India consumer

Sector outlook - Overweight

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India
Consumer

Companies in focus

Zomato	ZOMATO IN
Rec	**O-PF**
Market cap	US$26.5bn
3M ADV	US$177.3m
Price	Rs250.53
Target	Rs350 → 353
Total return	+41%
Hindustan Unilever	HUVR IB
Rec	**U-PF**
Market cap	US$78.2bn
3M ADV	US$75.0m
Price	Rs2,778.1
Target	Rs2,161.0
Total return	-22%
Marico	MRCO IB
Rec	**U-PF**
Market cap	US$10.0bn
3M ADV	US$23.9m
Price	Rs647.85
Target	Rs460 → 470
Total return	-27%
Zepto	Unlisted
Rec	**N-R**

App-racadabra

Magic behind instant delivery liberating consumers

Click to rate this research
Great
Solid
Meh

For important disclosures please refer to page 108.

Contents

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Great
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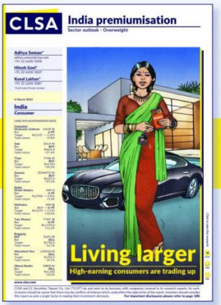
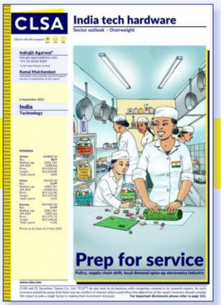
All prices quoted herein are as at close of business 30 August 2024, unless otherwise stated

India's growth story





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App-racadabra

Quick commerce leaders to push gross order value to US$10bn by FY26CL

While quick commerce's ultra-fast delivery may seem like sleight of hand, its true magic lies in cutting out middlemen, and efficient last-mile operations. The innovative format is breaking even and challenging India's local small vendor network, which controls more than 95% of the over US$600bn food and grocery market. We expect Zomato's Blinkit, Zepto and Swiggy Instamart - the top three players - to reach US$10bn in gross order value by FY26 and surpass US$78bn within a decade. Outperform-rated Zomato stands to benefit most, while Underperform-rated Hindustan Unilever and Marico face significant risks.

Land of possibilities

India's rapid urbanisation and fragmented retail market have set the stage for the rise of quick commerce. Assuming a 3% net profit margin on gross order value, we project the format could generate a US$2.3bn profit pool in 10 years, larger than the country's entire organised retail industry today. This could yield a potential US$38bn industry valuation assuming a 40x multiple on the FY34CL cashflow discounted to FY26. In congested cities, consumers often rely on *kiranas*, or local general shops, for essentials. However, *kiranas* offer limited selection and lack pricing transparency. Quick commerce provides a superior alternative with better selection, lower prices and delivery within 10-20 minutes. We estimate a US$662bn quick commerce total addressable market as of FY24, 66% of the total retail market.

Operational wizardry is key

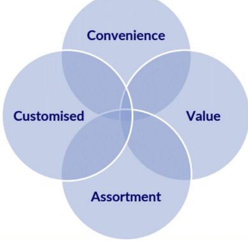
Quick commerce's success hinges on removing layers in the supply chain and enhancing channel efficiency to offset delivery costs. The agility of its operations - from sourcing and warehousing to fulfilment management and rider optimisation - is crucial. As it scales, product assortment is expanding beyond food and grocery, boosting average order value and improving unit economics. The addition of long-tail SKUs, based on consumer data, enhances inventory management. Scaling also brings sourcing advantages and opportunities to expand into services.

Top quick commerce plays

Quick commerce is reshaping India's retail supply chain by flattening distribution, giving new brands increased visibility and price competitiveness. Blinkit's parent Zomato will be the largest listed beneficiary, while staples marketers Marico and Hindustan Unilever face risks as their distribution advantage erodes. Meanwhile, unlisted Zepto is an up-and-comer with much to offer its customers. For Blinkit, we see Ebitda and net profit turning positive by FY25, contributing up to 37% of our FY26 EPS for Zomato. We adjust Zomato's target price from Rs350 to Rs353 to reflect its Paytm ticketing acquisition and Marico's from Rs460 to Rs470 due to changes in commodity costs.

At the intersection of customised, convenience, value and assortment

Quick-commerce attributes



Source: CLSA

Instant gratification

Positive on quick commerce plays, cautious on staples

With almost US$1tn in gross order value, India has an extremely fragmented retail market, where small, unincorporated retailers - referred to as the unorganised sector - account for the vast majority of the market. Food and grocery, the largest category, makes up a little over 60% of the overall retail market and is even more fragmented. Reliance Retail and DMart are the only players with over US$5bn in retail sales. Historically, most players have struggled to compete with traditional *kiranas* on convenience or value. However, we believe the relatively new quick commerce (QC) format is well positioned to win market share.

We expect India's retail market to grow at a steady 9% Cagr

Indian retail and quick-commerce market

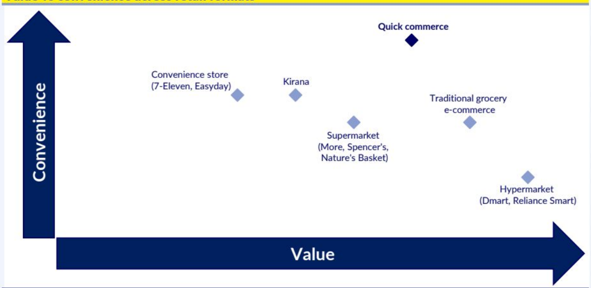
Source: CLSA

QC to gain significant share with GOV rising to US$78bn by FY34CL

Quick commerce has come of age in FY24; the top-three players already rival the largest modern retailers in scale and outmatch traditional *kiranas* on convenience and pricing. We believe this new format is likely to dominate retail and not just groceries over the next few years, combining the convenience of a neighbourhood store with the pricing of an efficient supermarket while providing a wider assortment over both. We estimate gross order value (GOV) will rise to US$10bn in FY26 and US$78bn by FY34 as quick commerce players widen their reach across Indian cities. We see Zomato as the largest listed beneficiary and highlight the risk to dominant fast-moving consumer goods (FMCG) players as this segment dilutes their distribution advantage. We believe Marico and Hindustan Unilever are at the highest risk of losing share from quick commerce expansion.

Quick commerce in the sweet spot between value and convenience

Value vs convenience across retail formats



Source: CLSA

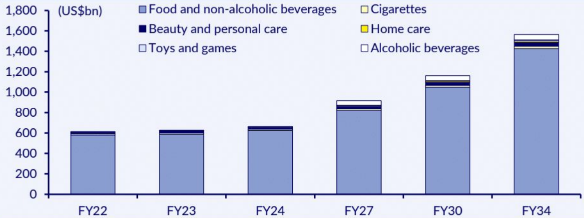
Substantial market opportunity

Quick commerce to grow at a 69% Cagr between FY24-27CL

We believe GOV for quick commerce can reach US$10bn, or 2% of grocery and 1% of the total retail market, in two years and expand to US$78bn, or 5% of grocery and 2% of the overall retail market, in a decade from US$3.8bn as of the end of FY24. As a result, additions in dark stores, or fulfilment centres, are on the cusp of a rapid acceleration with unit economics falling into place for the top players, especially Blinkit and Zepto.

TAM is steadily rising with addition of new categories

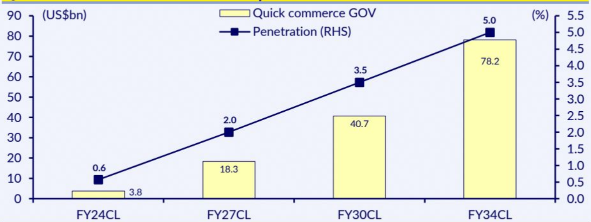
Quick commerce total addressable market (TAM)



Source: CLSA, Ministry of Finance, Euromonitor

We expect the market to exceed US$75bn by FY34 in our base case

Quick commerce estimated GOV and TAM penetration

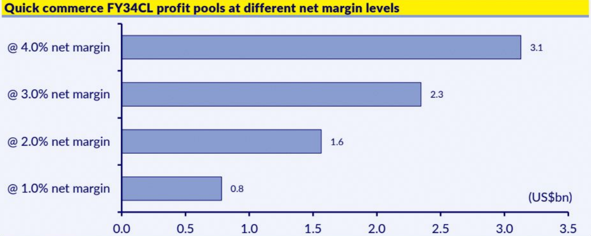


Source: CLSA

Assuming a 3% net margin to GOV, we estimate quick commerce could generate a US$500m profit pool in FY27 and a US$2.3bn profit pool by FY34. Assuming a 30x/40x/50x multiple and discounting this US$2.3bn profit to FY26CL using a 12% discount rate yields a valuation of US$28/38/47bn for quick commerce.

We assume a 3% net profit margin by FY34 in our base case

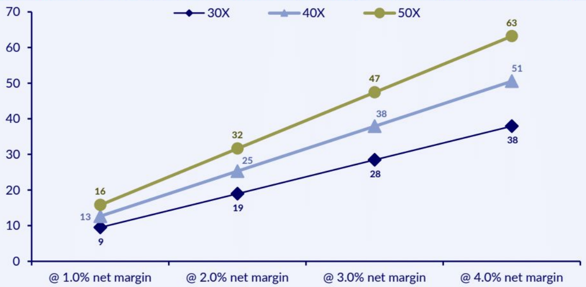
Quick commerce FY34CL profit pools at different net margin levels



Source: CLSA

At 3% margin and 40x, QC could be valued at US$38bn by FY34CL

Quick commerce indicative valuation at different profit margins and multiples (discount to FY26)



Source: CLSA

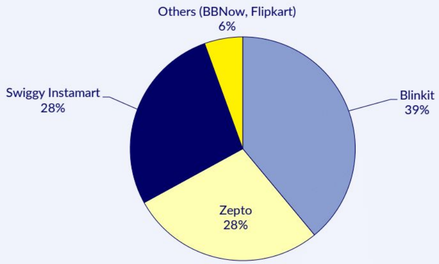
Blinkit, Zepto and Swiggy Instamart dominate the market

Blinkit, Zepto and Swiggy Instamart current leaders

Zomato's Blinkit, Zepto and Swiggy Instamart are the top-three players and hold more than 90% of market share by revenue, with smaller contributions from Big Basket's BBNow and Flipkart. During their initial expansion, each company had a geographic stronghold; Blinkit was dominant in Delhi and the national capital region and Kolkata, Zepto in Mumbai and Swiggy Instamart in Bangalore. In the beginning, Blinkit and Instamart picked up merchandise from local retailers and wholesalers. However, all three have pivoted to a dark store-driven model and substantially expanded the local warehouses across geographies.

Three players currently account for over 90% of QC market share

Market share of quick-commerce players



Source: CLSA

Challenging *kiranas* using scale, efficiency, data and selection

Ecommerce benefits and *kirana*-level convenience

With over 95% retail market share, traditional *kiranas* have continued their dominance despite the emergence of modern formats over the past 30 years. We believe most convenience store and supermarket models did not make much headway due to poor working capital management and high operating costs compared with *kiranas*, especially in rental and energy costs. In addition, efficient models like DMart are expanding relatively slowly in the context of the market opportunity, given the capital intensity needed.

While India's modern retail and ecommerce sectors have struggled to match the convenience of *kiranas*, quick commerce is overcoming these challenges. The ultra-fast format uses data and tech to turn inventory over faster than traditional models; scale and efficiency to control real estate and labour costs and keep pricing competitive with *kiranas* and neighbourhood stores; lowers capital intensity with non-customer facing outlets; and widens product assortment with more consistent availability of merchandise compared with any single *kirana*, with the help of data on consumer habits.

Ability to offset delivery costs with channel margins

Channel cost differences

(Indexed to MRP of 100)	Quick commerce (dark store)	General trade	Modern retail (DMart)	Modern retail (Big Bazaar)	Quick commerce (*kirana* sourcing)
Maximum retail price (MRP)	100	100	100	100	100
Channel procurement price	76	77	75	77	85
Channel margin	16	21	15	20	16
Stockist	0	3	0	0	3
Wholesale	0	5	0	0	5
Retail	16	13	15	20	8
Working capital cost @ 10% cost of capital	0	1	1	1	
Net delivery cost	5	0	0	0	5
Maximum discount to MRP possible	3	2	10	2	(5)

Source: CLSA

Before DMart, modern grocery models were less successful because pricing was not consistently below *kirana* prices, or product assortment was not localised enough, or high real estate/labour costs meant profitability was tough to achieve. While the DMart model has been successful, roll-out was on the slower side due to the need to acquire large parcels of land at very competitive prices.

Consistent QC profitability still needs to be proven

Although quick commerce solves most of these issues, consistent profitability still needs to be proven. We believe it is highly likely the model will become profitable as it scales, given efficient inventory management and logistics.

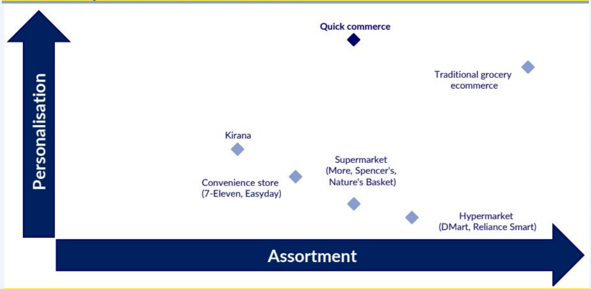
Everything people need in 10 minutes

Wider assortment than traditional and even modern retail

Quick commerce already offers significantly higher product selection than any single *kirana*. In addition, quick commerce goes beyond the typical *kirana* assortment, offering items like basic apparel, electronics, stationery and even services like printing and food services. With the use of dark stores, product variety can be localised based on consumer user data, a key advantage for internet-based platforms. With higher user frequency, consumer cohorts can be tightly refined to predict inventory, offer the right incentives and formulate effective loyalty programs to drive frequency and usage higher. Earlier, non-connected platforms offered blanket loyalty programs that lost money or lacked effectiveness.

QC offers wider assortment and higher personalisation

Assortment vs personalisation across retail formats



Source: CLSA

Data advantage

Data beneficial to more cohorts than other channels

Data support the right incentive structures for the team and consumers and is a key advantage for ecommerce and quick commerce platforms. Data are used to better utilise times for packers and riders, improve efficiency and lower training costs while driving more consistent outcomes. For example, riders get full transparency about their earnings real-time, with clear paths to earn more incentives based on deliverables. A similar approach allows dark store associates to enhance their earnings. These stores are also increasingly incentivised to increase diversity by hiring staff that have certain disabilities as the app-driven nature of the job allows associates to overcome certain challenges.

Data are also an advantage when it comes to consumers, enabling production planning and the ability to offer more relevant discounts and loyalty benefits. This can be done by tailoring content, product selection and offers for a large number of specific cohorts, rather than having generalised offers or broad cohorts.

Low labour cost-to-cart size

India's low labour cost-to-cart size is a key driver of QC success

One reason the quick commerce model has had a greater impact in India is the lower labour cost as a proportion to cart size. Our sample suggests that the minimum wage-to-cart size ratio is 10-12% in India compared with 35-40% in China and 40-50% on average in Western countries. QC's success depends on the optimisation of labour costs in the supply chain, at dark stores and with delivery partners.

While fuel costs vary less, India's minimum wage is significantly lower

Minimum wage vs fuel cost across geographies

	Minimum wage (US$ per hour)	Fuel cost per litre
Australia	23.2	1.2
USA	15.0	1.0
New Zealand	23.2	1.8
UK	13.2	1.9
Germany	13.5	2.0
France	12.7	2.1
China	3.7	1.2
Indonesia	1.4	0.9
Mexico	1.9	1.5
Brazil	1.3	1.1
India	0.6	1.3

Source: CLSA

Almost no penetration in convenience stores

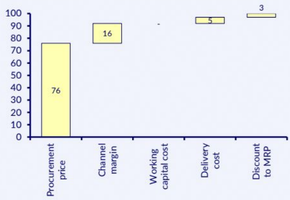
Limited penetration of other convenience formats

Supermarkets and convenience stores account for less than 1% market share in food and grocery retail in India, compared with a range of 20-70% across major developed and emerging markets. In our view, the low penetration of competing channels is a significant competitive advantage for quick commerce, which for the most part only has to compete with *kiranas* and other players in the same subsector.

In other words, quick commerce offsets traditional retail's high channel costs by removing layers and substituting it with delivery costs. As long as delivery costs are lower than savings from the channel consolidation, quick commerce can offer prices lower than traditional retail.

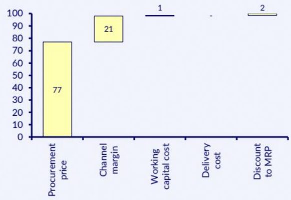
Arbitrage between channel margin savings and delivery costs

Quick commerce operating costs



Source: CLSA

***Kirana* operating costs**



Source: CLSA

Better access for new brands and more premiumisation

More competition and premiumisation for FMCG

Using appropriate past purchase data and more targeted advertising, QC can drive premiumisation for fast-moving consumer goods (FMCG). Competitive intensity is higher in premium categories and price points compared to the mass market, where incumbents have well-established offerings. In our view, quick commerce could challenge normal profitability and returns for Indian FMCG leaders, especially when compared to their global counterparts. This is primarily due to the need for greater product differentiation, both organically and through acquisitions, a more balanced trade relationship with channels and increased pricing pressure.

We note a similar trend in Indonesia, where the share of *warungs*, or traditional retailers, decelerated sharply with a rise in convenience retail, driving increased competition and share losses for market leaders like Unilever Indonesia.

Key stock calls

Company	Rating	Mkt cap (US$bn)	3M ADV (US$m)	Target price (Rs)	Current price (Rs)	Upside/ downside (%)	PE (x)	
							FY25	FY26
Zomato Ltd	O-PF	26.5	177.3	353	251	41	139.6	44.2
Hindustan Unilever Ltd	U-PF	78.2	75.0	2,161	2,778	(22)	62.5	55.1
Marico Ltd	U-PF	10.0	23.9	470	648	(27)	52.1	47.7

Source: CLSA

Land of possibilities

Quick commerce poised to take over urban consumption

India's rapid urbanisation and fragmented retail market have set the stage for the rise of quick commerce. Assuming a 3% net profit margin on GOV, we estimate quick commerce could generate a US$2.3bn profit pool in 10 years, larger than the country's entire retail industry today. In congested cities, consumers often rely on kiranas, or local general shops, for essentials due to the difficulty of travelling for groceries. However, kiranas offer limited selection and lack pricing transparency. Quick commerce provides a superior alternative with better selection, lower prices and delivery within 10-20 minutes. We project the total addressable market for quick commerce to be US$662bn as of FY24, 66% of the total retail market.

Consumer goods delivery within 10-15 minutes from a dark store within 2-3 km

Quick commerce is an innovative, ultra-fast ecommerce format for consumer purchases. In India, the average duration between placing an order and getting the products delivered to the customer's doorstep is fifteen minutes. To ensure that deliveries are quick and efficient, quick-commerce companies operate dark stores - mini-warehouses that service a 2-3km radius. As soon as an order is placed, the packers in the dark store start putting different SKUs in a packet that are then picked up by a delivery partner and delivered to the customer. While it started with grocery, quick commerce has expanded to multiple categories. However, its core strength remains in grocery and other staple products.

Overall retail market

We estimate quick commerce will expand over 10X between FY24-30

Almost US$1 trillion in size, India's retail market is extremely fragmented, with small, unregulated retailers - referred to as the unorganised sector - accounting for about 95% of the market, the vast majority. Food and grocery, the largest category, makes up a little over 60% of the overall retail market and is even more fragmented. Reliance Retail and DMart, the only players with over US$5bn in retail sales, make up a relatively small 4.4% of the overall retail market.

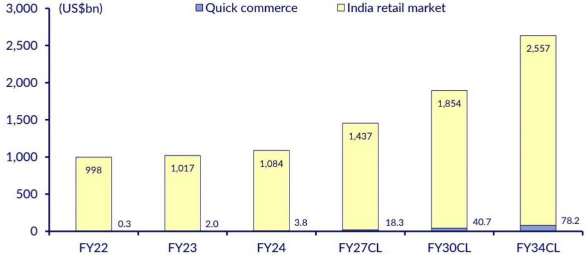
Total addressable market for India quick commerce is US$662bn as of FY24CL

We estimate the total addressable market for India quick commerce as of FY24 to be US$662bn, or 66% of the total retail market, and expect it to grow to US$1,561bn by FY34. Historically, most players have struggled to compete with traditional *kiranas* on convenience or value. However, we believe the quick commerce format is well positioned to win market share. As of FY24, we estimate quick commerce's gross merchandise value (GMV) at only US$3.8bn.

We expect India's retail market to grow at a 9% Cagr over FY24-34, in line with the past decade

Figure 1

India's overall retail and quick-commerce market



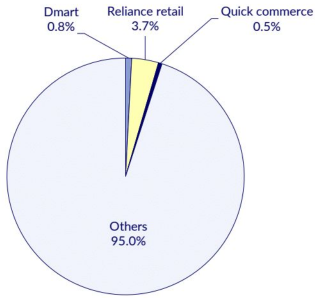
Source: CLSA

At only 0.5% of India's retail market, quick commerce has plenty of room to grow

About 95% of India's retail market is unorganised

Figure 2

Retail market share in India (FY24)



Source: CLSA, Euromonitor

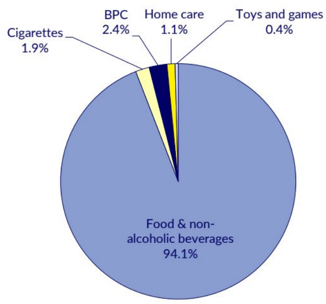
Apparel, footwear and electronics not as well suited to quick commerce

Within the overall retail market, quick commerce is not well suited for certain categories. We believe quick commerce is well positioned to win in segments with well-defined products like food and beverage, cigarettes, beauty and personal care, home care and toys and games. However, we do not include apparel and footwear and consumer electronics in our calculation of the total addressable market for quick commerce because consumer behaviour in these segments are more complex, being more subject to individual preferences and having a much larger SKU assortment. Based on our estimates, we believe the current total addressable market for quick commerce stands at US$662bn, with the bulk of this market consisting of grocery requirements.

Food and non-alcoholic beverages constitute bulk of QC target market

Figure 3

Quick commerce addressable market by category as of FY24

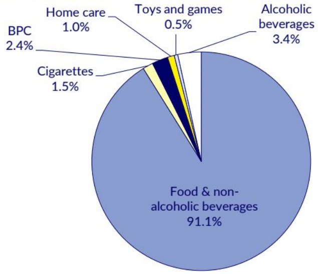


Source: CLSA, Euromonitor

By FY34, new categories like alcohol could significantly increase TAM

Figure 4

Quick commerce addressable market by category in FY34CL



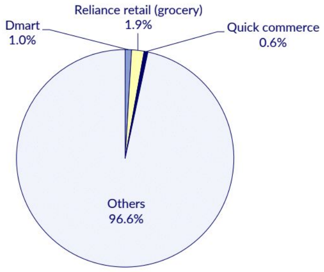
Source: CLSA

We estimate that quick commerce currently accounts for just 0.6% of the total addressable market. Since we do not include consumer electronics and apparel in our addressable market calculation, Reliance Retail's share drops from 3.6% of the total retail market to 1.9%.

Quick commerce is 0.6% of total addressable market by our calculation

Figure 5

Penetration within addressable market



Source: CLSA

Rising urbanisation to drive adoption

India's urbanisation story has been picking up pace. According to United Nations urbanisation forecasts, the number of cities with over a million people is set to increase from 41 in 2005 to 65 by 2025 and 78 by 2035. Similarly, cities with over 0.5 million people should rise from 43 in 2005 to 60 by 2025 and 81 by 2035.

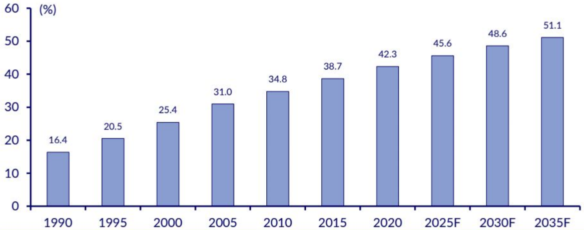
Lower infrastructure, migration and women entering the workforce are driving QC adoption

We believe rapid urbanisation will hasten the adoption of quick commerce for three primary reasons. First, quick commerce has lower infrastructure requirements than traditional retail outlets. Dark stores only need to be basic structures and with most deliveries done on two-wheelers, space needed for parking is also significantly lower. In general, quick commerce works because it substitutes infrastructure for higher labour, an ideal situation in India's rapidly growing cities. Second, urban areas have higher migratory populations. These customers have limited connections with retailers and hence the transition to quick commerce is much faster than in areas where deep family or social connections with local shops exist. Third, with increasing numbers of women entering the workforce, quick commerce offers a balance between convenience, assortment and price that traditional *kiranas* will find hard to match.

Urbanisation in India has been increasing steadily

Figure 6

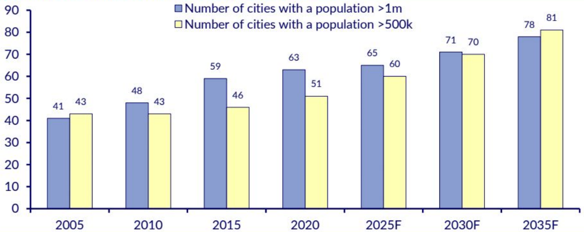
Percentage of Indian population residing in urban regions



Source: CLSA, United Nations

Figure 7

Growth of cities with >500k and >1mn population in India

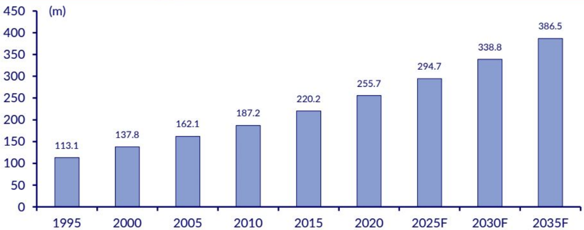


Source: United Nations

Population growth in cities with a population >500k has been higher than overall

Figure 8

Population in cities with a population >500k in India



Source: United Nations

In cities >500k, Blinkit to be 9.9% of overall spending on quick commerce by 2035

Figure 9

Blinkit: QC spending as a proportion of total

	2025F	30CL	35CL
Households in cities over 500,000 people (m)	73.7	84.7	96.6
Monthly spend on QC categories per household (Rs)	12,408	17,402	24,408
Total spend per month (Rsbn)	914	1,474	2,359
Monthly spends on Blinkit (Rsbn)	10	85	234
Proportion of total spend (%)	1.1	5.7	9.9

Source: CLSA, United Nations, Blinkit

India's unique characteristics ideal for quick commerce

1. **Lack of modern, convenient alternatives.** While the *kirana* is ubiquitous, it typically has limited display space, fewer SKUs and no pricing transparency. Moreover, the supply chain to the *kirana* adds layers of costs and complexity, providing an opportunity for quick commerce to disintermediate and offer lower consumer prices. India is a large market with significant potential for sourcing synergies at a national level but also very unorganised, which allows QC to differentiate by reducing complexity.

2. **Lower labour costs.** Quick commerce incurs higher costs for packing and delivery compared to convenience stores or supermarkets worldwide. However, lower labour costs in India relative to cart value is a key reason why quick commerce is becoming more widespread in the country.

3. **Lower car ownership and highly congested cities.** Modern supermarkets in India often struggle with unit economics because cart sizes tend to be small. In addition, consumers would rather go to the neighbourhood *kirana* than take a longer trip to a larger supermarket. However, quick commerce offers the best of both worlds to the consumer. In addition, QC companies use two-wheelers for deliveries, which means inventory turnover at dark stores are much higher than those at supermarkets.

Essentially, as long as quick commerce companies can offset labour costs by flattening the supply chain and sourcing more efficiently, products can be delivered to the customer at a price points lower than the *kirana* while maintaining a similar level of profitability. In other markets, the existing supply chain is flatter and labour costs are high, meaning quick commerce's cost to the consumer is almost always higher.

Top quick commerce operators: Strengths, weaknesses and key differences

Blinkit (Zomato)	Instamart (Swiggy)	Zepto	BBNow (Bigbasket)
Strengths			
Wide geographical reach	Pioneers of QC	QC focused operator	Consumer association
Largest number of SKUs	Wide geographical reach	Fresh food and meat	Fresh food and meat
Pure QC	Increasing SKUs	Private brands	Private brands
Largest dark store network	Experience managing riders	Increasing SKUs	
Experience managing riders	Large dark store network	Zepto Café	
High AOVs			
Contribution positive			
Weaknesses			
Geographic concentration	Lower AOV	Lower AOV	Multiple grocery models
	Not yet profitable	Geographic concentration	Not yet profitable
		Not yet profitable	
Key differences			
No loyalty program	Shared loyalty program	Exclusive loyalty program	Shared loyalty program
Exclusive fleet	Shared fleet	Exclusive fleet	Shared fleet

Source: CLSA

Given how fast quick commerce has scaled up and since it is on the cusp of being profitable, we expect the format's proportion of the total addressable market to keep increasing. We now build some scenarios to understand its implications.

Scenario 1: 5% penetration (base case)

Base case: quick commerce limited to top-125 cities

If quick commerce achieves a 5% market penetration, it will result in a 35% Cagr over the next decade. This projection assumes that quick commerce will be limited to large urban centres (the top 125 cities with populations over 0.5 million), which we consider a reasonable base case.

In scenario 1, we forecast a 35% quick commerce market Cagr

Figure 10

Scenario 1: Quick commerce reaches 5% penetration by FY34CL

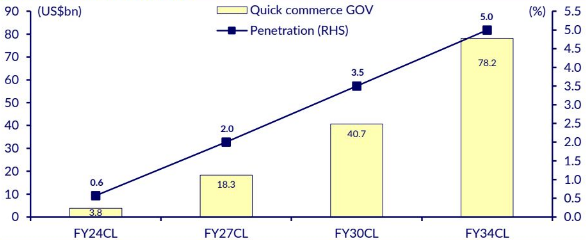
(Rsm)	FY24	FY27CL	FY30CL	FY34CL	Cagr (%)
Target addressable market	54,962,916	75,892,287	96,174,426	129,525,943	9
Quick commerce	312,850	1,517,846	3,366,105	6,476,297	35
Penetration (%)	0.6	2.0	3.5	5.0	

Source: CLSA

We expect a GOV greater than US$78bn in our base case by FY34

Figure 11

Base case: Quick commerce GOV



Note: We assume a constant currency exchange rate. Source: CLSA

Current market share of quick-commerce platforms

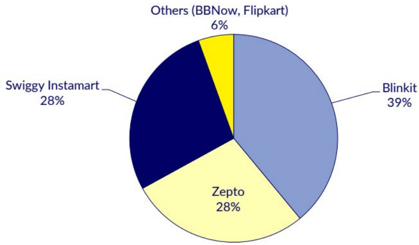
Blinkit is the current market leader in quick commerce

Blinkit is the current market leader in quick commerce and enjoys 39% market share while Zepto and Swiggy Instamart both have about 28% market share.

Top-3 QC players account for over 90% market share

Figure 12

Market share of quick-commerce players



Source: CLSA

Assuming 3% margin, QC to generate US$2.3bn profit pool by FY34CL

Profit pool analysis in our base case

Based on our calculation of the market for quick commerce, we now calculate the profit pool by FY34. We take five scenarios at different net profit margins and apply them to our calculated GOV for FY34. Assuming a 3% net profit margin, quick commerce should generate a profit pool of US$2.3bn by FY34.

Profit pool in our base case ranges from US$0.4-3.1bn based on profit margin

Figure 13

Base case: Quick commerce profit pool based on different net profit margins for FY34CL

Note: We assume a constant currency exchange rate. Source: CLSA

Bear case: quick commerce limited to top-65 cities

Scenario 2: 3% penetration (bear case)

If quick commerce reaches a 3% market penetration, it would result in a 29% Cagr over the next decade. Our bear case is based on the assumption that the market for quick commerce is restricted to the top 65 biggest cities (those with a population greater than 1m) in India.

