

Mamaearth's plans put new-age IPOs in focus

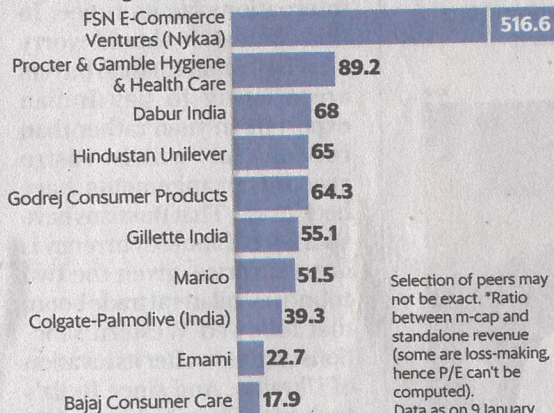
BY NITI KIRAN

New-age firms going for public listings have failed to inspire in recent times. So when Honasa Consumer Pvt. Ltd, the parent of skin care brand Mamaearth, filed its draft papers on 29 December, prospective investors got worried. The company had not quoted a valuation figure, but based on an earlier *Reuters* report, social media users put two and two together to conclude that Mamaearth would seek a steep valuation—or, price-to-earnings (P/E) ratio—of over 1,600 times its last fiscal year's profit. (The company has proposed a fresh issue of equity shares worth up to ₹400 crore and an offer for sale of up to 46.8 million shares.) The spotlight is again on new-age IPOs that are seen as risky due to uncertainty in their businesses. Experts say higher valuation is justified if a company can chart a realistic path.

Premium play

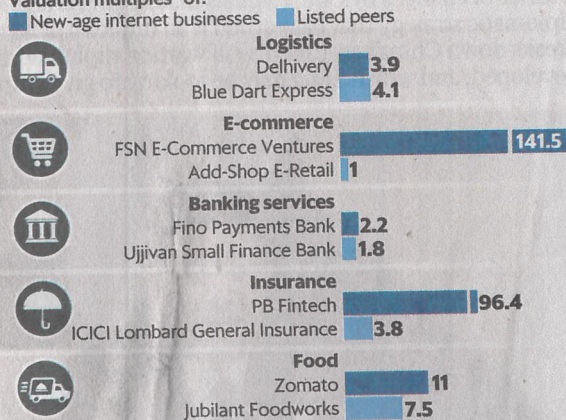
The lofty valuations of new internet businesses compared to some of their traditional listed peers is often debated. Here is how Mamaearth's listed industry peers stack up, and how the skew is in other industries.

Price-to-earnings ratio of Mamaearth's listed industry peers



Selection of peers may not be exact. *Ratio between m-cap and standalone revenue (some are loss-making, hence P/E can't be computed). Data as on 9 January

Valuation multiples* of:



Source: Honasa Consumer draft red herring prospectus, BSE, CMIE, Mint analysis

Rout of new-age firms

Investors in most new-age tech public issues have burnt their fingers over the past two years as they are turning out to be duds.

	Listing month	Listing price (₹)	Current price (₹)	Change (%)
Cartrade Tech	Aug 2021	1,500.1	481.3	-67.9
One 97 Communications (Paytm)	Nov 2021	1,564.2	563.7	-64
PB Fintech (Policybazaar)	Nov 2021	1,202.9	466.8	-61.2
FSN E-Commerce Ventures (Nykaa)*	Nov 2021	367.8	153	-58.4
Zomato	Jul 2021	125.9	56	-55.5
Fino Payments Bank	Nov 2021	545.3	267.5	-50.9
Delhivery	May 2022	537.3	325.5	-39.4
CE Info Systems (MapmyIndia)	Dec 2021	1,394.6	1038.3	-25.5

60%

This is the approximate share of issues that hit the market since 2021 that have been beaten down after listing due to market turbulence.

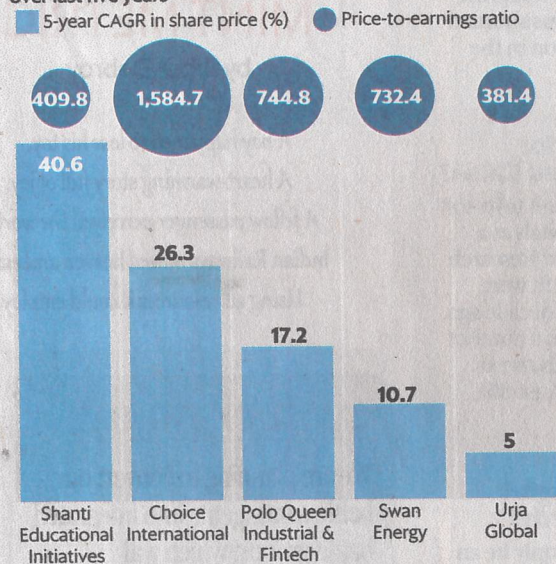
*Price adjusted for bonus issue. Current price as on 9 January 2023.

