Eternal Limited

(formerly known as Zomato Limited)

Q2FY27 Earnings Conference Call Transcript

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Management representatives:

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

Moderator: Ladies and gentlemen, a very good evening, and welcome to Eternal Limited's Q2FY27 earnings conference call. From Eternal's management team, we have with us today Albinder Singh Dhindsa, Akshant Goyal and Kunal Swarup.

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 Garima Mishra from Kotak. Please go ahead.

Garima Mishra: Hi, thank you so much for the opportunity. First question, could you comment on the competitive scenario in the food delivery business? Has discounting been more aggressive in 2Q than it was in the previous few quarters? In this context, should we assume that margins of the food delivery business have peaked out and any surplus would just be reinvested towards growth?

Akshant Goyal: Hi Garima, Akshant here. Generally, the competitive intensity last quarter in food delivery was higher compared to the previous few quarters, and partly also driven by Zomato. We've been aggressively investing in growth, and we are seeing good outcomes on certain investments that we've experimented with in the last few quarters, and they're paying off well.

In both new customer acquisition as well as in driving frequency of our existing customer base, we have increased the amount of investments we have done consistently over the last few quarters, and that trend is likely to continue.

Directionally, we want to maintain margins broadly and reinvest in growth as much as it makes sense to continue to drive the growth upwards. That's what the operating principle is. It's hard to project or comment on margin trajectory every quarter but broadly, over the next 1 or 2 years, we expect the margins to remain flattish.

Garima Mishra: Sure, that's helpful. On the quick commerce business, the new store addition targets that you've laid out are more aggressive than they have been in the past and imply a higher run rate of store additions in FY28 versus FY27. What is giving you this confidence? Of course, there are some things you've laid out already in the letter but

what kind of geographies would this entail expansion into? And does this automatically mean that the tier 2, tier 3 cities would account for the lion's share of these incremental store additions, particularly those in FY28?

Akshant Goyal: That's right, Garima. Directionally, we've also mentioned in the letter that the bulk of the expansion of these new stores will be in smaller cities. We do expect that to be the focus from here on, and we are seeing great outcomes in terms of payback on these stores in these markets that we've expanded into in the last few quarters.

Garima Mishra: Great, that's it from me for now. I'll come back in the queue.

Akshant Goyal: Thank you.

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

Aditya Soman: Hi, good evening. I have two questions. Firstly, on dark.ai. You've included some disclosure on it being sort of a privacy-focused LLM for power users. First, is that correct? And second, can you elaborate a little more on what capex this could entail and how you see monetization? And is this within Eternal?

And then on quick commerce, again, just dialing down on that store expansion. On the cost side, is there a meaningful difference in the cost to serve a smaller town today? And how do you expect to overcome that over time? Or is it just a function of you having a higher market share in these small towns?

Akshant Goyal: Hi Aditya. Yes, dark.ai is definitely in Eternal. Anything in this letter is safe to assume is part of Eternal. On your other question, this product has been in the works for about a year, and it's not monetized yet, so all the costs here are accounted for in our 'Others' segment. So they are already carved out. They're not very meaningful at this stage, and we don't expect the capex or cost to become meaningful, at least as of now, unless, of course, we receive a blockbuster response to this product. Then there might be a scenario under which we may have to invest in infrastructure, GPUs, etc., and we'll update everyone if that happens.

As a base case, we think this could be a high gross margin business, which could fund itself largely and get to profitability pretty soon. That's the outlook right now. It's very early. Once we launch, we'll iterate on what's the right monetization here and how much we need to invest to continue to grow the business. We'll take those calls closer to the launch time, and maybe after that, once we get some feedback from our customers. At this point, there's nothing that we want to highlight.

On your question on tier 2 markets, I think what you're asking is whether these markets, from a unit economics standpoint, are any different/ better / worse-off than the larger

markets, or is it just that we are getting into these markets so that we have the first-mover advantage on market share. What we have seen so far is that the economics are pretty robust. Paybacks are extremely good in these markets. The other point is also true that these markets are less competitive, and going in first does give one an advantage of locking in the early users of those markets. Both of these things are true, and that's why we want to double down on expansion into these markets at this point.

