

04 August 2023

India | Equity Research | Q1FY24 Result Update

Zomato

Internet

Beats estimates on all parameters; upbeat commentary; earnings-led upgrades likely

Zomato achieved adjusted EBITDA (consol.) break-even in Q1FY24 (2-3 quarters ahead of guidance). Adjusted EBITDA margin (consol.) improved 760bps QoQ vs our estimate of 320bps improvement. This was driven by 11% QoQ GOV growth in food delivery and superior cost control led by organisation restructuring. In addition, management commentary with regards to growth outlook improved materially over Q4FY23. Management has guided for adjusted revenue growth of >40%+ over FY24-25 and cost increase in-line with inflation which implies material sequential margin improvement hereafter. We therefore upgrade our DCF-based target price to INR 120 from INR 85 earlier. Reiterate **BUY**.

We have upgraded our revenue and adjusted EBITDA for FY24E/FY25E by 11.7%/12.9% and 3526%/80% respectively. We now think Blinkit standalone could turn profitable on an adjusted EBITDA basis as early as Q4FY24E and on a full-year basis by FY25E.

Food delivery - Growth returns after 3 subdued quarters

In Q1FY24, food delivery GOV increased 11% QoQ to INR 73.2bn led by 5.4% QoQ MTU growth. We estimate AOV grew 0.7% QoQ and ordering frequency improved 4.9% QoQ. This was driven by favourable seasonality and strong performance of Zomato Gold, which contributed >30% of food delivery GOV. Food delivery contribution margin (as a % of GOV) increased to 6.4% in Q1FY24 (up 60bps QoQ). We estimate, this was led by 80bps QoQ improvement in gross take rate as restaurant partners invested in ad spends to grow in a subdued demand environment. Adjusted revenue (food delivery) was INR 17.4bn (I-Sec: INR 16.7bn), growing ~14% QoQ and 18.5% YoY. Adjusted EBITDA (as a percentage of GOV) was 2.5% (up 130bps QoQ). Management guided for food delivery adjusted EBITDA (as a percentage of GOV) to improve to 4-5% in the medium term.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	41,924	70,794	1,13,801	1,50,187
Adjusted EBITDA	(9,729)	(7,023)	6,491	18,772
Adjusted EBITDA Margin (%)	(23.2)	(9.9)	5.7	12.5
Net Profit	(12,087)	(9,713)	1,868	9,347
EV/EBITDA (x)	(61.0)	(91.7)	96.7	32.3
RoCE (%)	(16.2)	(9.0)	(1.2)	3.1
RoE (%)	(9.8)	(5.4)	0.9	4.5

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Market Data

Market Cap (INR)	743bn
Market Cap (USD)	8,976mn
Bloomberg Code	ZOMATO IN
Reuters Code	ZOMT BO
52-week Range (INR)	88 /44
Free Float (%)	50.0
ADTV-3M (mn) (USD)	66.1

Price Performance (%)	3m	6m	12m
Absolute	36.2	77.5	56.1
Relative to Sensex	7.4	8.2	13.2

ESG Disclosure	2021	2022	Change
ESG score	-	40.0	-
Environment	-	22.0	-
Social	-	21.8	-
Governance	-	76.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	11.7	12.9
Adj. EBITDA	3526	79
EPS	NA	164

Previous Reports

22-05-2023: [Q4FY23 results review](#)

17-04-2023: [Company Update](#)

Other businesses

Blinkit: Increase in AOV (11% QoQ) makes up for the decline in number of orders (-6.1% QoQ)

Blinkit GOV grew 4.6% QoQ. Losses reduced by INR 700mn. Quick commerce adjusted revenue was INR 3.8bn (I-Sec: INR 4.1bn). The decline in the number of orders was due to temporary business disruption in Apr-May'23 as delivery partner pay structure was revised along with hyperlocal challenges pertaining to heavy rainfall. Management stated that operations were back on track from early Jun'23. Contribution margin (as a % of GOV) improved by 210 bps QoQ in Q1FY24. Management guided for net store addition of 100 stores in FY24. Most of these store additions are expected to increase polygon density in existing geographies. We estimate Blinkit to turn profitable (adjusted EBITDA) on a full-year basis by FY25E.

Hyperpure: Focusing on profitable restaurants

Hyperpure grew 29% QoQ and 129% YoY in Q1FY24 to INR 6.2bn (I-Sec: INR 5.4bn). Increase in minimum order value led to unprofitable restaurants churning out and the average order value increasing. This resulted in profitable revenue growth. This is in line with our thesis around strong growth in B2B e-commerce over the next 2-3 years ([link](#)). Adjusted EBITDA loss for Hyperpure segment was INR 350mn in Q1FY24 (improvement of INR 100mn QoQ) with EBITDA margin of -5.7% (vs -9.4% in Q4FY23). We estimate Hyperpure to turn profitable (adjusted EBITDA) on a full-year basis by FY26E.

