

Investment rationale:

Dominant market position with elevated growth:

Zomato is the category leader in the food delivery space in India in terms of GOV. Majority of its revenue comes from food delivery and related commissions charged to restaurant partners for using their platform. Their food delivery business continued to remain contribution positive and reported the highest ever GOV in Q1 FY22. Moreover it reported an increasing trend in the number of orders, transacting users, active restaurant & delivery partners. However, due to growth investments, the contribution margin reduced slightly in Q1 FY22 as compared to Q4FY21. India has a large addressable Food Services market with immense opportunity for food delivery aggregator like Zomato. India's total addressable Food Services market was at USD 65bn in 2019 and is further expected to grow at 9% per annum to USD 110bn by 2025.

Potential for expansion in food delivery segment:

In 2020, India's food consumption stood at USD 607bn, which was mostly driven by home-cooked food. Restaurant food currently contributes only 8-9% to the food market and is substantially lower compared to nations like the US and China which have approximately 47-50% and 42-45% contribution from Food Services, respectively (Source: RHP). The online food delivery market was at USD 2.9bn. Considering the lower penetration and favorable macros like changing consumer behavior, reduced dependence on home-cooked food and higher adoption among the smaller cities, we are anticipating a robust growth for the non-home cooked food segment. Zomato being one of the major players, can further capitalize on the growth opportunity and expand its share in the food delivery market.

Robust revenue model:

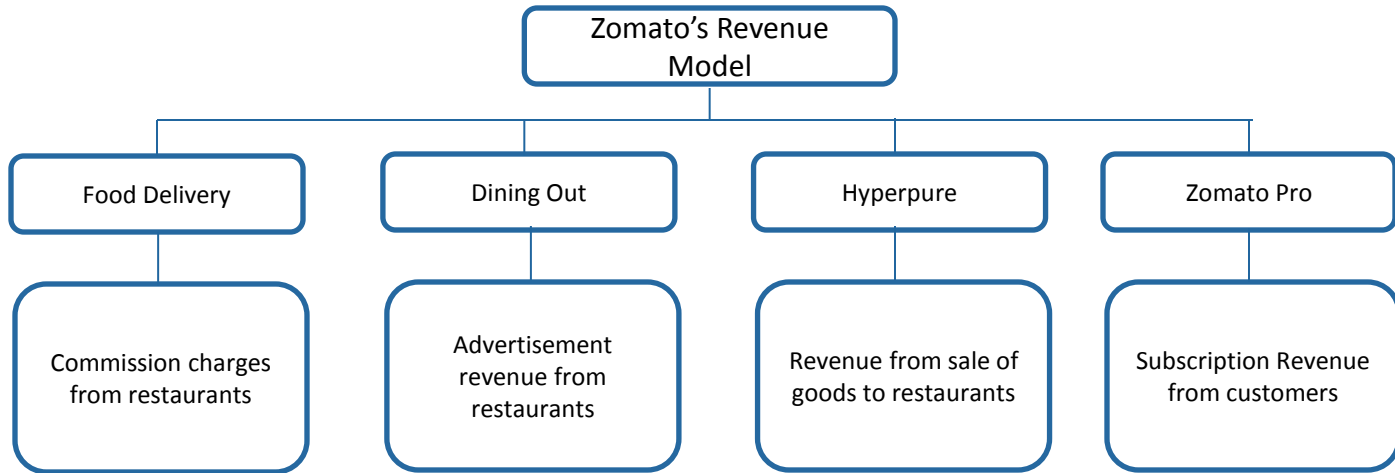
Their revenue model includes commission and advertisement revenue from food delivery, advertisement revenue from restaurants for dine out, transaction based revenue from Hyperpure and subscription based revenue from Zomato Pro. Majority of the revenue comes from the food delivery segment for which the revenue drivers are number of MTU, order frequency, average order value and commission rates. Cost drivers for food delivery segment are mainly the marketing spends.

