NYKAA

FSN E-Commerce Ventures Limited

November 15, 2024

National Stock Exchange of India Limited **BSE Limited**

Symbol: NYKAA **Scrip Code: 543384**

Dear Sirs,

Subject: Transcript of the Conference Call for analyst/institutional investors for discussing Unaudited Standalone and Consolidated Financial Results for the quarter and half year ended September 30, 2024

Please find enclosed the transcript of the Analyst / Investor Conference Call held on Tuesday, November 12, 2024 with regard to the Unaudited Standalone and Consolidated Financial Results for the quarter and half year ended September 30, 2024.

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

We request you to take the above information on records.

Thanking You.

Yours faithfully,
For FSN E-Commerce Ventures Limited

NEELABJA CHAKRABARTY
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Neelabja Chakrabarty
Company Secretary & Compliance Officer

"FSN E-Commerce Ventures Limited (Nykaa) Q2 FY'25 Earnings Conference Call"

November 12, 2024

MANAGEMENT:	**MS. FALGUNI NAYAR – EXECUTIVE CHAIRPERSON, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER** **MR. ANCHIT NAYAR – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER, NYKAA BEAUTY** **MS. ADWAITA NAYAR – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER, NYKAA FASHION** **MR. NIHIR PARIKH – CHIEF EXECUTIVE OFFICER, NYKAAFASHION.COM AND NYKAA MAN** **MR. VISHAL GUPTA – CHIEF EXECUTIVE OFFICER, NYKAA DISTRIBUTION** **MR. P. GANESH – CHIEF FINANCIAL OFFICER**

Moderator: Hello and good evening, everyone. This is Michelle from Chorus Call. Welcome to FSN E-Commerce Ventures Limited Q2 FY'25 Earnings Call.

From the management at Nykaa, we have

Ms. Falguni Nayar – Executive Chairperson, MD and CEO

Mr. Anchit Nayar – Executive Director and CEO, Nykaa Beauty

Ms. Adwaita Nayar – Executive Director and CEO, Nykaa Fashion

Mr. Nihir Parikh – CEO, Nykaa Fashion.Com and Nykaa Man

Mr. Vishal Gupta – CEO, Nykaa Distribution

Mr. P. Ganesh – Chief Financial Officer

Before we start, we would like to point out that some of the statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

Kindly note that this call is meant for investors and analysts only. By participating in this event, you consent to such recording, distribution and publication. All participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation from the management concludes.

With that, over to you, Falguni ma'am, for opening remarks. Thank you.

Falguni Nayar: Thank you very much. I think, dear investors and everyone on the call, we are really happy to be here today with our 2nd Quarter for Financial Year 2024-2025 results.

I will start with Performance Highlights:

I am just happy to say in the 2nd Quarter this year we have had a strong GMV growth of 24% year-on-year and revenue from operations now stands at Rs. 1,875 crores, which is again 24% year-on-year growth. Taking it further, the gross profit has improved in terms of the margins. And the gross profit margin now stands at 43.8%, which is 70 basis point improvement year-on-year and gross profit stands at Rs. 821 crore.

Talking about EBITDA:

EBITDA has also grown at about 29% year-on-year, with EBITDA coming in excess of Rs. 100 crores for this quarter and it stands at Rs. 103.7 crores. Profit before tax is at Rs. 21.3 crores, again, a 60% year-on-year improvement and with PAT at Rs. 13 crores, with, again, 66% year-on-year improvement.

Moving on further, this breaks it up between Beauty and Fashion, where you can see that Beauty has had a strong growth of 29% on a year-on-year basis. This is under our definition of Beauty, which includes omnichannel Beauty. It includes our Beauty private brands, as well as our eB2B business. And this, on the first-half also, the growth has been 28% year-on-year. So, we have had a strong first-half and the growth momentum has only accelerated in the 2nd Quarter.

On the net revenue also, the picture is similar with 24% year-on-year growth, both in quarter two as well as on a first-half basis, where the first-half net revenue for Beauty stands at Rs. 3,296 crores.

On the Fashion:

The growth has been slower. As many of you are aware that the Fashion had a little bit subdued first-half and from a seasonality perspective as well as unique reasons, why this year, the Fashion demand was a little bit subdued due to more festivals being more weighted in the second-half. So, we have come out at about 10% year-on-year growth for this quarter on a GMV basis for the Fashion business. And even the first-half growth is subdued at 12% year-on-year.

On the Revenue:

Of course, the results are good with 22% year-on-year growth for the 2nd Quarter, with the net revenue at Rs. 166 crores, whereas for the first-half, the net revenues have come out at Rs. 314.7 crores, which also is a 22% year-on-year growth. I wanted to point out that the strong content revenue in LBB, the subsidiary that is acquired by Fashion business is responsible for strong growth in revenue growth momentum in the Fashion business, which has topped up the growth on top of the Fashion business.

Just some of the summary headlines:

We now have 37 million cumulative customer base, which is a 31% increase on a year-on-year basis. We also have 210 stores. With this, we are the largest Beauty retailer network in the country. And we have also added two new flagship stores and flagship stores are bigger stores with more brands in premium location. And there is a clear direction to grow some more of these going forward.

On quicker delivery, as we call it, we have a big focus on consumer delight through faster delivery. And we are proud to say that 70% of our Beauty orders are now delivered within same or next day in the top 110 cities in the country. So, instead of focusing on just a few metros, I think, on a wider network of larger cities, we are trying to improve our delivery to be the same or next day. And we have this definition, where orders placed before 12 noon are delivered the same day and the orders placed in the afternoon are delivered by next morning. So, it is less than 24 hours, but almost 110 cities are delivering 70% of the orders in this manner.

