# Q4FY23 & FY23 Earnings Call - Transcript

**Sunita Sachdev:** Good evening, everyone. This is Sunita Sachdev. I head investor relations and strategy at FSN E-Commerce Ventures Limited. It's my pleasure to introduce our management for the call today. On the call with me today is Mrs. Falguni Nayar - Executive Chairperson, MD and CEO, Mr. Anchit Nayar - Executive Director and CEO, beauty e-commerce, Ms. Adwaita Nayar – Executive Director and Co-Founder CEO, fashion, Mr. P Ganesh – Chief Financial Officer, with that over to you Falguni for opening remarks.

**Falguni Nayar:** Good evening, everyone, and thank you, Sunita. Thank you for joining us on the call today, and it is always a pleasure to interact with all of you. I would like to start the presentation now and request the team to move the slides, please.

So, talking about the performance highlights, I am happy to say that for the fourth quarter of this year, financially year 2023, we have come out with a GMV growth of about 36% year on year at Rs 2,445 crores, and the revenue has grown at 34% standing at Rs 1,302 crores. Gross profit continues to be strong at Rs 576 crores, which is a 35% year on year growth, and the gross margins are at 44.2%, which is a 54-basis point improvement over the year ago. On the EBITDA, the growth has been even stronger at Rs 71 crores is a growth of 84% year on year growth, and the EBITDA margin is at 5.4%, which is a 147-basis point improvement over year on year. Profit before tax is at Rs 8.6 scores, 48% year on year growth, and PBT margin of 0.7%. I did like to highlight the difference between EBITDA margin and PBT is all investment for the future, which I'll share in my next few slides, and the PAT growth is at Rs 2.3 crores, which is which is less healthy than expected, and I think some amount of that is due to [inaudible] tax planning.

Moving on, I think, on a full year basis, again, the GMV growth is at 41%, GMV at Rs 9,743 crores. Revenue is at Rs 5,144 crores, which is a 36% year on year growth, and the gross profit is at Rs 2,278 crores, which is a 39% growth year in year with gross margin at 44.3%, which again is a 73-basis point improvement on a year-on-year basis. EBITDA for the full year is at Rs 256 crores, a 57% year on year growth and EBITDA margin at 5.0%, a 65-basis point improvement year on year. Profit before tax is at Rs 38.4 crores, 19% lower on a year-on-year basis, with the profit before tax margin at 0.7%, slightly adverse than a year ago. And finally, the PAT is at Rs 21 crores, a degrowth, and PAT margin of 0.4%

Going forward, I'd like to take you through some of the important items and composition of the GMV growth. So here you can see that our consolidated GMV growth was 41% for the full year. I will stick to the full year numbers, while you can see the quarterly numbers, too. So, on a quarterly basis, the consolidated growth is 36% on GMV, whereas it is 41% on a full year basis. As you are all aware, that fourth quarter is a slightly seasonally lower quarter compared to third quarter in India, which is a strong quarter.

Talking about the beauty category. Again, the full year growth is at 33% on GMV basis and the GMV stands at Rs 6,649 crores. On the quarter basis, the beauty GMV grew at 29%. On the fashion side, the full year fashion growth on GMV basis at 47% with fashion GMV at Rs 2,570 crores almost, and on a quarterly basis the fashion GMV grew 38%.

And finally, as you are aware that we are building other businesses like the SuperStore, which is our eB2B business, Nykaa Man as well as the international businesses, and these together account – as Others. They grew at 204% on a on a GMV basis on a year-on-year basis, and their GMV has come out at Rs 525 crores. This is for the quarter, the GMV for these businesses was Rs 152 crores, which is about 170% year on year growth.

Moving on, on the composition of the GMV, I just wanted to highlight that our investment in fashion is paying off with fashion GMV now contributing as much as 26% plus of our annual total GMV of the full business. The full business GMV is at Rs 9,743 crores, of which beauty now accounts for 68.4%, fashion at 26.4%, and other businesses contribute 5.2%. So, as we said that we are trying to address larger addressable markets with a view to provide acceleration in our growth, and that is very evident from these numbers.

From our view here, one of the important focus this year was to accelerate customer acquisition, and towards that we have invested in each of the customer acquisition for each of the platforms. Som if you look at the beauty platform where we have acquired, our annual unique transacting customer this year was 9.4 million, which is a growth of about 22% from the previous year, where our annual unique transacting customers were at 7.7 million. The next number, a small pink box, is for our stores. In the stores, we service about 0.6 million customers this year compared to 0.3 million last year. This is an increase of 73%. On the fashion side, we had an annual transacting unique customer base of 2.5 million this year, compared to 1.8 million a year ago, which is a 39% growth year on year. And finally, the last element, which is, you know, on SuperStore business, where again, the customers are not really the consumers, but retail stores and the Others number also has Nykaa Man numbers where there are certain consumers. So, for all the others category, our annual unique transacting customers are at about 500,000, which is a 30% growth over previous year. With this total cumulative customer base at Nykaa service so far, is about 24 million, a pretty large number.

Moving on. I also wanted to say that we have been investing in in our employee headcount. But I want to do throw more colour on that. So, this is the employee count. So while it has gone up from 2,764 in financial year 2022 to 3,177. What I wanted to highlight is that there is an increase in retail and sales employee, as we roll out our retail stores as well as we roll out our private label brands and many other brands into what we call as GT/MT distribution. So, this category of employees now accounts for 32.3% of our total employees. Again, what you can see is that there was a large amount of investment in employee growth last year, but most of it was specially in the category of stores and sales employee count, and we saw that post Covid, after 2 years of Covid there was an opportunity to expand offline distribution and that's why this big focus was made and that we have here given all the 4 quarters of growth in what we call a store and sale employee count, and you can see, even in fourth quarter, that continues to be at 42% year on year growth.

On the other side, the core employee growth has now slowed down after early investment in core employee growth of 27% and 25% for the first two quarter. That growth has now slowed down to just 4% by the time the fourth quarter came, and this result is evident in the fact that if you were to deep dive in a financial number, you'll be able to see that the employee cost for the fourth quarter has kind of remain flat on a quarter on quarter basis.

Moving on, even when we are investing in employees, which is the core employee figure that I talk about is after removing sales and distribution employees. A lot of this investment is towards technology. So, from the core employees, which were 2,063 employees in FY2022 that has grown to 2,152 employees in FY2023. Now, this is increase of 24%. But within that, the tech has grown faster, and the tech employees have grown from 389 to 482, which is sorry, 24% is the growth for tech employees. So, my tech employees have grown at 24% on a year on year basis. On the tech employee costs perspective, in fact, the growth has been even higher at almost 73% growth. All of you are aware that there was inflation in tech cost last year and the tech employee cost has risen from Rs 280 crores to Rs 434 crores, and this increase amounts to almost 73% increase.

Moving on, I also wanted to show that these employees, I mean the work that is being done by the tech team. We see the entire tech investment is investment for future capability building. And right now, there are a lot of very exciting projects which we've invested in in the last year, and I would like to highlight some of those. Personalization has been a big priority, and some of the work on that, I'm sure, we always say that our execution is an open book. You can see it on our apps, but a number of personalization features are being rolled out, and they're evident and very much visible on our website.

We also are building seller panels to be able to service our sellers on the fashion side better. And this seller panel, a lot of investment have gone into building this new technology. Similarly, ad tech is another big area of focus and improvement. As you're all aware that we've always enjoyed good ad income. And we are now taking our ad platforms to best in class in the world, so that our brand partners have the best-in-class ability to manage their ad investment in our company. In addition to that, we built a, B2B2C capability to help us manage our fashion inventory better where we didn't want to get access to only the warehouse inventory of our brand partners, and with this capability we are able to get fashion inventory from our brand partners, be it in their warehouse, be it in their stores, or, you know, wherever that inventory sits, we are able to get access and deliver from there. In addition, a lot of work being done on the attribution engine side, a lot of work being done on improving customer journey. Huge investment in Martech, so that we can support complex journeys and also a fair amount of investment in AI and ML, from a discovery and recommendation perspective and many more.

