



Eternal Limited

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Q2FY26 Earnings Conference Call Transcript

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Management representatives:

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

Moderator: Ladies and gentlemen, a very good evening, and welcome to Eternal Limited's Q2FY26 earnings conference call. From Eternal's management team, we have with us today Akshant Goyal, Chief Financial Officer; Albinder Singh Dhindsa, Founder and CEO - 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 the 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.

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

Garima Mishra: Hi, thank you for the opportunity. My questions are on the quick commerce business. First, this quarter witnessed a big increase in MTU addition for Blinkit. You did allude to higher ad spends and investments towards this in the letter. Is this set to continue, and hence should we expect elevated ad spends going forward as well?

Albinder Singh Dhindsa: Hey Garima, this is Albinder. What we are seeing right now is that there are new consumers out there in the market, and if we are targeting them, we are able to onboard them at a reasonable marketing cost which is why we spent more on marketing this quarter as well.

So, till the point that we keep seeing this trend, we will keep investing however much that we can to basically power more growth. So, you should expect this to continue in the next quarter as well.

Garima Mishra: All right. So, in the same line, in the last quarter, you mentioned that every new customer cohort breaks even for you at CM level in month one itself. Is there any change to this metric, especially since MTU addition has gone up so much?

Akshant Goyal: No. We haven't seen that change yet, Garima. Just to add to Albinder's point earlier, Akshant this side, as long as we see a healthy CAC and a healthy LTV, we won't shy away from spending more on marketing because we're actually acquiring good quality customer base.

Garima Mishra: So Akshant, just on this point, is this strategy a sort of change or modification, whatever you might want to call it, has this anything to do with what you're seeing from a competitive intensity perspective?

Akshant Goyal: Not really. It's also a function of scale of the business. Now that we are at about 1,800 stores, it's a much wider geographical footprint. So, our addressable market has also expanded in the last few months and quarters. As a result, the CACs are not going up when we spend more because there is sort of operating leverage on the marketing costs now.

Garima Mishra: All right. So maybe last question on this thread, how should we think about EBITDA break-even in the Blinkit business? I mean, the general understanding was this should happen sometime in the second half of FY26. How should we think about it in this context?

Akshant Goyal: Garima, that's not really a milestone we are focused on. For us, the way we look at the business is that there are parts of the business which are more mature, which are already EBITDA positive, and we've shared that in the past. We mentioned that there are cities already north of 3% Adjusted EBITDA margin. So, there is, therefore, a reasonable size of our business today which is already reasonably profitable, and then there is cost of expansion, opening new cities, new stores, acquiring new customers. Eventually the Adjusted EBITDA that we report is a weighted average of these two parts of the business. This can keep changing depending on what kind of growth we see, what quality of growth we see, and how much we invest.

It's also linked to how competitive the market is and what the competition is doing. So, we see Adjusted EBITDA margin or break even more of an outcome of all of these things and not really something that we are chasing as a goal right now.

Garima Mishra: Got it. Thank you so much and wish you the best. I'll come back in the queue.

Akshant Goyal: Thank you very much.

Moderator: Thank you. Next question is from the line of Gaurav Malhotra from Axis. Please go ahead.

Gaurav Malhotra: Hi, good evening, everyone. I just have two to three questions. So first, when I see the NOV to GOV for quick commerce, that has sort of moved up, I think moved down by a couple of percentage points. So, is it more of the ongoing festive season and the ongoing different sales which everyone is doing, or is there an increased competitive pressure which you are seeing right now?

Albinder Singh Dhindsa: Gaurav, it's mostly because of the change in mix of products. So, JAS quarter has a couple of festivals, Rakhi being a big one. That is one of the reasons that you will see the difference being there.

Akshant Goyal: And Gaurav, just to add directionally, as the share of general merchandise and non-branded products on the platform grows, we are likely to continue to see this trend and therefore you can see in our data that we have shared over the past four quarters, this metric has sort of consistently come down which means NOV is a smaller and smaller percentage of GOV, which is also why we highlighted that we believe NOV is a more relevant metric to track versus GOV.

