

Estimate change 

TP change 

Rating change 

CMP: INR117

TP: INR135 (+16%)

Buy

Another quarter of strong beat; Blinkit continues to surprise

Medium-term visibility remains strong; reiterate BUY

Bloomberg	ZOMATO IN
Equity Shares (m)	8579
M.Cap.(INRb)/(USDb)	1002.4 / 12
52-Week Range (INR)	120 / 44
1, 6, 12 Rel. Per (%)	12/77/81
12M Avg Val (INR M)	5736

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
GOV	263.5	325.2	407.1
Net Sales	70.8	116.8	166.6
Change (%)	68.9	65.1	42.5
EBITA	-12.1	-0.2	6.8
EBITA margin (%)	-17.1	-0.2	4.1
Adj. PAT	-9.7	2.4	8.8
PAT margin (%)	-13.7	2.1	5.3
RoE (%)	-5.40	1.23	4.36
RoCE (%)	-8.57	-3.16	0.15
EPS	-1.19	0.28	1.02
EV/ Sales	13.2	8.4	5.8
Price/ Book	4.8	5.1	4.8
P/E	NA	415.5	113.5

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	0.0	0.0	0.0
DII	13.0	9.9	38.8
FII	56.5	56.5	27.9
Others	30.4	33.6	33.3

FII Includes depository receipts

- Zomato delivered another good quarter, with 2QFY24 revenue growth of 18% QoQ (INR28.5b) beating our estimates of 11% growth. Growth was led by Blinkit, up 31.5% QoQ. The food delivery business also outperformed, with revenue growth of +12.7% QoQ on the back of strong order volume.
- Adj. EBITDA margin at 3.0% missed our estimate of 3.6%, partly due to lower profitability in Gold customer orders (40% of total GOV). The management expects further expansion in margins, as the gap between Gold and non-Gold customers narrows with scale, helping it move toward food delivery adj. EBITDA margin of 4-5% of GOV. Zomato continues to expect a break-even in Blinkit in 1QFY25 despite maintaining a high pace of new store addition.
- The performance of food delivery and quick commerce businesses was promising. With the company expecting strong growth for both Blinkit and food delivery in 3QFY24, we expect Zomato to deliver a strong 65% YoY growth in FY24. Zomato should deliver a revenue CAGR of 32%/116% in food delivery/quick commerce verticals over FY23-25, helping it grow its consolidated adj. revenue by 53% over the same period.
- The company was successful in increasing its take rate by a sharp 70bp QoQ in food delivery with the introduction of platform fee and continued traction in ad monetization. While we expect the pace of the take rate increase to start moderating now, advertisements remain a potential driver of further upside on take rate and profitability of the business.
- Blinkit's contribution margin turned positive in 2Q on the back of strong growth. Strong revenue growth should drive significant margin leverage, given the fact that competitive pressure in quick commerce has eased considerably over the last few quarters due to a funding crunch for smaller peers. We now estimate Zomato to turn positive on reported EBITDA by 3QFY24 (earlier 4QFY24) and deliver 4.1% EBITDA margin in FY25. As a result, Zomato should report PAT of INR2.4b/INR8.8b in FY24/FY25.
- We remain positive about 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 INR135 suggests a 16% upside from the current price. We **reiterate our BUY** rating on the stock.

Good topline performance; margin in-line

- Zomato reported 2QFY24 net revenue of INR28.5b (+17.9% QoQ/71% YoY), above our estimate of +11% QoQ. Excluding Blinkit, net revenue grew 15% QoQ/54% YoY.
- Consolidated reported operating loss was stable at INR470m with -1.7% EBITDA margin (vs. -2.0% in 1Q and our expectation of -0.5%). Adjusted EBITDA margin was up 80bp QoQ to 3.0% (est. 3.6%).
- Blinkit broke even on contribution margin in 2Q, reporting a contribution margin of 1.3% (-0.7% in 1Q).

