4th November, 2024

National Stock Exchange of India Ltd.
Exchange Plaza, C – 1, Block G
Bandra-Kurla Complex, Bandra (E),
Mumbai-400 051
Symbol: UNIECOM

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001
Scrip Code: 544227

Subject: Q2 FY25 Earning Conference Call – Transcript

Reference: Intimation of Earnings Conference Call dated 26th October, 2024 and Audio Link of Analyst/ Investor Conference Call dated 29th October, 2024

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Q2 FY25 Results Conference Call held on Tuesday, 29th October, 2024 at 10.00 A.M. (IST) for the quarter and half year ended on September 30, 2024.

This information is available on the website of the Company: https://unicommerce.com/

You are requested to kindly take the abovementioned on record.

Thanking you.
For UNICOMMERCE ESOLUTIONS LIMITED

AJINKYA RAJENDRA JAIN

Digitally signed by AJINKYA RAJENDRA JAIN
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"Unicommerce eSolutions Limited

Q2 & H1 FY '25 Earnings Conference Call"

October 29, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 29th October 2024 will prevail."

MANAGEMENT: **MR. KAPIL MAKHIJA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UNICOMMERCE ESOLUTIONS LIMITED**
MR. ANURAG MITTAL – CHIEF FINANCIAL OFFICER – UNICOMMERCE ESOLUTIONS LIMITED
MR. DEEPAK GUPTA – DIRECTOR STRATEGY AND INVESTOR RELATIONS – UNICOMMERCE ESOLUTIONS LIMITED
SGA, INVESTOR RELATIONS ADVISORS

Moderator: Ladies and gentlemen, good day and welcome to Unicommerce eSolutions Limited Q2 and H1 FY '25 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kapil Makhija, Managing Director and CEO of Unicommerce eSolutions Limited. Thank you and over to you sir.

Kapil Makhija: Thanks Neha. Hello and good morning, everyone. We are delighted to meet all of you again and I welcome everyone to the quarter 2 and H1 FY '25 Earnings Call of Unicommerce eSolutions Limited. I am joined today by Anurag Mittal, our CFO, Deepak Gupta, Director Strategy and Investor Relations and our Investor Relations Advisors from SGA. We are pleased to report a strong performance in Q2 and H1 FY '25.

The revenue for quarter 2 FY '25 and H1 FY '25 grew by 13.0% and 11.1% year-on-year respectively whereas adjusted EBITDA grew by 33.5% year-on-year in quarter 2 FY '25 and 29.0% year-on-year in H1 FY '25. Our PAT grew by 21.1% year-on-year in quarter 2 FY '25 and 25.4% year-on-year in H1 FY '25.

While we covered our company's introduction and business models in detail during our first earnings call of quarter 1 FY '25, I'd like to briefly summarize the same today as well for the benefit of new attendees on this quarter 2 FY '25 earnings call.

Unicommerce is an eCommerce enablement SaaS platform established in 2012. The company operates in the transaction processing and order fulfillment layer, enabling end-to-end management of eCommerce operations for brands, sellers, and logistics providers.

As a consumer, when you order online, you see the website on which you place the order and the delivery person who comes to your doorstep. Whatever happens between you pressing the buy button and the product being delivered to your home is powered by Unicommerce. We are this behind-the-scenes backend that powers operations and smooth customer experience for a brand or a seller.

Our platform simplifies the complex eCommerce ecosystem by streamlining operations like inventory management, order processing, warehouse management, and returns. Unicommerce acts as the nerve center for eCommerce fulfillment, ensuring that the post-purchase journey from order processing to fulfillment is smooth and efficient. Our platform integrates with 260-plus partners, offering brands the flexibility to choose the service providers that fit their needs.

E-commerce is a fast-evolving industry, with new trends coming up very often. For example, direct-to-consumer and omni-channel were fringe use cases until a few years ago, but they have now become mainstream.

Similarly, quick commerce in a very short span of time has now become a salient contributor in many categories. Because of the fast-evolving nature of the industry, clients value a cloud-native or a SaaS solution like Unicommerce, which continues to evolve with the market and successfully incorporates new integrations and workflows. In doing this, we are able to shield our clients from the complexity of continually adapting to new developments.

Our platform is scalable for businesses of all sizes, from SMEs to large enterprises across various industries such as fashion, pharma, beauty and personal care, footwear, etcetera, making us an integral part of our clients supply chain.

Unicommerce offers six main products, including four core products spanning multi-channel order management, warehouse and inventory management, omni-channel retail management and seller management panels. Recently, we launched two new products, UniShip and UniReco, focused on improving order tracking, returns management and payment reconciliation.

Our business model is purely SaaS-based, with revenues tied to the number of transactions being processed on the platform. Our enterprise customers, which constitute nearly 90% of our revenue, pay us a minimum subscription fees each month, in which we bundle a certain number of transactions in this cost. Once they utilize this allotted quota of transactions, they pay us an additional fee called the usage fees for the additional transactions they process on the platform. This makes the revenue model scalable as e-commerce in the country continues to grow and is expected to grow even further. We are a high gross margin business due to our SaaS nature where revenue comes purely from platform usage and there are no people service components, along with our strong customer retention as well as our dominant market position.

