

Snapshot Financials (INR b)

Y/E March	2019	2020	2021
Sales	11.1	17.7	24.4
Sales Gr. (%)		59.0	38.1
EBITDA	0.2	0.8	1.6
EBITDA mrg. (%)	1.8	4.6	6.6
Adj. PAT	-0.2	-0.2	0.6
Adj. EPS (INR)	-16.3	-10.9	41.1
EPS Gr. (%)		NM	L/P
BV/Sh.(INR)	153.1	213.9	325.4
Ratios			
RoE (%)		-5.9	15.3
RoCE (%)		6.6	11.2
Payout (%)		-	-

A unique business model on the cusp of a large opportunity

We analyzed Nykaa's DRHP to understand the opportunity in the BPC and Fashion segments, the company's business model, and the competitive landscape. We have also conducted an online survey among the target demographics and presented our findings.

- Large market opportunity:** The Indian Beauty and Personal Care (BPC) / Fashion market is expected to reach INR2t/INR8.7t by CY25 – posting a CAGR of 12.7%/18% from CY20. The online BPC and Fashion markets are growing at an even faster pace (BPC/Fashion CAGR of 60%/25% over CY16–20). Growth would largely be driven by a) a higher propensity to shop online owing to increased internet/smartphone penetration as well as more convenient payment infrastructure (UPI), b) large Millennial and Gen-Z populations with aspirations and growing disposable incomes, c) the rising influence of social media, especially among the key demographic d) increased female participation in the workforce, and e) the migration from unorganized to organized players. Nykaa is estimated to control 35% of the online BPC market. While online channels account for just 8% of India's BPC market, it is pertinent to note that 70% of the market is estimated to be unorganized. Thus, online channels are estimated to contribute ~27% to the organized space, and Nykaa is well-placed to lead the online/organized portion of this market growth with a proven business model.
- Unique customer journey:** In the BPC segment, Nykaa offers a wide choice with almost 200k SKUs across a portfolio of close to 2,500 international, domestic, luxury, and niche brands. It also offers its own brand products. The customer journey begins with a unique method of product discovery involving curated collections, specific stores within the platform (Nykaa Luxe, Nykaaman, etc.), and search based on keywords or visual looks. Customers are then able to access ratings, reviews, how-to videos, and influencer content and have the option to chat with product experts to identify products/solutions. This creates an interactive experience, with the quality of suggestions continually improving based on shopping/viewing trends that are unique to each customer.
- Inventory-based business model:** One of Nykaa's key strengths lies in its inventory-led business model for the BPC segment. While it assumes the risk of obsolescence and bears an inventory cost, it allows the company to offer authentication for all its products, ensure availability, and enable efficient distribution. Its technology is geared to enable fungible inventory across online and offline channels, allowing for efficient inventory management. As seen from our survey responses, the widespread availability of spurious products is a concern among online BPC consumers. Accordingly, a guarantee of authenticity offers comfort to customers.
- Omni-channel approach:** As of 31st Mar'21, Nykaa has 73 physical stores across 38 cities. One of the key objectives of the issue is to raise funds to grow its physical store network. We believe physical stores serve two main purposes; they a) allow consumers to sample/experience products to ascertain their choice and b) create a more robust distribution network to allow for even hyperlocal deliveries in the future. Additionally, stores offer face-to-face

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

interactions with specialists and also play an important role in brand-building in the case of certain international prestige brands.

- **Influencer network and content-first approach:** With a network of over 1,300 influencers and 12.6m followers across leading social media platforms, Nykaa is able to drive widespread product and influencer-led education through creative and entertaining content across video and written formats. Nykaa creates and films the majority of its content in-house through the Nykaa Army. Moreover, it leverages influencers on a large scale through the Nykaa Affiliate Program, enabling external content creators to publish content on their behalf across several digital platforms. Endorsement by well-known influencers further strengthens the trust in the platform.
- **Technological superiority:** Nykaa continues to evolve its proprietary platform not only keeping in mind today's challenges but also factoring in future agility. The in-house data team is able to leverage mass amounts of information to create dynamic hyper-personalized experiences for consumers across their journeys on the platform.
- **Foray into Fashion:** Nykaa Fashion was launched in 2018 as a curated and managed marketplace. Currently, it houses 1,350 brands and over 1.8m SKUs with fashion products across four consumer divisions: Women, Men, Kids, and Home Merchandising – including several categories such as Apparel, Accessories, Jewelry, and Home. It identifies fashion-forward brands, vetting for style and quality within these brands. With the Online Fashion industry, estimated to be worth INR439b/USD6b, Nykaa has market share of less than 2%.
- **Stacking up to competition:** Nykaa's competes in the Online BPC space mainly with three types of players: vertical players (Purplle, MyGlamm), domestic horizontal players (Amazon, Flipkart, Ajio), and brand-owned websites. While vertical and horizontal players mostly follow a marketplace model, acting as brand aggregators, they have been unable to create a digital content-led ecosystem such as that of Nykaa. At the same time, they are unable to offer the same level of guarantees for authenticity as Nykaa. Conversely, while brand-owned websites provide the comfort of genuineness, they lack the product width and distribution capabilities.
- **Key risks:** In our opinion, Nykaa's business is susceptible to some risks, including a) a questionable right-to-win in the Fashion segment, wherein it faces stiff competition from other vertical and horizontal players, b) scaling issues with the inventory-led model, c) increased competitive intensity, with the risk of new entrants with deep pockets entering the segment once it reaches a certain scale, and d) the collective bargaining power of suppliers/brands that may be threatened by Nykaa's strategy to scale its own brands.
- **MOFSL – primary research:** We conducted a survey with over 150 participants, focusing on Nykaa's main demographic target audience, to get a better understanding of what drives consumer behavior in the Online BPC space. A summary of our findings is presented in this report.

About Nykaa

Nykaa, founded by Mrs. Falguni Nayar in 2012, is a digitally native consumer technology platform that delivers a content-led, lifestyle retail experience to consumers. It has a diverse portfolio comprising Beauty, Personal Care, and Fashion Products, including products developed, manufactured, and sold under its own brands. Nykaa has established itself not only as a lifestyle retail platform but also as a popular consumer brand offering an omni-channel experience to consumers. Nykaa has two business verticals – Nykaa Beauty and Personal Care (BPC) and Nykaa Fashion.

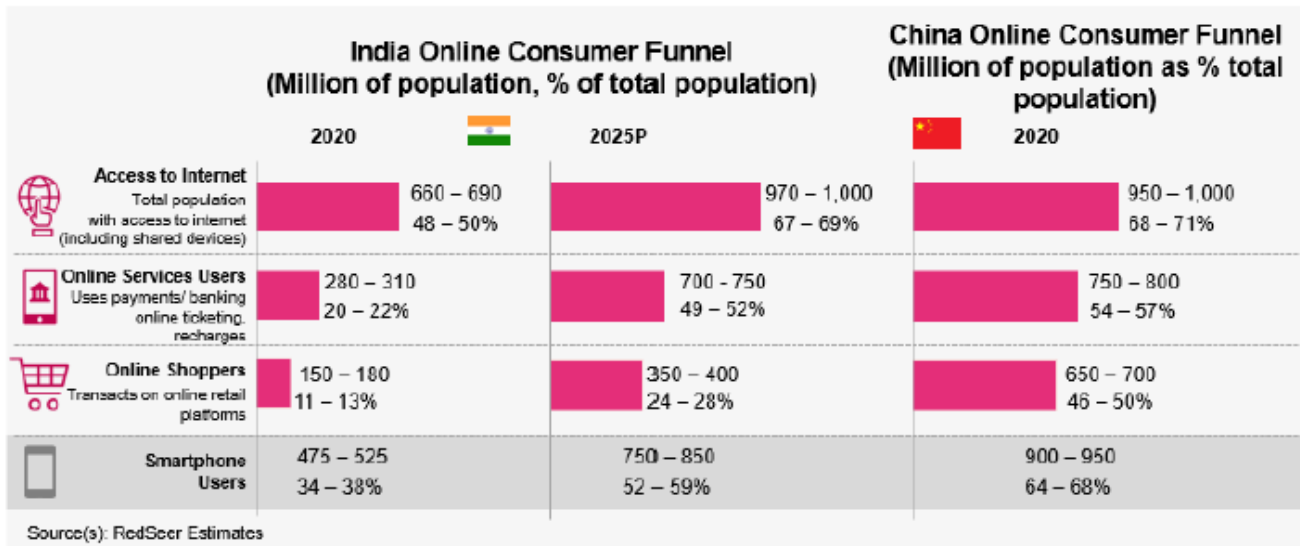
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Nykaa’s market opportunity

- **Online shoppers:** The number of online shoppers in India reached 150–180 million in 2020 (up from 120–150 million in 2019), with approximately 70% of these shoppers belonging to non-metro cities.
- **Smartphone users:** By CY25, India is expected to have 750–850 million smartphone users, implying smartphone penetration of 52–59%. This works out to a CAGR of 10% from the current estimate of 475–525 million smartphone users in CY20.
- **Social media users:** India has a base of 300–350 million average monthly active users in 2020 on social media across platforms such as Facebook, YouTube, and Instagram.
- **Generation-Z and Millennials** together account for approximately 70% of the smartphone users in India and are the most active consumers of social media content. More than 80% of the active users on social media platforms belong to the Generation Z and Millennial population segments.

Exhibit 1: Online consumer funnel – India v/s China



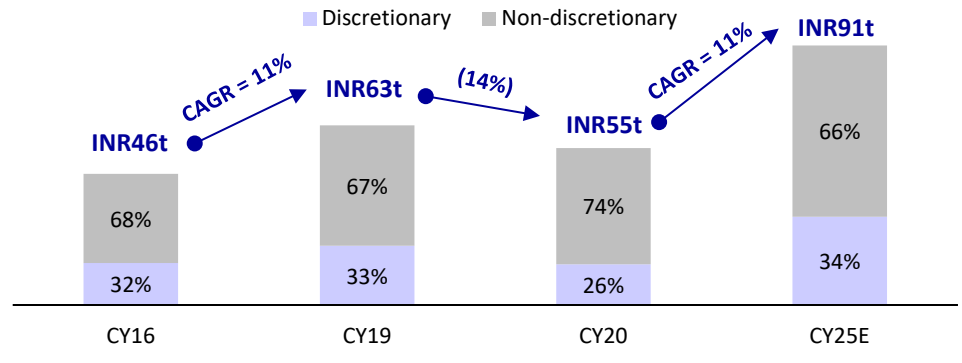
Source: Company, MOFSL



- Accounting for 52% of private final consumption expenditure, India’s Retail market was sized at INR63t (USD860b) in 2019; it has posted a CAGR of 11% over the last three years. Growth has been enabled by:
 - A rising middle class
 - Surging income levels
 - Increasing demand from tier 3–4 cities and the rural markets
 - A rise in spending among the young population
 - An improvement in infrastructure
 - The entry of new Indian and global brands across product categories
- **India’s Retail market is expected to grow to ~INR91.2t (USD1.2t) by CY25 (CAGR: 10.7%) from INR54.8t (USD750b) in CY20 (~14% decline v/s CY19).**
- The COVID-19 waves have turned out to be a boon for the Internet economy in India. E-Commerce penetration in India grew 1.6x to 5% in 2020 from 3% in 2019. There is large headroom for growth in the industry, as indicated by the

higher penetration in the developed markets (e-commerce penetration in the US and China stood at 23% and 11%, respectively, in 2019).

