Swiggy Limited

Q3 FY25 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Swiggy Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Agarwal, Head of Investor Relations from Swiggy Limited. Thank you and over to you, sir.

Abhishek Agarwal: Hello everyone and welcome to the third quarter FY2025 earnings call for Swiggy. Our financial results and shareholders' letters have been published on the exchanges and the information pack has been placed in the Investor Relations section of our website www.swiggy.com slide. We would like to inform you that the management may make certain comments on this call that one could deem forwarded and stated.

Specifically, the financial guidance and pro forma information that we will provide on this call, our management estimates based on certain assumptions and have not been subjected to any audit, review or examination procedures. Swiggy does not guarantee these statements and is not obliged to update them at any time.

Joining me on the call today are Sriharsha Majety, our MD and Group CEO, Rahul Bothra, our CFO; Rohit Kapoor, CEO of Food Marketplace and Amitesh Jha, CEO of Instamart.

With this brief preamble, let us start the Q&A, operator, you can please go ahead.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: Hi. Thank you for the opportunity. I have three questions. First question is regards competition. Clearly, in 3Q, competition was high. I just wanted to get a sense that, you know, are you sighting? Are you seeing signs of competition abating? Or the general thought process is competition might remain high for a foreseeable future because some of the platforms are not even launched fully out here?

Amitesh Jha: Okay. Hi, Amitesh here. I will take the first question. It's very difficult to crystal ball gaze in terms of what is going to happen in the market. The way we essentially look at it is that the total addressable market size is big. The opportunity is extremely high. And for any this size of the market, the interest rate part will be more, and competition essentially will be there. So, the way we look at it is that the competition will always exist. Intensity is very hard to get or gauge immediately right now. But at least for some time, we see it being at the level that we are seeing right now.

Sachin Salgaonkar: Got it. So, intensity is almost same in Jan and Feb. all right. Second question, wanted to understand a bit on the impact on contribution margin, what we saw; now clearly there are two big parts to it, right; One, store expansion, replacement of store. Second, how consumer incentives are given, customer acquisition, between these two levers, can you highlight?

Because, you know, when we look at the numbers, at least one gets a sense that it's the customer incentives and acquisition cost are the ones which is relatively higher into this quarter. Is that a fair assessment? And how should we directly think about, you know, these two levers going ahead?

Amitesh Jha: Yeah, see, if you think about it, even store expansion in a way is getting into new markets and acquiring new customers. So, the way we look at it is that effectively investments are being made to expand the market overall, okay.

And in that expansion of the market, you know, for customer acquisition, expanding of stores are important as well, going into new cities as well. So, we look at it in the same way that we are spending to get more customers onto e-commerce. And that expansion, that includes acquiring new customers and in existing pods -- as stores, as well as adding more stores is essentially leading to that investment as well. So, it is -- we don't look at it separately in terms of how much it is expansion versus this.

But the way we look at it, we are expanding the market. It will be in the same store. It will be in the new stores as well. And which is the reason why this extra investment has been made.

Rahul Bothra: Yeah. And maybe if I may just add; Rahul here, that yes, there are two parts to this equation, right? One is the overall investment that we are making in both densification in existing cities as well as new city addition and the store expansion that's happening. And the other part is really around the structural P&L that continues to improve.

Now, if you look at the levers and some of the KPIs that we have already demonstrated, average order value has grown by 14% on a year-on-year basis. Now, this is an important determinant of our medium-term guidance on contribution margin, as well as if you see our take-rate has expanded and continues to expand sequentially.

Our cost of delivery continues to go south with the densification of the network. So structurally, the P&L of the mature stores continues to get better. And that's the other part, right? So, you have to look at it in two parts. One is the growth investments. The other is the structural P&L and our continued ascendancy on the levers at play.

Sachin Salgaonkar: Rahul, just to clarify, when you say in a shareholder letter that contribution margin will be range bound, is it in the range of 4 to 5% or any other numbers we are thinking?

Rahul Bothra: No, so it's hard to crystal ball, as I said. At the same time, if you've seen our store addition growth, like previous quarter, we added 96 stores. Just in the month of January, we've added, you know, close to 86 stores, right? So, our store count is already close to 800 stores. Our guidance from, you know, for H2 was doubling our square footage coverage from 2 million to 4 million. We are sticking to that guidance.

As you can see that this means that there is a back-ended growth in quarter 4 and we are on track to achieve that.

Sachin Salgaonkar: And my last question is on the same point what you said is, what we are seeing is some of your competitors are super aggressive in terms of expanding our number of stores out there. Any incremental guidance you want to give beyond the 4 million square feet, what you intend to achieve in March '25? Is there a target in terms of stores on Megapods that we could expect Swiggy to have in the medium term?

Rahul Bothra: No, it's hard to, again, say that. I think, see, our near-term, you know, store expansion was both geography-led as well as densification into satellite areas in the existing towns, right, and managing growth.

So, I think we are going to take it, you know, as we see. I think currently we are focused on delivering on the current guidance of expansion. It's also fair to assume that a lot of growth from here on store addition is going to be to manage the overall category growth and not necessarily entering newer areas. So that's how you should think from a medium-term perspective.

Sachin Salgaonkar: But is it also fair to say that if we see your competition going and adding more stores, there will be a sort of response from you guys also in terms of looking to narrow the gap?

Rahul Bothra: So again, as I said, our strategy is more towards densification in our existing cities, managing growth, as well as the cities that we have chosen to expand as part of the current expansion phase. And then we are going to, you know, wait, and see how the performance has been.