Going forward, Also, we made big investment in infrastructure as well as in retail. And here we've given our year numbers so that you can understand why we were lagging behind. So like you can see in physical stores in the financial 2021, our stores grew only 18% due to covid impact and hence, we've accelerated the growth in physical store, which is area in lakh square feet, which has grown by 59% in financial year 2022 and another 43% in the current year. And now our physical store area sits at 1.4 lakh square feet across all of India. On the warehouse, similarly, you can see, the investment was quite subdued in the financial year 2021, and on back of that, for two years we've invested and grown our warehouse capacity by 41% and 79%. So, this year there was almost an 80% increase in our warehouse capacity, and now our warehouse capacity stands at 14.6 lakhs square feet. On the office space, you can see that because of covid work from home, we let go of some amount of space, and that resulted in a 19% de-growth in our office space and on post-covid we are believers in everybody coming to work. We are encouraging our employees. We are believers that coordination, cooperation, all that is much better when employees come into work. So, with that philosophy we have taken more office space, and that is now for this financial year, another 68% growth at 1.9 lakhs square feet. We do believe that investment in warehouses and office spaces are now at the last leg. Most of the investment is over. Very little remains for next year, though physical stores will continue to grow over period on a more prudent basis.

With that, I hand over to Anchit to talk about the beauty business.

**Anchit Nayar**: Yeah. Hi, thank you very much. So, I'll kick off this section on BPC, so if we go to the next slide.

This is just to remind everybody about what is the total addressable market and how it looks today in 2022, and how we expect it to look by 2027. So, if you look at 2022, the Indian BPC market is about a 19 billion dollars market in US dollar terms and that is expected to grow at a CAGR of about 10% over the next five years to become a 31-billion-dollar market.

Within that, you can see that the online share of BPC is the faster growing channel within the segment and that's expected to grow at a CAGR of 29% taking the online BPC market from roughly 3 billion dollars in size today to about 10 billion dollars in size by 2027. And that's where Nykaa.com is a key player. If I look at the organized sector that is expected to grow from 5 billion dollar to 9 billion dollar, so 14% growth, and that's where our specialty retail brick and motor stores, such as Nykaa Luxe, Nykaa On Trend, and Nykaa Kiosks, are playing in that segment of the market. And finally, if I look at the unorganized retail sector, that which has historically been the majority of the market that is expected to grow almost around just about 1% or so and that'll be about 12-billion-dollar market and that's where our SuperStore business that we'll talk about in subsequent slides. That's the addressable market for that business.
If I look at what are the major growth drivers for BPC consumption in India, it is, there's a couple of factors. First and foremost is that the per capita consumption of beauty in which India is still relatively low compared to other similar markets in other parts of the world and so that number is set to grow on a per capita basis quite meaningfully over the coming years. Second, what we're seeing is, there is a shift from personal care to beauty. And, as I said, these numbers are for both beauty and personal care. But we are seeing a shift of consumption, behaviour from personal care to beauty, and that is again a trend that is seen in other markets as their GDP per capita and their consumption per capita increases, there is this shift that does occur which is beneficial to a platform like Nykaa, which is predominantly a beauty retailer. Finally, as I spoke about earlier, there continues to be shift from offline to online. There was obviously an acceleration in this shift that had occurred during the Covid period that had normalized slightly post Covid with the returned to offline shopping as well, and we think the two will both grow meaningfully in the coming years.

But online will continue to outpace the growth of offline retail. And finally, there is the shift from unorganized to organized in terms of the channel mix of offline retail.

Next slide please.

Just to remind everybody what are the key core value propositions of the Nykaa platform and what are the five main pillars on which we are focused. First and foremost, is our focus on acquiring new customers and equally importantly retaining our existing loyal, premium repeat customers, and I think Falguni had mentioned earlier in the deck that you know, for the beauty business today we had 10 million transacting customers on a 12 month basis and that goes to show you that we now have a very sizable customer base. Second is, we pride ourselves on deep relationships with our brand partners. For us, our brand partners are crucial to the journey which we are on, to expand the BPC market in India, and we continue to work very closely with them to help them achieve their objectives in the market. Third, we continue to penetrate across the value chain and the channels in to address the large TAM, and that has been discussed in the previous slide basis, our expansion into both physical retail as well as our B2B business.

Fourth, we remain committed to creating, acquiring, and scaling a portfolio of independent new age consumer first brands, and we'll talk a little bit more about that in the subsequent slides. Fifth, we are always looking at new ways of retailing, what we call as the art of retailing remains a key priority for us, and our ability and desire to maintain a very holistic consumer connect is something which we focus on every day.

Next slide, please.

So just coming to some of the key KPIs around our business. You can see that in terms of visits, our visit growth was 11% year over year from a FY22 to FY23, and we had almost 937 million visits to the platform in this past fiscal. If I look at the monthly average unique visitors, that number now sits at about 22.7 million for the fiscal year 2023. That was about a 21% growth year over year. So clearly, there has been a focus on increasing the quality of visits and visitors to our platform that's reflecting in a healthy growth in this number. If I look at the average order value, despite a large number of customer acquisitions as well as an increase in the volume of traffic to the platform, our average order value has remained healthy and have remained constant at about Rs 1,857. If I look at orders, you can see that we serviced about 35 million orders in this last fiscal, and that was a 31% growth here over here.

If I come to now the second set of key metrics that we track our annual unique transacting customer base has increased to 10 million, which is the 24% growth year over year. Our order conversion and this is not the unique conversion, this is order conversion. This sits at 3.7%, which is almost 50 basis points higher than last fiscal. So there has been a meaningful improvement in this metric over time.

Finally, if you look at our GMV, our GMV for FY23 stood at Rs 6,650 crores and this is a 33% growth year over year. And, as you can see in terms of the mix of the GMV, 78% of it comes from existing customers, and 22% comes from new. So again, a testament to a very loyal, sticky, and high repeat, cohort of existing customers who tend to transact on our platform.

Speaking a little bit about our brand mix. As I had mentioned earlier, we have very strong, healthy relationships with our brand partners. Today, we have almost 3,400 plus brands listed on the platform. These include both international and domestic. If I look at our top 100 brands, roughly, 28 of them are what we classify as international, 31 of them are FMCG brands, 31 of them are direct to consumer brands, about 16 brands are in the top 100 are what we classify as luxury brands and 6 brands come from our own portfolio of what we call the global store, these are basically international brands which we import into the country and tend to retail with very limited distribution, mostly distribution that is limited to the Nykaa platform, so very healthy mix in terms of the top 100 brands that contribute to our business. There is not much over reliance on any brand, and there is a good mix between both international and domestic.

In terms of new brand launches for the year, for this past quarter. This is Q4 brand launches. The number of brands were more that were launched, but just a couple to highlight for the audience. First is, we launched Lancôme, which is which is a very popular luxury beauty brand that is owned by the L'Oréal group that launched in India with Nykaa both in our online platform as well as in our physical retail stores.

We also launched the brands Farmacy and SimplyNam, which are smaller more niche brands but are very popular with certain customers and that those two brands we launched on our platform as well. In terms of owned brands, this quarter we launched two new owned brands. One is Nyveda, which is Nykaa's own ayurvedic brand focus mostly on haircare and skin care. We also launched a brand called Nudge wellness. Nudge is a wellness brand focused on beauty from within.

Next, please.

This quarter Q4, we conducted a pink love sale, and this is a very successful sale. We saw about 151% growth in GMV year over year versus a similar sale which we had done in February of last year. We had over 2,000 brands participate in this pink love sale. There was a lot of pre buzz engagement activities that were done to drive traffic to the platform, and these are listed on the page. In terms of creating awareness and driving engagement for the sale we partnered with many influencers, and this allowed us to generate close to 144 million impressions during the sale period.

We also expanded our watch and buy. So, this is our social commerce feature, where live streaming is conducted on the app itself, and this proved to be very popular this sale with over 33,000 visits from customers watching the live streams on the app during the sales period.

Next please.

