Q1FY24 Earnings Call – Transcript

Sunita Sachdev: Good evening, Everyone. Welcome to the Q1FY24 earnings call of FSN E-Commerce Ventures Limited.

I'm Sunita Sachdev. I'm the Investor Relations and Strategy head at FSN E-Commerce Ventures Limited. I welcome all Analysts and Institutional Investors for the call today.

On the call with me today from FSN E-Commerce Ventures Limited are:
Mrs. Falguni Nayar, Executive Chairperson, Managing Director and Chief Executive Officer
Mr. Anchit. Nayar, Executive Director and Chief Executive Officer of Beauty E-Commerce.
Mrs. Adwaita Nayar. Executive Director, Co-founder and Chief Executive Officer of Fashion.
Mr. Vishal Gupta, Chief Executive Officer – Nykaa eB2B and the Executive Vice President, Beauty Private Label
Mr. Suyash Saraf, Co-Founder of Dot & Key.
Mr. P Ganesh, our Chief Financial Officer.

For Abundant caution, I would like to draw your attention to our safe coverage statement, and our disclaimer on page number 2. With that over to you to Falguni for your opening remarks.

Falguni Nayar: Thank you, Sunita. Good evening, everyone, and thank you for joining us on the call and it's always a pleasure to interact with all of you. I wanted to start with our slide 5, which summarizes our results. Just wanted to share that, we are happy to announce that our gross merchandise value for the quarter is at around ₹26.7 billion, which is a 24% year-on-year growth. Revenues have grown at a similar rate of a healthy 24% year-on-year, and now stand at for ₹14.2 billion. Our gross profit grew at 21% year-on-year and stand at ₹6.2 billion for the first quarter. And our EBITDA has come out at ₹735 million, which is a 60% year-on-year growth for the quarter. Our profit before tax stands at ₹97 million, and a profit after tax is at ₹54 million. Both are showing positive growth on a year-on-year basis.

Moving on to the next slide. Our beauty GMV grew at 24% for the quarter on a year-on-year basis and our Fashion GMV grew at about 12% on a year-on-year basis. Both the GMV, on a 2-year CAGR basis stand at 32% for beauty and 34% for fashion. Overall, on a consolidated basis, Nykaa's GMV has grown at 24% on a year-on-year basis.

We believe that we have delivered on the growth while keeping our focus on customers and costs, and consistently invest in sustainable growth. I would like to say that we found during the quarter our growth in fashion to be a little bit below our long-term expectation. I think it was it was, I mean, throughout the industry everybody is talking about it, that it was a particularly tough quarter for fashion very surprisingly and the industry is hoping for a revival in that. And Nykaa also feels confident that we should be able to move back to our long term trendline growth in fashion.

In fact moving forward, I would like to say that in July we had a good sales season and saw some green shoots of recovery in the month of July, which brought us back to our what we call as our on trend year-on-year growth in fashion. So, we remain cautiously optimistic for the quarter two, though I want to say with abundant caution that July is just one month in the quarter.

On Slide 7. What I'd like to talk about is that we continue to grow new businesses. Our incubation business, which is the others segment has also scaled up significantly, and now contributes about 6.1% of our GMV, compared to 3.9% in a year ago, quarter similar quarter a year ago. In Beauty and Fashion, our annual transacting customer base have been growing. You can say that in Beauty now we are at about 9.7 million annual transacting customers, 2.6 million in Fashion, 0.6 million in our physical retail business and in the others category, which includes Nykaa Man as well as our eB2B business, we have about 0.5 million annual transacting customers.

With that I want to hand over to Anchit to walk you through our BPC performance for the quarter.

Falguni Nayar: I think. I will take those slides for now. We have here been talking about this for a long time. This is the industry sizing as given by RedSeer on the left and the expectation that the BPC growth is growing at about 10% and within that the online BPC is growing at 29%.

Online BPC penetration stood at about 15% or around $3 billion US market in 2022, and this is expected to be about a third of the overall BPC market and grow to about $10 billion by 2027. You know, key to our understanding is that the realization of this growth should take the premium component of the BPC consumption from 45% currently to 55% by 2027. There has been a premiumization of the market which we've been talking about on a regular basis. This growth should come through per capita consumption in the segment doubling over next 4 to 5 years.

At Nykaa we already have our consumer spending at about $80 per capita, which is 5 times that of the industry average. The average beauty shopper is spending about $15, whereas a Nykaa customer is spending about $80. There are 18 million customers in that price point. So, we do believe that there is head room for growth, and we can expand our customer base in the ensuing years.

On the GMV front, we want to say that in the BPC segment, our GMV for this quarter came in at 24% year-on-year growth with a 79% of GMV in quarter 1 was from existing customers. This is a testament to the quality of the customer traffic that we attract. But it is also important to note that our focus on being an omnichannel retailer has enabled this growth, as offline retail grew ahead at 27% year-on-year. Physical stores now account for 8.2% of Nykaa BPC GMV. It is also good to see that our investment in our owned brands is resonating with consumers, as GMV of our owned brands has grown at 39% year-on-year. Of this growth, majority of the growth has come through both 3P Platforms offline distribution growth as well as online growth. As our retail business space grow at about 43% year-on-year, and we now stand at about 152 stores, delivering on a very robust GMV per square foot per month of ₹3,346. Our same store growth also came out healthy at 6% year-on-year. This needs to be seen in the context of the base quarter being relatively a buoyant one.

Moving on to the slide 11, which gives some of our important beauty KPI. Most of these are self-explanatory. I think you can go through it themselves because there are a lot of numbers. But important thing to note here is that the order grew at about 17% year-on-year to 9.5 million within an AOV continuing to be at ₹1,849 in the first quarter of FY24. We delivered on a consistent order to visit conversion of 3.7% in the first quarter.

Moving on to the slide 12, our owned brands grew 39% year-on-year. Now, accounting for 12.5% percent of our BPC GMV, up from 11.2% in the same quarter a year ago. Importantly, 90% of GMV growth of our owned brand comes from other 3P channels also, and this represented in the chart to the right. Our owned brands have been able to win the trust of our customers, allowing them to grow at a healthy pace. To add more colour on our method, we have been finding good investments that we can make, and Dot & Key was one such example. And we can talk about that later.

On Slide 13. Sorry, I just take 2 more minutes from the previous slide. So just wanted to show that we've been able to grow our owned brands like Nykaa Cosmetics, which is now at about almost a ₹300 crores brand on an annualized GMV basis. Kay Beauty, which is a joint venture celebrity brand, which is at about ₹130 crores annualized GMV. And Dot & Key, which was an acquisition we made about 2 years ago, which now stands at about ₹300 crores GMV and the channel mix here is about 54% is online and you can see that there is offline of about 14%, and there is almost a third of the GMV is coming from 3P business, which has grown very healthy that shown a very healthy growth over last year. And this has been a conscious strategy to take our brands wider beyond our platform. So, it's not that it is not indicative of you know what the platform can deliver, but it is indicative of the investment that we are making in taking our brands wider.

On slide 13, I just want to say that we have always maintained deep and symbiotic relationship with our brand partners as of June 30, we had 3,400 brands retailing on our platform. As you will see, a spread of global, luxe, domestic, FMCG and D2C brands is quite wide, which makes our platform de-risk from any individual brand perspective.

We also continue to launch a varied list of brands on our platform, and some of the key ones that are being listed are shown on the right-hand side. We saw the launch of Elemis, which is UK's number one

Skincare brand, Virtue a very unique brand. And then couple of other brands that many of the other brands that we launch, and we continued to be the partner for exclusive luxury launches.

Moving on to the next slide, I wanted to talk a little bit about Elemis, I just alluded to in the previous slide. But it is UK's number one skincare brand, and it has launched exclusively on Nykaa Global store, and we are very excited and proud to be the partners of this brand in India. Our launch campaigns and our educational content on the brand, along with social media outreach and offline presence, provided a good 360-degree marketing for this brand, which is unmatched in the market.