Valuation

We maintain **BUY** rating on Zomato and increase our DCF-based target price to INR 120 from INR 85 led by earnings upgrades, given improved visibility of profitability and sustained improvement in the underlying operating metrics. Key risks: Slowdown in discretionary spending, negative externalities disrupting business operations.

Exhibit 1: Q1FY24 result review

(INR mn)	Q1FY24	Q4FY23	Q1FY23	QoQ(%)	YoY(%)	vs I-Sec	Var(%)
Net Sales	24160	20560	14139	17.5	70.9	22894	5.5
Adjusted EBITDA	120	-1750	-5358	na	na	-1042	na
Adjusted EBITDA%	0.4%	-7.2%	-8.0%	760 bps	840 bps	-3.9%	430 bps
GOV (INR bn)	73.18	65.69	64.3	11.4	13.8	70.2	4.3
Contribution as % of GOV	6.4%	5.8%	2.8%	60 bps	360 bps	6.3%	10 bps
Adjusted EBITDA as a % of GOV	2.5%	1.2%	0.0%	130 bps	250 bps	1.8%	70 bps

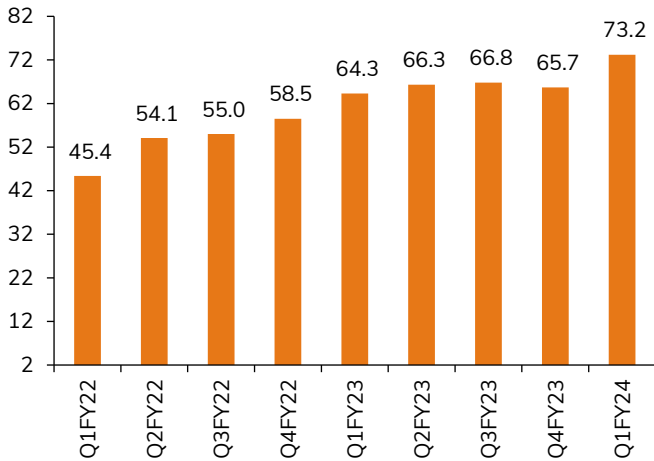
Source: I-Sec research, Company data

Exhibit 2: Earnings revision

(In INR mn)	FY24E			FY25E		
	Old	New	Difference	Old	New	Difference
Revenue	1,01,923	1,13,801	11.7%	1,33,079	1,50,187	13%
Adjusted EBITDA	179	6,491	3526%	10,455	18,772	80%
Net Income	-3,790	1,868	NA	3,540	9,347	164%

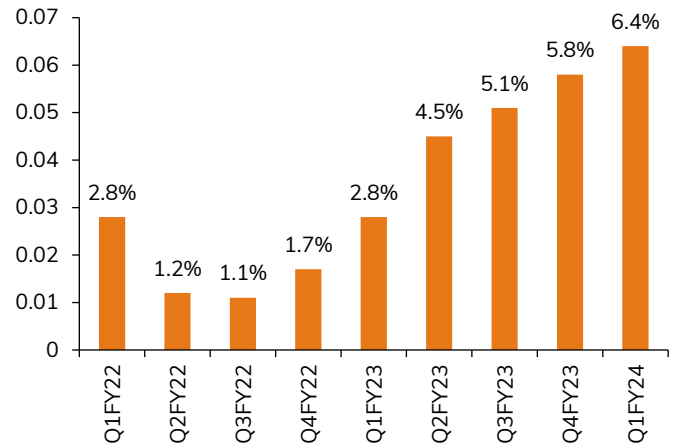
Source: I-Sec research, Company data

Exhibit 3: GOV (INR bn)



