

BSE SENSEX

61,761

S&amp;P CNX

18,266

CMP: INR61

TP: INR70 (+15%)

Buy



Bloomberg	ZOMATO IN
Equity Shares (m)	8252
M.Cap.(INRb)/(USDb)	522.8 / 6.4
52-Week Range (INR)	80 / 41
1, 6, 12 Rel. Per (%)	13/-7/-5
12M Avg Val (INR M)	5702
Free float (%)	100.0

## Financials &amp; Valuations (INR b)

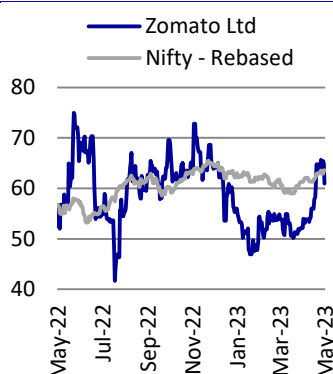
Y/E MARCH	FY23E	FY24E	FY25E
GOV (INR)	262.4	308.0	384.1
Net Sales (INR)	70.5	93.7	117.8
Change (%)	68.1	32.9	25.8
EBIT	-17.5	-13.3	-7.1
EBIT margin (%)	-24.9	-14.2	-6.0
Adj. PAT	-11.2	-6.3	1.1
PAT margin (%)	-15.9	-6.7	0.9
RoE (%)	-7.01	-4.19	0.74
RoCE (%)	-10.92	-8.79	-4.74
EPS	-1.44	-0.73	0.13

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	0.0	0.0	0.0
DII	31.0	32.4	3.3
FII	33.8	34.0	13.1
Others	35.2	33.6	83.6

FII Includes depository receipts

## Stock's performance (one-year)



## ONDC poses no immediate threat at current scale

## Near-term risk to further expansion in Take rate

Over the last few days, media reports have been drawing attention to the increasing number of orders placed through ONDC and how this could potentially benefit restaurants due to the difference in take rates compared to Zomato/Swiggy duopoly. We do not perceive direct ordering as a major concern for the industry. However, we see ONDC as potential threat to Zomato (as highlighted in our [initiation report](#)), only if it meaningfully scales up across categories, allowing it to achieve greater efficiency compared to the walled gardens. At its current scale, we do not have enough evidence to alter our base case for Zomato.

## ONDC is a threat only if it scales up

- We believe that the risk posed by ONDC, will only become significant once it scales up in multiple categories (Food, ecommerce, grocery), which would give it the scale to override the delivery scale of the existing players. The current 10k deliveries /day (40% in Bangalore) across categories does not present enough scale to absorb the delivery rider cost for the platform. For comparison, Zomato currently delivers 1.8m orders per day on standalone basis. However, the industry-wide figure across multiple categories (relevant for ONDC) would be several times greater than this.
- The delivery on ONDC apps is only free for the first order. In case of a discounted /free delivery, this cost has to be borne by the restaurant (possibly to increase competitive advantage against incumbent duopoly) and is not sustainable. Also, after the first free delivery, in some cases delivery charges is higher than Zomato/Swiggy.
- Moreover, the difference in pricing (exhibit 2) is unlikely to be sufficient to override the wider selection of food options (early mover advantage) and a well-oiled delivery machine of incumbents.
- Nevertheless, if ONDC continues to scale up over time, this could become a significant risk, as it would enable greater delivery efficiency making the system sustainable.

## Only a handful of options available; many issues yet to be resolved

- Customer grievance redressal mechanism, a key component in the food delivery industry, where timely resolution is of paramount importance is non-existent in ONDC (only an email-id to log complaints)
- Disaggregated platforms (separate for sellers, buyers, and delivery) are also likely to add to issues in returns and quality of service, which remain unresolved. A walled garden (Zomato) on the other hand controls the experience.
- Also, majority of restaurants on ONDC are currently Quick commerce/fast food, and they tend to follow a platform-agnostic approach. They represent a small portion of the overall food market in India.

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**Likely impact on take rate rationalization remains a key risk**

- Though we do not envisage a large scale impact on Zomato until ONDC significantly scales up, it may impede the expansion of take rates in the near term.
- If Zomato's take rate rationalization exercise is slowed down, it could potentially delay the company's timeline for achieving profitability, which remains a key risk at this stage.

