"FSN E-Commerce Ventures Limited Q1 FY23 Earnings Conference Call"

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MODERATOR:	**MS. GARIMA MISHRA – KOTAK SECURITIES**

Moderator: Good evening everyone. This is Garima Mishra from Kotak Securities. Welcome to FSN E-Commerce Ventures Limited 1Q FY '23 Earnings Call. We have with us the management team from Nykaa, represented by Ms. Falguni Nayar – Executive Chairperson, MD and CEO; Anchit Nayar – Executive Director and CEO, Beauty E-Commerce; Adwaita Nayar – Executive Director, Co-Founder, CEO, Fashion and Arvind Agarwal – Chief Financial Officer.

I will now hand over the call to Falguni for her opening remarks, following which we will open the floor for Q&A. Falguni, over to you.

Falguni Nayar: Welcome everyone. It's a pleasure and a delight to be with all of you here and really happy to present our results for the quarter. I think, I will begin with a short presentation, and I think through that I would prefer to give the commentary. So, can someone project the presentation?

So, I will just take few minutes to just, I think, this is a slide all of you are very much aware about macro indicators, which have had challenges of rising inflation and increasing interest rate, as well as maybe likely reduction in discretionary consumer spend. However, there has been also fair amount of positive noise in the area of GST collection, as well as some amount of demand recovery as evident in certain industry as well as purchasing, manufacturing PMI has been increasing, and our results have to be seen in the backdrop of this kind of challenges, mixed signals that are coming from the market, but they are clearly challenges, but at the same time Indian market doesn't seem to be as impacted as many global markets.

With that, really happy to announce our key areas of key numbers. So, I think happy to announce that our GMV for this quarter has come out at 2,156 crores, which is a 47% year-on-year growth, and the revenue has also grown at 41% year-on-year and stands at 1,148 crores. What we are happy about is that the gross profit has shown stronger momentum than GMV and the revenue, and it grew at 54% year-on-year and now stands at about 509 crores, almost 510 crores.

EBITDA has grown, of course, from a year-on-year growth perspective at 71% at 46 crores and now the EBITDA margin stands at 4% and profit before tax has come out at 8.3 crores, which is a 165% year-on-year growth and a PBT margin of 0.7%. PAT margin is coming out at 0.4 and PAT stands at 5 crores with a 42% year-on-year growth. The difference is that many of the loss protection that we enjoyed in the company is running away and we end up now having to pay taxes in line with our profits.

Next. So, just talking a little bit more about the consolidated GMV growth over the last few years, as all of you are aware that our GMV growth has been strong. The year ended financial year '22 showed 71% GMV growth and the current year growth has to be seen in light of that that on a strong year-on-year growth, we are continuing to deliver further growth and the Quarter 1 of financial year '23 has shown 47% GMV growth and GMV stands at 2,156 crores.

Moving on to talk about this various business growth

So, Beauty GMV, BPC GMV has grown at 39% on a year-on-year basis coming out at 1,489 crores. This comes on the back of 49% growth that we had seen in the last year. Fashion GMV is growing at 59% year-on-year and now stands at 582 crores in the first quarter of financial year '23, and this is on the back of 168% growth that we experienced last year.

And on the other businesses, you are all aware that last quarter was the first time we started splitting out our new businesses, which we call as our Investment Businesses. These businesses are also growing strongly and the quarterly growth for this business is at 153% year-on-year and the Quarter 1 number is 85 crores. These businesses are at an early stage exhibiting pretty strong growth in GMV.

So, talking about some of the business highlights, I'll request Anchit to come in on the Beauty side.

Anchit Nayar: Thank you very much. So, I'll quickly take you all through the BPC highlights for the Quarter 1 ended March 31st. So, five quick highlights. The first is Nykaa's launch of the Nykaa Everyday value proposition, which is a one-stop destination for all of our consumers to buy their everyday essentials when it comes to beauty and personal care. This is with a clear idea to increase the frequency with which our consumers interact with the platform.

The second big milestone for the quarter was our partnership with the Estee Lauder group of companies to bring the much-awaited and incredibly popular global skin care brand known as The Ordinary into India and this brand is available on Nykaa.com as well as in Nykaa stores for sale in the Indian market.

The third is Nykaa did also launch multiple international brands besides the ordinary. These include brands such as Victoria's Secret, as well as Pat McGrath Labs, which are well-known, globally-renowned brands. I think this is testament to the fact that despite already having 3,000 plus brands on the platform, we continue to find new and trending global brands to add to the choice that we provide our consumers.

Fourth, with regards to our offline physical retail business, we managed to open eight additional stores this quarter. These stores were based in towns, cities such as Pune, Coimbatore, Delhi, Ranchi, Ahmedabad, and Calcutta. This takes a total store count to 112 stores across 52 cities as of June 30th, again, a testament to our commitment to the physical retail business and the opportunity that we see in the offline market.

Finally, during the quarter, during the first quarter of FY23, we also hosted our Nykaa Summer Super Saver Days sale, NSSSD sale from the 3rd of May to the 8th of May, and this is a one of the flagship sales which we do in the quarter where we have incredible commercial support and offers from over 1,200 brand partners including both global and domestic brands. Next slide please.

So, as we have always discussed, content remains a key driver of engagement, a key driver of education and awareness for our consumers, and we believe that it has a very positive impact in terms of conversion and therefore, commerce.

We create a tremendous amount of content across various platforms. These are just a couple of examples of some of the kind of high-quality content that was created by us in this past quarter. This includes content in collaboration with our brand partners such as on the left-hand side of the page, you will see live streaming that we enabled on our app with influencers, some grade A influencers, as well as with Nicola Kilner who is the Founder and CEO of The Ordinary. We hosted a live stream with her on our app as well as on Instagram.

We also partnered with the L'Oréal Group to create content for Cannes for their L'Oréal Paris's Fashion Week in Cannes and we partnered with them there to create content as well as commercial strategies around that.

And finally, we create flagship content such as the ones I just spoke about, but we also create a tremendous amount of content on a daily basis to help educate our consumers on product usage as well as on new launches. Next please.

Now coming to, so the first two slides I spoke cover mostly our multi-brand omni-channel retail business. Now I come to our House of Brands business within the BPC vertical. Today, the GMV of our own brands which now consists of roughly 10 brands in the portfolio stood at 166 Cr of GMV as of Q1 FY23. This accounted for roughly 11.2% of the total Nykaa.com, Nykaa GMV, Nykaa BPC GMV, and this was a 95% growth year-over-year. So, strong growth from our own brands portfolio.

In terms of channel presence, our own brands are available across multi, our own e-commerce channels such as Nykaa.com as well as Nykaaman.com. They are also available on their own direct-to-consumer websites such as dotandkey.com and earthrhythm.com, and a handful of them are also available on third-party platforms such as some of the other horizontal marketplaces as well.

When I look at the offline distribution of our own brands, as mentioned earlier, they are available across our own physical store network. They are also available across general trade and modern trade outlets. To be precise, we have about 1,820 doors of general trade and 134 doors of modern trade across 138 cities that carry some of our own brands. We have also expanded the distribution across other retailers through our eB2B SuperStore app as well. So, really leveraging that new business to build out a distribution for our own brands.

Finally, there is also an expansion of some of our brands into international markets such as the UAE, Mauritius and the United States.

Just continuing on that with regards to our House of Brands, we had a variety of new launches, new product launches that came out of both from Nykaa Cosmetics as well as Dot & Key, Earth

Rhythm and SKINRX. We had some very interesting new launches across categories whether it was makeup or skin care or hair care. And as we go deeper in terms of product availability and assortment, we also ensure that we are creating very interesting unique content to support our new launches and support our own brands through digital and non-digital marketing campaigns, some of which you can see on the bottom of the screen. Next please.

Finally, just coming to some of the key metrics that we track for the beauty and personal care business, I will walk you through the slide left to right. So, on the left-hand side, you can see that the total transacting customer base, trailing 12-month customer base for BPC stood at 8.6 million for the quarter ended June 30th. This was a 33% growth year-over-year.

