Zomato

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	ZOMATO IN
Equity Shares (m)	8631
M.Cap.(INRb)/(USDb)	739.7 / 8.9
52-Week Range (INR)	88 / 44
1, 6, 12 Rel. Per (%)	14/68/44
12M Avg Val (INR M)	5754

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
GOV	263.5	317.1	397.6
Net Sales	70.8	109.9	157.7
Change (%)	68.9	55.2	43.5
EBITA	-12.1	0.0	7.5
EBITA margin (%)	-17.1	0.0	4.8
Adj. PAT	-9.7	1.3	8.3
PAT margin (%)	-13.7	1.2	5.3
RoE (%)	-5.40	0.65	4.15
RoCE (%)	-8.57	-3.47	0.66
EPS	-1.19	0.15	0.97

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	0.0	0.0	0.0
DII	31.0	31.0	2.8
FII	35.4	33.8	12.7
Others	33.6	35.2	84.6

FII Includes depository receipts

CMP: INR86 TP: INR110 (+28%) Buy

Benefit of industry consolidation playing out

Revenue guidance suggests good visibility; reiterate BUY

- Zomato delivered an excellent 1QFY24 performance, as it turned profitable and reported strong revenues of INR24.1b (up 17.5% QoQ), much ahead of our estimates of 9.9% QoQ growth and a PAT loss. Revenue growth was led by the food delivery business (up 17% QoQ). While Blinkit was muted (+5% QoQ) due to disruptions in April-May, it should reverse in 2Q (20% QoQ growth guidance). The management has guided for strong 40%/60%+ growth for Zomato (consol)/Blinkit over the next few years, which surprised us on the upside.
- Zomato's 1QFY24 Adj. EBITDA margin at 2.2% was significantly ahead of our estimate (-3.1%) on account of a higher take rate and lower operating costs. This helped the company brake-even on PAT (INR20m), ahead of its 4QFY24 guidance. The management expects the company to sustain profitability as it moves toward food delivery adj EBITDA margin of 4-5% of GOV eventually, along with accelerated break-even in Blinkit over the next four quarters.
- We see the strong all-round performance from Zomato as an indicator of an accommodative competitive environment in both food delivery and quick commerce verticals. Moreover, the sharp 80bp QoQ increase in take rate in food delivery highlights its success in cross-selling ads to restaurants, which is a more sustainable revenue stream rather than depending on increase in take rate. We expect Zomato to deliver 25%/107% revenue CAGR in food delivery/quick commerce verticals over FY23-25, helping it grow its consol adj revenue by 43% over the same period.
- Strong revenue growth should drive significant margin leverage, given the fact that competitive pressure in quick commerce has eased considerably over the last few months due to a funding crunch for smaller peers. We now estimate Zomato to turn positive on reported EBITDA by 4QFY24 and deliver c5% EBITDA margin in FY25 (vs. our earlier estimate of break-even in FY25). As a result, Zomato should report PAT of INR1.3/INR8.3b in FY24/FY25.
- 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 INR110 suggests a 27% upside from the current price. We **reiterate our BUY** rating on the stock.

Strong revenue beat and guidance; achieves breakeven ahead of guidance

- Zomato reported 1QFY24 net revenue of INR24.1b (+17.5% QoQ), a strong beat to our estimate of INR22.6b (+9.9% QoQ). Excluding Blinkit, net revenue grew 20% QoQ /44% YoY.
- Zomato turned positive on PAT level ahead of its guidance of 4QFY24. EBITDA loss narrowed sharply to INR480m (-2% EBITDA margin vs. -11% in 4Q), ahead of our estimate of EBITDA loss of INR1.8b, aided by operating leverage.

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- Food delivery revenue (excluding delivery charges) grew 17% QoQ/28% YoY, much ahead of estimate of 6.9% QoQ growth on strong demand recovery, seasonality and Gold contribution.
- Hyperpure revenue grew 29% QoQ to INR6.2b (25.5% of revenue) despite lower restaurant count due to the introduction of minimum order value requirements.
- Blinkit 1Q GOV was up only 5% QoQ due to the impact of store closure, strikes and weather impact. The company has guided for 20% QoQ GOV growth in 2Q.
- PAT came in at INR20m (est. INR1.6b loss) vs. INR1.9bn in 4QFY23. Net cash stood at INR116b (flat QoQ).