Gaurav Malhotra: Got it. Just following up on what Garima said and sort of linking it up with the 3,000 stores you've now given us and by when you want to sort of go to that number. So, is the higher marketing spend happening in the existing cities or because now you will be going to cities where there is no one else, right? So, is all the marketing spend more sort of skewed towards those newer markets and geographies?

Albinder Singh Dhindsa: Marketing spend is still skewed towards the larger cities because we also have a significant amount of non-serviceability in the existing larger cities, and that's where the larger volume of the business is. But we are also spending significantly now in the emerging cities as well, and we have a significant footprint for those, for which we are --

Gaurav Malhotra: Sorry, if I could just interject, I meant like on a per acquired customer perspective, on a CAC perspective, is there more spending happening in the existing markets or do you have to spend more in the newer markets where you have to sort of educate the people?

Albinder Singh Dhindsa: Are you trying to ask whether the CAC for consumers in tier one markets is different than the CAC for other markets?

Gaurav Malhotra: Yeah.

Albinder Singh Dhindsa: It's not significantly different.

Gaurav Malhotra: And just last question, if you can just help us understand how do we think about the revenue to gross profit? You have obviously given us full details in the shareholders' letter. But suppose next quarter when you go to say 90%, then how should we sort of think of this revenue versus the gross profit versus the NOV, that sort of formulation changing? If you can just give us some guidance on that, please, or not guidance, but just to understand how to sort of think about it.

Kunal Swarup: Gaurav, because of the step change of 80%, you saw the revenue growth meaningfully increase. So, that one step change has happened. Now it should be incremental from

here because 80% to 90% will result in some more dissonance in the comparable revenue, versus the past, but that step jump is behind us, if that was your question.

Gaurav Malhotra: Yeah. And just last question, if I may? So, what would be the remaining 10% inventory? Would it be like those higher ASP products or the low sort of frequency selling products? So, how do we think about the last 10% which you don't want to sort of shift to inventory?

Albinder Singh Dhindsa: We still have sellers on the platform who are selling different products for which we feel that the seller-driven model is better. The sellers also prefer that they stay on that model. So, that's the difference which we will see.

So, as what Kunal was saying, if you're trying to estimate the percentage of NOV which comes across as margin, that is going to be more impacted by mix change going forward rather than the change in the percentage of business which is on inventory versus not on inventory.

Gaurav Malhotra: Got it. Thank you so much.

Moderator: Thank you. Next question is from the line of Nikhil Choudhary from Nuvama. Please go ahead.

Nikhil Choudhary: Hi, thanks for the opportunity. My first question is on food delivery. Last quarter we called out that we'll focus on driving growth, and profitability will remain constant. But this quarter what we are seeing is that profitability actually improved while growth pick up is limited. So, just wanted to understand, was there some change in strategy or the elasticity of, let's say, additional spend is not leading to higher growth?

Akshant Goyal: Hi, Nikhil. So, the main delta here is increase in platform fee that happened in the middle of the quarter, which we did not anticipate or estimate at the beginning of the quarter, when we declared the last quarter's result. And our increase in platform fee was more of a reaction to what our competitor did. So, that's why you see the growth in margin versus our earlier guidance of margin perhaps remaining flat.

Nikhil Choudhary: No, I understand that part. The point, what I want to understand is, let's say if you would have invested those additional earnings to acquire more users or gain more market share, we could have done that, right? So, rather than let's say absorbing or, letting the profitability flow through, that's what we chose to do rather than focusing on growth. So that's the decision I want to understand.

Akshant Goyal: So, the decision on how much to invest for growth is a function of what kind of customer acquisition cost or reactivation cost for dormant users that we see. So, it's more driven by that rather than a specific P&L budget and till the time these costs are reasonable, and they make sense from a long-term LTV return perspective, payback perspective, we

would naturally prefer to spend and grow the business, but we have to stop at a point where these numbers don't make any sense anymore. And typically, that's the zone, that's the sort of threshold line that we operate with irrespective of how much budget or P&L room we have to spend on growth. I hope that answers it.

