August 21, 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 ended June 30, 2024

Please find enclosed the transcript of the Analyst / Investor Conference Call held on Tuesday, August 13, 2024 with regard to the Unaudited Standalone and Consolidated Financial Results for the quarter ended June 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
Digitally signed by NEELABJA CHAKRABARTY
Date: 2024.08.21 13:08:43 +05'30'

Neelabja Chakrabarty
Company Secretary & Compliance Officer

"FSN E-Commerce Ventures Limited (Nykaa)

Q1 FY '25 Results Conference Call"

August 13, 2024

MANAGEMENT: **MS. FALGUNI NAYAR – EXECUTIVE CHAIRPERSON – MD AND CHIEF EXECUTIVE OFFICER – FSN E-COMMERCE VENTURES LIMITED (NYKAA)**

MR. ANCHIT NAYAR – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER, BEAUTY E-COMMERCE – FSN E-COMMERCE VENTURES LIMITED (NYKAA)

MR. NIHIR PARIKH – CHIEF EXECUTIVE OFFICER, NYKAAFASHION.COM – FSN E-COMMERCE VENTURES LIMITED (NYKAA)

MR. VISHAL GUPTA – CHIEF EXECUTIVE OFFICER, NYKAA DISTRIBUTION – FSN E-COMMERCE VENTURES LIMITED (NYKAA)

MR. P. GANESH – CHIEF FINANCIAL OFFICER – FSN E-COMMERCE VENTURES LIMITED (NYKAA)

Moderator: Good evening, everyone. This is Michelle from Chorus Call. Welcome to FSN E-Commerce Ventures Limited Q1 FY '25 Earnings Call. From the management at Nykaa, we have

1. Mrs. Falguni Nayar, Executive Chairperson, MD and CEO
2. Mr. Anchit Nayar, Executive Director and CEO, Beauty E-Commerce
3. Mr. Nihir Parikh, CEO, NykaaFashion.com
4. Mr. Vishal Gupta, CEO, Nykaa Distribution
5. 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 the listen-only mode, and there will be an opportunity for you to ask questions after the presentation from management concludes.

With that, over to you, Mrs. Falguni Nayar for opening remarks. Thank you.

Falguni Nayar: Thank you very much, Michelle. And I'm delighted to be here amongst all of the investors who are joining us on the call today, and happy to be presenting the investor results quarter ended June 2024.

I'll start with the performance highlights for the consolidated business. Really happy to say that the GMV has come out at INR 3,321 crores, which is a 25% year-on-year growth followed by revenue from operations growing at a similar percentage of 23% year-on-year and represented at INR 1,746 crores. Gross profit has come out at INR 756 crores, similar year-on-year growth and EBITDA stands at INR 96 crores, which represents about 5.5% EBITDA margins. It's an improvement over previous year with 31% growth in EBITDA.

And we have been pointing out the adjusted EBITDA in more recent quarters only because on a year-on-year comparison, we did not have the GCC business a year ago. And also there were some organizational restructuring expenses. So corrected for that, the adjusted EBITDA stands at INR 109 crores, which is a 44% year-on-year growth and adjusted EBITDA margin would be at 6.2%, which would be a 90-basis point improvement over the previous year.

On the PBT, thanks to the restructuring and the risk measures taken, the PBT is at about INR 22 crores, which is a 127% year-on-year growth and PBT margin of 1.3%, and the PAT is at INR 13.6 crores, which is 150% year-on-year improvement.

Next. Diving deeper, the Beauty business for the quarter grew at 28% year-on-year. And this is on the GMV basis. And even on the net revenue basis, the growth has come out at 23% year-on-year. Throughout the year, most of you have been observing that the industry has seen higher discounts from various brands that are traded on our platform. And hence, there's been a little bit of a gap between the GMV and the Net Revenue growth. However, this trend started about a year ago and we are now at the end of the cycle where hopefully from here the GMV and the Net Revenue growth will be similar.

On the Fashion side, similarly, the GMV growth was at 15% year-on-year. However, the Net Revenue growth was stronger at 21% year-on-year with the Net Revenue at INR 149 crores, and that represents improvement in some of the shrinkages and other factors that will be shared with you as we dive deeper into the presentation.

Next. So I think the key highlight for the quarter is that Nykaa continues to build its customer base. Now our cumulative customer base stands at 35 million, which is a 33% year-on-year growth. And brand partners on all our platforms, if you were to see, we deal now with 6,700 plus brands, both global and domestic brands. And we have added more than 1,500 brands in the last one year alone.

The beauty store network now stands at 200 strong, and this is an important milestone at 200 stores in our network. And this is one of the largest network of beauty stores in the country. On the fulfillment side, we now have 44 warehouses, servicing 98% of pincodes, and we are investing in faster delivery in top cities, as you will see in later part of our presentation.

On the content, we continue to drive harder with 1 billion reach for our content created through multiple IPs, which we've been adding to our library. On the category creation through Nykaa Play and Stepification have also taken center stage this year with a lot of work being done in that area.

We are happy that now our consolidated GMV is a solid $400 million in this first quarter alone. And obviously, you are aware that it comes through four platforms that we have, which is Nykaa.com, Nykaa Fashion, Nykaa Man, Superstore on the digital side, and then, of course, physical stores on the Beauty side.

Next, I'll now pass on to Beauty Multi Brand Retail, and I would request Anchit to take us through that.

Anchit Nayar: Yes. Thank you so much. So moving on to the first slide. I think we covered the revenue growth as well as the total revenue for the business in previous slides. So, I'll spend a few minutes on some of the key achievements for the Beauty Multi Brand Retail business this quarter.

First and foremost was the significant growth in new customer acquisition. We delivered a 27% growth year-over-year. In terms of annual unique transacting customers, this grew at 21% taking us to 13.1 million unique transacting customers for the year. And the number of orders that were placed on the platform for the quarter was about 12.4 million orders, which is a 26% growth year-over-year.

So in the first part of the business, I'll spend a minute on has been the continued focus on improving and growing the assortment of brands which we have on the platform. And as you can see, in a period of just three months [AMJ'24], we managed to add a significant number of brands, both global and domestic to the Beauty platform. And these brands are across categories, whether it'd be colour cosmetics, skincare or haircare. And this goes to show you that Nykaa continues to be the retailer of choice for both domestic and international brands.

So despite our scale and already having a significant number of brands in the platform, we continue to identify new opportunities, both in India and abroad to continue to strengthen the assortment of the platform.

Next slide, please. One of the key initiatives that I've spoken about in the past has been the focus of Nykaa to increase the number of categories within the beauty and personal care space that we are addressing and that we are taking meaningful market share in. So as you may know, makeup and skincare are two of the core categories to our beauty play historically, and they have served us well in terms of growth and they continue to do so.