We now have 6,800 brands across Beauty and Fashion, and we have launched 170 plus brands in Beauty this quarter and another 260 plus brands in Fashion this quarter. So, it was a big quarter for expanding our catalogs and we are quite excited that the platforms are growing bigger and stronger. With all this, the consolidated GMV stands at $450 million plus for this quarter.

With that, I will hand over to Anchit to talk about Beauty multi-brand retail.

Anchit Nayar: Thank you, and welcome everybody. So, I think as FN mentioned, it has been a strong quarter for the Beauty vertical with a 29% growth in GMV taking the total GMV for the quarter to Rs. 2,783 crores. In terms of what were some of the key highlights in the quarter, the first has been that the investment in new customer acquisition is paying off. This is something we have spoken about in previous quarters, and you can see that in the fact that the growth in customers and new customers has been at 31% year-over-year.

We have also spoken about the focus, which the company has put on growing and expanding the premium fragrance market in India. And that has also played out well for us this quarter with that particular category growing well ahead of the overall platform growth of 29%. In July, we host our flagship Hot Pink Sale. That sale this year had over 23 million unique visitors to the sale over the 10-day period and continues to grow from strength-to-strength.

In terms of our physical retail footprint today we had a 210 stores across 70 plus cities, making us the largest Beauty specialty retailer offline now as well. And this business has grown again at about 37% on a GMV basis year-on-year. The other parts of the Beauty vertical, as you are aware includes our owned brands, which had a standout performance this quarter with a 48% growth year-on-year as well as our eB2B business Superstore, which has grown at 80% year-on-year, showing a very strong momentum as it continues to expand the retailer network.

So, Nykaaland 2024 is a flagship event, which we have hosted in November, so it is technically part of Q3. But since it was something that just occurred earlier this month, we thought it quite relevant and top of mind to share with our shareholder and investor community. This is the first of its kind and the largest Beauty festival in the country and it was a resounding success. We had over 25,000 customers who bought tickets to attend this event, which is a 70% growth over last year. Over 1,000 content creators attended the event in addition to the 25,000 customers, who helped to create content that was then used to amplify the event on social media as well as digital platforms.

We had masterclasses that were hosted by Sofia Tilbury and Patrick Ta, who are some of the biggest makeup artists globally and over 5,000 Beauty enthusiasts bought tickets to attend these masterclasses. We had 80 brands, who participated this year, both international and domestic. And there were new launches that were dropped for the first time at the event from global iconic brands such as Clinique, Sol de Janeiro, GHD, Obagi, Eucerin and more. So, I think this is a testament to the consumer love for brand Nykaa as well as consumer love for the category and interest in learning more. And this is an example of some of the on-ground events and experiences which we believe help us to drive for market expansion. And as market leaders and category creators, it is our responsibility to continue to invest behind these category expansion activities.

And we will just play a short video for you to get a sense of what it was like to be at Nykaaland. Yes, so I think that video encompasses well the sheer scale of the event and as you could hear from some of the attendees, this was an event that is not only best-in-class in India, but it is quite unique in terms of its scale at a global level.

Now moving on to some of the new brands we launched this quarter, as mentioned, over 170 brands were launched. But I just want to highlight a few that are, as some of you may know are marquee brands at a global level. First is Yves Saint Laurent, which is a luxury Beauty brand that is owned by the L'Oreal Group. This brand was launched only on Nykaa in Q2 and continues to be available on nykaa.com as well as Nykaa stores.

Kerastase, which is again owned by the L'Oreal Group, is a global luxury haircare brand, a professional haircare brand that has been available in salons in India over the past several years. But this is the first time that they have launched on a dot.com platform and we were the partners of choice for that launch as well.

Third is Eucerin. This is a premium derma cosmetic skin care brand that is owned by the Beiersdorf Group and this brand was launched again only on Nykaa in the 2nd Quarter. And again, a testament to how we are really convincing brands to enter the India market and take and look at Nykaa as the partner of choice for their India expansion plans.

And last but not least is Dr.Jart+, which is a Korean skin care brand from the Estee Lauder Group. And this brand again launched in Q2 with Nykaa, only available on Nykaa in our physical retail stores and dotcom.

So, we continue to bring the best global brands into India and global partners see Nykaa as the partner of choice given the sheer scale of our consumer base. But I think even more importantly, the expertise, which we have developed over the past decade in helping brands to build their brand equity in the market and localize themselves for a go to market strategy.

As I mentioned earlier, fragrance has been a standout category for us this quarter and in the first-half of the year. A lot of it being driven by what we like to call the art of retailing, so creating demand, creating aspiration for this category through awareness and education. And here are just some examples of the kind of on-ground events as well as onsite experiences, which we create to drive that demand. So, you can see that the category grew at 65% year-over-year on nykaa.com, which is more than double the growth of the Beauty vertical. And in stores, the growth was even higher at about 105% year-over-year.

Moving on, finally, just a quick recap, we have 210 stores, which currently account for about 2 lakh plus square feet of retail space, and this is a 25% growth year-over-year. We currently are present in 72 cities, so a very wide network of retail distribution. And in terms of contribution to our overall omnichannel Beauty GMV, that number is at 8.2% and it is up by over 70 basis points year-on-year.

In terms of the split of stores, 91 stores are on-trend, 73 are luxury and 46 are kiosk. And the last three year GMV CAGR for this physical retail business has been about 40% and EBITDA CAGR has been even higher about 60%. So, physical retail continues to be a fast growing business and incredibly important to our overall strategy, which is to expand the Beauty market in the country and to give consumers access to the best brands and the best products in a physical setting, which as a highly tactile category is incredibly important.

Now, coming to our delivery speed as we mentioned earlier in the presentation, this is something that is incredibly pertinent and relevant, especially in the current circumstances and situation in the country. I would say that we are quite happy with where we are today. Just to reiterate, in the top 12 metros in the country, 80% of our orders are being serviced already either the same day or within the next day. And if I look at the top 110 cities, 70% of the volume is already being covered through the same day or next day delivery. So, even with the wide assortment, which we have, which is over 150,000 SKUs and close to 3,000 brands we are able to provide a very quick timely delivery with a very wide assortment as well.