The Hyperpure business also depends on order frequency and the value of orders. It was launched in 2019 and is engaged in the business of supplying fresh, high quality ingredients and supplies to restaurants like vegetables and fruits, poultry, groceries, meats, seafood, dairy, beverages, and eco-friendly packaging materials. It witnessed an increase in demand in FY21 as the demand for organized grocery remained high due to supply chain disruptions during the pandemic. Zomato is expected to generate strong revenue from this segment with an expansion in operations.

Improvement in unit economics:

Zomato has made significant investments in marketing and promotions to promote the food delivery business. Thus they have established strong brand recognition across the country. Their advertisement and promotion expense per order has gone down due to increase in share of repeat customers over the years. Zomato's unit economics include take rates, delivery charges, discounts and other variable costs. The company has improved its unit economics significantly on the back of higher commission charges and lower discounts for promotion. Their asset-light model with strong customer base gives them an opportunity to further improve their unit economics leading to higher contribution margin.

Business Overview:



Zomato is an end-to-end food service aggregator, having a unique scalable technological platform that connects customers, restaurant partners and delivery partners. Customers use its platform to search & discover restaurants, order food delivery, book a table & make payments while dining-out at restaurants, etc. On the other hand, the platform provides restaurant partners with sector-specific marketing tools, which enables them to engage and acquire customers to grow their business while also providing a reliable and efficient last mile delivery service. The company derived around 75% of the revenue from the food business in FY21.

It also operates a one-stop procurement solution, Hyperpure, which supplies high quality ingredients spanning from fruits & vegetables, groceries, dairy, poultry, meats & seafood, bakery items, gourmet & packaged foods, beverages, etc. to its restaurant partners. In FY21, this vertical contributed around 10% to the total business.

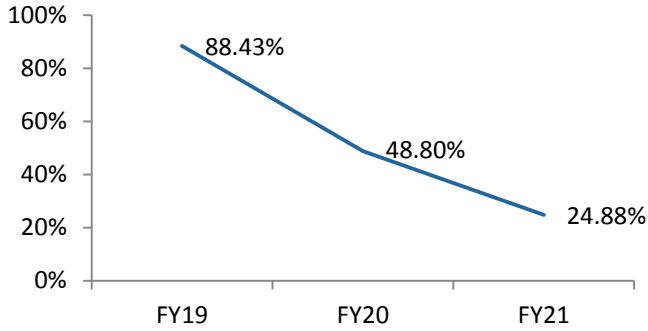
The company is one of the leading food service platforms in India in terms of value of food sold. Over FY19- 21, the platform reported a 4.7% and 10.2% CAGR rise in monthly active and transacting users, respectively, which stood at 3.21cr and 0.68cr in FY21. Active restaurant listings stood at 1.5lakh, a 25.4% CAGR increase over FY19-21. Order volume and gross order value increased by 11.8% and 32.7% CAGR, respectively, during the same period. Further, with its exclusive paid membership program Zomato Pro, it had 15lakh Pro-members and 0.25lakh Pro-restaurant partners. As of 31st Mar. 2021, Zomato had India's largest hyperlocal delivery network with 0.017cr active delivery partners, which fulfilled 94% of the orders.

Quarterly analysis:

Particulars (Rs. Cr)	Q1FY22	Q1FY21	Change (YoY)	Q4FY21	Change (QoQ)
Operating Income	844.4	266.0	217.4%	692.4	21.9%
EBITDA	-376.5	-80.9	-365.4%	-153.5	-145.3%
EBITDA Margin (%)	-44.6%	-30.4%	-1417bps	-22.2%	-2242bps
PAT	-360.7	-99.8	-261.4%	-134.2	-168.8%
PAT Margin (%)	-42.7%	-37.5%	-520bps	-19.4%	-2333bps