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

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- Food delivery revenue (excluding delivery charges) grew 12.7% QoQ/36% YoY, (est. 3.0% QoQ) on strong demand, Gold contribution and Cricket World Cup impact, despite adverse seasonality. GOV (food) of INR79.8b grew 9.0% QoQ (est. 3.6% QoQ). Monthly transacting users grew 5% QoQ. Contribution margin improved to 6.6% (6.4% in 1Q), helped by a higher take rate (19.4%, +70bp QoQ).
- Hyperpure revenue grew 21% QoQ in 2QFY24.
- Blinkit 2Q GOV was up 29% QoQ (low 1Q base due to store closures). Strong improvements in both orders and AOV in 2Q.
- PAT at INR360m (est. flat PAT) vs. INR20m in 1QFY24; net cash at INR118b.

Key highlights from the management commentary

- The management suggested that a majority of the long-term growth will be driven by an increase in Monthly Transacting Customers (MTCs).
- Though ESOP costs increased during the quarter, the management maintained the guidance of INR4.5b of ESOP costs for FY24.
- For Blinkit, the management is confident of strong growth in 3QFY24 and suggests that the growth should be similar to current quarter.

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 53% adj. revenue CAGR over FY23-25.
- We now estimate Zomato to turn positive on reported EBITDA by 3QFY24 (earlier 4QFY24) and deliver 4.1% EBITDA margin in FY25.
- 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 INR135**, implying 16% potential upside.

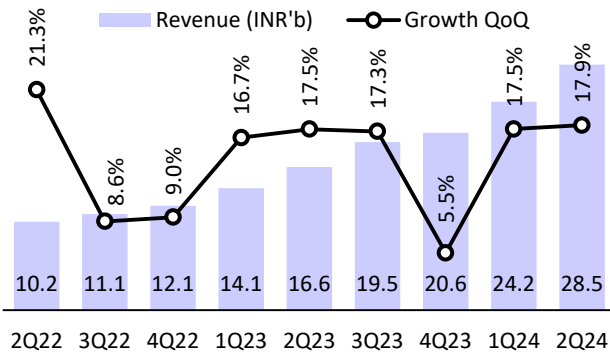
Consolidated quarterly performance

Y/E march	FY23				FY24				FY23	FY24E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	2QE	2QE	(%/bp)	
Revenue (net of delivery)	14,139	16,613	19,482	20,560	24,160	28,480	30,860	33,347	70,794	1,16,846	26,815	6.2
YoY Change (%)	67.4	62.2	75.2	69.7	70.9	71.4	58.4	62.2	68.9	65.1	61.4	1000bp
Inventory of traded goods	2,538	3,123	3,900	4,391	5,620	6,740	7,098	7,602	13,952	27,059	6,328	
Employee Expenses	3,489	3,813	3,950	3,398	3,380	4,170	4,197	4,498	14,650	16,245	4,022	
Delivery expenses	5,724	5,903	6,549	7,193	8,100	9,190	9,983	10,580	25,369	37,853	8,790	
Gross Profit	2,388	3,774	5,083	5,578	7,060	8,380	9,583	10,667	16,823	35,689	7,675	9.2
Margins (%)	16.9	22.7	26.1	27.1	29.2	29.4	31.1	32.0	23.8	30.5	29	80bp
Advertisement and sales promotion	2,776	2,997	3,479	3,022	3,140	3,550	3,857	4,058	12,274	14,606	3,218	
Others	2,685	3,891	5,266	4,810	4,400	5,300	5,555	6,011	16,652	21,266	4,559	16.3
EBITDA	-3,073	-3,114	-3,662	-2,254	-480	-470	170	597	-12,103	-183	-102	NA
Margins (%)	-21.7	-18.7	-18.8	-11.0	-2.0	-1.7	0.6	1.8	-17.1	-0.2	-0.4	-130bp
Depreciation	416	1,067	1,548	1,338	1,300	1,280	1,389	1,406	4,369	5,375	1,368	
Interest	49	119	161	158	180	160	160	160	487	660	180	
Other Income	1,678	1,695	1,734	1,705	1,810	2,120	2,162	2,206	6,812	8,298	1,720	
PBT before EO expense	-1,860	-2,605	-3,637	-2,045	-150	210	784	1,237	-10,147	2,080	70	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	210	784	1,237	-10,146	2,080	70	NA
Tax	0	-97	-171	-168	-170	-150	0	0	-436	-320	77	
Rate (%)	0.0	3.7	4.7	8.2	113.3	-71.4	NA	0.0	4.3	NA	110.0	
MI & Profit/Loss of Asso. Cos.	-3	0	0	6	0	0	0	0	3	0	0	
Reported PAT	-1,857	-2,508	-3,466	-1,882	20	360	784	1,237	-9,713	2,400	-7	NA
Adj PAT	-1,857	-2,508	-3,466	-1,883	20	360	784	1,237	-9,714	2,400	-7	NA
YoY Change (%)	-45.4	-42.3	-8.5	-46.5	-101.1	-114.4	-122.6	-165.7	-35.5	-124.7	-99.7	NA
Margins (%)	-13.1	-15.1	-17.8	-9.2	0.1	1.3	2.5	3.7	-13.7	2.1	0.0	NA