Aditya Soman: Perfect and if I may just follow up on the first one. On dark.ai, is this likely to be open to everyone or would you limit it being open to a few customers or is that something that you would rather disclose when it happens?

Akshant Goyal: We'll see. We are still a few months away from launch, so we'll see how the go-to-market is. But long term, it's a product open for all. The reason we've said it's for power users is that it could be priced in a way where it may not become a product that everyone wants to use. We'll see, we're still debating this. We don't know.

Aditya Soman: Understood, clear. I'll come back in the queue.

Moderator: Thank you. Next question is from the line of Jignanshu Gor from Bernstein. Please go ahead.

Jignanshu Gor: Thank you for the opportunity. Just two quick questions on the quick commerce business, especially in the context of expansion into tier 2 cities and in context of increasing assortment. What is our view on 1P versus 3P here? A few quarters ago, Akshant, you had mentioned that we will keep 90-95% of our SKUs as 1P and the rest as 3P. I just want to understand how to look at working capital in the context of expansion outside the larger cities into smaller cities and more assortment.

Akshant Goyal: Jignanshu, we are at that steady state now where about 90-95% is 1P, and we don't expect any more incremental working capital change on that account, if that was your question.

Jignanshu Gor: Sure. The second point is on quick commerce profit margin profile, and specifically the indirect cost structure — how do we understand this? Despite the excellent growth that we are seeing, and the larger store addition into smaller towns, the contribution profit margin is explainable, but the sort of 15-20% QoQ growth that you are seeing on indirect cost — how do we think about this going forward?

Akshant Goyal: Jignanshu, a lot of the cost below contribution margin is also variable. We've mentioned in the past also that everything above contribution is not variable and everything below contribution is not fixed. For example, technology server costs are below contribution. So, as the business scales, those costs will go up. And some of those costs are priced in dollars, so the exchange rate also doesn't help there.

Broadly, what we should look at is the overall Adjusted EBITDA margin, and a lot of the improvement we see there is on account of operating leverage. Till the time we continue expanding, that is what will drive most of the margin expansion. And at some point, as expansion becomes a smaller part of the business, we will see incremental improvement on account of variable costs coming down also.

Jignanshu Gor: Fair, helpful. Just a very small one, if you can. Are we selling anything different in the smaller towns versus what we are selling in a metro like NCR? Is the customer uptick of product categories different?

Albinder Singh Dhindsa: Jignanshu, not significantly. The assortment in our expansion cities is a subset of what we are selling in the metros. But of course, the product mix might be different because some of these cities are picking off a different base, and we do see that some of the products which are harder to find in these cities start selling a lot faster compared to the uptick they see in the metros, because there they are much more easily available.

Jignanshu Gor: Very helpful, thank you Albinder. Thanks for the opportunity. I'll come back.

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

Gaurav Malhotra: Hi, thank you for the opportunity. Just wanted to touch base on question number 2, where you have detailed out how you think about agentic commerce. A couple of questions over there. First of all, have you opened yourselves up to agentic traffic? I see in some places you have. Then the question is, why do it right now, when things are still in an evolving stage and you want to build your own kind of vertical agent? Just wanted to get some sense on that perspective, please.

Akshant Goyal: Gaurav, it's very early, and we want to learn and experiment. In any case, in India, agentic commerce adoption is close to zero. We want to be prepared for all scenarios; if it does change, then we want to be there for our customers. We're not saying agentic commerce is not a use-case. It will be relevant for some customers, and we want to be there for those customers on those platforms. These are all iterative things, and these things can change over time. I generally agree with what you are saying, and what we are doing right now has no bearing on how we think about the market and what we want to do in future.

Gaurav Malhotra: So, you're saying at some point in time, if you see the market evolving in a particular way, you may actually block off the agent traffic also. That's an option which sort of exists, say, at a later stage.

