November 10, 2023

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: NYKAA

BSE Limited
Corporate Relationship Department,
2nd Floor, New Trading Wing,
Rotunda Building, P.J. Towers,
Dalal Street, Mumbai – 400 001

Scrip Code: 543384

Dear Sirs,

Sub: Transcript of the Conference Call for analyst/institutional investors for discussing Unaudited Standalone and Consolidated Financial Results for the quarter and half year ended September 30, 2023

Pursuant to Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Analyst / Investor Conference Call held on Monday, November 06, 2023 with regard to the Unaudited Standalone and Consolidated Financial Results for the quarter and half year ended September 30, 2023.

The said transcript has been uploaded on the Company's website at the following link:
Transcript – Analyst / Institutional Investors Conference Call – Q2 FY24 Results.

Kindly take the same on record.

Thanking You.

Yours faithfully,
For FSN E-Commerce Ventures Limited

SUJEET ROOPCHAND JAIN
Digitally signed by SUJEET ROOPCHAND JAIN
Date: 2023.11.10 12:56:39 +05'30'

Sujeet Jain
Chief Legal and Regulatory Officer,
Company Secretary & Compliance Officer
Mem. No.: F6144

Encl.: as above

FSNE: Q2FY24 Earnings Call Transcript

VIJIT JAIN: OK, thank you. Hi, good evening, everyone. This is Vijit Jain from Citi Research. Welcome to FSN E-commerce Ventures Limited Q2FY24 earnings call. From the management at Nykaa, we have

Ms. 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, Nykaa Fashion, and
Mr P Ganesh: Chief Financial Officer.

Before we start, we would like to point out that some of the statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. Kindly note that this call is meant for investors and analysts only. If there are any representatives from the media, they are requested to drop off this call immediately.

With that, I hand over to Falguni for her opening remarks. Over to you, Falguni.

FALGUNI NAYAR: Thank you, Vijit, thank you very much.

Good afternoon, everyone. It's a pleasure to be here again this quarter talking to all of you about the performance. I will begin with a short performance highlight. For the quarter 2 of financial year '24, we have seen a strong profitable growth. And as you can see in this very concise summary, you can see that our Net Sales Value has grown to Rs. 1,498 crores for the quarter, up 24% on a year-on-year basis. I also want to just point out that the revenue from operation, has come out at Rs. 1,507 crores, up 22% on a year-on-year basis. GMV, of course, has been at Rs. 2,943 crores, up 25% on a year-on-year basis.

I think it's an industry first, but we have decided to talk about NSV more regularly than GMV. For sake of comparison, we have given the GMV number here and sometimes in certain segments, it's more GMV comparison that becomes appropriate and we will be giving it. However, what matters to the market is revenue from operations and NSV. And hence, I think the focus will be on that.

As far as the gross profit is concerned, you can see that at Rs. 650 crores, it's a 16% growth year-on-year and the margins are at 43.1%. It can look that it is down to 221 basis point year-on-year, however, I want to point out that in a year ago period, our gross profit margin was highest ever with an aberration of about 100 basis point. And if we look if we were to look at this gross margin percentage on a quarter-on-quarter basis, it has been stable.

Coming to EBITDA, I think as you can all see, our growth journey continues. EBITDA has come out at Rs. 80.6 crores, which is a 32% year-on-year growth and EBITDA margin is at 5.4%, which is a 38 basis point improvement year-on-year. And we are really happy that all of the effort that the firm has put in place over the years, be it fulfilment cost control, be it controlling marketing costs, and in more recent times, controlling our employee costs, all of those have borne fruit and in later tables, you will see that we have been able to control our costs well where EBITDA continues to grow at a higher pace than our revenues.

On the PBT picture is similar, where the profit before tax as well as profit after tax have grown around 50% year on year with profit before tax at Rs. 13.3 crores and the profit after tax at Rs. 7.8 crores for the quarter.

Moving on, if we were to look at the components of our business, and I just want to point out that beauty and personal care includes our dot com business. It includes our physical retail business, as well as it includes our beauty house of brands that we have under our beauty business.

Similarly, on the fashion side, the business includes our fashion.com business. It includes our little bit of fashion pop-up business that we do on the beauty website. And finally, it includes a house of fashion brands.

And in the third bucket, which we call it others, but it should be a little bit more like a new business initiative, it consists of a number of businesses, which we've mentioned in the past. It consists of NykaaMan, eB2B platform, which is called the Superstore by Nykaa, international initiative, which are even today a little small and not meaningful today but going ahead, as you're aware, that this is going to grow. LBB, which was an acquisition that we had made, and Nudge, which is a subsidiary that we've set up. Nudge subsidiary is a wellness brand that has been set up about a year ago.

As far as beauty and personal care is concerned, you can see that the GMV grew at 23% on a year-on-year basis and if you were to look at two-year CAGR, it's at about 31%. And as far as NSV is concerned, the growth is similar, where NSV has grown at 19% on a year-on-year basis, but about 28% on a two-year CAGR basis.

Want to just remind everybody that this is a year where the festive season has got delayed by almost 20 days to little more than that. As a result, the second quarter was impacted with hardly any days of festivals coming into the second quarter and hence, at the margin, some amount of growth has got impacted, both at the NSV level as well as at the GMV level.

On the fashion side, I think you all may remember that compared to the Q11, which was quite subdued for fashion, we have been able to increase the growth momentum. The GMV for the quarter in fashion grew at 27% year-on-year. And the GMV came out at Rs 763 crores for the quarter. If you were to look at net sales value, the growth was 32% on a year-on-year basis. In fact, on a two-year CAGR basis, the NSV growth is 26%. So, there is an acceleration there. And again, the NSV stands at Rs 232 crores.

Moving on to the last bucket of others, just want to point out that our GMV growth has come out at 54% for quarter on a year-on-year basis. And if you were to look at two-year CAGR, it stands at 129% growth over two years. The picture on the NSV side is better, where the NSV has grown 105% on a year-on-year basis and the two-year CAGR is a 202%. In fact, this reflects some amount of improvement in shrinkages that were happening in our businesses earlier.

Moving on, I think we talked about how we have pursued diversification of TAM through entering new industries. We started with BPC, introduced fashion four years ago. Today, fashion accounts for almost 15.5% of our NSV contribution. And similarly, the Others category, which predominantly has eB2B platform, Superstore by Nykaa, is now contribute to about 6.6%. Though there are other businesses included in this, and as a result, this is not all of B2B business NSV. But we are really happy with how the diversification has been achieved.

Coming to BPC, the strong growth across key metrics continues. Looking at the composition of GMV, you can see that almost 79% of our GMV now comes from existing customers, which are the customers who existed on the platform before the year began and 21% comes from new customers that have been acquired during the year. The GMV for the quarter stands at strong Rs 2,000 crores.

NSV picture is similar at 28% CAGR over a two-year period. And NSV stands at Rs 1,168 crores for the quarter. Interesting to note that annual unique transacting customers has increased at 24% on a CAGR basis and now stands at 10.7 million customers. On the orders, we again delivered about 10 million orders in this quarter, which is a 28% two-year CAGR growth.

On the fashion side, in fact, you can see the picture that existing customers are contributing more and more to the fashion business GMV and today for this quarter, 46% of fashion business GMV came from existing customers, which were at the beginning of the year. And 54% of the businesses come from new customers. The GMV for fashion business was at Rs 763 crores for this quarter and that was about 35% CAGR over a two-year period. On the Net Sales Value, for this quarter, we delivered Rs 232 crores of Net Sales Value. Again, interesting to note that on an annual unique transacting customers, today, NykaaFashion.com has 2.8 million annual unique transacting customers and this is a 47% growth over a two-year period. On the orders, NykaaFashion.com did about 1.5 million orders this quarter, which is a 36% CAGR over a two-year period.

