Zomato Limited Q2FY24 Earnings Conference Call Transcript

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Management Representatives:

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

Moderator: Ladies and gentlemen, a very good evening and welcome to Zomato Limited's Q2FY24 earnings conference call. From Zomato's management team, we have with us today, Akshant Goyal, Chief Financial Officer; Albinder Dhindsa, Founder and CEO of Blinkit; and Mr. Kunal Swarup, Head of Investor Relations.

Before we begin, a few quick announcements for the attendees. Anything said on this call, which reflects outlook for the future, or which could be construed as a forward-looking statement may involve risks and uncertainties. Such statements or comments are not guarantees of future performance, and actual results may differ from those statements.

Additionally, please note that this earnings call is scheduled for a duration of 45 minutes, and we will be starting directly with the Q&A section of the call.

If you wish to ask a question, please use the raise hand feature available on your Zoom dashboard. We will announce your name on the call and unmute your line post which you can proceed with your question. We will wait for a minute while the question queue assembles.

The first question is from the line of Mr. Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: Congrats for a great set of numbers. I have a few questions. First question, just wanted to understand the increase in food take rate, obviously, we've seen a sharp increase. I presume part of it is on the back of platform fees and part of it is on the back of organic take rate increases, that you guys are doing. Possible to help that breakout and a bit of an idea in terms of how should one expect that to move ahead?

Kunal Swarup: Yes, there is some increase and we can't share the split of the various components of that increase for competitive reasons, as you know, Sachin. But largely, introduction of the platform fee helped and slightly better performance on ad monetization also helped.

Sachin Salgaonkar: Got it. And Kunal, while you guys were experimenting on the platform fee, is it now fair to assume to say that this is now here to stay, and this will continue?

Kunal Swarup: Look, we keep experimenting. But, yes, it (platform fee) is here to stay as of now. The quantum (of the fee) we'll keep experimenting and fine-tuning as we go along.

Sachin Salgaonkar: Got it. Second question is regarding the loyalty program, and thanks for sharing the unit economics on Zomato Gold. Given that it is so effective for you guys, I was wondering if you are thinking of a similar loyalty program on the Blinkit side?

Albinder Singh Dhindsa: Nothing as of now, Sachin.

Sachin Salgaonkar: Okay. And again, in the past, you guys were thinking about launching one more app which is dining out. Any incremental updates on that?

Akshant Goyal: No Sachin, nothing at this point. We are still debating that internally.

Sachin Salgaonkar: Got it, and Blinkit AOV clearly had a sharp increase. I presume a part of it is on the back of some of the iPhones, which you guys sold, as well as electronics. Again, possible to understand how to look at this going ahead? Obviously, you guys said that it will be fluctuating going ahead. But directionally, given the mix of electronics, should we expect that to increase a bit going ahead?

Albinder Singh Dhindsa: Sachin, the AOV that we reported excludes the GOV that we get from iPhone sales. We only include it in the revenue that we make from the sales of iPhones. We don't include the GOV because that will skew the AOV unnecessarily. And the overall AOV movement, like we said, is dependent on a lot of factors. Product mix is the biggest one, obviously. I don't think there's a significant swing based on any of the new categories that we've added. I think it is just business as usual.

Sachin Salgaonkar: And apart from iPhone, anything else you guys strip from this entire GOV, that you guys report?

Albinder Singh Dhindsa: No.

Sachin Salgaonkar: Got it. And last question is on book-keeping. I just wanted to understand depreciation and amortization reduced this quarter and ESOPs increased on a QoQ basis. Anything to read out there?

Kunal Swarup: Yes. On depreciation, a large component of that is due to the intangible assets as part of the acquisition that we made of Blinkit. Now part of that intangible asset had a 1-year depreciation cycle. So that piece is out and therefore, the depreciation that you saw is slightly lower. And on your question on the ESOP piece, yes, there has been a little bit of an increase, but we broadly expect to end at the guidance of INR 450 crores that we gave for the year of FY24.

Sachin Salgaonkar: Thank you and all the best.

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

Ankur Rudra: Hi, thank you and again, congratulations for the quarter in terms of the profitability and the growth.