Similarly, I want to talk next about an important initiative that we did. We pioneered a very unique Indian engagement with our customers. We created an Indian skincare regime, which is called CSMS, and this includes cleansing, serum, moisturizing, and sunscreen use. We were aware that there were a number of routines, like, you know, the Korean routine or Japanese routine, which were considered very much, very demanding by Indian consumers, and the need of the hour was to come up with a short routine that Indian consumers would be able to follow. So with this kind of a program which was developed along with dermatologists and with the reach that Nykaa can provide in terms of social media and marketing reach and 360-degree marketing reach. We also launched it in all our stores, 81 Nykaa Stores. With this we were able to take this very, very deep, and the success of this campaign was very evident in terms of the kind of engagement and kind of click through rates it provided leading to a superior growth of skincare category on our platform, for that at the time of the launch, and beyond that.

Coming to slide 16, we did similar effort in terms of focusing on Beauty from the East, which was an edit, that where we brought Korean as well as Japanese and many other East Asian skincare brands to the consumer in an event that that was omnichannel. It went beyond physical event into digital world, and this also was a very well loved and very engaging event. In fact, it had a reach of almost 11 million on social media, and more than 60 plus influencers participate in this.

Moving on to the next slide. As you are aware, that we tend to have a sale, large sale once in a quarter and our Pink Summer sale, which was an important event went very well. It delivered 35% year-on-year omnichannel growth with more than 2,000 brands participating. We've been introducing additional features into our sale process through massive influencer outreach with more than 255 million impressions and also introducing gaming into our playbook.

Next. So, you know, we are also creating further consumer customer web experiences through our online finders like the lipstick finder creating, you know game changing content both on our social media and on the platform, like you can see here, were some of the other trends that we embrace towards engaging our customers and continuing that what we call as art of beauty retailing.

Moving on to the next slide. We also have had front and centre towards our tech efforts and our Stream feature got upgraded with intent driven navigation on the app and that has seen a much better engagement. Homepage Personalization, where the recommendation widgets are completely driven from the browsing and shopping history of the customer, as well as Buy Again, and Wish List Nudges that have been introduced on the cart page are just some of the small changes we keep making towards our overall experience enhancement of the consumer experience on the app.

And with that I would like to now hand over to Adwaita to take us through the Fashion business performance.

Adwaita Nayar: Yeah, thank you very much. So, I'm excited to take you through the fashion business performance for Q1. To begin with, we remain excited by the size of the fashion market. The fashion industry is 4 times larger than the beauty industry, as we've said before. And as you can see from the industry sizing numbers on the left. There's an expectation that the online component of fashion is expected to grow at a much faster rate of a CAGR of about 27% over the next couple of years. So, the online penetration, which today is about 19% will end up being at about 33% equating to about $50 billion in top line by 2027. On the right-hand side, we're double clicking on what we consider is the premium component of this online fashion market. So, of that $15 billion that is being transacted online, we believe 10% - 15%, is what we consider premium, i.e. Average order values of ₹1,500 and above. So, we feel this is the space that Nykaa Fashion plays in and today, this is about $1.5 to 2 billion in size. It's growing much faster than the rest of the pie. And it's this sliver of the market that we want to focus on over the next couple of years.

Going on to slide 22. This quarter overall, the fashion market, you know, Falguni referred to this overall the industry has seen a slightly slower quarter. And we've heard that anecdotally, and I'm sure a lot of you have seen other results also coming out. And so, in that context, we do believe Nykaa Fashion has outperformed the market, and we have taken some amount of market share delivering 12% year-on-year GMV growth. This has taken our GMV to about ₹654 crores and I'd like to highlight that the 2-year CAGR for this business remains 34%.

In terms of repeat behaviour, still, on the left-hand side chart, we can see that 44% of Fashion’s GMV has come from the existing customer, and this is up from 30% a year ago, and this signifies better customer retention, a metric that I've spoken about last time as well. And it's this metric that is giving us confidence and comfort that we are continuing to find strong product market fit with the customer. You know, generally the cohorts that we are seeing is giving us a lot of confidence as this business shapes up. On the right hand side, you can see the split of Fashion GMV across our core Fashion.com business as well as our owned brands, which again, I've spoken a lot about, and I will speak about further as we further, as we go on, so you can see that about 80% of our business comes from our platform, which is our multi brand predominantly app experience and 14% comes from our owned brand business.

What is noteworthy here is that the owned brands business is growing at 30% year-on-year and our platform orders is growing at about 12% year-on-year. In terms of offline again, we'll touch upon this in the next couple of slides. We're today at 10 stores of which, 4 are Nykaa Fashion multi brand stores and 6 are actually for one of our brands Nykd, which again, you might have heard of, which is our lingerie brand. And that's sort of the split. Further on the offline strategy, I'll elaborate as we proceed.

Slide 23 gives us a quick snapshot of our metrics, you know, this will be widely available listed online. You can look at this. Just the highlights are - visits are growing at about 7%, orders have grown at about 12%, implying a conversion improvement. Average order value is holding up at about ₹4,400. So, we're feeling pretty good about being able to hold up our average order value as well.

Moving on. The annual unique transacting consumers is at 2.6 million, so this is up 30% year-on-year. And so, we are continuing to do a pretty good job in terms of acquiring customers as well as retaining. And yeah, I think the other thing I'll highlight is the NSV. So the NSV, which is sort of net of discounts net of returns, what is truly delivered to the customer, is about ₹197 crores for the quarter and this is up 14% year-on-year. It's higher than the growth that the GNV is seeing and that's because we made a lot of efforts this year to reduce things like RTO, returns and actually just increase the quality of the business we're doing and being able to deliver more to the customer.

Moving on. Talking about our assortment topic that is close to my heart. We have over 3,000 brands on our platform as of the end of this quarter. This is up from 1,800 brands a year ago. There's been significant onboarding in the last 12 months, and sometimes, you know, I have to remind myself my teams that fashion is still a pretty young business so there is still a lot of onboarding that just happened in the last 12 months and you can see that from 1,800 brands going to 3,000 we're feeling really good about being able to present more choice to the customer. And, more importantly, despite being you know this platform business, we continue to have our eye on curations. So, there's a constant delisting of SKUs that is constantly happening.

The 3 next buckets we talk about this every time. We continue to focus on Global Store, Hidden Gems and First in Fashion, each is growing very well. The Global Store business, which is now 650 brands, contributes 20% of the western wear GMV. Hidden gems, which is over 300 local emerging designers, contributes about 17% of the Indian wear business. So, both are really meaningful, and you know we hear from our customers that they like to come back to us for these sorts of unique assortments that we are building that are hard to find are not listed widely on other competitor platforms.

Moving on. In this past quarter, we also saw the Pink Summer sale event and we have now been conducting sale events in the manner such that Beauty and Fashion coincide on the same date so we take advantage of the rub off effect, and we gain from marketing costs and are able to leverage across both platforms.

Moving on to slide 26. Our owned brands business in Q1 of FY24, our owned brands GMV Stood at ₹916 million, which was a 30% year-on-year growth. The owned brands GMV contributed 14% to overall Fashion GMV, and actually, if you look at these metrics on NSV, they're even higher, closer to 17% and that's up from 12% a year ago.

Our 2 major brands, 20 Dresses and Nykd, have both crossed the ₹100 crores mark, and we really do believe that by building these into standalone brands, that includes being able to list them on third party marketplaces as well as physical stores. So yes, we remain really focused that, some of these brands have to be built out as real standalone brands with a lot of brand love and equity. And so that is why we distribute them far and wide. Nykd, our lingerie brand, which, as you all know, I'm personally really bullish. Love how the brands is shaping up. For example, this brand has massive distribution outside of Nykaa and Nykaa Fashion. It has over a thousand selective doors in GT and MT. It has its 6 of its own EBOs, and we are accelerating on this strategy as well. Before we move on from the own brand section, I'd like to emphasize that we see our own brands business as a real moat. These brands are superior in terms of profitability profile when we compare to the third-party brands that we retail, and also as they develop into real brands with a lot of consumer love, they make our platform an interesting place to shop as well. So, I really think it's a win-win situation if we're able to build these brands out beautifully.

