



Honasa Consumer Limited ("Honasa") is the largest personal care and digital first beauty company in terms of revenue as per FY2023. The company has worked with a primary objective of developing products that address beauty and personal care products faced by the consumers with a diverse portfolio of six brands. The company has established a digital first omnichannel distribution network across online and offline channels. The revenue for the company has grown at a CAGR of 80% over FY21-23 with a volume growth of 102.28%. The company has an adjusted EBITDA of 3.4% as on FY23 with negative working capital on account of asset light model that enables them to invest more on marketing, technology and product innovation. The company continuously strives for expansion of distribution by creating brand awareness. In terms of valuation, the company is available at EV/S of 6.76x which seems fairly valued. We recommend to subscribe for long term for the issue.



About Company

Honasa Consumer Limited is a digital-first house of brands catering to the diverse needs of millennial customers. The company's portfolio of brands comprises household favourites like Mamaearth, The Derma Co., Aqualogica, and Ayuga. Honasa Consumer Limited is the largest digital-first beauty and personal care company in India, with a presence across more than 700 districts. The company is committed to people and planet, and its brands are driven by purpose, powered by technology, and focused on evolving consumer needs. Honasa Consumer Limited was founded in 2016 by Varun Alagh and Ghazal Alagh.

Issue details

Price Band (in ₹ per share)	308-324
Issue size (in ₹ Crore)	1635.44-1701.44
Fresh Issue (in ₹ Crore)	365.00
OFS (in ₹ Crore)	1270.44-1336.44
Issue open date	31-10-2023
Issue close date	02-10-2023
Tentative date of Allotment	07-11-2023
Tentative date of Listing	10-11-2023
Total number of shares (lakhs)	531.03-525.16
No. of shares for QIBs (75%) (lakhs)	398.00-393.62
No. of shares for NII (15%) (lakhs)	79.60-78.72
No. of shares for retail investors (10%) (lakhs)	53.07-52.48
Employee Reservation (lakhs)	0.36-0.34
Employee discount (in INR)	30
Minimum order quantity	46
Face value (in ₹)	10.00
Amount for retail investors (1 lot)	14168-14904
Maximum number of shares for Retail investors at lower Band	644 (14 lots)
Maximum number of shares for Retail investors at upper band	598 (13 lots)
Maximum amount for retail investors at lower Band- upper band (in ₹)	1,98,352-1,93,752
Exchanges to be listed on	BSE, NSE

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A route to making money online

Promoters

- Varun Alagh
- Ghazal Alagh

Objective of the Offer

- Advertisement expenses towards enhancing the awareness and visibility of their brands.
- Capital expenditure to be incurred by the Company for setting up new EBOs.
- Investment in their Subsidiary, BBlunt for setting up new salons.
- Sale of 4,12,48,162 shares by shareholders and promoters

**Brief Financials**

PARTICULARS (Rs. Cr)	June 23	FY23	FY22	FY21
Share Capital	136.33	136.33	0.013	0.013
Net Worth	638.26	605.9	705.62	(1765.14)
Revenue from Operation	464.48	1492.74	943.46	459.99
Profit/(Loss) Before Tax	33.95	(141.04)	22.43	(1324.6)
Profit/(Loss) After Tax	24.71	(150.96)	14.44	(1332.21)
EPS (in Rs)	3.4^	(4.66)	0.53	(98.35)
Net Asset Value (Rs)	20.29	19.27	23.42	(61.8)
Total Borrowings	6.79	3.6	3.58	-
P/E#	95.29	NA	NA	NA
P/B#	15.97	16.81	NA	NA

