April 2023

Initiating Coverage | Sector: Internet

Zomato

Wholesome MEAL at a DEAL

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Zomato: Wholesome Meal at a Deal

Motilal Oswal

Zomato

BSE SENSEX	S&P CNX
60,393	17,828

Bloomberg	ZOMATO IN
Equity Shares (m)	8548
M.Cap.(INRb)/(USDb)	460.4 / 5.6
52-Week Range (INR)	88 / 41
1, 6, 12 Rel. Per (%)	0/-17/-38
12M Avg Val (INR M)	5481
Free float (%)	100.0

Financials & Valuations (INR b)

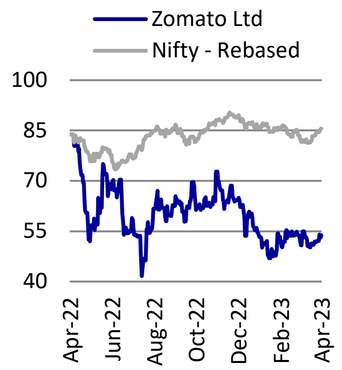
Y/E MARCH	FY23E	FY24E	FY25E
GOV (INR)	262.4	308.0	384.1
Net Sales (INR)	70.5	93.7	117.8
Change (%)	68.1	32.9	25.8
EBIT	-17.5	-13.3	-7.1
EBIT margin (%)	-24.9	-14.2	-6.0
Adj. PAT	-11.2	-6.3	1.1
PAT margin (%)	-15.9	-6.7	0.9
RoE (%)	-7.01	-4.19	0.74
RoCE (%)	-10.92	-8.79	-4.74
EPS	-1.44	-0.73	0.13

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	0.0	0.0	0.0
DII	32.4	38.8	4.6
FII	34.0	27.9	14.0
Others	33.6	33.3	81.4

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR54 TP: INR70 (+30%) Buy

Wholesome Meal at a Deal

Expect breakeven in FY25

The food delivery industry in India is all set to grow rapidly in the medium term driven by intensifying internet penetration, rising consumption and growth in urbanization. Zomato is a dominant player in the industry and we forecast the company to report 29% revenue CAGR over FY23-25. We expect strong growth to be complemented by the company turning profitable over FY25, despite elevated competitive intensity. We initiate our coverage on the stock with a BUY rating and a target price of INR70.

Foodtech industry still in its early days; strong runway for growth ahead

- Growing internet penetration, rising consumption and urbanization have driven online delivery adoption in India. A large internet user base (1b by CY25E according to Redseer) combined with early stage of adoption – 9% of the population using internet (v/s 36% for China/50% for the US) – should ensure a long runway to growth.
- We expect India's food delivery market to clock a rapid 19% CAGR over FY23-25 (v/s slowing growth in other markets) fueled by growth in the number of transacting users and order frequency. This should lead to a higher share of online food ordering (24% by FY25E from 13% in FY21).

Zomato to grow but duopoly to delay scale gains

- With the exit of Amazon, the food delivery market is now a settled duopoly with Zomato (55% market share) and Swiggy (45%). The market has a very high moat given the significant capital requirement to displace the incumbents.
- We expect Zomato to gain from the relatively early stage of food delivery ecosystem in India, as increased formalization along with growing share of platform led delivery (currently at 7% of overall food consumption) should help boost its Food delivery GOV to INR 384b in FY25 from 213b in FY22.
- We view the limited distinction between Zomato and Swiggy's offerings – both having food delivery, dine-in and quick commerce – as a concern. A split market without a clear leader would hit margins due to absence of efficiency gains from order bunching. We see a contribution margin of 5.6% of GOV in FY25E for Zomato v/s its medium-term target of 8.0%.

Strong delivery across verticals to drive revenue growth

- We expect Zomato to report a strong 29% revenue CAGR over FY23–25 fueled by: a) higher penetration, b) higher proportion of transacting users, and c) increased ordering frequency.
- Food delivery AOV will remain flat in FY23E and increase to INR409 by FY25. Higher penetration and usage of Zomato should drive 13% CAGR in MTU over FY23-25, resulting in a 23% CAGR for the vertical during FY23-25 despite high-teens growth in FY24E amid near-term weakness.
- Revenue from Hyperpure (36% CAGR between FY23-25E) and Blinkit (27% CAGR between FY23-25E, adjusted for full FY23) is also likely to remain strong for the next few years as the company expands its operations.

All-set to breakeven over FY25E

- With Zomato's food business recording EBITDA breakeven in 1QFY23, we expect the company to turn profitable over FY25. Continued spends due to elevated competitive intensity from Swiggy (unlisted) should weigh on Zomato's operating costs in FY24, making it difficult to breakeven.

The food business of Zomato recorded a breakeven at EBITDA level in 1QFY23

- We expect gross margin to improve to 33.5% in FY25 from 5.3% in FY22 as the employee cost and other expenses as a % of sales decrease.

Zomato Gold to aid growth, but to weigh on its near term margins

- Zomato is back with its loyalty program (Gold) after discontinuing Pro Plus in Aug'22. Given the experience of previous loyalty programs, this should help Zomato compete on more equal terms with Swiggy.
- Strong early signs of Gold adoption (900k in the first month itself), in our opinion, should help Zomato improve growth as order frequency should improve after declining in recent quarters.
- On the other hand, this should add to delivery expenditure for Zomato and might have some adverse impact on margins in the near term.

Expect gross margins to increase from 5.3% in FY22 to 33.5% in FY25

Quick commerce market yet to settle

- Quick commerce, at USD5.5b, forms just 1% of grocery market of USD620b. With a large addressable market at USD45b, it is all set to surge 10-15x by 2025E, according to Redseer.
- Quick commerce is still in early days and is highly competitive. Further, it is difficult to rationalize the delivery fleet due to time constrains in quick commerce.
- Though Blinkit is scaling up well and improving on profitability, we see the space as still nascent for Zomato given the large number of players in the ecosystem.

Valuation and view: Initiate coverage with a BUY rating

- The food delivery business is still at a nascent stage in India with a long runway of growth. With dominant market share and strong growth in the food delivery business and Hyperpure, we expect Zomato to report a strong 29% CAGR over FY23-25. Though management expects it to be profitable latest by 2QFY24, we believe the company should breakeven during FY25.
- We view the acquisition of Blinkit as an additional risk and high attrition at senior management level remains a concern.
- We value the business using DCF methodology, assuming 4% terminal growth rate and 12.5% cost of capital. **We initiate coverage on the stock with a BUY rating and a TP of INR70**, implying 30% potential upside.

Exhibit 1: DCF assumptions and calculation (INR b)

Total PV	267.5
Terminal Value	212.9
Total	480.4
Net Debt - FY23E	(118.2)
No. of Shares	8.63
Target Price (INR)	**70**
CMP (INR)	54
Upside (%)	**30**

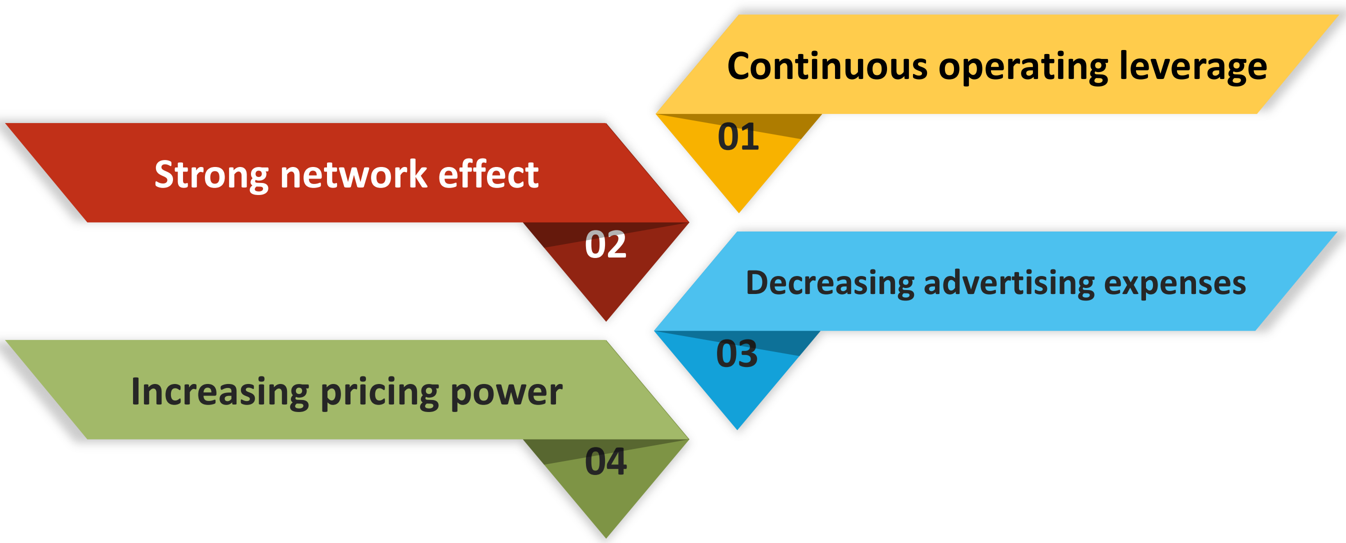
Source: MOFSL, Company

STORY IN CHARTS

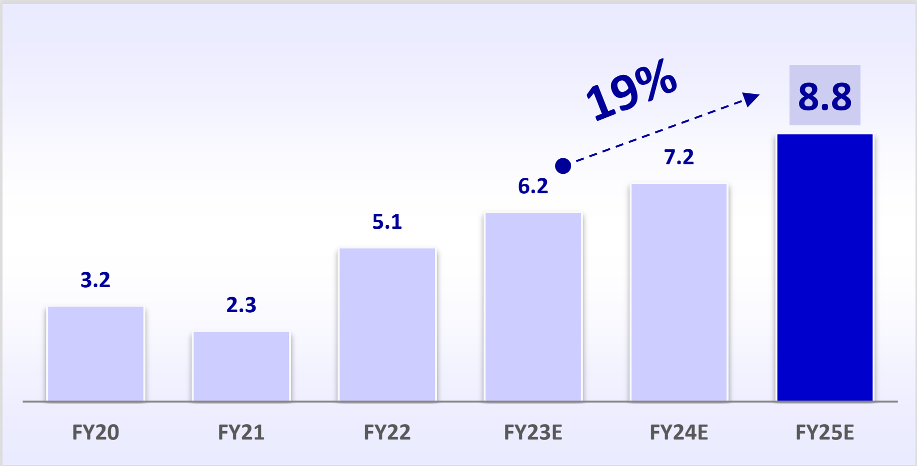
Online food delivery all set to clock 19% CAGR over FY23-25

Food delivery brands that fell by the wayside

Reasons for success of the platform businesses



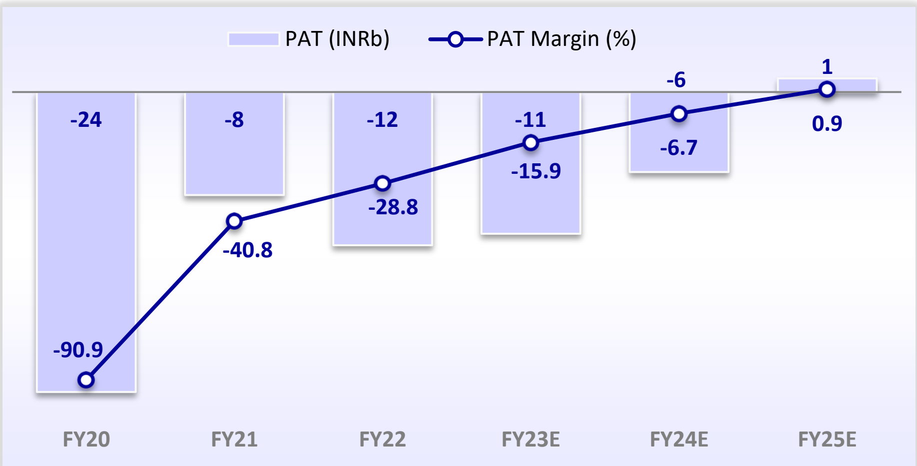
Online food delivery market (USD b) to clock 19% CAGR over FY23-25E



Growing internet penetration, rising consumption, and urbanization will drive strong industry growth over the medium term

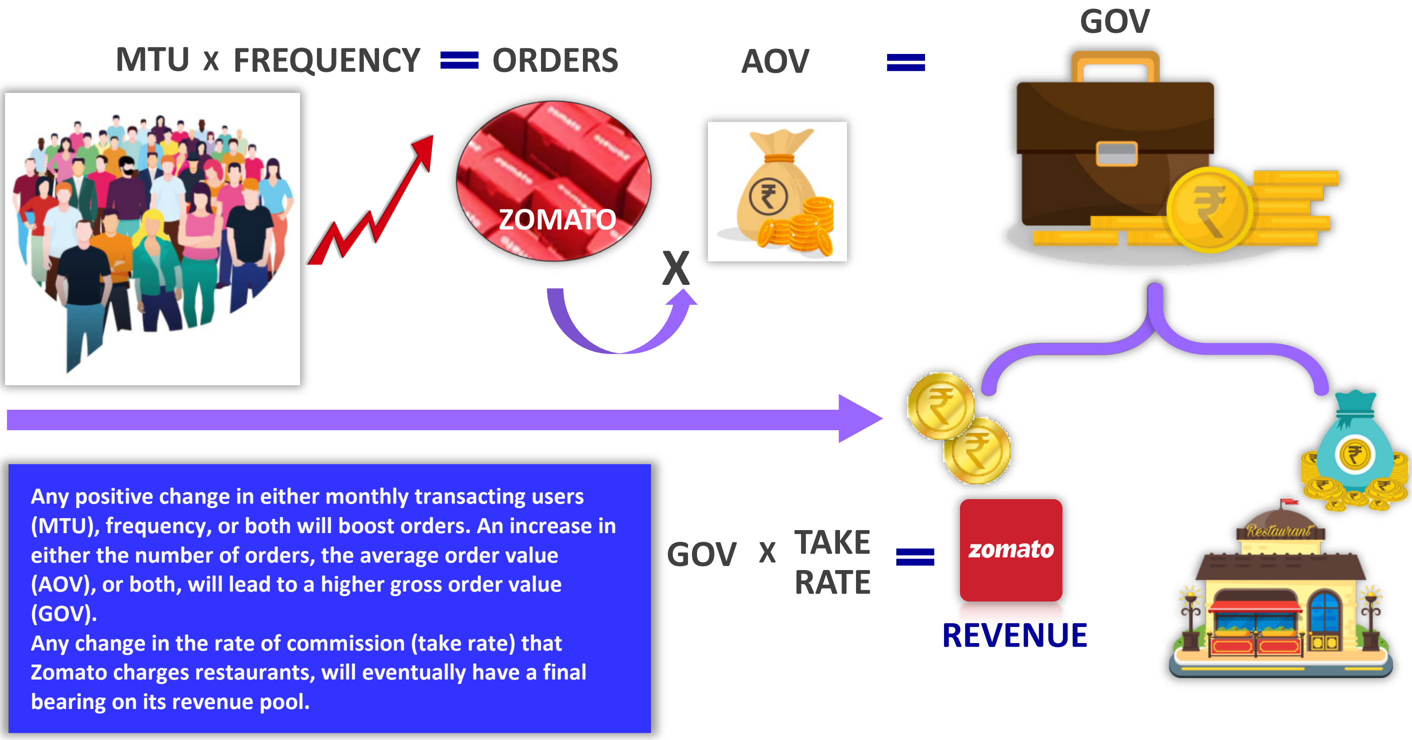
Orders per year to almost double by FY25

