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Shareholders give thumbs down to Zomato-Blinkit deal

Zomato Ltd. has finally announced acquisition of blink commerce (Blinkit), formerly known as Grofers India. But investors are clearly unhappy; Shares of Zomato fell nearly 6% on Monday, a day when the benchmark Nifty 50 index rose nearly 1%.

Valuable valuations, uncertainty over unit economics, and fiercely competitive operating conditions are some of the factors that are nagging investors to buy Quick Commerce Company.

Kotak Institutional Equities believes that Zomato is making a substantial investment for a business where the investment can grow further due to the competitive intensity. "Zomato's investment in Blinkit will amount to \$1.05 billion, including: \$100 million (paid out in August 2021), \$700 million (announced in June 2022; subject to approval), and \$250 million," analysts said. The investment will be made in FY2023-24." In a report on 26 June.

The \$250 million mentioned above is a part of the \$400 million that Zomato earmarked for its growth plans for the accelerated commerce business in calendar years 2022 and 2023. According to Zomato, the majority of this capital will go towards loss of balance in Blinkit. next two years. Note that Zomato is already \$150 million (1,125 crore) as a loan to Blinkit.

The current deal includes the purchase of Hands On Trades' warehousing and ancillary services business. Zomato already owns 9% Blink Commerce and 8.4% Hands on Trades. Though the Blinkit deal was expected, the acquisition of the loss-making firm at a time when Zomato is also suffering massive losses, adds to the uncertainty. In FY22, Zomato introduced . recorded a consolidated net loss of 1,220.5 crores.

Blinkit operates in an accelerated commerce marketplace delivering groceries and other essentials more quickly (eg 15-20 minutes) than the traditional 'next day delivery' grocery model. With consumers becoming more convenience oriented, the sector has become highly competitive.

In a report titled Blinkit Acquisitions: Some Knows and a Lot of Unknowns, analysts at Jefferies India said, "Blinkit is in a high growth space, but the business model, at least for now, is the focus of food delivery given the high competition." More challenging in comparison, low rates, presence of strong consumer packaged goods brands etc. Blinkit itself is fine-tuning the business model and has closed about 12% of dark stores in the last five months."

Quick commerce firms set up 'dark stores' strategically located close to the customer and assemble a specified set of stock keeping units that are frequently

ordered. In May 2022, Blinkit's dark stores numbered about 400 and sold . Reported Adjusted Ebitda Loss of 108 crore, less than 204 crore views in January 2022.

Zomato believes that overall profitability will also depend on how aggressively it expands and opens new dark stores. "It is possible for this business to break-even adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) in less than three years," it said. However, in Zomato's admission, "this is an educated guess at this stage and not guidance." Some analysts are skeptical of this assessment.

After this deal, the Blinkit app and the brand will work separately from Zomato. The company believes that 'Super Brands' will do better than 'Super Apps' in India. While this acquisition will enable cross-sell opportunities, customer acquisition costs will be higher than Swiggy, which operates Instamart, its accelerated commerce vertical.

There are some bright spots. The acquisition will lead to better utilization of the delivery fleet and reduce the cost of delivery. Furthermore, the average order value (AOV) of Blinkit in May was 509 in comparison to Zomato 398 in FY22. Blinkit's high AOV may eventually help boost Zomato's GOV.

Nevertheless, the path to profitability is stretched. Analysts at JM Financial Institutional Securities predict that Blinkit will become profitable only by FY27 due to limited financial and operating data, nascent operating history and intense competitive intensity. Analysts at JM said in a report on June 26, "We believe that the profitability path for the Zomato Group (post-acquisition) can be extended by at least one year (FY25 to FY26). "