With that, I will hand it over to Adwaita to take you through the house of brands.

Falguni Nayar: I will take it here. Adwaita may not be in a Zoom where she can speak, so I will just take it for her.

I think from the perspective of Nykaa's House of Brands for Beauty brands, we are really happy that we have registered a 50% year-on-year growth in this quarter, and now the quarter two GMV stands at Rs. 360 crores. This was driven by strong growth in both Dot & Key and K Beauty for the quarter. And if you look at the mix also, the brands are going beyond just the Nykaa's own platform. So, while the platforms remain strong, totally contributing to 63% of our brand sales. The brands are also increasingly being distributed through what we call as general trade channels, albeit more selective distribution, because of the nature of our brands, which are more premium and in categories like makeup and high-end skincare, but some beyond that also. And increasingly, we are also going into 3P marketplaces as well as international forays. So, I mean this is a tribute to the fact that these brands can stay and find success even outside the platform.

Next, so talking about Fashion House of Brands also, we have registered a healthy growth of 10% year-on-year. And these now stand at about Rs. 108.8 crores in terms of the GMV. These brands, again are similarly being distributed both on the platform. And you can see that here, in fact, the own brand share has increased on the platform to 57% of their sales coming from Nykaa platforms. As you are aware, we do not have too many Fashion stores except EBOs for Nykd. So, about 4% of the Fashion brand turnover comes from Nykaa's own stores.

However, similar to Beauty category, we do believe that as brands go wider, they get greater momentum. So, the GT/MT distribution for these brands is about 20% and then the 3P channels on which they sell is about 19%. And some of these were brands we had acquired along with 3P channel distribution like Dot & Key and also Twenty Dresses. So, we allow for that to continue and build on that.

So, with that, I hand over to Vishal to talk about the Superstore by Nykaa.

Vishal Gupta: Thanks, FN. We had another quarter of sustained top-line growth as well as significant improvement in our unit economics. As you can see from this chart, we had 80% year-on-year growth in GMV and over two years at 3x growth, driven a lot by our increase in distribution reach with 60% increase in our transacting retailers. And we are now in over 1,000 cities, which shows the kind of scale that we have developed in last couple of years.

Next. And importantly, the growth has also come with better quality because our AOV is also growing by 16% due to an increase in the share of premium brands and our high margin brands. So, the physical expansion growth as well as we are getting more from our existing customers, which is a great sign for loyalty.

Next. And all that ultimately translates into 862 bps better contribution margin, driven a lot by gross margin improvement, as we get scale, we get better ad income and like I said better quality of orders if a more premium and profitable brands. So, 334 bps improvement in gross margin and a reduction in fulfillment cost as well as our sales and distribution cost. So, overall, really good performance in both scaling up top-line and improvement in our unit economics. Thanks.

Nihir Parikh: Now, I will take over the next slide. So, Fashion GMV, like we discussed earlier in the challenging market has been a 10% growth. What is good is our repeat customers, existing customers are seeing strength in our platform and are coming back in larger numbers and really valuing what we have built at this point in time. So, that growth has been really encouraging for us, while our revenue has grown faster as Falguni mentioned earlier, which is a mix of LBB's marketing income as well as higher service-related income on the platform.

Next, please. One of the biggest wins and actually an honor for us was winning the Foot Locker's online rights in India. This is one of the world's largest footwear retailers and they obviously spoke to all the Indian players, and they chose us. We have online rights to run footlocker.co.in plus we are building and running the Foot Locker India social handle as well as shop for Foot Locker on Nykaa Fashion as well as Nykaa Man. The early traction on this launch is pretty interesting and we also have the CEO of Foot Locker, Mary Dillon joined Falguni and our team for the launch event as well in India. So, we are pretty excited about this start.

And overall this unlocks a lot for the overall athletics and footwear market as well, because in the premium space we would be leading the conversation for the consumers in India. Other new brand launches, again, we are always hunting and finding amazing brands in India and across the world to bring to the stylish consumers of India. So, we have got many brands as well as styles as well as key collections that were launched, some of them were only with us and some of them, for example, we have the Jodi and Nykd collection, which was on the platform as well as Twenty Dresses and Happi Space collection as well as a number of other cool brands that we brought to the platform.

Next, please. And again, one of the most important things Nykaa Fashion stands for is style as well as new launches. We have doubled down even further on this conversation. And again, our customers are really valuing the selection as well as curation that we provide on our platform. So, a lot of updated UI, UX conversations across the site and relevancy of giving the consumer the right product that they are looking for in their journey. So, we have had a solid 25% GMV growth of just the first in Fashion selection that we have on platform, much faster growth on the platform.

From a financial perspective, our gross margin growth has been really good at 567 bps. Part of it is coming from LBB's marketing income and service income and as well as on the platform, the service income has done really well, which has led to a gross margin growth. Strategies across fulfillment expense for the fulfillment side, where we had certain legs where we optimized from air to land, as well as improved packaging costs has led to improve fulfillment expenses.

Marketing expenses on the higher side, we showed you guys the Stay Stylish videos last time we met, which is the branding videos. So, some of those investments were made this quarter, to really help increase the brand awareness of Nykaa Fashion, which will help us in the long-term as well. So, overall, some of our contribution margin has increased. light increase in our cost of employees as well as G&A including some of the tech costs that we have had. Again, good investments for the long-term, but some of parts, our overall EBITDA has improved by 307 bps in the Fashion business.

Again, as we have been saying, our quarter-on-quarter and year-on-year improvement in quality of business, quality of customers and quality of P&L is continuing in the right direction as we continue to add value to consumers in India. Thanks.

