

26 April 2024

India | Equity Research | Company Update

Zomato

Internet

Priming the innovation engine...

Zomato's ability to 'execute' at scale is well recognised by investors. We believe the company is now gearing up to improve its credentials as an 'innovator'. We note it has launched multiple new initiatives in the past 40 days which aim at improving customer experience or exploring adjacencies in its core 'food delivery' business. While the launch of 'veg only' fleet and 'large order' fleet may be aimed at growing its user base/usage occasions, the introduction of 'delivery on priority' seems to be an attempt to monetise 'convenience' and 'peace of mind'. We believe all these steps are in the right direction and reflect Zomato's ability to address customer needs. At the same time, the suspension of 'Intercity Legends' ([link](#)) is indicative of its agile 'RoI-oriented' decision making. Maintain **BUY**.

Launched 'veg only' mode

India still has a sizeable population that is vegetarian because of their religious beliefs. To resolve the dietary preferences of these consumers, Zomato launched 'veg only mode' in late Mar'24 ([link](#)). The 'veg only mode' has a curation of 100% vegetarian-only restaurants and has a dedicated fleet to deliver only from these restaurants. We believe the idea is to assuage consumers who are otherwise hesitant to order on food delivery platforms due to religious considerations.

Introduced 'large order' fleet using e-rickshaws

Zomato launched a fleet of electric three wheelers (e-rickshaws) dedicated to handling large group/party/event orders in mid-Apr'24 ([link](#)). This is a departure from the traditional food delivery which employs two-wheelers in India. The vehicles are designed to serve orders for a gathering of up to 50 people. Zomato is also in the process of customising this fleet with new features such as cooling compartments and hot boxes based on demand.

Extra fees for 'delivery on priority'

As of late Apr'24, Zomato is piloting a new feature wherein a consumer has a choice of paying extra delivery fees (INR 29 per order) to get his/her food delivered on priority in select localities of Bengaluru and Mumbai ([link](#)). The additional charge applies even to 'Gold' members. We think the idea is to sell 'convenience' and 'peace of mind', especially during peak hours.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	70,794	1,31,337	1,77,424	2,21,249
EBITDA	(7,045)	3,625	20,138	35,878
EBITDA Margin (%)	(10.0)	2.8	11.4	16.2
Net Profit	(9,720)	2,094	13,923	28,023
EPS (INR)	(1.2)	0.2	1.6	3.3
EPS % Chg YoY	-	-	564.9	101.3
P/E (x)	(153.7)	744.2	111.9	55.6
EV/EBITDA (x)	(192.1)	385.5	68.2	37.4
RoCE (%)	(8.6)	(2.3)	4.0	9.5
RoE (%)	(5.4)	1.1	6.7	12.1

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Market Data

Market Cap (INR)	1,626bn
Market Cap (USD)	19,538mn
Bloomberg Code	ZOMATO IN
Reuters Code	ZOMT BO
52-week Range (INR)	200 /55
Free Float (%)	68.0
ADTV-3M (mn) (USD)	126.2

Price Performance (%)	3m	6m	12m
Absolute	35.4	69.3	229.3
Relative to Sensex	31.5	55.0	206.3

Previous Reports

25-03-2024: [Company Update](#)

09-02-2024: [Q3FY24 results review](#)

Valuation

We re-iterate our **BUY** rating on Zomato and based on our 3-stage DCF-based target price to INR 300. Zomato remains our top pick in the Indian internet space. **Key risks:** Slowdown in discretionary spending, negative externalities disrupting business operations.

Exhibit 1: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	0.0	0.0	0.0
Institutional investors	67.8	70.4	68.4
MFs and others	10.6	12.3	12.0
FIs/Banks	0.0	0.0	0.0
Insurance	1.5	2.1	2.3
FIIIs	33.7	34.4	46.0
FDI	22.0	21.6	8.1
Others	32.2	29.6	31.6