Moving on to slide 27. Just a quick glimpse of the brands across segments. So, we are sort of systematically trying to approach and sort of address all the segments out there on the women's side.

And then moving on. You can see that we've also done some interesting collaborations for our own brands, whether it's you know, with Pipa Bella and Rhea Kapoor or with Mahima Mahajan, who's a great designer for one of our Indian wear brands.

Moving on to the omnichannel slide. We do believe in exploring omnichannel to some degree. So, we have, apart from our website and our multi brand play, we have 4 Nykaa Fashion MBOs, which again, I have mentioned in the past, and 6 Nykd EBOs, as well as selling Nykd across a thousand selective doors. As I mentioned last time, at the moment we don't have plans to scale our Nykaa Fashion MBO business. So that's the first thing I referred to. We'd like to continue to nail our proposition there before we move and accelerate in any manner. But, on the other hand, Nykd, those EBOs we are feeling confident about, and we will be accelerating there. And similarly, you know, placing some of our private brands in MBOs is something we feel confident. So just to recap, because I know often questions come on this, that there are no plans at the moment to accelerate our Nykaa Fashion multi brand business, but as in where offline works for our own brands. We are sensibly progressing in that direction.

Moving on. We're always really focused on education and creating the right content. So that continues to be done. That is always going to be the Nykaa playbook, as you can see here.

Moving on. We do believe that the long tail nature of fashion merits strong discovery. And so really the ultimate question I keep asking myself and my teams ask, how do you show the right product to the right person at the right time, because you have millions of SKUs. And so, we made some progress this quarter which I'm really proud of, and we've launched hyper personalized experiences across the site. We've also launched a new feed called My Nykaa, which is a completely unique feed to every person who engages with the app. So, feeling really excited about the personalization that we managed to launch this quarter. It's showing great promising results with very good click through rates, so I feel like it's finally addressing that, you know, ultimate discovery problem that exists in fashion. And finally, on the right-hand side, I want to highlight that we've also enabled our website to ship internationally. And so, we're now available in 12 countries for over 100 designer labels. And it's still really early days here. But personally, I'm excited about, now having the ability to tap into the NRI market.

And so with that, thank you. And I'd like to request Vishal to take us through our eB2B business.

Vishal Gupta: Thanks, Adwaita. Good evening, everyone.

We remain very excited about our eB2B super store business. And the reason is simple, it's a very large addressable market, and where we can make 3 to 5% EBITDA at scale, it's a large addressable market because the unorganized offline retail stands at $11 billion and it's traditional. It's ripe for technology disruption. And we know that you know, Indians are by and large, quite comfortable in adopting technology, if you see all the mobile penetration, etc. Given the level of unservice in the Indian market and technology adoption. We feel confident that we can disrupt this market and achieve 10 to 15%, which means $1-2 billion of the addressable market. And given Nykaa's expertise in technology as well as beauty and well-being vertical, we can be at the forefront of this disruption. So large addressable market, with 3 to 5% EBITDA at scale.

Next slide, we are well on our way to you know, on our path to profitable scale, and very happy to report that previous quarter was another very good quarter for us, and you can see, year-on-year we have increased our transacting retailers by 2.7 x. We have increased our brands on the platform by 1.1 X. We have increased our coverage of cities by 1.4 x and orders by 2.5 x. So, we make very good quarter-on-quarter and year-on-year progress on as per our plan.

Next slide. And you can see that the benefits of these also are flowing into our bottom line, because, as our GMV is growing by 2.6 x, our feet on ground people productivity have gone up by 1.8 x. Our fulfilment cost has come down by 10%. The distribution cost has come down by 30%, you know which are the benefits of scale. But we also know that we have a long way to go.

Next slide. So, if you see the bottom part, you know, we are confident at scale, we can be 3 to 5% EBITDA, for the simple reason that our focus on beauty and well-being means that we make two and a half times the margin of industry, which is at 5% to 6%. And we can make 12% to 15% because of our focus on beauty and well-being. But profitable scale means we have to grow our GMV by 18x. You know our orders by 13 X, you can see BDE productivity, brands listed, you know. So, it's a journey. But, like I said in my previous slide, every quarter-on-quarter we are moving as per our plan on that path to profitable scale.

Next slide. Technology is at the core of our operations, because that is where we are bringing the disruption. And this is where we have lot of data. We not only have our B2B data, but we also have B2C data, for example, what beauty products are selling in a certain PIN code. So, you know, we have a unique advantage over anyone else in terms of helping our retail partners to buy and therefore stock and sell the right assortment, which is going to increase their overall throughput and increase their income. So, recommendations is one such way where technology is adding value. We also have, you know our own salesman efficiency app with location base check in, etc. So, we are able to drive very high rigor in terms of our feet on ground. So net-net, we will continue upping the game on technology to bring the disruption and improve the service to the retailers.

Thanks. I think now, I will hand over to Ganesh for the financial part.

P Ganesh: Thank you, Vishal.

So, looking at slide number 39, as we can see, our revenues grew by 24% y-o-y during the quarter. Our gross margin was at 43.5% for the quarter and our EBITDA margins improved by 120 basis points to 5.2% during the Q1FY24. We delivered a 17% y-o-y growth in PBT for the quarter.

Moving to the next slide. I'd like to focus over here in terms of the improvement which we have seen in our operating costs year-on-year. Operating expenses as a percentage to revenue was 38.3% during the quarter versus 40.4% during Q1FY23. Quite a lot of the operating cost improvement has come through with the regionalization of our fulfilment centres and reduced rate costs, and also rationalization of our marketing expenses. Fulfilment expense as a percentage of revenue was at 9.5% during the quarter versus 11.3% during the same quarter last year. Marketing costs as a percentage of revenue was at 11.2% during the quarter versus 12.3% in Q1FY23, which is an improvement of more than 110 basis points. Our employee costs have also started seeing leverage come through as had been guided earlier and employee cost as a percentage of revenue was at 9.7% during this quarter versus 10% in the corresponding quarter last year.

Moving to the next slide. Here we have a waterfall in terms of our EBITDA margins, as you can see, while gross margin has contracted by nearly 90 basis points, as a result of a higher proportion of superstore business in our NSV mix. The fulfilment cost improvement which has been achieved through regionalization strategy and better freight cost, along with shift optimization of our fulfilment centres as well as the marketing efficiency which has been achieved through attracting better-quality customers. All of this has actually been ensuring that the overall cost parameters have improved. Selling and distribution costs, of course, increase during the quarter with the offline distribution of owned brands, as we have seen earlier in the presentation. Employee cost, as I mentioned, has started to see leverages coming through and other expenses increased, due to investment in technology and infrastructure.

Moving to the next slide. This slide explains the what the fall from EBITDA margins to PBT margins and gives colour on the investments that we have made, and the impact which it is having. So, deprecation and lease costs increased during the quarter is on account of incremental Capex that we did in FY23 in retail stores, warehouses, as well as offices. And other income has been lower on account of the utilization of IPO proceeds.

Moving to the next slide. Here we can see the vertical performance as it stands, and I'd like to bring your focus to the bottom part of the chart where the cost items are calculated on NSV, which makes it comparable across the 3 verticals of the business. The key point to highlight over here has been the improvement in the contribution margins in the business for the BPC business from 25.2% to 26.5% during the quarter. For Fashion, in a challenging environment that has been and given our consistent investments in the business, our contribution margin has come through at 2.7% for the quarter. The key improvement has been from the SuperStore business again, as highlighted by Vishal. This business has done quite well in terms of cost, and, as you can see within the others vertical, all operating cost parameters have actually improved significantly.

Moving ahead. Here we have the one Nykaa Income statement for FSN E-Commerce Ventures Limited. Our revenue grew by 24% y-o-y to reach ₹14.2 billion during the quarter. Our EBITDA margins, as we saw earlier, was at 5.2%, an improvement of 120 basis points over the corresponding quarter the previous year. And this has come through reduction in fulfilment costs, better marketing spends and employee cost rationalization.