P. Ganesh: Thanks, Nihir. We will have a quick look at the financial performance now. So, as we can see, top-line delivered good numbers with 24% GMV as well as revenue growth, which is in line with the two-year CAGR. The profitability momentum also continues with a 29% growth in EBITDA and with PAT growing 66%.

Next slide. So, here we have a snapshot of P&L. As we can see, gross margins and most cost elements have shown improvement. This has resulted in EBITDA and PAT expansion even after a 174 basis point increase in our marketing and S&D investments.

Going to the next slide. This is a snapshot of our vertical performance across our Beauty and Fashion verticals. The highlights of the same are covered in the next slide. So, I will go to the next slide. As we can see, gross margin expansion has been seen across our Beauty, superstore, and Fashion businesses. Marketing investments have increased by 134 basis points led by accelerated new customer acquisition. S&G expenses increased by 37 basis points due to the higher salience of the our eB2B business as well as owned brand penetration into 3P channels. And also, what we can see is that scale efficiencies have been kicking in, in other expenses.

So, going to the next slide. To add some color on our marketing investments in new customer acquisition, our cumulative customer base grew 31% to 37.1 million at the end of the quarter while AUTC stood at 16.8 million. Next slide. In this chart, we can see the acceleration in our new customer acquisition in Beauty. AUTC stood at 13.7 million and new customer growth stood at 31%.

Next slide. Here, we can see some examples of marketing investments. So, also in the next slide, that is our stylish campaign in Fashion. Moving ahead. Here we will have a look at our capital expenses. So, coming to CAPEX, as all of you are aware that coming out of COVID, we had significant investments, which were made in office space and warehousing capacity as well as in stores both in FY '22 as well as in FY '23. What this chart shows you is that it has now considerably moderated and with now key investments happening in stores and in tech.

Moving ahead. Overall, as you can see, the balance sheet ratios have improved over time with both fixed capital as well as working capital returns improving, and with a resultant uptick being seen continuously in ROCE.

That really summarizes the financial performance and the floor is open for Q&A.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from Avi Mehta. Please accept the prompt on your screen, unmute your audio/video, introduce yourself and proceed with your question, sir.

Avi Mehta: Thanks a lot for this opportunity. I just had two questions. One, I wanted to understand the Beauty discounting pressures. If you could update us on that and whether have they moderated from level seen in the last quarter in monthly FY'25?

Falguni Nayar: Anchit, are you going? Okay.

Anchit Nayar: Yes, I can take that. So, I think, you can see it also from the numbers that it has moderated slightly. But it continues to be, there continues to be some elevated discounting, especially from the horizontal platforms that are in the Beauty that are also playing the Beauty category. So, there is a retailer-funded discounting from horizontals that continues, I think, because there is softness in their other core categories like Fashion, there is an aggressive play on the Beauty side, but it is starting to moderate slightly from the peak. And we are optimistic that this will continue to moderate over the coming months and year, because of course, as I have mentioned in the past the brands are against the concept of retailer-funded discounting on their products because in the long-term that tends to commoditize the category.

Avi Mehta: Anchit, sorry, I just wanted to understand if any expectations by when the logical way I would see this is as discounting, discount moderates, we should see ad income growth kind of also rising. So, I wanted to just get your thoughts on when do you see that panning out?

Falguni Nayar: So, I think, Avi, firstly, we do not discount. So, you are talking about the market, I just want to be clear.

Avi Mehta: I obviously mean from the brand perspective because that should move into your P&L as well.

Anchit Nayar: No, no. So, I think, maybe I will just clarify. As I said, we are seeing elevated retailer-funded discounting from horizontal platforms. Brands are already looking to moderate their discounts and have already moderated the discounts meaningfully. So, now a lot of that is being funded by retailers. So, I do not know when the horizontals will stop that and how long they are able to sustain it. It is not a very good practice for the industry. But I do not think the two are linked. I do not think that because as I said as brands have started to moderate their own discounting, there is definitely more openness to spend on advertising. They realize that longer-term to build real brand equity and real demand, they need to advertise, and they need to market and create awareness for the brands, which is happening and has improved. And, but I do not know when, unfortunately I do not have an insight into when the other platforms plan to stop the elevated discounting.

Avi Mehta: Sorry, if I may, with the last question on the growth environment in the Fashion industry. How is that behaving as we enter the festive season in 3Q? Any update on that would be useful. That is all from my side.

Falguni Nayar: I think Nihir you can take it and I will add to that after Nihir has taken that. Nihir, do you want to go first?

Nihir Parikh: Yes. I think the first-half of the year, generally from an industry perspective has been a little slower. I think we have seen that across the results across various companies as well as the stuff we have seen at Nykaa Fashion. Having said that, what we do see is a continued customer love on key areas of value add, which is definitely helping us. And I think the second-half, we will move forward. But I think the first-half has been a little slow and we are excited about the platform strength. Falguni, you may add.

Falguni Nayar: Yes, what I wanted to say was that clearly there is a lot of talk that industry did not do well in Fashion in the first-half because this year all the festivals were shifted. There were more weddings and festivals in the second-half, so it was seasonally weak. And there was definitely some pickup in October. And in terms of even in Fashion, we have not seen any increase in discounting. So, I think, the main thing everyone is hoping for and because it is only one month post the quarter and we also do not want to guess going forward, but the industry is hoping for better growth outcomes in the second half of the year linked to wedding season.

Moderator: Thank you. The next question is from Kapil Singh. Please accept the prompt, unmute your audio/video and proceed with the question, sir. Mr. Singh, please accept the prompt.

Kapil Singh: Just one question I heard on the last slide if I see the key operational metrics, the visits and MAUV, there is a stark difference between Beauty and Fashion. So, I just want to get a broader perspective from you why there is so much difference?

Falguni Nayar: I think you are talking about the really the last slide which is the KPI slide.

Kapil Singh: Right.

