

RETAIL EQUITY RESEARCH

Honasa Consumer Ltd.

Beauty & Personal Care

SENSEX: 64,113

NIFTY: 19,141

SUBSCRIBE

Price Range Rs.308- Rs.324

A leading digital first BPC company in India.....

Honasa Consumer Ltd. (Honasa), established in 2016, is a leading digital-first beauty and personal care (BPC) company in India in terms of revenue in FY23. The brand portfolio offers a diverse array of products in various segments, such as baby care, face care, body care, hair care, colour cosmetics, and fragrances. Their in-house brand portfolio includes popular names like Mamaearth, The Derma Co., Aqualogica, and Ayuga. Additionally, Honasa has also acquired companies, such as BBlunt and Dr. Sheth's to expand its product offerings. As of June 30, 2023, the offline distribution includes 85 exclusive brand outlets (EBOs) in India.

- The India BPC products market is expected to grow at ~11% CAGR to \$33bn over FY22-27E, led by premiumization, a focus on facecare and make-up, brand consciousness, and digital penetration.
- The online BPC market (currently sized at US\$3 bn), is expected to grow at 29% annually to ~ US\$11bn by 2027, translating to an online penetration of 34%.
- Revenue from operations grew at a CAGR of ~80% to Rs. 1,493cr over FY21-23, surpassing the median revenue CAGR of ~28% of other BPC companies, driven by an increase in volumes.
- Mamaearth, its flagship brand, achieved a significant milestone by becoming the fastest-growing BPC brand in India as of FY23, reaching an annual revenue of Rs. 1,000cr within just six years of its launch.
- In FY23, Honasa outperformed the BPC industry by launching 5.7 times more new Products/SKUs, driving growth. The same continued in Q1FY24 with the introduction of 109 new SKUs, leading to a revenue increase of 25.5% YoY.
- The revenue share from the more profitable offline channel has risen from ~19% in FY21 to ~33% in Q1FY24 and intend to continue this trajectory to improve the overall margin profile.
- Although high advertising expenses and promotions may affect margins and profitability, the declining trend from ~39% in FY21 to 35% in FY23 offers some relief.
- The company intends to open new Mamaearth EBOs (Exclusive Brand Outlets) across a mix of mall stores and high-street outlets in India. The company has also identified expansion opportunities in priority markets such as the United Arab Emirates, Nepal, and Bangladesh, both organically and through strategic acquisitions.
- At the upper price band of Rs.324, Honasa is available at a Mcap/sales of 5.6x (FY24E annualised), which appears to be expensive. Considering its strong topline growth, decreasing trend of Ad spends, expansion plans, asset light business model and promising industry outlook, we assign a "Subscribe" rating on a long-term basis.

Purpose of IPO

The IPO consists of a fresh issue of Rs.365cr and an OFS (offer for sale) of Rs. 1,334cr. The proceeds from its fresh issuance worth Rs.182cr will be utilised for advertisement expenses, Rs.21cr will be utilised for capital expenditure for setting up new EBOs (exclusive brand outlets), Rs.26cr for investment in its subsidiary (BBlunt), and the remaining will be used for general corporate purposes and unidentified inorganic acquisitions.

Key Risks

- Dependent on third-party manufacturers, with the top 3 contributing around 52% of the total purchase value of traded goods in FY23.
- ~82% of FY23 operational revenue is from the flagship Mamaearth brand.
- Increasing competition from other players.

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales	P/E(x)	P/BV(x)	CMP(₹)
Honasa Consumer	10,424	1,493	1.5	-10.1	-4.7	-24.9	7.0	-69.1	17.2	324
FSN-Ecommerce	39,954	5,116	5.0	0.4	0.1	1.4	7.8	-	29.0	140
Marico Ltd	69,751	9,764	18.5	13	10	36.4	7.1	55.6	18.2	537
Godrej Consumer	99,167	13,199	18.4	13	17	13.4	7.5	57.9	7.1	964

Source: Geojit Research, Bloomberg; Valuations of Honasa are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details

Date of opening	October 31, 2023
Date of closing	November 02, 2023
Total No. of shares offered (cr.)	5.2
Post Issue No. of shares (cr)	32.2
Price Band	₹308- ₹324
Face Value	₹10
Bid Lot	46 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,904
Maximum application for retail (upper price band for 13 lot)	₹ 1,93,752
Listing	BSE,NSE
Lead Managers	Kotak Mahindra Capital Company, Citigroup Global, JM Financial, J.P Morgan India
Registrar	KFin Technologies Ltd