On eB2B, a significant progress has been made on path to profitability. From the GMV perspective over last one year, the growth has been almost 70% and the NSV growth is even better at almost 2.3x, which is a 130% growth over the base. On a transacting retailer basis, we saw a growth of 73% year on year, with now 1,30,000 retailers transacting on the platform and activation rate stands healthy at 66%. On the orders, this quarter saw 2,80,000 orders from this transacting base, which was a 62% growth year on year. And like we said in the past, we serve these retailers across 770 cities.

With that, I hand over to Anchit to take us through the beauty industry and how Nykaa has pioneered the beauty industry journey.

ANCHIT NAYAR: Yeah, thank you very much.

So moving to the first slide, just a quick update for those of you who may be new to this call. Just reminding everybody on what the opportunity is on the beauty and personal care side. I think the three major levers that are going to serve as strong tailwinds for our business are the following.
First is, a large part of the current BPC market is currently unorganized retail and that is going to continue to move towards organized with the online segment of the BPC market to grow the fastest over the next 5 to 10 years.

Second, India today has some of the lowest per capita spend on BPC in the world at about $15, that is set to grow to $50 over the next eight years.

The third major trend is the shift from personal care to beauty. We expect to see strong growth in beauty categories such as makeup, skincare, and fragrances.

Now, Nykaa's focus I think first and foremost, our focus is we see ourselves as category creators. And as a part of that responsibility, we have towards building the beauty ecosystem, that can be done in large part through education, experiences, and events.

Second, there is a strong focus from us on personalizing the discovery as well as curating the experience for our consumers on platform to ensure that we are doing the best possible art of retailing for the benefit of our customers.

Third is, Nykaa continues to be seen as a destination and partner of choice for the leading brands in the beauty space, both global and domestic.

And fourth, a very strong symbiotic winning partnership between us as the retailer and our brand partners, 3,600 plus brand partners who we work with and a large part of that is achieved through a very strong focus on what we refer to as the art of retailing to help our brand partners to build meaningful brand equity in the India market.

So what have we achieved so far. 79% of our revenue comes from existing customers. I think that is an indication of how sticky, loyal, and highly engaged Nykaa's consumers are.

Second, Nykaa's consumers spend close to $80 per annum on our platform. That compares to just $15, which is the average Indian consumer spend on BPC, so five times the industry average is the spend of our consumers.

Third, we today have over 21 million consumers who have shopped on the Nykaa beauty app. As I said, we work with 3,600 plus global and domestic brands. And we have today over 165 physical retail company owned and operated stores across 60 plus cities.

So, to my earlier point in terms of Nykaa's role in the ecosystem as a category creator, we just wrapped up the first edition of "Nykaaland", which was India's biggest and first beauty and lifestyle festival, which was held at the Mahalakshmi Racecourse in Mumbai. We had over 80 brands participating in the event, 800 plus influencers, makeup artists, and KOLs, and over 5,000 pieces of unique content were generated across the two-day festival.

Some of the new brands which launched at the festival include Urban Decay, which is an iconic cosmetic brand that is owned by the L'Oreal Group, which has launched for the first time in India exclusively with Nykaa and was launched at the Nykaaland event. Bath and Body Works, a global brand in the bath and body space also launched their most renowned collection of products with Nykaa at the Nykaaland event.

There were masterclasses hosted by makeup artists, hair stylists, and skin experts across the two days. These include some of the global icons, such as Mario Dedivanovic as well as local makeup artists, such as Namrata Soni. In terms of celebrities, we had Katrina Kaif, Janhvi Kapoor, Masaba, Kriti Sanon, and many more attend the two-day festival.

And most importantly, we were able to generate over 15,000 consumers who attended the event, which I think was quite a large number of consumers and it goes to show you the interest that exists in India for learning and experiencing beauty. This is just some imagery of the kind of content, which was created at the festival, highly experiential, highly education focused, and a very unique opportunity for consumers to experience some of the best global brands for the first time.

Next slide, please. This is just a short video to give you an example of the sheer scale of the event. As I said, biggest of its kind in India and possibly in the world, very unique concept, combination of brand experiences, master classes, yoga, lifestyle events, food and beverage, live entertainment as well. This is an event which we hope to continue to do over the years.

Moving on, in Q2 we also hosted our flagship Hot Pink Sale. As many of you know, we do two large flagship sales in the year, one in July and one in November. The July edition was a success this year. We saw 37% growth in omnichannel beauty GMV. Our reach was substantial, over 525 million, both through social media, as well as through influencers. This was the first time we innovated very meaningful gamification on the platform as well and over 2,00,000 users engaged with some of the gamification upgrades, which we had performed prior to launching the sale. Importantly, we also launched early access for our prive gold and platinum users. As many of you know, prive program is our loyalty program and our gold and platinum users are some of our most valuable consumers from an LTV perspective and they were given 24 hours early access to the sale, which proved to be a success with the consumers and is another mode for retaining and engaging with our highly loyal, sticky, repeat customer base.

Speaking a little bit about our physical retail business, as many of you know, today with 165 stores, we are one of the largest physical retailers for beauty as well, not just the largest online. Today, our offline physical retail business contributes roughly 8% of our beauty GMV. We have 1.6 lakh square feet of offline space, which is a 34% growth year over year. And we have roughly Rs 3,250 as our GMV per square foot per month, which is, we believe, best in class in the industry.

Next slide, please. So just doubling down on a point I made earlier, which is we continue to be the partner and destination of choice for international and domestic brands to launch in the India market. They see us as much more than just a retailer, but truly a marketing engine, as well as an influencer platform, and an all-around partner who can help them to build and create brand equity in the India market thanks to our specialization and 10 years of experience in this market. We do have a very good understanding and we have some of the most premium and highly engaged consumers of beauty in India today. Just two examples, we launched Redken, which is, again, a L'Oreal owned brand, professional haircare brand, very successful brand in Western markets. It has launched in India exclusively with Nykaa Online.

We also launched the brand Uriage which is a derma cosmetic brand owned by the Puig Group based out of Barcelona. This brand, again, very popular brand in Western markets, has launched exclusively with Nykaa. There were an additional 10,000 SKUs that were launched this quarter across 400 other brands on the platform. Some other brands which we also launched this quarter include Formula 10.0.6, Novology. Novology is a brand owned by HUL. Versed, and Juice Beauty, Natasha Moor, Lamel, Sugar Play and The Good Bug were brands that were also launched on the platform. Natasha Moor, a very popular makeup brand, launched exclusively, again, only on the Nykaa platform.

So, events and experiences, as I mentioned earlier, are crucial as we look to continue to grow awareness for beauty. We believe that awareness is a large barrier to consumption of beauty in the market and events and experiences such as the Nykaa Beauty Bar, which will help to overcome that current lack of awareness. This is an event which we do a few, maybe three or four every month across different cities. So far, we've hosted seven beauty bars across seven different cities. We had over 10,000 customers who registered for these events ass you can see from the video, a very diverse selection of consumers who attend these events. These events also allow us to create incredible content and the content we created from these events generated over 50 million in terms of cumulative impressions across channels. On the right are just a few more examples of some of the events which we conducted this quarter.

Next slide, please. So, Nykaa is the platform where trends in beauty are identified very early on before they become mainstream and one of those trends which we've seen emerge this quarter has been the trend of Korean beauty brands. As you can see on the left-hand side, these are search terms on the Nykaa platform and they are growing exponentially. So, the number of searches for Korean skincare, Glass Skin, are at 148% and 61%, respectively, showing that the Indian consumer, the Nykaa consumer is starting to gain a lot of interest in Korean beauty. As a result, to better serve our consumers and to stay ahead of the trends, Nykaa has launched a dedicated k-beauty store. We are creating dedicated Korean beauty content on site and hosting Korean beauty events. As a result, we have the largest selection of Korean beauty brands available in the market today. And we are the destination of choice for consumers looking for this particular set of brands.