However, we believe that fragrance is the third pillar in any specialty beauty play globally, and this has been a big focus of ours over the past 12 months. And you can see that it's paying rich dividends. Our prestige fragrance category has grown at over 74% year-over-year in Q1FY '25

In terms of the types of brands which we are retailing on the platform, it's the luxury fragrance brands, including Burberry, Dior, Estee Lauder, Jo Malone, Tom Ford, etcetera, and many more in the pipeline. With regards to our market share in the fragrance category in the country, we believe that our market share on the prestige side is roughly 13% in FY '24, and this has been a 300 basis point improvement over FY '23, and that will continue to improve in FY '25 as we enter as we have just begun in the first quarter of the year. We believe this will continue to increase. So we're managing to sell more categories to our existing customers, which increases the basket size as well as the annual consumption value of our existing customers.

Next slide, please. So I spoke a little bit about how we are working on increasing our category with and selling more categories within beauty. Another big focus of ours has been going deeper within existing categories and selling a wider basket from within existing core categories. And I have highlighted in the past, Nykaa's initiatives around skincare, which was our CSMS program, where we created India's first skincare routine called I-Beauty, and it was a first step routine, cleanser, serum, moisturizer and sunscreen.

We did a lot of commercial activations around a lot of education and awareness across content channels as well. And we've seen that it has played rich dividends. So in skincare, we have CSMS, in makeup, we have something called Prep Cover Set. And in haircare, we have Healthy Hair Habits which consists of treat, wash and nourish.

So by driving a focus on specification of beauty, we are managing to increase customer awareness for the depth of each of these core categories and resulting in significant growth for these subcategories that are now at the forefront of our educational and commercial initiatives.

So, you can see some early results. Sunscreen, which is a subcategory that is part of our CSMS routine has grown at 1.3x, the category growth of skincare, setting spray, which is part of our makeup routine that we've been pushing has also grown 70% faster than the rest of the colour cosmetics category and hair serum, which is an important part of the treat, wash, nourish routine has grown at 2.6x the category growth. So we are seeing that our ability to actually drive meaningful revenue growth in subcategories, which we take up as a major focus area for the business has now been proven out.

Next slide, please. So as I said last quarter, we spoke about CSMS. So this quarter, we're just giving you some colour on the Healthy Hair Habits campaign, which we kicked off in a very big way across on platform as well as off-platform. The objective of Healthy Hair Habits was to drive the Stepification by empowering consumers with a haircare routine, and to really drive education about highly efficacious solutions that can help solve specific hair concerns.

So you can see some of the work that we did on platform and off platform, content-heavy education-led, delivering almost 290 million impressions, which is quite significant. And as I alluded to earlier, this has resulted in commercial impact as well. Both hair serum and hair masks are growing at 60% and 32%, respectively, which is faster than the hair category growth. We're also seeing customer growth in our hair category of about 24% versus BAU.

Next slide, please. So now coming to our content play because we've always spoken about the importance of content to commerce. We have a feature that we have relaunched that is called Nykaa Play, and this is an incredibly immersive gamified shoppable content feed that exists on our app and consumers can watch live streams, they can play games, they can interact with influencers. And of course, they can shop. So this is what we call as live commerce, and this is content-led commerce, and this has been a very strong initiative from our side this past quarter.

Two big impacts it has. One is, of course, it leads to improved product discovery and consideration, especially for more sophisticated products. Secondly, it's a big driver for building engagement and to increase the number of visits per visitor as well as the time spent on the app. And you can see that Nykaa Play's relaunch has led to a 35% higher cart addition by those who are actually actively using the Nykaa Play feature on the app versus those who are not, and also 30% higher visits per visitor of those who are actively using and engaging with Nykaa Play. So we're really leveraging Nykaa Play to drive customer engagement, improving the purchase frequency and also improving the retention on the platform.

Now coming to our physical retail business. As you can see and as was mentioned earlier in the call, we have now achieved an important milestone in our store expansion plan. We currently have 200 stores across the country. Today, we have 200 stores across 72 cities, and we covered a total retail l area of about 1.9 lakh square feet, which has doubled what it was just 2 years ago.

If you look at the bar chart on the top right, you see that it took us about 8 years to build our first 100 stores. And we've managed to build the next 100 stores in just about 2 years. So massive acceleration in our physical store rollout. That business is definitely proving to be incredibly valuable, not just in terms of the revenue that it's driving, but also in terms of the network effects that it's having on our e-commerce business and the positive flywheel that it is creating.

So this business has grown in terms of footprint, it's doubled in a matter of 2 years, but even in terms of revenue growth, this business has grown at about 70% over the last 3 years. And today, it contributes to roughly 8% of our omnichannel beauty GMV. As I've said in the past, the reality is that, in physical retail, we can have maximum 80 to 100 brands, whereas online, we've got 3,600 plus brands.

So it's not really apples-to-apples. But for the brands who are present across both online and off-line, the physical retail channel is a very large and meaningful part of their total business on Nykaa.

So just a few examples of some of the stores we've opened this past quarter. One store was opened in Dehradun, the other one in Jaipur and these are images of those stores for Nykaa Luxe. The Nykaa On Trend, we opened a store in Amritsar as well as Rourkela. Again, these are just a few examples.

We see our physical retail stores play a very important role in what we call as services and customer engagement. So our stores serve as a hub for a lot of brands to actually engage and interact with our consumers through experiences and events. As you can see in Q1, FY '25, we hosted 10 prestige brand events in our stores as well as 60 master classes that were held across our stores as well as in the atriums of the malls where we are present. So we managed to host over 70 events across 30 cities in the last 3 months. and we have over 7,000 customers who register to attend these events in-person across the last 3 months.

So moving on from physical retail and coming to the technology part of our e-commerce business. We have invested heavily in what we call as personalization. It's been something, again, that we've spoken about in the past, and you can see that it is now active on the platform, and it is bearing fruit. Just a couple of examples of how we're using personalization to deliver a very specific and relevant experience to our consumers.

On the left side, you'll see we have now something called cohort-based discovery live, whereby customers who showed a propensity to buy luxury products, get shown a higher share of luxury brands on their home feed and vice versa, those who have less propensity luxury, see more mass and masstige brands and curations. What we're seeing is that from even this very, very basic high-level personalization work that we've done, we've already absorbed higher click-through rates impressions and an increase in our share of business coming from luxury brands.

Second, we've also launched a hyper personalized collection widget that's called explore you favourite brands. And this is hyper personalized using the user's brand as well as category affinity. Affinity is derived from the user's past interactions with the site. So the kind of products that they viewed in the past, the cart additions that they've done, the searches they've made on our platform all gets fit into an algorithm that helps us to really surface the relevant SKUs to the relevant consumers. This, of course, already has proven to be a big driver for both product discovery as well as conversion.

Finally, I spoke about Stepification of beauty in the previous slides, how we're using content to really improve the education and the awareness for Stepification of beauty that will help us drive deeper penetration within existing categories. We've also paired this with technological improvements that have allowed us to drive our Stepification objective on the site as well through recommendation widget.

So again, basis, the kind of products you're adding to cart, we're able to recommend similar adjacent products that would help you complete that particular routine, which we're trying to build. So this, of course, should drive higher ABS, average basket size, as well as higher average order values over time. So those are just a couple of the examples of some of the early personalization campaigns, which we've got on the platform, and I think you'll see many more to come.