India's e-commerce industry continues to grow, driven by increasing digital adoption and shifting consumer preferences. While the long-term outlook for the industry continues to be positive, in the short term, e-commerce growth continues to be soft overall. While the festive season sales demonstrated a strong start, but beyond the sale period, the softness continues similar to last year.

Given the overall macros, our focus is to drive growth from existing clients through our cross-sell or up-sell initiatives, continuing a strong momentum of acquiring new clients and our investment in building new products, both UniShip and UniReco. Both of our new products are gaining strong traction with early adopters. These products are currently in the build phase, and we are optimistic that they will gain momentum as they mature.

We are also seeing a strong momentum in acquiring new clients. We added 100 plus enterprise clients in Q2 FY25, up from 85 plus enterprise clients we added in Q1 FY25. Over the years, given the stickiness of our business, we have observed strong client retention, and we are optimistic that these new client acquisitions will drive further growth in the coming quarters.

I would now like to highlight a few initiatives that we have taken during the quarter to increase retention and grow revenue. For our core products, we have integrated 10 plus new marketplaces and logistics providers.

We have also developed new features such as hyper-local supply chain workflows, including customer and warehouse geo-coordinates, proximity order routing, HQ control tower, and other few features for customer and courier fraud prevention. We have also added features in our new products such as unified sales and payment insights for sellers in UniReco and automated refunds and product exchange workflows in UniShip.

We will continue to add new features to stay ahead of the curve with an aim to become a one-stop shop for e-commerce enablement.

Further, to optimize costs and build sales and operational efficiency, we are centralizing the call support for all our enterprise clients to improve efficiency of the account managers assigned to our customers. We are also leveraging the existing sales team for cross selling all our new products across existing clients. In addition, to bring in additional enterprise sales efficiency, we are also focusing on improving the cross-team collaboration across sales, pre-sales, products, and onboarding.

Looking ahead, the growth drivers for Unicommerce will be, first, will be e-commerce growth, where India's e-commerce market is still under-penetrated, providing significant growth potential in the long term. As discussed in our last quarter's earnings call, the TAM for our core products is about $260 million, and for the complementary offerings that we offer, it is close to about $420 million, bringing the overall TAM to be about $680 million.

Currently, more than 85% of the market for our core products, as per our estimates, is still untapped, whereas a significant portion of this market is managed using Excel or manual operations. However, we are observing a gradual shift towards a SaaS platform like ours. As the complexity and the scale of the market increases, more and more brands will look for software to manage their operations, positioning us to benefit from this trend.

To illustrate the growth potential, approximately 4 to 4.5 billion e-commerce shipments were processed in India last year, compared to over 130 billion e-commerce shipments being processed in China last year. This comparison underscores the vast headroom for growth in India's e-commerce market, reinforcing our confidence in its promising long-term trajectory. The second growth lever for us will be new client additions. Many traditional and untapped categories are moving online, and many more are yet to move online.

And with increasing scale, many of these brands are looking to move to a SaaS platform, as mentioned before. The third growth lever for us will be new products. Our vision is to become a one-stop shop for e-commerce enablement, and in line with that vision, we have recently added two new products, UniShip and UniReco, and we'll continue to add more products.

And fourth growth lever for us will be international expansion. We are working towards going deep in both Southeast Asia and the Middle East, the markets we currently operate in.

In summary, Unicommerce is positioned as a leader in the e-commerce enablement space, with a strong competitive advantage through our integration capabilities, deep partnerships, and sticky products, driving consistent revenue growth and expanding profitability.

Given the exciting long-term prospects of the Indian e-commerce market, we are confident that Unicommerce will continue to be a compelling growth story. We have demonstrated a market++ growth rate consistently over the years, and we expect to perform on the same lines going ahead.

I'd now like to invite Anurag Mittal, our CFO, to share our financial performance in both Q2 FY25 and H1 FY25. Over to you, Anurag.

Anurag Mittal: Thanks, Kapil. Hello and good morning, everyone. We are happy to report a good performance for the Q2 and H1 FY25. During the quarter gone by, our revenue for the quarter grew by 13.0% year-on-year and stood at INR293.1 million during Q2 FY25 compared to INR259.3 million in Q2 FY24. For the half-year H1 FY25, our revenue grew by 11.1% year-on-year and stood at INR567.8 million compared to INR510.9 million in H1 FY24.

Our adjusted EBITDA for the quarter grew by 33.5% year-on-year and stood at INR61.7 million for Q2 FY25. For H1 FY25, our adjusted EBITDA grew by 29.0% year-on-year and stood at INR106.3 million. As we continue to reach the benefit of operating leverage, our adjusted EBITDA margin grew by 322 basis points year-on-year to 21.0% in Q2 FY25 compared to 17.8% in Q2 FY24. For H1 FY25, our adjusted EBITDA margin grew by 259 basis points year-on-year and stood at 18.7% compared to 16.1% in H1 FY24.

