

The brand's products can be differentiated by its thrust on bio-actives based skincare. The brand's key growth pillars are a) products with natural and scientific ingredients, b) made for India and c) developed by three generations of skin specialists.

Exhibit 37: Dr. Sheth's – Overview

Source: Company

Key insights: The brand has an annual revenue run rate of Rs1bn

Exhibit 38: Fusion – Key financials

(Rs mn)	FY23	Q1FY23	Q1FY24
Revenue	270.5	20.1	250.9
PAT	-153.1	-31.3	9.2
Margin	-57%	-156%	4%

Source: Company, Emkay Research

BBlunt Salons: Looking to expand service coverage

While the company acquired the products business from GCPL, at the same time Honasa acquired BBlunt Salon operations from its founders in Mar-22. Operating under the subsidiary, Bhabani Blunt Hairdressing Private Limited, through BBlunt Salons, it offers hair care, grooming and styling services for women and men across 10 leased outlets in South, East and West, as of Jun-23. The business was launched in 2004 by a founding team comprising celebrity hair stylists who continue to be associated with the brand as consultants and creative directors.

Personalized recommendations from trained stylists at these salons have helped build trust among consumers and has strengthened the brand equity for its products business. BBlunt aims to leverage these salons and academies (in-house training academies) to generate visibility and customer trials for relevant BPC categories, such as hair care and color cosmetics, from other brands in its portfolio. Additionally, BBlunt provides shooting and filming services under the BBlunt umbrella, wherein it offers make-up and hair styling services to television and media outlets.

Exhibit 39: BBlunt Spratt – Key financials

(Rs mn)	FY22	FY23	Q1FY23	Q1FY24
Revenue	5.5	145.3	33.8	42.9
Growth		2537%		27%
PAT	-2.0	19.8	9.5	10.4
Growth		nm		9%
Margin	-37%	14%	28%	24%

Source: Company, Emkay Research

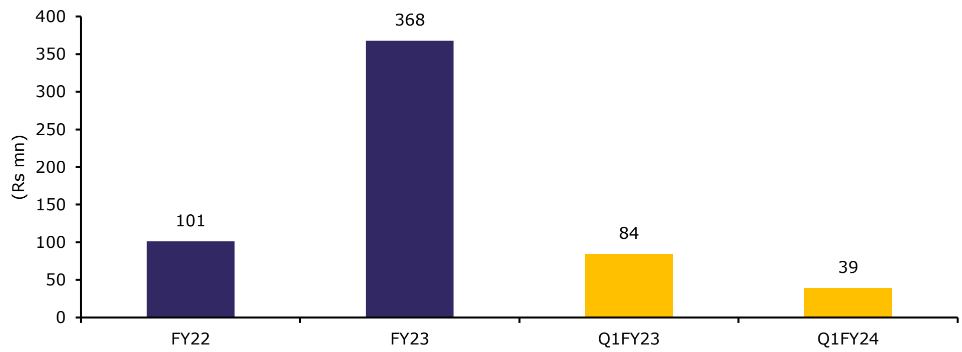
Momspresso's influencer marketing platform scaled down

The company had acquired Just4kids Services Private Limited (Momspresso) in Dec-21 to expand its content and influencer management capabilities and to strengthen content-creation capabilities by enabling access to a large and ready library of Momspresso's relevant content. For a 74.32% stake in the company, Honasa has paid a cash consideration of Rs944.58mn. The obligation to acquire the remaining stake in Just4Kids Services Private Limited has been recorded as a financial liability amounting to Rs579mn. With assets of Rs162.95mn and total ownership valued at Rs1.5bn, Honasa had recognized goodwill of Rs1.36bn for Just4kids.

However, the performance and profitability of Just4kids was deteriorating with the business significantly underperforming (vis-à-vis the FY23 business plan) during Q4FY23. Post evaluation of multiple scenarios to drive profitability, the BOD has decided to perform impairment analysis by independent experts. As such, it had booked impairment loss on goodwill of Rs1.36bn, software of Rs19.14mn and trademark of Rs167.2mn.

With scale down of operations, revenue stream is expected to have negligible contribution ahead.

Exhibit 40: Content creation and influencer marketing services revenue



Source: Company, Emkay Research

Exhibit 41: Just4Kids – Financials

(Rs mn)	FY22	FY23	Q1FY23	Q1FY24
Revenue	101.1	404.4	94.5	39.1
Growth		300%		-59%
PAT	-49.2	-210.1	-50.5	-54.7
Growth		nm		8%
Margin	-49%	-52%	-53%	-140%

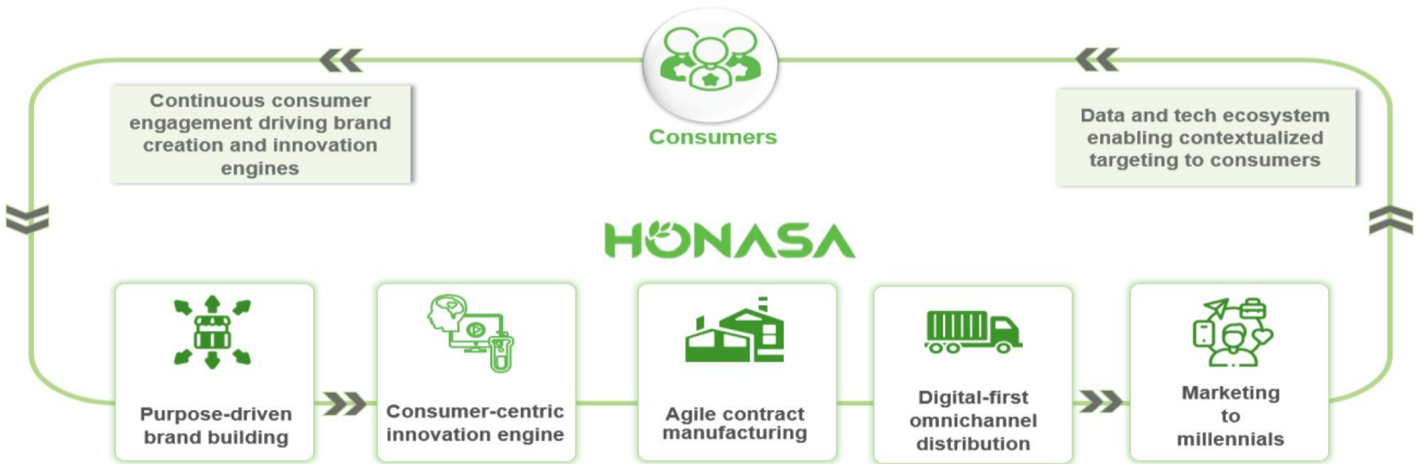
Source: Company, Emkay Research

Digital journey laudable: Honasa's playbook

In our view, the four critical factors in Honasa's journey are: a) continuous engagement to identify problem areas, b) assess the TAM based on insights and come up with innovations, c) leverage digital distribution and digital networks to reach consumers, and d) use technology as a key enabler.

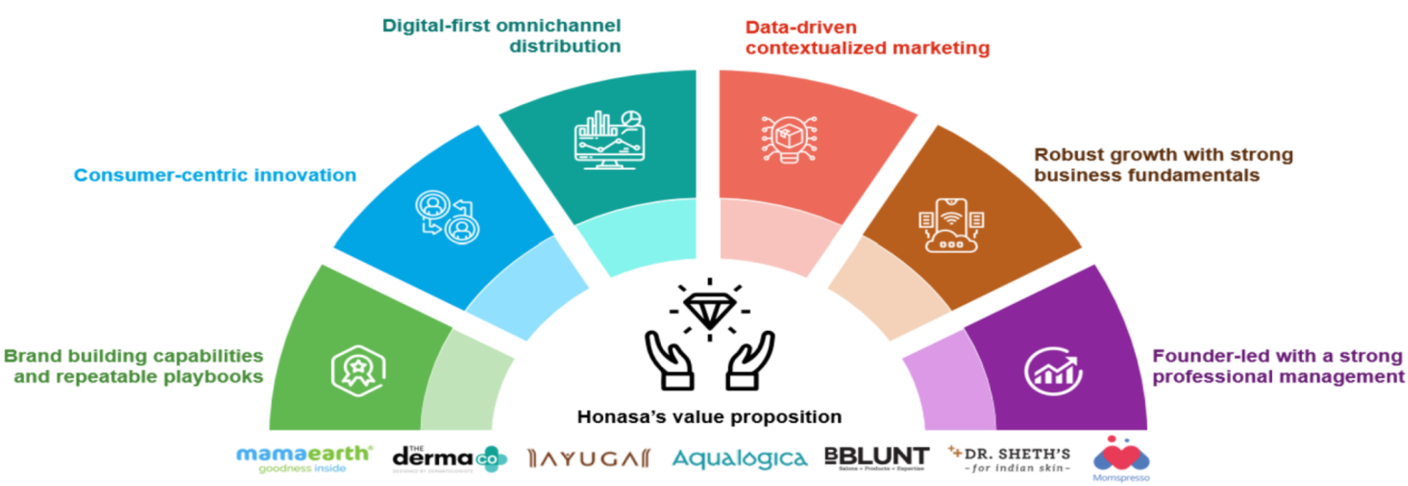
- **Focus on being a 'why'-based brand over 'what'-based:** We see the company has been focusing on the concept of being a why-based brand over a what-based brand. Functional and social ethos are critical for any brand, as such all Honasa brands are being constructed around their purpose. Its thrust has been on goodness in products, processes and social wellbeing. Plant goodness is one of its first enterprising marketing initiatives for Mamaearth brand; interestingly, associating its other brands with a social cause has worked well for the company.
- **Collaborative innovation:** Unlike traditional players, Honasa from the very start has been engaging with consumers and identifying key consumer problems. Once consumers come to the company's D2C app, they are asked multiple questions, and the answers continue to add to the consumer database.
- **Digital marketing and distribution**: The biggest moat for traditional companies has been numeric distribution, which is connected with mass media. In the digital world, both the moats are now democratized. Brands that are established in the digital world are a tad easier to take offline, where word of mouth and customer review continue to add up (driving pull).
- **Focus on technology**: The idea of having a house of brands concept is to quickly leverage learning, which happens with technology. Influencer discovery, e-commerce market share, collaborative innovation and other factors are likely to help new brands to grow and deliver much faster. After the success of Mamaearth, the company launched The Derma Co., where it has leveraged its learning and expertise from Mamaearth. Hence, a couple of years after the launch of The Derma Co., the brand has achieved a revenue run rate of Rs1bn annually; and now after 41 months, it is generating a revenue run rate of Rs3bn.

Exhibit 42: Honasa's business model



Source: Company

Exhibit 43: Honasa's competitive strength



Source: Company

Differentiated NPD continues to drive scale

On one hand, new-age consumers (comprising GenZ and Millennials) are open to experiments, while, on the other hand, they are quite particular about the ingredients that are being used in products and their sustainability. Leveraging the e-commerce revolution, Mamaearth had a good setting, as social media was evolving; thus, the brand connected well with consumer and addressed needs via e-commerce channels, which aided in faster scale up well. In this process, innovation has been critical, which in personal care took shape with heightened attention to ingredients used as the foundation for consumer adoption.