Story in charts

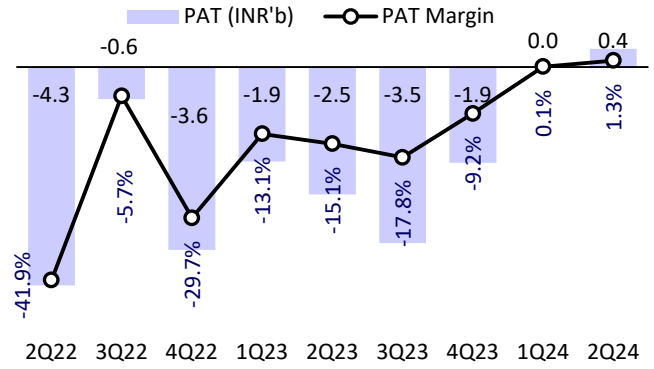
Overall Business

Exhibit 1: Zomato saw strong sequential growth...



Source: MOFSL, Company

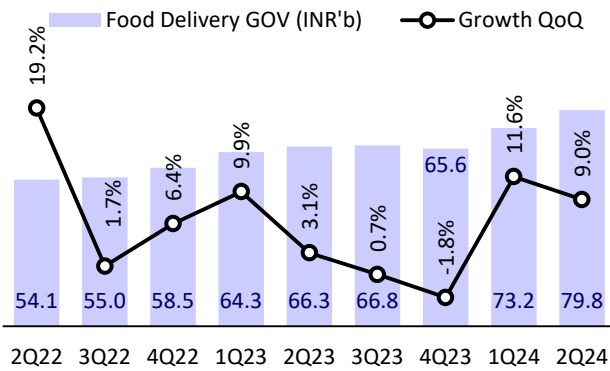
Exhibit 2: ...and further improved on profitability



Source: MOFSL, Company

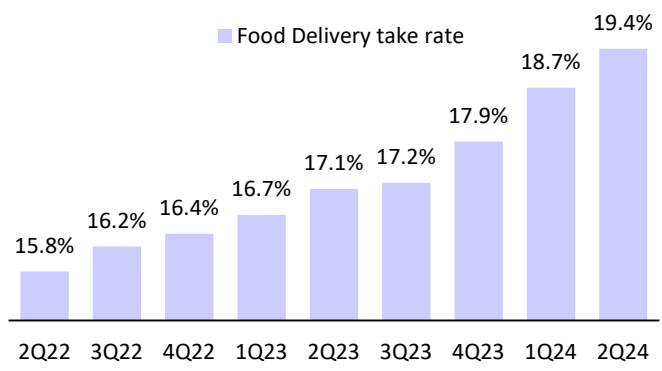
Food Delivery

Exhibit 3: GOV continued to see strong growth...



