

Estimate change 

TP change 

Rating change 

CMP: INR65

TP: INR 80 (+24%)

Buy

Food delivery growth guidance and lower burn to ease concerns

Blinkit's strong store-level growth – a positive; reiterate BUY

Bloomberg	ZOMATO IN
Equity Shares (m)	8252
M.Cap.(INRb)/(USDb)	553.7 / 6.7
52-Week Range (INR)	80 / 41
1, 6, 12 Rel. Per (%)	16/-3/1
12M Avg Val (INR M)	5742

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
GOV	263.5	300.1	368.0
Net Sales	70.8	100.3	130.2
Change (%)	68.9	41.7	29.8
EBITA	-12.1	-4.4	-0.4
EBITA margin (%)	-17.1	-4.4	-0.3
Adj. PAT	-9.7	-2.7	2.6
PAT margin (%)	-13.7	-2.7	2.0
RoE (%)	-5.40	-1.41	1.33
RoCE (%)	-8.57	-4.86	-2.78
EPS	-1.19	-0.32	0.30

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

- Zomato reported 4QFY23 revenue of INR20.6b, up 5.5% QoQ/70% YoY (in line with our estimates). Revenue growth was led by Blinkit (up 21% QoQ), while food delivery revenue growth was modest at +2% QoQ (GOV -2% QoQ) due to adverse seasonality and macro impact. Zomato's food delivery vertical reported its second quarter of order volume decline (MOFSLe) as well as ~5% decline in users (MTUs) despite a strong response from Gold members (order frequency up 60% QoQ). Management guided for a high single-digit QoQ recovery in food delivery GOV growth in 1QFY24.
- Zomato's 4QFY23 EBITDA margin (adj. EBITDA loss at 6.9% of revenue) was ahead of MOFSL (-10.4%) due to healthy cost control and higher take rate. Excluding Blinkit, Zomato turned EBITDA positive due to a sharp pickup in food delivery profitability (+5.1% adj. EBITDA margin). Blinkit's adj. EBITDA loss narrowed (-9.9% in 4Q) on better take rate and store-level GOV growth. It guided for PAT breakeven on consolidated basis within next four quarters.
- While Zomato's food delivery performance has been underwhelming in recent quarters (flat GOV CQGR over 1Q-4QFY23), it has delivered a strong turnaround in profitability (improvement of INR1.9b) over the period. We expect the good pick-up in Gold membership (c11% of 4Q MTU) to help in FY24 (14% YoY GOV growth), although it would slightly hurt contribution margin led by an increase in availability fee.
- Blinkit's robust store-level performance (orders per day, per dark store up 25% QoQ) should help it reach contribution breakeven in the next 1-2 quarters. With a cautious expansion in FY24 store count, we expect growth to moderate a bit, although GOV should still grow at 80% YoY next year.
- We now expect Zomato to breakeven on adj. EBITDA level (consol.) in 3QFY24 and on reported PAT by 4QFY24 (70bp PAT margin). Improving profitability should help it deliver FY25E adj. EBITDA of INR4.2b before turning reported EBITDA positive in FY26E. Our estimates imply FY23-25 revenue CAGR of 36% and 13.1% improvement in adj. EBITDA margin, leading to a PAT turnaround over the period (FY25 PAT of INR2.6b v/s FY23 loss of 9.6b).
- We remain positive on the long-term growth opportunity for Zomato, and do not expect competition to intensify further despite the entry of ONDC in the space. Our DCF-based valuation of INR80/sh suggests a 24% upside from current price. We **reiterate our BUY** rating on the stock.

Revenue in line; losses narrow sharply

- Zomato reported 4QFY23 net revenue of INR20.6b, including INR3.6b from Blinkit (in line). Ex-Blinkit, net revenue was flat QoQ / grew 33% YoY, while Blinkit's revenue rose 21% QoQ during the quarter.
- EBITDA loss narrowed sharply to INR2.3b (-11% EBITDA margin v/s -18.8% in 3QFY23) ahead of our estimate of EBITDA loss at INR3.1b.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Food delivery revenue (ex-delivery charges) was at +1.9% QoQ/+22% YoY, slightly ahead of estimates of -2.3% QoQ decline. GOV (food) of INR65.6b declined 1.8% QoQ (est. 2.7% QoQ decline) on lower working days in Feb'23 (-2.2% impact) and shut down of 225 cities in Jan'23 (-0.3%).
- Hyperpure's revenue grew 13.5% QoQ/1.5x YoY to 4.7b (23.2% of revenue). Blinkit's 4Q GOV rose 17% QoQ. A 50bp increase in take rate to 17.7% resulted in adj. EBITDA margin improving by 3.1pp QoQ to -9.9%.
- Loss stood at INR1.9b (v/s INR3.1b loss estimated and INR3.4b loss in 3QFY23). Net cash was at INR113b (flat QoQ).