In scenario 2, we calculate a 29% quick commerce market Cagr

Figure 14

Scenario 2: Quick commerce reaches 3% penetration by FY34CL

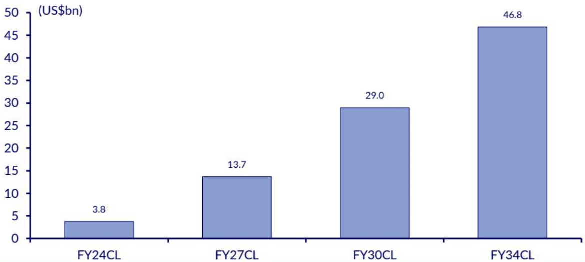
Rsm	FY24	FY27CL	FY30CL	FY34CL	Cagr (%)
Target addressable market	54,962,916	75,892,287	96,174,426	129,525,943	9
Quick commerce	312,850	1,138,384	2,404,361	3,885,778	29
Penetration (%)	0.6	1.5	2.5	3.0	

Source: CLSA

We expect GOV to reach US$46.8bn in our bear case by FY34

Figure 15

Bear case: Quick commerce GOV



Note: We assume a constant currency exchange rate. Source: CLSA

Bull case: Quick commerce to expand beyond top-125 cities and win higher share

Scenario 3: 10% penetration (bull case)

If quick commerce achieves 10% market penetration, it will mean a 45% Cagr for quick commerce over the next decade. Our bull-case is based on the assumption that quick commerce will expand beyond the top-125 cities in the country and win a higher share of the market within those cities.

In scenario 3, we estimate a 45% quick commerce market Cagr

Figure 16

Scenario 3: Quick commerce reaches a penetration of 10% by FY34

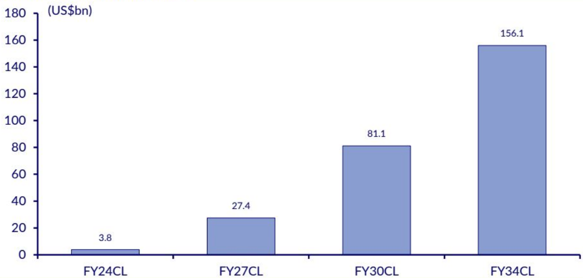
Rsm	FY24	FY27CL	FY30CL	FY34CL	Cagr (%)
Target addressable market	54,962,916	75,892,287	96,174,426	129,525,943	9
Quick commerce	312,850	2,276,769	6,732,210	12,952,594	45
Penetration (%)	0.6	3.0	7.0	10.0	

Source: CLSA

We expect GOV to reach US$156.1bn by FY34 in our bull case

Figure 17

Bull case: Quick commerce GOV



Note: We assume a constant currency exchange rate. Source: CLSA

Ability to offset delivery costs with channel margins

Operational wizardry is key

Quick commerce's success hinges on removing layers in the supply chain and enhancing channel efficiency to offset delivery costs. The agility of its operations - from sourcing and warehousing to fulfilment management and rider optimisation - is crucial. As it scales, product assortment is expanding beyond food and grocery, boosting average order value and improving unit economics. The addition of long-tail SKUs, based on consumer data, enhances inventory management. Scaling also brings sourcing advantages and opportunities to expand into services.

Traditional *kiranas* continue to be dominant

Despite the emergence of modern formats, traditional *kiranas* have held on to their dominance in India retail over the past 30 years with over 95% market share. According to Euromonitor, small local grocers and food/drink/tobacco specialists still account for 95% of the grocery retail market in India, significantly higher than other geographies.

Figure 18

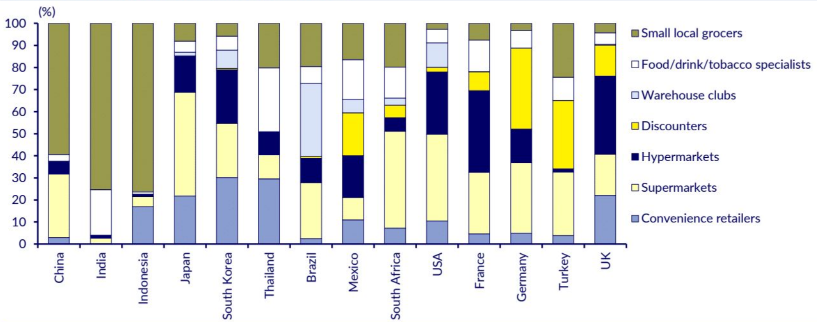
Grocery retail: keys to success

	Low consumer price	Convenience/ proximity	Consumer data	Wide assortment	Low labour intensity	Low real estate cost	Local ownership
Quick commerce							
Blinkit	✓✓	✓✓✓	✓✓✓	✓✓	✓	✓✓✓	✓✓
Zepto	✓✓	✓✓✓	✓✓✓	✓✓	✓	✓✓✓	✓✓
Swiggy Instamart	✓✓	✓✓✓	✓✓✓	✓✓	✓	✓✓✓	✓✓
Mostly traditional ecommerce							
Bigbasket/BBNow/BBInstant/BBDaily	✓✓	✓✓	✓✓✓	✓✓	X	✓✓✓	✓✓
Amazon	✓✓	✓✓	✓✓✓	✓✓✓	X	✓✓✓	X
Flipkart	✓✓	✓✓	✓✓✓	✓✓✓	X	✓✓✓	X
Physical first							
DMart/DMart Ready	✓✓✓	✓	✓	✓✓✓	✓✓✓	✓✓	✓✓✓
Reliance Retail/Jiomart	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓	✓	✓✓✓
More	✓	✓✓	X	✓	✓	X	✓✓✓
Spencer's	✓	✓✓	X	✓	✓	X	✓✓✓
Star Bazaar	✓✓	✓✓	X	✓	✓	X	✓✓

Note: Number of ticks indicate relative strength. Source: CLSA

Figure 19

Grocery retail by category across major geographies (2023)

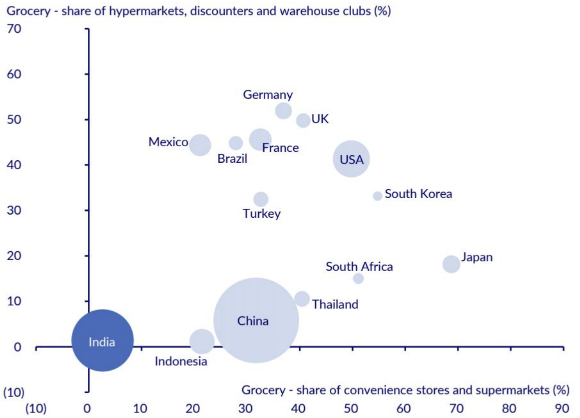


Source: CLSA, Bloomberg

In India, grocery as a share of supermarket and convenience store formats by country is tiny

Figure 20

Grocery as a percentage of different retail formats across geographies



Source: CLSA, Euromonitor

Costs associated with travelling to a convenience store is high in India

Compared to other geographies, supermarkets, convenience stores, hypermarkets, discounters and warehouse clubs constitute a fraction of the grocery retail market. A key reason is the lack of ease in access. Given higher congestion in India, lower penetration of convenience stores (in number) and cost of fuel as a percentage of minimum wage, many Indians do not find it economical or convenient to make long trips to fulfil their grocery requirements. In this scenario, the closest *kirana* is a reliable alternative.

While India's minimum wage is low, fuel cost is similar to other countries

Figure 21

Minimum wage vs fuel costs across geographies

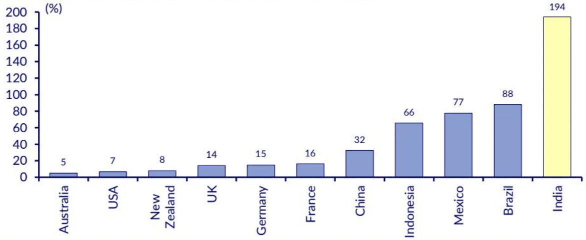
	Minimum wage (US$ per hour)	Fuel cost per litre
Australia	23.2	1.2
USA	15.0	1.0
New Zealand	23.2	1.8
UK	13.2	1.9
Germany	13.5	2.0
France	12.7	2.1
China	3.7	1.2
Indonesia	1.4	0.9
Mexico	1.9	1.5
Brazil	1.3	1.1
India	**0.6**	**1.3**

Source: CLSA, Bloomberg

Fuel cost per litre in India is almost 2x minimum wage per hour

Figure 22

Fuel cost as a percentage of minimum wages across geographies



Source: CLSA

Fuel cost and time spent are limiting factors depending on your income power

While fuel cost relative to earnings is a limiting factor for low- to middle-income earners, convenience and time spent is a limiting factor for upper-middle and higher income households.

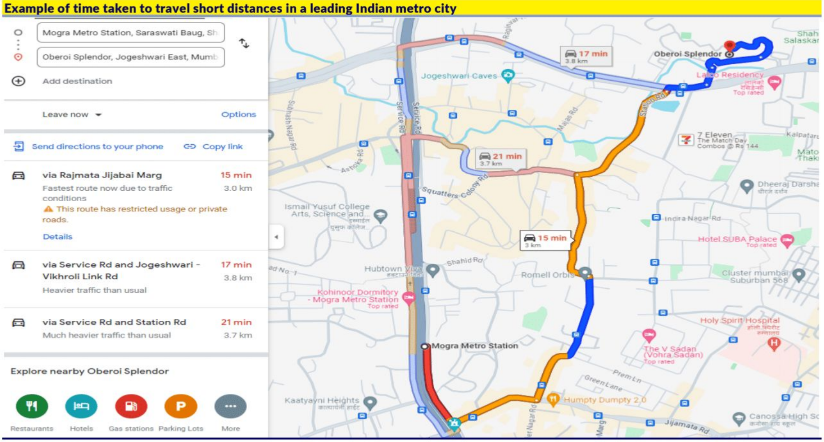
Public transport is a cheaper option, but the top 10% of households do not use public transport to buy groceries. The remaining population is used to paying the maximum retail price (MRP) for products. Therefore, any discounts would directly translate to savings for this price-sensitive audience.

Excessive traffic during peak hours is also a limiting factor

During regular office hours, 2-3kms usually takes 12-15 minutes to cover by car in an Indian metro city. The affluent find spending 25-30 minutes on travel to go to a department store cumbersome. As a result, even they continue to rely on local *kiranas* for small daily purchases.

Figure 23

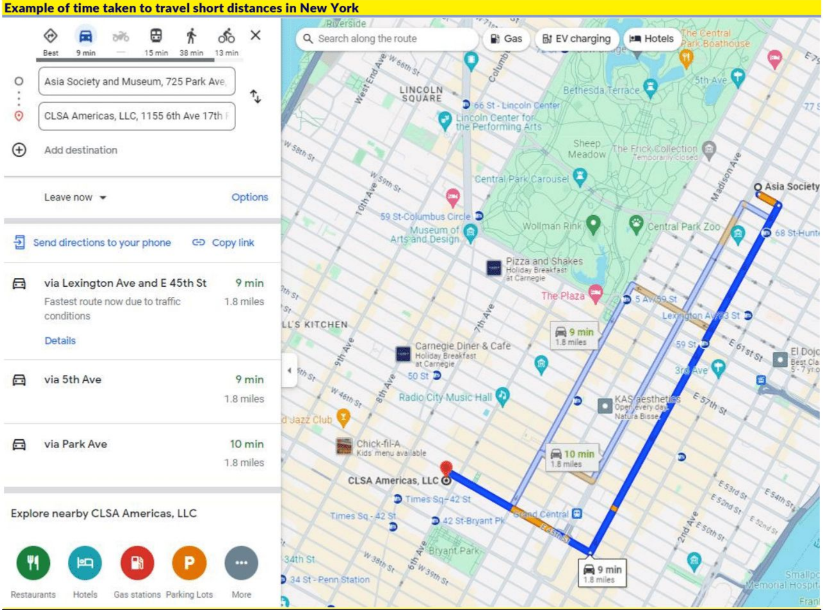
Example of time taken to travel short distances in a leading Indian metro city



Source: CLSA, Google

Figure 24

Example of time taken to travel short distances in New York



Source: CLSA, Google

Time to travel a similar distance is 40% less in New York City vs Mumbai

According to Google Maps, the time it takes to cover 3km (1.8 miles) by car in New York City is 40% lower than Mumbai. In addition, since market penetration for convenience stores, hypermarkets and supermarkets in New York is far more, it effectively means that an average person in New York would need to travel far less to buy something compared to Mumbai.

Quick commerce saves time and fuel costs

Quick commerce addresses problems related to both fuel cost and time spent. Overall prices for a small cart on quick commerce, including the platform fee and assuming the delivery fee is waived for orders above the minimum threshold, are lower than the MRP typically charged by local *kiranas*.

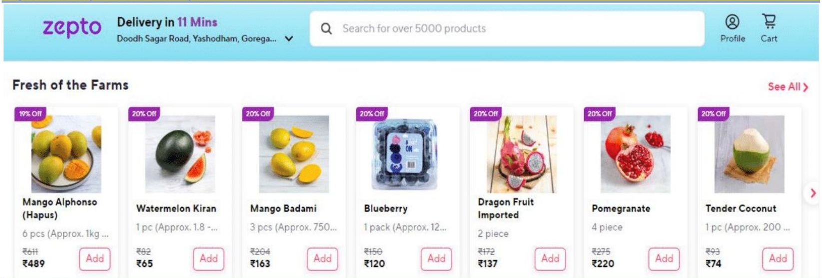
Quick commerce can usually deliver products to your door within 15-20 min

Quick commerce companies are also able to provide the products within 15-20 minutes. While they target 10-minute delivery, they usually do not exceed twenty minutes even with some delays. In most cases, going to a local *kirana* would also take at least 10-15 minutes when you include getting ready, using the lift, walking to the store, making the decision, paying for the product, collecting change and coming back up.

Thus, in a similar time frame, the consumer is able to have the products in hand for a price that is cheaper. This eliminates the pain points that have prevented consumers from shifting to a convenience store, hypermarket or discounted retailer.

Figure 25

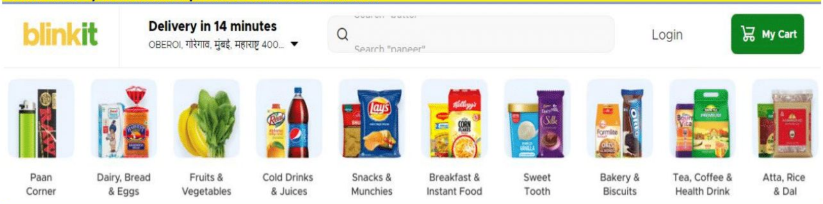
Zepto: Delivery in 11 mins to a prominent residence in Mumbai



Source: CLSA, Zepto

Figure 26

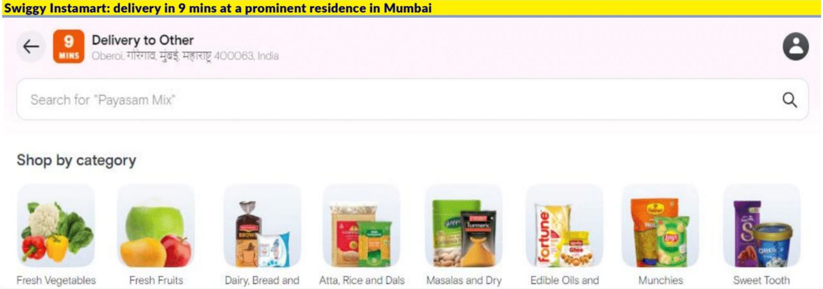
Blinkit: delivery in 14 mins at a prominent residence in Mumbai



Source: CLSA, Blinkit

Figure 27

Swiggy Instamart: delivery in 9 mins at a prominent residence in Mumbai



Source: CLSA

Riders make about Rs20,000 per month through quick commerce

Unit economics for the rider

The value proposition for the riders who deliver the goods to customers is also reasonable. Net profit per month does not vary much when comparing bicycle, motorbike or electric vehicle usage for transport.

Figure 28

Unit economics for a rider on quick commerce

	Bicycle	Motorbike	EV
Delivery time (in mins)	35	25	27
Deliveries per hour	2	2	2
Hours worked	11	11	11
Number of deliveries per day	19	26	24
Number of deliveries per month (four days off)	494	676	624
Distance per delivery	4	5	4
Total distance travelled per day	67	117	84
Distance travelled per month	1,729	3,042	2,184
Base pay per week (Rs30 per delivery)	14,820	20,280	18,720
Long distance pay		3,380	
Incentives	6,000	6,000	6,000
Gross income per month	20,820	29,660	24,720
Fuel cost		7,985	
Maintenance cost per month	500	1,000	500
Rental cost			5,460
Other costs	500	500	500
Net profit per month	19,820	20,175	18,260

Source: CLSA

Quick commerce can offer prices lower than traditional retail as long as savings on channel consolidation exceed delivery costs

Arbitrage between channel and delivery costs

One way to understand why quick commerce works in India is to think of quick commerce as offsetting the high channel cost of traditional retail by delayering the channel and substituting it with delivery costs. As long as delivery costs are lower than the savings on the channel consolidation, quick commerce can offer prices lower than traditional retail.

Figure 29

Channel cost differences

	Quick commerce (dark store)	General trade	Modern retail (DMart)	Modern retail (Big Bazaar)	Quick commerce (*kirana* sourcing)
Maximum retail price (MRP)	100	100	100	100	100
Channel procurement price	76	77	75	77	85
Channel margin	16	21	15	20	16
Stockist	0	3	0	0	3
Wholesale	0	5	0	0	5
Retail	16	13	15	20	8
Working capital cost @ 10% cost of capital	0	1	1	1	
Net delivery cost	5	0	0	0	5
Maximum discount to MRP possible	**3**	**2**	**10**	**2**	**(5)**

Source: CLSA

Quick commerce offers products at a discount to MRP in most cases

Pricing vs *kiranas*

Kiranas sell products on MRP while quick commerce offers most products at a discount to MRP. In most cases, the handling charge, delivery fee (where applicable) and platform fee are lesser in comparison to the savings due to getting products lower than MRP.

Figure 30

Small cart price comparison as of Feb 24

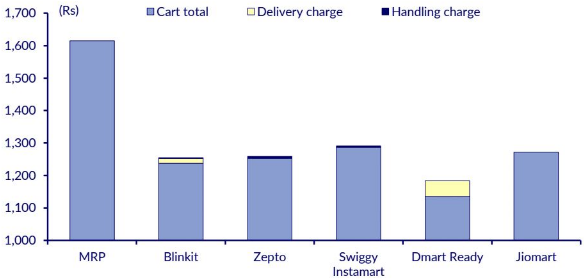
Product (Rs)	Unit size	MRP	Blinkit	Zepto	Swiggy Instamart	DMart Ready	Jiomart
Colgate total	2 X 120g	370	293	296	277	245	248
Surf Liquid Detergent (front load)	3.2 l	765	532	551	604	520	655
Britannia Good Day Chocochip Cookies	400 g	140	97	94	94	85	85
Maggi Masala Instant Noodles	280 g	56	56	55	56	50	50
Parachute Coconut Oil	300 ml	114	103	100	103	99	99
Real Fruit Power Orange Juice	1 l	130	117	117	113	104	104
Pepsi	750 ml	40	40	40	40	32	31
Cart total		**1,615**	**1,238**	**1,253**	**1,287**	**1,135**	**1,272**
Delivery charge			15	-	-	49	-
Handling charge			2	5	4	-	-
Final price		**1,615**	**1,255**	**1,258**	**1,291**	**1,184**	**1,272**
vs MRP (%)			(22)	(22)	(20)	(27)	(21)
Product (%)	**Unit size**		**Blinkit vs MRP**	**Zepto vs MRP**	**Swiggy Instamart vs MRP**	**DMart Ready vs MRP**	**Jiomart vs MRP**
Colgate total	2 X 120g		(21)	(20)	(25)	(34)	(33)
Surf Liquid Detergent (front load)	3.2 l		(30)	(28)	(21)	(32)	(14)
Britannia Good Day Chocochip Cookies	400 g		(31)	(33)	(33)	(39)	(39)
Maggi Masala Instant Noodles	280 g		0	(2)	0	(11)	(11)
Parachute Coconut Oil	300 ml		(10)	(12)	(10)	(13)	(13)
Real Fruit Power Orange Juice	1 l		(10)	(10)	(13)	(20)	(20)
Pepsi	750 ml		0	0	0	(20)	(23)
Cart total			**(23)**	**(22)**	**(20)**	**(30)**	**(21)**

Source: CLSA, Blinkit, Zepto, Swiggy Instamart, DMart Ready, JioMart

Effective price for a small cart on quick commerce is lower than MRP but higher than DMart and Jiomart

Figure 31

Quick commerce pricing for a small cart

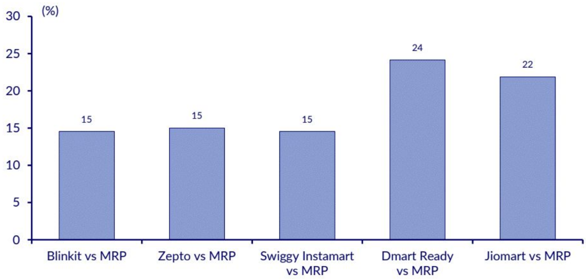


Source: CLSA

Average discounts on MRP on quick commerce are lower than DMart/Jiomart

Figure 32

Average discounts vs MRP



Source: CLSA

Assortment vs *kiranas*

***Kiranas* do not have the luxury to offer wide variety due to space constraints**

A *kirana* is typically a small store between 150-300 square feet. Some are a little larger but they usually does not exceed 500 square feet. In this scenario, the *kirana* owner does not have the luxury to keep a wide assortment of products. They usually stock the highest-selling products to maximise returns. As a result, traditional FMCG companies have had an advantage because they occupy shelf space at local *kiranas*.

***Kiranas* typically operate in a small space**

Figure 33

Example of a *kirana*: 1

Source: CLSA

Figure 34

Example of a *kirana*: 2

Source: CLSA

Figure 35

Example of a *kirana*: 3

Source: CLSA

Figure 36

Example of a *kirana*: 4

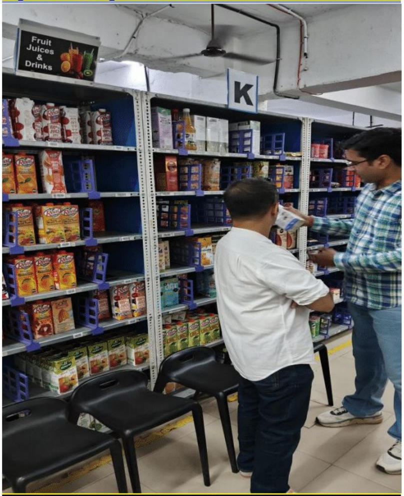
Source: CLSA

Quick commerce segregates storage and discovery

On the other hand, quick commerce segregates the functions of storage and discovery. While all SKUs are kept in a dark store to optimise space, consumer product discovery happens on the app. This lets quick-commerce players truly optimise for space in the dark store and helps them keep a wide assortment without worrying about discovery. A typical dark store is 3,000 square feet, much bigger than a traditional *kirana*.

Figure 37

Organised stocking in a dark store



Source: CLSA, Zepto

Figure 38

Stocking of fruits and vegetables in a typical dark store

Source: CLSA, Zepto

Quick commerce: fewer SKUs than larger formats but more than *kiranas*

Figure 39

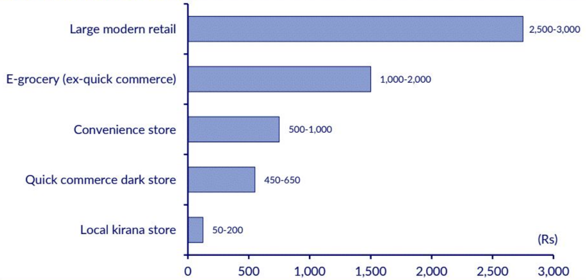
SKU choice comparison

Source: CLSA

Average order value is also larger than *kiranas*, but less than larger retail formats

Figure 40

Average order value comparison



Source: CLSA

Figure 41

Separate stocking for chilled products

Source: CLSA, Zepto

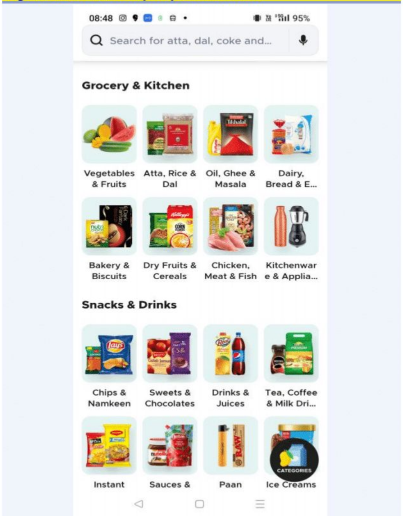
Figure 42

Separate stocking for frozen products

Source: CLSA, Zepto

Figure 43

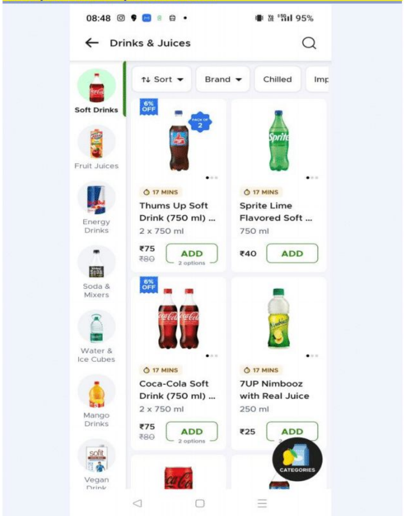
Organised self-discovery in quick commerce



Source: CLSA, Blinkit

Figure 44

Variety available in quick commerce



Source: CLSA, Blinkit

Typical dark store has organised stocking of products in a large area

Unlike a *kirana*, which has limited space, a typical dark store has organised stocking of products in a large 3,000 square foot area. They have separate sections for products requiring ambient temperature, cold temperatures or a specific frozen section. The layout is prepared in such a way that increases packing efficiency.

Dark store layout optimised for packing efficiency

Figure 45

Typical layout of a dark store

Source: CLSA, Zepto

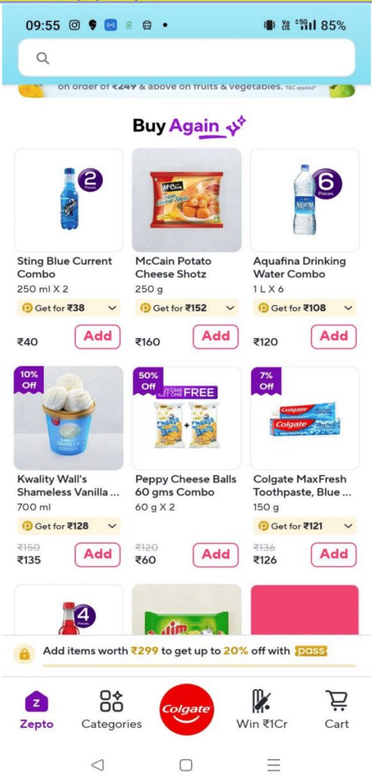
Quick commerce can capture data and tailor assortment accordingly

Data capabilities vs *kiranas*

Quick commerce captures consumer data to tailor its product assortment. Frequently purchased items are prioritised on the app, encouraging repeat purchases. This data-driven approach improves inventory turnover and reduces required inventory levels in dark stores. In contrast, while local *kirana* owners may have an intuitive understanding of customer preferences, few use quantitative data for inventory decisions. Most rely on instinct and qualitative factors to manage their stock levels.

Figure 46

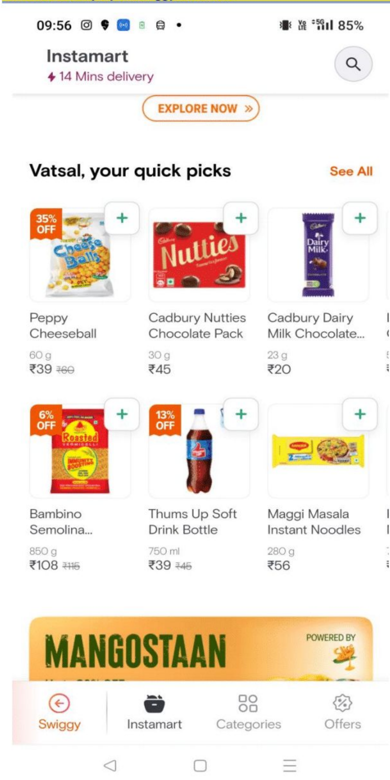
Customised display in Zepto



Source: CLSA, Swiggy

Figure 47

Customised display in Swiggy Instamart



Source: CLSA, Swiggy

Only DMart and Reliance Retail saw any success

Previous formats failed to dislodge *kiranas*

Over the years multiple organised retail formats have been unsuccessful in winning share from the *kiranas*, with only DMart and Reliance Retail seeing meaningful success.

Early modern retail formats needed high margins to offset high operating costs

Early modern retail formats such as Big Bazaar depended on higher gross margins and differentiated SKUs to try and win market share. The models needed high margins to offset higher overheads, which led to prices being the same or higher than *kiranas*. These players also struggled with working capital, especially inventory, and ended up increasing payables, which did not win any favours with the suppliers. As more efficient models like DMart emerged, these supermarkets struggled to find a customer base beyond the urban elite.

Future Retail struggled to compete after more efficient models like DMart emerged

Figure 48

Future Retail - standalone financial summary

(Rsm)	FY17	FY18	FY19	FY20	FY21
Sales	170,751	184,780	201,649	201,183	62,610
YoY (%)		8	9	0	(69)
COGS	128,344	137,407	147,811	149,154	50,020
Gross profit	42,407	47,373	53,838	52,029	12,590
Gross margin (%)	25	26	27	26	20
Ebitda	6,051	8,440	10,574	20,679	(3,894)
Interest	2,042	1,754	2,240	9,932	14,424
Depreciation	326	534	1,006	10,409	13,282
PBT	3,683	6,152	7,328	338	(31,599)
PBT margin (%)	2.2	3.3	3.6	0.2	(50.5)
PAT	3,683	113	7,328	338	(31,800)
PAT margin (%)	2.2	0.1	3.6	0.2	(50.8)
Inventory	37,352	44,174	50,656	52,329	39,959
Inventory days	80	81	86	93	269

Source: CLSA, Future Retail

Subsequent models worked with lower costs but sacrificed convenience

Subsequent formats tried working with lower gross margins (about 20%) but placed supermarkets or convenience stores closer to the consumer. However, they still struggled to find a meaningful market between DMart/Reliance Retail and the *kirana* with the convenience-focused customer going to the *kirana* and the value-focused visiting the hypermarkets. Cost control and efficiency for the proximity models were also much tougher, with most struggling to make any Ebitda margin with a 20% gross margin.

Models like More struggled with profitability as they reduced gross margins

Figure 49

More Retail Private Limited - financial summary

(Rsm)	FY21	FY22	FY23
Sales	47,630	48,671	45,067
COGS	38,038	39,769	37,608
Gross profit	9,592	8,902	7,458
Gross margin (%)	20	18	17
Employee costs	3,756	4,284	4,220
Other expenses	4,098	5,500	4,970
Ebitda	1,738	(881)	(1,732)
Ebitda margin (%)	4	(2)	(4)
Interest	1,313	1,480	1,903
Depreciation	1,787	2,238	2,545
Other income	582	577	677
PBT	(781)	(4,022)	(5,503)
PBT margin (%)	(1.6)	(8.3)	(12.2)
PAT	(781)	(4,022)	(5,503)
PAT margin (%)	(1.6)	(8.3)	(12.2)
Inventory	3,994	3,308	3,461
Inventory days	31	27	27

Source: CLSA, More Retail

Spencer's also faced lower margins and relatively high inventory days

Figure 50

Spencer's Retail - financial summary

(Rsm)	FY18	FY19	FY20	FY21	FY22	FY23
Sales	10,429	21,872	23,733	20,690	19,996	21,802
COGS	8,375	17,227	18,721	16,705	16,107	17,663
Gross profit	2,054	4,645	5,012	3,985	3,889	4,139
Gross margin (%)	20	21	21	19	19	19
Employee costs	721	1,421	1,606	1,584	1,521	1,643
Other expenses	1,329	3,085	2,613	2,402	2,193	2,452
Ebitda	4	139	793	(1)	175	44
Ebitda margin (%)	0	1	3	0	1	0
Interest	38	74	609	689	760	907
Depreciation	147	245	1,050	1,062	935	969
Other income	89	278	295	472	675	299
PBT	(91)	97	(570)	(1,279)	(846)	(1,532)
PBT margin (%)	(0.9)	0.4	(2.4)	(6.2)	(4.2)	(7.0)
PAT	(91)	79	(570)	(1,279)	(846)	(1,532)
PAT margin (%)	(0.9)	0.4	(2.4)	(6.2)	(4.2)	(7.0)
Inventory	2,425	2,698	2,306	2,358	2,290	2,287
Inventory days	85	43	38	41	42	38

Source: CLSA, Spencer's Retail

While slotted delivery ecommerce models fared better on revenue growth as they could offer prices similar to hypermarkets, they struggled with costs. Players like BigBasket, Amazon, Flipkart and DMart Ready were faced with losses. Post-Covid, ecommerce adoption rose but so did losses as these models worked with thin gross margins and relatively high fixed costs. It was difficult to achieve high volumes because the minimum order size needed for a profitable slotted delivery was often out of reach of the average consumer and it lacked the convenience of quick delivery.