Expect Zomato to breakeven during FY25

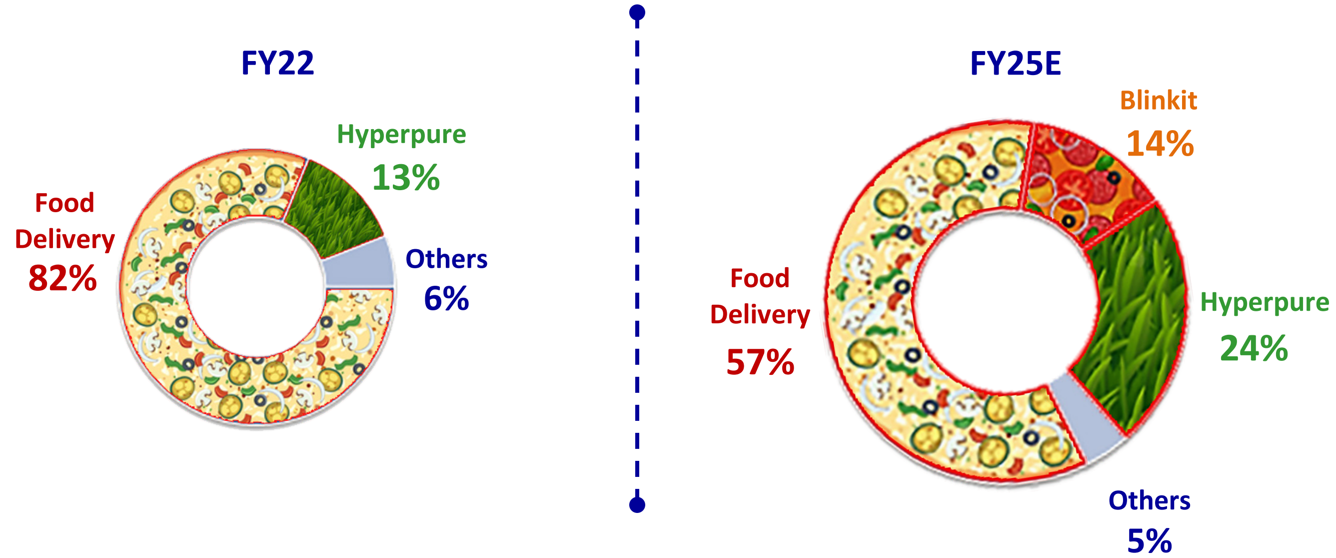


Zomato is all set to break even in FY25E, led by an expansion in contribution margin and strong operating leverage

Factors driving revenue for Zomato

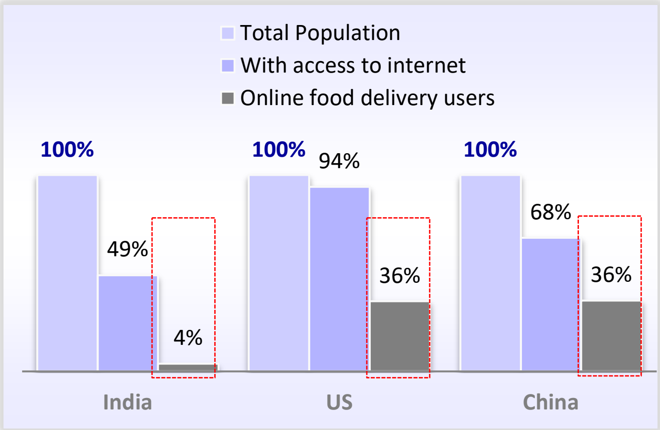


Revenue mix for Zomato

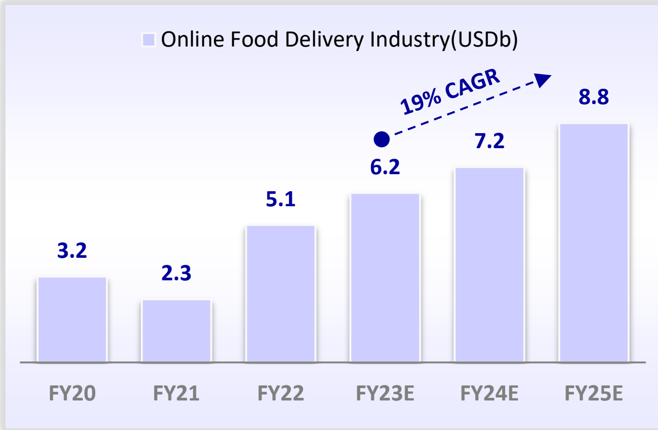


With a strong growth in Hyperpure, we expect a reduction in the share of food delivery to 57% of FY25 revenue from 82% in FY22

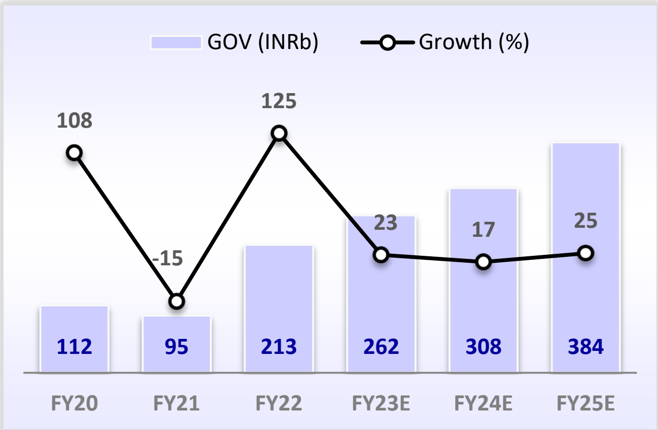
Only 4% of population order food from restaurants



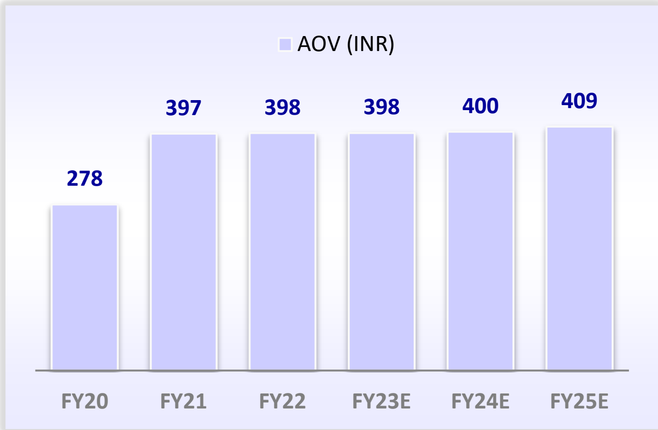
Online Food delivery market to report 19% CAGR



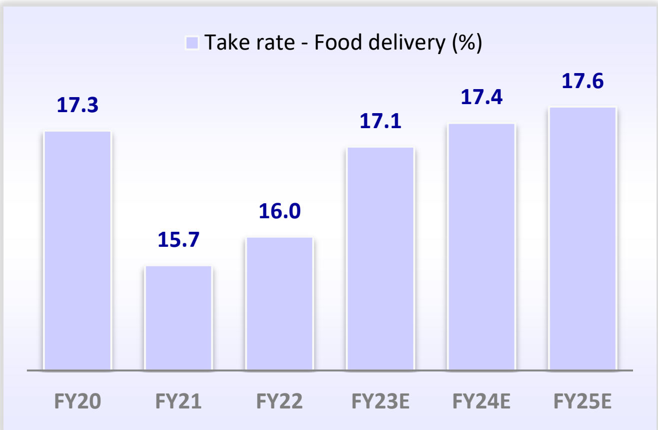
Expect strong GOV growth to continue



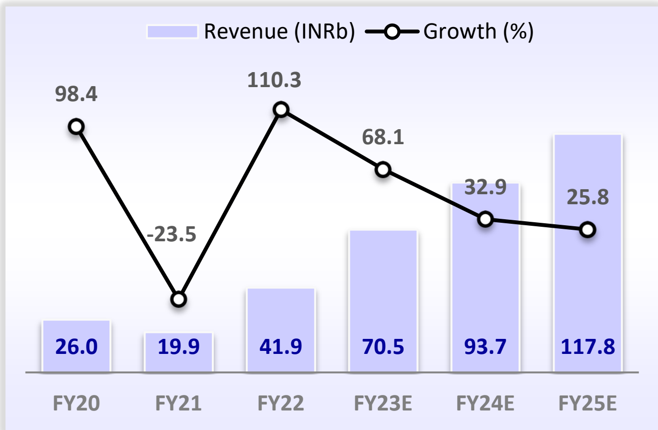
AOV to see marginal improvement over FY23-25E



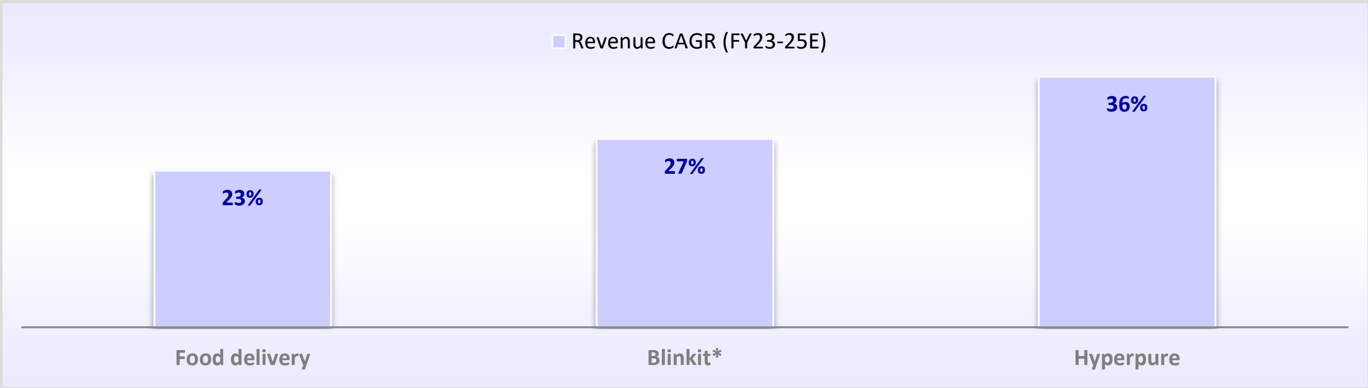
Take rate (ex-delivery) has been in a narrow range



Revenue to clock 29% CAGR over FY23-25E

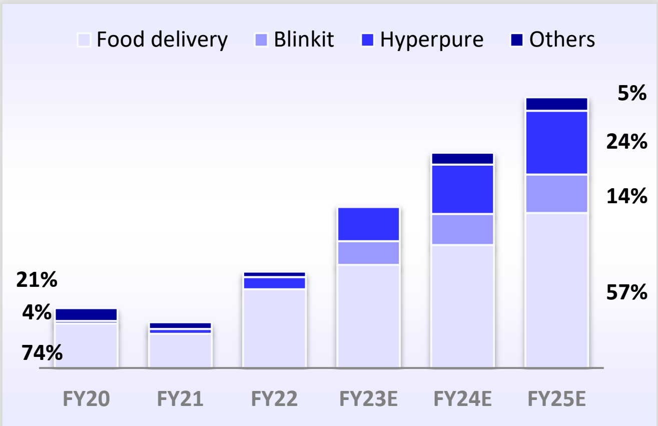


Expect strong growth across segments

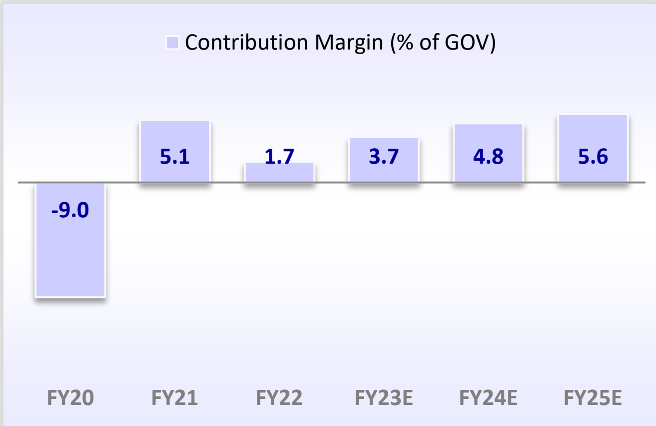


*Adjusted for full FY23 revenue

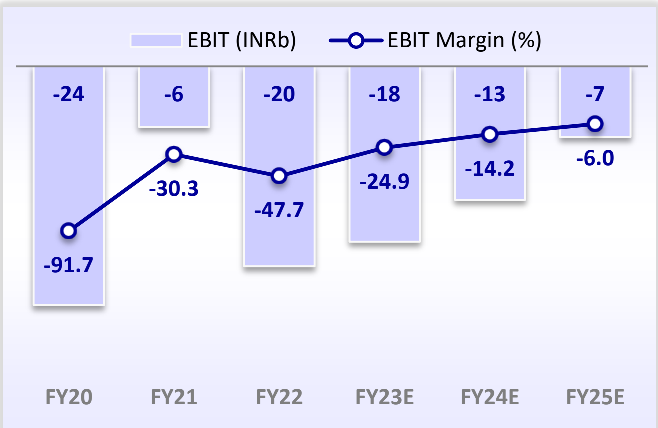
Hyperpure's revenue share to reach 24% by FY25



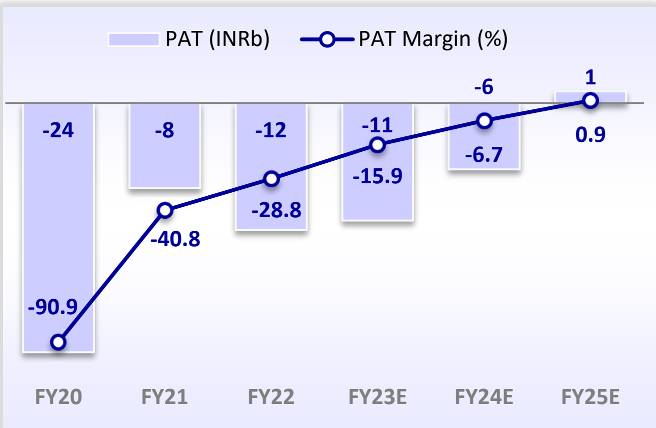
Expect steady increase in contribution margin



Expect sharp improvement in EBIT margin



Zomato should breakeven during FY25E



Indian foodtech industry still in its early days

Volume growth to drive industry sustainability

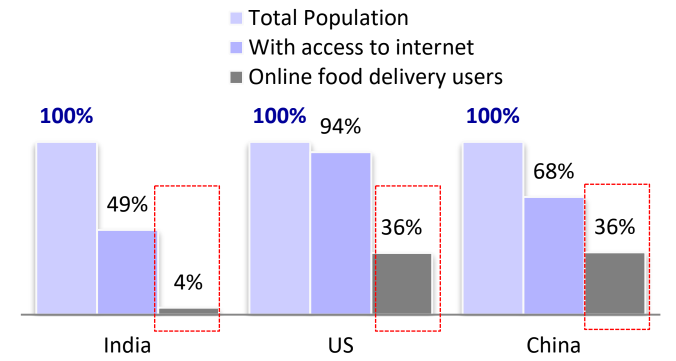
Internet and smartphone penetration in India has more than doubled over 2015-20 to 660m from 310m internet users

Only 9% of the internet users in India use online food ordering v/s 36% and 50% in China and the US, respectively

Growing internet penetration, rising consumption and growth in urbanization have enabled online delivery adoption in India. The food delivery aggregator model has improved strongly over the past few years. Internet and smartphone penetration in India has more than doubled over 2015-20 to 660m from 310m internet users, driven by easy availability of smartphones, cheap data and high-speed 4G connections. Internet penetration in India should surpass 70% level and reach 1b users by CY25E, according to Redseer estimates.

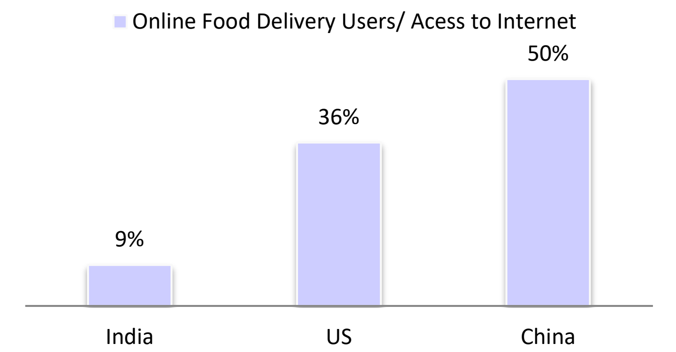
However, of the total users connected to internet in India, online shoppers are yet to breach the 25% mark (v/s China's 70%). Moreover, online food ordering is done by only 9% of the population using internet (v/s 36% for China and 50% for the US).