Key highlights from the management commentary

- Zomato's 1QFY24 should see healthy growth momentum. On a longer term basis, it remains bullish as market is still under-penetrated.
- For Hyperpure – we expect strong growth to sustain. Losses should continue to come down on strong operating leverage. It is currently not planning to expand in newer cities. Focus will be to grow and become profitable in existing cities before venturing into newer cities. Further, the business model has to be different for smaller cities.
- Margin improvement levers for FY24 - 1) expect delivery cost to come down at faster rate than last year; 2) other variable cost also should come down in FY24; and 3) strong operating leverage. It still remains behind the competition on take rates and aims to close the gap over time.

Valuation and view

- The food delivery business is still at a nascent stage in India with a long runway for growth. With dominant market share and strong growth in the food delivery business and Hyperpure, we expect Zomato to report a strong 36% revenue CAGR over FY23-25. We further expect Zomato to breakeven in 4QFY24, in-line with the management guidance.
- Zomato has made three senior promotions to CEO/COO roles that moderate our concerns on high attrition at senior leadership level.
- We value the business using DCF methodology, assuming 4% terminal growth rate and 12.5% cost of capital. **We maintain our BUY rating with a TP of INR 80**, implying 24% potential upside.

Consolidated quarterly performance

(INR m)

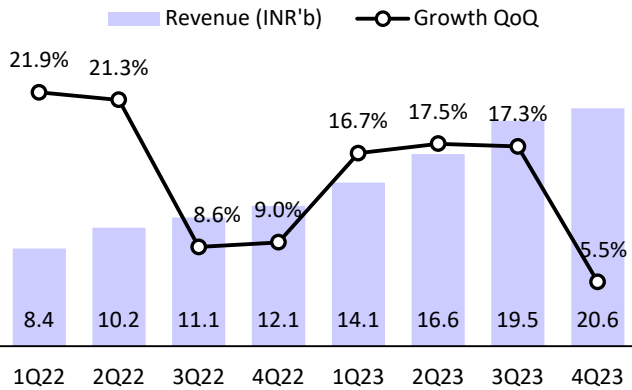
Y/E march	FY22				FY23				FY22	FY23	Estimate 4QE	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue (net of delivery)	8,444	10,242	11,120	12,118	14,139	16,613	19,482	20,560	41,924	70,794	20,230	1.6
YoY Change (%)	217.4	140.4	82.5	75.0	67.4	62.2	75.2	69.7	110.3	68.9	66.9	270bp
Inventory of traded goods	744	1,104	1,536	1,862	2,538	3,123	3,900	4,391	5,246	13,952	4,221	
Employee Expenses	3,907	4,241	4,115	4,068	3,489	3,813	3,950	3,398	16,331	14,650	4,099	
Delivery expenses	2,967	4,226	5,497	5,451	5,724	5,903	6,549	7,193	18,141	25,369	6,439	
Gross Profit	826	671	-28	737	2,388	3,774	5,083	5,578	2,206	16,823	5,471	1.9
Margins (%)	9.8	6.6	-0.3	6.1	16.9	22.7	26.1	27.1	5.3	23.8	27	10bp
Advertisement and sales promotion	3,015	3,880	2,582	2,691	2,776	2,997	3,479	3,022	12,168	12,274	3,502	
Others	1,576	2,149	2,278	2,543	2,685	3,891	5,266	4,810	8,546	16,652	4,079	17.9
EBITDA	-3,765	-5,358	-4,888	-4,497	-3,073	-3,114	-3,662	-2,254	-18,508	-12,103	-3,100	NA
Margins (%)	-44.6	-52.3	-44.0	-37.1	-21.7	-18.7	-18.8	-11.0	-44.1	-17.1	-15.3	440bp
Depreciation	355	384	387	377	416	1,067	1,548	1,338	1,503	4,369	1,549	
Interest	33	31	31	25	49	119	161	158	120	487	161	
Other Income	722	1,370	1,476	1,384	1,678	1,695	1,734	1,705	4,952	6,812	1,734	
PBT before EO expense	-3,431	-4,403	-3,830	-3,515	-1,860	-2,605	-3,637	-2,045	-15,179	-10,147	-3,076	NA
Extra-Ord expense	-159	54	3,158	-79	0	0	0	1	2,974	1	0	
PBT	-3,590	-4,349	-672	-3,594	-1,860	-2,605	-3,637	-2,044	-12,205	-10,146	-3,076	NA
Tax	17	0	0	3	0	-97	-171	-168	20	-436	0	
Rate (%)	-0.5	0.0	0.0	-0.1	0.0	NA	NA	8.2	-0.2	NA	0.0	
MI & Profit/Loss of Asso. Cos.	-45	-53	-40	0	-3	0	0	6	-138	3	0	
Reported PAT	-3,562	-4,296	-632	-3,597	-1,857	-2,508	-3,466	-1,882	-12,087	-9,713	-3,076	NA
Adj PAT	-3,403	-4,350	-3,790	-3,518	-1,857	-2,508	-3,466	-1,883	-15,061	-9,714	-3,076	NA
YoY Change (%)	241.0	215.7	216.8	NA	-45.4	-42.3	-8.5	-46.5	208.6	-35.5	-16.3	NA
Margins (%)	-40.3	-42.5	-34.1	-29.0	-13.1	-15.1	-17.8	-9.2	-35.9	-13.7	-15.2	NA