Key insights - Seasonality: The company has a quarterly skew in Q1 and Q4; on half yearly basis, it has balanced revenue

Interestingly, innovation and research and development are being managed by founder Ghazal Alagh, which makes the company immune to any attrition-related risk on NPD. The company has dedicated an in-house team of 47 members, as on June 30, 2023, that drives end-to-end ideation and execution of new product launches.

The company has developed a range of tools and capabilities that enable it to engage with consumers and generate insights into new and emerging trends in the BPC market in India. Consumer insights-led product innovation engine is an integral part of its business model and helps it conceptualize and develop new brand concepts, new products and new product ranges.

Exhibit 44: New SKU's contribution to revenue

	FY21	FY22	FY23	Q1FY23	Q1FY24
New SKUs (count)	126	159	301	137	109
New SKU revenue (Rs mn)	1,392	1,990	2,794	338	399
YoY expansion in product sales (Rs mn)		4,719	4,936		1,569
Contribution of the new SKUs to revenue growth (%)		42.17%	56.58%		25.46%
New product launches (count)	91	122	252	121	89

Source: Company, Emkay Research

- **Consumer engagement helped in formulating the product range**: To site an example during Covid-19, Vitamin C shaped up well. The company leveraged the opportunity surrounding Vitamin C with a wider product range, which saw success. Similarly, based on customer engagement, the company has created multiple ingredient-based product ranges like the Ubtan range, Onion range and Haldi range.

Key insights: R&D spends is ~1% of revenue

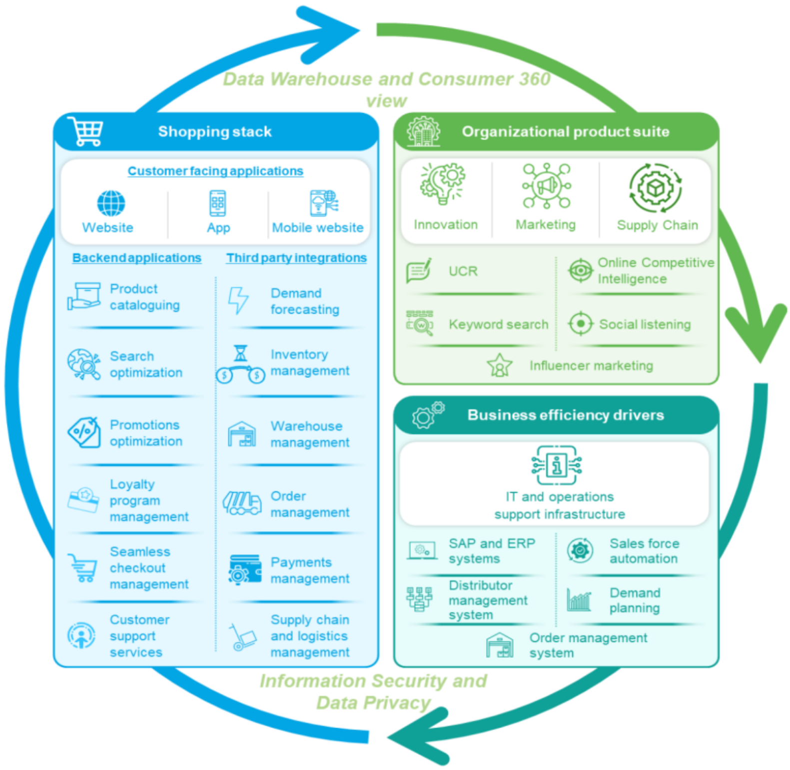
- **Digital tools in place to pre-empt commercialization of ingredients**: Honasa has an innovation timeline of 4-5 weeks, much less than traditional players, who might take 12 months. Being an early mover in the digital space, the company has collated consumer data that helps it sustain its innovation agenda. The company has developed tools internally that prompt awareness of particular ingredients, which helps in commercial launches.

Building technological stacks to fortify fundamentals

The company has created an integrated technology platform, which connects brands, channels, and supply chain operations to improve efficiencies across functions and teams. Its technology stack comprises five key components – shopping stack, data warehouse and customer-360 view, organizational product suite, business efficiency drivers, and information security and data privacy framework. The company has a dedicated in-house team of 78 members in its tech team that focuses on continuously enhancing these applications and platform capabilities to help automate and improve processes. A built-in single integrated shopping stack can be replicated for newer brands.

The company has robust ERP - SAP S4/HANA®, which helps it manage and optimize business processes across procurement, inventory management, production planning, sales and distribution, financial controlling, and accounting.

Exhibit 45: Technology



Source: Company

Leveraging advantages in sustainability

The brand's purpose comes first at Honasa. The company is plastic positive from day one, as it recycles more plastic than it uses in manufacturing. Management believes in beauty through deeds and actions. For every D2C order for Mamaearth's brand, the company is planting trees, for which it shares a picture and location. The company is taking multiple environment-protection initiatives.

Mamaearth is one of the few plastic-positive brands in India.

With an initiative called 'Let's Recycle,' the company recycles more plastic than it ever uses and spreads awareness by making customers a part of the program. #PlantGoodness, an initiative undertaken in 2020 with a commitment to plant saplings based on every order made, is set to plant one million trees in the next five years.

- **#PlantGoodness**: Once an order is placed on the website, the brand commences the process of linking it to a newly planted sapling, through its partner SankalpTaru. As of Jun-23, the company has planted 470k+ trees since inception with the aim to reduce carbon footprint and improve air quality, soil quality and groundwater levels. Each tree is geo-tagged, enabling transparency and visibility to consumers. Through its partner, the brand will nurture the tree for the first three years, after which the tree would be strong enough to sustain itself.
- **Fresh Water for All:** Under its new brand, Aqualogica, the company is addressing drinking water needs. Once consumers place an order on the website, the company initiates the process of providing clean drinking water to a person in need.
- **Young Scientists:** The Derma Co. is associated with the Young Scientists Program, wherein children in certain rural parts of India are provided access to education in science.

Exhibit 46: Aqualogica is associated with drinking water needs

Source: Company

Exhibit 47: Mamaearth's plant goodness initiative

Source: Company

Exhibit 48: *Mamaearth*, a plastic neutral brand

Source: Company

Key insights: All the social initiatives (like Plant Goodness) under Mamaearth, Young Scientists Program under The Derma Co., and 'Fresh Water for All' under Aqualogica are part of its marketing spends. The company would work to position it under 'CSR spend' over the medium term.

Online to offline drives aimed at faster scale-up

Honasa, with its house of brands, is addressing wider user needs and is geared to chart the offline journey of its founding brand Mamaearth. Its product portfolio includes products in the baby care, face care, body care, hair care, color cosmetics, and fragrances segments. This product portfolio is supplemented by its professional salon chain, BBlunt Salons.

Promoter duo wishes to maintain focus on the BPC segment, given better growth and high gross margin in FMCG categories

Unlike new-age companies scaling faster with steady cash burns, Honasa has been focusing on profitable growth. In most categories, it has a gross margin of 70-75%. A healthy margin profile empowers the company to sustain aggressive brand spending. As the brand scales, its spending needs are likely to gradually come down, eventually leading to margin expansion.

Key anecdotes:

- **Honasa's revenue has reported a CAGR of 80% in the last couple of years** vs. 28% CAGR for BPC companies. Honasa is the largest digital-first BPC company in India, in terms of revenue for FY23.
- **Honasa is the largest company in the DTC BPC market in India,** in terms of revenue generated from the DTC channel in FY23 (Source: Redseer Report).
- **Market share**: Honasa had a market share (in terms of GMV) aggregating to ~5.4% (Rs13.3bn) of the online BPC market (i.e., DTC and e-commerce; Rs248bn) in India in CY22. Its market share (in terms of GMV) stood at ~1.5% of the total BPC market (Rs23.2bn) for CY22. Market share (in terms of GMV) aggregates to ~28.9% (Rs5.5bn) in the DTC BPC market (Rs19bn) in CY22 (Source: Redseer Report).
- **Face wash category share:** In a span of six years, Mamaearth has captured ~8.3% share in the face wash category in India, in CY22.
- Mamaearth was India's **most-searched BPC brand on Google Trends** between Jan-20 and Jun-23 (Source: Redseer Report). Mamaearth was ranked among the **top three in terms of awareness in the grooming category on Flipkart** between May-21 and Jul-23 (Source: Redseer Report). Mamaearth is **among the top five best-selling brands across four BPC sub-categories on Amazon.in,** as on August 31, 2023.
- **Honasa was ranked third among the digital-first BPC companies in India, in terms of gross margin in FY22.**
- It is **one of the digital-first BPC companies in India with a positive EBITDA margin in FY22.**

Strategy of scaling the offline business

The company generates ~65% of revenue online and ~35% offline.

With the online channel's penetration in single digits, scale up beyond a point becomes tough for any digital brand, as such there is a need for an offline journey for the brand. Understanding the need for an offline channel to scale business ahead, the company has been expanding its market presence via its distribution reach. Additionally, the company reaches consumers via EBOs. Overall, even from a margin perspective, offline is a better margin business for the company.

General trade: Building reach moat

Terms of agreements with distributors and super distributors is for 1-2 years on a non-exclusive basis and can be terminated by either party, with or without cause, by giving a prior notice of 1-3 months.

Honasa's general trade channel includes a network of retail and wholesale stores, which include beauty and cosmetics-focused outlets, grocery stores, pharmacies, and self-service department outlets. These outlets are accessed through a network of distributors, super distributors and sub-stockists. The company has a direct reach of ~50k retail outlets. Like any traditional company, Honasa has deployed a distributor management system (DMS; customized for Honasa) across large distributors in the offline channel, which enhances visibility of secondary sales and inventory.

Key insights:

- **General trade outlet reach:** According to NielsenIQ's Retail Measurement System, Honasa is likely to have retailed products through 154,447 FMCG retail outlets in India, for Jul-23. The company operates with 541 distributors, super distributors and sub-stockists across India. In general trade, the company is looking to scale its outlet reach from >150k now to 500k outlets in the next 4-5 years
- **Insights on product returns:** The company has a policy of 0.5% product returns. In case there is a slow-moving SKU in the trade, the company has multiple channels to leverage and reroute.
- **Secondary sales tracking in place:** The company has a full-fledged customized DMS system in place. It is in the process of rolling out the upgraded version, which will help the company in assessing more consumer data. Upgraded software is likely to cover 95% distributors in the next 60 days. Additionally, the company tracks secondary data with its brand promoters. There are >1,000 beauty advisers active on the ground who feed real-time data on the app.

Consolidation of distributors led to a reduction in distributor count

Exhibit 49: Number of distributors and super distributors

	FY21	FY22	FY23E	Q1FY23	Q1FY24
North	42	48	55	49	25
South	31	34	41	40	36
East	22	14	31	11	17
West	43	82	93	66	52
Total	**138**	**178**	**220**	**166**	**130**

Source: Company, Emkay Research

Surge in rebates and claims with increasing salience of offline sales

Discounting on gross merchandise value is at 14-15%

Exhibit 50: Reconciliation of revenue with contracted price

(Rs mn)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Revenue as per contracted price	**1,110**	**4,737**	**9,910**	**15,964**	**3,318**	**5,042**
Growth		327%	109%	61%		52%
Claims and rebates	(9)	(128)	(467)	(1,034)	(189)	(400)
As a %	1%	3%	5%	6%	6%	8%
Provision for customer wallets	(3)	(9)	(8)	(3)	(7)	3
Revenue from contract with customers	**1,098**	**4,600**	**9,435**	**14,927**	**3,122**	**4,645**
Growth		319%	105%	58%		49%

Source: Company, Emkay Research

In the offline space, its revenue from general trade outlets is at ~60%, while the remaining 40% is from institutional channels, including modern trade

Modern trade: Tied up with 31 chains; CSD: Second-biggest in the institutional channel

From the institutional channel's perspective, the company generates its biggest revenue from DMart (~Rs1bn; scaled faster in the last couple of years), followed by canteen stores department (CSD; got listed a couple of years back, with seven SKUs in operation now) and reliance retail. Its presence in the premium beauty outlets, including salons, has been negligible. The company has tied up with 31 modern trade chains, where it has entered into a contractual agreement.