I think this is a very interesting case study of how Nykaa continues to focus on building the category of beauty. One of the big challenges in India today for skincare consumers has been that Indian consumers don't actually follow a skincare routine. Indian skin is very unique compared to Western skin as it is very melanin rich and as a result, our requirements are very different from other markets. Our consumers told us that they were very confused by the sheer number of products which were available and did not understand what was the right assortment of products for them to use. As a result, Nykaa collaborated with over 100 dermatologists across India and we came up with the ideal regime, which is relevant for the Indian consumer in particular. This routine, we have called as the I-beauty. So, on the previous slide, I showed you K-beauty, which is Korean beauty, this is I-beauty, Indian beauty and it's India's daily skincare routine. It consists of four steps, CSMS - Cleanse, Serum, Moisturize, and Sunscreen. It is specifically tailored for the Indian skin and climatic conditions and this has been a great growth driver for certain categories within skincare. It has helped us to expand the basket. It has helped us to expand the frequency of purchase, as well as drive deeper penetration of skincare usage in the Indian market.

Next slide, please. For CSMS, we also did 360-degree awareness building for consumer education. We believe education will be the greatest driver of awareness. Once awareness is in place, that's when the consumption happens. So, as I had mentioned already, we partnered with influencers and KOLs to amplify our CSMS routine and to create more awareness for this program. We generated over 123 million impressions across Nykaa's own platforms as well as off platform, including across third party platforms like Google, and Facebook, YouTube, and Instagram. In terms of our brand partners and customer adoption, 60% plus of Nykaa's customers shop skin care on our platform and because of this new routine which we have created, CSMS, we have seen a 35% growth year over year in serum sales and 85% growth year over year in sunscreen sales.

Next slide, please. And with that, I'll hand the presentation over to Adwaita to take you through fashion.

ADWAITA NAYAR: Hi, everyone. I'm looking forward to talking about the fashion business today. So as a reminder, we've covered this in previous sessions as well, we do believe that, obviously, fashion is a massive market. We're incredibly excited about the opportunity. But I think what was incredibly important to us was that we carved out a bit of a niche and a differentiation for ourselves because it was a crowded market. And so, we've been very focused over the last four years in building a premium, differentiated, fashion forward platform which shifts the conversation away from discounting, and price, and modest style. We do believe that we have found product market fit and we do believe that the consumers and brands are appreciating us for our positioning. And so, on the right-hand side, we have a couple of metrics that we measure, which ensure that we're staying true to our positioning and those are things like the percentage of sales coming from new season collection, which stands at 26%, far, far higher than what our competition sees. We do see a really strong cohort developing. So, we're seeing very impressive repeat rates coming through. Today, 46% of our GMV is coming from existing customers and it reflects a very strong cohort. Next, we're seeing that the order conversion is increasing very dramatically and quickly on the platform. And so now the order conversion per unique visitor stands at 3%. And finally, in terms of the annual spend by the average customer, it's at about $110, which is 2-2.5x higher than what our competition sees. So, some of these metrics give us confidence that our differentiated positioning is definitely clicking and we're trying to stay true to that. So with that, we can move to the next slide.

In the past, we've spoken a lot about assortment. I think assortment is at the heart of all e-commerce companies and it's particularly important in fashion. Fashion platforms need to have a point of view. They need to stand for something. And so, our platform chooses to stand for great selection, great curation, very trendy fashion and so on that note, we've been aggressively onboarding brands. There are a couple of new properties that we've been building this quarter, which I'd like to talk about. So in the past, you might recall I've spoken about properties like hidden gems and global store. This quarter, we've added two more distinct properties that we're building on. The first is the Gen Z store, which you can see on the top right. So, this is basically just focusing on the younger consumer in a much more targeted way. Again, we're seeing very good traction of this new property that we've just launched. And the second right below that is what we're calling the Nykaa fashion Luxe store. So, this is the luxury brands, both in Indian wear and Western wear that we're trying to pull together in a very concentrated manner and we have about 150 brands that we’re pulling together in this regard. So, all of these are just different elements of assortment and curation that are coming together to make Nykaa Fashion and interesting and a distinct place to shop.

We can move on. So, all of you have obviously heard how beauty has this very big Hot Pink Sale, and we do these Pink Sales through the year. So, fashion has taken a call to align with beauty for these mega sales. And this past quarter, we held what was our largest sale till date, where we saw 18 million visits, 9 million unique visitors, and an order to visit conversion of 1.3%. All of these numbers, all the metrics that we saw on this sale were the highest we've had till date, which gives us confidence that we are cracking the sale playbook.

Moving on, so I think something, as we mentioned, that was very important to me was that we were differentiated, and we were truly adding value in what was a crowded and cluttered market. And so this time, we've pulled together some quotes that we've gotten from our brand partners in terms of how we differentiate ourselves. And so I'll read out a couple of those.

This first one up top here says “Nykaa has always been a preferred platform for Forever New, as it helps us increase our visibility to a target audience that Forever New caters to. It's because of great marketing collaterals we're able to reach the targeted and relevant audience, making it easier to provoke genuine interest in the audience.” So basically, the fact that we have this premium audience that is very serious about shopping is something that brands are liking about us. I think on the right hand side, you see a quote from Forever 21, another important brand partner of ours from the Aditya Birla Group, which says “Nykaa and Forever 21 have been working very closely to offer very trendy and quirky fashion to the consumers. The intent shown by Nykaa in promoting upcoming trends has been significant. And as a result, it has the highest contribution to fresh season sales for Forever 21 across all marketplaces.” So it is this sort of qualitative feedback that we're getting consistently from brand after brand which makes us feel that we are really becoming a preferred destination for brands and for consumers in this premium fashion forward segment. We can move on.

I think fashion has been doing a particularly good job over the last quarter on introducing personalization into our app. So, I think a lot of you know that fashion is the ultimate discovery problem. There are over 3 million styles that you need to help the customer discover and so personalization plays an incredibly important role. I feel really proud of the work that the team has done over the last quarter of bringing personalization into the app experience. So now, about 20% of people see a completely personalized home page. Where they will see widget spaces, their interests, what they've been exploring, what they've been buying. And we do believe that some of the conversion uptick that we've seen has come from this know personalization efforts, which is on the back of a lot of strong technology and data science behind the scenes.

Moving on, I think this is an important part of the presentation. Over the last couple of quarters, a lot of you are asking when fashion is going to see a meaningful uptake both in growth and profitability. And I do think this is the quarter where everything has lined up. And so we're feeling pretty good about the trajectory fashion is on and what we've delivered in Q2.

So starting with the left hand side, you can see that the order to unique visitor conversion has hit almost 3%, climbing really beautifully quarter on quarter, year on year. The middle chart here is the NSV. So you can see that the NSV has hit Rs. 232 crores this quarter. The growth has significantly come back.
It's a 32% year-on-year growth. It's a 1.6x over two years. And in other parts of the deck, you'll see that this is also on the back of improving profitability. So, I think this is the quarter where fashion has delivered both meaningful top line growth as well as improvements in P&L and profitability. So truly, been able to impact the top and bottom of the P&L.

And finally on the right-hand side, you can see on the right hand side, you can see that the contribution margin has climbed to 4.7% from 2.3% last year and 1.3% the year prior. And this is on the back of a whole bunch of efforts, which we'll cover some on the next slide.

