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To
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BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
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To
Listing Department,
National Stock Exchange of India Limited
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Bandra (E), Mumbai – 400 051

Scrip Code: 543320, Scrip Symbol: ZOMATO
ISIN: INE758T01015

Sub: Transcript of the earnings call conducted on August 2, 2022

Dear Sir/ Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call conducted on August 2, 2022.

The same is also hosted on the website of the Company at https://www.zomato.com/investor-relations/financials

Kindly take the same on record.

Thanking You
By order of the Board
For Zomato Limited
(Formerly known as Zomato Private Limited)

ZOMATO LIMITED

Sandhya Sethia
(Company Secretary & Compliance Officer)
Date: August 9, 2022
Place: Gurugram

“Zomato Limited Q1 FY23 Earnings Conference Call Transcript”

August 2, 2022

Management representatives:

Mr. Deepinder Goyal – Founder & Chief Executive Officer

Mr. Akshant Goyal – Chief Financial Officer

Mr. Kunal Swarup – Head, Corporate Development

Moderator: Ladies and gentlemen, a very good evening, and welcome to Zomato Limited's earnings conference call. From Zomato's management team, we have with us today Mr. Deepinder Goyal -- Founder and Chief Executive Officer, Mr. Akshant Goyal -- Chief Financial Officer and Mr. Kunal Swarup -- Head of Corporate Development.

Before we begin, a few quick announcements for the attendees. Anything said on this call which reflects an outlook for the future or which could be construed as a forward-looking statement may involve risks and uncertainties. Such statements or comments are not guarantees of future performance, and actual results may differ from those statements.

I now hand over the conference to Mr. Akshant Goyal. Thank you, and over to you, Mr. Akshant.

Akshant Goyal: Thank you, Harshil. Welcome everyone to the conference call. You know, before we begin with the Q&A, we just wanted to clarify and address a couple of questions that both Deepinder and I have been getting over the last 24 hours post our results.

So, I think the first question, top of mind for everyone is, what is the path to profitability for Zomato? We've seen a reduction in losses now for a couple of quarters, and I think everyone wants to know how long we think it will take for the Zomato business to get to operating breakeven and then making profits.

And the second question, again, on the same line, has been on Blinkit and quick commerce in terms of what's our view and outlook on the path to profitability there and the investments that we need to make before we get there.

So, let me address these two, and then we can jump into the Q&A. So, on the first one, on the Zomato business, I think the first thing I wanted to highlight is that if you look on a cash flow basis, including, treasury income / other income, last quarter, we were already positive on cash flow. So, our adjusted EBITDA losses were Rs. 1.5 billion, and our other income was 1.7 billion. So, in some ways, we are not losing cash in that business anymore. Also, as you would have noticed, we got to adjusted EBITDA breakeven in the food delivery business. So, now, I think the next milestone there is to get the overall Zomato business to adjusted EBITDA breakeven and we think we are close now.

In terms of timeline, internally, we are aiming to get there by Quarter 4 of this fiscal year. that is the internal goal that we have as a team but we think that if we slip on that, it should not be later than Q2 FY24, which is September 2023 quarter for getting to breakeven on adjusted EBITDA at the Zomato level. So, I think that's a broad outlook and essentially, an internal plan that we are working on, and we thought we should share that with everyone here now that we are getting closer to this milestone.

Now moving on, on Blinkit, we had, a couple of quarters ago, given guidance or a budget of $400 million investment for the next couple of years. I think the business has surpassed our expectations so far in terms of growth as well as loss reduction to where we were 6-7 months ago and we wanted to now update that overall budget and guidance from $400 million down to about $320 million. Given where the business is today and the path forward that we see, we think we should get that business also to break even with an investment of $320 million starting January 2022 (so, this is not guidance starting from today). We have already invested about $150 million in that business so far - our estimate is $320 million for getting that business to break even. In terms of the timeline on Blinkit, we don't have that kind of visibility that we have on the Zomato business. So, I would not venture into estimating by which quarter we get there. I think it's still early days, but the update essentially, we wanted to share with you was just on the overall investment that we think that business would need.

So, with that, you know, let me hand over back to Harshil, and we can get into the Q&A.

Moderator: Thank you, Akshant. Ladies and gentlemen, we will now start the Q&A section of the call. If you wish to ask a question, please use the raise hand feature, and we will announce your name on the call and unmute your line post which you can proceed with your question. Please ensure that your name is visible as a name followed by your organization's name for us to be able to identify you before we take your question. We will wait for a minute while the question queue assembles.

The first question is from the line of Mr. Vijit Jain from Citi. Please go ahead.