Source: Company, MOFSL

Story in charts

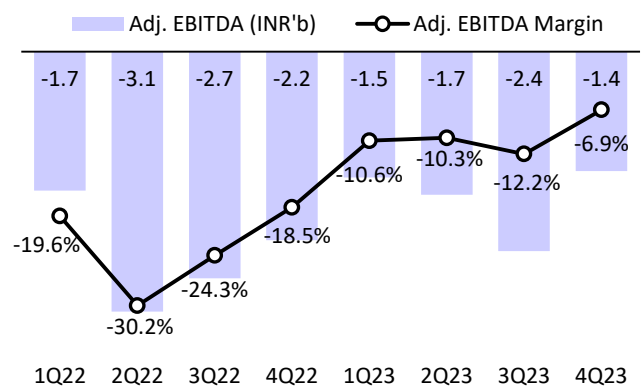
Overall Business

Exhibit 1: Revenue growth moderated...



Source: MOFSL, Company

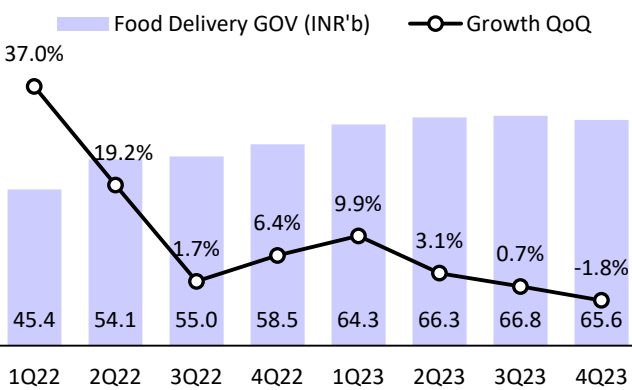
Exhibit 2: ...but losses narrowed sharply in 4QFY23



Source: MOFSL, Company

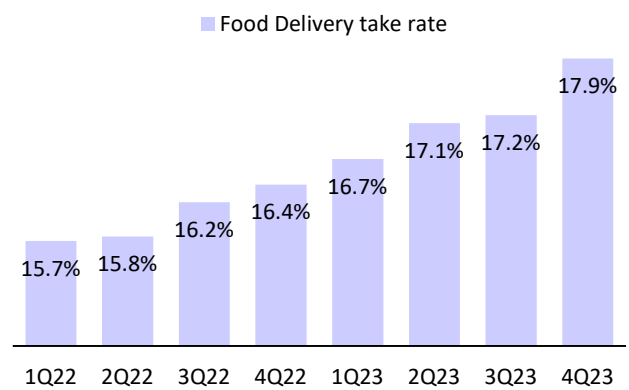
Food Delivery

Exhibit 3: GOV declined sequentially but...