BigBasket was the leading e-grocery player but high discounting and costs led to a less profitable model

Figure 51

BigBasket (Innovative Retail Concepts) - financial summary

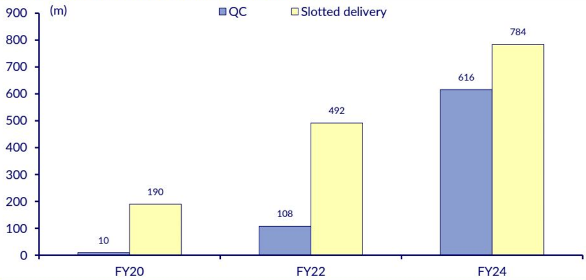
(Rsm)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Sales	10,905	14,096	23,810	34,176	60,659	70,959	74,344
COGS	9,772	12,657	21,444	30,402	54,481	64,950	69,639
Gross profit	1,134	1,439	2,366	3,774	6,177	6,009	4,705
Gross margin (%)	10	10	10	11	10	8	6
Employee costs	1,035	1,175	2,168	2,912	2,367	7,393	9,156
Other expenses	1,877	1,895	3,439	4,839	5,001	3,689	6,774
Ebitda	(1,778)	(1,631)	(3,240)	(3,976)	(1,192)	(5,073)	(11,225)
Ebitda margin (%)		(12)	(14)	(12)	(2)	(7)	(15)
Interest	0	75	75	32	314	1,217	1,659
Depreciation	140	92	171	238	755	2,044	2,748
Other income	1	6	4	4	233	206	280
PBT	(1,918)	(1,792)	(3,483)	(4,243)	(2,028)	(8,127)	(15,352)
PBT margin (%)	(17.6)	(12.7)	(14.6)	(12.4)	(3.3)	(11.5)	(20.6)
PAT		(1,792)	(3,483)	(4,243)	(2,028)	(8,127)	(15,352)
PAT margin (%)	0.0	(12.7)	(14.6)	(12.4)	(3.3)	(11.5)	(20.6)
Inventory	64	104	240	501	164	3,685	4,525
Inventory days	2	2	3	4	2	10	20

Source: CLSA, Capitaline

QC shipments have almost caught up with slotted delivery in very short period

Figure 52

Shipments of Quick commerce and slotted delivery ecommerce

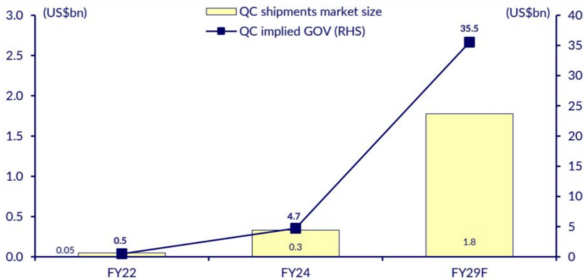


Source: CLSA, Ecom Express, DRHP

QC shipment value has grown 6.9x in FY22-24 and experts expect further 5x increase by FY29F

Figure 53

QC shipments market size and QC implied GOV



Source: CLSA, Ecom Express, DRHP

Top quick commerce plays

Zomato to benefit while Marico and Hindustan Unilever face risks

Quick commerce is reshaping India's retail supply chain by flattening the distribution network, giving newer brands increased visibility and the ability to compete on price, leading to higher premiumisation. It has also become a significant portion of sales at some consumer staple firms, which has broad implications for the sector. As Blinkit's parent, Zomato will be the largest beneficiary in the listed space, while Marico and Hindustan Unilever face substantial risks as their distribution advantage erodes. We forecast Blinkit will achieve adjusted Ebitda and net profit positivity by FY25, contributing up to 34% of our FY26 EPS for Zomato. While we adjust Marico's target price from Rs460 to Rs470 due to changes in commodity costs, we maintain our Underperform rating.

Drying up the distribution moat

General trade involves a complex distribution network

General trade, which includes traditional *kiranas*, accounts for over 90% of FMCG sales in India. A complex distribution network exists between the FMCG company and the consumer that includes 3-4 layers, from the clearing and forwarding (C&F) agent to the distributor, wholesaler and retailer. In addition, FMCG companies usually have localised suppliers or factories close to the point of sale. This complexity has been a competitive advantage for large and established companies, as it is often unprofitable for a subscale business to operate with this system. Even for large, well-established businesses, the cost difference between the FMCG firms and the retailer can be as much as 9-18% of the selling price, even in Tier-1 cities. This discrepancy can rise to 9-20% in smaller towns and in rural India. Coupled with advertising costs, which can be 8-15% of sales (usually with minimum spends of over Rs1bn), distribution-related costs are a significant hurdle for new entrants.

Leading FMCG companies have wide distribution reach

Leading FMCG companies such as Hindustan Unilever, Nestle, Britannia, Dabur, Marico, Emami, P&G, Godrej Consumer have deep urban and rural distribution networks, a source of competitive advantage.

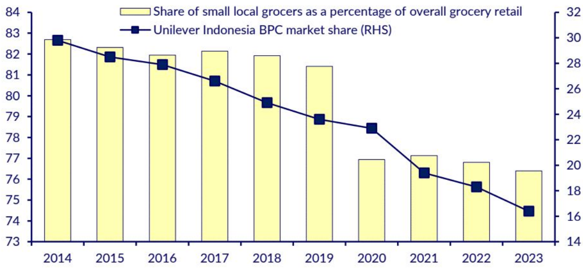
We believe quick commerce offers new and direct-to-consumer (D2C) brands an effective way to tap into a vast pan-India audience without having to build a deep distribution network. However, quick commerce is currently restricted to the top 25-30 cities. As quick commerce expands into tier-2 and tier-3 cities, distribution should continue to become more democratised.

As a case study, we note that as the market share of local grocers in Indonesia fell with the rapid growth of mini-marts, which enabled increased contribution, the market share of dominant leaders like Unilever Indonesia contracted sharply. In India, we could see a similar trend as *kiranas* cede share to quick commerce and modern retail.

In Indonesia, a market share shift away from small grocers led to a sharp decline in BPC share for Unilever

Figure 54

Share of small retailers in Indonesia vs Unilever Indonesia's market share



Source: CLSA, Euromonitor

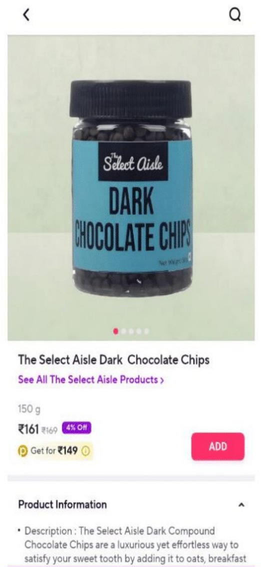
Figure 55

Honey: D2C brand

Source: CLSA, Zepto

Figure 56

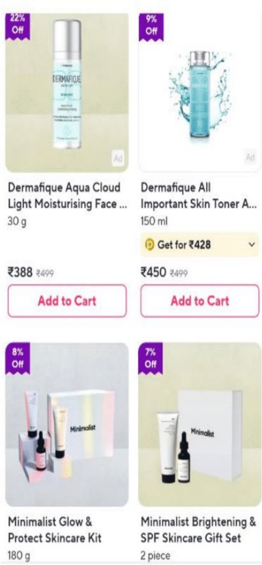
Chocolate chips: D2C brand



Source: CLSA, Zepto

Figure 57

Beauty: D2C brands



Source: CLSA, Zepto

Margin impact

Modern retailers usually buy products at a 22-25% discount to MRP

Modern retailers usually buy products from staple companies at a 22-25% discount to maximum retail price (MRP). However, successful retailers like DMart can work with lower 14-15% gross margins, allowing them to pass on the discounts to customers and win share.

QC passes savings onto consumers, reducing incumbent pricing power

In the general trade channel, the various parts of the value chain combine to take 19-33% of MRP as margins. However, because these margins are shared among multiple players, the ability to undercut is limited. As a result, the maximum retail price determined by the consumer companies is more sacrosanct, allowing them more control over pricing. While quick commerce is currently margin accretive for consumer companies with a 20-22% discount, they too have the ability to pass savings to the consumer, effectively taking away some pricing control from FMCG companies.

General trade's high distribution costs works as a moat for the established

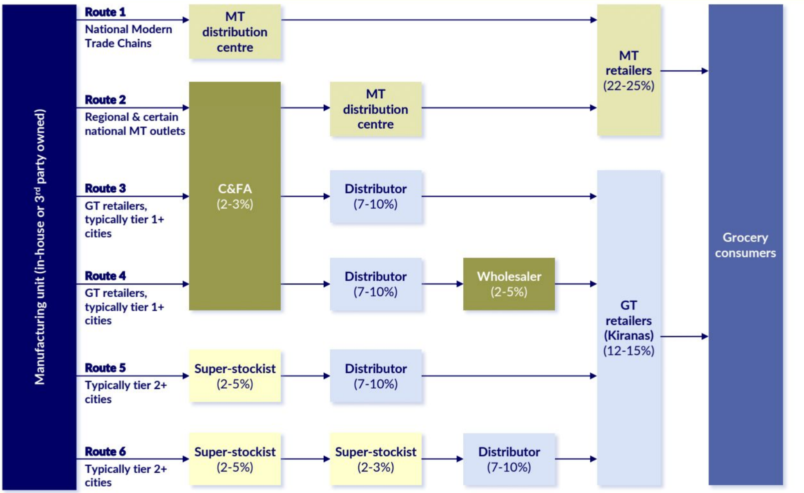
In our view, general trade's high distribution cost works as a moat for established consumer companies because it discourages new entrants in a category with a dominant leader. In addition, limited store space and across-the-counter shopping leads to brand awareness bias, again favouring the dominant incumbents.

QC and modern retail formats allow for more competition

However, we believe quick commerce (and other modern retail formats) allow for more competition, which can then use incumbents' high margins to undercut pricing and gain share. More significantly, we believe new competitors leveraging quick commerce to expand scale without significant traditional advertising costs can undercut existing players.

Figure 58

Grocery and consumer staples - supply chain



Source: Redseer

Most quick commerce SKUs are margin accretive as they tend to be premium

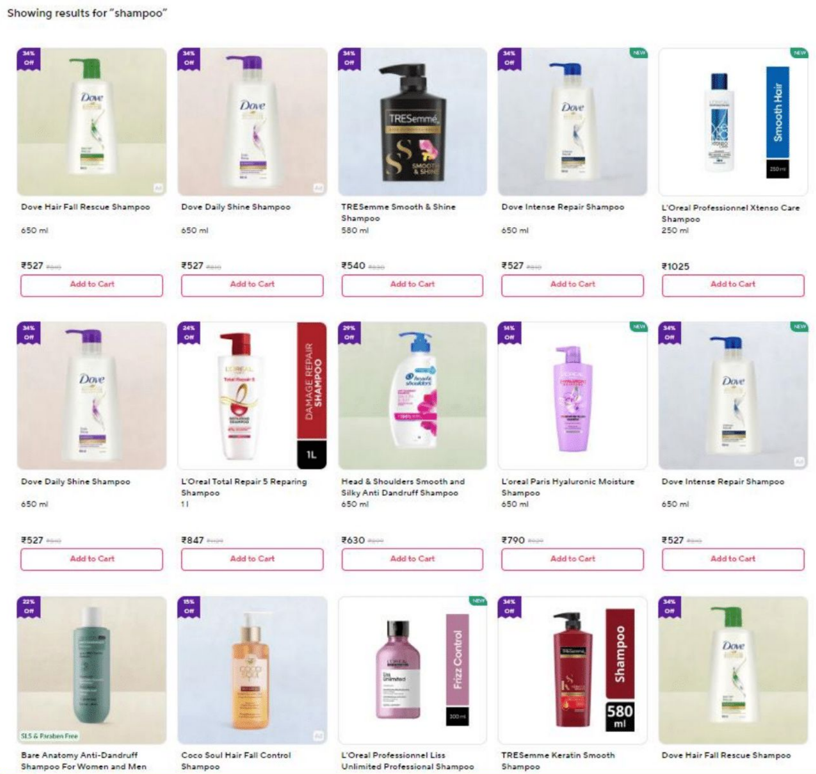
More premiumisation

Most quick commerce SKU sales are premium items that are margin accretive for consumer companies. This is partly because quick commerce is currently concentrated in metro cities, where disposable incomes are higher. Consumers also tend to explore more and navigate towards more premium offerings when exposed to new products and more options.

For example, when we search for shampoo on quick commerce site Zepto, most offerings are premium brands, such as Dove, L'Oréal and Tresemme.

Figure 59

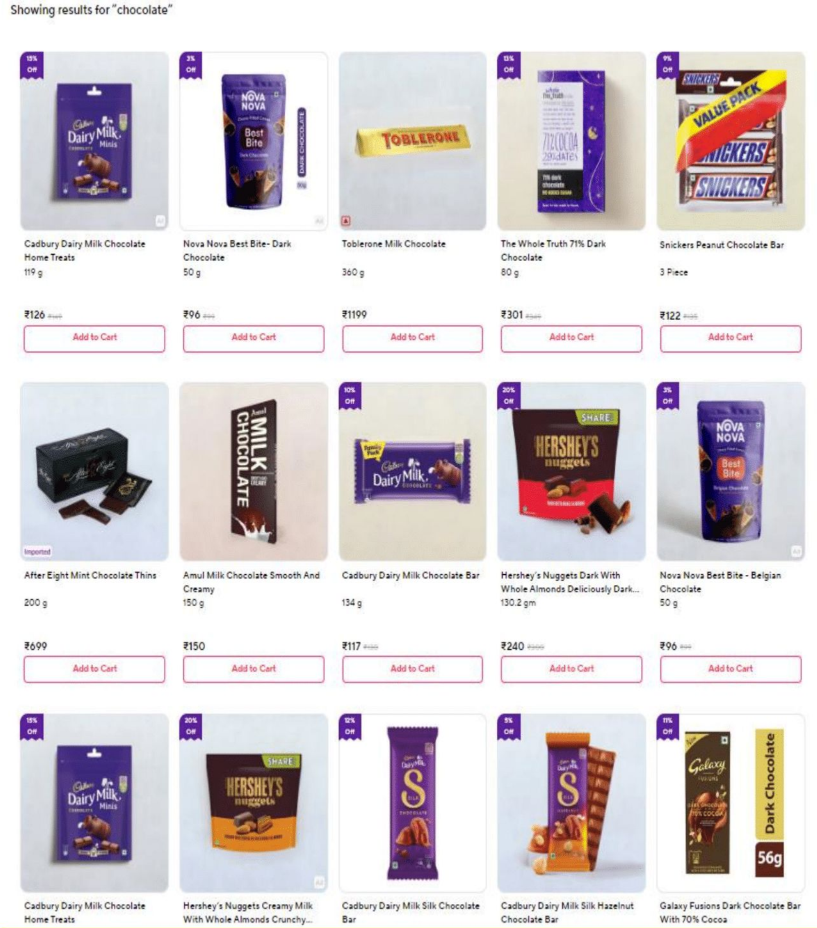
Offerings for shampoo on quick commerce (Zepto)



Source: CLSA, Zepto

Figure 60

Offerings for chocolate on quick commerce (Zepto)



Source: CLSA, Zepto

We believe benchmarking quick commerce valuations to DMart is most relevant

Valuation

As quick commerce leaders gain market share and move closer to profitability, we believe the market will shift to a valuation framework similar to best-in-class retailers such as DMart, Trent or Titan. Given the overlap in categories and market size, we believe comparing quick commerce companies to DMart is most relevant.

DMart has traded at a modest 3-7% premium to global retailers since 2017 due to better growth prospects and best-in-class execution. While DMart's long-term average 12-month forward PE excluding Covid is 74x, we value it at 67x, which represents about a 10% discount.

DMart's long-term average PE excluding Covid is 74x

Figure 61

DMart 12M forward PE trend

Source: CLSA, Bloomberg

DMart trades at a 3-7% premium to global retailers

Figure 62

Premium to global retailers

Source: CLSA, Bloomberg

Figure 63

Common size income statement for big box retailers

	Dmar FY23	Walmart 2023	Costco 2022	Tesco FY23	Aldi UK 2022	Lidl Great Britain FY23	Carrefour 2022
Sales	100	100	100	100	100	100	100
COGS	85.5	76.5	89.5	94.3	96.5	79.0	80.4
Gross profit	**14.5**	**23.5**	**10.5**	**5.7**	**3.5**	**21.0**	**19.6**
SG&A	7.0	21.0	8.9	3.2	2.3	20.7	16.8
Operating profit	**7.4**	**2.5**	**1.6**	**2.4**	**1.2**	**0.3**	**2.9**

Note: We exclude membership fees from margin calculation. Source: CLSA

We benchmark quick commerce to DMart due to similar market size

We believe quick commerce should be benchmarked to DMart's valuations because the market opportunity for quick commerce is similar, perhaps even a bit larger with the inclusion of food services. We have even seen quick commerce companies enter categories like electronics; if that becomes successful, the opportunity size could be even larger than DMart.

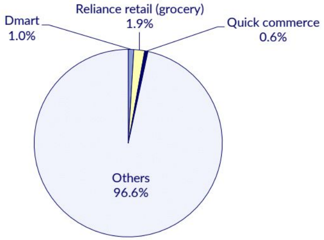
We value Blinkit at a 15% discount to DMart's PE multiple

As part of our overall valuation for Zomato, we value its Blinkit quick commerce business based on PE, assigning a 15% discount to DMart and applying it our FY26 Blinkit EPS estimate.

DMart and Reliance are quick commerce's main competitors

Figure 64

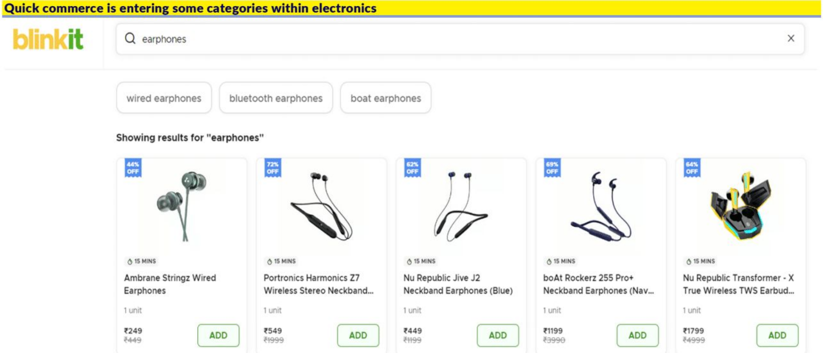
Penetration within QC addressable market



Source: CLSA

Figure 65

Quick commerce is entering some categories within electronics



Source: CLSA, Blinkit

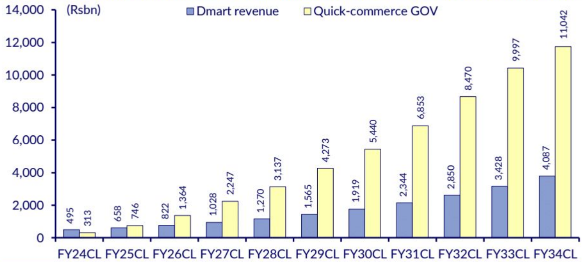
Faster growth offsets lower margins

Quick commerce has grown at a much faster pace than DMart over the last year. Even now, quick commerce has a substantial opportunity to continue this rapid growth given large geographical pockets where it is not present. However, DMart operates at margins much higher than quick-commerce players. We believe these two factors negate each other and hence benchmarking quick commerce to DMart for valuation makes sense.

We believe quick commerce GOV will substantially exceed DMart revenue

Figure 66

DMart's revenue vs quick-commerce GOV (assuming Blinkit has a 40% market share throughout)

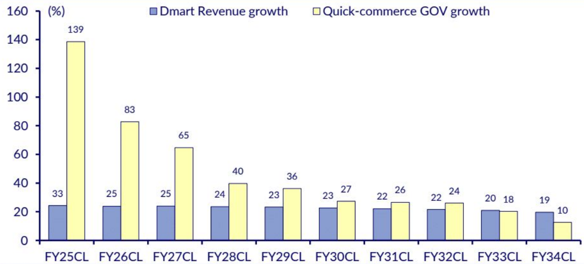


Source: CLSA

QC GOV growth will be significant in early years before levelling off

Figure 67

DMart vs quick-commerce growth



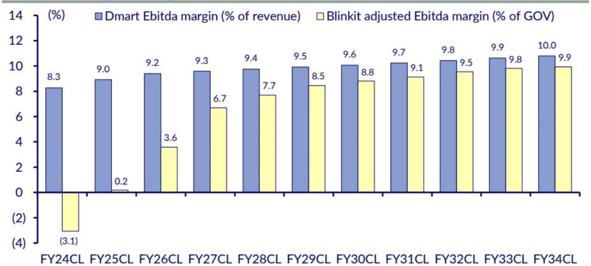
Source: CLSA

Over the next decade, we expect DMart to grow revenue at a Cagr of 23% while GOV for quick commerce should expand at a Cagr of 33%.

We estimate Blinkit's profitability will breakeven by FY25 and rise over 7%

Figure 68

DMart vs Blinkit profitability



Source: CLSA

Not comparable to listed tech

Tech companies have different target markets and current growth stage

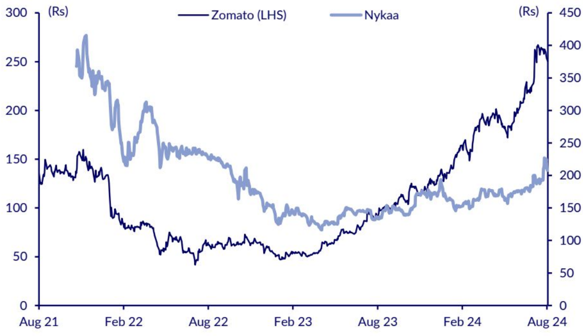
Since quick commerce firms use technology and data, some might be tempted to use the relative valuations of tech companies as a basis for comparison. However, this would not be appropriate because they have very different target markets and quick commerce profitability is still at a nascent stage. The target market for quick commerce is much larger than new age technology companies like Nykaa, PolicyBazaar and Paytm. In addition, most new-age tech companies are in their growth stage and profitability is low. This is why valuation multiples are skewed and volatile. In a lot of cases, the inherent profitability when these businesses reach a mature stage are structurally different, which can make comparisons flawed.

As a result, we believe comparing quick commerce to DMart's valuations is the most acceptable. While quick commerce has grown at a much faster pace than DMart, profitability has not yet firmly been established. In this situation, it should continue to trade at a discount to DMart. There may be a debate around the quantum of the discount but, in our view, the faster growth offsets some of the impact of lower profitability and hence a 15% discount makes sense.

Zomato has significantly outperformed Nykaa since the respective IPOs

Figure 69

Zomato and Nykaa stock price performance



Source: CLSA, Bloomberg

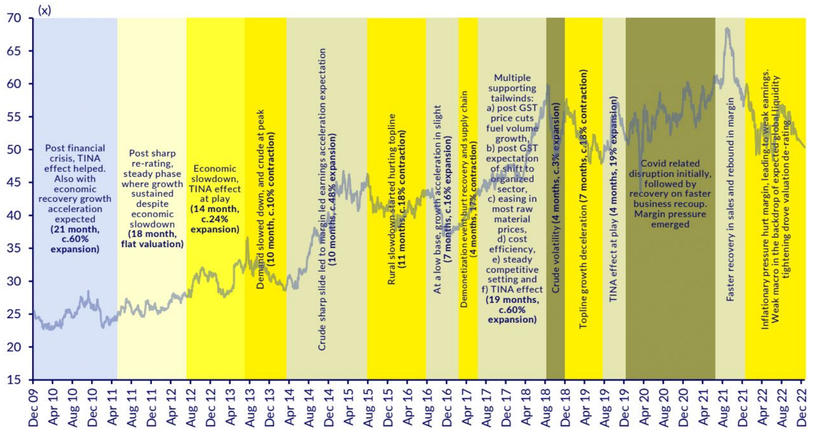
Valuation implications for staple firms

Distribution moat is weakening for staples

Over the last decade, consumer companies have enjoyed high multiples due to their ability to grow on the back of enhanced distribution and premiumisation. We believe the moat from distribution has become weaker for staple companies as quick commerce has gained traction. Thus, past history may not be a good indicator for consumer staples valuations due to higher competitive intensity and structurally lower growth rates.

Figure 70

Consumer staples 12M forward PE trend (ex-ITC, on consensus)



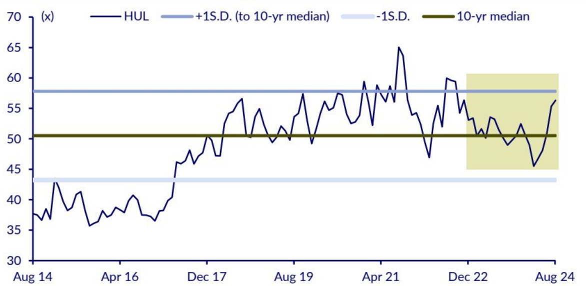
Note: based on data for HUL, ITC, Nestle, Dabur, Britannia, GCPL, Marico, Emami. Source: CLSA, Bloomberg

Some of the recent derating in consumer companies makes us believe this could continue if growth remains muted due to an increase in competitive intensity.

HUL's PE fell steadily before recovering in anticipation of a rural recovery

Figure 71

HUL 12M forward PE based on Bloomberg consensus



Source: CLSA, Bloomberg

Flatter supply chain has diminished traditional distribution moats

For companies focused on home and personal care such as Hindustan Unilever, there has been a sharp derating as growth has moderated. Part of this is due to the democratisation of distribution from ecommerce and quick commerce, which has diminished traditional distribution moats.

Key risks

Restrictions on inventory management

At present, India does not allow foreign direct investment (FDI) beyond 51% in multi-brand retail. A key factor in the success of quick commerce companies has been their ability to manage inventory more efficiently than traditional retail. As competition with traditional retail increases, there could be more political pressure to enforce more stringent inventory restrictions, a key risk.

Labour reforms

One reason quick commerce is more viable in India than in other markets is the lower labour cost, which allows for less expensive deliveries as compared with the cart size. While quick commerce generates net employment with minimum wage or higher pay, there could be increased focus on the benefits offered by quick commerce, especially retirement benefits, which could potentially lead to higher delivery costs.

Entry of competitors

Quick commerce's sudden spike in demand give it enough scale to make it a viable proposition. This could attract competitors with deep pockets. However, we believe the brands which existing players have built would be difficult to replicate and they should continue to enjoy network benefits.

Stores within big apartments/societies

In many large societies, we see small *kiranas* stores within the society itself. While quick commerce can still offer cheaper prices than these stores, they can take away impulse purchases resulting from quick commerce.

Consolidation of channel structure

One of the reasons why quick commerce is most efficient is because of the inefficiencies in traditional retail. Our analysis also suggests that quick commerce can consistently offer prices lower than *kiranas* as long as the delivery cost is less than the savings on channel consolidation. If staple companies start reducing elements in the traditional structure (in big cities), quick commerce may lose a part of its appeal.

Notes

Company profiles

Private-I: Unlisted company research

All prices quoted herein are as at close of business 30 August 2024, unless otherwise stated

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Notes

Hindustan Unilever

Rs2,778.10 - UNDERPERFORM

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**CLSA India Private Limited*

3 September 2024

India

Consumer

Reuters	HLL.BO
Bloomberg	HUVR IB
Priced on 30 August 2024	
CNX Nifty @ 25,235.9	
12M hi/lo	Rs2,820.70/2,194.60
12M price target	Rs2,161.00
±% potential	-22%
Shares in issue	2,349.6m
Free float (est.)	38.1%
Market cap	US$78.2bn
3M ADV	US$75.0m
Foreign s'holding	13.3%

Major shareholders

Promoters 61.9%

FPIs 13.3%

Blended ESG Score (%)*	
Overall	70.2
Country average	59.1
GEM sector average	57.1

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	2.3	19.3	10.9
Relative	1.1	6.5	(15.4)
Abs (US$)	2.3	19.5	9.3

Source: Bloomberg

Narrowing advantage

Quick commerce bringing more consumer choice and competition

Hindustan Unilever (HUL) has been the dominant fast-moving consumer goods (FMCG) company in India across several categories, with the most extensive distribution network and the widest array of products. As quick commerce (QC) rapidly scales, we believe smaller competitors are bridging its urban distribution moat by either undercutting HUL on price or offering QC operators greater margins, or both. We believe this will negatively affect HUL's working capital and gross margins in the medium term and retain our Underperform rating.

Options galore in premium beauty and personal care

A quick survey of QC options for personal hygiene products suggest that HUL is the leader among top listings for soaps on both Blinkit and Zepto, but lags on bodywash, handwash and facewash. As urban consumers upgrade to new forms of consumption, we find HUL currently behind the curve.

Wide detergent variance across platforms but liquids in focus

In detergents, a clear trend across platforms is the promotion of liquid detergents over powders and bars. However, there is significant variance in brand listings across platforms, with HUL dominating the top-10 liquid detergent listings on Blinkit and lagging P&G on Zepto, but an even split on Instamart. We see a similar trend in powders and bars.

Unilever Indonesia in a similar position five-to-seven years ago

Unilever Indonesia (UI) lost market share in the beauty and personal care (BPC) and home care (HC) segments as traditional retailers' share fell from a combined 83% in 2014 to 76% in 2023, with UI's BPC share falling from 30% to 16% and HC share, from 23% to 20% in the same period. We believe the market has not priced in any risk of a similar share loss in for HUL as QC gains share from traditional retail.

Margins and returns reverting to global averages; Underperform

HUL's margins and returns are significantly higher than other Unilever subsidiaries or even its parent. A key reason has been its dominant market share across categories in India; however, we fear this dominance is increasingly being challenged in urban India with QC's rapid growth. While HUL's 55x FY26 multiple has contracted compared to its five-year history, it remains well above the 10-year average. We believe this long-term premium does not factor in increasing challenges to HUL's dominance. Our unchanged Rs2,161 target price is based on a 50/50 blend of DCF and a 49x FY26CL PE. Retain Underperform.