Vijit Jain: Congratulations on the great set of numbers Akshant and Deepinder. My first question is on the food delivery business. There is a fairly decent QoQ improvement in take rate on a reported revenue basis of around 40 basis points, right, or about Rs. 2.5 per order. Just wondering where this is coming from? Is it a restaurant mix? Are you loading more advertisements or there are higher negotiated commissions here, if you could elaborate on that and I will just follow up on Blinkit next?

Akshant Goyal: It is a combination of all three that you said and improvement in customer delivery charges. With the restaurant industry bouncing back post-COVID, the ad spends are increasing now on delivery. The blended / aggregate take rate or rather the implied take rate has also gone up as a function of us driving parity on take rates with some lower take rate restaurants. I wanted to clarify that when we talk of take rate increase, we are not actually increasing the top end of the take rates for restaurants but rather essentially normalizing take rate at restaurants which could be at lower take rates right now. So, that's playing out. Ad sales is improving as you pointed out, and we are also seeing improvement in customer delivery charges. So, I think it is a combination of all of this. We are seeing that revenue is going up.

Vijit Jain: My second question on Blinkit, just trying to understand with the unit economics that you've reported, is there an outlook to by when, you know, any legacy infrastructure-related expenses will be out of the P&L? I mean, whatever was, you know, pre the transition into quick commerce, that's one.

And second, with this new outlook on cash burn, you know, when I look at your July month burn rate, on an annualised basis, it's about maybe $140 million, $150 million a year, right. So, is that an understanding that, you know, the burn rate will probably only go down on an EBITDA level here even when you have integrated Blinkit into Zomato? So, those two questions.

Akshant Goyal: As you are seeing from the numbers, the losses are coming down. I think that should continue going forward post the transaction as synergies kick in. So, yes, we expect that trend to continue and to your first question on any legacy cost, there is none in the system as of now. I think pretty much that business is fully pivoted to quick commerce and both the revenue and the cost structures right now are aligned to the current business model.

Moderator: Thank you. The next question is from the line of Mr. Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Congratulations on a good set of numbers. So, two questions. Firstly, the selling and marketing spend has been in a very tight range. Yet we have seen an acceleration in the MTU growth in the last quarter. So, what drove this better growth in MTU? Is it more coming from the conversion of the annual transacting customer into MTU? And if you could highlight some of the initiatives that actually can drive the higher conversion and frequency, which you have mentioned as one of the key growth drivers in the medium term?

Akshant Goyal: Yes, Gaurav, so I don't think we would want to talk about the initiatives here because that is like a core strategy for us for the business, but your observation is right. The growth in MTU is coming from increasing conversion, and retention or essentially the other way to look at it is the conversion of annual transacting users to monthly transacting users. So, we are definitely seeing that, as well as growth in the frequency of repeat customers. Both of them are driving order growth which was pretty healthy in the last quarter.

Gaurav Rateria: The second question was with respect to your comment on the inflation-related headwinds that impacted the cost. So, are these largely absorbed in our P&L, or are there more to come because this might actually come with some bit of a lag effect? So, are these headwinds largely behind us or is there more to come in the coming quarter? Thank you.

Akshant Goyal: Hard for us to comment on that, Gaurav, at this point. We don't know, honestly. So far, essentially in the last few months, these headwinds have existed, and they continue to exist, but it's hard to call out whether the headwinds are behind us fully or not. I think it's a function of larger macro issues, which most economies are going through. So, I can't comment on whether that is behind us or not.

Moderator: Thank you. Next question is from the line of Mr. Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Two questions. One is on what an early participant asked on the MTU bit. So, I understand you can't give more information, but the other way of asking you is, let's say, what happened in the last three quarters, for example, when the number was stable and this time around when the number has moved up? So, what has different been different, you know, this time around versus the last three quarters, for example?

Akshant Goyal: There is no difference. There is nothing different that we did or happened, Vivek. So, even if you go back, while last two, three quarters were flat, but if you look at a much longer term and maybe, let's say, you look at year-on-year MTU growth, that has been healthy, and that is what we've been saying in the last few quarters as well that our business is lumpy and not always linear and over a longer-term where you at least look at year-on-year trends, things will look more linear than versus looking at quarter-on-quarter trends. So, this quarter, therefore, nothing different happened. There is not much seasonality that we see in this quarter anymore. I think some people have this notion that April - June quarter has IPL and therefore, there is usually a bump. At least in our business, we have stopped seeing any meaningful bump due to IPL in the last couple of years. So, nothing different about this quarter. I think it is just growth catching up which was long due and we expect this trend to continue.