Amitesh Jha: So, the way to think about it is that we look at where the consumers are who are more likely to come on to the quick commerce platform and build stores according to that. So, it will require things like densification, going into specific locations where it will make more sense.

So, it's more look at the market what it is, what's the time where we are working at? And we won't necessarily be looking at competition growth to basically drive our strategy. Our strategy is very clear. We know what our time is. We know what kind of market we are, what kind of consumers we are looking for and we are very focused to make sure that we do deliver them in the right experience as well. And which is the reason we are focused on doing this particular part extremely well.

Sachin Salgaonkar: Thank you both.

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

Ankur Rudra: Hi, thank you. The first question is on, you know, starting with the quick commerce side, you mentioned the actual additions were quite strong, user activation has been quite high. But if I look at the order growth this quarter, it seemed a bit soft at about 7% sequential only, which was softer than both the MTU growth and the increase in the real estate footprint you mentioned, the growth largely from AOV expansion.

Can you help describe what's happening here within the business? Is there any issue with retention of customers or is the order frequency falling for you?

Amitesh Jha: Yeah, no, no. So, I see the way to really think about it is that a lot of these growth also happens because of the new customers that we acquire is because of the new areas that we entered as well. The headwind that we saw in terms of our overall growth in both customer and in terms of unit was mostly because of expansion, which we saw.

To look at it from the right perspective, the way that we look at it is that what's the size of the wallet that we are taking from the end consumer. And we are steadfastly focused on that. If that size of the wallet from every consumer is increasing, we are effectively being more relevant to them, and which is the number that we'll be looking for.

So, the other thing that we look at and which is also very important for is that when we are acquiring customers, is the retention high or not? And all our spends are based on that. We see this retention number being essentially very high. And we are effectively saying that our MTU, which was -- and if you look at our increase as well, and this is something that we have spoken in our Shareholder Letter as well, that MTU -- the monthly transaction user base has also increased a lot lately.

So, what we are doing is focusing on trying to get our strategy right on expansion as well as acquiring new customers. The later-on increase is happening because of that particular spend. The headwind that we saw was mostly because of not increasing the rate of the stores as much as we essentially wanted.

Ankur Rudra: No, I appreciate the fact MTU has grown a lot. My point, Amitesh, was in terms of the order growth was only 7% sequentially. If you had about 12% growth in MTU, you should have ideally had -- if the frequency of ordering is broadly similar, you should have had a stronger overall headline number of order growth given footprint is rising. I was just wondering if there's anything specific which you faced during the quarter, which may have held the order growth back? Or is there anything seasonal in your business, which you may have seen?

Rahul Bothra: Yes. I think one of the things that we saw was the store expansion was also a bit back-ended, which is the reason why you see that MTU and orders. So, what happens is when you acquire a customer, their orders won't increase immediately. And if the store expansion is a bit back-ended, new customers are going to come later in the quarter and which leads to these particular numbers as well.

So, to really think about it is that in general, our growth is related to what is the percentage of new customers that we are essentially having…If those percentages are higher, it will lead to a lower order frequency as well. And that is what we are seeing right now.

Ankur Rudra: Understood. Just maybe moving on. In terms of the food delivery business quickly, we did see margins improve quite a bit. I was -- just if you can give us a sense of what drove the overall unit economics over there. How much of this was moderating delivery costs versus any changes in take rate because it didn't seem like take rate expanded meaningfully on the food delivery side?

Rahul Bothra: Yes. On the food delivery side, contribution margin has expanded meaningfully for us. It's a continuous effort from our side on the monetization across levers that we have had through the year. And some of that has meant that we continue to see the operating leverages start to play out. Now, specifically to this quarter, if you've seen, the average order value has expanded, which means there's a denominator impact with our cost of deliveries continuing to getting more and more efficient. So, there are factors around both monetization as well as the delivery costs having a bit of leverage with the expanded basket sizes.

Ankur Rudra: Okay. Just a quick question on the demand on food delivery consumption. In general, your growth did slow down a bit. Your peer also saw the same thing. They made a comment about consumption softness. Did you see any of that? Are you seeing any change in growth momentum or consumption trend on food delivery in the current quarter?

Rohit Kapoor: This is Rohit here. I think if you look at the MTU growth quarter-on-quarter, we actually saw MTU growth. So, MTU for the quarter was 14.9 compared to 14.7 in the previous quarter. Also, we did have growth. This was a quarter, which was slightly softer than other quarters, but that's a -- I think overall, year-on-year, we are growing 19.2%, which is within the range of what we have guided the market at about 18% to 22% growth for the category.

Our pace of innovation and execution on food continues to be pretty strong. We've launched Bolt, scaled it up to 425 cities within 3 months to 4 months and a bunch of other -- of other launches that you would have seen from us coming in the last quarter. I think even if there are some headwinds which are there in the economy per se in certain segments, the present budget, which has on the tax cuts, we do believe gives an impetus to a large section of the tax paying segment below INR12 lakhs and that does constitute -- many of them will be consumers of our services.

So, we do feel at this point in time, as facts stand today, reasonably that the guidance that we've given is operating in the range. I think food will be -- is a little bit of a seasonal business. So, quarter-on-quarter variations are not unlikely. But secularly, over the short term to medium term, we don't see a significant headwind.

And of course, we have our job cut out in terms of innovating, developing new use cases and creating more opportunities for the consumers to use us. But structurally, we don't see any big change from last quarter dialogue and guidance that we've given first time after listing.

