

06 November 2023

India | Equity Research | Q2FY24 result review

Zomato

Internet

Positive surprise yet again as Zomato re-invests into growth

We re-iterate our **BUY** thesis on Zomato ([link](#)). We believe the company is likely to achieve its medium-term adj. EBITDA guidance of 4-5% in food delivery and adj. EBITDA breakeven in Blinkit by Q1FY25E. Given the strong growth trajectory expected over the next 3-4 quarters as well as the distinct possibility of becoming the first company globally to achieve adj. EBITDA breakeven in grocery, we think further re-rating of the stock is due. Post Q2FY24 results, we have changed our revenue and adj. EBITDA estimates by 1.9%/1.8% and 4.5%/3.7% for FY25E/26E. We also upgrade our price target to INR164 (from INR160 earlier).

Food Delivery – growth momentum sustained on a high base

In Q2FY24, food delivery GOV increased 9% QoQ to INR 79.8bn led by 5.1% QoQ MTC growth. GOV growth was led by increase in order volumes. We estimate AOV was flattish QoQ and ordering frequency improved 3.7% QoQ. This was driven by favourable seasonality and strong performance of Zomato Gold. Gold users contributed 40% of food delivery GOV, up from 33% in Q1FY24. Food delivery contribution margin (as a % of GOV) increased to 6.6% in Q2FY24 (up 20bps QoQ). We estimate, this was led by 70bps QoQ improvement in gross take rate as restaurant partners continued to invest in ad spends and platform fees were rolled out. Adjusted revenue (food delivery) was INR 19.3bn (I-Sec: INR 18.5bn), growing 10.5% QoQ and 21.7% YoY. Adjusted EBITDA (as a percentage of GOV) was 2.6% (up 10bps QoQ).

Food Delivery – management commentary

According to management, growing adoption of Gold program (3.8mn members in Q2FY24, up from 2.0mn in Q1FY24) is driving higher ordering frequency. There was marginal increase in take rates led by introduction of platform fees (INR 2-5 per order, with attachment rate of almost 100%) and increase in ad monetisation. With respect to ad monetisation, management noted that the growth is primarily volume led with marginal price increases. Management also tried to temper food delivery growth expectations from Q3FY24E, by calling out seasonal impact in the first few weeks of the quarter.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	41,924	70,794	1,24,308	1,63,582
EBITDA	(9,729)	(7,045)	5,316	21,856
EBITDA Margin (%)	(23.2)	(10.0)	4.3	13.4
Net Profit	(14,920)	(9,720)	4,087	15,642
EPS (Rs)	(1.7)	(1.2)	0.5	1.9
EPS % Chg YoY	-	-	-	282.8
P/E (x)	(69.8)	(97.1)	230.7	60.3
EV/EBITDA (x)	(83.3)	(125.8)	163.2	38.5
RoCE (%)	(16.2)	(8.6)	(1.3)	4.7
RoE (%)	(12.1)	(5.4)	2.1	7.4

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Market Data

Market Cap (INR)	1,002bn
Market Cap (USD)	12,039mn
Bloomberg Code	ZOMATO IN
Reuters Code	ZOMT BO
52-week Range (INR)	120 /44
Free Float (%)	52.0
ADTV-3M (mn) (USD)	105.0

Price Performance (%)	3m	6m	12m
Absolute	34.6	83.3	87.3
Relative to Sensex	35.6	77.0	80.1

ESG Disclosure	2021	2022	Change
ESG score	-	41.4	-
Environment	-	26.2	-
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	1.9	1.8
Adj. EBITDA	(17.9)	4.5
EPS	(23.5)	3.8

Previous Reports

11-10-2023: [Company Update](#)

04-08-2023: [Q1FY24 results review](#)

Other businesses

Blinkit

Blinkit GOV grew 28.9% QoQ to INR 27.6bn. The high growth witnessed was due to low base effect (business disruption in Q1FY24) in previous quarter. Quick commerce adjusted revenue was INR 5.05bn (I-Sec: INR 5.0bn). Contribution margin (as a % of GOV) improved by 190 bps QoQ in Q2FY24 to 1.3%. Management guided for net store addition of 100 stores (net) in FY24. Most of these store additions are expected to increase polygon density in existing geographies. Management has guided for adjusted EBITDA margin to break even by Q1FY25E. Management noted that AOVs will fluctuate due to seasonal factors but the uptick in Q2FY24 (up 4.2% QoQ) was due to improvement in GOV mix in favour of high ASP categories (electronics, books among others). Sale of I-phones have also been excluded from the AOV calculation to avoid distortion. They mentioned that Blinkit GOV is more than Zomato GOV in some cities and believed that quick commerce is a larger opportunity than food delivery.