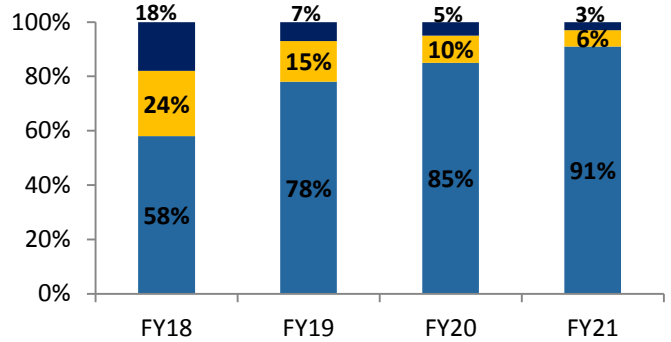
- Zomato's revenue grew by 21.9% QoQ and stood at Rs.844.4 Cr in Q1 FY22 on the back of growth in core food delivery business, which continued to grow despite the second wave of COVID19.
- The company has delivered over a billion orders in the past six years, with more than 10% of these orders being delivered in the past three months.
- Zomato reported an EBITDA loss of Rs. 376.5cr in Q1 FY22 against an EBITDA loss of Rs. 153.5cr in the previous quarter. EBITDA losses increased due to significant ESOP grants made in the quarter.
- Highest gross order value, number of orders, transacting users, active restaurant partners and active delivery partners were reported in the food delivery segment during the quarter.
- Revamped its payout structure for delivery partners with an additional fee for long distance and increase in fuel prices.
- Zomato has stopped physical onboarding centers for new delivery partners and have adopted remote onboarding training, police verification using their Delivery Partner app.

Advertising & sales promotion expense (as a percent of total income)



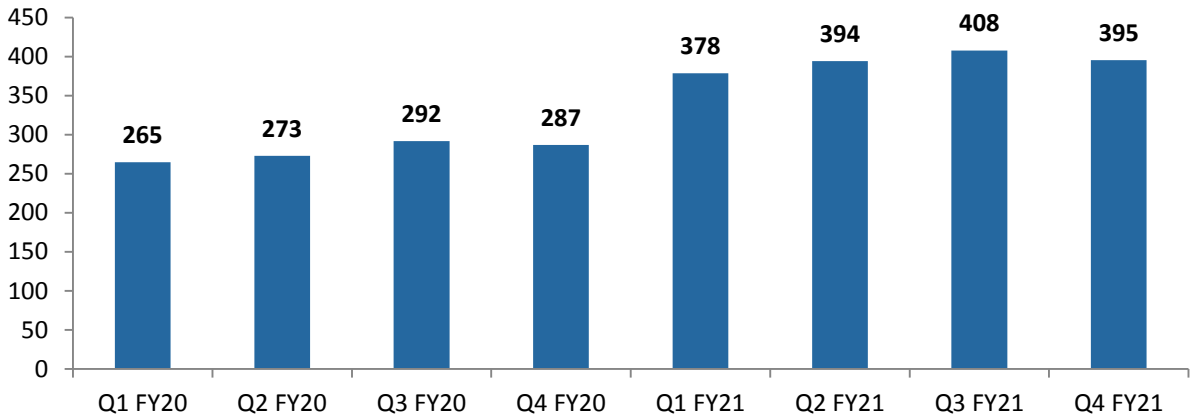
— Advertising and sales promotion expense as a % of total income

Geographical revenue-mix:

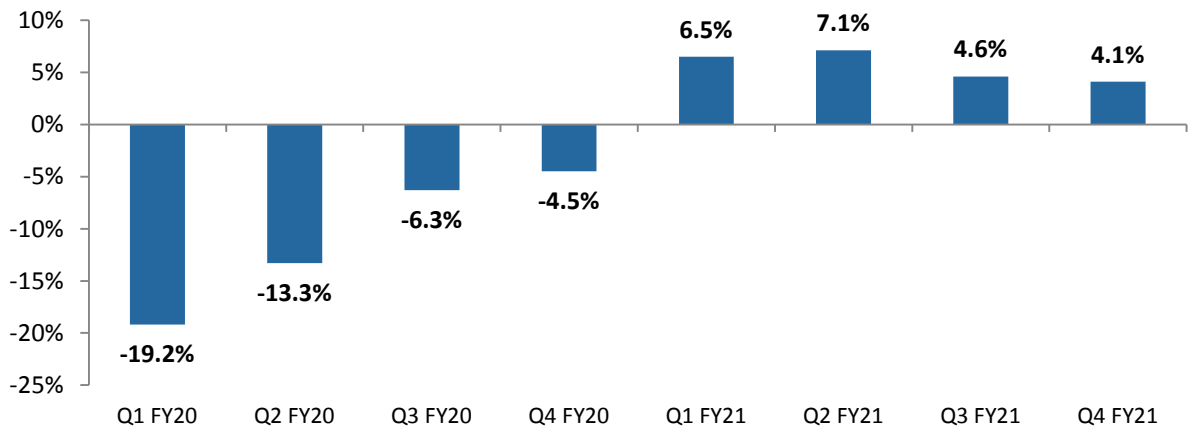


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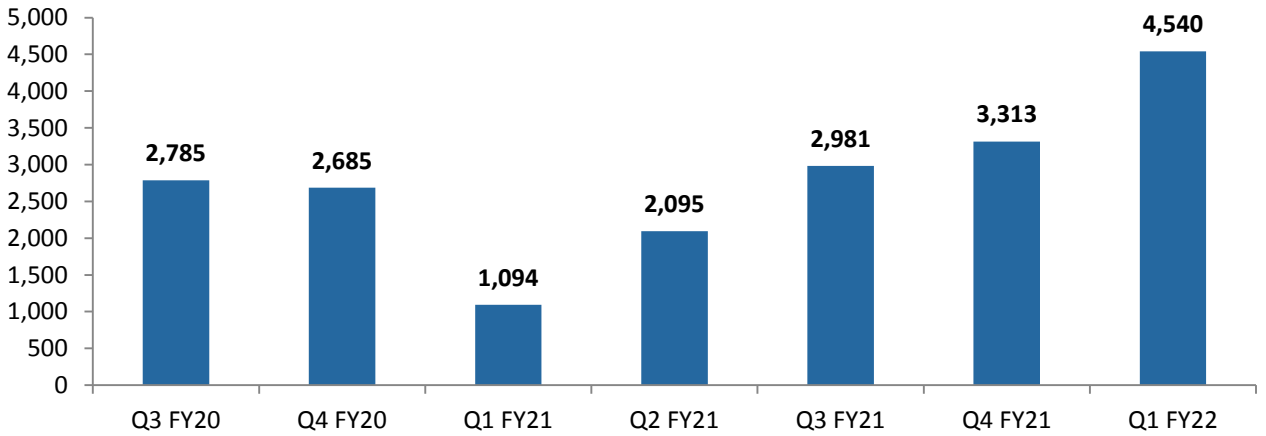
Average order value (Rs)



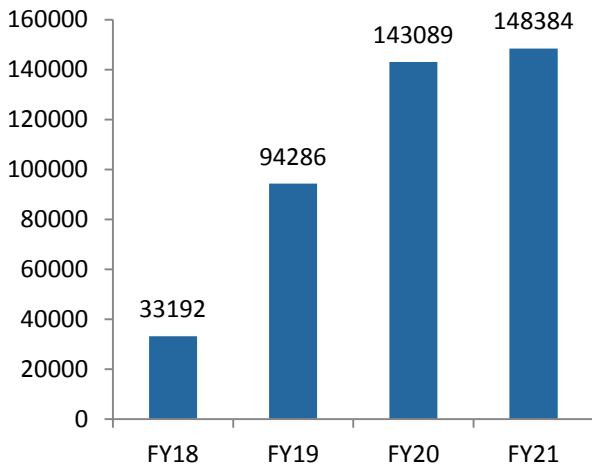
Contribution (as a percent of GOV)



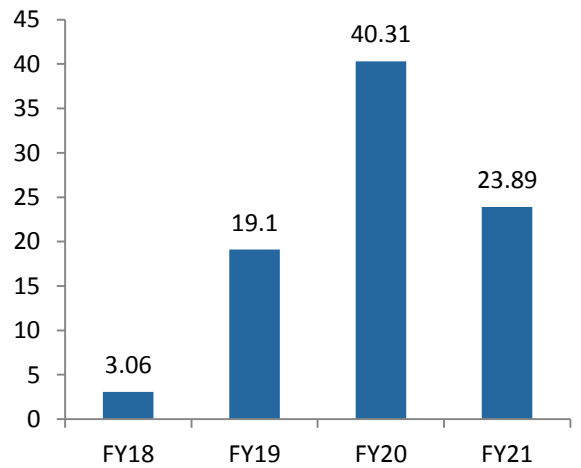
Gross order value (Rs. cr)



