zomato.com
info@zomato.com

To
Department of Corporate Services,
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai – 400 001

To
Listing Department,
National Stock Exchange of India Limited
C-1, G-Block, Bandra - Kurla Complex
Bandra (E), Mumbai – 400 051

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

Sub: Transcript of the earnings call conducted on May 24, 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 May 24, 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: May 29, 2022
Place: New Delhi

“Zomato Limited Earnings Conference Call Transcript”

May 24, 2022

MANAGEMENT: MR. DEEPINDER GOYAL – FOUNDER & CHIEF EXECUTIVE OFFICER, ZOMATO LIMITED
MR. AKSHANT GOYAL – CHIEF FINANCIAL OFFICER, ZOMATO LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Zomato Limited Earnings Conference Call. From Zomato's Management Team, we have Mr. Deepinder Goyal -- Founder and Chief Executive Officer, and Mr. Akshant Goyal -- Chief Financial Officer with us on the call today.

Before we begin, a few quick announcements for the attendees. Anything said on this call, which reflects our 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.

All participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' zero on your touchtone phone. Please note that this conference is being recorded.

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

Akshant Goyal: Thank you, moderator. Hello, everyone. Deepinder and I welcome you to this call. We hope you all got a chance to go through our shareholder letter that we shared yesterday, and we also hope you like the new format.

We both are here to answer any incremental questions that you may have, which we may not have covered in the letter.

With that, I request the moderator to please take the first question.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Thanks for taking my question. At the outset, also thanks for the interactive format of the shareholder communication, indeed very useful. I was hoping to understand what proportion of incremental customer acquisition is organic. I would assume that the majority of it would have moved in favor of organic. And if that is true, what is the impact that we see on the overall CAC and A&P spending going forward especially in the context that we now have a presence across 1,000 cities covered?

Akshant Goyal: Hi, Chirag, thank you for the question. So, I think one context here for our business. We did not start as a food delivery business, we already had a thriving dining out & listings business in India, which meant that even when we started our food delivery business four or five years ago, a large portion of our new users, or food delivery users were actually organic. That percentage has actually increased over time as our brand has become much wider in the country. And a large portion, I would say majority, more than 50% of our new users every quarter are still organic, which means our CAC, we believe is lower as compared to other platforms, who are standalone food delivery players, or who don't have the legacy as a brand or a business that we enjoy in this country. And we continue to trend in a downward direction year-on-year which overall makes the economics going forward healthier, and in a way leading to the improvement that we have seen in the overall P&L in our business in the last three, four years.

Chirag Shah: My next question is to Deepinder. As we look for adding adjacencies to our core food delivery business, what are the thoughts on the super app structure that some of your peers seem to be pursuing versus the app within the app structure that we seem to be looking forward to, just your thoughts on the overall customer experience, brand association between the two models?

Deepinder Goyal: Chirag, we haven't seen super apps work in India so far. And I think the jury is still out whether super apps will work, or super brands will work. So, we are still figuring it out, I would say.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Hi, good evening. My first question is on your letter which talks about, in no uncertain terms, the focus on reduction in losses as well as accelerated growth. Is it that easy to balance the two at this point of time given that for incremental customers, you still need to have subsidies out there? Basically, balancing the two, how easy or difficult it is because I think the letter clearly talks about a focus on profitability, as well as a reduction in losses as well as accelerated growth.

Akshant Goyal: In this business, losses reduce because of growth, because when the segment of our customer base which is profitable starts to grow, your overall contribution in dollars starts to swell. So, I think as we grow faster, it actually, becomes easier for us to reduce our losses, because operating leverages kick in, and the benefits of economies of scale in the business kick-in So, we don't see that necessarily being a choice that we have to make all the time, especially at the current scale of our business. And in the last couple of quarters, we've seen business grow sequentially quarter-on-quarter while losses have come down. And we expect the same trend to continue at least from where we are today and what we see on the ground today.

Vivek Maheshwari: A follow up to that. How different is this from then FY '18, '19, '20 when you were growing very rapidly, and the losses were also swelling? Do you think the scale is now right for you to derive operating leverage, because I would have imagined if you still want to get the end customer onto your platform, you will still need subsidies, right, which will mean that you still need to incur fairly high amount of cash burn and particularly you will go down the curve, let's say so to speak, the premium customer is already there on the platform, so incremental customer will be dilutive, plus, you will need more subsidies to get him or her on the platform?

Akshant Goyal: Vivek, in FY'18-19, we were starting off our business, and I would say at that time, the share of orders that we got from new users on our platform every month was way higher than what it is today. Today, more than 90% of our business in a month is actually from repeat users. And back in FY'18-19, it was largely about acquiring more users every month, which were new to the category. We had to spend money on acquiring them and then also make sure that we incentivize them to make a repeat order on our platform and create that habit and ecosystem that we wanted to. I think where we are today, the overall scale of customer base on our platform is now meaningful enough that even at a healthy new user addition pace, majority of our business is repeat, where we don't spend money on subsidies, where people are coming to our platform for the convenience and assortment that they get or the choice they get, and that business actually is not required to be subsidized.

Deepinder Goyal: To add more color to this, I think most of the growth over the next couple of years will come from repeat frequency going up, rather than us getting a lot of new customers onto the platform.

Akshant Goyal: It's interesting because, Vivek, we are still acquiring more new users every month than we've ever done in our life. So, when we started in FY'18, we started from zero. But we were acquiring, let's say half a million users a month. Today, we are run rating 3x, 4x of that. So, our new user addition in absolute terms has actually grown over the last two, three, four years. But their share in our monthly business has gone down because of a very high repeat customer base. I hope we're able to make sense here.

Vivek Maheshwari: Right. So, just to conclude, basically, you are saying that from a GOV standpoint, the frequency will go up on a percentage basis much more than the new users that you will be getting onto the platform?

