



**“FSN E-Commerce Ventures Limited Q3 Earnings  
Conference Call”**

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**MODERATOR:** **MR. KAPIL SINGH FROM NOMURA**



**Moderator:** Ladies and gentlemen, good day, and welcome to FSN E-Commerce Q3 FY '23 Earnings Conference Call hosted by Nomura Securities.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kapil Singh from Nomura. Thank you, and over to you.

**Kapil Singh:** Hi. Good evening, everyone. On behalf of Nomura Securities India, I'd like to welcome you to this Earnings Call.

On the call with me from FSN E-Commerce Ventures, we have Ms. Falguni Nayar – Executive Chairperson, MD and CEO; Mr. Anchit Nayar – Executive Director and CEO, Beauty E-commerce; Mr. Adwaita Nayar – Executive Director, Co-Founder, CEO, Fashion; Mr. P. Ganesh – CFO; Ms. Sunita Sachdev – VP (Investor Relations & Strategy).

With that, I hand over the call to Ms. Falguni for opening remarks.

**Falguni Nayar:** Thank you, Kapil. Good evening, everyone, and thank you for joining us on the call today. It is always a pleasure to interact with all of you. Before I start the presentation, I would like to take the opportunity to introduce you to a new addition to Nykaa family. It gives us immense pleasure to introduce our new CFO, Mr. P Ganesh. Ganesh comes with 27 years of diverse industry experience in domestic and international markets. He joins us from TAFE Group. Prior to working with TAFE Group, Ganesh has held leadership position and senior management roles in India and overseas and has been associated with Godrej Group, Glenpharma, as well as Pidilite.

**P. Ganesh:** Thank you, Falguni, for the warm welcome, and good evening, everyone.

**Falguni Nayar:** Thank you, Ganesh. I will also begin with a short presentation, and we'll be happy to take questions later. I wanted to share the results with you with an important backdrop. As retailers, we are very close to the consumption moment. And to put things in context is the seasonality in festive season that has been called out by most retailers. This has impacted quarter 3 '23 when you compare with quarter 3 of '22 when the entire festive season falls in quarter 2.

What this means is that for this year, we had only 34 days of sales in quarter 3 compared to the previous year when it was 42 days. And that was because Navratri, an important festival was in quarter 2 of this year compared to earlier years when it was in quarter 3. So, this like-for-like comparison has impacted a certain growth in sales that I wanted to bring out right at the moment.



As we move forward, I wanted to say that the GMV for the quarter has come out at Rs. 27.9 billion, which is a 37% year-on-year growth and revenue has grown 33% and stands at Rs. 14.6 billion. Our gross profit at Rs. 6.4 billion for the quarter is about 25% year-on-year growth. And our EBITDA grew to Rs. 782 million, which is a 13% year-on-year increase. Profit before tax stands at Rs. 127 million and profit after tax is at Rs. 85 million. We can get into the details of the gross margin as well as the composition of the EBITDA growth and PBT as we go through this presentation.

With that, I recommend that we move to Slide 6. So, here, I wanted to show the 9-month period where our GMV has seen a healthy growth of 42% year-on-year and stands at Rs. 72.9 billion and the revenues grew on a 37% and is at Rs. 38.4 billion. The gross profit also grew at 40% year-on-year at Rs. 17 billion for 9-month period and EBITDA grew at 49% year-on-year with Rs. 1.8 billion. Profit before tax is at Rs. 298 million and profit after tax is at Rs. **187 million**  
**0:04:45.3.**

Talking a little bit about various businesses and composition of the GMV growth. The beauty GMV grew at 26% on a year-on-year basis, while the fashion GMV has grown at 50% on a year-on-year basis. Both dot com and the retail businesses saw good consumer demand and some of the consumer rebalancing of demand has happened from online to offline, but that seems to have stabilized now. It was more pronounced in the last quarter for which we are talking about the results where customers were right enthused about stepping out, and we saw a growth in all our businesses.

Our new business delivered a Rs. 1.7 billion in GMV contribution, growing at 254% year-on-year, which we believe is a strong growth. These are early-stage businesses, but we are already rightsizing the inputs to keep the goal of our profitable growth.

Moving forward on Slide 8, what you can see is that at Nykaa, we have created multiple engines of growth. Looking at the GMV contribution from 3 business verticals, you can clearly see that our desire to diversify and address larger TAM was the right thing to do. Fashion already contributes more than 1/4 of our consolidated GMV. And for a business that's less than 4 years old, it is commendable. At the NSV level, fashion contributes 14.6% of quarter 3 NSV versus 14% a year ago.

On the others segment, which include eB2B, Nykaa Man, and International, we also scaled up significantly, led by the Superstore, which is our eB2B business, and that now contributes 6% of GMV, which is more than double what it was last year.

Our unique transacting customer in the next slide continue to grow and for beauty, fashion and others vertical. So, for Beauty, we are at about 9.6 million unique transacting customers on a trailing 12-month basis. For fashion, the number is 2.4 million TTM customers. And in the case of others business, that number is 0.5 million, quite significant considering those are mainly the shopkeepers and other businesses that are customers there. We already believe that we are



transacting with 1/10 of the online shoppers in India at a very healthy AOV level as well as at a very healthy gross consumption level, which we will continue to penetrate further. I also want to highlight that we have retail customers, which were another additional 0.5 million, up from 0.3 million a year ago.

With that, I would like to hand it over to Anchit to walk us through the BPC performance for the quarter.

Why don't I continue for a bit till Anchit can join in. I think he was in a meeting.

**Anchit Nayar:**

Sorry about that. I had a hard time unmuting myself, but I'm now on the call. So, thank you, everybody, for joining the call. I will pick up the slide deck from Slide No. 11.

So, let me first start with a little update on the BPC industry in terms of the market size and the growth that we project over the next 5 years. These numbers have been updated by us in partnership with RedSeer. So, I'll kick it off on Slide 11. According to RedSeer estimates, the India BPC market was a \$19 billion market in 2022, and it's expected to grow at a CAGR of 10% over the next 5 years to reach a market size of \$31 billion by 2027.

Within that, online BPC is expected to grow at a much faster rate with a CAGR of 29%, followed by organized retail, which is expected to grow at roughly 14%. The online BPC penetration stood at about 15% in 2022, making it a \$3 billion market, and it is expected to grow at 29% and account for a third of the overall BPC market by 2027, which will put it at roughly a \$10 billion market by 2027. In the interest of time, I'll move forward to the next slide. There is some commentary on what the key growth drivers are of the BPC industry, which I will allow you to read on your own time.

So, coming to Slide 12, commenting on our growth strategy. We are focused around 5 core value propositions:

- First and foremost is driving customer acquisition and retention. We are focused on acquiring and retaining customers in the evolving and rapidly growing BPC space. Over the years, Nykaa has strived to create a loyal repeat customer base, and that is evident in the repeat versus new customer mix, our revenue mix, which we show on a month-on-month basis.
- Second, we deeply value our relationships with our brand partners, both international and domestic, and we have always prioritized and sought to maintain a very symbiotic relationship with them on an ongoing basis.
- Third, is we continue to penetrate across the value chain and channels to further drive consumption and to truly grow the overall B2C market in the country. We have invested across the verticals to help serve our customers better, and this reflects in the launch of our eB2B business as well as our expansion of our physical retail footprint.



- Fourth, our house of brand strategy continues to evolve. We understand the gap that exist in the Indian BPC market, and that has enabled us to develop our own house of brand across mass to premium segment, keeping in mind that the Indian requirement is diverse across price points and consumption behavior.
- Fifth is Consumer Connect. We are a consumer-focused business, and the consumer lies at the heart of every decision that we take. Nykaa has always tried to be in the forefront of consumer engagement and we have always focused on creating multiple content streams to help increase awareness among consumers, enabling them to make better purchase decisions.

