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STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

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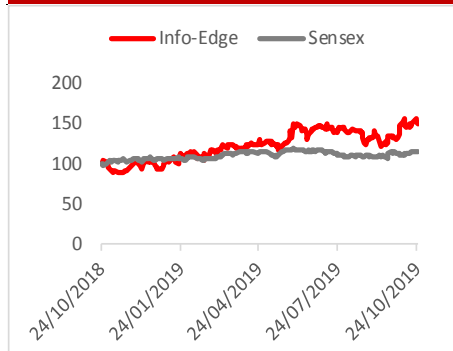
HOLD

Current Price	2255
Target Price	2439
Upside	10%
52 Week Range	1313/2450

Key Share Data

Market Cap (Rs.Bn)	276.31
Market Cap (US\$ Mn)	3891.69
No of o/s shares (Mn)	122.31
Face Value	10
Monthly Avg. Vol(BSE+NSE) ('000)	303.180
BSE Code	532777
NSE Code	NAUKRI
Bloomberg	INFOE:IN

Price performance

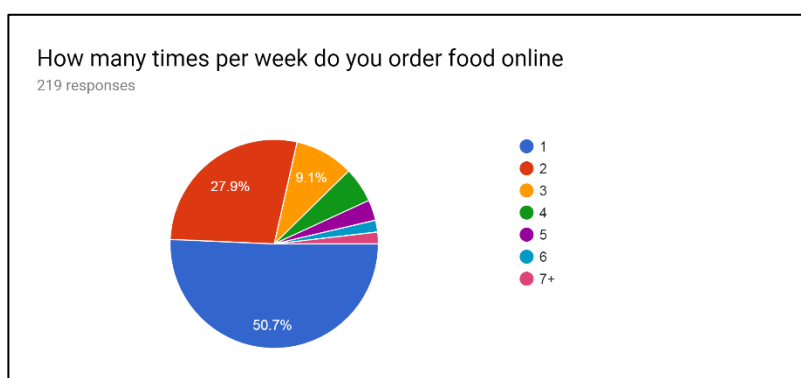


% Shareholding	Sept-19	Jun-19
Promoters	40.55	40.61
Public	59.32	59.17
Others	0.14	0.22
Total	100	100

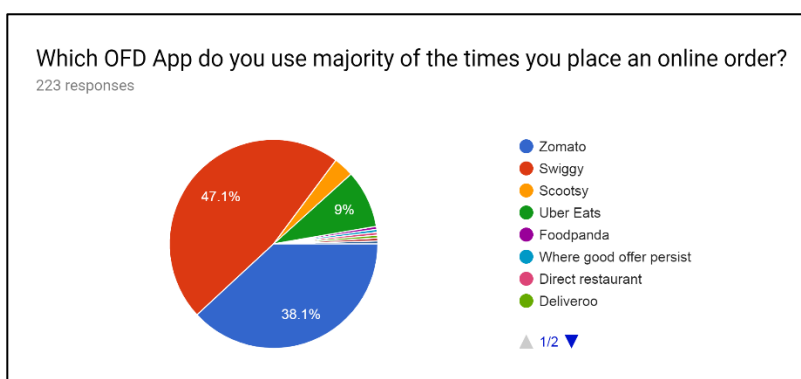
We recently conducted a quick survey on the Online Food Delivery (OFD) Market to get an insight on the current market scenario and gauge the impact, if any, of Amazon entering the OFD market.

Key Takeaways:

- 72.9% of the sample preferred dining out on a weekend vis-à-vis ordering online
- In contrast, 74.3% of the sample preferred ordering online on weekdays vis-à-vis dining out
- 50.7% of the sample used an OFD app once per week, 27.9% twice per week and 9.1% thrice per week



- Majority of the participants (47.1%) preferred Swiggy followed by 38.1% who prefer Zomato and 9% who prefer Uber Eats. Scootsy came in at 4th position with only 3% of the sample using it majority of the times.



Standalone Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY18	9,155	14.1%	2,973	32.5%	2,737	19.9%	22.5	31%	131.3x	13.4%	8.7%
FY19	10,983	20.0%	3,413	31.1%	3,151	25.7%	25.9	15%	85.0x	14.3%	10.3%
FY20E	12,625	15.0%	3,810	30.2%	3,473	27.5%	28.6	10%	69.0x	14.4%	10.6%
FY21E	15,050	19.2%	4,453	29.6%	4,299	28.6%	35.4	24%	55.7x	16.0%	11.6%

