FSN E-Commerce Ventures Limited
Q2 FY23 Earnings Call

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MS. SUNITA SACHDEV – IR & STRATEGY

MODERATORS:
MS. SHEELA RATHI - MORGAN STANLEY

Moderator: Ladies and gentlemen, good day and welcome to FSN E-Commerce Ventures Limited 2Q FY23 Earnings Conference Call, hosted by Morgan Stanley India Company Private Limited. At this moment, all participant lines are in the listen only mode. Later, we will conduct the question-and-answer session, at that time you may click on raise hand icon from the toolbar to ask the question. Participants connected via telephone call may enter * and 1 on the telephone keypad to ask a question. Please note that this conference is now being recorded. I now hand the conference over to Ms. Sheela Rathi - India Consumer Analyst at Morgan Stanley. Thank you and over to you, ma'am.

Sheela Rathi: Thank you very much, Inba. Hello everyone and on behalf of Morgan Stanley, I welcome you all to the FSN E-Commerce Earning Conference Call. Thank you very much Nykaa team for giving us the opportunity to host you all for the 2Q FY23 Earnings Conference Call. Without any further delay, let me hand over the call to Ms. Sunita Sachdev - IR and Strategy to take the call forward.

Sunita Sachdev: Thank you Sheela. Good evening everyone and welcome to the conference call. We will be covering this evening the results for the quarter ended 30th September 2022. On the call with me from FSN E-Commerce Ventures Limited is Ms. Falguni Nayar - Executive Chairperson, MD & CEO; Mr. Anchit Nayar - Executive Director and CEO, Beauty and E-Commerce; Ms. Adwaita Nayar - Executive Director, Co-Founder & CEO, Fashion; Mr. Vikas Gupta - CEO, eB2B and International; Mr. Arvind Agarwal - our Chief Financial Officer; Mr. Vishal Gupta - Executive Vice President, Private Brands and Mr. Rajesh Uppalapati - Chief Technology Officer.

We will start the presentation with Falguni sharing an overview of our performance in this quarter. Before we get started with presentation, I would like to draw your attention to the disclaimer for good order. With that over to you, Falguni.

Falguni Nayar: Thanks Sunita and good evening everyone. Thank you for joining us on the call and it is always a pleasure to interact with all of you. I will begin with a short presentation and we will be happy to take questions after. Our GMV for the quarter is at Rs. 23.46 billion which has recorded 45% year-on-year growth. Revenue has also grown at 39% year-on-year and it now stands at Rs. 12.3 billion. We are happy to report our EBITDA growth which has more than doubled year-on-year at Rs. 611 million achieving an EBITDA margin of 5% for this quarter. Profit before tax is at Rs. 88 million and profit after tax is at Rs. 52 million.

Our Beauty GMV has sustained growth at 39% on a year-on-year basis and the Fashion GMV has grown at 43% on a year-on-year basis. Visibility to business growth is strong, despite consumer environment normalizing as we have gained from our omnichannel presence. Our new business delivered Rs. 1.2 billion in GMV contribution which is heartening. These are early-stage businesses, so we believe there is strong growth to sustain.

Just going one level lower to the breakup of GMV across businesses. Consolidated GMV as I mentioned earlier grew 45% year-on-year. This is truly a commendable performance from our team and testament to the investment we have built into deeper technology and capacity. Our Beauty GMV grew 39% year-on-year. Our online and offline presence in beauty has delivered strong growth momentum while gaining from efficiencies across the value chain. Our Fashion GMV grew 43% year-on-year as we continued to stay committed to investing and building a unique customer proposition in fashion aided by investment in a differentiated product, collaboration with global brands and expansion of breadths and depths of private label portfolio. As you have seen for a few quarters now, we separately provide what we call the "Others" category which are new businesses that we are currently building and that currently include early stage businesses like eB2B business as well as NykaaMan. These businesses GMV grew by 240% year-on-year and now contribute to Rs. 1.1 billion in revenue. Overall, another quarter of yet another strong growth in revenues along with profit delivery.

I also wanted to take this opportunity to introduce you to all, the recent addition to Nykaa family. It gives us great pride to introduce our new Chief Technology Officer, Mr. Rajesh Uppalapati as well as our other members, our Head of Private Label Brands, Mr. Vishal Gupta and our Head of eB2B and International Business, Mr. Vikas Gupta. So, Rajesh brings over 2 decades of technology experience with proven record of delivering successful world-class large scale performance-critical software projects supporting multistage businesses. He has worked with Amazon for about 20 years across different roles and geographies with increasing responsibility. Prior to joining Nykaa, his immediate previous employment was with Intuit India. I would request Rajesh here to share a few words with our investors.

Rajesh Uppalapati: Thanks, Falguni for the warm welcome and the rich introduction. Good evening. As Falguni mentioned, I have been in the software industry for more than 20 years. We developed algorithms and built large scale distributor system for Amazon's supply chain technologies. We built product innovations to acquire and retain the next 100 million customers ranging from video voice and vernacular based shopping experiences to lightweight apps for shopping in congested networks and also gamification and content platforms that will create upper funnel engagement with our customers.

Recently, as the Vice President of Product Engineering at Intuit, I was leading engineering for Intuit TurboTax desktop and Mint products along with owning the India site strategy. As I join Nykaa, I am really excited about the opportunity. Over the next few weeks, I intent building relationships, while also understanding where we stand across the three P's - People, Product and Process. They are three strategic pillars which have served me well as a tech leader in my career. Creating a robust product infrastructure, essentially the plumbing and everything that goes beneath the curtains that translates to offering best in class security, availability, performance and quality for our products, and then the second driver would be how do we get fit, how do we do more with life, how do we dramatically improve our development velocity and the throughput of our innovations and finally embracing external technology trends. There are so many emerging technologies, and we will start to embrace these technologies and figure out use cases to apply them, and essentially invent on behalf of our customers before our competition can do it. Thank you so much.

Falguni Nayar: Welcome Rajesh, we are very excited. In fact, now, I will introduce Vishal Gupta. With nearly 3 decades of experience in the FMCG sector, Vishal joins Nykaa after a celebrated tenure at Unilever globally where he led large-scale award-winning campaigns and teams. In his latest role at Unilever Russia, Vishal helmed the Beauty and Personal Care Business comprising a large portfolio of international and local brands including Lux, Surf Excel, Wheel and Sunlight to name a few. With this, I request Vishal to come in with his introduction and few words to the investors.

Vishal Gupta: Thanks, Falguni. Hello everyone. As mentioned by Falguni, I bring to the table many years of experience in running businesses and building brands with high consumer love in India as well as in international markets and honestly that is exactly my mandate in heading the Nykaa Private Label Brand business, which is to build a portfolio of brands with high consumer love and scale across channels, so that we deliver sustained profitable growth for the years to come. Based on my past experience as well as last few months at Nykaa, I can confidently say that our right to win comes from three things that we do well; first, our superior consumer understanding; second, our ability to translate this superior consumer understanding into products that really wow our consumers and third, our ability to create brand content that not only drives desire, but also drives conversion across channels. So, all in all, super excited with this opportunity to scale our House of Brands into a large and profitable business for the years to come which is really loved by our consumers. Thanks.