Moving on to the next slide, Slide 13. I want to highlight certain key performance indicators that we track at the Nykaa level regularly:

- The first is our total visits were up 13% to 250 million for the quarter, while our monthly average unique visitors were up 22% year-on-year. This reflects a very strong cohort of customers that we are attracting.
- We delivered a very strong order to visit conversion of 3.8% in Q3 FY '23 versus 3.4% in Q3 FY '22, 40 basis point improvement and our AOV has continued to sustain at Rs. 1,958 in the quarter ended December '22.
- Third, our GMV contribution from existing customers was 76% versus 74% last year, signifying better customer retention and loyalty, which helps drive the premiumization trend in the country. Our TTM customer base increased to Rs. 9.6 million in Q3, which was a 27% growth year-over-year. Coming to category growth, we are actively widening our offerings, which helps us drive penetration with a significant depth and width of category offering.

If I look at our makeup category, that category has grown 12% year-over-year. The skincare category has grown 37% year-over-year, and health care has grown at 39%. Our other categories, which include Bath & Body, health and wellness, mom and baby, fragrances and appliances, have each grown at a healthy clip year-over-year.

Coming to Slide 15. We always maintain a deep and symbiotic relationship with our brand partners. And as of December 31, we had over 3,000 brands retailing on the platform. Of the top 100 brands, we have a diversified offering across both FMCG brands, international brands, direct to consumer brands and luxury brands. And this is just the indicative of the diversification that we have managed to achieve in our core dot com business.

As you are aware, we host our largest flagship sale event of the year in November which is in Q3, that is called the Pink Friday sale event and that has continued to grow from strength to strength. This year, our Pink Friday sales registered a 40% growth like-for-like GMV with a 22% growth in underlying visits. We have seen strong performance across festive sales and we achieved almost 4 million unique visitors every day during the Navratri and Diwali sales as well.



Coming to Slide 16, we remain committed to our core position as the guardians and as the creators of the Beauty ecosystem in the country, and we have facilitated this with marquee events this quarter, including the Nykaa Femina Beauty awards. This is our flagship Beauty Awards event, which we host on an annual basis. It was not conducted in the last 2 years because of COVID. This year, we hosted once again with fantastic turnout with over 400 brand partners in attendance as well as multiple celebrities.

In addition, this quarter, we launched a partnership with the Estee Lauder Group of Companies to launch an incubator program called Beauty and You, where we partner to identify and support the next generation of beauty entrepreneurs with a non-equity grant.

Third, we were the partner of choice for Priyanka Chopra's much awaited brand launch, Anomaly, in the country. This brand was launched exclusively on Nykaa and it was -- and it generated significant coverage given the celebrity status of Priyanka Chopra.

Coming to Slide 17. In order to help improve our customer experience, we have invested across physical stores, distribution channel as well as fulfillment centers, to help us be closer to the customer and to increase the customer delight. As of Q3 FY '23, we had 135 beauty and personal care stores across 56 cities, which achieved a GMV of Rs. 165 crores for the quarter ended December '22. Our physical stores now contribute 8.6% of our total BPC GMV versus 8.2% last year.

We distribute our own beauty brands across almost 2,400 plus general trade stores and 150 modern trade stores. We've also increased our fulfillment capacity. And at the end of the quarter, we have now 37 fulfillment centers, which have a total capacity of 1.2 million square feet set across 15 cities in the country. This regionalization strategy when it comes to our fulfillment has allowed us to improve order fulfillment from within the state and as well as within the region. Now very few orders are being shipped across state borders, and this has made it possible for us to bring down our fulfillment costs, which you will see in the P&L in later slides.

Coming to Slide 18. Talking a little bit about our house of brands. Our owned brand achieved a total GMV of Rs. 224 crores, which now accounts for almost 11.8% of our total BPC GMV. Our own brands GMV saw a 29% growth year-over-year in Q3.

Talking a little bit about the B2B business. We now serve almost 4,000 retailers plus through eB2B app Superstore, which is a new business in which we are investing heavily. The subsequent slide, Slides 19 and 20 are just some images of the key product launches, which we had across each of our own brands in Q3.

Coming to Slide 21. We actively engage with our customer and our platform. And this quarter, there have been some updates which we'd like to share with you. We revamped our loyalty program, which is now called Prive 2.0 and it is a tiered loyalty program to be more in line with best practice globally.



Second, we are now streaming personalized content on the Nykaa stream, which is our on-app video feature and this has helped us to drive awareness for consumption of beauty as well as education. We also invested in creating an educated content series known as the bridal series for the wedding season, which has achieved a reach of almost 15 million.

With that, I want to thank everyone for joining this call, and I will now invite Adwaita to discuss the fashion business performance for the quarter gone by.

**Adwaita Nayar:**

Thanks, Anchit. Hi, everyone, I look forward to discussing our fashion business for the quarter. To begin with, we remain extremely excited by the sheer size of the fashion market. The fashion industry is 4x larger than the beauty industry. And according to RedSeer, the fashion market was \$77 billion in 2022, expected to grow at a CAGR of 14% to reach a market size of \$147 billion by 2027.

On that, online fashion is expected to grow at a much faster rate than the other segments at a CAGR of 27% and it will eventually be by 2027 a \$49 billion size. The online penetration for fashion has been at about 19% in 2022 and is expected to be 33% of the total fashion market by 2027.

This slide here shows our focus areas for the business. And in the subsequent slides, I'll talk about each of these in depth. But touching upon these 5 here. The first is customer acquisition and retention and that is a key focus. We're working on this we are creating a strongly differentiated value proposition and focus initiatives across marketing and products. Second, building engaging and deep relationships with domestic and international brands and creating a comprehensive product assortment. Our third focus is investing and scaling multiple operating models to make brands available to customers while driving down inventory risk. Fourth, continuing to build our portfolio of owned brands, which are independent and consumer-first brands. And finally, fifth, investing in innovative ways of connecting with our customers led by experiential events and customer-facing technology.

Moving on, here we double click into our key performance indicators:

First, we can see that our total visits are up 19% to Rs. 137 million for the quarter, while our monthly average unique visitors are up 18% year-on-year to 19.4 million. Our AOV has held steady year-on-year with Q3 AOV MRP at Rs. 4,570 and its selling price after discounts at Rs. 2,526.

Finally, we're quite happy with our order to visit conversion of 1% has held up. This is up from 0.8% a year ago. A large part of this improvement is the result of both product assortment being better, but also in a large part, us attracting much better quality traffic through marketing, which has been a focus for the last 9 months.



Moving on. Our trailing 12-month customer base has increased to 2.4 million for the quarter, and that's a 50% growth year-on-year. Our GMV has grown at 50% year-on-year to Rs. 724 crores. Sequentially, this is a strong growth of 21% quarter-on-quarter. We're feeling good with the acceleration of the growth and do believe that our focused approach to building differentiation in our assortment is now working in our favor.

Finally, the chart at the bottom left shows the mix across women, men, home and kids. Women being about 70% of the business. And we do believe that the larger three, that is men, kids, home and others will present opportunities that we can choose to double take and accelerate at the appropriate time in the future.

On the next slide, we're going to talk about assortments. We now have 2,700 brands on our platform as of the end of December 2022, and this is up from 1,540 brands a year ago. There is a significant onboarding in the last 12 months, allowing us to present far more choices to the consumer. Additions have come across categories and types of brands, both local and international. However, with even rapid onboarding, the focus for us as a team remains curation. We are convinced that being tightly curated in terms of trend and quality is the core of our differentiation and will ultimately be our right to win.

We have taken advantage of the past quarter the festive season and have worked to strengthen our saree portfolio, adding brands like Kalki and Unnati. And we do believe that sarees are going to present a great growth engine for the months to come. In Q3, we have also doubled down on our property called Global Store in which we're bringing the world's best fashion to India. It is now hit its stride, and we offer over 600 brands. This particular property has contributed about 17% of the Western wear GMV. And I think this is striking because a couple of months ago, this property simply didn't exist.

Hidden gems, another property, which I've spoken about in the past as well, which includes emerging Indian designers and labels across the country, continues to be sought out actively by the customers and now contribute 7% of our total GMV. And finally, new season collection, which is another element to be truly fashion forward, have contributed about 17% of the GMV for the third quarter.

