



Asset Management Pvt Ltd

ZOMATO DEEP DIVE



THE CONTEXT

The Food Delivery Services market in India is a Duopoly market dominated by *Swiggy* and *Zomato* wherein *Zomato* holds a 55% market share. Both the companies have further forayed into the Quick Commerce space with *Instamart* and *Blinkit* thereby tapping a potentially large and a new growing market. We have with our research which entailed:

1. A Survey for customers with 350+ responses
2. Talking to 15+ Delivery boys across various states
3. Talking to 5+ Chain Restaurant/Individual Restaurant owners
4. Management Meetings/Expert Interviews/Sell Side Reports
5. Company filings and public information

tried to gain an in-depth understanding on the business of Zomato. This report focuses on insights gained through these interactions which we believe were critical in driving our understanding of the business and the value creation potential that lies ahead.

By the conclusion of this report, you will possess a comprehensive grasp of the following key aspects:

- Market Opportunity: We'll delve into the Total Addressable Market (TAM) for both Food Delivery and Hyper Local Delivery (Blinkit).
- Competitive Positioning: We'll assess Zomato's standing within these two business segments. What sets Zomato apart and positions it to dominate a significant share of this market?
- Unit Economics: We'll examine the unit economics of these businesses, our expectations, and the reasoning behind them. We'll also explore how profitability experiences the J-Curve effect and the current data trends that suggest it's on the right path.
- *Blinkit's* Potential: We'll shed light on why Blinkit could be the dark horse, poised to rival the food delivery business in size. We'll also discuss why Zomato is in a prime position to triumph in this market.
- Adjacent Opportunities: We'll explore Zomato's critical assets - Customer Engagement, Delivery Partners, and Technology Infrastructure. These assets offer opportunities to expand into new product offerings, broaden the market reach, and create sustainable value for investors.
- Valuations: We'll delve into the valuations and drivers of each business segment. How do these components come together to create a formidable business enhanced by strong network effects?
- Risk factors: We'll identify the risks inherent to our thesis and pinpoint the elements of the entire business most susceptible to fluctuations in growth and profitability.

We hope you enjoy reading this deep dive and hope it helps with additional insights to your current understanding.



SUMMARY

Zomato's meteoric rise in the food delivery arena is nothing short of extraordinary. Despite entering the delivery market, a year after Swiggy, it has swiftly carved out a dominant 55% market share, a testament to its exceptional execution and its knack for outperforming its competition. What's truly remarkable is the company's rapid expansion, especially in tier II cities, where it's swiftly becoming a dominant player in numerous micro markets. Zomato's prowess becomes evident when you look at its market share gains and the substantial improvement in profitability in the food delivery sector. Our consumer survey paints a picture of progress: 50% of respondents have noticed significant enhancements in delivery times, and a remarkable 70% are convinced that Zomato excels at addressing customer complaints, showcasing a tangible boost in delivery and service quality.

For any player in the e-commerce realm, the art of creating value hinges on introducing new use cases to their existing customer base while optimizing delivery network and technology infrastructure. Zomato has taken a giant step in this direction with its strategic venture into quick commerce through the acquisition of Blinkit. Quick commerce is a natural extension of Zomato's core food delivery business, effectively expanding its addressable market manifold. This strategic move not only broadens the company's reach but also fortifies its ability to build a more profitable business by capitalizing on its existing customer base and optimizing the utilization of hyperlocal delivery fleets.

Zomato, like many contemporary Indian businesses, is still in the process of evolving, both within its own operations and in response to the ever-shifting market dynamics. It is poised to benefit from changing consumer habits, urbanization, and premiumization, among other factors. Among the various businesses under its umbrella, Food Delivery and Quick Commerce (Blinkit) stand out as the ones with the most substantial potential for value creation. The quick commerce business may be an enigma to the market now, but we firmly believe it holds the potential to pleasantly surprise investors.

We like Zomato for the following reasons:

- Their leadership in the Food Delivery Market, coupled with a burgeoning presence in Tier 2 and Beyond markets, promises further expansion.
- Their stellar execution raises the possibility of capturing an even larger market share, potentially reaching upwards of 60% range in the next 2-4 years.
- The Food Business is poised for improved unit economics, with a J-Curve in profitability expected to kick in starting FY24.
- The opportunity size remains vast and growing for the Quick Commerce Business, with the potential to rival Zomato's core business.
- Blinkit's ability to reduce customer acquisition costs and capitalize on Zomato's substantial customer base augurs well for unit economics and replicating the success of food delivery.
- The exploration of adjacent or pilot opportunities, such as Hyperpure and Zomato Xtreme, adds to their intrigue.

Furthermore, our analysis underscores Zomato's astute capital allocation. While Zomato has raised a total of \$3 billion, its main competitor, Swiggy, has gathered \$5.4 billion to build a business of similar scale. Zomato's fiscally conservative approach suggests a more sustainable and efficient growth model.

Based on our estimates Zomato is currently trading at 110/59x FY26/27 Cash Flows, while the valuations look high on the face of it, the J-curve in Blinkit will start contributing significantly to Zomato's profits post FY26 thereby having a strong incremental impact on the profitability which takes the multiples to 17x FY30 leaving decent room for upside.



CONTENT

Zomato has been a very widely covered stock and hence most of the Information on the Business and competitive Intensity etc. is already present in the public domain. What instead we would try to focus on is:

- Insights/takeaways from our interaction with customer, channel partner, delivery partners, ex-employees while studying *Zomato*.
- Why do we think *Zomato* has the potential to become a stronger and a much larger player relative to its peer.
- Detailed working on unit economics and why incremental margins are already strong and expected to improve even further over the next few years.
- The potential for *Blinkit* its relevant market and order velocity, unit economics and incremental margins.

This Section would have 4 parts focusing on:

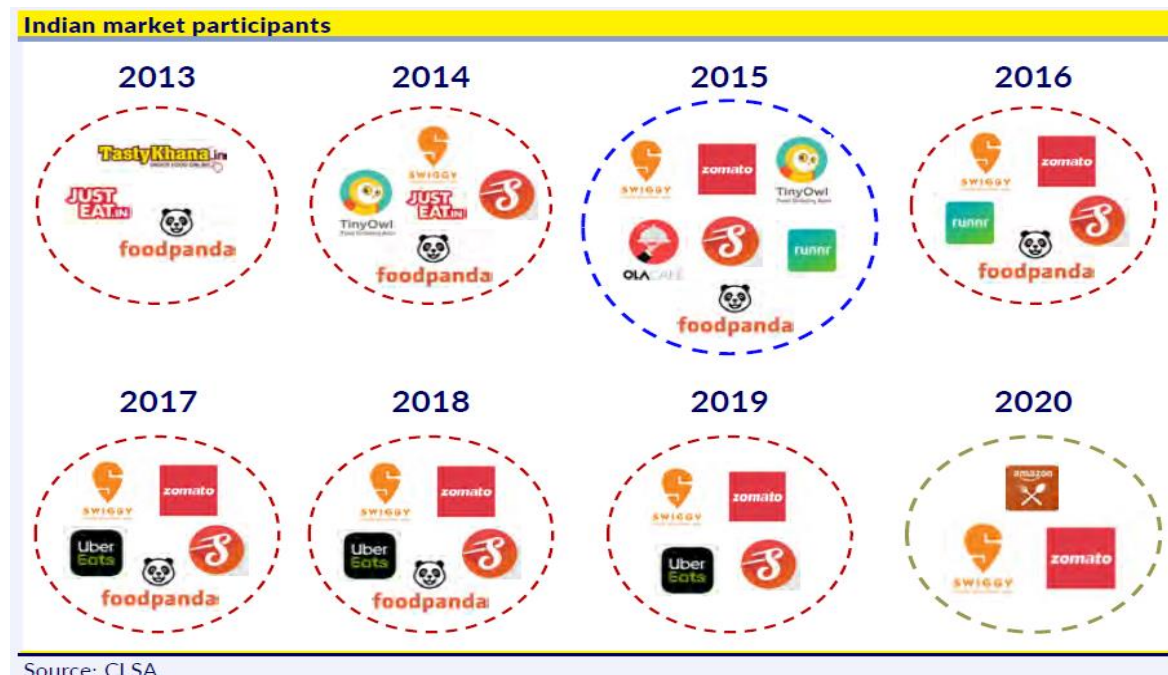
- a. The Leader within the Food Delivery Space
 - i. The Market share of *Zomato* and how has it evolved in the last 3-4 years, while further focusing on the sustainability of such share expanding or persisting in the future.
 - ii. How the Business trajectory and path that they are on remains a proven one globally
 - iii. Unit Economics, Business Drivers, and Revenue Model
- b. *Blinkit* (*Zomato* 2.0 in the making)
 - i. Different Purchasing Patterns and Business Models within the Grocery Retail Market.
 - ii. *Blinkit's* Business Model.
 - iii. Is Profitability Possible?
- c. The Adjacent opportunities
- d. Competitive Positioning of *Zomato*



Leader In the Food Delivery Space

The Market Share Conundrum

Zomato has in the last 3-4 years increased its market share considerably to become the market leader within the Food Delivery space. The market in the last 9 years of its existence (This is from the period the scale up began) has seen multiple entry of large global and local incumbents, wherein most of them have either been acquired or have died down leaving only Zomato and Swiggy behind to fight for the crown as of today.

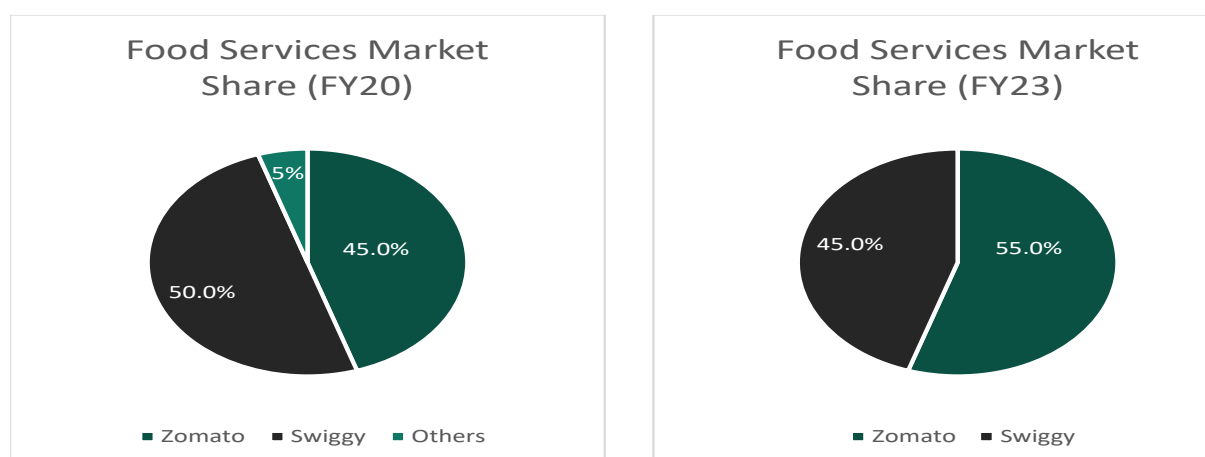


Source: CLSA

(Amazon closed in a short period of time after starting a pilot project in Bangalore)

Zomato started its delivery services a year later than Swiggy in 2015 and was lagging in terms of market share at 45% as against Swiggy which stood around 50% in FY19/20, Zomato has in the last 3-4 years scaled up quite substantially to expand their market share by 1000bps to stand at 55% while Swiggy has lost market share.

Zomato gained more than 1000bps market share over 4 years.



However, there are interesting insights if one were to bifurcate the overall gains for Zomato between the Top-8 Cities and the rest of the market which indicates towards a sustainable trend of market share gains in favour of Zomato. The evolution for the same is discussed below:

1. **Zomato's market share gain in the Tier 1/Top-8 Markets**
2. **Stronger adoption of Zomato within the faster growing tier 2 and beyond cities.**

Customer behaviour exhibits significant distinctions between Tier 1 and other markets. In Tier 1 markets, customers prioritize factors such as delivery time, the efficiency of the delivery process, reliability of both the restaurant and delivery partner, and order accuracy. In contrast, Tier 2 and beyond customers place a primary focus on pricing considerations before any other factors. Zomato has effectively leveraged this insight and created a perception of higher discounts on the platform for customers in Tier 2 markets, successfully meeting their expectations. Zomato's ability to grasp and navigate these distinctions between the two market segments has been instrumental in the company's excellence and success.

ZOMATO'S MARKET SHARE GAIN IN TIER 1/TOP-8 MARKETS

Swiggy in 2014 started with its focus on the Tier-1 Markets where the actual scale up was happening and hence it was able to gain a substantial market share within such markets leaving the competition behind. Zomato started off with delivery in 2015 and was struggling to get the customer experience and delivery time right which are the most important aspects customer stickiness points which Swiggy had excelled on.

However, things changed post COVID, where while Swiggy did not deteriorate, Zomato improved substantially on its quality, complaint resolution, delivery time and efficiency. This along with competition leaving the space in companies like Uber Eats, Food Panda etc., is what helped Zomato garner incremental market share. This improvement in services by Zomato is further fortified via the survey we ran which showed:

- 65% of the people believe the Delivery time has improved for Zomato.
- 74% people believe that the Food which comes is Accurate and takes into consideration any requests issued to the restaurants.
- Only 17% of the people believe that the delivery time has deteriorated while 51% believe that it has improved.
- 66% people prefer using Zomato over Swiggy. >50% of the People who responded to the survey were from Mumbai itself which gives us further confidence that Zomato has been capturing market share within the Tier 1/Top 8 Cities as well. Even in Delhi the Search Share for Zomato has expanded from 57% to 62% in the last 5 years.

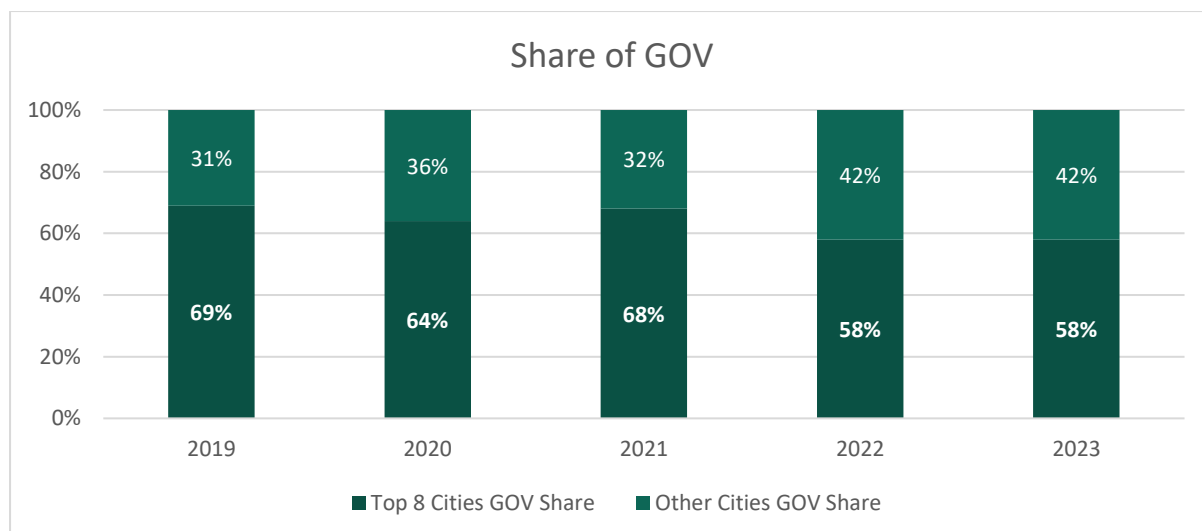
We estimated that on an aggregate basis the market share in top 8 cities is evenly split at 50:50 each vs before where Swiggy was had a Market share closer to 55-58%. Our survey and google trends reveal that Zomato may have emerged as a leader in Mumbai and Delhi.

STRONGER ADOPTION OF ZOMATO IN FASTER GROWING TIER 2 AND BEYOND MARKETS

Based on google trend data and our interaction with multiple experts, Tier 1 as a market has been showing signs of reaching its peak in terms of new user addition. The larger growth hence going forward could come from the Tier 2 and beyond markets which has been the case in the last 5 years as well.

The Table below gives us a split on the share of GOV for Zomato coming in from Top 8 Cities and the rest of the cities over the last 5 years, the increase in share of the Other Cities from 31% to 42% shows the aggressive growth that these markets have been witnessing relative to the Top 8 Cities. Zomato registered a sharp growth in tier 2 markets in 2022 and has been able to maintain this same in 2023.





The cities beyond the top 8 Cities have registered a 55% CAGR whereas the Top 8 Cities registered a CAGR of 37.6% over the same period. We believe the divergence in growth can continue going forward and the Cities in the Tier 2 and Beyond market should continue to grow at a much faster pace.

Year	2019	2020	2021	2022	2023	CAGR
Top 8 Cities GOV (Cr.)	7748	13809	11937	22461	27739	38%
All Other Cities GOV (Cr.)	3481	7767	5617	16265	20087	55%

Analysis of search data further affirms that Zomato has been steadily increasing its market presence across the top 10 states in India. It's noteworthy that Zomato's thriving dine-in business may contribute to a higher share of search traffic compared to Swiggy. Nevertheless, the prevailing trend strongly underscores Zomato's significant advancements in the delivery sector.

