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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 conference call conducted on May 19, 2023

Dear Sir/ Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the earnings conference call conducted on May 19, 2023.

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

For Zomato Limited

Sandhya Sethia
Digitally signed by Sandhya Sethia
Date: 2023.05.26 17:34:25 +05'30'

Sandhya Sethia
Company Secretary & Compliance Officer
Date: May 26, 2023

Zomato Limited Q4FY23 Earnings Conference Call Transcript

May 19, 2023

Management Representatives:

1. **Akshant Goyal – Chief Financial Officer, Zomato Limited**
2. **Albinder Singh Dhindsa – Founder & Chief Executive Officer, Blinkit**
3. **Kunal Swarup – Head, Corporate Development, Zomato Limited**

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. Akshant Goyal, Chief Financial Officer; Mr. Albinder Singh Dhindsa, Founder & CEO of Blinkit 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 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.

Additionally, please note that this earnings call is scheduled for a duration of 45 minutes, and we will be starting directly with the Q&A section of the call. If you wish to ask a question, please use the raise hand feature available on your Zoom dashboard. We will announce your name on the call and unmute your line, post which you can proceed with your question. We will wait for a minute while the question queue assembles.

The first question is from the line of Mr. Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: Congratulations on the great execution and hitting the profit milestone for the ex-Blinkit business. The first question I had was on what drove the profitability this time. Clearly, on a quarterly basis, it appears that it’s come from a lot more cost management in both, in the food business, in the Blinkit business on utilization and also rationalization of staff and A&P (advertising and promotion) costs. The question I think we have to an extent is when do we see sustainable growth? And what is sustainable growth for this business after seemingly 3 quarters of very limited volume growth? Is Zomato beginning to hit any penetration challenge due to reversal of consumer behavior?

Akshant Goyal: Hi Ankur, Thanks for your question. Akshant this side. So, we've given a breakup of key contributors to margin improvement in the food delivery business. I would say it's a combination of both growth in revenue as well as reduction in cost per order. And as you can see in that chart on Page 5 of the letter, it's all across the board. So, as we've been saying over the last few quarters that we've been trying to look at all levers of efficiency in the business. The team has been executing well across the board and we just started to see a little bit of bounce back which is going to lead to a modest high single-digit growth in the current quarter sequentially, which is what we have indicated in our letter. What we'll have to wait and watch is whether this momentum sustains beyond Q1, and that's something we'll have to wait and watch. At this point, we've shared whatever we could on what we're seeing on the growth front in our letter.

Ankur Rudra: No, I appreciate that, and I appreciate the forward-looking things you mentioned in the letter about the first quarter. My question was a bit more taking a step back about penetration. And where we are from an India perspective. Is there any concern that there could be an issue from the penetration side and any kind of reversal in consumer behavior, which might impact sustainable growth on a multiyear basis, not for next quarter or next year?

Akshant Goyal: No, Ankur. We've been saying that in the past that from a long-term perspective, we are pretty bullish on the fact that we are still underpenetrated in this market in India. And that view hasn't changed if that was your question.

Ankur Rudra: Okay. The second question is on MTUs. You have given a clarification in the letter, but you also highlighted that Zomato Gold drove a frequency increase of 60% in that cohort of customers. Now I understand in 4Q, you'll probably have an impact of the number of working days, but you had that last year as well. Just couldn't entirely understand why MTU should drop, if your Zomato Gold drove up frequency so sharply?

Akshant Goyal: Year-on-year, the MTUs have grown. So, the drop in MTU is in comparison to the previous quarter. And we've addressed that in the letter that it's a function of a few things, including lesser number of days. Also because of Zomato Gold, the MTUs have come down and not gone up because we do see an impact of clubbing of some orders in the same households, which might have just a single membership.

So Zomato Gold, in fact, has led to reduction in MTUs and not an increase, while the frequency goes up, but number of people ordering typically, we have seen in the past, goes down. And we also shut down 225 cities in the last quarter, which we reported last time. So that also had an impact, a onetime impact of MTUs reducing on our platform.

Ankur Rudra: Okay. Understood. I mean, the reason for the question was I thought MTUs normally reflects frequency also of your annual users, which is why the question. But I understand what you're saying. On Blinkit, could you talk about how the business is evolving on an SKU mix footprint and network design at a city level over the last four quarters, given we've seen significant improvement?