Our investments in building retail infrastructure have meant that some of the increase in other expenses and the emphasis in building own branches meant that there is sales and distribution expenses that have seen some increase during the quarter.

All in all, we believe we have managed to improve our scale efficiencies in a challenging macro environment, and we continue to invest in the growth diversification and improvement of the quality of the business over time.

With this I would now like to invite Suyash Saraf, Co-founder, Dot and Key to talk about the brand and its performance.

Suyash Saraf: Thanks, Ganesh. Hello, everyone. I'm Suyash Saraf, co-founder of Dot & Key.

I think. I'll just brief a little bit of what Dot % Key is for you all who don't know this. Dot & Key is a new age D2C skincare brand. It promises efficacious products with a fabulous user experience. We have a strong product portfolio with the primary focus on face care because we feel face care has more premium and with our categories being moisturizers, sunscreens, serums, and face washes. And you know we have about 50 different products, about 68 different SKUs for it.

Next, please. So, my wife, Anisha and me started the brand back in 2018 and we really wanted to create a beautiful skin care brand which is in par with global standards. So, we incorporated Dot & Key with efficacious products, joyful skincare experience, and a packaging that would really make the customers enjoy their skincare rather than making it just a product that they use. I think, post our initial launch, we really got traction because of our innovative products, which caught a lot of user's eye and specially influencers which gave us our first traction. I think the real game changer for us came back in 2021 when we shook hands with Nykaa, Nykaa got majority stake into the company, which completely changed the game that we were in. And we have massive ambitions for Dot & Key then, and I think the next 2 years we actually spent in re-strategizing, re-aligning, re-pricing our products in order to really start building Dot & Key as a large FMCG skincare company. And I think, all our efforts have paid off in 2023. We now have an annualized run rate of ₹3 billion rupees. We are now having improved profitability. We are in top 3 skincare brands on Nykaa.com. And actually, several of our products are top sellers across different platforms on the Internet. So, we have grown about 5x since the 2021 acquisition. And we do want to become a ₹5 billion brand by 2026.

So, I think, one of the key product innovations is at the core of Dot & Key as a brand, and our biggest reason to win. I think one of the key points for Dot & key winning and the products being differentiated, is that we identified the international trends very early on and we make sure that we actually bring those products to the Indian market way before any competition can. This makes a product strong and what's trending globally and the Indian consumers really want these products.

I think, for any successful FMCG company, the consumer and understanding the consumer is at the core of the business of the business. So, we at Dot & key really feel that if we understand our consumers, we can make great products for them. I think this entire philosophy of ours, where we are obsessed with the customers making sure we are delivering products that they are expecting from us and being very detail oriented when it comes to our product, has really helped the brand grow, and has created a clear right to win for the brand, as you've seen in in a number growth.

I think one of the key wins have also been setting up a strong new product development vertical within the business which got us to the market much faster than competition. So, the speed to market was a clear, differentiating factor in the brand, and the reason for the brand to win which we are streamlining further to improve our speed to market, to be always like in the top in the space.

Next, please. I think, last year about 30% of our revenue came from the innovation funnel that we built out. That really tells, our new launches have been more and more successful as we launch them, and the beauty of the success is that about 70 of our revenue does come from cities beyond the Tier 1 metro. So, we as a brand, believe that the next growth story is coming from beyond Tier 1, and that is where Dot & Key, as a brand is structuring its portfolio, it's pricing, etc., so it can cater to this mass audience which have the aspiration to buy the products, yet don't have the accessibility around them, and they buy products which the world wants and they can and they can get it easily. So, our growth is aligned with the growth in the metro, Tier 1, and beyond them, actually.

So, I think what we've also done in the future is that we've actually gained a lot of market share over the last couple of years across all marketplaces that we are available at. Our objective is to strengthen our leadership position in some of these categories by launching more products, by increasing our market share, to become a dominant player in the market. I think we also want to focus on increasing our retail distribution via the Nykaa retail channel and other modern trade retail channels to increase retail distribution. I think with this, our ambition is to make Dot & key a ₹5 billion brand by 2026. And I think hopefully we'll achieve it.

Thank you. Over to you Sunita.

Falguni Nayar: Sunita. You're on mute.

Sunita Sachdev: Thank you. Thank you. So, with that we've come to the end of our presentation, and we'd like to now open the platform for Q&A.

We request you to raise your hand and we'll allow you into the meeting room for Q&A with the management.

We'll just wait for a couple of seconds for the listeners to raise their hands.

Falguni Nayar: I think, Sunita, while that's happening, I think I wanted to request Anchit to come in and share his insight on what we are seeing in terms of, you know how the beauty industry is doing internationally, and what we've learned through our recent visit. Anchit, if you would like to just share some qualitative stuff.

Anchit Nayar: Yeah. So, I think, you know, we were on the road for a lot of April and May, and even parts of July meeting with a lot of our global brand partners in the US, Europe as well as Asia and I think, the feedback we're getting is that India is clearly now very much on everybody's radar. A lot of the global brands, both on the premium side as well as more on the FMCG side, have always historically prioritized China for driving a majority of their growth. But I think with everything that they've seen with the lockdown and the impact of supply chain and also I think, what has been a relatively tepid recovery in the luxury and the premium market in China. Everybody's looking for China plus one strategy. I know we heard a lot about this across manufacturing and electronics and other categories, and I think it's equally the case for beauty. And so, everyone is looking to now invest into India. It is still very early days, they feel, and you know we've always showed you the numbers around the market size. But I think everyone is very excited by the growth opportunity. And they know it's a multi decade story. So, we're seeing a lot of interest for the first time, this level of interest from global brands. And they're keen to partner with the right retailers. I think that's another differentiator for us. I think they've seen the kind of work Nykaa has done in India leveraging technology, but also focusing on building stores, you know, having a very extensive network of physical stores is crucial for global brands, when they are deciding on them, go to market strategy. And I think the technology, large content, education, assortment and omni-channel approach has been a big differentiator for us and has allowed us to not only continue to win new brands for the platform, like we showed you like we showed you during the presentation, but also to continue to strengthen our business with existing partners. So, I think it's the optimism is high. There is an understanding that the market is still sub scale. But there is a belief that it is it can be a very meaningful contributor to their business in the coming years, and they are looking to partner with Nykaa to achieve their goals in India.

Sunita Sachdev: Thank you, Anchit. We have our first question from Manish. Manish, please go ahead.

Anchit Nayar: I think Manish might be on mute, but Sunita also just introduce the name as well as the company, if possible.

Sunita Sachdev: Yeah.

Sunita Sachdev: Manish, are you in the call?

Manish Adukia: Yes. Hi, can you hear me. Okay.

Sunita Sachdev: Yeah. Can you introduce yourself and then go on with your question?

Manish Adukia: Yeah. Hi, this is Manish Adukia from Goldman Sachs. Thank you for taking my questions. I have a couple of questions, maybe first on the beauty business so you talked about beauty seeing a tough quarter, and the industry was facing some challenges. Can you maybe just elaborate on what these challenges were that the segment was facing?

Falguni Nayar: I'm sorry, Manish. I was speaking at that time I didn't say beauty. I said fashion faced a tough quarter challenge. I think beauty was in line with expectation, and we do believe that we have grown ahead of the market.

Manish Adukia: Right? Sorry, my bad, I was referring to the fashion segment.

Falguni Nayar: So, on fashion, I think, we are also aware that it was a very tough quarter for other players in the fashion industry, be it e-commerce or physical retail, as well as the fashion brands. It's been a tough quarter for most of the players. I think it was one of those odd quarters where somehow the consumer was just not interacting and picking up. And it was what we saw that there was really nothing much you could do to get the consumer interested. So, it was one of those way below, you know, if we have an annual trajectory, I think it would clearly come out way below that trajectory. But I think when we gave the revenue guidance earlier, at the beginning of the new quarter, we realize that industry had seen even lesser growth. And I think that's when we started picking up the revenue growth of others, we realize that our growth was still better than the industry. But all I can say is that since then, in July we have seen better growth coming back to long-term annual trajectory that we would consider for that business and to that extent we remain we remain excited and but, however, I want to caution that July is just one month out of a quarter which would have 3 months.