Key highlights from the management commentary

- The management is confident of achieving 40%+ organic growth over the next couple of years, assuming that the demand slowdown is over now for the company. Most of this growth will be driven by an uptick in the number of users.
- The management is confident of achieving 4-5% EBITDA margin (% of GOV) over the next few quarters in the food delivery business.
- For Blinkit, margin levers for break-even over the next four quarters include wallet share gains and strong operating leverage.

Valuation and view

- The food delivery business is still in a nascent stage in India with a long runway for growth. With a dominant market share and strong growth in the food delivery business and Hyperpure, we expect Zomato to report a strong 43% adj. revenue CAGR over FY23-25.
- We now estimate Zomato to turn positive on reported EBITDA by 4QFY24, and deliver c5% EBITDA margin in FY25, which should further drive profitability.
- We value the business using a DCF methodology, assuming 4% terminal growth rate and 12.5% cost of capital. **We maintain our BUY rating with a TP of INR110**, implying 27% potential upside.

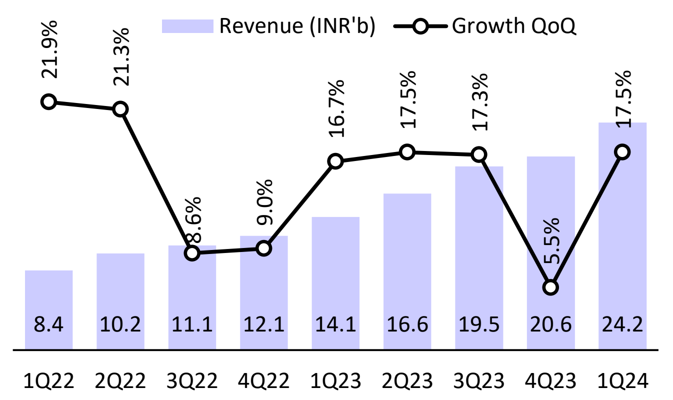
Consolidated quarterly performance (INR m)

Y/E march	FY23				FY24				FY23	FY24E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue (net of delivery)	**14,139**	**16,613**	**19,482**	**20,560**	**24,160**	**25,966**	**29,208**	**30,566**	**70,794**	**1,09,900**	**22,587**	**7.0**
YoY Change (%)	67.4	62.2	75.2	69.7	70.9	56.3	49.9	48.7	68.9	55.2	59.8	1110bp
Inventory of traded goods	2,538	3,123	3,900	4,391	5,620	6,102	6,718	7,041	13,952	25,481	4,743	
Employee Expenses	3,489	3,813	3,950	3,398	3,380	3,895	4,206	4,275	14,650	15,756	3,840	
Delivery expenses	5,724	5,903	6,549	7,193	8,100	8,783	9,654	9,612	25,369	36,149	7,820	
Gross Profit	**2,388**	**3,774**	**5,083**	**5,578**	**7,060**	**7,186**	**8,630**	**9,638**	**16,823**	**32,514**	**6,184**	**14.2**
Margins (%)	16.9	22.7	26.1	27.1	29.2	27.7	29.5	31.5	23.8	29.6	27	180bp
Advertisement and sales promotion	2,776	2,997	3,479	3,022	3,140	3,116	3,797	3,684	12,274	13,737	3,275	
Others	2,685	3,891	5,266	4,810	4,400	4,414	4,907	5,072	16,652	18,793	4,743	-7.2
EBITDA	**-3,073**	**-3,114**	**-3,662**	**-2,254**	**-480**	**-344**	**-74**	**881**	**-12,103**	**-17**	**-1,835**	**NA**
Margins (%)	-21.7	-18.7	-18.8	-11.0	-2.0	-1.3	-0.3	2.9	-17.1	0.0	-8.1	610bp
Depreciation	416	1,067	1,548	1,338	1,300	1,324	1,314	1,337	4,369	5,275	1,355	
Interest	49	119	161	158	180	180	180	180	487	720	158	
Other Income	1,678	1,695	1,734	1,705	1,810	1,720	1,720	1,720	6,812	6,969	1,705	
PBT before EO expense	**-1,860**	**-2,605**	**-3,637**	**-2,045**	**-150**	**-129**	**152**	**1,084**	**-10,147**	**957**	**-1,643**	**NA**
Extra-Ord expense	0	0	0	1	0	0	0	0	1	0	0	
PBT	**-1,860**	**-2,605**	**-3,637**	**-2,044**	**-150**	**-129**	**152**	**1,084**	**-10,146**	**957**	**-1,643**	**NA**
Tax	0	-97	-171	-168	-170	-142	0	0	-436	-312	0	
Rate (%)	0.0	3.7	4.7	8.2	113.3	110.0	NA	0.0	4.3	NA	0.0	
MI & Profit/Loss of Asso. Cos.	-3	0	0	6	0	0	0	0	3	0	6	
Reported PAT	**-1,857**	**-2,508**	**-3,466**	**-1,882**	**20**	**13**	**152**	**1,084**	**-9,713**	**1,269**	**-1,649**	**NA**
Adj PAT	**-1,857**	**-2,508**	**-3,466**	**-1,883**	**20**	**13**	**152**	**1,084**	**-9,714**	**1,269**	**-1,649**	**NA**
YoY Change (%)	-45.4	-42.3	-8.5	-46.5	-101.1	-100.5	-104.4	-157.6	-35.5	-113.1	-11.2	NA
Margins (%)	-13.1	-15.1	-17.8	-9.2	0.1	0.0	0.5	3.5	-13.7	1.2	-7.3	NA