So, I think this really talks about what's helping the P&L shape up nicely. On the top left-hand side, we can see that a lot of fashion is plagued by things like returns, RTOs, cancelations, discounts. We've done a lot of very targeted effort over the last two to three quarters to bring this down. So, from two years ago, our leakages are down significantly. So, it's about 0.8x of what they were two years ago, which is really creating a lot of goodness in the P&L. And it's leading to much higher NSVs versus GMVs than ever before. And so, you will see that in the P&L reflected from an NSV/GMV ratio point of view. And you'll also see it from the fact that NSV is growing faster than GMV.

On the right-hand side, I think the teams have done great work to finally see a breakthrough in marketing expenses. So, marketing expenses have come down from 28.4% last year to 24.9% and we're feeling confident about the trajectory. And as you all know that this is a very important line item in improving fashion's P&L going forward as well. There's a lot of meat here that will give us some leverage on a contribution margin line perspective going forward.

On the bottom, we talk about a couple of other shifts we've made to the business, which are shaping the P&L nicely. So, the first is premiumization. We have been focusing on attracting a more premium customer. And we have been doing that by one of the metrics that's reflecting that is the fact that the iOS share has gone up by 1.4x.

Next, you'll see that the existing customers coming back well. And so, you'll see that the business from the repeat customers going up from 13% to 46% over two years. And lastly and importantly, our own brands, which I'll talk about a bit later, are also growing very fast. They're growing faster than the platform. They're gaining share on the platform. And that's also helping both the profitability, as well as making Nykaa Fashion a more interesting place to shop.

Moving on, so just before I wrap up on fashion, I just wanted to close with the remark that I do feel that it has been a bit of a turning point in terms of fashion's journey. And the trajectory that we're on, it does give us confidence that we will be able to get to profitability in a nice, timely manner, as well as continue growing in a very strong manner as well. So, a lot of our experiments, a lot of our investments, and most importantly, our commitment to our positioning has been finally paying off. And we're quite pleased with the Q2 performance.

So, moving on, I'll be talking about Nykaa's house of brands, both across beauty and fashion. So, in prior sessions, we've spoken about how we have this intent of cultivating a beautiful bouquet of our own brands. These are not private labels, these are our own brands an many of these are now quite sizable and we really pour a lot of our heart and soul into building beautiful brands. We have 13 brands of our own on the beauty side and 16 of our own on the fashion side.

And on the next slide, we'll talk about the top line of the beauty side of our own brands business first. So you can see that the GMV has grown to Rs. 243 crores for the quarter that has just ended. And this contributes to about 12.2% of the overall BPC GMV. On the chart below, you can see that where this business is coming from. So, 56% of it is from sales on our own platform, 13% is what we sell in our own stores. But importantly, 31% of it is also what we sell in other third-party channels. So, we truly are trying to build brands that can stand on their own two feet.

So I think we'll double click on one beauty brand. So, one of the brands that we're really excited about is this beauty brand that we have with Katrina Kaif called Kay Beauty. It's actually India's first celebrity beauty brand and definitely one of the most successful. And on the bottom left, you can see how the top line has been growing. So, it has grown 4x in the last four years. And it has now crossed Rs. 150 crore annualized run rate. On the right-hand side, you can see that it's won several awards. It has over 300 points of sale. And again, it does do about 74% of its business on Nykaa platforms, but 26% is being sold via other channels.

Next, on fashion, so similarly, it's a newer business. But it is already about Rs. 100 crore per quarter GMV business. In terms of NSV, that's after discounts, returns, and so forth, it is a Rs. 45 crore business for the quarter 2. I think I want to draw your attention to this 19.2%, which is the fact that this business contributes almost 20% of the overall fashion NSV. So even though it's only 13.0% on GMV, it actually translates to 19.2% on NSV. And that's because our own brands actually show better behaviour in terms of lower returns, lower RTOs, lower cancelations. So, it's quite meaningful from an NSV point of view and if you actually look at it from a profit point of view, it's even more meaningful.

So, on both sides of the business, our owned brands are important to us, both from plugging consumer gaps but also from a profitability point of view.

We can move on. Yeah, so one brand here in particular we'll talk about is Nykd. We've spoken about this in the past. It's a brand that we're incredibly proud of. It's a lingerie brand. We started it three years ago. Today, it's a Rs. 140 crore annualized run rate brand. It does about 80% full price sales. It's not a discounted brand. It has over 1,000 points of sale. It's the number one bra in the bra category on Nykaa Fashion and it's a top three bra in one of the largest marketplaces in India. So, it is finding traction both inside Nykaa as well as outside Nykaa and we're quite proud of this trajectory.

Moving on, so Nykd has many points of sale. It has seven exclusive stores. We've started a franchise model as well, which is scaling up well. It does very well on Amazon. And we try to focus very much from a marketing point of view and truly from brand love via this brand, which you can see a little bit on the right bottom right hand side some of the collaborations we've done.

Moving on, so with that, that wraps up the owned brand section. And I'll hand back to Falguni to take us through the ESG section. Thanks.

FALGUNI NAYAR: Yeah, thank you very much, Adwaita. I think we are really happy to introduce this section in our presentation, where we're talking about how we are impacting the society at large.

Nykaa works with more than 6,700 brand partners today, both in beauty and fashion. Every upcoming brand in the country wants to be on Nykaa platform. I think the discovery and the kind of early-stage growth that the brands can get if they are built well is immense. We are not an open platform. We are a curated platform. So, in some ways, we look after our customers and don't allow wrong quality products to be sold on our platform. But at the same time, if the brand is good and delivers quality to the consumer, our platform is very open for brands to scale up and get recognized in the country. So, time and again, many of our brand partners tell us about the role Nykaa has played in enabling the beauty and fashion industry's growth in the country, where many D2C brands are able to reach the consumers in a very cost effective manner thanks to a platform like ours.

We also work with a number of influencers. More than 6,000 influencers are on our NAP program, where they could create content and put links directed to our websites and apps and that leads to a steady source of revenue for them. And this is also a way of contributing to the entire ecosystem.

Of course, we have more than 10,500 employees, about 3,500 on roles and others which are off role creating a large employment in the country, both in our warehouses as well as in our stores, as well as in what we call as beauty advisors that work in our various stores as well as in GT and MT.

On the supply side, we work with more than 7,000 suppliers who are supporting our ecosystem. Also, another interesting thing is we've enabled Nykaa pro users, these are makeup artists, and the beauty service providers who go into people's homes and provide services and these guys are registered users on our platform and they get special benefits, which are passed on by the brands to them. So really building an ecosystem that benefits everyone in the industry. More than 2,500 MSME vendors operate on our platform, again, helping create a robust economy in the country.

And finally, now with our B2B platform, we have more than 1.9 lakh registered retailers. I think in this world where everybody talked about how a physical retailer needs to be protected from e-commerce platforms. I think we have been very inclusive and taking our brand collection to retailers, who could then cater to the customers in their area. We do believe that this will only grow the ecosystem for beauty. And it will benefit all because we do believe that beauty consumption will grow in the country and it doesn't need to only go through one channel an the right optimum mix would be if beauty as well as fashion reaches its customers through multiple channels. And in each of our businesses, we are pursuing such multi-channel approach.

Moving on, I think, again, some amount of quality work that we do in this area. I think since for a long time, we've had two special collections highlighted on the platform. One is what is called “Conscious at Nykaa” educated customers on vegan brands, cruelty free brands, as well as clean brands, and provided this knowledge to our consumer for our entire catalogue on our website. Where they are able to select the right conscious brands on our platform. This has been an effort over the last two years we put in place.

On the fashion side, similarly, we've always highlighted "The Responsible Collection" and this also has more than 650 brands which are disclosing what they mean to the customer in terms of whether certified organic and a whole category of sustainable criteria that the customers like to choose from.

