

Price: 234

Recommendation: Buy

Industry: E-Retail/ E-Commerce

Sector: Consumer Discretionary

Report Date: 19-Feb-2025

Zomato is strategically expanding its store network, focusing on smaller cities to enhance market position and drive growth. The company is exploring new delivery models, like a less-than-15-minute service, to meet quick delivery demands. Despite increased marketing costs and competition, Zomato remains confident in optimizing margins and maintaining market share. They see a large market opportunity and aim to continue as a market leader.

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	341	Sales Growth	69.4 %	Sales Growth	12.63 %
PEG Ratio	21.2	PAT Growth	-120.98 %	Sales Growth QYoY	64.39 %
EV/EBITDA	142	EPS Growth	87.5 %	PAT Growth	-66.48 %
P/B	10.6	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	225975 Cr
RoIC	2.70 %	Public	26.1 %	Enterprise value	226628 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 has been focusing on expanding its store network, with a significant portion of new stores being opened in smaller cities. This expansion is not a result of a conscious decision to accelerate but rather a natural outcome of the groundwork laid over the past months. The company has built organizational bandwidth to support faster expansion, and this confidence in business operations is allowing them to maintain the 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 delivery models, such as the less-than-15-minute delivery service, which was launched in select locations during the December quarter. This initiative is part of their effort to address the demand for quick delivery through various formats, including the Bistro model by Blinkit. The company is cautious yet optimistic about these initiatives, acknowledging that quick deliveries lead to more demand, but the right approach to achieve sustainable and profitable demand is still in the early stages. "What we know for sure is that quick deliveries lead to more demand, that is a fact."

Looking ahead, Zomato is optimistic about its growth and scaling prospects. The company plans to continue its expansion into smaller cities, which are economically attractive on a payback basis. The focus is on building density in these areas, which will eventually allow for more detailed data sharing on their performance compared to larger cities. The company is also confident in its ability to maintain market share despite increased competition, as evidenced by their stable GOV market share. "We aim to continue being the market leader as we further build our infrastructure."

From a financial perspective, Zomato acknowledges the challenges posed by increased marketing costs and competitive pressures. However, they remain confident in their ability to optimize margins through small optimizations across various business areas, including delivery costs and consumer fees. The company is not operating with a fixed budget for expansion, as they see a large market opportunity and a first-mover advantage. "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." While the company is optimistic about its strategies, there is room for improvement in managing costs and enhancing profitability as they scale.

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)	98222.14	153.50	2.44%	3.08%	15.19%	1646.86%	134.34%
Swiggy	85490.19			10.87%	30.98%	-28.74%	-40.86%
Just Dial	7157.30	17.75	3.63%	0.88%	8.41%	-14.77%	231.67%
One 97	47576.54		-9.07%	10.14%	-35.88%	48.64%	5.23%
One Mobikwik	2472.76	175.99	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 sales performance and effective market strategies, contributing to the company's financial health and potential for future expansion.
Profit & Loss	Operating profit and PAT figures suggest a stable financial performance, though PAT shows a decline. This may indicate increased operational costs or other financial pressures impacting net profitability.
Profitability Matrix	The company maintains moderate profitability margins, with operating and EBITDA margins reflecting efficient cost management. However, the net profit margin is relatively low, suggesting room for improvement in net earnings.
Valuation Matrix	High P/E and PEG ratios indicate market optimism but also suggest overvaluation risks. The EV/EBITDA and P/B ratios further highlight the company's premium valuation, necessitating careful investor consideration.
Growth (YoY)	Sales growth is impressive, but PAT decline indicates challenges in converting sales into profits. EPS growth is positive, reflecting potential for shareholder value enhancement despite profitability pressures.
Growth (QoQ)	Quarterly sales growth is strong, yet PAT decline suggests ongoing profitability challenges. The company needs to address these to sustain long-term growth and improve financial stability.
Capital Allocation	Return metrics indicate efficient capital use, though relatively low returns suggest potential for optimizing capital allocation strategies to enhance shareholder value and operational efficiency.
Holdings	The ownership structure shows significant institutional interest, with high FII and DII holdings. This reflects confidence in the company's prospects, though public shareholding is moderate.
Leverage	Low debt/equity ratio indicates prudent financial management and low leverage risk. The company's strong market cap and enterprise value further underscore its financial stability and market position.

Analyst viewpoint: Zomato's strategic expansion in smaller cities and innovative delivery models such as the less-than-15-minute service demonstrate its commitment to capturing market share and enhancing customer satisfaction. The firm's organizational agility underscores confidence in maintaining momentum, fostering robust sales growth and elevating shareholder value. Quarterly sales growth strengthens at 12.63%, reflecting effective strategies. Additionally, Zomato's prudent capital allocation, evidenced by a low debt-to-equity ratio of 0.05, highlights financial discipline and supports its bullish trajectory. Peer analysis indicates a competitive edge with a market cap surpassed only by Swiggy, confirming its strong positioning within the e-retail sector.

In terms of valuation, while the trailing P/E ratio of 341 suggests high market optimism, it underscores potential overvaluation risks that warrant cautious optimism. The company's forward-thinking approach, including exploring large market opportunities without a fixed expansion budget, highlights its ambition to remain a market leader. From the recent concall insights, it's clear that careful cost management and margin optimization remain priorities amidst rising marketing expenses. However, ongoing profitability challenges are evident from the -66.48% QoQ PAT growth, an area necessitating keen attention to sustain long-term financial health and to capitalize on burgeoning market opportunities.

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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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