If I look at the number of orders, 8.1 million orders were placed in the quarter on the platform which represented a 40% growth year-over-year. If I look at the GMV, the business, the BPC segment closed at 1,488 crores of GMV for Q1, and this was a 39% growth year-over-year. Finally, average order value at the bottom of the page roughly in line with the previous quarters. So, I think what we are seeing is there has been an improved order conversion per visit over the past couple of quarters, and this coupled with our consistent average order values is I think a testament to the high quality of traffic which we are now driving to our platform in a very deliberate fashion. Next please.

So, with that, I will hand the deck over to Adwaita to take you through fashion.

Adwaita Nayar: Hi, everyone. I look forward to talking to you about the fashion business today. So, in terms of highlights, you know, the first thing that we are really excited about is that we have launched something called the Global Store, and this is a property where we bring some of the world's best brands to the country, and we are actively traveling the world to bring some of these brands. So, we have launched brands from Turkey, from Europe, and some of these are listed here on this slide. We do believe that this will be a strong way for us to differentiate our merchandise going forward.

The second highlight is we continue to be focused on building our House of Brands. So, these are our own brands. We like for these brands not to be considered private labels but truly brands in and of themselves, and so this quarter we have added four more brands to our portfolio taking our account from 7 to 11 brands. As you will see later in the deck, this strategy is playing out nicely as our House of Brands are starting to contribute a larger percentage of our overall business quarter-on-quarter.

Third, we continue to really try to focus on building a platform that is differentiated and very curated. We remain focused on wanting to continue to shift the conversation away from a discount more to trend. So, we built another very strong property this quarter called the First in Fashion where we are trying to build and bring the latest styles and the latest fashion from all the brands to our consumers first. A big metric that we track internally is what percentage of sales is coming from new season merchandise, and we do hear from our brand partners that this is a metric where our platform is over indexing versus competition.

Fourth, we are starting to explore some offline events and that will be a part of our focus going forward. We do believe that offline events are a great way to build brand, and this quarter we had one strong offline event where we again highlighted some of our interesting brands in Mumbai. With that, we can move on.

Content continues to be our focus. It's the same playbook that we have in beauty. On this slide, you can see that this quarter, we actually did a very strong TV campaign with Alaya who continues to be our ambassador. We brought Bhumi Pednekar on for Nykd, which is one of our own brands in the lingerie space, and I think that has been really accretive to the brand, and we continue to build very strong buying experiences on the website whether it's about teaching you how to buy the right bedding, whether it's about showing you and highlighting star design talent across the country, or whether it's teaching you how to style the latest look. With that, we can move on.

I do believe that fashion is the ultimate discovery problem. Fashion has so many products far more than beauty. So, how do you really show the right thing to the right person at the right time? And that remains a focus for us. Of course, content which you saw on the previous slide is a big part of helping you create the right discovery, but there is a lot that one can do on the technology side in terms of product features to create the right level of discovery, and that's what this slide shows here. So, for example, on the left, you can now tap, you know, looks and you can be told what are the products in that look which can help increase average bill size. Next, you know, we are integrating video and other content more strongly into the platform, and we continue to double down our service called Style Advice where we have stylists who give you advice on WhatsApp in terms of how you want to for any questions you might have in terms of your styling requirements.

Moving on, I briefly mentioned how the House of Brands portfolio is really starting to, you know, develop and take shape, and this slide focuses on that. On the left-hand side, you can see how the GMV coming from owned brands has been steadily increasing, and in Q1 this year, it was 70 crores. And importantly, right below that in the red box, you can see how as a percentage of the overall Nykaa fashion business, owned brands are now up to 12% up from about, you know, 5% or so a year ago on this date. But with every quarter we are seeing that this is rapidly expanding, and this is both a signal that these brands are working with the consumers, and it also does improve our gross margin profile for the overall fashion business.

On the right-hand side, again, I briefly mentioned, these owned brands are not private labels. So, we do want them to have lives of their own, and here we talk about the types of ways we are distributing these brands. So, it's not just limited to the Nykaa platforms, but they all have their own D2C websites, and they also all list on, many of them list on third-party platforms, and some of them even have offline presence whether it's Twenty Dresses, which is now live across 33 MBO channels or whether it's Nykd, our lingerie brand, which has 330 general trade outlets in over 70 cities.

This slide just visually shows you the 11 brands that we are building and how some of them are being acquired, built internally and in, you know, which categories we are starting to comprehensively cover. We can move on.

Again, this just shows the plethora of marketing activities we are doing to build these private labels. Can proceed.

Perfect, so, coming to some numbers, here we talk about just how the fashion business has been growing from a numerical point of view. So, on the left-hand side, you can see the trailing 12-month customers. We are now at 2 million customers in terms of TTM, and this is up from 1 million, you know, the prior year's Q1, and that's about a 99% growth year-on-year.

In terms of orders, similarly, about 1.1 million orders this quarter which has grown at about 58% year-on-year. I think an important point to note, which you can see in the text box right below that is that, you know, obviously, the order volume has improved. The AOVs have improved. Something that's not mentioned here, but I think it's really important to note is that our conversion rates across the platforms have improved very well, and that's why we are being able to just, you know, drive more orders from similar levels of visits.

In terms of AOV, which is the chart right below that, we continue to be proud of our AOV, which is at 4,300, and again, this is far higher than what we hear the market sees typically, and it's a mark of really trying to build something a bit differentiated and curated.

On the right-hand side, we can see, you know, here what we are trying to do is show you that our fashion business, which we present as a consolidated number, really is made up of two things: Nykaafashion.com which is the platform, which is the app that some of you may have. And the second is something what we call Other Platforms, which is where we list fashion products both on Nykaa.com and also we list our private labels on many other third-party platforms and stores that I mentioned prior. But as you can see here, the Nykaafashion.com business itself is growing at 74%, and the Other Platforms are going at about 10%, which is at the bottom, and overall in consolidation, fashion consolidated for Q1 was 582 crores, which is a 58% growth year-on-year from the prior Quarter 1 of FY22.

And with that, I will hand over to Arvind to take us through the consolidated financial performance.

Arvind Agarwal: Thanks Adwaita, and good evening and big hello to everyone. Thanks for joining the call. I will take you through the financial performance in brief so that we have enough time for Q&A. Let me first talk about revenue growth for the quarter which is impressive growth at 41%. In fact, you can see that our trajectory of growth is better than last couple of quarters which was in the range of 30% to 35%, and that's coming at the back of all verticals showing good growth momentum.

The core business of Beauty and Fashion is on steady pace of growth. At the same time, the new businesses have started picking pace and also because the retail business has delivered very good numbers this quarter, but that is also because of the base effect. So, these are the three factors due to which we have delivered 41% revenue growth.

Talking about the gross profit margin, we have improved it sequentially by almost 70 bps, primarily driven by improvement in advertisement revenue and a consistent trajectory.

In terms of EBITDA, we are reporting 4% margin, 38 crore, which is similar to last quarter, but 70 bps better year-on-year, and that's because Beauty business has improved its unit economics and it has delivered better EBITDA, while Fashion has maintained its unit economics. And we have basically invested improvement in EBITDA from Beauty business into new businesses. So, it kind of balances out, and that's why the margin is 4% at EBITDA level.

If you look at the last chart, that's on profit before tax, and I will also explain you profit after tax. But PBT is something you can see that we are reporting 8.3 crore this quarter which is higher versus last quarter and much higher versus last year same quarter. So, some of the EBITDA improvement in absolute is also flowing down to PBT number.

Moving on, let me talk about few trends, and that's a blended number of key unit economics parameters here. Like I said, gross margin is a consistent trajectory. We are maintaining a good gross margin. In fact, we have improved sequentially by 70 bps. Year-on-year is some almost 380 bps improvement, which is a factor of owned brand share going up and advertisement revenue has shown improvement, and also because Luxe and Makeup category has also shown better traction this quarter.