Ankur Rudra: Just a last question on working capital. There appears to be an increase in receivables for the last 2 quarters. In fact, the 9-month period and almost a positive working capital cycle for 9 month '25 versus negative working capital cycle last year. Is there any change in the business which is driving this? If you can highlight what's driving this in general?

Rahul Bothra: Sure. So, as you can see, with the overall advertising pie increasing in -- specifically in the quick commerce business, where typically the FMCG companies and the brands pay us with a certain credit cycle. So, that's been the large determinant of the increasing working capital on that line.

Ankur Rudra: Okay. So only that in both the quarters?

Rahul Bothra: That's right.

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

Aditya Soman: I'm sorry to dig a little bit more on this contribution for quick commerce, but I see that the contribution has actually gone down by about INR14 per order. This has gone down from sort of a contribution loss of INR10 per order to INR24. Now if I see the drop for Zomato, while it was also there in the quarter, it was much lower from INR25 to INR21, and they added almost 2x the number of stores.

And you also indicated that your stores were more back-ended towards at the end of the quarter. So, I'm just trying to understand where this incremental cost has gone in because you also saw a significant jump in AOV and take rates also improved. So, I'm just trying to understand how this contribution per order actually worsened so much?

Rahul Bothra: Yes, thanks, Aditya. I think if you have seen some of the reasons that we have mentioned, specifically around the investments that have gone into the contribution margin line includes the elevated expansion activity that we have done in terms of adding stores. It's also got to do some bit of the heightened competitive action that we have seen in acquisition of new users as well as some of the dormant reactivations. So, we have seen an investment increase overall due to these 2 factors.

Aditya Soman: But I mean, I'm just comparing like-for-like because even if you compare with your competitors, I mean, they also seem to have similar growth, but the take -- and your take rates actually improved. And so, I'm just wondering on a like-for-like basis, why should it be that different where they have seen a INR3 drop per order and you're seeing almost INR14. I mean, I'm just trying to understand in more detail. Is there -- is it because we expanded in more cities? Or is there something more to it that we don't see from the Shareholder Letter?

Rahul Bothra: Sure. See, I can respond for our kind of trajectory. And we have mentioned in the past that there are a few determinants of the overall profitability of the business and getting into contribution margin positive. So, one of them is average order value. We do believe that there is room for us to grow also looking at some of the category AOVs that we see in the public domain, which means that the task is cut out for us. So, we are in a trajectory of getting to that place where a lot of these mature stores start spinning out cash, which then has a portfolio impact on the overall margin delivery.

So, for us, we are slightly behind the curve from that perspective in terms of maturity of stores and the profitability profile, which is led by some of the average order value line as well as the advertising revenues, which have started to move up meaningfully. So, as we have mentioned, structurally, the P&L continues to improve on a quarterly basis.

Some of the mature stores are starting to reflect what steady-state unit cost should look like with both operating leverage kicking in and some of these monetization levers also kicking in. So, it is a path. It is a trajectory that we are guiding to, and we are also staying committed to delivering a contribution margin positive by the O&D quarter in the current year.

Aditya Soman: That's very clear. And that's heartening to know. I'm just trying to understand again in terms of the path that you indicated. So, would this be just a function of the number of orders obviously going up and then a lot more stores hitting maturity? Would that be the best way to look at this?

Rahul Bothra: Absolutely, right. So, as you've seen both in quarter 3 and the quarter 4, the number of store additions that we are doing, we are almost doubling in a span of 6 months. And by the time of our guidance that we have given, we do expect a lot of that stores to start hitting breakeven volumes and meaningfully contribute to reduction of the overall contribution margin loss. But more importantly, the mature stores will start getting into the trajectory of close to that 4% to 6% positive trajectory, which then means at an overall portfolio level, we expect to breakeven.

Moderator: The next question is from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management Company.

Sudheer Guntupalli: My first question is on food delivery. It looks like we have gained some market share in food delivery. So, is this primarily driven by the incremental demand that is being generated by Bolt offering, which is the 15-minute delivery offering? Or is it more of a broad-based market share gain across the existing portfolio of food delivery as well?

Rohit Kapoor: Sudheer, this is Rohit here. I think we don't talk about market share in our numbers. Our numbers are out there, and other numbers are out there, you can do the comparison for yourself. I think just in terms of our own growth, it is, I will say, a factor of 3 or 4 things. One is we have been working on execution and strengthening our execution all across, whether it is on the restaurant side, the consumer side or the delivery partner side, and that started to show up.

Second is there's been a constant theme of innovation at pace coming out of Swiggy over the last few months, including something like Bolt. And I think we took a bet on Bolt, and it's been now about a quarter. So, what we -- the result, the 9% order contribution on Bolt is only from a service which is barely a quarter old, a quarter or thereabouts. And there's a lot of room for further innovation or growth on top of this is what we believe.

We remain excited about the space. We are also seeing good response from consumers, as well as the restaurant partner ecosystem because this is one offering where the restaurant partner ecosystem -- people are coming forward and they are saying that let's partner, let's create more and let's see what we can do more on this front. I do think this combination of factors, definitely, the pace of innovation and the pace of execution is a factor behind the growth that we are seeing in MTU and year-on-year volume growth and AOV growth.

Sudheer Guntupalli: Sure, Rohit. Just on the food delivery, just a follow-up.

Rohit Kapoor: And that is also coming on the back of no compromise in terms of margins. So, if you see, the margins have expanded about 90 basis points. The EBITDA has expanded by another 90 basis points. So, it's starting to flow through and the operating leverage you can see in the business appear. We remain reasonably confident of guiding towards the 5% EBITDA number that's been there in public domain, yes.