Nikhil Choudhary: Got it. Yeah, fair enough. The second one is on Blinkit side. I think what you have called out is that higher marketing spend is because of larger size. So, is it fair to assume that this kind of elevated marketing compared to previous quarter will continue in future quarter as well?

Akshant Goyal: Yes, at least likely in the near term, and that's what Albinder mentioned in response to a previous question that we do expect these levels to continue at least for now.

Nikhil Choudhary: And it has no implication from higher competitive intensity I assume, right?

Akshant Goyal: Yeah, that's another variable and we're assuming that to remain constant when we give this guidance. If that changes meaningfully in one way or the other, then this outlook can change.

Nikhil Choudhary: Got it. That's it for my side. Thank you.

Akshant Goyal: Thank you, Nikhil.

Moderator: Thank you. Next question is from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Yeah. Hi, good evening. So, two questions. Firstly, on Blinkit. So, you indicated that you've sort of ploughed back some of the incremental contribution, if you were to call it that, or incremental profitability back into marketing spend, and would it also be fair to assume that some of it has gone into price as well to make your products on the platform more attractive?

Albinder Singh Dhindsa: Yes, that was the first point in one of the answers.

Akshant Goyal: In point 1 of question 7, essentially that's what we mean there.

Aditya Soman: Absolutely. So then when I see the difference, obviously contribution per order has improved, but EBITDA per order hasn't, and that, would just be a function of marketing spend and the gap between those two?

Albinder Singh Dhindsa: It is an interplay between some gains in operating leverage and increased marketing expenses, yes.

Aditya Soman: Understood. Very clear. That was on Blinkit. And second question on District. Any sort of guidance on how you see the trajectory for sort of contribution or profitability playing out in District and how we should think of growth and profitability for that business?

Akshant Goyal: So, Aditya, we should expect growth to be around the current level of ~30% year-on-year. That is what we are expecting right now and profitability in percentage terms should improve. But as we mentioned also in question 11, we expect the absolute losses to sort of remain range bound around the current levels.

Aditya Soman: Fair enough. So around INR 60-70 crore of losses and, continue at a 30% growth trajectory, even in this current quarter where the base I'm presuming is tough given that you have, I'm assuming it's an important quarter for that business?

Akshant Goyal: It's possible, but our guidance is more at an annual level because on a quarterly level there can be seasonality for some of these events, concerts, movie releases, or let's say IPL event and so on. So, there is a lot of seasonality in this business and a couple of weeks of swings can lead to one quarter, not doing well versus same quarter last year. But what we are trying to guide is more on year-on-year growth than quarter-on-quarter.

Aditya Soman: Fair enough. No, that's very good. That's it for me. Thanks.

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

Ankur, can you hear us? Seems like we have some technical difficulties. Moving on to our next participant.

Next question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: Hi. Good evening. Thank you for taking my questions. First question is, again, a follow-up on food delivery. Now, since you mentioned that some of the factors that are causing headwinds are largely macro, in your opinion, for you to reach your medium term mark of 20%+, is it just that macro has to get better, or are there any other interventions that, you could do to get to that higher number?

And, since one of the reasons that you called out is also expansion of quick commerce which may have impacted food delivery growth, so, could we conclude that as long as quick commerce growth remains elevated, which may be for some time in the foreseeable future, food delivery in the foreseeable future is unlikely to see any meaningful improvement in growth trends and 20% may be a more longer-term target than a medium-term target?

Akshant Goyal: That's right, Manish. That's how I would also characterize the current situation. In terms of your first part of the question, whether we're totally macro-dependent, or can we do something else for growth, it's not like that those attempts to expand the market have not been done in the past, but the headwinds have been strong, including the soft discretionary demand in India in the last few months.

But from our side, we'll continue to focus on creating newer use cases to order food from restaurants and hope that the macro environment improves, which will bring growth back in the business to the levels that we think it should grow at.

