

Zomato

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Muted GOV growth; albeit, on-track to achieve profitability target

Zomato reported a mixed operating performance in Q3 – while it registered a disappointing muted GOV, contribution margin in food delivery and Hyperpure revenue growth beat expectations. Food-delivery GOV grew 0.7% QoQ/21% YoY to Rs66.8bn, impacted in an otherwise seasonally-strong quarter due to an industry-wide post-Diwali slowdown, especially prominent in the top-8 cities. Food-delivery adj. revenue declined ~1% QoQ, largely due to fall in order volumes (~163mn vs ~164mn in Q2). The demand environment remains challenging owing to a few temporary factors: i) macro slowdown for the mid-market segment, ii) boom in dining-out for the premium-end category, and iii) boom in travel at the premium-end. However, Management has pointed to green-shoots of demand coming back in recent weeks. Management indicated that ex-quick commerce business achieved break-even in Jan-23 and sees a good chance of achieving adjusted EBITDA breakeven ex-quick commerce in Q4. The company reiterated its guidance of adjusted EBITDAM break-even by Q2FY24 despite the unexpected moderation in demand and launch of Zomato Gold. Management remains confident about achieving adjusted EBITDA margin of 4-5% of GOV, in the food delivery business in the medium term. Q3 performance strengthens our belief in the company's ability to execute & deliver profitable growth, but growth moderation in MTU/GOV remains a concern. We maintain BUY, with TP of Rs90/share, based on SOTP methodology, comprising of the OFD business (ex-Blinkit), valued at Rs77/share using DCF the method, with cash and other strategic minority investments accounting for the remaining value.

Result summary: Revenue grew 17% QoQ to Rs19.5bn in Q3, led by growth in Hyperpure (22%), full-quarter integration of Blinkit, and revenue from seasonal offline events. Adj. revenue grew 12%/ 66% QoQ/YoY to Rs23.6bn, while adj. revenue ex-quick commerce grew by 5%/45% QoQ/YoY to Rs20.6bn in Q3. Adj. EBITDA loss increased to Rs2.65bn in Q3, from Rs1.9bn in Q2, mainly on account of full-quarter integration of Blinkit. Adj. EBITDA loss (ex-quick commerce) reduced to Rs0.4bn from Rs0.6bn in Q2. Food-delivery revenue grew 1% QoQ. Avg. MTU in food delivery declined ~1% QoQ to 17.4mn. Hyperpure revenue grew 26%/169% QoQ/YoY to Rs4.2bn in Q3, partly benefiting from goods supplied to sellers on Blinkit's marketplace. Blinkit's GOV grew 18% QoQ to Rs17.5bn, driven by 21% growth in order volumes and offset by ~3% reduction in AOV. Blinkit's AOV stood at Rs553 vs Rs568 in Q2, and Management indicated that this might be a result of the slowdown as customers are showing preference to buy smaller packets instead of larger ones. Profitability continued to improve, with contribution margin (as a % of GOV) reaching to -4.5% in Q3 from -7.3% QoQ. **What we liked:** Beat on food-delivery contribution margin, better-than-expected performance in Hyperpure and Blinkit. **What we did not like:** GOV growth moderation, decline in avg. MTU, drop in order volumes in a seasonally-strong quarter.

