

# Honasa Consumer Limited

Goodness Inside.



**NOT RATED**

## Goodness Inside

Honasa Consumer Limited, often referred to as Honasa, was established on September 16, 2016. Honasa is the leading digital-first beauty and personal care (BPC) company in India, based on its revenue from operations in the Financial Year 2023. Since its inception, the company has been dedicated to creating products that address the beauty and personal care needs and challenges faced by consumers.

Their flagship brand, Mamaearth, is designed to cater to the essential customer desire for safe and natural products. Mamaearth focuses on developing beauty products free from harmful toxins and made with natural ingredients. By the end of the FY2023, Mamaearth had become the fastest-growing BPC brand in India, achieving an annual revenue of ₹1,000 crore within six years of its launch.

Following the launch of Mamaearth in 2016, Honasa expanded its portfolio by introducing five new brands, namely The Derma Co., Aqualogica, Ayuga, BBlunt, and Dr. Sheth's. This expansion allowed them to establish a 'House of Brands' architecture. As of June 2023, their portfolio includes products in various segments, such as baby care, face care, body care, hair care, color cosmetics, and fragrances. They have also initiated the Mamaearth 'Plant Goodness' program in collaboration with a non-government organization, where they plant trees for orders placed on their direct-to-consumer (DTC) platform and share geo-tagged images of these trees with their consumers.

Honasa has achieved impressive growth in revenue from operations, with a Compound Annual Growth Rate (CAGR) of 80.14% between Financial Years 2021 and 2023, increasing their revenue from ₹459.99 crore in FY2021 to ₹1,492.75 crore in FY2023. In comparison, the median revenue CAGR of other BPC companies with available data during the same period was 28%.

In March 2022, Honasa made an acquisition of BBlunt Salons, along with the BBlunt product business. Through BBlunt Salons, they provide hair care, grooming, and styling services for both women and men across 10 leased outlets in Mumbai, Bangalore, and Kolkata. As of June 30, 2023, the company's integrated supply chain is brand-agnostic and consists of 13 warehouses located in 7 different districts in India. Out of these 13 warehouses, they directly manage 3 of them.

### Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBIT DA (%)	PAT (%)	EPS (₹)	BVPS (₹)	RON W(%)	ROC E(%)	P/E (X)	EV/Sales (X)	EV/EBITD A(X)
FY21	459.9	31.4	(1332.2)	6.82	(289)	(98.4)	(56.9)	NA	(711)	(7.6)	12.2	46.4
FY22	943.5	30.3	14.4	3.21	1.53	0.5	22.7	2.2	0.4	640.1	10.2	841
FY23	1492.7	50.9	(151)	3.41	(10.1)	(4.6)	19.5	(23.5)	(0.4)	(70.4)	6.5	427.7

Industry	Beauty & Personal Care
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Issue Details	
Listing	BSE & NSE
Open Date	31 <sup>st</sup> Oct 2023
Close Date	2 <sup>nd</sup> Nov 2023
Price Band	INR 308-324
Face Value	INR 10
Market Lot	46 shares
Minimum Lot	1 Lot

Issue Structure	
Offer for Sale	78.50%
Fresh Issue	21.50%
Issue Size (Amt)	INR 1701cr
Issue Size (Shares)	52,516,742
QIB Share (%)	≤ 75%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 10%
Pre issue sh (nos)	310,480,000
Post issue sh (nos)	321,740,000
Post issue M Cap	INR 10425cr

Shareholding (%)	Pre (%)	Post (%)
Promoters	37.41	35.34
Public	62.59	64.66
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>

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## Growth Strategies

**Volume Growth:** The company prioritizes increasing sales quantities as a means of expanding. This approach aims to capture a larger market share and broaden the customer base, which can, in turn, lead to cost savings and improved profitability due to economies of scale.