If I look at our physical retail business, you know, we've invested, I think, really, for us to improve the customer experience. We've invested across building out our physical retail network and, as you can see today, we have about 145 stores across the length and breadth of the country. Today we covered 60 cities across India. And this is up from about 104 stores last year. So, 41 new stores were opened this year. the physical retail business grew at a 67% year over year growth and today that business in GMV term sits at about Rs 551 crores of business and contributes to about 8.5% of the total Nykaa BPC GMV.

In terms of some other key metrics to the retail business. Same store sales growth in FY23 versus FY22 stood at 36% roughly and this is for the cohort of stores that were opened prior to March 2021. If I look at the GMV per square foot, that number has also improved to about Rs 3,271, and the total area that we cover in terms of square feet of retail space is now at 1.4 lakhs and it's a 43% growth year over year.

Now, moving on to our distribution of our owned brands. Today, our owned brands are available across almost 2,750 general trade and modern trade doors and that is a 41% growth year over year. This business now, is accounting for almost Rs 275 crores of revenue to the company.

As mentioned, in the earlier section of this presentation there has been a meaningful investment also in terms of fulfilment centres, and we have taken our fulfilment centre count from 25 in FY22 to 38 in FY23. And today we have fulfilment centres across 15 cities. And so, the area growth in terms of the fulfilment centre has been at 55% growth. This has been driven mostly by regionalization strategies. So, the push was to increase the regional coverage of our warehouses, and this has played a very meaningful role in improving the customer experience, bringing down the order to delivery timelines and helping us to reduce our fulfilment expenses. As a result, our split shipment ratio has gone from 1.3 to 1.17. Again, a testament to the fact that a regionalization strategy for our fulfilment centres has played out nicely.

Now, focusing a little bit more on our house of brands. You can see that from our GMV, there has been meaningful GMV growth in our owned brands year over year. Today, our owned brands contribute about Rs 789 crores of GMV, and that's about 12% of our overall BPC business. We have 12 owned brands, and the growth in GMV has been about 41% year over year. In terms of our key owned brands, Nykaa Cosmetics, which is our largest owned brand today is about Rs 250 crores brand on GMV basis. And interestingly, and I think the good news for us is that now both Kay Beauty and Dot & Key. Dot and Key was an acquisition, a brand which we acquired. Kay Beauty is a joint venture brand which we have with Katrina Kaif. Both of these brands today are now have also scale nicely to be about Rs 130 crores in terms of annual GMV each.

We have now 1,600 SKUs across our owned brands, portfolio, and these brands are now distributed across 2,580 and 169 selective doors of both general trade and modern trade. Additionally, our owned brands are now reaching 5,400 retailers through our eB2B SuperStore, app, and business as well.

This is just some imagery of some of the new launches within our owned brands that that we had in Q4 of this year. You can see across Nykaa Cosmetics, Kay Beauty and Gentlemen’s crews, there were meaningful new launches, and very important at L3 levels.

Next slide, please.

And even the brands which we either have as an investment in or we have acquired. There has been meaningful new product development within their portfolios as well.

Finally, just one additional new item we want to share with the Forum is, we have a property that is known as the Nykaa Beauty Bar. The Nykaa Beauty Bar was an on-ground event, where we invite our consumers to come and interact with certain makeup artists and influencers as well as participating brands in a physical setting, usually in the malls where we have our own physical retail stores. So, after a period of about 2 years, because of the pandemic, during which we did not conduct the Nykaa Beauty Bars and the Nykaa Beauty Bars are back, and we are hosting them at a regular cadence.

This is just one case study of one Beauty Bar which we held in Q4. This was conducted in Lucknow, this Beauty Bar generated almost 4 million impressions on social media. We had 1,300 customers in the Lucknow area who registered for the event and there were 16 plus media houses and 11 influencers, who covered the event to generate a significant buzz and awareness for the event as well. And, as you can see from the images, these are very well attended, and are very highly sought after and anticipated by our consumers in the towns in which we host these events.

Next, please.

Now, I think earlier in the deck, we spoke about the investment which we've been making in technology. And on this slide, we've just shown a few of the initiatives which were undertaken by the technology department this year that we thought is worth sharing with the broader audience. First is a big initiative around paperless picking. So, this has allowed us to basically move to zero paper utilization in our warehouses. but importantly, what this has enabled is, it has enabled us to increase the order fulfilment, capacity, and the productivity of our warehouse staff through this automated paperless picking technology that has been rolled out.

Secondly, we've also launched an ability for us to nudge our consumers to complete incomplete shopping baskets through various interventions across both the PDP and PLP page.

There has also been a big focus on personalization, one example of which is pushing consumers to replenish certain products that they have bought in the past. So, personalization has been a big area of development for us where basis consumer's previous buying behaviour or browsing behaviour, we're able to personalize the relevant assortment and the relevant product to show to that particular consumer. So very beneficial for the consumer, very beneficial for our brand partners, and, of course, for us as a retailer as well.

And with that I'll hand the mic over to Adwaita to take you through the fashion section.

**Adwaita Nayar:** Hi, everyone! Thanks Anchit. So, I look forward to discussing the fashion business with everyone. So, to begin with, we remain extremely excited by the size of the fashion market. The fashion industry is 4 to 5 times larger than the beauty industry, and according to RedSeer, the fashion market was 77 billion in 2022, going to 147 billion, growing at a CAGR of 14% by 2027.

In terms of the key drivers that we see in this space, we think that the fashion industry is going to be driven by increasing digital penetration, the disruption by D2C brands. There's a willingness to try new brands. Premiumization across the category and then personalized experiences. Customers are demanding more personalized experiences, and finally, a shift from just pure fashion to lifestyle, including the emergence of new categories like sport, athleisure, technology, and the home category.

So, when it comes to building like a fashion, I have five main focus areas. The first is customer acquisition and retention. The second is strengthening external brand assortment. The third is accelerating our owned brand strategy. We see this as a real fashion centric opportunity and a future moat for the business. Fourth, exploring new operating models and channels of growth. And finally, fifth, innovating via technology to constantly improve discovery, shopping, and post order experience.

Double clicking on these. First, we'll talk about the key performance indicators. First, our total visits are up 14% year on year hitting 504 million for FY23, and our average monthly unique visitors are up 13% year on year to 17.3 million and FY23.

In the bottom left table, you can see our AOV trends. On a year-on-year basis, we have seen a gradual increase in our AOV, and this is a reflection of our differentiated positioning. The FY23 AOV at MRP is Rs 4,507, and it's selling price that is, post discounts is Rs 2,547. Overwhelming majority of these discounts are funded by the brands.

Moving on, we now see the bottom right, and you can see that orders have grown at 42% year on year to 4.8 million in FY23. And importantly, our conversion rate, which you can see below the bar lines has increased from 0.8% last year to 1.0% this year and this has been a big focus area.

In summary, we're really focused on finding and attracting the right type of customer. We're also really focused on improving the site experience to drive conversion. So, driving visits for the sake of visits is not the focus. And it's this strategy, which is now paying off, and you'll see it later that our marketing spend is come down significantly in quarter for our marketing spend is at 27.3% of NSV versus 30.1% for the same quarter last year.

Moving on to slide 32, our trailing 12 months customer. So, these are consumers who've transacted with us in the last 12 months has increased to 2.5 million by the end of Quarter 4, and this is a 39% year on year growth.

Fashion GMV grew from Rs 17.5 billion to Rs 25.7 billion, which is a 47% growth year on year.
and from a quarter perspective, it has grown 38% year on year, reaching a Q4 GMV of Rs 6.6 billion.

Finally, the chart at the bottom left shows a mix across women, men, home, and kids, and while we are predominantly focusing on women and men. I am excited by the fact that kids and home can be future opportunities that we tap into at the right time.

On the next slide. I talk about assortment. I really feel that assortment is at the heart of our business and providing curated and fashion forward merchandise is our right to win. We look at assortment in a couple of different buckets, and I'll walk you through that on this slide.

