Zomato Limited Q4FY24 Earnings Conference Call Transcript

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Management Representatives:

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

Moderator: Ladies and gentlemen, a very good evening and welcome to Zomato Limited's Q4FY24 earnings conference call. From Zomato's management team, we have with us today, Deepinder Goyal, Founder and CEO; Akshant Goyal, Chief Financial Officer; Albinder Singh Dhindsa, Founder and CEO of Blinkit; and 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 Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: Thanks for taking my question**.** Congratulations to the team on the quick commerce milestone. My first question is on the outlook for the segment. Now with your plans to double the store count in the next 12 months, what is your expectation of how much time could these new stores take to reach contribution breakeven? And is it likely to be meaningfully longer than the two months number that you had called out in the previous quarter. And a related question, you talk about the 4x increase in GOV due to expansion in some of the larger cities in terms of store count. Is there a timeframe you're targeting for this 4x increase or is it like more medium to long-term aspirational number. I have one more follow-up after this, but I'll just stop here for a minute.

Albinder Singh Dhindsa: Manish, this is Albinder. So, in terms of the store count increase, like you mentioned, a lot of our increase is now indexed to the cities which are growing, such as Bengaluru, Hyderabad, Mumbai and a few other cities. The time to breakeven usually varies depending on whether we are opening a store in an existing location or a new location. We expect that it will not increase meaningfully (time to breakeven), but it will be higher than the two months that we have put in our last letter, and we are already accounting for that in our projections as well. But outside of that, what you will see us do more and more is just going into under-penetrated markets in the top four cities and opening more stores over there.

Manish Adukia: Sure. My other question was on the 4x increase in GOV.

Akshant Goyal: Broadly what we are saying is that the store count will double from here over the next 12 months and most of those stores will come in the top 7-8 cities. We do believe that even in Delhi NCR, there is meaningful room to add more stores. Delhi NCR will continue to remain our largest market, while the other cities will also start catching up. That is how we look at it for the next 12 months.

Manish Adukia: Right. So Akshant just to confirm on this particular comment. You're saying at an overall Blinkit level, you could potentially see your GOV go up by 4x in the next one-to-two-year period. Is that what you're suggesting?

Akshant Goyal: No, it's a function. We're not trying to put any timeline to this. The comment was to essentially highlight the fact that for us today, outside of Delhi NCR, the other metro markets are significantly underpenetrated. And over time, as these markets get to the scale that we are at in Delhi NCR today, would mean that the business would have grown by 4x. So that has to be read in conjunction with the other statement that we have made, which is that we're planning to double our store count in the next 12 months. So while there's going to be some overlap here, it doesn't mean that all of this will happen in the next 12 months.

Manish Adukia: Right. Okay, thank you for clarifying. And the last question, now that the quick commerce segment has seen an acceleration in MTC’s in the quarter again, while your food delivery trends have been somewhat volatile. What in your view explains this divergence? And could this continue? I mean, basis your comment on quick commerce, definitely looks like quick commerce could continue to be strong. But on food delivery, is there any expectation of reversal or acceleration in MTC’s? Or could that be in the same ballpark for some time?

Akshant Goyal: Even if you look at the last 12 months, Manish, the MTC’s have grown in line with the overall growth in volumes. They've grown around 20-odd percent. We expect that as the business GOV continues to grow 20%+ (which we have guided on), that will likely be a combination of some AOV increase and order volume increase and majority of the order volume increase would come from transacting customers growing. So, we expect that to continue.

Moderator: Next question is from the line of Ankur Rudra from JPMorgan.

Ankur Rudra: Congratulations on the profit milestone. On Blinkit, if I can start, we've seen a huge amount of experimentation that you've done on the ground, which seems to be yielding very good results. When you take this to completion, let's say, over the next two or three years, do you see yourself get to a point where you start moving beyond just quick commerce to other forms of delivery timelines also?

Albinder Singh Dhindsa: Ankur, right now, we are focused more on operating our quick commerce supply chain more efficiently. We don't have any plans of experimenting with any other supply chain models right now.

Ankur Rudra: And maybe just a quick follow-up on that one. In terms of the next two or three years, your rollout plan is quite aggressive like you suggested. The business has been negative cash flow so far, will this remain the case as you go into a more accelerated rollout while maintaining 0% margins?

