“Meesho Limited

Q2 FY27 Earnings Conference Call”

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MODERATOR: **MR. NAVIN KILLA – UBS**

Moderator: Ladies and gentlemen, good day and welcome to the Meesho Q2 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the introduction. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Killa from UBS. Thank you and over to you, Navin.

Navin Killa: Thank you. On behalf of UBS, I would like to welcome all the participants to the Q2 FY27 conference call for Meesho Limited. I would like to inform you that the call is being recorded and the audio call and the transcript will be available on the company's website.

Joining us today to discuss earnings for Q2 FY27 are Vidit Aatrey, Chairman, Managing Director and Chief Executive Officer; Sanjeev Kumar, Whole-time Director and Chief Technology Officer; Dhiresh Bansal, Chief Financial Officer; and Karthik Chandrashekar, Head, Corporate Development and Investor Relations.

We encourage investors and analysts to review the shareholder letter which is available on Meesho's Investor Relations website. During the call, therefore, management will focus on answering questions beyond the topics that are already covered in the letter.

Before we begin, do note that certain statements made on this call may be forward-looking in nature and should therefore be considered in conjunction with the risk factors disclosed in the company's filings.

With that, I think we can open the floor for questions. Moderator, I will pass it back to you.

Moderator: Thank you so much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question comes from the line of Vivek M with Jefferies. Please go ahead.

Vivek M: Hi, good evening, Meesho team. First, on the contribution margins this quarter 6% is a great number. You have cautioned not to extrapolate this for the rest of the year. But from a second half perspective, where do you think this number can -- should settle at? And also if you can comment on FY28 as well?

Dhiresh Bansal: Sure. Thanks, Vivek, Dhiresh here. So, I think from a contribution margin perspective, the reason why we mentioned that this is not to be assumed as going forward into the next quarter as well, because typically we have certain lead lag between how we gain efficiencies on our cost front and when do we kind of pass it back onto our sellers and hence consumers in the form of lower pricing as well. So that's I think the key reason.

This quarter also, as we have kind of mentioned, we had incurred certain additional costs in relation to servers, especially GPUs, and hence we did not kind of pass it along back. And as that situation kind of normalizes, we would kind of reduce pricing to fund further growth into

our flywheel.

From a full-year perspective, we don't give specific guidance. Of course, I think we will continue to make progress on the longer-term contribution margin targets that we have during the course of this year. So it will be substantially better than FY26, both with kind of the efficiencies that we are gaining on the logistics side and hence what we have there and also kind of moving into FY28, we will start seeing benefits coming in from ad monetization as percentage of NMV increasing.

Vivek M: Got it, Dhiresh. The second one is on the -- and in some ways related to CMs. Logistics efficiency, you have spoken about 15% faster deliveries. So, two parts. One is on a Y-o-Y basis because festive season is in different quarter.

Is there also a network effect or underutilization, let's say, so to speak in some ways this year versus last year, which is helping this 15%? And again, this 15% should be seen for 2Q plus 3Q combined? And the second part is, if you can just comment on Valmo, how things have been there on that front?

Dhiresh Bansal: Sure. So the first part of the question in respect to the speed improvement that we have seen in this quarter, that's a continuing trend. So even in Q2 and Q3 put together, we expect that to kind of continue. The reason why that is happening, I think we have mentioned a few, but just to highlight, one, the fact that density increase and especially as we kind of have more capacity creation that has happened across the course of the year, that also kind of helps with faster delivery timelines.

So to give you an instance, let's say on the same route, earlier we were operating two shifts, now we are able to operate three shifts of line haul, then the speed would improve. So the growth itself and the density kind of leads to better speed across the network. We have also aided that with kind of better network design that has happened across our network and some of the 3PL networks as well.

And lastly, I think improvements on the software side, which is GeoIndia LLM, which is a more sustainable improvement that we keep doing in the form of improvement of address accuracy, hence making it easier to find end users has been the reason for improvement in speed. So that we expect to sustain across the quarters too.

Vivek M: And Dhiresh, comments on Valmo?