Vivek Maheshwari: And you know, a related question on the AOV which you mentioned in the press release, there's a slight increase, there was this theory that you know, once things normalise and first quarter arguably was the most normal quarter in last couple of years. We have not seen AOV going down. So, there will be a food inflation aspect, there will be premium restaurants, there will be differential pricing - but do you think that this is the number from which one should be building assumptions into the future or is there still that risk of bunched up orders getting split and therefore AOV is coming down, not going back to the historical level Akshant, but is there a possibility it will settle down still at level lower than what we are currently at or it will be fair to assume that this is the right level what we saw in the earlier quarter?

Akshant Goyal: So, Vivek, there are no guarantees. I mean, that can always happen. But if you look at the historical data and even if you go back two years, I think the AOV has not moved pretty much. We disclosed our FY21 and FY22 AOV in our May shareholder letter and that AOV in both those years differed by only Re. 1, Rs. 397 and Rs. 398. And ballpark that is where we are even now, and that hasn't changed. So, that historical data gives me confidence that perhaps, we are close to a steady state in terms of AOV. There will always be counterbalancing forces here, which will pull the AOV up or push the AOV down, but given that we have had a long enough history and data points on this metric, I feel that there is not much downside here on the AOV front.

Vivek Maheshwari: And the last question on, let's say, EBITDA breakeven. So, if you look at this quarter, let's say, food delivery was almost zero, and Hyperpure was marginally here and there. So, essentially the loss is coming from unallocated expenses of about 1.3 billion, right?

Akshant Goyal: Yes.

Vivek Maheshwari: From here on, for breakeven to happen, do you think food delivery EBITDA jumps up further quarter after quarter? Or is there something in the other unallocated expenses or losses also, because this number has been between 1.1 and 1.3 billion, right?

Akshant Goyal: Yes.

Vivek Maheshwari: So, is there some lever here or it's primarily led by food delivery EBITDA jumping up going ahead?

Akshant Goyal: It will primarily be driven by food delivery EBITDA growing. We have been working on bringing our fixed cost down as well, and I think that is the reason why we have been able to absorb a lot of increases on the salary front etc., which would have otherwise made this number much higher. We are working on all aspects and critically looking at all costs. But having said that, I think the unallocated cost will remain range bound around the number that you see right now, and the majority of the reduction in adjusted EBITDA for Zomato as a company will come from incremental EBITDA from food delivery going forward and also Hyperpure losses coming down.

Moderator: Thank you. The next question is from the line of Mr. Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: I have two questions, both follow-ups on the earlier questions asked by participants. First, when we think about, Akshant, when you guided to profitability by Q4 of this fiscal year latest by the middle of next fiscal year, what are the assumptions driving that profitability? So, when you think about you said different levers that you have talked about in the past, be it take rates, delivery partner costs, marketing spend etc., or AOV, where do you have the most amount of visibility that, you know, some of those numbers may move up higher and so you get to profitability? If you can just help us understand the breakdown of, you know, from here until, let's say, next three or four quarters, what are the one or two key metrics that will drive that higher profitability? That is my first question.

Akshant Goyal: Apologies Manish, I don't think this level of detail we'll be able to share. As you would appreciate, these are going to be key drivers of our strategy, and we are in a highly competitive market. So, I don't want to put down unit economics today or unit economics when we are breaking even at Zomato. Just to reiterate what we have said is that this improvement from where we are today in losses to breakeven is going to come from adjusted EBITDA food delivery going up, which is going to be a function of both, the revenue side levers improving as well as the cost side levers where we expect efficiency, but beyond that, we don't want to venture into talking about individual metrics and how they are expected to trend, because these things are tactical and we take very real-time calls on some of these things. So, I don't think there's any from our perspective and it will be very hard to share more than this.

Manish Adukia: So, just a quick follow-up on that. So, as far as your delivery partner costs are concerned, was the June quarter, let's say, the peak of that? I mean, the impact of, let's say, inflation and higher fuel costs that would already be reflected in the delivery partner costs in the June quarter and from here on, that number should only improve or stay stable. Is that assumption correct?

Akshant Goyal: So, not necessary, Manish, because the current September quarter, you know, we have rains, which has an adverse impact on the delivery cost. We will have to watch out for how this quarter plays out in terms of how intense the rains are in the country, and that will drive the outcome on delivery cost. But, from there on perhaps I would agree with you, that we should see an improvement in reduction in delivery costs going forward.

Manish Adukia: Thank you, Akshant. My second question is again, you know, on MTUs, which have been discussed quite widely during the call. So, again, just coming back to that discussion, when we look at your MTU trends over the last few quarters, and we appreciate that, you know, there's been a COVID impact in the last couple of years as well, but it's been quite volatile, the MTU numbers, and as you have rightly called out, it's been lumpy in some quarters also been negative. Now when you look at the last quarter, where you grew 1 million, which was an improvement versus the previous two quarters, is that run rate something that you are internally happy with? Again, there was a media interview of Deepinder, I think, last month where I think the guidance was of a slightly higher annual number. So, I just want to understand when you think about ATU to MTU conversion and the current run rate that you see, is that in line with where you think your long-term growth rate numbers would be or do you think there could be more upside to those numbers?