Exhibit 2: Only 4% of population order food from restaurants…



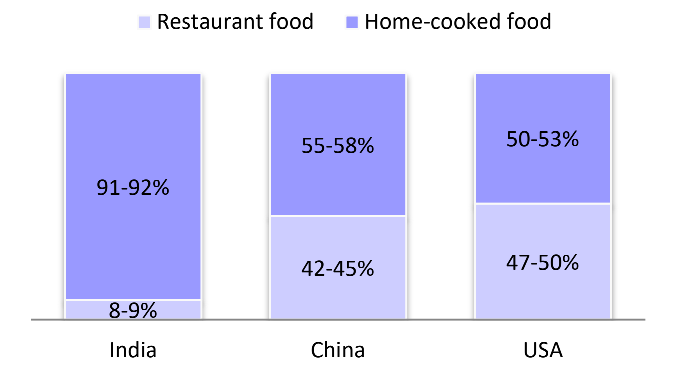
Source: MOFSL, Company

Exhibit 3: …leaving a long runway for growth



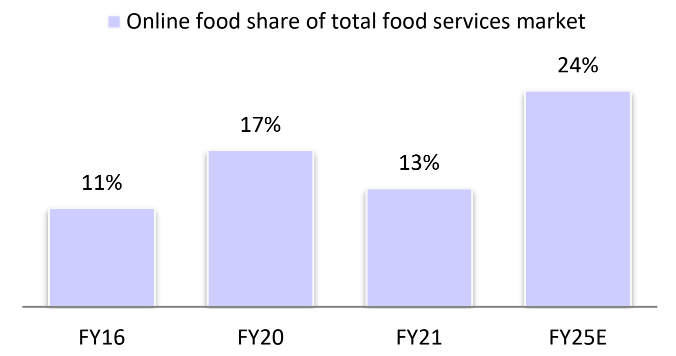
Source: MOFSL, Company

Exhibit 4: Home-cooked food dominates the Indian market



Source: MOFSL, Company

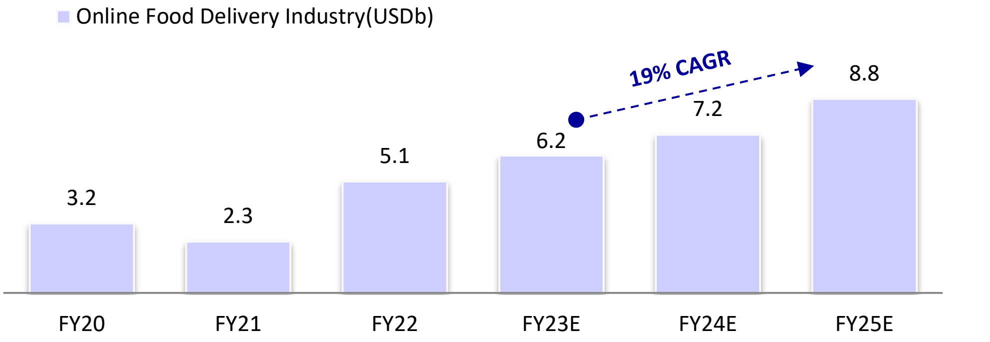
Exhibit 5: Online food share of total food services market



Source: Technopak BoK, Sapphire Foods DRHP

However, India's food delivery market is growing rapidly (v/s slowing growth in other markets) and is likely to maintain this trajectory over the medium to long term. We expect the online food delivery industry to report 19% CAGR over FY23-25.

Exhibit 6: Expect online food delivery market to clock 19% CAGR over FY23-25



Source: MOFSL, Company

Online food delivery market is expected to post 19% CAGR between FY23 and FY25

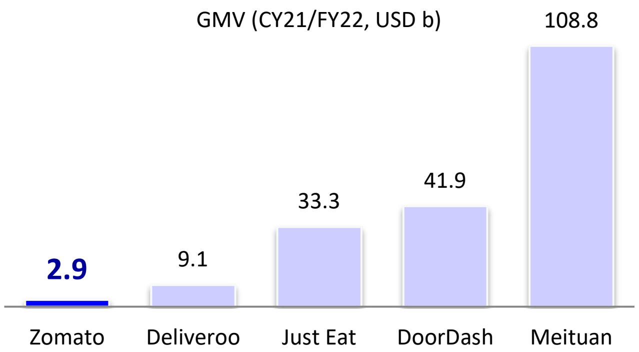
Food delivery space continues to evolve globally

Potential headroom for growth in GOV and AOV

While India is a fairly large market in absolute terms, there is still a dearth of relevant restaurant supply from an aggregator perspective. Given the nature of the market, a large share of suppliers is unorganized in nature and offers low-ticket items that are not suitable for listing on an aggregator platform.

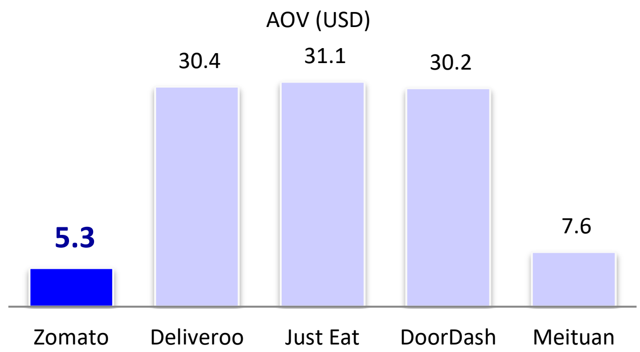
Zomato has one of the lowest GOV compared to the global peers, as well as the lowest AOV. There are three key factors that will consistently enhance the scale of the food delivery ecosystem and subsequently Zomato; these are: a) maturity of the restaurants in India, b) intensified consolidation in the food services industry and c) increase in volumes of restaurant chains in India.

Exhibit 7: Zomato has a lower GOV…



Source: MOFSL, Company

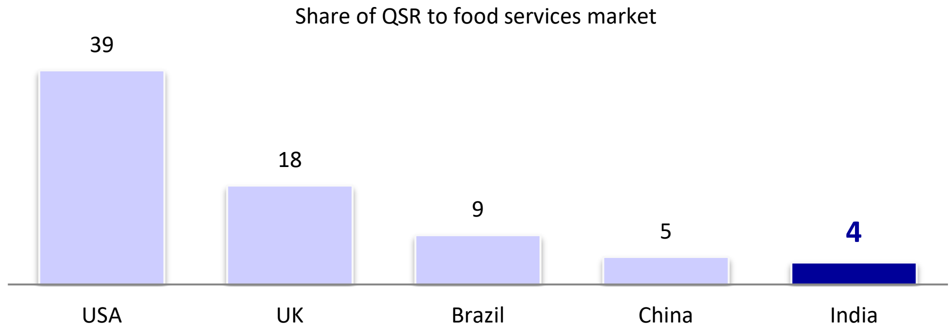
Exhibit 8: …and lower AOV, implying good headroom



Source: MOFSL, Company

Globally, non-chain restaurants pay a much higher commission than outlets of a chain restaurant. Companies such as Jubilant FoodWorks (JFL), which lists on the platforms such as Zomato, will receive orders but deliver through their own fleet and pay 6–8% commission only v/s Zomato's take rate of 17-19%. India has one of the lowest shares of QSR chain restaurants globally, which should rise going forward due to increased formalization.

Exhibit 9: QSR's share of food services across regions; India remains a laggard (%)

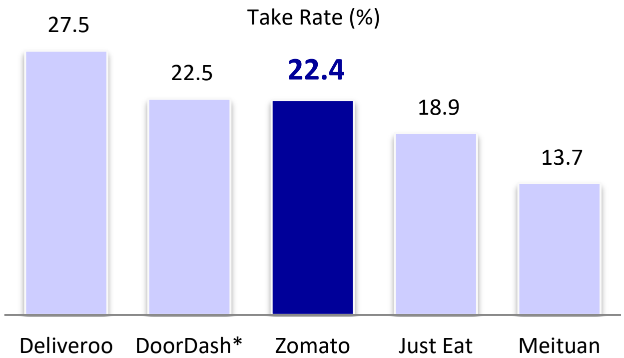


Source: Euromonitor, Technopak

The share of QSR to food service (lower take rate) has upside potential.

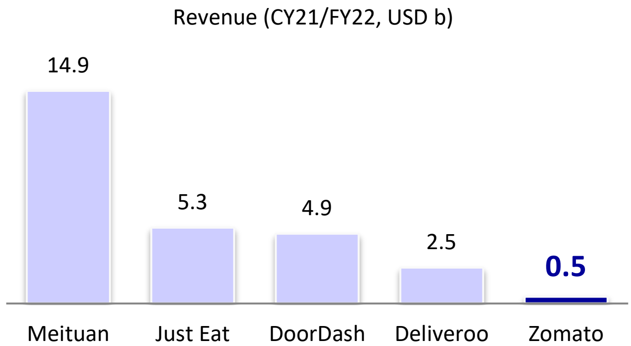
Lower QSR and restaurant delivery are the key reasons why take rate for Meituan (a Chinese shopping platform) is among the lowest globally, as 33% of its food delivery revenue is generated from restaurant deliveries. While this may add pressure on take rates for Indian companies going forward, higher AOV in QSR orders should compensate for this.

Exhibit 10: Zomato's food delivery take rate has limited upside potential



*DoorDash take rate calculated using avg. of the highest and lowest rate, Source: MOFSL, Company

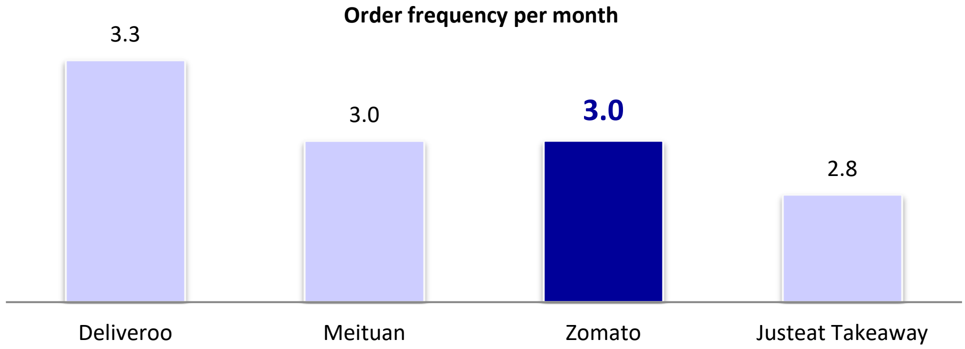
Exhibit 11: Low revenue is more a function of smaller GOV



Source: MOFSL, Company

Order frequency for food delivery platforms has shown a consistency across regions at around three times per month. Commentary from managements across companies indicates that the frequency continues to increase as food ordering habit matures. We expect the order frequency to improve for Zomato continuously, although at a modest pace.

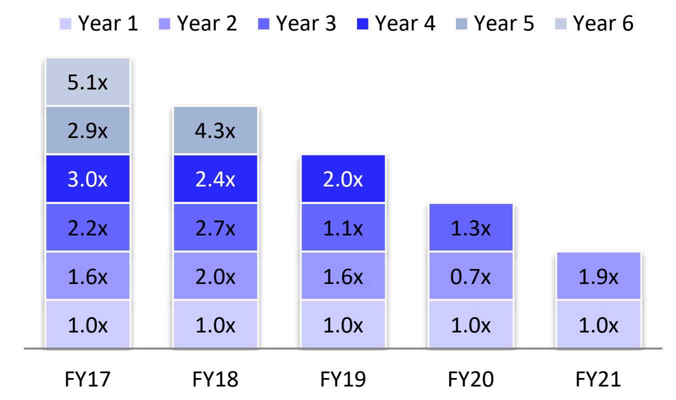
Exhibit 12: Order frequency across regions is in a narrow range



Source: MOFSL, Company

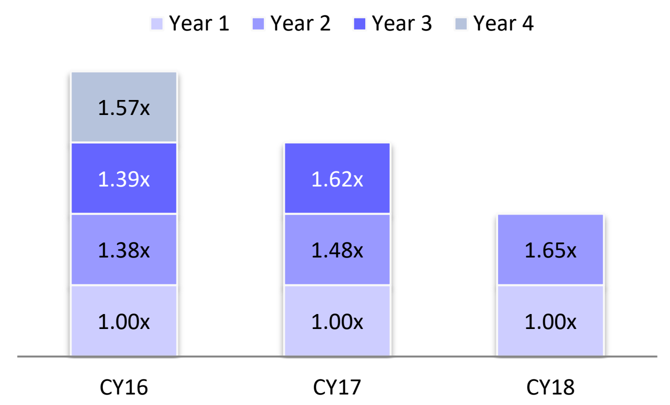
Across the globe, cohorts tend to indicate that popularity of food platforms continues to be on the rise. This trend has been consistent across both developed and emerging countries. Not only the total number of users has been growing rapidly, but also the frequency of ordering has been on an uptrend worldwide.

Exhibit 13: Zomato's cohort* movement in order frequency



*Cohort includes customers who joined in a specific year, Source: MOFSL, Company

Exhibit 14: DoorDash's cohort movement in order frequency



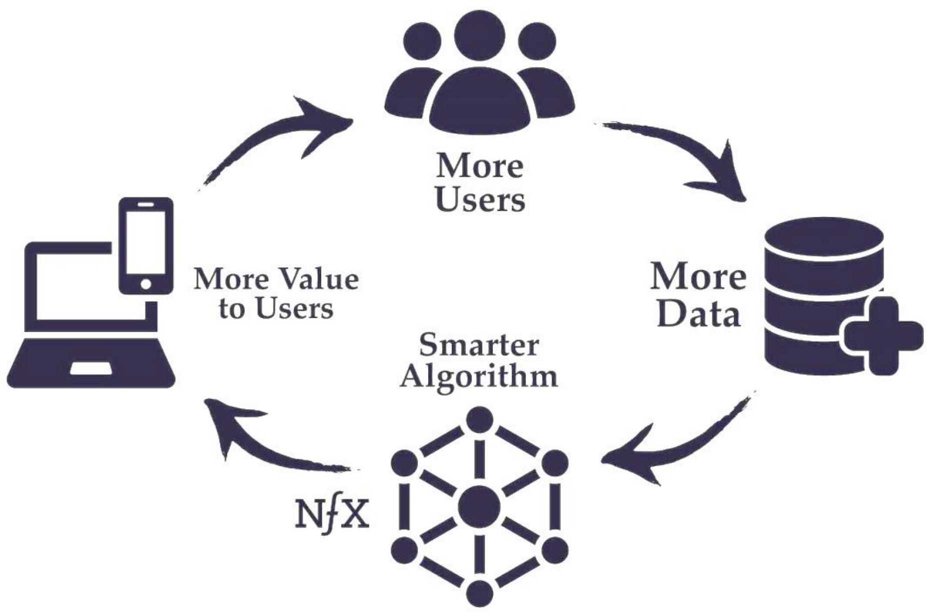
Source: MOFSL, Company

Reasons for success of platform businesses

> **Success of a platform depends on the scale and value of its network**

Strong network effect: There is a strong network effect that keeps on growing as more users create more data. This in-turn attracts more users to the platform, continuing the loop which allows the network to scale faster.

Exhibit 15: Network effect loop



Source: MOFSL, Company

Continuous operating leverage: With a majority of the costs being fixed in nature, the platforms enjoy a strong operating leverage. The costs are generally front-loaded in nature leading to higher losses in the initial years.

Decreasing advertisement expenses: Once the network effect kicks-in, the platform becomes valuable for the users and therefore attracts users naturally. The ad spends keep on moderating as the size of the network increases for the platform.

Increasing pricing power: As the platforms scale, the pricing power grows as the dependency of ecosystem players on the platform rises. Besides, a larger platform provides greater value to the ecosystem players and thus enjoys higher pricing power.

