

Zomato

BSE SENSEX
80,905S&P CNX
24,770

CMP: INR260

TP: INR300 (+15%)

Buy



Bloomberg	ZOMATO IN
Equity Shares (m)	8820
M.Cap.(INRb)/(USDb)	2296.2 / 27.4
52-Week Range (INR)	281 / 88
1, 6, 12 Rel. Per (%)	18/52/162
12M Avg Val (INR M)	10415
Free float (%)	100.0

Financials & Valuations (INR b)

INR b	FY24	FY25E	FY26E
GOV	322.0	404.2	505.2
Net Sales	121.1	202.0	315.7
Change (%)	71.1	66.7	56.3
EBITA	0.4	7.1	32.7
EBITA margin (%)	0.3	3.5	10.4
Adj. PAT	3.5	8.1	27.5
PAT margin (%)	2.9	4.0	8.7
RoE (%)	1.76	3.90	12.18
RoCE (%)	-2.82	-0.82	8.70
EPS	0.41	0.94	3.20
EV/ Sales	18.5	11.0	6.9
Price/ Book	11.0	10.5	9.3

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	0.0	0.0	0.0
DII	15.8	15.3	9.9
FII	55.6	56.7	56.5
Others	28.7	28.0	33.6

FII Includes depository receipts

Solidifies going-out offering with acquisition

Miniscule impact on overall numbers, but an important step toward capturing a higher wallet share from urban consumers

Zomato has decided to acquire Paytm's entertainment and ticketing business for INR20.5b (1x EV/TTM GMV). As a part of its going out business, Zomato currently offers dine-out table bookings and a few live ticketing events whereas Paytm's platform offers ticket bookings for movies, sports and live events, which will significantly solidifies Zomato's impending launch of its "District" app.

Strong brands across food, grocery and going-out to have formidable network effects

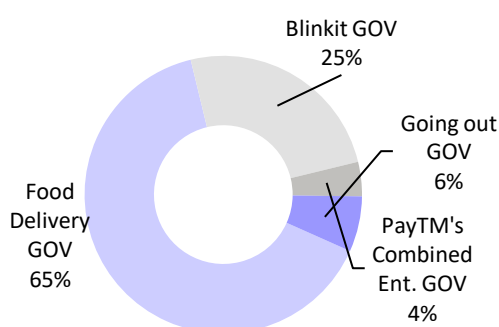
- These offerings will be a part of Zomato's "District" app, which the management plans to launch in the coming weeks.
- On an SOTP basis, District would hardly move the needle as of now; however, Zomato's vision of creating strong brands across food delivery, grocery, and going-out could make it a formidable platform that could command a high wallet share from urban consumers.
- Our back-of-the-envelope-calculation suggests that the take rate for this business could be ~12% (INR20b+ of GOV with revenue of INR2,360m in FY24). However, we believe commissions differ drastically across offerings – movie tickets could be highly commoditized, while exclusive ticketing rights to marquee sports/live music events could command notably higher platform fees.
- For example, Zomato's own going-out business (mainly restaurant bookings along with some events) has a take rate of ~8%, which is low due to the commoditized nature of restaurant bookings. Paytm's offerings through its own app (movie tickets) and Paytm Insider (live events) already offer a higher blended take rate, driven by exclusive access to music shows and other live events.
- We believe that, in the context of Zomato's scale, discussion around fair valuation for the business is too premature. Zomato has demonstrated its capability to unlock value from its acquisitions earlier (most notably Blinkit). As we mention above, on its own, the District app could be a small part of Zomato's business, but if executed correctly, it could give Zomato a strong mind share in the spending patterns of urban consumers across key forms of recreational or staple spending: groceries, food, and recreational "going-out" activities spanning dining, movies, sports, and music.
- While Paytm's current business is at adjusted EBITDA of 1.5% of GOV, higher commissions for exclusive events and cost optimization could take this higher in the medium term.

Valuation and view

- The company expects to complete the acquisition in 2QFY25.
- Zomato's food delivery business is stable, and Blinkit offers a generational opportunity to participate in the disruption of industries such as retail, grocery and e-commerce.
- We value the business using a DCF methodology, assuming 12.5% cost of capital. **We maintain our BUY rating with a TP of INR300**, implying 15% potential upside.

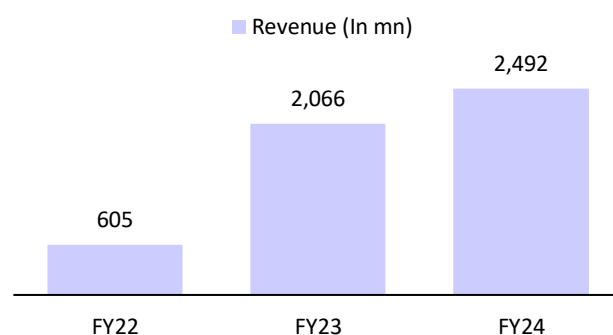
Story in charts

PayTM's combined entertainment GOV will be 4% of Zomato's total GOV



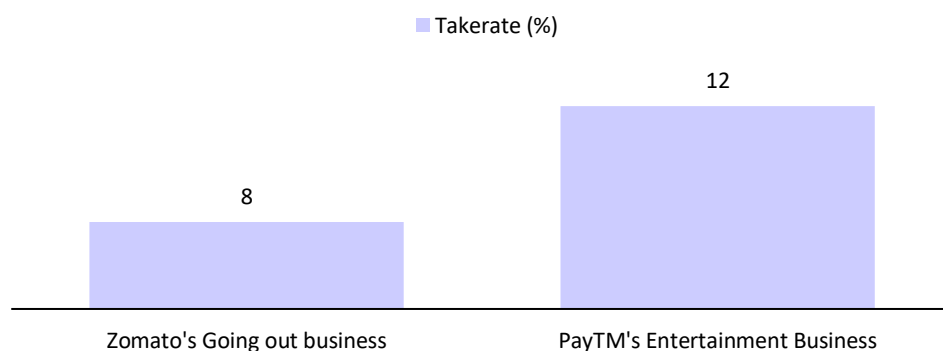
Source: MOFSL, Company

PayTM's entertainment business combined revenue grew by 21% YoY in FY24



Source: MOFSL, Company

PayTM's entertainment business commands a higher take rate due to exclusive ticketing rights for events



Source: MOFSL, Company