Financials

Year to 31 March	23A	24A	25CL	26CL	27CL
Revenue (Rsm)	594,430	608,520	646,291	712,688	796,544
Net profit (Rsm)	102,080	101,837	104,491	118,417	134,084
EPS (Rs)	43.4	43.3	44.5	50.4	57.1
CL/consensus (26) (EPS%)	-	-	95	97	98
EPS growth (% YoY)	16.1	(0.2)	2.6	13.3	13.2
PE (x)	63.9	64.1	62.5	55.1	48.7
Dividend yield (%)	1.4	1.5	1.7	1.9	2.5
FCF yield (%)	1.4	2.2	1.5	1.6	1.9
PB (x)	13.0	12.8	12.7	12.8	13.2
ROE (%)	20.5	20.1	20.3	23.1	26.7
Net cash per share (Rs)	31.9	58.6	62.4	59.2	53.2

Source: www.clsa.com

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Great

Solid

Meh

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Great
Solid
Meh

Financials at a glance

Year to 31 March	2023A	2024A	2025CL	(% YoY)	2026CL	2027CL
Profit & Loss (Rsm)						
Revenue	**594,430**	**608,520**	**646,291**	***6.2***	**712,688**	**796,544**
Cogs (ex-D&A)	(317,160)	(297,600)	(338,063)		(379,751)	(428,734)
Gross Profit (ex-D&A)	**277,270**	**310,920**	**308,227**	***(0.9)***	**332,937**	**367,809**
SG&A and other expenses	(147,150)	(174,730)	(164,181)		(173,274)	(187,721)
Op Ebitda	**130,120**	**136,190**	**144,047**	***5.8***	**159,663**	**180,089**
Depreciation/amortisation	(11,380)	(12,160)	(12,928)		(13,750)	(14,378)
Op Ebit	**118,740**	**124,030**	**131,119**	***5.7***	**145,913**	**165,711**
Net interest inc/(exp)	(1,140)	(3,340)	(3,871)		(4,064)	(4,268)
Other non-Op items	16,490	18,550	13,800	*(25.6)*	14,863	16,019
Profit before tax	**134,090**	**139,240**	**141,048**	***1.3***	**156,712**	**177,462**
Taxation	(32,010)	(37,403)	(36,557)		(38,294)	(43,378)
Profit after tax	**102,080**	**101,837**	**104,491**	***2.6***	**118,417**	**134,084**
Minority interest	0	0	0		0	0
Net profit	**102,080**	**101,837**	**104,491**	***2.6***	**118,417**	**134,084**
Adjusted profit	**102,080**	**101,837**	**104,491**	***2.6***	**118,417**	**134,084**
Cashflow (Rsm)	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Operating profit	**118,740**	**124,030**	**131,119**	***5.7***	**145,913**	**165,711**
Depreciation/amortisation	11,380	12,160	12,928	*6.3*	13,750	14,378
Working capital changes	(5,820)	10,461	6,244	*(40.3)*	3,929	4,962
Other items	(24,390)	9,383	(36,162)		(42,522)	(47,356)
Net operating cashflow	**99,910**	**156,034**	**114,128**	***(26.9)***	**121,071**	**137,695**
Capital expenditure	(10,710)	(14,503)	(14,142)		(14,849)	(15,591)
Free cashflow	**89,200**	**141,532**	**99,987**	***(29.4)***	**106,222**	**122,104**
M&A/Others	1,570	18,610	13,800	*(25.8)*	14,863	16,019
Net investing cashflow	**(9,140)**	**4,107**	**(342)**		**14**	**428**
Increase in loans	-	-	-		-	-
Dividends	(84,740)	(93,984)	(101,032)		(124,528)	(148,024)
Net equity raised/other	(4,790)	(3,340)	(3,871)		(4,064)	(4,268)
Net financing cashflow	**(89,530)**	**(97,324)**	**(104,903)**		**(128,593)**	**(152,292)**
Incr/(decr) in net cash	1,240	62,818	8,884	*(85.9)*	(7,508)	(14,169)
Exch rate movements	0	0	0		0	0
Balance sheet (Rsm)	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Cash & equivalents	74,890	137,708	146,592	*6.5*	139,084	124,915
Accounts receivable	30,790	30,283	32,125	*6.1*	35,426	39,594
Other current assets	42,510	40,200	38,348	*(4.6)*	42,287	47,263
Fixed assets	530,150	532,493	533,707	*0.2*	534,806	536,020
Investments	20	20	20	*0*	20	20
Intangible assets	0	0	0		0	0
Other non-current assets	(20,340)	(20,054)	(24,141)		(19,603)	(13,898)
Total assets	**658,020**	**720,651**	**726,650**	***0.8***	**732,019**	**733,913**
Short-term debt	-	-	-		-	-
Accounts payable	94,840	102,485	108,718	*6.1*	119,887	133,994
Other current liabs	57,960	104,109	100,416	*(3.5)*	100,727	102,455
Long-term debt/CBs	-	-	-		-	-
Provisions/other LT liabs	0	0	0		0	0
Shareholder funds	503,040	511,876	515,335	*0.7*	509,225	495,285
Minorities/other equity	2,180	2,180	2,180	*0*	2,180	2,180
Total liabs & equity	**658,020**	**720,651**	**726,650**	***0.8***	**732,019**	**733,913**
Ratio analysis	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Revenue growth (% YoY)	15.5	2.4	6.2		10.3	11.8
Ebitda margin (%)	21.9	22.4	22.3		22.4	22.6
Ebit margin (%)	20.0	20.4	20.3		20.5	20.8
Net profit growth (%)	16.1	(0.2)	2.6		13.3	13.2
Op cashflow growth (% YoY)	10.4	56.2	(26.9)		6.1	13.7
Capex/sales (%)	1.8	2.4	2.2		2.1	2.0
Net debt/equity (%)	(14.8)	(26.8)	(28.3)		(27.2)	(25.1)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	20.5	20.1	20.3		23.1	26.7
ROIC (%)	21.3	22.5	26.0		29.7	33.6

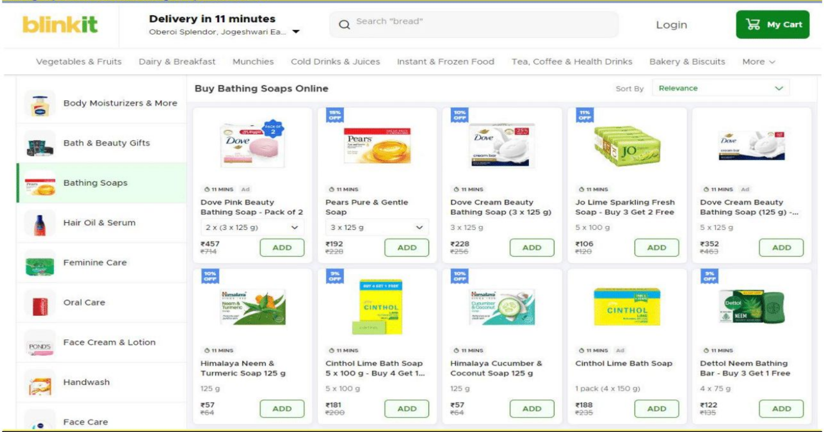
Source: www.clsa.com

Premium soap brands are more prominent on QC platforms

Bathing soap and handwash

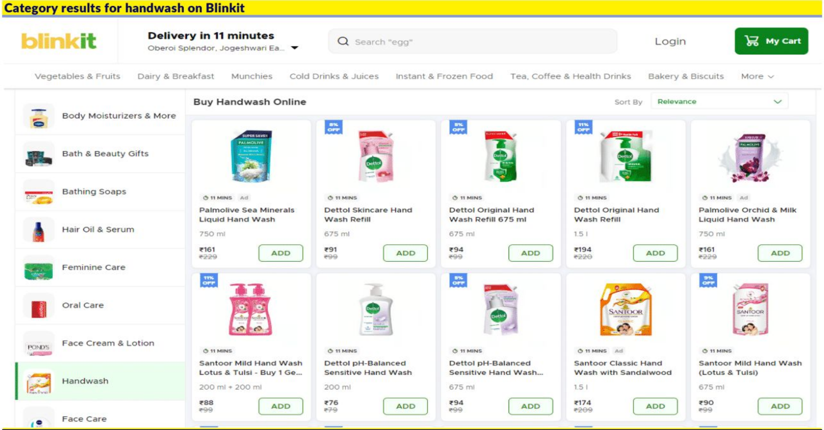
In the bathing soaps category, we find that premium brands, such as Dove and Pears, are more prevalent on QC platforms. Mass-market brands, like Lifebuoy, have lower prominence, which suggests that firms like HUL are attempting to drive premiumisation in quick commerce. Meanwhile, handwash has significant competition.

Category results for bathing soaps on Blinkit



Source: Blinkit

Category results for handwash on Blinkit



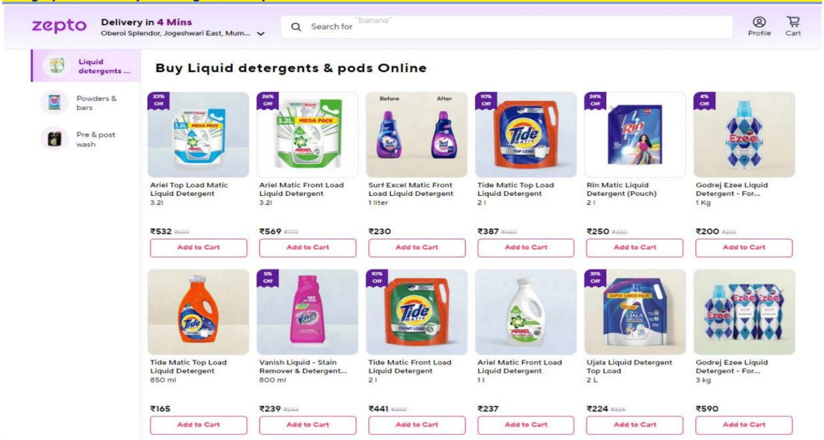
Source: Blinkit

Premium liquid detergents also more prominent on QC platforms

Liquid detergents

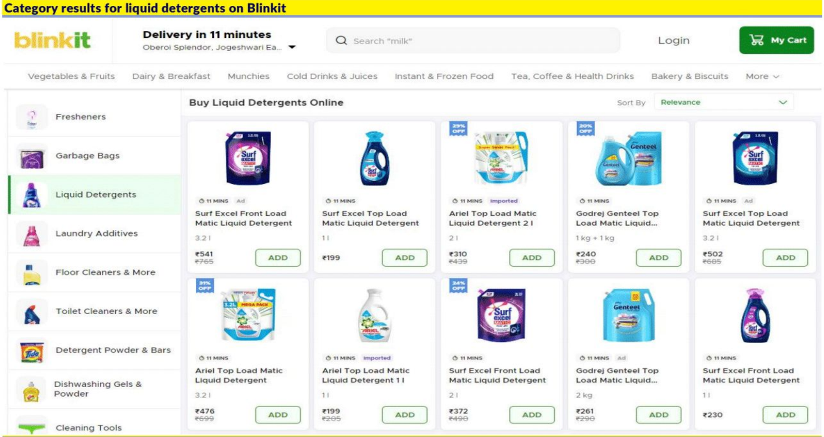
In liquid detergents, as in bathing soaps, we see the same trend of premium brands being more prominent on QC platforms. Brands like Ariel Matic and Surf Excel Matic appear as the top listings when searching for laundry powder on QC platforms.

Category results for liquid detergents on Zepto



Source: Zepto

Category results for liquid detergents on Blinkit



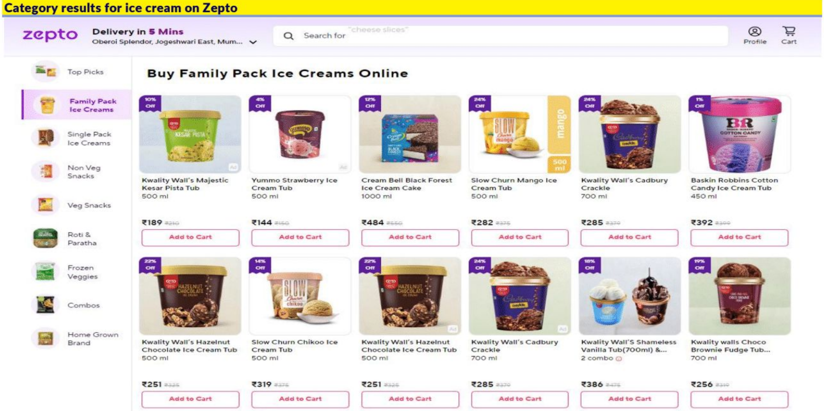
Source: Blinkit

Ice cream is a source of growth for HUL on QC platforms

Ice cream is one of the fastest growing QC categories and HUL has been selling more premium ice-cream variants on this platform. This is one area where QC is likely to drive faster growth for HUL and larger brands in the short term. QC has far better refrigeration capabilities than traditional kiranas. In addition, instant delivery also solves pantry loading and freezer space constraints on the consumer side. However, we also believe over time that any scale advantages that allow dominant players to install freezers with kiranas and serve as entry barriers for new brands will also go away, levelling the playing field and enabling more competition.

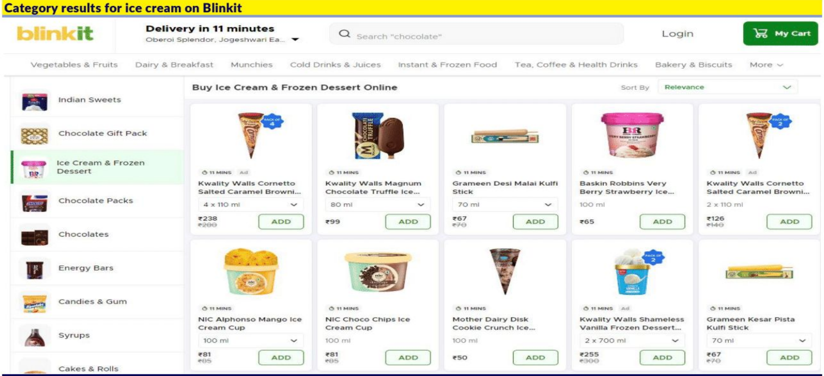
Ice cream

Category results for ice cream on Zepto



Source: Zepto

Category results for ice cream on Blinkit



Source: Blinkit

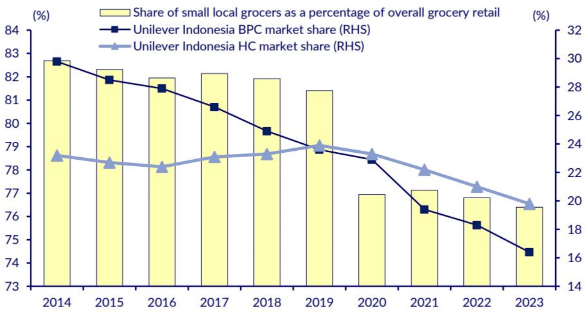
In 2014-23, UI lost market share as competitors undercut its prices

Uncomfortable similarity to Unilever Indonesia

We note that Unilever Indonesia (UI) lost market share between 2014 and 2023 because its competitive hold on distribution loosened as local Indonesian grocers lost market share to minimarts and convenience stores. UI had a clear advantage in distribution to local grocers but the advent of minimarts and convenience stores levelled the playing field for smaller and local brands. This share loss was evident in both the BPC and HC segments, as competitors undercut UI's prices across product categories and were willing to work with lower gross margins in return for share gains. In our view, UI's decision to hold on to its margins led to an increase in the pricing difference for consumers, leading to further share losses.

UI's BPC and HC shares fell as local grocers' lost share to minimarts

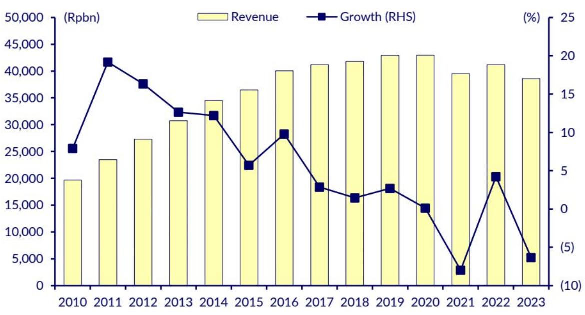
Share of local grocers in grocery retail and share of UI in BPC and HC



Source: CLSA, Euromonitor

UI revenue has climbed modestly since 2010 but YoY growth has flagged

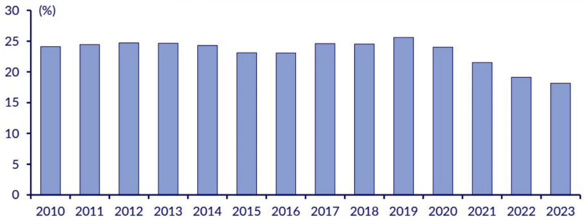
Unilever Indonesia absolute revenue and growth



Source: CLSA, Unilever Indonesia

UI Ebitda margins held stable prior to 2015, since then they have fluctuated

Unilever Indonesia Ebitda margins



Source: CLSA

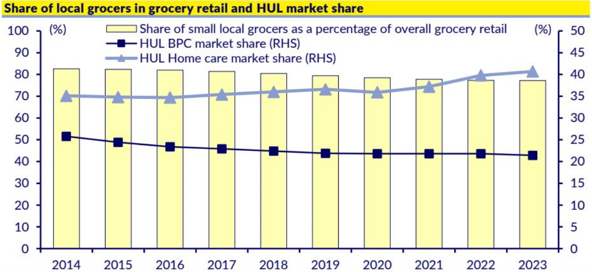
HUL faces similar volume threats to UI, demanding pricing responses

With our expectation of QC gaining share from traditional retail in India, we believe HUL faces similar risks to volumes and market share as UI did unless it takes an aggressive stand on pricing. At present, we see increased pricing competition from private labels, local brands and peers like Godrej Consumer, Tata Consumer and ITC in some of HUL's categories.

HUL market share has plateaued as share of local grocers has gradually fallen

HUL's market share has plateaued in the 20-25% range since 2014 as the share of local grocers in which HUL was dominant gradually fell.

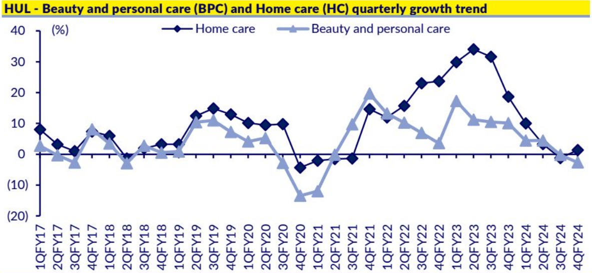
Share of local grocers in grocery retail and HUL market share



Source: CLSA, Euromonitor

Post-Covid growth was acute in home care but now matches beauty and personal care

HUL - Beauty and personal care (BPC) and Home care (HC) quarterly growth trend



Source: CLSA, HUL

Our hybrid valuation of HUL points towards a target price of Rs2,161

Half of our valuation rests on a 49x multiple applied to FY26 estimated EPS

HUL's 12-month forward PE for past 10Y is 49x

Our relative PE valuation implies Rs2,470

Our DCF uses 25 years of forward-looking forecasts

Valuation

We base our target price on a 50/50 blend of DCF and relative PE valuations to account for the longer-term growth outlook and near-term multiples. We derive the PE portion from applying a 49x target multiple, the company's average 12-month forward PE for the past ten years, to our March 2026 EPS estimate. For the DCF half of the valuation, our assumptions include a 10.7% WACC, 4% terminal growth rate and 0.7 beta.

Calculation of target price

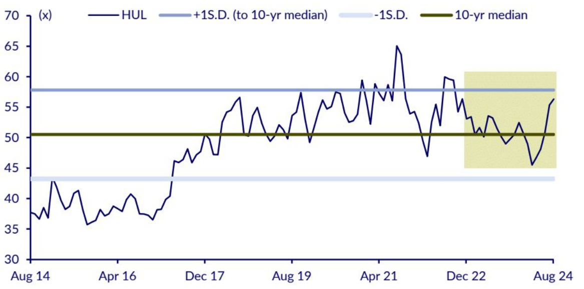
(Rs)	Implied price	Weight (%)	Contribution
DCF	1,853	50	926
Relative PE	2,470	50	1,235
Target price (Rs)			**2,161**

Source: CLSA

Relative valuation

We base 50% of our target price on an unchanged 49x multiple applied to our FY26 EPS estimate. Our target multiple is based on HUL's average 12-month forward PE for the past 10 years. While the 10-year median has moved up slightly in the past month with the sharp stock rerating, our target multiple is based on the average, which remains at roughly 49x.

HUL 1-year forward PE (on consensus estimates)



Source: CLSA, Bloomberg

Relative valuation calculation

	(Rs)
PE multiple (x)	49
2Y forward EPS estimate (Mar-26)	50.4
Implied price (Rs)	**2,470**

Source: CLSA

Discounted cashflow

We base our DCF on 25 years of explicit forecasts to better model the growth opportunity for consumption in India, as we believe low penetration levels, rising incomes and a young population offer a long runway for sales growth.

Financial projections: FY24-32

	FY24CL	FY25CL	FY26CL	FY27CL	FY28CL	FY29CL	FY30CL	FY31CL	FY32CL
Ebit	130,930	136,798	151,624	171,392	193,510	218,696	246,375	277,602	312,831
Depreciation	10,970	11,738	12,560	13,188	13,847	14,539	15,266	16,030	16,831
Change in working capital	10,210	6,293	4,392	5,547	6,492	7,293	8,174	9,182	10,314
Tax paid	(35,610)	(35,280)	(39,132)	(44,219)	(49,907)	(56,377)	(63,491)	(71,509)	(80,547)
tax rate	26	25	25	25	25	25	25	25	25
Capex	(12,980)	(13,629)	(14,310)	(15,026)	(15,777)	(16,566)	(17,394)	(18,264)	(19,360)
Free cashflow	103,520	105,920	115,134	130,883	148,163	167,585	188,930	213,040	240,069

Source: CLSA

Financial projections: FY33-41

	FY33CL	FY34CL	FY35CL	FY36CL	FY37CL	FY38CL	FY39CL	FY40CL	FY41CL
Ebit	352,578	396,336	444,484	497,325	554,267	615,284	680,288	749,131	822,485
Depreciation	17,673	18,556	19,484	20,458	21,481	22,555	23,683	24,867	26,110
Change in working capital	11,587	12,766	14,030	15,385	16,542	17,689	18,810	19,888	21,459
Tax paid	(90,736)	(101,955)	(114,303)	(127,859)	(142,485)	(158,180)	(174,931)	(192,708)	(211,686)
tax rate	25	25	25	25	25	25	25	25	25
Capex	(20,522)	(21,753)	(23,058)	(24,442)	(25,908)	(27,463)	(29,110)	(30,857)	(32,708)
Free cashflow	270,581	303,950	340,637	380,866	423,897	469,885	518,740	570,321	625,659

Source: CLSA

Financial projections: FY42-49

	FY42CL	FY43CL	FY44CL	FY45CL	FY46CL	FY47CL	FY48CL	FY49CL
Ebit	899,157	978,743	1,060,759	1,147,193	1,238,743	1,335,509	1,437,575	1,545,006
Depreciation	27,416	28,787	30,226	31,737	33,324	34,990	36,740	38,577
Change in working capital	22,453	23,341	24,102	25,377	26,876	28,407	29,966	31,550
Tax paid	(231,582)	(252,308)	(273,756)	(296,428)	(320,508)	(346,037)	(373,052)	(401,589)
tax rate	25	25	25	25	25	25	25	25
Capex	(34,671)	(36,751)	(38,956)	(41,294)	(43,771)	(46,397)	(49,181)	(52,232)
Free cashflow	682,773	741,813	802,375	866,585	934,663	1,006,472	1,082,047	1,161,311

Source: CLSA

Our cashflow assumptions adopt a 10.7% weighted average cost of capital

We discount our cashflow assumptions at a WACC of 10.7% and use a 4% terminal growth rate beyond our explicit forecasts. We assume the company will continue to operate on its current debt-free capital structure, hence we take the firm's cost of equity as its cost of capital. Within the cost of equity calculation, we use our India risk-free rate and equity risk premium against a beta taken from Bloomberg's raw observed beta. Given low volatility in both the firm's earnings and its stock price, we believe the low observed level of 0.7 is appropriate, resulting in a 10.7% discount rate. We assume a 4% terminal growth rate, in line with our assumption of long-term real GDP growth.

Our DCF valuation yields Rs1,853

DCF assumptions and key results

Key DCF inputs (discount rate and terminal growth)	Assumptions
Risk-free rate (%)	7.00
Market-risk premium (%)	5.25
Beta	0.7
COE (%)	10.7
WACC (%)	10.7
Terminal growth rate (%)	4.0
Key DCF results	**(Rsm)**
Estimated terminal cash flow	1,207,763
NPV of terminal value	18,008,846
NPV of forecasts	2,888,731
NPV as of terminal value as of today	1,567,946
EV	4,456,677
Add: net cash	102,640
Implied market cap	4,354,037
Diluted number of shares (m)	2,350
DCF valuation (Rs/share)	**1,853**

Source: CLSA

For calculation of net cash, we have not considered liquid investments and only included cash and cash equivalents (net of any debt).

Investment thesis

The higher-margin beauty and personal care segment has been a cause of concern for Hindustan Unilever, and the new CEO is looking to address this. We expect a pick-up in rural demand after a good rabi crop at the end of 2024, which should augur well for HUL. However, numbers may remain subdued over the next couple of quarters.

Catalysts

We believe any positive commentary around rural demand and better volume growth numbers from HUL could be key catalysts to mark the beginning of a stock rally from current levels.

Valuation details

We base our target price on a 50/50 blend of DCF and relative PE valuations to account for the longer-term growth outlook and near-term multiples. We derive the PE portion from applying a 49x target multiple, the company's average 12-month forward PE for the past ten years, to our March 2026 EPS estimate. For the DCF half of the valuation, our assumptions include a 10.7% WACC, 4% terminal growth rate and 0.7 beta.

Investment risks

Lower-than-expected competitive intensity in modern retail and ecommerce, faster-than-expected recovery in rural demand and any significant rural measures announced by the government post Budget could lead to higher rural growth.

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Detailed financials

Profit & Loss (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Revenue	**462,690**	**514,720**	**594,430**	**608,520**	**646,291**	**712,688**	**796,544**
Cogs (ex-D&A)	(221,480)	(257,350)	(317,160)	(297,600)	(338,063)	(379,751)	(428,734)
Gross Profit (ex-D&A)	**241,210**	**257,370**	**277,270**	**310,920**	**308,227**	**332,937**	**367,809**
Research & development costs	0	0	0	0	0	0	0
Selling & marketing expenses	(47,540)	(47,440)	(49,070)	(64,890)	(68,918)	(75,998)	(84,940)
Other SG&A	(41,060)	(44,320)	(47,780)	(57,474)	(37,001)	(31,393)	(27,859)
Other Op Expenses ex-D&A	(43,940)	(46,780)	(50,300)	(52,366)	(58,262)	(65,883)	(74,922)
Op Ebitda	**108,670**	**118,830**	**130,120**	**136,190**	**144,047**	**159,663**	**180,089**
Depreciation/amortisation	(10,740)	(10,910)	(11,380)	(12,160)	(12,928)	(13,750)	(14,378)
Op Ebit	**97,930**	**107,920**	**118,740**	**124,030**	**131,119**	**145,913**	**165,711**
Interest income	0	0	0	0	0	0	0
Interest expense	(1,170)	(1,060)	(1,140)	(3,340)	(3,871)	(4,064)	(4,268)
Net interest inc/(exp)	(1,170)	(1,060)	(1,140)	(3,340)	(3,871)	(4,064)	(4,268)
Associates/investments	11,690	12,320	16,490	18,550	13,800	14,863	16,019
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**108,450**	**119,180**	**134,090**	**139,240**	**141,048**	**156,712**	**177,462**
Taxation	(28,360)	(31,250)	(32,010)	(37,403)	(36,557)	(38,294)	(43,378)
Profit after tax	**80,090**	**87,930**	**102,080**	**101,837**	**104,491**	**118,417**	**134,084**
Preference dividends	0	0	0	0	0	0	0
Profit for period	**80,090**	**87,930**	**102,080**	**101,837**	**104,491**	**118,417**	**134,084**
Minority interest	0	0	0	0	0	0	0
Net profit	**80,090**	**87,930**	**102,080**	**101,837**	**104,491**	**118,417**	**134,084**
Extraordinaries/others	(90)	940	(640)	60	0	0	0
Profit avail to ordinary shares	80,000	88,870	101,440	101,897	104,491	118,417	134,084
Dividends	(88,110)	(75,187)	(84,585)	(93,984)	(101,032)	(124,528)	(148,024)
Retained profit	(8,110)	13,683	16,855	7,913	3,459	(6,111)	(13,940)
Adjusted profit	**80,090**	**87,930**	**102,080**	**101,837**	**104,491**	**118,417**	**134,084**
EPS (Rs)	34.1	37.4	43.4	43.3	44.5	50.4	57.1
Adj EPS [pre excep] (Rs)	34.1	37.4	43.4	43.3	44.5	50.4	57.1
Core EPS (Rs)	34.1	37.4	43.4	43.3	44.5	50.4	57.1
DPS (Rs)	40.5	34.0	39.0	42.0	47.0	53.0	70.0

Profit & loss ratios

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Growth (%)							
Revenue growth (% YoY)	18.2	11.2	15.5	2.4	6.2	10.3	11.8
Ebitda growth (% YoY)	17.9	9.3	9.5	4.7	5.8	10.8	12.8
Ebit growth (% YoY)	19.3	10.2	10.0	4.5	5.7	11.3	13.6
Net profit growth (%)	18.3	9.8	16.1	(0.2)	2.6	13.3	13.2
EPS growth (% YoY)	8.8	9.8	16.1	(0.2)	2.6	13.3	13.2
Adj EPS growth (% YoY)	8.8	9.8	16.1	(0.2)	2.6	13.3	13.2
DPS growth (% YoY)	62.0	(16.0)	14.7	7.7	11.9	12.8	32.1
Core EPS growth (% YoY)	8.8	9.8	16.1	(0.2)	2.6	13.3	13.2
Margins (%)							
Gross margin (%)	52.1	50.0	46.6	51.1	47.7	46.7	46.2
Ebitda margin (%)	23.5	23.1	21.9	22.4	22.3	22.4	22.6
Ebit margin (%)	21.2	21.0	20.0	20.4	20.3	20.5	20.8
Net profit margin (%)	17.3	17.1	17.2	16.7	16.2	16.6	16.8
Core profit margin	17.3	17.1	17.2	16.7	16.2	16.6	16.8
Op cashflow margin	19.8	17.6	16.8	25.6	17.7	17.0	17.3
Returns (%)							
ROE (%)	28.7	18.2	20.5	20.1	20.3	23.1	26.7
ROA (%)	17.4	12.5	13.9	13.2	13.4	15.1	17.1
ROIC (%)	34.1	19.4	21.3	22.5	26.0	29.7	33.6
ROCE (%)	56.2	29.1	31.1	34.6	39.8	44.7	51.5
Other key ratios (%)							
Effective tax rate (%)	26.2	26.2	23.9	26.9	25.9	24.4	24.4
Ebitda/net int exp (x)	92.9	112.1	114.1	40.8	37.2	39.3	42.2
Exceptional or extraord. inc/PBT (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	118.8	90.9	89.8	96.9	105.7	105.2	122.7

Source: www.clsa.com

evalu@tor The Global Equities Database

Balance sheet (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Cash & equivalents	71,780	73,650	74,890	137,708	146,592	139,084	124,915
Accounts receivable	17,580	22,360	30,790	30,283	32,125	35,426	39,594
Inventories	35,790	40,960	42,510	40,200	38,348	42,287	47,263
Other current assets	0	0	0	0	0	0	0
Current assets	**125,150**	**136,970**	**148,190**	**208,192**	**217,065**	**216,797**	**211,772**
Fixed assets	521,880	527,860	530,150	532,493	533,707	534,806	536,020
Investments	20	20	20	20	20	20	20
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	(19,360)	(21,090)	(20,340)	(20,054)	(24,141)	(19,603)	(13,898)
Total assets	**627,690**	**643,760**	**658,020**	**720,651**	**726,650**	**732,019**	**733,913**
Short term loans/OD	-	-	-	-	-	-	-
Accounts payable	88,020	90,680	94,840	102,485	108,718	119,887	133,994
Accrued expenses	41,880	42,950	40,440	84,892	81,050	80,439	80,913
Taxes payable	9,383	8,667	7,884	8,648	8,715	9,130	9,694
Other current liabs	11,468	10,593	9,636	10,569	10,651	11,158	11,848
Current liabilities	**150,750**	**152,890**	**152,800**	**206,594**	**209,135**	**220,615**	**236,448**
Long-term debt/leases/other	-	-	-	-	-	-	-
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	0	0	0	0	0	0	0
Total liabilities	**150,750**	**152,890**	**152,800**	**206,594**	**209,135**	**220,615**	**236,448**
Share capital	2,350	2,350	2,350	2,350	2,350	2,350	2,350
Retained earnings	474,390	488,260	500,690	509,526	512,985	506,875	492,935
Reserves/others	0	0	0	0	0	0	0
Shareholder funds	**476,740**	**490,610**	**503,040**	**511,876**	**515,335**	**509,225**	**495,285**
Minorities/other equity	200	260	2,180	2,180	2,180	2,180	2,180
Total equity	**476,940**	**490,870**	**505,220**	**514,056**	**517,515**	**511,405**	**497,465**
Total liabs & equity	**627,690**	**643,760**	**658,020**	**720,651**	**726,650**	**732,019**	**733,913**
Total debt	0	0	0	0	0	0	0
Net debt	(71,780)	(73,650)	(74,890)	(137,708)	(146,592)	(139,084)	(124,915)
Adjusted EV	6,448,213	6,440,849	6,443,339	6,381,687	6,372,803	6,380,311	6,394,480
BVPS (Rs)	202.9	208.8	214.1	217.9	219.3	216.7	210.8

