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India | Equity Research | Company Update

## Zomato

Internet

### Quick-commerce profitability delayed; long-term thesis intact

Given the increased competitive intensity in quick commerce, path to profitability for all incumbents has been delayed. However, we think that this fast ramp-up of the dark store footprint is helping incumbents create an entry barrier into the segment (see our sector note: [link](#)); hence, shall be beneficial in the medium term. In our view, the biggest risk for Zomato would be execution risk, given the high benchmarks set by the company in the past. In our view, the long-term investment outlook for the stock remains intact and the recent correction in stock price provides an opportunity to own the market leader in the Indian hyper-local e-commerce space. We maintain **BUY** and revise our target price to INR 310, from INR 300 earlier, as we roll forward our DCF.

### Assortment and store ramp-up – impressive

Blinkit is meaningfully ahead of the market in terms of assortment on the platform which aids its high AOV. In a Q2FY25 shareholder letter, Zomato disclosed that, at present, their stores are reaching a GOV/day benchmark of INR 900,000 – this is within nine months since launch and which hints at best-in-class execution.

### New entrants unlikely to disrupt quick-commerce meaningfully

We believe, the fast ramp-up of the dark store footprint is helping incumbents create a barrier to entry into the segment. Our analysis indicates that if they manage to execute their plans properly, the top three incumbents would control >75% (by FY26) of the potential dark stores that are feasible in India which would make it very difficult for new entrants to meaningfully disrupt the space.

### Risk-reward skew (3:1) to the upside

We see the stock trading at INR 350/share in our bull-case scenario and INR 210 in our bear-case, implying a risk reward skew of 3:1 to the upside.

### Valuation

We re-iterate **BUY** on Zomato and increase our three-stage DCF-based TP to INR 310, from INR 300, as we roll forward. We also reduce our WACC to 11.5%, from 12%, given a relatively benign interest rate outlook.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,21,140	2,03,599	2,99,758	4,04,659
EBITDA	5,570	12,879	21,311	37,752
EBITDA Margin (%)	4.6	6.3	7.1	9.3
Net Profit	3,520	7,838	16,657	24,437
EPS (INR)	0.4	0.9	2.0	2.9
EPS % Chg YoY	-	122.7	112.5	46.7
P/E (x)	589.0	264.5	124.5	84.8
EV/EBITDA (x)	368.3	156.6	93.1	51.4
RoCE (%)	(2.8)	0.2	3.9	7.5
RoE (%)	1.8	3.7	7.3	9.6

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#### Market Data

Market Cap (INR)	2,368bn
Market Cap (USD)	27,574mn
Bloomberg Code	ZOMATO IN
Reuters Code	ZOMT BO
52-week Range (INR)	305 /122
Free Float (%)	74.0
ADTV-3M (mn) (USD)	188.4

Price Performance (%)	3m	6m	12m
Absolute	(12.4)	15.4	82.7
Relative to Sensex	(7.6)	18.8	74.0

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

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

Source: SES ESG, I-sec research

#### Previous Reports

23-10-2024: [Q2FY25 results review](#)

02-08-2024: [Q1FY25 results review](#)