Story in charts

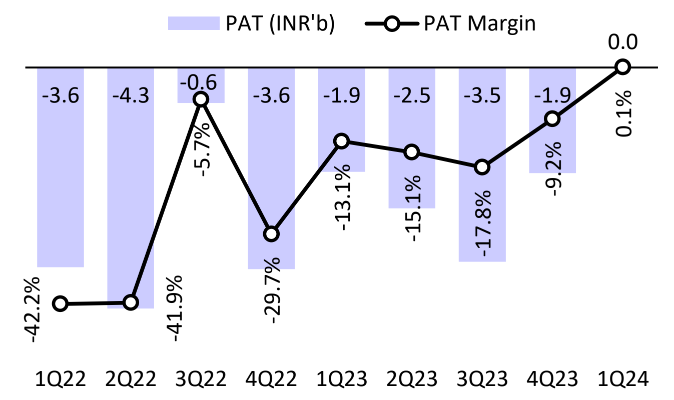
Overall Business

Exhibit 1: Zomato saw strong sequential growth…



Source: MOFSL, Company

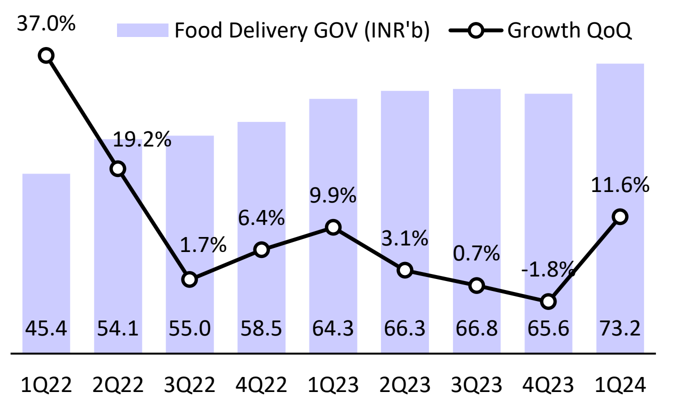
Exhibit 2: …and turned profitable



Source: MOFSL, Company

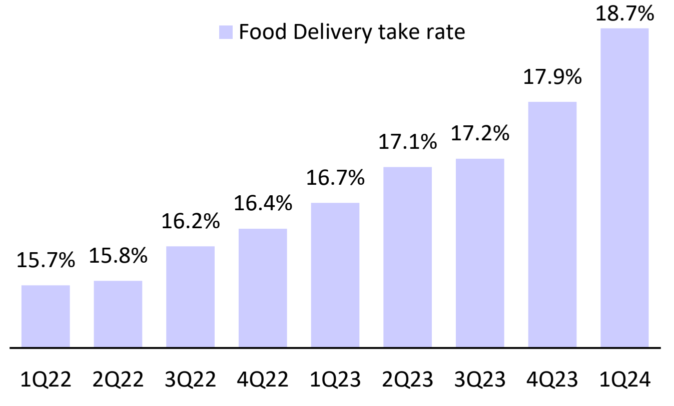
Food Delivery

Exhibit 3: GOV saw strong jump and…