Starting with questions on the food side, clearly, nice to see the monetization from platform fees, which seems to have helped your take rate to an extent. How do you think about user behavior as a combination of both the user delivery charges and platform fees? Do you think there is a limitation in terms of how much you can optimize this? Do users start thinking of the two together? Because obviously, the delivery charges have been falling because of your Gold program. But do you think this is one limiting point which you can’t optimize beyond a point.

Akshant Goyal: Hi Ankur. So, there are two things here. One, the platform charge right now is fairly nominal, so I don't think that it really shows up in any demand elasticity from a consumer standpoint. Also because the competition and other aggregators are also charging it, so we were a follower here. Even from a comparison standpoint, it is something that customers were already paying on the other platform, - one of our largest competitor. Hence, in this quarter, as we rolled out the platform fee, we have not seen a meaningful impact on demand elasticity.

Ankur Rudra: Understood. On the Blinkit side, again, good to see store breakeven, given that your addition rate suggests 8% or so net adds for the next two quarters and you've already achieved breakeven. What prevents you from achieving profit breakeven much faster than your stated target?

Albinder Singh Dhindsa: We are seeing a trend of increasing margins in the business and order volume is also increasing, which basically helps us with contribution profit. I think this is more of an equation of when these two lines meet that we will be able to just break even. We are looking at it as what will help us build a long-term sustainable business rather than what helps us get there (profit breakeven) faster because you want to take the kind of calls, which also helps your business to grow into the future, one-year / two-year / three-year down the line.

Akshant Goyal: So, there is a fair bit of new store addition, Ankur, which is yet to happen. And we've alluded to that in one of the questions. So, that will be a short-term drag on the margins. And hence, on balance, the guidance that we've given on breakeven is first quarter of next financial year. But theoretically, if we were to not open any new store from now on, then of course, yes, we can get to breakeven much sooner.

Ankur Rudra: No, I understand. I was just saying that your addition rate is effectively around 8%. I mean the 69 stores you're planning to add for the next 2 quarters. And if you grow with the rate you're growing, the incremental hit to contribution margins from the new stores will be compensated by the profitability you will get from the existing stores. It just looked like, maybe you get there faster, but fair enough. Last question on your free cash flow, which has been positive now for the first half and probably for 2Q and 1Q as well. Given where you are, any change in thoughts on capital allocation on newer areas of spending going forward, including potentially return of cash or large acquisitions again?

Akshant Goyal: Nothing Ankur. No update at this point. We haven't really thought of anything yet.

Ankur Rudra: Okay, thank you and best of luck.

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

Vijit Jain: Congratulations. Great set of numbers again. My question is on the loyalty program pricing. Can you talk a little bit about how are you thinking about the pricing here, one can see that the pricing for renewals and new sign-ups keep changing. So, is it fair to say that competitive activity is currently focused mostly on the loyalty program side and how you think about gaining market share, meeting profitability, etc.? And also, obviously, your competitor has a slightly different loyalty program versus you. Is that aiding you in any way or in any form?

Akshant Goyal: Zomato Gold pricing is a business call, and it depends on various factors, including competition. Also, it is a fairly new program, so we are still discovering what is the right way of pricing it and learning with every passing month and quarter. So, we will keep doing that and as we mentioned in our letter, the idea is to make sure that we keep our service affordable for our customers and at the same time, create incentive for them be loyal to our platform. And so far, that is shaping up well.

Vijit Jain: Thanks, Akshant, just related to that, thanks for that disclosure, which says share of the Gold GOV went from 33% to 40% QoQ. If I do that math, it seems to suggest that non-Gold would have even declined. Are you mainly converting existing users into Gold? Or is there a fair degree of brand-new customers getting on to Zomato and signing up for Gold right away?

Akshant Goyal: New customers is a very small portion of our business. The new user addition is fairly constant and consistent with the past trends. So therefore, majority of the incremental Gold members are our existing customers.

Vijit Jain: Got it. So, my last question here is, the overall marketing spend this quarter, it went up about 13%, 14% for the first time in a while. So, if you could give a broad sense of where that was spent? And also on the salary side, it went up 20%. I understand this is a wage hike thing, but anything else to call out on that. Or is September-23, the trend run rate for both?

