

Stellar operating performance; profit turnaround to sustain

Information Technology ▶ Result Update ▶ August 4, 2023

TARGET PRICE (Rs): 110

Zomato delivered a stellar operating performance, well ahead of expectations; it also posted profit for the first time. After muted growth in the last couple of quarters, food delivery GOV jumped sharply, by 11.4% QoQ, led by demand recovery, growing adoption of Gold program that drove higher frequency of ordering, seasonality, and strong execution. Contribution margin in food delivery improved to 6.4% from 5.8% QoQ. Blinkit GOV growth was impacted by temporary disruption in April on account of change in the delivery partner payout structure. Management guides for over 60% YoY growth in Blinkit GOV (over 20% QoQ in Q2) and adj. EBITDA breakeven in the next four quarters. Overall adj. EBITDA also turned profitable for the first time, aided by strong revenue growth and cost levers, coupled with operating leverage. Zomato expects adjusted revenue to grow at over 40% for at least the next couple of years and remain profitable going forward. Considering the Q1 beat and strong outlook, we have increased FY24-26E revenue by 13-22%, with better margin trajectory. We retain BUY with TP of Rs110 (earlier Rs90).

Zomato: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	41,924	70,794	1,08,519	1,46,993	1,88,196
EBITDA	(18,508)	(12,103)	1,128	13,291	21,977
Adj. PAT	(15,061)	(9,714)	1,519	10,584	17,786
Adj. EPS (Rs)	(1.7)	(1.1)	0.2	1.2	1.9
EBITDA margin (%)	(44.1)	(17.1)	1.0	9.0	11.7
EBITDA growth (%)	NM	NM	NM	1,078.6	65.4
Adj. EPS growth (%)	NM	NM	NM	596.9	78.3
RoE (%)	(12.2)	(5.4)	0.8	5.3	8.2
RoIC (%)	(131.5)	(33.7)	(4.6)	8.7	19.5
P/E (x)	(52.3)	(81.4)	520.4	74.7	44.4
EV/EBITDA (x)	(36.2)	(57.5)	611.9	50.7	29.6
P/B (x)	4.8	4.1	4.0	3.8	3.5
FCFF yield (%)	(1.3)	(1.5)	0.7	2.1	3.2

Source: Company, Emkay Research

Results Summary

Revenue grew 17.5% QoQ to Rs24.2bn, well above our estimate of Rs22.2bn. Growth was led by food delivery (17% QoQ) and Hyperpure (29%). Food Delivery GOV growth bounced back sharply by 11.4% QoQ to Rs73.2bn, aided by demand recovery, adoption of Gold program, seasonality factors and stronger execution. Avg. monthly transacting users grew 5.4% QoQ to 17.5mn. Blinkit GOV growth of 4.6% QoQ was impacted by the temporary business disruption in April due to change in the delivery partner payout structure. Hyperpure momentum persisted, with growth supported by both core restaurant supplies and the newer quick commerce opportunity that it started tapping a couple of quarters ago. Overall adjusted revenue grew 15.5% QoQ to Rs27.9bn, while adjusted revenue (ex-quick commerce) grew 17.1% QoQ to Rs24bn in Q1. Contribution margin for food delivery improved further, from 5.8% to 6.4%. Adjusted EBITDA turned positive for the first time, at Rs120mn (0.4% of adj. revenue) in Q1 as against a loss of Rs1.75bn (-7% of adj. revenue) in Q4FY23. The company reported profit for the first time ever, at Rs20mn in Q1FY24. **What we liked:** Strong operating performance, food delivery GOV growth acceleration, margin improvement across segments. **What we did not like:** Decline in Blinkit orders (-6.1% QoQ).