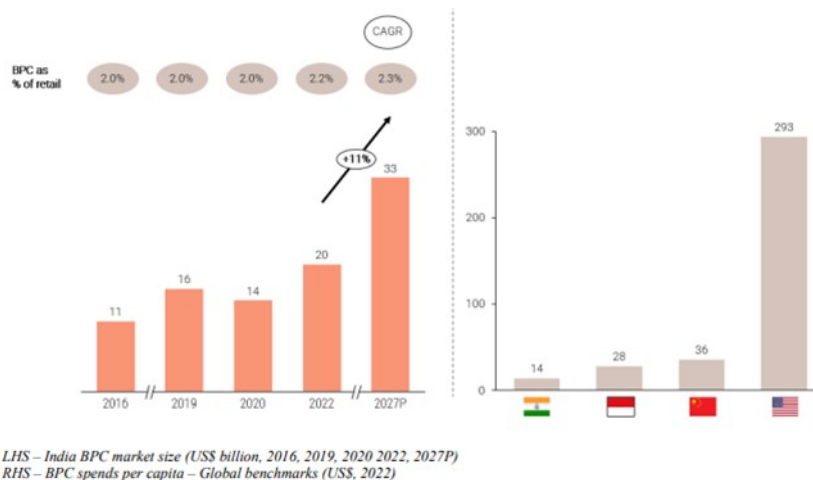
Calculated at upper price band * Restated consolidated financials ^annualised EPS

Industry Review**Beauty and Personal Care in India**

Beauty and Personal Care in India is an approximately US\$20 billion market, and expected to grow at 11% annually to be approximately US\$33 billion by 2027.

Sized US\$20 billion, BPC in India is a large market (6th largest in the world). BPC is significantly underpenetrated in India. Traditionally, Indian households have spent lesser on BPC in comparison to other countries. For instance, in 2022, BPC spends per capita in China were around 3 times of that in India.

Even compared to relatively smaller economy like Indonesia, India's per capita BPC spends are lower, indicating massive growth headroom.



The BPC products market in India is undergoing a fundamental re-industrialization owing to the convergence of technology, demographic dividend, and growing consumer aspirations. BPC is expected to grow faster than categories like food, grocery and consumer electronics. This makes BPC one of the most attractive retail categories in terms of growth. India's per capita spend on BPC products is currently one of the lowest in comparison to some of the other developing countries and is at the cusp of growth as GDP per capita has crossed \$2,000, which is a critical inflection point as observed in other developing economies.

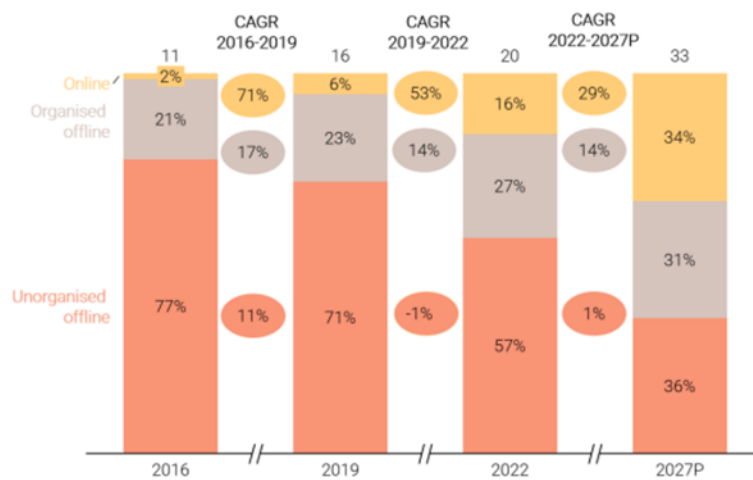


Industry Review

BPC Channel Segmentation

The offline channel, which consists of unorganised channels such as general trade, and organised channels such as modern trade and salons, contributed to 84% of the BPC products market in India in 2022 in terms of revenues. Therefore, offline is the largest BPC channel. Also, due to lower customer acquisition costs, sale of BPC products through offline channels tends to be more profitable as compared to online channels.

