



FSN E-Commerce Ventures Limited

Q4FY22 & FY22 Earnings Conference Call

May 27, 2022

Management:

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| Falguni Nayar | : Executive Chairperson, Managing Director and Chief Executive Officer |
| Anchit Nayar | : Executive Director and Chief Executive Officer, Beauty E-Commerce |
| Adwaita Nayar | : Executive Director, Co-Founder and Chief Executive Officer, Fashion |
| Arvind Agarwal | : Chief Financial Officer |

Earnings Call Transcript

Vijit Jain:

Good evening, everyone. This is Vijit Jain from Citi Research. Welcome to FSN E-commerce Ventures Limited 4Q-FY22 earnings call. From the management at Nykaa, we have Ms. Falguni Nayar, Executive Chairperson, Managing Director and Chief Executive Officer. We have Anchit Nayar, Chief Executive Officer, Beauty E-commerce. Adwaita Nayar, the Co-Founder and CEO of Fashion. And Arvind Agarwal CFO, will also join the call shortly. I'll now hand over the call to Falguni for opening remarks in the presentation, and then we'll open it up to Q&A. Over to you.

Falguni Nayar:

Yeah. Thank you, Vijit. I am really happy to be here in front of the investors and analysts for this call today. And while I'll take you through our detailed presentation, I just wanted to say that we have made an extra effort to share additional information on a number of additional area, including separate unit economics for Beauty and Fashion, as well as our new business growth, as well as some additional information on businesses like physical retail and others. So I hope that enables better understanding of our business for each of you. And some of the KPIs that we normally share have also been shared, and there are few more KPIs which probably will be shared on an annual basis.

Falguni Nayar:

So with that, I'll start with the fact that we do believe that it's been a strong performance through the year, with our GMV growth at 71% which has taken our GMV to Rs.6,933 crores, and our revenue growth has been 55% at Rs. 3,774 crores. I want to point out once again, that in Beauty business we are inventory led and hence we book our sales. Whereas in case of Fashion, we are a marketplace business and we only book our commission income. And it was this need for differential accounting that we saw, that we need to share additional information which we shared, and you'll see it later. As far as gross profit is concerned, our gross profit is at Rs. 1,644 crores which is a 73% year on year growth. And our gross margins have come out at 43.6%, which is a very healthy gross margin for the consolidated firm. On the EBITDA side, our EBITDA has come out at Rs. 163 crores just about a 4% growth year on year. And the margins are at 4.3%.

Falguni Nayar:

We believe that there are three big reasons for this. One is accelerated customer acquisition, leading to higher marketing costs. Some adversity and fulfillment cost during the year, and we've had strategies to counter that, and I'll talk later about those. And also emerging mix, where we are investing in new businesses, where Fashion we have clearly made an investment, as well as in our new businesses of the Superstore and NykaaMan. And I think that's also clearly spelled out in later slides. Since we're talking about it here, I'll come to it then. On the PAT side, our PAT came out at just Rs. 41 crores, almost 33% degrowth and the margins is at 1.1%, but this is also reflective of the fact that we have now accelerated store rollout, and also warehouse rollout with its associated hit in terms of depreciation and amortization.

Falguni Nayar:

Next, we believe that this is a great performance in the midst of macro challenges like rising inflation, reduction and discretionary spend by the consumers, as well as COVID uncertainty. There were two rounds of COVID uncertainty. First being in April, May, June, all of you are aware that the Delta variant

was very, very adverse and there were lots of fears and India suffered. And Nykaa continued to do business in that adverse condition. There were impact on supply chain as well as warehouse network, and further rollout of our warehouses during that period affecting some amount of fulfillment costs in the beginning part of the year. Similarly, in January, again, there were COVID fears for Omicron and a lot of celebratory weddings and many other things were canceled, leading to, again, some amount of subdued demand in that quarter. Rising inflation is affecting to a certain extent and consumer companies are passing on higher prices to the consumer. We do believe that there is some impact of rising inflation and reduction in discretionary spend in consumer discretionary spend in our categories also. However, we feel that we've come out with strong result in spite of that.

Falguni Nayar:

This is a very big point that Nykaa is pursuing diversification to address larger total addressable market. If you look at our business in 2019, we had 98% of the business coming from Beauty and our GMV was Rs. 1,650 crores. We have grown it since then to almost Rs. 6,933 crores, and total addressable market has also grown. Our growth is accelerated to 71% year on year, this has been achieved through Fashion which now accounts for 25% of our GMV. And now we are doing a similar growth ambition by introducing our Superstore business as well as NykaaMan.

Falguni Nayar:

If we go to the next slide, I will talk a little bit about this diversification strategy. So like you can see that in Beauty we are going deeper, Beauty TAM, likely TAM in 2025 is \$28 billion, composition is not just .com but also organized retail will also grow from 19% to 30% to 35%. And towards that, our answer is through our own store rollout where Nykaa retail stores under three formats are servicing and catering, and we are again expanding our network. And we've also entered GT MT distribution space, though it will degrow from 72% to 41%-50% of the market, but it is still a large business. And to that effect, we have entered into Superstore, which is allowing our brand partners to sell their brands to GT MT network throughout the country. And this, we'll talk more about this later.

Falguni Nayar:

On the Fashion side, entering fashion market was addressing a larger TAM and we of course started with .com business, which will address almost 22%-27% of the market going forward. So even if we have a small market share, it will be a substantial business. And we have only one store on Nykaa Fashion side right now, but we will be going into some amount of physical retail with the right format that makes sense. At the moment, we are not considering the GT MT business on the Fashion side, except for some individual brands like Nykd.

Falguni Nayar:

Next, so this has led to a very strong growth on GMV. And you can see a consolidated GMV came out at 71%, highest in last three years, and CAGR is also 61%. On the Beauty side, our GMV has grown 49% this year. And we do believe that Fashion GMV which grew at 168% allowed us to deliver superior growth. So we are scaling very well in a highly competitive category like fashion. In Beauty also we do believe we are strengthening market share, because this is a very healthy growth in GMV in the Beauty business, and on a consolidated business through diversification we are accelerating our growth. Others includes the new business verticals where we are now at Rs. 183 crores of GMV, but these will grow going forward. You can see that on a small base, these are businesses that are growing rapidly.

Falguni Nayar:

Coming to our key growth strategy. I think you have to say our number one growth strategy has been driving customer acquisition and retention across the funnel journey. And I'll come in into the details of those. So here you can see that we continue to grow our app downloads, which are now for Beauty alone there at 47.3 million app downloads in aggregate. On the visit side, again, we have accelerated the visits and they have grown at about 34% on a year on year basis. Our monthly active users have grown very nicely to almost 20.8 million monthly active users on Beauty alone, a huge growth of 54% from the previous year. And number of orders have also grown to 58% year on year from a year ago.

Falguni Nayar:

I think just we'll comment on 2020 to 21, the number of orders grew small, you can see hardly any growth. And a lot of investors asked me for that, but I think at that point Nykaa took a conscious decision to make our shipping policy and our minimum order policy stringent, because COVID impacted year where we wanted to conserve both our expenses, as well as our physical warehouse capacities were limited, we took a conscious call to not allow marginal low AOV orders. However, that does have some impact on customer acquisition. And now our shipping policies are back to normal levels, pre COVID levels. On the new customer acquisition, I think that has accelerated in Beauty where we had a 4.4 million new customers acquired, this is a 49% growth over last year. Our trailing 12 month customer numbers have also grown by a similar 49%. It now stands at 8.4 million customers have bought on Nykaa platform over the last 12 months.

Falguni Nayar:

On the AOV side, there's a slight dip because of the shipping policy now going back. We obviously had huge gains during COVID time, like you can see where we had gone up by 36%. We have tried to maintain most of that gain, and in spite of lenient shipping policy it's just come down slightly. And our existing and new customer mix, and this is not a new versus repeat, but it's new customers are all customers acquired within a year. They have accounted for 27% of our GMV share in Beauty business, with 73% coming from pre-existing customers. If we go back further, I mean go further to Fashion business. Here app downloads are now at 25 million lifetime app downloads, are from 10.9 million a year ago and visits are up 156% to 441 million visits, and monthly active users stand at 15.3 million versus 5.8 million a year ago. Again, a very healthy growth. All of that resulting in order growth of 120% from 2.4 million to 5.2 million.