Exclusive brand outlets

The company had 85 exclusive brand outlets as of Jun-23. EBOs help Honasa curate a richer brand experience for its consumers and deepens engagement with them in the offline retail environment. On an average, EBOs are sized at ~350 sq. ft.

All the EBOs are COCO format with ~350 sq. ft. in size

Exhibit 51: Number of exclusive brand outlets

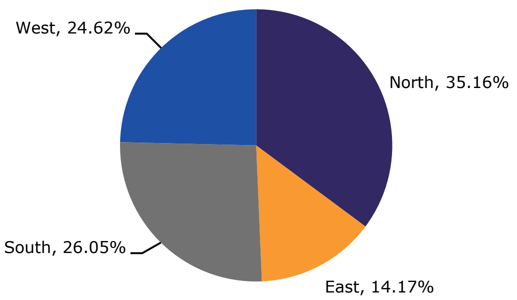
	FY23	Q1FY24
North	33	38
South	19	19
East	9	11
West	16	17
Total	**33**	**85**

Source: Company, Emkay Research

Salons

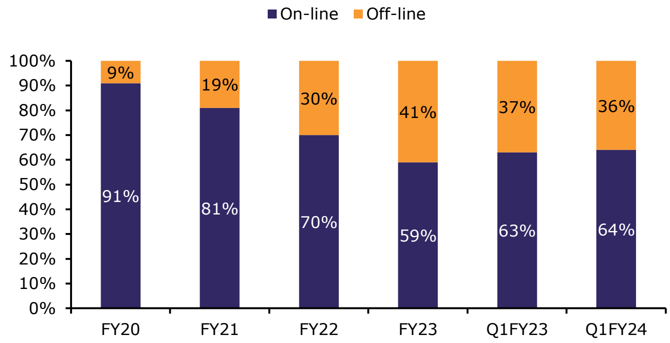
With BBlunt's acquisition in Mar-22, Honasa has further enabled access to the professional salon channel in the offline retail environment. As of Jun-23, the company had 10 salons in its basket – 4 in South, 3 in East and 3 in West.

Exhibit 52: Honasa's regional domestic volume split



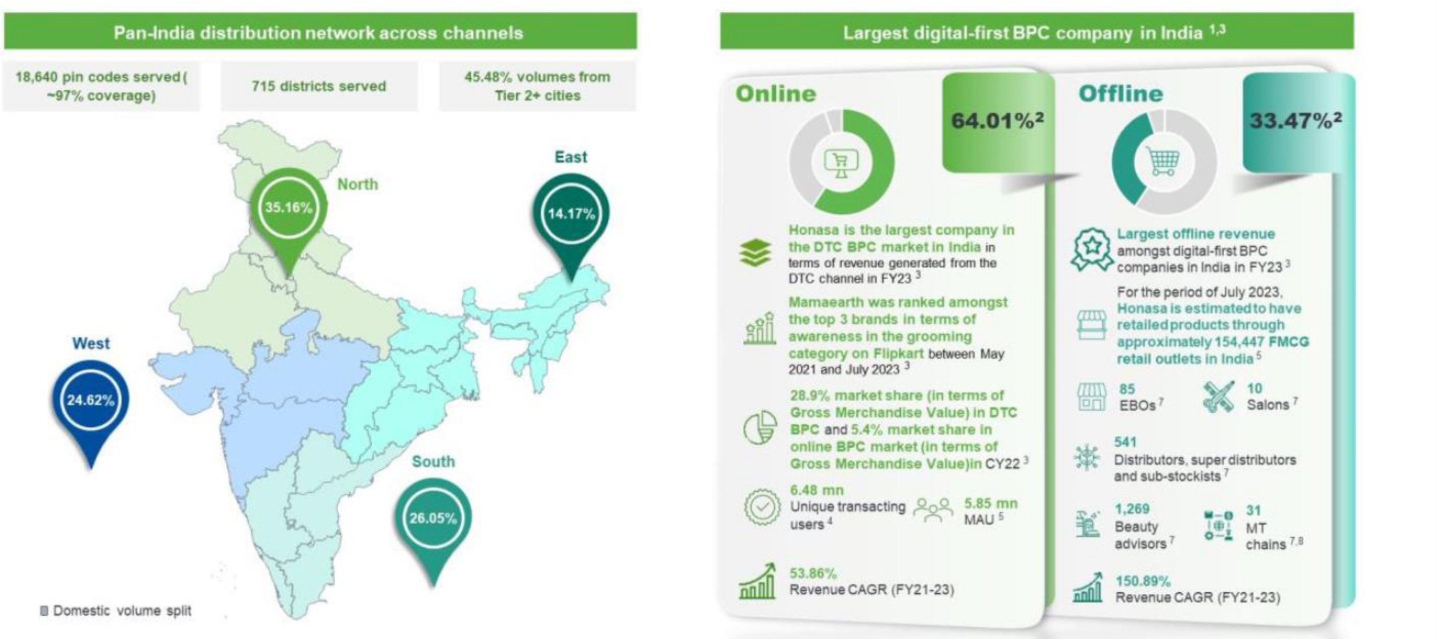
Source: Company, Emkay Research

Exhibit 53: Honasa's revenue mix from online and offline channels



Source: Company, Emkay Research

Exhibit 54: Honasa's distribution network



Note: CY – Calendar year ended December 31; FY – Financial Year ended March 31; DTC – Direct-to-consumer; e-com – ecommerce; Q1 – first quarter of financial year; All metrics are for Q1FY24 unless specified; [1] in terms of revenue from operations for FY 23; [2] Revenue split – Q1FY24 – excludes revenue from services – 2.52% of total revenues; [3]Source: RedSeer; [4]From April 2020 to June 2023; [5]For the three months period ended June 30, 2023; includes MAU for Mamaearth websites and mobile application; [6]Source: NielsenIQ; [7]As of June 30, 2023; [8]MT chains – Modern Trade retail chains

Source: Company

Exhibit 55: Assessing Honasa's revenue growth

	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
No. of brands (count)	2	2	5	6	6	6
Volume (mn)	4.64	18.51	45.02	75.74	16.54	23.84
Growth (%)		298%	143%	68%		44%
Realization per unit (Rs/unit)	236.60	248.51	206.99	188.22	178.89	189.93
Growth (%)		5%	-17%	-9%		6%

Source: Company, Emkay Research

The company entered into an agreement with market places for the sale of its products. These agreements can usually be terminated by either party by giving 30-60 days' notice.

Consumer repeats in own platform have increased from 35% to 60% in the last three years

Key insights: Realization decline over FY21-23

As the company charts its offline journey, it is seeing changes to its financials accounting. In the online world (B2C), consumer promotion and platform-related spends are part of the expense heads. However, in offline (B2B), trade-related spends get netted from the topline. Effective realization decline on reported revenue and volume is largely a factor of channel-related accounting. Additionally, some part of the decline can be attributed to smaller-pack sizes in offline channels.

Exhibit 56: Honasa's revenue progression

(Rs mn)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Total income	**1,098**	**4,600**	**9,435**	**14,927**	**3,122**	**4,645**
Growth	552%	319%	105%	58%		49%
- Online sales	**998**	**3,743**	**6,595**	**8,861**	**1,963**	**2,973**
Growth		275%	76%	34%		51%
As a % of revenue	91%	81%	70%	59%	63%	64%
- Offline	**99**	**857**	**2,723**	**5,394**	**996**	**1,555**
Growth		762%	218%	98%		56%
As a % of revenue	9%	19%	29%	36%	32%	33%
- Service^	**-**	**-**	**116**	**672**	**164**	**117**
Growth				480%		-29%
As a % of revenue			1%	5%	5%	3%

Source: Company, Emkay Research
^Revenue from services refers to revenue from the sale of services, from content creation and influencer marketing services, hair styling services, franchise services, hair-styling-educational services, and listing services

Exhibit 57: Honasa's consumer revenue from online channels

(Rs mn)	FY21	FY22	FY23	Q1FY23	Q1FY24
Total online sales	**3,743**	**6,595**	**8,861**	**1,963**	**2,973**
Growth		76%	34%		51%
Contribution to overall revenue	81.4%	69.9%	59.4%	62.9%	64.0%
D2C	**1,583**	**2,982**	**3,733**	**917**	**1,060**
Growth		88%	25%		16%
Contribution	42%	45%	42%	47%	36%
- Cash on Delivery orders	664	1,218	1,297	334	332
- As a % of DTC sales	41.94%	40.87%	35.99%	36.93%	33.68%
3P market place	**2,160**	**3,614**	**5,128**	**1,046**	**1,913**
Growth		67%	42%		83%
Contribution	58%	55%	58%	53%	64%
Sales commission and fulfillment costs	27.08%	28.61%	34.00%	27.42%	27.25%

Source: Company, Emkay Research

Mamaearth's scale up now depends on its offline journey

Honasa's core brand offering, Mamaearth is the fastest brand in the digital space to achieve a milestone revenue of Rs1bn. Given limitation of the online channel, the brand is now dependent on the offline channel for further scale-up. Looking at the reported data, its revenue for Q1FY24 declined by ~3% in the online channel. However, the brand grew by 18% during Q1FY24, driven by accelerated growth in the offline channel at ~53%. The brand now generates near-equal share from online and offline channels. As the company looks to drive brand penetration in general and modern trade, we expect the share of offline to see steady expansion.

Overall for the brand, the management is looking at growth from: a) gaining share in current categories (its share in core segments like face wash, shampoo and sunscreen is in a low single-digit), b) distribution-led growth, and c) new category opportunity.

Exhibit 58: Mamaearth's revenue journey

(Rs mn)	FY21	FY22	FY23	Q1FY23	Q1FY24
	4,419	**8,671**	**11,680**	**2,568**	**3,036**
Revenue contribution	96%	93%	82%	87%	67%
Growth		96%	135%		18%
- Offline	856	2,692	5,166	958	1,467
Growth		214%	92%		53%
% of brand sales	19%	31%	44%	37%	48%
- Online	3,562	5,979	6,514	1,610	1,569
Growth		68%	9%		-3%
% of brand sales	81%	69%	56%	63%	52%

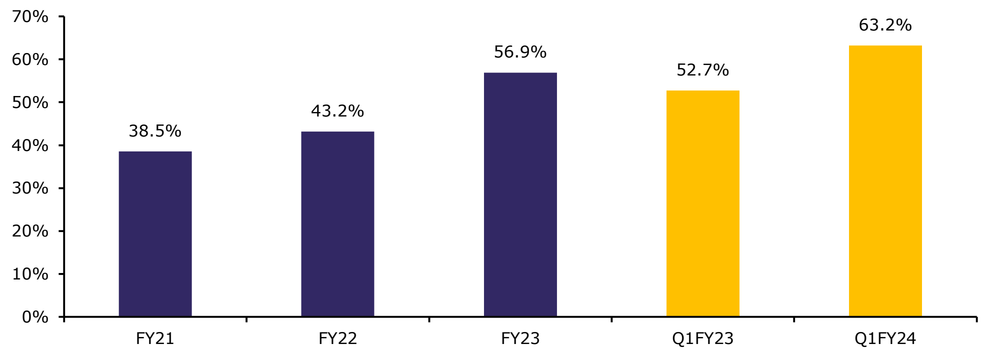
Source: Company, Emkay Research

Mamaearth's online revenue decline in Q1FY24

The company reported a 3% revenue decline in Q1FY24 for Mamaearth in the online channel which is a factor of its focus on acquiring consumers offline. As the brand scales, the company is looking to connect consumers offline. A large part of the revenue decline is concentrated in its D2C website and app, where CAC is considerably high. As consumers shift to the offline mode, CAC needs will also reduce.