Within offline, the organised channels are growing much faster than unorganised (general trade). However, online is the fastest growing BPC channel. Online has two types of channels – online marketplaces like the horizontal eTailing portals, beauty focused vertical marketplaces and DTC– own digital platforms of branded players. The online marketplaces channel is expected to grow at around 25% annually between 2022 and 2027. And DTC is expected to grow at more than 45% annually between 2022-27.



BPC market (value) segmented by channels (% of BPC market by value which is in US\$ billion, 2016, 2019, 2022, 2027P)

Note(s): Unorganised offline is largely general trade channels; Organised offline stands for modern trade channels like shopping malls/ marts, multi-brand outlets, exclusive brand outlets; Online includes online marketplaces which are eTailing platforms that sell multiple brands and/or multiple product categories and online DTC which are own online platforms of brands; Segment shares are rounded off

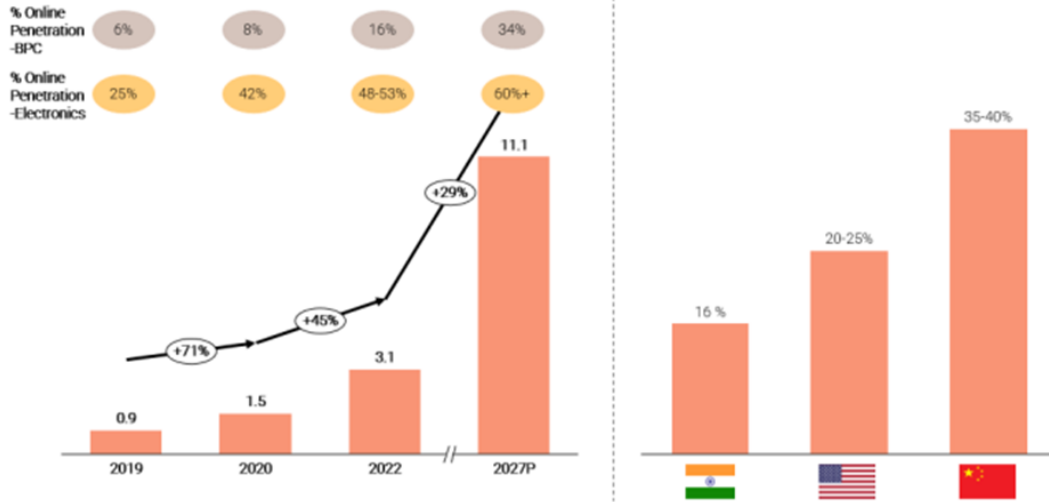
BPC sales in the online channel are nascent and are growing much faster than the broader BPC market. COVID further accelerated its adoption by encouraging trials, while superior consumer experience provided by online players has boosted consumer confidence, driving retention. On the supply side, online is attractive for players as it entails lower cost, infinite shelf space and instantaneous access to actionable data, to note a few of the efficiencies. As a result, even as offline channels witnessed degrowth post COVID (between 2019 and 2021), online channel grew approximately 60% annually in the same period. Online channel accounted for 2% of the India’s BPC market in 2016 and grew rapidly to account for 16% of the BPC market in 2022. Going ahead, the compounded annual growth rate of the online channel is likely to be up to 27 times as much as that of the unorganised offline (general trade) channel and it is projected to account for 34% of the BPC market by 2027.

In India, traditional channels are generally not designed to offer a wide range of products to the tier 2+ cities. E-commerce can help penetrate this market – this is a large structural tailwind. Rising internet penetration and India’s digital payment infrastructure should accelerate growth.

The online BPC market is under-penetrated. Compared to the USA and China, where online penetration of BPC is 20-25% and 35-40% respectively, the same for India is around 16%. Further, within Indian eTailing, categories like electronics have close to 50% online penetration. This further underscores the growth headroom for online BPC. With online retail mimicking China’s trend of high online penetration and e-commerce players covering most of the pin-codes, brands have increased access to acquire new customers in tier-2+ cities. Therefore, online BPC is growing fast. It is currently sized as US\$3.1 billion and is expected to grow at 29% annually to be around US\$11.1 billion by 2027, translating to online penetration of 34%.



