

Falguni Nayar,
founder and CEO,
Nykaa, is changing
the face of the
cosmetics business.



ADDING GLOSS TO THE

Nykaa, a specialised online beauty retailer, is set to **become a unicorn in a couple of years on the back** of its rapid expansion plans and the segment's growth potential.

BY DEEPTI CHAUDHARY

PHOTOGRAPH BY SANJAY RAWAT



BEAUTY BUSINESS

TAKING TIME OFF FROM WORK IS RARE for Falguni Nayar, founder of Nykaa, India's largest online beauty retailer. But when she fractured her hand this February, she didn't have a choice. As it turned out, it was a real learning experience: She discovered that women aren't the only ones who know about Nykaa; even the assistant of the orthopaedic surgeon who treated her at the Mumbai hospital was aware about Nykaa and its offerings. "I was so happy that he knew about Nykaa," says Nayar, 55, the former managing director and chief executive of Kotak Investment Banking, who spent 19 years as an investment banker and broker.

Nayar always wanted to try her hand at entrepreneurship before she retired. As e-commerce was picking up at the time, the mother of twins quit Kotak at 50 and researched online models and realised that customers were looking for a larger array of products in personal care, bath, and beauty. Thus Nykaa—which gets its name from the Sanskrit word *nayaka*, or the one in the spotlight—was born in 2012.

It's been barely six years since, but Nykaa has successfully created a spot for itself in India's \$6.5 billion cosmetics market. Other online retailers, such as Myntra and Amazon, also offer personal care and beauty products, but they've only intensified their focus on these products over the past year. Mumbai-based Nykaa, on the other hand, has become almost synonymous with the online beauty business. The valuation of the startup, according to industry insiders, is touching \$500 million (around Rs 3,000 crore); and going by the way it is scaling up, and the growth potential of this segment, it seems well positioned to become India's first beauty segment unicorn in a couple of years.

The numbers tell a story. Nykaa dispatches nearly 15,000 packets a day, which helped it close the year ending March 31, 2018, with revenue of Rs 570 crore, up 166% from Rs 214 crore in the year-ago period. It broke even last year and is hoping to turn a profit next year, thanks to its breakneck growth.



WE CURRENTLY HAVE A RETAIL PRESENCE ACROSS 17 NYKAA STORES AND DISTRIBUTION THROUGH BEAUTY STORES ACROSS INDIA."

Reena Chhabra, chief executive, Nykaa Beauty

How did Nykaa race its way to the top so soon? Being a specialised online beauty retailer certainly helped. Unlike e-commerce giants Flipkart and Amazon, which sell everything from books to groceries, Nykaa focussed on beauty products. The only other online beauty retailer is *purpl.com*. "In fashion and apparel, Myntra tends to be better than Flipkart. Being a specialist helps in this [beauty] category; be it in assortment or filters or narrowing down of choice, specialists tend to offer a very specific experience,

PHOTOGRAPHS BY S KUNAR



WE REALISED A BIT TOO LATE THAT WE HAD NOT SET UP THE RIGHT ERP SYSTEM, SO WHEN THE SCALE INCREASED, WE WERE NOT ABLE TO DEAL WITH THAT OUTFLOW."

Adwaita Nayar, chief executive of retail, Nykaa.com

which can be habit-forming," says Harminder Sahni, founder and managing director, Wazir Advisors, a Gurugram-based retail consultancy firm.

Sahni points out that Nykaa has been aggressive in its strategy of going for exclusive partnerships with global brands, creating private labels, and having an offline presence. Nykaa was the first retailer in the country to tie up with global beauty brands such as Wet n Wild and Huda Beauty from the U.S. and South Korea's innisfree to

bring their products to India. Brands such as Kiehl's, Clinique, Estée Lauder, KIKO Milano, MAC, The Face Shop, and Bobbi Brown are also available online exclusively on Nykaa. "Nykaa has managed to keep the basics right from the beginning. From its initial days to now, it continues to be well-stocked, customer experience has improved, and it has price points for customers across segments," says Sahni.

