FSN E-Commerce Ventures Limited

February 13, 2024

National Stock Exchange of India Limited	**BSE Limited**
Symbol: NYKAA	**Scrip Code: 543384**

Dear Sirs,

<u>Subject: Q3 FY24 Earnings Call Transcript</u>

Please find enclosed the transcript of the Analyst / Investor Conference Call held on Tuesday, February 06, 2024 with regard to the Unaudited Standalone and Consolidated Financial Results for the quarter and nine months ended December 31, 2023.

This intimation is being submitted pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly take the same on record.

For FSN E-Commerce Ventures Limited

NEELABJA CHAKRABARTY

Digitally signed by NEELABJA CHAKRABARTY
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Neelabja Chakrabarty
Company Secretary & Compliance Officer

Moderator

Ladies and gentlemen, good evening and welcome to the FSN E-Commerce Ventures Limited Q3 FY24 Earnings Call hosted by Morgan Stanley. This event is not for members of the press. If you are a member of the press, please disconnect and reach out separately. For more important disclosures, please see the Morgan Stanley disclosure website at www.morganstanley.com/researchdisclosures.

Please note that this call and your questions will be recorded and may, in certain circumstances, be distributed to clients and/or made publicly available. By participating in this event, you consent to such recording, distribution and publication. All participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

I'll now hand the conference over to Ms. Sheela Rathi with Morgan Stanley.

Sheela Rathi

Thank you very much. Good evening, everyone. This is Sheela Rathi from Morgan Stanley Research. Welcome to the FSN E-Commerce Ventures Limited Q3 FY24 Earnings call. From the management of Nykaa, we have

Mrs. Falguni Nayar: Executive Chairperson, MD and CEO
Mr. Anchit Nayar: Executive Director and CEO of Beauty E-Commerce
Mrs. 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 presentation. Kindly note that the call is meant for investors and analysts only.

With that, over to you Falguni for your opening remarks.

Falguni Nayar

Thank you very much, Sheela. It's a pleasure to be here amongst all of the investors. Thank you for giving us this opportunity.

I will begin with the presentation. We'll begin with performance highlights.

So, I think we saw that Quarter 3 of financial year 2024 Nykaa continues to drive profitable growth. Our gross merchandise value at Rs 36,194 million is about 29% year-on-year growth. The net sales value (and I'll talk the numbers in million) at Rs 17,866 million is about 24% year-on-year growth and revenue from operations at Rs 17,888 million is about 22% year-on-year growth.

On the gross profit basis, our gross profit came out at Rs 7,607 million, which is about 20% year-on-year growth. The gross margins are at 42.5%, which is albeit about 86 basis lower on a year-on-year basis. There are more details on each of those in later numbers and hence, I won't elaborate on these here.

On the EBITDA basis, our EBITDA came out at Rs 988 million, a 26% year-on-year growth. The EBITDA margins are at 5.5%, which is about 18 basis point improvement.

On the profit before tax basis, it's at about Rs 265 million, almost 109% year-on-year growth, with PBT margin at 1.5%, which is a 62 basis point improvement on a year-on-year basis. With that, the PAT has come out at Rs 175 million, which is 106% year-on-year growth with about PAT margin at 1.0%, almost 40 basis point improvement.

Taking it forward, I think we are delivering growth across all our verticals, and we are happy about that. I think what we've done is we have given the year-on-year growth for the third quarter of the current financial year, but at the bottom, we've also given a two-year CAGR for each of the businesses so that you can compare how the business are going from a medium-term perspective.

On the GMV basis, the Beauty grew at about 25% on a year-on-year basis. It's a similar growth rate as a 2-year CAGR. On the Fashion business, the GMV growth came out at about 40% year-on-year, but the Fashion GMV at Rs 10,125 million and this is about a 45% CAGR growth over a 2-year period.

If I look at the other businesses, which includes mainly the Nykaa Man, as well as the eB2B business platform, which is the most significant part of the business, what we call as a Superstore by Nykaa, that Others business has grown at about 39% year-on-year on a GMV basis. Within that, the Superstore business has grown 68% on a year-on-year basis and the 2-year CAGR of Others business is at about 122%. The GMV of these businesses now stands at Rs 2,373 million, so it is becoming reasonably significant.

On the NSV basis, the growth in Beauty were lower at about 20% year-on-year and the NSV was at about Rs 13,805 million. One of the reasons for divergence in the GMV and NSV growth in Beauty particularly is that it was a difficult year for many of the beauty companies in the country and as a result, the discounting that they are offering to the consumer has gone up. Many of you are aware about some of the rural growth and growth in other channels being slower and as a result, the discounting in Beauty business has gone up a little bit more this year. There's more on that, that Anchit will take us through.

On the Fashion business, NSV grew at 31% year-on-year compared to the GMV of 40% year-on-year. Similarly, slightly higher discounting. And, In the Others business, in fact, you can see that the NSV growth was at 88% year-on-year against the GMV growth of 68% year-on-year for Superstore and for overall category 67% NSV year-on-year growth against GMV growth of 39% year-on-year. This is particularly indicating some of the improvements that Nykaa did in terms of leakages that these businesses used to face. With that kind of leakage improvement, we've been able to deliver higher NSV growth compared to GMV. As we grow through other businesses also came out at Rs 1,309 million and a 2-year CAGR on NSV growth has been as healthy as 221% year-on-year.

So, like we talked about it, a couple of years ago, that we were aiming for business diversification to serve the larger TAM. That's exactly what Nykaa has been able to achieve. If you look at a 2-year period, between Quarter 3 of FY22 to Quarter 3 of FY24, you can see that against the total net sales value of Rs 17,866 million, now Beauty contributes about 78% with Fashion contributing 15% and Others business contributing about 7%.

I think you can see that all of the businesses are growing healthy in a similar manner, with of course some of the really nascent businesses outperforming in terms of growth. This is resulting in a fair amount of diversification and yet diversified growth— each of the businesses are delivering growth.

On the right-hand side from the opportunity perspective, we have always said that BPC is overall $31 billion market, and it is broken into three components of online being about $10 billion; organized offline, which we call as modern trade about $9 billion and unorganized offline, which is about $12 billion opportunity. Nykaa now plays pretty aggressively in each of the three segments. We dominate online beauty, but we also have a very significant presence in physical retail now. Similarly, we are building a presence through the Superstore to cater to the GT/MT segment.

In Fashion, we've always said that it's five times the size of the Beauty market and that's what excites us about the business. And we are addressing about 49 billion of that opportunity that exists in our online segment currently.

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

Anchit Nayar Yeah, thank you very much. So, I will quickly run through the slides, giving an update on the performance of the Beauty.com, Beauty physical retail, as well as our private brands on the Beauty side— those various business segments.

If you see the chart on the top left corner, you will notice that the GMV growth over the past two years for the BPC segment has been roughly 25%, taking us to about Rs 2,370 crores of GMV for the quarter ended December 31st. In terms of the mix of business, the loyalty and the stickiness of our existing customers continues to improve and that reflects in an improvement in the mix of business coming from repeat versus new buyers now standing at 78% and 22% respectively.

NSV growth came in at about 23% over a 2-year CAGR and ended the quarter at Rs 1,381 crores of NSV for the BPC segment. Annual unique transacting customers stood at 11.1 million versus 9.6 million the year before and a 21% CAGR over a 2-year period.

