

IPO Note

HONASA CONSUMER LIMITED

October 31, 2023





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Details of the Issue

Price Band	₹ 308 - ₹ 324
Issue Size	₹ 1,701 Cr
Face Value	₹ 10
Bid Lot	46
Listing on	BSE, NSE
Post Issue Mcap	₹ 10,425 Cr
Investment Range	₹ 14,168 - ₹ 14,904

Important Indicative Dates (2023)

Opening	31 - Oct
Closing	02 - Nov
Basis of Allotment	07 - Nov
Refund Initiation	08 - Nov
Credit to Demat	09 - Nov
Listing Date	10 - Nov

No of shares (Mn)

Fresh Issue of Shares	11.85
Offer for Sales	41.24
Total No of Shares	53.09

Lead Manager

Kotak Mahindra Capital Company Limited
Citigroup Global Market Indian Pvt Limited
J.P Morgan India Pvt Limited
JM Financial Limited
KFin Technologies Limited

Offer Details

Offer Size	₹ 1,701 Cr
Fresh Issue	₹ 365 Cr
OFS	₹ 1,336 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	127.57	3.93	4.14	75
NIB	25.51	0.78	0.82	15
Retail	17.01	0.52	0.55	10
Em-ploy.	-	-	-	-
Total	1,701	5.25	5.52	100

Company Profile

Founded in 2016, Honasa Consumer Limited (HCL) is a digital platform specializing in beauty and personal care products. The company's inception was rooted in the principles of Honesty, Natural ingredients, and Safe care. Today, it has expanded its reach to encompass more than 500 cities across India. HCL has not only fostered its own consumer brands, including Mamaearth, The Derma Co., Aqualogica, Dr. Sheth's, and Ayuga, but it has also ventured into strategic acquisitions with a stake in BBLUNT and the content platform Momspresso. Backed by prominent investors like Sequoia Capital India, Sofina SA, Fireside Ventures, and Stellaris Venture Partners, HCL is on a trajectory to attain a valuation of \$1 billion.

As of June 30, 2023, HCL's product portfolio spans various categories, such as baby care, face care, body care, hair care, color cosmetics, and fragrances. The company's core strengths revolve around:

- **Pioneering Innovation:** HCL excels in the development of groundbreaking products that cater to the evolving needs of consumers.
- **Diverse Distribution Channels:** To meet the diverse preferences of its customer base, HCL has established a comprehensive network of distribution channels, both online and offline.