Balance sheet ratios

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Key ratios							
Current ratio (x)	0.8	0.9	1.0	1.0	1.0	1.0	0.9
Growth in total assets (% YoY)	211.5	2.6	2.2	9.5	0.8	0.7	0.3
Growth in capital employed (% YoY)	nm	3.3	2.5	(14.4)	(1.0)	(0.9)	(1.7)
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to Ebitda (x)	-	-	-	-	-	-	-
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(15.1)	(15.0)	(14.8)	(26.8)	(28.3)	(27.2)	(25.1)
Gross debt/equity (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	83.7	101.8	104.2	37.1	33.9	35.9	38.8
Debt cover (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash per share (Rs)	30.6	31.3	31.9	58.6	62.4	59.2	53.2
Working capital analysis							
Inventory days	52.3	54.4	48.0	50.7	42.4	38.8	38.1
Debtor days	11.5	14.2	16.3	18.3	17.6	17.3	17.2
Creditor days	134.6	126.7	106.8	121.0	114.0	109.9	108.1
Working capital/Sales (%)	(21.0)	(17.4)	(13.4)	(22.4)	(21.5)	(20.1)	(18.8)
Capital employed analysis							
Sales/Capital employed (%)	126.8	136.5	153.8	183.8	197.2	219.5	249.5
EV/Capital employed (%)	1,767.6	1,708.4	1,666.8	1,927.6	1,944.6	1,965.1	2,002.6
Working capital/Capital employed (%)	(26.7)	(23.8)	(20.6)	(41.1)	(42.3)	(44.0)	(46.8)
Fixed capital/Capital employed (%)	143.1	140.0	137.1	160.8	162.9	164.7	167.9
Other ratios (%)							
PB (x)	13.7	13.3	13.0	12.8	12.7	12.8	13.2
EV/Ebitda (x)	59.3	54.2	49.5	46.9	44.2	40.0	35.5
EV/OCF (x)	70.4	71.2	64.5	40.9	55.8	52.7	46.4
EV/FCF (x)	126.5	80.9	72.2	45.1	63.7	60.1	52.4
EV/Sales (x)	13.9	12.5	10.8	10.5	9.9	9.0	8.0
Capex/depreciation (%)	378.6	99.2	94.1	119.3	109.4	108.0	108.4

Source: www.clsa.com

evalu@tor The Global Equities Database

Cashflow (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Operating profit	97,930	107,920	118,740	124,030	131,119	145,913	165,711
Operating adjustments	0	0	0	0	0	0	0
Depreciation/amortisation	10,740	10,910	11,380	12,160	12,928	13,750	14,378
Working capital changes	(1,540)	(7,290)	(5,820)	10,461	6,244	3,929	4,962
Interest paid/other financial expenses	1,170	1,060	1,140	3,340	3,871	4,064	4,268
Tax paid	(26,398)	(31,966)	(32,793)	(36,640)	(36,489)	(37,880)	(42,814)
Other non-cash operating items	9,728	9,846	7,263	42,683	(3,544)	(8,706)	(8,809)
Net operating cashflow	91,630	90,480	99,910	156,034	114,128	121,071	137,695
Capital expenditure	(40,660)	(10,820)	(10,710)	(14,503)	(14,142)	(14,849)	(15,591)
Free cashflow	50,970	79,660	89,200	141,532	99,987	106,222	122,104
Acq/inv/disposals	-	-	-	-	-	-	-
Int, invt & associate div	50,240	2,360	1,570	18,610	13,800	14,863	16,019
Net investing cashflow	9,580	(8,460)	(9,140)	4,107	(342)	14	428
Increase in loans	-	-	-	-	-	-	-
Dividends	(88,110)	(75,260)	(84,740)	(93,984)	(101,032)	(124,528)	(148,024)
Net equity raised/others	(4,980)	(4,890)	(4,790)	(3,340)	(3,871)	(4,064)	(4,268)
Net financing cashflow	(93,090)	(80,150)	(89,530)	(97,324)	(104,903)	(128,593)	(152,292)
Incr/(decr) in net cash	8,120	1,870	1,240	62,818	8,884	(7,508)	(14,169)
Exch rate movements	0	0	0	0	0	0	0
Opening cash	63,660	71,780	73,650	74,890	137,708	146,592	139,084
Closing cash	71,780	73,650	74,890	137,708	146,592	139,084	124,915
OCF PS (Rs)	39.0	38.5	42.5	66.4	48.6	51.5	58.6
FCF PS (Rs)	21.7	33.9	38.0	60.2	42.6	45.2	52.0

Cashflow ratio analysis

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Growth (%)							
Op cashflow growth (% YoY)	20.2	(1.3)	10.4	56.2	(26.9)	6.1	13.7
FCF growth (% YoY)	(25.2)	56.3	12.0	58.7	(29.4)	6.2	15.0
Capex growth (%)	402.0	(73.4)	(1.0)	35.4	(2.5)	5.0	5.0
Other key ratios (%)							
Capex/sales (%)	8.8	2.1	1.8	2.4	2.2	2.1	2.0
Capex/op cashflow (%)	44.4	12.0	10.7	9.3	12.4	12.3	11.3
Operating cashflow payout ratio (%)	103.8	88.3	91.7	63.2	96.8	102.9	119.4
Cashflow payout ratio (%)	96.2	83.1	84.7	60.2	88.5	102.9	107.5
Free cashflow payout ratio (%)	172.9	94.4	94.8	66.4	101.0	117.2	121.2

DuPont analysis

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Ebit margin (%)	21.2	21.0	20.0	20.4	20.3	20.5	20.8
Asset turnover (x)	1.1	0.8	0.9	0.9	0.9	1.0	1.1
Interest burden (x)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Tax burden (x)	0.7	0.7	0.8	0.7	0.7	0.8	0.8
Return on assets (%)	17.4	12.5	13.9	13.2	13.4	15.1	17.1
Leverage (x)	1.5	1.3	1.3	1.4	1.4	1.4	1.5
ROE (%)	28.7	18.2	20.5	20.1	20.3	23.1	26.7

EVA® analysis

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Ebit adj for tax	72,321	79,622	90,394	90,712	97,136	110,258	125,205
Average invested capital	211,960	411,170	423,755	403,319	373,616	371,602	372,416
ROIC (%)	34.1	19.4	21.3	22.5	26.0	29.7	33.6
Cost of equity (%)	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Cost of debt (adj for tax)	5.9	5.9	6.1	5.9	5.9	6.0	6.0
Weighted average cost of capital (%)	12.3	12.3	12.3	12.3	12.3	12.3	12.3
EVA/IC (%)	21.8	7.1	9.1	10.2	13.7	17.4	21.3
EVA (Rsm)	46,292	29,131	38,357	41,185	51,255	64,625	79,473

Source: www.clsa.com

Notes

CLSA

Marico

Rs647.85 - UNDERPERFORM

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3 September 2024

India

Consumer

Reuters MRCO.BO
Bloomberg MRCO IB

Priced on 30 August 2024
CNX Nifty @ 25,235.9

12M hi/lo Rs689.60/489.60

12M price target Rs470.00
±% potential -27%

Shares in issue 1,294.1m
Free float (est.) 40.5%

Market cap US$10bn

3M ADV US$23.9m

Foreign s'holding 25.2%

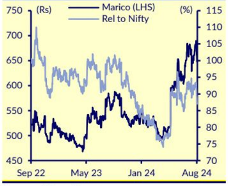
Major shareholders
Promoters 59.5%
FPIs 25.2%

Blended ESG Score (%)*	
Overall	67.0
Country average	59.1
GEM sector average	57.1

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(4.0)	8.8	14.0
Relative	(5.1)	(2.9)	(13.0)
Abs (US$)	(4.0)	9.0	12.4



Source: Bloomberg

Liquid battleground

Competition intensifying in core portfolio

Marico has built its fast-moving consumer goods (FMCG) business on its strong hair oil (Parachute) and edible oil (Saffola) brands. We expect Parachute to stay dominant in its category, but think incremental growth will be challenging given competition from quick commerce (QC), modern trade (MT) and private brands. Saffola has been losing ground and we expect QC to intensify the pressure. We raise our margin assumptions to reflect changes in commodity costs, increasing earnings by 3-4% and our target price from Rs460 to Rs470, but retain our Underperform.

Ample choices in hair oil and serums

Hair oil has the usual competitors across QC platforms, namely Marico, Dabur, Emami and Bajaj. However, the premium end has new entrants from established brands like Mamaearth plus a host of new brands. There is no private label threat on QC in this segment, unlike in modern trade, where private labels, especially in categories like coconut oil, are more prominent.

Edible oils listings slipping

We see limited presence for Saffola in edible oils across QC platforms, with no top-10 listings on Zepto and Instamart and only one listing on Blinkit. The Blinkit listing is priced far higher than other mainstream brands but lower than premium and niche. We continue to be concerned about the long-term prospects for Saffola edible oil as competition on QC, MT and ecommerce platforms remains intense.

Losing ground on oats and limited presence in male grooming

Saffola Oats' QC presence in the oats category is significantly smaller than its market share suggests. Moreover, in the overall cereals category, its presence is even thinner. Saffola foods has a high ecommerce/MT presence and the lack of listings on QC should be a cause for concern. The men's grooming products category in QC also seems to have few Marico offerings, unlike in traditional retail, except for on Instamart, where Beardo is a bit more prominent. Marico acquired brands like Beardo to attract future users, but the prominence of these brands is far lower than that of its Parachute hair oil brand.

Needs a significant rethink about long-term prospects

With core categories growing slowly and facing intense competition, Marico needs to rethink its long-term strategy, in our view. QC will further diminish its competitive advantages over private labels. Our new Rs470 target price is derived from 50/50 blended DCF and 40x FY26CL PE valuations. Underperform.

Financials

Year to 31 March	23A	24A	25CL	26CL	27CL
Revenue (Rsm)	97,640	96,530	104,411	115,716	126,842
Rev forecast change (%)	-	-	(0.6)	(0.6)	(0.6)
Net profit (Rsm)	13,100	14,890	16,054	17,566	19,429
NP forecast change (%)	-	-	4.1	3.2	3.2
EPS (Rs)	10.1	11.5	12.4	13.6	15.0
CL/consensus (37) (EPS%)	-	-	98	95	93
EPS growth (% YoY)	5.7	13.7	8.2	9.4	10.6
PE (x)	64.1	56.4	52.1	47.7	43.1
Dividend yield (%)	0.7	1.5	1.7	1.9	2.1
ROE (%)	35.5	36.2	37.7	39.7	42.3
Net cash per share (Rs)	6.6	5.6	6.2	6.0	6.3

Source: www.clsa.com

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Great
Solid
Meh

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Solid
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Financials at a glance

Year to 31 March	2023A	2024A	2025CL	(% YoY)	2026CL	2027CL
Profit & Loss (Rsm)						
Revenue	**97,640**	**96,530**	**104,411**	*8.2*	**115,716**	**126,842**
Cogs (ex-D&A)	(53,510)	(47,480)	(51,162)		(57,279)	(63,040)
Gross Profit (ex-D&A)	**44,130**	**49,050**	**53,250**	*8.6*	**58,437**	**63,801**
SG&A and other expenses	(25,950)	(28,710)	(30,729)		(33,573)	(36,411)
Op Ebitda	**18,180**	**20,340**	**22,521**	*10.7*	**24,863**	**27,390**
Depreciation/amortisation	(1,550)	(1,580)	(1,630)		(1,680)	(1,730)
Op Ebit	**16,630**	**18,760**	**20,891**	*11.4*	**23,183**	**25,660**
Net interest inc/(exp)	880	690	530	*(23.2)*	568	611
Other non-Op items	0	0	0		0	0
Profit before tax	**17,510**	**19,450**	**21,421**	*10.1*	**23,751**	**26,271**
Taxation	(4,210)	(4,350)	(5,141)		(5,938)	(6,568)
Profit after tax	**13,300**	**15,100**	**16,280**	*7.8*	**17,814**	**19,703**
Minority interest	(200)	(210)	(226)		(248)	(274)
Net profit	**13,100**	**14,890**	**16,054**	*7.8*	**17,566**	**19,429**
Adjusted profit	**13,100**	**14,890**	**16,054**	*7.8*	**17,566**	**19,429**
Cashflow (Rsm)	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Operating profit	**16,630**	**18,760**	**20,891**	*11.4*	**23,183**	**25,660**
Depreciation/amortisation	1,550	1,580	1,630	*3.2*	1,680	1,730
Working capital changes	(680)	(360)	(525)		(949)	(934)
Other items	(3,310)	(5,620)	(5,149)		(5,967)	(6,624)
Net operating cashflow	**14,190**	**14,360**	**16,847**	*17.3*	**17,947**	**19,833**
Capital expenditure	(4,980)	(2,560)	(2,688)		(2,796)	(2,851)
Free cashflow	**9,210**	**11,800**	**14,159**	*20*	**15,152**	**16,981**
M&A/Others	(4,310)	4,320	1,300	*(69.9)*	1,378	1,461
Net investing cashflow	**(9,290)**	**1,760**	**(1,388)**		**(1,418)**	**(1,391)**
Increase in loans	1,280	0	0		0	0
Dividends	(5,812)	(12,276)	(14,214)		(16,153)	(17,486)
Net equity raised/other	772	(5,164)	(544)		(562)	(576)
Net financing cashflow	**(3,760)**	**(17,440)**	**(14,758)**		**(16,715)**	**(18,062)**
Incr/(decr) in net cash	1,140	(1,320)	701		(185)	380
Exch rate movements	-	-	-		-	-
Balance sheet (Rsm)	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Cash & equivalents	13,340	12,020	12,721	*5.8*	12,535	12,915
Accounts receivable	10,150	10,690	11,563	*8.2*	12,815	14,047
Other current assets	14,190	16,510	17,453	*5.7*	19,002	20,526
Fixed assets	14,490	19,320	20,378	*5.5*	21,494	22,615
Investments	5,180	3,430	3,430	*0*	3,430	3,430
Intangible assets	8,620	8,630	8,630	*0*	8,630	8,630
Other non-current assets	1,940	3,150	3,150	*0*	3,150	3,150
Total assets	**67,910**	**73,750**	**77,325**	*4.8*	**81,055**	**85,313**
Short-term debt	-	-	-		-	-
Accounts payable	14,520	15,810	17,101	*8.2*	18,952	20,775
Other current liabs	6,188	6,038	6,256	*3.6*	6,474	6,692
Long-term debt/CBs	4,730	4,730	4,730	*0*	4,730	4,730
Provisions/other LT liabs	320	2,110	2,110	*0*	2,110	2,110
Shareholder funds	40,582	41,692	43,531	*4.4*	44,944	46,887
Minorities/other equity	1,570	3,370	3,596	*6.7*	3,844	4,118
Total liabs & equity	**67,910**	**73,750**	**77,325**	*4.8*	**81,055**	**85,313**
Ratio analysis	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Revenue growth (% YoY)	2.6	(1.1)	8.2		10.8	9.6
Ebitda margin (%)	18.6	21.1	21.6		21.5	21.6
Ebit margin (%)	17.0	19.4	20.0		20.0	20.2
Net profit growth (%)	6.2	13.7	7.8		9.4	10.6
Op cashflow growth (% YoY)	39.7	1.2	17.3		6.5	10.5
Capex/sales (%)	5.1	2.7	2.6		2.4	2.2
Net debt/equity (%)	(20.4)	(16.2)	(17.0)		(16.0)	(16.0)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	35.5	36.2	37.7		39.7	42.3
ROIC (%)	49.5	44.7	42.8		44.9	47.4

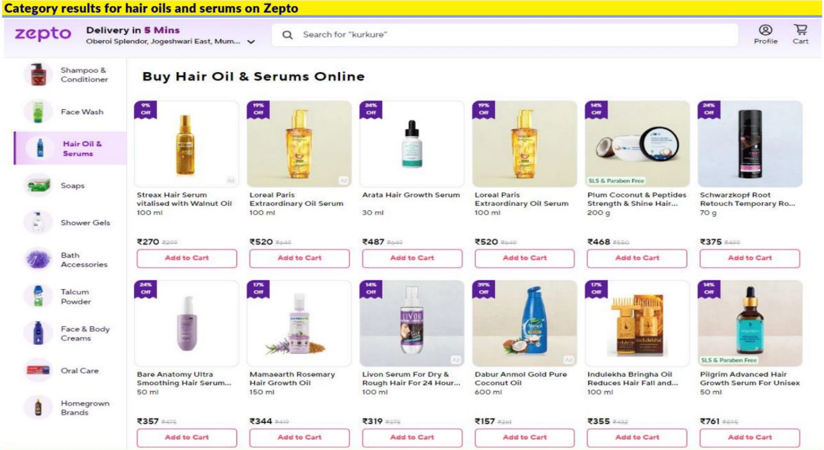
Source: www.clsa.com

Marico's leadership in hair oils is not reflected on QC

Hair oils and serums

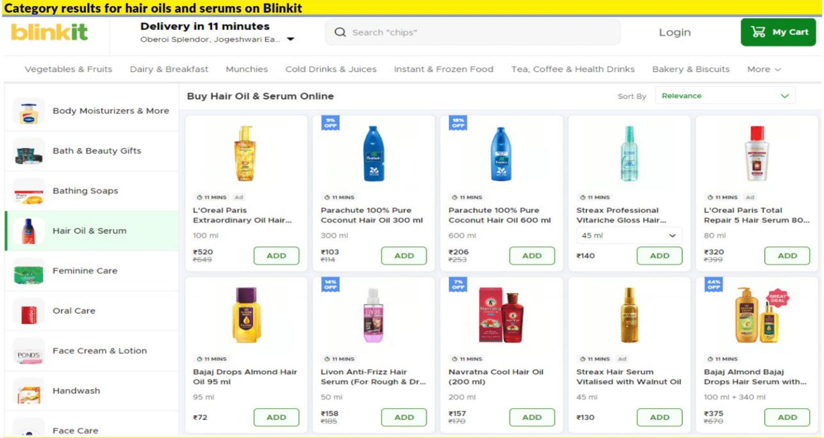
A host of smaller D2C brands in the hair oils and serums category have gained prominence on QC platforms. We do not see Marico's category leadership reflected in QC offerings and stock-keeping units (SKUs).

Category results for hair oils and serums on Zepto



Source: Zepto

Category results for hair oils and serums on Blinkit



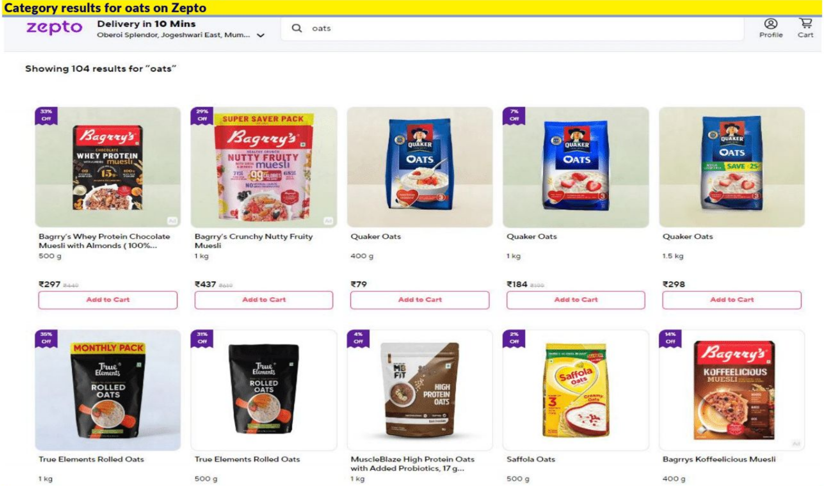
Source: Blinkit

Saffola oats brand not well represented on QC

Oats

Despite being the market leader in the oats category, Saffola oats has just one SKU among the top-10 SKUs offered on QC platforms.

Category results for oats on Zepto



Source: Zepto

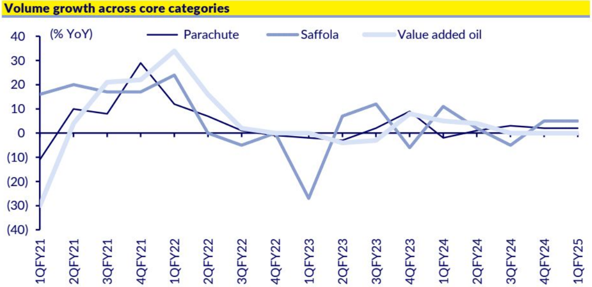
Periods of volume growth came with price corrections, restraining top-line growth

Growth in core categories remains subdued

Volume growth in core categories has been volatile over the past four years. Demand was robust during Covid but has tapered off since then. Periods of increased volume growth came with significant price corrections, keeping top-line growth in check for core categories. We see the growth of QC to be a structural negative for Marico's core categories.

Growth in Parachute, Saffola and value-added oil has been flat

Volume growth across core categories



Source: CLSA, Marico

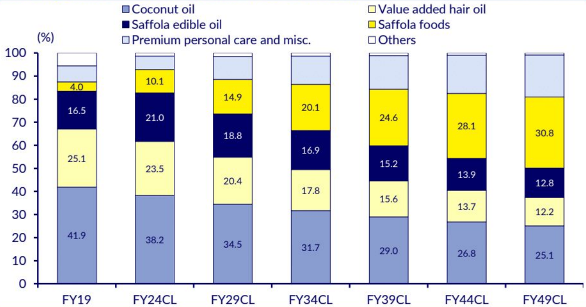
Saffola Foods' revenue contribution will spike to about 20% by FY34CL

Food becoming more significant

We expect growth in Saffola Foods to be faster than core categories as the brand addresses a relatively underpenetrated category, which should double contribution to the overall business to 20.1% by FY34, up from about 10% currently. This also reflects sluggish growth in the core categories.

Longer-term revenue contribution should reach about 30% by FY49

Increasing contribution from food business to overall revenue



Source: CLSA, Marico

Investment thesis

Sustained growth pressure on the company's oils portfolio - coconut , Saffola edible and value-added hair oils - is not fully reflected in premium valuations. Increased competition for Saffola foods will potentially delay profitability.

Catalysts

Negative: Any significant private label launches competing with its oils portfolio; new entrants in oats. Positive: Reduced competition from D2C brands.

Valuation

Our target price is based on an equal-weighted blend of DCF and relative PE valuations. For the relative PE portion, we apply a 40x target multiple, the average 12-month forward PE over the last ten years, to our March 2026 EPS estimate. For the DCF portion, we assume a risk-free rate of 7%, a market risk premium of 5.25%, a beta of 0.655, a WACC of 10.4% and a terminal growth rate of 4%.

Our 50/50 blended DCF and PE valuations yield a Rs470 target price

Calculation of target price

(Rs)	Implied price	Weight (%)	Contribution
Old			
DCF	392	50	196
Relative PE	528	50	264
Target price			**460**
New			
DCF	396	50	198
Relative PE	544	50	272
Target price			**470**

Source: CLSA

Our relative PE valuation is based on 40x FY26CL EPS

Marico's average 12-month forward PE over the past ten years is 40x and MRCO is trading at over 2sd

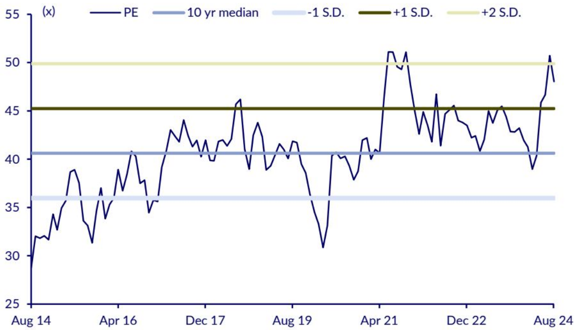
New implied value using relative PE is Rs544

Our DCF assumes a 10.4% WACC and a 4% terminal value

Relative PE

We base 50% of our target price calculation on a 40x multiple applied to our FY26 EPS estimate. Our target multiple is based on the past 10-year average one-year forward PE multiple.

Marico 12M forward PE (on consensus earnings)



Source: CLSA, Bloomberg

Relative PE calculation

	(Rs)
Old	
Multiple (x)	40
Two-year forward EPS estimate (March 2026)	13.2
Implied price	**528**
New	
Multiple (x)	40
Two-year forward EPS estimate (March 2026)	13.6
Implied price	**544**

Source: CLSA

Discounted cashflow

We base our DCF valuation on 25 years of explicit forecasts to better model the growth opportunity for consumption in India, as we believe low penetration levels, rising incomes and a young population offer a long runway for sales growth. We discount our cashflow assumptions at a WACC of 10.4% and use a 4% terminal growth rate beyond our explicit forecasts.

We assume a risk free rate of 7%, a market risk premium of 5.25%, a beta of 0.7, a WACC of 10.4% and a terminal growth rate of 4% for our DCF valuation. We use a 10-year average for relative valuation.

Growth should taper down to 6.5% per year by FY49

We expect some pickup in Marico's top-line growth due to tailwinds from higher rural demand in the near term, but forecast overall growth to taper down to 6.5% by FY49. While this 6.5% growth looks difficult to achieve, we give HUL the benefit of doubt considering its quality of management and past evidence of success. We believe improvement in margins will be limited from here. As modern trade becomes more common, it will also have a negative impact on the working capital investment that Marico requires.

Financial projections: FY25 to FY32

	FY25CL	FY26CL	FY27CL	FY28CL	FY29CL	FY30CL	FY31CL	FY32CL
Ebit	20,891	23,183	25,660	28,256	31,079	34,636	38,289	42,287
Tax	(5,141)	(5,938)	(6,568)	(7,229)	(7,947)	(8,852)	(9,781)	(10,798)
Tax rate	24.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPAT	15,750	17,246	19,092	21,028	23,131	25,785	28,508	31,489
Depreciation	1,630	1,680	1,730	1,780	1,830	1,880	1,930	1,980
Capex	(2,688)	(2,796)	(2,851)	(2,880)	(2,909)	(2,938)	(2,967)	(2,997)
Change in working capital	(525)	(949)	(934)	(993)	(1,079)	(1,176)	(1,204)	(1,305)
FCFF	14,167	15,181	17,037	18,935	20,974	23,551	26,267	29,168
NPV of FCF	14,167	13,746	13,969	14,057	14,099	14,335	14,477	14,556

Source: CLSA

Financial projections: FY33 to FY41

	FY33CL	FY34CL	FY35CL	FY36CL	FY37CL	FY38CL	FY39CL	FY40CL	FY41CL
Ebit	46,319	50,696	55,437	60,558	65,856	71,497	77,524	83,943	90,914
Tax	(11,825)	(12,941)	(14,149)	(15,454)	(16,805)	(18,245)	(19,783)	(21,422)	(23,202)
Tax rate	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPAT	34,494	37,756	41,288	45,104	49,050	53,252	57,741	62,521	67,713
Depreciation	2,030	2,080	2,130	2,180	2,230	2,319	2,412	2,508	2,609
Capex	(3,027)	(3,057)	(3,088)	(3,119)	(3,150)	(3,181)	(3,213)	(3,245)	(3,278)
Change in working capital	(1,396)	(1,509)	(1,629)	(1,755)	(1,826)	(1,957)	(2,092)	(2,232)	(2,388)
FCFF	32,101	35,269	38,702	42,411	46,305	50,433	54,847	59,552	64,656
NPV of FCF	14,506	14,431	14,339	14,228	14,066	13,872	13,660	13,430	13,203

Source: CLSA

Financial projections: FY42 to FY49

	FY42CL	FY43CL	FY44CL	FY45CL	FY46CL	FY47CL	FY48CL	FY49CL
Ebit	98,051	105,634	113,673	122,170	131,127	140,540	149,963	159,775
Tax	(25,025)	(26,964)	(29,019)	(31,192)	(33,484)	(35,894)	(38,310)	(40,827)
Tax rate	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPAT	73,025	78,671	84,654	90,978	97,643	104,646	111,654	118,948
Depreciation	2,713	2,822	2,935	3,052	3,174	3,301	3,433	3,570
Capex	(3,310)	(3,344)	(3,377)	(3,411)	(3,445)	(3,479)	(3,514)	(3,549)
Change in working capital	(2,465)	(2,623)	(2,787)	(2,956)	(3,129)	(3,306)	(3,364)	(3,532)
FCFF	69,963	75,525	81,424	87,663	94,243	101,162	108,209	115,436
NPV of FCF	12,936	12,645	12,344	12,033	11,714	11,385	11,027	10,652

Source: CLSA

Our DCF assumptions produce a Rs396 value

DCF assumptions and result	
Risk-free rate (%)	7.00
Market-risk premium (%)	5.25
Beta	0.7
CoE (%)	10.4
WACC (%)	10.4
Terminal growth (%)	4.0
	(Rsm)
Estimated terminal cashflow	120,054
Terminal value	1,864,547
NPV of forecasts	333,877
NPV as of terminal value	172,051
EV	505,928
Net cash	5,401
Implied market cap	511,329
Diluted number of shares	1,292
Implied stock price (Rs)	396

Source: CLSA

We use cost of equity as the WACC in the long run as we assume Marico repays debt

The reason we use cost of equity as the WACC is that in the long run, we assume the business will repay its debts given its strong cashflow-generating capability. Although the company may go for inorganic activity instead, it is difficult to time such activity; hence, for simplicity we assume a debt-free capital structure over the long term, which effectively makes our WACC equal to the cost of equity.

Our beta is based on Bloomberg estimates (raw beta). On cross-checking and given the low volatility in Marico's earnings and stock price, we believe a beta of 0.7 is justified. Our terminal growth rate of 4% is in line with our assumption of long-term real GDP growth.

Changes to estimates

	Old estimates			New estimates			Changes to estimates (%)		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Sales	105,072	116,428	127,608	104,411	115,716	126,842	(1)	(1)	(1)
Ebitda	21,672	24,120	26,572	22,521	24,863	27,390	4	3	3
Ebitda margin (%)	20.6	20.7	20.8	21.6	21.5	21.6	90bps	80bps	80bps
PAT	15,417	17,016	18,824	16,054	17,566	19,429	4	3	3

Source: CLSA

Investment risks

Key risks to our view are a sharp easing in input prices, better-than-expected volume growth and margin surprise.