Falguni Nayar: So, first of all, all the comparisons are a little bit difficult to make but are you talking about the year-on-year growth versus that is all you are talking about. The year-on-year growth on visits in Fashion is slower.

Kapil Singh: Yes, visits, MAUV, orders, all of these, it seems like there is a stark difference between the two businesses. I understand operating environment is tough but if you have any perspective here why there is so much difference.

Falguni Nayar: Like you could see that the AOV did improve in Fashion, and clearly you can see that AUTC also has improved in Fashion. So, I think, the main reason was that we did see the cost of customer acquisition go up at certain points because the conversions were poorer. And we chose not to chase growth by spending more marketing. And obviously when the results, obviously, so that is how the visits did not grow. But the long and short of it is that we could not deliver better growth, given the marketing budgets that we wanted to spend and we do not think it is the end of it all. I think we see it as adversity for the first-half due to maybe some wrong, I mean part of it was market adversity, but also some things we may not have done as well. And we do believe that the growth, we are working towards reviving the growth and visits and October clearly was better.

Kapil Singh: Any more insights like what you can do differently in the second half compared to first-half?

Falguni Nayar: I mean no. I mean in terms of everything, so I think any kind of like efficiency in marketing is desirous of assortment growth and I think we are chasing a lot of assortment growth key long-term relationships, strategic relationships that can help us drive the growth like Foot Locker is just being rolled out and they will be similar in future.

Third is managing for better supply on the platform, which also sometimes in India suffers in the first-half, because it is off-season and a lot of new supply and Fashion comes in, in time for the season. So, a number of things that are important for better conversion, which is a lot of assortment build, a lot of unique collections and partnerships. And thirdly, obviously efficiency of marketing. And yes, I think, those and then obviously availability of supply in terms of what the customers are looking for and making sure that is available on our platform. So, that is also an assortment.

So, I think, we will continue to do all of that better. I think from the superiority of platform in terms of discoverability and how good the platform engages with the customer, there is no question. I think a lot of that investment has been made by our business. So, you can see that and I think a lot of customers see that. We also get that as feedback from the customers. So, finally, it is all about what is customer looking for? Do we have those brands and at the right prices? And also are we able to help facilitate a discovery? And then do we have ability to fulfill that demand?

Kapil Singh: And then the second question is on margins. They have operated in a band for various reasons. Let us say roughly about 5.5% for the last many quarters. Just wanted to understand, do you think we are still in investment phase? And they could remain here for some time and we will or how should we really think about it? Just qualitatively your thoughts on this. That would be helpful.

Falguni Nayar: I think all we can say is that, we have also given, somewhere in the presentation, we have given the margins, which would have been, if we were to remove both the ESOP charge, so adjusted EBITDA without the ESOP charge as well as our GCC expansion that we have embarked on, which is in very early days to really be able to judge. So, that has come out at 6.2% compared to 5.5% a year ago.

So, there is a core improvement in profitability, but like any organization, sometimes one sees the need to invest in people. Sometimes we see the need to increase marketing expenses. If you can see, like, we have improved most of the elements of costs except marketing. And we do feel that that is a very conscious effort to acquire more customers. And that is what we have also shown in terms of our customer acquisition, how we have accelerated it in the first-half, so that we are ready for it in the second half. So, this is for Beauty and there is similar investment made in Fashion, but within the guardrails of marketing being within certain percentage of our net revenue. I mean it is different for Fashion than Beauty in terms of percentage, but we observe guardrails for each of the businesses in terms of how much we are ready to invest.

Moderator: Thank you. The next question is from Sachin Dixit. Please accept the prompt and unmute your audio/video and proceed with your question, sir.

Sachin Dixit: My first question is with regards to the investments that we are making in terms of our same day and next day delivery stuff. So, largely on this piece, obviously we have highlighted it multiple times that quick commerce is not a like-to-like replacement for Nykaa, the user base is different, customer experience is different. Why are we still running for a 30-minute or let us say an hour-to-hour sort of deliveries then?

Falguni Nayar: Your question is why are we not trying to do that?

Sachin Dixit: My question is why are we still trying to sort of match up with quick commerce speed? Obviously, we are not going 10 minutes, but we are still trying to do a 30-minute or a two-hour delivery.

Falguni Nayar: Sorry, just to explain this initiative, what we are trying to say is that Nykaa has improved its delivery performance by 45% on all our orders. And within that, at least in 110 cities, which is a very wide network all over across India compared to quick commerce, which is just chasing few top cities. In 110 cities, we are able to deliver 70% of our orders next day and this has come not due to any extra investment we put in into the first six months of this year. It has come because of all the network, I mean warehouse network rollout that we had done in the previous two years, where we went closer to the customer through our warehouses being located in each of the state capitals. And then the delivery was happening through that. So, I think, that is what we are highlighting.

Anchit Nayar: Maybe I can address the question. So, look, I think, you have a very valid point, which is, Nykaa is catering to many different consumer journeys. A lot of them are not a good fit for quick commerce. Like there is a lot of discovery that needs to be done, when making a purchase in certain categories within Beauty, there is discovery, there is assortment width is also very important in Beauty. It is a long tail category. If you are trying to buy a foundation there are 30 different shades that suit the Indian skin tone and color. So, I think, Beauty is a long tail category. So, there are large parts of our business that are not addressable by quick commerce, at least not in a very affordable and sustainable way. We are not looking to try to do 30-minute delivery for that part of the assortment. But there is a part of the assortment, which we do have, which is also an important part of our overall business, which we call as fast moving everyday SKUs. These are products that consumers buy more like every day essential products rather than as a more deliberate Beauty purchase.

And for us to continue to dominate market share in those SKUs and in those subcategories, we do think it is important to be competitive in certain metros for certain parts of the assortment from a quick delivery perspective, meaning 30-minute to three-hour. So, that is the part of the assortment, the part of the business which we are looking to address via the Nykaa Now quick delivery initiative which we have spoken about with you in the past.

