

The Issue	
<b>Type of Issue</b>	<b>Issue size Rs. Bn</b>
Fresh Issue	3.7
Offer for Sale	<b>13.4</b>
<b>Total</b>	<b>17.0</b>
<b>Post issue mkt cap *</b>	<b>104.3</b>
Lot size	46 shares

\*At Upper Price Band

Issue Break-Up	
<b>Reservation for</b>	<b>% of Issue</b>
QIB	75%
NII	15%
Retail	10%
<b>Total</b>	<b>100%</b>

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	31 Oct, 2023
Bid/Offer Closing Date	02 Nov, 2023
Finalization of the Basis of Allotment	07 Nov, 2023
Credit of shares	09 Nov, 2023
Listing Date	10 Nov, 2023

Use of Proceeds	
<b>Particulars</b>	<b>Rs in Mn</b>
Advertisement Expense behind brands	1,820
Capex for setting up new EBOs	206
Investment in subsidiary, BBlunt for setting up new salons	260
General Corporate purpose & inorganic Acquisition	1,277

<b>Manager</b>	Kotak Mahindra Capital, Citigroup Global Markets India, JM Financial & JP Morgan India
<b>Registrar</b>	KFin Technologies

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## Play on Indian Beauty & Personal Care market...

### Company Overview:

Honasa Consumer Ltd is a leading digital-first Beauty and Personal Care (BPC) company in India in terms of revenue from operations for FY23. Its product offering includes baby care, face care, body care, hair care, color cosmetics and fragrances segment.

Its flagship brand Mamaearth is a toxin free, safe-to-use beauty product made from natural ingredients. In FY23, Mamaearth registered revenue of Rs 10bn emerging as the fastest growing BPC brand in India. Other Brands include The Derma Co., Aqualogica, Ayuga, BBlunt and Dr. Sheth's.

In FY23, Mamaearth brand contributed 82% to total revenue, which has gradually reduced from 96% in FY21. Also, in Q1FY24, the brands revenue mix reduced to 65% vs 83% in Q1FY23.

Within 6 years of operation, the company was able to achieve a value market share of 8.3% in face-wash category.

The company operates on an asset-light business model where manufacturing is outsourced offering them benefit of economies of scale at small batch sizes while also providing flexibility to scale up production as needed.

Their offline channel revenue contribution increased from 18.6% in FY21 to 36.1% in FY23, showcasing their focus to cater wider consumer base through general trade. Furthermore, as per Nielson's Retail Measurement System, for the period July 2023, the retail reach of the company stood over 154K outlets in India.

As of June 30, 2023, its brand agnostic, integrated supply chain comprises of 13 warehouses spread across seven districts in India.

The company has 2 dedicated innovation centres in Gurugram, Haryana and Thane, Maharashtra to develop new formulations and proposition in line with consumer trends.

### Valuation and Outlook:

At the upper price band, the IPO is reasonably priced at a **P/S of 7x** on FY23 (post-issue), vs **peers' average of 7.7x on FY23 revenue**. Also on **EV/Sales**, the valuation seems **reasonable** with **Honasa priced at 6.7x** vs **peers' average of 7.8x**. Honasa Consumer is in the business of beauty and Personal care. The company is poised to grow on back of rising specific needs and preferences of consumers within BPC category, brand recognition associated with natural ingredients, distribution expansion particularly offline channels and improvement in profitable unit economics. Thus we assign "**Subscribe for Long Term**" rating to the stock.

# Honasa Consumer Limited

## Honasa Consumer Limited's key financial summary

Financial summary (Rs. Mn)	FY21*	FY22	FY23	Q1FY23	Q2FY24
Revenue	4,600	9,435	14,927	3,122	4,645
EBITDA	272	115	228	-124	293
EBITDA margin (%)	5.92%	1.21%	1.52%	-3.98%	6.31%
Adj. PAT	290	144	37	-115	247
Adj. PAT margin (%)	6.31%	1.53%	0.25%	-3.69%	5.32%
EV/Sales (Adj for issue)	6.7x				

