5th September, 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: Q1 FY25 Earning Conference Call – Transcript

Reference: Intimation of Earnings Conference Call dated 27th August, 2024 and Audio Link of Analyst/ Investor Conference Call dated 02nd September, 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 Q1 FY25 Results Conference Call held on Monday, 2nd September, 2024 at 9.00 A.M. (IST) for the quarter ended on June 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
DN: c=IN, st=Maharashtra, 2.5.4.20=f45cd2690ce1ad7e1115966e095638eff75b98b8d0bb46b5fee0387458b6ff5a, postalCode=400078, street=Mumbai, pseudonym=ab91e308-451b-40b2-bc15-c8701644c139, serialNumber=1d4e756d04ced5a06fc876a16b0907dbe920e1fbf422ef0d523484a302d58f40, o=Personal, cn=AJINKYA RAJENDRA JAIN
Date: 2024.09.05 21:18:32 +05'30'

Name: Ajinkya Jain
Designation: Company Secretary
Membership No.: A33261
Address: Sector 44, Gurugram, Haryana
Encl: As above

“Unicommerce eSolutions Limited

Q1 FY '25 Earnings Conference Call”

September 02, 2024

“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 2nd September 2024 will prevail.”

MANAGEMENT:	**MR. KUNAL BAHL – PROMOTER AND NON-EXECUTIVE DIRECTOR – UNICOMMERCE ESOLUTIONS LIMITED** **MR. KAPIL MAKHIJA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UNICOMMERCE ESOLUTIONS LIMITED** **MR. ANURAG MITTAL – CHIEF FINANCIAL OFFICER – UNICOMMERCE ESOLUTIONS LIMITED** **MR. BHUPINDER GARG – CHIEF TECHNOLOGY OFFICER – UNICOMMERCE ESOLUTIONS LIMITED** **MR. DEEPAK GUPTA – DIRECTOR STRATEGY AND INVESTOR RELATIONS – UNICOMMERCE ESOLUTIONS LIMITED** **SGA, INVESTOR RELATIONS ADVISORS**
MODERATOR:	**MR. RISHI JHUNJHUNWALA – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Unicommerce eSolutions Limited Q1 FY '25 Earnings Conference Call hosted by IIFL Securities Limited. 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 participant 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 a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rishi Jhunjhunwala, Senior Vice President and Lead Analyst for Technology Sector at IIFL Securities. Thank you and over to you, sir.

Rishi Jhunjhunwala: Thank you, Zico. Good morning, ladies and gentlemen. Thanks for joining us today for the first quarter of FY '25 and the first ever Earnings Call of Unicommerce eSolutions Limited.

On behalf of IIFL Institutional Equities, I would like to thank the management of Unicommerce for giving us the opportunity to host this earnings call. Today we have with us Mr. Kunal Bahl, Promoter and Non-Executive Director, Mr. Kapil Makhija, Managing Director and CEO, Mr. Anurag Mittal, Chief Financial Officer, Mr. Bhupinder Garg, Chief Technology Officer, and Mr. Deepak Gupta, Director, Strategy and Investor Relations. With that, I'm going to hand it over to Kunal to take the proceedings forward.

Thank you and over to you, Kunal.

Kunal Bahl: Thank you, Rishi, and good morning, everyone. Welcome to the Q1 FY '25 Earnings Call. This is our inaugural earnings call for Unicommerce eSolutions Limited.

I'm delighted to have with me today Kapil, Anurag, Bhupinder, Deepak, and our Investor Relations Advisors from SGA. We are incredibly humbled and deeply grateful for the overwhelming response Unicommerce has received to its IPO. This milestone is the culmination of years of hard work and dedication from our entire team, and we are very excited to embark on this new chapter as a publicly listed company.

Unicommerce's journey began with a simple conversation in a coffee shop back in 2012. The vision was not merely to create another company, but to fundamentally transform the e-commerce landscape in India. Over the years, we have steadily grown, achieving significant milestones, and establishing ourselves as a leader in this space.

As a picks and shovels company, we are uniquely positioned to grow alongside the expanding e-commerce industry. Under the leadership of Kapil, Bhupinder, Anurag, and our exceptional team, Unicommerce has emerged as a clear market leader, processing 850 million order items annually for over 3,500 brands and sellers across six countries. Given the exciting long-term prospects of the Indian e-commerce market, we are confident of Unicommerce continuing to be a compelling growth story.

With that, I would now like to hand over to Kapil to share his insights. Thank you.

Kapil Makhija: Thank you very much, Kunal. Hello and good morning, everyone, and thank you for joining on the maiden earnings call of Unicommerce eSolutions Limited for quarter one FY '25. We are excited to meet all of you and share with you our company's story and how the first quarter of this fiscal has been, what is driving growth for us, and where we are headed. I will start with a brief overview of the Company.