Falguni Nayar:

Moving forward, on the new customers we acquired 1.6 million new customers in Fashion compared to 0.6 million last year. And the trailing 12 month customers now stand at a healthy 1.8 million against 0.6 million last year, again growth of 182%. AOV in Fashion continues to improve even on a high base, and all of you know that this is far higher than the competitor's AOVs. Even in Beauty, our AOVs are higher than the industry AOVs. And on existing and new customer makes 74% of the business, GMV came from new customers with 26% coming from existing customers.

Falguni Nayar:

Next, we also wanted to develop deep relationship with diverse set of domestic and international brands. May I request Anchit to comment on this, or I'll just take it for now? So we have more than 3,000 brand partners on the Beauty side and we are continuing to bring international brands into the country. We have introduced more than 22 global brands through our imports business, and more come

through other distributors and retailers. We are also very focused on what we call as ESG strategies, and we now have a Conscious at Nykaa catalog. We have a Conscious at Nykaa curation on the website, where conscious products which are classified into whether they are nasties free or whether they are not tested on animals. And a number of those strategies are being reflected on each of the products. So there is this conscious at Nykaa tag on all our brands and their SKUs. We also are helping customers discover new niche brands through hidden gems as well as through beauty bazar, we are helping them discover Made in India brands.

Falguni Nayar:

And what is interesting on the right hand side is that our GMV mix has been very healthy. And each of our category's growing very nicely. So makeup, which is our biggest category is also grown by 40% year on year, skin is grown by 50% year on year, it's become a very large category sometimes at par with makeup. And on the hair side, we are growing at 60% year on year, including bringing professional offering to the customers. And many other categories like fragrance, mom and baby, health and wellness, and appliance, which we add together, they have grown by 80% year on year.

Falguni Nayar:

With that, I think on the Fashion side may I request Adwaita to come in on the assortment.

Adwaita Nayar:

Yeah, perfect. I'll just jump in. So folks, it's been about three years of really trying to build this business. A large part of our strategy over the last two years has been very aggressive brand onboarding, making sure that we have the absolute best assortment for our customers. So we continued with that momentum of aggressive brand onboarding last year. I think another big pillar for the Fashion business remains curation, that is one of our big differentiators. So we launched a couple of different properties that helps us bring very interesting pegs to the customer. Things like hidden gems, where we travel the country to get very interesting unique brands to the customers, a huge emphasis on sustainability and responsible fashion, and also plus size fashion.

Adwaita Nayar:

The table on the right just gives you a sense of the sheer size and scale of the catalog. That is one of the differences between Fashion and Beauty. There's just a lot of products and style out there that proliferates across a whole bunch of brands and subcategories. A big decision we took this past year was beyond women, can we also have a play in men, kids in home, all divisions that we ramped up this past year. And today we see that those new divisions as we call emerging divisions within our teams is growing very fast, much faster than the women's business. And so while women's remains the majority, we're pretty confident that these will be good growth levels in the future. That is men, kids in home. Moving on.

Falguni Nayar:

So I think going on the theme of penetrating through the value chain, I think we are expanding our physical store network. This is just an image of one of our stores. And here you can see that Nykaa has expanded the physical store network to 105 stores by the end of March 2022. And these are in 49 cities. Our physical retail has grown at 72% GMV year on year. And the GMV share of physical retail has ended at 7.5% in the quarter four of 2022. Full year is still at 6.6% because like I pointed out, there were many factors that impacted the physical store performance in the first half of the year, mainly COVID related.

We've also for the first time shared our GMV per square feet in our stores, which runs at Rs. 3,442 per square feet, per month. And the average size of our stores is about 940 square feet per store.

Falguni Nayar:

The second strategy has been to continue to expand our fulfillment centers. We now have 23 warehouses in 11 cities with 8.2 lakh square feet of capacity. We have added almost 2.4 lakh square feet in financial year 22, which is about 40% year on year growth. This regional warehouse capacity expansion is a strategy which will help us save fulfillment costs through savings in air shipment, as well as faster order to delivery for the customer resulting in better customer experience. And we are now able to service almost 98% of pin codes in the country. And almost 95% of orders are delivered within five days. And in fact, in metro and other areas, a lot of orders are delivered within 48 hours also.

Falguni Nayar:

Next, I think this is about our Superstore business, which we launch about six months ago. I think here we are trying to be vertically focused on beauty and personal care and wellness brands, where we are trying to play a distributor and a wholesaler role, selling these products to retailers with the margins that is passed on to them. And here we are trying to serve underserved retailers like beauty stores, pharmacy salons, and kirana stores, more premium kirana stores. We already have about 18,800 transacting retailers on this platform by the end of quarter four in 302 cities, and the number of brands listed at 134. I would say that these are very early days, we've just launched it, and the platform seems to be doing well. And lies a growth and long journey ahead as the addressable TAM is very large.

Falguni Nayar:

I think all of you are aware that Nykaa has believed in creating, acquiring and scaling a portfolio of independent and new age consumer first brands. In makeup, you know that Nykaa has a number of own brands that we will launch over the last five years, six years beginning with Nykaa cosmetics later, Kay Beauty which is our first celebrity beauty brand. On the skincare side, we now have a derma based skincare brand called Nykaa Skin RX, as well as a Korean beauty brand called Nykaa Skin Secret. And on the hair care side, we are under Nykaa Natural Hair, an extensive hair care range. Going to the next page, we also have a wanderlust range which is our bath and body range. And we've gone in for acquisition of three businesses on the Beauty side. One is Dot & Key where we now own 51%, it's a premium skincare brand and with very specific solution for customers. We have also invested in a sustainable skincare and personal care brand called Earth Rhythm, we have a smaller share here. And we are jointly promoting a nutraceutical beauty brand called Nudge, which is towards super foods, this is with a partner. On these brands, our own brands account for more than 10% of GMV of BPC, beauty and personal care business under in the financial year 22. This doesn't include the acquired brands, just the own brands. This is the first time we are sharing this number.

Falguni Nayar:

On the Fashion side, we have a number of brands. We have a brand called 20 Dresses, which was acquired a while ago and we have scaled it up. RSVP has been apparel, footwear and bags brand that has launched our evening wear label. Nykd is also an in-house brand for lingerie and athleisure. And we had acquired earlier a jewelry and accessory brand called Pipa Bella. And then Indian wear brand, Gajra Gang was launched last year. Our again, Fashion GMV from our own brand is now at about 7%. Yeah, this continues with Likha for curated Indian wear, a bag and footwear brand called IYKYK which has had a good acceptance, and we recently acquired a brand called Kica which is a premium women's

activewear. So we are not going and acquiring any brand, but I think we have a clear strategy towards the market gaps and a brand perspective that we'd like to fill. And it's those brands that we have gone ahead and acquired or created ourselves.

Falguni Nayar:

Next, I think we are also very focused on new ways of selling in holistic consumer connect. You're aware of number of TV campaigns that were done last year to again, bring larger number of customers through our funnel marketing. We also continue to do tech implementation of virtual makeover tools like L'Oreal's virtual tool, that was integrated on Nykaa platform, as well as live streaming is very much part of the Nykaa platform. And on the content side, all of you are aware that we have more than 13 million social media followers through a number of handles both on Instagram, as well as YouTube and Facebook. We also have a very large influencer network and connect, and we have a network to pay them on for the contribution of the business to Nykaa platform. And we have another Explore, watch and buy feature, where customers can watch the videos and based on the education they can buy. So there has been a number of new ways of selling that has been introduced by Nykaa.

Falguni Nayar:

And then I would like to request Arvind to take on the financial performance slides.