Akshant Goyal: Yes, we would think about it once it's at a relevant question. This question is not even relevant in the Indian context right now. Things are playing out differently in the U.S. and in other markets, and we are learning from what's happening there. We think that market

will lead how things shape up in India, and India will follow in some sense. Most of this debate would get settled before any meaningful action or any meaningful change in customer behavior happens in India.

Gaurav Malhotra: Just last question. On food, we see new players entering. Are we picking up anything as to what has suddenly got a few players interested in food? It's a fairly penetrated category and it's surprising that people are planning to enter this category at this juncture.

Akshant Goyal: It doesn't make sense to us at all either and we are equally surprised.

Gaurav Malhotra: Okay, cool. Thank you.

Moderator: Thank you. 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. I have a couple of questions on quick commerce and then one on dark.ai. On quick commerce, I wanted to probe a little bit more on your comment that you now have a better read on competition. Maybe Akshant or Albinder, if you can just elaborate on what exactly you mean by that?

Akshant Goyal: What we mean is that we went through a period over the last 12 months where I would say the competitive intensity significantly increased in quick commerce, including new players entering and the market becoming a 5 / 6 / 7 player market. We have that 12-month period behind us. We know how it impacted our business, we know our strengths versus other players, and we have some idea of how other players are thinking about this market — what are they investing on, what are they building, what's their strategy, etc. All that information and data help us feel more confident about reaccelerating expansion.

Doing this last year would have been fraught with risk because we didn't know how some of these things would have panned out, and payback on investments are very important for us. We were in a period in the last 12 months, where the visibility on those things reduced. But now, as we mentioned last time also, competition is more predictable now, and that provides an opportunity for us to become more aggressive on infrastructure expansion.

Manish Adukia: Very clear. You called that out in the context of your growth and being able to expand in a clearer manner versus what you could, let's say, 12 months ago. But does that better read on competition also give you more comfort around your $1 billion Adjusted EBITDA guidance that you have for FY29? Or, from your standpoint, is that not really material versus what you thought a few months ago?

Akshant Goyal: I would prefer the second option of your answer — no comments on that at this point. It's very early on that three-year journey; we're still two quarters in, so I don't want to jump too much into the future. We maintain that guidance as of now.

Manish Adukia: Very clear. And then when you're guiding for growth to pick up in Blinkit from 79%, are you specifically referring to the December quarter, or is that a more generic comment for the next 12 months?

Akshant Goyal: No, it was a specific comment. What we are saying here is that as we accelerate store addition, which is starting OND, we don't expect that to hit the margins in the short term. Longer term, of course, margins will continue expanding, but we don't expect that there should be a short-term margin reduction on account of accelerated store addition.

Manish Adukia: Sorry, just to confirm — when you talk about growth picking up, are you talking about store growth pickup or NOV growth pickup, in that shareholder letter response?

Akshant Goyal: It was NOV growth.

Manish Adukia: Right. And just to push on that, you're talking about NOV growth pickup starting the December quarter on a YoY basis?

Akshant Goyal: That's right.

Manish Adukia: Understood, thank you for clarifying. Just a last question on dark.ai. One, how does this fit into what you already do in District, Zomato, Blinkit? Just trying to understand your competence in being able to build this business versus somebody else. And second, I know it's still early from a monetization lens or how you will think about go-to-market here, but in your own assessment, just trying to think from a business model perspective — this is like an application layer on top of open-source models. Is this something that you think can become very meaningful, or is this just one other thing that you're trying and you'll see how it evolves over time?

Akshant Goyal: It's definitely nascent. We don't have a point of view on whether this could become big or not. If it works, it will become really big; it's more like a zero-to-one bet at this point. If it works, it's a global business and it will generate extremely high shareholder value over the next few years. But if it doesn't work, it's something we'll kill. So that's the space we are in.