Dhiresh Bansal: Yes, so I think we continue to make progress on Valmo in terms of reducing our cost of doing business and I think even from a capacity perspective, we have had a good festive season. So some of the problems, let's say, that the overall logistics ecosystem saw last year, I think they are largely kind of behind us and this festive season has been good both in terms of capacity availability as well as efficiency of the operations. So that's I think on the Valmo as well as overall logistics side.

Vivek M: Got it. And if I can ask, one more which is on the outlook side, you have mentioned about you are watchful on the micro side, while you stand for value, but there is a fair amount of discretion,

I am guessing at the value level also for the kind of users you serve.

How worried are you with the macro and does that worry you from a let's say 12-month perspective? I know world is very volatile, there are a lot of uncertainties, but can the household budgets, can that impact the point that you made? Basically how worried are you about it?

Vidit Aatrey: Yes, hi Vivek, this is Vidit here. On this particular point, actually, from whatever data we have seen on the user behaviour, we do not see any concern yet. We see like now a large part of our platform is about utility products, personal care, beauty, home, kitchen, baby care, a lot of this is stuff that people need and we help them people save money. So we see like healthy amount of traffic conversion on our platform. So we do not see like any concern emerging anywhere.

Like a large part of the thing that we have highlighted is we continue to see like supply chain disruptions on the seller side. Like a lot of our sellers, because the price have been volatile, it impacts supply chains. We have been trying to help them out as much as we can, but last one month also, there were a lot of disruptions that happened because of price changing of crude across the board and a lot of petroleum products are used in supply chains from our sellers across categories and products.

So we see like a lot of pain point on the seller side, but on the demand side, actually, we haven't seen and we believe because we stand for value and especially in times where the macro could be impacted, we as a platform will add a lot more value to consumers' lives. So on the demand side, we actually feel quite confident that things should be okay.

Vivek M: Thank you and all the very best.

Moderator: Thank you. Our next question comes from the line of Sachin Salgaonkar with Bank of America.

Please go ahead.

Sachin Salgaonkar: Hi, thank you for the opportunity. I have three questions. First question, maybe just a follow-up to Vivek's question. Clearly a sharp improvement in CM and when we think about CM, there are two parts, right? One is add take rate improvement and second logistics efficiencies. And Dhiresh, you did talk about logistics efficiencies, but wanted to understand what is the primary reason for Q-o-Q improvement? Is it the improvement in add take rates or is it mainly logistics efficiencies?

Dhiresh Bansal: Sure. So the primary cause for improvement has been on the logistics side and the efficiencies that we have gained there. For instance, our improvement in RTO as a percentage of our orders, the density of orders increasing with kind of the volume gains that we have had, the network redesign that we kind of spoke about. All of those have led to and also the ongoing sort of efficiencies that we gain within Valmo.

So all of those have led to improvement in our cost structure, which is largely kind of reflected in our contribution margin improvement. That continues to kind of do well from input metrics

perspective, which is how the demand for ads from sellers continues to kind of remain robust. But let's say this quarter, Q2 movement has been largely led by logistics.

Sachin Salgaonkar: Got it. So is it fair to say Ad as a percentage of NMV is largely flattish on a Q-o-Q basis or we saw some improvement?

Dhiresh Bansal: Yes, we do not comment on that in specific separately, but like I said, the large part of improvement has come from logistics.

Sachin Salgaonkar: Got it. And when we speak on logistics, apart from efficiencies, there's all also this volume-led attractive rates what 3PLs give you. Did this quarter see some attractive rates coming because your volumes have now started to increase to the 3PLs?

Dhiresh Bansal: Yes, so there's no specific movement on let's say slab-linked pricing which kind of leads to improvement in our cost structure. I think we continue to have those. Large part of it usually comes in the festive quarter, which is going to be Q3. So I wouldn't say that it's linked to volume slabs, etcetera.

Sachin Salgaonkar: Got it. And my last question is on investments. Clearly, you guys, Vidit, you talked about software investments, so wanted to understand where we are and this quarter you guys did mention about a token and a server cost increase. A clarification question was in the medium term, you said we expect the server cost to normalize. Is this in absolute amount we should see normalization or more as a percentage of NMV?

Dhiresh Bansal: Yes, so on the server cost side, the normalization that we expect is as percentage of NMV, which is going back to kind of the baseline that we had in in two quarters, which is by Q4 FY27 quarter. On software Vidit?