Arvind Agarwal:

Thank you, Falguni. So I'll talk about the financial performance, and I'll first talk about the full year performance. Talking about revenue, you can see that in FY 22 we have reported revenue of Rs. 3,773 crores, which is a growth of 55% year over year. And in fact, this is our fastest growth in last three years, despite the two COVID waves. So it's quite impressive and strong growth momentum. And if you look at three year CAGR, it is at 48%. Added to that, if you look at gross profit chart, in fact the growth in gross profit is even higher than revenue growth. It's about 73% in terms of absolute to absolute growth. And the margins has actually improved from 38.9% to 43.6%, close to 480 bps improvement. Part of it is improvement because our B2B revenue which is advertisement has scaled very well this year versus last year. And also because our owned brand share has bounced back to pre-COVID level. But also, part of it is also mixed effect because of Fashion, which is reported differently. Talking about EBITDA, we have reported EBITDA of Rs. 163 crores in FY22, which is a margin of 4.3%. And it appears that EBITDA is kind of flat or just 4% growth in terms of absolute number. And it appears that EBITDA margin have dipped by almost 200 bps. But let me explain you the levers in terms of investment that we have made this year, and Falguni spoke about some of them. In terms of non-linear growth initiative, we continue to invest into Fashion, which is scaling very well. But we have also started investing into new initiatives, such as SuperStore by Nykaa, and NykaaMan & International. I have a slide to give you some breakouts, which we are sharing for the first time. That's one reason that some of our internal accruals generated out of Beauty verticals have been invested into these non-linear growth initiatives.

Arvind Agarwal:

Added to that, we have also accelerated our new customer acquisition, which is also supported by higher investment into marketing, which is again, impacting our EBITDA. And the third one is we have also expanded our fulfillment capacity and moved closer to customer. So, some of these are ahead of the curve investment. In fact, we have also started expanding to physical retail. Last year, it was kind of a muted expansion that we had done due to COVID disruption. All these investments are funded out of internal accruals, which is why, at a blended level, EBITDA margin have dipped to 4.3%. Talking about

the PAT number, we have reported Rs. 41.3 crores of profit after tax this year, which is 1.1% of the revenue. Again, the impact EBITDA dip of 200 bps is partly offset by better leverage on financing costs, and also, on the depreciation and amortization. Net dip in that margin is about 140 bps versus 200 bps in EBITDA. I have a slide which I want to take you next, which is to talk about these verticals. And as you can see here, we have given the breakup of three verticals here. BPC, which is our largest business, Fashion, which is already scaling up very well, and Others. And Others here comprises of new initiatives, such as Superstore, which is the eB2B vertical and NykaaMan, and some initial investment into International. These new initiatives are all bucketed under others. As they scale up, we might separate them as well over time. But as of now, they're bucketed under Others. if you look at this chart, in terms of GMV, we have grown 71% year over year, which is quite healthy growth in a year which was disrupted by COVID.

Arvind Agarwal:

If you look at revenue from operation, I already spoke about it. We grew 55% year over year. In terms of gross profit, we do 73% year over year at a blended level. And the margins have improved from 38.9% to 43.6%. Part of it is also mixed effect due to Fashion growing faster than BPC, because it is reported on a marketplace model, margins are reported as revenue. So, the reporting framework is a bit different. There's a mixed effect in that. If I talk about EBITDA, and I wanted to invite attention here to the breakup of EBITDA numbers, if you look at beauty as a vertical, the EBITDA margins are 8.2%, which is quite similar to last year. Last year, it was 8.3% as a percentage to revenue. It's kind of flat despite making heavy investments into marketing to accelerate the customer acquisition and despite making significant expansion into fulfillment network, which in the short term, brings more cost to the P&L, but the benefit of freight cost coming down gets realized over time. Despite that, Beauty has maintained its EBITDA at 8.2%.

Arvind Agarwal:

And in terms of Fashion, because it is reported differently, we have also given a different metric here, which you can see at the bottom. And that's NSV, Net Sales Value, because net sales value is net of returns, taxation and cancellation. And at that level, it becomes quite comparable to BPC. If you look at the gross margin for Fashion, it is about 44.6%, similar to BPC. And in terms of fulfillment cost, it is 11% versus 10.6% in BPC. If you look at marketing costs, that's significantly higher versus BPC because Fashion obviously is at early stage of building the business. And the ratio of new customer contribution to GMV is much higher than the repeat customer. And we did acquire 1.6 million customer this year.

Arvind Agarwal:

And in terms of employee benefit expense, I also want to highlight that if you look at BPC, the employee benefit expense is 8% versus 9.2% last year. There is already an operating leverage, which is playing favorably here. We look at Fashion, it is 11.3%. And again, that will get scale over time and start playing as operating leverage. And if you look at others which are new verticals, they are really kind of a seed investment this year. Obviously, the ratio of employee cost is much higher than versus the revenue and NSV. The impact of investment into Fashion and Other segments, incrementally, we have invested almost Rs. 80 crores from our internal accruals, which shows up in the blended numbers. It shows up almost 200 bps kind of investment. And therefore, our EBITDA has come down as a margin percentage from 6.4% to 4.3%.

Arvind Agarwal:

Moving on. This is just to show the long-term trend and why we feel so confident about continue to invest into Fashion, which is already scaling very well in a very hyper competitive market. It was launched in FY19, but it started scaling up post-COVID. We see that Fashion has reach to the same scale as Beauty in four years, versus let's say, BPC reach to same scale in five years. It's really building up well. Moving on, I also wanted to give a color on marketing cost a bit. And there are two charts here, BPC and Fashion. If we look at cost as a percentage to NSV, which is the Net Sales Value, in case of BPC, it is at 9.5% FY22. Last year was actually an aberration. And we spent only 5.9% to industry ratio. That was because in that one, we were quite conservative in spending marketing money due to COVID environment.

Arvind Agarwal:

And if you look at the increase in new customer acquisition was the last year from 3 million to 4.4 million. Almost 49% increase in new customer acquisition. And if you look at its long-term trajectory, marketing costs as a percentage to NSV is actually quite better versus FY19, 13.7% versus 9.5%. And that goes back to the chart that Falguni explained earlier, that 73% of our business in BPC comes from existing customer. While we continue to acquire many new customers, but our cohort is quite healthy. And over time, we get a leverage in marketing costs. Versus 55% share of repeat customers in FY19, we are at 73% in FY22. And that shows up in marketing costs as a percentage to NSV as a leverage.

Arvind Agarwal:

But if you look at Fashion chart, this is scaling up last two years, and this will require 1.6 million customer versus 0.6 million customer last year, which is a 157% growth. And in terms of marketing spend, we have consciously stepped up spend, and it is a 27.4% to NSV ratio. And that also obviously has a mixed impact in our overall marketing cost to revenue and marketing cost to industry ratios as well. But these are conscious choices, looking at the future growth prospects in this large categories and large TAM.

Arvind Agarwal:

Moving on, this is summary of our results. I already talked about annual results. So, I will probably talk about quarterly results here. In this quarter, we have reported revenue of Rs. 973 crores, which is year over year growth of 31%. Although sequentially, it is lower by 11% versus quarter three, but that was expected because quarter three is seasonally the best quarter and peak quarter in terms of sales because of the season. And it was also free from any COVID disruption. Versus this quarter, when in January, due to Omicron, there was some impact on sales, especially in physical retail stores. So, 31% growth there, but we believe that we have grown ahead of the market, and we are centering our market share. In terms of gross margin, we have reported 43.7% gross margin for this quarter, which is better by 254 bps versus last year, same quarter. Although it is lower by 263 bps previous quarter sequentially, which again is a seasonality. Last quarter was benefited due to higher advertisement income from brands because brand do spend aggressively in quarter three from their marketing budget. So, we got benefited out of that.

Arvind Agarwal:

And talking about EBITDA margin, we have reported 4% EBITDA this quarter, which is 200 bps lower than last year due to the investments that I already talked about in terms of fulfillment, in terms of customer acquisition, and some of the percentage cost is shown in the table below. Those are the trends which we already spoke about, but I also wanted to highlight that in terms of fulfillment cost and

marketing costs versus previous quarter, you can see that versus 10.6% last quarter, we have spent 9.7% on fulfillment costs.