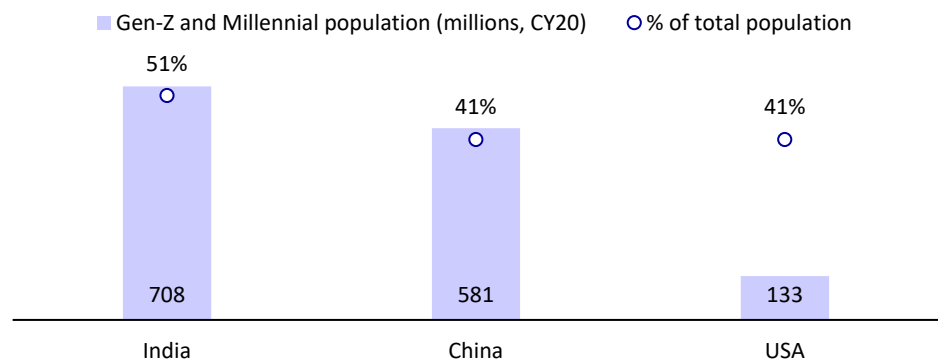
Exhibit 2: Overall Retail industry in India



Source: Company, MOFSL

- The Discretionary portion of the Retail market was sized at INR21t (USD287b) in CY19. Discretionary saw sharper decline of 32% in 2020, weighed by decline in spending on non-essential products. **Discretionary Retail is set to make a recovery and register healthy growth at a CAGR of 17% to reach ~INR31t (USD425b) by CY25** (from ~INR14t/USD190b in CY20).
- **Fashion and BPC cumulatively** accounted for 35% share in the Discretionary Retail space in India in 2020 (combined size of ~INR5t/USD68b). The large market opportunity in the growing BPC and Fashion industries is expected to reach INR10.6t (USD152b) in India by CY25.
- **India has the largest population base of Generation-Z and Millennials in the world.** These population groups:
 - a) Aspire to express their individuality through in-trend beauty, personal care, and fashion products
 - b) Are largely inspired by friends, family, celebrities, and influencers on social media
 - c) Are digitally native – spend more time online and are conscious of new lifestyle trends
 - d) Are capable of buying lifestyle products regularly as their incomes grow
- Nykaa has a good understanding of this demographic and is well-positioned to cater to their preferences and requirements through the Beauty, Personal Care, Grooming, and Fashion categories.

Exhibit 3: India has the largest population base of Gen-Z and Millennials in the world

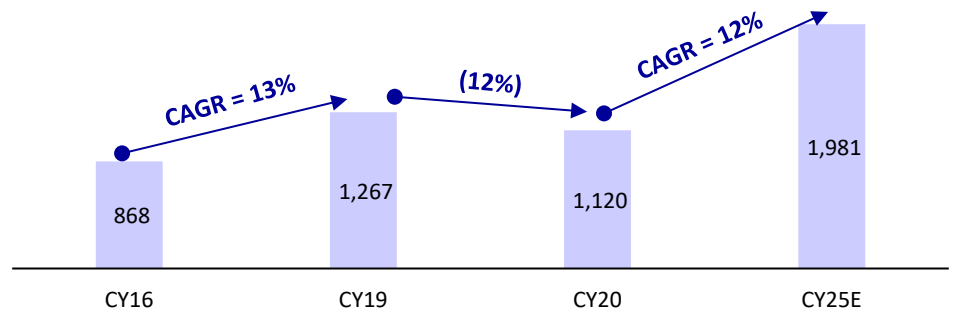


Source: Company, MOFSL

Beauty and Personal Care market in India

- India's Beauty and Personal Care market is estimated to grow to ~INR2t (USD28b) by CY25 from INR1.12t (USD16b) in CY20 (CAGR of 12.7%/7.7% from CY20/CY19). The Beauty and Personal Care market in India was sized at INR1.3t (USD18b) in 2019; it has grown at a CAGR of 13% in the last three years (CY16–19).

Exhibit 4: India's BPC market size (INR b)



Source: Company, MOFSL

- With Indian consumers' BPC shopping habits evolving, the **share of the unorganized BPC market declined to 71% in 2019 from 77% in 2016.**

Customer demographics and trends in BPC in India

■ Age

- Age group of 25–35** – These are the most active BPC buyers. They are more inclined to buy prestige products. They have a relatively sophisticated make-up and skin care regime and tend to buy based on the latest trends. Moreover, they are open to experimenting with newer product categories. They also develop an emotional connection with the brand and prefer brands with organic ingredients.
- Age group of 18–24** – They are likely to try and explore new BPC categories through social media engagement, become fascinated by on-going market trends, and develop an awareness about newer categories, brands, and products.
- Age group of 35+** – They are mature buyers and big-ticket spenders, with less price sensitivity and better awareness.

■ Location

- BPC spending from tier 2+ cities is projected to grow faster than metros and tier 1 cities as a large population base increases the per capita BPC spend. Tier 1 consumers are expected to increase their spending on prestige products.
- Factors contributing to this trend are rising disposable incomes (aided by the increasing participation of women in the workforce), the growing popularity and influence of social media, and lifestyle changes.

- **Specialized BPC category**
 - a) The specialized category of the BPC market has been growing significantly faster than the generic category. The Specialized category comprises products addressing latent consumer needs and discretionary and evolved sub-categories such as Make-Up, Fragrances, Men's Grooming, Sexual Wellness, and Women's Hygiene.

- **Prestige BPC segment**
 - a) In recent years, with the rise in aspirational BPC buying and improved access, there has been a proliferation towards prestige brands.
 - b) The Prestige segment has grown at a much faster rate than the Mass segment and overall BPC market.
 - c) This segment has witnessed the entry of multiple national and international brands with unique value propositions, such as organic ingredients, which are adding to its rapid growth.

- **Other characteristics of the industry**
 - a) Online content has become the primary lever of BPC purchase decisions by effectively facilitating the discovery and understanding of BPC products and brands. This is providing a significant push to the market as Generation Z and Millennial consumers, the most active BPC buyers, are also active consumers of online content on social media platforms.
 - b) BPC spending by men in India is projected to continue to grow faster than the market.
 - c) Consumer spending on essential health and wellness products is on the rise. BPC products and appliances for at-home grooming are also seeing higher demand.

Challenges faced by consumers in the traditional Beauty and Personal Care market in India

- Desired products often tend to be out of stock at stores.
- Consumer choice is restricted to limited products due to space constraints at stores.
- The genuineness of the products is in question.
- Prestige brands are generally sold only at exclusive offline brand outlets or high-end multi-brand outlets available in niche premium locations, thus limiting consumer access.
- The offline consumer experience is largely transactional due to limited original content and advice to facilitate inspiration and discovery in most offline stores.

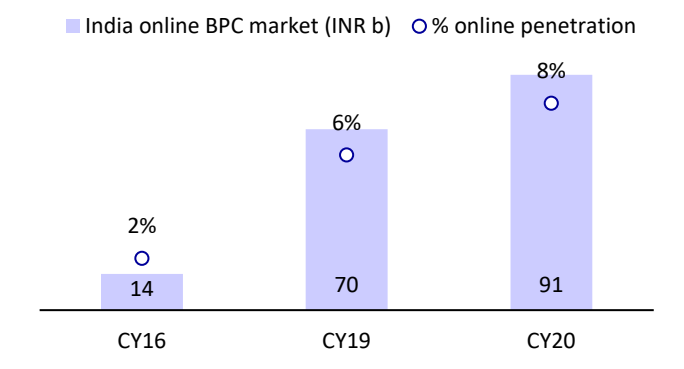
Challenges faced by brands in the traditional Beauty and Personal Care market in India

- Brands struggle to have a wider consumer base and reach pan-India consumers.
- There is significant inefficiency in product flow as well as margin leakage due to multiple intermediaries.
- Smaller brands face considerable challenges to scale up in the traditional model given the limited capital and unfavorable trade terms with distributors.

Online BPC market in India

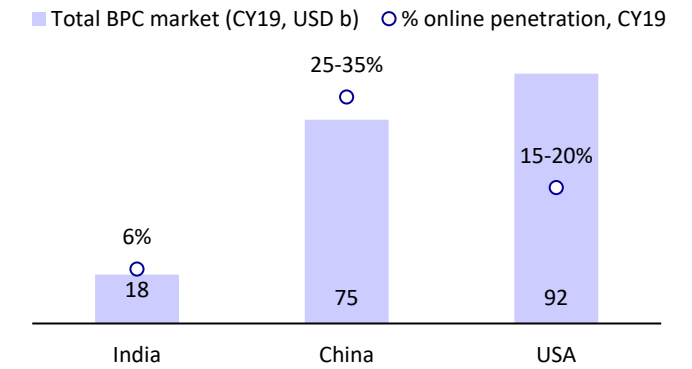
- The Online BPC market in India has grown at a promising 60% CAGR in the last four years, with 8% penetration in India’s Beauty and Personal Care market in 2020.
- The online channel accounted for 6% of the BPC market in India (INR70b/USD96m) in CY19 v/s 2% in CY16 (71% CAGR). **The Online BPC sector grew further at 30% in CY20 to reach INR91b (USD125m), with 8% penetration in the overall BPC market.**
- There is large headroom for further penetration in India; higher penetration in developed markets such as the US (15–20%) and China (25–35%) is indicative of this.

Exhibit 5: India’s Online BPC sector grew 30% YoY to INR91b (USD125m) in CY20



Source: RedSeer research, Company, MOFSL

Exhibit 6: Global benchmarks for BPC market size and online penetration



Source: RedSeer research, Company, MOFSL
USD1=INR70=RMB6.5

- An increase in the Online BPC user base has been a key ingredient for sector growth.
- The rise in average order value (AOV) despite the rising penetration in non-metros is on account of the wider acceptance of BPC as a key e-commerce category by Indian consumers in the last 3–4 years. This is attributable to the higher trust commanded by online BPC platforms with the help of engaging content and popular influencers.
- **Trust is an important factor in this category, owing to which vertical e-tailing platforms specializing in the BPC space have enjoyed high growth in the Online market.** This has enabled consumers to shop for prestige BPC products and newer product categories, thus driving AOV higher.