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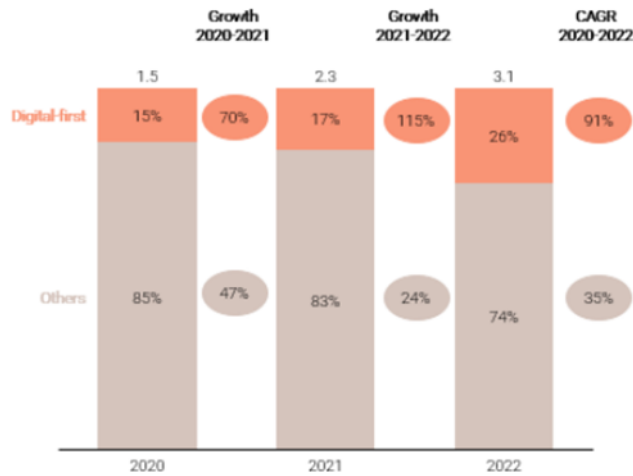


LHS - Indian online BPC market size (US\$ billion, 2019-20, 2022, 2027P)
RHS - Online penetration of BPC - Global benchmarks (% 2022)

Among the most significant trends driving the online BPC market forward is the disruption led by the Digital-first brands.

Within this online BPC market, Digital-first brands, through technology-led approaches, are changing the Indian BPC landscape. Contributing 26% of the online BPC market and sized at approx. US\$800 million as of 2022, Digital-first brands' revenues have grown at 91% annually between 2020 and 2022, which is almost twice as fast as the other BPC brands who sell products online. In the same period, the number of Digital-first BPC brands in India has doubled.

Digital-first BPC brands are democratising distribution by leveraging ecosystem partners like third-party logistics players. Through the support of these partners, Digital-first BPC brands can potentially reach 20,000 pin-codes as of 2022, as opposed to just about 3,000 in 2010. Beyond logistics, Digital-first also leverage enablers like SaaS and payments enablers to drive efficient value chains and seamless customer experience. Traditionally, BPC supply chains were either localized for unorganized players, or piggybacking on the larger retail supply chains of conglomerates. Enabled by ecosystem partners, Digital-first BPC players are much better equipped to serve the evolving consumer needs around personalization and the required breadth of offerings.



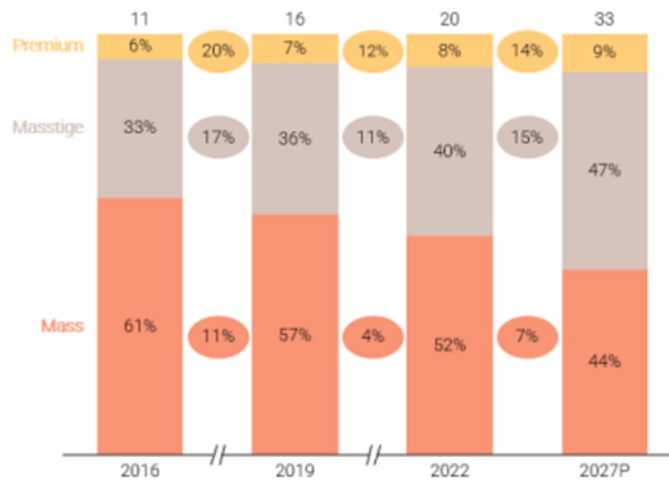
Online BPC market split by type of brands (Market size in US\$ billion, Splits in %, 2020-22)