While the data encompasses searches pertaining to dine-in services, when we combine the growth figures in the delivery business with insights from Google Trends, our analysis indicates that a substantial portion of the incremental market share gains observed over last 3-5 years is attributed to Zomato's robust delivery services.

State	Zomato Search Share		Swiggy Search Share	
	5 Years Back	Last 1 Year	5 Years Back	Last 1 Year
Andhra Pradesh	53%	57%	47%	43%
Delhi	57%	62%	43%	38%
Gujarat	69%	70%	31%	30%
Karnataka	47%	51%	53%	49%
Maharashtra	59%	61%	41%	39%
Rajasthan	62%	68%	38%	32%
Tamil Nadu	45%	48%	55%	52%
Telangana	50%	52%	50%	48%
Uttar Pradesh	63%	68%	37%	32%
West Bengal	59%	61%	41%	39%



India Average	60%	61%	40%	39%
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*(Data is from Google Trends for the search share of both the platforms)

The evolving landscape suggests a promising trajectory for Zomato, thanks to its strong competitive stance in specific markets. Expert insights confirm that Tier 2 and beyond customers perceive Zomato as a discount-oriented platform, catering to their cost-conscious preferences. This perception aligns discounts with savings and has enabled Zomato to gain an edge. In contrast, Swiggy's historical emphasis on premium, on-time delivery has hindered its growth in these regions, paving the way for Zomato's market share expansion.

Notably, Zomato's dominance is more pronounced in Tier 2 markets, with an estimated market share in the range of 60-62%, whereas Swiggy's presence is comparatively weaker. We believe, the incremental market share of 1000 basis points gained over the last 3 – 4 years has largely come from Tier 2 and beyond markets. With the Tier 2 and beyond markets expected to experience rapid growth, Zomato is well-positioned to consistently increase its market share.

CASE STUDY: DOORDASH EVOLUTION

Doordash, just like Zomato, was not the first player to enter to the food delivery market. There were larger and more entrenched players in the US market. To go up against established food delivery service providers and win, DoorDash had to have a bold and unique brand strategy. Instead of trying to beat out its rivals on their home turf (large inner cities), DoorDash focused on areas with less competition — mainly the suburbs and smaller cities. Doordash started as a delivery platform focused more on the smaller food business owners who could not employ staff/riders to deliver their orders. Most of such businesses were present within the suburban side of the city/country. While the larger players in Grubhub and Uber were focused on the Urban side of the market, Doordash started focusing on the neglected area of such smaller businesses within such smaller area of the city/towns. Over the years they built a very strong business surrounding the suburban side of the markets and were a clear market leader within those segments. Given lower competition within these markets, Doordash was able to improvise and become unit economics positive much earlier than its peers.

The efficiency and profits following through within these markets is something they could deploy eventually when they moved into the more fiercely competitive urban markets. So while they were burning cash on the urban side of the business, the profitability and the market leadership around the suburban side allowed them to generate enough profits which could be reinvested back into the business to get a strong foothold within the urban side of the markets whereas other players were struggling to hold onto their share given they did not have an existing cash generating business which could support such an expansion.

Doordash eventually went onto gaining 56% market share in the food delivery market in US. Based on what we could understand from reading about Doordash the smaller markets have small profit pool but highly profitability. What this means is that there is little room for more than one player but the one who dominates the market can build a highly profitable and stick business. These small markets with health profits in aggregate act as cash generating machine which can help defend and grow market share in the large tier one cities.

Something similar in a way is happening in Zomato:

- *Zomato* has been growing much faster within the Tier 2 and Beyond market where we believe they hold a higher market share at 60-62%. Incrementally higher growth is going to come from these markets and *Zomato* is positioned very well to gain from the same.
- *Zomato* will use the earnings coming in from strong presence in the select few markets (where they are very clear leaders and don't have any threat from competition) to win more market share within the weaker or the newer markets. While on an overall basis the profitability trend would continue to improve, there would always be a significant divergence within each micro markets depending on the share in those markets.



Unit Economics, Business Drivers, and Revenue Model

As the Business stands today *Zomato* is sitting at an inflexion point, wherein:

- A Market has been established.
- Competition has faded away leaving 2 players in the fray.
- Eating habits have evolved with a constant urge to order food online.
- Cost, Technological and Network efficiencies are kicking in.
- Profitability is improving and it looks like a J-Curve is going to set in soon.

To successfully steer upwards towards that J-Curve of sustained profitability, we need:

- **Better Operating Metrics which would drive Growth and Higher Revenues**
- **Better Cost Management/Operating Leverage which shall drive Profitability.**

The following 2 tables and the analysis therein should give you an understanding of the levers of Growth and Profitability and how are they expected to evolve.

OPERATING METRICS

Particulars	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
ATU's (Cr.)	2.8	4	2.8	5.3	5.8	6.15	6.6	7.2	7.6	8.1	8.5	8.9
MTU/ATU	20%	26.8%	24.3%	27.7%	29.5%	29.8%	30.3%	30.9%	31.5%	32%	32.7%	33.3%
MTU's (Cr.)	0.56	1.07	0.68	1.47	1.71	1.82	2.01	2.21	2.4	2.6	2.7	2.95
Average Order Frequency	2.84	3.14	2.93	3.03	3.15	3.4	3.6	3.7	3.8	3.9	4	4.1
Total Orders (MTU's*Average Order Frequency) (Cr.)	19.1	40.3	23.9	53.5	64.7	75.1	86.9	98.3	109.3	120.8	132.6	145.5
Average Order Value (AOV)	282.2	278.4	396.7	398.1	406.6	414.7	423	431.5	440	448.9	457.9	467
GOV (Cr.) (Orders*AOV)	5390	11220	9480	21300	26305	31140	36778	42411	47983	54249	60725	67933
Commission Take Rate	15.3%	16.4%	16%	16%	17.2%	18.3%	18.4%	18.5%	18.6%	18.7%	18.8%	18.9%
Total Take Rate	16.9%	21%	22.8%	22.3%	23.4%	24.6%	24.8%	25%	25.2%	25.5%	25.8%	26.1%
Adjusted Revenues (Take Rate*GOV)	910	2360	2160	4760	6146	7651	9110	10600	12099	13847	15658	17763
Growth in Orders		111%	-40%	123%	21%	16%	16%	13%	11%	11%	10%	10%
Growth in GOV		108%	-16%	125%	24%	18%	18%	15%	13%	13%	12%	12%
Growth in Adjusted Revenues		159%	-8%	120%	29%	25%	19%	16%	14%	14%	13%	13%

Growth and Revenues for *Zomato* is a Factor of:

1. MTU's or Monthly Transacting Users (How many people order food in a month)
2. Ordering Frequency (How many times do such users order in a month)
3. Average Order Value (AOV's)
4. Total Take Rate (Advertisement + Commission + Delivery Income)



And hence growth would ideally be a factor of:



MORE MONTHLY TRANSACTING USERS

Particulars	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
ATU's (Cr.)	2.8	4	2.8	5.3	5.8	6.15	6.6	7.2	7.6	8.1	8.5	8.9
MTU/ATU	20%	26.8%	24.3%	27.7%	29.5%	29.8%	30.3%	30.9%	31.5%	32%	32.7%	33.3%
MTU's (Cr.)	0.56	1.07	0.68	1.47	1.71	1.82	2.01	2.21	2.4	2.6	2.7	2.95

User Growth remains the utmost priority for any Business that is trying to garner market share and expand its offerings. The focus of *Zomato* towards users is 2-fold:

1. Get new ones to use the platform.
2. Make the existing ones to order more frequently.

We believe while on one hand the Total Users will continue to grow led by faster addition in the Tier 2 Markets of customers who are already using the platform, we will see a shift wherein more and more of the existing users will start using the platform much more frequently. The shift however will be gradual and not a dramatic one.

We expect while the ATU's would grow at 6.3% CAGR between 2023-2030, we would additionally see more and more people transacting on the platform monthly which should allow the MTU's to grow at 8.1% between the same period.

[IN AN INTERACTION WITH THE COMPANY'S MANAGEMENT, THEY COMMUNICATED THEIR EXPECTATIONS OF THE USER GROWTH WITHIN THE MTU FRONT TO BE MUCH STRONGER, WHICH IS AN UPSIDE RISK IN OUR EXPECTATIONS]

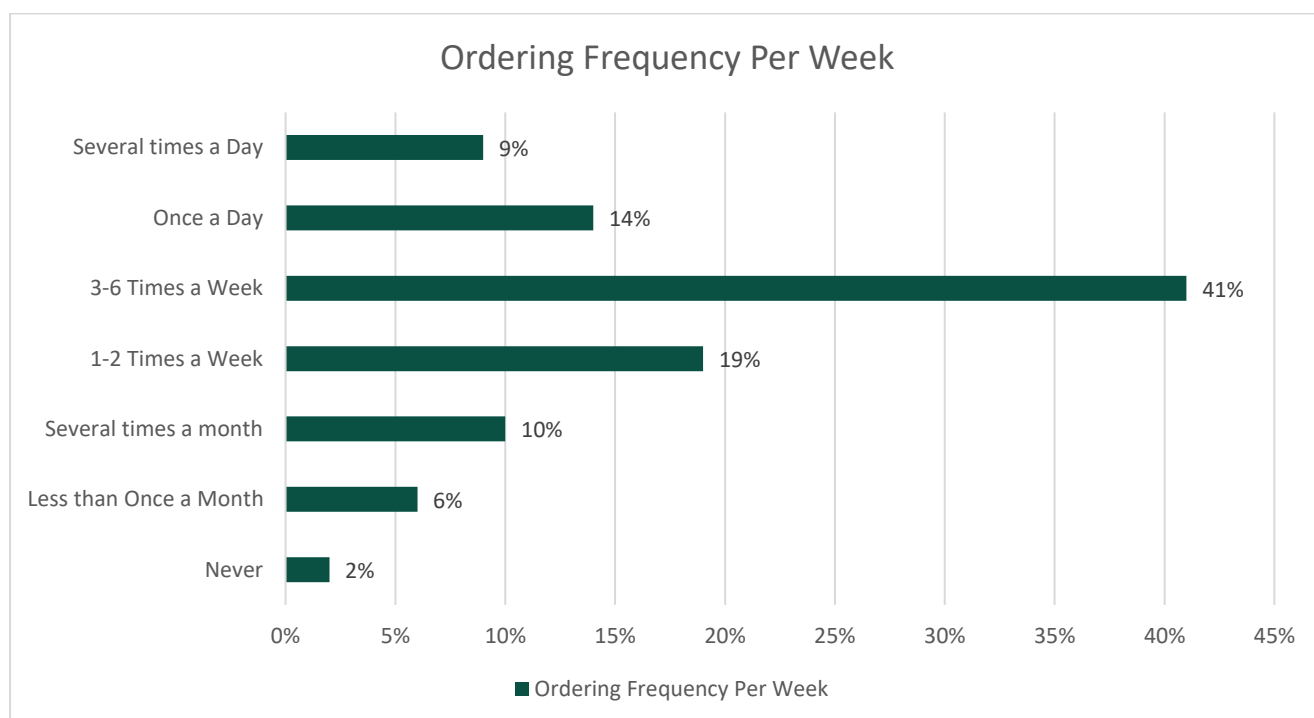


HIGHER ORDERING FREQUENCY

Higher Ordering Frequency by customers is one of the most sensitive and profitable way for *Zomato* to garner Growth and Market Share. Existing users ordering more shows adoption and habit formation traits. Ordering frequency within the developed markets is quite high relative to where India is present as of today.

In China for example, a survey by STATISTA had the following outputs from 8392 respondents:

- Around 83% of the people order at least once in a week.
- Around 65% of the people order at least 3 times a week.
- This would mean an Average Order Frequency of around 5-7 times a month which is almost 2x of where India is today.



India should ideally at least move in the same trajectory if not replicate the one China has shown. Our Survey Results further give us confidence on the direction of the same:

- 43% of people have started ordering 4 or more times which is reflected in the Order Frequency number of 3.4.
- Moreover, Order Frequency has improved or remained unchanged for 39% and 36% of the responders respectively showing stickiness over the last 1 year.
- 80% of the people believe *Zomato Gold/Swiggy One* adds value.

We believe the Average Order Frequency would go up on the back of:

1. Increasing adoption and habit of Food Delivery services led by growing customers vintage and increasing geographical coverage across the country.
2. Increasing expenses towards advertising by restaurants and *Zomato*
3. Increasing usage of the Loyalty program which ends up providing an individual with more incentives to place an order leading to increased engagement and loyalty towards the platform. (*ZOMATO GOLD*)



ZOMATO GOLD

Zomato had launched a Pro Program a couple of years back which they discontinued after short period of time. They have recently launched their Zomato Gold program which is an upgraded version of their old program. Under the Gold program, A user gets to:

- Save on delivery charges if the Per Order value (Pre-Discount) is more than 199.
- Take advantage of Flat discounts with partner restaurants on dining with them and paying through Zomato, where the discounts go as high as 30-40% as well.
- Get some additional Zomato coins on transactions which one can use while ordering as Credits.
- Access to online guarantee of food delivery within the time promised at the start of the order, failing which the user receives additional credit for the delay.
- VIP Access during rush hours.
- Access to Zomato Legends (Intercity Ordering)

History has been in favour of customers subscribing to the program thereby increasing their stickiness to the platform. The number of subscribers for the Zomato loyalty programs have been as follows:

Year	2019	2020	2021	2022	2023
Pro/Gold Users (Mn)	1	1.7	1.4	1.4	1.8 (Launched in January 2023)

The growth in subscribers has been very strong lately, in fact in Q1 FY24, 30% of the GOV came from Gold users, we believe this has a long way to go and with the introduction of new services by Zomato as the years go by, Gold will become costlier and even more valuable.

CASE STUDY DOORDASH DASHPASS

We have seen this subscription-based model payout in the US with Doordash wherein, Doordash released a statistic which claimed that Subscribers to the Dashpass (Their Loyalty Program) had boosted their order frequency by up to 50% and the customer were saving around \$20 monthly on delivery fees post the cost of subscription (That is net savings). Dashpassers ordered around 7-8 times a month, so even if Delivery for them was free, the frequency increase took care of the Profits which was driving higher stickiness to the platform.

Doordash further during some periods released an exclusive program just for the Dash Passers wherein the people with the pass could get access to special discounts, coupons, food items, this in a way increased the flow of customers within the subscriber base and simultaneously increased the loyalty on the platform as well.

They further used Dash Pass to expand their offerings into Grocery and Other products as well which we believe Zomato could also introduce with Gold for Blinkit, this has been done by Swiggy and We believe it really increases the attractiveness of the Subscription while simultaneously making it more attractive for people to purchase it.

A similar trend in Gold users has been seen in India. ICICI recently released a data showing how the ordering frequency varies between a Gold and a Non-Gold Subscriber.