Akshant Goyal: Yes, that's correct. And when we say frequency, we actually look at it more from an annual frequency rather than monthly frequency. Our penetration of monthly transacting users as compared to annual transacting users right now is very low. So, as you would have seen in our data, we have about 50 million annual transacting customers, but of that, only 15 million order every month. So, as more people order every month, we expect our annual frequency to go up multiple times from where we are today, for which we don't intend to spend money on subsidies or discounts.

Vivek Maheshwari: Can you just talk about Blinkit to the extent you can, I mean, the press release just talks about hyperlocal and your intent to participate in that, but given how the market is crowded, the full stack grocery baskets are not able to break even at the current levels and all the dynamics in India in terms of MRP and all? Why such an obsession with grocery and what is your expectation from this business if you take a five-year view?

Akshant Goyal: Vivek, first of all, I think it's not just grocery, I think we look at it as a broader commerce play. Grocery could be one of the categories that customers purchase on our platform. If we talk about the Quick Commerce business… and I'm not talking about Blinkit here, I'm just talking of our philosophy on quick commerce and why we think it's attractive. So, I think in the past, in India, at least the online grocery space has run in a particular format, which you are questioning right now, whether it will work ever or not, given you're saying that these businesses have not broken even. But we are approaching it differently, where the distribution model here is actually not centralized warehouses, but they're actually local micro dark stores. And we are using our existing capabilities on the hyperlocal delivery side to be able to deliver some of these products to customers within a few minutes. So, I think, while the product being sold to customers is still grocery, the manner in which we're doing this is different, and the capabilities that we already have are also different. So, it's not very like-to-like in my mind. More importantly, I think, right now, the online penetration in grocery is so small in the country, we don't think of it as us taking share away from existing incumbents. I think there is so much room to grow in terms of penetration. So, the market is very, very large and it's too early to worry about competition here. I think our guiding principles here are, that we want to be efficient with our capital and in the past, we have demonstrated that, by being more capital efficient while building our food delivery business as compared to anyone else in India. And we'll keep that same principle in mind and keep building this business, because we do believe that our existing business gives us the right to win and build a much larger business, which will also create a much more defensible business in the long-term for us.

Vivek Maheshwari: So, just a follow up question on this, because this is one point, which a lot of investors are talking about in today's conversations as well, which is basically, if you look at the supply side, the neighborhood stores, the mom and pop kirana that India has, the use case for let's say 10-30-minutes delivery, and the number of players who are here, do you think that the market is right to acquire Blinkit or whatever, whichever form you will ultimately do this, particularly on the inorganic side, given that the market is far more competitive, and I don't like the use cases or as much to justify the number of players that we have in this space. So, what happens next – is it consolidation because it looks very difficult at least to me as an analyst. How will you make money in the medium term, given the kind of competition plus the neighborhood store, which is a very efficient system in India?

Akshant Goyal: We appreciate that. Look, we went through the same cycle and journey on our food delivery business, when we had the same questions that we were posing to ourselves back then. And now of course, there are other shareholders who think about the company also. So, eventually, we do think there is a market, and this is a model, which actually is more efficient than the kirana model and that's why it will work, because reliably delivering groceries or a few other products in minutes is not something which even kirana stores offer in India. So, while they are efficient, they have lean cost structures, but the consistency of service that we are aiming to provide here to customers through quick commerce, in our minds, it is going to be that experience. And I think that's the only scenario under which it will grow, and it will really play out. And buy versus build, of course, is a separate debate, and we're not getting into that right now. But the idea is that as long as we're paying a fair value for what you're buying, then that should be okay with everyone.

Moderator: The next question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: My first question is an extension on quick commerce. Akshant, would like to hear from you, how do you guys look at the unit economics of this business. And especially given the point that you mentioned about consistency of service is important, so what kind of investments one should largely look from a warehousing and logistics perspective?

Akshant Goyal: I think if you compare this to food delivery business, then there's an additional element of having a back-end supply system, which supplies to these dark stores. And then we of course fulfill them through the last mile delivery fleet that we have, and we have to look at the business here overall, therefore as a package in terms of some capex that we may need to do and some operating losses that we need to fund and make sure that over time we see a line of sight to this getting profitable from a unit economics perspective. So, I think it's too early for us to give you color on specific unit economics levers here and how they're trending, we don't have that data, nor are we authorized to share the data with you right now, because the only access we have to Blinkit data is as a shareholder. But at some point, in time, once we get into this business, then we'll be happy to provide you with more color on this.

Sachin Salgaonkar: I remember in your previous quarter results, you'd mentioned a chart saying that there is one core business to start off with, and in the second year, there will be a second core, and eventually, in the longer term there would be other cores. Just staying on that point, does this essentially mean that any potential acquisition in quick commerce business is at least a year away, or this turning of core is one year away, as you had mentioned earlier?

Akshant Goyal: There is no definite timeline in our head, Sachin. I think we will take it as it comes, and we don't necessarily need to acquire every business that we invest in also. I think some of the investments are done with the objective of working closely with these companies and strategically aligning with them going forward. So, yes, as of now, I think we will take it as it comes if there's a reasonable case for doing M&A or not.

Sachin Salgaonkar: Second question is you guys had mentioned that currently, there are no plans on making any more minority investments. But the existing companies might need more capital. So, is it fair to assume that on a proportionate basis, as in how when these companies look for capital, you guys will inject in that?

Akshant Goyal: I think most of these companies are doing really well. We don't think there is an imminent need for raising money in these companies as far as we know. We'll take a call, if we come to that point when these companies are raising funds on whether we want to maintain our pro rata stake or not, or even letting the round go. So, we're open to that. We haven't decided on that yet, because we haven't come across or at least we don't believe that these companies are at this point raising capital.

Sachin Salgaonkar: Third question is just, I wanted to understand the impact of higher inflation on your business, both on wage inflation for gig economy workers as well as any impact on demand?

Akshant Goyal: Sachin, it's very hard to actually be able to isolate the impact of these things. I think what we are seeing in our business is that the business continues to grow, and cost is still coming down. But I do believe that there are definitely some headwinds here on inflation, which would be impacting consumer demand, but notwithstanding that, we are still seeing business growth, which is great. On the cost side as well, yes, there is a pressure because of the fuel price increases and we talked about that in our letter also. But we've recently seen the government of India give some relief on that. So, hopefully, that should further help us on our profitability journey.