Earnings-call KTAs: 1) Food-delivery contribution margin (as a % of GOV) improved to 5.1% from 4.5% in Q2, largely driven by growth in AOV and efficiencies on the cost front which compensated for the lower customer-delivery charges. 2) Initiatives taken by Management to revive growth are: i) Launched a loyalty program (Gold) in late Jan-23. ii) Remodeling of the Zomato Instant service (likely to be launched soon). iii) Fixing hygiene issues of the app. 3) Zomato exited ~225 smaller cities in January which contributed ~0.3% of GOV as performance of these cities was not encouraging. 4) Company expects the 'others' segment to report a sequential decline in revenue in Q4, due to the services being offered to Talabat in the UAE having been discontinued since Nov-22 and owing to absence of seasonal offline events (combined contribution: ~Rs0.4bn in Q3). 5) Blinkit's revenue per order increased, despite reduction in AOV due to growth in commission rates and better ad monetization, while cost per order reduced due to operating leverage. 6) The Zomato Gold membership program has scaled up, to over 0.9mn members within less than a month of launch. Company expects the short-term negative impact of Zomato Gold (due to free delivery benefit) to be offset by improvements in other revenue and fixed & variable cost drivers. 7) Cash balance as on Dec 31, 2022 stands at Rs113bn.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	19,938	41,924	70,114	96,945	124,874
EBITDA	(4,672)	(18,508)	(13,768)	(11,023)	(1,803)
EBITDA Margin (%)	(23.4)	(44.1)	(19.6)	(11.4)	(1.4)
APAT	(4,880)	(15,061)	(12,520)	(10,847)	(1,392)
EPS (Rs)	(0.9)	(1.7)	(1.4)	(1.2)	(0.2)
EPS (% chg)	NM	NM	NM	NM	NM
ROE (%)	(11.1)	(12.2)	(6.9)	(5.7)	(0.7)
P/E (x)	(58.8)	(32.2)	(38.9)	(44.9)	(349.6)
EV/EBITDA (x)	(51.8)	(20.7)	(29.2)	(37.0)	(224.5)
P/BV (x)	3.5	2.9	2.5	2.6	2.6

Source: Company, Emkay Research

CMP	Target Price
Rs 53 as of (February 10, 2023)	Rs 90 (■) 12 months
Rating	Upside
BUY (■)	68.9 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	NM/NM
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	(1.4)	(1.2)
Consensus	(1.2)	(0.9)
Mean Consensus TP (12M)	Rs 80	

Stock Details

Bloomberg Code	ZOMATO IN
Face Value (Rs)	1
Shares outstanding (mn)	8,552
52 Week H/L	95 / 41
M Cap (Rs bn/USD bn)	456 / 5.52
Daily Avg Volume (nos.)	82,152,620
Daily Avg Turnover (USD mn)	59.5

Shareholding Pattern Dec '22

Promoters	-%
FIIs	56.7%
DIIIs	7.4%
Public and Others	35.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(17)	(5)	(44)
Rel. to Nifty	(2)	(16)	(6)	(44)

Relative price trend



Source: Bloomberg

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Exhibit 1: Quarterly snapshot

Rs mn	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
GOV	66,800	66,310	0.7	55,000	21.5
Net sales	19,482	16,613	17.3	11,120	75.2
Operating expenses	23,144	19,727	17.3	16,008	44.6
EBITDA	(3,662)	(3,114)	18	(4,888)	(25)
Margins (%)	(19)	(19)	(10)	(44)	2,520
Depreciation	1,548	1,067		387	
EBIT	(5,210)	(4,181)	25	(5,275)	(1)
Margins (%)	(27)	(25)	(160)	(47)	2,070
Interest Paid	161	119		31	
Other income	1,734	1,695		1,477	
Non-recurring items	0	0		3,157	
Pre-tax profit	(3,637)	(2,605)	40	(672)	441
Tax provided	-171	-97		0	
Profit after tax	(3,466)	(2,508)		(672)	
Minority	-	-		(40)	
Emkay Net profit	(3,466)	(2,508)	38	(632)	448
EPS (Rs)	(0.4)	(0.3)	35.5	(0.1)	425.0

Source: Company, Emkay Research

Exhibit 2: Zomato's SoTP-based valuation

	Methodology	Rs bn	Rs per share
Valuation of food delivery business	DCF	705	77
Valuation of investments	Book value	15	2
Cash	Book value	101	11
Total equity value (Rs bn)		821	90

Source: Company, Emkay Research

Exhibit 3: Actuals vs estimates (Q3FY23)

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net sales	19,482	18,348	15,583	6.2%	25.0%	Revenue growth came ahead of estimates, on the back of better than expected performance by Hyperpure and Blinkit, and seasonal offline events.
EBIT	(5,210)	(4,675)	(4,102)	NM	NM	EBIT misses estimates due to higher D&A.
EBIT margin	-26.7%	-25.5%	-26.3%	-130 bps	-40 bps	
PAT	(3,466)	(3,205)	-2,528	NM	NM	Loss was higher than expectations due to the EBIT miss.