**Valuation and view: Maintain BUY**

- 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. While the management expects to turn profitable latest by 2QFY24, we believe the company should breakeven in 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 reiterate our BUY rating on the stock and a TP of INR70**, implying a 15% potential upside.

**Exhibit 1: Comparison between ONDC, Zomato, and Swiggy**

Zomato vs Swiggy vs ONDC	Original Price*	Delivery Charges	Other charges**	Payment (pre discount)	Delivery time
<b>ONDC</b>					
<b>Mumbai</b>					
McDonald's Veg Maharaja Mac	209	Free	35	244	38mins
Baskin Robbins Mississippi Mud (450ml)	389	Free	21	410	30mins
Ovenstory Ultimate Veg Pizza	511	Free	21	532	38mins
<b>Bangalore</b>					
Onesta - Veggie Lover Pizza	164	Free	32	196	40mins
Bakingo - Choco Truffle Cake	514	Free	18	532	39mins
The Biryani Life - Hyderabadi dum veg biryani	213	Free	0	213	35mins
<b>Zomato</b>					
<b>Mumbai</b>					
McDonald's Veg Maharaja Mac	231	42	35	308	15-20mins
Baskin Robbins Mississippi Mud (450ml)	384	42	25	451	15-20mins
Ovenstory Ultimate Veg Pizza	574	30	15	619	40-45mins
<b>Bangalore</b>					
Onesta - Veggie Lover Pizza	194	59	30	283	45-55mins
Bakingo - Choco Truffle Cake	589	20	18	627	30-35mins
The Biryani Life - Hyderabadi dum veg biryani	267	29	26	322	35-40mins
<b>Swiggy</b>					
<b>Mumbai</b>					
McDonald's Veg Maharaja Mac	231	30	35	296	15mins
Baskin Robbins Mississippi Mud (450ml)	384	30	25	439	14mins
Ovenstory Ultimate Veg Pizza	573	35	25	633	35-40mins
<b>Bangalore</b>					
Onesta - Veggie Lover Pizza	200	54	30	284	45mins
Bakingo - Choco Truffle Cake	581	34	18	633	47mins
The Biryani Life - Hyderabadi dum veg biryani	273	36	19	328	40mins

\* Including menu discount and taxes, \*\* Other charges - Packaging/ Convenience, Note: Free delivery on ONDC is only on first order

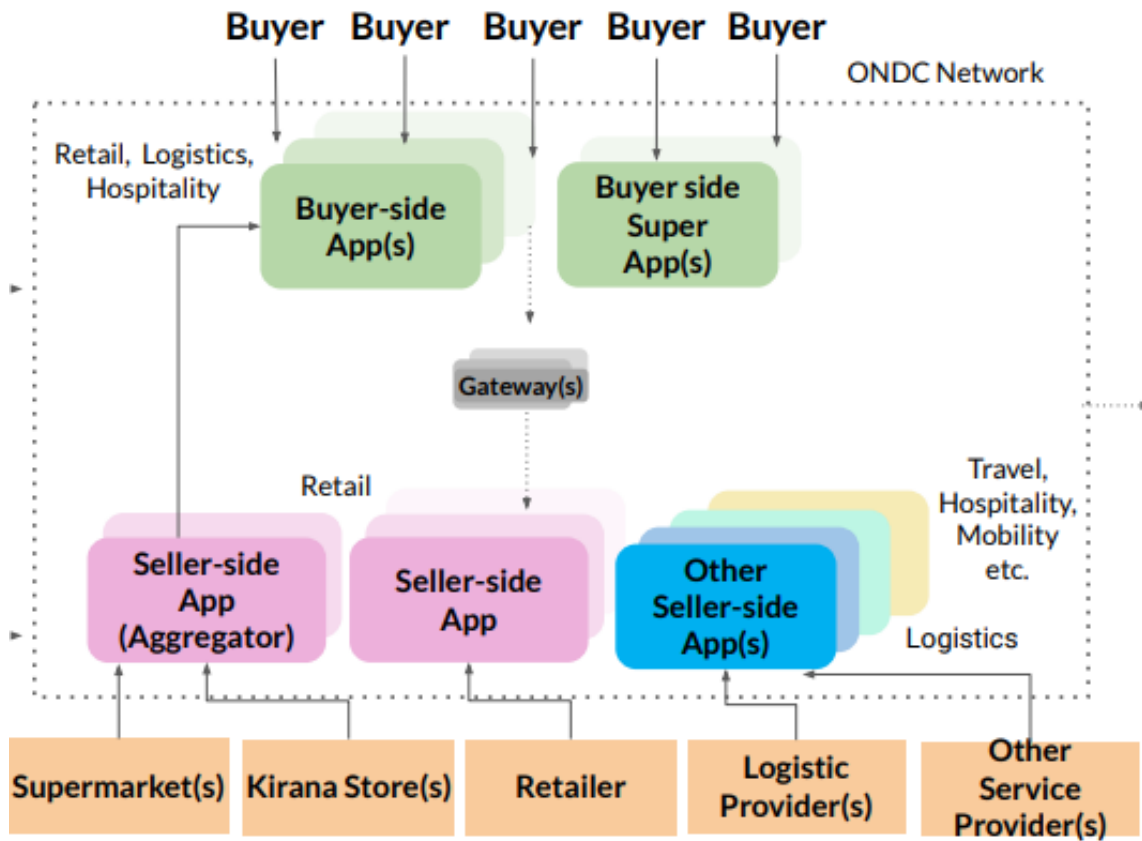
Source: MOFSL, Zomato, Swiggy, Paytm ONDC

