

28 April 2024

India | Equity Research | Initiating Coverage

Honasa Consumer

Consumer Staples & Discretionary

Breaking boundaries; initiate with BUY

'Honasa' is derived from Honest, Natural, Safe. We believe its flywheel of 'Mamaearth' is replicable in other brands (demonstrated by success of 'The Derma Co', etc.). We like the business model (digital-first approach) as it allows for faster product launches (business necessity in Beauty and Personal Care) and efficient resource allocation (in marketing and distribution). Its long-tail strategy (willing to have high number of SKUs) is a new template vs. conventional FMCG. At its current size and scale, it has growth drivers like (1) offline distribution (including key modern retail) and (2) relevant low unit packs (let's say @ INR50). That said, we reckon scale-up in offline channel would be relatively challenging (vs. online) while the niche (natural ingredient-oriented approach) may limit the TAM. BUY; TP 550.

Differentiated model vs traditional BPC company

HONASA's business model is relatively more agile and lower-risk compared to traditional BPC companies. Key differences include;

(1) A **social-proof template** to build brands; in segments where there is high uncertainty of product performance (like beauty) and lower frequency of buying, consumers prefer to look for social-proofs (like; superior customer ratings, influencer-led product education etc.) to assist them in decision making. Honasa has championed this model in Mamaearth brand and now replicating it to more segments/categories.

(2) **Fast innovation**; the digital first approach to business allows it faster product launches (vs traditional BPC) and hence check product-market fit prior to any significant resource allocation.

(3) **Ingredient-based approach of owning a platform**; unlike traditional BPC, HONASA has followed the strategy of ingredient-based approach of owning a platform. For example, in Mamaearth it sells multiple products (shampoo, hair oil, face mask, conditioner etc.) with onion as claim ingredient. It also has products on ingredient platforms like aloe vera, beetroot, etc.

(4) **Capital efficient approach to marketing and distribution**; while creating social-proof template, marketing plays a critical role. Consequently, unlike traditional BPC, HONASA's marketing budget is over-indexed to digital (~65% of total) which includes influencer marketing, digital advertising and other platform media spends.

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Market Data

Market Cap (INR)	139bn
Market Cap (USD)	1,669mn
Bloomberg Code	HONASA IN
Reuters Code	HONA.BO
52-week Range (INR)	511 /256
Free Float (%)	27.0
ADTV-3M (mn) (USD)	3.7

Price Performance (%)	3m	6m	12m
Absolute	(11.8)	-	-
Relative to Sensex	(16.1)	-	-

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	14,927	19,235	23,971	29,338
EBITDA	228	1,322	2,004	3,002
EBITDA Margin (%)	1.5	6.9	8.4	10.2
Net Profit	119	1,031	1,585	2,475
EPS (INR)	0.9	3.2	4.9	7.7
EPS % Chg YoY	(74.2)	1,056.8	55.6	56.1
P/E (x)	1,566.5	135.4	87.0	55.7
EV/EBITDA (x)	242.5	100.4	65.3	42.8
RoCE (%)	(0.1)	11.6	15.8	19.9
RoE (%)	1.8	15.7	20.1	25.0

Superior consumer data-insights from the core(online) business, helps it to drive distribution expansion in the GT more efficiently.

Replicating Mamaearth's template to build (five) more brands

Post Mamaearth's success, HONASA has created a proven (repeatable) 'digital-first' playbook to expand its brand portfolio by targeting more personal care segments. Over the last eight years, it has expanded the brand portfolio to five more brands by incubating The Derma Co (INR 5bn ARR), Aqualogica (INR 2bn ARR), and Ayuga, while acquiring Dr. Sheth's (INR 2bn ARR), BBlunt (INR 760mn ARR), and Momspresso (content platform; now scaled down). These newer brands are experiencing strong growth and contribute ~32% to HONASA's revenue (FY24E). We model these brands to grow at 45% CAGR during FY24E-26E.

Driving HH penetration (efficiently) to offline from online

Unlike a traditional BPC company, Mamaearth's revenue is over-indexed to online channel at ~51% (vs 81% in FY21). However, having reached a certain maturity in the (online) platform business (expect online revenue to grow at 5% CAGR FY24-26E), it now expects to drive household penetration through offline distribution expansion. We expect Mamaearth offline revenue to grow at 20% CAGR during FY24E-26E.

Having developed a strong foothold in e-commerce, HONASA enjoys superior consumer data insights (pin-code wise order delivery). This helps it to make efficient resource allocation while managing marketing and distribution cost.

Mamaearth – one of the fastest growing BPC brand in India

Mamaearth is the flagship brand of HONASA with revenue salience of ~68%. It was launched in 2016 positioned as toxin free product for newly born babies. Within a period of six years, it has emerged as one of the fastest growing brand in the BPC segment to reach an annual turnover of INR 10bn. This execution is impressive compared to revenue performance of other leading traditional (GT-heavy distribution) BPC brands in India.

Portfolio rightly fit to benefit from industry tailwinds

The BPC market in India is large (~USD 21bn in 2023) and will likely grow in double-digits. HONASA focuses on faster-growing segments within BPC, including face care, body care, and colour cosmetics. Further, it caters to the 'masstige' and premium price segments, which are witnessing faster growth (~15% CAGR) compared to mass market (7% CAGR). Hence, its product portfolio could benefit from favourable industry tailwinds. That said, we reckon that the ingredient (naturals) oriented approach may limit the total addressable market (TAM) in the medium to long-term in select segments/categories. However, HONASA's portfolio-oriented approach may enable it to overcome this (niche-segment) constraint.

Valuation and risks

We model revenue/EBITDA/PAT CAGR of 23%/51%/55% over FY24E-FY26E. We initiate coverage with **BUY** rating and DCF-based target price of INR 550. At our TP, the stock will trade at 71x FY26E EPS and 6x EV/Sales FY26E. Key risks include excessive competition, execution miss, low success in scale-up of new brands.

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How Honasa is different from traditional BPC company

1. The social-proof template of building brands – Mamaearth standout

Advent of e-commerce platforms has enabled many companies to create brands using the 'social-proof' template (customer ratings + reviews) of demand creation and faster distribution. This approach is different compared to traditional BPC companies which would take relatively more time in trial, distribution and marketing of the products.

HONASA has effectively utilised these (online) platforms (e-commerce websites, content creation channels) to its advantage, thereby successfully creating/scaling-up brands.

We believe, in segments that have high uncertainty of product performance (such as beauty) and lower frequency of buying, consumers prefer products with higher customer ratings (on online platforms) and superior reviews (on the platform, or on social media – influencers). Hence, digital first companies (like Honasa) have an edge to sustain long period outperformance by being able to leverage these platforms effectively. As superior reviews will attract more consumers.

As per our research, we note that Mamaearth, The Derma Co and Aqualogica rank favourably, as 50–71% customers rated their products >4 star with positive reviews.

Exhibit 1: HONASA brands stand out on market places (Amazon, FlipKart etc.) on customer rating

Companies	SKUs	Total customer rating	Customer rating
Mamaearth	258	14,76,411	71% >4 star rating
WOW	282	14,16,690	53% >4 star rating
L'Oréal	252	8,14,711	83% >4 star rating
Biotique	234	7,78,458	71% >4 star rating
Lakme	247	6,79,302	78% >4 star rating
The Derma Co	146	1,74,310	64% >4 star rating
Aqualogica	67	28,927	53% >4 star rating

Source: I-Sec research

Exhibit 2: Business model; focussed on consumer centricity, agility, and technology



Source: I-Sec research, Company data

2. Innovating faster – a key differentiator

HONASA's success hinges on its ability to quickly spot and capitalise on emerging trends in the BPC space. The digital-first approach to business allows HONASA to innovate at faster rate compared to traditional BPC companies.

By leveraging social listening tools and with a robust DTC platform, HONASA identifies customer needs and preferences, translating them into innovative products that resonate with millennials.

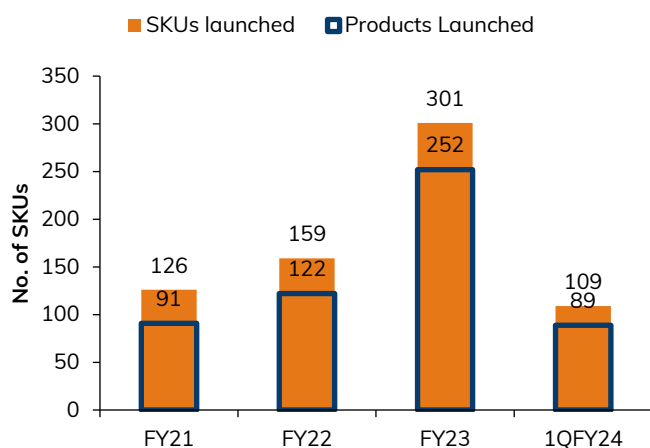
This allows the company to identify new ingredient propositions and consumer preferences, such as the use of rice water for frizzy hair, green tea for open pores, and *multani mitti* for oil control.

D2C platform: HONASA has a large D2C platform (own website and app) with ~6mn monthly active users. This platform serves as a valuable asset for product innovation and consumer insights generation. Through a two-way consumer engagement platform called User Conversational Research (UCR), it directly interacts with users through surveys/polls, gaining valuable feedback and understanding of their needs. In Q1FY24 alone, it conducted 24 consumer studies with over 29,000 direct consumer conversations across all its brands.

Dedicated innovation team: HONASA houses a 47-member in-house innovation team led by co-founder Ghazal Alagh. This team is responsible for developing and launching new products, ensuring a steady stream of innovation. In FY23, HONASA introduced ~300 new SKUs, followed by another 110 in just the first quarter of FY24.

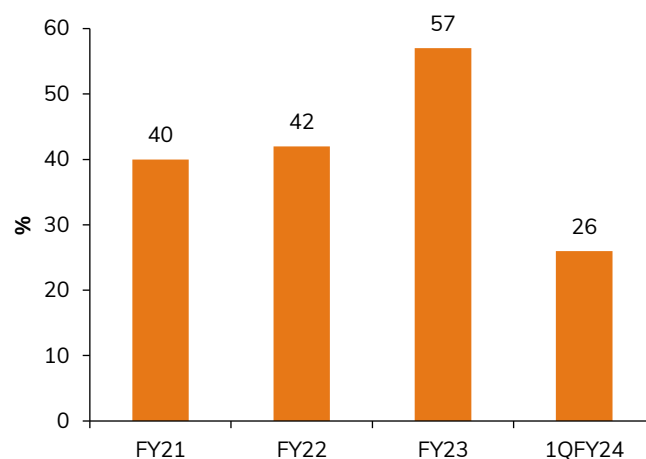
Impact of innovation on revenue: HONASA's emphasis on product innovation is reflected in its revenue. 26-57% of its incremental revenue over the past few years has come from new products launched within the same year. Additionally, the revenue share of HONASA's top-10 and top-2 products remains relatively low at ~29% and ~10%, respectively, further highlighting the significant contribution of new product launches to overall revenue.