Detailed financials

Profit & Loss (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Revenue	**80,480**	**95,120**	**97,640**	**96,530**	**104,411**	**115,716**	**126,842**
Cogs (ex-D&A)	(42,700)	(54,360)	(53,510)	(47,480)	(51,162)	(57,279)	(63,040)
Gross Profit (ex-D&A)	**37,780**	**40,760**	**44,130**	**49,050**	**53,250**	**58,437**	**63,801**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	(6,980)	(7,960)	(8,420)	(9,520)	(10,123)	(11,269)	(12,202)
Other SG&A	(6,140)	(6,510)	(7,185)	(7,988)	(8,575)	(9,276)	(10,065)
Other Op Expenses ex-D&A	(8,750)	(9,400)	(10,345)	(11,202)	(12,030)	(13,028)	(14,144)
Op Ebitda	**15,910**	**16,890**	**18,180**	**20,340**	**22,521**	**24,863**	**27,390**
Depreciation/amortisation	(1,390)	(1,390)	(1,550)	(1,580)	(1,630)	(1,680)	(1,730)
Op Ebit	**14,520**	**15,500**	**16,630**	**18,760**	**20,891**	**23,183**	**25,660**
Interest income	940	980	1,440	1,420	1,300	1,378	1,461
Interest expense	(340)	(390)	(560)	(730)	(770)	(810)	(850)
Net interest inc/(exp)	600	590	880	690	530	568	611
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**15,120**	**16,090**	**17,510**	**19,450**	**21,421**	**23,751**	**26,271**
Taxation	(3,240)	(3,460)	(4,210)	(4,350)	(5,141)	(5,938)	(6,568)
Profit after tax	**11,880**	**12,630**	**13,300**	**15,100**	**16,280**	**17,814**	**19,703**
Preference dividends	0	0	0	0	0	0	0
Profit for period	**11,880**	**12,630**	**13,300**	**15,100**	**16,280**	**17,814**	**19,703**
Minority interest	(290)	(300)	(200)	(210)	(226)	(248)	(274)
Net profit	**11,590**	**12,330**	**13,100**	**14,890**	**16,054**	**17,566**	**19,429**
Extraordinaries/others	130	(80)	(200)	0	0	0	0
Profit avail to ordinary shares	11,720	12,250	12,900	14,890	16,054	17,566	19,429
Dividends	(9,675)	(12,578)	(5,812)	(12,276)	(14,214)	(16,153)	(17,486)
Retained profit	2,045	(328)	7,088	2,614	1,839	1,413	1,943
Adjusted profit	**11,590**	**12,330**	**13,100**	**14,890**	**16,054**	**17,566**	**19,429**
EPS (Rs)	9.0	9.6	10.1	11.5	12.4	13.6	15.0
Adj EPS [pre excep] (Rs)	9.0	9.6	10.1	11.5	12.4	13.6	15.0
Core EPS (Rs)	9.0	9.6	10.1	11.5	12.4	13.6	15.0
DPS (Rs)	7.5	9.8	4.5	9.5	11.0	12.5	13.5

Profit & loss ratios

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Growth (%)							
Revenue growth (% YoY)	10.0	18.2	2.6	(1.1)	8.2	10.8	9.6
Ebitda growth (% YoY)	8.3	6.2	7.6	11.9	10.7	10.4	10.2
Ebit growth (% YoY)	9.3	6.7	7.3	12.8	11.4	11.0	10.7
Net profit growth (%)	10.9	6.4	6.2	13.7	7.8	9.4	10.6
EPS growth (% YoY)	10.9	6.4	5.7	13.7	8.2	9.4	10.6
Adj EPS growth (% YoY)	10.9	6.4	5.7	13.7	8.2	9.4	10.6
DPS growth (% YoY)	11.1	30.0	(53.8)	111.1	15.8	13.6	8.3
Core EPS growth (% YoY)	10.9	6.4	5.7	13.7	8.2	9.4	10.6
Margins (%)							
Gross margin (%)	46.9	42.9	45.2	50.8	51.0	50.5	50.3
Ebitda margin (%)	19.8	17.8	18.6	21.1	21.6	21.5	21.6
Ebit margin (%)	18.0	16.3	17.0	19.4	20.0	20.0	20.2
Net profit margin (%)	14.4	13.0	13.4	15.4	15.4	15.2	15.3
Core profit margin	14.4	13.0	13.4	15.4	15.4	15.2	15.3
Op cashflow margin	24.9	10.7	14.5	14.9	16.1	15.5	15.6
Returns (%)							
ROE (%)	37.0	37.6	35.5	36.2	37.7	39.7	42.3
ROA (%)	22.4	22.3	20.4	20.6	21.0	22.0	23.1
ROIC (%)	58.3	61.7	49.5	44.7	42.8	44.9	47.4
ROCE (%)	71.2	73.8	60.3	56.7	59.2	62.8	66.2
Other key ratios (%)							
Effective tax rate (%)	21.4	21.5	24.0	22.4	24.0	25.0	25.0
Ebitda/net int exp (x)	-	-	-	-	-	-	-
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	83.5	102.0	44.5	82.7	88.5	92.0	90.0

Source: www.clsa.com

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The Global Equities Database

Balance sheet (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Cash & equivalents	15,720	12,200	13,340	12,020	12,721	12,535	12,915
Accounts receivable	3,880	6,520	10,150	10,690	11,563	12,815	14,047
Inventories	11,260	14,120	12,250	13,360	14,303	15,852	17,376
Other current assets	1,880	1,510	1,940	3,150	3,150	3,150	3,150
Current assets	**32,740**	**34,350**	**37,680**	**39,220**	**41,737**	**44,352**	**47,488**
Fixed assets	10,230	11,450	14,490	19,320	20,378	21,494	22,615
Investments	2,260	1,870	5,180	3,430	3,430	3,430	3,430
Goodwill	6,130	6,540	8,620	8,630	8,630	8,630	8,630
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	1,880	1,510	1,940	3,150	3,150	3,150	3,150
Total assets	**53,240**	**55,720**	**67,910**	**73,750**	**77,325**	**81,055**	**85,313**
Short term loans/OD	-	-	-	-	-	-	-
Accounts payable	11,340	13,440	14,520	15,810	17,101	18,952	20,775
Accrued expenses	4,910	4,030	3,900	4,150	4,300	4,450	4,600
Taxes payable	975	900	1,144	944	978	1,012	1,046
Other current liabs	975	900	1,144	944	978	1,012	1,046
Current liabilities	**18,200**	**19,270**	**20,708**	**21,848**	**23,357**	**25,427**	**27,467**
Long-term debt/leases/other	3,480	3,450	4,730	4,730	4,730	4,730	4,730
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	(1,020)	(780)	320	2,110	2,110	2,110	2,110
Total liabilities	**20,660**	**21,940**	**25,758**	**28,688**	**30,197**	**32,267**	**34,307**
Share capital	1,290	1,290	1,292	1,292	1,292	1,292	1,292
Retained earnings	31,110	31,920	39,290	40,400	42,239	43,652	45,595
Reserves/others	0	0	0	0	0	-	-
Shareholder funds	**32,400**	**33,210**	**40,582**	**41,692**	**43,531**	**44,944**	**46,887**
Minorities/other equity	180	570	1,570	3,370	3,596	3,844	4,118
Total equity	**32,580**	**33,780**	**42,152**	**45,062**	**47,128**	**48,789**	**51,005**
Total liabs & equity	**53,240**	**55,720**	**67,910**	**73,750**	**77,325**	**81,055**	**85,313**
Total debt	3,480	3,450	4,730	4,730	4,730	4,730	4,730
Net debt	(12,240)	(8,750)	(8,610)	(7,290)	(7,991)	(7,805)	(8,185)
Adjusted EV	821,167	825,287	824,835	830,594	828,902	829,335	829,229
BVPS (Rs)	25.1	25.7	31.4	32.2	33.7	34.8	36.3

Balance sheet ratios

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Key ratios							
Current ratio (x)	1.8	1.8	1.8	1.8	1.8	1.7	1.7
Growth in total assets (% YoY)	9.9	4.7	21.9	8.6	4.8	4.8	5.3
Growth in capital employed (% YoY)	(17.4)	27.4	34.4	9.6	3.9	5.1	4.9
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Gross debt to Ebitda (x)	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(37.6)	(25.9)	(20.4)	(16.2)	(17.0)	(16.0)	(16.0)
Gross debt/equity (%)	10.7	10.2	11.2	10.5	10.0	9.7	9.3
Interest cover (x)	45.5	42.3	32.3	27.6	28.8	30.3	31.9
Debt cover (x)	5.8	2.9	3.0	3.0	3.6	3.8	4.2
Net cash per share (Rs)	9.5	6.8	6.6	5.6	6.2	6.0	6.3
Working capital analysis							
Inventory days	107.1	85.2	89.9	98.4	98.7	96.1	96.2
Debtor days	21.0	20.0	31.2	39.4	38.9	38.4	38.6
Creditor days	90.3	83.2	95.4	116.6	117.4	114.9	115.0
Working capital/Sales (%)	(1.5)	3.0	3.7	5.5	5.4	5.5	5.6
Capital employed analysis							
Sales/Capital employed (%)	436.0	404.4	309.0	278.8	290.1	305.9	319.7
EV/Capital employed (%)	4,448.4	3,508.9	2,610.1	2,399.0	2,303.3	2,192.1	2,090.3
Working capital/Capital employed (%)	(6.4)	12.2	11.5	15.5	15.7	16.9	17.9
Fixed capital/Capital employed (%)	55.4	48.7	45.9	55.8	56.6	56.8	57.0
Other ratios (%)							
PB (x)	25.8	25.2	20.6	20.1	19.2	18.6	17.9
EV/Ebitda (x)	51.6	48.9	45.4	40.8	36.8	33.4	30.3
EV/OCF (x)	40.9	81.2	58.1	57.8	49.2	46.2	41.8
EV/FCF (x)	43.9	93.0	89.6	70.4	58.5	54.7	48.8
EV/Sales (x)	10.2	8.7	8.4	8.6	7.9	7.2	6.5
Capex/depreciation (%)	98.6	92.8	321.3	162.0	164.9	166.4	164.8

Source: www.clsa.com

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Cashflow (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Operating profit	14,520	15,500	16,630	18,760	20,891	23,183	25,660
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	1,390	1,390	1,550	1,580	1,630	1,680	1,730
Working capital changes	5,820	(5,370)	(680)	(360)	(525)	(949)	(934)
Interest paid/other financial expenses	0	0	0	0	0	0	0
Tax paid	0	0	0	0	0	0	0
Other non-cash operating items	(1,660)	(1,360)	(3,310)	(5,620)	(5,149)	(5,967)	(6,624)
Net operating cashflow	20,070	10,160	14,190	14,360	16,847	17,947	19,833
Capital expenditure	(1,370)	(1,290)	(4,980)	(2,560)	(2,688)	(2,796)	(2,851)
Free cashflow	18,700	8,870	9,210	11,800	14,159	15,152	16,981
Acq/inv/disposals	(925)	390	(3,310)	1,750	0	0	0
Int, invt & associate div	(545)	120	(1,000)	2,570	1,300	1,378	1,461
Net investing cashflow	(2,840)	(780)	(9,290)	1,760	(1,388)	(1,418)	(1,391)
Increase in loans	130	(30)	1,280	0	0	0	0
Dividends	(9,680)	(11,950)	(5,812)	(12,276)	(14,214)	(16,153)	(17,486)
Net equity raised/others	(1,030)	(920)	772	(5,164)	(544)	(562)	(576)
Net financing cashflow	(10,580)	(12,900)	(3,760)	(17,440)	(14,758)	(16,715)	(18,062)
Incr/(decr) in net cash	6,650	(3,520)	1,140	(1,320)	701	(185)	380
Exch rate movements	-	-	-	-	-	-	-
Opening cash	9,070	15,720	12,200	13,340	12,020	12,721	12,535
Closing cash	15,720	12,200	13,340	12,020	12,721	12,535	12,915
OCF PS (Rs)	15.6	7.9	10.9	11.1	13.0	13.9	15.3
FCF PS (Rs)	14.5	6.9	7.1	9.1	11.0	11.7	13.1

Cashflow ratio analysis

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Growth (%)							
Op cashflow growth (% YoY)	65.3	(49.4)	39.7	1.2	17.3	6.5	10.5
FCF growth (% YoY)	80.9	(52.6)	3.8	28.1	20.0	7.0	12.1
Capex growth (%)	(23.9)	(5.8)	286.0	(48.6)	5.0	4.0	2.0
Other key ratios (%)							
Capex/sales (%)	1.7	1.4	5.1	2.7	2.6	2.4	2.2
Capex/op cashflow (%)	6.8	12.7	35.1	17.8	16.0	15.6	14.4
Operating cashflow payout ratio (%)	48.2	123.8	41.1	85.8	84.4	90.0	88.2
Cashflow payout ratio (%)	48.2	123.8	41.0	85.5	84.4	90.0	88.2
Free cashflow payout ratio (%)	51.7	141.8	63.1	104.0	100.4	106.6	103.0

DuPont analysis

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Ebit margin (%)	18.0	16.3	17.0	19.4	20.0	20.0	20.2
Asset turnover (x)	1.6	1.7	1.6	1.4	1.4	1.5	1.5
Interest burden (x)	1.0	1.0	1.1	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Return on assets (%)	22.4	22.3	20.4	20.6	21.0	22.0	23.1
Leverage (x)	1.6	1.6	1.6	1.6	1.6	1.7	1.7
ROE (%)	37.0	37.6	35.5	36.2	37.7	39.7	42.3

EVA® analysis

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Ebit adj for tax	11,409	12,167	12,632	14,564	15,877	17,388	19,245
Average invested capital	19,560	19,720	25,531	32,567	37,135	38,740	40,582
ROIC (%)	58.3	61.7	49.5	44.7	42.8	44.9	47.4
Cost of equity (%)	12.7	12.7	12.7	12.7	12.7	12.7	12.7
Cost of debt (adj for tax)	7.9	7.8	7.6	7.8	7.6	7.5	7.5
Weighted average cost of capital (%)	11.1	11.1	11.0	11.1	11.0	11.0	11.0
EVA/IC (%)	47.2	50.6	38.5	33.7	31.8	33.9	36.5
EVA (Rsm)	9,240	9,981	9,824	10,964	11,792	13,139	14,795

Source: www.clsa.com

Notes

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Zomato

Rs250.53 - OUTPERFORM

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**CLSA India Private Limited*

3 September 2024

India

Consumer

Reuters	ZOMT.NS
Bloomberg	ZOMATO IN

Priced on 30 August 2024
CNX Nifty @ 25,235.9

12M hi/lo	Rs267.09/97.90
12M price target	Rs353.00
±% potential	+41%
Shares in issue	8,364.0m
Free float (est.)	97.1%
Market cap	US$26.5bn
3M ADV	US$177.3m
Foreign s'holding	67.9%

Major shareholders
Info Edge 15.2%
Uber B. V. 7.8%

Blended ESG Score (%)*	
Overall	62.9
Country average	59.1
GEM sector average	57.1

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	7.0	39.8	157.7
Relative	5.8	24.9	96.6
Abs (US$)	7.0	40.1	154.0

Source: Bloomberg

Spicing it up

Blinkit to deliver large portions of Zomato's profits and valuation

Blinkit is a key ingredient in Zomato's recipe for growth. We see Blinkit contributing 65% of the DCF portion of Zomato's valuation, which incorporates Blinkit's stellar climb towards 64% of gross order value by FY30 by deepening its presence in existing cities and entering new cities. Blinkit should achieve 1.3% market share in relevant categories, being among the largest food and grocery retailers nationally. We raise our target price from Rs350 to Rs353 and cut our FY25-26 net profit estimates to reflect Zomato's Paytm acquisition. Zomato is our top pick in India consumer due to its rapid growth and Blinkit's market share.

Dark store additions accelerate with appetite for growth

A key factor driving the Blinkit turnaround is the evolution of its dark store economics, a footprint which Zomato has streamlined over the past 18 months. With 30% ROI at an order level of over 1,000 orders per day for the dark store operator, Blinkit is now able to scale up its India-wide presence. Management guidance already points towards about 2,000 dark stores by 2026.

Profitable but growth first priority

Blinkit has been contribution positive for four quarters and is very close to being adjusted Ebitda positive. Profitability continues to improve despite more store adds, raising our confidence that Blinkit can be more profitable than its food delivery-only revenue stream. We forecast adjusted Ebitda to rise to Rs60.1bn or 6.7% of GOV from Rs526m or 0.2% of GOV in FY25.

Debate to shift to share of retail market

We believe the next debate on Blinkit is how much of the US$1tn Indian retail market, online and offline, is the addressable market for Blinkit. At present, Blinkit commands 40% market share within quick commerce (QC) and 0.1% of India's overall retail market, which should double to 2% within a decade (FY34). Average monthly spend per Blinkit consumer should rise from Rs2,173 in FY24 to Rs2,794 in FY27 and to Rs23,162 by FY49, representing about a third of the average urban consumer spend within current and prospective categories in quick commerce.

Caution is prudent but a winning model prevails; Outperform

Zomato's target price is based on an equal-weighted blend of DCF and relative PE valuations. We raise our target price from Rs350 to Rs353 but cut FY25-26 net profit estimates up to 12% to reflect Zomato's Paytm ticketing acquisition and the resulting lower cash and other income in the near term.

Financials

Year to 31 March	23A	24A	25CL	26CL	27CL
Revenue (Rsm)	70,794	121,140	192,358	285,058	393,797
Rev forecast change (%)	-	-	*2.3*	*4.0*	*4.7*
Net profit (Rsm)	(10,143)	3,510	16,028	51,546	91,703
NP forecast change (%)	-	-	*(12.4)*	*(1.8)*	*0.8*
EPS (Rs)	(1.3)	0.4	1.8	5.7	9.9
CL/consensus (0) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	nm	nm	347.7	215.6	74.1
PE (x)	nm	624.9	139.6	44.2	25.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(5.6)	1.8	7.3	19.7	27.5
Net debt/equity (%)	1.5	2.2	(2.0)	(14.6)	(37.7)

Source: www.clsa.com

evalu@tor The Global Equities Database

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Great Solid Meh

Financials at a glance

Year to 31 March	2023A	2024A	2025CL	(% YoY)	2026CL	2027CL
Profit & Loss (Rsm)						
Revenue	**70,794**	**121,140**	**192,358**	***58.8***	**285,058**	**393,797**
Cogs (ex-D&A)	(13,952)	(28,820)	(41,050)		(45,896)	(54,252)
Gross Profit (ex-D&A)	**56,842**	**92,320**	**151,307**	***63.9***	**239,162**	**339,545**
SG&A and other expenses	(68,945)	(91,900)	(134,777)		(186,561)	(234,289)
Op Ebitda	**(12,103)**	**420**	**16,531**	***3,835.8***	**52,601**	**105,256**
Depreciation/amortisation	(4,369)	(5,260)	(7,276)		(8,613)	(8,744)
Op Ebit	**(16,472)**	**(4,840)**	**9,255**		**43,987**	**96,513**
Net interest inc/(exp)	6,328	7,750	6,773	*(12.6)*	7,559	7,695
Other non-Op items	1	0	-		-	-
Profit before tax	**(10,143)**	**2,910**	**16,028**	***450.8***	**51,546**	**104,208**
Taxation	-	600	-		-	(12,505)
Profit after tax	**(10,143)**	**3,510**	**16,028**	***356.6***	**51,546**	**91,703**
Minority interest	0	0	0		0	0
Net profit	**(10,143)**	**3,510**	**16,028**	***356.6***	**51,546**	**91,703**
Adjusted profit	**(10,144)**	**3,510**	**16,028**	***356.6***	**51,546**	**91,703**
Cashflow (Rsm)	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Operating profit	**(16,472)**	**(4,840)**	**9,255**		**43,987**	**96,513**
Depreciation/amortisation	4,369	5,260	7,276	*38.3*	8,613	8,744
Working capital changes	(1,393)	1,940	10,735	*453.4*	5,994	8,212
Other items	5,059	5,045	-		-	(12,505)
Net operating cashflow	**(8,437)**	**7,405**	**27,266**	***268.2***	**58,595**	**100,964**
Capital expenditure	(19,491)	(6,191)	(26,400)		(6,900)	(7,400)
Free cashflow	**(27,928)**	**1,214**	**866**	***(28.7)***	**51,695**	**93,564**
M&A/Others	24,061	2,721	28,406	*944*	(14,221)	8,095
Net investing cashflow	**4,570**	**(3,470)**	**2,006**		**(21,121)**	**695**
Increase in loans	-	-	-		-	-
Dividends	0	0	0		0	0
Net equity raised/other	(1,274)	(3,026)	(22,901)		(400)	(400)
Net financing cashflow	**(1,274)**	**(3,026)**	**(22,901)**		**(400)**	**(400)**
Incr/(decr) in net cash	(5,141)	909	6,371	*600.9*	37,073	101,259
Exch rate movements	0	0	0		0	0
Balance sheet (Rsm)	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Cash & equivalents	2,181	3,090	9,462	*206.2*	46,535	147,793
Accounts receivable	4,569	7,940	6,638	*(16.4)*	11,594	17,182
Other current assets	78,088	38,020	75,928	*99.7*	98,879	99,749
Fixed assets	6,432	9,950	30,559	*207.1*	30,509	30,828
Investments	67,646	116,450	96,450	*(17.2)*	96,450	96,450
Intangible assets	57,071	54,710	52,627	*(3.8)*	50,964	49,301
Other non-current assets	0	0	-		-	0
Total assets	**215,987**	**230,160**	**271,664**	***18***	**334,931**	**441,304**
Short-term debt	-	-	-		-	-
Accounts payable	6,798	8,860	21,080	*137.9*	32,801	47,471
Other current liabs	9,591	9,750	9,750	*0*	9,750	9,750
Long-term debt/CBs	5,066	7,490	4,662	*(37.8)*	4,662	4,662
Provisions/other LT liabs	-	0	0		0	0
Shareholder funds	194,598	204,130	236,241	*15.7*	287,787	379,490
Minorities/other equity	(66)	(70)	(70)		(70)	(70)
Total liabs & equity	**215,987**	**230,160**	**271,664**	***18***	**334,931**	**441,304**
Ratio analysis	**2023A**	**2024A**	**2025CL**	***(% YoY)***	**2026CL**	**2027CL**
Revenue growth (% YoY)	68.9	71.1	58.8		48.2	38.1
Ebitda margin (%)	(17.1)	0.3	8.6		18.5	26.7
Ebit margin (%)	(23.3)	(4.0)	4.8		15.4	24.5
Net profit growth (%)	nm	nm	356.6		221.6	77.9
Op cashflow growth (% YoY)	nm	nm	268.2		114.9	72.3
Capex/sales (%)	27.5	5.1	13.7		2.4	1.9
Net debt/equity (%)	1.5	2.2	(2.0)		(14.6)	(37.7)
Net debt/Ebitda (x)	(0.2)	10.5	-		-	-
ROE (%)	(5.6)	1.8	7.3		19.7	27.5
ROIC (%)	(13.5)	(5.3)	8.2		30.9	58.7

Source: www.clsa.com

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Blinkit to deliver growth for Zomato

Our assumptions for Blinkit reflect sizable growth towards 27CL, underlined by the following key metrics.

Blinkit is steering an upward trajectory towards 27CL

Blinkit key near-term assumptions

	FY24	FY25CL	FY26CL	FY27CL
Monthly transacting users (m)	4.8	10.8	18.8	26.8
Dark stores	526	976	1,776	2,176
MTC/dark store	9,125	11,066	10,586	12,316
Orders per MTC (per month)	3.53	3.71	3.89	4.28
Total orders (annual)	203	481	879	1,378
Orders per dark store per day	1,253	1,754	1,749	1,910
Average order value (Rs)	615	621	621	652
Gross order value (Rsm)	125,140	298,599	545,773	898,609
Take rate (%)	18	18	18	18
Revenue (Rsm)	23,020	58,559	112,947	192,900
Contribution (Rsm)	2,660	11,576	36,138	77,538
Contribution margin (on GOV) (%)	2.1	3.9	6.6	8.6
Adjusted Ebitda (Rsm)	(3,840)	526	19,563	60,134
Adjusted Ebitda margin (on GOV) (%)	(3.1)	0.2	3.6	6.7

Note: Adjusted Ebitda excludes ESOP expense and includes rental paid under AS-116 leases. Source: CLSA

Gross order volume set for substantial annual climbs into 2027

We expect a 139% increase in Blinkit's gross order value (GOV) in FY25, rising 83% YoY in FY26 and 65% YoY in FY27. Growth in GOV should largely come from higher monthly transacting users, a 5% YoY increase in monthly transaction frequency and flat average order value.

Our high MTC growth can be segregated as:

- **Growth in dark store count:** We expect most MTC growth to come from rapid expansion of dark store numbers. Dark store economics are now favourable.
- **Growth in MTC's per dark store:** We expect a modest increase in MTC's per dark store as more users start adopting quick commerce.

Assuming Blinkit's market share holds steady, only increasing from 40% to 41% by FY27, we expect overall quick commerce to acquire household penetration of 40% in urban India within the same timeframe.

Use of quick commerce could reach 40% of urban India by 27CL

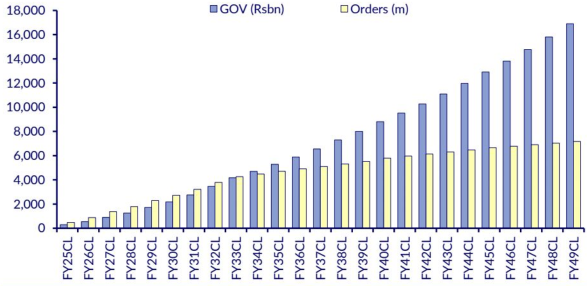
Expected penetration of quick commerce in top-50 cities

	FY24	FY25CL	FY26CL	FY27CL
Blinkit monthly transacting customers (m)	4.8	10.8	18.8	26.8
Market share of Blinkit (%)	40.0	40.3	40.5	41.0
Overall quick commerce users - Implied	12.0	26.8	46.4	65.4
Urban population	647.3	660.4	673.5	686.6
Average household size	4.30	4.26	4.22	4.18
Urban households	150.5	155.0	159.6	164.3
Household penetration of quick commerce (%)	8	17	29	40

Source: CLSA

GOV to be order driven in early years as Blinkit footprint expands

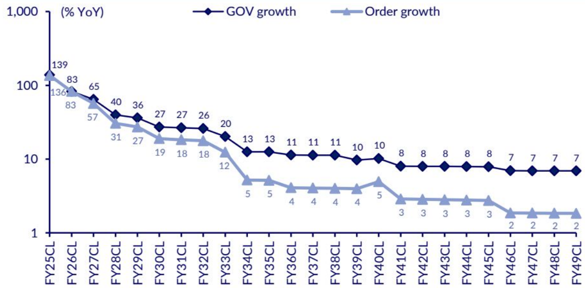
Blinkit gross order value (GOV) versus order quantity



Source: CLSA

We forecast YoY increases in GOV to normalise towards GDP growth within a decade

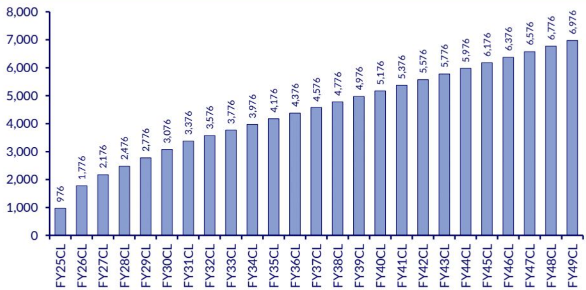
Blinkit YoY increases in GOV and order quantities



Source: CLSA

Substantial scale-up in stores between FY25-27CL before moderating

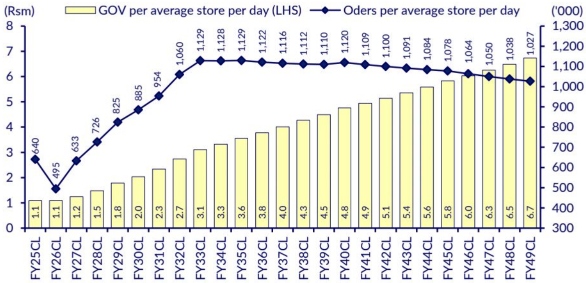
Blinkit dark stores



Source: CLSA

We model orders per store per day to mature at c.1,100 while GOV climbs steadily

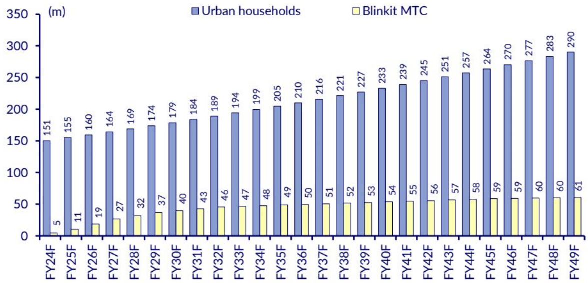
Blinkit GOV and orders per average store per day



Source: CLSA

We forecast 61m monthly transacting customers from urbanites of 290m by FY49

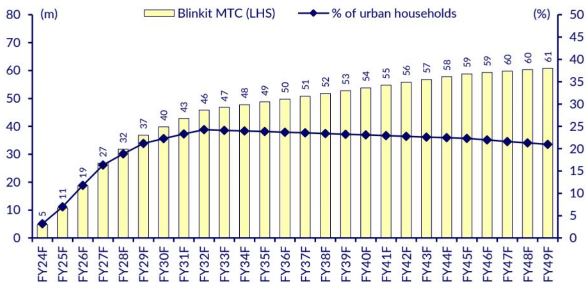
Urban households in India and Blinkit monthly transacting customers



Source: CLSA, United Nations population forecast

We project about a fourth of the urban population to use Blinkit

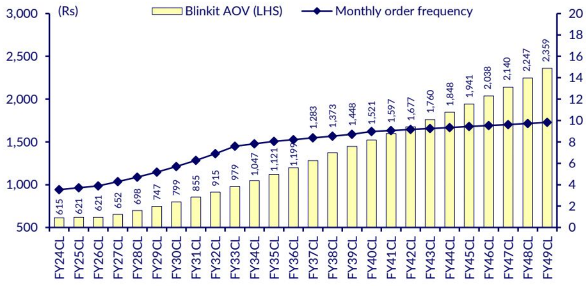
Blinkit MTC and percentage of urban population



Source: CLSA, United Nations population forecast

Average order value should rise gradually as Blinkit expands stores

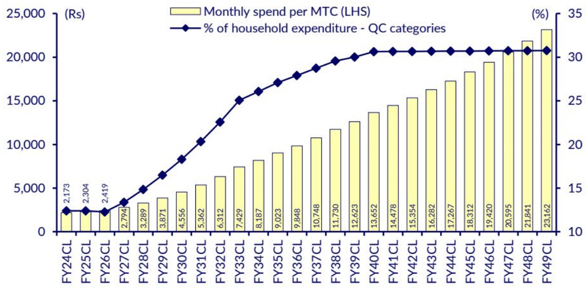
Blinkit average order value (AOV) and monthly order frequency per MTC



Source: CLSA

We estimate monthly spend to mature at about 31% of household use

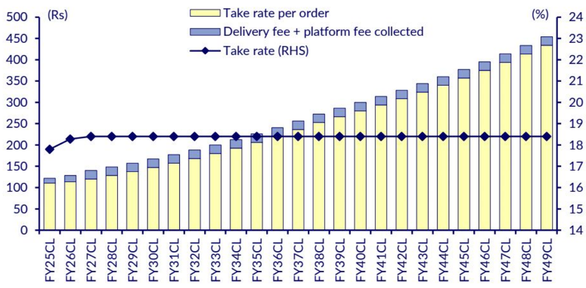
Blinkit monthly spend per MTC and as a percentage of household expenditure on QC categories



Source: CLSA

We expect take rate to remain flat as higher order values accumulate

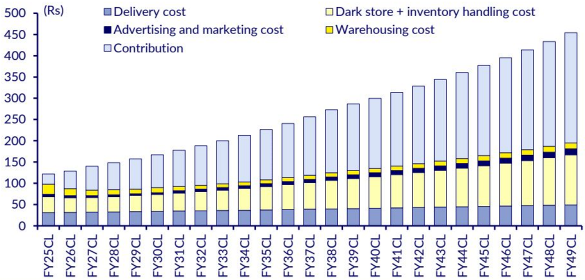
Blinkit take rate per order and customer fee and take rate before fee as percentage of AOV



Source: CLSA

Contribution rising with AOV, leveraging semi-fixed costs like warehousing

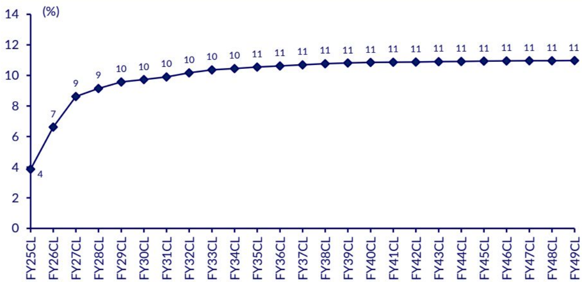
Costs and contribution per order



Source: CLSA

Margins rise with higher AOVs and stronger leverage of semi-fixed costs

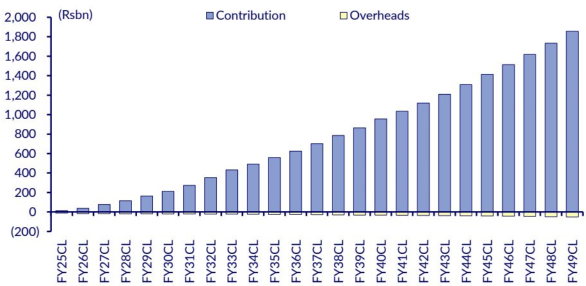
Blinkit contribution margin as percentage of GOV



Source: CLSA

FY25CL contribution similar to corporate overheads but gap to widen from FY26CL

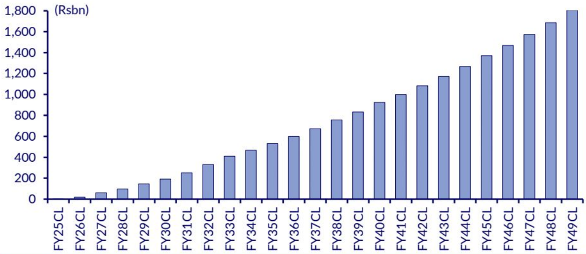
Blinkit contribution and overheads



Source: CLSA

Blinkit to accumulate adjusted Ebitda steadily towards FY49CL

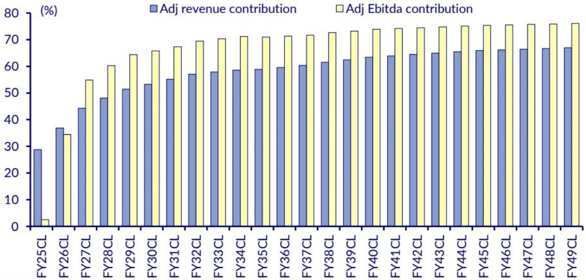
Blinkit adjusted Ebitda



Source: CLSA

Revenue rising from 29% in FY25CL to 67% by FY49CL

Blinkit adjusted revenue and Ebitda contribution to Zomato



Source: CLSA

We expect Blinkit's share of Zomato revenues to rise rapidly despite assuming a 10% Cagr for Zomato's currently larger food delivery business between FY24-49. Blinkit's share is rising as we build in a 22% revenue Cagr for Blinkit over the same period. We also believe Blinkit's margins could exceed food delivery over time given a much larger potential for advertising revenue and expansion into higher margin categories.