If I talk about other costs like marketing cost is kind of flat, 12%. So, it's a line that we do very measured decision. It's also a discretionary line. This quarter, in fact, we have done some brand campaign. We did not do it last quarter and despite that, we have maintained 12%, which means that the underlying cost on digital marketing has come down, which shows some efficiency.

And talking about the fulfillment cost, it's showing a structural benefit, which is, so it's a sub 10% cost like. In fact, it has come down further to 9.1% this quarter. So, because of the fulfillment network expansion that we explained during Investor Day in detail, it's having some unit cost advantage on a sustained basis.

And then talking about next line, which is employee cost, or maybe before that, I will talk about S&D line, which is green line over there in the last. S&D line is 4.2%. We have published it for the first time as a separate line, and what I wanted to explain here that new business like eB2B, there is a lot of field staff recruitment that we have done, which shows up into this line. So, this line consists of selling commission on third-party platform and also the associates, beauty advisors, and field staff who are working on the general trade, modern trade and eB2B business. So, because we started the scaling up eB2B only middle of last year, this line has shown increase, but it’s flat versus last quarter.

And finally on the employee cost line, it shows an increase from 9.3% to 10%. That's because we continue to hire ahead of the curve to invest into new growth verticals, and at the same time, this is also a quarter where increments take effect because the appraisal cycle kicks off from April. So, that is kind of a step up here, but that will show a leverage over remaining quarters, because we get the scale for rest of the year.

Moving on, so this is a slice of how we track unit economics across business verticals. If you remember, we had done this split for the first time during our annual results. And we are trying to also maintain that disclosure even during the quarter results except that we are restricting it to contribution profit. And the reason behind that, we discussed this with our auditors and, you know, looking at the lines below contribution, especially the employee cost, is more like a fungible resource that we use dynamically across verticals. So, it's very difficult to allocate it on a consistent basis quarter-on-quarter. And in fact, the CODM Falguni also reviews and allocates resources fungible across business verticals. So, it's the right way to track unit economics up to contribution level.

So, if you look at contribution margin and if I first talk about the big picture or aggregate number, quarter-on-quarter it has improved from 17.9% to 19.9%, almost 200 bps improvement. And then if you look at BPC, that is where the most, you know, the biggest improvement is showing up from 20.7 to 22.9. And that comes from these, all the lines that are listed here. So, you can see that there is an improvement in gross margin. At the same time, there is also improvement in fulfillment cost. And also, there is small improvement even in the marketing line, 30 bps, and S&D is also showing 30 bps improvement. So, overall, it's a good healthy improvement in the unit economics of Beauty business.

If we look at Fashion, it has maintained or slightly improved its contribution profit from 4.5% last quarter to 5.4% this quarter. So, even Fashion continues to enjoy good unit economics. Of course, at an EBITDA level, it is still negative because it is in the investment phase where we are building capabilities and hiring people in technology functions and fulfillment function so that we can scale it even faster.

And finally in case of others, which is a combination of NykaaMan and eB2B, we are at negative 30% contribution margin, 10 crore loss because S&D line which I spoke earlier, there is a big buildup there so that we can penetrate deeper in the country, and that will get leveraged over time. So, that's on the unit economics.

I will now move on to overall P&L, aggregate P&L. And since I spoke about quarter-on-quarter, here I would like to focus more on year-on-year numbers. So, just in summary, our revenue has grown 41% year-on-year. If you look at gross margin, it has improved by 380 bps from 40.6 to 44.4, and rest of the lines which I explained as a trend, fulfillment cost has increased only by 12%. That shows that we are able to get better unit economics while we scale faster. We have incrementally lesser unit cost to spend. Marketing line is almost in line with gross profit growth, 52%. It's a very calibrated approach that we have there, but it's an investment into growth.

Selling and distribution line has grown disproportionately, 149%, because like I said, we are hiring for GT, MT, and eB2B businesses. Employee benefit expense is 58%. That is combination of two factors. We have hired more people to build our new verticals and also on technology functions, and almost 38% to 40% of increase in head count is a big part of this cost increase, and the remaining is also because of mixed impact and also inflation which comes out of increments. But obviously, it gets leveraged over year, and like we had reported last year, we improved our employee cost to revenue ratio by almost 100 bps.

And other expense is, you know, combination of overheads and technology expenses. So, that has also grown higher than the revenue growth rate because last year we had wave two, and it was kind of a low activity levels in the offices, but now we have expanded the office capacity and people are also coming back and traveling and overheads in general has gone up. But obviously, this cost, in the midterm, it will behave more like a fixed cost, and it should give us some operating leverage as well.

Finally, on EBITDA, we are at 4%, 71 bps better than last year when it was 3.3%. Talking about PBT, it is 8.3 crore versus 3.1 crore last year, so 165% growth. Some of the lines that you see in between, depreciation and amortization and finance cost, those are primarily driven by expansion into physical store network and also warehouses. So, the lease cost comes here as well as the CAPEX element comes into the depreciation line. And the finance cost has increased because there is a working capital investment, which is because inventory led businesses are showing good growth and also because marginal increase in cost of financing after the repo rate increase, but still much better than two years back when we had almost 10% kind of cost. Now it's trading around 7.5%. So, that gives us good profit before tax.

Finally on net profit after tax, it is 5.7 crore before consolidation of associate versus 3.5 crore last year, and you also see a line which is share in loss of associate, which comes out of the acquisition that we have made in Earth Rhythm. So, we are consolidating it as an associate number. So, 5 crore is the final PAT for the quarter which is 42% growth year-over-year.

I will now pause and I will hand it over back to Falguni for remaining sections.

Falguni Nayar: So, talking about our new businesses, so I think we are quite happy that our SuperStore businesses continues to get fair amount of momentum on the GMV growth and the costs of doing that business in terms of the, you know, the people roll out that we need to create to reach about, we now reach about 100,000 retailers. And to do that, we are at the end of the Quarter 1 of financial year '23, there were 45,000 transacting retailers and the reach is higher. And I think we are in 516 cities and we are investing towards that business.

So, we are happy with the control expansion that we are doing. There are almost 165 brands listed on the SuperStore app and we are also doing development of technologies that allow us to manage our people who are doing this business and also help them support business development effort that allows them to sell more to the stores.

So, I think this business is building out as per plan and we are happy with the GMV growth that is going on, but these are early days. But like everything Nykaa does, we are very focused on trying to get to the right unit economics and towards that, we are focused on expanding the Fulfillment center to increase its reach and penetration in such a way that the variable fulfillment costs of shipment, per shipment cost are under control. So, we are working on developing the right network towards that.

We are also making baby steps into international business where we want to take many of our owned brands in beauty and personal care area to countries like Mauritius. We have also done some listing in the Middle East on Noon.com in UAE and Nykaa Arabia Social Media handle was started and there are plans for more in the Middle East because we see it as an attractive market for our private labels including K-Beauty and also on Nykaa Natural's, where we want to take our hair and bath and body ranges into the US through Amazon.com.

As far as the warehouse capacity is concerned, we are continuing to build a larger network of warehouses. In fact, there are now 30 fulfillment centers in 14 cities with a total capacity of 10.5 lakh square feet as of June 30th, 2022, and we are continuing to expand this network in such a way that we are closer to our customers. The delivery timelines to the customers improve. The last mile delivery costs come down.

And we also reduce certain amount of air shipment and, you know, split shipment which were resulting in this kind of a, you know, longer shipment and as a result, higher fulfillment costs. If all of you remember about a year ago also impacted by COVID, our fulfillment costs were higher and over the last two, three quarters, we have had a concerted effort to bring them down. And these warehouse is an important part of that strategy towards that.

Moving on, you are also aware of some of the acquisitions we have done in the first quarter. Earth Rhythm is basically a science focused beauty brand and we have invested about 41.7 crores for an 18.5% stake, and we do believe that their research oriented and result oriented products are and especially because they are sustainable and it's an inclusive brand, and we do believe that this brand will have a lot of potential.