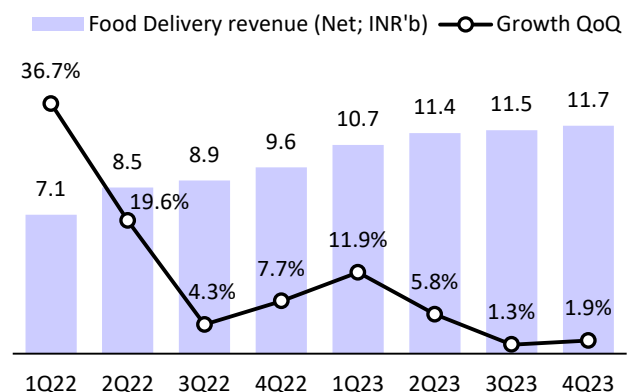
Source: MOFSL, Company

Exhibit 4: ...take rate improved 70bp QoQ...



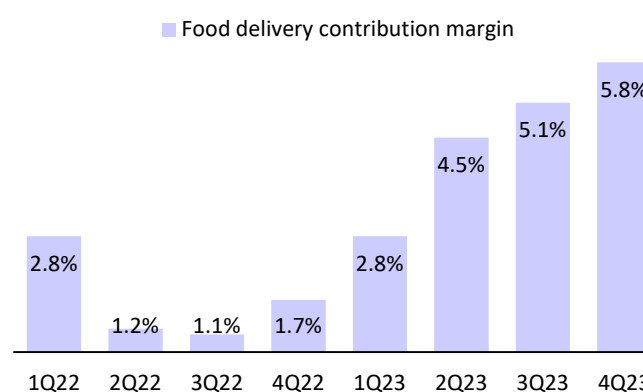
Source: MOFSL, Company

Exhibit 5: ...leading to 1.9% sequential growth



Source: MOFSL, Company

Exhibit 6: Contribution margin improved 70bp sequentially



Source: MOFSL, Company

Blinkit

Exhibit 7: GOV saw strong 17% sequential growth...

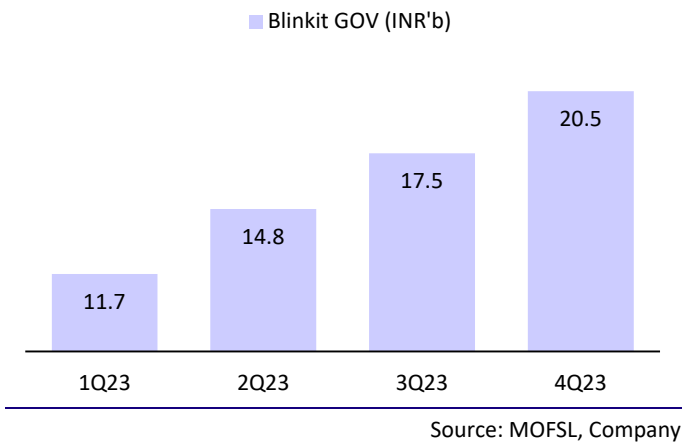


Exhibit 8: ...and take rate improved 50bp sequentially...