Online channel seeing good traction with the existing consumer base

Exhibit 59: Mamaearth's revenue in digital channels from existing customers



Source: Company, Emkay Research

Other five brands using the playbook created by the core brand

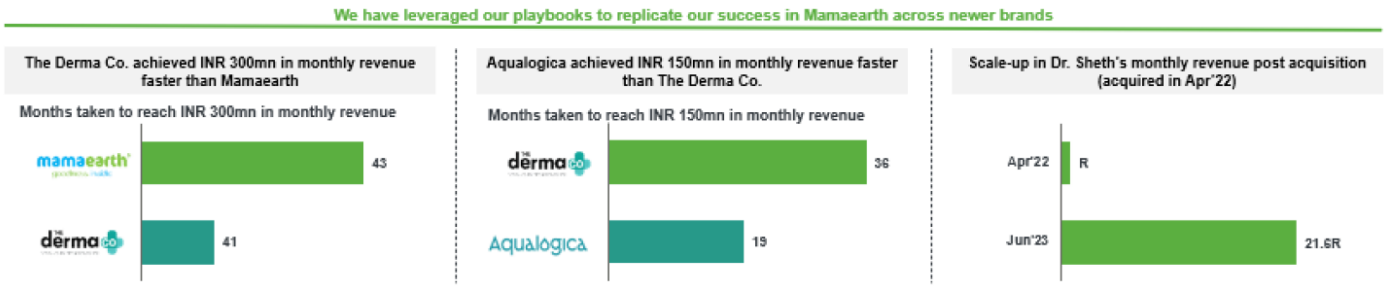
The company has incubated three organic brands in last three years and has acquired a couple of brands during the same period. The company now generates its one-third revenue from the other brands. As the brands are being nurtured online via connecting with relevant consumer cohorts, salience of the online channel has been high at over 90%. As these brands reach their milestone, the company would look to scale brands in offline channels.

Exhibit 60: Revenue journey of the other five brands

(Rs mn)	FY21	FY22	FY23	Q1FY23	Q1FY24
Other five brands	**181**	**648**	**2,575**	**382**	**1,492**
Revenue contribution	4%	7%	18%	13%	33%
Growth		258%	397%		390%
- Offline	**1**	**32**	**228**	**38**	**88**
Growth		4943%	619%		130%
% of brand sales	0%	5%	9%	10%	6%
- Online	**180**	**616**	**2,347**	**344**	**1,404**
Growth		242%	281%		308%
% of brand sales	100%	95%	91%	90%	94%

Source: Company, Emkay Research

Exhibit 61: Playbook of Mamaearth getting replicated for other brands

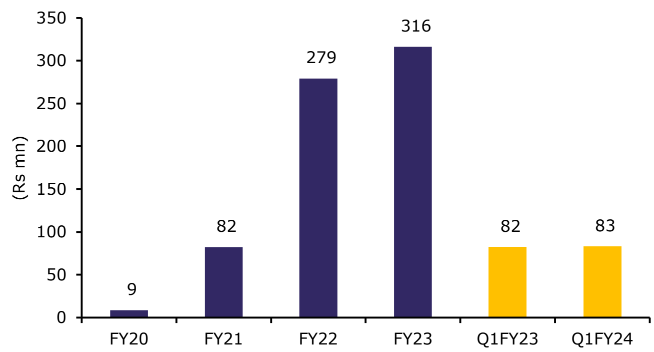


Source: Company

Gradually seeding products in the international market

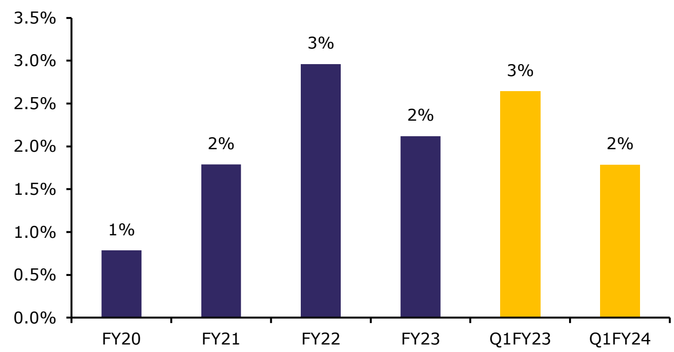
Going ahead, the company's thrust will be to address the large opportunity in India, but it is also looking to leverage its safe-labeling tag across the globe. While the Indian diaspora holds good promise, the company is also eyeing to address the needs of local consumers with local formulations. Its overall focus is on addressing the needs of digitally active consumers in international markets.

Exhibit 62: International revenue



Source: Company, Emkay Research

Exhibit 63: International revenue as a % of total income



Source: Company, Emkay Research

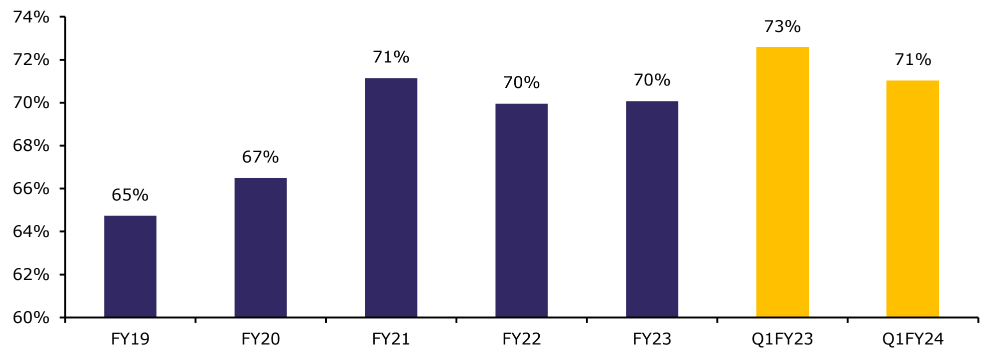
The company is already present in a few overseas markets such as the UAE, Singapore, Nepal, Malaysia, Maldives, and Mauritius, where it operates through modern trade and e-commerce marketplaces. In some cases, it even has its own dedicated brand website. As per media reports, the company has assigned certain markets – including Bangladesh, Malaysia, Vietnam, and Thailand – as priority geographies into which it is planning a deeper push for Mamaearth by appointing channel partners.

The initial thrust is to position itself in the Gulf Cooperation Council (GCC) markets. Additional thrust is on markets like Indonesia and the United Kingdom. The company's current investor base comprises Sequoia, Sofina and Evolvence, having unique strengths in the U.S., Europe and GCC, respectively, which will help Honasa grow internationally and learn from others in these markets.

Gross margin profile healthy at over 70%

Honasa has curated a portfolio with a healthy gross margin profile. Historically, the company had to offer healthy promotions, which had a bearing on profitability. Gradually, the company is reducing promotions. Interestingly, in general trade/offline trade, it is a mix of product pull and push that leads to a product's sale.

Exhibit 64: Gross margin trend



Source: Company, Emkay Research

Exhibit 65: Gross margin profile for listed FMCG companies

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	47.7%	48.8%	49.3%	52.1%	50.8%	53.0%	53.0%	54.1%	52.9%	50.9%	47.3%
Nestle	54.7%	54.7%	54.1%	57.6%	57.5%	56.8%	59.4%	57.8%	57.5%	57.0%	54.1%
Britannia	37.6%	39.5%	40.2%	42.4%	38.2%	38.4%	40.6%	40.3%	41.9%	38.0%	41.2%
GCPL	53.9%	53.2%	53.6%	57.1%	55.4%	56.6%	56.2%	57.0%	55.3%	50.5%	49.7%
Dabur	50.9%	51.8%	52.3%	54.9%	50.7%	50.5%	49.6%	50.0%	50.0%	48.2%	45.6%
Marico	51.9%	48.8%	45.6%	50.1%	52.2%	47.0%	45.2%	48.8%	46.9%	42.9%	45.2%
Colgate	60.5%	60.8%	63.1%	64.1%	62.9%	64.4%	65.1%	65.2%	68.0%	67.3%	65.7%
Emami	57.9%	62.6%	64.8%	69.0%	66.5%	68.0%	65.7%	67.0%	67.7%	66.3%	64.7%

Source: Company, Emkay Research

Marketing has been key for brand positioning

The company started engaging with consumers through television campaigns for Mamaearth in Nov-20 to help drive awareness and penetration for the brand into new households and expand its reach in the offline channel.

The company's quick scale-up has been a factor of its aggressive marketing spending. The company relies on a combination of digital and traditional marketing. As a digital-first BPC company, it has developed a comprehensive digital marketing strategy across social media platforms. Its non-digital, traditional marketing initiatives include television campaigns and physical events.

The company has in-house user conversational research (UCR) tech platform to launch surveys and polls on its own brand websites, and activates extensive qualitative and quantitative consumer research from third-party market research agencies to provide additional insights on critical strategic areas. The company has created an in-house content and creative excellence team that develops relevant educational content to engage with consumers, supported by data-led consumer insights. Honasa's in-house creative studio helps to accelerate content development timelines and drive efficiencies. Its content strategy aims to focus on latest beauty regimes, ingredients' benefits, and product usage, among others.

The company works with a community of influencers on social media platforms to create relevant content across video and textual formats. During FY23 and Q1FY24, it worked with 4,025 and 1,900 influencers, respectively, which included beauty, fashion and lifestyle bloggers, makeup artists and celebrities to generate content for its brands.