Exhibit 3: HONASA – no. of new SKUs and product launches

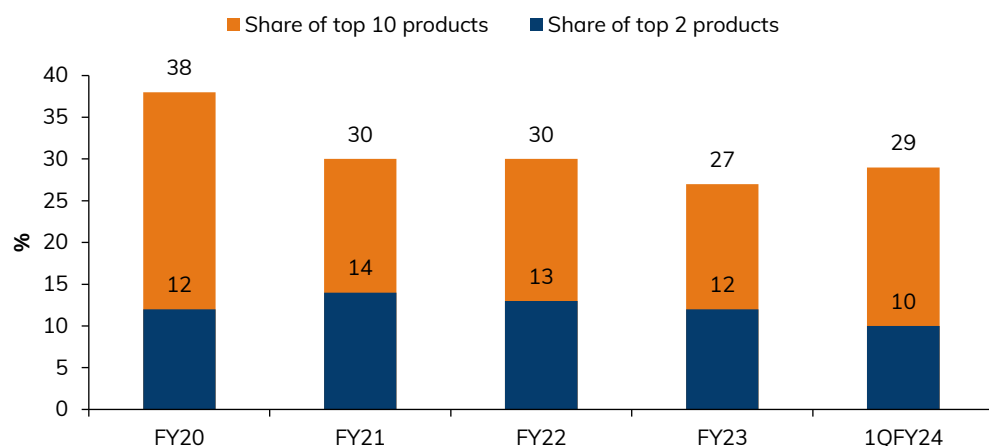


Source: I-Sec research, Company data

Exhibit 4: Share of incremental revenue from new SKUs



Source: I-Sec research, Company data

Exhibit 5: Revenue concentration – contribution from top-10 and top-2 products


Source: I-Sec research, Company data

3. Ingredient based approach of owning a platform

Unlike traditional BPC company, HONASA has followed the strategy of ingredient based approach of owning a platform. For example, in Mamaearth it sells multiple products (shampoo, hair oil, face mask, conditioner etc.) with onion as claim ingredient.

Exhibit 6: Mamaearth onion


Source: I-Sec research, Company data

Exhibit 7: Mamaearth ubtan


Source: I-Sec research, Company data

Mamaearth, in particular, has effectively leveraged its 'toxin-free' positioning and incorporated culturally relevant 'hero' ingredients like onion, turmeric, ubtan, multani mitti, honey malai, and rice water.

This strategy has allowed Mamaearth to offer unique products in crowded categories such as shampoo, hair oil, and face wash, even when facing established competitors.

Examples of Mamaearth's differentiated product portfolio

- **Face wash:** Mamaearth offers over 11 face wash variants, each featuring a distinct 'hero' ingredient.
- **Onion-based products:** Mamaearth's innovative use of onion has created new sub-segments within hair care, such as 'onion hair oil' and 'onion shampoo', prompting even traditional FMCG companies to follow suit. Despite increased competition, Mamaearth remains a market leader in onion and ubtan-based beauty products.

This focus on niche, ingredient-based innovation has enabled HONASA to capture consumer interest and carve out distinct spaces within existing categories.

Exhibit 8: Mamaearth's natural ingredient based product line (11)...



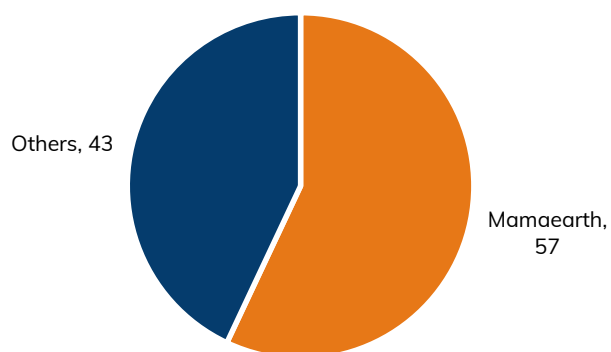
Source: I-Sec research, Company data

Exhibit 9: ...(cont.) Mamaearth's natural ingredient based product line (11)



Source: I-Sec research, Company data

Exhibit 10: Onion oil volume market share %



Source: I-Sec research, Company data

Exhibit 11: Incumbents entered into onion hair oil as it became main stream



Source: I-Sec research, Company data

4. Differentiated (capital efficient) approach to marketing

HONASA utilises a modern marketing approach tailored to target millennials, with a strong emphasis on content creation and community engagement. Unlike traditional BPC companies, it allocates material part of marketing budget (~65%) towards digital platforms.

This strategy educates, connects and engages with customers more proactively, thereby driving brand awareness and sales.

Key elements of HONASA's marketing model

- **Content-to-Commerce flywheel:** An in-house team (content and creative excellence – CCE team) develops informative and engaging content, distributed across platforms, to attract and convert customers.
- **Influencer marketing:** Collaboration with over 4,000 influencers amplifies brand reach and consideration.
- **Digital focus:** ~65% of ad-spends are directed towards digital channels – social media, search engines, e-commerce platforms, and influencer partnerships.
- **Purpose-driven brands:** Each brand has a distinct purpose that resonates with customers. For example, Mamaearth promotes natural, toxin-free products and reinforces this message through initiatives like: 1) 'Plant Goodness' program, wherein HONASA plants a tree for every order placed on Mamaearth's D2C channel; 2) 'Beautiful Indians', which recognises individuals who have demonstrated acts of goodness across social or environmental causes. Similarly, The Derma Co focuses on science education for children, while Aqualogica focuses on providing access to clean drinking water.
- **Sustainability:** HONASA actively promotes sustainability by being 'plastic-positive' and recycling plastic waste. It has helped recycle ~5,800MT of plastic over FY21–23.

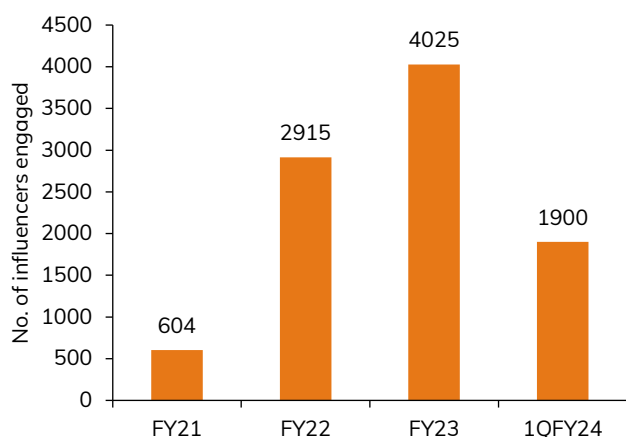
This comprehensive strategy allows HONASA to effectively engage with its target audience, build brand loyalty, and drive sales.

Exhibit 12: Business economics of beauty and personal care companies

Particulars	HONASA	Nivea	Lotus	L'Oréal
Financial year	FY24E	FY20	FY23	FY23
@ revenue scale	INR 19 bn	INR 11 bn	INR 7 bn	INR 50 bn
Gross margin	70%	59%	51%	76%
Employee	9%	10%	9%	9%
Ad Spend	35%	24%	30%	25%
Freight	10%	2%	1%	2%
Other expense	8%	18%	8%	27%
EBITDA margin	7%	8%	4%	16%

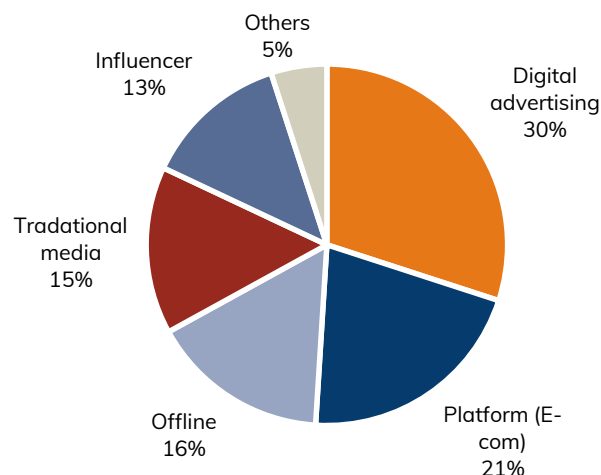
Source: I-Sec research, Company data

Exhibit 13: Influencer marketing



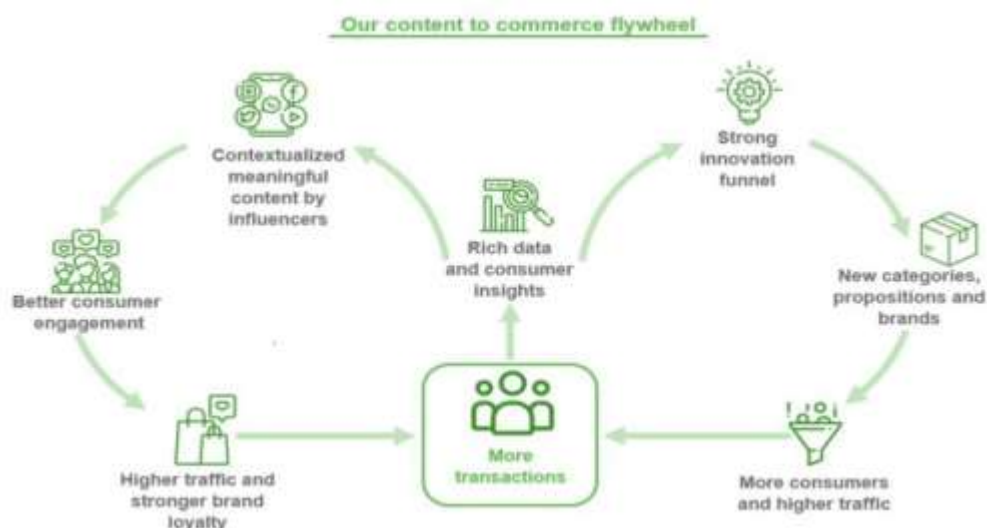
Source: I-Sec research, Company data

Exhibit 14: Ad-spend break up % (FY23)



Source: I-Sec research, Company data

Exhibit 15: Data-driven marketing



Source: I-Sec research, Company data

Exhibit 16: Each of HONASA's brand has taken up a social initiative



Source: I-Sec research, Company data

Exhibit 17: Digital marketing at forefront

Mamaearth - India's most-searched BPC brand^{1,2}

[Our brand searches improved by 16% for H1FY24 YoY¹]



Source: I-Sec research, Company data

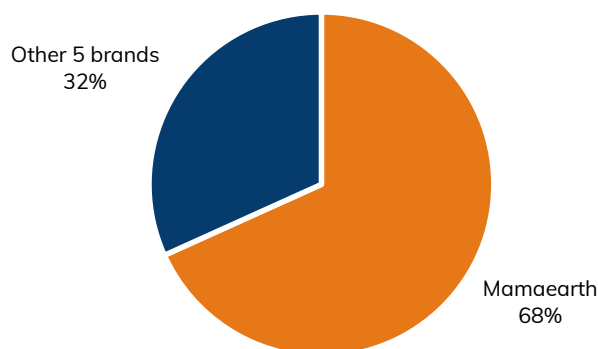
Mamaearth – the fastest growing BPC brand in India

Honasa (abbreviated for **H**onest, **N**atural and **S**afe) has been a poster boy of success in the digital-first BPC space. Its flagship brand Mamaearth (68% revenue contribution, FY24E) was launched in 2016 by the founder couple Varun Alagh & Ghazal Alagh in their quest to find safe and toxin free product for their new born child. Having started its journey with baby care products, the brand has expanded into other segments like hair care, face care, body care, colour cosmetics etc.

Mamaearth has emerged as the fastest growing brand in India to reach an annual turnover of INR 13bn in FY24E within 8 years of its launch. The execution is impressive compared to revenue performance of other leading traditional (GT/MT-heavy distribution) BPC brands in India.

It has ~29% market share in the D2C BPC market, ~5% of overall online BPC (D2C and e-commerce) and 1.5% market share of the total BPC market (INR 23,200mn), as of CY22.