Moving on. I mean with our vision to protect our planet, we came up with a 10X10 Initiative, where we have said that over the next 10 years, we will move to reducing our usage of plastics and moving more onto recyclable materials and today, we are proud to present that almost 323 tonnes of plastic is being recycled in 2023, as well as 80% of our packaging is now sustainable packaging.

We've also introduced paperless picking, which obviously even in spite of increased order fulfilment capacity by improving picking process, but we've also achieved zero paper utilization in how we process our orders.

Moving on further. In terms of Nykaa Foundation focused on our CSR efforts. And our CSR is focused on empowerment. So, there are a couple of initiatives that have kind of achieved deep penetration in the last year and there'll be more that'll come. So first being that we now have a Nykaa chair at IIM Ahmedabad which is focused on consumer technology and the role that consumer technology, including digital marketing, plays in today's consumer brands. And this learning chair is focused on doing research as well as education on campus.

From a transforming lives perspective, we also have partnered with Labournet, where we are helping marginalized young women become skilled beauty professionals. And this also too is being done at scale. On the education front, we have partnered with Rangeet to launch an app based learning program called SEEK, which is benefiting more than 15,000 plus students. And also, very much focused on children's health through our collaboration with Anushka Foundation to enable the skilling of doctors in treating clubfoot.

Our values have always been the ones of sustainability, inclusivity, and community being part of our Nykaa's corporate identity. Be bold, but be good. Corporate governance is extremely important to us. Also be the customer's champion and believe that the customer is sitting at the table while they are negotiating with us. One Nykaa and a culture of belonging where every Nykaa belongs to the organization and sustainability in every action are our key values and philosophies.

Also, very diverse and inclusive workforce, 67% of our committees are chaired by women. 63% of Nykaa leadership is under the age of 40. 43% of our women employees in our workforce. 40% are women directors. And 33% of Nykaa leadership are women. So pretty much, a pretty strong inclusivity based on gender, as well as age at all the levels. And in terms of a mix, you can see that in terms of years of experience, in fact, the lesser number of years of experience we have, female population is better represented at 46%.

So, at entry, we are kind of almost taking near equal gender diversification. I agree that we all have to learn to retain women, especially as they go through their young roles in their family. And that's why you can see that this erodes to about 41%. But we are doing a lot of effort to change that and to improve that.
And pretty young organization, like you can see, almost 19% of our employees are under the age of 25. 36% in the age of 25 to 30. 27% in the age group of 30% to 35%. And just about 18% are over the age of 35 years. So, we are extremely proud of being a young organization and young talent getting to take critical decisions throughout the organization. And this data is for the on-roll employees, which are 3,216.

So, with that, I hand over to Ganesh to take us through our financial performance.

P GANESH: Thank you, Falguni. Good evening, everyone. Before we get into the financial performance for Q2, I'd like to highlight that this quarter has been impacted by the shift of festive season to Q3. However, in spite of the same, we have been able to drive strong growth across our business verticals.

So, with this, let's actually get into the financial performance. Next slide.

Yeah, as you can see, our revenue has grown strongly at 22% for the quarter. Our gross margins came in at 43.1%, which is in line with the long-term trend for gross margins. We achieved an EBITDA of 5.4%, which is an improvement of 38 basis points over the corresponding quarter the previous year. And our PBT margin was at 0.9% for the quarter, with PBT growing 51%. YoY.

So, in this slide, we have the One Nykaa income statement and as I mentioned earlier, gross margins were impacted during the year versus Q2 last year, but in line with the long-term trend because last year's Q2 numbers had a one-time aberration and came in higher than the normal trend. Also, what you would like to see is that the fulfilment expenses have been smartly improving quarter after quarter. And there's more than a 210-basis points improvement on the same. And this has been driven by regionalization strategy, with our expansion of warehouse locations and capacity in FY23. This has, in turn, resulted in lower air shipment ratio along with shift optimizations. All of this has resulted in a smart reduction in fulfilment expenses.

Our marketing expenses have been slightly higher. So also, other expenses, while selling expenses have been more or less in the same line. You would also see that employee costs have started moderating as we have indicated in the earlier quarters. And on a YOY basis, has about 85 basis points reduction. Overall, through scale efficiency and improvement in expenses control, we have been able to drive strong profitability and with EBITDA growing at 32% YOY and PAT growing at 50% YOY.

Moving ahead, so in this slide, you can actually see the EBITDA margin waterfall and what you can actually see over here is that as I mentioned, while gross margin has contracted on a YOY basis, marketing and other expenses expanding marginally, fulfilment expenses moving up is something which has actually helped us improve our profit margins. And selling and distribution expenses have also been slightly higher. So broadly, cost optimization and cost control has actually resulted in a strong uptake in terms of margins and profit margins coming in at good levels, and therefore, registering a high profit growth.

Moving ahead. So here we see the vertical performance. And as you can see, I would like to focus on the bottom part of the table, where we have put all the costs on a comparative basis and therefore, expressed as percentage of NSV. This is what will make all the businesses comparable. The key point to note over here is that there has been improvement in contribution margins in fashion as well as in Others business, while as far as the beauty and personal care business is concerned, this has already been at a healthy place. So, contribution margins in the fashion business has improved to 4.7% this quarter versus 2.3% in the corresponding quarter of the previous year and driven mainly by reduction in marketing expenses, which had been sticky for some time, but which is now starting to moderate. Similarly, the eB2B business, which is the major part of the others vertical, has also been consistently reducing the EBITDA losses with increase in scale.

So, with that I'd like to thank all of you for joining the call. And would like to request Vijit to initiate the Q&A session. Thank you.

VIJIT JAIN: Thank you, Ganesh. Thank you, everyone. I would now like to initiate the Q&A session. Anyone who has a question, please raise your hand, and limit yourself to two questions so we can accommodate as many as possible. Operator, can you please unmute Sachin Dixit?

SACHIN DIXIT: Yeah, Hi. This is Sachin from JM Financial. Congrats on hitting the ball out of the park completely on fashion. However, I just wanted to understand looking at how this business has trended, can we talk about EBITDA profitability now in terms of how soon can we achieve it?

ADWAITA NAYAR: So, yeah, I think we're not going to give an exact timeline. But it's definitely of course, on all our minds and we're working towards it every single quarter. So, what I can say is that every single quarter deliver better and better P&L line items. But we won't be able to talk about exactly when that breakeven will be coming through.

FALGUNI NAYAR: But I think main item that matters is basically the marketing expense, like all of you can see. And as that improves with a mix of new and existing customers improving with every passing quarter and with every passing year, we remain confident that should not be an issue. It's just a question of the timing on how many quarters it's going to happen is the only question that we don't want to commit to at the moment.

And as far as the overheads of these businesses are concerned, they're quite reasonable. I don't think we've shared. I think we've promised that by the end of the year, we'll start giving EBITDA for both beauty and fashion and we hope to live up to it and start disclosing that by the end of this year and you'll be able to see then that it's not so much the issue on overheads, but more about how quickly we can bring down the marketing costs. And it won't be magic that'll happen overnight. It just needs a lot of painstaking work, acquiring and retaining the right customers, but the benefits are sure to flow.

SACHIN DIXIT: I'm sure. On the beauty side, while we do understand that margins are not comparable to last year. But even with Q1, this seems like a 60 basis point dip in gross margin. What's happening there?