We also realized that we have the assortment, we have the brands, and actually the investment from a setting up of what we are calling the rapid warehouses, or the rapid stores is not going to be meaningfully large. We think we can do this in a profitable way. As you know, our average order values tend to be quite high and so on an order basis, we feel that this business can be actually profitable as well. So, it is not going to be at this point in time, it is not going to be margin dilutive nor is it a large capital investment.

And so if we have the ability to do it, we know how to run our supply chain. We have been doing it for years. We know how to manage warehouses, mini warehouses as well. And we have the assortment. So, we think that in the interest of always being better every day and always providing a superior experience to the consumer, there are parts of the portfolio for which we are looking to build these capabilities. But as we have said in the past, at this point in time, basis our estimates and our forecast, this should not be a very large CAPEX nor should it be a drag on the overall P&L.

Sachin Dixit: Second question on Nykaaland. Obviously Nykaaland was a great hit this year. I just wanted to understand, like how does it impacts our P&L? As in, I understand there is minimal monetization that Nykaa is doing on Nykaaland as of now. So, are there any plans to monetize? Who is bearing the entire cost of running this huge event? Can you break that down for us?

Falguni Nayar: I will answer it. So, all of the cost of Nykaaland is recovered from brand partners and sponsors, it is something that adds to our marketing income. It is not in this quarter. It will be in the quarter in which it is executed and obviously, we spend to deliver this experience and the spend is on two sides, there is part of the spend that Nykaa does and part of the spend is by brand partners, who spend additionally on the booths that they create, the free products that they give. So, it is a great, we call it upper funnel activity to create education and desire for Beauty category and all of it is kind of funded by our brand partners and sponsors. And obviously, the benefit to Nykaa is more about, I mean basically supporting the marketing activity for the Beauty category. We call it a category building activity.

Sachin Dixit: Just to clarify, would that be the reason, why our marketing expense went up this quarter, like because we are investing into Nykaaland happening in October?

P. Ganesh: Nykaa expenses would come only in the fall in the next quarter. It is not part of quarter two.

Sachin Dixit: Sure, Anchit, please continue.

Anchit Nayar: Yes. No, I just wanted to add that see the reality is a lot of brands, they realize that the only platform that can pull off an event of this size and scale, where they can get those kind of eyeballs and the kind of consumer engagement that any brand would love to have it can only be done by a platform like us because of the whole multi-brand concept right bringing together 80 brands under one roof. It is a very unique consumer proposition. So, I think, brands are very, very keen and willing to participate and every year we have more and more interest from brand partners. It is better. They find it a better investment to do to be a part of Nykaaland and try to do these events on their own.

Secondly, there is, of course, every year as you know this is only the second year we have done it. But as we are seeing incredible consumer love for this event, there is not only the ticketing sales which we are collecting or the sponsorship, which helps to offset the cost, but this can start to become a much more of a commercial activity as well. So, to give you an idea, this is the first year, when we actually had a store, Nykaa retail store at the event, where consumers could actually buy products as well and we were we sold out of everything we had pretty quickly.

So, maybe we did not expect to see as much retail sales at the event as we did and that is a learning for us. We will continue to improve over the years and the other element is in a way. This is a very large sampling activity, where consumers receive samples from the brands and we know that the consumers, who bought tickets, who attended the event. So, our ability to use CRM to retarget those attendees, who receive samples and nudge them to make a full-size purchase in the normal course of business is also a huge opportunity. I think, there is one is of course the cost is being offset by participation from our brand partners and sponsorships. But I think commercializing this event further now that we have a proof of concept will also improve over time.

Moderator: Thank you. The next question is from Harit Kapoor. Please accept the prompt, unmute your audio/video and proceed with your question sir. Mr. Kapoor, please proceed.

Harit Kapoor: My first question was on the marketing investments in Beauty. When you are looking at the market context right now is cost of customer acquisition in your view kind of going up versus what it was say a year back. I know you have added a significant number of new customers. But just wanted to get your sense on how cost of customer acquisition has trended over the last maybe six months at least three to six months for sure?

Falguni Nayar: No, I think, our cost of customer acquisition in Beauty is not going up. I think it is the additional costs are due to two reasons, one being that we are acquiring more customers, we accelerated customer acquisition. And secondly, we are also doing some of the upper funnel activity to create branding both for because see the Beauty business includes our Nykaa's owned Beauty brands also. So, there are other case scenarios, our own Beauty brands, as well as for the retailer also to do a little more upper funnel so that we can create branding. So, those are the two main reasons, why it has gone up. If you compare during COVID times to that the cost of customer acquisitions have gone up.

Harit Kapoor: You mentioned a range that you are comfortable within the Beauty business for marketing and advertising expenses. If you could just highlight, are you at the upper end of that range now, just so that we understand, what, where exactly this cost should land, given you are doing a balance between revenue and EBITDA?

Falguni Nayar: No. I think, it is all based on a number of new customers that we can acquire and continue to upgrade them to a level of consumption that we have always enjoyed and not allowing that to get diluted through acquisition of marginal customers. So, that is what we are trying to balance.

Anchit Nayar: Yes. Also if I can add, you should just keep in mind that the Beauty vertical is a combination of three very different businesses. So, one is, of course, the dotcom and the physical retail business, which is a B2C business, retail business. The other of course, being the owned brands, the consumer brands, which we own and operate and the third being B2B. So, I think, the appetite and the ability to invest in marketing is higher naturally for consumer brands than for a retailer, because they have much higher gross margins and also vice versa. It is lower for a B2B business than it is for a brands and for a retailer business.