Exhibit 18: Honasa revenue break-up (FY24E)



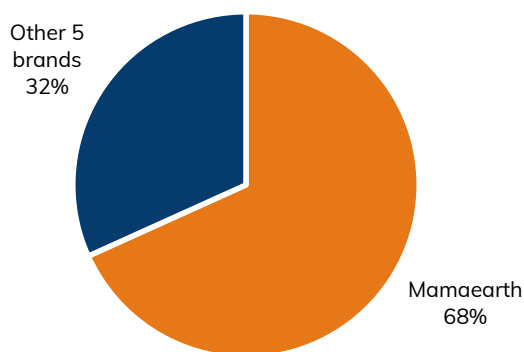
Source: I-Sec research, Company data

Repeatable playbook; other brands are scaling up fast

HONASA has created a proven (repeatable) 'digital-first' playbook to expand its brand portfolio by targeting more segments. Following Mamaearth's success, it has since added five new brands (three incubated, two acquired) to its portfolio – The Derma Co (incubated in 2020), Aqualogica (incubated in 2021), Ayuga (incubated in 2021), BBlunt (acquired in 2022), and Dr. Sheth's (acquired in 2022) – with differentiated value propositions catering to a wide spectrum of segments such as baby care, face care, body care, hair care, colour cosmetics, and fragrance.

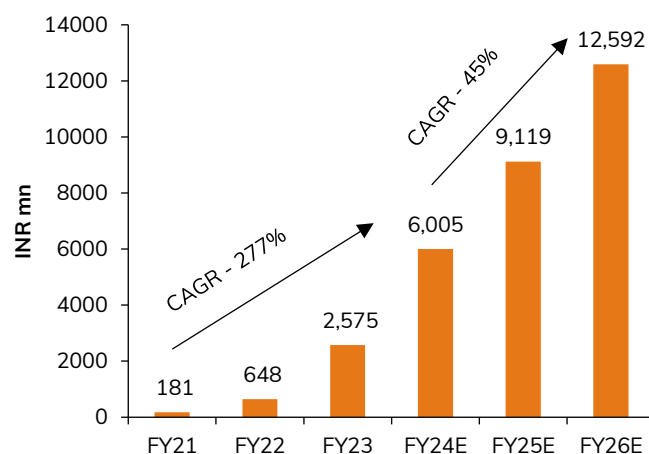
These brands have revenue salience of ~32% and we model it to grow at 45% CAGR in FY24E-26E. Positively, scaling-up of the new brands are faster compared to Mamaearth. For example; The Derma Co and Aqualogica reached INR 180mn ARR in 36 months and 19 months compared to 38 months taken by Mamaearth.

Exhibit 19: New brands contribute ~32% to revenue (FY24E)



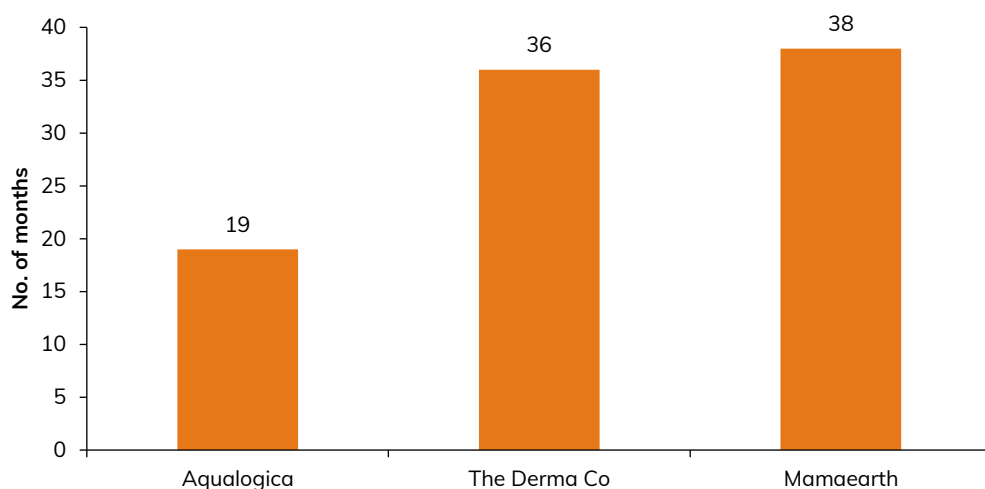
Source: I-Sec research, Company data

Exhibit 20: Revenue % CAGR; other brands (including TDC)

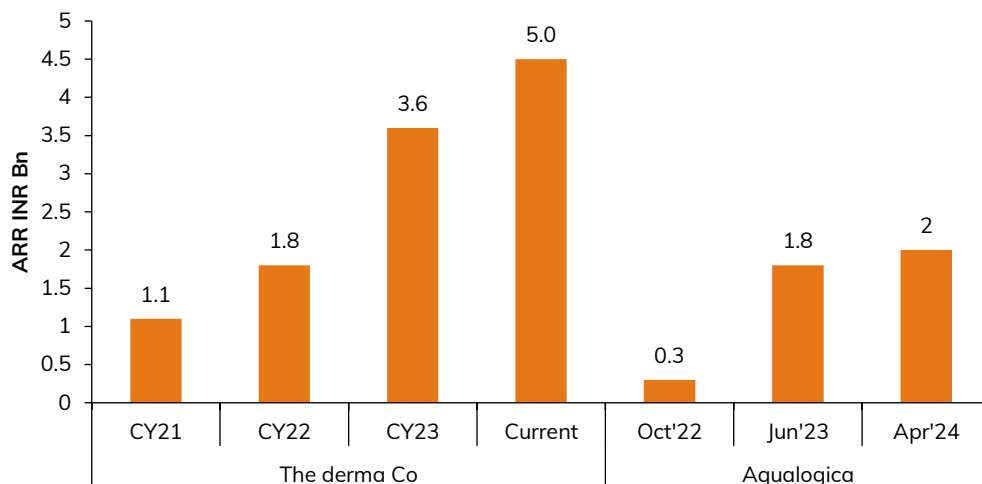


Source: I-Sec research, Company data

Exhibit 21: New brands scaling up fast; months taken to reach INR 180mn ARR



Source: I-Sec research, Company data

Exhibit 22: Annual revenue run rate of the new brands

Source: I-Sec research, Company data

Exhibit 23: Diverse portfolio of six brands with differentiated value positioning

Source: I-Sec research, Company data

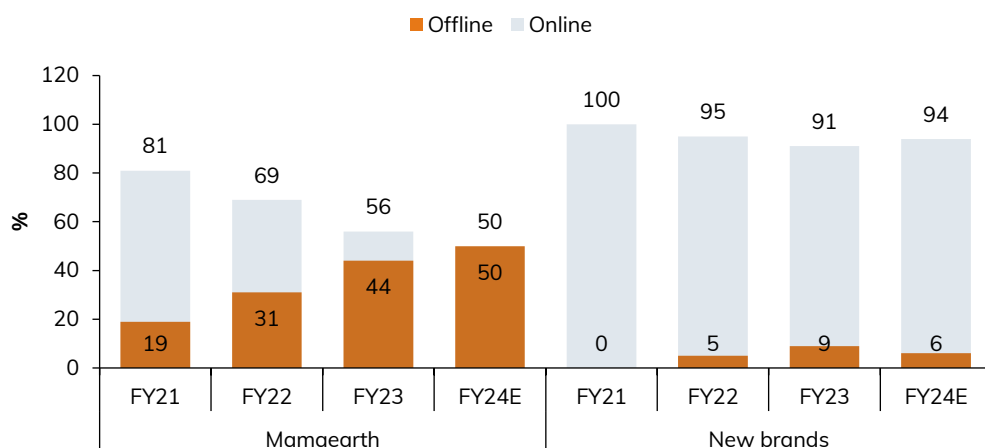
Key advantages for new brands under the HONASA umbrella

- **Marketing:** Access to Mamaearth's extensive customer base (6.5mn unique users¹ and 6mn monthly active users²) and first-party data enables targeted marketing and reduces customer acquisition costs.
- **Insights:** HONASA's 'User Conversational Research' tool leverages the large Mamaearth community to generate valuable consumer insights for new brands.
- **Technology:** A shared technology infrastructure allows for rapid and cost-effective development of websites and applications for the its new brands.
- **Supply chain:** Integrated procurement, supply chain, finance, and human resources functions create cost efficiencies for its new brands. Additionally, a shared logistics network provides immediate scale benefits.

This helps HONASA to scale-up the new brands at faster rate.

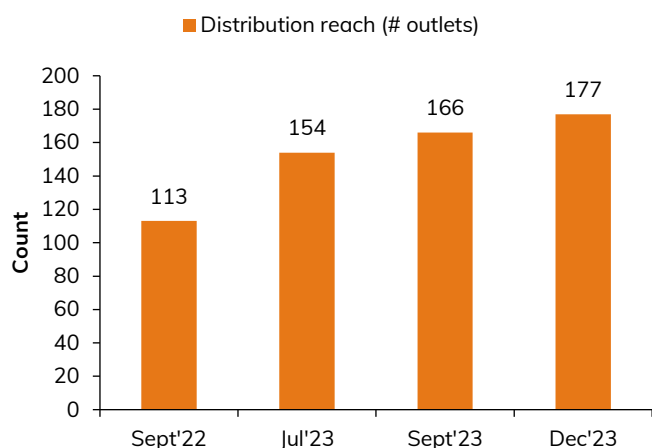
¹ Number of unique consumers who visited on HONASA's D2C website till date² Total visitors on HONASA's D2C website per month

Exhibit 24: New brands to be scaled-up offline post success in the online channel