Our profit after tax grew by 21.1% year-on-year to INR44.7 million in Q2 FY25. For H1 FY25, our profit after tax grew by 25.4% year-on-year to INR79.9 million. Our cash and bank balance stood at INR811.9 million as of September 2024. Our cash flow from operations were positive INR161 million in H1 FY25 compared to negative cash flow from operations of INR13.1 million in H1 FY24.

As discussed in the last quarter, I would like to reiterate, any enhancements made to our existing products over the years have been expensed through the profit and loss account, and we continue to follow this practice.

For the new product development, the associated costs have been capitalized as assets under development on the balance sheet, amounting to INR 45.1 million in H1 FY '25. To summarize, our sustained investment in the existing products, combined with the development of new products, and the operational efficiencies provided by our scalable model, position us well for future growth and profitability.

Given the strong early momentum of our new products and the ongoing advantage of operating leverage, we are confident in our ability to leverage these investments and create long-term value for the company.

Coming to the KPI for the quarter and half year, our annual recurring revenue as of Q2 FY '25 stood at INR1,172 million. Our net revenue retention ratio from enterprise clients continues to be 100% plus for many years, reflecting steady revenue growth from contracts with our existing customers, thereby indicating sticky client relationships.

Our enterprise clients as of H1 FY '25 stood at 904, reflecting a growth of 21.7% year-on-year. The annualized run rate for the number of order items processed for Q2 FY '25 stood at 931 million plus. With our continuous efforts towards adding new clients and reducing customer concentration, our top 10 clients' contribution reduced to 21.6% in Q2 FY '25 from 26.3% in Q2 FY '24. For H1 FY '25, the top 10 client contribution reduced to 21.2% from 30.4% in H1 FY '24.

With this, I would now like to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumeet Jain from CLSA. Please go ahead.

Sumeet Jain: Hi, thanks for the opportunity and congrats on a good set of margins. Firstly, I want to understand around the pricing trends, Kapil. If you look at the revenue per item processed in this quarter has been down both sequentially as well as on a Y-o-Y basis. Can you just give a brief glimpse into the competitive intensity and how the pricing trend is behaving?

Kapil Makhija: Thanks, Sumeet. As we had mentioned last time as well, our steady state price per item continues to be in the range 1.2 to 1.3 and that has also been the case in quarter 2. I think given that our revenues are linked to the number of transactions and effectively the number of items being processed, what we are trying to do is to, do an upsell motion to the new products that were launched so that with UniShip and UniReco for the same item that's going out of the warehouse to our WMS, we are able to charge additional through UniShip and UniReco.

We were able to build revenue lines on top of the same item that's going out. The second initiative that we had introduced was price escalation clause on our new contract since last year. Some of that goodness will also start coming in. So far, the pricing has been consistent in the same similar ballpark range, and we are also kicking in, putting in some of the initiatives which will bear fruit in the subsequent quarter.

Sumeet Jain: That's helpful. And secondly, I mean in terms of number of customers, there is a decent pickup in the enterprise customers, and I agree that 85%, 90% of your revenues come from enterprise clients. But on the SMB side, I mean we have seen that has been consistently coming down for the last 1.5 years. So is there any conscious effort around to reduce the concentration on SMB side?

Kapil Makhija: Sure Sumeet. So we have always used the SMB plan as a funnel to upsell clients on the enterprise plan. Long tail of the SMB clients are usually the clients who have low volume and churn due to them either shutting down or stopping their online business. And hence, clients on the SMB plan continue to see high churn. Our focus is to ensure that we are able to serve all our customers, irrespective of their size, efficiently. But given the nature of the business, some churn in the SMB segment is inevitable and hence we are working towards minimizing this.

Sumeet Jain: Got it. And then if I look at your employee benefit expenses, I think sequentially and both Y-o-Y, it has actually come down on an absolute basis. So is it to do with capitalization of certain R&D related spend? How is it?

Kapil Makhija: So as we've mentioned that the business has inherent operating leverage where our costs are largely fixed because our core products are largely stable. We do need to do some incremental investments. But broadly, the cost for us are largely fixed and that's why there is an inherent operating leverage which is visible in the employee expenses as a percentage of revenue going down consistently. On the capitalization point specifically, I'll ask Anurag to come in.

Anurag Mittal: Thanks Kapil. In addition to what Kapil mentioned Sumeet, I also want to add on that we are investing in new product development which we intend to commercially launch towards the end of this calendar year or the early part of the next year. Accordingly, the investments to build this product suite is capitalized including manpower expenses.

So today, all our revenue is from existing set of products only. Accordingly, for calculation of adjusted EBITDA of INR10.6 crores, the costs considered are largely relating to the existing product suite. Therefore, the adjusted EBITDA margins of 19% represents the true operating margins of the company.

Post the commercial launch of the new products, the operating expenses will start getting expensed out in the profit and loss account, having marginal impact on the earnings. Even then, we remain confident of our improvement in the margins playing out. I hope we address your question.

Sumeet Jain: That's helpful. So can you give us some sense as to what is the kind of operating leverage in the business we have and is there any medium to long term EBITDA or EBIT margin target you have in mind? Because it's very difficult to forecast the kind of operating leverage you have in the long run, given that employee benefit has come down quite materially in the last 1.5 years.