Source: Company, Bloomberg, Emkay Research

Exhibit 4: Changes in estimates

Rs mn	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Net sales	68,348	70,114	2.6%	96,131	96,945	0.8%	124,066	124,874	0.7%
YoY growth	63.0%	67.2%		40.6%	38.3%		29.1%	28.8%	
EBIT	-19,303	-18,323	NM	-16,877	-15,629	NM	-7,593	-6,071	NM
EBIT margins (%)	-28.2	-26.1		-17.6	-16.1		-6.1	-4.9	
Net profit	-13,215	-12,520	NM	-11,169	-10,847	NM	-1,970	-1,392	NM
EPS (Rs)	-1.4	-1.4	NM	-1.2	-1.2	NM	-0.2	-0.2	NM

Source: Company, Emkay Research

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Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	19,938	41,924	70,114	96,945	124,874
Expenditure	24,610	60,432	83,882	107,967	126,677
EBITDA	(4,672)	(18,508)	(13,768)	(11,023)	(1,803)
Depreciation	1,377	1,503	4,555	4,606	4,268
EBIT	(6,049)	(20,011)	(18,323)	(15,629)	(6,071)
Other Income	1,246	4,949	6,158	5,306	5,244
Interest expenses	101	120	455	524	566
PBT	(4,903)	(15,182)	(12,620)	(10,847)	(1,392)
Tax	13	20	(97)	0	0
Extraordinary Items	(3,248)	2,974	0	0	0
Minority Int./Income from Assoc.	(36)	(135)	(3)	0	0
Reported Net Income	(8,128)	(12,087)	(12,520)	(10,847)	(1,392)
Adjusted PAT	(4,880)	(15,061)	(12,520)	(10,847)	(1,392)

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	4,550	7,643	8,554	8,554	8,554
Reserves & surplus	76,438	157,412	188,738	177,891	176,499
Net worth	80,987	165,055	197,291	186,444	185,052
Minority Interest	(57)	(66)	(69)	(69)	(69)
Loan Funds	14	0	0	0	0
Net deferred tax liability	0	0	0	0	0
Total Liabilities	80,944	164,989	197,222	186,375	184,983
Net block	15,391	14,043	61,942	59,548	57,542
Investment	22,052	47,177	47,317	47,317	47,317
Current Assets	49,591	112,044	100,797	98,374	104,247
Cash & bank balance	45,030	101,193	84,474	79,136	81,996
Other Current Assets	3,115	8,855	11,457	12,413	13,408
Current liabilities & Provision	6,092	8,281	12,835	18,865	24,124
Net current assets	43,499	103,763	87,962	79,509	80,123
Misc. exp	0	0	0	0	0
Total Assets	80,944	164,989	197,222	186,375	184,983

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(8,151)	(12,205)	(12,620)	(10,847)	(1,392)
Other Non-Cash items	3,889	1,379	142	(906)	(1,844)
Chg in working cap	(7,567)	2,483	(4,818)	1,715	846
Operating Cashflow	(10,179)	(6,930)	(12,644)	(5,432)	1,877
Capital expenditure	(308)	(781)	3,336	(812)	(862)
Free Cash Flow	(10,487)	(7,711)	(9,308)	(6,244)	1,015
Investments	(52,237)	(79,723)	7,450	3,000	(4,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(52,436)	(79,378)	16,243	7,094	(18)
Equity Capital Raised	66,083	90,000	282	0	0
Loans Taken / (Repaid)	(26)	(13)	0	0	0
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(2,016)	(2,482)	(5,600)	(4,000)	(3,000)
Financing Cashflow	64,019	87,498	(5,318)	(4,000)	(3,000)
Net chg in cash	1,403	1,190	(1,719)	(2,338)	(1,140)
Opening cash position	1,672	3,065	3,923	2,204	(134)
Closing cash position	45,030	101,193	84,474	79,136	81,996