Falguni Nayar: Thank you Vishal. Thank you very much. We also have here our CEO for eB2B business and he also heads the International business, Vikas Gupta. Vikas Gupta has been spearheading the Nykaa's eB2B business that currently holds SuperStore by Nykaaas well as Nykaa PRO. Having held several leadership roles in the past, both at Hindustan Lever and also Flipkart, just before joining Nykaa, Vikas is proficient in building businesses for data driven digital first enterprises. Vikas comes with over 20 years of experience at Unilever with stints in India, Brazil, Singapore and Indonesia. Then as I said, more recently he was at Flipkart in Bangalore. Some of you may have heard Vikas speak in our annual investor conference in July. With that, over to you, Vikas to give us an update on your new businesses.

Vikas Gupta: Thank you Falguni and good evening everyone. For my introduction, Unilever was my home for more than 20 years. I joined Hindustan Lever as the management trainee back in 1998 and was fortunate enough to get opportunities to work on one of the most diverse roles during my tenure in Sales and Distribution, in Marketing and Internal management and it transpired over five countries and three different continents. This included the global leadership of one of Unilever's biggest brand “Dirt is good” for 5 years. In that period, we added more than a billion topline taking global market leadership away from Tide and establishing “Dirt is Good” as an iconic brand across most markets including India. I also had the opportunity to serve as the Executive Director and Board Member at Unilever Indonesia, leading its home care business where we accelerated both the topline and bottomline growth and the biggest contribution that I made there was getting the next line of leadership ready to take over.

I left Unilever in early 2019 because I really wanted to participate in this brave new digital economy and learn how data and technology can be harnessed to shape consumer behavior and solve real world problems, so joined Flipkart to head its marketing and customer growth function and last year I joined Nykaa to lead Nykaa Distribution and Nykaa International. I see it as the perfect opportunity for me to bring together my experiences at Unilever and Flipkart to disrupt the old somewhat framed distribution ecosystem in the country, serve it historically under-served parts using technology, using data and create value for all stakeholders in the process, most of all, our customers which is essentially the small retailer on the road-side.

Coming to the quarter 2 business updates, I would be taking you through the "Others" section which you saw in the previous slide on the split of vertical performances. Just as a reminder, the Other business numbers includes our eB2B business, it includes our International business, it includes NykaaMan and our new acquisitions like LBB and Nudge. I am here to provide some insight on the scaleup of SuperStore by Nykaa and the strategic partnership we recently announced with the Apparel Group in the Middle East as part of our international foray.

So, talking about our eB2B business, this vertical has now established its right to win as a specialist vertically focused eB2Bplatform allowing us to penetrate much deeper in the country. We are scaling this platform in a very measured manner to ensure focus on the right unit economics from the very start. Operating within that context, it is very exciting to see that in less than a year of launch, we have more than 70,000 retailers already transacting on the platform across more than 650 cities with above expectation repeat rates and retention rates. In quarter 2 itself, we served over 1,73,000 orders and almost 20 times ramp up on a year-on-year basis. As you know, retailers have been spoilt for choice and inundated with horizontal B2B players in the last few years, so within that crowded situation, we are resonating strongly as a specialized player and expert in beauty, personal care, and wellness segments getting their rightful share of mind.

Our key value proposition, most valued by our customers is the selection and its discovery on the platform through relevant recommendation customized to the region and store type. We now have 182 brands listed on the platform, 6x growth on a year-on-year basis and there are several more in the offering. Our partnerships with brands are strengthening and that is essentially because of the level of transparency we are able to bring to the promotional spends ensuring high ROI that reaches its target audience without leakages and the data intelligence that we are able to provide at the most granular level. A key strategic win we are able to co-deliver with our brand partners is the premiumization of the offline markets just as we have done with the beauty platform in the online B2C market over the last ten years or so. For several brands, we are already their primary go-to-market partner thus democratizing distribution in the country especially in underserved channels and underserved geographies.

The next highlight of quarter 2 is the new partnership with the Apparel Group to undertake an omnichannel multi-brand beauty business in the Middle East. We intent to build a strong business on the lines of Nykaa in India in the 6 countries of Gulf Corporation Council or GCC namely UAE, Saudi Arabia, Bahrain, Kuwait, Oman and Qatar. We are very excited first and foremost with the market opportunity that GCC presents. It is one of the most value dense markets in the world when it comes to beauty. With the significant young population that is witnessing strong winds of positive change in terms of women's right and women empowerment. The e-commerce segment is underpenetrated, but growing rapidly, ahead of the total market. We view this opportunity positively and believe we can build a strong sustainable business there with the Nykaa playbook and Nykaa energy. There is also a symbiotic deep partnership with two partners in play here. The Apparel Group is a global fashion and lifestyle conglomerate in the Middle East, it is an offline power house with more than 2000 stores across several categories with a growing play in e-commerce as well via 6TH Street. Together with Nykaa's expertise and omnichannel beauty retail, its strong brand partnerships, its unique content to commerce model and online capabilities, we believe we can create significant value with the partnership. Together, the two partners share very similar values, very similar growth ambition, but with a frugal mindset.

As a quick update to building our own brand presence internationally, I am also happy to share that we opened up first exclusive brand outlet in Mauritius last month. We have also launched our brands across e-commerce market places in the UAE and the USA. Over to Anchit to take us through the performance on beauty and personal care vertical. Thank you.

Sunita Sachdev: Since Anchit has not been able to dial in from a business meeting, we have Ms. Falguni Nayar take some of the slides. Over to you, Falguni.

Falguni Nayar: Thank you Sunita. Thank you everyone. I will take you through the BPC highlights for the Q2FY23 which ended on 30th September 2022. In terms of our business - brand partnerships remain key to our strategy and in this quarter, we had extended our strong relationship with Estee Lauder Group, in a first of its kind partnership to identify and support the next generation of beauty entrepreneurs from India. This is a unique partnership which offers non-equity grants and mentorship opportunities for budding talent in the beauty industry.

We also launched Priyanka Chopra's brand "Anomaly" in India through an exclusive arrangement with Nykaa. This fits beautifully with our strategy of upgrading existing consumers to premium personal care products. We continue to remain the preferred partner for the largest FMCG companies in India including Hindustan Unilever which has launched its new Science-based skincare brand "Acne Squad" on Nykaa. We also launched Inde Wild; a Global Influencer led skin care brand as well as Fable & Mane which is an ayurveda based hair care brand that is now brought into the country.

Through quarter 2, we work towards increasing the interaction with our audiences. It gives me immense pleasure to report that our Hot Pink Sale delivered the highest ever unique monthly visitors at 25 million. The love and confidence of our customers has helped us to deliver the highest Hot Pink Sale across e-commerce as also the rub-off affect that has delivered on improving traction in the offline retail network.