**Exhibit 2: Price difference between ONDC and Zomato/Swiggy**

Price difference between ONDC and Zomato/Swiggy	Difference - Original price		Difference - Payment (pre discount)	
	Zomato	Swiggy	Zomato	Swiggy
<b>Mumbai</b>				
McDonald's Veg Maharaja Mac	10%	10%	21%	18%
Baskin Robbins Mississippi Mud (450ml)	-1%	-1%	9%	7%
Ovenstory Ultimate Veg Pizza	11%	11%	14%	16%
<b>Bangalore</b>				
Onesta - Veggie Lover Pizza	15%	18%	31%	31%
Bakingo - Choco Truffle Cake	13%	12%	15%	16%
The Biryani Life - Hyderabadi dum veg biryani	20%	22%	34%	35%

Source: MOFSL, Zomato, Swiggy, Paytm ONDC

**Exhibit 3: The structure and flow of transaction on ONDC**



Source: ONDC

## 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
<b>Delivery GOV</b>	<b>1,12,209</b>	<b>94,829</b>	<b>2,13,000</b>	<b>2,62,403</b>	<b>3,07,985</b>	<b>3,84,051</b>
Take Rate (%)	17.3	15.7	16.0	17.1	17.4	17.6
<b>Delivery Revenue</b>	<b>19,389</b>	<b>14,907</b>	<b>34,186</b>	<b>44,851</b>	<b>53,490</b>	<b>67,428</b>
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
<b>Revenue</b>	<b>26,047</b>	<b>19,938</b>	<b>41,924</b>	<b>70,464</b>	<b>93,676</b>	<b>1,17,798</b>
Income statement						(INR m)
Y/E March	2020	2021	2022	2023E	2024E	2025E
<b>Sales</b>	<b>26,047</b>	<b>19,938</b>	<b>41,924</b>	<b>70,464</b>	<b>93,676</b>	<b>1,17,798</b>
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
<b>Gross Profit</b>	<b>-19,044</b>	<b>-925</b>	<b>2,206</b>	<b>16,716</b>	<b>27,869</b>	<b>39,459</b>
% 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
<b>EBITDA</b>	<b>-23,047</b>	<b>-4,672</b>	<b>-18,508</b>	<b>-12,949</b>	<b>-8,196</b>	<b>-2,359</b>
% 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
<b>EBIT</b>	<b>-23,889</b>	<b>-6,049</b>	<b>-20,011</b>	<b>-17,529</b>	<b>-13,348</b>	<b>-7,071</b>
% 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
<b>PBT</b>	<b>-22,636</b>	<b>-4,904</b>	<b>-15,179</b>	<b>-11,178</b>	<b>-6,313</b>	<b>1,093</b>
Tax	0	13	20	0	0	0
Rate (%)	0.0	-0.3	-0.1	0.0	0.0	0.0
<b>PAT</b>	<b>-22,636</b>	<b>-4,917</b>	<b>-15,199</b>	<b>-11,178</b>	<b>-6,313</b>	<b>1,093</b>
Extraordinary gains/loss	-1,220	-3,248	2,974	0	0	0
<b>Adjusted PAT</b>	<b>-23,856</b>	<b>-8,164</b>	<b>-12,225</b>	<b>-11,178</b>	<b>-6,313</b>	<b>1,093</b>
Minority Interest	-184	-36	-138	-3	0	0
<b>Reported PAT</b>	<b>-23,672</b>	<b>-8,128</b>	<b>-12,087</b>	<b>-11,175</b>	<b>-6,313</b>	<b>1,093</b>
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
<b>Net Worth</b>	<b>7,098</b>	<b>80,987</b>	<b>1,65,055</b>	<b>1,53,877</b>	<b>1,47,564</b>	<b>1,48,657</b>
Minority Interest & Others	-65	-57	-66	-66	-66	-66
Loans	15	0	0	0	0	0
<b>Capital Employed</b>	<b>7,047</b>	<b>80,930</b>	<b>1,64,989</b>	<b>1,53,811</b>	<b>1,47,498</b>	<b>1,48,591</b>
<b>Net Block</b>	<b>1,034</b>	<b>838</b>	<b>1,157</b>	<b>1,283</b>	<b>1,495</b>	<b>1,581</b>
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
<b>Curr. Assets</b>	<b>12,634</b>	<b>41,505</b>	<b>75,450</b>	<b>71,781</b>	<b>74,745</b>	<b>82,080</b>
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
<b>Current Liab. &amp; Prov</b>	<b>21,956</b>	<b>6,105</b>	<b>8,281</b>	<b>12,710</b>	<b>15,835</b>	<b>18,864</b>
<b>Net Current Assets</b>	<b>-9,323</b>	<b>35,400</b>	<b>67,169</b>	<b>59,072</b>	<b>58,911</b>	<b>63,215</b>
<b>Application of Funds</b>	<b>7,047</b>	<b>80,930</b>	<b>1,64,989</b>	<b>1,53,811</b>	<b>1,47,498</b>	<b>1,48,591</b>