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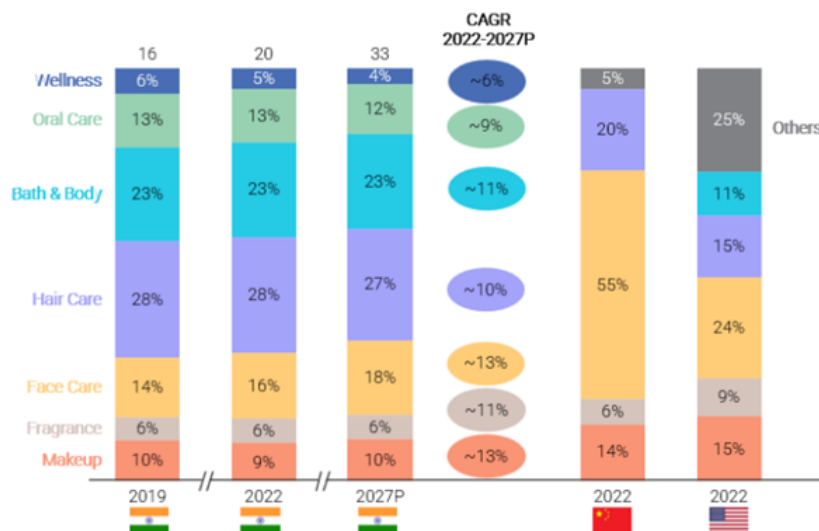
BPC growth drivers

- Premiumisation:** BPC products are generally classified into three price brands - mass, masstige and premium. Mass represents the class of products that are priced lower (the price levels varying across product categories) and are generally accessible to broader population from an affordability standpoint.



BPC market (value) segmented by premiumness (% of BPC market by value in US\$ billion, 2016, 2019, 2022, 2027P)

- Evolving category-mix, with a focus on face care and makeup:** While hair care is the largest BPC category, growth is being led by categories like face care and makeup. This closely mirrors BPC segmentation in the USA and China, where face care and makeup contributes 39% and 70% to the respective BPC markets, compared to 26% in India.

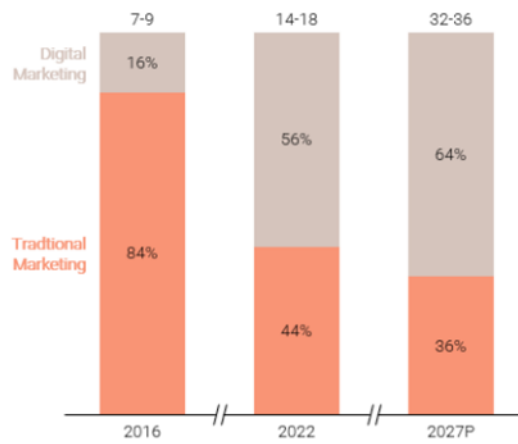


Category mix of BPC market by value which is in US\$ billion and segments in % - India (2019, 2022, 2027P) and the USA and China (2022)