Albinder Singh Dhindsa: Ankur, this is Albinder. I'll take this one. In terms of SKU mix, we are still very much tied to our philosophy of keeping 'high moving low involvement' purchases on the platform. Essentially, these are SKUs where consumers have a lot of brand trust, and they need those things frequently as well, so we are squarely focused on making sure that, that is a need that we serve to our customers within 10 minutes. And a lot of the gains that you are looking at, what we've pointed out also, is a mix of both more customers adopting the quick commerce platform as their go to buying channel, and as our range of products is also increasing. We are basically cautiously increasing it (assortment) to still stay within the principles that we set for ourselves for the assortment.

Ankur Rudra: Understood. And any change in the footprint network design as you're thinking about scaling this stuff going forward, Albinder?

Albinder Singh Dhindsa: We are still very much focused on going deeper in our existing cities. Even our largest city, which is Delhi NCR, we are still nowhere close to being able to cover it even 70%. So, our primary focus will be scaling up our existing cities in the near future, and then we will look at footprint expansion.

Ankur Rudra: Sure. And I think when I just look at the CM (contribution margin) level performance, at the level you're reducing the CM losses, you should be profitable on a CM basis next quarter.

Albinder Singh Dhindsa: I really hope so.

Ankur Rudra: Okay. Just last question, maybe for Deepinder. We've obviously seen a lot of departures Deepinder in the last year. Your business performance, at least on a profit basis has not been impacted. I wondered if I can ask you to address any kind of comments about how it's impacted the three or four axes for the business, restaurant partners, delivery partners, customers and tech?

Akshant Goyal: Ankur, Deepinder is not on this call. But to answer your question, the team is doing well, and it's also visible in the results. Things are looking good from a business as well as employee's perspective.

Ankur Rudra: Okay, appreciate it. Thank you and best of luck.

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

Vivek Maheshwari: Hi, good evening team. A couple of questions. First, Akshant, if I look at your release, it says that about 30% of your users have opted for Gold, right? And their frequency has gone up by about 60% and on top of that, there is an MTU reduction on a sequential basis, right, slightly. So, if I just do a rough math, it looks like that I would have thought that the customers who would have dropped off would be the low-value customer from that standpoint. But if I do the math of Gold, the residual customer base, it looks like the frequency has gone down by about between 10% and 15% sequentially. Why would that be the case if let's say, 0.8 million customers have dropped off from the MTU base?

Akshant Goyal: Vivek, the 30% is the share of orders, it's not actually the number of customers. So number of customers will be lower than 30%. And if you do the math that way, you will perhaps not get to the same answer.

Vivek Maheshwari: So I did run up some permutations, even if 30% is the GOV number, I have made some assumptions on AOV, but that number still is declining reasonably, Akshant. With 0.8 million customer users or MTUs in the base lower this time around, why should that frequency go down? Shouldn't frequency go up if you don't have those 0.8 million customers?

Akshant Goyal: This 30% again is for the month of March, not for the quarter. If you will do the same math, like to like, across quarter, we know for a fact that the frequency hasn't reduced. It's, in fact, stayed flat and there's also an impact of, as I mentioned, clubbing of some orders. So, if I'm a non-Gold member and a Gold member in the same household, we do see some negative impact of the non-Gold member doing lesser orders. Net of that, the frequency for the non-Gold members have stayed flat in the last quarter.

Vivek Maheshwari: I see. Okay. Secondly, on food delivery itself, you have articulated, and you have been mentioning these things for the last couple of quarters in terms of the profitability ambition and all of that, with growth being elusive recently, how much of that is to be blamed to macro environment slowdown? And how much of this is because of your own focus on profitability? And in that context, how do you see this panning out over the next, let's say, 1 or 2 years, Akshant?

Akshant Goyal: So, Vivek, if you look at really what drives or which are the levers we control as a business which drives growth on the platform, they are largely, either customer delivery charges or to some extent indirectly also delivery cost. Because if we increase the delivery radius, you will see customers will have more choice and we typically see them ordering more. And similarly, if the delivery charges are lower, that stimulates demand.

So, if you look at the chart on Page 5, again, and we've mentioned that both these, whether it's customer delivery charges or delivery cost, they have not changed much over the last year.

