Meesho

Operator: Good day and welcome to the Meesho Ltd. Q2 FY27 earnings conference call. As a reminder, all participant lines will be in 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 the operator by pressing star and then zero on your touch-tone 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 – UBS: Thank you. On behalf of UBS, I would like to welcome all the participants to the Meesho Ltd. Q2 FY27 conference call. I would like to inform you that the call is being recorded, and the audio call and 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, Full-Time Director and Chief Technology Officer; Dhiresh Bansal, Chief Financial Officer; and Parth Chandrasekhar, Head of 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, management will therefore 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.

Operator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Vivek M with Jefferies. Please go ahead.

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

Dhiresh Bansal – CFO: Sure. Thanks, Vivek. Dhiresh here. From a contribution margin perspective, the reason we mentioned that this should not be assumed to continue into the next quarter as well is that typically there is a certain lead-lag between when we gain efficiencies on the cost front and when we pass them back to our sellers, and hence to consumers, in the form of lower pricing.

That is the key reason. This quarter also, as we have mentioned, we incurred certain additional costs relating to servers, especially GPUs, and therefore we did not pass those costs back. As that situation normalizes, we will reduce pricing to fund further growth in our flywheels.

Report is AI-generated and may contain inaccuracies.

From a full-year perspective, we do not give specific guidance. Of course, we will continue to make progress on the longer-term contribution margin targets that we have during the course of this year. It will be substantially better than FY26, both because of the efficiencies we are gaining on the logistics side and because, moving into FY28, we will start seeing benefits from ad monetization as a percentage of NMV increases.

Vivek M – Jefferies: Got it, Dhiresh. The second one is, in some ways, related to contribution margins and logistics efficiency. You have spoken about 15% faster deliveries. There are two parts to this. First, on a year-on-year basis, because the festive season falls in a different quarter, is there also a network effect or underutilization, so to speak, in some ways this year versus last year that is helping this 15%? And again, should this 15% be viewed for Q2 plus Q3 combined?

The second part is if you can comment on Valmo, and how things have been there.

Dhiresh Bansal – CFO: Sure. On the first part of the question, regarding the speed improvement that we have seen this quarter, that is a continuing trend. Even in Q2 and Q3 taken together, we expect that to continue.

The reason this is happening is that density is increasing. Especially as we have created more capacity over the course of the year, that also helps with faster delivery timelines. To give you an example, let us say that on the same route we were previously operating two shifts, and now we are able to operate three shifts of line-haul. In that case, the speed would improve. Growth itself and density lead to better speed across the network.

We have also supported this with better network design across our network and across some of the 3PL networks as well. Lastly, improvements on the software side, through Geo India LLM, have also contributed to this. This is a more sustainable improvement that we continue to make in the form of improved address accuracy, making it easier to find end users, and that has been a reason for the improvement in speed. We expect this to be sustained across the quarters as well.

Vivek M – Jefferies: And Dhiresh, comments on Valmo?

Dhiresh Bansal – CFO: I think we continue to make progress on Valmo in terms of reducing our cost of doing business. From a capacity perspective as well, we have had a good festive season. Some of the problems that the overall logistics ecosystem saw last year are largely behind us.

This festive season has been good both in terms of capacity availability and the efficiency of operations. That is the position on Valmo as well as on the overall logistics side.

Vivek M – Jefferies: Sure. If I can ask one more, on the outlook side, you have mentioned that you are watchful on the macroeconomic side. While you stand for value, I am guessing that there is also a fair amount of discretion at the value level for the users you serve.

How worried are you about the macroeconomic environment, and can that concern affect you from a 12-month perspective? I know the world is very volatile and there are a lot of uncertainties. Can household budgets be affected in the way you mentioned? How worried are you about it?

Report is AI-generated and may contain inaccuracies.

Vidit Aatrey - Chairman, Managing Director & CEO: Hi, Vivek. This is Vidit. On this particular point, based on whatever data we have seen on user behavior, we do not see any concern yet.