Anurag Mittal: Definitely, Sumeet. In fact, if you see in Q2 FY '25, we have reported 21.0% of adjusted EBITDA margins, which is 322 basis point increase year-on-year from quarter 2 FY '24. In H1 FY '25, we have reported 18.7% of adjusted EBITDA margins, which is 259 basis point increase year-on-year from H1 FY '24. For the full year, we expect this kind of operating leverage to play out as in our core business. Large part of the cost is fixed. Accordingly, we will be able to grow our EBITDA margins for FY '25 versus FY '24.

Further, as we mentioned, we are also investing in new product development. We intend to commercially launch these new products sometime in the end of this calendar year or early part of the next fiscal year. Currently, the investment to build this product is capitalized in the manpower expenses as we explained.

And as the commercial launch, the operating expenses will start getting expensed out in profit and loss accounts, having marginal impact on the margins. Even then, we remain confident of our improvement in margins to play out.

Sumeet Jain: Okay, got it. That's very helpful. And lastly, in terms of the festival season demand, Kapil, you mentioned it has been soft throughout this year. But in 2Qs, the festivals were ahead actually than the last year. So how should one read 3Q in that context, given that last year, majority of the festivals were in 3Q, whereas this time around it has been slightly preponed?

Kapil Makhija: Sumeet, so what we've seen is the initial part of the fiscal season saw a strong growth. But after that, we've seen the softness continue. I think we are just one month into the quarter, so it will be hard for us to figure out how the rest of the quarter will play out. But we've seen some softness play out post the initial part of the festive season. I think we will be able to comment on that once the quarter completes.

But as of now, like I said, our focus as a management team is to ensure that we continue to improve the revenue of existing clients through cross-sell, up-sell initiatives, continue to have the momentum of acquiring new clients, and continue to invest in our new products.

Sumeet Jain: Got it. Lastly, on your venturing out into the newer geographies, you guys don't give a split of your export revenues, but can you give us some sense how has it been trending over the last 2-3 quarters?

Kapil Makhija: Sure. So international revenue has been consistently in the ballpark range of 3% of our revenues. International for us is a long-term investment, where I think our focus is that because our products are largely ready for these international geographies. So our investment largely is in the sales and marketing domain, so we continue to invest that. And over time, some of these investments will start playing out.

Right now, our focus is to go deeper into 3 geographies across Southeast Asia and Middle East that we are operating in. And we want to continue to drive growth in these regions. As of now, it has been consistently 3%. And we want to continue to invest in the sales and marketing in these geographies so that some of these investments can start giving us results in subsequent quarters.

Sumeet Jain: And I guess in these geographies, obviously you don't have a first mover advantage, and there must be some incumbents who are already serving those markets with a flywheel effect of tying up with the ecosystem partners. So how are you guys attacking this market, being a challenger versus the key player in India?

Kapil Makhija: Sure. So these markets, as we've described earlier on as well, are still in terms of the evolution of e-commerce, are still slightly behind India. So the product is largely ready where we've been able, as a platform, being able to handle a lot more complexity.

So the key benefits that we see in the Indian ecosystem play out in these international markets as well, where they're able to get a platform which is end-to-end, is able to comprehensively tackle various use cases of post-purchase journey, is a very stable, scalable platform which has handled a large scale. So all of these are playing out as advantages in these markets.

Our GTM motion in these are driven by a combination of us deploying a sales force on the ground to having an inbound motion through digital marketing, as well as conducting few events in region, which we call as decode, which is essentially a roundtable series involving 20 to 25 relevant e-commerce professionals.

And third is leveraging some relevant channel partners, which could be a logistics player, an aggregator, a fulfillment provider. So a combination of these three are working out as our GTM motion in these markets.

Sumeet Jain: Got it. That's very helpful, Kapil. All the best to the entire team. I will get back to the queue.

Kapil Makhija: Sure. Thanks.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: I wanted to understand the funnel between the SMB customers and the enterprise customers. Is there a data or a trend line which helps us understand how many of your SMB customers actually graduate to be your enterprise customers? What is the churn at the SMB level? Just trying to, I think, get a sense of the funnel.

Kapil Makhija: Sure. So SMB plan, as I mentioned, acts as one of the acquisition channels for enterprise clients. Typically, we see 15% to 20% of new enterprise clients acquisition from our SMB plan. As of quarter 2 FY '25, we had 28 clients out of the 104 enterprise clients we onboarded that came from the SMB plan.

Sonal Minhas: Got it. Okay. And any subjective comments on one you mentioned that some SMBs find it difficult to scale up? Anything regarding the product, basically, which you've gotten the feedback on from the SMBs, which basically is more like a product input?

Kapil Makhija: Sorry, Sonal, your voice is again echoing. I couldn't follow the question.

Sonal Minhas: Yes, I will state the question again. Any subjective feedback you received from SMBs who decided not to continue with you on the product, which is more like a product feedback? Anything that you would like to share on that?

Kapil Makhija: Sure. So, see, majority of the customers that churn out of the platform are largely for reasons that are beyond our control, where they have gone out of business, like they've shut down, or they've stopped their online business. That's the bulk of the SMB clients, and typically the long tail of SME is very low in volume.