Manish Adukia: Sure. Thanks, Akshant, and sorry to push you on this one, but why keep that 20%+ guidance? Why not make it like 15%+? I'm just trying to think that what gives you confidence that there's a 20%+ market and not a 15% market or like a whatever low-teens or mid-teens market?

Akshant Goyal: Guidance cannot be always close to the current growth levels. Then it's not really a guidance. So, the reality is the current growth rate number, which is around 15%, but whether you give guidance of 10% or 20%, you will have no basis for that. It's a judgment call and in the last letter we did say that for this financial year, we're unlikely to be at 20%, and we're expecting a 15% sort of year-on-year growth. But longer-term, our view on 20% remains as of now. And if that changes, we'll communicate, but that's where we are right now.

Manish Adukia: No, sure. Appreciate it. Thank you. And maybe just a couple of questions on the quick commerce business. I think again in the previous call, you had called out that as you transition to 1P, the benefit of that also should be immediate, but now, given your focus on growth, I think focus on growth was always there, but this time you've mentioned that it will take four to six quarters. So again, what has changed between the last three months for you to change that view on immediate transition of margin versus four to six quarters on 1P transition?

Akshant Goyal: So, what we mean by four to six quarters is the timeframe to fully realize it. What we meant last time and maybe we can clarify if there was any confusion is that the realization of the margin gains will start happening immediately, which has happened even in this quarter. But the overall margin accretion of 1% will take some while, because it requires you to negotiate with brands, you're signing contracts directly with brands, and that process cannot happen in one shot.

Manish Adukia: Right, very clear. A follow on that. I mean, your gross margin, 300 basis points of expansion in the QC business and I think contribution about 70. So, what you explained in the shareholders' letter is that incremental 230 basis points of cost was all linked to the first mile bit and some bit of let's say gross differential, I don't know in mix, etc. Just so

you can explain that differential as to what drove the 230 basis points of cost, was it all first mile or was it something else that was there?

Akshant Goyal: So, the entire margin expansion is not just on account of this business model change. There is actually a meaningful margin expansion outside of that also. Right now, I would say, therefore with respect to this 3 percentage point gross profit increase, the cost side increase is on account of the supply chain costs that were moved from the sellers to us. We're not giving a split of how much of the contribution margin gain is because of the business model change and how much of it is because of other efficiency and operating leverage, but that's what I wanted to highlight that it's a combination of both.

Manish Adukia: Thank you so much. Last question from me. Of course, like overall growth profile of the business, especially on the quick commerce side, continues to be extremely strong. If you can and I know you've shared this data in the past, can you give some color on, let's say, your most penetrated or mature city. What is the growth looking like there? This would help us build confidence as we think about the next couple of years because your store rollouts will aid overall growth, but would love to understand how maybe your top one or two mature cities are doing on growth?

Akshant Goyal: Manish, we do keep sharing these data points from time to time, and what I can say right now is nothing material has changed for us to highlight at this point. So, if you had good confidence in the business last quarter, I believe that should continue.

Manish Adukia: Thanks a lot. All the best.

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

Swapnil Potdukhe: Hi, thanks for the opportunity. I have two or three questions. First, on your store expansion strategy and related to that. So obviously, you have mentioned that you plan to operate around 2,100 stores by the December quarter and 3,000 by March 2027.

Now, if I were to just extrapolate that and ask you, what would happen to your NOV growth because you had earlier guided for 100% NOV / GOV growth this year, but, the kind of accelerated investments that you're doing on store side, will it be fair to assume that, we could be at a very, if not 100%, but close to 100% kind of a growth rate on NOV in FY27 as well?

Akshant Goyal: Yes, Swapnil, I agree. Currently if you look at the growth rate, it's much higher at 137%. So, I do expect the year-on-year growth to remain above 100% for the next one or two years at least.

Swapnil Potdukhe: Got it. And the second question is with respect to your contribution margin not improving meaningfully, despite the fact that your gross margins expanded 300 basis points and then you alluded to the fact that there is some first mile-related investments that you have done. Now, my question over here is if you're getting into those first mile, at some point of time, you will also probably see some benefits of doing first mile on your own, right?