A large part of our platform is now focused on utility products, personal care, beauty, home, kitchen, baby care, and many other products that people need. We help people save money. We are seeing healthy traffic and conversion on our platform, so we do not see any concern emerging anywhere.

A large part of what we have highlighted is that we continue to see supply chain disruptions on the seller side. Many of our sellers are affected by supply chains because prices have been volatile. We have been trying to help them as much as we can, but during the last 1 month there were also a lot of disruptions because of changes in crude prices across the board. A lot of petroleum products are used in the supply chains of our sellers across categories and products.

Therefore, we see a lot of pain points on the seller side. On the demand side, however, we have not seen any such issue. We believe that because we stand for value, especially at times when the macroeconomic environment could be impacted, our platform will add much more value to consumers' lives. On the demand side, we therefore feel quite confident that things should be fine.

Vivek M - Jefferies: Got it, Vidit. Thank you very much, and I wish you the very best.

Vidit Aatrey - Chairman, Managing Director & CEO: Thank you.

Operator: Ladies and gentlemen, in order to ensure that management is able to address all the questions from participants, we request you to limit your questions to three per participant. If you have a follow-up question, please rejoin the queue.

Our next question comes from the line of Sachin Salgaonkar with Bank of America. Please go ahead.

Sachin Salgaonkar - Bank of America: Hi. Thank you for the opportunity. I have three questions. The first question is perhaps a follow-up to Vivek's question. There has clearly been a sharp improvement in contribution margin. When we think about contribution margin, there are two parts. One is improvement in the ad take rate, and the second is logistics efficiencies.

Dhiresh, you did discuss logistics efficiencies, but I wanted to understand the primary reason for the quarter-on-quarter improvement. Is it improvement in ad take rates, or is it mainly logistics efficiencies?

Dhiresh Bansal - CFO: The primary cause of the improvement has been on the logistics side and the efficiencies that we have gained there.

For instance, the improvement in RTO as a percentage of our orders, the increase in order density along with the volume gains we have had, the network redesign that we discussed, and the ongoing efficiencies that we are gaining within Valmo have all led to an improvement in our cost structure. This is largely reflected in the improvement in our contribution margin.

Advertising continues to perform well from an input-metrics perspective, with demand for advertisements from sellers remaining robust. However, this quarter's quarter-on-quarter

Report is AI-generated and may contain inaccuracies.

movement has been largely led by logistics.

Sachin Salgaonkar – Bank of America: Got it. Is it fair to say that advertising as a percentage of NMV was largely flat on a quarter-on-quarter basis, or did we see some improvement?

Dhiresh Bansal – CFO: We do not comment on that separately in specific terms, but as I said, the majority of the improvement has come from logistics.

Sachin Salgaonkar – Bank of America: Got it. When we talk about logistics, apart from efficiencies, there are also volume-led attractive rates that 3PLs offer you. Did this quarter see some attractive rates because your volumes to the 3PLs have now started to increase?

Dhiresh Bansal – CFO: [pause] There has been no specific movement in slab-linked pricing that has led to an improvement in our cost structure. We continue to have those arrangements. A large part of that usually comes in the festive quarter, which will be Q3. I would not say that it is linked to volume slabs or anything similar.

Sachin Salgaonkar – Bank of America: Got it. My last question is on investments. Vidit, you clearly discussed sorter investments. I wanted to understand where we stand. This quarter, you also mentioned an increase in token and server costs. As a clarification, when you said in the medium term that you expect server costs to normalize, should we expect normalization in absolute terms or more as a percentage of NMV?

Dhiresh Bansal – CFO: On the server-cost side, the normalization we expect is as a percentage of NMV, going back to the baseline that we had in two quarters, which is by the Q4 FY27 quarter. On sorters, Vidit [cut off]

Vidit Aatrey – Chairman, Managing Director & CEO: I think we are making all these investments in automation across the board. Some of them are long-gestation investments, and some of them are short-term.

Every quarter, the levels of automation across the network, especially in Valmo, will continue to increase. When there are significant updates, we will share them with you. You can expect the automation levels to continue growing across all kinds of nodes, whether small or large.