Sachin Salgaonkar: Last is a bookkeeping question, what all goes into unallocated costs?

Akshant Goyal: So, as we mentioned also in the table, these are essentially server, tech infra costs, these are corporate salaries and corporate overheads, these are costs which are not allocable to any business that we run.

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

Ankur Rudra: Thank you for the additional disclosure this quarter. We would obviously love to have some more on a regular basis. The questions I had was on contribution margins to start off with. If you think about the relationship on a structural basis between the delivery costs for Zomato as a platform, earnings for delivery partners, and external costs outside of control, like fuel and social security cost as the platform matures, what's the level of control you have over this and how do you see this evolve?

Akshant Goyal: Ankur, if we are in a steady state, I think the response to this question would be different, but where we are today in our journey, if let's say, look at a specific neighborhood and how we see this evolving in a particular neighborhood, if we take that example, is that over time, the order density is going to go up, right, which essentially means that neighborhood will mature in terms of there being more restaurants, and there being more customers who are ordering from those restaurants, which will lead to more orders within that small neighborhood. That will essentially lower the delivery radius, because right now what we have in most localities is that delivery radius is way more than what we would ideally like to have or what we see in the future. And as that happens, where order density in a neighborhood is going up and the delivery radius is going down, delivery costs will come down massively, because delivery cost largely today is on a per order payout basis to delivery partners and is a function of the distance they travel. So, as that happens, the savings that we make from where we are today, are going to be meaningful, and some of that we would share with our delivery partners so that their earnings also go up from what they are today. So, I think we are at a stage where we are on that journey today, Ankur. So, from here on, I think there is a long way before we get to a place where some of these impacts, we will have to directly pass to customers to stay at the same place from a cost perspective.

Ankur Rudra: As a follow up to the contribution margin question and on a broader basis in your investor letter, you highlighted that the levers for higher contribution margins journey to double digits improved, extra commission rate and sales and delivery charges. Could you talk about how you see this go up across the platform? Zomato, I feel, has one of the highest merchant take rates globally. And also, you've probably been more successful over ad sales and customer delivery charges. So, how do you see this evolve over the next three to five years to achieve your double-digit aspiration?

Akshant Goyal: We don't agree with the comment that you made that we have the highest commission rates globally on food. I think our understanding is that, take rate, for example, in the US, are close to 25% - 30%. I think you may be getting confused because of how some of these metrics are reported in different countries. So, for example, revenue is reported differently, net of discounts in the US, which could give an impression that the take rates are lower but if you will talk to restaurants there, the take rates are north of 25%. So, I think therefore that's not a comparison we think is valid. And in general, I think when we talk about revenue, whether it is commission rates that we get from restaurants or customer delivery charges, it's a function of what value we are bringing to the stakeholders. And as long as we continue increasing that value to the customer or to the restaurant, we expect the willingness of the other side to pay us more over time. And that's what we've seen in the last three, four years, where our revenue per order has grown consistently, and even if you compare the last four or five quarters, it's been trending well, and going forward as well, that's the expectation that it's up to us on how we drive convenience for our customers, how we drive growth for our restaurant partners. And if we are able to do that job well then, we don't see any challenges with them willing to pay us more for our services.

Ankur Rudra: Just a quick question on the quick commerce side. There's been some discussion so far. But the broader point for me seems like you're defining yourself as a hyperlocal business with an intention to diversify beyond food. I'm just curious, is this a relatively new realization or was it always a plan? And also, how does it impact your EBITDA positive expectations over the next two or three years?

Akshat Goya: Sorry Ankur, I did not get your first part of the question, can you repeat that?

Ankur Rudra: Yes. So, the first question was on the hyperlocal side. You recently defined yourself as a hyperlocal business in the recent investor letter beyond food delivery, but I was curious about, is it something you always wanted in the last two to three years or is it more recent because earlier it was food and grocery, is it still around the food ecosystem or does it seem beyond that. Can you comment as well?

Akshant Goyal: Ankur, I think our last three, four years were largely about building the food delivery ecosystem in India and building this business first. And we've gone through a journey, where there was hyper competition, where there were questions on economics of this business, whether it will be sustainable or not. So, for sure, I think we did not start food delivery with the mindset of building a quick commerce business three years down the line. I think the thought process has evolved as we have seen food delivery settle down into a large industry and market with compelling economics. And now as we think of a future forward in terms of what we can build on top of what we have, and where we have the right to win, we think quick commerce is a great adjacency for us in that respect.

Deepinder Goyal: But, over the last few years, we have always been thinking about the moats that we have, and what can we do with the moats that we have. Hyperpure business is also one of those businesses that we built basis the strength that we already had. So, I think the concept has been around for the last few years. But the specificity of the likes of quick commerce, is maybe a couple of years old.

Ankur Rudra: On the EBITDA target, or let's say, turning EBITDA positive as a group. Maybe I can merge the question, basically, do you think the potential foray into quick commerce, and you highlighted $400 million investments, which would include losses, would that push out the breakeven for the company compared to what we thought before? And also related one is this $400 million, I think you've said we're already halfway through CY'22. So, will it be effectively $400 million divided by 18,19 approximately $20 million burn on a monthly basis for the next 18 months?

Akshant Goyal: Ankur, the way we think about it is that, look, we have a cash balance in the bank today and we want to get the company to profitability without diluting any more. That's how we're thinking about it. With the current $1.6 billion that we have in the bank, we should get to a profitable business on an aggregate basis as you define it on a group basis. Now, with that, we don't necessarily feel the need to get to group profitability sooner by not doing quick commerce. I don't think that will be the right way to think about doing or not doing that business. I think as long as our food delivery business is increasingly becoming profitable, and we are allocating a reasonable budget for our foray into quick commerce as and when we do it, and we remain within the framework of being capital-efficient, then I think a few quarters of here and there in terms of getting to EBITDA breakeven at a group level is fine.