Qualitatively on the product, I think what we've always heard is that it gives them the flexibility. See, on the SMB plan, they're using the multi-channel order-managing system which allows them to process orders on a single platform and more importantly, sync the same inventory across different demand channels. So one of the biggest value-add they are able to get with a very minimal manpower, they are able to manage multiple platforms at a single place.

And given that a large portion of the market is already using our platform, we are increasingly seeing more and more users are trained on that workforce. Typically, the workforce is not very well-educated, the users of the platform. So initially, there is a learning curve for this workforce to get used to the platform, but the good part is now that we've been around for more than a decade, a lot of users are already familiar with the interface.

So I think for the SME clients in particular, given that the product is very comprehensive, initially the training of the users may take some time on the SMB users, and they may find it a little complex to use to begin with and that we are trying to solve through mass training programs, holding webinars for these SME clients and ensuring that they are able to use the platform effectively.

Sonal Minhas: Got it, sir. Thanks for this answer. And if you could give a sense of the pricing of your SMB plan vis-à-vis the enterprise, just a ballpark how many times does -- what would be the difference on a per-transaction level basically, for an SMB plan compared to an enterprise plan?

Kapil Makhija: Okay. The SMB plan - there are two SMB plans that we offer. There is a standard plan and a professional plan. The standard plan is available at INR3 per order and a professional plan is at INR3.5 per order. And the standard plan is the basic multi-channel order processing and inventory management that I just talked about. And professional plan gives a very lightweight WMS for them to use. So those are the two plans that are available to our SMB customers.

Sonal Minhas: Got it. Thanks for this. And this is my first call actually with Unicommerce, actually. So just wanted to understand any revenue guidance you've given for the next year or 24 months? Just wanted to get the numbers?

Kapil Makhija: Sure. So we cannot share exact guidance, but as a company what we've delivered is a market++ growth. When the e-commerce market during the pandemic as per our estimates, grew at 30%, 35% we delivered a 50% revenue growth. And last year the market as per our estimates was about mid to late single digits. And we delivered a nearly a 15% revenue growth. So, we are confident that as a team, we'll continue to deliver a market++ growth rate.

Sonal Minhas: Got it. Okay. Thanks a lot for your answers. I'll call back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Sahil Doshi from Thinkwise Wealth Managers, LLP. Please go ahead.

Sahil Doshi: Hi. Good morning, sir. Just wanted to understand the pricing bit a little better. For example, we've seen a 20% kind of a growth in volumes, but the revenue growth is around 11%. So there's been a price compression. And just to the previous participant, you did give out the slabs. So this doesn't really come in sync with the kind of pricing which we are seeing per transaction. So could you possibly illustrate what's really happening and how does this come across?

Kapil Makhija: Sure. Sahil our enterprise customers as I described which constitute nearly 90% of our revenues, pay us a minimum subscription fee in each month in which we bundle a certain number of transactions in this cost. So even in the past quarter also, you would see that our revenue growth lacks the transaction growth because a large portion of our transaction growth gets absorbed in this minimum guarantee. We have over the last many years; we've been able to add 900 enterprise clients.

But if you look at the last quarter itself, we have added 100 enterprise clients. So given that our sales momentum is far higher than the existing customer base, a large portion of our transaction growth gets absorbed in this new customer's minimum guarantee itself. So our revenue growth, you will see it as a lag metric to the transaction growth. You will always find this. It's not a pricing pressure, just that a part of the transaction growth gets absorbed in the minimum commitment that the new clients are giving to us.

Sahil Doshi: Understood. So is it right to say that the 20% kind of volume growth which you've seen in this quarter would have been largely SMB and new clients and enterprise would have grown sub-10% or so?

Kapil Makhija: No, so it is a function of both. See, our revenue growth is driven by both our existing customers. So they continue to grow at a market growth rate plus the new clients that we are acquiring. So it is a combination of both. We will not be able to give a split right now because of the business sensitivity reasons. But our growth in transactions and our revenue are driven by both existing set of customers as well as the new client acquisitions that we do.

Sahil Doshi: Understood. Just to get a better sense at what rate would our enterprise steady state could be growing at, if you can just possibly give that number?

Kapil Makhija: So, see, one of our good measures for us to determine the growth of our enterprise customers is a metric that we track called NRR which is Net Revenue Retention. This number is net of churn. Our enterprise customers have continued to demonstrate a healthy growth. And that's why over the years we have consistently demonstrated a 100%+ NRR.

And so that could give you a sense that the existing enterprise customers also continue to grow healthily, enabling us to provide a 100%+ NRR in a volatile industry like e-commerce where a lot of customers, a lot of startups tend to shut down or stop their online business. We've continued to demonstrate a consistent 100%+ NRR growth.

Sahil Doshi: Sure, sir. But just a better understanding, is this, could you possibly give a like to like or a comparable number because it's pretty dynamic given the nature of your business and like you said, different pricing. So just to understand on a steady state basis, is it possible to share some kind of a metric just to understand what's the base growth of one client on a steady state basis?