Earnings Call KTAs

i) Company believes that food delivery GOV YoY growth has bottomed out and expects increasing YoY growth in coming quarters. ii) Improvement in food delivery margin was driven by both cost and revenue related levers, as well as operating leverage. Management expects Company to clock 4-5% of adj. EBITDAM (as a % of GOV) in a few quarters. However, Mgmt suggested that executing on margin improvement hereon will only get harder, as it approaches the 4-5% range. iii) Blinkit reported slower sequential GOV growth in Q1, mainly due to the temporary business disruption. While operations were back on within a few days, it faced a challenging period of ~45 days, when the overall gig workers available to work in the system were 15-20% lesser than normal due to the disruption as well as the heat and incessant rains (started to normalize in early June, seeing healthy growth since then). iv) Management believes that Blinkit is still in a nascent stage, with ~4mn MTU and a limited geographical footprint, given the size of the opportunity. Company plans adding 100 new dark stores in FY24. v) Management highlighted that Blinkit's GOV is closer to that of FD's GOV in some of the large cities where there is an overlapping presence. Blinkit will drive more value than Zomato in the next 10 years, as per Management. vi) In Q1, Rs5.2bn of GOV was transacted through Dining-out in India (~7% of GOV of the FD business) and adj. EBITDAM of ~1% of GOV for the India business. Company believes that it has potential to generate adj. EBITDAM of 5% of GOV.

Target Price – 12M	Jun-24
Change in TP (%)	22.2
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	27.1
CMP (03-Aug-23) (Rs)	86.6

Stock Data	Ticker
52-week High (Rs)	88
52-week Low (Rs)	44
Shares outstanding (mn)	8,579.2
Market-cap (Rs bn)	743
Market-cap (USD mn)	8,975
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	76
ADTV-3M (Rs mn)	5,464.7
ADTV-3M (USD mn)	66.1
Free float (%)	48.0
Nifty-50	19,382
INR/USD	82.7
Shareholding, Jun-23	
Promoters (%)	-
FPIs/MFs (%)	54.4/9.9

Price Performance

(%)	1M	3M	12M
Absolute	14.4	36.2	56.1
Rel. to Nifty	14.1	27.1	40.0

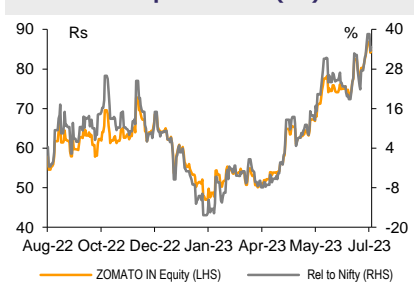
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Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
Food delivery GOV	73,180	65,690	11.4	64,300	13.8
Blinkit GOV	21,400	20,460	4.6	11,720	82.6
Net sales	24,160	20,560	17.5	14,139	70.9
Operating expenses	24,640	22,814	8.0	17,212	43.2
EBITDA	(480)	(2,254)	(79)	(3,073)	(84)
Margins (%)	(2)	(11)	900	(22)	1,970
Depreciation	1300	1338		416	
EBIT	(1,780)	(3,592)	(50)	(3,489)	(49)
Margins (%)	(7)	(17)	1,010	(25)	1,730
Interest Paid	180	158		49	
Other income	1810	1705		1681	
Non-recurring items	0	1		-3	
Pre-tax profit	(150)	(2,044)	(93)	(1,860)	(92)
Tax provided	-170	-168		0	
Profit after tax	20	(1,876)		(1,860)	
Minority	-	6		(3)	
Emkay Net profit	20	(1,882)	(101)	(1,857)	(101)
EPS (Rs)	-	(0.2)	(100.0)	(0.2)	(100.0)

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate Emkay	Consensus Estimate	Variation		Comment
				Emkay	Consensus	
Net sales	24,160	22,204	22,611	8.8%	6.9%	Revenue growth came ahead of estimates on the back of all-round outperformance.
EBIT	(1,780)	(3,410)	(3,371)	NM	NM	EBIT beat estimates due to better than expected profitability across segments.
EBIT margin	-7.4%	-15.4%	-14.9%	800 bps	750 bps	
PAT	20	(2,242)	-1,778	NM	NM	PAT turned positive (vs our estimates of loss) on the back of strong operating performance and higher other income.

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

Rs mn	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Net sales	96,045	1,08,519	13.0%	1,24,618	1,46,993	18.0%	1,54,102	1,88,196	22.1%
YoY growth	35.7%	53.3%		29.7%	35.5%		23.7%	28.0%	
EBIT	-11,113	-3,824	NM	703	8,158	1060.1%	8,357	16,692	99.7%
EBIT margins	-11.6	-3.5		0.6	5.6		5.4	8.9	
Net profit	-6,469	1,519	NM	4,230	10,584	150.2%	10,332	17,786	72.1%
EPS (Rs)	-0.7	0.2	NM	0.5	1.2	150.2%	1.1	1.9	72.1%