On the right to win, in these AI businesses, we think no one has the right to win. It's a nascent market, both consumer and enterprise AI, and most of the new large businesses coming out are actually startups. As I mentioned in response to the previous question, this is something we've been working on for about a year. And there are one or two more initiatives on the enterprise AI side that we have spoken about in the past, including

Nugget. Again, those are businesses or products we've been working on for the last many years. We expect the next 12 months to tell us whether any of this will become meaningful. These are all businesses where any of them, if they scale, is going to deliver a multibillion-dollar market cap outcome. We definitely want to take a shot at these opportunities where either we have some unique capability which gives us the right to win, which is true for the enterprise AI products that we are working on, or we have some unique insight on the consumer side that we think no one else is building and we can take it to the market first. Dark.ai is a little bit of that.

Manish Adukia: Thank you so much for taking me through your thought process.

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

Gaurav Rateria: Hi, congrats on a good set of numbers. My first question is on the quality of growth that you talked about, that it should be led by MTU growth and this number can grow to a much larger number. This could potentially be true, led by your foray into the smaller cities, which are really playing out well. I just want to understand how you are seeing the MTU growth in the top 8 cities. What is the penetration level that we have already hit there? Is there a north star metric that we can look at in any one of the cities where you have hit a certain ratio, at which other cities can also catch up to?

Akshant Goyal: Gaurav, even in larger cities, we are still seeing extremely good levels of growth, and that is driven by both new customer acquisition as well as category and assortment expansion. For example, in our mature cities, Blinkit MTU is already multiple times that of Zomato, and we don't see any plateau there yet. We don't want to speculate on how large the top markets can be but suffice to say that whether you look at NOV growth or MTU growth, the larger markets are still growing at a very rapid pace.

Gaurav Rateria: Got it. Second question on food delivery. The margins that you want to keep stable right now, I mean you are already in the band that you had talked about. But it looks like the business still has a lot of operating leverage, which can deliver margin expansion. Is this strategy of keeping the margin stable more in the near term to counter the competition, if any? Or is it more to further expand the TAM and lead to overall market or overall pie expansion in the country?

Akshant Goyal: Gaurav, it's more the latter. What you said first, it might help us compete with the new entrants. But primarily, we started investing, as I mentioned, not just now but over the last few quarters, and those investment levels are going up, and that's also delivering growth as we can see. What we're trying to do here is expand the market and expand the growth for the business, which eventually leads to higher growth on absolute Adjusted EBITDA profits. That's what we're trying to solve for, not the percentage margin. We feel that we can drive more growth in absolute Adjusted EBITDA by investing more in growth

rather than optimizing for margins. We've been doing that consistently for a few quarters now, and we will continue on that path until we see the outcomes.

Gaurav Rateria: Got it. Last question on dark.ai. How should one think about it? Is it more like an application layer or more like your own reasoning model? And the moment, let's say when you get more confidence for launching it into production, what kind of investment would it require, not in terms of quantification, but what kind of investments you need to make like hardware, software? What nature of investments will it require for you to scale it, once it goes into the production stage? Thank you.

Akshant Goyal: That will be largely hardware and compute. Those are the investments we will need here, which we are already doing, since we've been running it on a pilot for the last few months internally within Zomato. That's what it is.

Gaurav Rateria: Thank you.

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. Hello? Can you hear me?

Akshant Goyal: Yes, Swapnil. Hi. Please go ahead.

Swapnil Potdukhe: Hi, thanks for the opportunity. The first question is on your question number 10, where you mentioned about some mature cities, with more than 70% of NOV being EBITDA positive. Can you help us understand what exactly you mean by mature cities, and if possible, name them? And are these cities predominantly in North India? I'm just trying to understand that.

Akshant Goyal: Mature cities are cities which have been operating for more than 2-3 years now. They will include the metros and some of our older cities, which may not be metros but are in the top 15, top 20 cities. I don't want to name any specific city here.

Swapnil Potdukhe: Okay. But is there any skew towards North India specifically, or is it spread across?

Akshant Goyal: It's spread across.

Swapnil Potdukhe: Okay. And just a related question to that, what percentage of our NOV now comes from the top 8 cities?