Albinder Singh Dhindsa: Our attempt is to keep reinvesting back into the business to grow as fast as possible while maintaining neutrality on the EBITDA side - that's our strategy. Based on how expansion goes in a particular quarter, the numbers might be up and down, but it will not significantly deviate from our stated objective of remaining at least EBITDA neutral, if not positive.

Moderator: Next question is from the line of Swapnil Potdukhe from JM Financial. Please go ahead.

Swapnil Potdukhe: So, a couple of questions from my end. First, on the ATC number that you used to share for food delivery. I presume that it used to be around 60 million odd number of users. Has that changed meaningfully since then? And question two, is there any sense on what will this number be for Blinkit, a similar like-to-like number?

Akshant Goyal: Swapnil, on the food delivery side, the ATC's have grown by about 10% YoY. We have shared that data with you in the data pack that we put up on the investor relations website. It's not there in the letter. And on the Blinkit business, I'll have to check. The business is only a couple of years old, so we haven't had a chance to look at the business on an annual lens yet, but I can check and come back to you.

Swapnil Potdukhe: Okay. Got it. And the second question was with respect to the improvement in profitability of Hyperpure. Is there any guidance that you have for us here? When can we expect the profitability trends to improve? That's point number one. And point number two is, for how long can we expect the growth to be so strong in the Hyperpure business on a QoQ basis. The trends have been very strong for the last so many years. But will there be a base effect at some point of time, and if yes, can you give some sense around that?

Akshant Goyal: Sure, Swapnil. I think base effect is already showing up. If you see the growth rates, they have come down from 146% YoY to 99% in Q4 (from Q4FY23 to Q4FY24). As we scale, we do expect that it will trend downward slightly, but will remain healthy and reasonably high. Similarly, on the margin front, if you look at the last five to seven quarters, directionally, the EBITDA margins have improved from negative 9% in Q4 last year to negative 2% now, and we expect that change to continue. Our focus here right now is not getting to breakeven but continuing to solve for growth in the business. We believe the business is still sub-scale as far as the opportunity is concerned. And hence, while the margin improvement will continue, we are really focused on driving more growth at this point.

Moderator: Next question is from the line of Aditya Soman from CLSA.

Aditya Soman: Quick question. So firstly, on Blinkit, the guidance of doubling the stores is fairly straightforward but would you also see the per store throughput to continue along similar lines? That would be question one.

Akshant Goyal: Aditya, throughput per store is a function of the weighted average. Directionally, it will not go down, but again, expansion can be lumpy. It's very hard to predict our pace of expansion, given there are so many external dependencies that are there when you open a store. So not accounting for one / two quarters here and there, but directionally, we expect the average throughput per store to continue to increase over time. But if the growth is lumpy, then there could, of course, be one-off quarters along the way.

Aditya Soman: Understood, that's very clear. And secondly on Zomato Everyday, can you throw a little more light? I think recently, there was some press that even Swiggy is restarting their daily service. So, any more light on Zomato Everyday?

Akshant Goyal: Yes, that's a business or a use case we've been trying to develop for over a year and a half. And finally, we believe that we have good confidence on being able to scale that use case, keeping in mind customer experience and also economics, given that it's a low AOV use case. We want to continue expanding Everyday. Right now, it's largely in Gurgaon, but over the next few months, we'll see maybe Mumbai and Bengaluru being added as cities where we'll launch Everyday, and then we'll take it from there in terms of other cities that we want to expand in. So, it will be a slow gradual expansion over time.

Aditya Soman: Very clear. In Bengaluru, you've already launched in a few neighborhoods, right? So, you'll just expand it further?

Akshant Goyal: Yes, we'll scale that now.

Moderator: Next question is from the line of Abhishek Banerjee from ICICI Securities.

Abhishek Banerjee: Yes. So again, super set of numbers. Just to understand the growth trajectory that you are now guiding for in Blinkit, seems like you're trying to do a land grab with regards to at least intensifying the density in the urban locations or probably plugging the coverage gaps. Is that in relation to the competitive intensity in the space given most of your competitors at this point of time cannot really match that scale of growth. Because there was a business case for probably driving the EBITDA margin slightly higher before you go on this kind of an expansion plus retail expansion is often very challenging, trying to find the right real estate. So, if you could give us some clarity as to what kind of drove this decision making, that would be really helpful.