Akshant Goyal: Yeah, I would say September-23 is a trend run rate for both. On the marketing side, largely in the last quarter, we underspent on Blinkit (quick commerce business), because of the disruption we had and for a large part of the last quarter, our marketing efforts were muted, and hence, you see an increase right now. And likewise, on the employee cost bit, it is largely to do with the annual increments in our business, which happens in September quarter. And hence, the number that you see is more representative of what it is going to be going forward.

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

Manish Adukia: Hi, thanks for taking my questions. Most of my questions are around growth across food delivery in Blinkit. Now firstly, Akshant, just wanted to get a clarification. I think, in the shareholder letter, you've mentioned that you're expecting 25% to 30% YoY growth next quarter in the food delivery business. But you also said that it will be high single digit, and you called it moderate. So, I just want to understand, I mean, high single digit or 25%, 30% seems like a pretty good number. You're calling it moderate because you're not happy with that number and you think there's further upside to that growth number? I just wanted to get a clarification.

Akshant Goyal: No, I think we're calling it moderate because I heard a lot of people from sell side expecting a 15%, 20% growth in that quarter. So, we felt our business plan here is relatively moderate compared to what the sell side was expecting. So, we just wanted to call that out.

Manish Adukia: Helpful. The second one, just again, maybe if you can give additional color, Albinder or Akshant on the Blinkit number, very strong growth this quarter, and you've mentioned that next quarter, you expect growth to remain high. So again, should we think about that in terms of the quarterly run rate that you've been doing in terms of growth, that kind of growth can be maintained? Is that what you're alluding to when you say growth rate to be high?

Albinder Singh Dhindsa: Yes, somewhere in the same range. We are expecting that, it is the BAU sort of growth that we've been witnessing in the business so far.

Manish Adukia: Got it. Helpful. And staying on Blinkit. I think you've also mentioned about new cities expansion, which has so far not been a focus area, and now you'll selectively be looking at that as well, from a growth driver perspective. So, over the next 1 to 2 years, would you be able to give any sense as to how many new cities you could potentially expand into?

Akshant Goyal: Manish, even in the past, we've been doing this selectively. So, it is not like we'll start doing this going forward. So, we have opened like a store or two each in some cities just to test the depth of the market in the country in general and overall, I would say that we've been pleasantly surprised with the demand for this service across cities, which are much smaller than the cities that we have a meaningful business in. With that, in the same spirit, the idea is to continue testing few more markets, but I don't think that's going to be a meaningful portion of the overall size of the business in the short term. But this is more to sort of build growth channels for much longer term.

Manish Adukia: Got it. Helpful. And then last question again on Blinkit. You've mentioned in some cities, Blinkit's GOV is already more than that of Zomato. Would you be able to give us any sense maybe at a particular city level or, let's say, the catchment area level, what's the maximum ratio of Blinkit GOV to Zomato GOV. Just trying to get a sense that, let's say, from a 5–10-year perspective, like you called out, it is going to be much larger. What kind of scale or ratio are we potentially looking at?

Akshant Goyal: At this point, there are cities where the ratio is in the 1x to 2x range. So, it is not order of magnitude higher than Zomato. But the trend line would suggest that it could change in the future.

Manish Adukia: Helpful, thank you so much for taking my questions.

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

Gaurav Rateria: Just a couple of questions. The first, where did the contribution margin improvement come from in the food business? Because it appears that the take rate improvement got more than offset by the increase in delivery cost?

Kunal Swarup: Gaurav, like we mentioned earlier in one of the questions, which was asked earlier as well. The incremental margin came in from things like platform fee and ad monetization. And that more than made up for the decrease in the delivery charges that you saw.

Gaurav Rateria: My question was, wouldn't it already be part of your take rate.? My question was that the take rate increase after taking into consideration all of these revenues, have got more than offset by the increase in delivery cost. So, what are the elements that really drove the increase in contribution margin?

Akshant Goyal: So, the contribution margin has increased by, I think, like 10 basis points, right.

Kunal Swarup: 20 basis points. So, 6.4% to 6.6%. So, 20 basis points.

Akshant Goyal: Sorry, your question was not clear. I think what we're trying to say is that the contribution margin increased as a result of more revenue per order. And some part of that increase in revenue per order got offset with increase in cost, given of course the fact that this is a quarter where there are rains and hence, we know, and we plan for increase in delivery costs. So that happened. But net-net, as a result of the two, the contribution margin still increased by about 20 basis points.