And the point we're trying to make here is that the improvement in profitability is not, therefore, coming at the cost of growth. That's what we believe. And the efficiency and the improvement in margins has been on account of levers, which do not necessarily impact customer growth. So at least our view is that our improvement in profitability has a very, very little to no impact on what the growth would have been had we not had these changes.

Vivek Maheshwari: Got it. And a couple of questions on Blinkit as well. First, with the media articles talking about some of the disruptions to Blinkit business a few weeks back. How much of its impact could we see in the 1Q FY24.

Albinder Singh Dhindsa: Vivek, this is Albinder. So, we also said this in our filings, we expect the impact to be fairly minimal. We had some store shutdowns for very few days. In fact, in most of the places, it was less than 2 days. And the primary reason that we made this change was because we had old constructs that were put in place in 2020, when we started the dark store business, which allowed some partners to be able to earn a lot more without putting in the same effort that all the other partners are putting in. We wanted to remove that, and that led to some unrest on the ground. But we expect that not to be a factor in our overall financial performance for the quarter.

Vivek Maheshwari: Got it. And are you back to 100% level before this disruption? Are you back to full normalcy?

Albinder Singh Dhindsa: I think right now, in terms of rider logins, we are still not 100% there, but that is not just because of disruption, it's also summertime, and during this time, we typically see at the onset of summer, the rider logins are lower as people are adjusting to higher temperatures in northern India. But we do expect that overall, in terms of our ability to supply to customers, we are back to 100%.

Vivek Maheshwari: Okay. Got it. And one question Albinder, if I look at the entire retail journey in India over the last 20 years, there was a phase where retail was growing very well in, let's say, early part of middle of 2000s. And we are seeing very strong growth in quick commerce business in general for the industry. Now I know that you have third-party who manages inventory and it's on their books. But how do you ensure that the system doesn't choke? I know these are again fast-moving products, but I'm sure there will still be a fair amount of balance sheet risk that your partners and therefore, you carry directly or indirectly, how do you ensure that the inventories are the ABC criteria or FIFO. How are those things managed given that the intensity of action at each of the dark stores will be very, very high?

Albinder Singh Dhindsa: See, Vivek when you are comparing the Blinkit business to the offline retail business, fundamentally, the difference is Blinkit is primarily a tech-focused business that has built the entire system of not just managing inventory for our sellers, but also the entire supply chain end-to-end. All of that was built in-house. When it came to the retail businesses, there are obviously a lot more factors, including on-ground operations and there was a lack of technology maybe back in 18 years ago or 20 years ago, that was not helping in having a great visibility into what was happening across the entire supply chain. So, one of the fundamental reasons, Blinkit is the most efficient quick commerce business in the country is because we have spent a lot of years building the technology and the backbone that actually powers all of that for us, provides us visibility at every step of the supply chain. We take a lot of pride in being very heavily tech-focused supply chain company that runs an efficient organization.

Moderator: Next question is come in from Mr. Vijit Jain from Citigroup. Please go ahead.

Vijit Jain: Hi Akshant, just a question on Gold program. Since you have started charging for the program, do you continue to see sign-ups at a similar kind of pace? And how do you think in general about the pricing plus frequency mix in the sense that, at what kind of band, does it become accretive versus your current contribution margins?

Akshant Goyal: We've been always charging, Vijit. It was never for free. And we'll will keep optimizing the pricing basis the customer behavior, we see. So, the specific answer to your question will be very difficult for us to share. It's also competitively sensitive.

Vijit Jain: Sure. My second question is on the dine-out business. Now I can see in your other revenues, if I strip out the one-off from, I think, Talabat that there is some improvement Q-o-Q and you did start some initiatives on the dine-out side this quarter. So can you talk a little bit about that and how to think about that in FY24. And if I can add a follow-up question on just the services side. Is there any natural fit in some segments in local services? Were you thinking you guys are well suited to add that as an extension?

Akshant Goyal: So, to answer the second question first. At this point, no. We are just focused on restaurants as far as the off-line business is concerned. And on the dining-out side, we continue to make progress both in terms of the number of restaurants we cover and our value proposition both for customers and restaurants. But at this point, it is still very, very small compared to our overall business.