Vidit Aatrey: Yes, I think we are making all these investments around automation across the board. Some of them are long gestation investments, some of them are short-term, but I think now every quarter the levels of automation across the network, especially in Valmo, will keep growing. And when there are significant updates, we will come and tell you. But I think we can expect that the automation levels will keep growing across all kinds of nodes, small or big.

That's a big focus area for us, especially as the platform gets larger with more and more volumes, it becomes a very important focus for us.

Sachin Salgaonkar: And Vidit, is this expected to impact the free cash flow or this will be spread over a period of time?

Vidit Aatrey: Like right now, we don't see it impacting free cash flow. A lot of these investments in the capex, we are seeing are being done by our partners also. All the Valmo entrepreneurs who are part of the network, small or big, depending on the size of their node, they think of this as a large opportunity to grow their business and we have always taken them a point of view that building an ecosystem is a better thing to do to scale the ecosystem much faster.

And we are taking the same view even around these investments. We are seeing a lot of our partners make these investments right now and we expect that to keep happening. And we feel that we have to basically ourselves invest a lot more, we will come out and communicate. But so far, it doesn't look like that majority of capex investments here will come from us. We think a lot of this would come from the partners who are part of the Valmo network.

Sachin Salgaonkar: Got it. Super clear. Thank you.

Moderator: Thank you. Our next question comes from the line of Navin Killa with UBS. Please go ahead.

Navin Killa: Hi, thanks for the opportunity. I had two questions actually. So, you did mention on the logistics side about improvement in delivery timings and all. I suppose there is always a cost versus speed trade-off. So, how do you see these two kind of factors playing out over the course of the next two to three years?

And then secondly, the financial services and the BNPL and the fintech products, if there is any kind of information or data that you can share and ambitions on, how big the business could be given, some very interesting precedents in in other emerging markets. So, how do you see that opportunity?

Vidit Aatrey: Yes, I think on the first question, maybe I can take that on logistics cost versus speed improvement. The way we see it is not as a trade-off. So, whenever we do speed improvements, we hold the cost and then kind of make those speed improvements. The reason why they happen, like I mentioned, for instance, if density of the network increases, that leads to faster speed. It also comes with better cost actually.

So, they both move in the same direction when it comes to things like density. When it is about let's say using GeoIndia LLM uh for improving accuracy of address, both cost improve because the number of attempts required to deliver a product comes down and also the speed improves because it is now delivered faster to the end consumer. So, the way we kind of hold it is while not deteriorating cost, how can we keep improving speed?

And as the volumes grow, there is natural benefit that we get, which we further aid by improving our network design as well as, software improvements like GeoIndia LLM. So, we do not see these as like two sides of the coin. They are kind of moving in the same direction.

On financial services, the second part of your question. So, like we mentioned, we continue to see encouraging signs. We have essentially both seller and consumer side lending products there and both are uh showing good signs while kind of maintaining risk rates within the pricing norms that we have kind of set in those areas. We are also building on larger supply base from various NBFCs and increasingly we are looking at getting bank partners as well.

So, that's overall from a progress perspective doing well. It is still a part of our new initiatives as we kind of get it across the line from new initiatives into let's say the core marketplace, we will start sharing more in terms of how the AUM and some of the other parameters are moving there, including what we expect as medium and long-term uh targets.

Navin Killa: Thank you.

Moderator: Thank you. Our next question comes from the line of Ankur Rudra with JP Morgan. Please go ahead.

Ankur Rudra: The first question is on the CM side again. You did say that your improvement has come from logistics efficiency, but you also said you will be reinvesting. So could you add some color about how you will be reinvesting and if there's a floor to how much you will reinvest in the festive quarter?

Dhiresh Bansal: Yes, Ankur, this is Dhiresh here. So we will so overall from FY27 versus FY26 perspective, like we have mentioned, I think there will continue to be significant improvement in contribution margin. The way we kind of think about it is that we will restore some of the lost logistics-related spread that we had in FY26 back to kind of where it was in past FY25 period during the course of this year and that sort of will be the outer guidance during the course of this year.

Having said that, I think given a lot of things are changing around the ecosystem, we would continue to maintain some flexibility around how much is passed back as logistics efficiency versus kind of continue to retain on P&L, as also some of the other line items like server cost, etcetera.