Source: Company, Dalal & Broacha Research

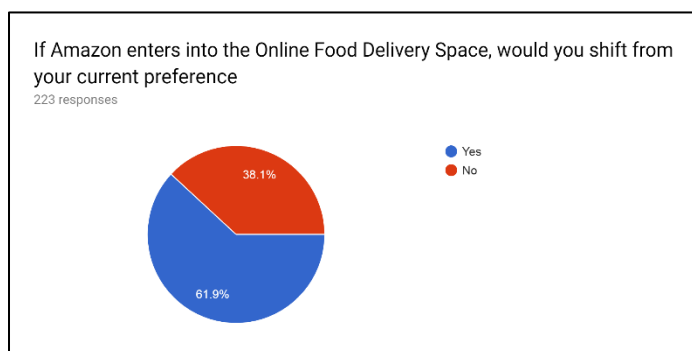


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- The pecking order of preference of OFD therefore stands in the following order as per our research: 1. Swiggy, 2. Zomato, 3. Uber Eats 4. Scootsy and 5. FoodPanda
- The top 3 leading reasons for the “most preferred app” were following: 1. Ease of Use (65.3% of sample), 2. Number of Restaurants Available (60.8%) and 3. Deilvery Time (48.6% of sample)
- On being asked about loyalty to an OFD, maximum (28.3%) of the respondents rated themselves at 8/10 and 25.1% of respondents rated themselves a 7/10
- In stark contrast to the above data on ‘customer loyalty’, 61.9% of the sample said “Yes, they would shift to Amazon, if it enters the Indian OFD market”.**



- 78.9% of the respondents replied “Yes, Amazon will be successful in the OFD space”**
- The top 2 reasons cited by respondents (who believed that Amazon will be successful) for why they believe Amazon will be successful in the OFD space are 1. Ability to offer higher discounts” (63.9% of the sample) and Reputation (55.2%) .
- The top 2 reasons cited by respondents who believed that “Amazon will not be successful in the OFD market” were 1. Expertise in online shopping does not guarantee expertise in OFD market and 2. Plenty of OFD apps already serve the market
- Lastly, 76.9% of the sample agreed that ‘Price discount offered by an App is a major driver that affects the ordering decision’

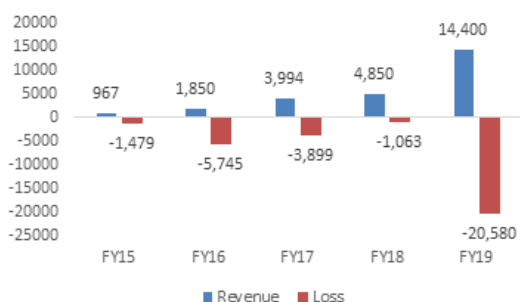
How will it impact Zomato?

We believe that Zomato will be impacted on 2 fronts: Revenue from Commissions (charged to restaurants) and higher expenses due to higher Advertising & Sales Promotion Expenses:

1) Revenue Impact:

61.9% of the sample agreeing to switch to Amazon OFD came to us as a surprise as we believed that the OFD market had settled as a 2 player industry after an initial period of predatory pricing. **News flows suggest that Amazon could go as low as 6-10% of order value¹ in commissions vs 16-18% norm in the industry².**

Zomato Consolidated Financial Performance...



Zomato’s consolidated revenue has grown at a 5 CAGR of 96% from INR 967 Mn to INR 14,400 Mn between FY15 to FY19. Losses during that same period increased from INR -1479 Mn to INR -20,580 Mn.

While Zomato’s losses have reduced by 40% YoY in H1FY20 vis-à-vis H1FY19 (as per half yearly AR), we believe that management’s vision of breaking even might be at risk if Amazon enters the OFD space.

A new entrant poses a severe risk to the high double digit revenue CAGR as well as deepening losses.

¹ <http://www.newindianexpress.com/business/2019/oct/15/amazon-may-take-on-zomato-swiggy-this-diwali-with-food-delivery-app-2047580.html>

² Dalal & Broacha Research



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2) Cost Impact

Price discounts and Delivery charge discounts are accounted under 'Advertising & Sales Promotion Expenses' for Zomato. Table below depicts a snapshot of Zomato's standalone financial data:

Standalone (INR Cr)	FY18	FY19
Total Revenue	371	1,159
Advertisement & Sales Promotion Expense	80	1,213
As a % of Total Expense	17%	39%
As a % of Total Revenue	21%	104%

Zomato's A&S Expenses shot up from 21% of sales to 104% of sales in FY19. Amazon's entry could push existing players to drive up Ad and Sales Promotions, which could further burden the bottom-line for Zomato.

How can Amazon impact incumbents in the OFD space?

Amazon has a reputation of a disruptor in any market / industry, be it Online Shopping, Groceries, OTT platforms (Prime Video or Prime Music). Therefore, we believe that Amazon will offer heavy discounts not only to the consumer, but also accept lower commissions from restaurants. We believe that this could pull the industry back 2-3 years by reintroducing price wars and intense competitions amongst top OFD players

On the flipside...