Incorporated in 2012, Unicommerce is an e-commerce enablement software as a service, which is a SaaS platform in the transaction processing and order fulfillment layer. The company enables end-to-end management of e-commerce operations for brands, sellers, and logistics service provider firms. As a consumer, when you order online, you see the website on which you 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 the behind-the-scenes backend that powers operations and smooth customer experience for a brand or a seller. Unicommerce's suite of solutions act as a nerve center for e-commerce fulfillment operations, ensuring that the orders received are processed correctly, efficiently, and within timelines as per the client needs.

Our products aid in streamlining e-commerce operations for clients, enabling us to become an integral part of our clients' supply chain infrastructure. The growth of the e-commerce enablement SaaS is directly linked to the rise of e-commerce sales. Brands and retailers are increasingly engaging customers through multiple channels, both offline and online, and these could be various marketplaces, both horizontal and vertical, their own website, and many other touch points.

As India's e-commerce sector continues to grow, businesses and retailers are encountering complex and substantial challenges in scaling their operations effectively. Key hurdles include managing inventory across various locations, reducing fulfillment costs, processing orders from multiple online and offline platforms, handling returns, generating accurate invoices, complying with taxation and other regulatory requirements, etcetera. Because of this complexity of the e-commerce ecosystem, brands and sellers need a central system which can seamlessly interface with all ecosystem players, such as marketplaces, website platforms, logistics players, fulfilment players, ERPs, point-of-sales, etcetera.

Unicommerce is this centralized system that enables brands and sellers to focus on growing their business without having to spend a lot of time managing their day-to-day operations. Unicommerce, with its extensive 250-plus plug-and-play integrations, provides brands the flexibility to choose the service provider that's best for their business, secure in the knowledge that the service provider is already integrated in the workflows and with the ecosystem.

Any new innovation that happens in e-commerce, such as Quick Commerce or ONDC that have happened in recent times, adds to the complexity for a brand and further strengthens the need for our solutions and these new models become a new channel source for us as we integrate with all these models. We stand for simplifying e-commerce and shielding the brand from the entire complexity through our comprehensive product suite.

E-commerce is a fast-evolving industry with new trends coming up very often. For example, direct-to-consumer and omnichannel were fringe use cases until a few years ago and now have become mainstream. Similarly, Quick Commerce has now become a salient contributor in many categories. Because of the fast-evolving nature of this industry, clients value a cloud-native and a SaaS solution like Unicommerce, which can evolve as the market evolves and is able to incorporate new integrations and new workflows, shielding clients from the complexity of continually adapting to the new developments.

Unicommerce serves a diverse base of 3500 plus clients across many industries.

Our platform is sector and scale agnostic. From fashion to pharma, from home services to home decor and much more, we serve a wide range of industries. And our platform is flexible to work with a large enterprise processing millions of orders in a month to a small SME processing a few hundred orders per month.

Our solutions can be configured to cater to use cases of different industries under a single implementation and this makes us relevant for house of brands and brand aggregators as well. Our role comes in the post-purchase journey in the transaction processing layer and order fulfilment layer. Unicommerce enables its enterprise clients and small and medium businesses to efficiently manage their entire journey of post-purchase e-commerce operations through a comprehensive suite of SaaS products.

I will now give a quick overview of our six solutions. Our first solution is the multi-channel Order Management System or OMS. This enables clients to aggregate orders across all marketplaces and websites at one place. More importantly, it allows sellers to maximize sales from a common pool of inventory.

By automating this task, sellers can run the business with leaner teams. For quarter one FY '25, we had a run rate of processing 850 million plus order items through the OMS. Until the end of quarter one FY '25, we had 250 plus plug-and-play integrations across marketplaces, web stores, logistics providers, ERP, point of sale, etcetera to enable automated flow of order information to be processed through OMS.

Our second solution is the warehouse and inventory management system or WMS. WMS enables efficient management of day-to-day warehouse operations and helps management of inventory distributed across the warehouse network. We are an e-commerce first WMS which ensures that e-commerce specific workflows such as returns management, prioritizing picking for a particular channel, etc. are available off the shelf. Till end of quarter one FY25, WMS was deployed across 8,300 plus client warehouses of varying sizes.

Our third solution is the Omni-channel retail management system or Omni-RMS. Omni-RMS streamlines retail by merging all offline and online sales channels on one platform. Brands are rapidly gowing Omni-channel with digital-first brands expanding offline to expand consumer reach while offline-first brands are going online to get a direct connect with the consumer. Our Omni-RMS solution allows brands to power various Omni-channel use cases such as shift from store, which means an online order will get serviced from the store that is nearest to the customer or endless aisle where the store can order online or on behalf of a walk-in customer for a product that is not in the store.

During quarter one FY25, Omni-RMS was implemented across nearly 3,000 stores. Our fourth solution is the seller management panel for marketplaces. Seller management panel helps marketplaces work with third-party sellers. It allows third-party sellers to commit inventory directly on the platform including available quantities.

Once the marketplace receives orders for these products from customers, they can be allocated to specific sellers who fulfill orders directly from their location. During quarter one FY25, our seller panel products collectively managed over 2,000 plus sellers on behalf of our client marketplaces.