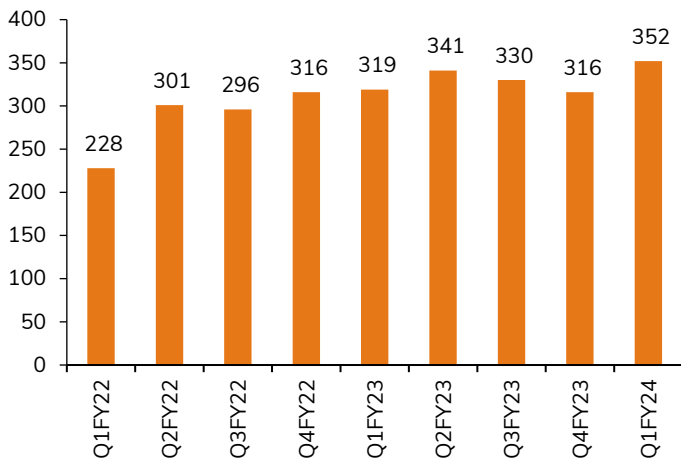
Source: I-Sec research, Company data

Exhibit 4: Contribution margin as a % of GOV



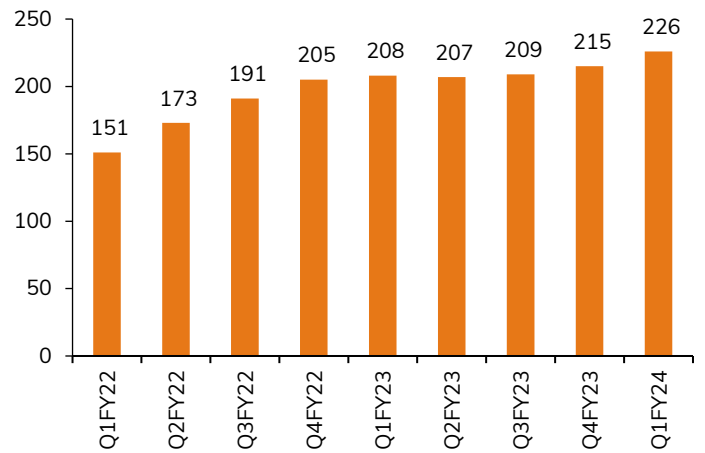
Source: I-Sec research, Company data

Exhibit 5: Avg. monthly active delivery partners (k)



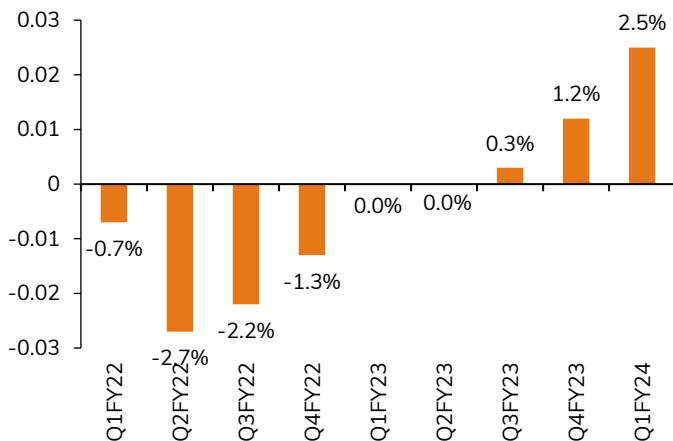
Source: I-Sec research, Company data

Exhibit 6: Avg. monthly delivery restaurant partners (k)



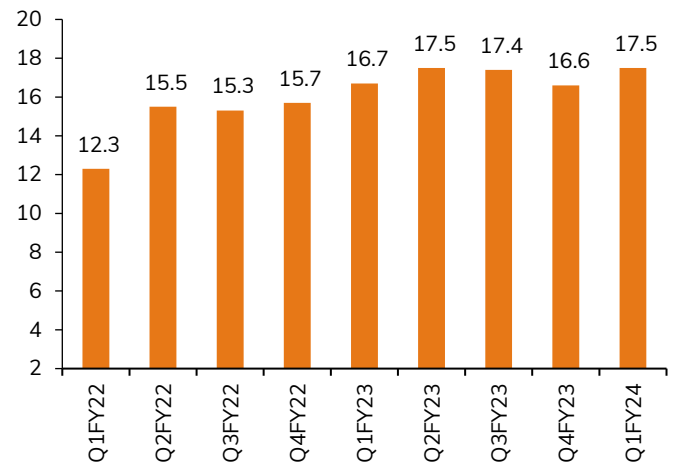
Source: I-Sec research, Company data

Exhibit 7: Adjusted EBITDA as a % of GOV



Source: I-Sec research, Company data

Exhibit 8: Avg. monthly transacting customers (mn)



Source: I-Sec research, Company data

Exhibit 9: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	0.0	0.0	0.0
Institutional investors	63.5	62.7	64.4
MFs and others	5.6	6.4	8.3
FIs/Banks	0.1	0.1	0.1
Insurance	1.1	0.8	0.8
FIIIs	31.7	31.6	34.1
FDI	25.0	23.0	21.1
Others	36.5	37.3	35.6