Next, please. Now spending a minute on our supply chain and warehouse capabilities. We've increased the number of our warehouses by almost 2.4x in the last three years. So from 18 warehouses in FY '21 to 44 warehouses in Q1 of this year. Capacity has also increased in a very similar amount, 2.5x. And today, we have over 1.5 million square feet of warehouse capacity. And this regionalization strategy of getting our warehouses closer to the consumer has allowed us to significantly improve our order to delivery time lines.

So in FY '21, on average, our order to delivery timelines are close to four days. Today, we have reduced that drastically, whereby the average order to delivery time line on our platform across all 19,000 pincodes across the length and breadth of India is now 2.2 days. So a 45% reduction in our O2Ds in the past three years, and large part driven by this investment in warehouse regionalization that we've done over the past few years.

Yes. So in continuation with our objective, our key objective to deliver a better consumer experience through reducing our order to delivery time lines and getting the product into the consumers' hands faster. I wanted to just share with you that as of today, as of the end of Q1 FY '25, 50% of all orders that are placed on the Nykaa app from the 12 major metro cities are being delivered either same day or next day. For us, 50% of our total orders comes from these top 12 metros and therefore, 25% of total orders placed on Nykaa are being delivered already same day or next day.

Now given a lot of the investments we've made behind improving this even more than where it has improved to today. We are happy to also share with you that we expect by September of this year, that close to 70% to 80% of all orders from the top 12 metros and cities in India will be fulfilled same day or next day, and about 50% of the orders from the next 110, 112 cities in the country will be 50% of those orders will be fulfilled same day or next day. So 65% of our order volume comes from these top 120 cities and the weighted average will take us to about 50% of all orders placed anywhere in India will be delivered same day or next day by September 2024.

Next slide, please. And with that, I'll hand it over to Nihir to take you through the Fashion segment.

Nihir Parikh: Yes, thanks. So on Fashion, we see the market has been a little subdued in terms of this particular quarter in general retail. The other key thing which happens in this quarter is Indian wear as a category has no festivals and Indian wear is an anchor category for us. So this quarter tends to have slightly lower growth than what we end up seeing in all other quarters with respect to Indian wear.

So with that backdrop, we had a 15% growth in GMV as well as a 21% growth in revenue. The higher revenue growth compared to GMV is a function of better quality of business, which basically means we have lesser RTOs and leakages. So the leakage is improved, allowing us to convert to revenue in a better way. Additionally, our service-related incomes and fees have gone up.

The categories which have grown is something we've been talking about the last few quarters, our anchor categories around women's western wear, which has beaten platform growth and has grown at 34% year-on-year. Lingerie and other anchor categories have grown at 54% for us. And women's athleisure, which is an international trend, is really tracking well for us and has grown by about 100% plus. This is supported by amazing new innovation from the many brands we work with and their brand partners as well as a conservative strategy at our end to build this category with consumers.

Next slide. So again, within a positioning perspective, we've spoken about key properties that we have built. One of the newer ones is the Luxe store. We realize there's an opportunity for us to extend into Indian wear Luxe and double down on that. So what we've done is over the last 6 months, we've onboarded 200-plus brands in this category alone. And we've accelerated our consumer conversations, accelerated targeting of consumers within this category.

So this is early days in terms of where this business is going to go and the Luxe edit, as we call it on our site, is going to grow, but it's a promising new vertical that's been added to our key conversations that we have with our consumers.

Hidden gems have grown 21% YoY. This again where we travel the country. We pick amazing brands in India, handpick them and bring them to our site and put them under hidden gems portfolio. We've got now a total of 300-plus brands, and that's grown about 21% year-on-year.

Our First in Fashion newness and being First in Fashion is something which has been extremely core to our USP and our ethos. We've seen a 37% GMV growth year-on-year of these new launches that all the brands in the country have done and its contribution to our total GMV was 24% in this quarter. Again, this is higher than it was last year. Last year, again, cementing our belief in creating newness conversation and excitement in fashion as a category.

And as we grew this business this quarter, the quality of business overall has continued to improve, and these are some super quality metrics. We look at the GMV share from Tier 1, we've increased that by a couple of percentage. We get GMV share from premium shoppers that has increased significantly from 36% to 44% last year to this year.

On leakages, which we spoke a little bit about, which is cancellations, RTOs have improved by about 10% year-on-year, allowing us to drive better quality business. And our order to visitor conversions has increased from 2.5% to 3%. So again, a strong focus on doing good quality business and bringing in amazing customers to our platform has been a concerted effort, and we continue doubling down on that strategy.

We spoke a little bit about in the Investor Annual Day about our four Stay Stylish campaigns. So this is again, taking our First in Fashion and style as an anchor. Stay Stylish is our tagline, Nykaa Fashion's tagline. And we created four films along with Janhvi Kapoor and a few other very, very strong and well known influencers. And this went live last month, and we had about 1.5 months ago, with amazing traction, amazing feedback from our consumers and amazing reach. Our view through rates were also very high.

We also translated this same conversation from a marketing or a branding perspective all the way through to revenue, which you can see as an effect, which I showed you earlier, our First in Fashion percentage of revenue this quarter was higher than we've seen last year. And this is also one of the reasons we've driven this growth for First in Fashion and the branding and the love for Nykaa Fashion and Stay Stylish positioning.

Next please. So from a financial perspective, we've had overall a significant improvement in EBITDA margin. We've had overall about ~500 bps improvement in EBITDA. I will walk you through the key drivers of that. One is gross margin. Over the last year, every quarter, we've been pushing our gross margin up. Very strong support from our brand partners and the value our platform brings from a marketing income perspective and other service-related income from partners.

Additionally, we've also had a few platform fees which we charge consumers at checkout. So some of all of these have led to a good solid gross margin improvement, which has really helped us. Our fulfillment expenses have reduced by about 167 bps, this is again a concerted effort where we've been working on optimizing delivery from certain legs from air to land, faster deliveries, which has also reduced leakages, which we spoke about earlier, reduce RTO, has also reduced fulfillment expenses. So all moving again in the right direction.

The marketing expenses improved by about 101 bps. Again, this is based on the better or repeat customer ratio and better quality of business that we are doing and reducing some traffic, which we believe we were spending on earlier, which we don't need to. And the conversions have gone up, which has really helped marketing improvement.

The overall contribution margin improvement to 10.1% or 587 bps improvement. We also took this opportunity to invest in people and technology, which has been done. And as we scale through the rest of the year, this investment is going to play out in a nice way for us. But still with a very healthy ~500 bps improvement overall for the quarter at EBITDA level.

I'm handing over to Vishal.

Vishal Gupta: Thanks, Nihir. Hello, everyone. Very happy to share with you that we had another outstanding quarter for the eB2B business, where we continue to scale up our business with top line growth as well as improvement in the unit economics of the business. As you can see from this chart, year-on-year, we have grown 72% in Q1 this year and which is actually a 4x growth in just 2 years if you compare the same quarter 2 years ago.

And this has come through our increase in scale. You can see that transacting retailers have gone up by 5x in 2 years and a 65% growth year-on-year. We now have 210,000 transacting retailers and we serve now 1,000-plus cities, so we are really scaling up this business very well.