Gaurav Rateria: Got it. Second, Gold members are already at 20% of the total MTCs. Is there any theoretical limit where it starts peaking out?

Akshant Goyal: No, I don't think so, because it is not like there is a trade-off here in any way between Gold and non-Gold members in terms of the benefit. Having said that, we do expect the pace of Gold membership increase to slow down from here on because these are usually the more frequent customers who want to become members. So, from here on, the pace might definitely slow down.

Gaurav Rateria: Okay. Third question on quick commerce, how long typically a new store takes to come to breakeven at the contribution margin level? Or to put the same question in another way, if you look at last quarter, what could have been the drag from the new store additions on your contribution margins?

Albinder Singh Dhindsa: Gaurav, this is still a very nascent market with very deep penetration. So, depending on whether we are opening stores in localities where we already had a store and we are opening new ones, the breakeven might be really quick. If we are going into a new locality altogether in a city where we exist, it will be a different number. If we are going to an entirely new city altogether, it will be an entirely different number. So, there is no one number we can point to and say that this is how long it takes for a store to breakeven. And then when we look at the breakeven of the store, we are looking at all the costs, including what we have to do to supply the store as well. So, I don't think that is something that we even talk about or disclose that, this is sort of the average time that it takes for us to open a store. In terms of your second question, I think the number of stores that we opened this quarter, I don't think it was a meaningful drag on the margins, because when we start the stores, some of them lie in the first bucket where we are opening in existing localities, but we don't think that the drag was meaningful. It was offset by the increase in the overall margin of our existing stores.

Gaurav Rateria: Got it. The last question is what's the synergy we have achieved already from Hyperpure and Blinkit businesses? And what's the potential?

Akshant Goyal: The synergy is largely on the infrastructure side because the warehouses and the sourcing relationships we have for Hyperpure, sort of like becomes one, and this is especially true on the fruits and vegetables, fresh produce side, where we're going back to the farmers or farmer producer organizations to source these products from them. So, I think, at least on that part, I would say that the two businesses are fairly joined at the hips, and that has helped us actually offer much higher quality F&V at great prices to our customers, which is very important, not just from a margin standpoint, but also because fresh is usually a entry point for a lot of our new customers. So having given them a good experience on this category really helps us with high retention down the line. So I would say that sort of integration and synergies are fairly well realized by now, at this point.

Moderator: Next question is from the line of Mr. Swapnil Potdukhe from JM Financial.

Swapnil Potdukhe: Thanks for the opportunity. So, my first question is with respect to the Gold orders. I would like to understand like on a per order basis, has there been any increase in investments that you do in Gold. Because my sense is that we saw some fluctuation in the Gold prices during the quarter, and there has been also some free membership rollouts through various tie-ups. So basically, on a per order basis, Gold order, does it have a higher dilutive impact on an absolute basis compared to the previous quarter, is the question?

Akshant Goyal: Swapnil we would not want to disclose that because I think it is part of the strategy of how we invest in growing the business. I would not want to share specific details to your question. But in general, I think what you've pointed out is that one, the overall Gold membership base is increasing for us. And two, the fact that Gold orders today are lower contribution margin than non-Gold, that is a fact as well. And third, I would say is that, going forward, I think, a part of our incremental margins from here on in the business will perhaps come from reducing the negative impact Zomato Gold order has on the overall P&L. I think that's all that we can share at this point.

Swapnil Potdukhe: Sure. The second question is with respect to the contribution of ad income to your take rates. Now we have been calling out and saying that the ad income has been one of the drivers of your take rates for some time now. Now one way to look at it is like the macros are challenging for restaurants and they are spending more. What happens once the macros ease, would we see a reversal in the contribution of ad income to your take rates?

Akshant Goyal: That's possible, Swapnil. We don't know that yet, but that's possible.

Swapnil Potdukhe: Okay. And another question on ad income is with respect to quick commerce. So now we have the World Cup going on. Have you seen any sharp increase in ad spends by brands on Blinkit platform per se. And if yes, can you talk about the sustainability of that trend?