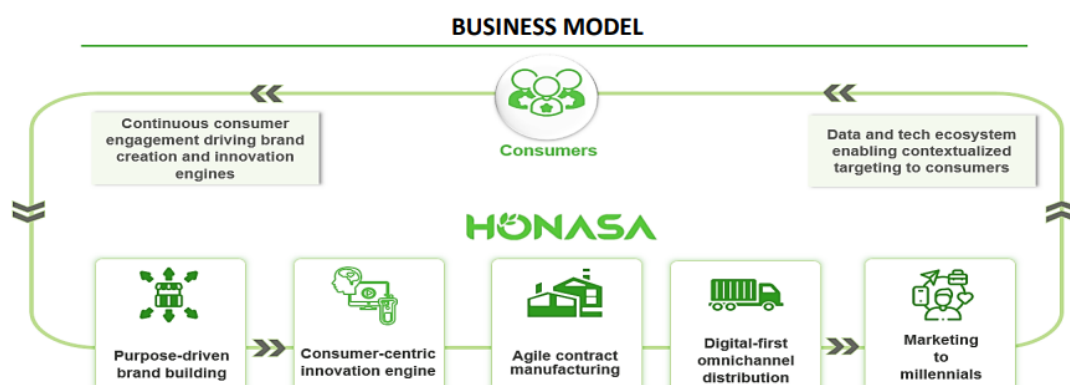
Business Highlights & Services

Honasa 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 its inception, it have worked with the primary objective of developing products that address beauty and personal care problems faced by consumers. For instance, Its flagship brand, Mamaearth, is built to service a core customer need for safe-to-use, natural products, and focuses on developing toxin-free beauty products (as defined below) made with natural ingredients. According to the RedSeer Report, 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. Since launching Mamaearth in 2016, it have added five new brands to their 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, it portfolio brands with differentiated value propositions includes products in the baby care, face care, body care, hair care, color cosmetics and fragrances segments. Its success with Mamaearth and its ability to identify and cater to emerging trends has enabled us to develop repeatable brand building playbooks that have helped in scaling newer brands at a fast pace. These playbooks are powered by consumer centric approach across various aspects of business model, including innovation engine, digital-first omni-channel distribution, and technology and data-driven marketing and consumer engagement model. Company is committed to deepening their connection with consumers and enhancing their brand's reputation by creating purpose-driven brands that champion environmental and social causes. For instance, through Mamaearth 'Plant Goodness' initiative, it collaborate with a non-government organization to plant trees for every order made on direct-to-consumer platform, and it share geo-tagged images of these trees with customers. Similarly, The Derma Co. is associated with a 'Young Scientists' program, providing science education to children in rural parts of India, and Aqualogica supports the 'Fresh Water for All' initiative, which facilitates 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 their consumers and has enabled them to grow their business, as demonstrated by the following:



- Company's revenue from operations has shown remarkable growth, with a compound annual growth rate (CAGR) of 80.14% between Financial Years 2021 and 2023, surging from ₹4,599.90 million in Financial Year 2021 to ₹14,927.48 million in Financial Year 2023. This outpaces the median revenue CAGR of other beauty and personal care companies, which stood at 28.00% during the same period.
- In Financial Year 2023, It became the leading company in India's direct-to-consumer beauty and personal care market, as reported by the RedSeer Report. Notably, a significant portion of revenue from operations for the Mamaearth brand (38.51% in FY2021, 43.15% in FY2022, 56.90% in FY2023, 52.65% in the three months ending June 30, 2022, and 63.20% in the three months ending June 30, 2023) was contributed by existing customers, demonstrating strong customer loyalty.
- In 2022, it had a 5.4% share (₹13,300 million) of the online beauty and personal care market (DTC and e-commerce) in India, which was valued at ₹248,000 million. It had a 1.5% share of the total beauty and personal care market (₹23,200 million) in 2022. In the direct-to-consumer beauty and personal care market, it secured a 28.9% share (₹5,500 million) out of a total market worth ₹19,000 million in 2022.
- Mamaearth was the most-searched beauty and personal care brand in India on Google Trends from January 2020 to June 2023.
- In the grooming category on Flipkart, Mamaearth consistently ranked among the top three brands in terms of awareness between May 2021 and July 2023.

Honasa prioritizes profitable unit economics, ranking 2nd in gross profit margins among digital-first BPC companies in India in FY2022 and achieving a positive adjusted EBITDA margin. Its success is driven by a differentiated business model that is built upon principles of consumer-centricity, agility, and technology, as depicted in the graphic below:



Brand Building and Product Innovation

The company leverages consumer insights to drive product innovation in the BPC market in India. They introduced new SKUs and products across their brands in FY 2021, 2022, and 2023. With a dedicated in-house innovation team of 47 members, they collaborate with ingredient suppliers and use an asset-light contract manufacturing model for production scalability.

	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 to our 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) to 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



Distribution & Logistics

The company makes their products available to their customers through omni-channel distribution networks across both online and offline touchpoints. They strategically leverage their presence on online channels (both DTC platforms and ecommerce marketplaces) during the early stages of a brand or products lifecycle to generate trials amongst early adopters, engage with consumers directly and test for product market fit. Once a product or brand reaches a mature stage, they selectively introduce such products and brands in offline stores to drive penetration amongst a larger consumer base. They 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. As of June 30, 2023, company's brand agnostic, integrated supply chain comprises of 13 warehouses spread across 7 districts in India. Of these 13 warehouses, 3 warehouses are directly managed by them while management of the remaining warehouses is outsourced to third-party partners. The main warehouse, which is based in Pataudi, Haryana, acts as a central hub and distributes products to their regional warehouses in other parts of the country. They distribute their products to the consumers, distributors, super distributors and sub-stockists both through their main and regional warehouses.