Akshant Goyal: Yes. Abhishek, so our plan was to expand slowly in the last 12 months and now expand aggressively. I don't think this has anything to do with competition or even margins. It's more dictated by the confidence we have in the business because the expansion can be really expensive if it doesn't work out. It's also dictated by the bandwidth that we have, to be able to open these new stores, which requires time to build capabilities, both in terms of team and infrastructure. So adjusted EBITDA breakeven is more an outcome of where we are today.

We've not really thought of the business in the way where we said, okay, let's get to breakeven and now we should expand. It just happens to be the case now that we are at that milestone. And from here on, as we feel confident about the business fundamentals and believe that we have the capability to expand at a higher pace than what we have done in the past, we will continue doing that. And while doing that, we believe that we should remain adjusted EBITDA breakeven, but that's not the goal here. The goal is to now expand as much as we can, now that we clearly see signs of the business doing well.

Abhishek Banerjee: Understood. Just to add on to this question. Now you are talking about opening more stores in the top 8 cities. Now if you could give us some color on the kind of AOVs that you see in the top 8 cities, vis-a-vis, the Tier 2, Tier 3, that would give us some idea of how the AOVs should be expected to move because I would think that the AOVs in these bigger cities would be higher. So given you are expanding your reach within these cities, the AOV blended could actually move up. Any color on that?

Akshant Goyal: Broadly, what you're saying is true that AOVs are higher in the top 8 cities. But if you see the mix of top 8 versus the rest, I don't think that is likely to change meaningfully. Because while we are expanding in top 8 cities and within top 8, focusing more on non-Delhi NCR cities, expansion beyond top 8 cities also continues. Even in the letter we have mentioned that only about 75% of the stores we opened were in the top 8 cities, 25% stores were still in the non-top 8 cities. So that mix of top 8 and non-top 8 cities is likely to remain the same. And hence, I don't think what you are saying regarding weighted average change in AOV is going to play out at this point.

Abhishek Banerjee: Understood. And on the food delivery business, last month and a half, you have really started priming the innovation engine. We've seen a lot of new initiatives being undertaken there. If you could give us some color on those, such as the group ordering one and all, that would be very helpful.

Akshant Goyal: Yes. Our idea is to constantly think of what can drive value for customers in our business. And the only way to win long term is to continue innovating. And not just last two months, we've been at it always. And sometimes, some of these things end up culminating, in terms of execution, at the same time, and we will continue to press the pedal on innovation, as we've always done.

Abhishek Banerjee: Got it. But specifically for the group ordering thing, how big can it really become over the next coming years?

Akshant Goyal: We don't know. We'll know in the next 6 months. We'll keep sharing data as and when things become meaningful in our business. We will make sure that we share that with our investors. But we'll have to first execute well. Announcement doesn't mean that we have solved the problem. There's a learning curve in everything that we do, we'll have to continue executing and solve for it, and then hopefully share the results as and when they become meaningful.

Abhishek Banerjee: Got it. And with regards to the priority delivery or better monetization of the Gold program, as in differential pricing, are we any nearer to the implementation of that? Because that could really boost your profitability in the food delivery segment.

Akshant Goyal: These are all tactics. We take real-time calls on these things such as pricing, etc., depending on the competitive environment and what we are seeing on the demand side. So nothing specific to comment here.

Moderator: Next question is from the line of Ashwin Mehta from Ambit.

Ashwin Mehta: Can you hear me?

Akshant Goyal: Yes, Ashwin. Please go ahead.

Ashwin Mehta: So one question in terms of expansion beyond Delhi NCR to Bengaluru and Mumbai. How do you see the dynamics differing? Because in Delhi NCR, you were the incumbents. In Bengaluru and Mumbai, there is more entrenched competition. So from a dynamics perspective, how would that expansion differ in your view?

Albinder Singh Dhindsa: Ashwin, so even in Bengaluru and Mumbai, we believe we are already the largest player in terms of GOV. The point that we were trying to make in the letter was that there is still a lot of opportunity for us to go to these markets and meaningfully expand because we think that the Delhi NCR market has been able to grow in quick commerce due to the product-market fit and the quality of service that we've been able to provide. And we feel that as we touch more customers in these cities with our quality of service, with our selection, the quick commerce market over here will also meaningfully expand to the size of the Delhi NCR market.