Dark store viability aids rapidity of expansion

Franchising is the muscle within the dark store sprint

Understanding the economics of a dark store is complex, especially when the dark store is given over to a franchise or owned by Blinkit. One reason Blinkit expands so rapidly is the franchising model, which achieves multiple objectives:

1. Limits required capital. Inventory ownership rests with the dark store owner or a third party, lowering Blinkit's working capital demands.
2. Given economics are favourable for the dark store operator, Blinkit can scale rapidly as many business operators seek a franchise.
3. Dark stores keep local businesses vigorous, especially in demand estimation and safeguarding local involvement. This reduces pressure on local traders and the kirana shops, in non-Indian terms neighborhood grocery stores or convenience stores, since the Blinkit franchise is run by local businesses and employs the local population as store employee and delivery staff.

Blinkit economics of a franchised dark store from the perspective of the franchisee

Dark store economics				Current level				Best stores
AOV	615	615	615	615	615	615	615	1,000
Margin (%)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Orders/day	250	500	1,000	1,355	1,500	1,600	2,000	4,000
Revenue/day	6,919	13,838	27,675	37,500	41,513	44,280	55,350	180,000
(Rs '000)								
Revenue/year	2,525	5,051	10,101	13,687	15,152	16,162	20,203	65,700
Rent cost (3,500 sf) - opportunity cost	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Staff cost								
Supervisor	720	720	720	720	720	720	720	720
Labour - 15/20/30	3,600	3,600	4,800	4,800	4,800	4,800	7,200	12,000
Utilities	360	360	360	360	360	360	360	360
Working capital cost	554	1,107	2,214	3,000	3,321	3,542	4,428	14,400
Profit	(6,908)	(4,936)	(2,193)	607	1,751	2,540	3,295	34,020
Deposit - refundable	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
ROE (%)	**(86)**	**(62)**	**(27)**	**8**	**22**	**32**	**41**	**425**
Annual sales @ AOV	56,119	112,238	224,475	304,164	336,713	359,160	448,950	1,460,000
Working capital needed	4,613	9,225	18,450	25,000	27,675	29,520	36,900	120,000
Cost of working capital	554	1,107	2,214	3,000	3,321	3,542	4,428	14,400
Calculating population density required								
Orders per 2 minutes - 16-hour day	0.5	1.0	2.1	2.8	3.1	3.3	4.2	8.3
Orders per 20 mins - 16-hour day	5.2	10.4	20.8	28.2	31.3	33.3	41.7	83.3
Orders per month	5	5	5	5	5	5	5	5
Orders per day	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Market share - quick commerce (%)	25	25	25	25	25	25	25	25
Household density needed for order count	6,000	12,000	24,000	32,520	36,000	38,400	48,000	96,000
Area of 2km delivery radius	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56
Population density/km^2	1,911	3,822	7,643	10,357	11,465	12,229	15,287	30,573

Source: CLSA

More franchised dark stores than wholly owned

Blinkit continues to own a small number of dark stores, often holding at least one outlet in each town. This wholly owned dark store serves as a benchmark for best practices and facilitates Blinkit's organic innovations infusing their franchise community. While owned dark stores are more profitable, albeit at the cost of higher capex and working capital, in our view Blinkit will err towards more franchising as it reduces the risk of protests from local businesses, often seeking redress for commercial losses.

Blinkit economics of an owned dark store

				Current level				Best stores
AOV	615	615	615	615	615	615	615	1,000
Margin (%)	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Orders/day	250	500	1,000	1,355	1,500	1,600	2,000	4,000
Revenue/day	28,385	56,770	113,540	153,847	170,310	181,664	227,080	738,471
(Rs '000)								
GOV/year	56,119	112,238	224,475	304,164	336,713	359,160	448,950	1,460,000
Revenue/year	10,361	20,721	41,442	56,154	62,163	66,307	82,884	269,542
Rent cost (5,000 sf)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Staff cost								
Supervisor	720	720	720	720	720	720	720	720
Labour - 15/20/30	3,600	3,600	4,800	4,800	4,800	4,800	7,200	12,000
Utilities	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Packing material (Rs 2 per order)	183	365	730	989	1,095	1,168	1,460	2,920
Working capital cost	554	1,107	2,214	3,000	3,321	3,542	4,428	14,400
Contribution profit @ dark store	(1,895)	7,729	25,778	39,445	45,027	48,877	61,876	232,302
Contribution margin @ dark store (%)	(3.4)	6.9	11.5	13.0	13.4	13.6	13.8	15.9
Delivery cost	2,738	5,475	10,950	14,837	16,425	17,520	21,900	43,800
Contribution profit @ dark store after delivery	(4,633)	2,254	14,828	24,608	28,602	31,357	39,976	188,502
Contribution margin @ dark store after delivery (%)	(8)	2	7	8	8	9	9	13
Capex on dark store	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
ROE (%)	**(93)**	**45**	**297**	**492**	**572**	**627**	**800**	**3,770**
Annual sales @ AOV	56,119	112,238	224,475	304,164	336,713	359,160	448,950	1,460,000
Working capital needed	4,613	9,225	18,450	25,000	27,675	29,520	36,900	120,000
Cost of working capital	554	1,107	2,214	3,000	3,321	3,542	4,428	14,400
Orders per 2 minutes - 16-hour day	0.5	1.0	2.1	2.8	3.1	3.3	4.2	8.3

Source: CLSA

Dark store economics for Blinkit (dark store owned by Blinkit)								
Dark store economics				Current level				Efficient stores
AOV	580	580	580	580	580	580	580	580
Margin (%)	13.0	14.0	15.0	16.0	17.0	17.2	17.4	17.6
Orders/day	250	500	1,000	1,407	1,500	1,600	2,000	4,000
Revenue/day	18,850	40,600	87,000	130,570	147,900	159,616	201,840	408,320
(Rs '000)								
GOV/year	52,925	105,850	211,700	297,862	317,550	338,720	423,400	846,800
Revenue/year	6,880	14,819	31,755	47,658	53,984	58,260	73,672	149,037
Rent cost (3,500 sf) - opportunity cost	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Warehouse operator cost	1,482	2,858	5,504	7,447	7,939	8,468	10,585	21,170
Staff cost								
Supervisor	720	720	720	720	720	720	720	720
Labour - 15/20/30	3,600	3,600	3,600	3,600	3,600	4,800	4,800	7,200
Utilities	360	360	360	360	360	360	360	360
Packing material	228	456	913	1,130	1,150	1,168	1,460	2,920
Working capital cost	522	1,044	2,088	2,938	3,132	3,341	4,176	8,352
Contribution profit	(4,232)	1,581	14,370	27,264	32,883	35,203	47,371	104,115
Contribution margin (%)	(8.0)	1.5	6.8	9.2	10.4	10.4	11.2	12.3
Capex on warehouse and dark store	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
ROE (%)	**(21)**	**8**	**72**	**136**	**164**	**176**	**237**	**521**
Annual sales @ AOV	52,925	105,850	211,700	297,862	317,550	338,720	423,400	846,800
Working capital needed	4,350	8,700	17,400	24,482	26,100	27,840	34,800	69,600
Cost of working capital	522	1,044	2,088	2,938	3,132	3,341	4,176	8,352
Calculating density required								
Orders per 2 minutes - 16-hour day	0.5	1.0	2.1	2.9	3.1	3.3	4.2	8.3
Orders per 20 mins - 16-hour day	5.2	10.4	20.8	29.3	31.3	33.3	41.7	83.3
Orders per month	5	5	5	5	5	5	5	5
Orders per day	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Market share - quick commerce (%)	25	25	25	25	25	25	25	25
Household density needed for order count	6,000	12,000	24,000	33,768	36,000	38,400	48,000	96,000
Factor to convert households to population density assuming a 2km service radius	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56
Population density/sq. km	1,911	3,822	7,643	10,754	11,465	12,229	15,287	30,573

Source: CLSA

Price target based on equal-weighted blend of PE and DCF valuations

Valuation

We continue to value Zomato using an equal-weighted blend of FY26CL PE and DCF. We adjust our FY25 earnings estimates down 12%, which reflects lower other income (income on investments) as Zomato used cash for the acquisition of Paytm's entertainment ticketing business, but incorporates minor changes of under 2% in our FY26-27 estimates. We raise our target price from Rs350 to Rs353 to take into account higher growth for Zomato's out-of-home business with the acquisition of the Paytm business in our DCF. However, our PE-based value decreases to reflect lower earnings due to lower income on investments. Our valuation methodology is unchanged.

We raise our target price from RS350 to Rs353 to reflect Paytm acquisition

Calculation of new target price			
(Rs)	Implied price	Weight (%)	Contribution
DCF	411	50	206
Relative PE	294	50	147
New target price			**353**

Source: CLSA

Calculation of target price - old			
(Rs)	Implied price	Weight (%)	Contribution
DCF	400	50	200
Relative PE	300	50	150
Target price			**350**

Source: CLSA

We expect Blinkit to have faster expansion and higher profits than DMart

Relative valuation

We value the food delivery business at a 49x FY26CL PE, representing a 15% discount to our 58x average quick-service restaurant (QSR) peer group PE multiple. Our food delivery discount is better than the 30% QSR discount because we believe Zomato's profitability is sustainable and growth is significantly faster than the QSRs. However, QSR models have a proven track record over cycles, while food delivery remains a relatively new business. Hence we use a 15% discount to the QSR multiple.

Zomato's relative PE valuation split between food delivery and Blinkit

We value the Blinkit business using a 57x multiple, a 15% discount to our target multiple for DMart. While Blinkit is growing significantly faster than DMart, we believe profitability is still much lower than DMart. In addition, while the DMart model has proven itself over years, the quick commerce business model is still evolving, leading to a higher degree of uncertainty. We believe the lower profitability and higher uncertainty offset by higher growth justifies a 15% discount to DMart's valuation.

Using relative PE, we value food delivery at Rs174 and Blinkit at Rs120

Relative PE valuation - new	
Food delivery	
Average QSR peer group multiple (x)	58
Discount (%)	15
Discounted multiple (x)	49
March 2026CL EPS (food delivery and others)	3.55
Food delivery and others - valuation (Rs)	174
Blinkit	
Our DMart target multiple (x)	67
Discount (%)	15
Discounted multiple (x)	57
March 2026CL EPS (Blinkit)	2.11
Blinkit valuation (Rs)	120
Overall relative valuation (rounded)	**294**

Source: CLSA

New relative PE valuation is very close to the old

Relative PE valuation - old	
Food delivery	
Average QSR peer group multiple (x)	58
Discount (%)	15
Discounted multiple (x)	49
March 2026CL EPS (food delivery and others)	3.62
Food delivery and others - valuation (Rs)	177
Blinkit	
Our DMart target multiple (x)	67
Discount (%)	15
Discounted multiple (x)	57
March 2026CL EPS (Blinkit)	2.15
Blinkit valuation (Rs)	123
Overall relative valuation (rounded)	**300**

Source: CLSA

We value DMart at 67x PE, equivalent to 1sd below its 12M forward PE multiple

We believe a comparison with DMart is most relevant given the overlap in categories and the shared market. Delving deeper into our valuation multiple for DMart reveals why we think it deserves a premium to global peers.

DMart 1-year forward PE

Source: CLSA, Bloomberg

DMart's premium valuation arises from elevated growth and superior execution

DMart's premium to global retailers

Source: CLSA, Bloomberg

Common size income statement for big box retailers

	DMart FY23	Walmart 2023	Costco 2022	Tesco FY23	Aldi UK 2022	Lidl Great Britain FY23	Carrefour 2022
Sales	100	100	100	100	100	100	100
COGS	85.5	76.5	89.5	94.3	96.5	79	80.4
Gross profit	**14.5**	**23.5**	**10.5**	**5.7**	**3.5**	**21**	**19.6**
SG&A	7.0	21.0	8.9	3.2	2.3	20.7	16.8
Operating profit	**7.4**	**2.5**	**1.6**	**2.4**	**1.2**	**0.3**	**2.9**

Source: CLSA

Out DCF valuation culminates in an implied upside of 64%

Zomato: DCF assumptions and result	
Risk-free rate (%)	7.00
Market-risk premium (%)	5.25
Beta	1.4
COE	14.4
WACC	14.4
Terminal growth	4.0
	(Rsm)
Estimated terminal cash flow	1,904,499
Terminal value	18,400,959
NPV of forecasts	2,740,411
NPV as of terminal value	736,499
EV	3,476,910
Net cash	116,280
Implied market cap	3,593,190
Diluted number of shares (m)	8,755
Implied stock price (Rs)	411
Current stock price	250.53
Implied upside (%)	64

Source: CLSA

We assume a 1.4 beta and 4% terminal growth rate

Our beta is based on Bloomberg, the global financial information company that provides data and business analytics. Given the volatility in earnings and stock price of Zomato, we believe a Beta of 1.4 is justified. Our terminal growth rate of 4% aligns with our assumption of long-term real GDP growth.

Blinkit contributes almost two-thirds of our DCF valuation for Zomato

We run a DCF for Blinkit to estimate what proportion of Zomato's value can be attributable to Blinkit. While it is hard to reach a precise estimate since we have to make assumptions on how certain items like other income, finance cost and working capital are allocated between Blinkit and DMart's other businesses, Blinkit contributes almost two-thirds of our DCF valuation for Zomato.

Blinkit: Financial projections FY25-32

	FY25CL	FY26CL	FY27CL	FY28CL	FY29CL	FY30CL	FY31CL	FY32CL
Adj. Ebitda	(1,003)	18,049	58,469	94,733	142,947	190,331	250,682	330,351
Depreciation (assuming majority is for Blinkit)	(6,330)	(7,517)	(7,617)	(7,722)	(6,066)	(6,465)	(6,980)	(7,565)
Ebit	(7,333)	10,532	50,852	87,011	136,881	183,865	243,701	322,786
Other income (40% of Zomato other income)	2,869	3,183	3,238	4,968	7,264	10,505	14,536	19,655
Finance Cost (50% of Zomato finance cost)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
PBT	(4,664)	13,515	53,890	91,780	143,945	194,171	258,037	342,241
Tax paid	-	-	(6,467)	(13,767)	(24,471)	(36,892)	(54,188)	(75,293)
tax rate	-	-	12	15	17	19	21	22
NOPAT	(7,333)	10,532	44,385	73,244	112,410	146,973	189,514	247,493
Depreciation add back	6,330	7,517	7,617	7,722	6,066	6,465	6,980	7,565
Change in working capital (assuming 50%)	5,368	2,997	4,106	4,419	6,386	7,046	6,886	8,500
Operating cash flow	4,365	21,046	56,108	85,385	124,862	160,484	203,380	263,558
Capex	(5,175)	(5,580)	(6,030)	(6,521)	(7,058)	(7,648)	(8,300)	(9,024)
Free cash flow	(810)	15,466	50,078	78,865	117,805	152,836	195,079	254,535
% of Zomato FCF		26	49	54	58	59	59	61

Source: CLSA

Blinkit: Financial projections FY33-41

	FY33CL	FY34CL	FY35CL	FY36CL	FY37CL	FY38CL	FY39CL	FY40CL	FY41CL
Adj. Ebitda	408,909	466,783	532,220	599,354	674,369	758,142	836,467	927,082	1,004,514
Depreciation (assuming majority is for Blinkit)	(8,230)	(8,986)	(9,846)	(10,827)	(11,945)	(13,221)	(14,678)	(16,342)	(18,244)
Ebit	400,680	457,798	522,374	588,527	662,423	744,921	821,790	910,740	986,270
Other income (40% of Zomato other income)	26,227	34,225	43,157	53,526	65,283	78,686	93,801	110,622	129,432
Finance Cost (50% of Zomato finance cost)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
PBT	426,707	491,823	565,331	641,854	727,507	823,407	915,391	1,021,162	1,115,502
Tax paid	(98,143)	(118,038)	(141,333)	(160,463)	(181,877)	(205,852)	(228,848)	(255,291)	(278,875)
tax rate	23	24	25	25	25	25	25	25	25
NOPAT	302,537	339,760	381,041	428,064	480,547	539,069	592,942	655,450	707,394
Depreciation add back	8,230	8,986	9,846	10,827	11,945	13,221	14,678	16,342	18,244
Change in working capital (assuming 50%)	8,037	3,945	7,687	6,154	7,644	7,644	7,303	9,112	7,288
Operating cash flow	318,804	352,691	398,574	445,045	500,136	559,935	614,923	680,904	732,927
Capex	(9,828)	(10,726)	(11,732)	(12,862)	(14,134)	(15,570)	(17,195)	(19,036)	(21,127)
Free cash flow	308,976	341,965	386,842	432,183	486,002	544,364	597,728	661,868	711,800
% of Zomato FCF	61	61	59	59	58	58	57	57	56

Source: CLSA

Blinkit: Financial projections FY42-49

	FY42CL	FY43CL	FY44CL	FY45CL	FY46CL	FY47CL	FY48CL	FY49CL
Adj. Ebitda	1,088,034	1,178,099	1,275,198	1,379,857	1,478,626	1,584,377	1,697,589	1,818,778
Depreciation (assuming majority is for Blinkit)	(20,419)	(22,908)	(25,757)	(29,018)	(32,754)	(37,035)	(41,942)	(47,567)
Ebit	1,067,614	1,155,191	1,249,441	1,350,838	1,445,872	1,547,342	1,655,647	1,771,211
Other income (40% of Zomato other income)	150,037	172,640	197,386	224,438	253,974	285,969	320,664	358,233
Finance Cost (50% of Zomato finance cost)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
PBT	1,217,451	1,327,630	1,446,627	1,575,076	1,699,646	1,833,110	1,976,111	2,129,244
Tax paid	(304,363)	(331,908)	(361,657)	(393,769)	(424,912)	(458,278)	(494,028)	(532,311)
tax rate	25	25	25	25	25	25	25	25
NOPAT	763,252	823,283	887,785	957,069	1,020,961	1,089,064	1,161,620	1,238,900
Depreciation add back	20,419	22,908	25,757	29,018	32,754	37,035	41,942	47,567
Change in working capital (assuming 50%)	8,405	9,235	9,959	10,739	10,019	11,371	12,207	13,106
Operating cash flow	792,076	855,426	923,500	996,827	1,063,734	1,137,470	1,215,768	1,299,573
Capex	(23,504)	(26,210)	(29,296)	(32,817)	(36,840)	(41,439)	(46,701)	(52,725)
Free cash flow	768,573	829,216	894,204	964,010	1,026,894	1,096,031	1,169,067	1,246,848
% of Zomato FCF	55	54	53	53	52	51	50	50

Source: CLSA

Our DCF-based abacus sums to a Blinkit valuation of Rs268 per Zomato share

Blinkit only: DCF assumptions and result

Risk-free rate (%)	7.00
Market-risk premium (%)	5.25
Beta	1.4
CoE (%)	14.4
WACC (%)	14.4
Terminal growth (%)	4.0
	(Rsm)
Estimated terminal cash flow	1,351,556
Terminal value	13,058,508
NPV of forecasts	1,813,305
NPV as of terminal value	522,668
EV	2,,335,973
Net cash (assuming 0% of current cash for Blinkit)	-
Implied market cap	2,335,973
Zomato - diluted number of shares (m)	8,755
Implied Blinkit valuation per Zomato share (Rs)	268

Source: CLSA

Investment thesis

Turnaround in India's food delivery business is underway, exhibiting positive momentum in monthly transacting users with higher order frequencies that energise contribution and Ebitda margins. Strengthening the transacting customer base is driving increased visibility about contribution, breakeven points and profitability, galvanising higher valuations.

Catalysts

1. Continued increase in ordering frequency and customer adds in food delivery driven by its loyalty programme, Zomato Gold.2. An increase in customer adds for quick commerce with geographical expansion and widening dark store network.

Valuation details

Our target price is based on a 50/50 blend between DCF and relative PE valuations, reflecting Zomato's long-term growth and short-term momentum. For the PE portion, we value Zomato's food delivery business using a 49x target multiple applied to March 2026CL EPS. This represents a 15% discount to our 58x quick-service restaurant (QSR) coverage universe, which is based on Jubilant's past 10-year average. We value Blinkit at 57x PE, a 15% discount to the 67x multiple we use for DMart. Since DMart's profitability is much higher and the business model is more stable, we believe this discount for Blinkit is valid. For our target price's other half, we base our DCF on 25 years of explicit forecasts to better model the growth opportunity for consumption in India, as we believe low penetration levels, rising incomes and a young population offer a long runway for sales growth. We discount our cashflow assumptions at a WACC of 14.4% and use a 4% terminal growth rate beyond our explicit forecasts.

Investment risks

Risks include subdued urban consumer sentiment hindering growth, elevated competitive intensity, and regulatory strictness. Significant consumer adoption of the Open Network for Digital Commerce (ONDC) grid could have some negative impact on take rates, representing another key risk.

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Detailed financials

Profit & Loss (Rsm)

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Revenue	**19,938**	**41,924**	**70,794**	**121,140**	**192,358**	**285,058**	**393,797**
Cogs (ex-D&A)	(1,919)	(5,246)	(13,952)	(28,820)	(41,050)	(45,896)	(54,252)
Gross Profit (ex-D&A)	**18,019**	**36,678**	**56,842**	**92,320**	**151,307**	**239,162**	**339,545**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	(5,271)	(12,168)	(12,274)	(14,320)	(18,393)	(23,063)	(28,527)
Other SG&A	-	-	-	-	-	-	-
Other Op Expenses ex-D&A	(17,420)	(43,018)	(56,671)	(77,580)	(116,383)	(163,499)	(205,762)
Op Ebitda	**(4,672)**	**(18,508)**	**(12,103)**	**420**	**16,531**	**52,601**	**105,256**
Depreciation/amortisation	(1,377)	(1,334)	(4,369)	(5,260)	(7,276)	(8,613)	(8,744)
Op Ebit	**(6,049)**	**(19,842)**	**(16,472)**	**(4,840)**	**9,255**	**43,987**	**96,513**
Interest income	1,246	4,949	6,815	8,470	7,173	7,959	8,095
Interest expense	(101)	(120)	(487)	(720)	(400)	(400)	(400)
Net interest inc/(exp)	1,146	4,829	6,328	7,750	6,773	7,559	7,695
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	0	0	0	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	(3,248)	2,974	1	-	-	-	-
Profit before tax	**(8,151)**	**(12,039)**	**(10,143)**	**2,910**	**16,028**	**51,546**	**104,208**
Taxation	(13)	(20)	-	600	-	-	(12,505)
Profit after tax	**(8,164)**	**(12,059)**	**(10,143)**	**3,510**	**16,028**	**51,546**	**91,703**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**(8,164)**	**(12,059)**	**(10,143)**	**3,510**	**16,028**	**51,546**	**91,703**
Minority interest	36	138	0	0	0	0	0
Net profit	**(8,128)**	**(11,921)**	**(10,143)**	**3,510**	**16,028**	**51,546**	**91,703**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	(8,128)	(11,921)	(10,143)	3,510	16,028	51,546	91,703
Dividends	-	-	-	-	-	-	-
Retained profit	(8,128)	(11,921)	(10,143)	3,510	16,028	51,546	91,703
Adjusted profit	**(4,875)**	**(14,900)**	**(10,144)**	**3,510**	**16,028**	**51,546**	**91,703**
EPS (Rs)	(1.5)	(1.6)	(1.3)	0.4	1.8	5.7	9.9
Adj EPS [pre excep] (Rs)	(0.9)	(2.1)	(1.3)	0.4	1.8	5.7	9.9
Core EPS (Rs)	(1.5)	(1.6)	(1.3)	0.4	1.8	5.7	9.9
DPS (Rs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Profit & loss ratios

Year to 31 March	2021A	2022A	2023A	2024A	2025CL	2026CL	2027CL
Growth (%)							
Revenue growth (% YoY)	(23.5)	110.3	68.9	71.1	58.8	48.2	38.1
Ebitda growth (% YoY)	nm	nm	nm	nm	3,835.8	218.2	100.1
Ebit growth (% YoY)	nm	nm	nm	nm	nm	375.3	119.4
Net profit growth (%)	nm	nm	nm	nm	356.6	221.6	77.9
EPS growth (% YoY)	nm	nm	nm	nm	347.7	215.6	74.1
Adj EPS growth (% YoY)	nm	nm	nm	nm	347.7	215.6	74.1
DPS growth (% YoY)	-	-	-	-	-	-	-
Core EPS growth (% YoY)	nm	nm	nm	nm	347.7	215.6	74.1
Margins (%)							
Gross margin (%)	90.4	87.5	80.3	76.2	78.7	83.9	86.2
Ebitda margin (%)	(23.4)	(44.1)	(17.1)	0.3	8.6	18.5	26.7
Ebit margin (%)	(30.3)	(47.3)	(23.3)	(4.0)	4.8	15.4	24.5
Net profit margin (%)	(40.8)	(28.4)	(14.3)	2.9	8.3	18.1	23.3
Core profit margin	(40.8)	(28.4)	(14.3)	2.9	8.3	18.1	23.3
Op cashflow margin	(51.1)	(16.5)	(11.9)	6.1	14.2	20.6	25.6
Returns (%)							
ROE (%)	(20.1)	(9.9)	(5.6)	1.8	7.3	19.7	27.5
ROA (%)	(10.4)	(15.3)	(8.5)	(2.6)	3.7	14.5	21.9
ROIC (%)	(20.4)	(23.2)	(13.5)	(5.3)	8.2	30.9	58.7
ROCE (%)	(14.3)	(16.5)	(9.2)	(2.4)	4.2	18.4	40.0
Other key ratios (%)							
Effective tax rate (%)	(0.2)	(0.2)	0.0	(20.6)	0.0	0.0	12.0
Ebitda/net int exp (x)	-	-	-	-	-	-	-
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	-	-	-	0.0	0.0	0.0	0.0

Source: www.clsa.com

Notes

Zepto: Kiranakart Technologies Pvt Ltd

Ticking the right boxes

One of the three major players in the exploding quick-commerce market

Zepto is one of the three leading players in India's fast-growing quick commerce market. The firm has more than 400 dark stores across 15 cities, serviced by over 30 mother hubs/warehouses. The recently launched Zepto Pass already has over 4m members and is helping the company improve customer loyalty and raise market share. Zepto's in-house meat brand Relish has been well received and the response to its newly launched Zepto Café has also been promising. Based on its last round of funding in August, Zepto is valued at US$5bn.

Substantial opportunity to sustain high growth

India's retail market is almost US$1tn today and quick commerce has a US$3.8bn gross merchandise value, representing about 0.4% market share. We believe quick commerce will accelerate the shift away from *kiranas* because it can offer lower prices, greater selection and delivery in 10-15 minutes. As per our estimates, Zepto currently has 28% market share in quick commerce.

Strong data and backend capabilities

Zepto has strong back-end capabilities through its in-house warehouse management system. This helps the company ensure smooth operations in a complex supply chain. As traffic on the app increases, Zepto is able to further tailor its product assortment to the needs of the local market, improving customer experience and reducing inventory requirements.

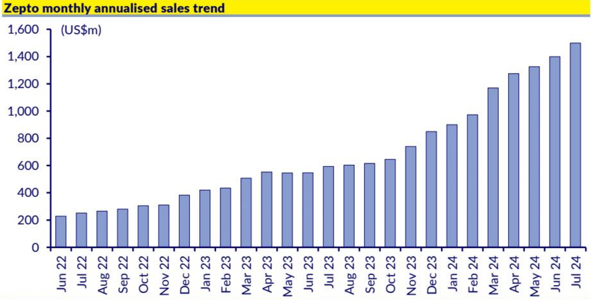
Zepto Pass: first mover advantage

The company recently launched the Zepto Pass at an affordable Rs19-59 per month price point, helping it reach over 3m members within three months of launch. While it reduces revenue per order, Zepto Pass has been able to increase customer loyalty, raising Zepto's market share and absolute contribution.

Zepto Café and private labels could be key growth levers

Zepto: Kiranakart Technologies Pvt Ltd. Zepto has launched an in-house brand 'Relish' for meat products and plans to introduce in-house brands for other products. In addition, the newly launched Zepto Café has been well received.

Zepto monthly annualised sales trend



Source: CLSA, Zepto

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*CLSA India Private Limited

3 September 2024

India

Consumer

Segment: Quick commerce

Company profile: Zepto

- One of the three leading players in quick commerce in India
- Operates over 400 dark stores across 15 cities in India
- Unique among quick commerce players because it operates its own kitchen for Zepto Cafe

Founding year 2021

Website
https://www.zeptonow.com/

Last known valuation
US$5.0bn (as of 30 August 2024 from Reuters)

Key investors
Y Combinator, General Catalyst, Mars Growth Capital, Epiq Capital, DST, Lightspeed, Goodwater Capital, Glade Brook Capital, Global Founders Capital, Breyer Capital, Contrary Capital, StepStone Group, Nexus Venture Partners and 2am VC

Stocks that could be disrupted
Hindustan Unilever (HUVR IB)
Marico (MRCO IB)

Click to rate this research
Great
Solid
Meh

10 things you need to know

1. Company profile and history

- Zepto was founded in 2021 as an online platform offering quick delivery of essential products during Covid-19. During the pandemic, a surge in demand for delivery services meant that groceries and other necessities would arrive in a couple of days, which created a void for quick delivery. Zepto was formed with the intention of filling this gap.

2. What is the target addressable market (TAM)?

- As per Euromonitor, India's retail market is valued at US$763bn as of today, out of which quick commerce has an estimated GMV of US$3.8bn (less than 0.5%).
- However, within this overall retail market there are categories that quick commerce does not cater to. Based on our estimates, we believe the current total addressable market for quick commerce stands at US$662bn. This does not include apparel and electronics.