In terms of the number of orders that were serviced in the quarter, it stood at 11.1 million orders were serviced in the quarter ended December 31st.

Next slide, please. So, this is a very interesting and unique innovative event, which Nykaa hosted for the first time this year, it was called Nykaaland. It was India's biggest beauty festival. It is a one-of-a-kind event in which over 80 global and local brands participated in a 2-day beauty festival. We had 15,000+ customers who bought tickets to attend this event. There were over 12 master classes that were hosted and 5,000 participants attending those master classes. These events were hosted by makeup artists and professional beauty experts from across the world, including Mario Dedivanovic, as well as others listed on the page.

There was significant attendance from celebrities as well, Bollywood celebrities and over 800-plus influencers and KOLs. As a result, we managed to create over 5.5 billion impressions from this 2-day event and 5,000 pieces of content were created and disseminated across both online and offline channels.

So, this is an event, which we see as instrumental in the role which Nykaa plays in the ecosystem, which is that of category creators. Events such as these allows customers to access and to be educated on beauty as a category. These are the kinds of events that will accelerate the expansion of the addressable market of beauty in India and help to take the per capita spend on beauty to higher levels than where they are today, which happen to be some of the lowest in the world.

So please enjoy the video and in about five seconds, we can move on.

Great, so moving on to the next slide. This was an important quarter for Nykaa Beauty, also from a premiumization perspective. As we have always stated, one of our strategic pillars of the business is to continue to premiumize the consumption of beauty in India. We believe that not only does India under indexed in terms of per capita spend on beauty, but premium beauty as a percentage of overall beauty is also highly under indexed compared to other developing and developed economies. As India's GDP per capita increases, we are very optimistic that premium beauty and prestige brands will continue to gain more market share and drive a better unit economics for both brands and retailers alike.

Here on this slide, there are a couple of examples of some of the brands, which were launched by Nykaa in Q3. As you can see, some of these names you might recognize. They are globally well renowned brands. The first on the page is the brand CeraVe. CeraVe is a derma skincare brand that is owned by the L’Oréal group, and it was launched for the first time in India in partnership with Nykaa.

Second brand on this page is a brand called Urban Decay. It is an iconic cosmetics brand, again from the US and again owned by L’Oréal. This brand has been introduced into India exclusively with Nykaa. Nykaa serves as importer, distributor and retailer for this brand.

Also adding to the list is Dr. Barbara Strum, which is a prestige premium skincare brand out of Germany, as well as Colourpop, which is a Los Angeles based mobile makeup brand. These brands as well are exclusive to the platform and are also being imported and distributed solely by Nykaa.

On the right-hand side, you will see a quick summary of some of the brands which we serve as importer and distributor for into India. To remind some of you, this business is, we call it as the Nykaa Global Store. These are brands for whom Nykaa handles not only the logistics and the registration and importing of the products, but also the distribution, go-to-market, marketing, pricing and customer service aspects of their business. So, we serve as the brand’s proxy in the country.

We have about 35 brands in this portfolio. We have shown the logos for about 9 of them, which we feel are worth highlighting, some of which we have discussed in the past.

This business of ours is growing at roughly 47% year-over-year and is a strong addition to our portfolio as well as moats against other competition.

If I look at the premium business as a whole, today we have one of the largest, if not largest, assortment of premium brands in beauty in the country, 250+. This segment of our business is growing at about a 50% CAGR over the past 3-years and almost roughly about a third of our GMV comes from what we define as premium and prestige beauty brands.

Next slide, please. Spending a minute on our physical retail business, we believe that brick and mortar retail continues to be incredibly important for beauty brands as they look to partner with select retailers. They are looking for retailers who can give them both scale online as well as scale offline. Today, in India, Nykaa is one of those players.

If I look at our store count, it has increased by 79 stores over the past 2 years, and we have opened roughly about 39 stores in the past 12 months. Today, we cover over 64 cities across 174 stores, and we cover about 1.7 lakh square feet of retail space.

In terms of the key call outs for this business this quarter, I would say is a strong improvement in profitability. The retail segment of our BPC business is showing healthy growth at the EBITDA level of about 35% year-over-year and today it contributes to roughly 9% of our overall BPC GMV.

Now, I will mention that it's not an exact apples-to-apples comparison. We have over 3,000 brands online and about 160+ brands in our stores. So, for the 160+ brands which we keep in our physical retail stores, the contribution of physical retail to the overall GMV mix is much higher than 9%.

Finally, we see our stores as a very powerful channel, especially for premium beauty brands. Today we have over 85 premium beauty brands in our physical retail stores and 65%+ is the share of the GMV in our retail stores that comes from premium prestige brands. As a result, we have what we believe to be strong productivity and throughput and our GMV per square foot per month is roughly Rs 4,109.

On the bottom left, you'll see a breakdown of our store network. We have about 74 Nykaa On-Trend stores, 67 Nykaa Luxe stores and 33 Nykaa Kiosks. The split between metros and non-metros is about 94 stores in non-metro towns and 80 stores in metro towns.

Q3 is also the quarter in which we host our flagship beauty sale of the year. It is called the Nykaa Pink Friday Sale. This year, the sale has continued to grow from strength to strength. As you can see, we execute the sale now across not only the Nykaa Beauty app, but also the Nykaa Beauty physical stores, as well as both Nykaa Fashion and Nykaa Man platforms. So, this is truly a one Nykaa sale.

This year, we generated over 400 million in terms of social and media reach. This is across roughly a 7-day sale, and we had 50 million unique visitors who visited either our stores or our apps across the period and duration of the sale.

To give you a sense of how the sale has scaled over the past five years, you can see on the top right bar chart that the BPC GMV that we generate across the sale, the 7-day sale has increased almost 10 times in the past 5 years. Today, again, as I've said earlier, a key focus of

Nykaa's is to premiumize the beauty consumption in India and that is reflecting even during key sale moments, such as these. You can see that one-third of the GMV for this sale came from premium brands, 32% was the growth for premium brands in terms of GMV versus the sale last year at 67% year-on-year growth in offline sales during the period of this Pink Friday.

In terms of Nykaa Fashion, on the bottom right-hand side, you can see that in a matter of two years, the GMV that we're generating from this sale has scaled almost five times in just the two-year period, so also very healthy growth. There is a 29% jump in order conversion that we see on the Nykaa Fashion platform during this sale and 120%+ growth year-over-year in terms of key categories of women's western wear GMV versus last year's sale. Again, women's bags and footwear, another standout category for the Nykaa Fashion platform during this year's Pink Friday sales, showing about 150%+ growth year-over-year.

Next slide, please. With that, I'll hand it over to Adwaita to take you through the Fashion slides.

Adwaita Nayar

Thanks, Anchit. So, I'll take us through a couple of Fashion slides here. Starting off with some metrics. In terms of GMV, the Quarter 3 ended at about Rs 1,013 crores in terms of GMV. That's a 45% 2-year CAGR. It's up about 40% year-on-year. From an NSV perspective, you see that we've ended the quarter at Rs 275 crores for Q3 with a 2-year CAGR of 35%.

Moving on to our annual unique transacting customers, on the bottom left, you can see that we're now at 2.9 million customers as of the end of Quarter 3, demonstrating a 36% 2-year CAGR. Finally, on the right-hand side, orders have grown at about 25% CAGR over the last 2-years, taking us to 2.0 million orders in the quarter itself.