Our retail store expansion continues, as we are now in 53 cities and our footprint now stands at 121 stores. We expanded our BPC fulfillment centers to a total of 1 million square feet across 31 centers in 11 cities across the country. This has helped us manage our fulfillment cost and bring them down in spite of inflationary pressure. Our House of Brand business within our BPC vertical continues to gain strength. The GMV of our own brand stood at almost Rs. 2 billion in quarter 2 of financial year 23. This now accounts for 12.1% of total Nykaa BPC GMV. This is a 64% year-on-year growth. It gives me immense pride to update you on the milestones we have achieved this quarter.

Kay Beauty, one of our brands in partnership with Katrina Kaif, Dot & Key, the brand that we had acquired earlier last year, they have both achieved the status of Rs. 1 billion plus brands. We already have Nykaa Cosmetics sitting at Rs. 2.5 billion plus levels, so we are building brands that are delivering to consumer expectations and we are doing this while achieving scale and size of our own brands. We continue to expand the distribution of our own brands through the in-house B2B vertical. This has helped us have our own brands reach 2,130 general trades as well as 132 modern trade outlets in India. We are already serving about 2,314 retailers through our SuperStore app. We celebrated the third anniversary of Kay Beauty just recently and it has also won the Best Beauty Brand of the year which was awarded by the Vogue Beauty Festival reinstating our investor confidence in the brand.

Continuing with regard to the House of Brand business, we had a variety of new launches from Nykaa Cosmetics, our flagship brand, Kay Beauty, Nykaa SKINRX which is our premium skin care offering as well as Wanderlust which is our Bath & Body range. I would like to highlight that our own brands straddle price points, from very affordable Nykaa Cosmetics nail paint in the bottom left corner of the slide to the premium skincare-based moisturizer at Rs. 1,400 for the combo. Even the Wanderlust brand that specializes in Bath & Body has products ranging from more mass market, roll-on Deos to the higher end bath and body ranges.

We have some very interesting new launches by Dot & Key across Super food-based serums and the affordable face wash launches. Dot & Key launched for unique lip balm created at the price point of Rs. 249. We are growing the appeal and the market ability of the brand. Earth Rhythm, another company where we have taken significant stake though not dominant. Earth Rhythm launched some of the unique bath lotions in time for the winter season rush for the body care products.

Our offline retail footprint has grown now across 53 cities and 121 stores. The segment now contributes to 7.5% of our BPC GMV and tracks healthy Rs. 3,640 per square foot per month. We now have 1.2 lakh square feet in retailing space and quarter 2 has demonstrated a robust 19% sales growth for same stores opened till March 2021.

Finally, we would like to talk about the key metrics we track for the beauty and personal care business. Trailing 12 months customers are at 9.1 million with growth of 31% year-on-year, average monthly unique visitors of 22 million for the quarter and visits were at least 3.5 times in a month, a robust metric according to us for the category of beauty. Order to visit improved to 3.6% in Q2FY23, almost 73 basis points improvement year-on-year, demonstrating the attractiveness of the platform. The number of orders were at 8.4 million in the quarter and we have delivered a growth of 39% year-on-year while the AOV stood at 1,872 for the second quarter of this year. These metrics continue to underline our testament to driving high quality traffic to the platform and also impacting sustainability of our business model.

Now, I am happy to hand over the presentation to Adwaita for the update on fashion business.

Adwaita Nayar: Hi everyone. I really look forward today to talking to you about the fashion business. Starting on some of our highlights, first and foremost, we take great pleasure to announce the partnership with Revolve. Revolve is one of the world's most renowned fashion e-retailers known for bringing the best and the trendiest fashion to many consumers across the US and in many ways their positioning is very similar to what we were trying to do here in Nykaa Fashion. This partnership which we have been working on over a year. We now have access to more than 400 international brands. We launched a campaign recently with the Revolve in line and we had a reach with more than 31 million customers majorly driven through a very strong influencer outreach. This builds our global store portfolio which I spoke about last quarter as well and it further remains in line with our ambition to get the world's best global fashion brands to the Indian consumer.

Moving on, the second thing we have done is gearing up for the festive season, we launched the Nykaa Fashion brand Festive Carnival. We have over 2,500 brands bring incredibly interesting and exciting festive wear to the platform and this really helped build and maintain our positioning from a curation point of view and we did see higher monthly unique visitors for the sale and we saw 18 million monthly unique visitors in September.

We remained bullish on exploring an omnichannel strategy for the fashion business. We do believe that there is a role for physical stores to play, it remains early days. So, we did open two stores on the fashion side of the business this quarter. One is our Multi-brand fashion format which will be known under the label Nykaa Fashion and then we also opened up store for our lingerie and inner wear brand called Nykd. Early days, as I mentioned for physical retail.

Moving on, we will talk about our differentiation in positioning. This is something I typically touch on every quarter, but I think it remains really and credibly important for me that after delivering our business we make sure that we have a differentiation and so we do locate this very carefully and today I will talk about three propositions about building that we do believe are contributing to our unique positioning in the minds of the consumers. The first, the global store which I did mention on the prior page as well that remains a focus, we now had more than 400 brands across the world that we were bringing into the country. Many of these are exclusively available with us and this global store merchandize now contributes 13% of our western wear offering in terms of GMV, but this is an incredible sharp uptake in terms of contribution given that it has only been a couple of months since we launched this property.

Next, we have a property called Hidden Gems. The whole idea here to look for some of the country's best labels and emerging designers and so we really do scout the country to bring really exciting brands and we have more than 220 brands now as part of this portfolio. It has been 18 months since we launched the Hidden Gems portfolio and it now contributes 7% of Nykaa Fashion's overall GMV.

Finally, I have spoken about this but I do feel that the fashion forward platform like us has to emphasize new season. We want to be known as the destination for new season and therefore this quarter again we could see the big event for the First in Fashion where we have over 1000 brands participate and provide us the latest and newest stock and newest launches and that too is now contributing 24% of the overall GMV of Nykaa Fashion for the quarter. So, all in all, these metrics are supporting some metrics that we track that prove our differentiation, those are the two metrics on the bottom of the page, the first is average order value and average order value for the quarter is now Rs. 4,425, which is 10% higher year-on-year and it is far higher than what the industry sees as an average. Similarly, in terms of conversion, our conversion rate has improved dramatically. It is 32% higher year-on-year.

Now, I would talk about our own brand strategy, we continue to believe that the own brands has a very important place and role in our fashion journey. Over the last 2.5 to 3 years, we built up our own brand portfolio. On the left-hand side, you can see that we now have 11 owned brands, a couple of these we have acquired, many of these we built in-house and from the GMV perspective, you can see that the GMV of these owned brands supported stood at Rs. 78 crores. This is up 169% year-on-year. Highlighting a couple of the metrics on the same chart at the bottom, you can see that our own brands GMV now accounts for 13% to the fashion consolidated GMV. This is a very impressive expansion of percentage and share. You can see that a year ago, the same own brands accomplished for about 7%. The 7% has moved up to 13% and this is on the back of consolidated efforts across 11 different brands. On the right-hand side, you can see that we are continuing to add many SKUs across our brands and we are trying to cover all sorts of categories, whether it is western wear, whether it is lingerie, whether it is footwear and right below that I have spoken about this and I will repeat that we remained focus that our own brands should have life of their own beyond our platform. So, some of our brands, not all, but some will have distribution, whether it is in multi-brand outlet, whether it is in general trades, whether it is with own stores and today, Rs. 78 crores of own brand GMV, 45% comes actually from third party platform.