Omni-channel model in India’s BPC market

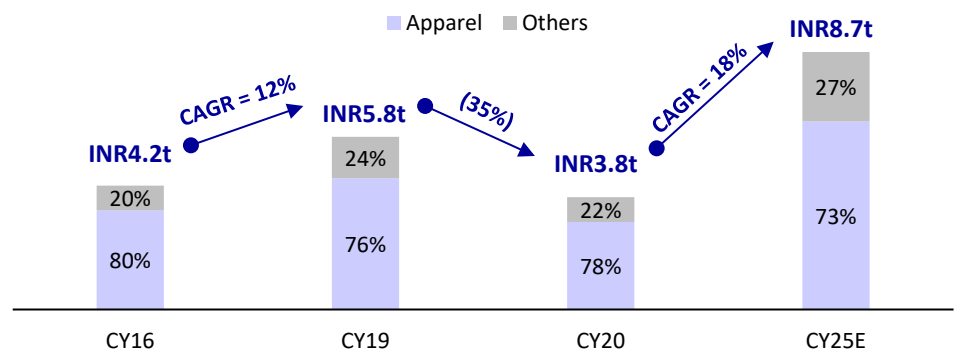
- Supplementing online platforms with a physical retail store presence helps deliver the total consumer experience.
- Touch-and-feel, test-and-try elements become crucial in certain specialized BPC categories. Offline stores play an important role in providing the desired experience and help establish stronger trust among consumers.
- **Consumers are likely to be better engaged if attended to in person, which is feasible in offline stores.** Along with online content on the platform, engagement in offline stores elevates the consumer experience. **This encourages more consumers to try out newer brands and categories.**

- Presence across online and offline channels expands the modes of consumer acquisition and increases the likelihood of receiving organic traffic.
- **Retail stores provide added flexibility with regard to logistics, while simultaneously increasing the number of delivery options for consumers, including hyperlocal deliveries and store pick-ups.**
- The omni-channel approach enables BPC brands to serve a much wider audience by catering to unique preferences across diverse consumer tastes.

Fashion market in India

- The size of the Fashion market in India was INR4.2t (USD57b) in CY16 and constituted more than 9% of the Retail market.
- Apparel accounted for approximately 80% of the market, and Footwear and Accessories cumulatively covered the remaining 20%.
- **The Fashion market posted a 12% CAGR over the following three years to reach INR5.8t (USD79b) in CY19. It declined 35% in CY20 (INR3.8t/USD52b).**
- The Fashion market in India is projected to recover strongly and see an 18% CAGR over the next five years, reaching INR8.7t (USD124b) by CY25. Apparel is projected to continue to account for ~73% of the market in 2025.

Exhibit 7: India's Fashion market to see 18% CAGR over CY20–25E, reaching INR8.7t (USD124b)



- **The organized market has grown at a much faster pace – its share jumped to 38% in 2019 from 29% in 2016.**

Factors driving growth in the Fashion market

- **Growth in Fashion spending by young population:** Consumers in the 20–35 years age group are the most active fashion buyers; they aspire to express their individuality through fashion and possess decent paying capacity, a high awareness of the latest trends, and strong digital maturity.
- **Increasing spend on Fashion in tier 2+ cities:** Demand from Tier 2+ cities has grown rapidly in the past few years, propelled by a) consumers shifting from unbranded products to value-branded products and b) the availability of value-focused brands and retail stores to serve this demand. Spend on fashion from tier 2+ cities is projected to grow faster than the market.
- **Rising influence of social media:** Consumers tend to get influenced by the latest trends in Apparel, Footwear, and Accessories through their networks on social media platforms.

- **Growth in Men's and Kids' segments:** The Men's segment, although marginally smaller, has grown at a faster pace than the Women's segment. Additionally, the Kids' segment has also grown rapidly over 2016–19 – given the consistent demand for clothing and footwear among growing kids. Going ahead, both the Men's and Kids' segments are projected to grow faster than the Fashion market.
- **Emergence of occasion-centric demand:** Casual fashion in India is largely led by Western Wear owing to its comfort and easy availability. Occasion-led fashion is seeing a considerable rise in demand, wherein both Western Wear and Ethnic Wear are used widely. In Western Wear, shirts and trousers or skirts for formal/corporate occasions, business suits for interviews/events, tuxedos and gowns for parties, and designer suits for weddings have become ongoing fashion trends and are seeing high demand. There is also a growing fondness and respect for the Ethnic Wear category, especially at weddings and religious ceremonies.

Challenges faced by customers in the traditional Fashion market in India

- Consumers often find their desired fashion products to be out of stock at offline stores.
- Space constraints tend to limit the assortment that an offline store can hold.
- It is difficult to distinguish between genuine and fake products as offline stores do not assure authenticity.

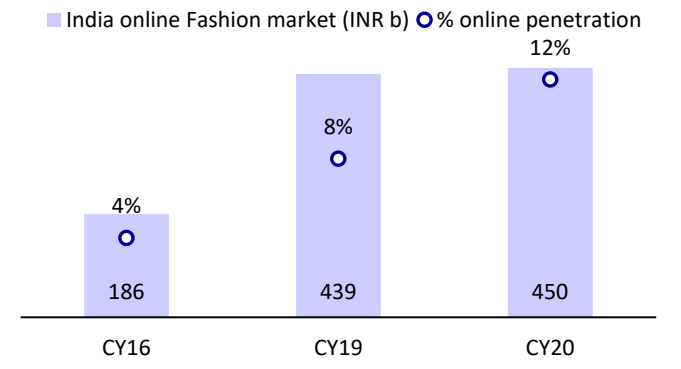
Challenges faced by brands in the traditional Fashion market in India

- Fashion brands struggle to reach more prospects and markets through the offline channel due to infrastructure constraints.
- The need for manual labor, high inventory management costs, and complex billing processes lead to operational inefficiencies and thus reduce margins.
- New and smaller fashion sellers find it difficult to compete with established traditional brands due to financial and supply chain barriers and have limited ability and resources to spend on marketing.

India's Online Fashion market

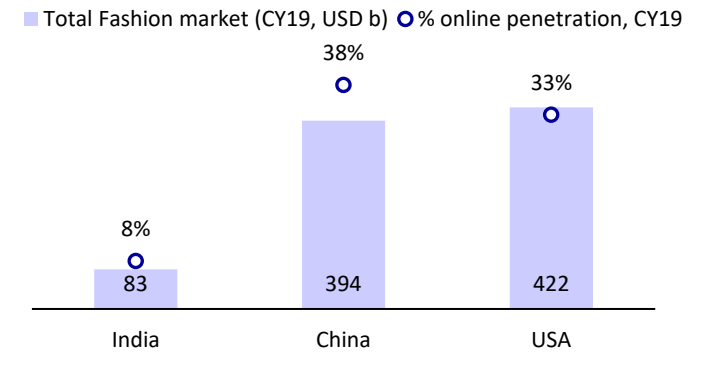
- **The Online Fashion segment in India has seen a promising 25% CAGR in the last four years, penetrating 12% of India's Fashion market in CY20.**
- The Online Fashion Retail segment size was INR439b/USD6b in CY19 (based on checkout GMV) – it has seen a 33% CAGR over the past three years.
- This led to online penetration growing 2x over three years to 8% in 2019, with relatively higher penetration in the Footwear and Accessories categories (v/s Apparel).

Exhibit 8: Penetration of online channels in India’s Fashion market grew to 12% in CY20 from 4% in CY16



Source: RedSeer research, Company, MOFSL

Exhibit 9: Global benchmarks for Fashion market size and online penetration



Source: RedSeer research, Company, MOFSL

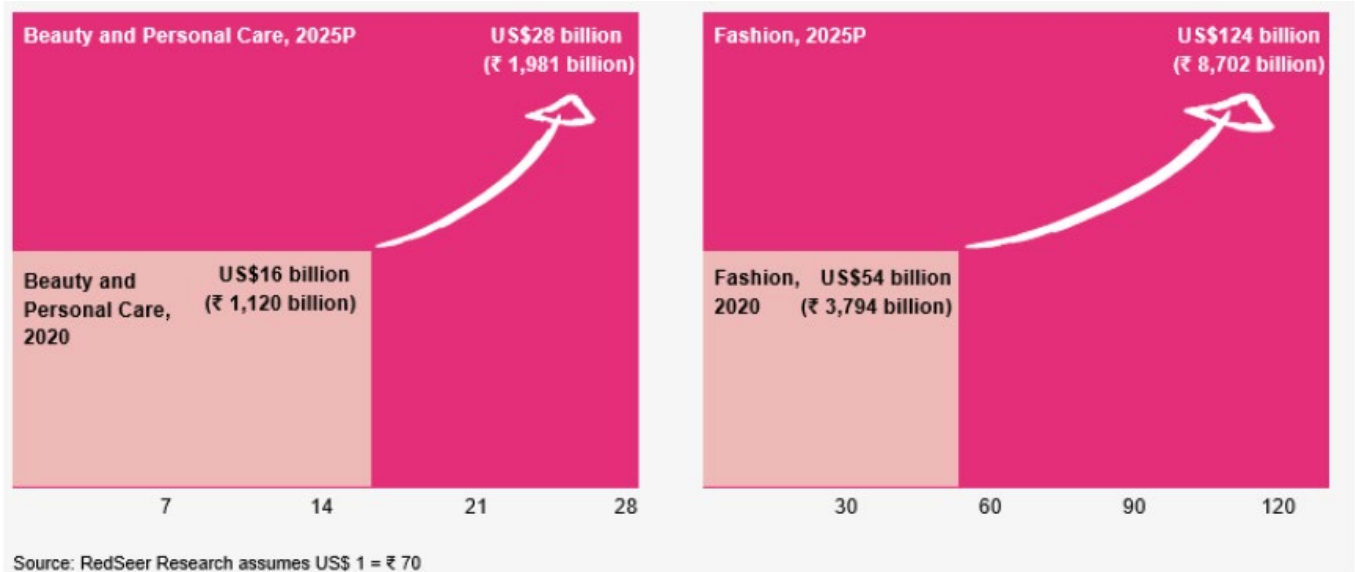
USD1=INR70=RMB6.5

*Fashion market for USA and China includes only apparel and footwear; for India, it includes apparel, footwear and accessories

Nykaa’s target addressable market and competition

- According to the RedSeer Report, Nykaa has a total addressable market of INR10.7t (US\$152 billion) across the Beauty and Personal Care and Fashion categories.

Exhibit 10: Nykaa’s addressable market



Source: RedSeer Research assumes US\$ 1 = ₹ 70

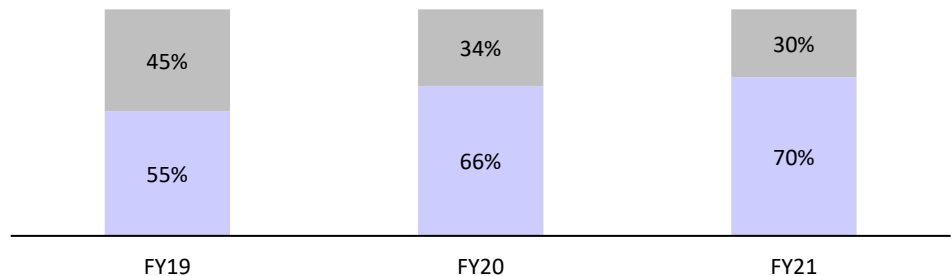
Source: Company, MOFSL

Business overview

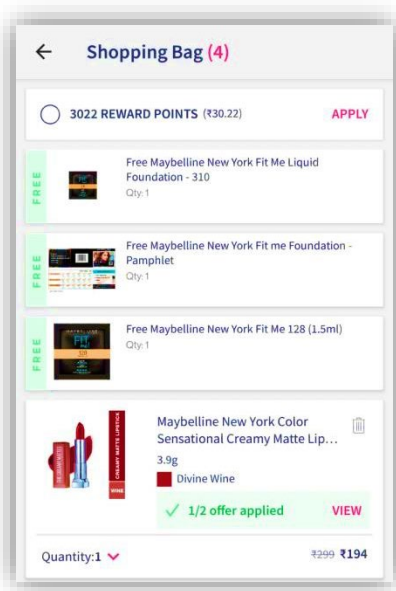
- Nykaa has a diverse portfolio of beauty, personal care, and fashion products, including own-brand products manufactured by the company.
- Its **online channels** include mobile applications, websites, and mobile sites. Cumulative downloads stood at 43.7m across mobile applications as of 31st March 2021.
- **In FY21, 86.7% of online GMV came through mobile applications.** According to RedSeer, Nykaa had one of the highest shares of mobile application-led transactions among the leading online retail platforms in India during this year.
- The **offline channel** comprised 73 physical stores across 38 cities in India over three different store formats as of 31st March 2021.
- Physical stores offer a select offering of products as well as a seamless experience across the physical and digital worlds.
- Nykaa’s lifestyle portfolio spans beauty, personal care, and fashion products.
- Its business verticals are as follows:
 - a) Nykaa: Beauty and Personal Care
 - b) Nykaa Fashion: Apparel and Accessories
- **As of 31st March 2021, Nykaa had ~2m SKU offerings from 3,826 national and international brands across business verticals.**
- In FY21, the total GMV stood at INR40.5b/USD550m (+50.7% YoY). Revenue from operations stood at INR24.4b/USD334m (+38.1% YoY) during this year.