That is a major focus area for us, especially as the platform becomes larger with increasing volumes. It becomes a very important focus for us.

Sachin Salgaonkar – Bank of America: Vidit, is this expected to impact free cash flow, or will it be spread over a period of time?

Vidit Aatrey – Chairman, Managing Director & CEO: At present, we do not see it impacting free cash flow. A lot of these capex investments are also being made by our partners.

All the Valmo entrepreneurs who are part of the network, whether small or large, think of this as a significant opportunity to grow their businesses, depending on the size of their nodes. We have always taken the view that building an ecosystem is a better way to scale the ecosystem much faster.

Report is AI-generated and may contain inaccuracies.

We are taking the same view with respect to these investments. We are seeing many of our partners make these investments now, and we expect that to continue. When we feel that we will have to invest substantially more ourselves, we will communicate that. So far, it does not appear that the majority of the capex investments in this area will come from us. We think a significant portion of this will come from the partners who are part of the Valmo network.

Sachin Salgaonkar – Bank of America: Got it. Super clear. Thank you.

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

Navin Killa – UBS: Hi, thank you for the opportunity. I had two questions. You mentioned the improvement in delivery timelines on the logistics side. I suppose there is always a cost-versus-speed trade-off. How do you see these two factors playing out over the course of the next 2-3 years?

Secondly, on financial services and BNPL [trails off]

Navin Killa – UBS: and the fintech products, is there any information or data that you can share, and what are your ambitions regarding how large this business could become, given some very interesting precedents in other emerging markets? How do you see that opportunity?

Dhiresh Bansal – CFO: On the first question, regarding logistics cost versus speed improvement, we do not view it as a trade-off. Whenever we improve speed, we hold the cost and then make those speed improvements.

The reason these improvements happen is that, for instance, if the density of the network increases, that leads to faster speeds. It also results in better costs. Therefore, when it comes to factors such as density, both move in the same direction.

When we use Geo India LLM to improve address accuracy, both costs and speed can improve because the number of attempts required to deliver a product comes down, and the speed also improves because the product is delivered faster to the end consumer.

Our approach is to avoid deterioration in cost while continuing to improve speed. As volumes grow, we receive a natural benefit, which we further support by improving our network design and by making software improvements such as Geo India LLM. We therefore do not see these as two sides of the coin. They are moving in the same direction.

On financial services, the second part of your question, as we have mentioned, we continue to see encouraging signs. We essentially have both seller-side and consumer-side lending products, and both are showing good signs while maintaining risk spreads within the pricing norms that we have set in those areas.

We are also building a larger supply base from various NBFCs, and increasingly we are looking to bring in bank partners as well. Overall, from a progress perspective, it is doing well.

Report is AI-generated and may contain inaccuracies.

It is still part of our new initiatives. As we move it from new initiatives into the core marketplace, we will start sharing more information on how AUM and some of the other parameters are progressing, including what we expect to be the medium- and long-term targets.

Navin Killa – UBS: Understood.

Operator: Thank you. Our next question comes from the line of Ankur Rudra from J.P. Morgan. Please go ahead.

Ankur Rudra – J.P. Morgan: The first question is on the contribution-margin side again. You said that the improvement has come from logistics efficiency, but you also said that you will be reinvesting. Could you provide some colour on how you will reinvest and whether there is a floor to how much you will reinvest in the festive quarter?

Dhiresh Bansal – CFO: Ankur, this is Dhiresh. From an overall FY27 versus FY26 perspective, as we mentioned, there continues to be a significant improvement in contribution margin.

The way we think about it is that, during the course of this year, we will restore some of the lost logistics-related spread that we had in FY26 to approximately where it was in the past FY25 period. That will be the outer guidance during the course of this year.

Having said that, given that many things are changing in the ecosystem, we will continue to maintain some flexibility regarding how much is passed back as logistics efficiency versus how much is retained in the P&L, as other line items such as server costs evolve.