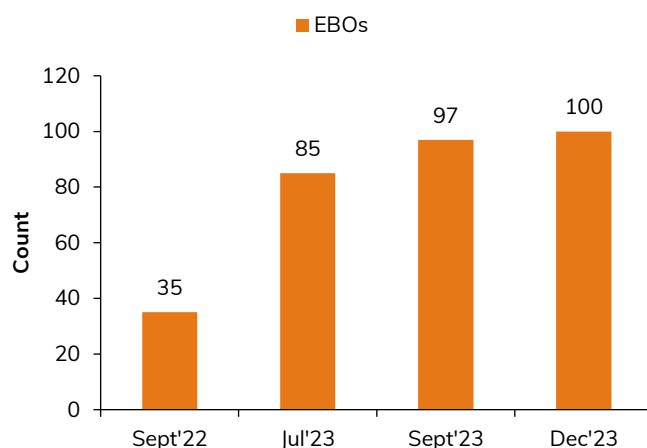
Source: I-Sec research, Company data

Exhibit 25: Enhancing offline reach to drive penetration



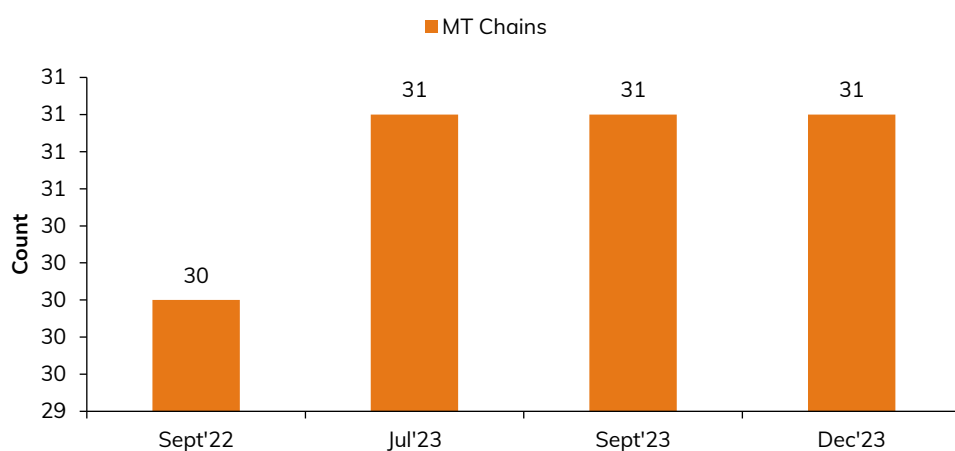
Source: I-Sec research, Company data

Exhibit 26: Adding EBOs to enhance customer experience



Source: I-Sec research, Company data

Exhibit 27: Products available in 8,000+ stores through 31 modern trade accounts



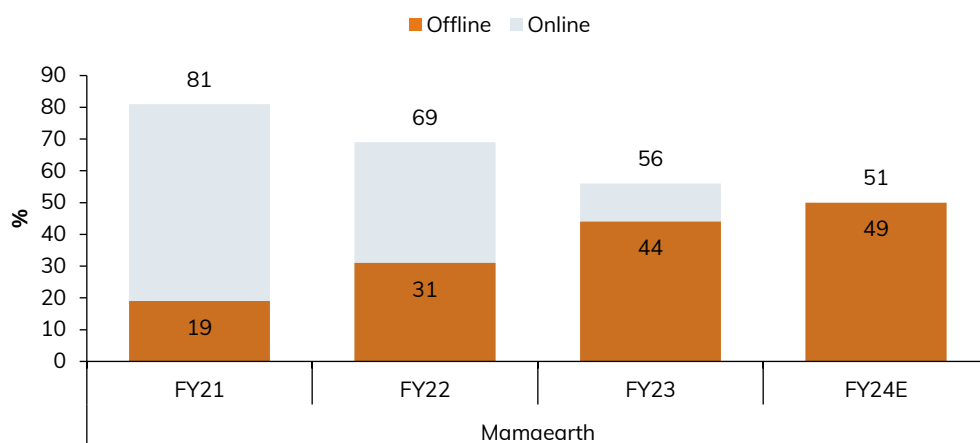
Source: I-Sec research, Company data

Tapping the market through online first approach

Unlike traditional BPC companies, Mamaearth's revenue is over-indexed to online channel at ~51% (vs 81% in FY21). It follows a digital first approach for product launches. New products/brands are initially launched and nurtured on the online channel, followed by a selective expansion into offline channels based on performance and market potential.

Once a brand/product achieves a certain scale and customer acceptance online, it selectively introduces such products/SKUs in the offline channel to drive household penetration. Increasing offline revenue salience is a potential margin tailwind as well.

Exhibit 28: Mamaearth channel wise revenue contribution %



Source: I-Sec research, Company data

Online channels

- Enable rapid identification of product-market fit.
- Provide valuable consumer insights used to optimise offline expansion and product strategies.
- Once a brand achieves sufficient scale (revenue of ~INR 4bn) and customer acceptance, select products are introduced into the offline channel.
- Online consumer insights are utilised to strategically expand offline stores, optimise product assortment, and tailor offerings to specific micro-markets.

Offline channels

- Offer higher profit margins compared to online channels.
- Facilitate deeper market penetration and broader reach.
- As of Dec'23, HONASA's products are available in ~177,366 retail outlets across India.
- This extensive reach is supported by a network of over ~540 distributors and sub-distributors.
- Additionally, HONASA operates 100+ exclusive brand outlets and ten BBlunt salons, and its products are available in 31 modern trade chains.

Portfolio rightly fit to benefit from industry tailwinds

The BPC market in India is large (~USD 21bn in 2023) and expected to grow in double-digits. HONASA concentrates on the faster-growing segments within BPC, including face care, body care, and colour cosmetics. It caters to the 'masstige' and premium price segments, which are witnessing faster growth (~15% CAGR) compared to the mass market (7% CAGR).

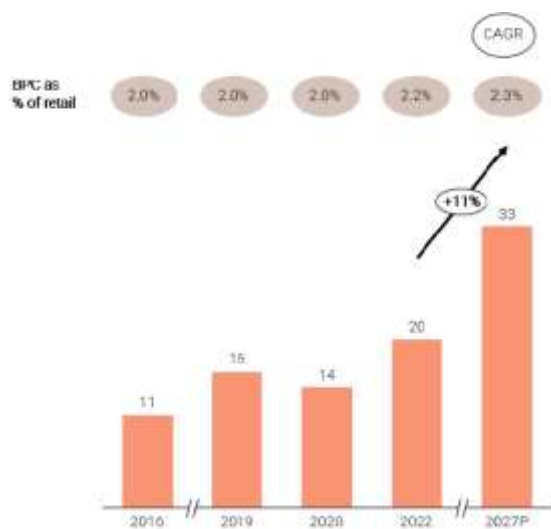
Shift to digital-first BPC: BPC category has witnessed strong e-commerce adoption in India. In absolute terms, the online BPC market has more than trebled, from USD 1bn in CY19 to USD 3.1bn in CY22 and is likely to scale to >USD 11bn by CY27E, as penetration doubles to 34%, as per Redseer. Overall e-commerce penetration of BPC rose from 6% in CY19 to 16% in CY22.

Younger generations (millennials and Gen-Z) are driving BPC spending due to social media's influence, leading to heightened brand awareness and demand for premium products. This is a key tailwind for a digital-first company like HONASA, which commands ~5% of online BPC market vs. <1% in the offline market.

Factors driving growth in the BPC market in India

- Rising disposable income among Indian consumers.
- Current per-capita spending on BPC is low, indicating potential for expansion.
- Increasing urbanisation and greater participation of women in the workforce.

Exhibit 29: India BPC market (USD bn; %)



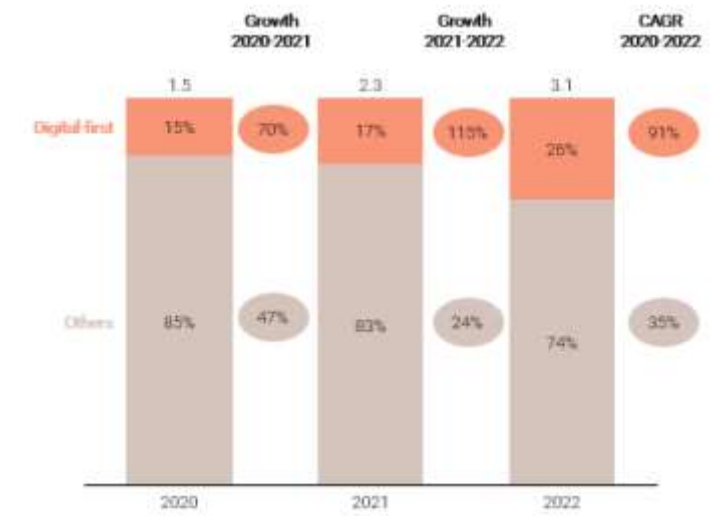
Source: I-Sec research, Company data

Exhibit 30: BPC market segmented by channels (USD bn; %)



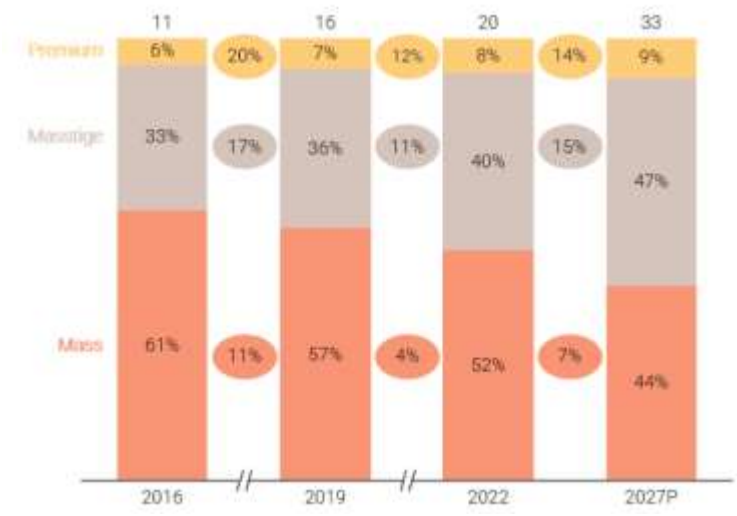
Source: I-Sec research, Company data

Exhibit 31: Online BPC trend by type of brands (USD bn; %)



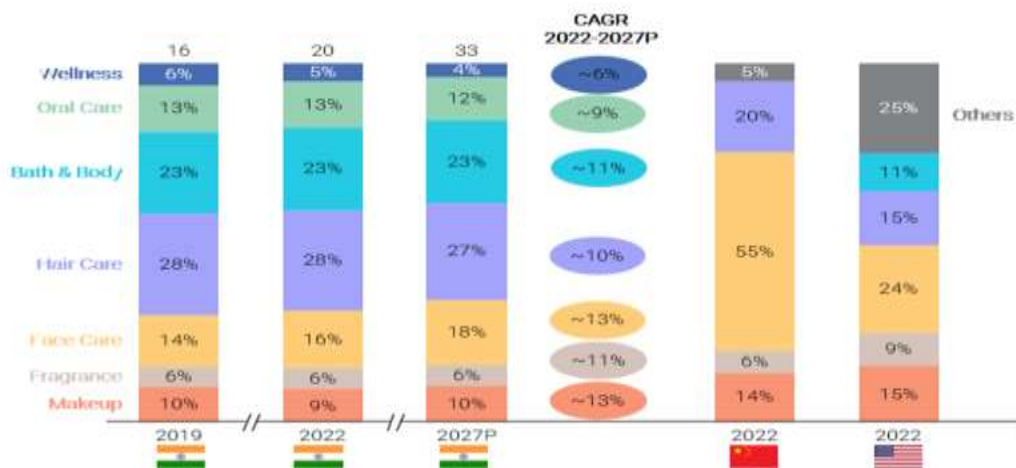
Source: I-Sec research, Company data

Exhibit 32: BPC market segmented by premiumness (USD bn; %)



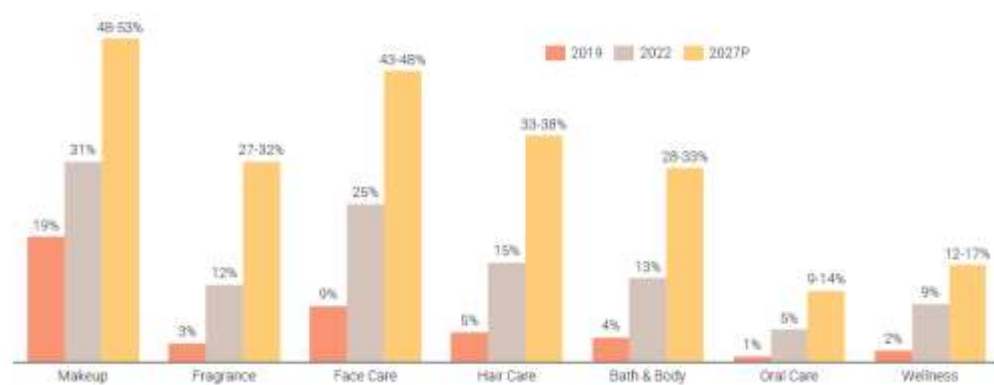
Source: I-Sec research, Company data

Exhibit 33: Category mix of BPC by value (USD bn)



Source: I-Sec research, Company data

Exhibit 34: Online penetration (by value) across BPC categories



Source: I-Sec research, Company data

Financials, Assumptions, Projections

Mamaearth/The Derma Co.'s offline scale-up drives revenue growth

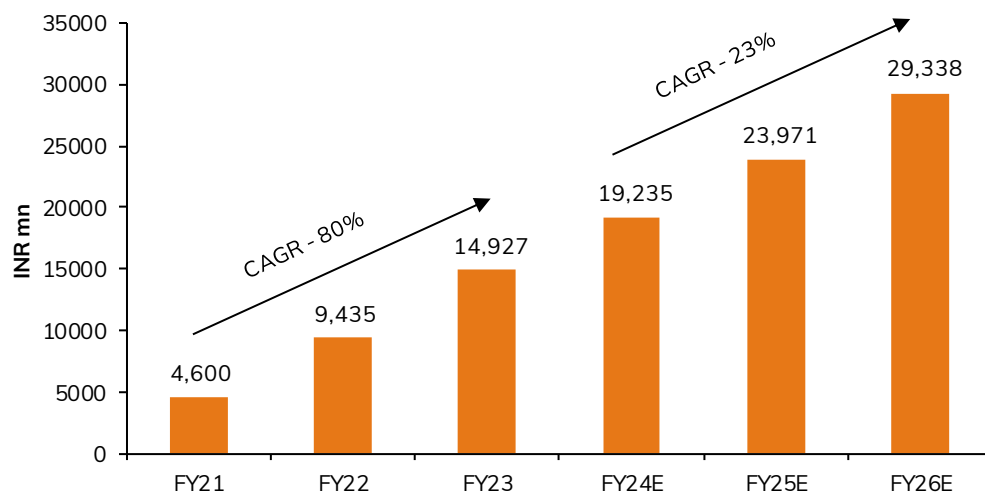
HONASA reported a strong revenue CAGR of 80% over FY21–FY23. This performance was driven by: 1) ~35% CAGR in Mamaearth's online business; 2) strong scale-up of Mamaearth's offline business (salience increased to ~44% in FY23 from ~19% in FY21); 3) strong scale up of The Derma Co. (INR 5bn ARR) brand, which was launched in CY20 and other younger brands. We model revenue CAGR of 23% over FY24E–FY26E led by 13% CAGR in Mamaearth (driven by offline distribution expansion), 32% CAGR in The Derma Co. and 52% CAGR in other younger brands.