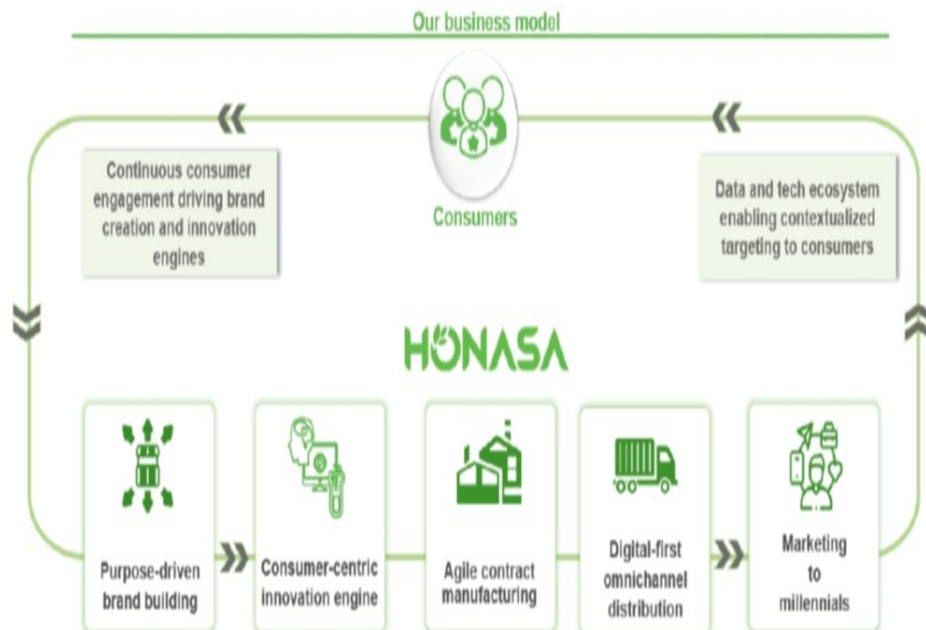
\* Standalone Numbers

## Pre-issue and post-issue holding structure

Shareholding pattern	Pre-issue	Post-issue*
	Holding (%)	Holding (%)
Promoter & Promoter Group	37.4	35.1
Public	65.6	64.9
Total	100.0	100.0

\* At upper price band

## Honasa's Business Model



## Honasa's House of Brands

Brand	Incubated/ Acquired	Year	Positioning
Mamaearth	Incubated	2016	Toxin-free beauty products made with natural ingredients
The Derma Co	Incubated	2020	Science-backed products powered with active ingredients.
Aqualogica	Incubated	2021	Specialized skin care brand based on the science of hydration- Products suited to Indian skin-types
Ayuga	Incubated	2021	Ayurvedic beauty products in easy-to-use, modern formats for Indian millennials
Bblunt	Acquired	2022	Professional hair care and styling products enabling salon like experience at home. Also has a salon business
Dr. Sheth	Acquired	2022	Bio-actives based skincare developed by three generations of skin specialists.
Momspresso	Acquired	2021	Platform which enables content creation and influencer marketing

**Selling Shareholders**

Selling Shareholder	Shares (Mn)	% of OFS	% of Share	% of shares held
Varun Alagh	3.2	6.8%	1.0%	3.0%
Ghazal Alagh	0.1	0.2%	0.0%	1.0%
Evolve India Coinvest PCC	0.2	0.5%	0.1%	25.0%
Evolve India Fund III Ltd	0.9	1.8%	0.3%	25.0%
Fireside Ventures Fund	8	17.0%	2.6%	25.0%
Sofina	19.1	40.9%	6.2%	65.0%
Stellaris	12.8	27.2%	4.2%	43.0%
Kunal Bahl	0.8	1.7%	0.3%	33.0%
Rishabh Harsh Mariwala	0.5	1.0%	0.2%	5.0%
Rohit Kumar Bansal	0.8	1.7%	0.3%	33.0%
Shilpa Shetty Kundra	0.6	1.2%	0.2%	34.0%
<b>Total</b>	<b>47.0</b>	<b>100.0%</b>	<b>15.4%</b>	-

**Comparison with Peers**

Company	Rev 2 yr CAGR	OPM FY23	ROE	BVPS	P/S (x)	P/B (FY23)	EV/Sales (FY23)
Honasa Consumer Ltd*	80.1%	1.5%	-23.6%	19.3	7.0	16.8	6.7
FSN E-Commerce	45.2%	5.0%	1.5%	4.8	7.3	28.7	7.8
Hindustan Unilever Ltd	13.5%	23.3%	20.1%	215.0	9.4	11.6	9.8
Dabur India	9.8%	18.8%	18.0%	53.3	7.7	10.1	8.1
Marico Ltd	10.2%	18.5%	33.4%	30.6	7.2	18.3	7.2
Emami Ltd	8.7%	25.1%	27.1%	52.4	6.4	9.5	6.4

\* At upper price band

## Honasa Consumer Limited

### Key Risks:

**High dependance on Top 10 Products:** The company's top 10 products contribute around 28-30% of overall revenue. Any impact on sales of these products could affect revenue growth and profitability.

**"Mamaearth" significant revenue contributor.** Honasa's flagship brand Mamaearth's significantly contributes to revenue. As on FY21, FY22 & FY23, the revenue mix stood at 96.1%, 81.9% and 87.1% respectively. Any decrease in demand for this brand could adversely affect on business growth, profitability and cash flows.

**High presence marketplace:** The company is regarded as one of the leading D2C brand in India. It also has presence in other online marketplaces. As on FY23, revenue mix from online channel constituted ~60%. Any failure to maintain relationship with these marketplaces could negatively impact its product availability and sales. Further, online channels may also hike sales commission to promote products online owing to high inflation. This is expected to materially impact volume and value growth, expenses and profitability.