Ankur Rudra: Understood. Second question was on the, you mentioned, the growth and the ANP spend was up quite a lot this time, almost 50% sequentially. But I noticed that the LTM ATU add increased by just 10 million over the last quarter. I'm just curious if there's any signs of CAC or churn rising in the platform?

Vidit Aatrey: So Vidit here, I will maybe take this question. Actually, like we keep rebalancing our marketing spends across the board. This ATU increase also happens quite a lot in the festive month. It is also to be taken into account with the same thing that we mentioned that last year the festive sales happened in September, which has moved to October this year. So when you look at Y-o-Y, that basically is part of that base effect.

But in general, we continue to basically reallocate our spends in marketing basis what we see in CAC, because the platform frequency has been getting much, much better. We have been basically investing a lot more in users that could be like much higher LTV and so on. So sometimes CAC may not be the best ideal way of looking at it. It is CAC and LTV both put together, deciding where we should invest. Our internal guardrails of those investments are still the same.

So if we are not seeing a certain hurdle rate on investments, we do not invest that money. So I would say like we see good investment ROI on all this basis. We see our new user base growing in big cities almost as fast as in some of the smaller towns across the platform and frequency going up. And like as our user base keeps expanding across the board, we will keep doing it.

I would say like the time when you see we are basically going back on our marketing investments, we are reducing that, that would be the time when it feels like, hey, we cannot add

more users. But right now we do not feel that. Like we are seeing that with sustained marketing investments at the level that we have been at a percentage of NMV, our ROI on that has been quite healthy. And as long as that's there, we will keep investing there. Maybe increase that, maybe reduce that around that number, but stay in that zone.

Ankur Rudra: Appreciate the color. This last question on the festive season sales, there was a press release earlier this month where you highlighted that day one was up very sharply. If you could add any more color in terms of how the rest of the festive season has been this quarter?

Vidit Aatrey: I think the festive season has been good. Festive season overall, we published the day one numbers, but even overall, the festive season has been good. As I mentioned, there have been certain supply-side challenges for our sellers considering last like 20 days, there have been things happening in Middle East and crude prices have been going up and down, which is a large part of sourcing for some of our sellers.

But on demand side, traffic, like we hit all-time high numbers across the board, saw a very good growth, a lot of consumers coming and buying across categories for the first time. So our festive sales this time have been better than expectations and which gives us confidence that the demand side continues to be quite strong.

Ankur Rudra: Appreciate it. Thank you and that's all.

Moderator: Thank you. Our next question comes from the line of Gaurav Rateria with Morgan Stanley.

Please go ahead.

Gaurav Rateria: Hi, congrats on a strong execution on CM. A couple of questions. My first question is on your growth rates. If you yourself mentioned that adjusting for the shift of the festive season, growth was ahead of 30%, even while you did not pass on the pricing benefit.

So just trying to understand the kind of decision that you are taking to intervene on the pricing and pass it on. Is it that you think the opportunity is to grow the platform at much higher than 30% in the near term and which is why you want to kind of, continue to play that card and keep driving the growth as and when you can?

Vidit Aatrey: I would say like if you see like our pricing investments tend to basically pay off in the long run. So if we pass on our CM back tomorrow, like will we suddenly grow by 10%, 15%? The answer is no, because a lot of this is flywheel-related impact. Whenever we reduce our pricing, products and categories that were unviable last year or last month start to become viable, sellers in that category get attracted to the platform, start selling, and the payoff happens over a long time period. Right?

So a lot of these changes do not lead to a massive bump in the short term, but we have leading indicators to see how it will impact our two quarters, three quarters, four quarters down the line. So because we could keep a high CM in the last quarter and the growth was still strong, doesn't mean that we do not need to do it.

We have a strong plan of the products and category that we want to scale up on our platform in the next 12 to 18 months and we are very sure that for that to happen, we have to continue reinvestment into our business, into our flywheel and make a lot more consumers come to our platform as well as make a lot more sellers and categories and products viable on our platform.

Gaurav Rateria: Got it. Second question on the network design change that you were talking about, looks like some structural changes you may have made across various parts of the logistics ecosystem, be it the first mile, be it the mid-mile and the last mile, which kind of helped you to achieve these kind of savings.