We discussed so far our solutions in the transaction processing layer. Now let me give you a brief on the order fulfillment layer where we have recently launched two new products that is UniShip and UniReco. They are currently in the build phase and we continue to evolve the products based on our clients' feedback.

UniShip simplifies order tracking, returns and exchanges on the brand website. The default experience on a brand website is fairly broken when it comes to forward or return flows and this solution helps automate that. It essentially provides a smooth forward tracking and returns management experience on the brand website.

And UniReco simplifies payment and returns reconciliation across marketplaces. Brands face challenges with respect to marketplaces overcharging, pending payments and no view on pending returns or lost returns. UniReco solution helps provide visibility for such overcharges, missing returns, etc. so that brands can take appropriate actions to recover the same.

That was an overview of our six solutions. Our vision is to become a one-stop shop for e-commerce enablement as we are increasingly seeing brands preferring to use all the solutions under a single umbrella.

I'd like to share very briefly case studies of two of our clients to illustrate the direct impact we have on our clients' businesses. For a leading EPC player with an ARR of 300 plus crores, our platform helps achieve an impressive 80% drop in order returns and cancellations. And for a leading gifting platform with ARR of 200 plus crores, our platform helps achieve 50% faster dispatches.

These clients have deployed our OMS and WMS solutions. With our extensive range of solutions, we have been able to create a large growing base of marquee clients across the retail and e-commerce landscape in India as well as consistently on board new clients in international geographies. We serve ever-popular legacy brands such as Emami, Fabindia, Salo, etc. as well as many leading digital-first brands such as Lenskart, Mamaearth, Boat, etc. Till the end of Q1 FY25, our annual transaction run rate stood at 850 million plus, enterprise clients at 850 plus, and SMB clients at 2,700 plus.

Our enterprise clients account for 90% of our revenues. Our SMB customers contribute the remaining 10% of our revenues. And over the years, we have observed that as SMB clients scale up, they require more solutions and hence some of them are upsold to our enterprise plan.

I would now like to highlight the strong pillars of our business model.

First, ours is a pure SaaS business model where revenue comes from purely platform usage with no people-service components. This enables us to have a high gross margin. Second, our platform is extremely sticky due to our deep integrations with the various technology processes of a brand, making us a lifeline for the e-commerce journey of a brand. Third, our revenue is linked with the number of transactions. Our enterprise customers, which constitute nearly 90% of our revenues, pay us a minimum subscription fee each month, in which we bundle a certain number of transactions in this cost. Once they utilize this quota of transactions, they pay us an additional fee called the usage fees for the additional transactions they process.

Given that we charge per transaction, we are inherently set up for growth as e-commerce transactions in the country have grown and will continue to grow. Fourth, we have a fairly dominant position, being the largest player in the transaction processing layer by revenue for FY23. Fifth, we have an optimized cost structure, leading to healthy profitability, thereby leading to us being PAT profitable since FY21. We are the only profitable player amongst our top five players in the transaction processing layer based on FY23 numbers. Sixth, our revenue growth is driven by three cohorts of customers. Customers we acquire in the current year, which we call as the T0 cohort, customers we acquired in the previous year, which we call as T-1 cohort, and which ends up more than doubling in the current year as we acquired these clients through the year last year. So, on an average, we only got six months of revenue from them last year, and we get at least full year revenue from them this year. And then, there is the T-2 or before cohort. The growth of this cohort is driven by what we call as NRR. NRR is Net Revenue Retention, which means that if NRR is 110%, the cohort of customers that paid us INR100 last year, pay us INR110 this year. We have consistently maintained 100% plus NRRs over the years. Given this construct, a large part of our growth comes from our existing customers itself.

Looking ahead, the market for e-commerce enablement SaaS presents a substantial and growing opportunity. Key growth drivers for this business will be, first, e-commerce growth. Currently, the e-commerce market in India is highly underpenetrated. In India, 4 to 4.5 billion shipments were processed last year. By comparison, 130 plus billion shipments were processed in China last year.

This shows a significant headroom for growth for the e-commerce market in India. We have also demonstrated a market++ growth rate consistently. When the market during the pandemic years, as per our estimates, grew at about 30% to 35%, we delivered a 50% revenue growth.

Last year was arguably the slowest year that I have personally seen in the last nine years of my journey at Unicommerce, where the market, as per our estimates, grew late single digits, we delivered a 15% revenue growth in FY24.

The second growth driver is new client additions. The e-commerce industry is currently underpenetrated and there is a large scope for the company to add to its existing client base. There are many categories that are yet to go online in a big way and many traditional brands that are yet to adopt being direct-to-consumer and omni-channel in a big way.

The third growth driver is new products. Our vision is to become a one-stop shop for e-commerce enablement and hence we recently launched two new products and we will continue to offer more solutions so that the ecosystem can fulfill all their needs of e-commerce enablement from a single place.

The fourth growth driver is international expansion. We are already present in six countries outside of India and our focus would be to go deeper in these geographies across Southeast Asia and Middle East and deliver growth.