The second venture we signed off in the first quarter was Onesto Labs. Where, It is a joint venture with a company where we are together going to produce a wellness brand. Nykaa owns 60% stake for a consideration of 3.6 crores. And Onesto Labs, with whom we joined hands, will use their own expertise in creating ingredient-conscious products with the brand name Nudge and it will be addressing the nutricosmetics as well as the nutraceutical needs.

Third acquisition was KICA. Nykaa has acquired Kica, an active-wear brand for women for an aggregate consideration of 4.5 crores and through this acquisition, Nykaa aims to connect with the growing active-wear community of athletes and everyday fitness seekers with great variety and curation in this category.

Next. So, that's the broad picture. I think if I may summarize the results before I open it up to question-answer is that I think given all the adversity that exists, I think we are happy with the growth that we are experiencing and we do remain optimistic about the quarter going ahead as we go into seasonally strong quarters. We also do believe that Nykaa has done a lot of hard work in optimizing its fulfillment costs and marketing costs and that benefit of that is already coming through.

Definitely the advantage and progress is more in more established business like beauty and in fashion, there's some more work to do. But even in fashion business, we do believe that we should be able to optimize our marketing cost and fulfillment costs further, and we will continue to work towards it. There is no guarantee, but I think Nykaa will continue to work hard towards it. And from our new business perspective, we are quite happy with the momentum we are seeing in the SuperStore and in NykaaMan, there is a reasonable growth. And, you know, international is something where we are taking baby steps as I have always said.

What we remain most excited is the whole portfolio brands we have created both for beauty and fashion. We have been talking more about it over the last couple of quarters and sharing more information as like you can see, we have a number of exciting brands both in beauty and fashion space that are getting a lot of customer attention and acceptance, and we are really focusing a lot on rolling out those. And all of the channels are being used not just on Nykaa sales but also physical retail as well as GT, MT distribution. And if there is an opportunity to list on third-party platform, then sometimes we are considering that. So, with that, we also remain very, very excited about our House of Brands strategy, which can pay big benefit going forward.

With that, I think that's all I wanted to share here. And I remain open to answering question-answers. The whole team is here to answer your questions.

Moderator: Thanks, Falguni. Anyone who has a question, please raise your hand and we will take you questions in order. Please limit yourself to maximum of two questions initially, so we can accommodate as many questions a possible

Falguni Nayar: Garima, I'll just come in one thing because I don't want to miss out. We also just cleared at the Board and we have announced to the exchanges that Nykaa is considering acquisition of a content brand called LBB and that announcement has been made. However, the definitive documents are in the process of getting signed, and it may take a day or two to complete those and report to, and then we will be again reporting to SEBI that the transaction is complete. Not SEBI, but exchanges.

Moderator: Noted. With that, participants can raise your hands, and we will take as many questions as possible. I see the first question from Sachin Dixit. Sachin, you can ask your question.

Sachin Dixit: Thanks, Garima and Thanks Nykaa team for giving us the opportunity. Congrats on the brilliant result. My first question is with regard to fashion. So, while I do appreciate that we are growing at roughly 20% Q-on-Q this quarter, but the growth still on a smaller base does not look as attractive. So, I just wanted to check is the reason for this is the competitive intensity as well as say Ajio Luxe coming into picture, Tata CLiQ Luxury also coming into picture? That's my first question.

Falguni Nayar: Adwaita, why don't you answer? Then I'd also like to come in in terms of our optimization strategy.

Adwaita Nayar: Sounds Good. I think, you know, to be honest, Sachin, and we are pleased with the growth in terms of quarter-on-quarter and year-on-year. You know, I think remain very focused on the positioning, remain very focused on the value proposition that we are trying to provide customers. Is it possible to grow faster than this? Yes, obviously, but we are always trying to take the right calls from a marketing perspective. So, I think that's what even Falguni was alluding to in terms of optimization.

I think for us it's very important quarter-on-quarter to make sure that we are showing contribution margin positive, that we are continuing to set the business up for a trajectory which is going to be, you know, very clearly on the path of profitability in the near future. And so for that, we always take these calls on a month-to-month basis or sometimes, you know, just focusing on getting the right cost structure in place, focusing on getting the right types of orders in place and for that you may see growth just, you know, we are not going to just grow at the cost of just growing. We will always be trying to keep the bottom line in mind as well.

But, you know, I remain very bullish on the fashion space overall and every quarter that kind of bullishness is just increasing. I am very much drawn to just how large the market is. We are very much getting a lot of positive signals from our brand partners that we are becoming a very meaningful player in the ecosystem, getting a lot of positive signals from the customer which you can see in the, you know, conversion rate as well. So, overall, I think a lot of other metrics as well are giving confidence that the strategy is playing out well.

Sachin Dixit: Sure, yeah. Should I go for my second questions? So, on second question, I quickly, I do understand that the others category continues to be in investment phase. Can you please elaborate on the top line at least like the GMV to NSV fall, how is it happening and as well as the recognition of revenue in this category?

Falguni Nayar: I think, Sachin, it's really early days. I think we just started reporting the GMV, and I think at this early stage, there are a lot of things to be built. So, if I may tell you there was a month or two when our warehouses were just very full with, there was no place to take inventory and we had to give up on certain amount of growth for that one or two months, you know, and at this point we are rolling out new warehouses and stuff like that. So, I think really at the appropriate time, we'd be very happy to share. But I think at the moment, we just at least wanted you all to see that both the GMV and the costs are under control at some level. I mean, of course, it will be a loss-making business initially as we invest, but we wanted to share that with you so that the community has a good sense of, you know, the composition of our three big focus areas: beauty, fashion and new businesses.

Sachin Dixit: Thank you. If a housekeeping question I can quickly squeeze in, on slide 28 and 29, marketing expense is slightly different. Is it because there is some marketing expense that's being counted below contribution profit? Or what's the reason for that?

Falguni Nayar: Yes. So, for example, we do, do brand building expenses and they tend to be taken, we have decided to take it at below contribution level, because the businesses don't have control on those marketing spends.

Sachin Dixit: Got it. Thanks.

Arvind Agarwal: So, that's correct. That's about 100 bps. So, you know, it's a corporate branding, which is why it is part of EBITDA, not part of contribution.

Sachin Dixit: Thank you.

Moderator: Next question is from Sachin Salgaonkar. You may please ask your question.

Sachin Salgaonkar: Thanks, Garima. Congratulations for a good set of numbers on revenue from Nykaa Team. I have two questions. There is a generic question on inflation. Clearly, the rising inflation doesn't appear to have had much impact on your overall revenue and GMV growth, and maybe it has to do with the higher or the high end of the consumers were sort of, you know, currently on the platform. The question out here is, how should one look at the impact going ahead when we end up adding incremental new customers? And are we seeing a change in customer preference in terms of, you know, what kind of products they are buying in the current environment?

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

Anchit Nayar: I can take it off with some color on beauty and then maybe Arvind and you can also add. So, yes, I think, Sachin, you are right. It's the inflationary pressures on consumer demand hasn't shown up in our numbers and nor in our consumer information that we track. It doesn't seem to have showed up in Q1. So, yes, maybe it is a result of the fact that our consumers are slightly more premium. That could be one of the drivers.

The second though is that we do believe that beauty as a category is a bit more essential and than discretionary in the sense that a lot of categories such as skin care, hair care and other categories like that are daily essential items. So, we haven't seen consumers cutting back on demand for those categories. And you asked in terms of product, the kind of products we sold. So, I think the question maybe is a reference to down trading that we have also not seen really in our numbers, not in our mix of business.

So, we haven't seen though that impact yet. If it might come in the subsequent quarters, I don't think any of us have a magic ball to see what happens, but to us we feel our consumers are resilient. It is a category that seems to also be slightly more resilient to inflation. And yes, our consumers are slightly more urban than rural, and slightly more premium. So, that's, I'll stop there. That's on the beauty side. I will see if Arvind and FN have comment there.