**High competitive intensity:** BPC category is characterized by high competition and continuously evolving consumer preferences. This could lead to loss of market share and subsequently higher expenditure on advertisement and marketing. This could further drag profitability and business cash flow.

**Material Outstanding Litigation:** As on June 30, 2023, the outstanding litigation against the company stands at Rs 1,007mn which results in 7% of company's FY23 revenue. The decision ruled out against the company in these matters could material impact results of operations, cash flow and financial conditions.

**Unfair trade practices:** Honasa's products are subject to counterfeiting, cloning, lookalike and passoff products. The sale of counterfeit, cloned and pass-off products may result in heightened public reputation risk for the company along with possibility of legal and regulatory claims. This could adversely affect its business performance.

## Honasa Consumer Limited

### Competitive Strengths:

**Brand building capabilities & repeatable playbook:** Honasa operates on customer-centric model. Over last 7 years, they have introduced new BPC brands and products in their portfolio. This has been the key catalyst in the company's journey to maintain existing customer as well as add new customers. In FY23 and in Q1FY24, revenue from existing customers comprised of 43.2% and ~53% respectively. Further its brand building capabilities have been strong replicating Mamaearth's success across newer brands to scale them faster.

**Consumer-centric product innovation:** As highlighted earlier, the company operates on customer-centric model. Meaning they capture insights into consumer needs and identify whitespaces and consumer trends faster. This effort is further bolster by the company's in-house innovation team and contract manufacturing system, enabling them to launch newer products and gain market share.

**Digital-first omnichannel distribution:** Honasa is the leading D2C BPC brand in India. Thereby its distribution is majorly led by digital presence (DTC and e-commerce marketplaces). The company's strategy to first incubate new brands on online channel, and then selectively introduce them in the offline channel have enabled them to tap market trends accordingly.

**Ability to drive growth and profitability:** The company's operates at a Gross margin level of 70-71% on account of its asset-light model (contract manufacturing). Around 50-52% of the gross margin is annually invested behind Ad spends to drive growth. These investment is also expected to increase profitability and margins once its product grabs material market shares. Also, driving product sales through offline channels vs online channels would further lead to improvement in profitability. However, higher competition in the industry does put a limitation on margin expansion.

### Business Strategies:

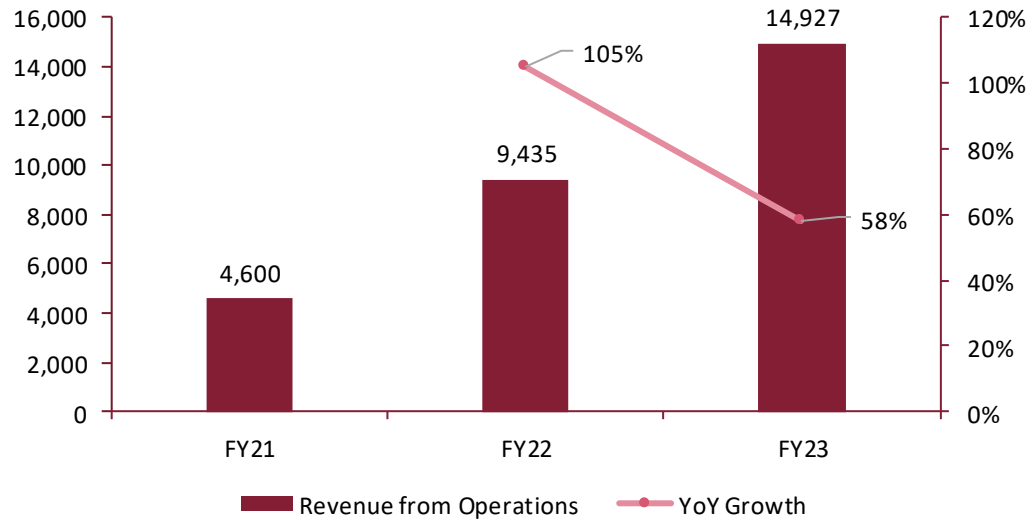
**Expand distribution and awareness:** Honasa aims to continuously acquire news consumers as well as retain customers to drive growth. For this purpose they will continue to invest in brand building and marketing to drive awareness among consumers. Additionally, the focus is now towards offline channel which caters to wider consumer base.

**Incubate or acquire new engines of growth:** They intend to incubate or acquire new brands across new value proposition and price points. This will enable them to expand portfolio across full spectrum of BPC categories. They will continue to invest in identifying whitespaces coupled with new age brand building to achieve sustainable growth.