While e-commerce is an overall fast-growing industry, Unicommerce has built multiple strong modes that give it a competitive advantage.

These are an extensive suite of 250-plus integrations, which continue to grow every quarter along with a stable and scalable platform; second, our long-standing customer relationships due to the sticky nature of the product. And third, our deep partnerships with various ecosystem players. So together these help drive a strong network effect which is creating a virtuous cycle of growth and profitability.

Summarizing the key trends and initiatives for this quarter, we continue to add enterprise customers at a steady rate despite the softness in the overall e-commerce market. We added nearly one new enterprise customer every day in quarter 1 FY'25. These customer additions should help in revenue momentum in the coming quarter.

We continue to invest in new products and evolve our existing products, while our core business continues to demonstrate a strong operating leverage. Some of the initiatives include enabling integration for four leading quick commerce players, enhancing our returns management module and building UniReco. We have also launched an AI tool UniGPT utilizing Gen-AI to assist e-commerce sellers.

In summary, looking ahead, we are optimistic about the future and confident in our ability to navigate the e-commerce landscape and deliver long-term value to all our stakeholders.

I would now like to invite Anurag Mittal, our CFO, to share the financial performance. Over to you, Anurag.

Anurag Mittal: Thanks, Kapil. Hello and good morning, everyone. We are happy to report a good performance for the quarter 1 FY'25. During the quarter gone by, our revenue for the quarter grew by 9.2% year-on-year and stood at 274.7 million in quarter 1 FY'25 compared to 251.6 million in quarter 1 FY'24. We expect this growth momentum to continue as generally H2 is better than H1 due to the festive season sales.

Our adjusted EBITDA for the quarter grew by 23.2% year-on-year and stood at 44.7 million. As we continue to reap the benefits of operating leverage, our adjusted EBITDA margins grew by 185 basis points year-on-year to 16.3% in quarter 1 FY'25 compared to 14.4% in quarter 1 FY'24. Our profit after tax grew by almost 30% year-on-year to 35.12 million in quarter 1 FY'25.

Also, as Kapil mentioned, we are working on developing various new products in the e-commerce enablement space along with enhancements to the existing products.

Over the years, for any enhancements we have made to the existing products, the costs have been expensed in the profit and loss accounts and we continue to do the same. However, as we are working on new products, the costs related to it have been capitalized as assets under development on the balance sheet to the tune of 21 million in quarter 1 FY'25.

Further, we are encouraged by the initial traction from alpha customers for our new products. The feedback from these early adopters has been positive, suggesting that there is a meaningful demand for our new products. This positive response validates our strategic decision to invest in these new technologies and strengthens our belief that they will contribute significantly to our growth trajectory in the coming years.

To summarize, our sustained investment in the existing products, combined with the development of new products and the operational efficiencies provided by a scalable model, position us well for future growth and profitability. With robust initial traction across our new products and the benefits of operating leverage continuing to play out, we are optimistic about our ability to capitalize on these investments and drive long-term value for the company.

Coming to a few KPIs for the quarter. Our annual recurring revenue as of quarter 1 FY'25 stood at 1,099 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 quarter 1 FY'25 stood at 855. The annualized run rate for the number of order items processed basis, quarter 1 FY'25 stood at 850 million. Our client concentration from top 10 client revenues stood at 21%.

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

Moderator: The first question is from the line of Payal Shah from Billion Securities. Please go ahead.

Payal Shah: I have a question. Overall, the FMCG and retail sales have been slow over the last year or so. What are the trends that are visible to us?

Kapil Makhija: We are an e-commerce enablement SaaS platform. Overall, we have seen that e-commerce grew strongly during the pandemic. But since the end of Q2 last year, we have seen some softness that we have seen in the e-commerce overall growth. And the overall festive season also continued to be subdued last year. We are seeing some recovery now happen in the e-commerce growth at the end of quarter 1 for this financial year. And hope to see higher growth in the subsequent quarters. But as of now, we have seen softness in the e-commerce growth as we have seen in the retail as well.

Payal Shah: Sir, just a follow-up to my question. How do we see the demand? What kind of growth are we expecting for e-commerce for this fiscal?

Kapil Makhija: As I mentioned, we have seen some softness in the e-commerce growth. But we have seen some recovery at the end of quarter 1. And we are hopeful with now the demand picking up, we will see higher growth in the subsequent quarters. I think it will be very early for us to predict what the growth will be. But we are seeing some signs of recovery already and hopeful that the subsequent quarters will demonstrate a higher growth going forward.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar with InvesQ PMS. Please go ahead.

Aashish Upganlawar: So this is the first time I am listening to you so some basic questions. How do you see the drivers for your business because as per the commentary till now basically the growth is e-commerce plus some growth that you guys get. And there would be certain additional services that you mentioned. So just to get some clarity, if you could make us understand how this would turn out over the next 1 year, 2 years in terms of your growth?

