

**CMP: INR 62**

**Outlook: Positive**

**Stock Info**

BSE	543320
NSE	ZOMATO
Bloomberg	ZOMATO.IN
Sector	Online Services
Face Value (INR)	1
Equity Capital (INR Mn)	8548.7
Mkt Cap (INR Mn)	543,030
52w H/L (INR)	161.3/ 40.6
Avg Daily Vol (in 000')	70,743

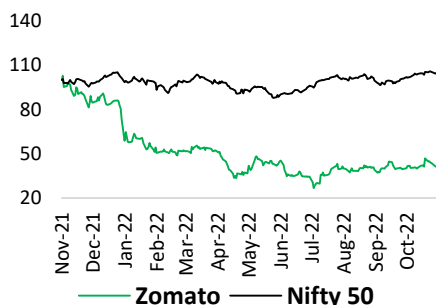
**Shareholding Pattern %**

(As on Sept, 2022)

Promoters	0%
FII	0%
DII	0%
Public & Others	100%

Stock Performance (%)	1m	3m	12m
ZOMATO	-9.9	-23.8	-54.1
Nifty	3.5	4.2	5.4

**ZOMATO Vs Nifty**



**About the company:** Zomato is an Indian multinational restaurant aggregator and food delivery company founded by Deepinder Goyal and Pankaj Chaddah in 2008. Zomato provides information, menus and user-reviews of restaurants as well as food delivery options from partner restaurants in select cities. Zomato has reached to 525 cities across India and over 32 million users visit the platform each month. As of March 31, 2021, Zomato is having a presence in 22 countries outside India. Though, the Company has considered a strategic call to focus only on the Indian market going forward.

- **Results:** Zomato reported a year-on-year (YoY) decline in its consolidated loss at INR 2,508 million during the September quarter of the financial year 2022-23 (FY23) from INR 4,349 million in the corresponding quarter of the previous year on the back of a meaningful growth across business verticals. Zomato's loss widened nearly 35% sequentially from INR 1,860 million in Q1 FY23 on the back of its Blinkit acquisition.

- **The food service industry** - Indian Food Service Market is highly under penetrated and it is likely to grow at moderate to high speed. India Food Service market is forecasted to reach USD 95.75 billion by 2025, registering a CAGR of 10.3% for the five years (2020-25).

- **Reasons behind losses** - Zomato keeps on spending huge amounts on advertisements and discounts to increase its customer awareness and to lure them towards their online food ordering platform. The average expenditure on advertisements and sales promotions being 45% of sales in the last 4 years. Zomato is relentless in changing the food delivery and restaurant industry in India. Along with its advertisement costs, its exponential outsourced support cost can be said to be the main cause of negative profits. Zomato's expenditure on outsourced support cost were INR 13,300 million in FY 2018-19, INR 20,937 million in FY 2019-20 and INR 5,898 million in FY 2020-21 with a favorable decline.

- **Cloud Kitchen Investments** - Zomato has already started venturing into cloud kitchen business, which could be a game changer for the business and generate profits at huge margins. Cloud kitchens are kitchens where there is no space for dine-in, only delivery orders are processed, which results in tremendously reduced costs and high margins. Zomato could use the massive user data it has accumulated in years to provide consumer preferred recommendations, resulting in high sales. It could also use its online platform and benefit from the synergy by displaying its own products at the top. If this strategy does get executed, Zomato could easily become a multi-bagger stock.

- **Hyperpure details:** Hyperpure is a business segment of Zomato that allows restaurants to buy everything from vegetables, poultry, meats, fruits, groceries, and seafood to dairy and beverages.

Hyperpure revenue grew 23% sequentially and 199% year-on-year to INR 3,340 million in Q2FY23. Adjusted EBITDA loss increased to INR 530 million from INR 440 million in Q1FY23, while the margin remained flat sequentially at -16%. Quick commerce is turning out to be another opportunity for Hyperpure, which began supplying to the sellers on Blinkit's marketplace post-acquisition of Blinkit. This has the potential to accelerate further revenue growth for Hyperpure going forward.

- **Blinkit's acquisition and updates:** For Blinkit, the number of orders increased from 22.2 million to 26.1 million Q2FY23. The average order value (AOV) was INR 568, a growth of around 7.5% sequentially. Average monthly transacting customers increased to 2.6 million in the September quarter from 2.2 million previous quarter. The revenue increased from INR 1,640 million in Q1FY23 to INR 2,360 million in the September quarter. Adjusted EBITDA losses narrowed to INR 2,590 million in Q2FY23 from INR 326 million in the previous quarter.

- **Outlook:** We expect a significant structural growth opportunity, due to India's favorable demographics, along with strategic investments like Blinkit acquisition and investments in cloud kitchen by the company, Zomato has smartly positioned itself as one of the frontrunners in quick delivery Ecommerce, and Zomato will potentially continue to improve revenues and become profitable soon. **At INR 62, company trades 3.4x FY25E P/B (Bloomberg Estimates).**

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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