Moving on, the highlight of this past quarter has been the partnership that we launched with Revolve. As many of you know, Revolve is a noteworthy fashion platform in the U.S. And with this partnership, we have launched Revolve on Nykaa Fashion. Through this, we're able to offer the customer more than 600 international brands. I believe that what makes the partnership unique is a unique B2B2C technology that we have developed. And as per this integration, we now connect seamlessly with Revolve's architecture. We reflect their catalog availability and pricing on our side with minimal manual effort. We don't hold any inventory and other push orders and do pick up on a daily basis and for the customer, it's a hassle-free experience. The flow chart here depicts the journey that we've built out. And I do believe that the technology





we've built here can be useful in the future as well as stride partnerships with international companies.

Next, a key focus for us over the last couple of years as we've been building Nykaa Fashion, have been to develop a strong and flexible backend. While the majority of our business is driven by marketplace, we've built the tech in operations capabilities in-house to also cater via inventory models and other hybrid models.

On the Marketplace side, that is the first component and the largest part of our business, we have built the capabilities to pick up inventory from both multiple warehouses and multiple stores. And as we speak, we're in the process of building capabilities to integrate with franchise stores as well. All of this will give us a lot more availability when it comes to assortment without actually having to hold inventory risk.

The second is the B2B2C technology, which I've already described on the prior slide with regard to Revolve. As I mentioned, this can be replicated as we onboard more aggregators. And finally, the third, which is our inventory-based model, we do have the capabilities to run this as well. And however, less than 20% of our business runs on this model. So, we have ramped up our warehouses as well to support the growth in this business.

Moving on. In quarter 3, the own brand GMV stood at Rs. 90 crores, which was a 122% year-on-year growth. Our own brand GMV contributes 12.4% to the overall GMV of fashion and an even higher percentage if we were to look at it after discount. Also, from the GMV of Rs. 90 crores, 50% of that is actually contributed by the sale of these brands on third party platform. In the past, I have mentioned that these brands do sell on third-party platforms and that is all part of our vision to actually have stand-alone consumer-facing brands that are well known and provided to the customer at multiple touch points.

In the third quarter, there are 2 brands in particular that have hit significant size and scale. Up on the right, we mentioned Twenty Dresses, which has now hit Rs. 190 crores GMV annualized and Nykd, which is at Rs. 80 crore GMV annualized. We've tried to also expand our under indexed saree segment, and we have launched a brand called "Nyri". We also focus on distribution when it comes to some of these brands. And as you can see, we have added 24 MBOs for Twenty Dresses and RSVP, taking the total count of physical presence for these brands to 62.

Nykd by Nykaa, our lingerie brand, which I have again spoken about in the past is the brand that we remain extremely excited about. It is now present in 750 general trade outlets and has opened 2 EBOs with plans to add a couple more this quarter.

Moving on. We'll just flip through these slides, but this will give you a sense of the type brands and the type of products we're creating. We're actually generating a huge number of new products every quarter and we have built our capabilities in-house to support this level of growth.



Moving on. Finally, we're going to talk about how we're trying to stay engaged with our customer. This quarter, we conducted physical events. We did do an event called the Global Store Fiesta, where we highlighted our global portfolio, and we did a very largescale event in Delhi called First in Fashion where we enabled brands to show their new season merchandise.

Finally, we do believe that fashion the ultimate discovery problem statement, and there's a long tail nature of fashion that merits strong discovery features. How do you show the right product to the right person at the right time? We've made good progress in this regard and we've launched hyper-personalized widgets on the home page. We continue to refine our recommendation engines and features at every leg of the app journey and it's all to drive product discovery and delight the customers.

With that, thank you, everyone, and I'd like to request Falguni to take you through the eB2B business.

**Falguni Nayar:**

Starting with the eB2B business. I just want to point out that, I mean, as you are all aware that with the eB2B business, we wanted to enter the large part of the unorganized market, which is currently being serviced by mom-and-pop distributors and I think there was a need for a specialist organized distributor like ourselves who would focus only on the beauty category and to our many of the beauty brands, we would offer now being able to sell their brands online, being able to sell them in our stores and also sell it to retailers from where it would onward move on to the consumers.

So, I think the business model was right as the disruption model, where being focused on beauty category, we would do the right thing in terms of enabling retailers in specialists where beauty was a big sale and enabling them with a number of all in one store, super service and delivery, a lot of flexibility, ability to increase their earnings and also empower them with data and many more things that we can bring through a structured tech platform.

So, with that, we introduced the Superstore business. Moving on. I just want to say that from the business perspective, the transacting retailers has grown nicely to about 92,415 in this quarter, up from a very small number of 4,153 in a quarter or a year ago. So, almost 22x growth in transacting retailers and telling us that this is something which clearly, I mean, there is a place for this business. Also, the activation rate of registered retailer is as high as 69%.

From the brand listed perspective, again, the number of brands on the platform has increased from 31 to 185, and a large range of national brands are coming in. This has grown by 6x again telling us that from both sides, from the consumer side, which in the case of retailer and also brand partners that we service, there's a clear need for this business.

From the number of city perspective, we now service about 652 cities, again, an 8x growth from 82 a year ago. And the orders that the business saw was about 216,000 orders, which again was 25x from a year ago quarter. So, clearly, the business has proven itself from size and scale and



later in our results, you will see that mix. We continue to build it in a manner which is right unit economics.

So, can we move to the next slide? So, yes, with that, I hand over on the financial performance to Ganesh.

**P. Ganesh:**

Thank you, Falguni. Good evening, everyone. I would like to take you through our Q3 FY '23 financial updates. As you can see on Slide 39, our revenues grew by 33% Y-o-Y during the quarter. Our gross margin was at 43.4% during the quarter. We achieved an EBITDA of 5.3%, benefiting from our operating cost leverage. Our PBT margin was 0.9% during the quarter. We had an incremental impact of Rs. 66 million due to the Ind AS lease cost accounting, about which we'll dwell in greater detail in subsequent slides.

So, moving on to the next slide. I'd like to bring your focus on this slide and as we can see, we improved our operating costs over the year. Operating expense, as a percentage of revenue, was 38% in Q3 FY '23 versus 40% in the same quarter last year.

Regionalization of our fulfilment centers has enabled to grow at that rate. Similarly, rationalization of our marketing expenses has also helped us reduce cost. Fulfilment expense as a percentage of revenue was at 8.8% during the quarter versus 10.6% in Q3 FY '22, which is an improvement of 177 basis points Y-o-Y. Marketing cost as a percentage of revenue was 11.2% during the quarter versus 13.7% in Q3 last year, which is an improvement of 241 basis points Y-o-Y.

We saw a small increase in employee costs as we did ahead of the curve to funnel the growth of our new initiatives. Employee cost as a percentage of revenue was 8.7% during the quarter versus 8.5% in quarter 3 FY '22, a growth of 23 basis points Y-o-Y.

Moving on to the next slide. Here, you'll see the waterfall, which will give a better understanding of our EBITDA margin change Y-o-Y. Gross margins, as you can see, has declined by 293 basis points during the quarter. And this has been predominantly due to seasonality reasons. And as you have seen subsequently, on a 9-month basis, gross margins have expanded 79 basis points. If we were to look at gross margins on a trailing 12-month basis, gross margins have expanded by 116 basis points.

Coming back to Q3, among other reasons, which has resulted in lower margins during the quarter has also been the strong growth coming in from our eB2B business, which comes with lower gross margins.

The strategic moot than the business provides remains key to our commitment to the segment while also providing an excellent India-wide distribution solution to our brand partners. Fulfilment cost improvement, you can see has delivered 178 basis points through regionalization strategy and marketing efficiency achieved through better order to visit conversion has yielded



in 242 basis points. Selling and distribution profit has increased due to off-line distribution of our own brands and employee costs have increased due to investment into due initiatives and investments also into the technology function. Other expense increase has been primarily due to investment in infrastructure.

Moving on to the next slide. Here, the waterfall explains the movement from EBITDA margin to PBT margin, which gives a lot more color on the investments that we have been making and its impact by way of depreciation lease accounting. As we can see, depreciation increased Y-o-Y on account of incremental CAPEX in retail stores, warehouses as well as office space. This cost increase has been due to additional retail stores, warehouses and offices as we ramp up infrastructure. Interest on borrowings during the quarter increased on account of incremental borrowing, which was obtained to fulfil working capital requirement quarter 3 being our peak season. Lease cost as per Ind AS was higher versus cash lease cost. These are incremental impact of Rs. 66 million in quarter 3 FY '23 due to the Ind AS 116 accounting impact versus Rs. 46 million in quarter 3 FY '22.