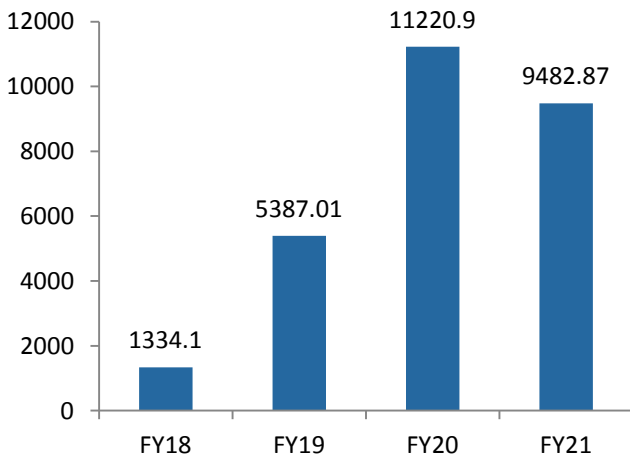
Number of active food delivery restaurants



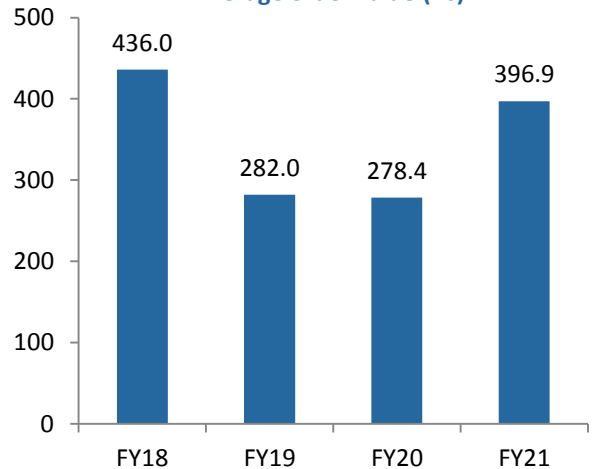
Number of orders (cr)



Gross order value (Rs. cr)



Average order value (Rs)



Other Updates:

Grofers acquisition: Zomato had acquired 9.3% stake in Grofers India in June 2021, which operates a marketplace for groceries in India. Grofers is also engaged in the business of B2B wholesale trading and providing warehousing services. Grocery is one of the largest segment in the e-commerce space. This segment has strong competition from the local stores as the customers are price sensitive. Zomato had launched the pilot grocery delivery service in Jul. 2021 in select markets which was discontinued in Sept. 2021 mainly due to gaps in order fulfilment led by frequently changing inventory levels and difficulty in management. Zomato can further plan to increase its stake in Grofers and successfully integrate with itself.

Impact of the new GST Structure: According to the new GST structure, the online food delivery apps will be responsible for collecting and depositing 5% GST applicable on food with effect from 1st Jan. 2022. Earlier GST collected by the food delivery apps were passed on to the restaurants. However, many restaurants failed to deposit this tax even after collecting it, instead adding it to their revenue. This rule was proposed by the government with the aim of bringing several restaurants that had not been paying taxes under the GST net and this change has no effect on Zomato's profitability.

Risk & concerns:

- With significant improvements in technology integration and reduction in web development costs, it has become easier for restaurants to develop their own apps & websites and integrate payment systems. The restaurants might try to save on commission charges by coming up with new strategies to attract the customers to their self developed platforms. Due to low entry barriers in the industry, Zomato also has high competition from other food delivery companies like Swiggy and chain restaurants like Pizza Hut, McDonalds, etc.
- Any failure to maintain, protect and enhance their brand could limit their ability to retain or expand the customer base. Additionally, any kind of negative publicity can adversely affect the company's brand name.
- In July 2021, National Restaurant Association of India approached the Competition Commission of India (CCI) for a detailed probe against Swiggy and Zomato for issues like exorbitant commission charged, price parity agreements, deep discounting, including forcing restaurant partners to give discounts to maintain appropriate listing, and lack of transparency on the food ordering platforms. Any unfavorable regulatory changes by the government can be negative for the company.
- The company spends huge amounts for advertisement and sales promotion for driving business growth. If they fail to increase their revenue as a result of their paid expense then it may not offset the additional marketing expense.