Kapil Makhija: Thanks for your question. The growth for our business is driven by four key pillars. First is, as you rightly pointed out e-commerce growth. Given that we charge per transactions. As e-commerce continues to grow, we continue to grow with that. The second growth lever is addition of new clients. The market is fairly underpenetrated. There are many traditional brands that are yet to come online in a big way and there are many categories that are yet to come online. The third growth driver for us is addition of new products. Our vision is to become a one-stop shop for e-commerce enablement. So we will continue to offer new solutions as far as e-commerce enablement is concerned. And fourth is international expansion. We are already present in 6 countries outside of India. Our focus is to go deeper in these geographies across Southeast Asia and Middle East. So with these four growth levers, we are confident of continuing to deliver a consistent growth and expanding profitability in the business.

Aashish Upganlawar: So is it possible since the -- given the current activity levels or maybe the services additions or client additions, key metrices how do we see next couple of years for us? Is it going to be organic growth? I mean if you can give some numbers on that basis which one should expect certain delivery on the top line for you.

I'm just trying to make a sense of how much growth you would bring in for your e-commerce plus addition of new clients, plus international and stuff. Whatever you mentioned, if you could give some sense on how we should look at your company maybe 2 years, if not immediate how things should run out?

Kapil Makhija: Sure, Aashish. So one, I want to clarify that we do not offer any services to our customers. We offer a platform. So they use our solutions in a plug-and-play manner to manage their e-commerce. We as a business have delivered market++ growth rate. As I mentioned that during the pandemic, when the market grew at 30% to 35%, we delivered a 50% revenue growth.

Last year, the market as per our estimates grew by late single digits and we delivered a 15% revenue growth. We are confident as a management team to deliver a market++ growth going forward as well.

Aashish Upganlawar: Okay. And how does the operating leverage play out here, given we've seen some good improvement in your profitability over the last, maybe I think whatever numbers are available. So how does this work for you? And also, if you could give some idea about how much do you charge because it's a small fee that you would be charging for your platform. So how does that model work overall?

Kapil Makhija: Sure. So our business has consistently demonstrated operating leverage because the four products that I described to you in the transaction processing layer are fairly mature now. So we do not need to invest a lot in those products. And hence whatever incremental revenue growth we get, a large part of that flows to our bottom line demonstrating operating leverage.

Out of this profit pool, we continue to invest in building new products and for international expansion. And that's why, in spite of our investments that we're doing from our internal accruals itself, we are still able to demonstrate an operating leverage for the overall business as well.

Aashish Upganlawar: Okay. So what's the kind of vision you can say or you might have visualized how your platform would look in maybe half mature stage, maybe still growing, but as you said the incremental investments in the business rather the revenue traction would take over the incremental investments that are needed in the business.

So is it likely to be a 20% operating margin business once the revenues grow to a certain level? Some kind of idea like that or maybe the ROIs you can speak about in this business whenever you see some kind of maturity in terms of revenues comes in. Any sense on that, if you could share?

Kapil Makhija: So our core products are fairly mature. So the incremental investments are not a lot that we go there. Like I mentioned our new products, UniShip and UniReco are currently in the build phase. The level of maturity that a product attains the timeline for that is a function of the complexity of the product itself.

But as I mentioned that our core business continues to be significantly profitable and continues to demonstrate a strong operating leverage, and we are able to dip into this profit pool and continue to invest in new products as well as international expansion as well. And over time some of the new products that we will be building will also reach this maturity phase. Our vision is to become a one-stop shop for e-commerce enablement and we will continue to offer new solutions.

So today we have launched UniShip and UniReco and we will continue to add more. So over time these different product lines will attain their maturity stage at different points in the future and will continue to add to the profit pool itself. But the idea is that all the brands and sellers in the ecosystem are able to get all the solutions, all the relevant solutions that they need as far as e-commerce enablement is concerned from a single umbrella which is what we offer and which ensures that our relationships with the customers continue to be sticky.

Aashish Upganlawar: Sure, thank you. So maybe I'll connect one-on-one with your team and gauge more on things. Thank you so much.

Moderator: Thank you. The next question is from the line of Sumeet Jain from CLSA. Please go ahead.

Sumeet Jain: Yes, hi. Thanks for the opportunity and congratulations on a good profitability this quarter. So Kapil and Anurag, firstly just housekeeping questions. Can you just guide us what is your Y-o-Y and Q-o-Q growth in items processed this quarter?

Anurag Mittal: So, Sumeet Y-o-Y growth for the number of items processed in quarter 1 FY25 is 35%. We processed 212.77 million in Q1 FY25 as compared to 158.19 million order items processed in Q1 FY24.

Sumeet Jain: Got it. And how is it sequentially, Anurag, if you can tell us?

Anurag Mittal: Sumeet we processed 197.91 million of order items in quarter 4 FY24. And, in fact, if you see the growth between the quarter 1 FY25 versus quarter 1 FY24 (wrongly said, kindly read it as quarter 4 FY24), we have delivered a growth of near about 7.5%.