Ashwin Mehta: Okay. Fair enough. The second question was, you've mentioned in the letter that you are charging INR 20 per delivery in Blinkit but some of your competition is kind of discounting delivery. So how do you see that? Will you continue to be more prudent here or will there be a need to possibly react to that?

Albinder Singh Dhindsa: Ashwin, like we mentioned in the letter as well, our focus is to build a valuable service that customers actually are willing to pay more for rather than trying to provide an inferior service and leaning on discounting to grow. And that will be our strategy going forward as well.

Ashwin Mehta: And the last one, Delhi NCR growth was 7% sequential in this quarter. That appears to be a little soft, given that we've also indicated that we've added stores as well as users. So, is there something to read into the slower growth here because our overall growth seems to have been pretty healthy, but Delhi NCR seems to have slowed down?

Akshant Goyal: So Ashwin, there is seasonality also involved here. The overall business grew at 14%, and most of our new stores in this quarter were actually non-Delhi NCR. So, to that extent, 7% growth is not bad according to us. There's no saturation here in terms of demand or anything. As I said earlier, the growth will be lumpy not just one way, but in many ways. There could be quarters where we end up opening more stores in a particular city. So these things will keep going up and down.

Ashwin Mehta: Okay. And if I can just squeeze the last one. For Blinkit, we saw AOV drop in this quarter, given that we've expanded into adjacencies. Is it that some of this is not going into GOV and possibly going into take rate or is it more a seasonal factor?

Akshant Goyal: Seasonal factor. Even last year, we saw that dip in Q4, if you recall, and this year, the dip has been significantly lower than what we had last year. Assortment expansion leading to AOV increase is still playing out if you look at year-on-year comparison.

Moderator: Next question is from the line of Gaurav Rateria from Morgan Stanley.

Gaurav Rateria: The first question is with respect to the store expansion acceleration that we saw during the quarter, and it happened with very sharp improvement in contribution margin. So just trying to understand when the new store additions happen, does that have an impact more on the overhead cost below contribution margin level or does it have an influence on contribution margin as well?

Akshant Goyal: It has an impact on contribution margin also because the way we define our contribution, a lot of fixed costs are sitting above that. For example, the entire store operating cost is above that (contribution). So the impact is on both sides, and the increase in contribution you see is a function of the negative impact of new stores and the positive impact of the older stores increasing in terms of profitability.

Gaurav Rateria: Got it. Second question is on the data that you guys shared on store count and GOV city-wise, which is quite useful for comparison. Curious that this store count expansion is possible without necessarily changing the dynamics on competition because you think these markets are underserved or do you think this is also likely to up the ante on the competition for Blinkit?

Albinder Singh Dhindsa: Gaurav, nothing that we are doing is a function of looking at competition. Our viewpoint has been that we are able to go into markets and actually gain meaningful share because of the quality of our service. The quality of our service is everything in our business - it is assortment, it is timely delivery, it is the quality of products as well. We still see an opportunity to be able to go and do that and expand the overall pie of quick commerce in all of these markets, and that's what we're going to focus on.

Gaurav Rateria: Got it. Last question on steady-state margins that you guys shared. I think from the time you broke-even in food delivery to getting to a steady state of 4% to 5%, it's been eight quarters, and now maybe in another four to five quarters, you will get to that level. The journey for quick commerce should be similar or might be a little bit longer than that of food delivery to get to steady state because it's a much faster growing market, food matured much earlier. And hence, this investment required is much higher than that of food for quick commerce.

Akshant Goyal: So Gaurav, very speculative at this point. Very hard for us to say. It depends on the potential size of the market here, how many stores we end up opening and so on. So at this point, we're not in a position to very specifically answer that question.

Moderator: Next question is from the line of Sachin Salgaonkar from Bank of America.

Sachin Salgaonkar: Congrats on the quick commerce breakeven milestone. I have three questions. First question on take rate of Blinkit. Any color you could provide how much is ad? How much is core take rate? And how big could ad as a percentage of GOV be in, let's say, medium term?

Kunal Swarup: Sachin, we don't provide that breakup. The take rate has increased by one percentage point in this quarter. And it's a composite number, including product margin, ad income, and delivery charges. And at this point, we expect each of these to contribute towards the growth in take rate.