Falguni Nayar: I would like to come in and say that definitely the results are good in the backdrop of that's how I started that there were a lot of adversities. But having said that, could one experience better growth for both beauty and fashion should the adversity of some amount of inflationary pressures and consumer sentiment not have been there? Definitely, I think it is a what we call as an off season from a beauty and fashion consumption perspective, and with some early signs, which are not so bad. We are very optimistic about the season, which is over the next two quarters. So, let us remain optimistic, but that will truly show how the consumers perform.

Sachin Salgaonkar: Thank you. And my second question is on fashion. And while Adwaita did mention that the owned brands have started to contribute now 12%, but when we look at the fashion gross margin on a QOQ basis, it appears to have been dipped from 47% to 45.7%. Any particular reason which has led to the dip in that margin?

Adwaita Nayar: So, you know we think. So, technically Q4 has some earnings that we get from brands when we hit certain targets that they set. So, it's sort of like turnover incentives. So, actually, if you normalize for that, we are seeing much more of a stable and steady margin profile. So, if one were to normalize for that, we are not seeing that sort of dip.

Arvind Agarwal: That's correct. So, you know, March quarter is where we also look at our annual targets that we have committed to brand, and they give us some incentive address to that, which was recognized in Q4. Well, it's an annual phenomena and not necessarily to be accrued in every quarter. So, yes, pretty much stable gross margin in fashion as well.

Moderator: We have a next question from Percy Panthaki. Please go ahead.

Percy Panthaki: Hi, Am I audible? So, for many of the consumer companies both on discretionary and staples, we are nowadays looking at the three-year CAGR growths because of the base being disrupted by COVID etc. So, would you be able to tell us for the BPC GMV, what is your three-year CAGR growth for Q1 FY23? And what it was for Q4 FY22? What I am looking for is, is there any acceleration in the three-year CAGR growth? So, if you can't tell me the exact numbers, that's also fine, but if you can give some flavor over whether the three-year CAGR growth accelerated in June quarter versus what you saw in the March quarter in the BPC GMV?

Arvind Agarwal: So, maybe I'll come in. I think a three-year CAGR number quarter-on-quarter is probably not making so much especially in a business which has a seasonality. We had reported three-year CAGR as part of annual deck, and I think in BPC, it was close to 50%. So, that was the three-year CAGR on FY19 to FY22.

Falguni Nayar: Percy, I know what you are asking. I don't have the number because we haven't looked at it. We can easily calculate that, but yes, you are right that there has been slight acceleration in the beauty BPC growth in this quarter.

Percy Panthaki: And what would you attribute that acceleration to?

Falguni Nayar: Honestly, like I do feel that the coming quarter can be even stronger. So, it's very difficult to say. I think, if you look at the first, I mean, the last quarter, Jan, Feb, March, it was a very mixed quarter because I think the COVID incidence was very high. I mean, it was not very fatal or anything, but a lot of people had COVID, and there was some impact in January and February where a lot of things got postponed, you know, a lot of events got postponed if you remember. And I think so compared to that, you know, everyone is out and about. So, there is that, you know, opening up and people going to social events and work and all that leads to certain amount of consumption strength.

Anchit Nayar: I think to add to that, one is obviously macro, but the second is also just general commercial intensity from our brand partners, you know. So, obviously, we work with thousands of brand partners and, you know, they have their own budgets, their own constraints. So, I think basis, I think this is a quarter where, as I mentioned, we did do a big sale, the Nykaa SSSD sale. It's not our biggest sale, but it's a midsize sale that for which our brand partners contribute in terms of the kind of commercial offers that they will participate with. So, I think as FN said, we have our biggest sale of the year obviously is in November. So, that's in Q3 and Q2 has our second biggest sale of the year which is our hot pink sale. So, yes, I think Q2, Q3 will, you know, and the rest of the year looks promising based on the commercial intensity of the calendar, let alone the macro tailwinds that we see.

Falguni Nayar: So, I think from what I understand, Percy, you want to try and understand removing all the seasonality, you want to understand whether the momentum is stronger. It is. And honestly, like there is not adequate, there's so much of COVID in different, different quarters, you know, and it has impacted in different ways. So, the clear patterns are not emerging, but yes, there's a slight improvement in the growth.

Percy Panthaki: Right. My second question is on the other businesses. Could you give us an idea if you internally have some kind of number as to the absolute losses that you are willing to tolerate in the other businesses? As your business scales up probably, and I'm guessing; I might be wrong. Probably, the percentage losses may or may not come down, but the absolute losses may increase for a while before coming down. So, is there a ceiling in terms of the absolute amount of losses that you are willing to tolerate?

Falguni Nayar: We want to pursue a path to profitability like we've done in other businesses, which means that, first and foremost, the business should have adequate gross margin. It's a B2B business. So, it cannot have the gross margin for a B2C business. So, that we must remember, and it needs to first reign in its fulfillment cost structure, which also is currently just being put in place, you know.

So, I think current losses are not an indication of what we are ready to tolerate, you know. This is a business where we believe that there won't be too much of marketing costs or digital marketing costs, but that is replaced by feet on street costs, and the productivity of those workers, and then the repeat customer business that they can get through their network are the two critical areas of success. And being only six to nine months of scale in this business, it's difficult to judge. I won't call it big scale, but just picking up. So, you know, while we will have guidance and we will manage it in a very kind of surgical way, I think, at the moment, it's difficult for us to give you guidance on this.

Percy Panthaki: Ok. That’s all from me. Thanks and All the best.

Moderator: Our next question is from Nihal Jam. Please go ahead.

Nihal Jam: Good evening. Am I Audible? A couple of questions from my side. First on the BPC side, while you did allude to, you know, there being a big sales, just wanted to understand that the number of sale days or activation was similar for this quarter versus last? Or did you do higher number of sale days?

Falguni Nayar: No, I think, Nihal, it's very difficult to say that, but what we do are three big sales in a year, and they are in like there's a medium size sale in this quarter. There's a bigger sale in July to September quarter and the biggest sale is in October to December quarter in line with the Indian festive season. And in the past, in the Jan to March quarter, there were no significant sales.

Nihal Jam: Sure, Ma’am. But there were no sale which came in which was traditionally not slaughtered for this quarter for this year?

Falguni Nayar: No. So, if you were to do year-on-year comparison, there would not be that. That would not be the case. Year-on-year is comparable.

Nihal Jam: Sure. That was helpful. And the second question was on the fashion business. And you know, if I look at our number of visits or the unique visitors, now that as a number has stayed constant, whereas our conversions have only kept increasing quarter-on-quarter. So, is it right to assume at this point that, you know, this 16 to 20 million kind of visitors is our target set and our focus is only to increase conversion of the AOV from this very set? And a related part to that is that there's been an improvement in private level. So, maybe the thought process on the fashion business is about, you know, maximizing the potential of these 20 million customers.

Falguni Nayar: I'll come in and then Adwaita can join. But I think the point is not, we are not making that statement for the long run. What we are seeing is that at different and this is the guidance we want to give also the investors that, you know, there could be periods when we may invest in upper funnel and there could be periods that we may decide to focus on middle and lower funnel to get more out of the customers who are anyway visiting us.

And I think we are looking at marketing as an optimization rather than us having to do and grow everything, you know, and I think conversion remains the key. And last quarter has been very focused on conversion both for beauty and fashion business and conversions have improved even for beauty business and also for fashion, and that will be the focus area for a while till we feel that yes, we do now need to consider. And it's not that anything stops. So, we continue to acquire new customers. We continue to acquire a new source of visit, but it's a relative importance of spends on each of the part of the funnel. With that, Adwaita, you want to come in?

Adwaita Nayar: No, I think you covered it perfectly. It's definitely not a blanket statement that we can make, you know, into perpetuity that we are happy with this number. It was more just we really wanted to focus on getting conversion up to a healthier level and from here, again, we can think about focusing on scaling the visits number. But I think, both our beauty and fashion journey has shown us over the last decade that there are just periods that the company in the website goes through where you focus on different metrics at different times, just reset new normals and then scale from there.