The first is the bucket on the top left, which is the popular brands that already exist in India and have strong customer recalls. So, these are your Puma, Biba, Marks & Spencer's, Forever New, and Adidas. Being a strong partner for these brands is extremely important for us and will always be a focus. But it's the next couple of buckets from which our differentiation arises. First, we'll talk about global store. This is our portfolio of international brands that we brought into India, often exclusively on our platform. It's been our largest focus area over the last 12 months and some key partnerships that we've had include revolve, which is, truly, one of the world's most leading fashion retailers. We integrate with their entire site. They are a retailer, so they have over 500 brands, and we're able to bring those 500 international brands to the Indian consumer.

Another big one is Alo Yoga. Today, one of the world's most popular athleisure brand which we've launched exclusively in the country. And then there's cider, which is again an exclusive launch that we've had, which is very popular Gen Z brand.

This whole offering is really resonating with the consumer and today the global store contributes 25% of our western wear sales.

Moving on in terms of differentiated offering. I'll talk about hidden gems. This is the property I've spoken to you about before. It includes emerging Indian designers and labels, and it's really sought after. And this is contributing 6% of the Nykaa fashion GMV is coming from this assortment, or 20% of the Indian wear assortment is coming from the hidden gem segment.

Next, we have first in fashion, which is really our new season focus. This is what brands love us for that we're able to sell their new season merchandise. And in Q4, 23% of our sales came from new season merchandise, which is a fantastic metric. It's much higher than what we saw last year. Later, I'll talk about some of the omnichannel technologies we built where we connect with brand stores, and this is allowing us to get new season merchandise in a very timely manner.

Finally, lastly, we have the luxury offering and the responsible offering. Smaller offerings, but again provide that sort of layering, and make our merchandise more interesting.

Moving on, a key focus for us over the last few years has been to incubate and grow our owned brand strategy. Our owned brands portfolio has been nurtured to occupy clear market and price positioning. And this slide here talks to about the brands that we've acquired, and then many that we have built internally.

As you can see, we have 13 owned brands today, and we're trying to go after category by category very systematically, price point after price point. And at the same time, we're really trying to build brand that has great customer love and connect. These are not private labels that we're trying to build.

In this year itself. We have launched 7 new brands, taking our count to 13.

Moving on. This whole private label portfolio, you can start to see some of the brands in terms of what they look like. And you know, the point I make here is, we have over 20,000 styles available across the brands, and every month we're launching 700 to 1,000 new styles, and I think it is very key ingredient of making like a fashion an interesting place and will be a very strong future moat for the business.

Moving on. In terms of how this portfolio is doing from a GMV perspective. Here you can see that the owned brands GMV stood at Rs 3.3 billion for this financial year. It's a141% year on year growth. It's something that I think we done a terrific job with. And in terms of share of business, these owned brands business is contributing 12.9% of the fashion overall GMV up from 7.8% last year. And if we look at this with penetration at an NSV perspective, it is even higher.

From the 13 brands the largest ones would be 20 Dresses and Nykd, which have crossed Rs 150 crores and Rs 85 crores run rates and are growing extremely well.

Like I said, these are not private labels, but really brands with, true customer connect, and we aim for them to have their own identity and to this end we retail on third party e-commerce platforms, and we also have offline distribution ambitions. In terms of offline, here you can see that we've added MBOs for 20 Dresses and RSVP. We're over 112 MBOs. Nykd by Nykaa has tremendous offline presence. This is our lingerie brand. We've over 900 points of sale in terms of general trade, and 4 EBOs and 7we're expanding this.

And overall, all of this third-party sale is contributing about 48% of that, you know, Rs 3.3 billion number. So the point we're really trying to make here is that these brands are really emerging well, and they do have traction far beyond just the Nykaa platforms. And I think that's a great sign of customer connect.

In terms of a quick new launch that we've done this quarter. I'm really excited about launching MIXT. This is a very Gen Z focused brand and on the next side I'll show you a quick glimpse of what the imagery looks like.

Moving on. You will here have a glimpse of what our offline presence is starting to look like for some of these owned brands. You can see the Nykd stores in the top left. You can see some of the MBOs on the right.

Move on. Here actually, I'm showing you what the multi brand format. So, this is not just private labels, but a multi brand format that we've been experimenting with. We've spoken to you about it last quarter and the quarter before. We've experimented with 4 stores this past year. They're ranging from 1,000 square feet to

5,000 square feet, with a mix of owned brands, but also a mix of curated, interesting third-party brands. The idea is to create a new age format where one can find differentiated, millennially focused fashion. At this point, though, the intent is to get the format to work and to hone in on the size and the product market fit before we expand further. And so, as in when we have more plans here, we'll update you.

So here just quickly, you know, we're always working on the operating model. So, we're developing global drop shift, integrating with physical stores within the country, we've invested in warehousing space. Our warehousing capacity in fashion has gone up 3.5 x. So, while we remain super marketplace focused for our third-party business, but as our own brands business becomes larger, we will be needing more space for that.

On these slides we just show you a quick glimpse of what we're doing from a technology point of view. So, whether that's personalization which the fashion platform is really embraced and it's a big part of our strategy going forward. Whether it's, you know, launching interesting customer features like being able to refund to wallet. A lot of innovation on the recommendation engine which drives a huge part of our business actually comes from this recommendation, which is what we recommend for the customer.

And on the next slide, you know the ability to have live commerce, building a property called editors picks, and then finally doing a bunch of events to engage with the customer and do right by the brands.

And so, with that I'll hand over to Falguni to take us through the SuperStore section.

**Falguni Nayar:** I think, on the SuperStore section just coming in on the size of the market. I think this is a chart that is being repeated here from earlier chat that we saw on the beauty side. I think the GT/MT market continues to be large at USD 12 billion. And as a result, we saw the need to come in on come in and have our offering there and it comes in form of SuperStore. This is a business we launch a couple of years ago, and like we said that we want to serve the underserved both in terms of brands, manufacturers as well as the retailers. And with that focus we've been building a very specialist distribution channel.

Speaking about our performance in quarter 4, like all of you can see here that our transacting retailer count has jumped to about 1.1 lakh retailers, which is almost 5.8 x jump from a year ago. The number of brands listed is also now at 190, and that's grown at 1.4 x. I think there is interest from more brands, but we are taking it slowly. We also have served the retailers in almost 700 cities, which is 2.3 x a year ago, and our order volume is at about 729 thousand orders, which, again, is grown almost 15.0x from a year ago.

We have been always believed that our technology footprint will allow us to succeed in the eB2B market, and very differently compared to most of the markets. So, we have invested in our technology and this technology investment comes in two three forms. One is, we have developed features which are very retailer centric like a one-click access to best price, because finally, for a retailer, best price matters first. Personalized recommendations for a retailer, again, very different from how the consumer will look at it. As well as the on the BDE, which are our feet on street, now we have ability to have even Lat and long check

in on the sales and delivery, and that allows us to really monitor our networks much better for their efficiency. These are just some examples in scaling technology and infrastructure. There are many more.
But this is just to give you guys a flavour of the kind of stuff that is going on with this. I would like to now hand over to Ganesh to take us to the next section on financials.

**P Ganesh:** Thank you, Falguni.

Good evening, everyone. I would like to take you through our Q4FY23 and full year FY23, financial update.

So as we can see in slide number 48, our revenue grew by 34% YoY during the quarter, and at 36% in FY23. Gross-profit grew by 35%, YoY, and 39% for FY23. Our gross margin was at 44.2% during the quarter and continue to be strong during the year at 44.3%.

We achieved an EBITDA of 5.4% during the quarter, and for the full year this number stood at 5.0%, and this also benefited from the operating cost leverage.

Our EBITDA grew by 84% during the quarter and by 57% for the full year.

Our PBT margin was at 0.7% in Q4FY23, and similar number for a FY23, and as Falguni mentioned the drop between the EBITDA and PBT margins on account of the investments, we are being making for the business. There was also an incremental impact of around Rs 23 crores on account of INDAS lease accounting, which will delve deeper in subsequent slides.