Exhibit 11: Nykaa’s platform experiences a high degree of customer loyalty

■ Contribution to GMV by existing customers ■ Contribution to GMV by new customers



Source: Company, MOFSL



Loyalty program

- Through Nykaa Prive – a consumer loyalty program for BPC – members enjoy exclusive offers and discounts, complimentary gifts, free shipping, and access to exclusive members-only content.
- There is no fee per se to become a Prive member. **One is automatically upgraded to Prive member status on spending INR7,500 in a rolling calendar year.**
- Prive members also enjoy priority access to the consumer service team. **As of 31st March 31 2021, there were 2.1m Nykaa Prive members.** Consumers can also earn Nykaa reward points by signing up, shopping, writing reviews and answers, and referring new consumers to the platform. These rewards points can be redeemed to make purchases on the platform.
- Additionally, **Nykaa also awards Reward Points in much the same way as a credit card would.** For every purchase, one earns a certain amount of Reward

Points, which can be cashed in on subsequent purchase. This encourages a behavior of loyalty through ‘gamification’ of purchases.

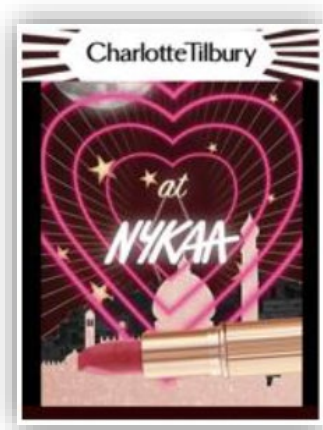


Commitment to authenticity

- For BPC, the business is predominantly inventory led. This ensures sourcing directly from brands or authorized distributors in India to provide guaranteed authenticity for the products purchased.
- For Fashion, the company operates a managed marketplace and ensures that the sellers on-boarded are authorized resellers only.

Content-first approach to retailing

- Nykaa is one of the first online retail platforms in India to drive widespread product and influencer-led education through creative and entertaining content across the video and written formats.
- It creates and films the majority of its content in-house through the Nykaa Army, a team of employees who are beauty and fashion content creators, across seven languages.
- It leverages influencers on a large scale through the Nykaa Affiliate Program, which enables external content creators to publish content on the company’s behalf across multiple digital platforms. **As of FY21, the company had a network of 1,363 influencers.**
- In FY21, Nykaa TV, a YouTube-based content platform, had a watch time of 1.3m hours. Moreover, content posted on Instagram and Facebook (including videos, reels, posts, and stories) amounted to 39,498 posts, making Nykaa one of the most influential lifestyle platforms in India with over 12.6m followers across leading social media platforms.
- **Nykaa has developed a loyal community of bloggers and content creators who, in most cases, receive commissions on the sales they drive on the platform.** Nykaa is able to successfully attract influencers owing to its brand equity and track record of building digital communities, giving it the largest influencer network in the Online Beauty and Personal Care sector in India (according to the RedSeer Report, as of 31st March 2021).
- Nykaa’s content captures the latest trends, helps ideate and create beauty regimes and outfits, and provides insights on the various brands available on the platform.
- Nykaa launched Explore in CY20, an in-app content aggregation hub. It is a “watch and buy” feature that enables a consumer to watch content and shop for the products featured in that content in real time. Such content is uploaded by influencers and from social media channels. Its discovery algorithms are responsive to consumer preferences based on their search and engagement behaviors on the platform. The content is predominantly multi-brand and education focused, comprising ‘how-to’ video tutorials, reviews, and product trials. In March 2021, Explore received 573,963 visits and 947,515 post views.
- **In FY21, visitors on beauty and personal care and fashion websites and mobile applications spent a total of over 95.3m hours on Nykaa’s channels.**

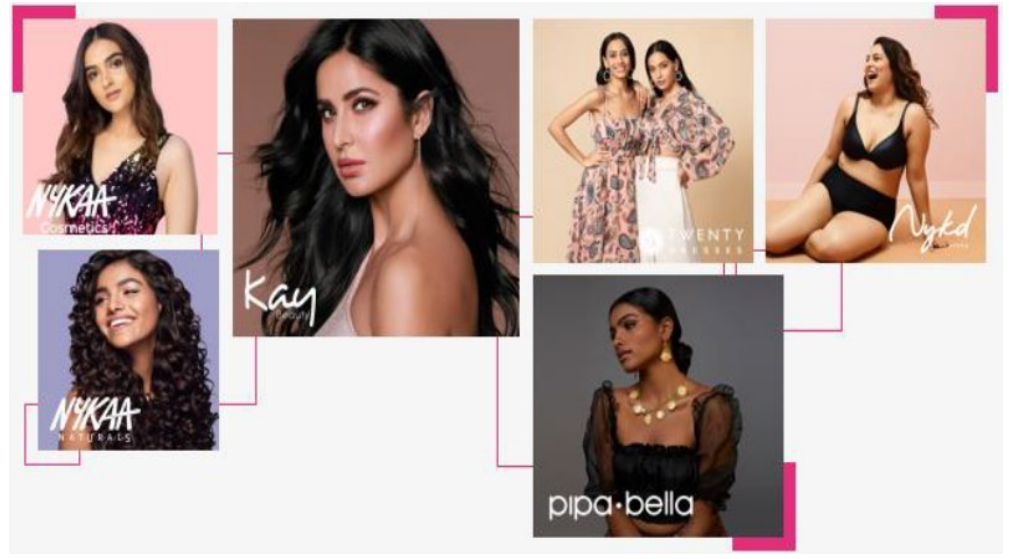


Synergetic relationships with suppliers and brands

- Nykaa has a team of brand managers who work closely with brands to strategize and execute growth and brand-building strategies.
- It offers brands involvement and integration in several aspects of its brand marketing strategy, from building marketing plans and promotions for products to ensuring the brand's standards in the supply chain and fulfillment.
- Nykaa advises brands on pricing and commercial strategies – including discounting, sampling, gifting, and couponing – to meet consumer demand, while respecting the brand's desired positioning in the market.
- It also offers brands advertising space in online channels and physical stores.

Diverse portfolio of owned brands

- Nykaa has a portfolio of 13 owned brands, which play a key role in increasing the assortment of products for consumers. Many of these owned brands have a high recall and function as independent brands. The manufacturing for such brands is carried out by third-party vendors.
- The owned brand portfolio is executed by identifying the gaps in the market – across both the requirements of diverse consumers and multiple price points – and building brands to suit these needs, with a focus on high-quality products. Some of these owned brands are as follows:
 - **Nykaa Cosmetics:** Nykaa Cosmetics is a comprehensive make-up and beauty accessories brand with a presence across the lips, face, nails, eyes, and beauty tools categories.
 - **Nykaa Naturals:** Nykaa Naturals is a naturally derived ingredients focused brand for skincare products such as bath and body offerings, masks, and hair care.
 - **Kay Beauty:** Kay Beauty offers premium-range beauty products across the lips, eyes, face, and nails categories.
 - **Twenty Dresses:** This Apparel product line includes western wear across the dresses, jumpsuits, tops, pants skirts, as well as footwear, bags, and accessories categories.
 - **Nykd by Nykaa:** Nykd by Nykaa offers lingerie, including bras, panties, sleepwear, shapewear, and athleisure.
 - **Pipa Bella:** Pipa Bella offers on-trend aesthetic jewelry such as earrings, necklaces, bracelets, rings, and hair accessories.

Exhibit 12: Nykaa's portfolio of owned brands

Comprehensive assortment with a focus on curation and merchandising

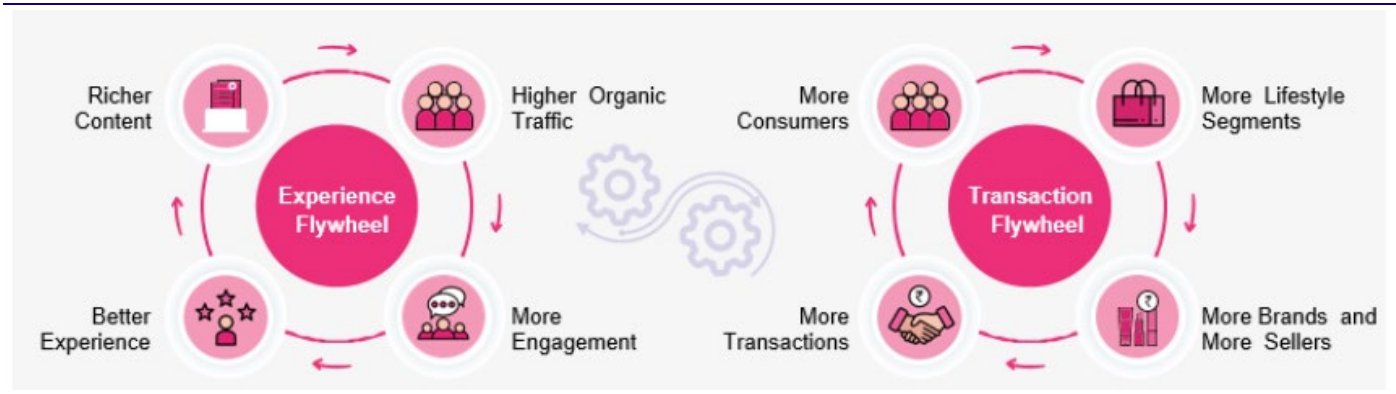
- Nykaa focuses on markets fit for its product offerings, ongoing demand, and consumer trends.
- It continuously strives to bring in product collections that fit its demand profile and at the same time churn out the products that are losing relevance.
- Consumers influence its merchandising strategy by reading and writing reviews, asking questions, viewing and providing ratings, and uploading images on the platform.
- Consumers may also try on certain products virtually through the “Virtual Try On” feature on the mobile application.
- **Leveraging information across multiple parameters and consumer activity on the platform, along with details of attributes against every product, Nykaa is able to show the consumer personalized content and products across their shopping journey. Leveraging data science, it has developed robust personalization engines and customized product features, such as customized landing pages, personalized homepages, search-and-sort algorithms, and recommendation engines to power the discovery experience.**
- It also offers an on-demand chat service with experts to help increase engagement, while resolving any concerns or technical questions.