ANCHIT NAYAR: Yeah, so maybe I'll kick it off and then I'll hand it over to Ganesh. So look, what I can say is that last quarter, we had spoken about there was a little bit of softness in advertising revenues. But that has improved quarter over quarter. Sequentially, that has improved meaningfully, I would say.
It is still slightly below where it was exactly a year ago. But it has improved to almost being at a similar level. So, we're happy about the way that the ad income has come back. And in fact, going into the second half of the year, especially Q3, which is when a lot of brand partners choose to really market heavily and they tend to save a lot of their marketing budgets for the Q3 festive season, we are quite optimistic that that will recover nicely. So that's my comment on the gross margin for beauty.

What I would say is please remember that the BPC segment includes our owned brand’s business. It also includes our physical retail vertical, as well as dot com business. So, with that, Ganesh, maybe you'd want to explain the rest of the data.

P GANESH: I would also just like to add to what Anchit mentioned, just highlighting that on a quarter-to-quarter basis, there is actually a small improvement in gross margins from 45.2% to 45.4%

SACHIN DIXIT: I am seeing gross margin declining in beauty from 42.1% to 41.5%. I'm not sure if I'm missing something. Anyways, we can take this offline. Another question quickly, or more like a housekeeping question, I saw borrowings having gone up by almost Rs 260 crores. Can you explain the nature of the borrowings and why do we need them?

P GANESH: Yeah, so the borrowings have gone up in line with working capital requirements. And Q3 happens to be the largest quarter for us and in line with building up of inventory etc. for the peak quarter, working capital has gone up. And this is on the basis of established lines of credit that we have. So, it's purely working capital.

SACHIN DIXIT: Sure, thanks. Thank you for that. Bye.

VIJIT JAIN: Thank you, operator, can we please take Kapil Singh next?

KAPIL SINGH: Yeah, hi, good evening. Just wanted your comments on a couple of points mentioned in the press release. So, we've talked about discounting BPC category increasing due to proliferation of number of homegrown brands and increasing number of international brands as well. So just, if you could, talk us through what exactly are you trying to communicate here in terms of the external environment and what does that mean for that for Nykaa?

FALGUNI NAYAR: Sorry, first, I think some reporting has been wrong about, it's not discounting by Nykaa. It is an additional discount that are being given by the brands that operate on our platform. There has been a little bit more of a competitive landscape, both from D2C brands as well as international brands that are coming into the country and in terms of each of the brands trying to hold on to their market share, they are sometimes doing little extra discounting, especially in the second quarter. So, it was more comparison of difference between GMV and the NSV growth that we were trying to explain.

KAPIL SINGH: OK, sure but as far as competitive intensity is concerned, are we observing any change there? Or it is pretty much under control?

FALGUNI NAYAR: It's pretty much under control. No change there.

ANCHIT NAYAR: I think I'm sorry if maybe that came across as confusing in the press release. I think the only point we were trying to make is that the environment for brands is becoming more competitive because of the brand proliferation that's happening, as well as I think because it was a soft Q1 for the consumer brands as well, especially for them, I think there was an effort by them to drive more top line through discounting and that was the limited point we were trying to make. As it’s not retailer funded discounting, and it is not a reflection on the competitive environment for us as a retailer.

KAPIL SINGH: Great. Second, we've also mentioned that we lost around 20 days of festive season during this quarter. So, any estimate of how much revenue we would have lost or whether the growth in the third quarter can be much higher compared to the second quarter because we'll have higher number of festive days falling in the third quarter this time?

FALGUNI NAYAR: I think difficult to, I mean, we wouldn't like to indulge in forward looking statements. So unfortunately, we can't talk about that. But you can safely assume that if the festive season is shifted, it should probably lead to some bump up in growth in the third quarter. As far as the second quarter is concerned, I think, again, it varies depending on certain number of days. But theoretically, one can assume that it would have taken off at least 200, 300 basis points of growth from a retailer. But it can be varied depending on whether beauty or fashion or some different subsegments.

P GANESH: And just to add, there is no loss of sales per se because it's actually shift of the festive period from quarter 2 to quarter 3. So, it's more of a shift, not really a loss.

FALGUNI NAYAR: It's more a year-on-year comparison that become difficult because in the previous period, there was festive. And this period, there was no festive.

KAPIL SINGH: Sure, sure, understand that. Thank you.

VIJIT JAIN: Thank you. The next question is from Nihal Jham. Nihal, please also introduce yourself before asking a question. Thank you.

NIHAL: Hi, good evening, am I audible?

FALGUNI NAYAR: Yes.

NIHAL JHAM: Yes, good evening, this is Nihal Jham from Nuvama. My first question was you did mention about the increased competitive intensity where brands are obviously increasing the discounting for the BPC segment. So, did that not lead to maybe potentially higher advertising spends on your platform because maybe that's another way of targeting the increased competitive intensity? And ideally, it is a tailwind if there are more brands proliferating?

ANCHIT NAYAR: Yeah, so we've always said that brand proliferation is a good thing for a retailer like ourselves and having that competitive intensity between global, local, D2C, FMCG, that is a good thing for a retailer in the long run. So yes, to your point, it is beneficial to a retailer like ourselves from an advertising income perspective. And, as I mentioned, qualitatively as we mentioned, because we don't disclose the number, but there was an improvement in Q2 versus Q1 when we look at our advertising income, which we received from brand partners.

NIHAL JHAM: Any specific reason maybe they chose to discount more than advertised? Any trends that may be happening that you want to highlight on that?

FALGUNI NAYAR: I think these are very complicated questions and they vary by brand. But I think coming on back of a slower quarter, the previous quarter, the first quarter was generally slow for the industry. So, it's very difficult to predict. But yes, I think all you can see is interpret the number.

ANCHIT NAYAR: Yeah, I think it's different, as I said it's different for different brands. Some brands have taken a price increase, which they've obviously pulled back. Others have not pulled back the price increase yet. So, they're able to provide more discount. For some brands, they feel that discount gets immediate sales whereas advertising, the benefit of advertising is slightly more longer term. Each brand has their own objectives. And as we said, because Q1 was so soft for the industry, and even Q2 hasn't been great for the broader industry, there's probably a little bit of near-term objectives that some brands are trying to achieve. But it's too difficult to paint all brands with a single brush stroke.

NIHAL JHAM: Sure, Anchit. Point taken. My second question was on the fashion bit. It's good to see the kind of a growth turnaround, especially in the order side that fashion has seen. At least from the numbers we see, the sales and marketing spends have not moved too much. If you could just highlight what are the specific steps that you've taken that has led to this growth revival, especially after two quarters of growth, I think was single digit in terms of growth in the order side of it?

FALGUNI NAYAR: Adwaita, will you take this?

ADWAITA NAYAR: Yeah, I'll take it. So your question is, what's causing the growth really, right?

NIHAL JHAM: Very much.

ADWAITA NAYAR: Yeah, so I think in terms of what's causing the growth there's a whole bunch of strategies at play. First, obviously, I'm a big believer that everything begins with assortment and we've just been continuously adding to our assortment, strengthening a lot of our unique propositions. I keep hopping on these propositions we're building, like global store, hidden gems, our private labels.

But truly, and now we see it in what people are searching for on the website, it's these unique propositions that are making the platform an interesting place to shop and people are coming there for that. There have been also a lot of mainstream national brands that we've been collaborating with a lot more closely. So that's another level. So yeah, I would say one full bucket is just better assortment.