Next slide. And you can see that we are not only growing by scaling up, but we are also very mindful of the quality of the orders. So in terms of absolute orders, we did almost 400,000, 383,000 which is a 45% growth year-on-year. But we also increased the average order value of each order because that has a significant impact on our unit economics with more products being sold per order.

Also, we are very mindful of the quality of each order. So consistently, we are increasing the share of premium brands and what we call featured brands, which are high-margin brands so that we drive our gross margin via mix. Yes, and you can see that from the next slide.

Yes. Next slide. Yes. So you can see here, right, that our gross margin improved by 274 bps, which is driven by a couple of things. As we get more scale with more transacting retailers, we actually become more and more important to our brand partners, and we get more ad income, right, so which has gone up quite a bit, and we get a lot of improvement in gross margin via brand mix because those ad incomes and our recommendation engine actually helps the retailers discover new D2C brands, which are more profitable for us and higher margin categories.

So very good improvement in gross margin via mix as well as very high improvement in fulfillment cost and logistics cost as we move away from 3P to own warehouses, we are very careful in terms of opening new warehouses so that every warehouse, in overall, we are about 80% plus kind of utilization of warehouse space, so and a constant focus on reducing our packaging costs.

So overall, you can see that our contribution margin improved by 520 bps year-on-year. So net-net, a great quarter for Superstore with continuous increase in scale and unit economics improvement. We are well on our journey of breakeven in terms of long-term plan. Thanks.

Falguni Nayar: Thank you, Vishal. I'll now go and take this on behalf of Adwaita, our Nykaa's House of Brands. So just really happy to share that many of our high-growth brands continue to scale well, and we try to show a 2-year trend here so that you can see that it's done very well over a 2-year period also. So, Dot & Key, which was just about INR 90 crores revenue run rate, GMV run rate brand in first quarter of '23 has ended first quarter of '25 at INR 750 crores, and that's 8.3x over 2-year journey.

Kay Beauty, which was around INR 100 crores, about first quarter of '23 has grown 1.6x to end at around INR 160 crores plus. And NYKD, which was at about INR 65 crores in quarter 1 of '23 has grown 2.5x to end at INR 160 crores. Another emerging brand, KICA also seeing a lot of momentum, and it has grown 6.6x to end the first quarter revenue at INR 20 crores. Just to remind you that KICA was acquired in April '22.

Moving on, trying to explain on the composition of our various brands, and this slide doesn't reflect all our brands. But we have a bunch of high growth brands in our portfolio where we are trying to maintain the momentum and investing in marketing and offline expansion to continue to grow these brands.

Then we have mature brands in our portfolio, Nykaa Cosmetics, Twenty Dresses and RSVP on the fashion side. They are very large brands on our platform and outside the platform and we are trying to accelerate growth and revamp the innovation funnel of these brands so that we can push for higher growth in these mature brands.

And finally, there are many small brands with high potential. On the beauty side, it's the Wanderlust, which is our Bath & Body range. You've heard many times about it. Nykaa Perfumery is growing very well at the moment, albeit on a medium base. And Nykaa Naturals where, again, a lot of innovation being brought in.

Similarly, on the fashion side, it's Likha and Gajra Gang, the entire Indian wear category, ethnic wear category. And also MIXT, which is our Gen Z brand. We are driving awareness and brand building and category and assortment depth to further fuel the growth in these brands.

Next, this quarter also saw a lot of innovation, I think, for brands to do well. Innovation is key, and the quarter saw a lot of innovation with our Nykaa Cosmetics launching lip glaze, a new lip formulation driving 2x the category for the brand. Similarly, Kay Beauty introduced liquid highlighter, which ranked fourth on the highlighters as the top variant. And this liquid highlighter collection was a blockbuster success.

Dot & Key introduced their sunscreens, innovative product formats to increase category depth. And Dot & Key enjoys the top 3 sunscreen brand across all the marketplaces.

On the Wanderlust side, we've introduced new dreaming of Paris range, an exciting range introduced at the right time Paris Olympics, and this was a new Bath & Body range that is really getting a lot of momentum and innovative packaging and design.

On the Kay Beauty, just to talk a little bit about the case study on foundation marketing. At any launch, we do a lot of marketing, almost 40 million impressions were generated. And this particular product achieved 2x faster growth than the category. And in fact, ended up being 10% contribution to Kay Beauty GMV for the first quarter and a lot of very interesting content delivered through Katrina and then also the influencers.

Next. So I think overall, we are really pleased that our Beauty House of Brands, which is the entire bunch of beauty brands that we own, are growing at 47% year-on-year growth. And this has been fantastic, and it's also come in a very balanced way where the growth is coming, not just on Nykaa's online and store platform, but also beyond that, the growth is coming through GT/MT as well as other platforms. Other platforms don't contribute meaningfully, but many of these brands are also listed on other platforms sometimes.

Next. On the Fashion, it's a similar story. I think though the growth has been subdued and fashion brands have been subdued. However, this is due to channel degrowth in 3P channels where we're degrown at 14% year-on-year. However, this is compensated by the GMV growth and Nykaa Fashion platform where they grew 10%. Again, I think this performance is a bit disappointing. I wouldn't read into it as a long-term trend and efforts are on to increase the innovation and performance of the fashion owned brands.

Next. I think we also today announced that we have expanded our stake in Dot & Key now to 90%. Just to remind all of you that Dot & Key is a differentiated skincare solution brand that is effective, safe and fun to use. It was established in June 2018 and has been profitable since fourth quarter of 2023. Nykaa acquired 51% stake in Dot & Key in September '21.

And since then, we have been together both the founders and Nykaa have been growing the brand at a fantastic pace where, in fact, by financial year '24, it had grown 9x from 3 years earlier. So 9x growth over 3 years. And this growth continues to accelerate.

And if you were to look at quarter 1 of financial '25, the GMV is now at annualized run rate of INR 750 crores. So, this has been a fantastic investment by Nykaa, and Nykaa has decided to go ahead and acquire additional 39% stake at a cost of INR 265 crores for 39% stake.

Next. So what we like about Dot & Key, it has differentiated assortment, like water light vitamin C sunscreen, SPF-based lip balm, cooling watermelon sunscreen. It also has clutter-breaking packaging, unique and patented, hat-capped packaging has become a standout feature in the market, drawing attention and fostering brand loyalty.

And finally, we also tend to focus on four categories like sunscreen and moisturizers, which considered a very large part of the skincare category. So this gives presence to Nykaa in some very important categories.

Next. And Dot & Key has also invested in innovation and R&D capability of their own, 28 new SKUs were created by this team in the financial year '24 alone, and they count for 30% of NSV for the brand. And this is a rigorous and agile NPD process, very well defined and structured process. In fact, just to give an example, 62 trials of sunstick were done before a final product was delivered. There is that type of passion that the team has shown in trying to get the product right. And also a lot of agility and innovation. They were the first to launch barrier repair range.

And this, as a result, we enjoy a lot of brand love average rating of 4.4 to 5 on Nykaa platforms with 35,000 reviews and 85% of reviews are positive. Most of our reviews are on product quality and innovative packaging, and most reviewed products are moisturizer, sunscreen and face wash.