Sachin Salgaonkar: Got it, Kunal. Just a quick follow-up out here. We did see volatility in AOV from quarter-to-quarter. Should we expect a similar volatility in take rate or just because ad as a percentage of AOV continues to improve, we won't see that volatility?

Albinder Singh Dhindsa: I think some of it will be there as we also expand into different categories, but there is definitely an element of seasonality in our AOV. And there is also an element of seasonality in our product mix that we are able to sell on the platform. Therefore, you will see some amount of volatility across the average take rates. But overall, the trend for us has been that as a result of improvement on commissions on products and advertising and delivery fees, we've been seeing an upward tick in the take rate consistently, and we expect that to continue.

Sachin Salgaonkar: Any color on new use cases you guys are looking to add to the Blinkit platform? Anything on the services part out here?

Akshant Goyal: Please follow Albinder's Twitter (now X) handle for that.

Albinder Singh Dhindsa: We launched luggage today, if anybody wants to buy.

Sachin Salgaonkar: And sorry, just a quick follow-up out here. Clearly, you talked about an aggressive store expansion going into more places and broadening and widening the reach. Should we, at some point, expect the Blinkit MTC’s to cross the Zomato MTC’s?

Akshant Goyal: Absolutely. I think that seems like it will happen.

Sachin Salgaonkar: Got it. 12 to 18 months or difficult to give a timeline, Akshant?

Akshant Goyal: Difficult to give a timeline.

Sachin Salgaonkar: Got it. Last question. Any specific reason for increase in ESOP costs this quarter? Couldn't get that from your shareholders’ letter.

Kunal Swarup: Like we have explained, part of it is towards the Blinkit leadership team and senior employees, and that is the reason for the increase in current quarter, as well as the increase that we've alluded going forward.

Moderator: Next question is from the line of Vijit Jain from Citi.

Vijit Jain: Just two questions. One, regarding the Blinkit dark store acceleration, you will add 475-odd stores this year. Would these mostly come with existing dark store partners in these cities, Bengaluru, Mumbai, Hyderabad, and Delhi? Or do you need to add new partners there? That's my first question. And the related question, if I got the math of it right, you have 32 stores each in 6 cities, 62 stores in Bengaluru, 178 in Delhi NCR. So essentially, in that 500-odd stores you're going to add, it's about 100 each in each of these other non-Delhi NCR cities, that is Bengaluru, Mumbai, Hyderabad. Is that interpretation, right? What I'm trying to get at is if 180-200 is the right store count for larger cities for you to kind of do 10-minute deliveries to almost everyone you can target?

Akshant Goyal: Vijit, that ways that number is much higher. I don't think we' will even get to 178 in each of the 3/4 other large cities within the next 12 months. That might take longer. And from a more long-term perspective, each of these 4/5 top metros can easily have, for example, 500 stores each. So that runway on store expansion will continue fairly meaningfully beyond the next 12 months.

Vijit Jain: Got it. And how about the dark store partners? Do you need them to ramp up also in a meaningfully different way? Or do you think that is not a constraint to your growth plans?

Albinder Singh Dhindsa: Vijit, we are always looking for good partners for our dark stores. We are also expanding the footprint of our best operating partners in the existing cities. But we're also looking and talking to a lot more entrepreneurial folks that are looking to open these dark stores. And we'll increase that number as well. But our methodology more or less will remain the same.

Vijit Jain: Got it. And my last question, just sticking to Blinkit, if you could discuss a little bit on the non-food share in the Blinkit GMV mix. And just a clarification, you have said before that food delivery should see 4% to 5% of GOV in few quarters. That's still very much the timeline, right, few quarters?

Akshant Goyal: I think so.

Vijit Jain: Okay. And how about the first question, sorry?

Albinder Singh Dhindsa: We don't give the breakup of the different category mix, Vijit.

Vijit Jain: Thanks, those were my questions and congratulations for Blinkit breakeven in this quarter.

Moderator: Next question is from the line of Abhishek Bhandari from Nomura.

Abhishek Bhandari: So Akshant, can you talk about the vesting schedule of the new ESOP policy? And longer term, what is the thinking of the management on the ESOP pool? The last pool, what we issued was large enough at 5%, when the market cap was much smaller. But even today, the 2% looks a large amount. So thinking around the new ESOP pools also will be helpful.