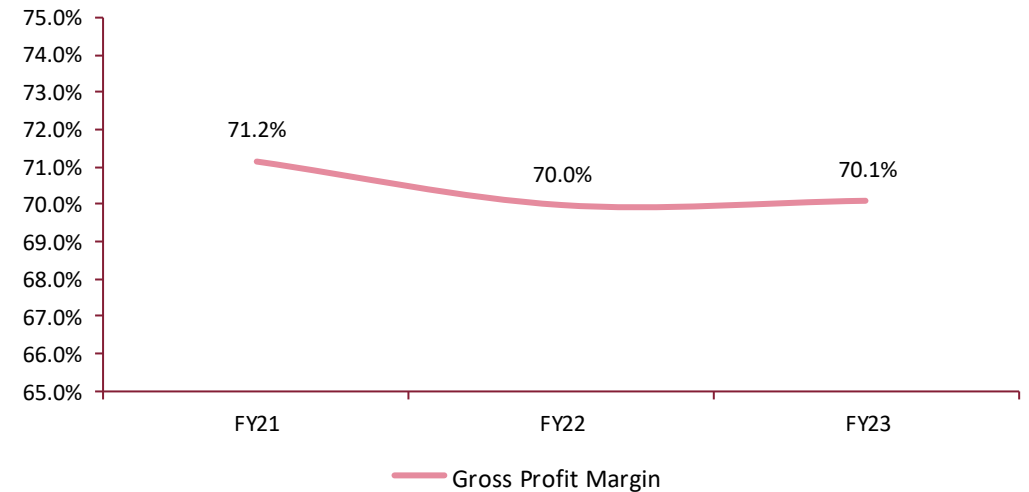
**Strengthen business efficiency:** Honasa intend to continue driving growth for Flagship brand Mamaearth through offline channels. Through this it aims to deepen brand connect, retain and acquire customers. As business scales, they also intend to derive benefits of economies of scale and strengthen all aspects of business model including procurement and manufacturing, supply chain and distribution, advertising and promotional expenses, and operating expenses.

# Honasa Consumer Limited

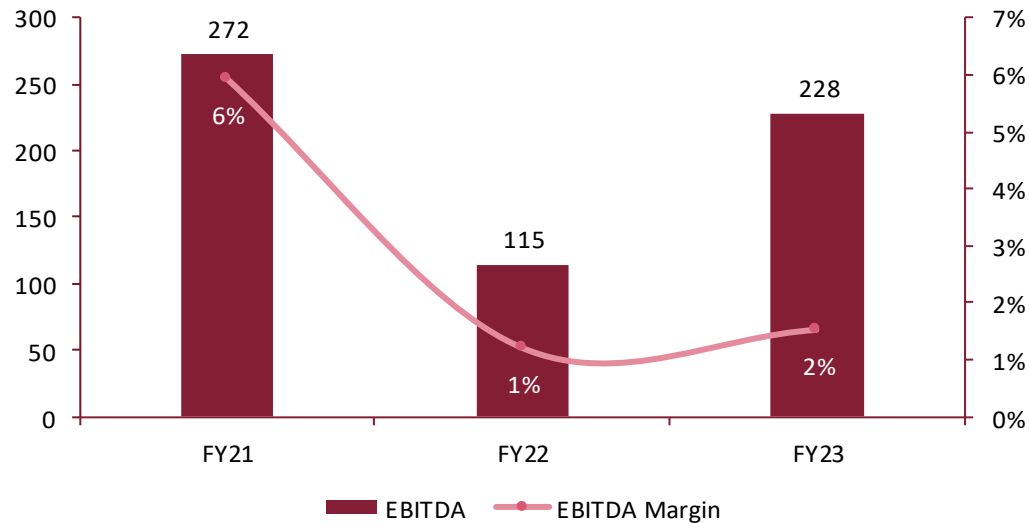
### Revenue from operations (Rs. Mn)