Ankur Rudra – J.P. Morgan: Understood. The second question relates to the growth in MAP spend, which was up significantly this time, almost 50% sequentially. However, I noticed that LTM ATU increased by only 10 million over the last quarter. I am curious whether there are any signs of CAC or churn increasing on the platform.

Vidit Aatrey – Chairman, Managing Director & CEO: I will take this question. We continue to rebalance our marketing spend across the board.

The increase in ATU also happens substantially during the festive month. This should be considered along with what we mentioned earlier: last year, the festive sales occurred in September, whereas this year they moved to October. When you look at the year-on-year numbers, that is part of the base effect.

In general, we continue to reallocate our marketing spend based on what we see in CAC, because platform frequency has been improving significantly. We have been investing much more in users who could have higher LTV and so on. Therefore, CAC may not always be the best way to evaluate this. CAC and LTV together determine where we should invest.

Our internal guardrails for these investments remain the same. If we do not see a certain hurdle rate on investments, we do not invest that money.

We see good investment ROI across these areas. We see our new-user base growing in large cities almost as quickly as in some of the smaller towns across the platform, and frequency is increasing.

Report is AI-generated and may contain inaccuracies.

As our user base continues to expand across the board, we will continue doing this.

It is not the case that we are reducing our investments. The time when you see us going back on our marketing investments and reducing them will be when we feel that we cannot add more users. We do not feel that way right now.

We are seeing healthy ROI with sustained marketing investment at the level at which we have been investing, as a percentage of NMV. As long as that continues, we will keep investing. We may increase or reduce the investment around that level, but we will remain in that zone.

Ankur Rudra – J.P. Morgan: I appreciate the colour. My last question is on festive-season sales. There was a press release earlier this month highlighting that day one was up very sharply. Could you provide any additional colour on how the rest of the festive season has been this quarter?

Vidit Aatrey – Chairman, Managing Director & CEO: I think the festive season has been good. We published the day-one numbers, but overall, the festive season has also been good.

As I mentioned, there have been certain supply-side challenges for our sellers. During the last 20 days, there have been developments in the Middle East, and crude prices have been moving up and down. This is a significant part of sourcing for some of our sellers.

On the demand side, traffic reached all-time highs across the board. We saw very good growth, with many consumers coming in and buying across categories for the first time. Our festive sales this time have been better than our expectations, which gives us confidence that demand continues to be quite strong.

Ankur Rudra – J.P. Morgan: I appreciate it. Thank you, and best of luck.

Operator: Thank you. Our next question comes from the line of Gaurav Rateria with Morgan Stanley. Please go ahead.

Gaurav Rateria – Morgan Stanley: Hi. Congratulations on the strong execution on contribution margin. I have a couple of questions.

My first question is on your growth rates. You mentioned that, after adjusting for the shift in the festive season, growth was ahead of 30%, even though you did not pass on the pricing benefit.

I am trying to understand the decision you are making to intervene in pricing and pass the benefit on. Do you believe that there is an opportunity to grow the platform at substantially more than 30% in the near term, which is why you want to continue using that lever and keep driving growth whenever you can?

Vidit Aatrey – Chairman, Managing Director & CEO: I would say that our pricing investments tend to pay off over the long term. If we pass our contribution margin back tomorrow, will we suddenly grow by 10-15%? The answer is no, because much of this is related to the flywheel effect.

Whenever we reduce our pricing, products and categories that were unviable last year or last month start to become viable. Sellers in those categories are attracted to the platform and start selling, and the payoff occurs over a long period of time.

Report is AI-generated and may contain inaccuracies.

Many of these changes do not lead to a massive short-term increase, but we have leading indicators that show how they will affect us two, three, or four quarters down the line.

The fact that we were able to maintain a high contribution margin in the last quarter while growth remained strong does not mean that we do not need to make these investments. We have a strong plan for the products and categories that we want to scale on our platform over the next 12-18 months.

We are very certain that, for this to happen, we have to continue reinvesting in our business and our flywheel, bring many more consumers to our platform, and make many more sellers, categories, and products viable on our platform.