Market opportunity

India's BPC market is undergoing a technological and demographic-driven transformation, set to grow from \$20 billion in 2022 to \$33 billion by 2027 at an 11% CAGR, outpacing various retail sectors. Rising incomes have consumers seeking masstige brands, emphasizing quality and affordability. Consumers also favor purpose-driven brands, and the trend extends beyond metros to tier 2+ cities. Evolving face care and makeup segments are emerging. Specific problem-solving products are sought over generic ones. The online BPC market, currently at \$3 billion, is projected to grow at 29% annually to \$11 billion by 2027, driven by digital-first brands catering to changing consumer needs. The future success lies in unique categories addressing specific consumer needs.

Company's Brand

Mamaearth

Established in 2016, Mamaearth is flagship brand that focuses on developing toxin-free beauty products made with natural ingredients. Mamaearth was India's largest digital-first BPC brand in India in terms of revenue from operations in Financial Year 2023. Initially introduced as a natural ingredients-led baby care brand with products inspired from traditional DIY beauty recipes, Mamaearth was aimed at parents who were increasingly concerned about the ingredients used in baby products. Mamaearth's product offering has since extended beyond baby care products and is now an established BPC platform brand with products across baby care, hair care, face care, body care, color cosmetics, and fragrances.

Value proposition: Toxin-free beauty products made with natural ingredients.




The Derma Co.

Company has launched The Derma Co. in 2020 to provide solutions for skin and hair conditions through a range of active ingredient based products. The brand is focused on making these solutions easily accessible to consumers across digital and retail touchpoints. The brand offers a range of products that help resolve diverse concerns like active acne, acne marks, pigmentation, dull skin, ageing, hair loss, dandruff, etc. The brand offers an AI enabled experience to consumers in the form of real-time skin assessment analysis to help them detect skin conditions and identify specific products or regime for treatment.

The Derma Co.'s brand proposition is built on the following pillars: Safe: Company's products are tested by expert dermatologists to ensure the safety of their formulations. • Transparent: The Derma Co. ensures transparency and authenticity by mentioning the exact percentage of core active ingredients in the products. • Purpose-driven: Science is a core tenet of the brand value proposition, and they want the consumer to be empowered and educated in this proposition. As part of their Young Scientists initiative, they have partnered with a nongovernmental organization to make practical science education accessible to students in need.



Launched in 2020 **derma+** – Science backed products powered with active ingredients

Range of active ingredients to address skin concerns		
<input type="radio"/> Niacinamide	<input type="radio"/> Collagen	
<input type="radio"/> Salicylic Acid	<input type="radio"/> Ceramides	
<input type="radio"/> Hyaluronic Acid	<input type="radio"/> Retinol	
<input type="radio"/> Kojic Acid	<input type="radio"/> Glutathione	
<input type="radio"/> Vitamin C	<input type="radio"/> Vitamin E	
<input type="radio"/> AHAs & BHA	<input type="radio"/> Alpha Arbutin	
<input type="radio"/> + More		
Covering serums, cleansers, creams & moisturizers, peeling solution, acne patches and many more		

Aqualogica

Launched in November 2021, Aqualogica is specialized skin care brand that leverages the science of hydration to introduce products suited to Indian skin-types. Aqualogica's formulations blend the purity of fruits with the science of actives to develop hydrating products for face and body care. It have curated six ranges under this brand:

Launched in 2021 **AQUALOGICA** – Hydrating skincare designed for Indian skin types

Hydrate+ Range	Ultram+ Range	Redness+ Range	Ultram+ Range	Derma+ Range	Hydrate+ Range
					