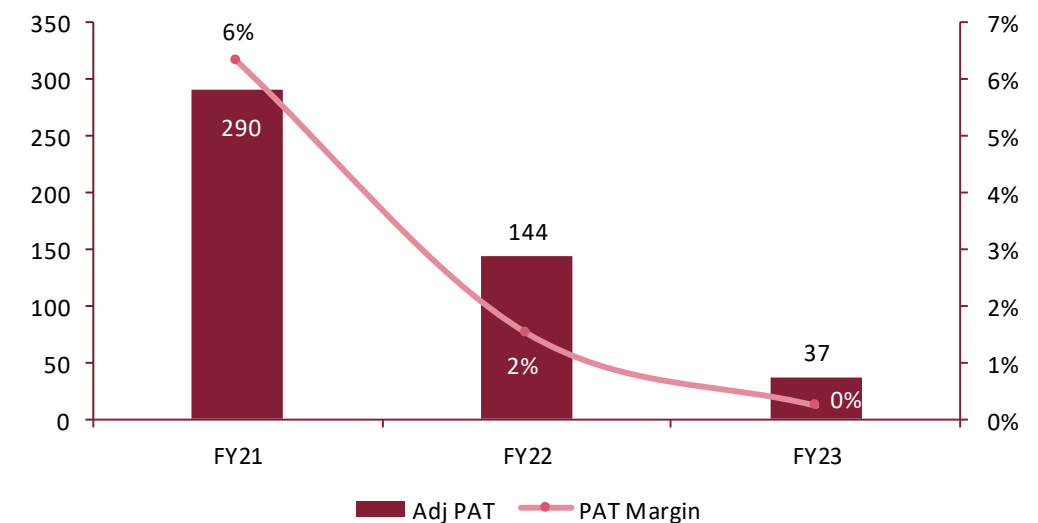
### Gross Margin



### EBITDA (Rs. Mn) and OPM (%)

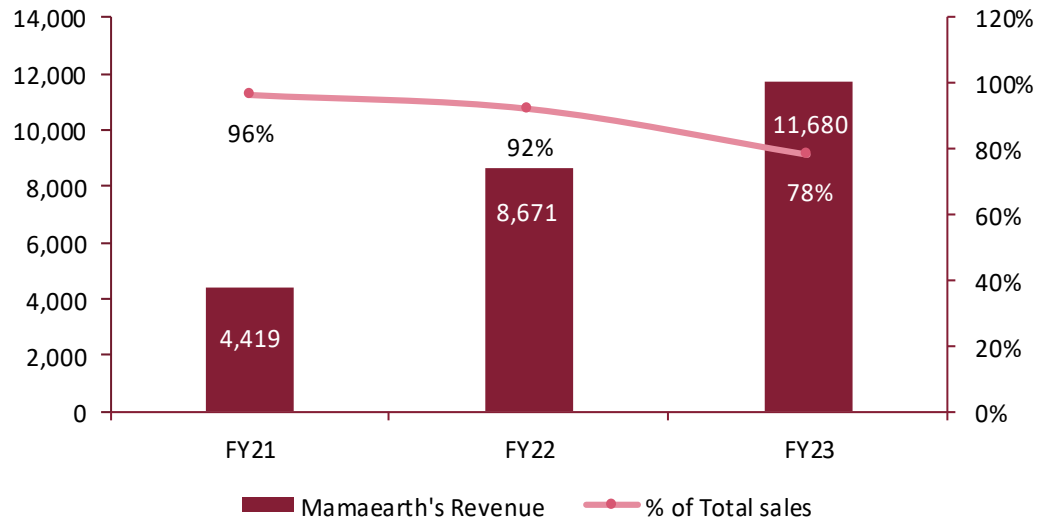


### PAT (Rs. Mn) and PAT Margin (%)

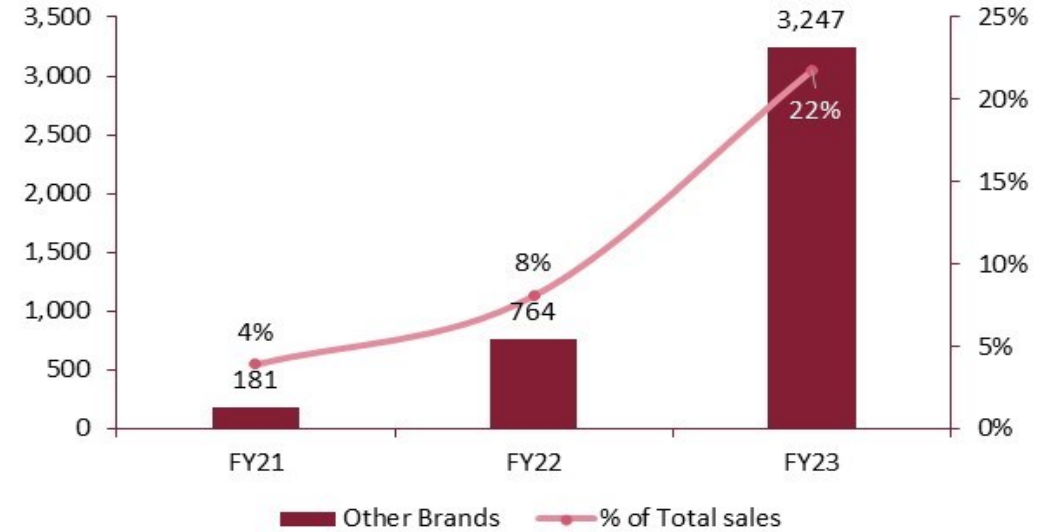