So overall, it's been a very strong performance, I think, for the Fashion business. On the next slide, you'll see some underlying metrics, which are showing very strong improvement. I think it's also important to note that a lot of this strong top line growth has been in the background of a pretty muted fashion environment for a lot of the other competition.

So here on this chart, we show a couple of metrics, which are demonstrating the improved profitability that's also coming through. So, we start on the left-hand side, and we look at the order to unique visitor conversion, we can see a very strong upward trajectory consistently over the last five to six quarters. We're now at 3.2% as the unique visitor conversion, which is up from 2.3% exactly a year ago.

On the bottom, right below that, you can see that we're now seeing about 49% of our GMV coming from existing customers. This is a good marker of sort of customer love being built and our retention numbers are improving, whichever cohort we look at. These two things combined, that is conversion rate and the increase in repeat is actually allowing us to bring our marketing expenses down, which brings me to the middle chart.

So, in this middle chart, you can see that the marketing expenses are coming down, again, consistently over the last couple of quarters. We're now at 23.9% of NSV being spent on marketing. Finally, on the right-hand side, the improvements in marketing and there are other line items as well that have improved, is really driving a good expansion in the contribution margin. We're now at 6.0% for Q3, which is up from 0.9% a year ago.

I do think that it is the commitment to our positioning that is to be differentiated, to be created, to believe in the premiumization of India's fashion story, which is allowing us to deliver the improvement in metrics. I'm feeling pretty good about Q3 both from the point of view that the growth has come through, along with improvements in contribution margin. So, I think it's been a good performance from the team in that regard.

Moving on. The big highlight we want to talk about from the Fashion business perspective is the partnership that we've just struck with Footlocker. It was in the news a couple of weeks ago.

Footlocker, as you may know, is a US-based company, $8 billion in top line, Fortune 500 company and a very popular multi-brand footwear specialty retailer. They're very well known for their sneaker culture positioning and their sports positioning. Their top brands include brands like Nike, The Jordan franchise within Nike, adidas, Puma and so forth.

It goes without saying on the next slide, that obviously sneakers and sports in this country is exploding and we are seeing that the search trend for sneakers in India are growing at about 5x over the last couple of years. So, Nykaa Fashion definitely wants to play in the sneaker trend that the country is seeing. We think it's a great opportunity, which will likely be about $4.5 billion by 2027. So, it's in the context of finding a great retail partner in Footlocker, as well as in the context of the trends we're seeing in sneakers both on our site and more generally.

Then on the next slide, we're really proud and excited to announce our partnership with Footlocker where we are going to serve as the exclusive e-commerce partner. We're going to run their India website, as well as our provider a shop-in-shop format within the Nykaa Fashion and Nykaa Man apps. Our offering will include footwear, apparel, accessories. I think it's a really strong move from the point of view that we will get access to some fantastic assortment, which will strengthen our positioning as being premium, curated and now also a very strong player in the sneaker and sports space.

Adwaita Nayar Moving on. So, I think as a reminder, this is not the first time we're mentioning this, we do have a bouquet of our own brands that we're very proud of. We don't call them private labels. These are truly our owned brands that we're hoping and aiming to build with a lot of consumer love in the country.

We have 13 brands on the Beauty side, on the left-hand side you can see. Lot of these we've built in house and some we've acquired. Three of them have hit actually considerable scale and you can see those starred on top side. So Nykaa Cosmetics is a Rs 400 crore annualized brand. Kay Beauty is a Rs 200 crore annualized brand and Dot & Key has hit a Rs 500 crore mark. So very proud of sort of the traction we're seeing in a couple of these brands.

On the right-hand side is Fashion. We spoke about this before, but we do believe that owned brands in Fashion have a particularly important role to play. The customers are starved of brands and so if we can create a lot of good assortments, which is what we're trying to do, I think it can be a win-win both for the customer and for the platform.

Here, as well, two brands have had breakthrough performance. Twenty Dresses has had over Rs 100 crores run rate, as well as Nykd, which has also crossed Rs 100 crores. I think, particularly in Fashion, the numbers have to be seen in the light that a lot of these brands, which have started in the last two to three years. So, their performance, in terms of scale, is quite commendable. We are really trying to double down on our owned brand strategy, really strengthening the org and our capabilities from an innovation, creativity, marketing perspective, so that we can become a true house of brands and a true consumer brands company and build some wonderful brands through this.

Moving on. Here we talk about the top line in BPC, in particular for these owned brands. So, you can see in Quarter 3, this vertical delivered Rs 315 crores of GMV, which is a 34% 2-year CAGR and a 40% year-on-year growth. In terms of the contribution to the overall BPC segment, it's 13.3%.

On the right-hand side, you can see similar numbers for the NSV level, which has now hit Rs 194 crores, NSV at a 32% CAGR.

On the bottom, I'll draw your attention to this pie chart, which shows that a significant portion of the sales are obviously coming from Nykaa. Nykaa online is 53%. Nykaa physical stores is 13%, but 34% is also coming from other third-party channels, predominantly GT/MT. We do believe that for these brands to stand on their own two feet, they do need external distribution as well.

Moving on. On the Fashion side, again, it's been a good performance over the two years with this vertical hitting about Rs 117 crores from a GMV perspective and Rs 46 crores from NSV perspective for Q3, showing about a 57% to 60% CAGR, 2-year CAGR for both metrics.

From a channel mix perspective, on the bottom, you can see that 54% is coming from our own channels and 46% is coming from other parties, whether it's a GT/MT, other e-commerce players and so forth.

We can move on. With that, I'll hand over to Vishal to walk us through the eB2B business Superstore by Nykaa. Thank you.

Vishal Gupta

Hi. Thanks, Adwaita. Next Slide, please. So, look, eB2B is a very young business, but every month, every quarter, it is going from strength to strength. As you can see, in the last 2 years, we have grown our GMV by more than 31x, our NSV by more than 40x and all that is coming through expansion of our customer base. We have 35x increase in transacting retailers and 38x increase in number of orders per quarter. Now we have hit 337,000 orders per quarter. You can see that it's a business, which is growing quarter-on-quarter.

We are improving our importance to the retailers, as well as to through brands that we serve, because ultimately, it's a scale business. If you see the next slide, you will see the benefits of scale coming through because while we scale, we are super mindful of improving the profitability and it becomes a virtuous cycle where scale improves profitability and profitability allows you to improve scale.

You can see that between GMV and NSV alone, we have reduced our leakages by 40% through very rigorous operational control and also improving our service level to the retailers, which means that we have much lower damage returns and returns by our customers. There is some improvement also in the conversion because of lesser discounts and lesser schemes, which means, which is lower retailer margin, which means better conversion because it's less discounts.

There is a 13% increase year-on-year on the AOV and this tells us that our importance to the retailer is increasing because the retailers are giving more and more of their business to us, which again becomes a virtuous cycle because we get bigger orders and bigger orders are more profitable and we get more loyal customers. Importantly, 42% of our turnover is what we call high margin featured brand, which helps us improve our profitability. You can see the improvement that we have made in our contribution margin, which is coming from this profitability, as well as reduction in costs.

We have reduced 580 bps year-on-year in overall fulfilment cost through lower warehouse cost, lower fulfilment freight cost, as well as much lower packaging cost, which we have reduced by half. We have also improved our field force productivity and reduced our sales and distribution expenses by 170 bps year-on-year. So, overall significant improvement in our contribution margin.

