

**Rating Update**

December 28, 2023 | Mumbai

**FSN E-Commerce Ventures Limited****Update as on December 28, 2023**

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

**Upward factors**

- \* Steady increase in revenue and sustenance of operating margin over 7%, leading to higher cash accrual
- \* Sustenance of financial profile and liquidity with controlled working capital cycle

**Downward factors**

- \* Decline in revenue or operating margin below 4% resulting in lower cash accruals
- \* Stretch in the working capital cycle, significant debt-funded acquisitions or capital expenditure (capex), or any change in existing risk management policies.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from FSN E-Commerce Ventures Limited (FSN) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

**About the Group**

FSN, incorporated in 2012 in Mumbai, is engaged in e-retailing of beauty and fashion products through three web portals: nykaa.com, nykaaman.com and nykaafashion.com. It also has 100 retail stores across India under the Nykaa brand. It manufactures private label beauty products under various brands- majorly Nykaa and Kay Beauty.

FSN is promoted by Mrs. Falguni Nayar and is managed by her along with her son, Mr. Anchit Nayar and her daughter, Ms. Adwaita Nayar. They are supported by a second line of professional management.

The company got listed on the BSE platform in November 2021

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## Rating Rationale

February 07, 2023 | Mumbai

### FSN E-Commerce Ventures Limited

Rating reaffirmed at 'CRISIL A-/Stable'; 'CRISIL A2+' reassigned to Bank Debt

#### Rating Action

Total Bank Loan Facilities Rated	Rs.135 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reassigned)

Corporate Credit Rating	CRISIL A-/Stable (Reaffirmed)
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*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A-/Stable' rating on the long-term bank facility and corporate credit rating of FSN E-Commerce Ventures Limited (FSN) and has reassigned its 'CRISIL A2+' rating to the short-term bank facility

The rating reflects FSN's strong business risk profile, backed by its established market position in the e-commerce beauty products segment, diverse product range across categories, long relationships with reputed principals, omni-channel presence, and prudent risk management policies. The ratings also factor FSN's strong financial risk profile marked by comfortable capital structure and adequate debt protection metrics. These strengths are partially offset by its exposure to intensifying competition, working capital intensity, and yet to stabilize offline retail and fashion e-commerce businesses

#### Analytical Approach

For arriving at its ratings, CRISIL Ratings has consolidated the business and financial risk profiles of FSN and its subsidiaries, which are strategically important to, and have a significant degree of operational integration with FSN. These companies are - FSN Brands Marketing Private Limited (FSN Brands), FSN Distribution Private Limited (FSN Distribution), Nykaa E-Retail Private Limited (Nykaa E-Retail), Nykaa Fashion Private Limited (Nykaa Fashion) and Nykaa-KK Beauty Private Limited (Nykaa-KK). CRISIL Ratings considers these entities as being strategic to FSN in view of their strong integration with FSN's operations. FSN has also provided corporate guarantee for the bank facilities of these subsidiaries.

*Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

#### Key Rating Drivers & Detailed Description

##### Strengths:

**Established market position in e-commerce space and omni-channel presence:** FSN has a strong market position in the e-commerce beauty products segment, backed by strong position for the 'Nykaa' brand. It has been able to establish and retain a large customer base, leading to repeat orders from majority of the retail customers. The established position in the e-commerce space, helped it to launch its own brand of products and diversify into fashion and apparels segment as well as offline retail model. It has presence across through more than 105 stores across India, which also helps in acquisition of new clients and ensuring timely delivery of products for the e-commerce segment. Increasing presence in the growing e-commerce segment has helped increase revenues steadily to Rs 3,771 crores in fiscal 2022 from Rs.574 crores in fiscal 2018. The group has reported revenue of Rs. 2,394 crores for first half of fiscal 2023.

**Long relationship with reputed principals and wide product portfolio:** FSN has longstanding relationship with the principals with which it has been associated for more than a decade. It has tie-ups with more than 2000 brands and has over time consolidated its position as one of the leading distributors for some of these brands. Direct purchases from brands ensures quality and genuineness of the products being sold. FSN has a diversified product profile with more than 700,000 stock keeping units (SKUs) across various price categories in the categories of make-up, skin, personal care, hair, wellness, fragrance, among others. Hence, there is no dependence on any single principal, brand, or product.

**Strong financial risk profile:** The financial risk profile is supported by strong network of over Rs.1,219 crores as on March 31, 2022. Healthy accretion to reserves will continue to increase in the network over the medium term. The large network and low debt obligation kept gearing and total outside liabilities to adjusted network ratio comfortable at 0.27 time and 0.97 time, respectively, as on March 31, 2022. With low debt and moderate profitability, interest coverage and net cash accrual to adjusted debt ratio remained adequate at 3.95 times and 0.41 times, respectively, for fiscal 2022. Financial risk profile will continue to remain strong with healthy accruals, which will help fund capital expenditure and incremental working capital requirements.