And we don't expect that to change much even in FY24. It will take perhaps a few more quarters before that business becomes meaningful. And at that point, we'll, of course, share more details about how that business is shaping up.

Vijit Jain: Got it. And Akshant, one last question. It looks to me at least like some of the ordering frequency has maybe improved a little bit Q-o-Q, your MTUs obviously declined and likely the ordering frequency did not decline. Is that fully attributable to the Gold program, do you think?

Akshant Goyal: Yes, part of it is, in terms of both the MTUs coming down and frequency going up, Gold has definitely impacted both of these things.

Kunal Swarup: And like we've said, part of it has also come from the shutdown of those 225 cities and churn in the bottom percentile of customers.

Moderator: Next question is from the line of Mr. Sachin Salagaonkar from BofA. Please go ahead.

Sachin Salgaonkar: Congrats with a great set of numbers, fantastic execution. First question, Akshant, just wanted to go to the Page 5 chart. And we look to extrapolate this chart from, let's say, FY23 to FY24, what as per you guys could be the top 3 levers which could lead to further improvement in the margins out here? Could it be some of the areas which we have not yet seen much improvement like a decrease in delivery cost? Or would it be the same stuff like an improvement in, let's say, commissions and so on and so forth?

Akshant Goyal: Hi, Sachin. So yes, we expect improvement to contribution from all of these things as we move from INR 18.5 per order contribution to whatever we get to by the end of next year. We've also mentioned in the letter that delivery cost has not changed much despite a lot of what we have done in the past because of various reasons. But going forward, we do expect that to change. So, we are hoping that reduction in delivery costs will be more than what we've seen in the last year. And likewise, revenue should continue to increase, and we also expect our other variable costs to continue to come down as the efficiency in the business goes up in general and also because of a little bit of operating leverage that we have in some of these things.

Sachin Salgaonkar: Got it. Second question, we did see an impact of Zomato Gold on contribution margin, and you did point out to the fact about the frequency increasing and MTU decreasing. Is a large part of that impact largely behind? Or could we continue to see that similar kind of an impact going ahead as well?

Akshant Goyal: As the program scales that impact will continue to be there. Now, whether that leads to a decline in MTUs further or not, it's a function of, again, multiple other things, including the number of new users that we add going forward as well as how we are able to increase the frequency of the existing customer base. So we don't expect MTUs to go down further on a net basis, and we're hoping that they will go up from here.

Sachin Salgaonkar: And incrementally, the impact on cost could be a bit more negative before the inflation point reaches and starts improving?

Akshant Goyal: Yes, one could say that.

Sachin Salgaonkar: Got it. And maybe a couple of questions on Blinkit. Again, if you look at the chart on Page 7. One sees a huge improvement coming from decrease in dark store and replenishment expenses. Albinder, it would be great if you could give a bit more color what happened in this entire INR 48.9/order and how much room is there to further improve this?

Albinder Singh Dhindsa: Hi, Sachin. So, look, Sachin, we are primarily a supply creation business. All of this improvement can be attributed to increasing number of orders on the platform. On the same fixed cost basis, we are just able to do more throughput for every store, and that's what leads to this improvement. So instead of looking at it as a cost reduction, this is just same cost, and we are just able to push through a lot more throughput through these stores. Like we've also mentioned, our stores have an average GOV of about INR 15,000 per square foot for the entire quarter, but we have stores which are already doing INR 30,000 of GOV per square foot. So that shows you kind of the operating leverage even within our existing network that is still there. And what you're seeing here is basically the journey that we probably did from INR 7,500 to INR 15,000.

Sachin Salgaonkar: Got it. And last question. Of course, last year, Akshant, food inflation was high, perhaps one of the reasons why, let's say, AOV moved up. As we go into this year, should we see that normalizing and hence, perhaps an impact being seen on the business?

Akshant Goyal: So far, we've not seen that much. Inflation has been pretty range bound last few months, but AOV is still strong, and if at all trending upwards. So, at this point, if you look forward next 1 year, we don't expect the AOVs to fall, maybe they'll remain flat.

Moderator: Next question is from the line of Mr. Gaurav Rateria from Morgan Stanley. Please go ahead.

Mr. Rateria are you on the line? We can circle back to Mr. Rateria later. Our next question is from the line of Mr. Swapnil Potdukhe from JM Financial. Please go ahead.

