

Retail Equity Research Zomato Ltd.

Internet & Catalogue Retail

BSE CODE: 543320

NSE CODE: ZOMATO

Bloomberg CODE: ZOMATO:IN

SENSEX: 60,322

BUY

12 Months Investment period Rating as per Large Cap

CMP Rs. 158 TARGET Rs. 183 RETURN 16% ↑
(Closing: 16-11-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Investing key to compounding long term growth

Zomato Limited is a leading food delivery aggregator in India and has presence in 23 other countries abroad. The company had revenues of nearly Rs. 1,994cr as of FY21.

- Driven by rapid increase in the number online gross order values of Indian food delivery, revenue jumped 140.4% YoY in Q2FY22.
- However, EBITDA loss widened to Rs. 536cr (vs. Rs. 122cr loss in Q2FY21) on higher opex. Adj. PAT also fell to Rs. 435cr loss (vs. Rs. 138cr loss in Q2FY21).
- The mainstay food ordering and delivery business is expected to drive shareholder value creation going forward. The management believes that the food delivery market in India is still nascent, and there is an opportunity to grow the market at least 10x over the next few years. Maintaining a positive outlook, we reiterate our BUY rating on the stock with a target price of Rs. 183 based on 23x FY23E P/Sales.

Setting new highs for online food delivery

In Q2FY22, as the COVID-19 situation improved significantly in India, overall revenue saw a stellar growth YoY basis to Rs. 1,024cr this quarter (vs. Rs. 426cr in Q2FY21) indicating the exponential growth in number of users ordering food online mainly driven by multiple lockdowns across the country. Overall customer traffic increased to 59mn average monthly active users (MAU) in Q2FY22 compared to 45mn in Q1FY22.

Net loss widens due to higher delivery costs and opex

Company has made heavy investments in the growth of food delivery business, including increased spending on branding and marketing for customer acquisition, higher investments and growing share in smaller and emerging geographies (which are less profitable compared to more mature cities) and increased delivery cost due to unpredictable weather and increase in fuel prices. Zomato's delivery cost has increased by Rs.5 per order (as compared to Q1FY22), but the company does not expect the costs to go up further and feels confident about the margins staying positive in the mid-term, as well as long-term. Higher Employee Stock Ownership Plan (ESOP) expenses led to further loss of Rs.160cr to EBITDA this quarter. Total EBITDA ended at a loss of Rs. 536cr (against Rs. 377cr loss in Q1FY22). Adj. PAT also fell to Rs. 435cr loss (vs. Rs. 340cr loss in Q1FY22).

Key highlights in the quarter

The company will likely announce its divestment from Fitso, a sports discovery platform, in which it invested in 2021. The start-up has about a 10% stake in an online grocery delivery start-up Grofers that will give boost to the financial returns. Zomato has also decided to shut down all of its international businesses and has declared to shut down a D2C experiment in Nutraceuticals. The company is expected to announce investments in business discovery and rewards platform Magicpin, fitness start-up Curefit, and logistics aggregator ship rocket thereby expanding its portfolio.

Outlook & Valuation

While some of the factors are outside the control of the company i.e. prolonged monsoons, fuel prices, etc, other factors such as continuous investments in Next 500 towns and branding shall drive back-ended benefits in the upcoming quarters. The mainstay food ordering and delivery business is expected to drive shareholder value creation going forward. The management believes that the food delivery market in India is still nascent, and there is an opportunity to grow the market at least 10x over the next few years. Maintaining a positive outlook, we reiterate our BUY rating on the stock with a revised target price of Rs. 183 based on 23x FY23E P/Sales.

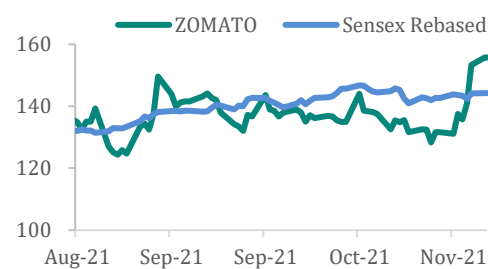
Company Data

Market Cap (cr)	Rs. 114,806
Enterprise Value (cr)	Rs. 113,382
Outstanding Shares (cr)	728.1
Free Float	9.0%
Dividend Yield	0.0%
52 week high	Rs. 169
52 week low	Rs. 114
6m average volume (cr)	0.1
Beta	-
Face value	Rs. 1