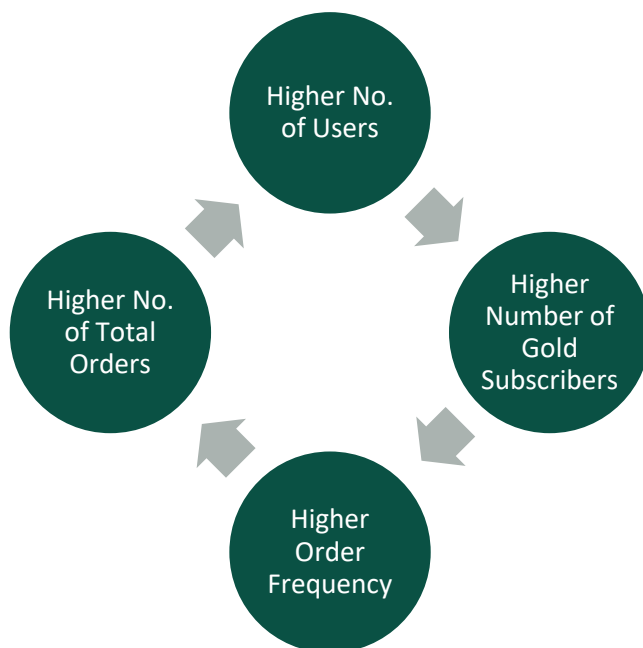


Exhibit 7: Zomato Gold analysis

Zomato gold analysis	Mar-23	Q1FY24
Number of users (in mn)	1.80	1.85
Proportion of GOV from Gold		31%
GOV per gold user per quarter		12,236
GOV per gold user per month		4,079
Ordering frequency per gold customer per month		9.06
GOV per non gold user per month		1,076
Calculated AOV for non gold users (est)		402
Ordering frequency per non gold user per month		2.7
Non-gold tail analysis analysis		
Total transacting users per annum (in mn)		58
Gold customers		1.85
Regular non gold users (who order every month)		8.85
Non regular non gold users (who order once a quarter)		11.5
Rare non gold users (who order once a year)		35.5
MTU		17.5
Regular non gold user analysis (who order every month)		
Ordering frequency per non regular non gold customer per month		0.33
Ordering frequency per non gold regular customer per month		3.96

Source: I-Sec research

Gold subscribers actually order 9 times in a month unlike the non-Gold ones at 2.7 times during the same period, and hence as time passes by, we expect to see a network effect of:



The Unit Economics between a Gold and a non-Gold Subscriber doesn't disappoint either:

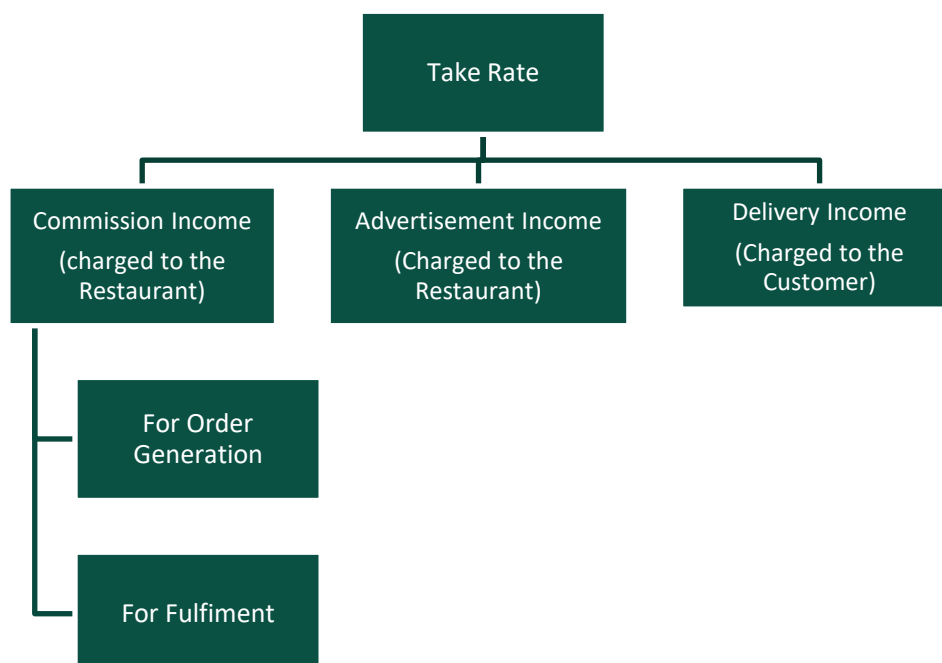
Particulars	Gold User	Non Gold User
No. Of Orders in a Month	9	2.7
AOV	408	408
Take Rate (As of Q1 FY24)	18.70%	23.80%
Adjusted Revenue per Order	76.3	97.1
Total Cost Per Order (As of Q1 FY24)	76.5	76.5
Contribution Profit/Loss Per Order	-0.2	20.6
Total Contribution Profit/Loss	-1.8	55.6
Gold Income (349 for 3 Months)	116.3	0
Total Income	114.5	55.6
Total Income Per Order	12.7	20.6

Even if the total income per order remains lower for a gold user, given the frequency *Zomato* can make more money from Gold user relative to a non-Gold one. It further increases the loyalty and stickiness of the customer to the platform.

Zomato makes more than double from a gold user than they would make from a non-gold user. This subscriber-based model ends up benefiting everyone (The Customer saves money, Restaurant gets more orders, Delivery boys get more delivery and *Zomato* earns more money). All the above-mentioned factors are what should eventually lead to Higher Ordering Frequency with better profitability.

HIGHER COMMISSION RATES AND TAKE RATES

In this section we shall try to delve deeper into the Revenue sources of *Zomato* and try and address concerns around the sustainability and trajectory of the same. *Zomato* earns revenue for three distinct services that it provides, which is further bifurcated as –



COMMISSION INCOME (16.3%)

Restaurant is high fixed cost business. And to generate footfall they must be present in a good location and incur related costs. Depending on the location and traffic in a particular area such as a high street or otherwise rentals would vary. A restaurant in a successful mall must adjust with higher revenue share, anywhere between 12-18% of revenue. For instance, revenue share in Palladium Mall at High Street Phoenix, Mumbai ranges between 15-18% as per the presentation shared by the company.

To be listed on Zomato, the company offers three plans restaurant partners to choose from:

Premium Recommended	Plus Current plan	Basic
Increase sales and grow your brand with maximum visibility and a game-changing marketing boost by Zomato	Increase sales with better visibility and professionally shot photos	Go online on Zomato with limited visibility
Service fee from 2nd month 23% + 4% for Premium benefits	Service fee from 2nd month 23% + 2% for Plus benefits	Service fee from 2nd month 23% + 0% with no extra benefits
<ul style="list-style-type: none"> Visibility to customers up to 12km Get Hyperpure credits worth ₹3,500 Top-up ad campaigns up to ₹1,00,000 Get professional dish photoshoot FREE menu re-engineering session Lifetime growth management Lifetime discounted marketing (ads & promotions) 	<ul style="list-style-type: none"> Visibility to customers up to 6km Get Hyperpure credits worth ₹2,000 Top-up ad campaigns up to ₹20,000 Get professional dish photoshoot FREE menu re-engineering session Lifetime growth management Lifetime discounted marketing (ads & promotions) 	<ul style="list-style-type: none"> Visibility to customers up to 3km Get Hyperpure credits worth ₹1,500 Ad benefits Get professional dish photoshoot FREE menu re-engineering session Lifetime growth management Lifetime discounted marketing (ads & promotions)
Estimated 4X sales of Basic	Estimated 2X sales of Basic	

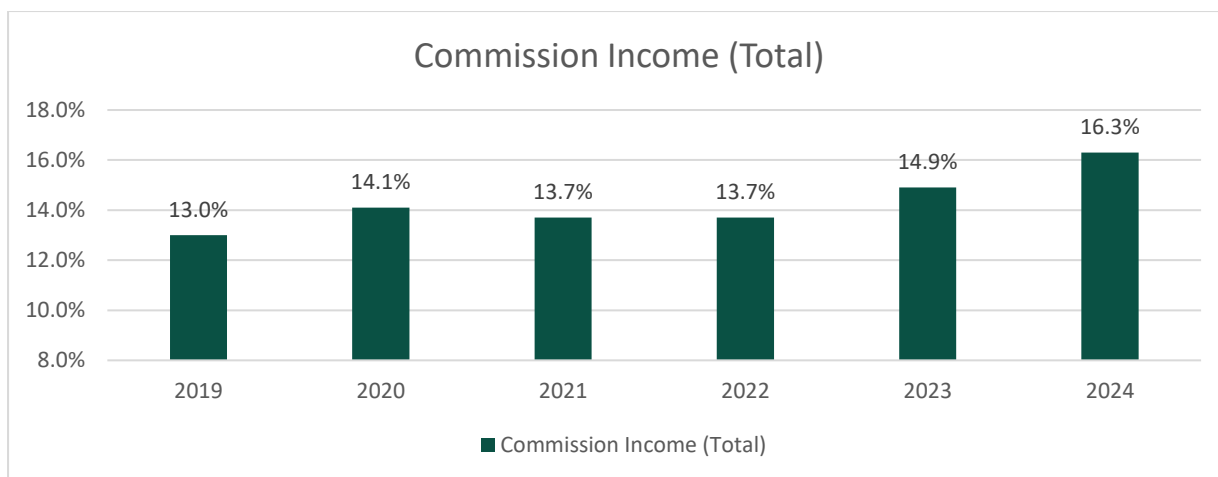
Independent restaurants pay ~23% commission up to 3km whereas if they want higher coverage radius, they can choose from other plans which also offers free ad credits. We prefer to look at the commission income of 23% charged by Zomato as a combination of two-part service:

- Order Generation (16.7%-17.7%)
- Order Fulfilment - 30-35/Order (5.3-6.3%)

We estimate Zomato's total fulfilment cost per order to be INR60. Zomato does not intend to make money on order fulfilment, instead, they pass on this income to delivery partners. Zomato splits this cost equally, collecting approximately INR30 (6% of AOV) from customers as a delivery charge and the remaining INR30 (6% of AOV) is included in the commission charge borne by restaurants. This approach is expected to continue, with an even split to avoid burdening any one stakeholder disproportionately.

Splitting the commission Income into order generation and fulfilment cost as discussed above the implied order generation fees for small independent restaurants would be ~16-18%. What is interesting is that most chains and larger restaurants would get significant discount on this tariff card rate. And despite the long tail of small independent restaurants most of the orders are generated by the more popular restaurants on the platform and hence the weighted commission income is in Q1FY24 is 16.3% - implying order generation fee is only 10-11%.





We believe the shell out on the Commission Income rate is not high at all and in fact as of today Zomato order generation income remains in the lower band of the comparable formats at 10-11%. (We ignore the Delivery/Order Fulfilment charges as it would be a common pass through for almost all the restaurants under any format, the total commission income including delivery would be 16.3%). This is what gives us comfort is the sustenance of the commission rate as a whole and as and when the tail keeps on growing which it has been the weighted average commission rate should keep on increasing towards the 20% mark on an overall level where majority of the increase would be driven by the order generation rates.

Over the last year we have seen a lot of questions have been raised around the sustainability of such commission Income and take Rates which has a substantial impact on profitability trajectory for the company claiming that such commission income remains unsustainable, and it must eventually come down. **We however have an opposite thesis to the same and believe the commission income is very much in line with what a Restaurant will have to spend under other formats to drive footfalls and utilisation and it rather has even more reasons to go higher from here on in. Let me dive deeper into it and explain how:**

Order generation fee is a fee charged by Zomato to drive visibility, footfalls, and orders for a particular restaurant. The best way to think about this is to compare to rent paid by a restaurant present on a high street or a mall:

- A restaurant paying a revenue share to a mall, as the mall drives footfalls and visibility to the restaurant.
- A restaurant paying higher rentals to be present on high Streets where the footfalls are high and the visibility for a restaurant improves.

Let’s take an example of 3 Formats:

Particulars	High Street	Mall/ Food Court	Zomato
AOV	400	400	400
Incremental Comparable Cost for Order Generation	Higher Rental on High Streets	Revenue Share paid to Malls (Phoenix charges the below rate)	Order Generation Cost
Payout to drive Footfalls and Visibility (Order Generation Cost)	8-12%	12-18%	10-17%
Footfall Probability	Low	Good	Good
Additional Cost of Setup	Capex Full	Capex Full	Can work with a small De-bottlenecking in the kitchen.



We have here compared only order generation cost and ignore fulfilment cost in case of Zomato and capex cost for physical restaurants. The order generation fee as mentioned is a factor of multiple things and never stays consistent across restaurants. The order generation fee paid by a restaurant would depend on:

- Its popularity
- Vintage
- Recall Value
- Ability to attract customers to order.

Higher the potential of the restaurant to generate organic orders lower remains the order generation cost and vice versa. (A McDonalds'/Dominos/Burger King would pay around 12-14% whereas a new Restaurant which no one knows about will have to shell out 23% or more). [An easier way to understand the same could be, Popular restaurants pay lower order generation cost and unpopular ones pay the higher side of the cost].

ADVERTISEMENT INCOME (2.3%)

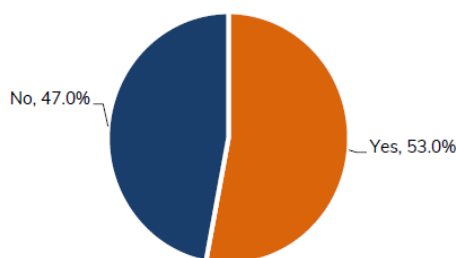
Advertisement Income which remains at around 2.3% of the Total Take rate is a completely optional charge that restaurants would choose to pay. This charge as we saw in the picture above could range anywhere between 0-4% of the GOV.

We believe the advertisement charges will continue to inch higher as the number of new restaurants continue to get added onto the platform in an urge to drive higher revenues. Zomato has over a period of time with their backend tech support improved on the advertising campaigns thereby driving effective campaigns on higher ROI's for its customers.

ICICI did a recent survey of around 200+ restaurants in which they found that 53% of respondents are advertising on Zomato/Swiggy and around 88% of them have a positive response and believe they would continue with it.

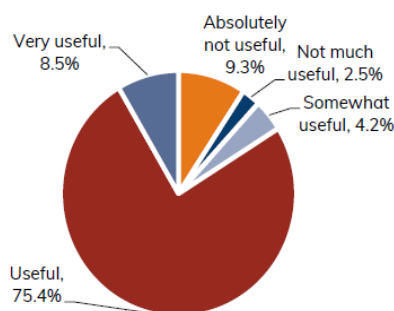
What are restaurants saying on advertising?

Exhibit 10: 53.0% of respondents are advertising on food aggregator platforms



Source: I-Sec research

Exhibit 11: 88.1% of respondents who are advertising, have a positive experience



Source: I-Sec research

They further found that:

- Advertisers' satisfaction in Top 5 markets is at 100%
- Higher rated restaurants advertise the lowest.
- Premium restaurants are advertising the most and their satisfaction level is at 92.3%.
- One of the respondents in Delhi mentioned about conversion rate being 20%.

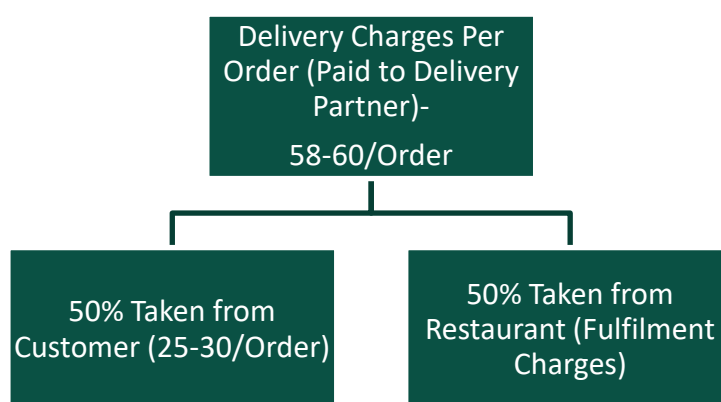


We believe advertising should continue to inch higher allowing the Commission + Advertisement take rate to move towards the 19-20% mark.

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Take Rate %	15.3	16.4	16.0	16.0	17.2	18.3	18.4	18.5	18.6	18.7	18.8	18.9

DELIVERY INCOME (5.2%)

Delivery as an income for Zomato is a complete pass through which means that whatever their charge to the customer is directly passed on to the delivery partners and Zomato does not earn anything from. As we had mentioned above:



The Delivery Income for Zomato (This includes only the one charged from Customers) has been much more consistent historically at around the Rs25/Order range. We believe the Growth in Delivery Income per Order should not be very large but a consistent one at a slower pace. It would however aid in the Total Take Rate which we expect to move towards 26.1% by FY30.

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Delivery Income Per Order	4.6	13	27	25.2	24.9	25	25.8	26.5	27.3	28.1	29	29.9
Total Takerate	16.9%	21%	22.8%	22.3%	23.4%	24.6%	24.8%	25%	25.2%	25.5%	25.8%	26.1%

The Company has recently also started charging a minimal Platform fee on a per order basis of around Rs. 1-2/Order which should be a direct flow down to the Take Rates/Profitability in case it sustains thereby increasing the entire Take Rate.

Take Rate and Ordering Frequency remain very crucial data points for us to track to judge the trajectory of Growth and Revenues which should lead the change in Operating leverage as we will see in the next Section.



UNIT ECONOMICS

Particulars (Per Order)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Average Order Value	282.2	278.4	396.7	398.1	406.6	414.7	423	431.5	440.1	448.9	457.9	467
Take Rate Total	16.9%	21.0%	22.8%	22.3%	23.4%	24.6%	24.8%	25.0%	25.2%	25.5%	25.8%	26.1%
Commission + Advertisement	43.1	45.5	63.3	63.8	70.1	75.9	77.8	79.8	81.9	83.9	86.1	88.3
Delivery Income	4.6	13.0	27.0	25.2	24.9	25.0	25.8	26.5	27.3	28.1	29.0	29.9
Platform Fee						1.0	1.2	1.5	1.8	2.5	3.0	4.0
Total Adjusted Revenues	47.6	58.6	90.4	89.0	95.0	101.9	104.8	107.8	111.0	114.6	118.1	122.1
Costs												
Delivery Charges Paid to Riders	65.0	52.0	48.8	58.9	57.9	57.0	58.1	59.3	60.5	61.7	62.9	64.2
Advertisement and Discounts	28.0	22.0	20.7	22.9	16.9	15.5	15.0	14.8	14.5	14.2	14.0	14.0
Other Variable Costs	24.6	15.2	0.3	0.4	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Total Costs	117.6	89.2	69.8	82.2	76.5	74.2	74.8	75.8	76.7	77.6	78.6	79.9
Contribution Per Order	-70.0	-30.6	20.6	6.8	18.5	28	30	32	34	37	39	42
Contribution Margins	-24.8%	-11.0%	5.2%	1.7%	4.5%	6.7%	7.1%	7.4%	7.8%	8.2%	8.6%	9.0%
Fixed Costs Per Order	34.43	17.26	19.04	13.93	18.62	15.2	14.2	13.5	13.2	12.6	12.2	11.5
Adjusted EBITDA	-104.4	-47.9	1.6	-7.2	-0.2	12.5	15.8	18.5	21.1	24.4	27.3	30.7
Adjusted EBITDA Margins	-37.0%	-17.2%	0.4%	-1.8%	0.0%	3.0%	3.7%	4.3%	4.8%	5.4%	6.0%	6.6%

(The Data for FY19/20 is as per given in RHP and other Reports whereas for FY21 onwards it's based on Reported Numbers, P&L majorly on the distribution on the Cost front, Revenues and Contribution remain as given)

Takeaways and expectations from the Unit Economics:

- Majority of the Leverage as we had initially expected will flow through the Revenue side. Look at the change between the same between FY23-FY30:

Particulars	FY23	FY30	Difference
Total Adjusted Revenues	95	122.1	27.1
Total Cost	76.5	79.9	(3.4)
Contribution	18.5	42	23.5
Fixed Costs	18.6	11.5	7.1
Adjusted EBITDA	-0.2	30.7	30.9

The Cost side is in fact adding a negative leverage to the entire business where we expect the Delivery Charges paid to Riders to increase as the years pass by and as the standards of living and minimum wage increases, which gets an offset from discounts and advertisements which we believe is largely optimised.