Moving on, on the next couple of slides, we give you a glimpse of our own brand imagery just for you to have a sense of what we are doing. Here, you can see the product that we are displaying, all of this was designed, in house, and shot internally.

Finally, I will talk about the metrics for the Fashion business. On the left-hand side, you see that the orders are now at 1.2 million for this quarter that is a 41% year-on-year growth. On the right of that, you have seen that the trailing 12-month consumers are at 2.1 million, this is 66% higher than the year before. And last, I insinuated this before that the average order value has gone up dramatically and it is at Rs. 4,425 versus 4,000 or so a year ago and finally at the right-hand side, you will see our GMV. The consolidated fashion businesses' GMV is almost Rs. 600 crores. This is split as two part of our business, the pink bar is what we call our multi-brand Nykaa fashion.com and the other bar is the other platforms, so you can see that the multi-brand business is growing at 55% whereas the sales on other platform is degrowing at 1%.

I just had two more metrics, which are mentioned elsewhere in the deck, but it is important to round out the conversation on the Fashion business. We do continue to track that Fashion is about 26% to the consolidated business in terms of GMV and it remains contribution margin positive and in fact the contribution margin for the fashion has gone up by 138 bps year-on-year. So, with that I will hand over to Arvind to take us through the financials. Thank you.

Arvind Agarwal: Thank you Adwaita and good evening friends. This is Arvind Agarwal, really glad to talk to you about our quarter 2 performance and why I say that because we have not only maintained the growth momentum, but also improved our EBITDA margin and I think that is quite impressive in the operating context laid down by inflationary pressure. The core business, if you look at the revenue chart, this quarter, we have grown 39% year-on-year which is slightly lower than last quarter when it was 41%, but that also had a positive base effect on comparison with quarter one of last year when there was a COVID based impact. So, maintaining the growth momentum, beauty business has grown 35% year-on-year, but other new businesses have also done really well in this quarter.

Talking about the gross margin, we are reporting 45.3% gross margin which is about 259 bps improvement year over year and about 90 bps quarter-on-quarter. Talking about the EBITDA, this quarter, we are reporting Rs. 61 crores EBITDA which is more than doubled in absolute numbers versus quarter 2 last year and very impressively the margins have improved 170 bps from 3.3% to 5% year over year, but it has also improved by almost 100 bps quarter-on-quarter. In terms of PBT, we have Rs. 8.8 crores of profit before tax this quarter, which is marginally better than quarter one of this year and which is quite better than quarter 2 of last year, almost 6x of Rs. 1.4 crore last year same quarter.

I think I will go to next chart and try and explain that organically we are doing quite well on operating efficiencies and variable cost and not only that we are investing into building capabilities that will give us quite good operating leverage in the times to come, but these are really important investments to make. So, if you look at this chart, we have upped our stores capacity by 70%, warehouse capacity by 74% and I am comparing H1 of last year to H1 of this year like one year journey, so these infrastructural investments have been really accelerated over last 1 year. We have also recruited almost 800 employees in last one year and it comes across verticals which are like variable headcount linked to business growth, in eB2B, in general trade, modern trade channels and retail store rule out, but also some bit of augmentation on our corporate finance and support function, but that is just 34% of overall growth and then we have also promoted and we did not have office capacities much in last 3 years, but now with the work from office environment and people coming back, we have added to office capacities also by almost 82% from 0.9 lakh square feet to 1.7 lakh square feet and obviously, these are adding to our fixed cost line and it shows up in our table.

So, let me explain you the next chart on how we should look at EBITDA margin waterfall. So, last year, we had 3.3% and now 5% this quarter and if you look like the green movements here, the biggest green movement is coming from gross profit which is quite good because coming out of advertisement revenue going up and favorable product mix, so that is quite, while we have maintained a growth momentum and also improved the quality of business growth. Even the fulfillment cost line, we made some structural corrections and amended to regionalization strategy last year and that is paying back and 73 bps year-over-year improvement is showing up here. In terms of marketing, we had high marketing cost last year same quarter and 313 bps improvement year over year. Part of it is driven by the efficiencies which shows up in order to conversion ratio and some sanity in digital marketing cost, but part of it is because we did not do a big brand building exercise this quarter, which we had done last year in the same quarter, so it is more of a seasonality in that sense.

Talking about the other line, Selling and Distribution expense has gone up by 159 bps which is because, like I said, we have been expanding into physical economy and eB2B which is our new initiative and out of general trade, modern trade expansion, so that sits under selling and distribution expense. End of the employee expense, we have added almost 35-40% extra manpower to support our business verticals in their growth ambitions, but also invested very strongly to our technology function, so this is a cost which should pay back in form of operating leverage overtime, but year-on-year that shows an increase and then finally other expenses which is 108 bps higher because like I said, we also invested into office capacities and administrative expense which go in line with the employee headcount growth. In spite of these increases in the fixed cost, we have delivered higher EBITDA margin at 5% driven by operating efficiencies as reflected in variable cost as I explained earlier.

I should move to next chart and just to give little bit more color on how the infrastructure investment also impacts lines below EBITDA, so while EBITDA has more than doubled year-on-year to Rs. 61 crores, 112% year-on-year growth, but many of the fixed cost lines of this nature are also showing similar kind of growth, so since we have invested into stores, warehouse, office, capital expenditure, depreciation has gone up by 96%, even with the new leaders coming up in these properties, it also shows in terms of lease accounting impact in two lines, amortization and interest on lease, so both have also gone up quite significantly year over year and then interest on borrowing has gone up because our inventory investment and working capital investment has gone up to support the business growth. So, this shows that within EBITDA and PBT, we have increased in fixed cost. In fact, if you see the bottom table, it also shows because of the Ind AS accounting where there is a straight line method followed for all the lease cost in terms of the future cost and then this discounted and spread over the next straight line method while the cash lease cost is Rs. 28 crores, but the P&L takes a hit of Rs. 34.6 crores. So, in the initial period of leases, there is higher cost in the P&L. Of course, that will unwind towards the later part of the lease period. So, in that case, these are also some of the future costs, but that goes as required to the book as per the Ind AS accounting which is the standard we follow.