Consolidated Financial Statements:

Profit and loss statement (Rs. cr)	FY18	FY19	FY20	FY21	CAGR over FY19 - 21 (%)	Annual growth over FY20 (%)
Revenue from operations	466.0	1,312.6	2,604.7	1,993.8	23.2%	-23.5%
Purchase of stock in trade	0.0	(18.7)	(110.5)	(202.9)	229.2%	83.6%
Changes in inventories of traded goods	0.0	2.1	1.6	11.0	127.3%	589.2%
Gross profit	466.0	1,296.0	2,495.8	1,801.9	17.9%	-27.8%
Employee benefits expense	(290.5)	(600.8)	(798.9)	(740.8)	11.0%	-7.3%
Other expenses	(268.0)	(2,938.7)	(4,001.6)	(1,528.3)	-27.9%	-61.8%
EBITDA	(92.4)	(2,243.5)	(2,304.7)	(467.2)	-54.4%	-79.7%
Depreciation and amortization expense	(29.1)	(43.1)	(84.2)	(137.7)	78.7%	63.5%
EBIT	(121.6)	(2,286.6)	(2,388.9)	(604.9)	-48.6%	-74.7%
Finance costs	(6.3)	(8.7)	(12.6)	(10.1)	7.7%	-20.2%
Other income	21.0	85.1	138.0	124.6	21.0%	-9.7%
Exceptional items		1,199.9	(122.0)	(324.8)		166.1%
PBT	(106.9)	(1,010.2)	(2,385.6)	(815.1)	-10.2%	-65.8%
Tax expenses				(1.3)		
PAT before minority interests	(106.9)	(1,010.2)	(2,385.6)	(816.4)	-10.1%	-65.8%
Minority interest	3.2	45.3	18.4	3.6	-71.8%	-80.4%
Reported PAT	(103.7)	(964.9)	(2,367.2)	(812.8)	-8.2%	-65.7%
Adjusted PAT	(103.7)	(2,164.9)	(2,245.1)	(488.1)	-52.5%	-78.3%

Balance sheet statement (Rs. cr)	FY18	FY19	FY20	FY21	CAGR over FY19 - 21 (%)	Annual growth over FY20 (%)
Equity share capital	0.0	0.0	0.0	0.0	1.7%	3.3%
Instruments entirely equity in nature	174.4	243.7	252.4	454.9	36.6%	80.2%
Other equity	1,036.1	2,355.6	457.4	7,643.8	80.1%	1571.3%
Non-controlling interests	8.4	(31.4)	(6.5)	(5.7)	-57.4%	-12.2%
Non current borrowings	1.3	1.3	1.5			
Non current lease liabilities	10.5	74.3	56.4	53.0	-15.5%	-6.1%
Other non current financial liabilities			1,375.9			
Non current provisions	7.2	14.3	16.7	25.9	34.7%	55.1%
Other non current liabilities	0.0	49.0	25.7	13.9	-46.7%	-46.0%
Current borrowings				1.4		
Current lease liabilities	18.2	28.6	15.3	18.2	-20.2%	19.3%
Other current financial liabilities	2.1	132.6	253.1	74.6	-25.0%	-70.5%
Trade payables	67.4	376.2	268.7	297.2	-11.1%	10.6%
Current provisions	2.5	5.1	9.3	7.0	16.8%	-24.6%
Other current liabilities	46.4	163.6	174.5	119.4	-14.6%	-31.5%
Total liabilities	1,374.5	3,412.9	2,900.4	8,703.5	59.7%	200.1%
Property, plant and equipment	4.9	39.8	36.4	23.4	-23.4%	-35.9%
Intangible assets	60.2	68.9	278.0	207.4	73.5%	-25.4%
Right of use assets	18.6	91.9	66.8	60.5	-18.9%	-9.5%
Capital work-in-progress	0.7	0.3	0.2		-100.0%	-100.0%
Intangible assets under development	0.5	0.4	0.8	0.1	-45.2%	-83.3%
Goodwill	106.1	188.5	1,209.3	1,247.8	157.3%	3.2%
Non current investments	9.6	7.3				
Other non current financial assets	54.9	12.1	10.5	3,006.3	1475.8%	28596.7%
Non current loans	4.3					
Non current net tax assets	4.2	27.8	29.7	5.4	-56.2%	-82.0%
Other non current assets	0.5	4.0	5.3	2.2	-25.6%	-58.8%
Current investments	819.7	2,137.3	323.9	2,205.2	1.6%	580.8%
Cash and cash equivalents	208.1	238.7	359.9	903.7	94.6%	151.1%
Other current financial assets	37.7	397.3	111.1	629.5	25.9%	466.5%
Inventories		2.1	3.7	14.8	163.5%	297.0%
Trade receivables	26.1	70.3	123.1	129.9	35.9%	5.5%
Current net tax assets	5.5	9.8	40.0	44.5	113.2%	11.2%
Other current assets	12.8	116.4	301.6	223.0	38.4%	-26.1%
Total assets	1,374.5	3,412.9	2,900.4	8,703.5	59.7%	200.1%