And in that context, will it be fair to say that the 100 basis points of benefit that you're suggesting because of the inventory model, that could actually be much higher than that over a period of time, not necessarily now, but one year, two years later?

Albinder Singh Dhindsa: Swapnil, the overall percentage of our cost which resides in the first mile for brands is way too small to make a significant dent here, so it will not change.

Swapnil Potdukhe: Okay, got it. The second question is on food delivery growth. So obviously that 14% growth could have been much higher, in my opinion, given the changes that you had made on the minimum order value side. I mean, is there anything else you could have done or is it because of the fact that you made that change in the middle of August, if I'm not wrong, and hence the full benefit of that is yet to be realized and possibly in the December quarter you would see that benefit coming in. Apart from that, is there any other trick up your sleeve that you can use to accelerate growth in the food delivery business.

Akshant Goyal: You're right, Swapnil. The full impact of that change will appear in the December quarter and outside of that, as we've also mentioned in the letter, we expect a slow uptick in growth rate in the near term and there is no silver bullet that we have as of now.

Swapnil Potdukhe: Got it. Got it. And just on the District business. We have been in this INR 50-60 crore loss range for the last couple of quarters. When exactly will we see these losses coming down? I mean, you have suggested around similar kind of losses in the near term at least, but from a medium-term perspective, where will be the inflection point where we will start seeing some improvement in the losses in that business?

Akshant Goyal: So, Swapnil, FY27 should be better than FY26, in terms of losses in the business. That's how I would put it without really pinpointing a particular quarter, but it should happen in the next few quarters.

Swapnil Potdukhe: Got it. Good. So those are my questions. Thanks a lot for the opportunity and all the best.

Akshant Goyal: Thank you.

Moderator: Thank you. Next question is from the line of Ashwin Mehta from Ambit. Please go ahead.

Ashwin Mehta: Yeah, hi. Thanks for the opportunity. Just one question. So, Akshant, we've added almost 1,200 odd dark stores over the last year. Any sense that we can give either over the last two quarters, or the last four quarters in terms of, where these dark store additions have happened. What's the proportion towards tier 1, tier 2, tier 3, and is the skew towards, say, tier 2, tier 3 increasing in the recent times?

Akshant Goyal: Hi Ashwin. So, more than 70-75% of our store addition continues to be in the top 10 cities. While the number of city count seems to be exploding, but number of stores in these long tail cities is really small. So, majority of the business and the success of the business is still linked to how well we do in the top 8 to 10 cities, and that remains the focus.

Ashwin Mehta: Okay. So, do you envisage, as you possibly densify some of these tail cities as well, that the middle mile or the warehousing related expenses also start to kick in? At this point in time if we are just kind of testing waters here, then maybe that is on the lower side at this point in time. Would that be a fair assessment?

Akshant Goyal: Not really Ashwin, because most of these tail cities are being serviced by warehouses which also serve large cities. There have been only very few locations or states where we did not have that back end infrastructure and where we had to open a cluster across a bunch of cities, and then a warehouse to service them.

But our network design on stores already takes into account the fact that we have to be mindful of the backend warehousing cost and in locations where that doesn't make sense because you don't have a large city that is already being serviced, we have sort of stayed away from expanding into those markets. So therefore, the cost of expansion into the tail cities is not very high, at this point in time for us from a backend supply chain cost perspective.

Ashwin Mehta: Fair enough. And the last one is in terms of there's this 'Others' segment where we put in our new initiatives, the losses there are now comparable to the losses on the going-out side. So, any outlook here? What is the area where bigger investments are going and how should these trend?

Akshant Goyal: So, Ashwin, most of these losses are on account of our expansion in the Bistro business, which is a 10-minute food delivery service that we're building, and I will try and give some update on that business in the next quarter.

Ashwin Mehta: Sure, Akshant. Thanks, and all the best.

Akshant Goyal: Thank you.