Sumeet Jain: Got it. Now that's helpful. So coming to the pricing trend I mean is it like there is some bit of a pricing pressure in the industry or is it like because of increase in the number of volumes from your enterprise customers, your per-item pricing comes down because of that? So can you just give us a highlight at a slightly higher level?

Kapil Makhija: So our price steady state has been about 1.2 to 1.3 per item. It has stayed consistent, Sumeet. It is a function of both as we add new enterprise clients which typically are at higher scale and are able to get a lower rate and also a mix of categories itself where now we are seeing a lot of traction across emerging categories like beauty and personal care, health and nutrition, etc where again the volumes are high because of which they have a slightly lower rate.

So it's a function of us being able to get higher enterprise clients as well as a category mix that's changing, but the price has stayed consistent in the range of 1.2 to 1.3.

Sumeet Jain: Got it, Kapil. That's very helpful. And if I see your enterprise customer growth, I mean, almost by 85 number, what you mentioned, it's almost a 10% growth sequentially, and I'm assuming this must have happened over the course of the quarter. And obviously enterprise compromised of almost 85% to 90% of your revenues. So does that imply that irrespective of how the festival season goes by, this addition of enterprise customers itself will give you a good sequential growth in the next quarter?

Kapil Makhija: So, Sumeet, customer additions is definitely a factor for us to drive growth, but the other factors are also important, which is the transaction growth. As I mentioned, in terms of our revenue growth driven by different customer cohorts, a large part of our growth continues to be from existing customers itself for the current year. So, it's a function of transaction growth as well as new customer additions, as well as revenue that we start generating from new products, plus international expansion. So our growth is a function of all these four factors.

Sumeet Jain: Got it. And Anurag, you mentioned that you guys have capitalized almost 21 million expense around product development. So if I actually include back in your P&L, your EBITDA sequentially would have been slightly down. So I just want to understand this R&D expense around new product development, is it spread across employee benefits and other expenses, or how is it? And is this policy change only in this quarter, or how is it?

Anurag Mittal: Sumeet, to answer this question, I want to clarify that we are investing in new product development, which we intend to commercially launch towards the end of this calendar year or early part of next year. Accordingly, the investments to build this product suite is capitalized, including manpower expenses. So today all revenues is from existing set of products only.

Accordingly, for calculation of adjusted EBITDA of INR4.5 crores, the costs considered are largely relating to the existing product suite. And therefore, the adjusted EBITDA margins of 16% represents the true operating margins for the company. And post the commercial launch of the new product, the operating expenses will start getting expensed out in profit and loss account, having marginal impact on the margins. Even then, we remain confident of our improvement in margins playing out.

Kapil Makhija: And one more point to add, Sumeet, that there is no policy change. For all incremental enhancements, they still continue to be expensed. This is after a very long time we are actually building new products, and that's why those have been capitalized. It is a consistent policy that we have followed over the years.

Sumeet Jain: Okay. And at a very high level, Kapil, just want to understand the three, four growth drivers you mentioned. So if one has to assume you grow in let's say 15% to 20% range, in that range, in a given year, given that e-commerce CAGR has been in that range over a 5 to 10-year period.

So out of, you know, the three, four initiatives you mentioned in terms of new client addition, new products, international expansion, and the growth from existing client, these four areas, how will you distribute your 15% to 20% growth? Let's say assuming, I'm not saying for a guidance here, but let's say if you assume that to be the range, these four growth drivers you mentioned, which will be the biggest and the least important, if you can mention?

Kapil Makhija: Sumeet, as I mentioned, that our existing customers continue to drive a large part of our growth because we are linked to a number of transactions. So transaction growth will continue to determine our growth. Then the new customers that we add in the year continue to add some contribution to the current year revenue growth.

But more importantly, these are additions that help us drive future revenue growth because as I mentioned, the customers we acquired in the current year end up more than doubling in the next year because in the current year, we only get average six months of revenue from that. Then new products, today they are at a very early stage. As I mentioned, they are in the build phase today, and we continue to incorporate client feedback to make them more mature.

So today they are negligible contributors because we just pilot-launched it with a few customers, but we are getting very positive response from the alpha adopters. And finally, international expansion. Again, we are expanding to new geographies, while the product is pretty much ready for both the current and future needs in these geographies.

But we have to continue to build a strong customer base in these geographies as well. So it will be in that order that we'll continue to demonstrate revenue growth for the business.

Sumeet Jain: Got it. That's very helpful. And lastly, I mean, compared to your 9% revenue growth, any idea about how much the overall e-commerce market would have grown in this quarter on a YOY basis? Because we don't get any industry data, particularly. So just taking a cue from you, if you get any sense.

Kapil Makhija: So we continue to grow market++. We have demonstrated that over many years now. So even in this quarter, as I mentioned, the market started to show subdued growth at the end of quarter 2 last year, and it continued to be subdued during the festive season and in quarter 1 itself. But we've seen some recovery happen towards the end of quarter 1.