So going to the next slide, slide number 49. I would like to bring your focus on this slide in terms of operating expense as a percentage to revenue standing at 38.8% versus 39.7% in Q4FY22, which is an improvement of 93 basis points YoY. Clearly the regionalization of our fulfilment centres has enabled lower air freight and also rationalizing our marketing expenses. All of these have resulted in better leverage on this front.

Fulfilment expense as a percentage of revenue was at 7.9% during Q4FY23 vs 9.7% in Q4FY22, which is an improvement of 180 basis points YoY,

Similarly, marketing cost as a percentage of revenue was at 11.0% during the quarter versus 12.3%. during the same quarter last year, an improvement of 130 basis points YoY.

As again, as Falguni mentioned, while we have seen a slight increase in employee cost, as we did, hiring ahead of the curve to funnel the growth. I would also like to share is that employee cost was flat during the quarter on a sequential basis, on a QoQ basis.

Moving over to the next slide. Slide number 50. This slide will give you a better understanding of our EBITDA margin change YoY, and, as you can see, we have provided an EBITDA margin waterfall chart. Gross margins improved by 73 basis points led by a change in category mix and change in private label mix. Fulfilment cost improved and this has been through our regionalization strategy, and this has seen an improvement of 164 basis points YoY during the year. Marketing efficiency achieved through improved marketing spend strategy resulted in an improvement of 129 basis points. Selling and distribution costs increased, due to offline distribution of owned brands and expansion of our eB2B business and increased by 88 basis points YoY. Employee cost increased, due to investments into new initiatives and in investment into the tech function and increased by 92 basis points YoY in FY23. Other expenses increased due to investment in infrastructure and technology.

Going on to the next slide, slide number 51. This explains the waterfall from EBITDA margin to PBT margin which gives a lot more colour on the investments that we are making and its impact on depreciation, lease accounting, etc. While depreciation increased YoY on account of incremental capex on retails stores, warehouses, offices. Lease cost increased has been due to additional retail stores, warehouses, and offices as we ramp up infrastructure.

Interest on borrowings increased YoY on account of incremental borrowings to fulfil working capital requirements. And, as I mentioned a while earlier lease cost as per INDAS was higher by around Rs 23 crores for the full year versus the cash lease pay-out.

Going over to the next slide, slide number 52. Here we can see the vertical performance which gives you a good insight into the economics across businesses. As you can see, the disclosure here is at the contribution profit level, because many of the costs, for example, employee costs, etc. are used very dynamically across verticals, and it would be difficult to allocate these common costs on a quarter-to-quarter basis.

I would like to bring your focus on the bottom part of the table. The cost items are calculated on an NSV. basis ass the 3 business verticals become comparable in NSV terms.

So, looking at gross margin, BPC margin was at 46.8% during the quarter versus 44.1% in Q4FY22. Fashion gross margin was at 43.2% during the quarter, vs 47.1% in Q4FY22. Others gross margin was at 20.9% during the quarter versus 22.7% in the corresponding quarter last year.

We saw improvement in our fulfilment expenses. For BPC, it was at 7.4% versus 9.3% a year ago. For Fashion, it was 10.4% during the quarter versus 11.7% a year ago. For Others, it was at 10.2% versus 14.8% in Q4FY22. They have improved marketing expenses and, as you can see, for BPC, it was at 7.9% in Q4FY23 versus 8.7% in Q4FY22. In fashion, it was at 27.3% versus 30.1%, and Others stood at 8.9% versus 23.2% in Q4FY22.

We have been investing behind selling and distribution expenses. And, as you can see for BPC, it is today 3.3% versus 3.5% corresponding quarter last year. For Fashion, it stood at 2.9% verses 2.7% in Q4FY22, and for Others it was at 17.4% in Q4FY23 versus 19.5% in Q4FY22.

Contribution margins have overall expanded by 360 basis points. For BPC, it was a 28.1% versus 22.5% in Q4FY22. For Fashion, it was a 2.6%, and for Others it was at -15.6% versus -34.8% in Q4FY22.

Moving on to the next slide. Here we have the vertical performance for our business for the full year. And where again we have demonstrated improved contributions, despite investing in customer acquisition and incubation of new businesses, which are only deepening our mode.

Gross margins for FY23. BPC gross margin was at 46.4%. Fashion gross margin was at 44.2%, and Others gross margin was at 24.2% in FY23. Contribution margins have expanded by 280 basis points. BPC in FY23 was 26.5% versus 21.7% in FY22. For Fashion it was a 2.2% versus 2.8% in FY22, and for Others it was at -19.9% during the year versus -31.8% in FY22.

Moving to the next slide. Here we have the full profit and loss account statement and as you can see, our revenue grew 34% YoY to reach Rs 13,017 million in Q4FY23 and our EBITDA margins stood at 5.4% during the quarter versus 4.0% in Q4FY22. And our PBT stood at Rs 86 million in Q4FY23.

I believe we continue to improve our scale efficiencies in this current macro environment and with the online offline rebalancing panning out. And as is a major part of our investment across infrastructure and people.

Moving to the next slide, which is our balance sheet. As we can see, our inventory days have been stable. So also, our receivable days. And payable days when we look at it, I would like to also just point out over here that the trade payables and the other financial liabilities need to be read together to get a full picture of where the trade variables stay.

Moving on to the next slide, here you have a summary of the cash flow, and, as we can see, operating profits for the year Rs 284 crores. Working capital to support the increasing business went up by Rs 329 crores, led by inventory build-up for the upcoming sale events, as well as with the introduction of new warehouses during the year.

Capex for the year stood at Rs 208 crores, while investments in subsidiaries and associates was at Rs 70 crores. Cash and cash equivalence stood at Rs 41 crores of 31st March 2023.

Thank you, everyone for attending the Q4FY23 earnings call. I would now like to request Brinda to kindly initiate the Q&A session.

**Brinda Iyer:** Hi, everyone, please put in your Q&A questions in the Q&A box. We'll take about 2 minutes and then start the Q&A accordingly.

**Falguni Nayar:** I think. I had seen certain questions on physical retail. So, I just wanted to highlight that we give consolidated omnichannel numbers most of the year, and only at the end of the year, we give the mix in terms of what percentage of our turnover is contributed by retail. But I want to just share that as far as our retail business is concerned, it is able to cover all fully costs, like all of the costs that you can see that it now contributes almost 8.3% of our BPC GMV and it's been able to cover its full cost of the business. So, the stores have been profitable throughout the year on a fully costed basis which includes recovering the depreciation and interest costs also.

**Brinda Iyer:** Okay, we move on to the second question then. What is the expected growth in personal and other expenses in FY24.

**Falguni Nayar:** I think. we would not like to give very clear. I mean too much of a guidance towards where it will come out next year. But all I can say is that we were quite conscious about the fact that last year the employee costs kind of grew a lot and we tried to explain it by how these investments were made in area of technology, in sales and distribution network as well as our new businesses that we were supporting. However, since then we have taken cognizance of the fact that there was need to control these and the core employee growth in headcount has been brought down to as low as 4.0% in fourth quarter, and I think this will continue. This emphasis will continue next year also. So, we are being extremely prudent about our people cost in the core business. Of course, the retail and sales employee in the store roll out will happen. I think, even as far as the store roll out is concerned, we are being prudent and cautious about the store rollouts from this current level of stores that we have. I'm not saying we won't grow them. But the planned store roll out is also prudent, and I think, given all of that, we do feel that our people costs will be, under control in the coming year.

So, I think couple questions I have answered, I think, General expenses also, we think they were a little bit out of control, and they are being brought under control. But it's harder to explain that.

**Brinda Iyer:** So, the next question is, when do we start witnessing fixed operating capital leverage play out, resulting in higher PBT margins going forward?