Hydrate+ Range: Hydrating Creams and Moisturizers	Ultram+ Range: Hydrating Creams and Moisturizers	Redness+ Range: Hydrating Creams and Moisturizers	Ultram+ Range: Hydrating Creams and Moisturizers	Derma+ Range: Hydrating Creams and Moisturizers	Hydrate+ Range: Hydrating Creams and Moisturizers

Including: face wash, toner, essence, and moisturizer, face cream, oil-free cream, sleeping mask, day cream and many more

Ayuga

Launched in December 2021, Ayuga aims to make the traditional wisdom of Ayurveda relevant for Indian millennials by curating products in easy-to-use, modern formats that can easily fit in a consumer's daily skin and hair care regime. Ayuga products span the face, body and hair care product categories, and include products such as night gel, face serum, sunscreen, shampoo and conditioner.

Launched in 2021 **AYUGA** – Ayurvedic beauty products in easy-to-use, modern formats for Indian millennials



Entering to skincare & hair care through a portfolio of products including face wash, face serum, night gel, day cream, shampoo & more

BBlunt

Honasa acquired BBlunt in March 2022 with the objective of extending their portfolio to specialized professional hair care and styling segments. BBlunt seeks to replicate a salon-like experience for consumers at home by offering a wide range of products including shampoos, conditioners, hair serums, hair color, heat protection mist, and hair sprays.

Dr.Sheth's

Acquired in April 2022 and operating through their subsidiary, Fusion Cosmeceutics Pvt Ltd, which became wholly owned by them in December 2022, Dr. Sheth's offers specialized skincare solutions crafted with a combination of natural and active ingredients. Dr Sheth's was developed by 3 generations of skin specialists with a focus on naturally inspired and scientifically validated products.

Objective of IPO

- Advertisement expenses towards enhancing the awareness and visibility of brands of ₹ 182 Cr
- Capital expenditure to be incurred by Company for setting up new EBOs of ₹ 20.6 Cr
- Investment in Subsidiary, BBlunt for setting up new salons of ₹ 26 Cr
- General corporate purposes and unidentified inorganic acquisition.

**Companies Competitive Strength :**

- Brand building capabilities and repeatable playbooks.
- Consumer-centric product innovation.
- Digital-first omnichannel distribution.
- Data-driven contextualized marketing.
- Ability to drive growth and profitability in a capital efficient manner.
- Founder-led company with a strong professional management.

Key Strategies Implemented by Company

- Expand distribution and brand awareness.
- Incubate or acquire new engines of growth.
- Strengthen business efficiency drivers.

Particulars (Rs Cr)	2023	2022	2021
Equity Share Capital	136.34	0.01	0.01
Reserves	-1,323	-1,087	-1,765
Net worth as stated	605.9	705.62	-1,765
Revenue from Operation	1,493	944	460
Revenue Growth (%)	58.22%	105.11%	-
EBITDA as Stated	50.91	30.25	31.36
EBITDA margin (%)	3.41%	3.21%	6.82%
Net Profit for the period	-150.97	14.44	-1,332
EPS (₹)	-4.66	0.53	-98.35
RoNW (%)	-23.57%	2.23%	NA

Valuations and Recommendation:

- The company's financial performance has been inconsistency, with reported losses in the fiscal year 2023. Notably, its acquired subsidiaries have also incurred losses. Furthermore, the company does not manufacturing its products and heavily relies on third-party suppliers, and it does not hold patents for its product formulas. The company has incurred a high advertising cost, ranging from 35% to 40.6% of its revenue for both FY 23 and FY 22, leading to reduced profitability. The return on advertising investment has consistently been in 2.5%, indicating very low client retention. Additionally, the company faces fierce competition from both well-established industry leaders and emerging start-up's. As a result of these factors, we recommend "Avoid" rating to the stock issue.



Notes

GEPL Capital Pvt. Ltd

Head Office: D-21/22 Dhanraj Mahal, CSM Marg, Colaba, Mumbai 400001

Reg. Office: 922-C, P.J. Towers, Dalal Street, Fort, Mumbai 400001

Research Analyst – Mr. Dibandu Maji | + 022-6618 2689 | Dibandumaji@geplcapital.com

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