I'd say a second bucket is very focused product level features to improve conversion, whether that's improving the checkout funnel, the payments, whether it's the personalization I was talking about, whether it's differentiated product strategy on web versus app, just meticulously, line by line, going after every opportunity we see on conversion rate. And then finally, there's a whole lot of good work that we've been doing on marketing. So just working as a very close-knit team on delivering really end-to-end marketing. So, everything from getting new customers or new customer acquisition is back in a very strong way to going out and getting the repeat customers back. Our CRM team, our retention teams are doing some really good work on targeting and bringing back different cohorts of customers in a very focused way. So, I wisht I could say it's one thing. But it's really not. It's probably five or six different things spread across assortment, marketing, and product tech that are coming together. I will also say like more thematically we've decided to focus a little bit more on women and we decided to just lean in a little bit more into our proposition and do that with confidence. So those are two more qualitative inputs that we've been focusing on and we see that that's paying off. We do think premium women's wear is our right to win. And we've kind of been refocusing on that. So even if you were to look at our share of women's business, that's been going up. Our share of premium business, that's been going up. Our iOS share, that's been going up. So just shaping the business a little bit more.

NIHAL JHAM: This is helpful. Thank you so much.

ADWAITA NAYAR: Thank you.

VIJIT JAIN: Thank you. We'll take the next question from Abhisek Banerjee. Abhisek, please introduce yourself before asking a question. Thank you.

ABHISEK BANERJEE: Hi this is Abhishek from ICICI Securities. My question to Adwaita. So, in terms of the improvement in contribution margin, and you've actually mentioned that there are some leakages you have plugged, could you give us some more insight into exactly what that means? And also in terms of your spending decreasing on existing users, may I just know how do you define an existing user , as in till what time frame they must have ordered in the past in order to qualify as an existing user?

ADWAITA NAYAR: So yeah, I think in terms of the reducing of leakages, taking your first question, I'd say there are two distinct legs to this answer. The first is that we've actually worked on reducing things like RTOs. That's the deliveries that could not be delivered to the customer. And we've worked on reducing things like returns. And we've done that again through a lot of micro efforts. So, for example, blacklisting customers who are very bad behaviour or blocking certain pin codes which show very bad behaviour. We started introducing some charges at the cart level, which dissuade some of this bad behaviour. So, there's been a lot of just identifying unique kind of use cases on how we can change some of this behaviour. We're working a lot more closely with courier partners, seeing how we can do a better job to work with them to increase some of these metrics. That's what we've been doing on one leg.

And I'd say the other leg, and this goes back to my prior question, is you can sometimes pick the right categories which show better behaviour. So again, womenswear is a category that shows better behaviour from a leakage point of view than, let's say, men's footwear. So, there are certain choices we're making from a category mix perspective, which is also allowing us to deliver better NSV. And so yeah, I would say both those things. One is category shaping. But the other is also very discrete efforts that we're making line by line to plug any kind of anything that's controllable from a leakage point of view, we're trying to attack and reduce. And I didn't actually follow your second question.

ABHISEK BANERJEE: So, in terms of marketing expenses coming down as a proportion of NSV, you said that it is because your existing users, or old users are buying more, which is why it is coming down. So, I just want to know how you classify an old user. As in how many times must they have purchased in the past?

FALGUNI NAYAR: No, no sorry, can I just comment on this? I think for us, the definition of existing customer is someone who was before this financial year started and that number is at 46%.

Actually, there is a repeat user customer definition, which is when a customer has bought the second time.

I think that what happens is if you acquired a customer in the year, many of them may have bought the second time. But I think we have chosen over the years to disclose the repeat customers in this manner, where we call them existing customers. Means that they were on the platform before the year began, the financial year began.

ABHISEK BANERJEE: Understood. Just one last question for Anchit. So, you've actually mentioned the rupees per square feet in your offline stores. So, could you give us some guidance of, say, what is the number for stores that are older stores viz a viz the newer stores? So that we have some idea of where this number can go up to, GMV per square feet.

ANCHIT NAYAR: So, I don't know if we disclose it. So, I don't want to get into that right now, maybe we can just talk slightly more qualitatively. What we can say is generally, as a store tends to mature, the productivity improves and increases. So older cohort of stores tend to have better productivity.

Of course, there's many variables like sometimes if the location is wrong or it's a high street versus a mall. So, I think there's a lot of variables. But generally, we do see that the longer the store has been around, the better the productivity. And we continuously churn and update the brand mix in the store to ensure that we're maximizing the productivity in the store. Footfalls as the store matures and the local catchment is aware that the store is in the mall or on the high street, then there tends to be higher productivity as well. So, I think various factors, but what we can say is as the stores mature, we do tend to see better productivity. I don't know, Ganesh, if there's anything you'd like to add.

P GANESH: Yeah, I think he has summarized it well. And again, in terms of a breakdown between older stores, newer stores, etc., that’s not something we are given in the public domain, as Anchit explained. By and large, as the stores mature, this is a number which tends to go up.

ABHISEK BANERJEE: Understood.

VIJIT JAIN: Thank you. I'll just take in jump in with a question of my own, if that's OK. My question is just staying on the beauty side, I understood your comment that the Ads have recovered somewhat QoQ but still remain weak on a YOY basis. But if I take those numbers into account, it does look like the e-commerce business gross margins, stripping out ads, is also somewhat weaker on a QOQ basis, YOY basis. So just trying to understand if that's because owned brand mix is more or less stable, or is there something to do with the sale event that you launched this quarter? Thank you.

FALGUNI NAYAR: I think, yeah, I think all I can say is that owned brands, they do little more discounting like we told you that between GMV and NSV, the discount for most of the brands had gone up in that quarter. And to that extent, our own brands also probably had to participate in slightly higher discounting than they would have done in the past. And there is some amount of factor. But it doesn't move the needle in a very meaningful way. So, it's a lot of small things. All we can say is that, urge you to say treat it like an aberration rather than a huge trend or anything.

VIJIT JAIN: Got it. The next question is from Sheela. Sheela, please unmute yourself and introduce yourself before asking. Thank you. Operator, can we unmute Sheela, please?

SHEELA RATHI: Yeah, hi, thanks for taking my questions. Adwaita, my first question was to you. Would it be fair to say that the worst is behind us with respect to the fashion business from a growth perspective and as well as in terms of operational metrics point of view?

ADWAITA NAYAR: I think the way I would frame it is I think the peak loss is definitely behind us and I think that the P&L is just going to improve from here both from percentage of NSV point of view, the contribution margin is just going to keep increasing, as well as from an absolute loss of last year versus going forward, that number is also going to keep decreasing. So, I feel like I said this in a prior call. I think in building any new business, there's a year of peak loss. And I think that year is behind us. And from here, the loss will keep going down. I do also feel that some of the challenges we faced in Q4 and Q1, the last two quarters, were pretty unique from a growth point of view. So, we don't see that coming back. I do find that Q2, Q3, and onwards, both the growth as well as the profitability will be moving in the right direction. But yeah, I think as you guys have probably figured out by now, we have a lot of discipline in terms of not growing if we're not seeing the right unit economics or the cost structure stacking up. So yes, for Q2 and from what I can see right now, everything is stacking up well. So, the growth can be continued but we will always bring that discipline of just making sure that our unit economics are constantly improving and moving in the right direction. So, I think what I'm trying to say is the growth you're seeing now is the growth we want to keep steady at. We want to keep growing at this level and we feel like at this level of growth, we will also be able to keep improving our unit economics, and our contribution margin line quarter on quarter.

ANCHIT NAYAR: Yeah, I think if I could just add to what Adwaita's saying, I think to phrase it as the worst behind us is probably not correct because the reality is that you have to invest in a new business and the biggest unlock is on marketing ads. As the repeat versus new mix, as that evolves, and as existing and repeat customers start to account for a larger share of GMV, then the marketing spend as a percent of sales will start to trend downwards, which will obviously reflect well on the profitability.

But I think any business has to first build that base of repeat and existing customers and to build that base, you have to acquire the customer and customer acquisition is going to cost money regardless and especially so in a competitive business like fashion.