Duopoly in Indian market to limit attractiveness

The US and China are now single-player dominated markets

The online food delivery space is quite fragmented

India's food delivery market has gone through a period of flux since taking off in late 2000s, with multiple startups entering and exiting the space. Most recently, Amazon abandoned its aspiration to scale up food delivery in India. This has resulted in India becoming a two-player market, with Zomato and Swiggy controlling the space.

The exit of Amazon leaves only two players in the market- Zomato and Swiggy

Execution as well as finding a differentiating niche within the ecosystem has been a key success factor for Zomato and Swiggy. A strong network of: a) restaurant partners; b) delivery agents (for reducing the time of delivery to ~30-40 mins) and c) large transacting user base (MTU – 14.7m for Zomato) should prevent any further competition in the industry.

Exhibit 16: Food delivery startups in India over the last 15 years

Brand	Year Started	Year Closed	Status
Tasty Khana	2007	2014	Shut down
Just Eat	2008	2015	Shut down
Foodpanda	2012	2019	Acquired by Ola in 2017
Swiggy	**2014**	**NA**	**Operational**
Tiny Owl	2014	2016	Shut down
Scootsy	2014	2020	Acquired by Swiggy
Zomato (delivery)	**2015**	**NA**	**Operational**
OlaCafe	2015	2016	Shut down
Uber Eats	2017	2020	Acquired by Zomato
Amazon	2020	2022	Shut down

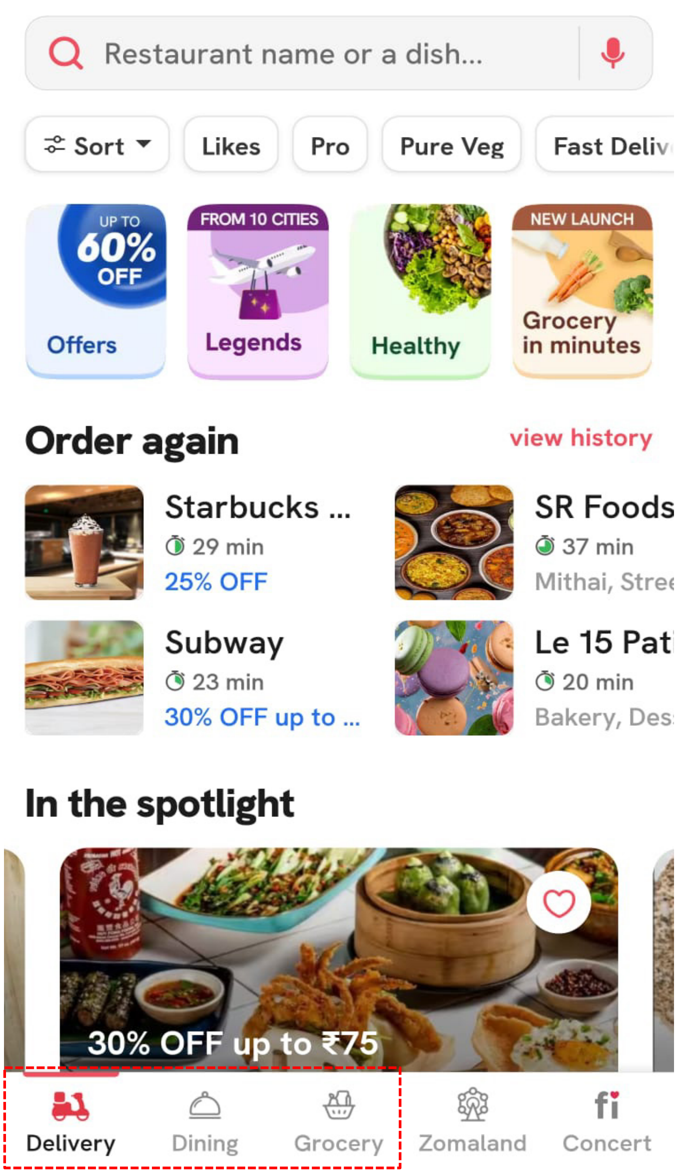
Source: MOFSL, Company

Different paths of Zomato and Swiggy now converging

Zomato (founded in 2008) and Swiggy (founded in 2014) have chosen separate paths in their journey to control the foodtech pie. While Zomato started from restaurant advertisement revenue, Swiggy started with food delivery-only service. After multiple investments and acquisitions, both companies now have offerings across the space with services including food delivery, dine-in, quick commerce, restaurant advertisement, et al.

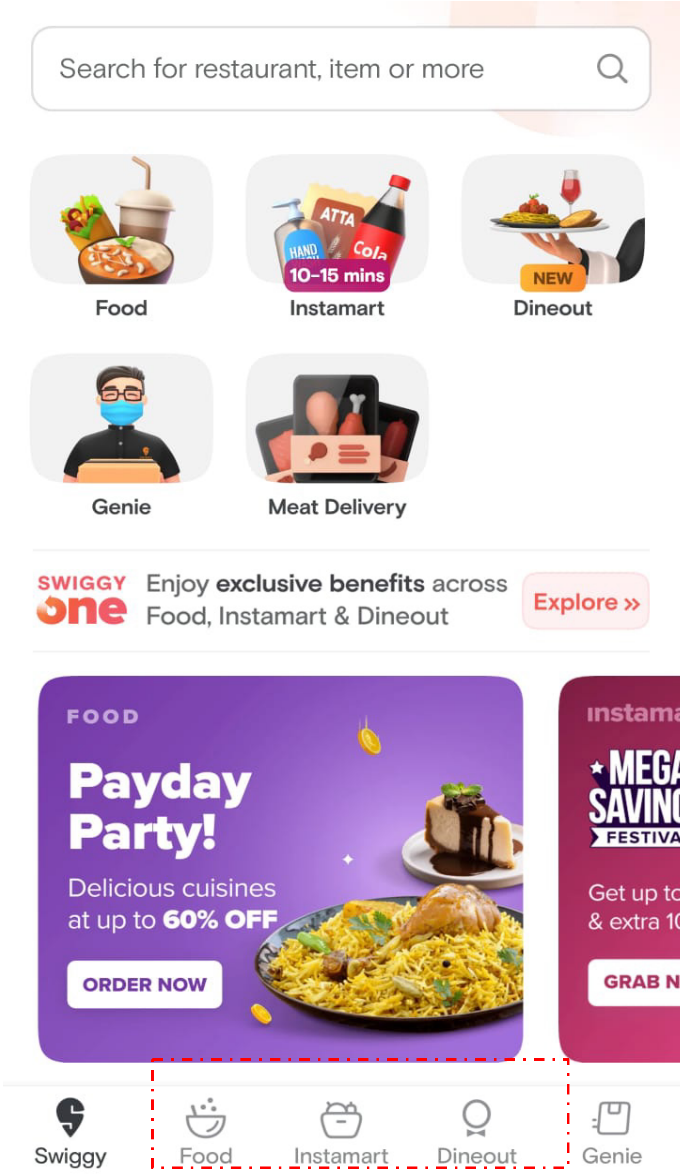
We see limited differentiation in the respective apps as well, with both companies prominently highlighting the food delivery, dine-in and quick commerce offerings (exhibits 17 and 18) along with a search bar at the top. The only key difference appears to be the higher visibility given by Swiggy to its non-food delivery business compared to Zomato.

Exhibit 17: Layout of Zomato app – stays focused on food delivery strength



Source: Zomato app

Exhibit 18: Layout of Swiggy app – has a higher emphasis on its diversified offerings



Source: Swiggy app

Recent comparable data from both companies also showcase similar presence, with GOV, delivery partners and restaurant numbers at similar levels.

Exhibit 19: Key operating metrics of Zomato and Swiggy – 1HCY22

	Zomato	Swiggy
Restaurants ('000)	207	262*
Delivery Partners	341	300
Cities	1,000	562
Revenue (USD m)	660	648
GOV (USD m)	2,518	2,300
Take rate (%)**	26	28

* Total restaurant partner, including inactive ones, **Gross take rate including all businesses Source: MOFSL, Company

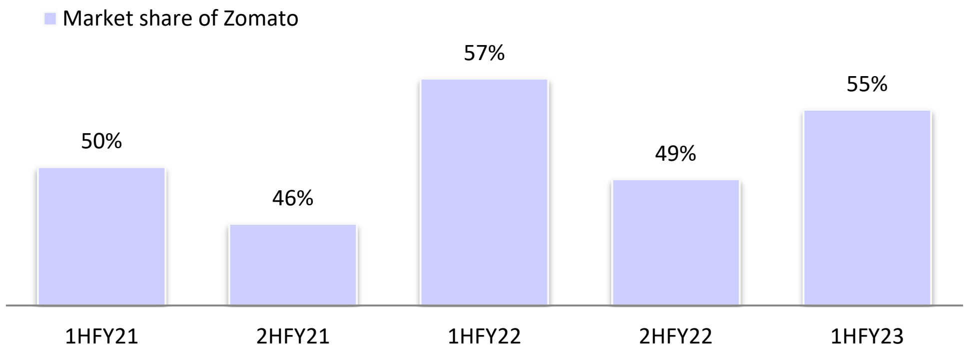
While Zomato is focused on increasing its footprint to new markets, Swiggy is focused to dominate the existing market

Higher city-level competitive intensity in India is likely to slow down profitability growth

Zomato ahead on city presence rather than market share

The major difference between the two platforms continues to be the wider presence of Zomato across India, as the platform expanded to over 1,000 cities now from 500+ in early 2021. On the other hand, Swiggy's approach was more focused on growing in the existing network, which resulted in it losing market share to Zomato over the last two years (exhibit 20).

Exhibit 20: Market share of Zomato



Source: MOFSL, Company

We see this approach as different compared to other countries such as the US and China, which have moved towards one large player (DoorDash and Meituan, respectively) due to market share gains across regions. Large organic market share in a region aids in bunching up of orders, which we see as a more important driver of profitability than take rate.

Higher city-level competitive intensity in India is likely to slow down profitability as orders will be split between Zomato and Swiggy and can delay the gains emanating from scaling up of customer base over the next few years.

Zomato Gold to help put growth back on track

Zomato back to compete neck-to-neck with Swiggy

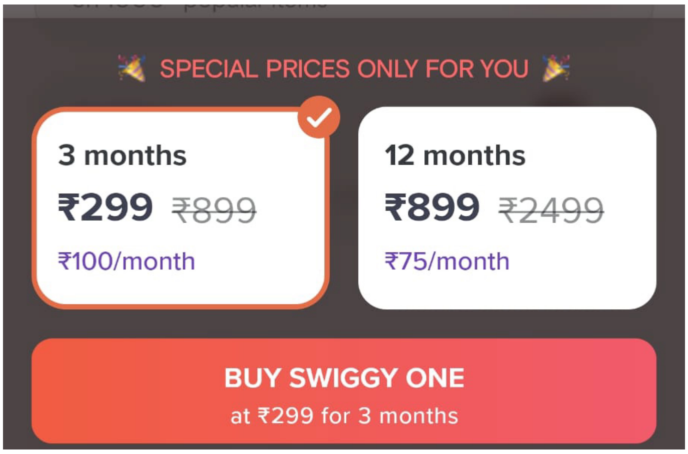
Swiggy One's pricing is back to pre-Covid level.

While Swiggy increased the pricing after launching Swiggy One in Nov'21, due to incorporation of Instamart quick commerce as well as focus on lowering burn rate, it had moved aggressively to benefit from the discontinuation of Zomato Pro Plus despite the recent addition of Dine Out (post-acquisition) into the offering.

Zomato is back with its loyalty program (Gold) after discontinuing Pro Plus in Aug'22. Given the experience of previous loyalty programs, this should help Zomato compete on more equal terms with Swiggy. We feel heightened competition from Swiggy One might have led to this decision in order to defend its market share.

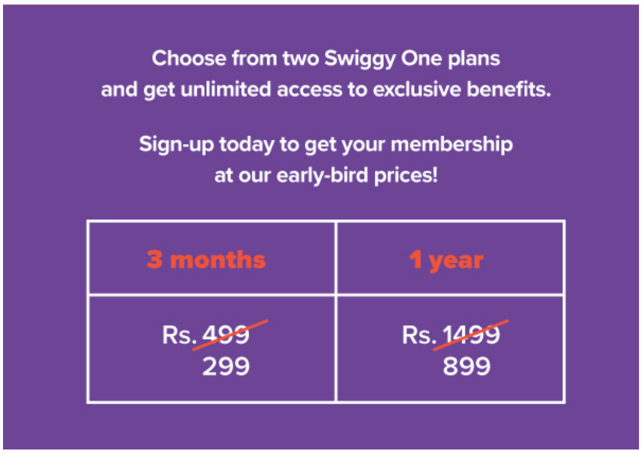
Zomato has more aggressive introductory pricing (INR 149 for three months) v/s Swiggy One (INR 299/399 for three months based on usage patterns). Though this was an important step for Zomato to maintain its market share, this would also act as a drag on its profitability and should push it down further into the future.

Exhibit 21: Swiggy One pricing: Dec'22



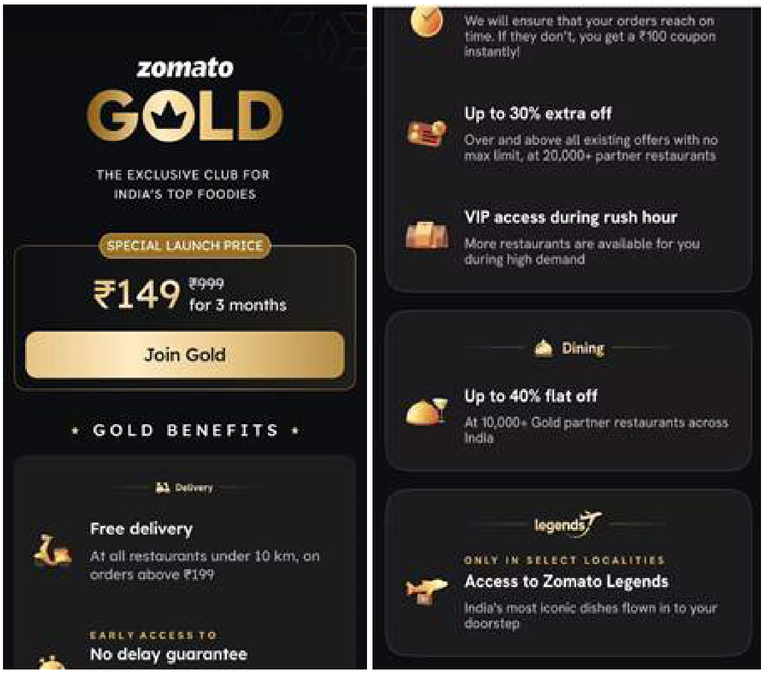
Source: Swiggy

Exhibit 22: Swiggy One pricing: Nov'-21



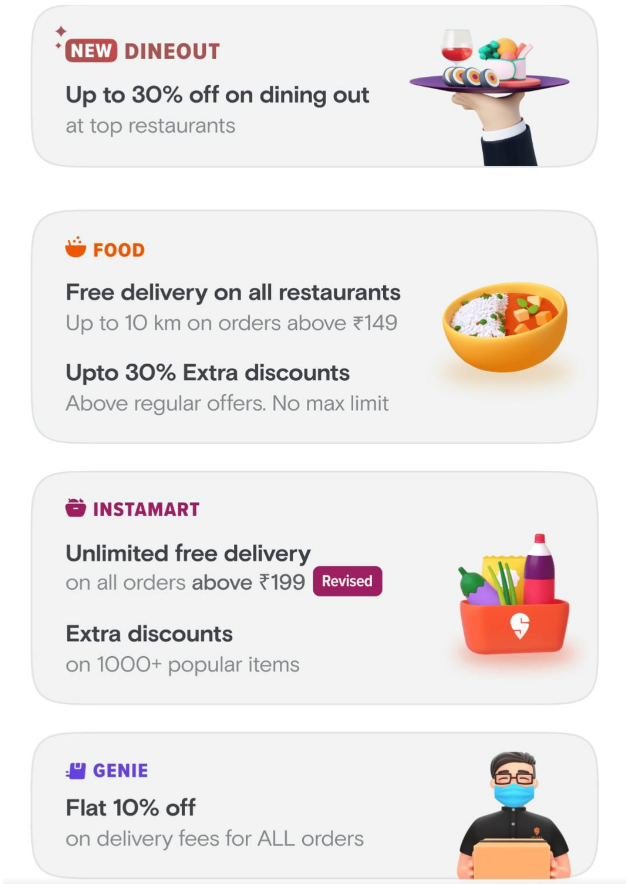
Source: Swiggy

Exhibit 23: Zomato has more aggressive offering



Source: Zomato

Exhibit 24: Swiggy's loyalty program has a comprehensive offering



Source: Swiggy

Direct ordering not a threat; ONDC might turn the table

Scaling up of ONDC across commerce can make direct ordering viable

Though promoted by National Restaurant Association of India (NRAI), direct ordering is not a threat to Zomato due to the high order value required to effectively compete with the platform model. Hence, we see limited utility of direct ordering apart for some premium restaurants where direct delivery might be cheaper.