Kapil Makhija: See, the existing client's enterprise growth like I mentioned net of churn continued to demonstrate a 100% plus growth. So they are able to drive a portion of the growth. The rest of the growth comes from the new clients itself. I think at this point, I'll not be able to share this information owning to the business sensitivity. But I do understand that there is a split in terms of the growth of existing clients and new clients in terms of modelling this better than the investors might be requiring that.

We will be thinking of a representation that takes care of our business sensitivity and we'll be able to come back to all of you in the subsequent quarters on how best to model the growth, but at this point, I just want to highlight that our existing clients continue to grow healthily, ensuring that we are able to deliver 100%+ NRR. And then a part of our growth comes from our new client acquisitions. And beyond this, as our new products mature, that will add as a third growth lever for us to be able to add revenue lines on top of this growth.

Sahil Doshi: Understood, sir. Appreciate that. So, the second question is mainly understanding the TAM and the opportunity size. So, if I'm correct, our share of business, our domain would typically relate to the dropship segment of the e-commerce, which would roughly be around 45% to 47% of the market. Within that, we would have a share of around 39% to 40%. So, could you possibly illustrate is this the only domain area for Unicommerce and how fast is the dropship market growing compared to the e-commerce?

Kapil Makhija: Sure. So, I just want to clarify, we have processed about 20% to 25% of India's dropship volumes. And dropship, as you rightly pointed out, is about 45% to 47% of the overall market. The dropship model has been the fastest growing model within the Indian Unicommerce ecosystem. There are three key models in the e-commerce landscape, as I described in the last earnings call. The first is an outright model, where it's a classic first-party model, where the platforms are buying inventory from a brand, where a cloudtail equivalent platform like Cocoblu or RetailEZ, are buying inventory from a brand.

The second model is a fulfilled by model, where a brand is keeping stock in a Flipkart or Amazon warehouse. And if a customer is placing the order, it is the platform's workforce which is shipping the goods to the end customer. The dropship model enables a brand to control the entire customer experience by fulfilling the demand to stock lying in their own warehouse or in the warehouse of a third-party fulfillment provider.

Dropship model, as I mentioned, is the fastest growing model. As per our estimates, this model was in early double digits pre-pandemic, but now it contributes nearly half of the overall e-commerce market. And beyond the dropship model itself growing, as I described earlier in the call, that a large portion of the dropship model still continues to be managed on Excel or manual operations.

As per our estimates, it's about 85% of the market that gets managed on Excel or manual operations. So beyond the fact that the dropship model is also expected to grow from nearly half of the market to about 65% of the market as per our estimates in the next few years, the fact that as the scale and the complexity of the ecosystem is increasing, more and more brands want to move from managing things manually to moving to a SaaS platform like us, and the fact that a lot of categories and a lot of brands are still yet to move online, and in particular to the dropship model, we will continue to see a healthy momentum on the new acquisition.

So, from an Indian e-commerce landscape perspective, these three will continue to drive growth for our existing core products. Plus on top of this, we continue to add new products in line with our vision to become a one-stop shop for e-commerce enablement. So, these four levers will continue to drive growth for us within the Indian e-commerce landscape.

Sahil Doshi: Thank you, sir. That's very helpful. Just to follow up on this, for example, you called out you've got VIP, Landmark in this quarter. So just to better understand, are these guys who are actually migrating for some other player, or it's their in-house and a captive arm which is now going to an outsource model?

Kapil Makhija: So, I cannot specifically comment on these two players, but in general, a lot of brands actually move from Excel to directly our software because, as I mentioned, bulk of the market still continues to use Excel or manual operations. We see some transition of brands happening from other players to us because of the advantages that I've outlined before. And beyond these two, the upsell from the SMB plan continues to be the third lever for us to acquire enterprise clients.

Sahil Doshi: Understood. And if I can take one more, just on the new products and the opportunity, could you possibly illustrate what is the market size there? What is the TAM? And any ballpark illustration of what is the kind of the product that you're looking to launch in the year end? What is the kind of opportunity?

Kapil Makhija: Sure, so the TAM for our complimentary product offerings that we offer today is about $420 million. And these two products are UniShip and UniReco where we are enabling one to do seamless order tracking and returns management through UniShip and a seamless reconsideration of the payments that they are expected to get from the marketplace. So UniShip focuses on streamlining the operations on the website and UniReco helps streamline the payment, like identify the leakages on the various payments from various marketplace platforms.

A few things that help acceleration of UniShip and UniReco is one, increasingly more and more brands in the Indian and the emerging market landscape prefer that they get all the solutions under a single umbrella because it's a big headache today for brands and sellers to integrate multiple point solutions. And that's why we've got very positive response from our existing customer base on both UniShip and UniReco. And they're waiting for these products to mature.

The sensitive timeline for that is year-end or early part of next year. And as they mature, I think it makes a lot of sense at least the brands and sellers have told us that it makes a lot of sense for them to have everything under a single umbrella. And second is that we, today, UniShip and UniReco, like I said, will be able to, when they mature, will be able to allow us an opportunity to add more revenue lines on the same item that's being shipped out of the warehouse.