Swapnil Potdukhe: Good set of numbers, so congratulations on that. So just wanted to start with the first question which I had asked last time also, where are we accounting the Gold revenue that you are getting right now, exactly which line items are we showing that?

Kunal Swarup: Hi, Swapnil. This is Kunal here. We are accounting for this revenue in the food delivery business essentially.

Albinder Singh Dhindsa: Sorry, we were experiencing some trouble with our conferencing system. Swapnil, you have to tell us till what point did you hear Kunal's answer, and we'll pick it up from there.

Swapnil Potdukhe: I think you mentioned that it was accounted in the food delivery vertical, but beyond that, I think we lost it.

Kunal Swarup: Yes, that's correct. Essentially, it's been accounted for in the food delivery business.

Akshant Goyal: But the revenue is recognized net of the discounts as per accounting standard 115. So eventually, very little of that is left as revenue. Most of it gets knocked down from the cost.

Kunal Swarup: Almost 50% is knocked off due to discounts.

Swapnil Potdukhe: Right. Right. That's very helpful. The second question is on your employee expenses. Now they seem to have come down sequentially quite a bit, and I assume that is because of ESOP expenses going down. Is that related to some of the senior management moving out in the last quarter? Or like there is some other reason? And is that sustainable?

Kunal Swarup: You're right to the extent that it is on account of reduction in the ESOP charge, but it is not necessarily related to the exits that we saw.

Akshant Goyal: This will go up and down, Swapnil. So, there are various assumptions there when you come to this number from an accounting standpoint. And don't expect this to be linear. And that's why we have, in our letter indicated what we think could be a potential accounting charge on account of ESOPs in FY24.

Swapnil Potdukhe: Right. And with respect to your working capital now, I see that there was a change of INR 140 crores, negative INR 140 crores in this quarter, whereas in the previous quarter, it was a positive impact of INR 114 crores. Now my presumption is that the only Hyperpure business has inventory, right? So why are we seeing such drastic changes on a quarter-on-quarter basis in your working capital?

Kunal Swarup: So, Swapnil, essentially, the increase in working capital that you see in Q4 is related to a reduction in the current liabilities in the business or rather most of it is on account of reduction in current liabilities, and I'll explain why. For example, in the food delivery business, there's a weekly settlement cycle with our restaurants. Now if you look at the last quarter, Q3, that ended on a Saturday, whereas Q4 ended on a Friday. So effectively, in Q3, we carried 1 extra day of payables on our balance sheet as of the end of 31st December, and that reduced in Q4, and that essentially reduced the current liability number. And that caused the increase in working capital largely. So, in our business, therefore, you will see these variations depending on the day of the week on which the quarter ends. And therefore, we put out that note saying that it is a little unpredictable as to how working capital changes going forward.

Swapnil Potdukhe: Right. And just one last question, if I can squeeze in. With respect to store additions, the guidance that we had given last quarter. Now if I were to calculate your numbers on the basis of what is available, I think there has been not much of an addition in this quarter. So given that background, would it be fair to say that your improvement in margins is mainly because of improvement in throughput. But as and when you add those stores that you have guided for, the improvement in Blinkit margins would slow down significantly?

Albinder Singh Dhindsa: No, Swapnil, even through this quarter, we did add stores pretty much at the run rate at which we had guided for the year in terms of the total number of stores that we will add. So that effect is already existent in the numbers that we have presented. So, it is unlikely that there is deviation from this trend over the next couple of quarters at least that I see. We did add stores in this quarter as well at the pace that we had guided on.

Swapnil Potdukhe: But the average number seems to be flattish, that's my question.

Albinder Singh Dhindsa: So, there are some stores that we also end up closing occasionally, but we are on track to open the number of stores that we had guided at the beginning of the year.

Swapnil Potdukhe: Got it Albinder, thanks for the opportunity.

Moderator: Next question is from the line of Ms. Sneha Satyamoorthy from Axis Capital. Please go ahead.

Sneha Satyamoorthy: So, in your last letter, you had shared a chart on power customers. Just wanted to get a sense on how does the AOV on orders from these customers compare with those of the remaining MTUs on the platform? That's my first question.

Kunal Swarup: We don't share that data, Sneha. But just to give you some broad color, they tend to be slightly higher as compared to the other customers.