Exhibit 35: Brand-wise revenue and growth rates

Revenue (INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Mamaearth	4,419	8,671	11,680	12,904	14,494	16,352
Online	3,562	5,979	6,514	6,607	6,938	7,284
Offline	856	2,692	5,166	6,297	7,556	9,068
Other Brands	181	648	2,575	6,005	9,119	12,592
Services	-	116	672	326	358	394
Total	4,600	9,435	14,927	19,235	23,971	29,338
Growth YoY (%)						
Mamaearth		96.2	34.7	10.5	12.3	12.8
Online		67.8	9.0	1.4	5.0	5.0
Offline		214.3	91.9	21.9	20.0	20.0
Other Brands		257.9	297.3	133.2	51.9	38.1
Services			480.0	-51.6	10.0	10.0
Total		105.1	58.2	28.9	24.6	22.4

Source: Company data, Bloomberg

Exhibit 36: Revenue and growth rates

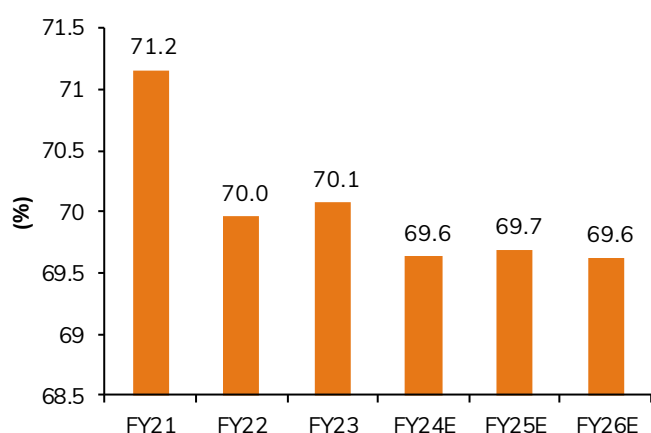


Source: I-Sec research, Company data

Optimisation of ad-expenses/operating leverage to drive EBITDA margin expansion

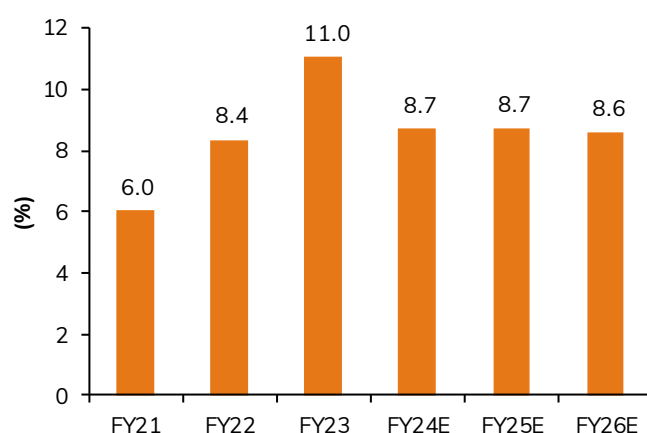
Gross margin has remained stable ~70% over FY21–23. We model gross margin to remain stable at ~70% over FY24E–26E. We model EBITDA margin of 6.9% in FY24E (implying margin expansion of ~530bps YoY and EBITDA growth (YoY) of ~6x). Further, we expect EBITDA margin to expand to ~10.2% in FY26E (~150bps and ~190bps YoY expansion FY25E and FY26E, respectively). This is largely driven by efficiency in advertisement and promotion spends (A&P). Currently, overall A&P spends are ~35% of revenue, which is expected to reduce to ~32% driven by efficiency in A&P spends of Mamaearth from ~30% currently to ~25% in FY26E. This would imply EBITDA CAGR of ~51% in FY24E-FY26E.

Exhibit 37: Gross margin



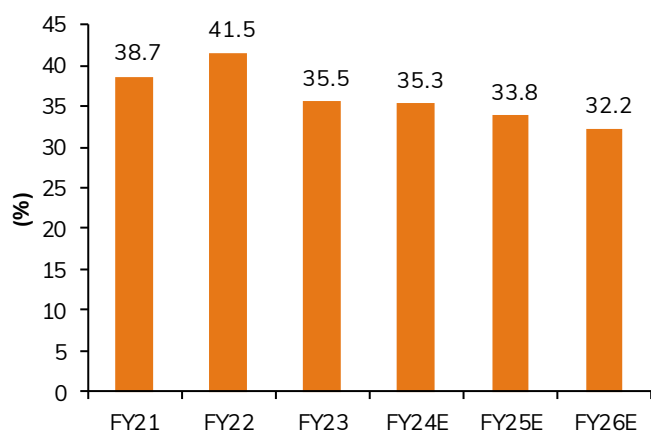
Source: Company data, I-Sec research

Exhibit 38: Employee cost as a % of revenues



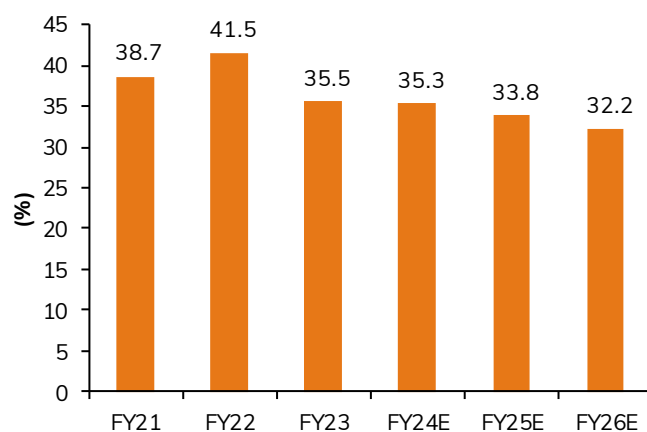
Source: Company data, I-Sec research

Exhibit 39: A&P expenses as a % of revenues



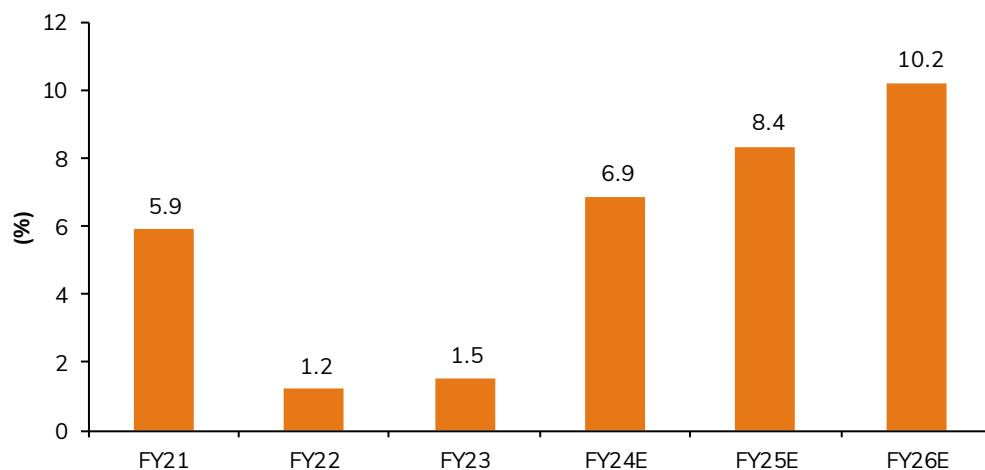
Source: Company data, I-Sec research

Exhibit 40: Other expenses as a % of revenues



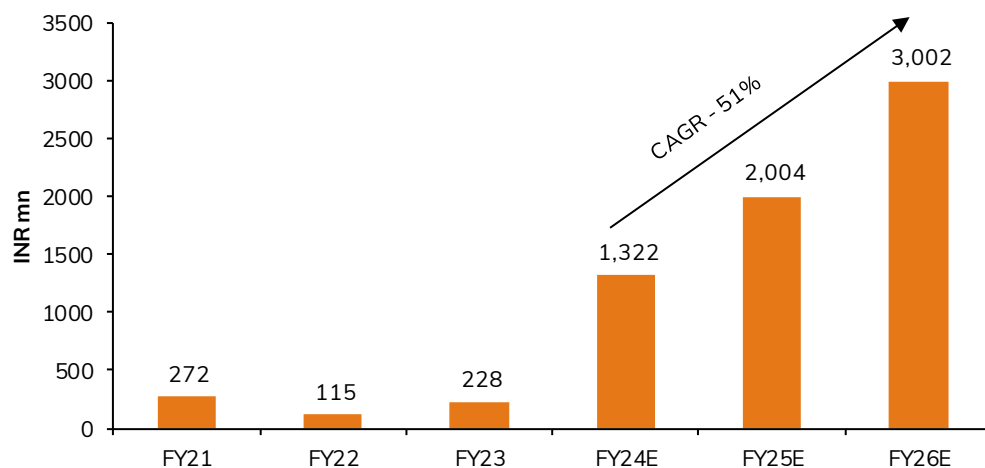
Source: Company data, I-Sec research

Exhibit 41: EBITDA margin



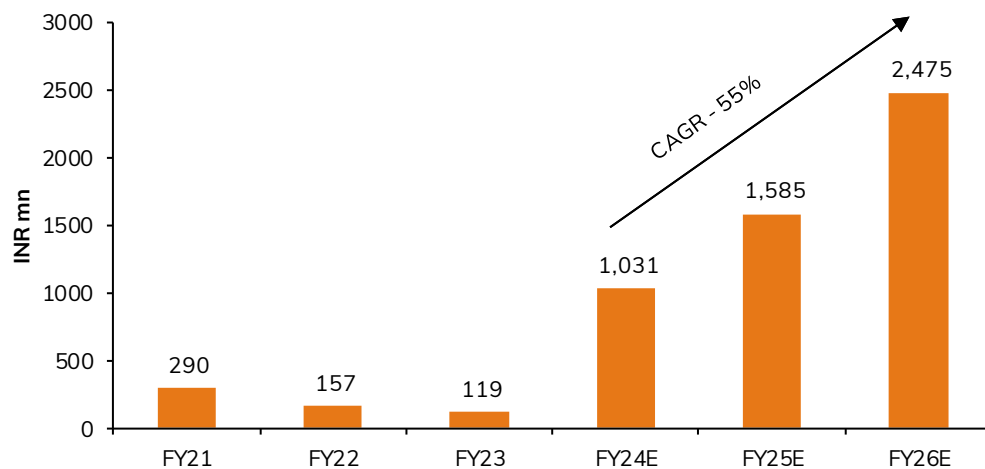
Source: Company data, I-Sec research

Exhibit 42: EBITDA and growth rates



Source: Company data, I-Sec research

Exhibit 43: PAT and growth rates



Source: Company data, I-Sec research

Valuation and risks

We value HONASA on a DCF-basis with 12% WACC and 6% terminal growth assumptions. We initiate coverage on the stock with a **BUY** rating and target price of INR 550, which implies ~28% upside potential.