# Honasa Consumer Limited

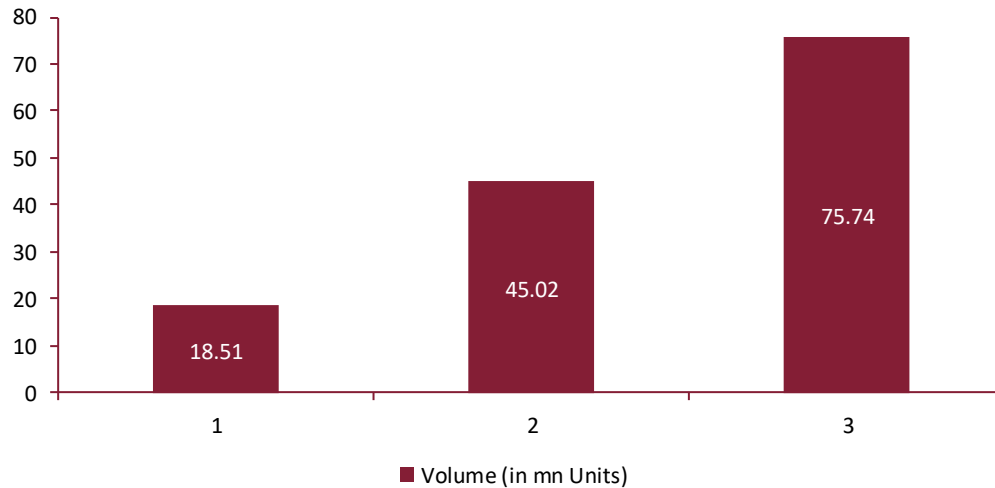
### Mamaearth's Revenue Trend (Rs in Mn)



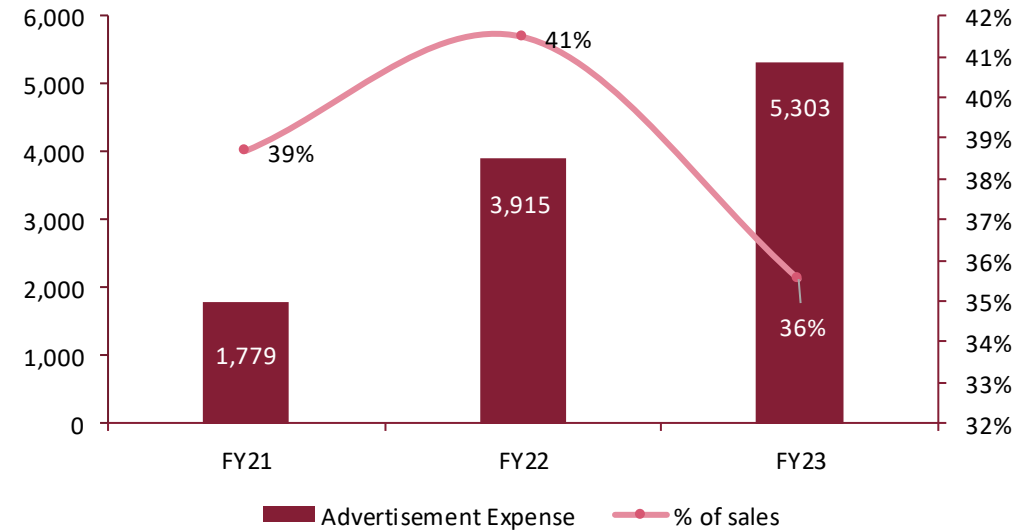
### Other Brands Revenue Trend (Rs in Mn)