Revenue per order is contributing to Rs. 27 of the Rs. 23 Increase in Contribution which shows most of the leverage coming in from the Revenue side:

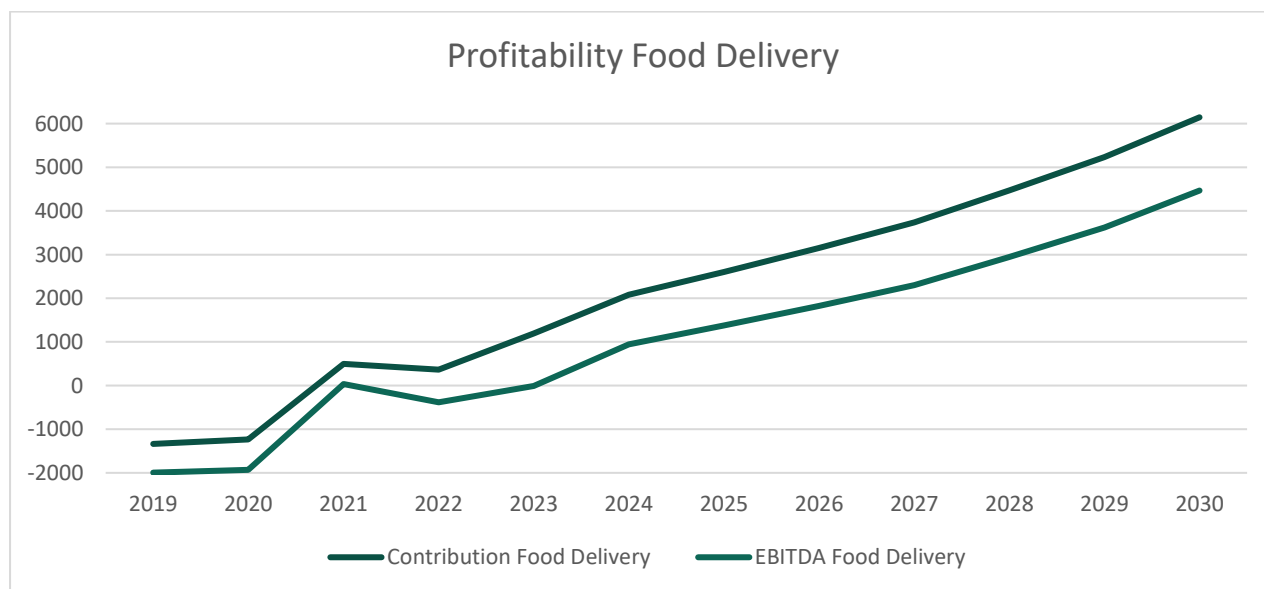


- We don't expect AOV's to expand strongly except for a nominal increase of 2% as we believe as the market expands with new users coming in and more into Tier 2 and beyond the AOV's should not grow as fast.
- Fixed Costs should drive strong leverage in its contribution to EBITDA. We have assumed an inflation linked growth of 8% in Fixed Costs which eventually moves to 4%.
- Contribution Margins and Adjusted EBITDA Margins are expected to expand significantly. Q1 FY24 had some glimpses of it where Contribution Margin came in at 6.4% with Adjusted EBITDA at 2.5% which is around our expectations.

This is how we believe the Unit Economics and Operational Metrics should pan out giving us substantial increase in the Contribution and Adjusted EBITDA over the next 5-7 years to come. COVID has been in boon in accelerating the J-Curve.

Particulars	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	CAGR (FY23-FY30)
Total GOV	5390	11220	9480	21300	26305	31140	36778	42411	47983	54249	60726	67933	14.5%
Total Adjusted Revenues	910	2360	2160	4760	6146	7651	9110	10600	12099	13847	15658	17763	16.4%
Contribution Food Delivery	-1337	-1234	493	362	1195	2080	2604	3150	3739	4470	5230	6144	26.4%
Fixed Costs	658	696	455	746	1205	1140	1231	1330	1436	1522	1614	1678	4.8%
Adjusted EBITDA	-1994	-1930	38	-383	-10	940	1373	1821	2303	2948	3617	4466	-339%

And that is how we expect the J-Curve to come in:



BLINKIT (ZOMATO 2.0 IN THE MAKING)

Mr. Deepinder Goyal had in August 2022 said, **“I think the grocery TAM is bigger than the restaurant TAM right now and so theoretically *Blinkit* could be bigger than *Zomato*.”**

The management at *Zomato* decided to enter the Quick Commerce market much later than its peers in Big Basket, Grofers, *Swiggy*, *Zepto* etc. This was somehow in coherence with their approach that we have seen historically. The management at *Zomato* has been a relative conservative one where they usually are not the first one in any market but are more focused on establishing the efficacy, profitability, opportunity, and proof of concept for a business before delving into it. Despite entering late, they execute faster and better to eventually become the market leader.

Historically there were 2 players within the Grocery Retail Delivery focused market in Big Basket and Grofers. Big Basket was a clear winner in Market Share who had also innovated and introduced various services such as 1 Hour Delivery, BB Daily, Subscription models etc.

However, in the last 2 years with the introduction of *Zepto* and *Swiggy Instamart* within the Quick Commerce space which was much more focused on 10-minute delivery, the game went downhill for both Big Basket and Grofers which had to innovate and adjust once more. That is when Grofers taking advantage of the Customer Base and the Delivery Channel that it had set for itself moved into the Quick Commerce space and rebranded itself to *Blinkit* before being acquired by *Zomato*.

The Indian Quick Commerce Market as of today consists of:



Zomato as of FY23 ended up completing the acquisition of *Blinkit* for an all-Share swap worth 4447 Crores. *Blinkit's* financials as of FY23 looked somewhat like:

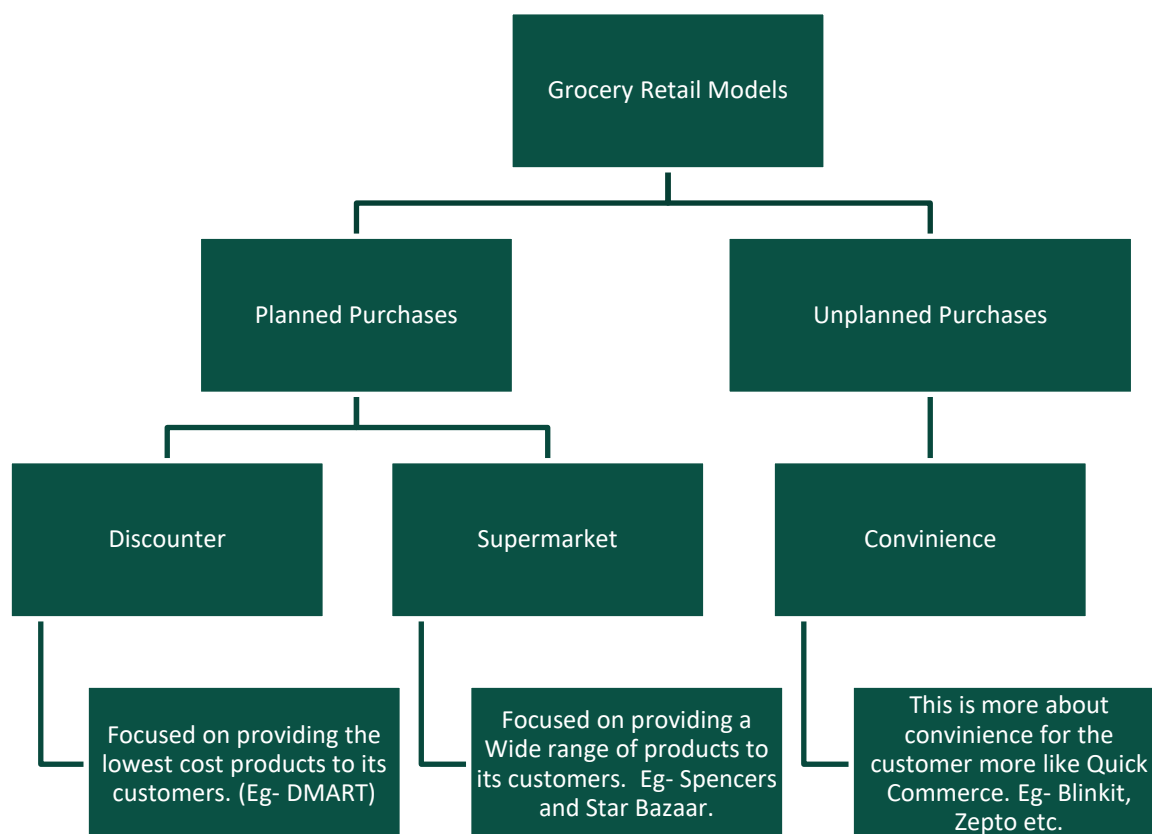
Particulars	FY2022	FY2023
GOV (Crore)	3519	6449
Revenues	549	1064
Contribution Profit		-446
Adjusted EBITDA		-1015

Initially, like many others, we held a sceptical view of the Quick Commerce sector and its potential reception among Indian consumers. However, we have been pleasantly surprised by the rate of adoption and the frequency of orders achieved by businesses in this domain. Recently at Nestle India’s analyst meet the CEO stated that e-commerce for Nestle is growing at 20% and 50% of their E-Commerce business comes from Quick Commerce, he further went onto saying that *“Blinkit is as important as Amazon for Nestle today.”* which we believe is a huge statement to make and it in a way shows the adoption of quick commerce happening within the country.

Quick Commerce aims to disrupt the traditional mom-and-pop convenience store model and tap into an underserved segment of the grocery retail market. Nevertheless, it remains an evolving market with numerous players vying for a share of its burgeoning potential. Despite its apparent simplicity as a business model centred around 10-minute grocery deliveries, a deeper dive into the operational metrics and unit economics reveals the intricacies involved in running such an enterprise. To better comprehend the business, we have undertaken an exploration of its viability, unit economics, and Blinkit’s competitive advantage within this dynamic segment, which we will delve into in the following discussion.

We have gathered insights into the Business which has given us confidence on the sustenance of the model and the potential scale it could reach to and why do we believe Zomato and Swiggy remain the best placed players within the market to capture majority of the market share.

Different Purchase Patterns and Business models within the Grocery Retail Market



We could divide our Purchase Patterns and Business Models in Groceries into 2 Buckets:

- **Planned purchases** - This mostly entails buying groceries for a Month/Week/Event wherein we know the requirements. The purchase is planned. As the order value is high most of the time such bulk



shopping is done at discount store or supermarket which carries a wide range of products. The no. of products purchased, bill value and time taken is high. The online equivalent of these businesses are Reliance Jio and Big Basket. As the orders are delivered at a scheduled time same day or next day the company can plan a delivery route and does it from the warehouse thereby reducing cost of delivery.

- **Unplanned Purchase** - This is a pattern of purchase which while was present for a long time as well and was catered to by the neighbourhood store or convenience store such as 7-eleven store. The Quick Commerce space is trying to compete against the convenience store where the purchase is small quantity in the fastest time possible. This is where the convenience side comes into the picture wherein with a few clicks a person could be driving to your place and delivering the product required by you. Here the customer is not price or brand sensitive and is only looking to meet his need or urge in the shortest possible time, mostly within the 10–20-minute.

Businesses like *Blinkit*, *Zepto*, *Swiggy Instamart*, *BB Instant* etc. are trying to target this unscheduled delivery segment. Both planned and unplanned segments have distinct characteristics and need a very different delivery infrastructure as Amazon realised when they entered and eventually closed the food delivery business.

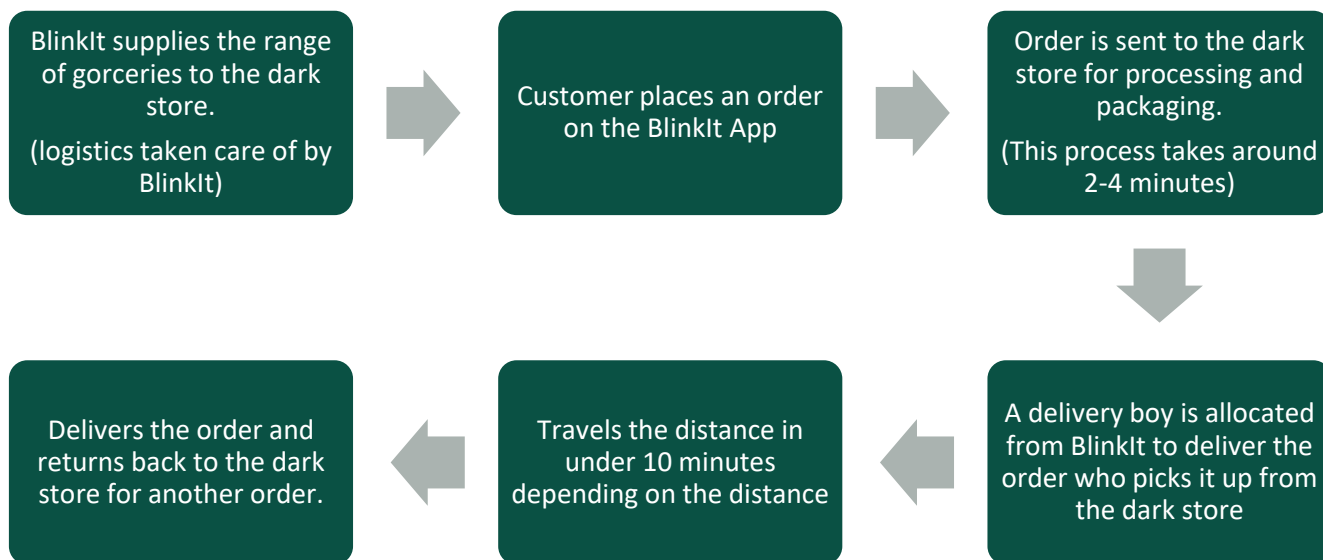
Key characteristics of these business model are described as follows:

Particulars	Discounter	Supermarket	Convenience
Company (As an Example)	Dmart, Reliance Fresh	Star Bazaar, Spencers, Natures Basket, Jio Mart, Big Basket	7-Eleven, Neighbourhood store, Blinkit, Zepto, Swiggy Instamart
Focus Area	Lowest Price	Range of Products and Premiumisation	Fast Delivery at Doorstep and Convenience for the Customer
Customer Frequency	Weekly/Monthly	Weekly/Monthly or event based	Instant /Urgent needs
Gross Margins	14-15%	18-20%	~20%
Store Size (SQFT)	30,000+	8000-10,000	3000-5000
Ultimate Selling Point (USP)	Price	Range	Convenience

We believe all three models have a market of their own as they address different customer needs. We shall further discuss *Blinkit's* business model, its right to win, its operating metrics, unit economics and how do we expect the Financials to evolve over a period.



BLINKIT'S BUSINESS MODEL



The above illustration is a representation of the Business Model that *Blinkit* operates under. *Blinkit* operates its Business under a Franchise Model wherein the Franchise operates the Dark Store and *Blinkit* takes care of the Delivery, Orderflow and the Inventory. The Franchise is responsible for:

- Providing a space which has a minimum space of 3000 Sq. Ft.
- Taking care of all the operational costs which involves every process from inventory stacking, daily operations, order processing, packing, and giving the order to the delivery partner. Whereas *Blinkit* focuses on Delivering the order and the cost for the same is borne by *Blinkit* itself.

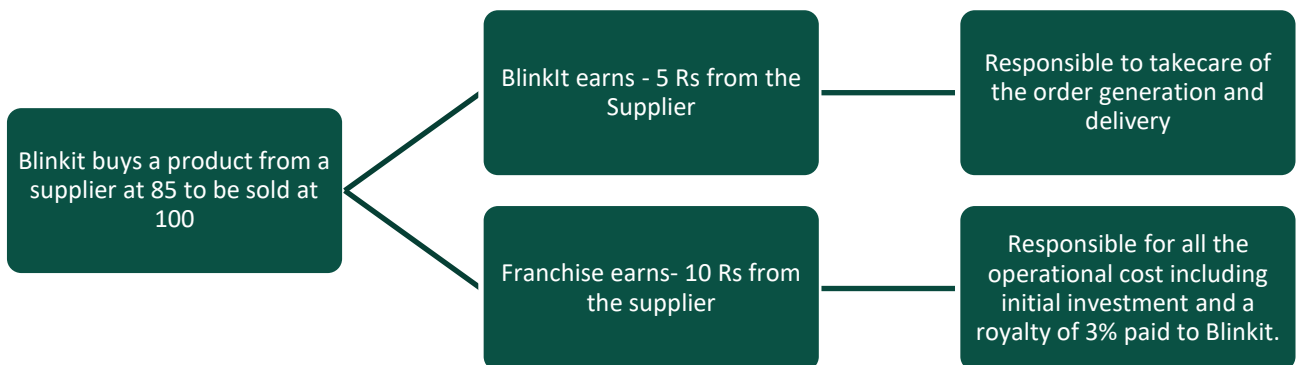
The Total investment required to be made by the Franchise in setting up everything is around 70-80 Lakhs depending on the area and city of the darkstore.