A

ADWAITA, NAYAR'S DAUGHTER, who helped launch Nykaa before leaving for Harvard for an MBA, says the company's success has surpassed her mother's expectations. Nykaa entered the market at a time when many in the industry were on the verge of writing off the online beauty business. Between 2012 and 2015, many entities such as GoodLife and Amber Wellness shut shop with little interest or support from customers and investors. Beauty as a category was growing slower than other categories due to limited selection, supply chain hurdles, and problems such as the risk of fake products. But Nayar was unfazed. She still set up Nykaa, bootstrapping the venture with her own funds, though she doesn't divulge how much she invested.

It wasn't an easy ride in the beginning, with 2013 being a particularly difficult year. Nykaa's chief business officer, chief operating officer, chief technology officer, and chief marketing officer quit within a couple of months. "We realised a bit too late that we had not set up the right ERP (enterprise resource planning) system, so when the scale increased, we were not able to deal with that outflow," Adwaita, now chief executive of retail at Nykaa.com, says as she wipes lipstick she's been testing off her hands.

"Mom and I had to go to the warehouse on several occasions to pack boxes, sort through piles of inventory, and for a week >>>

166%

▼
Growth in
Nykaa's revenue
in FY18 over its
revenue in FY17

▷▷ in September 2013, we were in office till 3 a.m., packing boxes. There were calls from upset customers, and it was because we did not have the right operation structure in place—ERPs, customer management system, and the team. It was all disintegrating at the slightest show of scale.”

Also, not many investors wanted to invest in Nykaa at that point of time. And this was despite the fact that Nayar is married to one of the country's most prominent private equity investors and KKR India chief executive and country head, Sanjay Nayar, whom she met as a student at Indian Institute of Management Ahmedabad. “We were not speaking the language they wanted to hear,” says Advaita, explaining that her mother never played “the GMV [gross merchandise volume, a key metric for e-commerce firms] game”. “They would say, ‘Just grow faster’, and her answer would always be more tempered like ‘Yes, I want to grow but with the right time and right metrics and cost structure’, which never really clicked with them.”

N

NAYAR WAS NOT AVERSE TO RAISING CAPITAL, but decades of investment banking had taught her that sustaining a business was most important. “I definitely feel I come from a discipline of understanding a company's financial numbers, and having a clear view of what's a sustainable model and sustainable number that a business needs to have to trade well in equity markets,” says Nayar, in her crisp, confident, and to-the-point manner. “And [it] probably has come in very handy because over the years we have built our business in a way that makes it financially prudent and sustainable.”

The gamble eventually paid off. The beauty business has progressed beyond basics such as *kajal* and *bindi* for women, or shower gels and deodorants for men. And it is expected to grow faster than the online apparel industry, which accounts for a large chunk of the e-commerce business. Rising purchasing power, demand for exclusive beauty products, greater product authenticity, and supply chain reliability should drive rapid growth in the online beauty segment over the next few years, according to RedSeer Consulting, an Internet-focussed consulting firm in India. According to RedSeer's estimates, the domestic online beauty



IT IS IMPORTANT TO GET NEW BRANDS TO INCREASE ENGAGEMENT WITH THE BUYERS. WE ARE IN VARIOUS STAGES OF DISCUSSION WITH GLOBAL BRANDS TO BRING THEM TO INDIA.”

Bindu Mendonca, senior vice-president and head of women's and men's businesses, Myntra

and personal care market is expected to cross \$3.5 billion (Rs 22,109 crore) by 2022 from about \$300 million now. In comparison, the online apparel market is worth \$3.8 billion, growing at 10-12%.

“Both for online and offline retailers (especially malls), growth in fashion is tapering and their focus would shift to this [online beauty segment] high growth potential

category,” says Shubham Anand, head, retail-CPG (consumer packaged goods) practice at RedSeer, in a recent report. “By 2020, a pool of luxury brands such as Labiocos, Bodyography, and Victoria’s Secret are expected to clamour for the Indian consumer’s wallet and mindshare.”