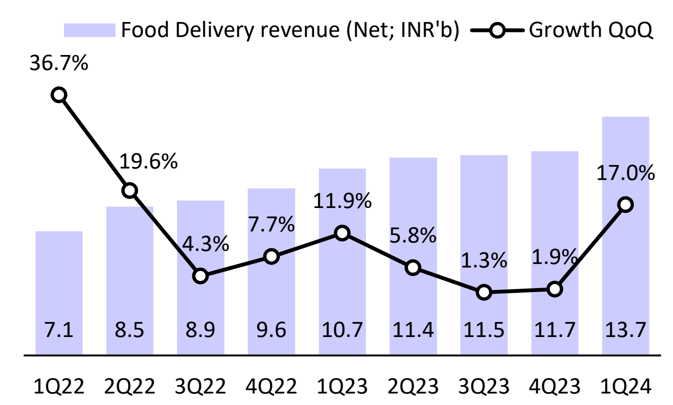
Source: MOFSL, Company

Exhibit 4: …take rate improved 80bp QoQ…



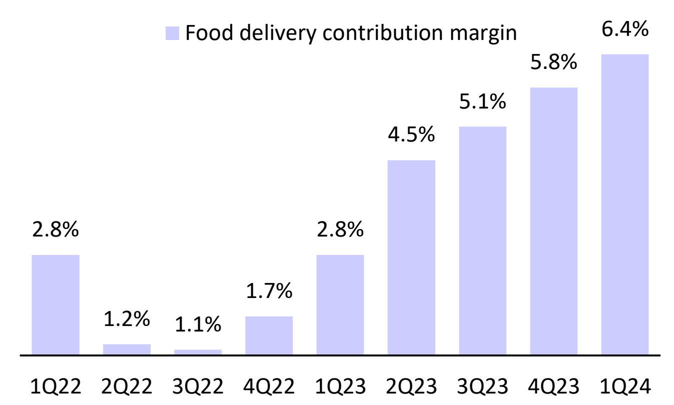
Source: MOFSL, Company

Exhibit 5: …leading to 17% sequential growth



Source: MOFSL, Company

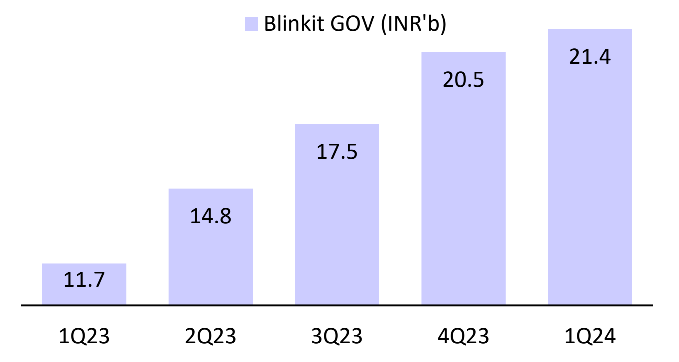
Exhibit 6: Contribution margin improved 60bp sequentially