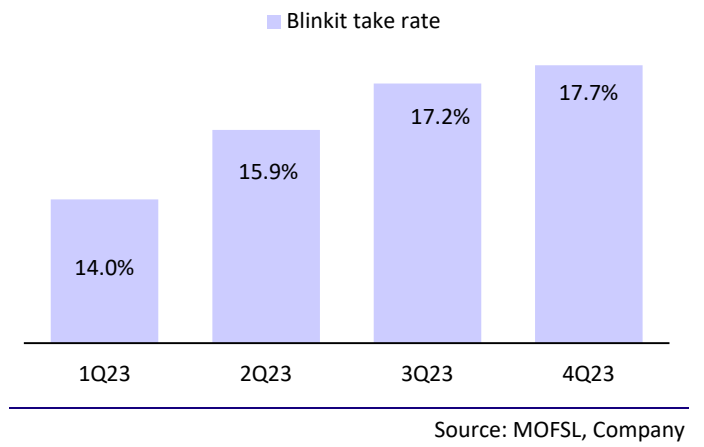


Exhibit 9: ...leading to 20% sequential revenue growth

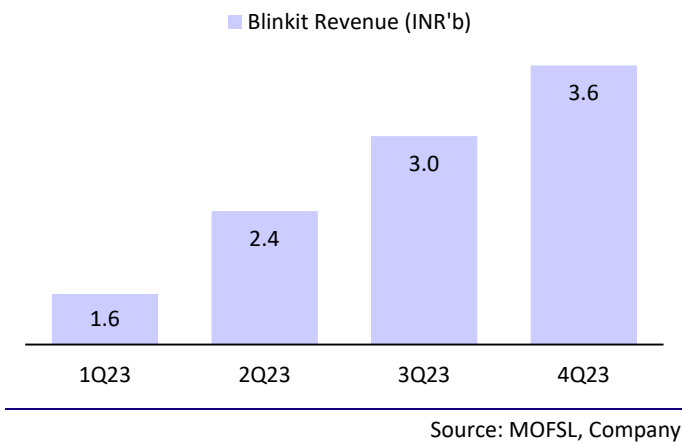
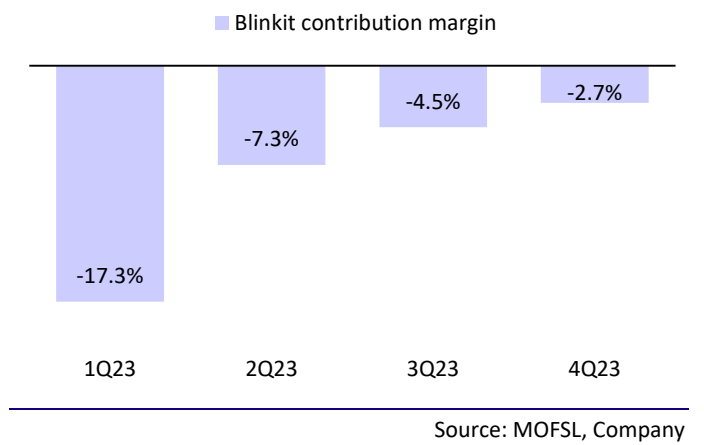
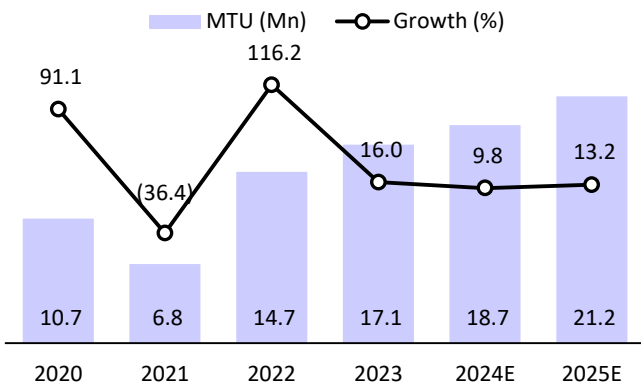


Exhibit 10: Contribution margin improved 180bp QoQ



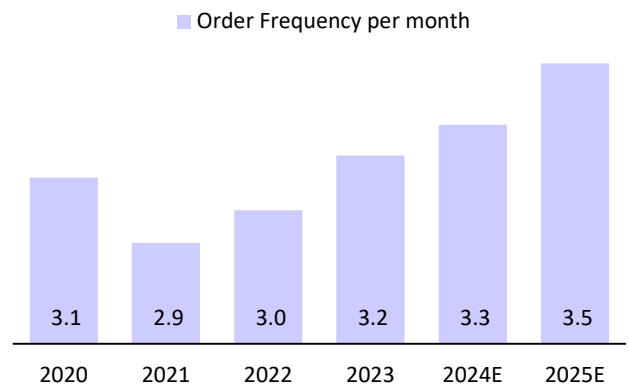
What do we expect - our estimates

Exhibit 11: Expect good growth in MTU...