DCF assumptions

Our DCF valuation of HONASA is based on the following three stages:

- Stage 1 (FY24E-FY35E): During this period, we estimate 17% revenue CAGR and 28% EBITDA CAGR
- Stage 2 (FY35E-FY45E): During this period, we estimate 13% FCF CAGR
- Stage 3 (FY45E onwards): We assume 6% terminal growth rate

Based on these assumptions, our target price is INR 550.

Exhibit 44: DCF calculations

(INR mn, year ending Mar 31)	
PV of FCF for forecasting period (FY24E-FY45E)	84,395
PV of terminal cash flow	87,243
EV	1,71,638
Net debt/(cash)	-5,193
Equity value	1,76,832
Number of shares (mn)	322
Target price (INR/share)	550

Source: Company data, I-Sec research

About the company

Honasa Consumer Limited, leveraging its position as India's largest digital-first BPC company by revenue, according to Redseer reports, epitomises innovation in the BPC market with its focus on natural, safe-to-use products. The launch of its flagship brand, Mamaearth, in 2016, marked the beginning of its journey to meet a critical consumer need for toxin-free, natural beauty products. Mamaearth's success stems from its commitment to offering products that are free from harmful chemicals and made with safe, natural ingredients, resonating deeply with consumers' growing preference for clean and sustainable beauty solutions.

Expansion through a 'House of Brands' Strategy

HONASA has strategically expanded its brand portfolio beyond Mamaearth to include a mix of newly launched brands and acquisitions, adopting a 'House of Brands' architecture. This strategy has enabled HONASA to diversify its offerings and cater to a broader spectrum of consumer needs within the BPC segment. The addition of brands such as The Derma Co., Aqualogica, Ayuga, along with acquisitions like BBLunt, Dr. Sheth's, and Momspresso (which was later scaled back), exemplifies HONASA's dynamic approach to growth and its ability to adapt to market trends and consumer preferences.

The Derma Co – leading the charge in active-ingredient skincare

Launched in 2020 as HONASA's second brand, The Derma Co. focuses on the active-ingredient BPC category. They offer solutions for various skin and hair concerns, including acne, pigmentation, dryness, and hair loss, utilizing key active ingredients like salicylic acid, hyaluronic acid, and niacinamide. Customer education is a core value, evident in their website's skin test feature. This AI-powered tool provides real-time skin assessments and recommends personalised product regimens, empowering customers to make informed choices for their skincare needs.

The active-ingredient BPC category has experienced significant growth in recent years, and The Derma Co., as an early entrant, has reaped the benefits. The brand has achieved an impressive annual revenue run rate of INR 5bn, exceeding even Mamaearth's initial growth rate. Despite increased competition from major players such as Estee Lauder, HUL, and L'Oréal, who have launched similar brands in the past year, The Derma Co. maintains strong traction, demonstrating its resilience and ability to compete effectively in this expanding market.

Exhibit 45: The Derma Co. product portfolio



Source: I-Sec research, Company data

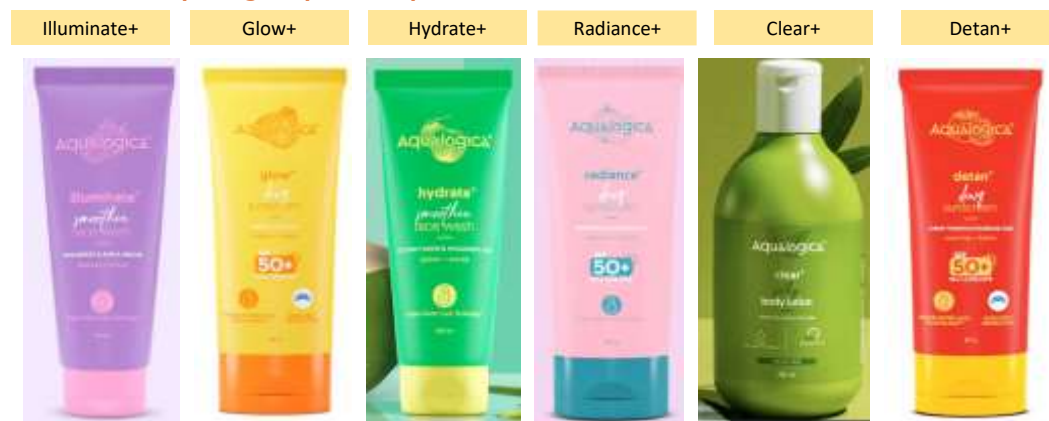
Aqualogica – HONASA's hydration hero

Launched in Nov'21, Aqualogica is HONASA's third successful brand. It focuses on hydration as its core principle, using a unique blend of fruit extracts and scientifically-proven active ingredients to create effective face and body care products.

The brand boasts **six distinct product ranges**, each featuring a specific combination of fruits and active ingredients to target different needs. For instance, the '**Hydrate+**' range utilises coconut and hyaluronic acid for deep moisturising, while the '**Radiance+**' range combines watermelon, niacinamide, and hyaluronic acid to brighten and hydrate the skin. Within these ranges, Aqualogica offers a diverse selection of skincare products, with sunscreen being a particularly important category.

Aqualogica has experienced remarkable success, achieving a **rapid revenue growth of INR 2bn annual run-rate**. This impressive performance surpasses the growth rates of both HONASA's 'The Derma Co' and 'Mamaearth' brands, solidifying Aqualogica's position as a key player in the skincare market.

Exhibit 46: Aqualogica product portfolio



Source: I-Sec research, Company data

Dr. Sheth's – tailored skincare for the Indian skin

HONASA acquired Dr. Sheth's in Apr'22, making it a fully-owned subsidiary by Dec'22. This skincare brand stands out by offering products specifically formulated for the unique needs of Indian skin. Dr. Sheth's combines **natural ingredients with active compounds** to deliver targeted solutions.

Since joining the HONASA family, Dr. Sheth's has experienced remarkable growth, with its monthly revenue increasing an impressive 22 times between Apr'22 and Jun'23. This translates to an annual run-rate exceeding INR 2bn, demonstrating the brand's success and resonance with the Indian market.

Exhibit 47: Dr. Sheth's face cream product range


Source: I-Sec research, Company data

Ayuga – modernising Ayurveda for millennials

HONASA introduced Ayuga in Dec'21 as its fourth brand. Ayuga reimagines the ancient Indian practice of Ayurveda for the modern consumer, specifically targeting millennials. By offering easy-to-use, contemporary formats, Ayuga makes Ayurveda accessible and appealing to a younger demographic.

The brand features a comprehensive product portfolio encompassing face care, body care, and hair care solutions. Examples include night gels, face serums, sunscreens, shampoos, and conditioners, all infused with the wisdom of Ayurveda.

Exhibit 48: Ayuga product range


Source: I-Sec research, Company data

BBlunt – HONASA's strategic entry into professional hair care

HONASA acquired BBlunt from Godrej Consumer Products in Mar'22, marking its strategic entry into the professional hair care and styling market. This acquisition encompassed both the product business and the salon business, which operate under the subsidiary Bhabani Blunt Hairdressing with ten salons across three cities.

BBlunt's product portfolio focuses on the hair care category, offering consumers a salon-like experience at home. This acquisition allows HONASA to expand its reach and expertise within the hair care segment, catering to a more premium and discerning customer base.