Sudheer Guntupalli: Sure, Rohit. So, my follow-up question is actually on margins. So, given the impressive expansion in margins this quarter in food delivery, is it fair to assume that Bolt as an offering is not dilutive at a unit economics or a margin level?

Rohit Kapoor: I think given that this is a fairly competitive scenario, right, I will refrain from talking on Bolt margins. But overall, at a platform level, I think through multiple levers, we are in a good position to balance out any investment that we have to do, right? Because genuinely, this has been the way the margins have expanded over time is not one single silver bullet or one investment taking down margins. Whenever we have invested in any area, we have been able to juice out other areas in terms of whether it is delivery costs or efficiencies. So, I personally don't think that I'd like to comment on the Bolt numbers at this point in time or specifics beyond this. But even if Bolt grows from here, which we expect it to, we do continue to see our margins expand both on contribution side and the operating leverage kicking through to EBITDA.

Sudheer Guntupalli: Sure, Rohit. And one question to Rahul. So, you are maintaining your contribution margin breakeven timeline of OND quarter. Despite calling out a bit of a heightened competition and also that very back-ended store additions even next 2 months, you have 100 stores per month kind of an addition. Despite all of this, you are talking about contribution positive by OND quarter. So, what gives you that confidence? Firstly, on adding 100 stores per month, what gives you the confidence? Secondly, despite these factors getting contribution positive by the same timeline, what gives that confidence?

Rahul Bothra: Sure. Thanks, Sudheer. I think in parts of it, I've addressed it, right? See, what's happening in our business is that structurally, if you look at all the levers, right, whether it's on monetization or costs, they have to move in a certain trajectory, right?

And AOV being a large determinant, we have seen pretty strong growth on that, both as a combination of our added footprint as well as the coverage in terms of the SKUs, right, where a lot more customers are getting access to a lot more categories and SKUs. So, that continues on a very positive trajectory. We maintain our guidance of delivering double-digit Y-o-Y growth for the near future, and that is a meaningful change.

The other thing what happens is, as I mentioned, any new store takes anywhere between 6 months to 9 months to what we call hitting the breakeven volumes, right? And towards the end of our guidance quarter, we do expect a lot more stores to be in that zone. And also, the pace of store expansion may not necessarily continue at the current level, right?

Because one of the things that we have done through our megapod expansion is also get users a lot more access to categories without necessarily having to add a lot more number of stores itself, right? And at the same time, delivering the customer experience. So, there is a strategy that we have to be able to get many of these stores mature by the time our guidance is currently given.

Sudheer Guntupalli: Fair enough, Rahul. One last question is a follow-up of what Ankur has asked earlier, is the transacting user growth of 12% sequentially looks very good, but the order growth being slightly lower. Is there any intervention from our side in terms of increasing the minimum order value for free delivery, so on and so forth, which has led to a slightly -- which has led to an increase in AOV, but a bit of a reduction in the frequency? Or is it completely led by, let's say, more new users and new geographies coming in with the lower frequency?

Amitesh Jha: Yes. This is Amitesh here. For Instamart, yes, the MTU growth is largely led by new users. New users typically take some time for them to mature and be sticky to the platform. The larger part of the headwind is that only. And that's the right investment to make as well because that leads to a better, larger market for the platform. We believe that doing that investment earlier is better than doing it later, which is what Rahul was also speaking about. So yes, the main reason is that.

Moderator: The next question is from the line of Swapnil Potdukhe from JMFL.

Swapnil Potdukhe: So, I had 2, 3 questions. First on Instamart side. So, there was a launch of a standalone Instamart app in this particular quarter. Have you guys seen any incremental adoption because of the app? And do you see any benefit of having a segregated app going forward? And will you see any changes in the strategy?

Sriharsha Majety: Swapnil, this is Harsha. Honestly, the app only launched last month and it's very early. And we are closely watching and understanding user behavior, and we'll be able to share more information once we've seen the progress over a period of time. And definitely, I think the intention, as we've written in the report as well is that as the user base expands and goes into a lot more cities and categories, I think we are definitely curious to understand user behavior and how it progresses. And when we have more information, we'll be sure to share it.

Swapnil Potdukhe: Okay. No worries. The second question is with respect to your fixed cost on the quick commerce side, especially because they seem to have gone up meaningfully. Now, I understand there were some branding-related expenses increase and there was also some new hirings that happened in the quick commerce business. But my question then is like have we seen all those costs -- are they in the base of this particular quarter? Or we could see some of this incremental cost coming in next 1 or 2 quarters as well?

Rahul Bothra: Sure. Rahul here. So, I think as we mentioned, a lot of that additional cost has gone into both performance marketing as well as brand marketing, which is to get higher number of customers onto our platform. We do expect, as we had mentioned that in the near -- at least the next 1 or 2 quarters, this heightened activity to continue because there is a slightly competitive environment at play right now.

Swapnil Potdukhe: So just to extrapolate that, is that the reason why you've mentioned -- you reiterated your guidance for contribution margin profitability by 3Q FY '26. But for some reason, your guidance at an adjusted EBITDA level is missing this time around, which was there last quarter.

Rahul Bothra: No. So, at the corporate level, our guidance stays. See, at the corporate level, which is a combination of food and quick commerce, we still stay put with our guidance of getting to profitability by the OND quarter. Now coming to quick commerce specifically, I think we still have to -- the picture has to still play out. We are still in early stages of the category evolution. We don't know how deep the customer funnel can be. And therefore, there could be certain marketing investments that we want to continue to make depending on how the category continues to grow. So, we will come back to you with more specific guidance around below contribution margin cost as we see the category evolves.