**Falguni Nayar:** No, so like we said that we have been controlling all items of cost. So, first focus was on our fulfilment cost and you can see we brought it quite a bit under control. Second is, of course, we had to invest in warehouses to do that. So, of all our investment below the EBITDA line, 25% of that investment was towards warehouse, but we think that warehouse roll out is at the end of the cycle, and they should not be too much investment in warehouse, at least for next one and one and a half years. That is on the fulfilment side. So, I think that's where some amount of curtailment of cost will happen. I think from store perspective also, while we may roll out fair number of stores next year, but on a base of 145 that growth will be lower, and as a result again, you'll see some curtailment on that count. So, I think, from EBITDA to PBT line, it's this element of lease rentals and depreciation and amortization which we are definitely controlling. But we also see these as investments for the future. And, believe me, we are being very prudent about doing what is right for the business, and I think we do believe that these are right investment for the business as far as above EBITDA line is concerned. A lot of improvement had already come into fulfilment and marketing. The same focus of improving those will continue. However, there was some amount of lack of focus on employee and other expenses, and that you will see change this year, and we are hoping that these to turn green next in the coming year. I mean the rate of change turns green in the coming year.

**Brinda Iyer:** The next question is, what will be the key margin drivers from here on? Do we see double digit margin possible in the next 3 to 4 years.

**Falguni Nayar:** I'm assuming you mean EBITDA margin or are you talking about PBT margin. It's not very clear from the question probably.
I think, from EBITDA margin perspective. it is a mix of margin. I think that's why we give. We keep sharing information for our businesses both, beauty business enjoys very good EBITDA margin and fashion business that an investment phase, and as we feel that one of the important element of cost there is the marketing cost, and as the mix of new customer to repeat customer ration improves, marketing cost comes down. We've seen this in beauty business where over period as the repeat customer ratio improved; the marketing cost comes down so that would be driver of profitability improvement. In the Other businesses, in Nykaa Man it would be a similar thing playing out. Whereas SuperStore business, I think again, with scale would come improvement in marketing and sales and distribution cost.

So I think, in SuperStore businesses, more sales and distribution costs, and there, with increasing scale, you'll see improvement in that cost. So yes, there is possibility of better margins on the EBITDA level as the mix, as more and more of how growth businesses turn to maturity phase where the cost structure on marketing and others selling and distribution costs.

**Brinda Iyer:** Okay. Next question is, Fashion contribution margins continue to worsen year on year for full year, while similar for the quarter, despite higher scale. How do we get benefits of scale in this business?

**Falguni Nayar:** Please do remember that we all our businesses, like beauty and personal care, is a combination of beauty online, physical retail, which, like we showed now, is close to 8.3% obviously, e-commerce profitability is better than physical retail profitability. But we believe that right mix is needed. Because why should Nykaa customers, go into third party retail stores when they want to occasionally try out something like a foundation or a lipstick. So, in my mind, physical retail is a certain investment that we need to make, even if it is adverse on overall profitability. So, the optimum mix of online offline and duty is what we are chasing. Also, beauty is supported by private label which can grow faster, in which case, again, the profitability can improve.

Similarly, Fashion is also a mix of both Fashion.com, which is a platform level of profitability as well as private label brands, and, like you, saw in the conversation that Adwaita shared, we have invested in a lot of fashion brands in the last year, and many of these were essential to success of the platform itself, and these brands have all as they come off. They become like some of our old brands, like 20 dresses and Nykd, which are at a higher scale, they are profitable. But obviously, as you launch the new brands in the initial years (first year) you end up making more investment in getting the brand get off the ground. So, I think the Fashion margin also need to be seen considering a consolidated fashion business which has invested in lot of private labels. These, we believe, next year, private label business for Fashion will be kind of break even, and the platform business of Fashion also can break even anytime if you don't acquire new customer, but we want to continue to acquire a new customer, and, as far as the mix of new to repeat customer is 50:50, or 60% of our new customers being acquired, I think it is hard to bring down the marketing cost, and as the business becomes large enough where the new customer versus repeat customer ratio is better, which happens in third, fourth, and fifth year. Now, we are entering fourth year of Fashion. So, as that happens in fourth and fifth year of the business, we do feel you'll be able to bring down the marketing cost.

**Adwaita Nayar:** Yeah. And I think I'll just add to that that I feel like, you know, when we're building any new business, there's a year of sort of like peak loss, peak investment. I feel FY23 was that year for Fashion and the intent is, down the corner you are you coming down the hill from there. So, it was also sort of the peak year of investment and it is sort of the natural cycle of building a new business.

**Falguni Nayar:** I think, just to repeat what, because I saw one of the questions, and to repeat what Ganesh said. Just believe us when we say that a lot of our employee costs are for fixed platform, like on the technology side, as much as 68% of our employee cost is a fixed platform cost, and platform costs not one platform, but multiple platforms which are being shared by multiple businesses. And because of that nature we don't allocate our employees across the 3-4 business verticals, and there is a fair amount of employee costs across so finance and tech, and all which is a central cost. Now these can be allocated on some basis of revenue or NSV, which I think all of you can also do, because you have all the elements available there, and that is the reason why, we're going all the way up to contribution margin, which are all of the direct attributable cost, and we are not going below that in allocating the employee cost.

**Brinda Iyer:** Okay, next question is, FCF as well as OCF for the company continued to be negative, and net cash on balance sheet seems to be zero. How do we manage our cash requirement? Do we need to raise funds? I will direct it to you Ganesh.

**P Ganesh:** Yeah. So as far as the business is concerned, you would have seen that the beauty business is making significant amount of money at the same time, fashion business which is relatively newer, is still in investment phase and same thing holds good for the eB2B business as well, which is into its first year of business. So, in a sense we are looking at all these businesses, and the beauty business in a sense, is also helping fund the growth of the newer businesses. So, when you look at the overall cash position what you would see is that the operating profits have gone to fund the working capital increase. That's what you are seeing in the full year FY23. And what I would like to also say is that we manage our cash flows quite dynamically. We still have some amount of funding from the IPO, which will be get utilized over the next one year, and there are also banking lines which are available in terms of credit lines. So that's the way we look at the funding happening going forward. And what I would also like to add on this is that while there has been a good amount of increase which we are seeing in working capital as the scale increases, the working capital days would also start moderating, and that will also mean that the amount of funding which gets logged into working capital, we should see some moderation going forward.

**Brinda Iyer:** Okay. The next question is from Nihal. It is the fulfilment cost and marketing expense readjusted to current rents permanently. Also in marketing is the focus on performance marketing to drive conversion more efficient from an overall spend perspective.

**Falguni Nayar:** Yeah, I'll take that question. So, I think from a marketing perspective, we've been big believers in performance marketing. And I think about 80%-85% of our spends are on performance marketing. I just say 80-85%, because there are certain enablement costs which fall between performance and then also partly mainly towards performance marketing. So that's how it is. We do non-performance marketing is or you can say non-digital marketing is less than 10%-15% for Nykaa.

I think, on the fulfilment cost, we do believe that these are new fulfilment cost number, which are here to stay, and they we are very focused on really, there are big projects which are tech supported for improving giving certain serious advantages to our warehouses, and how they operate, and with that their productivity and everything of productivity as well as efficiency, would go up. And we do believe that these benefits will stay unless some huge inflationary pressures come on the courier networks.

So, we will continue to again emphasize that our warehouse network rollout is also almost complete, with the exception of one or two small warehouses, at least for next one-and-a-half-year period, so that also will not lead to additional hits below the EBITDA line.

**Brinda Iyer:** Next question is from Kapil Singh, can you talk about market conditions that you are observing in beauty and fashion. Is there any divergence in trends? I ask, because the NSV growth for fashion business has slowed down and lower than beauty business on a lower base. Do you still expect fashion to grow much faster over the next 2 to 3 years?

**Falguni Nayar:** Also, on the beauty side I don't know if Anchit wants to come in and talk about the global. Anchit, do you want to talk about the global, what we learned about how strong the beauty business is from global perspective.

**Falguni Nayar:** Yeah, just I just come in for a minute. The two are driven from different perspective. I think beauty currently is doing very well globally and we are seeing the benefits of that, and Anchit will talk more about it. On the fashion from near term perspective, the physical store network of domestic brand was very large, and as a result, as these domestic stores open, there was some adversity in growth. But we are continuing to build the international brands on our platform and again, there's a lot of interest and that will help with growth. But with that I hand over to Anchit and later to Adwaita.