Moderator: Thank you. Next question is from the line of Abhisek Banerjee from ICICI. Please go ahead.

Abhisek Banerjee: Hi, sir. Thanks for the opportunity. My first question is with regard to the new MTU additions which have happened in this quarter. You mentioned that you've got some high-quality customers. So, are these new customers in the segment or are they coming from one of your competitors?

Albinder Singh Dhindsa: Abhisek, it's hard for us to clearly demarcate where the new customers are coming from. We just know whether they're new to platform or not. But for the majority of the customers that we're talking about, we believe they would be new to quick commerce in general because one, we have the largest network of stores, so we're targeting the biggest geographies and also we are spending for growth in the segment and targeting new customers. So, that gives us confidence that most of them are new to QC in general.

Abhisek Banerjee: Got it. So, you also mentioned that the steady state proportion of in-sourcing will be about 90% rate inventory. Now, what is the 10% that you are kind of keeping outside? Are they fast-moving items or the slow-moving items? Any color on that?

Akshant Goyal: So, Abhisek, there are some categories where it's operationally easier for us to work with sellers than actually directly source it from the manufacturer. There are no large categories there, but actually a bunch of small products and SKUs that just operationally don't make sense for us to own directly and that's why we're going to let sellers run that business.

Abhisek Banerjee: Got it. Now, we have obviously built a positioning which kind of positions us as the player, where customers pay for convenience, right? Now that you have competed a little bit on the pricing front, does that in any way impact our positioning in the customer's mind? I mean, how to kind of look at that?

Albinder Singh Dhindsa: Abhisek, our positioning is that we want to be a customer first organization and do what is in the best interest of the customer. As we get larger and we get more efficiency benefits, what we will continue to do is also give our customers the confidence that Blinkit will also be the best price platform for them, which basically means we have to run our operations a lot more efficiently, we have to pass those benefits on to the customer, and we think that that is the right thing to do for our customers.

So, we don't think of it as positioning it one way or the other. We have customers willing to pay us convenience fee because they value the service that we provide and part of the value that we also want to provide them, so that they continue to value us even more, is the confidence that we're also the platform which gives them the best access to products, at the best possible prices.

Abhisek Banerjee: Understood. So, this is very helpful and I'm just kind of reiterating a point which some of the fellow participants also raised before this. If you can provide some color on the large cities and the smaller cities in terms of AOV etc., that would be highly appreciated.

Albinder Singh Dhindsa: Abhisek, it's not that different, I would say.

Akshant Goyal: We mentioned last time that the AOVs are not very different. The margins may be slightly lower in smaller cities as of now, but that's also because they don't have that kind of assortment that we are able to provide in larger cities in most cases. So that's all that we want to share at this point, but we'll try and see if we can include more details in the future shareholders' letters.

Abhisek Banerjee: Understood. One last question on the food part of the business. Are we seeing a sequential improvement here, beyond what we have seen in the last quarter? So, as in, are we less upbeat on the recovery here which is what the shareholders' letter kind of gives the impression. Just trying to understand that a little more.

Akshant Goyal: We've said that we expect a slow uptick in growth rate, but we do expect that growth rate will keep going up from here.

Abhisek Banerjee: Fair enough, sir. Thank you so much, sir. Appreciate it.

Akshant Goyal: You're welcome.

Moderator: Thank you. Next question is from the line of Vijit Jain from Citigroup. Please go ahead.

Vijit Jain: Yeah, hi. Thank you for the opportunity. My first question is, the take-rate commentary that you have, the 300 bps QoQ, nearly half of it seems to be coming from that first mile change. I wanted to understand if the majority of the rest came from advertising. There has been a lot of industry commentary recently, around FMCG companies significantly raising advertising budgets on QC. I'm just wondering if that is true and if you've reinvested those advertising revenues into customer acquisition? Is that a reasonably accurate way of looking at this?