Source: MOFSL, Company

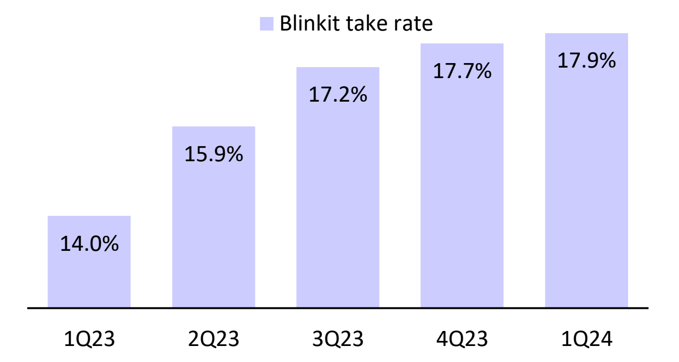
Blinkit

Exhibit 7: GOV saw weak sequential growth at 5%…



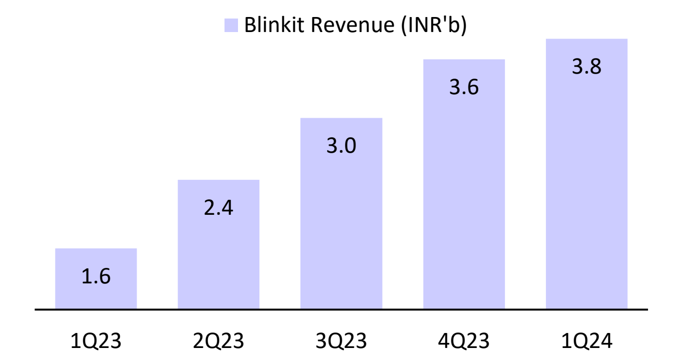
Source: MOFSL, Company

Exhibit 8: …while take rate improved 20bp sequentially…



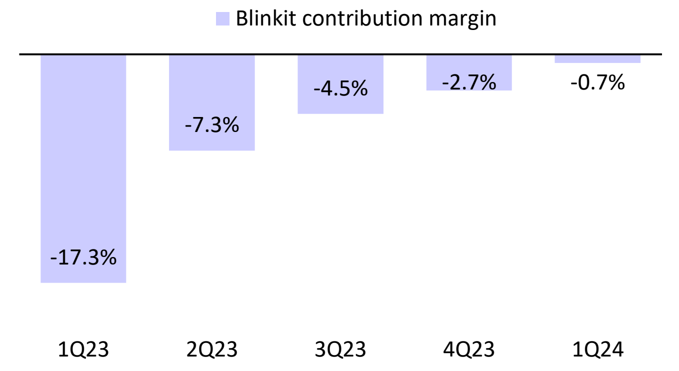
Source: MOFSL, Company

Exhibit 9: …leading to 6% sequential revenue growth



Source: MOFSL, Company

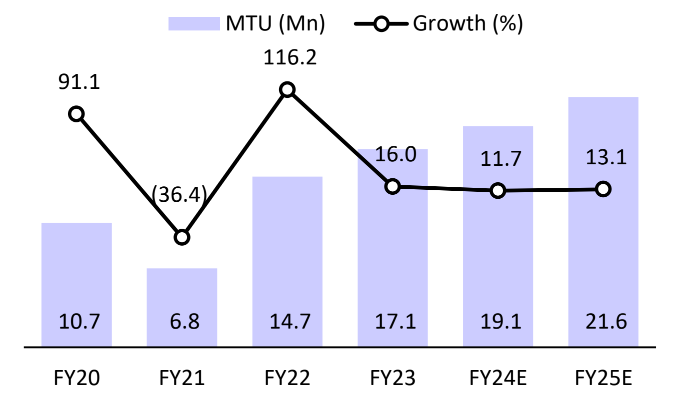
Exhibit 10: Contribution margin improved 200bp QoQ