**Anchit Nayar:** Yeah, thank you. So yeah, I think, if you look at it from our global brand partners. Their perspective on India is that it has clearly become a key priority market for them, especially after everything that happened in China, the kind of lockdowns that they faced in China, the kind of impact to their business they saw there. I think a lot of global partners are looking to diversify and de-risk from that market. India is a is a clear winner in that scenario. So, I think in terms of long-term strategic priority, India has emerged is probably top 2 or 3 priority markets for most global beauty companies. So that is, of course, a very good news for our players like us. I think, if you look at some of the data that's out there in terms of the last quarter Q4 with regards to BPC volumes that was slightly muted numbers that we have is around 11% volume growth for BPC online, but you know, we've obviously grown a lot faster than that as you can see from our results. We've outpaced the online BPC growth that is currently being seen by other competitors in this space. So, I think there was slight pressure on consumption of beauty in India and the short term in the past few months, because of inflation and certain price hikes that brands had passed on to the consumers. But we think we're beyond that, and we're past that now, and we do see consumption at quite healthy levels in the short term. But I think long term, the picture is still very, very bright. As I said, a lot of global focus on India as a market, and as I spoke about earlier, the per capita consumption is at some of the lowest levels in the world, and we are all seeing very early assigns that this is improving in a very meaningful way. So I think outlook over the next 12 months is positive. But yeah, there is some short-term pressure that we saw in the past quarter that the industry saw which didn't impact us too much, because obviously, our customers are more premium, we are on the slightly more premium end of the scale when it looks. When I look at our customer base and so we didn't feel that impact to the same extent.

**Adwaita Nayar:** Yeah, I think I can come in a little bit on fashion. So, I think a couple of thoughts and points of view on what's happening. So, I do feel that last year and the year before that was an amazing period for fashion given covid and given the fact that there was this insane digital uptick in penetration, and I do feel that fashion, like a fashion really benefited from that, and you grew extremely well for the prior 2 years. I think this year that we have just ended was working off, you know, more normalized world where we did see that demand was going back a bit offline and the growth that was so easy in the first 3 years didn't feel as easy in this past financial year. I think you also saw a bit of change in behaviour when it came to return. So, you saw during Covid there wasn't many returns at all. And then this passed financial year, the returns picked up as well. So that would be affecting NSV a little bit. I think a second philosophy I've sort of developed is that fashion is a massive market, and growth is not the challenge. One can grow very, very easily, and we have some, you know, competitors out there who've shown us the playbook on how that can be done.

However, I think there's a lot of bad noise in that type of growth, and it can lead to a lot of pressure when it comes to profitability. So, I think that this year has also been a year of immense learning when it comes to understanding what growth comes, at, what cost, and being able to kind of decipher, what growth of all that type of growth you could get, that you really want, which brings me to my sort of third thought in philosophy, which is that we've really warned in on deciding that at least for the next 6 months, 9 months, we want to get the right quality of traffic and the right quality of growth. So, you'll see us really focusing a lot on the shape of the brands that we're selling on the type of categories that we're selling, the type of customer that we're acquiring everything from saying, we want more women, the retention of women is looking for a lot stronger than a lot of other categories. We want xyz type of categories because their retention is better. We want these types of categories because their returns are better. So, you could say that we're entering a phase of really trying to shape the type of business that we get, because we think that, we'll then have the right unit economics in place, and from there it will be easier to scale up. So that's kind of how I would summarize that not really going off to growth at any cost, but just really wanting to shape the business in a way that helps us really get the right type of customer the right quality and not get distracted by high growth categories, but can have, lower retention in the long run, lower long term value in the long run, very bad return behaviour on the short term. Things like that.

**Brinda Iyer:** The next question is from Sheela Rathi, one for beauty, one for fashion. Any guidance on the number of stores for beauty in FY2024. And for fashion, are there any headwinds you are witnessing in the fashion business? Do we expect growth rates to pick up in financial year 2024.

**Falguni Nayar:** I think, on physical store, I'll answer the question. We don't plan to do more than 50 stores this year for the beauty business. So, it'll come off the base of 145 stores that we've ended the year at. And so that's one guidance I can give as far as fashion is concern like Adwaita just said, we are trying to pursue what we call as a right growth. And I think the fashion industry is very large, like, we always say that it's 5 times the size of the beauty market, and there are a lot of brands and a lot of categories where, the business is fraught with high returns and high cancellations as well as high cost of, for you know, like marketing costs are very high. So, I think what Nykaa is doing is trying to work on a basis that we build a business that is long term sustainable with the right cost structure, and within that, though mix of new and repeat customer ratio drives the marketing costs. So, till such time as you know, we're still like in terms of, you can see we started 4 years ago, but it's been 3 years of significant performance, in which case our ratio of new to repeat customer still is at 50:50, or in slightly higher for new customer on fashion.

I think on beauty also, I saw one question that are we acquiring enough customers. So, I just wanted to say that while we don't give out numbers of new customer acquisition for different segments, but we wanted to just say that in the year ended March 2023, we have actually acquired more customers in one year for beauty compared to the previous 2 years. So yes, we are accelerating our pace of customer acquisition.

**Brinda Iyer**: The next question is from Garima. Could you please give us an update on the Middle East business? What is the business? How much investment do you envisage and timelines of the ramp up.

**Falguni Nayar:** I think. what we were thinking is that like, we've announced that we have a JV, and we own 51% of the JV, and we are working towards a plan to roll out the business in the second half of this year. I think there should be some interesting more detailed information on this business that will emerge like as we do the planning. And as we are working towards implementation, so we are hoping that in our annual day later this quarter or very soon after that we will share more details of the GCC business. But it’s an excellent market, very large market, high per capita consumption of beauty, high per capita income, very concentrated market, physical retail will have a very large share to play, and as a result, we do believe that it can be a market where all investments pay off much faster than many other markets. So, we think, I mean, and when we talk to our global brand partners which Anchit talked about earlier, India and GCC tends to be their top priorities, and many of them are very keen to see Nykaa go into those markets and are supporting us in those markets. So, we do believe that with our strength in brand relationships, our strength in technology and digital marketing, and our partner strength and physical retail, getting the right location in those markets, knowing those markets geographically, we have a win-win partnership that can help us execute well. But more details will come through in the next one or two quarters.

**Brinda Iyer:** Our next question is from Karan. Can you comment on the forward outlook for growth for each of the segments. Will slowing inflation, help accelerate growth, as some other consumer companies have mentioned?

**Falguni Nayar:** Anchit do you want to take first for beauty?

**Anchit Nayar:** Yeah, sorry I didn't understand the question correctly. Can you just repeat that, please?

**Falguni Nayar:** Do you think the growth in beauty business will accelerate next year?

**Anchit Nayar:** So is that in relation to the inflation point, I didn't understand the connection.

**Falguni Nayar:** Yes, that is as the inflation slows down. I mean, was inflation taking away for the first two quarters.

**Anchit Nayar:** Understood, I think, as I mentioned earlier, there was some inflationary pressures, and I think that has been commented on by some of the other publicly listed FMCG companies. So, there was a bit of inflationary pressure last year, and some price hikes that were taken and passed along to the consumers. So, we do see that trailing off this year, and we think that it should be less of an issue for our consumers. It wasn't much of an issue for our premium consumers last year. It should become even less of an issue for this year. So, I think, yeah, we are quite optimistic that that should help to fuel the demand for both the online as well as the offline duty business.

**Falguni Nayar:** and Adwaita on the fashion side.

**Adwaita Nayar:** Yeah. So, I think you know, given our size and scale, the platform is not necessarily facing pressure in this regard. I think there's enough room for us to grow quite comfortably without feeling unnecessarily the trends of inflation either way. So, I think, the growth trajectory of fashion is a lot more dependent on the strategy we take in terms of how fast we want to grow and where and when we want to grow rather than external considerations. And if I had to just give a little bit of direction, I think if we look at a year-on-year basis that 47% GMV growth is definitely something we'd like to do again. And hopefully, with some improvements in NSV, so some somewhere around that is what we'd like to achieve. So, we're not giving up on growth at all. We're not saying there's going to be some super dramatic slowdown at all. It's more just this year it has become a lot about identifying the pockets. where one would like to grow.