It will be helpful to get some color on what are the network design change that you talked about and even the RTO that you mentioned, like NMV to GMV ratio doesn't look like it has changed much between last quarter and this quarter, but would it still mean that RTO as a percentage has further improved versus last quarter?

Dhiresh Bansal: Yes, maybe on the network change side, the primary changes have been on the middle mile side. I think last mile continues to be in a similar model. But as we kind of mentioned that volume shifts, increasing volumes allow us to design our network more efficiently, use our sort of line hauls more efficiently, use let's say bigger trucks in some places, etcetera. So, I think those have been the primary source of improvement when it comes to network design.

Also, kind of some of the nodes that we designed in terms of gateways and sorters, how do you kind of utilize them, that has been an equation that we keep solving for and keep improving across sort of different quarters. On the RTO side, while I think overall from a value of NMV to GMV, the ratio might not have looked to change significantly, but on the RTO as a percentage, it has improved versus the previous quarter.

And again, any improvement in RTO actually is straight flows into the bottom line. So that linkage is quite strong and that's why you see this, you know, a significant part of logistics efficiencies also coming from there.

Gaurav Rateria: Got it. Last question on some of these costs like server and all, from a medium-term perspective, should one consider that to be kind of a variable cost? Should one consider that to be kind of a fixed cost? Just trying to understand the, you know, medium-term operating leverage on that particular line item. Thank you.

Dhiresh Bansal: Yes, so I think there are components of both fixed and variable cost within server cost. It's a semi-variable cost technically and there are, for instance, when our conversion, which is let's say when a consumer comes to the app and browses and starts shopping a product, that kind of improves, we see benefit obviously coming in server cost side because a significant portion of the cost is fixed.

But there are also variable components. If someone browses more, if we start using, you know, more compute-intensive algorithms to make sure that the relevance of the feed remains high, then those kind of lead to larger usage of server cost. So, it's a semi-variable cost in that sense.

And I think even from a disclosure perspective, if you look at companies across in our sort of space, it's reported below contribution margin line, but that's also an area that we are also kind of contemplating on how to break this into variable and fixed and what portions to kind of bring up above contribution margin versus deep below contribution margin.

Gaurav Rateria: Thank you. All the best.

Moderator: Thank you. Our next question comes from the line of Gaurav Malhotra with Axis Capital. Please go ahead.

Gaurav Malhotra: Hi. Congrats on a good set of numbers. Just had a couple of questions. First of all, you know, if you look at the, you know, obviously there's been a big increase in the sellers on the platform. And we have seen that over the past few quarters. But then when we look at the NMV per seller, we see that number has sort of become flattish to declining.

So, in that context, you know, how do we sort of keep the sellers sort of encouraged to keep advertising on the platform, even though maybe they are not making as much money or they are not, how much they're making is not sort of growing in in some sort of a growth fashion.

Vidit Aatrey: Yes. So, I think all sellers on our platform are not of the same scale and size. And over the last two years, a lot of work that we have done on the platform is to make our platform work for all kinds of sellers. Really small sellers, big sellers. And when that has happened, I think, especially the non-GST seller base, which was not allowed to come online until two years ago, but now can sell on a platform like ours. That has led to a large part of the seller base expanding, especially in the smaller base, which is how you see this.

But when we look at a cohortised data, which is sellers who are big manufacturers, they continue to expand on their business year-on-year. And they're seeing very healthy growth because the platform continues to scale across categories. So just looking at the average sales per seller may not be the right thing to do because the type of seller base on the platform is quite diverse. But when we look at cohort numbers, we see very healthy growth across them.

Gaurav Malhotra: Got it. My second question is on the logistics cost. That on a per order basis has gone down in an inflationary environment. So now I understand that Dhiresh has given some couple of thought processes around this. But will there be some sort of timing issue that there's a possibility that these costs are going to move up in the December quarter? Or maybe the full cost of 3PS has not been fully reflected in these costs? Any sense on that?

Vidit Aatrey: So, I think on this overall logistics cost thing, I think even when we did the IPO at that time, we communicated as a company, you should expect us to keep reducing the costs of logistics every quarter forever.