Finally, next chart talks about the unit economics of different verticals and I am trying to compare one year journey for each of these verticals. Talking about the BPC first, like I said it has grown 39% on GMV year over year and 35% on revenue, but if you also look at the unit economics parameters at the bottom of this page in terms of key ratios to NSV, despite being a large business, it has improved gross margin by 300 bps and that is driven by advertisement income, own brand share going up and the favorable product mix like I said earlier. Not only that, fulfillment cost has come down from 10.5 to 9.4, almost 100 bps improvement and marketing cost, which has 10% plus kind of number has come down to 7.8% now in this quarter, so almost 200 bps improvement year over year and S&D costs are kept flat at 3.9%. With this beauty has delivered almost 660 bps incremental margins on contribution level which is quite significant for a large size business like this and if I look at the fashion business, even there the business has been growing impressively and 600 crores kind of size now and with the revenue growth of 32% if you look at the unit economic parameters there, gross margin has improved from 39.1 to 44.6, so almost 550 bps improvement in gross margin in one year and it has also kept the fulfillment cost quite at check at 10.4% despite having pleasure of higher return. It has also kept the marketing cost under check at 25.7% and the only cost line which has increased is S&D because our own brands are now expanding into general trade, modern trade and various channel, third party platform, so there the commission that we pay comes and sits under selling and distribution expense. So, with that kind of constraint with the improvement in gross margin and investment to S&D**,** it has still managed to improve the contribution margin by almost 100 bps from 1.3 to 2.3, so it is the kind of calibrated growth that we are targeting in fashion while keeping our play book intact and not really going super aggressive in acquiring customers, but of course that choice always exists, but as of now, we follow the target of being contribution positive and in terms of others, this is a mix of various businesses which Vikas talked about and I think there the numbers will not be comparable year over year because eB2B, the different model and it just come up in last 3-4 quarters, so year-on-year numbers from the B2C alone kind of model had changed to the mix of B2B and B2C there, so I will not talk much about it, at the suitable time we should separate out B2B numbers, so that you can talk about unit economics there as well.

The next chart is the summary of what I said so far and since I have talked mostly about year-on-year growth, I will try and explain the quarter-on-quarter numbers here. So, this quarter, we are reporting Rs. 1,231 crores revenue which is 7% growth sequentially quarter-on-quarter and in terms of the EBITDA margin, we are reporting Rs. 61 crores which is 33% higher in terms of the sequential growth and profit before tax is Rs. 8.8 crores which is 5% sequentially higher, Rs. 5.2 crores which is the PAT number. I think in terms of H1, if you would summarize it in the final right hand box, 40% growth on the revenue year over year and then coming to EBITDA which is for H1 is almost Rs. 107 crores, 92% year over year growth, so more than double the growth of revenue which shows the operating efficiency and Rs. 10 crores profit after tax which is 117% year over year growth.

So, I will end the financial presentation here and we will move to Q&A now.

Sunita Sachdev: Thank you so much, Arvind. I now request the moderator to open the Q&A queue please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Participants to ask a question via web please click on the raise hand button on the toolbar at the Q&A tab and click raise hand. The operator will announce your name when it is your turn to ask a question. Participants connected via audio call may enter * and 1 on the telephone keypad. Ladies and Gentleman, we will wait for a moment for the question queue assemble. Our first question is from the line of Nihal Jham from Nuvama. Please go ahead.

Nihal Jham: Congratulations on the strong performance, three questions from my side, I will start up with the BPC segment where as you have highlighted the contribution margin is something that has seen a significant improvement whether you look at it on a Y-o-Y basis or over the last 3 quarters as the other data available, I just wanted to understand that would this be the right unit economics to understand that the business can track going forward and also Arvind if you could ballpark, convert this contribution margin to what will be the EBITDA margin for reference perspective?

Arvind Agarwal: So, I think in terms of improvement in gross margin driving that contribution margin that is quite good and I think at least 200 bps out of 259 bps is structural and should sustain as an advantage to us because now both online, offline channel and revised our own brand is also contributing well. Very importantly, advertisement revenue is doing really well, in fact if you look at commentaries from various FMCG they talk about digital marketing taking a bigger share of their advertisement budgets, so that is good news, so we should be able to continue to monetize it better. So, I think healthy gross margin is something that we are definitely looking forward. In terms of fulfillment cost, we might invest part of the savings or efficiency that we afford into better customer experience, but it should operate at some 10% kind of level and marketing is a choice, in some quarters, we have the marketing spends based on brand building like quarter 3 is expected to be a big season, so you might operate there, but it should also operate with, let us say, to almost 150 bps improvement year-over-year in that range, so I think out of the 660 bps, 400 to 500 bps is something that we see a structure and we should also logically flow down to EBITDA as well, but yes, EBITDA we have added quarter in terms of employee cost lines as some of them are also investment to future especially technology function, so the operating leverage might come overtime. I won't be able to give more guidance on EBITDA number here because it may be, people cost is something like we dynamically allocate across verticals depending on the lease quarter-on-quarter, quite fungible resource and may be when we come to the annual results, we will try and separate out EBITDA also for you.

Nihal Jham: Moving onto the second question on the fashion business, this was the quarter where there was some part of the festive period that come in, so we have seen a quarter-on-quarter fall in the orders that we service. If you can just give some highlight on any specific reason for that?

Adwaita Nayar: I will come in there. I think we are quite feeling pretty good about the fashion business from a year-on-year perspective, the fashion business, the core platform which I mentioned earlier is being robust 85% year-on-year on a base which is now significantly higher. Within that, the orders have gone up on a quarter-on-quarter basis. Yes, the sequential growth is more flattish than there is a serious rise, but every quarter on quarter we are taking the right decisions in terms of how much to invest versus how much to add to our contribution margin is then seen as to be it around the fashion side of the business where quarter 3 tend to be seasonally get a bit better, so for me it is always also a question of phasing out the growth and when is the right time to double down versus not. Couple of other metrics I will share, because I think others might also have questions is on fashion we are also starting to see very interesting and strong repeat behavior, so this quarter, we have released it to the exchanges well earlier today that in quarter 2, fashion saw 66% of its revenue coming from repeat behavior, so it is also a quarter where we have seen repeat really starting to kick in and new customer acquisition is always something we can choose to exaggerate. It is simply a question of how much we want to accelerate and what the pressure might be in terms of profitability with that acceleration, so it is the choice that has continuously been made.

Nihal Jham: And just one last question from my side was on the international business if you could just give some sense on timelines of the launches and the potential investments?

Falguni Nayar: On the international business, we have just recently entered into strategic alliance with Apparel Group. It is now being ruled out in terms of setting up the subsidiaries and the operating entities we did to rule out that business in the region. I would think that the first stores can be operational within definitely next 12 months and e-commerce website may take little longer or may be similar time. So, yes, we are in the execution mode. We will continue to build that business in our same prudent style that Nykaa has always done and our partners also aligned with that plan, so everything will be more organically almost being treated like a startup in the GCC country that it is trying to execute an omnichannel beauty multi-brand retailer strategy in the region.

Moderator: Thank you. We will take our next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My first question is on the fashion business, so the fashion market size is like 5 times that of BPC, we are relatively new entrant, very low base, very low market shares, at this stage of our lifecycle, the NSV growth being only 20% Y-o-Y seems a little surprising, I understand that few other parameters that you mentioned are trending positively, but finally they are means to an end and the end is the NSV growth, so can you comment on what really is pulling down this number and what can we do to really push it up more aggressively, that is my first question?