Sneha Satyamoorthy: Okay. Sure. And my second one is that could you also give some additional context around some of the recent key EV partnership announcements that have been made. What do they entail? And what's the likely impact on driver payouts or delivery cost over the next few years as we scale the number of EV-based deliveries.

Kunal Swarup: That entire ecosystem is very early, Sneha. What we are trying to do is essentially further the adoption of EVs by helping some of these third-party EV providers connect with our riders and offer a solution to our riders that works for them from an economic standpoint.

At this point, we are not looking at this as a way of reducing our delivery cost, but it is more from a perspective of actually impacting the carbon footprint that we have. Eventually, when the adoption reaches high levels, and the ecosystem matures from an EV infrastructure standpoint, we may see some improvement in costs. But at this point, we don't see any of that fructifying.

Moderator: Next question is from the line of Mr. Aditya Suresh from Macquarie. Please go ahead.

Aditya Suresh: I just had one topic to ask. So, your restaurant take rates have clearly improved fairly nicely over the past couple of years and is up about 200 basis points. We're now close to about 18%, right? So, few subtopics within this. So, if you look at the number of restaurants, who are there as partners on your platform. That's been steady over the past several quarters. I guess it's an element of the better paying restaurants on your platform. Do you see scope for further gains here as that mix improves, Akshant?

Akshant Goyal: Broadly, with our take rates, the mission is to be competitive, and we are lower than what the competition is charging. So, as we continue to add more value to restaurant businesses, we expect some improvement in commission revenue going forward.

Aditya Suresh: And then I guess in terms of the industry structure, just a bit more short term. We've seen kind of headlines about, say, someone like Coke take a stake in Thrive, etc. I fully appreciate there are significant scale differences. But at the margin, are you seeing any increase in competitive pressures at all? Or do you still see this as a duopoly?

Akshant Goyal: It's a fairly competitive market, and there's a lot of innovation happening around us across the board. We continue to watch it and learn from it and see how we can run our business better to make sure that we continue to grow.

Aditya Suresh: And I guess related to that was, again, just a similar question, which I was, like platforms like Waayu and ONDC etc., now. The headline view which they take is to try to bring restaurant take rates meaningfully lower, I guess, there's a trade-off here between delivery costs versus take rates. But how do you think about this impacting your own ability to charge 18%, not for this quarter, but if you take a medium-term view, how do you see this as a kind of risk?

Akshant Goyal: You see, direct ordering anyways exists and we do believe a lot of our restaurant partners get a large number of orders directly placed with them either through phone or to their own website or apps. And take rate on those orders is technically zero. As I said, we welcome any change or any innovation that helps the restaurants industry grow and there are a lot of innovations happening out there. And we'll continue watching it and learning from it. At this point, we don't feel anything is going to come at the cost of our growth as the overall penetration is low. And therefore, there is room for everyone to grow in this market right now.

Aditya Suresh: If I can, I have a question for Albi. So Albi, in your recent kind of one of the LinkedIn post, you spoke about ChatGPT and how you're seeing kind of positive use cases being built for Blinkit. Can you just elaborate on that a little bit?

Albinder Singh Dhindsa: Aditya, so we primarily used the generative AI, both from ChatGPT and from Midjourney and Stable Diffusion to create a recipe discovery platform on Blinkit. That is an additional use case that we think customers really think is adjacent for them. And using AI, we've been able to build that. We already use a significant amount of AI within both our supply chain systems as well as within our customers' personalization and recommendation systems. We're fairly excited about what generative AI is doing. Right now, our best bet was actually launching it for recipe generation. We are also looking at other parts of the business where some of this might be useful. As of now, we really want to focus on one thing and get it right first before we start scaling it to other parts of the supply chain or the customer service ecosystems.

Moderator: Next question is from the line of Mr. Chirag Shah from CLSA. Please go ahead. Mr. Chirag are you on the line?

Chirag Shah: Hello, can you hear me?

Moderator: Yes, please go ahead.

Chirag Shah: Congrats to the team on generating first quarter of cash surplus. Bulk of my questions have been answered. But just on Hyperpure, Akshant, this business has now achieved reasonable scale. So, what are the growth and profitability plans for this business going forward?