It is also noteworthy that other big players with deep pockets such as Uber and FoodPanda (backed by Ola) have not been successful in penetrating the market or gain market share. Therefore, there exists a major possibility that Amazon may not be able to succeed in the OFD space. However, it is definite that its entrance itself will impact Zomato financials (as detailed above table).

Valuation & Outlook

In our IC dated 9th April 2019, we had valued Zomato at INR 779 per share (earlier INR 828 per share @ 27.68% stake which now stands at 26.5%) on the basis of 30% Sales CAGR between FY19 and FY21e and at 15x FY21 EV/Sales multiple. We believe that a 30% CAGR is achievable despite a 3rd entrant due to the opportunity from sheer size of OFD market (notably, Zomato has grown at 150%+ for last 2 years).

Our TP of INR 2,439 (revised from INR 2,480, i.e. before fall in stake in Zomato) has been achieved. Going ahead, we believe that at current market price, valuations for Zomato, PolicyBazaar and Infoedge (Naukri and 99acres) are factored-in and recommend investors to tread cautiously as a new entrant can have major ramifications.



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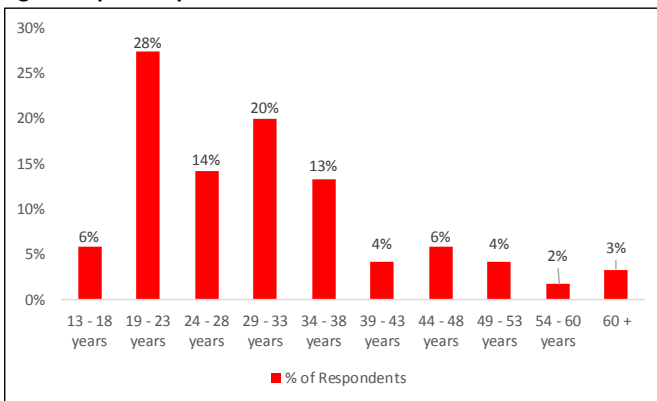
Survey Details

Background

This survey was mainly taken for 3 purposes

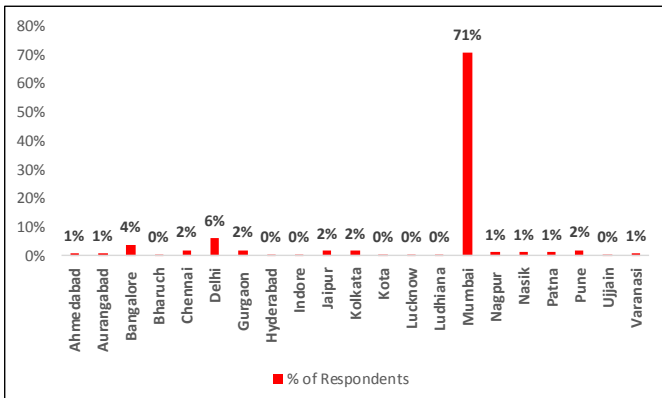
1. To understand the preferences and pulse of the Online Food Delivery market
2. Understand consumer behaviour
3. Impact of new entrant on incumbents in the OFD space

Age Group of Respondents



Majority (28%) of the participants were from 19 – 23 years age group followed by 20% of the participants which were from 29-33 years age group and 14% from 24 – 28 years and 13% from 34 – 38 years

Citywise Distribution of Respondents



71% of the respondents were from Mumbai followed by Delhi with 6% of respondents and Bangalore with 4% of respondents. 2% of the participants were equally distributed between Pune, Jaipur, Kolkata and Gurgaon



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Profit & Loss A/c (Standalone)					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8,021	9,155	10,983	12,625	15,050
Total Revenue	8,021	9,155	10,983	12,625	15,050
Network & other charges	173	143	221	235	331
Employee cost	3,752	3,931	4,586	5,319	6,128
Advertising & promotion charge	881	1,164	1,757	2,324	2,935
Admin & Other expenditure	941	944	1,005	937	1,204
Total Operating Expenditure	5,746	6,182	7,569	8,815	10,597
EBITDA	2,275	2,973	3,413	3,810	4,453
Less: Depreciation	240.6	215.5	203.8	288.9	301.0
EBIT	2,034	2,758	3,210	3,522	4,152
Non-operating Income	625	971	1,112	1,243	1,580
Profit Before tax	2,619	2,814	3,986	4,764	5,732
Tax	575	991	1,169	1,292	1,433
Net Profit	2,044	1,824	2,817	3,473	4,299
Adjusted Profit	2,084	2,737	3,151	3,473	4,299
Reported Diluted EPS Rs	16.9	15.0	23.2	28.6	35.4
Adjusted Diluted EPS Rs	17.2	22.5	25.9	28.6	35.4