Falguni Nayar: And having said that, we are definitely doing a little more TV because we feel that that was also needed. So, you have seen that over the last two quarters.

Nihal Jam: Absolutely. The only reason I'm asking that was because it's been four quarters since, you know, that number has stayed stable. So, you are saying that incrementally you still want to look at, you know, improving that number as well.

Falguni Nayar: Yes, we would. I think it's all a question of optimizing for the right mix. I think, the thing is that, like all of you are aware, there were a couple of quarters when the marketing cost had become very adverse. We are trying to reign in from those levels. That was also the time when the IOS reporting was a problem, and there were things that needed to be fixed. So, I mean, the quarter that has gone by has been improvement in marketing, digital marketing efficiency and with that, you know, creating a little more money to acquire new customers and to do some more, you know, broadband TV ads, not hugely expensive, but a little more, you know, getting the voice across to larger audience. So, I think there have been various strategies. And I think like Adwaita said, we tend to be more optimization focus and bring in various elements rather than see the need to do everything.

Nihal Jham: That’s all. Wish you all the best

Moderator: Next, we have a question from Karan Danthi. Please go ahead. Karan, you can ask your question. There is no response. So, we'll move on to the next question from Vijit Jain.

Vijit Jain: Thank you, Garima. Hello, Can you hear me? Congratulations on the great set of numbers again. I have two questions. One, within the fashion business, I just want to understand, are we moving to an approach where, you know, the entire owned brand obviously is an inventory model and all external brands will be largely marketplace model? Is that the kind of thing we are doing there? And in that context, just wondering the NSV to GMV ratio for the fashion business looks like it went down, right? So, I am just trying to get a sense of what we are seeing there. That's my first question. And I'll just follow up with the second question.

Adwaita Nayar: So, I'll take both of those questions. So, in terms of, you know, as I have stated in previous calls, we have been a predominantly marketplace focused business. But yes, our private labels and our owned brands are working on inventory. But I wouldn't say that the split is just that black and white. There are definitely third-party brands as well that we would be willing and are exploring taking on inventory if it allows us to give a better customer experience. So, in a nutshell if I had to summarize, we will be predominantly marketplace, but we will also start taking some more inventory bets as and when it helps us, you know, provide the right customer experience.

In terms of your next question, the NSV to GMV ratio has worsened when you look at it year-on-year. Again, one thing I'd like to bring your attention to is Q1 of last year was a very unique quarter in the sense that it was, you know, sort of peak COVID as you might remember. And that was a time when returns across the whole industry were extremely low, and that's because a lot of customers were obviously not returning, and even us as retailers and brands were not really accepting returns because of the hygiene risks. So, off of that base, it's not really an apples-to-apples comparison. I think the NSV to GMV ratio you see now is definitely a little bit more reflective of the market. That being said, our focus is very much on working on, you know, just any opportunity that we can find to just improve the health of that ratio, we continue to be very focused on.

Vijit Jain: Alright. Thanks, Adwaita. My next question is in the Beauty space, in general, with the partners, especially the local D2C space partners, are you seeing some kind of a slowdown for those partners specifically in India this year versus maybe last year or any change that you see in the behaviors overall? That'll be great. Thank you.

Anchit Nayar: So, I think a short answer is not really. But so, I mean, I think the direct-to-consumer brands who have managed to create a niche for themselves last year are continuing to do well, and they continue to participate very actively on our platform. So, I can't speak for their participation on other platforms, but I think they value Nykaa's customer base, and they value the kind of business that they get on Nykaa. Obviously, it's very sticky and it's, you know, you have seen our average order values. You have seen the kind of consumers who shop on our platform. So, I can't speak for how they are participating broadly in the ecosystem, but with us, they continue to remain highly engaged. So, no changes there really, especially from the meaningful, you know, the larger, more meaningful, more established direct-to-consumer brands.

Vijit Jain: Thank you so much. If I can sandwich in one last question from my side, in just the other categories, do we have any marketing spend at all for eB2B or, you know, in that split eB2B is mostly reflected in selling and distribution expenses?

Falguni Nayar: I don't think we got your question clearly. You are saying that all selling and distribution is only eB2B. No. There is Nykaa Beauty Private Label, which also has on contract, you know, they have on contract beauty advisors, which come in there, as well as some of our warehouse on contract staff comes in there. Actually, our S&D definition right now does not include the say employees working in our stores. So, it doesn't include a certain staff in warehouse that may be on our roles. Maybe we will come in future with a more comprehensive, you know, definition that can be comprehensive. Right now it's off roles for sales and distribution, and it also includes when we sell on third-party platforms, the commission that we give there.

Arvind Agarwal: So, basically, all variable head count is in S&D and all sales head count is in employee expense.

Vijit Jain: Thank you. Actually, the first part of that question was, is there any marketing spend you require for the eB2B business at all?

Falguni Nayar: Right now we are not spending. I think when we can afford to spend, we will spend.

Vijit Jain: Thank you. Those were my questions. Thank you so much.

Moderator: Next question we have from Ankit Agarwal. Please go ahead.

Ankit Agarwal: Yeah. Thank you for the opportunity and congrats to Team Nykaa for this amazing results. My question is do we have any plans for ONDC? Are we looking to participate in this?

Falguni Nayar: At the moment we don't have plans.

Moderator: Next question we have from Siddharth Mehra. Please go ahead.

Siddharth Mehra: Thanks for the opportunity. My first question is generally on this growth aspect. If I look at the frequency of orders placed by each customer across your BPC and fashion, do you think there will be scope to improve that even further or probably it is largely at the levels where you would actually wanted to be?

Anchit Nayar: Sorry. Are you talking about frequency of orders on BPC?

Siddharth Mehra: Yes. BPC and fashion both.

Anchit Nayar: So, maybe I'll take BPC first. So, yes, I think it was one of the business highlights which I had pointed out on one of our slides which is Nykaa Everyday. So, there is a concerted effort on our end to increase the basket size but also increase the frequency with which our existing customers shop on the platform. So, I think, predominantly, makeup and premium skincare have been the categories which have over indexed for us, and we are market leaders there.

But we also want to start selling a lot more everyday skin care, hair care products to our consumers like shampoos and shower gels that are consumed on a much more frequent basis. So, we think it could have a, because basically our consumers, we want them to interact with us more frequently. It's also a great way for us to acquire new customers to Beauty through some of these other non-premium skincare, makeup categories. So, we think that's the big push on the on the beauty side.

Adwaita Nayar: I'll jump in on fashion. I think, I absolutely feel that there is still a ton of potential to expand the orders per customer in a year. I will say that if I really think about the merchandise that we have today, we are probably at 60% of where we need to be, 60, 70% of where we need to be. Both in terms of category completion, but also in terms of price point, I do believe that there are opportunities and pockets of price point that we need to get into without diluting our positioning and both those things will allow us to increase our repeat behavior in a pretty dramatic way I believe.

Siddharth Mehra: Got it. And in terms of, again, in terms of the channels specifically for fashion, like you said **(Unclear 01:06:38),** you are exploring multiple other options in terms of retailers and in terms of third-party channels. So, overall, if you look at the channel mix, probably, say, three four years down the line, any idea about how will it look compared to currently where you are? And will that have any sort of impact on profitability?

Falguni Nayar: I'll come in on that. I think basically for fashion brand, we do believe that keeping them or any brand, you know, I think in cosmetics we started calling our brand Nykaa. So, we didn't want to share that name with other e-commerce platform, but I think most of the brands benefit by being more widely available in physical retail as well as in larger, wider channels of distribution. And I think that if you were to look at brand's own objectives of being more well established, it depends on the type of brand also, but for most brands, it may make sense to be more widely distributed. And sometimes the wider distribution does come at a slightly inferior unit economics from that channel because those are not Nykaa owned channels, and the unit economics of Nykaa channel is better.