Irrespective of any time. Which is basically our core goal. Our core goal is to basically make more and more stuff affordable. Inflationary time, non-inflationary time, we will continue to do it. A lot of that was not visible three quarters ago because of all the supply chain disruption we had because of supply issues in logistics.

But now since they are behind us, you should expect us to keep making progress here. I think levers will keep emerging. Sometimes it will be automation. Sometimes it will be improving the quality of middle mile. We have improving software across the board. I think we have multiple levers.

I don't want to list all of them down, but you should expect us to keep improving this every quarter, which is our long-term aspiration. That's when we will enable our consumers to come and buy all kinds of products and categories on our platform.

Gaurav Malhotra: Got it. Thank you.

Moderator: Thank you. Our next question comes from the line of Vijit Jain from Citi Bank. Please go ahead.

Vijit Jain: Hi. Thanks for the opportunity. My question is going back to Valmo here. Last time, Dhiresh, I think you mentioned Valmo share was about early 50s in 1Q, I believe. Is it going up now from 2Q onwards? And a related question to that, good to see that delivered order trend has been significantly higher than placed order trend for a few quarters now. And you guys did mention that RTOs have declined and that has benefited. I want to understand if RTOs will continue to decline significantly further here on as well.

Dhiresh Bansal: Sure. Maybe I'll start with the second part of the question. So, on RTOs, I think there are two trends which we see kind of playing out. One is obviously our prepaid share of transactions keep going up every quarter and year. And as we kind of mentioned before, on prepaid transactions, we see much lower proportion of RTOs versus cash on delivery transactions. So as a result of that, the RTO on a blended basis should keep coming down secularly across timeperiod.

Also, we take efforts to reduce even the cash on delivery related RTOs that we see by again doing innovations both on the software side as well as improving the way we kind of deliver some of these cash on delivery orders. Some of it is offset by the fact that we also keep going deeper into the country as we make progress. But these are the two big drivers of improvement in RTOs and that kind of gets reflected in the ratio of delivered to placed orders as well.

On the first part of the question Valmo shared, I think as a principle we don't kind of specifically want to comment on like how much does Valmo share versus how much does 3PL share given its sensitivity to a lot of other players too. But I think we continue to make progress on the Valmo side in terms of capacity creation as well as cost efficiency and that continues to show up in our results this quarter too.

Vijit Jain: Got it. Thanks. So just really quick on that. So essentially most of the RTO gains here are coming from lower COD RTOs and higher prepaid mix. That's the understanding, right? Understood.

Dhiresh Bansal: That's right.

Vijit Jain: Got it. My next question is you have this existing guidance right of mid-20s, if I remember this right, F '26, F '30, CAGR somewhere there about and you're obviously tracking much ahead of

that. You've said that you are going to reinvest back some of these near-term CM margins for higher growth.

So, any thoughts on revising that guidance given F '27 you already know and that would staying at that mid-20s level would imply some form of deceleration in F '28. So I just wanted to get a sense on that part. And then I have just one last question on AI use in your discovery feed.

Dhiresh Bansal: Sure. On the guidance that we have out is for the longer term towards F '31. So, I think this was a five-year guidance for let's say 25% growth on the NMV side. To maintain for now. I think as we see this year progress and are able to crystal ball gaze a little more into F '28, we'll come back and sort of say if it has to be changed or revised in any form. But given it's a long enough time horizon, I think and with the visibility that we have, we feel comfortable at maintaining it at that point.

Vijit Jain: Got it. My last question is, you guys have obviously invested a lot in all kinds of AI initiatives throughout the org. My question is, since the user platform is discovery feed led, are there any metrics you can share on what trends you're seeing? As you deploy more AI in discovery feed, are you seeing decently improved conversions, more click-throughs? Whatever metrics are most relevant or useful to understand, you know, how that AI use impacts the discovery feed would be super helpful to me. Thank you.

Sanjeev Kumar: Yes. So, one of the metrics that we have to share is the percentage of orders that come from discovery led feeds, right? Like that sort of reflects the relevance of those feeds and relevance of those feeds to the users. But in addition to that, as we continue to improve our models, we continue to make them larger and so on.