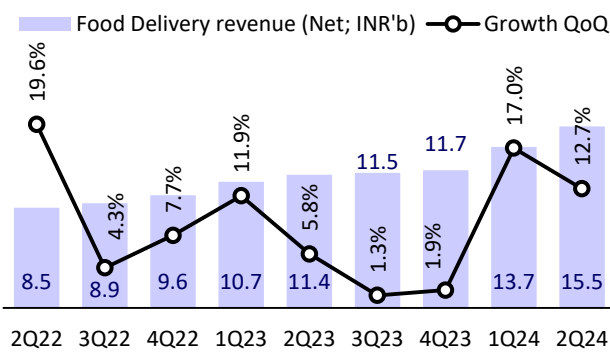
Source: MOFSL, Company

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



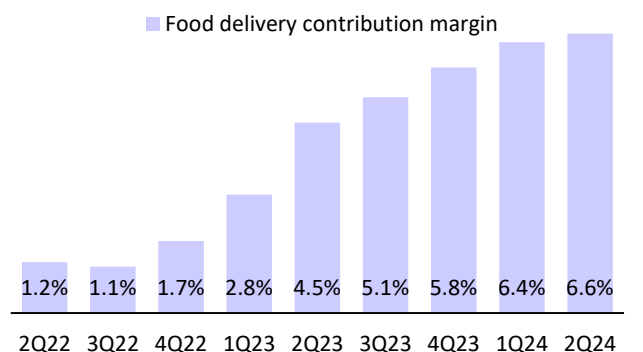
Source: MOFSL, Company

Exhibit 5: ...leading to 13% sequential growth



Source: MOFSL, Company

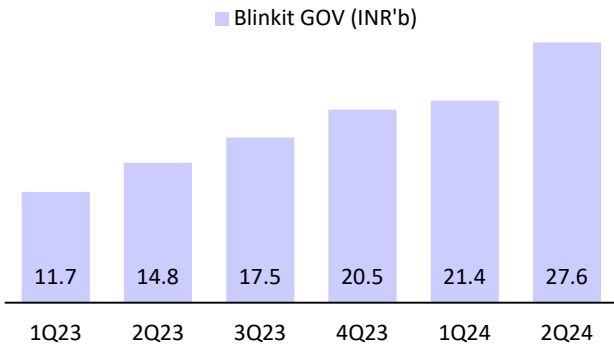
Exhibit 6: Contribution margin improved 20bp sequentially



Source: MOFSL, Company

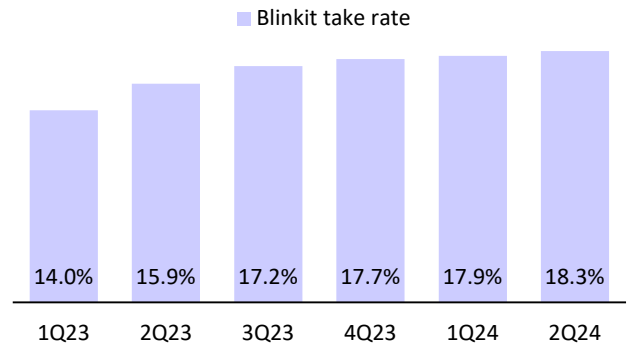
Blinkit

Exhibit 7: GOV saw strong 29% sequential growth...