Akshant Goyal: So, Manish, I think, internally, we optimise for GOV growth. That is the north star metric for us. And while doing that, it's not always necessary for MTUs to grow. Because you know, periodically, you will figure out there is a bad quality customer cohort that you have, which you are okay losing, which could lead to lower growth in MTU or a reduction in MTU, which is fine. But overall, I think as long as directionally the GOV is growing, orders are growing and your AOV is stable and minor variation on MTU is fine. So, we don't necessarily, therefore, obsess over MTU growth. I think it's more an outcome of the things we do and the products and features that we launch, which over time drives MTU growth. And you know, for example, if you compare June quarter MTU to last year's June quarter, you've seen a healthy 35 odd per cent growth. I think that is in line with how the GOV has grown and the orders have grown in that period, and broadly, we expect that trend to continue. There could be ups and downs. But as I said earlier, on a year-on-year basis, we should see healthy growth given that we have so much room to grow here compared to where we are today.

Moderator: Thank you. The next question is from the line of Mr. Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Akshant, thanks for the opening clarification. Indeed, a cash breakeven achieved on the entire business is a big milestone, so congrats. Deepinder, if I look at the previous five quarters and read operating metrics trends, it appears that the pace of change across various operating metrics is widely different, and that was one of the questions from the previous participant as well. It could very well be a conscious strategic decision from a perspective of shift from a network rollout phase to the focus on profitability, or it could be because we have already reached a certain scale stage in the network. So, for example, one of the striking things is that active delivery partners haven't grown much in the last several quarters. Does it indicate that the focus is shifting from recruiting more riders on the network to delivery partner productivity? And if that is the case, it is a big positive in terms of how operating leverage can kick in.

Deepinder Goyal: Chirag, what I would say is that change is always slow, and then it's fast. So, I think you don't wake up one day and say, now I want to change, and then change happens overnight. So, over the last year, we have been prepping and working hard to set up the infrastructure to make this change happen, and this quarter is when all of those things started to happen. So, I think that's what happened, and we have been focused on the quality of business as well as growth, and while we have been working on a lot of these things since the last year, some of these things just only went live this quarter. So, I mean, whatever we achieved this quarter, I think it is all an outcome of the work that we have done over the last 12 months. Nothing that we did last quarter brought about the outcome that happened last quarter here.

Chirag Shah: Deepinder, that's super useful, but I am just sticking to that point around active delivery partner numbers, right? If you look at the last 3-4 quarters, that number has moved in a narrow band. So, the question that I am asking is that, you know, are we out of the network rollout phase and focusing more on productivity incrementally for the last three, four quarters, or there is still more to happen in terms of delivery partner improvement and restaurant partner increase at the same pace at which we were doing earlier?

Deepinder Goyal: No, I think this number will go up as we grow our number of orders because we can't grow the number of orders, let's say, 2x, 3x and still be on the same number of active delivery partners. So, this number will also grow, and so far, the last quarter has been good because we have been able to get some efficiency gains out of the network quite a bit, but this can't flat line here. This number also has to grow.

Chirag Shah: And then on CAC, Deepinder, given that 90% of our business is from repeat users, more than 50-60% of new customer addition is organic, which is what we discussed last quarter as well; what impact do you think it is now at least having on the CAC going forward?

Akshant Goyal: So, Chirag, CAC numbers are stable for us at very acceptable levels, and I think our marketing spends are also pretty steady now. Unlike two-three years ago when, again, they used to be very, very skewed in one quarter versus other, I think now we are in a state where we are acquiring a similar number of users every month by spending a slightly lower amount on marketing spends every quarter going forward. So, CAC, therefore, remains at a healthy level and keeps coming down slightly, and I think we are at a pace of new customer addition, which we are happy with. It's the right balance of growth versus continuing to improve our platform and retention so that the incremental user retention over time continues to go up.

Moderator: Thank you. The next question is from the line of Mr. Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: I have two questions. Firstly, you know, we can see some reduction in the number of dark stores in Blinkit in the last three months as well. So, where should we see this number stabilising? And the second question is, again, can you throw some light on how much is the difference in the delivery cost per order for Blinkit and Zomato? So, these are my two questions.