Adwaita Nayar: So, I think I'm going to take this question in two ways, so the first is, in terms of just talking about what pie of the fashion part we want, so we all know that fashion is a massive market for any estimate at least about 5x the size of the beauty market, however, we want to be extremely positive about what part of the pie we get. Absolutely, it can be rolled out faster from the GMV NSV perspective, but we focus on the quality of the customer we are getting, the average order value that we are getting and sort of premium that we are being able to deliver on. I think this is a very tricky industry and if you sort of loosen your reins on what type of customer you want, I think your profitability can get impacted faster than one realizes. So, what I would say is that overarching comment is that it is actually easy to grow a lot faster, but by sort of more measured thoughtful approach being that even as the fashion market is so large, we want the particular play that make sense to us, that make sense to the Nykaa GMV and the Nykaa Strategy which is to build sustainable businesses with a clear path to profitability.

I think the second point I was going to make is, so keeping in mind that there is a thoughtfulness in terms of the type of audience, the type of customers we want, what I am going to also say is that comparing year-on-year also brings in the basket last years COVID dynamics which make it a base, but it is little bit hard to compare too. There are two particular things I want to highlight, about a year ago, even before last, the peak of COVID, Nykaa Fashion in particular, so much lower returns than what we are seeing now, those lower returns which we saw a year and some quarters ago were actually deflated returns that were not sustainable. So, as the world normalizes, return rates are just going up back to normal and actual level. So, I think the NSV and GMV ratio were now seeing, sure there is some improvement still possible and we are working on that, but this is a more realistic ratio that we see and our understanding from the competitive dynamics is that the ratio that we have and the return percentages we have is still far lower than what the competition has. So, that is one thing that is the base effect is a little bit noncomparable.

The second thing is, again in terms of base effect, last year we saw very rapid customer acquisition on the fashion side and I think Nykaa Fashion in particular more than beauty gained from the COVID phenomenon because there was a lot easier for us to acquire customers last year where a lot of people won't be going out and were online, so I think one thing we are struggling with our fashion side, it is not struggling, but it is an effect is that we are comparing constantly on a base which saw a lot of uniqueness given the COVID scenario that existed.

Falguni Nayar: I just want to comment and also say that our growth should not be judged as it is all responsible for this strategy, I think there is a clear plan at Nykaa to try and maintain a financial discipline or trying to balance our profitability that we generate and that is now back to acquire new customers, both for beauty, fashion or any other new business that we are building and again, yes, in that light you could say that the new customer acquisition for fashion could have been stronger or faster. We definitely do see pretty strong returning consumer behavior and pretty much both for fashion and beauty business. We do feel that if we can acquire more customers, it would be good for the long-term business, but we are trying to be just clear about the pace of growth if I may suggest that.

Percy Panthaki: My second question is on the International venture, so firstly, as you mentioned GCC market size is quite high per cap consumptions are significantly higher than India, so it is a much more mature market there, so unlike India where basically you are the primary driver of developing the BPC market in India, Nykaa is one of the primary agents of market development I would put it that way, in GCC your role is going to be different, so how do you see your role in GCC? And secondly, when the market size is so huge and it is such a lucrative market, how is it that the e-com penetration is so low and people are mainly shopping online, so is this because it is a mature market, is this an established behavior and that is how the market has sort of evolved and therefore to shift people online is going to be something of a difficulty for you in your view, I mean any thoughts, I know I am asking too many questions within this question, there are many sub questions, but you get my general drift as to what I am sort of looking for?

Falguni Nayar: So, what I can tell you is that e-commerce penetration for beauty business is also going up, so I would now say that it is the market that geographically was not very widespread, but we would exclude Saudi Arabia. Then, I think it was not geographically very widespread and as a result there is lot of retail happening through physical stores, but still there is already lot of influencer led commerce there as well and penetration of e-commerce is increasing, so we do see that it is again very interesting market from nd there is a huge socioeconomic changes happening in these countries, especially kingdom of Saudi Arabia, so it doesn't feel that you are too late in the game, it does feel like early days, yes, there could be couple of players already established, but there seems to be room for more players including someone coming out of India taking a whole bunch of brands that would be interesting in the region from what the brand has to offer perspective. That doesn't mean we won't do global brands, as we are multi-brand retailers that will retail both global as well as our brands of Indian origin.

Percy Panthaki: And any guidance you can give on the total investment over a 5-year horizon and the impact on the company level EBITDA margin due to startup losses of this venture?

Falguni Nayar: It is difficult to give that because we don't have a very clear path spelled out, a lot of early work is going on, but if we can build this business in a way where our near-term profitability of physical retail business can help us invest for the online business that is how we would like to do it and finally, the population size is also limited. I think it is larger population countries that tend to be quite difficult in terms of building out an e-commerce platform. It is easier in smaller countries, but it all depends on whether there is an inherent consumption and are you able to appeal to that consumer and connect with that consumer and we do believe that with the strength of us as well as the Apparel Group which is a very large retailer with very extremely successful brand as a retail, both predominantly offline, but also online, we do believe that together coming up this partnership gives us the chance to succeed in that market.

Moderator: Thank you. Our next question is from the line of Vijit Jain from Citi. Please go ahead.

Vijit Jain: Congratulations on a great set of numbers, I have one question specifically on the fulfillment expenses, Arvind, you noted that there was a bit of that Q-o-Q increases owing to inflation, if I look at on a per order basis for BPC this looks like 10% Q-o-Q increase in fulfillment expenses, but on the other hand, for fashion there is a decent decline on a Q-o-Q basis, so I am just wondering does the diversion have to do with your regionalization of warehouse strategy within BPC and associated investments within that or is that something else?

Arvind Agarwal: No, I think first of all, beauty and fashion are at completely different phase of maturity, so they are not comparable in that sense and also because the operating model is quite different in beauty versus fashion, so if I explain you the beauty number itself, yes, there is some increase Q-o-Q because there is some inflation in the air shipment side of it. It is also quarter just before the season, so we also make a step-up investment, so that we are ready for the season, so part of it, we will again convene into next quarter.

Vijit Jain: And my second question is, in the new initiative what you classify and that EBITDA waterfall that you showed obviously shows about 460 basis points of EBITDA impact, margin impact from investments in selling distribution, employee expenses, other expenses, etc., and obviously there is a contribution margin for the other businesses as well, so I am just wondering, is it fair to assume that there is about 400-450 basis points of cumulative EBITDA level impact with these new investments, that is the basic level of investment you are doing in these new businesses or is some of that also reflecting increases in beauty and fashion as well?

Arvind Agarwal: No, I think when I talk about the lines like selling and distribution, it is not necessarily on the new business. Even our own beauty brands and fashion brands are also going into offline through modern trade and general trade, so even there the cost go up. Even the beauty advisors in the retail store, so that cost also comes in there, so it is basically funding a reach and penetration for various businesses to get stronger offline play and omnichannel play, so we should not try and see it only as new business line. I think the overall impact of new businesses we have given the contribution of this quarter is about Rs. 16 crores, so even if you annualize it, 4 quarters could be Rs. 64 crores, that is the level we are operating at, but these are also in a high growth phase, so as we scale them up, initially the losses will increase and overtime they will come down. So, I can't give you any specific number of our new business investments, but we are funding it from our internal accrual. That is very clear.