Manish Adukia: Sure. Thank you for clarifying on that. Maybe just a couple of follow ups on that. So, of course, at the start of the year, I think in the month of May, there was an expectation that the fashion, business and fiscal 2024 could also grow at a similar pace versus fiscal 2023. So given just to start to the year. Would it be fair to say that for the full year the growth may end up being meaningfully lower than you know what we had previously in the fashion vertical. And second, follow up, there would be given that you are focusing on the premium online fashion category, just a bit odd that you know, we are seeing a bit of slowdown even in that category. So, is there any more colour, you're able to add, just you know whether, by segment, is there something more slowdown than the other? That will be helpful.

Falguni Nayar: No, so honestly, I'm not saying that it was due to affordability. It almost felt like customers were missing. Maybe they were travelling. Maybe a year ago quarter was stronger online because of circumstances at that point, because even previous year there was a lot of covid non covid first quarter after Covid. Also, there is certain amount of you know, there was generally a trend where customers were going back into the stores, and this is a global trend where customers are going back into the stores compared to e-commerce and it was shaving off a little bit across that effort. But I think if you take the first quarter from what we are hearing from the market, even physical retail has not done well for fashion, so it almost felt like customers were absent. Maybe a lot of customers were traveling. Lot of customers were postponing their fashion purchases. I wouldn't see it was coming out of affordability, maybe for at our end. You know, also, maybe you know, like, sometimes, what happens in an industry, that new assortment and excitement comes at a different point in time, definitely in beauty, which we observed so for a long time. That second half is when most brands launch their new launches, because it is off season in India generally, you know, the quarter is not such a strong quarter from a seasonality perspective. So maybe some amount of that excitement was missing.

Manish Adukia: Thank you for clarifying.

Adwaita Nayar: I think I'll just add there that. Yeah, I think it's way too early to sort of, you know, right off the year. Nothing like that. We as a team, remain really confident and sort of focused on the rest of the year. Three things are giving us confidence as we're sitting in August. The first is that we have shared that July was actually quite good for us and we did feel that there was a normalization of growth again when we were looking at July. Again, that's only one month. But we're feeling, you know, sort of confident, going into festive season that we're going to be able to hold you know, higher level of growth. So that's point number 1. Point number 2 is, we are noticing that our repeat metrics, and our cohort metrics are improving. And so again, that is giving us confidence that the customer is sort of starting to come back again, and that also like points to the inherent strength of the platform and the proposition we're building and then the third thing that's giving us confidence sitting in August is that the marketing metrics, again, are looking better. So one is, we're not at all giving up on the growth targets and the growth that we believe that this business can achieve in a year. Yes. Q1 was a bit odd but again, from what we're hearing, anecdotally from all our brand partners, other retailers are that Q1 seemed to be a bit de-growth or flat for a lot of fashion folks out there. So, in that context, we feel that we still did take market share. But yes, it wasn't to our overall expectation from a growth point of view. I'd say the second thing that I'm feeling good about sitting in August is that I do feel that the business has made a lot of changes in Q1, you know, sort of during the slower time. We've really continuing to shape the business. So, we are deprioritizing certain categories. We're focusing a lot more on women. We're focusing on certain, like quite profitable segments. So, my belief that the shape of the profitability of the business is going to show improvement in the near future is again increasing. So yeah, I would definitely not say that we're losing confidence for the rest of the year.

Falguni Nayar: Also, the quarter went by, it wasn't that there were no improvements. I think our shrinkages came down, and our ratio between GMV to NSV improved in Fashion. So, I think there were a lot of improvements in the business which were made including controlling the marketing expenses. It just said we found it harder to I mean to achieve growth that quarter.

Manish Adukia: Thank you. My last question is on the B2B business. The contribution margin there seems to be improving on a trendline basis. Would you be able to comment on how many quarters from now could it potentially, let's say, get to break even, or at least at the contribution level. And of course, at the start of the call or during the call, you also guide you to 3% to 5% scale again, you know, in terms of some sense on you know, how far away are we from that like qualitatively, that'll be helpful. Thank you.

Vishal Gupta: Yeah. Can I answer that? Yeah. Look firstly, you know. It is obviously slightly difficult question to answer, because, you know how long it takes, but I think that it will take a few years for sure. Okay, and if you look at my slides, then what we are clear on is at what scale, what number of orders, etc. we get to the profitable scale, and you can see that previous quarter, what kind of growth we had. Right? So, you can make your own judgment. It will be a few years.

Vishal Gupta: It won't be 2 years. It won't be 7 years or 6 years, you know.

Falguni Nayar: Also, I think the growth generally as a platform becomes bigger, comes down. But also, this is a platform which is not at its full scale. It's not servicing, or it's I mean, we have said in the past that we are trying to service in a concentric manner with PIN codes around our warehouse is being serviced. So, both the inputs into it in terms of additional warehouses, additional feet on street that will service those markets in in panel. The customers can also go up and we want to also keep the discipline of the way we invest in this business. So, I think at the moment we can only say that at what scale will be profitable. We are not giving very clear guidance on timing.

Manish Adukia: Thank you all the best.

Sunita Sachdev: Thank you, Manish. We have the next questions from Sachin. Sachin, once you're in the call. Please introduce yourself and go ahead.

Sachin Dixit: Yeah. Can you hear me now?

Sunita Sachdev: Yes, please go ahead.

Sachin Dixit: Yeah. Hi, this is Sachin from JM Financials. I had a couple of questions, the first one was on Beauty Vertical this was one, I think I highlighted last part as well. We were adding roughly, 0.5 million net users in beauty every quarter since IPO until last quarter, when it dipped to 0.4 and now it looks like this quarter, it is dipped further to point 0.3. And that is given that the marketing expenses are still holding up. You've not really cut it down. So how do we think of ramping that back up?

Falguni Nayar: I think what I can say is that honestly like the TTM, I've always felt is not the right metrics for measuring Nykaa's customer, and how often they come, because, while we say, on an average customer buys three and a half times in a year. It is not like food, and others where customer comes back a lot more times in a year, and because of the way the customer distribution is that there are customers who come back sometimes once in one and a half years or once in 2 years. So, I think the TTM number doesn't truly reflect Nykaa's buying customers.

All I can say is that we do study the cohorts, the monthly cohorts, and we do feel that the cohorts are kind of similar and not deteriorating as we go wider, but also with an acceleration of new customers that you bring into the net. You know that that balance itself can lead to the changes. So, I think all we are seeing is that we have 2 separate programs. We have CLM and CRM programs that monitors about our growth of our repeat customers, and how that is growing, and also monitors the growth of our new customer acquisition, and, in fact, repeat customers, both the customers and the purchases continue to grow at a healthy pace.

Sachin Dixit: In that case, would you be comfortable sharing the new customers added in a quarter, or for at least the last few quarters.

Falguni Nayar: I think you know. The point is that we I mean, I think we as a company, are sharing far more information than anybody else in the industry does. All I can say is that sometimes the certain metrics are not very keen to share on a regular basis. So, because of you know, the changes which can be due to many reasons, there could be seasonality, there could be other things and investors tend to read too much into it. So, the decision to share something annually and something quarterly is a very conscious decision, based on not creating further confusion amongst investors who may not understand the strategies that may be employed during a quarter.

Anchit Nayar: Yeah, I think sorry Sachin. I'll just add something. I think. Look, if you look at the year-over-year growth in in terms of the you know, trailing 12 month transacting consumer base, that's almost 20% growth, right? And also for BPC, and in that same time we've reduced the marketing spend-year over-year by about 30 basis points. The marketing cost hasn't grown in line with the increase in the number of transacting customers year-over-year. So, I think that's one thing to point out. I would say, the second thing is that, as you can see from Nykaa, it's not just about the growth in customers, it's also about the growth in the customer's basket size, frequency of purchase. So, you must also look at it in that sense, these are unique transacting customers, but the frequency of purchase, the average basket size, the average selling price, and therefore the average order values obviously have improved to deliver 24% growth year-over-year. When the growth in customer year-over-year has been 18%. So you know, we have many levers. One is, of course, importance of increasing a number of transacting customers, but also the frequency and the quality of their transactions is also equally important, which has improved. And that's why we've delivered higher revenue growth as opposed to the marketing spend growth.