Akshant Goyal: We are not sharing that data.

Swapnil Potdukhe: Has that percentage moved significantly from the last time, when you mentioned somewhere around 70%? If you can just qualitatively get that answer.

Akshant Goyal: It is reducing directionally.

Swapnil Potdukhe: And the second question is with respect to your contribution margin in Blinkit. I can see that your NOV per store has gone up, and this happened last quarter also, but your contribution has been flat. Which means the uplift that you should ideally get from dark store or warehousing cost has not necessarily flowed down to your contribution. Is there any particular reason to call out here why that has not happened?

Akshant Goyal: Investment in new stores.

Kunal Swarup: Also, Swapnil, the NOV per store can also go up because the store sizes have increased, but therefore the cost will also increase. Both are not necessarily correlated. And the other factor is also gross profit. While NOV per store can increase, it doesn't necessarily translate into gross profit because the mix can be different. There are various factors at play, and there won't be a linear correlation between NOV per store going up and contribution.

Swapnil Potdukhe: Okay. And then you talked about there not being much difference between quick commerce and e-commerce in your mind. Does that realistically put your TAM at around 30-35 crore transacting users on e-commerce today, assuming all the use cases that are currently served by e-commerce will eventually move to quick commerce? Is that how one should read that?

Akshant Goyal: We are not aware of the 35 crore TAM that you mentioned. No one has disclosed that. If that is the number, then yes, you're right, but we don't know whether that number is true or not.

Swapnil Potdukhe: But directionally, you're basically saying that all the use cases that can be served on e-commerce will eventually move to quick commerce.

Akshant Goyal: Maybe not some categories like fashion, etc., that is different. What we're saying here is that the MTU addition can still be meaningful from here. Now whether the 37 million becomes 350 million as you are saying, or 100 million or 200 million, we honestly have no point of view on that.

Swapnil Potdukhe: Just the last one, on your AI agents. Can you make out what percentage of your traffic is actually coming from these AI agents today? And are there any defensive measures you can take to block this traffic if you don't intend to give them access? I'm just trying to understand what measures you can take if you think that you don't want to service that kind of traffic.

Albinder Singh Dhindsa: Swapnil, right now we are friendly to the traffic. We also keep investing in whatever are the latest protocols that we need to build on our end to make these transactions more

user-friendly from an agentic point of view. Right now, the traffic is negligible. While we keep doing this to make sure that we are also able to see what is happening, collect data and prepare ourselves in case this is something which gets traction, but so far there is no traction. So far, we don't even have a plan to figure out how to block them if we need to.

Also, we don't really have a lot of use cases where there is nuisance traffic from agents, because we are more of a transaction platform across the board. We don't have to block traffic which is causing problems for us. In the near term, unless we need to block them to block transactions, there isn't a use case for us to want to block agents.

Swapnil Potdukhe: Got it. Thanks a lot for taking my questions and all the best.

Moderator: Thank you. Next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Yes, thanks for the opportunity. A couple of questions. One, despite the fact that our overall store count in QC has grown by almost 50% YoY, the NOV per day as well as orders per day per dark store continued to grow pretty healthily at 16-17%, and I'm assuming that these numbers would be higher for stores which have been opened 6 or 9 months ago or anything prior to that. Incrementally, you're talking about nearly doubling dark stores over the next 6 to 7 quarters. Just wanted to understand, from a metric perspective, do you believe incremental dark stores will ensure that these NOV per day and orders per day remain in the range where we are? Or is there still significant scope for these to continue to improve?

Akshant Goyal: Rishi, it's very hard to predict that, and we're not solving for that either. Eventually, the idea is to make sure that we see good ROCE on the investments we are making. We keep updating investors on what's our framework for that and what our outlook is on each of those metrics which influence that ROCE.