ONDC could change the equation

ONDC provides equal play for the online ordering marketplace

Unlike the existing platforms that require tight control and creation of walled gardens to create value, ONDC enables an open ecosystem where multiple buyers can transact with multiple sellers across apps, using third-party intermediaries within a set 'preset protocol'. ONDC aims to provide equal opportunities to small sellers by rendering equal visibility on the platform. The attractiveness of the product to the buyers will decide the demand for the product for sellers. ONDC targets a wider and more equitable participation of both sellers and buyers in digital commerce, which should result in lower concentration of large sellers with information asymmetry.

ONDC could be a major threat to the revenue of Zomato as it could change the competitive landscape by providing equal opportunities for smaller players

We hosted T Koshy, CEO of ONDC, as a part of our CEO track at AGIC'22 conference (link to the report – pg 13). He shared his thoughts on how ONDC can change competitive landscape in the internet and e-commerce space. We see ONDC as an emerging risk for companies like Zomato as these companies' success depends on the tight ecosystem that they develop. With ONDC, customers would be able to directly order from restaurants and take delivery from a separate agent. Conversely, restaurants would save on the commissions that they pay to these platforms. Also, the platforms thrive on the data collected by them to their advantage. Once majority of the platforms become ONDC compliant, the companies will lose the advantage of being a large player in terms of discoverability as smaller players will get equal chance of getting discovered. Further, the large data mines with the companies would become broadly redundant.

Zomato being a major player enjoys the privileges of the same which ONDC could disrupt. We also see a possibility of industry-wide normalization of commissions and delivery charges due to comparability provided by ONDC. Further, it could be major threat to revenues as ONDC could change the competitive landscape by providing equal opportunities for smaller players. Overall, this could prove to be a major risk to Zomato's revenue as well as profitability aspirations.

Hyperpure: Large market but offers limited profitability

Farm-to-fork is a differentiating factor for Zomato to play in the B2B space

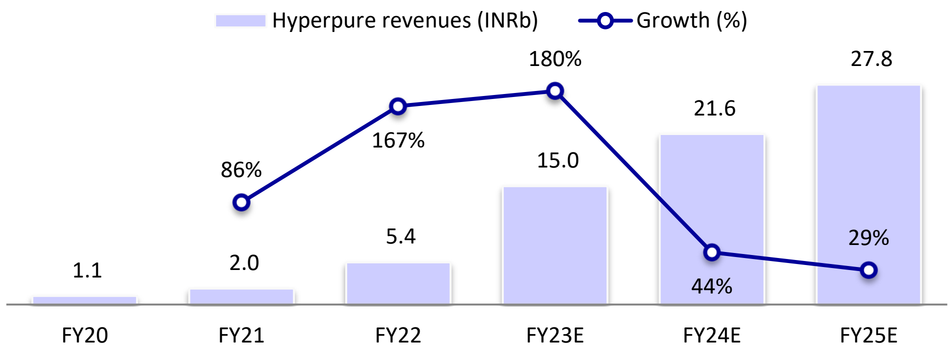
Expect strong revenue CAGR of 36% over FY23-25 in Hyperpure.

The B2B segment offers "farm-to-fork" supplies to 51,000+ restaurant partners across 10 cities in India, as of FY22. It sources fresh, hygienic, and quality ingredients directly from farmers, mills or producers and supplies to the restaurant partners in helping them streamline their supply chain and serving quality organic food. Hyperpure includes a set of supply ingredients such as panning fruits and vegetables, groceries, dairy, poultry, meats and seafood, bakery items, gourmet and packaged foods and beverages, which are delivered to the restaurant partners.

It gets access to the large pool of existing partners and therefore has good cross-selling opportunity. Further, integration of Hyperpure with Blinkit creates additional opportunities for the business. Also, the management highlighted that Hyperpure has the potential to become bigger than food delivery business overtime. The focus, however, will remain to improve the topline.

The company kick started the operations in 2019 and since then it has been reporting an exponential CAGR of ~230% between FY19 and FY22. Hyperpure's current annualized revenue run-rate is INR12b with an Adj. EBITDA margin of -11.6%. We estimate it to grow at 36% FY23-25 revenue CAGR.

Exhibit 25: Expect strong revenue growth for Hyperpure



Source: MOFSL, Company

Exhibit 26: Hyperpure – Key operating metrics

Hyperpure	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue (INR b)	0.7	0.8	1.12	1.57	1.94	2.73	3.34	4.21
Growth YoY (%)	*159*	*147*	*205*	*174*	*160*	*263*	*199*	*169*
Adjusted EBITDA (INR b)	-0.1	-0.2	-0.3	-0.41	-0.44	-0.44	-0.53	-0.53
% of Revenue (%)	*-16*	*-26*	*-27*	*-26*	*-23*	*-16*	*-16*	*-13*

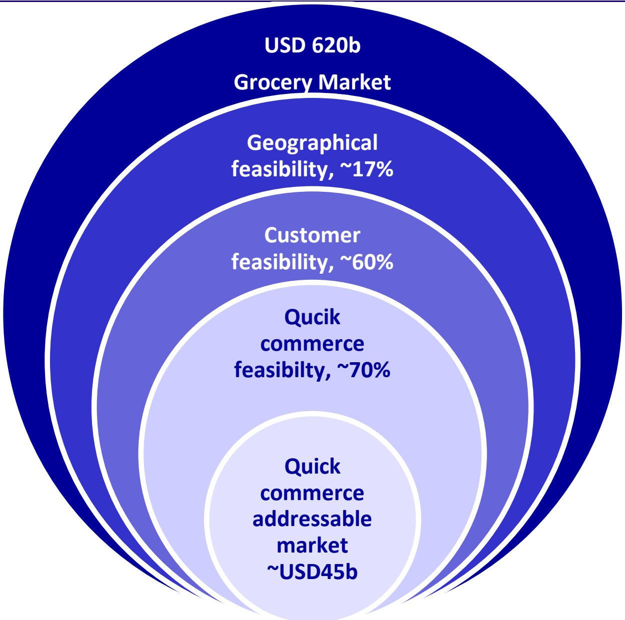
Source: MOFSL, Company

Quick commerce yet to settle

Quick commerce market, at USD5.5b, is just 1% of the total domestic grocery market at USD620b. With a large addressable market of USD45b, it is all set to grow at 10-15x by 2025E, according to Redseer.

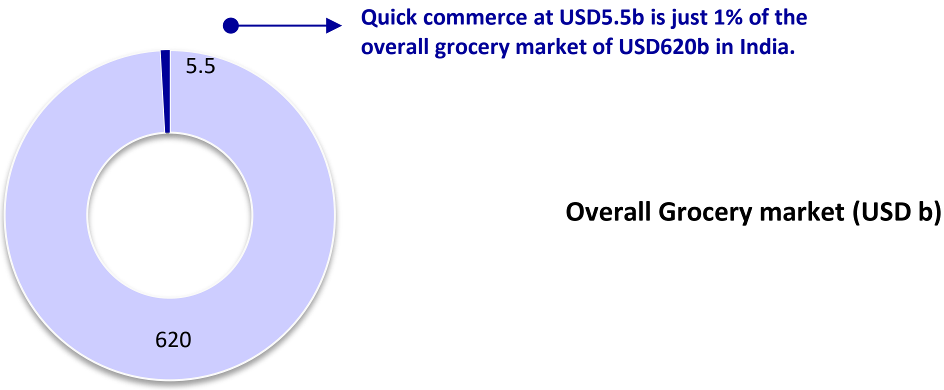
Further, India is experiencing a faster adoption of quick commerce market than its peers. According to Redseer, India has a quick commerce penetration of 13% v/s 7%/3% in China/EU, respectively.

Exhibit 27: Quick commerce has a substantial USD45b addressable market!



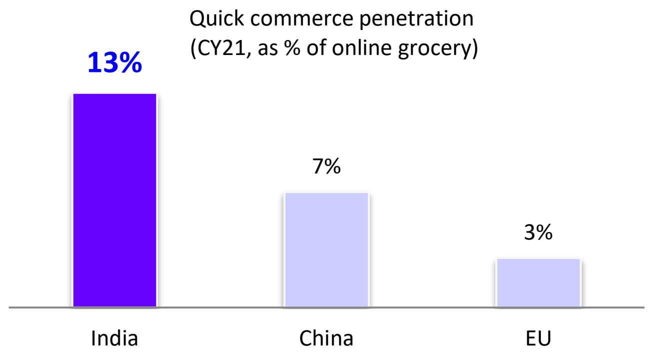
Source: MOFSL, Redseer

Exhibit 28: Quick commerce still forms a very small part of the overall grocery market



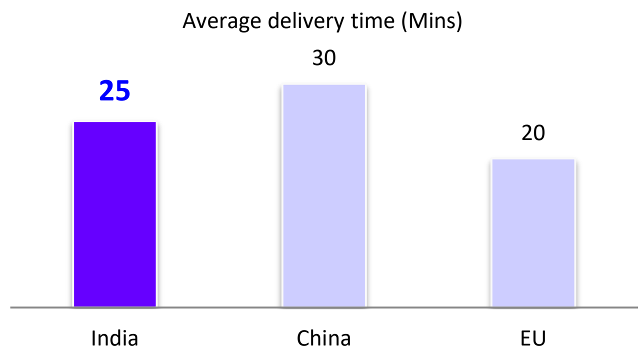
Source: MOFSL, Redseer

Exhibit 29: India is leading the quick commerce penetration



Source: MOFSL, Redseer

Exhibit 30: Indian quick commerce is faster than China



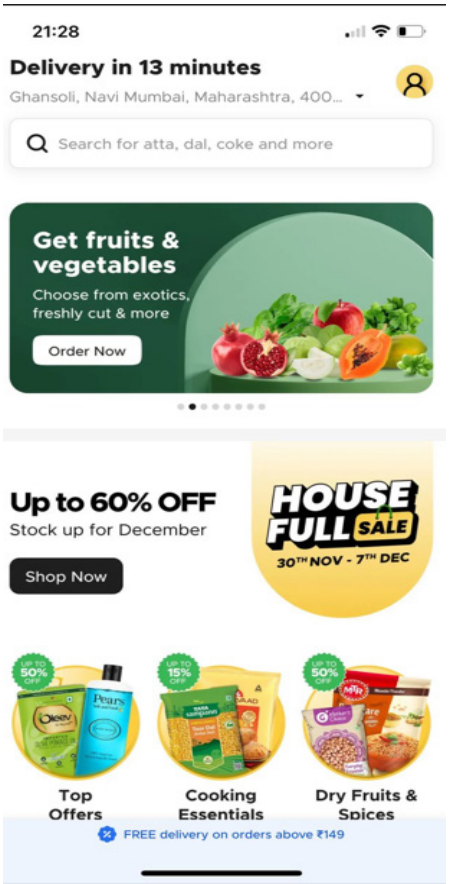
Source: MOFSL, Redseer

Exhibit 31: Quick commerce space is becoming dense!

Source: MOFSL, Company

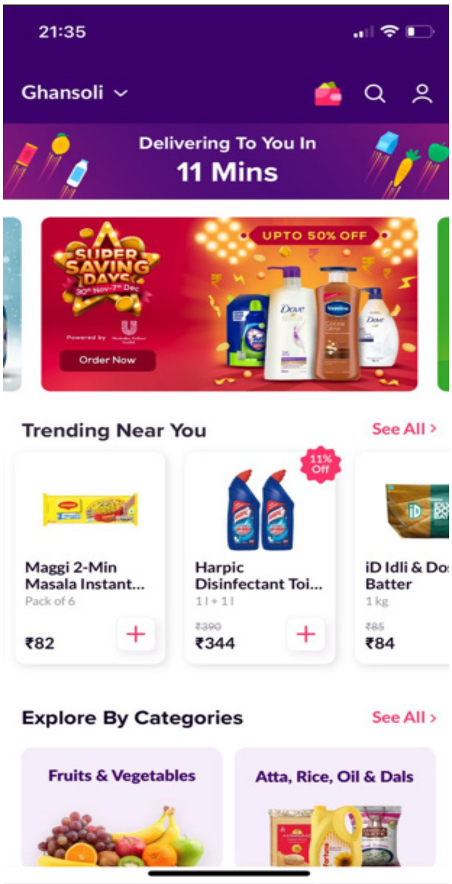
Zomato announced the acquisition of Blinkit (erstwhile: Grofers) in Jun'22 to foray into the quick commerce segment. Blinkit operates in the quick commerce business and delivers a wide range of products and services (mainly groceries) within minutes. Blinkit reported ~1.3x jump in revenue in 3QFY23 and managed to narrow down the EBITDA losses to INR2.3b from INR2.6b over the same period. Further, its potential user base is larger than the food delivery business and the retention rates are also higher. The unit economics, though, is similar to the food delivery business.

Exhibit 32: Blinkit's mobile interface



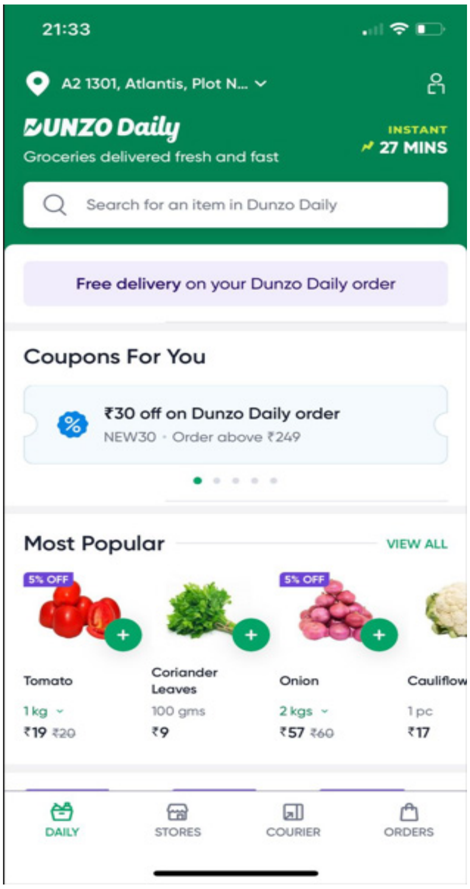
Source: MOFSL, Company

Exhibit 33: Zepto's mobile interface



Source: MOFSL, Company

Exhibit 34: Dunzo's mobile interface



Source: MOFSL, Company

Though the business is scaling up well and improving on profitability, we see this acquisition as an incremental risk for Zomato. Quick commerce is still in its early days and is highly competitive. Moreover, it is difficult to rationalize the delivery fleet due to time constrains in quick commerce. The incremental cash burn coming from Blinkit is also not well received by investors.