Fulfillment and operational excellence

- As of 31st March 2021, Nykaa was serving 24,817 pin codes, covering 86.4% of the serviceable pin codes across the country.
- It has an allocation engine that helps fulfill orders by utilizing inventory efficiently across warehouses.
- For the fashion products sold through the marketplace model, Nykaa has integrated its supply chain with the warehouses of various sellers.
- **In 4QFY21, 94%/72% of orders were delivered within five days in the BPC/Fashion vertical.**
- Nykaa manages four models – the inventory, sale or return (SOR), marketplace, and just-in-time inventory models.

- For the inventory and SOR models, its technology is geared to enable fungible inventory across the online and offline channels, allowing for efficient inventory management.
- Luxury orders are meticulously packed and tracked separately.

Exhibit 13: A business model encouraging strong network effects



Source: Company, MOFSL



Preferred destination for luxury and prestige products

- According to the RedSeer Report, Nykaa has the highest AOV among the leading online beauty and personal care platforms in India and is the largest luxury beauty and personal care platform in India.
- Nykaa has tailored specific capabilities across marketing, technology, supply chain, fulfillment, and consumer service to create a differentiated ecosystem for luxury brands and customers. For example, **it has built a separate Luxe store mode within the Nykaa app for luxury and prestige products on the platform, to present a differentiated environment to the buyers of such products.**
- While warehouses generally have segregated areas for such brands, shipments to consumers from such warehouses are also packed in premium packaging to enhance the luxury shopping experience for consumers.
- In the case of certain international prestige brands, physical stores play an important role in brand building; hence, its ability to offer an integrated omni-channel retail strategy to these brands is a key strength. As such, a number of prestigious international brands have chosen Nykaa to import, launch, and sell their products to consumers in India.
- In the Fashion business, it has also enabled the customization of luxury and made-to-order products wherein consumers could work with stylists to identify their customization requirements. Nykaa works with brands to deliver such customized products.



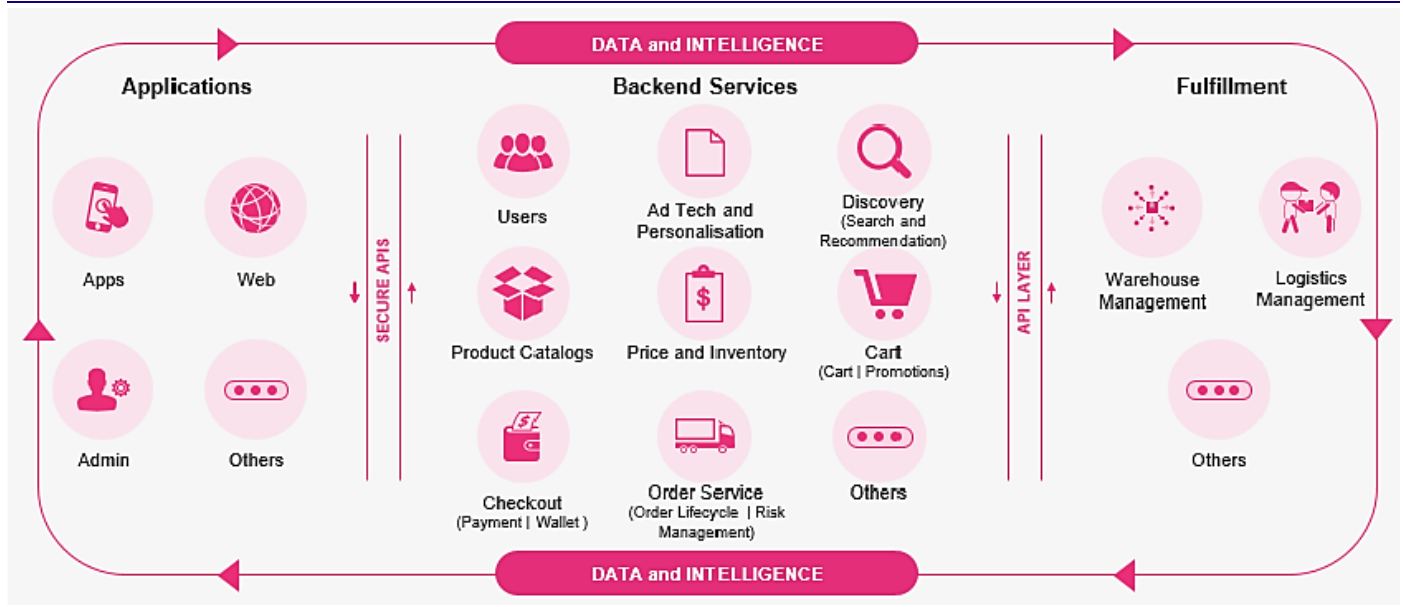
Proprietary technology stack

- Nykaa continues to evolve its proprietary platform keeping in mind not only today’s challenges but also factoring in future agility.
- The platform architecture comprises small, maintainable, scalable building blocks that follow the principles of service-oriented architecture.
- This enables it to support multiple business models, execute new initiatives, and generate operational efficiency gains across new and existing offerings.
- **At the same time, the architecture retains the flexibility to customize the technology requirements for individual businesses. For example, it was able to**

quickly launch and scale-up the Fashion business using the same Nykaa technology platform, while customizing the discovery for the Fashion vertical.

- The in-house data team is able to leverage mass amounts of information to create dynamic hyper-personalized experiences for consumers across their journeys on the platform.

Exhibit 14: Nykaa's technology platform



Nykaa's growth strategy

- **Continuing to acquire new consumers and increasing consumer loyalty:** Nykaa uses the levers of "voice, video, and vernacular" to improve its reach and acquire consumers. It could increase purchase frequency and AOV by improving personalization, through improved targeting, and by continuing to refine its data analytics.
- **Deepening and broadening brand relationships:** It aims to improve its sales and create value for brand relationships through improved merchandising, refined marketing, and new data driven brand-specific experiences.
- **Expanding into lifestyle adjacencies and launching new channels:** Its understanding and customized execution of multiple categories and sub-categories within Lifestyle Retail have enabled the company to foray into other lifestyle adjacencies to develop the platform into the single largest destination for the lifestyle needs of diverse consumers.
- **Further expanding omni-channel capabilities:** It aims to further invest in expanding its physical store network to serve more consumers across the country via its omni-channel experience.
- **Investing in its owned-brand portfolio:** The success of the owned brand portfolio has come from identifying market gaps and building innovative products to address consumer needs by leveraging marketing and consumer insights. It aims to increase its product offerings in the current owned-brand portfolio across business verticals and add newer long-term focused brands.
- **Undertaking focused, selective international expansions as well as acquisitions and joint ventures in India.**

Segments

Beauty and Personal Care (BPC)

- As of 31st March 2021, Nykaa had 197,195 SKU offerings from 2,476 brands, primarily across the Make-Up, Skincare, Hair Care, Bath and Body, Fragrance, Grooming Appliances, Personal Care, and Health and Wellness categories.
- The portfolio comprises domestic, international, luxury and prestige, premium, niche, and cult brands.
- As per RedSeer, Nykaa is the largest specialty beauty and personal care platform in India in terms of the value of products sold in FY21.
- Nykaa also manufactures its own-brand BPC products through third-party manufacturers. It has manufacturing agreements with several manufacturers in India for products that are sold under brands such as “Nykaa Cosmetics,” “Nykaa Naturals,” and “Kay Beauty”. Owned brands are available at certain third-party retailers.
- **GTMS:** a) Online-first brands have the ability to rapidly scale up by leveraging the online platform; b) prestige brands grow through omni-channel distribution; and c) traditional brands have the ability to acquire Millennial and Generation Z consumers by leveraging Nykaa’s role as an influencer. As a result, various renowned international and domestic prestige brands have chosen Nykaa for their launches in the Indian market.
- It opened up the first physical store in 2014 and had 73 physical stores across 38 cities as of FY21. The physical stores currently exist in three formats:
 - **Nykaa Luxe** – This showcases prestige and luxury international and domestic brands. These stores are approximately 1,150 sq. ft. in size on average and have a presence in grade A malls and high streets. As of 31st March 2021, 35 Nykaa Luxe stores were operational across India in the cities of Mumbai, Delhi, and Kolkata.
 - **Nykaa On Trend** – This offers the current best-selling products across beauty and personal care brands. These stores are 700 sq. ft. in size on average. As of 31st March 2021, 30 Nykaa On-Trend stores were operational across India in cities such as Coimbatore, Chennai, and Jaipur.
 - **Nykaa Kiosks** – These are free-standing units usually installed in the atriums of shopping malls. The company predominantly sells owned brands through these kiosks. As of 31st March 2021, seven Nykaa Kiosks stores were operational across India in cities such as Bengaluru, Indore, and Mohali.
- These have been developed to cater to a specific consumer demographic and the need of the local market.
- **Nykaa manages the BPC business predominantly through an inventory-led model. This approach ensures sourcing directly from brands or their authorized distributors in the country. This allows the company to guarantee the authenticity of the products sold to consumers, which is an important consideration for such consumers. The company’s inventory-led model ensures availability and timely delivery.**
- It launched the Nykaa Man mobile application and website, thereby customizing the model and experience for men. Furthermore, this educates men and increases awareness about the use of grooming and personal care products.
- In FY21, 17.1m orders were placed on the platform for BPC products with a total GMV of INR33.8b/USD460m (+35.3% YoY).



Exhibit 15: Key operating metrics – BPC

Year ending 31 March (units m)	FY2019	FY2020	FY2021
Number of Visits	378.0	574.7	658.9
Monthly Average Unique Visitors	9.1	12.2	13.5
Annual Unique Transacting Consumers (AUTC)	3.5	5.3	5.6
Orders	11.0	17.0	17.1
Average Order Value (AOV)	1,433.0	1,448.0	1,963.0
Gross Merchandise Value (GMV)	16,219.2	24,981.4	33,804.1