Breakup of the Capex Cost	Cost
Store Setup Cost	20-40 Lakhs (Depending on the Area of the Store and Offerings, For Example- A Store in Mumbai would need to have a Cold Storage and the Area Cost would be high as well relative to Indore.)
Security Deposit	3-5 Lakhs
One time Franchise Fee (3% Royalty post that)	5 Lakhs
Bank Guarantee (Inventory)	30 Lakhs
Total	70-80 Lakhs

On the Revenue front *Blinkit* as of today is operating at a Gross Margin of ~15% of which it keeps ~5% with itself and 10% is a pass through to the Franchise who in turn gives a 3 % royalty on the total business to *Blinkit*. Hence, *Blinkit* in total makes around ~8% while the franchise makes around ~7% from the entire transaction as the gross profit before operational Cost.

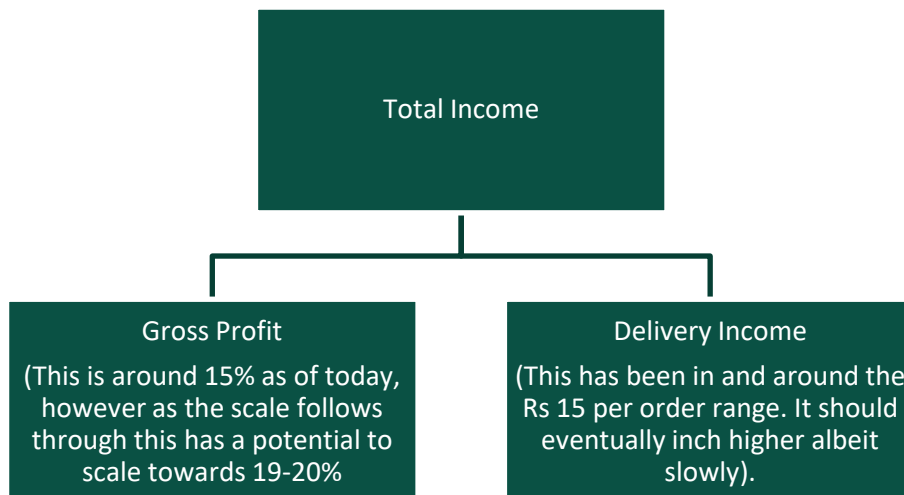
The Revenue flow and Cost responsibility looks something like



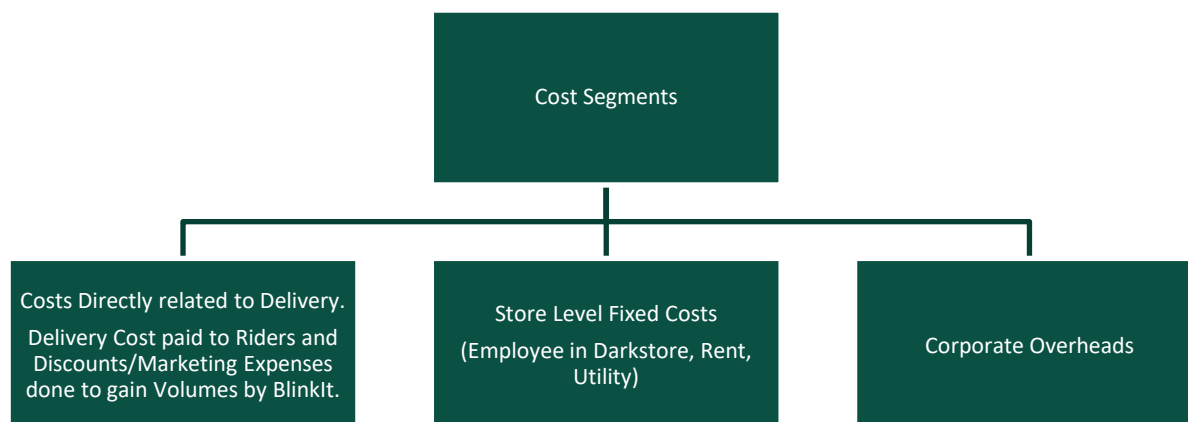


We have however within our calculations in the unit economics section focused on the business on a consolidated level, given the backend could differ vastly depending on the area, place, offerings etc and that is how they report their numbers as well. The above context was to give you an idea of how things operate but the underlying individual store level metrics could be very different.

On the Business front the Revenue has two components to it:



Whereas on cost side, there are three kinds of costs within the business:



We discuss the costs directly related to delivery and corporate Overheads in detail in the next section of unit economics. Based on our interaction with store operators and experts we understand that the store level fixed cost is somewhere around 18 lakhs per store on an average ex-delivery and discounts/marketing costs which remain variable. The fixed costs on the store front include the following:

Store Fixed Costs	Cost
Employee Cost incl. Picking and Packing (Ex-delivery)	8-10 Lakhs
Rent	3-4 Lakhs
Other Variable Costs (utility and miscellaneous)	5 Lakhs
Total	17-19 Lakhs

We discuss the breakup, historical and the expectations around the evolution of such costs and profitability in the next section.

We believe *Zomato* provides a very formidable platform for *Blinkit* to thrive on and given its recent history on the execution we believe *Blinkit* has all the potential to make a very strong business over a long period of time.

Blinkit on the back of *Zomato* should benefit from:

1. **Lower Customer Acquisition Cost (CAC):** *Zomato* has a data base of active users on this platform who are also the most likely going to be the earlier adopters of a quick commerce service. This helps reduce the Customer Acquisition Cost (CAC) for *Blinkit* substantially and instantly provides it with a large customer base to cater to. *Swiggy too* was able to take advantage of its customer base with *Instamart*.
2. **Integration with Zomato:** A potential chance of app integration between *Zomato* and *Blinkit* should drive incremental volumes. (We ran a Survey in which out of 45 people who order from *Swiggy* (Out of 100) around 35 orders from *Instamart* as well whereas in the case of *Zomato*, out of 55 people who order from *Zomato* only 24 of them order from *Blinkit*, We believe this is due to there being 2 Apps instead of 1

3. **Capitalising on Tech and Delivery Infrastructure:** While the delivery boys for both Zomato and Blinkit are separate, Zomato can leverage the entire delivery technology infrastructure better and capitalise on this cost better.
4. *Zomato's* learnings from the Food Delivery space shall allow for better cost management which shall drive profitability as it has done in the food delivery business which on a standalone level has turned profitable much earlier than expectations.

We believe *Zomato's* acquisition of *Blinkit* was a very calculated acquisition. *Zomato* here had an opportunity to bank on its Captive Customer base while adding *Blinkit* as an extension to its food offerings wherein they could focus on catering to the same customers ordering food from their App which would significantly reduce their CAC (Customer Acquisition Cost) thereby driving faster efficiencies. With Technological capabilities coming into fray, Delivery efficiency could lead to faster operational profitability and scale up of the business. And as Mr. Deepinder said "*Blinkit* carries the potential to become larger than *Zomato*, and one day we hope it does."

IS PROFITABILITY POSSIBLE?

The Markets scepticism on the Quick Commerce Business came in from 2 angles of Growth and Profitability. While *Blinkit* has been able to address the growth concerns in the past few Quarters by showing Strong Growth across Business metrics, Profitability is something the Street continues to remain concerned about.

Profitability in such a Business is always looked at from 2 lenses- Store Level and Business Level. We will in this section try to give you an understanding about How is *Blinkit* placed from a Profitability standpoint today on a Store Level as well as Corporate Level.

STORE LEVEL UNIT ECONOMICS

The general Unit Economics for the Business is somewhat like the Food Delivery Business. While the reported numbers are not as comprehensive as the Food delivery Business, we have tried to back calculate certain numbers using the data we have and from our conversation with multiple Industry participants. We believe the Current Unit Economics looks like:

Particulars	Unit Economics	Explanation
Average Order Value (Q1 FY24)	560	Given
Gross Profit	15-16%	Back Calculation using the Take Rate at 18.5%, and the Delivery Charges to customer is around 15/Order which is 2.5%
Take Rate (Revenue)	85.1	AOV*Gross Profit
Delivery Income	15	As Charged
Total Income	100.1	Take Rate + Delivery Income
Delivery Cost Paid to Delivery Partner	31.5	(15 Per Order paid to the Delivery partner + Bonus)
Discounts/Marketing Expenses	16.2	We believe this expense to be lower than the one charged by <i>Zomato</i> , given the CAC would be way lower.
Contribution Income Per Order	52.4	(Total Income-Delivery Cost Paid- Advertisement Expenses)
Orders Per Day Per Dark Store (Q1 FY24)	1067	Given
Total Contribution Income Per Month	16,77,324	(Order per day per dark store x 30 x contribution income per order)
Total Store Level Fixed Cost	18,00,000*	Fulfilment expenses, rental, utility etc.)
Store Level Income Per Month	-1,22,676	contribution - total other variable Cost



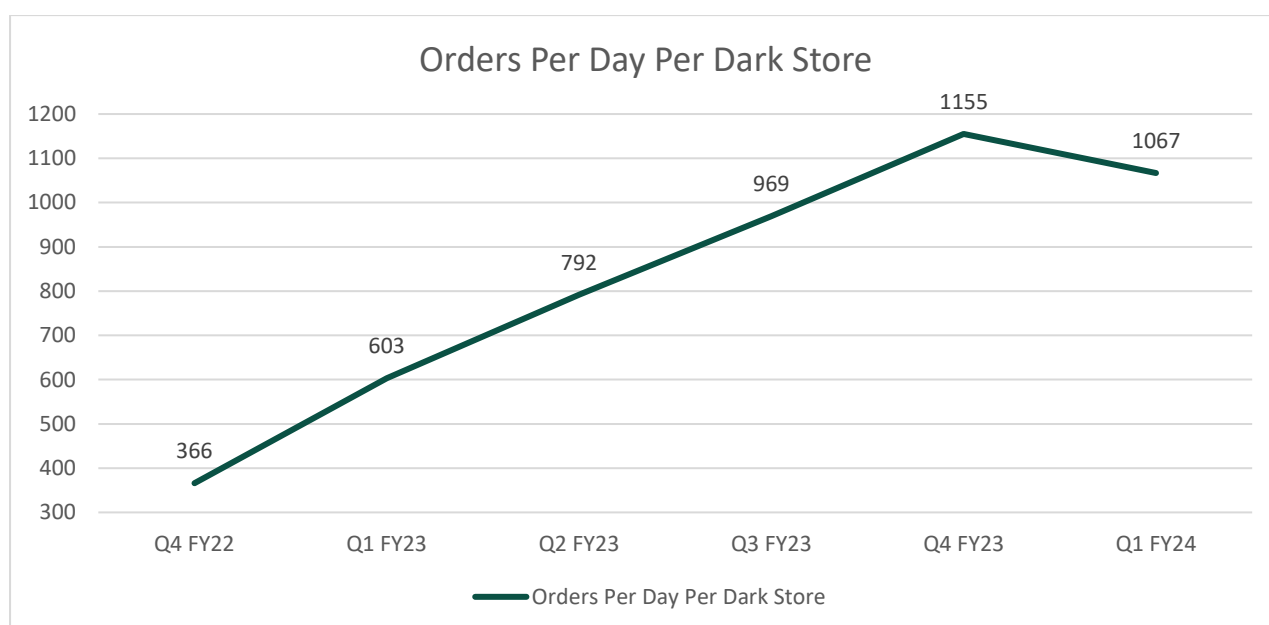
(Note: The fixed cost of INR18 lacs is something we were able to arrive at after talking to the dark store owners and matching it with the Back calculation that we did, as was shown in the previous section.)

The most important element in the Jigsaw for Unit Economics remains:

- **Orders per day per dark Store (which determines the velocity)**
- **Gross margins will eventually drive contribution/order which shall drive profitability.**
- **Average Order Value (AOV)**

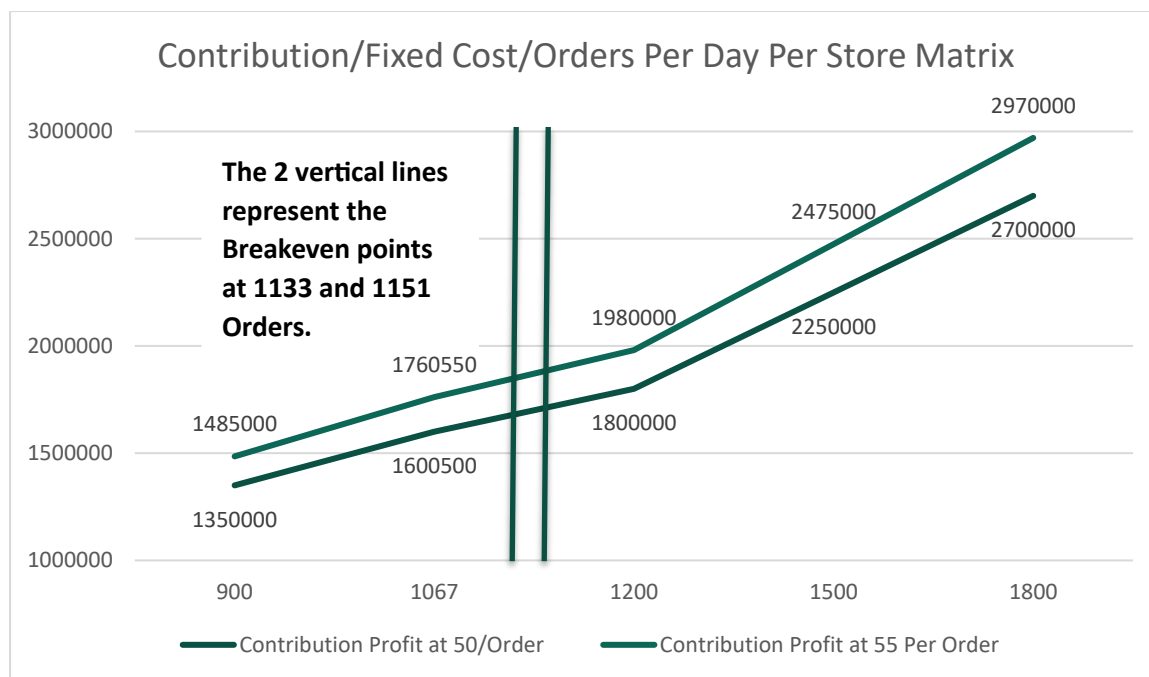
These are the 3 most important pieces within Unit Economics to track given most of the other Income/Costs are expected to stay within a range and not fluctuate much.

The growth in orders per day per dark store is something we have been quite positively surprised by. In the last 6 Quarters the orders per day per dark store has moved from 366 to 1067 and we expect it to continue to scale over the next 3-5 years.



Due to the business's high fixed costs, an increase in daily orders per dark store significantly affects its profitability. The store must reach a specific throughput to cover its expenses. The chart below illustrates the potential range of contribution margins, encompassing breakeven points. This is based on a contribution per order calculation (gross margins minus delivery cost) ranging from 50 to 55, and with fixed costs for the dark store falling between INR 17 to 19 Lakhs. According to our analysis, a dark store is projected to reach breakeven at approximately 1150 orders.





The chart above is a representation of:

- No of orders required per day for a dark store to breakeven. (In this case it came out to be 1133 and 1151 Orders when the Contribution/Order and Total Fixed Costs were at 50/17 Lakhs and 55/19 Lakhs respectively.
- How would the profitability scale up going forward once the breakeven is hit and the orders per day per store continues to scale.

We would in an ideal scenario want all the 3 elements to tread higher thereby allowing for a multiplier effect, however that is not how we believe things would evolve. We expect:

- No. Of Orders Per Day Per Store to tread higher from the current 1067 levels. The recent pace of increase has been quite surprising, we expect the pace to be relatively slow, but in an upward direction.
- AOV's should eventually come off more towards the 450-460 range as the effect of large numbers comes into play. This would however be offset by higher order frequency and improvement in gross margins.
- We expect gross margins to tread higher driven by:
 - Sourcing gains as the throughput goes up for *Blinkit*. Dmart being a discount retailer operates at 14% Margins, we believe *Blinkit* to have 20% gross margins.
 - Product mix improve towards higher margin and private label products.

A mixture of above should allow the income per store to be substantially higher than the current levels. **We expect the store level profitability to arrive in Q3/Q4 FY24, company level profitability remains far off, given the fixed corporate overheads.**

COMPANY LEVEL ECONOMICS

The Company is currently running at a Run Rate of 133 Crores of negative EBITDA along with a fixed cost of 119 Crores for Q1 FY24 which needs to be covered for before *Blinkit* can report corporate level profitability. This is driven by growth in orders which in turn would be driven by no of stores and order per store and contribution per order as discussed above. Assuming 1144 order per day is required to breakeven on a store level implying corporate overhead of 119 Crores per quarter.