Sachin Dixit: Fair enough. Yeah. Other metrices are certainly holding up. So, I'll move to a next question. That's a housekeeping question looks like there has been some cost movement that have happened between selling and distribution and fulfilment. I would love to have probably at least the last quarter and the last fiscal year's number, if possible.

Falguni Nayar: Yeah. Comparable numbers for the last few comparable quarters. I think the team will share it.

P Ganesh: Yeah, it's a real classification of off role warehouse cost which have logically now been reclassified into fulfilment, and in terms of in terms of value, this is roughly about ₹100 crores annually, if you look at a FY23 numbers.

Sachin Dixit: Understood. Would it be possible to share, like to like numbers for last quarter, just to see the difference.

Falguni Nayar: Yeah, the effort will be to give it to you for last quarter. I think.
P Ganesh: It's about ₹25 crores, if you look at Q1FY23, it's about ₹25 crores. That's the quarterly number.

Sachin Dixit: I'll probably check on this offline. Thank you. Those are my questions. Thanks.

Sunita Sachdev: Yeah. So, the next questions from Sheela Rathi. Sheela, please go on. Sheela, you're on mute. Maybe you want to unmute.

Sheela Rathi: Yeah. Hi, good evening, everyone. So, my first question was, with respect to the pink day sales. So, is this the first time where we are planning to do it, 4 times in a year? I believe earlier it used to be twice a year. Right?

Falguni Nayar: No, it's been 4 times a year since last year, you know.

Anchit Nayar: Yeah, we've done this in May. It's a May sale. We call it a pink summer sale. We've done it. We did it last year as well. In terms of doing only 2 pink sales in a year. That was a couple of years ago, but in the last at least I would say maybe 8 to 12, maybe more quarters we try to do at least 3 to 4 pink sales in a year.

Falguni Nayar: I think I can explain, I think why, Sheela, you may be confused, because I think about a year ago, when we were planning the sale. It was, you know, third phase of Covid, and we were afraid to call it pink sale, so we called it Nykaa super summer days and this year we brought it back into our pink sale. We didn't want to call it sale at that point.

Sheela Rathi: Understood. Falguni, my second question was, with respect to the you know, scaling which we have seen for Dot and Key. And if I compare that with Kay Beauty, there is a stark difference. Is it a transition which is happening with respect to the Indian consumer in terms of, you know, more preferences towards skincare versus cosmetics, which was the case in the past. And especially, you know, you going ahead with the CSMS campaign? Are we seeing some behavioural changes among the customers? And how what does it mean for our margins?

Falguni Nayar: Yeah, no, I think I won't worry about the margins, but I think what I can say is that world over there is skinification of beauty which means that world over there is a higher growth in skincare consumption compared to make up, I think, in the industry. I've seen that these are short cycles over one or 2 years, you know, industry moves in favour of one particular subcategory, and then the growth happens somewhere else 2 years later. So, for now, definitely it’s a worldwide trend where there's skinification of beauty with lot of products, consumers preferring to have, you know, the starting point is that, let's have better skin then trying to hide false in your skin. So, I think there is skinification of beauty going on, and that same trend is being seen in India.

Anchit Nayar: Yeah. But II just want to add, because I think, Sheela, you mentioned that there has been a stark difference in the performance of Kay Beauty and Dot & Key. And I think that's not the case. So Kay Beauty actually, which is our colour cosmetics brand which we have in partnership with Katina Kaif and it's a slightly more premium brand that actually has done very, very well. And it's growing incredibly fast. I don't know if we disclose those numbers, or if Vishal would like to point that out. But I think that would be a that would be a wrong assumption from you that Kay Beauty’s the performance has been starkly different from Dot & Key. In fact, Kay beauty, is one of the fastest growing platforms. Sorry one of the fastest growing brands on the Nykaa platform. And actually, just yesterday, it won some award at some Economic Times brand awards show. But that's not the point. The point is, the numbers are also showing that the brand is doing incredibly well, and it has become now one of our top, you know, top 10 or so makeup brands on the platform out of 1,000 makeup brands that we have.

Falguni Nayar: Yeah, on a makeup basis. I think Kay Beauty is doing fantastically. Well, I think to Sheela’s broader question. I think if we see maybe 3 years ago or 2 years ago most of the top 5, 6 brands would all be makeup. You are increasingly seeing that. You know, there are a lot of skin care brands creeping into being top brands at Nykaa. So, skincare is definitely growing very strong.

Vishal Gupta: Absolutely. And just to build on that look. Both brands are doing really well. But skin as a market, its addressable market is far larger than makeup, and therefore skin brands will be bigger than makeup brands. But both brands are doing really. Well, I mean across India, not just Nykaa, I'm saying the overall market.

Sheela Rathi: Okay? And there are no not much differential on the margin side from our perspective.

Falguni Nayar: If you're talking about margins as manufacturer, no, not much difference. And margins as retail also not much difference.

Sheela Rathi: Okay. My other question was actually on gross margins, you know, as a share of eB2B goes up for us, you know, in the coming quarters and years. How should we think of the gross margin trajectory now going ahead? Because, at the consolidated levels, and numbers could be now lower versus what we have been seeing in the past.

Falguni Nayar: I think the consolidated gross margin will be a function of 3 distinct businesses which is Beauty, Fashion, where, the gross margins are a certain number, because again in fashion, a lot of business was marketplace and then, now B2B, and then against that, even our own brands, as we call it, between beauty and fashion. Also, as you're aware, we have quite a few brands, similar, like about 12/13, and beauty and similar number in fashion. So, I think even they have a little different structure of revenue versus margins, and we also now have LBB, which is a content business. So, I think the margins are a combination of a number of things. I think the reason why we give all the 3 segments, and you know variable costs, as percentage of net sales value is with a view to for you to be able to see how they will emerge, and I would just caution that in others it's a combination of B2B as well as other businesses in terms of revenue. Large portion is B2B. Though in other cost item, it could be variable. And that's why we are making this effort to share the B2B unit economics very clearly for you to be able to project.

Sheela Rathi: Understood. My final question was, to Adwaita on the fashion business. You know, she mentioned that, you know, as we are confident about delivering the full year growth which we had talked about, you know, last quarter. And she also mentioned about, you know, deep prioritizing certain categories and focusing on profitable categories. So just wanted to hear more details on what exactly we are doing here.

Adwaita Nayar: Yeah, you know. So, I think. First of all, I think you know, we have to begin with the fact that fashion is a massive market, and we are so excited that Nykaa has sort of put its stake in the ground, saying, we want to play in fashion, and I think in the long run, us having a role in in this, seemingly you know, large fashion industry, we would be really great thing for Nykaa. So, I think growth will come but I do believe that in this category it's absolutely incredible to crack some sort of formula to be able to drive profitability. There is 100% a model in fashion, as I always say, to deliver, you know, 50%-60% top line growth with limitless funds and limitless losses, which is what you know the industry may have seen to date, but that will never be the Nykaa way. So, as always, the focus is for us to remains that how do we deliver sensible growth, while every quarter shaping the business such that we're driving closer and closer to being truly profitable in a meaningful manner. And, as you can see, over the last couple of quarters, we've been hovering around this contribution margin of about 3% and so I, you know, it is time that there are some decisions that we take to really drive meaningful step function changes in