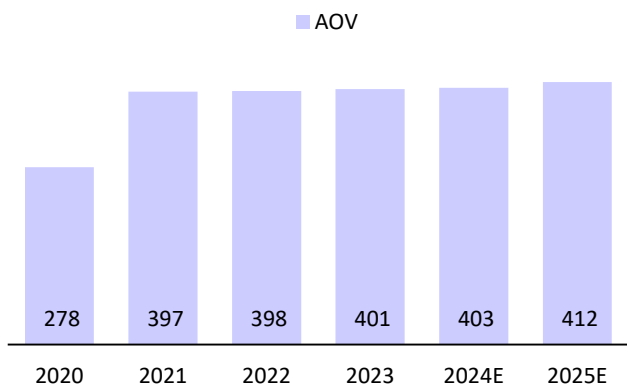
Source: MOFSL, Company

Exhibit 12: ...and order frequency



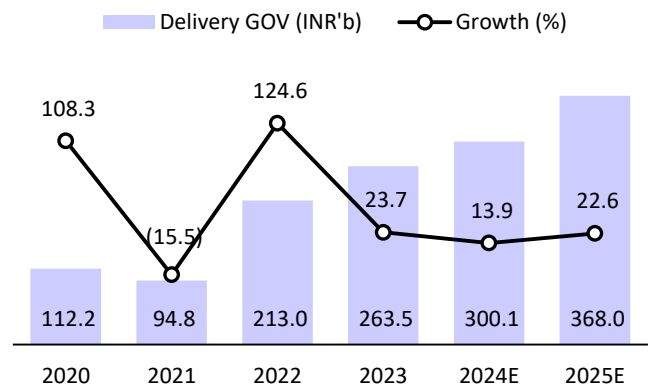
Source: MOFSL, Company

Exhibit 13: AOV to remain flattish



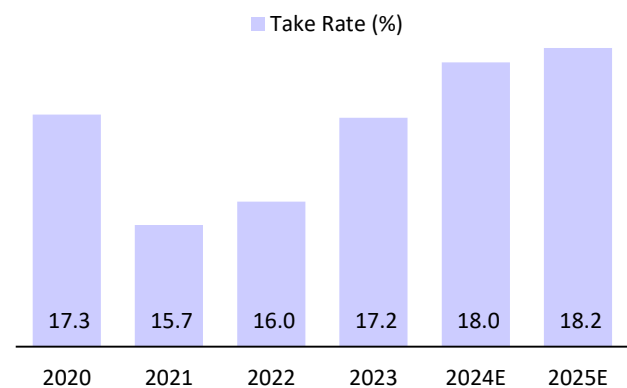
Source: MOFSL, Company

Exhibit 14: Strong GOV growth...



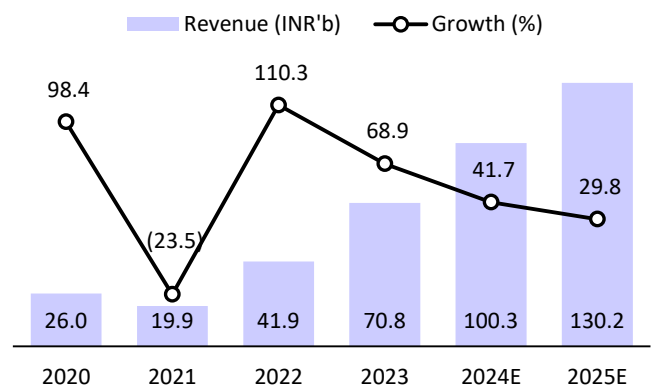
Source: MOFSL, Company

Exhibit 15: ...and increase in take rate...



Source: MOFSL, Company

Exhibit 16: ...to drive 36% revenue CAGR over FY23-25



Source: MOFSL, Company



Key highlights from the management commentary

Demand and growth outlook

- Zomato's 1QFY24 should see healthy growth momentum. On a longer term basis, it remains bullish as the market is still under-penetrated.
- MTUs declined QoQ because of lesser working days, Zomato Gold (clubbing of orders in same household) and due to cities being dropped during the quarter. MTU impact will continue to remain from Zomato Gold. On net basis, it expects MTUs to grow from current levels.
- Zomato Gold accounted for 30% share in the number of orders for Mar'23. Ordering frequency for non-gold members has stayed flat QoQ.
- Dine-out business is scaling up well but remains a small part of the P&L. It will take a few more quarters to be meaningful.
- AOV trended upwards in 4QFY23 despite range bound inflation. AOV should remain flat (if not improve) in FY24.
- On Wayyu and ONDC - the penetration is low and it doesn't see much impact there.
- For Hyperpure, – management expects strong growth to continue. Losses should continue to come down on strong operating leverage. It is currently not planning to expand in newer cities. Focus will be to grow and become profitable in existing cities before venturing to newer cities. Also, the business model has to be different for smaller cities.
- Number of login hours for riders is growing linearly.

Margins

- Zomato saw healthy cost per order reduction in 4QFY23. It is trying to look at all possible levers to improve efficiencies.
- Employee cost came down on lower ESOP charge in 4QFY23. ESOP charges would not be liner in nature.
- Margin improvement levers for FY24 - 1) expect delivery cost to come down at faster rate than last year; 2) other variable cost also should come down in FY24; and 3) strong operating leverage. It still remains behind the competition on take rates and aims to close the gap over time.
- Margin improvement initiatives had little to no impact on growth.