Akshant Goyal: Yes. So Abhishek, on employee cost, we look at the summation of ESOP cost and the cash employee expense together. And as we've mentioned in our letter, that expense as a percentage of Adjusted Revenue has come down meaningfully from 29% in FY22 to 12% in FY24. And we expect that to continue, which is the operating leverage in the business. And within that, then there is a balance between ESOPs and cash compensation. And we believe we have to maintain that balance. The last dilution that we did on the ESOP front was prior to our IPO and we still have a large part of, or at least some meaningful portion of that ESOP pool with us today to be granted to employees. But we just wanted to expand that a little bit by 2% right now and we believe then with that, we should be good for the next 5 years at least or more in terms of adequately incentivizing our leadership and generally employees at Zomato and Blinkit.

Abhishek Bhandari: Okay. Let me ask you in another way. This quarter, we roughly had INR 160 crores of ESOP cost. So let's say, on a annual run rate basis, INR 650-odd crore annually. How should we think about next 2 to 3 years?

Akshant Goyal: So again, I will take you back to that point of looking at the total employee expense. We don't want to guide on specifically the ESOP costs at this point because we don't want to get ourselves into a box here. We want to have the flexibility on that front as long as the total employee cost is within a range.

Abhishek Bhandari: Yes, the reason for asking this, Akshant, and sorry for persisting here, is because we get measured on Adjusted EBITDA. So for us, it's an important metric to look at. So if you could give us some kind of indication, that will be helpful. Should we consider this INR 160 crores as the new run rate?

Akshant Goyal: Yes, it will increase from INR 161 crores for sure going forward.

Moderator: Next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: A couple of questions. First, on the store additions. How easy or difficult is it for you to get this kind of real estate? Because as I understand these are not on high streets. But still, you need a larger plate. So where are you on that curve in terms of getting those 1,000 stores out there?

Albinder Singh Dhindsa: So right now, we have a fairly healthy pipeline. We are always looking for and scouting and building our database around real estate in the cities that we operate in. So far, we have not faced any material issues in being able to get the kind of real estate that we're looking for. In addition, we have also been innovating on that front to be able to work with different configurations of real estate. So as we open more stores, we learn how to do more things in better ways, and that's what we'll continue to do.

Akshant Goyal: Having said that, Vivek, in all our guidance, there is some element of hope. So it's not like we have everything tied up for these 500 stores. But we are fairly hopeful that this is a realistic target to take for the next year.

Vivek Maheshwari: Got it. And the other bit, you have been somewhat calibrated in store additions so far and now you are accelerating it. In a typical retail business, we have seen that, there is a fair amount of retailers who choose wrong locations, which necessitates calibration as you go forward. In your case, you know a lot of business nuances already. When you think about moving or accelerating it, do you think there is a risk of getting the wrong sites, or are you very fairly confident about it? That's one part. And second, how do you view the cannibalization, since a lot of these stores are going to be in existing cities. It's not a risk-risk, but from a short-term perspective, throughputs in the existing store go down because the next neighborhood store is coming up. Is that something that we have to bear in mind?

Albinder Singh Dhindsa: On the second one, Vivek, even if the throughput in neighboring stores go down, the customer experience improves meaningfully for us. In our view, it's the right thing to do, and it also gives us bandwidth for adding more products for the customers as well. So we are usually not shy about opening stores in existing locations just on the off chance that the throughput of a neighboring store might get affected. To your first question in terms of real estate and how to get the locations right. Look, we will get certain locations wrong, and we do. And as a business, our objective is to decrease that miss rate as we learn more. But we feel fairly confident that the numbers that we are putting out, we will be able to deliver on that with a good enough hit rate and while making sure that the business and the P&L is healthy. So the guidance that you're seeing is an outcome of that confidence.

Vivek Maheshwari: Got it. The other question is on the AOV number, which has been fairly strong. Do you think as you get into, let's say, more neighborhoods or the mix of Delhi NCR goes down, is there a risk that, that number settles down on an average to a lower level than where it is today?

Albinder Singh Dhindsa: Vivek, right now, there are way too many factors which affect AOV. Like we mentioned, there is seasonality, there's assortment addition, which is also another vector of growth in the business. And then there are different city habits, but we don't expect any material movement because of expansion in the AOV overall.