Exhibit 49: B'Blunt product range



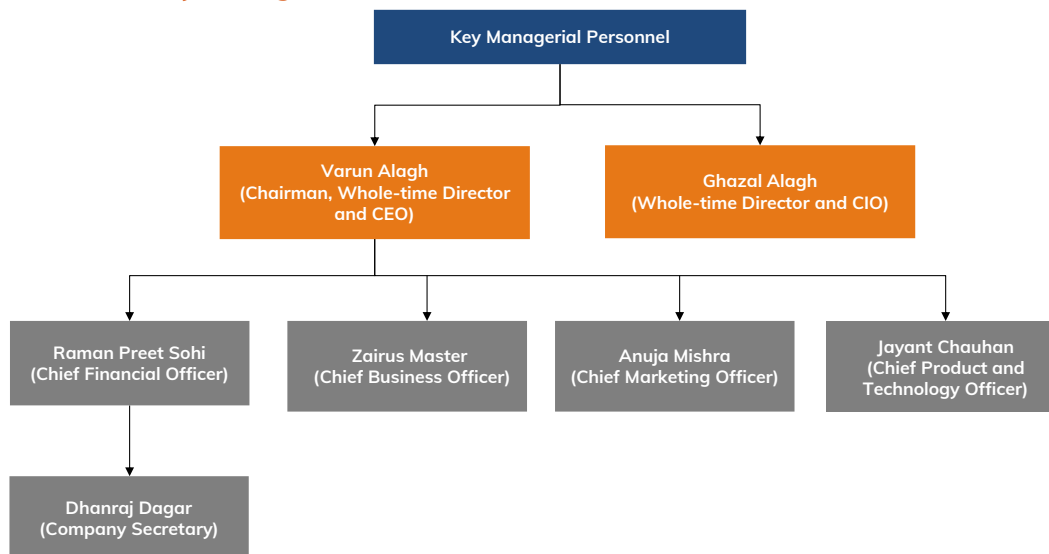
Source: I-Sec research, Company data

Promoters and management profile

Exhibit 50: Board of Directors and key managerial personnel

Name	Designation	Description
Varun Alagh	Chairman and CEO	He holds a bachelor's degree of engineering (electrical) from the University of Delhi, Delhi and a post-graduate diploma in business management from XLRI, Jamshedpur. He has been associated with the company as a promoter and a director since September 16, 2016. Previously, he has worked with corporations such as Hindustan Lever Limited, Diageo India Private Limited and Coca-Cola India Private Limited.
Ghazal Alagh	Chief Innovation Officer	She holds a bachelor's degree of computer applications from Panjab University, Chandigarh and a certification in software engineering from the academic council of the NIIT Academy, New Delhi. She has been associated with the company as a promoter and director since September 16, 2016.
Ishaan Mittal	Non-Executive Director	He holds a bachelor's degree of technology in mechanical engineering from the Indian Institute of Technology, Delhi and a master's degree in business administration from Harvard University, Commonwealth of Massachusetts. He has been associated with the Company as a director since January 3, 2020. Currently he is the Managing Director of Sequoia Capital India and was previously was associated with the Boston Consulting Group (India) Private.
Vivek Gambhir	Independent Director	He holds a bachelor's degree in arts and a bachelor's degree of science from the Lafayette College, Pennsylvania and a master's degree in business administration from Harvard Business School, Commonwealth of Massachusetts. He has been associated with the Company as a director since March 24, 2021. Previously, he was associated with Bain & Company India Private Limited as "Partner", and with Godrej Consumer Products Limited as "Whole-time Director". He has previously been the co-chair of the Confederation of Indian Industry, National FMCG Committee and served as the president of the Harvard Business School Club of India.
Subramaniam Somasundaram	Independent Director	He holds a bachelor's degree of commerce from University of Madras, Madras and is a chartered accountant and cost accountant. Previously, he was the chief financial officer for Titan Company Limited. Currently he is also an Independent Director on the boards of TeamLease Services Limited, Avanti Finance Private Limited, API Holdings Limited, Landmark Retail FZE (Dubai) and Innoviti Technologies Private Limited. Previously he was also associated with BPL Mobile group, Essar group, I.T.C Limited, V.S.T Industries Limited and Mannai Corporation Limited, Qatar.
Namita Gupta	Independent Director	She holds a master's degree of technology in mathematics and computing from the Indian Institute of Technology, Delhi. She has been associated with the Company as a director since June 8, 2022. Previously, she was associated with Microsoft Corporation, Facebook Inc. Further, she is also serving as an independent director on the board of directors at Zomato Limited. and is the founder and currently on the board of directors of Airveda Technologies Private Limited.
Raman Preet Sohi	Chief Financial Officer	He holds a bachelor's degree of commerce from Panjab University, Chandigarh and a post-graduation diploma in management in international business from Symbiosis Institute of Management Studies, Pune. Previously, he was associated with Drums Food International Private Limited as the chief financial officer
Dhanraj Dagar	Company Secretary and Compliance officer	He holds a bachelor's degree of commerce from Bangalore University and a bachelor's degree of law from Maneklal Nanavati Law College, Gujrat University and an associate member of the Institute of Companies Secretaries of India. Previously, he was associated with Zydus Wellness Limited, Chirpal Industries Limited, Narmada Bio-Chem Limited, Nirma Limited and DS-Max Properties Private Limited.
Zairus Master	Chief Business Officer	He holds a post-graduate diploma in management from Indian Institute of Management, Lucknow. Previously, he was associated with Bharti Airtel Limited.
Jayant Chauhan	Chief Product and Technology Officer	He holds a master's degree of technology in mathematics and computing from Indian Institute of Technology, Delhi. Previously, he was associated with Policybazaar Group of Companies.
Anuja Mishra	Chief Marketing Officer	She holds a bachelor's degree of arts (honours) from University of Delhi, Delhi and post graduate diploma in business management from Management Development Institute, Gurgaon. Previously, she has associated with Hewitt Associates India Private Limited, Nestle India Limited and Pepsico India Holdings Private Limited.

Source: Company data, I-Sec research

Exhibit 51: Key Managerial Personnel

Source: Company data, I-Sec research

Exhibit 52: HONASA's 'House of Brands'

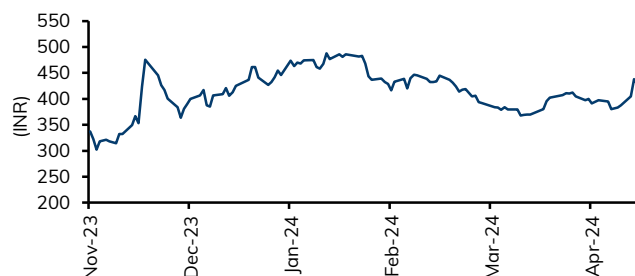
Brand	Incubated / acquired	Year	Positioning
Mamaearth	Incubated	2016	Flagship brand of Honasa Consumer; offers toxin-free, natural skincare and haircare products catering to babies, parents, and beauty enthusiasts.
The Derma Co.	Incubated	2020	Provides dermatologically tested solutions (science-backed) for skin concerns, merging science with everyday skincare.
Aqualogica	Incubated	2021	Focuses on hydration-centric skincare with natural ingredients for deep and lasting skin hydration.
Ayuga	Incubated	2021	Combines modern science with Ayurveda knowledge. Tailored to consumers looking for traditional, natural remedies in skin care
Momspresso	Acquired	2021	(Scaled back) Initially aimed at engaging a community of mothers with content around parenting and baby care.
BBlunt	Acquired	2022	Specializes in professional hair care and styling products, rooted in salon expertise.
Dr. Seth's	Acquired	2022	Delivers dermatologically formulated skincare specially designed for Indian skin types and conditions.

Source: Company data, I-Sec research

Exhibit 53: Shareholding pattern

%	Nov'23	Dec'23	Mar'24
Promoters	35.3	35.3	35.1
Institutional investors	25.3	27.7	28.1
MFs and others	2.7	4.0	3.1
FIs/Banks	0.1	0.0	0.0
Insurance	1.2	2.0	2.6
FII	21.3	21.7	22.4
Others	29.4	37.0	36.8

Source: Bloomberg

Exhibit 54: Price chart

Source: Bloomberg

Financial Summary

Exhibit 55: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	14,927	19,235	23,971	29,338
Operating Expenses	14,700	17,914	21,967	26,336
EBITDA	228	1,322	2,004	3,002
EBITDA Margin (%)	1.5	6.9	8.4	10.2
Depreciation & Amortization	250	289	324	331
EBIT	(22)	1,033	1,680	2,671
Interest expenditure	67	86	158	166
Other Non-operating Income	-	-	-	-
Recurring PBT	137	1,373	2,136	3,336
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	99	354	551	861
PAT	37	1,019	1,585	2,475
Less: Minority Interest	82	12	-	-
Extraordinaries (Net)	(1,547)	-	-	-
Net Income (Reported)	(1,510)	1,019	1,585	2,475
Net Income (Adjusted)	119	1,031	1,585	2,475

Source Company data, I-Sec research

Exhibit 56: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	6,304	8,701	11,221	14,674
of which cash & cash eqv.	3,281	5,230	7,044	9,562
Total Current Liabilities & Provisions	2,609	3,804	4,582	5,608
Net Current Assets	3,696	4,897	6,639	9,066
Investments	-	-	-	-
Net Fixed Assets	1,171	988	832	706
ROU Assets	826	826	826	826
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	528	528	528	528
Long Term Loans & Advances	790	790	790	967
Deferred Tax assets	-	-	-	-
Total Assets	7,056	8,074	9,659	12,148
Liabilities				
Borrowings	36	36	36	36
Deferred Tax Liability	14	14	14	14
Provisions	61	61	61	74
Other Liabilities	-	-	-	-
Equity Share Capital	1,363	1,363	1,363	1,363
Reserves & Surplus	4,696	5,714	7,299	9,774
Total Net Worth	6,059	7,078	8,663	11,138
Minority Interest	-	-	-	-
Total Liabilities	7,056	8,074	9,659	12,148

Source Company data, I-Sec research

Exhibit 57: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	3,879	4,645	4,961	4,882
% growth (YOY)	-	48.8	20.9	27.8
EBITDA	(29)	293	402	345
Margin %	(0.8)	6.3	8.1	7.1
Other Income	62	126	71	110
Extraordinaries	(1,547)	-	-	-
Adjusted Net Profit	(53)	260	294	259

Source Company data, I-Sec research

Exhibit 58: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	(516)	1,714	1,526	2,059
Working Capital Changes	(1,048)	747	73	(83)
Capital Commitments	673	(106)	(168)	(205)
Free Cashflow	157	1,609	1,359	1,853
Other investing cashflow	(244)	426	614	830
Cashflow from Investing Activities	429	320	446	625
Issue of Share Capital	49	-	-	-
Interest Cost	(11)	(86)	(158)	(166)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(25)	-	-	-
Cash flow from Financing Activities	(141)	(86)	(158)	(166)
Chg. in Cash & Bank balance	(227)	1,949	1,814	2,518
Closing cash & balance	649	2,629	4,444	6,961

Source Company data, I-Sec research

Exhibit 59: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	0.3	3.2	4.9	7.7
Adjusted EPS (Diluted)	0.9	3.2	4.9	7.7
Cash EPS	2.7	4.1	5.9	8.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	44.4	22.0	26.9	34.6
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	58.2	28.9	24.6	22.4
EBITDA	98.7	480.6	51.7	49.8
EPS (INR)	(74.2)	1,056.8	55.6	56.1
Valuation Ratios (x)				
P/E	1,566.5	135.4	87.0	55.7
P/CEPS	158.6	104.5	72.3	49.2
P/BV	9.6	19.5	15.9	12.4
EV / EBITDA	242.5	100.4	65.3	42.8
P / Sales	3.9	7.2	5.8	4.7
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	70.1	69.6	69.7	69.6
EBITDA Margins (%)	1.5	6.9	8.4	10.2
Effective Tax Rate (%)	72.7	25.8	25.8	25.8
Net Profit Margins (%)	0.2	5.3	6.6	8.4
Net Debt / Equity (x)	(0.5)	(0.7)	(0.8)	(0.9)
Net Debt / EBITDA (x)	(14.3)	(3.9)	(3.5)	(3.2)
Fixed Asset Turnover (x)	12.6	15.3	17.2	18.5
Working Capital Days	16	(8)	(8)	(7)
Inventory Turnover Days	34	31	30	30
Receivables Days	38	30	30	30
Payables Days	59	68	67	66
Profitability Ratios				
RoCE (%)	(0.1)	11.6	15.8	19.9
RoE (%)	1.8	15.7	20.1	25.0
RoIC (%)	(0.1)	11.6	15.8	19.9

Source Company data, I-Sec research

Exhibit 60: Valuation summary

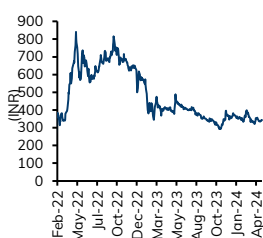
Company	TP (INR)	Rating	PE (x)		EV/EBITDA (x)		ADTV (USD mn)	Market Cap	
			FY25E	FY26E	FY25E	FY26E		(INR bn)	(USD bn)
Staples									
Adani Wilmar	315	REDUCE	50	41	22	19	13.2	446	5.3
Bajaj Consumer	280	BUY	16	14	13	12	1.7	33	0.4
Britannia	5,100	ADD	45	40	32	28	19.6	1,158	13.9
Colgate	2,900	ADD	54	49	37	34	10.4	777	9.3
Dabur	580	ADD	39	33	31	27	14.0	903	10.8
Emami	480	ADD	24	22	20	18	4.6	211	2.5
GCPL	1,420	BUY	49	41	36	31	17.2	1,231	14.8
HUL	2,350	HOLD	46	41	33	29	58.1	5,228	62.7
Honasa Consumer	550	BUY	87	56	66	44	3.7	139	1.7
ITC	460	ADD	24	22	19	18	137.7	5,499	65.9
Jyothy Labs	450	ADD	34	28	28	25	6.4	155	1.9
Marico	600	BUY	40	35	29	25	10.1	671	8.0
Mrs. Bector's Foods	1,300	BUY	41	34	25	21	2.7	73	0.9
Nestle	2,600	HOLD	69	61	47	42	31.3	2,396	28.7
Tata Consumer	1,360	BUY	69	58	39	34	28.3	1,052	12.6
Zydus Wellness	1,650	ADD	26	28	26	22	0.9	106	1.3
Discretionary									
Avenue Supermarts	4,800	ADD	83	65	58	46	22.8	2,966	35.6
Bata	1,400	HOLD	42	33	27	21	8.1	175	2.1
Burger King India	115	ADD	NM	88	29	15	3.4	50	0.6
Cello	1,060	BUY	48	40	32	27	4.6	198	2.4
FSN E-Commerce Ventures	175	ADD	199	121	83	54	12.6	506	6.1
Go Fashion (India)	1,250	BUY	48	36	35	26	1.3	60	0.7
Jubilant Foodworks	600	BUY	62	46	33	27	18.6	289	3.5
Kalyan Jewellers	460	ADD	51	38	28	24	15.3	432	5.2
Metro Brands	1,250	ADD	59	47	31	25	4.8	295	3.5
Page Industries	35,000	HOLD	49	41	33	28	12.0	393	4.7
Sapphire Foods	1,750	ADD	74	50	14	11	3.8	87	1.0
Sheela Foam	1,150	BUY	36	27	21	17	1.0	98	1.2
Titan	4,000	ADD	71	56	47	38	45.4	3,186	38.2
United Spirits	1,200	ADD	61	51	44	37	12.3	873	10.5
Vedant Fashion	1,000	ADD	42	34	27	22	4.4	228	2.7
Westlife Development	800	ADD	68	48	38	29	1.9	138	1.7
Paints									
Akzo Nobel	2,520	HOLD	25	23	16	15	0.7	112	1.3
Asian Paints	2,600	REDUCE	52	50	34	32	47.0	2,731	32.7
Berger Paints	520	REDUCE	48	43	30	28	7.3	587	7.0
Indigo Paints	1,380	HOLD	39	33	24	21	1.4	63	0.8
Kansai Nerolac	290	ADD	32	30	19	18	1.6	227	2.7