Akshant Goyal: We expect the growth momentum to continue in this business. It's still reasonably small in size compared to the opportunity here. And as we continue to scale, given that it is fairly high operating leverage business, we also expect the losses to continue coming down. So yes, both from a top-line and bottom-line perspective, we are excited about this business.

Chirag Shah: In terms of just this number of cities presence, how do we expand this to the number of cities that we are present right now?

Akshant Goyal: At this point, we're not necessarily thinking of expanding into more cities. Within the 9-10 cities that we are present in, the focus is just going to continue to grow in those cities and get to profitability first before we think of expanding outside these 10 odd cities. The business model may need to be a bit different in the smaller cities for this to work. While we might experiment in 1 or 2 small cities, in the next few months, but largely, the focus is on the top 10 cities right now.

Chirag Shah: Got it. And when I look at the delivery partners number, there's a good 7% reduction that we have seen since Q2. Is there much to read into this? Or Albinder did make a statement that there is some seasonality also involved in this in terms of riders being on the platform.

Akshant Goyal: Look, eventually, the number of delivery partners is not the only metric which one should look at as these delivery partners are gig workers in nature and different partners spend a different amount of time on the platform. So, the number of active partners may go up or down depending on how many hours they're spending with us. The nature of fleet might change from quarter-to-quarter depending on seasonality and various other factors, and in some quarters, you might have a much larger part time fleet as compared to others, and therefore, the number might go up. But if you were to look at the number of log-in hours, and we don't disclose that data, but that trend is sort of linear and we are seeing the number of log-in hours grow every quarter.

Chirag Shah: Got it. Last question Akshant, and just a bookkeeping one. The treasury income for this quarter has been quite high. So, what's leading to that?

Kunal Swarup: Sorry, you're talking about the cash received in terms of the cash flow?

Chirag Shah: That's right. That's right. So, I'm looking at Page 11, the change in cash number.

Kunal Swarup: Like we explained, there are differences in this number because the nature of investments impacts the cash flows that we get on a quarterly basis. To take the example of G-Secs, you have six-month coupons. You may have a quarter where you receive more cash on account of the coupon for that G-Sec, but the next quarter, you may not have that coupon payment and then the quarter thereafter, you may have it. So, it's things like these that impact cash flows. We may also premature some of our fixed deposits. So that may also cause these fluctuations in the cash amount. But the accrued income that we book in the P&L will be stable.

Moderator: Next question is from the line of Garima Mishra from Kotak.

Garima Mishra: Now if I see your 4Q FY22 results release, you very clearly told us that 60% of your GOV for that quarter for the food delivery business was contributed by top 8 cities. So, could you give us an update of how much is that contribution? I mean, now or for 4Q FY23?

Kunal Swarup: That number hasn't changed too much, Garima. We don't report it, but it's not changed much. Essentially, the growth has been pretty secular across our top 8 cities and the cities beyond them as well. So, it's no meaningful change there.

Garima Mishra: Okay. And with the advent of Gold, this proportion has not changed at all, Kunal. I mean I would have expected that the uptake of Gold, and you also selectively give out these invites, I would have thought that the sort of run rate of orders from the top 8 cities just increases a little bit higher. So, is there any impact on that at all visible in the, let's say, first quarter?

Akshant Goyal: Garima, Gold is already live in almost 50 cities now. So that contributes to almost around 75% -80% of our business. So that alone will not be a factor in the bigger cities gaining share in our overall business.

Garima Mishra: Okay. But the bigger cities have not gained share? I mean that's what you are trying to say on an overall basis?

Akshant Goyal: They are not very meaningful.

Garima Mishra: Okay. The second question is on AOV. And of course, we've seen that increase pretty decently through FY23. So safe to assume that your 4Q AOV was decently ahead of what you had in the first quarter, that there was an increase through the year?

Akshant Goyal: Yes, that's right.

Garima Mishra: Okay. Understood. And that trend, again, has not changed for you meaningfully in the first quarter.

Akshant Goyal: Right.

Garima Mishra: Okay. Understood. Those were my questions. The last part is really for Albinder. Do you see AOVs of the Blinkit business go up and down a little bit. And anecdotally, at least, I can tell you that the more the user uses the platform, the lower the AOV actually goes. How do you really solve this problem in the medium term when most of your stores actually start maturing?