Vivek Maheshwari: Got it. But can it get diluted, Albinder?

Albinder Singh Dhindsa: No, we don't expect that it will be diluted. But like we said, AOV has many more components rather than just being affected by the cities that we are opening the stores.

Vivek Maheshwari: So just one thing, Albinder, on this. Keeping the seasonality bit and portfolio mix the same, the cities other than Delhi NCR, do they have somewhat similar AOVs or Delhi NCR is by far ahead of everything else?

Albinder Singh Dhindsa: No, as our service in the city gets better and our assortment gets better, most cities tend to, or at least the top cities are converging to a similar number. Again, I would reiterate that there are a lot of factors which affect AOVs. For example, MRPs for most products in Mumbai tend to be higher than in Delhi. So, there are more than one factor which affects the AOV number. The takeaway I would want you to have is that we don't expect that the city expansion is going to have a material impact on AOVs.

Vivek Maheshwari: Okay. Got it. And last one, if I may, Albinder, Akshant, because there is so much of excitement around quick commerce, you are accelerating the store additions. What are your top one or two worries that you have about quick commerce at this stage? The proof of concept, everything is done now. What is it that worries you from a next 12 to 18 months perspective?

Albinder Singh Dhindsa: Vivek, we have to innovate on behalf of our customers. And we have to be paranoid about not falling behind on that innovation ladder. Because we believe that our business is all about constantly making things better, constantly innovating, getting better products to the market. That is what at least keeps me up at night. And in order to innovate at that pace, what you need is your teams to be not just on their toes, but also to be smart and humble and realize that they need to also show up every day to make lives better for our customers. So on both these fronts, these would be my biggest worries, that we keep innovating and then we have the people who also have the right mindset to keep innovating.

Moderator: Ladies and gentlemen, in the interest of time, we will now take the last one to two questions. The next question is from the line of Gaurav Malhotra from Axis Capital.

Gaurav, checking with you again. Can you hear us? Seems like he is facing some technical difficulties. So, we'll move on to our next participant, Samarth Patel from Equirus Capital.

Samarth Patel: Can you hear me?

Moderator: Yes, please go ahead.

Samarth Patel: I have three questions. Just adding on to previous participant's point, typically, FMCG companies in India typically allocate 8% to 9% of revenue to A&P spends. Now considering that Blinkit could be getting around 3.5% to 4% of GOV according to my estimates, how should we think about advertisement income going forward, especially considering that there could be some categories with low or no advertisement income such as foods and vegetables or electronics. So just your thoughts on the same would be helpful.

Akshant Goyal: So yes, Samarth, broadly we expect the advertising revenue in Blinkit to increase from where we are today. But at this point, we don't want to give a guidance on where it can go. But so far it’s been a major driver of unit economics, and that is expected to continue.

Samarth Patel: Just next question on Blinkit as well. So you mentioned in the shareholders’ letter that a steady-state margin for the business could be around 4% to 5%. What could be fixed cost as a percentage of GOV in the steady state? Would that number be materially different than food delivery business? The point I'm trying to get is, what would be the contribution margin required to achieve that kind of adjusted EBITDA in the business.

Akshant Goyal: That will broadly be similar to food because below contribution, we just have like people cost and marketing cost, which we don't think is going to be meaningfully different between the two businesses.

Samarth Patel: Okay. Got it. That was really helpful. Now the third question on the food delivery side. Do you foresee further rise in take rate through advertisement income in food delivery business? Or do you anticipate that it would primarily be driven by, customer side initiatives such as increasing the platform fee or the new value-added services that we introduced, like quick deliveries for an incremental fee? Would it be on the restaurant side, or the customer side is what I'm trying to get here.

Akshant Goyal: Samarth, we don't think of the business that way. We think of it more in terms of optimizing absolute profits in the business while providing the best experience to customers. And to be able to do that, these answers on economics keep changing. So, there is also an element of competition here and what they are doing and so on. We don't have a target on each of these line items that, take rate can go up to here and ad sales can go up to here. We're just juggling multiple balls with an overall intent of taking the margins in the business to a certain point and driving growth in the business. So yes, I would not be able to therefore comment specifically on the potential on each of the line items in the unit economics.

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