Today, it's very early for me to comment on what kind of opportunity upside we will see from these products because they are still in the build phase. But given the positive response from both the earlier adopters and potential customers who are looking to get onboarded, we feel that this should become a strong lever for growth going forward in the subsequent quarters and subsequent years.

Sahil Doshi: Sure, sir. Thank you so much. I'll get back in the queue, sir.

Kapil Makhija: Thank you.

Moderator: Thank you. The next question is from the line of Parth Wasani from KK Advisors. Please go ahead.

Parth Wasani: Good morning and thank you very much for the opportunity. Sir, I had a few questions. First is that we have witnessed a strong performance in terms of client acquisition in Q1 as well as Q2. Generally, we see strong performance in tier 1 (T-1) cohort and growth from these new additions will ideally come from the next year. Are we seeing a substantial growth for next year?

Kapil Makhija: I think it will be difficult for me to comment on the growth aspects on the next year, but as I mentioned, we've always demonstrated a market++ growth rate, and we are hopeful that we'll continue to do that in the subsequent quarters and years as well. Addition of new clients is definitely one of the strong growth levers for us, but there are other growth levers beyond the e-commerce market. There are also new products that should play out in the next year.

In the international market, it will be a combination of these four growth levers. It will be hard for me to comment on which growth lever will be the strongest and will drive growth for subsequent years, but at this stage, all I can say is that we'll continue to demonstrate a market++ growth rate.

Parth Wasani: Okay, got it, sir. And second one was on the cash flow side. So if you can give some color on cash flow because there has been a good improvement in cash generated from operations from negative INR13 million last year to positive around INR160 million. So if you can just throw some color on that.

Anurag Mittal: Sure, Parth. During H1, FY25, we reached out to these cash flow operations near about INR161 million. As you rightly said, as compared to negative INR13.1 million in H1, FY24. Our cash flows are higher primarily due to the collections we have received from the selling shareholders. For the expense we have done for the IPO-related activities in the previous year.

Parth Wasani: Okay, okay. Yes, so got it. That is it from my side. I'll get back to the queue for any questions. Thank you.

Moderator: Thank you. The next question is from the line-up. Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Thanks for the opportunity. I'm not sure if this question has been asked, but if you can share some qualitative feedback about your new product launches and whether you have been able to get some customers around there. I understand there is no revenue at this point of time, but qualitative feedback and some quantitative outlook or target or roadmap that you can share in one or two years about these new products. Thanks.

Kapil Makhija: Sure, I'll start with the first question which is on the qualitative feedback on the new products. I think both the products have been well-received. They solve very important pain points in the brands of the seller's life cycle where today on the brand website, the experience, the default experience is fairly broken when it comes to tracking and returns management. And UniShip is a very solid addition to the experience that they offer to their customers in terms of offering a marketplace-like experience on the brand website in terms of tracking where the customer is able to easily understand where the product is in the entire life cycle. And also on the returns, it's a very seamless experience of initiating returns, getting visibility on what the return status is, etc.

Similarly, on the UniReco, it is giving them full visibility on the right payments that need to be deducted by the marketplaces so that if there are any leakages, they can be identified seamlessly and then can help the brand plug those leakages. Specifically, I think the one overwhelmingly positive feedback that we received is that they are able to manage everything under a single umbrella on the functionalities of the product.

As I said, they are in the build phase. I think what we've been able to ensure through our core products is that whatever functionalities we have offered is very stable, is top-class, and is very scalable. I think the initial feedback from these earlier adopters is that these two new products also give the same feedback that as they find our core products very stable and scalable, they have said that whatever we've got, they work well. They are able to work well at scale. But given that these are very deep products, there are a lot of feature demands that come from earlier adopters.

We are working towards building and incorporating that feedback. The good part is whatever we've delivered, the customers are happy with it. But given that these two products are solving very important pain points for these brands, they would want to have them very comprehensive. And so far, that's the expected timeline for us to be able to have a very comprehensive offering for these two pain points end of this year or early next year.

But its initial feedback in terms of being able to get everything under a single umbrella and the product being stable and scalable are, I think, good feedback. And also, on the interface, I think the brands and sellers have found the interface easy to use because they're also used to the Uniware the warehouse management and order management interface.

So, it feels like a natural extension of these products and that's why the users are finding it very easy to adapt to these interfaces as well. So, these are a few initial feedback, but like I said, these are very early days for us. The feedback is definitely encouraging, but we have to do a lot more to ensure that these products become fairly comprehensive to be able to handle their pain points comprehensively.

In terms of an outlook for the next one or two years, like I said, I think it will be difficult for me to give exact guidance at this stage. But as a business, we have demonstrated a market++ growth rate, and we'll continue to do that. Today, new products are very early, and they are not contributing any new material to our topline today.

But over time, as the products mature and once that happens, we are hopeful that we will be able to have a decent portion coming in from there besides the other growth levers that continue to play out which is the market growth as well as the new client acquisitions.

Sameer Dosani: Got it. Just one small follow-up. So basically, on the core product, you're shifting manual plus Excel to your platform. But whereas in UniReco and UniShip, is it like largely a, displacement game or changing or taking their work to our software? What is really happening, you think? And if I'm not wrong, the revenue per order is higher, right? In this case, the TAM is higher, you think? Thanks.