Hyperpure

Hyperpure grew ~21% QoQ and 123% YoY in Q2FY24 to INR 7.5bn (I-Sec: INR 6.6bn). Adjusted EBITDA loss for Hyperpure segment was INR 340mn in Q2FY24 (improvement of INR 10mn QoQ) with EBITDA margin of -4.6% (vs -5.7% in Q1FY24). We estimate Hyperpure to turn profitable (adjusted EBITDA) on a full-year basis by FY26E.

Valuation

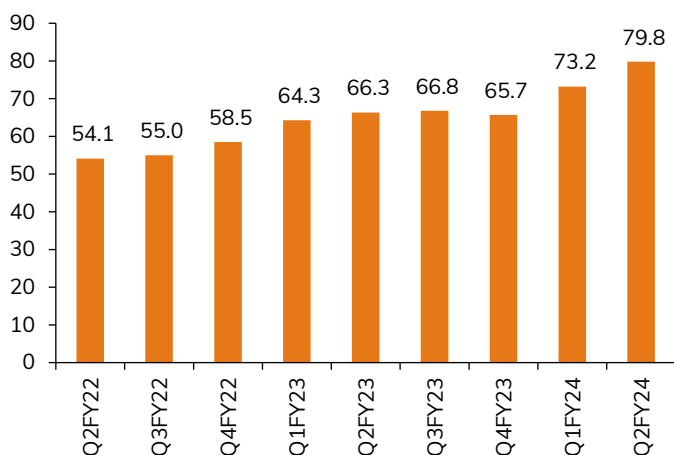
We re-iterate our **BUY** rating on Zomato and increase our 3 stage DCF-based target price to INR 164 from INR 160 given improved visibility of profitability and sustained improvement in the underlying operating metrics. Zomato remains our top pick in the Indian internet space. **Key risks:** Slowdown in discretionary spending, negative externalities disrupting business operations.

Exhibit 1: Q2FY24 summary

(INR mn)	Q2FY24	Q1FY24	Q2FY23	QoQ(%)	YoY(%)	vs I-Sec	Var(%)
Net Sales	28,480	24,160	16,613	17.9	71.4	26,838	6.1
Adjusted EBITDA	410	120	-1920	241.7	NA	1,054	-61.1
Adjusted EBITDA%	1.0%	0.4%	-9.0%	60 bps	1000 bps	3.4%	-240 bps
PAT	360	20	-2508	1,700	NA	1,304	-72.4
Adjusted EBITDA as a % of GOV	1.0%	0.4%	-9.0%	60 bps	1000 bps	3.4%	(240bps)

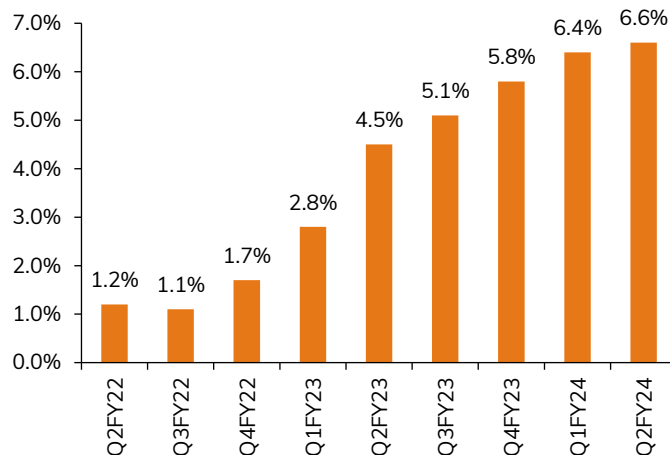
Source: I-Sec research, Company data

Exhibit 2: Food delivery - GOV (INR bn)