Blinkit

- Blinkit saw good improvement in SKU mix (with more high moving low involvement goods).
- It will focus on scaling existing cities before expanding into newer cities as there is still a lot to cover in existing cities.
- Blinkit's disruptions in Delhi NCR area had no material impact. The stores were shut down for a few days. The rider logins are not back to 100%, partly attributable to high temperatures in northern part of India.
- For Blinkit, AOV of new users is generally low and increases overtime. It saw AOV improvement in the last part of 4QFY23. AOV fluctuations will continue as per festive trends.
- Dark store replenishment cost should remain flattish on absolute basis but go down on per order basis on increased through-put.

Valuation and view

- The food delivery business is still at a nascent stage in India with a long runway for growth. With dominant market share and strong growth in the food delivery business and Hyperpure, we expect Zomato to report a strong 36% revenue CAGR over FY23-25. We further expect Zomato to breakeven in 4QFY24, in-line with the management guidance.
- Zomato has made three senior promotions to CEO/COO roles that moderate our concerns on high attrition at senior leadership level.
- We value the business using DCF methodology, assuming 4% terminal growth rate and 12.5% cost of capital. **We maintain our BUY rating with a TP of INR80**, implying 24% potential upside.

Exhibit 17: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	1,00,344	1,30,198	93,676	1,17,798	7.1%	10.5%
EBITDA (INR m)	-4,416	-361	-8,196	-2,359	NA	NA
EBITDA Margin	-4.4	-0.3	-8.7	-2.0	435bp	173bp
PAT	-2,728	2,561	-6,313	1,093	NA	134.3%
PAT Margin	-2.7	2.0	-6.7	0.9	402bp	104bp
EPS	-0.32	0.30	-0.73	0.13	NA	134.3%

Source: MOFSL

Exhibit 18: Sensitivity analysis of our target price

		WACC						
		11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%
Growth	3.0%	95	88	82	76	72	67	63
	3.5%	98	91	84	78	73	68	64
	4.0%	102	94	86	80	75	70	66
	4.5%	106	97	89	82	77	71	67
	5.0%	111	101	92	85	79	73	68
	5.5%	116	105	96	88	81	75	70

Source: MOFSL, Company

Financials and valuations

Revenue Model						(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E
MTU	10.7	6.8	14.7	17.1	18.7	21.2
Order Frequency	3.1	2.9	3.0	3.2	3.3	3.5
Orders/ Month	33.6	19.9	44.6	54.8	62.0	74.4
Orders/ Year	403	239	535	657	744	893
AOV (INR)	278	397	398	401	403	412
Delivery GOV	1,12,209	94,829	2,13,000	2,63,542	3,00,070	3,68,034
Take Rate (%)	17.3	15.7	16.0	17.2	18.0	18.2
Delivery revenue	19,389	14,907	34,186	45,421	54,065	67,051
Blinkit - revenue	0	0	0	8,058	20,747	30,975
Hyperpure - revenue	1,076	2,002	5,350	15,034	22,116	28,486
Others	5,582	3,029	2,388	2,281	3,417	3,686
Revenue	26,047	19,938	41,924	70,794	1,00,344	1,30,198
Income statement						(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E
Sales	26,047	19,938	41,924	70,794	1,00,344	1,30,198
Change (%)	98.4	-23.5	110.3	68.9	41.7	29.8
Inventory of traded goods	1,089	1,919	5,246	13,952	20,347	26,207
Employee Expenses	7,989	7,408	16,331	14,650	15,870	18,424
Other direct expenses	-27,033	-8,333	-14,125	2,173	13,831	22,879
Gross Profit	-19,044	-925	2,206	16,823	29,701	41,302
% of Net Sales	-73.1	-4.6	5.3	23.8	29.6	31.7
Other Expenses	4,003	3,746	20,714	28,926	34,117	41,663
EBITDA	-23,047	-4,672	-18,508	-12,103	-4,416	-361
% of Net Sales	-88.5	-23.4	-44.1	-17.1	-4.4	-0.3
Depreciation	842	1,377	1,503	4,369	5,318	5,208
EBIT	-23,889	-6,049	-20,011	-16,472	-9,734	-5,569
% of Net Sales	-91.7	-30.3	-47.7	-23.3	-9.7	-4.3
Other Income (net)	1,254	1,146	4,832	6,325	7,006	8,130
PBT	-22,636	-4,904	-15,179	-10,147	-2,728	2,561
Tax	0	13	20	-436	0	0
Rate (%)	0.0	-0.3	-0.1	4.3	0.0	0.0
PAT	-22,636	-4,917	-15,199	-9,711	-2,728	2,561
Extraordinary gains/loss	-1,220	-3,248	2,974	1	0	0
Adjusted PAT	-23,856	-8,164	-12,225	-9,710	-2,728	2,561
Minority Interest	-184	-36	-138	-96	0	0
Reported PAT	-23,672	-8,128	-12,087	-9,614	-2,728	2,561
Balance Sheet						(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E
Share capital	2,524	4,550	7,643	8,364	8,364	8,364
Reserves	4,574	76,438	1,57,412	1,86,234	1,83,506	1,86,067
Net Worth	7,098	80,987	1,65,055	1,94,598	1,91,870	1,94,431
Minority Interest & Others	-65	-57	-66	-66	-66	-66
Loans	15	0	0	58	58	58
Capital Employed	7,047	80,930	1,64,989	1,94,590	1,91,862	1,94,423
Net Block	1,034	838	1,157	6,432	6,602	6,540
Intangibles	14,881	14,553	12,892	57,071	53,082	50,437
Other LT assets	455	30,138	83,771	44,174	41,674	40,674
Curr. Assets	12,634	41,505	75,450	1,08,310	1,16,581	1,26,152
Debtors	1,231	1,299	1,599	4,569	6,751	9,116
Cash & Bank Balance	1,672	3,065	3,923	2,181	9,768	15,626
Investments	5,166	28,024	28,149	52,837	50,837	51,837
Other Current Assets	4,564	9,118	41,779	48,723	49,224	49,573
Current Liab. & Prov	21,956	6,105	8,281	21,397	26,077	29,379
Net Current Assets	-9,323	35,400	67,169	86,913	90,504	96,773
Application of Funds	7,047	80,930	1,64,989	1,94,590	1,91,862	1,94,424