Gaurav Rateria - Morgan Stanley: Got it. My second question is on the network-design change that you discussed. It appears that you may have made structural changes across various parts of the logistics ecosystem, including the first mile, middle mile, and last mile, which helped you achieve these savings.

It would be helpful to get some colour on the network-design changes that you mentioned. Also, regarding RTO, the NMV-to-GMV ratio does not appear to have changed significantly between last quarter and this quarter. Would it still mean that RTO as a percentage has further improved compared with last quarter?

Dhiresh Bansal - CFO: On the network-change side, the primary changes have been on the middle-mile side. The last mile continues to operate on a similar model.

As we mentioned, shifts in volume and increasing volumes allow us to design our network more efficiently, use our line-hauls more efficiently, and use larger trucks in some locations. These have been the primary sources of improvement in network design.

Some of the nodes that we designed, such as gateways and sorters, and the way we utilize them, are also areas that we continue to solve for and improve across different quarters.

On the RTO side, while the overall NMV-to-GMV ratio may not appear to have changed significantly, RTO as a percentage has improved compared with the previous quarter.

Any improvement in RTO flows directly into the bottom line. That linkage is quite strong, which is why you see a significant part of the logistics efficiencies also coming from there.

Gaurav Rateria - Morgan Stanley: Got it. My last question is on costs such as servers. From a medium-term perspective, should we consider this a variable cost or a fixed cost? I am trying to understand the medium-term operating leverage on that particular line item. Thank you.

Dhiresh Bansal - CFO: There are components of both fixed and variable costs within server costs. Technically, it is a semi-variable cost.

For instance, when our conversion improves—that is, when a consumer comes to the app, browses, and ultimately purchases a product—we see a benefit on the server-cost side because a significant portion of that cost is fixed.

Report is AI-generated and may contain inaccuracies.

However, there are also variable components. If someone browses more, or if we start using more compute-intensive algorithms to ensure that feed relevance remains high, those factors lead to greater usage of server costs.

It is therefore a semi-variable cost in that sense. From a disclosure perspective, if you look at companies across our sector, it is reported below the contribution-margin line. However, this is also an area where we are considering how to split it between variable and fixed costs, and which portions should be brought above the contribution-margin line versus retained below the contribution-margin line.

Gaurav Rateria – Morgan Stanley: Thank you. All the best.

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

Gaurav Malhotra – Axis Capital: Hi. Congratulations on a good set of numbers. I have a couple of questions.

First, there has obviously been a significant increase in the number of sellers on the platform, and we have seen that over the past few quarters. However, when we look at NMV per seller, that number appears to have become flat or declined.

In that context, how do we keep sellers encouraged to continue advertising on the platform, even if they are not making as much money, or if the amount they are making is not growing in a meaningful way?

Vidit Aatrey – Chairman, Managing Director & CEO: All sellers on our platform are not of the same scale and size. Over the last 2 years, a lot of the work we have done on the platform has been to make it work for all kinds of sellers, from very small sellers to large sellers.

As this has happened, especially the non-GST seller base—which was not allowed to come online until 2 years ago but can now sell on a platform like ours—has expanded significantly. This has led to a large part of the seller base expanding, particularly among smaller sellers, which is why you see this trend.

However, when we look at cohort-based data, we see very healthy growth across the board.

Vidit Aatrey – Chairman, Managing Director & CEO: The large manufacturers continue to expand their businesses year-on-year, and they are seeing very healthy growth because the platform continues to scale across categories.

Therefore, looking only at average sales per seller may not be the right approach, because the seller base on the platform is quite diverse. When we look at cohort numbers, we see very healthy growth across the board.

Gaurav Malhotra – Axis Capital: Got it. My second question is on logistics costs. On a per-order basis, logistics cost has declined in an inflationary environment. I understand that Dhiresh has provided some thought processes around this.

Report is AI-generated and may contain inaccuracies.

Could there be some timing issue, such that these costs may move up in the December quarter? Alternatively, is the full cost of 3PL not being fully reflected in these costs? Do you have any sense of that?