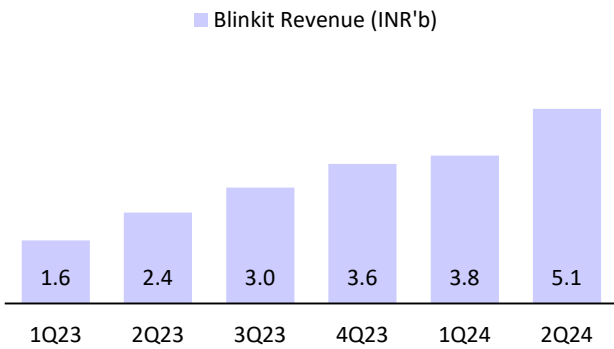
Source: MOFSL, Company

Exhibit 8: ...while take rate improved 40bp sequentially...



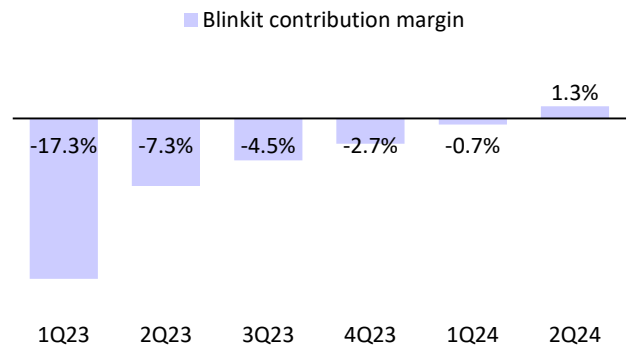
Source: MOFSL, Company

Exhibit 9: ...leading to 32% sequential revenue growth



Source: MOFSL, Company

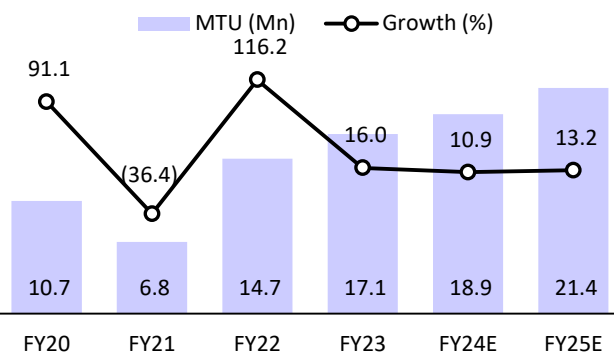
Exhibit 10: Blinkit broke even on contribution margin



Source: MOFSL, Company

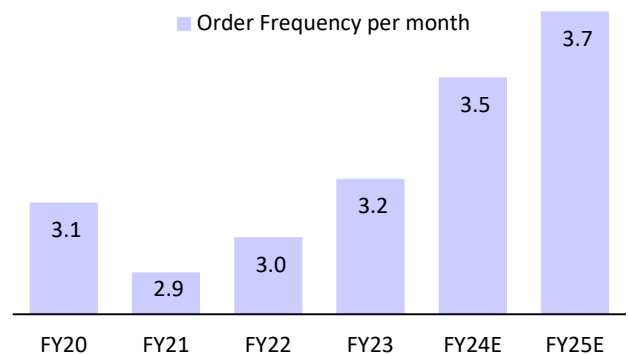
What do we expect - our estimates

Exhibit 11: Expect good growth in MTU...