Exhibit 66: Advertisement spending

(Rs mn)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Advertisements	**458**	**1,779**	**3,915**	**5,303**	**1,290**	**1,625**
Growth	427%	288%	120%	35%		26%
As a % of sales	41.8%	38.7%	41.5%	35.5%	41.3%	35.0%
- Spend on Mamaearth		**1,622**	**3,416**	**3,684**	**956**	**932**
Growth			111%	8%		-3%
As a % of revenue		37%	39%	32%	37%	31%
- Spend on other five brands		**157**	**491**	**1,609**	**330**	**690**
Growth			212%	228%		109%
As a % of revenue		87%	76%	62%	86%	46%
Influencer expenses			**26**	**105**	**20**	**20**

Source: Company, Emkay Research

Exhibit 67: Breakdown of advertisement spends

(Rs mn)	FY21	FY22	FY23	1QFY23	1QFY24
Traditional media (including television production costs)	90	801	746	183	238
% of total spend	5%	21%	15%	12%	19%
Offline spend (including beauty advisor cost and visibility spends)	119	426	814	240	128
% of total spend	7%	11%	16%	16%	10%
Digital advertising (including social media and search engines)	756	1,401	1,522	345	459
% of total spend	42%	36%	30%	23%	36%
Platform (e-commerce) spends	389	721	1,050	445	241
% of total spend	22%	18%	21%	30%	19%
Influencer spends	217	367	660	188	149
- *No. of influencers (No. of)*	*604*	*2,915*	*4,025*	*1,252*	*1,900*
Celebrity spends	10	32	12	6	7
- *No. of celebrities (No. of)*	*2*	*4*	*4*	*4*	*3*
Agency Fees	149	132	214	60	37
Others	50	27	29	18	7
Total advertisement costs	**1,779**	**3,907**	**5,046**	**1,485**	**1,266**

Source: Company, Emkay Research

The company started engaging with consumers through television campaigns for Mamaearth in Nov-20 to help drive awareness and penetration for the brand.

Key insights: 80% of its annual spending is on the digital medium (influencer blogs, platform advertisements and social media promotions). The company's consumer base is concentrated in ~200mn users at the top end. Consumer behavior in terms of content consumption is at the cusp of change. The company's user base likes to watch online content. As such, it would be prudent to sustain its focus on the digital medium.

Exhibit 68: Advertisement spends as a % of revenue for listed FMCG companies

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	12.5%	12.9%	12.6%	14.1%	10.9%	11.9%	11.9%	12.1%	10.3%	9.2%	8.2%
Nestle	4.3%	4.3%	4.5%	6.4%	5.5%	5.1%	6.5%	6.3%	5.7%	5.2%	4.1%
Britannia	8.6%	8.8%	8.3%	8.5%	4.3%	4.1%	4.5%	4.1%	3.4%	3.0%	4.1%
GCPL	15.0%	14.6%	14.6%	14.9%	7.7%	8.2%	8.1%	7.5%	6.6%	6.1%	7.4%
Dabur	13.6%	14.2%	14.4%	14.8%	8.5%	7.9%	7.1%	7.5%	8.2%	7.1%	5.6%
Marico	13.0%	12.0%	11.3%	12.8%	11.1%	9.3%	9.0%	10.0%	8.7%	8.4%	8.6%
Colgate	11.2%	12.3%	10.5%	10.0%	12.9%	12.6%	12.7%	13.8%	12.9%	12.6%	12.1%
Emami	16.4%	15.2%	17.7%	20.2%	17.8%	18.6%	17.4%	17.7%	15.9%	16.4%	16.5%

Source: Company, Emkay Research

Employee spends expanded with scale

As Honasa looks to scale ahead with its house of brands, we see management's focus would be key for growth. There has been a churn in the management team, which the company needs to address with apt pay offerings, where ESOP costs become crucial.

Exhibit 69: Employee spends

(Rs mn)	FY19	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Staff costs	21	82	236	601	1,367	319	388
Share-based payments	-	7	42	188	282	68	57
Employee benefits expenses	**21**	**89**	**278**	**788**	**1,649**	**387**	**445**
As a % of sales	12.4%	8.1%	6.0%	8.4%	11.0%	12.4%	9.6%
Number of employees (count)		132	285	507	1,063		993
Attrition rate			37%	29%	47%	46%	82%

Source: Company, Emkay Research

Key insights

- **ESOP costs:** With bulk of the ESOP costs accounted for in the last 3-4 years, ESOP spend would be ~0.8-1% ahead
- **Higher attrition in Q1FY24** is attributed to scale down of Momspresso's operations

Exhibit 70: Employee costs as a % of sales for listed FMCG companies

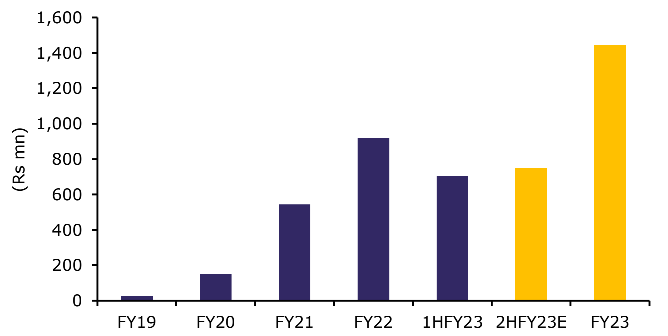
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	5.1%	5.1%	5.1%	5.0%	5.1%	5.1%	4.6%	4.4%	4.8%	4.7%	4.5%
Nestle	8.0%	8.1%	8.3%	11.2%	9.9%	10.2%	10.0%	10.2%	11.2%	10.3%	9.7%
Britannia	3.7%	3.8%	3.6%	3.9%	3.9%	4.1%	4.0%	4.2%	4.0%	3.8%	4.0%
GCPL	9.2%	9.9%	9.4%	10.7%	10.7%	10.7%	10.6%	10.3%	10.2%	9.0%	8.3%
Dabur	7.7%	8.6%	8.8%	9.4%	10.4%	10.3%	11.0%	10.9%	10.8%	9.9%	9.9%
Marico	8.3%	6.1%	5.7%	5.9%	6.8%	6.7%	6.4%	6.5%	7.1%	6.2%	6.7%
Colgate	7.9%	5.9%	6.5%	6.5%	7.2%	7.3%	6.6%	7.3%	7.6%	7.6%	7.2%
Emami	6.8%	7.6%	7.5%	7.9%	9.4%	10.1%	10.4%	11.3%	10.7%	10.0%	10.8%

Source: Company, Emkay Research

Freight spend surged with increased online sales

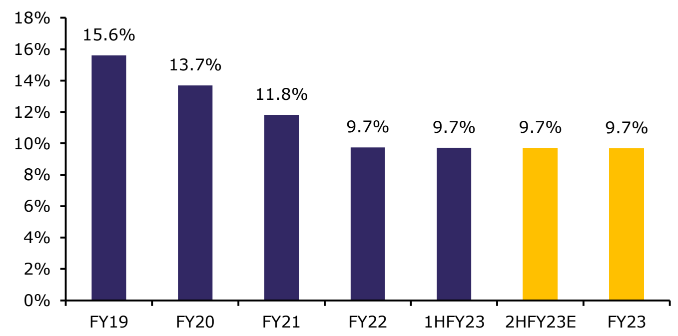
The company's freight costs have been linked to its online sales volume. Going ahead, with scale up and expanding share of offline sales, we may see spending to witness relatively moderate expansion.

Exhibit 71: Freight and forwarding expenses



Source: Company, Emkay Research

Exhibit 72: Freight and forward expenses as a % of sales



Source: Company, Emkay Research

Operating margin to reflect scale benefit

Honasa's EBITDA margin is in single digits despite a lucrative gross margin profile. This is a factor of high consumer acquisition cost for its D2C vertical. While the brand sells across channels, the company is strategically looking to drive sales though its own D2C platforms, which has been critical for its innovation. Given the thrust is on growing revenue faster, brand investments are likely to remain high over the medium term. We see thrust in the medium term will be to drive growth, as it expects lot of disruptions in the path ahead. But we see scale-up in operations to lead to operating leverage benefits going ahead. This would pave way for EBITDA margin expansion over the medium term.

Exhibit 73: EBITDA margin seeing steady expansion

(Rs mn)	FY19	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Total income	**168**	**1,098**	**4,600**	**9,435**	**14,927**	**3,122**	**4,645**
Growth		552%	319%	105%	58%		49%
Gross profit	**109**	**730**	**3,273**	**6,600**	**10,460**	**2,266**	**3,299**
Gross margin	64.7%	66.5%	71.2%	70.0%	70.1%	72.6%	71.0%
EBITDA	**(45)**	**(78)**	**272**	**115**	**228**	**(124)**	**293**
EBITDA margin	-26.5%	-7.1%	5.9%	1.2%	1.5%	-4.0%	6.3%
Adj. EBITDA (ex-share based payments)	**(45)**	**(72)**	**314**	**302**	**509**	**(56)**	**350**
EBITDA margin	-26.5%	-6.6%	6.8%	3.2%	3.4%	-1.8%	7.5%

Source: Company, Emkay Research

Exhibit 74: EBITDA margin for listed FMCG companies

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	15.5%	16.0%	16.9%	17.9%	19.0%	21.1%	22.6%	24.8%	24.6%	24.4%	23.0%
Nestle	22.3%	22.2%	21.3%	20.3%	22.2%	22.2%	24.2%	23.4%	24.1%	24.3%	22.2%
Britannia	6.8%	8.8%	10.8%	14.1%	14.1%	15.1%	15.7%	15.9%	19.1%	15.6%	17.4%
GCPL	15.3%	15.1%	16.5%	18.1%	18.3%	21.0%	20.9%	21.6%	21.7%	19.5%	18.3%
Dabur	16.8%	16.4%	16.9%	18.1%	19.8%	20.9%	20.4%	20.6%	21.0%	20.7%	18.8%
Marico	13.6%	16.0%	15.2%	17.3%	19.6%	18.0%	18.1%	20.1%	19.8%	17.8%	18.5%
Colgate	20.8%	18.6%	20.6%	22.4%	23.7%	26.6%	27.7%	26.6%	31.2%	30.7%	29.6%
Emami	20.4%	24.2%	24.4%	26.1%	30.3%	28.4%	27.0%	26.0%	30.7%	29.9%	25.3%

Source: Company, Emkay Research

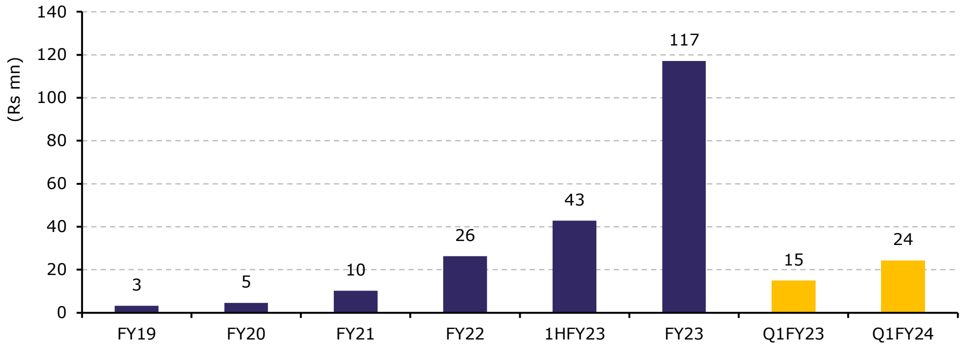
Capex needs limited in the business

Honasa has asset-light operations, where it is leveraging the third-party HPC manufacturer ecosystem. The company has non-exclusive arrangements (typically for five years and notice period of 30 days) with contract manufacturers. As of Jun-23, the company had a tie-up with 37 contract manufacturers. The company has made its contract manufacturers to adhere to stringent quality-control standards and conducts regular checks at its own warehouses to ensure compliance. Moreover, the company has reduced its revenue concentration from its top three partners to 46% in Q1FY24 from 82% in FY21.

Key insights: The company does not intend to start own manufacturing, as it believes it needs expertise, which is better leveraged with contract partners. Moreover, contingency on contract manufacturers helps the company address demand better (no constraint on capacity). Management plans to keep its energies towards research and development, innovation, and sales and marketing.