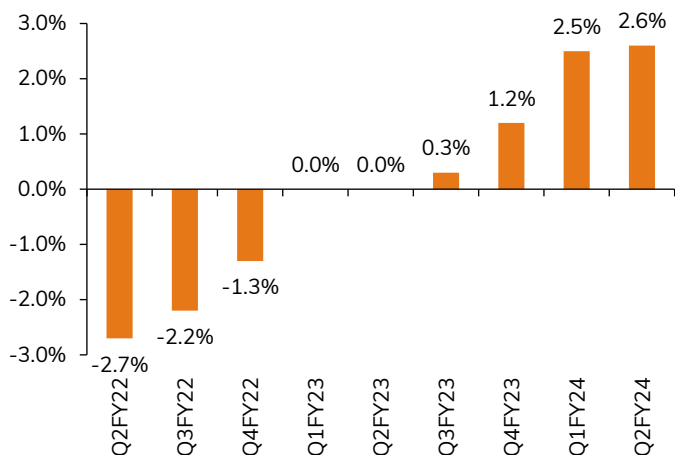
Source: I-Sec research, Company data

Exhibit 3: Food delivery - contribution margin as a % of GOV



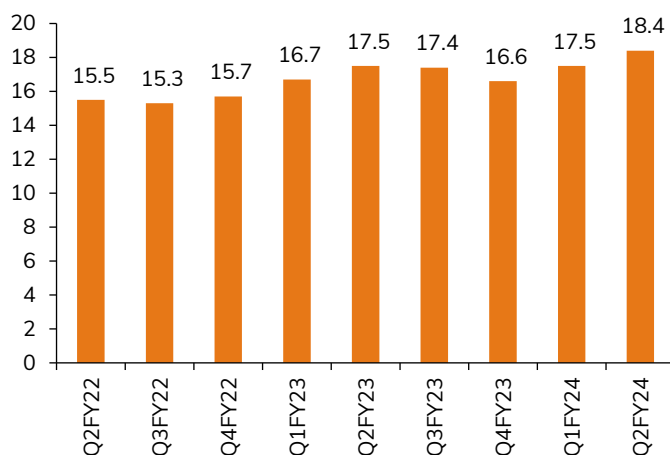
Source: I-Sec research, Company data

Exhibit 4: Food delivery - adjusted EBITDA as a % of GOV



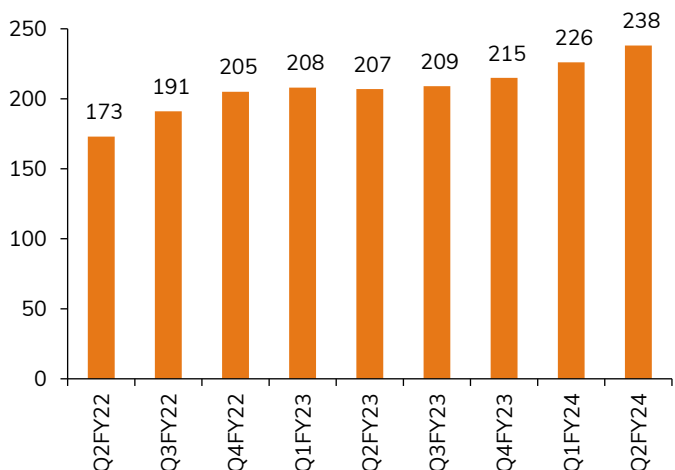
Source: I-Sec research, Company data

Exhibit 5: Food delivery - average monthly transacting customers (mn)



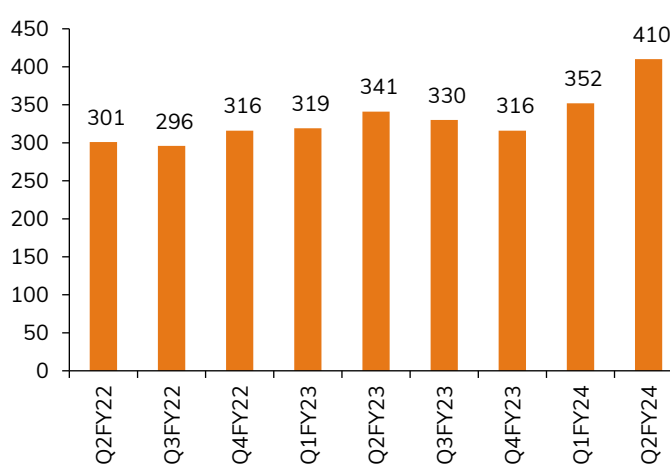
Source: I-Sec research, Company data

Exhibit 6: Food delivery - Average monthly food delivery restaurant partners ('000)



Source: I-Sec research, Company data

Exhibit 7: Food delivery - Average monthly active delivery partners ('000)



Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	0.0	0.0	0.0
Institutional investors	62.7	64.4	67.8
MFs and others	6.4	8.3	10.6
FIs/Banks	0.1	0.1	0.0
Insurance	0.8	0.8	1.5
FIIIs	31.6	34.1	33.7
FDI	23.0	21.1	22.0
Others	37.3	35.6	32.2