Source: primedatabase.com, BSE

Worth a penny?

Despite higher valuations, a few companies have managed to reward their shareholders with impressive returns over a longer term. But they mostly happen to be low-priced stocks.

Stocks with consistently high price-to-earnings ratio over last five years



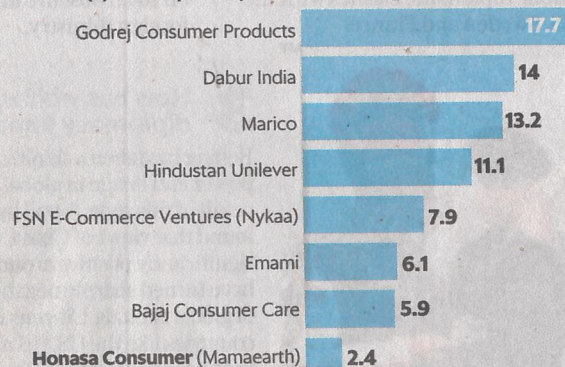
Current prices and P/E ratios as on 9 January 2023. The list shows some BSE-listed stocks that were trading at a P/E ratio of over 400 five years ago and are still trading at high P/E ratio. CAGR: compounded annual growth rate.

Source: CMIE, BSE, Mint analysis

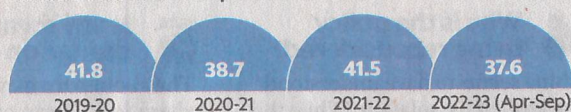
Meagre returns

While Mamaearth can dismiss the chatter of high valuations, it cannot do the same for its extensive advertising budget. Lower returns on such spending are not alluring. This is important because the company aims to use ₹186 crore from the IPO proceeds for marketing initiatives over the next three years.

Revenue (₹) earned per ₹1 spent on advertising*, 2021-22



Honasa Consumer's ad spend as % of revenue



Based on consolidated data. In some cases marketing expenses are also included. *The higher, the better.

Source: Company draft red herring prospectus, CMIE

Funding journey

The primary source of liquidity for the company is through cash generated from operations and funding from investors.

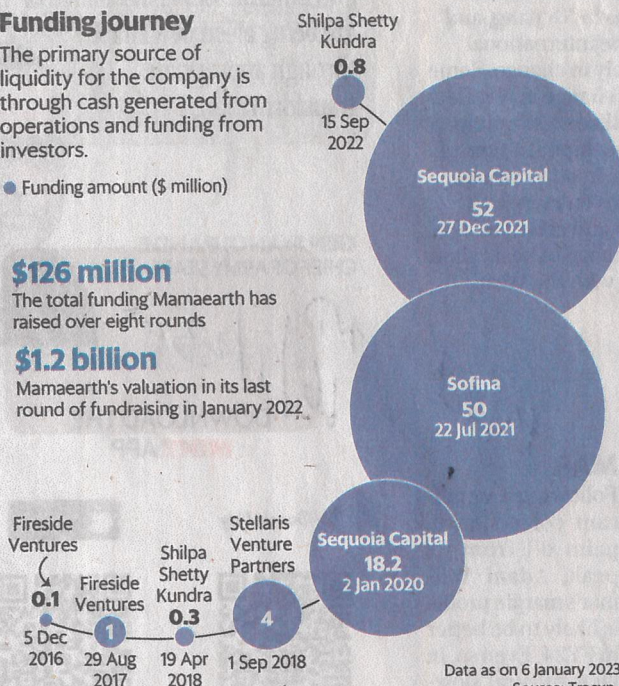
● Funding amount (\$ million)

\$126 million

The total funding Mamaearth has raised over eight rounds

\$1.2 billion

Mamaearth's valuation in its last round of fundraising in January 2022



Data as on 6 January 2023
Source: Tracxn

Expert talk

The company (Mamaearth) has been capturing market share, entering new segments, and has a strong client base. But valuations of 1,650 times FY22 earnings are expensive. Growth will eventually slow down and valuations must adjust for this.

Sreeram Ramdas, vice president at Green Portfolio



would be the way to gain most returns.
Krishna Raghavan,
deputy chief executive officer, Unlistedkart

Valuation is very important, but investors should also account for the problem the company is solving, the scalable solution, the team and the story being built around it. Also, long term