On the customer perception, we are aware that this brand retains 45% to 50% of their customer. This is based on their own website data as well as Nykaa platform, and it's a very exciting number from a customer retention perspective. And also, a lot of social engagement through Instagram followers of 372,000 and very high engagement rate and organic traffic to the website is almost 70%. Proof of the pudding that it's a well-loved customer brand.

Next. Nykaa is also acquiring majority stake in Earth Rhythm as announced today. Earth Rhythm is a D2C new age brand specializing in skincare, makeup, haircare, and bath and body products. Quite a wide range. They were established in 2019, and they have about 250 SKU. But this comes from a philosophy that they want to be a sustainable clean brand, and I'll talk more about it later.

Nykaa took a minority stake in Earth Rhythm of 18.57% in April of 2022. And today, we've announced acquiring a majority stake in the company. The GMV of this brand has, of course, grown 8x over the last 3 years, but albeit from a very small base. So, it's not as meaningful as when you grow similarly when you are larger. But hopefully, the same growth momentum continues. In the quarter 1 of FY25, if you were to analyze the GMV comes out at INR 55 crores.

Next. So what we like about this brand is it has a very differentiated positioning. It's sustainable and inclusive. It's certified organic plant-based, 99% plastic free. It's good for you and good for the Earth. Earth Rhythm isn't just their name, but it's a commitment to producing the purest healthiest products and educating everyone on why being Earth conscious is so important. And that's what we like about the positioning of this brand. They have innovative shampoo and conditioner bar solution, which is eco-friendly packaging, design using recyclable materials. But what is more important is that lower water consumption because of the production and application format that it uses.

Similarly, they have a lot of reusable accessories, including reusable makeup accessory so that we can reduce wastages. It's also inclusive and gender-neutral brand ethos across all skin tone, age and gender. This gender-neutral and highly inclusive and diverse communication. You can see all of the certified, cruelty free, all of the advantages it offers to the planet conscious customer.

On the R&D side, again, this is a fantastic company from an R&D perspective, 50% plus innovation in financial year '24 through 15 new SKUs that were brought out by the team. And in-house testing and stability studies enable to save costs and give high-quality formulation. They also have many first in their repertoire. It's India's first water-free sunspray, also first to launch breakthrough products such as gel to milk series as well as phyto series. So very innovative products the brand is able to bring about. But yes, I think the brand’s true might in terms of distribution performance and marketing is not yet into the brand. And I think with the ownership by Nykaa, I think many of these will follow.

Next. On the financial performance slide, I now request Ganesh to come in.

P. Ganesh: Thank you, Falguni, and good evening, everyone. I'd like to walk you through the financial highlights for the quarter. So as we can see for the quarter, GMV grew well at 25% with Beauty growing at 28% and Fashion growing 15%. In terms of revenue growth, it came in at 23%, which is in line with the 2-year CAGR.

As far as EBITDA is concerned, EBITDA margins expanded by 30 basis points during the quarter with a higher than revenue growth of 31%. And as Falguni mentioned, we do have the GCC expenses and a few restructuring expenses, which are not there in the base. So if we were to normalize for the same, then the EBITDA expansion is much higher at 90 basis points.

Going to the next slide. This is a summary of the P&L. And as we can see, there is a reflection of the strong growth, both in terms of top line as well as in terms of bottom line. Going ahead. Now let's turn to the vertical performance. Starting this quarter, as you are aware, we are commencing vertical-wise segment reporting.

So the Beauty vertical now additionally includes our eB2B distribution business, which Vishal covered, as also the Grooming business of Nykaa Man. The fashion vertical now additionally includes the Lifestyle business of Nykaa Man and also our content platform, LBB. The others vertical is mainly comprised of our newer businesses, which is our GCC business at this point in time.

We have also shown the data for FY '24 on this revised segmental reporting basis at our Investor Day as well. So we have also provided the last 4 quarters vertical reporting as per this new definition as part of the annexure to the investor deck so that the comparability of numbers and how the quarterly numbers as per the new definition would have been last year is readily available.

Yes. We'll now spend some time looking at some of the key highlights of the vertical reporting. We can go to the next slide for that. So as we can see on an overall basis, our gross margins improved by 48 basis points Y-o-Y. While gross margins in BPC remained largely steady. Our fashion gross margins in Q1 improved by 360 basis points on a Y-o-Y basis, primarily driven by higher marketing and servicing income.

On the expense front, our marketing expenses were up by 31 basis points, primarily in BPC as we continue to focus on new customer acquisition through strong marketing campaigns. Fashion marketing expenses improved Y-o-Y due to better customer mix and conversion.

Selling and distribution expenses were up by 44 basis points with increased share of eB2B business as well as own brands expansion on third-party channels. This led to a marginal increase in S&D expenses in BPC. And as far as fashion S&D expenses are concerned, this showed a marginal increase due to NYKD EBO expansion.

Fulfillment expenses for fashion came in lower with a 160-basis points improvement Y-o-Y on account of better control on leakages, reduced air shipments, etcetera. As a result of scale efficiencies and cost optimization, we have seen improvement in other expenses to the tune of

86 basis points, mostly driven by BPC. While in Fashion, we continue to invest both in tech as well as in terms of employees.

Moving to the next slide. What we can see over here is our sustained focus on efficient capital utilization. It continues to deliver strong results. So as we can see, whether it is in terms of fixed assets turnover ratio, which has improved from 9.1x last year to 10.3x in the first quarter this year.

Similarly, working capital days have continued to steadily improve over time. Similarly, we can also see improvement in ROCE, which has also started coming in on a consistent basis. I'd like to just highlight that as far as fixed assets turnover or ROCE for the quarter 1 are concerned, these are annualized numbers.

Moving ahead. This slide gives you a snapshot of the restructuring initiatives as well as the recent acquisitions that Falguni spoke about. So to streamline and consolidate owned brands business in a single entity, FSN E-Commerce Ventures Limited, which is the parent company, the listed entity, completed the acquisition of western wear and accessories business from Nykaa Fashion by a slump sale in quarter 1 FY '25.

And the Board of Directors at its meeting held today has also approved acquisition of further stake in Dot & Key, which will take our stake to 90% as well as in Earth Rhythm, which will make it a subsidiary of the company, both of which were covered by Falguni in her address.

With that, yes, the floor is open for questions.

Moderator: Thank you, Mr. Ganesh. We will now begin the question-and-answer session. If you would like to ask a video question, please click on the ask a question tab and separately you can also type in your questions in the textbox mentioned below the video player. Before asking the question to the management, please introduce yourself, providing your name and your organization. If possible, you may switch on your video as well. Please limit yourself to a maximum of two questions, so that we can accommodate as many as possible. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Falguni Nayar: So, Michelle, are you seeing any questions.

Moderator: Yes, ma'am. The first question is from Sachin Dixit. Please accept the prompt and introduce yourself and proceed with your questions sir.

Sachin Dixit: Great. So Falguni and team congrats on a decent set of results. I think we are on track to a bunch of things that we did highlight in the investor day that we conducted in June. Just one thing that I wanted to understand, particularly on Fashion side. I do understand that this was a really tough quarter for fashion businesses as such, especially online businesses in particular.