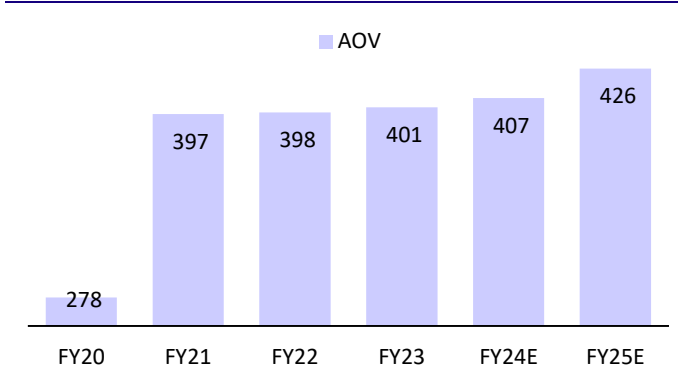
Source: MOFSL, Company

Exhibit 12: ...and order frequency



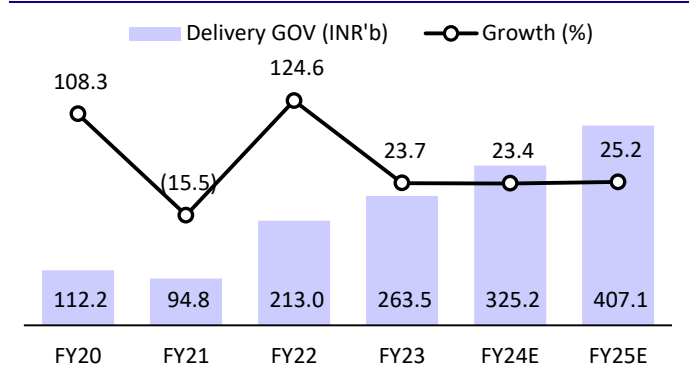
Source: MOFSL, Company

Exhibit 13: AOV to remain flat



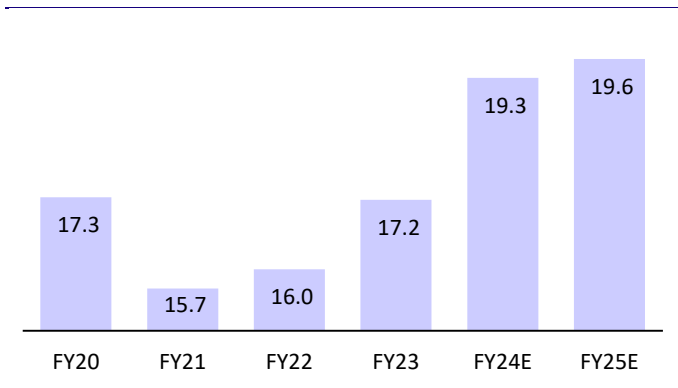
Source: MOFSL, Company

Exhibit 14: Strong GOV growth...



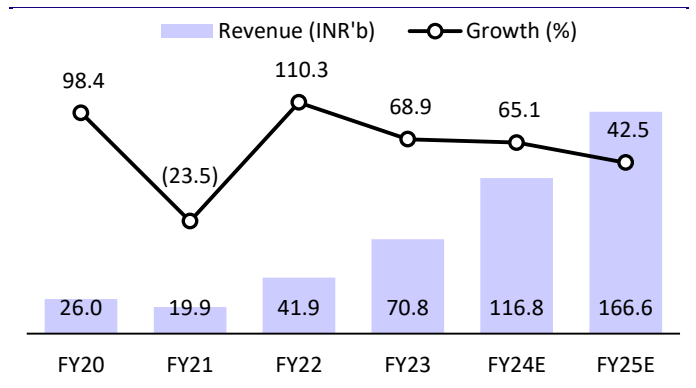
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 16: ...to drive 53% revenue CAGR over FY23-25



Source: MOFSL, Company



Key highlights from the management commentary

Demand and growth outlook

- The introduction of platform fee and higher ad monetization helped to increase the take rate during the quarter. The management expects platform fee to stay and sees no meaningful impact from the same on demand as it is also charged by competitors. The platform fee is currently nominal, and Zomato will continue to fine-tune it going forward.
- The increase in ad revenue was largely driven by higher spending by customers. Increased pricing also aided revenue, but the quantum was small.
- The pricing of Zomato Gold is driven by multiple factors, including competition. It is fairly a new program and the company will continue to fine-tune it going forward.
- Majority of the incremental Zomato Gold additions are from existing customer base. Expects the pace of Zomato Gold addition to slow down going forward.
- Though some part of increase in order frequency was organic and sustainable, a larger part of it was due to the clubbing of orders with Zomato Gold users.
- Majority of the long-term growth will be driven by the increase in MTCs.
- The Blinkit-Hyperpure synergies were driven by common infrastructure (warehouse, etc.). The synergies help Hyperpure deliver better quality, which not only increases the conversion of users for food delivery, but also leads to higher retention rates.