Source: MOFSL, Company

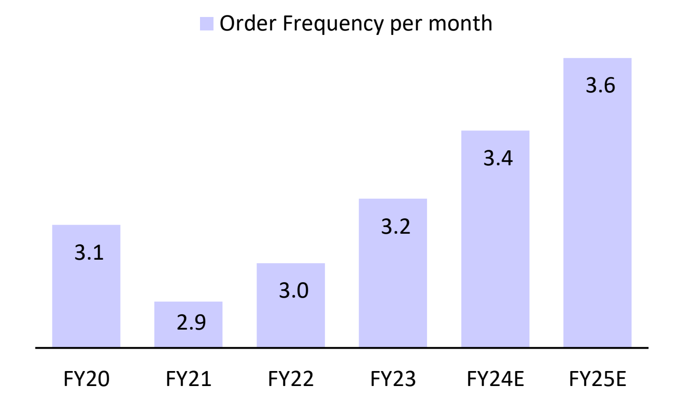
What do we expect - our estimates

Exhibit 11: Expect good growth in MTU…



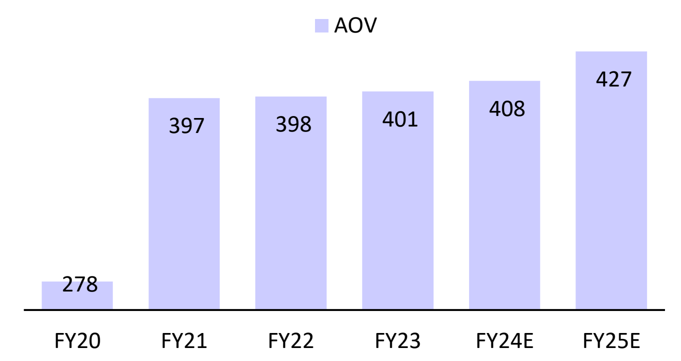
Source: MOFSL, Company

Exhibit 12: …and order frequency



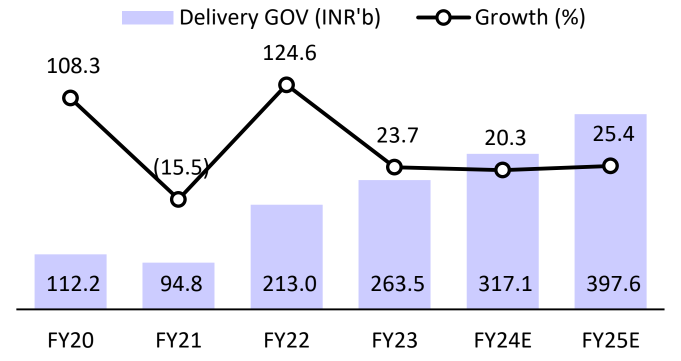
Source: MOFSL, Company

Exhibit 13: AOV to remain flat



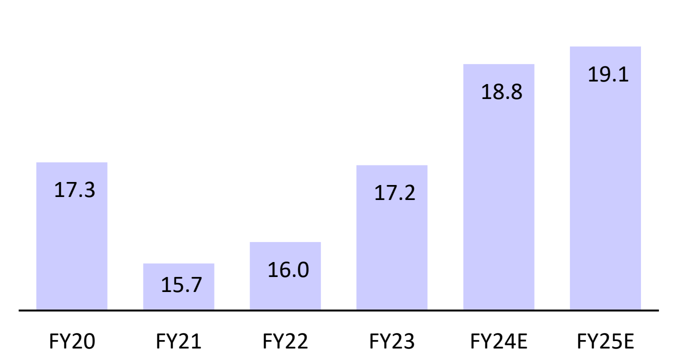
Source: MOFSL, Company

Exhibit 14: Strong GOV growth…



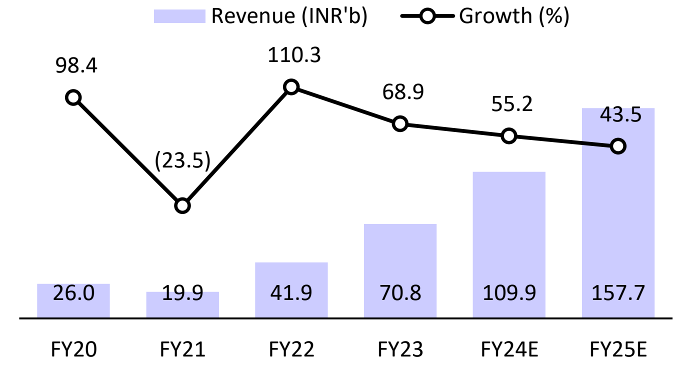
Source: MOFSL, Company

Exhibit 15: …and increase in take rate…



Source: MOFSL, Company

Exhibit 16: …to drive 49% revenue CAGR over FY23-25



Source: MOFSL, Company

CONFERENCE CALL

Key highlights from the management commentary

Demand and growth outlook

- In general, any increase in viewership of any event has positive impact on revenue, but given the scale of the business, the contribution from IPL did not materially drive revenue. The seasonality is largely due to school holidays and weather.
- The management is confident of achieving 40%+ organic growth over the next couple of years, assuming that the demand slowdown is over for the company. Most of this growth will be driven by an uptick in the number of users.
- Hyperpure saw strong growth despite churning of small players due to an increase in the minimum order value requirement on the platform. It is seeing healthy growth, both on restaurant and seller side. Churning of smaller players helped to improve profitability of the business.
- The management is still exploring synergies between delivery fleet of food delivery and quick commerce, where the overlap is high between the two.
- Though food inflation remains high, smaller players are increasing ad spends on the platform to support growth, which also aided AOV for 1QFY24.
- 30% of AOV was driven by Zomato Gold. Gold users have slightly higher AOV and very high order frequency.
- The company wants to maintain healthy cash levels and there are no current plans for any shareholder return.