We do see time spent in the app that continues to improve. But beyond that, that also adds up to your conversion improvements, improvements in new users and everything else, right? With a better feed, we are able to get a new user to convert faster, get existing users to transact more and so on. So, all the transaction frequency growth, etc. sort of ties back directly, almost directly to the ranking and relevance model improvements.

Vijit Jain: Got it. Thank you. Super useful. Thank you so much and appreciate your time.

Moderator: Thank you. Our next question comes from the line of Aditya Soman with CLSA. Please go ahead.

Aditya Soman: Hi. Good evening. And thanks, firstly, for disclosing the quarterly FCF. I think that's a very useful number to have. So, heartening to see that improvement in the current quarter on quarterly FCF. Now, a large chunk of this is, as you indicated, led by working capital, I think INR523 crores or so.

But would that reverse? Because if we look at Q2 '26, even in that quarter, we had a big jump in working capital benefit and then we did not see that for the rest of the year. Again, would that be a similar trend this time around? Just wanted to understand given that there's been the shift in seasonality.

Dhiresh Bansal: Sure. So, I think a few things happen. Like Q2 '26, the festive season was earlier. And so, a lot of the jump in orders that we see was actually reflected in cash flows within Q2 '26 itself. This time around as well, we had not the full festive season sale, but some more sale periods in September. And hence, that also kind of led to negative working capital release during the quarter.

If I zoom out and look at the full year kind of picture that we have, if you look at the current EBITDA margin of about, adjusted EBITDA margin of about minus 1%, and you look at the growth at which, let's say the baseline growth that we have at about 30% area, and the 20 days negative working capital cycle, which is kind of roughly translates to, if I leave out all of these, you know, ups and downs of quarters and festive season and whatnot, that contributes to about almost positive 1.5% of NMV as we grow year-on-year at that pace.

So, if our adjusted EBITDA margin is kind of in line with, let's say, where the quarter is or keeps improving, then we should start seeing positive FCF coming in on a sort of LTM basis in a few quarters as well.

Aditya Soman: Understood. Very clear. So, we should see this now on a sort of more regular basis, this working capital release that we saw in the current quarter. Maybe not to the same extent, but it should be a more sort of steady and continuous improvement. That's what you mean, right?

Dhiresh Bansal: Yes, I think just to kind of note because, while we've started disclosing quarterly FCF, we will always have this volatility due to last 15 days, let's say, of NMV in any given quarter. So, for example, if I look at December quarter, in December, typically towards the end of the year, we would have a lean period. Every year it is the same case.

So, there might be trends up or down, but on a zoomed-out basis, if you kind of look at it normalized for what every day is and NMV is, you'll start seeing improvements both in quarterly and LTM numbers.

Aditya Soman: No, thanks Dhiresh. Very clear. And second question just on the improvement and contribution per order, if I were to look at it at about INR3 or a little over that. Now, as you indicated, most of it has come in fact about INR4 has come from logistics cost. But the revenue per order also reduced a little bit. Now, this would be you giving back some of that benefit of logistics to the customer or seller. Would that be the right understanding on this?

Dhiresh Bansal: Yes, some of that is carry over from the previous quarter because let's say when we passed on some efficiencies in the previous quarter, that wasn't accounted for the full quarter itself. And hence, you'd see that. But we keep doing that. We keep kind of like with this also mentioned, keep becoming more efficient and pass significant proportion of that benefit back to consumers to improve our pricing on the platform.

Aditya Soman: Got it. So, the way we should think of the take rate is basically the logistics, absolute logistics revenue may be reducing a little bit, but absolute revenue from advertising or whatever other

forms of monetization increasing, that would be the right way to interpret this over a longer term, right?

Dhiresh Bansal: Yes, that's right.

Aditya Soman: Perfect. All right. Thanks, Dhiresh.

Moderator: Thank you. Our next question comes from the line of Swapnil with JM Financial. Please go ahead.

Swapnil: Hi, thanks for the opportunity. My first question is more of a basic question actually. So, have you ever tried maybe charging a platform fee or a handling fee to the customers? The reason I am asking this question is because when I see at your unit economics on a per-order basis, which is basically EBITDA divided by delivered orders, I am coming to a loss of around INR2.4 per order.

