



SMC Ranking
★ ★ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Consumer Product
Offer for sale (Shares)	41,248,162
Fresh Issue (Shares)	11,265,432
Net Offer to the Public	52,513,594
Issue Size (Rs. Cr.)	1617-1702
Price Band (Rs.)	308-324
Offer Date	31-Oct-23
Close Date	2-Nov-23
Face Value	10
Lot Size	46

Issue Composition

	In shares
Total Issue for Sale	52,513,594
QIB	39,385,196
NIB	7,877,039
Retail	5,251,359

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	37.68%	35.34%
QIB	54.61%	56.09%
NIB	7.70%	6.94%
Retail	0.00%	1.63%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilize the Net Proceeds towards funding the following objects:

1. Advertisement expenses towards enhancing the awareness and visibility of the company's brands;
2. Capital expenditure to be incurred by the Company for setting up new EBOs;
3. Investment in the company's Subsidiary, Bhabani Blunt Hairdressing Private Limited ("BBlunt") for setting up new salons; and
4. General corporate purposes and unidentified inorganic acquisition.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- Citigroup Global Markets India Private Limited
- JM Financial Limited
- J.P. Morgan India Private Limited

Name of the registrar

- KFin Technologies Limited

About the company

Incorporated in 2016, Honasa Consumer Limited (HCL) provides beauty and personal care products through its digital platform. Honasa Consumer was founded on the values of Honesty, Natural ingredients, and Safe care and currently serves over 500 cities in India. The company has grown several consumer brands internally including Mamaearth, The Derma Co., Aqualogica, Dr. Sheth's, and Ayuga. It has recently acquired shares in BBLUNT and the content platform Momspreso. With the support of Sequoia Capital India, Sofina SA, Fireside Ventures, and Stellaris Venture Partners, HCL is positioned to become a \$1 billion company. As of June 30, 2023, the company's product portfolio includes baby care, face care, body care, hair care, color cosmetics, and fragrances.

Strength

Brand building capabilities and repeatable playbooks: Its experience and success with Mamaearth helped the company to develop a brand building playbook that enables it to replicate its success with Mamaearth across newer brands. These playbooks extend from its innovation engine to its distribution strategy to its marketing and customer engagement capabilities. Leveraging these playbooks, it has demonstrated a track record of introducing new brands to the market. The brands that it has launched or acquired after Mamaearth have benefited from these playbooks and have scaled faster than its existing brands. It has set up a dedicated in-house start-up team called "Brand Factory" that closely works with its founders and is responsible for end-to-end ideation, incubation and execution of new brands. This team primarily comprises senior employees who leverage its brand building playbooks to scale new brands in the early stages of their lifecycle. The team actively identifies opportunities to optimize operations for the new brands by capitalizing on synergies from its House of Brands architecture. It believes that this model gives it a competitive advantage over both incumbents and digital-first companies in the BPC market across two key aspects:

- Its ability to acquire new customers and increase share of wallet from existing customers
- Its ability to launch new brands at low costs

Consumer-centric product innovation: Product innovation powered by its continuous consumer listening and engagement model is a key strength of its business. Over the last seven years, it has built multiple tools and capabilities that aim to capture insights into consumer needs and identify whitespaces and consumer trends faster. Its in-house social listening and tracking platform enables it to proactively capture consumer sentiments and identify emerging trends and propositions both in India and globally. Its in-house market research and competitive intelligence platform for e-commerce, enables it to track market share movements across a number of BPC sub-categories and a long range of ingredient spaces and price points. Its two-way consumer engagement digital platform, UCR, enables it to directly converse with users through quick surveys and polls launched on its own brand websites and apps. All new products are designed and developed by its in-house innovation team of 47 members, as on June 30, 2023, led by its co-founder and Chief Innovation Officer, Ghazal Alagh.

Digital-first omnichannel distribution: Honasa's omnichannel network allows it to be present across various touch points and serve its consumers wherever they shop. Honasa's distribution model is led by its digital presence (DTC and e-commerce marketplaces), from which it derived revenue. Honasa has adopted a digital-first approach to its distribution strategy wherein its first incubate new brands on its online channel, and then selectively introduce them in the offline channel.