Moderator: The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Can you please highlight the differences in customer behavior that you witness between your operations in let's say in tier 1 cities versus other cities? Is the LTV-CAC equation significantly superior for your tier-1 customers?

Akshant Goyal: Hi Garima, in terms of customer behavior, of course, I think in larger cities or metro cities specifically and within that also in more affluent or densely populated neighborhoods, the order frequency is higher, the order values are also higher. So, that variation is there. And it's not necessarily a function of different cities, but within cities also that variation exists. Eventually, as you rightly said, it's a function of CAC-to-LTV and that's how we measure. And then, of course, in some cities you have to take a long-term LTV-CAC view, because currently those cities or neighborhoods are not profitable. So, there is no LTV in a way. But I think what we watch is that how those cities or neighborhoods are trending in terms of some of these underlying customer demographics, how are the number of restaurants growing in those neighborhoods because of our presence or post our presence. And as long as these trends are in the right direction, we think it makes sense to continue to be present in these cities and at contribution margins which are not way south. And over time, we see contribution margin improving which is what we have seen even in larger cities. So, that's how we think about it.

Garima Mishra: For FY'22, is there any quantification that you may help us understand as to what is the growth of these let's say top-10 or top-20 cities, whichever way you segregate it internally versus some of the other cities in the mix?

Akshant Goyal: Top-8 cities are 60% of our business. So, our overall business cannot grow without these cities growing. We haven't shared or don't want to share specific data on the growth rate of these cities but suffice to say that they're growing at a pretty healthy rate, which is not very different from our average growth rate right now.

Garima Mishra: I think you alluded to some of your other businesses early on in the call. So, can you highlight the progress that you're making on your restaurant subscriptions, Zomato Pro, Hyperpure businesses? And how long before these businesses can become profitable as a segment?

Akshant Goyal: Our dining out business is profitable even now, although it's very small in scale and size today. And the focus there is to get the scale back that we had pre-COVID, which we lost in COVID, because dining out became irrelevant in India for almost two years. So, I think that business is already there and profitable. And I think as we mentioned in our letter, we are working on a product update there and we hope to scale profitably going forward in that business. Hyperpure, again, we've covered that in the letter, is growing nicely. We are behind the investment phase in terms of expanding into new cities and we're now seeing the margins improving in that business every quarter. The focus on profitability there is no different than food delivery, and we expect to make progress every quarter going forward.

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

Mukul Garg: Just two questions from my side. Deepinder, I just wanted to understand on the profitability side, how should we see the correlation between order frequency, commission rate and order density, you guys just spoke about. When do you see the benefit of operating leverage actually start playing in them? If I look at your growth this year, growth was very good. You also added about 40% more restaurants over the last two years, which would help the density, but the frequency as well as order density continue to remain very flattish over the last three years. So, how should we see them grow in the next three to five years?

Akshant Goyal: It's a good question, Mukul. I think you're referring to the annual order frequency, right. See, that's the point that I was making earlier, that our current annual order frequency is about 10x a year, which is not even once a week. I mean, getting to once a week is about 50x a year. And if you refer to our Q3 shareholders letter, we had shared a data point in terms of the number of people who are ordering at least once a week on the platform. And that number is small, 1.8 million. This was as of December last year. And that's where I think, to our earlier point, the growth opportunities in terms of increasing frequency, because, of the 50 million people, today 1.8 million people are ordering once a week. That number going up to 10, 15, 20 million people will mean meaningful growth in our business without even really acquiring any new customers theoretically. That's the opportunity that we're excited about.

Mukul Garg: So, just to follow up on this, is there any benchmark or any thought process which you guys have, how should we see the growth both in order frequency as well as the density part, because what I see right now is that the delivery boy per ride is not even taking on an average one order, so how should we see these metrics grow over the medium term?

Akshant Goyal: So, Mukul, that's what I said. I think we expect the average annual frequency to grow up from 10x to ideally 40x, 50x at least for a much larger number of users than we currently have. And on your second point, I think if I'm not wrong, you are referring to the utilization or efficiency of the delivery fleet, where you are referring to the number of orders they're delivering per hour. That number actually is north of one right now. I just wanted to correct you that it's close to 1.5 or north of that. And that's a driver of delivery cost per order. I think as that metric goes up with the density of orders, we will see delivery costs come down.

Mukul Garg: The second question was on the competitive intensity in the food delivery space. How should we see that from a medium to long term perspective, will it be a scenario that you and Swiggy will have pretty much equal market share with little to differentiate the two companies? Or do you see clear differentiation, which Zomato is driving, which can move the needle in terms of market share?

Akshant Goyal: I think Mukul, you should tell us that. We don't know how this will pan out. I think we essentially look at what we are doing internally. We obsess with customer service. We are obsessed with the NPS of our delivery partners and restaurant partners, and I think market share is an outcome of that. So, it's a large and competitive market. It's essentially something that we don't worry about too much. It's an outcome for us rather than something that you want to drive.

Moderator: The next question is from the line of Abhishek Bhandari from Nomura. Please go ahead.

Abhishek Bhandari: I had two questions. One, Akshant, if you can just correct me here, if I add your adjusted EBITDA and the contribution margin, I come to a total cost of around Rs.1,300-odd crores for FY'22. Now, understandably, the adjusted EBITDA is variable in nature because of that. Could you help us understand, of this 450 of company level overhead, how much is variable and how much is fixed? And a related question is, while Deepinder spoke about a medium-term path to profitability, do you guys have any timeline on your core food part excluding your quick commerce foray, do you think your adjusted EBITDA at group level would start turning zero?

Akshant Goyal: So, I think the server and tech infra cost, I would say, is semi-variable, because as we scale, we have to spend more on that. But outside of that, I would say, they're largely fixed, and these costs grow with inflation pretty much right now. We're not looking to add meaningful number of employees going forward. I think we are well stocked. So, these costs should be looked upon as fixed costs largely and hence the operating leverage that we spoke about is what is going to play out even further as we go forward.