Akshant Goyal: So, Vijit, what we're saying is that a large part of this 3 percentage point increase is on account of business model change. However, this business model change is also leading to costs going up. First mile cost is only a part of the reason of for costs going up. So, when we move this business from sellers to directly on our platform, the supply chain cost, which includes first mile cost, went up and hence that entire gain on the top-line margin because of the model change did not flow through to contribution margin, which is also consistent with what we've mentioned in the past that the net gain or net flow through eventually should be 1%, part of which we have realized this quarter and the balance will keep flowing through in the next four to five quarters.

So, just to be clear, this is the position on the impact of business model change on the top-line and the margin. Outside of that, we haven't seen any major bump in ad revenue in the last quarter which we would want to talk about. It is sort of business as usual on that front.

Vijit Jain: Okay. Got it. And my second question is, in question 7, one you said that the QC marketing spends went up 4x YoY, and I think 40% QoQ, and obviously your user growth has also been pretty high too, I think 2.3x YoY (25% QoQ). So, my question I suppose is when you say that your marketing expenses will remain elevated, is that going to be proportionate to new user additions, or are you having to see incrementally as well, some spends for retention work as well?

Albinder Singh Dhindsa: It's mostly new user acquisition, Vijit.

Vijit Jain: Got it. So, in that sense, if you add another 3 million or 4 million, let's say, users in Q3, the absolute spend on marketing just goes up commensurate with what you've seen in Q2 versus Q1. Is that accurate?

Albinder Singh Dhindsa: Ideally, there should be some operating leverage there.

Vijit Jain: Yeah, right. Got it. And my second question is in terms of these store additions that you're doing, right, 250 odd stores that you say, you'll add in Q3 and then, pretty similar, maybe 200 average beyond that. Should we think about this as, from here on, pretty steady, or will there be some spurts here and there?

I mean, I'm just trying to understand if you're looking at it in terms of specific spurts or just a steady cadence based on plans you've made?

Albinder Singh Dhindsa: It's very dependent on what we learn over the next few months as well. This is our current view. But if we find opportunities to grow even more rapidly, we have a store opening team which can possibly open a lot more stores every quarter as well, and we will take that opportunity, if and when it comes.

Vijit Jain: Got it. And my last question. The costs related to the inventory model change that you mentioned, right? So, are they all mostly above gross profit line or rather above contribution line or is there some additional costs between CM and Adjusted EBITDA as well in quick commerce?

Albinder Singh Dhindsa: Everything is above CM.

Vijit Jain: Got it. Thank you. Those are my questions.

Moderator: Thank you. 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 Manish Poddar from Invesco. Please go ahead.

Manish Poddar: Yeah. Hi. Thanks for taking my questions. And first of all, Akshant and team, I think, a great job in terms of executing on a lot of variables. As customers, we don't see the difference in terms of delivery when you would have migrated 80% or 90% of the system, I think. It's a great job on that front. I just have three questions.

So, the first one is any idea you would have on the quick commerce side of the business? Let's say, how would your market share be versus let's say three or six months back on NOV basis, then versus now?

Akshant Goyal: Hi Manish. Thank you. We do internally have a sense on market share. We do try and track it basis some sampling data that we do, but we're not sure about it because all our competitors are private companies. So, I would not want to conjecture on, therefore, numbers around market share, unless they're public.

Manish Poddar: Okay, and my understanding was that there is marketing intensity given you said that on the earlier question that your M3 retentions are good on the quick commerce side. I thought the marketing intensity of peers is going down, so your marketing cost or this CAC should come down. But this is not seeming to be the case. So, what am I missing here?

Albinder Singh Dhindsa: Manish, the understanding of this might not be correct because, typically, if a space is growing and multiple people are spending, then everybody usually has access to a wider chunk of customers that they can target for conversion, and you will see lower CACs. Even if the other folks are not spending, we might be taking 80% or 90% of the overall growth in the segment, but that doesn't necessarily mean that we'll get the lowest CAC. That's not how digital marketing works, which is the largest predominant portion of our marketing expenses.