## Financials and valuations

### Ratios

Y/E March	2020	2021	2022	2023E	2024E	2025E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>-5.4</b>	<b>-1.5</b>	<b>-1.7</b>	<b>-1.4</b>	<b>-0.7</b>	<b>0.1</b>
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
<b>Valuation (x)</b>						
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	10.2	16.3	10.5	6.7	5.6	4.4
Price/Book Value	37.5	4.1	2.7	3.1	3.6	3.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profitability Ratios (%)</b>						
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)
<b>Turnover Ratios</b>						
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
<b>Net Operating CF</b>	<b>-21,138</b>	<b>-10,365</b>	<b>-6,738</b>	<b>-12,215</b>	<b>-7,524</b>	<b>-1,950</b>
Net Purchase of FA	-214	-104	-572	-1,500	-1,500	-2,500
<b>Free Cash Flow</b>	<b>-21,351</b>	<b>-10,469</b>	<b>-7,310</b>	<b>-13,715</b>	<b>-9,024</b>	<b>-4,450</b>
Net Purchase of Invest.	17,566	-52,332	-78,806	5,500	4,500	0
<b>Net Cash from Invest.</b>	<b>17,352</b>	<b>-52,436</b>	<b>-79,378</b>	<b>4,000</b>	<b>3,000</b>	<b>-2,500</b>
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
<b>Cash Flow from Fin.</b>	<b>3,589</b>	<b>65,790</b>	<b>87,425</b>	<b>6,351</b>	<b>7,035</b>	<b>8,164</b>
<b>Net Cash Flow</b>	<b>-197</b>	<b>2,989</b>	<b>1,309</b>	<b>-1,864</b>	<b>2,511</b>	<b>3,714</b>
<b>Opening Cash Bal.</b>	<b>2,124</b>	<b>1,650</b>	<b>3,043</b>	<b>3,901</b>	<b>2,037</b>	<b>4,548</b>
Forex differences	43	-10	-332	0	0	0
Add: Net Cash	-197	2,989	1,309	-1,864	2,511	3,714
<b>Closing Cash Bal.</b>	<b>1,971</b>	<b>4,629</b>	<b>4,020</b>	<b>2,037</b>	<b>4,548</b>	<b>8,262</b>

E: MOFSL Estimates

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NOTES

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

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