Next slide. Like I said, this comes a lot by improving our service to the retailers because it is a service business. From 10 warehouses, we have moved to 13 warehouses. You can see three new warehouses, Patna, Chennai and Bengaluru. We are closer to customers, which means lower costs, lower service time and improve the happiness of the retailer and improve margins for us. So, we have total 2.5 lakh square feet, and we are covering 950 cities.

Yeah, so month-on-month, very high scaling up of the business, but scaling up with profitability. Over to Ganesh.

P Ganesh Thank you, Vishal and good evening, everyone. As you can see, all our business verticals have delivered strong growth in Quarter3 of FY24 despite macro pressures around discretionary sectors. With that context, I would like to take you through the financial highlights for the quarter.

As you can see, our company delivered healthy growth on both revenue at Quarter3 and 9 months level, growing at 22% and 23%, respectively. Our gross margin came in a little lower at 42.5% this quarter versus 43.4% in Q3FY23. The drop is primarily on account of the increased mix in our eB2B business at the consolidated level and also on account of some softness in service income in the BPC business.

Our EBITDA margins have expanded to 5.5% in Q3FY24 led by improvement in our fulfilment expenses, employee expenses and other expenses. This improvement has been achieved in spite of higher ESOP costs and costs pertaining to our omnichannel launch in the GCC region, which cumulatively accounted for 0.6%. We have more details on the flow between EBITDA margin and this adjusted EBITDA margin, which I just mentioned about of 0.6% in the later slides.

Our PBT for Q3FY24 stood at Rs 26.5 crores, growing strongly at 109% and our PAT in Q3FY24 stood at Rs 17.5 crore, again with a strong growth of 106%.

Going on to the next slide. Here you can see a snapshot of our consolidated P&L for the quarter as well as for the last 9 months. We have achieved improvements in our profitability through improvement in fulfilment expenses, improved scale efficiencies on employee costs and optimization on G&A.

Moving ahead on to the next slide, here you can see the vertical reporting, which gives detail of the individual businesses. The operating leverages have helped us to drive efficiencies in our contribution margin. Our Fashion contribution margins, as you can see, have smartly expanded 510 basis points YoY while our Others verticals have also narrowed down the contribution margin impact and have expanded 344 basis points.

Going to the next slide. This slide highlights how our business verticals have been consistently improving on profitability. As you can see, there is a healthy, profitable growth across all the three business verticals. While on an overall basis, the EBITDA margin does not fully reflect this growth, which is seen on account of all the verticals, the primary reason being the eB2B business, as we can see, has been growing significantly in terms of salience and it's upwards of 7% of the overall NSV at this point, as you can see in the bottom right chart.

Moving ahead. This slide further elaborates the movement between contribution margin and the EBITDA, which is primarily on account of employee expenses and other expenses. These expenses, as we have shared previously, were higher in FY23 since we were in that stage of investing ahead of the curve. They have started moderating over the last few quarters and those benefits are starting to show up.

Another point to note over here is that almost 40% of our G&A spends are on web & tech investments and with the rest of the G&A spends continuing to be stable.

Moving ahead. Here you can see the EBITDA to PBT bridge. As you can see, depreciation, amortization expenses at Rs 248 million this quarter at a 45% YoY is on account of expansion of retail stores and expansion of our warehouse capacity over the last year. As a percentage to net revenue, these costs have increased by 22 basis points. Lease costs, both in terms of depreciation and amortization, as well as finance costs, have been relatively stable.

Interest cost have moved broadly in line with expansion and business and resulting increase in working capital and being offset by higher interest on the investments that we hold. This has resulted in EBITDA margins, improved expansion and aided by D&A, the overall PBT margins have improved by more than 60 basis points. We just continue to focus on growing top line, as well as in terms of continuing to grow profitably.

Moving ahead. What you can see on this slide is a summary of the proposals, which were approved by the Board of Directors of FSN E-Commerce at the board meeting held today. A brief summary of the proposals, the first one is infusion of additional equity of Rs 150 crores in Nykaa Fashion. Nykaa Fashion has been scaling up quite nicely and at this point, we feel it's appropriate to capitalize this company, so that's the driver behind this proposal.

The second one is consolidation of the fashion brands business into the parent company. This will happen over the next two quarters and in terms of holding structure to bring it on par with the holding structure for owned brands that we have in the BPC business.

The third one is a demerger of the eB2B business from FSN distribution to Nykaa retail. This again helps in streamlining the holding structure, simplifying the structure whereby the online Beauty business gets consolidated into a single entity. So, that's a summary of the proposals, which have been approved by the board today.

With that, I would like to thank everyone for joining this call. I would like to pass on the mic to Sheela to initiate the Q&A session.

Sheela Rathi Thank you, Ganesh. Operator, we can open up the Q&A session.

Moderator We will now begin the question answer session. If you would like to ask a question, please press the raise hand button found on Zoom or if you've joined us on the phone, please press star followed by one. Before asking your question, please introduce yourself providing your name and your organization name. Please limit yourself to a maximum of two questions, so we can accommodate as many people as possible.

Ladies and gentlemen, we will wait for just a moment while the question queue assembles.

We will take our first question from Zoom. The first question comes from Sachin Dixit. So, please introduce yourself and your company name. Please go ahead.

Please do ensure that you are unmuted locally.

Unfortunately, we are not getting any response. So, we will move on to the next question. If you would like to ask your question, please do re-raise your hand.

The next question comes from the line of Vijit Jain. Your line is open.

Vijit Jain Hi. Thanks for opportunity. My question is on the BPC segment. The presentation shows and suggests that the premium segment within BPC grew ahead of your overall BPC GMV growth. While you did note pressure in masstige segment in your opening remarks and in the press release and trading update as well, I’m just wondering on why the BPC gross margins look a tad weak given the premium segment did so well? And a related question to that, the discounting in your owned brand go up further in 3Q verses 2Q. Additionally, did retailer margins in your partner brand see any kind of a change QoQ as the brand partner’s kind of combated the weak environment in India?

Thank you. That's my first question.

Falguni Nayar So I'll just answer about the private label brand discounting and then I'll pass it on to Anchit. So yes, I have to say that our private label brand discounting did go up, like every other brand in the environment, especially the masstige brands. To that extent, that is built into that.

I now pass it on to Anchit on commenting on the retailer.

Anchit Nayar Yes, so maybe I take the question in order, I think a couple of different aspects you touched upon. So, the first is regarding the increasing or the faster growth of premium and prestige brands on the platform. So, I think, look, the reality is, is that premium/prestige beauty was a very small percent of the overall BPC markets. It is incredibly under indexed. So, it is growing off of a smaller base, so there is more opportunity for those brands to continue to grow faster than the platform. That's one.

Second is as Nykaa, we strongly believe in continuing to drive awareness for and continue to do business in the premium/prestige space because these are the kinds of brands that drive strong customer repeat and loyalty and as I said in the beginning, it's also just generally better unit economics for us. So, we're happy with the results that we're seeing with the prestige brands, but again, it's coming off of a very small base. So, generally the whole market needs to grow and that's where we'll start to potentially see better or see positive impact from a gross margin perspective.

With regards to mass and masstige brands, I think, as many of you know, the commentary coming from some of the listed names is that the demand has been soft in rural markets. I think, as a result, there was an urgency to get short-term revenue growth, which lead them to spend more money on discounts and promos, then on marketing investments on platform. So, some of the marketing investment dollars moved from on-site marketing to promo spent. I think that's probably a short-term impact that should revert hopefully, in the medium term.