Arvind Agarwal:

So, the benefit of expansion of warehousing capacity regionally has started playing in terms of lower freight cost. And that shows up in these numbers. So, that's a healthy trend. And in terms of marketing, also, it has come down from 13.7% to 12% because we didn't spend on brand building last quarter, and it was also a sale quarter. Obviously, marketing expense were at much higher level. It has come down to 12%. Employee expense though has gone up as a percentage from 8.5% to 9.3%. But that's more deleverage because of lower scale of revenue. If you compare the absolute cost, it is at Rs. 90.8 crores versus Rs. 93.3 crores last quarter. No major change in terms of this fixed cost aspect. That's on financials.

Arvind Agarwal:

In terms of P&L, I can quickly talk about balance sheet. In terms of non-current assets, we have made investments in expanding physical stores and fulfillment centers. That shows up in our PPE line. There is also impact on ROU assets because of the lease liability, as well as assets that come in the balance sheet, due to long-term nature of these leases. We also did investment in Dot & Key. We acquired 51% stake, so that shows in Goodwill. And part of it is also sitting in other tangible asset in form of brand value. And deferred tax asset is a function of losses in like Fashion. And we believe that we can offset these losses against future profits. So, we have de-organized deferred tax asset, and it's a continuing position, which we had last year as well. In terms of current assets, you can see the investment is almost double of last year, but it's primarily coming from inventories, which is a function of natural business growth, as well as we also built up longer inventory to offset some of the supply chain disruptions that we have seen. So, it was a strategy call. We believe we are at a healthy level of inventory with 66 days versus 71 days last year. And overall, other part of the current assets is cash, increasing cash balance. We are at almost Rs. 704 crores of cash in the balance sheet, which is benefited from primary in the IPO, as well as some pre-IPO placement we had done. Talking about the equities, our network base has gone up from Rs. 490 crores to Rs. 1,345 crores. And in terms of non-current and current liabilities, there are no major movements except that borrowings, bank borrowings have gone up from Rs. 185 crores to Rs. 332 crores. That is in tandem with working capital investment that we have done. And I have a cash flow to explain how we have funded the increasing current assets. But we are good on receivables, payables, and overall working capital cycle is maintained at last year level.

Arvind Agarwal:

Let's move. In terms of cash flow, I want to highlight a line called operating profit before working capital changes, which is at Rs 183 crores, which is almost similar to last year in terms of absolute value. And that is despite making investment into growth verticals, which I spoke earlier. There is almost Rs. 80 crores incremental investment into fashion and new businesses put together. And despite that we are generated same amount of operating cash flow before working capital. Of course, we have made a higher investment to working capital, which I explained earlier as part of the balance sheet explanation. We are paying our supplies faster, but we are also securing inventories so that we don't face any supply chain disruptions and there's no out of stock. Due to that, inventory investments have gone up during this period.

Arvind Agarwal:

And talking about investing activity. Because of investment into stores and warehouses, we have invested Rs. 94 crores versus Rs. 42 crores last year. So, there's more than double of investment. And rest of the cash flow is more of the representation thing. We have cash balance of Rs. 705 crores, which is shown in different lines due to the maturity period. We have some deposits which are longer than 12 months, so that those are shown in investment fixed deposits, but we also have some short-term deposits. And we are at a healthy cash balance of Rs. 705 crores. Moving on. This was my last slide. Maybe I relate back to Falguni for Q and A.

Falguni Nayar:

Yeah. Just to summarize, really, we do feel that we were really worked hard to deliver good results, which are a balance between long-term growth and a good eye on our unit cost economics for each of the new businesses that we are building, so that eventually, there is path to profitability in each of the business. This is being done while supporting and maintaining our profitability on the main Beauty business, the larger business. But yes, we are clearly investing in customer acquisition. We are investing in new business initiatives, and we are investing in greater fulfillment capacity, going closer to our customers so that we are more future ready in terms of our customer promise on delivery. This has been the big trend, and these results have to be seen in light of slight adversity in the environment. Clearly, we had two waves of COVID during the year, and they have impacted to certain extent, whether our physical retail business or taken slightly off the table in certain segments of our Beauty business or Fashion business. I think overall, we do believe that companies worked hard to respect and deliver to the investor capital, and we will continue to do the same approach going forward.

Vijit Jain:

Thank you, Falguni. We'll now open it up to Q and A. Anyone who has a question, please raise your hand, and we'll take your question in order. Please limit yourself to maximum of two questions so we can accommodate as many as possible. Operator, can we unmute the line of Sachin Salgaonkar from Bofa first?

Operator:

Yeah. Sure.

Vijit Jain:

Thank you.

Sachin Salgaonkar:

Hi. Thank you for the opportunity. Falguni and team, thanks a lot for those incremental disclosures, definitely helps. A couple of questions. First question, just wanted to understand 4Q, apart from seasonality and Omicron, did we face any impact from, let's say, higher inflation and related issues? And of course. The same question is around going ahead, which is rising inflation at some level has an impact on discretionary spends, as well as has an impact on cost, especially the fuel cost impacting the delivery charges. Just want to understand how you guys look at it.

Falguni Nayar:

I'll take that question. To be honest, this whole two years of COVID has been very, very difficult to really read into the trends. And if I may say so, April, May, June of 2020 was massively affected where we could only do essentials only business. And as a result, the first quarter of April, May, June, 2021 was very, very strong on growth. You can see that in our quarter on quarter growth, very strong growth. Even though that the strong strength in growth, it came a little bit differently for different sectors. Skincare grows at a certain point in time. Personal care grows at a certain point in time. And then, suddenly, stores open up, and you see a huge revival in makeup demand. To be honest, even if for someone who's watching for year on year growth trends. I say quarter on quarter is not the right way to look at it because our business clearly has seasonality, but year on year numbers for a similar quarter, also exact comparisons are not available.

Falguni Nayar:

But what we've done in this deck is we've told you that I think companies working very hard to grow each of the categories. While makeup is our largest category, it has grown at 40% year on year. Skincare has grown 50% year on year. Haircare has grown 60% year on year. And all other categories have grown 80% year on year. I think companies definitely are making an effort to continue to tap into the market opportunities and deliver on growth is what I would say. Is it easy? I don't know how to translate that because there are clearly periods of very strong demand that you can see in terms of even physical retail. I think October to December quarter was quite strong from consumer demand perspective, but it was also strong from competitive activity perspective. And then, you find that, yes, there are certain months when demand is strong and certain months when demand is not strong, even within the quarter. And sometimes, the demand shifts from e-commerce to physical and physical to e-commerce. And similar trends in Fashion. We had very, very strong growth in the first quarter of last year. And this first quarter, this year... First quarter of last year to this year was a very strong growth. And then, there were a couple of quarters where we felt that marketing costs were too high, and we were trying to control our marketing costs to a better level. I wouldn't say it's easy. I wouldn't say that things are very bad where we are not able to grow at all, but it is a tricky environment.

Sachin Salgaonkar:

Any thoughts on the discretionary spending? Do you see that getting impacted for fashion and cosmetic?

Falguni Nayar:

See, there is a certain amount for you discretionary spending that comes in line with wedding season in both these categories. And clearly, the wedding season came out very strong in the October to December quarter because it was like after two years, the weddings were picking up. And then, suddenly, the threat of Omicron came, and a number of weddings, which were being planned from Jan to March were either downsized or pushed out. Many of them downsized rather than pushed out, and some pushed out to the summer season. At the margin, if you say that is it impacted, some amount of demand is definitely being impacted. If you ask, it's very variable for the highest income category, which many of the Nykaa customers are. There is not that much of a difference. But we also see big changes from category to category, but I wouldn't call it, any of it is so adverse that you can't grow, or you just don't achieve the numbers. But it's very variable and there are periods of strong demand and followed by periods of a little bit weak demand.

Sachin Salgaonkar:

Thank you. Second question is in Fashion, both on AOV and marketing spends. AOV is inching up every quarter and it's almost all time high. So at some level, do you guys see a risk that it's turning out to be perhaps a niche high in the market for fashion? And the related question is, on the comment what Arvind made, which is on marketing spend, there is a conscious effort to spend a bit high. Globally we are seeing most other companies actually pulling back on selling and marketing discretionary spends. Just wanted to understand the outlook out here?