Online channel: Honasa's new to early-stage brands are incubated in its online channel with the key objective of acquiring new users and generating trials amongst early adopters of these brands. Honasa's leverage the online channel to (i) test product market fit by capturing early feedback from consumers on brand proposition, positioning, packaging and performance; (ii) capture valuable consumer insights across purchase behaviour, product preferences, and need-spaces; and (iii) generate customer affinity by providing a personalized and engaging brand experience for consumers.

Offline channel: Once a brand achieves a certain scale and customer acceptance online, it selectively introduce products from the brand into its offline channel with the key objective of driving household penetration. Honasa's offline channel is leveraged to (i) increase consumer reach by making products accessible to a larger consumer base; (ii) improve profitability for the brand given that the sale of BPC products through offline channels tends to be more profitable as compared to online channels; and (iii) improve brand image through specialized offline formats such as exclusive brand outlets (EBOs) and professional salons where it seeks to deliver a more personalized experience to its consumers.

Data-driven contextualized marketing: Honasa has adopted a marketing model through which it activates consumer engagement initiatives across multiple media platforms and channels. With a combination of digital and traditional marketing, it delivers a consistent narrative about its brands and their proposition across all touch points relevant for its consumers. Through these initiatives, it aims to target consumers across the entire marketing funnel from creating awareness to driving consideration and conversion for its brands. Honasa's marketing capabilities are reflected in its content-community-commerce framework that enables it to deploy contextualized data-led marketing to its consumers. It has leveraged its extensive data libraries to segment consumers into micro-cohorts to drive contextualized nano targeting and engagement. This has led to better consumer engagement, larger conversion funnels and transactions that further strengthen its data capabilities, creating a flywheel effect. Honasa's consumer engagement and marketing capabilities have translated into a strong retention funnel for Mamaearth brand with 38.51%, 43.15%, 56.90%, 52.65% and 63.20% of revenue from operations for Mamaearth brand from the DTC channel being attributable to existing customers during Financial Year 2021, 2022 and 2023, and the three months period ended June 30, 2022 and June 30, 2023, respectively.

Ability to drive growth and profitability in a capital efficient manner: Honasa is the largest digital-first BPC Company in India in terms of revenue from operations for the Financial Year 2023. It has grown its revenue from operations at a CAGR of 80.14% between Financial Years 2021 and 2023 (from Rs.4599.90 million in Financial Year 2021 to Rs.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, its growth has been driven by increase in volumes. The company has strategically built an asset-light scalable business model by developing in-house capabilities for strategic functions such as technology, product innovation and marketing while outsourcing other operations such as manufacturing.

Strategy

Expand distribution and brand awareness

Continue to improve brand awareness: Over the last seven years, it has a built a large base of consumers across its brands and aim to continuously acquire new users to drive growth. Honasa intends to continue to invest in innovative brand building and performance marketing initiatives to drive awareness and generate trials for its brands. It intends to focus on deploying a holistic marketing strategy across digital, social, and traditional platforms and actively leverage its differentiated content, community, and commerce flywheels to improve its reach and drive effective engagement to acquire new consumers.

Continue to expand offline footprint in general and modern trade retail channels to reach a larger customer base: The offline channel contributed to 84% of the BPC products market in India in 2022 in terms of revenues. Given the size of this channel, it is critical for it to continue to strengthen its offline channel to reach its target consumers. Honasa intends to strategically leverage the offline

channel to drive household penetration for mainstream BPC categories such as shampoo, hair oil and face washes.

Incubate or acquire new engines of growth: Honasa intends to incubate or acquire new brands across new value propositions and price points. It intends to continuously leverage its House of Brands architecture and brand launch playbooks to derive both revenue and cost synergies for the new brands. Honasa intends to continuously strive to gain market share in existing categories by driving innovations across new ingredients, new propositions, and new product formats. It intends to continue to expand its portfolio across the full spectrum of BPC categories by further penetrating into adjacent categories such as color cosmetics and fragrances. It intends to open new Mamaearth EBOs across a mix of mall stores and high-street outlets in India. The company also intends to use EBO channel to further develop strategic categories such as color cosmetics that require a more personalized service and experience to facilitate purchase conversion. Its acquisition of BBlunt in March 2022 has enabled it to access the professional salon channel. By delivering a personalized experience at these salons with recommendations from trained stylists, it has been able to build trust amongst consumers which has strengthened brand equity for its products. Going forward, it intends to expand its salon footprint and build on these positive synergies for its products business. While India is and will continue to be its focus market in the medium term, it intends to opportunistically expand its presence in identified priority markets such as the United Arab Emirates, Nepal, and Bangladesh, both organically and through strategic acquisitions.