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024E	2025E
Basic (INR)						
EPS	-5.4	-1.5	-1.7	-1.2	-0.3	0.3
Cash EPS	-5.2	-1.3	-1.5	-0.7	0.3	0.9
Book Value	1.6	15.0	22.6	24.1	22.2	22.5
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	10.8	17.4	11.2	7.4	5.5	4.2
Price/Book Value	40.0	4.3	2.9	2.7	2.9	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Profitability Ratios (%)						
RoE	(144.2)	(18.5)	(9.9)	(5.4)	(1.4)	1.3
RoCE	(97.8)	(11.7)	(16.2)	(8.6)	(4.9)	(2.8)
Turnover Ratios						
Debtors (Days)	17	24	14	24	25	26
Fixed Asset Turnover (x)	25.2	23.8	36.2	11.0	15.2	19.9

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024E	2025E
(INR m)						
CF from Operations	-21,269	-2,798	-9,221	-6,373	-4,416	-361
Cash for Working Capital	131	-7,567	2,483	-1,759	1,997	588
Net Operating CF	-21,138	-10,365	-6,738	-8,132	-2,419	227
Net Purchase of FA	-214	-104	-572	-1,014	-1,500	-2,500
Free Cash Flow	-21,351	-10,469	-7,310	-9,146	-3,919	-2,273
Net Purchase of Invest.	17,566	-52,332	-78,806	5,587	4,500	0
Net Cash from Invest.	17,352	-52,436	-79,378	4,573	3,000	-2,500
Proc. from equity issues	3,916	66,083	90,000	40	0	0
Proceeds from LTB/STB	0	-26	-13	-231	0	0
Others	-327	-267	-2,562	-1,148	7,006	8,130
Dividend Payments	0	0	0	0	0	0
Cash Flow from Fin.	3,589	65,790	87,425	-1,339	7,006	8,130
Net Cash Flow	-197	2,989	1,309	-4,898	7,587	5,857
Opening Cash Bal.	2,124	1,650	3,043	3,923	2,181	9,768
Forex differences	43	-10	-310	3,399	0	0
Add: Net Cash	-197	2,989	1,309	-4,898	7,587	5,857
Closing Cash Bal.	1,971	4,629	4,042	2,424	9,768	15,626

E: MOFSL Estimates

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Explanation of Investment Rating	
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BUY	>=15%
SELL	< - 10%
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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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