Cash Flows (Standalone)					
YE December (Rs. Mn)	FY17	FY18	FY19E	FY20E	FY21E
PAT	2,044.0	1,823.7	2,817.0	3,472.6	4,299.1
(Less)/Add: Extraordinary Items	(39.8)	(913.4)	(334.1)	0.0	0.0
Less: Non Operating Income	(625.2)	(970.9)	(1,111.5)	(1,242.5)	(1,580.3)
Add: Depreciation	240.6	215.5	203.8	288.9	301.0
Add: Interest Paid	1.0	0.8	0.8	0.0	0.0
Operating Profit before WC Changes	1,620.5	155.7	1,576.1	2,518.9	3,019.8
(Inc)/Dec in Current Assets	46.6	797.8	(192.4)	(116.1)	(252.5)
Inc/(Dec) in Current Liabilities	676.1	873.5	815.2	813.5	1,420.9
Net Cash From Operations	2,343.3	1,827.0	2,198.9	3,216.3	4,188.2
Cash Flow from Investing					
(Inc)/Dec in Fixed Assets	185.2	(126.7)	(200.0)	(200.0)	(250.0)
(Inc)/Dec in Investment (Strategic)	(1,804.2)	(4,373.6)	(2,000.0)	(2,000.0)	(2,000.0)
Add: Non Operating Income	625.2	970.9	1,111.5	1,242.5	1,580.3
Cash From Investing Activities	(993.8)	(3,526.1)	(1,088.5)	(957.5)	(669.7)
Cash Flow from Financing					
Dividend Paid	(362.8)	(667.4)	(790.3)	(911.9)	(911.9)
Tax Paid on Dividend	(74.0)	(136.0)	(158.1)	(182.4)	(182.4)
Net Cash from Financing Activities	(131.7)	312.5	(615.2)	(1,094.3)	(1,094.3)
Net Inc/Dec in cash equivalents	1,217.8	(1,386.6)	495.3	1,164.6	2,424.1
Opening Balance	1,985.7	3,203.5	1,816.9	2,312.2	3,476.8
Closing Balance Cash	3,203.5	1,816.9	2,312.2	3,476.8	5,900.9

Free Cash Flow Statement					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
EBITDA	2,275	2,973	3,413	3,810	4,453
FC Investment	-185	127	200	200	250
WC Changes	723	1,671	623	697	1,168
Depreciation Tax Shield	53	76	60	78	75
Tax Expenses	499	1,047	1,001	1,033	1,113
FCF	2,736	3,547	2,895	3,353	4,333

Balance Sheet (Standalone)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	1,211	1,216	1,216	1,216	1,216
Reserves & Surplus	18,620	19,859	21,727	24,106	27,310
Equity	19,831	21,074	22,943	25,321	28,526
Net Worth	19,831	21,074	22,943	25,321	28,526
Total Loans	4	3	3	3	3
Capital Employed	19,835	21,077	22,946	25,324	28,529
Assets					
Gross Block	1,041	1,167	1,367	1,567	1,817
Less: Depreciation	442	638	842	1,131	1,432
Net Block	599	529	525	437	385
Investments	18,050	22,424	24,424	26,424	28,424
Current Assets					
Sundry Debtors	75	44	59	67	82
Cash and Bank Balance	3,203	1,817	2,312	3,477	5,901
Loans and Advances	2,194	1,432	1,610	1,719	1,957
Other Current Assets	36	31	31	30	30
Total Current Assets	5,509	3,325	4,013	5,293	7,970
Less:Current Liabilities					
Sundry Creditors	456	538	622	724	871
Provisions	416	456	456	456	456
Other Current Liabilities	3,455	4,207	4,938	5,649	6,923
Total Current Liabilities	4,327	5,201	6,016	6,829	8,250
Capital Applied	19,835	21,077	22,946	25,324	28,529

Key Ratios					
EBITDA (%)	28.4%	32.5%	31.1%	30.2%	29.6%
NPM (%)	25.5%	19.9%	25.7%	27.5%	28.6%
RoE (%)	11.0%	13.4%	14.3%	14.4%	16.0%
RoCE (%)	8.4%	8.7%	10.3%	10.6%	11.6%
Tax Rate %	21.9%	35.2%	29.3%	27.1%	25.0%
Book Value Per share (Rs.)	163.8	173.3	188.7	208.3	234.6
Valuation Ratios					
P/E (x)	116.7x	131.3x	85.0x	69.0x	55.7x
EV/EBITDA	103.4x	80.0x	69.5x	61.9x	52.5x
P/BV (x)	12.0x	11.4x	10.4x	9.5x	8.4x
Market Cap. / Sales (x)	29.7x	26.2x	21.8x	19.0x	15.9x



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