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	70,794	1,31,337	1,77,424	2,21,249
Operating Expenses	68,945	1,02,725	1,20,042	1,33,816
EBITDA	(7,045)	3,625	20,138	35,878
EBITDA Margin (%)	(10.0)	2.8	11.4	16.2
Depreciation & Amortization	4,369	4,991	5,323	5,531
EBIT	(16,472)	(2,523)	8,690	30,347
Interest expenditure	487	657	887	1,106
Other Non-operating Income	6,815	7,440	7,960	8,123
Recurring PBT	(10,144)	4,260	15,762	37,364
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(436)	-	4,641	9,341
PAT	(9,708)	2,094	13,923	28,023
Less: Minority Interest	(6)	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	(9,714)	2,094	13,923	28,023
Net Income (Adjusted)	(9,720)	2,094	13,923	28,023

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	18,452	35,474	60,939	94,848
of which cash & cash eqv.	10,168	24,679	46,356	73,632
Total Current Liabilities & Provisions	12,910	24,326	31,776	38,860
Net Current Assets	5,542	11,148	29,163	55,989
Investments	46,952	50,083	53,416	58,248
Net Fixed Assets	-	-	-	-
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	1,50,583	1,47,431	1,44,592	1,42,158
Deferred Tax Assets	-	-	-	-
Total Assets	2,03,077	2,08,662	2,27,172	2,56,395
Liabilities				
Borrowings	404	404	404	404
Deferred Tax Liability	-	-	-	-
provisions	936	1,799	2,430	3,031
other Liabilities	2,543	1,847	2,478	3,079
Equity Share Capital	1,94,598	1,96,692	2,10,615	2,38,638
Reserves & Surplus	-	-	-	-
Total Net Worth	1,94,598	1,96,692	2,10,615	2,38,638
Minority Interest	(66)	3,258	6,582	6,582
Total Liabilities	2,03,077	2,08,662	2,27,172	2,56,395

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Dec-23
Net Sales	20,560	24,160	28,480	32,880
% growth (YOY)	69.7%	70.9%	71.4%	68.8
EBITDA	(2,254)	(480)	(470)	510
Margin %	(11.0%)	(2.0)	(1.7)	1.6
Other Income	1,705	1,810	2,120	2,190
Net Profit	(2,044)	20	360	1,380

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	(8,440)	9,567	17,088	23,357
Working Capital Changes	(1,759)	5,941	1,591	(3,180)
Capital Commitments	(1,014)	(1,839)	(2,484)	(3,097)
Free Cashflow	(9,454)	7,728	14,604	-
Other investing cashflow	6,694	7,440	7,960	8,123
Cashflow from Investing Activities	5,680	5,601	5,476	5,026
Issue of Share Capital	40	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(1,314)	(657)	(887)	(1,106)
Cash flow from Financing Activities	(1,274)	(657)	(887)	(1,106)
Chg. in Cash & Bank balance	(4,034)	14,511	21,677	27,277
Closing cash & balance	3,288	16,693	38,369	65,646

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	(1.2)	0.2	1.6	3.3
Adjusted EPS (Diluted)	(1.2)	0.2	1.6	3.3
Cash EPS	(0.7)	0.8	2.3	4.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	24.0	23.3	24.9	28.2
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	68.9	85.5	35.1	24.7
EBITDA	(27.6)	(151.5)	455.5	78.2
EPS (INR)	-	-	564.9	101.3
Valuation Ratios (x)				
P/E	(153.7)	744.2	111.9	55.6
P/CEPS	(278.9)	219.9	81.0	46.4
P/BV	7.7	7.9	7.4	6.5
EV / EBITDA	(192.1)	385.5	68.2	37.4
P / Sales	19.9	11.2	8.3	6.7
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	80.3	78.4	77.1	76.7
EBITDA Margins (%)	(10.0)	2.8	11.4	16.2
Effective Tax Rate (%)	4.3	-	29.4	25.0
Net Profit Margins (%)	(13.7)	1.6	7.8	12.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	1.0	1.0	1.0	1.0
Net Debt / EBITDA (x)	8.1	(20.5)	(4.9)	(3.7)
Profitability Ratios				
RoCE (%)	(8.6)	(2.3)	4.0	9.5
RoE (%)	(5.4)	1.1	6.7	12.1
RoIC (%)	(5.1)	2.5	5.6	12.5
Fixed Asset Turnover (x)	1.1	0.6	0.4	0.3
Inventory Turnover Days	4	11	15	20
Receivables Days	24	20	20	25
Payables Days	35	38	38	38

Source Company data, I-Sec research

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