I think each, you cannot look at the Beauty vertical as a whole. I think FN's point. A new customer acquisition refers more to the retailer arm for whom the largest cost is on customer acquisition. But for the consumer brands business, there is brand awareness work that needs to be done and they can afford to do it, because they have higher margins. So, finally, also where the aggregate marketing expenses, a percent of revenue shakes out is also a mix, is also a result of the mix of those three businesses within the vertical.

But as you can see, I mean the Beauty vertical, even with the eB2B business that is now included in the reporting is at a very healthy EBITDA margin and the eB2B business is still EBITDA negative. So, despite that, we are putting up a healthy number. Each business has its own appetite and thresholds in terms of what they can spend on marketing and how it rolls up and plays out finally at the aggregate is what you are seeing.

Harit Kapoor: Fair point. Just one bookkeeping, was this ESOP expense impact, Ganesh, when would this come into the base? Would this be from Q3 onwards because I guess this is the largest piece of the adjustment from reported to adjusted EBITDA, right?

P. Ganesh: So, the reason why we are showing this as adjusted is both this ESOP as well as the GCC expenses have started coming in from Q3 at elevated levels.

Harit Kapoor: Right. So, at least the ESOP part starts to come in the base from Q3, right?

P. Ganesh: And also the GCC.

Falguni Nayar: Yes. I think both will start coming into the base. But because on ESOP, I think, post-IPO for a bit, we had not done much of ESOP issuance because the pre-IPO ESOPs were still vesting. So, I think, we have done some now.

Harit Kapoor: No, the reason I ask is there is a 70 basis points differential on the reported and adjusted. If bulk of that gets covered from Q3, that is the way we should look at it, right?

Falguni Nayar: You know, I am sorry, I am not exactly understand your question. Maybe I will request Namrata to come back to you with exact whatever she can, guidance she can give.

P. Ganesh: Just also to clarify, it will come in the base. It was not there in the base currently. So, this adjusted EBITDA, which we are showing is for a like-for-like comparison. So, going forward, if you look at it, bulk of it would be in the base.

Harit Kapoor: Yes, that is what I wanted to know, because…

P. Ganesh: Yes, that is right.

Harit Kapoor: Then we can do a year-on-year expansion trajectory changes.

Moderator: Thank you. The next question is from Vijit Jain. Please accept the prompt on your screen, unmute your audio/video and proceed with your question, sir.

Vijit Jain: So, my first question is, just looking at the House of Brands business and the growth you have seen within that, I think, your channel mix that shows other channels has done materially well. I think in that channel House of Brands and BPC would have been up by about 150%, 160% odd Y-o-Y. Is this primarily Dot & Key and on quick commerce channels would you say because I do know notice that Dot & Key products are available on quick commerce channels. That is my first question.

Falguni Nayar: Yes, I mean Dot & Key has always had a very wider distribution including on Amazon and other channels some on quick commerce, but before that always on other 3P channels. So, yes, you can say that as the Nykaa was growing, there is some amount of and specially acquired brands. There is some amount of focus on other channels besides Nykaa and this also includes to certain extent exports albeit small now, but going forward it will also that will also be the focus.

Vijit Jain: Correct. So, Falguni, I guess, my question is, for your owned brand you would be and especially, because in some of your owned brand is also caters into the personal care category, which is probably as you know Anchit was mentioning earlier more amenable to some of these quick commerce platforms. Should we expect this segment and this channel for you to grow alongside, let us say, the quick commerce vertical itself in India is growing?

Falguni Nayar: No, I am not sure about quick commerce, but I definitely feel that the wider 3P platforms that allow for discovery on a wider basis is something that is needed for personal care type brands beyond makeup and high-end skincare and many of the brands may pursue that once they achieve a certain size. So, I think, the brands would stay in-house up to a certain size and then beyond that size they can. So, for example, here we are if you talk about even modern trade like some of our brands are also found in some of the other shops like for example, some are also there in Shoppers Stop.

Vijit Jain: Yes.

Falguni Nayar: Yes, I think a brand evaluates and brand evaluates their choices and then if the channel is working and is profitable for them, they may consider it. If it is not then, they will not do it.

Anchit Nayar: So, I think, FN's point we have allowed the brands to really think like true third-party consumer brands and decide their own distribution. And some of our brands, like Dot & Key have very wide distribution across multiple horizontal marketplaces, across quick commerce, across wide general trade and modern trade outlet. It is in part also, please keep in mind that it is off of a very small base. Only 12% of the mix is coming from other horizontals and other horizontals are multiple and now that is about 20%. So, I think, it is a healthy mix, and you can still see 50%

plus of the business is coming from Nykaa online, which itself is a very, very competitive platform.

Vijit Jain: Right.

Anchit Nayar: So, it is a healthy add, I mean we feel quite comfortable with this mix. It is a good way to be diversified, but also not overly relied on any third-party channel.

Vijit Jain: Thanks Anchit. And my second question is for the Fashion business, two questions there really. One, with the launch of Foot Locker, is there a specific opportunity you see within footwear for, I know, some of these assortments available on Foot Locker can be unique, those higher AOV products from even brands like Nykaa, etc. So, is that something that you think is what Foot Locker will be geared towards for you? You know, so higher AOV niche sneakers and stuff.

And second question is, just trying to understand the role of LBB within the whole thing, your, in the presentation did mention some service income from LBB, but also some marketing spends related to that. So, just a little bit more color on that would be helpful.

Falguni Nayar: Yes, so I think on, I will just say a few things and then I will ask Nihir to add. I think on Foot Locker, I just wanted to also point out that, what we are really extremely proud of is that, we also run footlocker.in website. And I think, this is a new, you can say that it is the first software-as-a-service extension that we have done and come up with an ability to roll out a lot more dotcom for our brand partners. And first one has been executed with footlocker.in and similarly, even entire Nykaa tech stack is being developed by Nykaa's tech team and we will recover revenue, as a revenue percentage, revenue basis, like how the SaaS companies do. So, we are very proud of what we have executed here for Foot Locker. And yes, absolutely, they have great assortment and I think it will help us achieve more higher AOVs. And Foot Locker is going to be sold not just on footlocker.in website, but also on Nykaa Fashion and Nykaa Man. But with Nihir, do you want to comment on Foot Locker a little more.