**Prudent risk management practices:** Prudent risk management practices have helped the company mitigate risks inherent in the trading business. Risks such as vendor concentration have been mitigated through onboarding of numerous suppliers, thus reducing dependence on any single supplier. The quick cash conversion cycle and strong relationships with vendors ensure limited inventory-related risk. A robust management information system helps keep track of inventory and expiry dates. Adherence to the risk management policies whilst growing at a rapid pace will remain a key rating sensitivity factor.

**Weaknesses:**

**Exposure to intense competition leading to pressure on profitability:** Although FSN has established its market position in the online beauty products segment, it remains exposed to intense competition from unorganised players and e-commerce portals in the industry. Intense competition requires players to provide periodic discounts and attractive schemes in order to stave-off competition and retain customers. Aggressive expansion by existing competitors and emergence of new large players may impinge upon the profitability and revenue of FSN.

**Exposure to risks associated with stabilisation of new stores and fashion business:** FSN plans to add 25-30 retail stores per annum, and its future performance will be dependent on its ability to leverage on its brand image to maintain growth while sustaining margins. Moreover, FSN operates on company owned company operated (COCO) model, wherein growth is gradual and the break-even levels are reached only after the store is able to attract optimal volumes, which will depend on its ability to position itself in the locality and attract loyal clients. Further, the recent expansion in the fashion products and direct to retailer segments are yet to generate profits and has led to constrain on overall profitability of the group. Higher than expected loss from these segments, may impact the overall credit profile of FSN, and will remain key monitorable.

**Liquidity: Strong**

FSN Group has strong liquidity driven by expected cash accruals of more than Rs.200 crores per annum in fiscal 2024 and fiscal 2025, against negligible repayment obligations around Rs.0.55 crores annually. Group's fund-based limits of Rs. 721.5 crores was utilized 70-75% on an average over the 12 months ended November 2022. The group will continue to incur capex for addition of new stores and acquisition of brands to expand its owned product portfolio, which will be funded through fund raised through IPO and internal accruals and cash and cash balances, which was slightly more than Rs. 700 crores as on March 31, 2022.

**Outlook: Stable**

CRISIL Ratings believes FSN will continue to benefit from its established market position and strong financial profile.

**Rating Sensitivity factors**

**Upward factors**

- \* Steady increase in revenue and sustenance of operating margin over 7%, leading to higher cash accrual
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**Downward factors**

- \* Decline in revenue or operating margin below 4% resulting in lower cash accruals
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**Key Financial Indicators- Consolidated**

As on / for the period ended March 31		H1-FY2023	2022	2021
Operating income	Rs crore	2394	3776.01	2441.2
Reported profit after tax (PAT)	Rs crore	11.34	41.29	61.65
PAT margin	%	0.47	1.09	2.53
Adjusted debt/adjusted networkth	Times	0.31	0.27	0.40
Interest coverage	Times	3.45	3.95	5.47

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	82.5	NA	CRISIL A-/Stable
NA	Proposed Bank guarantee	NA	NA	NA	52.5	NA	CRISIL A2+

**Annexure – List of entities consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
FSN Brands Marketing Private Limited	Full	significant operational, and financial linkages
FSN E-Commerce Ventures Limited	Full	significant operational, and financial linkages
FSN Distribution Private Limited	Full	significant operational, and financial linkages
Nykaa-KK Beauty Private Limited	Full	significant operational, and financial linkages
Nykaa E- Retail Private Limited	Full	significant operational, and financial linkages
Nykaa Fashion Private Limited	Full	significant operational, and financial linkages

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	82.5	CRISIL A-/Stable		--	12-12-22	CRISIL A-/Stable	03-08-21	CRISIL BBB+/Positive		--	Withdrawn (Issuer Not Cooperating)*
					--	03-08-22	CRISIL A-/Stable		--		--	--
					--	07-07-22	CRISIL A-/Stable		--		--	--
					--	13-05-22	CRISIL A-/Stable		--		--	--
Non-Fund Based Facilities	ST	52.5	CRISIL A2+		--		--		--		--	--
Corporate Credit Rating	LT	0.0	CRISIL A-/Stable		--	12-12-22	CRISIL A-/Stable	03-08-21	CCR BBB+/Positive		--	--
					--	03-08-22	CCR A-/Stable	07-07-21	CCR BBB+/Positive		--	--
					--	07-07-22	CCR A-/Stable	24-03-21	CCR BBB+/Positive		--	--
					--	13-05-22	CCR A-/Stable		--		--	--

All amounts are in Rs.Cr.

\* - Issuer did not cooperate; based on best-available information

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan	5	HDFC Bank Limited	CRISIL A-/Stable
Cash Credit & Working Capital Demand Loan	15	ICICI Bank Limited	CRISIL A-/Stable
Cash Credit & Working Capital Demand Loan	37.5	Kotak Mahindra Bank Limited	CRISIL A-/Stable
Cash Credit & Working Capital Demand Loan	25	Citibank N. A.	CRISIL A-/Stable
Proposed Bank Guarantee	52.5	Not Applicable	CRISIL A2+

This Annexure has been updated on 07-Feb-2023 in line with the lender-wise facility details as on 28-Jun-2022 received from the rated entity.

**Criteria Details**

Links to related criteria
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Criteria for Consolidation</a>



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