So at least our hope is that in the subsequent quarters, the growth will continue to be high. But as of now, the market in quarter 1 itself has been subdued and we have delivered a market plus plus growth as per our estimates.

Sumeet Jain: Got it. That's very helpful. All the best to the entire team and great show. Thank you.

Moderator: Thank you. The next question is from Ankur Pant from IIFL. Please go ahead.

Ankur Pant: Hi, sir. Good morning. I have a couple of questions. The first one is a short-term one. So we have delivered 9% growth in 1Q. And while I do understand that there is a positive seasonality heading into 2H, any reason you believe that this growth could be higher in 2H on a YoY basis? Or is that completely market dependent? I'll ask my second question after this.

Kapil Makhija: As you mentioned that there is a seasonality. So we typically have seen that revenue in H2 is higher than H1 due to the festive season sale as our revenue is linked to the number of transactions being processed. Last year, as I mentioned, we saw the e-commerce growth decline towards the end of quarter 2 and the growth continued to be subdued during the festive season last year.

However, this year we have seen some recovery happen towards the end of quarter 1, which leads us to believe that we will continue to see higher growth in the subsequent quarters. The other factor, obviously, because the last year's festive season was subdued, we will also see a base effect and hope to see a higher growth in the second half of the season.

Ankur Pant: Sure. And any company-specific reason on that front? Any new product or anything else which could lead to a higher growth uptick?

Kapil Makhija: So, in terms of us, one, we continue to add enterprise logos. We've added one enterprise customer every day in quarter 1. So, these customer additions will continue to demonstrate higher growth in the subsequent quarters, plus the new products as we continue to build on them and incorporate feedback, there will be some additional revenue that will come our way. So it will be a combination of transaction growth, client additions, as well as some traction that we will start seeing from new products as well.

Ankur Pant: Sure. Thank you. That's helpful. And my other question is a slightly longer-term question. So just thinking from a three- to five-year perspective, what is the kind of top line and margin that you're looking at? Just a broader sense that you think of internally.

And Unicommerce has been growing at market plus plus, what kind of a growth differential that you expect Unicommerce to grow versus the market? Like 10%? What is the kind of number that you think is feasible?

Kapil Makhija: Sure. So we have seen some softness in the e-commerce growth in the recent quarters, but the medium to long-term story of e-commerce growth is intact. As I mentioned, e-commerce market in India is highly underpenetrated because in India, as an example, last year, 4 to 4.5 billion shipments were processed. In comparison, 130-plus billion shipments were processed in China. So there is a significant headroom for growth for e-commerce market in India. Our estimate is that medium to long-term growth in e-commerce market overall should be 25% plus, and we continue to deliver a market++ growth so far, which has been a combination of transaction growth, our customer additions, as well as now we have a new product lever as well. So we are hopeful that we'll continue to deliver a market++ growth in the medium- to long-term.

Ankur Pant: Thank you. That's very helpful. I wish you all the best.

Moderator: Thank you. The next question is from the line of Nikhil Chandak from JM Family Office. Please go ahead.

Nikhil Chandak: Yes, hi. Good morning. So, some few basic questions. The first clarification I wanted is how much percent of your customers would be on a fixed fee kind of a model, say for the year, versus per transaction kind of a revenue model?

Kapil Makhija: So all our enterprise customers pay us a minimum subscription fee each month, and in which they are allotted certain quota of transactions in this cost, and once they exhaust this quota, they pay us an additional fee. There are, like all our customers follow this model. We continue to add new customers every year, and it takes a couple of quarters for them to expand their transaction base and exhaust this quota.

So it is a function of the number of customers that we add in a particular year, but steady state, majority of our customers have already exceeded this quota of minimum transactions and continue to pay us the additional usage fees, but given that we continue to add new customers every year, they take certain time.

So at an overall company level, this number may be different, but today, majority of our steady customers in steady state pay us an incremental or the usage-based fees, but the new customers that we add, they continue.

Nikhil Chandak: And the incremental usage-based fee is a, like, a flat-line kind of a structure, or there are some slabs beyond which the fee keeps reducing? So if the customer exceeds, I'm just saying far too many transactions, does the fee kind of come down?

Kapil Makhija: No, so most of our contracts are linear, so as the transactions of the customer grows, our revenue from that customer continues to grow in that line. There are a few contracts that have slab-based commercial, so they get certain discounts for increasing scale, but that's a very small portion of our contract.

See, for any e-commerce brand or seller, as the scale increases, they actually value the complexity we are solving for them a lot more compared to a customer which is at lower scale. So very rarely have we seen a customer demanding a discount as their scale increases because we are helping them handle a large portion of this complexity very seamlessly, and they value this solution a lot more at higher scale, and that's why most of our contracts continue to be linear.

Nikhil Chandak: Understood. The other basic question I had is, who would be your competition in the market? Or how small would be the other competition in the market? And would the companies' in-house teams also be a competition for you?

Kapil Makhija: See, the competitors for us are e-commerce first solution given that we play in e-commerce enablement space. We have listed some of these players in our RHP as well, so these are players such as Increff, Vinculum, etc. But essentially, as I mentioned, we are a fairly dominant player.