Kapil Makhija: Sure. I think two good questions, Sameer. One is in terms of in terms of the new products, the GTM motion. Today, just like our core products, it is a combination of both. There are many brands that are getting launched. There are many brands that are going direct to consumer. So, by default, they start with manual operations. I'm talking specifically for UniShip. Some of them may be using existing solutions.

We are replacing them because brands are able to get everything under a single umbrella. But a large portion still moves from manual operations because the trend on moving direct to consumer is still very nascent. Similarly, on UniReco, today, it's largely manual where there are Excel sheets that are being maintained to identify the leakages.

So, I think having an automated solution for UniReco is a welcome change for them. There, a large portion is moving from manual operations to this. In terms of the TAM , yes, the TAM is larger and because it's a combination of multiple products that we're talking about.

So, a combination of those could mean a higher realization per item. But effectively, if you look at it, it's incrementally adding to the same item that's going out. So, for us, it's an incremental revenue addition as opposed to a fresh sort of a business unit or a business line getting created. So, we are treating these as extensions to our existing products and that's how the customers also view it that they're getting everything under a single umbrella.

I think the actual rate and the monetization of these products will become clearer as the product evolves and becomes more comprehensive. As I said, today, we are able to cater to a few of their demands and we continue to get a lot of feedback from our customers.

So, we are working on improving that and once that happens towards the end of the year or early part of next year, we'll be able to give a better color on monetization potential of these two new products.

Sameer Dosani: Thanks. Thanks for those comprehensive answers.

Moderator: Thank you. The next follow-up question is from the line of Sonal Minhas from Presceint Capital. Please go ahead.

Sonal Minhas: Hi, this is Sonal again. I had a follow-up question regarding the employee benefit expenses. If I look at the number quarter on quarter, if I look at it even half yearly basis, the number is falling. I think there is some piece of component that I just wanted to understand like what would be the guidance for the employee expense one year out, two years out, what is the CAGR we see and is the employee expense kind of factoring in the growth for the next three, four years? Just wanted to get a sense of that.

Anurag Mittal: So, Sonal, in fact, I've covered this question partially in the previous discussion also. In fact, in quarter 2, FY'25, we have reported 21.0% of adjusted EBITDA margin with 322 basis points. And in H1 also, we have reported 18.7% of adjusted EBITDA margin with 259 basis points. The second point is that we are building our new product and once these new products actually come into the play sometime in the early part of the next fiscal year, we'll start getting the revenues out of it.

Third thing is like operating leverage is something which plays a big role here. In fact, as you see, below the gross margin, our other expenses are largely fixed. And our employee benefit expenses, we are also getting the efficiency from the employee benefit expenses standpoint, where the employee benefit expenses are continuously reducing in terms of the percentage of revenue. And as our software starts going further over a period of time, our employee benefit expenses will start further reducing in the percentage terms of the revenue down the line.

Kapil Makhija: Just to add to that, I think as Anurag described, there is an inherent operating leverage in the business because the costs are largely fixed because our core products are largely ready. While we do continue to invest in new products and international expansion, but in both these cases, our core platform is ready, so our incremental investments into the new products is not significant.

It's not akin to us launching a separate business unit and same for international expansion and that's why we are able to refocus some of our existing teams as we described both in sales,I think sales team is being utilized for cross selling some of main products and similarly, in the technology team as well. they are refocusing some of the teams to focus on building the new products because our core products do not require significant investments. While ecommerce as an evolving industry so we will continue to have some incremental investments, but broadly the products are already ready. And that's why there is inherent operating leverage in the business and which we have demonstrated over the last few quarters, and we will continue to do so going forward as well.

Sonal Minhas: So, is it fair to assume that the people expenses or the employee costs will basically grow at increment ++ whatever the good start-up increments benchmarks are in that range ballpark or is that a fair summary for the next 12 to 24 months in that range or that ++? Like 15-20%, just asking a number basically just to understand?

Kapil Makhija: Yes, sure, historically, if you see that trend that has been there where the cost has been largely fixed. The only increase was the increments that was offered to the team. So, with the current set of initiatives, that's going to be the case where we feel that our core does not require as much of investments and we will continue to use some of our existing teams itself to focus on our new initiatives.

If there is any material new initiative that we take up subsequently, we will come and update to the market, but as of now with the initiatives that we have on hand, we feel that our cost will continue to be largely fixed. There will be just inflationary increase that we will see in our expenses going forward on the fixed side.

Sonal Minhas: Okay. That's it for my side. Thank you.

Moderator: Thank you, ladies and gentlemen. We'll take this as a last question due to time constraints. I now hand the conference over to Mr. Kapil Makhija for closing comments.

Kapil Makhija: Thank you everyone for joining the call today. We hope we have been able to give you an overview of our business and also answer your queries. Should you have any further queries or clarifications, please feel free to reach out to Strategic Growth Advisors, our Investor Relations Advisors. Thank you and have a good day.

Moderator: Thank you. On behalf of Unicommerce eSolutions Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.