Issue size (upper price)

	Rs.cr
Fresh Issue	365.0
OFS	1,336.4
Total Issue	1,701.4

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	38.0	35.0
Public & others	62.0	65.0
Total	100.0	100.0

Issue structure	Allocation (%)	Size Rs.cr
Retail	10	170.0
Non-Institutional	15	255.0
QIB	75	1275.0
Employee Reservation	-	1.0
Total	100	1,701.4

Y.E March (Rs cr) Consol.	FY22	FY23	Q1FY24
Sales	943.5	1,492.7	464.5
Growth (%)	105.1	58.2	48.8
EBITDA	11.5	22.8	29.3
Margin(%)	1.2	1.5	6.3
PAT Adj.	14.4	-151	98.9
Growth (%)	-	-	-
EPS	0.4	-4.7	3.1
Mcap/Sales	11	7.0	5.6*
P/B (x)	14.8	17.2	10.4*
RoE (%)	2.0	-	9.9*

*Annualised

Business Description:

These brands are being developed to embrace a new era of beauty and personal care, emphasizing a sense of purpose, technology-driven innovation, and a keen focus on meeting the ever-evolving demands of the consumer. They offer a wide array of products, including natural personal care, scientifically supported skincare solutions, and modern Ayurvedic interpretations. Each brand is uniquely designed for millennials. Their in-house brand portfolio includes popular names like Mamaearth, The Derma Co., Aqualogica, and Ayuga. In addition to these, Honasa has also strategically acquired companies, such as BBlunt (offering products and services) and Dr. Sheth's (a dermatologist-formulated skincare brand), to expand its offerings.

Key strengths:

◇ Brand building capabilities and repeatable playbooks

Over FY21 to FY23, the Mamaearth brand saw a steady increase in revenue from existing customers through the DTC channel, ranging from 38.5% to 63.2%. In FY23, Honasa surpassed industry standards by launching 5.7 times more new products than the BPC industry median, highlighting the strength in innovation and brand development, which has been pivotal to their ongoing success. (As per RedSeer report). Their success with Mamaearth brand has empowered them to establish a brand building playbook, which is employed for newer brands. This playbook encompasses innovation, distribution, marketing, and customer engagement, enabling a consistent and successful introduction of new brands to the market. Through the utilization of these playbooks, they have established a demonstrated history of successfully introducing new brands to the market. Brands introduced or acquired after Mamaearth have particularly thrived under the guidance of these playbooks, achieving accelerated growth in comparison to their pre-existing brands.

◇ Consumer-centric product innovation

Product innovation, underpinned by their continuous consumer listening and engagement model, stands out as a key strength of their business. Over the past seven years, they have established multiple tools and capabilities focused on capturing insights into consumer needs, swiftly identifying market gaps, and staying attuned to evolving consumer trends. Key innovation tools are social listening, online competitive intelligence, and user conversational research. Incorporating consumer insights into their product development strategy, they have successfully identified and capitalized on emerging trends. This approach has led to significant market share gains in crucial categories and niche markets. For instance, Mamaearth emerged as the leading brand in onion and ubtan-based beauty products in terms of revenue for FY 2023, according to the RedSeer Report. Additionally, in just six years, Mamaearth captured an impressive 8.3% market share in the face-wash category in India in 2022.

Their innovation and manufacturing system have effectively reduced the time required to introduce new products. This has led to the creation of new SKUs and products across all their brands in the Indian BPC market, as illustrated in the table below.

	For the three months period ended June 30, 2023	For the three months period ended June 30, 2022	For the year ended March 31, 2023	For the year ended March 31, 2022	For the year ended March 31, 2021
New SKUs (across all our brands) introduced in the BPC market in India	109	137	301	159	126
Contribution of new SKUs (across all our brands) introduced in the BPC market in India towards revenue from operations (₹ in millions)	399.46	337.53	2,793.68	1,989.61	1,391.94
Contribution of new SKUs (across all our brands) introduced in the BPC market in India towards absolute increase in revenue from operations during the period, as compared to the preceding corresponding period (%)	25.46%	N/A	56.58%	42.17%	N/A
New products (across all our brands) launched in the BPC market in India	89	121	252	122	91

Source: RHP, Geojit Research

They partner with leading third-party ingredient suppliers to discover emerging innovations and co-create new products. Their manufacturing model emphasizes an asset-light approach through contract manufacturing. During the period ending June 30, 2023, they collaborated with 37 contract manufacturers. This strategy allows them to benefit from economies of scale, even with smaller batch sizes, and offers the flexibility to scale up production as needed.