**Asset-Light Business Model:** The company strategically adopts a business model that minimizes investments in physical assets, such as manufacturing facilities. Instead, they outsource non-core operations like manufacturing. This approach conserves capital and enhances operational flexibility.

**In-House Capabilities:** The company has developed its own internal expertise for essential functions like technology, product innovation, and marketing. This in-house approach provides greater control over the quality and direction of their products and services, while potentially reducing costs and fostering innovation.

**Outsourcing Non-Core Operations:** Non-essential operations, such as manufacturing, are outsourced. This practice allows the company to cut fixed costs and focus resources on core competencies.

## Key Risks & Concerns

The company doesn't produce its products but relies solely on third-party manufacturers for production. This dependence on external manufacturers exposes the company to risks. If these risks materialize, they could negatively impact the business, operational results, cash flows, and financial health.

The company derives almost 30% of its revenue from its top 10 products. Any decrease in the sales of the key products will adversely affect the business, cash flows, financial condition, and results of operations.

Launching new brands or products that prove unsuccessful could affect the growth plans, which could adversely affect the business, financial condition, cash flows, and results of operations.

The beauty and personal care ("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 and support for cruelty-free and ecofriendly products.

The proposed fresh issue of shares and offer for sale of Honasa Consumer Limited is INR 1701 cr, and the price band for the issue is in the range of INR 308-324 and the bid lot is 46 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares
QIB	Not more than 75% of the Offer	39,362,048
NIB	Not less than 15% of the Offer	7,872,409
Retail	Not less than 10% of the Offer	5,248,272
Employees		34,013