Strengthen business efficiency drivers

Optimize channel mix for its flagship brand, Mamaearth: In line with its distribution strategy, Honasa intends to continue driving growth for its flagship brand, Mamaearth, in the offline channel. Its share of revenue from operations from the offline channel across all its brands has increased from 18.63% (Rs.85.70 Crore) during the Financial Year 2021 to 33.47% (Rs.155.48 Crore) in the three months period ended June 30, 2023. Going forward, it intends to continue to grow its share of business from the offline channel. Given that the sale of BPC products through offline channels tends to be more profitable as compared to online channels, expansion into offline channels will help improve the overall margin profile of its business.

Drive scale benefits from core business: As its business scales, it intends to proactively work towards deriving further benefits of economies of scale across all aspects of its business model, including procurement and manufacturing, supply chain and distribution, advertising and promotional expenses, and operating expenses. Between Financial Years 2022 and Financial Years 2023, Honasa's gross profit margins increased by 0.11% from 69.96% to 70.07%, respectively. This is driven by economies of scale which has contributed to lower procurement costs, specifically for its key ingredient ranges such as onion and ubtan for its flagship brand, Mamaearth.

Strengthen its technology and data capabilities to drive business efficiencies: Honasa intends to continue to invest in its technology and data capabilities to drive business efficiencies, stay connected with its consumers and strengthen cross-brand, cross-functional synergies. The company intends to further refine its personalization engine to deliver a more tailored, contextualized experience to its users, deepen brand connect and drive consumer retention and repeat. Further, it intends to actively leverage its House of Brands architecture to identify opportunities to improve cross-brand targeting and thereby reduce cost of acquisition for newer brands and increase customer lifetime value at a company level.

Risk factor

- Failure to identify and effectively respond to changing consumer preferences and spending patterns
- Brands and reputation are critical to the success of its business
- The launch of new brands or products that prove to be unsuccessful may affect its growth plans.
- The company is dependent on several third party service providers to sell or distribute its products to consumer, and on third party technology providers for certain aspects of its operations.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Colgate-Palmoliv	5316.00	1111.16	41.42	50.06	32.85	63.11	1	2073.30	56390.78
Hind. Unilever	60927.00	10284.00	43.97	56.37	11.56	214.35	1	2478.55	582357.94
Gillette India	2477.05	355.68	109.14	56.56	20.34	303.42	10	6173.15	20118.30
P & G Hygiene	3905.21	678.14	208.91	81.76	58.61	291.44	10	17080.60	55444.88
Dabur India	11837.93	1730.71	9.77	53.00	10.23	50.64	1	517.85	91764.82
Emami	3458.08	703.46	15.97	31.99	9.77	52.29	1	510.90	22500.45
Marico	9683.00	1358.00	10.50	51.62	18.45	29.37	1	542.05	70113.34
Godrej Consumer	13522.24	1676.16	17.33	56.26	7.23	134.87	1	974.95	99713.83
Bajaj Consumer	968.22	151.54	10.48	23.62	4.53	54.62	1	247.55	3579.70
Honasa Consumer Limited	1492.75	-150.97	-ve	-ve	10.74	30.18	10	324.00	10424.53

*Peer companies financials are TTM based.

**Financial are related to FY23

Valuation

Considering the P/B valuation on the upper price band of Rs.324, it is priced at P/Bvx 16.60x on a pre issue book value of Rs. 19.52. Post issue, book value of Rs. 30.18 of P/Bvx 10.74x.