Industry Review

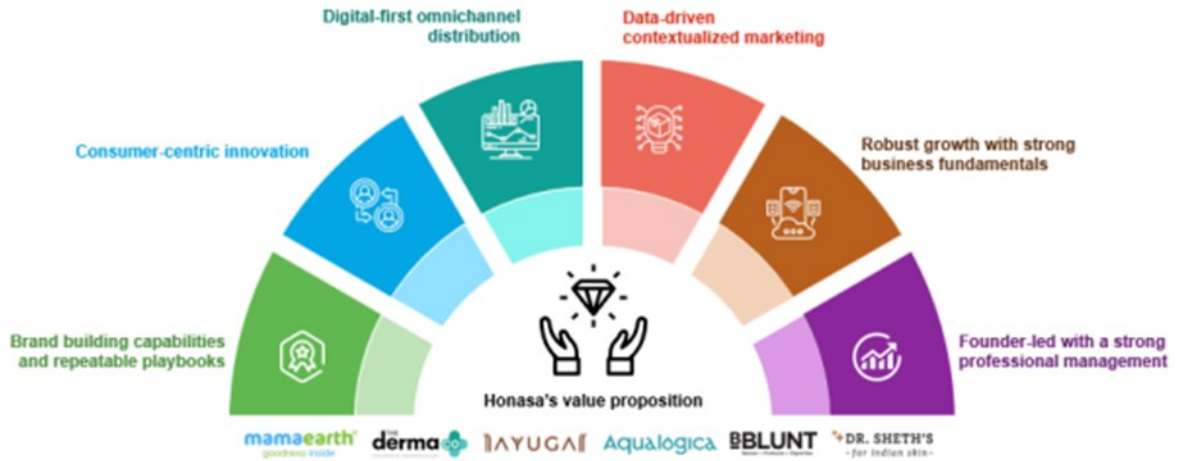
- **Increasing brand consciousness:** Millennials in India are becoming increasingly conscious of their beauty and personal care needs and the brands they consume. With them increasingly driving the market, the demand for branded products has increased.
- **Higher prominence of digital/social media marketing:** While serving the emerging needs is a significant opportunity, choosing the right marketing strategy to drive awareness and adoption is important. This is where digital marketing comes in. Digital media also serves as an excellent platform for educating consumers on new products and their propositions. It has also disrupted the pattern in discovery and purchase decisions, with consumers spending more time online and depending more on feedback from people they can relate to and/or trust as opposed to celebrities. As a result, there has been a surge in digital marketing spends by businesses.



Marketing spends in India split by channels (USD billion, 2016, 2022, 2027P)



Competitive Strengths



Brand building capabilities and repeatable playbook

Honasa Consumer Limited’s experience and success with Mamaearth helped it develop a brand building playbook that enables the company to replicate its success with Mamaearth across newer brands. These playbooks extend from Honasa Consumer Limited’s innovation engine to its distribution strategy to its marketing and customer engagement capabilities. Leveraging these playbooks, Honasa Consumer Limited has demonstrated a track record of introducing new brands to the market.

Consumer-centric product innovation

Honasa Consumer Limited’s product innovation powered by its continuous consumer listening and engagement model is a key strength of the business. Over the last seven years, Honasa Consumer Limited has built multiple tools and capabilities that aim to capture insights into consumer needs and identify whitespaces and consumer trends faster.

Digital-first omnichannel distribution

Honasa Consumer Limited’s omnichannel network allows it to be present across various touchpoints and serve its consumers wherever they shop. Honasa Consumer Limited’s digital-first distribution strategy helps it launch new products in an efficient manner by enabling the company to capture consumer feedback to check for product-market fit at an early stage before scaling them up in a much larger offline environment. Honasa Consumer Limited actively leverages insights on consumer preference from its DTC platform at a pin-code level to define its offline store expansion and regional prioritization strategies. This data is further leveraged to optimize Honasa Consumer Limited’s merchandising and portfolio rationalization strategies at a micro-market level.

Data-driven contextualized marketing

Honasa Consumer Limited has adopted a marketing model through which it activates consumer engagement initiatives across multiple media platforms and channels. With a combination of digital and traditional marketing, Honasa Consumer Limited delivers a consistent narrative about its brands and their proposition across all touch points relevant for its consumers. Through these initiatives, Honasa Consumer Limited aims to target consumers across the entire marketing funnel from creating awareness to driving consideration and conversion for its brands. Honasa Consumer Limited’s marketing capabilities are reflected in its content-community-commerce framework that enables the company to deploy contextualized data-led marketing to its consumers. Honasa Consumer Limited has leveraged its extensive data libraries to segment consumers into micro-cohorts to drive contextualized nano targeting and engagement.

Ability to drive growth and profitability in a capital efficient manner

Honasa Consumer Limited is the largest digital-first BPC company in India in terms of revenue from operations for the Financial Year 2023, according to the RedSeer Report. Honasa Consumer Limited’s revenue from operations has grown at a CAGR of 80.14% between Financial Years 2021 and 2023, from ₹4,599.90 million to ₹14,927.48 million, while the median revenue CAGR of all other BPC companies for which data was available for the relevant period was 28.00%. Honasa Consumer Limited’s growth has been driven by an increase in volumes.