Margins

- The management is confident of achieving 4-5% EBITDA margin (% of GOV) over the next few quarters in the food delivery business.
- The decrease in employee expenses was on account of right sizing done in Dec'22. 1QFY24 saw full quarter benefit from the same, as 4QFY23 had some severance payments. The wage hikes will happen in Jul'23 so its impact will reflect in 2QFY24.

Blinkit

- The movement in AOV is seasonal in nature and fluctuates depending on the business mix as it provides a wide range of products. Higher ad sales during the quarter also helped to inch up AOV. 25% of AOV increase was on account of supply constraints faced by Blinkit during the quarter.
- Due to the disruptions in Delhi, few stores were shut for two days and saw low delivery partner traffic, which impacted operations in April-May.
- Starting Apr'23, Blinkit evened out compensation to delivery partners. This did not have much impact on the delivery cost. The delivery cost is expected to remain in similar lines going forward.
- Blinkit continues to widen its product offering, which should boost revenue and margins.
- Along with store additions in new areas, the management is also adding stores in locality where there is very high volume.
- Margin levers for break-even over the next four quarters include wallet share gains and strong operating leverage.

Valuation and view

- The food delivery business is still in a nascent stage in India with a long runway for growth. With a dominant market share and strong growth in the food delivery business and Hyperpure, we expect Zomato to report a strong 43% adj. revenue CAGR over FY23-25.
- We now estimate Zomato to turn positive on reported EBITDA by 4QFY24, and deliver c5% EBITDA margin in FY25, which should further drive profitability.
- We value the business using a DCF methodology, assuming 4% terminal growth rate and 12.5% cost of capital. **We maintain our BUY rating with a TP of INR110**, implying 27% potential upside.

Exhibit 17: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	1,09,900	1,57,736	1,00,344	1,30,198	9.5%	21.2%
EBITDA (INR m)	-17	7,514	-4,416	-361	NA	NA
EBITDA Margin	0.0	4.8	-4.4	-0.3	439bp	504bp
PAT	1,269	8,307	-2,728	2,561	NA	NA
PAT Margin	1.2	5.3	-2.7	2.0	387bp	330bp
EPS	0.15	0.97	-0.32	0.30	NA	NA

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%
Terminal Growth	3.0%	129	120	112	105	99	93	88
	3.5%	133	123	115	107	101	95	89
	4.0%	137	127	118	**110**	103	96	91
	4.5%	142	131	121	112	105	98	92
	5.0%	148	135	124	115	107	100	94
	5.5%	154	140	129	119	110	103	96

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	19.1	21.6
Order Frequency	3.1	2.9	3.0	3.2	3.4	3.6
Orders/ Month	33.6	19.9	44.6	54.8	64.8	77.6
Orders/ Year	403	239	535	657	777	931
AOV (INR)	278	397	398	401	408	427
Delivery GOV	**1,12,209**	**94,829**	**2,13,000**	**2,63,542**	**3,17,123**	**3,97,595**
Take Rate (%)	17.3	15.7	16.0	17.2	18.8	19.1
Delivery revenue	**19,389**	**14,907**	**34,186**	**45,421**	**59,578**	**75,782**
Blinkit - revenue	0	0	0	8,058	19,506	34,499
Hyperpure - revenue	1,076	2,002	5,350	15,034	27,399	43,702
Others	5,582	3,029	2,388	2,281	3,417	3,753
Revenue	**26,047**	**19,938**	**41,924**	**70,794**	**1,09,900**	**1,57,736**