Moving to the next slide. Here you'll see our vertical performance, which gives you a good insight into the economics across business. I want to bring your focus to the bottom part of the table, where the cost items are calculated on NSV as the 3 business verticals are comparable on NSV basis. As you can see, gross margin for the BPC business was 45.4% during the quarter versus 47.5% in quarter 3 FY '22. Similarly, for fashion business, gross margin was at 43.5% this quarter versus 48.4% more in quarter 3 FY '22. And others gross margin was 25.5% this quarter versus 31.7% in quarter 3 FY '22.

We also saw improvement in our fulfillment expenses across businesses for BPC, it was at 8.6% versus 10.7% last year. For fashion, it was at 10.3% this quarter versus 11.6% for the same quarter last year. And for others, it was at 9.9% versus 12.3% in the previous year. We have also improved our marketing expenses. And as you can see for BPC, it was 7.9% versus 9.7% in quarter 3 FY '22 and for fashion, it was at 25.6% this quarter versus 30.9% in FY '22.

We have been investing behind selling and distribution expenses and for BPC, it was at 3% during the quarter versus 3.2% in quarter 3 FY '22. For fashion, it has been at 6.7% during the quarter versus 3.3% in the corresponding quarter last year. And for others, it has been at 16.4% versus 5.8% at corresponding quarter last year. Contribution margins have been maintained at 20.2% during the quarter with BPC accounting for 25.9% during the quarter. Fashion, the margins coming in at 0.9% and others coming in at minus 12.6%.

Moving on. Here you'll see the vertical performance for our businesses for the 9 months ended December 2022, where we've demonstrated improved contributions. After investing in customer acquisition and incubation of new businesses that are deepening up, gross margin for 9 months has improved at 45.1% during the quarter versus 44.4% in quarter 3 FY '22 with BPC gross margin standing at 46.3%, fashion gross margin at 44.5% and others contributing 25.3%.



Contribution margin has improved to 20.3% in quarter 3 FY '23 versus 17.9% in quarter 3 FY '22. BPC for the 9-month period standing at 25.9%. For fashion, it was 2% during the 9-month period and for others, it was at minus 22.1% during the 9-month period.

Moving to the next slide. Here we have our income statement as FSN E-Commerce company where you can see that our revenue grew by 33% Y-o-Y to reach Rs. 14,628 million during the quarter. Our EBITDA margin was at 5.3% in the quarter versus 6.3% during the same quarter last year. And our PBT margins came in at 0.9% and PAT margin was at 0.6% during the quarter. All in all, I believe that we have continued to improve our scale efficiencies in a challenging macro environment.

Thank you, everyone, for joining on this call. I would now like to request Kapil to initiate the Q&A session.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press “\*” and 1 on their touchtone telephone. If you wish to remove yourself from the questions queue, you may press “\*” and 2. Participant are requested to use handsets while asking a question. First question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

**Sachin Salgaonkar:** I have 3 questions. First question, Falguni, wanted to understand any particular reason for the slowdown in growth apart from the seasonality what you guys indicated. And we are hearing about consumer slowdown across the board. So, I just also wanted to understand your thoughts on the impact of that on cosmetics and fashion.

**Falguni Nayar:** I think clearly I mean, the fact that about 8 days of sale was less in festive sales than it was in the second quarter compared to third quarter for the previous year, that would take away at least 3% or so in terms of the growth. So, that clearly was one differentiator. And I think in addition to that, we do believe that in terms of this third quarter of this financial year, it was quite strong, but at the margin may be slightly impacted in terms of consumption because of what's going on in terms of discretionary spend. But like you can see we've grown nicely and we've acquired customers nicely. So, I wouldn't call it that it was a difficult quarter at all.

But in such difficult environment, I think it does shave away a little bit from the top in terms of consumption. I think there could be slight down trading from certain types of brand to slightly cheaper brands, but nothing in a very meaningful way that would be of concern. But it does feel that at some level, some amount of growth was shaved off the top. And more for the festive Diwali rather than our Pink Friday sales, if I may call it.

**Sachin Salgaonkar:** Thanks, Falguni. Second question on gross margins. It was clearly down both on cosmetics and fashion. And I do see some comments saying that there were higher brand discounts as well as consumer downgrades. So, again, I mean both for revenue as well as gross margins, do we see this likely to continue with an impact and see further pressure on margins going ahead?



**Falguni Nayar:** Not really. We do feel that the previous comparable quarter a year ago, the gross margins were at a very, very healthy rate. And hence, we are guiding everyone to look at it on a 9-month basis. And you can see that on a 9-month basis, there is no erosion of gross margin. And in fact, there is only improvement in beauty and flat in fashion. And even on the B2B business, clearly, the others business includes focus on the store business where we've been guiding that the gross profit margin is at around 15% compared to this overall mix, which has certain other new businesses like Dot & Key and Nudge and Man. So, it's very difficult to judge from this.

So, I would say a lot of it is a mixed issue and more of a category mix issue also in some ways and some ways not really. I keep saying that we don't have one cement plant where the raw materials going in and final good price is determining the margin. We are working with 2,000 brands in both beauty and in fashion where the mix of the brands, the margins, the advertising income and many other things can vary. And sometimes there could be certain differences from quarter-to-quarter. I think Nykaa also needs to learn to improve it on a smooth basis.

**P. Ganesh:** I guess I'll just add over here that if you were to look at gross margins on a trailing 12 months basis, you can see an improvement of 116 basis points. So, that also gives a reflection that over a period of time margins only improved.

**Sachin Salgaonkar:** And my last question is any broad sense you could give us in terms of the mix of GMV between, let's say, online, offline, eB2B right now? Or where we could see that mix, let's say, in the medium term?

**Falguni Nayar:** Yes, online, offline, we've been giving the numbers. I think online in spite of growing our stores quite aggressively to now a very large number. Our online, we have been saying that our offline sales in beauty still account for less than 10% of our total sales, which is about 8.6% for this quarter and 8.1% on a 9-month basis. We will continue to roll out more stores, and there could be you should expect another 50 more stores for the next year. But I think e-commerce will also continue to grow. So, that's on the physical store picture.

As far as B2B is concerned, I think, like you saw, I think the way we treat that business is that we do feel and you tell me whether this is wrong, but we do feel that B2B business in beauty is very strategic and will give us a huge advantage in the long run to be involved from entire, when an international brand comes into India, we are their distributors, not just for, we do their e-com sales, we do their physical store sales, even if they go to other modern trade channels we handle that and we also handle general trade. And besides makeup which sometimes can manage our narrow distribution, most of the skin care and hair care do need by distribution.

So, I think this GT/MT distribution, which has been a key to success of FMCG companies, they have never offered it to third party. And what we are trying to do here is build a third-party GMV distribution platform that is so all our brands, our private label brands, it'll serve our import brand, and it will also be available to third-party brands to benefit from. So, we think this as a disruptor business. It can grow very fast in terms of revenues that we can service. So, orders and



revenues will grow very fast. However, the inherent structure of this business will be about, say, 15% gross margin to start with; in the long run, 10% to 25% if we add other values like technology and data. But in the short term, it started about 15%. And we have to manage the fulfillment costs below that. Right now, we are trying to work on unit economics segment allow us to manage fulfillment costs in a healthy territory.

And selling and distribution expenses, which is feet on street expenses to build the retailer engagement is what replaces the marketing cost. So, I think we can, at some point, do a more detailed presentation on unit economics. Maybe we'll plan for it at the end of the financial year after the March results, but the plan is to have a really clear unit economics that will give confidence to everybody that we are on the right track to build the right business for the long term. And in others, that is the one that moves the needle. Others are very small, not very small, but small relatively.