Akshant Goyal: So, Pranav, yes, you are right on the dark stores. The overall number has decreased, but we are now at a place where it might go up again as we sort of have churned out the stores that did not make sense, and I am talking basis the knowledge I have by talking to the Blinkit team. Of course, we still don't own the business, so we can't comment on the detailed strategy part. But from what we know, we think we are at a place where the number should stabilise now more or less and then as we look to expand post the deal closure, we might see an increase. As far as the delivery cost is concerned, this is right now very similar to the levels we see in Zomato. So, post-integration, hopefully, as we mentioned earlier, we are expecting some benefits to accrue as we integrate the two fleets, and that should then hopefully lead to a reduction in losses.

Moderator: Thank you. The next question is from the line of Mr. Swapnil Potdukhe from JM Financial. Please go ahead.

Swapnil Potdukhe: So, a couple of questions I have. First is the media articles which are circulating, and they talk about Eternal. There is a mention of the new organisation structure, expected to be, you know, you are expected to revamp it with four CEOs and then Deepinder at the top. Could you just share with us like those thoughts, like give some clarity on that?

Akshant Goyal: So, Swapnil, right now, we know it's been in the media, but so far, it's been an internal announcement. I would say that we are looking at reorganising ourselves as we get into a place where there is more than food delivery as a business that we need to run, and at some point in future, perhaps through a public announcement, we will give you more clarity on the thought process behind this. But I don't think there's anything to worry about. I mean, it is internal restructuring just to get the teams and incentives and organisation structure aligned for the next three-four years going forward as a business.

Swapnil Potdukhe: And secondly, on the dining out business, so if you look at the last three, four quarters, the revenues from the business have not moved significantly between 60 to 70 crores. So, what has been the reason for that, and how do you see that business evolving going ahead? And just a follow-up on that and how should we look at the margins? Because even margins despite the revenues not growing much, the margins have been slightly more volatile in this business. So, any thoughts on that how we should look at both the top line as well as the margin's part?

Akshant Goyal: So, Swapnil, as we mentioned earlier, we are rebuilding that business. So, I would say that we should expect these numbers to stay at the current levels for at least the next one or two quarters and after that, I think as we get more data on how the rebuilding is going here and how the customer traction is and perhaps, you know, we could share more colour on the expectation here on revenues and margins. I think this business will always be profitable - that much we know. So, it is not going to take capital. But it is a function of getting the product right and the monetisation model right here, which could lead to a massive jump in the revenues here down the line. But I would say we are still at least one or two quarters away before it starts taking shape.

Swapnil Potdukhe: Any sense on the number of restaurants who are paying customers in this business, if you can help on that?

Akshant Goyal: So, that number is not public, Swapnil. I would refrain from sharing it.

Moderator: Thank you. The next question is from the line of Mr. Aditya Suresh from Macquarie Capital. Please go ahead.

Aditya Suresh: Just two questions. One is, can you provide any updated insights on your transacting user mix? You used to provide things like high-frequency transactions, the top eight etc. - any updated insights there in terms of that mix? That's one. And second, is, are you able to provide any colour here on employee expenses and share-based payments and how that kind of trends in the next few quarters?

Akshant Goyal: So, Aditya, on the MTU mix, I mean, there is no incremental insight to share. We did share some details around this in our last two quarterly letters. So, we'll keep periodically giving an update as and when there is material movement in those trends. So, in absence of that, it's fair to assume that pretty much the older disclosures are where we are in terms of the mix. On your second question, the ESOP expenses, as we had also indicated earlier, are expected to come down going forward because the way these numbers are accounted for, the accounting charge is front-ended and therefore, as we move forward, the accounting charge is expected to continue coming down and the overall employee expenses outside of share-based compensation, we don't expect that to move beyond the 15-20% annual increase range.

Moderator: Thank you. The next question is from the line of Mr. Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Hi, Congrats on the excellent set of numbers. So, Akshant, one question regarding Hyperpure growth, which grew pretty smartly this quarter. So, is there a component of you starting to supply fresh to Blinkit out here or is it largely due to possibly higher supplies and the increase in restaurant base that you are having?

Akshant Goyal: So, it's the latter, which you mentioned, which is essentially, I mean, we haven't done anything outside of supplying to restaurants so far. So, this business growth, therefore, is like to like in that sense, if that was your question.

Ashwin Mehta: And the second one is in terms of from a competition perspective, if you look at the disclosures, from Prosus, it appears that you seem to be winning share. So, any reactions that you're seeing in the marketplace or anything that you expect in terms of competitive intensity going forward?

Akshant Goyal: So, Ashwin, an interesting question. So, this keeps changing honestly, every quarter, every month.

Deepinder Goyal: Every week.