Swapnil Potdukhe: Okay. Got it. And the last question is on food delivery. Now, you have very clearly indicated that Bolt is something, which seems to be helping you grow faster than the other competitor. Now, my question to is like, is Bolt -- I mean, what percentage of this 9% orders from Bolt were already there in the system? You're already delivering between 10 minutes to 15 minutes earlier versus right now, you're doing 9%. So, what is the incremental order that you have been able to do because of Bolt, specific Bolt standalone marketing?

And the second question is what kind of an impact does Bolt orders typically have on your delivery cost? Because my sense is like you need higher penetration when you're doing a higher penetration of delivery riders, when doing orders within a certain specific period of time?

Rohit Kapoor: Yes. So, this is Rohit here. Let me take the second question first because that's easier. Actually, that assumption is not correct that if you're trying to deliver in a shorter period of time, your delivery cost is actually higher because one of the key components of Bolt is a shorter delivery last mile. That's how the model works.

And in that model, and our payment to delivery riders is linked to a large extent to the last mile they travel. So, actually, without getting to the actual numbers, that assumption is incorrect. In fact, we do expect Bolt to actually lower overall delivery cost even now and over a period of time. So that -- I just want to clarify that from a model standpoint.

On incrementality, first, I think now or in future, it will be -- I don't think we'll be sharing these numbers because, again, it's very competitive in nature. But the one thing I can tell you is that it is a service we launched 3- 4 months back. We scaled it to 450 cities, and it is just a quarter old. So, the version of Bolt that you're seeing today is probably version 1. As we expand, we'll obviously try and use Bolt to do 3 things. One is deliver new use cases. B, to the consumers who care about a faster delivery, we cater more frequency to them. And C, I think we'll also see innovation from the restaurant ecosystem coming on the back of Bolt because we have created what is called a platform or chassis and for the restaurant ecosystem to also come and put their innovation on top of this.

So, a lot has to play out here. So, it's too early to say that what we -- we do know the numbers. And I think the reason we are continuing to bet on it is we are confident to see incrementality. How much of it is, as you can imagine, competitive in nature for us to disclose on this call.

Swapnil Potdukhe: Understood. Just one last, if I can squeeze in. The fixed cost from the food delivery side seems to be stable for the last 4, 5 quarters. So, part of the margin expansion benefit that you've been able to drive is because this cost not growing. How do you see this cost going forward? I mean, should we expect them to be around INR360 crores, INR370 crores of range quarterly expenses? Or we may see some increase on that side as well?

Rahul Bothra: Sure. Rahul here. So, I think what we have delivered is roughly, say, 80 basis points on a yearly basis on operating leverage. Now with a period of time, I think the impact will reduce. However, it will still be meaningful contributor to our overall guidance of getting to the 5% EBITDA mark. So, it is going to be modulated.

The overall investments, as you have seen, we have had a few cost efficiency programs. Our overall marketing budgets as well as the talent budgets have been in a very tight range, and we have been able to deliver. I think there is going to be some incrementality to it, but a lot of that will flow through back into operating leverage.

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

Vijit Jain: My first question is, so you added 96 stores in Jan, which is a pickup versus the entire of quarter 3Q. So, how much of the contribution margins in the quarter is due to stores not yet active as of December '24? And if you can separately just talk a little bit about between when you start to see expenses on a store and when it gets activated on the platform, what is the kind of time horizon are we looking at? That's one.

And second, is there some element of advanced expenses on the performance marketing spending as well, where you've seen expenses or you've incurred expenses, but it hasn't resulted into a conversion into MAU or MTU?

Rahul Bothra: Right. So, the first question around the store cost or the fixed cost that we incur before the stores become operational. So typically, that lasts for roughly 30 days to 45 days, and that's already factored into the current margins that we have delivered. The second question around the digital marketing and whether that's given the results, by the nature of it, performance marketing is meant to give immediate results.

Now due to heightened competitive action, the CACs can go up or down depending on how much of investments are going into it by the category. So, that's something that we do see some bit of headwind there. But over time, we are also getting a lot more efficient. The overall category growth is pretty stellar. And we do expect CACs to continue to go south.

Vijit Jain: Got it. So, Rahul, just to clarify on the first part, when you say 30 days to 45 days, so there will be some expenses related to these 96-odd stores in January above the contribution line as well for quick commerce?

Rahul Bothra: That's correct. That's correct. So, that's already factored into the OND quarter.

Moderator: The next question is from the line of Gaurav Malhotra from Axis Capital.

Gaurav Malhotra: I just wanted to check, coming back to the contribution margin for quick commerce. Now the aggression in the market, I think so probably started mid-quarter in 3Q. It was obviously not there for the entire quarter. So, the full impact of that will be probably seen in the fourth quarter, the Jan to March.

And we are also sort of ramping up the store additions during the same quarter. So, just wanted to get some understanding as to then how should we think about the -- being in the similar range, the contribution margin, when the competitive intensity will be for the full quarter and there will be also accelerated store count? So how do we sort of reconcile this along with the margins being in the same ballpark?

Rahul Bothra: So, see, it's hard for us to give a specific number in terms of how this will play out. I think, however, we do believe that it will be in a tight range, right? So, the overall, say, margin contraction that happened sequentially, we don't expect the same level of margin contraction to continue. So, it will be in a tight range.

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

Garima Mishra: First question, again, competitive intensity on the quick commerce business, right? I mean, one aspect is discounting. The second aspect is also on elevated costs that you might see for expenses such as rental, delivery agents, et cetera. So, can you comment a little bit on the latter part? Are you seeing high rentals and other costs in general as your competition also is expanding quite rapidly?