For FY24, the company has planned for capex spend of Rs245mn towards maintenance capex, expansion of EBOs and salon channels.

Exhibit 75: Annual capex spends



Source: Company, Emkay Research

Working capital may surge in the medium term

Honasa's working capital requirement is broadly in line with other FMCG incumbents, where high payable days largely absorb inventory and receivable days' requirements in the business. Going ahead, as the company looks to build sales in the offline channel, we see the need for higher inventory, but at the same time receivable days are likely to go down, given cash transactions with general trade distribution. Additionally, expansion can be from the scale-up of the international business. Overall, we see working capital needs to be limited.

Exhibit 76: Working capital requirements in the business

(no. of days)	FY19	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Inventory days	30	45	33	26	29	31	28
Receivable days	57	35	27	29	33	22	27
Payable days	82	73	64	67	50	66	53
Net working capital	**6**	**8**	**(4)**	**(12)**	**12**	**(14)**	**2**

Source: Company, Emkay Research

Exhibit 77: Net working capital requirements for listed FMCG companies

(no. of days)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E
HUL	(26)	(30)	(23)	(22)	(32)	(38)	(29)	(35)	(29)	(22)	(16)
Nestle	13	8	8	7	10	0	(5)	(3)	2	0	4
Britannia	(10)	(14)	(20)	(18)	3	(1)	1	(2)	1	11	2
GCPL	42	27	35	57	28	17	11	14	19	32	27
Dabur	35	29	28	25	22	26	29	30	15	18	22
Marico	46	40	39	30	50	60	49	47	17	28	30
Colgate	(53)	(53)	(44)	(35)	(29)	(25)	(44)	(29)	(81)	(29)	(34)
Emami	27	16	6	5	13	16	20	32	23	31	35

Source: Company, Emkay Research

NCCCPS: Accounting adjustments

Since Mar-2021, the company has raised funds from investors in the form of non-cumulative compulsory convertible preference shares (NCCCPSs). These NCCCPSs got converted into equity shares on 3-Oct-2023.

Charge of Rs13.6bn in FY21, upon revaluation of NCCCPS

The NCCCPS holders of the company, in terms of the shareholders agreement, had exit rights including requiring the company to buy back shares held by them. Accordingly, on transition to IndAS, as the redemption feature is conditional upon an event not under the control of the issuer and may require the entity to deliver cash which the issuer cannot avoid, NCCCPSs are classified as liability at fair value of Rs399mn/Rs5.93bn/Rs19.54bn as of Mar-19/Mar-20/Mar-21 and the change in fair value of liability of Rs4.24bn/Rs13.61bn has been recognized as an expense in the P&L for FY20/FY21, respectively.

The significant increase in fair value of the NCCCPSs during FY21 is attributable to the increase in fair value per share of the business, as calculated by an independent registered merchant banker and valuer, primarily due to: i) an increase in scale of the company's business operations; ii) the establishment of the company's omni-channel distribution network across online and offline channels; and iii) an increase in profitability of our business.

Reclassification of NCCCPSs, from borrowings to Equity

On 1-Apr-2021, Honasa and the NCCCPS holders agreed to waive the buy-back rights granted to the NCCCPS holders under the shareholders agreement. Hence, the NCCCPSs were no longer classified as a debt instrument with effect from 1-Apr-2021 and, instead, were classified as instruments entirely in the nature of equity.

Thus, the fair value of the NCCCPS liability amounting to Rs19.54bn has been classified from borrowings to instruments entirely in the nature of equity to the extent of Rs17.93bn and Rs1.61bn, representing securities premium on the NCCCPS, has been reclassified into other equity.

Valuations factor-in growth prospects

We see Honasa's fast scale-up and prospect of healthy sustained growth with its house of brands to keep its growth ahead compared with other listed peers in the listed FMCG space. We believe the company's profitability will improve with scale.

The IPO is slated to open on October 31, 2023, with expected listing by November 10, 2023. Post-issue implied market cap depending on the price band (Rs308-324/share, face value of Rs10) is likely to be Rs99.28bn to Rs104.25bn.

Based on business valuations (Implied market capitalization, post listing), at the upper end of the price band of Rs104bn/US$1.3bn, we believe the valuation looks

- **Scenario 1: Attractive**, in a scenario where the company looks to double its turnover in the next three years.
- **Scenario 2: Fair,** in a scenario when the company would register a 20% revenue CAGR with EBITDA margin at ~10%.
- **Scenario 3: Expensive,** in a scenario where revenue CAGR would be ~10% with EBITDA margin at ~6%

Exhibit 78: Honasa's valuation as per different revenue and margin scenarios

(Rs mn)	Scenario 1	Scenario 2	Scenario 3
Valuation ask	104,250	104,250	104,250
FY23			
Revenue	14,927	14,927	14,927
EBITDA	228	228	228
EBITDA margin	1.5%	1.5%	1.5%
FY26			
Revenue	30,000	25,795	20,000
CAGR	26%	20%	10%
EBITDA	3,600	2,579	1,200
CAGR	151%	125%	74%
EBITDA margin	12%	10%	6%
EV/Sales (x)	**3.5**	**4.0**	**5.2**
EV/EBITDA (x)	**29.0**	**40.4**	**86.9**

Source: Company, Emkay Research

Exhibit 79: Listed FMCG stock valuations (on consensus)

	CMP	Mcap	PE			EV/Sales			EV/EBITDA		
	(Rs)	(US$ bn)	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Hindustan Unilever	2,482.1	70.1	54.04	48.12	**43.49**	9.2	8.4	**7.6**	38.3	34.2	**31.0**
ITC	433.8	65.0	25.93	23.51	**21.63**	7.3	6.6	**6.1**	19.9	17.7	**16.2**
Nestle India	24,057.0	27.9	76.85	67.14	**59.19**	12.0	10.7	**9.6**	51.1	44.2	**39.2**
Britannia Industries.	4,514.3	13.1	51.03	44.19	**39.30**	6.3	5.6	**5.1**	35.8	31.3	**28.1**
Godrej Consumer Products	987.3	12.1	48.37	40.13	**34.95**	6.6	6.0	**5.4**	32.8	27.8	**24.6**
Dabur India	524.6	11.2	47.35	40.52	**35.73**	7.3	6.6	**5.9**	37.2	32.2	**28.6**
Marico	537.8	8.4	45.20	40.23	**36.03**	6.7	6.0	**5.5**	32.5	29.1	**26.2**
Colgate-Palmolive India	2,080.5	6.8	45.60	41.53	**38.50**	9.8	9.1	**8.4**	31.0	28.6	**26.4**
Emami	504.9	2.7	27.64	24.74	**22.36**	6.0	5.5	**5.0**	22.1	19.8	**18.1**
Tata Consumer Products	891.1	9.9	58.66	49.38	**44.20**	5.3	4.8	**4.4**	36.2	31.8	**28.8**
Adani Wilmar	331.4	5.2	53.08	36.69	**31.96**	0.7	0.6	**0.6**	22.5	17.9	**16.8**
Bikaji Foods International	467.5	1.4	57.33	46.67	**37.33**	5.1	4.3	**3.7**	37.2	31.4	**26.3**
Jyothy Labs	361.9	1.6	40.87	35.32	**32.93**	4.7	4.2	**3.9**	29.1	25.6	**23.2**
Mrs. Bectors Food Specialities	1,095.4	0.8	46.79	38.60	**32.18**	4.0	3.4	**3.0**	26.7	22.5	**19.1**
Bajaj Consumer Care	240.0	0.4	18.69	16.19	**13.92**	2.7	2.5	**2.2**	15.3	12.9	**11.1**
Agro Tech Foods	784.9	0.2	61.80	45.11	**36.00**	2.3	2.1	**1.8**	28.5	22.8	**19.2**

Source: Company, Bloomberg, Emkay Research
Note: Based on closing price on 27 Oct 2023

Exhibit 80: Sensitivity analysis: EV/EBITDA for FY26

(x)		EBITDA margin			
		12%	11%	10%	8%
3Y Sales CAGR	30%	26	29	32	40
	27%	28	31	34	43
	25%	30	33	36	45
	20%	34	37	40	51
	15%	38	42	46	57

Source: Company, Emkay Research

Pure-play companies trade at a premium to FMCG peers

Redseer's analysis of the financials of listed entities globally suggests that the valuation of pure-play BPC companies is at a premium to FMCG-led BPC companies. This premium is attributed to faster growth and better gross margin profile. High gross margin enables pure-play companies to invest in the brand and drive scale.

Exhibit 81: Comparison of growth, profitability and valuation of pure-play BPC and FMCG-led BPC companies

	Pure-Play[1]	FMCG-led[2]
5Y avg. revenue growth	10%	2%
Avg. gross margin (2022)	72%	44%
Avg. marketing spends (2022)	26%	13%
Avg. EBT	12%	14%
Avg. P/E (Aug-23)	51x	28x

Source: Company, Emkay Research
[1] Pure-play brands considered are L'Oréal Paris, Estee Lauder, Beiersdorf, Shisedo, and Natura and Co.
[2] FMCG-led brands considered are Unilever, Procter and Gamble, Colgate Palmolive, Kao, and Henkel

Fund-raise – A mix of fresh issue and offer for sale

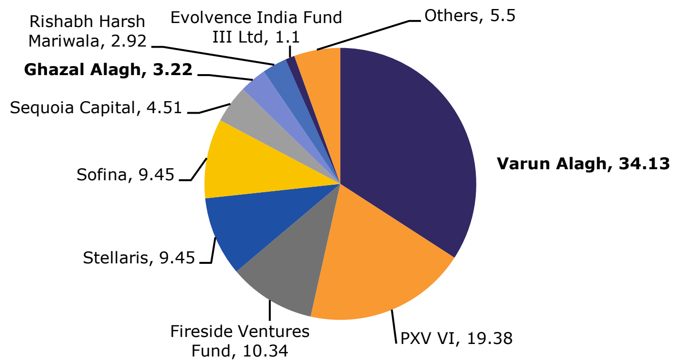
Honasa's IPO is divided into primary fund-raises (Rs3.65bn) and offer for sale (OFS). The primary raise will be directed toward bolstering marketing efforts to enhance brand visibility (Rs1.82bn), establishing new exclusive brand outlets (Rs206mn), and expanding the network of BBlunt Salons (Rs260mn).

Exhibit 82: Utilization plans for primary fund raise of Rs3.65bn

(Rs mn)	FY24	FY25	FY26	FY27	Total
Advertisement	190	620	670	340	**1,820**
- TV Campaign	*157*	*509*	*550*	*284*	*1500*
- Digital spends	*33*	*111*	*120*	*56*	*320*
EBO capex		65	69	72	**206**
- No. of EBO additions planned (count)		*44*	*44*	*44*	***132***
- Capex per EBO		*1.48*	*1.57*	*1.64*	*1.56*
Salon capex		87	91	82	**260**
- No. of Salon additions planned (count)		*7*	*7*	*7*	*21*
- Capex per salon		*12.43*	*13.00*	*11.71*	*12.38*
Total	**190**	**772**	**830**	**494**	**2,286**
General corporate purposes and inorganic opportunities^					**1,364**
Total					**3,650**

Source: Company, Emkay Research
^ The amount to be utilized for general corporate purposes and towards unidentified inorganic acquisition shall not, in aggregate, exceed 35% of the net proceeds, out of which the amounts to be utilized towards either of (i) general corporate purposes, or (ii) unidentified inorganic acquisitions will not exceed 25% of the net proceeds.