Particulars	Unit Economics	Explanation
Contribution Per Order	52.4	As Calculated Above
Breakeven order / day / store	1144	
Contribution /Month/ store	18,00,000	(52.4*1144*30)
Variable Cost / Month / store	18,00,000	As Given Above
Per Store Income per month	0	(Contribution-Variable Cost)
Total Income (All Stores) For the Quarter	0	Total Income Per Store * No. Of Stores*3
Corporate OH / Quarter (Cr.)	119	As Given
Reported Loss (Cr.s.)	-119	

We would hence need to get additional Contribution Profit of 119 Crores Per Quarter to cover up for the Corporate Level EBITDA. Assuming the Gross Margins stay at 15.2% the incremental Contribution will need to come from Growth in No. Of Orders. We hence Back Calculated the No. Of Orders which would be required to Cover up for the Fixed Costs:

Particulars	Amount	Explanation
Fixed Costs (Cr.)	119	
Contribution Per Order	52.4	
No. of order Required to breakeven	2.27 Crore Orders	(Fixed Costs/Contribution Per Order)
No. of orders /store/ quarter	59,294 Orders	(2.22 Crore/383)
No. of orders per day / Incremental Store	658	
Current order run rate	1144	
No. of order / Store / Day breakeven	1802	(1144+658), assuming 383 Stores

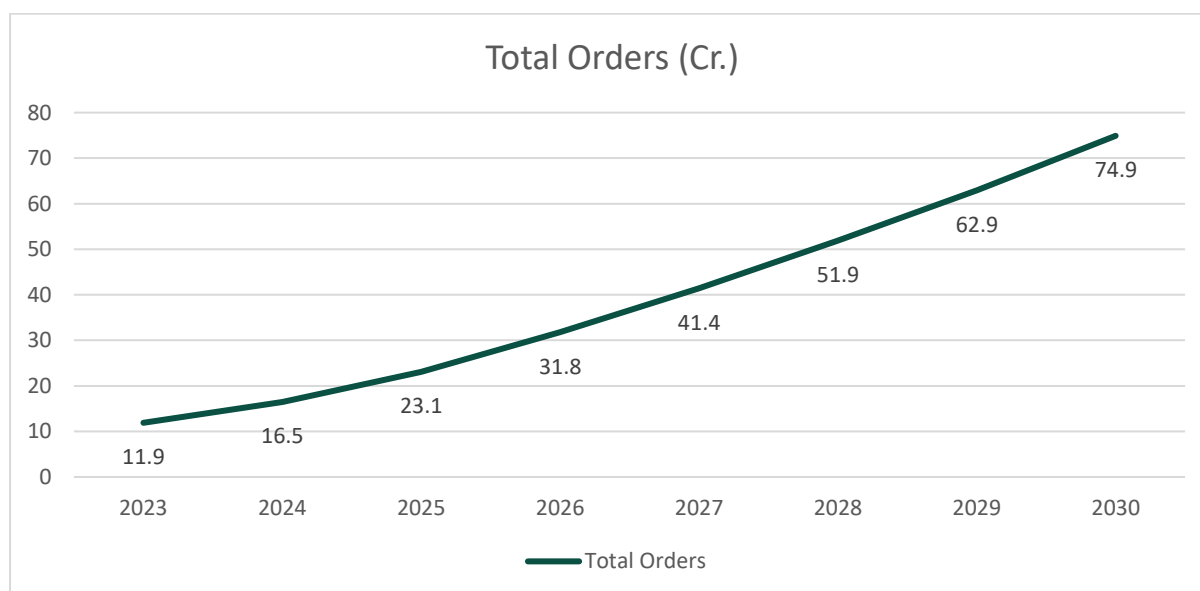
We would ideally need 1802 Orders Per Day Per Dark Store at the current 383 to ideally breakeven which would imply Total No. Of Orders at 6.2 Crores a Quarter and 24.8 Crores a year. The calculation of 1802 comes from the assumptions that the Dark Store does not increase in no., which would not be the case. The more important number here is the total no. of orders at 24.8 Crores which should allow for breakeven to follow through. Incremental store opening will have some bearing on the cost, but the scale up now given the adoption should be much faster. The Company is currently at a run rate of 16-17 Crore orders for FY24 which should eventually scale up to 23 Crores somewhere around FY25.

Our expectations on the total no. of orders over the next 5-7 years should be led by a multiplier effect of increase in no. of dark stores and SSG within the existing Stores: (It has a cumulative effect) the existing stores grow at the rate of the SSG while new stores start from 878 Orders Per Day per store and then scale up from there).



Orders Per Day Per Store Calculation	2023	2024	2025	2026	2027	2028	2029	2030
No of Stores Total	377	462	600	745	890	1035	1180	1325
Incremental Stores Added		85	138	145	145	145	145	145
Total Orders	11.9	16.5	23.1	31.8	41.4	51.9	62.9	74.9
% Growth in Orders		38.3	40.5	37.4	30.4	25.2	21.3	19.1
No of Orders Per Day Per Store (Existing)	878	1115	1293	1474	1651	1816	1961	2118
Existing Stores SSG (Orders)		27%	16%	14.00%	12%	10.00%	8%	8%
Total No. Of Orders Existing Stores	11.9	15.1	17.5	20.0	22.4	24.6	26.6	28.7
Orders 2024		1.3	3.4	4.0	4.5	5.1	5.6	6.0
Orders 2025			2.2	5.5	6.4	7.3	8.2	9.0
Order 2026				2.3	5.8	6.7	7.7	8.6
Order 2027					2.3	5.8	6.7	7.7
Orders 2028						2.3	5.8	6.7
Orders 2029							2.3	5.8
Orders 2030								2.3
Total Orders for the Year	11.9	16.5	23.1	31.8	41.4	51.9	62.9	74.9
Total No. Of Orders Per Store Per Day	877.5	1090.5	1210.3	1312.9	1408.2	1497.0	1578.1	1661.8

The growth in Order hence should look something like:



The Unit Economics for the Business hence should evolve as follows:

- AOV should continue to decrease as the Law of Large numbers catches up
- Gross Profit should increase towards the 19% range.
- Delivery Cost shall increase at the rate of 3%
- Discounts should reduce as footfalls increases, similar to the food delivery segment.
- This should allow the contribution per order to move to 60 from current levels of 52.4 (Q1 FY24)



Unit Economics	2023	2024	2025	2026	2027	2028	2029	2030
No of Dark Stores	377	462	600	745	890	1035	1180	1325
Total No. Of Orders	11.91	16.47	23.14	31.79	41.44	51.87	62.92	74.93
Growth in Orders		38%	40%	37%	30%	25%	21%	19%
Order Per Day Per Dark Store	878	1090	1210	1313	1408	1497	1578	1662
Unit Economics								
Average Order Value (Q1 FY24)	541	560	543	527	511	496	481	467
Gross Profit %	15	15.2	15.5	16.0	16.5	17.0	18.0	19.0
Gross Profit(Revenue for <i>Blinkit</i>)	81.2	85.12	84.20	84.30	84.33	84.28	86.56	88.63
Delivery Income	5	15	17	18	19	20	20	20
Total Income	86.2	100.1	101.2	102.3	103.3	104.3	106.6	108.6
Delivery Cost Paid to Delivery Partner	30.0	31.5	33.1	34.7	36.5	38.3	40.2	42.2
Discounts and Marketing (Expected to be lower than <i>Zomato</i>)	22.82	16.22	11.72	8.5	8	7.5	7	6.5
Contribution Income	33.33	52.40	56.40	59.08	58.87	58.49	59.36	59.92

The above assumptions should lead the total numbers on the store and corporate side to look like:

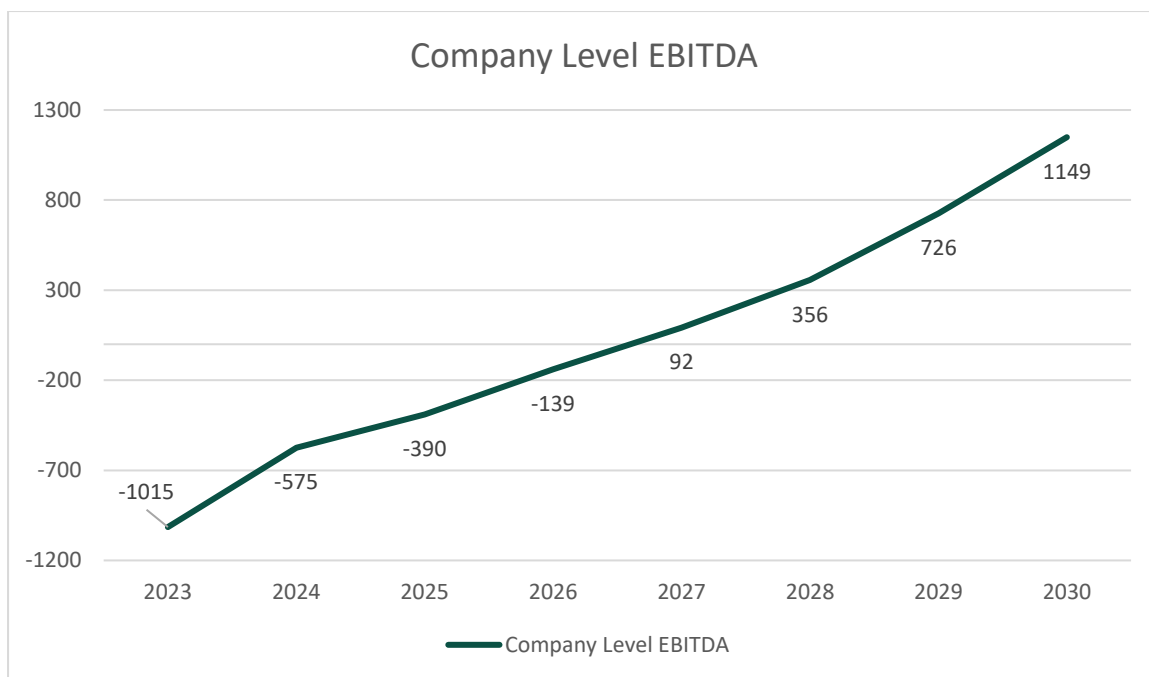
Year	2023	2024	2025	2026	2027	2028	2029	2030
GOV	6443	9222	12567	16748	21181	25716	30258	34952
% Growth in GOV		43.1	36.3	33.3	26.5	21.4	17.7	15.5
Gross Profit (Revenues for <i>Blinkit</i>)	966	1402	1948	2680	3495	4372	5446	6641
Total Delivery Income	60	247	393	572	787	1037	1258	1499
Total Revenues	1026	1649	2341	3252	4282	5409	6705	8140
Total Contribution Income	397	863	1305	1878	2440	3034	3735	4489
Total Store Level Fixed Cost (Rent, Utility etc)	814	906	1147	1453	1766	2079	2392	2705
Store Level Operating Income	-417	-43	158	425	674	955	1343	1784
Corporate Fixed Over Heads	569	532	548	564	581	599	617	635
EBITDA (Corporate Level)	-986	-575	-390	-139	92	356	726	1149

As for the Table above:

- GOV, Revenues, Contribution Income are a factor of No. Of Orders*Per Order Unit Variable as given in the Unit Economics table for *Blinkit*.
- Total Store Level Fixed Cost is the 18,00,000 Cost per Month that the store must incur, we have increased the same as a proportion to the No. Of Dark Stores.
- Corporate Overheads is reported numbers, and it increases at 3% beyond FY24.

The evolution of the Business should allow the corporate level EBITDA to show a J-Curve similar to the Food Delivery Business with a long way to go.





Blinkit hence carries the potential to become around 25% of the Food Delivery Business by 2030 which would be generating substantial EBITDA after accounting for all the costs.

We believe The Quick Commerce space as the Food Delivery one should eventually remain a 2-3 Player market.

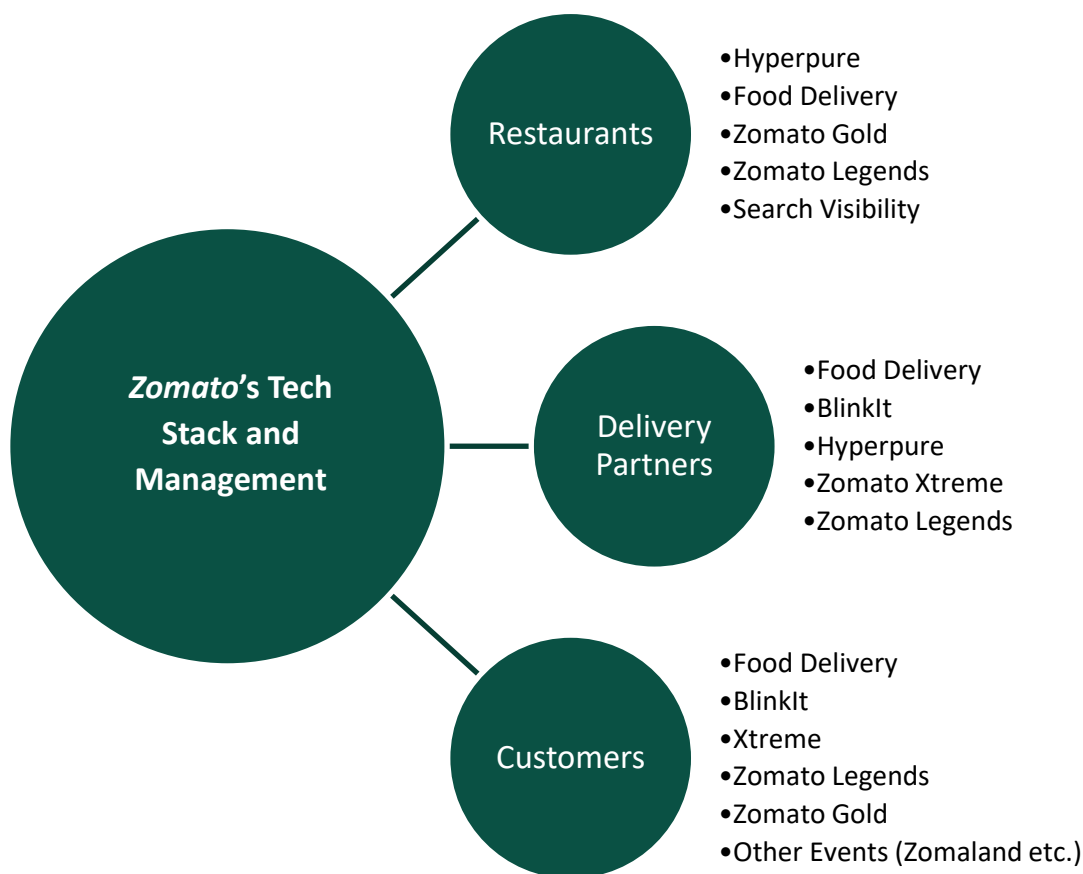
A Store mostly can cater to an area within a radius of 3 Kms, given area beyond that the Business focus of Fast Delivery would not sustain. Hence, the Density of the Area which also means the potential of the area to place orders remains one of the most important element of success of that Store. As we saw above that a store would need to do 1144 Orders a Day to breakeven on a business level which is a big number, Now imagine if 3-4 players enter the same area, then we would need a total of 4500 Orders to breakeven assuming everyone has the efficiency that *Blinkit* would carry. In such a case No one will be able to make money and the weaker ones will eventually bail out and die while losses for the stronger ones would extend for a longer period impairing the profitability. As time passes, we believe players here will either evolve into some other business or will be acquired or die down leaving behind 2-3 players to fight for the pie.

We believe *Blinkit* and *Swiggy Instamart* remain the 2 best placed players to survive given the Learnings, Capital, Capability that they carry.

ADJACENT OPPORTUNITIES

Zomato has three key participants within the value chain who can help them drive multiple other offerings which can add as incremental business opportunities for the Company. As on today they are set up as:





Over the past several years, both Zomato and Swiggy have embarked on a series of diverse initiatives, including subscription plans, proprietary cloud kitchens, home food delivery, concert events, B2B grocery delivery, product hailing services, and more. While some of these services remain part of their platform, others have been discontinued.

What enables these businesses to explore such opportunities effectively is its notably lower customer acquisition cost. This cost advantage arises from their presence within an existing value chain, allowing them to experiment with new models at a significantly reduced incremental cost compared to starting from scratch. This strategic advantage has been a key driver of their innovation.

A substantial portion of these services has been integrated within the delivery landscape, capitalizing on the potential synergies between them. In the last year, Zomato has taken a series of initiatives to transform into a profitable, India-focused delivery-centric organization with food as the foundation of their strategy. Within this initiative, they made significant moves, including divesting from most international subsidiaries, focusing on prudent expenditure in new ventures with a preference for pilot tests, and shifting 99% of their attention to food delivery, Blinkit, and Hyperpure, with only 1% allocated to new opportunities. We believe that certain adjacent opportunities beyond food delivery and quick commerce hold strong growth potential, provided they can achieve the right operating metrics in terms of growth and profitability.



HYPERPURE

Hyperpure is the most promising initiative by *Zomato* post the Food Delivery and Quick Commerce Offerings. This Business is focused on providing for Daily/Weekly/Monthly needs of the partner restaurants from Food, Vegetables, Sauces etc. Basically, anything required by them is what *Zomato* strives to provide for. This side of the Business has been scaling up quite well for *Zomato*. They have here seen participation of around 44,000 Restaurants as of FY23, this service was started around 5 years ago aggressively and hence the scale has been quite impressive. The Business already represents 17% of the Total Adjusted Revenues of the Company, it however remains a Negative EBITDA Business. We believe this remains a Business to look out for and has the potential to scale up significantly over the next few years to come.