Vidit Aatrey – Chairman, Managing Director & CEO: On overall logistics costs, when we did the IPO, we communicated that, as a company, investors should expect us to keep reducing logistics costs every quarter indefinitely, irrespective of the environment.

That is our core goal. Our core goal is to make more and more products affordable. Whether the environment is inflationary or non-inflationary, we will continue to do this.

A lot of this was not visible 3 quarters ago because of the supply chain disruptions and the supply issues we had in logistics. Now that those issues are behind us, you should expect us to continue making progress here.

New levers will continue to emerge. Sometimes it will be automation, sometimes it will be improving the quality of the middle mile, and sometimes it will be improving software across the board. We have multiple levers. I do not want to list all of them, but you should expect us to continue improving this every quarter, which is our long-term aspiration.

That is how we will enable consumers to come and buy all kinds of products and categories on our platform.

Gaurav Malhotra – Axis Capital: Got it. Thank you.

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

Vijit Jain – Citi Bank: Hi. Thank you for the opportunity. My question goes back to Valmo. Last time, Dhiresh, I think you mentioned that Valmo's share was in the early 50s in Q1. Has that increased from Q2 onwards?

A related question is that delivered-order trends have been significantly higher than placed-order trends for a few quarters now. You mentioned that RTOs have declined and that this has been beneficial. I wanted to understand whether RTOs will continue to decline significantly from here.

Management: I will start with the second part of the question. On RTOs, we see two trends playing out.

First, our prepaid share of transactions continues to increase every quarter and every year. As we have mentioned, prepaid transactions have a much lower proportion of RTOs than cash-on-delivery transactions. As a result, RTO on a blended basis should continue to decline structurally over time.

We are also taking steps to reduce cash-on-delivery-related RTOs by introducing innovations on the software side and improving the way we deliver some of these cash-on-delivery orders.

Some of this is offset by the fact that we are also continuing to go deeper into the country as we make progress. These are the two major drivers of improvement in RTOs, and that is also reflected in the ratio of delivered orders to placed orders.

Report is AI-generated and may contain inaccuracies.

On the first part of your question, regarding Valmo's share, as a matter of principle, we do not specifically want to comment on how much of the share belongs to Valmo versus 3PLs, given the sensitivity for many other players as well.

However, we continue to make progress on the Valmo side in terms of capacity creation and cost efficiency, and this continues to show up in our results this quarter as well.

Vijit Jain – Citi Bank: Got it. Just very quickly on that, Vidit: essentially, most of the RTO gains are coming from lower COD RTOs and a higher prepaid mix. Is that the correct understanding?

Vidit Aatrey – Chairman, Managing Director & CEO: Understood.

Management: Yes, that is correct.

Vijit Jain – Citi Bank: Got it. My next question is about the existing guidance of a mid-20s FY26-FY30 CAGR, if I remember correctly. You are obviously tracking well ahead of that. You have said that you are going to reinvest some of these near-term contribution margins for higher growth.

Do you have any thoughts on revising that guidance, given that you already know FY27, and remaining at the mid-20s level would imply some form of deceleration in FY28? I wanted to get a sense of that. I then have one final question on the use of AI in the discovery feed.

Management: The guidance we have issued is for the longer term, through FY31. It was a 5-year guidance for approximately 25% growth CAGR on the NMV side, and we will continue to maintain it for now.

As the year progresses and we are able to see a little further into FY28, we will come back and state whether it needs to be changed or revised in any form. Given the sufficiently long time horizon and the visibility we have, we are comfortable maintaining it at this level.

Vijit Jain – Citi Bank: Got it. My last question is on AI. You have obviously invested significantly in various AI initiatives across the organization.

Since the user platform is discovery-feed-led, are there any metrics you can share on the trends you are seeing as you deploy more AI in the discovery feed? Are you seeing improved conversions or more click-throughs? Any metrics that are most relevant or useful for understanding how the use of AI affects the discovery feed would be very helpful. Thank you.

Vidit Aatrey – Chairman, Managing Director & CEO: One of the metrics that Sanjeevian has continued to share is the percentage of orders that come from discovery-led feeds. That clearly reflects the relevance of those feeds and their relevance to users.