SHEELA RATHI: Thanks, Anchit, and thanks, Adwaita. And that brings me to my second question. We have seen improvement on the GMV contribution with respect to the fashion business now at 46%. Obviously on the beauty business it's much higher, but from your perspective and also what we see at the industry level, from that lens, what do you think is a sustainable level with respect to the GMV contribution coming from existing customers?

ADWAITA NAYAR: I honestly think that is year on year, it keeps climbing. I think what that eventual number sort of stabilizes at, differs from every market to every market, depending on where that particular business is in terms of their journey. But I think more directionally what I can just say is that I think every year, you'll see this percentage coming from existing buyers increasing. But it's not like next year we're going to jump to where beauty is. But it'll just keep increasing sequentially every quarter.

ANCHIT NAYAR: The way we look at it is, it's not about we're not trying to solve for a mix. I think we have very clear goals in terms of what should be the growth in new customer acquisition and what should be the growth in repeat customer and we try to maximize both. And wherever the mix shakes out it, shakes out now. Naturally, beauty as a business has been around for 10 years. So, they've had 10 years of customer acquisition that has allowed us to build a very large base of existing users. And in fact, I would say that if you see a business that's been around for 10 years but has a low share of repeat or existing customers, that to me, is indicative that they're not doing a good job at customer retention. And customer retention is an output of the kind of customer experience that you're able to deliver. So, I think better the customer experience, better the retention, higher the share of existing customers. And that's kind of how we look at it. That being said, new customer acquisition is an investment for the future and has to be done and therefore, we look at the two very separately and we invest in both and try to drive growth in both pockets.

SHEELA RATHI: Fair enough. Just if you would give us some ideas in terms of where the industry would be on this number?

FALGUNI NAYAR: It's very difficult to comment. Each platform will be different and it all depends on the pace of growth also. I think it also depends on the quality of growth in the past. If you have periods of very poor-quality customer acquisition, then you would have difficulty having good cohort.

SHEELA RATHI: Understood. And my final question was very bookkeeping related question. But in the fashion business, the NSV growth is higher than the GMV growth. The gap is about five percentage points. What could be the reason?

ADWAITA NAYAR: Yeah, I think I tried to allude to this. But it's all the efforts on reducing the leakages. So, when you're able to reduce your returns, RTOs, cancelations, and so forth, then your NSV looks better. So, because this quarter versus a year ago, a lot of those leakages are looking far better, you'll see that the NSV on a year-on-year basis is growing better than what the GMV is growing at. I think you've understood, yeah.

VIJIT JAIN: Thank you. We'll take the next question from Aditya Chandrasekar. Aditya, please introduce yourself before asking your question. Thank you.

ADITYA CHANDRASEKAR: Hi this is Aditya from UBS. Just a kind of follow-up question on the marketing spends on the fashion side. So obviously, it's come down sharply because your repeat customers have increased. Just wanted to get a sense of as the share of repeat customers kind of, or share of existing customers keeps inching up and maybe heads closer and closer to where beauty is, where can we see this kind of 25% of NSV go down to? Do you have some kind of target in mind for the medium term? Just wanted to get a sense because structurally, it would be higher than beauty, I'm assuming. But what kind of a number you are kind of targeting, that would be helpful.

ADWAITA NAYAR: There's no explicit number that's in our head, obviously, every quarter we just want to do as well as possible. We set sort of three months, six-month kind of targets. We keep gunning for those. But we do feel that there's significant headroom to bring this down significantly. So, if you see this number for beauty, it's so very low at the moment.

So, I think between where beauty is today, and where fashion is today, there's so much room for us to continue optimizing. We see a lot of low hanging fruit. We think that this number is not only related to the repeat existing mix. Of course, that's one big element. But there's a lot of other optimizations that we continue to do which can bring this down significantly. So again, I can't give you an exact number and by what quarter. But what I can say is that the goal is to, every quarter, bring this down in a meaningful manner. And there's a lot of room. And there's a lot of flex on this number. And most of the contribution margin expansion will come from this number going down.

ADITYA CHANDRASEKAR: Thank you.

VIJIT JAIN: Hi, can we take the next question from Latika Chopra? Latika, please unmute yourself. Go ahead.

LATIKA CHOPRA: Yeah, hi, thanks for the opportunity. First of all, congratulations. It's very encouraging to see so many efforts to scale up both beauty and fashion portfolio from a consumer lens. My question was on contribution margins for the beauty and personal care business. It's hovering at pretty healthy levels of 26, 27 odd percent. Just wanted to understand, how should we think about progression of these contribution margins over the next two to three years? Can they reach, in your view, a high 20s level? And the question is the context that I guess you will need investments behind your owned brands and also on the offline stores. So how should we think about how this number is going to move and what will drive that? Thank you.

FALGUNI NAYAR: Sorry, you are asking for the number for fashion? Is that what you're asking?

LATIKA CHOPRA: For beauty and personal care. The contribution margins are hovering at about 26.5%. These are good levels. But just trying to understand, should we see scope for further improvement here considering that you have to make investments behind scaling up your owned brands and behind the offline stores?

FALGUNI NAYAR: I think there is a certain amount of offline store growth already built into our current numbers. Because if you remember, we've reaccelerated the offline stores, It's built into our financial numbers because we accelerate the offline store count after the COVID. However, it is not above the contribution line. So actually, our store expenses, if I'm not mistaken, come below the contribution line.

LATIKA CHOPRA: Sure.

FALGUNI NAYAR: And so that's one thing I wanted to point out. And secondly, we also have a fairly large critical mass of our owned brands, where again, while we don't think invest in our brands in a way that can lead to large investment, we kind of earn and then invest in the brands. I don't know whether right or wrong approach, but that's the one we follow. So, it's more measured. However, it can go up. I think marketing expense to a certain extent or towards brand building as well as some amount of brand building expense for our BPC brands, I mean, beauty as well as fashion brands can go up in future if we see conducive environment.

LATIKA CHOPRA: All right, so Falguni, does it mean that we should, for the time being, assume that contribution margins are going to hover in this 26%, 27% zone? And it's going to be a more gradual expansion from these levels for BPC.

FALGUNI NAYAR: See the point is you always seen us that we will try to deliver the best margin possible. So, I don't want you to tell me to not try to improve those. So, what can I say? I don't want to promise that I won't improve it. But yes, you can assume. It's been a huge effort to tighten the fulfilment costs. And a lot of benefit of that, you've already seen. We work towards improving marketing costs over the last few quarters. But right now, you can see that we do believe that we do need to create and build a market. Like, you saw that we are doing work towards market creation. And I think we'll do the right thing for each quarter, rather than worry about the contribution margin. But overall, we don't see huge need to spend too much.

LATIKA CHOPRA: All right, thank you so much.

VIJIT JAIN: And that was the last question for the day. Thank you everyone for joining the call. I will hand this back to the team at Nykaa for any closing comments. Thank you.

FALGUNI NAYAR: Sorry, I just forgot to mention that while we discuss contribution margin at the EBITDA level, we have improved our employee cost quite substantially over the last year from 9.9% to around 9.0% level. And I think that has been a big focus during last year. And we're happy to report that.

And like you can see in other expenses line also, it's been flattish and we think we can improve it slightly more there too. So yes overall, at the EBITDA level, trying to work towards improving EBITDA margin will definitely be a possibility because many of our businesses like fashion, as well as the new businesses, can see improvement in EBITDA margins.

VIJIT JAIN: Thank you, Falguni. Thank you, everyone who joined this call. On behalf of Citi, that concludes this earnings call. Thank you for joining and you may now disconnect. Thank you.

FALGUNI NAYAR: Thank you.

P GANESH: Thank you.

ANCHIT NAYAR: Thank you.

VIJIT JAIN: Thank you.

ADWAITA NAYAR: Thank you.