



LONG TERM SUBSCRIBE

IPO Report

30th Oct'23

Snapshot

Honasa Consumer Ltd is the largest digital-first beauty and personal care (“BPC”) company³ in India in terms of revenue from operations for the Financial Year 2023 .Since company’s inception, company have worked with the primary objective of developing products that address beauty and personal care problems faced by consumers. As of the Financial Year 2023, Mamaearth has emerged as the fastest growing BPC brand in India to reach an annual revenue of ₹10 billion (in the preceding 12 months) within six years of launch.

VALUATION

Company is bringing the issue at price band of Rs 308-324 per share at p/e multiple of more than 90x on post issue annualized Q1FY24 PAT basis.

Company has Brand building capabilities and repeatable playbooks. Also, company’s Customer centric product innovation & Digital-first omnichannel distribution along with data driven contextualised marketing with Ability to drive growth and profitability in a capital efficient manner infuse optimism in long term growth outlook. Hence, we recommend “Long term Subscribe” on issue.

Price Band (Rs./Share)	308-324
Opening date of the issue	31st Oct ‘2023
Closing Date of the issue	02nd Nov ‘2023
No of shares pre issue	310479227 Eq Shares
Issue Size	Rs 1635-1701 Cr
Fresh Issue	Rs 365 Cr
Offer For Sale	41248162 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	46
Employee Discount	Rs 30/share

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (39362048 Eq Shares)
Non-Institutional	15% of the offer (7872409 Eq Shares)
Retail	10 % of the offer (Approx 5248272 Eq Shares)
Employee Reservation	Rs 1 Cr
Lead managers	Kotak Mahindra Capital, Citigroup Global, JM Financial, J.P.Morgan India
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Ability to drive growth and profitability in a capital efficient manner

Company is the largest digital-first BPC company in India in terms of revenue from operations for the Financial Year 2023 .Company have grown its revenue from operations at a CAGR of 80.14% between Financial Years 2021 and 2023 (from ₹4,599.90 million in Financial Year 2021 to ₹14,927.48 million in Financial Year 2023), while the median revenue CAGR of all other BPC companies for which data was available for the relevant period was 28.00%. Moreover, company’s growth has been driven by increase in volume.

Brand building capabilities and repeatable playbooks

During Financial Years 2021, 2022 and 2023, the three months period ended June 30, 2022 and June 30, 2023, 38.51%, 43.15%, 56.90%, 52.65% and 63.20% of company’s revenue from operations generated from the DTC channel (for its Mamaearth brand) was attributable to existing customers, respectively. According to the RedSeer Report, company launched at least 5.7 times the number of new products / SKUs than the BPC industry median in Financial Year 2023. This ability to successfully introduce new innovations and conceptualise and build new brands has been and will continue to be critical to company’s success. According to the RedSeer Report, as of Financial Year 2023, company’s flagship brand, Mamaearth has emerged as the fastest growing BPC brand in India to reach an annual revenue of ₹10 billion (in the preceding 12 months) within six years of launch and was India’s largest digital-first BPC brand in terms of revenue in Financial Year 2023.

Data-driven contextualized marketing

Company have adopted a marketing model through which it activate consumer engagement initiatives across multiple media platforms and channels. With a combination of digital and traditional marketing, company deliver a consistent narrative about its brands and their proposition across all touch points relevant for its consumers..



COMPANY BACKGROUND

Since launching Mamaearth in 2016, company have added five new brands to its portfolio, namely The Derma Co., Aqualogica, Ayuga, BBlunt and Dr. Sheth's, and have built a 'House of Brands' architecture. As of June 30, 2023, company's portfolio of brands with differentiated value propositions includes products in the baby care, face care, body care, hair care, color cosmetics and fragrances segments.

Additionally, company continuously seek to connect better with its consumers and strengthen company's brand equity by building 'purposedriven' brands that are associated with environmental and social impact causes. For instance, through the Mamaearth 'Plant Goodness' initiative, company work with a non-government organisation to plant trees for orders placed on its direct-to-consumer ("DTC") platform and share geo-tagged images of these trees with its consumers. Similarly, The Derma Co. is associated with a 'Young Scientists' program wherein children in certain rural parts of India are provided with access to education in science, and Aqualogica is associated with a 'Fresh Water for All' initiative wherein company help enable access to clean drinking water for marginalized communities. Company's focus on building thoughtfully designed and purpose driven brands has helped cultivate trust, brand resonance and affinity amongst company's consumers and has enabled it to grow its business, as demonstrated by the following:

- Company have grown its revenue from operations at a CAGR of 80.14% between Financial Years 2021 and 2023 (from ₹4,599.90 million in Financial Year 2021 to ₹14,927.48 million in Financial Year 2023), while the median revenue CAGR of all other BPC companies for which data was available for the relevant period was 28.00% .
- Company are the largest company in the DTC BPC market in India in terms of revenue generated from the DTC channel in Financial Year 2023 . During Financial Year 2021, 2022, 2023 and the three months period ended June 30, 2022 and June 30, 2023, 38.51%, 43.15%, 56.90%, 52.65% and 63.20% of company's revenue from operations from this channel (for company's Mamaearth brand) was attributable to existing customers, respectively.
- Company had a market share (in terms of gross merchandise value) aggregating to approximately 5.4% (₹13,300 million) of the online BPC market (i.e. DTC and e-commerce) (₹248,000 million) in India in calendar year 2022, a market share (in terms of gross merchandise value) of 1.5% of the total BPC market (₹23,200 million) for calendar year 2022 and a market share (in terms of gross merchandise value) aggregating to approximately 28.9% (₹5,500 million) in the DTC BPC market (₹19,000 million) in calendar year 2022 (Source: RedSeer Report).
- Mamaearth was India's most-searched BPC brand on Google Trends between January 2020 and June 2023 .
- Mamaearth was ranked amongst the top three in terms of awareness in the grooming category on Flipkart between May 2021 and July 2023.

Brand Building and Product Innovation

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



INVESTMENT RATIONALE

<i>Founder-led company with a strong professional management</i>	Company's organization is led by its visionary founders, Varun Alagh (CEO) and Ghazal Alagh (CIO). Prior to founding 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 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 company's business.
<i>Digital-first omnichannel distribution</i>	Company's omnichannel network allows company to be present across various touchpoints and serve its consumers wherever they shop. company have established scale across both online and offline channels and recorded the highest revenue from offline channels among digital-first BPC companies in India in Financial Year 2023. Company have adopted a digital-first approach to its distribution strategy wherein company first incubate new brands on its online channel, and then selectively introduce them in the offline channel.
<i>Consumer-centric product innovation</i>	<p>Product innovation powered by company's continuous consumer listening and engagement model is a key strength of company's business. Over the last seven years, company have built multiple tools and capabilities that aim to capture insights into consumer needs and identify whitespaces and consumer trends faster. A summary of company's key innovation tools is mentioned below:</p> <ul style="list-style-type: none"> • Social Listening: Company's in-house social listening and tracking platform enables company to proactively capture consumer sentiments and identify emerging trends and propositions both in India and globally. This has helped company in identifying emerging propositions such as rice water for frizzy hair, green tea for open pores and multani mitti for oil control, with product launches in November 2020, August 2022 and April 2023, respectively. • Online Competitive Intelligence: Company's in-house market research and competitive intelligence platform for e-commerce, enables company to track market share movements across a number of BPC sub-categories and a long range of ingredient spaces and price points. Leveraging this tool, company is able to identify growing BPC sub-categories, ingredients, value propositions and price points that are gaining traction with consumers. • User Conversational Research (UCR): Company's two-way consumer engagement digital platform, UCR, enables company to directly converse with users through quick surveys and polls launched on its own brand websites and apps. It gives company the flexibility to conduct iterative research across all phases of a new product development lifecycle including identification of new product concepts, defining the right formulation and packaging, and developing the right positioning and messaging for each launch. During the three months period ended June 30, 2023, company leveraged UCR to activate 24 consumer studies with 29,200 consumer conversations across all company's brands.



OBJECTS OF OFFER

Each Selling Shareholder shall be entitled to its respective portion of the proceeds of the Offer for Sale, net of their proportion of Offer-related expenses and the relevant taxes thereon. Company will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds

RISKS

Company do not manufacture any of its products and rely entirely on third-party manufacturers for the manufacturing of all company's products. In the Financial Years 2021, 2022 and 2023, and the three months period ended June 30, 2022 and June 30, 2023, the top three manufacturers for each year/period contributed to 81.95%, 70.97%, 51.73%, 61.02% and 46.01% of the total value of company's purchase of traded goods, respectively. Company's dependence on third-party manufacturers for the manufacturing of all its products subjects company to risks, which, if realized, could adversely affect company's business, results of operations, cash flows and financial condition.