Manish Poddar: Okay. And the final bit, let's say this 3,000 store target, let's say by next year, how should we think about, store reach, let's say, two, three, four years out, let's say if I had to think about it. Now, how should one think of it from that lens, I'm just trying to think. Let's say generally FMCG companies have about 8 million to 9 million outlets. Even if you think about, let's say the, direct reach for a lot of FMCG companies, that's about, 1.5 million to 2 million outlets. Some companies also do 3 million outlets. I'm just trying to think, how should we think of this 3,000 number, let's say two years out to three years out?

Albinder Singh Dhindsa: Currently our viewpoint is that our current geographical footprint helps us cover about 20% of the overall targetable retail market that we're looking at. Of course, we are

looking at a geographic footprint, not at a store level footprint. We believe that most of the profits and the high-quality profits that we can target, reside in maybe the top 40% of the targetable market.

So, that's where we are but even with this 20%, we don't have the kind of coverage that would help us to cover the entire geography. For example, we've just gone and put a single store in a city like Asansol. We'll have to let it mature, see where that market goes, and if it goes in the same proportion of population and GDP per capita that some of the larger cities have gone, then of course that city has the potential to be multiple times bigger than where it currently is, but that is something we will only take a call on once we have the proof point.

So, we want to be conservative in this expansion because our cost of supply chain expansion, building the footprint, going deeper into those locations, making a lot more products available is substantial. So, we will take a call on this once we have more and better information.

Manish Poddar:

But then Akshant, just to think about it when you're thinking about let's say 1,000 stores, let's say in the next 15 months post December, I'm just trying to think, can this 1,000, is that just a number and then probably six months out, you realize that you want to do 2,000.

So you might actually do 2,000 because I'm just trying to think if the product fitment is right, balance sheet cash is there, there's an opportunity which is seeming to be in place, given what you mentioned on the earlier questions on unit economics in tier 1 and tier 2, then I'm just trying to think, how do you think about 1,000 stores. I'm just trying to think about how that number comes across. Why can't it be 2000 or 1,500? I'm just trying to gauge your mind just on that perspective.

Akshant Goyal:

No, you're right. We're also early in this business, so we'll respond to what we learn, as we go along. It is very clear to all of us that the opportunity is large, but how large it is, is still unknown. It's a function of how many categories become big in quick commerce. It's a function of how the business shapes up in the smaller cities and, as far as the pace of expansion is concerned, it's also a function of the bandwidth and prioritization that we do internally. So, there may be a situation when, yes, the market is looking bigger and we have an opportunity to expand, and we have the cash, but we can take a call to prioritize, let's say efficiency improvement and, so that the cost of expansion or the profits we get from expansion goes up.

So, there are multiple dynamics at play, in terms of choosing the pace of expansion. And I would say because of that, we've been slightly conservative right now in our guidance in

terms of timeline of getting to 3,000 so that we have some room to actually make changes to how we want to grow if we have to.

Manish Poddar: Akshant, can I squeeze in one more if that's fine?

Akshant Goyal: Yeah, sure.

Manish Poddar: So, if I could just think about, let's say inventory, let's say SKUs available. How many SKUs would be available, let's say in a city like Bombay or Delhi versus, let's say, a tier 2 city and, is the, let's say the hero SKUs or the core cohort materially different? I'm just trying to think in terms of adoption of these categories in these cities is what I'm trying to think of. I understand probably shorter on time on a call, but I'm just trying to get some glimpse of that.

Albinder Singh Dhindsa: Manish, so, obviously, when we talk about tier 2 and tier 3 cities, the availability of assortment to customers is multiple times lower than the larger cities. The primary reason for that is that the supply chain depth needed to make those products available is not there and we have to build it from scratch, and that's a process which we are going through. And we have found reasonable success doing it so far, but you can be assured that number is multiple times lower than what it is in Delhi or Bombay or Bangalore. A tier 3 city would not even be close to the overall number of SKUs there.

Manish Poddar: Got it. Great guys. Thank you and Happy Diwali.

Akshant Goyal: Thank you, Manish. Happy Diwali to all of you.

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