Akshant Goyal: Every week sometimes, yes. So, the competitive intensity and tactics are very dynamic, and this has been our experience not just now but over the last two years also. So, there's nothing outside of the ordinary, therefore, that we see right now and the period of aggressiveness and then it goes to the other extreme, I think that pendulum is always on. So, yes, we're watching that keenly and as I mentioned earlier, it's a highly competitive market, and it's important for us to continue monitoring what everyone else is also doing.

Moderator: Thank you. The next question is from the line of Mr. Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Just a couple of follow-ups. First of all, Akshant, the number of orders per delivery partner per day, you know, has been rising for the last few quarters. This quarter was a fairly strong jump. Was that a significant factor in the improvement you saw in the contribution margin, and how should we, you know, expect the number of orders that the executives are going to carry going forward to increase or improve, you know, from the current level of about 5-6 orders per day?

Akshant Goyal: So, I'm sure, Mukul, these are your estimates because I don't think we disclose either of these metrics, either orders per delivery partner per hour or orders per delivery partner per day. I think, directionally, your question is, I think, if I can rephrase your question - is improvement in delivery fleet efficiency leading to improvement in contribution margin, right? That was your first question, and your second question was, how do we expect the number of orders to grow from here?

So, I think on the first one, as I mentioned, in response to one of the questions earlier, so far last three-four quarters, we've not really seen much improvement on the delivery cost. It has gone up materially in the last year, which is one of the key reasons why the contribution margins had come down in the last few quarters and going forward, we expect that to change and we expect the delivery cost to come down.

And again, I want to re-emphasise that, we want this to happen along with the increase in earnings per hour for the delivery partners. So, this is not us versus delivery partners. There has to be a business case where they make more money per hour while our cost per order comes down, which is essentially us sharing the benefit of increasing efficiencies with our delivery partners. So, that's the thought process here, and that will play out in the next few quarters as things stabilise on that front.

On your second question on orders, we continue to see a healthy order growth over the last few quarters as the GOV has grown, and along with MTU growth, we think that frequency growth is also going to be a key driver, which will overall lead to a steady increase in orders going forward.

Mukul Garg: And then the other question was, you know, in terms of growth on the food delivery side, you know, the relative movement between AOV and what you have outlined here that AOV, that you would expect it to move forward in this directionality, but what has been your experience over the last quarter or so between, you know, people kind of returning to offices and office orders picking up versus the inflation, which has, you know, also kind of taken up the overall order of value? Can you give some sense of how the movement has been, and do you expect the proportion of single orders will increase going forward as people come back to office?

Akshant Goyal: So, Mukul, a couple of levers you mentioned impact AOV which is people coming back to offices and hence the order size going down. The second is food inflation, which has been more stark in the last quarter and has resulted in price increases. Third, I would also say that as the customer delivery charges go up, we see the order values going up as well because the basket size starts increasing once the delivery charges go up. Fourth is again the mix of restaurants on the platform in terms of premium restaurants versus the other restaurants. So, there are multiple forces at play here, and each of them either lead to an increase in AOV or a decrease in AOV. And the net impact in the last June quarter has been that you've seen a very minor increase, which we have shared in the letter with everyone.

Mukul Garg: If I can squeeze one last question and I don't know whether you can share the data. You mentioned that the take rate improvement has been on account of the lower end of restaurants moving more towards the average. Is it possible to share what portion of your restaurant partners are still meaningfully below the average take rate, or maybe you know, to put it another way, do you still see a meaningful upside to the take rate x of delivery cost?

Akshant Goyal: So, I would respond to the second part of your question. Yes, we see some upside, which will continue to help the overall take rates go up in the subsequent quarters. So, yes, we do expect that to happen.

Moderator: Next question is from the line of Mr. Karan Danthi from Jetha Capital. Please go ahead.

Karan Danthi: I had two questions. You know, the first was on moats and market share. There is a little confusion around how a business like yours builds a sustainable moat over the next two or three years. You have already demonstrated that by pulling away from your number one competitor, but if you could just echo once more sitting here two or three years from now, you know, what are the moats you are trying to build such that your market share would actually continue along this breakthrough path? And then secondly on the frequency, you know, and MTU question, I think you are showing very consistent growth in frequency, yet you are still shorter in global benchmarks on that metric. Others have used the loyalty program and travel coupons and other things to drive frequency up. So, I would be curious to know whether you are going to revisit perhaps the programs you have, you know, to sort of keep driving further frequency. Because I know you mentioned you have about 2 million people who order 50 times a year or something. So, if you can take that 2 million and make it 10 million there is a significant impact on the business. I am just curious if there is any way to do that forcefully.