that number, and I always think that every new leg of profitability requires some bold decisions to get to that new leg, and then you work from there and go onward and upward. So how are we thinking about the profitability? couple of things? The first is category mix. The reality is that certain categories are better from a profitability perspective. They have better margins; they show better cohort behaviour, they show better type of customers who adopt to those categories. So, a perfect example is like Indian wear is a great category. You know, in women accessories. So, bags, lingerie, these are great categories.
Men's is a slightly less great category, particularly men's footwear, you end up seeing a lot of sorts of returns. So, nothing super dramatic. But as a team we're just being really mindful of what is the profitability profile of various categories and how can we shape it? So that's one example of what we're doing on the profitability front. A second example is, we're doing a lot on cart charges. So, I'm sure you guys can even see Zomato and other companies out there. They're starting to layer on a lot of charges at the cart level, whether it's around shipping or returns, or whatever. So, we do feel that there's a margin opportunity in putting some level of charges on the cart to drive better customer behaviour, so that will also drive some amount of profitability. The third is owned brand strategy. I'm relentlessly focused on growing our own brands share. Why? Because it is a significant delta when it comes to a profitability point of view. So, if you just see on a GMV level, right like owned brands, is now 14% of our GMV up from, you know, 12% a year ago, and up from like negligible 2 years before. So, with every 10%, we're being able to increase an owned brand share, there's a profitability improvement coming out there and then. The fourth thing we're doing from profitability point of view is again, we're trying to increase our ability to deliver truly to the customer. So, fashion is often plagued by returns and RTOs which is when the customer refuses, or the logistics partner can't get to the customer. So, there's a lot of operational heavy lifting we're doing to try to fix those. So, these are sort of like 4 examples of strategic decisions we're taking and initiatives that the team is doing over the last quarter. And this is the only way in fashion to keep clawing back profitability and to build a profitable business in the long run. So, I hope that was clear, like growth is not really the concern it. The concern is actually being able .to drive a profitable business and a very clear path to profitability while still getting some amount of growth, like happy to wait a little longer for growth, but definitely want the right cost structures in place as we keep scaling up.

Falguni Nayar: I think, I can definitely say is that over the whole year we have given up a lot of business on tech accessories because we felt that it didn't make any meaningful addition to our profitability. You can get a lot of top line revenue, but there's a lot of shrinkage, and there is a lot of cost of you know, if from a marketing perspective, it was not justified. And then we do this across brands, we do this across subcategories. So, it's very difficult to give too many examples. I am just giving you one example that kind of stands out.

Sheela Rathi: Thank you. I think this is very clear.

Sunita Sachdev: Thanks so much, Sheela, I think we should have Vijit in the meeting room soon. Vijit, please go ahead.

Vijit Jain: Hello! Hi, can you hear me?

Sunita Sachdev: Yes, please go ahead.

Vijit Jain: Yeah. Hi, this is Vijit Jain from Citi? I have 2 questions. My first question is, did the ad-revenues go down y-o-y in the BPC segment. And my questions context is, I just look at the NSV in the BPC Business, and I deduct that from revenues, and that number seems to be down on a y-o-y basis. Just wondering on that, given you have rolled out new ad products in the quarter. So, if you can comment on that.

Anchit Nayar: Yeah, maybe I can take that. So, I think I would say it's not declined but there is a slight softness in the advertising income on the dotcom platform, and I think it's predominantly for 2 reasons. Although we believe it's an aberration, and I would not try to draw some sort of longer-term trend from this. So, the first is that you know we did launch our Ad-tech platform towards the end of the quarter, and you know, it is a very different ways of working for a lot of brand partners from what they were used to earlier. In the past everything was handled by the Nykaa brand managers you know, full service, where we would help them upload their ad and monitor the performance. Now we move to what is really industry standard, which is a self-serve ad platform where brands have to themselves come up with the creative design, the commercial offers and decide on the duration of their banners on the platform. So, I think there was a little bit of change management that took a little bit of time for brands to get up to speed on, because they were not used to those ways of working earlier. And you know there are many brands who are very you know, they are direct to consumer brands, or they are smaller, and they don't have the kind of bandwidth or infrastructure to manage this on their own. So, it's taking them a bit of time, I would say a couple of weeks, months or so to get up to speed on how to use our new Ad platform, but we knew there would have been some teething issues when we launch this, but we know that longer term it is very beneficial for our brand partners. In fact, it's something that they have been asking for a long time. And as they get more comfort with it, I think you'll see that gap closing. I think, the second thing is, there was a little bit of a pull back on spends this quarter from direct-to-consumer brands, not so much from FMCG. Or CPG. Brands. Some pull back from D2C because, as we all know. and we're all reading, there is a little bit of pressure on D2C brands with regards to profitability as they look to enter their new fundraise cycles, etc. So, I think it's a slight aberration could it be one quarter, 2 quarters, maybe. But I think you have to keep in mind the longer-term trend, that there are more and more brands coming alive every day every month, and they need a place to do their story telling. They need a place to acquire customers. And you know that, continues the platform of choice, for that continues to be Nykaa given the kind of customers that we have and the kind of marketing which we're able to do.

Vijit Jain: Got it. Thanks, Anchit. My next question is just a clarification to you know, Vishal and Falguni comments on B2B margins. Because I think the question was in part what Manish was asking was on contribution margins. So, I just wanted to make sure I understand that right? The scale charts of slides that you've put up. They address overall business wide profitability. Right? If you could separate your answer into on the contribution side and on a business side that will be helpful.

Falguni Nayar: Sorry. I think the scale is for B2B only.

Vijit Jain: Yeah, I just wanted to understand if the contribution margins itself probably need a smaller scale than what shows up. Right?

Vishal Gupta: Yeah, no, absolutely. You are. You 100 %, right? What we spoke about is the EBITDA includes all people cost and overheads and technology costs and everything, but contribution margin is, you know far, far shorter turning.

Vijit Jain: Okay, got it. Thank you. Those were my questions.

Sunita Sachdev: I think Kapil, maybe you want to go ahead.

Sunita Sachdev: Kapil you are on mute. Please go ahead.

Kapil Singh: Thank you. You talked about growth in fashion picking up in July. I just wanted to check. What is the trend you're observing in BPC, is it holding around the same range?

Anchit Nayar: Yeah. So, look, I would say, you know, as you could see, BPC definitely had a good quarter. Q1 was a good quarter as not only in absolute terms, but also, if I look especially relative to competition, it's been, I think there was definitely further market share gain for us across our core categories of beauty which is makeup and skincare predominantly. So, I think it's a good quarter Q1 for Beauty, and I think you'll see a similar trend in Q2, as we've always said Q3 is the festive period. So that's obviously when there is the most aggression from brands as well as the most interested excitement from customers. So, Q3 I think, as we've always said, our is a seasonal business is our best quarter, but I think Q2 you'll see, you know, similar growth trajectory to what we saw in Q1.

Kapil Singh: Okay, thanks. And just secondly, on the EBITDA margins. For you know, for the business. they've been ballpark in the same range for last 4 quarters, you know, and BPC also if you look at the contribution margins, they've been, you know, in the last 4 quarters being around the same range. We've seen some increase in revenues also. But you know, that's not brought in a margin expansion, I would say. So just wanted your perspective on what is the plan for margin expansion. What will be the drivers for BPC, and for the company as a whole. Also, if you could give some direction.

Falguni Nayar: I think, if I may say so, in BPC, a lot of cost improvement and margin improvements have been made. And while we only share up to contribution margin level below that also you know the employee cost, and all in BPC are quite tight. So, in in my opinion, you know, BPC business also is a combination of online offline, and also our private label business. So, you know it does get influenced by all the 3 elements. So I think the some of it balances out some improvements somewhere, balances out with some deterioration somewhere else, and deterioration not from a business hardship perspective, but clear strategy of, say, going more in GT/MT for private label that we may adopt, or in a future date we may adopt certain strategies about taking a brand internationally or investing in a brand marketing sometime. And similarly, physical retail business also goes through, the best quarter when you know, that business is very sensitive to revenues, and there is seasonality in Beauty business, and that we've seen over long period of time. So, I think it's very difficult for us to say that there'll be like massive improvement in contribution margin, or even EBITDA margin in Beauty from here but there will be some improvement. I think, at the consolidated Level most of the improvement is going to come from bringing our costs under control for other businesses which include Fashion, Fashion private label, B2B business as well as Nykaa Man, and others that we have in our field.