*Number of shares based on a higher price band of INR 324*

*Source: Company Reports*

## Honasa financial summary and

Fig in INR Cr (unless specified)	FY21	FY22	FY23	Fig in INR Cr (unless specified)	FY21	FY22	FY23
<b>Income Statement</b>				<b>Per share data &amp; Yields</b>			
Revenue	460	943.5	1492.7	Adjusted EPS (INR)	(98.3)	0.5	(4.6)
<i>YoY Growth (%)</i>		<i>105.1</i>	<i>58.2</i>	Adjusted Cash EPS (INR)	(42.9)	0.7	(3.8)
Raw Material Cost	132.7	283.4	446.7	Adjusted BVPS (INR)	(56.9)	22.7	19.5
<i>RM Cost to Sales (%)</i>	<i>28.8</i>	<i>30</i>	<i>29.9</i>	Adjusted CFO per share (INR)	0.1	1.4	(1.7)
Employee Cost	27.8	78.8	164.9	CFO Yield (%)	0.02	0.4	(0.5)
<i>Employee Cost to Sales (%)</i>	<i>6.0</i>	<i>8.4</i>	<i>11</i>	Adjusted FCF per share (INR)	8.7	1.4	(1.8)
Other Expenses	1633.6	569.7	858.4	FCF Yield (%)	1.3	0.4	(0.6)
<i>Other Exp to Sales (%)</i>	<i>355.1</i>	<i>60.4</i>	<i>57.5</i>	<b>Solvency Ratio (X)</b>			
EBITDA	(1355.7)	11.5	22.8	Total Debt to Equity	(1.1)	0.0	0.0
<i>Margin (%)</i>	<i>(290)</i>	<i>1.2</i>	<i>1.5</i>	Net Debt to Equity	3.3	(0.6)	(0.5)
<i>YoY Growth (%)</i>		<i>100.4</i>	<i>98.7</i>	Net Debt to EBITDA	0.8	(36.9)	(14)
Depreciation & Amortization	1.7	6.9	25	<b>Return Ratios (%)</b>			
EBIT	(1335.7)	4.6	(2.2)	Return on Equity	75.5	2.2	(23.6)
<i>Margin (%)</i>	<i>(290.4)</i>	<i>0.5</i>	<i>(0.1)</i>	Return on Capital Employed	(711.3)	0.4	(0.4)
<i>YoY Growth (%)</i>		<i>100.1</i>	<i>(148.2)</i>	Return on Invested Capital	210.8	1.6	(0.8)
Other Income	12.1	20.9	22.5	<b>Working Capital Ratios</b>			
Finance Cost	1.0	3.0	6.7	Payable Days (Nos)	64	66	48
Interest Coverage (X)	(1370)	1.5	(0.3)	Inventory Days (Nos)	33	25	28
Exceptional Item	0.0	0.0	(154.7)	Receivable Days (Nos)	27	28	31
PBT	(1324.6)	22.4	(141)	Net Working Capital Days (Nos)	(4)	(12)	11
<i>Margin (%)</i>	<i>(288)</i>	<i>2.4</i>	<i>(9.4)</i>	Net Working Capital to Sales (%)	(1.1)	(3.4)	3
<i>YoY Growth (%)</i>		<i>100.8</i>	<i>(728.5)</i>	<b>Valuation (X)</b>			
Tax Expense	7.6	8.0	9.9	P/E	(7.6)	640.1	(70.4)
<i>Tax Rate (%)</i>	<i>(0.6)</i>	<i>35.6</i>	<i>(7.0)</i>	P/BV	(5.7)	14.3	16.6
PAT	(1332.2)	14.4	(151)	EV/EBITDA	46.4	841	427.7
<i>Margin (%)</i>	<i>(289.6)</i>	<i>1.5</i>	<i>(10.1)</i>	EV/Sales	12.2	10.2	6.5
<i>YoY Growth (%)</i>		<i>100.7</i>	<i>(1145)</i>	<b>Cash Flow Statement</b>			
Min Int/Sh of Assoc	0.0	1.3	8.2	PBT	(1325)	22.4	(141)
Net Profit	(1332.2)	15.7	(142.8)	Adjustments	1356.7	10.3	176.1
<i>Margin (%)</i>	<i>(289.6)</i>	<i>1.7</i>	<i>(9.6)</i>	Change in Working Capital	3.65	21.35	(76.7)
<i>YoY Growth (%)</i>		<i>100.7</i>	<i>(1008)</i>	Less: Tax Paid	(6.3)	(8)	(9.9)
<b>Balance Sheet</b>				Cash Flow from Operations	2.97	44.5	(51.6)
Share Capital	0.0	1792.9	1929.3	Net Capital Expenditure	(4.3)	(2.6)	(11.7)
Total Reserves	(1765.2)	(1087.3)	(1323.4)	Change in Investments	49.7	(497.1)	54.6
Shareholders Fund	(1765.1)	705.6	605.9	Cash Flow from Investing	45.4	(499.8)	42.8
Long Term Borrowings	1954.0	0.0	0.0	Change in Borrowings	(2.4)	(2.7)	(12.3)
Deferred Tax Assets / Liabilities	1.4	8.6	1.4	Less: Finance Cost	0.5	(3.0)	(6.7)
Other Long Term Liabilities	18.6	109.7	73.9	Proceeds from Equity	4.8	486.5	4.9
Long Term Trade Payables	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0
Long Term Provisions	1.0	3.6	6.1	Dividend Paid	0.0	0.0	0.0
Total Liabilities	209.8	827.4	687.3	Cash flow from Financing	(4.9)	480.8	(14.1)
Net Block	21.1	341.6	252.5	Net Cash Flow	(25.1)	25.6	(22.7)
Capital Work in Progress	0.0	0.0	0.0	Forex Effect	0.0	0.0	0.0
Intangibles under development	0.0	1.9	0.0	Opening Balance of Cash	30.3	9.8	30.4
Non Current Investments	0.0	0.0	0.0	Closing Balance of Cash	2.3	30.4	7.6
Long Term Loans & Advances	0.9	7.2	11				
Other Non Current Assets	5.3	82.3	72.5				
Net Current Assets	182.5	394.5	351.3				
Total Assets	209.8	827.4	687.3				

Source: Ventura Research

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