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	41,924	70,794	1,24,308	1,63,582
Operating Expenses	55,186	68,945	97,494	1,09,481
EBITDA	(9,729)	(7,045)	5,316	21,856
EBITDA Margin (%)	(23.2)	(10.0)	4.3	13.4
Depreciation & Amortization	1,503	4,369	4,724	4,907
EBIT	(20,011)	(16,472)	(2,523)	8,690
Interest expenditure	120	487	622	818
Other Non-operating Income	4,949	6,815	7,440	8,050
Recurring PBT	(15,182)	(10,144)	4,295	15,921
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	20	(436)	-	5,214
PAT	(15,202)	(9,708)	4,087	15,642
Less: Minority Interest	141	(6)	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(15,061)	(9,714)	4,087	15,642
Net Income (Adjusted)	(14,920)	(9,720)	4,087	15,642

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	18,312	18,452	36,181	62,212
of which cash & cash eqv.	15,755	10,168	25,964	48,767
Total Current Liabilities & Provisions	6,922	12,910	23,190	29,538
Net Current Assets	11,390	5,542	12,991	32,674
Investments	16,764	46,952	49,871	52,848
Net Fixed Assets	-	-	-	-
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	1,38,194	1,50,583	1,47,600	1,44,982
Deferred Tax assets	-	-	-	-
Total Assets	1,66,348	2,03,077	2,10,462	2,30,504
Liabilities				
Borrowings	-	404	404	404
Deferred Tax Liability	-	-	-	-
provisions	653	936	1,703	2,241
other Liabilities	3	2,543	1,751	2,289
Equity Share Capital	1,65,055	1,94,598	1,98,685	2,14,327
Reserves & Surplus	-	-	-	-
Total Net Worth	1,65,055	1,94,598	1,98,685	2,14,327
Minority Interest	(66)	(66)	3,258	6,582
Total Liabilities	1,66,348	2,03,077	2,10,462	2,30,504

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	19,482	20,560	24,160	28,480
% growth (YOY)	75.2	69.7%	70.9%	71.4%
EBITDA	(3,662)	(2,254)	(480)	(470)
Margin %	(18.8%)	(11.0%)	(2.0)	(1.7)
Other Income	1,734	1,705	1,810	2,120
Net Profit	(3,466)	(2,044)	20	360

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	(6,930)	(8,440)	10,718	17,862
Working Capital Changes	2,483	(1,759)	5,402	1,220
Capital Commitments	(572)	(1,014)	(1,740)	(2,290)
Free Cashflow	(7,502)	(9,454)	8,978	15,572
Other investing cashflow	(78,806)	6,694	7,440	8,050
Cashflow from Investing Activities	(79,378)	5,680	5,700	5,760
Issue of Share Capital	90,000	40	0	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(2,502)	(1,314)	(622)	(818)
Cash flow from Financing Activities	87,498	(1,274)	(622)	(818)
Chg. in Cash & Bank balance	1,190	(4,034)	15,796	22,803
Closing cash & balance	3,923	3,288	17,977	40,781

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	(1.7)	(1.2)	0.5	1.9
Adjusted EPS (Diluted)	(1.7)	(1.2)	0.5	1.9
Cash EPS	(1.9)	(0.7)	1.1	2.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	22.8	24.0	24.5	26.5
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	110.3	68.9	75.6	31.6
EBITDA	199.3	(27.6)	(175.5)	311.1
EPS (INR)	-	-	-	282.8
Valuation Ratios (x)				
P/E	(69.8)	(97.1)	230.7	60.3
P/CEPS	(62.8)	(176.2)	107.0	45.9
P/BV	5.1	4.8	4.7	4.4
EV / EBITDA	(83.3)	(125.8)	163.2	38.5
P / Sales	20.1	13.3	7.6	5.8
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	87.5	80.3	80.0	78.3
EBITDA Margins (%)	(23.2)	(10.0)	4.3	13.4
Effective Tax Rate (%)	(0.1)	4.3	-	32.7
Net Profit Margins (%)	(36.3)	(13.7)	3.3	9.6
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	1.0	1.0	1.0	1.0
Net Debt / EBITDA (x)	3.3	8.1	(14.2)	(4.6)
Profitability Ratios				
RoCE (%)	(16.2)	(8.6)	(1.3)	4.7
RoE (%)	(12.1)	(5.4)	2.1	7.4
RoIC (%)	(12.3)	(5.1)	2.5	5.3
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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