We are the largest player in the transaction processing layer by revenue for FY '23, and the only profitable player amongst the top five players in the transaction processing layer as of FY '23.

Nikhil Chandak: Understood. Perfect. And just the last question, so I'm just trying to picture what is really the industry size for you. I'm not talking about the e-commerce players. I'm saying the e-commerce enablement segment. So, for example, you've done like a quarterly top line of roughly INR27-odd crores, I can see, say, for the last quarter. But what would be the industry size? What is the TAM for this space?

Kapil Makhija: See, today, e-commerce, while it's been around for a decade, it's very, very nascent. A lot of brands today use Excel to manage their e-commerce operations. And very few brands today use a software to manage e-commerce, and that's where we see a significant headroom for growth, not just because of e-commerce being underpenetrated.

The penetration of software being used to manage their e-commerce business is fairly low today. And as more and more brands see an increasing scale and increasing complexity, because for many brands, e-commerce today is just maybe selling on one or, at best, two platforms. But as brands start to grow, they realize that they have to be on multiple platforms, which is how a lot of large brands and retailers have operated in India.

And as they get onto multiple platforms, as their scale increases, they realize that it is nearly impossible to handle this complexity manually or using Excel to manage their operations. And that is when they look for a solution. The overall TAM for the market...

Nikhil Chandak: Could you kind of put a number to it, just in case if there's some industry-wide number?

Kapil Makhija: Yes, so the overall market, the TAM for both the core products and the complementary offerings that we offer is about $680 million. But as I mentioned, a large part of this market is today getting managed on Excel, so it is addressable. But as the complexity and the scale for the market increases, more and more brands will look for a software to manage their operations.

Nikhil Chandak: Perfect. Great. Thank you so much. All the best. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Nagpal from Helios Capital. Please go ahead.

Rohan Nagpal: Yes, thanks for the opportunity. So, quick question. So, if I just take your...

Moderator: Sorry to interrupt, sir. May we request you to use your handset, sir? Your audio is not very clear, sir.

Rohan Nagpal: Yes. So, if I just look at your revenue per item, it's gone from about 1.6-ish to 1.3, or there's a 20%-odd compression year-over-year and a 4% compression quarter-over-quarter. With an increasing number of enterprise customers, do we expect this sort of compression to continue, or do we expect it to sort of stabilize from here on?

Kapil Makhija: As I mentioned, the price for us, the steady-state transaction rate, has been between 1.2 to 1.3 and continues to be there. The price changes that you've seen as a function of us acquiring more enterprise customers, as well as the overall category mix changing. But now, a few levers that we are deploying to increase the prices, that in all our new contracts, we have introduced a price escalation clause, and this we have introduced since last year. So now, every new contract at the end of 1 year, will have a price escalation already built in.

And also, as we launch new products, like we've launched UniShip and UniReco, for the same transaction, or the same item that's going out of the warehouse, we are now able to charge additional amount using UniShip, which is providing tracking services for the same item that's going out, or using UniReco, that is providing reconciliation for the same item that's coming back as a return. So through these two levers, we will be able to see a price, a stable to increasing price trend for a price per item.

Rohan Nagpal: Got it, okay. That's helpful. And in terms of your expense base, do we, I think last year, there was a, between Q1 and Q4, there was about a 6% increase in the cost base. Do we expect a similar sort of escalation this year, or how should one think about it?

Kapil Makhija: So the overall cost base, absolute cost base increase is for the employees, and that's a result of the appraisals that we do for our team in Q1. But if you look at as a percentage of revenue, our employee cost base, as a percentage of revenue has seen a consistent decline over the last few quarters, and that is a result of the operating leverage that the business continues to demonstrate, because our cost base is largely fixed, as the core business continues to grow, and there are not significant investments that are required in the business.

And whatever investments we are doing in new products and international expansion continue to be there from our internal accruals itself. So as a percentage of revenue, we have demonstrated a consistent decline of employee cost as a percentage of revenue, and we'll continue doing that. Q1 is a result of appraisals, as I mentioned, and that is a seasonal, like every year, we do our appraisals in Q1 of every financial year.

Rohan Nagpal: Okay, so it's broadly going to stay fixed from here on for the rest of the year?

Kapil Makhija: That's true.

Rohan Nagpal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Deepak Jain, who's an Investor. Please go ahead.

Deepak Jain: Yes, so my question was, what part of our expenses do we incur towards marketing expenses and development expenses? Do you disclose on that?

Anurag Mittal: Thanks, Deepak, for asking this question. On the sales and marketing front, we continue to invest in sales and marketing through digital marketing and offline events through both third-party and our own.

Deepak Jain: Okay. Any specific number? Any percentage wise in terms of the turnover?

Kapil Makhija: So we disclose this in the advertising and travel expenditures in our P&L. That's there in our disclosures.

Deepak Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. As there are no further questions, I now hand the conference over to the management for closing comments.

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

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