I think Falguni covered the bit of our owned brands discounting and finally, our retailer margin being impacted by partner brands, I think the short answer is no, in terms of product margin that we receive from our brand partners. These are long-term contracts which tend to be anywhere from three to five years and tend to be renewed at the end of that period of time. So, no impact on retailer margin on that front.

So, I hope I answered all your questions.

Vijit Jain My second question is just looking at the marketing spends for you guys in the BPC segment, I know, this is a seasonally strongest quarter for business activity, everything for you guys. So, there's a seasonal QoQ uptick to be expected, but it just looks from a YoY perspective also up quite nicely at 45%, 50%. So, should we read that in conjunction with your comments on how competition was behaving in the owned brand space or is there more to it?

Anchit Nayar So, discounts are not captured in this line item. So, I don't think it's got anything to do with our owned brands promo strategy to compete against competition. What I would say is that, as we said in the past, we're very strong believers in category expansion. If Nykaa doesn't continue to invest behind growing the Beauty category in India, then really, I don't know who will take on that initiative. So, we feel strongly that as a large beneficiary of this category, as a large player, it is important for us to continue to grow the ecosystem and events such as Nykaaland, but many more, we just showed you one example of Nykaaland, but there are other such events, which we host throughout the year, which are category building initiatives that of course, do carry some amount of cost alongside that and that is showing up in the marketing expense line item. That's one.

The second, and probably the largest share, of course, is our strategic focus on customer acquisition. So, for us, a new customer acquisition is a strategic priority, and we definitely push the pedal on that in Q3. Given that it was a festive time, given that we were seeing good traction, we wanted to invest in new customer acquisition. As we go into, obviously, a new fiscal year, we want to be aggressive on acquiring those new customers into the Beauty world, which we are helping to create the market. So, we also want to ensure we are capitalizing on those customers and acquiring them early on.

So, I think the increase in marketing expenses is a combination of the two, customer acquisition spends, and as well as category building initiatives. But if there's anything else even Ganesh or Falguni would like to add, please feel free.

Vijit Jain Yeah, and just for my last question, I suppose, as you look forward into the calendar year 2024 or FY25, can you talk a little bit about where do you want the overall business margins to kind of go? Is there a target or is there any kind of a guidance you can give on those trends? That will be extremely helpful.

Falguni Nayar I think it's too forward-looking for us to be able to address like that, but I think you can see how we are trying to manage all our elements of both margins, as well as cost developments.

Moderator The next question today comes from the line of Vivek M.

Vivek Maheswari Hi, good evening. This is Vivek Maheswari from Jefferies. Continuing with the questions on BPC, Anchit just to get it right [inaudible], the gross profit margin quarter-on-quarter or year-on-year, which are down about 60 basis points. That is essential because of owned labels. It's not because of [inaudible]

Anchit Nayar Sorry, Vivek but I think we're losing you. If you don't mind just restating the question, if you don't mind. I think you're cutting in and out.

Vivek Maheswari I'm sorry. Am I audible now?

Falguni Nayar Yes.

Vivek Maheswari Sorry about that. So, Anchit, my question is this 60-basis points quarter-on-quarter or year-on-year decline in gross margin [inaudible] that's only because of your own brands and this has nothing to do with the 3P brands on the platform? Is that understanding, correct?

Anchit Nayar So, I didn't catch the entire question, but I understood that it's refers to the roughly 60 basis point decline in the gross margin for the BPC business. What I would say is that, as I mentioned in my answer to the previous question, some of that is coming from large mass and masstige brands moving some of their advertising spend away from advertising and into the promo bucket because generally consumer companies tend to have one large A&P budget and the use of the proceeds, the use of the cash, is fungible between either advertising or promo spend. As I mentioned, given the other pressures they're facing in other parts of their business and markets, there has been a slightly higher emphasis on promo spend than on advertising in this past quarter.

So, some of the impact is because of that. There is no real impact of the consumer brand. I think you can look at our owned brands. They have, in fact, gained a little bit of share year-over-year in terms of their contribution to our business. So, that is not really the impact that is playing out here. It's mostly, as I said, just some softness on the marketing income this quarter.

Vivek Maheswari Okay, Anchit because Nykaa is a 1P platform, so [inaudible] buy and sell it or because it's a 1P bid. If brands are discounting more, do they actually adjust it so that it goes out of their pocket and not your pocket, so that you [inaudible]? How does it happen in the [inaudible] real world?

Anchit Nayar So, again, I think I caught some parts of the question, but yes, we are 1P model, but, as we've said, historically that for Nykaa, retailer funded discounting, we believe, is very short-term approach to doing business and it's not the right thing in the long-term if you're looking to grow the category and to drive, what we call is the art of retailing, which is our core focus. It's short-term gain, but we think longer term, it attracts the wrong quality of customer, and it drives the wrong type of customer behaviour.

That being said, of course, if any of our brand partners would like to pass on discounts to the consumers, that is totally their decision, and they do. So, if there is a discount that the brand wishes to pass, that is passed directly on to the consumer. There is no role that Nykaa plays on that front.

Vivek Maheswari Last question, 23.8% contribution margins in BPC, which is a [inaudible] quarter low. Do you think the margins have bottomed out at this level?

Falguni Nayar We can’t hear your questions. I think maybe we can give chance to others, if they’re in the queue. Maybe we can connect offline.

Anchit Nayar Yeah, if you just type it in the chat box, if you're having some connection issues, we can address it maybe a little bit later.

Moderator The next question today comes from the line off Nihal Jham. We do request that each person introduce themselves and their company name. Thank you.

Nihal Jham Hi, good evening. Am I audible, first of all?

Falguni Nayar Yes.

Nihal Jham Thank you so much. This is Nihal Jham from Nuvama. My first question was on the BPC bit itself. If I look at the contribution margin for the BPC segment, over the last couple of years, obviously the lever from fulfilment expenses come in. Just wanted to get a sense that where do we see this contribution margin stabilizing in the longer term and what will be the future levers to achieve that?

Anchit Nayar So maybe I’ll. Yeah, go ahead.

Falguni Nayar No, I think these are very healthy contribution margin. I think we will continue to work towards improving certain components, if we find the ways to improve it, say if there is ability to improve fulfilment expenses. Even from here, we will definitely capture that, but I think one trend is clear that we would also like to invest more in marketing and building and driving the category adaption, as well as all that Anchit has been saying so far. So, like, you saw that marketing expenses have also gone up over the last year.

So, I think there is no desire to keep improving the contribution margin, but to grow the category and improve the prospects of the business. Anchit, anything you would like to add.

Anchit Nayar Yeah, no, I think you summarized it well, which is the priority number one for the BPC segment going forward will be our growth because we feel that we've managed to deliver a pretty healthy contribution margins, but we're incredibly optimistic and excited about the opportunity that exists in Beauty in India today— the kind of focus that India is now receiving from global beauty brands, the kind of customer behaviour, which we are witnessing, the kind of premiumization that the market is undergoing. So, we feel there is no time like the present to continue to reinvest in the business. I think that's priority number one will be on driving more customer acquisition, bringing more customers into the world of beauty and also there is obviously cost associated with retaining our customers and driving more customer delight.

So, investments by us on obviously customer acquisition and retention, but also on customer service, as well as fulfilment. I think it's imperative for us to continue that and you will see more of that to come.