But the 20% odd growth that we have achieved compared to the ambition that we guided just like 20 days back before we published the quarterly update. Those numbers are quite off, right?

If you look at the 2x to 3x NSV growth in 3 years implies close to 30%, 35% odd growth, while we deliver 20%.

Falguni Nayar: So I think I had pointed out at that time also, and I would like to point out that very often, the growth also happens in step function rather than it's still early days of the business and the growth sometimes happens in step function. So you are aware that we've announced a Foot Locker Association, where we are going to represent all the Foot Locker's e-commerce demand in the country, and that launch is going to happen in October of this year.

So at this early stage of business, we had cautioned that there is seasonality to the business. And also, there is a step function improvement in business that happens due to initiatives that are being taken periodically. So I mean I had caution that this business is not mature enough to assume that, that is what it will translate to as heavy quarter growth.

Nihir Parikh: Yes, I think just to add one statement I think this quarter, even last year, we have noticed a lower growth, basically Indian wear like it is a big category. So there was an expectation that this quarter might be a little lower, but the other quarters as Indian wear picks up, even last year, as you'll go back to the last 4 quarters, had good growth.

Sachin Dixit: My second question is quickly on Nykaa Man. I do understand that we have merged the pieces of it within Fashion and Beauty. Is it really gaining any traction? Are we seeing sustainable business being achieved there?

Falguni Nayar: Sorry, can you repeat your question?

Sachin Dixit: On Nykaa Man, because we have a separate platform, can you talk about what traction we are getting there? I mean, we haven't heard anything happening in particular on that piece.

Falguni Nayar: So we are happy with the progress on Nykaa Man. We always wanted to grow it in the right manner in terms of, we do believe that if platforms are patient about the growth, you get the right customer acquisition and continue to grow. But yes, we've seen good traction in the Nykaa Man growth.

Moderator: The next question is from Kapil. Please accept the prompt, introduce yourself and proceed with the questions.

Kapil Singh: This is Kapil from Nomura. I was just noticing the trend of margins, and we are seeing good improvement in margins across verticals like Fashion and also the Superstore segment. And the Beauty segment has been operating more in a range. So how should we think about it going forward? Will it be that Beauty will operate more in a range with modest improvements and bulk of the margin improvement has to come from Fashion and other segments starting to turn around? Is that the way to think about it? What will be the drivers for Beauty business margins? These are the questions.

Falguni Nayar: I think because it's a new way of reporting, I think one of the expectations everybody had was on EBITDA and we can't gave a lot of segments in the EBITDA reporting. So I think it's a new way of reporting, so let it settle down and rather than read too much into what the margin improvement is. I would just like to caution that, yes, Fashion gross profit margin looked very good, but there are quarter-on-quarter differences. And I would say that some of it is definitely noncore. So I won't read too much into it.

Similarly, on the Beauty side also, it's been at a good level. And I think in the presentation, you saw that in Nykaa D, I think they are consciously trying to improve the gross profit margin based on selection of the right brands and right choices being made with a clear conscious to improve the net retention margin.

So I wouldn't read too much into it. I think margins are not a problem, but I won't also read into a huge amount of improvement. But yes, there's some improvement in Fashion margins were this improvement reflects both some core and some noncore. I mean, margins are not noncore, but the comparison is noncore because there could be some adversity in the base also.

Kapil: Sure. So can you talk about what can be the margin drivers for particularly Beauty business from here?

Anchit Nayar: Yes. Maybe would you like me to comment.

Falguni Nayar: Yes, Anchit.

Anchit Nayar: Yes. So I think as we have mentioned earlier, the Beauty business now from a vertical reporting perspective consists of four different types of businesses. One is beauty.com, the second is beauty retail. The third is Nykaa's B2B superstore business and the fourth is owned brands, right.

So each business has its own respective drivers for improvement in margins. If I look at the beauty.com business, which is at least in terms of share of revenue mix to this vertical is the most significant. That business, as we've said in the past, is already in a very, very healthy place from a margin profile perspective, both at the gross margin level but even all the way down to contribution margin and EBITDA margin.

So that business is in a very healthy place. That what are some potential levers to improve the margin profile on that side is as we've said in the past, if our owned brands continue to do well and if they grow faster than the growth of the platform and they take a larger share of total business, then that should have a positive impact on the gross margin profile.

Secondly, we've been working on a lot of ad formats for our ad platform. As you know, we collect services income, and we're working on multiple new ad format initiatives. So there is a potential for them also to improve the services income and therefore the gross margin.

Finally, there is operating leverage that will kick in because a lot of the costs, especially on employees is fixed, and also, we feel our marketing expenses are in a good place. So I think depends on the business within the vertical. So beauty.com I spoke about. If I look at owned brands, of course, that business is a strong business from a gross margin perspective.

So it just needs to keep growing and growing faster than the overall platform. And finally, the biggest lever, of course, will be now Nykaa has Superstore business like, Nykaa D which now sits within the beauty vertical. And that's where we see the potential for the largest improvement in margins, which Vishal covered in his presentation.

Yes, so the most meaningful improvement in margins is most likely to come from the youngest business, which is still in growth phase, which is the B2B business. However, since currently, it's a small percentage of total revenue to the beauty vertical, the most outsized impact on the beauty vertical in terms of margin will continue to come from the beauty.com and beauty retail businesses.

Moderator: The next question is from Vijit Jain. Please accept the prompt on your screen, introduce yourself and proceed with your questions.

Vijit Jain: My first question is just for comparison, so just wondering in the Beauty business, what the contribution margins would have been like in the earlier reporting. I mean, there's a 20-bps odd Y-o-Y decline in EBITDA margins and contribution margins also down 150, I imagine most of it has to do with B2B, right, because B2B is obviously growing faster than B2C. That's my first question. Just for comparison's sake, what would it have been?

Falguni Nayar: No, I think we gave all of the past comparison, and I think we can't keep giving this, but you should also know that we have consciously improved the marketing expenses for Beauty business as evident in the new customer acquisition and growth. And yes, there are some elements like fulfillment expenses going up is partly due to B2B, but because see, it's already in the base, right?

So even the quarter 1 FY24 is restated. So, it's the weightage that is going up. So, the weightage of B2B business is not that significant yet. But also, we talked about express delivery that we are now focusing on a same-day, next-day delivery. It doesn't increase the cost massively, but yes, some choices are being made about how we send our parcels in a way that the delivery is faster. So I think I would say it's a mix. I wouldn't read too much into it. But overall everything individually is improving.

Anchit Nayar: Vijit, if you just look at our core results from last quarter, I mean, that will tell you what the contribution margin was for the Beauty business, excluding the B2B business. So what I can tell you directionally is that it hasn't changed. The contribution margin for the vertical, excluding the B2B business hasn't changed meaningfully since last quarter at all. So what you're seeing here is because of what we've now added to this vertical.

P. Ganesh: Also, I'd like to add that we have shared the comparative numbers as per the new definition for the last 4 quarters in the investor deck in the annexure. So when you look at that, that will give you a good idea.