Nihir Parikh: Yes, just to add, they are the world's largest sneaker retailer and they stand for sneaker culture. So, in sports, the sports footwear and sneakers, they dominate sneakers as a category and the sneakers trend across the world is going through the roof. In other countries, as well as in India, it is looking very promising. And they are the first serious sneaker multi-brand retailer to enter India and I think that gives us huge advantage both unlocking for consumers in the country, but also the big brands, the Nike, the Adidas, to bring their Foot Locker international collections to the consumers of India, which is pretty interesting. I think, it helps the whole country and is one with Nykaa's DNA of bringing the best of the world to the consumers of India.

Vijit Jain: And if you could answer, the second question as well on LBB, how should one think about what that has?

Falguni Nayar: I think yes, so when we acquired LBB, it had very little revenue and it was a distress kind of situation that we acquired. And I think the main thing was we saw their ability to do high-quality content creation and marketing at scale and we are really happy that it is panned out in that scenario, where the income that LBB is able to get from all kind of content creation that they do, not just for Beauty buut Fashion and also third-party brands that they work for but because they are so large in Beauty they end up doing a lot of work for Beauty players also, is very value accretive to the brand partners, it is very value accretive to Nykaa also and because that business is acquired and sits in Fashion, both the revenues and expenses of that business are in the Fashion business. But it is a business that has high revenue, high gross margin, and of course, marketing is a key cost item.

Just one last thing, in marketing and also employee that they have in their team, those were the two costs.

Moderator: Thank you. The next question is from Mithun Soni. Please accept the prompt on your screen, unmute your audio/video and proceed to the question, sir. Mithun Soni, please accept the prompt. Unmute your audio/video sir.

Mithun Soni: I would, if you can throw some light given that as on the CAPEX what we highlighted is almost there. We have done and now the trajectory has also come down. How would it translate into the other expenses both in the Fashion as well as the BPC category, because now whatever the other expenses, what we are doing is for the new category, new GCC and the other segments? But how we should look at the trajectory of the expenses, other expenses in these two verticals for us?

Falguni Nayar: May I request Ganesh to take that?

P. Ganesh: Yes. One thing, which I would like to just highlight is while CAPEX per se has moderated, typically the write-off which you will see in the P&L happens over a four to five-year time frame. So, in terms of peak depreciation, there is still a couple of years because the CAPEX, which was done in FY '22 as well as FY '23, it will still run its course. So, although the cash outflow in terms of fresh CAPEX has come down, come down meaningfully. In terms of depreciation will still see elevated levels for a couple of years, before it starts moderating.

Mithun Soni: And how about the other expense, which is the contribution income minus the EBITDA, which is the fixed expenses what both the verticals are taking care of, which was approximately about Rs. 210 crores in the Beauty care segment?

Falguni Nayar: I think in some of the previous quarters, we have deep dive on those expenses and they essentially are, I think they tend to be more a little bit of everything including office expenses and all and they are all on downward trajectory. But some part of that is also travel, some part of that is also, other sundry activities. So, I would not say it is under control is the best way to read it. I believe it will now.

Mithun Soni: Is it like they are now, so from here on the growth is going to be more just an inflation with marginal additional growth, or there will be some more investments, which will further require?

P. Ganesh: No, let me just come in on this since they are primarily your employee cost your G&A expenses, etc. as a scale grows, the leverage benefit of that would come in because this would not necessarily go in line with your revenue growth. There would be pockets of time, when you are investing ahead of the curve, whether it is in people, etc. So, those are times, and we have seen that in the past, where this growth would be disproportionately high, because you are in an investment phase and investing ahead of the curve. But over a period of time, over a period of time, these expenses tend to be lower than your top-line growth and that is where as the company grows in scale the leverage comes in and that is exactly what you are seeing over the last few quarters.

Falguni Nayar: I think I want to point out this other expenses slightly differently. I think in this which is a vertical reporting, the other expenses are large at 14.4% and they include both employee and G&A expense. But if you go to the financial results, there is a further breakdown of employee and other expenses and there the other expenses are smaller component, much smaller.

Mithun Soni: Okay. And about the second question…

Falguni Nayar: 5% there in terms of in that.

Mithun Soni: And the second question is on the working capital side. So, Beauty care category for us is where we deploy capital, we have seen good savings. How we should look at this? So, what is the outlook you have over a period of next two years, next one year or two years? Is there some more potential opportunity to bring down the working capital?

Falguni Nayar: Yes, Ganesh, I think.

P. Ganesh: So, again, yes, there will always be incremental opportunities. So, even in the half year just ended, working capital has come down by two to three days. So, as we look at building greater efficiency, whether it is in terms of your supply chain in terms of your collection efficiency, etc., there will always be incremental opportunities.

So, the way I would say is that this is an ongoing process and then over a period of time, we will still see some small improvements coming through. At this point, I would say, it is not a large potential in terms of seeing a large reduction, but it is an ongoing exercise where you will keep looking at efficiencies.

Moderator: Thank you. Ladies and gentlemen, that was the last question we can take today. You may reach out to Nykaa's Investor Relations team for any additional queries. I would now like to hand the conference over to the management for closing comments. Over to you.

Falguni Nayar: I think just thank you very much, everyone, for being on the call with us today and I hope we have answered all your questions. But if there is anything further you need, please reach out to the Investor Relations team. With that, thank you very much to spend this hour with us.

Anchit Nayar: Thank you.

Moderator: Thank you, members of the management. Thank you, sir. On behalf of FSN E-Commerce Ventures Limited, that concludes the meeting. Thank you for joining us and you may exit the meeting now. Thank you.