Albinder Singh Dhindsa: I think, Swapnil, they are not obviously visible in the JAS quarter because, the World Cup started after that. So, I would not say that there was a meaningful impact in the September (quarter). And usually, we have regular ad spends from brands for different events, activities, which keep happening throughout the year. So, there is nothing abnormal in terms of ad spends that brands spend at that time on the platform. I think it is fairly in line with what the usual spends are. It is just that some brands might be up during some months and the others might not be.

Swapnil Potdukhe: Okay. And just a last one on the ESOP side. There was a sharp QoQ increase in ESOP cost. Now I understand that also may be a factor because of the increase in the share price. But we have given a guidance of around INR 4.5 billion spend towards ESOP for the full year. Any change in your guidance or how should we look at the cost from a next year perspective as well? If you can answer that, that would be great?

Kunal Swarup: On your first question, FY24, we should ballpark end at the number similar to the one that we've given in our guidance. So, I don't think we'll be very off from the INR 4.5 billion number. On FY25, we are not giving any guidance yet.

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

Abhishek Banerjee: So again, congratulations on the numbers, really excellent performance. So, in terms of your platform fees, what would be the attachment rate as in what proportion of orders are you charging platform fees right now?

Akshant Goyal: All the orders now, almost 100% of the orders have a platform fee now.

Abhishek Banerjee: Perfect. In terms of the ad revenue monetization that you spoke about, how is that increasing? Is it on the basis of more restaurants advertising? Or is it that the existing restaurants are advertising more, or have you actually increased the realization, from per ad or per click. If you could help us understand that.

Akshant Goyal: Yes. In the last year or so, I would say a majority of the ad income increase has come as a result of more advertisers or more restaurants spending money on ads and a little bit of that is also because of the increase in pricing from our side. But I would say majority is driven by the volume increase.

Abhishek Banerjee: And does that holds true for this quarter as well?

Akshant Goyal: Yes, that's right.

Abhishek Banerjee: Perfect. Now you have hinted about user behavior change post becoming Gold members in the shareholder letter. Now from some basic analysis, I can see Gold members ordering 7 to 8 times per month vis-a-vis maybe 2.5 to 3 times for people who are regular users but don't have Gold membership. Now do you actually see these people who are becoming Gold members moving to that 7 to 8 kind of an average number. And if so, what is your time frame in which this plays out, from your understanding?

Akshant Goyal: So, Abhishek, I think, part of this frequency jump that you are alluding to is also a result of multiple users starting to order from just one account. So, you see this trend where orders consolidate into one account just because one person has bought the membership. So therefore, this delta in frequency, I would not fully attribute to just the user becoming a member. There is a decent bit of an uptick, organic and sustainable uptick in frequency, but the order of magnitude will be much smaller than what you mentioned.

Abhishek Banerjee: Understood. And in terms of the MTU increases, that is basically coming from the large number of annual transacting users who would probably be ordering once a year or once a quarter earlier and now they are moving into the MTU base. Is that understanding, correct?

Akshant Goyal: Yes, that's right.

Kunal Swarup: And also, we are acquiring new customers every month. So, part of that is also driving the increase.

Abhishek Banerjee: On the working capital front, there was a reduction again this quarter and pretty sizeable. So, could you just give us some understanding on how that came through given the sharp growth rates that you have shown?

Kunal Swarup: Like we have mentioned in the past also, Abhishek, essentially working capital swings happen because of the day on which the quarter ends. So, the last quarter, June 30, ended on a Friday, this quarter, 30th September ended on a Saturday, which meant that we carried one more day of payables on our books, which increased the current liabilities, and which reduced the net working capital, because we have a weekly settlement cycle around the mid of the week. So, depending on which day the quarter ends, therefore, could have a massive impact on the net working capital.

Abhishek Banerjee: Got it. But if I look at the various businesses, right, Blinkit also operates on a seller model. So, is there any meaningful difference in the working capital intensity in Blinkit and food delivery and as Blinkit grows faster, do you see the working capital requirements reduce further or is it just the other way around?

Kunal Swarup: There's not much of a difference. On the other side, advertising income can increase the working capital due to some receivables. But as such, we don't see much of a difference on the food delivery and Blinkit side. What will cause a little bit of difference is Hyperpure because their inventory and receivables will increase slightly due to scale. But on order of magnitude, I think food delivery and Blinkit are the large businesses, and they will continue to drive this trend for the foreseeable future.