Exhibit 35: Blinkit's revenue model

Particulars	1QFY23	2Q23	3Q23	4Q23E	FY23E	FY24E	FY25E
Monthly transacting customers	**2.20**	**2.60**	**3.10**	**3.41**	**2.83**	**3.82**	**4.77**
Monthly order frequency per customer	3.36	3.35	3.40	3.43	3.38	3.45	3.49
Orders (m)	**22.2**	**26.1**	**31.6**	**35.1**	**115.0**	**158.1**	**199.7**
AOV (INR)	528	568	553	542	548	526	515
GOV (INR m)	**11,720**	**14,820**	**17,490**	**19,043**	**63,073**	**83,184**	**1,02,919**
Take rate (%)	14.0	15.9	17.2	17.3	0.0	16.2	16.2
Revenue (INR m)	**1,640**	**2,360**	**3,010**	**3,296**	**10,306**	**13,476**	**16,673**
Growth (%)		*44*	*28*	*10*		*31*	*24*

Source: MOFSL, Company

Attrition at senior management level worth monitoring

Quite a few executives from the senior management team have left the company recently. The exits (Mr. Mohit Gupta, Mr. Gaurav Gupta and Mr. Rahul Ganjoo) were mainly from the food delivery business, and are likely to put pressure on Mr. Deepinder Goyal, who would now be directly looking into food delivery which creates constrains leadership bandwidth for strategic matters. We see these exits as concerning and would monitor for incremental departures that may further constrain the bandwidth.

Exhibit 36: Key employees who left Zomato recently

Name	Date of Leaving	Segment	Details
Pankaj Chaddah – Co-founder	Mar'18	Across the company	❖ Co-founded Zomato along with Deepinder Goyal in 2008. He played a pivotal role in building Zomato as a brand.
Gaurav Gupta – Co-founder	Sep'21	Food Delivery	❖ Joined Zomato in 2015 to head table reservations; was elevated to the position of COO in 2018, and was named as a Co-founder in 2019.
Mohit Gupta – Co-founder	Nov'22	Food Delivery	❖ Joined Zomato in 2018 as head of food delivery business; was elevated to Co-founder in 2020
Gunjan Patidar – Co-founder and CTO	Jan'23	CTO	❖ Joined as an intern and was the third person to join Zomato; was later elevated to Co-Founder and CTO
Rahul Ganjoo - Head of New Initiatives	Nov'22	New initiatives; food delivery prior to that	❖ Joined Zomato in 2017 as the head of product development, and was made Co-CEO of the company's food-delivery business in Oct'20; became the head of new initiatives in Aug'22.
Aman Priyadarshi	Feb'23	Head of Dining	❖ Joined Zomato in 2018 and performed various stints across search, payments, rating, consumer app, and online ordering (Turkey) before becoming Head of Dining in Dec'21.
Siddharth Jhawar – VP Global Growth, Head Intercity	Nov'22	Intercity	❖ Joined Zomato in Apr'21 and was responsible for global growth; was elevated to head Intercity
Nitin Savara – Deputy CFO	Sep'22	Finance	❖ Joined Zomato from E&Y in Nov'21 and played an important role in the acquisition Blinkit.

Source: MOFSL, Company

Zomato – building a delivery giant…

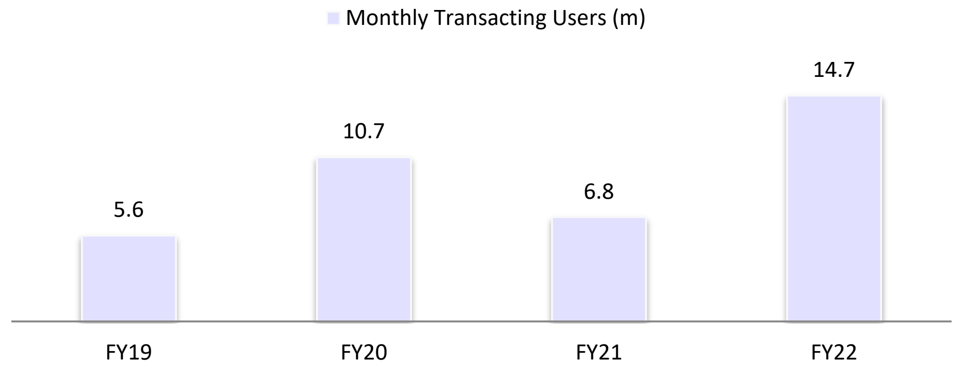
…with significant long-term opportunity

Zomato commenced its journey by aggregating food menus from different restaurants and putting them up on its website (Foodiebay.com). Until 2015, its aim was to become the biggest restaurant discovery and table-booking platform.

Zomato is one of the leading food aggregators in India catering to 1,000+ cities with over 529k active restaurant listings of which >180k were active delivery restaurants in FY22

Over the years, Zomato added other functionalities such as table bookings and payments while dining-out at restaurants. Starting 2015, Zomato ventured into the food delivery business by acting as a restaurant aggregator, and this has emerged as a major growth driver for the company over the last few years (~67% of its 9MFY23 revenue). At present, Zomato is one of the leading food aggregators in India with an FY22 GOV of USD2.1b and average monthly transacting users of ~14.7m. It had a presence across 1,000+ cities in India with over 529k active restaurant listings of which >180k were active delivery restaurants in FY22. Zomato also operates a large captive hyperlocal delivery network with over 285k active delivery partners on board as of FY22.

Exhibit 37: Zomato has recovered after the pandemic-induced slowdown



Source: Company

The Zomato platform connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use the platform to search and discover restaurants, read and write customer reviews, and view and upload photos, order food, book a table and make payments while dining-out at restaurants.

Zomato has two core B2C offerings: food delivery and dining-out along with its B2B offering known as Hyperpure. The Zomato business model has undergone a stark transformation since its inception in 2008. While it derived more than 80% of revenue from listing and advertisements in its inception years, it collects a lion's share of revenue from delivery of food at present.

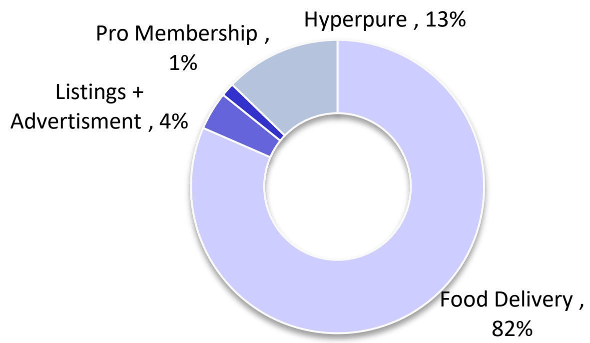
Exhibit 38: Zomato's key operating segments

	Food Delivery	Dining Out	B2B Supplies (Hyperpure)	Zomato advertisement/ loyalty
Revenue Model	❖ Transaction-based	❖ Advertising	❖ Transaction-based	❖ Subscription-based
	❖ Advertising			
Revenue Drivers	❖ No. of monthly transacting users	❖ # of MAUs	❖ No. of restaurant partners	❖ Membership fees
	❖ Order Frequency	❖ No. of restaurant partners paying for advertising sales product	❖ Value of supplies per order	❖ No. of Pro members
	❖ AOV		❖ Order frequency	
	❖ Commission rates charged to restaurant partners			
	❖ No. of restaurant partners paying for advertising sales product			
Cost Drivers	❖ Delivery cost	❖ Sales team	❖ Cost of goods sold	❖ Marketing spends
	❖ Discounts and marketing spends			

Source: Company

The company generates revenue from the following: a) online food delivery transactions, b) advertisements, c) subscriptions, d) sale of traded goods and e) other platform services. Primary expenses for the business include: 1) advertisement and sales promotions; 2) outsourced support cost; 3) employee benefit expenses; and 4) purchase of traded goods

Exhibit 39: Revenue mix



Source: MOFSL, Company

Business model: Reliance on unit economics

Zomato earns commission income on completed food delivery transactions from restaurant partners. Until Oct'19, Zomato recognized delivery charges collected from customers as revenue and netted discounts given to customers from revenue on a transaction-by-transaction basis. From Oct'19 onwards, the amount of delivery costs paid to its delivery agents comprised customer delivery charges and has not been recognized as revenue or cost in its financials.

Advertisement revenue is derived from the sale of online advertisements, including promoted restaurants. Some of these advertising contracts also mandate a minimum number of clicks, which need to be completed before the payment is made. Subscription revenue is typically recognized over the payment period.

Apart from its core food delivery business, Zomato operates in the Hyperpure segment where it provides fruit and vegetables, groceries, dairy, gourmet and packaged foods, poultry, packaging and kitchen consumables, beverages and bar, meats and seafood, as well as bakery and kitchen consumables to restaurants. The Hyperpure business was started in Aug'18 and it aims to become a single point of contact for multiple products, replacing the need for multiple vendors.

Exhibit 40: Zomato's unit economics (INR)

Unit economics (food delivery)	FY21	FY22	FY23E	FY24E	FY25E
AOV	397	398	398	400	409
(x) Monetization rate	16%	16%	17.1%	17.4%	17.6%
(=) Revenue	62.4	63.9	68.1	69.5	71.8
Customer delivery charge (goes to delivery partners)	27	25.1	25.3	25.5	26.0
(-) Availability fee	18.7	33.9	35.9	33.8	33.1
(-) Platform funded discounts	8.3	8.4	2.4	1.6	1.2
(-) Other variable cost	15.3	15.0	15.0	14.9	14.7
= Contribution	20.1	6.6	14.7	19.3	22.8
Contribution margin (% of GOV)	***5.1***	***1.7***	***3.7***	***4.8***	***5.6***

Source: MOFSL, Company

Over the years, Zomato has aggressively invested in customer acquisition and retention through heavy discounting as well as undercharging for its delivery service. This meant the platform had weak unit economics, and in fact, a negative unit contribution margin until FY20.

Led by higher dependency on delivery, Zomato was able to increase customer delivery charges from FY21. It also received a dual benefit from a 42% increase in average order value due to an increased preference of customers to order more hygienic food amid Covid-19. In FY22, Zomato managed to remain positive on unit economics. The company will be able to maintain positive unit economics if the average order value remains range bound. We believe that commission rates are already highest globally therefore leaving little room for the company to raise the same.

We expect the contribution margin to gradually improve to 5.6% in FY25 from 1.7% in FY22 led by an increase in AOV (to INR409 in FY25E from INR398 in FY22), improvements in monetization rate and operating leverage along with a reduction in platform-funded discounts.

Key strengths

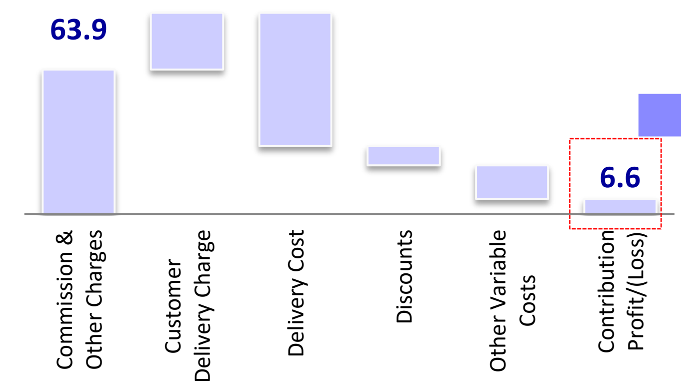
Strong network effect: Like most internet businesses, Zomato has also immensely benefited from the network effect. It focusses on a unique content strategy, along with continuous rise in restaurant listings. This strategy feeds into the transaction funnel and creates a strong flywheel effect that leads to more customers and more customers lead to richer content. More customers on the platform also increases the number of food orders for the restaurants in turn leading to more restaurants becoming available for food delivery. More restaurants on its platform improve the choices available to its customers leading to growth in the number of customers.

Zomato's platform has not only seen customer stickiness but also increase in GOV by the customers over the years. For example, all customers who placed their first order on its platform in FY17 have collectively increased their spends on the platform to 3x over the past couple of years.

Continuous focus on unit economics and growth, at the same time: Zomato has made several investments in S&M, which has led to an increase in GOV along with rising order value of customers. Zomato's advertising and sales promotion expenses as a percentage of total income in FY19, FY20, FY21 and FY22, stood at 88.4%, 48.8%, 24.8%, and 29.0%, respectively. The company's advertisement and sales promotion expenses primarily include: a) platform-funded discounts (to the extent not netted-off in revenue); b) marketing and branding costs; c) customer appeasement costs; and d) refunds made to restaurant partners.

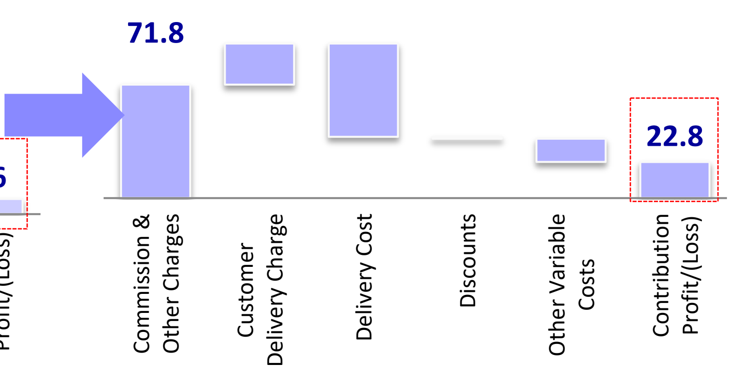
While Zomato's business has grown rapidly, the unit economics of the food delivery business has also improved consistently. We expect the contribution margin of the company to improve meaningfully to INR22.8 by FY25 from INR6.6 in FY22.

Exhibit 41: FY22 unit economics (INR)



Source: MOFSL, Company

Exhibit 42: FY25E unit economics (INR)

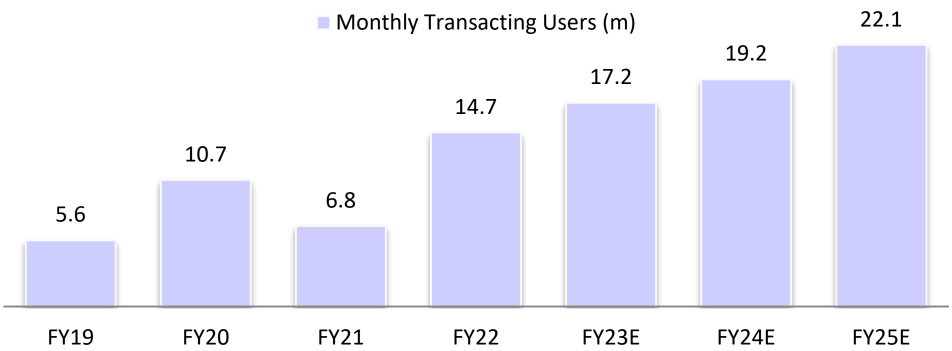


Source: MOFSL, Company

Strong delivery across verticals to drive revenue growth

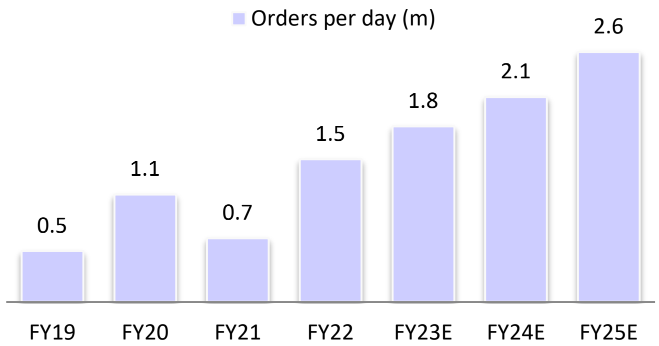
- Zomato clocked an exponential revenue CAGR of 73% during FY18–22; though the pandemic certainly caused a dip in growth momentum (36% decline in MTU and 15% drop in GOV). However, the business has bounced back strongly as less strict lockdowns have benefited food aggregators as a whole.
- Going ahead, we expect Zomato to report a strong 29% revenue CAGR over FY23–25 fueled by: a) higher penetration, b) higher proportion of transacting users, and c) increased ordering frequency. We estimate AOV to remain flat in FY23 and increase marginally to 400/409 in FY24/FY25. Revenues from Hyperpure and Blinkit are also likely to remain strong for the next few years as Zomato expands its operations.
- We expect the food delivery business to contribute 57% to its FY25 revenue v/s 82% in FY22. Growth in food delivery business will be propelled by increasing penetration of Internet/smartphone users, which will drive MAU and subsequently MTU for the company. Higher penetration and usability for Zomato should drive 13% CAGR in MTU for FY23-25E.