Founder-led company with a strong professional management

Honasa is led by their visionary founders, Varun Alagh (CEO) and Ghazal Alagh (CIO). Prior to founding their Company, Varun worked across marquee companies in India such as Hindustan Unilever Limited, Diageo India Private Limited and Coca-Cola India Private Limited. Ghazal worked with NIIT and operated dietexpert.in, an independent commercial operation. Ghazal has been associated with the Company as a promoter and director since September 16, 2016. Together, their knowledge and understanding of the consumer packaged goods and BPC products space in India has been instrumental in developing and growing the business.



Risk Factors

Failing to identify consumer trends:

Failure to identify and effectively respond to changing consumer preferences and spending patterns or changing beauty and personal care trends in a timely manner, may adversely affect the demand for their products, causing their business, results of operations, financial condition and cash flows.

Third party dependency for manufacturing and distribution:

They do not manufacture any of their products and rely entirely on third-party manufacturers for the manufacturing of all their products. They are dependent on several third party service providers to sell or distribute their products to consumer and on third party technology providers for certain aspects of their operations. Any disruptions or inefficiencies in these operations may adversely affect their business, financial condition, cash flows and results of operations.

Weakness in financial performance:

They have experienced negative cash flows from operating, investing and financing activities in the past. They have recorded losses in the past. Any losses in the future may adversely impact their business and the value of the Equity Shares. Their Subsidiaries which they have acquired in the past, including Just4Kids, BBlunt, B:Blunt Spratt and Fusion, have incurred losses for certain historical periods. There is no assurance that these entities will be profitable in the future.



Peer Comparison

Name of the Company	Total Income (Crores)	FV	Basic EPS	NAV	EV/S*	P/B*	RONW
Honasa Consumer Limited	1492.75	10	(4.66)	19.27	6.76	16.81	(23.57%)
Hindustan Unilever Limited	60580.00	1	43.07	215.02	9.77	11.60	20.08%
Colgate Palmolive (India) Limited	5226.20	1	38.50	63.11	10.68	32.11	61.01%
Procter & Gamble Hygiene and Health Care Limited	3917.90	10	208.91	291.44	14.13	58.33	71.68%
Dabur India Limited	11529.90	1	9.64	53.29	8.10	9.84	18.02%
Marico Limited	9764.00	1	10.08	30.59	7.15	17.58	33.42%
Godrej Consumer Products Limited	13315.97	1	16.65	134.88	7.41	7.32	12.34%
Emami Limited	3405.73	1	14.50	52.43	6.42	9.63	27.13%
Bajaj Consumer Care Limited	960.87	1	9.48	55.10	2.98	4.36	17.63%
Gillette India Limited	2477.05	10	109.15	303.47	8.12	20.56	35.97%

P/E & P/B ratio based on closing market price as on October 27, 2023, At the upper price band of IPO, financial details consolidated audited results as on FY23.



Our View

Honasa Consumer Limited (“Honasa”) is the largest personal care and digital first beauty company in terms of revenue as per FY2023. The company has worked with a primary objective of developing products that address beauty and personal care products faced by the consumers with a diverse portfolio of six brands. The company has established a digital first omnichannel distribution network across online and offline channels. The revenue for the company has grown at a CAGR of 80% over FY21-23 with a volume growth of 102.28%. The company has an adjusted EBITDA of 3.4% as on FY23 with negative working capital on account of asset light model that enables them to invest more on marketing, technology and product innovation . The company continuously strives for expansion of distribution by creating brand awareness. In terms of valuation, the company is available at EV/S of 6.76x which seems fairly valued. We recommend to subscribe for long term for the issue.

Source– Company Website and red herring prospectus



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