Adwaita Nayar:

So I can take it, the fashion question at least. So starting with that in terms of AOV, yes, I think we're sort of pleased with the high AOV of Rs. 3,200, which is far higher than what we see in the market. There are a couple of things at play here. The first is, the components of what we were selling is shifting. So you could say that clothing and apparel is becoming a lot larger as a portion of sales. And in the early days of Fashion, there was a lot more accessories and lingerie and sort of cheaper items that were selling. So it's not that the assortment is getting more premium. In fact, I feel that the assortment is getting more accessible. It's just that the types of products that are selling are skewing to higher average selling price products, point number one.

Adwaita Nayar:

Point number two is we're definitely seeing basket sizes go up. So that is, again, something that's affecting average order value. And that is the nature of just adding a lot more categories. So there's just a lot more for the customer to add to their cart. You also mentioned on marketing, you wanted some sort of insight. Yes, the marketing numbers are appearing less efficient this year compared to last year. But again, last year was a COVID year where I do believe that the marketing numbers were not sort of representative of really what the situation is now. And number two, one thing is that this year we spent a lot on brand building. It's the first year we did TV commercials. It's the first year we did celebrities. So a lot of that is baked into the marketing numbers that you see, which wouldn't be comparable year on year as well.

Sachin Salgaonkar:

Adwaita, going ahead also, there is an inclination to spend more on marketing?

Adwaita Nayar:

I think we're very focused on driving Fashion to a profitable state. There is strong profitability DNA here. And so what I'm really focused on is really nailing that dynamic between growth and profitability. And I do feel that we'll remain focused on getting to that right mix of growth and profitability.

Falguni Nayar:

I'd like to comment on the marketing cost. What I find is that, if you acquire the right customer very often in Beauty, again, we break even on the second order and typical customer buys three to four orders in a year. So I think as far as you're doing marketing at an efficient scale, which I think on Beauty, we are clearly doing, then I feel that there is a certain customer acquisition strategy we want to follow, because Nykaa's never chased just customer acquisition for sake of customer acquisition. But at the same time, we are at a very early growth stage where Nykaa may have around 15 million customers who may have ever bought on Beauty, whereas the size of the e-commerce customer base is larger. So in a very prudent manner, we want to continue doing customer acquisition, but in accretive manner with a big focus on long-term value of those customers that we are acquiring.

Falguni Nayar:

In Fashion, we are a little bit at an early stage of growth where the mix of new customer to repeat customer issues are still low, and they will pan out over time. The Fashion as a platform will grow much wider. I think our width of platform is, that if you see Beauty itself is 3,000 or 3,000 plus brands, whereas Fashion is still at 1,500 brands. So we do believe that Fashion has more growing to do in terms of bringing additional brands and categories online and there's more work to do. And as we do that, but in Fashion, a lot of customer visits are already coming in, a lot of customer downloads are happening and through the funnel, we need to convert more through wider catalog. So that is clearly going to happen. In general, Nykaa's believes in premiumization, both for Beauty and Fashion, and we don't see any desire and need to rush to the bottom in terms of acquiring the lowest rung customers. So I think we'll be selective and we will look at the long term value of the customers that we acquire, and there will be a balance between long term growth and short term profitability objectives.

Vijit Jain:

Thank you.

Gargi:

We have next question from Percy

Vijit Jain:

Yeah, please go ahead.

Gargi:

Percy, can you please unmute yourself and ask your question? Thank you.

Percy:

Yes. Yes. My first question is on the BPC margins, and thank you very much for giving this clarity on segmental margins. That's a really good disclosure that you have done. So my question is this, see most of the street is expecting BPC margins in the long term to trend anywhere between 15% to 20%. Now, I don't expect you to comment on whether this is a reasonable expectation or not, but in light of this expectation my question is, where do you see leverage for margin expansion in BPC? I mean, given your main costs of ad spend fulfillment, et cetera, I'm assuming that at a 44% gross profit to NSV ratio, you are fairly settled or doing fairly well there. And I would assume there would not be a huge leverage there. So what are the other costs in terms of fulfillment, marketing, et cetera, your main cost, employee costs, how much further over a really longer period of horizon do you think these costs can go?

Falguni Nayar:

So if I may come in, I think on the gross profit margin itself, it can increase from this percentage because of ad income. And Nykaa can be a big platform with the number of visits and how valuable those visits are from a beauty and personal care customer perspective. If you want to, any brand can acquire a lot of new customers on our platform. And for doing that, they may continue to spend on marketing on our platform. And we also have customers on an average as four and a half five items in a cart, which means that we can deliver new customer acquisition to brands. So which is much higher than the new

customer acquisition at the firm level. So I do believe that, I'm not saying we would definitely do that, but to assume that there won't be any improvement in gross profit margin, I do not agree.

Falguni Nayar:

There is generally a large proliferation in brands in beauty and personal care like globally also. And that in a way gives power to the platforms and retailers where brands need the platform and retailers to build their brands. On fulfillment costs, yes. They can go down slightly, but yes, a lot of gain is already there. It can't go down much more than 50 to 100 basis points, and marketing and fulfillment costs in the long run for a very mature platform can be again lower, but it's already running at about 9.5%, but you can see that in a COVID impacted year it could come down for us as low as 5.9%. But then that year we did not grow that much new customer. We didn't acquire too many new customers. The customer acquisition was 3 million, which was at similar level as previous year, but this year we've accelerated customer acquisition. So marketing and advertising is a truly variable cost. And it depends on our objectives of customer acquisition and also some amount of money we also have to spend on bringing back the returning customers.

Falguni Nayar:

And on employee benefit, of course, with the size and scale, there will continue to be some benefit. So I think long term EBITDA margin, most investors believe can be higher in this business, the multi-brand specialty beauty retail business, long term EBITDA margins can be higher than the current levels.

Falguni Nayar:

Do you want to hear about Fashion and Other consolidated also? There the long and short is that we believe in having the right unit cost economics. Our unit cost metric for each business, currently Fashion is at 11.9% negative EBITDA margin. Most of it due to marketing and advertisement expense, which we believe that being almost third year of our scale-up fourth year, since launch for fashion business, there is some more ground to cover before our repeat and new customer ratio emerge in an area where we can control our marketing and advertisement cost at a better level. Because the market is very large and we have ground cover in acquiring and converting the customer visits, we will continue to do that, but in a very mindful way so that we can over time break even on our EBITDA margin.

Adwaita Nayar:

Right. And I think one thing to just add there and Ankit, if you can hover over the profit margin on NSV, which is apples to apples for Beauty and Fashion, in terms of a base, you can see that the gross margin percentage is looking fairly similar across both businesses and that too at a very early stage in the lifetime of the Fashion journey.

Falguni Nayar:

And other businesses, which is mainly NykaaMan and eB2B business, they're very new. NykaaMan is about a year and a half old and eB2B business is not even six months old. So we will continue to invest in those businesses. And that's why we have started giving, not really segmental, but we've started giving vertical focus EBITDA so that you can see that while the Beauty business EBITDA was Rs. 277 crores, we've invested as much as Rs. 110 crores between Fashion and our new businesses.

Adwaita Nayar:

Right. And I think, one thing that we were trying to hover on, it's the last note on this slide, which is that the Fashion contribution margin has been positive this year. And we calculate that really, it's fully loaded with all the costs, fulfillment, marketing, selling expenses. And under that, we've got the employee costs and the indirect and the overhead. So we've been able to achieve contribution profit positive for this year.

Vijit Jain:

Thank you.

Falguni Nayar:

So I hope we've answered your questions and next?

Vijit Jain:

Yeah. The next question is from the line of Siddharth Bothra, operator, can we unmute him?

Vijit Jain:

Yes. Siddharth can you please unmute yourself?

Vijit Jain:

Siddharth can you please unmute yourself and ask your question, Siddharth Bothra? Maybe we'll take the next question from the line of Kapil Singh. Kapil, can you unmute it?

Kapil Singh:

Hello? Can you hear me?

Falguni Nayar:

Yes.

