ZOMATO

ISIN :INE758T01015 | NSE :ZOMATO

Price: 227

Recommendation: Buy

Industry: E-Retail/ E-Commerce

Sector: Consumer Discretionary

Report Date: 24-Feb-2025

Zomato is actively enhancing its market position and operational efficiency through strategic initiatives. The company is expanding its store network, focusing on densification and new market entry, aiming for 2,000 stores by December. Quick delivery models are being tested to meet demand for faster service. Zomato is optimizing unit economics by reducing delivery costs and increasing average order values. The company plans further expansion, especially in smaller cities, to drive growth and profitability.

Sales		Profit & Loss		Profitability Matrix	
Current Year	17972 Cr	Operating Profit(Year)	651 Cr	Operating Profit Margin	3.62 %
Previous Year	7079 Cr	Operating Profit(Quarter)	162 Cr	EBITDA Margin	4.23 %
Current Quarter	5405 Cr	PAT (Year)	223 Cr	Net Profit Margin	1.84 %
Previous Quarter	4799 Cr	PAT (Quarter)	59.0 Cr	EPS	0.75
Revenue (QYoY)	3288 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	330	Sales Growth	69.4 %	Sales Growth	12.63 %
PEG Ratio	20.6	PAT Growth	-120.98 %	Sales Growth QYoY	64.39 %
EV/EBITDA	138	EPS Growth	87.5 %	PAT Growth	-66.48 %
P/B	10.3	Dividend Yield	0.00	PAT Growth QYoY	-57.25 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	1.12 %	Promoter	0.00 %	Debt/Equity	0.05
RoA	0.99 %	FII	47.3 %	Debt	1159 Cr
RoCE	1.14 %	DII	20.5 %	Market Cap	218725 Cr
RoIC	2.70 %	Public	26.1 %	Enterprise value	219378 Cr
		No of Shares	965 Cr	Cash Equivalents	506 Cr

Company's Overview Based on Recent Concall and Performance:

In the recent earnings conference call, Zomato outlined several new initiatives and strategies aimed at enhancing its market position and operational efficiency. The company has been aggressively expanding its store network, with a focus on densification in existing cities and entry into new markets. This expansion is part of a broader strategy to capture a larger market share and improve service delivery. The management highlighted that "we have advanced our guidance of reaching 2,000 stores by the end of December," indicating a robust growth trajectory. Additionally, Zomato is exploring quick delivery models, such as the less-than-15-minute delivery service, which is currently being tested in select locations. This initiative is expected to cater to the growing demand for faster service, thereby enhancing customer satisfaction and retention.

Zomato's business strategies are centered around optimizing operational efficiencies and expanding its service offerings. The company is focusing on improving its unit economics by reducing delivery costs and increasing average order values (AOV). The management noted that "as we densify, the last mile cost does come down for us," which is a critical factor in achieving profitability. Furthermore, Zomato is leveraging its existing infrastructure to introduce new categories, such as high-value electronics, which could potentially increase its AOV and overall revenue. The company is also maintaining a competitive edge by not engaging in significant discounting, thereby preserving its margins.

Looking ahead, Zomato is optimistic about its growth and scaling prospects. The company plans to continue its aggressive expansion strategy, with a significant portion of new stores being opened in smaller cities, which are showing promising economic potential. The management expressed confidence in achieving better profitability as the percentage of non-mature stores decreases towards the end of the year. They stated, "we will start seeing better profitability," as more stores reach maturity and contribute positively to the bottom line. This strategic focus on expansion and operational efficiency is expected to drive Zomato's growth in the coming quarters.

While Zomato's growth strategy is promising, there are areas where improvements could enhance its market position further. The company could benefit from a more targeted approach in its marketing efforts to maximize customer acquisition and retention. Additionally, as competition intensifies, Zomato might consider exploring loyalty programs or platform discounts to strengthen customer loyalty. The management acknowledged that "our focus has been and always will remain on making sure that our service levels improve," which is crucial in maintaining a competitive edge. By addressing these areas, Zomato can further solidify its position as a market leader in the food delivery and quick commerce sectors.

Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Info Edg.(India)	94718.88	148.04	2.44%	3.08%	15.19%	1646.86%	134.34%
Swiggy	80541.94			10.87%	30.98%	-28.74%	-40.86%
Just Dial	7184.63	17.81	3.63%	0.88%	8.41%	-14.77%	231.67%
One 97	47311.73		-9.07%	10.14%	-35.88%	48.64%	5.23%
One Mobikwik	2339.88	166.57	9.20%	-7.28%	17.71%	-1439.83%	-1148.96%

Aspect	Commentary
Revenue	The company shows a significant increase in revenue, with a year-over-year growth of 69.4%, indicating strong sales performance. The quarterly growth of 12.63% suggests consistent demand and effective market strategies. This positive trend reflects the company's ability to capture market share and expand its customer base.
Profit & Loss	Despite a robust revenue increase, the company faces challenges in profitability, with a PAT decline of 120.98% YoY. This suggests rising costs or operational inefficiencies. The quarterly PAT drop of 66.48% further highlights the need for cost management and strategic adjustments to improve net income.
Profitability Matrix	The company's operating profit margin of 3.62% and net profit margin of 1.84% indicate modest profitability. The EBITDA margin of 4.23% suggests room for improvement in operational efficiency. Enhancing cost control and revenue streams could bolster these margins and overall financial health.
Valuation Matrix	The high trailing P/E ratio of 330 and PEG ratio of 20.6 suggest the stock is overvalued relative to earnings growth. The EV/EBITDA of 138 and P/B of 10.3 further indicate premium valuation. Investors may expect future growth, but current metrics warrant cautious optimism.
Growth (YoY)	The company exhibits strong sales growth of 69.4% YoY, reflecting successful market penetration and product demand. However, the negative PAT growth of 120.98% highlights profitability challenges. Addressing cost structures and enhancing operational efficiency are crucial for sustainable growth.
Growth (QoQ)	Quarterly sales growth of 12.63% indicates steady market demand, while the PAT decline of 66.48% suggests profitability issues. The company must focus on cost management and strategic initiatives to convert sales growth into improved earnings and shareholder value.
Capital Allocation	The company's RoE of 1.12% and RoA of 0.99% suggest limited returns on equity and assets. RoCE of 1.14% and RoIC of 2.70% indicate modest capital efficiency. Strategic capital allocation and investment in high-return projects could enhance these metrics and drive growth.
Holdings	The promoter holding is 0%, with significant FII at 47.3% and DII at 20.5%, indicating strong institutional interest. Public holding stands at 26.1%. This diverse ownership structure suggests confidence in the company's prospects, but also highlights the need for effective governance.
Leverage	With a low debt/equity ratio of 0.05, the company maintains a conservative leverage position, minimizing financial risk. The debt of 1159 Cr is manageable given the market cap of 218725 Cr. This prudent approach supports financial stability and potential for future growth investments.

Analyst viewpoint: Zomato showcases robust growth potentials, evident from its impressive quarterly sales growth of 12.63%, underscoring effective market penetration and strategic execution. The company's initiatives in expanding its network, especially focusing on densifying existing markets and entering new ones, bolster its competitive position. This aligns with the management's guidance of reaching 2,000 stores by year-end, enhancing both service capability and customer reach. Furthermore, Zomato's commitment to optimizing operational efficiencies by reducing delivery costs and increasing average order values (AOV) furthers its goal of enhancing profitability. While the valuation metrics reflect the market's high expectations, the strategic focus on improving cost structures and exploring quick delivery models marks a promising trajectory for short- to mid-term growth.

Nevertheless, a mild caution lies in the high trailing P/E ratio of 330, indicating potential overvaluation amidst profitability challenges, necessitating prudent cost management to sustain financial health. The absence of significant promoter holding highlights reliance on sound governance to maintain investor confidence. Concentrated efforts in targeted marketing and potential loyalty programs could strengthen customer retention as competition intensifies, ensuring Zomato's continued leadership in the food delivery sector.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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