We feel that growth is priority number one, but of course, if there are efficiencies that we could find across fulfilment, across marketing that will 100% be done, but also those proceeds will be reinvested and continue to drive outsize growth and growing the overall Beauty market.

So, we feel that way the contribution margin today is probably a healthy place for us to be in the short to medium term. Of course, longer term is things like generative AI and other tech automation capabilities play out. You could, of course, see meaningful savings across fulfilment and marketing, employee cost, etc.

P Ganesh And, to add is that the contribution margins, which you have been seeing at present, they are in line with the historical trend that we have had. As Anchit mentioned, the fact that we have been able to bring in efficiencies on fulfilment, etc., over the last few quarters is also creating room in terms of our ability to invest behind the business, invest in customer acquisition, etc.

Nihal Jham Understood. Just one last question related to the larger business. I am assuming that based on the discussions that the priority number one across all the three segments remains, I'm assuming, GMV/NSV and margin would be lower in the pecking order, at this point in time. Would that be a right thought in terms of how we are looking at the business?

Falguni Nayar No, we are not saying that the margins would be lower. We are saying that we are focused on the growth, and we will continue to invest in the business be it for market creation, be it even faster deliveries and delight to the customers. So, I think what we are trying to say is that the objective right now is not trying to push the contribution margin higher.

Anchit Nayar Also, each business is at a different phase of its growth and its profitability, right? So, we feel that if you look at the contribution margin for the BPC vertical, it has increased by almost 300 to 400 basis points over the past 2 years. So, there has been significant improvement there and it's in a very healthy place. So, priority number one is growth.

I think if you ask Fashion, priority number one is also growth, but there, there is, of course, more work to be done on the profitability side. I think Adwaita spoke about the good work they've done in the past quarter.

So, I think obviously, both are important. The weightages between growth and profitability can be different for each of the business segments based on where each business is on its own journey.

Falguni Nayar I think at the consolidated level, based on improvement in other businesses like Fashion and eB2B, we will see that there will be greater coverage of costs, fixed costs and as a result, the EBITDA margin, at the consolidated level, we can be optimistic about, but it's not that we're going to try to maximize it. We're going to try to continue to invest in all the businesses and then try and manage for growth as well as profitability.

Anchit Nayar I think the best slide to, if you go back to the NSV mix slide over the past years, you can see that just 2 years ago, if you look at FY22, I mean, BPC accounted for 83% of the total NSV mix and today, that number is 78%. So, despite the Fashion and eB2B verticals, which currently have a lower profitability profile, them gaining and increasing their mix of revenue to the overall business over the past two years, despite that, I think the consolidated profitability has held up. So, I think it goes to show you that Beauty’s profitability continues to remain healthy and Fashion and eB2 are not only are they growing the top line faster, but they are also managing to turn corner on profitability and drive better margins.

Moderator Thank you. The next question today comes from the line of Percy Panthaki. So, please do introduce yourself and your company before asking you a question.

Percy Panthaki Hi, am I audible?

Falguni Nayar Yes.

Percy Panthaki Hello. Yeah, this is Percy Panthaki from IIFL. My first question is on the one of cost, that you mentioned, that is the GCC ramp up and the ESOP costs. They total about 60 basis points. So, one is - can you disaggregate the two?

Secondly, just wanted to understand how much of this will be recurring. Is it that there's a big ESOP charge out this quarter and then from next quarter onwards, it's going to be close to zero or will it continue at the same level as what it is this quarter? And also, the same question on the GCC investments? What kind of percentage of total revenues do you want to sort of cap the GCC investments at so? This is my first question.

Falguni Nayar I think, Ganesh, you want to explain the first.

P Ganesh Yeah, so Percy as far as the ESOP costs are concerned, the cost which has come into the P&L this quarter is about a Rs 7 odd crores. While this will be a continuing cost, given the way ESOP reporting happens over the next three years, this will be gradually tapering down. So that's the way this cost will progress. It will be a continuing one, but it will taper down over the next three years.

As far as the GCC costs are concerned, we should bear in mind that there is a store's rollout plan etc., which is happening, as far as GCC is concerned, so these are the initial costs, about Rs 3.5 crores the amount and this would vary going forward, depending on how these store roll out happens

Percy Panthaki My second question is on the BPC NSV growth, which is over the last 2 or 3 quarters sort of around that 20% mark. Before that, it used to be closer to the 30% mark. Even in our analysts meet, I think the expectation for 5-year CAGR was somewhere in the region of about 27% or so.

So, in light of this, I wanted to understand what is the reason why the growth has dipped by about 10 percentage points and also why basically, it's dragging below our sort of medium-term aspirations. I understand the discounting part, to some extent, but do you think that this goes away in one or two quarters as the discounting under rises? Then if the GMV growth is like 24, 25, we see the same NSV growth, or do you think that there will still be pressure on NSV for some reason?

Secondly, just wanted to understand in context of, if we see the consumption space, there is pressure at mass and consumption FMCG products, etc., but your average ticket price per item is in the region of about 300 rupees, which is like the top decile of the entire FMCG space. That space really, if I look at not only FMCG, but any other premium consumption space, we have not seen any kind of slowdown. So, in light of this also, I wanted to understand how the slowdown has happened over the last two, three quarters.

Sorry, for the long question. I hope I've been able to try and convey what I'm sort of trying to get an answer to.

Falguni Nayar Sure, I think I'll address it and then I'll ask Anchit to chip in. So, I want to say that, at no point, are we saying that Nykaa's premium customer is affected by what is happening in terms of the rural slowdown. I don't think that's what we have said.

I think we are saying three, four things. The first and foremost, what we are saying is that (and I think we said that earlier also) that currently the e-commerce, the Beauty online growth is slightly below the long-term average. That is a post-COVID phenomenon where customers were very happy to be out and about and shop more in physical retail. So, there has been a little bit of a suboptimal growth in online BPC, and we believe that that will correct going forward. So that's first point number one.

Second point is that from the perspective of discounting, yes, the brands have had to discount because they've had channel adversity in other channels. As a result, to chase growth, they are doing higher discounting to deliver on their growth targets as a whole. That is why the difference between GMV and NSV growth is coming. Because if the brands want to pass on the discount to the customer, that's what is reflected in the NSV. You're totally right that the current discounting is at a high level, which cannot sustain in the long run. It is bound to stabilize or go down also in future but definitely cannot keep increasing from here.

With that, if Anchit wants to comment on any additions.

Anchit Nayar No, I think I think you covered it. Look, I think we were coming out of a pandemic when obviously e-commerce had grown very rapidly and taking share from physical retail, so some of the normalization is what's been playing out and there has been a healthy return to physical retail, which is good for us. It's a benefit to us because Nykaa also has one of the largest networks of physical retail stores in the country.

However, as I showed you earlier in the deck, physical retail business for us is growing very well, but it's still only 9% of our overall GMV to our BPC business, so it's not able to move the needle as much. So, I think there's a little bit of normalization in the mix between online and offline. As a result, maybe the mid to long-term growth at 30%+ for online is looking more like 25%, 26%, so there is a slight decline as some of that demand moves back into the offline space. Please remember that Beauty is a category also that lends itself well to offline retail, as well. So, it's going to be healthy mix and the omnichannel retailers like us will benefit from that.