Akshant Goyal: So, answering them one by one. So on your first question, our focus is always on a couple of things here, and we think a lot of things lead to those two things. Our focus remains on continuously increasing the quality of our service. I think that's very important in a business like this where the customers are very sensitive to the service, you know, we are talking of food consumption here and almost real-time delivery. So, it is a perishable product that you deliver to the customer within 30 minutes, and therefore, the expectation on these service levels is very high. So, that remains one of the key area that we focus on as a business, and I think that in turn drives a lot of other things, which leads to growth in the business and improvement in economics and you know propensity and inclination of customers to pay for the services as well. So, that's one.

And the second is, also leading from the first one and some other things is brand, right. Eventually, we think it's important in a business like this to have a strong customer brand, and whatever we do, therefore, should continue to build that brand, which in turn, further helps us retain customers and, therefore, significantly impacts our economics as well as growth going forward. Therefore, from our vantage point, these are the two things we focus on, and that is what leads to whatever is happening in the market and also in terms of our own growth.

Karan, could you please repeat your last question. It skipped out of my mind.

Karan Danthi: The question of frequency and any plans you revisit your loyalty program to increase frequency?

Akshant Goyal: Yes, so, loyalty program, I would say, is just one of the vectors here, and we continuously think about that and how can we reinvent that so that it remains a strong value proposition for the customers while at the same time it doesn't burn a hole in your pocket. But more than that, I think if you have to go from where we are today and meaningfully increase customer frequency, we will have to look beyond these loyalty programs and look at introducing newer use cases, which perhaps leads to a lot of the current offline spend on restaurant food moving on to our platform. So, continuously looking for innovative products and features which will enable that. For example, we piloted instant food delivery option last quarter, which is still a relatively small pilot, but I'm highlighting that just to indicate to you that these are the things that we are looking for, which we think will meaningfully impact the frequency of our users on the platform in the medium to long term in addition to just the loyalty programs.

Karan Danthi: If I could just lodge one more in there. Just on the ad business, if you could just address the maturity of the ad product and where it goes from here?

Akshant Goyal: So, we have two elements there in terms of monetisation, one is the ad business that we get from restaurants for a food delivery business. So, that is already baked into the food delivery numbers that you see. And the second bit is the restaurant ad spend for our dining out product and business, the listings business. So, just keeping the monetisation aside, I think at the product level, we think we have a fairly mature product, an evolved product given that is the legacy business for us, that is how, you know, Zomato started monetising ten years ago. Therefore, in terms of analytics or data mining, or even essentially making it informative for the restaurants and demonstrating the kind of ROI they get and the benefits they get from slicing and dicing data and showing returns to them, I think on all those aspects we think the product is there. I think right now, the ad sales are going to go up and is more of a function of actually driving sales and growth and traffic on the platform, which would then, given the strong product, lead to incremental growth in revenues.

Moderator: Thank you. The next question is from the line of Mr. Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: So, just one broad question, Deepinder and Akshant. You mentioned in your letter that you responded to the environment and focused on profitability successfully so far. The question is, you know, at every point in the business' evolution, you have faced multiple trade-offs. So, what was the trade-off this time that perhaps brought forward your probability targets?

Akshant Goyal: I mean, there is no intentional trade-off we made. But I'm sure, that if we don't focus on profitability, if we spend more on growth marketing, we would have seen higher growth.

Deepinder Goyal: It's not like we are not spending what we could have spent on marketing.

Akshant Goyal: Yes. I mean, we have not really cut down anything meaningfully. I think it's also evolution of the business. This business will not always remain loss-making, and overall, the industry has gone through a heavy investment phase in the last 3-4 years and now the core of the business is large enough to throw up cash meaningfully, which is more than what we need to invest at this point. So, while one can argue if the environment was not the same, what would be our profitability? But, you know, my guess would be, it won't be materially different. Of course, you can slightly overinvest into growth, but I don't think it will be an order of magnitude different from where we are today.

Deepinder Goyal: Most of the work to get here was done when our stock price was at its peak.

Ankur Rudra: No, but was just curious about if there any initiative we chose to can beyond just focusing on growth?

Deepinder Goyal: No.

Moderator: Thank you. The next question is from the line of Mr. Divyesh Mehta from Investec. Please go ahead.

Divyesh Mehta: Can say share some light on what proportion of the customer delivery charge increase would be attributed to the rain-related increase in cost which we see in delivery as a consumer? The second question would be if you see the delivery cost borne by Zomato has increased only by 5%, but GOV is up by 10%. So, is this gap sustainable because it's from utilisation and other variables?

Akshant Goyal: So, Divyesh, I missed your second question. So, I'll ask you to repeat it, but let me answer the first one first. So, you are right, I think, when it rains, as I said, our delivery cost goes up, and a portion of that gets recovered from higher customer delivery charges. So, in the last quarter, I would say that the impact of that could be around 20% on the incremental delivery charge that we saw in the quarter because of rains.