Abhishek Bhandari: So, could you share some timeline around your internal vision of taking it to a EBITDA-neutral business on the core food and excluding the hyperlocal part?

Deepinder Goyal: We don't have any timelines for this. We are actually operating on an as-soon-as possible mode.

Abhishek Bhandari: Deepinder, let me ask you in another way, if I heard you correctly, you said that you have enough money of $1.6 billion which is enough for you to eventually turn the business profitable. Should we think that is the kind of burn you are looking for before we could start seeing that on the EBITDA front?

Akshant Goyal: No, not at all.

Deepinder Goyal: We want to hoard as much cash as possible and we are not going to spend all of it, or even most of it.

Abhishek Bhandari: Akshant, at multiple times in the letter, you have written that core focus is top cities and I think you also mentioned most of the frequency increase will be the incremental demand driver or growth driver. I am just curious to know why expand so dramatically into new markets, doesn't it take away your bandwidth and rather you could focus more on driving up some of the frequency in the mature markets because it seems that tier-1 markets are maturing rapidly for you?

Akshant Goyal: So, this is a very scalable product or category. Once we have this in X number of cities, launching this in another 1x or 2x or 3x actually doesn't take away bandwidth. It's the same system that we are taking to newer markets, and in fact more data points make the overall business more robust to my mind. So, we're not compromising on attention here or level of commitment to larger cities when we expand to smaller cities, both in terms of our time as well as our balance sheet. What we have also seen in the last 2 to 3 years when we expanded from the first 10 - 15 cities that we were in to the next 500, is that some of these cities now within the top 100 are getting to be unit economics positive in a meaningful way and are much larger in size than what they were when we launched them 3 years ago. So, the thesis is that a similar journey is going to play out in cities numbered 500-1000 and as I said, there is no incremental cost of expanding and launching and being there first, I think, gives us the first mover advantage. So, that's how we think about this.

Abhishek Bhandari: My last question is that if I look at most of the global food delivery companies, even if those are working in developed markets like US where people have the habit of paying convenience fees and as you said, **(Inaudible)**would be higher, yet those companies are probably not turning profitable, or they don't have a near term visibility of turning profitable. So, what gives us the confidence that our path to profitability will be sooner rather than later, and we won't burn the entire money that we have.

Deepinder Goyal: I think what gives us the confidence is that we actually don't look at them. We just look at our own business and we know that we will get there.

Akshant Goyal: By the way, I think DoorDash has turned profitable now and so has Uber Eats or Uber Rides. So, these businesses are now turning profitable.

Deepinder Goyal: And we know our business really well. We will get there.

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

Vijit Jain: My first question is that you had a GOV retention trend chart in the DRHP / RHP for FY17-18-19. Do you have an update for what those cohorts look like in terms of GOV retention in FY22? That's my first question.

Akshant Goyal: So, Vijit, that trend continues. We haven't shared that data because we felt that there is no incremental value to sharing that data beyond what all of you already have from the disclosures, we had in our RHP. So, that trend continues and we're seeing over time, a set of customers ordering more & more on our platform every year. That number keeps growing, which means that as a business we compound with just the same set of customers, which is a point we're repeating a number of times on this call. I think that's the character of this business where the compounding is really strong once customers get used to the platform.

Vijit Jain: My next question is when you look at some of the marketing expenses, obviously part of it is above contribution and part of it is below. Are all discounts above contribution margin or do you account for the absolute new users somewhat differently?

Akshant Goyal: So, all our discounts are above contribution, and in our parlance, we call marketing spends as money that we spend on digital marketing, ATL or any other marketing channel that we spend money on to acquire customers. So, that amount is below contribution and all the discounts and subsidies are accounted for in the contribution.

Vijit Jain: With this expansion into about 600 to 700-odd cities this year, can you give a sense of what is the cost structure like for running some of the cities as some of these cities maybe subscale. You may have very few orders in them, but is there a tangible cost that you are incurring in just being live in those cities?

Akshant Goyal: We keep iterating on this. We don't report it, but there are a number of cities, which we pull out of when we see that nothing is panning out in those cities and there is no sense in continuing to be present. So, the number that we report in terms of the cities that we added is net addition in a way because there are some cities that we pulled out of. So, we look at individual city P&L regularly and as long as we feel the investment in that city is within a certain bound and it's making sense in terms of how the ecosystem in that city is growing then we continue with that city, otherwise we pull out.

Vijit Jain: One last question on the dining out business. This quarter dining out business would have been in general back. so, is it that this is post-COVID recovery and people are going back into restaurants and any way restaurants are full and so restaurants are maybe not spending as much as they would have before on advertising on your platform? Is that what is happening in your view or is there more to what you need to do in terms of product update?

Akshant Goyal: I think it's both. Over the last two years, perhaps October-December last year was the quarter when we, for the first time, saw the dining out market in India really coming back in full scale. But again, as you said, the restaurants were then full, but we still made meaningful progress in terms of some of the revenues in that business for us coming back. Now, we saw a pullback again in Q4 because of Omicron in January, which meant that restaurants again were shut in that quarter for a decent period of time, and we will see how it goes going forward. But to our mind, over the last two years, Zomato has now been associated as a primarily food delivery brand in consumers' minds. Hence, we believe that we need a product refresh and upgrade to bring that association back in consumers' mind and that’s the work that we are doing on our side while we still wait for full recovery in dining out from restaurants remaining open standpoint.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: Generally, at a high level, the key criticism, which at least we have heard the most about Zomato as an investment is a) You guys are not focused on profitability. b) You guys don't interact enough and c) You guys have some crazy capital allocation policy and hopefully on all the 3, with the disclosures you've made and today's call, there should be some meaningful incremental progress. I just wanted to ask a few questions on the last part of the capital allocation and referring to question #28 and 29 in your release. So, $150 million of short-term loan, is that already given out or that's yet to be given out?

Akshant Goyal: Part of it is given out and part of it is pending. We'll see if they need it. We've committed to it, but whether we really give them the money or not is a function of whether they need it or not.