Amitesh Jha: See, one of the things that we also spoke about is that we are looking at our P&L in a very structural manner. And in that, obviously, costs are an extremely important part of it. So, there is absolutely no impact on rentals. Our cost efficiencies are actually becoming better because we are seeing more densification of orders also because of which the last-mile cost also goes down. The AOV is also going up. That also helps in better operating leverage as well. So generally, to answer your question at a very high level, no, that competition intensity is not going. And we are also being very committed to our discipline to costs to make sure that we are not letting go on areas, which are very, very structural to any kind of retail business.

Garima Mishra: So, Amitesh, that's the contradiction, right? Because those areas would be important to others as well. So, how does one take a call that this is the right cost structure to operate in that area? And on the same lines, have you closed any stores at all because of cost structures or competition?

Amitesh Jha: Sorry, I didn't understand the question clearly. But if the question is on that, are we making sure that whenever we are opening a store, we are not putting it in the -- no, for -- we have not shut down any pods for any kind of competitive reason at all, nor we have taken up any pods. Whatever shutdown of stores happens is basically because we want to relocate the stores, move to certain other regions. We have a very fair idea of what is the structural cost to run a store, and we are making sure that whatever we do, we don't really deviate from there. But I didn't understand your question clearly. If there is something else, please do help me understand.

Garima Mishra: No, that answers the question. Second question on Q3 is that you have given out your target of achieving contribution margin eventually in this business. So, does that sort of assume that the addition of stores -- the pace of addition of stores starts coming off? Because if this addition just remains very high, achieving that target becomes that much more difficult. So, just trying to understand how to read that?

Rahul Bothra: Yes. So Garima, maybe I can come in here. So, as we have mentioned that, as a combination of the average size store as well as the megapods, we do expect to increase the overall coverage in terms of categories, as well as selection available to consumers without necessarily having to add that many number of stores, right? So, most of the store addition expansion after the current, say, guidance is going to be growth led and not necessarily to service unserviced areas hitherto.

Amitesh Jha: And one more thing that you have to look at that even if the store addition is constant per month, because of the number of additions that we are doing over the first half of the year, the percentage contribution that is going to come from new stores will consecutively go down all the time, even at a flat addition of stores. So, when we are thinking about contribution margin, think about it is that there will be more percentage of mature stores than with the non-mature stores at the quarter where we are speaking about, that will be the contribution here.

Garima Mishra: Got it. And last question from me. This quarter, you've mentioned that non-food categories contributed to roughly 86% of your GMV. So, how much more can this number go up till? Sorry, food contributed to 86%. So, non-food was 14%. Yes.

Amitesh Jha: See, I think last time also we spoke about it. The customers are asking for more and more categories, and are also willing to have a bigger share of the wallet. And that is the reason why we are expanding our megapods as well, having a lot more assortment in place, which will be mostly electronics, appliances, general merchandise, all those categories.

So, to think about it, yes, it will continue to go up. We believe that the -- in terms of essentially category growth, the new categories will far outstrip the growth of existing categories. And we see that as a secular trend going forward for at least a year, if not more.

Moderator: The next question is from the line of Nikhil Choudhary from Nuvama.

Nikhil Choudhary: Just want to probe a little bit more on the contribution margin comment that the store expansion was back-ended. So, is it fair to assume that the impact on contribution margin from new stores actually gets to fully come and that will happen in next quarter? And contribution margin dip also happened for our existing 609 stores, which we had in Q2. Is it fair assumption?

Rahul Bothra: So, there are 2 parts to it, right? One is, as I said, certain investments that we have had to make. And the second part is really the structural P&L continuing to improve, right, with all the levers at play. So, it's a combination of these 2, which gives us the portfolio level margin. Now specifically on quarter 4, as I said, we can't put a number there, but it's on a tight range is how we think of it, with stores continuing to add on the positive trajectory as well as some of the new stores also contracting margins. But overall, at the portfolio level, it will be on a tight range.

Nikhil Choudhary: Got it. Just wanted clarity if we have seen decline in contribution margin, material decline for existing 609 stores, which we had in Q2. Is it fair assumption?

Rahul Bothra: No. So, as I said, it's a combination, right? So, it's a combination of us investing in new users as well as the store expansion. So, it's not necessarily to do with the 609 stores because many of those stores would actually also turn profitable because they would have hit a certain maturity profile. But it's not that the investments are happening across the portfolio.

Nikhil Choudhary: Got it. Just one clarity on your guidance of achieving adjusted EBITDA breakeven by Q3. Are we assuming that competitive intensity will be materially lower by then and that will lead to losses in Q3 be much lower? Or we are assuming that despite of current level of competitive intensity, we will be able to achieve the breakeven in our consol business?

Rahul Bothra: So, you see, it's hard to really put a crystal ball in terms of how the competition intensity is going to be, how many new players are going to enter, what will be the overall spending pattern. I think the current guidance is basis what we know today. This is our internal plan that we had signed up for. And we remain confident of achieving that.

Now if there's any new information about new heightened competitive activity or it accelerating or decelerating, we will come back to you with more specifics. But as of now, we stay committed to our current trajectory. The adjusted EBITDA breakeven is at the corporate level and the CM breakeven for the Instamart business.

Moderator: The next question is from the line of Aditya Suresh from Macquarie.