Kapil Singh:

Okay. So I have two questions, firstly, while you've been largely solving for online users, you are gradually now addressing the offline stores also where the opportunity potentially is higher. How aggressive is the strategy going to be in the offline compared to online business?

Anchit Nayar:

So maybe, maybe I'll kick it off and then others can add. So I think we've always been very sure that omnichannel retail is the only solution for a country like India. And that's why you can see that we've managed to grow our physical retail footprint quite significantly in the last five years. And today we're sitting in 105 retail stores. And as we've shown this time for the first time we've disclosed what the GMV is in terms of GMV as a percent of the total GMV. So the online versus offline split, so it goes to show you that our physical retail business is growing very well. And we see it as a massive opportunity as you said. So the potential is there for us to expand the footprint continues, continue to expand the footprint, not only across a larger number of cities, but also increase the concentration within cities.

Anchit Nayar:

So it remains a large part of the strategy. I think in terms of GMV share, it'll probably, the reality is online is a very fast growing business. So the GMV share will always remain at this, maybe single digits or, or low double digits, but online will remain a majority of the business in large part because the two are not apples to apples comparison online, you've got 3,000 plus brands available, whereas in physical stores only about 80 to a 100 brands. So it's also not totally the right comparison, but otherwise I think based on the metrics and the results that we're seeing, it's something that we will continue to expand meaningfully in the coming years.

Kapil Singh:

Okay. Thank you. The second question is on the SuperStore. So can you just talk about what exactly are you looking to do, just a compare and contrast of the online BPC business versus SuperStore? Is it something new that you're trying out, or do you believe you already have a model which has the right to win? Because you know, you already cover 98% of the pin codes. So I'm just thinking aloud, what are we solving for here and how the operating economics will be different? You know, things like working capital, store marketing, et cetera.

Falguni Nayar:

So I'll come in here. So if you look at the traditional way, I mean, before going to the TAM, I just want to talk about the business. So if you look at the traditional distribution that FMCG companies used, the brand and manufacturers would sell the product to distributors and wholesalers who would onwards sell it to retailer. Nykaa started selling directly to the consumer and basically started playing the role of distributor wholesaler cum retailer. And that is direct to consumer model. What we do believe that in spite of e-commerce being quite large and growing, I think the rest of the market will also continue. The physical GT MT market will continue and Nykaa wants to backward integrate we have deep relationship with our brand and manufacturers of FMCG companies, because we retail for them online. And now what we are doing is we are extending that as this GT MT distribution network that we have created that any brand can buy. And if you look at it traditionally, like the FMCG companies kept their distribution only in house, and Hindustan Lever or ITC or any of the brands like P & G would use their distribution network only for their brands. Now, what Nykaa is doing is creating the GT MT distribution network, but it is available to any growing brand, any international brand that wants to come into the country. So I do believe that we are serving a very special needs and many of these brands are picking up that third party distribution network that is available, and we are winning brands very quickly we just launched it six months ago, and we already have 134 brands listed and we are already creating our presence in 302 cities. And we are transacting with almost 18,000-19,000 retailers. This does need feet on street to go get the retailers to sign up. And there is some amount of investment required. So Nykaa will do it right, while keeping the same unit economic metrics in mind. But of course it falls into place over a couple of years. And initially we would have to invest some amount of money in this business, but it'll be again balanced with the short term profitability and long term growth objectives of this business. But I do strongly believe that Nykaa has a right to win. We have a very interesting and excellent app, and we have great relationship with our brand partners who will give us the right to win in this segment.

Vijit Jain:

Thank you, Falguni. Just a quick question. We are almost at time if it's okay with you to extend this by another, maybe 15 minutes

Falguni Nayar:

Yeah, we could do that, yeah. We could do.

Vijit Jain:

Great. Thank you. The next question is from Raj Gopal. Can you please unmute yourself and ask your question? Thank you, please. Raj Gopal, can you please unmute yourself and go ahead? Maybe we'll just take the next question from Manish Adukia from Goldman Sachs. Manish, please go ahead.

Manish Adukia:

Yes. Hi, good evening. Thank you so much for taking my questions. My first question is if you can just help us understand what's happening in the competitive landscape. And this is across both the Beauty and Fashion. On Beauty, we keep reading are some of the larger Indian conglomerates are getting slightly more aggressive on the beauty side. So are you seeing any signs of that in your business at all, or given your differentiation that you talk about, there's really not any material impact. And the same question on Fashion as well. I think when you look at the quarter and you call up, there's definitely seasonality in your business, but the Fashion business GMV was flat quarter on quarter. So is part of that also a function of the fact that competition potentially has been a lot more aggressive. I mean, we know that for example, Reliance certainly has been heavy aggressive in the Fashion side. So are you seeing any impact of that on the growth as well? So we'd love to get your thoughts on both those verticals?

Falguni Nayar:

Honestly, I think many of your line are in a better position to judge competitive landscape than us. All I can see is that what we hear from our brand partners, mostly in terms of our role relative to other competitors role, we do hear that on the Beauty side, many of the large partners continue to want to work with Nykaa because of the size and scale and the organized manner in which Nykaa works with them to deliver their numbers. And I can ask Anchit to comment more on that. Anchit, would you like to comment on it?

Anchit Nayar:

Yeah, sure. So again, I think we can just share, whatever we have whatever we hear from our partners and whatever we see in the business day to day. So what I would say is that, look, we've always said the horizontals like the horizontal marketplaces have been around since 2012-13, so they're not new. Then you've got some of the direct to consumer guys who were you know, who I think made a big push earlier in the first half of this year, as well as some of the other smaller vertically specialized beauty retailers. And I think what's happened is that there was a lot of noise, especially around November, December when we were going public. I think a lot of competitors used it as a time to re-look at the beauty space and to throw their hat into the ring. But I would say that from what we are seeing on the ground, the competitive intensity seems to have reduced actually since then. And our hypothesis is that there are probably larger markets for the larger horizontals to fight for. We believe obviously groceries, electronics, fashion, are larger addressable markets. And I think that's where a lot of the horizontals and some of the new entrants as you mentioned, will probably focus their time and energy. And so there was some additional focus on beauty from the larger players in the interim, but that seems to have receded.

Anchit Nayar:

Now, if some of the local companies that you mentioned do decide to get into beauty in a big way, like we've all seen in the news. I actually think it's going to be a good thing for the market. You know, till

date Nykaa has singlehandedly built the beauty industry in India, obviously with the support of our brand partners, but is the only retailer of size and scale in the market and a retailer focus on education and building awareness for beauty consumption. We've built, we've helped build the market to where it is today. So in our point of view, some healthy competition and companies who are willing to invest in the Indian beauty ecosystem and help to grow the market could in fact have a positive impact on us. So that is a short, I guess, a long, long answer, but trying to explain to you the different parts of the competitive spectrum.

Adwaita Nayar:

I think jumping in on fashion, the way I sort of look at it is first and foremost, just taking a step back, the massive size and opportunity of the fashion market. You're talking about a \$125 billion dollar industry by 2025, you're talking about 25% online penetration. And, you know, internally the way we think of it is even if you're able to get 5%, 10, 15% of that online pie, this is a very, very sizeable business for Nykaa. So at least for us personally, we're not lifting our heads and looking at competition left and right, I think we're really focused on trying to build something that is differentiated. And at least for me, maintaining and protecting that differentiation is the number one priority and that's our right to win. So I'm not obsessed with gaining market share at the cost of the other folks.

Adwaita Nayar:

It's more about let's get the part of the pie that we really like, and we really believe in. Moving forward, you sort of touched on what about the growth over the last couple of quarters. I personally am trying to look at the business on a year on year basis rather than a sequential quarter basis. I think on a year on year basis, we're talking about 168% GMV growth. We showed you some slides that compared the Fashion journey to the Beauty journey,. By any metric, the Fashion growth has been explosive over the last couple of years. So I'm personally trying to look at it on year on year.