Hiren Dasani: And as per your question #29, effectively, are you saying that the business plan of Blinkit means that the $400 million total loss funding should be sufficient to get them to the path to profitability or you think beyond that, cash infusion will be required at the Blinkit level?

Akshant Goyal: So, Hiren, it's very hard to look beyond two years in this business right now. In fact, I would say it's very hard to look even for the next two years and put a number out, but we thought we should do that given the questions we were getting, as you rightly said, on quick commerce. And even on this call, there have been a lot of questions raised on the viability of that business. So, I think this is where we are today, where we feel comfortable that this should be an upper bound given what we know as variables today and the knowledge and information that we have, but we'll keep updating the group and everyone as we get new information or data points as we go along.

Hiren Dasani: And also, the fact that if at all you decide to acquire a controlling stake there and you also have to think about the valuations of the entire tech consumer internet space how they have come up since the last round of funding of Blinkit. So, how are you thinking on those lines and if you need to do that or you are saying, at this point of time, that we will not even go down that route?

Akshant Goyal: I don't want to comment specifically on Blinkit because there is nothing definitive that we have to share on that front. So far, it's just a financial investment for us but answering this question theoretically for any M&A that we do, we're value conscious. We don't want to overpay. We haven't done that in the past for any deal that we have done. So, we will follow the same principles and we have a strong and independent board, and we have a strong governance process for any M&A, not just on valuation, but also on other things, on the rights we're getting in the business and so on. So, we will follow the same process here. We have that muscle well-built and we're not going to make any mistakes on that front.

Moderator: Thank you. Ladies and gentlemen, we are extending the call by 15 minutes. We'll take the next question from the line of Sudheer Guntupalli from Kotak Mahindra AMC.

Sudheer Guntupalli: Just extending the debate one of the previous analysts started on the obsession with quick commerce. Grocery delivery as a concept has been at least as old as food delivery, if not older and these companies like Blinkit have been around since 2013-14 and they were not really able to scale-up, flip-flopped on the strategy multiple times, shut down the business in multiple formats. In fact, Mr. Albinder Dhindsa once made a comment that same-day delivery has no use case in India. Now there is a U-turn in the stance with this concept of 10-minute delivery. So, just if you take a step back and look at it, is it like a solution looking for a problem and it's a mere fad, which can die down after some time? I am talking about the overall industry and the concept as a whole, not specific reference to Blinkit

Akshant Goyal: We have also had our U-turns on online grocery as a business twice. In fact, before our IPO, interestingly it was the other way round, everyone used to pester us for getting into that business, but we could not see any light at the end of the tunnel and not on economics but largely on the product-market fit from a consumer standpoint as you pointed out. We've tried, therefore, twice on our platform but we shut it down. I think what changed this time, as I mentioned, is that when we looked at this business in context of quicker delivery than what was earlier the case, even quicker than food, the PMF changed, and the customer value proposition became much stronger than kiranas for the first time in the last 7 to 8 years in this industry. Hence, if we, for example, take a city where the GMVs in online grocery were stagnating for the last 5 to 7 years, they are today multiple times of the GMV that we've seen in those cities or neighborhoods today. Therefore, our first hurdle to overcome when we think of this industry is that is there a large enough market? We think there is a large enough market in this format. Then we come to the second question of whether this is a sustainable business from an economic standpoint. Increasingly over the last 12 months, as we have seen some of these businesses progress and also the fact that we have a large food delivery business, which is synergistic makes us confident that economics will work here and there is a large enough market out there, which could be accretive to profits in our business in the long term.

Deepinder Goyal: To add to that, customer cohorts for quick commerce businesses are very-very good. So, that is the product-market fit there. Some of these customer cohorts are better than the food business that we have. So, it's not like necessarily an answer looking for a problem. I think there is product-market fit there in that business.

Sudheer Guntupalli: Just on the $150 million loan, in case hypothetically if we assume that Zomato will acquire Blinkit at a future point in time, will this loan be converted into equity, or this will still remain like any inter-related party loan? Any thoughts on that point?

Akshant Goyal: That should be irrelevant. Hypothetically, if we acquire a business, it's a subsidiary, so whether we convert it into equity or not should not matter unless I'm missing something here.

Sudheer Guntupalli: It is relevant. It matters especially when there is dilution for the minority shareholders.

Akshant Goyal: But that is in the subsidiary, right? The dilution will not be at Zomato level.

Sudheer Guntupalli: One last clarification. Your DRHP calls out an average monthly frequency of over 3 times by users on your platform. Sometime back, I heard you mentioning annual ordering frequency of 10 times a year. Where exactly is the disconnect?

Akshant Goyal: That is true, and that's the whole point that every customer is not ordering every month. There are people today who order maybe once in 2 months, so they are active on our platform and maybe a different set of customers are ordering 3 times a month. That is why we have a 15 million customer base who is ordering every month and a 53 million customer base, which is ordering every year.

Sudheer Guntupalli: So, you mean to say that the 15 million cohort, the average monthly ordering frequency is 3 times and when you look at a superset of 50 million+…

Akshant Goyal: That's not what I'm saying. I'm saying that 15 million could be different customers in different months. So, it's not a cohort within the 50 million cohort who is ordering 3 times. So, if you are ordering in a month and not ordering in the next month, you get counted in the 15 million for the first month, but not for the second month.

Moderator: Thank you Mr. Guntupalli. May we request that you return to the question queue for follow-up questions. The next question is from the line of Aditya Suresh from Macquarie. Please go ahead.

Aditya Suresh: I have 2 questions. The first is in the contribution margin section, you mentioned long term. Can you help qualify that for us? Is it 10 years, 20 years, any comments on that?

Akshant Goyal: I think in our head definitely not 10 years. I think it should be lower than that.

Aditya Suresh: The second piece is on the high frequency transactions, which you used to disclose and there's this fantastic metric, which helps kind of understand the business. The last quarter was at 1.8 million. Any update on that?