Exhibit 43: We believe MTUs will continue to rise for Zomato



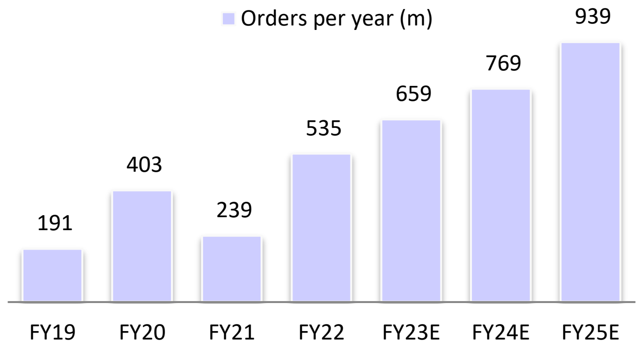
We also expect an uptick in the number of orders and estimate the number of orders per day/year will increase to 2.6/939m in FY25 from 1.5/535m in FY22, at a 19% CAGR over FY23-25.

Exhibit 44: Orders per day and…



Source: MOFSL, Company

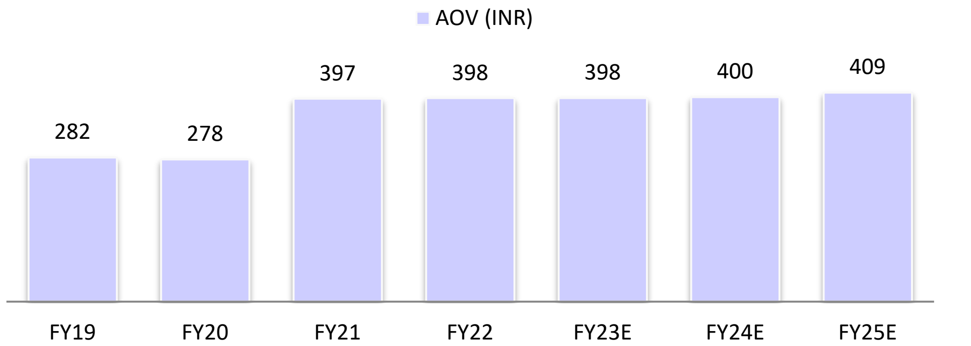
Exhibit 45: …per year



Source: MOFSL, Company

Zomato's FY21 AOV increased 43% from FY20 due to: a) lower number of single orders, b) more focus on hygienic and healthy options and c) shutting down of many small- scale restaurants. The AOV remained largely flat in FY22 and we expect it to remain flat in FY23 as well because reopening of offices and smaller restaurants would put pressure on the company's AOV growth rate in the short term. Food inflation and new users (having low AOV) moving up the ladder should, however, offset some of these constraints and its AOV should start inching upwards gradually in FY25E. We expect Zomato's AOV to reach INR409 by FY25.

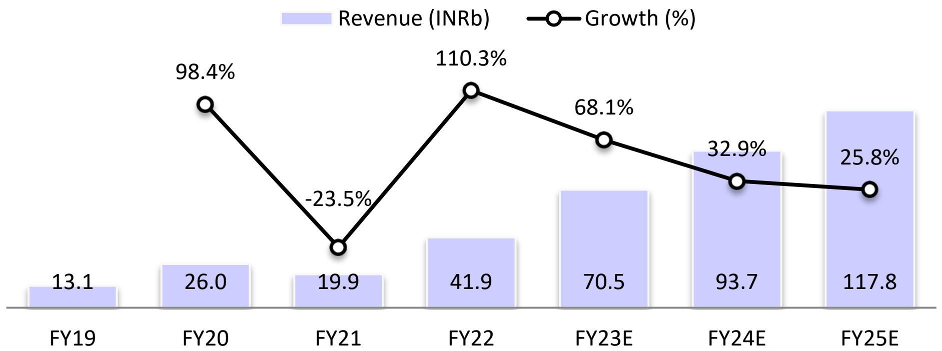
Exhibit 46: AOV to see marginal improvement over FY23-25E



Source: MOFSL, Company

Expect Zomato's revenue to grow at strong 29% FY23-25 CAGR driven by strong uptick in orders

Exhibit 47: Expect strong revenue CAGR at 29% over FY23-25

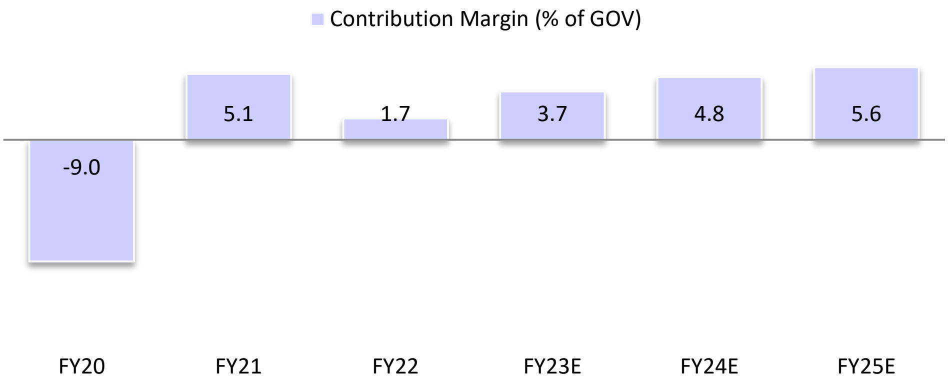


Source: MOFSL, Company

All set to break-even during FY25!

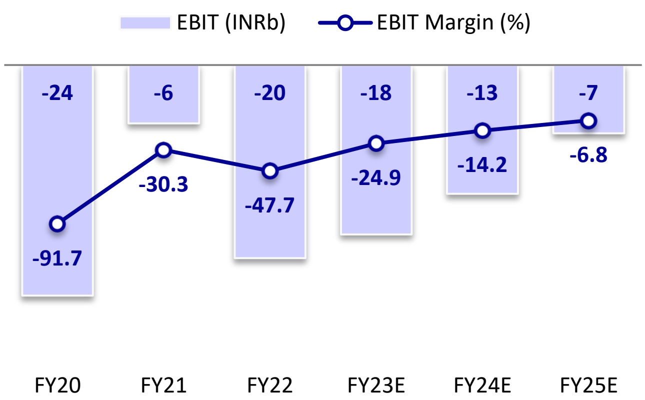
Zomato's food business recorded a breakeven at EBITDA level in 1QFY23. The management has guided that it aims to become profitable by 4QFY23 or latest by 2QFY24E. We expect the contribution margin to expand to 5.6% in FY25 from 1.7% in FY22, driven by operating leverage as the employee cost and other expenses as % of sales decline. However, we believe, the company should breakeven (at PAT level) only in FY25E as we see elevated advertising spends to continue in order to support growth (FY25 MOFSLe – 14.5% of revenue).

Exhibit 48: Expect a steady increase in contribution margin



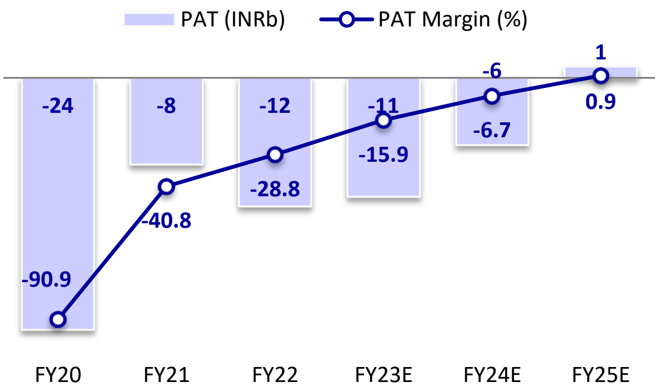
Source: MOFSL, Company

Exhibit 49: Sharp improvements expected in EBIT…



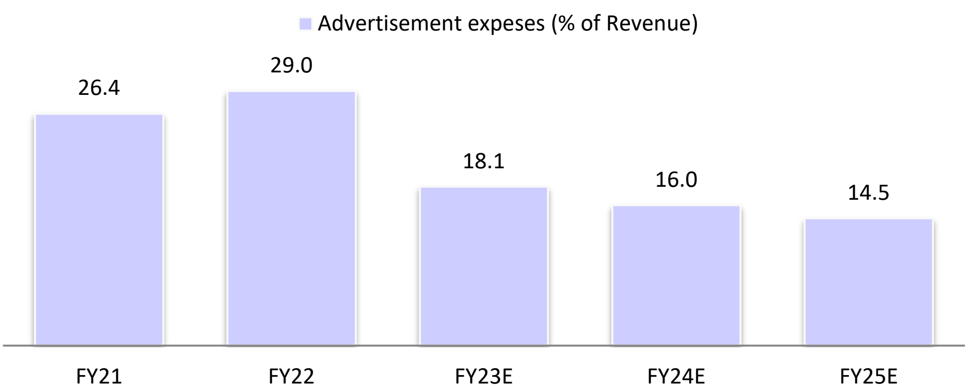
Source: MOFSL, Company

Exhibit 50: …and PAT margins for Zomato



Source: MOFSL, Company

Exhibit 51: Advertisement costs should decline to 14.5% in FY25E



Source: MOFSL, Company

Valuation and view: Initiate coverage with a BUY rating

The food delivery business is still at a nascent stage in India with a long runway of growth. Increased penetration, higher order frequency and higher AOV would drive strong growth for the industry over the medium term.

With dominant market share and strong growth in the food delivery business and Hyperpure, we expect Zomato to report a strong 29% CAGR over FY23-25. Though management expects it to be profitable latest by 2QFY24, we believe the company should breakeven over FY25. Reduced advertising costs and strong operating leverage would aid profitability going forward.

We view the acquisition of Blinkit as an additional risk and high attrition at senior management level remains a concern.

We value the business using DCF methodology, assuming 4% terminal growth rate and 12.5% cost of capital. **We initiate coverage on the stock with a BUY rating and a TP of INR70.**

Exhibit 52: DFC Calculation (INR b)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40
Revenue	41.9	73.0	93.7	117.8	146.1	178.6	213.7	253.0	299.1	347.6	391.8	436.4	485.3	528.2	574.9	621.1	666.4	707.7	751.7
Growth (%)	110.3	74.2	28.3	25.8	24.1	22.2	19.6	18.4	18.2	16.2	12.7	11.4	11.2	8.8	8.8	8.0	7.3	6.2	6.2
EBIT	-20.0	-17.5	-13.3	-7.1	-0.1	10.9	26.0	34.5	45.3	57.9	69.2	79.2	90.5	101.2	111.6	122.1	132.6	142.6	153.4
EBIT margin (%)	-47.7	-24.0	-14.2	-6.0	-0.1	6.1	12.2	13.7	15.2	16.7	17.7	18.2	18.7	19.2	19.4	19.7	19.9	20.2	20.4
Tax rate (%)	-0.1	0.0	0.0	0.0	0.0	0.0	20.0	21.0	22.0	23.0	24.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
EBIT (Post-tax)	-20.0	-17.5	-13.3	-7.1	-0.1	10.9	20.8	27.3	35.4	44.6	52.6	59.4	67.9	75.9	83.7	91.6	99.5	107.0	115.0
D&A	1.5	4.6	5.2	4.7	4.7	4.5	3.7	3.2	2.2	0.9	-1.0	-2.0	-2.7	-3.4	-3.7	-4.0	-4.3	-4.6	-4.9
Change in WC	-0.6	0.8	0.6	0.3	0.9	1.6	1.0	1.3	1.5	1.7	2.0	2.2	2.4	2.6	2.9	3.1	3.3	3.5	3.8
Capex	-0.6	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.4	-1.2	-1.3	-1.0	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6
Free Cash Flow	-18.6	-10.7	-6.1	-0.5	7.0	18.5	27.0	33.2	40.6	48.6	54.7	60.9	68.6	75.6	83.3	91.2	99.0	106.5	114.6
Present Value of FCF			-6.1	-0.5	5.6	13.0	16.9	18.4	20.0	21.3	21.3	21.1	21.1	20.7	20.3	19.7	19.0	18.2	17.4
Total PV																			**267.5**
Terminal Value (Terminal growth/ WACC - 4/12.5%)																			212.9
Total																			**480.4**
Net Debt - FY23																			-118.2
No. of Shares (b)																			8.6
Fair Value (INR)																			**70**

Source: MOFSL, Company

Exhibit 53: Sensitivity analysis of the TP

	WACC						
70.00	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%
Growth (%)							
3.0	82	77	72	68	64	60	57
3.5	85	79	73	69	65	61	58
4.0	87	81	75	70	66	62	59
4.5	90	83	77	72	67	63	60
5.0	94	86	80	74	69	65	61
5.5	98	89	82	76	71	66	62

Source: MOFSL, Company

Exhibit 54: Valuation comparison

Company	MCap (USD b)	EV/Sales (x)		EV/GOV (x)		Revenue (USDb)^			Revenue CAGR	GOV* (USDb)	
		CY22e	CY23e	CY21	CY22e	CY21	CY22e	CY23e	CY21-23e (%)	CY21	CY22^^
Meituan	102.1	1.5	1.2	0.4	NA	27.8	31.7	40.5	21	108.8	NA
DoorDash	23.6	3.1	2.5	0.5	0.4	4.9	6.5	7.9	27	41.9	53.4
Delivery Hero	9.0	1.2	1.0	0.3	0.2	6.9	9.7	12.0	32	41.7	48.4
Just Eat Takeaway	3.6	0.7	0.6	0.1	0.1	5.3	6.0	6.3	9	33.3	29.7
Deliveroo	2.2	0.5	0.5	0.1	0.2	2.4	2.5	2.6	5	9.1	8.5
Zomato	5.6	4.3	3.1	2.6	1.7	0.7	1.0	1.3	40	1.6	2.4
Median		**1.4**	**1.1**	**0.4**	**0.2**						

^ Global CY22/CY23 numbers on Bloomberg estimates; Zomato on MOFSL; ^^ Latest quarter annualized for Delivery Hero, actual for others;
*Total GOV including all business and Food delivery for Meituan

Source: MOFSL, Bloomberg, Company

SWOT analysis

STRENGTH

- A dominant player in the fast growing food delivery industry
- Strong presence across the country
- Cut losses over the past few quarters

WEAKNESS

- Still not profitable even after reducing losses over the past few quarters
- AOV expansion slower than expected

OPPORTUNITY

- Increasing consumer preference for online ordering
- Integration of Zomato and Blinkit delivery fleet to result in better delivery management
- Increasing presence of cloud kitchens

THREAT

- Aggressive competition in the market
- ONDC could be a potential disruptor in the space
- Burn in Blinkit could create a hole in its pocket as it is not easy to rationalize delivery fleet in a quick commerce setup
- High attrition at senior management levels

Bull & Bear cases

Bull case

- ☑ In our bull case analysis, we factor in a faster ~27% GOV CAGR over FY23-25E driven by higher MTU.
- ☑ We also expect faster revenue growth at ~35% CAGR over FY23-25 aided by faster GOV growth.
- ☑ Lower advertising costs (FY25E – 14% of revenue), lower other expenses (FY25E – 19.5% of revenue) and strong operating leverage should support bottom-line.

Bear case

- ☑ In our bear case analysis, we factor in a slower ~17% GOV CAGR over FY23-25E led by slow growth in MTU and AOV (FY24E – 400).
- ☑ We also expect slower revenue growth at ~25% CAGR over FY23-25 because of slower GOV growth.
- ☑ We expect advertising costs (FY25E – 16.8% of revenue) and other expenses (FY25E – 23% of revenue) to remain elevated, which will delay break-even.

