

Price: 219

Recommendation: Buy

Industry: E-Retail/ E-Commerce

Sector: Consumer Discretionary

Report Date: 18-Feb-2025

Zomato Limited, founded in 2010 and headquartered in Gurugram, India, is a leading online food delivery company operating both domestically and internationally. It offers a B2C platform for restaurant discovery, food ordering, and event ticketing. Zomato also runs Hyperpure, supplying ingredients to restaurants, and Blinkit, a quick commerce service. The company is expanding into smaller cities and exploring rapid delivery services to enhance growth and market presence.

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	318	Sales Growth	69.4 %	Sales Growth	12.63 %
PEG Ratio	19.8	PAT Growth	-120.98 %	Sales Growth QYoY	64.39 %
EV/EBITDA	133	EPS Growth	87.5 %	PAT Growth	-66.48 %
P/B	9.89	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	210879 Cr
RoIC	2.70 %	Public	26.1 %	Enterprise value	211532 Cr
		No of Shares	965 Cr	Cash Equivalents	506 Cr

Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Zomato outlined several strategic initiatives and business strategies aimed at enhancing its market position and driving growth. The company is focusing on expanding its store network, particularly in smaller cities, which are seen as attractive on a return on investment basis. This expansion is not a result of a conscious decision to accelerate but rather a natural outcome of the work done over the past months. The company has built organizational bandwidth to expand faster, and this confidence is allowing them to continue at the current pace. "Over the last one year, we've built organization bandwidth to be able to expand faster, and the increasing confidence in business is therefore allowing us to continue at that pace."

Zomato is also exploring new initiatives such as a less-than-15-minute delivery service with a curated menu and dedicated fleet, which was launched in the December quarter. This initiative is part of their effort to address the need for quick delivery through various formats. The company is cautious about the 15-minute delivery offering, acknowledging that while quick deliveries lead to more demand, finding the right approach to achieve that demand is still in the early stages. "What we know for sure is that quick deliveries lead to more demand, that is a fact. But finding the right approach to achieve that demand is still in the early stages."

Looking ahead, Zomato is optimistic about its future growth and scaling perspectives. The company plans to continue its expansion in both existing and new markets, with a significant portion of new stores expected in smaller cities. The focus is on building density in these areas, which will eventually allow them to share more data on how these cities differ from larger ones. The company is also confident in its ability to maintain or grow its market share despite increasing competition, as evidenced by their retention rates and market share in various regions.

From a financial perspective, Zomato is aware of the challenges posed by increased marketing costs and competition. However, they are not operating with a mindset of capping losses, as they believe in the strength of their core business and the potential for expansion. The company is focused on optimizing margins without compromising market share, and they expect investments in Blinkit to increase, which may lead to higher absolute losses in the short term. "Losses will just be an outcome of that. We're not operating with a fixed budget for expansion at this point, given that the market is very large, and we clearly see a first-mover advantage in reaching consumers first."

ZOMATO Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Info Edg.(India)	95153.88	148.70	2.44%	3.08%	15.19%	1646.86%	134.34%
Swiggy	76680.23			10.87%	30.98%	-28.74%	-40.86%
Just Dial	6629.27	16.44	3.63%	0.88%	8.41%	-14.77%	231.67%
One 97	46750.71		-9.07%	10.14%	-35.88%	48.64%	5.23%
One Mobikwik	2574.16	183.21	9.20%	-7.28%	17.71%	-1439.83%	-1148.96%

Aspect	Commentary
Revenue	The company shows strong revenue growth with a significant increase from the previous year and quarter. This indicates a robust demand for its services and effective market penetration strategies, particularly in expanding markets. The quarterly year-over-year growth further highlights the company's ability to capitalize on market opportunities.
Profit & Loss	Despite a positive operating profit, the company faces challenges with a negative PAT growth year-over-year. This suggests that while operational efficiency is improving, there are external factors or increased costs impacting net profitability. The quarterly figures also reflect a need for strategic cost management to enhance overall profitability.
Profitability Matrix	The company's profitability metrics indicate moderate efficiency with an operating profit margin of 3.62% and a net profit margin of 1.84%. The EBITDA margin suggests room for improvement in operational cost management. The EPS growth is promising, indicating potential for future earnings expansion if cost controls are optimized.
Valuation Matrix	The valuation metrics reveal a high trailing P/E ratio, suggesting the market has high expectations for future growth. However, the PEG ratio indicates potential overvaluation relative to growth prospects. The EV/EBITDA and P/B ratios further emphasize the need for careful evaluation of growth strategies to justify current valuations.
Growth (YoY)	Year-over-year growth shows a strong sales increase, but a significant decline in PAT growth highlights profitability challenges. The EPS growth is a positive indicator, suggesting potential for future earnings improvement. The absence of dividend yield reflects a focus on reinvestment for growth rather than immediate shareholder returns.
Growth (QoQ)	Quarter-over-quarter growth reflects a positive sales trajectory, but a decline in PAT growth suggests ongoing profitability challenges. The sales growth QYoQ indicates effective market strategies, but the PAT decline highlights the need for improved cost management and operational efficiencies to enhance quarterly profitability.
Capital Allocation	The company's capital allocation metrics show modest returns with RoE, RoA, and RoCE all below industry averages. This suggests a need for strategic investment to enhance asset utilization and shareholder returns. The RoIC indicates potential for improvement in capital efficiency, aligning with long-term growth objectives.
Holdings	The holdings structure shows a significant foreign institutional investor presence, indicating strong international confidence. The absence of promoter holdings suggests a diversified ownership structure. Public and domestic institutional investors also hold substantial shares, reflecting broad market interest and potential for stable governance.
Leverage	The company's leverage metrics indicate a conservative financial structure with a low debt/equity ratio. This suggests a strong balance sheet with limited reliance on debt financing, providing flexibility for future investments. The market cap and enterprise value reflect market confidence, supported by adequate cash reserves for operational needs.

Analyst viewpoint: Zomato demonstrates a compelling growth narrative, bolstered by its strategic expansion into smaller cities and robust quarter-over-quarter sales growth of 12.63%. The company's market strategies are underscored by their focus on rapid delivery services, including a new less-than-15-minute offering, which, despite being in its early stages, promises increased demand as execution improves. Furthermore, Zomato's strong organizational bandwidth supports its aggressive market penetration, alongside a commitment to leveraging its substantial foreign institutional investment backing. These strategic moves and financial metrics reflect an ability to maintain momentum in both existing and new markets amid competitive pressures, promising continued market share growth in the short to mid-term.

However, it is pertinent to note that while Zomato's potential for future earnings expansion is indicated by promising EPS growth and optimal resource allocation strategies, challenges remain in profitability as highlighted by a decline in PAT growth. To ensure sustainable progress, the focus will need to remain on improving cost management and operational efficiencies, alongside strategic capital investments that capitalize on Zomato's conservative debt structure and solid investor confidence. This insight aligns with the cautious optimism expressed in their recent earnings call, balancing perspectives for a comprehensive market positioning strategy.

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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