Akshant Goyal: So, that wasn't quarterly. We actually disclosed our number on a yearly basis for CY21 and the idea of disclosing that metric was to showcase that it's a small fraction of people who are ordering once a week today and that number should grow from where that is today. We're not planning to disclose that number every quarter, but maybe once in a while with reasonable frequency, we can share an update so that we know how that is progressing.

Aditya Suresh: Just a final piece on the delivery partner order efficiency intensity. So, you mentioned that it is slightly north of 1. Any targets you have in mind over the next 3 to 5 years and what are the specific steps you are taking to achieve that higher efficiency intensity, therefore, to drive delivery charges lower and is this where quick commerce fits in, in terms of driving your delivery partner order efficiency?

Akshant Goyal: Quick commerce will definitely add to that, but even without that there is a large room for us right now to improve and essentially it's a function of reducing the idle time of delivery partners on our platform and as long as they're occupied all the time that they are logged into our system, we would end up decreasing the overall cost of delivery while at the same time making sure that they make more money every hour. Fundamentally, that's the principal and as we plug more use cases into that like quick commerce, it's only going to get better.

Moderator: Thank you. We'll take the next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: The first question is on multiple levers on unit economics that you talked about, commission rate, delivery fee, ad sales, delivery cost. What stage of journey these initiatives are, some probably will fructify much earlier in the next one or two quarters, some will take a little bit of a medium-term view to fructify and what is the risk that competition will kind of toe the line or they don't toe the line because some of these initiatives, success of this, will be function of how competition behaves. So, what's your take on that?

Akshant Goyal: Hi Gaurav. So, look, I think competition is not the only factor. See, we are a three-sided marketplace. And any imbalance in this marketplace makes the marketplace degrade very rapidly. So, it's important, therefore, that as we push along on our unit economics journey, we do it in a sustainable manner and hence if our stakeholders like restaurant partners or delivery partners or customers, for example, are not seeing enough value in what we are offering to them, even without the competition, I think the marketplace will degrade. So, it's a very fine balance that we have to run with. And there are multiple variables, as you rightly said, which makes it very complicated to do this in a very linear way across each of these 5-6 levers. And that's why we want to stick to contribution as a metric and retain the flexibility of going up or down with individual elements. Our aim is to make sure that we improve contribution from here on every quarter without necessarily doing that for each of these specific individual levers. I hope I answered your question.

Gaurav Rateria: Yes. The second question is around trying to understand the synergies between quick commerce and food delivery, both from an operation side as well as from a customer acquisition side, given that they both are operating, or they might operate as independent businesses. So, how should one think about synergy, both on operation and customer acquisition side?

Akshant Goyal: See, separate business is just from a customer lens. If we do go ahead with two separate brands, then consumers think if it as two separate businesses, but behind the scenes, it is an integrated tech, it is an integrated CRM, it is an integrated delivery fleet. And I think that is where the synergies will come both on customer side where we have a large customer base on food delivery, to whom we can cross sell quick commerce and vice versa. And likewise on the delivery fleet side, operations side, which we just discussed, where the cost of delivery should come down because of higher utilization and efficiency.

Gaurav Rateria: Sorry to belabor on this point but if I look at the delivery architecture for a quick commerce, it's from one point to multiple points of customers in a locality, whereas for delivery the delivery partners have to toggle between multiple restaurants at multiple locations, and then they have to deliver at multiple different end points. So, the delivery architecture looks very different. So, does the integrated delivery architecture really work well? I am not sure if my understanding may not be correct.

Akshant Goyal: Gaurav, this could be the situation today. Think of it this way that in a slightly more mature market in both quick commerce and food delivery, delivery partner's job is to pick up something from point A and deliver it to point B. Whether that point A is a dark store, or a restaurant will eventually not matter that much in a mature market. So, these models, therefore, may start off differently because we want to get to scale, we want to get to SOPs which drive consistency in services and so on, but over time, I think the real value of the business will unlock once we integrate all of this in a fashion which makes it really fungible from a delivery fleet perspective.

Gaurav Rateria: Last question. You had also taken an NBFC license probably to do some activity around the FinTech side. If you can elaborate on what exactly you are looking to do there, and will it be a capital-intensive business? Typically, NBFCs are capital intensive businesses and that's the reason we want to understand a little bit more clarity on what you are planning to do there. Thank you.

Akshant Goyal: Just to clarify, we haven't taken a license yet and we have applied for it and getting a license is a process in itself. So, when we get it, we will see how exactly…see, the fundamental idea is to not build it as a separate business right now. I don't think we will deploy meaningful capital in lending as a business. We just want that NBFC to be an enabler of the growth of our restaurant ecosystem or delivery partner ecosystem, if we do see a way of doing that without risking meaningful capital. So, that's how we think about it.

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

Ashwin Mehta: Just one question in terms of the dining out business, from a product refresh perspective what are you looking to do in terms of this business? This was what your original business was, so from a longer-term perspective how do you see scale up in terms of this business, because this from a profitability perspective should be additive to your business.

Akshant Goyal: Hi Ashwin, good to hear from you. Look, I think we can't share more details. We should wait for the new product here. Don't want to say anything beyond that. But you are right, this has been a business which used to feed some of our losses in food delivery few years ago. And I think we know how to build this business better. Context has changed in the last 2-3 years and hence we think this side of the product needs a rethink and we are onto doing that right now and once we have an update, we will share it with you.

Ashwin Mehta: Just one more question in terms of say our top 300 cities contribute almost 99% of your GOV, but in terms of indicators for how the remaining 700 or at least the 400 that we added earlier, how are things panning out there? Are we having to, say, subsidize delivery or spend materially in terms of discounting there to entice people?

Akshant Goyal: Ashwin, most of these new additions are a few weeks old right now. Of the first 500 that we launched, we exited some cities and the balance contribute pretty much, broadly to 99% of the business. The last 500 odd cities that we launched post October 2021, some of them have been launched as recently as last couple of months. So, very early right now. But I think I explained our thought process behind how we look at city expansion and what we watch out for. Hopefully, that answers the question that you have here. Happy to repeat that in case you missed that.