Margins

- The management has reiterated its goal of achieving 4-5% EBITDA margin (% of GOV) in the food delivery business.
- Though ESOP costs increased during the quarter, the management maintained the guidance of INR4.5b of ESOP costs for FY24.
- High employee costs was due to wage hikes awarded during the quarter.
- Expects the margin delta between Gold and Non-Gold members to reduce going forward, which will drive incremental margins.

Blinkit

- The increase in AOV for Blinkit was due to the mix change. The reported GOV number excludes iPhone sales, which could skew the AOV number.
- Blinkit is seeing good margin expansion in the business. The management has planned aggressive store additions going forward, which will remain a drag on margins. The management is confident of achieving a break-even in 1QFY24.
- Blinkit underspent on advertising and marketing in 1QFY24 due to the ongoing disruptions, which led to a high sequential jump in marketing spending in 2Q.
- The management is confident of strong growth in 3QFY24 and suggests that the growth should be similar to current quarter.
- Blinkit's AOV is 2x of Zomato in a few cities. It can become meaningfully larger going forward.

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 53% adj. revenue CAGR over FY23-25.
- We now estimate Zomato to turn positive on reported EBITDA by 3QFY24 (earlier 4QFY24) and deliver 4.1% EBITDA margin in FY25.
- 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 INR135**, implying 16% potential upside.

Exhibit 17: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	1,16,846	1,66,550	1,10,735	1,59,068	5.5%	4.7%
EBITDA (INR m)	-183	6,813	-238	7,237	-23.2%	-5.9%
EBITDA Margin	-0.2	4.1	-0.2	4.5	6bp	-46bp
PAT	2,400	8,785	788	7,978	204.6%	10.1%
PAT Margin	2.1	5.3	0.7	5.0	134bp	26bp
EPS	0.28	1.02	0.09	0.93	203.9%	9.9%

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%	160	148	138	129	121	113	107
	3.5%	165	152	141	132	123	115	109
	4.0%	170	157	145	135	126	118	111
	4.5%	176	162	149	138	128	120	113
	5.0%	184	168	154	142	132	123	115
	5.5%	193	175	159	147	135	126	117