In addition, as we continue to improve our models and make them larger, we see that time spent in the app continues to improve. Beyond that, this also contributes to improvements in conversion, new users, and other metrics.

With a better feed, we are able to get a new user to convert faster and get existing users to transact more. Therefore, all the growth in transaction frequency and similar metrics ties back, almost directly, to improvements in the ranking and relevance models.

Report is AI-generated and may contain inaccuracies.

Vijit Jain – Citi Bank: Got it. Thank you. That was very useful. Thank you very much, and I appreciate your time.

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

Aditya Soman – CLSA: Hi. Good evening, and thank you for disclosing quarterly FCF. I think that is a very useful number to have. It is encouraging to see the improvement in quarterly FCF in the current quarter.

A large portion of this, as you indicated, was led by working capital, which added approximately 523 crores. Would that reverse? If we look at Q2 FY26, even in that quarter we had a significant jump in the working-capital benefit, and then we did not see that for the rest of the year. Would we see a similar trend this time? I wanted to understand this, given the shift in seasonality.

Management: A few things happened. In Q2 FY26, the festive season was earlier, and therefore a significant portion of the jump in orders was reflected in cash flows within Q2 FY26 itself.

This time as well, we did not have the full festive-season sale, but we had some additional sale periods in September. That also led to a negative working-capital release during the quarter.

If I zoom out and look at the full-year picture, with the current adjusted EBITDA margin of approximately -1% and growth at the level of our baseline growth, which is approximately 30%, the 20-day negative working-capital cycle roughly translates to the following.

If we exclude all the quarter-to-quarter and festive-season ups and downs, that contributes approximately 1.5% of NMV as we grow year-on-year at that pace. If our adjusted EBITDA margin remains in line with the level of this quarter, or continues to improve, we should start seeing positive FCF on an LTM basis in a few quarters as well.

Aditya Soman – CLSA: Understood. Very clear. So should we now see this working-capital release on a more regular basis? Perhaps not to the same extent, but should it represent a steadier and more continuous improvement?

Management: Yes. It is important to note that, although we have started disclosing quarterly FCF, we will always have volatility due to the last 15 days of NMV in any given quarter.

For example, if we look at the December quarter, December is typically a lean period toward the end of the year. This is the same every year. Therefore, there may be trends moving up or down.

However, if you look at it on a zoomed-out basis and normalize it for daily NMV, you will start seeing improvements in both quarterly and LTM numbers.

Aditya Soman – CLSA: No, thanks, Dhiresh. Very clear. My second question is on the improvement in contribution per order. If I look at it, it is approximately 3 rupees, slightly more than that.

As you indicated, most of it has come from logistics costs—in fact, approximately 4 rupees has come from logistics costs—but revenue per order also declined slightly. Does this mean that you are giving back some of the logistics benefit to the customer or seller? Is that the correct

Report is AI-generated and may contain inaccuracies.

understanding?

Management: Some of that is carried over from the previous quarter. When we passed on some efficiencies in the previous quarter, they were not accounted for over the full quarter itself, and that is why you see this effect.

However, we continue to do that. As we have also mentioned, we continue to become more efficient and pass a significant proportion of that benefit back to consumers to improve pricing on the platform.

Aditya Soman – CLSA: Got it. So should we think about the take rate in the following way: logistics revenue in absolute terms may decline slightly, while absolute revenue from advertising or other forms of monetization increases? Would that be the right way to interpret this over the longer term?

Management: Yes, that is correct.

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

Management: Thank you.

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

Swapnil – JM Financial: Hi. Thanks for the opportunity. My first question is more basic. Have you ever tried charging a platform fee or a handling fee to customers?

The reason I am asking is that, when I look at your unit economics on a per-order basis, which is essentially EBITDA divided by delivered orders, I arrive at a loss of approximately 2.4 rupees per order. This means it should only be a matter of time before you recover this 2-rupee loss at the EBITDA level. If you charge 1 or 2 rupees, you should reach that point.