Adwaita Nayar: For selling and distribution expense, just to say what Arvind said that is coming from every business because we do believe in GT, MT distribution and a wider distribution and that is what we are putting in place for whether it is beauty private label brand, fashion private label brand as well as in eB2B business that we are building, both for our own brand as well as for third party brand because we believe that if you look at any data, there was a large part of the market which stand outside of both online and modern trade and we want to be players in those areas.

Vijit Jain: And one last question, just on the working capital side, the net change in working capital that you have in the first half of the fiscal year, should we think of that as kind of inventory buildup before the festive season and all the sales that you have in the post Diwali sales that you typically launch, is that how I should look at it, it is partly inventory buildup and partly some of the other investments?

Arvind Agarwal: I think you are partly right, so net change in working capital and we have made investments into inventories for sure, so that is definitely part of the reason it should unveil in quarter 3, but also because we opened three new warehouses in beauty, in even eB2B Nykaa distribution, we opened many new warehouses, so as we open more fulfillment center, we have to stop them up to make the regional availability up, so initially there is a catch-up investment to be done and then that gets stabilized over times, right, so before the season we have expanded the capacity reach and also within the existing warehouses, we are stocking up strongly before we get October sale or November sale. Both are contributing.

Moderator: Thank you. Our next question is from the line of Sachin Dixit from JM Financial. Please go ahead.

Sachin Dixit: Congratulation on brilliant set of results, I had a couple of questions, the first one was with regards to the marketing spends, so is it possible for us to maintain, I know there were some brand market expense in the last quarter, this quarter that seems to be minimal, is it possible to breakdown the market expense like say influencer marketing and what the customer acquisition cost or performance market expense would be?

Arvind Agarwal: We have not given those kind of micro cuts and details into how we spend the marketing, but we can definitely say that 80-85% is digital marketing and content marketing, 10-15% sales above the line and brand building kind of spend, but that varies quarter-on-quarter.

Sachin Dixit: On the next question like, earlier we used to share like how many orders we are getting delivered within two days, next day, stuff like that, so is there any movement on those metrics as well or anything on regional warehouses?

Arvind Agarwal: In fact with the regional expansion of fulfillment center getting closer to customer, that metrics is only improving and we are at industry standard in terms of being able to deliver almost 98% shipment in less than 5 days and of course, we deliver much faster in metro and urban areas, and rural we are able to deliver 98% shipments in less than 5 days.

Falguni Nayar: The distributed warehouse will only improve, so maybe next quarter we will share some amount.

Sachin Dixit: And just one final question, there is a sharp drop in trade payables during the half yearly balance sheet data, what is the reason for that would be?

Arvind Agarwal: While we have big suppliers which are like big companies and they are self sufficient on working capital, but we also have large D2C suppliers and we want them to stock up sufficiently or invest through manufacturing line and then they supply to us, we have been paying them faster, so that they can also ramp up ahead of the business.

Moderator: Thank you. Our next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

SheelaRathi: My first question was with respect to the initiative you had taken last quarter with respect to the everyday value offerings, so just wanted to get your perspective in terms of how they are doing on this point, what is the kind of customer traction you are getting?

Anchit Nayar: Sheela, what I will say is that as we discussed in the past, given that we are already very well established and the dominant leader of the beauty side of BPC, we also want to create a sizeable business on the personal care side. Reason is that we believe our existing customers can transact with us at a much higher frequency if they begin to buy personal care products on our platform and so that was really the genesis behind the Nykaa Every Day. What I would say is that it is bearing fruit, obviously we don’t disclose, we are not breaking it out, but what I can tell you is qualitatively it is bearing fruit and we are seeing consumers who previously only looked at Nykaa as a beauty or as a cosmetics retailer, now looking at us more holistically for their more personal care needs including hair care and skin care and other categories and I think that reflects in our category mix. Now hair care, makeup and skin care are equal parts of our overall business and other categories like hair care, fragrance, deodorants, wellness, oral care is also growing for us and I would say that is playing on nicely and we are putting a lot of effort into driving that initially and I do believe that with the regional roll out warehouse that Arvind spoke about that would only help further improve our commitment to faster delivery for our consumers which is slightly more important when buying personal care items than when buying more expensive beauty items. I think the regional warehouse strategy continues to play out and will have additional benefits for everyday strategy.

Sheela Rathi: Just a follow up here did you have a number in mind with respect to the roll out of fulfillment center or warehouses in the next few quarters?

Falguni Nayar: No, it is early days, so at the moment we are going into 5-6 large states, states like Uttar Pradesh and some of the other bigger states and then based on that experiment, we may take decision to go into further.

Arvind Agarwal: I think we have added significant CAPEX in fulfillment center and generally the cycles follows in a manner is we try to put a few centers in H1, so that we can really use them in H2 when the season picks up. I think most of the investment for this year is kind of done, we might have a couple of more and I am talking about beauty side of it, but yes, of course in distribution we will have to keep adding, it has been in the buildup phase. I think if we look at our IPO objective and how we raise our money and what we declare there, we have given the schedule of utilization of IPO proceeds into fulfillment center and one-third of that is utilized by now, two-third will be utilized in next 2 years. So, that kind of gives you idea how we are building out the capacities.

Sheela Rathi: Just one more question here on the beauty side, with the complete reopening happening especially in the last few months, what is the kind of customer traction we are seeing in the physical stores and is there any shift with respect to demand moving away from online to offline? And just a part of it in terms of delivery, are we still following the hyper-local delivery model now where we are using inventory from the stores to deliver to the customers in that locality? Just two questions and that is it.

Anchit Nayar: May be I can get off and others will add, so Sheela what I would say is that we did see a strong rebound in physical retail in the beginning of the quarter, but to our pleasant surprise, it doesn’t seem to be a cannibalizing e-commerce business, so both are growing at a healthy rate and I think that is reflecting in the beauty vertical GMV and net revenue growth numbers that we have seen year over year. So, we have to keep in mind that online penetration for beauty consumption in India today is still so low at less than 10% and 90% of BPC consumption has been offline, so even if there is a rebound in offline, there is this macro trend in India which shifts from offline to online which is inevitable and that trend continues to remain. So, I think in some other metro markets where there is cannibalization and demand does shift from online back to offline, in a very nascent market like India where penetration is still so low, not only for beauty consumption, but especially for beauty consumption online, this macro trend we believe will continue to play out and it is reflecting in our numbers. Both online and offline grew at a very healthy rate, but yes, I think retail has rebounded nicely post pandemic clearly.

Arvind Agarwal: I will just supplement it, if you look at the beauty growth chart H1 of last year, we are growing at about 32% and actually this year we have grown about 39%, so there is a step up which means that people are going out and shopping in offline, but at the same time they continue to shop online, so being omnichannel has really helped and I think the normalcy coming and then COVID free shopping, our growth rates have actually improved in beauty business.

Sheela Rathi: Anything in the hyper-local delivery models?

Falguni Nayar: Yes, hyper-local was only used during lockdown periods because in our industry air-conditioning is needed for many of the luxury products, so during that time when the malls were shut, we used hyper-local and that was the capability that was developed with the perspective to fulfill from there. On an average we have 4.5-5 items in a cart, it doesn't make a sense for us to fulfill on hyper-local plus our stores are very expensive in the state and not conducive to packing and shipping products from there, so just hyper-local is being used only to manage certain slow moving inventory and we usually fulfill from our warehouses.