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Staples										
Adani Wilmar	0.8	0.7	5	4	34	28	10	11	9	10
Bajaj Consumer	2.5	2.3	3	3	16	14	20	21	19	19
Britannia	6.1	5.5	25	21	40	35	54	52	35	36
Colgate	12.5	11.4	42	39	47	43	79	83	98	104
Dabur	6.2	5.5	8	7	33	28	22	23	15	16
Emami	5.5	5.0	7	6	22	20	29	28	38	36
GCPL	8.0	7.2	7	6	44	38	15	16	13	13
HUL	7.9	7.2	10	10	42	37	22	25	16	18
Honasa Consumer	5.5	4.5	16	12	72	49	18	22	17	22
ITC	7.2	6.6	8	8	22	20	33	36	36	40
Jyothy Labs	5.0	4.5	7	6	30	26	23	23	24	23
Marico	6.0	5.4	16	16	36	32	42	47	32	35
Mrs. Bector's Foods	3.9	3.4	9	7	29	24	22	21	23	23
Nestle	11.1	10.1	61	54	61	54	95	94	46	49
Tata Consumer	5.9	5.3	7	6	54	46	10	11	10	11
Zydus Wellness	4.3	3.8	2	2	25	27	7	6	7	8
Discretionary										
Avenue Supermarts	4.9	3.9	13	11	68	53	17	19	22	23
Bata	4.2	3.7	9	7	22	18	23	24	34	34
Burger King India	1.4	1.1	8	7	18	11	NM	7	3	8
Cello	8.3	7.1	16	11	23	28	38	33	42	41
FSN E-Commerce Ventures	5.9	4.5	29	23	98	68	15	19	15	23
Go Fashion (India)	6.1	4.9	8	7	23	18	17	19	25	26
Jubilant Foodworks	4.5	3.9	9	8	26	21	16	19	14	16
Kalyan Jewellers	1.9	1.5	9	7	39	30	17	18	15	16
Metro Brands	9.8	8.2	14	12	38	31	24	25	32	33
Page Industries	6.8	5.8	23	20	44	37	50	52	36	37
Sapphire Foods	2.7	2.3	6	5	17	14	8	11	16	21
Sheela Foam	2.5	2.3	3	3	24	19	9	10	7	9
Titan	5.7	4.7	18	15	62	49	28	29	30	31
United Spirits	7.3	6.5	11	10	52	44	20	20	24	25
Vedant Fashion	13.2	11.2	11	9	33	27	28	28	50	52
Westlife Development	4.5	3.8	16	13	34	26	27	30	36	41
Paints										
Akzo Nobel	2.4	2.1	7	7	21	19	30	30	30	30
Asian Paints	6.8	6.3	13	12	42	40	26	24	24	22
Berger Paints	4.6	4.1	8	7	38	34	22	21	19	18
Indigo Paints	4.0	3.4	6	5	28	24	15	16	18	18
Kansai Nerolac	2.5	2.2	4	3	25	23	12	12	12	11

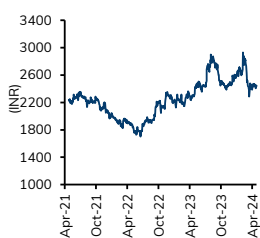
Source: I-Sec research; ADTV, Market Cap – Bloomberg

Price charts

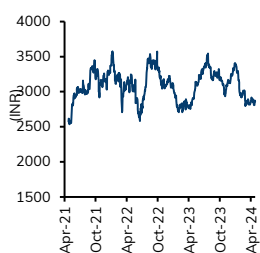
Adani Willmar



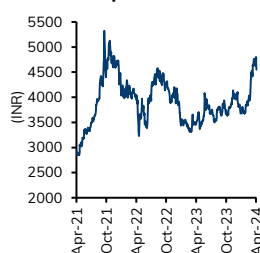
Akzo Nobel



Asian Paints



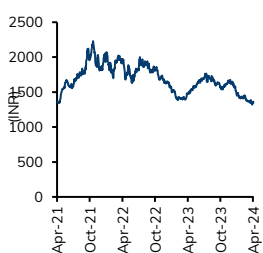
Avenue Supermarts



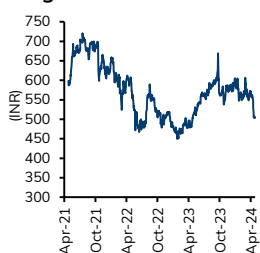
Bajaj Consumer



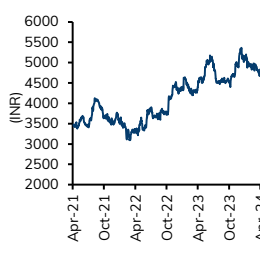
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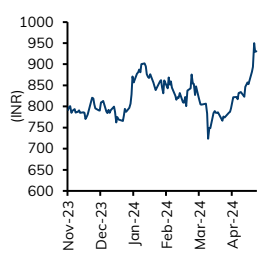
Berger Paints



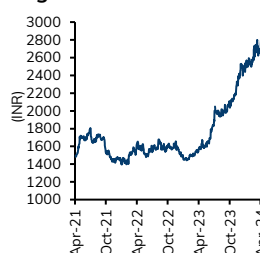
Britannia



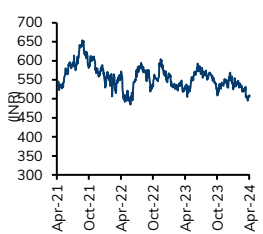
Cello



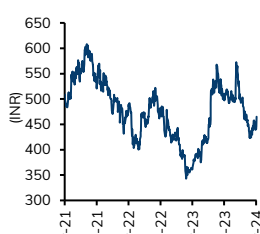
Colgate



Dabur



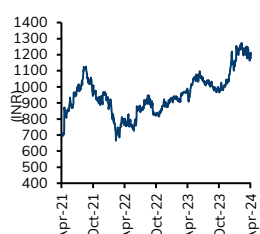
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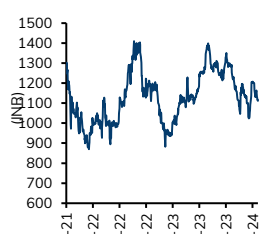
FSN E-Commerce



GCPL



Go Fashion India



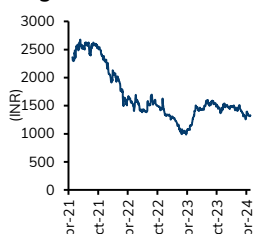
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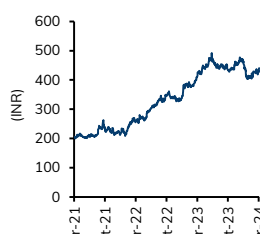
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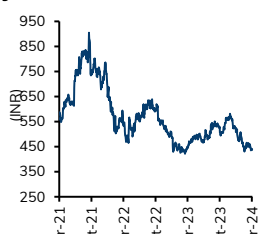
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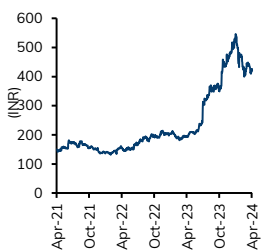
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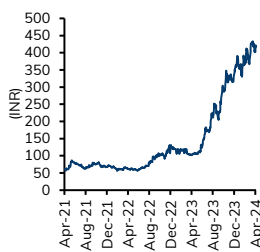
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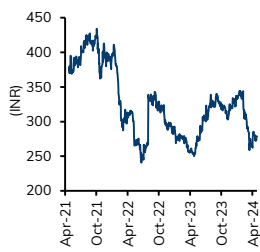
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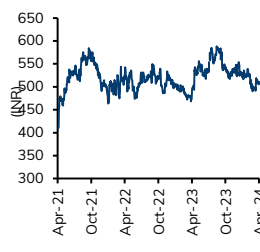
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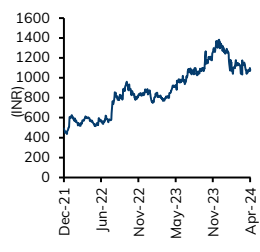
Kansai Nerolac



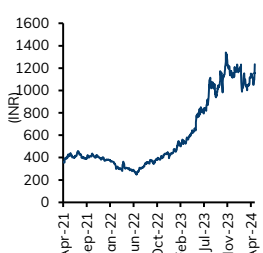
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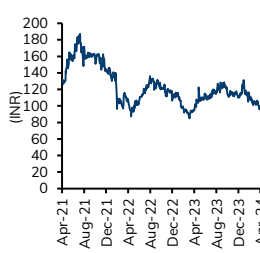
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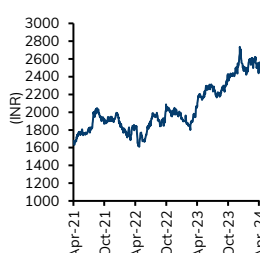
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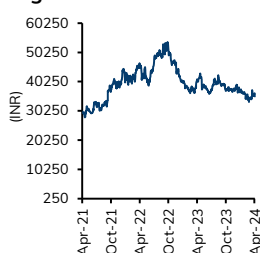
Restaurant Brands Asia



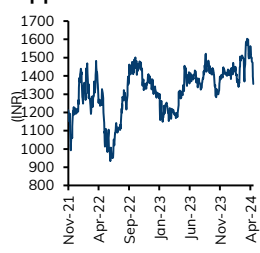
Nestle



Page Industries



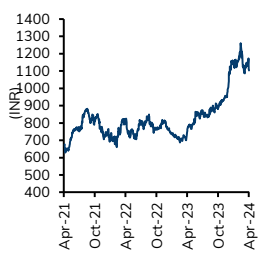
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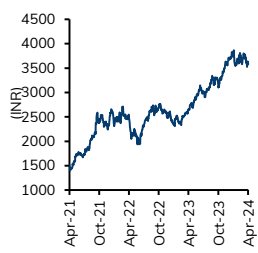
Sheela Foam



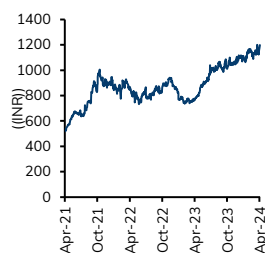
Tata Consumer



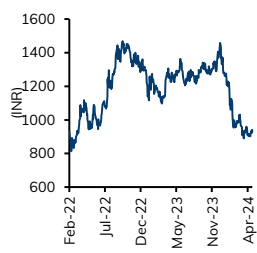
Titan



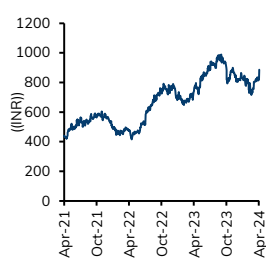
United Spirits



Vedant Fashion



Westlife Foodworld



Zydus Wellness



Source: Bloomberg

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