**Falguni Nayar:** I think, if I may come in on the fashion side, I think there could be certain growth drivers through assortment or gaps that we may have in certain categories, like maybe our Denim's, or maybe T-shirts, or maybe Sarees, and there will be continued expansion of assortment in such a selective categories where we maybe lagging behind what we need to have. But we are also extremely conscious to continue having this differentiated premium positioning in the market. And we don't want to be cluttering a platform with a lot of low-price affordable brands, which may give us quick conversion, but we do believe that it won't allow the differentiation that we are keeping for the long term. So, we are not chasing the highest possible growth in fashion, but we are chasing the right growth that doesn't dilute what the platform has to offer in terms of uniqueness. In fact, I think many of you may have read certain research which was recently published. And what we want to do is for those certain segments of the customers which you know, like as always, try to approach customers from the top end of the consumption pyramid. For those you know, our fashion platform is differentiated and preferred platform, and that is the direction in which we are going, and Adwaita described all our strategies right here. So I think within this, in fact, we make an extra effort to make customers aware of new brands, aware of for the more differentiated offerings and through that build consumption on our platform, rather than try to build a revenue through going down the value change. So, I think we're very conscious to keep that appeal of the platform.

**Adwaita Nayar:** I think just to add that I see lot of questions coming through in terms of fashion growth. I think, just to add more lens to it. Really, the priority is to break through from this, you know, 2.2%-2.6% contribution margin that you guys have seen and some of you asked that it's been flat year on year. I want to get that to a stronger place in the next couple of quarters before bringing the focus back to growth. Because I think, being on this borderline kind of cusp, and that to us is non-negotiable right. Like our businesses must be contribution margin positive. So that's a non-negotiable but getting it to a much more comfortable place in terms of unit economics and cost structure before, again, further scaling up is the priority for all of us as teams. And so like, I said, shaping the business, renegotiating freight cost, fulfilment cost, working on a lot of these sub line items, lot of emphasis on marketing, bringing that efficiency, bringing S&D down so just systematically going after every line. Getting this contribution margin to a better place, and then scaling is probably what the next 12 months are going to look like.

**Brinda Iyer:** Thank you. The next question is from Anand Shah. Any guidance on capping of losses in Others vertical. Will it go lower in absolute terms from here on? Are you done with investments here? Any guidance here will be helpful.

**Falguni Nayar:** I think we have said that we are hoping that for fashion this was a year of Peak loss, and from here the fashion losses will be lower for the vertical, and that. And we also share this unit economics, just to show where that improvement will come and we feel most of the improvement will come on marketing line as well as some improvement, will come on the fulfilment expenses side. And, this is a consolidated number, like, I said, with the investment in new brands that we were launching is also built into this, and as that investment goes down again, you'll see some improvement here. So that's for the fashion. For the others businesses, it is a composition of number of businesses. As far as eB2B is concerned, we do believe that the losses will not go up too much, but they may go up slightly in the coming year, but it will be quite affordable from our overall earnings on EBITDA perspective. We are keeping an eye on that. And we are controlling our roll out eB2B in a manner that doesn't lead to swelling of costs. I think we do believe that eB2B is a strategically important business which will be very valuable in the long run, and it is something that we want to invest in, but very conscious of making sure that we do it right and like fashion, it will first focus on being contribution positive. And after that it will focus on achieving scale which will help us lower both the marketing and overheads of the business, but we are really controlling the overheads of the business quite tightly, and marketing expense in that business comes in form of selling and distribution expense. We've taken a call to serve through concentric circles of areas that we service from our warehouses rather than going national. National will lead to much higher cost, and through that we believe that we should be able to control our fulfilment costs in a way that we can make a difference to contribution profit for that business.

**Brinda Iyer:** The next question is on fulfilment from Avi Mehta. Would it be fair to expect per order BPC. fulfilment cost seen in Q4 at Rs 85 or so to be the new normal going forward on which we can see further productivity benefits?

**Falguni Nayar:** Anchit, do you want to answer that?

**Anchit Nayar:** Yeah. So, I think the question is, is the fulfilment cost on the BPC side sustainable? Is that correct?

**Falguni Nayar:** Yeah

**Brinda Iyer:** That's correct. yes

**Anchit Nayar:** Yeah, I think it is. I mean, you know, for us there has been some a lot of focus on optimizing and bringing efficiency into that process. As we spoke about earlier, we have regionalized our warehouse footprint, which has helped to reduce the fulfilment cost, a bit. There has been a capex investment on that front, but for from a fulfilment cost perspective, it's helped us reduce the cost per order, and so I think that benefit should accrue in the coming years as well. And I think there is more efficiency for us to drive within that cost bucket as we continue to focus on that as an area of cost initiative for the BPC business given our scale now.

**Brinda Iyer:** A follow-up question by when you expect the personalization ad-tech engine to be up and running, and when can we see the benefit in marketing support revenues in BPC?

**Anchit Nayar:** So, personalization. It has been launched on the platform and we are testing it and piloting it. I think one must remember that, personalization needs to be done in the right way, what I mean is that over personalization or hyper personalization too early on in India's consumption journey is also not the right move, because, you know, our whole goal is to increase the purchasing behaviour of our consumers and to expose them to new types of products and new categories, and thereby driving an increase in the average basket size, helping them to premiumise their purchases and also increase the frequency of purchase in in a year. Right? So, I think those remain the key objectives. And so, personalization needs to be done, keeping that in mind. And if you over personalize too early, then you are stifling the consumption journey that you need consumers on. So, I think, that is how we're looking at it. So, we can personalize, and we continue to improve and build out that capability. You will start to see benefits, I think, this year itself, but we will be doing it very cautiously. So, that is to address the personalization point.

**Falguni Nayar:** I think, if I may just add, you know, what is not coming out in our conversation is the kind of CRM and CLM focus we have now on and we have a lot of information about our customers in terms of what they're browsing, what they're doing in terms of activities on the on the website or the app, and many things like that. And all of those are being used towards individual personalized journeys and some examples, you can see here in terms of nudges for incomplete shopping or personalize replenishment nudges or if they have tried the sample, then giving them coupons to convert it to sales. So, a lot of these are being used throughout the CLM, CRM journeys, and we're seeing big benefits of that. So, if you see, last year we had a very strong growth in our repeat customer's revenues also. Some somebody asked the question that, are we relying too much on that at the cost of new customer? We don't see like that we see to the 2 different teams in our marketing, one working on new customer acquisition, and they have their own targets, and then the other is working on CRM, CLM journeys, and they take all of the current customers, and try to continue to make sure that they like Anchit said they buy more frequently. They buy larger amounts and all of those they were organic improvements in all of that, but we are also doing nudge improvements in all of that.

**Anchit Nayar:** Yeah, I think to address the second question on ad platform. So, to be clear, the ad platform is something which we are building to allow our brand partners who are the advertisers who advertise on our platform to be able to make real time changes and to see data on the performance of their assets on a more real-time basis. So, it's a lot more visibility to the brands which should help them to see better return on investment. Also, what it does is a combination of personalization, and ad tech allows us to actually increase the amount of advertising real estate which we're able to monetize. So, we are optimistic that that should play out nicely this year. So, we'll see. But a lot of work has already gone into and this is the year of realization of both.

Sunita Sachdev: This is Sunita Sachdev, we do have plenty of more questions here on the chat box as well as on the Q&A. But we are end for time, and therefore we promise to respond to each one of these to you. And if there are any more questions, please feel free to contact us. But with that we'd like to call the call to close. Falguni, would you like to have some closing remarks, please?

**Falguni Nayar:** Yeah, thank you very much. everyone. I think we've had a good engagement from several you all who've been on the platform, and just really, really happy to be able to come in and talk to all of you. And like, Sunita said, we really value your support and interest in the company, and feel free to get in touch with us so that we can, if we can be of any help, and you know, to clarify any further questions that you may have. But with that, thank you very much.

Adwaita Nayar: Thank you.