At the lower price band of Rs.308, it is priced at P/Bvx 15.78x on a pre issue book value of Rs. 19.52. Post issue, book value of Rs. 30.18 of P/Bvx 10.21x.

Industry Outlook

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

Outlook

The focus on the BPC category coupled with its strengths in brand building, customer-centric innovation, digital-first distribution and contextualized marketing has enabled it to establish a strong presence in the BPC market in India. Honasa began retailing through the D2C route, followed by online marketplaces and is now looking to scale up its offline presence. Honasa is actively pushing to expand its flagship brand, Mamaearth, into international markets with a strong growth agenda. The company is targeting key regions, such as Bangladesh, Malaysia, Vietnam, and Thailand, where it plans to boost Mamaearth's presence by collaborating with local channels. However, the company is dependent on several third party service providers to sell or distribute its products to consumer and on third party technology providers for certain aspects of its operations. Also, the issue looks expensive.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	31-October-23
BID/ISSUE CLOSES ON	02-November-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	07-November-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	08-November-23
Credit of Equity Shares to demat accounts of Allottees	09-November-23
Commencement of trading of the Equity Shares on the Stock Exchanges	10-November-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-23 (3 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	464.49	1492.75	943.47
Total expenditure	435.18	1469.98	932.01
Operating Profit	29.31	22.76	11.46
OPM%	6.31	1.52	1.21
Other Income	12.61	22.52	20.88
PBDIT	41.92	45.28	32.34
Depreciation	6.49	24.96	6.90
PBIT	35.43	20.32	25.44
Interest	1.48	6.66	3.01
Restated Profit/(loss) before exceptional items and taxes	33.95	13.66	22.44
Exceptional items due to impairment loss on goodwill	0.00	-154.70	0.00
Profit before tax	33.95	-141.04	22.44
Tax	9.24	9.93	8.00
Profit & Loss before Share of Post -acquisition Profit of Associate	24.72	-150.97	14.44

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	13.18	13.43	4.37
Capital work-in-progress	0.00	0.00	0.00
Goodwill	52.78	52.78	173.29
Other intangible assets	103.19	103.67	110.73
Right-of-use assets	57.95	82.59	53.21
Intangible assets under development	0.00	0.00	1.88
Financial Assets			
Other financial assets	101.41	79.00	84.62
Income tax assets (net)	3.77	4.09	4.86
Deferred tax assets (net)	0.52	0.00	0.00
Other non-current assets	0.12	0.43	0.00
Total non-current assets	332.90	335.98	432.96
Current assets			
Inventories	141.36	113.93	65.85
Financial Assets			
Investments	281.77	260.04	338.51
Trade Receivables	138.56	127.70	72.79
Cash and Cash Equivalents	11.01	8.26	33.75
Bank Balances other than (ii) above	65.96	59.80	53.94
Other Financial Assets	27.58	26.49	4.63
Other Current Assets	48.89	34.23	32.59
Total current assets	715.13	630.44	602.05
Total Assets	1048.03	966.42	1035.01
Non-current liabilities			
Financial liabilities			
Borrowings	0.00	0.00	0.00
Lease Liabilities	47.02	73.94	49.80
Other financial liabilities	0.00	0.00	59.88
Provisions	5.95	6.06	3.55
Deferred tax liabilities (net)	2.69	1.41	8.56
Total non-current liabilities	55.66	81.41	121.79
Current liabilities			
Financial Liabilities			
Borrowings	6.79	3.61	3.59
Lease Liabilities	14.13	14.64	6.25
Trades Payable - MSME	11.08	8.66	3.50
Trade Payables - other than MSME	257.93	188.01	166.85
Other financial Liabilities	28.30	37.33	12.95
Provisions	5.03	4.03	2.39
Other current liabilities	25.35	18.88	12.07
Income tax liability (net)	5.50	3.94	0.00
Total current liabilities	354.11	279.11	207.60
Total	409.76	360.51	329.39
NET Worth	638.26	605.90	705.62
Net worth represented by:			
Equity Share Capital	136.34	136.34	0.01
Instruments entirely equity in nature	1792.94	1792.94	1792.94
Other equity	-1291.01	-1323.37	-1087.33
Net Worth	638.26	605.90	705.62

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

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