Moderator: Thank you. Our next question is from the line of Garima from Kotak. Please go ahead.

Garima: My first question really is on the BPC segment, now when you show the contribution margin calculation, which in Q2 FY23 was at 24% contribution profit margin to revenue, does this also fully account for the rent that is payable for the physical stores that you operate?

Arvind Agarwal: Rent for the store come below EBITDA like I showed you EBITDA to PBT that range, so because these are long-term leases, we account them as a lease amortization cost and there is also interest element to this. So, it doesn't come in contribution.

Garima: I I have to really see profitability, I understand that rent is a fixed cost, but to some extent it is variable because the more store you open, the more rent you will need to pay, so ultimately some kind of an adjustment should be done to understand the contribution profitability better, so anyway that point is clear. Second question really was could you help us understand the period ending debt and cash because sometimes these items sit under multiple heads and it does look like you have consumed a fair amount of capital during the first half of the year, so how should we look at this going forward?

Arvind Agarwal: Cash balance at the end of September is about Rs. 365 crores and you are right that we have made significant investment in first half of the year, but you see most of it is working capital which should unwind in H2. Of course there is CAPEX also, but CAPEX is not very big element. Two-third of the investments is going to working capital.

Garima: So, you are saying there are some seasonal factors here?

Arvind Agarwal: Absolutely.Also there are some payouts for the acquisitions we have made, so in the cash flow you have seen almost Rs. 70 crores that we have paid out for Earth Rhythm and LBB acquisitions.

Moderator: Thank you. Our next question is from the line of Jay Gandhi from HDFC Securities. Please go ahead.

Jay Gandhi: I am saying in a market place model, I am talking about fashion, is fulfillment cost a passthrough? If so, then why do we have a fulfillment expense line item in the first place?

Adwaita Nayar: So, it is a mix, you know there are many brands with whom we work on a more holistic margin structure and which will would not be split out and then there is small number of brands to which we split it out. The way to read the fashion P&L if we can go to the contribution margin slide I can walk you through it. Right here in the second column you can see if I can draw your attention to the bottom side rows, so this is kind of apple-to-apple we are looking at things and not fairly on revenue because revenue will have the impact of the commission/ market place mix structure that affects our number, but in these bottom side where you can see that 44.6% is the margin that we are getting typically from brands, these includes your product margin, it includes ad income, it includes services income. What I would say it is not all brands follow a very consistent structure, some we get an over-arching margin which includes all inclusive, but others we do itemize. This is the all-inclusive amount that we get from brands and then we make our expenses better than fulfillment, better than marketing and so far.

Jay Gandhi: Second is on eB2B store, I wanted to understand in steady state, what does the working capital of that business look like, is it a negative working capital business or is it a positive one or deeply negative one or a neutral one?

Arvind Agarwal: Of course currently, it is in the buildup phase, so our inventory is around 45 days and we enjoy 30 days of credit from the suppliers, so there is some investment there, but in the long run, in this business actually it is possible for a negative working capital because you will still enjoy 30 days trade credit, but you will build out a network which will supply to these retailersalmost every week or alternate week which means that you will be able to monetize it faster than what you stock up and pay to creditors. So, it is possible to have negative working capital, but that is few years away in my view.

Jay Gandhi: Got it and then no receivable?

Arvind Agarwal: No, even if we give credit to the trade, it would be financed by NBFC partner, so we do it right now prepaid or cash on delivery, but should the retailer choose to enjoy some credit or let us say 15 days and we pass it on to NBFC partner to fund them, so it is not our receivable at all, we do cash business.

Moderator: Thank you. Our next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: My first question pertains to BPC store expansion strategy, so we have now 121 stores in 53 cities, it looks that we are going forward over debt in the store expansion strategy, so just wanted to know the insights we are working with honestly**?**

Rajesh Uppalapati: Our current status today, we have about 120-130 stores across 53 cities. So, we do believe that it is already quite a wide footprint as you were saying. Now with regards to debts, certain cities like whether it is Delhi NCR or Mumbai or Bangalore, can have up to anywhere from 6 to 10 store whereas smaller cities might have just 1 or 2, so I think we are taking a very measured approach. We understand the market well. We know where the demand lies, thanks to our e-commerce platform and we know where the customer lives. So, our purpose is to build the stores where we know there is demand for the brand which we are selling. So, with the 2 formats we have thought the luxury store format as well as the on-trend store format, we know which catchment requires which format of stores. So, given the current formats we have as well as our current understanding of the market, we believe that as we said before publicly that about 300 plus stores are doable within the next couple of years. So, we are well on track to achieve that kind of roll out and it should be across the top 100 cities. We have 53, so we will probably open the remainder of the stores across until we get to top 100 cities where we do see strong demand from our online business as well.

Falguni Nayar: But conceptually we have a format where we are a destination store rather than neighborhood stores for now and we would retain that strategy as currently we are very focused on beauty rather than personal care and we are very focused on being destination store.

Tejash Shah: Second question pertains to our inventory, in fact I have slightly different read on our inventory considering that Diwali and festive season is in 3Q and also the fulfillment center numbers have also increased considerably. I thought inventory has actually not gone up much, so just wanted to understand how seasonality plays between Navratri, Diwali and festivity if you can represent how we should build for an inventory buildup in coming quarters?

Falguni Nayar: Actually, on the beauty side, we work on about a 45 day forward looking inventory and for imported brands and some other brands, we may have over 60 days inventory. Within that we keep trying to optimize and buy the right inventory and for us in fact starting with Navratri the busy season starts, but at the same time our peak event is in November.

Arvind Agarwal: I think it is a 2 step up. One step happens in September end or beginning October. The second step happens in end of October or rather beginning of November as our biggest sale is in November and then that will unwind towards the December. So, part of the step up you will see in these numbers, part of the step up you won't see in quarter numbers because that you will unwind within the quarter itself in Q3.

Tejash Shah: And lastly one book keeping question if I may, other current assets have increased Rs. 130 crores odd from March balance sheet, so what does this pertain to?

Arvind Agarwal: Other current assets have increased because we have paid more advances to suppliers and that is because again and especially on our own brands, we need to reverse into supply chain from importing the raw material stage and since the own brand is now picking up as a business, so we have paid some advances there. I guess more of our working capital investment should unwind in quarter 3 and there is also increase in the GST balance which also sits under the same grouping, balance with the statutory authorities, so in line with inventory going up, GST input also goes up. Again, that is also timing difference, once we sell the inventory, then we will be able to offset this input against the output with it.

Moderator: Thank you. Ladies and gentlemen that was the last question I now hand the floor back to the management for closing comments. Over to you.

Falguni Nayar: Thank you everyone for being on the call and patiently listening to our presentation and our sharing of our business updates. I very much appreciate it. Thank you very much.

Sunita Sachdev: We would like to thank Morgan Stanley for hosting the call for us. This marks end of the call. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Morgan Stanley that concludes today's session. Thank you for your participation. You may now disconnect.