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	(23.4)	(44.1)	(19.6)	(11.4)	(1.4)
EBIT Margin	(30.3)	(47.7)	(26.1)	(16.1)	(4.9)
Effective Tax Rate	(0.3)	(0.1)	0.8	0.0	0.0
Net Margin	(24.7)	(36.3)	(17.9)	(11.2)	(1.1)
ROCE	(10.9)	(12.2)	(6.7)	(5.4)	(0.4)
ROE	(11.1)	(12.2)	(6.9)	(5.7)	(0.7)
RoIC	(86.5)	(131.5)	(44.3)	(24.9)	(10.5)

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	(0.9)	(1.7)	(1.4)	(1.2)	(0.2)
CEPS	(0.7)	(1.5)	(0.9)	(0.7)	0.3
BVPS	15.0	18.1	21.6	20.4	20.3
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(58.8)	(32.2)	(38.9)	(44.9)	(349.6)
P/CEPS	(81.9)	(35.8)	(61.1)	(78.0)	169.2
P/BV	3.5	2.9	2.5	2.6	2.6
EV / Sales	12.1	9.2	5.7	4.2	3.2
EV / EBITDA	(51.8)	(20.7)	(29.2)	(37.0)	(224.5)
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.6)	(0.6)	(0.4)	(0.4)	(0.4)
Net Debt/EBIDTA	9.6	5.5	6.1	7.2	45.5
Working Cap Cycle (days)	(28.0)	22.4	18.2	1.4	(5.5)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(23.5)	110.3	67.2	38.3	28.8
EBITDA	NM	NM	NM	NM	NM
EBIT	NM	NM	NM	NM	NM
PAT	NM	NM	NM	NM	NM

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	11,120	12,118	14,139	16,613	19,482
EBITDA	(4,888)	(4,497)	(3,073)	(3,114)	(3,662)
EBITDA Margin (%)	(44.0)	(37.1)	(21.7)	(18.7)	(18.8)
PAT	(631)	(3,599)	(1,854)	(2,508)	(3,466)
EPS (Rs)	(0.1)	(0.5)	(0.2)	(0.3)	(0.4)

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-22	Jun-22	Aug-22	Sep-22	Dec-22
Promoters	-	-	-	-	-
FII	10.2	9.9	17.3	25.5	56.7
DII	3.1	2.6	6.0	38.8	7.4
Public and Others	86.8	87.5	76.8	35.7	35.8

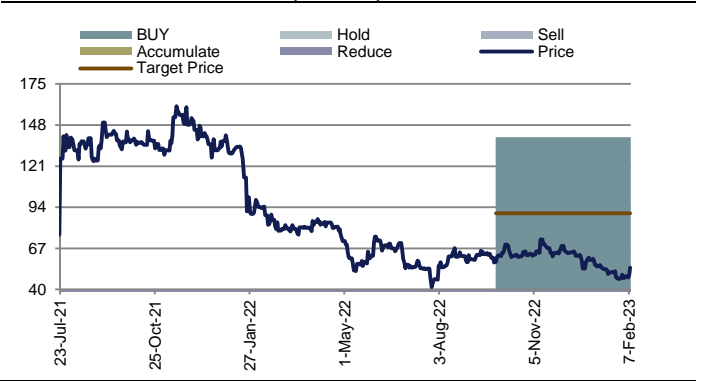
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
2-Jan-23	60	90	12m	Buy	Dipeshkumar Mehta
11-Nov-22	73	90	12m	Buy	Dipeshkumar Mehta
4-Oct-22	64	90	12m	Buy	Dipeshkumar Mehta
28-Sep-22	58	90	12m	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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