Cash flow statement (Rs. cr)	FY18	FY19	FY20	FY21	CAGR over FY19 - 21 (%)	Annual growth over FY20 (%)
Cash flow before working capital changes	(72.4)	(1,902.9)	(2,124.7)	(279.8)	-61.7%	-86.8%
Working capital changes	7.6	187.9	13.1	(756.7)		
Cash flow after working capital changes	(64.8)	(1,715.0)	(2,111.6)	(1,036.5)	-22.3%	-50.9%
Cash flow from operating activities	(69.3)	(1,742.7)	(2,143.6)	(1,017.9)	-23.6%	-52.5%
Capex	(5.3)	(45.1)	(21.3)	(4.8)	-67.4%	-77.5%
Cash flow from investing activities	(820.6)	(1,273.5)	1,735.2	(5,243.6)	102.9%	-402.2%
Cash flow from financing activities	941.3	3,129.5	358.9	6,401.9	43.0%	1683.8%
Net cash flow	51.3	113.3	(49.5)	140.3	11.3%	
Opening balance of cash	49.0	99.1	216.7	166.2	29.5%	-23.3%
Closing balance of cash	100.4	212.4	167.2	306.5	20.1%	83.3%

Financial Ratios	FY18	FY19	FY2	FY21
Revenue growth rate (%)		181.7%	98.4%	-23.5%
EBITDA growth rate (%)		2326.8%	2.7%	-79.7%
EBITDA margin (%)	-19.8%	-170.9%	-88.5%	-23.4%
EBIT growth rate (%)		1780.5%	4.5%	-74.7%
EBIT margin (%)	-26.1%	-174.2%	-91.7%	-30.3%
Restated adjusted PAT growth rate (%)		1988.1%	3.7%	-78.3%
Restated adjusted PAT margin (%)	-22.2%	-164.9%	-86.2%	-24.5%
Turnover Ratios				
Inventories turnover ratio (x)		615.9	889.3	215.3
Trade receivable turnover ratio (x)	17.9	27.2	26.9	15.8
Accounts payable turnover ratio (x)	6.9	5.9	8.1	7.0
Fixed asset turnover ratio (x)	2.4	3.4	1.6	1.3
Total asset turnover ratio (x)	0.3	0.4	0.9	0.2
Return Ratios				
RoE (%)	-8.6%	-83.3%	-316.3%	-6.0%
RoA (%)	-7.5%	-63.4%	-77.4%	-5.6%
RoCE (%)	-9.8%	-84.5%	-109.6%	-7.4%
Per share data				
Restated adjusted EPS (Rs.)	(0.1)	(2.8)	(2.9)	(0.6)
BVPS (Rs.)	1.5	3.3	0.9	10.3
Operating Cash Flow Per Share (Rs.)	(0.1)	(2.2)	(2.7)	(1.3)
Free Cash Flow Per Share (Rs.)		(4.6)	(0.8)	(4.5)
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

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