Source:RHP

INDUSTRY OVERVIEW

BPC growth drivers

There are significant trends which are shaping consumer demand in BPC in India. Some of the prominent ones are as below: i. 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. The masstige segment, is priced at least 10-15% higher than the mass products while the premium category is priced at least 20% higher than masstige. Despite its structural growth, the BPC market is still at an early stage of development and provides significant room for growth. More than 50% of the market is dominated by mass market products. However, masstige is the fastest growing price segment in BPC and is likely to continue being so, going forward. By 2027, this segment is expected to be the largest price segment within BPC. Growth in this segment is being driven by increased disposable incomes, rise in aspirational BPC buying towards more individualised products that solve for specific need-spaces, and demand for better quality products leading to willingness to pay more. While incumbent brands (both domestic and global) continue to dominate the mass category, new-age companies are increasingly focusing on the masstige price point and are introducing high quality products that address consumer's emerging needs and preferences.

ii. 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. The trend is being driven by increasing awareness and demand for newer regimes. For instance, consumers are increasingly aware of extensive regimes that revolve around cleansing, exfoliating, treating, moisturising and protecting the face. With players investing on educating consumers about these regimes and related products to use, the demand for these categories has grown significantly.

Further, demand momentum for face care and makeup in the online channel is fairly strong. While makeup leads the online penetration across categories, face care has the second highest online penetration. The trend is likely to persist going ahead as well, with makeup and face care having 48-53% (2.6x of 2019) and up to 43-48% (5x of 2019) online penetrations respectively by 2027

iii. Growth In BPC spends by millennials and generation-Z– The tastes, preferences, and habits of each millennial and/or generation-Z are different. So, there is no single definition of a millennial or a generation-Z consumer. These nextgeneration consumers aspire to express their individuality through in-trend beauty and personal care products, inspired by their friends, family, celebrities, and influencers on social media. They are well-versed digitally, spend more time online and are conscious of new lifestyle trends. They are capable of buying lifestyle products on a regular basis as their income grows and are central to the business strategy and growth plans of BPC players. The buying behaviour of these consumers is different from that of a traditional Indian shopper. They have a relatively sophisticated make-up and skin care regime. Consumers in the 25-35 years age group are the most active BPC buyers. And consumers in the 18-24 years age group are likely to try and explore new BPC categories.

India has the largest population base of generation Z and millennials in the world. Their prominence in the population is on an increasing trend. As of 2022, they constituted around half of India's workforce. By 2027, they are likely to constitute 60% or higher proportion of the workforce. As such, their contribution to consumption is likely to be significantly larger. This bodes well for the BPC space from the perspective of robustness of demand.

iv. 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. These consumers like to use brands to communicate and project their self at a social level. Hence, they want brands which they can relate to, which have clear value propositions, and which communicate high standards. This is resulting in rapid growth of the organised channel. However, traditional brands are facing significant challenges in incubating new brands propositions. Their innovation tends to focus more on brand extensions and global portfolio extensions. Due to top-down strategy, their strength in distribution measured by their reach or numeric distributors is holding back their ability to quickly launch new products. Traditional incumbents are not best equipped



INDUSTRY OVERVIEW

for rapid innovation and are slower in meeting the rapidly evolving needs of the consumers. These players have had relatively lesser number of brand launches in the last 5 years compared to some of the better performing digital-first brands.

v. Emergence of new need spaces/ propositions in BPC – Millennials in India are becoming increasingly conscious of their beauty and personal care needs and the brands they consume. They are also more acutely oriented towards new-age innovations that cater to their specific needs and preferences, as compared to mass market propositions that cater to more mainstream or functional need spaces. With this change in consumer behaviour, brands, especially the new-age ones are coming up with more need-based and targeted offerings. In line with the changing customer dynamic, it is likely that the future of BPC products lies not only with large platform brands but also with new-age propositions and categories which cater to specific consumer need-spaces. For instance, searches for hair care products which have safer ingredients and do not negatively affect the hair, such as Paraben-free, Sulphate-free shampoos have increased dramatically. Similarly, when it comes to facecare, searches for oil control and anti-acne products have also increased rapidly. The demand for products with active, natural, and/or hydration based ingredients, which are consumer-driven differentiated ingredient positioning has increased significantly in comparison to that for functional products. The active ingredients proposition was relatively nascent in India about three years back in 2020. However, over the last three years, the market has grown exponentially with consumers becoming increasingly aware about the benefits of skincare products with scientific ingredients.

The speed of innovation required to meet the rapidly evolving consumer needs and staying at the top of their minds is mission-critical for businesses. Hence, the ability to innovate rapidly and churn out products quickly has become a differentiator for players.

vi. 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. Millennials are most influenced by other millennials, with word of mouth and voices of key opinion leaders and influencers emerging as key sources of driving brand awareness and consideration. Also, the millennials respond better to content that is meaningful and contextualized to their specific needs and preferences as compared to traditional content formats that are based on brand or product pitches. As a result, mass marketing to this generation will be less effective, as they seek more genuine feedback from family and influencers.