Adwaita Nayar:

The thing with sequential quarters is that there's always one seasonality at play, two there are always judgments. You take every quarter when you're trying to again, balance the profitability and growth equation, and three in every quarter, I'm always trying to set up the right marketing metrics that takes us into the next year and refuels us for the next year. So I'm not sort of saying that the sequential growth that you've seen is what you will continue to see at all. But just saying that I'm trying to look at it on a year on year basis.

Vijit Jain:

Thank you. Next question is from the line of Rohit Chordia, please go ahead.

Rohit Chordia:

Yeah. Thanks Vijit. And good evening, everyone. Just three small questions. Just trying to understand your numbers better. One, the bridge between your NSV and revenue from ops for various segments. If my understanding is right, the bridge in Fashion, sorry, in the BPC segment would primarily be ad revenues. Fashion would be two elements, ads, which is a kicker and then there is a take rate element. If you could just throw some light on this in the two segments.

Arvind Agarwal:

Yeah, I think that's correct. So NSV so BPC is a inventory led model. So revenue is quite similar to NSV except that there's an incremental revenue on advertisement, which is not part of the product revenue. So that's correct. And in terms of fashion, yes, NSV is a number, which is what customer pays net of taxes. And what we get in P & L is commission that we earn from the brands because it's a predominantly marketplace business, but we also get some revenue on advertisement even in Fashion. And we also get some revenue on shipping fee, et cetera.

Rohit Chordia:

Yes Arvind, thank you. Second question. How has this metrics shipments per order moved? So let's say against the 32 million orders last year across the two segments, what were the number of shipments? I'm just trying to understand, are you still breaking your orders into multiple shipments to ensure better consumer experience?

Falguni Nayar:

I think we have some data on that. We do send the luxe orders separately. However, if you see during beginning of the year, because of COVID April, May, June, our split shipment ratio is very adverse, which has since been brought down and there is improvement in that. Plus we also now have regional warehouses then thereby reducing our air shipment costs. So we are doing a fair amount of work to manage our fulfillment costs better. And you will see the benefit of that going forward. Arvind do you want to come in?

Anchit Nayar:

Yeah, I just wanted to add one thing. I think actually we believe that split shipment, consumer getting multiple packages for the same order is not a good consumer experience. And so we've always been focused on bringing that split shipment ratio down. What I would say is it was never that adverse for us we've never been a company that has had a very adverse shipment ratio. I think it was slightly more adverse than usual in the first couple of months of the year because of the COVID impact, but all of the investment we've made in building out a good regional network of warehouses and also reducing, and also better inventory management across our warehouses. I think that is the investment that you've seen in the fulfillment expense numbers in terms building out the capacity, but you will see we're starting to see the benefit of that in terms of the split shipment ratio coming to very, very healthy levels in the past couple of months. And as a result, the consumer experience is obviously better. And of course the fulfillment expenses also are trending lower.

Rohit Chordia:

So just quick, last question, if you could give us a sense of the breakup of your marketing expense between performance and brand?

Falguni Nayar:

So that is not there in this presentation. And unfortunately, as a result, we won't be able to share it, but you... I don't know how to guide you on that, but because it's not just performance and brand, there are also support and fixed costs of managing the market function. So unfortunately we won't be able to, but as a philosophy we would like to spend predominantly on performance marketing with some conscious budgets towards brand marketing so that we have a healthy upper funnel growth.

Vijit Jain:

Thank you. The next question is from the line of Sachin Dixit. Sachin please go ahead.

Sachin Dixit:

Hi thanks for taking my question. I quickly had a question regarding AOVs in BPC in particular. So if we use the last three quarter numbers and we look at the annual AOV that has been released, AOV seems to have dipped quite sharply in Q4. Like it has dipped to Rs. 1660, roughly if my math is right from somewhere like Rs. 1960 in Q3. So is that normal, or there are some other factors that are driving there?

Arvind Agarwal:

Yeah. Maybe I'll come in here. So I think there is obviously seasonality in the AOV numbers. Also, if you look at quarter four, AOV Rs. 1,763 BPC, which is quite similar to last year, same quarter. So last year also it was Rs. 1,732. So part of it is seasonality, part of it also because we have actually invested back the efficiency that we realized into fulfillment network expansion. We spoke about moving from national fulfillment strategy to regional fulfillment strategy by expanding fulfillment centers, regionally closer to customer that has brought down our cost of shipment. So our unit economics has improved and some part of it, we are ploughing back by reducing the minimum shipping value that a customer can book a free shipping for. So in quarter four, we have reduced our shipping threshold to make it more affordable to let's say, tier two, tier three or mass customer who's conscious about shipping charges. And that also brings down little bit of AOV versus what we were having in let's say in H1. So it is a bit neutral in a way that the efficiency that we get from fulfillment cost reduction, we are ploughing it back to make it more affordable to customers, reaching deeper and nearer to customers.

Sachin Dixit:

Got it. Thanks. Just one more question quickly on ordering frequency. So in fashion, for example, we do understand, like there are number of new users who came into picture in FY 22, which, which could have driven the ordering frequency down to something like a 2.97 for the year. How do you see this ordering frequency pending out over time? Do you see this will match it somewhere around this three, 3.5 range, or it can go up to something like five.

Falguni Nayar:

So to be honest from a consumer cohort behavior perspective on Beauty, we had a very sticky and very valuable cohort. And we used to see all individual cohorts behave in a similar way, making us believe that was an inherent customer behavior. To some extent it was little bit affected during COVID period because mainly makeup having been affected out of that cohort and skin and hair and personal care had gained a bit. So there were these contrasting trends. However, that beauty cohort behavior is coming back to pre COVID levels, but still little more way to go for the entire amount of large celebration and the entire, all the patterns of out of home behavior coming back in full scale as they come back in full scale, you'll see more positive impact. Definitely Fashion is in very early stage of our growth journey with fashion customer cohort, reasonably good in terms of repeat customer behavior, but needs a lot more working on to get them to the level of repeat customer behavior that we see in Beauty, but we will work on it. And we do believe that fashion is also a category where consumers engage with the category. Pretty similar number of times, as beauty I would think. And hence they should be similar in the long run.

Arvind Agarwal:

Yeah, I'll supplement that. I think frequency of ordering could actually go up because of two reasons as we spoke earlier, that some of the adjacent categories are going faster because of better focus and assortment that we have brought out there. And some of it is coming through personal care as well. And in those category, it is generally more, higher frequency versus makeup skincare hair in terms of a pattern of ordering. So that could expand frequency of ordering. And also because we have brought down the shipping threshold to Rs. 300, so many customers might put smaller orders, but more frequently, but like I said, we are giving more assortment and choice and getting closer to customers. So we believe that getting more orders and more frequently will not stain the P & L, rather on an annual consumption value basis. I think we will be positive to get larger wallet share from the customers.

Vijit Jain:

Ah, thank you. The next question is from Nihal Jham, Nihal please go ahead.

Nihal Jham:

Good evening. Am I audible?

Vijit Jain:

Yes, please go.

Nihal Jham:

Yes. Thank so much. First of all, congratulations on the strong performance. Couple of questions from my side. First on the Fashion business, I just had this observation. I know we are looking at it on an annual basis that our monthly average users has been more or less similar at around 16 million, whereas the transacting users, which is something that has been increasing every quarter and even in the previous quarter, we did mention on the focus on conversion. So I just wanted to confirm again, that even this quarter, the same thought process, continue that the focus is on conversions rather than getting customers in into the funnel at this point in time.

Falguni Nayar:

Oh yeah. It's a very interesting question Nihal, and I will tell you that as a company, we are very focused on upper funnel. We are very focused on middle funnel and also lower funnel. And while our primary objective is to focus on conversions also, but we also have to keep an eye on adding healthily on the upper and middle funnel so multiple objectives, but very good strong hold on marketing, both from data perspective and what we are doing perspective so that we are able to optimize the best outcomes.

Nihal Jham:

Sure. So...

Falguni Nayar:

What I would not say is that TV ads never make sense because they are upper funnel. I think every type of marketing has a role to play and we would do a mix and there is a very big emphasis on CRM because for a larger customer database, which is very active for us on beauty CRM should be a very big focus. And so should it be for other areas also.