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	-	0.0	0.0
FII's	-	7.7	9.9
MFs/Insti	-	8.6	8.7
Public	-	8.7	6.7
Others	-	75.0	74.7
Total	-	100.0	100.0
Promoters' pledge	-	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	13.2%	-	-
Absolute Sensex	9.5%	-	-
Relative Return*	3.7%	-	-

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	1,994	4,193	6,231
Growth (%)	(23.5)	110.3	48.6
EBITDA	(467)	(1,284)	(1,196)
EBITDA Margin (%)	(23.4)	(30.6)	(19.2)
Adj. PAT	(488)	(1,055)	(595)
Growth (%)	(78.3)	116.2	(43.6)
Adj. EPS	(0.9)	(1.3)	(0.8)
Growth (%)	(82.3)	47.9	(43.6)
P/E	n.m.	n.m.	n.m.
P/B	8.3	7.4	7.6
EV/EBITDA	n.m.	n.m.	n.m.
ROE (%)	n.m.	n.m.	n.m.
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Revenue	1,024	426	140.4	844	21.3	1,869	692	170.0
EBITDA	(536)	(122)	<i>n.m.</i>	(377)	<i>n.m.</i>	(912)	(203)	<i>n.m.</i>
EBITDA margins	(52.3)	(28.6)	<i>n.m.</i>	(44.6)	<i>n.m.</i>	(48.8)	(29.3)	<i>n.m.</i>
Depreciation	38	35	10.0	36	8.2	74	70	5.9
EBIT	(574)	(157)	<i>n.m.</i>	(412)	<i>n.m.</i>	(986)	(273)	<i>n.m.</i>
Interest	3	2	55.0	3	(6.1)	6	4	68.4
Other Income	137	21	554.5	72	89.5	209	38	444.3
Exceptional Items	5	(92)	<i>n.m.</i>	(16)	134.0	(11)	(92)	<i>n.m.</i>
PBT	(435)	(230)	<i>n.m.</i>	(359)	<i>n.m.</i>	(794)	(330)	<i>n.m.</i>
Tax	-	-	-	2	<i>n.m.</i>	2	-	<i>n.m.</i>
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	(5)	(0)	<i>n.m.</i>	(5)	<i>n.m.</i>	(10)	(0)	<i>n.m.</i>
Reported PAT	(430)	(230)	<i>n.m.</i>	(356)	<i>n.m.</i>	(786)	(329)	<i>n.m.</i>
Adjustments	(5)	92	<i>n.m.</i>	16	(134.0)	11	92	(88.6)
Adj. PAT	(435)	(138)	<i>n.m.</i>	(340)	<i>n.m.</i>	(776)	(238)	<i>n.m.</i>
No. of shares	728.5	475.2	53.3	638.1	14.2	728.5	475.2	53.3
Adj. EPS (Rs.)	(0.6)	(0.3)	<i>n.m.</i>	(0.5)	(12.0)	(1.1)	(0.5)	(112.9)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	3,831	5,349	4,193	6,231	9.4	16.5
EBITDA	(1,069)	(893)	(1,284)	(1,196)	(20.1)	(33.8)
Margins (%)	(27.9)	(16.7)	(30.6)	(19.2)	(270bps)	(250bps)
Adj. PAT	(879)	(447)	(1,055)	(595)	(20.0)	(33.1)
Adj. EPS	(1.1)	(0.6)	(1.3)	(0.8)	(20.0)	(33.1)

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	1,313	2,605	1,994	4,193	6,231
% change	-	98.4	(23.5)	110.3	48.6
EBITDA	(2,244)	(2,305)	(467)	(1,284)	(1,196)
% change	-	2.7	(79.7)	174.8	(6.9)
Depreciation	43	84	138	113	76
EBIT	(2,287)	(2,389)	(605)	(1,396)	(1,272)
Interest	9	13	10	14	18
Other Income	1,285	16	(200)	325	374
PBT	(1,011)	(2,386)	(815)	(1,085)	(915)
% change	-	136.1	(65.8)	33.1	(15.6)
Tax	-	-	1	3	-
Tax Rate (%)	-	-	(0.2)	(0.2)	-
Reported PAT	(965)	(2,367)	(813)	(1,066)	(595)
Adj*	(1,200)	122	325	11	-
Adj PAT	(2,165)	(2,245)	(488)	(1,055)	(595)
% change	-	3.7	(78.3)	116.2	(43.6)
No. of shares (cr)	375.3	436.8	536.6	784.5	784.5
Adj EPS (Rs.)	(5.8)	(5.1)	(0.9)	(1.3)	(0.8)
% change	-	(10.9)	(82.3)	47.9	(43.6)
DPS (Rs.)	-	-	-	-	-
CEPS (Rs.)	(5.7)	(4.9)	(0.7)	(1.2)	(0.7)