But I think we are looking at our business from a multi-brand retailer perspective. So, a multi-brand retailer also benefits from a lot of like there is a lot of brand proliferation in beauty and fashion. So, many, many brands are going to come. So, that doesn't mean that, you know, it doesn't have to be all maximized to our own brands. So, we are trying to do what is right for both. We are trying to do what is right for the multi-brand retailer, and we are also trying to do what is right for the brand.

Siddharth Mehra: And so will it be fair to say that in BPC also we might explore some of these things or will it be limited to fashion only?

Falguni Nayar: Yes, we already do like, for example, our cosmetics as well as K-Beauty are retailed in lifestyle stores in retail, and they are increasingly being retail even in GT, MT through our eB2B distribution.

Moderator: Next question is from Vivek Maheshwari. Please go ahead.

Vivek Maheshwari: Hi, Good Evening. My first question is, if I look at your fashion AOV, for the last eight quarters, it has consistently been moving up. So, one is that, you know, how that is possible? Is it the supply side driver? Is it the, let's say, the portfolio mix? How are you ensuring this is moving up? And second is what is the sweet spot over here? And if I just compare it with, let's say, the

BPC side of things, that number has yoyoed in the last eight, nine quarters. So, how is this possible that, you know, it is just moving up one way?

Adwaita Nayar: Ok. So, I can take that. I think a couple of things. I do feel that there's a little bit of a category mix story here. Also fashion is a very young business, but in the last two-and-a-half, three years or so since we started, in the early days, we were selling a lot more of just accessories and lingerie which are, you know, cheaper products. And as that category mix has shifted more to apparel and Indian wear and western wear, you are seeing the AOV climb.

The second trend that we are seeing is obviously the basket size is increasing. So, the people are just buying more items per cart. And again, as we continue to add category and add merchandise to my, you know, the previous answer I gave, again, you can expect some ABS movement, average bill size movement here. So, it's a category shift. It's a number of items in cart movement, and it's us also being, you know, quite focused on the positioning, and AOV is something that I am quite focused on holding as long as I can.

Falguni Nayar: Also very consciously, we are not going to the lower end of the market in terms of assortment. So, there is the lowest like one-fourth price point assortment that we are consciously not bringing to our platform.

Vivek Maheshwari: Sure. But, you know, if I look at let's say, second quarter or first quarter F21, that number was about 22, 23 hundred, which has jumped up to about 3,700. Where do you think this number then settles at? Are you happy with where it is right now or it moves up further?

Falguni Nayar: No, I think there was initial, I don't know if you're aware, but we had launched our fashion as a pop-up on the Beauty website where very different items used to sell like mostly because they are the buyers for beauty and our whole thought process was that fashion discovery needs to be done differently. So, on the beauty, much lower AOVs used to be there, and we decided to de-emphasize that business, and we have been de-emphasizing the last three, four quarters. So, benefit of that has come partly in AOV, though all of it cannot be explained by only that. But it's a combination of some of this. There is some more AOV to gain, but we are not really working on an AOV gain. AOV gain is just indicative of the fact that the business is healthy and there is a choice that customer is making of buying a differentiated product on our website. But as we go larger and larger, there could be some amount of AOV dilution.

Adwaita Nayar: And I think just to top that up, you know, I think great that Falguni gave you a context of where it started. And so that's why you saw that sharp jump in the early months, but now, you know, the last couple of quarters which are more stable in terms of where bulk of the business is coming from, which is that Nykaa Fashion app, I do think we'll see this AOV sort of steady now for a bit, and there will always be pressures pushing the AOV up which is, you know, people adding more things to their cart.

But there will also be pressures pushing the AOV down, which is that as you are acquiring more customers, you are obviously not just getting, you know, the top premium customers. So, there will be pressure both up and down, but I think for the foreseeable future, we will just be trying to hold this.

Falguni Nayar: Like we have not emphasized because of even catalog also, there's an execution thing. So, we have not focused on categories like just T-shirts and, you know, as we get more and look more and more like overall market, definitely avoiding the very low price point, it may emerge little differently, you know.

Vivek Maheshwari: Interesting. Ok. The other question, Falguni, is with the tough and tight liquidity conditions right now in the market, are you seeing that as an opportunity to, let's say, you know, acquire brands, the early stage D2Cs? Or are you getting more offers given that you have a focus on House of Brands strategy and your owned brands?

Falguni Nayar: Yes. I mean, you are aware of all the acquisitions that we have done and of course, there could be more. But I think we are very thoughtful about what we want to add to our portfolio, and we are not looking at ourselves basically as a fund who wants to invest for a gain and that value of the investment we make. I think we are very carefully evaluating that is this a brand that can be part of our brand? How is the brand portfolio? And does it bring something incremental? This doesn't mean we may not have two brands in the same segment, like Nykd and Kica have both sportswear. But I think, basically, a brand has to come in with a more of a strategic objective rather than just because you want to ride it.

Vivek Maheshwari: Got it. And last question if I may, Falguni, the other point is, you know, your presence now, let's say, on Amazon or your Amazon.com or let's say, expansion into international geographies, what is the thought process? Or let's say, what is the right, what is your right to win that you see, you know, which will make you successful in those markets?

Falguni Nayar: Well, I mean, it will be basically the brand. I mean, we are doing this only for the brands that we own and if our brand has something to appeal to a certain set of customers, then it can succeed. So, we do have brands like K-Beauty which we do believe can do well in the international market. We also have a certain bath and body range that can do well or sometimes it could be brands that focuses on Indian ingredients that may do well. There are a lot of ingredient-led brands that are doing well in the US market.

So, these are all baby steps being taken right now. These are early days, but I think there is definitely one thing we are seeing globally, that global consumer is looking at interesting brand from different countries. And there is a belief and Anchit can talk a little bit here, but there is a belief that some of the most successful brands of the future will come out of India. Anchit, you want to say something on that, with Beauty&You experience.

Anchit Nayar: Yes. Some of you might have read about the new venture which we are doing in partnership with Estee Lauder's New Incubation Venture, which is kind of their venture capital arm out of New York. So, we are launching a program where we will identify, we will accept applications and then identify brands early on in their journeys being built in India that are truly unique and that can potentially carry the, what we like to say is carry the flag of Indian beauty globally. You know, we have seen Korean beauty do incredibly well, Japanese beauty do well, French pharmacy beauty. So, we do think that it's time for us to identify the next set of Indian brands who will go international and, you know, we have great traditions of beauty in India including Ayurveda that we think could be a big benefit to the global markets. So, we are looking to identify the next set of brands who we can help foster, mentor, fund and then take them globally. And that's in partnership with Estee Lauder.

Vivek Maheswari: Got it. Thank you and wish you all the best.

Moderator: I'll come in with a question of mine here. If we see your growth plans, essentially, we can divide those into two, right? You will need investments into your organic strategies, you know, retail store expansion, warehouses etc., plus also invest into inorganic strategies, brand acquisitions etc. So, for the next two or three years, how well capitalized do you think you are in terms of all the cash flows that you generate from the core business and the investments that you need to make on the other side to fund this growth?

Falguni Nayar: I think for a company like ours, you know, efficiency of digital marketing and marketing efficiency determines a lot of our profitability, and also there is a balance between growth and profitability. And at any point in time, if we were to reduce the customer acquisition ambition, we can become quite profitable.

So, I think generating enough resources for our ambition, if they were to exclude any major acquisition, I think most of the smaller needs of our own CAPEX as well as any small acquisition that we may want to make or fund couple of businesses that we are very carefully choosing that their balance vis-a-vis what our ability to fund those businesses is, you know, we are not someone who's entering XYZ business without considering that can be funded, you know, from our internal resources.

So, I think all this is balance, and our efficiency on marketing determines everything. And there are periods when we could if there is not adequate efficiency in marketing, we could compromise on our growth of customer acquisition. It's a balance. So, we feel confident that we can manage all of this.

Moderator: We will take our next question from the line of Jai Gandhi. Please go ahead.

Jai Gandhi: Hi, Am I audible? Thanks for this. So, this is on advertisement revenue. I just wanted to understand given that you are a platform, is there a balance you would like to tread when it comes to ad revenues you earn in each category because beyond a point it may hinder experience, right?