I am trying to understand whether there is any particular reason why you have tried this and do not want to continue, or whether you are considering introducing such a fee.

Vidit Aatrey – Chairman, Managing Director & CEO: We have historically made our position on this public. We generally do not believe in charging any platform fee.

The simple reason is that we serve a mass-market consumer. Sometimes, a customer may not notice new fees that are added at the cart level. Adding anything at the cart level that was not disclosed earlier can also lead to a loss of trust, where a customer may think, "You are just trying to charge me at the end. Why could you not add that price to the product price?"

We have therefore always taken a customer-first view that we will never add hidden fees, whether at the cart level, a convenience fee, a platform fee, or any of the many other fees that a lot of platforms add.

We do not add those fees on our platform, and we have maintained this position for the longest time. If we need to charge more, we would increase our take rate on logistics, advertising, or

Report is AI-generated and may contain inaccuracies.

something else, but we would not add a platform fee.

We may give up some short-term revenue from this, but increased customer trust would lead to significantly higher LTV in the long run, which would be the best thing for the business.

Vidit Aatrey - Chairman, Managing Director & CEO: We continue to hold this position even now.

Swapnil - JM Financial: Got it, very well understood. My second question is with respect to your indirect costs.

It is encouraging to see your contribution margin improving materially. However, for some reason, I am not able to understand why fixed-cost leverage is not playing out. Typically, a platform business growing at a fast rate would also see some fixed-cost leverage.

I am looking at last year's figure of 6.3% of NMV, whereas this year, in the first half, it is approximately 6.4-6.5% of NMV. Is there any particular reason why this is not playing out, and should we expect material improvement from this side going forward?

Management: If you look at the costs below contribution margin and between contribution margin and EBITDA, there are three primary cost line items.

There are marketing expenses, infrastructure costs, and people costs along with some of the other G&A line items.

As we mentioned in the letter, server costs in this quarter were elevated because of certain GPU capacity constraints. Therefore, we had to procure capacity for the festive season well in advance, within the Q2 quarter itself, to ensure that the scale of sales continued to be supported.

This is currently a global phenomenon, where GPU pricing has suddenly increased significantly. We are mitigating this by partnering with multiple providers and operating in multiple regions within our existing hyperscaler relationships. This allows us to procure capacity only during the periods when we need it, rather than building capacity in advance.

Server costs are expected to return to normal during the course of the next quarter, Q4 FY27, as a percentage of NMV.

That is one reason. The second reason relates to marketing. Some of the investments we made ahead of the festive season were investments that we had also mentioned in the previous quarter's letter, where we said that we would make certain investments ahead of the upcoming festive season.

Investment is made first in areas such as television advertising production and other means of reaching customers. Those investments precede the actual NMV benefit that we begin to see.

On an overall annual basis, when we look at the FY27 numbers, you will still see operating leverage playing out in the business.

Swapnil - JM Financial: Okay. As an extension of that, what steady-state level would you be targeting for fixed costs as a percentage of NMV?

Report is AI-generated and may contain inaccuracies.

Management: In the longer run, we expect the fixed-cost base to come down to approximately 3% of NMV.

Swapnil – JM Financial: Got it. Would that be around FY29-FY30?

Management: FY31.

Swapnil – JM Financial: FY31, okay. I have one last question on Kirana Club. Has that business been integrated, and can you provide some colour on the nature of investments that will be required, given that it is primarily a B2B business? Do you have any thoughts on that?

Management: The closing of the transaction happened recently, as recently as today. We will start the integration process, although the business will continue to operate fairly independently.

The founders will continue to remain in the business and will continue to run it. From an investment perspective, this will form part of our new initiatives. The cap that we mentioned for capital allocation will apply to the new initiatives, which is approximately 200 crores annually, including all the new initiatives we have.

Swapnil – JM Financial: So the 200 crores includes Kirana Club as well? Is that the correct understanding?

Management: Yes.

Swapnil – JM Financial: Okay. Thank you very much, and all the best.

Management: Thank you very much.

Operator: 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.

Report is AI-generated and may contain inaccuracies.