

Retail Equity Research Zomato Ltd.

Internet & Catalogue Retail


BSE CODE: 543320

NSE CODE: ZOMATO

Bloomberg CODE: ZOMATO:IN

SENSEX: 65,847

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 93 TARGET Rs. 114 RETURN 22% 
(Closing: 08-08-23)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

All-time high profit, outlook upbeat

Zomato Ltd. is a leading food delivery aggregator in India, with presence in 23 other countries as well.

- The company's consolidated revenue grew a significant 70.9% YoY in Q1FY24, primarily due to robust performance of the food delivery and Hyperpure (supplies ingredients to restaurants) businesses.
- Also, EBITDA loss narrowed to Rs. 48cr, owing to improvement in operating leverage. Moreover, the company achieved positive profit after tax (PAT) for the first time, at Rs. 2cr.
- The company's dominant market presence, new initiatives and businesses, and sustained improvement in the operational metrics are expected to continue to drive growth and profitability. Hence, we reiterate our BUY rating on the stock, with a revised target price of Rs. 114 based on 6x FY25E price/ sales.

Strong growth in key segments

The company posted robust consolidated revenue growth of 70.9% YoY in Q1FY24, to Rs. 2,416cr (+17.5%QoQ). Among the segments, the India food ordering and delivery businesses reported a significant increase of 18.5% YoY, reaching Rs. 1,742cr (+13.9% QoQ). Growth was influenced by favourable seasonality and robust performance of Zomato Gold membership programme. Hyperpure's revenue posted a sharp 126% YoY rise to Rs. 617cr (+29.1% QoQ), primarily due to growth in the core restaurant supply businesses. Also, implementation of higher minimum order value led to small unprofitable restaurants leaving the platform, simultaneously boosting average order value. Further, Blinkit, the quick commerce business, reported revenue of Rs. 384cr, up from Rs. 363cr in Q4FY23. However, the number of orders decreased 6% QoQ to 36.8mn because of temporary disruptions caused by revisions in delivery partner pay structure and challenges such as heat waves and unseasonal heavy rainfall. Other segments declined 35.8% YoY to Rs. 43cr.

EBITDA loss narrowed, PAT turned positive

EBITDA loss reduced to Rs. 48cr in Q1FY24, attributed to improvement in operating leverage and reduction of 3.1% YoY in employee benefit expenses. The decrease in employee benefit expenses was the result of rightsizing undertaken in the December 2022 quarter. Also, the food and delivery business posted improvement in profitability, with contribution increasing to Rs. 466cr, marking a 22.6% QoQ growth. As a result, the company achieved positive PAT for the first time, at Rs. 2cr.

Key concall highlights

- The company's management is confident of attaining over 40% YoY growth in the coming years, primarily fueled by an increase in the user base.
- It also plans to achieve EBITDA margin of 4-5% (as a percentage of gross order value) for the food delivery business in the upcoming quarters.
- For the quick commerce business, the company intends to achieve adjusted EBITDA breakeven within the next four quarters. Also, it has plans to add 100 new stores in FY24.

Valuation

The company's performance was impressive in Q1FY24, turning profitable. Also, the food delivery business in India still presents ample opportunities for expansion. With further means to improve profitability, continuous improvement in operational metrics, and prominent market presence, we expect the company's food delivery and Hyperpure businesses to grow substantially. Hence, we reiterate our BUY rating on the stock, with a revised target price of Rs. 114 based on 6x FY25E price /sales.

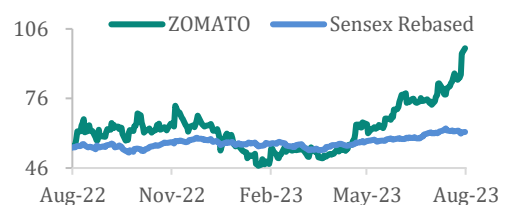
Company Data

Market Cap (cr)	Rs. 78,493
Enterprise Value (cr)	Rs. 77,078
Outstanding Shares (cr)	839.9
Free Float	50.0%
Dividend Yield	0.0%
52 week high	Rs. 102.9
52 week low	Rs. 44.4
6m average volume (cr)	4.6
Beta	1.4
Face value	Rs. 1