Nykaa has created a sweet spot for itself. It has seen three-fold growth in its customer base. It also has a repeat customer base of nearly 50%, the company claims. Its monthly orders jumped from 120,000 in August 2016 to 400,000 in August the following year; it expects to touch 700,000 this August. And, it gets six orders per minute with an average order value of Rs 1,500. The online retailer offers over 850 brands and 100,000 products. “In e-commerce, not just the beauty [segment], assortment is one of the most important things, so having a very wide assortment is important. In e-commerce, in general, convenience is very important, and we believe price is only the third most important factor,” says Nayar, who media reports say loves silk sarees and diamonds.



INDUSTRY INSIDERS SAY CUSTOMER LOYALTY tends to be higher in the beauty segment. Also, a large chunk of business will come from brands that customers are aware of, says Bindu Mendonca, senior vice-president and head, women’s and men’s businesses, Myntra. “It is important to get new brands to increase engagement with the buyers. We are in various stages of discussion with global brands to bring them to India,” she says.

To bring its offerings closer to customers, Nykaa adopted an online-offline approach in 2015, opening stores across the country. The company has 17 stores across India in two formats: curated ones, which sell the platform’s bestselling products; and large stores, which offer premium and luxury brands.

Recently, the company opened its flagship Nykaa Luxe store in New Delhi’s luxury mall,

**\$3.5
BILLION**

▼
Estimated size
of the domestic
online beauty
and personal
care market
by 2022

**RS 3,000
CRORE**

▼
Nykaa’s
estimated
valuation after its
latest round of
funding of
Rs 165 crore

700,000

▼
Number of
monthly orders
Nykaa expects
in August; in
August 2017, it
had 400,000
orders

The Chanakya, which houses more than 50 luxury brands across 2,500 sq. ft. Nykaa aims to open 55 pan-India stores by March 2019. “We want the same customer to come online and offline, and most of the time it’s our online customer going to an offline store to get what meets their needs,” says Nayar, who uses only lip gloss and *kajal* herself.

Besides being a retailer, Nykaa also has an in-house portfolio of beauty products (Nykaa Beauty), which includes nail paint and lipstick. They are displayed in glass racks along with the entire portfolio of products as you enter the company’s posh office in Mumbai’s Prabhadevi. The company recently entered the fragrance segment in India with the Moi by Nykaa range, developed in association with perfumer Jordi Fernandez. “Within a short span of two years, Nykaa Beauty—which includes Nykaa Cosmetics, Nykaa Naturals and Nykaa Bath and Body—has grown significantly, aided by our e-commerce platform,” says Reena Chhabra, chief executive, Nykaa Beauty. “On offline distribution, we are in four-five states in north and west India.” She adds that the company plans to get into offline distribution in south and east India, and is also exploring retail formats such as standalone Nykaa Beauty stores.

Nayar’s emphasis on creating the right model, too, has paid off. Last month, Nykaa raised Rs 165 crore in its series D investment round. Several of its early-stage investors, including Hero Group’s Sunil Kant Munjal, the family offices of Marico chairman Harsh Mariwala, and private equity veteran Dalip Pathak, reinvested.

Nykaa is busy with a new product category: Retailing lingerie on its site. It also plans to launch high-end curated fashion on its platform soon and is eyeing the men’s grooming segment. Nykaa will eventually emerge as a house of brands, creating a range of subset brands—something like L’Oréal, which owns budget brands such as Garnier, as well as luxury labels like YSL, and Lancôme. “We believe the Nykaa customer is more millennial and has a propensity to consume certain types of products,” says Nayar. “In future, we may come up with a range for a different customer, older customer, a more mature customer or a luxury customer.”

Clearly, Nayar has big plans, and she intends to see them through. ■