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	(922)	(2,283)	(675)	(953)	(519)
Non-cash adj.	(1,076)	338	(349)	276	255
Changes in W.C	255	(198)	6	52	103
C.F. Operation	(1,743)	(2,144)	(1,018)	(625)	(161)
Capital exp.	(46)	(21)	(10)	(10)	(15)
Change in inv.	(1,243)	1,731	(5,224)	(882)	(617)
Other invest.CF	15	25	(9)	14	18
C.F - Investment	(1,274)	1,735	(5,244)	(879)	(615)
Issue of equity	2,264	392	6,608	9,375	-
Issue/repay debt	(0)	-	(3)	5	6
Dividends paid	-	-	-	-	-
Other finance.CF	866	(33)	(204)	0	-
C.F - Finance	3,131	359	6,402	9,380	6
Chg. in cash	113	(50)	140	7,877	(770)
Closing cash	239	360	904	8,781	8,011

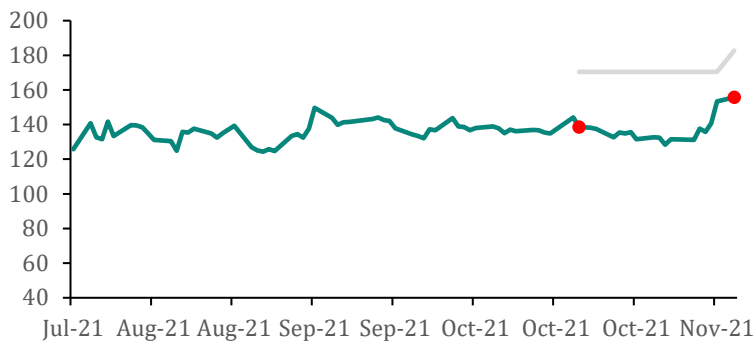
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	239	360	904	8,781	8,011
Accounts Receivable	70	123	130	189	249
Inventories	2	4	15	27	37
Other Cur. Assets	2,661	777	3,102	3,863	4,384
Investments	7	-	-	-	-
Gross Fixed Assets	172	139	174	184	199
Net Fixed Assets	132	103	84	56	43
CWIP	0	0	-	-	-
Intangible Assets	258	1,488	1,455	1,380	1,332
Def. Tax (Net)	-	-	-	-	-
Other Assets	44	46	3,014	2,864	2,721
Total Assets	3,413	2,900	8,704	17,159	16,777
Current Liabilities	706	721	516	652	853
Provisions	14	17	26	31	37
Debt Funds	1	1	1	1	1
Other Liabilities	123	1,458	67	72	78
Equity Capital	0	0	0	785	785
Reserves & Surplus	2,600	710	8,099	15,645	15,371
Shareholder's Fund	2,600	710	8,099	16,430	16,155
Minority Interest	(31)	(7)	(6)	(27)	(348)
Total Liabilities	3,413	2,900	8,704	17,159	16,777
BVPS (Rs.)	7	2	15	21	21

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	(170.9)	(88.5)	(23.4)	(30.6)	(19.2)
EBIT margin (%)	(174.2)	(91.7)	(30.3)	(33.3)	(20.4)
Net profit mgn.(%)	(73.5)	(90.9)	(40.8)	(25.4)	(9.5)
ROE (%)	(37.1)	(333.5)	(10.0)	(6.5)	(3.7)
ROCE (%)	(89.0)	(339.0)	(7.5)	(8.5)	(8.0)
W.C & Liquidity					
Receivables (days)	19.6	17.3	23.8	16.4	14.6
Inventory (days)	46.9	12.5	28.2	23.7	21.9
Payables (days)	8,278.2	900.5	565.3	370.6	352.4
Current ratio (x)	4.2	1.8	8.0	19.7	14.8
Quick ratio (x)	3.5	1.1	6.3	18.4	14.0
Turnover & Leverage					
Gross asset T.O (x)	-	16.7	12.7	23.4	32.5
Total asset T.O (x)	-	0.8	0.3	0.3	0.4
Int. coverage ratio (x)	(264.4)	(189.1)	(60.0)	(103.2)	(72.4)
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	35.8	21.0	33.4	27.0	18.3
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/BV (x)	18.2	77.4	8.3	7.4	7.6

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
20-Oct-21	BUY	170
17-Nov-21	BUY	183

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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