**Moderator:** The next question is from the line of Vijit Jain from Citi Group. Please go ahead.

**Vijit Jain:** My question is within the BPC business, Anchit called out makeup grew 12% Y-o-Y. Other categories obviously grew faster. Is that also seasonally driven because this is usually a seasonally strong quarter for makeup in general, right? That's my first question.

**Anchit Nayar:** Maybe I can comment. So, look, I think there's 2 things to keep in mind. One is that if you remember last Q3, it was really a standout quarter for makeup in the sense that makeup buying had been subdued due to the pandemic for a couple of quarters before that. So, we saw finally in Q3 last year return to social events, weddings and generally people getting back to the office. So, we saw an improvement in makeup consumption. So, I think makeup was coming off from a slightly high base, and that's why you see this 12%, 13% growth versus the overall growth at 26%, 27%. And as I said, other categories are growing a lot faster. So, I think that's the main reason.

I think the second thing is there is a big focus from us to expand the customers. The width of the assortment that the customer is buying on our platform and make up and skin care, are the 2 dominant categories that we're really investing behind growing hair care, fragrance, appliances and others, which we think longer term will increase the basket size and therefore, the average order values to the customers as well.

**Vijit Jain:** Got it. Thanks, Anchit.

**Falguni Nayar:** Just I'd like to point out is that a lot of this data that we're giving on growth is online, and there is a fair amount of uptick in offline sales growth, I think offline sales growth throughout this year has been very robust and offline, a lot of makeup and skin care is sold in our offline stores. But it is not a consolidated number.



**Vijit Jain:** My next question is for owned brands, I noticed you mentioned the revenue run rate for a couple of brands on both BPC and fashion. My question is, is there a threshold revenue run rate at which you think they'll start generating positive cash flows or a target ROCs for you? I would imagine given your own distribution platform, it would be lower than for other D2C companies, but is there a threshold for that?

**Falguni Nayar:** Yeah. So, our beauty brands are all profitable. They are profitable and they contribute to positive EBITDA after giving all the retailer margins on an arm's length basis. So, we do believe that beauty has always been very profitable for us. The right annual GMV run rate at which the brand becomes significant is about like Rs. 100 crore revenue run rate when the brand can start for investing in the brand from a marketing perspective. So, it becomes an interesting point. And that's why we started reporting the brands which are above Rs. 100 crore revenue run rate. So, that Nykaa Cosmetics, K-Beauty, Dot & Key that is 51% owned by us. And a couple of our other brands are also very close to Rs. 100 crores in the beauty category.

On the fashion also, while all of the fashion brands together, most of the old fashion brands together are close to breakeven levels. And at least 2 of them are now trending towards the Rs. 100 crore revenue run rate. So, Twenty Dresses which is something we had acquired a couple of years ago, 4, 5 years ago, and we've really built it out to now almost Rs. 190 crores revenue run rate and Naked is also now trending close to Rs. 100 crores. So, for both these now, we have strategies for doing MBOs, EBOs, we are selling Naked through general trades. So, all that means that now we are handling it like beyond the D2C brand and investing in the future. We are very excited about our performance.

**Moderator:** The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

**Manoj Menon:** Just take a step back 3, 5 years back when there was abundant capital availability, a lot of D2C brands coming to the market, et cetera, versus that sort of a tailwind over the last few years versus, let's say, the investment winter we are going through currently. Two questions now. And if you could break up the beauty growth in terms of, let's say, the chain store growth concept in online versus, let's say, the new brands coming in and some color on that. And how does that, let's say, translate that into revenue, for example. I would assume that you will charge a listing fee or, let's say, the new brand coming to you probably have a knock at your door for a long period of time, quantitative and qualitatively.

Just some color on that. So, what I am trying to understand is your growth potentially could have been far better had they been a tailwind. So, what's the growth sort of with the tailwind without the tailwind is the question.

**Falguni Nayar:** I think what you're trying to assess is an extremely complex information for a large platform with 2,500 brands where top 20 brands, top 50 brands can change very rapidly over 3 months scenario, but definitely over a 1-year scenario. So, we are a very dynamic real platform that is really doing very, very well. So, if I were to tell you our top 100 brands, 22 of those are international brands,





17 are FMCG brands, 30 to our direct-to-consumer brands, which is clearly a very recent phenomenon over the last 2, 3 years. You see so many D2C brands stack up in the top 100 brands.

But we must remember that they are backed by a lot of investment in marketing, and they are all operating at negative profits or negative EBITDA, whereas the traditional international brands and FMCG brands are not doing that. They are investing within their internal profitability, if I may say so. Then there are 10 Luxe brands in our top 100 brands and 7 global brands. So, it's a very dynamic platform with lots happening.

What you have to remember is that we get 1 billion more plus visits on our platform from 25 million unique visitors every month. There are more than 10 million, like when we did Pink Friday sales, on 1 day alone, there were more than 10 million visits. So, we are a must have platform for any brand that wants to launch and build their brand in the country because of the customer cohort that we already have and how dynamic we are in terms of being able to activate those customers towards all of our brands.

And each of the brands, even the most largest brands, like, say, some of the largest brands, mass brands like Lakme and Maybelline, also get more than 60% plus of new customers through us every year. So, it's a very, very dynamic platform that keeps adding customers to every brand.

**Manoj Menon:**

Thanks for the clarifications or some comments about eB2B a little earlier, it was very helpful. But one follow-up on the eB2B is essentially that in general, there is an investor perception that given the MRP regime, which is very unique to India, there is only so much, let's say, distribution margins, which is very finite, which is available for any player however differentiated the offering may be. So, is it fair to assume that eB2B for you from a profitability point of view at scale is a reasonably long gestation? Now the other point is that because you are one of the unique players who's got the end-to-end capability, which also means that it is a very high entry barrier business. So, how do we look at this, let's say, from a 3-, 5-year sustainable meaningful profitability metrics point of view?

**Falguni Nayar:**

To be honest in all of the distributors or big companies like Hindustan Lever or P&G or all of them and they all have thousands of distributors throughout the country. And all of them are from small mom and pop shops, who are not going to lose money on behalf of the company itself. So, in my opinion, if the eB2B business is done right, and especially in our industry where the distributor cum retailer margins are not small, I do feel that you can really add value, especially through that, you add data in terms of what the retailer should stock, the flexibility to allow them to buy a mix more frequently rather than by the minimum sizes that others may ask.

So, there's a lot of advantage a shopkeeper has by dealing with people like ourselves. So, I think the main thing is the business is to remember that it's a B2B business and not a B2C business. And hence, in the long run, fulfillment costs and marketing costs need to reflect that and the



overhead structure needs to reflect that. And if one doesn't do that, then it can be quite a dragging phenomenon.

So, where we are is that we have set up almost 11 to 15 warehouses, which take us closer to the customer. We are going to do more business where we will stay within 200 to 300-kilometer areas of our fulfillment center. We will not jump in anywhere and everywhere. I think it's a business that we are doing very smartly where we will service shopkeepers in a certain there will be a fulfillment center in a certain square kilometer radius of that. We will focus on selling. So, I think if you do it right with the right unit economics, I think it can work. And the power it gives and barriers it creates for entry for future and power it gives to build brands in India is going to be very valuable in the long run.

**Manoj Menon:**

And if I may, just quickly, please allow me to relay an important conversation point with investors over the last few months at least. Just some quick comments about how do you think about capital allocation in general? This question had essentially come up in the last, let's say, 6 months post your GCC foray, et cetera. While I completely understand the disclosures you have done about the market opportunity there, this is just sort of a hanging question about incremental capital allocation, how do you see that over the next 3 years?

**Falguni Nayar:**

So, first of all, for us, beauty online, offline, so consolidated beauty business is very important. And in our opinion, we should never under invest in that, and we will continue to acquire customers for the beauty business, both online and offline. And also, we would like to build private label brands in beauty and become say, a consumer company like Estee Lauder or L'Oreal coming out of India. So, that is No. 1 priority towards investment, and I don't think we would deprive this business of any amount of investment. Investment in inventory and warehouses and stores will be needed to continue to support it.

But at any point, you can pull back all those investments and continue to grow online and customer acquisition is another big investment we make. So, I think this business has seen a huge amount of investment in customer acquisition, investment in fulfillment center, investment in stores and investment that we've done in terms of building tech capabilities towards this business. So, I think there is a fair amount of investment going in there. And this business is not deprived off that.