Shareholding %	Q3FY23	Q4FY23	Q1FY24
Promoters	0.0	0.0	0.0
FII's	56.7	54.6	54.4
MFs/Insti	9.7	10.3	12.0
Public	27.2	28.9	27.5
Others	6.4	6.3	6.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	44.0%	72.3%	68.5%
Absolute Sensex	6.6%	8.5%	11.9%
Relative Return*	37.4%	63.7%	56.7%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	7,079	10,973	15,911
Growth (%)	68.9	55.0	45.0
EBITDA	(1,196)	324	1,272
EBITDA Margin (%)	(16.9)	3.0	8.0
Adj. PAT	(971)	136	914
Growth (%)	(35.5)	(114.0)	571.0
Adj. EPS	(1.2)	0.2	1.1
Growth (%)	(42.3)	(113.5)	571.0
P/E	-77.9	576.3	85.9
P/B	3.9	4.0	3.8
EV/EBITDA	-62.7	237.5	60.2
ROE (%)	(5.0)	0.7	4.5
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Revenue	2,416	1,414	70.9	2,056	17.5
EBITDA	(48)	(307)	84.4	(225)	78.7
EBITDA margins	(2.0)	(21.7)	<i>n.m.</i>	(11.0)	<i>n.m.</i>
Depreciation	130	42	212.5	134	(2.8)
EBIT	(178)	(349)	49.0	(359)	50.4
Interest	18	5	267.3	16	13.9
Other Income	181	168	7.7	171	6.2
Exceptional Items	-	-	-	0	(100.0)
Share of profit from Associate	-	(0)	<i>n.m.</i>	-	-
PBT	(15)	(186)	91.9	(204)	92.7
Tax	(17)	-	<i>n.m.</i>	(17)	(1.2)
Reported PAT	2	(186)	<i>n.m.</i>	(188)	<i>n.m.</i>
Minority Interest	-	(0)	<i>n.m.</i>	-	<i>n.m.</i>
PAT att. to shareholders	2	(186)	<i>n.m.</i>	(188)	<i>n.m.</i>
Adjustments	-	-	-	(0)	100.0
Adj. PAT	2	(186)	<i>n.m.</i>	(188)	<i>n.m.</i>
No. of shares	839.9	773.8	8.6	815.7	3.0
Adj. EPS (Rs.)	0.0	(0.2)	<i>n.m.</i>	(0.2)	<i>n.m.</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	9,373	12,278	10,478	14,145	11.8	15.2
EBITDA	(939)	(129)	(702)	826	25.2	<i>n.m.</i>
Margins (%)	(10.0)	(1.0)	(6.7)	5.8	330bps	<i>n.m.</i>
Adj. PAT	(862)	(30)	(326)	703	62.2	<i>n.m.</i>
Adj. EPS	(1)	(0)	(0.4)	0.8	60	<i>n.m.</i>

Segment Results

Adjusted Revenue	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
India food ordering and delivery	1,742	1,470	18.5%	1,530	13.9%
Hyperpure	617	273	126.0%	478	29.1%
Quick commerce business	384	0	<i>n.m.</i>	363	5.8%
All other segments (residual)	43	67	-35.8%	43	0.0%
Total	2,786	1,810	53.9%	2,414	15.4%
Segment results					
India food ordering and delivery	181	(113)	<i>n.m.</i>	78	132.1%
Hyperpure	(35)	(44)	20.5%	(45)	22.2%
Quick commerce business	(133)	0	<i>n.m.</i>	(203)	34.5%
All other segments (residual)	(1)	6	<i>n.m.</i>	(5)	80.0%
Segment Results	12	(151)	<i>n.m.</i>	(175)	<i>n.m.</i>



PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	1,994	4,192	7,079	10,973	15,911
% change	(23.5)	110.3	68.9	55.0	45.0
EBITDA	(467)	(1,851)	(1,196)	324	1,272
% change	(79.7)	296.2	(35.4)	(127.1)	292.1
Depreciation	138	150	451	490	600
EBIT	(605)	(2,001)	(1,647)	(166)	672
Interest	10	12	49	59	90
Other Income	(200)	793	681	406	636
PBT	(815)	(1,221)	(1,015)	182	1,219
% change	(65.8)	49.7	(16.9)	(117.9)	570.4
Tax	1	2	(44)	45	305
Tax Rate (%)	(0.2)	(0.2)	4.3	25.0	25.0
Reported PAT	(816)	(1,223)	(971)	136	914
PAT att. to common shareholders	(813)	(1,209)	(971)	136	914
Adj*	325	(297)	(0)	-	-
Adj PAT	(488)	(1,506)	(971)	136	914
% change	(78.3)	208.6	(35.5)	(114.0)	571.0
No. of shares (cr)	536.6	723.8	809.4	839.9	839.9
Adj EPS (Rs.)	(1.5)	(1.7)	(1.2)	0.2	1.1
% change	(82.3)	128.8	(42.3)	(113.5)	571.0
DPS (Rs.)	-	-	-	-	-
CEPS (Rs.)	(0.7)	(1.9)	(0.6)	0.7	1.8