Vijit Jain: And my next question is just looking at the house of brands slide, right, on both beauty and fashion. So beauty is obviously growing very well on the house of brands side, 47% Y-o-Y, whereas fashion is down a little bit. So, a, my question is, is fashion down mainly because of the

Indian wear the point you mentioned earlier on and the innerwear is doing relatively better. So we should read into it in that context.

And within the beauty, the 47% Y-o-Y and the channel mix overall for the BPC business, just looking at the Y-o-Y chart looks a little interesting. So if you could explain what is happening there? I mean, I can see the Nykaa stores, for example, is down meaningfully in terms of channel mix for owned brands. and others is meaningfully up. So, I'm just trying to get a sense of really what is happening there for the owned brand part.

Falguni Nayar: So, on Nykaa is a complex company now, and you can't read so much into it because, honestly, like there's a lot of weightage of Dot & Key, which doesn't have a larger presentation in our stores. We are just starting to roll out Dot & Key in our store in a meaningful way. So some of the mix is affected by that. I think on the Beauty consciously, like Dot & Key also sold on other platforms and some weightage of other platform comes through that.

GT/MT clearly is a conscious strategy to continue to grow it because we believe that once brand reaches a certain size and scale, they need to grow beyond Nykaa's own platform. And we now have three brands that have reached a certain size and scale.

So say Kay Beauty is now increasingly going into GT/MT. So I think it's a mix of many things. So I think reading the relative importance of channels from the slide is not what can tell you what exactly is going on and because there are quite a few brands.

Talking about the fashion brand, definitely, you're right, the lingerie brand is doing well on most of the channels.

But besides Indian wear, I mean, ethnic wear brands, I think the western wear brand in Fashion has had a tough quarter, but we do believe that it will be revised, and it will grow from there. And the quarter was tough due to two elements, mainly on third-party platform where it has been listed on Myntra few other platforms. We didn't perform as well. But on Nykaa platform, it did well.

Anchit Nayar: And just I wanted to add, sorry, on the Beauty brand side is we have to just sort of keep in mind that this is a mix and it's not indicative that any particular channel is degrowing, right? So let's make sure we understand that all the beauty on brands are growing across all the channels. It just might happen to be that, for example, others, it's coming off of a smaller base, right?

So maybe the growth is higher relative to the growth for our owned brands on Nykaa's own platform where their share is already high. So it's also a factor of coming off of a small base, and therefore, showing a much higher growth relative to some of the more established channels. But all the channels are growing for the owned brands.

Vijit Jain: And just one last housekeeping question. Adjusted EBITDA metric, so you highlighted that it includes GCC, ESOP expenses and restructuring expenses. I just needed to know what the quantum of the restructuring expenses would be within that adjustment?

Falguni Nayar: It's difficult to give the details here, but I think maybe you can contact our team.

Vijit Jain: Thanks, Falguni. Those were my questions.

Moderator: The next question is from the line of Latika Chopra. Please accept the prompt on your screen, introduce yourself and proceed with the questions.

Latika Chopra: I'm Latika from JP Morgan. Two questions from my side. The first one was on your initiative to cut down the delivery time and around the express delivery. I wanted to understand what is driving this push? Are you sensing any changes in the Beauty retail landscape, which is motivating you to go for faster delivery? And the second part is, is there any considerable cost that is going to be associated with the same?

The second question was on your eB2B business. If you could give us some colour on what are the top product categories that are selling under this business. And there was also a packaging cost reduction that you mentioned on one of the slides. What is exactly driving that?

Falguni Nayar: Yes, you want to go Anchit.

Anchit Nayar: Maybe I'll kick it off. If you bought the previous slide on O2D, so I think Latika, the reality is that when we build a business in the e-commerce space, there are only three things that matter. One is at least in our mind, that's curation, its convenience, and its content, and a big part of convenience is the speed with which we can deliver to our consumers.

So it's always been a priority to us. And as you know, we've spoken many times over the past 2 years that we took this up as a bigger project coming out of the pandemic because, of course, there was an accelerated adoption of e-commerce during COVID, and coming out of that, we wanted to capitalize on that demand. And so we realized that it was very important to be very competitive from a speed, and therefore, convenience point of view. And that's the investment which we've now made over the past 3 years.

So it's not a new investment. It's not something which we're picking up now. We're kind of sharing with you the culmination of the past 3 years of work, which you've done in terms of expanding our warehouse capabilities and capacity, but also equally importantly improving our supply chain, both from a forecasting as well as from a hygiene perspective.

So I think a lot of work has been done over the past 3 years. And because we now have something which we feel is very much worth sharing. That's why we shared the results of it today, but this is not something that has happened overnight. It's been something we've worked out for many years. So to answer your question, no near-term figure. It's been something we've worked on for a long time and you're now seeing the results. I hope that answers your question.

Latika Chopra: Any cost that could come incrementally on account of that or not really because this has been in the works for a lot?

Anchit Nayar: Yes. I think you've seen, I mean, over the past 2, 3 years, you've seen the amount we've invested behind expansion of warehouse capacity, right? So that was probably a decent amount of the cost, at least from a capex point of view.

Going forward, I mean, as we continue to expand on this commitment to deliver same-day and next-day within the major metros and the top 100 plus cities. I think there is some amount of cost that might come into the picture on the last-mile fulfillment, but I don't think it should be very meaningful. So I do believe a lot of the heavy lifting is now behind us.

Falguni Nayar: Yes. No. What I'd like to add is that, honestly, while there were investments and costs, but I think on unit economics, the whole project is self-supporting because what gets added as a cost gets saved through last-mile delivery in certain cases, it gives savings to some other areas. So net-net, it's not expensive to do this from a unit economics perspective.

Vishal Gupta: Coming to eB2B. I think your first question on packaging cost. See, we have a very, I must admit frugal mindset when it comes to costs. So, what we have been driving for last, I think, 6- 7 quarters is that a lot of our outer packaging, we are reusing recycling materials for the brand boxes. So that really reduces our cost quite a bit.

Latika Chopra: And any flavour on what are the top products or categories for this business?

Vishal Gupta: Yes. So see, we obviously play in the BPC category. And more or less, it's in line with the kind of the market which is there in the GT environment. So categories like hair, personal wash are bigger than some other categories. But equally, because of the nature of our service categories like makeup, all the smaller in size but are bigger relative to the market size. So bigger with us relative to the market.

Falguni Nayar: So, we have quite a well, fragrances also, so you have a well-distributed business.

Vishal Gupta: That's right. And fragrances are one of the fastest-growing category.

Falguni Nayar: Skin also. So it's pretty balanced.

Moderator: The next question is from Harit Kapoor. Please accept the prompt, introduce yourself and please proceed with the questions.

Harit Kapoor: I just had two questions. One was on the BPC side. Yes. So my question was on the BPC side. So, if I just do a revenue minus NSV kind of quick calculation, it seems like the advertising income seems to have picked up in BPC this quarter. I might be wrong, but that's my assumption basis that calculation.