### Volumes in Mn units (Units delivered)

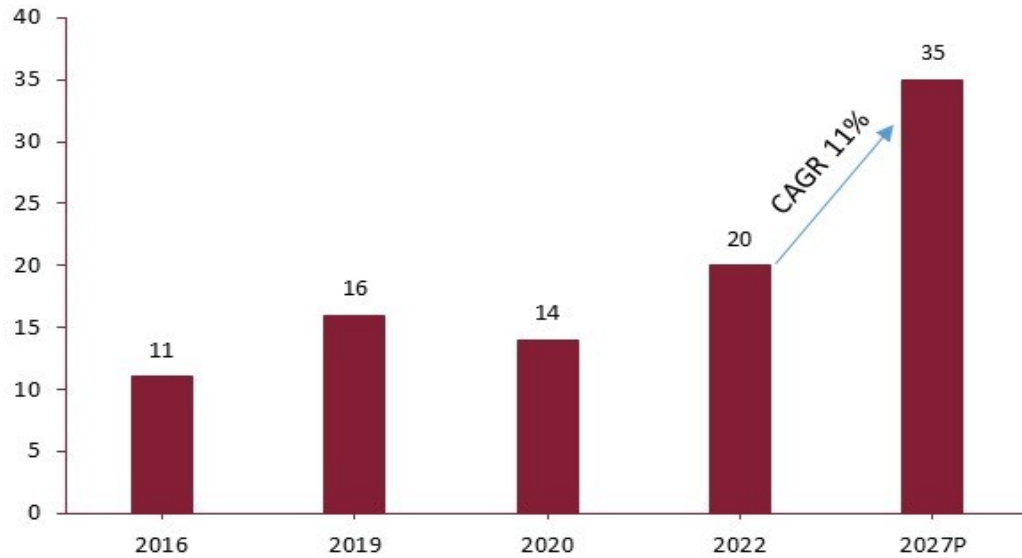


### Advertisement Expense (Rs in Mn) & (% of Sales)

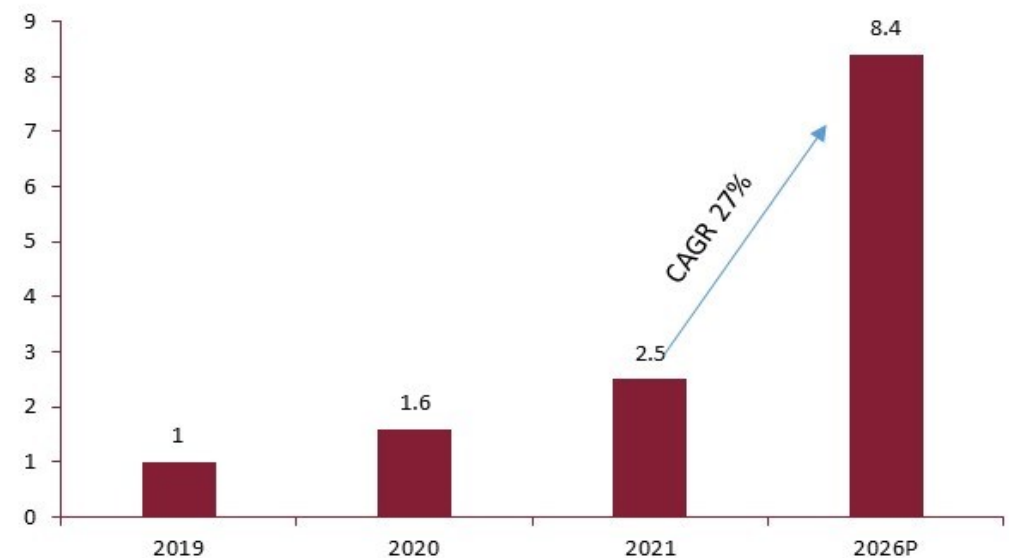


# Industry Outlook

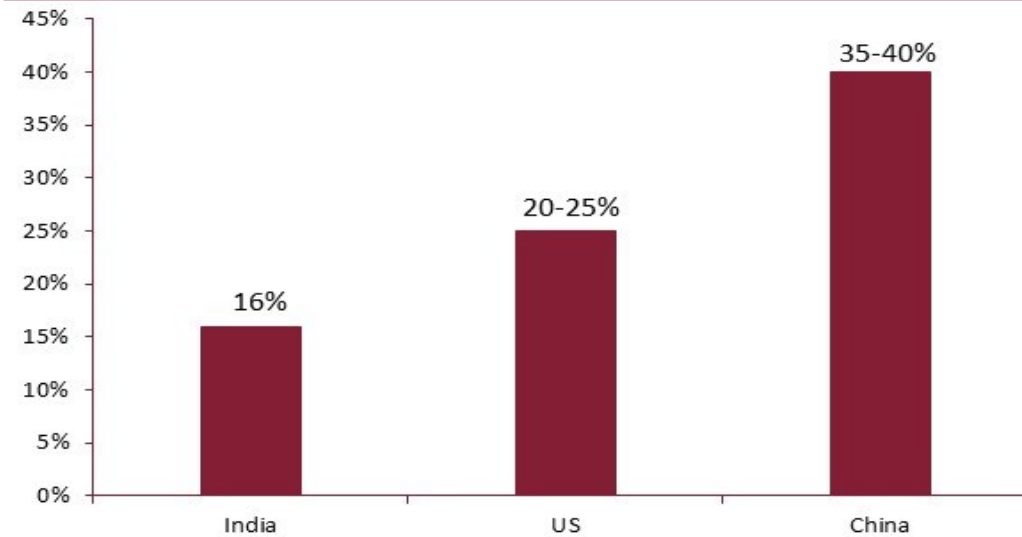
### Indian BPC Market Size (US\$ Bn)



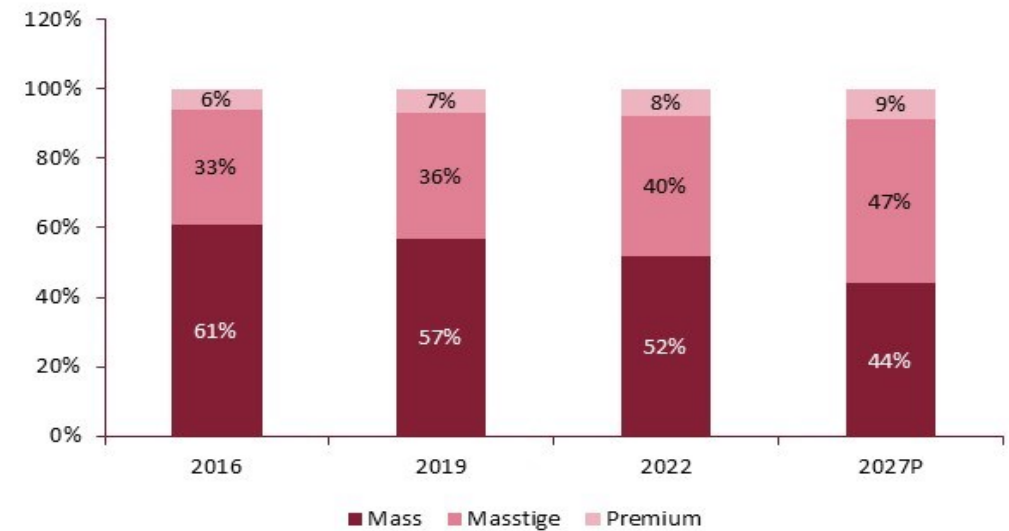
### India Online BPC Market (US\$ Bn)