Aditya Suresh: I had 2 questions. First, maybe for Harsha. Harsha, obviously, market dynamics are fairly fluid. What in your vantage point are the top 3 financial priorities for Swiggy? And are you drawing any boundary condition of the losses you're willing to fund in Instamart over the next, say, 12 months, 24 months?

Sriharsha Majety: I think if you look at the overall business, I think the only big investment area happens to be Instamart. But at the same time, we're also looking at a $40 billion to $50 billion opportunity in 3 - 4 years. So, our eyes are all about how can we execute, serve customers well and invest to be a dominant player at the end of this investment cycle.

But given the overall trajectory of different businesses, food continues to grow and increase profitability, etc. At an overall level, we feel comfortable investing as long as we are going to ensure greater success for us in Instamart business when it plays out over the next few years.

Aditya Suresh: And in terms of the financial priorities, Harsha, are you able to rank sort of what the priorities are for Swiggy?

Sriharsha Majety: I probably can't give you like a specific rank sort each of them. Each of the businesses have different trajectories and the sum together is how we look at it. So, it will be hard to do a rank sort of, to be honest. But obviously, given the investment level are heightened, the market landscape is the most dynamic in Instamart. Obviously, all our eyes are on ensuring that we navigate that really, really well over the next 2 quarters.

Aditya Suresh: Is the Board putting any kind of cap in terms of the funding of losses, maybe that $250 million, $500 million, any absolute numbers, which the Board is kind of curtailing to spend on?

Sriharsha Majety: No such conversations have been had. I think the Board conversations have always been and continue to be on how to make Instamart successful, how to make each business successful.

Aditya Suresh: Got it. And maybe if I can just like try to ask a different question then, right? So, on ESOPs, can you probably help us understand what the financial metrics kind of associated with this or attached to this? Maybe that will help us kind of understand the priorities here a bit better as well in the next 12 months, 24 months.

Rahul Bothra: Right. I think we had shared specific, the ESOP terms, especially for the senior team. There are back-ended ESOPs that have been given. They're also linked to both share price appreciation, 30% unlock at specific price and all. So, there are specific guidance that we have given in our Shareholder Letters, which is related to share price appreciation, which is linked to the management incentives on ESOP. So that's the philosophy.

Moderator: The next question is from the line of Abhisek Banerjee from ICICI Securities.

Abhisek Banerjee: Congratulations on a good show in food delivery. I had a few questions on quick commerce. First, so you have mentioned the 96 store additions in Q3 FY '25, which is obviously the net addition number. But what would be the gross addition number, if you could let us know, please?

Rahul Bothra: Yes. So, we roughly had 110 or so which are at gross level. The 15 stores that we may have closed is mostly towards either changing the specific pin or making it into a larger store. So, we have been on a continuous journey of expanding the average size of these stores. So, some of that store additions have happened. But on a net level -- at the gross level, they would be roughly 15% higher.

Abhisek Banerjee: Right. So therefore, when you move from a smaller store to a larger store, that also has an inflationary effect on your fixed expenses, right, which comes before contribution. So therefore, that also has an impact on the contribution margin going down?

Rahul Bothra: That's right. For the very short term, yes. But over time, we get a lot more operating leverage because of the expanded AOVs as well as the ability to service a larger customer base and order base.

Abhisek Banerjee: Absolutely, absolutely. But in terms of where are you in this journey of extending the number of stores -- extending the size of existing stores because I saw that the average area per square feet has moved to about 3,475. So, are you mostly done with that journey?

Amitesh Jha: No. So, Amitesh here, Abhisek. So, the way we look at it, there are 2 parts of our store expansion that we are doing. One is more deterministic, which is the megapods that we will keep on expanding and that significantly increases the square foot area, which is there. The other part is more essentially dynamic in nature, where we keep on relocating and moving towards a larger pod. That's a continuous journey. So yes, it will keep on going, but I don't see that as a big drag on our overall square feet area in the future. Is it done? No. That journey will actually continue and -- but it's not going to be a big drag on our fixed cost in general.

Abhisek Banerjee: Understood. Now if we are looking at the ordering frequency per customer, obviously, there has been a later ramp-up. But can you give us some idea of what is the average number of days that the 96 stores have done in the quarter?

Amitesh Jha: Sorry, I didn't understand the question. Can you just repeat that?

Abhisek Banerjee: What would be the blended average number of days that the new 96 stores have done in this quarter?

Amitesh Jha: I don't think we can answer that question specifically. But if there's any other question related to that, we can continue on that.

Abhishek Agarwal: Abhisek, all we can say is that the store additions were slightly back-ended because that's something that Amitesh had already mentioned, which is why obviously you see a drag on the same, while the overall number has gone up by 96, but they've obviously been slightly more back-ended.

Abhisek Banerjee: Okay. Fair enough. Now if I come to your -- the KPIs, which, say, the customer sees, for example, say, the difference between the time shown as it -- I mean, so when say somebody places an order, you show, say, 15 minutes for delivery. And what is the actual time of that order being delivered? Is there some metrics you can share on that, which kind of explains how you are doing operationally?

Amitesh Jha: Yes. I will take the Instamart question, but Rohit can speak about food as well. So, in terms of promised SLA, that we track very, very closely because that is something that customer sees. We are the industry best. It has been also seen in some of the benchmark studies as well. We continue to improve on that as well, and that will always be one of the top priorities that we are looking for.

The other thing is that our -- the delivery times will be considered to that particular SLA is also extremely close. So, we also ensure that the promises that we are doing to the consumer and the actual SLAs that we are also having is also extremely close. At a national level, our average in terms of actual SLA is around 12 minutes. And we see that going south as well as, as and more the orders will be more denser. So, more dense orders mean that my SLAs will go down, if that question was specific to Instamart. But...