Which means it's a matter of, you know, time that you should be able to recover this INR2 loss at any EBITDA level. And if you can just charge INR1 or INR2, you should be there. So just trying to understand any particular reason if you have tried and you don't want to continue either way, fiddling with that kind of a fee.

Vidit Aatrey: Yes, hi, Vidit here. I think we have historically made our POV on this public. We generally don't believe in charging any platform fee. I think the simple reason is we serve a mass-market consumer and sometimes that customer can miss new fees that you add at the cart level and putting anything at the cart level that is not exposed earlier sometimes also lead to loss of trust with that customer, where a customer could think that, hey, you are just trying to charge them at the end, why could you not just add that price to the product price?

So, we have always taken a customer-first view here that we will never add any hidden fees at the cart level, convenience fee, platform fee, many other fees that a lot of platforms add. We do not add that on our platform. And we have taken that POV for the longest time. If we have to charge higher, we would increase our take rate on logistics or ads or something else, but we would not add a platform fee.

It may we may let go of some short-term revenue around it, but increase customer trust would lead to much higher LTV in the long run, which would be the best thing for the business. And we continue to hold to this POV even now.

Swapnil: Got it. Very well. Understood. The second question is with respect to your indirect costs. So, heartening to see your contribution margin improving materially. But for some reason, I'm not able to grapple as to why the fixed cost leverage is not playing out. Typically, a platform business growing at a fast rate would see some of these fixed cost leverage also, you know, because I'm looking at your last year number, it was at 6.3% of NMV. This year, 1H, it is somewhere around 6.4%, 6.5%. So, any particular reason as to why that is not playing out? And if going forward, we should expect material improvement from that side?

Dhiresh Bansal: Yes, so if you look at the costs below contribution margin and between EBITDA, there are three

primary cost line items. There is marketing expenses, then there is server infrastructure cost, and third is people cost and some of the other GNA line items. As we've mentioned in the letter, the server cost in this quarter was elevated due to certain GPU capacity constraints and hence we had to procure capacity for the festive season much in advance within the Q2 quarter itself to ensure that the sale of the scale of sale is continued to be supportive.

This is sort of a global phenomenon right now where GPU pricing has suddenly kind of overshot significantly. We are mitigating this with partnering with multiple providers as well as going into multiple regions within our existing hyperscaler relationships to mitigate and procure capacity only in the time periods when we need them rather than building it in advance. This is expected to come back during the course of let's say the next quarter, Q4 FY27 as a percentage of NMV. So that's I think one of the reasons.

Second reason was on the marketing front, some of the investments that we made ahead of festive season, which I think we've also kind of mentioned in the previous quarter letter that we would be making certain investments in the upcoming festive season prior to the festive season. So investment goes in first, things like TV advertisement production or kind of other means of getting reach into customers, that kind of predates the actual NMV benefit that we start seeing. On an overall annual basis, when we look at FY27 numbers, you would see operating leverage kind of play out.

Swapnil: Okay. And just an extension of that, what would be the steady state number that you would be aspiring for fixed cost as a percentage of NMV?

Dhiresh Bansal: So, we expect in the longer run the fixed cost base to come to about 3% of NMV.

Swapnil: Got it. This would be somewhere around FY29-'30. Will that be the right assumption on this? '31. Okay. And just one last one on Kirana Club. Have that business been integrated and any color on the nature of investments that will be required? Given that it's a mainly B2B business, so any thoughts on that?

Dhiresh Bansal: Yes, so I think the closing of the transaction has happened recently, as recent as today. So, I think we'll start the integration process, although it will continue to run fairly independently. The founders there continue to remain in the business and will continue to kind of run that business. From an investment perspective, this will be as a part of our new initiatives and the cap that we mentioned in terms of capital allocation will hold on the new initiatives that we have, which is about INR200 crores annual cap, including all of the new initiatives that we have.

Swapnil: So INR200 crores is including Kirana Club. Is that understanding, correct?

Dhiresh Bansal: Yes.

Swapnil: Okay. Thank you very much for that and all the best.

Dhiresh Bansal: Thank you so much.

Moderator: Thank you so much. Ladies and gentlemen, we will take that as the last question for today and we thank everyone for their participation. On behalf of UBS, that concludes this conference. Thank you for joining us and you may now disconnect your lines.