Source: Company, MOFSL

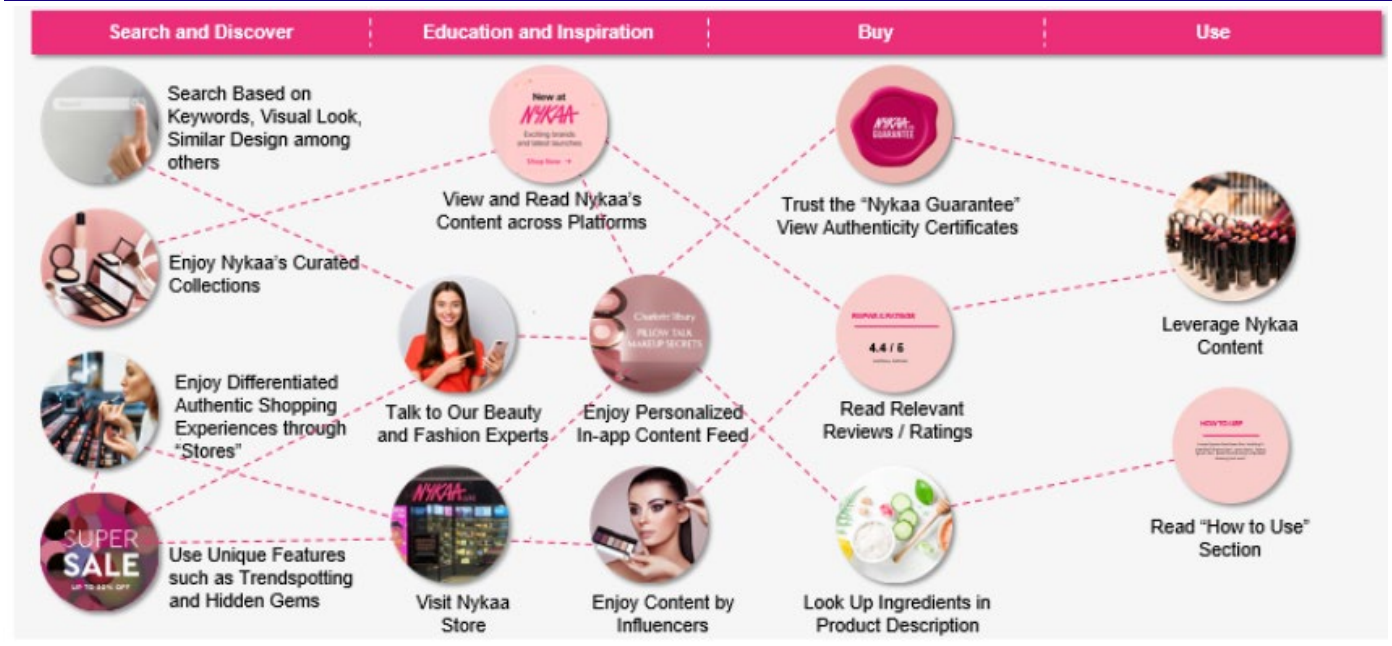
Fashion

- Nykaa Fashion was launched in 2018 as a curated and managed marketplace catering to a diverse demographic of women, men, and children.
- As of FY21, Nykaa Fashion housed 1,350 brands and had over 1.8m SKUs, with fashion products across four consumer divisions: Women, Men, Kids, and Home Merchandising.
- Within these consumer divisions, Nykaa merchandises across various categories, including Western Wear, Indian Wear, Lingerie, Footwear, Bags, Jewelry, Accessories, Athleisure, Home Décor, Bath & Bed, and Kitchen.
- It offers a mix of brands across established national brands, international brands, luxury brands, and emerging labels and designers.
- It strongly emphasizes curating its offerings. It identifies fashion-forward brands, vetting for style and quality, within these brands.
- It also places an importance on selling full-price products, reducing reliance on discounting, and selling designs from the latest season.
- In addition, it uses digital content, personalized mobile application experiences, and proprietary recommendation algorithms to build differentiated style-driven, discovery-led experiences for consumers.
- **This has resulted in 17.42% of the Fashion vertical GMV at full-price collections (at 10% or lower discounts) for FY21.** Furthermore, the average value of orders on the Nykaa Fashion mobile application and website was INR4,034 for FY21. According to the RedSeer Report, the average value of orders was the highest among leading online fashion retail platforms in India.
- **Nykaa Fashion operates predominantly as a managed marketplace and has custom-built scalable technology to support this operating model. Such a marketplace model lends capital efficiency for the Fashion business, wherein trends change quickly or frequently.**
- Nykaa Fashion also has six owned brands. These are available on the online channel and at one physical store and multi-brand third-party retailers.
- In FY21, 2.4m orders were placed for fashion products, with the total GMV at INR6.7b. **Nykaa Fashion is one of the fastest growing fashion platforms in India based on growth in GMV over FY20–21, according to RedSeer.**

Exhibit 16: Key operating metrics – Fashion

Year ending 31 March (units m)	FY2019	FY2020	FY2021
Number of Visits	0.1	37.8	172.1
Monthly Average Unique Visitors	0.0	1.7	5.8
Annual Unique Transacting Consumers (AUTC)	-	0.1	0.6
Orders	0.4	1.1	2.4
Average Order Value (AOV)	655.0	1,604.0	2,739.0
Gross Merchandise Value (GMV)	281.6	1,867.8	6,655.7

Exhibit 17: Nykaa's consumer journey



Source: Company, MOFSL

Other key takeaways from the Draft Red Herring Prospectus

- **Contribution to GMV sales in tier 2 and tier 3 cities has collectively increased to 64.0% in FY21 from 56.9% in FY19.**
- **Physical presence:** As of 31st March 2021, Nykaa was operating over three different store formats through 73 physical stores across 38 cities in India.
- The contribution of the top three categories in the Beauty and Personal Care offering decreased to 71.3% of GMV in FY21 from 84.9% of GMV in FY19.
- In FY19/FY20/FY21, GMV from the top three vendors (which accounted for the highest contribution to total GMV for each year) accounted for 34.2%/27.1%/24.4% of the total GMV.
- Nykaa's strategies include engaging beauty creators, influencers, and celebrities, maintaining a presence on social media platforms and within the peer-to-peer multimedia community. At the end of FY21, Nykaa had a network of 1,363 influencers, including Generation Z trendsetters; beauty, fashion, and lifestyle bloggers; make-up artists; and celebrities.
- Nykaa outsources the manufacturing of owned brand products to third-party manufacturers under loan and license arrangements or contract manufacturing.
- In FY19/FY20/FY21, Nykaa had 378.0m/574.7m/658.9m visits on its beauty and personal care websites and mobile applications. In Apr'21, an unplanned event that resulted in the platform being partially down for approximately 30 minutes caused order volumes to reduce by approximately 50%.
- Nykaa has historically experienced seasonal fluctuations in sales, with higher sales volumes associated with the festive sale period in 3Q each year – this encompasses holidays such as Diwali, Christmas, and annual sales events such as Pink Friday.
- Nykaa relies on third-party couriers, such as Aramex, Blue Dart, Delhivery, Ecom Express, ExpressBees, and Shadowfax to deliver orders from warehouses to consumers.
- The share of prepaid orders on the Nykaa.com platform increased to 57.3% in FY21 from 42.3% in FY19.

- Vendors are obliged to provide accurate product listing information. Purchase orders are issued to vendors, towards which products are delivered to warehouses. Vendor agreements may be terminated without cause by either party with 30 days' written notice.
- Nykaa has entered into standardized service agreements with third-party vendors, under which it agrees to provide certain marketing services to them – such as social media posts promoting the vendors' products and on its marketing publications – in consideration for service fees payable by the third-party vendors.
- **Distribution agreements:** These give Nykaa the right to import and sell specified beauty and personal care products in India. They also require the company to maintain inventory of products that is sufficient to meet the planned sales for the specified period.
- For its own brands, Nykaa procures the raw materials, the ingredients for the products, and the packaging materials; the finished products are stored at its warehouses. Manufacturing operations are based in several states such as Uttarakhand, Maharashtra, and Uttar Pradesh.
- **As of 31st March 2021, Nykaa had 2,045 employees, of which 47% were women.**

Key risks

We highlight some of the possible risks to Nykaa's business model:

- **Right-to-win in Fashion and other adjacent businesses:** The competitive advantage for Nykaa's strategies to venture into fashion in 2017 and enter adjacent businesses is unclear, particularly amid the intense competition from other players and horizontal marketplaces. The move is especially puzzling given the massive opportunity in the BPC space and Nykaa's dominant position.
- **Scaling issues with the inventory model:** As Nykaa's BPC business grows, its strategy of working with an inventory model could possibly become a hindrance given the large investment in inventory that will be needed. Furthermore, the company's ability to provide a guarantee on authenticity and keep expiration dates in check may be interrupted.
- **Competition:** Given Nykaa's success, new entrants could pursue the opportunity and enter the market using a similar inventory-led business model, thus eating into the company's market share. Given the projected market growth rate, even incumbent horizontal players could set up a separate platform dedicated to BPC and offer better prices, capturing customer share from Nykaa. We qualify this statement with the fact that the estimated size of the opportunity is large enough for new entrants as well as incumbents to coexist.
- **Bargaining power of suppliers and brands:** Nykaa has an inherent advantage owing to brands being scattered within the BPC sector. A risk here is that a few larger suppliers and brands could collectively negotiate better terms, weakening Nykaa's position. This risk of a collective coup by a group of large brands could be even more probable as Nykaa scales its own private label offering, thus cannibalizing on products offered by brands.
- **Technology:** With a multi-faceted reliance on its technological ability to offer better product discovery and a unique customer journey, Nykaa will be challenged by competition to continually build upon and improve its technology stack to maintain its lead.

- **Scaling up the store network:** Given the benefits, mentioned earlier, of the omni-channel approach to retailing, Nykaa's store expansion strategy will play a crucial role in strengthening its pole position in a rapidly growing market. It will have to deal with various aspects including identifying optimal locations, negotiating with landlords, ramping up inventory, and identifying the right partners, amongst others – any of which could act as stumbling blocks to its ambitious scale up plans.



Peer comparison and competitive landscape – BPC

Domestic competition – vertical players

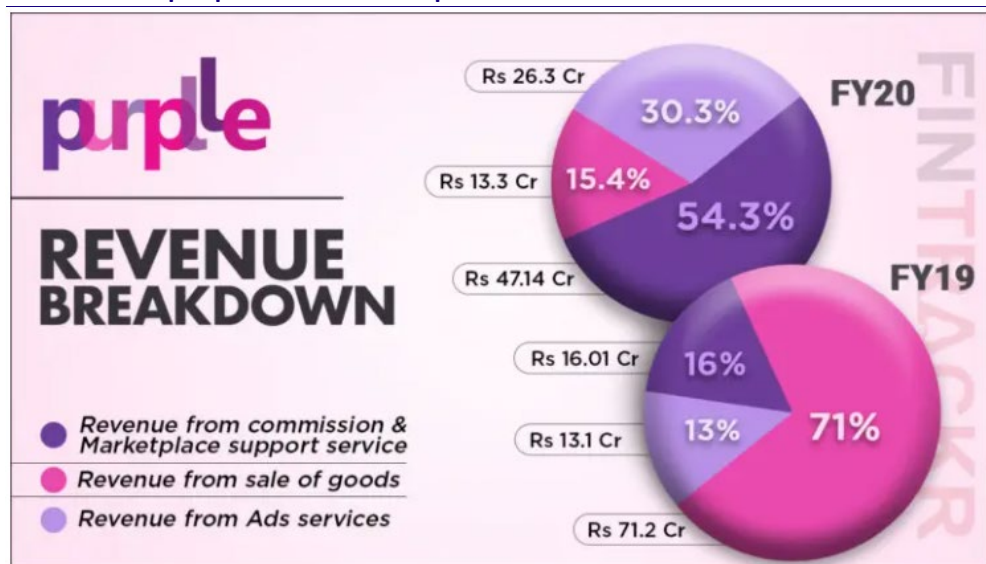
Manash Lifestyle Pvt. Ltd. (Purplle)

- Purplle, founded in 2012, is a beauty products e-commerce platform similar to Nykaa and is its direct competitor. It pitches itself as a 'Nykaa for tier 2-3 cities and beyond'.
- As per TechCrunch, it has 50,000+ products from 1,000+ brands available on its platform as well as 7 million MAUs.
- Purplle has been able to deliver >90% GMV CAGR for the last three years (including FY21). Purplle also has its own brands including NYBae and Good Vibes which have also scaled up successfully. Good Vibes is already an INR1.5b brand.
- As per media articles, Purplle aims to cross INR10b in sales over the next 4–5 years. **~40% of Purplle's revenues come from its private labels, and it aspires to increase this share further.**
- Purplle also plans to enter new countries in Southeast Asia and the Middle East over the next two years. It has an aggressive target of growing 80–90% year-on-year over the next 2–3 years.
- Like Nykaa, 70% of Purplle's sales also come from smaller tier 2 and 3 towns. To support this growth, Purplle would also target price-sensitive customers by introducing affordable products or smaller packs.
- **Interestingly, Purplle has moved away from the inventory-led model to the marketplace model in FY20. This has led to better working capital cycle management. The impact of this transition has resulted in revenue from in-house product sales dropping by 81.3% to INR133m in FY20 from INR712m in FY19.**
- Purplle's revenue from advertisements grew 101% to INR263m and collections in the form of commissions and marketplace fees surged 194.4% to INR471.4m in FY20. These verticals constituted 30.3% and 54.3% of operating revenues, respectively.
- The purchase of stock in trade contracted 85% to INR77.4m in FY20 from INR510.3m in FY19.
- Expenditure on advertising and promotions was the biggest cost center; it constituted 30.7% of the total costs incurred during the last fiscal. Costs surged 92.1% to INR365m in FY20 from INR190m in FY19.
- Purplle has recently raised USD45m in a new financing round (Mar'21). The new Series D round, financed by Sequoia Capital India and existing investors Verinvest, Blume Ventures, and JSW Ventures, values the company at USD300m. As per reports, it is currently in talks to raise USD50-75m, valuing the company at over USD500m.