Source: Company, Emkay Research

Exhibit 4: SOTP-based valuation

	Methodology	Rs bn	Rs per share
Valuation of food delivery business	DCF	898	98
Valuation of investments	Book value	15	2
Cash	Book value	100	11
Total equity value		1,014	111

Source: Company, Emkay Research

Zomato: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	41,924	70,794	1,08,519	1,46,993	1,88,196
Revenue growth (%)	110.3	68.9	53.3	35.5	28.0
EBITDA	(18,508)	(12,103)	1,128	13,291	21,977
EBITDA growth (%)	0.0	0.0	0.0	1,078.6	65.4
Depreciation & Amortization	1,503	4,369	4,952	5,133	5,286
EBIT	(20,011)	(16,472)	(3,824)	8,158	16,692
EBIT growth (%)	0.0	0.0	0.0	0.0	104.6
Other operating income	0	0	0	0	0
Other income	4,949	6,815	6,260	6,896	8,105
Financial expense	120	487	748	942	1,082
PBT	(15,182)	(10,144)	1,688	14,112	23,715
Extraordinary items	2,974	1	0	0	0
Taxes	20	(436)	169	3,528	5,929
Minority interest	138	(3)	0	0	0
Income from JV/Associates	3	(3)	0	0	0
Reported PAT	(12,087)	(9,713)	1,519	10,584	17,786
PAT growth (%)	0.0	0.0	0.0	596.9	68.1
Adjusted PAT	(15,061)	(9,714)	1,519	10,584	17,786
Diluted EPS (Rs)	(1.7)	(1.1)	0.2	1.2	1.9
Diluted EPS growth (%)	0.0	0.0	0.0	596.9	78.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	(44.1)	(17.1)	1.0	9.0	11.7
EBIT margin (%)	(47.7)	(23.3)	(3.5)	5.6	8.9
Effective tax rate (%)	(0.1)	4.3	10.0	25.0	25.0
NOPLAT (pre-IndAS)	(20,037)	(15,764)	(3,442)	6,119	12,519
Shares outstanding (mn)	7,871.9	8,553.5	8,604.4	8,604.4	8,604.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(15,182)	(10,144)	1,688	14,112	23,715
Others (non-cash items)	5,961	3,771	3,492	2,137	81
Taxes paid	(192)	(308)	(169)	(3,528)	(5,929)
Change in NWC	2,483	(1,759)	(43)	1,073	2,164
Operating cash flow	(6,930)	(8,440)	4,968	13,794	20,031
Capital expenditure	(572)	(1,014)	(738)	(862)	(862)
Acquisition of business	(209)	4,297	0	0	0
Interest & dividend income	1,126	0	5,860	6,496	7,705
Investing cash flow	(79,378)	4,573	5,121	1,634	(4,157)
Equity raised/(repaid)	90,000	40	0	0	0
Debt raised/(repaid)	(13)	(231)	(404)	0	0
Payment of lease liabilities	(298)	(1,055)	0	0	0
Interest paid	(7)	(93)	0	0	0
Dividend paid (incl tax)	0	0	0	0	0
Others	(2,184)	65	(4,400)	(3,500)	(2,500)
Financing cash flow	87,498	(1,274)	(4,804)	(3,500)	(2,500)
Net chg in Cash	1,190	(5,141)	5,286	11,928	13,374
OCF	(6,930)	(8,440)	4,968	13,794	20,031
Adj. OCF (w/o NWC chg.)	(4,447)	(10,199)	4,926	14,868	22,195
FCFF	(7,502)	(9,454)	4,230	12,932	19,169
FCFE	(6,496)	(9,941)	9,342	18,486	25,793
OCF/EBITDA (%)	37.4	69.7	440.5	103.8	91.1
FCFE/PAT (%)	53.7	102.3	615.1	174.7	145.0
FCFF/NOPLAT (%)	37.4	60.0	(122.9)	211.4	153.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	7,643	8,364	8,364	8,364	8,364