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	18.9	21.4
Order Frequency	3.1	2.9	3.0	3.2	3.5	3.7
Orders/ Month	33.6	19.9	44.6	54.8	66.6	79.6
Orders/ Year	403	239	535	657	799	955
AOV (INR)	278	397	398	401	407	426
Delivery GOV	1,12,209	94,829	2,13,000	2,63,542	3,25,191	4,07,051
Take Rate (%)	17.3	15.7	16.0	17.2	19.3	19.6
Delivery revenue	19,389	14,907	34,186	45,421	62,829	79,949
Blinkit - revenue	0	0	0	8,058	22,267	37,655
Hyperpure - revenue	1,076	2,002	5,350	15,034	28,334	45,193
Others	5,582	3,029	2,388	2,281	3,417	3,753
Revenue	26,047	19,938	41,924	70,794	1,16,846	1,66,550
Income statement						(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E
Sales	26,047	19,938	41,924	70,794	1,16,846	1,66,550
Change (%)	98.4	-23.5	110.3	68.9	65.1	42.5
Inventory of traded goods	1,089	1,919	5,246	13,952	27,059	42,708
Employee Expenses	7,989	7,408	16,331	14,650	16,245	19,631
Other direct expenses	-27,033	-8,333	-14,125	2,173	19,444	34,981
Gross Profit	-19,044	-925	2,206	16,823	35,689	54,613
% of Net Sales	-73.1	-4.6	5.3	23.8	30.5	32.8
Other Expenses	4,003	3,746	20,714	28,926	35,872	47,800
EBITDA	-23,047	-4,672	-18,508	-12,103	-183	6,813
% of Net Sales	-88.5	-23.4	-44.1	-17.1	-0.2	4.1
Depreciation	842	1,377	1,503	4,369	5,375	6,495
EBIT	-23,889	-6,049	-20,011	-16,472	-5,558	318
% of Net Sales	-91.7	-30.3	-47.7	-23.3	-4.8	0.2
Other Income (net)	1,254	1,146	4,832	6,325	7,638	8,468
PBT	-22,636	-4,904	-15,179	-10,147	2,080	8,785
Tax	0	13	20	-436	-320	0
Rate (%)	0.0	-0.3	-0.1	4.3	-15.4	0.0
PAT	-22,636	-4,917	-15,199	-9,711	2,400	8,785
Extraordinary gains/loss	-1,220	-3,248	2,974	1	0	0
Adjusted PAT	-23,856	-8,164	-12,225	-9,710	2,400	8,785
Minority Interest	-184	-36	-138	-96	0	0
Reported PAT	-23,672	-8,128	-12,087	-9,614	2,400	8,785
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	1,88,634	1,97,420
Net Worth	7,098	80,987	1,65,055	1,94,598	1,96,998	2,05,784
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	1,96,990	2,05,776
Net Block	1,034	838	1,157	6,432	6,588	6,140
Intangibles	14,881	14,553	12,892	57,071	53,040	49,493
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	1,24,279	1,44,209
Debtors	1,231	1,299	1,599	4,569	7,861	11,662
Cash & Bank Balance	1,672	3,065	3,923	2,181	15,336	29,137
Investments	5,166	28,024	28,149	52,837	50,837	51,837
Other Current Assets	4,564	9,118	41,779	48,723	50,244	51,573
Current Liab. & Prov	21,956	6,105	8,281	21,397	28,590	34,740
Net Current Assets	-9,323	35,400	67,169	86,913	95,689	1,09,470
Application of Funds	7,047	80,930	1,64,989	1,94,590	1,96,991	2,05,776

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	1.0
Cash EPS	-5.2	-1.3	-1.5	-0.7	0.9	1.8
Book Value	1.6	15.0	22.6	24.1	22.9	23.9
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	415.5	113.5
Cash P/E	NA	NA	NA	NA	128.3	65.3
EV/EBITDA	NA	NA	NA	NA	NA	NA
EV/Sales	19.4	31.2	20.1	13.2	8.4	5.8
Price/Book Value	71.4	7.7	5.1	4.8	5.1	4.8
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)	1.2	4.4
RoCE	(97.8)	(11.7)	(16.2)	(8.6)	(3.2)	0.2
Turnover Ratios						
Debtors (Days)	17	24	14	24	25	26
Fixed Asset Turnover (x)	25.2	23.8	36.2	11.0	17.7	27.1

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	-183	6,813
Cash for Working Capital	131	-7,567	2,483	-1,759	2,379	1,021
Net Operating CF	-21,138	-10,365	-6,738	-8,132	2,196	7,834
Net Purchase of FA	-214	-104	-572	-1,014	-1,500	-2,500
Free Cash Flow	-21,351	-10,469	-7,310	-9,146	696	5,334
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	7,638	8,468
Dividend Payments	0	0	0	0	0	0
Cash Flow from Fin.	3,589	65,790	87,425	-1,339	7,638	8,468
Net Cash Flow	-197	2,989	1,309	-4,898	12,835	13,801
Opening Cash Bal.	2,124	1,650	3,043	3,923	2,181	15,336
Forex differences	43	-10	-310	3,399	0	0
Add: Net Cash	-197	2,989	1,309	-4,898	12,835	13,801
Closing Cash Bal.	1,971	4,629	4,042	2,424	15,016	29,137

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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