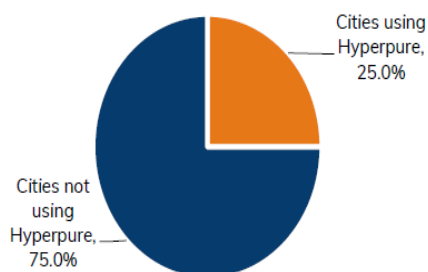
We believe Hyperpure could in a way aid the *Blinkit* side of the Business as well. *Zomato* with Hyperpure is focused on the Higher Volume driven Business focused on Fruits/Vegetables and Other Food Related Products required by the Restaurants. Such products are also wanted/ordered by the *Blinkit* customers. Hyperpure business is highly price sensitive and operates at wafer thin margins while procuring the products directly from the manufacturer. *Zomato* can get significant sourcing gains if can combine orders for both Hyperpure and *Blinkit* which can be passed on to customers. These can have a significant flywheel effect on both the businesses.

Hyperpure as the rest of the businesses should get the advantage of Sourcing, technology, customer and delivery value chain giving them a base to start from.

The pace of adoption is quite visible in the survey done by ICICI which shows:

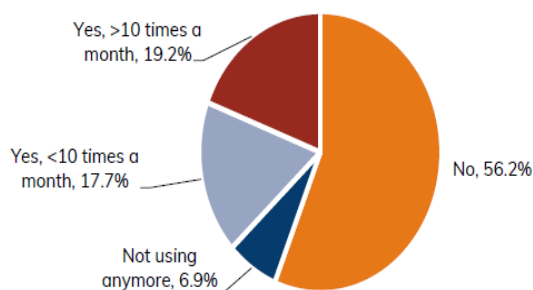
Survey highlights – Hyperpure

Exhibit 26: 25% of cities surveyed use Hyperpure



Source: I-Sec research

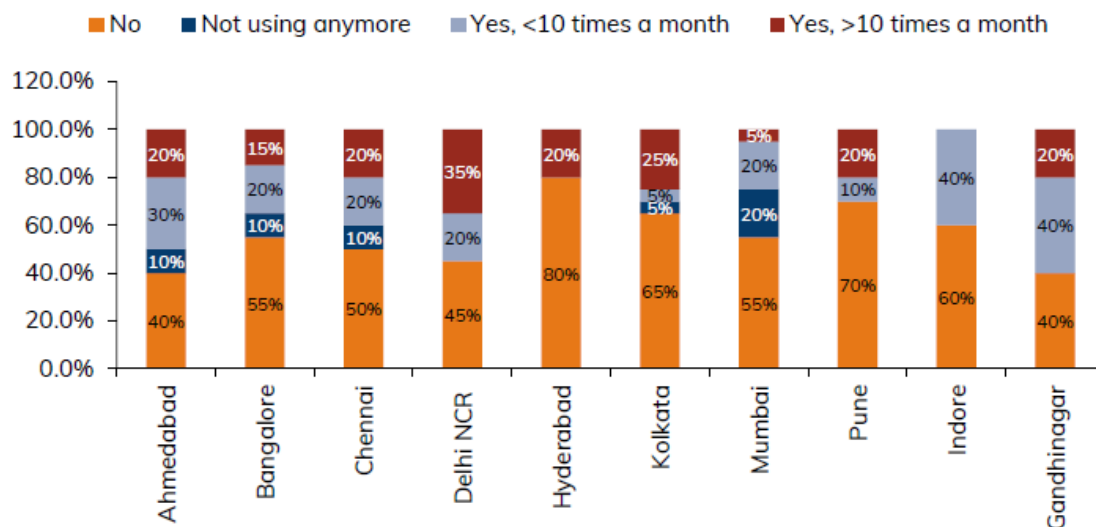
Exhibit 27: 37% of respondents in relevant cities are using Hyperpure and 7% claimed to have stopped using



Source: I-Sec research



Exhibit 28: Delhi-NCR ,Gandhinagar and Ahmedabad are amongst heaviest users of Hyperpure



Source: I-Sec research

Supported by the same the Business has scaled up quite well in the recent past:

- The scale up in revenues and restaurants has been very strong.
- Business should eventually become Adjusted EBITDA Positive.
- Avg bill value has continued to increase and is already at a 500,000-run rate for FY24.
- Opportunity size remains very large and is dependent on new restaurant additions.

HYPERPURE	2019	2020	2021	2022	2023	2024	2025	2026
Adjusted Revenues	10	110	200	540	1506	2450	3120	3795
Adjusted EBITDA	-10	-50	-50	-120	-194	-120	-50	0
Unique Restaurants Billed			15000	34000	44000	49000	52000	55000
Average Bill Value/Year Per Restaurant			133333	158824	342273	500000	600000	690000
Adjusted EBITDA %		-45.5	-25.0	-22.2	-12.9	-4.9	-1.6	0.0
Growth in Average Bill Value Per Year				19.1%	115.5%	46.1%	20.0%	15.0%
% Growth in Revenues		1000	81.8	170.0	178.9	62.7	27.3	21.6
Cost Total	20	160	250	660	1700	2570	3170	3795
Cost Per Restaurant			166667	194118	386364	524490	609615	690000

Zomato Xtreme

This initiative by Zomato is another initiative although new, has a large potential to scale. Zomato Xtreme is a Hyperlocal Parcel Delivery Service focused on targeting both small and large merchants for delivering small packages intracity on the lines of services provided by Shadowfax, Porter and Loadshare. The service has been rolled out in 700-800 Cities. Zomato targets to take advantage of its Delivery Fleet of 3 Lakh Individuals. The Service for now is focused on Merchants (B2C/B2B) but could eventually tap Individuals (C2C) as well.



Shadowfax In FY22 Delivered Revenues of almost 1000 Crores and has been growing aggressively. *Zomato's* understanding of the Delivery metrics is what should allow the scale to be effective here, on the Growth and Profitability front.

Some other initiatives which *Zomato* has been taking up and might turn out to be as big an opportunity includes:

- **Zomaland and Other Events-** Such Events doesn't bring about much Money but do act as a Big Marketing Initiative by the Company. They had talked about bringing about some other differentiated Events as well.
- **Dining Out-** *Zomato* has used its base platform the same where a user could come around to look at the Restaurant and its reviews and eventually start engaging with the platform for all Food related needs. They are looking at Initiatives such as Table Booking, *Zomato* Gold to benefit from the same.
- **Intercity Legends and *Zomato* Everyday** remain a segment within the Food Delivery Segment which is currently more of a Pilot project and *Zomato* has been consistently innovating within the same to first get the right offering and economics before scaling it up.

We believe Hyperpure and *Zomato* Xtreme have a lot of potential if executed right.



COMPETITIVE POSITIONING OF ZOMATO

One of the biggest advantages of Zomato we believe is “Being a Food App”. It has the top of mind recall in the dine out segment which a very rich user generate content detailing every aspect of the restaurant from service quality, ambience, and food quality. A user of Zomato address most all his need related to restaurant by just visiting Zomato. Users can also book a table for a rich dine out experience. This feature of Zomato we believe has been instrumental providing a wholistic experience to the user meeting his entire food related needs for both dine-out and delivery...and now grocery through Blinkit.

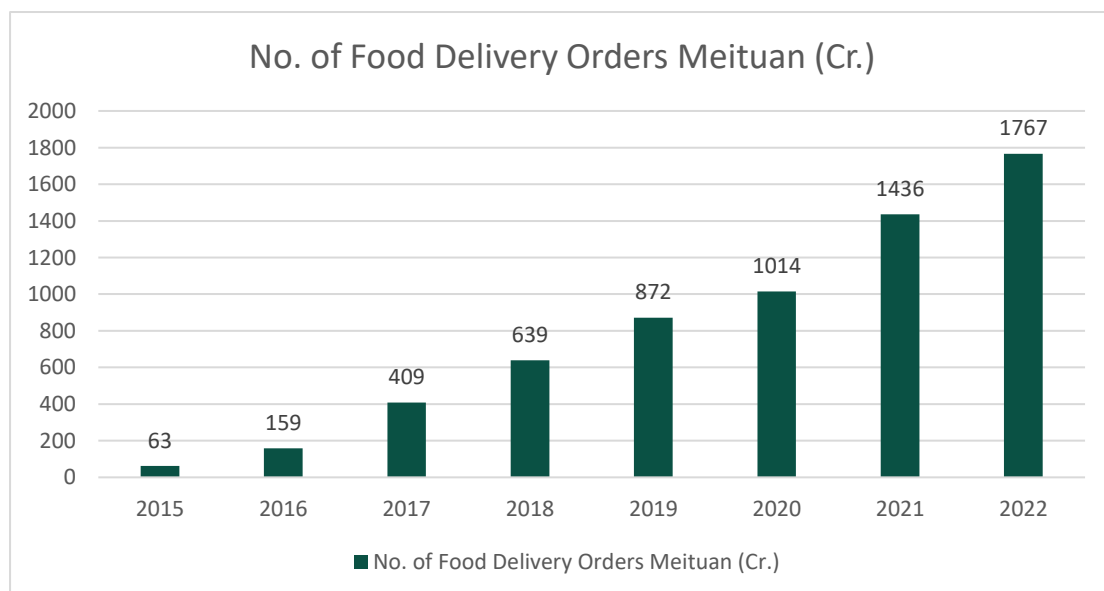
CASE STUDY- MEITUAN AND DIANPING MERGER

Meituan and Alibaba were fierce competitors in the food delivery market, and Meituan was not initially expected to outperform the well-funded Alibaba. However, the turning point in market share occurred when Meituan acquired Dianping, a user-generated restaurant review and rating platform. This acquisition transformed Meituan into a comprehensive solution for both food delivery and dining out, catering to all their customers' food-related needs.

Before the merger, Meituan and Dianping were two separate companies, each with a specific focus within the Chinese food market. Meituan primarily concentrated on food delivery services and operated more within Tier 2 and Tier 3 markets. In contrast, Dianping specialized in restaurant information and customer reviews, primarily targeting the Tier 1 market.

The merger between the two companies was a game-changer. It allowed Meituan to gain access to the Tier 1 market, including restaurants and their reviews, which enticed customers to return to the platform repeatedly. Simultaneously, Dianping could expand its offerings to Tier 2 and Tier 3 markets, using the same successful formula they had in Tier 1 markets.

This synergy between Meituan and Dianping resulted in substantial market growth. Within just two years of their merger, they captured 60% of the Food Delivery Market Share in China. The subsequent expansion has been remarkable, exemplified by Meituan's food delivery orders surging from 63 million in 2015 to an astounding 1,767 million in 2022.

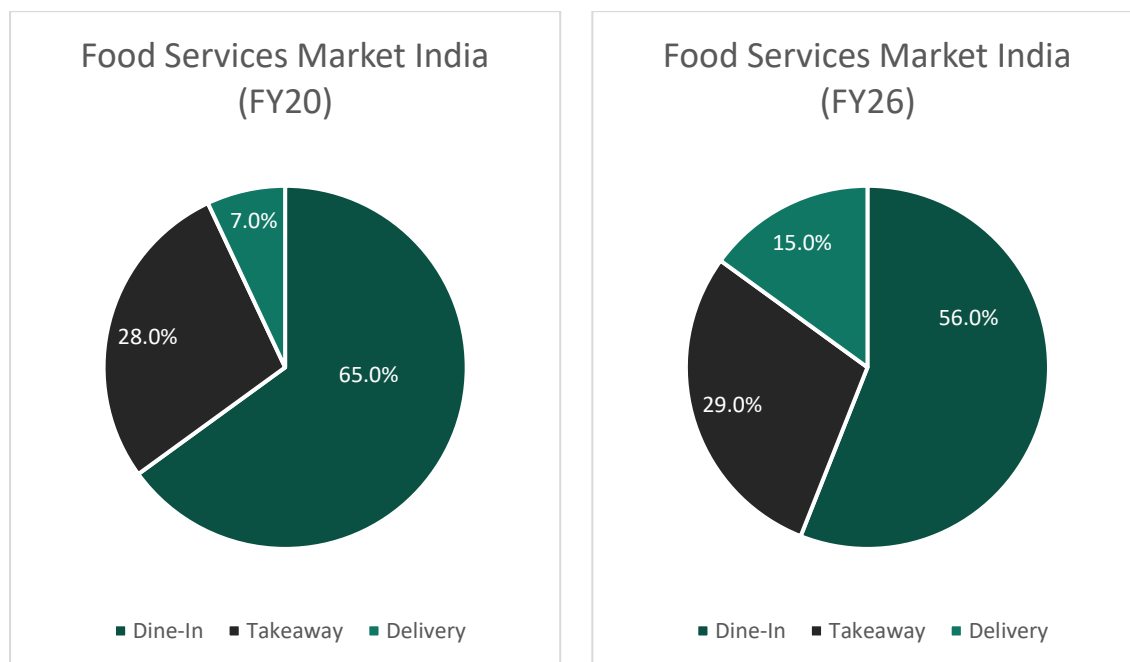


Zomato in FY24 is expected to do around 75 Crore Orders, we are not saying that Zomato would have a similar scale up given the market in India is very different, but what we should admire is that Zomato standalone is a Meituan+Dianping (In terms of business segment availability) where they have:



- Got the Entire Food Tech App Stack in place wherein they have the Customer Reviews, Restaurant Details, Delivery access.
- They are now growing in the Tier 2 and Beyond Markets
- India is still at a nascent stage of Online Food Delivery Services offering a very large runway for Growth.

As per CLSA The Indian Food Services Market was around \$56 Billion in FY20 which was expected to grow at a CAGR of 7% upto FY26 to reach \$84 Billion. Within the Entire Food Services Market, Food Delivery as a segment was around 7% of the entire Food Services market which is expected to become 15% as of FY26 growing at the rate of 21.5% CAGR.



The Food Delivery Market as of FY23 in terms of Total Order Value (Also known as Gross Order Value or GOV) stood at 48,000 Crores (\$6 Billion) growing at 20%+ for the last 12 months. When compared to the world markets the Indian markets for the food delivery space remain very nascent and have a long runway for Growth.

COMPETITION

We have already focused extensively on Market Share and Market Expansion in the first section of Market Share Conundrum where we talked about:

- How *Zomato* is winning within the Tier 1 Markets
- How Tier 2 as a Market has been growing at a much faster pace and why do we believe *Zomato* carries the potential to win over such markets as well which should allow his market share to improve and move towards the 60% range.

We believe the market should continue to remain a 2-player market until something disruptive does not follow through, which no one can ideally predict. **Our confidence on the sustenance on the 2-player market further increased when we were able to find that Amazon actually started with a 10-12% Take Rate from Restaurants unlike a 18-23% which *Zomato* and *Swiggy* charge and even then, they were not able to outgrow from Bangalore and eventually did close down. This shows 2 things:**



- *Zomato* and *Swiggy* have been able to gain a significant Mind share of the customers and hence new businesses such as Amazon Food, Thrive, ONDC have yet not been able to make a dent on their Business.
- Pricing/Low Cost is not everything. We saw how Amazon tried it and failed.

We further tried to find the difference in Unit Economics between *Zomato* and *Swiggy* but were unable to do so given the limitation of Data. However, on talking to various people within the industry across the value chain we could with a certain confidence say that:

- The AOV's for both *Zomato* and *Swiggy* on the Food Delivery front remain the same. AOV's on Quick Commerce side could be different for the 2 Businesses given *Blinkit's* Customer base which has historically been used to ordering Higher Valued Groceries from the Platform.
- Most of the people within the Value chain claimed there to be insignificant difference between the 2 platforms in terms of Pricing/Take Rates/Costs etc. This was claimed by the Delivery Partners as well as the Restaurants.
- **The Unit Economics hence for both the Businesses should be similar. The difference however would flow through because of the Volumes which would have a significant impact on the Company level profitability as we have seen above in the Unit Economics section where we believe *Zomato* is creating significant differentiation.**



MANAGEMENT REVIEW

The execution superiority is where Zomato is making all the difference and the Management along with the Team is which we believe is leading this change and remain crucial in bringing about success to the Company.

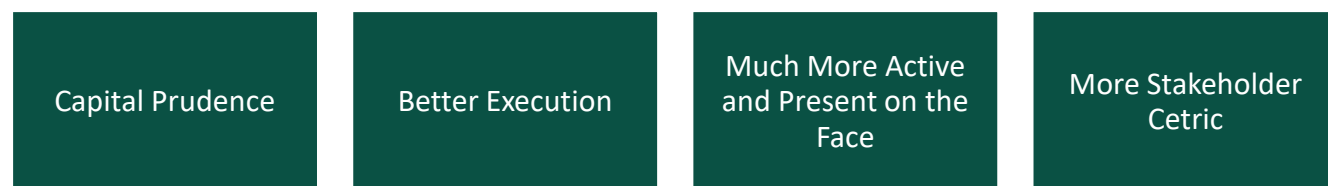
Zomato is headed by its Co-founder in Deepinder Goyal, who has been one of the co-founders at the company since inception. Post his graduation from IIT Delhi in Mathematics and Computing back in 2005 he started working with Bain and Company before getting an idea for Zomato.