Basis what we know today, yes, we think NOV per day should go up. We gave guidance last time that in steady state it could get to about INR 11 lakh per day per store. We are at INR 9 lakh today. We do think it will go up directionally over time, but there could be some quarters where the growth in the number of stores is lumpy, and therefore it may not be linearly upwards. But directionally, yes, it should go up. And even if that view changes, what I'm trying to say is that it can change, but we could still deliver a high ROCE in the business because margins go up or something else happens. It's very hard to commit to this going up continuously over the longer term.

Rishi Jhunjhunwala: Understood. And the second question is on dark.ai. Just wanted to understand from a long-term strategy perspective. You've already invested significantly in the 3-4

businesses that you're doing. Is it fair to assume that over the next 3-5 years, we are leaning towards trying to build businesses which can be monetized on the tech side, and incremental capital may actually get utilized on that aspect, given that even if suppose this dark.ai succeeds, it will probably require a significant amount of investment as well, even if monetization and profitability may end up being high? Are we looking at the next level of value creation coming from some of the tech assets or capabilities going forward?

Akshant Goyal: That would be a great outcome for everyone if that happens. That's always our intention to continue to look for new opportunities / new businesses. And the good thing is that we have the balance sheet to invest, if required, into building these businesses, as long as they demonstrate a longer-term return on capital. We are on that path, and over the last 2-3 years, developments on the AI front have given us an opportunity to take a shot at building some new businesses, which is what we are doing.

Rishi Jhunjhunwala: Just to delve a little bit deeper, there are other opportunities available on the services side as well in the consumption basket. Is it fair to say that we are leaning more towards the technology side of the spectrum rather than the services side, where we are not present today?

Akshant Goyal: Yes, the opportunities are, of course, many. We have to play to our strengths. Whichever business appeals to us and where we feel we have a right to win and a right to build is what we are choosing. We don't have the right to do everything. For example, as we mentioned in the letter, private labels in quick commerce is not something that we think we have competence in, so we're choosing not to do that. Opportunities are everywhere, but we have to focus on subjects where we think we are a bit of experts and where we think we have some core insight which allows us to build a successful business.

Rishi Jhunjhunwala: Got it. Thank you so much. All the best.

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 Vijit Jain from Citigroup. Please go ahead.

Vijit Jain: Hi, thank you for the opportunity. My first question is on the main Zomato app. You have the chat AI interface and a text box there, as well as an interactive bit there. How do users engage? Do you see any difference there between the two? And does that inform your view on how some of these general horizontal AI chatbots and AI agents would evolve over time? Do people show a preference of one over the other? That's my first question.

Akshant Goyal: The current AI bot that you see, we are seeing some traction there. But we are iterating on it, so you will see a much better product in the coming weeks and months. The

attempt here is to see what parts of agentic interfaces actually work for our customers. And some of the insights we shared in response to question 2. For e.g., we think people still want to browse. On the current Zomato app, you can go and do a conversation to order your food, but we are not seeing too much of an uptick on that, and people still want to browse and order. It's an attempt to learn what the consumer behavior is, and we will continue to adapt and iterate on how we can make our interface better using the capabilities that AI offers us today.

Vijit Jain: Got it, thanks. My second question is that in 1Q, you talked about some gourmet store expansions in tier 1 cities. I just wanted to get a sense of how that has progressed. And in general, your NAOV at an overall level, net AOVs, are stable. You've said that, obviously, new cities are maybe 10-15% lower. Is it the gourmet stores, in general, that are offsetting the impact from newer cities, because clearly newer cities are growing faster? Just wanted to get a sense, on (a) the gourmet stores as a collective, and (b), whether that interpretation is correct.

Albinder Singh Dhindsa: Vijit, we've expanded gourmet to Bangalore and Bombay as well. We are not disclosing the separate overall number of gourmet stores, but we have opened in those locations. They do not form a significant percentage of the orders to basically impact the NAOV like you're talking about. Most of the offset for the NAOV is assortment expansion in tier 1 cities, which leads to higher NAOVs in tier 1, and that balances out some of the lower NAOVs from tier 2 cities.