3. What is the company's value proposition?

- Zepto is a quick-commerce marketplace providing grocery, home and personal care and other miscellaneous products at a discount to MRP in 10 minutes.
- Its in-house brands offering, Zepto Café, and the introduction of Zepto Pass differentiate it from other quick-commerce players.
- Zepto has a higher proportion of revenue coming from fruits and vegetables compared to Blinkit and Swiggy Instamart.

4. Who are the key competitors?

- Quick commerce is currently a three player market with Blinkit and Swiggy Instamart as the other players.
- Blinkit has 39% market share and is the market leader. Both Zepto and Swiggy Instamart have market share of approximately 28%.
- Zepto is currently present in 15 cities while Blinkit is present in over 30 cities and Swiggy Instamart in over 25 cities.

5. Who are the key persons?

- Aadit Palicha and Kaivalya Vohra are the two founders of Zepto. They are childhood friends.
- Aadit Palicha was born in 2002 in Dubai. He began his business career when he was just 17 years old. He founded a startup named GoPool, after which he went to Stanford University in the USA to study computer engineering.
- Kaivalya Vohra, who hails from Bengaluru, was raised in Dubai. He dropped out of Stanford University's coveted computer science programme at the age of 18 to start Zepto.

6. How does the company make money?

- Zepto purchases products from consumer companies at a discount to MRP. It sells these products to consumers through its application at a profit.
- The company also earns revenue through advertisements it displays for different brands on its application. While this stream is not very significant right now, it has the potential to become much bigger.

7. Who are the investors?

- Zepto's key investors include Y Combinator, General Catalyst, Mars Growth Capital, Epiq Capital, DST, Lightspeed, Goodwater Capital, Glade Brook Capital, Global Founders Capital, Breyer Capital, Contrary Capital, StepStone Group, Nexus Venture Partners and 2am VC.

8. What is the latest valuation and capital raised thus far?

- Zepto raised US$665m in June 2024 at a post-money valuation of US$3.6bn followed by$340m in August 2024 at a post-money valuation of US$5.0bn.
- Zepto has raised a total funding of US$1.6bn over nine rounds of capital raises.

9. Thematic tailwinds (or headwinds)?

- The company should benefit from the shift in favour of organised retail. As consumers prioritise convenience, quick commerce will become an important part of their lives. The new format also increases impulse demand and helps premiumise customers, which benefits the entire consumption space.
- Quick commerce segregates storage and discovery. While all SKUs are kept in a dark store with the objective to optimise space, consumer discovery happens on the app. This is different from a *kirana* where discovery and storage are in the same store.

10. What could go wrong?

- Entry of a fourth player: Quick commerce is currently a three-player market; Zomato is already listed on stock exchanges and Swiggy has filed for an IPO. Thus, it is in the best interests of the two competitors to focus on profitability.
- If the market for quick commerce does not expand to tier-2 and tier-3 cities, it can eventually lead to saturation among the top metro cities and thus impact long-term growth.

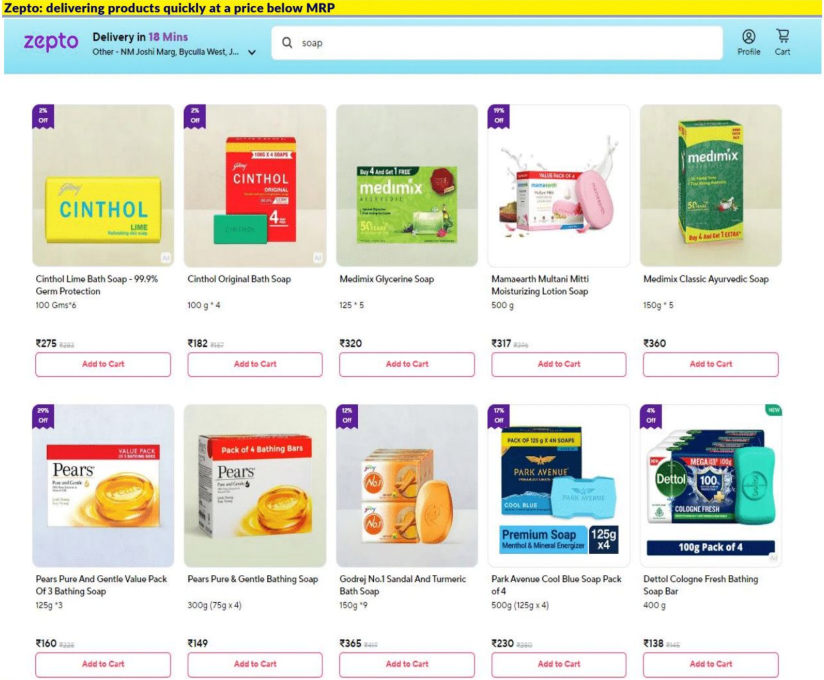
Source: CLSA, Zepto, Euromonitor, Multiple news sources

Zepto started selling groceries and daily essentials before expanding

Business model

Zepto is a quick-commerce marketplace providing products usually slightly below MRP or in some cases at MRP through its mobile application. While it started out selling groceries and daily essentials, it has expanded its assortment significantly to include home and personal care and other miscellaneous products.

Zepto: delivering products quickly at a price below MRP



Source: CLSA, Zepto

Add-on fees include small-cart fee, handling charge and platform fee

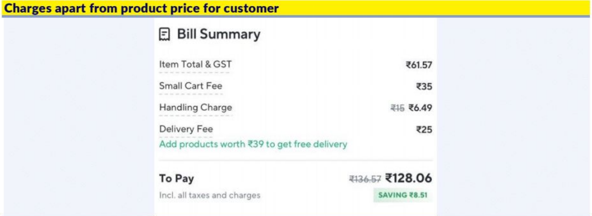
Apart from the spread between the price at which it purchases products from consumer companies and the price at which products are sold on its platform, Zepto also charges the following from its customers. A small-cart fee is charged to dissuade consumers from ordering a cart totalling a very small amount since the unit economics of such a cart do not make sense for the company. For orders where cart size is below Rs99, a 'small cart fee' of Rs35 is applied. This fee is called 'small cart fee' since it is only applied to a cart which has an overall value below a certain threshold. Currently at Rs6.5-Rs15 per transaction, a handling charge is applied to all orders irrespective of the cart value.

Delivery fees are confined to very small orders only

For orders below Rs99, a delivery fee of Rs25 is charged but the delivery fee component is removed if the cart value exceeds Rs99. If the customer has purchased a Zepto Pass, all orders above Rs99 have free delivery. While this may seem high for an order of Rs199, the average order value is Rs600, which means that this gets waived in most cases.

Service fees add up

Charges apart from product price for customer



Source: CLSA, Zepto

Key costs

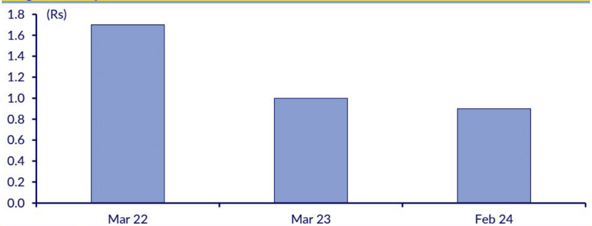
We can broadly segregate Zepto's costs into four buckets:

Frugal operating practices keeps warehousing and transport costs low

- **Costs associated with bringing products to the dark store:** these include costs of operating the warehouse/mother hub/delivery hub and transportation costs of sending products to the dark store. There is significant operating leverage to be tapped in these costs.

Long-haul costs have declined each year

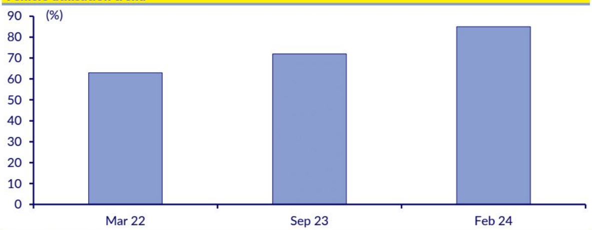
Long-haul cost per order



Source: CLSA, Zepto

Utilisation rates of vehicles are approaching 80%, meaning they are fairly full

Vehicle utilisation trend

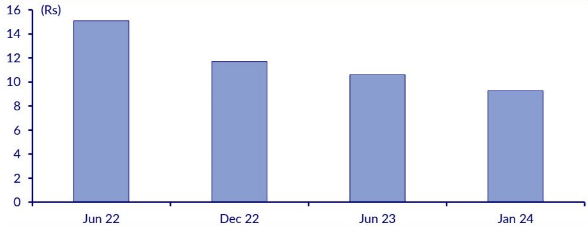


Source: CLSA, Zepto

- **Costs associated with running the dark store:** These include costs of packers, supervisors and security personnel within the dark store. This also includes the rental costs and miscellaneous expenses for a dark store (ie, water, electricity).

Handling costs within stores are trending to under Rs10 per order

Delivery Hub associate cost per order

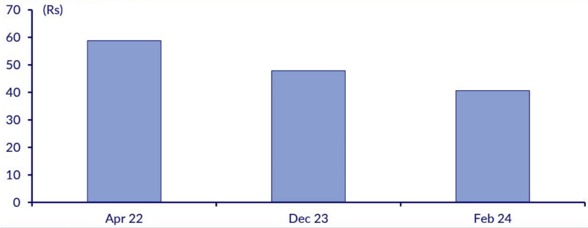


Source: CLSA, Zepto

- **Last mile costs and costs associated with delivering the products to consumers:** These would include costs associated with on boarding delivery partners, delivery costs, payment gateway costs, customer support costs and returns.

'Last mile' and other delivery costs are declining to about Rs40 per order

Last mile cost per order



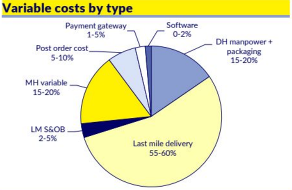
Source: CLSA, Zepto

- **Corporate overheads:** These included costs associated with senior management heading various functions, administrative costs and other miscellaneous corporate costs.

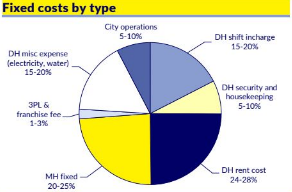
Another way of looking at costs is to segregate them into variable and fixed.

Fixed costs to operate a mother hub and to rent a delivery hub are 50%

Variable costs by type



Fixed costs by type



Note: DH stands for Delivery Hub (Dark store) and MH stands for Mother Hub. Source: CLSA, Zepto

Tech-enabled efficiency is key

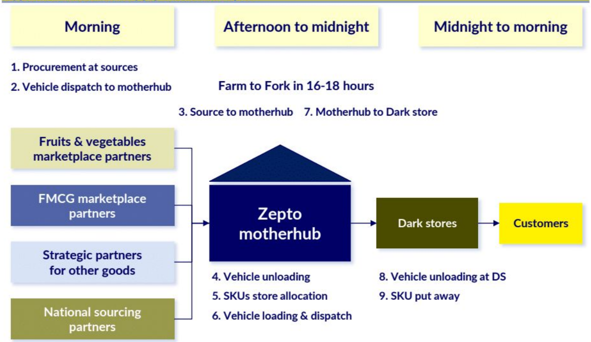
In-house warehouse management system

Warehousing tech and order handling software is designed in house

Such a complex supply-chain requires a strong tech-enabled warehouse management system and an efficient loading/unloading set-up. For this purpose, the company designed its own warehouse management system, which has streamline operations to increase efficiency.

Farm to fork in 16-18 hours

Typical activities in supply chain for Zepto



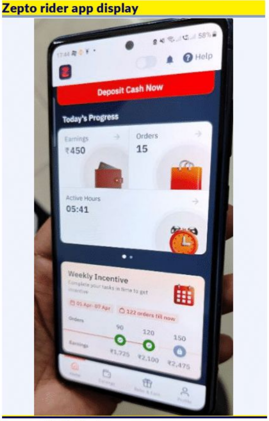
Source: CLSA, Zepto

Intuitive rider app

Zepto's rider app is intuitive and easy to use

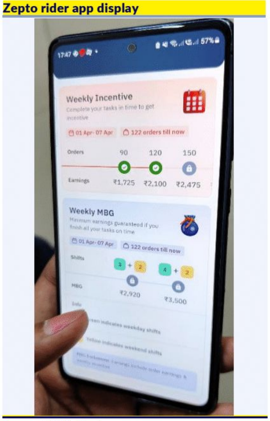
Since speed of delivery is important in quick commerce, it is essential that the rider app is intuitive and easy to understand.

Zepto rider app display



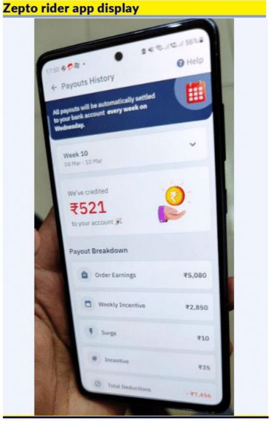
Source: CLSA, Zepto

Zepto rider app display



Source: CLSA, Zepto

Zepto rider app display

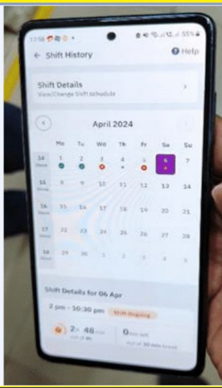


Source: CLSA, Zepto

The riders usually get a weekly incentive if they complete 90/120/150 orders in a week. This motivates them to stay on the app for a longer duration and complete more orders.

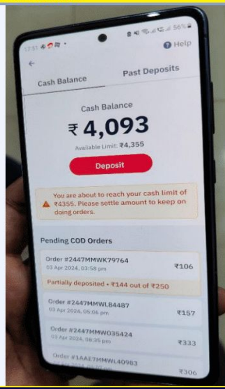
Intuitive rider app connects with a calendar for day-on-day efficiency

Rider shift



Source: CLSA, Zepto

Rider cash balance



Source: CLSA, Zepto

Dark store efficiencies

Various high-order density dark stores have come up with unique ways of reducing packing/handover time, which further sharpens the value chain and reduces delivery time.

Innovative storage in a dark store reduces delivery time

SKU stocking guidelines in a dark store

Source: CLSA, Zepto

Innovative storage in a dark store

Source: CLSA, Zepto

Zepto Café is a growth lever

Minor discounts on the Café app are outweighed by impulse purchases

The centralised operations design team have designed some innovative ways to ensure there is saving on the packing time and the speed of delivery is improved.

Additional growth levers

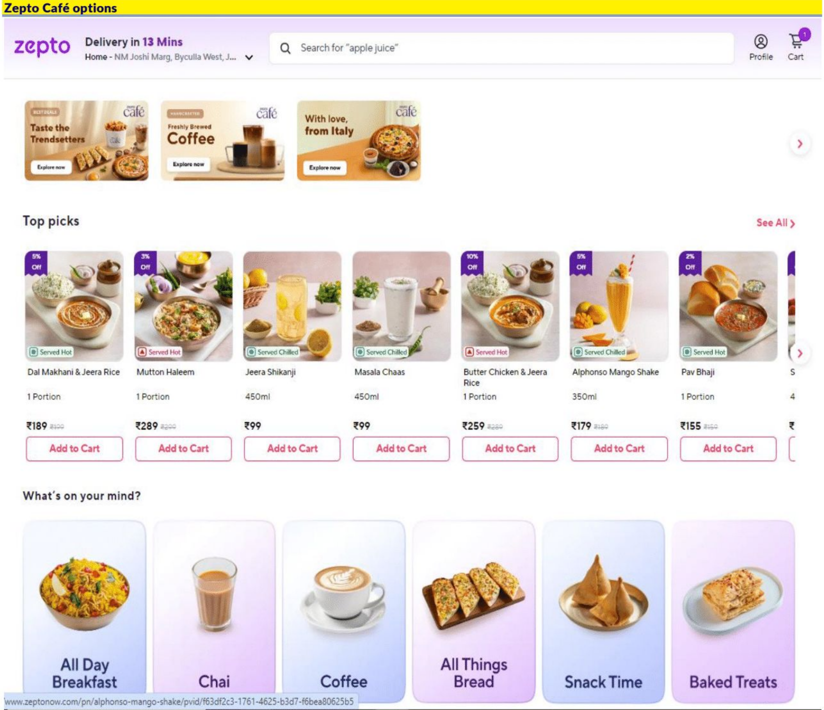
In our view, Zepto Café, Zepto Pass, private labels and ad revenue can be additional growth levers for Zepto.

Zepto Café expanding sales routes

Zepto Café is an option available on the Zepto app where you can purchase food and beverages at affordable prices. For most food items, pricing on Zepto Café is at a slight discount to other restaurants.

We believe Zepto Café can take a significant share of impulse purchases from QSR companies over time and hence it can also be seen as a structural risk to QSRs.

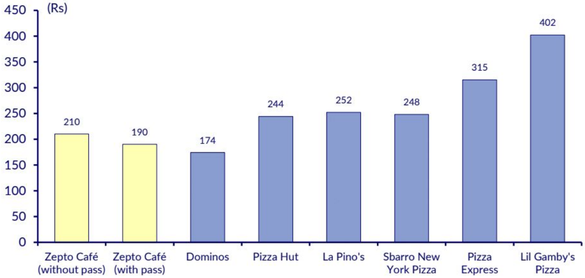
Zepto Café options



Source: CLSA, Zepto

Zepto Café sells cheaper pizzas at about Rs200 for basic margherita

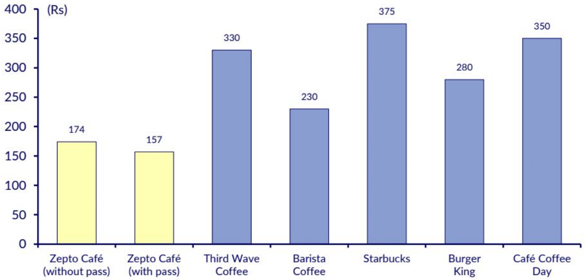
Current Zepto Café pricing for margherita pizza



Source: CLSA, Zepto

Zepto Café's coffee is only about Rs157 per cup

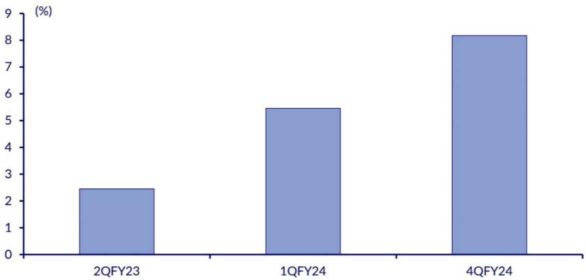
Current Zepto Café pricing for cold coffee



Source: CLSA

Zepto Café is increasing to about 8% share of customer spend

Zepto Café bill penetration



Source: CLSA

Revenue from advertising has reached Rs3-4bn

Ad revenue

Ad revenue has increased significantly as quick commerce growth has led to very high traffic. Currently, ad revenue constitutes 3.5% to 4.5% of GMV for Zepto, which should keep increasing as more and more brands realise the significance of quick commerce. On an absolute basis, advertising revenue is now around Rs3-4bn and growing very fast.

In addition to having ads of brands which are being sold on Zepto, Zepto can also advertise brands which are not selling products on Zepto through its order tracking page.

Zepto Pass, a loyalty programme, has already acquired over 4m users

Zepto Pass

Zepto introduced its loyalty program Zepto Pass in February 2024. Since then, it has scaled up rapidly, crossing 4m pass users within two months. While it is a loss-making proposition as of now (looking at it individually), it leads to higher customer loyalty, frequency and AOV as well.

Zepto Pass benefits

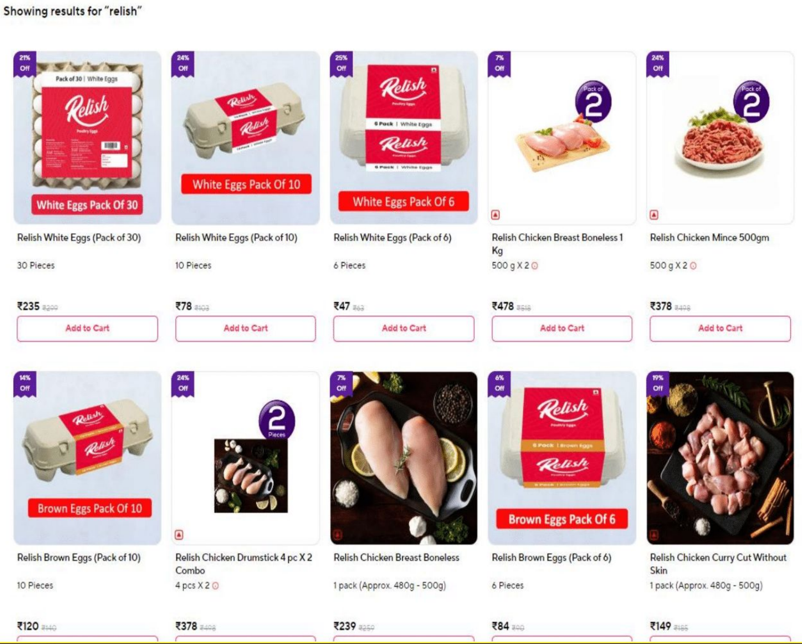
Source: CLSA, Zepto

Zepto has launched its own meat-oriented and poultry food brand called Relish

In-house brands

Zepto sells meat products under the in-house brand Relish. These products are available at a slight premium to the prices in the wet market but at a discount to other players. The GMV of the private label Relish has expanded at a rapid pace over the past few months.

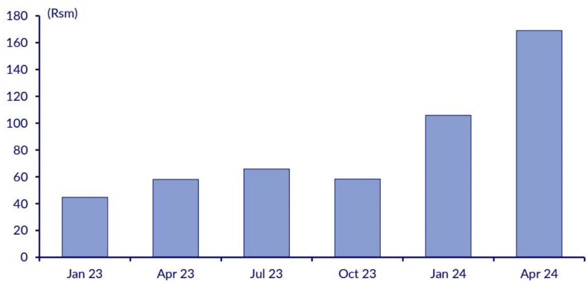
Private label Relish



Source: Zepto

Gross merchandise value (GMV) of meat is nearly Rs180m per month

GMV of meat



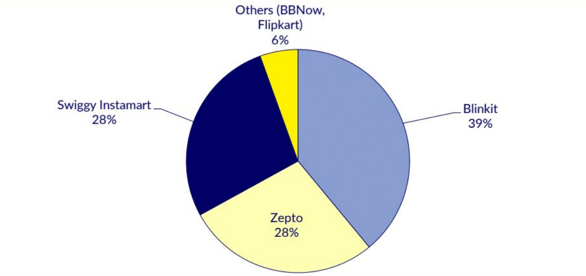
Source: CLSA, Zepto

Zepto commands 28% market share in quick commerce

How big can it become?

Market share of quick-commerce platforms

Market share of quick-commerce players



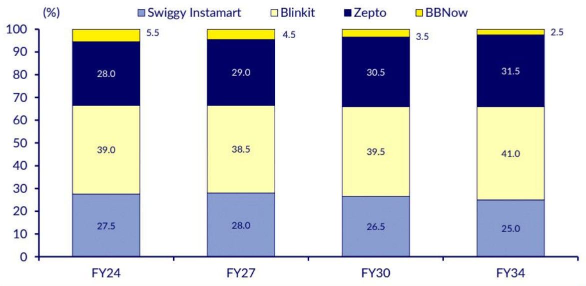
Source: CLSA

Currently, Blinkit is the market leader with 39% market share. Blinkit is very strong in the Delhi-NCR region where its market share is higher. Despite only being present in fifteen cities, Zepto has 28% market share. As and when Zepto expands to more cities, we expect some market share gains for them.

Combat between Blinkit (39%) and Zepto (28%) for market share is likely

We expect Zepto and Blinkit to gain share

Market share projections for quick commerce



Source: CLSA

Zepto Pass loyalty scheme holds first-mover advantage over Blinkit

Over the next decade we expect both Blinkit and Zepto to gain in market share at the cost of Swiggy Instamart and BBNow. We expect market share gains from the Zepto Pass to continue. While other players may also launch loyalty programmes, Zepto has first-mover advantage. We also expect some market share gains as it expands to more cities and the company is currently under-indexed vs Blinkit and Swiggy Instamart. Meanwhile, Blinkit has guided for a doubling of its dark store count over the next twelve months. We believe Blinkit is well placed to expand dark stores the fastest among the three players, which should help drive share gains over the next decade.

Our base case expects quick commerce to reach market penetration of 5%

Quick commerce reaches a 5% penetration in our base case

If quick commerce reaches 5% penetration of the addressable market, it would imply a 35% Cagr for quick commerce over the next decade. Penetration of 3% would still imply restricting the market to large urban centres (top-125 cities with populations over 0.5m), which is why we believe it is justified as a base case.

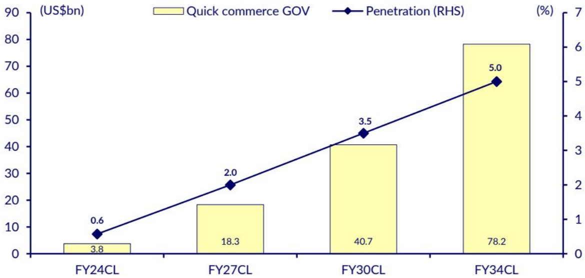
Quick commerce reaches a penetration of 5% by FY34

	FY24	FY27	FY30	FY34	Cagr (%)
Target addressable market	54,962,916	75,892,287	96,174,426	129,525,943	9
Quick commerce	313,606	1,517,846	3,366,105	6,476,297	35
Penetration (%)	0.6	2.0	3.5	5.0	

Source: CLSA

We expect an over US$78bn GOV in our base case by FY34

Quick-commerce GOV in our base case



Source: CLSA

Notes

Companies mentioned

2am VC (N-R)
7-Eleven (N-R)
Aldi UK (N-R)
Amazon (N-R)
Arata (N-R)
Bagrrys India (N-R)
Bajaj Holdings (N-R)
Bare Anatomy (N-R)
Barista Coffee (N-R)
Big Basket (N-R)
BlinkIt (N-R)
Breyer Capital (N-R)
Britannia Industries (BRIT IS - RS5,837.4 - O-PF)
Bundl (N-R)
Burger King (N-R)
Cafe Coffee Day (N-R)
Carrefour (N-R)
Coca-Cola India Private Ltd (N-R)
Colgate India (CLGT IB - RS3,642.1 - HLD)
Contrary Capital (N-R)
Costco (N-R)
Dabur (DABUR IS - RS634.4 - HLD)
Dettol (N-R)
Dish TV (DITV IB - RS14.8 - HLD)
DMart (DMart IS - RS5,099.4 - O-PF)
Domino's Pizza (N-R)
Dunkin' Brands (N-R)
Easyday (N-R)
Emami (HMN IS - RS812.0 - HLD)
Epiq Capital (N-R)
Flipkart (N-R)
Future Group (N-R)
General Catalyst (N-R)
Glade Brook Capital (N-R)
Global Founders Capital (N-R)
Godrej Consumer (GCPL IB - RS1,391.5 - U-PF)
Goodwater Capital (N-R)
Grameen Kulfi (N-R)
Henkel (N-R)
Hershey's (N-R)
Himalaya (N-R)
Hindustan Unilever (HUVR IB - RS2,789.9 - U-PF)
Honasa Consumer (N-R)
Indulekha (N-R)
Inspire Brands (N-R)
Instamart (N-R)
ITC (ITC IB - RS505.7 - O-PF)
ITC Corp (N-R)
Jubilant FoodWorks (JUBI IN - RS656.1 - U-PF)
Kiranakart Technologies Pvt Ltd (N-R)
La Pino's (N-R)
Lidl Great Britain (N-R)
Lightspeed (N-R)
Lil Gamby's (N-R)
Livon (N-R)
Mamaearth (N-R)
Marico (MRCO IB - RS660.5 - U-PF)
Mars Growth Capital (N-R)
Medimix (N-R)
Minimalist (N-R)
More Retail (N-R)
MuscleBlaze (N-R)
Nature's Basket (N-R)
Navratna (N-R)
Nestle India (NEST IB - RS2,550.6 - O-PF)
Nexus Venture Partners (N-R)
NIC (N-R)
Nova Nova (N-R)
Nykaa (N-R)
P&G India (N-R)
Parachute (N-R)
Paytm (PAYTM IN - RS530.4 - HLD)
PepsiCo (N-R)
Pilgrim (N-R)
Pizza Express (N-R)
Pizza Hut (N-R)
PolicyBazaar (N-R)
QSR Holdings (N-R)
Reliance Industries (RELIANCE IB - RS2,996.6 - O-PF)
Sbarro (N-R)
Spencer Retail (N-R)
Starbucks (N-R)
StepStone Group (N-R)
Streax Hair Care (N-R)
Swiggy (N-R)
Tata Consumer (TATACONS IN - RS1,177.5 - HLD)
Tesco (N-R)
The Whole Truth Foods (N-R)
Third Wave Coffee (N-R)
Titan (TTAN IB - RS3,559.7 - O-PF)
Trent (N-R)
Unilever Indo (UNVR IJ - RP2,250 - HLD)
Walmart (N-R)
Wipro (WPRO IB - RS538.2 - O-PF)
Y Combinator (N-R)
Zepto (N-R)
Zomato (ZOMATO IN - RS250.5 - O-PF)

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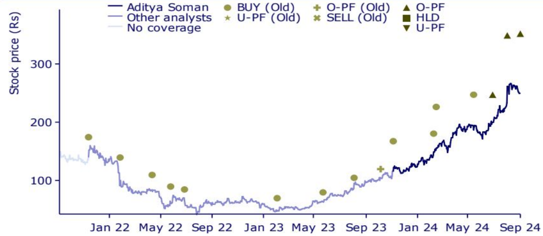

Date	Rec	Target	Date	Rec	Target
LATEST	O-PF	353.00	04 Aug 2023	BUY	105.00
02 Aug 2024	O-PF	350.00	22 May 2023	BUY	80.00
28 Jun 2024	O-PF	248.00	02 Feb 2023	BUY	70.00
14 May 2024	BUY	248.00	27 Jun 2022	BUY	85.00
15 Feb 2024	BUY	227.00	25 May 2022	BUY	90.00
09 Feb 2024	BUY	181.00	11 Apr 2022	BUY	110.00
05 Nov 2023	BUY	168.00	25 Jan 2022	BUY	140.00
06 Oct 2023	O-PF	120.00	11 Nov 2021	BUY	175.00

Note: At 6pm (HKT) on 28 June 2024, we changed our ratings to Outperform (O-PF), Hold (HLD) and Underperform (U-PF). Please see Key to CLSA/CLST investment rankings below for details. Source: CLSA

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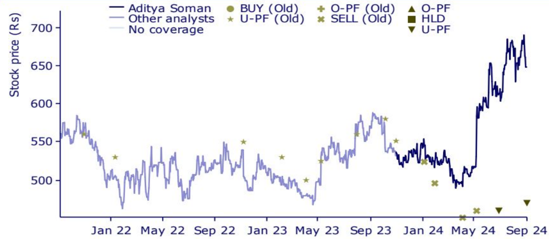

Date	Rec	Target	Date	Rec	Target
LATEST	U-PF	470.00	31 Jul 2023	U-PF	560.00
28 Jun 2024	U-PF	460.00	08 May 2023	U-PF	525.00
07 May 2024	SELL	460.00	03 Apr 2023	U-PF	500.00
04 Apr 2024	SELL	451.00	05 Feb 2023	U-PF	530.00
30 Jan 2024	SELL	496.00	07 Nov 2022	U-PF	550.00
05 Jan 2024	SELL	524.00	10 Jan 2022	U-PF	530.00
31 Oct 2023	U-PF	551.37	29 Oct 2021	U-PF	560.00
06 Oct 2023	U-PF	580.00			

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"High Conviction" Ideas are not necessarily stocks with the most upside/downside, but those where the Research Head/Strategist believes there is the highest likelihood of positive/negative returns. The list for each market is monitored weekly.

22/07/2024