Digital-first omnichannel distribution

Their omnichannel network provides a wide-reaching presence across multiple consumer touchpoints, ensuring they can serve their customers regardless of where they choose to shop. Their distribution strategy is primarily driven by their digital presence, encompassing direct-to-consumer (DTC) channels and e-commerce marketplaces. The revenue derived from these channels is detailed in the table below.

	For the three months period ended June 30, 2023	For the three months period ended June 30, 2022	For the year ended March 31, 2023	For the year ended March 31, 2022	For the year ended March 31, 2021
Revenue derived from DTC and e-commerce marketplaces (₹ in millions)	2,973.18	1,962.65	8,861.04	6,595.34	3,742.93
Revenue derived from DTC and e-commerce marketplaces, as a percentage of our total revenue from operations from all our brands (including sale of services) (%)	64.01%	62.86%	59.36%	69.91%	81.37%

Source: RHP, Geojit Research

According to the RedSeer Report, Honasa has established scale across both online and offline channels and recorded the highest revenue from offline channels among digital-first BPC companies in India in FY23. The company has adopted a digital-first approach to their distribution strategy wherein, they first incubate new brands on online channel, and then selectively introduce them in the offline channel.



Data-driven contextualized marketing

Their consumer engagement and marketing expertise have resulted in a robust customer retention funnel for their Mamaearth brand. Notably, a significant portion of their revenue from operations, specifically 38.51%, 43.15%, 56.90%, 52.65%, and 63.20%, during Financial Year 2021, 2022, and 2023, as well as the three-month periods ending June 30, 2022, and June 30, 2023, from the DTC channel, is attributed to existing customers.

Ability to drive growth and profitability in a capital efficient manner.

In terms of revenue from operations for the Financial Year 2023, they hold the position of being the largest digital-first BPC company in India, according to the RedSeer Report. Their revenue has seen substantial growth, with a Compound Annual Growth Rate (CAGR) of 80.14% between Financial Years 2021 and 2023. This impressive expansion took them from ₹4,599.90 million in Financial Year 2021 to ₹14,927.48 million in Financial Year 2023, significantly outpacing the median revenue CAGR of 28.00% for other BPC companies with available data during the same period, as indicated in the RedSeer Report. Furthermore, their growth is primarily attributed to an increase in sales volumes.

Key strategies:

- Continue to improve brand awareness.
- Continue to expand offline footprint in general and modern trade retail channels to reach a larger customer base.
- Launch new brands and continue to drive product innovations across existing brands.
- Develop new channels and strengthen omni-channel strategy.
- Selectively expand into new markets.
- Optimize channel mix for the flagship brand, Mamaearth.
- Drive scale benefits from core business.
- Strengthen technology and data capabilities to drive business efficiencies.

Industry Outlook

The market for BPC products in India is expected to grow from approximately US\$ 20 billion in 2022 to approximately US\$ 33 billion in 2027 at a CAGR of approximately 11%, which is among the highest within the broader retail categories and faster than other retail categories in India during this period. The BPC products market in India is undergoing a fundamental re-industrialization owing to the convergence of technology, demographic dividend, and growing consumer aspirations. The BPC products market lends itself well to digital penetration and the online BPC market, which is currently sized as US\$ 3 billion, is expected to grow at 29% annually to be around US\$ 11 billion by 2027, translating to an online penetration of 34%.

Promoter & Promoter group

The Promoters of the company are Mr. Varun Alagh and Mrs. Ghazal Alagh. As on the date of this red herring prospectus, the promoters, in aggregate, hold 116,801,850 equity shares in the company, representing 37.35% of the issued, subscribed and paid-up equity share capital of the company, on a fully diluted basis.

As on the date of this red herring prospectus the Board has six directors comprising of two Whole-time Directors, one Non-Executive Director and three Independent Directors, including one woman Independent Director.