Abhishek Banerjee: Got it. So just to understand one point that you mentioned. So, advertising business, basically, you do not collect the money upfront. Is it not a budget allocated by the restaurant?

Akshant Goyal: Part of it is advanced payments, but I think a larger part is postpaid once you sort of reconcile accounts, as against the agreed targets. And so therefore, I think a majority of the ad income is postpaid and hence adds to the working capital.

Abhishek Banerjee: Now coming to Blinkit in terms of the customer charges, would you be able to give us some clarity on how that has moved.

Albinder Singh Dhindsa: I don't think we are providing that information, but they have not moved significantly over the last period.

Akshant Goyal: Very consistent, yes.

Abhishek Banerjee: Understood. And just one last question on the AOV range for Blinkit. I know you mentioned that it fluctuates. But is there now any sense of a broad range, which you think is a best-case and a worst-case kind of guide rail for us?

Albinder Singh Dhindsa: I don't think that we want to commit to a number right away. I think ours is still a fast-growing business. And I think we're still in a fairly early stage of figuring these things out. So I think we will let it play out and see where it goes.

Abhishek Banerjee: Thanks so much for the time and best of luck for the next quarter, hope that’s even better.

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

Ashwin Mehta: So, two questions. One, in terms of Blinkit, what portion of our dark stores are own versus franchisees? And how do you manage inventory in a scenario where non-grocery SKUs are increasing, where the frequency of sales will be lower. Is it the third-party sellers that are taking the inventory risk for us? And do we have more dedicated sellers, or these are sellers, which will be selling on other platforms as well?

Albinder Singh Dhindsa: So, Ashwin, on the first part, I think the breakup ratio of our own versus partner is roughly the same as it has been historically. So, we operate roughly half of our stores and our partners operate the other half of the stores. As we are increasing more and more categories, I think part of our job is to also find the sellers and also convince the sellers to be able to take the risk to sell higher margin, but long tail products, which have a lower frequency. So that is something that we negotiate with the sellers that are on the platform, what kind of risks are they taking, what kind of data we can actually provide them to give them the comfort to actually invest behind these long-tail categories. So far, we have not seen a meaningful change in risk profile for our sellers either, even when they are expanding into lower-margin categories, partly because we also help figure out with the brands, what should be the terms of trade that make the entire business viable for them even if the mix of non-grocery products is increasing.

Ashwin Mehta: Okay. Thanks, Albinder. Just one more in terms of, ad monetization as a percentage of GOV on Blinkit, any approximate sense on where we are and given that transaction models are gaining traction from an advertising perspective, where do you see a potential possibility of this going?

Albinder Singh Dhindsa: So, I don't think we are providing any guidance on sort of what percentage of our revenue is coming from ads. However, like we mentioned in a letter a couple of quarters ago that we do have a programmatic ad bidding platform on Blinkit, which is used by most of the brands that are operating on the platform, and it is a self-serve model. And I think that is a performance marketing-driven model, which we think in the long run aligns with the fact that brand spends are also going to move to bottom of the funnel and more transaction led.

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

Garima Mishra: Thanks for the opportunity. I had a question on the transacting user base. Now you cited the 5% to 6% QoQ increase in transacting users, and it seems to have been aided by Gold. Now logically, pace of attachments to Zomato Gold over time should slow down. So do you think even in that scenario, this 5% to 6% QoQ growth in MTUs should be maintained?

Akshant Goyal: It is a very specific question, Garima, like overall, if you take a longer-term view on this, I mean, QoQ is hard to say, but I think the longer-term view on growth, as we mentioned in the letter and in response to one of the question also, is that majority of the growth should be driven by growth in MTU or MTC as we're calling it, monthly transacting customers. Given the fact that our current monthly user base is much smaller than the annual transacting user base.

Now I don't think the pace of that change is going to be linear. There will be periods of time when either because of demographic change or incomes going up or macro changes, this frequency will increase, and there could be a period of consolidation where MTCs might just flatline a little bit. So, I think that is very hard to predict. And then there is no floor there in terms of a minimum number there. But I think overall, our view long term is that MTC should compound from here on and that should drive majority of the order volume growth from here.

Garima Mishra: Okay. Understood. Second question basis your intelligence and understanding where are you in terms of market share in the food delivery business?