### Online penetration in BPC



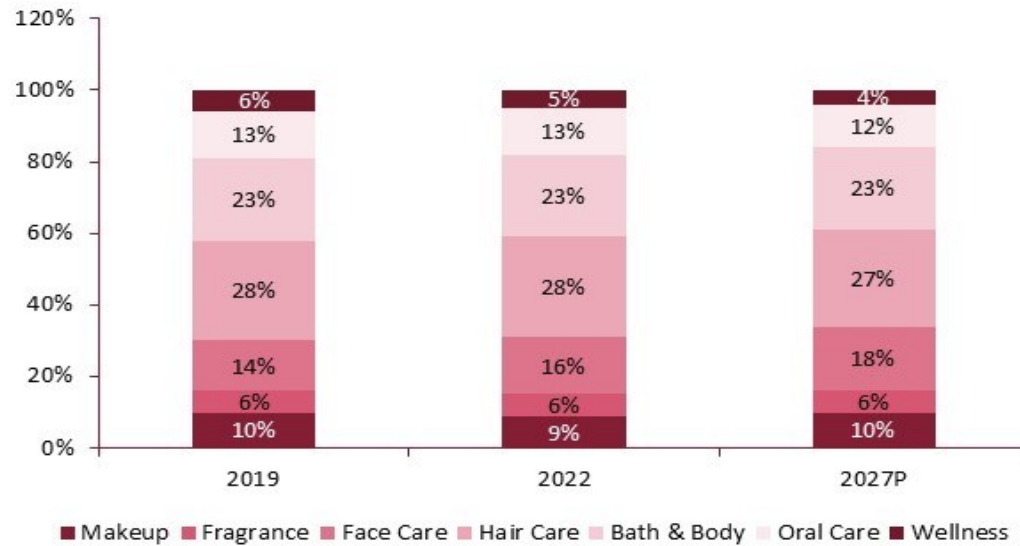
### BPC market segmented by premiumness



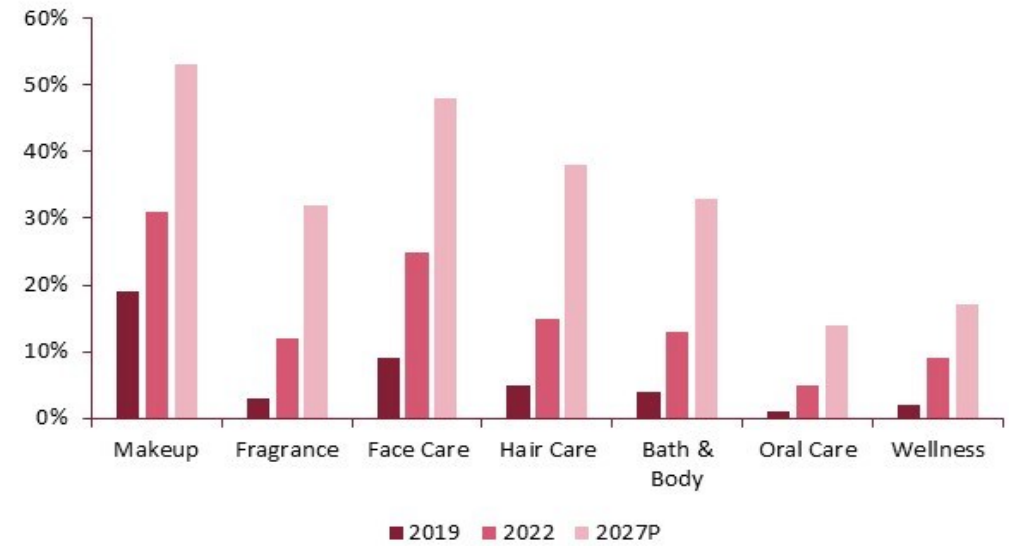


# Industry Outlook

### Category Mix of BPC Market in India (US\$ Bn)



### Online Penetration across BPC category



## INDSEC Rating Distribution

**BUY** : Expected total return of over 15% within the next 12-18 months.

**HOLD** : Expected total return between 0% to 15% within the next 12-18 months.

**SELL** : Expected total return is negative within the next 12-18 months.

**NEUTRAL**: No investment opinion, stock under review.

**Note**: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

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### DISCLOSURE

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