Exhibit 18: Purple's revenue sees CAGR of 30.7% over FY16–20; continues to post losses at the operating level

INR m	FY16	FY17	FY18	FY19	FY20
Revenue	297	178	312	1,004	868
YoY growth (%)	NA	(40.1)	75.3	221.8	(13.5)
EBITDA	(192)	(151)	(137)	(35)	(221)
EBITDA margin (%)	(64.6)	(84.8)	(43.9)	(3.5)	(25.5)

Source: Tofler, MOFSL

Exhibit 19: Purple pivoted to a marketplace model in FY20

Source: Entrackr, MOFSL

**Sanghvi Beauty & Technologies Pvt. Ltd. (MyGlamm)**

- MyGlamm, launched in 2017, is a direct-to-consumer beauty brand in India that sells its owned branded products through its own website, app, and retail touchpoints.
- It sells over 800 SKUs across categories and has 15,000 point-of-sale touchpoints in the physical world across India. This physical presence accounts for 40% of the revenue it generates.
- **MyGlamm is a far more makeup-heavy business (which contributes 75%), while the Personal Care category contributes 25%.**
- MyGlamm acquired women-centric content platform POPXo last year, a start-up that has built a community around content, influencers, and commerce and serves over 60 million MAUs. It aims to add 4m customers this year. MyGlamm has roped in actor Shraddha Kapoor as its brand ambassador and investor.
- **In Aug'21, MyGlamm announced the acquisition of BabyChakra, an online parenting platform, to branch out into baby care.**
- It recently raised USD71.3m in a financing round (Jul'21). The start-up raised USD23.5m in its Series C financing round from Amazon, Ascent Capital, and Wipro in Mar'21.
- Amongst MyGlamm's investors is also L'Occitane, French based international retailer of body, face, fragrances and home products.

Exhibit 20: MyGlamm's revenue sees CAGR of 94% over FY16–20; continues to post losses at the operational level

INR m	FY16	FY17	FY18	FY19	FY20
Revenue	31	138	86	137	439
YoY growth (%)	NA	344	-38	59	221
EBITDA	(93)	(95)	(266)	(325)	(627)
EBITDA margin (%)	(300.0)	(68.8)	(309.3)	(237.2)	(142.8)

Source: Tofler, MOFSL

Myntra

- Myntra, founded in 2007 and headquartered in Bangalore, is a major fashion platform. More recently, it has focused on transitioning to a complete lifestyle e-commerce company. It was acquired by Flipkart in May'14.
- As per media articles, Myntra plans to double its beauty and personal care offerings by end-FY22.
- Myntra's orders increased by 114% and 104% YoY in the category in April and May, respectively, primarily driven by personal care products and fragrances in tier II and III cities. It further posted a 70% rise in its AOV.
- Flipkart and its fashion marketplace Myntra have announced a partnership with fashion and lifestyle brand Marie Claire to bring its range of cosmetics and hair styling appliances to India. Marie Claire's salons, magazines, and the Ready-to-Wear and Accessories segments are already operating successfully in India. This marks its entry into the Beauty and Hair Care Appliances categories.
- The move comes as both marketplaces expand their range beyond apparel and accessories to lifestyle products.

Domestic competition – horizontal players

Amazon, Flipkart, PayTM Mall

- Instead of focusing on just BPC and Fashion, horizontal marketplaces such as Amazon and Flipkart offer every possible retail category. They also offer a lot of discounting compared with Nykaa. **The deep pockets of such platforms allow them to burn more cash to acquire customers.**
- These horizontal players usually engage a marketplace model. For a lot of products, deliveries may be fulfilled by a platform on which items sold are offered by third-party sellers, but shipped from an Amazon Fulfillment Center, for example.
- The possible advantages such players have over Nykaa comprise better customer retention, quicker delivery and the bundling of other products from other possible essentials categories, and higher discounts. It is also more economical to enroll in the loyalty programs of these players.
- Nykaa excels over these peers in providing guaranteed authentic products through its inventory model, an engaging ecosystem of influencers, and an inclusive community, in addition to a growing physical presence. With scale, Nykaa would also be able to offer delivery times at par with larger players.
- Deep discounting by Amazon and Flipkart has not been able to impact Nykaa's growth thus far.

International vertical peers (BPC)

Chinese D2C brands – Proya, Marub, Perfect Diary

- In China, D2C brands have been built on similar strategies used to build global brands. However, the strategies have been adapted for the local market and focus heavily on user platforms and customer care.
- With this data-driven direct-to-consumer model, a new brand could complete the concept proposal, development, and launch of new products within six months, where it usually takes 18 months for big international players.
- China has built the business infrastructure for low-cost entrepreneurship. a) A high degree of the population being smartphone users and online shoppers, b) the boost to logistic partners, and c) strong innovation capabilities fuelled by digital technology, digital marketing, and supply chain power have enabled the

birth of a new generation of brands. At the same time, domestic demand is strong, cultural self-confidence has increased, and young people have a high sense of identity with domestic products.

- One of the concerns highlighted by experts has been that when beauty brands react to trends at such a fast pace as Perfect Diary does, it could lead to quality control and production issues.

Brick-and-mortar establishments – Sephora, Ulta Beauty

- While Sephora has a reputation for selling more luxury beauty brands, Ulta has long been considered a retailer of drugstore brands. Both stores carry a wide range of products across price ranges, and there is a lot of overlap between the two when it comes to brand selection.
- Both stores offer competitive rewards programs, a strong selection of products and brands, beauty services, tips, and a great shopping experience for customers.
- Sephora Collection, the store's in-house line, offers affordable beauty products starting from as low as USD1.
- Ulta Beauty Collection is the store's in-house label that offers affordable beauty products – prices start from below USD1 for a sheet mask – including everything from skin care to beauty tools.
- Both chains offer three tiers of membership, with the basis for each tier based on spends within the stores in the last year.
- Both Sephora and Ulta have well-organized stores with thousands of products on display. Both offer pretty similar online shopping experiences as well, although Ulta offers a highly convenient in-store pickup option.

IPO proceeds

- The fresh issue of shares aggregates to INR5.25b.
- There is an offer for sale for up to 43,111,670 equity shares.

Exhibit 21: IPO proceeds proposed to be utilized in the following manner:

Particulars	Amount (INR m)
Investment in certain subsidiaries, namely FSN Brands and/or Nykaa Fashion for funding the setup of new retail stores	350
Capital expenditure to be incurred by the company and investments in certain subsidiaries, namely Nykaa E-Retail, FSN Brands, and Nykaa Fashion for funding the setup of new warehouses	350
Repayment or prepayment of outstanding borrowings availed by the company and one of its subsidiaries, namely Nykaa E-Retail	1,300
Expenditure to enhance the visibility and awareness of its brands	2,000
General corporate purposes [#]	[*]
Total*	[*]

Source: Company, MOFSL

*To be determined upon finalisation of the Offer Price and updated in the Prospectus prior to filing with the RoC.

[#]The amount utilised for general corporate purposes shall not exceed 25% of the Net Proceeds.

- A. It proposes to utilize INR350m out of the net proceeds towards investments in FSN Brands and/or Nykaa Fashion for setting up new retail stores with an aggregate built-up area of ~75,000 square feet, to be undertaken over the course of Financial Years 2022, 2023, and 2024. (DRHP Page 142). It has considered an average store size of **650 square feet** (Average Store Size) to arrive at estimated costs for setting up a new retail store. This works out to 100–115 stores proposed to be opened over the next three years. The total cost for setting up a new retail store is **INR5.4m** for a store of average size.

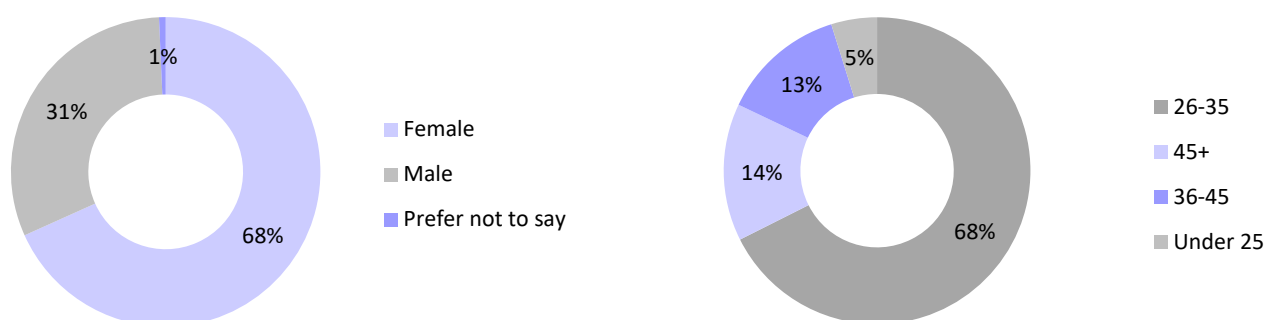
- B.** It proposes to utilize (a) INR50m out of the net proceeds towards capital expenditure for funding the setup of new warehouses by the Company; and (b) INR300m out of the net proceeds towards investments in certain subsidiaries – namely Nykaa E-Retail, Nykaa Fashion, and FSN Brands – for setting up new warehouses by Nykaa E-Retail, Nykaa Fashion, and FSN Brands, with an aggregate built-up area of approximately 350,000 square feet, to be undertaken over the course of Financial Years 2022, 2023, and 2024. (DRHP page 144). As of 31st March 2021, the network of warehouses comprised 18 warehouses (of which two are outsourced) across India, with storage space of over 582,371 square feet (average size of existing warehouses is 32,353 sq ft). Considering Nykaa’s strategy to set up new warehouses across regions, it has considered an average warehouse size of 50,000 square feet (Average Warehouse Size) to arrive at the estimated cost to set up a new warehouse. The total cost to set up a new warehouse is **INR9.2m** for a warehouse of average size.
- C.** As of 31st March 2021, the amount outstanding under fund-based loan facilities was INR1,874.7m. The management proposes to utilize an estimated amount of (a) INR220m from the net proceeds towards the full or partial repayment or prepayment of borrowings availed by the company and (b) INR1,080m out of the net proceeds for investment in Nykaa E-Retail towards the full or partial repayment or prepayment of borrowings availed by Nykaa E-Retail.