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	41,924	70,794	1,13,801	1,50,187
Operating Expenses	55,186	68,945	88,990	1,04,937
EBITDA	(9,729)	(7,023)	6,491	18,772
EBITDA Margin (%)	(23.2)	(9.9)	5.7	12.5
Depreciation & Amortization	1,503	4,369	5,690	6,758
EBIT	(20,011)	(16,472)	(2,523)	8,690
Interest expenditure	120	487	569	751
Other Non-operating Income	4,949	6,812	4,960	4,523
Recurring PBT	(15,182)	(10,147)	1,868	12,462
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	20	(436)	-	3,116
PAT	(15,202)	(9,711)	1,868	9,347
Less: Minority Interest	141	(3)	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(12,228)	(9,710)	1,868	9,347
Net Income (Adjusted)	(12,087)	(9,713)	1,868	9,347

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	18,312	18,452	33,406	54,868
of which cash & cash eqv.	15,755	10,168	24,053	42,524
Total Current Liabilities & Provisions	6,922	12,910	21,491	27,373
Net Current Assets	11,390	5,542	11,915	27,496
Investments	16,764	46,952	49,555	52,297
Net Fixed Assets	-	-	-	-
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	1,38,194	1,50,583	1,46,486	1,41,830
Deferred Tax assests	-	-	-	-
Total Assets	1,66,348	2,03,077	2,07,956	2,21,623
Liabilities				
Borrowings	-	404	404	404
Deferred Tax Liability				
provisions	653	936	1,559	2,057
other Liabilities	3	2,543	1,607	2,105
Equity Share Capital	1,65,055	1,94,598	1,96,466	2,05,812
Reserves & Surplus	-	-	-	-
Total Net Worth	1,65,055	1,94,598	1,96,466	2,05,812
Minority Interest	(66)	(66)	3,258	6,582
Total Liabilities	1,66,348	2,03,077	2,07,956	2,21,623

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	16,613	19,482	20,560	24,160
% growth (YOY)	62.2	75.2	69.7	70.9
EBITDA	(3,114)	(3,662)	(2,254)	(480)
Margin %	(18.7)	(18.8)	(11.0)	(2.0)
Other Income	1,695	1,734	1,705	1,810
Net Profit	(2,508)	(3,466)	(2,044)	20

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	(6,930)	(8,440)	11,087	16,802
Working Capital Changes	2,483	(1,760)	4,596	1,145
Capital Commitments	(572)	(1,014)	(1,593)	(2,103)
Free Cashflow	(7,502)	(9,454)	9,494	14,699
Other investing cashflow	(78,806)	6,694	4,960	4,523
Cashflow from Investing Activities	(79,378)	5,680	3,367	2,421
Issue of Share Capital	90,000	40	0	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(2,502)	(1,314)	(569)	(751)
Cash flow from Financing Activities	87,498	(1,274)	(569)	(751)
Chg. in Cash & Bank balance	1,190	(4,034)	13,885	18,472
Closing cash & balance	3,923	3,288	16,066	34,538

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	(1.7)	(1.2)	0.2	1.2
Adjusted EPS (Diluted)	(0.6)	(0.8)	4.3	0.9
Cash EPS	(1.5)	(0.7)	0.9	2.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	22.8	24.0	24.3	25.4
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	110.3	68.9	60.7	32.0
EBITDA	199.3	(27.8)	(192.4)	189.2
EPS (INR)	-	-	-	400.4
Valuation Ratios (x)				
P/E	(51.8)	(72.1)	375.1	75.0
P/CEPS	(59.2)	(131.1)	92.7	43.5
P/BV	3.8	3.6	3.6	3.4
EV / EBITDA	(61.0)	(91.7)	96.7	32.3
P / Sales	14.9	9.9	6.2	4.7
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	87.5	80.3	81.0	80.2
EBITDA Margins (%)	(23.2)	(9.9)	5.7	12.5
Effective Tax Rate (%)	(0.1)	4.3	-	25.0
Net Profit Margins (%)	(36.3)	(13.7)	1.6	6.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	1.0	1.0	1.0	1.0
Net Debt / EBITDA (x)	3.3	8.1	(11.3)	(5.0)
Profitability Ratios				
RoCE (%)	(16.2)	(9.0)	(1.2)	3.1
RoE (%)	(9.8)	(5.4)	0.9	4.5
RoIC (%)	(12.3)	(5.1)	1.2	4.8
Fixed Asset Turnover (x)	0.5	1.1	0.6	0.4
Inventory Turnover Days	3	4	11	15
Receivables Days	14	24	20	20
Payables Days	37	35	38	38

Source Company data, I-Sec research

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