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	(679)	(1,072)	(520)	626	1,514
Non-cash adj.	(345)	301	(7)	(3,485)	(1,227)
Changes in W.C	6	78	(317)	1,616	750
C.F. Operation	(1,018)	(693)	(844)	(1,243)	1,038
Capital exp.	(10)	(57)	(101)	(274)	(477)
Change in inv.	(5,224)	(7,597)	179	2,243	(112)
Other invest.CF	(9)	(283)	380	59	90
C.F - Investment	(5,244)	(7,938)	457	2,027	(500)
Issue of equity	6,608	9,000	4	-	-
Issue/repay debt	(3)	(1)	(23)	35	46
Dividends paid	-	-	-	-	-
Other finance.CF	(204)	(249)	(108)	-	-
C.F - Finance	6,402	8,750	(127)	35	46
Chg. in cash	140	119	(514)	818	585
Closing cash	904	1,576	1,017	1,835	2,420

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	904	1,576	1,017	1,835	2,420
Accounts Receivable	130	160	457	538	796
Inventories	15	40	83	83	101
Other Cur. Assets	3,102	5,770	9,275	7,125	7,354
Investments	-	3,086	2,280	5,699	6,839
Gross Fixed Assets	1,137	1,393	3,628	3,902	4,380
Net Fixed Assets	84	115	636	716	939
CWIP	-	1	8	8	9
Intangible Assets	1,455	1,289	5,707	5,410	5,063
Def. Tax (Net)	-	-	-	-	-
Other Assets	3,014	5,291	2,138	2,157	2,176
Total Assets	8,704	17,327	21,599	23,571	25,697
Current Liabilities	516	712	1,406	3,161	4,256
Provisions	26	65	94	140	211
Debt Funds	54	51	391	426	473
Other Liabilities	14	0	254	254	254
Equity Capital	0	764	836	840	840
Reserves & Surplus	8,099	15,741	18,623	18,756	19,670
Shareholder's Fund	8,099	16,506	19,460	19,596	20,510
Minority Interest	(6)	(7)	(7)	(6)	(6)
Total Liabilities	8,704	17,327	21,599	23,571	25,697
BVPS (Rs.)	15	23	24	23	24

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	(23.4)	(44.1)	(16.9)	3.0	8.0
EBIT margin (%)	(30.3)	(47.7)	(23.3)	(1.5)	4.2
Net profit mgn.(%)	(40.8)	(28.8)	(13.7)	1.2	5.7
ROE (%)	(10.1)	(7.4)	(5.0)	0.7	4.5
ROCE (%)	(7.4)	(12.1)	(8.3)	(0.8)	3.2
W.C & Liquidity					
Receivables (days)	23.8	13.9	23.6	17.9	18.3
Inventory (days)	28.2	27.6	21.6	13.5	11.0
Payables (days)	565.3	298.3	177.8	385.6	367.4
Current ratio (x)	8.0	10.6	7.5	3.0	2.5
Quick ratio (x)	6.3	4.7	4.1	1.4	1.3
Turnover & Leverage					
Gross asset T.O (x)	3.1	3.3	2.8	2.9	3.8
Total asset T.O (x)	0.3	0.3	0.4	0.5	0.6
Int. coverage ratio (x)	(60.0)	(166.8)	(33.8)	(2.8)	7.5
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	33.4	13.8	10.6	7.0	4.8
EV/EBITDA (x)	-142.7	-31.4	-62.7	237.5	60.2
P/E (x)	-83.3	-49.3	-77.9	576.3	85.9
P/BV (x)	8.3	3.6	3.9	4.0	3.8

Recommendation Summary (Since listing)



Source: Bloomberg, Geojit research

Dates	Rating	Target
19-Oct-21	BUY	170
12-Nov-21	BUY	222
21-Mar-22	BUY	105
7-Jun-22	BUY	84
11-Aug-22	BUY	69
17-Feb-23	BUY	60
8-Aug-23	BUY	114

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/Neutral			

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/Neutral: 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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