But yes, the profitability of this business is being used to build new businesses, including fashion. So, you can see that the profitability, like if you see the EBITDA level, the EBITDA gross profit of BPC would have been Rs. 523 crores. And that to some of that has funded or say contribution profit is Rs. 298 crores, and some of that has funded investment in fashion and B2B. So, yes, we're taking the profitability of this business to expand our TAM and invest in fashion.

In fashion, we are very clear that as the equation between new and returning customer builds up and it keeps improving with every passing year, fashion is just the fourth year of the business. But as the situation improves, we are confident that we should be able to bring down the



marketing costs from current levels to just about 15 or mid-teens to late teens, and that itself will be very profitable. And on the B2B business, it's literally first year. We are very happy with the scale and the retention and reactivation numbers. And we do believe that it will need another year or two of investment before we can talk about being profitable. But none of it will be massive losses. So, like contribution margin, even this year, it was only minus 12.6% negative and next year will be lower.

So, like I said, path to profitability is clearly in our mind, and at the moment, we are only investing in these 3, 4 businesses. So, beauty like I already spelled out, fashion, we're also building some private label brands, but investment is less than Rs. 4, 5 crores in those. And with fashion platform itself, we've been investing, but it will turn profitable over time, and B2B business where we are investing will become profitable.

I think GCC, we see a very, I joke about it that in India we are customers, but we struggle with the wallet. And in GCC, the customers have the wallet. So, I think it can potentially be a very profitable business, but we will be very measured. And I think it's a market that will have a lot more dominance of physical retail compared to e-commerce. So, the mix will be a little different, like mix could be 50-50 and also the fact that the physical retail in those markets can actually turn profitable very quickly compared to India.

**Moderator:** The next question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

**Manish Adukia:** My first question is on the fashion business. So, Falguni, on the first question you'd mentioned that some impact on the top of the pyramid, a bit shave off growth, discretionary spend impact. Now on the fashion business, when we look at this quarter, growth actually accelerated during the quarter. So, can you actually talk about the difference in dynamics between the fashion and the BPC growth during the quarter?

And a related question, when we look at 1 of the explanation in the slides around gross margin impact and where you mentioned consumer downgrades as one of the reasons, just trying to understand what you mean by consumer downgrade because AOVs have moved up in the quarter, both quarter-on-quarter and Y-o-Y. So, if you can just explain what do you mean by consumer downgrade there.

**Falguni Nayar:** I think consumers sometimes and I mean none of these are like what you have to remember is that these 2,500 brands with lots of trends being around, so none of those are like dominant long-term trend. So, we do expect that, in general, in the industry, there is premiumization and customers are buying more premium products. They're buying more luxury products. But if you look at it, at least last 1 year, there has been some amount of, I mean customers are down trending at least in certain categories from luxury brands to premium and mass brand. So, there is some amount of that going on. I think it could be short-lived and it can change. But yes, there was some amount of inflationary pressure, which is making customers hold back or choose a slightly lower category of product.



**Adwaita Nayar:** I think just coming in on the gross margin side of the question, at least I think we definitely want to draw the attention to Slide 44, where we show sort of the 9-month number because even that is quite clear, we have said this before in this call itself. But from that it's quite clear that if you look at both the businesses, BPC and fashion, on a 9-month basis, there is an improvement on both. So, fashion has gone from 43.7%, gross margin at NSV to 44.5% and beauty gone from 44.7% to 46.3%. So, we would encourage folks to look at the 9 months numbers and there's no sort of plan to deteriorate the margin at all.

**Falguni Nayar:** So, even in fashion, we have a lot of imported brands. Now we are doing business in Revolve. We are doing business in a number of imported brands like Cider and all of that, you can see. So, there are a lot of mix changes that happened from quarter to quarter while we are trying to make sure that we try and manage all this in a more uniform manner, but please appreciate that the current mix changes that happen, new launches that happen and the impact it can have some time in the near term.

**Manish Adukia:** My second question, again, just continuing on the fashion business. So, clearly, I mean, 50% Y-o-Y growth in this quarter, AOV still holding up quite well at around Rs. 4,000. Just trying to understand, I mean, do you think this kind of a growth rate could sustain with the kind of AOVs that you have? Or do you think to keep growth rate elevated we'll have to compromise a little bit on AOV.

And Adwaita to your point earlier, I mean, you called out gross margins for the business. Clearly, across both BPC and fashion gross margins are currently comparable, but there's obviously a fairly large difference in the contribution margin. So, as we think that 3 years out, do you think given contribution margin for these 2 businesses could be comparable?

**Adwaita Nayar:** Yes. So, in terms of growth, I think we're pleased with the kind of the fashion growth that's come through the quarter. I do feel it's the work of many things coming to effect, whether it's the brand assortment, whether it's some of the fabulous international wins that have come through, whether it's just breakthrough on the marketing side.

As I've always said in the past calls as well, perhaps it's never topline at any cost. It's always at the right marketing. So, I think somewhere this quarter, the ratio and sort of the mix that we wanted from a marketing cost perspective also lined up. So, there were at least 2 or 3 different things that propel the business forward. Everything from assortment to product features to the right marketing return. So, the quarter has held up. I would like to maintain a sustained sort of growth trajectory for the fashion business.

Obviously, with every passing quarter is on a higher base. So, that is something to be kept in mind, but this does feel like something we should be able to kind of hold on to. From an AOV perspective, we'd like to hold this AOV, and I definitely feel at least for another 12 months at least, there is no requirement to reduce the AOV to kind of grow in the way we want. So, for the



near future, there is a focus on maintaining the AOV. And I do feel that this AOV is important from the perspective of having the right unit economics to make the business work.

**Falguni Nayar:**

So, having said that, Adwaita, we should say that the AOV is not something we insist, this is what we discovered that our customers are coming out at that, right? But it is coming from a perspective that we are not flooding them with trying to give a lot of cheap products in terms of discovery or trying to give them a lot of discounts to convert, and that's how the AOVs are holding up. We take pride in the fact that such a large percentage of our sales happens at full price. A large of our sales is happening of the new season, and that also has lesser discounts. So, I think it's all baked in many of those things rather than being rigid about holding the AOV.

**Adwaita Nayar:**

Right. And then coming to the question on just where do we see the contribution margin ending up. So, again, if we go to the Slide 44 only, where you can see the 9 months number for the 3 verticals. Over time, our ambition is definitely gross margin can get to kind of beauty levels. I think some major flex in the next 12 months obviously come to the marketing and advertising line item, which is 25.5% of NSV today. And I think there are big strides that we would like to make in this line item itself.

So, I think over the long run, definitely getting to EBITDA breakeven is a key priority for fashion, but that's the medium term, and I think in a longer run, getting to a similar cost structure of beauty does seem attainable and something we can strive for.

**Falguni Nayar:**

I just want to comment and say 1 thing I believe in that there's a lot of inefficient marketing in what you call performance marketing. And one has to constantly optimize and reach a good healthy balance between reaching the midst of customers that you'd like to engage with and convert on your platform over time. And not doing the full expenditure that is just chasing the visits, so just chasing sometimes the downloads, which are never going to convert in any healthy manner.

And finally, what you want is the LTV of the customer or the right annual consumption value from that customer. So, Nykaa clearly is optimizing all the campaigns from these parameters rather than chasing any numbers like any artificial visits or app downloads or a lot of traffic come through wrong mediums that will never convert in any meaningful way. And sometimes just certain incentives are given to convert for sake of converting. So, I think Nykaa stays away from most of those.

**Manish Adukia:**

Very helpful explanation. Thank you so much.

**Moderator:**

The next question is from the line of Kapil Singh from Nomura. Please go ahead.

**Kapil Singh:**

So, my question a bit long term. We have seen a projection of close to 30% growth of online business for both beauty and fashion. I just want to understand how do you envision Nykaa's



growth in comparison to that? Will it be similar? Will it be much higher? What do you envision? And what are the top 2-3 new initiatives that you need to take to get there?