Akshant Goyal: We have no point of view on that. I think it is a highly competitive market, so very hard to measure market share.

Garima Mishra: Understood. Okay. Third question, and I'm quoting this from the shareholders' letter. So eventually, we cared more about growth in absolute contribution profit rather than contribution margin. So, are you somewhere indicating that at 6.5%, 6.6%, these margins are good, and basically, you'll let this margin be and focus on growth?

Akshant Goyal: No, I don't think we are saying that.

Garima Mishra: So then how should we interpret this statement?

Akshant Goyal: I mean, it is a theoretical statement, right? I mean we are not saying what you are saying. I think that's a deduction. On margins, in the past, we have guided that, we want to get to 4% to 5% EBITDA margins in this business, which translates to more than what we have in terms of contribution margin right now. So, we would look to expand the margins. But I think like basic corporate finance says that, eventually, at some point, the ROI on every dollar that you spend on increasing the size of your profit pool should make sense. So, in which case, the margins may or may not go down, that's the only point we are saying.

Garima Mishra: Got it, that’s helpful. Thank you so much.

Moderator: The next question is from the line of Mr. Aditya Soman from CLSA.

Aditya Soman: So just one question from me. If you think of quick commerce versus food delivery, I think, we all understand that the overall addressable market in quick commerce is much larger. But on the competitive dynamic, would you also say that's a lot easier given that in a lot of pin codes, basically, you could be the only player. And even, would that be a fair statement to say that the competitive dynamic is much easier and likely to stay easier or that is incorrect?

Albinder Singh Dhindsa: We don't think so, Aditya, because we also will have neighborhoods where there will be 4 or 5 quick commerce players operating. And not only that, but there are also the larger players like Amazon that we have to deal with. I think that's subjective, whether we would say that the competitive dynamic is easier in the quick commerce business. I don't think that is true and we would also not want to operate as if that is true.

Aditya Soman: Fair enough, that's interesting. And in terms of benchmarking, in food delivery, it is fairly obvious who you could benchmark to or not. But would you say in quick commerce, as you mentioned, you could benchmark to everybody from direct quick commerce competitors to Amazon to Reliance or whoever?

Akshant Goyal: So, I don't think we benchmark to anybody because you could take a different point of view and start moving your business to that side. I think we are the category creators in this business. We are the largest quick commerce player, and I think it is our job to actually create this market. So, I don't think benchmarking to existing heuristic makes sense because that will make us skew our business towards that heuristic. We would rather be the inventors in the category rather than benchmarking ourselves to somebody else.

Moderator: Next question is from the line of Mr. Samarth Patel from Equirus Securities.

Samarth Patel: My first question is regarding Blinkit. So, there is 35% quarter-on-quarter increase in fixed cost. Could you give some idea between brand marketing and costs associated with employee addition and wage increment? And how this relates to our dark store network expansion strategy in medium term?

Albinder Singh Dhindsa: I think this is mostly the base effect of disruptions in the previous quarter. So there were some fixed costs that we didn't have to bear because we were not operating for a week or so, and there were disruptions in the business for a longer period of time. So that's why you're seeing that increase, but the levels that we are at right now, these are the actual fixed cost levels that we generally operate at.

Samarth Patel: Okay. And would we be adding more employees for the dark store expansion in the Blinkit side of things?

Albinder Singh Dhindsa: I think we kind of have to, but that's above the contribution.

Samarth Patel: Okay. Got it. And the second question is related to the question that a previous participant asked. So, we have been implementing aggressive pricing strategy for Zomato Gold membership in this quarter in response to the competitive pricing. So, can you just elaborate on the strategy behind this? And we expect our funding gap to narrow down at the contribution level. So those are two contra things, right? On one side, we have been aggressive in terms of pricing, and on second, we expect our funding gap to narrow down at a contribution level from Zomato Gold. So, your thoughts.

Akshant Goyal: One is past, and one is future, I think that's the difference. So, what we are saying is that from here on, we expect that the delta between Gold and a non-Gold order in terms of margin should reduce, right. Past could be different. And I think this is like a five-six-month-old program, so more than the competition, I think there's also a process of figuring out what is the right way to price the service that depends on the value that the customer sees in this product. So, I think we believe that we have a fair handle on that now. And hence, we could be sharper in terms of pricing more effectively going forward.

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.