And given that from here on some of the discounting-led issues, which we were speaking about last year starts to come in the base. I was just wondering, are these two likely gross margin triggers for the online BPC piece going forward over the next few quarters?

Anchit Nayar: Yes. I think you're right. Although there's more than just sorry, more than just services income that sits between NSV and revenue. But yes, I mean, as we said in the past, there was definitely some softness in services income over the past couple of quarters because of external challenges, especially the D2C brands were having a difficult time with funding, and there was a big focus on profitability.

But I think all of the brands have realized that if you do not spend on advertising on a platform like Nykaa, the growth becomes very hard to come by. So that's where we're seeing a re-emergence of a lot of these D2C and younger brands who are now back to becoming more active in terms of marketing on the platform.

And so that's a positive trend, which we think should strengthen as we get into the second half of the year, which tends to be where most of the festive occasions are and a lot of the seasonal, and festive shopping for this category will occur. So, I would say we're optimistic for the second half of the year on the services income piece. And that should be a driver of improvement in gross margins as well.

And to your point, the discounting has been there because of the soft consumer demand across discretionary categories. So again, it's a lot of that moderation in discounting will happen if the demand does revive as people are expecting it to in the second half of the year.

So, as you know, it's meant to be a busy Q3, Q4 with lots of auspicious dates and lots of festivals. And I think a lot of retailers and consumer companies are bidding on a revival in demand and so are we. And I think if that happens, you will see the discounting should moderate, and that should, again, help reduce the buildup.

Harit Kapoor: Thanks for that. I just had one more on the marketing and advertising side. So you have explained the increase in the marketing spend being driven by the intent to kind of drive new customer acquisition. Shouldn't we expect this kind of uptick to sustain on your expenses given the fact that the medium- to long-term strategy is to kind of drive revenue growth at a faster basis. Is that the right way to think about it?

Anchit Nayar: You're referring to the Beauty segment marketing.

Harit Kapoor: Yes, just Beauty.

Falguni Nayar: Beauty marketing expense also is a combination of beauty.com as well as beauty private label brands. Marketing doesn't include anything for Nykaa D because they don't spend on marketing. So it's a combination of two things. We clearly do see ability to continue to grow our beauty private label brands and some more marketing investment will go there consciously not because we have to do it. We just feel it's the right thing to do. Similarly, on the e-commerce side, also, we definitely want to increase the acquisition in terms of new customer acquisition.

Anchit Nayar: Yes. But I think that being said, because we're offering at such a large scale here that even if we were to meaningfully increase the ad, the marketing spend in dollar terms. It wouldn't be a commensurate increase in terms of as a percent of sales.

So even this past quarter, where we had the highest customer acquisition quarter we've had in a long, maybe ever, yet you see that the increase in marketing spend is about 60 basis points.

So I think you'll see it be range bound. Yes, we want to continue to acquire new customers, and we want to continue to build owned brands. So there is some amount of marketing that will continue to be done, but I don't think you'll see it move in a very volatile fashion or by a large magnitude of it will be pretty much range bound. I think somewhere around the 8.5% to 9.0%.

Moderator: The next question is from Karan Taurani. Please accept the prompt on your screen, introduce yourself and proceed with the questions.

Karan Taurani: Yes. So my question was on the margin side. You mentioned that 8.5% - 9.0% is what you should see in terms of sustenance for the BPC business. Now the major levers, right? And one is in terms of ad revenue, seeing traction. Second is in terms of going you going for lower lead times and they're probably improving in terms of customer experience. And third, of course, lower losses in the B2B business side and also private label.

So despite having so many levers and also discounts moderating from year on going year, as we indicated. So despite having so many levers, what makes it that you are confident of improvement in terms of margins for the BPC segment?

Anchit Nayar: No. So, I don't think I guided to 8.5% - 9.0% EBITDA margins. I said that marketing expense will most likely be range bound at around 8.5% - 9.0%.

In terms of EBITDA margin, I think you summarized it well. There are many opportunities for us to continue to improve the margin. But again, I just want to go back to what I said earlier, which is the Beauty segment here from a vertical reporting perspective, consists of four different businesses. The e-commerce business, yes, it does have some levers for us to improve the margins, but we already feel like it's operating in a very, very healthy EBITDA margin. And whatever improvements we do manage to get, we want to continue to invest behind customer acquisition as well as customer retention. So that's on the beauty.com side.

Obviously, on the B2B side, where there is the largest magnitude of improvement in margins possible. However, because its revenue is still very small compared to the multi-brand retail channel. Whatever improvement happens in profitability will not be able to move the needle meaningfully at the segment level. But at an individual business unit level, B2B will have meaningful improvements in profitability.

And even though beauty.com has a potential to improve from here, it's just already in such a healthy place that we want to reinvest those savings into continued growth. And I think it's reflecting the fact that we're delivering 28% growth on GMV for beauty and personal care off a very large base in a discretionary category that has had a very muted quarter in the past 3 months. And I'm sure you follow results from all the various FMCG and retailer names. So it should not come as a surprise to you.

So I think in a difficult environment, we delivered market meeting growth in large part because we continue to invest behind that growth. And that will continue to be the focus for the beauty.com business in the coming quarters.

Karan Taurani: Right. So the second is a follow-up on the same thing. So let's say, if the beauty.com margins are similar and you plan to invest behind customer acquisition, can growth rates accelerate beyond 25% - 28% in the BPC business?

Falguni Nayar: See, I think Karan, I think most of your hunches are correct. All we saying is we don't want to guide for anything very incremental. But I think we are very sure that each of our business margins are great or they are improving. The mix obviously determines the one Nykaa numbers.

And yes, the B2B business, which is a very fast-growing business with improving margin structure, but overall EBITDA margin of their business is negative, right now. But I think it's not going to usually pull it down because the bigger businesses are all turning better on EBITDA margin, including the private label beauty business.

So Beauty's private label business, Beauty's dot-com business is in a good place with tendency towards improvement in margins with B2B as a mix pulling down the margin, and it will settle somewhere. And also, in terms of customer acquisition, the venue actually go for an accelerated customer acquisition, obviously, the benefit of that because all our customers buy 3.5x in a year, that's the average, right?

So it does give you long-term benefits. So it gives you benefit not just in that quarter, but also in quarters ahead. So overall, I think we do feel the business is in a good place now. And a lot of correction we needed to do are behind us.

Karan Taurani: So basically, in terms of cost moderation, one could either see a margin expansion or the growth acceleration over the medium term as a part of supply chain. Is that a fair understanding?

Falguni Nayar: Yes. And also the benefit of other expenses going down also comes because of scale, allowing us a little bit of more leeway to improve some other areas that we may not have done. Like we've not done any kind of large brand building activity for a long time. So we may periodically do something. I'm not guiding towards any large spend. But I'm just saying that the way things are in, it gives us ability to invest for the future.

Moderator: 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 Ms. Falguni Nayar for closing comments. Over to you, ma'am.

Falguni Nayar: Thank you very much, everyone, for being here with us, and thank you to my management team also to always be available, and thanks, everybody, and I hope we've answered all your questions. And if there's anything more do reach out to our IR team. Thank you.

Moderator: Thank you, ma'am.