Reserves & Surplus	1,57,412	1,86,234	1,87,753	1,98,337	2,16,123
Net worth	1,65,055	1,94,598	1,96,117	2,06,701	2,24,487
Minority interests	(66)	(66)	(66)	(66)	(66)
Deferred tax liability (net)	0	0	0	0	0
Total debt	0	404	0	0	0
Total liabilities & equity	1,64,989	1,94,936	1,96,051	2,06,635	2,24,421
Net tangible fixed assets	509	2,085	2,327	2,530	2,647
Net intangible assets	799	9,905	7,436	5,269	3,225
Net ROU assets	642	4,272	5,761	6,353	6,756
Capital WIP	6	75	1	1	1
Goodwill	12,093	47,166	47,166	47,166	50,597
Investments [JV/Associates]	30,860	22,796	22,796	22,796	22,796
Cash & equivalents	1,17,510	95,018	1,00,304	1,16,232	1,40,606
Current assets (ex-cash)	10,851	34,670	30,124	32,956	35,183
Current Liab. & Prov.	8,281	21,051	19,862	26,668	33,959
NWC (ex-cash)	2,570	13,619	10,262	6,289	1,225
Total assets	1,64,989	1,94,936	1,96,051	2,06,635	2,24,421
Net debt	(1,17,510)	(94,614)	(1,00,304)	(1,16,232)	(1,40,606)
Capital employed	1,64,989	1,94,936	1,96,051	2,06,635	2,24,421
Invested capital	16,613	77,047	72,950	67,605	61,018
BVPS (Rs)	18.1	21.3	21.5	22.6	24.6
Net Debt/Equity (x)	(0.7)	(0.5)	(0.5)	(0.6)	(0.6)
Net Debt/EBITDA (x)	6.3	7.8	(88.9)	(8.7)	(6.4)
Interest coverage (x)	0.0	(0.1)	0.3	0.1	0.0
RoCE (%)	(12.2)	(5.4)	1.2	7.5	11.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(52.3)	(81.4)	520.4	74.7	44.4
P/CE(x)	0.0	0.0	122.1	50.3	34.3
P/B (x)	4.8	4.1	4.0	3.8	3.5
EV/Sales (x)	16.0	9.8	6.4	4.6	3.5
EV/EBITDA (x)	(36.2)	(57.5)	611.9	50.7	29.6
EV/EBIT(x)	0.0	0.0	0.0	77.0	36.2
EV/IC (x)	33.9	8.4	8.8	9.3	9.9
FCFF yield (%)	(1.3)	(1.5)	0.7	2.1	3.2
FCFE yield (%)	(1.0)	(1.3)	1.3	2.5	3.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	(35.9)	(13.7)	1.4	7.2	9.5
Total asset turnover (x)	0.3	0.4	0.6	0.7	0.9
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	(12.2)	(5.4)	0.8	5.3	8.2
DuPont-RoIC					
NOPLAT margin (%)	(47.8)	(22.3)	(3.2)	4.2	6.7
IC turnover (x)	2.8	1.5	1.4	2.1	2.9
RoIC (%)	(131.5)	(33.7)	(4.6)	8.7	19.5
Operating metrics					
Core NWC days	22.4	70.2	34.5	15.6	2.4
Total NWC days	22.4	70.2	34.5	15.6	2.4
Fixed asset turnover	2.1	1.5	1.4	1.9	2.3
Opex-to-revenue (%)	131.6	97.4	74.8	64.5	60.2

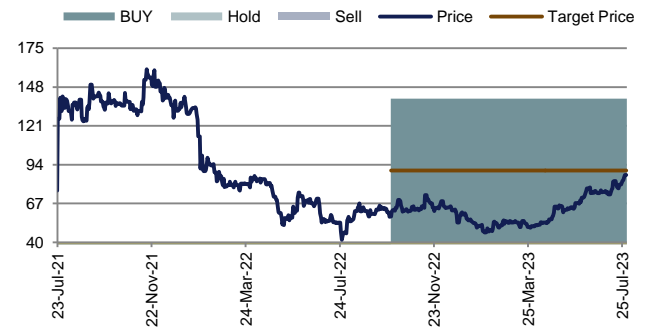
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
02-Jul-23	75	90	Buy	Dipeshkumar Mehta
20-May-23	65	90	Buy	Dipeshkumar Mehta
01-Apr-23	51	90	Buy	Dipeshkumar Mehta
10-Feb-23	53	90	Buy	Dipeshkumar Mehta
02-Jan-23	60	90	Buy	Dipeshkumar Mehta
11-Nov-22	73	90	Buy	Dipeshkumar Mehta
04-Oct-22	64	90	Buy	Dipeshkumar Mehta
28-Sep-22	58	90	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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