Anchit Nayar: Yes. So, look, we don't have a number target, but you are right. We always think about consumer experience first. So, to give you a sense, today our advertising dollars that we generate on the Beauty platform is predominantly for, you know, on-site, for example, home page banners and, you know, some social, we sell some assets on social media, but mostly it's on site and mostly on home page.

So, we are not really and we are not monetizing search. We are not monetizing many, many various landing pages and listing pages. So, I think Amazon and others, you know, other horizontal marketplaces have monetized their inventory and their assets to a much greater extent than we have. So, we have been very mindful of consumer experience and because of that we have stayed away from certain things. So, we don't think, yeah, we think our ad revenues today where they are, we are very comfortable with the consumer experience.

Jai Gandhi: Right. But if it still is a sizeable portion, if I consider that as part of your profitability, so in the sense that in the backdrop of a tough macro, wouldn't a drop in advertisement revenue kind of have a sizable veto on profitability?

Falguni Nayar: I think we are not even scratching the surface on what potentially is possible because all of these platforms convert, you know, I mean, whatever percentage they convert on unique customer or even on total visits is very small. So, basically, the eyeballs you have is so high and conversion is best on platforms like ours where for relevant brands, and we only give our ad platform only to the relevant brands on the platform. We won't even give ad to a brand that doesn't sell well on our platform, even if it technically is a beauty and personal care brand.

So, in many ways, both our advertising and sales are quite integrated, and we don't see, and what we do is very small part, if you were to look at entire audience of brands that we have. So, yes, there could be an individual brand partner related issues where they may choose to not spend as much in a year or so because of their own reasons, but I think at the industry level, that won't happen.

Anchit Nayar: And I think just to add to that, I think there is probably a shift, you know, I think a lot of beauty brands are looking to find more efficient channels of marketing. So, you know, obviously, initially, there was a big switch from non-digital to digital marketing and now from, you know, Google and Facebook and other digital marketing channels to more platforms like ours whereas FN said, you can see, you know, the conversion can be immediate and, you know, the channel for the conversion is the same as that for the advertising. So, I think we are just scratching the surface. There is a lot more we can do. We have been very selective in who we even sell advertisement stake to at this point.

Jai Gandhi: Also on the fulfillment givings, especially in BPC, I just wanted to understand where are they coming from? Is it that the order density at the receiver end, at the consumer end is increasing or?

Anchit Nayar: You are saying that's you are asking about the efficiency and fulfillment?

Jai Gandhi: Yeah. Yeah.

Falguni Nayar: I think Arvind can give this answer

Arvind Agarwal: Yeah. Actually, it is primarily coming because we decided to go closer to customer. So, we are able to, let's say, reach within 300 kilometer radius of customers, but it is not as simple as that. It also requires our supply chain to be adjusted and realigned such that we can replicate the inventory closer to customers. So, this is what we do as a strategic project last year. Due to that, our order to delivery has also improved. So, we are delivering faster, but also our air shipments have come down, and our unit cost per or rather the freight cost per shipment has also come down. And that's quite a healthy improvement in unit economics. But yes, there is a potential of, you know, scale efficiency even further.

Jai Gandhi: Right. So, I just wanted to try to understand you versus a horizontal or, you know, any other platform who has relatively more order density at the consumer end. I am assuming and correct me if I am wrong. We perhaps as a vertical player won't be able to ever match that order density. So, our fulfillment cost per order is likely to be relatively inferior.

Falguni Nayar: Absolutely. I think when we hear about like really hyper local delivery, I don't think or if basically our number of items in a cart would be four-and-a-half to five or sometimes higher, so I think when a horizontal tries to match it even working with the brand partner directly, I think it's very difficult because you're going to anyway split it into five orders.

Jai Gandhi: And the last question if I may ask, I just wanted to understand the gap between NSV and revenue from operations in the other business? So, what is that gap signify?

Arvind Agarwal: I will explain. So, that others comprises of NykaaMan and eB2B. And you know, the mix is changing and eB2B is going faster which is the inventory led model, so which is why NSV is growing faster than GMV in this quarter. The gap is similar, right? The definition of NSV is that it's net of returns, taxes and cancellations.

Jai Gandhi: No, I was saying gap in NSV and revenue from operations.

Falguni Nayar: I think that is because, you know, in fashion, the difference between NSV and revenue from operation is quite large, whereas in beauty it's not much large. So, the mix also impacts it. And in other business also, there is a NykaaMan, which also has a mix of beauty and fashion, and that mix can impact it. But like Arvind said, all B2B is again inventory led. So, our overall consolidated business is a mix of both marketplace which is only where the gap between NSV and revenue is very large and also beauty, which is where the gap is not very large. So, this is the thing. That's why we started giving all the parameters on NSV so that people can compare margins, fulfillment costs and marketing costs on NSV.

Jai Gandhi: Right. There is no ad revenue in the other business part, right?

Falguni Nayar: There is some like, in fact, NykaaMan.

Jai Gandhi: NykaaMan.

Arvind Agarwal: Yes. There's a small component.

Falguni Nayar: And even B2B business does intend to earn ad revenues.

Moderator: Next question is from the line of Karan Danthi. Please go ahead.

Karan Danthi: Hi Falguni. Hi Anchit. Hi Adwaita. Many congrats on the results. I have two questions. The first was on how you are planning for fulfillment capacity this peak season? We have seen in some other countries of the world, you know, Amazon specifically where there was quite a large shift in consumer behavior and they sort of misjudged, you know, how much fulfillment capacity they would need, and since they have readjusted successfully, but there was a misalignment. So, I am just curious kind of how you are thinking about approaching, you know, this festive season?

And the second question was, you know, around market share. I think India is experiencing unique dynamic where a very few number of companies have gone public.

Moderator: Karan seems to have dropped off. Would you anyway want to answer the first question that he asked?

Falguni Nayar: I think on the first question is that yes, we want to continue opening. We are moving from what we used to call as a regional warehouse strategy to more of a local warehouse in the sense that in most of the large states where we have large demand, we may now support a warehouse in that state so that, you know, all the last mile delivery within the states are a short distance like Arvind spelled out. So, towards that early beginning. So, I think we must have ruled out three, four warehouse towards that, and there are more that will happen. So, we are definitely investing ahead of time.

Arvind Agarwal: Yes. And generally, we build our capacity. So, we have supply chain forecast basis that we build our capacities ahead of the curve, ahead of the season. And there is a cycle of six months that we follow and try to also improvise the forecast over time as we learn from the consumer trends.

Moderator: In the interest of time, we have time for one last question from the line of Sanjay Bhat. Please go ahead.

Sanjay Bhat: Hi. So, just a couple of questions. One is would you be able to help us with the restatement of 0.4 million transacting users in Beauty this quarter?

Falguni Nayar: Oh, I didn't understand the question.

Sanjay Bhat: So, in your deck, in the last slide where your transacting users have in last quarter, it was 8.4. It is now 8. So, there has been a comment that these numbers have been restated. So, would you be able to help us where this restatement came from?

Falguni Nayar: Arvind, do you want to answer that? On Beauty?

Arvind Agarwal: I think, it's NykaaMan, which was sitting in BPC until we separate it out and now we show it as part of others.

Sanjay Bhat: And for Beauty, additionally, the net revenue is higher than the NSV. Is this the ad revenue which is sitting or what explains this gap?

Falguni Nayar: Yeah.

Arvind Agarwal: That's correct. So, it includes both. NSV includes only product sales whereas revenue also includes services income such as the ad revenue.

Sanjay Bhat: Ok. Thanks a lot, and all the best.

Moderator: Well, that was the last question we have for today. I thank Nykaa's management team for the time and for all their clarifications. Thank you everyone for joining and hope you all have a good weekend.

Anchit Nayar: Thank you, everyone.

Falguni Nayar: Thanks, everyone

Adwaita Nayar: Thanks

Arvind Agarwal: Thank you, Garima. Thank you so much. Thank you, everyone for joining.