Nykaa – MO primary research

We conducted a survey with 150+ participants to understand the consumer behavior and preferences related to online shopping for Beauty and Personal Care (BPC) products. The majority of the participants were from metro cities within India, while some were from tier II cities and international locations.

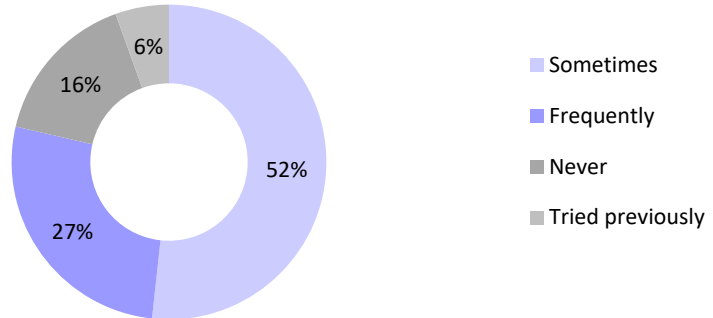
Survey demographics

Exhibit 22: Majority of participants were female, with the age group of 26–35 years being the most represented



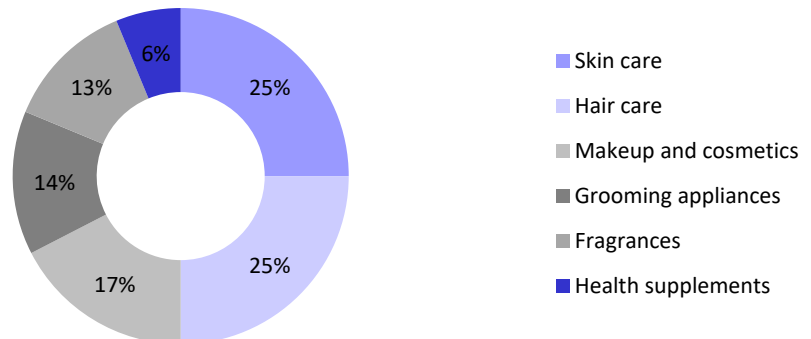
Purchasing trends

- **79% of participants purchase BPC products either frequently or occasionally.** 16% of respondents claim to have never purchased BPC products online. Moreover, only 6% have tried purchasing previously but then discontinued for various reasons.



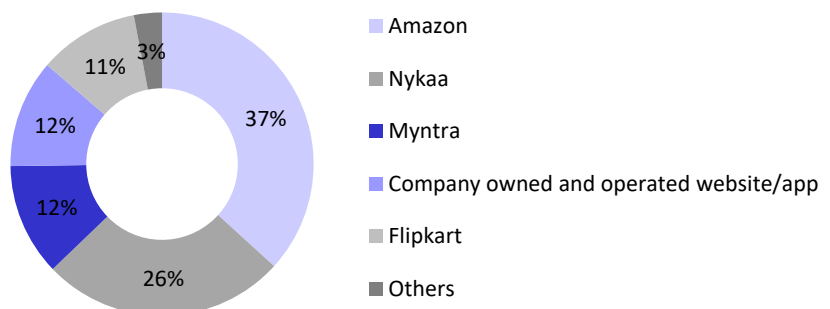
- **78% of the participants that do not purchase BPC products online still purchase other categories of goods through e-commerce platforms, primarily Amazon India (78%).**
- The most common reason for avoiding BPC product purchases online was that they preferred to sample/test products before purchase, followed by the fear of spurious products being sold.

Exhibit 23: Preferred categories



- Hair Care and Skin Care were the two most preferred categories for online buyers – both together accounting for 50% of all responses. This was followed by Makeup and Cosmetics, Grooming Appliances, Fragrances, and Health Supplements.

Exhibit 24: Preferred platform for BPC purchases

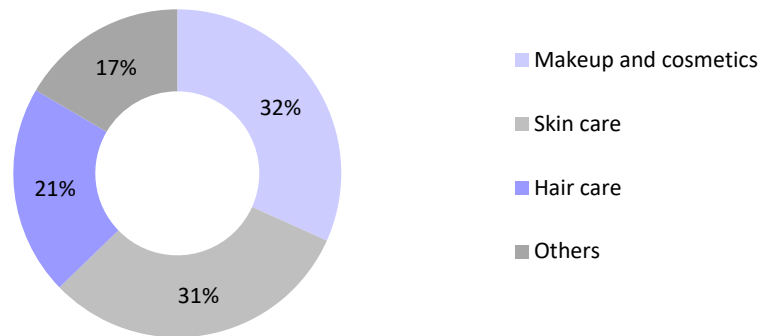


- 37% of participants selected Amazon as their preferred platform for BPC purchases, followed by Nykaa with 26%. The preference for the choice platform was based on:
 - 1) The range of products available
 - 2) Best prices / Discounts offered
 - 3) The assurance of genuine products

Nykaa

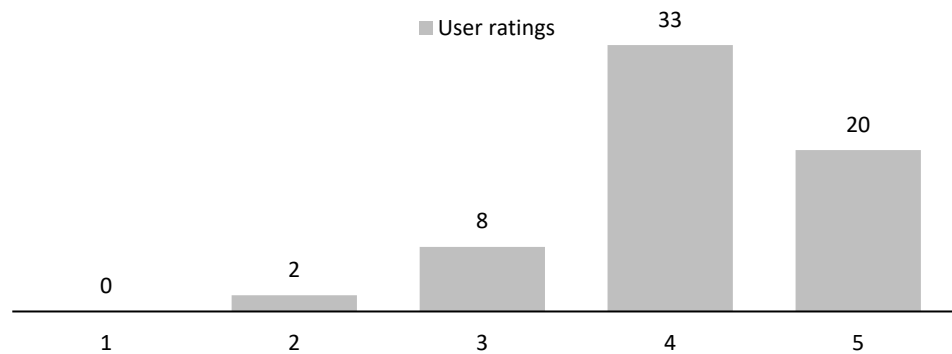
- 55% of participants who shopped for BPC products online had shopped from Nykaa at least once, with another 37% having heard of Nykaa, but not having shopped there before. The majority of these participants had shopped from Nykaa or heard about it for 2–4 years – suggesting that the platform’s popularity is not a recent happening, and it has had consumer awareness since before the pandemic.

Exhibit 25: Category preference among participants on Nykaa’s platform



- 32% of participants shopped for Make-up and Cosmetics on Nykaa, followed by Skin Care (31%), Hair Care (21%), and Others – Fashion, Fragrances, Grooming Products, and Health Supplements.
- As per the survey results, participants preferred Nykaa for their range of options across categories and guaranteed authenticity. Nykaa had an average user rating of 4.1 out of 5 in the survey.

Exhibit 26: Nykaa – average user rating of 4.1 out of 5



Other observations from the survey

- 33% of Nykaa users from the survey had visited one or more of their physical stores, with another 43% having heard about the stores. A third of all Nykaa users having visited a physical store is a rather impressive indicator.
- The majority of participants see no change in their frequency of orders once the pandemic ends and lockdowns have been entirely lifted.
- 76% of users were not subscribed to Nykaa's membership program (Nykaa Prive), 17% of respondents were subscribed, while 6% were unsure of their subscription status.

Financials and valuations

Income Statement			(INR m)
Y/E March	FY19	FY20	FY21
Net Sales	11,114	17,675	24,409
Change (%)		59.0	38.1
Raw Materials	6,603	10,142	14,878
Gross Profit	4,511	7,533	9,531
Margin (%)	40.6	42.6	39.0
Operating Expenses	4,306	6,723	7,916
EBITDA	205	811	1,614
Change (%)		295.2	99.2
Margin (%)	1.8	4.6	6.6
Depreciation	309	595	671
Int. and Fin. Charges	263	443	307
Other Income	50	103	117
Profit before Taxes	-317	-124	753
Change (%)		NM	L/P
Tax	0	45	401
Deferred Tax	-72	-6	-267
Tax Rate (%)	22.6	-31.5	17.8
Adjusted PAT	-245	-163	619
Change (%)		NM	L/P
Margin (%)	-2.2	-0.9	2.5
Exceptional/Prior Period inc	0	0	0
Reported PAT	-245	-163	619
Balance Sheet			(INR m)
Y/E March	FY19	FY20	FY21
Share Capital	142	146	151
Reserves	2,163	3,076	4,749
Net Worth	2,306	3,221	4,899
Loans	2,256	2,675	1,875
Lease liabilities	848	1,450	1,452
Minority Interest	5	7	8
Capital Employed	5,414	7,354	8,234
Gross Block	1,808	3,278	4,017
Less: Accum. Depn.	414	1,009	1,711
Net Fixed Assets	1,394	2,269	2,306
Capital WIP	3	20	24
Goodwill	1	1	5
Investments	1,383	38	13
Curr. Assets, L&A	4,473	8,410	9,891
Inventory	2,446	4,453	4,981
Account Receivables	579	984	766
Cash and Bank Balance	119	1,756	2,477
Others	1,329	1,216	1,667
Curr. Liab. and Prov.	2,342	3,891	4,785
Account Payables	1,818	3,133	3,162
Other Liabilities	500	705	1,441
Provisions	25	53	182
Net Current Assets	2,131	4,519	5,106
Deferred tax assets	501	506	780
Other assets			
Application of Funds	5,414	7,354	8,234

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21
Basic (INR)			
EPS	-16.3	-10.9	41.1
Cash EPS	4.2	28.7	85.7
BV/Share	153.1	213.9	325.4
DPS	0.0	0.0	0.0
Payout %	0.0	0.0	0.0

Return Ratios (%)

RoE		-5.9	15.3
RoCE		6.6	11.2
RoIC		5.2	13.7

Working Capital Ratios

Inventory (Days)		124	116
Debtor (Days)		16	13
Creditor (Days)		89	77
Net working capital (Days)		51	52
Asset Turnover (x)	2.1	2.4	3.0

Leverage Ratio

Debt/Equity (x)	1.3	1.3	0.7
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Cash Flow Statement

Y/E March	FY19	FY20	FY21
(INR m)			
OP/(loss) before Tax	-317	-124	753
Depreciation	309	595	671
Net interest	255	424	204
Others	40	-5	275
Direct Taxes Paid	0	-43	-132
(Incr)/Decr in WC	-1,284	-786	-273
CF from Operations	-997	61	1,499
Incr in FA	-349	-457	-421
Free Cash Flow	-1,346	-396	1,078
Pur of Investments	-1,271	606	-897
Others	6	739	916
CF from Invest.	-1,614	888	-401
Issue of Shares	1,340	1,037	1,029
Incr in Debt	1,214	-52	-1,229
Dividend Paid	0	0	0
Net interest Paid	-197	-298	-177
Others	0	0	0
CF from Fin. Activity	2,357	687	-377
Incr/Decr of Cash	-254	1,637	721
Add: Opening Balance	374	119	1,756
Closing Balance	119	1,756	2,477

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