Nihal Jham:

And if I may just follow up that going forward, the focus would be that this number keeps increasing so that it keeps feeding on into transacting customers into the future.

Adwaita Nayar:

Yeah, absolutely. I think conversion is something that as a company, we're very, very focused on. We want to do more with the visits that we're getting. And as we sent on lead conversion is the work of so many things. So relentless focus on assortment, price availability along with product marketing features as well. So yes, that remains a focus. And to me an improvement in conversion is just a constant reflection that you're strengthening platform and doing the right thing for the customer. So that would always be a focus.

Nihal Jham:

Sure. Thanks so much. The second question was, oh, I'm so sorry,

Vijit Jain:

Nihal. Sorry. If we can just fit in Shirom Kapur who is the next question here? And then you can jump back into the queue if possible. Can we please take the next question from Shirom Kapur?

Shirom Kapur:

Hi. Am I audible?

Falguni Nayar:

Yes.

Shirom Kapur:

Hi, thanks for the opportunity. I just wanted to ask one question. I see that in the balance sheet, the other financial assets have increased considerably this year compared to last year, is that primarily a function of proceeds from the IPO that have gone into your deposits. And just, if you could give some color on how you plan to deploy, is it just, are those the same funds from the IPO that you plan to deploy the same strategy, as mentioned during the time of the IPO?

Falguni Nayar:

Yes, the IPO funds will be deployed in the same manner as disclosed in the IPO, document, but we also have funds available through our profits that we are generating, our cash flow that we are generating, but we continue to want to invest in stores, warehouses and also some amount of investment is in new businesses. And also some amount of investment is in inventory or that we need to do our business better. Of course, it's been a tough environment from supply chain perspective. So we've taken a little bit higher inventory bets so that we don't face supply shortages, but similar as what we've been doing.

Vijit Jain:

Thank you.

Shirom Kapur:

Great.

Vijit Jain:

Thanks. Thank you, Shirom. If I can squeeze in a question of my own here I was just looking at the Superstore expansion number. It went from 4,500 to 18,000 in this quarter. And you did mention about some feet on street hirings to add these retail stores. So just trying to understand are those stores acquired solely through feet on street, or there's a little bit of self-serve there as well?

Falguni Nayar:

There is an element of self serve also, but these are very early days. And also the business had a good scale up in that quarter. However, when that happens, we also have to keep building infrastructure to service that network. So I think in early days, it's very difficult for us to predict quarter on quarter growth because sometimes our networks are slow at expanding in line with the demand that we see. So I think in early days of beauty, we learned that one thing we should do is believe in that growth and invest in infrastructure ahead of the growth. And I think that is to some extent we are doing it for Beauty, with our store rollout, with our even physical store rollout, as well as our warehouse rollout. And we'll have to do something similar even in the B2B business.

Vijit Jain:

Correct it. Thank you. The next question is from the line of Garima Mishra, Garima please go ahead.

Garima Mishra:

Yeah. Thank you so much for the opportunity. I had a couple of questions on the fashion business, any timelines that you may have in your mind, as far as when this business can become EBITDA positive. And also now that you're seeing a much larger number of transacting customers in Nykaa Fashion, is there any material change you observe as far as customer behavior on order returns are concerned?

Falguni Nayar:

I think we can make forward looking statement on break even, but if you know Nykaa, we are always working towards that magical EBIDA break even for each of the businesses as, as early as possible, but in a manner that we are not depriving the business of our medium to longer term growth. So I think it'll be a balance and affordability also in terms of what we think is something that we would like to spend to build that business. But I think for most of the e-commerce business showing near term profitability is a matter of stopping customer acquisition, but it's not really the right thing. If you're acquiring the right customer, you, it is worthwhile to acquire that customer from a long term value creation perspective.

Adwaita Nayar:

Yeah. And I think in terms of the next question around returns, that's something that we've not split out and therefore be difficult for me to comment. But what I will say is that I'm very focused on making sure that we're getting a very high quality customer. So we're really trying to keep out that often fraudulent return behavior that is prevalent across e-commerce in India. So trying to be very focused that the returns that we do get are from high quality customers who are truly struggling with product and size and so forth and doing a lot of work on our end, both in terms of attracting the right customer. But then even after that, weeding out the customers that could potentially have poor return behavior. And the

result of that is definitely a return rate that is far better than what we hear and see amongst competition.

Vijit Jain:

So there's one last question from the line of Nihal Jham a follow up Nihal please go ahead.

Nihal Jham:

Yes. Thank you so much for that. Just my pending question was that in the quarter we obviously announced the three investments into EarthRhythm and the two other. Just wanted to understand from a perspective of the plan ahead, is this to build up the private level portfolio. And that's what the thought is. Or could we look at exits for these investments and would there be more of it if I were asking to say thank you so much.

Falguni Nayar:

Yeah. I mean, I think what we don't want to do is we don't want to be a fund that invests in consumer companies with a view to exit. I think we would like to build a company, which is a consumer company with a number of brands that it owns. Many of the brands are created in house. I mean, in to our own organic efforts. And there could be some brands when we come across certain brands that bring something incremental or they bring something in an area that we don't have or current focus on, then we may acquire those, but with a clear path to control over time.

Nihal Jham:

Beautiful. Thank you so much.

Falguni Nayar:

Intention to control. Sometimes the path may not be already laid out, but clear intention to have control over time.

Vijit Jain:

Hi, sorry. I see one more hand raised Falguni. That's okay with you to take this, you

Falguni Nayar:

Know? Yeah. I think the last question. Yeah,

Vijit Jain:

Yeah, sure. The question is from Amit Sachdeva. Amit, please go ahead.

Amit Sachdeva:

Yeah. Thanks so much. And sorry, I got disconnected in between, so my apologies if this is been asked earlier, so my question is on the e-store business and I see that in six months, there's a remarkable progress there as well. But if I do a rough match and you know, correct me if I'm wrong, if there are some 18,000 end retailers and then revenue, if I just make a rough guess about maybe Rs. 18- 19 crores of revenue has been GMV has been reported here. So probably they're spending about a lac per outlet or some sort. I just want to know that basically what would be the ticket size? What is the total addressable market of those and what is a minimum efficient scale that you need to reach, that it

becomes a bit of profitable. I would reckon that because gross margin here would be half of that, of your BPC margin because of the trade margins, et cetera. So how we should make sense of this business in terms of next four to five years perspective, what would be the size of revenue and probably a trajectory for this business?

Falguni Nayar:

Oh yeah. Very interesting question. But these are very early days for us to be able to answer all of your questions with data. A couple of things I can tell you for sure is that this business cannot be done like a B2C business, because like you said, inherently, the gross margin available for the business is far lower than what is available for a B2C business. And keeping that in mind, this business will have a very different distribution network. Like it may have warehouses much closer to the retail centers. It may also not be, it'll also not spend on marketing costs for customer acquisition, especially if it is also spending on feet on street to educate and convert the retailers and teach them that or buying online. I, strategically, I see a very, very big opportunity here because once you are tied to the retailer, the value add you can do to tell him what are the brands, new brands, new products that are likely to sell in his area and what should he equip himself with and how you, and we can also be that conduit to offer the best offers to them, to the retailer, through our brand partners, and also educate them and educate them on the right conversation that they can engage with their clients and also give them working capital to buy those products, give them knowledge, which products and what quantity to buy. So I think it's a very powerful business model. We see that next 10 years of growth will be in this area. And Nykaa can definitely play this very successfully. First in beauty, where we are backward integrating and we are in front of most of the brands and we think we truly add value for them. And in future, we may also consider a couple of other categories that make sense, given our business focus.

Vijit Jain:

Thank you. That was the last question we can take today. Thank you Falguni, Anchit, Adwaita and Arvind for doing this call. Thank you Ankit. Thanks everyone for joining and hope you all have a good weekend.

Falguni Nayar:

Thank you. Thanks everyone.

Arvind Agarwal:

Thank you Vijit. Thank you. Thank you everyone for participating.

Adwaita Nayar:

Thank you.

Disclaimer: This transcript has been edited to remove and / or correct any grammatical inaccuracies and inconsistencies in language that might have occurred inadvertently while speaking.