But I would also like to stress on my other point, which I made earlier, which is that you mentioned some other discretionary consumer categories that may not be seeing a slowdown. I would also say that Beauty is different in the sense that Beauty is not a category which Indian consumers were historically familiar with. So, the awareness for the consumption of Beauty in India is still, as I said, one of the lowest in the world on a per capita basis. So, a lot of that work needs to be done. It's not an affordability issue. It's an awareness issue.

We always say the consumption of Beauty in India is a result of three factors. One is affordability, second is availability and third is awareness. I think the affordability issue is being addressed as the GDP per capita improves. Availability in Nykaa is bringing the best brands from all around the world into the country, so that's being fixed, as well. Finally, the awareness needs to improve. If you look at other economies, the frequency of purchase of beauty products, the number of beauty products bought per customer is much more significant than India. So, it's an awareness issue that, again, we're working on through category growing initiatives like Nykaaland and of course, a lot more that we do.

Percy Panthaki One last quick question, if I might be allowed. Any comments on your market share amongst the BPC e-tailing space with some new competition coming up? Over a two-year period, are your market share in the BPC e-tailing space constant or have they gone down?

Anchit Nayar So as you know, none of the other beauty e-tailers are listed. So, it's difficult for me to say with 100% confidence, but of course, we have enough market intelligence and enough understanding of the business. What I would say is that we don't think our market share has declined at all because of the new competition. From our understanding, some of the horizontals have been high single-digits, low double-digit growth for the category. The new entrants still are very, very small and are not really impacting us from a market share perspective.

So our understanding is we have probably grown in line, if not slightly faster, than the online BPC market growth and so our market share is probably very healthy and in line with previous years, but as I said, also remember that we are also a very large offline retailer of Beauty and there we continue to take market share because we are expanding our stock very rapidly and becoming one of the largest networks of beauty retailers offline as well. So, I think in aggregate, definitely market share has probably improved year-over-year.

Percy Panthaki Thanks very much Anchit and Falguni. That's all from me.

Moderator The next question today comes from the line of Abhisek Banerjee. So please go ahead and introduce yourself before asking your question.

Abhisek Banerjee Hi. This is Abhisek from I-Sec. First question goes out to Ganesh. So, this infusion of equity into Nykaa Fashion, this is essentially a non-cash transfer, right. So basically, whatever was given in the form of debt is being converted into equity. Is that correct?

P Ganesh Yeah, that's right. Your understanding is right. While there is a Rs 150 crores equity, which goes into repayment of debt given by the parent company. So, in a sense, it is conversion of loan into equity - we're capitalizing the Fashion business.

Abhisek Banerjee Understood. The slump sale, there will be some kind of transfer, right?

P Ganesh That's right. Yeah, based on our valuation, which has been done by Grant Thornton and on that basis, that will be an actual consideration, which will get paid.

Abhisek Banerjee So overall, it is correct to think that probably the contribution margin of the Fashion business will slightly improve after these changes.

P Ganesh Yeah. Again, when you look at the Fashion entity in terms of the fact that there will be a cash infusion, which goes into the Fashion entity, the overall profit profile of Fashion entity will improve to the extent of lower interest costs primarily.

Abhisek Banerjee Understood. That's very helpful. Now, Anchit, if I may ask a question on the growth aspect that you were talking to and one of the earlier callers also alluded to. It is with regards to where you see the growth really coming from. Basically, just to say, say this quarter, you saw faster growth in the premium side of Beauty, right? So, do you think that is a more sustainable trend? Do you see the premium side growing faster?

Also, in terms of customer profiles, I believe you already have an exposure to slightly more premium customers. So, whom do you see really buying more? Are there more premium customers buying more or do you really see growth from the value customers that you have?

Anchit Nayar So maybe I'll start with on the prestige/premium side. As I said, today, prestige/premium is less than 10% of overall BPC spends in India, so it's very under indexed. This will continue to grow, and it will continue to grow at a rate faster than mass and masstige because mass and [indiscernible] brands are very, very well distributed and are already at a reasonably large scale, if you at least look at a few of the large ones across India. So, the premiumization of Beauty is a trend that's happened globally, especially if you look at China over the past 15 years and India has not even begun that trend yet.

So, the premiumization of Beauty will happen and Nykaa is well placed to be a beneficiary of that because, as you mentioned, we do have a large percent of the premium consumers in India today are currently Nykaa shoppers. However, that being said, we also have a very large base of non-premium and non-prestige shoppers. In fact, that is a massive opportunity for us to continue to acquire customers in the country because today's value shopper is tomorrow's prestige shopper.

As I said, it's not really an affordability issue. It's more of an awareness issue. That's the work that Nykaa does. Once we acquire customers, our ability to use CRM and CLM capabilities to improve the unit economics, improve the annual consumption value of our customers, improve the average order values of our customers is quite meaningful. We've always said that our repeat buyers tend to have higher average order value than our new buyers. So, that's work that we're able to do once we acquire the customer.

But I think the biggest opportunity, again, I'll say it again, even the existing Nykaa customers today, even if they're shopping premium products or the shopping value products, they are still under indexing in terms of their frequency of purchase, their number of items in a cart or their category with their annual consumption value is still compatibly lower than what it could be. So, you will see ACV of existing customers improve if we do the right things as a company and you will see a lot of customers who are currently not shopping Beauty at all.

You have a lot of Personal Care shoppers in India. India has historically been a Personal Care market, but if you look at other comparable markets, today's Personal Care shopper is tomorrow's Beauty shopper, so there is a large number of consumers who will come into the Beauty funnel. Again, that's Nykaa's responsibility, acquire these shoppers and sell them more beauty products. So, bringing Personal Care and non-Beauty buyers into the Beauty shopping funnel is a massive opportunity. There are millions and millions of customers who currently are either buying Personal Care or other lifestyle categories who are not consuming Beauty yet. So that is also low hanging fruit for us and that's where a lot of investment in terms of new customer acquisition will go.

And as I said, existing customers will be encouraged to shop more frequently and shop more items per cart. That will be driven by a lot of the repeat customer mechanisms that we have in place.

Abhisek Banerjee So you actually also touched upon the theme of the next question that I wanted to ask you, which you kind of briefly spoke about how awareness is the issue, not affordability. I think that really ties well with the statement that you and Falguni made on the fact that you think that contribution margins for the BPC business are at an optimal level. So, does that really mean that the additional gains, which you would be getting in the contribution margin due to scale, that will be reinvested into advertising and maybe more events like Nykaaland, which we saw? Is that the thinking? Just trying to understand.

Anchit Nayar

Yeah, I can say in the medium to longer term, I don't want to give guidance in terms of will all efficiencies and savings be reinvested in marketing, but we think short-term, definitely there is a massive opportunity for us to do category expansion work and that's where we're spending some of the money. The remainder is, of course, on, as I said, the millions and millions of shoppers in India who are shopping online, who are comfortable with using digital forms of payment, who are shopping large ticket items in other discretionary categories but are still not buying Beauty. There is tremendous opportunity for us to acquire those customers and do a lot of category awareness work on them.

So, I think in the short-term, yes. As we said, we are very early in our journey in terms of total number of transacting customers on our platform. It is still small compared to the opportunity in India. So, there is a lot of investment and a lot of work, which we plan to do to bring more customers onto our platform.

I think the advantage that we have is 10 years of being in this business, we have tremendous, we feel, brand equity in the market. We are recognized as thought leaders and almost be synonymous with Beauty by the consumers. So really building upon that good momentum and work we've done over the past 10 years, as opposed to starting from scratch and trying to build legitimacy from scratch, I think that's something that we have our work cut out for us, but of course there is investment to be made and time to be given to this strategic priority.