Exhibit 55: Scenario analysis – Bull case

INR b	FY23E	FY24E	FY25E
GOV (INR)	262.4	323.6	422.9
Net Sales (INR)	70.5	98.7	129.0
Change (%)	68.1	40.1	30.7
EBIT	-17.5	-11.3	-4.2
EBIT margin (%)	-24.9	-11.5	-3.2
Adj. PAT	-11.2	-4.3	4.0
PAT margin (%)	-15.9	-4.3	3.1
RoE (%)	-7.01	-2.81	2.64
RoCE (%)	-10.92	-7.40	-2.73
Target price (INR)			**90**
Upside (%)			**67**

Source: MOFSL, Company

Exhibit 56: Scenario analysis – Bear case

INR b	FY23E	FY24E	FY25E
GOV (INR)	262.4	302.9	359.7
Net Sales (INR)	70.5	90.4	109.0
Change (%)	68.1	28.4	20.6
EBIT	-17.5	-15.9	-14.9
EBIT margin (%)	-24.9	-17.6	-13.7
Adj. PAT	-11.2	-8.9	-6.7
PAT margin (%)	-15.9	-9.8	-6.2
RoE (%)	-7.01	-5.94	-4.76
RoCE (%)	-10.92	-10.57	-10.44
Target price (INR)			**45**
Upside (%)			**-17**

Source: MOFSL, Company

ESG initiatives – healthy scorecard

Zomato has identified six themes (aligned with the UN SDGs) to make a more sustainable impact to its business:

- **Climate-conscious deliveries –** Zomato is a member of The Climate Group's EV100 initiative and has committed to 100% adoption of EV vehicles by CY30. It currently has ~4.5k active EV-based delivery partners. It achieved ~500k tonnes of carbon offset and delivered ~18% of orders on bicycles in FY22.

- **Waste-free world –** Zomato started 100% plastic-neutral deliveries from Apr'22. It also reduced ~300 tonnes of plastic use in FY22 by making 'No cutlery required' the default option for customers on the Zomato app.

- **Zero hunger –** In collaboration with Hunger Heroes (a non-profit organization), Zomato serves 0.2m meals a day under its 'Daily Feeding Program' across 39 cities, pan India. It has served 150m+ meals since CY14.

- **Sustainable livelihoods –** The company is providing livelihood to its delivery partners by offering them flexible earning opportunities. It had ~341k average monthly active delivery partners as of 2QFY23. Through their associations with Zomato, the restaurant partners get exposures to good practices in food safety, hygiene, sourcing quality ingredients, etc. This helps them become more sustainable in their operations. Zomato also onboarded 965 street vendors to its platform. in FY22

- **Health, safety and wellbeing for all –** Zomato, along with other measures, has mandatory road safety awareness module for partners, provides free medical insurance and has reimbursements of Covid-related expenses.

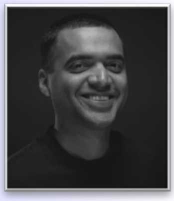
- **Diversity, equity and inclusion –** Zomato's Board comprises 50% female directors. About 30% of its leadership roles are being served by women.

Though Zomato has performed decently on the ESG benchmark, the consistent low scores and rankings by Fairwork remain a concern. Zomato has scored 4/1/3/4 out of 10 in 2019/20/21/22, respectively.

Key risks

- **Loss of market share to Swiggy:** We believe the discontinuation of loyalty program will hurt the volumes and market share of Zomato as: a) its customers might shift to Swiggy, b) there might be low repeat transactions, and c) there can be options to use other platforms for each incremental order. While Swiggy continues to invest aggressively in growth, higher focus on becoming profitable could further impact the market share of Zomato adversely.
- **ONDC:** Customers would be able to order from restaurants directly and take delivery from a separate agent with the help of ONDC. Further, the restaurants would save on the commissions that they pay to the platforms. Once a majority of the platforms become ONDC compliant – as smaller players will get equal chance of getting discovered – Zomato's advantage of being a large player in terms of discoverability might get affected adversely. We also see a possibility of industry-wide normalization of commissions and delivery charges due to comparability provided by ONDC.
- **Quick commerce bet might not play out**: We view the acquisition of Blinkit as an incremental risk to Zomato. Quick commerce is a highly competitive space. Besides, it is difficult to rationalize the delivery fleet due to time constrains in quick commerce that hinders profitability.
- **Macro challenges:** Macro slowdown, higher inflation, higher interest rates, and lower liquidity could hurt the spending patterns and adversely impact Zomato.

Key management personnel



Deepinder Goyal – Founder, MD & CEO

Deepinder holds an integrated master's degree of technology in mathematics and computing from the Indian Institute of Technology, Delhi. Prior to founding Zomato, he worked with Bain and Company.

Akshant Goyal – CFO

Akshant holds a bachelor's degree from Delhi College of Engineering and a master's degree from IIM Bangalore. He is a co-founder of Pinnacle Capital Solutions Pvt Ltd. He headed the corporate development at Zomato before becoming CFO.

Akriti Chopra – Co-Founder, Head of People Development

Akriti heads people development at Zomato. Before this role, she was the CFO of the company. She is a Chartered Accountant and is working with Zomato since 11 years.

Albinder Dhindsa – Founder & CEO of Blinkit

Albinder holds a bachelor of technology degree from Indian Institute of Technology, Delhi and master's degree from Columbia Business School (Columbia University). Previously, he worked with Zomato from Dec'11 to May'14 as its Head of International Operations.

Rishi Arora – Co-Founder of Blinkit

Rishi has been with Blinkit for over eight years and was heading operations before being promoted as a Co-Founder. He completed his master's degree from the IE Business School.

Financials and valuations

Revenue Model						(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
MTU	10.7	6.8	14.7	17.2	19.2	22.1
Order Frequency	3.1	2.9	3.0	3.2	3.3	3.5
Orders/ Month	33.6	19.9	44.6	54.9	64.1	78.2
Orders/ Year	403	239	535	659	769	939
AOV	278	397	398	398	400	409
Delivery GOV	**1,12,209**	**94,829**	**2,13,000**	**2,62,403**	**3,07,985**	**3,84,051**
Take Rate (%)	17.3	15.7	16.0	17.1	17.4	17.6
Delivery Revenue	**19,389**	**14,907**	**34,186**	**44,851**	**53,490**	**67,428**
Blinkit Revenue	0	0	0	7,729	13,476	16,673
Hyperpure revenue	1,076	2,002	5,350	14,980	21,571	27,784
Others	5,582	3,029	2,388	2,904	5,139	5,913
Revenue	**26,047**	**19,938**	**41,924**	**70,464**	**93,676**	**1,17,798**

Income statement						(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales	**26,047**	**19,938**	**41,924**	**70,464**	**93,676**	**1,17,798**
Change (%)	98.4	-23.5	110.3	68.1	32.9	25.8
Inventory of traded goods	1,089	1,919	5,246	13,782	19,630	25,005
Employee Expenses	7,989	7,408	16,331	15,351	17,193	19,256
Other direct expenses	-27,033	-8,333	-14,125	1,365	10,676	20,203
Gross Profit	**-19,044**	**-925**	**2,206**	**16,716**	**27,869**	**39,459**
% of Net Sales	-73.1	-4.6	5.3	23.7	29.8	33.5
Share based payment expense	985	1,421	8,809	5,214	2,810	1,767
Other Expenses	3,017	2,326	11,905	24,451	33,255	40,051
EBITDA	**-23,047**	**-4,672**	**-18,508**	**-12,949**	**-8,196**	**-2,359**
% of Net Sales	-88.5	-23.4	-44.1	-18.4	-8.7	-2.0
Depreciation	842	1,377	1,503	4,580	5,152	4,712
EBIT	**-23,889**	**-6,049**	**-20,011**	**-17,529**	**-13,348**	**-7,071**
% of Net Sales	-91.7	-30.3	-47.7	-24.9	-14.2	-6.0
Other Income (net)	1,254	1,146	4,832	6,351	7,035	8,164
PBT	**-22,636**	**-4,904**	**-15,179**	**-11,178**	**-6,313**	**1,093**
Tax	0	13	20	0	0	0
Rate (%)	0.0	-0.3	-0.1	0.0	0.0	0.0
PAT	**-22,636**	**-4,917**	**-15,199**	**-11,178**	**-6,313**	**1,093**
Extraordinary gains/loss	-1,220	-3,248	2,974	0	0	0
Adjusted PAT	**-23,856**	**-8,164**	**-12,225**	**-11,178**	**-6,313**	**1,093**
Minority Interest	-184	-36	-138	-3	0	0
Reported PAT	**-23,672**	**-8,128**	**-12,087**	**-11,175**	**-6,313**	**1,093**

Balance Sheet						(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Share capital	2,524	4,550	7,643	7,643	7,643	7,643
Reserves	4,574	76,438	1,57,412	1,46,234	1,39,921	1,41,014
Net Worth	**7,098**	**80,987**	**1,65,055**	**1,53,877**	**1,47,564**	**1,48,657**
Minority Interest & Others	-65	-57	-66	-66	-66	-66
Loans	15	0	0	0	0	0
Capital Employed	**7,047**	**80,930**	**1,64,989**	**1,53,811**	**1,47,498**	**1,48,591**
Net Block	**1,034**	**838**	**1,157**	**1,283**	**1,495**	**1,581**
Intangibles	14,881	14,553	12,892	9,686	5,822	3,523
Other LT assets	455	30,138	83,771	83,771	81,271	80,271
Curr. Assets	**12,634**	**41,505**	**75,450**	**71,781**	**74,745**	**82,080**
Debtors	1,231	1,299	1,599	2,896	4,106	5,486
Cash & Bank Balance	1,672	3,065	3,923	2,037	4,548	8,262
Investments	5,166	28,024	28,149	22,649	20,649	21,649
Other Current Assets	4,564	9,118	41,779	44,199	45,442	46,683
Current Liab. & Prov	**21,956**	**6,105**	**8,281**	**12,710**	**15,835**	**18,864**
Net Current Assets	**-9,323**	**35,400**	**67,169**	**59,072**	**58,911**	**63,215**
Application of Funds	**7,047**	**80,930**	**1,64,989**	**1,53,811**	**1,47,498**	**1,48,591**

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023E	2024E	2025E
Basic (INR)						
EPS	**-5.4**	**-1.5**	**-1.7**	**-1.4**	**-0.7**	**0.1**
Cash EPS	-5.2	-1.3	-1.5	-0.9	-0.1	0.7
Book Value	1.6	15.0	22.6	19.9	17.1	17.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)						
P/E	NA	NA	NA	NA	NA	NA
Cash P/E	NA	NA	NA	NA	NA	NA
EV/EBITDA	NA	NA	NA	NA	NA	NA
EV/Sales	9.0	14.4	9.3	5.9	4.9	3.9
Price/Book Value	33.2	3.6	2.4	2.7	3.2	3.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Profitability Ratios (%)						
RoE	(144.2)	(18.5)	(9.9)	(7.0)	(4.2)	0.7
RoCE	(97.8)	(11.7)	(16.2)	(10.9)	(8.8)	(4.7)
Turnover Ratios						
Debtors (Days)	17	24	14	15	16	17
Fixed Asset Turnover (x)	25.2	23.8	36.2	54.9	62.7	74.5

Cash Flow Statement

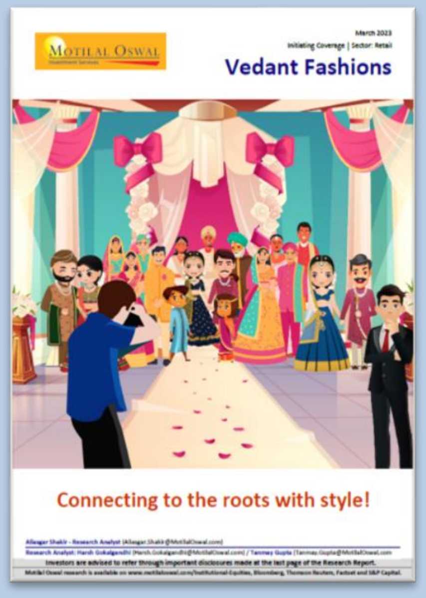
(INR m)

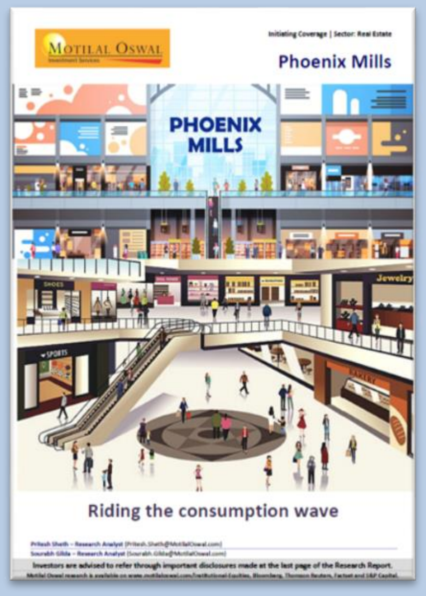
Y/E March	2020	2021	2022	2023E	2024E	2025E
CF from Operations	-21,269	-2,798	-9,221	-12,949	-8,196	-2,359
Cash for Working Capital	131	-7,567	2,483	733	672	409
Net Operating CF	**-21,138**	**-10,365**	**-6,738**	**-12,215**	**-7,524**	**-1,950**
Net Purchase of FA	-214	-104	-572	-1,500	-1,500	-2,500
Free Cash Flow	**-21,351**	**-10,469**	**-7,310**	**-13,715**	**-9,024**	**-4,450**
Net Purchase of Invest.	17,566	-52,332	-78,806	5,500	4,500	0
Net Cash from Invest.	**17,352**	**-52,436**	**-79,378**	**4,000**	**3,000**	**-2,500**
Proc. from equity issues	3,916	66,083	90,000	0	0	0
Proceeds from LTB/STB	0	-26	-13	0	0	0
Others	-327	-267	-2,562	6,351	7,035	8,164
Dividend Payments	0	0	0	0	0	0
Cash Flow from Fin.	**3,589**	**65,790**	**87,425**	**6,351**	**7,035**	**8,164**
Net Cash Flow	**-197**	**2,989**	**1,309**	**-1,864**	**2,511**	**3,714**
Opening Cash Bal.	**2,124**	**1,650**	**3,043**	**3,901**	**2,037**	**4,548**
Forex differences	43	-10	-332	0	0	0
Add: Net Cash	-197	2,989	1,309	-1,864	2,511	3,714
Closing Cash Bal.	**1,971**	**4,629**	**4,020**	**2,037**	**4,548**	**8,262**

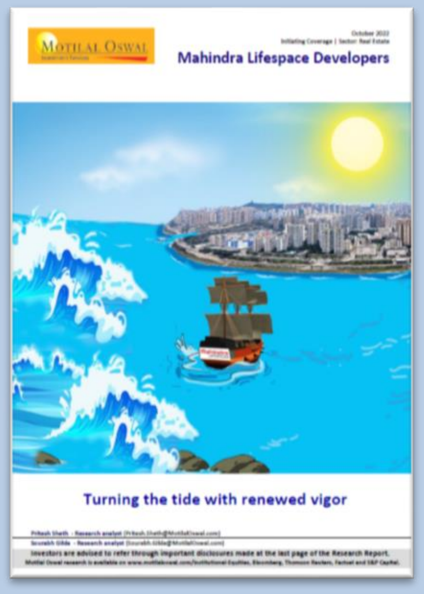
E: MOFSL Estimates

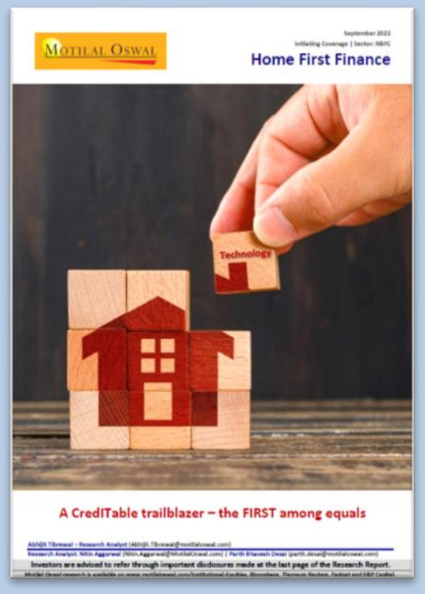
REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS









Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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