Anchit Nayar: Yeah. I think just to look, I think it's the point was made that our BPC vertical is a combination of us as a online and offline retailer as well as a consumer company. Right? So, it's a mix so there's some impact there, but that you know that being said, there's still been a 130-basis point improvement and contribution margin year-over-year, despite there being a 60 basis point deterioration in the gross profit margin. So you know, I wouldn't really call it flat year-over-year, the contribution margin and for a business that's already at decent scale, and, as we said, costs are already relatively well optimized. It's still, I think, a meaningful improvement on the contribution margin line.

Kapil Singh: Okay, thank you, and wish you all the best.

Falguni Nayar Sunita, I think it’s quite late now. So 7:30 for everyone. It's late. So maybe we can end here.

Sunita Sachdev: We just have one last with your permission. Yeah. Latika. Why don't you go ahead?

Latika Chopra: Thanks for the opportunity. I'm Latika from JP Morgan. Few questions, the first one was, you know, just taking forward on Anchit’s comment, I wanted to understand what led to, you know, reduction in gross margins for the BPC segment both on y-o-y and q-o-q. basis. Is it largely you do with mix? Or is there something else?

Falguni Nayar: Sorry? Can you say again what you are saying?

Latika Chopra: The gross margins for the BPC segment. There was a reduction on a sequential basis, and even on a y-o-y basis. What led to that? Is it just a function of product mix, or there is something else here?

Anchit Nayar: Oh, I think I answered that question it was asked by somebody else. So, it's a couple of things. One is, of course, mix between the 3 distinct businesses of physical retail, online and consumer brands that is built into that. But also, as I mentioned, there was, you know a little bit of a pull back on advertising spends from direct-to-consumer brands and specific. Not really from anybody else. You know, international brands, FMCG, CPG, everybody has continued to spend well and I think if you read the news, or you see the press out there it's all saying that A&P spends for FMCG and CPG are back to Pre covid level. So that we think is a very is a very optimistic trend, and we hope to see that revival continue and strengthen for a large part of our base of brand partners in the coming quarters, but yes, I think D2C has had a difficult quarter, as all of you know as there is a desire for profitability, and they are in the midst of fundraising, and as a result, they are trying to optimize for the quarter. I don't think there's much to look into it from a longer-term trend. There will be quarters where growth and add income will be up and down, but I think we all have to continuously believe in the long term trend here. And that being said, look, our BPC growth is very strong, right? I think at 24% growth for GMV, that is definitely ahead of the market. I don't know what numbers you have but the numbers I have, this is at least 5 to 7 percentage points higher than the other platforms. So, I think we continue to market share in BPC, despite being already quite large in size, and ad spends, there will be some ups and downs in quarters, as I said, one because of D2C pull back. But the second point I made earlier, which is, you know, we have rolled out a very new way of buying, Ad real estate on our platform, and there will be some change management to be done. Certain brands will have to learn to use that platform, and that is something we expected, and that is something which should be mostly, you know, I think, between June and July that's being taken care of, and I think by August, September everybody should be very much up to speed on how to use our very new and very enhanced Ad Platform service that we've rolled out.

Latika Chopra: Sure, thanks, Anchit. The second bit I wanted to check with you is, you know. Are you sensing any change in consumer behaviour? You know, from a purchase perspective. You know you talked about, you know, 4 discount sales period seasons in a year, are you seeing salience of sales increasing more than previous years during these periods. I understand you don't fund those discounts. So, it doesn't really, you know, affect your profit line. But just trying to understand, you know, is this something which is, you know, getting more consumers on board, or, you know, help them to spend more during these periods.

Anchit Nayar: Maybe I'll kick it off. So, you know, I actually don't really think it's a change in consumer behaviour. I think, what's a little bit of what we saw in Q1 is a lot of the horizontal marketplaces, they did step up, their retailer funded discounting quite significantly and they were pushing brands to also discount more. So, I don't think it's a consumer led change. I think it's a retailer. There was a bit of aggression from

other horizontal retailers, maybe in a scramble to accelerate growth in what they were seeing as a soft market, you know they probably push the pedal on their, you know, their main lever, which is always discounts to try to generate some business. So, brands did move some budget from marketing and visibility into discounts and heavy retailer funded discounts as well. But I think again, that's, I don't think it's a longer-term trend from them, either. I think they're just trying to shore up a quarter that was looking, challenging. I don't think this is a new way of working, and the reason I don't think so is because the brand partners do not like it at all. All the large brands are very disappointing that retailers are taking this approach to heavy discounts and trying to commoditize this category, which has never been the case.
So, you will see a lot of pushbacks from brands to retailers who are looking to do these kinds of discounts, and I think it should revert to the median in the coming quarters.

Latika Chopra: Okay? And the last bit, you know, of course, there has been you know, is on employee attrition, and I did see the press release put out by the company, and I do see new hires, and you know expansion of roles for the existing you know employees as well. I just wanted to understand, are there any specific initiatives, your company is undertaking to arrest the attrition? And could that have any influence on employee costs going forward, and that was the last one from my side. Thank you.

Falguni Nayar: I think I'll address that. I think attrition is the wrong word. I think Nykaa has definitely went
through a very tight evaluation process where we have decided to differentiate quite a bit between high performers and average performers, and performers which were below the threshold. And there is clear you know, upgradation of talent going on. I think some of these tend to be misrepresented in the media. and I wouldn't call it an attrition, so I think it is a media. I mean, there are people in that group who
we're not doing any significant roles. And very often, you know, media picks up what they intend to pick up. So, I think there was no significant erosion of talent, if I may say so. In fact, the quality of our talent is better now than ever.

Anchit Nayar: I think it is two things. One is of course upgradation of talent, because we are getting a lot higher quality talent coming into key roles and we have revamped and really focused on our appraisal process and the way we are deciding on what roles are critical and which are not. And I think you must look at this in context of what's happened in the broader, consumer technology space, and probably in the broader space, globally, in terms of the kind of reduction in force you've seen across hundreds of companies. I think Nykaa has not done bad at all. And so, for us, the focus has just been on ensuring we have the right people in the right seats. You may call it attrition, but you know, I think in the kind of, if you look at the context and the macro comparable it is very different. And as Falguni said, you know, we're trying to make sure we have the right people in the right seats.

Latika Chopra: Well, understood. Thank you so much, Falguni and Anchit.

Sunita Sachdev: Alright Falguni. Since that's the end of the con-call, maybe you can have some closing remarks, please.

Falguni Nayar: Well, I just want to thank everyone for attending this. And like you know, we have said in our press release, I continue to say that. You know, Nykaa remains very confident of creating long-term value for all its shareholders. We do feel that our Beauty vertical continues to shape into an ecosystem of its own, with steady and balance growth across our online platforms, physical footprint as well as our consumer brands. Our fashion consumer brands have experienced steady growth and they also building their own labels, spanning across categories of Westernwear, Indianwear, lingerie, menswear accessories, and much more. And even though this quarter growth was slightly below long-term trajectory, we remain confident that this will not be the case going forward. I mean, we hope that we are able to go back to the trajectory of growth that we are planning. Also, Nykaa's ethos to grow businesses and brands with passion, but also with the discipline, is again visible in the way we are growing. Our SuperStore business by Nykaa as well as our Beauty brand, Dot and Key has had significant scale quickly with a lot of inputs that went in from Nykaa way of building, and of course we appreciate what Suyash and Anisha bring to the table in terms of innovation and their passion to build a business. So, it's a great partnership. And similarly, we are also seeing that Kay Beauty is a brand as well as Nykd that we talked about in our annual day. So, building a number of very interesting brands and we continue to work with each of our businesses, improving their unit economics. Dot & Key has, in fact, crossed the annualized GMV run rate of almost ₹300 crores, which we're very proud of, growing almost 5 folds since the acquisition and achieving profitability and demonstrating the successful business model that you know Nykaa aspires for, which is building value with Nykaa playbook. So, with that, I thank each of you to being present today in the call and we've enjoyed our interactions.

P Ganesh: Thanks everyone.