Falguni Nayar

Anchit, I don't know whether you spoke about CSMS, but when we did the education on CSMS as a routine - cleanser, serum, moisturizer, and sunscreen, I think what we found was that the growth in sunscreen, as well as serums on our platform, was in excess of 60% to 100%. Like on serum 60% - 65% year-on-year growth and sunscreen was 100% year-on-year growth.

So, I think a very wide education needs to be done to create the demand. We are believers that per capita consumption of Beauty can go from $15 to $50 with increasing per capita income. Affordability is not an issue but it's the knowledge and education that is important. Nykaa has done that from day one to grow the market.

Abhisek Banerjee

Adwaita, just one question to you also. So amazing improvement in the Fashion business as of now. Just one question that I have is on the new sneakers business that you seem to be getting in. My understanding is generally globally it is a more male centric kind of product category. Do we really have the kind of customers or consumers on our platform who would really be looking for sneakers or are we trying something different here?

Adwaita Nayar

So couple of thoughts. First is no, I feel that sneaker is a great opportunity for women, as well. We see that it's growing incredibly fast already with the category that we have on our site. So, I wouldn't say that it's just a male dominated category. I would say that there's potential in both genders for this to be a significant play.

Secondly, I do also see it as an initiative that will help us acquire more male customers into our business and that too with the right type of product, which is premium sports and sneakers. So, to answer your question, I think one we will be able to serve our existing customers better. They are most definitely interested in these products. If you look at all the women around you, they are wearing Nike, Puma, Adidas and so forth on their feet, but it also allows us to attract the male consumer with a very compelling offering and through this we'll have some assortment, which no one else in the country has. So, we hope to capitalize on both.

Falguni Nayar Also, we have both men on our Nykaa Fashion platform, as well as we have Nykaa Man, as a platform, which is also growing nicely.

Abhisek Banerjee So, this could be a hook to get in more men into the platform.

Falguni Nayar Yes, also.

Abhisek Banerjee Just one last final question on the eB2B business. I saw that you have created a warehouse footprint, which is quite spread out, but generally in this kind of a business, the traditional thought process is to go by a cluster kind of approach— build scale in one cluster through higher density and then scale up. Any reason why you are taking this approach?

Falguni Nayar I think we wanted to build a national scale to be relevant to our brand partners. We are achieving that with this network, and we may go to few more because I think our intra state is what is clearly necessary here, at least minimum and then also certain radius around the warehouses is all very critical to success. These have been carefully chosen from that perspective. There will be few more warehouses, going forward, like at least one per state, but it will also superimpose on already existing warehouse network that we have for our e-commerce business, which also by now is in every state pretty much.

So, for us, it's not so— I mean, we're not a start-up company. So, we have a lot of investments already made, which can plug and play into this to do the section. So, like some brands we may receive inventory in larger warehouses and then send it to the smaller warehouses. So, I think what works for Nykaa is very different than from a total start-up company.

Moderator The next question today comes from the line of Kapil Singh.

Kapil Singh Hi, good evening. This is Kapil from Nomura. Most of my questions have been answered. Just wanted to check— what are the growth trends we are observing currently in the key segments? Is there any improvement that you're noticing or are they fairly similar to what you saw in the last quarter?

Falguni Nayar So I think without sounding too optimistic, I'd like to point out that the global CEO of every beauty company has visited India over the last six to nine months. So, I think Indian market has become a very promising beauty market for global companies, where from earlier ranking, maybe in top seven or eight, it is starting to rank in the top five markets, sometimes top three, from importance perspective. So, I think also Indian customer wants best of what the world has to offer because of social media. So, I think now the challenge lies in of course, companies like Nykaa put in place very effective supply chains, very effective network already in place, like our store where store network is only 174 stores in 64 cities, and we will take it to 100 cities that before you know it will be at more than 250 store networks. So, I think we've created the networks that it's possible for these global brands to leverage.

That's why we keep harping on education, but I think the trick lies in more and more education. I think Nykaaland and we do a lot of beauty bars now. We do a lot of in store master classes for the customers. There's a big, big emphasis on education, so that we can grow the category demand.

Like take a little bit of a far seat and you see the number of people who are trading stocks, if you see the number of people who are flying airlines, domestic airlines, these are all very large numbers. I think why Beauty consumption can't be at that level. It's not a very large ticket item. It is a very small ticket item and it's a very affordable item for most consumers. I think the Indians have not been very enthusiastic about Beauty and Personal Care consumption. I think the Beauty and Personal Care industry is very underdeveloped in India compared to globally, like I keep pointing out every time. Fashion also is five times the entire Beauty and Personal Care market.

So, we think that there is a work to be done and Nykaa will continue to do that work and of course, a lot of beauty and personal care companies will also do the work, like you're aware that Hindustan Unilever have a beauty specific focus rather than just the personal care. So, I think more larger companies in the world are joining the bandwagon. Like L'Oréal Luxury, which was L'Oréal Luxe, which was not present in the country is entering with already Lancôme and more brands, like Urban Decay to us and they came into CeraVe. So, we do see the big companies investing in India opportunity and together all of us being able to grow the market to its rightful size and scale.

On the Fashion, I think what I would like to point out is that we are just a four-year business, which sometimes people forget. There's a lot of assortment growth at this early stage and with every passing year, we are bringing new assortment that makes a platform more complete and improves conversion and customer stickiness to the platform. That same will continue over the next couple of years. Footlocker is one such effort in that direction, but there will be more. I think through that process also, we feel very excited about what possible future lies ahead. I think marketing costs, if you can bring it under control, then that means we can afford more investment in the business.

Kapil Singh Just one small follow-up on this Adjusted EBITDA margin that we have reported. Could you tell us what was the adjusted EBITDA margin, like-to-like for Q2 of FY24 or Q3 of last year so that we can understand what you're trying to convey here?

P Ganesh Just to clarify, these are ESOP costs, which have kicked in now. So also, as far as the GCC spends are concerned, they are kicked in now. Since it's coming for the first time, that's the reason we have highlighted. So, while there have been past ESOPs, etc., there's been a grant, which has come in now and given that it is sizable at around Rs 7-odd crores and coupled with the GCC spend, which is about Rs 3.5 crores it's a sizable amount. So that's the reason we have flagged it.

Kapil Singh So we will be reporting this adjusted EBITDA margin every quarter from now onward or this was just highlighted for this quarter?

Falguni Nayar We just highlight just for this quarter, so that you could understand. I don't think we want to create too much of special reporting every quarter. Just to give a colour

Kapil Singh Thank you and wish you all the best.

Moderator Thank you. That was the last question we can take today. You may reach out to Nykaa's investor relations team for any additional queries. I'd now like to hand the conference over to the management team for closing remarks.

Falguni Nayar Thank you very much, Team Morgan Stanley, for, as usual, doing a brilliant job and facilitating excellent interactions. I hope we've satisfied all the participants. Thank you very much for all the participants for being on the call and pretty insightful questions. I hope we've been able to provide answers to most of your questions but otherwise, please reach out to us separately.

Thank you.

Anchit Nayar Thank you very much.

Moderator Thank you, everyone. On behalf of Morgan Stanley, that concludes this conference. Thank you for joining us and you may now disconnect.