Abhisek Banerjee: Yes. And one more part, what is the promised time?

Rohit Kapoor: Sorry, Abhisek, please go on then.

Abhisek Banerjee: So, I was just trying to understand what is the promised time for delivery in Instamart vis-a-vis the 12 minute of actual delivery time?

Amitesh Jha: Yes. So, promised will be extremely close to that. It's not going to be...

Rohit Kapoor: Yes. Maybe I'll take that. This is Rohit here. I think on both food and Instamart, in terms of -- from our understanding, we operate at near industry standards on the promised versus actual gap, right? And the promise will be, in most cases, within a very tight range. Maybe for Instamart maybe 1 or 2 minutes. In food, maybe 2 to 5 minutes in that range, right? So -- and that's a very important metric because we don't think of the consumer response as a one-shot response where you show something and the actual in that particular episode, but trust builds over a period of time. And so, this is a very important metric we track regularly, and the range is very, very tight is what I'd tell you.

Abhisek Banerjee: Understood.

Rohit Kapoor: And if your question is that is there a very aggressive time being shown and the delivery is something else, that's incorrect.

Abhisek Banerjee: Yes. Exactly. So, I was just trying to understand how you stand versus the overall industry, if there's any way of tracking that?

Rohit Kapoor: Yes, we track compliance, and we do mystery ordering reports, which are third-party in nature, where third parties actually study across players and come back and give us a range of guidance. So, this is a very closely watched metric at the management level. I track it. Harsha tracks it. Amitesh tracks it. So, it's a very important metric we track. And our philosophy is to keep the promised versus actual quite tight.

Moderator: We have the next question from the line of Samarth Patel from Equirus Securities.

Samarth Patel: Now, on the quick commerce side, there has been significant increase in fixed costs, both like semi-fixed cost as well as overall fixed cost, ex of marketing, right? So, how much of it would be, let's say, A, we are replacing existing darkstores with the larger darkstores; B, we are opening darkstores, but within existing city and the third, we are just opening the new city? So, any flavour on that would be really helpful.

Rahul Bothra: So, we unfortunately cannot give specific information in these cuts.

Samarth Patel: Yes. But any, like, flavour would be really helpful for us to understand.

Rahul Bothra: The largest component in below contribution margin cost is the marketing investments, right, which are slightly more discretionary in nature, which we decide to invest or hold back depending on the category growth that we see.

Moderator: The next question is from the line of Gaurav Malhotra from Axis Capital.

Gaurav Malhotra: I just had one question. Right now, from an industry perspective, right, everyone is really going out and aggressively expanding and also providing reasonable discounting for gaining subscriber share. But what is the risk that at least in some of the markets, we are sort of overestimating the demand because that demand is basically coming from providing higher discounting of products. Any thoughts on that?

Amitesh Jha: Yes. I'll speak about the market in general, and I think which is the question around this as well. See, everyone is expanding. We are also expanding, and we are seeing a latent demand for quick commerce across the cities. So, wherever we are going, I think this is one of the standard metrics also that we look at is that how long does it take for a store to mature. The trajectory for any new store that we are launching in new cities are also following the same trajectory.

So, the way to look about it is that it really -- if you are comparing a metro to a T2 city, every store, even at this particular point of time are behaving in the exact same way. So, the way to think about it is there is a latent demand. It is important for the quick commerce space to go and serve that demand. We want to be in the forefront of that, which is the reason why we are investing in expansion of stores, cities, as well as on to marketing. And we believe that particular thing will be safe. There is a big reason of why people are coming in is because they want it.

Moderator: Ladies and gentlemen, we will now take one last question, which will be from the line of Ankur Rudra from JPMorgan. Please go ahead.

Ankur Rudra: Just one question on the subsidies. You mentioned that, that's sort of gone up. Could you maybe clarify what is the nature of the customer incentives that is happening in the market right now, especially from your side? Are these headline subsidies on the MRP from your side as opposed to what you get from brands? Or is this targeted for customer acquisition or reacquisition for the first few orders? Is it on delivery charges? So, just some clarity on what's happening there? Because the concern I have is, is this potentially changing the customer perception to a very, very subsidy-seeking behavior, which could be harmful for your brand and the market in the long term?

Amitesh Jha: See, the way we are looking at it is that there is a customer acquisition cost that we have to pay, right? We'll have to do performance marketing, and we have to make sure that they have the right tools in play for them to be sticky to a platform. And that stickiness to a platform is a program that we essentially run. That is the same program that we used to run also earlier, and we are also doing that essentially right now. So, the way to think about it is the more number of new customers you acquire, the amount of investment spent on those programs will essentially go up. The customer acquisition cost, obviously, because of heightened competition is also up. But as they mature, okay, generally, these customers are becoming more and more productive.

So, one thing that we track very closely, that's exactly what you said, that is the customer behavior changing because of the way we are acquiring those? We don't see any kind of change in that at all. We see that when we do it over a longer period of time, that stickiness remains and the propensity to higher retention, higher GOV only increases. We haven't seen correlation between the customer acquisition cost that we are providing and the retention. Generally, they are independent of each other.

Ankur Rudra: If I can, I just want to clarify, this is the point about excluding performance marketing, what's spend on customer acquisition outside performance marketing?

Amitesh Jha: Yes. We look at it really together because ultimately, it's a full customer acquisition cost. The purse is for acquiring a customer and the incentives are also related to that. So, integrated cost is what we look at.

Moderator: Thank you. On behalf of Swiggy Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.