Exhibit 83: Pre-IPO shareholding (Promoter holding highlighted in bold)



Source: Company

Bulk of the fund-raise can be attributed to offer for sales, where the promoters and existing investors are looking to monetize investments. Selling shareholders include the promoter duo, followed by Sofina Ventures SA, Evolvence, Fireside Ventures, Stellaris, Kunal Bahl and Rohit Kumar Bansal (of Snapdeal), Rishabh Harsh Mariwala (of Sharrp Ventures), and Shilpa Shetty Kundra (Bollywood actress).

Exhibit 84: Shareholding structure pre and post the IPO

	Pre IPO shareholding			Fresh issue and OFS	Post IPO shareholding	
	mn shares	% of equity capital	% of equity considering ESOP conversion	mn shares	mn shares	% of equity capital
Promoters – Varun and Ghazal	116.80	37.6%	37.4%	3.29	113.52	35.3%
Promoter group	0.20	0.1%	0.1%		0.20	0.1%
Total promoter	**117.00**	**37.7%**	**37.4%**	**3.29**	**113.72**	**35.3%**
Public – Investor Selling Shareholders	91.42	29.4%	29.2%	28.48	62.94	19.6%
Public – Other Selling Shareholders	15.52	5.0%	5.0%	9.48	6.04	1.9%
Public – Other	86.54	27.9%	28.4%	11.27	139.05	43.2%
Total Public	**193.48**	**62.3%**	**62.6%**	**49.23**	**208.03**	**64.7%**
Total Equity Share Capital	**310.48**	**100.0%**	**100.0%**	**52.51**	**321.74**	**100.0%**

Source: Company, Emkay Research

Exhibit 85: Detail analysis of shareholding changes from Mar'23 to post IPO

(numbers)	Mar'23 shareholdings	Mar'23 NCCCPS holding	Oct'23 NCCCPS conversion to equity	Post conversion/ Pre-issue shareholding	Fresh issue and OFS	Post IPO shareholding
Varun Alagh	106,737,150			106,737,150	-3,186,300	103,550,850
Ghazal Alagh	10,064,700			10,064,700	-100,000	9,964,700
Mukesh Alagh	50,000			50,000		50,000
Jaspal Alagh	50,000			50,000		50,000
Sunita Sahni	100,000			100,000		100,000
Varun Alagh Trust	500			500		500
Gazhal Alagh Trust	500			500		500
Promoter group	**117,002,850**			**117,002,850**	**-3,286,300**	**113,716,550**
Fireside Ventures F	1,844,700	2363	30,482,700	32,327,400	-7,972,478	24,354,922
Sofina	3,302,400	2034	26,238,600	29,541,000	-9,566,974	19,974,026
Stellaris	1,844,700	2,148	27,709,200	29,553,900	-10,942,522	18,611,378
Investor selling shareholder	6,991,800		84,430,500	91,422,300	-28,481,974	62,940,326
Rishabh Harsh Mariwala		707	9,120,300	9,120,300	-5,700,188	3,420,112
Kunal Bahal			2,386,500	2,386,500	-1,193,250	1,193,250
Rohit Kumar Bansal			2,386,500	2,386,500	-1,193,250	1,193,250
Shilpa Shetty Kundra	1,623,635			1,623,635	-1,393,200	230,435
Other selling shareholders	**1,623,635**		**13,893,300**	**15,516,935**	**-9,479,888**	**6,037,047**
PXV VI^	5,160,000	4298	55,444,200	60,604,200		60,604,200
Evolvence India Fund III Ltd		164	2,115,600	2,115,600		2,115,600
Sequoia Capital	2,850,900	872	11,248,800	14,099,700		14,099,700
Others	2,707,151		7,010,491	9,717,642	52,513,594	62,231,236
Public - Others	**10,718,051**		**75,819,091**	**86,537,142**	**52,513,594**	**139,050,736**
Total number of shares	**136,336,336**		**174,142,891**	**310,479,227**	**11,265,432**	**321,744,659**

Source: Company, Emkay Research

Key risks in the business

Sustained evaluation of consumer needs and trend crucial

The BPC products market is characterized by frequent changes, particularly in consumer preferences, new products and product variations. The popularity and demand of BPC products may vary over time due to changing consumer preferences, including those relating to sustainability and 'clean' beauty factors such as recycling plastic, methods of production, ingredients and testing & support for cruelty-free and eco-friendly products. The company will need to be on its toes to gauge evolving trends and craft the product accordingly, and failure to do so will have a bearing on its growth aspirations and market share.

Exhibit 86: New SKUs' contribution to revenue

	FY21	FY22	FY23	Q1FY23	Q1FY24
New SKUs (No. of)	126	159	301	137	109
New SKU revenue (Rs mn)	1,392	1,990	2,794	338	399
YoY expansion in product sales (Rs mn)		4,719	4,936		1,569
Contribution of the new SKUs to revenue growth		42.17%	56.58%		25.46%

Source: Company, Emkay Research

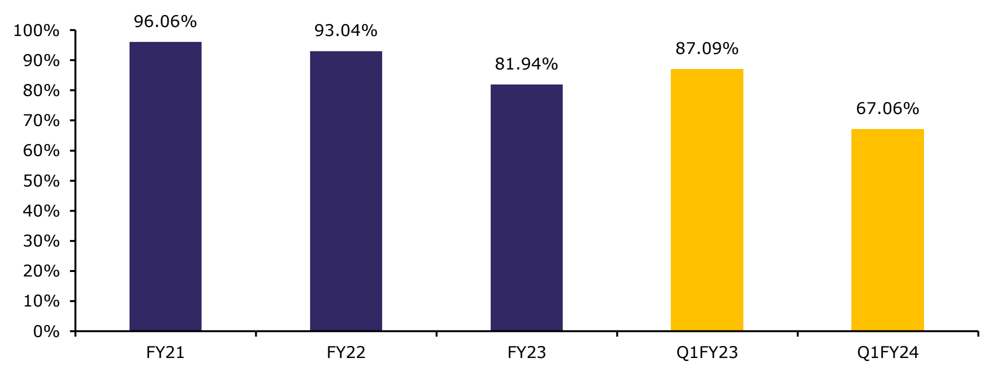
Brand value and perception, key for successful scale up

The company has evolved as a house of brands and success, so far, has been a factor of the company addressing the consumer cohorts at speed and building the perception of naturals. Given that the company is fully reliant on contract manufacturers, any issue in product quality will impair brand equity. Additional pressure can be seen from its offline expansion, where it needs to deal with a wider supply chain. With the company having made a name in the digital world, any negative marketing by competition or media coverage will impact its brand equity.

Revenue concentration with Mamaearth

The company generates bulk of its business from flagship brand *Mamaearth*. Additionally, it has created a portfolio of 3 organic + 2 inorganic brands. Leveraging the playbook of *Mamaearth*, the company is scaling other brands faster. For FY23, its revenue dependence on brand *Mamaearth* stood at 82%. As this brand gradually sees growth moderation on a high base, it is critical for the company to scale other brands faster, for sustaining revenue growth momentum.

Exhibit 87: Revenue concentration in brand *Mamaearth*



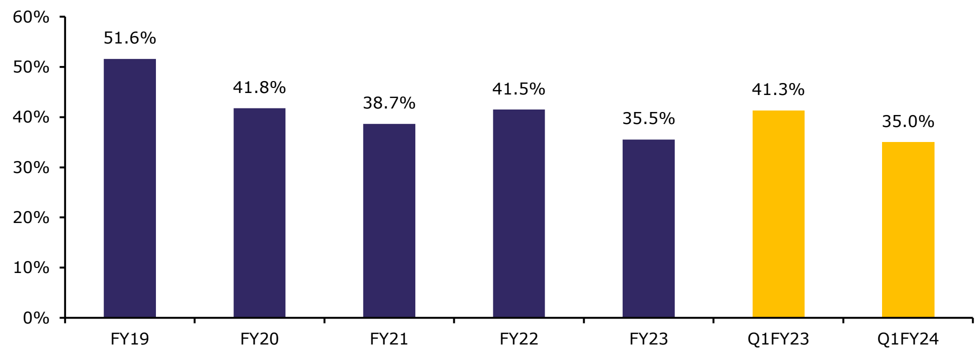
Source: Company, Emkay Research

High advertisement spend in the past

Given digital-first brands, the company needed to create brand appeal and develop product perception in initial years and, as such, had to incur substantial marketing costs. Going ahead, as the brand scales, marketing spends are likely to see moderation. If there is a surge in pure-play competition, the company may have to sustain healthy marketing spends, as is the need of the hour.

Additionally, customer acquisition costs in its own D2C platform has been high, which is a factor of acquiring new users. In Q1FY24, *Mamaearth*'s brand sales in the D2C channel have seen sales decline (revenue contribution in online sales reduced to 36% in Q1FY24 vs 47% in Q1FY22), due to company defocusing on the D2C platform for growth. The D2C platform saw revenue from existing customers rising to 63%. Any slowdown in new-customer recruitment will have a negative effect on its growth aspirations.

Exhibit 88: Advertisement spends, as a % of revenue

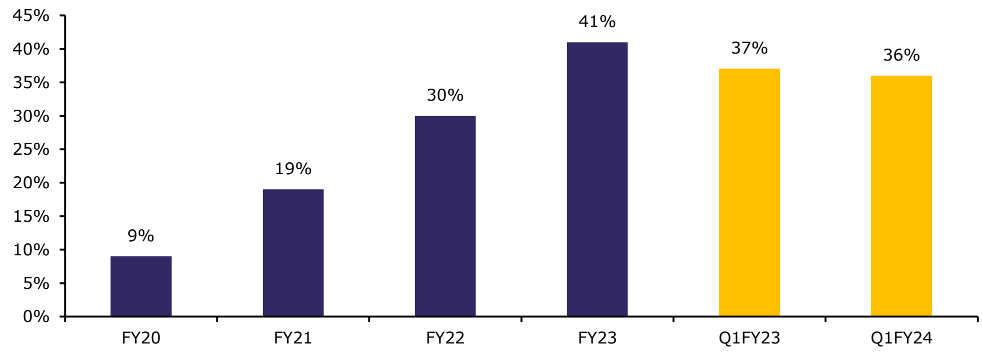


Source: Company, Emkay Research

Successful scale up in the offline channel is key

Growing the brand beyond a particular scale in the online channel is difficult, which is why the company is now looking to scale the *Mamaearth* brand in the offline channel. However, building the offline network is a tedious task, where many entrants have failed. The company has operated at negative working capital, which may see an expansion as it scales up in Offline. Additionally, the company requires healthy trade margins (e.g. for a distributor it varies in the 8-10% range and for retail it varies over 23-25%). Faster scale up and driving repeat orders in the channel would be key to scaling up and reducing the trade margin to industry levels.

Exhibit 89: Revenue contribution from the offline channel



Source: Company, Emkay Research

Its inability to turn around acquired businesses

The company has built its portfolio of inorganic brands, where successful scale-up would be key. In the recent past, the company had to scale down *Momspresso*'s platform, given no visibility on profitability. To this end, the company has recorded impairment loss of Rs1.36bn on goodwill. Additional businesses that the company acquired are *BBlunt*—a products and salon network, and Dr Seth's.