We believe Mr. Deepinder understands Delivery, has prudent capital allocation capabilities and carries the potential to Execute very well which has allowed Zomato to position itself as a leader within the Food Delivery space while building Blinkit as a force within the Quick commerce space. His Quarterly notes give us an insight into his understanding of the Business and the levers which could work in favour of Zomato's path towards profitability while maintaining its market leadership and results for the same are quite visible in the Quarter results of the company.

We believe Mr. Deepinder remains committed to Zomato, while there have been some management exits in the last year. His decision to waive off his Salary for 3 years starting April, 2021 speaks volumes on the commitment and his focus on making it large. He remains the right person to lead the company especially at a time where the profitability looks ready to hit the J-curve. We like the management and team at Zomato on the back of:

DECISIVE MANAGEMENT WITH SUPERIOR EXECUTION

Following *Zomato* over the last year or so and looking at their approach towards Business, Execution and New Initiatives we can confidently say that the Management of *Zomato* has been able to show:



Zomato's management has exhibited astute capital allocation. They approach acquisitions and new ventures with careful consideration, eschewing haste to be the first in the market. Instead, they patiently wait for opportune moments, guided by customer insights and empirical data. This approach has yielded several successes:

- In 2015, prior to launching their independent delivery service, Zomato initially partnered with third-party delivery services. This allowed them to gain crucial market insights and understand the unit economics before taking it in-house.
- During the COVID-19 pandemic, Zomato conducted a small-scale pilot project with Quick Commerce. This enabled them to gauge market dynamics. They subsequently entered the market with the acquisition of Blinkit. Their approach remains highly efficient within the market.
- Zomato's management's cautious stance towards capital commitment, coupled with the strategy of piloting initiatives before full-scale implementation, has proven to be immensely beneficial for the business.
- Zomato wasn't the pioneer in the food delivery business. However, they diligently assessed the market, learned from their competitors, and executed swiftly. This propelled them to a market-leading position. They're applying a similar approach to Quick Commerce. Recognizing the potential and customer adoption in this space, they acquired Blinkit to gain a head start and are now rapidly building a robust business in a capital-efficient manner. Historically, they've not only been prudent in capital allocation



but also in their ventures to explore new avenues. They've also demonstrated agility in discontinuing ventures that haven't shown promise.

Furthermore:

- In the past year, the management has made the strategic decision to discontinue all international operations, except for retaining a presence in the UAE. This move reduces unnecessary distractions and allows for focused efforts on key business segments.
- We anticipate that over 90% of the management's attention will be directed towards their three major business segments: Food Delivery, Blinkit, and Hyperpure, with the recent addition of Xtreme. This streamlining of focus is expected to drive further growth and efficiencies in these core areas.

As a result, Zomato has been able to build a similar and a more profitable business with less than 60% of the capital raised by its competitor, Swiggy. While Swiggy has amassed approximately \$5.4 billion in funding, Zomato's capital employed as of the end of FY23 stands at around \$3 billion.

Superior Execution - Zomato, for a significant part of its journey in the Food Delivery and Quick Commerce sectors, has typically not been the first mover. They entered the Food Delivery arena more than a year after Swiggy and more recently made their foray into quick commerce more than three years after Swiggy Instamart. Zomato's management places a strong emphasis on establishing a solid business model, crafting a well-thought-out plan, ensuring efficacy, sustainability, and various other key elements before diving into new ventures.

Once they commit to a project, Zomato's superior execution capabilities come into play. In our survey many restaurants noted that Zomato was much more response in addressing their complaints and helping them with onboarding. Their goal is not merely to succeed but to strategically work towards securing market leadership over time. This approach has proven highly effective in the food delivery sector, and they continue to chart a promising course in the Quick Commerce space.

Highly Visible and Engaging - Zomato has maintained a prominent and outspoken presence, directly engaging with consumers through campaigns, events, business updates, and more. In contrast, Swiggy has adopted a more reserved and introverted approach. Zomato consistently shares content on platforms like Instagram and various social media channels, with Mr. Deepinder actively participating on Twitter. On Instagram, Zomato boasts 887,000 followers, while Swiggy's following stands at 448,000. Zomato's engaging content and interactions are widely appreciated by its audience.

Zomato hence remains better placed with regards to Competition, Management, Execution which should allow it to not only maintain but expand across the Leadership and Profitability metrics as well.



VALUATIONS

While our business analysis encompasses factors like the competitive landscape, the size of the opportunity, and the existence of a moat, we shift our focus to valuations, particularly when evaluating businesses in their early stages of development. In these nascent stages, we pay close attention to incremental margins and return on invested capital (ROIC). This emphasis on incremental metrics is rooted in our anticipation of significant profitability improvement over time, driven by the high operating leverage inherent in these businesses. By assessing incremental margins, we gain insights into the fundamental strength of the business and can project future margins and return ratios as the business matures.

Eventually, as company-level ROIC and profitability align with the incremental metrics generated by the business, this convergence often signifies a shift towards maturity. This can occur due to factors such as market maturity, high market penetration, or clear market leadership. It's at this juncture that we can assert the business has reached a steady state. Notably, superior businesses generate higher incremental ROIC tend to command a premium compared to those reinvesting at lower rates of return, a reflection of their inherent strength and attractive prospects.

Take an example of the Food Delivery Business:

Particulars	2019	2020	2021	2022	2023
Actual Contribution Margins	-24.8%	-11.0%	5.2%	1.7%	4.5%
Incremental Contribution Margins (2019-2023)					12.1%

While the actual contribution margin on the food delivery business is at 4.5% as of FY23 (This has moved to 6.4% as of Q1 FY24) the incremental contribution margins that the company has generated between 2019-2023 is 12.1%. (Incremental Contribution margin is nothing but the Change in Contribution Profit Divided by the Change in Revenues). Incremental Margins have a strong impact on profitability given fixed cost absorption is very high and every incremental margin is a direct flow through to profitability which is visible given the profitability change in the Food Delivery Business.

We have for *Zomato* done a DCF based valuation considering the early stage of the business cycle with high incremental margins/ROIC's. We believe DCF based valuation flowing up to 2030 helps us in capturing the Growth, Operating Leverage and Maturity cycle of the food delivery business while Blinkit even in 2030 would not have matured on the operating leverage front, however we would by then have a decent understanding of the trajectory of the same.

As for the Adjacent Opportunities - We have left this part as an optionality. While businesses such as Hyperpure and *Zomato Xtreme* have a large opportunity size, they remain in an early evolution phase of their business cycle and hence as of today we have considered their value as 0.



FOOD DELIVERY:

Particulars	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	CAGR (FY23-FY30)
Total GOV	5390	11220	9480	21300	26305	31140	36778	42411	47983	54249	60726	67933	14.5%
Total Adjusted Revenues	910	2360	2160	4760	6146	7651	9110	10600	12099	13847	15658	17763	16.4%
Contribution Food Delivery	-1337	-1234	493	362	1195	2080	2604	3150	3739	4470	5230	6144	26.4%
Fixed Costs	658	696	455	746	1205	1140	1231	1330	1436	1522	1614	1678	4.8%
Adjusted EBITDA	-1994	-1930	38	-383	-10	940	1373	1821	2303	2948	3617	4466	-339%

BLINKIT

Year	2023	2024	2025	2026	2027	2028	2029	2030
GOV	6443	9222	12567	16748	21181	25716	30258	34952
Growth in GOV		43.1%	36.3%	33.3%	26.5%	21.4%	17.7%	15.5%
Gross Profit (Revenues for <i>Blinkit</i>)	966	1402	1948	2680	3495	4372	5446	6641
Total Delivery Income	60	247	393	572	787	1037	1258	1499
Total Revenues	1026	1649	2341	3252	4282	5409	6705	8140
Total Contribution Income	397	863	1305	1878	2440	3034	3735	4489
Total Store Level Fixed Cost (Rent, Utility etc)	814	906	1147	1453	1766	2079	2392	2705
Store Level Operating Income	-417	-43	158	425	674	955	1343	1784
Corporate Fixed Over Heads	569	532	548	564	581	599	617	635
EBITDA (Corporate Level)	-986	-575	-390	-139	92	356	726	1149

The Scale up in profitability should give you a decent understanding on the J-Curve we have been talking about. We have avoided doing a Relative valuation here given the change in Profits between 2 years is very high and the Valuation multiples would have changed drastically thereby not giving us a clear understanding on the actual value of the company which DCF takes care of. (Relative Valuations are better for Businesses that have reached their maturity cycle).

The eventual outcome of the Model is as follows:

Particulars	Numbers
Total Value of the Business	139.1
Price as of Today	107.7
Upside	29.1%

Our DCF based valuation shows a 29% upside as of today. The Stock is further trading at 110/59x FY26/27 asset light cash flows. While the valuations look high on the face of it, the J-curve in Blinkit will start contributing significantly post FY26 to Zomato's profits thereby having a strong incremental impact on the profitability which takes the multiples to 17x FY30 leaving decent room for upside.



RISKS

We believe the following would remain a risk to our thesis:

a. **Delivery Partners:** The most significant risk factor for Zomato lies within its delivery network. Zomato's unique selling proposition hinges on its delivery services, and the crucial drivers of this differentiation are its delivery partners. Instances in India and globally have demonstrated how concerns over issues like minimum wages, employee benefits such as provident fund contributions, and bonuses have led to prolonged disputes and strikes among delivery partners. These disruptions not only resulted in legal battles but also caused business interruptions, often followed by protracted negotiations to restore normalcy. In some cases, this has even resulted in market share losses. Extended issues with delivery partners could significantly impact Zomato's business and its trajectory.

b. **Regulatory Intervention:** Another notable risk to our thesis is the potential for government or regulatory intervention. With Zomato employing approximately 300,000 delivery riders, any government-led regulatory changes could have a substantial impact on the company's unit economics. This, in turn, could affect its ability to reinvest in new areas and extend the timeline for achieving profitability at scale.

c. **Growth:** While operating leverage can be advantageous, it also exposes Zomato to potential risks. A significant slowdown in orders, driven by shifting competitive dynamics or changes in consumer preferences, can exert material pressure on profitability. The growth trajectory can be influenced by various factors, including alterations in order volume, order frequency, the addition of new customers, take rates, and gross margins, all of which must be closely monitored for potential impacts on Zomato's performance.



Any slowdown in the above chain, could have a significant impact on the profitability.

- a. **Take Rate** - We have heard a lot of concerns and complaints being raised by the restaurants on the take rates being charged by the food aggregators. While we do not believe the take rates are high as claimed, any impact there could lead to an impact on the overall unit economics and hence growth and profitability.
- b. **Competition** - Although Zomato has managed to fend off competitors and maintain its market leadership in the food deliver business, the inability to sustain this position could potentially disrupt our investment thesis and impact the terminal multiple. In the realm of quick commerce, there are multiple players vying for dominance, with no clear leader yet established. While we anticipate that the market will eventually consolidate to just 2-3 major players, prolonged periods of cash burn by competitors could hinder operating metrics from scaling as we anticipate. This, in turn, may trigger industry-wide cash burn concerns that need to be carefully monitored.
- c. **New Initiatives**- While the execution and Capital prudence has allowed for calculated risk taking, failure to scale up and the resultant cash burn in Hyperpure or Xtreme could impact the optionality value for *Zomato*.
- d. **Management Exits**- *Zomato* has recently seen multiple management exits, their execution capabilities are something we really have high regards for, hence a continuation of the same, could impact the execution capabilities of the company.



ANNEXURES

We have in the annexures given our results of the survey we had conducted. The results here reflect our survey done through Google forms:

Zomato vs Swiggy

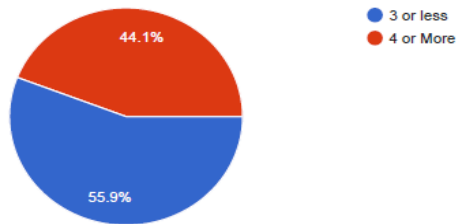
145 responses

[Publish analytics](#)

How many times do you generally Order in a Month

[Copy](#)

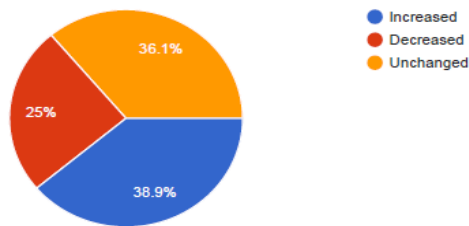
145 responses



Has your Order Frequency Changed in the last 12 months?

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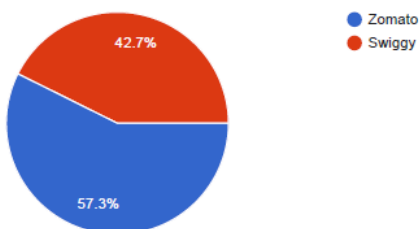
144 responses



Which App do you use more?

[Copy](#)

143 responses



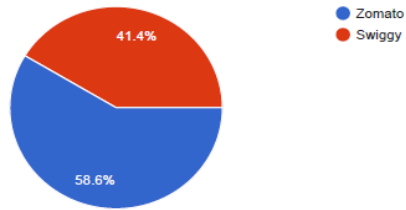
Which App do you like more and Why? (You can select multiple Options here)

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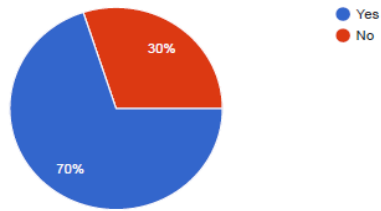
In case you use both the Apps Which App offers a Faster Delivery Time and Better Customer Experience [Copy](#)

128 responses



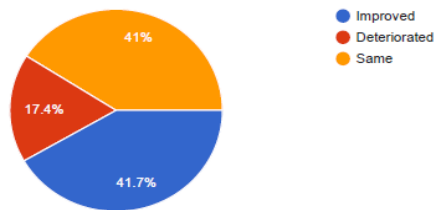
Do you think the Execution on the Accuracy of the Food and Instructions provided to the Restaurants has improved ? [Copy](#)

140 responses



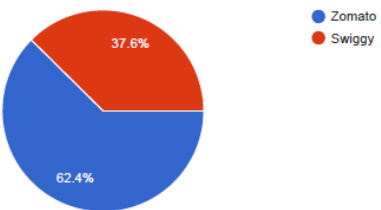
Do you think Delivery Time has improved/Deteriorated over the last 1 year? [Copy](#)

144 responses



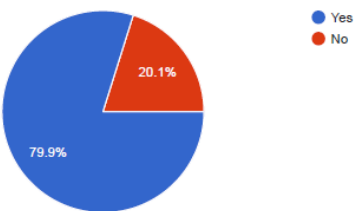
Which App Do you think has the Better Compliant Resolution Process? [Copy](#)

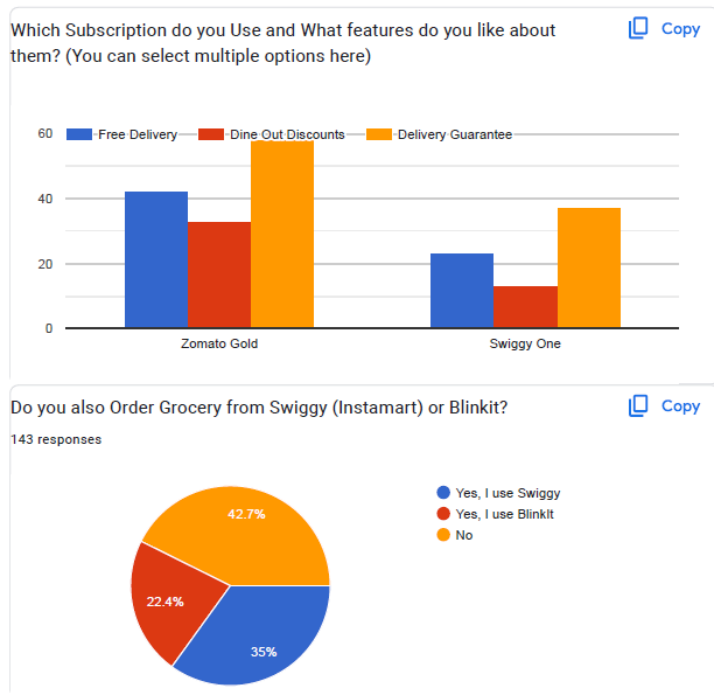
133 responses



Do you think Zomato Gold / Swiggy One Adds Value to a Customer? [Copy](#)

134 responses





The survey that we ran, was across 2 platforms: Google Forms and Instagram. We further collated the results from Instagram along with the Google form and came to a weighted average conclusion of the most important Questions. The results are given below:

Particulars	Google Forms	Instagram	Weighted Avg
Total Responses	145	220	365
Customer who orders 4 or more times	44%	42%	42.8%
Customers for whom Ordering frequency has increased in the last 1 year	36%	40%	38.4%
Customers for whom Ordering frequency has decreased in the last 1 year	25%	30%	28.0%
Market Share for Swiggy/Zomato	57%	72%	66.0%
Customers who believe Zomato has a better delivery time	59%	68%	64.4%
Customers who believe the Accuracy with Food has increased in the last 1 year	70%	76%	73.6%
Customers who believe the Delivery time has deteriorated	17%	20%	18.8%
Customers who believe the Delivery time has improved	41%	58%	51.2%
Customers who believe Zomato has a better Compliant resolution process	62%	76%	70.4%
Customers who love Gold/Swiggy One	80%	70%	74.0%