Brief Biographies of Directors

- **Varun Alagh**, is one of the promoters of the company. He is the Chairman, Whole-time Director and the Chief Executive Officer of the company.
- **Ghazal Alagh**, is one of the promoters of the company. She is a Whole-time Director and the Chief Innovation Officer of the company.
- **Ishaan Mittal**, is a Non-Executive Director of the company and a nominee of Peak XV and Sequoia Capital on the Board.
- **Vivek Gambhir**, is an Independent Director of the company
- **Subramaniam Somasundaram**, is an Independent Director of the company.
- **Namita Gupta**, is as Independent Director of the company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	Q1FY24
Sales	943.5	1,492.7	464.5
% change	105.1	58.2	-
EBITDA	11.5	22.8	29.3
% change	-101.0	99	-
Depreciation	6.9	25.0	6.5
EBIT	4.6	-2.2	22.8
Interest	3.0	6.7	1.5
Other Income	20.9	22.5	12.6
Exceptional items	-	-155	-
PBT	22.4	-141	34
% change	-102	-728	-
Tax	8.0	9.9	9.2
Tax Rate (%)	36	-7	27
Reported PAT	14.4	-151	24.7
Adj	-	-	-
Adj. PAT	14.4	-151	24.7
% change	-101	-	-
Post issue No. of shares (cr)	32.2	32.2	32.2
Adj EPS (Rs)	0.4	-4.7	0.8
% change	-101	-	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	Q1FY24
Cash	87.7	68.1	77.0
Accounts Receivable	72.8	127.7	138.6
Inventories	65.9	113.9	141.4
Other Cur. Assets	37.2	60.7	76.5
Investments	423.1	339.0	383.2
Deff. Tax Assets	4.9	4.1	4.3
Net Fixed Assets	57.6	96.0	71.1
CWIP	-	-	-
Intangible Assets	285.9	156.4	156.0
Other Assets	-	0.4	0.1
Total Assets	1035	966	1048
Current Liabilities	182.4	215.5	294.4
Provisions	74.4	11.5	13.7
Debt Funds	59.6	92.2	67.9
Other Fin. Liabilities	13.0	37.3	28.3
Deferred Tax liability	-	36.9	5.5
Equity Capital	1,792.9	1,929.3	1,929.3
Reserves & Surplus	-1,087.3	-1,323.4	-1,291.0
Shareholder's Fund	705.6	605.9	638.3
Total Liabilities	1,035	966	1,048
BVPS (Rs)	21.9	18.8	19.8

CASH FLOW

Y.E March (Rs cr)	FY22	FY23	Q1FY24
PBT Adj.	22.4	-141.0	34.0
Non-operating & non cash adj.	10.3	206.7	7.6
Changes in W.C	11.9	-117.3	7.1
C.F.Operating	44.6	-51.6	48.7
Capital expenditure	-222.2	-58.5	-1
Change in investment	-119.6	-149.6	-63.7
Sale of investment	-158.0	250.9	21.74
Other invest.CF	-	-	-
C.F - investing	-499.8	42.9	-42.7
Issue of equity	0.1	4.9	-
Issue/repay debt	480.7	-19.0	-6
Dividends paid	-	-	-
Other finance.CF	-	-	-
C.F - Financing	480.8	-14.1	-6.4
Change. in cash	25.6	-22.8	-0.4
Opening Cash	4.8	27.4	4.65
Closing cash	30.4	4.6	4.2

RATIOS

Y.E March	FY22	FY23	Q1FY24
Profitab. & Return			
EBITDA margin (%)	1.2	1.5	6.3
EBIT margin (%)	0.5	-0.1	4.9
Net profit mgn.(%)	1.5	-10.1	5.3
ROE (%)	2.0	-24.9	3.9
ROCE (%)	3.4	-19.7	3.4
W.C & Liquidity			
Receivables (days)	21	25	20
Inventory (days)	69	73	81
Payables (days)	66	48	52
Current ratio (x)	2.7	3.1	2.7
Quick ratio (x)	0.9	0.9	0.7
Turnover & Levq.			
Net asset T.O (x)	24.0	19.4	6.5
Total asset T.O (x)	1.4	1.5	0.4
Int. covge. ratio (x)	1.5	-0.3	15.5
Adj. debt/equity (x)	0.1	0.2	0.1
Valuation ratios			
EV/Sales (x)	11.1	7.0	5.6*
EV/EBITDA (x)	914.9	462.0	358
P/E (x)	721.8	-69.1	421.8
P/BV (x)	14.8	17.2	10.4

*Annualised

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