Vijit Jain: Got it. And just a related question to that. That pareto principle you've talked about the high-volume SKUs is what you want to focus on within quick commerce, the ones that would move volumes. Is there any calibration to that assessment as you weigh deeper into the long-tail e-commerce?

Albinder Singh Dhindsa: We don't have a pareto in mind. I'm not sure if we've given that guidance at any point in time. Our thought process is that as we scale up and as our supply chain gets bigger, we are able to add more SKUs at a lower incremental cost. That is why we are able to add more assortment in tier 1 cities faster, because we have bigger scale there. And as tier 2, tier 3 cities also get bigger, we are able to add more and more assortment at a much lower incremental cost.

Vijit Jain: Got it. So, generally speaking, going forward you would be more comfortable stocking some products for longer than, let's say, your average stocking period has been in the past in the dark store? I don't know if I asked that question right; I hope you understood what I was trying to get at.

Albinder Singh Dhindsa: Look, we already sell air conditioners, and you can't keep just one week of inventory for air conditioners. So obviously, the holding period is much longer for those products, and we are comfortable doing that.

Vijit Jain: Understood. Perfect. Thank you so much. Those were my questions.

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

Abhisek Banerjee: Hi, a couple of questions from my side. First, on the growth part in quick commerce. Would you be able to give some color on the growth in Delhi NCR versus, say, tier 1 cities versus, say, tier 2 cities on a sequential basis?

Albinder Singh Dhindsa: Abhisek, we're not providing that breakup. But in general, we haven't seen any awkward trends over there. A lot of our growth, you also have to understand, is also linked to how our supply comes online. So that tends to create a differential between what is happening in different cities.

Abhisek Banerjee: Got it. In terms of the store expansion, you have mentioned that there is going to be a lot of store expansion in tier 2 and tier 3 cities. Will the capex requirement for adding new stores in tier 2, tier 3 be lower than that INR 2.5 crore number that you shared earlier, or is that a blended number?

Akshant Goyal: That's a blended number, Abhisek. That guidance was given keeping in mind that a large part of our expansion will happen in Tier 2 cities.

Abhisek Banerjee: Understood. One comment that you made was that the line between e-commerce and quick commerce seems to be blurring. On the ad revenue as a proportion of NOV, what I understand is that there is still at least a 200-300 bps differential between what you earn versus, say, some of the leaders. Do you think that is also going to converge over time?

Albinder Singh Dhindsa: Abhisek, I'm not aware of that differential that you're talking about, so it's hard to comment on where we are versus anybody else's numbers. We are actually not aware of those numbers.

Abhisek Banerjee: Fair enough. Okay, sure.

Albinder Singh Dhindsa: Understand your question is around monetization of ad revenue. The difference with our platform today is that we are able to tap into brand revenue, whereas your horizontal e-commerce platforms can also tap into ad revenue from the sellers themselves, which are competing on the platform. But as the overall assortment converges, both these numbers tend to converge.

Abhisek Banerjee: Understood. In terms of food delivery, we are seeing five quarters of acceleration in growth, and you yourself mentioned that you have been a little more aggressive in terms of pricing in some geographies. Is a 22-23% kind of YoY growth a fair number to keep in mind for the second half, or should we be a little more conservative?

Akshant Goyal: Abhisek, we won't be able to comment on that question, as you would appreciate.

Abhisek Banerjee: Sure sir. Just one last question on dark.ai. I'm honestly not very clear on what it is. Is it, say a Llama sort of model which you are building ground-up? Or is it an application layer which kind of utilizes a model like Llama? If you could clarify a little on that.

Akshant Goyal: It's the latter. We are using open-source models and fine-tuning them and building an application on top of them.

Abhisek Banerjee: But you also mentioned that there may be a need for your own compute and GPU.

Akshant Goyal: That's for hosting the models

Abhisek Banerjee: Sorry?

Akshant Goyal: For hosting the models.

Abhisek Banerjee: Okay. Fair enough. Very helpful, thank you.

Akshant Goyal: Welcome.

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