**Falguni Nayar:** Anchit, do you want to take that, Adwaita? Or should I take it?

**Anchit Nayar:** No, I was just saying that for BPC, we believe that the market, as I showed earlier in the slides, will grow at online BPC will grow at roughly 29% and the overall BPC market will go at 10% CAGR over the next 5 years. And we feel confident that we'll continue to grow in line, if not slightly faster than the overall market despite us already being one of the larger players on the online side. We continue to see and are confident in healthy growth and maybe possibly faster than market growth on the online side due to multiple factors, including premiumization, including depth and width of assortment as well as availability. And finally, increasing awareness should drive increasing basket size of the customers.

**Adwaita Nayar:** I think on the fashion side, we see that the overall fashion industry is growing at 14%. And within that online is growing at 27%. So, most definitely, fashion will grow faster than the overall growth rates for the online segment given that we're a new entrant, given that we're on a lower base. That being said, I think all of you know that we were sort of playing, slightly more creative zones. So, I think it's not going to be growth at any cost. It's going to be kind of holding in on the positioning and the differentiation that we're going forward. Within that world being a very, very sort of No. 1 choice for the customer. So, just to summarize, I think we're definitely growing faster than the 27% but also keeping in mind that for now at least our focus on positioning and differentiation holds.

**Kapil Singh:** Can you also touch about any new initiatives that you need to take to get there?

**Adwaita Nayar:** Yes. I mean, I think to answer at a high level, I think it's the same. First, we start with fantastic assortments. Just this year itself, I think you see that we've added 1,200 brands or so. I still feel there are a lot of strategic brands you still need to wear and we still need to add. So, assortment itself will trigger quite a bit of growth. That side we are already doing in India. Then of course, we can go abroad as we've been doing. That I think again will be a big unlocker of growth. So, I think assortment remains one.

I think the next remains of the customer journey, the retention. I think holding the cohort to ensure that the retention rates are exactly as aggressive as they can be is something that will drive significant growth. At the same time, new customer acquisition, of course, is a focus and ensure that every year there is a significant increase in new customer acquisition.

And then finding a third market, I would say the app experience. So, a lot of focus on making sure that there are very few friction points for the customer. The conversion rate is improving. And importantly, my favorite topic, which is just the discovery that the customer is really being able to discover what they want, which can be done through like fantastic personalization and



product features. So, assortment, retention of customers and new customer acquisition and finally, product features that can drive discovery and conversion rate.

**Kapil Singh:** Second question is on gross margins, particularly for BPC business. What I want to understand is when you look at over the next 4 to 5 years, do you think you are closer to the right level? Or do you think we have reasons to believe that even the gross profit margins could have good headroom to improve? And if so, what are the reasons?

**Falguni Nayar:** I think the beauty gross profit margins are at a very healthy level. But as you are aware, it includes the advertising income because we have so many eyeballs from really the relevant beauty customers, even though with very high conversion, unique conversion, but still, I think, at 3.5% conversion, which means that any advertiser can get so many more relevant eyeballs to focus on their products. So, I think Nykaa's effort is to become bigger on the ad platform side, and we have some investments being made to be a very significant player on that side where we work with our brands to add more value and give them more sophisticated ad experience on our side. And that can help us improve the gross profit margin a little bit. But from a product margin perspective, beauty is in a very good pace already. And then again, our private label share can also determine a higher gross profit margin.

**Moderator:** Thank you. The next question is from the line of Amit Sachdeva from HSBC Securities. Please go ahead.

**Amit Sachdeva:** Hi, Good evening. Thank you so much for taking my question, My first question really on like Falguni alluded to 3% impact on growth, purely on cyclicity because of the days were different. But as you go in, just looking to whether January and February so far, have you seen, has it shown some amount of more normalization even if, say, same growth rates sort of structural trend, is Jan-Feb looking better than like last quarter? Could you give us some amount of thought on how marginal growth is shaping up on demand side purely?

**Falguni Nayar:** So, I think October, November, December is a seasonally strongest quarter, and it's difficult to replicate that strength in a quarter basis. So, on a quarter-on-quarter basis, I don't think Jan, Feb, March can be massive growth over previous quarter. But on a year-on-year comparison, the Jan-Feb-March is definitely likely to be recent because I think it did start with that. I think it has all to do with how the wedding days start in India and all that, and that has made this quarter a little more interesting than it would normally have been. We also have one more sale which is Pink love sales this year.

**Amit Sachdeva:** My second question is actually on gross margin, which I'm trying to sort of understand the moving parts. One is on BPC where the margin impact on Y-o-Y is less, and fashion optically is higher if you take the gross margin purely on the revenue basis. Coming to beauty, is there some rather than down trading or something else. Is there also effect that's playing out where some brands are really iconic in their category and they tend to give lower margin, but they may advertise more on the platform versus some new brands, which are like they don't have such



massive advertising budget, but they can give higher margin for being on the platform and maybe spend less on advertising.

So, in some sense, is there like a mix shift happening where iconic brands are growing much more in a dominant way? But newer brands or D2C or something which have lesser presence, it's not falling by the wayside, but maybe they are sort of plateauing. Is that sort of trend that you're seeing, which is also in part reflecting in the margins because as we say that iconic brands will probably pay lesser margin, and that's what is slightly more structural than cyclical.

**Anchit Nayar:**

I'll come in on the BPC side. So, I think the short answer is no. I don't think there's any generalization we can make on that point. It's really a mixed bag. As we said out of the top 100 brands, almost 30 of them are direct-to-consumer brands, right, who come up in a very short span of time. And also, when I look at the margins, to your point, I wouldn't call them iconic. What I would say is FMCG, CPG brands, more established MNC companies, they may give slightly lower product margin that they make up for in advertising. But even equally so on the direct-to-consumer side, they give higher product margins, but they also are, as we mentioned earlier, are well funded and are willing to spend heavily on advertising to acquire customers from probably the most relevant platform for customer acquisition that they have in the country today, which is Nykaa.

So, I don't think it's really this MNC or this FMCG versus D2C debate. But as we said, it's really hard to pinpoint because it's 3,000-plus brands and some being luxury, some big mass, some being hair, skin, makeup, multiple categories, multiple types of brand. Some brands might go aggressive in 1 quarter and slightly less again in another, depending on their own ability to pay and spend. So, I don't think there's any generalization we can take out of this for coming quarters.

**Amit Sachdeva:**

So, there is no real structural thing here. It is just what it is right now because of the seasonal change in mix and things like that, that would just impact margin temporarily.

**Anchit Nayar:**

Yes. And also, as we said, I think we said, 300, 400 basis points of growth was preponed into Q2, which is worth noting. And there has been a slight return to travel. Travel Retail was back in the quarter as was physical retail. In physical retail, we are becoming a very large player and we are soon to become the largest on the beauty side. But still, there are other players, and it's a very unorganized market offline. So, I think online to offline, into category shifts, some amount of pullback from luxury just for the quarter. So, I think it's really an interplay of these couple of factors.

**Amit Sachdeva:**

But on the gross margin side, again, like if you look at the headline basis, the fashion was 81% and now 70% in a bit. So, it obviously could be optical. But I just wanted to know whether it's also driven by like a mix changing because more you sell your own brands, optically, it reduces gross margin because the marketplace would theoretically be 100% gross margin category because it's net of all expenses and COGS. But your own brands come with certain COGS as well. And hence, probably shift from 8.4% to 12.4% is perhaps optically gross margin reducing,





but it might increase the value capture anyway. It is also playing out. Or is there any other factor which has also led to some drag on fashion side?

**Adwaita Nayar:** No. So, on fashion. I think you're understanding in terms of owned brand or private label is not correct. I think the gross margin would increase on the private label front. If you go to Slide 44, I think the metrics that I would draw your guys' attention to is actually the last 5 rows on the bottom, which is on NSV. So, that normalizes for any market-based inventory diverse mix.

So, first and foremost, private label share and expansion of that will increase this percentage. Again, I think what we're trying to kind of say from a margin perspective is that we like to kind of focus on the 9 months trailing. I think there's a lot of seasonal understanding and changes that keep happening to the business, whether it's regarding income, whether regarding costs. And so, I think we have some work to do in that regard as well. But if you look at a 9-month basis, there is an improvement.