Exhibit 90: Inorganic brands and performance

(Rs mn)	Acquisition date	Consideration paid	FY23		Q1FY24	
			Revenue	PAT	Revenue	PAT
BBlunt - Product	Mar '22	1,376.03	195.81	-8.73	45.58	13.3
BBlunt – Salon			145.3	19.83	42.91	10.35
Dr Seth's	Apr-Dec '22	541.23	270.54	-153.06	250.91	9.18

Source: Company, Emkay Research

Appendix 1: Company history

Exhibit 91: Company history

Year	History
2016	Launched its flagship brand Mamaearth, which focuses on developing toxin-free beauty products made with natural ingredients
2017	Raised funding led by Fireside
2018	Shilpa Shetty Kundra invested in the company
	Raised funding led by Stellaris
2020	Launched The Derma Co. – Science-backed product powered with active ingredients
	Raised funding led by Sequoia
	Crossed annual revenue of Rs1bn in FY20
2021	Raised funding led by Sofina
	Launched Aqualogica – Hydrating skincare brand designed for Indian skin types
	Launched its first EBO for Mamaearth
	Launched Ayuga – Ayurvedic product in easy-to-use, modern formats for Indian millennials
	Acquired Momspresso – A content platform providing meaningful and relevant content to women
2022	Acquired BBlunt – Professional hair care and styling products enabling salon-like experience at home
	Acquired Dr. Sheth's – A bio-actives based skincare designed by three generations of skin specialists
	Launched the Mamaearth x Femina Beautiful Indians campaign to recognize and reward acts of goodness in the society
	Mamaearth emerged as the fastest-growing BPC brand in India to reach an annual revenue of Rs10bn, within six years of its launch
2023	Revenue from offline channels crossed Rs5bn in FY23

Source: Company

Appendix 2: Board of Directors

Exhibit 92: Board of Directors

Name	Designation
Varun Alagh	Chairman, Whole-Time Director and Chief Executive Officer
Ghazal Alagh	Whole-Time Director and Chief Innovation Officer
Ishaan Mittal	Non-Executive Director (Nominee of SCI)
Vivek Gambhir	Independent Director
Subramaniam Somasundaram	Independent Director
Namita Gupta	Independent Director

Source: Company

Exhibit 93: Committees

Name	Audit committee	Nomination and remuneration committee	Stakeholders' Relationship Committee	Risk Management committee	CSR Committee	IPO Committee
Varun Alagh				Yes	Yes	Yes
Ghazal Alagh			Yes		Yes, Chair	
Ishaan Mittal	Yes	Yes		Yes		Yes
Vivek Gambhir	Yes	Yes, Chair				Yes
Subramaniam Somasundaram	Yes, Chair		Yes	Yes, Chair		
Namita Gupta		Yes	Yes, Chair		Yes	

Source: Company

Appendix 3: Company financials

Exhibit 94: Balance Sheet

(Rs mn)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Equity share capital	0.13	0.13	0.13	1,363	1,360	1,363
Instruments entirely in the nature of equity			17,929	17,929	17,929	17,929
Other equity	(4,372)	(17,652)	(10,873)	(13,234)	(12,280)	(12,910)
Total equity	**(4,372)**	**(17,651)**	**7,056**	**6,059**	**7,010**	**6,383**
Minorities					116	
Long-term - Non-Cumulative Compulsorily Convertible Preference Shares	5,928	19,540				
Short-term			36	36	59	68
Total Borrowings	**5,928**	**19,540**	**36**	**36**	**59**	**68**
Long-term	4	186	498	739	623	470
Short-term	0	17	62	146	84	141
Lease liabilities	**4**	**203**	**560**	**886**	**707**	**612**
Deferred tax liabilities	-	14	86	14	57	22
Capital Employed	**1,560**	**2,106**	**7,738**	**6,995**	**7,949**	**7,084**
Property, plant and equipment	4	11	44	134	54	132
Capital WIP					1	-
Goodwill			1,733	528	1,888	528
Other intangible assets	0		1,107	1,037	1,275	1,059
Intangibles under development			19			
Rights of use assets	6	200	532	826	670	580
Net fixed assets	**10**	**211**	**3,435**	**2,525**	**3,889**	**2,298**
Long-term	3	61	846	790	1,208	1,014
Short-term	1,243	1,644	3,385	2,600	2,882	2,818
Investments	**1,246**	**1,705**	**4,231**	**3,390**	**4,089**	**3,832**
Non-current assets	1	2	49	45	51	39
Total long-term assets	**1,257**	**1,917**	**7,715**	**5,960**	**8,029**	**6,169**
Inventories	137	413	659	1,139	1,018	1,414
Days	45	33	26	29	31	28
Receivables	106	338	728	1,277	709	1,359
Days	35	27	29	33	22	27
Cash and cash equivalents	264	208	877	681	884	770
Other current assets	46	150	372	607	407	765
Total current assets	**553**	**1,109**	**2,635**	**3,704**	**3,017**	**4,307**
Trade payables	219	803	1,704	1,967	2,184	2,690
Days	73	64	67	50	66	53
Provisions	6	19	59	101	72	110
Others	26	98	849	601	842	592
Total current liabilities	**250**	**920**	**2,612**	**2,669**	**3,098**	**3,391**
Net current assets	**303**	**189**	**23**	**1,035**	**(81)**	**915**
Capital Employed	**1,560**	**2,106**	**7,738**	**6,995**	**7,949**	**7,084**

Source: Company, Emkay Research

Exhibit 95: Profit and loss statement

(Rs mn)	FY19	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Total income	**168**	**1,098**	**4,600**	**9,435**	**14,927**	**3,122**	**4,645**
Growth		552%	319%	105%	58%		49%
Purchases of traded goods	69	490	1,608	3,048	5,024	1,225	1,619
Increase in inventories of traded goods	(10)	(123)	(281)	(213)	(557)	(369)	(273)
COGS	**59**	**368**	**1,327**	**2,834**	**4,467**	**857**	**1,346**
Gross profit	**109**	**730**	**3,273**	**6,600**	**10,460**	**2,266**	**3,299**
Gross margin	64.7%	66.5%	71.2%	70.0%	70.1%	72.6%	71.0%
Employee benefits expenses	21	89	278	788	1,649	387	445
As a % of sales	12.4%	8.1%	6.0%	8.4%	11.0%	12.4%	9.6%
Advertisements	87	458	1,779	3,915	5,303	1,290	1,625
As a % of sales	51.6%	41.8%	38.7%	41.5%	35.5%	41.3%	35.0%
Freight and forwarding charges	26	150	544	919	1,442	287	444
As a % of sales	15.6%	13.7%	11.8%	9.7%	9.7%	9.2%	9.5%
Sales commission	3	40	134	287	442	96	110
As a % of sales	1.9%	3.6%	2.9%	3.0%	3.0%	3.1%	2.4%
Other expenses	16	71	266	577	1,396	330	382
As a % of sales	9.7%	6.5%	5.8%	6.1%	9.4%	10.6%	8.2%
Other operating expenses	**133**	**720**	**2,723**	**5,697**	**8,584**	**2,003**	**2,561.03**
As a % of sales	78.8%	65.5%	59.2%	60.4%	57.5%	64.1%	55.1%
EBITDA	**(45)**	**(78)**	**272**	**115**	**228**	**(124)**	**293**
EBITDA margin	-26.5%	-7.1%	5.9%	1.2%	1.5%	-4.0%	6.3%
Adj. EBITDA (ex. share-based payments)	**(45)**	**(72)**	**314**	**302**	**509**	**(56)**	**350**
EBITDA margin	-26.5%	-6.6%	6.8%	3.2%	3.4%	-1.8%	7.5%
Depreciation	1	6	17	69	250	48	65
EBIT	**(45)**	**(85)**	**255**	**46**	**(22)**	**(173)**	**228**
Interest income	1	7	19	66	108	23	26
Gain on investments measured at FVTPL	9	36	99	132	95	16	50
Others	0	1	3	11	23	4	50
Other income	11	44	121	209	225	43	126
Finance costs	0	0	10	30	67	11	15
Change in fair valuation of preference shares		4,239	13,612				
PBT	**(35)**	**(4,280)**	**(13,246)**	**224**	**137**	**(140)**	**340**
Tax	(0)	-	76	80	99	(25)	92
PAT	**(35)**	**(4,280)**	**(13,322)**	**144**	**37**	**(115)**	**247**
Impairment loss on goodwill and other intangible assets					(1,547)		
Minorities		-	-	(13)	(82)	(22)	(12)
Profit for shareholders	**(35)**	**(4,280)**	**(13,322)**	**157**	**(1,428)**	**(93)**	**260**

Source: Company, Emkay Research

Exhibit 96: Cash flow statement

(Rs mn)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
PBT	**(4,280)**	**(13,246)**	**224**	**(1,410)**	**(140)**	**340**
Depreciation and Amortization	6	17	69	250	48	65
Impairment of goodwill and intangibles				1,547		
Finance cost	0	10	30	67	11	15
Interest income	(7)	(19)	(67)	(110)	(23)	(33)
Share based payments	7	42	188	282	68	57
Gain on investments	4,202	13,514	(132)	(95)	13	(50)
Provision for slow moving inventory	-	4	9	79	20	14
Provision for doubtful advances					8	
Other non-cash and con operating items	1	3	6	48	12	9
Change in working capital	**(33)**	**37**	**213**	**(1,048)**	**65**	**136**
- Increase in trade receivables	(81)	(235)	(331)	(593)	13	(131)
- Increase in trade payables	182	584	874	246	464	723
- Increase in inventories	(123)	(281)	(213)	(550)	(370)	(288)
- Change in other current assets and liabilities	(12)	(32)	(117)	(152)	(42)	(169)
Cash flow from operating activity before tax	**(104)**	**360**	**541**	**(391)**	**81**	**551**
Tax paid		(63)	(95)	(125)	(2)	(65)
Cash from operating activities	**(104)**	**297**	**446**	**(516)**	**79**	**487**
Capex (net)	(5)	(10)	(26)	(117)	(15)	(24)
Free cash flow	**(108)**	**287**	**420**	**(633)**	**64**	**462**
Investments (net)	(1,165)	(220)	(2,804)	929	60	(430)
Acquisition of subsidiaries			(2,196)	(139)	(139)	
Other investing	1	25	28	(244)	(7)	27
Cash from investing activities	**(1,169)**	**(206)**	**(4,998)**	**429**	**(102)**	**(427)**
Proceeds from issuance of NCCCPS	1,290		4,864			
Proceeds from issuance of equity shares (net)	0	1	1	49	(13)	
Lease liability - principal and interest		(12)	(53)	(154)	(27)	(61)
Repayment of borrowings				(25)	(19)	
Finance costs	(0)	(2)	(4)	(11)	(2)	(3)
Others	(4)	-	0	-	-	-
Cash from financing activities	**1,287**	**(13)**	**4,808**	**(141)**	**(60)**	**(64)**
Net change in cash	**14**	**78**	**256**	**(227)**	**(83)**	**(4)**
Opening cash	5	19	98	304	304	46
Bank overdraft on date of acquisition during the period/year			(50)	(30)	(30)	
Closing cash	**19**	**98**	**304**	**46**	**191**	**42**

Source: Company, Emkay Research

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