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.

And in parallel, there has been a growing pool of influencers. The key, going forward, is the right use of the new-age platforms and tapping the highest-quality influencers therein, to tell the consumers compelling stories that they can relate to.

vii. Purpose-driven brands – Consumers are moving from ‘what’-based brands to ‘why’-based brands. In particular, millennials are increasingly being driven to brands that are built on a strong mission or purpose, as compared to brands that primarily cater to functional need spaces. They prefer brands that have clear value systems and ethos, and which stand for ethics, environmental consciousness and social welfare. This also extends to safe and sustainable practices around product trials. And they are willing to pay a premium for this. New-age brands are increasingly cognisant of this. Therefore, this has become a key differentiator for such brands.

viii. Increasing contribution from beyond the metros – With increased awareness, consumers in non-metro cities are mirroring aspirations and lifestyle of metro cities. In those cities, there has been an increase in aspirational spending on BPC products, enabled by rising disposable incomes, increasing female workforce participation, increasing popularity and growing influence of social media, and lifestyle changes. This has brought about a shift from homemade solutions to branded products along with consumption of new category products. The market growth has been enhanced by investment from BPC players, especially the new-age ones, in customer education.

Moreover, growth of both modern retail channel and e-commerce has enabled access to masstige and premium products in tier 2+ cities and towns. Tailwinds such as rapid internet and smartphone adoption have democratised access to products and related information. BPC spending from Tier 2+ cities are projected to grow faster than Metro and Tier 1 cities.

Addressable market for BPC products and salon services

BPC products and salon services have an addressable market of US\$49-54 billion by 2027.

As elaborated earlier, the BPC products market in India is sized approximately US\$20 billion as of 2022, and projected to become a US \$33 billion large market by 2027.

The salon services space was sized at approximately US\$9 billion in 2022. The subcategories within salon services are services for men (US\$3 billion), services for women (US\$4.7 billion), and Beauty-spa and Beauty-treatments (US\$1.3 billion) in 2022.

The salon services space is an under-penetrated market and has been growing fast. Between 2016 and 2022, the market has doubled from US\$4 billion to US\$9 billion. This was driven by proliferation of branded salons across city tiers, increased consumer exposure to new styles and treatments and their willingness to pay a premium for these treatments. The growth momentum is strong and by 2027, the market is projected to be US\$16-21 billion


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	4599.90	9434.65	14927.48	4644.87
Total Expenditure (B)	17940.23	9320.06	14699.84	4351.77
EBIDTA	-13340.33	114.59	227.64	293.10
EBIDTA Margin	-290.01	1.21	1.52	6.31
Other Income	121.11	208.80	225.20	126.10
Depreciation	17.12	68.95	249.64	64.92
EBIT	-13236.34	254.44	203.20	354.28
Interest	9.75	30.05	66.63	14.75
PBT	-13246.09	224.39	136.57	339.53
Extraordinary Items	0.00	0.00	0.00	0.00
PBT	-13246.09	224.39	136.57	339.53
Impairment	0.00	0.00	-1546.97	0.00
PBT	-13246.09	224.39	-1410.40	339.53
Tax	76.06	79.96	99.26	92.38
PAT	-13322.15	144.43	-1509.66	247.15
NPM	-289.62	1.53	-10.11	5.32
ROE %	---	2.23	-23.57	4.07
EPS	-98.35	0.53	-4.66	0.85
Eq Cap	0.13	0.13	1,363.36	1,363.36
Net Worth	-17,651.43	7,056.24	6,059.01	6,382.63

(Source: RHP)

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Honasa Consumer Ltd</i>	10		14927.48	-4.66	19.27	-23.57
Peers						
Hindustan Unilever Limited	1	59.16	605800	43.07	215.02	20.08
Colgate Palmolive (India) Limited	11	54.25	52261.97	38.50	63.11	61.01
Procter & Gamble Hygiene and Health Care Limited	10	83.12	39179	208.91	291.44	71.68
Dabur India Limited	1	54.53	115299	9.61	53.29	18.02
Marico Limited	1	54.28	97640	10.05	30.59	33.42
Godrej Consumer Products Limited	1	59.09	133159.70	16.65	134.88	12.34
Emami Limited	1	34.82	34057.30	14.50	52.43	27.13
Bajaj Consumer Care Limited	1	25.65	9608.73	9.47	55.10	17.63
Gillette India Limited	10	57.82	24770.50	109.15	303.47	35.97



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