And like I said before, on the fashion business, we actually don't see a decline in gross margin going forward. We would like to hold it or improve it, and we feel very confident in that.

**Falguni Nayar:** Yes. In fashion, a year ago, I think it was a small business. And in terms of discipline of booking, so what we are saying is from quarter-to-quarter, there may not be a good discipline of booking things in right quarter. So, that's why 9 months takes away those differences. That is why we are highlighting that.

**Moderator:** The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

**Sheela Rathi:** So, my first question was which was Falguni, you talked about some down-trading and some weakness in demand. Even though the AOVs held up, so is it correct to say that the number of products in the basket actually went up? Is that a fair assessment here?

**Falguni Nayar:** No. I think my comment on down trading is being seen in a much bigger light than necessary. So, I just want to say that honestly, in terms of down trading, what I meant was that there is a lot of growth in certain price point brands, which are growing very rapidly all across. So, like, for example, if you see many of those D2C brands like whether Minimalist or Swiss Beauty or so many of those brands are growing quite nicely, and they all tend to be slightly lower price points than their Luxe equivalent. So, if such large brand proliferation of D2C brands in India was not there, there would have been bigger growth of many of the luxury imported brands. So, that was the only limited point I was making.

It's a very complicated point to make because, again, if you look at FMCG, those were always very mass brands. So, I'm not talking about the mass brands at all. I'm talking about a little bit cheaper products that kind of imitate the international luxury brands and sometimes Indian consumers are okay to consume those. That's the kind of down trading, I was talking about.



**Sheela Rathi:** And how would you look at the competitive intensity in this quarter, both from online players in beauty and fashion retailers on the offline side? I mean, for both the businesses, has there been anything which is monitorable for you on the competitive intensity side?

**Falguni Nayar:** Think this is for beauty. So, Anchit can answer. Anchit, are you there?

**Anchit Nayar:** Yes, I'm here. So, I think there's been a lot of noise in the system around increase in competitive intensity. And this is something which has probably been discussed a lot since pretty much we went public as a company. I think, as I've always said, there is an on and off focus on this category from some of the horizontals from time to time. But nothing that we feel is really going to impact the growth because we have to realize that the consumption in India is so low on a per capita basis, and there is such an active room to grow. And Nykaa is still seen as the destination of choice for beauty brand as well as for beauty consumers.

And I gave a couple of examples earlier when I spoke that when Priyanka Chopra launched her brand in India, she had the choice to really partner with anybody, but she chose to come exclusively with Nykaa. And same thing when The Ordinary, which is a brand owned by the Estee Lauder Group, which is one of the best-selling brands globally for Skin Care. So, to launch in India, it chose Nykaa as the exclusive partner. So, I think brands continue to choose us as a port of call for their entry into India. Customers continue to see us as the No. 1 destination for the latest trends within Beauty. So, I don't think that is changing.

If there is an increase in competitive focus on this category, I don't think that's necessarily a bad thing. That will help increase the awareness as well as the availability of beauty in the country, which should only help accelerate the consumption on a per capita basis. So, to answer your question, nothing really meaningful to discuss this quarter, but obviously, we monitor it very closely. So, we're happy to update you in subsequent quarter as well.

**Sheela Rathi:** Just a follow-up here, Anchit, and thanks for making the point on the launch of Ordinary and Anomaly. Has it become more or let's put it this way, has it become less easier to get brands on an exclusive basis versus, say, 2 years ago? Because now even off-line retailers are also focusing on expanding the beauty, their beauty businesses. So, that's where I'm coming from. But is it less easier than where we were say, 2 years ago?

**Anchit Nayar:** I think it depends. There are premium luxury brands who are very conscious about having limited distribution and for them, Nykaa remains indisputably the first choice. Now for our more mass brands, for them, it makes sense to have wide distribution. So, even they continue to partner with Nykaa first. But yes, when they do choose to distribute slightly more widely because for them, the whole game is about distribution.

Versus a couple of years ago, yes, there are more options for brands, but we're not losing brands, if I could say that to competition. I mean, Nykaa is a default platform which any beauty brand who wants to retail in India had to list on. Whether they choose to list on other platforms as well,



yes, I mean, that's something that depends brand to brand and could potentially be something which brands do going forward. But we still account for a majority of their online sales.

And as Nykaa having both physical retail distribution as well as online, there is no other competition right now in India, who is offering that very healthy mix of both 150 stores on the retail side plus 20 million, 25 million, unique visitors on a monthly basis online who are only looking for beauty. So, I think it's quite a difficult proposition to replicate for a competitor. So, yes, we're not seeing it yet.

But even if a brand choose to not remain exclusive with Nykaa, that's not the end of the world because by listing on other brands, the brands are able to build greater awareness and that snowballs into better momentum on sales, which then comes back to benefit us as well. So, it really depends on the brand strategy in the country.

**Sheela Rathi:** And on the fashion side, how has been the competitive intensity, especially from the off-line players?

**Adwaita Nayar:** So, I think in fashion, again, we were not the first mover, so there has been competition and there have been players who've existed in this market. But I think a couple of things. First and foremost, again, we always keep orienting ourselves to the size of the market and the industry and if a \$49 billion of sales is going to happen online by 2027, there's a lot of space for definitely a couple of players. And I think we're keen to be one of those players for sure.

What we feel is, obviously, we're growing much faster than the online market. So, we are taking share. And even anecdotally, when we talk to a lot of our brand partners, it's quite clear that for several brands now, we are clearly a very serious player for them in the market. So, what I would say is that it's been a period of us to take market share. And I think the market is large enough definitely for us to emerge as a very meaningful sales.

**Sheela Rathi:** And just 1 follow-up on fashion. What has been the retention rate, which we have seen say in the last 6 months or 9 months?

**Adwaita Nayar:** Yes, we do track that, but we're not kind of releasing that number. So, we won't be able to share that on this call.

**Falguni Nayar:** But I would say they are quite healthy and slightly behind our beauty retention, which is really, I would say, very, very advanced. We have an eye on it and we'll surely give that.

**Sheela Rathi:** One final question. How has been the trend on the inventory days for all the 3 businesses, say over the last quarter? Has it moved up, the inventory days?

**Anchit Nayar:** Inventory days have come down largely.



**Falguni Nayar:** Inventory days have come down significantly in beauty. I think we had pointed out that last quarter, September quarter was just before the season. So, we had also stocked up on inventory, especially international, I mean imported brands and other inventory. So, I think that has clearly come down recently and you'll find it in our results.

And I think as far as Fashion is concerned, we are a marketplace business with the exception of owning our own private brands as well as some imported brands where we take inventory. That's a reasonably small percentage but growing. But yes, we do manage our inventory with a keen eye on the number of days of inventory that we are taking.

Thank you. So, that'll be end of our call?

**Moderator:** Due time constraint, that was the last question taken for today. I would now like to hand the conference over to management for closing comments.

**Falguni Nayar:** So, yes, just thank you very much, everyone, for being here. I think we find it extremely difficult to do this presentation just on audio call without the presentation right in front of you, but unfortunately, that's what we have now. But I hope you understood what we were trying to say, and yes, you can download the presentation from our site investor presentation, and we are always available for any clarification that you may need. But we really appreciate all of you taking interest in talking to us today.

And the big theme is that we are definitely investing for the future. And I think I'm really glad that this was an audience that understood that below EBITDA line is all just the investment for the future. So, I think just want to continue to say that we are investing for the future and remain very confident about building the right businesses that will pan out.

**Adwaita Nayar:** And each of our 3 businesses are really taking the right steps in terms of the path to profitability. And that should also be clear from the financials we release.

**Falguni Nayar:** What we remain proud of is that it's been a period of large amount of investment in customer acquisition, fair amount of investment in stores and warehouse rollout and a fair amount of investment in building offices and teams for future businesses. So, even with that, I think we are really happy on where we stand in terms of being able to maintain our contribution margin and being able to deliver profitability. Thank you very much.

**Adwaita Nayar:** Thanks.

**Moderator:** Thank you, everyone. On behalf of Nomura Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.