Divyesh Mehta: And all of that is passed on to the drivers and none of it is retained by Zomato, right?

Akshant Goyal: That's correct.

Divyesh Mehta: The second was the customer delivery charge born by Zomato is up only by 5, but GOV is up by 10, and customer delivery charge borne by customers is up by 20%. So, how it can be seen is that higher cost is or with the whole delivery cost, a higher share is borne by customers, specifically in this quarter. So, is this trend going to remain as is or is there something off from what I am reading?

Akshant Goyal: No, I think we expect directionally, as I said, I think customer delivery charges to continue going up and delivery cost to come down. So, the delta between them, therefore, which you are alluding to, should continue reducing.

Divyesh Mehta: So, this is the first tranche of that delta.

Akshant Goyal: Yes, that's correct.

Moderator: Thank you. Ladies and gentlemen, in the interest of time, we will now take the last 1-2 questions.

The next question is from the line of Mr. Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: I just wanted to ask one question. You are trying to optimise the cost or the profitability of the business, but what could be the key growth KPIs that would make you revisit this? Is it in terms of the minimum threshold orders or revenue growth you would like to keep before you try and optimise beyond this?

Akshant Goyal: So, I think Rahul, we are not thinking of the business like this. I don't think we are optimising growth and profit right now.

Deepinder Goyal: Growth versus profit.

Akshant Goyal: It's not growth versus profit in our mind. I mean, our business is trending in a direction and given the large market, we don't see any reason we can't grow at healthy rates along with driving profitability.

Deepinder Goyal: Levers for growth are different from discounts / money driven things nowadays. So, I don't think us driving for profit will reduce the possible growth that we have in the business.

Rahul Jain: Maybe if I could rephrase differently. So, I'm sure that growth would come because of the adoption of the behaviour and also because, with higher growth, the profit would come, but in any eventuality where we're not seeing growth, so what is that order growth or any other metric threshold that would make you think to reinvest even more even at the cost of profitability so that your growth aspirations are met?

Akshant Goyal: So, I would say, Rahul, it's a hypothetical question. If it becomes a reality, we will think about it, but I don't think we are at a place where we worry about that.

Rahul Jain: Just one clarification to the earlier comment about this delivery cost. You said there is a 20% increase in the delivery cost this quarter. Is this because if there are rain-specific incentives and those are passed on to the customer, essentially, the customer delivery charge increases per order? If you don't have those incentives anymore, the charges to the customer go down, and the earnings for the delivery partner go down.

So, eventually, you have to compensate it once this rain incentive was not passed on to customers, which will go up in the subsequent quarter.

Akshant Goyal: I am a little confused, but I think what we meant when we said 20% was essentially the share of customer delivery charge increase that we've seen in the last quarter, which can be attributed to rains in the quarter. So, I am not sure if you had the same understanding.

Deepinder Goyal: Rs. 3.5 increase.

Akshant Goyal: Yes, 20%. Correct.

Deepinder Goyal: 50 paisa or so

Akshant Goyal: So, hypothetically, if the increase in customer delivery charges was Rs. 2.5, Rs. 0.50 of that was because of rains in the last quarter. I think that was the question which we got, and I'm not sure if you are on the same page on that right now.

Rahul Jain: So, taking the same example, if this Rs. 0.50 came because of that, now let's assume once the rains are behind, the same cost is not charged to the customer.

Akshant Goyal: Yes.

Rahul Jain: To that extent, the earnings of the delivery partner goes down by Rs. 0.50, which needs to be compensated by Zomato to ensure that his earnings are intact.

Akshant Goyal: No, so it doesn't work like that. You know, because the expectation for earnings during rains is higher than usual if it is not raining. So, if I'm expecting to make Rs. 100 an hour during non-rain times, then that expectation, let's say, for example, hypothetically goes up to Rs. 150, whereas I can only recover a portion of that from the customers. And therefore, when this reversal happens, we actually have a positive impact on contribution because the overall cost benefit that we have here is larger than the revenue that we forego.

Rahul Jain: And if I could squeeze in one more, you had a good margin in this Hyperpure business. So, what are the kind of margins this business can achieve in the near-to-medium term, any ballpark margin aspiration that you have here?

Akshant Goyal: So, we have, shared in Question 14 of the letter that we expect 5 to 10% EBITDA margins here in a steady state, and I think that's what the aim is at this point, and then we will see how we go from there.

Moderator: Thank you. Ladies and gentlemen, we will now conclude this conference call. Thank you for joining us, and you may now disconnect your lines.