Ashwin Mehta: I will kind of look up on that if I missed it. Just one follow-up, in terms of Hyperpure business and how does it fit in with your quick commerce strategy? Because one of the ways to make quick commerce profitable would be how you do the fresh supplies piece and that's where Hyperpure could kind of come in. So, how are you thinking on those lines?

Akshant Goyal: Ashwin, I wished you did not ask that question because that's one of the elements of synergy in our business which is not very obvious, but it's going to be a big driver of better economics for us because Hyperpure is a business that we built over the last 4-5 years, it's become meaningful in size and growing well. Yes, I think there are synergies there, which is what also excites us and gives us confidence about the economics of the quick commerce business as and when we get into it.

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

Pranav Kshatriya: I have two questions. Firstly, can you elaborate on this quarter’s increase in contribution margin, how much impact that delivery cost reduction has happened and is the clubbing deliveries, has been a major driver of that is what I'm trying to say?

Akshant Goyal: So, first part we cannot answer. We don't want to share that. I think that is fine detail. To your second question, we're not looking at batching orders as a big driver of our delivery costs going down, at least for now. I think in our minds it results in an inferior customer experience and there are enough lower hanging fruits to bring the delivery costs down at this point, rather than starting to batch orders. Batching is a small percentage of our orders today and we don't see that changing right now.

Pranav Kshatriya: My second question is regarding the loan which has been given to Blinkit. So, Blinkit seems to be burning a lot of cash and you have extended the loan for the immediate capital requirement. Qualitatively, if you can answer, if they will require funding in a shorter term, will this help them tide over for much longer period and have the burn rate it sort of came down from when you funded them last time around, that is what I am trying to understand.

Akshant Goyal: Yes. I think the losses are coming down. We've indicated that in our letter and I think they are well capitalized for the foreseeable future.

Moderator: The next question is from the line of Varun Ahuja from Credit Suisse, please go ahead.

Varun Ahuja: I think most of my question has been answered, but I'll just take one question on the grocery side. I just want to understand the thought process of putting this 400 million number there. I know you mentioned there are lot of uncertainties involved right now and it looks like it's a core business that you think as of now, because of all the synergies you're talking about. My understanding looks like given it is such a huge opportunity, the losses or the investments maybe locked to higher than 400 million. Why you are constraining yourself with 2 years + 400 million, is there anything else in your business model, how did you arrive at it, anything you can share on that front?

Akshant Goyal: We think that's a lot of money for doing a business. We are not starting this business from scratch. I think the answer would have been different if we were to be a new business doing quick-commerce, but we already have a business that is synergistic to quick-commerce. We are a team that has gone through one cycle of building a business similar to that. So, I think that drives our thinking in terms of how much capital that we would need going from here, given what we know and also knowing that competitive intensity is actually going to come down from where we are today. I think given the markets and how they've changed in the last six months, we don't think we are in a scenario, like had we been in the same environment as 2021 in terms of capital markets, we could have seen three or four more quick-commerce startups getting funded which would have made the environment way more competitive than what it is today. On the competitive intensity bit, we are actually happier than what we were five, six months ago and it's come down and that also drives how we think about losses going forward. The current market environment gives us a good window to actually scale this business quickly without really spending too much capital.

Varun Ahuja: Given the model that you are looking at, obviously at the outset given you're working, you may have a lot more detailed working if you have to build dark stores in each and every place. Obviously, you are looking at 15, 20 minutes at the outset which looks like the investment can be a lot more and obviously then to acquire customers. That's where the question is coming from. I understand you already have a business, but in terms of operating a dark store, maybe you require little more physical presence.

Akshant Goyal: Let's discuss it, once we get into this business, we can hopefully share more details with you at that point.

Moderator: Next question is from the line of from Swapnil from JM Financial, please go ahead.

Swapnil: So, I had a couple of questions actually. Your employee costs net of ESOPS has seen a sequential decline. Just wanted to know if you have done some retrenchment over there. Can you also give some trends on your current head count, and will you need to add going ahead as we continue to scale up?

Akshant Goyal: No headcount reduction and we are not seeing any pressure on the employee cost, as I said. I think we don't plan to hire meaningfully from here on and the employee cost in general should grow with inflation from hereon.

Swapnil: Any particular reason why sequentially the cost is down by around 7%-8%?

Akshant Goyal: Let me check that. Which number are you referring to on employee cost?

Swapnil: Employee cost net of ESOPS. It was Rs. 195 crores last quarter, this quarter reduced to Rs. 181 crores.

Akshant Goyal: Let me get back to you on this. I'm not very clear on the question, so maybe you can connect offline, and I can give you a clarification, but in general I would say that cost is stable. There could be some understanding gap here which I can fix separately.

Swapnil: Sure. The second question you have mentioned that growth in your business in the past has not been linear. Can you give some sense on seasonality on how should we look at it? I would presume that IPL is something of a good season for you, but apart from that for the rest of the quarters.

Akshant Goyal: The lumpiness in growth is I think partly because of seasonality, but largely it's been because of I think more larger macro factors and also the nature of industry and the stage of the industry, I would say or the category. I think it's been driven more because of that, where we saw intense period of competition in food delivery and then there was consolidation. So, I think the lumpiness was driven largely because of that in the past. There is some seasonality, but given our growth rates, it typically gets sort of overshadowed with strong growth that we see quarter on quarter, so nothing much to add there.

Swapnil: Just one last question. In the P&L, there is a mention of delivery and related charges. Can you explain how this is different from availability fees that we used to report it on the time of the IPO?

Akshant Goyal: This is essentially all the payments or rather the payouts that happen with every delivery partner, net of the customer delivery charges that we get.

Swapnil: You basically mean this is the same as the availability fees which was at the time of IPO?

Akshant Goyal: That is correct.

Moderator: Ladies and gentlemen that was the last question for today. We will now conclude this conference call. Thank you for joining us and you may now disconnect your lines.