Albinder Singh Dhindsa: Garima. So actually, when we look at our data the conjecture that you made that as users use the platform more, their AOV goes down is not entirely true. In fact, our new user AOV is low, and that is what contributes to a lower AOV for the platform. And as our users mature, their AOV and the number of categories that they buy from us, it keeps increasing, contributing to the increasing AOV of the platform. It's actually an inverted curve that a new user will have a much lower AOV and as they become used to the platform, their purchases on the platform also keep going up. The AOV fluctuations that we have seen over the last couple of quarters on the platform, a lot of these are seasonal factors.

And even towards the end of the fourth quarter, we started seeing the AOVs improve because of the seasonality factors, especially in fruits and vegetables, were going away. And then you will see some seasonal factors as we are also a fairly large platform for festivities. So, all at-home festivals that people celebrate with their families, that's something that Blinkit is a part of now. And those also add a lot of meaningful variance in our quarterly AOVs. For Valentine's Day might only have a college kid ordering a couple of chocolates. But something like a Mother's Day or Rakhi or bigger festivals, you might see a lot of gifting and more higher AOVs ending in the kitty. Right now, the business is still fairly early, I would say, where we can confidently point out how each of these factors is going to play in to our AOV. But over the next couple of years, as the business gets larger and we have a lot more data, we'll be able to predict it better.

Moderator: Ladies and gentlemen, in the interest of time, we will now be taking the last question. The last question is from the line of Mr. Ashwin Mehta from Ambit. Please go ahead.

Ashwin Mehta: So, one question for Albinder. If I look at your cost of dark store and replenishment, that over the last 3, 4 quarters has been stable on a per dark store basis at somewhere closer to INR 50 lakhs. So is it more like a fixed expense. How do we kind of get that down?

Albinder Singh Dhindsa: Sure, the overall dollar number for that is primarily because we will build capacity to a certain level for the dark store and replenishment network, and there is a base level of cost that you run for it. We are still at the stage where we have not reached a meaningful enough utilization of some of these assets where we will start seeing this number go down as a percentage of the throughput that we put through, but this is sort of the base network that we need to build in order to be able to service 400 stores and to be able to serve 4 million customers, so far. And I think we still haven't meaningfully hit it. So, this number overall will not change significantly, but our throughput will increase. So, on a per order basis, this number will keep going down.

Ashwin Mehta: Okay. Fair enough. My second question was in terms of Hyperpure integration with Blinkit and possibly Hyperpure supplying you fresh. So, on that, where are we?

Albinder Singh Dhindsa: See primarily, what we are developing with Hyperpure is a farm to table supply chain for fruits and vegetables. Because Hyperpure is a pretty significant business when it comes to restaurant supplies and supplying fresh fruits and vegetables there. And obviously, Blinkit also has some of that business. So, a lot of our integration is primarily on the capabilities. So if we are putting in joint infrastructure at the farm gate, that is something that we're investing in with Hyperpure.

And that is something that is still ongoing, and these are long-term projects because we have to do the hard work of actually reaching out to rural areas, setting up collection centers, connecting forward linkages. And that is our shared load that both teams differently do depending on where we have strengths and where Hyperpure needs, and where Hyperpure has a strength.

Ashwin Mehta: Okay. Okay. And the last one was in terms of did I get that correct? We talked about a 30% to 40% increase in dark store count in the next fiscal. Do we still stand by that?

Albinder Singh Dhindsa: So, the earlier question was also about the net store additions. We added maybe about 15 stores in the in the fourth quarter. And we are still trending on the similar numbers that we will keep doing store additions. So, we're not really providing a different guidance for that. The number might go up or down based on whether we find the right places and whether locations and a lot of these factors, but that is what the team is still aiming for.

Ashwin Mehta: Okay. And If I can please just squeeze one for Akshant. Akshant, you were talking about reworking our advertising business. So where are we in terms of that?

Akshant Goyal: Ashwin, are you referring to the dining out business?

Ashwin Mehta: Yes, the dining out business, yes.

Akshant Goyal: I had mentioned that in response to a previous question, Ashwin. So that business is shaping up nicely, but it is still very small from an overall size and impact on the P&L perspective. While we are very excited about how that business is turning out to be and how it can grow, but at this point, it's still very small.

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