Income statement						(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E
Sales	**26,047**	**19,938**	**41,924**	**70,794**	**1,09,900**	**1,57,736**
Change (%)	98.4	-23.5	110.3	68.9	55.2	43.5
Inventory of traded goods	1,089	1,919	5,246	13,952	25,481	40,206
Employee Expenses	7,989	7,408	16,331	14,650	15,756	19,055
Other direct expenses	-27,033	-8,333	-14,125	2,173	16,758	31,047
Gross Profit	**-19,044**	**-925**	**2,206**	**16,823**	**32,514**	**50,102**
% of Net Sales	-73.1	-4.6	5.3	23.8	29.6	31.8
Other Expenses	4,003	3,746	20,714	28,926	32,530	42,589
EBITDA	**-23,047**	**-4,672**	**-18,508**	**-12,103**	**-17**	**7,514**
% of Net Sales	-88.5	-23.4	-44.1	-17.1	0.0	4.8
Depreciation	842	1,377	1,503	4,369	5,275	6,152
EBIT	**-23,889**	**-6,049**	**-20,011**	**-16,472**	**-5,292**	**1,362**
% of Net Sales	-91.7	-30.3	-47.7	-23.3	-4.8	0.9
Other Income (net)	1,254	1,146	4,832	6,325	6,249	6,945
PBT	**-22,636**	**-4,904**	**-15,179**	**-10,147**	**957**	**8,307**
Tax	0	13	20	-436	-312	0
Rate (%)	0.0	-0.3	-0.1	4.3	-32.6	0.0
PAT	**-22,636**	**-4,917**	**-15,199**	**-9,711**	**1,269**	**8,307**
Extraordinary gains/loss	-1,220	-3,248	2,974	1	0	0
Adjusted PAT	**-23,856**	**-8,164**	**-12,225**	**-9,710**	**1,269**	**8,307**
Minority Interest	-184	-36	-138	-96	0	0
Reported PAT	**-23,672**	**-8,128**	**-12,087**	**-9,614**	**1,269**	**8,307**

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	1,87,503	1,95,810
Net Worth	**7,098**	**80,987**	**1,65,055**	**1,94,598**	**1,95,867**	**2,04,174**
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**	**1,95,859**	**2,04,166**
Net Block	**1,034**	**838**	**1,157**	**6,432**	**6,613**	**6,268**
Intangibles	14,881	14,553	12,892	57,071	53,115	49,808
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**	**1,21,968**	**1,40,838**
Debtors	1,231	1,299	1,599	4,569	7,394	11,044
Cash & Bank Balance	1,672	3,065	3,923	2,181	13,852	26,788
Investments	5,166	28,024	28,149	52,837	50,837	51,837
Other Current Assets	4,564	9,118	41,779	48,723	49,885	51,169
Current Liab. & Prov	**21,956**	**6,105**	**8,281**	**21,397**	**27,511**	**33,422**
Net Current Assets	**-9,323**	**35,400**	**67,169**	**86,913**	**94,457**	**1,07,416**
Application of Funds	**7,047**	**80,930**	**1,64,989**	**1,94,590**	**1,95,859**	**2,04,167**

Financials and valuations

Ratios						
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Basic (INR)						
EPS	**-5.4**	**-1.5**	**-1.7**	**-1.2**	**0.1**	**1.0**
Cash EPS	-5.2	-1.3	-1.5	-0.7	0.8	1.7
Book Value	1.6	15.0	22.6	24.1	22.8	23.8
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	14.4	23.1	14.9	9.8	6.6	4.5
Price/Book Value	52.9	5.7	3.8	3.6	3.8	3.6
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)	0.6	4.2
RoCE	(97.8)	(11.7)	(16.2)	(8.6)	(3.5)	0.7
Turnover Ratios						
Debtors (Days)	17	24	14	24	25	26
Fixed Asset Turnover (x)	25.2	23.8	36.2	11.0	16.6	25.2

Cash Flow Statement						(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
CF from Operations	-21,269	-2,798	-9,221	-6,373	-17	7,514
Cash for Working Capital	131	-7,567	2,483	-1,759	2,126	977
Net Operating CF	**-21,138**	**-10,365**	**-6,738**	**-8,132**	**2,110**	**8,491**
Net Purchase of FA	-214	-104	-572	-1,014	-1,500	-2,500
Free Cash Flow	**-21,351**	**-10,469**	**-7,310**	**-9,146**	**610**	**5,991**
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	6,249	6,945
Dividend Payments	0	0	0	0	0	0
Cash Flow from Fin.	**3,589**	**65,790**	**87,425**	**-1,339**	**6,249**	**6,945**
Net Cash Flow	**-197**	**2,989**	**1,309**	**-4,898**	**11,358**	**12,936**
Opening Cash Bal.	**2,124**	**1,650**	**3,043**	**3,923**	**2,181**	**13,852**
Forex differences	43	-10	-310	3,399	0	0
Add: Net Cash	-197	2,989	1,309	-4,898	11,358	12,936
Closing Cash Bal.	**1,971**	**4,629**	**4,042**	**2,424**	**13,540**	**26,788**

E: MOFSL Estimates

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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